

Integration in Asia

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Outline

- Trade integration
- Financial integration
- Broader economic integration
- Political integration

Broader Vision (I)

■ Major Trends

- a) **End of Cold War – single super power**
- b) **American unilateralism**
- c) **American dominance of international economic institutions (corporate/financial dominance of American positions)**
- d) **Rise of China**

Broader Vision (II)

- e) Relative growth of emerging markets**
- f) Inequities in North-South trade relations**
- g) Instability in global financial arrangement**
- h) Inequities in global financial arrangements**

Global economic and political stability requires

- **Broader global consensus**
- **Based on a shared view of global /social justice/solidarity**
- **Strengthened Asian perspective could**
 - a) **Serve as counterweight to U.S. dominance**
 - b) **Diminish reliance on market fundamentalism**
 - c) **Help achieve these global goals**

Deficiencies in Global Reserve System (I)

- Large reserves are costly
- Costs increasing with global instability
- Borne disproportionately by poor countries
- U.S. actually benefits
 - Access to capital at more favorable terms
 - U.S. consumes beyond its income – large deficit
- System has deflationary bias

Deficiencies in Global Reserve System (II)

- System has bias for instability
 - Sum of surpluses = sum of deficits
 - If some countries have surpluses, others must have deficits
 - Deficits like hot potatoes
 - Problem of deficit countries just as real, problem of surplus countries

- Issuance of global reserves would reduce risks of instability

- Would not be inflationary

Deficiencies in Global Reserve System (III)

- Funds could be used to finance global public goods, including development
- Can be thought of as a club
 - Club could agree to only hold member countries in reserves
 - Would put pressure on all to participate

Towards an Asian Monetary Arrangement (I)

- **Shared reserves**
- **Not fixed exchange rate**
- **Surveillance**
- **Based on broader goals**
- **Alternative economic models**

Towards an Asian Monetary Arrangement (II)

- **Principle of competitive pluralism**
 - **Supports democracy**
 - **Competitive marketplace for ideas**
- **Greater incentives to come to mutual assistance, given greater interdependence**

Asian Trading Arrangements and Japan's Economic Policy (I)

- **China's economic rise change patterns of global comparative advantage**
- **Japan's efficiency advantage likely not to be sufficient to affect wage differentials**
- **Implies need to strengthen non-trading sector**
- **Eliminate "drag" caused by other distortions, including agriculture**

Asian Trading Arrangements and Japan's Economic Policy (II)

- **Strengthen science and technology**
- **Basis of FDI**
- **Taking advantage of established links**
- **Need to take unified stance in “bargaining” with U.S.**
- **But going beyond narrow self-interest**

Asian Trading Arrangements and Japan's Economic Policy (III)

- **To advocate interests of developing countries**
- **Including unilateral actions like lowering tariffs, quotas for poor countries**
- **Will help create better feeling towards Japan, Asia**
- **Enhance global stability**
- **Right thing to do – Setting example for U.S., others**
- **Enhancing social justice**