

China Development Forum 2021

China on a New Journey of Modernisation

19:30-20:30, 20 March 2021

Parallel Session V - Venue I

Global Economy 2021: Prospects and Challenges

Moderator

Yu Bin, Party Member, Development Research Center of the State Council

Speakers

Geoffrey W.S. Okamoto, First Deputy Managing Director, International Monetary Fund
Yang Weimin, Vice Chairman of the Economic Committee of the Chinese People's Political Consultative Conference (CPPCC); Former Vice Minister, Office of the Central Leading Group on Financial and Economic Affairs

Jason Furman, Professor, Harvard University; Former Chairman of the Council of Economic Advisers, the White House

Wang Yiming, Vice Chairman of China Center for International Economic Exchanges ; Member of 13th National Committee of the CPPCC

Martin Wolf, Chief Economics Commentator, Financial Times

Synopsis

Despite disruption from the COVID-19 pandemic last year, 2021 has brought high expectations for economic recovery across the globe. One of the silver linings is the accelerated application of vaccines and rising vaccination rates, combined with greater policy support of major economies, adding fuel to the stable recovery of the global economy. As stated by Geoffrey W.S. Okamoto, the global economy could grow at the pace of 5.5%, as estimated by IMF this January. But economic incentives in the United States and other countries are likely to accelerate economic growth.

However, the global economic recovery remains unstable and unbalanced, and various potential risks brought by the pandemic should not be underestimated. The road to global economic recovery is still full of risks and challenges.

First, the progress of the global economic recovery remains unbalanced. During the pandemic, developed economies have implemented ultra-loose fiscal and monetary

policies, playing a key role in stabilizing the economy and financial markets. In contrast, emerging markets have seen a slower economic recovery with limited policy space due to their financial or debt constraints. Even in developed countries, the asymmetric impact from the pandemic and the redistribution effect exacerbate income disparities and social inequalities. The growing trend of a K-shaped recovery could lead to rising populism and reverse globalization, and slow the global economic recovery.

Second, the issue of vaccine penetration and effectiveness cannot be ignored. Only the pandemic ends everywhere both in developed and developing countries, it will end across the globe. However, developing countries are likely to obtain vaccines by 2022. Variants of the virus will also affect the effectiveness of vaccines. Martin Wolf highlighted that the distribution of vaccines remains a question even in high-income countries, with vaccine distribution in the EU lagging behind, for example.

Third, the world should be wary of the spillover effect from monetary policies in major economies. As noted by Wang Yiming, the unlimited easing policy of the Federal Reserve intensifies global excess liquidity, driving massive short-term capital to pour into emerging markets and appreciate local currencies. If the economy of the United States rebounds better than expected, and the Federal Reserve tightens monetary policy, there could be substantial capital outflows from emerging markets, an asset price slump and capital market turmoil.

Finally, rising commodity prices will push up inflation expectations. The global economic recovery and resumption of demand growth, combined with easing liquidity, are raising commodity prices dramatically and the yield on 10-year US Treasury notes has also risen significantly. Once inflation expectations are confirmed, monetary policy will be forced into reverse, which could accelerate the rise of potential risks.

Given the above predictions, the experts gave the following advice:

Most experts called for global cooperation on vaccines. Countries should work together to map out a global vaccination plan so as to complete vaccinations by 2023. It is crucial to speed up vaccine production and ensure access to more vaccines for low-income countries, as well as implement a global vaccine distribution plan and other plans. Meanwhile, developed countries should provide financial support for developing nations.

Countries should also take active steps to tackle the long-term challenges of energy and climate change while protecting economic growth against climate change. China needs to ramp up efforts in green development, peak carbon and carbon neutrality to

reduce the consumption intensity of energy and resources, and its dependence on imports.

In terms of China's policy responses, experts noted that in the course of establishing a "dual circulation" development pattern in which the domestic economic cycle plays a leading role while the international economic cycle acts as an extension and supplement, China should expand its domestic consumer market to create greater economic momentum and provide more room for products and services from various countries. They also suggested that it is important to expand opening-up and lift the efficiency of the domestic economic cycle via the international economic cycle. China will unswervingly expand opening up, especially institutional opening-up, covering rules, regulations and management standards, to build systems and regulation models in alignment with international rules.

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