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AND YOU THOUGHT YOU HAD HEARD THE WORST ?

The situation in respect of the US economy, the world's largest single economy, and Japan, the world's second largest economy, continues to deteriorate at, probably, the fastest rate in living memory.

In the US, it is now confirmed that the number of people, who have been sacked in the first 8 months of this year, numbered not less than 1.12 million.

This is about 83 percent higher than the total number of people, who found themselves unemployed in the US, for the entire 2000 year.

In the month of August, the US telecommunications sector unloaded more than 38,088 workers, making this industry, the hardest hit in the world of President George W. Bush.

Up to August 31, 2001, about 212,800 telecommunications workers in the US, representing about 19 percent of the 1.12 million workers, who received their pink slips, were without work, US Government statistics indicate.

It has been many a moon since such statistics graced the US Commerce Department's tables.

To say that the situation is worrying is to state that which everybody and his cat already knows, but, what is, perhaps, not yet appreciated, to any great extent, is that the US may start to export to its problems, in bulk, to its trading partners.

In fact, the process is known to have already started.

And this will cascade down the line, eventually, to the low-cost areas of Asia.

In fact, that process is known to have already started, too.

The knock-on effect will be a further escalation of the level of unemployment in Asia; and, this will result in many production facilities, having to close their doors, causing even further problems for the US.

If the US cannot obtain a cheap source for goods, such as garments, consumer electronics/electrical goods and the like, it will mean that US consumers will be forced to consider purchasing US-made comparable goods, thus causing inflation to rear its head.

The alternative of US consumers, not purchasing US-made goods, would be a further reduction in consumer spending in the US: Heads, you lose; tails, you lose.

The US Federal Reserve Board, in 1999, was threatened by inflation and took appropriate steps to contain it.

But, in the present situation in the US, the Fed is facing problems from a number of economic fronts; one more problem to be added to existing bunch, such as the very real and unavoidable inflationary embers, might well be the final blow, which will send the US economy, reeling backwards against the ropes.

Eight, nine, ten … You're out!

The EU Factor

The European Union (EU) has, already, felt the brunt of the economic downturn in the US economy, and, today, there is every possibility that there will be an exodus of *'key'* workers from the US to other countries, with some, ending up in Euroland.

The *'export'* of US workers, especially those highly trained workers, who are, now, without employers in the US, could, and, inevitably, will, deprive other countries' workers of jobs since the US workers, in desperation, may well accept conditions that local workers would not want to accept.

In the EU, the ability of workers to move from one area to another area, due to the political nature of the EU, means that migrant workers from one hard-hit area of the EU can pack up and go to other areas of the EU where the prospects of finding work are seen to be superior.

In at least one part of California, the US, the sixth largest economy of the world, unemployed workers are being paid $US1,800 to move to other parts of the US where there is immediate and acceptable work available.

While moving costs of some of the unemployed will set back the California Government, initially, the state will save a great deal of taxpayers' money by being able to lop off continuing unemployment insurance claims, down the road.

The US has, already, *'exported'* its problems to Canada, Mexico, South America and Asia, and the EU is, now, feeling the tail end of the economic problems, facing the world's Number One economy.

Problems in the EU will, inevitably, impact on Eastern Europe, too.

Over the past decade or so, Eastern Europe has been an alternate manufacturing base to Asia for the EU, especially for short-run, production runs of garments, etc.

Asia, geared up as it is for large production runs, cannot compete with Eastern Europe for products where high technical skills are required in the production process, or where relatively short-runs of products are required to be manufactured in a short time-span.

Due to the relatively vast distances between Asia and European countries, Eastern Europe is able to compete with ease against Asian competitors for US and EU contracts; and, to quote much lower prices for its products since sea freight and air freight charges do not enter into the cost-per-unit picture to the extent that they do when Asian manufacturers bid for the same contracts.

As Indian workers have replaced, and displaced, many Asian workers, especially in the IT (**I**nformation **T**echnology) industry, so Eastern Europe has replaced, and displaced, many an Asian factory due to the relatively low costs of producing similar goods in close proximity to buyers.

The Japanese Factor

In Japan, in the second quarter, to June 30, year-on-year, the one glaring factor was that very weak investment dominated the quarter, both in residential and nonresidential investments.

Nonresidential investments contracted by about 2.80 percent, during the second quarter, while residential investments fell by 8.80 percent.

As for private inventories, they decreased by 41 billion yen, the twelfth consecutive month of contractions.

Many of Japan's manufacturing operations have had to shift to offshore locations, for one reason or another.

Net exports contracted by about 4.90 percent, with direct exports, off by 2.90 percent.

Net imports, the telltale sign of a country's economic strength, were down by about 2.50 percent, reflecting weak domestic production.

Real **G**ross **D**omestic **P**roduct (**GDP** = The total value of all goods and services produced within a country in a year, minus net income from investments in other countries) contracted by about 0.90 percent, year-on-year.

It was noted by the Japanese Government – and the Government's July 9 announcement made this point – that the foreign sector reflected both internal and external weakness.

Plotting Japan's GDP * since the third quarter of 1999 must be considered a nightmare for Japan's economists, most of whom cannot come up with a cure to what ails the second largest economy of the world:

	2001 – 2nd Quarter	2001 – 1st Quarter	2000 – 4th Quarter	2000 – 3rd Quarter	2000 – 2nd Quarter	2000 – 1st Quarter	1999 – 4th Quarter	1999 – 3rd Quarter
Annualised Percentage Change	(3.20)	0.50	2.60	(2.70)	0.50	10.00	(5.80)	(0.30)
Year-on-Year Percentage Change	(0.70)	0.20	2.50	0.30	1.00	2.40	0.40	2.10
Quarter-to-Quarter Percentage Change	(0.80)	0.10	0.60	(0.70)	0.10	2.40	(1.50)	(0.10)

* Statistics compiled by the Japanese Government's Ministry of Public Management, Home Affairs, Posts and Telecommunications

All this means that Japan suffered another quarter of economic stagnation, falling incomes, and rising joblessness.

Since the classical definition of a recession – a period, shorter than a depression, during which there is a decline in economic trade and prosperity and in which there have been at least 2 quarters of negative growth – cannot apply to Japan, at least, not at this time, economic history may have to be rewritten in order to describe, accurately, the Japanese malaise.

Perhaps the definition of Dr Lawrence Peter in his book, *'The Peter Prescription',* is apt: A subliminal promotion?

In 6 quarters of the past 14 quarters, for the record, GDP growth in Japan has been negative.

The trouble is that the economy of The Land of The Rising Sun has not been able to string the negative quarters, one after another, in order to qualify for the nomenclature: Recession.

But a further contraction in the economy seems to be on the cards as industrial production continues to fall by the quarterly pace of about 2.80 percent.

What has yet to be understood by many people of the Western World is that the mounting economic crisis is so bad in Japan that social institutions are crumbling beneath its very weight.

Permanent employment for workers has gone, and workers, today, fear that their rice bowls can be cracked at any time.

The concept of absolute loyalty to one's company, where the company provides all to its workers and the workers live and die in the employ of the company, is eroding fast; virtues of the past, worshipped by Japan's traditionalists, are being replaced by pragmatic necessities; the strength of the zaibatsu is under intense threat: It may, well, have to be scrapped since the domino effect, affecting all players within the combine, makes it difficult to justify its continued existence.

The situation in Japan may enter the history books as the period when the entire economy collapsed or was on the verge of collapsing: It is, now, acceptable to state that most of Japan's banks have to be recapitalised since the banking industry does not have the wherewithal to manage its mountain of bad debts.

Meanwhile, the market value of the collateral, which, in some cases, supported the linked loans, is continuing to deteriorate – and the banks cannot call in the loans, because the money cupboard of its borrowers is nearly bare.

And there appears to be no remedy in sight for this country.

And In The HKSAR

Second quarter GDP figures for the HKSAR were so frightening that the Premier of the PRC, Mr Zhu Rong Ji, taking time out from his recent trip to Ireland, told a television presenter in Dublin that the PRC would, always, give a financial tit to the HKSAR if needs be.

The importance of Mr Zhu Rong Ji's statements was that that was the first time since the British handover of the HKSAR, on July 1, 1997, that the PRC Government thought that it was time to state that it was ready, willing and able to assist the 6.70 million human inhabitants of the HKSAR in what the PRC sees as their time of need.

The HKSAR Government announced that the seasonally adjusted GDP had contracted by 1.70 percent, during the second quarter, compared with the first quarter.

The first quarter figure was revised upward to show zero growth: So *'recession'* was not the word to be applied to the HKSAR economy.

Exports to the EU and the US, on a year-on-year basis, fell, while intra-regional trade was off, considerably.

Exports from the HKSAR are expected to fall further as the year wears on.

A second quarter of economic contraction is on the cards.

The main question is: Will the next quarter usher in negative growth?

	2001 – 2nd Quarter	2001 – 1st Quarter	2000 – 4th Quarter	2000 – 3rd Quarter	2000 – 2nd Quarter	2000 – 1st Quarter	1999 – 4th Quarter	1999 – 3rd Quarter
GDP * in Millions of $HK	214	214	236	235	213	209	221	212
Year-on-Year Percentage Change	0.50	2.30	7.00	10.80	10.70	14.10	9.20	4.10

* Data supplied by The Census and Statistics Department of the HKSAR Government

Weak domestic investment has been plaguing the economy of the HKSAR for some months, and this has been aggravated by a precipitous falloff of exports to the EU and the US.

Unemployment is on the rise and will, most likely, exceed 5 percent before the end of the year, all things being equal.

The prospects of recession are not imaginary, but very real.

The HKSAR's Census and Statistics Department reported that the value of manufacturers' orders-on-hand fell by about 9 percent in July, year-on-year.

In June, orders-on-hand fell by about 8 percent, year-on-year.

A continuing deterioration in foreign investment is expected; and, another one-percent decline in domestic exports would be the least that one might expect before the year is out.

Although there are no statistics to substantiate the following statement, it appears that the present economic situation in the HKSAR is the worst since at least 1961.

One might not be incorrect in asking whether or not the present situation was inherited from the British raj; or, alternatively, was it engineered by a distinct lack of nous and perspicacity of the Government of Chief Executive Tung Chee Hwa?

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