

IGE Distinguished Lecture Forum



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<u>Topic</u>	“From BRICS to America”
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<u>Host(s)</u>	IGE & Samsung Electronics

1. Economic History and the Role of Productivity

The history of the global economy provides us with insights as to why crises occur and what brings progress. The global economy grew on productivity growth. Productivity doubled from 1300 to 1800 and again from 1800-1900. In the 20th century, productivity doubled every 35 years. This development came from major inventions and infrastructural changes that boosted productivity. Some examples would be indoor plumbing, the automobile, and electricity. However, despite productivity, crises can occur for various reasons. By examining historical cases, we find that economies tend to recover from most shocks relatively quickly unless those shocks are financial in nature. Crisis due to financial problems, as is seen in the case of the 1847 American railroad crisis and the 1907 financial crisis that led to the Great Depression, are much slower on the rebound. Constant advancements in productivity, therefore, are important in providing long-term momentum that is necessary when financial crisis does occur.

Since the early 2000s, however, the productivity growth has slowed. The global economy, therefore, has begun to show signs of slow growth and slow recovery in times of crisis. In a sense, this new phase of slow productivity and economic growth has brought us to a “tipping point”, moving away from the image that we once had of a global economy led by booming emerging markets to something more dependent on more developed markets.

2. The Tipping Point: A Shift from Emerging Markets to Developed Markets

The term BRICs (Brazil, Russia, India, and China) used to be a popular way of referring to the economies that were thought to become the engines of the global economy. This, however, has changed. It would be more appropriate to drop the B, the R, and the I and just stick with the C. The C, China, however, has also gone through some changes. As Chinese leadership’s economic vision shifts from quantity to quality, Chinese economic policy and structure has changed accordingly causing a slight decrease in the growth rate from an average of 10.1% to 7.6%. This trend will continue to occur as the Chinese economy matures and becomes more developed.

There is no doubt that the Chinese economy, due to pure size and momentum, will continue to be the engine of the global economy. Yet, China does have three main risks that cannot be ignored. First is debt. The Chinese development model is one of a planned economy controlled by a single-party system with frivolous borrowing on a local level. Banks lend to local governments for infrastructural development projects without reimbursement. This fiscal culture has led to large, long-term debt. Second, China has a growing real estate bubble. This bubble, however, is kept from popping by central economic planning. As long as

central economic planning works, then everything is fine. However, this is not sustainable and poses risk to markets. Lastly, Chinese production costs have risen along with economic development. China is no longer as competitive for manufacturing as it used to be and many companies are now finding other locations in the race to the bottom. For the United States, China's growth and economic maturing has created a new, advantageous dynamic in the global economy.

3. The American Advantage

The United States is currently the largest player in the global economy and has advantages in multiple areas including institutions, demographics, and geography. American political and economic institutions ensure advantages for economic growth. Ranked 10th in economic freedom and 4th in ease of business, the United States is far ahead of China, which did not rank in the top 90 for either of these categories. In terms of demographics, the United States has a growing population. As of 2050, China is project to have an average age of 49. Japan will be at 52. The United States will be around 40. The American workforce, therefore, has a promising future. Lastly, the United States has some geographic advantages that allow us to look positively at the prospects for its economy. With good relations with Canada and Mexico to the North and South as well as oceans instead of borders in the East and West, the United States is in a geopolitically stable position. Also, the United States has created multiple spaces – like Silicon Valley or Wall Street – that draw in global talent, Americanize it, and utilize it for creative and innovative economic input. The combination of these economic, institutional, demographic, and geographic advantages means that American productivity has a promising future.

4. Slow Productivity, Slow Growth: What to Do?

As the global economy has slowed, many have turned the question of whether or not more is really merrier. Will more production mean more growth? Will more production mean more satisfaction? The answer to these questions is a difficult one. However, the reality that the pie is not growing fast and that inventions are not causing the same level of growth in productivity shows us that we can no longer assume that economic paradigms of today are the same as they were before. Quantity of productivity may not be the key.

Rather, quality productivity may be what will ensure that growth, although slow, will be sure. A few ways of bettering the quality of economic productivity being discussed nowadays include “crowd sourcing” and “co-creation”. Crowd sourcing uses technology to connect to large groups of people and distribute tasks in the chain of production, maximizing participation. An example would be companies that encourage average consumers to submit footage to YouTube and then use that footage to make commercials to broadcast in mainstream media. Co-creation is a process in which a product enables consumers and producers to both participate in the creative process. For example, Lego enables children to create and recreate with its renowned toy products. The same toy can be constructed and deconstructed and created and recreated by the consumer. Although the global economy is a pie that is increasingly limited in size, new innovative approaches to productivity – like crowd sourcing and co-creation – can enable us to find more value in each slice.

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