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THE PREDICTED 2020 GLOBAL ECONOMIC CRISIS: CAUSES AND PROSPECTS

ПРОГНОЗИРУЕМЫЙ ГЛОБАЛЬНЫЙ ЭКОНОМИЧЕСКИЙ КРИЗИС 2020 ГОДА: ПРИЧИНЫ И ПЕРСПЕКТИВЫ

2020 ЙИЛИНИНГ ПРОГНОЗЛАШТИ- РИЛАЁТГАН ГЛОБАЛ ИНҚИРОЗИ: САБАБЛАР ВА ИСТИҚБОЛЛАР

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Tayanch soʻzlar: *Retsessiya, moliyaviy inqiroz, savdo urushi, qarzlar, ishlab chiqarishning pasayishi, foiz stavkasi, inflyatsiya, o'sish sur'atlari.*

I. Introduction

Recessions result not just when something bad happens in the economy; bad things happen all the time. Recessions occur when those initial shocks are multiplied, in ways that reflect worldwide. The dot-com crash was emerged by the Sept. 11 terrorist attacks in 2001 and a rash of corporate scandals. The 2007 housing bust in the United States became a global financial crisis in 2008 only because banks worldwide took huge losses on mortgage debt. As we mark the decennial of the collapse of Lehman Brothers, there are still ongoing debates about the causes and consequences of the financial crisis, and whether the lessons needed to prepare for the next one have been absorbed. But looking ahead, the more relevant question is what actually will trigger the next global recession and crisis, and when.

Although the global economy has been through a sustained period of synchronized growth, it will inevitably lose steam as unsustainable fiscal policies in the US start to phase out. Come 2020, the stage will be set for another downturn – and, unlike in 2008, governments will lack the policy tools to manage it. Although U.S. IS in its longest economic expansion in American history, Some economists, bankers, investment hedge funds, corporations are expecting a financial crisis by 2020, mentioning that there are already plenty of warning signs that the next recession may be on its way.

While the whole world is awaiting for the expected new economic recession 2020 that might lead to a financial crisis such as the 2008 crisis, this research paper addresses the indicators of this recession and its possible causes as well as the damages resulting from its occurrence and which countries are more affected by it, with a try to reach some recommendations to avoid this recession or dealing with it if it's actually happens.

В то время как весь мир ожидает нового экономического спада 2020 года, который может привести к финансовому кризису, такому как кризис 2008 года, в этом исследовательском документе рассматриваются показатели этого спада и его возможные причины, а также ущерб, который может причинить его возникновение. Также указываются страны, которые возможно больше других пострадают от этого. В статье сделана попытка выработать некоторые рекомендации, чтобы избежать этого спада или справиться с ним, если это действительно произойдет.

Butun dunyo 2008 yilgi inqiroz kabi moliyaviy inqirozga olib kelishi mumkin bo'lgan, kutilayotgan yangi iqtisodiy inqirozni kutayotgan bo'lsa-da, bu maqolada ushbu pasayish ko'rsatkichlari va uning sabablarini, shuningdek, uning kelib chiqishi bilan bog'liq zararlar tahlil qilingan. Mamlakatlar bundan ko'proq zarar ko'radilar va agar bu haqiqatan ham ro'y bersa, uning oldini olish uchun ba'zi tavsiyalarni ishlab chiqishga harakat qilmoqdalar

Of course, if the US goes into recession, so does much of the world. China sells the US goods. Europe's pension funds are invested in stateside property. Africa depends on American investment. When we look at the economy today, we can see a lot to worry about again. We see a manufacturing sector in recession, a precarious economy that is built on debt — both household debt and corporate debt — and that is vulnerable to shocks.

As we can see serious warning signs in the economy again, and trying to call on regulators and policymakers to act before another crisis costs the world's families their homes, jobs, and savings. In such an uncertain world, with a trade war between the two economic giants affecting everyone, financial engineering is the name of the game. Rather than growing the economic pie and improving trend growth through investment and greater productivity, companies are encouraged to use cheap debt to buy back and retire their costly equity capital, leading to asset price reflation rather than stimulating economic growth.

The next chart issued by the World Economic Forum¹ [1; P. 8] clarifies the top 10 global risks to doing business based on data from the regional risks for Doing Business Report, 2019, and at the top of them the Financial Crisis (Figure1).

These are the top 10 global risks to doing business
Based on data from the Regional Risks for Doing Business report, 2019

- 1 Fiscal crises
- 2 Cyberattacks
- 3 Unemployment or underemployment
- 4 Energy price shock
- 5 Failure of national governance
- 6 Profound social instability
- 7 Data fraud or theft
- 8 Interstate conflict
- 9 Failure or critical infrastructure
- 10 Asset bubble

Source: World Economic Forum

Figure 1 – top 10 global risks to doing business

II. Is It A Recession Or A Crisis?

Economic Recession means a decrease in a country's Gross Domestic Product-GDP, or negative growth in real economic growth for two consecutive quarters or more of the year. The period of recession is accompanied by a decrease in general economic activity and an increase in the number of the unemployed, a decrease in the size of investments and corporate profits, and it may be accompanied by a decrease or a significant increase in the rate of inflation, and the prolonged recession is called: Economic Depression, which is described, if it is a serious, an economic collapse.² [2; P. 3]

Recession fears are on the rise in the United States. Memories of the last downturn are exacerbating these worries: The last time America faced a recession was in 2008, as the financial crisis was revealing. Millions of people lost their jobs, GDP growth collapsed and businesses shut down. But not all recessions are like that. Sometimes the economy can grow all the way through a recession. In fact, some economists believe the world is in a recession now and most people don't even realize it. As we enter 2020, growth is slowing and it's slowing in a synchronized way.³ (Figure 2) [3; P. 3]

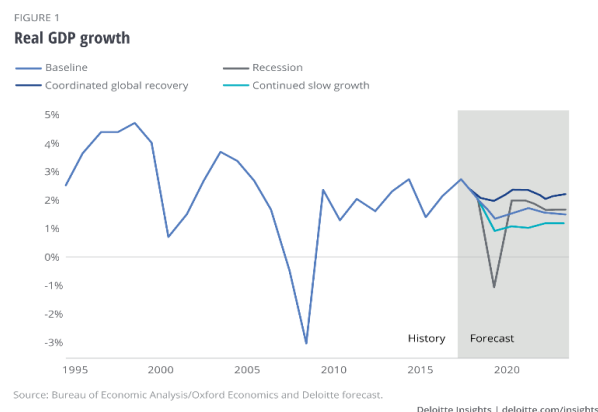


Figure 2 – Real GDP growth

A growth recession is when the economy grows below trend and decelerates. Trend growth is the

average growth rate that sustains unemployment and inflation at a stable level. The world economy has grown at a trend rate of roughly 3%. In 2018, global GDP grew at a pace of 3.04%, according to the World Bank. The International Monetary Fund predicted that the world's economy will grow by 3% this year. But that's just a forecast: The economy could currently be in worse shape, putting the world in a growth recession.⁴ [4; P. 3]

The recent downturn in America's trade war-battered manufacturing sector has deteriorated the outlook for the global economy. It suggests economic infection is spreading from elsewhere in the world to the United States, which is widely considered the healthiest major economy in the world. Strong consumer spending has helped the US economy stay on course (Figure 3), but growth is slowing in the United States too. And over the summer, worries about trade conflicts started to hurt consumer sentiment, which could eventually hurt consumer spending.⁵ [5; P. 4]

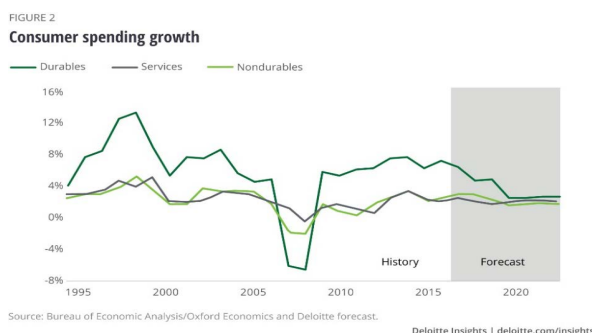


Figure 3 – Consumer spending growth

For the United States, a global growth recession will probably mean sluggish growth, rather than millions of lost jobs like the last recession 10 years ago did. A growth recession would be nothing like 2008, when America entered a so-called technical recession: at least two consecutive quarters of a shrinking economy. The US economy is far away from that. Third quarter GDP growth is expected to come in at 1.8%, according to the Federal Reserve Bank of Atlanta. The New York Fed is even forecasting 2% GDP growth between August and October, and 1.3% in the fourth quarter.⁶

Things in Europe appear to be much bleaker, and the odds for a recession there are much higher. Europe's export-reliant economies are at the center of trade and slowdown worries. The European Union's fourth-largest economy, Italy, was in a technical recession in the second half of 2018, and its largest economy, Germany, has seen its economic growth continuously edging lower this year.

As we note, the slow global growth comes from the slowdown in the American economy that rapidly

affects its European counterpart. The American economy undoubtedly - under a system governed by globalization - has an impact on the world's economies due to the magnitude of this economy as it's considered the largest in the world.

III. The Key Indicators Of The Economic Recession

As we mentioned before, Economic risks for doing business remain high, with the risk of a fiscal crisis taking the top spot. Certainly, the level of global indebtedness should be a concern to us all, with corporate, household and government debt at extreme levels despite economic growth over the past few years. But high levels of government debt begs the question of whether fiscal support – government spending – will be deployed as it was in the past to help avoid or at least mitigate the next recession?!

Many involve the United States. Trade wars with China and other countries, along with restrictions on migration, foreign direct investment and technology transfers, could have deep implications for global supply chains, raising the threat of “stagflation”⁷. And there are added risks associated with the rise of newer forms of debt, including in many emerging markets, where much borrowing is denominated in foreign currencies⁸ [8; P. 2]. And experts agree. In a recent survey of nearly 300 business economists, three-quarters expect a recession by the end of 2021, with more than half thinking it'll come by the end of 2020 (Figure 4).

Figure 5
When Will the U.S. Enter Recession?

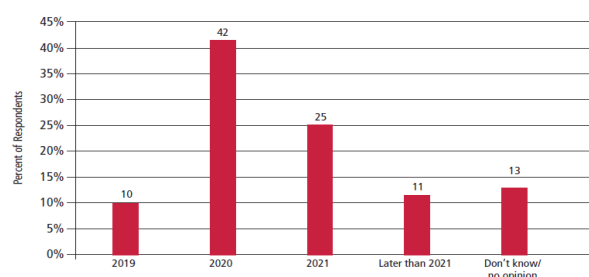


Figure 4 – when will the U.S. enter a recession?
Survey

Source: Economic Policy Survey, National Association for Business Economics

Here are some significant indicators that confirm the expected economic recession by the year 2020:

1. World Economy Growth Slow Down

As the world economic growth will likely slow down – more so as other countries will see fit to revenge against US protectionism. China must slow its growth to deal with overcapacity and excessive

leverage. Moreover, emerging markets will continue to feel the worry from protectionism and tightening monetary conditions in the United States.

Europe, too, will experience slower growth, owing to monetary-policy tightening and trade frictions. Moreover, populist policies in countries such as Italy may lead to an unsustainable debt dynamic within the eurozone. The still-unresolved “doom loop” between governments and banks holding public debt will amplify the problems of an incomplete monetary union with inadequate risk-sharing. Under these conditions, another global downturn could prompt Italy and other countries to exit the eurozone altogether⁹ [9; P. 2]

2. The U.S. Fiscal-Stimulus Policies

The fiscal-stimulus policies that are currently pushing the United States’ annual growth rate above its 2% potential are unsustainable. By 2020, the stimulus will run out, and a modest fiscal drag will pull growth from 3% to slightly below 2%. Also, because the stimulus was poorly timed, the United States’ economy is now overheating, and inflation is rising above target. The United States’ Federal Reserve will thus continue to raise the federal funds rate from its current 2% to at least 3.5% by 2020, and that will likely push up short- and long-term interest rates as well as the U.S. dollar. 10 [10; P 3]

Meanwhile, inflation is also increasing in other key economies, and rising oil prices are contributing to additional inflationary pressures. That means the other major central banks will follow the Fed toward monetary-policy normalization, which will reduce global liquidity and put upward pressure on interest rates.

3. Inverted Yield Curve

The financial markets agree that there is a serious risk of a downturn in the near future. The U.S. Treasury yield curve — a barometer for market confidence — normally slopes upwards because investors demand higher yields for bonds with longer maturities. But this March, it inverted for the first time since 2007, signaling that investors are so worried that things are going to get worse that they’d rather lock in lower rates for the future today than risk long-term rates going even lower. The curve has inverted *before each and every recession* in the past half century — with only one false signal.

Since the 1960s, one indicator of a looming recession has been the New York Fed’s recession probability index breaking 30%. The probability of a U.S. recession predicted by the treasury spread hit 32.9% in July, the highest since 2009, according to the New York Fed. The index in large part looks to the yield curve to determine the likelihood of a near recession. Some firms remains “cautious” as recession indicators are “flashing yellow” (Figure 5).¹¹

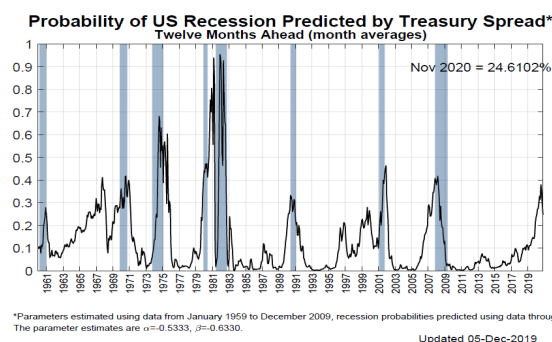


Figure 5 – Probability of US Recession predicted by Treasury Spread

The inverted yield curve has historically been a major indicator that a recession is afoot—and experts believe it’s no different this time. The U.S. Treasury yield curve has been inverted since May—meaning that the three-month Treasury bill (with a shorter maturity) has a higher yield than the 10-year Treasury note (a longer maturity). This inversion is a key signal that a downturn may be on its way.

As shown in the next graph the 10-year yield falling to 1.95% and the three-month T-bills hitting 2.15%, which means that investors have less confidence in older bonds than newer ones, which doesn’t bode well (Figure 6)¹² [12; P. 3].

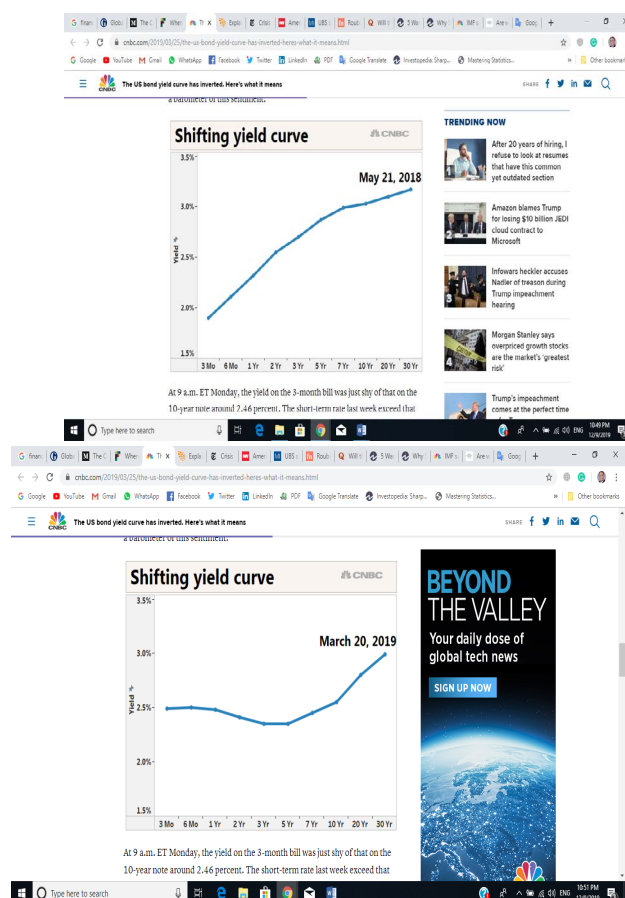


Figure 6 - Shifting Yield Curve

4. Consumer And Business Confidence

Although consumer confidence is still historically high, the most recent June consumer confidence index¹³ dropped to two-year lows, to 121.5. The index provides insight into consumer's concerns, and at these lows, may indicate their growing bearishness on the economy. The tendency measures both for business and consumers should be monitored very closely, because then there is the question of whether that is followed by a change in behavior. Perhaps, the consumer tendency has not moved too dramatically, but business tendency has dropped from its highs. In fact, this wavering confidence may be affecting U.S. manufacturing data as well.

The biggest warning sign has been in contracting, indicating a significant slowdown in expected manufacturing activity. While U.S. PMIs¹⁴ remain slightly expansionary, in total contrast with Europe, the trend is definitely negative. As the trade concerns are "significant to deteriorating business confidence," the escalation of which could "speed up the downturn." The problem for many analysts is that, with uncertainty over trade policies, businesses may be more cautious with capital expenditures. Whether considering things like building a new plant in China versus Mexico (both targets of trade policy issues) or holding off on investment, trade is pushing corporate managers to be "nervous about making a corporate capital allocation mistake." This may be causing undue pessimism about the market given that the consumer economy and employment levels are currently "pretty good." Also, waning business confidence is already having an impact on economic growth and weak earnings. [15; P. 2].

IV. The Main Reasons Of 2020 Recession

Global growth is forecast at 3.0% for 2019, its lowest level since 2008–09 and a 0.3% point downgrade from the April 2019 World Economic Outlook¹⁶ [16; P. 13]. Growth is projected to pick up to 3.4% in 2020 (a 0.2% point downward revision compared with April), reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that is under macroeconomic strain.

However, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, besides the debt problems, a much more subdued pace of global activity could well materialize.



Household debt

A generation of stagnant wages and rising costs for basics like housing, childcare, and education have

forced American families to take on more debt than ever before. The student debt load has "more than doubled since the financial crisis" (Figure 7). American credit card debt matches its 2008 peak. Auto loan debt is the highest it has ever been since nearly 20 years ago, and a record 7 million Americans are behind on their auto loans, many of which have similar abusive characteristics as pre-crash subprime mortgages. 71 million American adults -more than 30% of the adults in the country- already have debts in collection. Families may be able to afford these debt payments now, but an increase in interest rates or a slowdown in income could be a disaster for these families.¹⁷

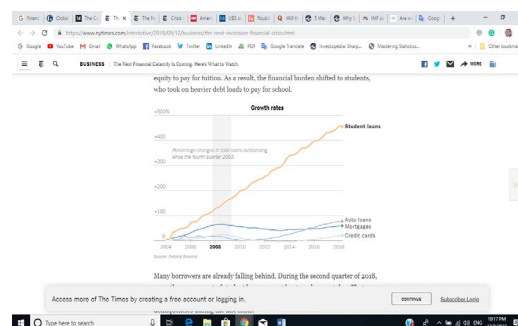


Figure 7 – percentage change in total household loans (2003-2018)

The previous chart declares the Percentage changes in total loans outstanding since the fourth quarter of 2003, and the difference between the loan rates in 2008 and 2018, especially the huge difference concerning the student loans. The next chart identifies the total debt balance at the same period and its composition (Figure 8).

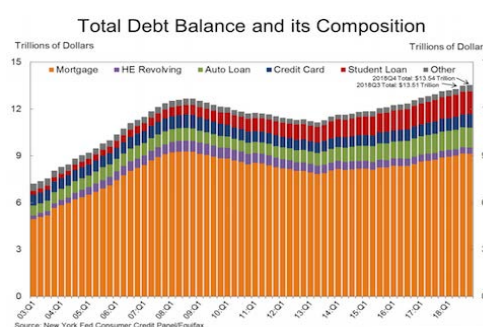


Figure 8 - Total Debt Balance and its Composition



Corporate debt

Corporations are also deeply in debt. Leveraged lending¹⁸ has jumped by 40% since Trump took office, spreading "systemic risk"¹⁹ throughout the U.S. financial system. These high-risk loans now make up a quarter of all American business loans, and they look a lot like the pre-2008 subprime mortgages: poorly-

underwritten loans with minimal protections that are then packaged and sold to investors²⁰ [20; P. 2].

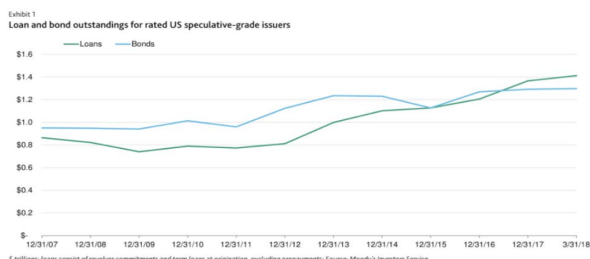


Figure 9 - Loan and Bond outstanding for rated US speculative-grade issuers

At a time when government indebtedness is so high and confidence in governments so low, investors are falling over themselves to lend money to governments. More remarkable still, they are prepared to be charged negative interest rates for the privilege. Around 30% of all fixed-income investments, or ~\$16 trillion of government bonds and credit, now have negative yields – including a few companies in the high-yield indices²¹ [21; P. 5]. A highly leveraged business sector could amplify any economic downturn as companies are forced to lay off workers and cut back on investments.



Manufacturing recession

The U.S. Federal Reserve just reported that the manufacturing sector had a second straight quarter of decline, falling below Wall Street's expectations. Also, for the first time ever, the average hourly wage for manufacturing workers has dropped below the national average.²²

Weak U.S. manufacturing may be signaling slowing growth, and that is cause for concern. As the most recent economic reports show “slowing that is far worse than the 2015-2016 mini-recession,” due in large part to “outright contractionary” PMI data and global new orders. For instance, the U.S. automotive sector has experienced slowing sales in recent months, and orders for non-defense capital goods (not including aircraft) fell 0.9% in April—more than expected by analysts.

Economists say that the now sub-2% growth pace, down from 1st quarter growth of 3% last year, indicates that the near-11 year economic expansion “should not have been sustainable,” and may be overdue for a slowdown. For them, the 30% chance of recession metric should not be too spooky (there's “still a 70% chance that it doesn't happen,” they say)²³. However, whether or not that 70% chance will hold is yet to be seen, and they suggest the world to handle the expected recession or to wait for another crisis.



The slowdown of the global trade growth

The IMF mentioned that the Foreign Direct Investment abroad by advanced economies came

to “a virtual standstill” in 2018 after increasing in earlier years to average more than 3% of global gross domestic product annually - or more than \$1.8 trillion. The IMF said the decline of some \$1.5 trillion between 2017 and 2018 reflected purely financial operations by large multinational corporations, including in response to changes in U.S. tax law.

Global vehicle purchases fell by 3% in 2018, reflecting a drop in demand in China after the expiration of tax incentives and production adjustments after the adoption of new emissions standards in Germany and other eurozone countries. Global trade growth reached just 1% in the first half of 2019, the weakest level since 2012, weighed down by higher tariffs and prolonged uncertainty about trade policies, as well as a slump in the automobile industry.

After expanding by 3.6% in 2018, the IMF now projects global trade volume will increase just 1.1% in 2019, 1.4 percentage points less than it forecast in July and 2.3 percentage points less than forecast in April. Trade growth was expected to rebound to 3.2% in 2020, however risks remained “skewed to the downside,” the IMF said, with a significant drag on both the U.S. and Chinese economies.²⁴

“The weakness in growth is driven by a sharp deterioration in manufacturing activity and global trade, with higher tariffs and prolonged trade policy uncertainty damaging investment and demand for capital goods” said the IMF Chief Economist Gita Gopinath. For 2020, the IMF mentioned that global growth was set to pick up to 3.4% due to expectations of better performances in Brazil, Mexico, Russia, Saudi Arabia, and Turkey. But this forecast was a tenth of a point lower than in July and was vulnerable to downside risks, including worse trade tensions, Brexit-related disruptions and an abrupt aversion to risk in financial markets.

Among the risks that could trigger a recession in 2020, the Sino-American trade and technology war deserves special attention. The conflict could escalate further in several ways.



US-China Trade war

The united states trade war with China threatens American manufacturing and has already hurt American companies that investors think of as “industry bellwethers,” while feeding an all-time economic slowdown in China that could have dramatic ripple effects on the American economy.²⁵ [25; P. 3]. The U.S.-China trade war will cut 2019 global growth to its slowest pace since the 2008-2009 financial crisis, the International Monetary Fund warned. adding that the outlook could darken considerably if trade tensions remain unresolved.

The IMF mentioned its latest World Economic Outlook projections show 2019 GDP growth at 3.0%, down from 3.2% in a July forecast, largely due to increasing fallout from global trade friction. The World Economic Outlook report spells out in sharp detail the economic difficulties caused by the U.S.-China tariffs, including direct costs, market turmoil, reduced investment and lower productivity due to supply chain disruptions. by 2020, the announced tariffs would reduce global economic output by 0.8%. this translates to a loss of \$700 billion.²⁶

As mentioned above, one of the risks that could prompt the 2020 recession is the US-China trade war. As the conflict could escalate further in several ways. The Trump administration could decide to extend tariffs to the \$300bn worth of Chinese exports not yet affected. Alternatively, prohibiting Huawei and other Chinese firms from using US components could trigger a full-scale process of deglobalization, as companies scramble to secure their supply chains.

Were that to happen, China would have several options for retaliating against the US, such as by closing its market to U.S. multinationals like Apple. Under such a scenario, the shock to markets around the world would be sufficient to bring on a global crisis, regardless of what the major central banks do. With the current tensions already denting business, consumer and investor confidence and slowing global growth, further escalation would tip the world into a recession.



Figure 10 – US-China Tariff War

Moreover, given the scale of private and public debt, another financial crisis would likely follow from that. As the two sides drift further apart, the space for compromise is shrinking, and the risk of a global recession and crisis in an already fragile global economy is rising²⁷ [27; P. 3].

New IMF projections show China's GDP output falling 2 percent in the near term under the current tariff scenario and 1% in the long term, while U.S. output would decline 0.6% over both time spans. The IMF also modeled what would happen if multinational firms in the United States, euro area and Japan restored enough production to reduce nominal imports by 10%. The IMF found that it would drive up consumer prices

and reduce domestic demand, while restraining the spread of technology to emerging economies.

"At 3% growth, there is no room for policy mistakes and an urgent need for policymakers to cooperatively deescalate trade and geopolitical tensions," it said. "Further escalation of trade tensions and associated increases in policy uncertainty could weaken growth relative to the baseline projection"²⁸ [28; P. 5].

While trade wars and potential oil spikes constitute a supply-side risk, they also threaten aggregate demand and thus consumption growth, because tariffs and higher fuel prices reduce disposable income. With so much uncertainty, companies will likely opt to reduce capital spending and investment.



Lowering the Interest rates

One of the expected recession reasons, with global growth again weakening, the interest rates set by central banks have dropped even lower. This year has seen more than half of global central banks cut rates. However, balance sheet recessions are strange beasts, and as we have seen over the past 10 years, monetary policy is less and less effective in stimulating growth.

The reason is that interest rates have been too low for too long. As a result, asset prices (equities, real estate) are too high, and therefore more prone to rapid downwards movements. With central banks around the world trying to keep interest rates low, more people in rich nations like Europe, Japan and the U.S. are saving cash, but there is an opposite trend in emerging economies like Russia, China and India, where cash as a percentage of GDP is decreasing²⁹ [29; P. 4].

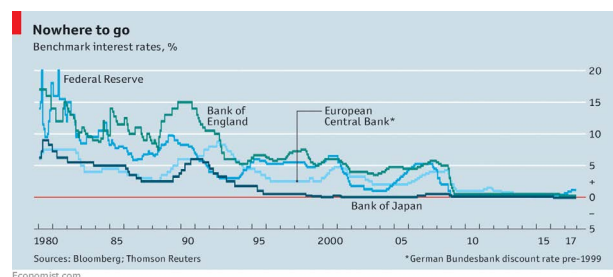


Figure 11 - Benchmark Interest rates, %

Concerning the US Federal Reserve's interest rate policy. After raising rates in response to the Trump administration's fiscal stimulus, the Fed reversed course in January. Looking ahead, the Fed and other major central banks are more likely to cut rates to manage various shocks to the global economy.³⁰ [30; P. 2]

United States policies will continue to add "stagflationary" pressure, prompting the Fed to raise interest rates higher still. As the U.S. administration is restricting inward/outward investment and technology transfers, which will disrupt supply chains; It is restricting the immigrants who are needed to maintain

growth as the US population ages; It is discouraging investments in the green economy; and it has no infrastructure policy to address supply-side bottlenecks.

The Fed's main target interest rate is just over 2% now, compared with 5.25% heading into the last recession in 2007. Other global central banks have even less wiggle room³¹ [31; P. 3]. In addition, a polarizing president and a divided Congress are unlikely to find much common ground in stimulating the economy. In early 2008, for example, as a recession took hold, the George W. Bush administration negotiated a \$152 billion stimulus package with a Democratic Congress to try to lessen the damage.

Nevertheless, the biggest risk multiplier may come out of the policy world. In past recessions, the Fed had plenty of room to cut interest rates as a stimulus measure, and fiscal policymakers have been willing to pour money into weaker economies. Therefore, when we have another financial crisis, our tools are limited. One problem is that interest rates are very low and it gives the central banks very limited room to cut interest rates.

V. The Countries On The Brink Of The Expected 2020 Recession

According to the reliable economic indicators that suggested the U.S. may be heading toward an economic slowdown, the growing fears of another global recession are not limited to the U.S., many countries with some of the biggest economies in the world appear to be teetering on the brink of a recession.

"I think the trade war, it affects companies in the U.S., but it affects people outside, the countries outside the U.S. a lot more, especially smaller countries outside the U.S.," St. Louis Federal Reserve President James Bullard.

In the middle of a global slowdown in economic growth that has seen central banks lower interest rates near zero or below in an effort to provide stimulus, here's a look at which of the major economies are on high recession alert.

- Hong Kong:

While not a country, has seen five months of citizen protests that have battered the city's economy, sending it into a "technical recession," with industries like tourism and retail especially hard hit from the ongoing turmoil.³²

- The U.K.:

With its ongoing uncertainty over leaving the European Union (and still no end in sight), has watched its economy recently shrink for the first time since 2012, and a no-deal Brexit could well slide it into a recession.³³

A third European country, and a backbone of the 28-member bloc, is also struggling economically. The United Kingdom is inching closer to a recession. In

the second quarter, its economy contracted for the first time — a side-effect of the possibility of a "no-deal" Brexit in the upcoming months.

- Germany:

The EU's biggest economy, is set to slide into a recession thanks to a continued decline in its manufacturing sector as well as lackluster global auto sales.³⁴

In August 2019, bad news from China and Germany, Beijing's industrial output fell to a 17-year low, and Germany revealed its export-led economy shrunk 0.1 percent in the spring, pushed markets down globally. In part, the turbulence has been driven by the year-long trade war between the U.S. and China, which is impacting the global exchange of goods and hurting some countries' exports.

- Italy:

The EU's fourth-largest economy, was in a technical recession for the second half of 2018 and has faced continued economic woes from weak productivity, high unemployment, huge debt and political turmoil.³⁵

Meanwhile, growth has essentially stopped in Italy. At the end of 2018, strapped with debt and high unemployment, it slipped into recession, lagging behind the other members of the European Union. It has since recovered.

- China:

China's economy has continued to slow amid the trade war, too, although not yet nearing a recession: The IMF forecast only 5.8% growth for the world's second-biggest economy (in terms of GDP) in 2020, down from 6.6% in 2018 and 6.1% forecast in 2019.³⁶

- Japan:

Japan also faces the possibility of a slowdown, or recession, amid a nasty trade fight with South Korea.³⁷

- FRANCE

In March, the risk of a recession rose in Europe after dire economic data in France. At the time, France's private sector entered contraction territory as orders for both manufacturers and service firms lagged. Plus in the second quarter, the nation's growth unexpectedly slowed, expanding at just 0.2 percent (below analyst expectations of 0.3 percent), despite a slew of tax cuts passed by the government.

Singapore, another Asian economic engine, is also on the brink of recession. **Argentina** just went through one of the worst stock markets crashes in decades after an allegedly corrupt politician nears power once more. **Brazil** and **Mexico**, two leaders of Central and South America's economies, are expected to perform weakly this year.

VI. Avoiding the Next Recession

The advantages of this situation are that the world economy has the chance to avoid a crisis –as we have

the indications and possible reasons of it- if bold action is taken now to address the underlying problems in the economy:

Seeking a multilateral cooperation

To forestall such an outcome, policies should decisively aim at defusing trade tensions, energizing multilateral cooperation, and providing timely support to economic activity where needed.

To strengthen resilience, policymakers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, which is essential for securing better economic prospects for all, should remain an overarching goal.

Therefore, to restore the economic growth, policymakers must undo the trade barriers put in place with durable agreements, stop the geopolitical tensions and reduce domestic policy uncertainty.

Strengthen manufacturing:

The world economy needs to adopt policies that reverse the manufacturing job losses of the past twenty years by investing in manufacturing instead of undercutting it. For instance, the United States manufacturing employment rate decreased from more than 18 million jobs in 1970 to 12.3 million jobs in 2014 (figure 12)

U.S. “My Green Manufacturing” Plan will mobilize the US industrial base by making a \$2 trillion investment in American green research, manufacturing, and exporting over the next decade. This will create more than a million high-quality jobs and help address the existential threat of climate change³⁸ [38; P. 7].

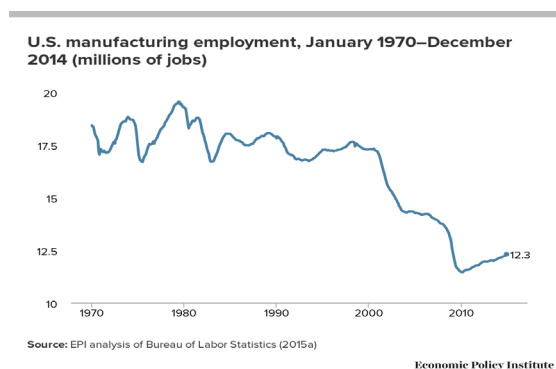


Figure 12 – US manufacturing employment (Jan 1970 – Dec 2014), millions of jobs

Find A Compromise For The Trade War

The trade wars and a breakdown in international economic diplomacy cause businesses around the world to pull back. This leads to further fall downs in markets and job losses, prompting American consumers to become more cautious. High corporate debt loads create a wave of bankruptcies. In addition,

central bank policy proves impotent, combined with a fiscal policy that is nonexistent.

Both Trump and Chinese president Xi Jinping know that it is in their countries' interest to avoid a global crisis, so they have an incentive to find a compromise in the next few months. Yet both sides are still ratcheting up nationalist rhetoric and pursuing tit-for-tat measures.

Limit potential shocks to the economy:

With a vulnerable economy, the world should be reducing the odds of potential shocks that could push into a downturn. The United States Administration should stop pushing for a no-deal Brexit and start planning for how to insulate the American economy if that occurs. It should replace the trade war with China with a coherent strategy, working with their allies, to respond to China's trade tactics. The U.S. needs to invest in strengthening critical American industries, instead of undercutting American companies (figure 13). Moreover, it should take the prospect of breaching the debt ceiling off the table forever by either eliminating it or by automatically raising the ceiling to accommodate spending and revenue decisions authorized by Congress³⁹ [39; P. 4].

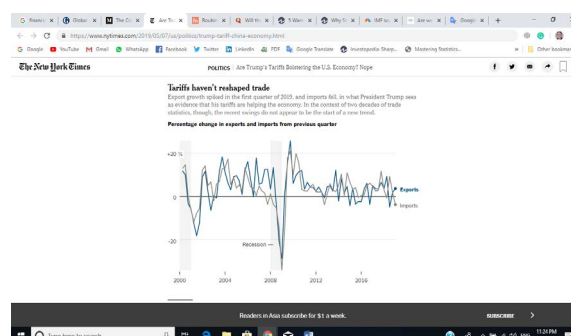


Figure 13 – Percentage change in exports and imports from previous quarter

Monitor and reduce leveraged corporate lending:

Very high and rising levels of corporate debt in the major economies have been troubling central banks and regulators for several years, but until now, there has been little willingness to take direct policy measures to reduce the associated financial risks.

In response to the 2008 crisis, U.S. Congress created the Financial Stability Oversight Council “FSOC” 40 to monitor risks that cut across different markets. The risks of leveraged lending are exactly the kind of thing FSOC is supposed to monitor, but the Trump-era FSOC is falling down on the job. It should meet specifically to discuss these risks and announce a plan for addressing them. Federal regulators should also enforce leveraged lending guidance that is

intended to stop banks from issuing these risky loans in the first place⁴¹ [41; P.3].

Reducing Government Debt

To reduce the risk of fiscal crisis, policymakers need to think about government spending differently. Spending on investment should not be considered the same as spending on consumption. However, governments need to take advantage of cheap borrowing to “invest” and should not be prohibited from doing so due to the application of strict rules.

Although, debt levels are a very real concern, but so, too, is a slide towards recession. Governments need to work alongside central banks to create a more robust and sustainable growth environment – something that has failed to be achieved over the past decade. Rather than incentivizing asset price reflation through monetary policy alone, incentives and fiscal initiatives need to encourage real engineering of the global economy rather than the financial engineering of recent times.⁴²

Reduce household debt:

To put the United States economy and the U.S. families on firmer ground, it is essential to reduce household debt both by raising people’s wages and by bringing down their costs. Moreover, to be in the heart of the economic agenda. The United States can raise incomes by increasing the minimum wage to \$15 an hour, strengthening unions, ensuring that women of color get the wages they deserve, and empowering workers to elect at least 40% of board members at big American corporations. United States can reduce costs and slash household debt by canceling up to \$50,000 in student loan debt for 95% of people who have it, bringing down the cost of rent, providing universal affordable childcare and early education for all kids ages 0–5, and making tuition free at every public technical school, two-year college, and four-year college.⁴³

VII. Conclusion and Recommendations

This paper tried to address the indicators of the expected economic recession of 2020 and its possible causes as well as the damages resulting from its occurrence and which countries are more affected by it, with a try to reach some recommendations to avoid this recession or dealing with it if it is actually happening.

The current global expansion will likely continue into next year, given that the US is running large fiscal deficits, China is pursuing loose fiscal and credit policies, and Europe remains on a recovery path. However, according to most of the predictions and indicators, by 2020, the conditions will be ready for a financial crisis, followed by a global recession.

Unlike in 2008, when governments had the policy tools needed to prevent a free fall, the policymakers

who must confront the next downturn will have their hands tied while overall debt levels are higher than during the previous crisis. When it comes, the next crisis and recession could be even more severe and prolonged than the last.

The trade war between China and the United States is a big part of the reason. The conflict has made it difficult for many global firms to plan their operations, and in some cases, it may lead them to sit on their hands rather than invest. The American strategy has been more successful at escalating trade tensions than in resolving them, so companies do not know whether tariffs will go away soon or will be a continuing cost of doing business. Both Trump and Chinese president Xi Jinping know that it is in their countries’ interest to avoid a global crisis, so they have an incentive to find a compromise in the next few months.

Developed economies need to push forward and become “developing” economies to increase their growth potential and developed companies need to become “developing” companies to improve productivity and profitability over the longer term. This will require tax incentives to effect the change, and government investment to create a multiplier effect on growth to embrace – rather than crowd out – the private sector. Government policies should decisively aim at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed.

Policymakers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, which is essential for securing better economic prospects for all, should remain an overarching goal. Governments need to work alongside central banks to create a more robust and sustainable growth environment, and to reduce the household debt both by raising people’s wages and by bringing down their costs. Federal regulators should also enforce leveraged lending guidance that is intended to stop banks from issuing these risky loans in the first place.

Finally, Warning lights are flashing. Whether it is this year or next year, the odds of another economic downturn are high and growing. Congress and regulators all over the world should act immediately to tamp down these threats before it is too late. Chances of a near-term recession are only about one in three, in the view of most forecasters. If this does not happen soon, we may see a fiscal crisis – potentially hastening and deepening the next global recession.

However, if it does develop, the big question will be whether the usual tools to fight it are up to the task or not.

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