The Global Economy Rebounds—
But How Fast and For How Long?
Issues and Implications for Korea and Asia[*]

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When we were last together, not too many people were optimistic on Korea. But I certainly was. Also at that time, I said the only way you could be optimistic about Japan was if you looked at the charts upside down. Well, it's nice to be back with so many old friends and to have this chance to exchange ideas with you about what is going on.

Of course a lot of the good things that are going on in the world economy are a result of very difficult decisions that people made. That's one of the reasons why I was so optimistic on Korea when we met previously, about one year ago. I think that it wasn't easy for you in this country. Everyone knows it's not over because you can never rest on your laurels. There's always a big agenda and if you don't keep moving on it, it just gets bigger and bigger. But Korea made some really difficult reforms, in a sense embracing the crisis. It made the difficult changes. Go back and just think about the changes over the last few years. Those changes are now starting to bear fruit. And as long as the world economy can stay on track in the years ahead, I think next year Korea will gain and show very, very strong performance.

So it is against that background that I would like to share some ideas about how I see things in the North American economy, how I see things in the European economy, and what I see going on this region. I will try to think through some of the implications for Korea, some of the implications for markets, and the perspectives we have for the next 12~18 months.

Broadly, obviously, the world economy looks like it has bottomed. Even in Europe it looks like it has bottomed. Consumer sentiment has remained fairly strong, in spite of what has been going on. In a lot of sectors now—globally,

[*] A presentation given at the Distinguished Lecture Forum on May 7, 2002

not just in North America—we're starting to see the first month-after-month increases in investment. This is important because up until now there was a great concern that investment would not click back into gear.

I would argue that the dynamics of the situation remain extremely fragile and that we really don't have many opportunities out there to make a lot of mistakes. But with what's in the pipeline at the moment, if everything else was the "normal" economic environment, we would get some pretty strong growth globally. For example, take the United States. Short-term interest rates are 73% lower than they were a year ago at this time. We have had a fairly aggressive fiscal policy. The tax cuts, in retrospect, came in at the right time. It wasn't just the U.S. cut backs. The Canadians were ahead of the U.S. The Australians were also ahead of the U.S. And those economies are bouncing back very quickly.

You've had then, of course, after September, the further fiscal stimulus that came with that. You've had a very big expansion of liquidity going into last Fall, which of course helped stabilize things. You have inventories today that, relative to GDP, are at a record low. So even if we only got an "average" rebound in inventory over the next 12 months, that alone could give the U.S. close to 2% growth. Inventories last year were down US$ 110 billion. So if they only went up this year, say, US$ 65~70 billion, an average first year increase given that inventories have been coming down for three years, that switch, from –110 to +65~70, would give you close to 2% growth.

When you put that together you realize that when consumption really clicks back into gear, once employment peaks and starts coming down, once corporations are confident enough to start investing, with everything else being equal, it would give you, say, 5% growth. We aren't going to get 5~6% growth because there's a lot of other things that are going on at the moment. One of the other things that is going on is that we have a boom in capital investment such that today, in many sectors, we have large amounts of excess capacity. Companies are carrying large loads of debt. The bond market is already concerned about the reversal of public finances that has been so quick we could go back to a situation we saw in the early '80s.

As you look at the bond market at the moment, what you see is a very steep yield curve. That steep yield curve is not announcing 6% growth. The steep yield curve is announcing that the market does, of course, discount the growth that is coming, and it's also very concerned about the leverage in the corporate sector, the leverage in the household sector, the refinancing boom with interest rates have come down to ¾~1%. This was really the boom that got the economy off the ground. This meant the household sector has levered itself up even further. The savings rate has continued to be problematic. So the market's worried about that.

The markets are of course also worried about the risk factor in the corporate sector because of the high levels of debt. Those high levels of debt are particularly problematic in the tech and telecom sectors. Ten year junk bonds are what a lot of second, third and fourth tier telecoms use to finance themselves: high yield securities. And if you look at the spread between the ten year index for high yield securities and ten year U.S. government bonds, it's currently running at around 6.8%. That's down dramatically from where it was in September. On Sept. 28 it was up to 9.82%. But still, what does that mean? If a ten year bond is around 5%, and on top of that you have to add 6.75~6.8% premium, you're paying from 12%, to 13%, to 14% for ten year money.

If you're in those tech sectors where you have not a lot of growth, it means that you're paying for that type of money, with no growth, which means you don't get money. Much of the second, third, fourth tier tech sector—we saw again that tech stocks were hit heavily again overnight on the NASDAQ—are using up the last portions of the funny money that they raised during the stock market bubble. So, if you don't a lot of growth over the next 12~18 months, and if no new drivers of growth come up for the high tech sectors, obviously there's going to be an increase in bankruptcies in that sector. An increase in bankruptcies will come back to bother the banking sector with an increase in non-performing and problematic loans. That's why the banking sector is also currently under pressure on the stock market and on the funding side.

In a paradoxical sense, in order to bring those spreads down, we need strong growth. That is one of the very big equations out there. Together with

that, the question in the tech sector is are we looking at cyclical problems or structural problems, or indeed are we looking at both. Certainly, there is a cyclical downturn. I don't there will be much debate about that. The question now is whether there is something more broadly happening in the high tech sectors, or at least the high tech sectors that have driven technology over the past decade.

Let me ask you: how many more people in this room are going to buy another mobile phone over the next 18 months? How many people in this room are going to buy another personal computer over the next 12~18 months? I think that's the situation. They are the two things that have been driving the mass tech market over the last few years: everything related to computers and everything related to handsets and mobile communications.

So what really happened in 1998, 1999 and early 2000 is that demand peaked in those sectors. For example, 72% of Europeans have mobile phones. In Japan, 62% already have cell phones. Can it go to 70%? In the U.S., 51% have mobile phones. You know the numbers for Korea.

The same goes for personal computers. People say that China has only 12% penetration in mobile phones, but how many Chinese are going to have mobile phones? Twenty percent? Certainly not 70%, or at least not at current prices.

So you had a huge increase in capacity in those sectors at the very moment when demand peaked. For those sectors, unless 3G really takes off or unless there's some really compelling reason to buy a new personal computer, software, and peripherals, the new demand in those sectors, at least for a while, is going to be replacement demand. So growth is going to be slow, so valuations on the stock market are still high in those sectors. That's one set of issues that is terribly pre-occupying for the bond market, for the stock market, and of course something that is weighing heavily on the economy. It is part of the reason why we're not going to get very strong 5% growth for the rest of the year, and why growth will moderate somewhat from the first quarter.

Secondly, the forces that have been driving the rebound so far are

forces that we can't really repeat. We can't cut interest rates another 73% over the next 12 months. We will have maybe more fiscal stimulus, but with the elections coming up, its unlikely that anything will happen on that front over the next 12 months. We will rebuild inventories this year. In fact, it is very interesting: inventories came down further in the first quarter. So that is going to give us even more support on the inventory side next year. But that, too, is also just a one time effect. You don't rebuild inventories twice.

So it's really important that by late this year, the investment story click back into place. It's only with the investment story clicking back into gear that we will then see a steady decline in unemployment and a rise in wages. Then the consumer, who has been strong all the way through this, could then click into gear to start spending increasing amounts of money. If that could happen, then instead of sputtering toward the end of the year, the U.S. economy will actually stabilize and accelerate through 2003.

If that is the global scenario, then the difficulties occurring in Europe and Japan become much less problematic when looking at the global outlook. If we look at Europe, what we see is a set of economies that have been running 6~8 months behind the U.S. through this entire cycle. That hasn't changed. Europe is still running 6~8 months behind the U.S. We're seeing today the first signs that Europe is starting to turn up. In comparison, though, the forecasts for Europe are very modern. People are looking for 0.7%~0.8% growth for Germany, for example. Not much more for France. I think you will get a little better growth, but my overall forecast for Europe is 1.2% growth this year.

Europe is not doing very much to get anything more than that. That's problematic because if you think beyond the short-term, Europe doesn't seem to be doing a lot to address the structural issues that would allow it to get more growth in the future.

The European engine is one that is not going to fire on many cylinders for the rest of this year, or even, say, into next year. You had the president of the European Central Bank saying that even in a good year, Europe should only expect 2.5% growth. He said that in 2000 when Europe got higher growth it was an exception, an aberration. With Europe now well engaged in the debate

of structural reform, that debate continues but the reforms don't seem to be coming. It's only with deep structural reforms that Europe can start to release stronger levels of productivity and stronger levels of growth.

If you look mid-term at Europe, there are problems with demographics, and at the cost and the difficulties involved with enlarging the European Community. It's also having difficulties with getting the big countries to respect the debt levels that were established at the Maastricht agreement. When you put all that together, and I know there's optimism in the market over the past few days about the euro, but I just wonder how much growth we can expect from Europe. My view is that the EU should be pretty realistic about what's coming.

If I turn to Japan, in a sense we can be very simple about Japan. What are the key characteristics? Number one, the country is carrying a Himalaya of debt. The government looks like this year it will end up this year with an on balance sheet debt of 140%~143% of GDP. The government says it's capping its debt at 6.5% of GDP for the next four years. So you do the numbers. These aren't numbers that I've dreamed up or that Goldman Sachs has invented. We're using the government's numbers.

The one thing you can't do is criticize the Japanese government for ever having underestimated its debt. So 6.5% times three, four, five, plus 140%, that puts you near 170% of GDP. That's before you recapitalize the banks. We all know the banks will have to be recapitalized, even though the FSA is saying that there is no problem. In contrast, the central bank is saying that there's a big problem. Recently the FSA and other people in the Japanese government have actually been talking about the irresponsible report to be republished by the IMF, which has to tell you that the IMF is going to use numbers bigger than those the government is publishing. So I don't know.

Mr. O'Neill says that the bad debt in Japan that will have to be taken over by the government equals 30% of GDP. Let's say O'Neill's wrong. Let's say it's only 20%, which is 2~2.5 times smaller than some people think it is. So when you add 20% plus 170%, you can see very easily how the Japanese government, on the basis of it's current forecast, plus a very conservative

estimate of what the bad debt in the bank sector is that has to be taken over, you have a debt load that, on balance sheet, is going to be close to 200% of GDP.

Then the prime minister keeps going around saying that if you think the financial condition of the private sector financial institutions is difficult, it's much better than the government's financial institutions, for which there's no transparency. You've got an off balance sheet set of claims that the government last year said was 150% of GDP, but the prime minister says, basically, don't believe those numbers, and I don't think many people do. If you also factor in total bank loans to the household and private sector that are running at about 132% of GNP, along with other forms of corporate debt which are just over 50% of GDP, the on and off balance sheet claims—household, corporate and public sector in Japan—probably run at some 5~6 times GDP.

I don't think we've ever seen an economy that has had that much debt. You know what it is to be over-levered when you think of where the top 30 companies in Korea were going into 1997. That is the first equation in Japan: a Himalaya of debt.

The second element of the equation is that the economy is deflating. Officially, we are deflating in Japan at around 1.4%~1.5%. That is only the official numbers though. The Federal Reserve publicly—Greenspan has talked a lot about this—and the Bank of Japan privately both accept that they underestimate price declines by at least 1% due to technological innovation. For example, the computer you bought two years ago was, say, US$ 2'000. You can buy the same computer today for US$ 899, but it's three times faster. You cannot capture that in the price indices. So that would suggest here discounting in Japan by at least 2.5%.

In addition, the price discount does not include discounting at the point of sale. In my firm, for example, we won't buy anything unless we get a discount. But it's not just firms either. The other day I was visiting our Tokyo offices. It has to be the most expensive neighborhood in the world, and I go down to the ground floor to buy some hair tonic. I've been buying this stuff for about ten years, so you can see it's not efficient. I actually used to have hair.

Anyway, it cost JP¥ 2'000 for a tiny little bottle. I said to the lady this is really expensive. She shrugged her shoulders and said this was Tokyo. I told her that in New York I could buy the same hair tonic at half the price, and get three times more. So when she was ringing up the bill she said that instead of JP¥ 2'000, she'd sell two bottles to me at JP¥ 1'600 each.

That 20% discount is not reflected in any price index. I think that privately people in the government estimate that extra deflation to be between 1%~1.5%. So you're deflating in Japan at something like 3.5%~4%. That's a big number. That's a very big number. The official number is 1.5%, but because that number is so big, in every other speech the prime minister—and in every speech the minister of economics—talks about deflation and about how to deal with it.

So you have a Himalaya of debt coming down, and you're underlying economic activity is in the structure of deflation, so you got some pretty big problems, particularly when your banks have bad debt for which they can't provision. This is increasing faster than the legacy bad debt they're provisioning for. The amount of bad debt is increasing. Of course it's a definition game to figure out what is the bad debt, how much is a bad debt, and we'll never know how much is the bad debt. It really doesn't matter if you get it down to the fourth decimal place.

Again, if we just take the government's numbers, though it does not admit to there being a problem, the government does say that there are about US$ 1.5 trillion worth of troubled loans. These are loans that people took out in the past and have trouble making good on. Seventy three percent of the loans that are outstanding are unserviceable. We're only talking here about commercial loans, not loans in the household sector. That is riding at 70%, 80% or 90%, depending on who's talking. It would actually be some work to figure out the portion of those that are unserviceable.

Let's just stick with commercial debt. When you're running a commercial debt book, you will likely have to right off US$ 1.2 trillion. But the banks only have provisions for US$ 432 billion. So all of your first year capital, can't cover it. Banks are already falling short some US$ 40 billion per year before taxes are

provided for. Even if they save every yen they earn for the next 12~14 years and keep that money for provisions, they still would have difficulty provisioning their current situation, as described by the FSA. By any mathematics you want to do, sooner or later—and it's better to do it sooner—the government is going to have to pay. There is no money in the bank. Central bank reserves were close to zero at one point in Korea in December of 1997, so you know what this is like. You don't have any choice when that happens. You could say that one of the problems Japan has had in the 1990s and still today is that it has been too rich. They have been able to avoid their debt.

On top of this, the low interest rates are a tax on people who save their money, subsidizing the economy, and changing the actual funding costs. Some companies are still borrowing money. But if they had to pay higher rates, they wouldn't survive. The whole system is unhealthy, but it's going to continue. In fact this year we're even going to have a rebound, Dr. SaKong was saying. Exports were up 40% last month. We've got a cyclical upturn.

So that's the broad outlook. Even growth in Europe. A pretty good upturn for the U.S. The unemployment numbers last week were at 6%. Corporations at the CEO level still don't feel that growth is back, so it will be some time in coming. If you can believe the optimists, growth is on the way. Europe, as I said, will stay even. I'm a little more optimistic than most people, and it will probably gain 1%~1.2% growth this year. Japan, I could see it coming back to just a little bit above zero, say 0.1% growth, for the year. That's a pretty good background of the world.

Now we come to emerging markets in East Asia and what's going on here. Well, good year, bad year. Whether you like what's going on politically or not in China, the reforms continue. Reforms continue very, very aggressively. I'm involved with some of the big restructurings in China, and it's amazing the determination of the political leadership to move ahead. But surprisingly it's also the pragmatism of the people in companies that are being restructured. China is also trying to deal with its financial sector. These difficult supply side reforms that are happening in China are releasing the huge amounts of productivity increases. The huge amounts of direct foreign investment that is occurring brings all this together, and it will continue to generate pretty good growth.

China has a very strong, powerful growth cycle at work. Whatever the number happens to be—because there seems to be so much actual debate about Chinese numbers—and adding in the economy that stays underground—people don't like to pay taxes—growth will sit in the 7% range for a while yet.

In East Asia, I was optimistic about your economy last year, and I continue to be optimistic this year. This economy will do well not only this year, but in the next few years as well. Domestic demand is working and the external sector is working. So you have the two engines at work. The Korean economy will be the strongest economy in East Asia for some time, along with China. That is, in a sense, the reward, the payoff for the difficulties and for having addressed the difficulties earlier. Not only are both domestic and external demand working, but though no one talks about it any more, we are in the new economy, in the knowledge economy, and Korea has very aggressively positioned itself to do well in that sector.

Put all together, this is a year when you can be pretty optimistic. When I spoke a year ago, I was only a little optimistic. We have to think through what some of this means in terms of currencies, interest rates and equity markets.

It's difficult for me to see how you could be optimistic on the yen. In fact, if you think of it, with no margin of maneuver left on the fiscal side, and the debt dynamics where they are, and the deflation where it is, it is almost inevitable that the Bank of Japan continue to expand short-term liquidity. Today it is injecting into its current account four times more liquidity on a monthly basis than it was a year ago. Also, the Bank of Japan inevitably will get forced into buying more and more long term assets to inject long term funds into the economy.

You can see that if you look at the announced target purchases of Japanese government bonds, which is today 2.5 times larger than it was when we met a year ago. We think that will continue and accelerate. That can only over time lead to a substantially weaker currency than we have today. It's not going to be a straight line. In fact the yen has corrected since it was at 135, but the broad trend over two, three or four years is a yen at something like 160, 170, 180 to the dollar.

In Europe, if the U.S. can perform as I think it will, and if we can keep these good productivity numbers, all will be well. Our estimates of productivity for the first quarter are a stunning 7.2% up on an annualized rate, and were 5.6% in the fourth quarter. Those are really huge numbers. If we can keep fairly good productivity numbers, then Europe will be in a better position than it is today.

But Europe will only see this growth with flexible labor, and it won't get any growth without reform in the labor market. And it won't do that in an election year. So Europe will likely stay at a mere 1%~2% growth. What will this do to the euro dollar relationship? Well, the euro will probably fall, perhaps as low as 82 cents to the U.S. dollar.

In East Asia, there seem to be two groups of currencies. The one is linked closely to the U.S. dollar. That includes Malaysia, Hong Kong and of course China. The other tends to follow the Japanese yen. For example, the won moves almost in step with the yen. Korea and Japan are dancing, and not stepping on each other's toes. Taiwan, Thailand and Singapore as well all have coefficients with the yen of 0.98, 0.92 or 0.78. So if the yen falls to 160, 170, 180 to the dollar, as I suspect it will, then it opens some very interesting questions for these currencies.

We went through this once. Part of the 1997 crisis was the over leveraging, which Korea experienced sharply. One of the issues was that the yen went from 80 to the U.S. dollar to 147 to the U.S. dollar, and the Korean won didn't follow the same movement. Japan started taking market share in many traditional export goods where Korea had made these huge investments and needed this very strong growth to handle the debt loads.

If the correlations between the yen and some other East Asian currencies hold, as I suspect they will, then we will get to the point when the yen goes down where China will have to figure out what it's going to do. I noticed recently how pragmatic the governor of the central bank of China is. While signing a swap agreement with Japan, he said that the IMF had strongly suggested recently to the People's Bank that they move from a dollar type of

relationship with their currency to a relationship to a basket of currencies, the yen, the euro and the dollar. I saw this as a disguised threat to the Japanese that if they continue to see their debt go lower, China would have to, in effect, devalue.

On paper, if you just look at numbers, if China had a free floating currency today it would get stronger. The Chinese currency is not free floating and I don't think it will be free floating any time soon.

That's the equation that we have in this region. Some people talk about the dollar having gone too high, or they're worried about the U.S. current account deficit, and they have been worrying about those two issues for a decade. I'm just wondering if you couldn't get into a dynamic over the next three to four years and end up with a dollar bubble. You'd get faster growth in the U.S., obviously an increase and a reversal in fiscal policy. Government spending has fallen from its peak in the early '70s of over 50%, down to 22% where it is now. But it looks like it's turned up, as government spending increases.

So who knows? Maybe we do have 2~4 more years of superior, out performance of U.S. capital markets, and return on capital in the U.S. economy, which would continue to suck money into the U.S. as a result. You would then get a weak yen, and that's a big issue to think through. That's the current market view.

In equity markets, the best story in global equity markets over the past year has been Seoul. The emerging markets of East Asia will continue to do well over the next 12 months. Basically, the markets peaked in the mid-'80s, followed by a long down cycle. Now we have a continued up cycle ahead of us. A lot of countries have not reformed as Korea has. If you take Thailand today, in dollar terms their market is still 10%~11% of what it was at its previous peak. So you will continue to see the emerging markets of East Asia do reasonably well and outperform the major indices. As I said earlier, the profit dynamics, as they come to be more widely accepted by the consensus investors in the U.S. over the next few months will also lead to a pretty good and surprising rebound in the U.S. equity market.

Interest rates have bottomed. Though I don't think short-term rates are going up any time soon, at least productivity numbers and the excess capacity and a strongish, rather than a weakish, U.S. dollar, will all help the U.S. The European Central Bank is sleeping, not snoring, which I interpret as meaning they're not going to increase interest rates in the short-term any time soon. There aren't any interest rates that are going any lower soon. Canada, Sweden and New Zealand have already raised rates. As we see the growth coming, long-term interest rates don't have much room to come down. So that's the interest rate picture.

For commodities, to conclude, oil has come down pretty hard over night as Iraq announced the end of its embargo, the embargo that didn't get any support from anyone. The real dynamics of oil are two. One, we haven't invested very much globally in the infrastructure of energy over the last 15 years. In fact, returns on capital in the infrastructure sectors—meaning pipelines, tankers, refineries, etc.—has come down, and there has been a macro shift of capital out of that sector. For example, the U.S. has built only one new refinery in the past 15 years.

If you go back 16~18 months in the world economy, oil prices were at US$ 36 per barrel, California was starting to have problems, and issues were coming up on other horizons. That's not because we can't produce enough oil or gas. It's because we can't get it to market. Eighteen months ago the global tanker fleet was running at 98% capacity. It takes a little time to increase that capacity. So if we do get a couple years of fairly sustained, say 3%, growth, we will see very high energy prices again. I think that's one issue to be watching.

The second issue, when or if there are political developments in the Gulf region, meaning military developments in the Gulf region, that also is going to put some pressure on the energy markets. So if you're looking at oil this morning, you have to ask yourself where it would be if there were no political concerns in the world. Maybe it would be at around US$ 22 per barrel, because there's a political risk premium on top of that. That political risk premium and the economic price driver of oil prices both point to an increase over the next 18 months.

On currencies, perhaps the euro is already overvalued. What's the euro worth on a long term basis? Is it worth 80? Or 120? Zero point eight, or one point two? Probably closer to the higher number than the lower number, and I could see the euro getting weaker this year. These currency rates are driven by big flows and big imbalances in the world. These imbalances could get bigger because as the Japanese authorities bludgeon their central bank to inject more and more liquidity into the economy as the pressure's building over the next few years, I think we'll see a situation where more and more liquidity is leaving Japan. That money, on the whole, will fall in the U.S. market.

So we could end up with a dollar bubble; a real bubble. That would feed on the U.S. bond market, and you'd end up getting lower interest rates than you would normally with the huge flows of money into the U.S. That would spike up the U.S. economy and spike up the U.S. stock market, so you could end up with a dollar bubble and a stock market bubble. It's not going to happen tonight, but longer term maybe that's something we should be looking at. It's driven, essentially, by this inability of the two countries—Japan and the U.S.—to come to term with their issues. The U.S. doesn't save, and Japan doesn't consume.

Questions & Answers

Q: What are your thoughts on the Chinese economy and Chinese growth rates, and how does that effect Korea?

A: I don't know what the Chinese growth rate is. Is it five? Six? Eight percent growth? I would say it's in that range, but I don't know for sure. What I would say is that this country is moving. It's moving with an extraordinary momentum. I think it doesn't really matter if it's 5.5% or 7.5%. In a sense, what really matters is that this enormous giant is moving. Let me also tell you something else: it's almost condemned to grow. It's forced to grow. I once spoke with one of the old leaders in Beijing when the inflation rate was up at 25%, 26%, or 27% in the early '90s. His son arranged a meeting with him, and I asked at one point, after he talked for two hours without letting me get a

word in edgewise, "What's it like to be in the top leadership of a country of 1.3 billion people for as long as you've been?"

I had just given a speech which was not given too much publicity about how they have to bring the inflation rate down. He answered, "Well, it's like you're in a parade of 1.3 billion people. You're in the front row. Everyone behind you is running. Then some smart young foreign economists says, 'Stop the parade. There's too much inflation.' If we stop in the front row, we're dust. They won't stop behind us."

If you think about the problems that China has to deal with—employment problems, reorganizing the state companies, the transition of the financial markets, the creation of a social benefit system, pensions, employment insurance, health care at least for urban china—you see many issues. How do you deal with a country that is going to go from 80% rural ten years ago to, say, 40% rural in 25 years. That would be 500 million people moving into the cities. The only way you can deal with that is have a lot of growth. So my sense is whatever the numbers are, and however courageous we think the Chinese leadership is in making these big reforms, actually they're doing that out of pure necessity.

If they didn't make these huge reforms they would all be part of the garbage can of history. No one really believes in ideology very much any more in that country. Isn't there a Chinese expression that says, "Talk doesn't cook rice?" People want rice, and they want better quality rice everyday. You can talk as much as you want, but if you don't deliver, no matter how strong your apparatus is to control people, it won't work in this environment.

If you listen to some of the Chinese now, they sound so optimistic it sounds a little like some economists from some countries sounded like in the 1970s about the boundless possibilities into the future. Obviously, it's not going to be stable; it's going to be very bouncy. You, in Korea, have a ring side seat to this show. You want to watch this extremely carefully: China is going to become a major exporter in many of sectors where you have been successful exporters in the past. So you're going to have to move up quickly. Finally, we've seen with things like the "Garlic War" that the Chinese negotiate in a very heavy handed way.

When you put that all together, we can see the big picture. But the broader and more interesting issue is that you have all this going on in one country where, effectively, you have a leadership that is embracing the future.

And then in the other big country in the region, you have a leadership that is having trouble coming to terms with the future. It is a real contrast, particularly interesting if you, as Korea, are sitting in the middle.

Q: Dr. Courtis, don’t you feel that American action on steel is a hindrance to the successful processing of the Doha Round of WTO agreements? Won’t this basic protectionist action stop the world from trading more together? And what about the farm protection? Isn’t that anti-trade as well?

A: You got to understand that Bush is elected by American voters. West Virginia, Indiana and Ohio are important. The farm vote is important. On the trade promotion authority, it didn’t get through the house by very much. The White House is having to pay a very high price to get the authority. I think they will get it. But these protectionist measures are part of the price they’re having to pay to get it.

Maybe we will have to look back on this and say it was better to pay that price than to not get TPA at all. That may be the equation. We can’t tell at the moment. That is the equation we have to resolve. It’s not just steel. Canadians have now been hit very hard on the lumber side, which has a direct impact on U.S. housing prices.