

## **With Davos in Full Swing, How Likely Are We To See Leaders Cooperate?**

***Vicky Pryce***

With the great and the good gathering in Davos again, the relative lack of snow must at least focus all on the task ahead. Yes, much of the discussions are taken up by the war in Ukraine but delegates also know that a lot of work is needed to overcome the doom and gloom that seems to be affecting participants. Chinese data just released suggests that despite a better 4<sup>th</sup> quarter growth in China than anticipated, the economy slowed down markedly in 2022 as a whole to just 3%. There are also worries about future growth trends as the Chinese population has also started to shrink despite the reversal in 2015 of its 'one child' policy. Slower growth in China of course affects the many countries in Asia which trade with China and increases concerns about supply chain issues as the country now struggles with the spread of Covid after its abandonment of its zero-covid policy at the turn of the year.

An Edelman survey of confidence just published found that optimism has fallen across the developed world. PWC just produced a survey showing that CEOs' confidence in their own companies' growth prospects appears to have dropped to the lowest levels since the financial crisis.

The Global Economic Outlook produced by The World Economic Forum (WEF) itself, which convenes these annual events showed that two thirds of the leading economists they surveyed were forecasting a global recession for 2023. Ken Rogoff, the IMF's previous ex-chief economist and now Professor at Harvard has warned in a open Davos interview of the likelihood of what look like synchronised interest rate increases by central bankers, that could lead to another financial sector crisis due to the sharp rise in public and corporate debt during Covid when monetary and fiscal conditions were relaxed to deal with the crisis. And those fears are real as Philip Lane, the ECB's Chief Economist, reiterated that further interest rate increases are on their way to combat inflation, which is still way above target. And this despite the improvement in the inflationary environment that we have seen over the last couple of months as energy prices weakened. European gas prices have fallen to their lowest levels in 16 months, reflecting less demand from China, milder weather in Europe and accumulation of large gas stockpiles.

The lower price trend should nevertheless give some relief to struggling consumers whose pay remains well below inflation. Latest data from the UK for the three months to November showed that real pay fell by 2.6% year on year in the three months to November despite wages overall, including bonuses, creeping up to show a rise by 6.4% for both regular and total pay, including bonuses. But in strike-hit Britain the latest figures also confirm the continued gap between private pay, up 7.2%, and public pay- up by just 3.3% in nominal terms on a year earlier.

With uncertainty therefore continuing, the WEF slogan this year is 'Cooperation in a fragmented world'. Geopolitical tensions are inevitably high up on the agenda. But economic issues still abound with areas such as energy security and prices and climate change financing remaining main concerns as are the diverging fortunes of different regions with extrapressures on the poorer, less developed nations.

But though progress towards dealing with climate change is one of the areas of focus of this year's Davos forum, the steps so far are creating tensions between regions. The EU is increasingly expressing its concerns about the recently passed US \$396b Inflation Reduction Act, which is offering subsidies to green investments and manufacture undertaken in the US itself. The aim is to ensure that in the long run there is not only greater energy self reliance, but also to encourage and investment in alternative energy sources and greater innovation and a move to greener production

processes. But this is increasingly being viewed by the EU as a protectionist measure which can only lead, unless the WTO intervenes, to serious trade and investment tensions and encourage competitive subsidies being introduced in different regions. The EU is already suggesting a tweaking of its own state-aid rules to ensure that the region does not lose all investment in green technology to the US or China. This has been a theme already brought up in Davos by the EU President, Ursula van der Leyen and various EU leaders.

Still – an interesting time for the meeting of the Forum to be held. Whatever one thinks of its overall effectiveness in the past, one can only hope that instead of fragmentation we in fact see more efforts for cooperation this time around..

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