

Scientific Life

Conference of the Institute of Economic Research of the Slovak Academy of Sciences and the Rectorate of the University of Economics in Bratislava

OBADI, Saleh Mothana (ed.) (2019): **The Development and Perspectives of the World Economy: The Slowdown of the Growth due to the Trade War**. Bratislava: EÚ SAV, 346 p. ISBN 978-80-7144-305-6

On November 27, 2019, the Institute of Economic Research at the Slovak Academy of Sciences (EÚ SAV) in cooperation with the Rectorate of the University of Economics in Bratislava (EUBA) held a conference on presentation of the scientific monograph *The Development and Perspectives of the World Economy: The Slowdown of the Growth due to the Trade War*. The conference took place in the EUBA's meeting room with abundant participation of the EÚ SAV employees, teachers and students from EUBA, as well as experts from other academic institutions and representatives from the economic practice. The event dedicated to selected current issues of the world economy was moderated by Ľ. Lipková. At the beginning, F. Daňo, Rector of EUBA, welcomed the participants and wished the conference a successful course, while J. Sipko, Director of EÚ SAV, thanked the Rector of EUBA F. Daňo and the Vice-Rector of EUBA P. Puškárová for helping with the organization of the conference and expressed the belief about new knowledge coming from the conference. Thereafter, the head of the team of authors, S. M. Obadi, in his speech briefly characterised the presented scientific monograph, the aim of which is to portray economic events in the world from a national, regional and global point of view using various methods of analysis, and to summarize the conclusions of the team of authors based on the knowledge resulting from long-term research of monitored issues. The monograph is divided into eleven chapters. In total, thirteen authors participated in its preparation – ten from EÚ SAV, two from EUBA (Faculty of National Economy and Faculty of International Relations) and one from the Ministry of Foreign and European Affairs of the Slovak Republic, Organisation for Economic Co-operation and Development. S. M. Obadi introduced the authors of the chapters – I. Brocková, D. Brzica, G. Dovál'ová, B. Dziura, B. Hošoff, M. Korček, A. Ondrovič, J. Sipko, R. Sivák, P. Staněk, V. Vašková and J. Vokoun. He also thanked the reviewers of the scientific monograph V. Gonda and Ľ. Lipková, linguistic editor Z. Baková and M. Lacková for technical processing for the publication and L. Bartošová for the work linked to the organisation of the conference.

The opening paper entitled *The Development of the Global Economy* belonged to the head of the team of authors, S. M. Obadi. He divided his speech into two parts. The first part dealt with the global and regional development, economic growth and other

macroeconomic indicators. He noted that last year the global economy registered solid but weaker economic growth than was expected. The identified main reasons for slow-down include the US-China trade war, as well as macroeconomic stress in Argentina and Turkey, the automotive industry slowdown in Germany, stricter credit policy in China and financial toughening along with the normalisation of monetary policy in key industrialised economies. According to Obadi, some of the risks represent a constant threat to global economic growth and may lead the world economy to recession.

In the second part of the speech, S. M. Obadi characterised the development of global trade. He focused on the analysis of the latest phenomena and trends of global trade, the development of prices of primary commodities and especially the causes of fluctuation in prices of oil and natural gas. He stated that last year global trade experienced a slow-down in growth in terms of volume and decline in value of flows of goods and services (in USD) while seeing the causes in the appreciation of the US dollar against world currencies, falling commodity prices and weak demand. According to Obadi, the gas market has regional particularities and it is not possible to talk about the global gas market. Last year, gas prices in the European market were extremely volatile. Successful resolution of the dispute between Russia and Ukraine over the gas transmission may, according to his expectations, lead to lower gas prices, given the current overcapacity of liquefied natural gas (LNG) and several pipelines to be put into operation worldwide in the coming years (Power of Siberia, Nord Stream 2, Turk Stream, TANAP). Lower gas prices may be beneficial for consumers, and at the same time, can strengthen its place in the energy mix at the expense of coal, and this would have a positive impact on the environmental situation.

In the paper *The Twenty Years of Operation of the European Monetary Union*, J. Sipko focused on assessing the functioning of the single European currency on the occasion of its 20th anniversary. He noted that the first years of operation of the European Monetary Union (EMU) (1999 – 2007) can be assessed quite positively. This is due to the gradual process of real convergence, growth in mutual trade, investment growth and the strengthening of the Euro in international monetary relations. Whereas the Euro proved to be a successful project, another eight EU countries gradually joined the 11 original member states. The global financial crisis, the deep economic recession and especially the debt crisis led to enormous internal and external imbalances in some euro area member states, but mostly in debtor countries. Between 2011 and 2013, EMU struggled with an existential crisis. In this difficult situation, the European Central Bank (ECB), as the lender of last resort, proceeded to purchase government securities of the peripheral EMU member states and therefore prevented the collapse of the euro area. J. Sipko compared the development between the three main centres of economic power (euro area, the US and Japan) while paying attention to real euro area GDP, inflation, current account balance, TARGET 2 real-time gross settlement system, development of

unemployment, public debt, unfavourable development of bad loans, investment in science and research, development of labour productivity in selected euro area countries, disparity and welfare levels in euro area countries. At the end of his speech, he summarised that in twenty years of the existence, common currency, the Euro, has experienced both ups and downs, while with the EMU's credibility growing, the role and position of the Euro in international monetary relations increased at the beginnings of its use. The debt crisis and internal and external imbalances led to a relative decline in interest in the use of the currency, especially in international issue processes. The Euro remains the second largest reserve currency, although there is a strong growing competition of Chinese Renminbi. Finally, he wondered about the measures that should be taken to ensure the stability of the Euro.

B. Hošoff dedicated his speech entitled *The Economic Development of the US and Japan* to the analysis of macroeconomic development in the US and Japan. Thanks to the extraordinary fiscal stimulus, the US achieved solid economic growth. The ongoing expansion of the business cycle is the longest in the post-war period, however, this business cycle must also end once. Hošoff said that the introduction of protective measures in the US pursued two objectives: 1. to alleviate the large external imbalance and 2. to bring back some of the US firms that had previously moved their production abroad. Unfortunately, these objectives fail to meet: the US trade deficit continues to rise (also because exports are not growing) and companies move production from countries affected by US tariffs to other countries, not back to the US. The development of unemployment and securities' yields can be seen as the relatively reliable indicators of the upcoming turnover in the business cycle towards the recession. In April 2019, the unemployment rate was only at 3.6 percent which is the lowest level since 1969. Historical tables and statistics indicate that the lowest unemployment rate was achieved, on average, nine months before the start of the recession, and the yield curve leads to the inversion in favour of higher interest on two-year Treasury bonds compared to ten-year Treasury bonds, on average, 14 months before the peak of the business cycle (ie the start of the recession). Hošoff noted that these indicators may signal an impending recession in the US.

Since 2010, Japan has been characterised by a shrinking population which has been generating insufficient domestic demand accompanied by declining corporate investment and labour market imbalance. This results in economic stagnation. Japan has the lowest economic growth of the advanced G7 economies despite the lowest unemployment rate. The "Three Arrows" strategy against long-term economic stagnation introduced in 2013 has three pillars: monetary easing, fiscal stimulus and structural reforms. In particular, Japan lags in important structural reforms (eg greater participation of women in the labour market, greater participation of immigrants in the society, improved conditions for foreign direct investment inflows). The slower economic development of the country is marked by unfavourable demographic development. Japan has to cope with the serious

economic consequences of the ageing population that determine changes in the labour market. For example, the demand for labour falls in the sectors of education and construction, while in social and health-care sectors it increases. The number of older people in need increases and the number of productive-age people decreases. The falling number of productive people requires the involvement of additional labour (the elderly, women, migrants). Japan has considerable reserves in terms of migrants, whereas it has the lowest share of immigrants in the total population from the G7 countries. The greatest obstructions to greater migration are cultural norms and language barriers in traditionally closed Japanese society.

D. Brzica, who co-authored the paper entitled *China under Pressure from Trade Disputes with the US* with J. Vokoun, discussed the situation in the Chinese economy. He stated that despite a slight slowdown in growth to 6.6 percent, which is the lowest growth rate since 1990, the country still experiences a significant growth rate of GDP, industrial production and services, with services becoming the key sector for generating economic growth. China's long-term trade surplus with the US is politically sensitive for the US. The US-China trade war, triggered by the US decision to impose tariffs on Chinese imports and subsequent China's retaliatory measures, deteriorate relations between these two countries. On the other hand, China's foreign trade relations with India, traditionally regarded as a competing superpower, improve. China changes the form of participation in Africa and shifts its priorities here from the trade with natural resources to the investment in industrial sectors. Trade between Slovakia and the People's Republic of China is low, while imports from China are 3.4 times higher than exports from Slovakia. Despite the political declarations, the Slovak Republic has so far made little use of the potential of the Chinese market. The threat of protectionism makes China's access to advanced foreign technologies more difficult. That is why China prepares and opens its stand-alone solutions. In 2018, R&D expenditures represented 2.2 percent of GDP; this large concentration of resources makes it possible to realise the country's great research ambitions. The Chinese spacecraft landed first on the far side of the Moon and began its exploration, the test voyage was carried by a second aircraft carrier, there are tests of a domestic amphibious aircraft etc. China has ambitious targets for the development of automotive and climate change (increasing electric vehicle production, reducing carbon emissions). According to D. Brzica, the idea that the 21st century will be Chinese is based on the assumption that China will become a driver of global change. The negative externality of China's dominance is the high share of the increase in global carbon emissions. From the environmental point of view, high coal consumption is problematic in China, accounting for up to 59 percent of total energy consumption in the country.

R. Sivák presented a paper entitled *The Main Risk Factors of Global Financial Stability*, co-authored by B. Dziura. He noted that over the last year there has been an increase in the intensity of financial and fiscal risks. The correlation between financial risks and

financial stability can be intuitively understood as inverse – a higher intensity of financial risks increases the likelihood of financial instability. Indicators of financial risks, financial stability respectively, can be divided into the following groups: macroeconomic indicators, sectoral indicators, financial sector indicators and indicators of the country's external economic position. An important general factor for financial risks, the growing tension in international trade relations, currently negatively affects global economic activity and continues to dampen weakening growth impulses in the actual economic cycle. In the coming years, financial stability may also be negatively affected by the ongoing accumulation of debt. In advanced economies, the main risks include the debt accumulated as a consequence of the cost of the financial crisis to the public sector. According to the authors, the continuing growth of debt during the post-crisis recovery is contrary to the principle of the anti-cyclical effect of public finances. This is the common recommendation of economic theory. The combination of high public debt and extremely loose monetary policy conditions means that traditional economic policy instruments currently have very limited scope for anti-cyclical stabilisation. The most-watched indicator of the global financial market is the indicator of the development of so-called US Federal Government Bonds Yields Curve. This is an important signal seeing that the inverse yield curve has preceded all recessions in the US economy since 1970. Hence its current declining course can be seen as a warning of the impending recession in the US.

In the final speech, *Current and Future Problems of the World Economy*, P. Staněk emphasised the qualitative difference between present and future. Industry 4.0, artificial intelligence, digitisation, greening and new geopolitics will create a new future in all its dimensions. He paid attention to the key challenges for the future such as the requirement of 100-percent recyclability of manufactured products, personalisation of production, individual approach to the customer etc. An information security is a major problem for the future reflecting the areas of smart technologies, cybersecurity, the growth of Internet and digital crime, a total monitoring system, cyberbullying on social networks etc. He discussed some new geopolitical dimensions – a shift from the prevalent tendency in 1990s and 2000s, in the days of US President B. Obama, to conclude bilateral agreements between multinational trade groups and leaders to the different geopolitical strategy following the D. Trump's administration which favours bilateral negotiations with individual countries as a more flexible tool for promoting US interests and priorities. P. Staněk pointed to the schizophrenic situation of Europe facing the choice of building either Hanseatic Europe (Europe of the regions) or strengthening Brussels management in all dimensions. He also addressed the problem of changing natural conditions, stressed that these changes accelerate and pointed to the problems of extreme heat and changes in hydrological conditions. He drew attention to the water scarcity (North Africa, Middle East, Bangladesh etc.) that could radically increase migration pressures. Another important topic is demographic and societal changes including the change in the hierarchy of priorities

for the Generation Y (young people aged 18 – 37) who do not want to be responsible, financially commit and own property, but they want to enjoy the life. According to him, the ageing obvy pension systems will significantly limit public finances and state indebtedness. At the end of the speech, he underlined the need for a flexible approach to the future. As the time of change is fast, the only techniques to respond to the uncertainty of future development are flexibility, adaptability to change, interdisciplinarity and ability to respond to unexpected challenges.

In the following discussion, Jozef Šesták, Marián Sloviak and other participants of the conference brought up their remarks, comments and questions. They were answered by P. Staněk, J. Sipko and R. Sivák. The conference was concluded by J. Sipko, Director of EÚ SAV, who thanked the team of authors and all who contributed to the successful course of the conference.

To ensure the integrity, here is a list of titles of other papers from the monograph that were not presented at the conference either due to the absence of authors or non-inclusion to the programme because of the lack of time. The papers include: *The European Union – Continued Growth and Persistent Uncertainties* (V. Vašková), *The Development of the Economy of the Russian Federation* (A. Ondrovič), *India on the Way to Become the Third Largest Economy in the World* (G. Dovál'ová) and *The Importance of Digitalisation for the World Economy* (I. Brocková). In the end, we conclude that the presented scientific monograph is already the thirteenth in the series of EÚ SAV publications on the development and perspectives of the world economy. The monograph is intended not only for the professional and entrepreneurial public but also for the students of the economics of the second and third grade of studies at the university. It is praiseworthy that the participants had the opportunity to purchase the monograph directly at the conference for a symbolic price.

Vladimír Gonda
The University of Economics in Bratislava
The Faculty of National Economy

Peter Adamovský
Slovak Innovation and Energy Agency