




Macroeconomic
Comment


FTSE-100
7587,85
-0,14%


CAC-40
6037,11
-0,09%


Stoxx-Europe-50
3436,34
+0,02%

OMX Schweden
OMXC 20 Dänemark
PX Tschechien
RSE Sensex

Continued Global Economic Recovery

March 16, 2021, Peter von Elten

The continued positive development of the global Purchasing Managers' Index for the industry underlines the expectation of a significant recovery in the current year. The International Monetary Fund has raised its forecast for global economic growth this year to 5.5% (prior year -3.5%) and expects 4.2% for 2022. While China is losing some momentum after a rapid recovery, the U.S. is emerging as the growth engine of the global economy. The latest rescue program alone will accelerate global growth by around 1%. Strong upward trends can also be observed in countries such as Taiwan, South Korea, and India. As a strong export region, the euro zone is benefiting from the strengthening of global trade, but is only able to realize its potential belatedly because the undersupply of vaccines and viral mutations are delaying the opening of the national economies. The use of funding from the €750 billion program agreed last summer is still under discussion, so the first funds will not flow until mid-year at the earliest.

USA - The \$5 Trillion Corona Program

The just passed \$1.9 trillion fiscal package ("American Rescue Plan"), with the two previous rescue packages from 2020, brings the total package available to overcome the pandemic to over \$5 trillion; that's more than 20% of the U.S. annual gross national product. Morgan Stanley expects growth of more than 7% this year, more than offsetting last year's contraction of 3.5%. The bank expects government transfers to massively exceed the losses suffered by U.S. households, as also illustrated by the higher savings performance of Americans in the Corona year. As a result of these extreme, not soundly funded financial injections, the Fitch rating agency expects the federal budget to run deficits of 15% of economic output in both 2020 and 2021. These assumptions reinforce the concerns of economists such as Larry Summers, who believes that the U.S. economy would have recovered robustly even without the latest program and that overheating and - at least temporary - inflation risks are to be feared. Sharp increases in commodity and freight costs, the restructuring and renationalization of supply chains, existing bottlenecks in the supply of semiconductors, and rising costs in healthcare, for example, are coming up against massive pent-up consumer demand, supported by significantly increased cash balances.

The latest fiscal package has two main objectives: to absorb the economic impact of the pandemic and to reduce the further increase in inequality. The brunt of the pandemic is being borne by low-

income citizens, especially minorities such as Latino and African Americans. Among this segment of the population, the employment rate is still 28% below pre-pandemic levels. Therefore, the package includes targeted assistance to the lower and middle classes. According to official calculations, the package is expected to reduce child poverty by 50% and general poverty by 30%. The one-time payments of \$1,400, which will flow to about 85% of the population, also reflect the socio-political goals of the left wing of the Democrats.

While the above package was rejected by all Senate Republicans, Democrats are hoping that a number of Republicans will support the Biden administration's second major priority, the multi-trillion infrastructure program. Officials talk of a \$2.8 trillion need to modernize ailing infrastructure over the next decade.

China

At the annual National People's Congress, China's head of government set a growth target of at least 6% for the current year, which can be considered very moderate due to the low base of the previous year. Debt consolidation remains the top priority. Beijing aims to cut the budget deficit from 3.6% to 3% this year, use lower fiscal resources and at the same time further strengthen consumption. The main goals of the 14th five-year plan are self-sufficiency in all critical technology areas, a sharp increase in military spending, and working toward pollutant neutrality by 2060. The government is striving for global market leadership in key industrial sectors such as the automotive industry. To this end, it is promoting companies such as Nio, Geely (Daimler Benz's major shareholder) and BYD to work closely with the country's leading technology groups to wrest world leadership from the German and American automotive industries. This is one of the building blocks in Xi Jinping's drive to develop China into the largest economic power. According to the OECD, China accounted for 18.1% of global economic power in 2020, well behind the United States, which had a share of 24.2%. In this race, the euro area is falling increasingly behind at 14.6%. In China, however, there is growing concern that the high growth rates may soon be over if Xi uses his increasingly authoritarian rule and control frenzy to impose his will on the economy. For example, Xi accuses major technology companies such as Alibaba of seeking quick profits in online commerce rather than overcoming dependence on American technology in the service of the state.

In the struggle for economic and geopolitical superiority, China is seeking global leadership in the microchip industry. Here, Taiwan plays a prominent role. The Taiwan Semiconductor Manufacturing Company (TSMC) is the leader in technology and production of the most powerful microchips, with a world market share of about 55%, according to a Financial Times analysis. Most other

producers, with the exception of Samsung, cannot compete because of the enormous cost and technological complexity of producing chips with a thickness of 3 nanometers (1 nanometer = 1 billionth of a meter). As the most important supplier to U.S. and Chinese technology companies, TSMC finds itself at the center of geopolitical tensions between China as its largest trading partner and the U.S. as its most important strategic ally.

TSMC is currently building a massive \$20 billion factory and plans to invest more than \$25 billion annually to meet rising demand. To hedge its bets as much as possible, TSMC has two factories in China and one in the U.S., and another is in the pipeline in Arizona. In the case of Huawei, one of TSMC's most important customers to date and the world's leading supplier of 5G technology, the U.S. has obtained a delivery stop. Yet it is 5G technology that is expected to drive TSMC's sales in the coming years.

Shortly before the end of Trump's presidency, the U.S. government announced that it would lift its self-imposed restraint on diplomatic relations with Taiwan. China has noted this with outrage and, already looking to the new U.S. administration, has threatened resolute countermeasures if Chinese interests are threatened. Within the framework of the "One China" doctrine, China has repeatedly threatened to force reunification with Taiwan by military means as well. China considers Taiwan's rearmament thanks to large military deliveries by the Trump administration to be such a threat.

In the case of Hong Kong, China has cracked down and further undermined the democratic process with the recent reform of the electoral system, without the West being able to do anything except protest notes. The new U.S. administration sees China as the only power that could challenge a stable and open international system like that of the West because of its economic, technological, and military strength. In response to China's aggressive foreign policy, President Biden is initially seeking to strengthen the existing Quadrilateral Security Dialogue (Quad) with Australia, India, and Japan to develop a close security partnership. This is to be based on shared values and interests such as freedom of navigation, territorial integrity, rule of law, and free and fair trade. Already under the Trump administration, security ties have been expanded with other Indo-Pacific partners such as South Korea, Taiwan, and Thailand. Countries such as the United Kingdom, France, and Germany are also called upon to support a rules-based Indo-Pacific region as key to international peace. The United Kingdom is also likely to seek a close partnership in the Indo-Pacific region because of its Commonwealth past and its new global ambitions. Relations with China are already strained because - in response to China's illegal adoption of the Security Treaty - it has offered millions of Hong Kong citizens to settle in Britain. Other European nations, such as Germany, will not be able to do without their close trade ties with China. American policymakers, however, expect a minimum level of agreement from all Europeans on issues such as the fate of

the Uighurs, how to deal with Hong Kong, intellectual property protection, and freer access to the Chinese market.

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Mr. von Elten has decades of experience in the banking industry. Since 2008 he has been a member of the advisory board of BSZ AG, which took over IFP AG in 2014 and thus became Belvoir Capital AG. He enjoyed an international career at JP Morgan for close to 30 years. He returned to Switzerland as General Manager of Schroder & Co Bank AG from 1995 to 2003. Furthermore, Mr. von Elten's passion is art; he is a co-founder of the gallery Elten & Elten.

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