

**Luncheon Dialogue**  
**“Making Globalisation Work for a Small, Open Economy”**  
**by Professor Joseph Stiglitz, Nobel Laureate and Professor of Economics and Finance,**  
**Columbia University**

**2 August 2007**

**Background**

The Centre for Governance and Leadership invited Professor Joseph Stiglitz to give a luncheon dialogue on the impact of globalisation for a small, open economy. The event, held on 2 August 2007, was well attended by policymakers, academia and economists from the private sector. The Question-and-Answer session was moderated by Dr Khor Hoe Ee, Assistant Managing Director of the Monetary Authority of Singapore (MAS).

**Opening Remarks by Professor Stiglitz**

Professor Stiglitz began by sharing that while globalisation is beneficial, its benefits are unlikely to be evenly distributed throughout the population unless active interventions are made. Singapore has embraced globalisation a long time ago but we are now faced with the scenario where the fruits of our growth are not evenly distributed.

Professor Stiglitz elaborated on the opportunities and risks for small economies, such as Singapore, in dealing with globalisation. The Singapore economy needs to be open and external-oriented in order to sustain growth. However, with increasing trade globalisation, large economies like the United States and China, are arriving at a crossroad—should they support further trade liberalisation, or adopt a protectionist stance?

One concern about globalisation is the social impact. According to Professor Stiglitz, poverty in the US has been growing at a steady rate and the median income of a 30-year-old American today is 10% lower than of the same-age person 30 years ago. In response to this wage stagnation, many American families have increased their average working hours by 25% in order to attain the same living standards 30 years ago. The extent to which openness and trade globalisation contribute to these trends is only part of the growing inequality problem in many. Professor Stiglitz added that globalization could also hinder American monetary policy as the inability of the U.S to affect interest rates and asset prices in an open economy would only lead to increasing inflation.

Professor Stiglitz added that global reserves have increased substantially since the Asian Financial Crisis took place a decade ago. There is much debate on what should be done with the trillions of global reserves accumulated since then. Professor Stiglitz opined that because Singapore’s wealth is invested in diversified portfolios, there may be less need for detailed disclosures because of its limited financial impact globally. On the other hand, it is easy to imagine the number of American companies, e.g. GM, Chrysler and Ford, that China can take over with its 1.4 trillion dollars worth of reserves. Hence, the issue of sovereign investment funds has bred anxiety and turned into a major controversy around the world.

## **Impact of Globalisation**

Professor Stiglitz cited two issues that globalisation will pose for both small and large economies in future:

***Inequality:*** Society needs to manage the impact of inequality, before it jeopardises long term economic growth and social stability. How this can be done would vary for small and large economies. In the U.S., the government favours social protection over protectionism as a means to curb the ill-effects. Social protection consists of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, enhancing their capacity to protect themselves against hazards and interruption or loss of income. Protectionism on the other hand seeks to restrict trade between nations and protect domestic industries from foreign take-over or competition. Singapore and the US are facing the similar dilemma of remaining open while addressing the problems of inequality .

***Migration:*** The large income disparities across the world will result in labour movement from the lower-income regions to higher-income regions. While the gains from liberalising labour markets are greater than those from liberalising capital markets, the social consequences are more significant in comparison. Less developed countries also struggle with the loss of human talent to more attractive, higher-wage economies. Reducing the pressures of migration and dealing with its social consequences and the challenges of integration will be key.

## **Advantages and Disadvantages of Globalisation for Small and Large Economies**

Since 1993, China has become a top destination for foreign investment among developing countries, because of its huge domestic market of 1.3 billion people and strong economic growth of 10%. Such investments have been an important engine for China's growing economy. With its small domestic base, Singapore needs to leverage on its niche strengths to attract investments. While large economies such as China can take advantage of returns from economies of scale, Singapore can enjoy similar returns through its strong networks to the global economy. Professor Stiglitz recommended Singapore to identify our strengths within the next five to ten years' time so as to develop dynamic comparative advantages in the global marketplace.

Professor Stiglitz opined that with the 9/11 terrorist attacks, the U.S. lost much of its appeal, and this opened the opportunity for Singapore to develop a niche in being a centre for global financial markets. Some investors, such as those from the Middle East, were uncomfortable with the extent of risk undertaken in American economic policies. However, Professor Stiglitz also cautioned that comparative advantages could be eliminated overnight. For example, Singapore used to have a strong electronics industry but our dominance was displaced over time by growing competition from other countries. Thus, Singapore needs to seek out other areas of diversification.

## **Q&A Session:**

### **Singapore's Reserves**

Professor Stiglitz was asked for his views on Singapore's approach of accumulating reserves as a form of insurance against volatile capital flows. Since Singapore by itself cannot reduce the problem of global volatility, he felt that building a buffer through reserves is good. From a global perspective, reforms in the global financial system would help reduce the degree of global financial volatility. He noted that investing in a diversified and well managed portfolio rather than lending money to the richest countries in the world was a good strategy. Professor Stiglitz also observed that Singapore's attempt to create institutional frameworks based on objective analysis and best practices, was sensible. He opined that without such support, it would be easy to be swept from one fad to the next. Professor Stiglitz felt it would take discipline and strong institutional structures for Singapore to succeed.

### **Preparations for Financial Crises in Future**

A participant asked Professor Stiglitz whether countries are under-prepared since the future crisis will be very different in nature from the Asian Financial Crisis in 1997. Professor Stiglitz conceded that there is no way any country can insulate itself from global financial volatility. Private financial markets have always been subjected to excess volatility, panics, bubbles and booms. Professor Stiglitz advocated an accumulation of sufficient reserves and instilling of strong monetary regulations, as the best protection against macroeconomic risks. Bad loans could bankrupt companies, reduce the credibility of banks, before causing the economy to enter a slump. Professor Stiglitz remarked that banking regulations are at the heart of any country's economic strength. On how countries can be better prepared for the next financial crisis, Professor Stiglitz reiterated the importance of a diversification strategy to limit the impact from fluctuations in the economy. There are also particular means through which countries could hedge against financial bubbles. He noted that it was very clear that there are large global current account imbalances since the last financial crisis, where huge amounts of trade surpluses are accumulated by Asian economies and large trade deficits posted by the U.S. economy.

### **Economic Performance of the U.S.**

When asked about the political and economic strength of the U.S. in the next 30 years against the growth of Asia, particularly China, Professor Stiglitz commented that the rising incomes in the U.S. over the past 25 to 30 years have not been well distributed. This was accompanied by falling productivity growth from 3% in the early 1970s to 1% in 1993, and is set to decline in the coming years. One reason for this slowdown is the significant reduction in long-term investments in R&D and advanced education. Professor Stiglitz felt that the U.S. needed to think about where its future innovations are going to come from. China's rapid growth and focus on innovation in the global economy could cause a shift in the R&D niche occupied by the U.S to China. Already, more than 50% of science and engineering graduate students in American universities are foreign students.

**Sovereign Wealth Funds**

Professor Stiglitz was asked for his views on sovereign wealth funds and how small economies like Singapore could come up with strategies that are more resilient, given Singapore's location in an area of high economic volatility. Professor Stiglitz noted that China's investments in foreign firms have raised much anxiety, with many observers viewing the acquisitions politically rather than economic motivated. He noted that there is also some discontent with Singapore's non-disclosure of reserves. Referring to the example where the US strongly opposed the acquisition of an American oil company, Unocal, by China, Professor Stiglitz highlighted that the bulk of Unocal's assets were actually based in Asia and not in America. He highlighted the need to establish principles behind countries acquiring assets in another foreign country early.

Professor Stiglitz shared a negative example of privatisation by the U.S. when it privatised USEC, an American global energy company specialising in uranium for commercial nuclear power plants. Profit maximisation of USEC would mean USEC could sell to any state that has intentions of making an atomic bomb. Professor Stiglitz warned against the lack of regulation structure in certain critical industries and suggested for more focus on regulatory gaps rather than ownership of foreign firms.

**Globalisation and Social Protection**

On how the costs of social protection can be minimised for firms, Professor Stiglitz recognised that in a globalised economy, the ability and willingness to bear risk is tied to the state of the economy. When the U.S. enjoyed low unemployment rates in the 1990s, people generally took more risks, compared to down-times when risk appetites dropped significantly. Citizens in Scandinavian countries have recognised how their high tax rates have yielded them benefits beyond the costs of social protection, and this has enabled the governments to successfully move the burden away from firms, to share the costs of social protection across the society at large. He noted that the U.S. and communist countries are still grappling with this issue, and the burden of social protection has remained on the firm.

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