TOO LITTLE MONKEY BUSINESS?
CHINA AND MEETING THE CHALLENGES OF GLOBAL ECONOMIC PESSIMISM

More than 1.3 billion Chinese are busily celebrating the new year of the monkey with traditional hopes that 2016 will bring good fortune, health and prosperity. Unfortunately, this optimism is undermined by a growing nervousness that it will not be monkey business as usual. China accounted for some 15% of global GDP in 2015 (measured in billions of US dollars at current prices), a share of global output second only to the United States (23%).

Nevertheless, China's economic growth in 2015 was its slowest since 1990. This has been the harbinger of the dramatic sell-off in the Chinese stock market in early January, accompanied by increasing capital outflows that are exacerbated by expectations that the value of the Renminbi will fall significantly against the Dollar. Additionally, there has been positive government encouragement for capital outflows, designed to reduce domestic deflationary pressures arising from excessive investment and overcapacity. This overcapacity in the Chinese economy has been accompanied by concerns that have intensified over bad debts (currently estimated at $5 trillion, some 50% of China's GDP).

Chinese pessimism is being matched elsewhere in Europe, South America and the United States. As the fractious US Presidential contest gathers momentum in February, there is a growing anxiety that another global recession could be just around the corner. The Chairman of the US Federal Reserve Board, the world's most important Central Bank, is expected to elaborate upon these concerns shortly after Mardi Gras by ending speculation over the previously anticipated increase in interest rates. As the season of Lent, begins, it is unlikely that Janet Yellen, the Chairman of the Fed, will don sackcloth and ashes for her pronouncements. But there is no doubt that she will echo the fear that the sharp decline in national and international economic confidence is real and exemplified by increasing fragility in the banking sector and financial markets.

The 2015 fall in energy and commodity prices (oil prices fell 35% and commodity prices 25%) might have been expected to generate economic optimism and benefits to the global economy and its consumers and producers. However, it is increasingly clear that these benefits are offset by a combination of structural economic weakness and the chaos of conflict in the Middle East, North Africa and Ukraine. Specifically, there is also the fear that toxic housing and financial debts in energy dependent economies and communities will proliferate as energy prices struggle to avoid further falls commensurate with the oversupply from OPEC, the US shale oil and gas revolution and the post-sanction return of Iran as a major oil and gas producer.

With apologies to "Too Much Monkey Business" composed by Chuck Berry

Elsewhere, global economic insecurity is characterised by recession in Brazil and Russia and continuing economic turbulence in the Eurozone (with many European economies and banks still struggling to escape from bad debts and loan defaults), compounded by complex economic and political challenges emanating from the European migration crisis. In addition, the much-vaunted economic optimism expressed by the UK government at the end of 2015 is unravelling with the fractious debate over Brexit only serving to exacerbate economic uncertainty and insecurity.

With so many swirling and dangerously overlapping economic and political currents, what is to be done to meet the multiple threats of international insecurity, economic fragmentation and the distinct possibility of a return to the devastating global recession of 2008?

While there is no panacea, urgent concerted measures are required to find remedies to the weaknesses in global economic and political leadership and to find cooperative solutions to the free-riding behaviour that is so inimical to the strengthening of global economic and political governance.

The next essay will amplify these questions and offer some answers to what is required to meet these profound challenges of global economic governance.

Adrian Kendry

9th February 2015

Produced by Essential: www.essential-creative.com