JUNG SUNG-CHUN

Vice President, Department of International Macroeconomics & Finance, Korea Institute for International Economic Policy (KIEP)

Richard COOPER

Mr Jung.

JUNG Sung-Chun

Thank you very much for inviting me to this very excellent conference, and it is my honor to be with these excellent speakers and professor. Today, I would like to talk about the status quo and some downside risks of the world economy. In the first part, I will review the current economic developments in major countries for our discussion, and in the second part, I will talk about some cross-cutting, downside risk factors for the global economy. As you know, and as IMF forecasted, the global economy is obviously recovering recently, but I think it has not made a complete recovery from the 2008 global economy crisis yet. It is still suffering from a weak economic activity, but from the beginning of this year, the world economy started to show some different landscapes.

Let us look at the US economy. The US economy seems to have entered a cyclically new phase. The US Fed is expected to raise its policy rate once again within this year, and has already announced that it would get the “balance sheet normalisation programme” started from October this year, and we project the US economy to grow at 2.1% in 2018. It is a little bit higher than this year’s growth rate. The driving force of the US economy is – I think – the strong pick-up in private consumption and investment, based on the improving labour market, and a weak dollar. Thanks to the weak dollar, the US exports to other countries have recovered. However, there are two main downside risks for the United States. The first one is the policy uncertainty under the Trump administration. For example, yesterday, the Trump administration announced a new tax cut programme. If the tax cut programme actually is implemented, then that action will have a big impact on the long-term interest rate, and the US dollar exchange rates. There is still a lot of uncertainty surrounding the Trump administration’s economic policy.

The second downside risk is – as you know – the normalisation of the monetary policy. Yesterday, President Trump nominated Jerome Powell for the next Fed chair, and maybe he will still maintain the monetary policy stance in the coming years, but there remains still a lot of uncertainty surrounding the monetary policy in the United States.

The Eurozone is also picking up this year, and the inflation rate of the Eurozone has moved to around 1.5%, which is closer to the 2% target, but the unemployment rate is still very high. It remains at 9.1% in recent months. A record low, still, for the past eight years. The increase in growth in 2017 reflects an acceleration in exports, and a continued strength in domestic demand, but there are still downside risks. The first is the Brexit negotiation, and the second is the weak growth in real wage. The real wage growth is weak in the European economies, and that is, I think, the main barrier to the active recovery of the European economies.

For Japan, we see a very similar economic recovery process, but the Japanese economy has the same problem of a weak growth in real wage. This is, I think, the main reason why we cannot anticipate the longer-term economic recovery in Japan.

For China, we still expect a very high level of economic growth next year: 6.7%, a little bit lower than this year’s expected growth rate of 6.8%, but I think the Chinese economy’s biggest problem is that it is a debt-fuelled economy, so I think the issue should be addressed if the sustainable economic growth is to be maintained for the longer term, in the future.

We expect economic recovery in some large emerging economies, especially in Russia and Brazil. These economies have suffered from recession for the last three years due to the drastic fall in oil, gas, and other commodity prices.

These economies are, however, showing an upturn recently. This trend is expected to continue in the next year, but the problem in these economies is that they are too dependent on oil, gas, and other commodities, so they need to diversify their economy strongly.

I will briefly mention the cross-cutting potential negative factors for the global economy. The first factor is – as already mentioned – inward-looking protectionism in the advanced economies. This is a very big problem for many countries; for example, South Korea is facing a very big problem with the US, because the US government asks for renegotiation of the Korea-US FTA. It is a big issue in South Korea, so I think we have to be careful with the proliferation of the inward-looking protectionism in advanced economies.

The second risk factor is– as I mentioned – the very weak real wage growth in advanced economies, especially in the European countries, and in Japan. It is a big problem for those two big economies, and lower inflation rate is also a very big problem. A lower inflation rate tends to lead to weaker consumer confidence, weaker business confidence, so the world economy has not succeeded yet in completely ending the deflation mindset, which is very, very prevalent in many advanced economies.

Finally, I would like to mention the changes in international financial conditions. The US Fed has already begun to raise its policy rate, and there is a mood of tapering in the European Central Banks. There are many emerging economies propelled by capital inflow from the advanced economies. Debt-fuelled emerging economies, I think, should normalise their balance sheet before accommodative financial conditions are ended. This is a very big policy task for the emerging economies. Thank you.

Richard COOPER

Thank you very much.