

# APEC Economies: Why Many Are Rich and Most of the Others Are Getting Rich

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June 4, 2007

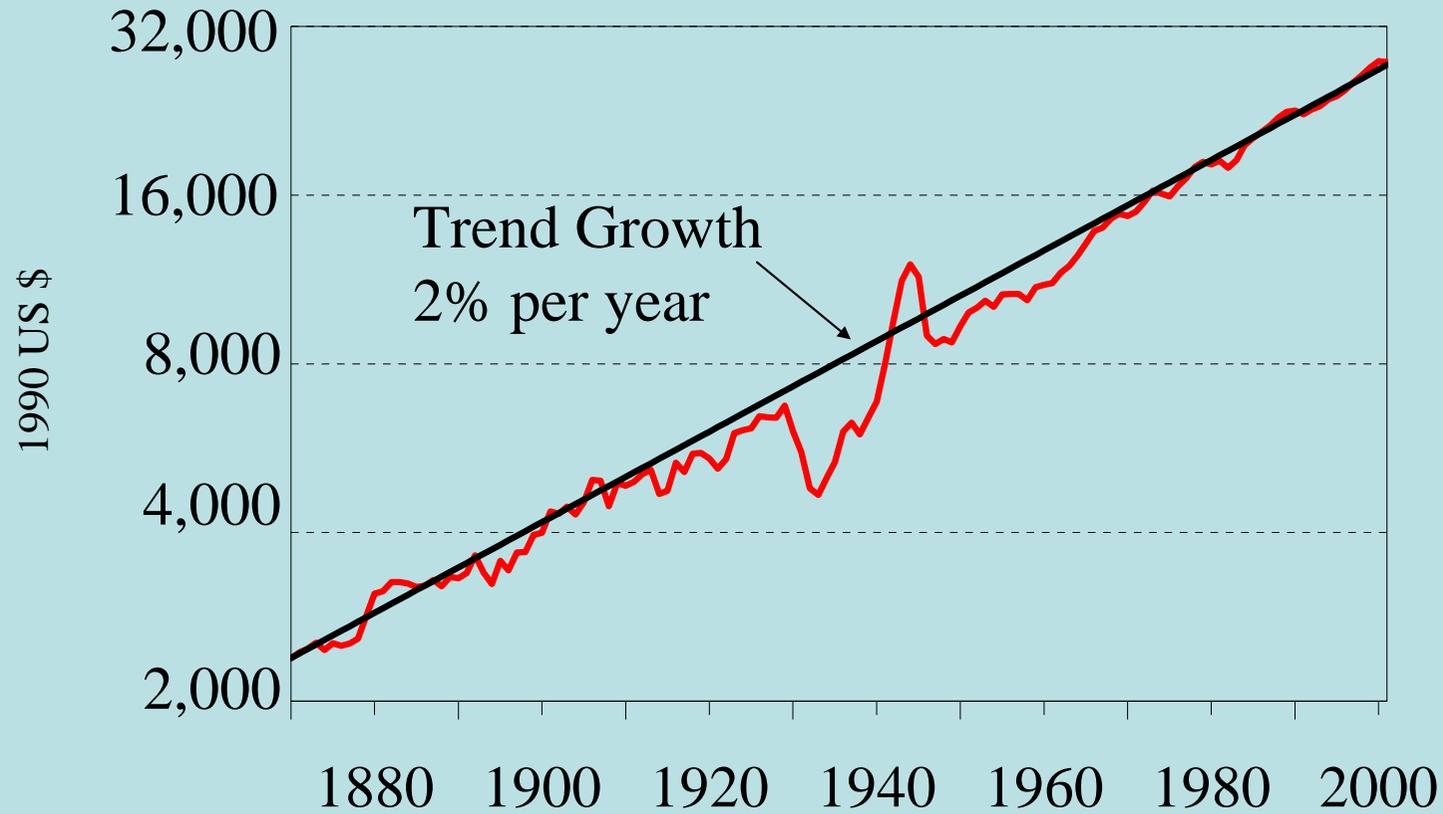
APEC Symposium on Trade Facilitation 2007

# What Does Rich Mean?

- Rich is a relative concept
- Here rich means relative to industrial leader
  - I say an economy is rich if its per capita income is more than half that of the U.S.
- APEC economies
  - Have over 40% of world population
  - Have more than their share of the rich and near rich

# U.S. Rich and Staying Rich

## U.S. GDP per capita



Source: Maddison

# Other Long-Time Rich APEC Economies

GDP per Capita, Percent of U.S.

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	1955	1980	2005
Australia	74	78	80
Canada	75	87	79
New Zealand	80	66	60

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# New Rich APEC Economies

GDP per Capita, Percent of U.S.

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	1955	1980	2005
<b>Hong Kong</b>	<b>24</b>	<b>57</b>	<b>91</b>
Singapore	22	49	81
Japan	25	72	73
Chinese Taipei	11	32	63
South Korea	11	22	57

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# Catching Up But Some Way to Go

GDP per Capita, Percent of U.S.

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	1955	1980	2005
Malaysia	13	20	30
Thailand	9	14	26
China	5	6	18

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# Theory of Pre-1700 Period

- Land crucial to production
- Trade-off between living standards and population size
- Increases in stock of useable knowledge led to increase in output
- But, it was offset by population increase
- Living standards differed little across regions and time

# Theory of Post-1850 Period

- No trade-off between increases in living standards and population size
- Increases in stock of useable knowledge led directly to increases in living standards
- Key features
  - Land no longer vital input into production
  - Use of fossil fuels for energy
  - Solar energy is on its way

# Problem with Theory

- Why aren't all economies equally rich?
- Why didn't all start economic growth at the same time?
- Why have some caught up?
- Why are others catching up?
- And why are some others not?

# Answers

- Early openers first to enter into sustained growth
  - Australia, Canada, New Zealand, and U.S.A.
- Others entered sustained growth later
- Those that opened up experienced rapid growth and became rich
  - Japan, Hong Kong, Republic of Korea, Chinese Taipei, Singapore
- Or are experiencing rapid growth
  - Malaysia, Thailand, Vietnam, China

# Competition Overcomes Barriers to Riches

- If adopting more efficient work practices hurts industry insiders, barriers to their adoption arise
- No barriers arise when it helps industry insiders
- For export industries, adoption helps industry insiders
  - This is why Japanese exporters are so efficient
  - And Japanese service sector is not efficient

# Free Trade Is Only a Part of Openness

- Also important is being open to foreign multinationals
- Gain by having access to foreign know-how, which I call technology capital
- Rents on this capital are only a small part of the value of what is produced by a foreign subsidiary
- Many goods and services are not tradable and must be produced locally

# Openness Is a Two-Way Street

- Only with economic integration is openness between countries sustained
- Why?
- Exporters and a country's multinationals have a vested interest in their economy remaining open

# FDI Gets Around Trade Restrictions

- U.S. has “voluntary car import quotas” for Japan
- To get around them, Toyota in 1985 located an automobile plant in Kentucky
- Was not blocked because
  - Construction industry wanted the construction project
  - Kentuckians wanted high paying jobs in auto plant
  - Decision made in Kentucky, not in Washington, D.C.
- The same thing happened in Wales
- Kentucky & Wales not part of an industrial heartland

# Latin America Is Not Open



- Latin America is not catching up
- If it opened up it would, and it would become rich
- Chile has moved in the openness direction and has benefited

# Chile Has Been Doing Well

Why?

- Retirement savings accounts lead to
  - Broad based private-ownership
  - People having an equity position in their country
- Openness policy followed

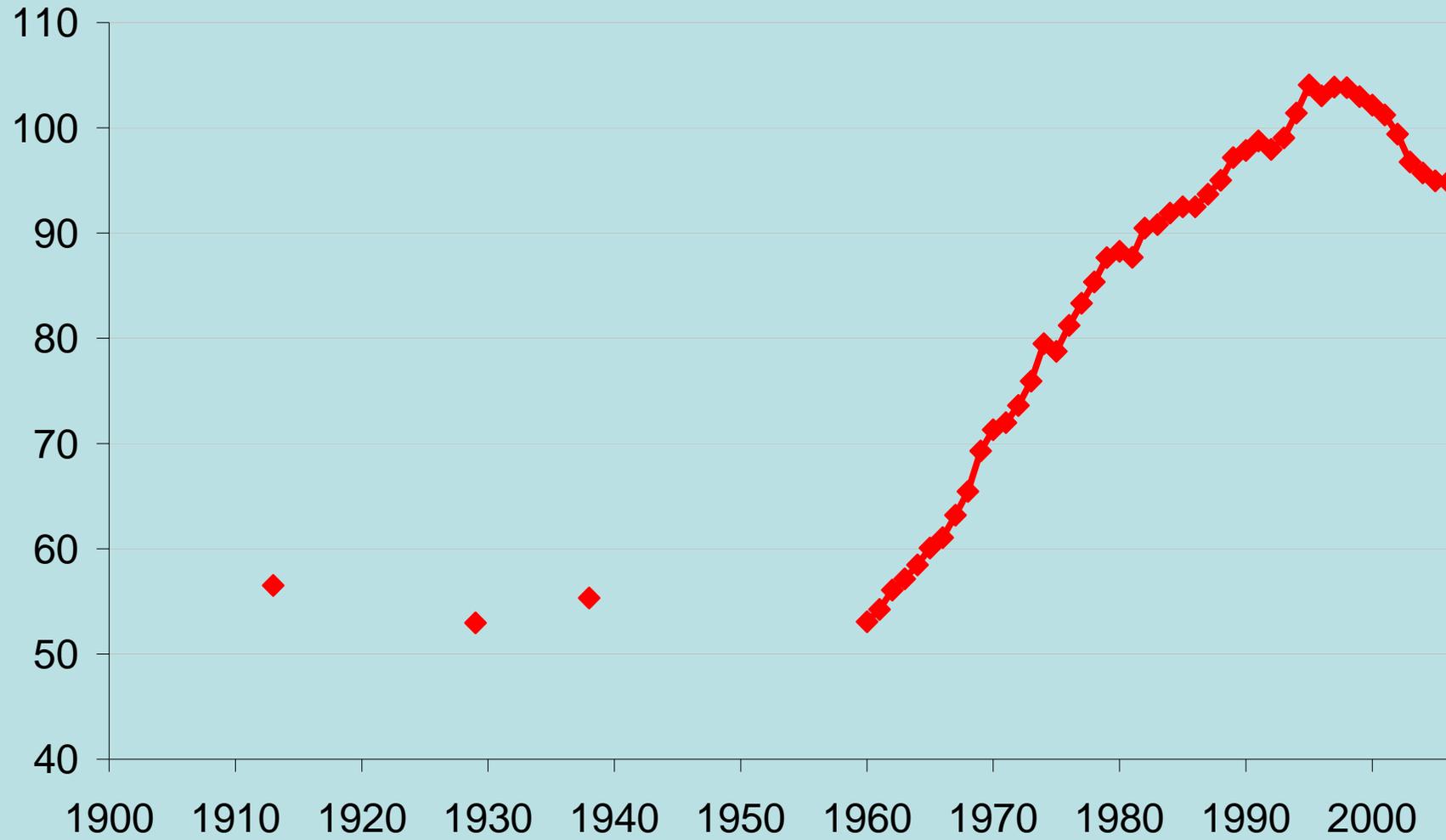
# Mexico Will Do Well

- Introduced savings accounts
  - On path to broad-based private-ownership
- Mexicans beginning to invest in Mexico
- Opened up to FDI in banking and retailing, and these industries became efficient
- Making FDI in Canada and U.S.
- Takes long time to develop good economic and political institutions

# EU a Success

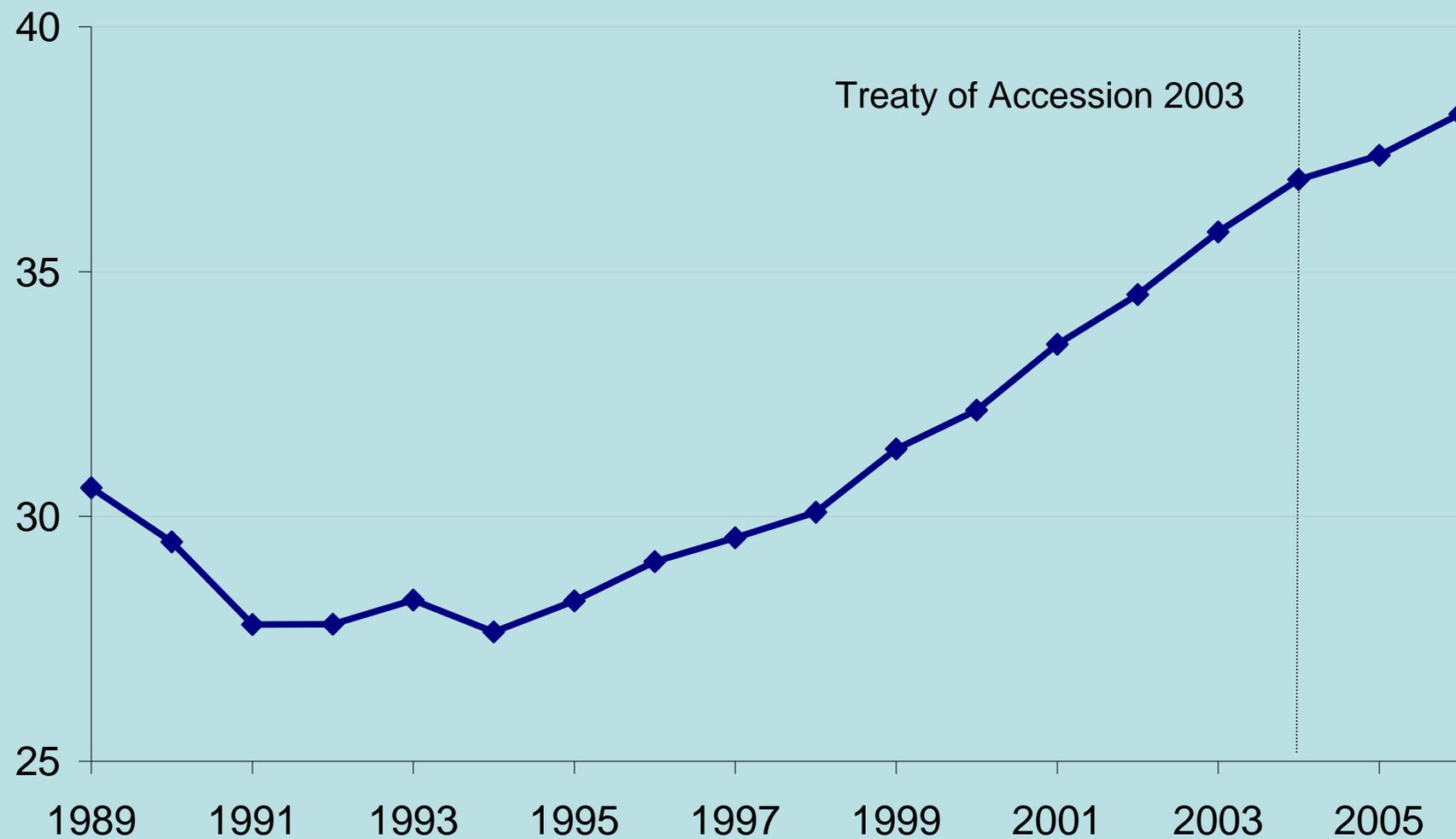
- Virtually all of pre-2004 EU countries lagged U.S. and were not catching up in the first half of the 20<sup>th</sup> Century
- Caught up in terms of productivity after forming EU
- The 2004 joiners are catching up rapidly

## Original EU Members Productivity % of US 1900 - 2006



EU 6: France, Italy, West Germany, Belgium, Luxemburg, Netherlands

## 2004 EU Joiners Productivity % of EU-6: 1989-2006



CE-8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia

# Concluding Comments

- An open country becomes rich
- APEC is fostering openness
- And in the not-too-distant future most of the APEC economies will be rich