# When Growth Falters

**Session:** Session 1

**Date/Time**: April 26, 2016/ 13:00-14:30

**Moderator:** Martin Fackler, Rebuild Japan Initiative Foundation

**Speakers:** Steven Kargman, Kargman Associates

Lee Doowon, Yonsei University

T.J. Pempel, University of California, Berkeley

Zhang Jun, Fudan University

**Session Sketch**

Plenary Session 1, titled "When Growth Falters" discussed whether we are in a new normal in terms of economic dimensions. The idea behind the discussion is that after the global economic downturn of 2008, the world has not seen growth and the period of high economic growth seems to be over. The question is, are we in a new normal of low growth?

The Moderator of the session, Mr. Martin Fackler of Rebuild Japan Initiative Foundation began by providing the overview of the challenges of the global economy.

Mr. Steven Kargman, President of Kargman Associates, began by examining the case of Emerging economies and what the new normal mean for these economies. Major emerging economies including the BRICs are experiencing slower growth and sharp downturns. Countries that have been heavily dependent on China have been hit hard. Oil exporting countries from Venezuela to Gulf countries have seen cut in growth rates. Countries in Latin America, Sub-Saharan Africa are no exception. The net result of plummeting of commodity prices is major financial and economic strains. Thus, the question is what should the emerging economies to in the economic downturn? The emerging economies should use the period of economic slowdown for restructuring and diversifying the economy which would help to lay a solid foundation for the future.

Next, Professor Lee Doowon of Yonsei University noted that the general answer to the question is that we are not yet in the new normal. In Korea for instance, the new normal has not fully materialized. Although Korea has weathered the 2008 global recession fairly well, the question remains whether Korea will follow the path of Japan. The only way we will not follow the path of Japan is to take advantage of the positive side of the Korean economy.

Professor T.J. Pempel from University of California Berkeley stated that it is easy to fetishize economic growth. Rise in GDP does not necessarily indicate a plus, and a fall in GDP does not mean a minus as evidenced by the case of Denmark and Canada. So instead of fetishizing growth, it is important to address the root cause of today's slow growth as a problem of political reluctance and unwillingness to solve the problem. In addition, it is necessary to keep in mind that free market will not magically solve the problem. Sensible balance has to be struck, markets should accommodate creativity, and governments should provide regulations, checks, and safety nets. These political challenges are not easy to address but are necessary to long-term creativity and escaping from the new normal.

Finally, Professor Zhang Jun from Fudan University explained that China is facing a downturn in economic growth reflecting the contraction in demand. In Chinese perspective, the slowing down of the Chinese economy is the New Normal, a natural phenomenon in which China is moving in the next phase of modest growth since the Chinese economy needs readjustments. He adds that China can't afford the conventional policy package and the government is finding new sources of growth. It is part of the reason behind the government's proposal of encouraging new business and service sectors which are domestically focused. This may have lowered the potential rate of growth but it has made a progress in rebalancing the imbalanced structure of the Chinese economy and facilitated the expansion of the service sector.

During the question and answer session, questions were asked whether countries have the toolkit to respond to the economic crisis and the concern that the slowing down of the economy is not due to lack of policies but political unwillingness.

Mr. Steven Kargman and Professor T.J. Pempel responded by saying that the emerging economics have knowledge of the tools but are reluctant to implement it. Structural bottlenecks such as problems of corruption, lack of rule of law often prevent economic growth. Short term political outsight in handling long term problems is another obstacle. Furthermore, trans-border nature of solutions makes it extremely difficult to deal with the fundamental problem. In conclusion, both the emerging economics and developed countries alike have to face the real challenge and address the fundamental problem that their economy faces.