

Rethinking Alternative Growth Paradigms

□ Mah-Hui LIM

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Outline

- I – Crisis & Asian Development Models
- II – Inequality & Declining wage Share
- Limits of Asian Export Driven Economies
- Case of China, Malaysia, S Korea
- Conclusion

Crisis and Asian Development

- ❑ Financial Crisis Exposed structural weaknesses in present growth models for Asia. Asia:
- ❑ Greater integration to world economy in trade and finance.
- ❑ Dependence on foreign markets and FDI.
- ❑ Exposure to international financial instability and unstable capital flows

Focus on Inequality – one mega trend in 21st century

- Mainstream economists see inequality as result of technical issues and inequality of opportunities such as technological change, trade competition, market oriented reforms, lack of access to education, health etc.

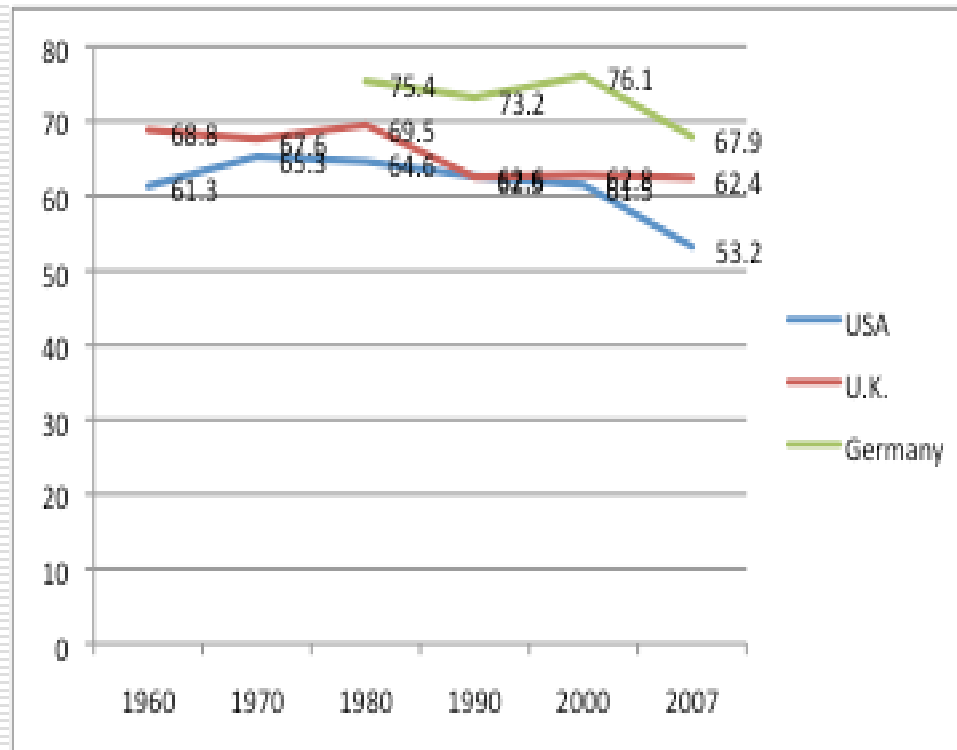
Inequality driven by macro not micro economic forces

- Inequality fundamentally related to structure of production & distribution
- Important part of Asian dev model has been increasing inequality - part of global trend
- Greater competition for foreign investments & external markets-based on wage competitiveness and cost reduction

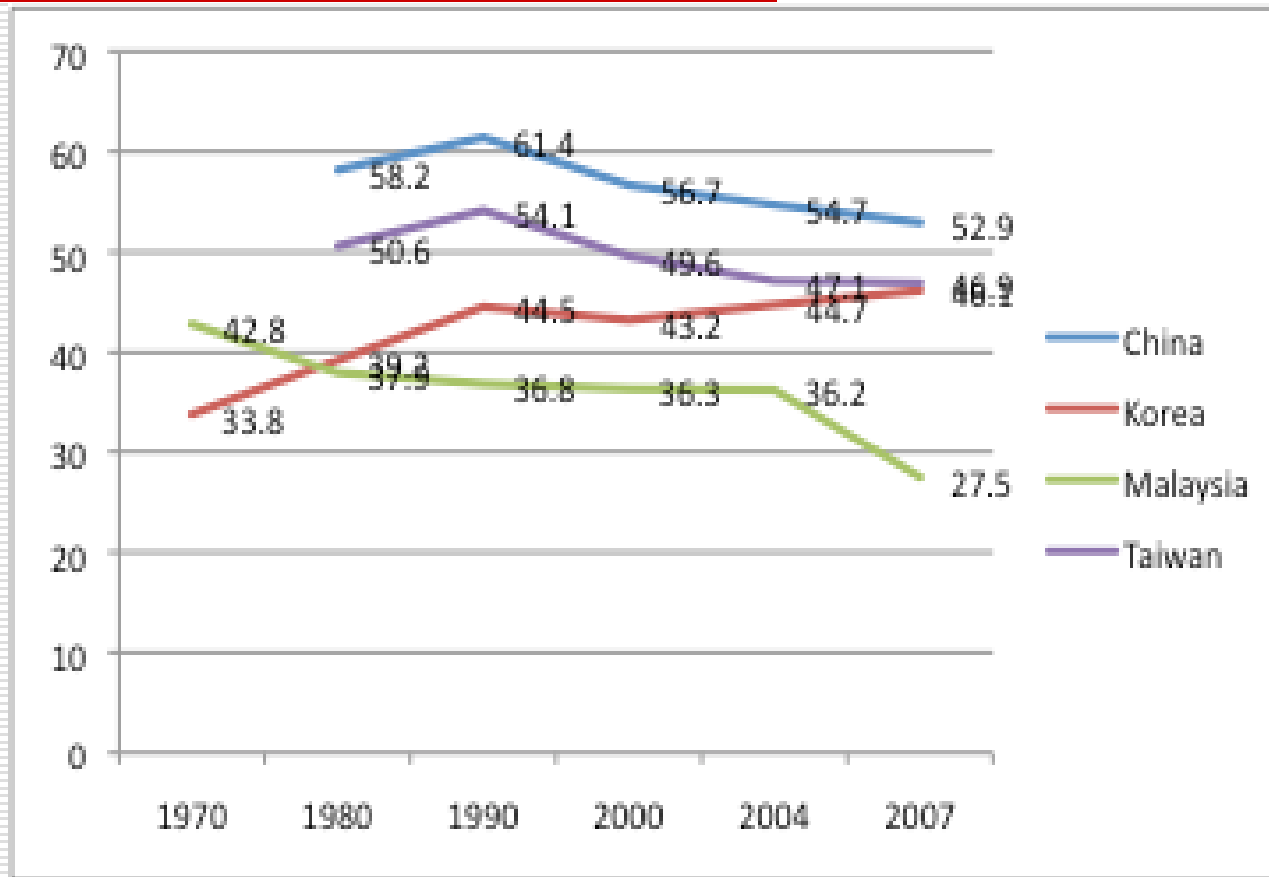
Result in bias in higher returns to capital over wages

- Evidenced in two trends:
 - Declining wage share of GDP and increasing share of capital
 - Divergence btw wage and labor productivity with wages falling behind productivity

Declining Labor Share of GDP, 3 OECD countries 1960-2007



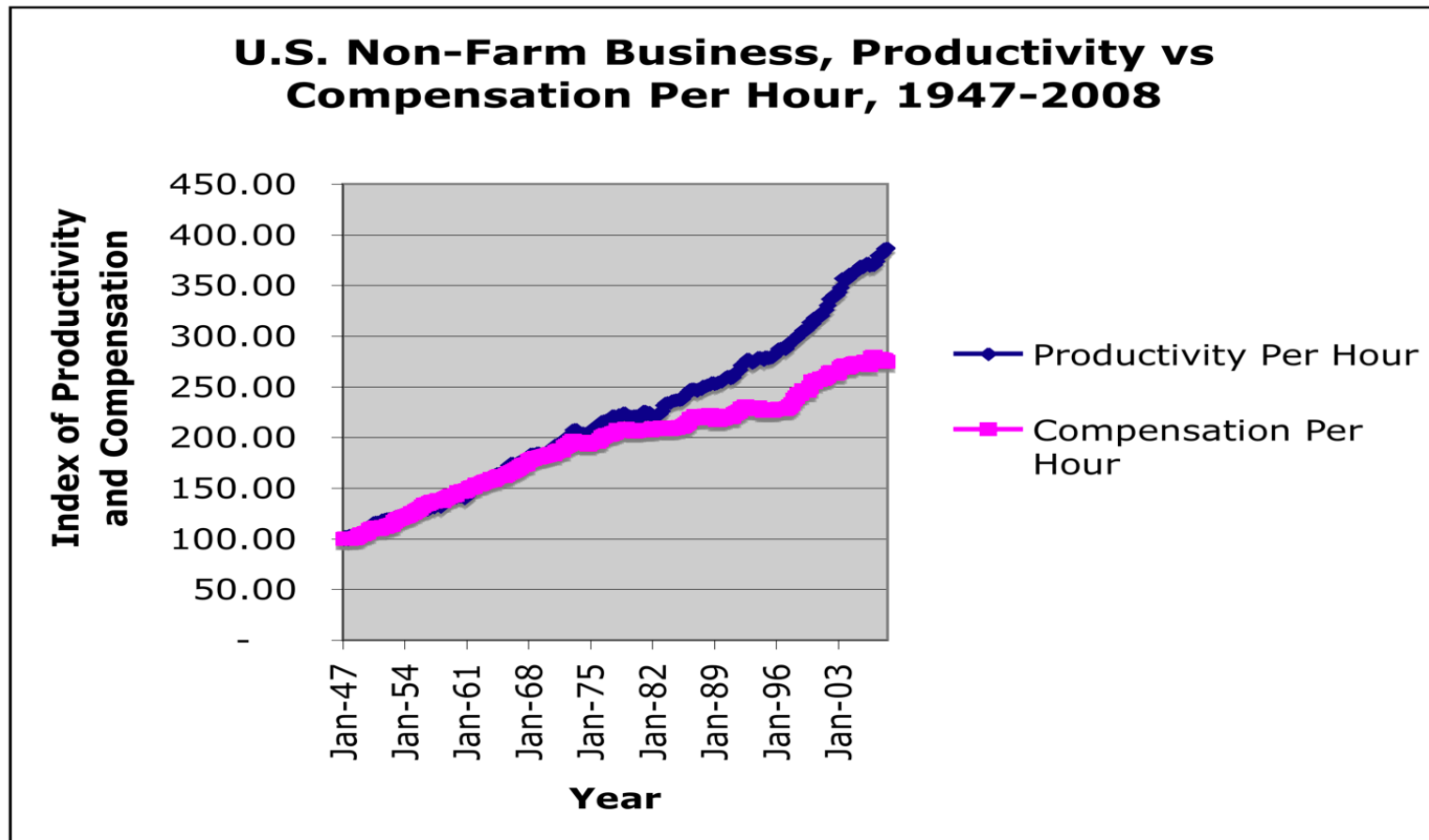
Labor Share of GDP, 1970 – 2007, 4 Asian Countries



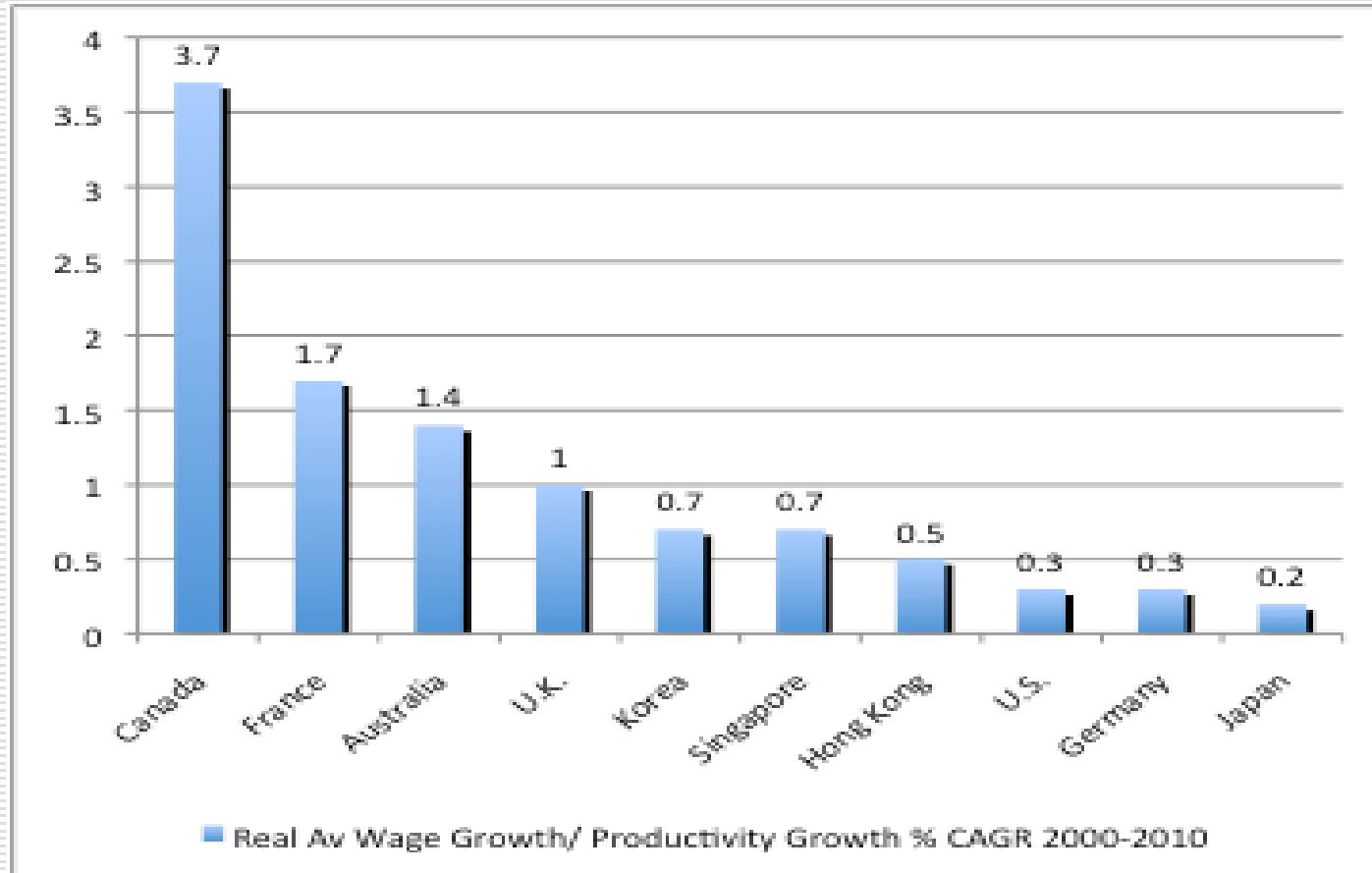
Link Btw Declining Wage Share and Wage Falling Behind Productivity

- Fundamental link btw declining labor share and the divergence btw wage increases and labor productivity increases.
- Wage increase lag behind productivity growth

U.S. - Wages lagged behind productivity



Real Av Wage Growth/Productivity Growth 2000-2010



Wages - Not Simply a Cost Factor

- Its also a **Demand Factor** in growth
- A decline in wage share, esp when real wages fall (U.S.) or even when real wages are rising (China) leads to under-consumption
- Growth is then maintained in 2 ways:
 - increase in debt-financed spending (US)
 - increase in exports (China)

Debt-Driven and Export Driven Economies

- USA model of domestic and **debt driven** economy
- China/German/Japanese model of **export driven** economy
- In export-driven economy, the gap between potential output and domestic demand is taken up by exports
- The problem is externalized > global imbalances in trade

Consequences of a Debt-Driven Economy – U.S.

- ❑ 1960-2007, USD GDP grew 27x but Household Debt rose 64x
- ❑ Financialization fuelled debt and asset bubble > great financial collapse

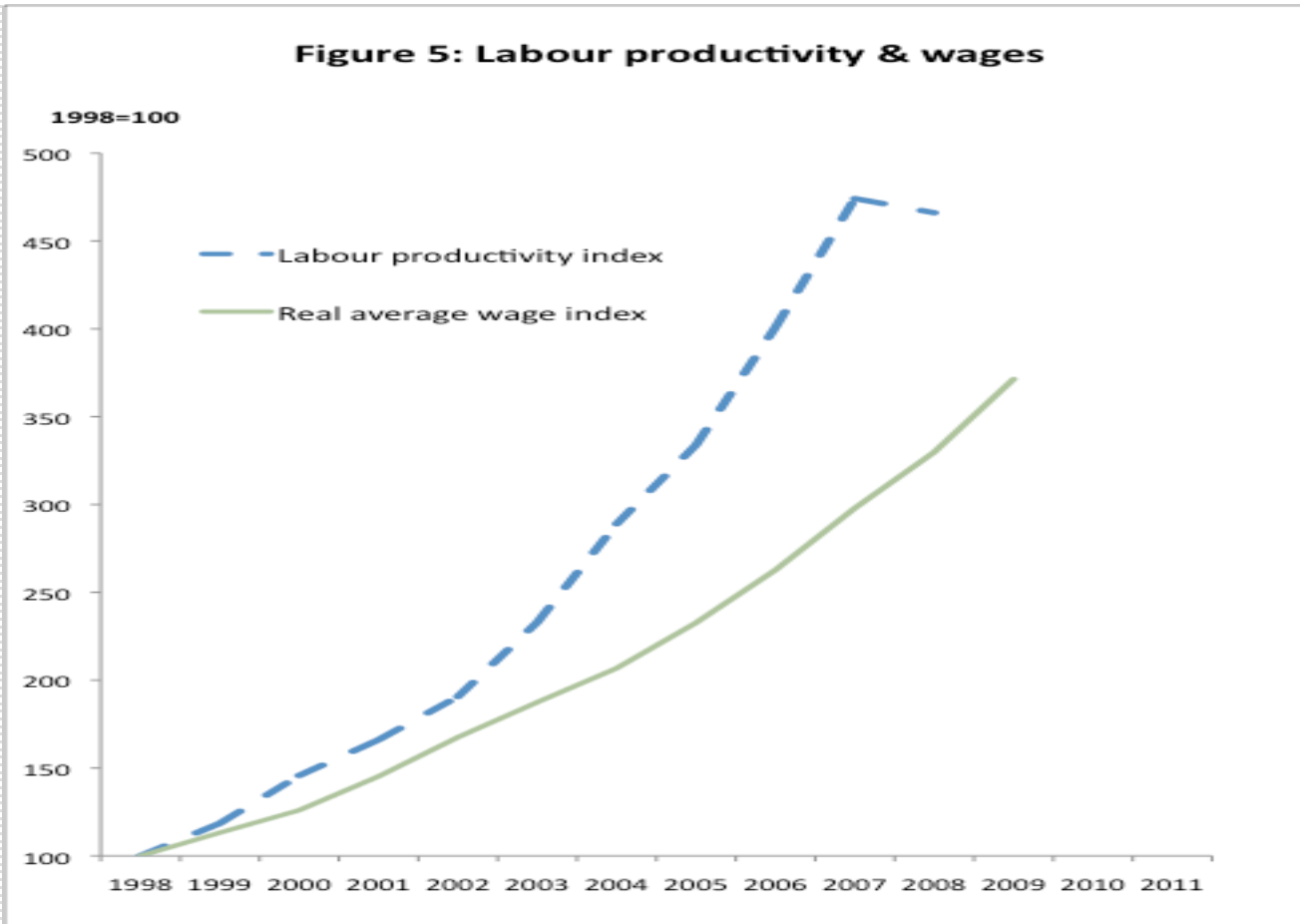
Limits to Export-Led Growth based on wage competitiveness

- Case of China
- Case of Malaysia

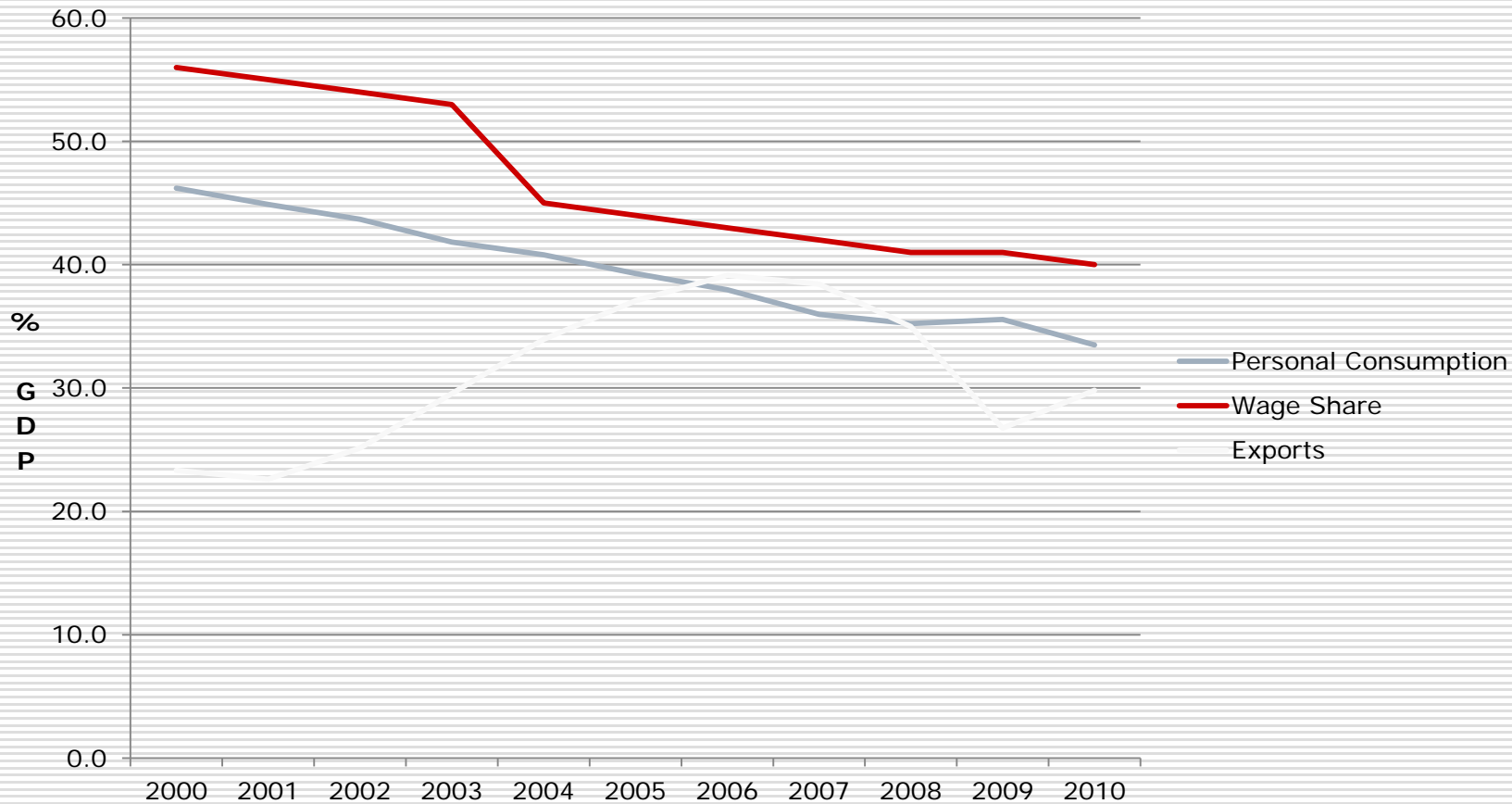
What about China?

- ❑ Under-consumption due to declining wage share despite rapid growth – wages fall behind productivity growth
- ❑ Growth driven by exports&investment
- ❑ Problem is externalized resulting in global imbalance
- ❑ Private consumption depressed-35%
- ❑ Household debt still low abt 30% GDP as financialization still nascent

China – productivity grew 180% & wages 92% btw 2000-2007



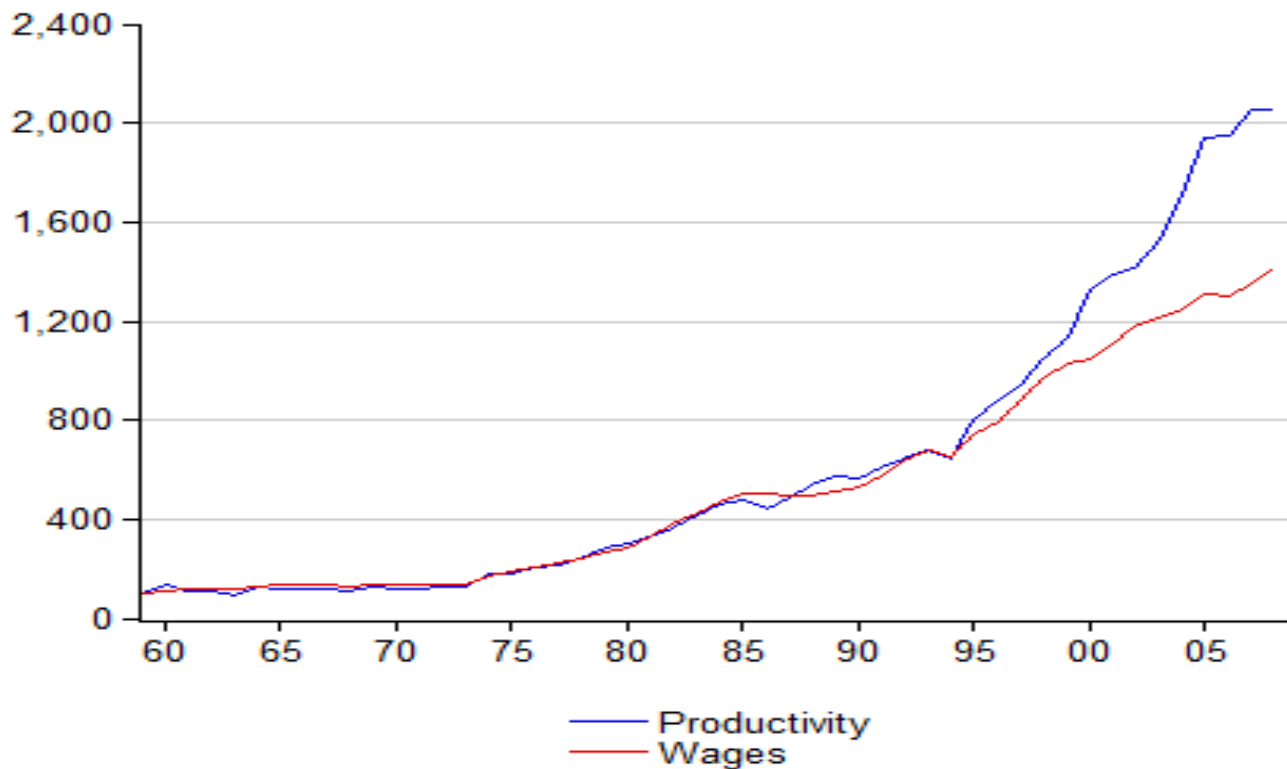
China: Consumption, wage share and exports 2000-2010



What about Malaysia?

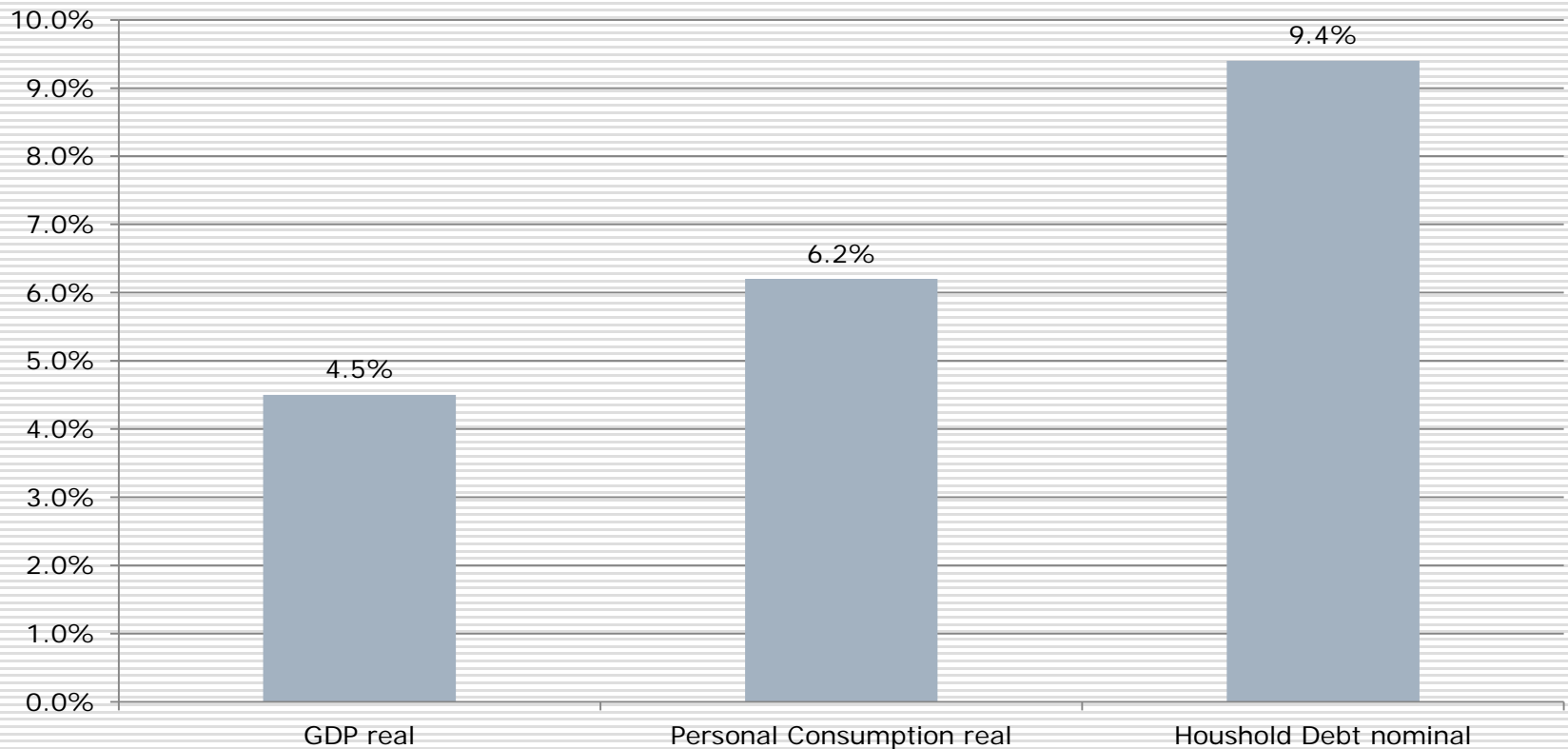
- ❑ Exports growth declined but still at about 100% of GDP.
- ❑ Exports based on low wages
- ❑ Wage share of GDP declined fr 36% to 30% btw 2000-2008
- ❑ Consumption supported by HH debt which rose fr 59% to 64% of GDP (2005-10)

Malaysia – Productivity and Wages in Manufacturing Sector



Malaysia: Growth of Income, Consumption, Household Debt

2006-2010 Avg Annual Growth



Korea – also export led

- ❑ In early stages, growth not based on low wages or FDI
- ❑ Based on industrial policy, domestic investment, agricultural productivity and selective FDI for technology
- ❑ State played crucial role
- ❑ Wages trailed closed to productivity and wage share of GDP rose from 32% to 48% (1975-1990)

Korea: Wage Share of GDP, 1970-2010



Korea – Productivity vs Real Wage Growth 1990-2010



Korea: Wage vs Productivity, 2000-2010

- ❑ After Asian Financial Crisis, wage share declined & wage growth fell behind productivity growth
- ❑ Exports continued upward trend
- ❑ Personal consumption rose driven by rise in household debt that rose to 82% of GDP & 100% of disposable income. Evidenced in credit card bubble

Major Lessons – Limits to Export-Led Growth

- ❑ Difference btw export and export-led growth. Exports necessary in initial stages but beyond a certain level – counter productive
- ❑ Export-led growth based on global wage competition represses domestic wages and demand

Lessons – Limits of Export Led Growth

- ❑ Post global financial crisis, Asia cannot depend on rising exports to US and Europe
- ❑ Need to re-orientate to domestic and intra-regional demand
- ❑ Mainstream voices call for increasing financial development & integration

Need Domestic and Wage Driven Growth

- ❑ Need to avoid debt-driven growth & change income distribution structure
- ❑ Government –must play role to ensure wages keep up with productivity increases.
- ❑ Instead of racing to the bottom thru wage competition, countries should coordinate for sensible wage policy

□ THANK YOU