

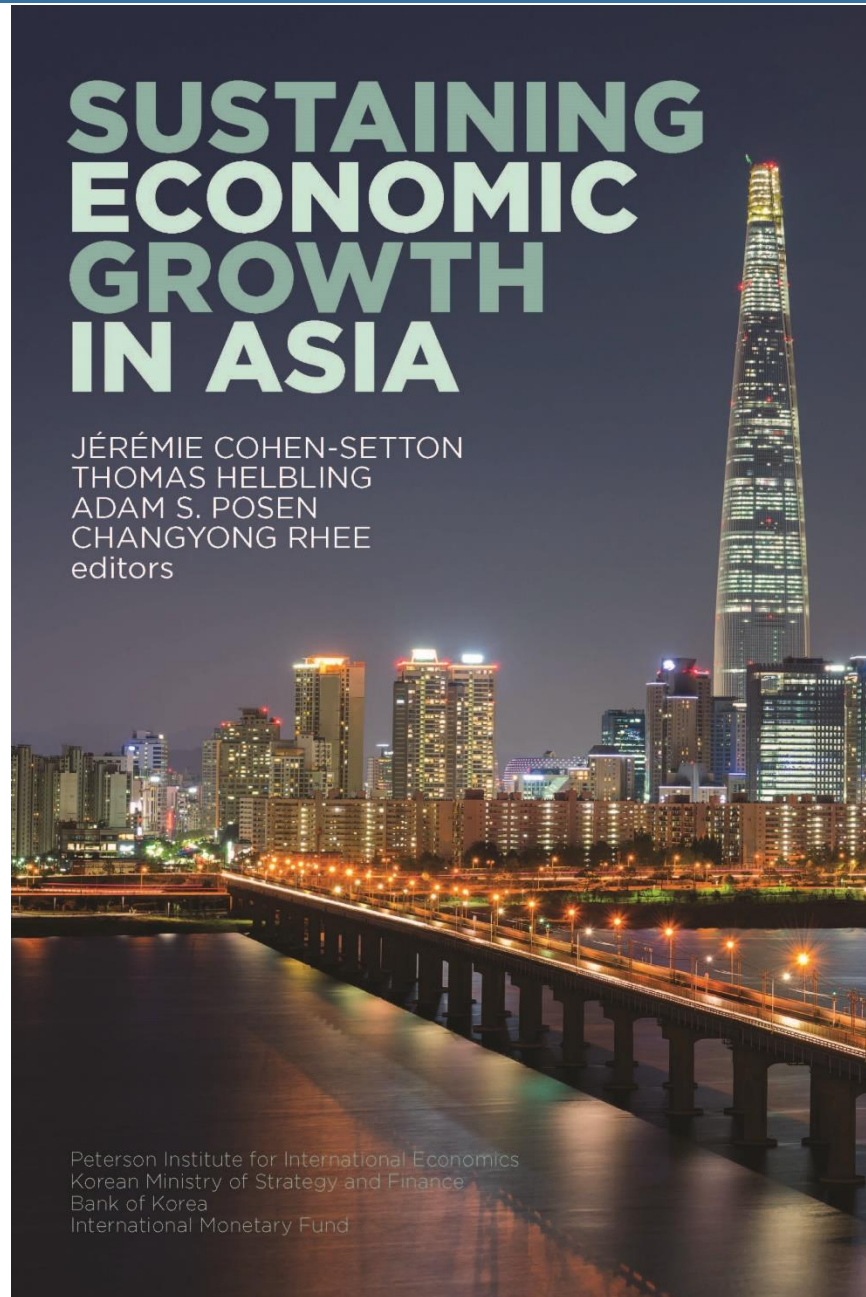
Can We Develop an Asian Growth Model for Today?

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October 31, 2018



SUSTAINING ECONOMIC GROWTH IN ASIA

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Can we develop a new Asian Growth Model?



How can we tell what works?

- Growth is overdetermined
- Japan/Korea seem to show a lot of growth is due to convergence or demographics
- But 'Asia' is diverse along every dimension
- Industrial policies and capital accumulation seem to vary in effect

➡ Our joint research project

Overcome the global slowdown?

- Technological slowdown
- Secular stagnation
- Global trade stagnation and premature deindustrialization
- Financial crisis aftermath
- Near-zero inflation

Is international or regional integration **+** or **-** ?

Questions to answer in Asia



- Is demographics destiny? Is catch-up the limit?
 - This seems to be too deterministic even for Japan and Korea
- Are there institutions (of wide applicability) that encourage productivity growth?
 - Public investment seems to be useful
 - Hyper-finance seems to be harmful
 - Market power and industrial policy are okay, but only if done in global markets
- Can employment stabilization only prevent problems or can it spur growth?
 - The jury is out, but failure to stabilize does persistent damage
- Is continued vigilance on inflation justified?
 - Seems easier to maintain price stability than it used to
 - Low wage growth does have bad political economy impact

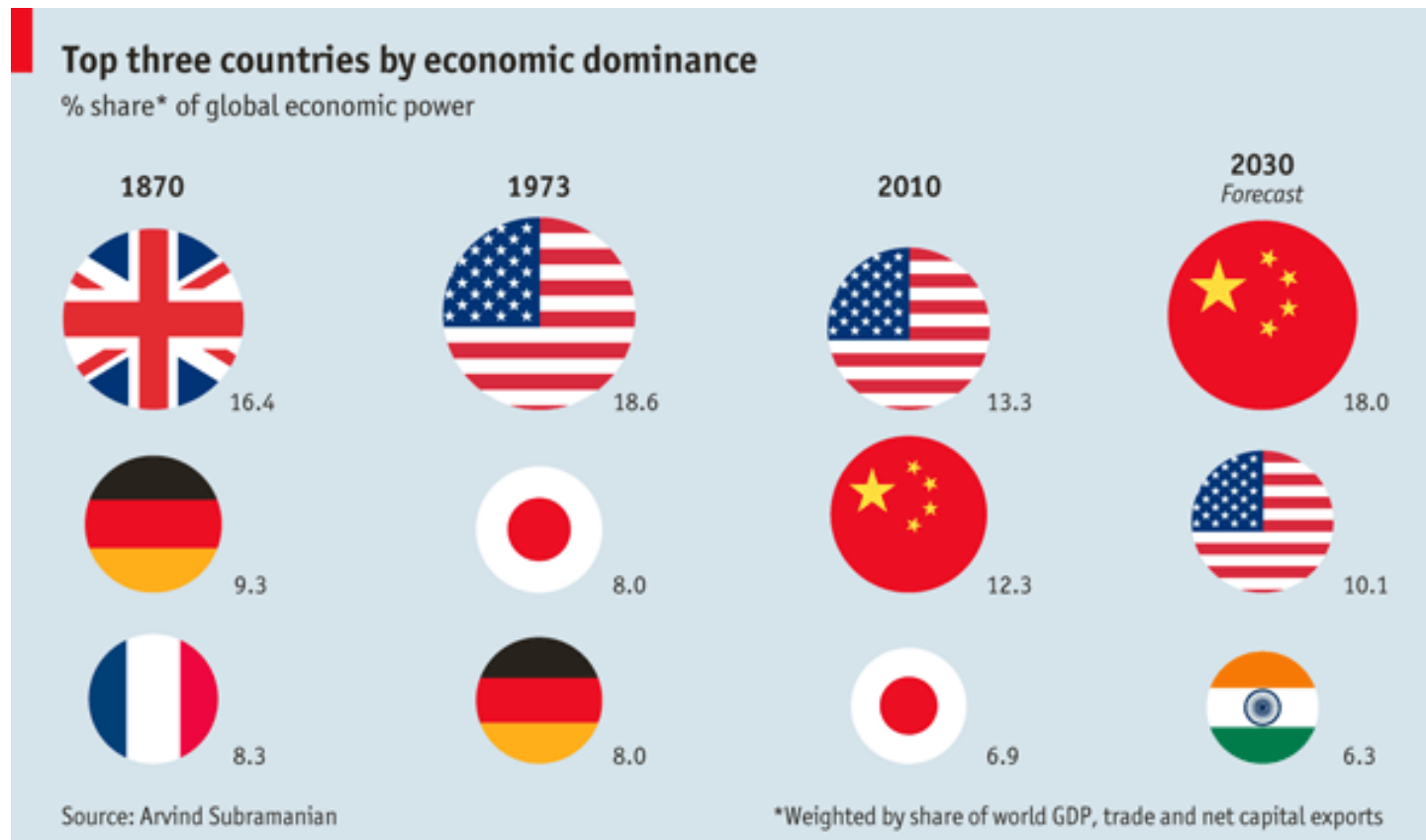
Questions to answer about ROW



- Is the slowdown due to the rich world's own problems?
 - Demand-led decline in growth seems plausible, but also something for which substitution via new markets is possible
- Is the slowdown due to currency appreciation in the East and trade protectionism in the West?
 - FX something of a contributor, but hard to blame it too much
 - Protectionism definitely bad and rising, as is uncertainty about it
 - Still, there is room for regional and domestic market growth
- Is reduced technological and financial diffusion at work?
 - Unclear channels and magnitudes, but timing seems indicative
- Is the West now exporting deflation to Asia?
 - In a literal short-term sense, seems inescapable
 - Whether this matters much or has lasting impact is more doubtful



Do we care about growth because we care about countries' GDP and power or people's GDP per capita and potential?



A three part contemporary growth strategy for Asia



- I. Deepen economic integration within the region
 - I. See IMF REO “The Evolving Role of Trade in Asia”
- II. Recognize and prepare now for demographic pressures
 - I. Increasing labor supply through female labor force participation, regional integration, and facilitating work is better than austerity
- III. Use fiscal room and monetary stabilization when needed
 - I. Insufficient counter-cyclicality during down times is more prevalent in Asia than excessive spending or looseness in boom times
 - II. Regional and international currency arrangements can assist in making use of these policies feasible

Can Asia work together to grow?



High standards can be Asian standards

- Interest in FDI grows South-South
- Trade grows South-South
- Public investment need not be corrupting
- Active policy stabilization should be used
- Migration can counter demographic trends as can female LFP increases

Int'l economic cooperation can be Asian-led

- If the US withdraws and China stays constructive
- Japan has moved to leadership and so should Korea and China
- Protectionism and currency manipulation can be mutually set aside
- Financial stability requires taking both domestic and international measures