

# 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**