The World Economy: Seeking New Impetus in the New Normal

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The world economy has not been really resuscitated though years have passed since the global financial crisis in 2008. The same is true of 2015's economy—the annual growth rate fails the average expectation and is lower than the 2014's. Growing at a medium and slow rate, the world economy has come to a new normal, which situation requires new push to drive the world economy to a new phase.

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The New Normal

The world economy is expected to grow at the rate of 3.1% in 2015. The next few years will see no strong growth of 4% and no possible big crises. This is the new normal for the world economy, mediocre but less risky. In addition to the slow growth, the new normal economy includes other features as followings.

First, the emerging economies will contribute less to the world economy while acquiring larger portions. The new economies are slowing down in 2015. And the slowing varies from regions and nations. Asia and the Middle East see no remarkable slumps while the CIS and Latin America's economy plummet sharply. Russia and Brazil are the examples of the emerging economies. The two economies are shrinking and the growth rates are negative, as a consequence of decreased commodity price and unfruitful national economic reform. A slowed growth rate means limited contribution to the world economy. For example, China, the spokesman of the emerging economies, makes a contribution of 30% to the world economy, smaller than the previous years. Though the emerging countries give a not-that-good performance, their growth rates still double their developed counterparts and their economy has surpassed the developed countries last year. Thus, the emerging countries will hold a growing portion of the world economy.

Second, some developed economies are recovering from the crisis and realize moderate growth. Compared with the slowing-down emerging economies, developed ones are slightly speeding up in their 2015 economic growth. Europe and Japan show a growing momentum. This benefits from the super easing monetary policy and depreciating-oriented exchange rate policy. Besides, the falling price of commodity plays an positive part in the Europe's and Japan's recovery. Though

2015 has not see a strong growth of America's economy, yet its deceased unemployment rate comes to the lowest level since the recession, and the inflation remains restricted. It has a sounder economic foundation than Europe and Japan. The Fed is considering raising the interest rate at the end of the year and bids a farewell to the quantitative easing policy. This bodes well for American recovery. In a word, after bitter and prolonged "de-risk" struggles, the developed economies have come to a stability—a period of low increase, low inflation and low risk, during which new growing momentums are accumulating.

Third, the commodity is at a low price, which, however, is not good to all economies. The commodity price plummeted in 2014, such as the price of oil, gold, iron ore, silver, copper and coal. And the prices remain at a low rate in 2015. It is estimated that the commodity price will fluctuate at a low level. This can be attributed to four factors: First, demand. The world economy lacks growth momentums, and thus demands fewer commodities. Second, supply. An influx of capital surged in commodity market in prosperous times and resulted in excess capacity, forcing the price to fall at the supply end. Third, American dollar is appreciating in 2015, leading the dollar-measured commodity price to fall. Fourth, technology advances. The technology advances, especially the one of shale oil gas, increase the output of energy resources by leaps and bounds. The falling of the commodity price casts a pall to the commodity-dependent economies, but stimulates the consumption of the commodity importers.

Fourth, while the world trade is recovering at a low pace, the global direct investment is rebounding. In 2015, the world trade is developing with a mere increase of 3.4%, fractionally higher than the years before but still lower than the figures before the financial crisis. This can be partly attributed to the falling of commodity price, but more to the weak demands from the major economies. The depressed figures of the world trade indicates that the external demand is still tightly restrained, which is adverse to the world economy. Compared with the slow trade recovery, the global direct investment is rocketing, with an over 10% increase in 2015 on year-on-year basis. This implies that the global investors are getting back confidence. The developed economies give a more stable performance and thus attract more investment. Proportionally, the emerging economies hold a smaller percentage of foreign direct investment.

Fifth, the China-America "dual-core" structure is further set up in the world economy. Though arguments are kept going on over whether the economy should be measured by the exchange rate or by the purchasing power parity, it is an irreversible trend that China and America are the largest unrivaled economies and the gap with the rest economies is being widening. Though China's economy is slowing down, its total amount and its relatively fast increase of 6.9% help it remain the biggest engine for the world economy. Besides, with a stable and moderate development, America has become the second largest engine for the world economy. In the new normal, the world economy will not come across big challenges as long as China and America continue to develop.

Seeking New Impetus for Growth

The post-depression world economy benefits from two aspects. On one hand, economies such as America, Europe and Japan carry out the quantitative easing monetary policy. The influx of cheap capital enlivens the sluggish international financial system, contributing to the moderate recovery of the world economy. On the other hand, the emerging economies, represented by China, are developing fast and inject vitality to the world economy. However, these two factors now demonstrate instability. America is expected to raise the interest rate. Despite the quantitative easing policy pursued by Europe and Japan, austerity will be the trend for global capital. China's economic growth has been geared from the fast to the medium fast, with correspondingly less contribution to the world economy. In this new normal, the world economy has to seek new strong impetus. Where does the impetus come from?

First, the major economies continue to reinforce the domestic structure reform with the aim to enlarge output. The financial crisis strikes the alarm that the major economies should further the reform and all the countries are on the way. Some countries have yielded positive results, some are still working on it while some suffer regression. The reform is directly reflected by the nation's economy. Countries like Britain and India are turning well since the powerful reform by the new government. However, countries like Brazil, Russia and the Middle East, who heavily rely on resource export, have got into troubles since the commodity price plummeted. The economy does not boom up in Obama's second term—lack of reform impetus, limited with market elasticity and partially dysfunctional. China's new government is committed to reform and carry out a number of significant methods. However, reform lies in cracking the nut and the achievements take time to be illustrated. So the reform benefits will be reaped later on. Generally, the major economies have all come to a new phase of reform and the impetus will be continued through deep reform and structure updating.

Second, economic globalization shall be furthered. The pre-crisis global prosperity benefits a lot from the economic globalization. By offering more chances, globalization conduces to the global market. The post-crisis world trade has yet to come up with the pre-crisis one. Thus, globalization with the core index of international trade has been hindered, which is showcased by the underachievement of the Doha round of trade talks. Economies expect to propel the trade liberalization and international trade through regional trade agreement. The TPP Agreement was basically achieved in October, 2015, which can be deemed as the most significant progress in this course. If the super free-trade agreements could all be carried out and connected, it is also an ideal alternative to globalization. Of course, risk exists. It is reminded to avoid the exclusive regional free-trade agreement controlled by certain great powers under the name of rules and regulation and with the aim of segmenting the world trade connections. All the economies should get the global view and promote the economic globalization to a new hight.

Third, it is better to tackle the geopolitical crisis and hedge against the geopolitical risk. The world economy entails a peaceful and stable international environment. At present, there is no breeding ground for global conflict. So the key step lies in keeping away geopolitical risk. Ukrainian crisis is worsening and the Middle East is still trapped in warfare. These geopolitical crises should never be underestimated. If these two risks lose their control, it will impair the stable European economy and the world energy resource, and even the global financial system. In addition, refugee turbulence will be triggered off by other countries' domestic and regional political conflicts, which will in its turn waste more economic and political cost.

Fourth, the impetus comes from international economic coordination and cooperation. Compared with the situation at the beginning and the end of the financial crisis, the major economies now take less initiative of cooperation and the influence of the macro-economic policies begin to wane down in terms of cooperation. For all kinds of reasons, G20's influence is dented over adjusting international powers and propelling multilateral cooperation and global consensus. The external economic policies of the major economies are made according to their own situations. The short-term economic and financial fluctuations in 2015 are partly due to the big adjustment and modification of the economic policies. And among them, the Fed's decision on whether and when to raise the interest rate tops all the influence of the policy adjustment. To tackle the Fed's interest rate raising, other economies and international markets should take precautions by initiative or by force. And the disturbance stirred up in the international financial market does harm to some countries. The fact that the world economy is recovering slowly reminds all economies to take into consideration the extensive influence of the policies and make clear the directions of their policies. Besides, the fact tells the economies to improve macro-economic cooperation, boost economic confidence and enthusiasm. All these measures are targeted at a better growth of the world economy.

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