

# World Economy Facing Risk of Recession with Deepening Geopolitical Crisis

By Naoyuki Haraoka



Concerns about a global recession are spreading. Energy and food prices have been pushed up by the continuing Russia-Ukraine war. How long this inflation continues will depend on how long the war continues. We should not underestimate the remaining impact of the large scale of fiscal expenditures that all national governments have been engaged in since the beginning of the coronavirus pandemic. This would also push demand-pull inflation. While concerns about business declines remain due to the pandemic, most national governments, in particular most of the OECD nations, had no option but to take a tightened monetary policy instead of cutting fiscal expenditures to contain inflation. However, mature economies need to be cautious about tightening monetary policy too much, since their economies are vulnerable to recessions caused by inflation, namely stagflation. Their productivity growth cannot absorb enough pressure for price increases and their effective demand growth would be more affected by inflation. Thus to cope with the risk of stagflation, they would face a difficult choice of macropolicy. Loose monetary policy is in general a solution for inflation, but a too tight monetary policy would discourage a weak economy and fiscal


policy may not have enough room for expansion with the increased debts brought about by the countermeasures against the pandemic.

A good solution would be to end the war as quickly as possible and eliminate the cost-push inflationary pressure. But the recent geopolitical situation may not make this happen soon.

The Roundtable at the top of the list in this issue covers the world economic outlook, noting especially how energy policy has been strongly affected by geopolitics. Today's lesson for economists is that they need to learn more about politics instead of econometrics.

The distinguished economist, Dr. Dennis Snower, in the article that follows, considers the learning of geopolitics important to resolve economic issues today. To find consistent solutions for economy and geopolitics, he thinks restoring global governance would be a key. Consistent solutions for economic efficiency and economic security can be achieved only by restored global governance, and so he has high expectations of the G7 meeting in Hiroshima in 2023.

What makes it difficult today to achieve consistency between economic efficiency and economic security is that globalization has become



weaponized, as political scientist Prof. Henry Farrell at Johns Hopkins University discusses in his article. Interdependency among economies, a key concept of globalization, has been considered positive for the world economy, as mutual economic interdependency could be turned into win-win relations. But now with increased geopolitical conflicts, it could be weaponized in a way that allows a certain country to menace others depending upon it for certain key resources or products, and to enforce them to do what it wants them to do by indicating the possibility of refusing to supply them.

Looking at Asia, we have ADB economist Dr. Abdul Abiad's excellent analysis of the Asian economy with its strength and risks. Overall, though the Asian economy has outstanding potential, it is not immune to the risks of geopolitical crises.

Dr. Celine Pajon, an analyst on Asia at IFRI, a French think-tank on foreign relations, talks about the possible role of Japan to mitigate geopolitical risks in Asia, namely working as the center of an Indo-Pacific alliance. Lastly, we have a more pessimistic view of the Chinese economy by Dr. Ho-fung Hung at Johns Hopkins University.

This is a brief introduction to the cover story of this issue. Overall, the year 2023 will be a challenging one for the global economy, and probably the following few years too. We must keep our courage to get through it.

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