POST-CRISIS GLOBAL REBALANCING

CONFERENCE ON GLOBALIZATION AND THE LAW OF THE SEA

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I. Economic Rise of Asia

- Emerging economies of Asia have performed extremely well over the past quarter century.
  - What began with rapid economic growth in the newly industrializing economies of Hong Kong, Korea, Singapore and Taiwan, spread to Southeast Asia, then China, and now to India.
  - Today, growth in income per worker is 4-5 times that of the advanced economies.

- However, they are still far below the levels of income that are common in the advanced economies.
Growth in Output per Worker

- **1970-1980**
  - East Asia: 4%
  - Industrial Countries: 2%
  - South Asia: 1%
  - World: 2%

- **1980-1990**
  - East Asia: 5%
  - Industrial Countries: 2%
  - South Asia: 3%
  - World: 2%

- **1990-2000**
  - East Asia: 6%
  - Industrial Countries: 3%
  - South Asia: 4%
  - World: 3%

- **2000-2008**
  - East Asia: 7%
  - Industrial Countries: 4%
  - South Asia: 5%
  - World: 4%
GDP per capita, US$ PPP

- East Asia
- Industrial Countries
- South Asia
- World
Growing Role in Global Governance

- The G-20 has supplanted the G-8 as the primary forum for discussing international economic issues, and
  - It was a primary means of coordinating economic policies during the financial crisis.
    - A general pledge to avoid trade restrictions
    - Coordination of fiscal stimulus programs, and
    - Agreement to expand the support programs of the IMF
  - Greatly increased role of emerging Asia and Latin America.
Growth in Trade

- Asia is rapidly emerging as the dominate source of international trade.
  - Supplanting North America, and rapidly catching up with Europe
  - Export-led growth has been a critical element of the East Asian growth strategy.
- While the levels of trade in South Asia are far below those of East Asia, growth has been more rapid in recent years.
Exports in Millions of Constant US$
Growth in Exports of Goods and Services

- East Asia
- Industrial Countries
- South Asia

Comparison of growth rates across different regions and time periods:
- 1980-1990: 0.00%
- 1990-2000: 2.00%
- 2000-2007: 4.00%
Recent Developments

- The contrast between growth in the emerging-market economies and the advanced economies has become more dramatic
  - The recession is over in most of emerging Asia and Latin America,
  - While growth in the advanced economies remains very weak.
- Differences in long-term growth rates are being exacerbated by the weak recovery in the advanced regions.
- Has growth in the emerging-market economies become self-sustaining?
## World Economic Outlook
(annual percentage growth)

<table>
<thead>
<tr>
<th></th>
<th>2000-2008</th>
<th>2009</th>
<th>2010&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2011&lt;sup&gt;p&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advanced Economies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>2.3</td>
<td>–3.2</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>1.4</td>
<td>–5.2</td>
<td>2.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Euro Area</td>
<td>2.0</td>
<td>–4.1</td>
<td>1.7</td>
<td>1.5</td>
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<tr>
<td><strong>Emerging Economies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing Asia</td>
<td>8.3</td>
<td>6.9</td>
<td>9.4</td>
<td>8.4</td>
</tr>
<tr>
<td>China</td>
<td>10.4</td>
<td>9.1</td>
<td>10.5</td>
<td>9.6</td>
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<tr>
<td>India</td>
<td>7.0</td>
<td>5.7</td>
<td>9.7</td>
<td>8.4</td>
</tr>
</tbody>
</table>
II. Global Imbalances

- Asia’s export-led growth strategy was supported by
  - Consumption-led growth in the United States, and
  - An open liberal trade regime in all of the advanced economies.
  Particularly evident after the Asian financial crisis when export growth came to dominate as a means of recovery in the East Asian economies.

- Large global imbalances have emerged in the last ten years.
  - Largely an issue between emerging East Asia and the United States.
  - Nearly equal magnitudes of imbalance.
  - A small contributor to the financial crisis
## Current account as a share of world GDP, selected regions and years

<table>
<thead>
<tr>
<th>Region</th>
<th>1990-99</th>
<th>2000-05</th>
<th>2006-08</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>-0.43</td>
<td>-1.41</td>
<td>-1.37</td>
<td>-0.72</td>
<td>-0.79</td>
</tr>
<tr>
<td>Japan</td>
<td>0.36</td>
<td>0.35</td>
<td>0.33</td>
<td>0.24</td>
<td>0.24</td>
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<tr>
<td>Europe</td>
<td>0.08</td>
<td>0.23</td>
<td>0.16</td>
<td>0.11</td>
<td>0.18</td>
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<tr>
<td>Emerging Asia</td>
<td>0.06</td>
<td>0.38</td>
<td>0.87</td>
<td>0.81</td>
<td>0.78</td>
</tr>
<tr>
<td>Emerging Latin America</td>
<td>-0.14</td>
<td>-0.02</td>
<td>0.04</td>
<td>-0.02</td>
<td>-0.06</td>
</tr>
<tr>
<td>Middle East</td>
<td>-0.04</td>
<td>0.21</td>
<td>0.49</td>
<td>0.10</td>
<td>0.23</td>
</tr>
<tr>
<td>Other countries</td>
<td>-0.21</td>
<td>0.00</td>
<td>-0.11</td>
<td>-0.21</td>
<td>-0.18</td>
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<tr>
<td>Discrepancy</td>
<td>0.30</td>
<td>0.27</td>
<td>-0.41</td>
<td>-0.32</td>
<td>-0.41</td>
</tr>
</tbody>
</table>
Global Imbalances

- Economic theory suggests that global imbalances should be self-correcting.
  - Rising import demand and a stronger exchange rate in the surplus country and
  - The reverse for the deficit country.
- Corrective mechanism is no longer working
  - United States continues to consume too much and saving falls short of investment needs.
  - Emerging Asia consumes too little and saves too much
  - The United States issues debt and Asia buys it up.
Saving and Investment, US and Developing Asia 1980-2010

- US Investment
- Developing Asia Investment
- US Saving
- Developing Asia Saving
Global Imbalances 2000-2009

- Post-Asian financial crisis, emerging-market economies
  - Used reserve accumulation to minimize exchange rate appreciation (largely in dollars)
  - Sterilized reserves with bond issues to offset impact on domestic money supply
  - Used capital controls to suppress private capital inflows
  - *Export-led growth* converted to *export-surplus led growth*.

- Policies complemented excess consumption and debt issuance of the United States.
International Reserves, 1990-2009

Percent of GDP

- World
- Advanced Economies
- Emerging Economies
- Developing Asia
Global Imbalances – Post Crisis Situation

- United States cannot return to its consumption-based pre-crisis growth path

- Economic recovery in the United States requires elimination of its trade deficit.
  - Less consumption and more saving
  - Expansion of tradable-goods sectors, and increased exports

- Rebalancing requires offsetting changes within Asia
  - More consumption, less saving
  - Substitute intra-asia trade and investment for prior focus on U.S. market.

- Price and expenditure adjustments in both regions.
Trade Adjustment

- For the United States, an improved trade balance will required a decline in the relative prices of US products.
  - A depreciation of the real exchange rate.
  - Primary competitors are the EU and Japan
  - A reduction in the trade balance of ~3 % of GDP will require a 25-30 % decline in the value of the dollar.
  - Problem is compounded by the weak performance of U.S. exporters.

- Asia can sustain its overall growth, but it needs to shift the composition of its output toward domestic demand
Trade Adjustment

- As emphasized by the G-20 discussions, the focus has to shift away from arguments over exchange rates to the need to eliminate large trade imbalances.
- Important to coordinate policies so as to maintain high growth in emerging markets.
- Rebalance trade, not exchange rates, and not growth.
Challenges to the Global System

- Growing consensus that external balance is an important objective of national policy, but
- Lack of available policy tools to achieve rebalancing without international cooperation
  - Asymmetric pressure on deficit countries if surplus countries accumulate reserves.
  - General trade restrictions are prohibited by treaty.
  - Capital controls are used in emerging markets.
  - Should they be an emergency measure for advanced economies? Asset taxes.