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# "Global Imbalances" as the Structural Dynamics of U.S.-led Growth: From a Flying-geese Theoretic Perspective

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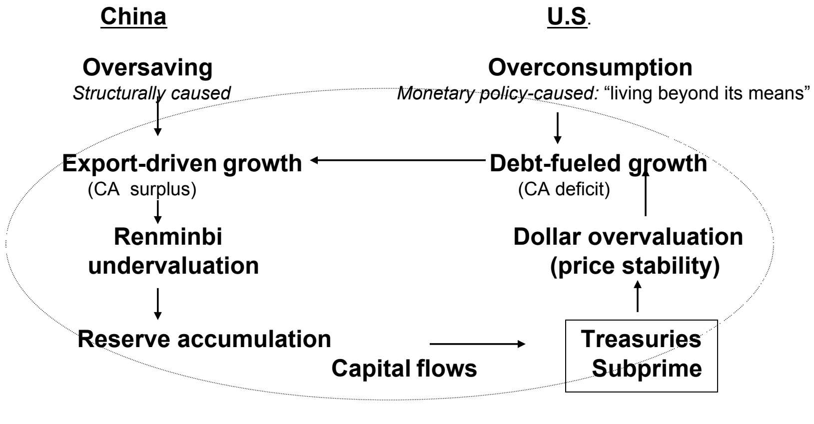
## Global (G2) Imbalances and the Perfect Storm ("virtuous spiral") of Financial Crisis




* Even *without* China, U.S.'s monetary expansion and the housing bubble would have occurred, though the financial bubble was egged on by China's involvement.
* The above "*virtuous" spiral* was disrupted by the financial crisis in 2008.

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## Post-crisis remedies

- Call for *rebalancing* (Summers/Obama): China should spur domestic demand, U.S. increase savings. Will it work?
- China's CA surplus/GDP ratio declined from 11% to 6%, U.S.'s CA deficit ratio from 6% to 3%. Will this trend continue?
- No. China is now No. 1 exporter (10% share = Japan,1986), while U.S. government dissaving sharply up ($1.6 trn= 11% of GDP:14.5 trn)
- *Basic* (if not *situational*) imbalances are not so easily policy-correctable but structurally embedded in the process of economic development as the synergistic dynamics of U.S.-led global capitalism.

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## Bernanke's "global saving glut" thesis (2005)

- U.S. CA-deficit *not* quite "made in the U.S.A."
- "I will take issue with the common view that the recent deterioration in the U.S. [CA] *primarily* reflects economic policies and other economic developments within the U.S. itself… a significant increase in the global supply of saving—a global saving glut--…helps to explain both the increase in the U.S. [CA] deficit and the relatively low levels of long-term real interest rates in the world today."

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## Bernanke's reasons for the glut

- Aging population in advanced countries and a dearth of domestic investment opportunities (not in the U.S. but in Japan & Germany).
- A rise in savings (forex reserves) made possible by export-led growth--all in reaction to the currency crises of the late 1990s (in East Asia) and a reversal in credit flows to the developing world.
- The sharp rise in oil prices -> forex reserves in oil exporters.

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## Critique

(1) Basically, conventional/myopic macro-analysis.

(2) No admission of the Fed's easy money in the lead-up to the crisis. (The financial crisis of 2008 was *made in the U.S.A*. !) No mention of financial innovations that attracted investment inflows (America's comparative advantage in financial products, China's advantage in manufactures/the "workshop of the world").

(3) "Global imbalances" are now considered an underlying cause. But why imbalances? The leader (U.S.) overspent, followers (e.g., China) oversaved. A political economy analysis of hegemon-led globalization (an FG perspective) is needed. P.5

# Three different approaches

- Stages (long-term) theory of BOP: Cairnes (1874), Enke and Salera (1947: 7 stages), Meier and Baldwin (1957:5), Crowther (1957:6), Kindleberger (1963), Halevi (1971:12)—all stages classifications. Forgotten?
- Pushed aside by Keynesian (short-term) theory: CA=(S-I)+(T-G); no trend/evolutionary analysis.
- FG paradigm: *Leader-follower* synergy & structural/interactive dynamics as causations (Ozawa, 2009:3).

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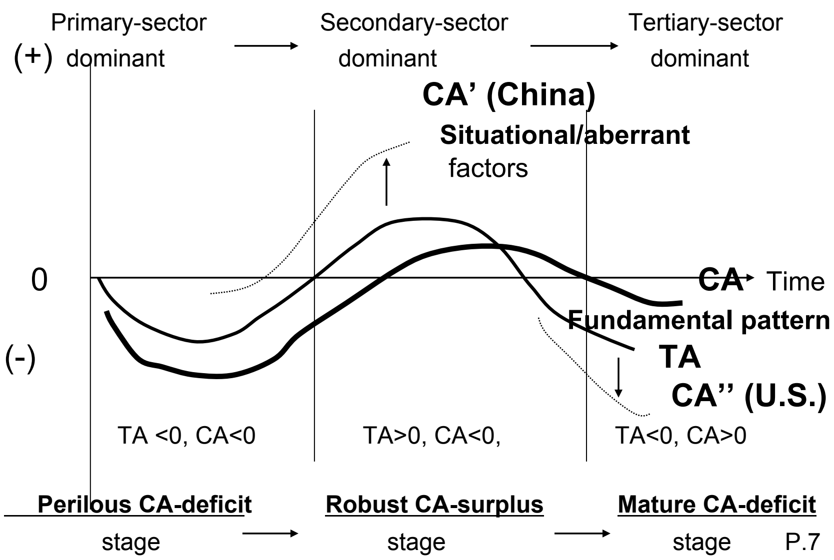
FG Model of Balance of Payments

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# The FG model of BOP

- **Fundamental path**: A *small,* (perfectly competitive) *resource-neutral* country. **Intertemporal/evolutionary** pattern.
- TA/CA is a function of growth (stages theory below).
- Imports-> Local production-> Exports-> FDI-> imports.

  (dialectic of home production turning into foreign production). Primary-> Secondary-> Tertiary (Clark, 1935).
- **Situational/aberrant factors**:
- **China**: Strong push for exports (export-led growth); export-driven FDI to use low-cost labor; Undervalued currency ("currency manipulation"), etc.
- **U.S.** accommodated and encouraged China's export-led growth: U.S.'s loose money policy; subprime mortgages ( the "subsidized" American dream); securitized instruments and derivatives, imports-based mass merchandizers (Walmart, etc.)

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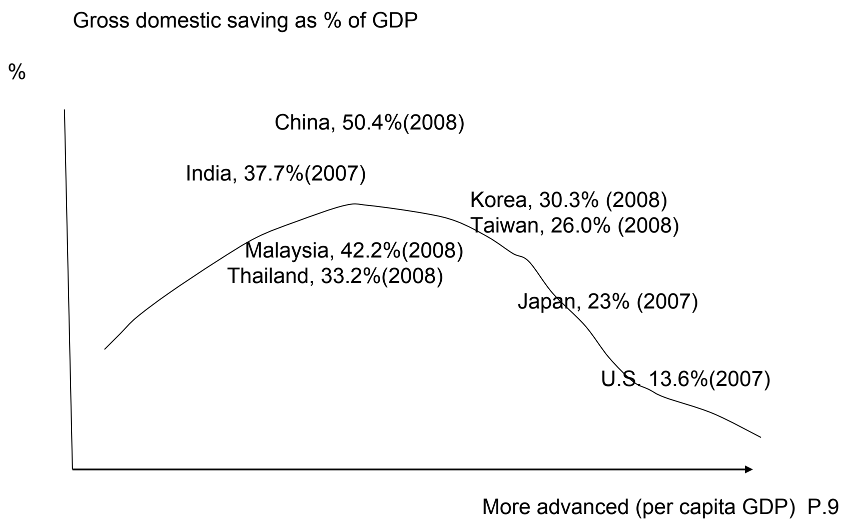
# Savings trend: The fundamental determinant of BOP imbalances

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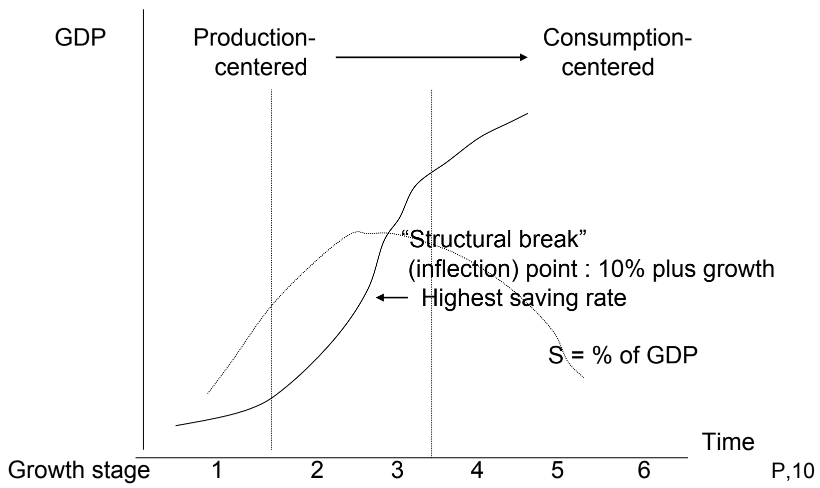
## Growth curve & Structural changes




## Industrial upgrading (real sector), FG style
## The ladder of economic development

A "**leading-secto**r" model *a la* Schumpeter

- (1) Labor-driven "Heckscher-Ohlinian" (light ind. Apparel & textiles.),
- (2) scale-driven "Smithian" (heavy & basic chemicals),
- (3) assembly-based "Veblenian" (autos & TVs),
- (4) R$D-driven "Schumpeterian" (microchips & bio-pharmas),
- (4-A) IT-based "McLuhan" (Internet services), &
- (4-B) GT-based "?" (now in the making) (IT+BT+NT).

A **stages approach** is appropriate for the early process of catch-up development involving rapid **structural changes/upgrading** (akin to neuroscience approach).

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# Conclusions

- Countries are at different stages of development, yet all climbing the *common* ladder of development.
- Market-driven globalization provides opportunities for synergistic growth, notably for followers.
- The patterns of growth, savings, and CA evolve over time, furnishing opportunities for interactive growth between leaders and followers *through* "imbalances."
- The imbalances are magnified by *situational* factors, but remain *at bottom* as the synergism of leader-led growth.
- China is more likely to rebalance than the U.S—and revalue the yuan. China's working population starts to decline in 2015. It may force U.S. to reduce debts by gradually reducing Treasuries holding (already by $34bn from $790bn to $755bn in Dec. 2009). P.12

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