

Current situation in world economy

Exam

- if any problem then consultation
- **structure**
 - **DON'T PANIC!** – basic knowledges
 - goal – to include the whole problemacy
 - not convenient for all
- **demands**
 - questions with different level of difficulty...
 - BUT attempt to create comparable tests as much as possible
- **textbook + lectures**
 - information only from these sources!
 - knowledge of years – enough to know the decades

- **number of terms** – according to the Study Regulations
 - equal conditions for all
- **X cheating**
- **mistakes in papers in circulation**
 - Šik's reform, convrgency criteria, war communism, monetary reforms in Czechoslovakia, Keynes plan, Large-scale economy, land and lease,
 - + key words not enough – unsuitable for the ABCD
- **control according to the list of participants + ISIC ⇒ don't be in hurry**

- **I am interested in successful results ⇒ the earliest you do it, the least work for me !**

Content

- A. Current economic situation by regions
- B. Basic macroeconomic indicators
- C. Globalization

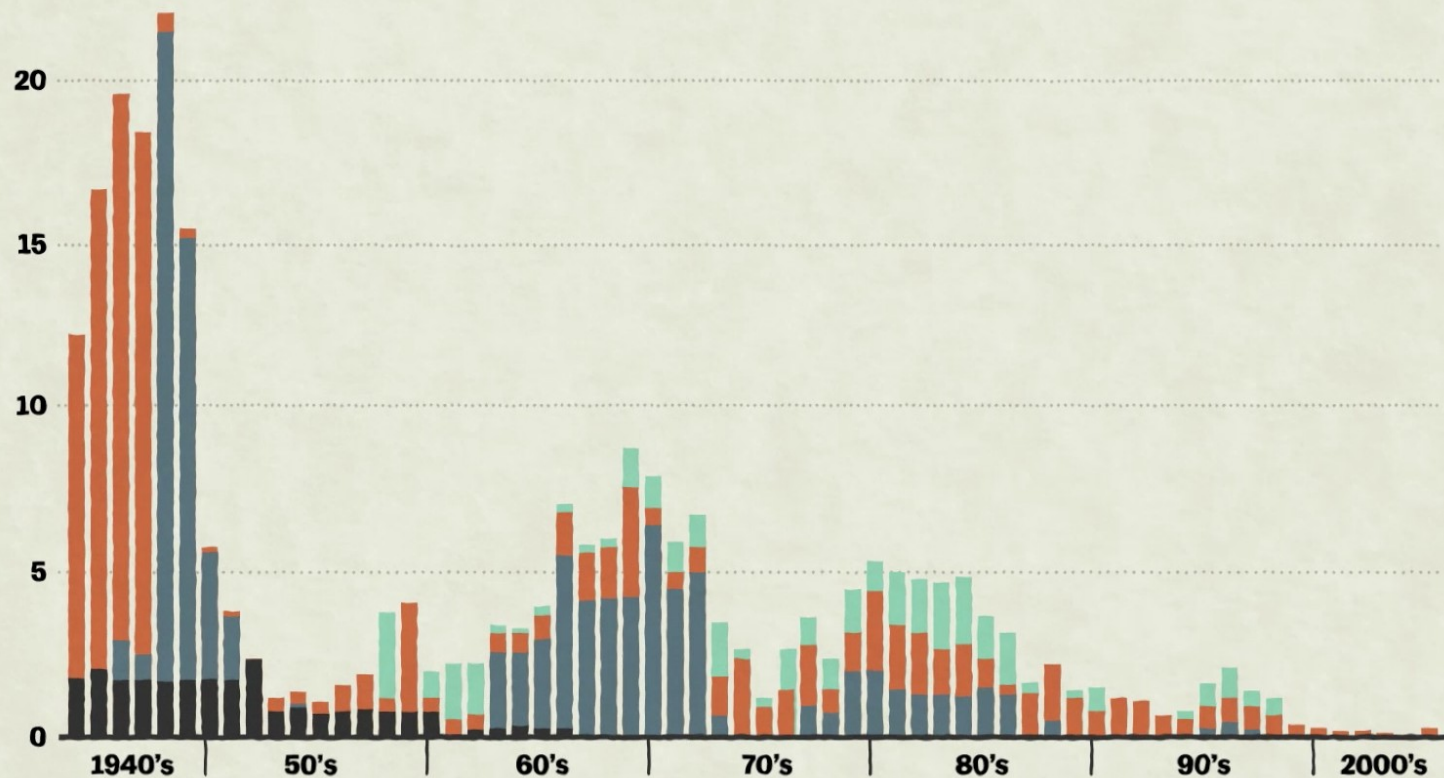
Current economic situation by regions

1. Asia – Japan, Southeast Asia, China
2. Africa
3. America – Latin America, USA
4. Europe

World-wide battle deaths per 100,000 people

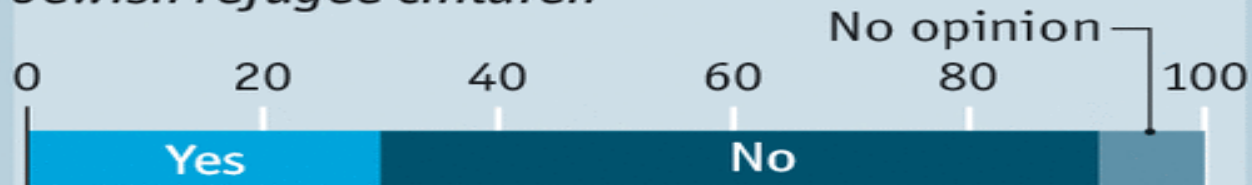
■ Colonial ■ Interstate ■ Civil ■ Civil with foreign interaction

Human Security Report Project, Uppsala Conflict Data Project, Peace Research Institute of Oslo, via WSJ

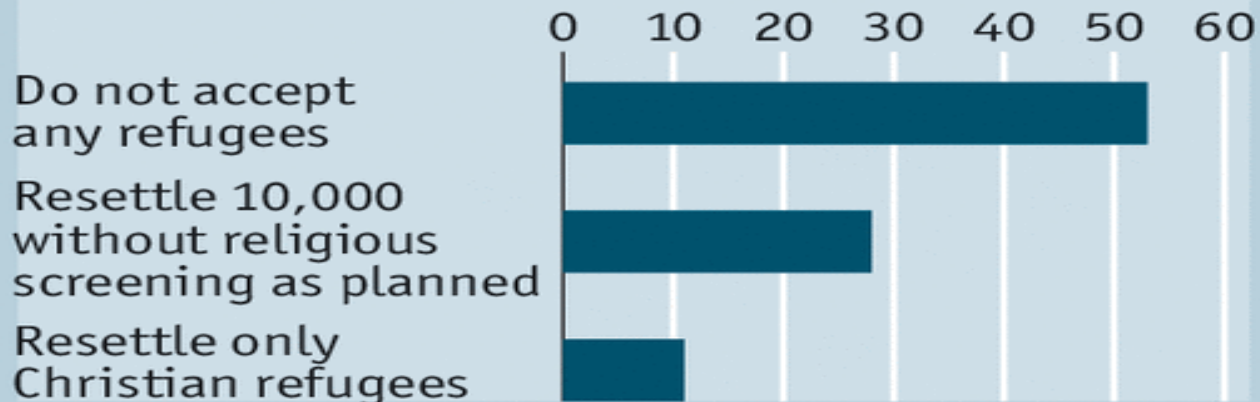


Some context

% of Americans who believed in 1939 that America should accept 10,000 German-Jewish refugee children **1939**

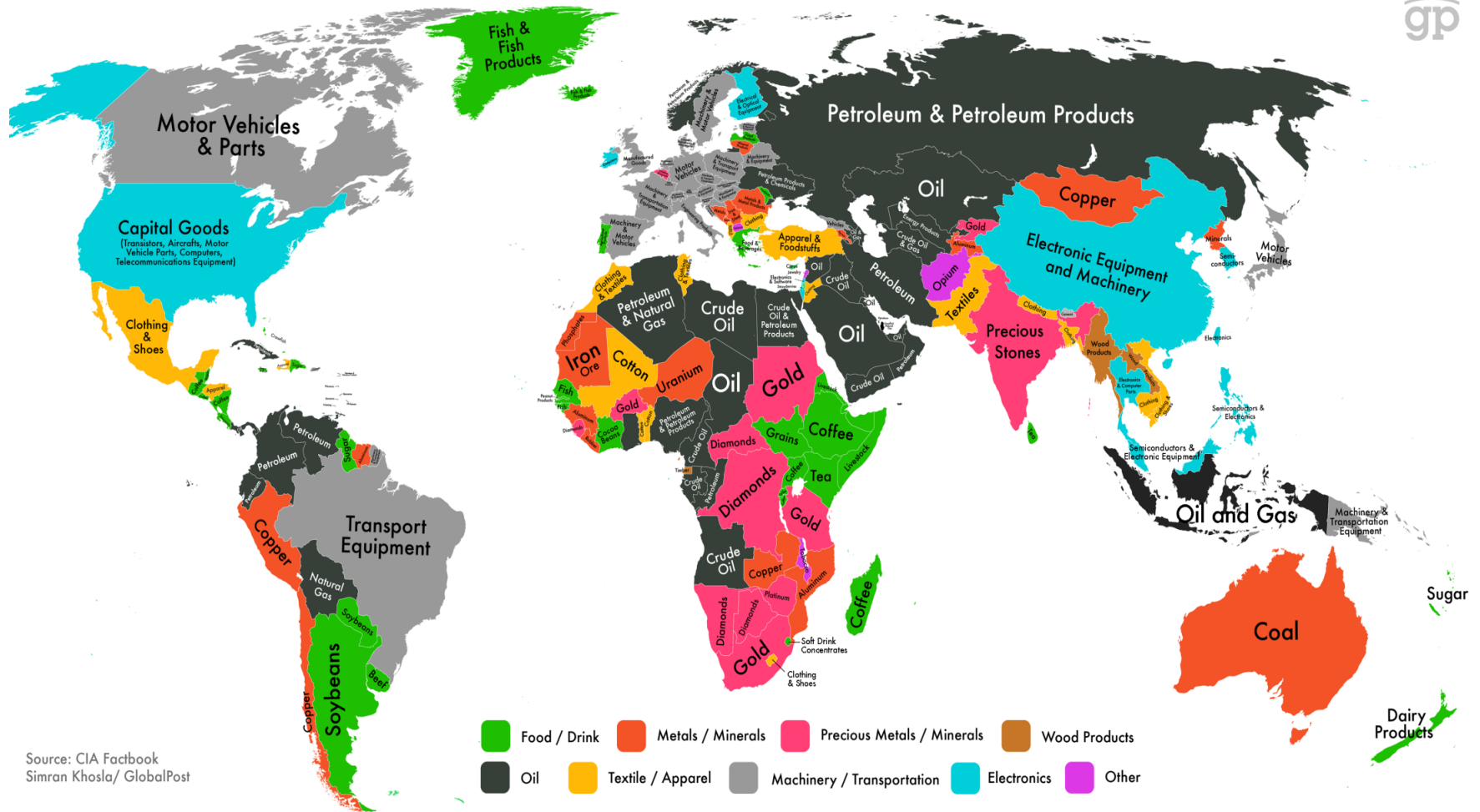


What is the best approach for America to take with refugees fleeing the Syrian civil war? **2015**
% of respondents*



Sources: American Institute of Public Opinion; Bloomberg poll

*628 adults
Nov 16th-17th 2015

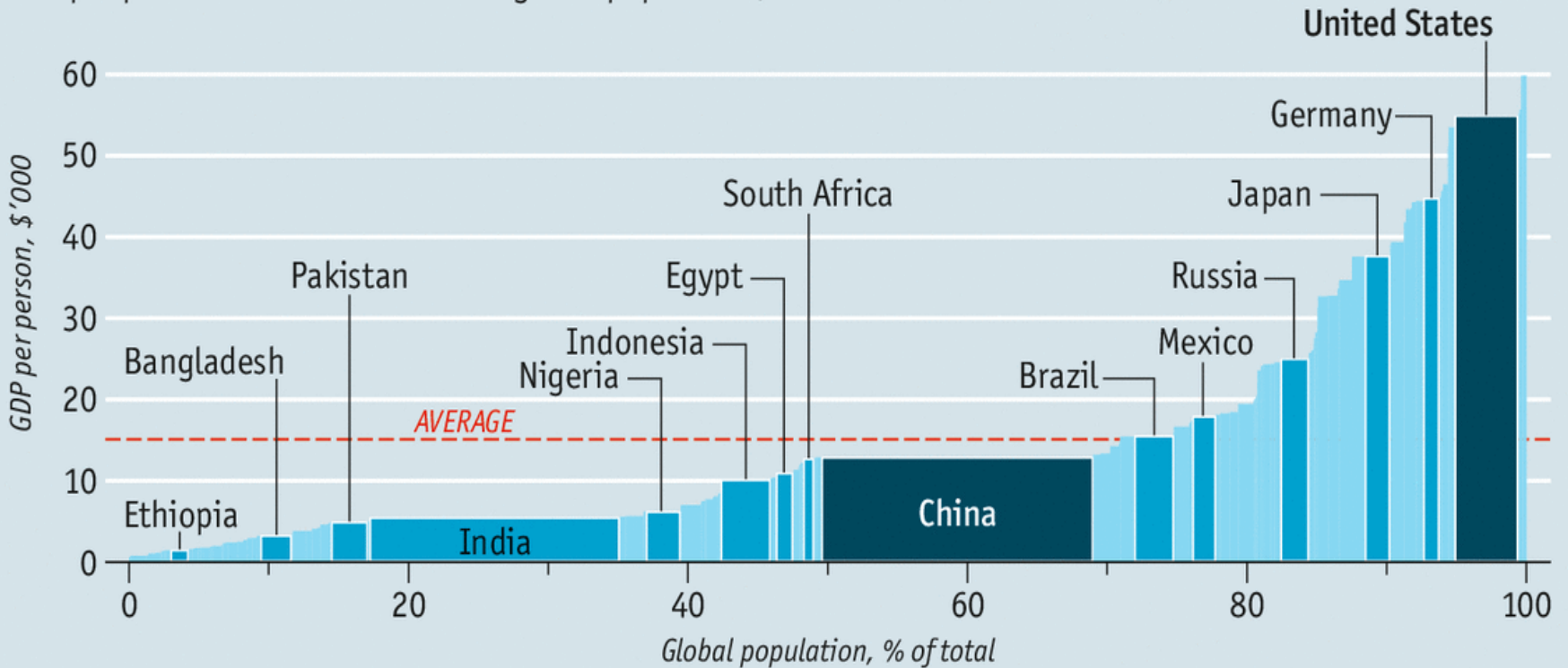


- Food / Drink
- Metals / Minerals
- Textile / Apparel
- Machinery / Transportation
- Electronics
- Other
- Oil
- Wood Products

Source: CIA Factbook
Simran Khosla/ GlobalPost

A world of difference

GDP per person at PPP* and share of global population, 2014 forecast



Sources: International Comparison Programme; IMF; *The Economist*

*Purchasing-power parity

A1. Japan

- **problems** since early 1990s
- **deflation**
- **small C** \Rightarrow small AD \Rightarrow attempt to \uparrow AD = fiscal expansion BUT not successful
- **restrictive monetary policy**
- **relatively small integration in WE** \Rightarrow negligible effects on WE but enormous on Asia
- **2000 – 2002** stagnation (\uparrow GDP around 1%)
- but in **2003** relatively rapid growth
- **since 2008** recession – huge decline

A1. Southeast Asia

- **1997 financial crisis**
 - capital outflows
 - Singapore and Taiwan not affected
- **1998 huge** ↓ in the economy
 - the most affected – Indonesia and South Korea
- **1999 - 2000**
 - better situation ⇒ also less strict conditions of IMF
- **since 2000** relatively strong **growth**

Crisis in Southeast Asia

- **before 1996**

- significant growth + balanced state budgets (even surpluses) + current account deficit considered as normal (support of INV)

- ⇒ **inflow of foreign capital**

- acceleration after 1995 (Mexico) + ↑ after 1996

- mainly short-term capital in the form of bank loans

- **1997 outflow of capital (7% GDP)**

- mainly bank loans

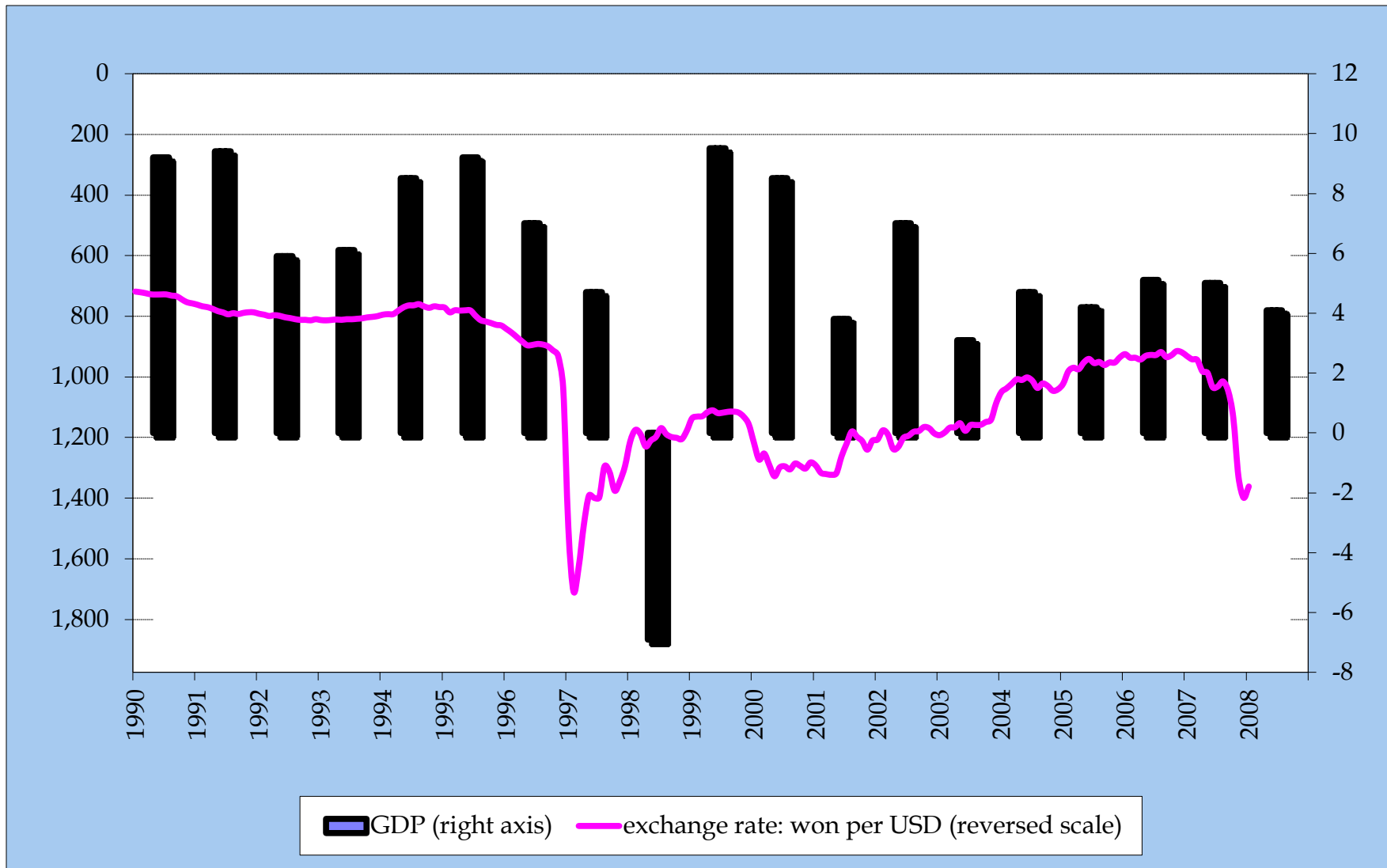
Net foreign capital inflow to Asia (USD billion)

	1991	1992	1993	1994	1995	1996	1997
Inflow total	29	30.3	32.6	35.1	62.9	72.9	-11
Direct investment	7.2	8.6	8.6	7.4	9.5	12	9.6
Portfolio investment	3.3	6.3	17.9	10.6	14.4	20.3	11.8
Others	18.5	15.4	6.1	17.1	39	40.6	-32.3

- **July 1997** - Thai baht abandoned the fixed exchange rate system \Rightarrow \downarrow exchange rate + \downarrow share prices + \uparrow capital outflows (also domestic)
 - \uparrow debt service + \uparrow risk + \downarrow price of real estates \Rightarrow banks in problem
- **spread of the crisis**
 - \downarrow baht \Rightarrow \uparrow other currencies \Rightarrow \downarrow their competitiveness
 - investors assumed that local countries had similar problems
 - regional linkage – mainly bank loans

- monetary crisis -> into real economy
- \downarrow INV + \downarrow C (b/c \downarrow private incomes) \Rightarrow \uparrow U + \downarrow production
 - + bad situation in Japan
- help of the IMF BUT „advices“
 - \uparrow r
 - x \downarrow exchange rate
 - high indebtedness
 - x speculations
 - + structural reforms in the financial sector
 - + relatively loose fiscal policy
- \Rightarrow \downarrow exchange rate stopped + later also \uparrow BUT \downarrow econ. performance
- criticism against IMF
 - same solutions for different problems
 - too strict restriction
 - moral hazard

Changes in real GDP (in %) and exchange rates (won per dollar) in Korea, 1990-2008

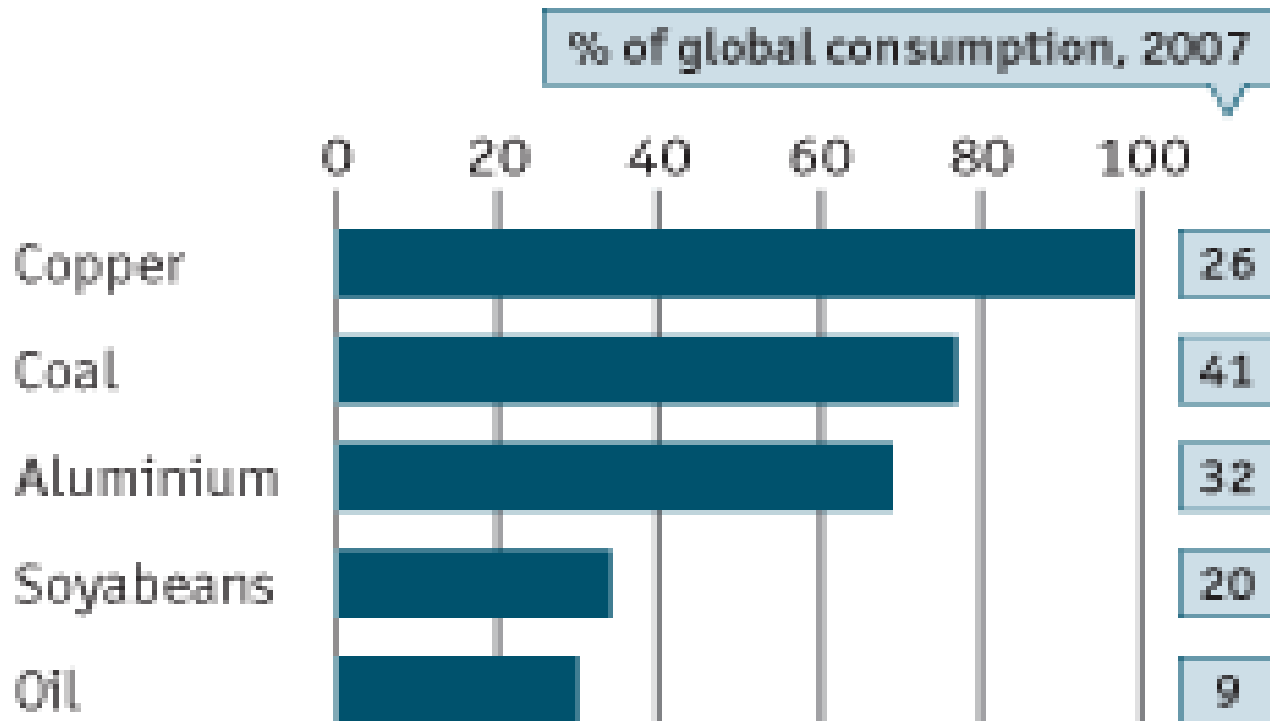


A1. China

- **gradualist econ. reforms** since 1979 x policy
- **stable** econ. and political situation
- high % **econ. growth** BUT low initial level
- **Special Economic Zones** along the coast
- still relatively high % of state companies
 - loss-making
 - ⇒ **bad situation in the financial sector**
- 2002 entrance to **WTO**
- **nowadays**
 - ↓ GDP growth to approx.. 8%
 - exchange rate

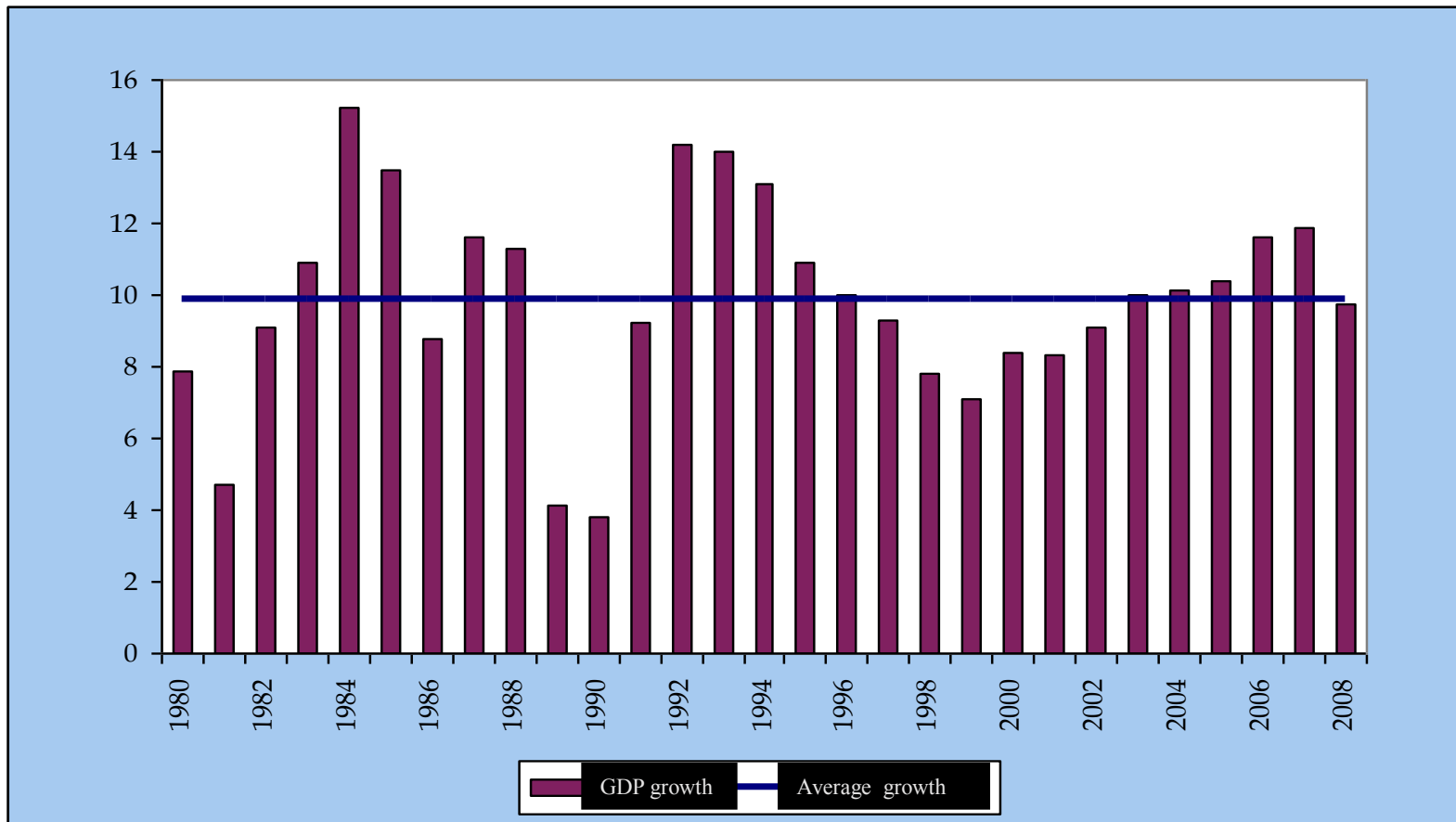
Eastern premise

China's commodity consumption
% share of global growth, 2000-07



Source: Barclays Capital

Year on year GDP growth (%), 1980 – 2008



Shanghai-1990-vs-2010



Rio de Janeiro, 1993



Xangai, 1993

(sem metrô)

Rio de Janeiro, 2013

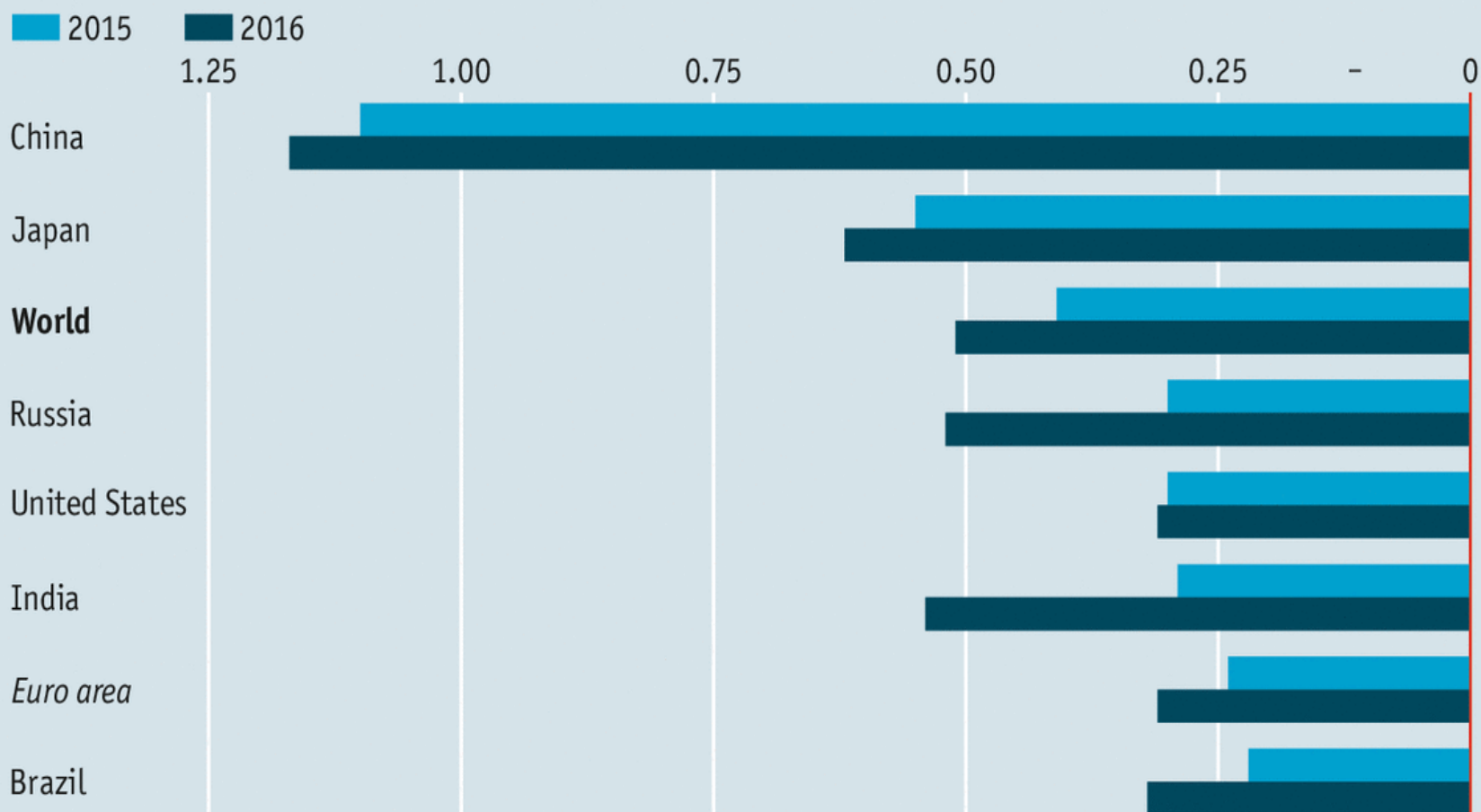


Xangai, 2013



The impact of a China slowdown

Decrease in GDP growth from a two-percentage point decline in Chinese domestic demand growth*
% points



Source: OECD

*Includes two adverse financial shocks

SLOWING CHINA DOES MORE FOR THE WORLD THAN BOOMING INDIA

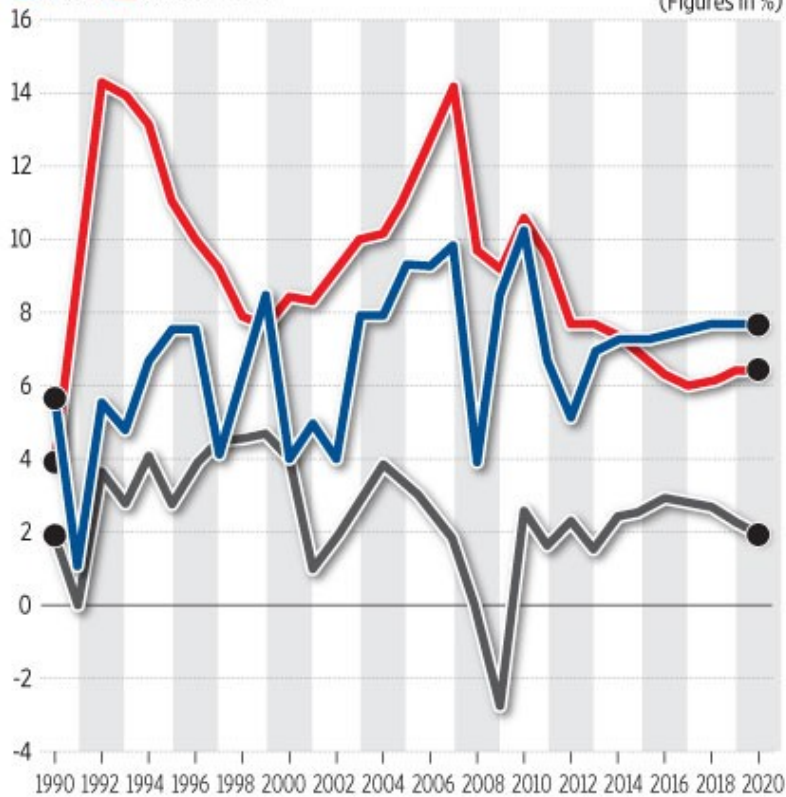
China is slowing down as it makes a bumpy transition to consumer-led growth, ceding the title of world's fastest-growing large economy to India. So can the subcontinent pull the world out of a lull? Not anytime soon, data show. Over the next decade, much will depend on India's ability to create the jobs it needs to harness its 1.3 billion population and push for an exponential growth jump.

GATHERING PACE

India overtook China last year as the world's fastest-growing economy

■ India ■ China ■ US

(Figures in %)



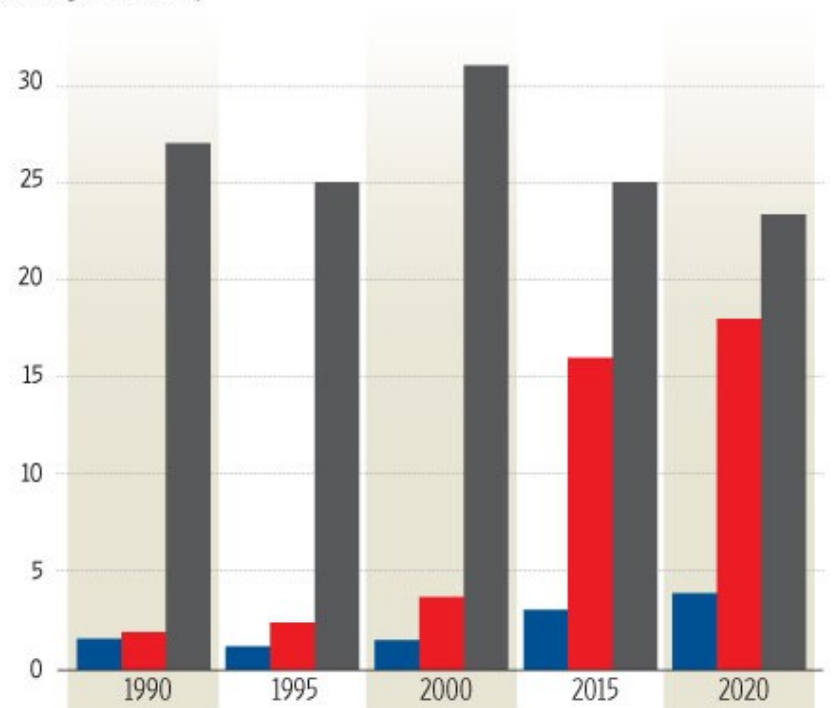
OUTRUN

India has a long way to go to catch the world's biggest economies

■ India ■ China ■ US

(Figures in %)

35% of global economy

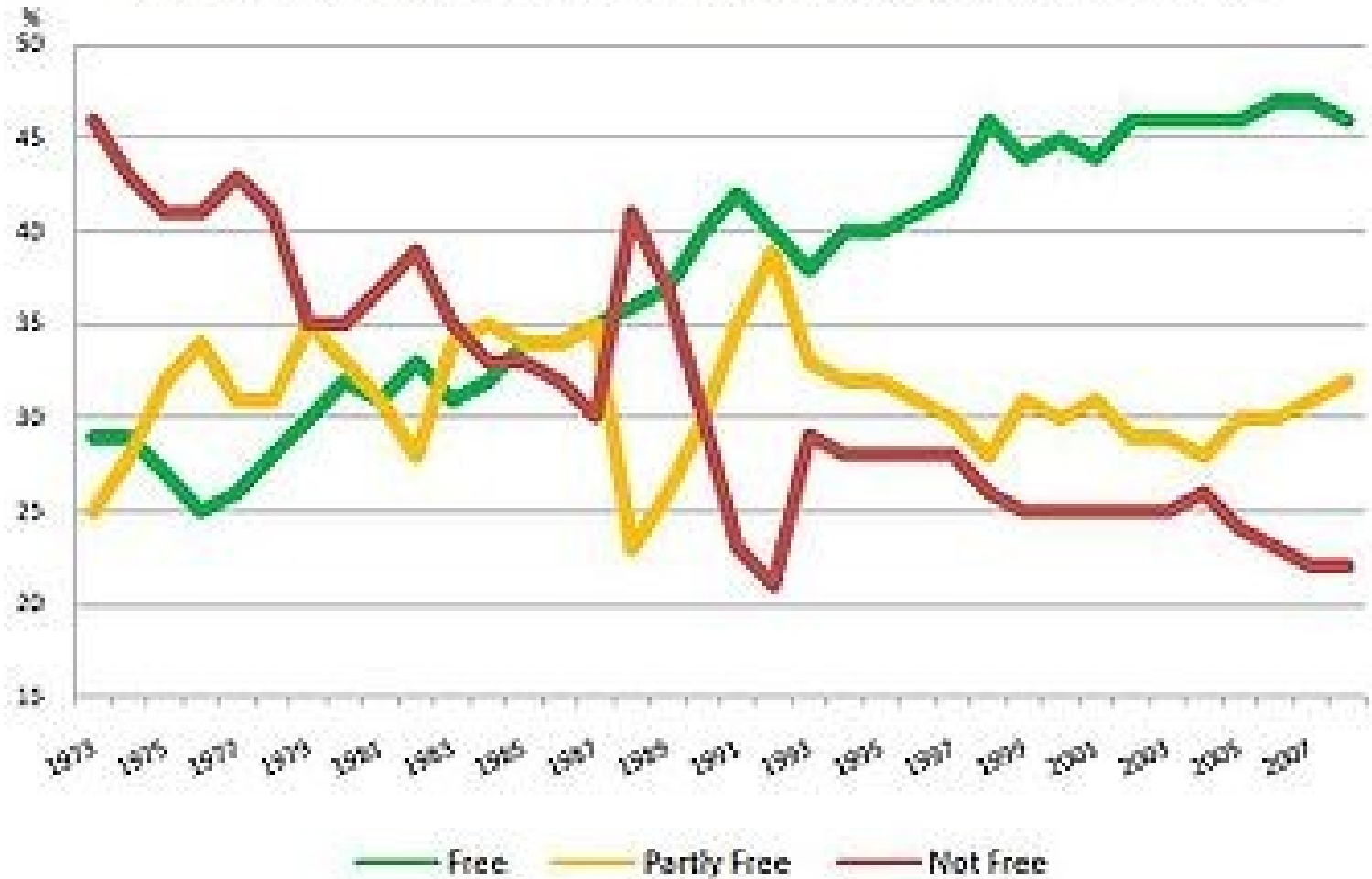


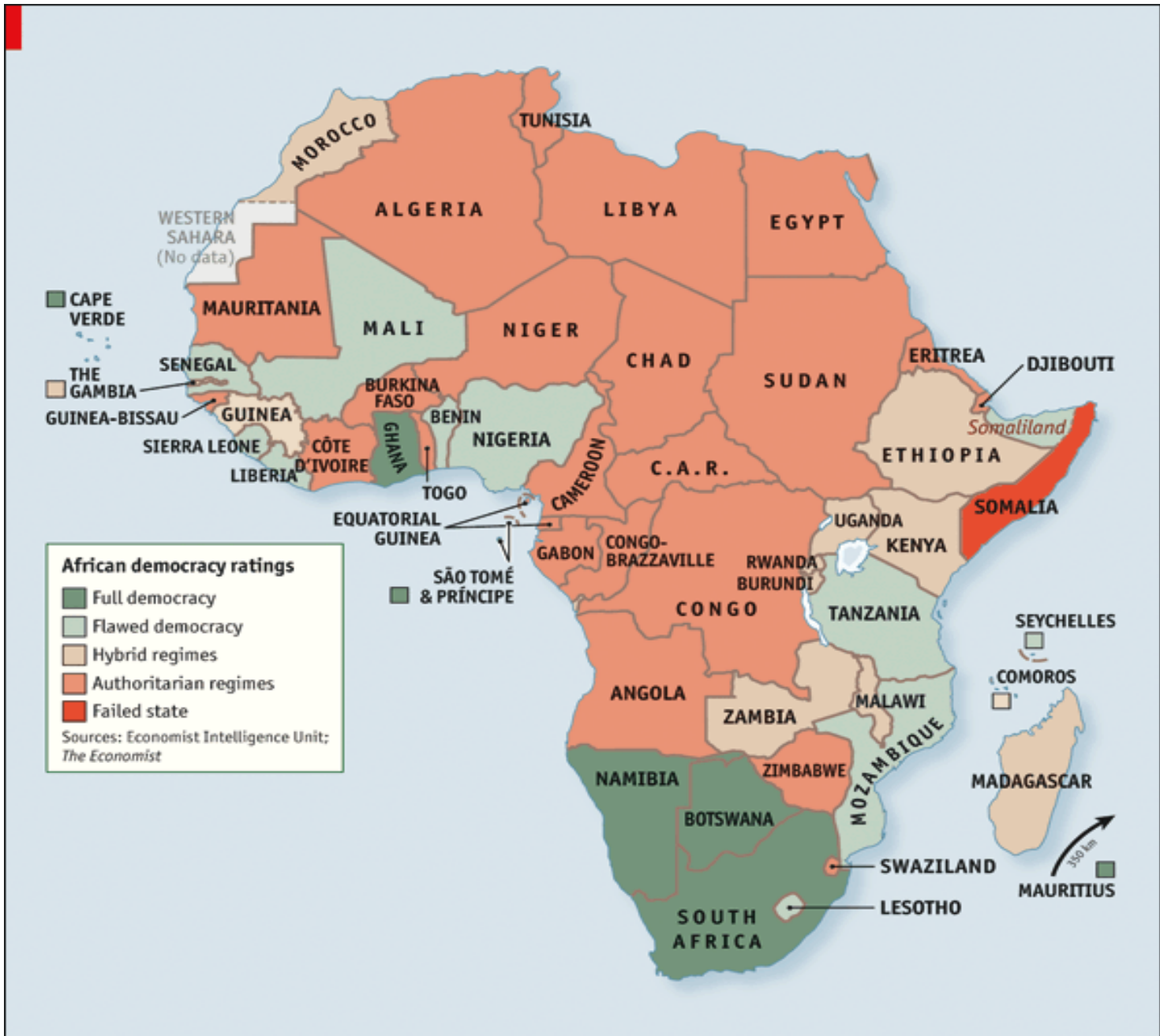
*Global economy is in US dollars, calculated using GDP of more than 150 countries at current prices

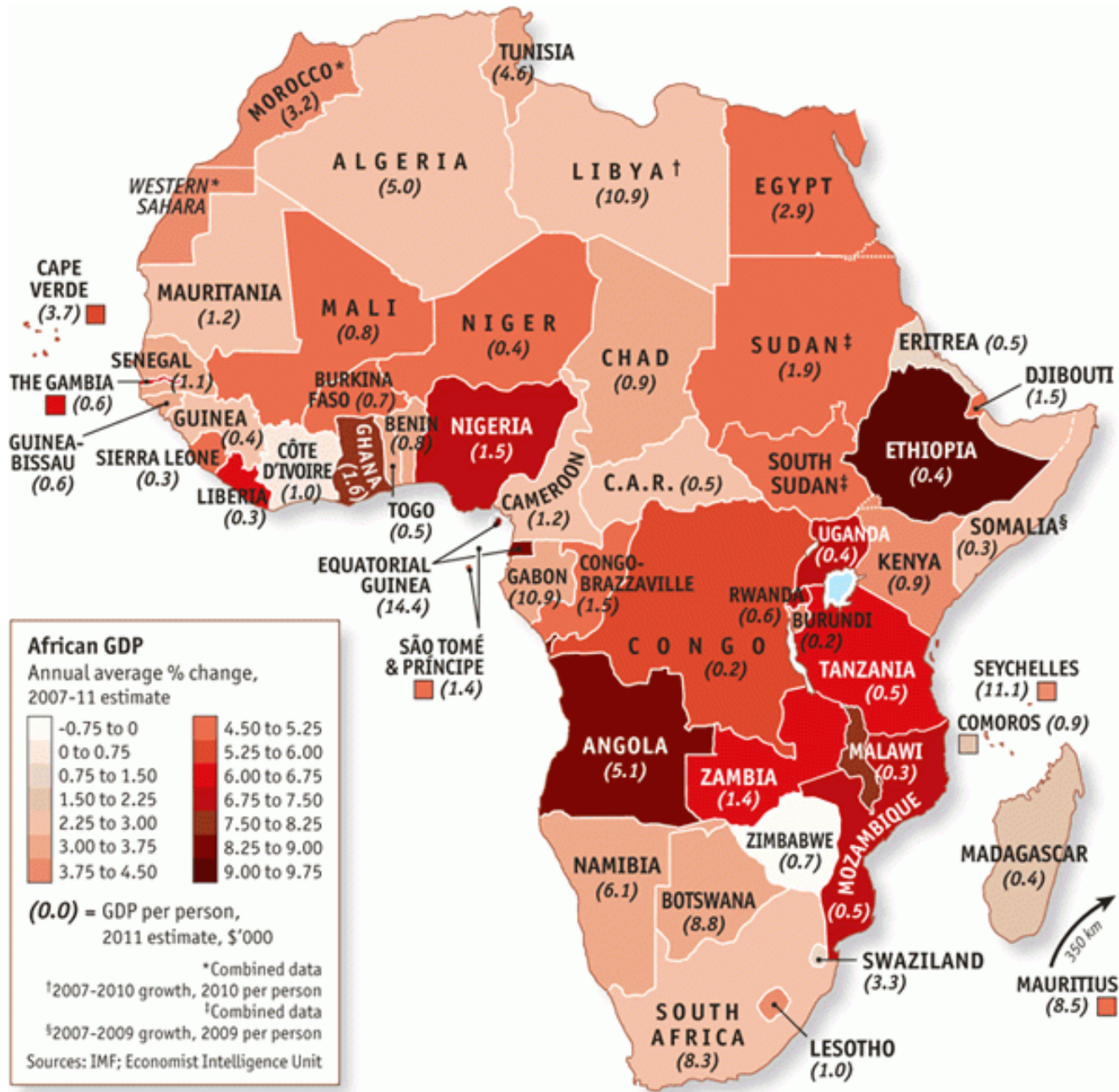
A2. Afrika

- **good perspectives:**
 - cheap labour force
 - raw materials and agricultural commodities
 - (selling) market
- huge **differences** among countries
- **recently**
 - ↑ GDP + smaller crisis
 - ↑ trade
- **indebtedness** as the biggest problem BUT also quality of LF + labour productivity + EP + AIDS ...
- **democratization**

Freedom in the World Country Rankings (1973–2008)

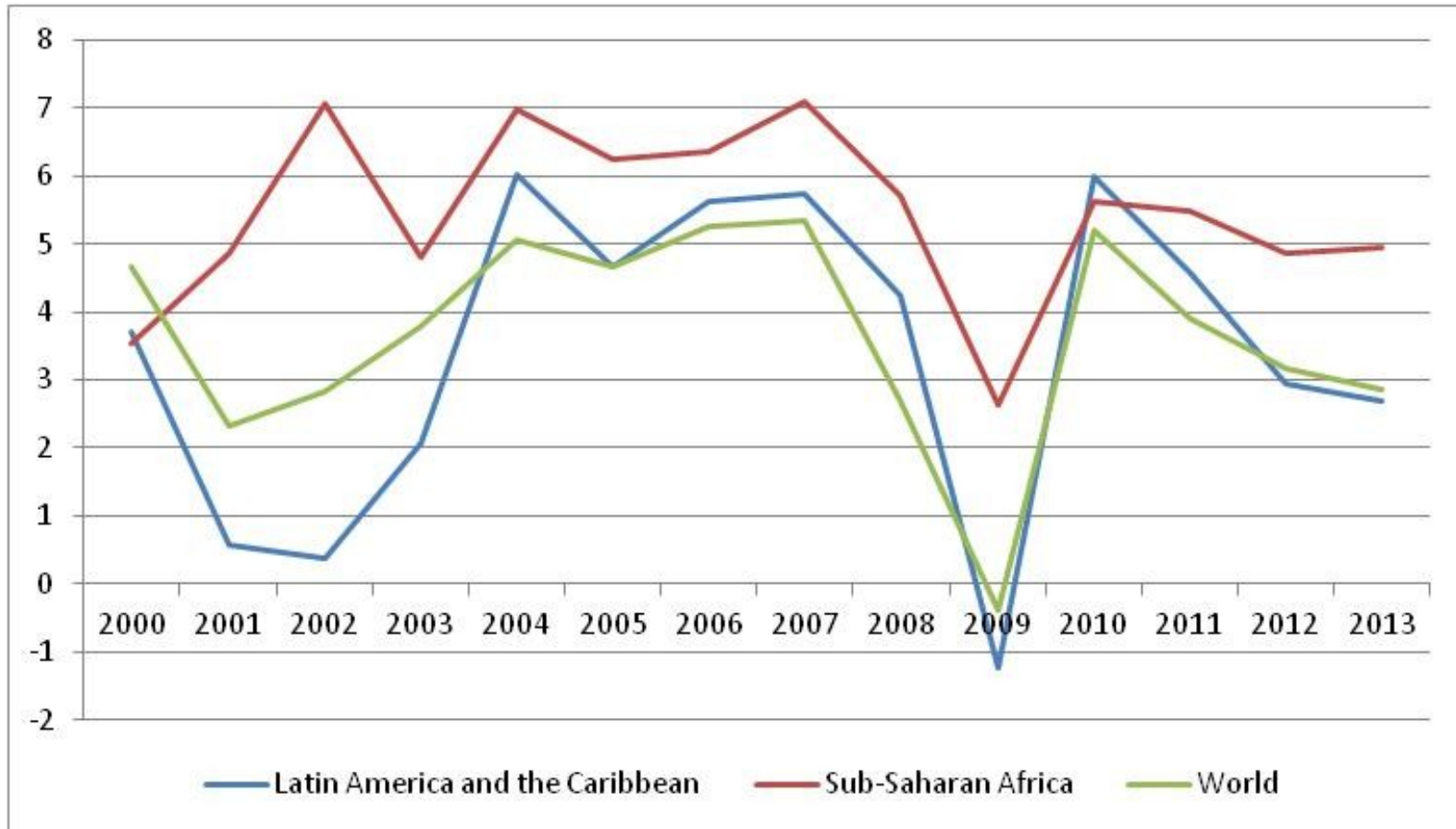




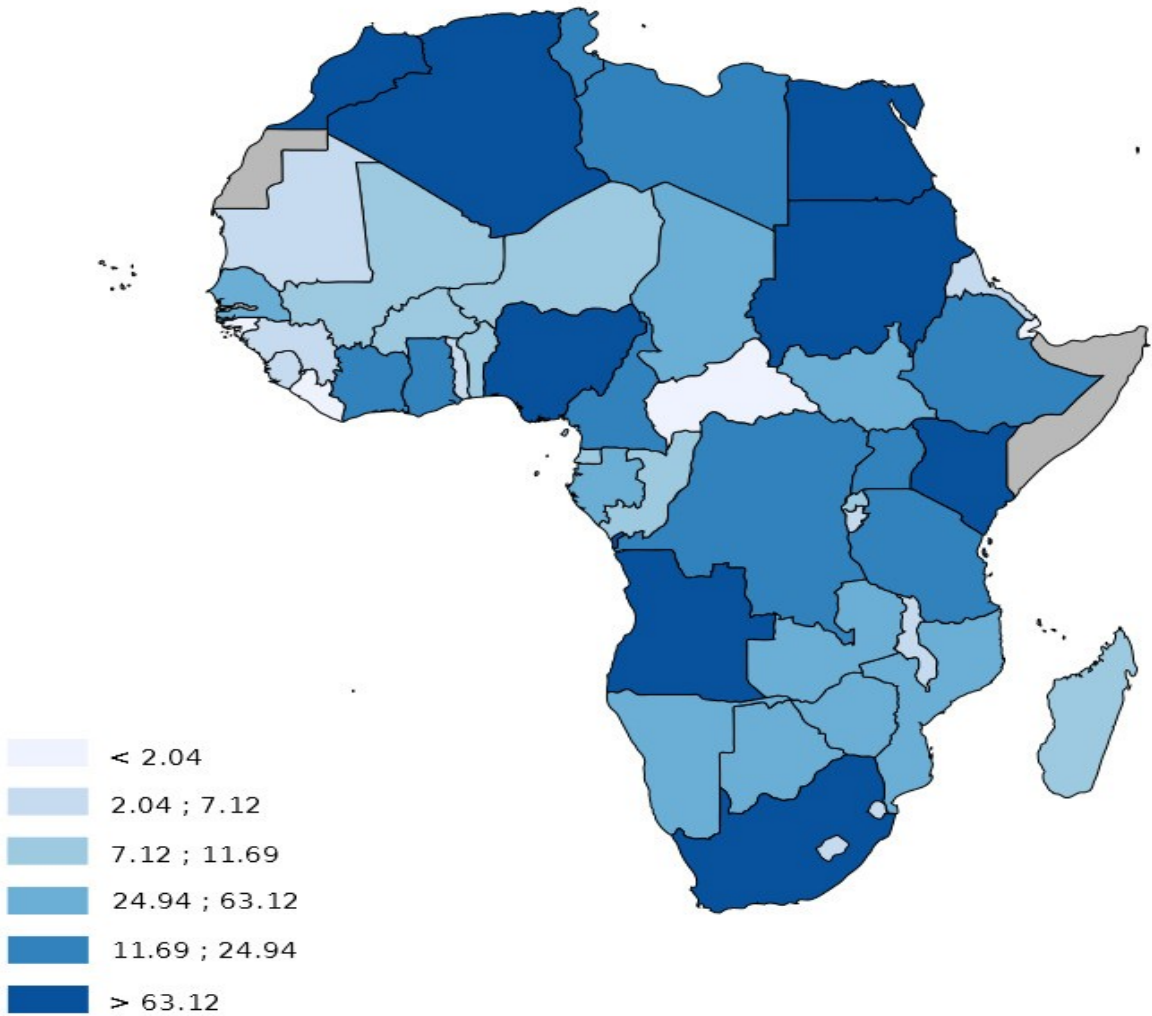




Economic growth in Africa, South America and in the world, 2000-2013

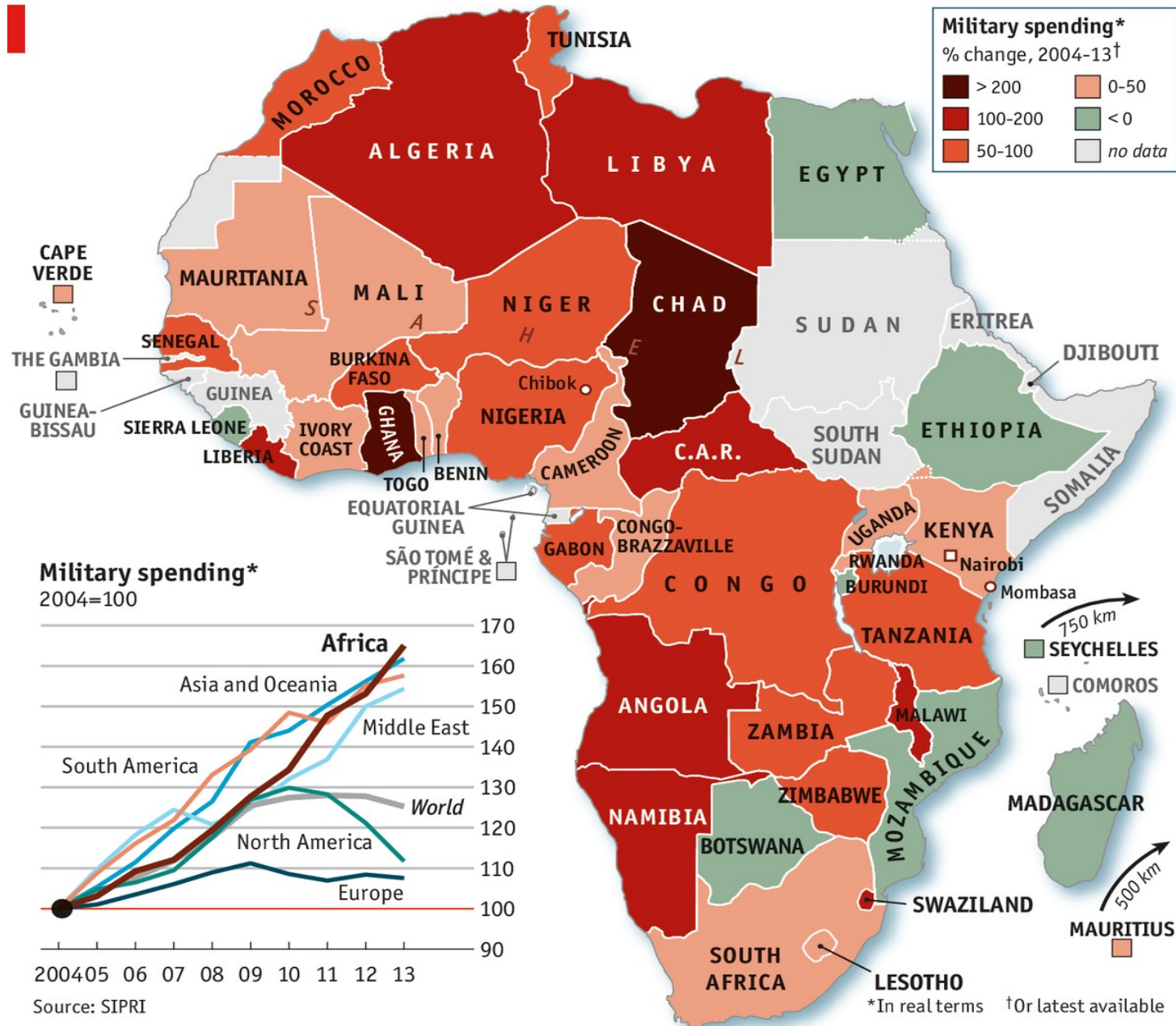


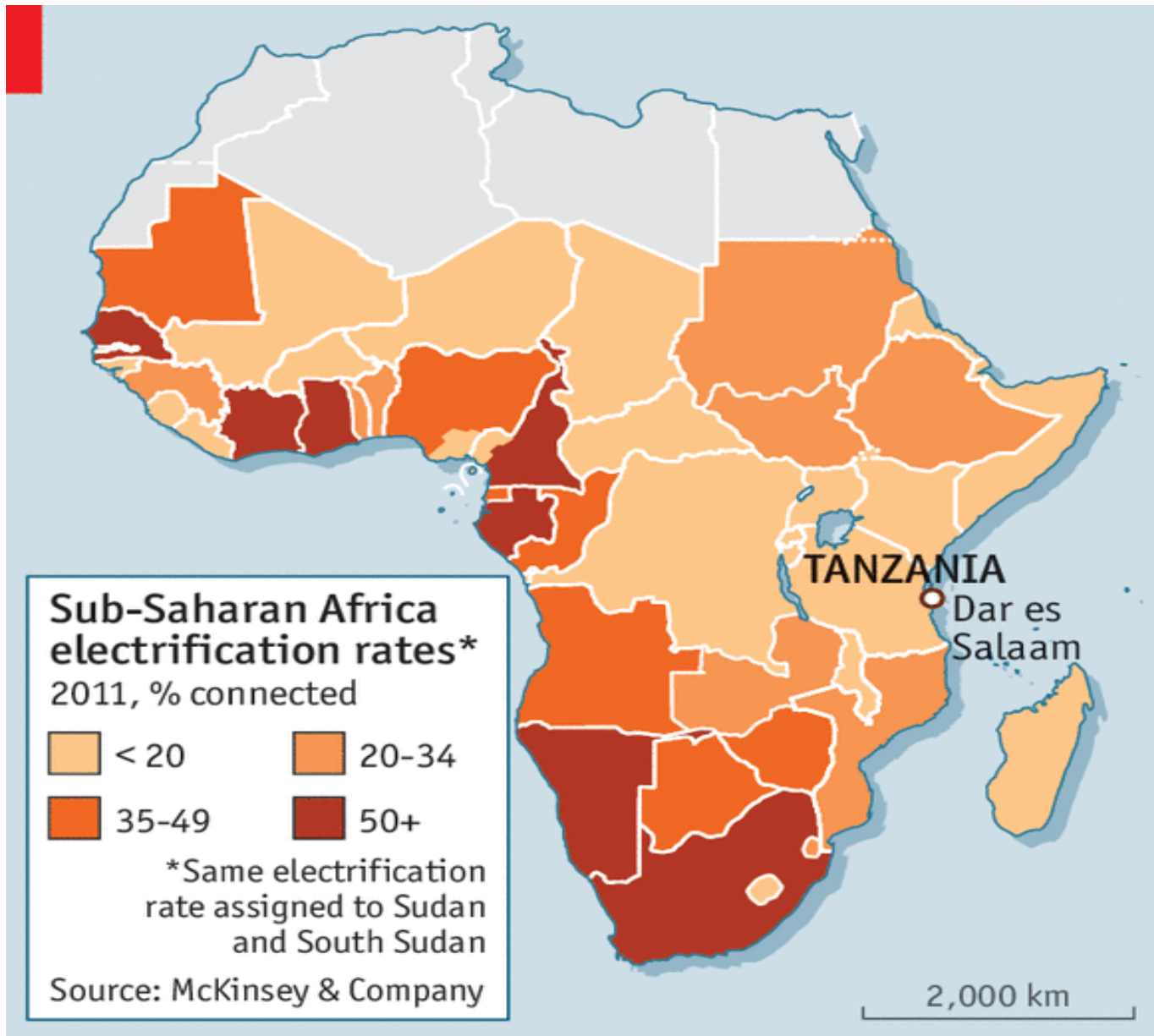
Gross domestic product (billion \$ US)



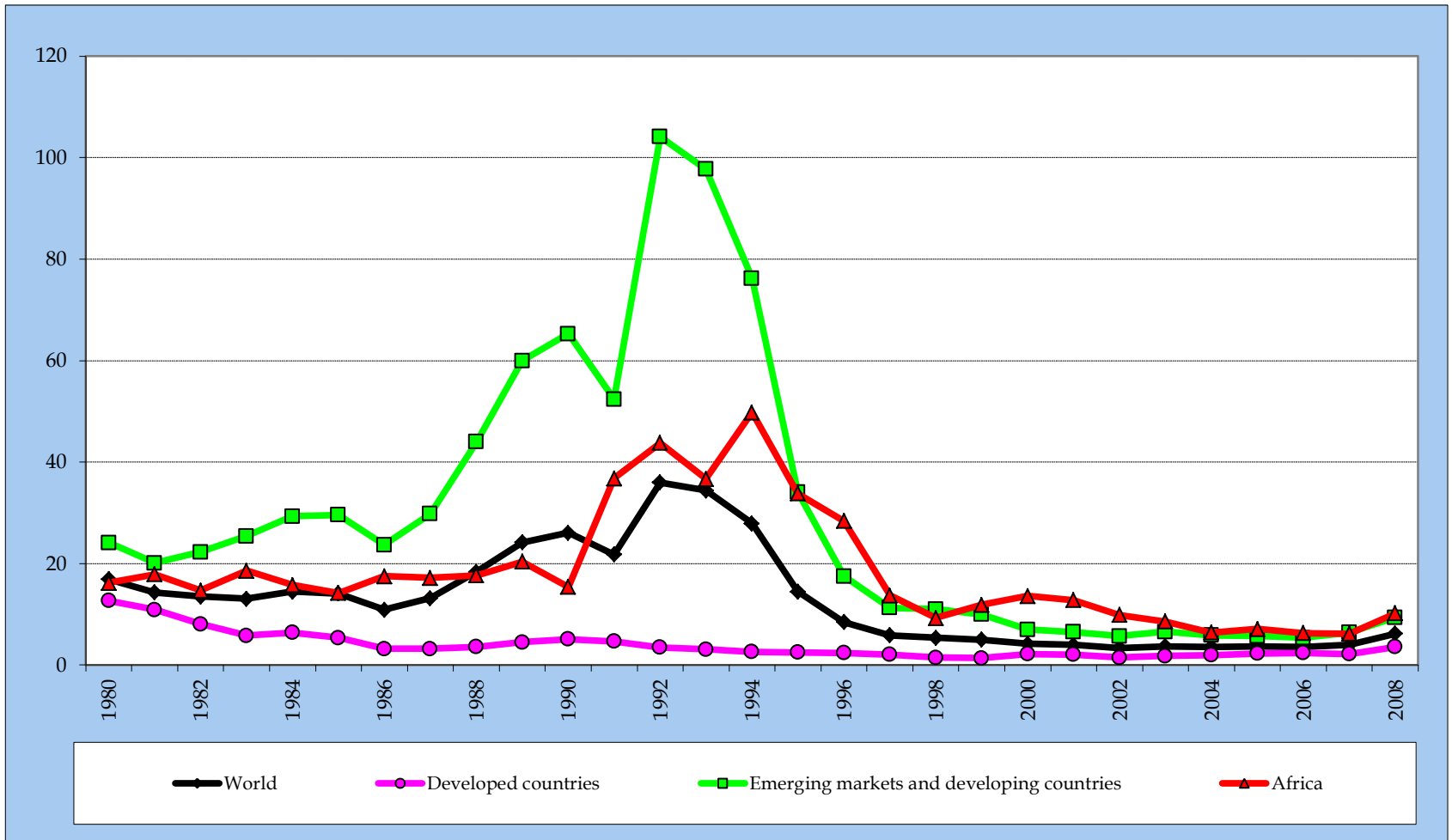
Source : IMF - 2015

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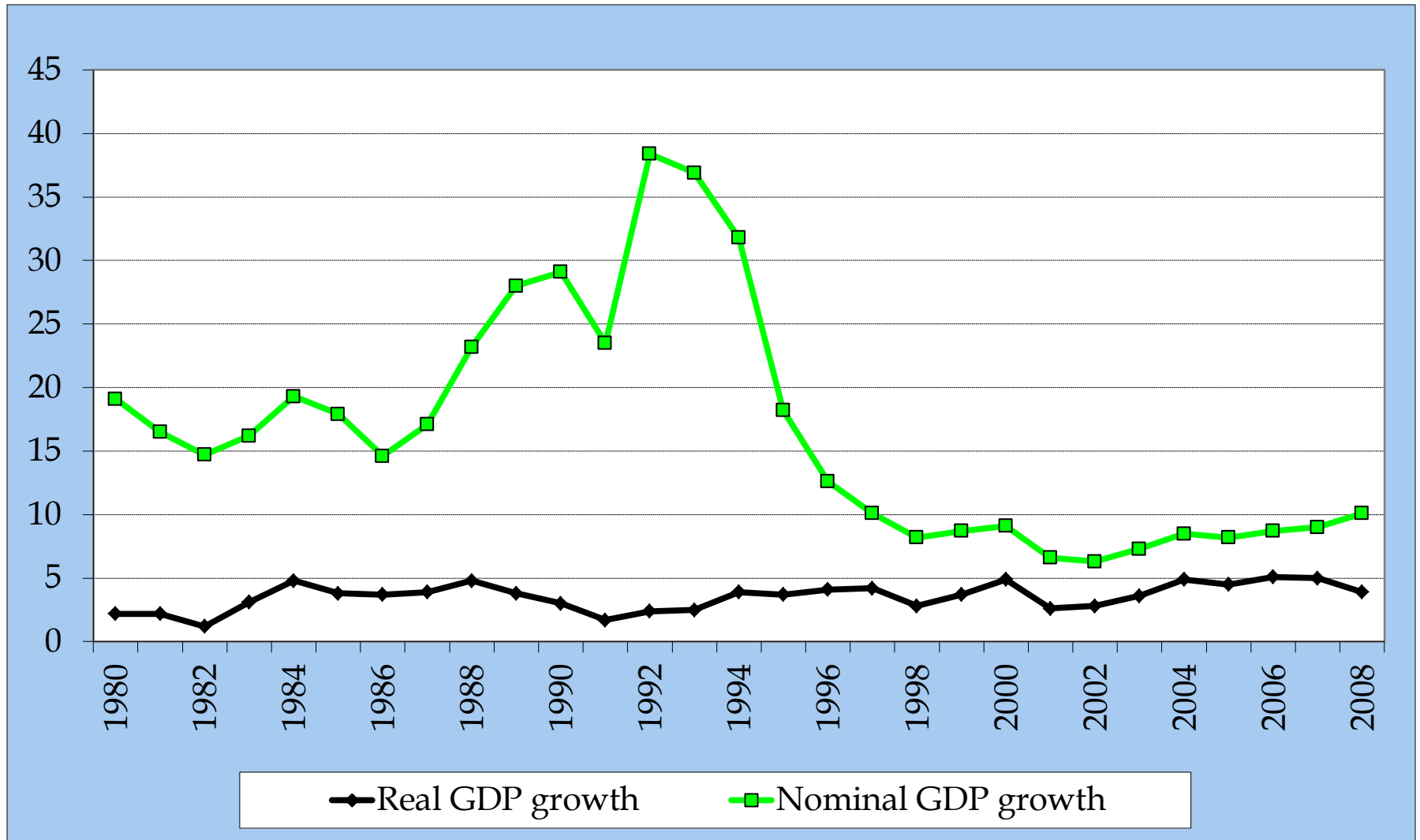




Inflation (year-on-year proportional changes), 1980-2008

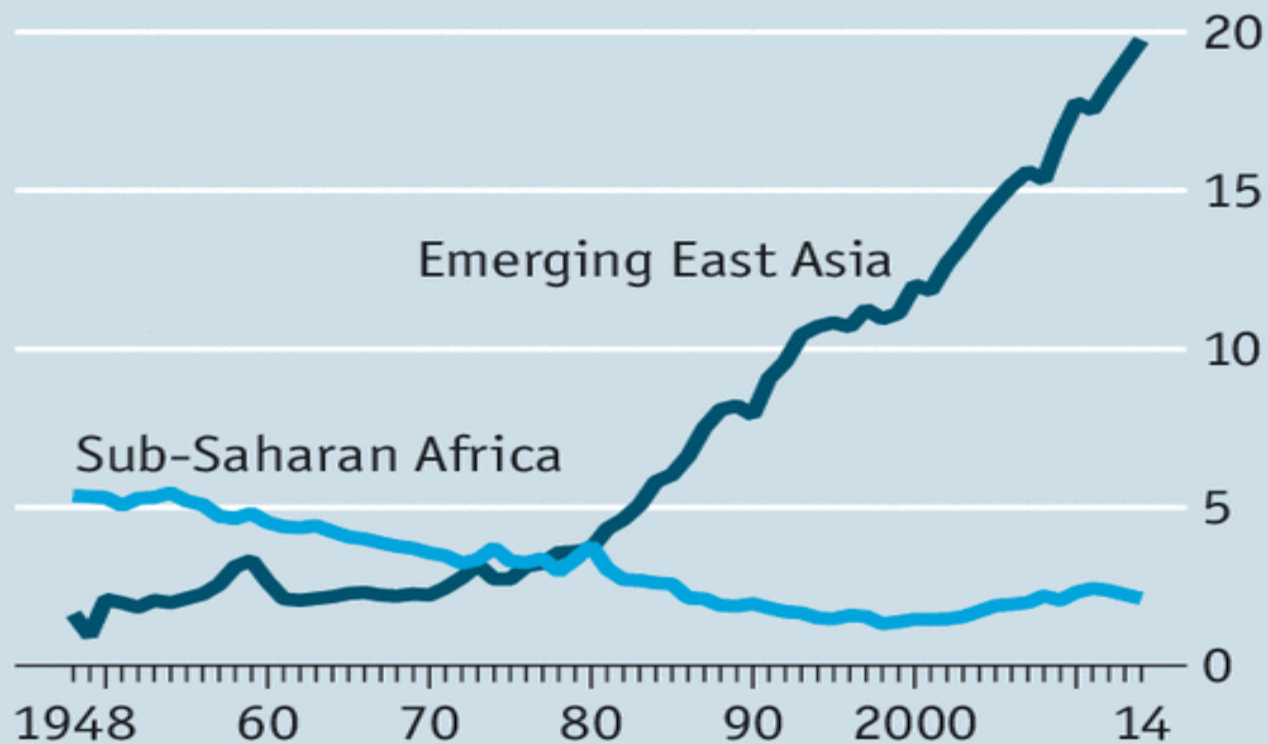


Nominal and real growth of the world GDP since 1980



Failure to launch

Exports as a share of world total, %
Current prices

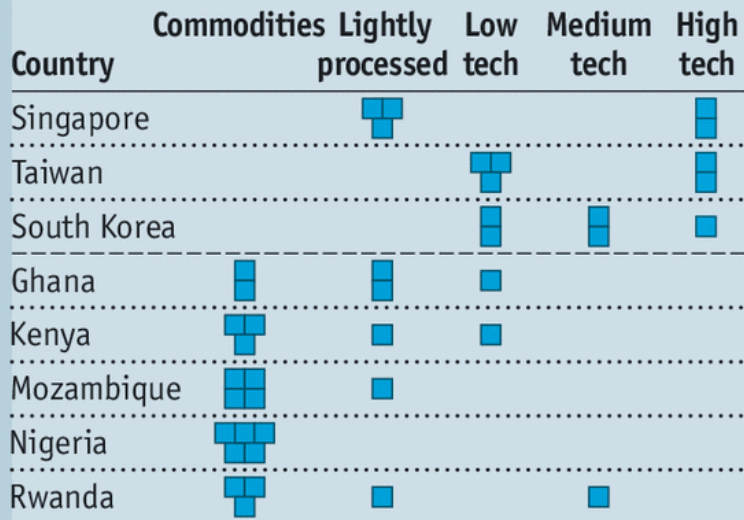


Source: UNCTAD

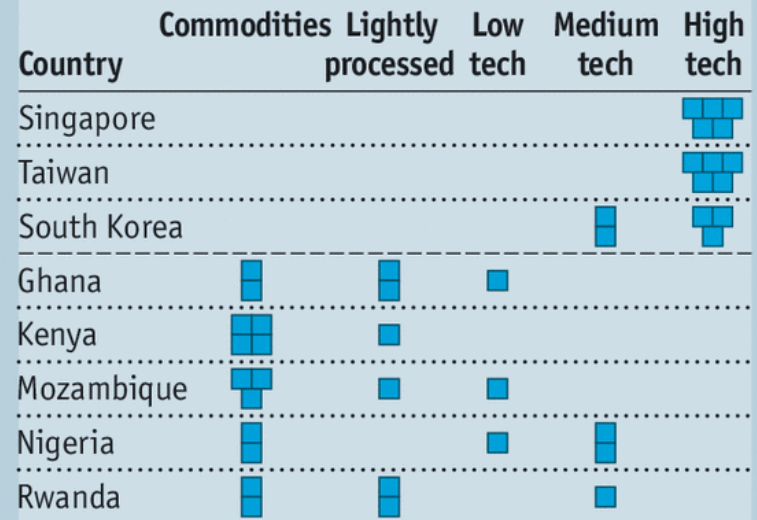
A blessing and a curse

Biggest five exports for each country, by sector

1985



2008



Source: "From Flying Geese To Leading Dragons" by Justin Lin, November 2012

A3. Latin America

- relatively stable situation
- experience with high inflation, slow econ. growth, dictatorships
- econ. reforms + econ. ↑ + stable price level
- 2001 econ. crisis in Argentina
 - Fixed exchange rate pegged to dollar – devaluation in Brazil
 - state bankruptcy + devaluation
 - problems in banking sector
- the last crisis
 - only moderate
 - result of the previous reforms
- currently – only slowing down

A3. Amerika - USA

- **very long conjuncture**

- **low inflation**

- new technologies - implementation of PCs

- **new economy?**

- **↑ productivity**

- mainly ↑ INV to IT ⇒ ↑ productivity ⇒ Π under control ⇒ ↑ profitability and ↑ stock exchange prices ⇒ ⇒ ↓ capital costs ⇒ ⇒ ↑ INV + econ ↑ ⇒ strong \$ ⇒ helped to maintain low Π and r

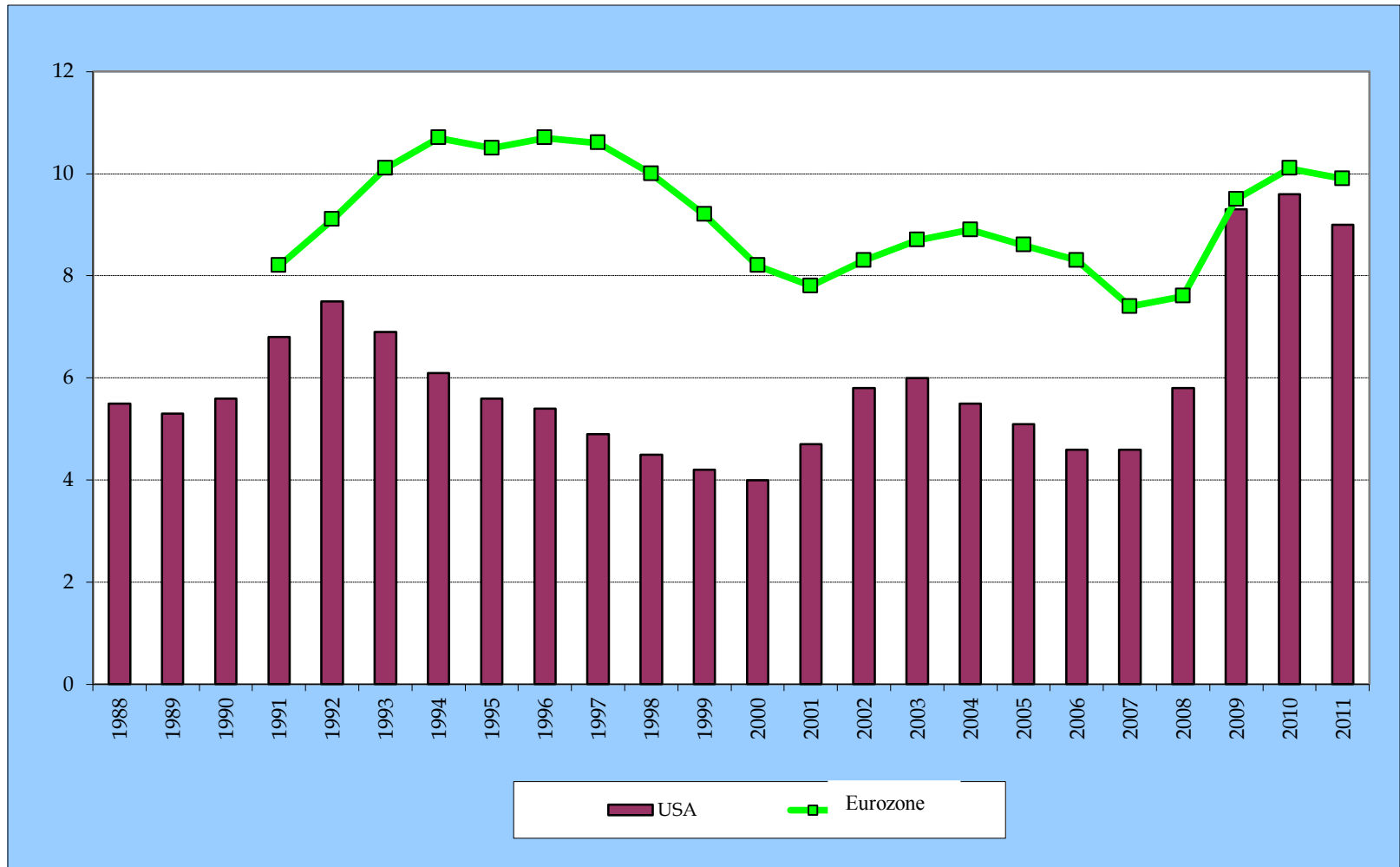
- **2001 recession**

- causes ↓ INV and no monetary restriction

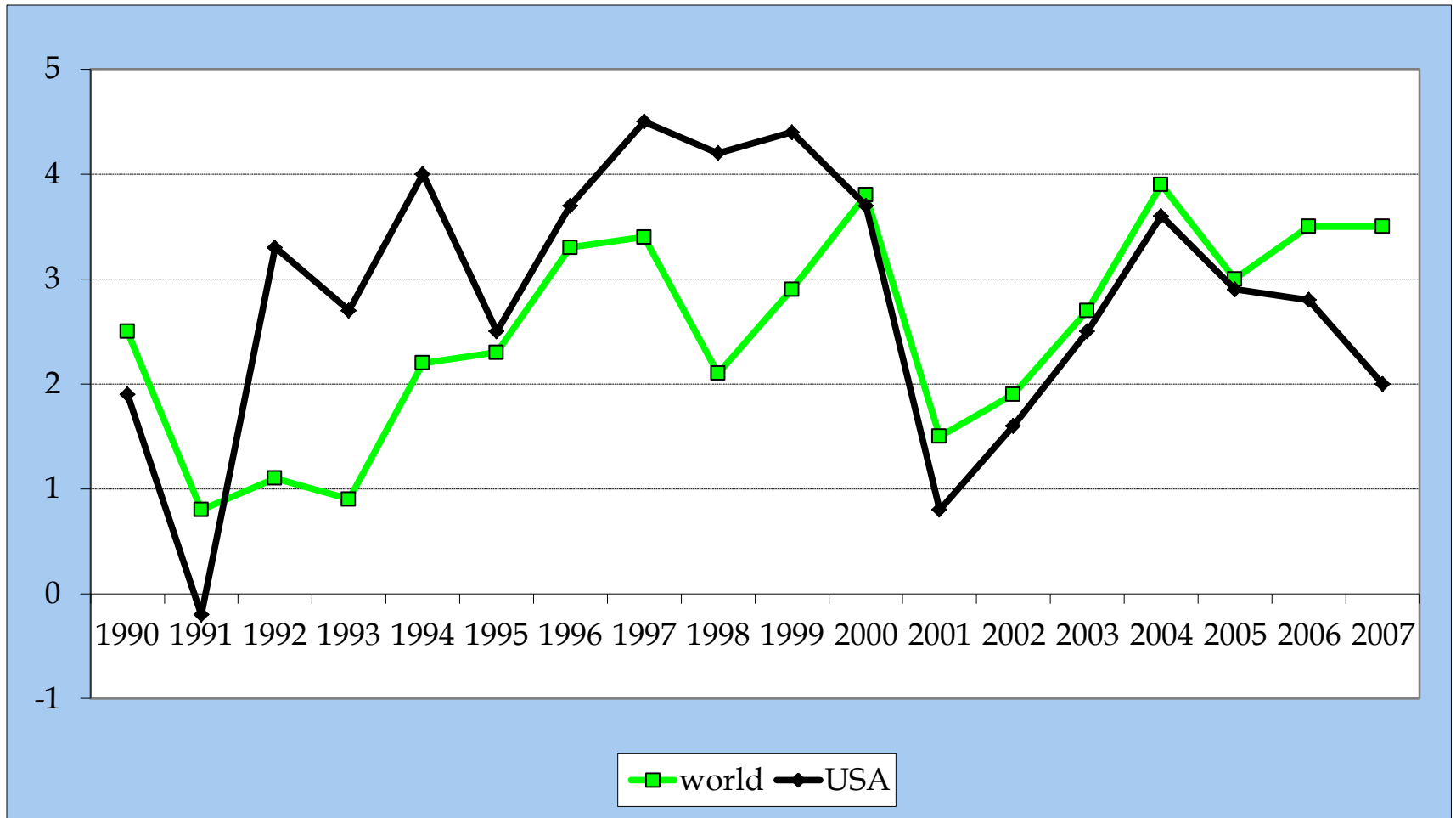
- reasonable EP but limited capabilities

- after **2002 recovery**
- then current account deficit (6% of GDP) + budget deficit
- **2008 crisis**
 - financial crisis econ. crisis
 - fiscal and monetary expansion
- **2011 relatively good situation**
 - problem with fiscal imbalances
 - confidence of the markets

Unemployment in USA and Eurozone, 1988-2011 (in %)

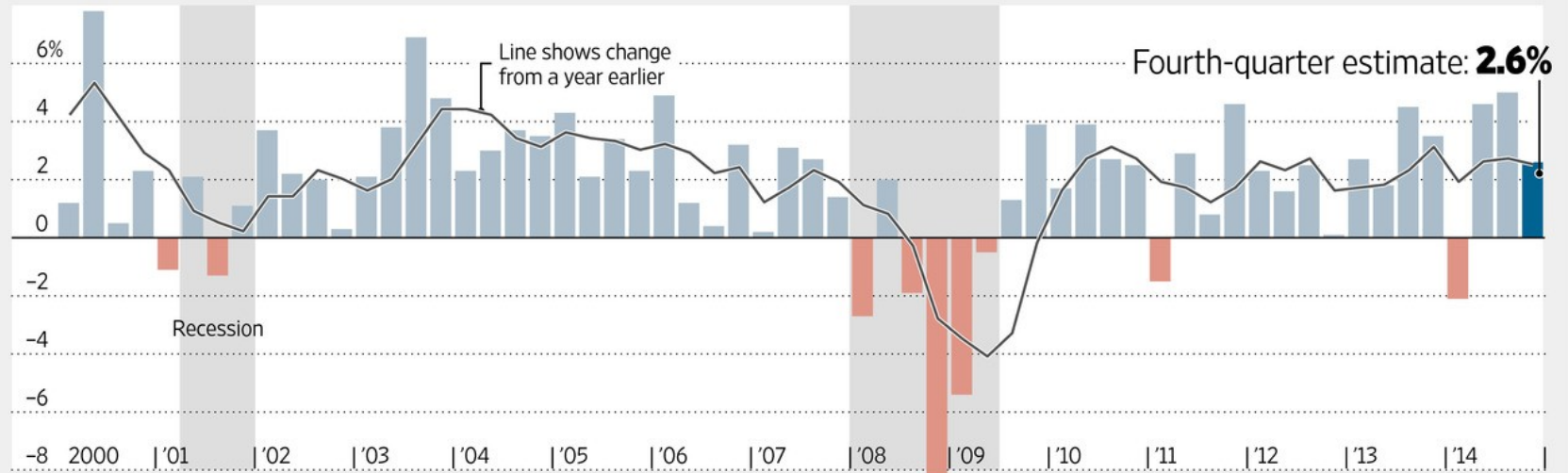


World GDP and USA, 1990-2007



Slowdown

Fourth-quarter GDP growth came in well under expectations...



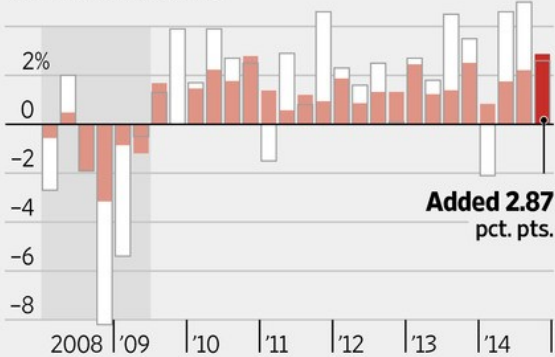
...even as optimistic consumers contributed strongly to growth...

...but trade was dragged down by a stronger dollar...

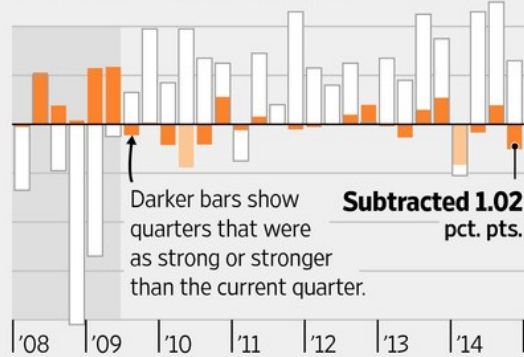
...and businesses held back on spending.

Percentage-point **contributions by sector** (■ ■ ■) to quarterly change in **GDP** (□) at an annualized rate

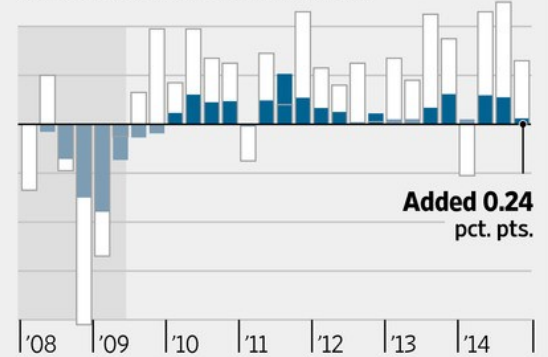
Consumer spending



Net trade of goods and services



Nonresidential fixed investment



Note: All rates adjusted for inflation, quarterly rates adjusted for seasonality

Source: Commerce Department

The Wall Street Journal

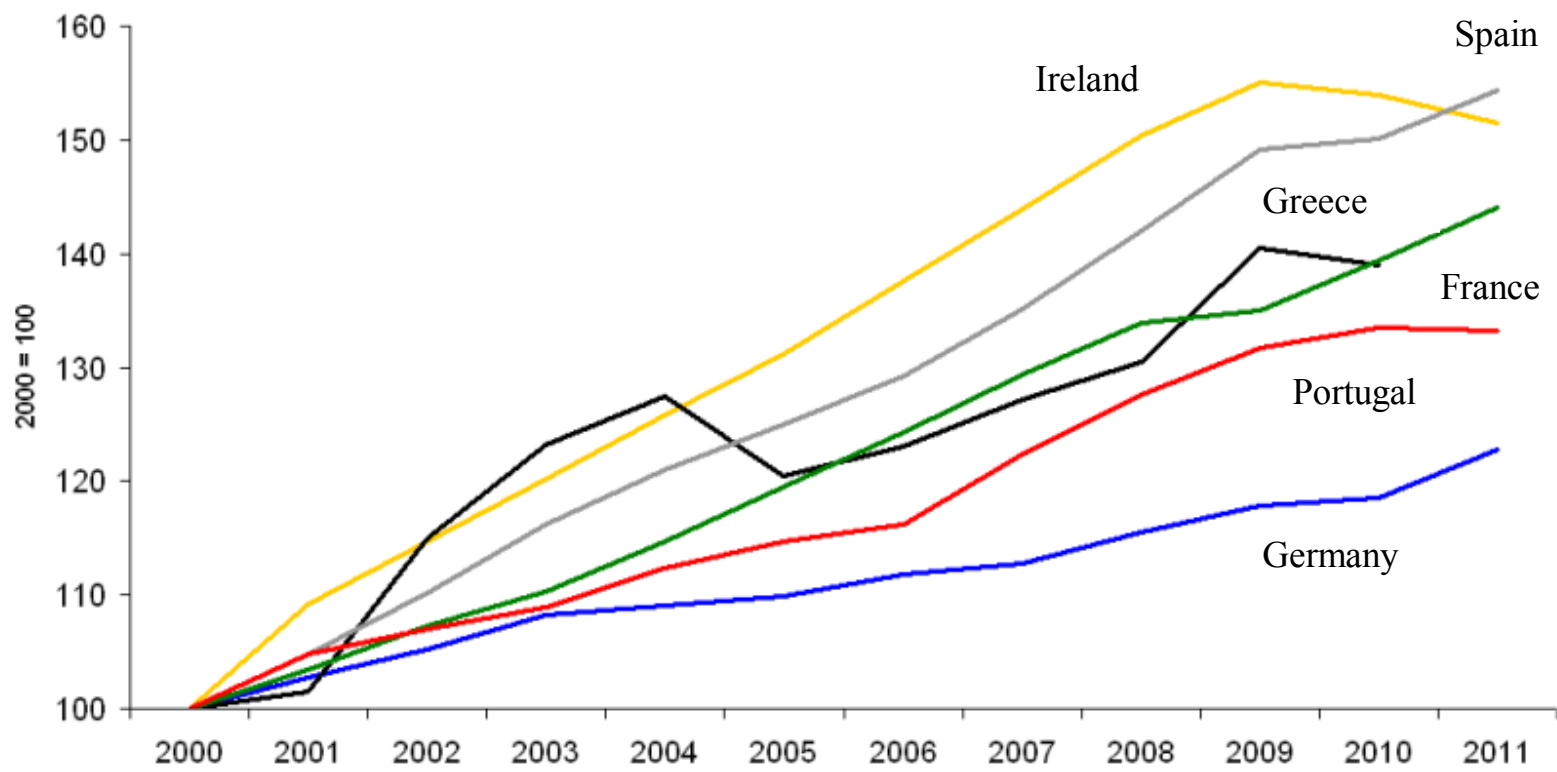
A4. Europe

- after 2001 ↓ **dynamics**
 - Germany – motor of the EU – long-term problems
 - insufficient growth of IT
- **unemployment**
- **reforms** – liberalization (posts, ...), CAP ...
- **Stability and Growth Pact**
- Lisbon Strategy -> **Europe 2020**
- different course of crisis among the member states
 - serious problems – Ireland, Hungary, ..., Island

Eurozone crisis

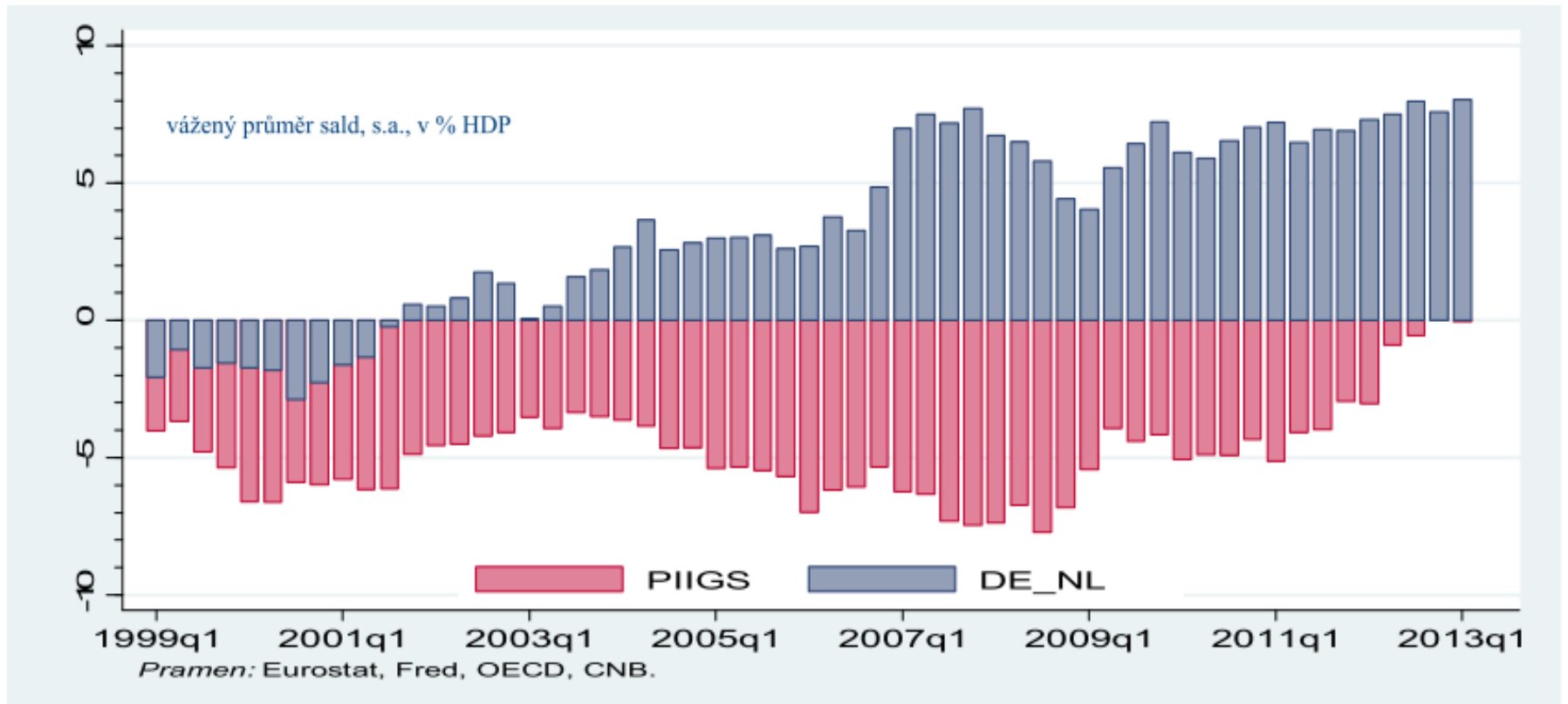
- Greece
- Ireland, Portugal, Spain, Italy
=PIIGS
- public sources in successful years
- pressing solution – money to Greece or ...
- fiscal restriction – different attitudes
- medium-term – fiscal integration – at least budget controls

Labour costs index, 2000-2011

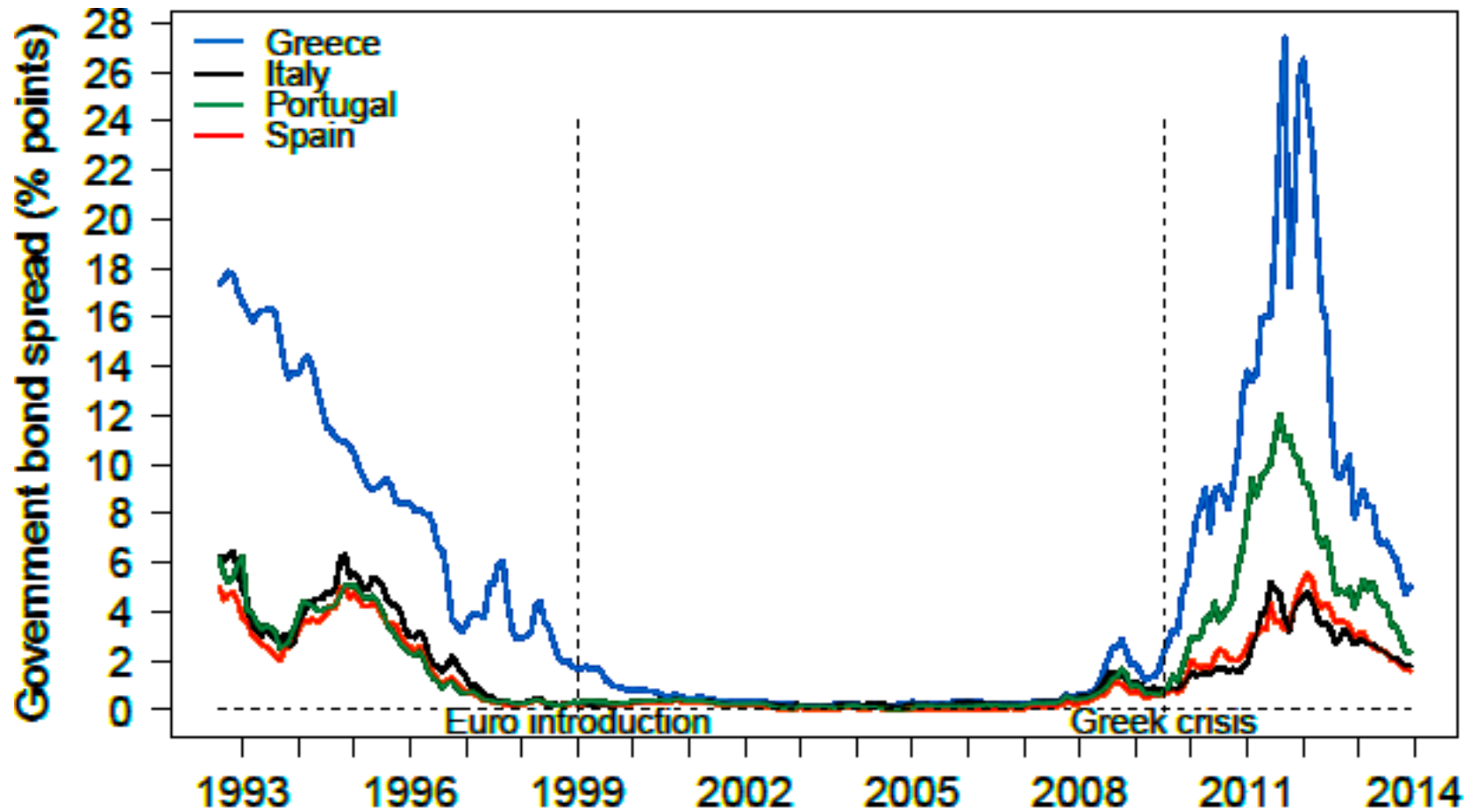


Pramen: Eurostat

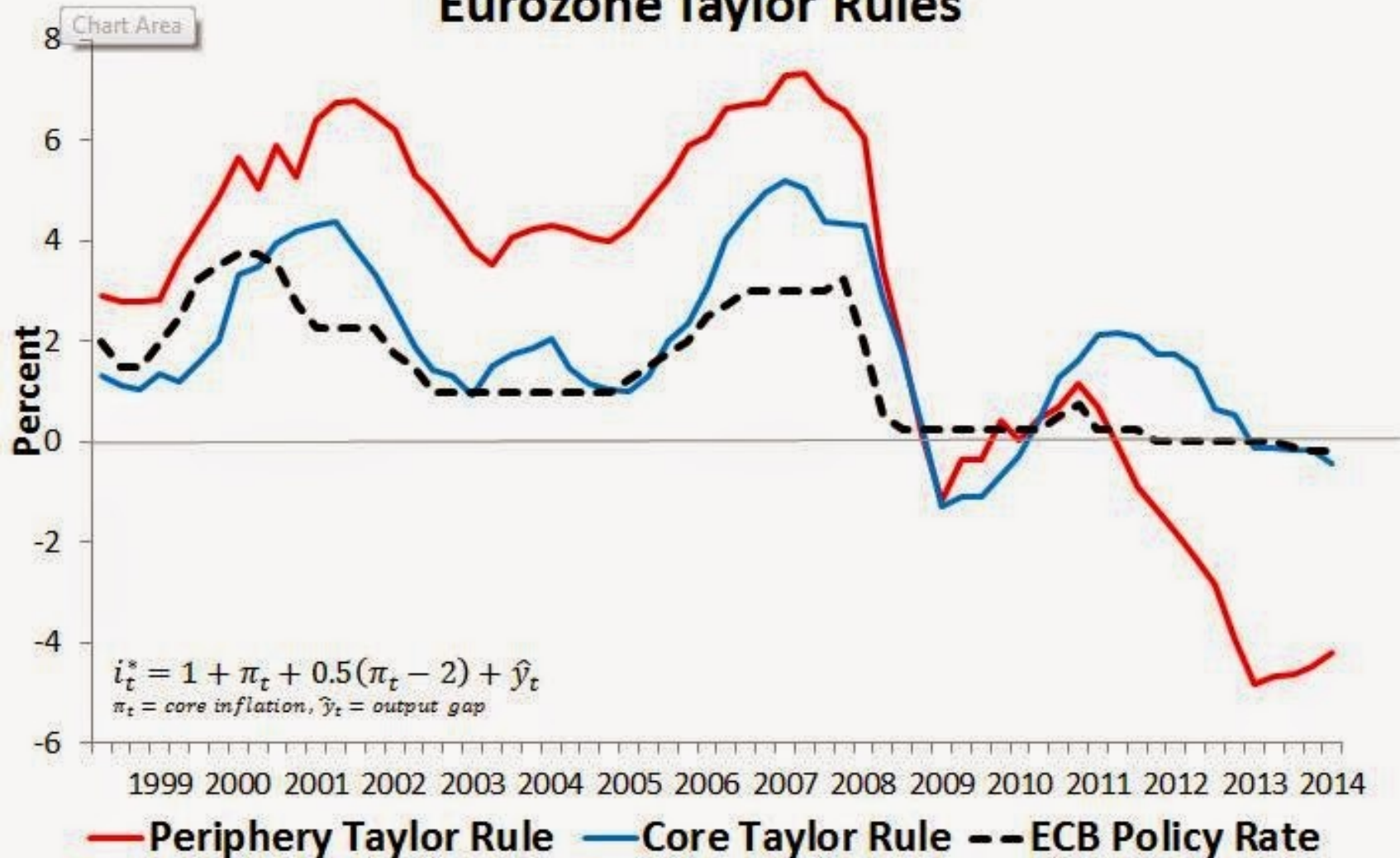
Current account, 1999-2013



Spreads in interest rates on sovereign bonds (as compared to German bonds)



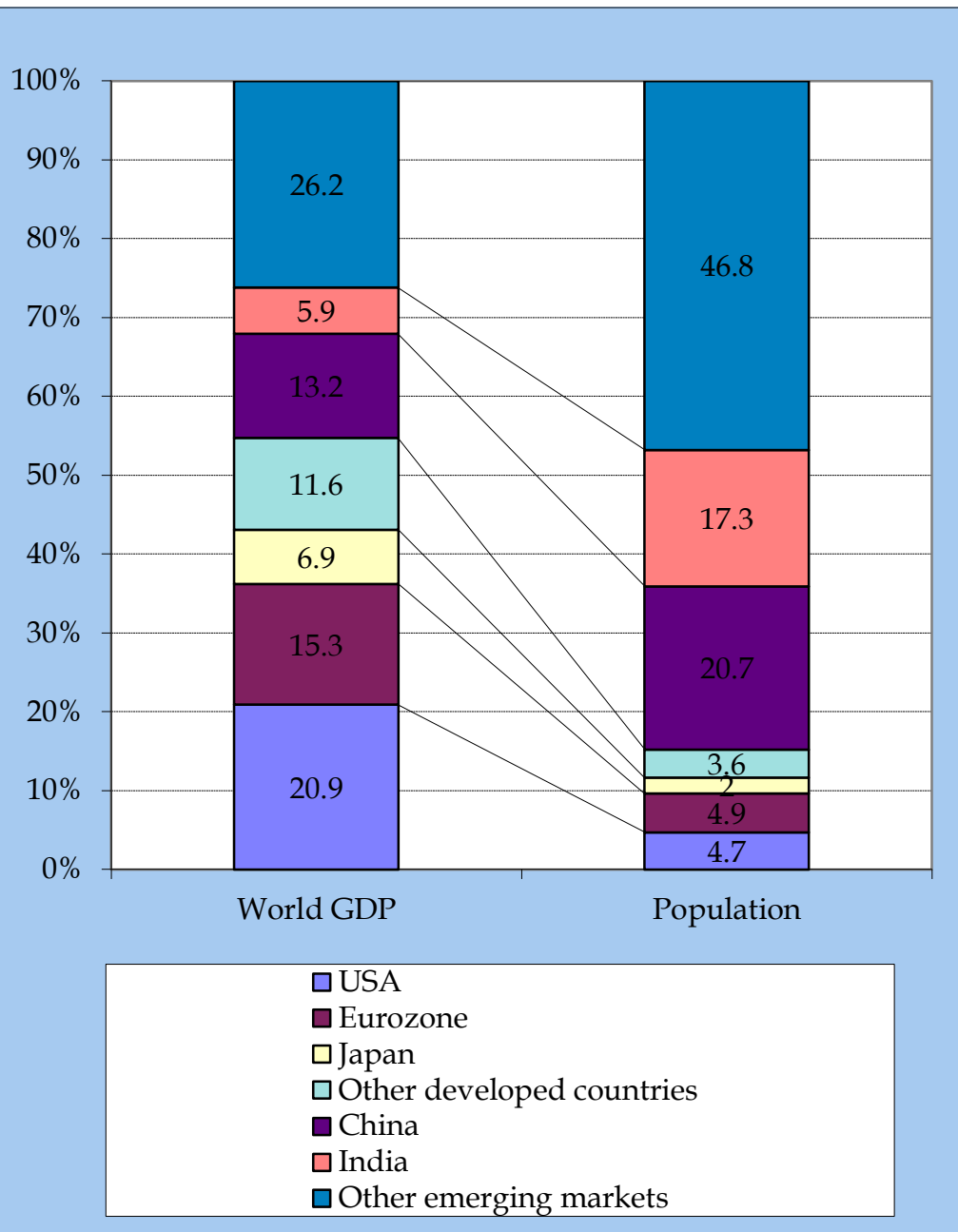
Eurozone Taylor Rules



Periphery: Greece, Ireland, Italy, Portugal, Spain

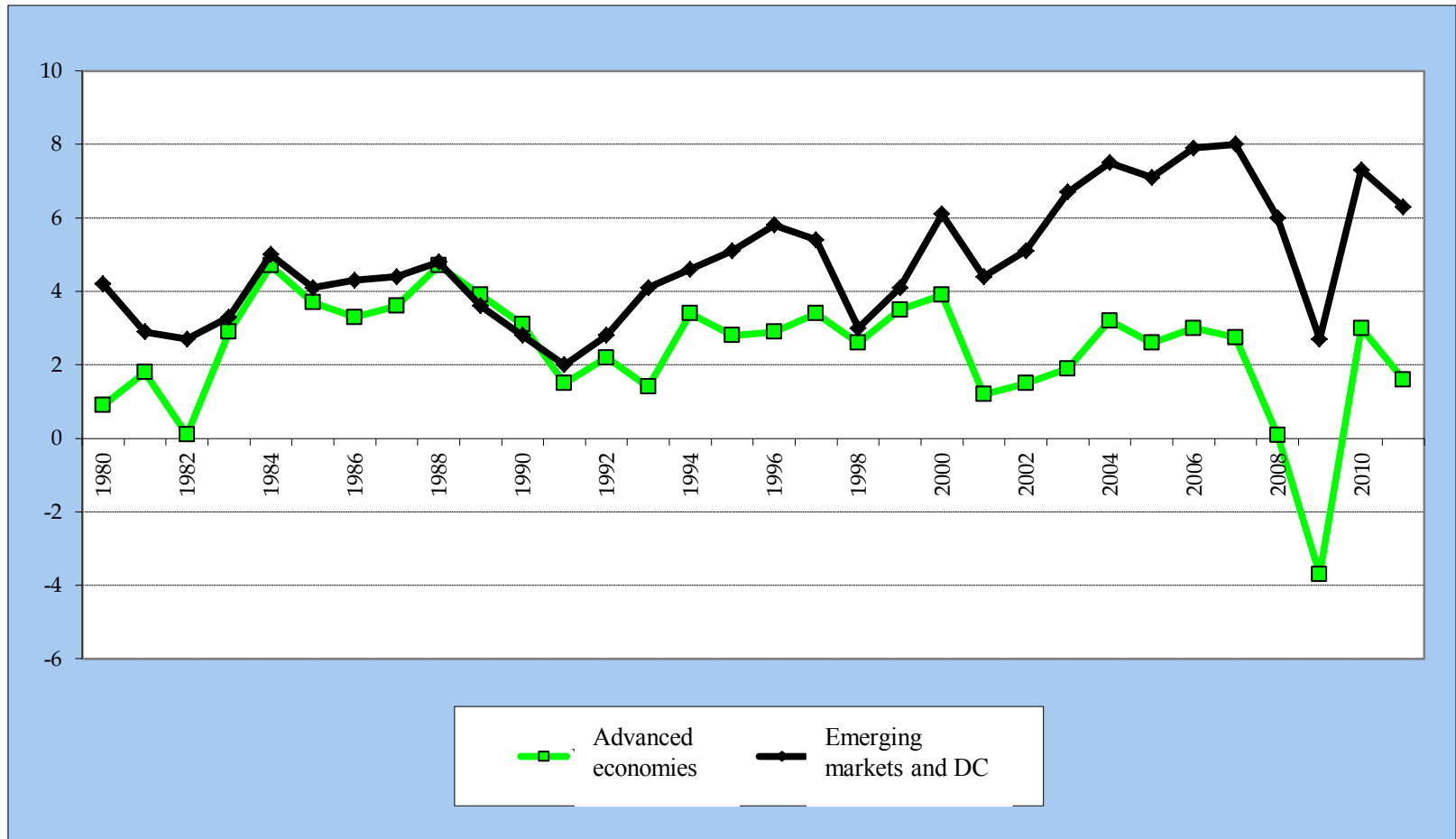
Core: Austria, Belgium, Finland, France, Germany, Netherlands

Basic economic indicators



Shares on world GDP (according PPP) and population

Real GDP growth (in %) – developed countries and emerging markets, 1980-2011



The last crisis

- centrum USA
 - mortgages ... banks ... problems with financial sector
 - spread to real economy
- interdependence in the WE ... spread of the crisis to other countries
 - e.g. CR
- expansive EP
 - problems if expansive policies already before the crisis

To understand the financial crisis

- <https://www.youtube.com/watch?v=JVSpPXterd0>

Globalization

1. Integration
2. International trade
3. Capital flows
4. Labour flows
5. Supranational enterprises
6. Spread of technologies

C. Globalization

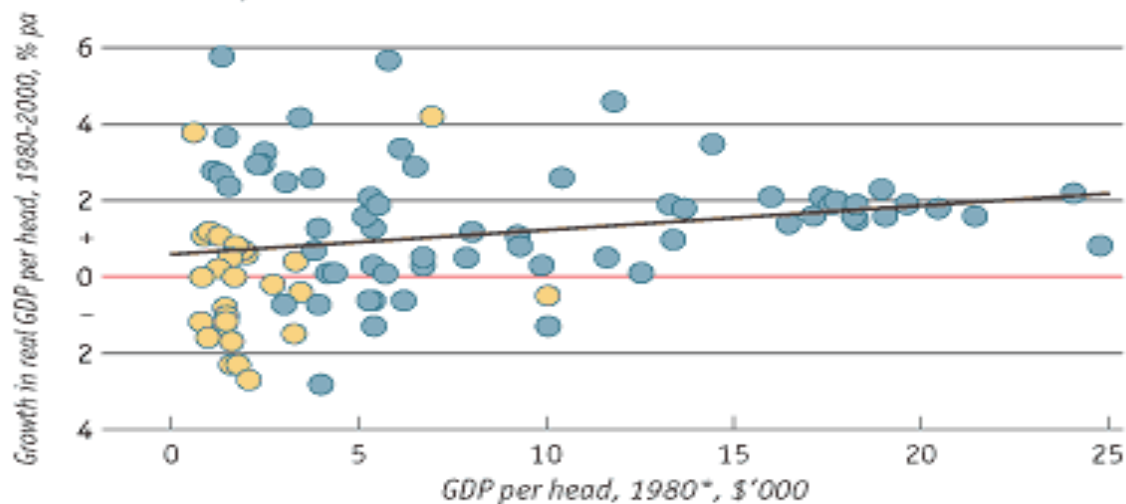
- **no single definition** \Rightarrow various explications
 - \uparrow interdependence in the WE
- **both advantages and disadvantages**
- **pros:**
 - \uparrow competition (?) \Rightarrow efficiency – better allocation of resources
 - \uparrow production (?)
 - technological and knowledge spillover
 - better economic situation in DC (?)
 - \downarrow role of governments
 - \downarrow danger of international conflicts (?)

- ambiguous:
 - interdependence
 - GDP growth in USA help to other countries vs current situation
 - prices ...
- cons:
 - ↓ role of governments (?)
 - loss of own culture and identity (?)
 - ↑ income differences (?)
 - Persistent impact on certain groups of population
 - mainly unqualified labor force in advanced economies

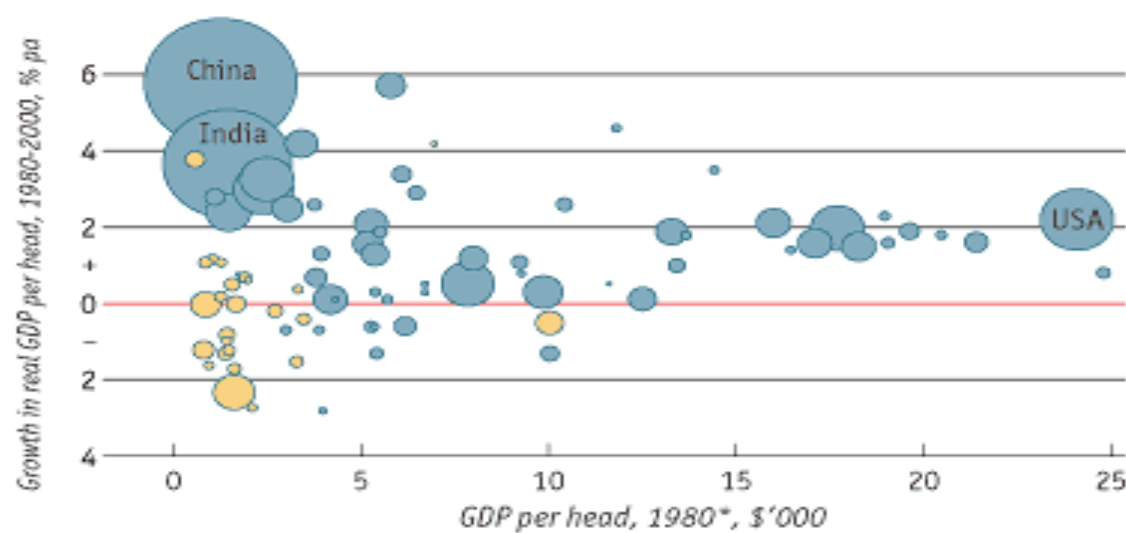
An alternative view

● Sub-Saharan Africa

Growth in GDP per head



Growth in GDP per head, proportional to population in 1980



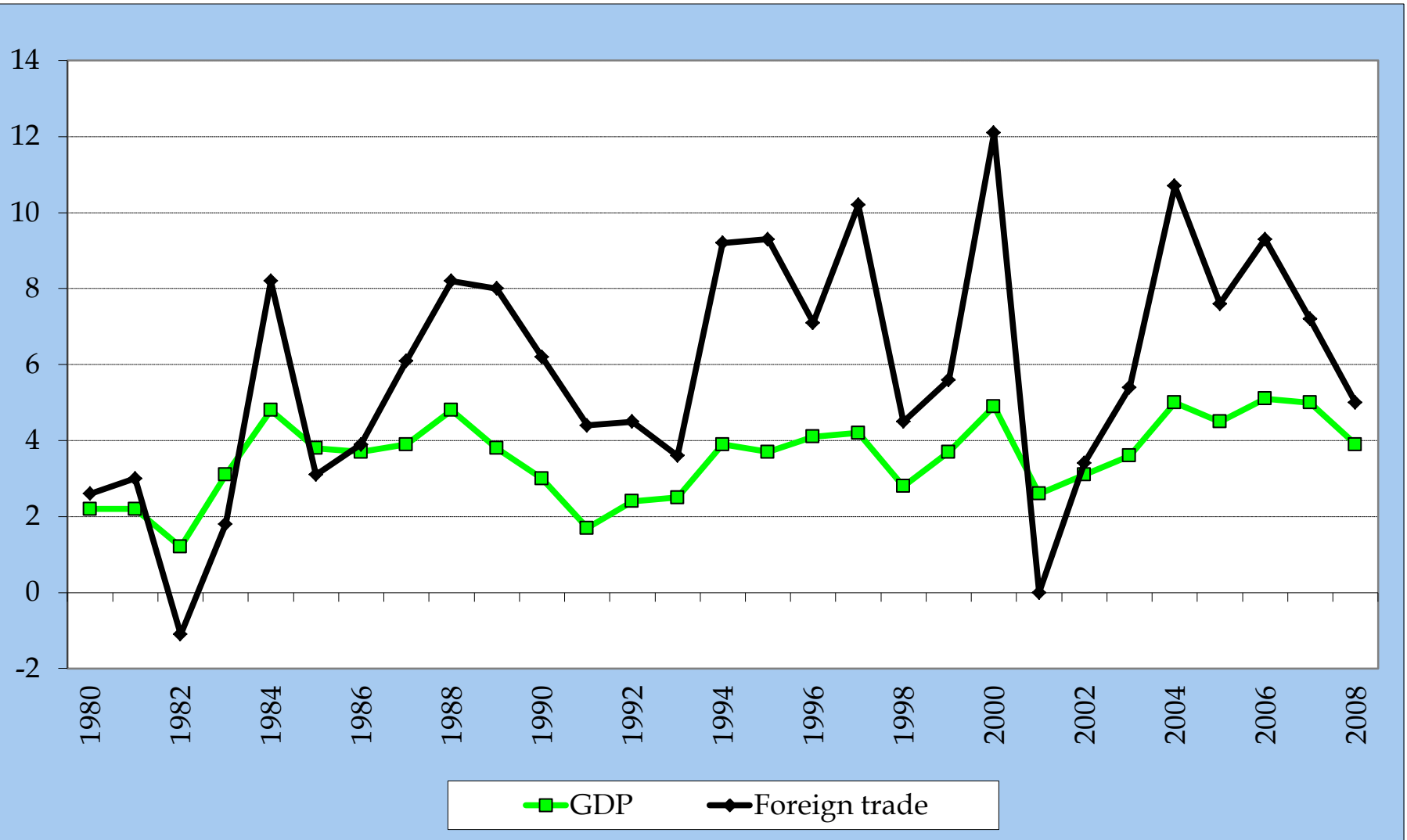
Sources: Penn World Tables; Stanley Fischer

*1996 prices

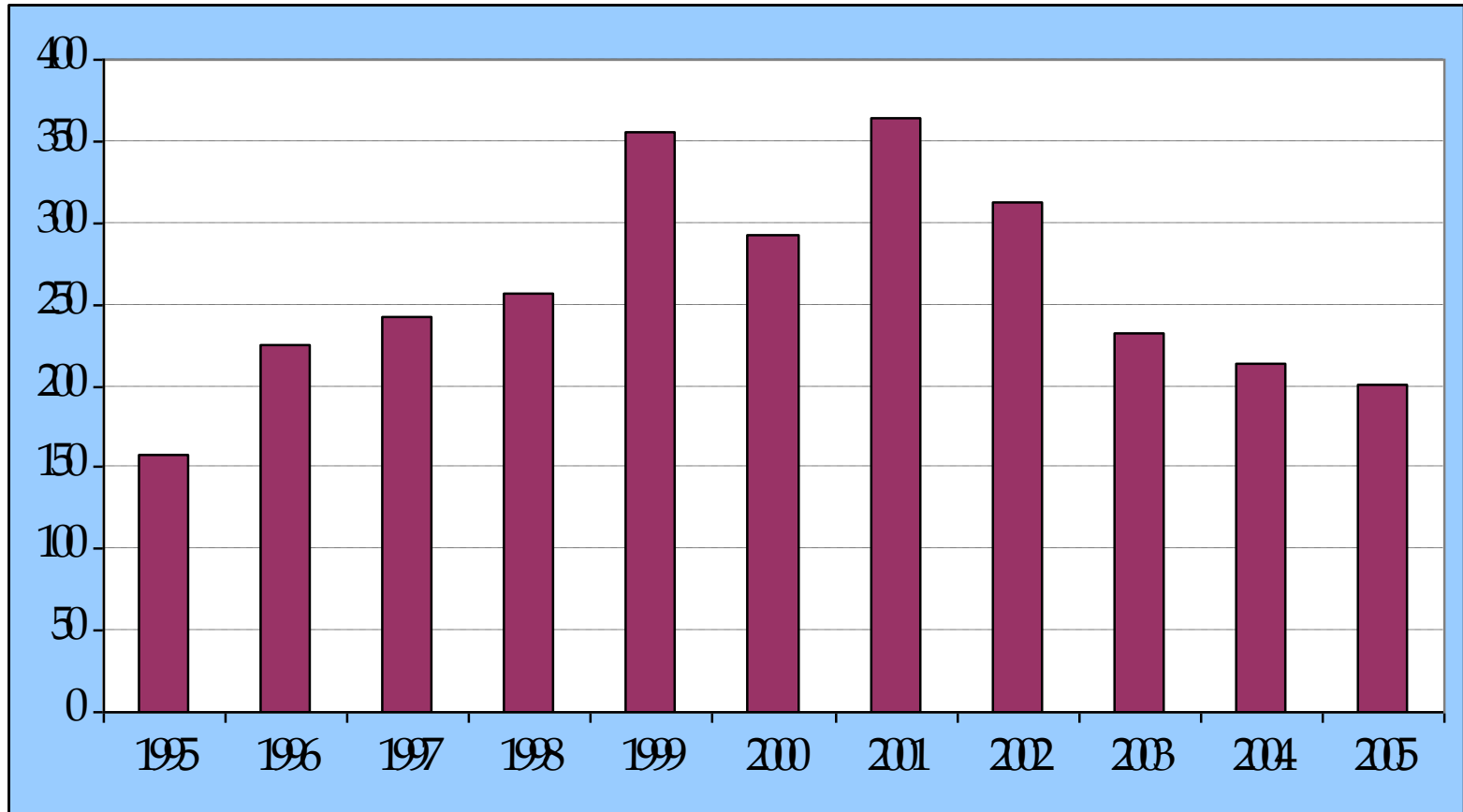
C2. International trade

- **enormous** ↑ international trade after WWII
 - GATT ⇔ WTO
- but the majority of world trade **between relatively close states**
- within the last 20 years ↑ **world trade was two times higher than** ↑ **world GDP** (6% X 3%)
- **pros:**
 - intention to maintain free trade in crisis
 - lessons from the development in 1930s ↑ protectionism within the bounds of possibility
 - dispute settlement via WTO
 - new round of negotiations but only limited progress

The world GDP and foreign trade (year-on-year proportional changes)

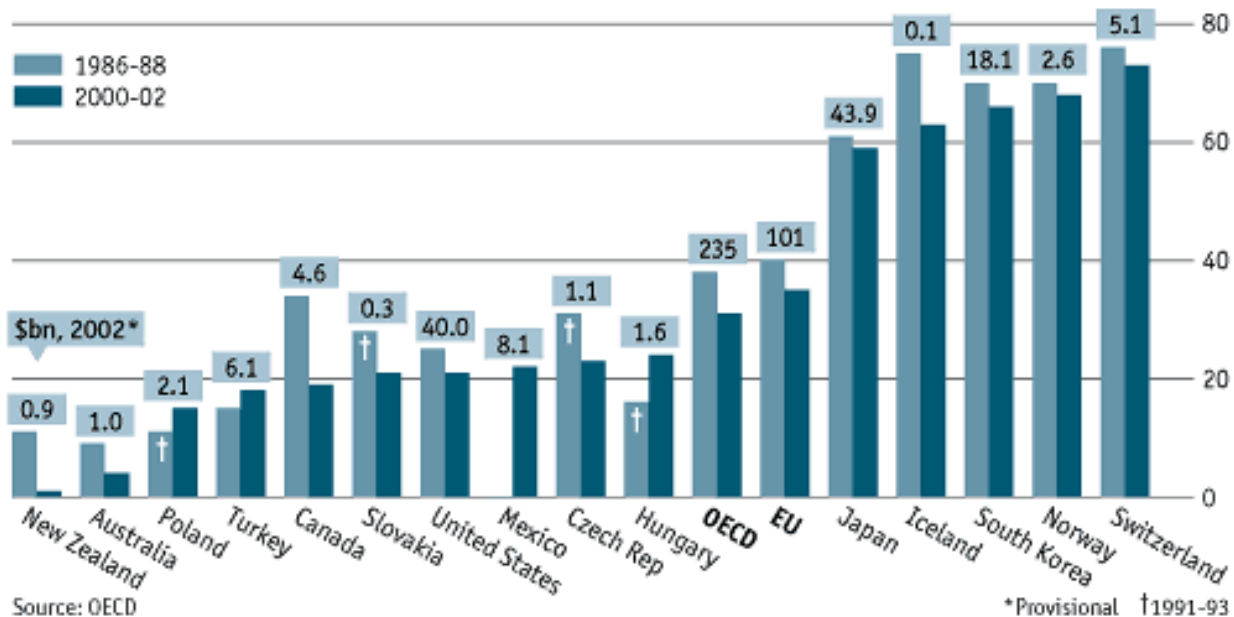


Number of antidumping cases



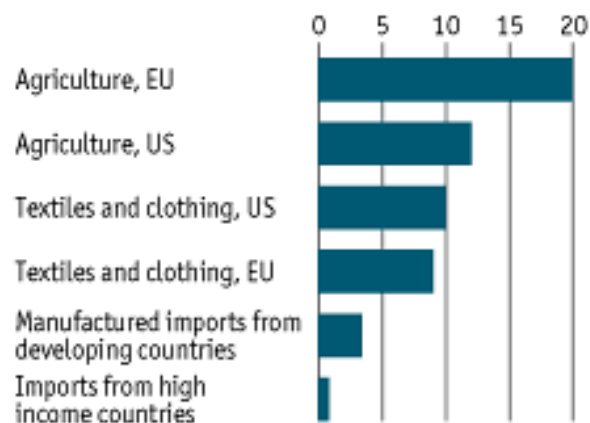
Agricultural subsidies

Producer support estimate, % of value of gross farm output



The fortress

Average tariffs in high-income countries, %



Source: Oxfam

PEW, 2010

	Most Better Off in a Free Market Economy?			Trade and Business Ties Good for the Country?		
	<i>% Agree</i>			<i>% Good</i>		
	<u>2007</u>	<u>2009</u>	<u>2010</u>	<u>2007</u>	<u>2009</u>	<u>2010</u>
	%	%	%	%	%	%
U.S.	70	76	68	59	65	66
Britain	72	66	64	78	82	84
France	56	57	67	78	83	79
Germany	65	61	73	85	85	90
Spain	67	57	62	82	89	90
Poland	68	65	68	77	81	84
Russia	53	51	60	82	80	86
Turkey	60	60	64	73	64	83
Egypt	50	60	51	61	67	64
Jordan	47	54	48	72	60	71
Lebanon	74	64	60	81	90	93
China	75	79	84	91	93	93
India	76	81	79	89	96	90
Indonesia	45	49	63	71	79	82
Japan	49	41	43	72	73	72
Pakistan	60	65	57	82	79	86
S. Korea	72	76	78	86	92	88
Argentina	43	36	40	68	65	72
Brazil	--	--	75	--	--	87
Mexico	--	52	44	77	79	71
Kenya	78	84	72	93	80	90
Nigeria	79	66	82	85	90	84

Pew Research Center Q23a & Q24.

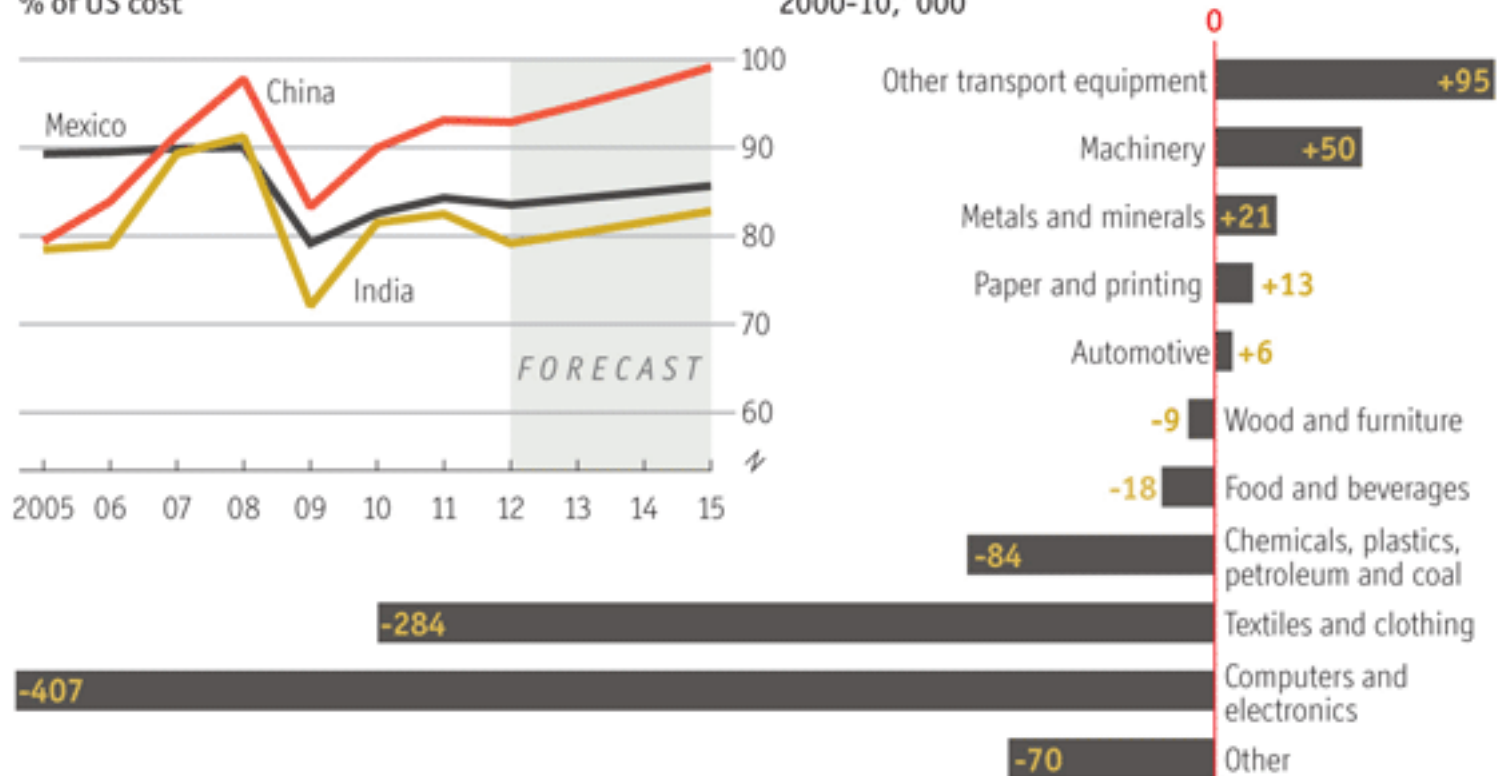
Manufacturing outsourcing cost index

% of US cost

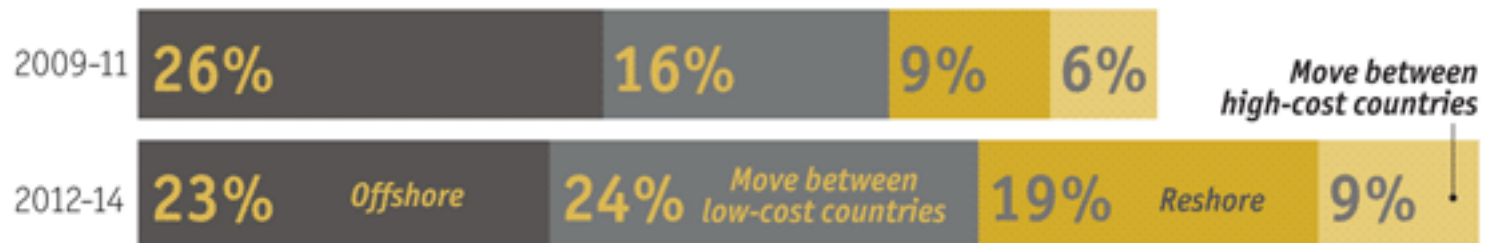


Change in US jobs because of outsourcing

2000-10, '000



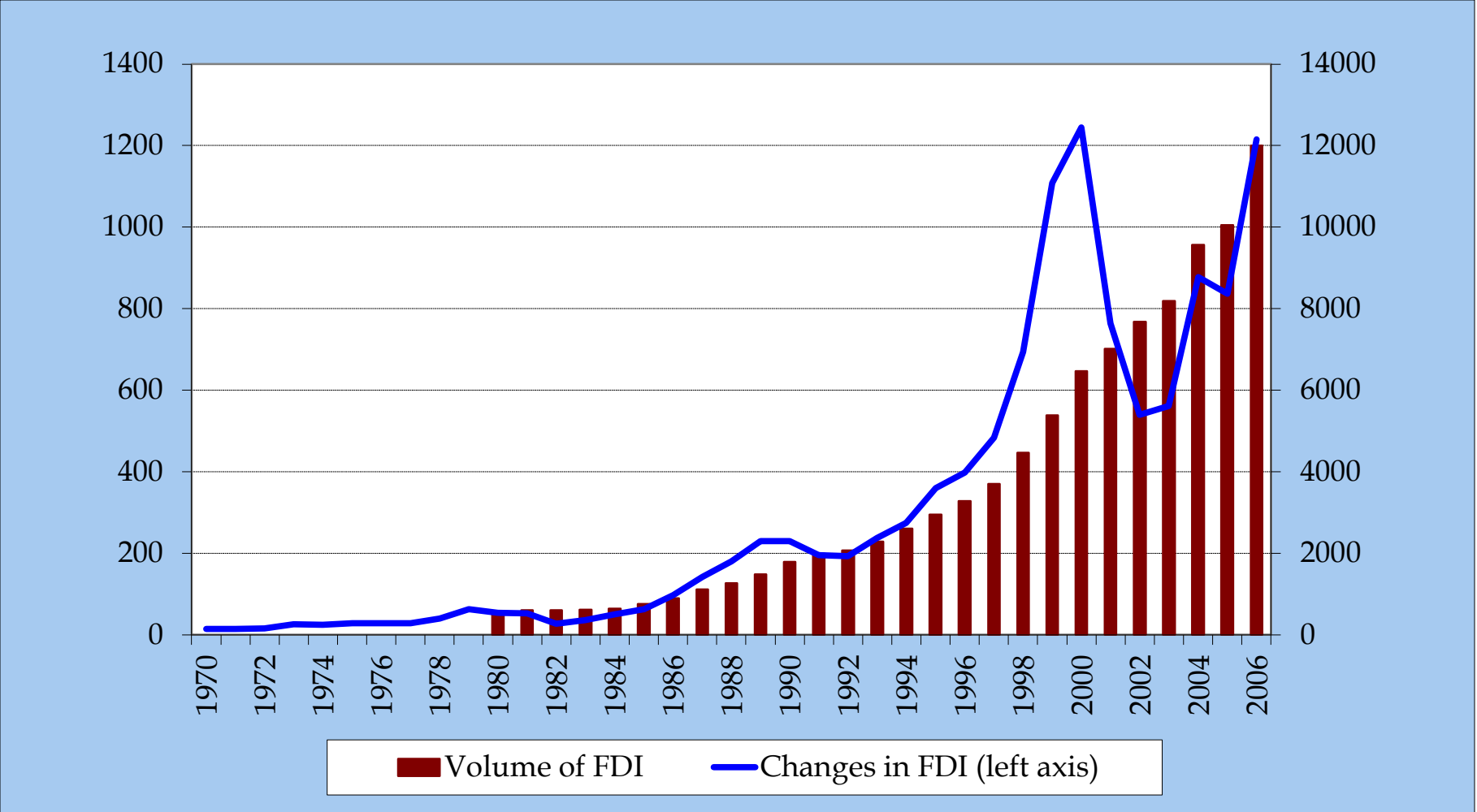
Companies' intentions to change manufacturing source, worldwide, % of capacity



C3. Capital flows

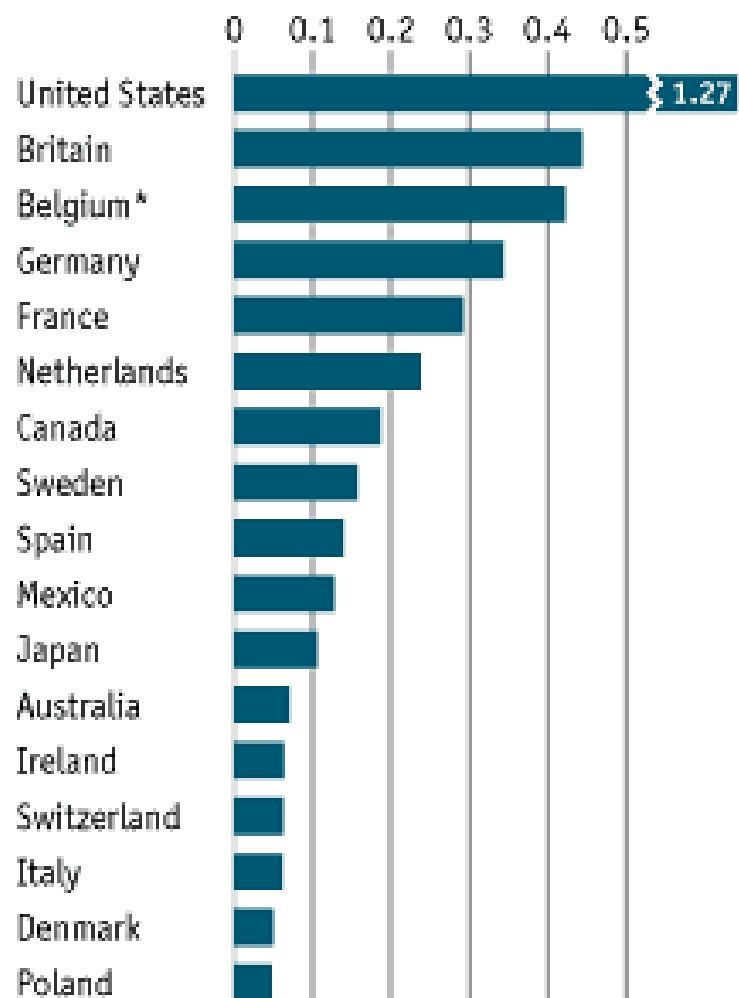
- short-term capital
 - speculative capital – What does it mean?
- foreign direct investment (FDI)
 - in advanced economies to services
 - in DC to manufacturing industry
 - majority between advanced economies (EU - USA)
 - financing of advanced from DC
 - investors' preferences
 - knowledge of environment, low risk, political and economic stability, similar culture and level of development ⇒ incentives not so important
 - FDI may
 - push out the domestic firms + abuse their economic power + make more difficult to get loans

FDI in the world economy – total volume and year-on-year changes (USD billion)



FDI inflows

Cumulative, 1992-2001, \$trn

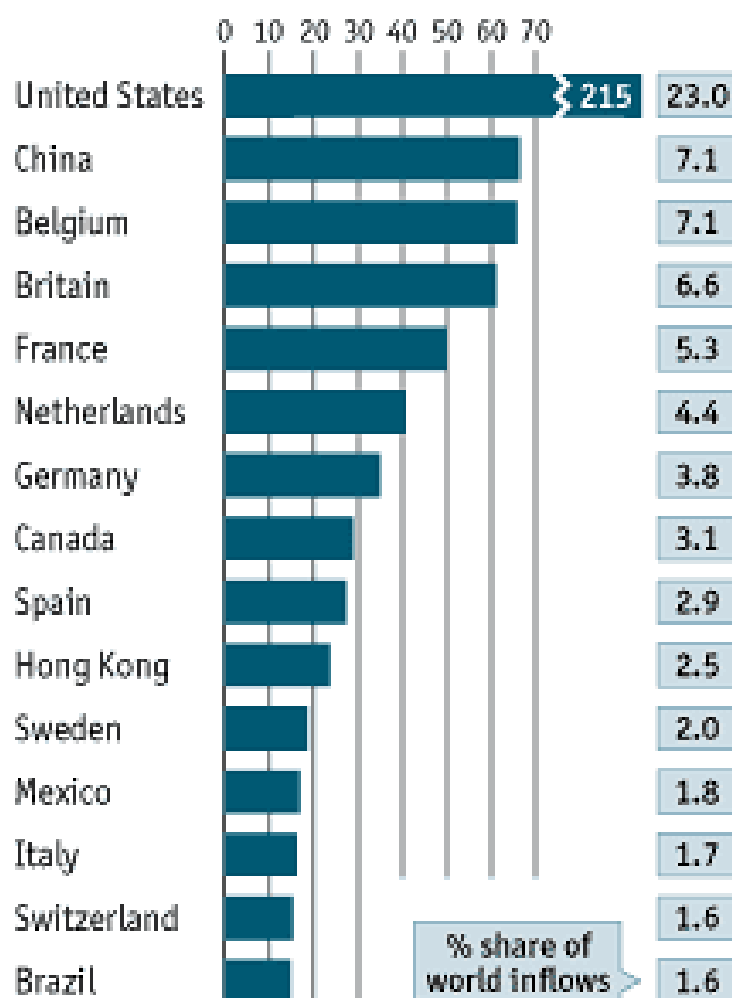


Source: OECD

*Includes Luxembourg

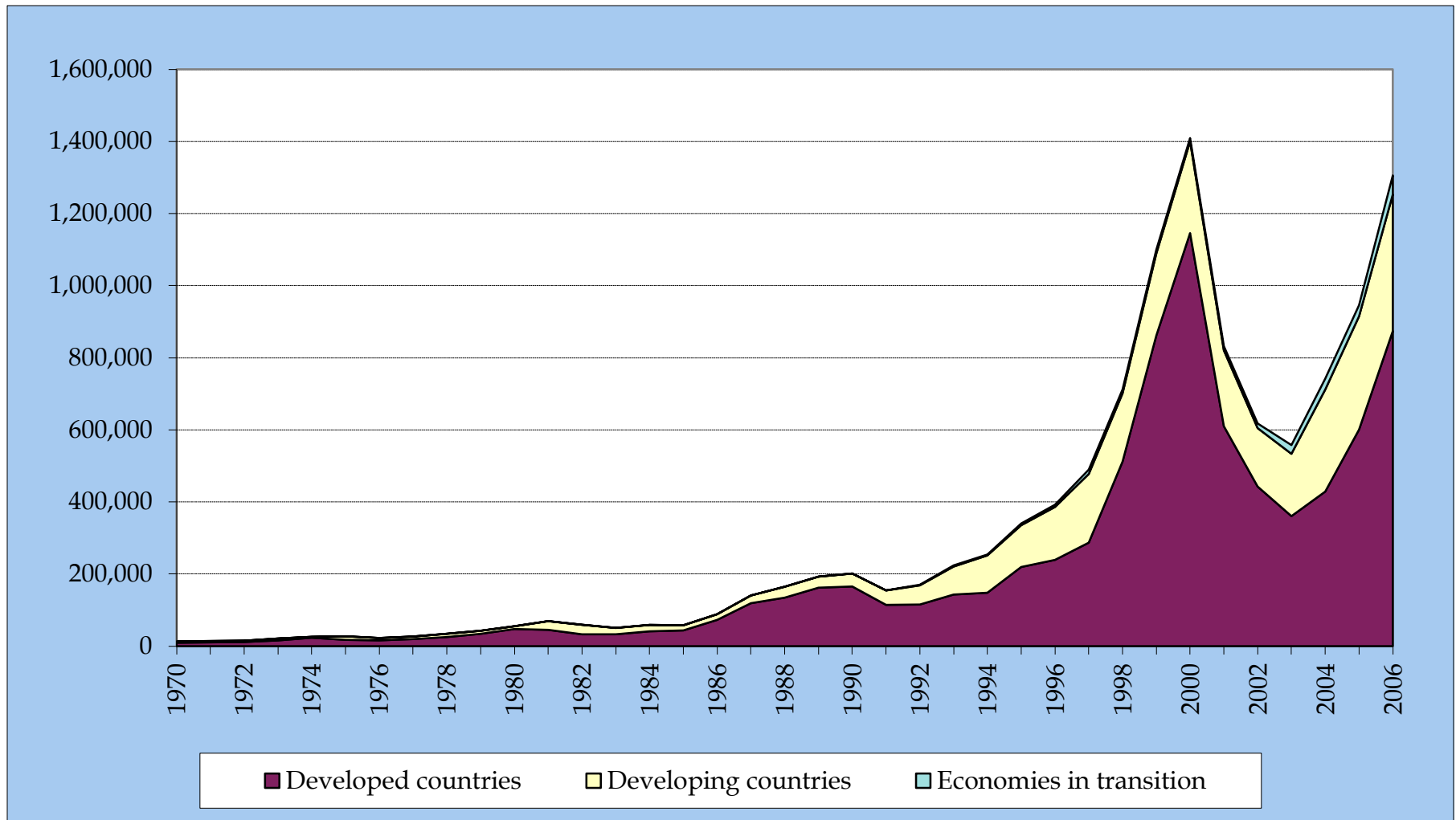
Foreign direct investment

2003-2007 average annual inflow, forecast, \$bn



Source: Economist Intelligence Unit

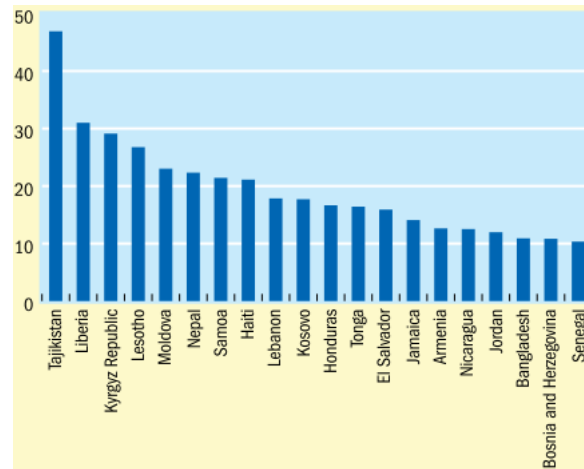
Territorial structure of the outflow of FDI (USD million)



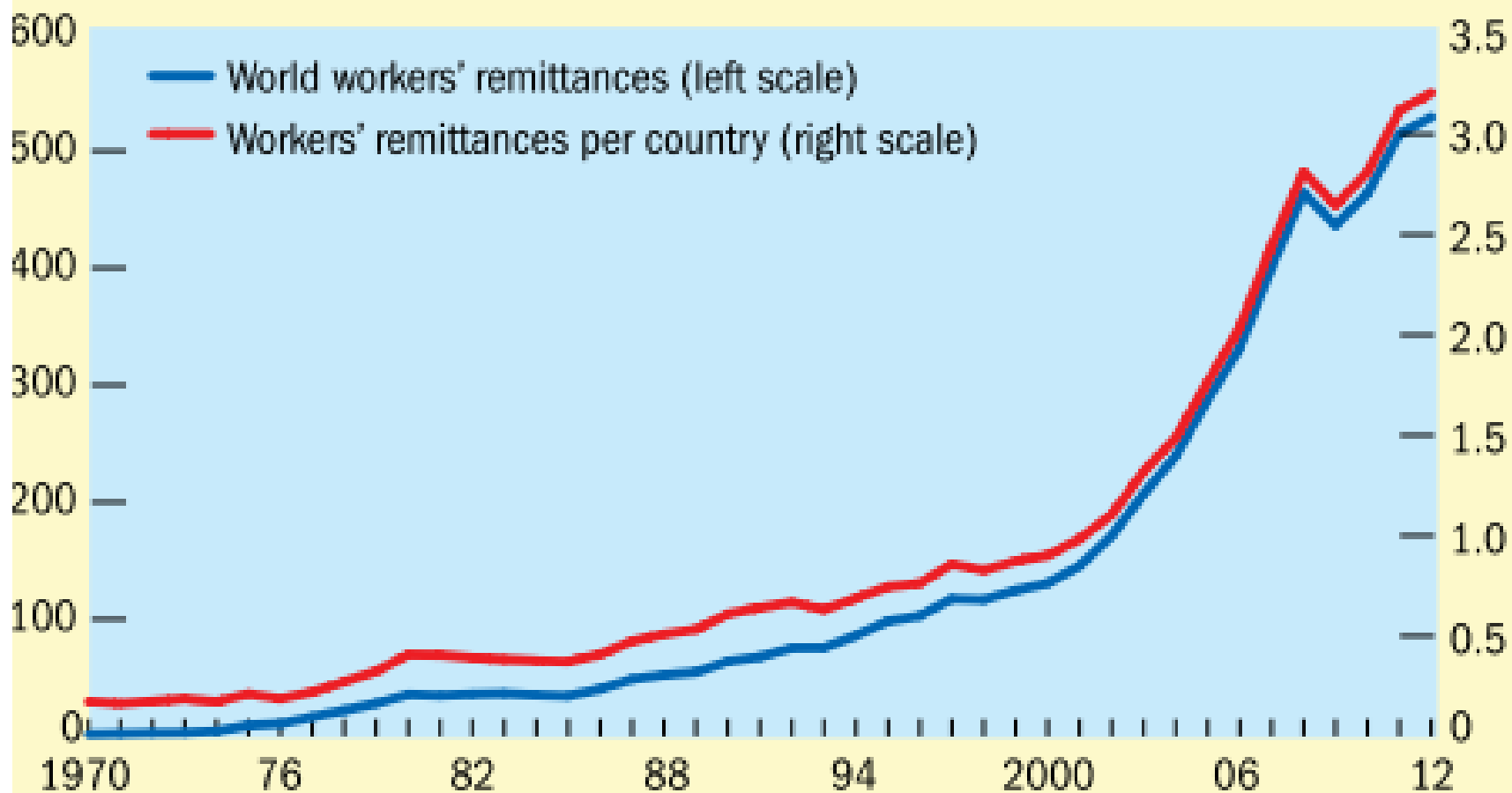
C4. Labour flows

- **Gastarbeiters**
 - Ukrainians in the CR
 - Threat for employment in the CR?
- **remittances**
- **political x economic** emigration
- in general – **the least connected** international market
 - relatively small migration also within the EU

Proportional share of remittances in GDP in selected countries in 2012 (% of GDP)



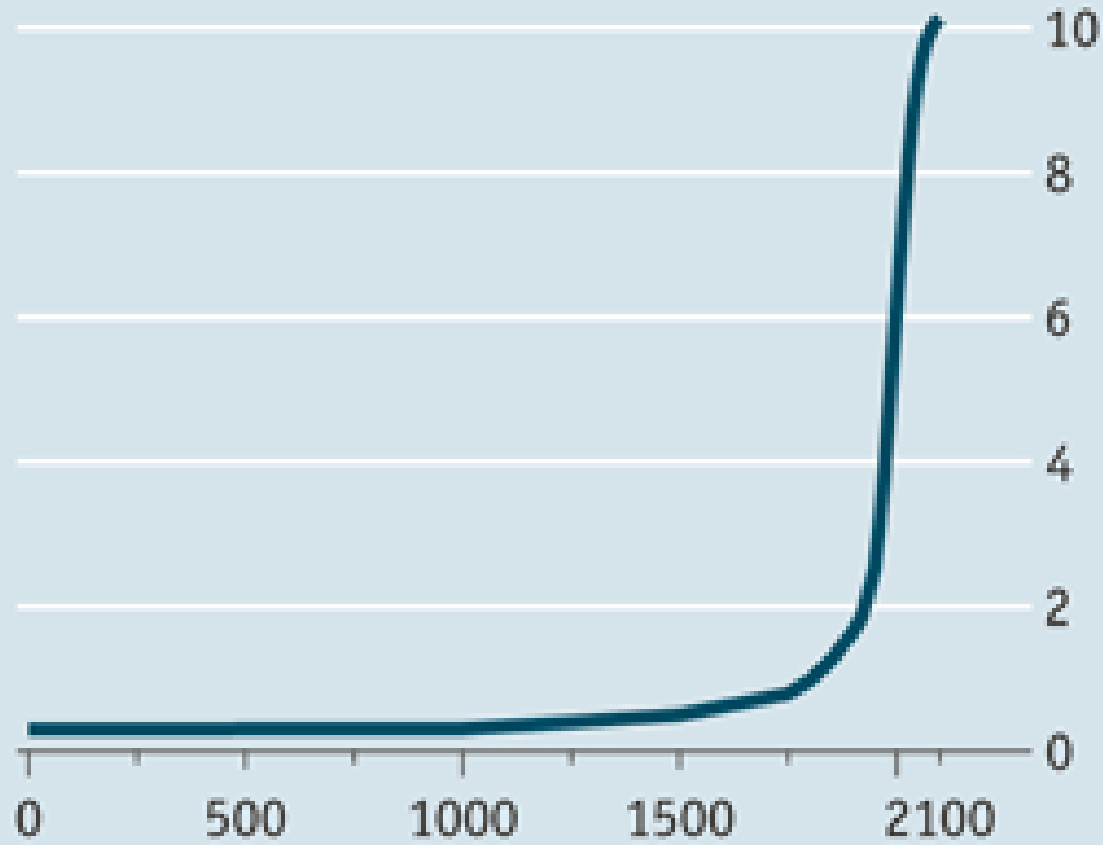
(billions of dollars)



Standing-room only?

1

World population estimate, bn

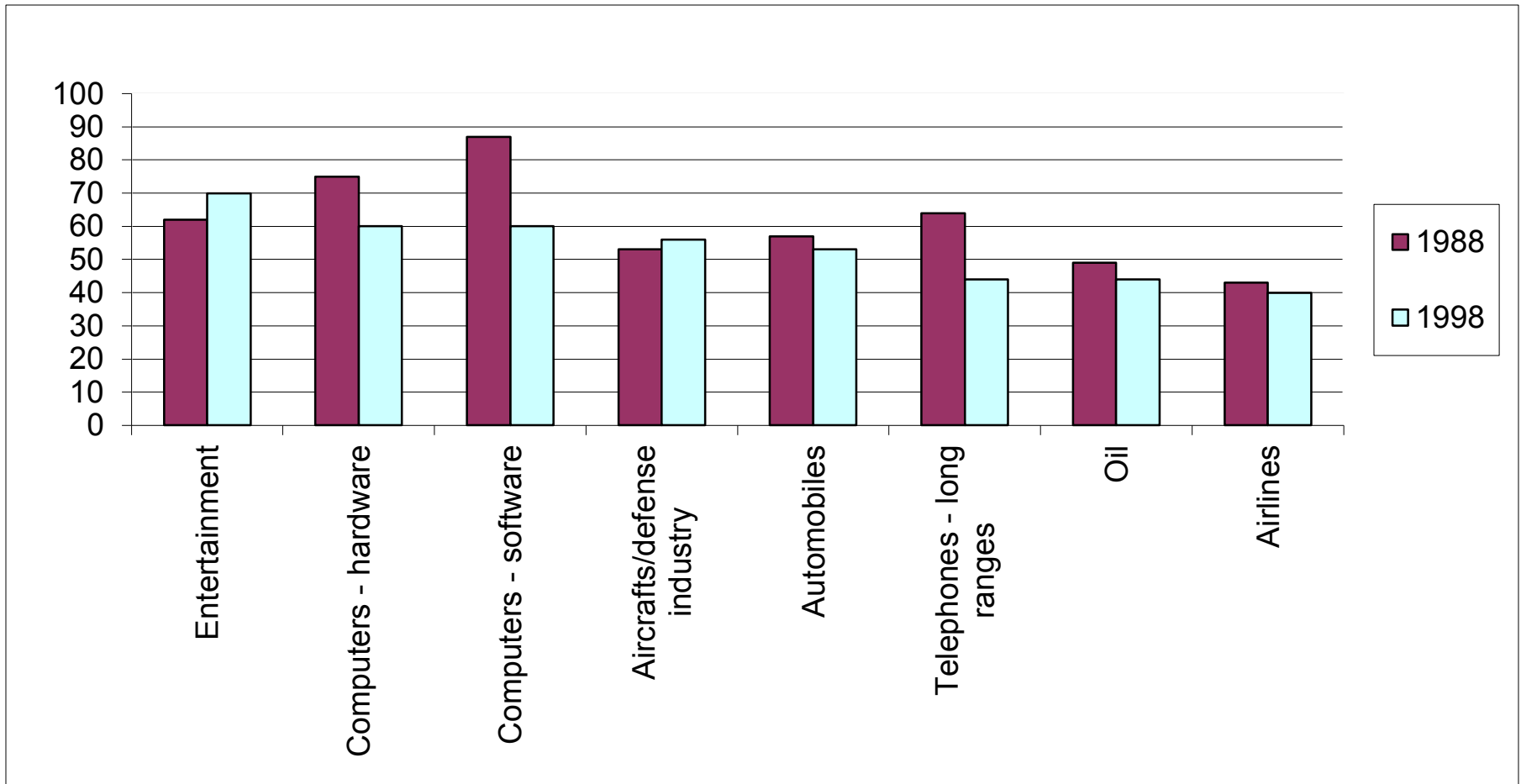


Source: United Nations

C5. Supranational enterprises

- according to OECD ↑ **influence** of foreign companies **BUT advantages:**
 - Higher wages + increase differences
 - faster creation of new jobs
 - expenditures on R&D in FDI destinations
 - higher EX than domestic firms
 - + the biggest impact on less developer countries (Turkey)
 - threat in the case of monopolization BUT ...

Share of sales of 5 biggest companies on total sales made in the business [%]



C6. Technologies

- **telecommunication**
- **information technologies**
 - within the last 30 years ↓ real prices of computer processing by 99,999% = ↓ by 35% per year
 - ↓ prices ⇒ faster implementation than electricity or steam
 - USA unambiguous leader
 - advantages for the followers
 - possibility for imitation and lessons from previous mistakes
 - nowadays – increasing productivity
- + development of **new technologies**
 - **biotechnology and genetics - GMO**
- discoveries mainly in **inter-disciplines**

Good luck

Thank you for attention

today and during the whole semester