The Economist INTELLIGENCE UNIT

Top five risks to the global economy in 2020

A report by The Economist Intelligence Unit

The Economist INTELLIGENCE UNIT

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The year 2019 was a difficult one for the global economy, as geopolitical uncertainty and a slowing Chinese economy combined to trigger a global manufacturing downturn. With some luck and monetary stimulus, The Economist Intelligence Unit previously expected global growth to be marginally faster in 2020. However, renewed geopolitical uncertainty (tensions between the US and Iran flared up again in January), coupled with the emergence of a novel coronavirus in China, will limit any pick-up in business confidence and investment, and the balance of risks to the outlook appears firmly tilted to the downside. Meanwhile, the social unrest seen across the world in 2019 looks set to continue in 2020, challenging both policymakers and business models.

Global growth is forecast to be 2.9% in 2020, close to decade lows. We expect economic growth in the developed world to slow in 2020, driven by a moderation in US growth. Meanwhile, the emergence of a novel coronavirus in China will dampen Asia's growth perspectives. In the rest of the emerging world, we expect only a modest recovery from a torrid 2019, including in Latin America, the Middle East and Sub-Saharan Africa.

This growth outlook is supported by continued ultra-loose monetary policy among the world's major central banks. This will cushion demand in developed markets and limit the financial pressures that some heavily indebted emerging-market economies might otherwise face. However, ultra-loose monetary policy also represents a risk, as it may trigger new debt crises in emerging markets. Potential hotspots include Brazil, which has cleared the major hurdle of pension reform; Turkey, where the recent stabilisation in the currency is supporting a stabilisation in the wider economy; and South Africa, where energy shortages are widespread. Most importantly, the trade truce between the US and China remains fragile, and a flare-up in tensions between the world's two economic superpowers cannot be excluded. Against this backdrop, policymakers and businesses should prepare for further volatility in 2020.

In the latest edition of this report, we offer a snapshot of our risk-quantification abilities by identifying and assessing the top five risks to the global political and economic order. Each of the risks is outlined and rated in terms of its likelihood on the global economy. We also provide operational risk analysis on a country-by-country basis for 180 countries through our Risk Briefing, and detailed credit risk assessments on 131 countries via our Country Risk Service. Together, these products enable our clients to anticipate and plan for the main threats to their organisations, supply chains and sovereign creditors. We offer robust risk modelling, scenario analysis and daily events scanning for the threats and opportunities that abound in today's global economy.

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1. US-Iran conflict leads to a spike in global oil prices

Likelihood: 25%

The US's assassination on January 3rd of Qassem Suleimani, the veteran commander of the elite Quds Force of Iran's Islamic Revolutionary Guards Corps, marked a dramatic and dangerous escalation of the tensions between the US and Iran.

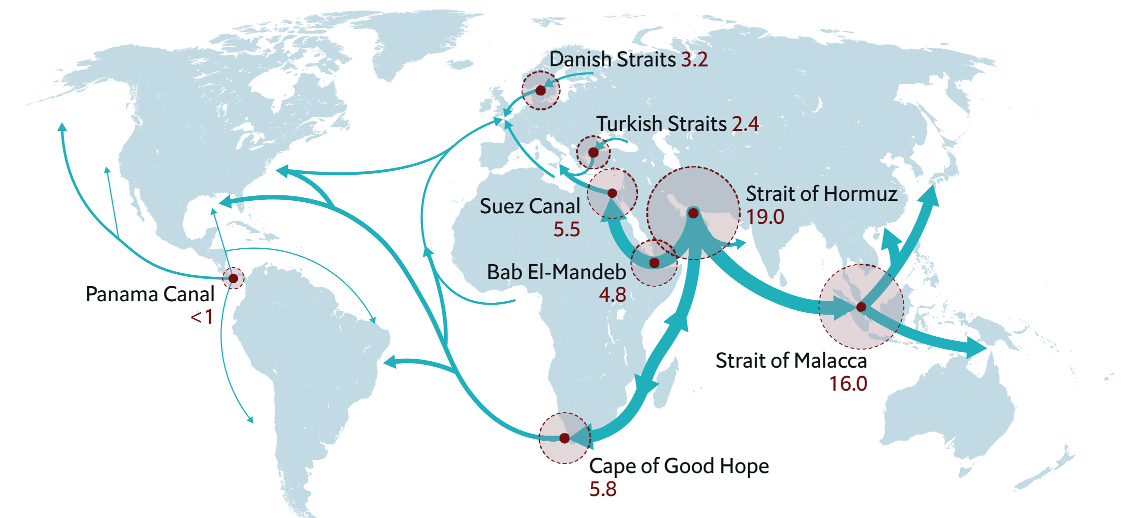
Both the US government and its Gulf allies want to avoid a conflict that could trigger a destabilising spike in oil prices, and Iran does not have the military or financial means to wage a war against the US. However, tensions between the two sides are very high, complicating communication. Furthermore, there is a high risk that Iran will launch targeted attacks against US interests in the Middle East in the coming months; such attacks are likely to take place in countries where the US and Iran support different sides or factions, such as Yemen, Lebanon, Syria and Iraq. Cyber-attacks (from both sides) are also a distinct possibility. The US or one of its allies, such as Israel, could cripple Iranian nuclear facilities or institutions through the use of computer viruses. Iran also has the capacity to wage cyber-attacks against US companies; the financial and energy sectors appear the most sensitive, given the importance that companies in these fields have to the US economy.

As a result, the risk of an unintended slide into an escalating military conflict cannot be ruled out. The Economist Intelligence Unit estimates that there is a 25% chance that the US and Iran will be dragged into a direct, conventional war, which would have devastating consequences for the global economy. In particular, in this scenario there is a distinct possibility that the Strait of Hormuz (through which about 20% of global oil supplies transit) could be closed for an extended period of time. Although the US and Russia have the capacity to ramp up oil production to avoid a temporary supply shock, a prolonged disruption to oil supplies could cause oil prices to rise to as much as US$90/barrel, fuelling a rise in global inflation and dampening consumer and business sentiment.

Dire straits

Main oil shipping routes and chokepoints

Transport volumes, million barrels per day, 2016



Source: EIA, The Economist Intelligence Unit.

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2. A trade war breaks out between the US and the EU

Likelihood: 25%

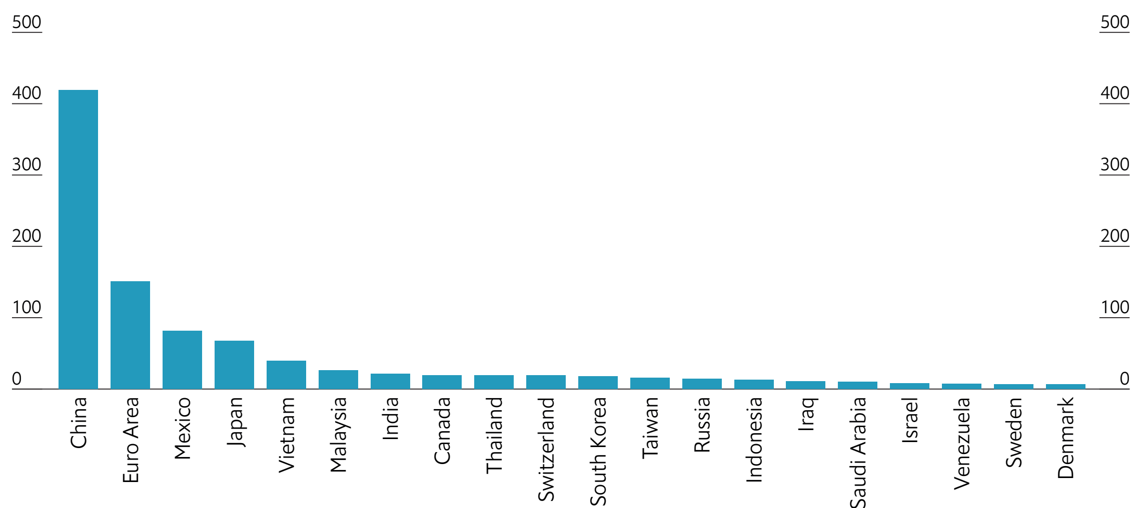
EU-US trade relations have been under strain since mid-2018, when the US government launched a Section 232 investigation into the national security implications of imports of foreign-made cars and car parts and threatened to raise tariffs on European auto imports by 25%. Although the US appears to have withdrawn the threat, tensions persist on a number of fronts. In October the US imposed tariffs on a range of EU goods, following investigations into the EU's provision of subsidies to Airbus. The US has also threatened additional tariffs on France over its digital-services tax. Finally, the EU's new Green Deal will also prove to be a contentious topic for US-EU trade relations.

EU-US tensions will rise further this year, as the recent completion of a first-phase US-China trade deal causes the US's attention to shift back to the EU's trade surplus with the US, and the EU's position becomes more assertive with a new Commission in place. As a result, a further escalation in tariffs involving the US and EU auto industries cannot be ruled out. In addition, progress on trade talks will remain frustratingly slow, with the EU particularly unlikely to give significant ground on agriculture. The temptation to raise the stakes will therefore be high. Finally, although a truce seems to have been agreed between France and the US, US retaliatory tariffs against France's digital-services tax (which mainly targets big US tech companies) are a distinct possibility.

Any of these disputes could spark a damaging trade war between the US and the EU. If the US does impose tariffs on EU auto imports, the impact on the EU economy, the world's second largest, would be severe: the auto industry accounts for about 6% of total jobs in the EU, and beyond the immediate impact from lower exports to the US and third countries, there would be a sharp hit to business confidence in core EU countries. The EU would be forced to retaliate, raising the risk of a global trade war as third countries are forced to choose sides. The impact on the global economy would also be severe, as global growth would slow, inflation would rise, and consumer and business sentiment would drop.

US bilateral trade deficits, 2018

(US$ bn)



Source: International Monetary Fund, The Economist Intelligence Unit.

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3. Coronavirus takes a lasting toll on the global economy

Likelihood: 20%

The 2019 novel coronavirus epidemic that broke out in Wuhan, the capital of China's Hubei province, in December 2019 has so far claimed around 2,000 lives and spread across the globe. After an initially slow response, the Chinese authorities have placed Hubei province on lock-down, significantly restricting a region that is crucially important to national and international supply chains. Economic activity in other regions, including Beijing and Shanghai, has also been disrupted by quarantine measures and reduced domestic demand for goods and services. In addition, travel restrictions have had a significant impact on the consumption of travel and tourism services within China and abroad.

The global economic impact of the coronavirus outbreak is set to be more profound than that of severe acute respiratory syndrome (SARS), a similar virus that spread from China in 2003, owing to the much larger role that China plays in the global economy today. However, much depends on the duration of the disruption. Our baseline scenario, based on a range of assessments by medical professionals, is that the public health emergency within China will be under control by end-March. At this point the government will lift quarantine measures and economic activity will normalise. We assume that the Chinese government will also implement strong fiscal and monetary stimulus to engineer a recovery in economic expansion, resulting in a rebound in growth in the second half of the year, both in China and worldwide.

We assess a 20% probability that the virus will not be contained in China until mid-2020, and a 5% chance that it will remain uncontained beyond 2020. In the latter worst-case scenario, the economic impact would be much deeper and more persistent. Disruption of international trade would become entrenched as supply chains are diverted from China, with some countries possibly placing heavy restrictions on bilateral trade. US-China trade tensions would be more likely to re-escalate, particularly if China proves unwilling or unable to deliver the import commitments agreed under the recent first-phase limited trade deal. A growing number of international exporters would experience financial distress, as a persistent shortfall in Chinese demand depresses commodity prices and export revenues. An ongoing public health crisis would also be a threat to political and financial stability within China itself. If the government's perceived legitimacy and reputation for competence came under serious threat, it would be likely to respond with enhanced social control measures. At the same time, if the government's use of loose monetary and fiscal policies to stimulate the economy is prolonged into 2021 and beyond, it would renew concerns about China's large private-debt stock and long-term financial stability.

Taking into account the direct impact of weaker demand in China, as well as potential economic disruption in other countries should the coronavirus outbreak spread further globally, our forecast for global real GDP growth could dip below 2.5% this year.

Projected economic impact of coronavirus (2019-nCoV)

Scenario	Date by which the coronavirus outbreak comes under control within China	Probability	China's real GDP growth, 2020 (%)
Optimistic	End-February	25%	5.7
Baseline	End-March	50%	5.4
Pessimistic	End-June	20%	4.5
Nightmare	The outbreak is not contained in 2020.	5%	<4.5

Source: The Economist Intelligence Unit.

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4. Debt burdens cause a recession across emerging markets

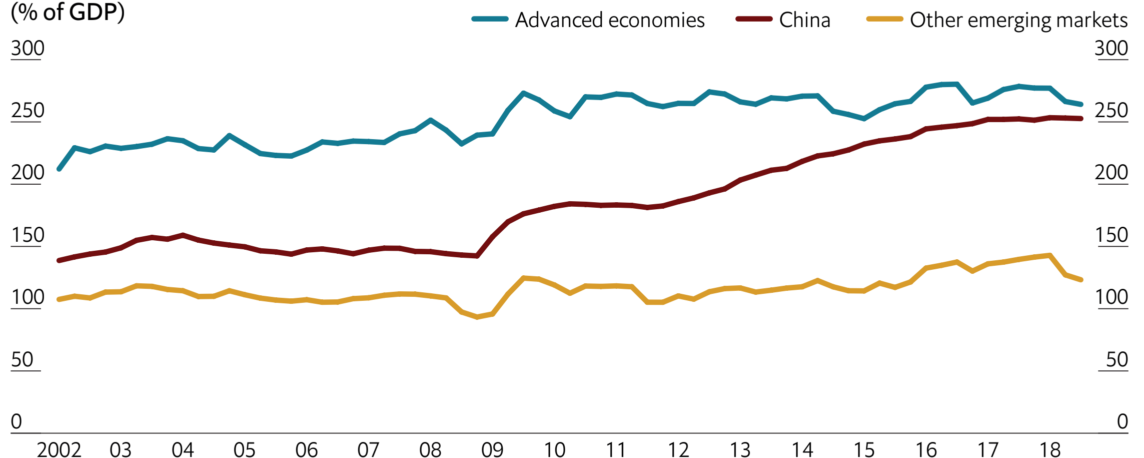
Likelihood: 20%

A decade of low interest rates has caused global debt levels to rise, particularly in many emerging markets, where external debt levels are now significantly higher than in 2009. In developed economies, households have reduced their debt burdens, but this has been facilitated by an increase in public borrowing. The level and risk profile of corporate debt has also risen, particularly in the US. As a result, global growth prospects have become more vulnerable to a change in financial conditions, such as changes in US interest rates or financial market risk appetite, which could rapidly translate to higher funding costs for indebted countries. This occurred in 2018, when rising US interest rates and a strengthening US dollar against other currencies caused widespread currency volatility among emerging markets, triggering currency crises and severe recessions in Turkey and Argentina.

Since then, the renewed shift towards monetary easing by the Federal Reserve (Fed, the US central bank), the European Central Bank and other major central banks has given indebted corporations and governments some breathing space. However, they remain vulnerable to a sudden and unexpected deterioration in market conditions, such as a sharp decline in commodity export prices or a significant chilling in global risk sentiment, both of which could trigger a flight to safety by lenders. Furthermore, the risk of a renewed rise in global interest rates has not disappeared. Anti-establishment political pressures have led to a shift away from fiscal austerity in a number of advanced economies, including the US and the UK. Even in the EU fiscal policy has begun to ease. Should this dynamic continue to gain momentum, monetary policy in developed markets could tighten sooner than financial markets currently expect, leading to a repeat of 2018 as the cost of debt picks up globally and capital flows out of riskier emerging markets.

In these scenarios, fragile economies that have recently seen a stabilisation in their currencies, such as Turkey and Argentina, could rapidly fall back into crisis, and new crises could emerge, particularly in countries hoping for bilateral support from China or regional powers. Across a wider range of emerging markets spending would be cut back, potentially tipping large parts of the world into recession.

Credit to the non-financial sector



Sources: Bank for International Settlements, Haver, The Economist Intelligence Unit.

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5. Hong Kong protests cause an exodus from Asia's biggest financial centre

Likelihood: 15%

Since June 2019 Hong Kong has been rocked by serious social unrest. This was prompted initially by the local government's attempt to pass reforms to the territory's extradition laws, which would have allowed local residents to be extradited to mainland China. However, the demonstrations have since become a broader expression of discontent with the local political system and its leadership.

There is a distinct chance that protests could flare up again this year, if existing civil rights are seen to be under threat over the longer term. This could occur around the elections for the Legislative Council (Legco, Hong Kong's parliament) scheduled for September 2020, if the government moves to block additional members of the localist camp, which favours greater autonomy or even independence for Hong Kong, from standing. Protesters will also be watching for, and hoping to pre-empt, social control measures being rolled out in the mainland, including a broader application of technology such as facial recognition and blockchain in public services and social management.

If tensions continue to rise, there is a risk that the Chinese government could respond to persistent unrest and mounting pro-independence sentiment in Hong Kong by suspending the one-country-two-systems mode of governance that allows the territory to enjoy wide-ranging autonomy. Such a path is possible under Article 18 of the Basic Law—the territory's mini constitution—which allows the application of "relevant national laws" in Hong Kong in the event of a state of turmoil that is beyond the control of the territory's government. Escalating unrest could lead to the deployment of the People's Liberation Army from the mainland, raising the possibility of casualties.

Either of these scenarios would cause serious and sudden economic dislocation, and threaten Hong Kong's status as the world's third-most important financial centre. They would result in a swift departure of the foreign talent that lubricates Hong Kong's economy and prompt many, possibly most, foreign businesses in Hong Kong to close or relocate to other Asian cities, such as Singapore, Tokyo, Taipei or Bangkok. In addition, political pressure to impose sanctions on China would make it much more difficult for the US and China to maintain trade talks and could lead to a sharp rise in tensions between China and the West.

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Asia business environment rankings, 2020-24

Regional rank	Global rank (out of 82 countries)	Country	Score (out of ten, with ten highest score)
1	1	Singapore	8.6
2	5	New Zealand	8.4
3	6	Australia	8.4
4	10	Hong Kong	8.3
5	18	Taiwan	7.9
6	22	Japan	7.7
7	26	Malaysia	7.5
8	27	South Korea	7.4
9	38	Thailand	6.8
10	54	Indonesia	6.1
11	55	Vietnam	6.1
12	56	China	6.1
13	57	Philippines	6
14	59	India	5.9
15	68	Sri Lanka	5.4
16	73	Bangladesh	5
17	76	Pakistan	4.3

Source: The Economist Intelligence Unit.

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At the centre of the service sits a risk model that assesses a country's overall business operating risk. It combines our renowned political and economic analysis with new material covering the business conditions on the ground. The resulting scores allow us to rank countries by operating risk.

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- Scenarios for risk sub-categories providing analysis of the current situation in a particular country
- Regular events-driven coverage affecting our assessment of operating risk
- One model across all countries enabling quick and easy comparison

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Country Risk Model is a customisable model designed to measure and compare credit risk across countries. It is the model which our analysts use to rate the 131 countries covered by our Country Risk Service. The model is an ideal tool for analysing country credit risk, as an input into your in-house risk assessment process, or to benchmark your own country risk assessments.

Country Risk Model includes:

- A wide range of monthly and quarterly macroeconomic data
- Ratings and data which can be easily compared across countries over time
- Regular updates to ensure deteriorating trends are caught early

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