

Trump may boost global economy,
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By John Kehoe

Jan. 11 (Financial Review) -- The World Bank says the prospect of a big fiscal stimulus by incoming US president Donald Trump could lead to "stronger-than-expected" global economic growth in 2017 if he avoids erecting trade barriers that risk triggering a trade war "retaliation" from other countries.

Global growth is forecast to rise to a mediocre 2.7 per cent this year, up from an estimated post-financial crisis low of 2.3 percent in 2016. The revised forecast for 2017 is 0.1 percentage point lower than the bank's June 2016 forecast.

The outlook is mixed with mooted budget stimulus in major economies having the potential to boost the global economy if implemented.

However "downside risks still dominate global economic prospects" due to heightened policy uncertainty in Washington and with Brexit, trade protectionist pressures and risk of financial market disruptions, the World Bank said in its Global Economic Prospects report published on Wednesday.

In a message seemingly aimed at the incoming Trump administration ahead of the change of political power on January 20, the World Bank said developments in the US economy would have large effects "far beyond its shores".

"Fiscal stimulus in key major economies - in particular, the United States - could lead to stronger-than-expected activity in the near term and thus represent a substantial upside risk to the outlook.

"A surge in US growth - whether due to expansionary fiscal policies or other reasons - could provide a significant boost to the global economy."

Global stock markets have rallied hard on Mr Trump's upset victory, with Wall Street's S&P 500 up about 6 per cent since the November 8 election and the Dow Jones Industrial Average flirting with 20,000 points.

The billionaire businessman has pledged to slash personal and business taxes, increase defence spending and boost infrastructure investment to revive the American economy and middle class wages.

However, the Washington-based lending agency warned that if Mr Trump follows through on his threats to impose trade barriers, other countries could retaliate and hurt the world economy.

"If they lead to higher import costs, policy initiatives to renegotiate trade agreements could be detrimental to US and global activity," the bank said.

Trade war threat

"Moreover, given the significant integration of many US companies into global supply chains, there could be even larger adverse collateral effects from imposing new trade barriers if other countries were to retaliate," the bank said.

The US is the largest trading partner for about one-quarter of the world's countries, accounting for about 11 per cent of global trade and about 20 per cent of foreign direct investment stock.

Mr Trump has threatened to start a trade war with China and label it a currency manipulator, a provocative move that would upset Beijing which has warned of

repercussions if the President-elect takes such actions. He has also warned manufacturers they face a "border tax" if they set up plants offshore in countries such as Mexico.

China, Australia's largest trading partner and biggest buyer of mining exports, is forecast to expand 6.5 per cent, marginally lower than the 6.7 per cent estimated for last year.

The other risk the world's largest economy poses is if the US Federal Reserve or bond markets raise US interest rates faster than anticipated.

"Tightening US financial conditions - whether due to faster-than-expected normalisation of US monetary policy or other reasons - could reverberate across global financial markets, with adverse effects on some emerging market and developing economies that rely heavily on external financing."

Future global growth seen modest too

The US Federal Reserve has projected three interest rate rises in 2017 and government bond yields have leapt since Mr Trump's election on bets of faster growth and higher inflation.

The US dollar has hit a 14-year high against a basket of currencies.

The US dollar is the most widely used currency in global trade and financial transactions, so changes in US monetary policy and investor sentiment play a major role in driving global financing conditions, the bank said.

Even uncertainty about US policy could cut already-weak business investment, the bank said.

A rebound in commodity prices is expected to help emerging market and developing economies such as Brazil and Russia.

However, weak investment and productivity growth will weigh on medium-term prospects across many emerging economies.

Going forward, global growth is projected to pick up modestly, reaching 2.9 per cent by 2018.