David Marsh:How to avoid the 'new mediocre' economy by investing more

2016-04-08 04:52:49 By imi

SINGAPORE (MarketWatch) — The "new mediocre" as an epithet to describe the global economy suggests fatalistic resignation to somber world circumstances — akin to a dull acquiescence in the inevitability of terrorists routinely blowing people up at European airports or railway stations.

For this reason, I believe it is a phrase to be avoided. My fellow panelists at a discussion I moderated at a March 24 session of the Boao Forum — the annual Asia-focused economic symposium in Hainan, southern China — joined me in rejecting the implicit pessimism in the panel's title: "The Looming New Mediocre."

Instead we focused on some positive features of the world economy. Symptomatic of this was the view from Doug Frantz, a deputy secretary-general of the Paris-based Organization for Economic Co-operation and Development, that coordinated spending on infrastructure can help put the world on to a higher growth path.
It's a message the OECD needs to intensify in coming months. Low capital market interest rates should be a spur for government borrowing to aid value-added infrastructure projects in areas ranging from transport to communications networks. And there may well be a propitious link to the rebalancing of the Chinese economy as the Beijing authorities seek to divert more of the country's net foreign assets into the "real economy."

Frantz and the other panelists — including Min Zhu, a deputy managing director at the International Monetary Fund; former U.S. Defense Secretary William Cohen; and Didar Singh of the Federation of Indian Chambers of Commerce and Industry — did well in coining a variety of alternative phrases to "new mediocre." Among them were "new sustainability," "new reality" and Zhu's term for the Chinese slowdown — "new quality of growth".

But it is the OECD's formulation that sticks in the mind.

A few days previously in Paris, I heard Catherine Mann, the OECD's chief economist, explain how the first-year effects of an extra 0.5% of GDP in public investment by all OECD countries would increase world gross domestic product by around 0.4%, ranging from 0.8% in Japan to 0.3% in the BRICS countries. The U.S. and Europe would garner increases in GDP in the mid-range of these figures. At the same time, because of the positive effect on the overall size of economies, debt-to-GDP ratios would fall, by 2% in Japan and 0.2% to 0.6% in other industrialized countries.

The OECD favors an attack on sluggish growth through efforts to roll back creeping protectionism and better-focused monetary and fiscal policies to promote credit and equity flows. The OECD looks likely to return to its habitual plea for European countries with large structural current account surpluses, led by Germany and the Netherlands, to promote growth through fiscal stimulus.

With an eye on the danger of protectionism, the OECD highlights worrying figures from research body Global Trade Alert that show a significant increase in worldwide discriminatory trade measures, from 400 in 2013 and 2014 to 550 in 2015. The OECD is consequently calling for a further push on regulatory reform in Europe especially in the increasingly internationally traded service sector.

A major part of the drive for European deregulation was supposed to have been the so-called Juncker plan unveiled with great fanfare in 2014 — named after the president of the European Commission, since rebaptized the European Fund for Strategic Investments.

As the OECD points out, the essence of the Juncker plan lies more in pushing forward regulatory harmonization than providing extra money for projects. Unfortunately, according to the OECD, the limited number of projects under way reflects lack of progress on both fronts.

The link to China is an intriguing one. The Boao forum was opened by Li Keqiang, the Chinese prime minister, pledging that China was "a responsible major country" that would not depreciate the yuan to stimulate exports.

In the next five years, Li said, China's economy will grow at an average annual 6.5%-plus, import over $10 trillion of goods, and make $600 billion of outbound investment. Several hundred big projects and programs will be put into operation, Li said — and we can be pretty certain that a sizable portion will be in the international infrastructure field as China joins the bid to make this sector a still more buoyant part of the world economy.

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