

# Global Rebalancing: An Asia-Pacific Perspective

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New Delhi, March 2010

Asia-Pacific Framework for Post-Crisis Growth  
A study for the Pacific Economic Cooperation Council (PECC)

Large growth corrections in 2008-09 crisis

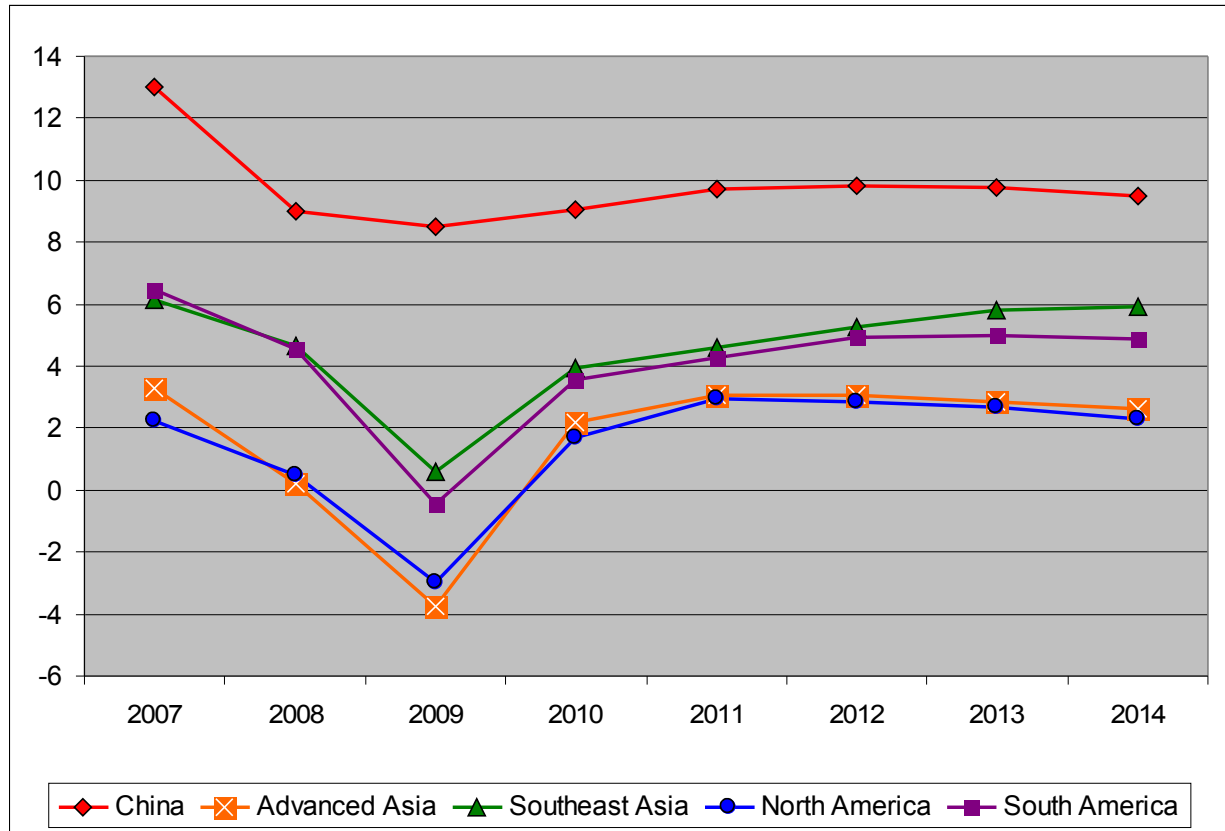
Fiscal stimulus and monetary policy responses prevented global free fall

Crisis reduced external imbalances

What is required for sustained recovery in Asia-Pacific region?

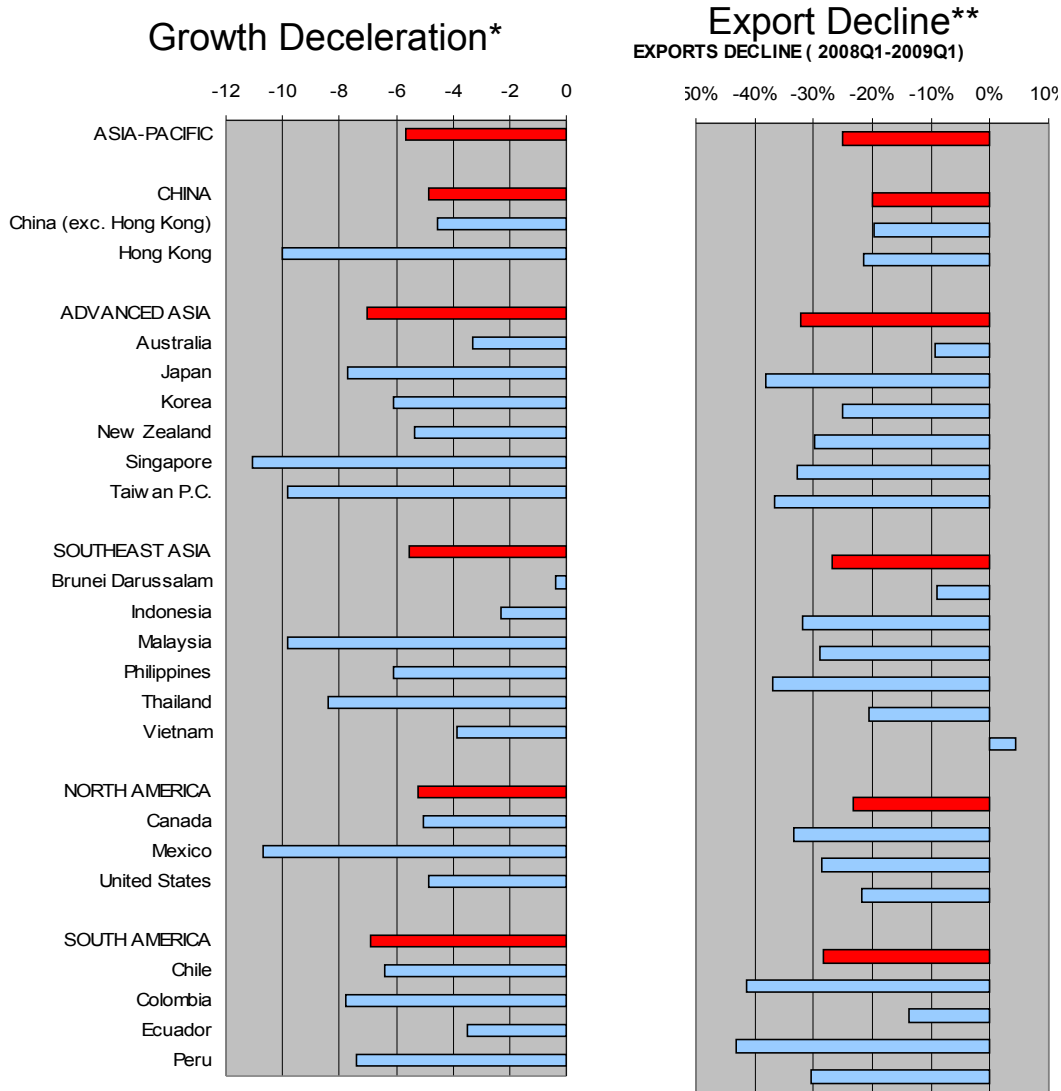
- successful exit from stimulus
- financial regulatory reforms
- structural changes
- growth engines
- regional cooperation that complements global cooperation

## Growth Projections to 2014

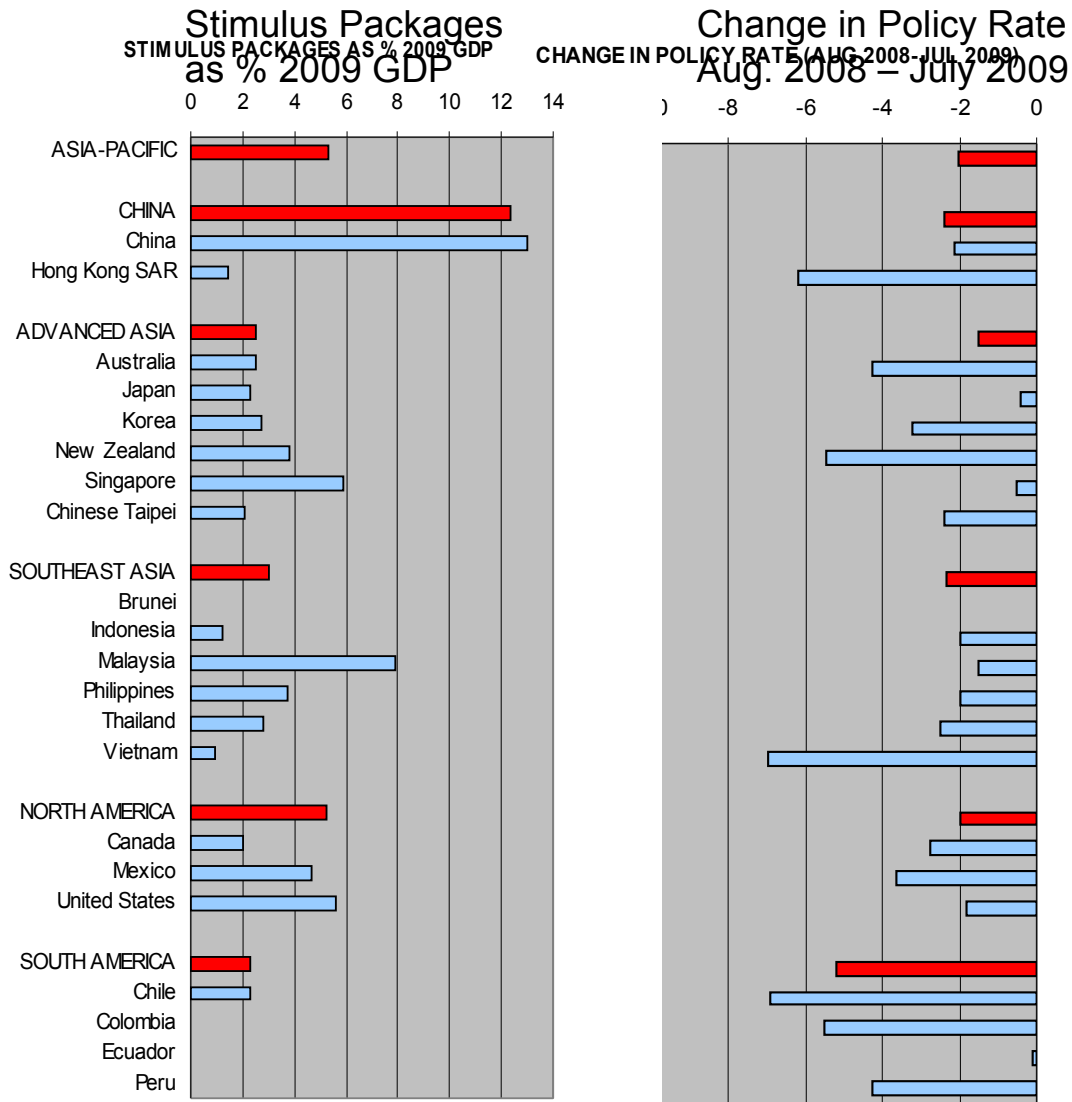


Source: IMF WEO October 2009

# Crisis impacts in E Asia amplified by structure of production :



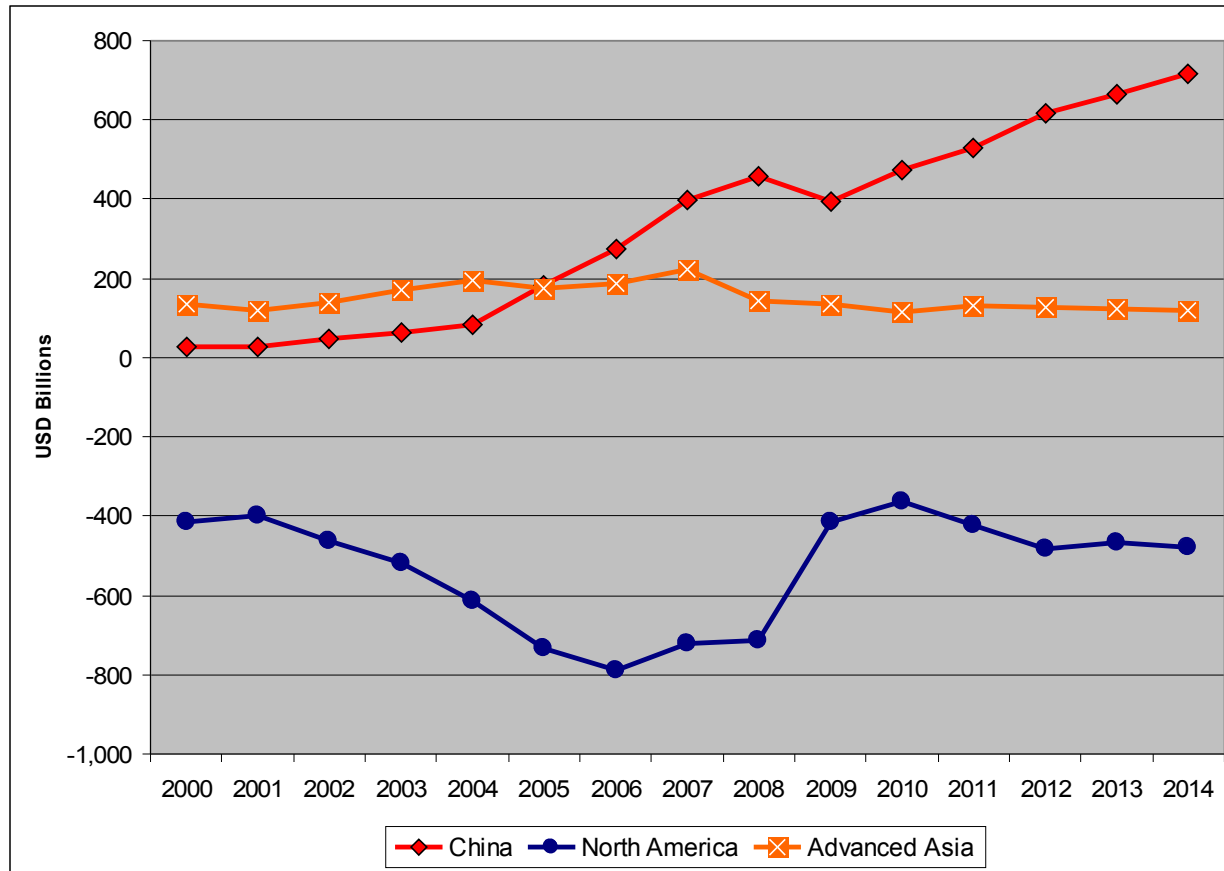
\*change in growth rate, 2007-09 \*\*early 2009, year-on-year



Sources: IMF WEO (October 2009), CEIC, Yahoo Finance, BIS (December 2009).

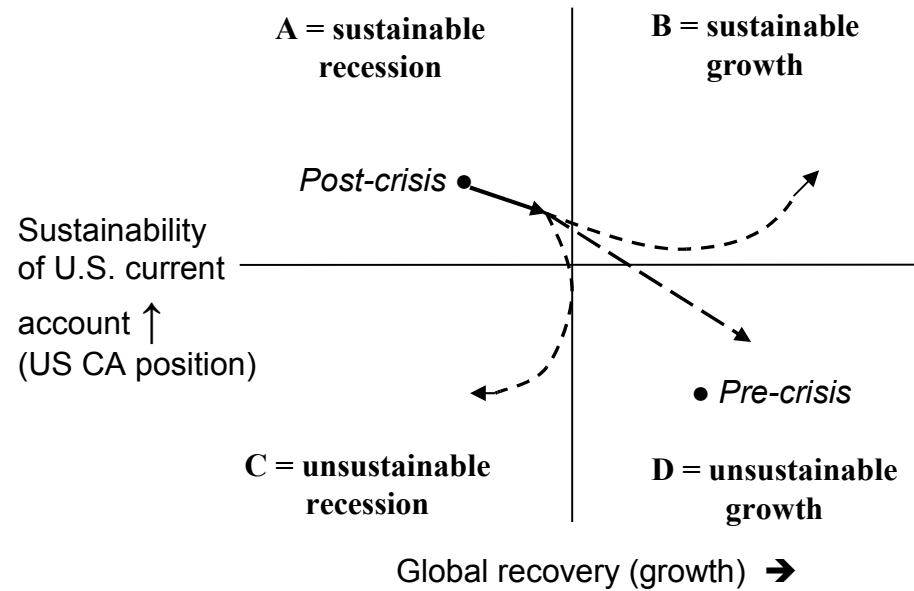
# But reduced the growth of imbalances – for how long?

Current Account balances, 2000- 2014

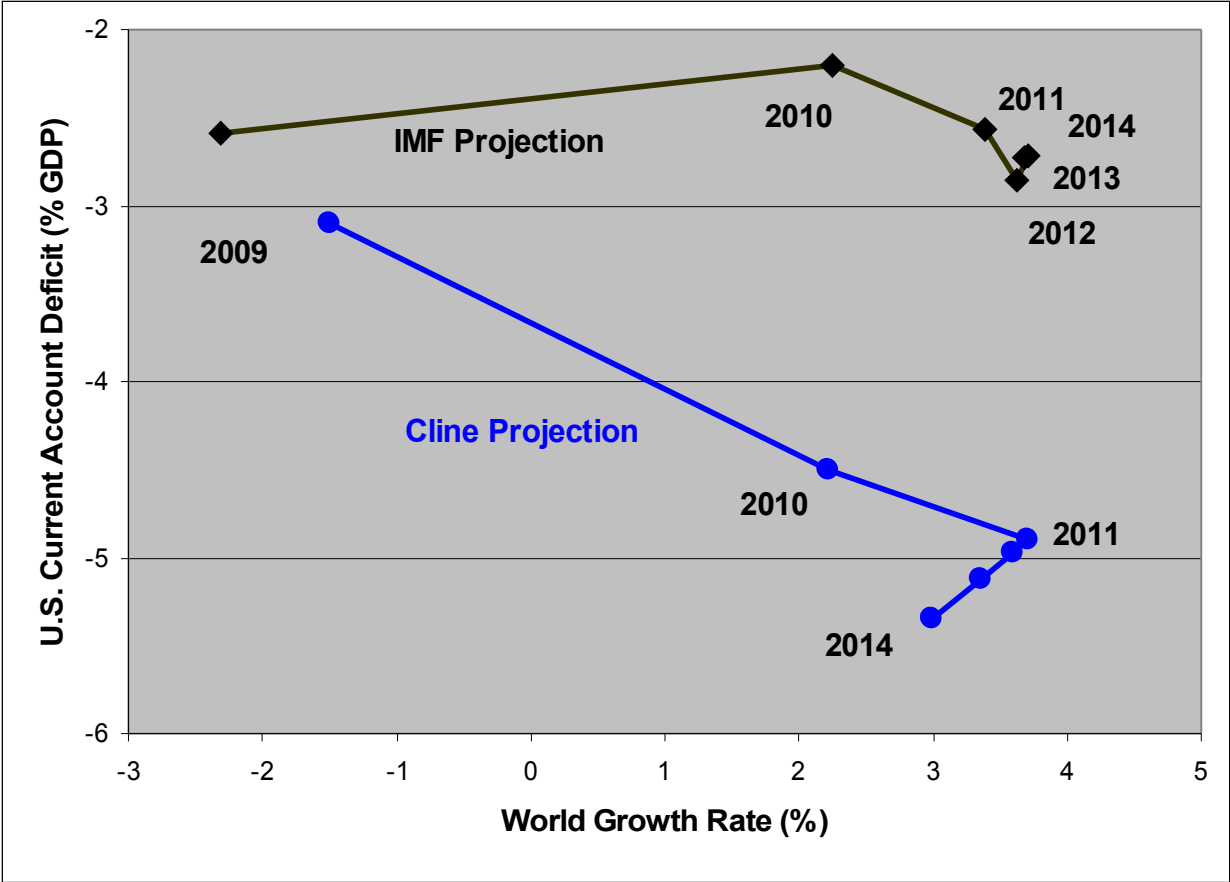


Source: IMF WEO database Oct 2009

# A Sustainable Recovery Path: global recovery based on sustainable demand?



# Two Recovery Projections



IMF WEO (October 2009); Cline (2009)



# Arithmetic of Rebalancing: the starting point (USD billions, 2007)

	GDP	Expenditures						Current
		Cons	Inv	Gov	Exp	Imp	Net Exp	Acct
<b>World</b>	<b>54,841</b>	<b>31,835</b>	<b>12,810</b>	<b>9,810</b>	<b>17,149</b>	<b>16,763</b>	<b>386</b>	<b>299</b>
European Union(EU15)	15,724	8,998	3,359	3,227	6,147	6,006	141	9
Middle East	1,394	589	347	203	811	556	255	265
Rest of the World	8,895	4,742	2,575	1,462	3,076	2,959	117	63
<b>Asia-Pacific</b>	<b>28,827</b>	<b>17,506</b>	<b>6,529</b>	<b>4,919</b>	<b>7,115</b>	<b>7,242</b>	<b>-127</b>	<b>-38</b>
<b>China</b>	<b>3,652</b>	<b>1,340</b>	<b>1,493</b>	<b>488</b>	<b>1,773</b>	<b>1,443</b>	<b>330</b>	<b>397</b>
China (exc. Hong Kong)	3,445	1,216	1,450	472	1,342	1,035	308	372
Hong Kong	207	125	43	17	431	408	22	26
<b>Advanced Asia</b>	<b>7,028</b>	<b>3,915</b>	<b>1,772</b>	<b>1,188</b>	<b>2,100</b>	<b>1,947</b>	<b>153</b>	<b>221</b>
Australia	910	508	257	161	183	199	-17	-57
Japan	4,384	2,469	1,057	786	772	699	73	211
Korea	1,049	571	309	154	440	424	16	6
New Zealand	131	76	32	25	38	39	-1	-11
Singapore	168	64	35	16	384	332	53	39
Chinese Taipei	385	227	83	47	283	254	29	33
<b>Southeast Asia</b>	<b>1,089</b>	<b>640</b>	<b>268</b>	<b>111</b>	<b>637</b>	<b>567</b>	<b>70</b>	<b>60</b>
Brunei Darussalam	12	2	2	3	8	3	5	6
Indonesia	436	275	108	36	127	110	17	10
Malaysia	187	85	41	23	206	168	38	29
Philippines	137	100	22	14	62	61	1	7
Thailand	247	132	66	31	180	161	19	14
Vietnam	70	46	30	4	55	64	-10	-7
<b>North America</b>	<b>16,533</b>	<b>11,294</b>	<b>2,880</b>	<b>3,060</b>	<b>2,446</b>	<b>3,147</b>	<b>-701</b>	<b>-720</b>
Canada	1,432	799	326	279	500	471	29	15
Mexico	1,023	669	266	105	290	306	-17	-8
United States	14,078	9,826	2,289	2,676	1,656	2,370	-714	-727
<b>South America</b>	<b>525</b>	<b>316</b>	<b>117</b>	<b>71</b>	<b>160</b>	<b>138</b>	<b>21</b>	<b>4</b>
Chile	164	89	34	18	77	55	23	7
Colombia	208	132	51	34	35	44	-9	-6
Ecuador	46	29	11	5	16	16	0	2
Peru	107	66	21	13	31	24	7	1

Source: CEIC Oct 2009.

# Rebalancing Demand

Eliminating excessive imbalances

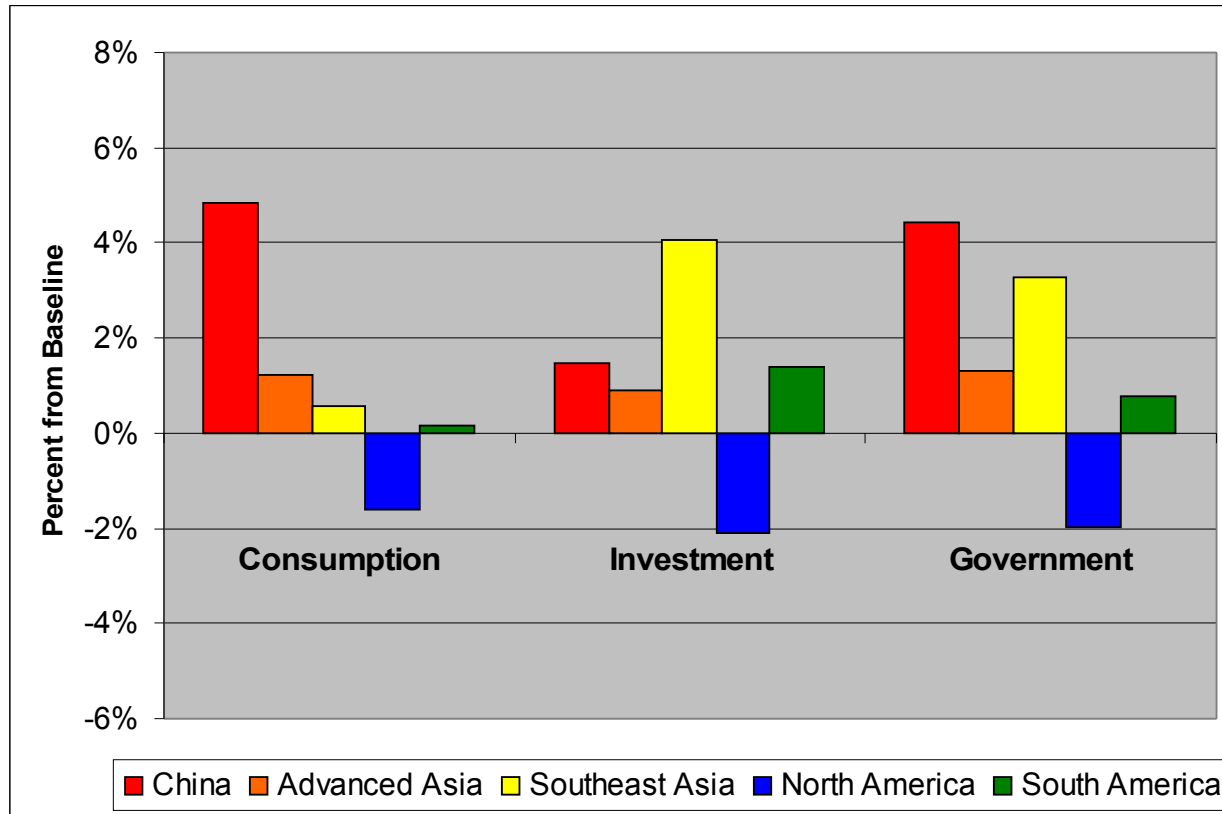
Assumptions:

1. Reduce US CA deficit to 3% GDP (widely assumed to be sustainable)
2. Allocate reduction to economies with CA surpluses (by share of total surpluses)  
China absorbs 33% of US deficit reduction
3. Allocate changes in national expenditures to specific expenditure categories  
60% expenditure changes allocated to US and Chinese consumption; 20% to SE Asia investment; 20% to other categories

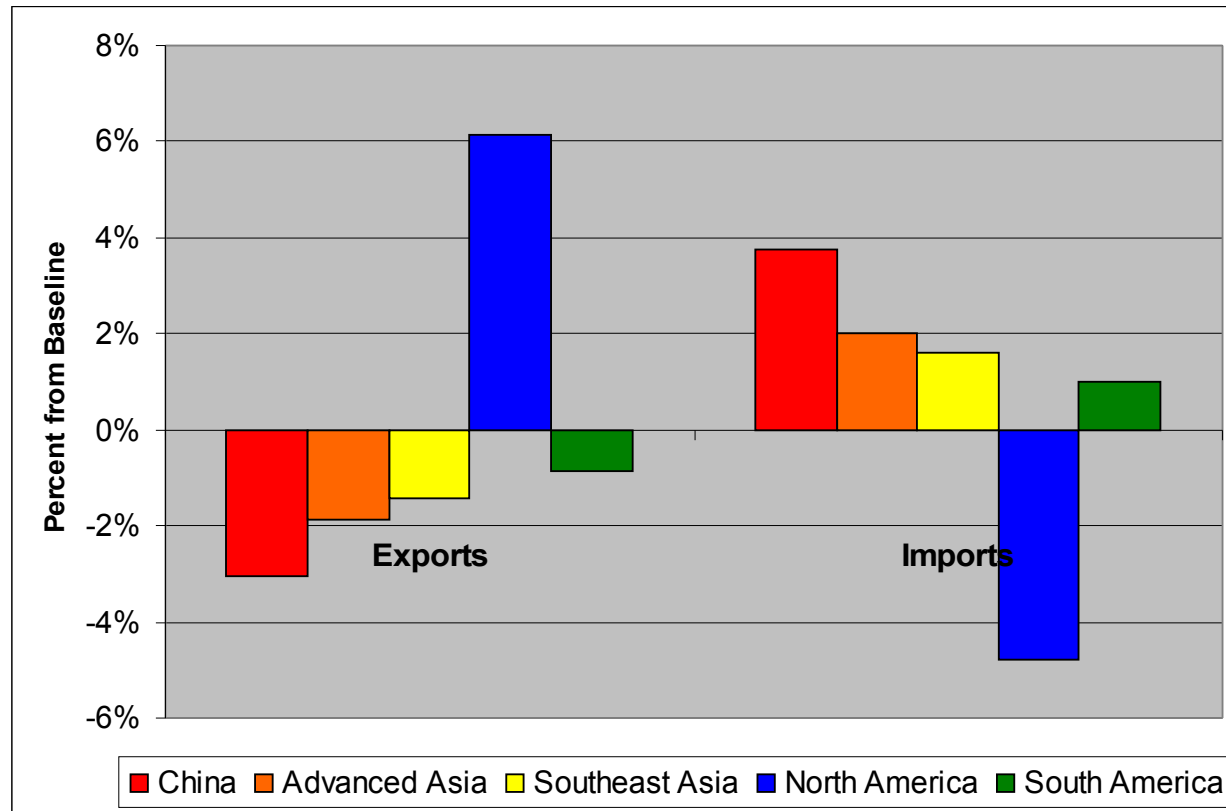
Results

1. Chinese consumption rises 5% above 2007 level (equivalent to 8 months of consumption growth)
2. US expenditures decline 2% (smaller than some of recent market-driven changes)
3. Similar changes in I and G in SE Asia

## Expenditure Changes and Rebalancing (% change from 2007 baseline)



## Rebalancing and Trade Changes (% change from 2007 baseline)



Assumptions: Allocate changes in US net exports 50:50 to exports and imports → 5% change in US trade and 3% in Chinese trade

Expenditure switching and resulting changes in trade balances are manageable

## But what are the implications for domestic policies?

### China's rebalancing strategy:

1. Change household saving incentives with growth in social spending
2. Deregulate services to create labor-intensive jobs
3. Modernize financial system to reward savers and facilitate SME finance
4. Raise prices of industrial inputs
5. Allow exchange rate to appreciate

### US fiscal consolidation

1. 2011 budget: Spending freeze (3 years); allow non-indexation to continue (less revenue loss) → deficit/GDP declines to 10+% GDP with “rosy growth scenario”
2. Need a bipartisan commission to prepare sustainable fiscal path

## The recent rise in Chinese social spending

Year	Education	Health	Social security and employment	Total (RMB, billions)
2002	300.6	66.3	268.9	635.8
2004	385.4	93.6	318.6	797.6
2006	546.4	142.1	439.4	1,128.0
2008	893.8	272.2	677.0	1,843.0

Source: Goldstein and Lardy (2009:36)

## Japan

(Finally) implement 1986 Maekawa Report to generate more domestic demand; deregulate services sector; redirect technological capabilities towards growth markets such as products and services for aging population, energy conservation

Permit large scale immigration / greater labor mobility within the region

## Korea

National Strategy for green growth adopted

- reduce dependence on fossil fuels
- encourage green technologies as new growth engines
- invest in infrastructures for more energy- and CO<sub>2</sub>-efficient economy



## What changes implied on supply side?

US export growth

USD depreciation

Asian import growth

Exchange rate appreciation

Eliminate export incentives (access to finance, tax incentives, public infrastructure investments, discrimination against non-tradeables)

Remove barriers to competition

Remove restrictions on services

Expand the provision of public goods and services (health, education, environmental conservation, infrastructure development)

East Asian interest in growth engines to replace US consumer

# Economic Priorities and Growth Engines in East Asia

Priorities	Growth Engines	Project Examples
Economic integration	<ul style="list-style-type: none"> <li>• New frameworks for trade and investment</li> <li>• Investments in transport and communications infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Development Agenda</li> <li>• Chiang Mai Initiative Multilateralized</li> <li>• Regional FTAs</li> <li>• Pan-Asian railway network</li> <li>• Immigration</li> </ul>
Green economy	<ul style="list-style-type: none"> <li>• Clean energy</li> <li>• Energy conservation</li> <li>• Safe air and water</li> </ul>	<ul style="list-style-type: none"> <li>• Intelligent power grid</li> <li>• Electric car</li> <li>• Efficient irrigation</li> <li>• Energy efficiency (achieving Japanese standards)</li> </ul>
Social priorities	<ul style="list-style-type: none"> <li>• Affordable health care</li> <li>• Improved access to education</li> <li>• Income security</li> <li>• Services for the aged</li> </ul>	<ul style="list-style-type: none"> <li>• Rural health care</li> <li>• Free education</li> <li>• health reform</li> <li>• Pension reform</li> </ul>
Knowhow and productivity	<ul style="list-style-type: none"> <li>• Financial sector development</li> <li>• Service sector reform</li> <li>• Investments in science and technology</li> </ul>	<ul style="list-style-type: none"> <li>• Information systems for health care</li> <li>• New green revolution</li> </ul>

## Conclusions

### Staying the course: the hard part lies ahead

#### Restructuring politically difficult

- US: High unemployment and risks of rising protectionism
  - Credible medium-term fiscal consolidation impossible without tax increases
- E Asia: Vested interests in services regulation, export-led manufacturing (input subsidies in China)
  - Financial sectors better regulated than in 1997 but don't reward household savers
  - Mistrust of IMF; self-insurance; apparent success of CA surpluses and exchange rate management

#### Role of International Policy Cooperation

- Finish Doha Round
- Asian 6 in G20 lead regional "mutual assessments"?
- Voting rights revisions at IMF