World Knowledge Forum 2013

Global Economic Outlook 2014

On October 17, 2013 at the World Knowledge Forum in Seoul, Harvard Professor Gregory Mankiw kicked off the opening panel comprised of six notable economic minds, offering a humble and refreshing take on the task set before all of them.

"If the Great Depression were around the corner, we wouldn't know it," he said.

Nevertheless, Abe Shuhei, owner of Japanese hedge fund, Sparx, Korea University Professor of Economics, Lee Jong-Wha, George Washington University Professor of Economics, Danny Leipziger, and notable economists from Japan and China, Kaszumasa Iwata and Fan Gang, strove to guide attendees through the uncertainty awaiting in 2014.

With China and the United States taking center stage, Dr. Mankiw took to the side of relative optimism calming fears of hyperinflation that could result from what had been deemed unconventional monetary policy.

"With inevitable tapering to come, the Federal Reserve could exit this huge expansion by using a new tool of raising interest rates on the accumulated reserves and keeping it in the banking system. This would help prevent broad inflationary pressure overall," he said.

While such tapering would still be dependent on U.S. economic data, Dr. Mankiw added that policy actions would be focused mostly on the U.S., with little care for the rest of the world.

Mr. Fan iterated that any U.S. policies would force emerging economies to prepare for overreactions amidst the aftermath, especially with Dr. Lee's diagnosis of the overall health of emerging markets. "My views on the outlook are less optimistic than the IMF's due to risks and uncertainties coming from all over the world."

"It will not be very easy and smooth for the U.S. to unwind its policies, and so it is the responsibility for other countries to combat the negative spillovers," Dr. Lee added, stating that this had already led to panicking market reactions and losses in asset value after the initial announcement of tapering earlier this year.

Adding to the negative forecast, Dr. Leipziger mentioned the overall lack of coordination among world economic institutions. "We haven't seen the IMF stepping up to the plate," he said. "Because of the short-termism of policymakers who are under stress and not equipped with optimal instruments, this has led to unintended consequences of huge capital inflows and outflows."

Mr. Shuhei proclaimed a relative end to Japan's deflationary spiral that had choked growth out of the island state over the last two decades. "Now is the time for Japan," he said. Citing the buildup of cash reserves among individuals as well as corporations, these liquidity stores could help bring Japan back to its glory when properly invested over the next decade.

Dr. Leipziger ,while not exactly disagreeing, quipped, "Japanese grandmothers don't buy new refrigerators," implying the limits of growth unless reforms encouraging women to enter and stay in the labor force were implemented.

As the other economic powerhouse under scrutiny for its relatively declining growth rate, Dr. Fan noted that current media focus on local debt problems in China had missed the issue by a couple of years. When the growth rate was higher in 2010, it was the Chinese government who stepped in and addressed them. "In the short term," he said, "the Chinese economy is manageable and as a developing country you always grow with those problems. Without growth, you die."

Dr. Mankiw added to his earlier optimism by citing one fact that had not gained as much publicity in recent times. "Rapid growth in China has brought more people out of poverty than anything in human history. If you really care about the world's poor, you should be applauding China's growth," he stated.

One thing was clear among all the panelists. Short-term fixes would only stem the decline of the global economy, so a return to longterm planning would be necessary. Such sentiment was best coined by Mr. Shuhei, "The markets will grow to excess, but reality must catch up with it."