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Is the global economy “turning a corner”?

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The latest report released by the World Bank on Global Economic Prospects is upbeat.

World output is predicted to grow at 3.2 percent in 2014, compared to 2.4 percent in 2013.

The forecast is based on expectations of higher growth in developed countries, unlike during the last six years, when developing countries including China were alone responsible for world growth.

The pickup in world recovery would now be due to better growth in United States (US) in 2014.

If developed countries do not grow, developing countries which are dependent upon their exports of minerals and agricultural products such as Papua New Guinea (PNG) in our Pacific region, cannot expect to export more.

Growth in America

Growth in advanced countries would result in greater aid flows to poor countries, aside from promoting more tourist travels. A rise in the number of jobs would enable migrant families to earn and send back home more funds to their families.

Growth in advanced countries is expected to help developing nations on an average to grow by 5.3 percent in 2014, also up from 4.8 percent in 2013.

Prospects of growth in the US are reflected in the last six months by improvements in job opportunities as well as gains in stock prices index by 25 percent. These developments led the US central bank to cut back its monthly money supply increases by US\$10 billion since December.

Unlike in May 2013, this decision did not rattle the emerging economies such as Brazil, Turkey, India and Indonesia. They are now prepared for the shocks. These economies are not however, free from risks. They are still vulnerable to the impact of US stimulus withdrawal.

"The performance of advanced economies is gaining momentum, and this should support stronger growth in developing countries in the months ahead. Still, to accelerate poverty reduction, developing nations will need to adopt structural reforms that promote job creation, strengthen financial systems, and shore up social safety nets", says World Bank president Kim.

Growth prospects in the region

In Fiji, Deputy Governor Naiyaga of Fiji's central bank says GDP is expected to grow stronger than the 3 per cent due to the large stimulus announced in the 2014 budget. All sectors, including agriculture, manufacturing and mining are projected to expand.

However, all the island economies are exposed to unpredictable natural disasters. The latest victim is Tonga. Cyclone Ian, which swept across Tonga's Ha'apai and Vava'u island groups last Saturday has caused considerable damage to agricultural crops.

PNG's growth at 6.2 percent is expected to be from gas exports and revival of commodity prices following the world recovery.

Governance issues

An interesting six month old debate in India between two economists, Jagdish Bhagwati and Amartya Sen, which was a hot topic for policy makers has now been reduced to one single issue in India. While Bhagwati was identified with growth and Sen with redistribution, the common, universal concern now is corruption.

The major partner in the coalition governing the country which used redistribution as a populist, vote catching device has been involved in scams after scams. After facing defeats in the December state elections, the sobered party is now focusing on good governance.

In our region, there is no lack of bad news on the governance front.

This week, PNG suspended two of its deputy auditors-general and a senior official and sacked a third deputy auditor-general. These actions followed the termination of a third auditor-general five months ago. The allegations are as usual: poor governance and corruption.

Tonga faced political and governance storms before cyclone Ian. Two weeks ago, Finance Minister Akola, was dismissed for disagreeing with the cabinet decision of 20 per cent increase in salary for public servants. The financial conservatist, Akolo was for only a 5 percent increase on the grounds of affordability.

With the Cyclone Ian hitting Tonga hard, demands for diversion of scarce domestic resources towards rehabilitation and reconstruction, aid money will be pouring in the next few days.

The new finance minister, Dr 'Aisake Eke knows one thing for certain. The need of the hour is the traditional Victorian financial rectitude.