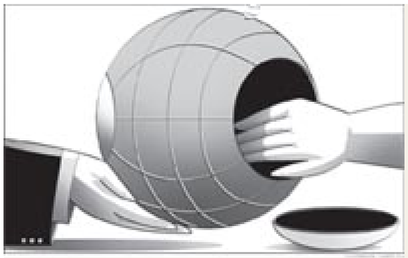

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ECONOMIC GLOBALISATION

Asia and Europe must step up to bat

By Joergen Oerstroem Moeller, For The Straits Times

THE year 2006 has seen a shift in political attitudes towards economic globalisation. Hitherto the full-fledged liberal edition of economic globalisation had been sacrosanct, with market forces regarded as an infallible conductor of the global economy. This edition of economic globalisation had after all delivered unprecedented global economic growth at almost 5 per cent over the preceding four years.

But now, growing economic disparities inside nation states and between them are attracting increasing political attention. The outsourcing of jobs and the concomitant falling share of wages in the respective gross domestic product of industrialised countries have become issues of concern to voters.

The following events point unequivocally in that direction: The mid-term elections in the United States last month, which saw Democrats regaining control of Congress; disagreement between the US and China over the exchange rate between the yuan and the US dollar; political trends in Europe; and the recent Thai intervention to stop the baht from rising further.

These events have two things in common: the protection of jobs judged to be in the danger zone, and the necessity of calming workers to ensure their political support.

Following the results of the US mid-term elections, the Democrats now glimpse a real chance to unseat the Republicans from the presidency. But for this, they need a united posture, and measures to accommodate workers and trade unions.

According to economic figures, wages in the US have not risen as much as they were supposed to do, resulting in a falling share of income for labour over the term of the Bush presidency.

The US attempt to pressure China into revaluing the yuan is essentially an attempt to shift part of the burden to Beijing. Washington feels that an unfairly low yuan rate makes Chinese exports too cheap and takes jobs away from Americans. Whether or not the perception is correct, it is gaining ground and is driven by job fears and lower wages in the US. This is a spectacular shift in sentiment from just a few years ago, when consumers revelled in the lower prices of imports from China and American multinational companies delighted in gaining new ground in the Chinese market.

In Europe, the same shift away from the free market is also discernible. In the United Kingdom, the likely successor to Prime Minister Tony Blair, Chancellor of the Exchequer Gordon Brown, is regarded as less enthusiastic about the market economy than Mr Blair, even if his tenure as finance chief does not warrant this conclusion.

In France, the two main contenders for the presidency in next year's election are talking about French national interests and less about France's role in Europe, and even less about its role in the global economy.

The socialist candidate, Mrs Segolene Royal, tilts towards the left wing of the party in her endeavours to keep the party united. Her likely opponent, Mr Nikolas Sarkozy, has spoken about reforming France and its economy, but has toned down this part of his programme, inviting observers to speculate on whether he actually wants to reform France or not.

In Germany, the grand coalition under Chancellor Angela Merkel is doing quite well. Growth looks good and business confidence is at the highest it has been in a long while. Still, not much reform has been carried through.

In Italy, Mr Romano Prodi has replaced Mr Silvio Berlusconi as Prime Minister. Mr Prodi belongs to the moderate left and can be expected to steer a course to the centre- left compared to his predecessor's centre-right.

The same goes for Spain, with a socialist government under Mr Jose Luis Rodriguez Zapatero approaching its two-year anniversary.

In Asia, the imposition of capital controls by the Thai authorities was meant to stop the baht from appreciating further. The driver proved again to be concern for jobs, especially in the export sector. In their attempt to protect local workers, the authorities aimed at international investors. Unfortunately, the move misfired, as the stock market almost crashed, forcing a spectacular reversal of capital controls.

Still, the Thai move showed how far a national government can be pushed when trying to safeguard its domestic economy and local jobs.

It also showed the weakness of economic integration in Asia: Such a step would obviously affect other South-east Asian economies, but apparently was taken without any consultation and coordination.

Malaysia, Singapore and Indonesia all experienced appreciation of their currencies this year, albeit not as much as the baht.

These signals point to one overall conclusion: The time when growth was uncontested king is over. We are now in an era in which income distribution will play an equally, if not more, important role.

Politicians must adjust policies to ensure a more equal distribution of income flowing from globalisation. Economists must amend their models of economic globalisation to tell politicians how to do that.

If these signals are brushed aside, the question may be raised whether globalisation is itself the best course for nations. And that will be quite another story.

There is one more conclusion to draw for the Europeans and the Asians: They cannot continue to count on the US as the global growth driver impervious to domestic economic inequalities. The run-up to the US presidential election in 2008 will encourage attitudes putting the country first and American voters at the very top of US priorities.

The lack of Asian integration was agonisingly visible during the recent Thai currency intervention. When China discussed the yuan-US dollar rate, it was a China-US discussion, ignoring the repercussions for the rest of Asia. But Asians seem unaware that there is a price to be paid in the future for the lack of integration, preferring to leave questions of vital importance to all member states to policymakers in individual nations. The result is there is no one in charge to safeguard Asia's global economic interests.

Current efforts to integrate, such as through the various Asean mechanisms and the East Asia Summit, are commendable and definitely the right things to do. But still the impression stands that when it really counts, each Asian country will fend for itself.

This situation is not viable when member countries are dependent on economic globalisation and even less so when economic globalisation does not look as robust as it used to, but calls for support from those benefiting from it.

The Europeans have just concluded a summit without paying much attention to these global trends. The time has come to find out where they want the still powerful European economy to go, and what role Europe can play in economic globalisation.

Europe and Asia can catch the spirit of the moment to strengthen their mutual cooperation, not against the US but to take some of the strain away from the shoulders of the - apparently weary - Americans to assume larger responsibility for running the global economy.

The Americans have shouldered this responsibility for a long time - so long that some stakeholders might have got the impression that free riders are allowed on board. Well, not any longer is the message from current events.

The writer is a visiting senior research fellow at the Institute of Southeast Asian Studies.

THE BOTTOM LINE

The time when growth was uncontested king is over. We are now in an era in which income distribution will play an equally, if not more, important role. Politicians must adjust policies to ensure a more equal distribution of income flowing from globalisation. Economists must amend their models of economic globalisation to tell politicians how to do that.