

# COVER LEAD

## Mid-Term Prospects for the Global Economy — Where Is It Heading in the Midst of Structural Change & Geopolitical Crisis?

By Naoyuki Haraoka

We are living in an era of economic transition. This is a worldwide phenomenon. The causes of this transition may vary, depending on region or country, but there are common factors lying in the stream of changes among the nations. One is structural transformation of the economy during the long recession following the global financial crisis in 2008. While the manufacturing sector has been struggling to achieve rationalization and enhanced productivity, the financial sector has been losing its vigor to drive a whole economy. With the rise of the Fourth Industrial Revolution, IT is increasing its weight and influence in the economy and thus services related to computer software are increasing their share in the industrial structure. Though innovation will create new business opportunities, the manufacturing industry does not know yet how to apply those new technologies to business and enhance productivity. Thus, innovation has not yet brought a fruitful outcome.

Meanwhile, the financial crisis has taught us that the market can fail to achieve the best resource allocation, contrary to what standard economic textbooks tell us. Most governments today are trying to replace market functions to raise their economic growth rate, still considered the best barometer of a national economy's performance. So-called growth strategy has become a common economic policy these days all over the world, though not necessarily having been so successful anywhere. Whether successful or not, governments will need to pursue a growth strategy in spite of the growing risks, both internal and external.

Internal risks relate to domestic politics, stemming from expanding income inequality and the serious gaps in views on public policies. External risks come from the rising geopolitical conflicts among nations. Their causes vary and, as is represented by North Korea, they are dependent upon a region or a country's specific historical background. However, we may largely say that geopolitical risks today could be increased by the great convergence of national powers in the world through IT. With IT, some emerging economies, like the BRICS nations, could become industrially competitive by acquiring ideas fully mobilized on the Internet and combining them with their cheap labor costs, as is described in Professor Richard Baldwin's book *The Great Convergence*. The reduced gap in national

economic power between the BRICS and the G7 countries could become a cause of geopolitical conflicts between the two.

Our Jan./Feb. 2018 issue highlights such a possible transition period and where the global economy or regional economies are heading at the beginning of 2018.

Anatole Kaletsky, partner and co-chairman of Gavekal Research Ltd. and a columnist for Reuters and the *International Herald Tribune*, discusses the general direction in which the global economy is heading in an interview article. Following this, we have a lineup of commentators on a particular region or country. Eric D. Lundell, president and CEO at International Technology and Trade Associates, Inc. (ITTA), a business consulting company, offers his outlook on the US economy. Rudra Prosad Roy and Dr. Saikat Sinha Roy, former ADB economists, talk about the Asian economy's most serious impediments to growth: income inequality and structural change. Yan Zhu, a Chinese economist living in Japan, shares his views on the mid-term perspective of the Chinese economy. Then, Dr. Daniel Gros, a European expert on economy and finance, talks about the EU economy's prospects in an interview, followed by Dr. Reinilde Veugelers, another distinguished European economist, who introduces the European "New Industrial Policy". Kazumasa Oguro, a longtime member of our Editorial Committee, then talks about the most crucial part of "Abenomics": the question of public financial debt management.

We then have five insightful articles focusing on the implications of US President Donald Trump's economic and foreign policies for the US and the rest of the world, which seem to have provoked a variety of reactions and arguments.

They begin with Dr. Constantine A. Pagedas, a political analyst, commenting on US foreign policy, followed by my own article attempting to give readers a succinct summary of the impact of US economic policies on American business. We then have three experts' views on the impact of US policies on the Asia-Pacific area in articles by Dr. Feiteng Zhong, a Chinese political scientist, Gary Hawke, a New Zealand trade policy analyst, and Dr. Gilberto Llanto, a Philippine think tank president.

I hope all of you enjoy reading them and think about our future beyond 2018.

### COVER STORY 1

*Interview with Anatole Kaletsky, Partner & co-Chairman of Gavekal Research Ltd.*

## In the Midst of Geopolitical Turmoil, an In-Depth Look at Trends in the Global Economy Could Lead to a New Capitalism

By Japan SPOTLIGHT

Robust global economic recovery will continue for the next few years, while we are looking for a new relationship between regulation and market forces in the long run.

## COVER STORY 2

Interview with Eric D. Lundell, President & CEO of ITTA, Inc.

### Issues of the US Economy Under the Trump Administration

By Japan SPOTLIGHT

The US economy is in good shape today and will continue to grow at around 2%, which can be considered robust. Under the new FRB chairman, monetary policy will be conducted in a prudent manner, which lowers concerns about inflation, but income inequality remains a big challenge to the US economy.

## COVER STORY 3

### Structural Change & Inequality: Evidence from Asia

By Rudra Prosad Roy and Saikat Sinha Roy

Evidence from Asia shows that structural transformation of the economy would increase income inequality, proving that structural reform is not an easy task.

## COVER STORY 4

### The Mid-Term Outlook for the Chinese Economy

By Yan Zhu

Though the Chinese economy is currently in a slowdown phase and in the mid term is saddled with various structural issues that could hamper growth, positive growth factors will work well and eventually it could achieve 5-7% economic growth in the mid term.

## COVER STORY 5

Interview with Dr. Daniel Gros, Director of the Centre for European Policy Studies

### Prospects for the EU Economy & Economic Policy

By Japan SPOTLIGHT

The economic recovery of the EU is stable and consistent and will continue for another couple of years. The main risks will be “local political” risks and very little prospect of deep structural reforms.

## COVER STORY 6

### Manufacturing a New Future

By Reinhilde Veugelers

In order to raise European growth potential, a “New Industrial Policy” is to be adopted to promote structural reforms and attract the high value-added activities of new manufacturing.

## COVER STORY 7

### The Current State of Japanese Public Finance & Its

## Relationship with the Bank of Japan

By Kazumasa Oguro

If we consider the government and BOJ as being a unit, it is important to understand that even if the BOJ owned government bonds, the integrated debt cost basically does not change.

## COVER STORY 8

### Ugly American Diplomacy: Donald Trump & the Art of the Deal

By Constantine A. Pagedas

US foreign policy today is failing at the pivotal moment when China appears to be stepping up and winning a public relations battle, as many countries begin to second-guess Washington and turn toward Beijing for global leadership.

## COVER STORY 9

### “America First” Policy & Its Effects on US Business

By Naoyuki Haraoka

As is symbolized in the US auto industry’s opposition to NAFTA renegotiation, the “America First” policy could have a negative effect upon US business.

## COVER STORY 10

### “America First” & the Future of the Asia-Pacific Regional Order

By Feiteng Zhong

If the world is entering a new era without US leadership, Asian countries themselves should take the initiative to design a new architecture based on regional realities.

## COVER STORY 11

### Consequences of US Policies for Asia-Pacific

By Gary Hawke

Current US policies, including security and trade policy with the focus on “bilateral” deals, are not consistent with Asia-Pacific objectives. Asia has to proceed without US participation until US policies are changed.

## COVER STORY 12

### Implications of Donald Trump’s Protectionist Policies for ASEAN

By Gilberto Llanto

A rebounding US economy is good news for countries that have close links with the US. But the protectionist policies taken by the current US government will weaken global growth prospects and in the end all countries will lose.

Naoyuki Haraoka is editor-in-chief of *Japan SPOTLIGHT* & executive managing director of the Japan Economic Foundation (JEF).