

Fitting Globalization into the National Economic Development strategy

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Topics

- Megatrends
- Globalization
- Economic Model and Sufficiency Economy
- Sufficiency Policies
- Harmony in International Agreements
- Asian Currency and World Money

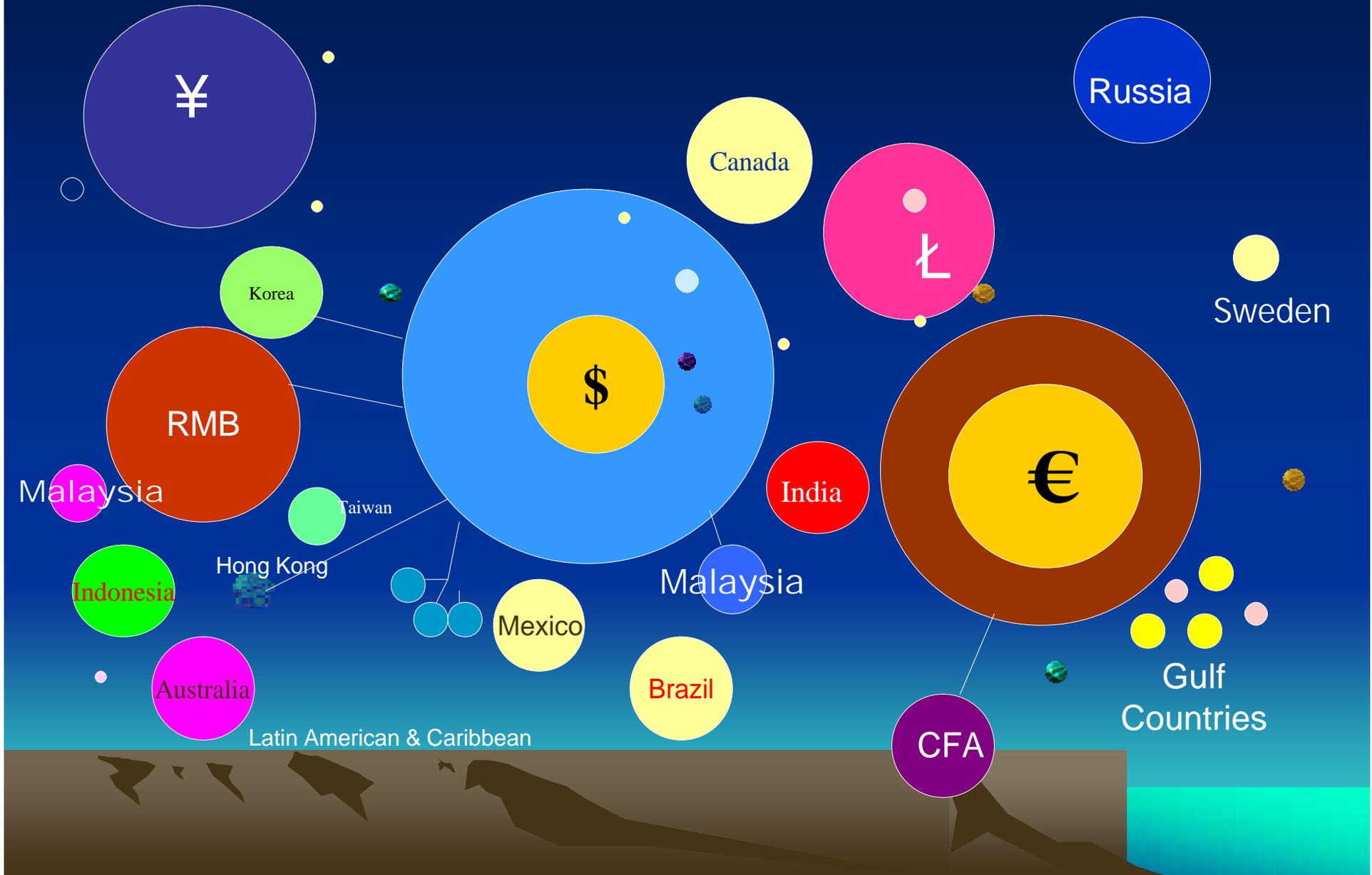
Megatrends



The World Economy

- Unique period
- All the major economies expanding
- Never before
- What are the drivers?

The International System: 2007



Key Trends in the World Economy

- Globalization
- IT Revolution
- Advent of the Euro
- Rise of China

Four Challenges for the World Economy

- Adjusting to globalization
- Absorbing /spreading IT revolution
- Fitting China into the World Economy
- Stabilizing currency areas

Key Factors in World Growth

- US Economy as Motor
- US Deficits as Fuel
- IT Revolution
- Rise of China
- Advent of the Euro
- Political Stability
- Globalization

Globalization



Globalization

- Globalization is integration at the world level.
- It has been going on at a rapid pace since 1945 but in a world that did not include the Soviet Bloc and China.
- Globalization began after China joined the world economy in 1980.
- It became a buzz word after the Cold War ended in 1990.

Globalization

- Associated with the “Pax Americana” of the single superpower.
- Entire world now involved except Cuba, North Korea, Myanmar, Iran, and Venezuela.

Globalization as a Process

- It means economic integration at the world level.
- It proceeds by openness.
- The natural state of the world when not split into blocs
- Not unique to our age.
- Globalization has many dimensions.

Dimensions of Globalization

- Economic Integration
- Political Integration
- Cultural Integration
- Social Integration
- Religious Integration
- Military Integration

Here are my suggestions for characterizing the degree of different types of globalization over the past two centuries.

Degrees of Globalization by Area and Period

| Area | 1850-1880 | 1880-1914 | 1914-1945 | 1945-1990 | 1990-2007 |
|-----------|-----------|-----------|-----------|-----------|-----------|
| Economic | Medium | High | Low | Medium | High |
| Political | High | Medium | Low | Medium | High |
| Cultural | Low | High | Medium | High | High |
| Social | Low | Medium | Medium | High | High |
| Religious | Low | Low | Low | Medium | High |
| Military | Low | Medium | Low | High | High |
| Monetary | Medium | High | Low | Medium | High |



Globalization

- Each dimension of globalization is achieved to a degree depending on the culture, type of government and religious system, and technology.
- Once an equilibrium degree of globalization is achieved, it is further reinforced periodically by technological revolutions.

Ten Industrial Revolutions

- 1. Gunpowder
- 2. Printing Press
- 3. Sc/Technology
- 4. Steam Power
- 5. Electricity
- 6. Auto and Airplane
- 7. Oil Power
- 8. Mass Production
- 9. Nuclear Power
- 10. Computer-IT

How Much Globalization?

- Each country has to determine the right of opening, of globalizing.
- An extreme degree of globalization would involve free movements of goods, factors, technology and information, amounting closely to economic union.
- Most countries stop short of this degree of integration in the light of national and religious values as well as economic and political motives.

Qualifications

- Cultural diversity.
- Different societies, religions, geographies have different needs.
- Difficulties for inland states.
- Vital interests, dependence and security
- Information networks and censorship

The Economic Model and the Sufficiency Economy



The Economic Model and Adam Smith

- A stereotype of the economic model is based on individual self interest, individuals maximizing utility, within the framework of the market economy.
- Rational man makes choices which make him better off.
- This was the model used in Adam Smith's *Wealth of Nations*, published in 1776.

Theory of Moral Sentiments

- Adam Smith's book was an exposition of economics based on the 'economic man' who is a selfish maximizer.
- It is sometimes forgotten that Smith published much earlier (1759) his *Theory of Moral Sentiments* examining altruistic sentiments.
- A more complete man is a composite of selfish and altruistic sentiments, in addition to religious and political sentiments.

King Bhumibol Adulyadej's Sufficiency Economy Philosophy

- His Majesty's philosophy advocates growth with economic stability, sustainable development, sound macroeconomic policies and the equitable sharing of benefits of economic prosperity.
- It eschews excessive risk-taking, untenable inequalities and the wasteful use of natural resources.

Relation to the Economic Model

- It is not inconsistent with a good economic model but it adds to it some motives that complement the economic man.
- These are empathy, compassion, fairness and generosity.
- It treats the human being as evolving, rather than static, through learning, ethics, perseverance and tolerance.

The Sufficiency Triad

- It involves **moderation, wisdom, insight**, the middle way between want and extravagance.
- It involves **reasonableness, knowledge, integrity and honesty**, which includes understanding of the consequences of actions not only in the present but in the future, not only on ourselves but on our fellow humans and societies.
- It involves **resilience to risks, self-immunity** to withstand shocks and **reserves** against shortage.

Sufficiency Policies

The 'Sufficiency Individual'

- The sufficiency man is the economic man with empathy, compassion, fairness and generosity built in.
- This model of the economic actor is not incompatible with economic development and globalization.
- Nor is it incompatible with free enterprise and economic growth.

Sufficiency Macroeconomics

- National policies should take account of the sufficiency triad.
- Countries should maintain enough reserves against shocks.
- Countries should take into account the effect of their policies on their neighbors and the rest of the world.
- Actions are to some extent reciprocated, and overly aggressive actions invite retaliation.

Macroeconomic Interdependence

- Global interdependence increased by innovations in transportation and communication.
- Overuse of energy bids up the terms of trade against other countries.
- Changes in tariffs and quotas affect other countries' terms of trade and employment.
- Sharing of fishing, wild life resources, preservation of endangered species, rain forest, problem of global warming.

Interdependence and Policies

- The international business cycle is transmitted from one country to another.
- The balance of payments of one country has its equal and opposite counterpart in the rest of the world.
- No country has an exchange rate to itself. There is always a partner.

Fundamental Goal of Interdependence Management

- Interdependence management may require an institution, e.g., the International Monetary Fund for currencies.
- The goal of that management should be harmony.
- But the practice has been different.
- Interdependence management in the international monetary system has not been harmonious.

The Bashing Approach Not Harmonious

- Japan-bashing in the 1980s to force China into undesirable currency appreciation.
- It failed to change Japan's trade surplus and it misdiagnosed the cause.
- China-bashing in the 2000's did not change China's surplus.
- Bilateral bashing implies a failure of system and policy.

Search for International Harmony

- Need to rethink exchange rate policies along the lines of honesty, reasonableness and transparency.
- The system of 'managed flexible exchange rates' has been a failure.

The Three Propositions of Advocates of Flexible Exchange Rates

- 1. Flexible exchange rates would eliminate the need for foreign exchange reserves.
- 2. Flexible exchange rates would eliminate exchange controls.
- 3. Flexible exchange rates would eliminate global imbalances.

All Propositions Falsified

- Reserves were \$less than \$50 billion when floating began, now over \$5 trillion!
- Most countries have some kind of exchange control over capital movements.
- Trade imbalances are vastly bigger than ever.

The reason for the three mistakes is that the basic model of exchange rate advocates was wrong.

Managing Interdependence

- Throughout history, for thousands of years, and in the post-war years, up until 1973, exchange rates were managed by an international monetary system.
- Since managed floating began it is no longer managed multilaterally.
- But since the Plaza Accord in 1985, it has been managed by the G-7.

Unreasonableness

- A good example is the Asian crisis. Many officials claim that the Asian crisis was caused by fixed exchange rates and capitalist cronyism.
- The truth is that it was caused by the instability of the two most important exchange rates in Asia.

The Two Causes of the Asian Crisis

- The RMB was devalued in 1994 against the dollar under IMF auspices by 60 per cent, raising the dollar from 5.5 to more than 8.3 RMB.
- The dollar soared from 78 yen to 148 yen in the early period of the Asian crisis.
- This colossal depreciation of the yen choked off FDI from Japan to Southeast Asia.

Fallout from the Asian Crisis

- Japanese companies departed in droves from Thailand.
- Japanese imports from Southeast Asia dried up.
- The depreciated RMB and the depreciated yen undermined the international position of the economies of Thailand, Malaysia, Indonesia and S. Korea.
- Had the dollar exchange rates of China and Japan stayed the same there would have been no Asian crisis.

Multilateral Surveillance

- An analogous problem of ‘reasonableness’ may arise as a result of the 2007 revision of the 1977 guidelines on multilateral surveillance.
- The new policies put the IMF in the position of “attack dog” on exchange rate misalignment.

The New Guidelines

- In these guidelines the IMF can designate the exchange rates of countries with trade surpluses as misaligned and undervalued, and countries with trade deficits as misaligned and overvalued.
- Opponents of the revisions were outvoted by the other members.
- The new guidelines will not prove to be desirable or effective.

Misconception

- The guidelines stress current account imbalances as the criterion for misalignment.
- This is unfortunate because exchange rates may have nothing to do with imbalances.
- E.g., in a common currency situation, such as the euro area, there are huge imbalances that have nothing to do with exchange rates.

Examples

- For example, Germany has a huge surplus of perhaps \$180 billion, and Spain has a huge deficit of \$90 but these countries don't have a national currency to be aligned.
- By and large trade balances are driven by the relation between saving and investments and are not determined by exchange rates.
- Japan has had huge surpluses for a quarter of a century and tripled the value of its currency against the dollar.
- But the surplus, which is driven by an excess of savings due to demographic aging, persists.

Harmony in International Agreements



The Goal of Harmony

- The basic goal of international interdependence management should be harmony.
- Harmony is a complement to the sufficiency idea of reasonableness.
- It was a very important concept in the thinking of Asian philosophers and is stressed in China today.

Harmony and Development of Human Beings

- The concept of harmony is deeply rooted in Asian culture.
- You can say that it is related to the Asian 'world view.'

The World View

- Every civilization has its own 'world view'—its essential attitude to reality.
- In China and much of East Asia the 'world view' is its conception of the universe as an organic whole.

Body and Spirit: No Dichotomy in Asia

- The dichotomy between body and spirit which has dominated the West for over two thousand years is not reproduced in Asia.
- There is no attachment, as in western philosophy, to the operation of “laws” from a patriarchal law-giver as in the Ten Commandments or Newton’s *Principia*, or to the transcendental.

Asia's Doctrines

- In most (if not all) of the dominant doctrines of Asia—Hinduism, Buddhism, Taoism or Confucianism—is there any clear conviction of the individual soul.
- The 'path' in Buddhism or 'the Way' in Tao, is in some way common all spiritual thinking in Asia.

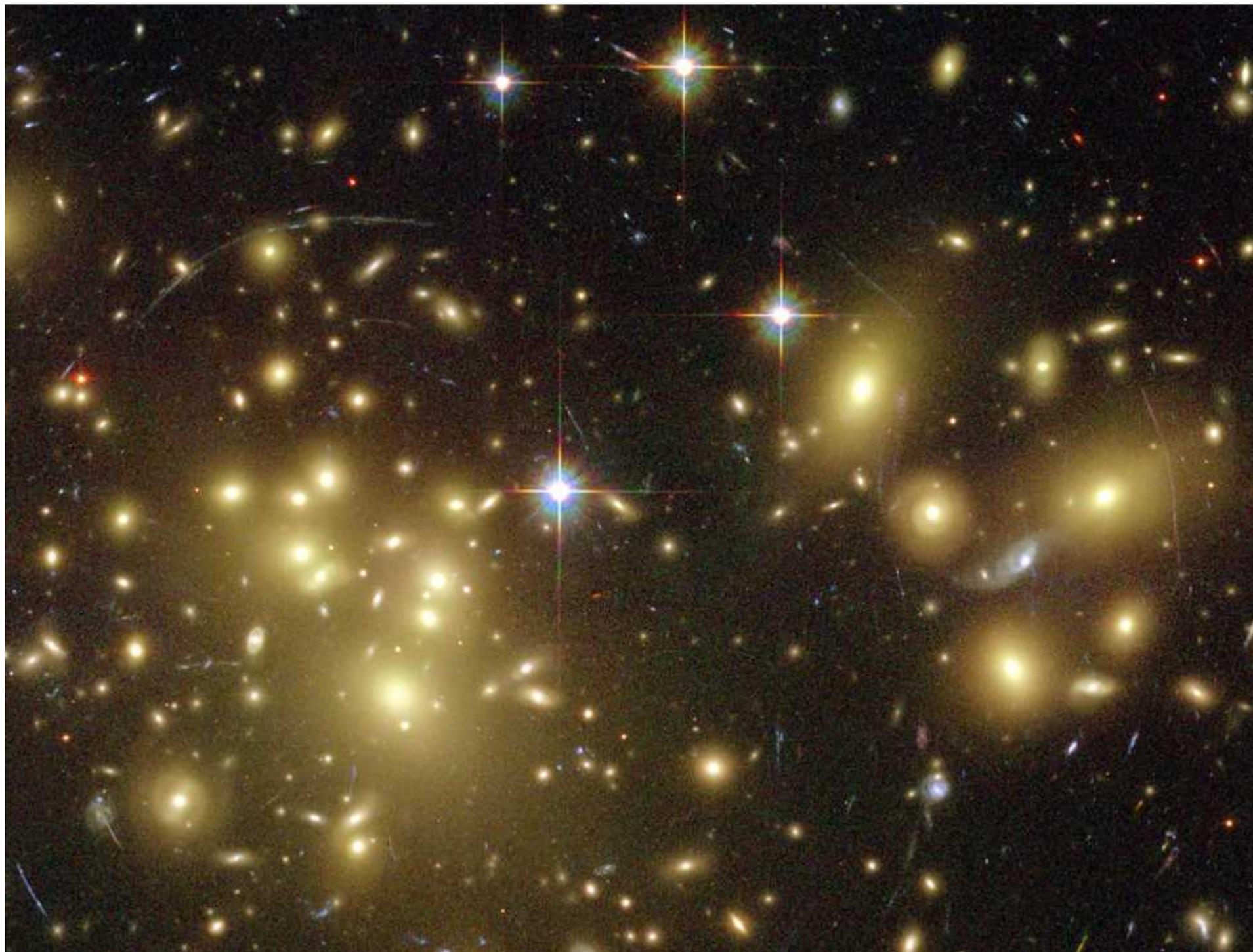
Tao, the Way the Universe Works

- *Tao* is the way the universe works, the Order of Nature, which is action unified and spontaneous.
- Happenings in the universe are, by reason of an internal necessity, the interactions of parts of a whole.

Origins of Universe Naturalistic

- No thinker stresses the possibility of any initial *conscious* act of creation.
- Order derives from chaos spontaneously.
- The universe is conceived to evolve from initial simplicity and disorder to its present state of complexity and order in purely naturalistic terms.







The Little Ghost Nebula — NGC 6369  HUBBLESITE.org

Organic Unity also in the Social Order

- The conception of the natural order influenced the social order.
- The ideal was an organic unity of rulers and people.
- “Heaven sees as the people see; Heaven hears as the people hear.”

Rational Humanism and Harmony

- China's world view has persisted through the ages and it has produced a constant characteristic of Chinese civilization.
- That characteristic, achieved through Rational Humanism, is the compelling need for harmony.
- Harmony between individuals, within social groups, within economic classes, between the people and government, and between governments on the world stage.

Harmony and the International Monetary Order

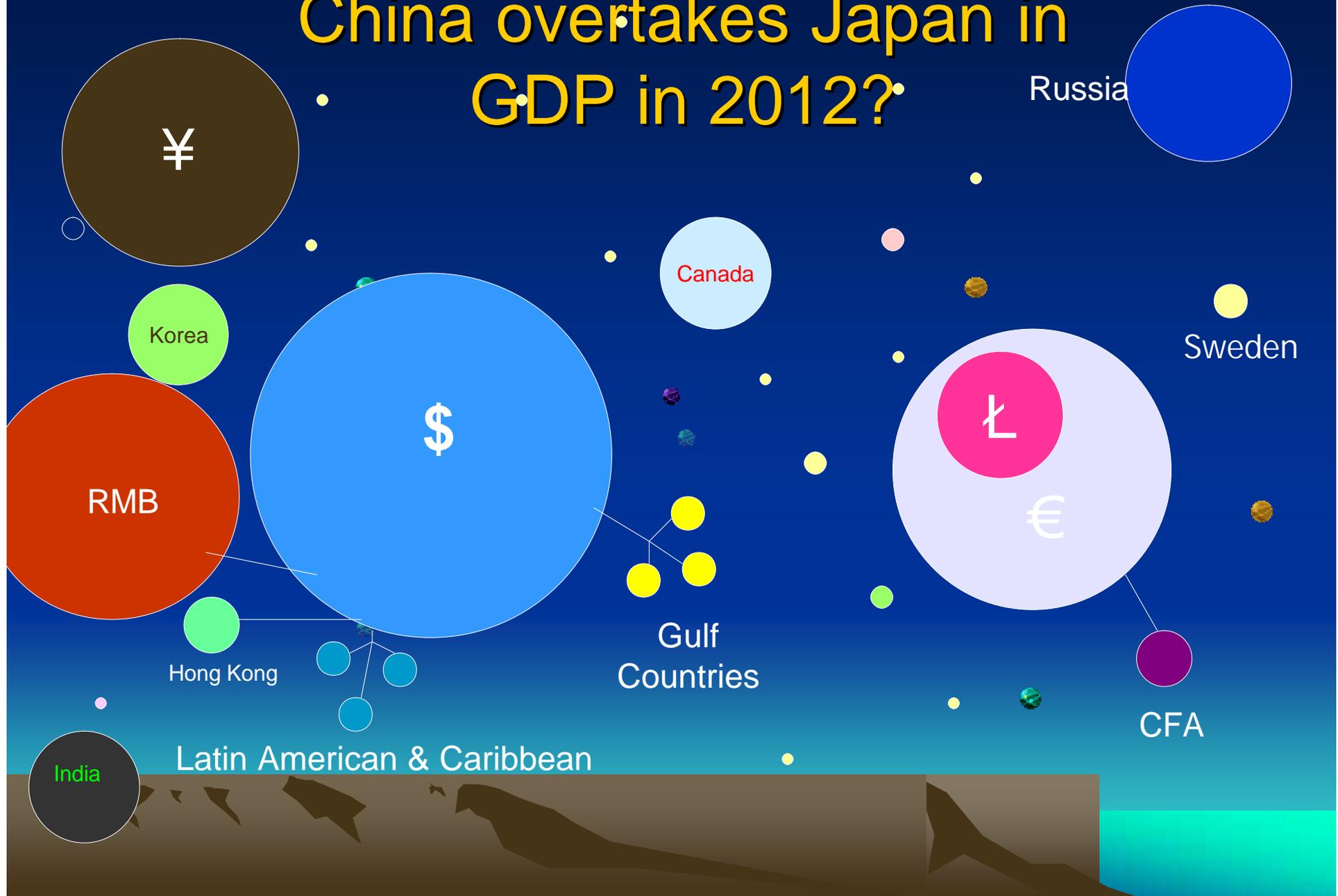
- The basic goal of international interdependence management should be harmony.
- This was the traditional view in management of the Bretton Woods arrangements.
- The system set up rules of management.
- Floating was adopted not because it was considered desirable but because a re-entry to the system could not be negotiated in 1972-74.

Asian Currency and World Money?

Would an Asian Dollar be useful in Asia?

- A common currency would mitigate the harmful effects of major exchange rate changes, and could help to avoid such fiascos as the 1997-99 crisis. It could also be a catalyst for increased economic integration.
- But a **single-currency** monetary union is not feasible in Asia because it is not yet a security area.
- What does the status quo look like?

China overtakes Japan in GDP in 2012?



GDP's, 2040: China overtakes Europe



The Asian Currency Alternative

- The difficulty with an Asian currency is that Asia is not yet a security area, i.e., a war-free zone.
- Countries can share a single currency only if they have a defense alliance or union.
- This does not seem likely in the foreseeable future.
- But Asia could have a fixed exchange rate regime if it could find a suitable anchor.

Conditions for an Asian Monetary Area

- Consensus on Criterion for Monetary Stability
- Common Measure of Inflation
- Lock Exchange Rates
- Common Monetary Authority
- Division of Seigniorage

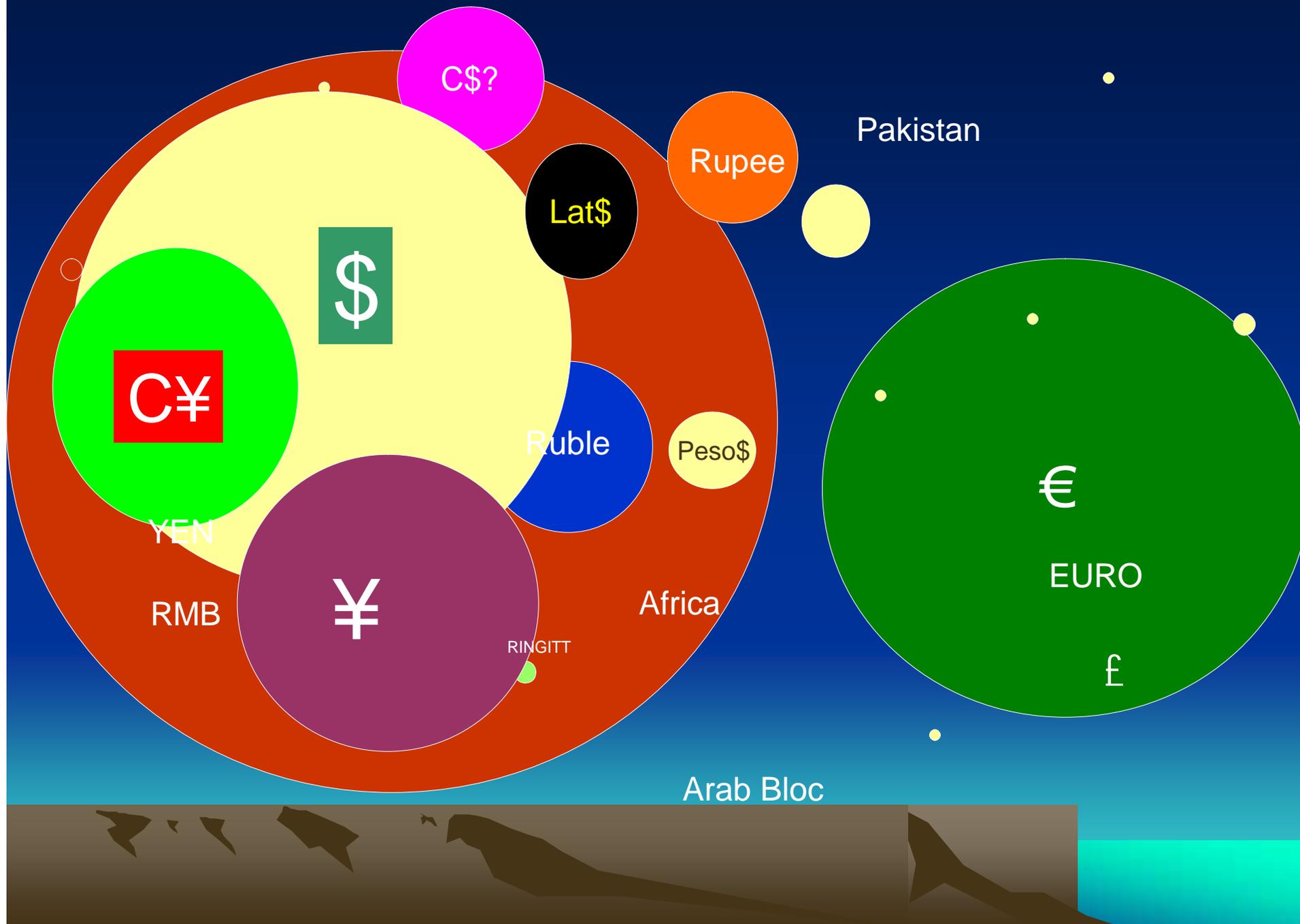
Alternative Scenario: Asian Currency Area, 2015?



Currencies and Power Centers

- A currency area would be a power center.
- But in Northeast Asia there are two power centers, China and Japan.
- It is unlikely that either China or Japan would be willing to give up their national currency, as Germany and France did in 2002.
- One solution would be a fixed exchange rate zone in Asia, anchored to the dollar. It could be an APEC currency area.

Alternative Scenario: APEC Solution?



Need for a New International Monetary System

- We need to apply the principles of the sufficiency economy at the international level.
- We need to restore the international monetary system with a global currency that can be used as a universal anchor for countries that want to be part of a global system.

Global Currency

- The dollar has been the de facto international currency since World War I, when it took over that role from the pound sterling.
- The dollar initially shared honors with gold, but now it has displaced gold as the principal international asset.
- Yet the dollar cycle poses great problems for countries like those in ASEAN.
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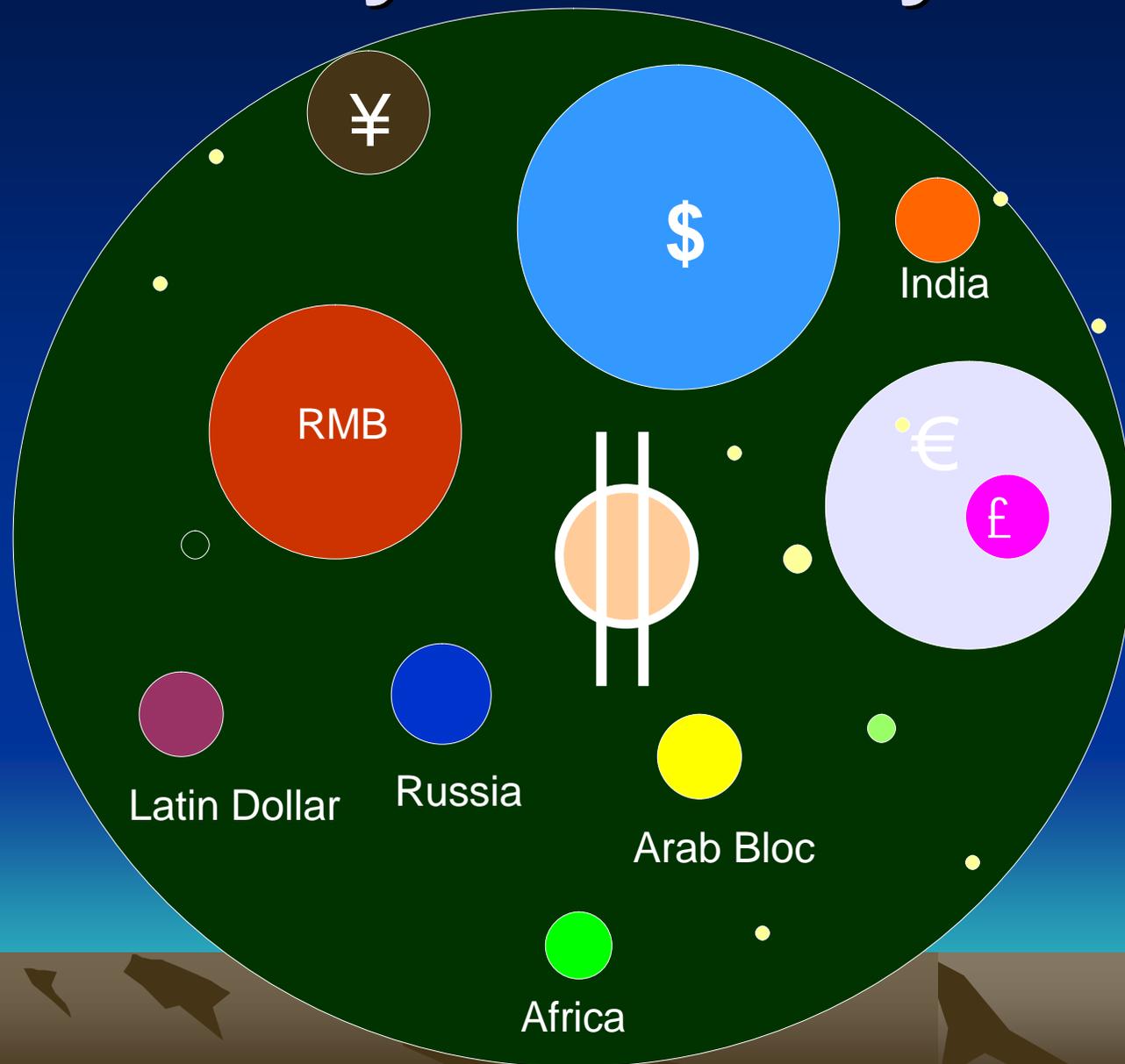
2010

- A global anchor based on two or three or four of the most important currencies would be a step toward a more reasonable international monetary system.
- I have suggested that a new kind of Bretton Woods treaty be debated and formulated by 2010.
- The debate over this issue would be a catalyst for dealing with other pressing economic and political problems.

Unfinished Business

- International monetary reform
- Growing recognition of need for world currency.
- Possible stabilization of \$, €, ¥ as platform for a world currency, called the **INTOR**.

Monetary Reform by 2010?



Thank You

