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Global Economic Trends and India-Japan Economic Partnership

Global Imbalances, Sustainable and Inclusive Growth

Alok Sheel
RBI Chair Professor
ICRIER

The Global Economy in Numbers

Table 1: Global Growth					
	World	Adv Econs	EMDEs	US	Euro Area
1980-01	**3.2**	**2.9**	**3.7**		
2002-07	**4.5**	**2.5**	**7.1**	**2.8**	**2.0**
2002	2.9	1.6	4.7	1.7	1.0
2003	3.7	1.9	6.3	2.9	0.7
2004	4.9	3.1	7.5	3.8	2.3
2005	4.6	2.6	7.3	3.5	1.7
2006	5.3	3	8.2	2.9	3.2
2007	5.4	2.8	8.7	1.9	3.1
2008	2.8	0.1	6.1	-0.1	0.5
2009	-0.6	-3.5	2.7	-2.5	-4.5
2010	5.4	3.1	7.4	2.6	2.1
2011	4.3	1.7	6.4	1.6	1.6
2012	3.5	1.2	5.3	2.2	-0.9
2013	3.5	1.4	5.1	1.8	-0.2
2014	3.6	2.1	4.7	2.5	1.4
2015	3.5	2.3	4.3	2.9	2.1
2016	3.3	1.7	4.4	1.6	1.9
2017	3.8	2.4	4.7	2.2	2.4
2018	3.7	2.3	4.6	2.9	2.0
2011-13	**3.8**	**1.4**	**5.6**	**1.9**	**0.2**
2014-18	**3.6**	**2.2**	**4.5**	**2.4**	**2**
IMF WEO database					

The Global Economy in Bullets

- Growth in Advanced Countries is back to potential, which may have drifted lower.
- EMDEs have slowed down relative to the boom years, and also relative to the period immediately after the GFC.
- Advanced Economies have still to fully exit from macroeconomic life support put in place during the crisis (The Japanese economy on life support for almost 2 decades):
  - US monetary policy rate has normalized, but the huge expansion of the Federal Reserve Balance Sheet through three rounds of QE still mostly intact.
  - Policy rates still stuck at the Zero Lower Bound in both Japan and the Euro Area. Their balance sheets are still expanding. BOJ balance sheet = GDP
  - Fiscal deficits have declined from elevated (Maastricht 3% plus) levels, but the huge expansion in public debt (well above the Maastricht norm of 60% of GDP) is still to be rolled back. Japanese public debt almost 2X GDP.

Japanese G 20 Presidency

- The Three arrows of Abenomics (Monetary Easing, Fiscal Stimulus and Structural Reforms) more or less the path adopted by the G 20 to deal with the fallout of the global financial crisis.
  - The first two arrows associated with battling the crisis
  - The third arrow to manage the recovery and lift growth potential: the current focus of the G 20 flagship Working Group, The Framework for Strong, Sustainable and Balanced Growth, co-chaired by Canada and India.
- Priorities of the Japanese Presidency for the 14th G 20 Osaka Summit this year according to Finance Minister Taro Aso's statement to the G 20 FMCBG:
  - Addressing the risks and challenges to the global economy: Managing the exit from crisis linked macroeconomic policies, and addressing global imbalances.
  - Actions to strengthen medium term growth potential : structural reforms to boost growth
  - Policy responses to economic and social changes deriving from Technological change, Demographic Transition and Globalization: Addressing emerging disruptions and challenges.
- This presentation will focus on Global Imbalances.

Two Debates on Global Imbalances

- Among politicians: Focus on external imbalances. Entry of China into WTO in 1999, following which it started running huge current account surpluses. This put downward pressure on low end wages and employment in deficit countries a la the Stolper-Samuelson theorem and exacerbated income inequalities.
  - The remedy: bilateral negotiations to reduce trade imbalances, including through adjustment of the exchange rate and tariff adjustments. (The current US-China trade spat recalls the US-Japan spat prior to the Plaza Accord of 1985. Other East Asian countries were also)
- Among economists: External (Current account) imbalances simply reflects deeper structural domestic imbalances in the economy, as Y= C+I+(X-M). Structural reforms required (The G 20 Framework for Strong, Sustainable and Balanced Growth):
  - Deficit countries need to save more/consume less
  - Surplus countries need to consume more/save less.
  - In the absence of such adjustments bilateral deficits will simply shift to other, more costly suppliers.

Post Crisis Progress on Global Imbalances

Table 2: Global Imbalances												
	Consumption/GDP			**Investment/GDP**			**CAB/GDP**			***Savings/GDP***		
Country/Group	**1997**	**2007**	**2017**	**1997**	**2007**	**2017**	**1997**	**2007**	**2017**	**1997**	**2007**	**2017**
China	60.0	48.9	54.2	36.2	41.2	44.4	3.8	9.9	1.4	***40.0***	***51.1***	***45.8***
India	73.1	60.6	67.5	25.6	38.1	30.6	-1.3	-1.3	-1.9	***24.3***	***36.9***	***28.8***
Germany	77.7	72.5	72.0	22.8	20.7	20.1	-0.5	6.8	7.9	***22.3***	***27.5***	***28.0***
Japan	67.9	70.8	72.0	30.0	24.5	24.0	2.2	4.7	4.0	***32.1***	***29.2***	***28.0***
United Kingdom	82.1	85.2	86.4	18.0	18.4	17.4	0.0	-3.6	-3.8	***17.9***	***14.8***	***13.6***
United States	79.2	82.3	81.7	22.4	22.6	20.6	-1.6	-4.9	-2.3	***20.8***	***17.7***	***18.3***
Euro Area	77.6	76.0	75.8	21.6	24.0	20.8	0.8	0.0	3.5	***22.4***	***24.0***	***24.3***
EMDEs	76.3	66.7	67.7	24.8	29.6	32.3	-1.1	3.7	0.0	***23.7***	***33.3***	***32.3***
IMF WEO Database												

Post Crisis Adjustment I: US and China

- China has partly rebalanced its economy away from the excessive reliance on exports and towards a greater reliance on consumption. It is saving much less than what it did prior to the crisis. But it is also investing more.
- The US has increased savings marginally through a reduction in consumption, but there has been a further reduction instead of increase in investment. The increase in private savings through deleveraging has been mostly offset by the increase in public leverage. Pattern in UK similar.

Post Crisis Adjustment II: Germany and the Euro Area

- The Euro Zone had a balanced trade with rest of the world, but big internal imbalances between the richer northern surplus countries, and the poorer southern deficit countries.
- The debate on intra Euro Zone imbalances surfaced with the market revolt and sovereign debt crisis in 2011.
- Germany has increased its savings further, and reduced instead of increased consumption. While hitherto this surplus spilled over only into the Euro area, which had a balanced current account with the rest of the world, with the southern economies forced into austerity the Euro area has now redirected its economy away from consumption and investment to run a significant current account surplus.

Post Crisis Adjustment III- Japan and India

- Japan has increased consumption slightly, but still has a significant surplus of savings. The public sector runs a large deficit, but more than compensated by private savings.
- India, which had a largely balanced economy on the eve of the global financial crisis, has seen a sharp decline in savings and investment in the post crisis period. India's current account deficit has remained the same but there is a sharp declines in both exports and imports.

Post Crisis Adjustment III: Assessment

- The global economy much more balanced relative to 2007, the height of the economic boom.
- The global economy much less balanced relative to 1997, the period preceding the boom.
- The sovereign debt crisis forced austerity and increased savings in the Euro Zone.
- Both trade and growth have declined alongside global imbalances.
- Growth in EMDEs much more affected by the decline.
- Question: Does the decline in global imbalances mostly reflect lower growth, or are the adjustments structural?

Assessing the Debate on Imbalances

- Reducing Imbalances through bilateral trade agreements undercut multilateral trade negotiations and the WTO, whereas trade imbalances merely reflect more fundamental macroeconomic savings-investment imbalances.
- The debate has led to greater protectionism in Advanced Economies and also the rise of nationalist parties that threaten globalization. The constituency for Free Trade and globalization has shifted from developed countries to EMDEs.
- Is it a good idea from the environment sustainability point of view to pressure countries with high per capita incomes to consume more? Low income countries need this 'green space' to grow.
- Trade surpluses so far have mostly found their way into consumption in deficit countries via leverage through froth in financial markets.
- Might it be a good idea to ***redirect/recycle these surpluses towards investment in physical and infrastructure in low income countries***? The mechanisms of this needs to be worked out: through multilateral agencies such as the WB, ADB and other RDBs? This might also address some of the fundamental causes of conflict in these areas.

Japan-India Cooperation in the G 20

- Japan will chair the G 20 in 2019 and India in 2022.
- Continuity of the G 20 agenda an issue because there is no secretariat to drive it. This is done through in house working groups that span across summits, and the troika comprising the current chair, preceding chair and the next chair. The experience is that the troika does not function effectively.
- The annual agenda is driven by the chair that sets the priorities for the summit and pilots the Action Plan for the year.
- The Action Plan is not legally binding. It is a policy advisory for the members as well as the global agenda through various multilateral fora all of which are dominated by the systemically important G 20 countries.
- If Japan and India can agree on certain priorities, these can be carried forward by India in 2022. ***Infrastructure seems the most promising*** common ground, with Japan having big surpluses and India having a big infrastructure deficit and catching up to do. **Caution:** ***Beginning with Korea, several chairs have made infrastructure as their priority with little tangible outcome. Creative, out of the box brainstorming is required.***

Thank you