

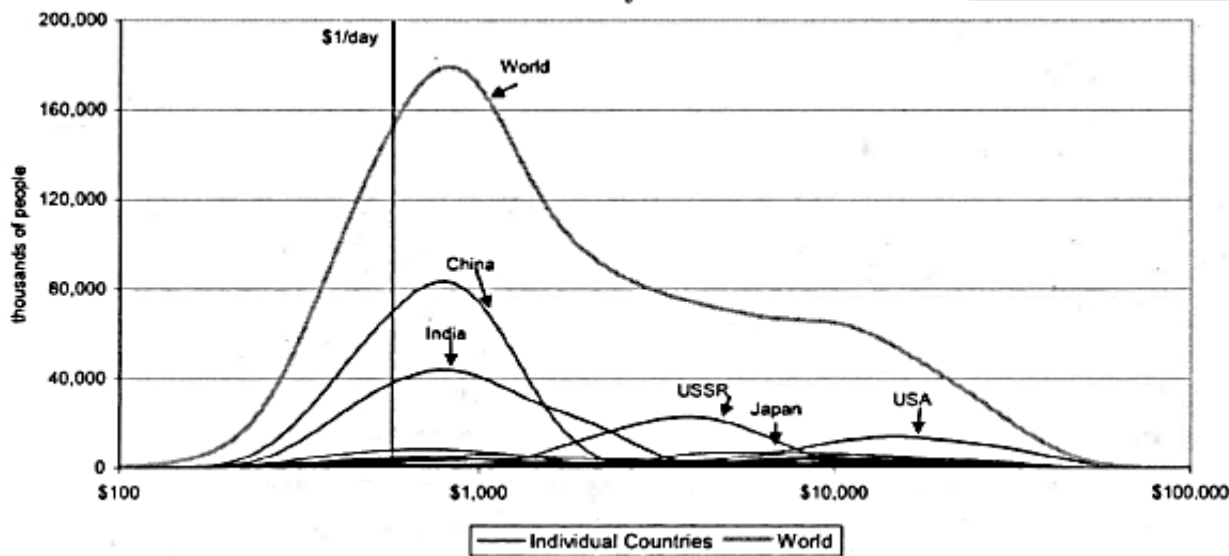
Does the global economy lack new sources of growth?

Il HOUNG Lee

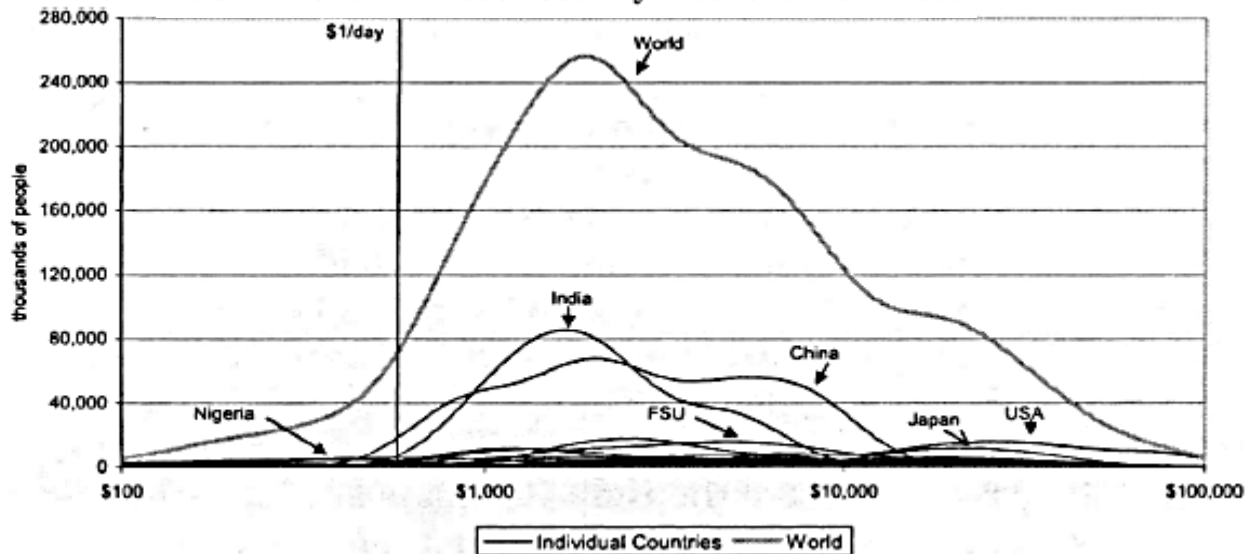
September, **2014 (Beijing)**

Global income inequality has improved while most within-country inequality has deteriorated

The WDI and Individual Country Distributions in 1970



The WDI and Individual Country Distributions in 2000

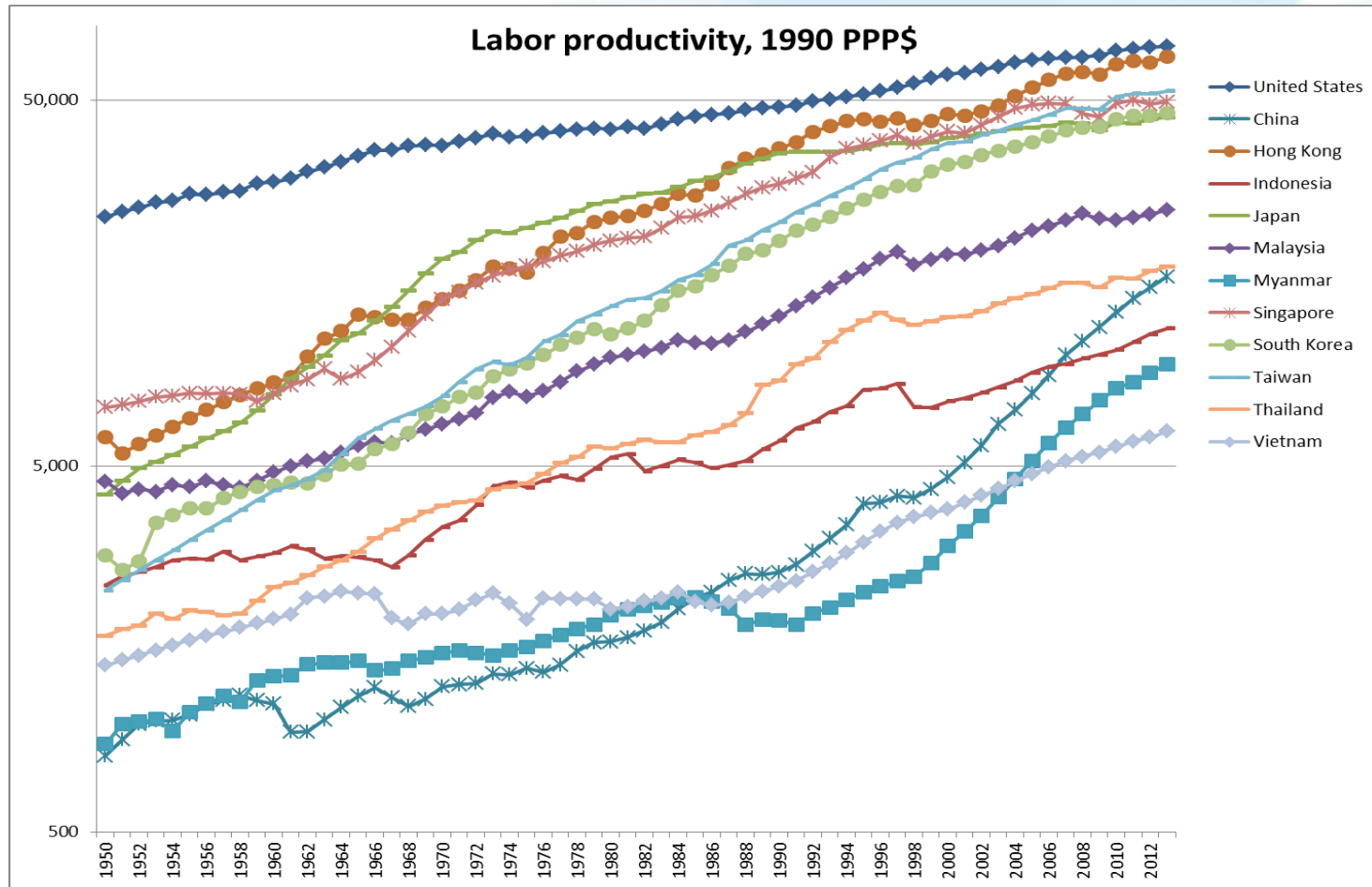


The World Distribution of Income: Falling Poverty and... Convergence, Period

Author(s): Xavier Sala-i-Martin

Source: *The Quarterly Journal of Economics*, Vol. 121, No. 2 (May, 2006), pp. 351-397

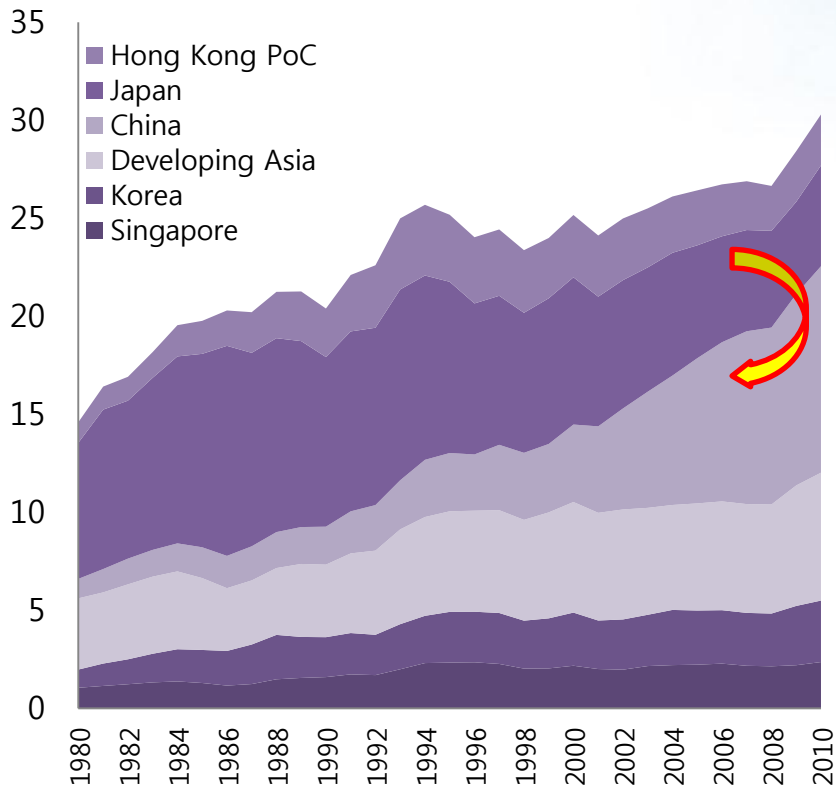
Asia in particular experienced rapid convergence to advanced countries



Source: Dani Rodrik; "Rethinking growth strategy in East Asia" presented at Korea Economic Association meeting, August 2014

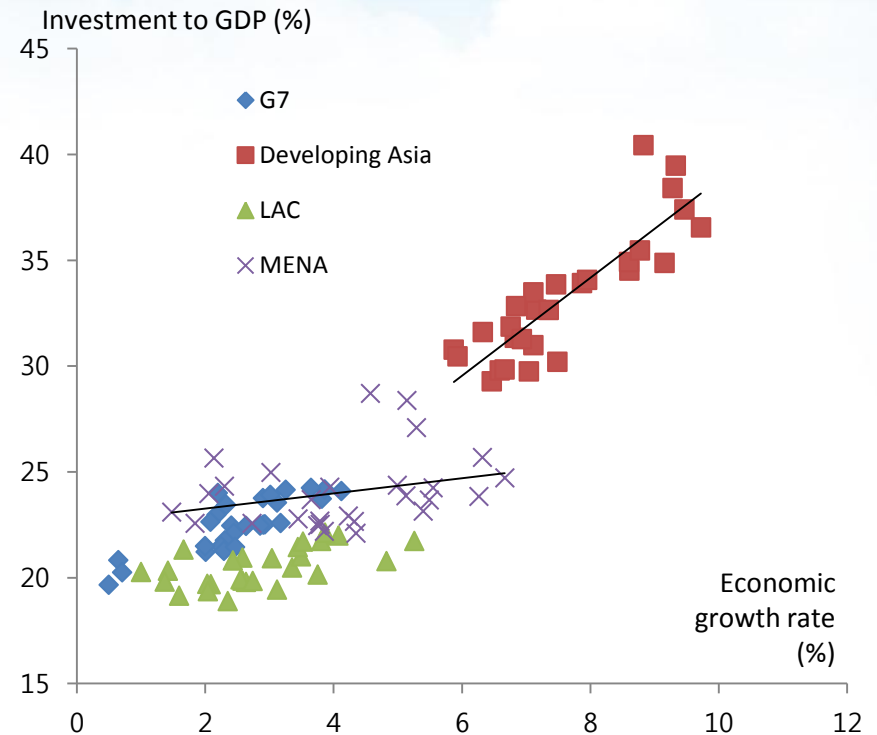
Which in turn can be attributed to exports (manufacturing-based) and investment

Asian countries' exports share of total



Source: IMF, WEO

Investment and Growth



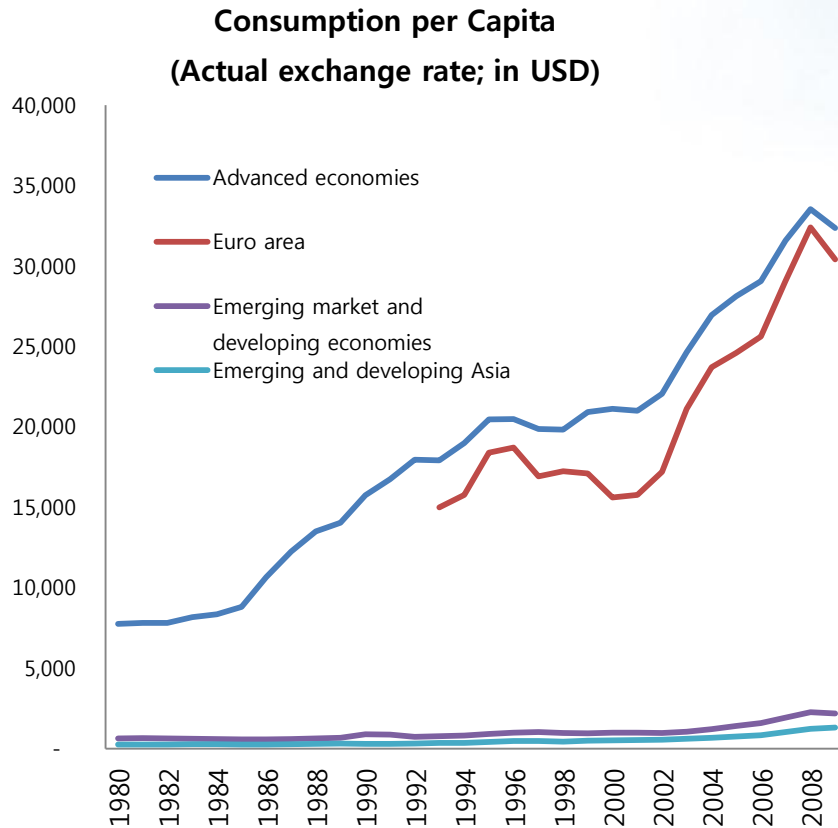
Source: WEO, KIEP staff's calculation



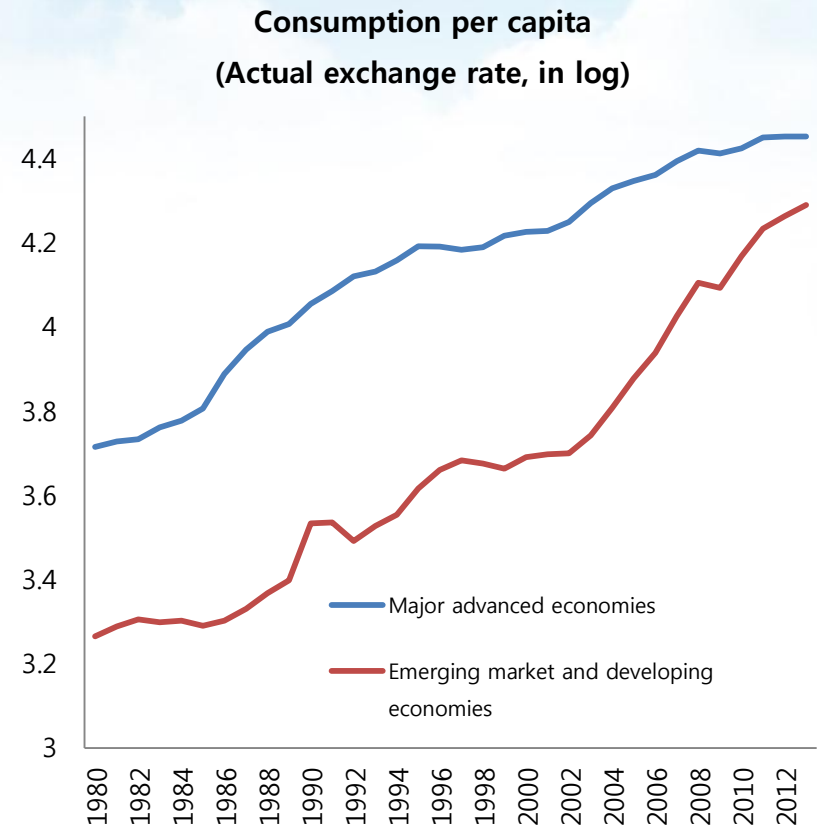
Economic Cooperation between the ADs and EMs

MUTUAL BENEFIT

All countries benefited from trade



Source: IMF, WEO



Source: IMF, WEO

Macro policies have facilitated consumption relatively faster than GDP, but incurred debt

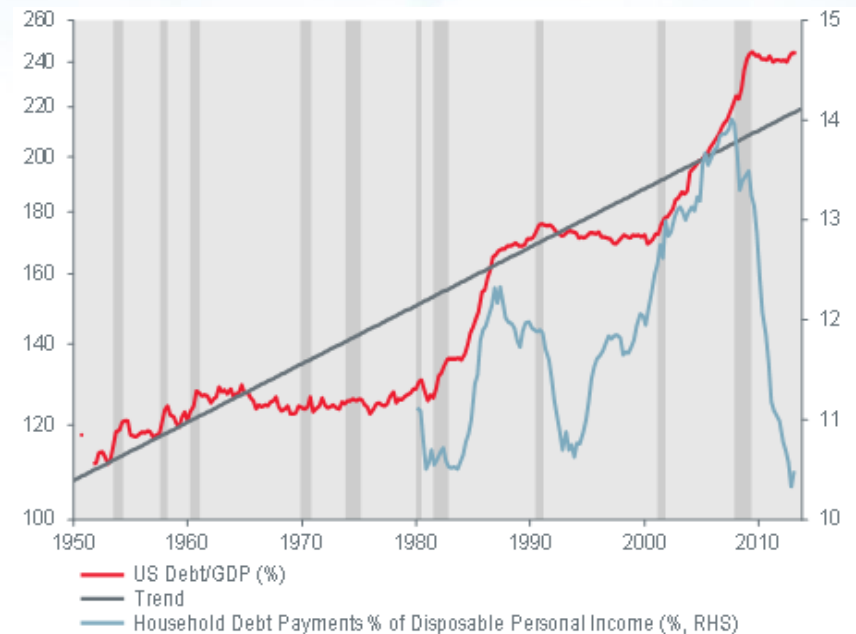
US: Money Market Rate Net of CPI Change (%)



Source: IMF database (IMF e-Library)

US Total Debt % GDP vs. Household Debt Payment

Total Debt = Govt. + Non Financial Business + Household Debt

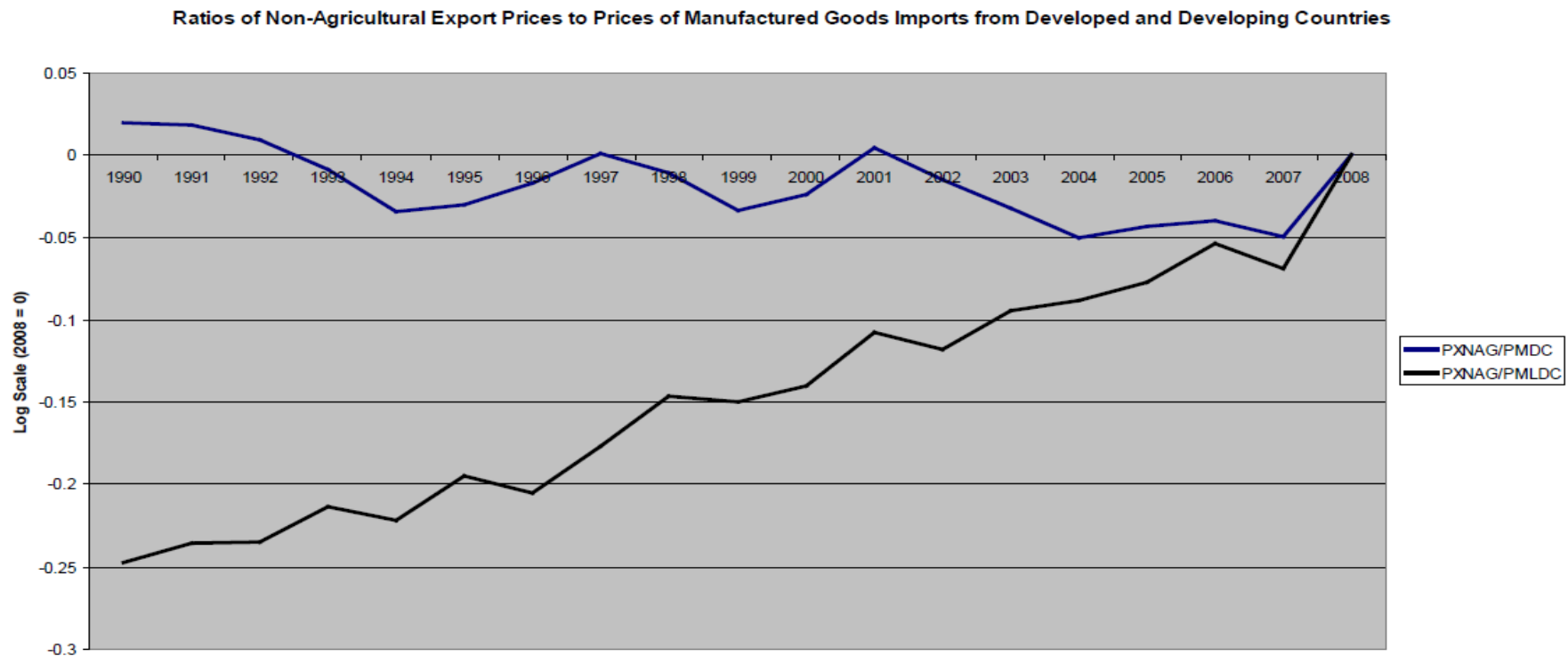


Source: Thomson Reuters Datastream, 10/28/2013

From Nicolas Ferres Presentation; Eastspring Investments (Singapore) Limited, October 2013

Consumption was further facilitated by declining import price (consumer products) from developing countries

US Export Prices rise Relative to Prices of Manufactured Imports from Developing Countries but not relative to the Prices of Manufactured Imports from Developed Countries.



Developing Countries Responsible for Manufacturing Terms of Trade Improvements: Good news for Living Stds.

Taken from Lawrence et al (2013)

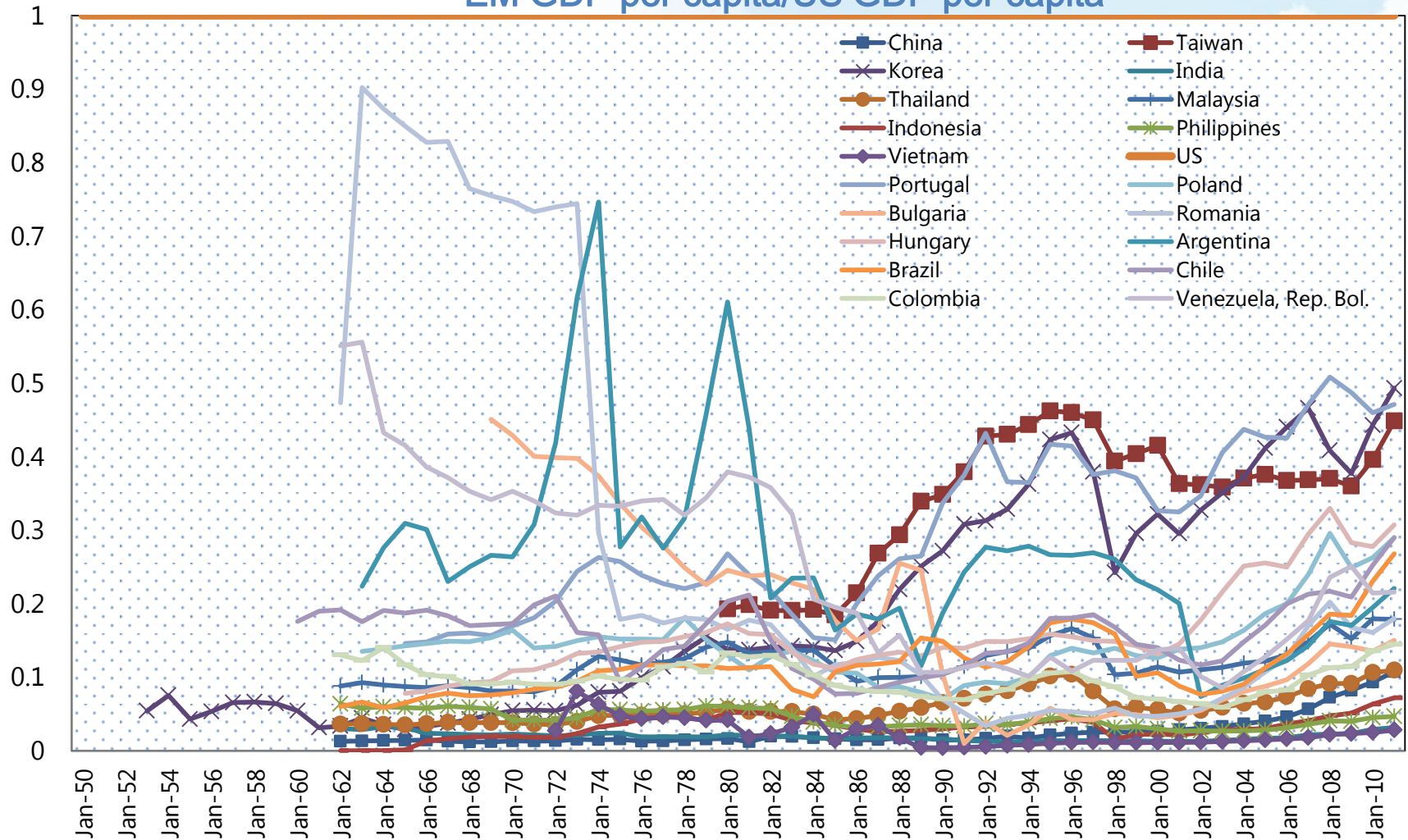


New Sources of Economic Growth

AMPLE SOURCES WITHIN ASIA

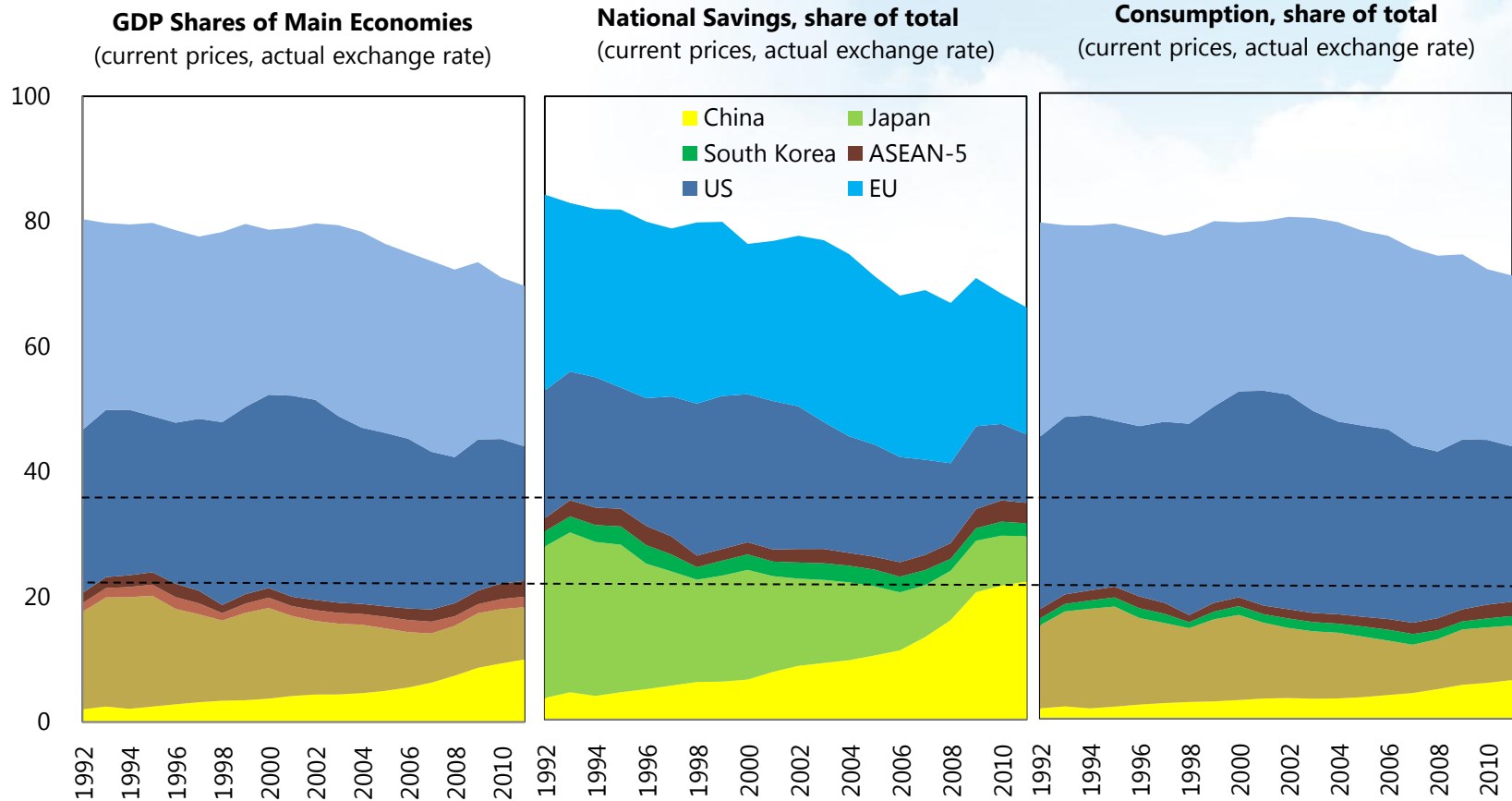
There is more than enough scope to increase demand from EMs with existing technology and labor

EM GDP per capita/US GDP per capita



Source: IMF, WEO

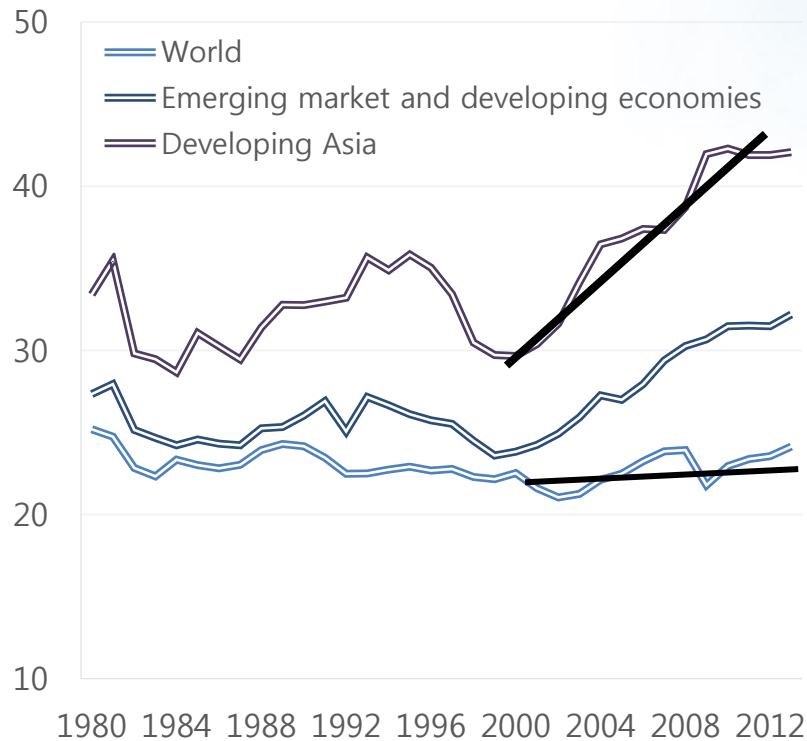
For now, Asia has more than the necessary savings to support the cost of its transformation



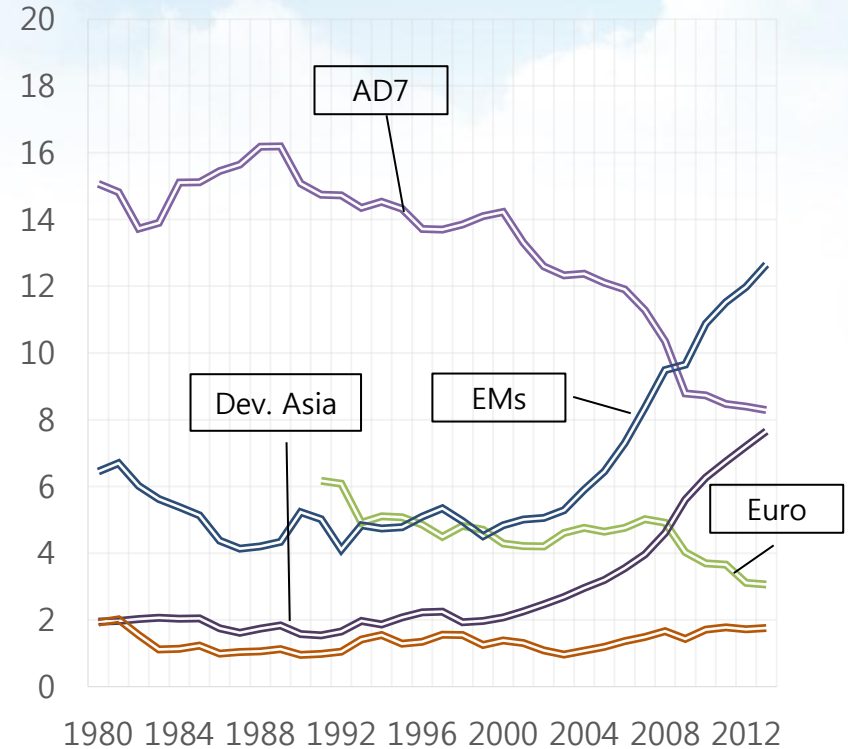
Source: IMF, WEO

It does not lack Investment; but rather there is a need for some reconfiguration of investment

Investment, in Percent of GDP



Investment, in Percent of World GDP



Source: IMF, WEO

But the following challenges have to be overcome



a. The rising threshold level to access the formal sector

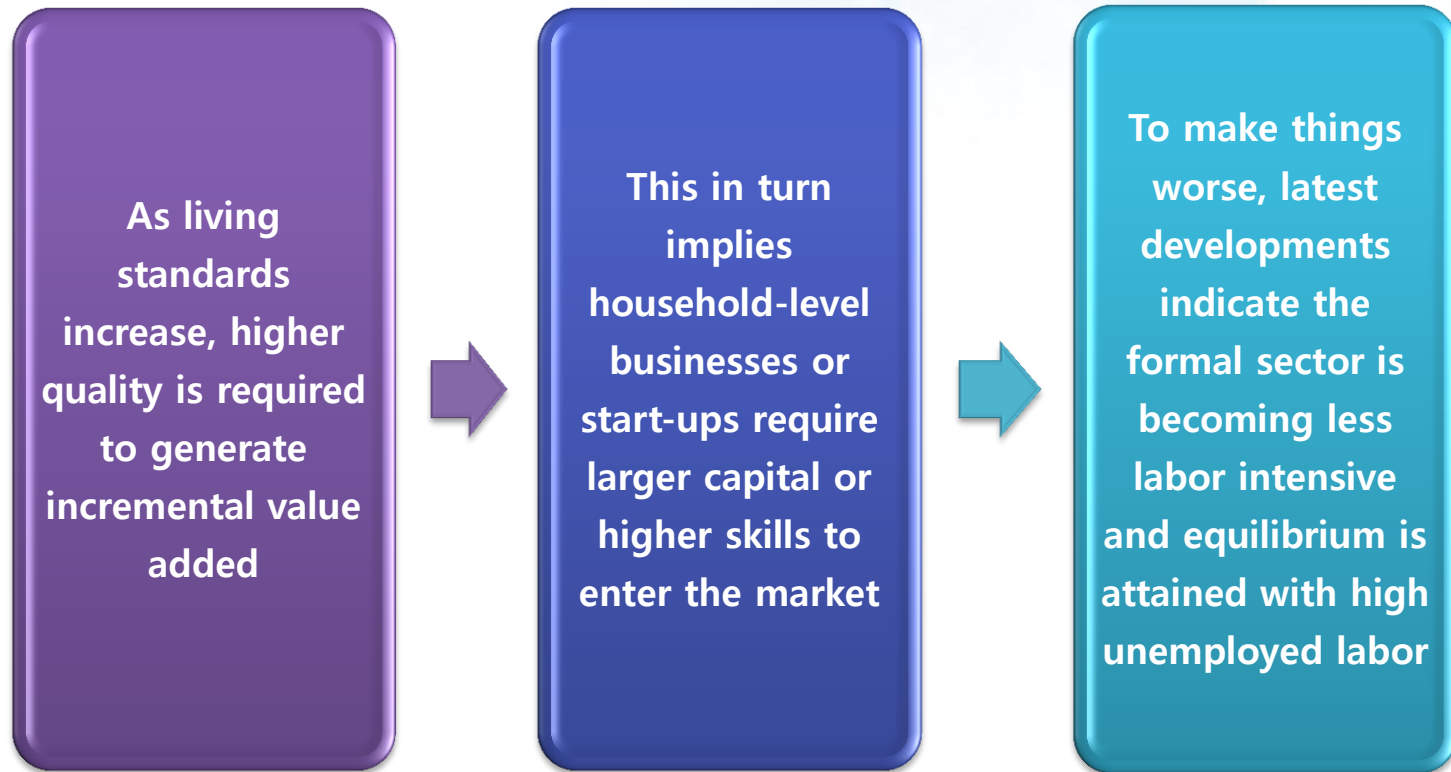
b. The current global stock (debt) problem

c. The corner solution of saving and investment

d. The deteriorating climate condition

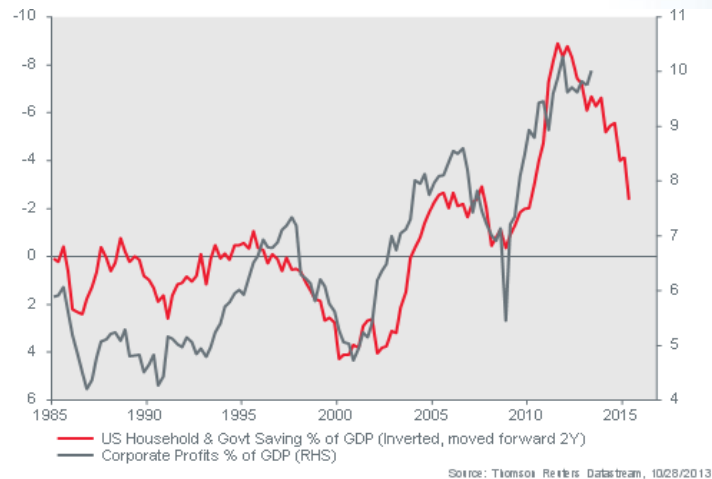
e. The usual

a. The threshold problem

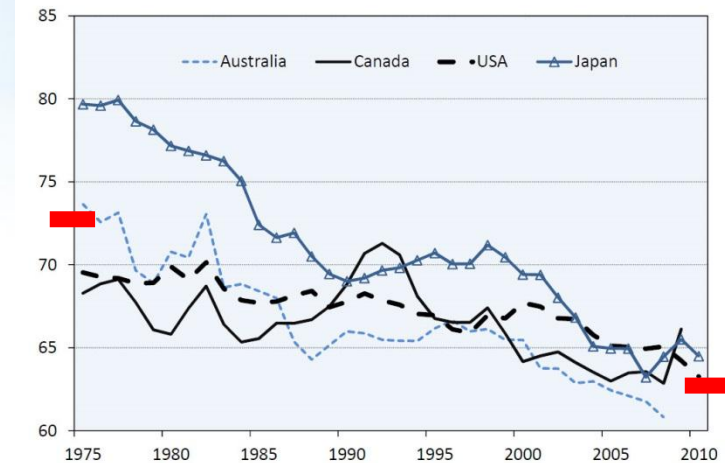


High corporate profits, falling wage bill, and high unemployment indicate lack of competition

US Household & Govt. Saving vs. US Corporate Profits

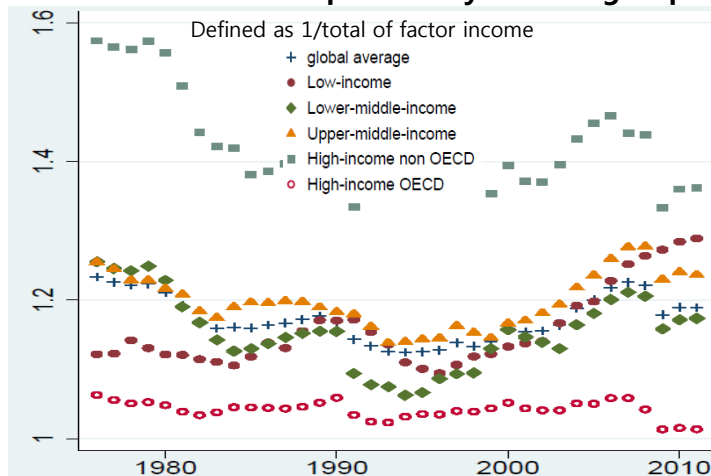


Wage share of GDP

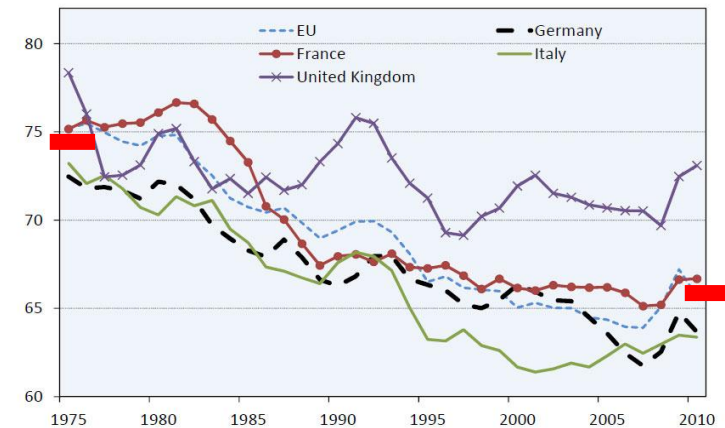


Source: ILO Global Wage Database

Measure of competition by income group



Source: KIEP Internal Report

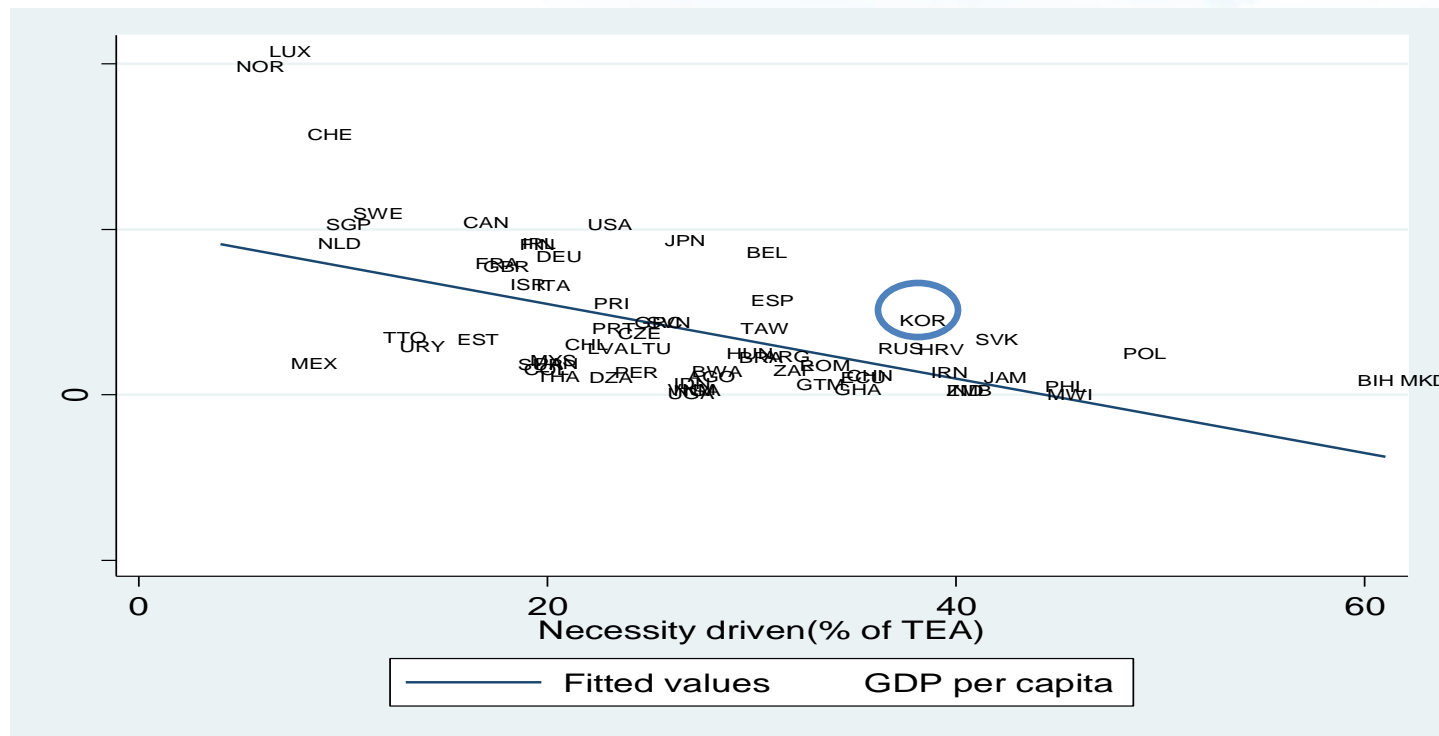


Source: ILO Global Wage Database

Thus, even advanced economies are not immune to
“necessity-driven entrepreneurial activity”

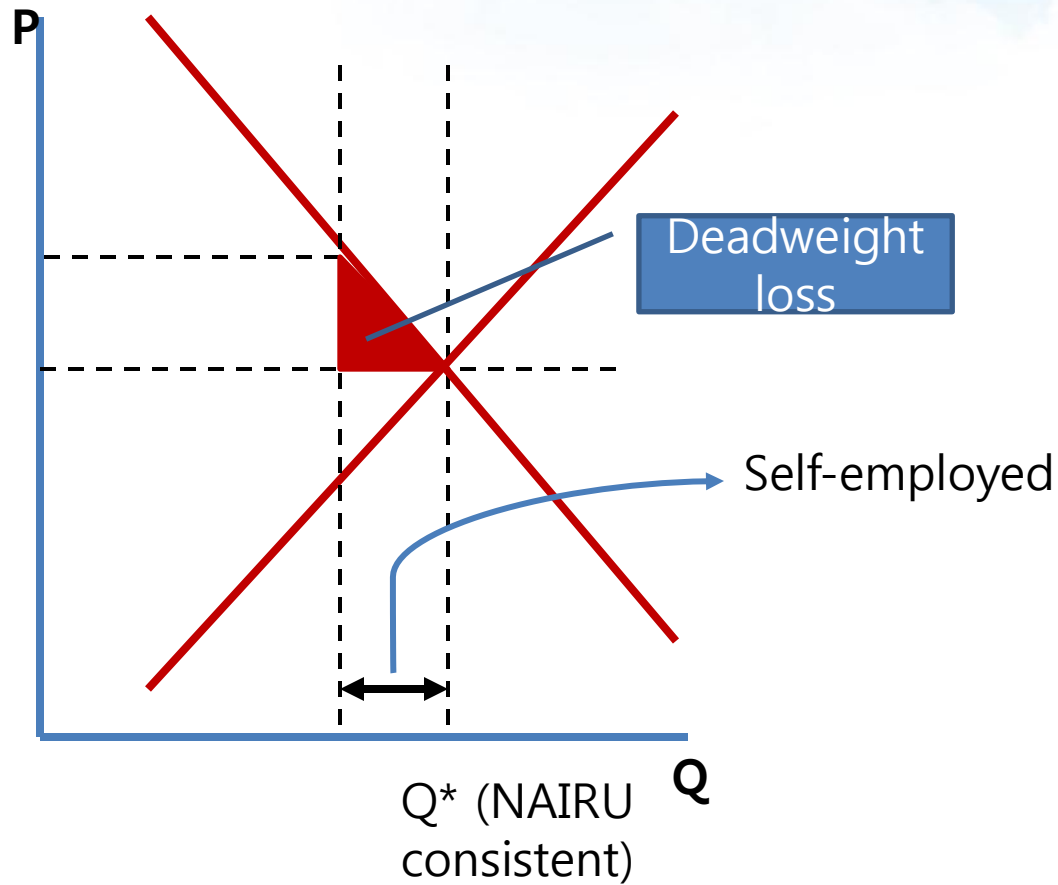
Necessity-driven Entrepreneurial Activity

(GDP per capita in USD and in percent, 2013)



Source: GEM(2014) and World Development Indicator(2013); KIEP staff's calculation

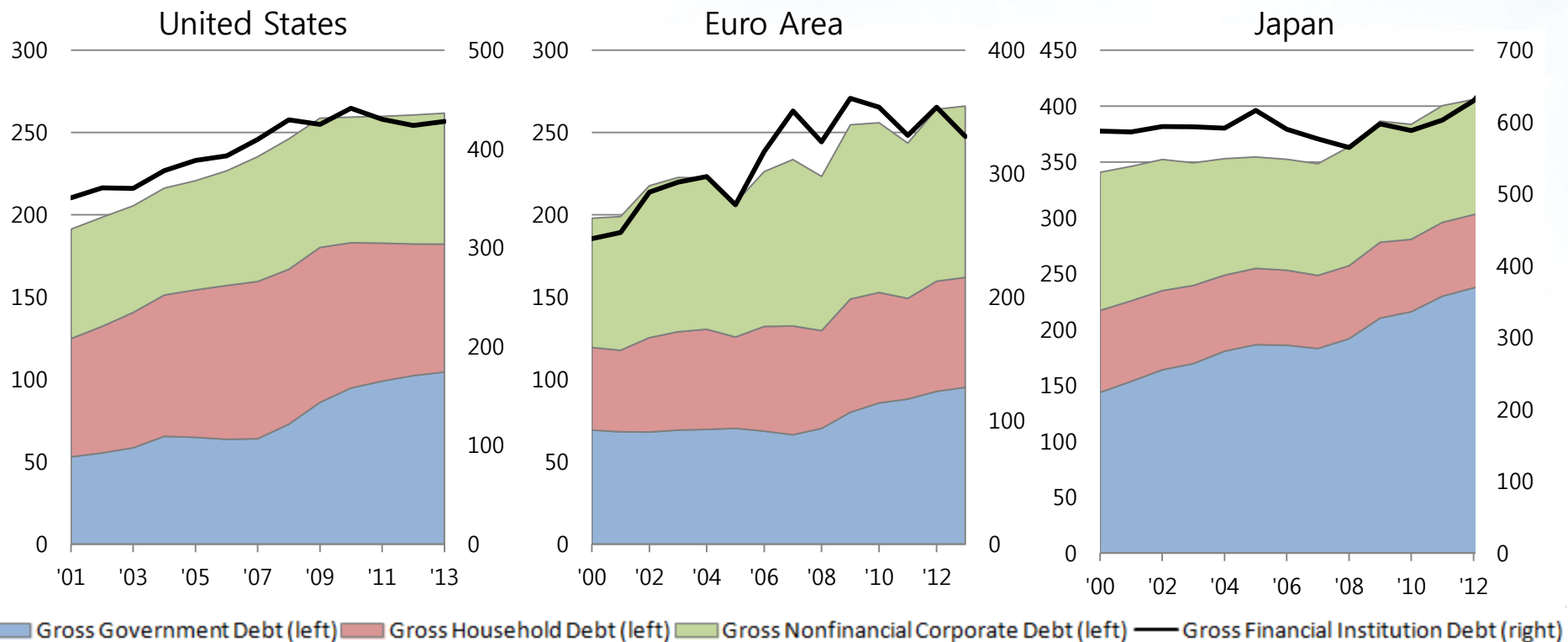
Lack of competition?



b. The current debt problem

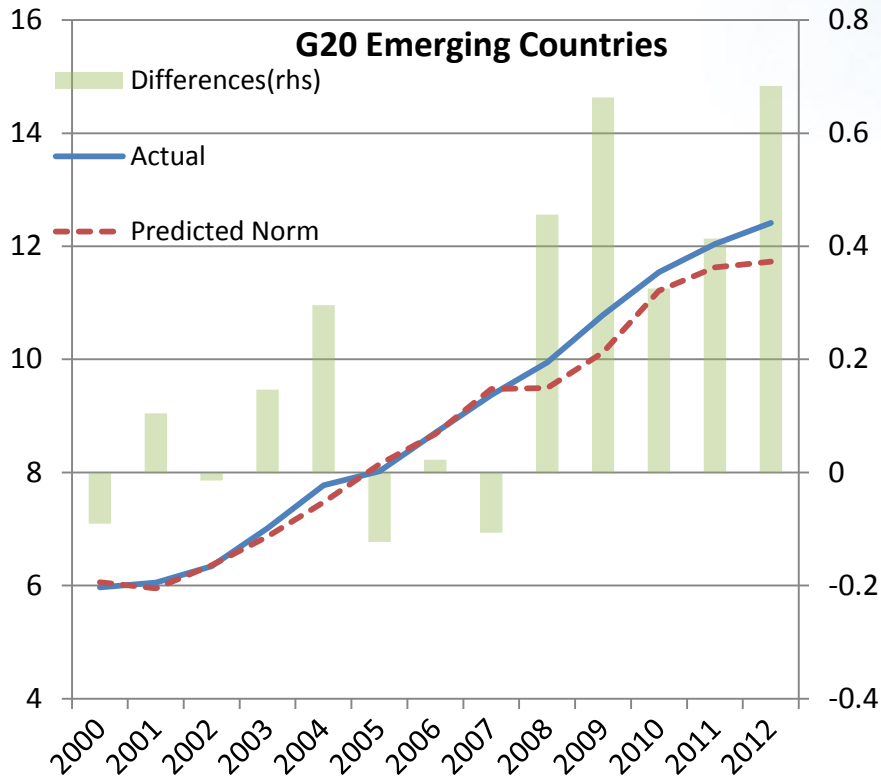
Total debt in advanced countries have not fallen, still posing a burden on global consumption and investment growth

Gross Debt in Selected Countries
(percent of GDP)

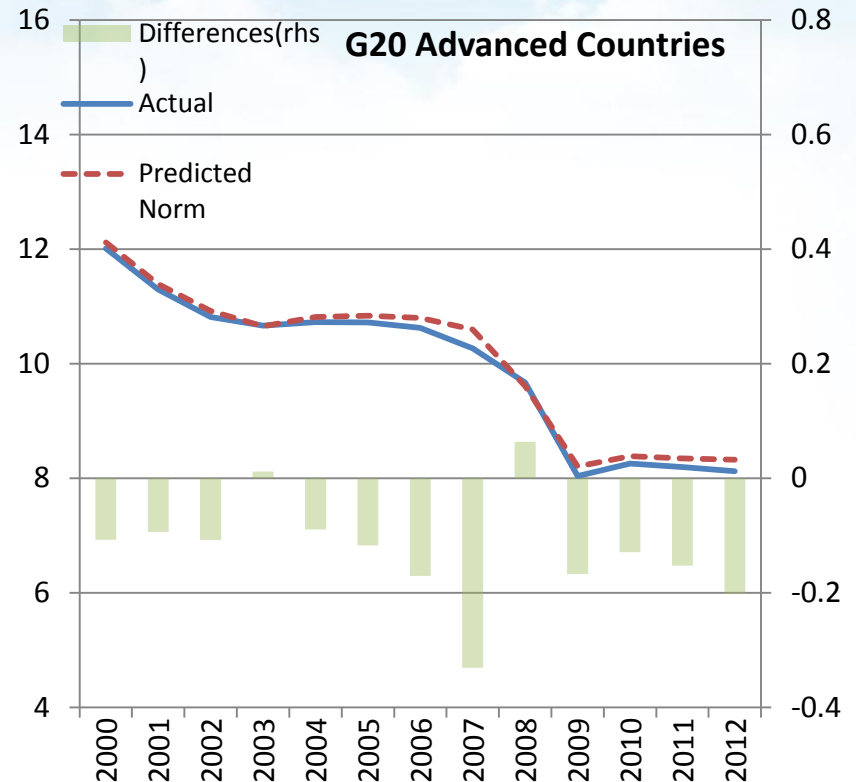


Source: IMF, WEO DB; BIS; The central banks of each country.

c. Lack of instruments for reallocating saving and investment

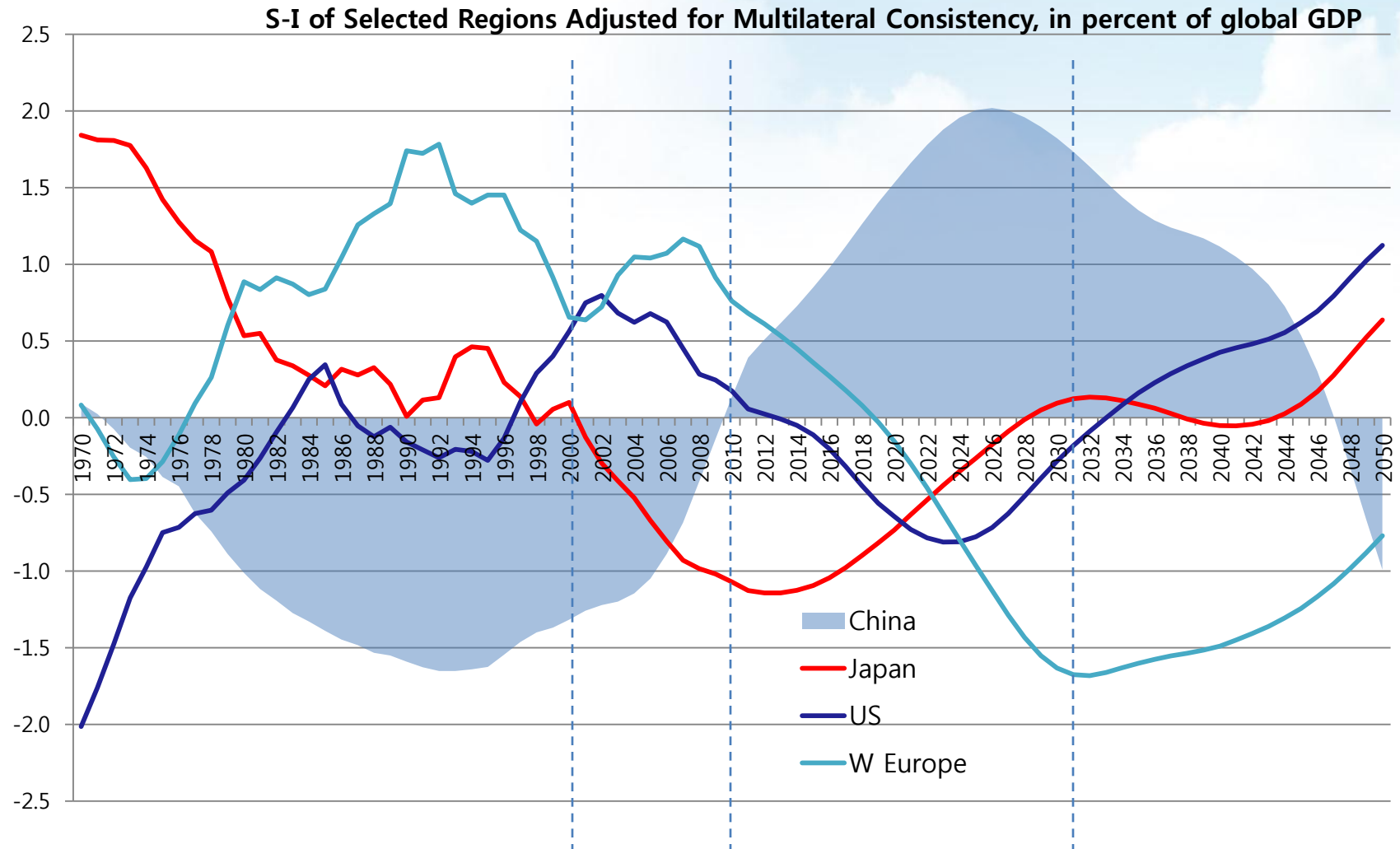


Source: IMF, WEO



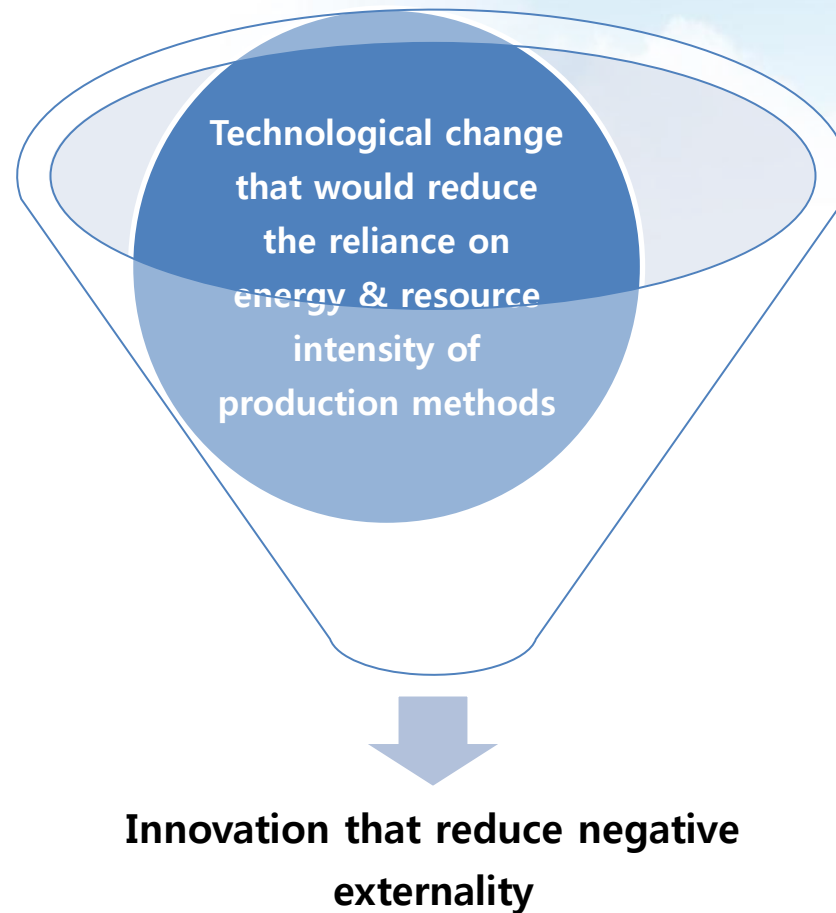
Source: IMF, WEO

When considering reallocation, inter-temporal rebalancing from aging also needs to be taken into account



Source: Author's calculation

d. The deteriorating climate change





Summary and Conclusion

AMPLE SOURCES BUT ALSO CHALLENGES

Summary

Better market framework, including enhanced competition and financial intermediation; and labor market skill upgrade

Parallel effort between macro and structural reforms to address the stock problem and to avoid dampening the growth momentum

Technical innovation that will reduce negative externalities and use less resources rather than simply cut labor input

Better policy coordination to ensure that saving is generated and channeled to right places with long term considerations

The dynamics that would ensue

EMs and LICs should be able to maintain consumption growth as long as jobs are self-sustaining.

- **Their overall GDP growth will slow to the extent that investment and exports will wane (if at all).**

Reviving domestic consumption should help rebalance as import will pick up and hence, also support advanced economies.

- **The success will depend to what extent EMs will be able to sustain domestic demand and policy coordination**

Thank You



Korea Institute for International
Economic Policy