

## **Dark Clouds Shrouding World Economy**

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Just when the 20th century is ending in just a few days, ominous, dark clouds have begun to shroud the prospects of the world economy.

Up until the summer the world's economic outlook had looked bright for the most part. Most economists at the time thought that the U.S. economy, with its financial policy in good hands, would make a soft landing to a sustainable annual growth of about 3.5 percent after being guided downward to ward off inflationary pressures. Many also were confident that although U.S. stock prices would undergo an adjustment phase after years of remarkable rises, the adjustment would remain within reasonable limits, and a free-fall would not occur.

For its part, the Japanese economy in the summer had just begun to see encouraging signs of an upturn at long last. Corporate profits were markedly improving thanks to growth in exports, while corporate capital spending was steadily rising. Hopes were thus increasing that the uptrend in corporate performance would spill over before long to households and boost before long the sluggish recovery in personal spending. On the international front, the economies of East Asia were rapidly getting up steam after the 1997-98 economic crises. In China, consumption began to turn upward because of Beijing's steps to stimulate business.

And in Indonesia, it appeared that the political situation would stabilize, though slowly. In Europe, business prospects in Germany and France were revised upward, with the jobless rates in both countries falling below 10 percent for the first time in a long time. Meanwhile, the value of euro started to rebound against the dollar. Rays of hope seemed to be shining on the world economy as the new century approached.

### **U.S. economy in jeopardy**

But less than six months later, it now seems that dark clouds, large and small, have begun to emerge over the horizon of the world economy. The world economy more heavily depends on the U.S. economy now than it has in the past five decades. A slowdown expected for the U.S. economy in and after the turn of the century, therefore, is an issue of worldwide concern. Indeed, there are signs that the U.S. economy is not decelerating as smoothly as expected. Because of the collapse of the high-tech business boom in the United States, Nasdaq stock prices have fallen by half from their peak levels. Subsequently, it has become clear that the other U.S. stocks have entered an adjustment phase. Under the circumstances, Federal Reserve Board Chairman Alan Greenspan's savvy — but so far talk-only — comments on possible change of monetary policy by Fed cannot reverse the downturn. The fact that U.S. stock prices have stopped rising, at least for the time being, will certainly have far-reaching repercussions. Among them:

- Stagnation of U.S. personal expenditures that have so far been buttressed by boosts in the market value of financial assets.
- Shrinkage of corporate capital spending.
- Declines in the exchange value of the dollar because of drops in capital inflow from overseas.

In addition, the U.S. current account deficit, which continues to rise, is yet another cause of anxieties. This is because surges in the U.S. deficit will not only increase the danger of a dollar crash but also cause a jump in U.S. imports, which in turn would raise inventories of U.S. manufacturers, thus triggering a recession. At the same time, concerns remain over inflationary pressures on the U.S. economy because of rises in petroleum product prices and labor costs. Furthermore, the chaos involving counting of the U.S. presidential election bal-

lots has resulted in concerns among market players about whether the new U.S. administration can implement effective economic policy to flexibly cope with fast-changing conditions.

In Japan, anxieties have been rapidly mounting that the fragile domestic business recovery may stall. There are no signs at all of personal spending being reactivated. The biggest concern is that it has become clear that consumption has stalled first of all because of people's unease about the future. Such depressing problems as the aging of society, fears of the collapse of pension plans and even the collapse of government finances have been making headlines every day. In the business world, most companies cannot yet afford to increase labor's share of corporate profits. Regarding politics in this country, leaders of the government completely lack trust of the public. And no end can be seen to the problem of corporate liabilities in excess of assets, while bad debts of financial institutions remain serious. On top of these problems, stock prices have been reeling because foreign investors are shunning the Japanese market and more Japanese companies are doing away with the practice of cross-shareholding. Even though the government is keen to trumpet its policy of promoting an IT (information technology) revolution, there can be little hopes for the IT initiative leading to a sustainable growth of the national economy. This is so because businesses in general, which hold the key to success or failure for the IT revolution, are not prepared to embark on competition in real earnest for enhancing their productivity on the strength of IT.

### **Deregulation at stalemate**

Besides, the government's efforts to deregulate business have stalled in spite of the government pledge to accelerate them. Such being the case, the view has been understandably gaining force that hopes that the Japanese economy could underpin the world economy are empty, and that the economy will itself most likely run out of steam in the midst of its current fragile recovery if the economies of the United States and Asian countries slow down.

In other parts of the world, the economies of west European countries, too, have begun to show signs of a slowdown since the beginning of the latter half of the year. European economies are no exception to the adverse effects of higher crude oil prices. The European Union's bid to restore the value of euro has proved unsuccessful. There have been no clear-

cut words from the EU monetary authorities on maintaining the value of euro. The result is that the market has realized that the EU monetary authorities are without any effective weapons to strengthen euro. Even today, many people believe that the euro zone, from a medium-range viewpoint, has quite a strong growth potential. But in reality, the euro zone could not possibly acquire the economic strength in the foreseeable future to serve as a locomotive of the world economy along with the United States.

As for the Asian economies, there is no doubt that they have paused on their way to a full recovery from the 1997-98 economic crises. Fundamentally, the Asian economies' rapid recovery in 1999 was due largely to such factors as rises in their exports thanks to increases in demand worldwide for semiconductors and business-refloating steps taken by their governments despite their ballooning fiscal deficits. Their recovery, therefore, was not the result of any structural reforms for actually enhancing their international competitiveness. What the international market wanted to see while the economies of the East Asian countries were going well because of these external factors was tangible progress in their government endeavors to address all the tasks of impending political, social and economic reforms. Regrettably, the latest developments in the region have demonstrated that these hopes have hardly come true. Corporate restructuring, bad debt disposal and other financial reforms in the region have failed to produce any major accomplishments. Particularly worrying is the fact that almost all the countries in the East Asian region have been afflicted with political unrest in one form or another. This proves that the political setup of each country in the region has remained unchanged despite the experiences of the Asian economic crises. In other words, the current state of affairs in East Asia shows starkly that the introduction of a "free election" system in choosing their political leaders does not necessarily guarantee the realization of a wholesome democracy. The pace of deceleration of the Chinese economy has been slowed at least for this year, but declines in its growth rates are inevitable from a medium- and long-range point of view. A test of decisive significance to the Chinese economy is whether it will be able to tide over pains of structural transformations that will be unavoidable in the next few years as a result of its full-fledged easing of regulations both in terms of international trade and domestic economy. The success or failure of China in tackling this task will determine China's status and role in the international community in the 21st century.

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No optimism can be allowed about the situation in the Middle East, either. Although there is no immediate possibility of the Israeli-Palestinian conflicts developing into a full-scale Mideast war, no prospects are in sight for a peaceful solution to the conflicts. Major causes of the recent crude price hikes were deterioration of a medium-term supply-demand stringency of the oil market and speculative moves of international short-term capital market players. But continued confrontation in the Middle East can by no means be conducive to stabilizing oil prices. Instead it tends to lead to still higher prices.

Instability also goes on in such South American countries such as Argentina, Peru and Colombia. Seeing the current state of affairs in these countries, one cannot help but wonder if there can be any end to the cyclical occurrence of improvements and countervailing deterioration that seems to have been deep-rooted in the continent of South America.

The dark clouds hanging over the world economy, if enumerated, are just as mentioned above. There will naturally be counterarguments, saying that this line of discussion is excessively pessimistic. To be sure, all these dark clouds are not resulting from any single cause. Some of these are attributable to factors relating to business cycles. And some can be linked to bursting of various kinds of economic bubbles, including those of assets and excesses in IT investments, while some others are clearly resulting from the lack of political leadership, or the inability to take proper, necessary policy measures. In other words, the unrest gripping the world economy today does not stem from the same kind of malady. Instead, different parts of the globe have been suffering from problems different from each other. Nevertheless, should the glitches in the different parts of the world be left unheeded and worsen, there would eventually arise a high possibility of the world economy collapsing.

Bearing this in mind, I believe all countries of the world should clarify their respective priority problems that must be addressed on their own.

### **Resuscitate ‘self-help’ spirit**

Under the norm of “globalization” prevalent as the world’s supreme yardstick of conduct, excesses of internationalism tend to give rise to the wrong impression that all major problems should be considered as international ones and therefore should all be dealt with

through international cooperation. What is needed most urgently in today's world, however, is the spirit of self-help, or the resolve of respective countries to settle problems facing them by means of their own effort, I believe.

The U.S. economy has so far maintained its prosperity in disregard of ever-expanding deterioration of deficits in both domestic and external balances of payment by leaving excessive household expenditures and current account deficits as they are. Such a way of running the economy is now nearing its end. The Japanese economy, for that matter, is currently on the brink of collapse because of the fact that both the government and the private sector, for fear of pains accompanying changes, have failed to deal squarely with such key tasks as liquidating loss-making companies, disposal of bad debts and business deregulation. Other countries besides Japan of course have pending problems of their own, and their people must be well aware of the problems.

In an age when a new danger is looming large for the world economy, what is imperative, either in the governmental, corporate or individual levels, is to become aware afresh of the importance of solving problems of one's own by means of one's own effort. The "sharing of information" worldwide that has been made possible thanks to the IT revolution is never the same as "dispersion of the locus of responsibilities." The world economy at the outset of the 21st century will enter an age when the emphasis will have to shift from the concept of the collective responsibilities among nations back to the more basic principle of individual responsibilities.

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