Panelists Richard H. Bard, Peter J. Widmer, and Raul DeGouvea Neto provided the Forum with insights into the economy in their respective regions and the conditions that are apt to influence 2003's economic performance.

Richard H. Bard was elected to the board of directors of the Federal Reserve Bank of Kansas City in 2001 and serves as deputy chairman. He is the founder and manager of IdeaSpring which invests in and supports early stage companies. He also has founded and been part of the senior management of three former NYSE-traded companies and is the founder and former CEO of NASDAQ-based Optical Security Group, now merged with Applied Optical. In 1997, through The Bard Family Foundation, the Bards endowed the Center for Entrepreneurship Development at the University of Colorado at Denver. Bard is a founding member of the Institute for International Business at UCD. In 2001, he was a recipient of the Ellis Island Medal of Honor for his humanitarian efforts. He has an MBA in Finance from the Bernard M. Baruch College at the City University of New York, and received a BS in civil engineering from Pennsylvania State University.

Peter J. Widmer As an investment banker with Zurich-based Julius Baer, one of the largest private banks in the world, Widmer has been able to acquire firsthand knowledge of the euro and its global impacts. During his long and successful career, from which he is now retired, Widmer founded Baer's investment management business and was responsible for all institutional investment activities outside Switzerland. He chaired the boards of Julius Baer Investment Management, Inc. (New York, London), Julius Baer Investments Limited (London) and Julius Baer Kapitalanlage AG (Frankfurt). Widmer was born and educated in Zurich, followed by a three-year banking apprenticeship. He subsequently received the Commercial Diploma from the Swiss Business Association.

Raul DeGouvea Neto is Wells Fargo Associate Professor of international business at the Anderson Schools of Management, University of New Mexico. He has served as a consultant to the Brazilian Small Business Administration, and has consulted for the World Bank on Brazil's industrial policy, Brazil's export processing zones, as well as the Brazilian Drawback Regime Project and the Brazilian Trade Liberalization Project. DeGouvea has been a visiting professor at prestigious universities in the U.S., Brazil and France. He holds a BS in economics from the Universidade Federal do Rio de Janeiro; and an M.S. and a Ph.D. in economics from the University of Illinois.

UNITED STATES
Richard H. Bard, Bard & Co.
Deputy Chair, Federal Reserve Bank of Kansas City

Looking at figures indicating the growth in Gross Domestic Product, it's clear now that the U.S. was in a recession, starting in 2000 or 2001. "It was a very mild recession," said Bard.

"Everyone thought the fourth quarter 2001 would be down, but it was pulled right out because of the availability of information and how quickly people responded to the recession.

"Ten years ago, it would have taken till the end of the quarter to find out the direction your sales were headed or that your pipeline was changing. Now it's instantaneous.

"The availability of information and the speed at which it travels is really making this a different economy and a different world."

The system has shed inventory at an amazing rate, said Bard. "In the third quarter of 2001, we had the largest drop in inventories ever recorded. And the fourth quarter decrease was twice as much. A lot of the growth that happened early in 2002 was because of inventory rebuild."
Global economy and politics

Neither inflation nor deflation is a problem right now. The recovery keeps chugging along, but its health is not yet hale and hardy. "Labor productivity is still relatively weak in terms of overall employment," said Bard. "So you have this continued dampening of the economy with a lack of employment and a lack of jobs.

"Labor productivity is key to the turnaround and key to the growth of the country. A 1 percent improvement in productivity says that you can do this year's GDP with 1 percent less workers next year. Which also gives you the ability to grow without adding more cost, and that's what holds down inflation and that's what makes the dollar stronger."

A Forum guest suggested that the productivity numbers don't tell the whole story. "There appears to be a shift in terms of the employable and the unemployable. There are more white collar workers out of work today and seeking fewer opportunities."

Bard agreed that for the more educated side of the economy, "there's probably more risk today than during any other recession, even though it was a mild recession." Why this is happening and the extent to which it can be attributed to communications and the Internet, are things to be studied.

Regarding consumer confidence, Bard said, "It's mixed. Consumers weren't hurt in this recession; it was all big business. Consumers had money and they never stopped spending. So there's no spending spurt now to give the recovery a boost. It's the reason why this recovery is not as robust as in past recessions.

"Refinancings are still at unbelievably high levels, and that will probably continue with the change in interest rates. Retail sales are still relatively slow, but they're not in the doldrums yet. If there's a war in Iraq, Christmas sales are going to be a disaster.

The big threat to the recovery is that CEOs are not investing in their companies. "They're not confident. They're not hiring or rehiring. They're not buying equipment, they're not investing in new information technology."

The reason for the CEOs' concerns is apparent in the numbers. "On the surface it looks like core inflation hasn't changed. But if you look at services - insurance, health care - those costs are going through the roof." Yet, the price of products has not risen to offset the increased costs of services.

"You have no pricing power; in fact, the cost of your products is actually going down. So why would you build a new plant? This is the issue.

"Eventually CEOs have to get past the risk, they've got to get past the terrorism threat, they've got to get past all these issues and start building for the future. If they don't, we will not have a sustained recovery and we'll wind up with a double dip," said Bard, pointing out that The Blue Chip Index, a consensus of the top 50 economists in the U.S. on the way the economy is going, shows a downward revision of the near-term outlook. "But relatively speaking, we're still looking at an incredibly strong economy into 2003."

EUROPE
Peter J. Widmer, Retired Member
Group Management Committee
Julius Baer Holding Ltd., Zurich
Global economy and politics

The planned expansion of the European Union from 15 to 25 members will present new challenges for the economy, Widmer said.

"The 10 new candidate countries (see sidebar) will add 9 percent to the expanded EU GDP. However, the population of the EU is going to go up by 20 percent to more than 450 million people. So, to add 9 percent to the GDP, you have to feed 20 percent more people, and these people are going to live in 25 different countries.

"The personal purchasing power of these 10 countries is only about half the European average. So what the EU is buying is the potential for growth."

This year, growth in the EU has been "anemic" and it's not expected to fare much better next year. "Current figures are .8 percent euro growth by year end 2002 and 2 percent projected for 2003, which seems optimistic. The weakest link is Germany, which might see 0.4 percent growth this year and 1.5 to 1.6 growth next year. Again, this is very optimistic."

Calling the policies of Chancellor Schroeder "a disaster," Widmer said, "There is no incentive in Germany to invest in the economy, and the consumer isn't spending. It's the one country in the European Union that's dragging down the whole of the EU. And it's quite serious for the eastern European countries which depend on Germany.

"All other EU members show better growth than Germany."

The policies of the European Central Bank relate only to inflation control. Unlike the U.S. Fed, the ECB has no mandate to stimulate growth or generate jobs by manipulating interest rates. "Inflation is not a problem; currently it's at 2.2 percent, slightly above the ECB target of 2 percent. Nor is deflation a problem, and the money supply remains high."

While the lack of growth and an unemployment rate of 8 percent would be reasons for a cut, the ECB is not compelled to lower interest rates under the current circumstances.

On the bright side, "the 10 candidates have had good rates of growth in 2002 compared to Europe and the United States, averaging 3.3 percent for 2002. Foreign direct investment in these countries this year has gone up 25 percent, most of it coming from the EU."

The expansion will end most of the division between west and east in Europe and give the new entrants a bigger market for their wares, said Widmer. "Foreign trade, which previously went east to serve the purposes of Russia and the Soviet Union, is now going west as well."

Between now and 2004 when the expansion is completed, there are financial problems that have to be resolved. "A lot of these countries have large agricultural components in their economies, so farm subsidies are a big issue. They will be eased into these subsidies at a level of about 4 percent of their GDP versus 8 percent for the existing EU. There's no way the EU could finance 8 percent right away."

The EU will have to manage the financial impact of expansion while maintaining its stability pact which limits a member's budget deficit to no more than 3 percent of its GDP. "Germany is already in violation, France is going to be in violation, Portugal is running at 4 percent," said Widmer.

"Labor in the candidate countries is relatively highly skilled and at a reasonable cost to employers." Germany will likely see a rise in unemployment as companies and jobs head in that direction.
Global economy and politics

Now hard at work is a 105-member commission made up of the existing 15 EU countries plus the 10 candidate countries to propose a constitution that will allow the EU to operate efficiently after expansion. It will deal with such issues as dual citizenship, and how to change the structure from a centralistic system to one that incorporates more democratic processes. Said Widmer, "The next skeleton draft is due in March 2003 and the final decision on the new constitution is scheduled to be taken by the middle of next year."

BRAZIL & LATIN AMERICA
Raul DeGouvea Neto
Associate Professor of International Business
University of New Mexico, Albuquerque

In 2002 Latin America was besieged by political and economic problems and Gouvea believes the hard times will continue for the next year or so.

The continent's economies will have contracted by 1.2 percent in 2002. "Politically, the situation is iffy at best," said Gouvea.

"One of the problems is that countries like Brazil and Argentina have to depend on commodities and a few high tech intensive manufactured products, and the price of those commodities has been decreasing steadily for the past few years. Also, Latin America's traditional markets are still in recession."

Brazil, the second largest economy in Latin America after Mexico, will end the year with 1.7 GDP growth. "But that is optimistic at this point. The capital city of Sao Paulo has an unemployment rate of nearly 20 percent. The official unemployment rate for the whole country is 7.5 percent. But we have to be careful with Latin American statistics."

The 2005 target date for the signing of the Free Trade Area of the Americas (FTAA), a multilateral trade agreement that would encompass 34 countries in the Western Hemisphere, is now being questioned by the Lula administration. "Lula, Brazil's newly elected president, is not explicitly opposed to the FTAA, but rather is taking a gradual and cautionary approach to Brazil's participation."

"I think Bush is going to push to bring more Latin American countries under the FTAA umbrella somehow," said Gouvea. If Brazil were to become a member of FTAA, it would be competing directly with Mexico for U.S. market share.

"NAFTA has done wonders for the Mexican economy and even for the U.S. economy. Mexico is now the U.S.'s second largest trading partner, after Canada, and Brazil has fallen behind."

While trade agreements wait for consensus, Latin American countries are investing more in one another. And 400 of the world's top 500 multinational corporations now operate in Brazil, with investments in the high tech and service sectors such as telecommunications and banking."

Despite what some people say, globalization is not responsible for Brazil's poor economic performance. He pointed out that "China's GDP increased by almost 120 percent in the '90s, Brazil by only 8 percent."

Gouvea compared Brazil with Mexico and Chile, using South Korea as the standard against which the others were measured (see sidebar). "In Brazil only 3 percent of the population have access to the
Global economy and politics

Internet. In South Korea, the number is nearly 40 percent. That's just one indication of the work we have to do, as we all know the impact the digital revolution has on a country's ability to develop."

A snapshot of the rest of Latin America:

- Argentina's GDP will contract by 15-17 percent this year. "Unemployment in Buenos Aires is about 25 percent, and the crime rate is also high."
- Mexico, the largest economy in Latin America, will see GDP growth of about 1.7 percent, after growing between 5-6 percent in previous years.
- Colombia is divided between the government and illegal paramilitary groups, "a major issue."
- Venezuela's President Chavez is opposed by half the country. The economy is melting down.
- Ecuador gave up on the sucre last year and adopted the U.S. dollar as its official currency.
- Peru's President Toledo was elected with a lot of support, but that's changing now.
- Chile and Costa Rica are bright spots. "Chile has been very smart about setting up trade agreements with a number of countries around the world." Costa Rica has been diversifying its exports and building its tourist industry.

Lula's challenge is to get the economy growing so he can implement his social agenda. "I think Brazil needs to play ball and sign the free trade agreement. It would be very promising for both sides. But it's too early to tell what Lula will do."