

Economic Repositioning for Common Prosperity in an Age of Globalisation

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The Policy Debate

- Ben Bernanke, Paul Krugman & Lawrence Summers: The lesson from the Great Depression is that there must not be premature withdrawal of macro-stimulus.
 - Krugman-Summers: Do not worry about present govt budget deficit because, optimally, it should be even higher
 - Bernanke: Quantitative Easing 2 in November 2010. QE3, QE4 .. if necessary
- UK contrast: Large cut in budget deficit by David Cameron and no more aggressive monetary expansion by Melvyn King

In June 2011, IMF Updated Its Forecasts Issued in April 2011

	<i>April 2011 estimates</i>			<i>Update</i>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2011</u>
USA	2.8	2.9	2.7	2.5
Japan	1.4	2.1	1.7	-0.7
Germany	2.5	2.1	1.9	3.2
UK	1.7	2.3	2.5	1.5
Italy	1.1	1.3	1.4	1.0
China	9.6	9.5	9.5	9.6
India	8.2	7.8	8.2	8.2

June 2011 Revisions: Acceleration in Global Economic Reconfiguration

	<i>April 2011 estimates</i>			<i>Update</i>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2011</u>
World	4.4	4.5	4.5	4.3
(a) Advanced	2.4	2.6	2.5	2.0
(b) Emerging	6.5	6.5	6.5	6.6

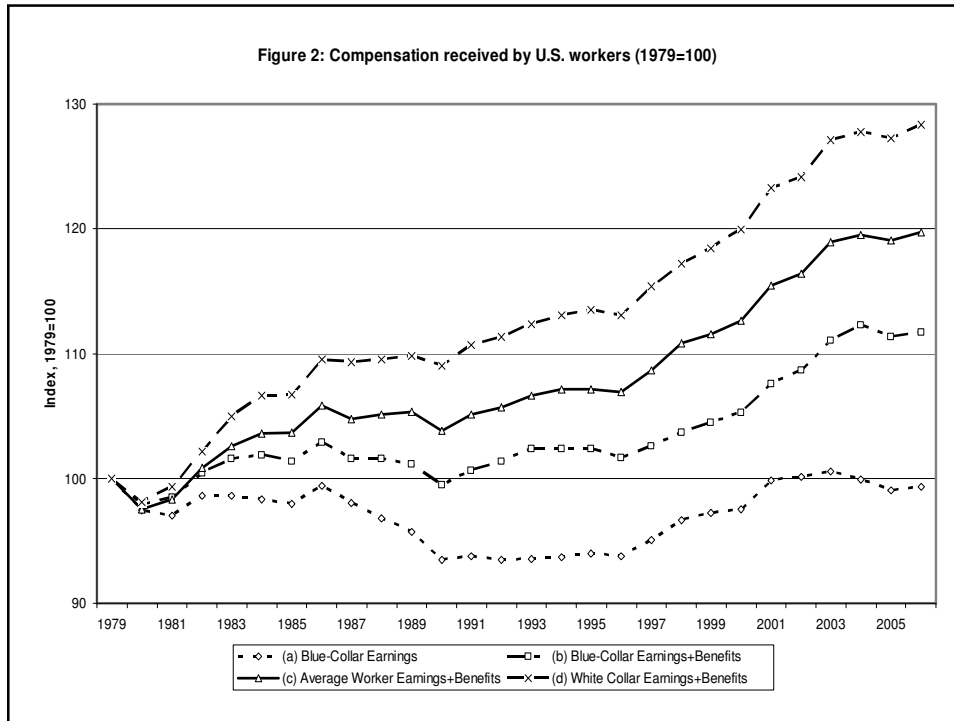
More on the Origins of Sep 2009 Meltdown, and the Real Economic Challenges to the US

- Ben Bernanke, Hank Paulson and Tim Geithner: Flood of excess savings from Asia blew up global financial markets.
- If above is true, this is the first time in world history that trade imbalance is primary cause of financial market bubble
- Above view is wrong. After QE1, USA should have focused on economic restructuring to reposition itself for new global division of labor. QE2 continued the intellectual insularity of Alan Greenspan.

Table 1: The Distribution of the Global Labor Force (millions)
(SIC countries = former Soviet bloc, India and China)

	<u>The non-SIC countries</u>				<u>The SIC countries</u>			
	Global	Non-SIC	<i>Developed</i>	<i>Developing</i>	SIC			
	Total	Total	<i>Economies</i>	<i>Economies</i>	Total	<i>China</i>	<i>India</i>	<i>Soviet bloc</i>
1990	2,315	1,083	403	680	1,232	687	332	213
2000	2,672	1,289	438	851	1,383	764	405	214

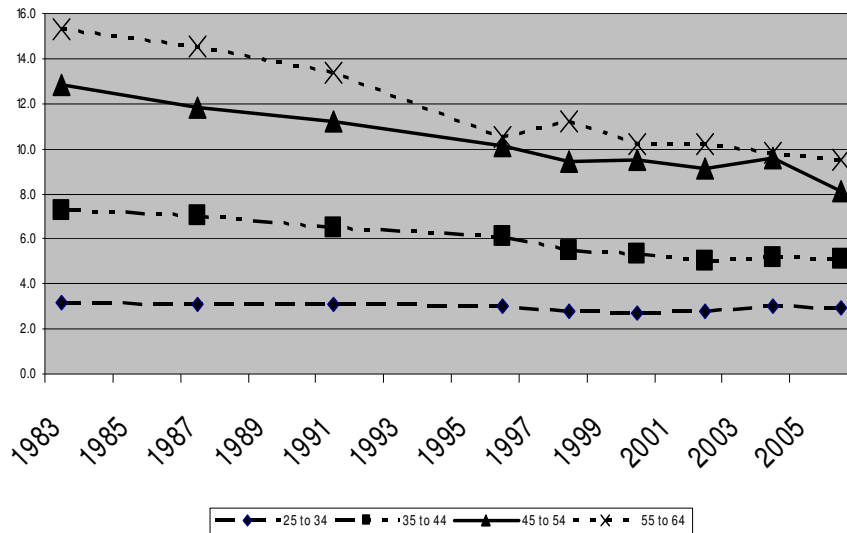
Source: Freeman (2004). Our figure for "total" in 2000 is different from that in Freeman.



Don't blame labor displacement
 in US just on globalization.
 Labor displacement from
 technological innovations might
 be even greater.

Greater Churning of Jobs in US

US: Median Tenure at Current Job by Age of Worker (in years)



US has among the weakest social safety nets within G7 in 2004

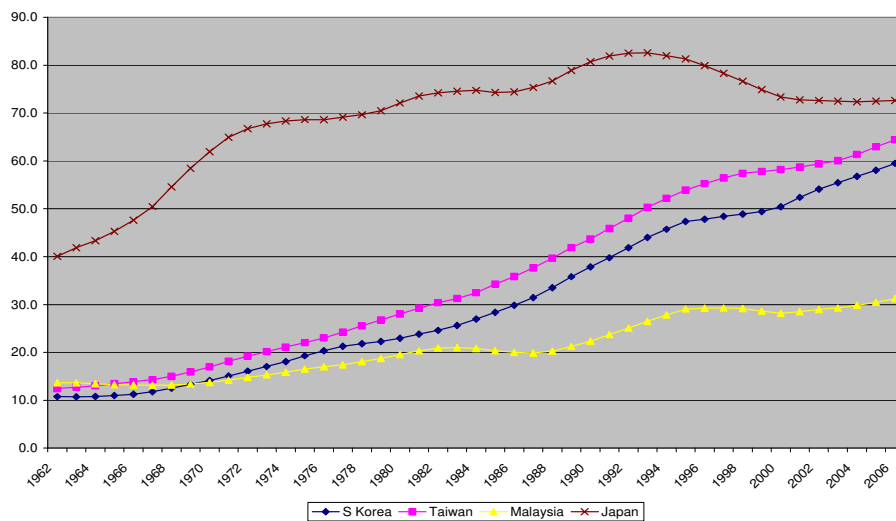
	% of previous pay received at start of unemployment	Duration of benefits (months)
Germany	78	12
Canada	76	9
France	76	30
Japan	61	10
Italy	60	6
USA	53	6
UK	46	6

China's Challenge: Sustainable Growth

- **Hardware:** strengthen economic mechanisms “to get the prices right”
- **Software:** adjust political-social institutions right to achieve a harmonious society
- **Power Supply:** environmental constraints (help to get global science right), and external threats (get its international relations right by helping build a harmonious world, without which a harmonious society internally is not achievable)

The Big Challenge to ASEAN: Middle Income Trap, e.g. Malaysia

Japan, S. Korea, Taiwan and Malaysia: Living Standard as % of USA Living Standard



For Common Prosperity in APEC

- **US challenge:** economic restructuring to suit new international division of labor
- **China challenge:** to move from small-country growth model of export-led growth
- **ASEAN challenge:** Middle-Income Trap
- **Common challenges:** Achieving
 - open regionalism, need for a new regional economic architecture e.g. AMRO
 - environmentally sustainable development,
 - socially inclusive growth