ECONOMIC UPDATE

GLOBAL & INDIAN

May 2019

The US slipped to third place in a ranking of most competitive economies

For the first time in nine years, Singapore surpassed the United States and Hong Kong to clinch the title of the world's most competitive economy, according to IMD's 2019 World Competitiveness Rankings. Singapore's immigration laws advanced technological infrastructure, availability of skilled labor and efficient ways to set up new businesses helped it advance to the top, the Switzerland-based business school found. Speaking to CNBC's "Squawk Box Asia" on Wednesday, Arturo Bris — director of the IMD World Competitiveness Center — said the Southeast Asian country had been following a simple "recipe for competitiveness."

Singapore's immigration laws, advanced technological infrastructure, availability of skilled labor and efficient ways to set up new businesses helped it advance to the top, IMD's 2019 World Competitiveness Rankings found. The city-state is "a poster-child for the world economy today, and not surprisingly it made it to the top position this year," Bris said.

IMD measures a country's competitiveness using four indicators: economic performance, infrastructure, government efficiency and business efficiency.

Here are the top 10 economies by competitiveness, according to IMD:

Singapore, Hong Kong SAR, USA, Switzerland, UAE, Netherlands, Ireland, Denmark, Sweden and

Qatar.

While the U.S. still ranked first in economic performance, IMD found that the country fell from its top spot as the boost in confidence from U.S. President Donald Trump's tax policies faded. Higher fuel prices and weaker high-technology exports also hit the economy's competitiveness.

"Trump's policies from the competitiveness perspective were good and bad. Good in the sense that low taxes benefit the economy," Bris said. "But they're bad in the sense that closeness and avoiding globalization and trade hurts competitiveness.""That's what we saw last year indeed, that after the tax decreases in the United States, the U.S. climbed to the top position," he added. "This year, on the contrary, we have observed the impact of the trade war."

Washington has claimed that the uneven playing field and trade imbalances with Beijing has put U.S. companies at a competitive disadvantage — but there should be some nuance to any analysis of that matter, according to Bris.

"We need to distinguish between competition and competitiveness," Bris said. "Probably, China is hurting the ability of American companies to compete.""But China is not hurting American competitiveness, which refers to prosperity, the ability to generate growth in the economy, to create business, jobs, and for people to make a better living," he added.

With regard to the ongoing U.S.-China trade war, Bris said he "would call it a tantrum in the sense that it is hurting companies in the United States more than in any other country."

Indonesia, in particular, leapfrogged 11 places to become the 32nd most competitive economy in the world. Thailand also advanced five places to the 25th position. That is partly due to global economic conditions such as the trade war's effects, which have led companies to relocate some parts of their supply chains out of China and into Southeast Asian countries, Bris said. However, Bris added that the jump in competitiveness is also due to beneficial domestic policies.

Provoking trade disputes is "naked economic terrorism

A senior Chinese diplomat said on 30th May , ramping up the rhetoric against the US amid a bitter trade war that shows no signs of ending soon. Zhang Hanhui, China's vice foreign minister told reporters in Beijing China opposed the use of "big sticks" such as trade sanctions, tariffs and protectionism."We oppose a trade war but are not afraid of a trade war. This kind of deliberately provoking trade disputes is naked economic terrorism, economic homicide, economic bullying," Zhang said, when asked about the trade war with the US.

The comments came after financial markets around the world suffered when Beijing signalled a readiness to strike back at Washington in their escalating trade war by restricting exports of rare-earth elements. Wall Street recorded steep losses on 29th May as the Dow Jones slumped to the lowest level in almost four months, losing about 221 points to trade at 25,126. The S&P 500 index also fell to a two-month low, sliding by 19 points to 2,783.

Trade tensions between Washington and Beijing escalated sharply this month after the Trump administration accused China of having "reneged" on its previous promises to make structural changes to its economic practices. Washington later increased tariffs to up to 25% on $200bn of Chinese goods, prompting Beijing to retaliate. Everyone loses in a trade war, he added, addressing a briefing on Chinese president Xi Jinping's state visit to Russia next week, where he will meet Vladimir Putin and speak at a major investor forum in St Petersburg.

“This trade clash will have a serious negative effect on global economic development and recovery,” Zhang added. “We will definitely properly deal with all external challenges, do our own thing well, develop our economy, and continue to raise the living standards of our two peoples,” he said, referring to China and Russia.

Over the past two weeks, China has hinted it might use its dominant position as an exporter of rare earths to the US as leverage in the trade war. Rare earths are a group of 17 chemical elements used in everything from high-tech consumer electronics to military equipment.

The state-run China Daily newspaper said “it would be naive to think that China does not have other countermeasures apart from rare earths to hand”.

UK opposition calls for election or second referendum on Brexit deal

The leader of Britain's main opposition Labour party Jeremy Corbyn - criticised for failing to take a clear position on Brexit - has said the only way out of the political crisis was to hold a general election or a second "public vote on any deal agreed by parliament". Labour has come under fire for sitting on the fence over Brexit and it remains unclear whether the party would back leave or Remain in the next general election. The party's approach to Brexit -- dubbed "constructive ambiguity" -- saw them get hammered at the ballot box during EU elections last week, losing half of their 20 seats in the European Parliament and finishing in third place behind the staunchly anti-Brexit Lib Dems and the newly-formed Brexit Party.

Speaking ahead of meetings with the Irish President and Prime Minister in Dublin, Corbyn said on Wednesday Labour would "work with anyone across party boundaries and do whatever is necessary to stop a disastrous 'No Deal' outcome, which would open the way for a frenzy of deregulation and a race to the bottom in jobs, rights and protections.

"But faced with the threat of 'No Deal' and a Prime Minister with no mandate, the only way out of the Brexit crisis ripping our country apart is now to go back to the people. Let the people decide the country's future, either in a general election or through a public vote on any deal agreed by parliament."Some rival candidates vying to take over from outgoing Prime Minister Theresa May as premier and leader of the Conservative Party including frontrunner Boris Johnson have said Britain must be prepared to leave the EU without a deal if necessary.

Corbyn said the country faced a summer in which "our politics will be paralysed and our country's future put on hold while the Conservatives are locked in internal conflict over their leadership.

"Jobs and investment will be put at risk in Leave and Remain areas alike." He added: "The Tory leadership contest will most likely end with a small number of wildly unrepresentative rightwing Conservative activists foisting a 'No Deal' zealot on the country.

"The next Tory leader will be yet another unelected Prime Minister, without the support of the public and with no mandate for whatever form of Brexit he or she supports." May will quit as Conservative leader on June 7, with the new premier due to be in place before July 20.Britain is due to leave the bloc on October 31, while the next general election is not due until 2022.

Pessimists are predicting a global crash in 2020

There is a tendency for institutions that missed the warning signs before the last financial crisis to over-cook their doomsayer's warnings as they consider the potential for another one.

The International Monetary Fund leads a group of gloomy forecasters that worry about the stability of the global economy amid rising debt levels and slowing GDP growth. How long, they ask, can the expansion seen since the last crash go on before another recession hits? And if a global recession is pushed further into the future by even larger dollops of borrowed money from the financial system, will the next recession quickly become a crash of similar or even larger proportions than the one seen in 2008?

Some analysts argue that such gloomy warnings ignore the precedent seen in recent years that major economies tend to start the year slowly before getting into gear later on. That was especially true in 2016, when most of the developed world saw only a small lift in GDP in the first quarter before growth took off.

However, the three years from 2014 were characterised by falling oil and commodity prices, which moderated inflation. This gave the global economy a boost it desperately needed, albeit at the expense of oil- and commodity-exporting nations – and the environment. The boost faded in 2017 and left 2018 as a particularly unspectacular year – except in the US, where Donald Trump's tax cuts more than made up for lacklustre global trade and fed a consumption boom.

As 2019 gets under way, things look very different. Consumer debt has risen back to pre-crisis levels in many countries. Corporate borrowing has soared and governments, while they have reduced annual deficits, continue to sit on mountains of debt that dwarf the borrowing seen before the crisis.

Jacking up rates to calm growth is straight out of the textbook. The trouble with doing it now is that growth is slowing. Another similarity with the pre-2008 period is the determination of central banks to increase borrowing costs. The speeches of central bank officials are littered with references to the need for higher rates, both to bring discipline back to borrowing and, in case another credit squeeze grips the banking sector, to have the tools to prevent a full-blown economic collapse. Bank of England governor Mark Carney has said as much, though his remarks are tempered by threats of a no-deal Brexit. He has been echoed by Jerome Powell, his counterpart at the US Federal Reserve.

The Swedish central bank, the Riksbank, recently increased interest rates and signalled that it planned to continue on that path now that companies were reporting the largest labour shortages since 1996. Thread needle Street has already raised its base rate from 0.25% in 2016 to 0.75%. The Fed is even further ahead, having pushed rates to a level of 2.25%-2.5% at its December meeting.

Jacking up rates to calm soaring economic growth – at least the kind of growth that can lead to inflation – is straight out of the textbooks. The trouble with doing it now is that growth is slowing: and while the UK and other countries may have full employment by traditional standards, it isn't the kind of full employment that leads to wage rises.

There are few detailed studies of today's labour market, but the situation seems to be that it was the 2008 crash – as much as the demise of collective bargaining and the growth of flexible contracts – that has knocked the stuffing out of the average worker, who feels unable to bargain up their wages.

Labour-market economists like David Blanchflower and David Bell of Stirling University argue that unemployment needs to fall towards 2% before wages start to soar, rather than the 4%-4.5% that was considered the more traditional benchmark by central banks. With only small or non-existent increases in wages above inflation, households might opt for more borrowing, or dip further into their savings to maintain consumption. Recent evidence shows they are doing neither. From the UK to China, consumers are viewing the coming year as a difficult period and not the moment to buy much, apart from life's basics. They did the same in the years before 2008, when property prices began to stagnate as buyers reached their borrowing limits and car sales slowed.

That turns the spotlight onto the IMF, which is concerned that higher loan costs and lower levels of consumer spending will mean that more corporations go bust. Its remedy has been for governments to pass reforms that allow more jobs to be created. However, the growth of flexible working has singularly failed to increase wage rates.

London-based forecasters Fathom Consulting have pencilled in a global bust for 2020. Nouriel Roubini, who can claim to be one of the few economists to forecast the last crash, also nominates 2020. That's not much time to prepare.

These Asian economies may be most badly hit by slowing global trade

Japan, South Korea and Taiwan are "highly exposed" to the Chinese economy, said Steve Cochrane, chief Asia Pacific economist at Moody's Analytics.

In addition to serving consumers in China, the Asian economies also supply products that Chinese factories assemble and sell to other markets such as the U.S., according to Cochrane.

Since the escalation in U.S.-China tensions last month, stock markets in Japan, South Korea and Taiwan have been among the biggest losers in Asia.

With tensions between the U.S. and China threatening to slow down global trading volume even further, export-reliant economies such as Japan, South Korea and Taiwan will likely be most badly hit, according to an economist from Moody's Analytics.

Asian economies such as Japan, South Korea and Taiwan are "highly exposed" to the Chinese economy, said Steve Cochrane, chief Asia Pacific economist at Moody's Analytics. He explained that in addition to serving Chinese consumers, those three economies also supply products that factories in China assemble and sell to markets such as the U.S.

"They depend very highly on trade linkages with China, and (are) very tightly tied in to both domestic demand in China and in terms of the broader supply chains. So they're very, very highly exposed," Cochrane told CNBC's "Squawk Box" on Tuesday. China and the U.S. — the world's two-largest economies — are engaged in a tariff fight that started more than a year ago. Last month, tensions between the two countries expanded beyond trade and into areas such as technology and security.

Citing national security interests, Washington placed Huawei on a blacklist — a move that restricts American firms from doing business with the Chinese telecom equipment maker.

Top market losers

Since the escalation in tensions last month, stocks in Japan, South Korea and Taiwan have been among the biggest losers in Asia. That's partly because the three economies are major exporters of tech components to China, and some companies listed in those markets are suppliers to Huawei.

Any prospective recovery in the three stock markets will depend on how the friction between the U.S. and China evolve in the coming weeks, analysts said. They said investors are watching the upcoming G-20 summit at the end of June, given that U.S. President Donald Trump earlier indicated he would decide whether to impose additional tariffs on Chinese goods after that event.

For now, many foreign investors have stayed away from stocks in Japan, South Korea and Taiwan. Data from major stock exchanges in the three markets showed that foreign investors have been net sellers since May.

“Over the next, I guess, two to three months, there's essentially going to be a binary outcome,” John Woods, Asia Pacific chief investment officer at Credit Suisse, told CNBC's “Squawk Box” “If we see a positive resolution to the trade dispute, I think you'll see those markets bounce quite substantially in a reasonably short period of time,” he said. However, if the opposite happens, the three north Asian markets are “probably an area to avoid,” Woods said.