Session 3
Does Economic Sovereignty Still Exist?

The Post-Brexit World Calls for a Visionary Collective Global Leadership

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I would like to begin my brief initial remarks by asking the question, "Should Economic Sovereignty be a Top National Priority?"

If the answer is a simple "yes", then those countries would be reluctant to join any form of multilateral institutions, such as the IMF, World Bank and the WTO, or to participate in any bilateral or regional agreements, such as various free-trade agreements, customs, monetary, or fiscal unions. However, opportunity costs of insisting on the national economic sovereignty at all times could be devastatingly high, especially in this deeply interdependent global economic world. China made nearly 10 years' efforts to join the WTO in 2001 and the Chinese economy prospered afterwards. North Korea is an illuminating opposite case. The UK's decision to exit from the European Union apparently is not simply motivated by keeping the economic sovereignty alone. Even then, both short- and long-term economic costs for the UK will be staggering as many foresaw, and short-term damages are already becoming apparent.

Furthermore, there are hidden global economic costs of the Brexit by damaging the existing liberal global economic order and the integrity of the EU, which in turn would affect the UK as well. The global community should not lose sight of this critical aspect, which will do a more serious damage to the global economic and financial future.

This leads me to my second point having to do with the importance of international economic policy coordination among systemically important economies in today's globalized world even at some sacrifices of national economic sovereignty for their own economic benefits. This point cannot be overemphasized at this moment when the populistic political slogan, "Take control back", may gather a further momentum.

For the global economy to have a balanced and sustainable growth, there should be, most importantly, a sufficient supply of global public goods, *i.e.* free trade environment and global financial stability through global policy coordination. The provision of global public goods, of course, requires appropriate burden sharing among those systemically important countries, including sharing or sacrifices of their national economic sovereignty.

We all know that the 2008/9 Great Recession could have been even worse than the Great Depression of the 1930s. What made the difference was the globally coordinated policy efforts to stimulate the global economy and to refrain from the "beggar-thy-neighbor" protectionist impulses. By the way, the G20, which consisted of 20 systemically important economies was instrumental in exerting the collective economic leadership for the global economy to achieve a balanced, sustainable growth through the provision of the necessary global public goods. The global leaders led by the G7 then deserve a full credit for the creation of the G20 as the informal global steering committee for the global economy.

The post-Brexit global economic/financial uncertainties added on the prolonged anemic global economic and financial situation call for a visionary collective leadership for the future of the global

economy and finance. I personally would like to see the G20, which includes the G7, play the leadership role.

My last point regards the specific question of a nation's external balance. For this point, it is necessary to recognize the fact that the external balance is just a reflection of the nation's internal balance or the nation's savings and investment gap. Consequently, a prolonged external imbalance for any nation cannot be sustained for long. The US-originated 2008/9 global financial crisis well illustrated the point.

Of course, in this deeply interconnected world, economic and financial counterpart countries together should make efforts to correct their own imbalances. Obviously, those efforts should include not only financial or exchange rates adjustments but various structural and institutional adjustments in their real economies.

In fact, major global economic imbalances which included significant bilateral US-China current account imbalances that existed before the 2008/9 crisis had been substantially corrected by major policy changes of the US and China in particular. Although the Chinese economy is still in its transition to the domestic demand-led economy, the US economy, primarily thanks to the adjustments, is currently doing so well.