

Outlook for Emerging Asia and India

Arvind Subramanian

Senior Fellow, Peterson Institute for International
Economics

Presentation at the thirteenth semiannual meeting on
Global Economic Prospects, April 3, 2008

Rising Inflation

- Growing concern in emerging Asia is **inflation**.
- On the back of surging world prices of commodities and food, headline inflation has ticked up across the region...
- To well above comfort levels for policymakers, especially since food is involved.
- Average annual inflation projected to be substantially higher in 2008.

Headline Inflation

Recent Headline Inflation in Selected Countries			
(in percent)			
China		8.7	
India		6.8	
South Korea		3.9	
Singapore		6.5	
Indonesia		8.2	
Thailand		5.4	

Policy Response 1: Reverse Mercantilism (in Agriculture)

- Spate of actions to **restrict exports** and **liberalize imports** of food and related products (also price controls)
 - **Indonesia**: increase in export taxes on palm exports and elimination of tariffs on wheat and oils
 - **India**: eliminated or reduced import duties on range of foodstuffs; imposition or extension of ban on exports of foods
 - **Korea**: import tariffs on 82 "price-sensitive" items, such as wheat, corn, soybean, oil products, and other raw materials, will be lifted or lowered starting April 1

Policy Response 2

- Either modest or little tightening of macroeconomic policies
 - **India and Indonesia:** not cutting interest rates in response to aggressive US monetary easing
 - **China:** increase in reserve requirements

Growth

- Emerging Asia growth will “slow” from close to 9 percent in 2007 to close to 8 percent in 2008
- But risks weighted on the downside because
 - a number of countries are highly exposed to trade;
 - capital flows and cheap finance, which have sustained recent growth, have declined; and
 - uptick in inflation leaves less room for maneuver in sustaining higher domestic demand.

Exposure to World Economy: Selected Countries (in percent of GDP)

	Exports + Imports	Exports
	(goods and services)	(goods and services)
Singapore	474%	253%
Thailand	145%	74%
South Korea	85%	43%
China	72%	40%
Indonesia	58%	32%
India	49%	23%

India

- After rates of 9½ and 8½ percent in the last two years, and average of 8.6 percent in the five years through 2007/08, growth is expected to slow to below 8 percent in 2008/09.
- With elections looming and electoral importance of “low inflation,” some exchange rate appreciation, and possibly monetary tightening, likely
 - Finance Minister: Government considering sacrificing “a bit of growth to contain inflation.”
- Hence, growth could be closer to 7½ percent or below for 2008/09.

India: Growth and Inflation, 2004-09
(in percent)



Final Thought

- A new beggar-thy-neighbor situation (commodities) created by trade policy actions
 - “Competitive reverse mercantilism”
- Each country’s action (to increase imports and reduce exports), while individually understandable, reduces aggregate supply and puts further upward pressure on world commodity prices
- Need a multilateral trade policy response, to prevent such policy-induced problems, at a time of such pressure on world food supplies
 - Do export restrictions need to be put on the Doha/WTO agenda?