

World Economic Forum

## Geopolitical risks overshadow economic optimism in Davos

World Economic Forum discussions focus on wars in Gaza and Ukraine, and prospect of another Trump presidency

Sam Fleming in Davos JANUARY 17 2024

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Ebullient financial markets. Better than expected economic growth. Rising optimism that the worst inflationary upsurge in decades has finally been vanquished.

The economic backdrop to this week's Davos meetings was far more promising than many anticipated a year ago. But if the tone of discussions at the [World Economic Forum](#) is anything to go by, nobody is ready to celebrate.

Even if big economies led by the US are heading for a "soft landing" in the wake of brutal interest rate increases, that story is being drowned out by rising anxiety about the myriad geopolitical risks that are looming in 2024 and casting a haze of uncertainty over policymaking.

Wars are raging in Europe and the Middle East, with the latter conflict leading to the mass diversion of shipping around southern Africa, raising corporate input costs and potentially inflation.

At the same time, eight of the 10 most populous countries in the world are holding elections this year, heralding a period of acute political volatility.

The most consequential of these is arguably the US presidential election in November. Donald Trump's [victory in the Iowa caucuses](#) on the first day of the WEF rekindled concerns that the White House could be retaken by a president with scant regard for traditional US alliances or a rules-based international system that is already under threat.



Donald Trump's strong showing in Iowa deepened concerns about a worsening stand-off between the US and China © Reuters

“The economic mood ought to be lifting right now, because if you look around the world the US seems to be doing better than anticipated and China seems to be stabilising,” said Eswar Prasad, a professor at Cornell University and former senior IMF official. Instead, “a pervasive sense of doom seems to be settling in on the geopolitical front”, he said.

The anxiety is in some ways surprising given the [global economy](#) has weathered the inflation shock far better than many expected when delegates last gathered in the Swiss mountains.

In its latest outlook, for example, the IMF pencilled in growth of 2.1 per cent for the US in 2023, more than double the rate it was predicting a year earlier. It also upgraded its estimate of global growth for 2023 to 3 per cent, predicting a similar pace of expansion in 2024.

There has been “a lot of resilience in the economy despite the rate hikes we’ve seen”, said Gita Gopinath, first deputy managing director of the IMF in a session on Tuesday, pointing out that the effects of 75 per cent of the US rate increases have already been felt.

François Villeroy de Galhau, governor of the French central bank, insisted the job of vanquishing inflation was not complete. But he added: “Interest rate tightening has been quite successful so far, and more successful than we expected in Davos say one year ago. What we can see on both sides of the Atlantic is something like a soft landing.”

Nevertheless, the pervading mood among delegates has focused on the impact a multitude of geopolitical risks could have on economic policy.

European Commission president Ursula von der Leyen was far from unusual in setting a pessimistic tone, saying the world had entered an era of “conflict and confrontation, of fragmentation and fear”. She added: “There is no doubt we face the greatest risk to the global order in the postwar era.”

The war in Ukraine remained top of many minds, as President Volodymyr Zelenskyy warned delegates that Russia’s Vladimir Putin had ambitions for conquest that extended beyond Ukraine.



Ukrainian President Volodymyr Zelenskyy with European Commission president Ursula von der Leyen at the WEF in Davos on Tuesday © POOL/AFP/Getty Images

This was twinned with discussions of the potential for the conflict between Israel and Hamas in Gaza to escalate dangerously, potentially triggering fresh price shocks and disruptions.

“The whole topic [of geopolitical disruptions] is really getting complex,” said Beat Simon, chief commercial officer of logistics at DP World, one of the largest container terminal operators, who warned rising shipping costs combined with potentially higher oil prices could fuel inflation.

While the Red Sea crisis [involving Yemen-based Houthi rebels](#) was the latest problem, other corners of the world risked seeing trade disruptions because of interstate tensions, including in the South China Sea amid strains over Taiwan, added Simon. The impact of climate change was visible on the Panama Canal, another trade chokepoint, where traffic had been disrupted due to a severe drought.

Alongside this is the continued shift away from the long postwar period of steadily increasing globalisation, as countries prioritise national security and resilience over economic efficiency, and traditional methods of co-operation break down.

A survey of 30 chief economists conducted by the WEF ahead of the meetings showed almost 70 per cent fear the pace of geoeconomic fragmentation will accelerate this year.

Addressing the meetings, Chinese premier Li Qiang warned of what he described as a “trust deficit” among nations, adding: “If the rules are set by certain or a few countries, then we have to put quotation marks on the multilateralism because it will still be unilateralism in nature.”



Chinese premier Li Qiang at Davos on Tuesday © Gian Ehrenzeller/EPA-EFE/Shutterstock

Given Trump’s vow to double down on his “America First” policies, including a possible 10 per cent tariff and an aggressive decoupling from China, the former president’s strong showing in Iowa only deepened concerns about a worsening stand-off between the world’s two biggest economies.

The world was looking at the US election in November with “great apprehension” given the outcome could worsen geopolitical fractures, said Prasad, damping confidence and thus business investment. “There is a sense that the multilateral order is breaking down . . . That could bring a lot more conflict and volatility.”

*Additional reporting by Anne-Sylvaine Chassany in Davos*

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