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THE YEAR 2001 : WHAT'S UP PUSSYCAT ?

As stock markets, around the world, continue to stumble and fall, an important source of seed capital is fast drying up.

For the past decade or so, stock markets, and especially the US stock markets, have been supplying the *'fuel'* for the voracious appetites of technology companies, international telecommunication monoliths, and Internet-related entities, most of which have demanded large amounts of cash in order to stave the creditor wolves away from their doors.

It is likely that the global deceleration of economic growth will haunt the world's stock markets for at least one year ... or even longer.

That eventuality is likely to have the knock-on effect of reducing global economic productivity, the main byproduct of the bullish stock markets of the past decade.

The world's major stock markets, from New York, to Tokyo, to the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), to London have been able to satisfy the needs of most entrepreneurs, the world over, with needed venture and operating capital, as well as meeting the cash appetites of companies, engaged in hi-tech industries, companies which require periodic cash injections, during progressive stages of development.

While economic growth continued apace, reaching, ever, for new highs, the lower level of economic growth had to be considered preferable in order that there be a more sustainable growth level, thus guaranteeing a steady stream of *'fuel'* to stoke the economic fires of the future.

The trick was to attain that goal without letting loose the inflationary tigers, ever watchful and waiting for their chances to unfasten their chains and start feeding on the major economies of the world, eroding the growth of the past 2 decades.

The slower growth of liquidity, due in part to belt-tightening on a global basis, is, today, having an important impact on the activities on the world's biggest and most important economies.

The higher costs of fuel oil, experienced for the greater part of the 2000 calendar year, had an immediate and direct effect on all of the world's economies, those strong and those weak, causing multiple negative results.

The rising cost of energy resulted in direct reductions in the purchasing power of the consumer, thus dampening demand for goods and services.

The higher energy costs, also, fanned inflationary flames since the higher operating costs had to be passed on to the consumer, where-ever possible.

Air Canadian airlines, in late December, increased airfares for flights within Continental Canada by about 6 percent.

Such a move may be likened to domestic consumption, attempting to subsidise, in part, exports, by the imposition of a de facto tax on Canadian nationals.

When Japan, some 3 decades ago, first introduced a heavier tax on its nationals with regard to domestic sales of consumer items – cameras, motor cars, electrical home appliances, television sets, mobile telephones, watches and clocks, etc -- the US Government screamed: Unfair trade practices.

Charges of *'dumping'* were laid on Japanese manufacturers, with complaints from some quarters that *'Japan Incorporated'* was selling its manufactured goods at below cost, thus harming US industry and *'stealing'* US jobs, especially in the impoverished south of the United States.

Retaliatory action was considered.

But it was only considered.

As production costs rise, corporate profits fall if the additional production costs cannot be passed on to the consumer. This fact any first-year student of economics learns.

The end result of the above must translate into moderate economic growth, if any, for 2001.

Are The War Drums Beating – Again ?

The Arab States, by increasing the cost of crude oil exports to the West, may well have shot themselves in the proverbial foot.

The increased production costs, in part, at least, caused by decade-high energy prices, could not, completely, be passed on to the consumer and, as a direct result, corporate America saw profits start to fall.

As motor-car and personal computer sales continue to wane, and companies, such as Nortel Networks Corporation, Lucent Technologies Incorporated, Cisco Systems Incorporated, Microsoft Corporation, Fujitsu Corporation, and Sony Corporation, just to mention a handful of 2000 stock-market *'darlings'*, continued to report poorer results for their financial quarters, banks have to be considering (if they have not, already, done so) making provisions for bad and doubtful debts, in addition to the consideration of forgiving part of the interest factor on non-performing loans.

When major international banks, in the first and second quarters of 2001, unleash reduced profit figures for the 2000 year, with suggestions of reduced earnings for 2001, it is more than likely that stock markets will start to hiccough, once again.

In the latter part of 2000, one saw widespread investor disillusionment as companies revised down profit forecasts and investors came to the horrid realisation that their previous expectations had been unrealistic and zealously excessive.

The expected miracles of the year 2000 did not materialise.

Hundreds of billions of dollars were wiped off investor portfolios in a matter of months.

One may expect to see sharp, stock-market corrections in 2001 as the telecommunication *'darlings'*, unable to satisfy their investors' appetites for profits' growth, turn in results that will not delight a whole lot.

Add to this scenario, the very real prospects of Arab and Israeli Jew, having a stand-up shooting war, with the Middle East, becoming a tinderbox of violence, and one may suggest that there could be another bout of disruptions of supplies of crude oil to the West.

More inflationary pressures, leading to more economic interruptions and lower consumer demand, will certainly follow.

If the Middle East can be contained and the Arab and Israeli continue to rattle their respective sabres, while keeping them sheathed, nevertheless, it is unlikely that there will be a cost-price spiral in the Western World – which is good for business.

But one must remember that there, already, has been a great deal of harm done to a number of important sectors of major Western economies due to 3 prime factors: Increased costs of funds; last year's artificially induced higher energy prices; and, the disappointment of investors when popular companies were unable to produce the financial results that they had, in their minds, at least, been promised, by innuendo, mostly.

Asia Still Sluggish

During the 2000 year, despite pumping trillions of dollars into the economy, all the Japanese economic horses and all the Imperial household's political men were unable to boost the Japanese economy, again.

An export-led recovery in the manufacturing sector of the Japanese economy caused a modest pick-up, but that was last year: There are very definitive indications, now, that the export momentum is fading – if it has not, already, faded out of sight.

High unemployment in Japan will hinder consumer spending, domestically, while the banking sector tries to sort itself out, following last year's many corporate failures, the biggest in Japan's history.

While Asia will continue to be important to the West because it is a source of cheap production capabilities, thus enabling the West to keep the lid on inflation, it is likely that emerging markets in Asia will start to feel the pinch in the middle of the 2001 year.

The global impact on reduced consumer spending in the West in respect of Asian-produced electronics, running shoes, computer games, personal computers and a host of other products will start to bite into the economies of a number of countries, with emphasis on such Asian countries as Korea, Taiwan, Japan, the Philippines, the HKSAR, the PRC, proper, Malaysia and Indonesia.

Only the PRC, proper, appears to be somewhat (but not completely, mind you) immune to any major economic, Asian downturn: The hype continues.

The PRC, still, has the biggest potential in Asia, in the intermediate term, due to its size, relatively cheap workforce, cheaper production costs, relative to the West, setting up manufacturing plants in the most populous country in the world, and the PRC Government's stated intentions to lean more and more toward a market economy within a Communistic Regime.

And, to a great extent, this is correct: This country does have one the greatest potentials in Asia, provided that the Politburo does not do anything stupid, like shooting more students in Tiananmen Square.

One has to bear in mind, also, that the PRC will enter the World Trade Organisation (WTO), this year, and this will, no doubt, be another fillip to the PRC's economy.

Whether or not this will trickle down to the HKSAR remains to be seen, but it does stand to reason that that which benefits Beijing, benefits the semi-autonomous zones of the HKSAR and the Macau Special Administrative Region of the PRC, the latter-named, being just 45 minutes away from the HKSAR.

It is a given that most multinationals would prefer to set up shop in the HKSAR in order to keep tabs on what is taking place in the workshops of the PRC, proper, than to establish a physical presence in the PRC where they would have to suffer the bureaucratic machinery of gerontological officials: Once bitten, twice shy.

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