

Should Asian Economies be Blamed for Global Imbalance?

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Recent macroeconomic indicators, including GDPs in the first quarter of this year, reconfirm that the global economy has recovered and, for the most part, would continue to grow on the solid ground. Against this background, global imbalance, eased during the global financial crisis, has become an important source of threat to the global growth outlook once again.

The International Monetary Fund (IMF) has emphasized that the imbalance remains worrisome as it creates risk of potential disorderly adjustments and may reflect the symptoms of unsustainable policies. It has also repeatedly called for surplus countries, in particular China and other Asian economies to create stronger domestic demand to resolve global imbalance.

Global imbalance reflects a regime shift in the external payments position between developed and developing economies as well as development in the regional trade pattern. Since the Asian financial crisis, a large number of Asian economies, including Thailand, have experienced current account surpluses from joining the intra-regional production network.

Increasing intraregional trade among Asia has made China the regional trade hub for Asia, whereby other Asian economies export intermediate goods to China for assembly before exporting final products to the rest of the world. This trade specialization has not only benefited Asian countries in terms of export revenues but also allowed other countries to consume cheaper goods. In some way, rising trade imbalance between the US and Asia can be considered as the result of increasing capability and efficiency of Asian producers rather than that of exchange rate policy.

More importantly, global imbalance reflects the dynamic of the adjustment in global investment and saving that has taken place since the Asian financial crisis. Rising saving in Asia helps funded US current account deficits as a result of increasing consumption. In this connection, US accommodative fiscal and monetary policies prior the crisis and lack of prudent financial regulations, which led to overconsumption in the US, were viewed by many economists as the key unsustainable policies that should be addressed.

Global imbalance involves a large number of countries and will not be able to be resolved solely by currency appreciation and stronger domestic demand in Asian economies. The adjustment will require change in policy configuration in the advanced economies, especially in the US as well as stronger domestic demand growth outside the US. These structural problems include budget deficits from social spending in the US, and rigidities especially the European labor market which have undermined competitiveness, the root of the ongoing Greek crisis.

Although the global economy has recovered quite robustly from the recent great recession, it is once again at the critical juncture given uncertainties surrounded. Concerted and sincere efforts by all countries involved in global imbalances are key to ensure long-term global growth.

(The views expressed are the author's own.)

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