

Rebalancing Growth in Asia

Eswar Prasad

Cornell University, Brookings Institution and
NBER

Overview

- The debate: role of global macroeconomic imbalances in the crisis

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“...the President highlighted a factor that economists agree on: that the most significant factor leading to the housing crisis was cheap money flowing into the U.S. from the rest of the world, so that there was no natural restraint on flush lenders to push loans on Americans in risky ways. This flow of funds into the U.S. was unprecedented. And because it was unprecedented, the conditions it created presented unprecedented questions for policymakers.”

White House Statement, December 2008

Overview

- An Asian perspective but with global implications
- Composition of growth
- Savings-investment balances
- Components of national saving
- Household saving: a case study of China
- Welfare and policy implications

Composition of Growth

Shares of Real GDP
(in percent)

Country	2000				2007			
	Consumption		Invst.	Net X	Consumption		Invst.	Net X
	Pvt.	Govt.			Pvt.	Govt.		
Bangladesh	73.1	4.2	23.8	-3.8	66.0	5.4	27.9	-1.0
Cambodia	88.8	5.2	16.9	-11.8	84.9	4.2	20.7	-9.5
China	46.4	15.9	35.3	2.4	35.4	13.3	42.3	8.9
Hong Kong	66.0	10.1	25.4	-1.5	59.7	8.1	21.3	10.1
India	64.2	12.9	25.9	-1.9	57.5	9.9	34.4	-3.5
Indonesia	61.7	6.5	22.2	10.5	57.6	7.7	22.5	9.2
Korea	54.0	12.1	31.0	3.2	49.3	12.4	27.7	10.8
Malaysia	43.8	10.2	26.9	19.2	50.5	12.9	22.1	14.6
Pakistan	75.4	8.6	17.2	-1.2	70.7	9.7	19.4	0.3
Philippines	77.3	8.2	24.6	-4.6	77.3	6.7	18.2	3.7
Singapore	42.2	10.8	33.3	13.6	38.7	9.8	22.2	31.2
Sri Lanka	72.1	10.5	28.0	-10.6	73.8	9.0	28.7	-11.5
Taiwan	60.4	13.9	23.1	2.7	54.6	11.1	19.0	15.2
Thailand	54.0	9.2	20.7	14.9	51.8	9.1	22.4	16.0
Vietnam	66.7	6.7	30.5	-3.7	65.5	6.6	43.1	-17.1
Unweighted medians:								
All Countries	64.2	10.1	25.4	-1.2	57.6	9.1	22.4	8.9
All excl. China	65.1	9.7	25.0	-1.4	58.7	9.0	22.3	6.5
International Comparisons:								
Japan	56.2	16.9	25.5	1.5	54.7	17.3	23.3	4.7
U.S.	68.7	14.4	20.8	-3.9	71.6	14.3	18.9	-4.7

Contributions to Growth and Employment Growth, 2000-07
(in percent)

Country	GDP Growth	GDP Growth Contributions					Employment Growth
		Consumption			Invst.	Net X	
		Total	Pvt.	Govt.			
Bangladesh	5.8	3.4	3.0	0.4	2.0	0.3	-1.4
Cambodia	9.0	6.9	6.6	0.3	2.3	-0.4	5.7
China	10.1	4.3	2.9	1.3	4.5	1.2	0.9
Hong Kong	5.3	2.3	2.2	0.2	1.2	1.8	1.5
India	7.0	4.0	3.5	0.5	3.4	-0.2	1.9
Indonesia	5.1	3.0	2.4	0.6	1.2	0.3	1.5
Korea	5.2	2.7	2.1	0.6	1.2	1.3	1.8
Malaysia	5.1	4.4	3.4	1.1	0.5	0.2	2.2
Pakistan	5.3	3.8	3.2	0.6	1.2	0.3	3.0
Philippines	5.1	4.0	3.8	0.2	0.7	1.4	2.5
Singapore	5.9	2.9	2.2	0.7	0.7	2.7	7.4
Sri Lanka	5.0	4.5	4.0	0.4	1.5	-1.0	1.9
Taiwan	4.1	1.6	1.6	0.1	0.2	2.2	1.0
Thailand	5.1	2.9	2.5	0.4	1.5	0.6	2.1
Vietnam	7.6	5.0	4.5	0.5	4.4	-2.1	2.6
Unweighted medians:							
All Countries	5.3	3.8	3.0	0.5	1.2	0.3	1.9
All excl. China	5.3	3.6	3.1	0.5	1.2	0.3	2.0

Dependence on Exports

Openness to Trade, 2007
(in percent of GDP)

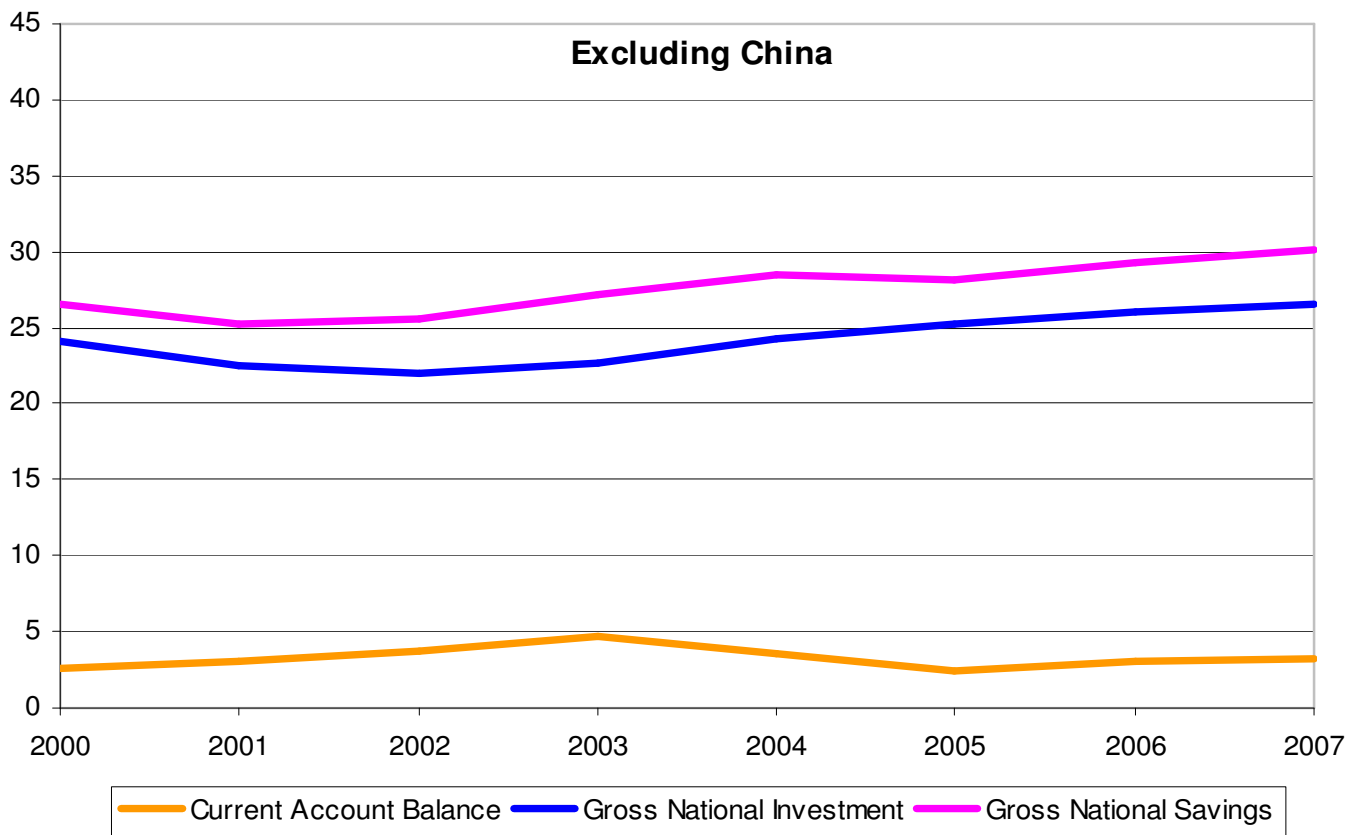
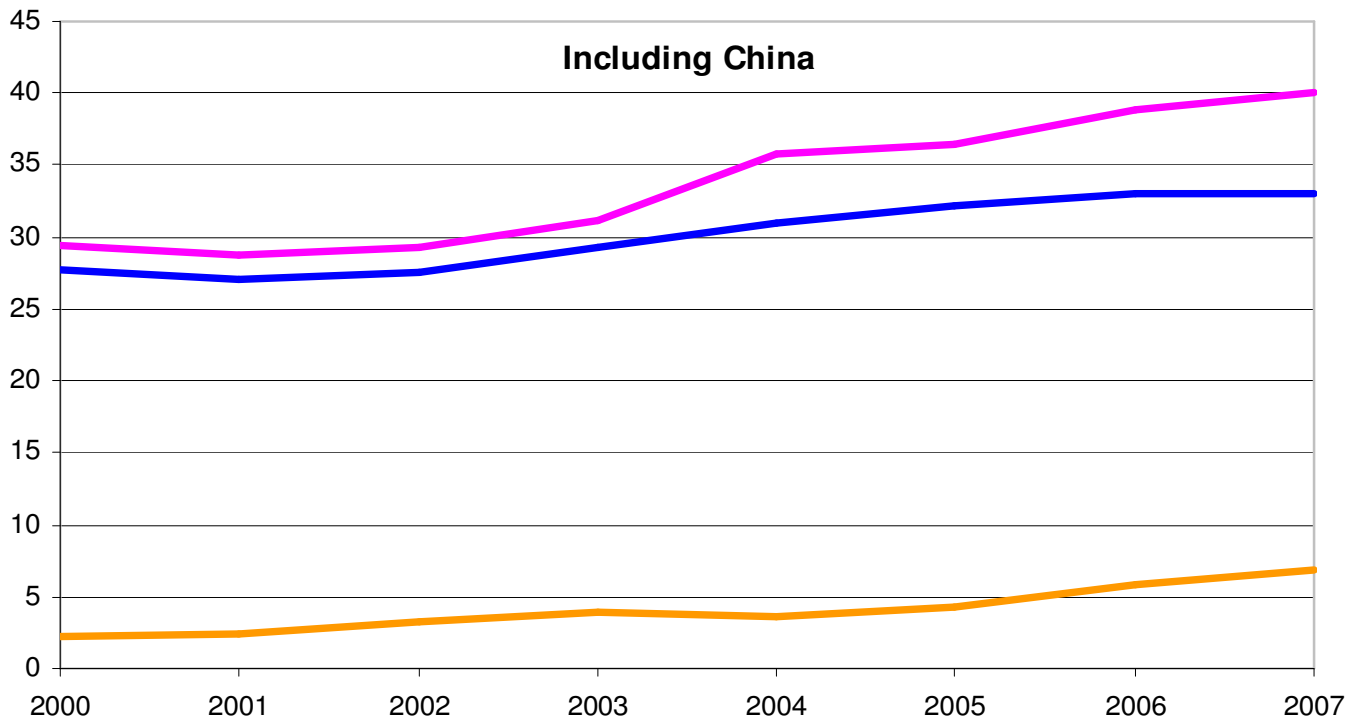
Country	Exports	Total Trade	Trade Balance
Bangladesh	22.0	50.8	-6.9
Cambodia	47.1	109.5	-15.4
China	40.7	72.1	9.3
Hong Kong	207.6	404.5	10.6
India	21.2	45.4	-3.1
Indonesia	29.4	54.7	4.0
Korea	45.6	90.4	0.8
Lao	22.2	47.7	-3.4
Malaysia	110.2	200.1	20.3
Pakistan	13.9	36.2	-8.3
Philippines	42.6	84.8	0.5
Singapore	185.3	348.2	22.5
Sri Lanka	29.2	68.8	-10.3
Taiwan	73.8	140.0	7.5
Thailand	73.2	138.7	7.6
Vietnam	76.8	167.0	-13.4
Unweighted medians:			
All Countries	44.1	87.6	0.7
All excl. China	45.6	90.4	0.5

Savings-Investment Balances

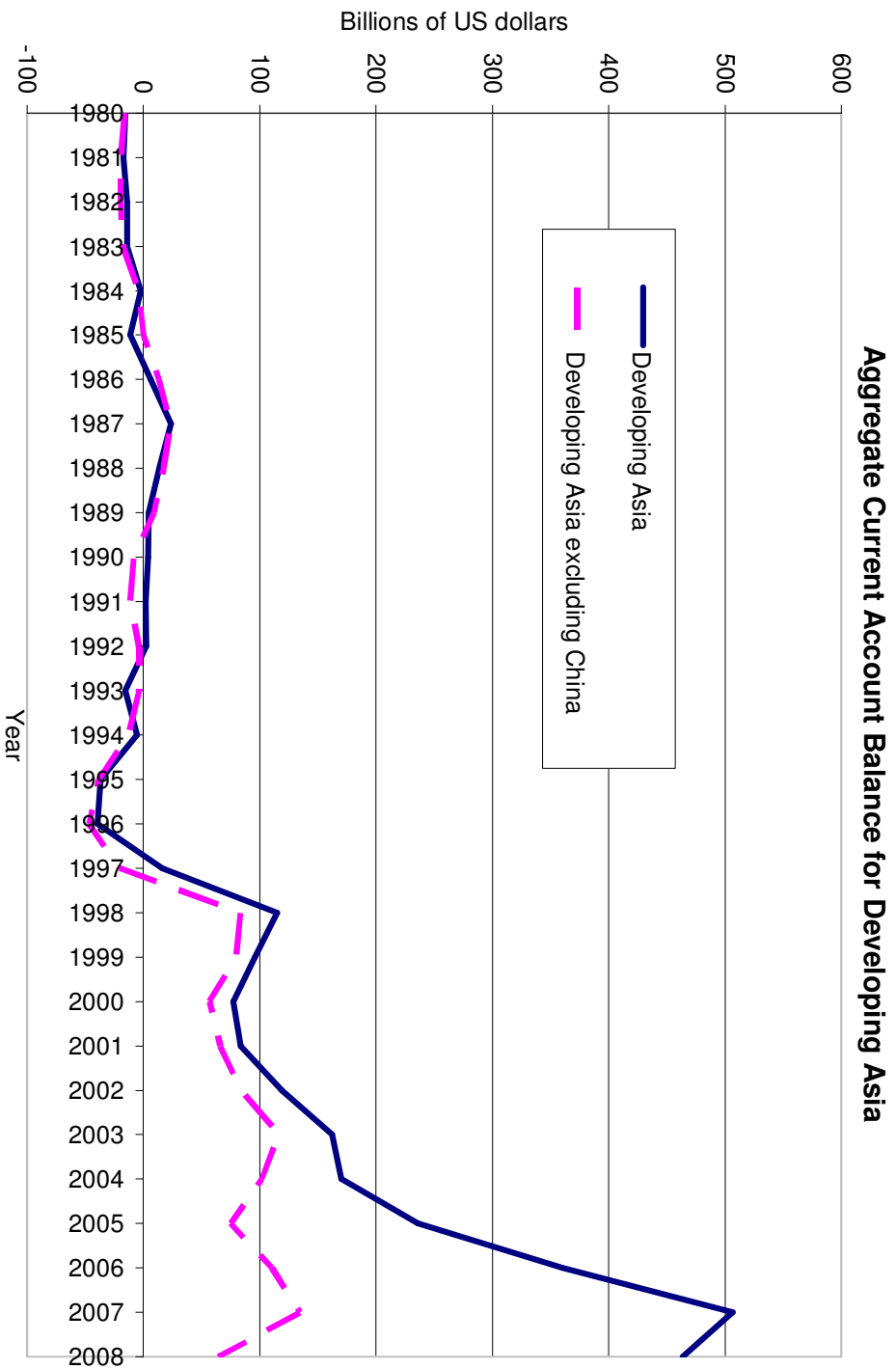
Current Account Balance, and Household Saving, 2007

Country	Nominal GDP (USD billions)	Current Account Balance		Gross National Savings		Household Saving	
		Value (USD billions)	As percent of GDP	Value (USD billions)	As percent of GDP	Value (USD billions)	As percent of household disposable income
Bangladesh	68	0.8	1.1	19.8	26.9	--	--
Cambodia	9	-0.3	-3.6	0.8	13.1	--	--
China	3384	371.8	11.3	1713.2	52.2	521.1	35.6
Hong Kong	207	25.5	12.3	37.2	18.0	--	--
India	947	-15.5	-1.4	348.5	31.7	239.3	31.0
Indonesia	419	11.0	2.5	118.6	27.4	--	--
Korea	961	6.0	0.6	292.9	30.6	54.1	10.2
Malaysia	194	29.2	15.6	70.2	37.6	--	--
Pakistan	144	-6.9	-4.8	23.8	16.6	--	--
Philippines	161	6.4	4.4	27.2	18.9	3.7	3.0
Singapore	168	39.2	24.3	75.6	46.8	--	--
Sri Lanka	33	-1.4	-4.2	6.3	22.3	--	--
Taiwan	390	31.7	8.3	117.9	30.8	37.9	17.6
Thailand	252	15.8	6.4	80.9	33.0	19.6	11.9
Vietnam	72	-7.0	-9.9	25.4	35.7	--	--
Totals:							
All countries	7408	506.1	--	2958.3	--	875.7	--
All excl China	4024	134.3	--	1245.0	--	354.6	--
Unweighted medians:							
All Countries	194	6.4	2.5	70.2	30.6	46.0	14.7
All excl. China	181	6.2	1.8	53.7	29.0	37.9	11.9

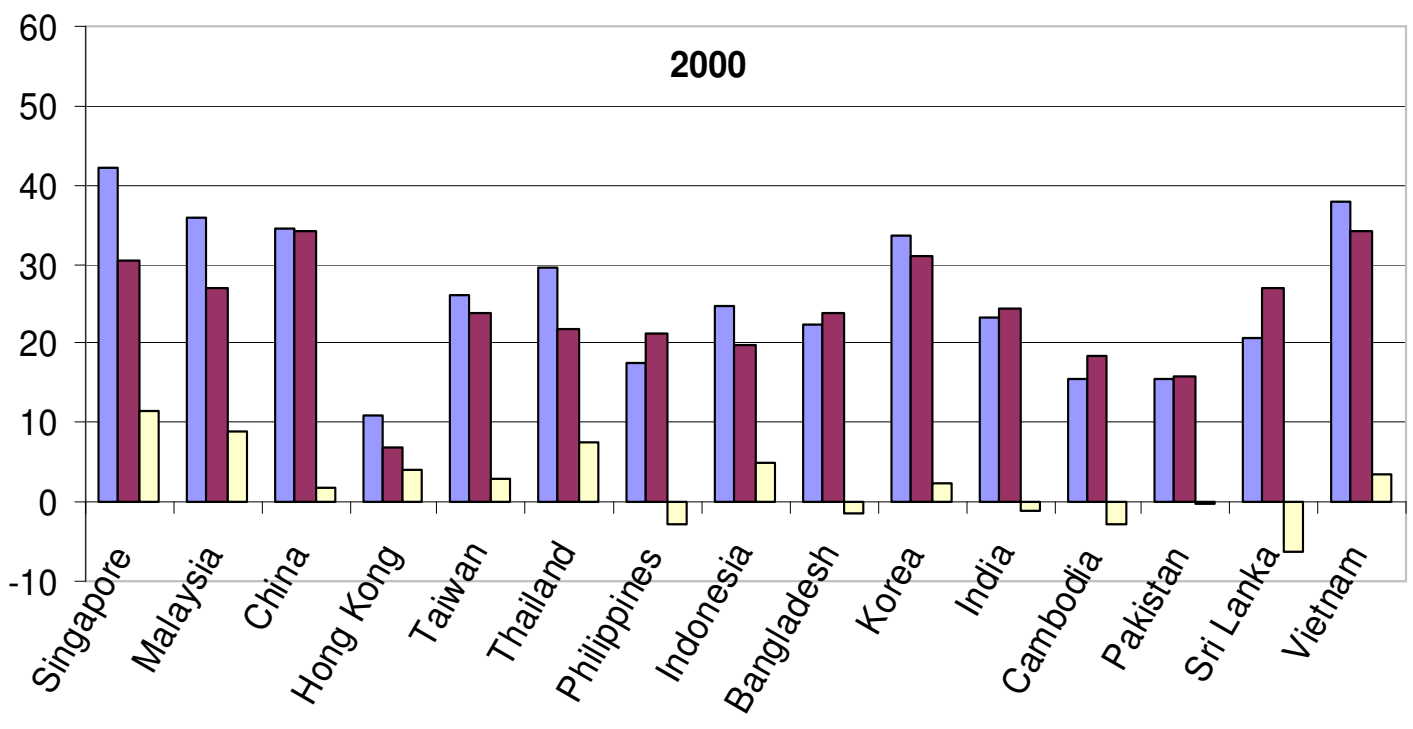
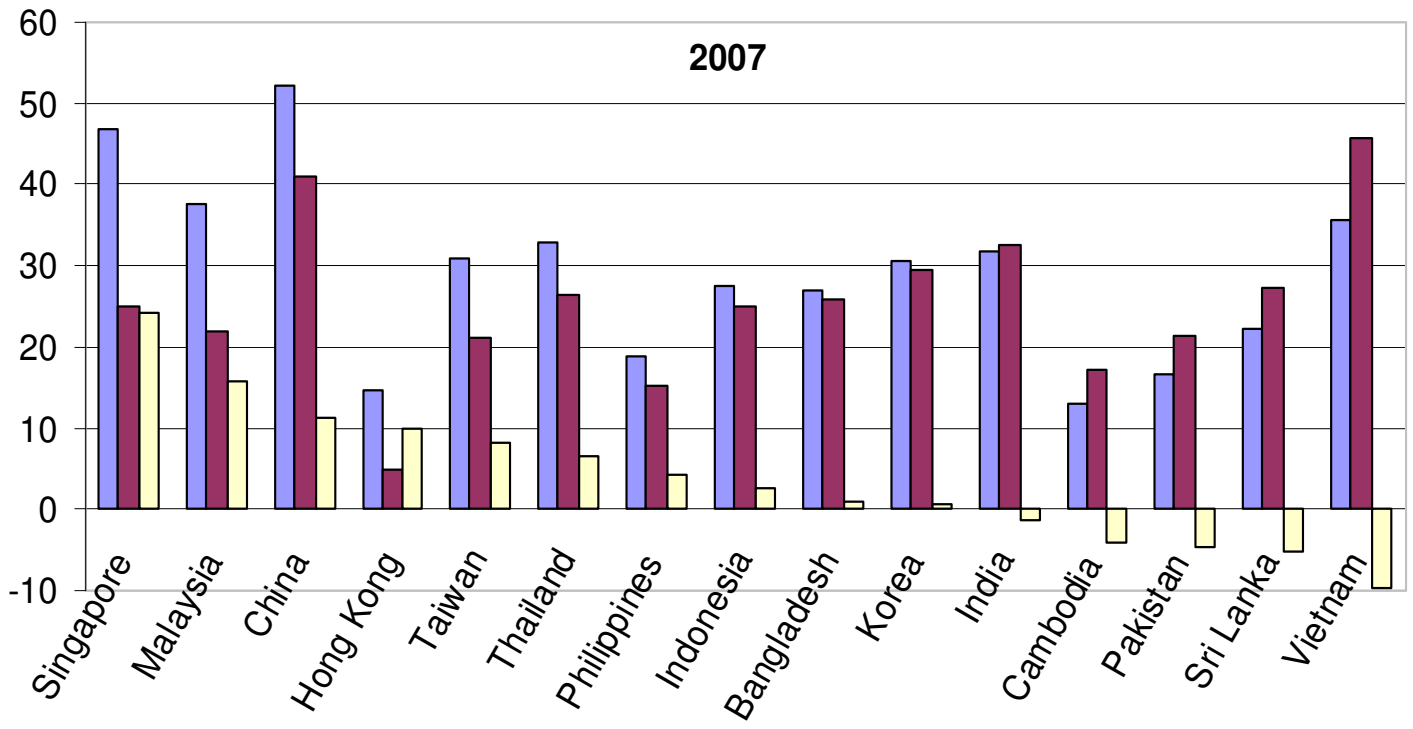
Aggregate Savings-Investment Balance for Developing Asia (in percent of GDP)



— Current Account Balance — Gross National Investment — Gross National Savings



Savings-Investment Balances (in percent of GDP)

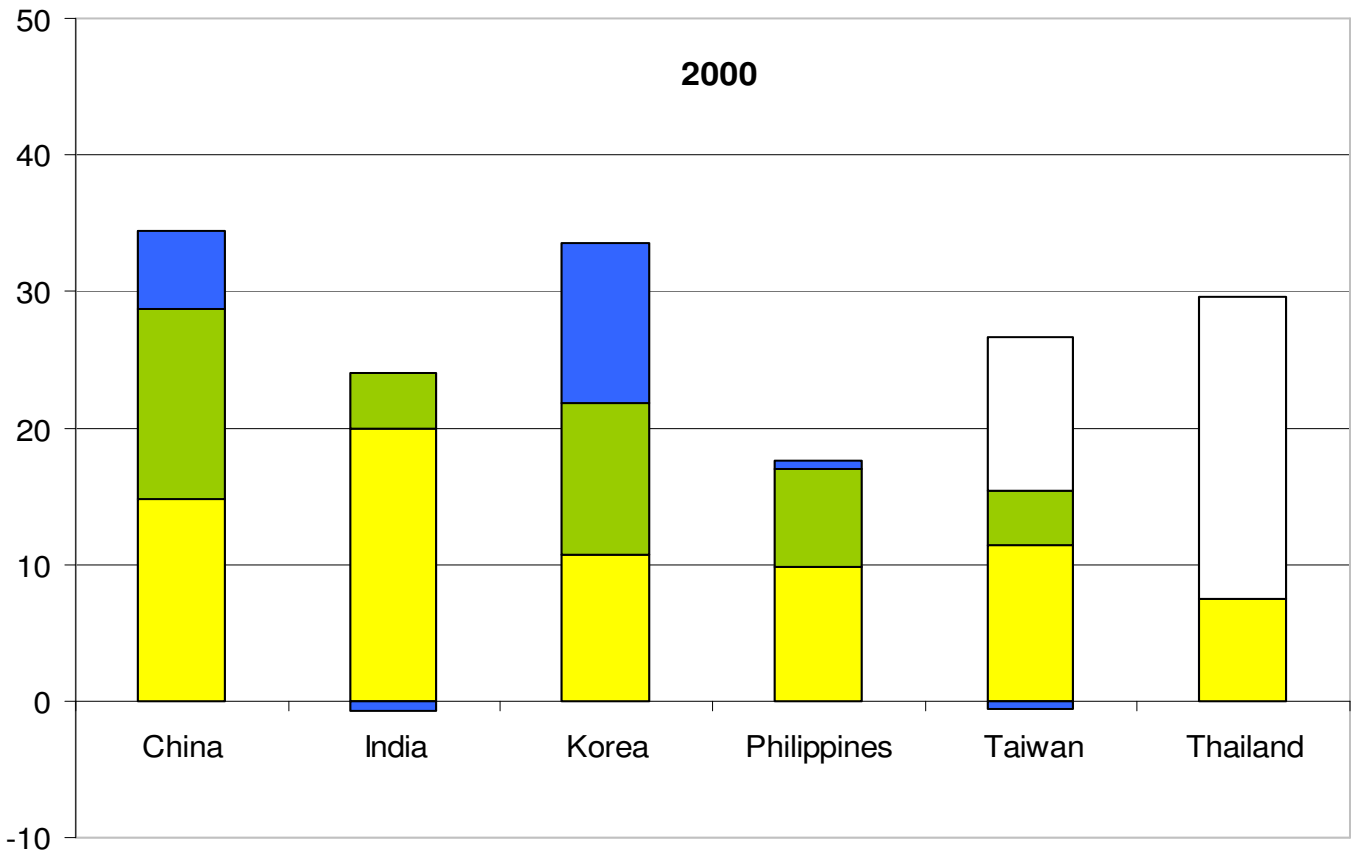
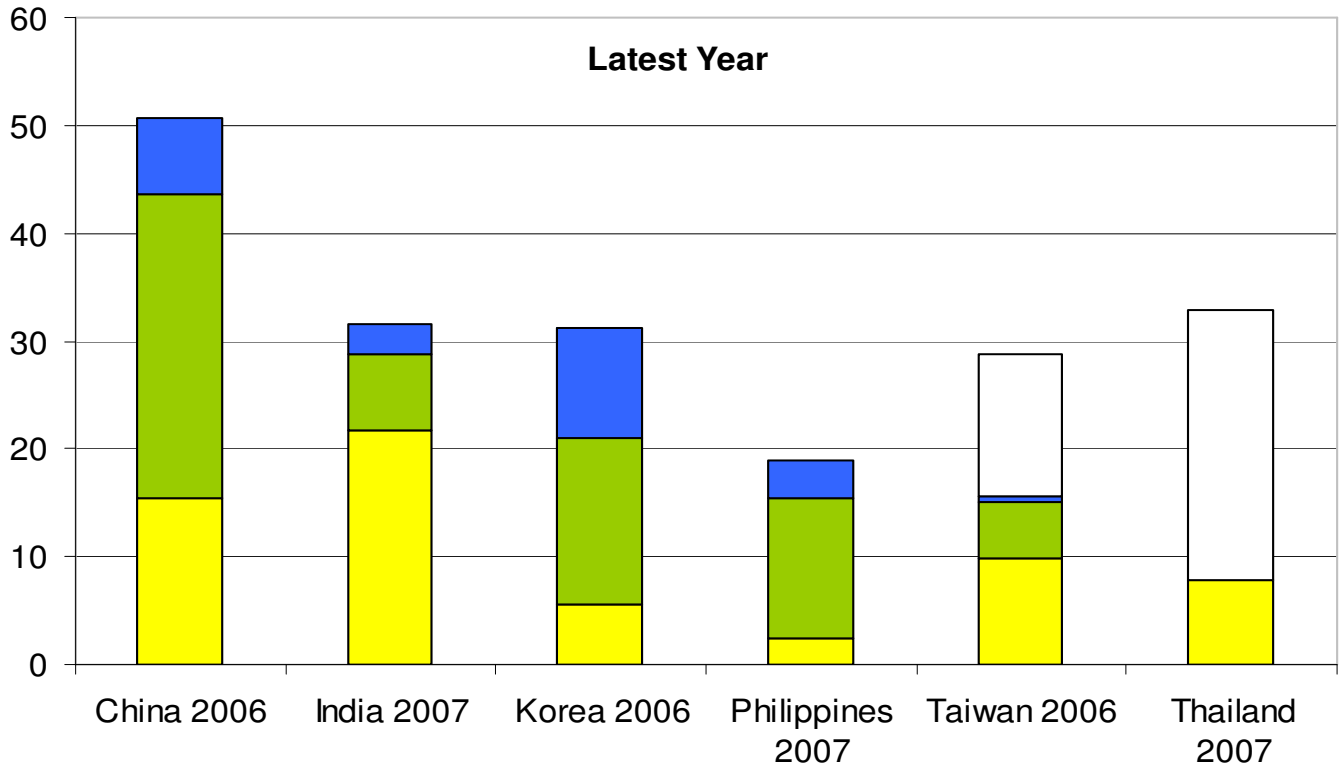


Gross national saving
 Gross national investment
 Current account balance

Composition of National Savings

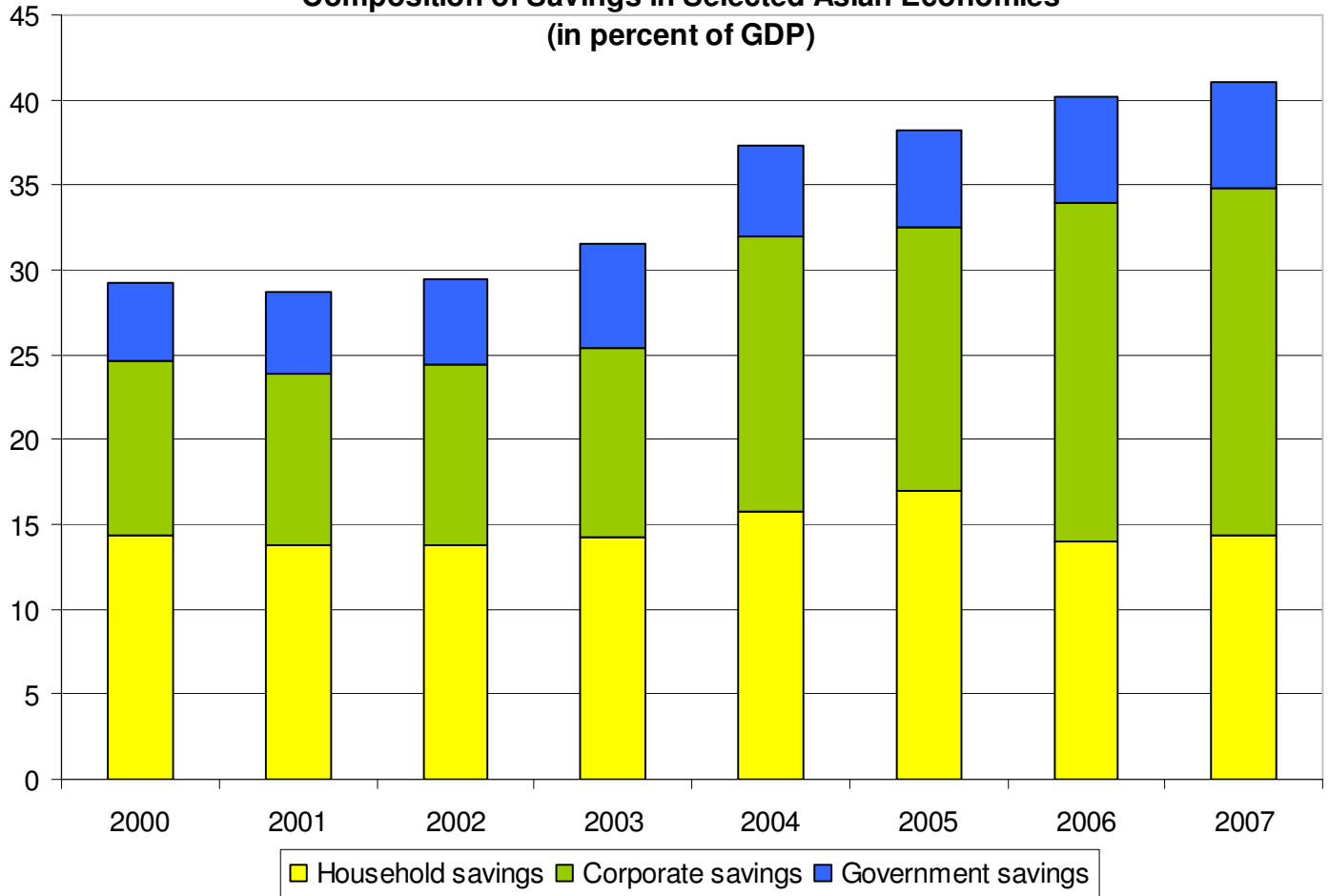
- Household savings
- Corporate savings
- Government savings

Components of National Savings Rates (in percent of GDP)

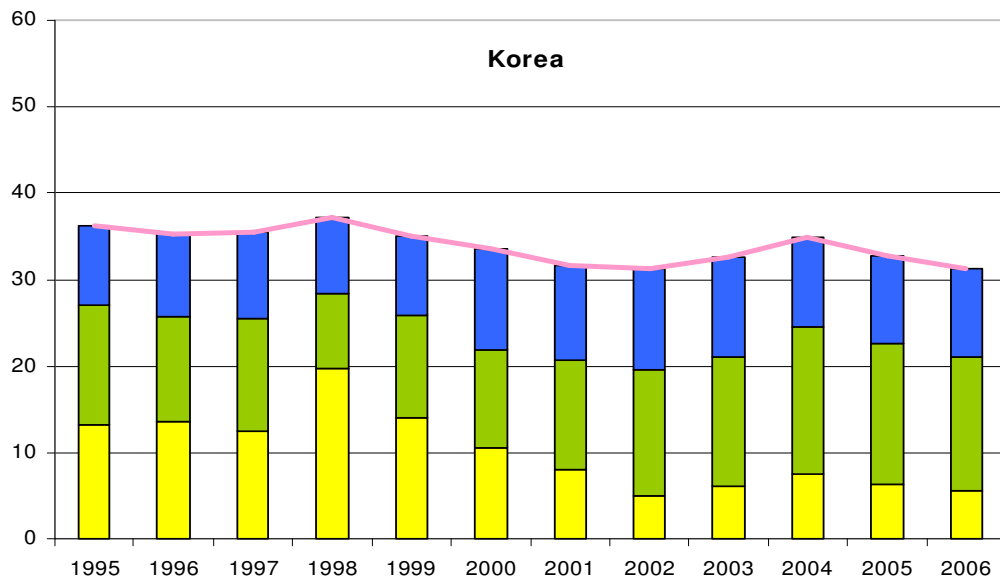
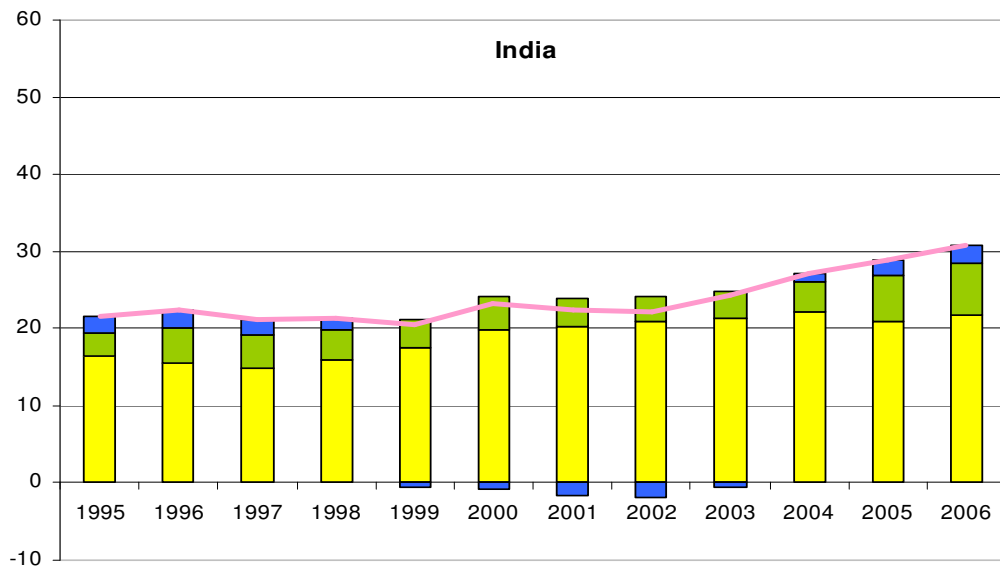
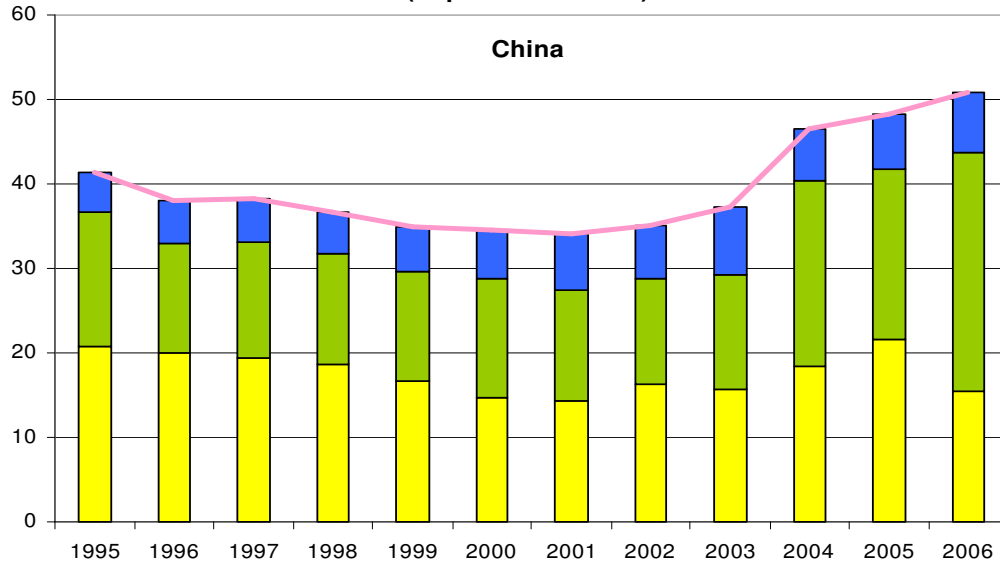


Household savings
 Corporate savings
 Government savings
 Unallocated savings

Composition of Savings in Selected Asian Economies
(in percent of GDP)

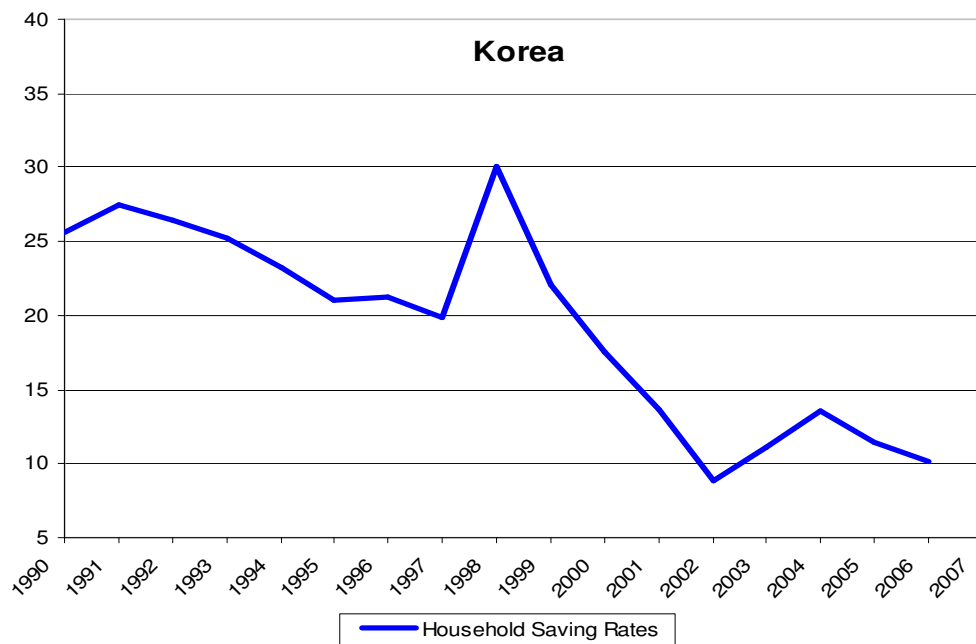
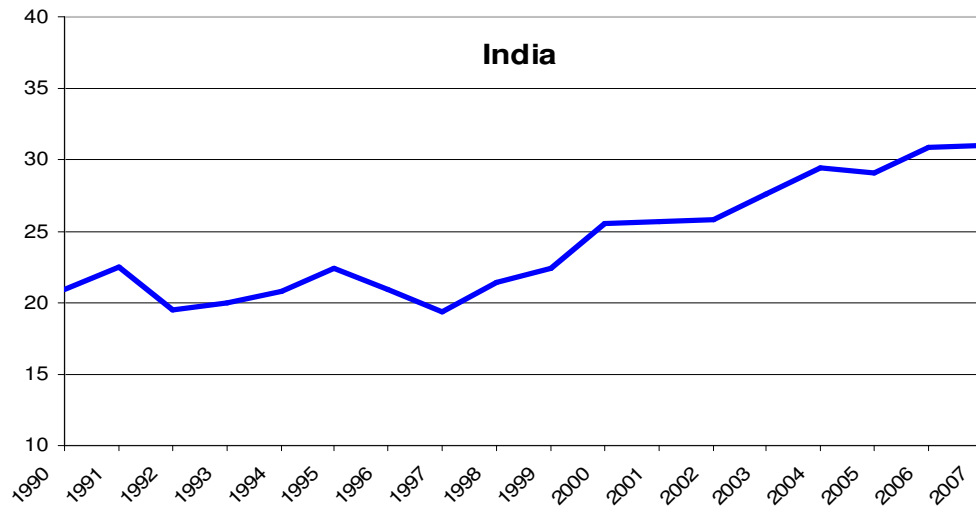
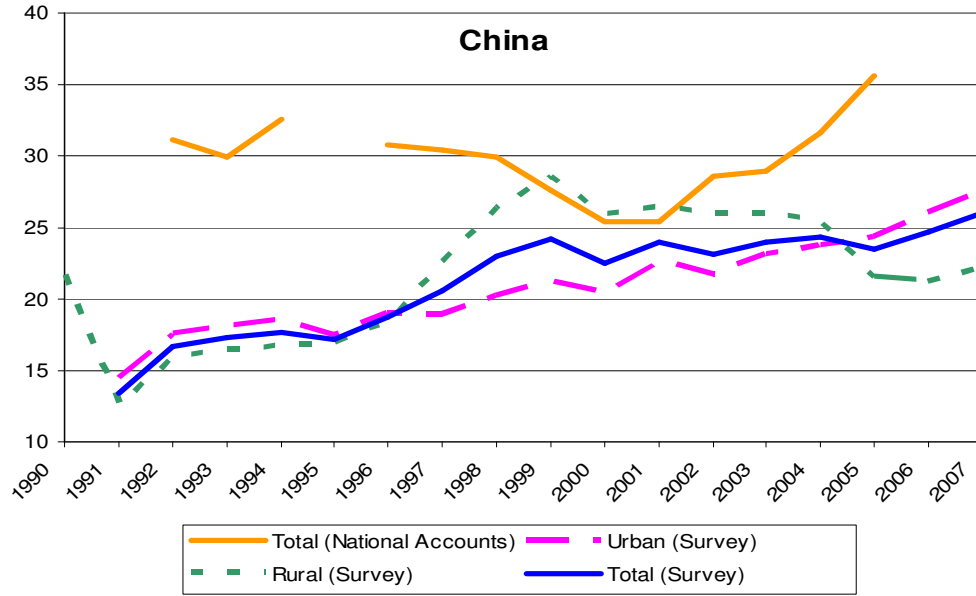


Composition of National Saving (in percent of GDP)



Household savings
 Corporate savings
 Government savings
 Total

Household Saving Rates (as percent of household disposable income)



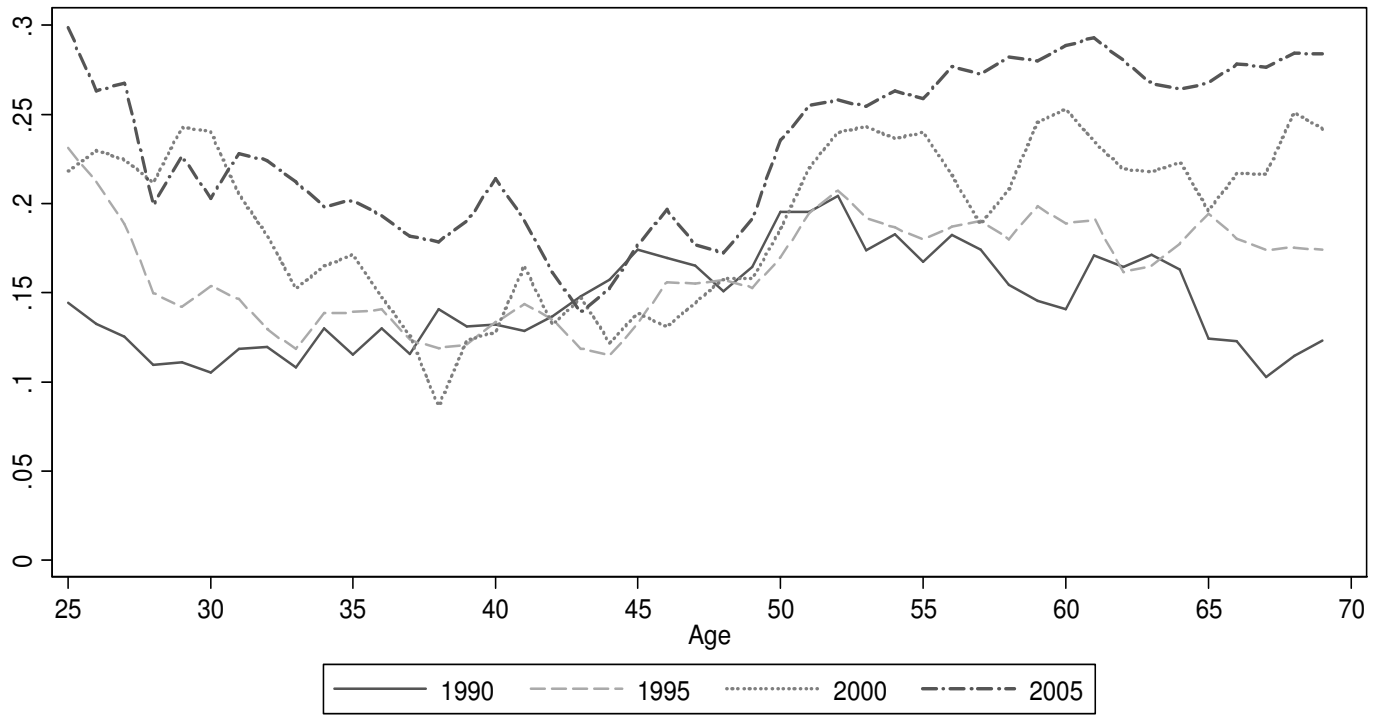
A Case Study: China

Why are Saving Rates of Urban
Households in China Rising?

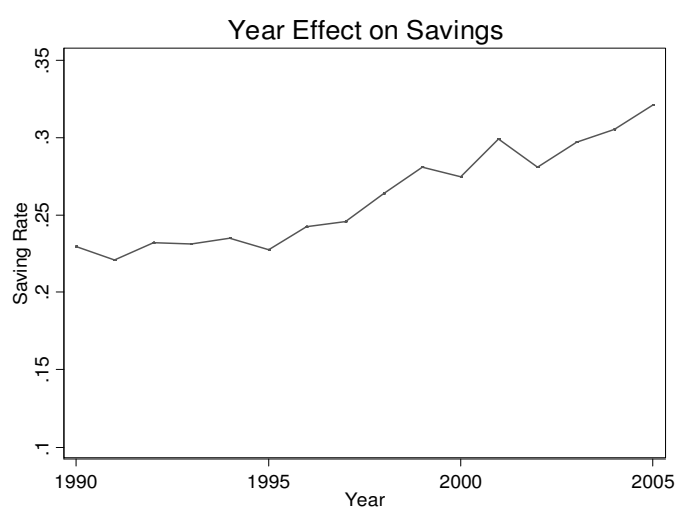
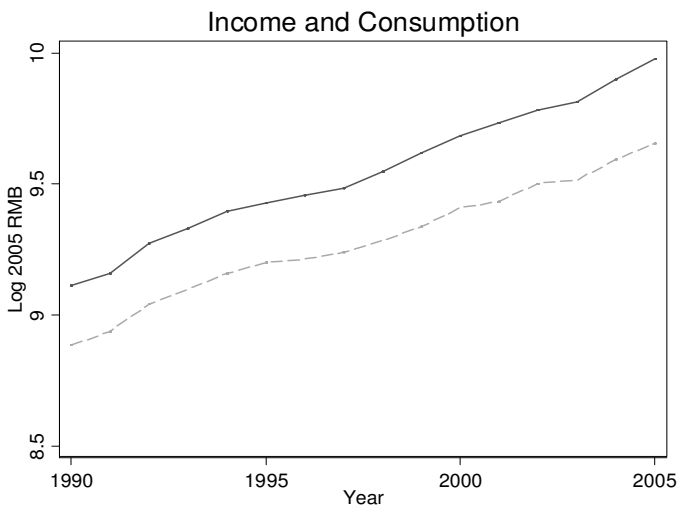
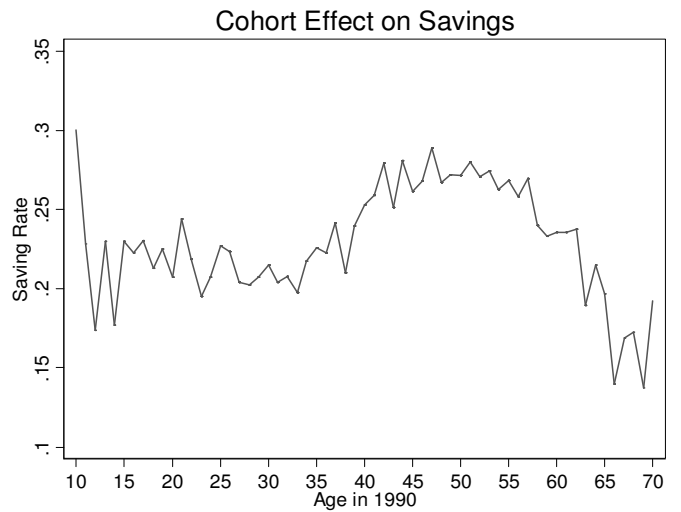
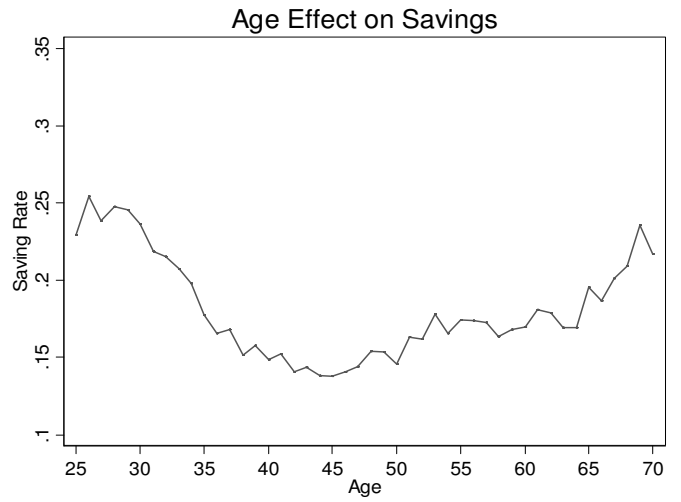
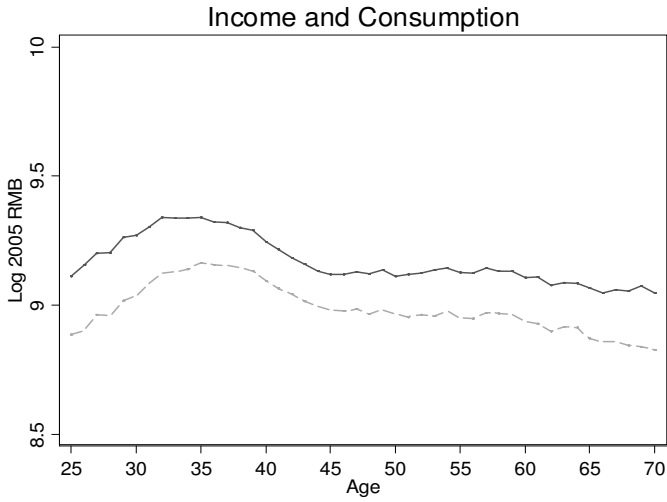
(Chamon and Prasad, *AEJ: Macro*, 2009)

Average Saving Rates by Age of Head of Household

(Saving Rate = $1 - \text{Consumption/Disposable Income}$)



Age, Cohort, and Year Effects on Income, Consumption, and Saving Rates



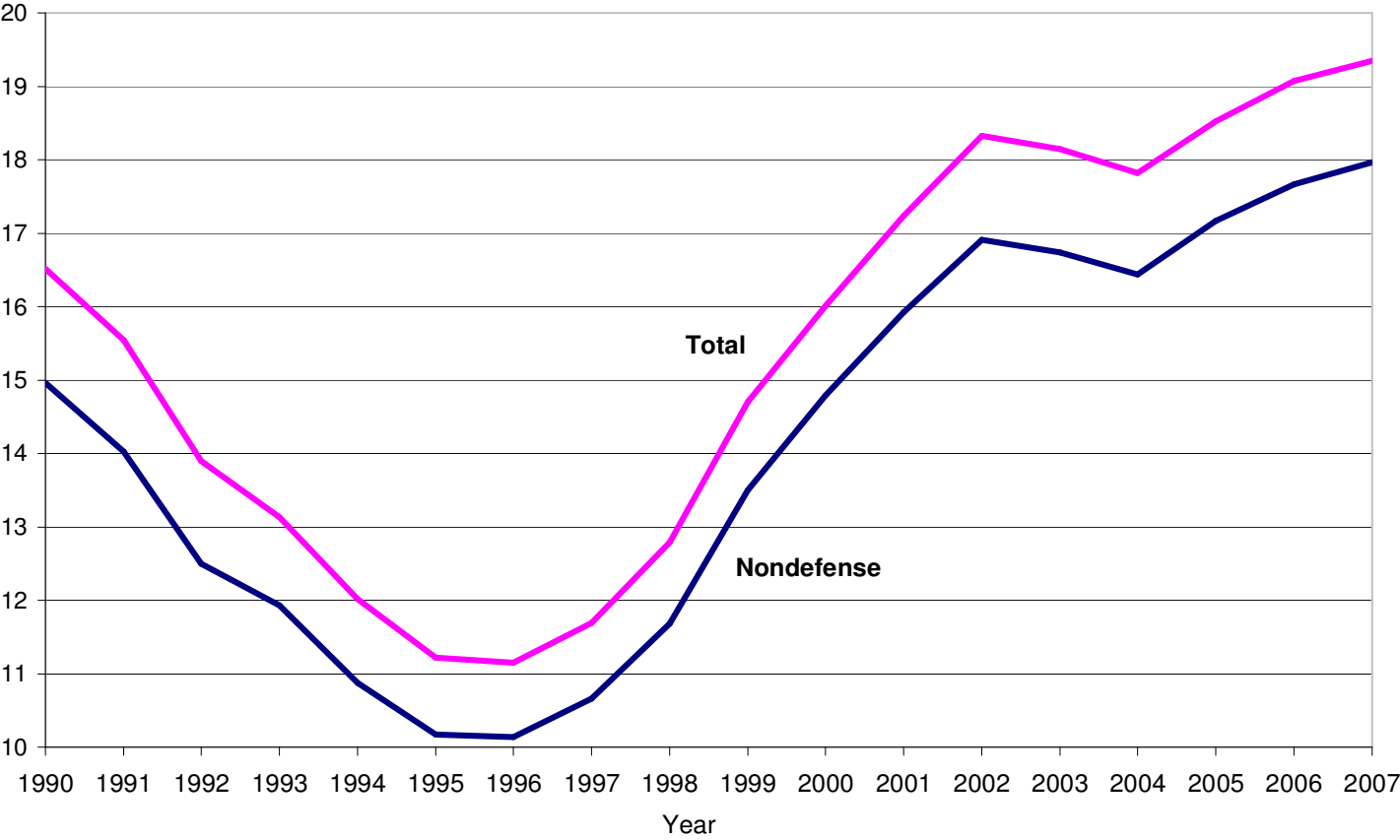
Determinants of Rising Households Saving Rate in China

- Financial underdevelopment
- Rising private burden of health and education expenditures
- Precautionary motives, strengthened by financial repression

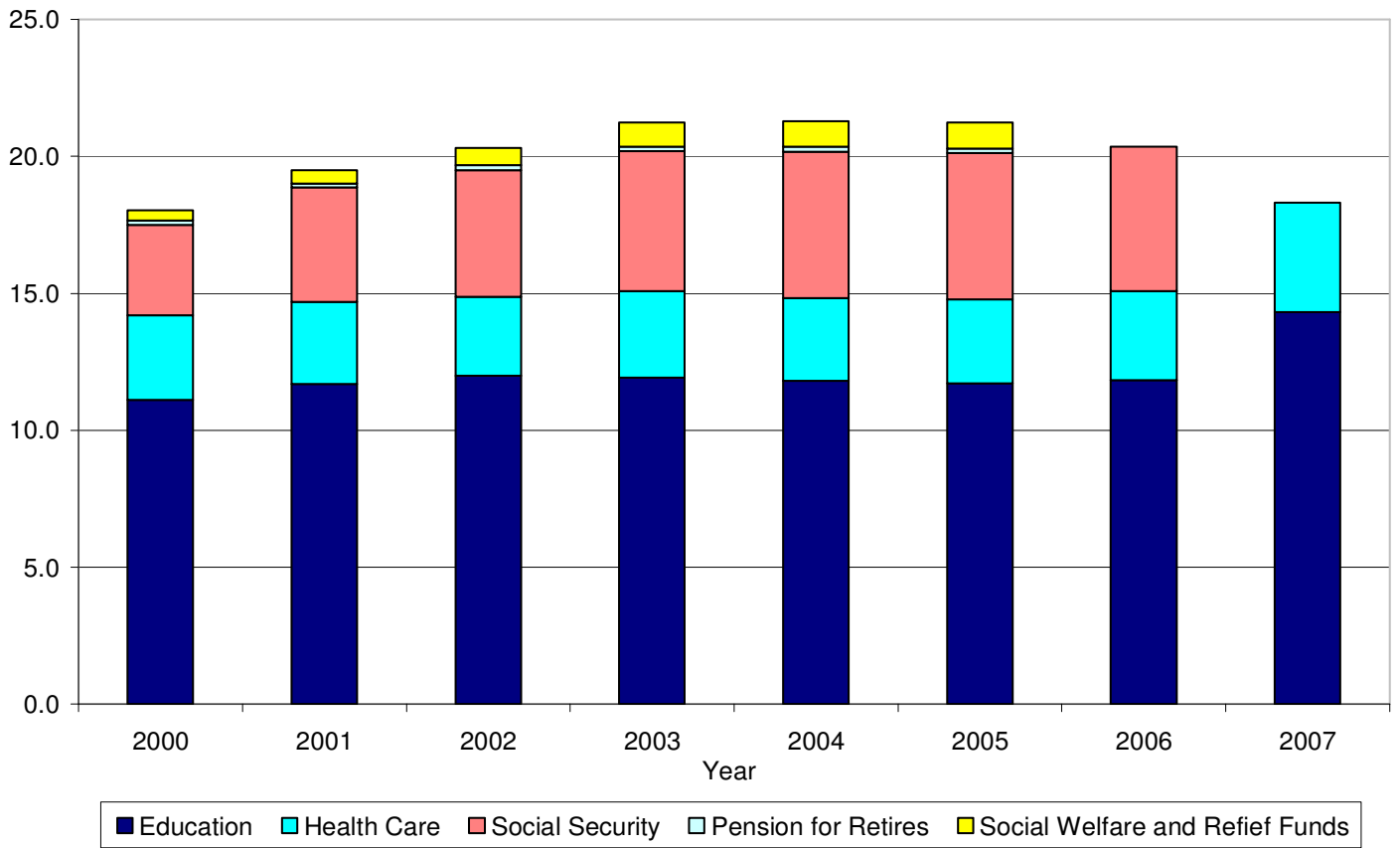
Not quantitatively important:

- Demographics
- Habit persistence
- Cultural factors

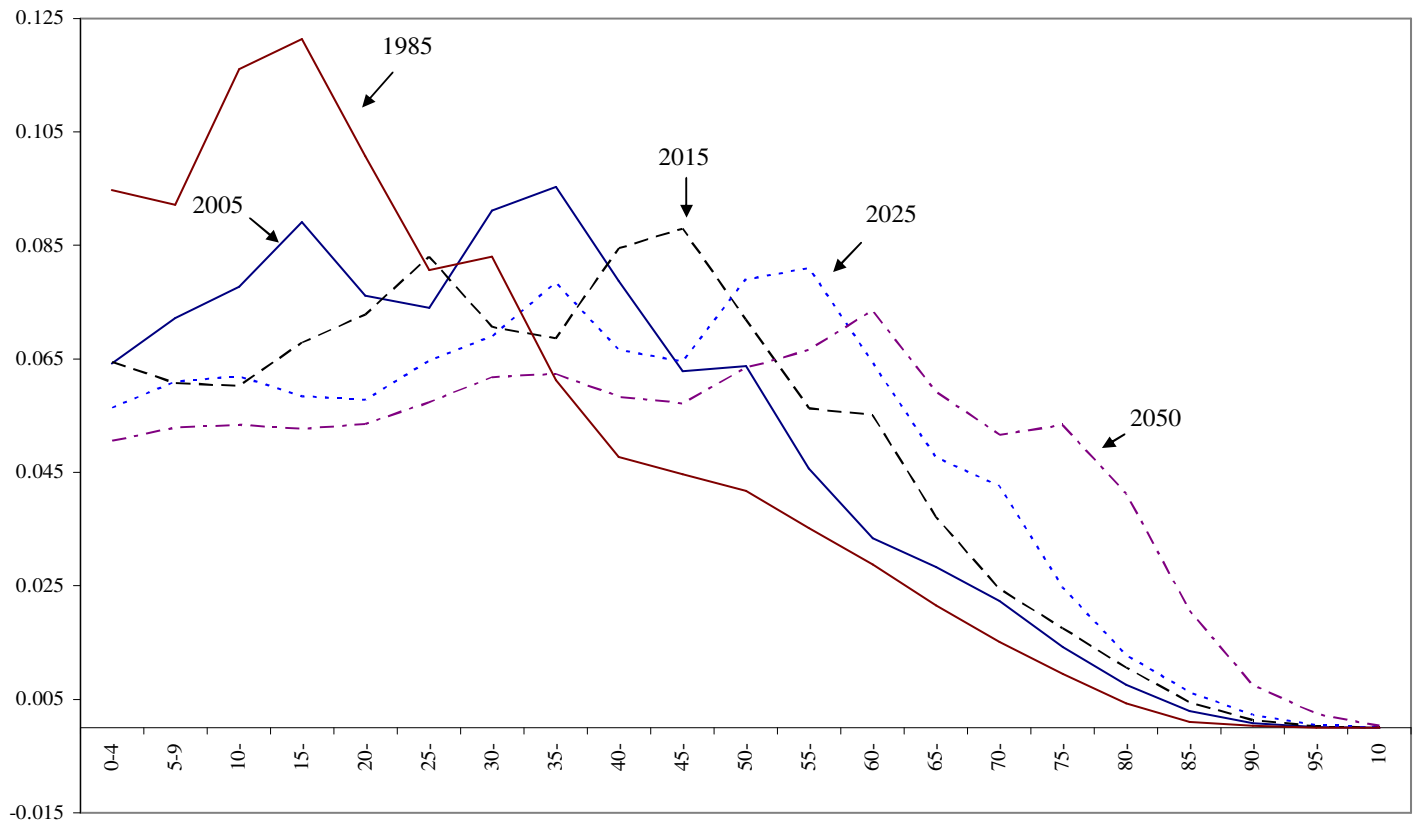
**China's Government Expenditure
(in percent of GDP)**



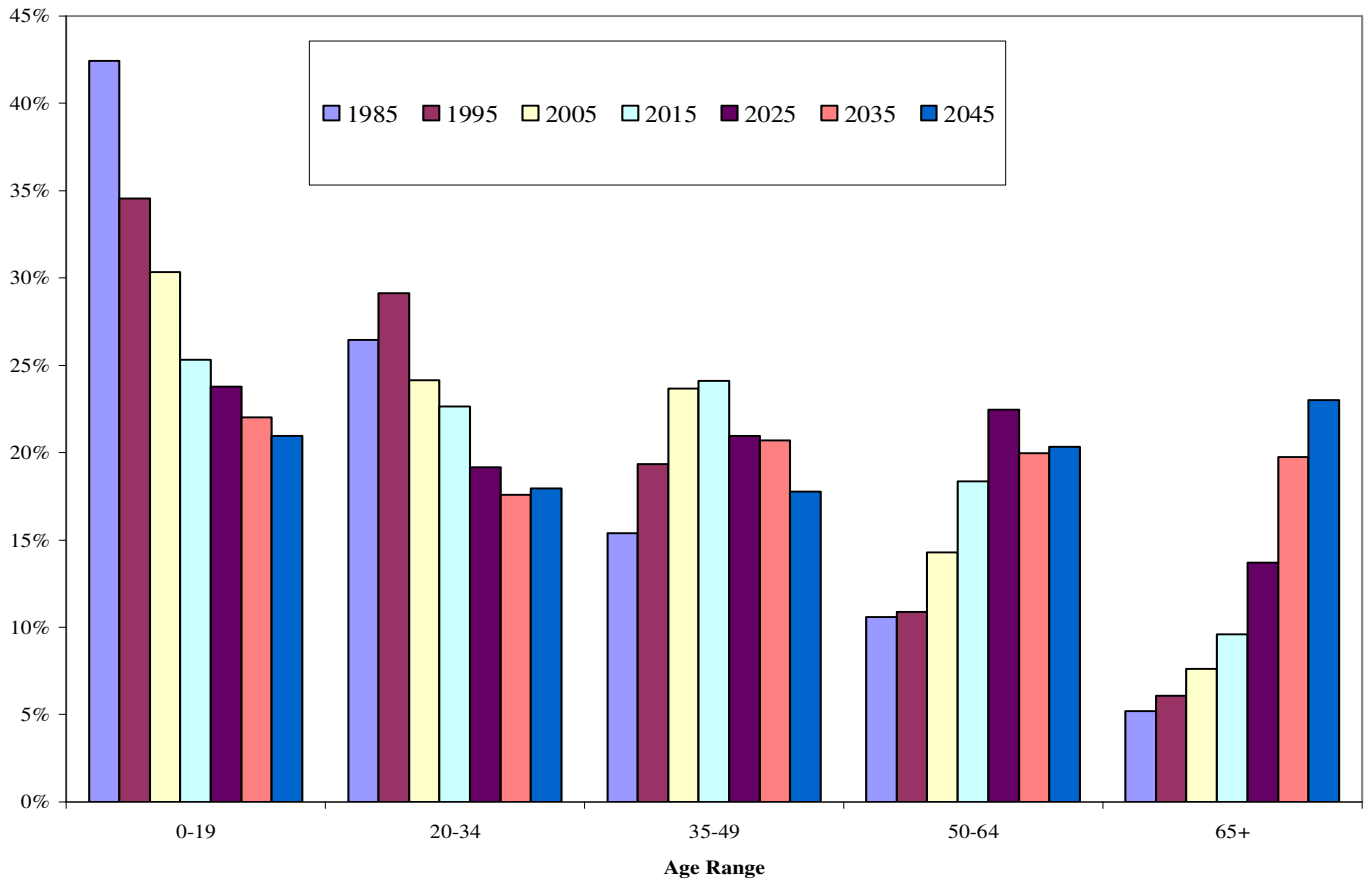
China Government Expenditure Components (in percent of total government expenditure)



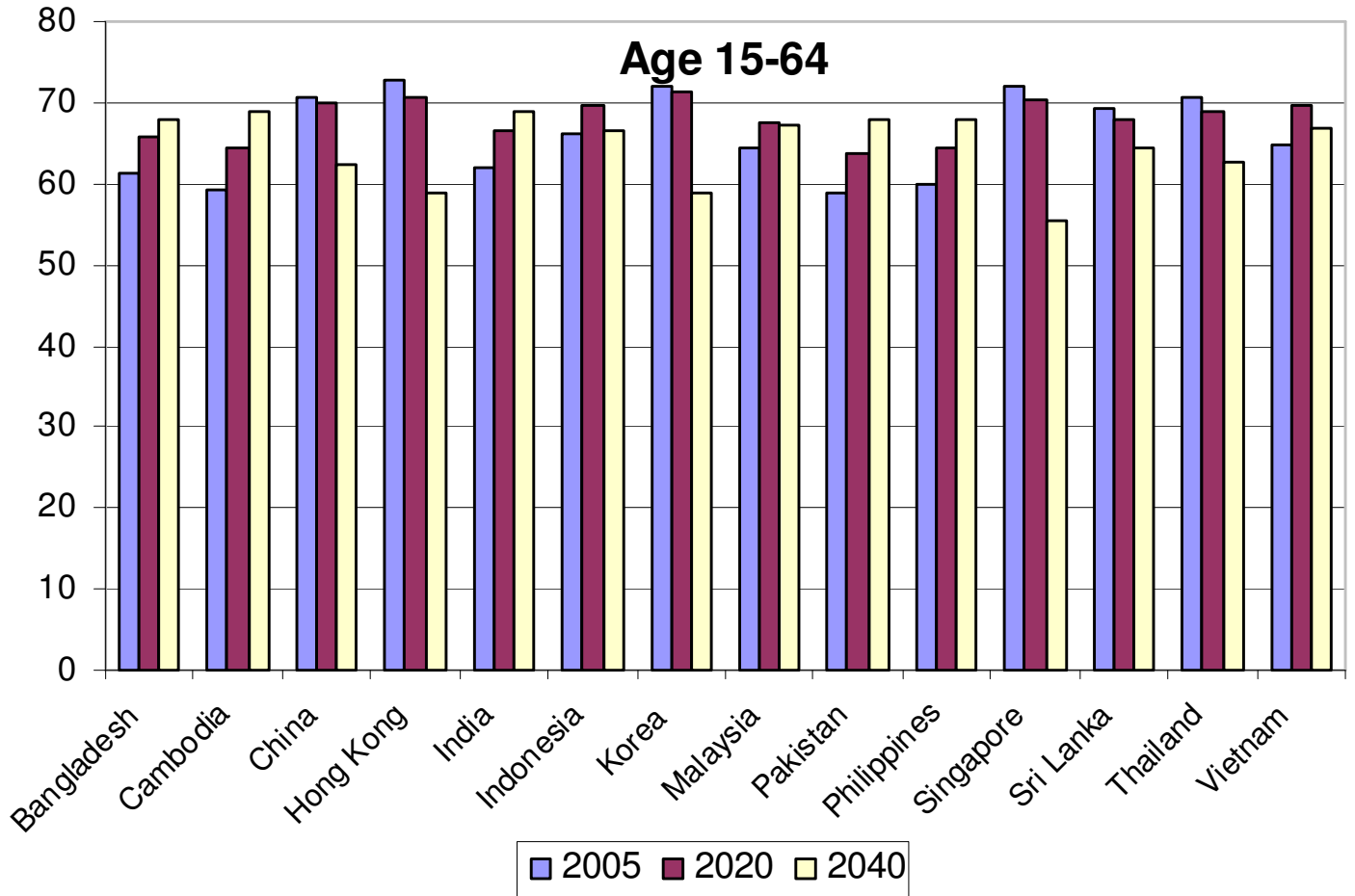
Age Distribution of the Chinese Population: Estimates and Projections



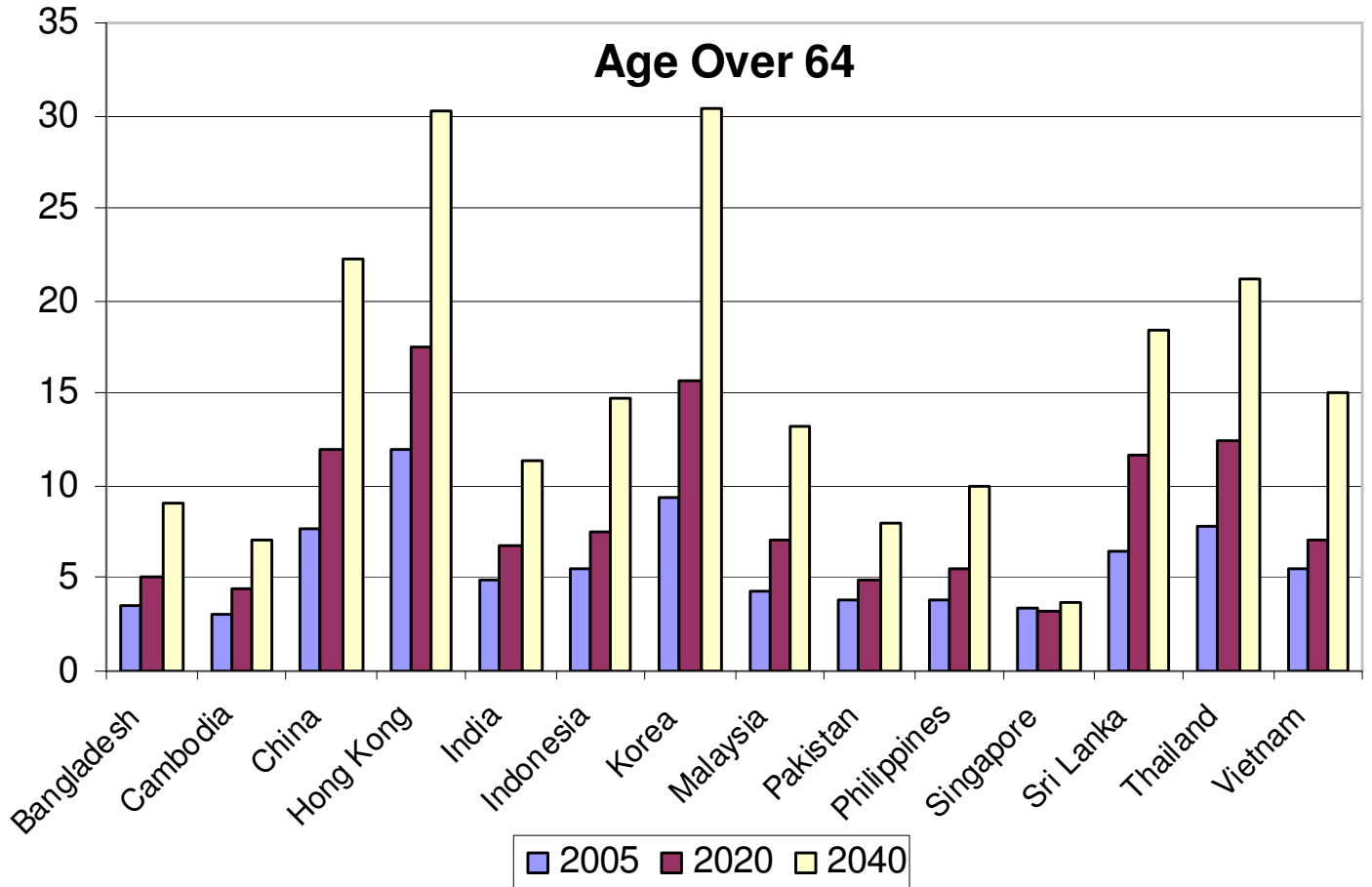
Age Distribution of the Chinese Population: Estimates and Projections



Demographic Projections (shares of dependent and working-age populations in total population, in percent)



Demographic Projections (shares of dependent and working-age populations in total population, in percent)



Financial Development and Savings

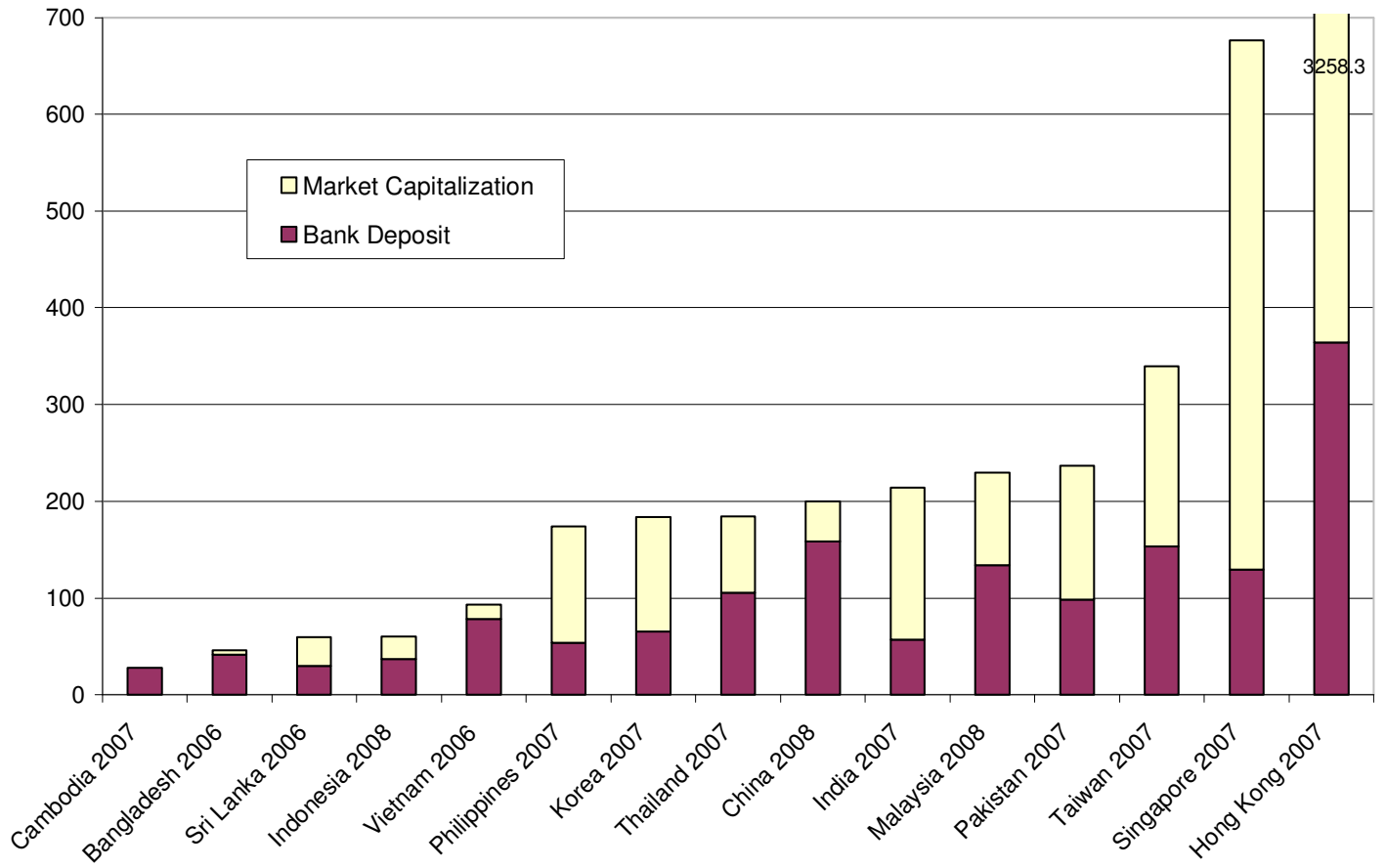
Households

- Inability to borrow against future income
- Self insurance against shocks
- Lack of diversification opportunities
- Financial repression (low real returns)
- Exacerbated by greater macroeconomic and household-specific uncertainty

Firms

- Saving by entrepreneurs
- Lack of alternatives to bank finance (e.g., corporate bond markets)
- Financial repression
- Poor corporate governance (no dividend payouts, profits reinvested)

Bank Deposits and Stock Market Capitalization (in percent of GDP, latest year)



Implications

- Financial market development
 - Broader set of markets
 - Financial system efficiency
 - Inclusion
- Social safety net
- Macro policies
- What does balanced growth look like?
Not:
 - Falling share of labor income in labor-rich economy
 - Slow rate of consumption, emp. growth relative to GDP growth
 - Large current account imbalance