

Global Imbalance: Still Made in Asia?

For “Global Imbalances and Capital Flows in an Era of New Technologies” at the Banco de Espana

Brad Setser

Senior Fellow, Council on Foreign Relations

- Conventional Wisdom Today

- China no longer runs a (significant) current account surplus.

- Trump has missed this...

- Asia writ large has adjusted, led by China. Intervention is yesterday's problem

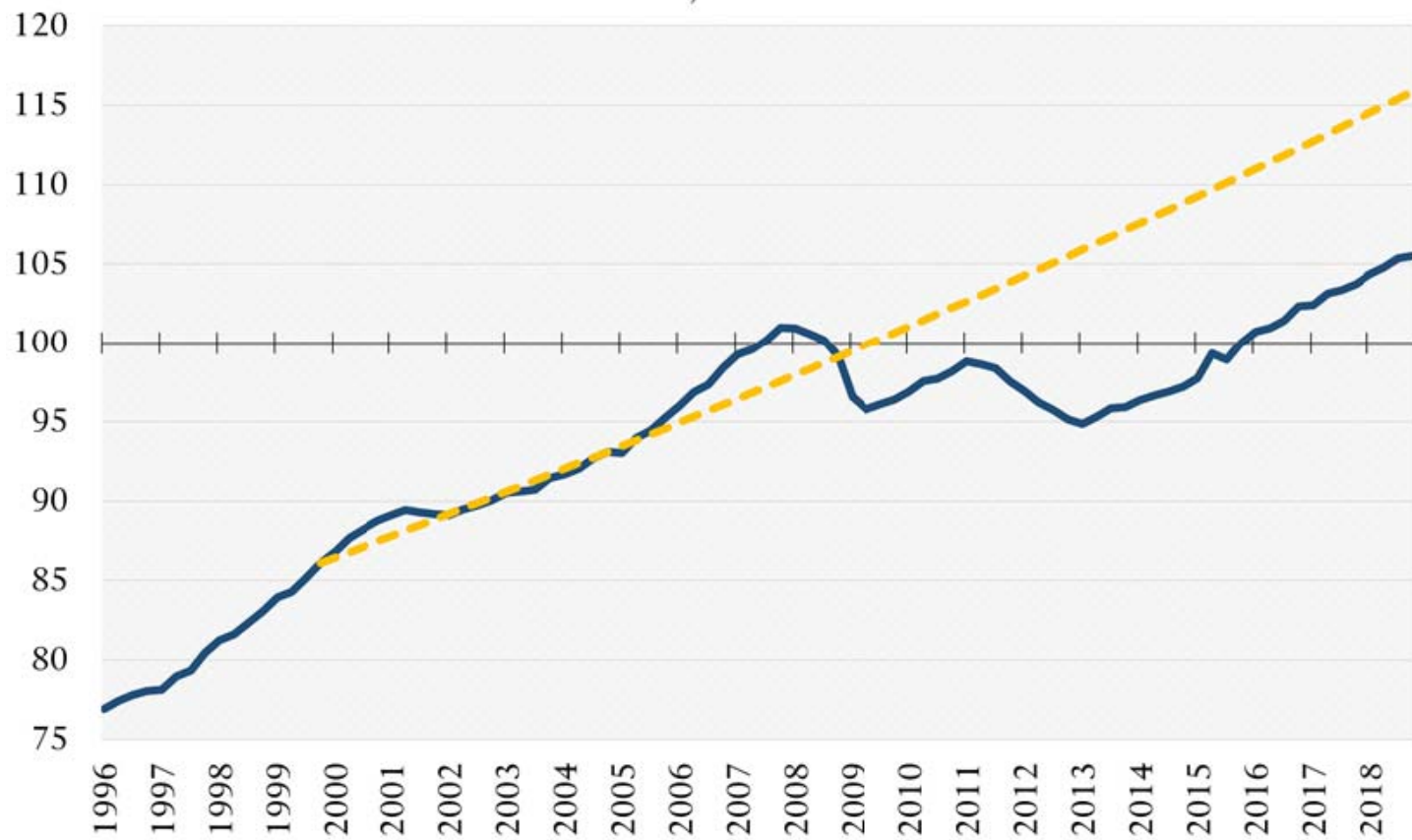
- Europe, on the other hand, has moved in the wrong direction

- Conventional Wisdom Mostly Gets Europe Right
- Conventional Wisdom Overstates the Adjustment in Asia
 - Surplus of East and Southeast Asia ex China is up not down by any measure
 - China's adjustment is more modest than sometimes claimed...and much more fragile

Don't Shoot the Messenger...

- Stability and Growth Pact & Fiscal Compact may have locked the euro area into a structurally too tight fiscal policy
 - Italy forced to reduce its debt (getting to 60% with 2% nominal growth is hard). France and Spain too...
 - Germany and the Netherlands want to reduce their debt (still)
 - Rules designed around risk posed by excessive deficits. But in current context, tight fiscal policy creates a different set of externalities (makes it harder for monetary policy to be effective)
- Permanent fiscal divergence between the euro area and the United States...
- But with Treasuries at 1.5-1.75% and euro area rates negative, the case that the euro area is too tight is stronger than the case that the United States is too loose.

Euro Area Real Domestic Demand Indexed, 2007 = 100



— Actual

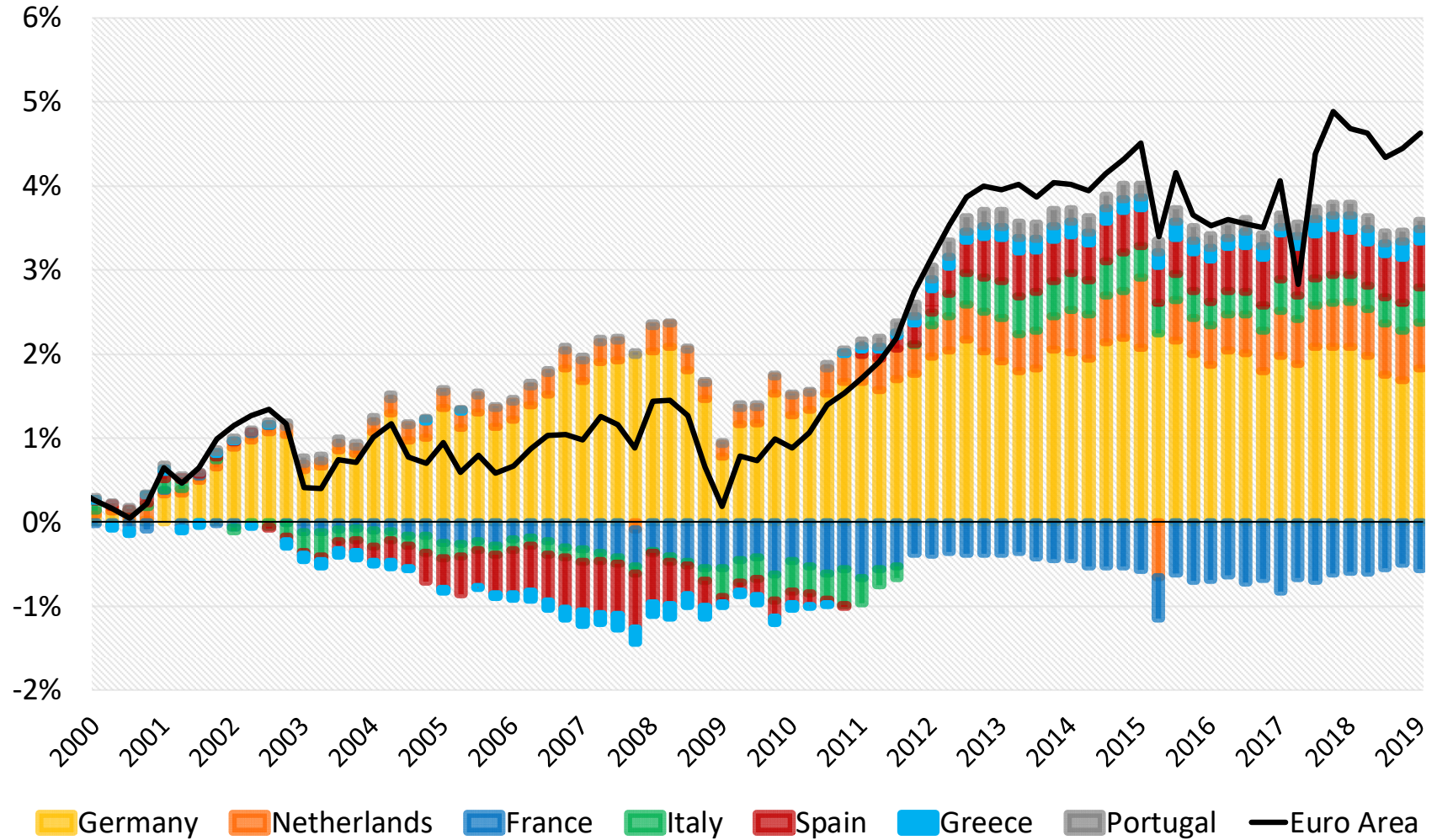
- - - 2000-2008 Trendline

Sources: Eurostat; Haver Analytics.

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Net Export Contributions to Euro Area Growth

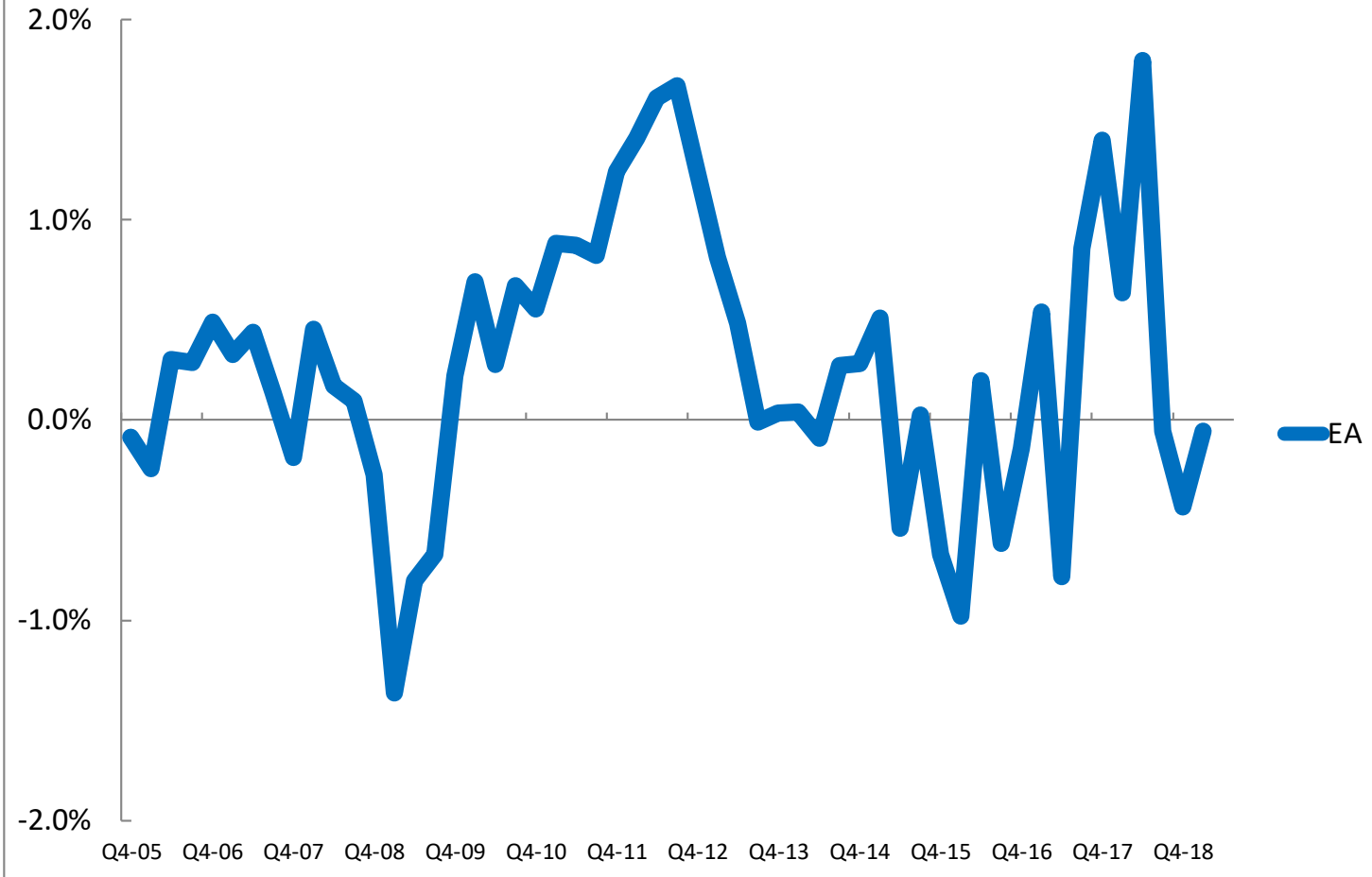
Cumulative Quarterly Contributions Since 2000



Sources: Eurostat; IMF; Haver Analytics.

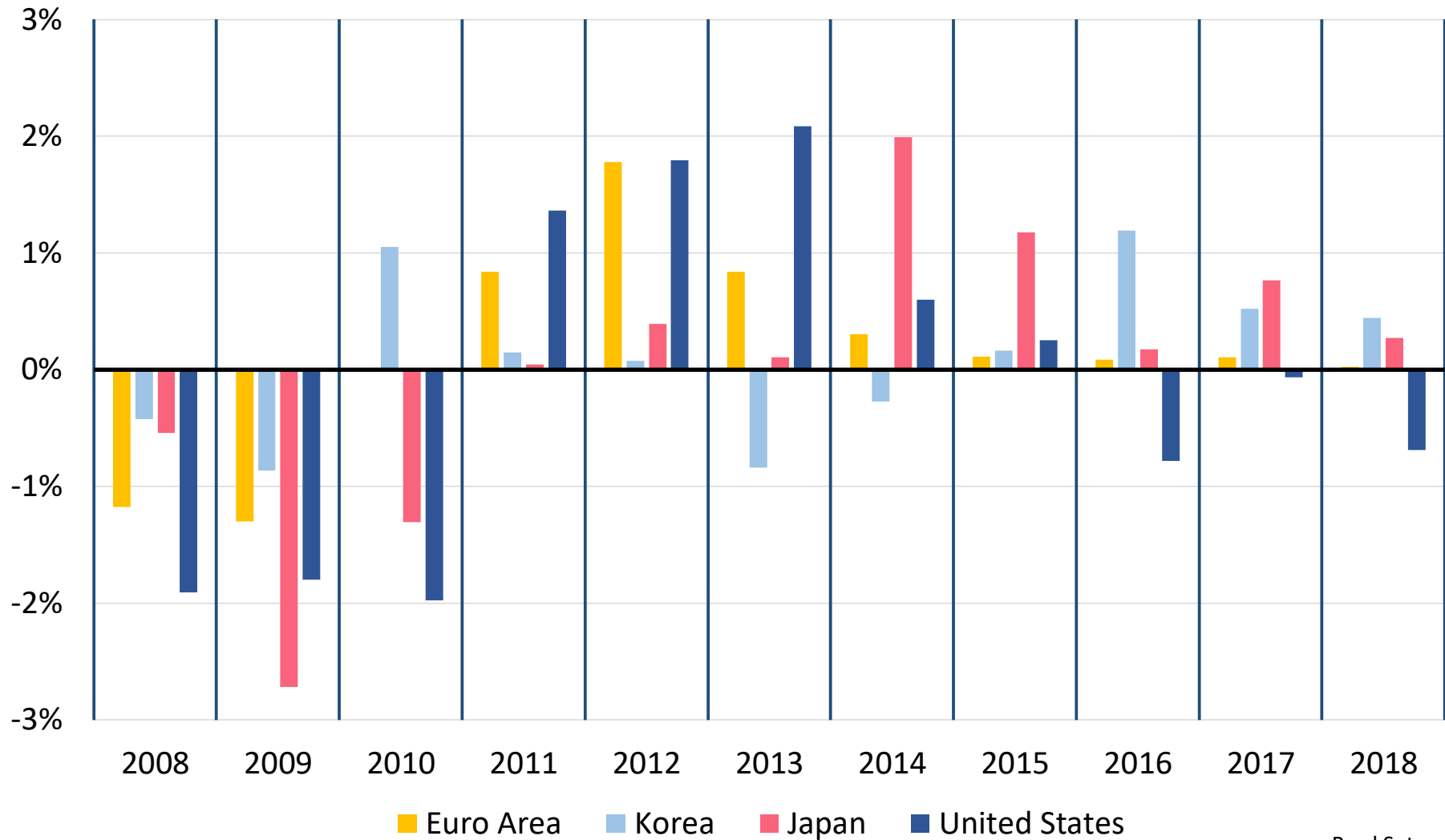
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**contribution of EA net exports to growth
(trailing 4q sum of contributions)**



Change in Structural Fiscal Balance: Euro Area, Korea, Japan, and United States

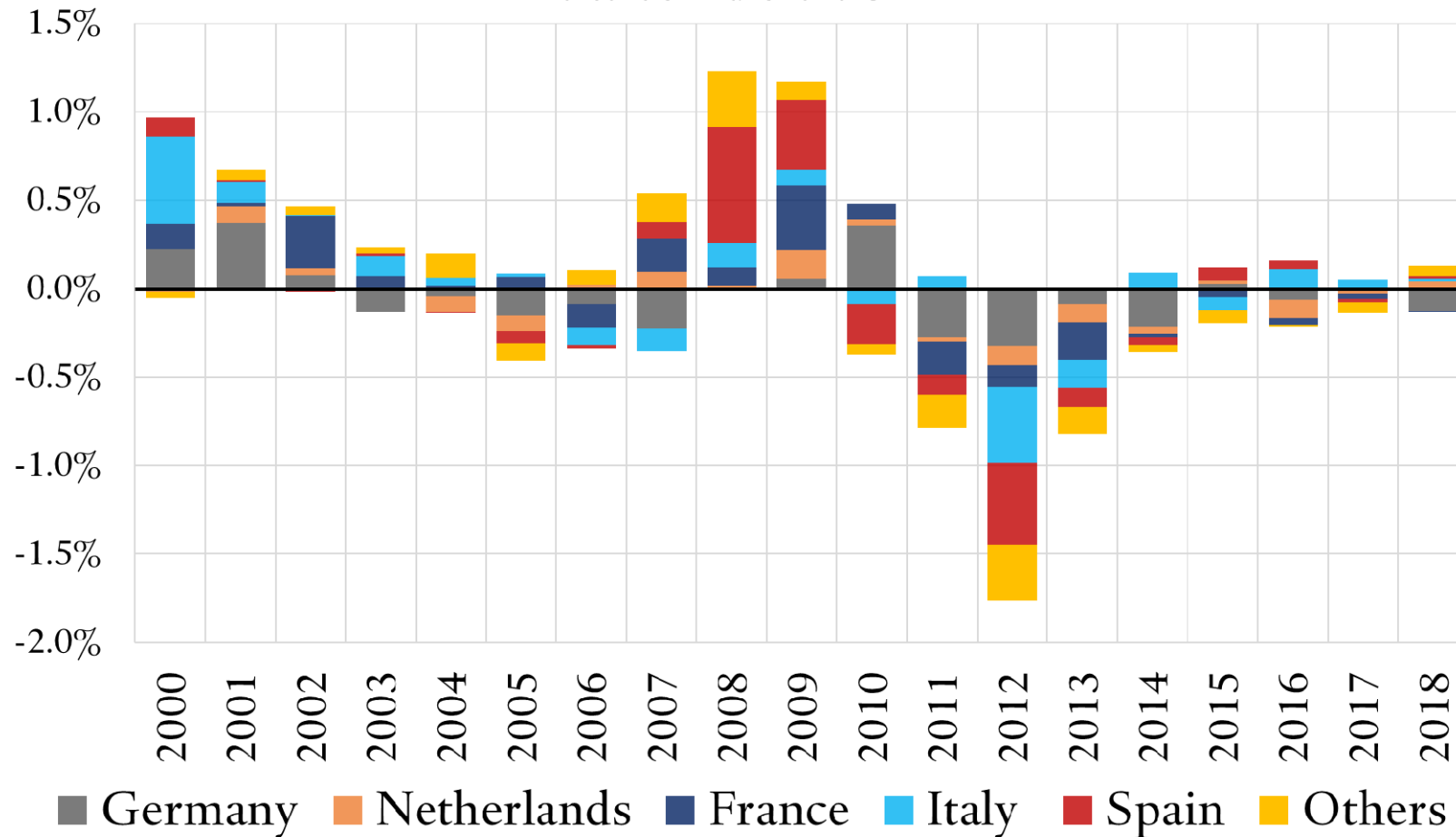
Percent of Each's GDP



Source: IMF WEO April 2019/Haver Analytics

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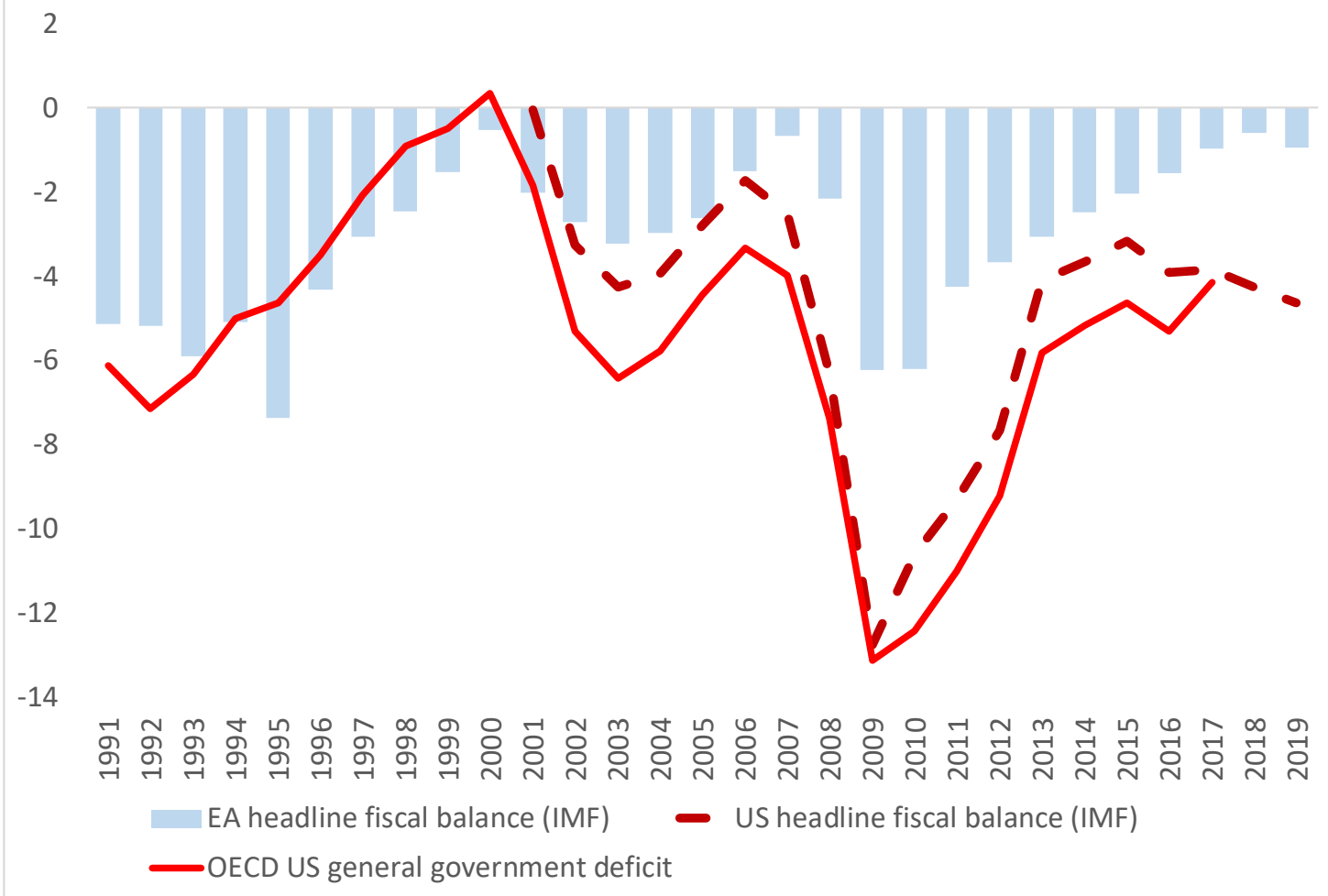
Contribution to Change in Overall Eurozone Structural Fiscal Balance Percent of Eurozone GDP



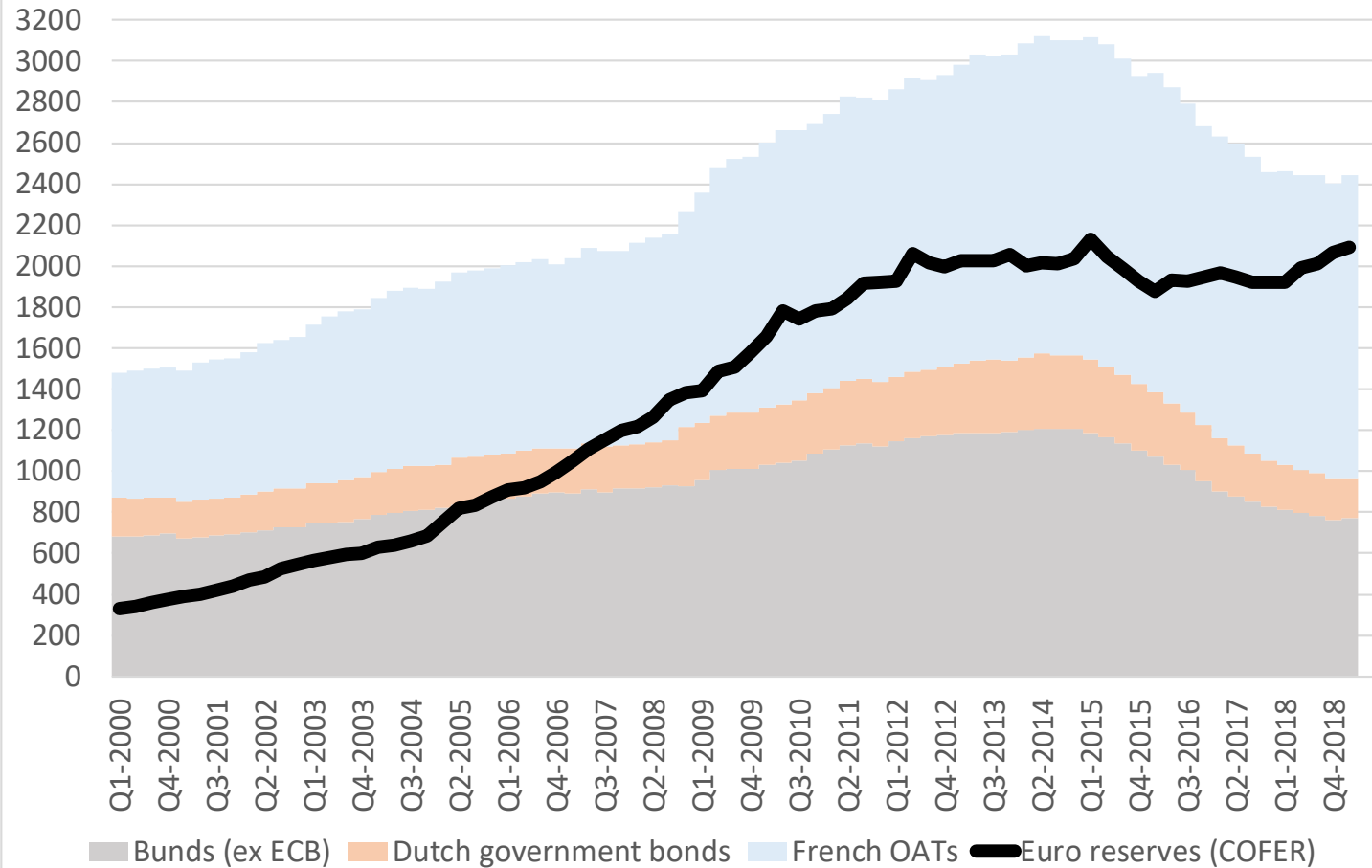
Sources: IMF WEO April 2019.

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U.S. v EA general government fiscal balance



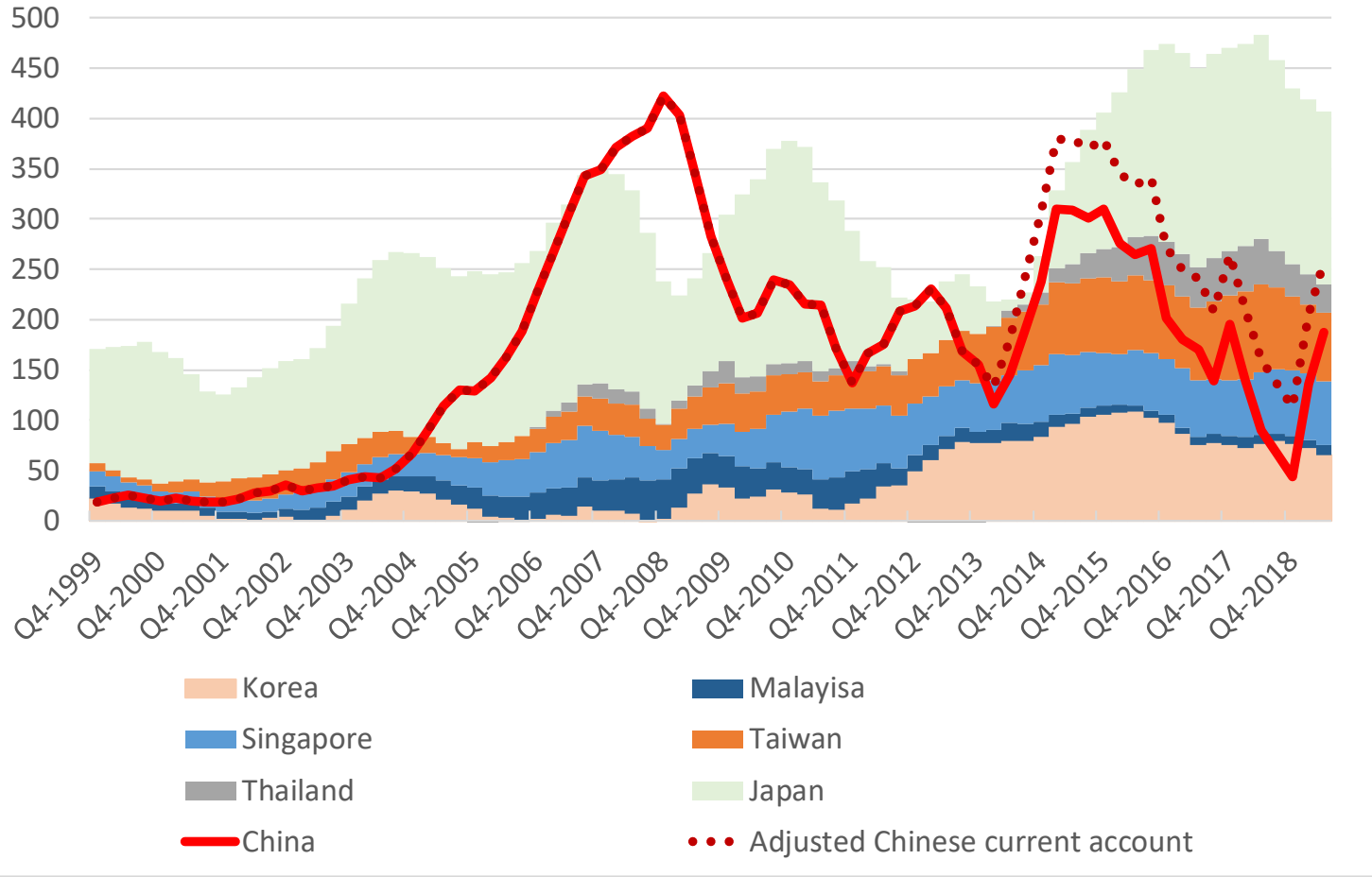
Euro fx reserves v euro area central government bonds outstanding
(net of the ECB)



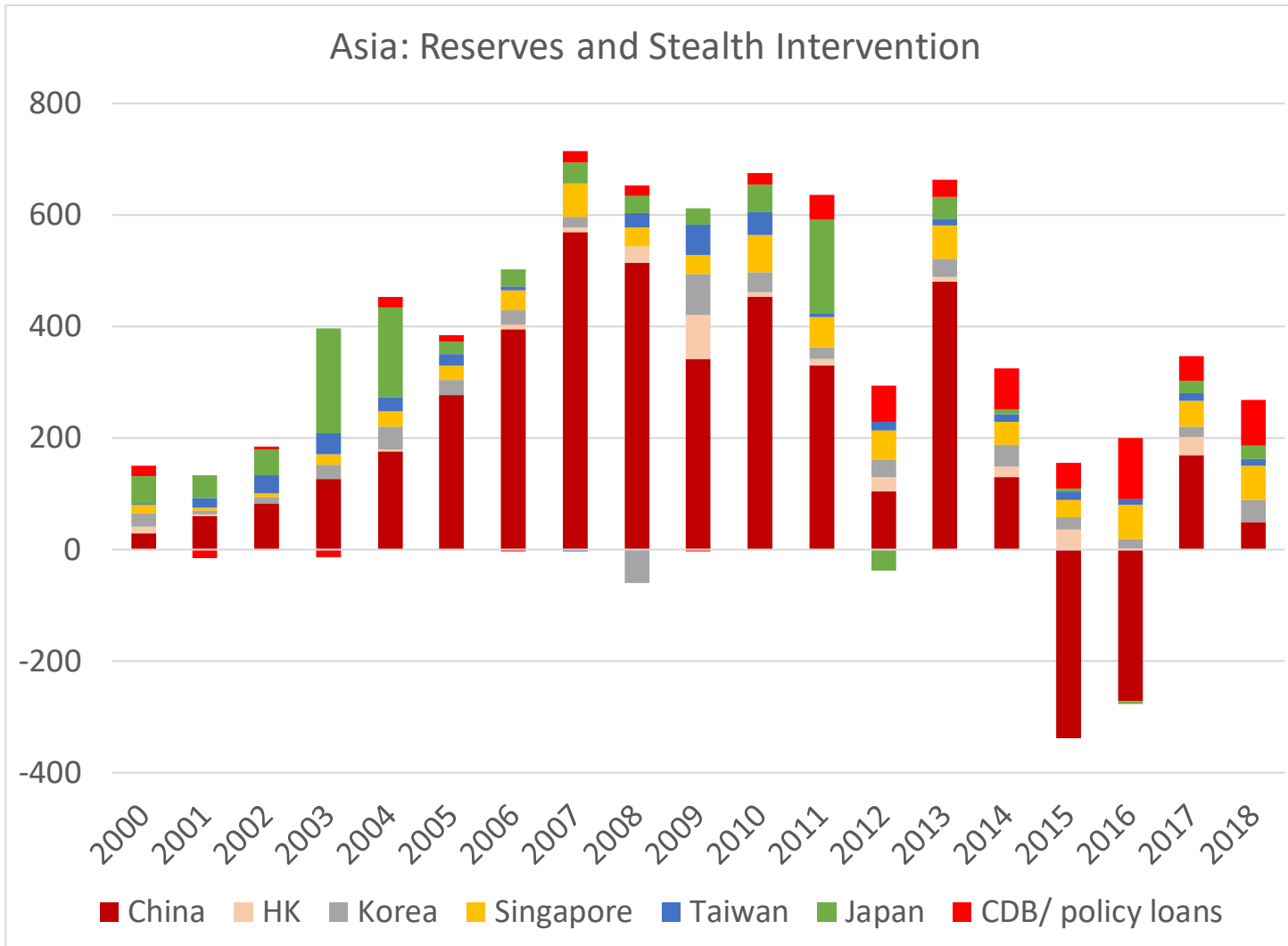
Conventional Wisdom Mostly Gets Asia Wrong...

- The fall in China's surplus isn't typical for the region
- Misses ongoing "shadow" intervention
 - Singapore shifting reserves to the GIC, Korea adding foreign assets to the NPS, Taiwan turning a blind eye to open foreign currency positions among its life insurers
- And leaves out the risk posed by China's investment-led rather than savings-led adjustment
 - If China's 12% of GDP "augmented" fiscal deficit is unsustainable, China's move toward current account balance is unsustainable.

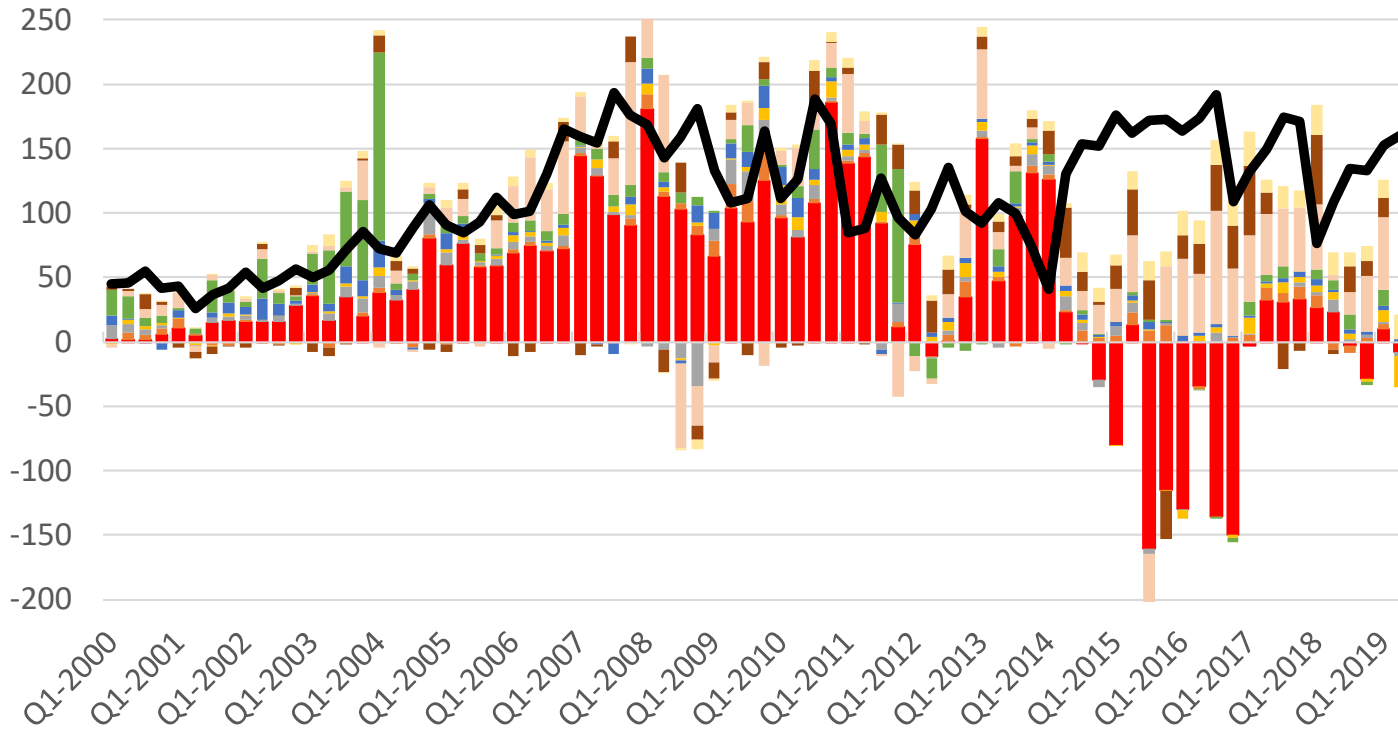
Asian current account surplus has not gone away
 \$ billion, trailing 4 quarter sums



Asia: Reserves and Stealth Intervention

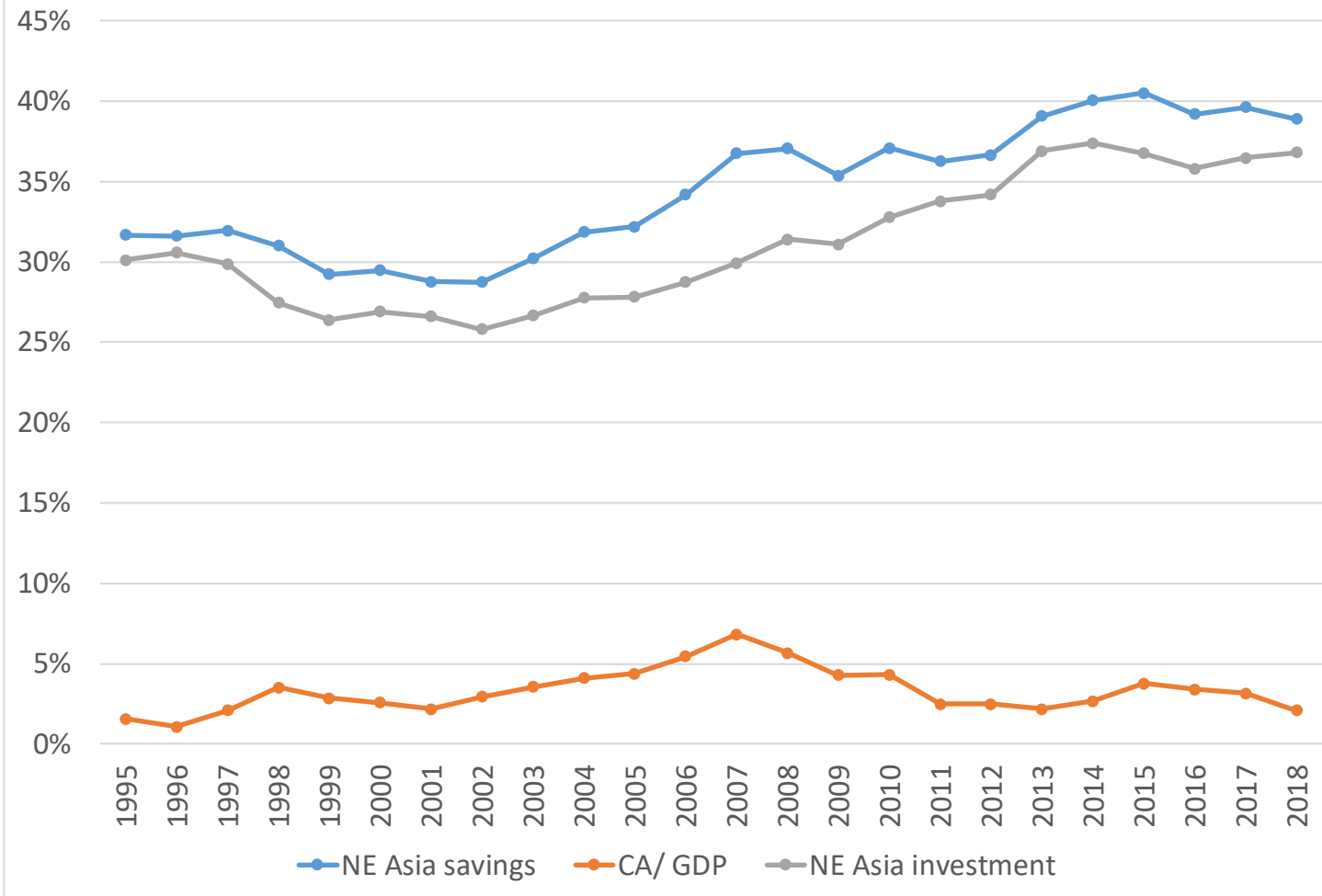


Asian official flows

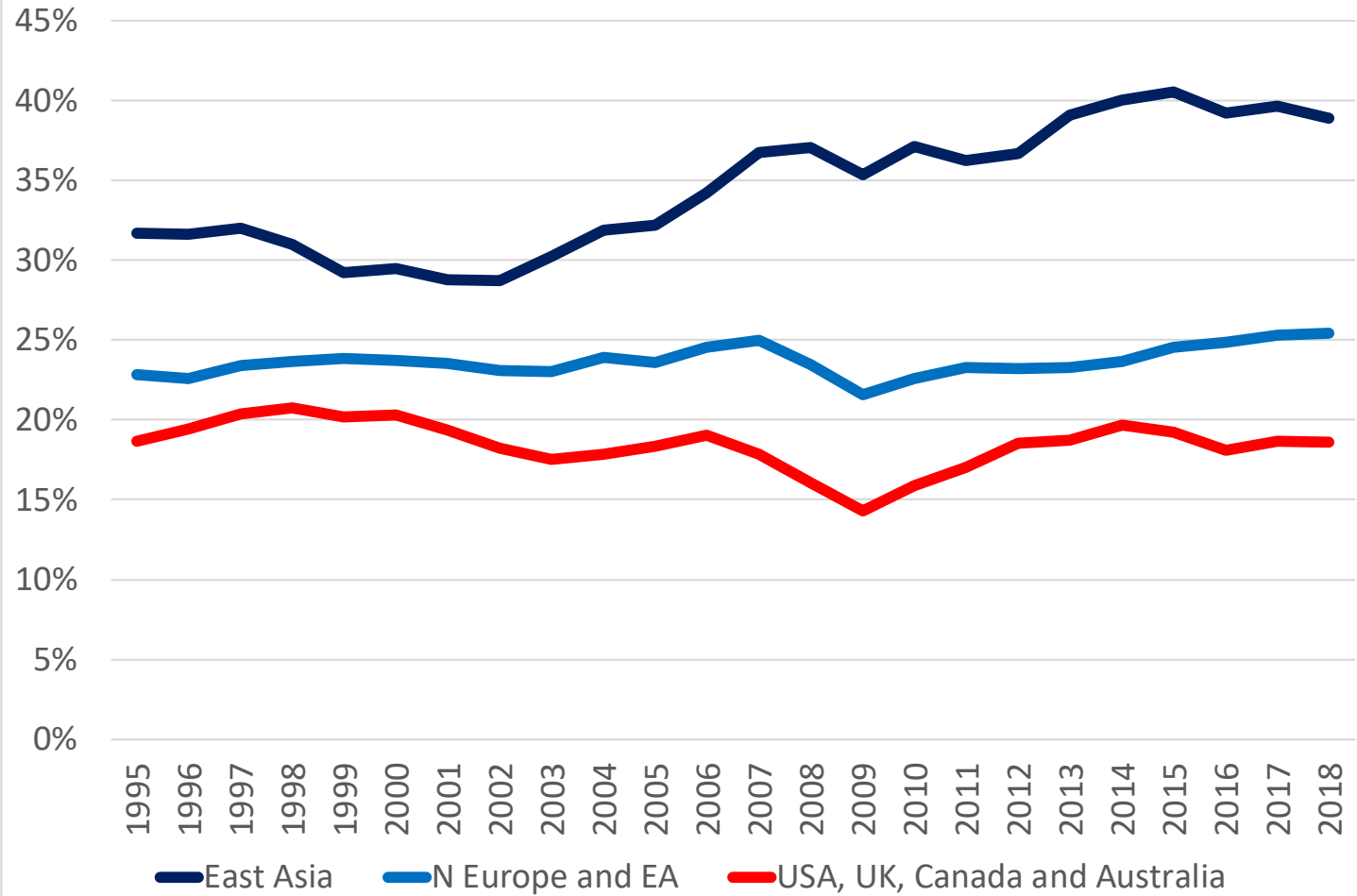


- China reserves
- Korea, reserves
- Taiwan, reserves
- Forwards and SWF proxies
- Taiwan private bond purchases (mostly insurers)
- HK, reserves
- Singapore, reserves
- Japan, reserves
- Chinese policy lending proxy
- current account

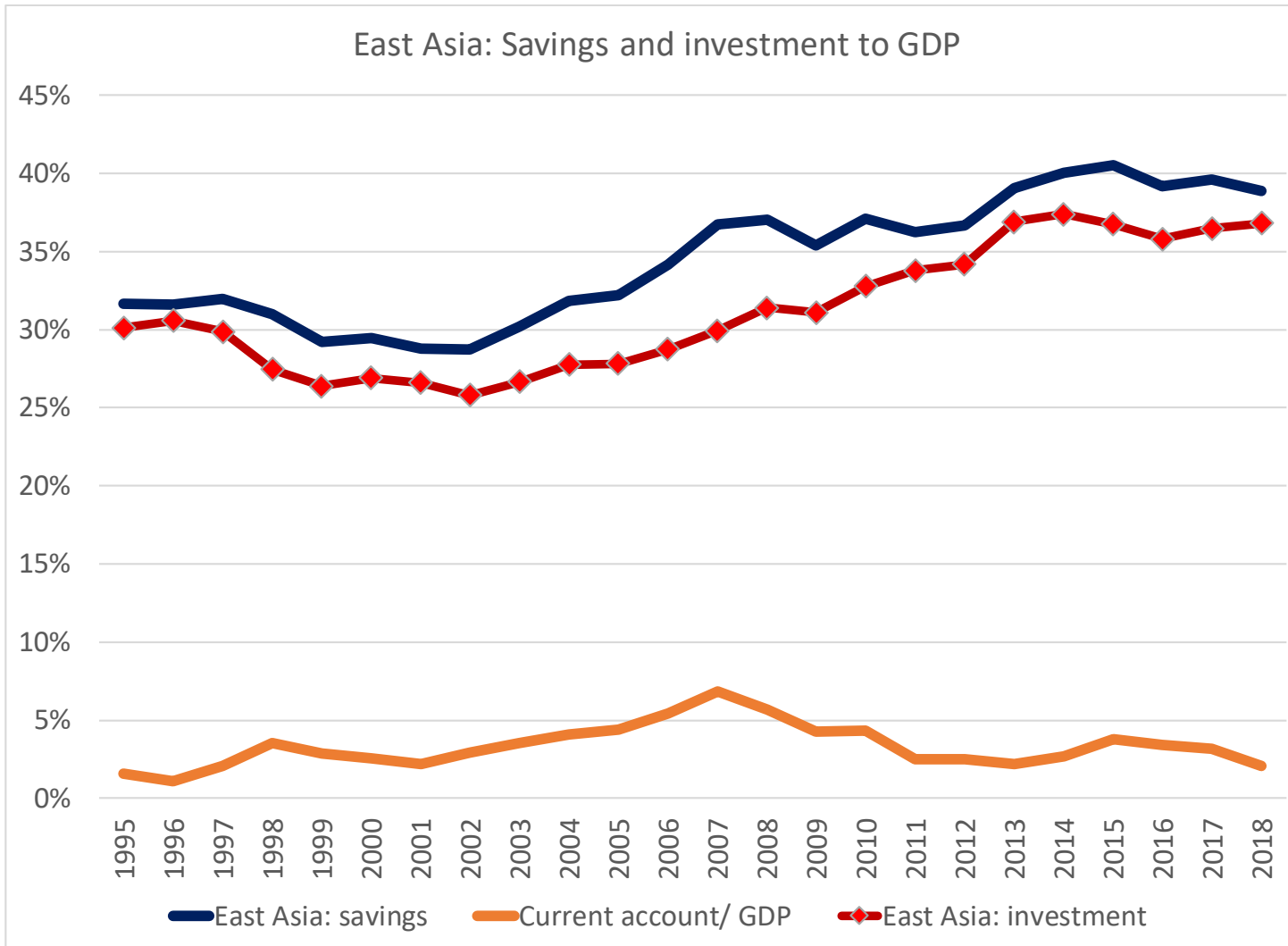
East Asia: Savings and investment to GDP



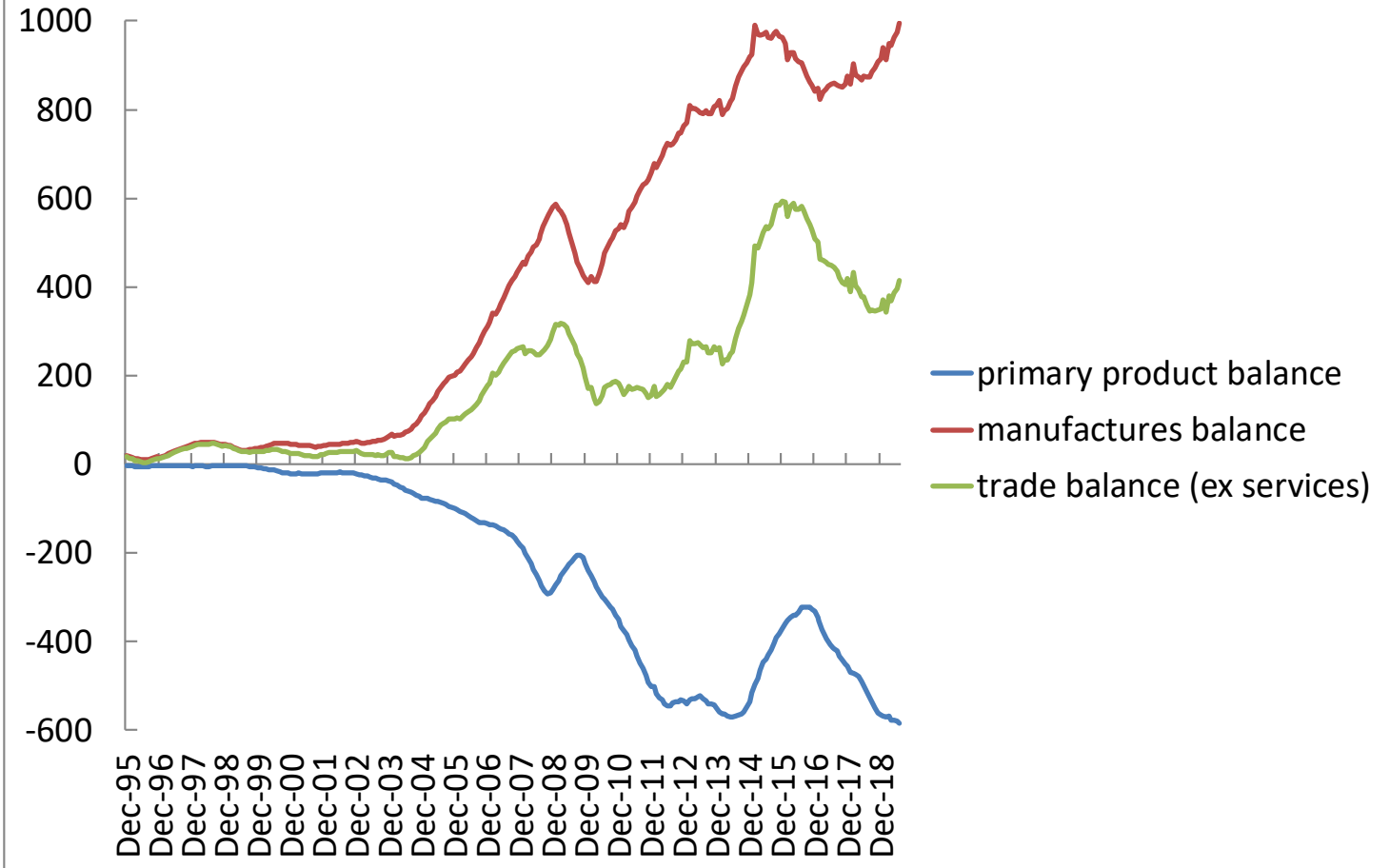
Savings as a share of regional GDP of three key global regions



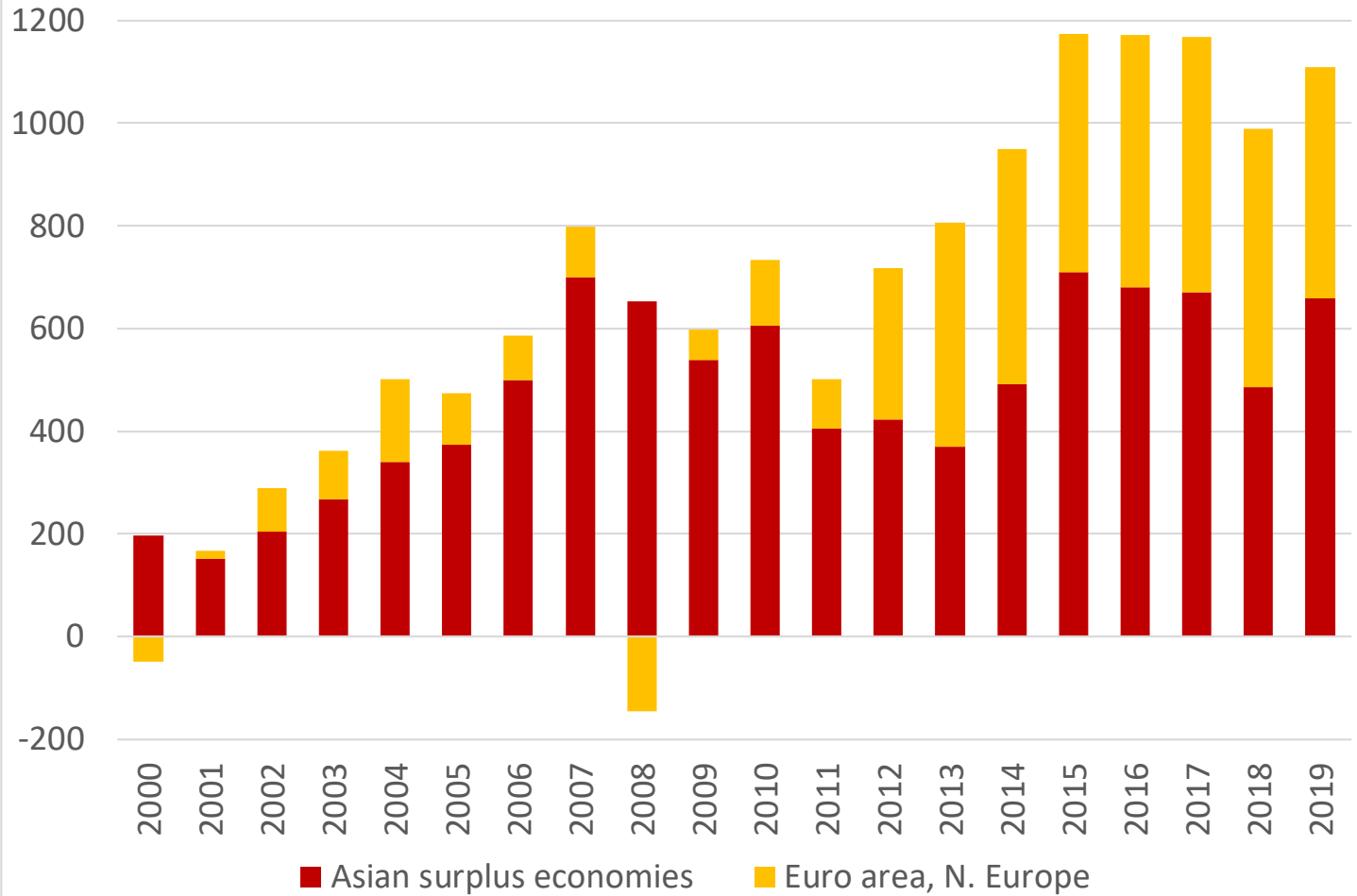
East Asia: Savings and investment to GDP



Decomposition of China's goods surplus.
\$ billion, trailing 12m sums

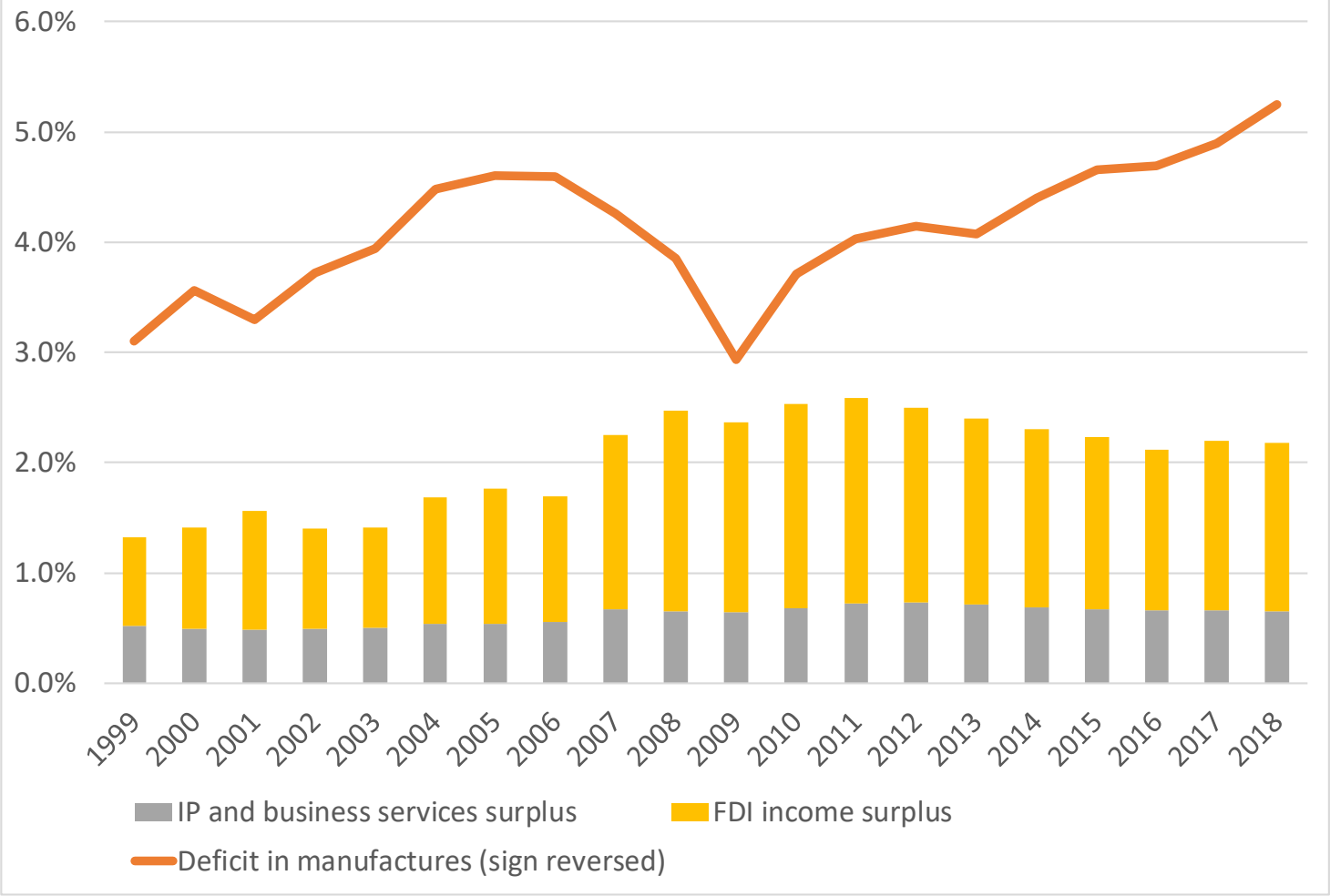


Current account surplus, \$ billion



- U.S. adjustment has been driven by oil (and the offshore income U.S. firms generate in low tax jurisdictions) not manufactures (or for that matter services)
 - U.S. has net external debt of ~ 50% of its GDP and exports around 5% of its GDP in manufactures ...
 - ~ 2% of GDP from IPR exports and offshore profits in low tax jurisdictions
 - No net oil imports ...
- There has been real adjustment among the oil exporters (adjusted to \$50 a barrel)
- No adjustment by the exporters of manufacturers other than China...
- And China's adjustment is fragile

U.S. deficit in manufactures v surplus in IP& FDI income, % of US GDP



U.S. net external debt v U.S. "export" base

