

Emerging Asia, Post-Crisis

Arvind Subramanian

Peterson Institute for International Economics

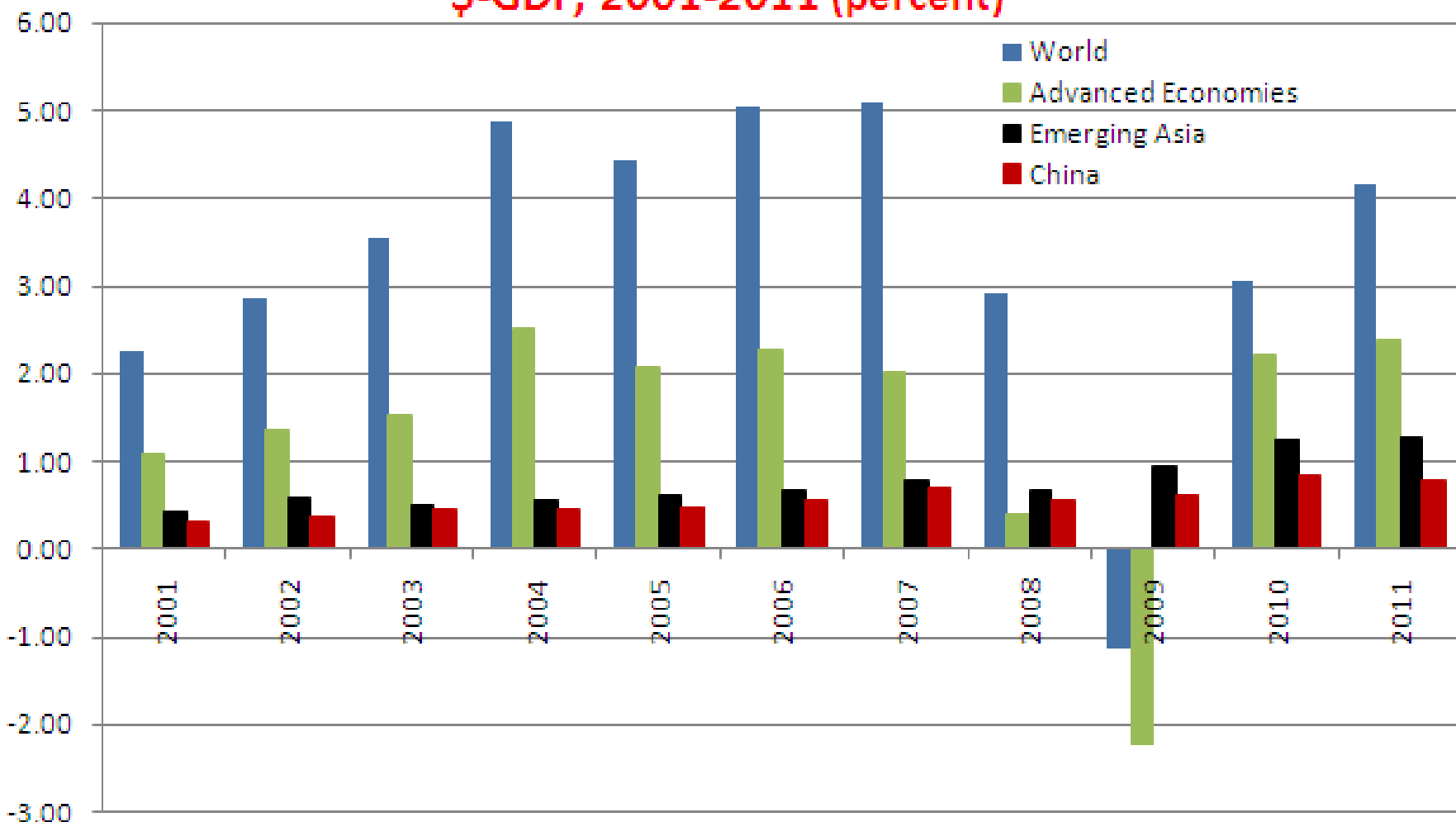
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Luncheon Event on Global Economic Prospects

Overview

- Reverse coupling, involving emerging Asia, in the recovery.
- Irony: structurally mercantilist Asia has been cyclically “cosmopolitan.”
- Going forward, we need to address China’s undervalued exchange rate not just from structural global imbalance perspective but also from cyclical regional imbalance perspective.
- Chinese undervaluation is substantial. Wide “variation” in estimates over-stated and misleading.
- Need multilateral solution but with teeth.

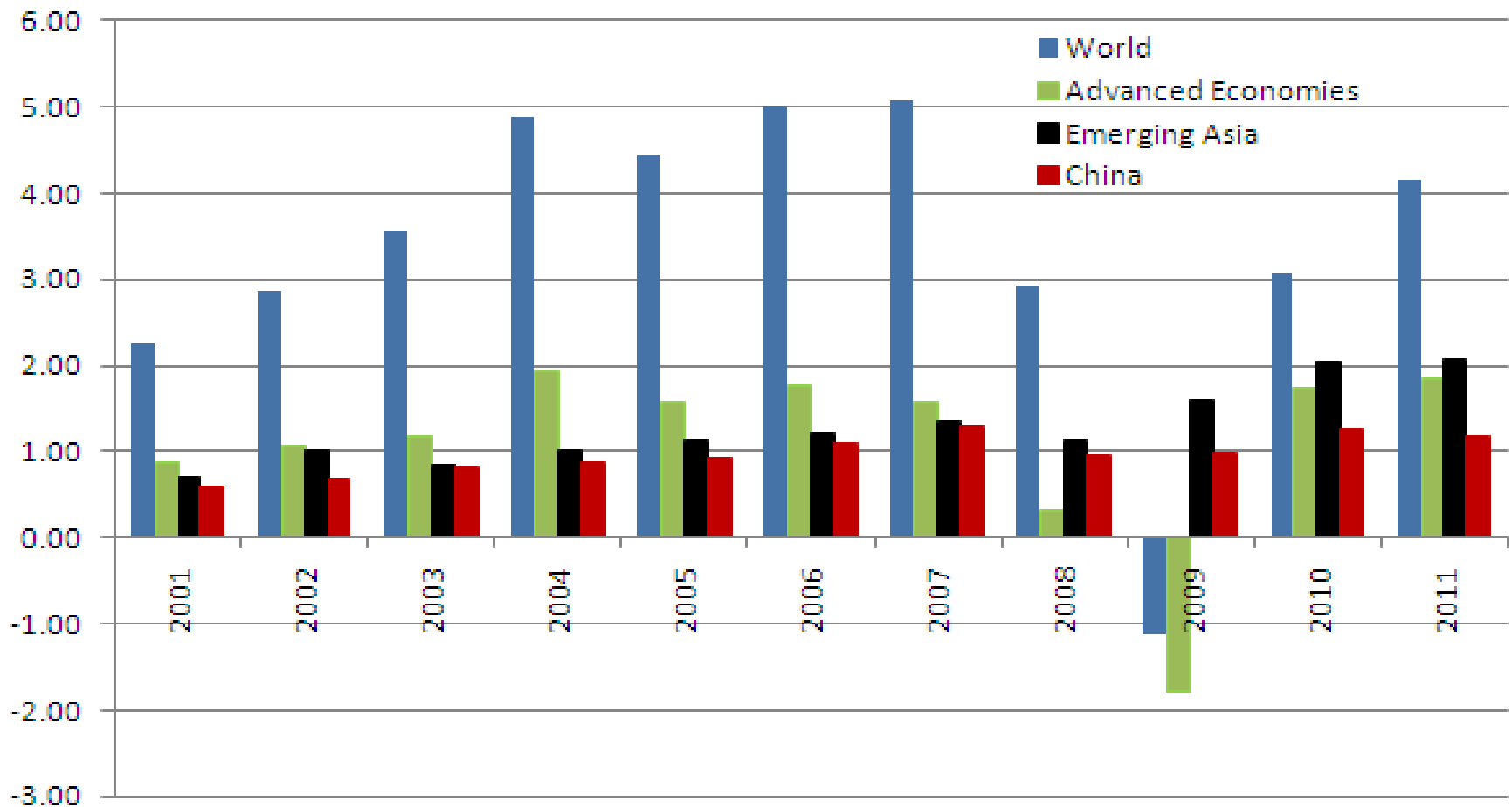
Contribution to World Growth Based on Weights in \$-GDP, 2001-2011 (percent)



Source: IMF WEO, October 2009 for 2000-2008; Mussa (2010) for 2009-2011

Note: Emerging Asia includes China, India, Indonesia, Hong Kong, Korea, Singapore, Taiwan, Vietnam, Korea, Malaysia, Philippines, and Thailand

Contribution to World Growth Based on Weights in PPP-GDP, 2001-2011 (percent)



Source: IMF WEO, October 2009 for 2000-2008; Mussa (2010) for 2009-2011

Note: Emerging Asia includes China, India, Indonesia, Hong Kong, Korea, Singapore, Taiwan, Vietnam, Korea, Malaysia, Philippines, and Thailand

Structural Mercantilism...

Table 1. Average current account balances
(in percent of world GDP)

	1996-2000	2001-2004	2005-2008
United States	-0.8	-1.4	-1.4
Peripheral Europe 1/	-0.1	-0.4	-0.8
Rest of the world	-0.3	0.0	-0.3
China	0.1	0.1	0.6
Emerging Asia 1/	0.1	0.2	0.2
Japan	0.3	0.3	0.3
Oil exporters 1/	0.2	0.4	1.0
Core Europe 1/	0.2	0.4	0.7
Discrepancy	-0.3	-0.3	0.4

1/ See the footnote to figure 1 for a definition of country groups

...Crisis Cosmopolitanism

- China in 2009:
domestic demand growth ~13 percent and
net exports ~-4 percent (Lardy, 2010)
- Emerging Asia as a whole:
net exports in 2009 made a negative contribution
to growth
- Will emerging Asia revert to mercantilist type?
 - Projections for future current account surplus
(~7-9 percent in 2011)

Return of Capital Flows

Net Private Capital Flows, (billions of US\$)

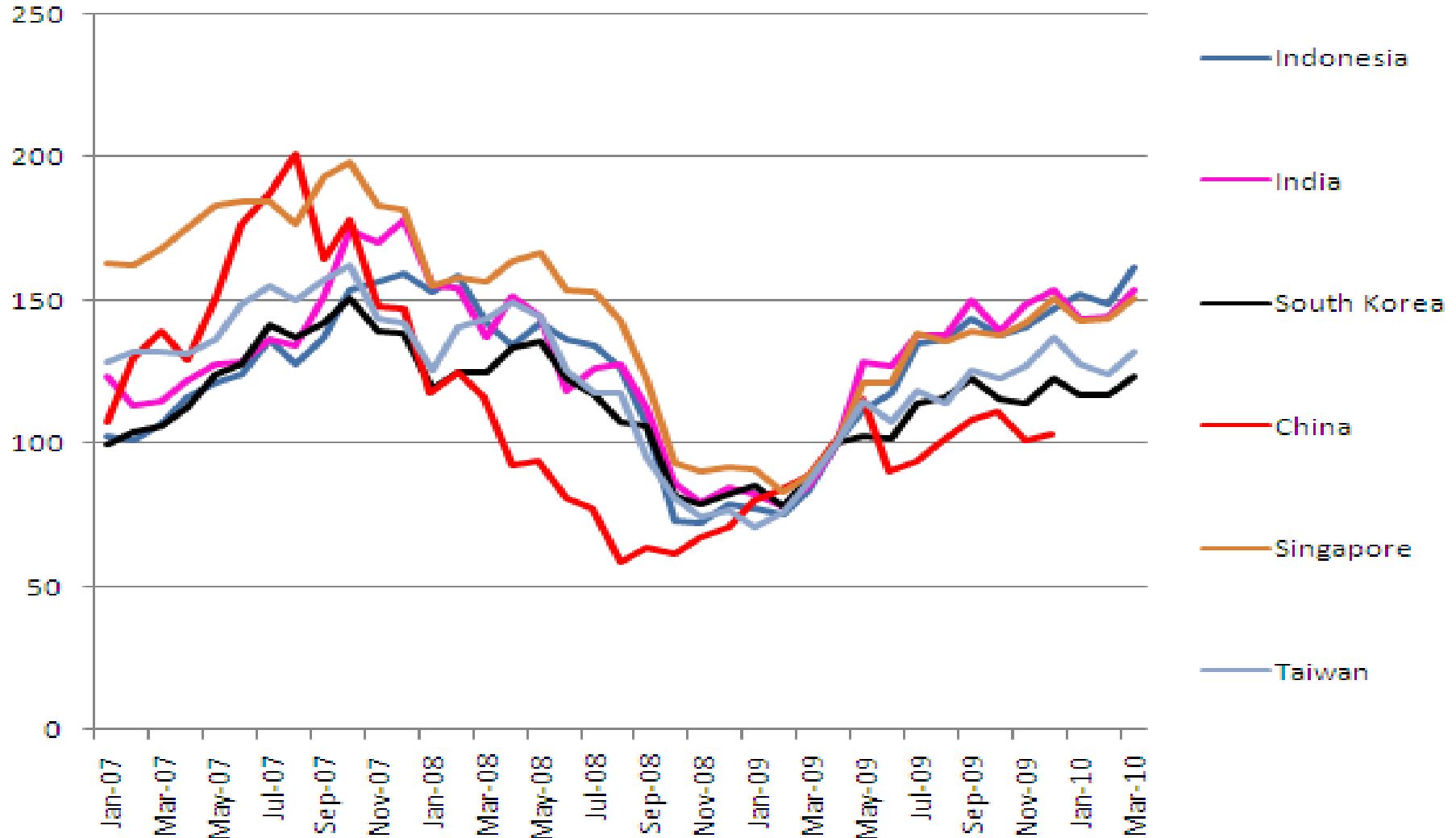
	2005	2006	2007	2008	2009
					(est.)
Emerging Asia	218.3	259	314.8	164	236
All Emerging Economies	521	564	928.6	667	435

Growth, Capital Flows, and Overheating

- Consumer prices perking up but low except in India and Indonesia.
- Asset prices rising but so far still off recent peaks.
 - More overheating in stock prices in China and India than elsewhere
 - Pockets of overheating in real estate
- Danger of bubbles? Are they associated with rapid credit and money growth?
 - China: money growth in 2009 29 percent
- Not yet. But authorities have the ability and required caution to act effectively.

Emerging Asia: Stock Market Indices

(April 2009=100)



Sources: IHS Global Insight, Datastream

Risk: Cyclical Local Imbalance

- The prospect of excessive capital flows: Pull and push factors
- Push
 - Diminishing risk aversion
 - Large and increasing interest rate differentials
 - Low interest rates in advanced economies
 - Emerging Asia further along on the cycle and has begun tightening and will tighten more.
 - To head off inflation (India)
 - To unwind monetary accommodation as growth approaches pre-crisis/potential levels (Malaysia, Indonesia, China)
- Pull
 - Growth differentials have reemerged
 - Expectation of currency appreciation given policy

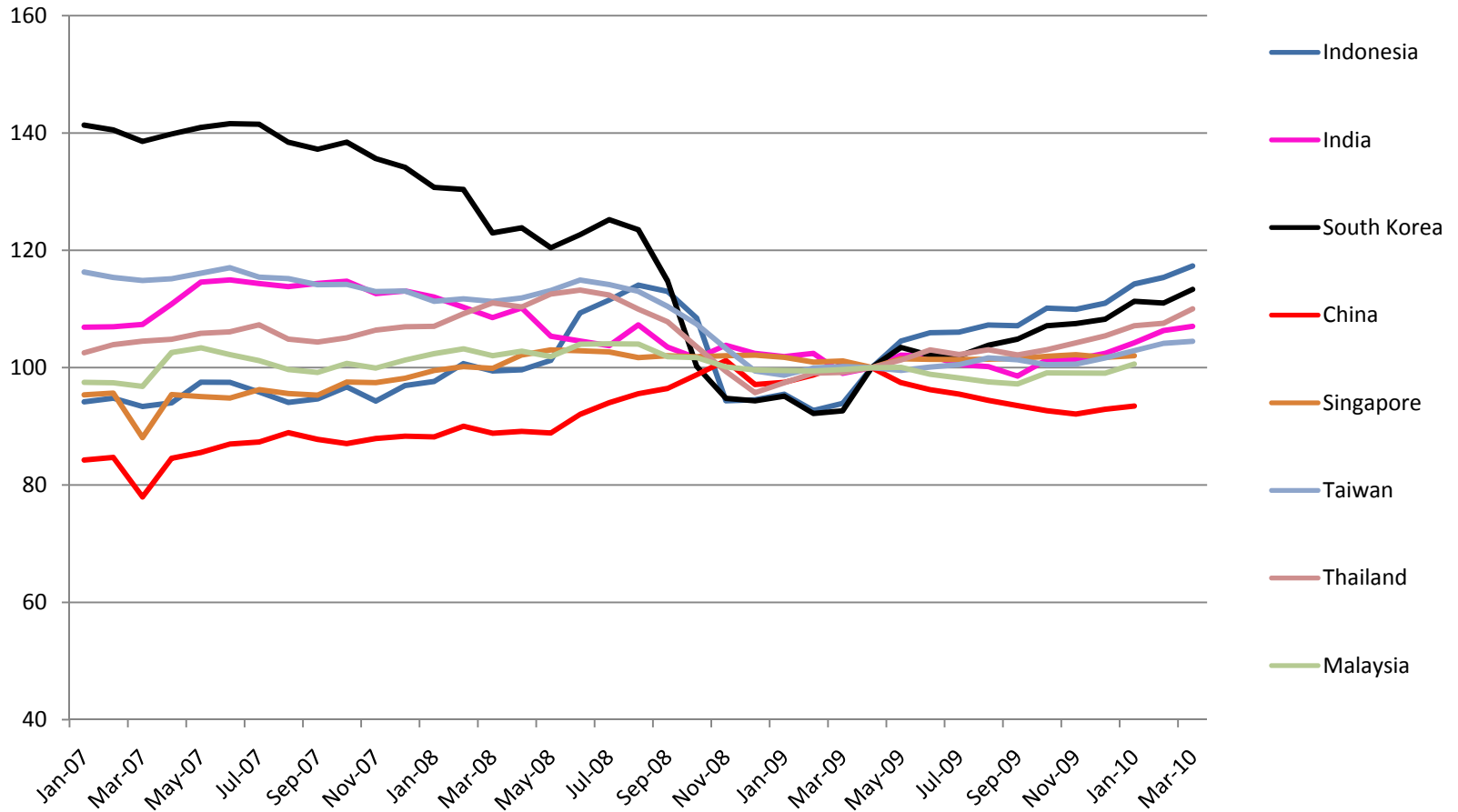
Pull: Growth Differentials

Net Private Capital Flows, (billions of US\$)							
	2005	2006	2007	2008	2009	2010	2011
					(est.)	(forecast)	(forecast)
Emerging Asia	218.3	259	314.8	164	236	302	299
All Emerging Economies	521	564	928.6	667	435	722	798
Growth differential (Emerging Asia minus Advanced Economies) in %	2.9	2.8	3.6	4.4	10	5	4.5
<i>Source: Institute for International Finance</i>							

Risks: Capital flows

- Look at response in the immediate aftermath.
- Some currency appreciation.
- Current accounts have declined (substantially) but continuing reserve accumulation.
- Lure of unorthodox responses: Brazil, Taiwan.
- Addressing cyclical local imbalance—requiring actions by all emerging market countries—requires first move by China.
- “Why should we bear the burden of rebalancing?”
 - Dilemma heightened greater the growth differentials and interest differentials and greater the inflows.

Emerging Asia: Real Effective Exchange Rate, January 2007–March 2010 (April 2009=100)



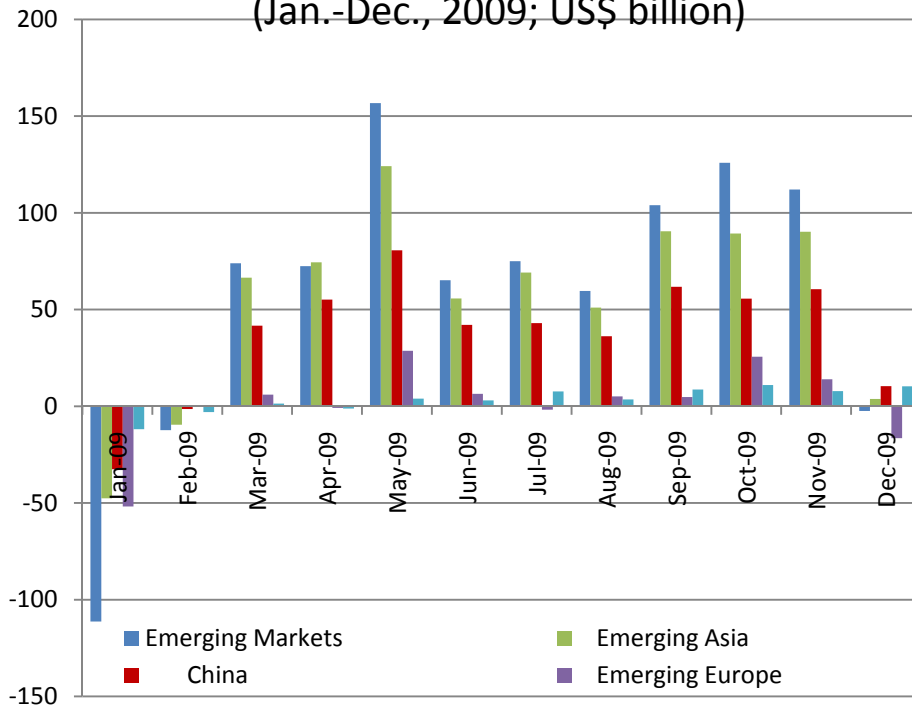
Source: IHS Global Insight

Note: increase is appreciation, decrease is depreciation

Reserve Accumulation

Monthly Accumulation of Forex Reserves

(Jan.-Dec., 2009; US\$ billion)

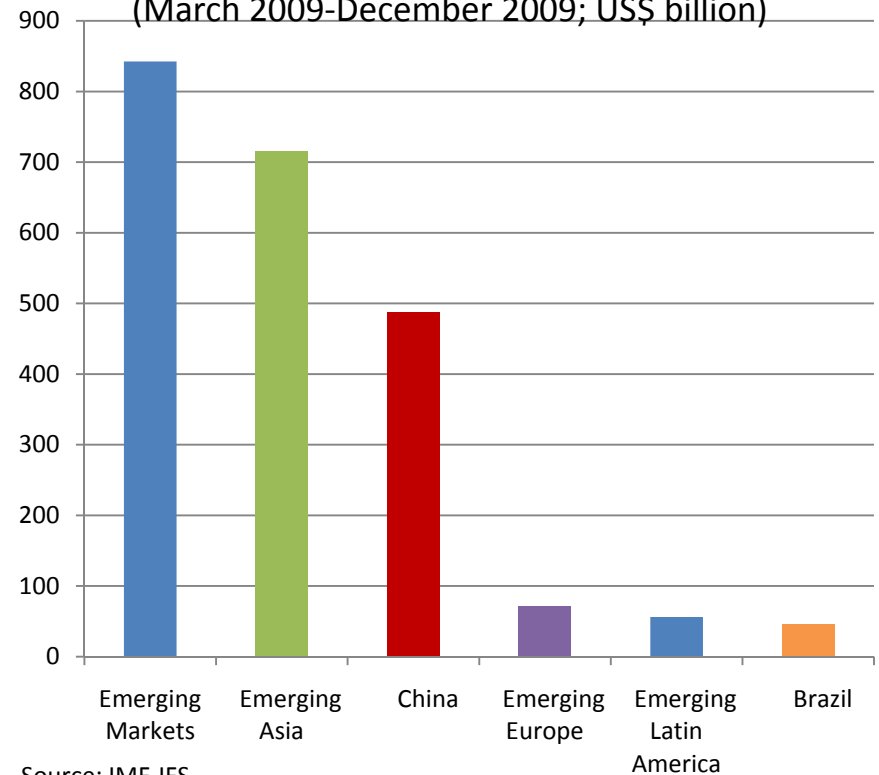


Source: IMF-IFS

Note: Emerging Asia includes China, India, Hong Kong, Korea, Singapore, Indonesia, Malaysia, Philippines, and Thailand.

Cumulative Accumulation of Forex Reserves,

(March 2009-December 2009; US\$ billion)



Source: IMF-IFS

Note: Emerging Asia includes China, India, Hong Kong, Korea, Singapore, Indonesia, Malaysia, Philippines, and Thailand.

Is Renminbi Undervalued?

- Macroeconomic-based (Williamson, 1983) and Cline and Williamson (2008 and 2010) estimates say yes (15-40 percent).
 - Peterson Institute quasi-monopoly (Bergsten, 2010)
- But development-based or PPP-based measures not so clear: “only” 12 percent (*New York Times* citing OECD’s Reisen, 2009).
 - Impression of large variability in estimates because PPP-based number is low.

Why New PPP-Based Estimates?

- Potential improvements in methodology (Johnson, Larson, Papageorgiou, and Subramanian, 2009)
- Correcting biases in existing estimates because data for China particularly problematic (Deaton and Heston, 2009)
- New data (Penn World Tables version 6.3)

Bottom Line

- Averaging four different (each somewhat flawed) methods yields a number of 30 percent, NOT 12 percent.
- Hence PPP and macroeconomic approaches yield broadly same estimates, suggesting substantial renminbi undervaluation.

Policy Implications

- The renminbi is an issue of common concern not just from a global imbalance perspective but also cyclical regional perspective.
- Hence need multilateral solution but an effective one (Geithner delay).