Emerging Asia, Post-Crisis

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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.
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)

Note: Emerging Asia includes China, India, Indonesia, Hong Kong, Korea, Singapore, Taiwan, Vietnam, Korea, Malaysia, Philippines, and Thailand
Table 1. Average current account balances (in percent of world GDP)

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<thead>
<tr>
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<tbody>
<tr>
<td>United States</td>
<td>-0.8</td>
<td>-1.4</td>
<td>-1.4</td>
</tr>
<tr>
<td>Peripheral Europe 1/</td>
<td>-0.1</td>
<td>-0.4</td>
<td>-0.8</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>-0.3</td>
<td>0.0</td>
<td>-0.3</td>
</tr>
<tr>
<td>China</td>
<td>0.1</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Emerging Asia 1/</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Japan</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Oil exporters 1/</td>
<td>0.2</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Core Europe 1/</td>
<td>0.2</td>
<td>0.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Discrepancy</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.4</td>
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</tbody>
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1/ See the footnote to figure 1 for a definition of country groups

Source: Blanchard and Milesi-Ferretti (2009)
...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

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 (est.)</th>
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<tbody>
<tr>
<td><strong>Emerging Asia</strong></td>
<td>218.3</td>
<td>259</td>
<td>314.8</td>
<td>164</td>
<td>236</td>
</tr>
<tr>
<td><strong>All Emerging Economies</strong></td>
<td>521</td>
<td>564</td>
<td>928.6</td>
<td>667</td>
<td>435</td>
</tr>
</tbody>
</table>
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

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<td>164</td>
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<td>302</td>
<td>299</td>
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<tr>
<td>All Emerging Economies</td>
<td>521</td>
<td>564</td>
<td>928.6</td>
<td>667</td>
<td>435</td>
<td>722</td>
<td>798</td>
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<tr>
<td><strong>Growth differential</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(Emerging Asia minus Advanced Economies)</strong> in %</td>
<td>2.9</td>
<td>2.8</td>
<td>3.6</td>
<td>4.4</td>
<td>10</td>
<td>5</td>
<td>4.5</td>
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</table>

*Source: Institute for International Finance*
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)

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).