

Déséquilibres mondiaux et ordre monétaire international **Growth-Oriented Global Rebalancing: A Modest Role for the RMB**

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www.shiftingwealth.blogspot.com



Croissance et déséquilibres mondiaux

Approches chinoises et européennes

Lundi 23 mai 2011 de 9h15 à 18h00

Centre d'analyse stratégique

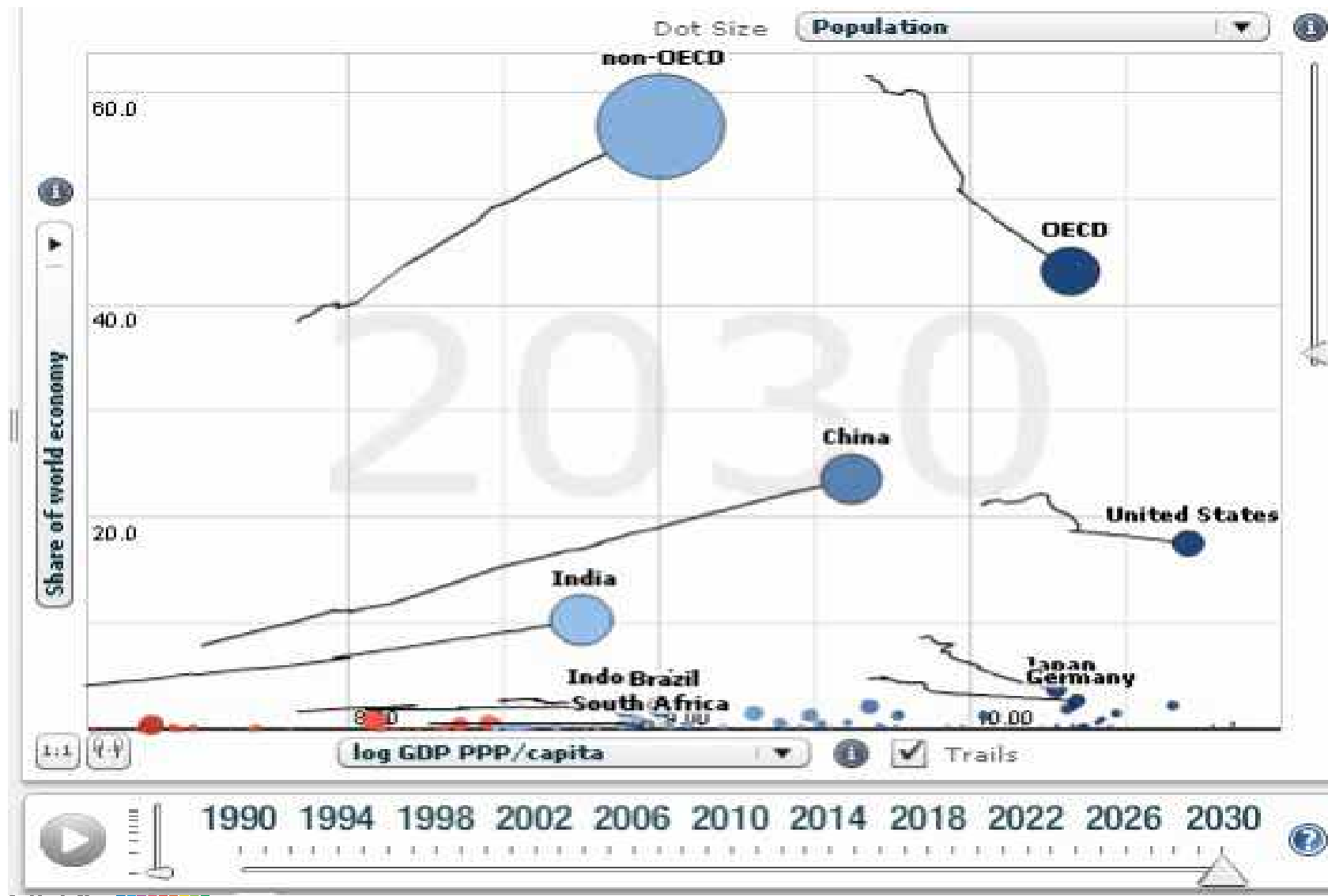
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Thesis & Structure:

Growth-Oriented Global Rebalancing: A Modest Role for the RMB

- **Thesis:** RMB appreciation can – and should – play a modest role only in global rebalancing
- **Shifting Wealth:** While US Fed misreads global recalibration, China's structural S-I imbalance widens
- **US-Sino Imbalances:** History and size
- **RMB:** The case against premature & excessive RMB appreciation
- **Reserve Currencies:** From \$ to SDR?

“SHIFTING WEALTH”: GDP Share of World Economy, PPP



The world now grows in Fosbury style



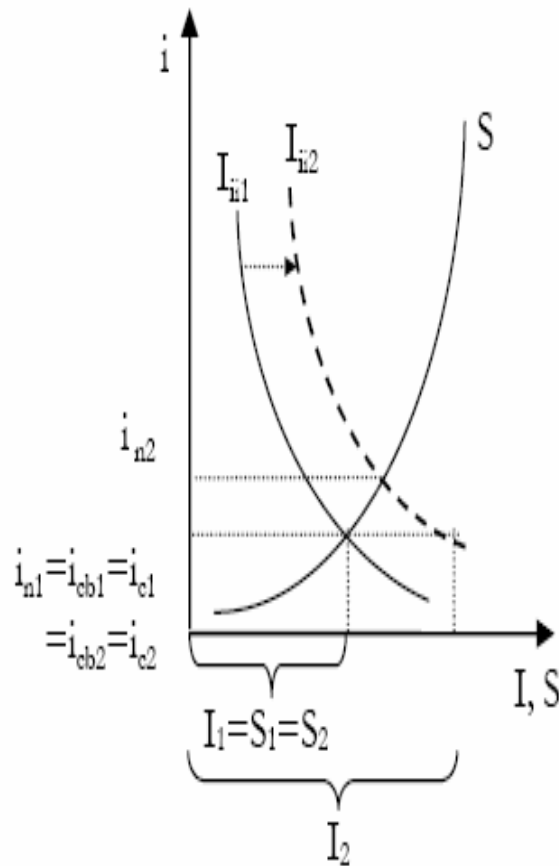
- **Until 2000: a world in which the most advanced countries were identical with the global center of gravity, akin to the *Straddle technique*.**
- **Now: countries with the largest economic mass \neq richest in the world.**
- **Complicated configuration corresponds to the *Fosbury flop* technique.**
- **Thesis: New Fosbury style world is better for LDCs than old Straddle economy.**

China impact on global wages, prices and interest rates

Beside the shift in global growth patterns towards convergence,
3 other major developments underpin “Shifting Wealth”:

- **Initial wage shock => cheap goods**
- **3rd Super cycle - shifting wealth to raw material exporters**
- **Many countries switched from net debtor to net creditor position, indirectly depressing interest rates on US government debt => cheap savings**

Cheap goods, cheap savings, loose Fed + regulation



- **Austrian overinvestment theories**
- provide two reasons for a fall of the capital market rate below the natural rate: First, the central bank supplies more liquidity at unchanged rates via money creation, underestimating future inflation ($icb1=icb2$). This allows for accelerating credit growth of the banking sector and low capital market rates (Wicksell 1898: 134, Mises 1912: 417-430, Hayek 1929: 82). Second, the banking sector (or capital market) keeps interest rates low via money creation (Hayek 1929).
- Source: Schnabl/Hoffmann, TWE, Vol.31.9, 09/2008
- See also Kindleberger, PSL Quarterly Review 2009

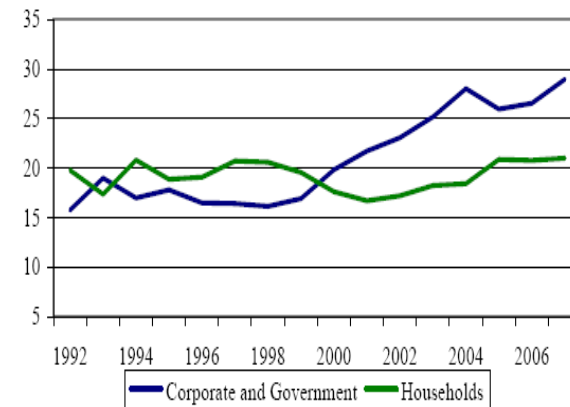
Unbalanced Growth: China

Shares of GDP	1995	2000	2008
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China

Private Consumption	44.9%	46.4%	35.3%
Investment	40.3	35.3	43.5
Net Exports	1.6	2.4	7.9

**Corporate savings = 'iron bowl' of SOEs,
Corporate volume growth (=RMB)
HH savings = son preference, demographics,
precautionary savings, ageing
=> Mostly structural, but f corporate savings**



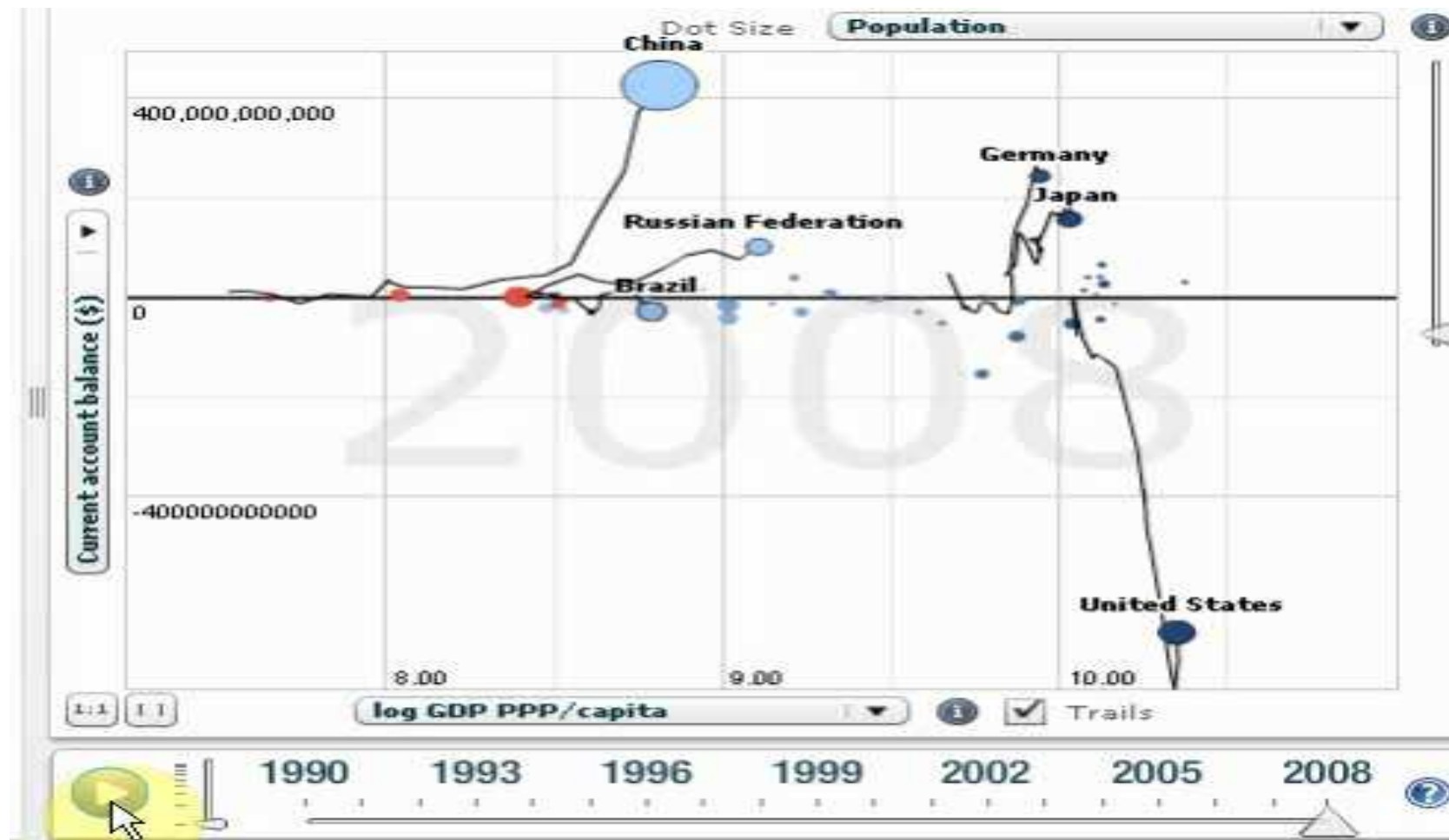
Source: CEIC, Goldman Sachs (Hong Kong)

Source: Eswar S. Prasad, "Rebalancing Growth in Asia", Cornell University, July 2009

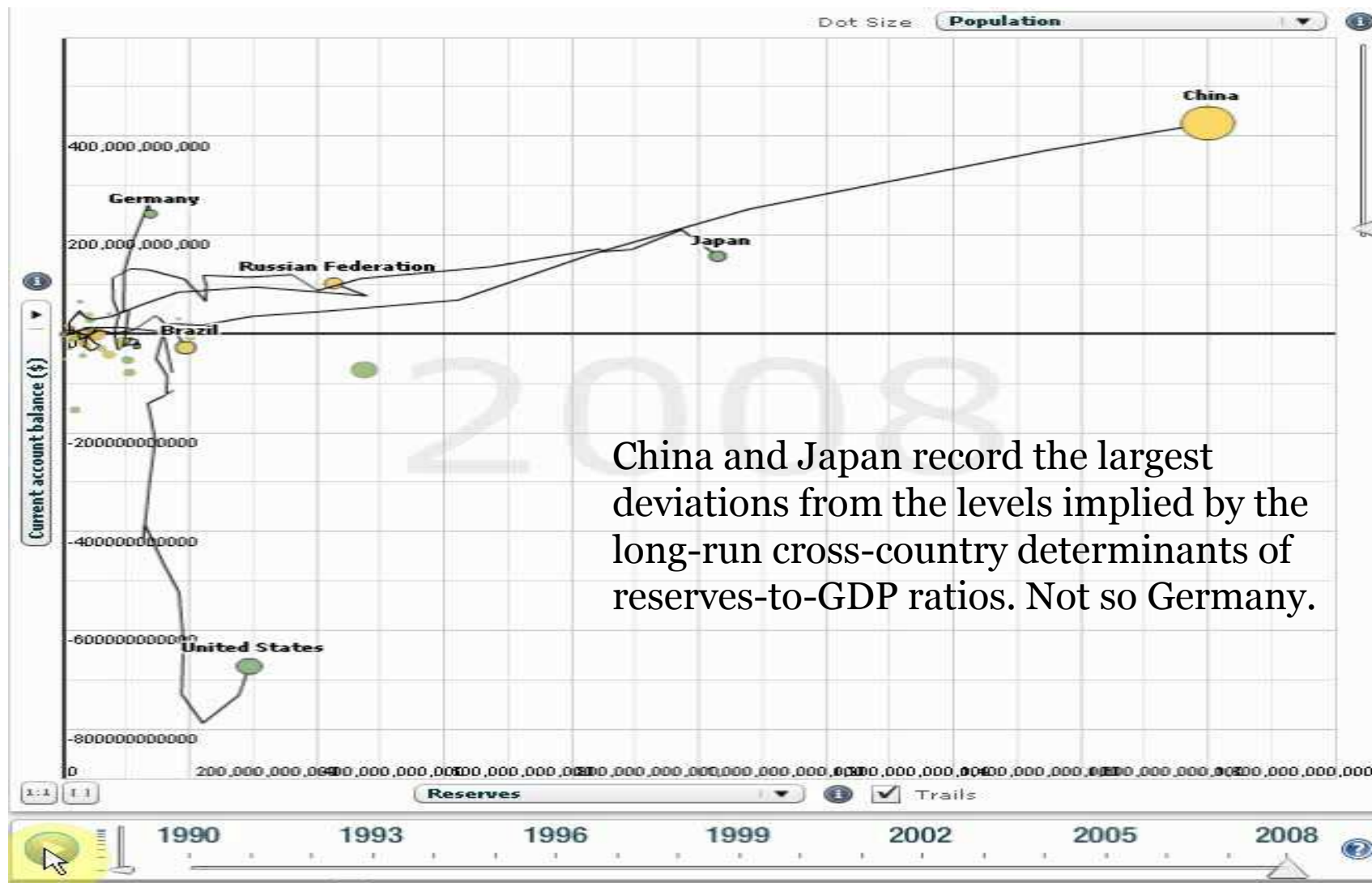


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Global imbalances, 1990 – 2008: US deficit grows from mid 1990s, China's surplus from early 2000s



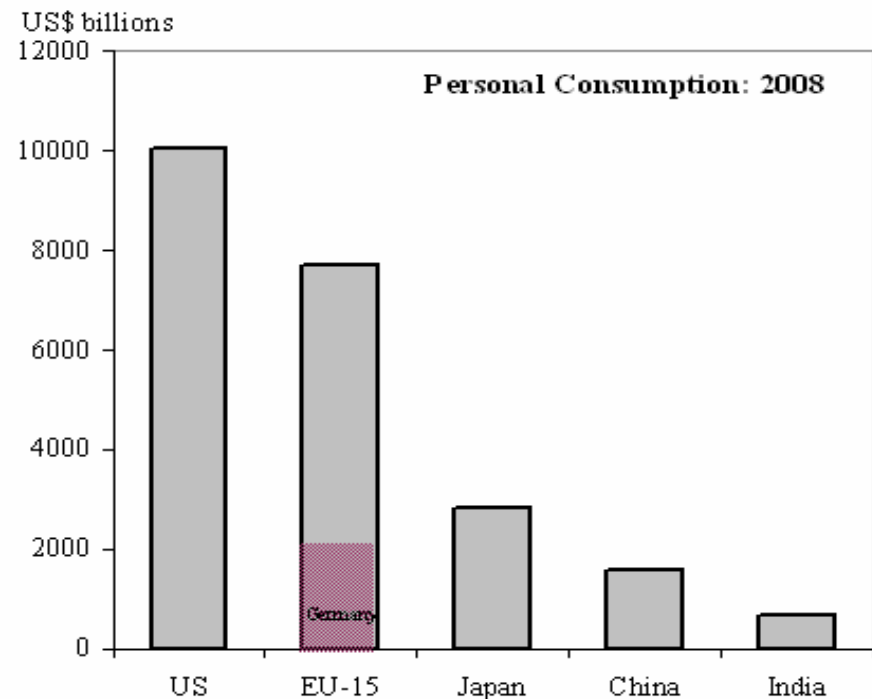
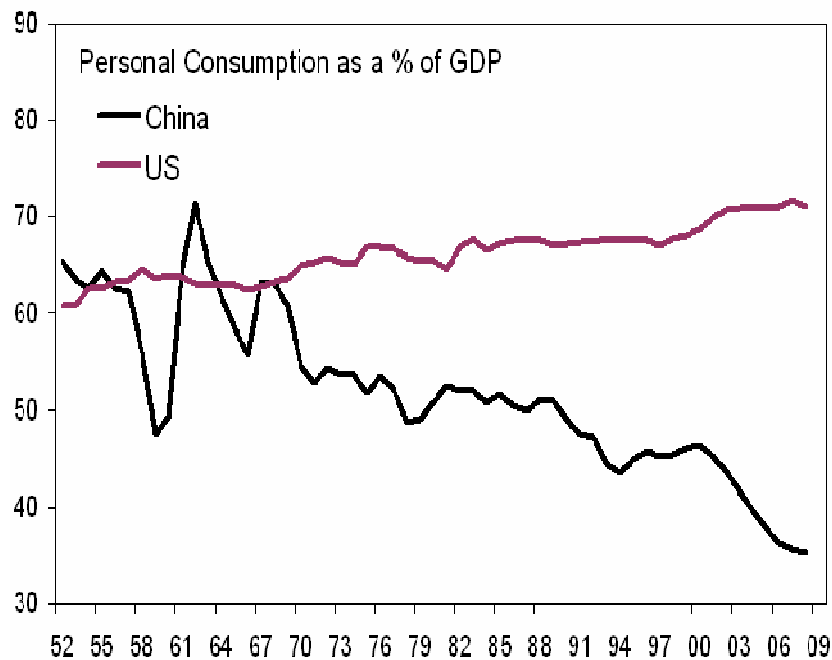
Toward 'excessive' FX reserves



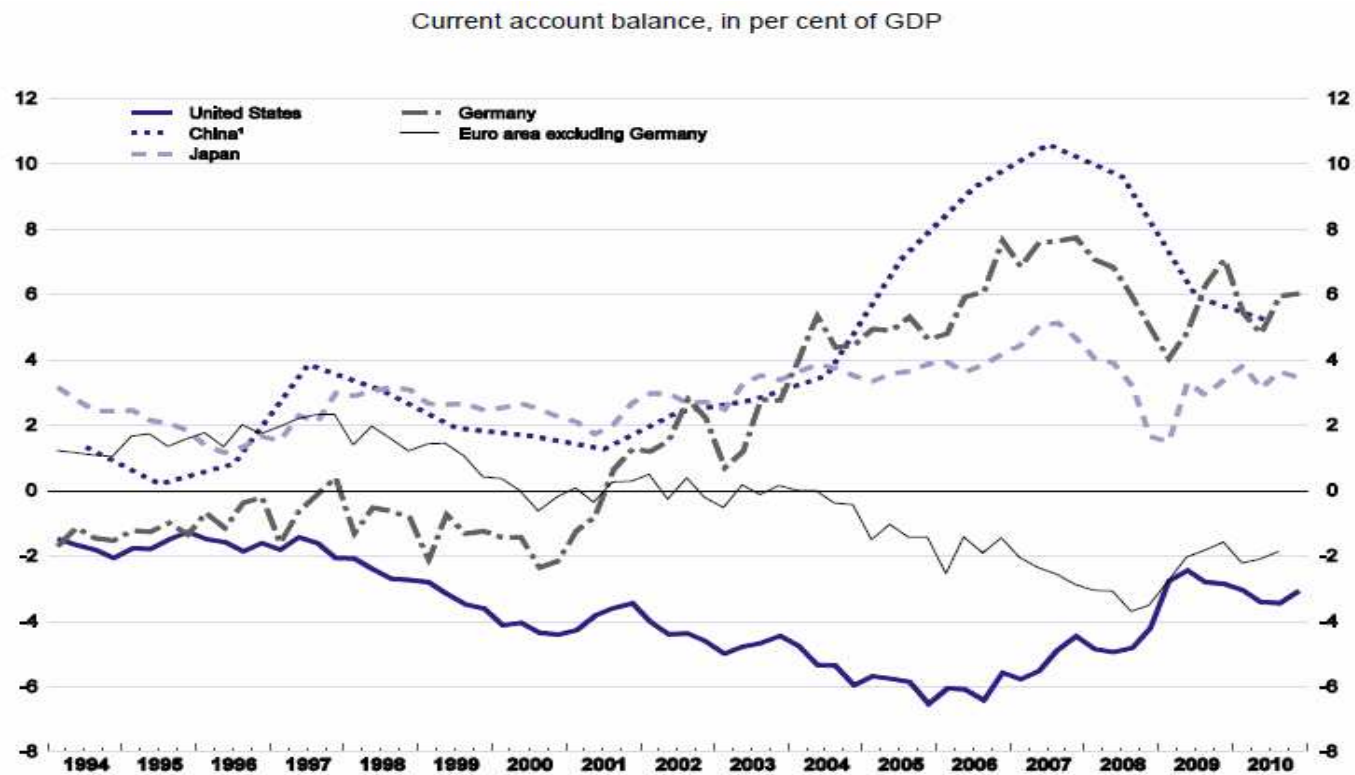
Chimerica's Transfer Problem

The China-US transfer problem (Keynes-Ohlin) => how much role for \$/RMB?

**US consumption: \$10trn
China + India: \$ 2.5 trn =>
5 %p.a. in US = 20% p.a. in
C+I**



Global imbalances continue to be pronounced but are less Sino-US centric since the crisis



1. Annual frequency.

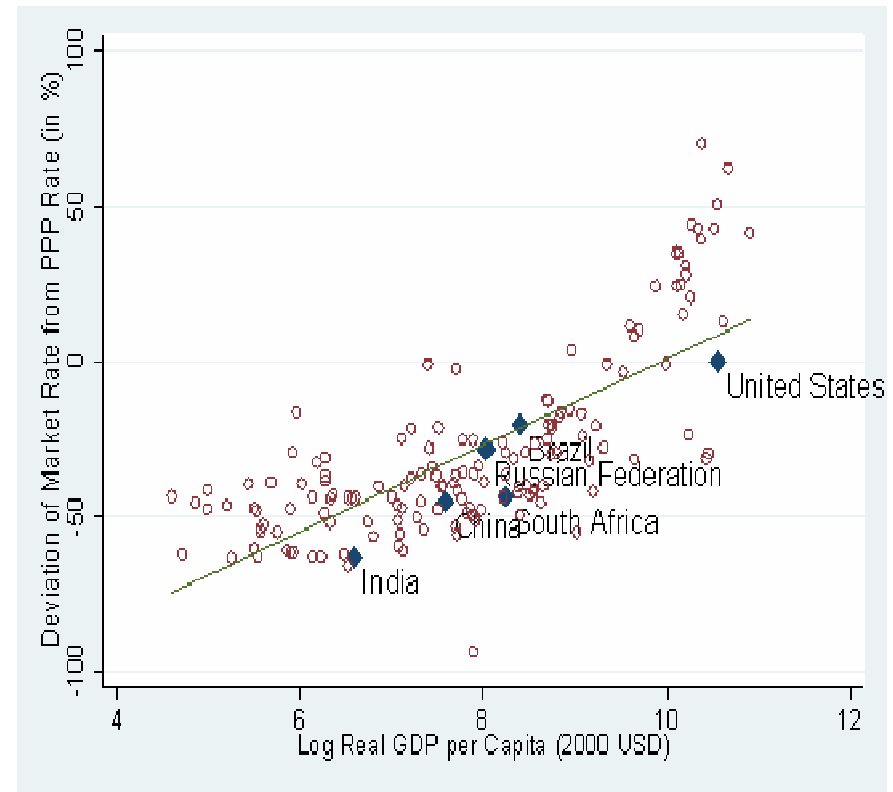
Source: OECD, Quarterly National Accounts database; and OECD, System of National Accounts database.

On the Renminbi

Balassa-Samuelson

- **With per capita income convergence to rich-country levels, real (inflation-adjusted) currency appreciation, as prices for services rise.**
- **RMB undervalued by ca. 60 % in PPP terms, but only by 12 %, if the regression fitted value for China's p.c. income level .**
- **Note that India and South Africa (which had a current account deficit) were more undervalued.**

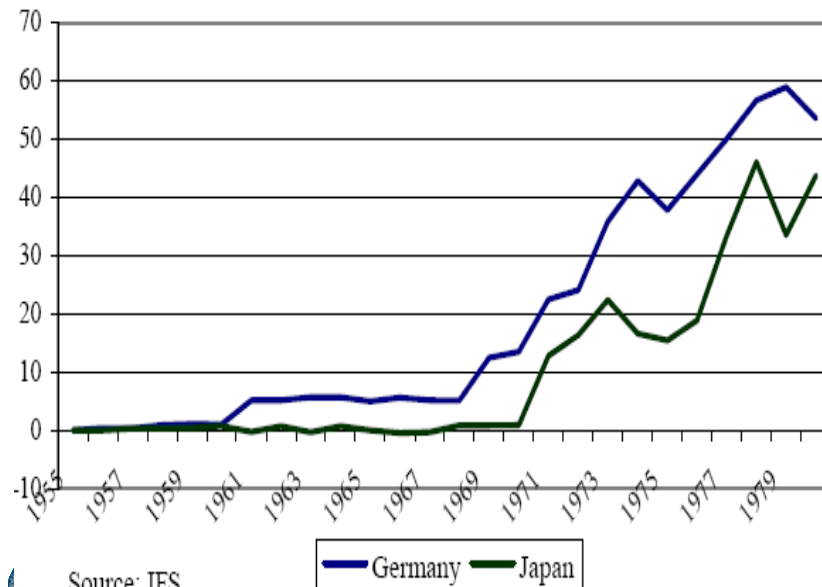
Per Capita Income Convergence and Real Exchange Rates Appreciation, WDI 2008



On the Renminbi

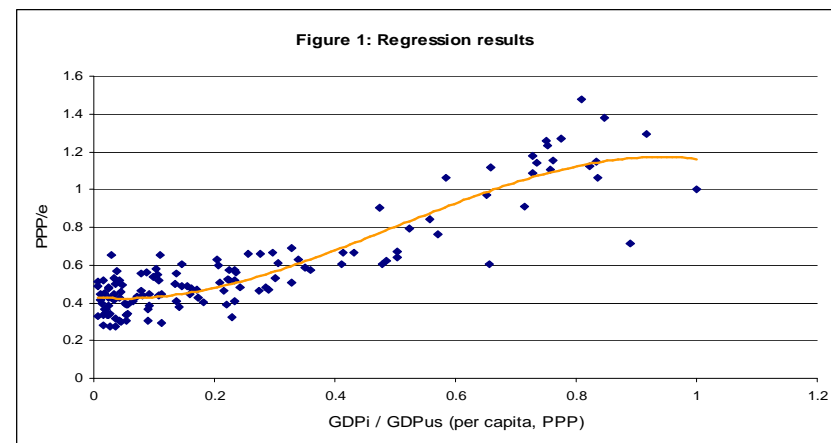
Two post-WW2 episodes

- **DM and yen: 40% - 60% nominal cumulative appreciation vs \$, 1970s**
- **=> 5% p.a. = 62% in 10 ys**



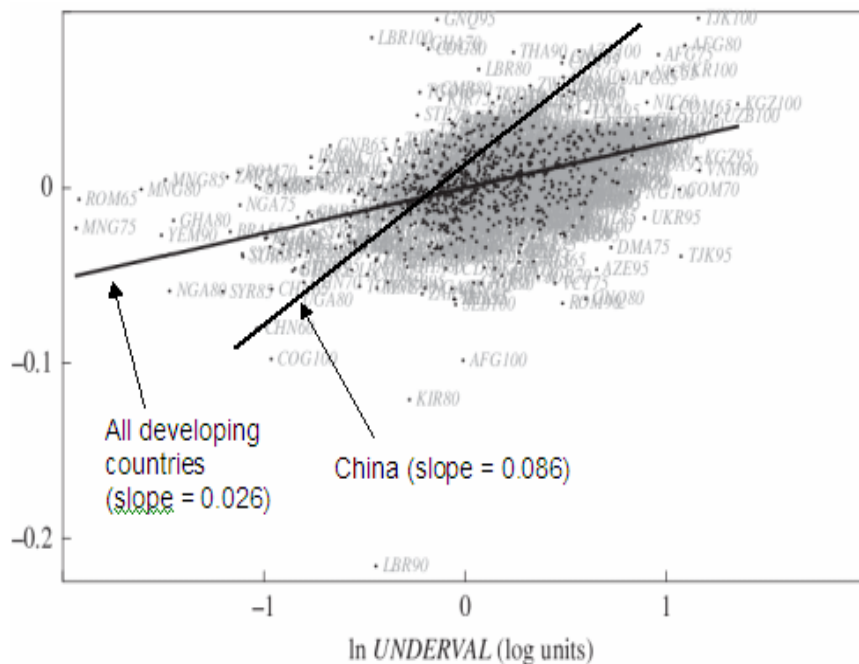
RMB appreciation too early?

- **Appreciation often picks up at .3, not at .128 of US-GDP/capita.**
- **China is still an immature creditor => mismatches**
- **Asian trauma: rise in the yen => balance sheets => deflation.**



RMB Undervaluation and Growth Linkages

ER undervaluation & growth/cap



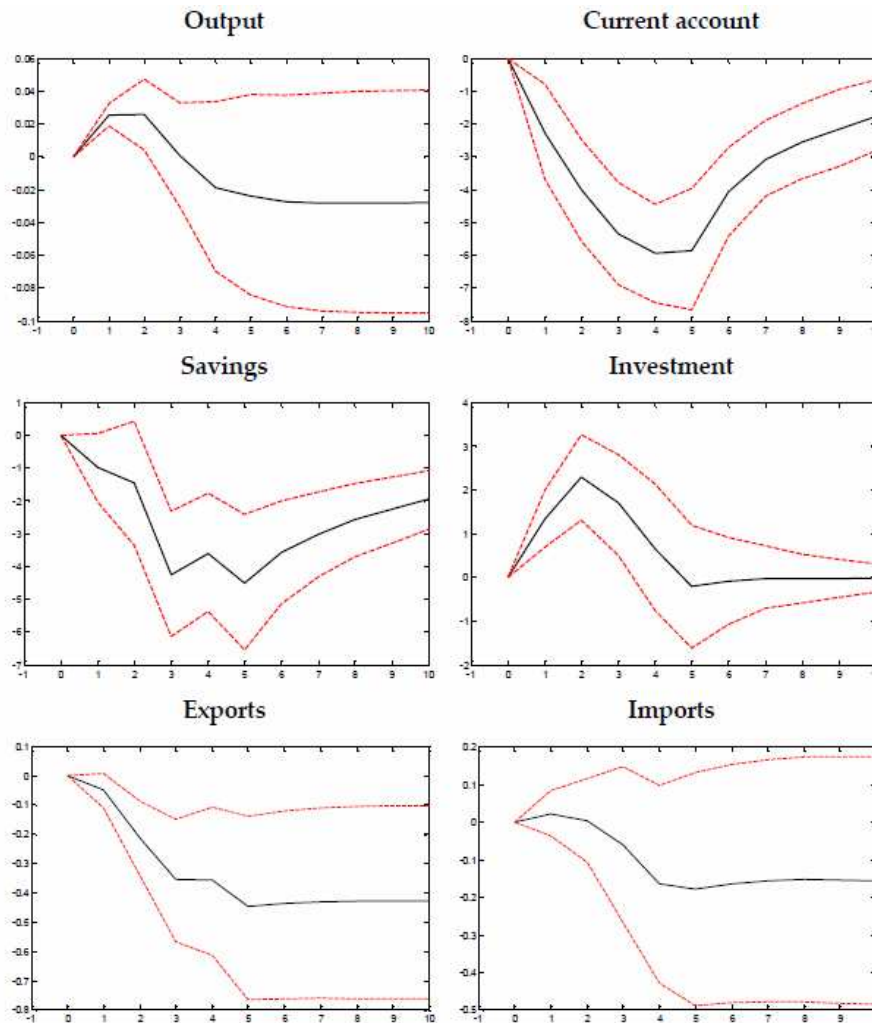
Source: Rodrik (2010)

Growth Locomotives, 1990s vs 2000s

	LOW	MIDDLE	NON-OIL
OECD (β_1)	0.207	0.162	0.104
	3.05	2.48	1.52
OECD _{2000s} (β_2)	-0.294	0.133	0.122
	-1.97	1.16	0.96
CHINA (β_3)	-0.267	0.008	0.027
	-5.45	0.23	0.84
CHINA _{2000s} (β_4)	0.562	0.363	0.430
	4.27	3.09	3.49
Observations	645	1384	1086
Cross-sections	39	83	65
R ²	0.45	0.43	0.46

Source: OECD Dev WP 292

RMB Appreciation: Likely to Reduce Output + Imbalances

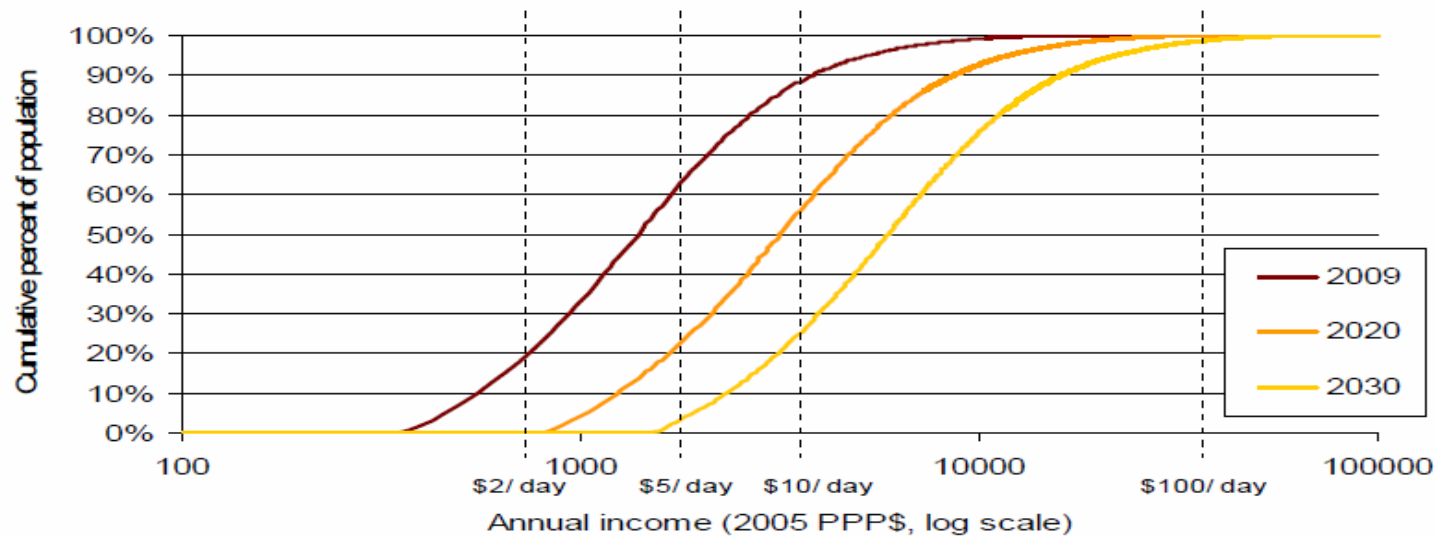


Analysing 25 episodes of 'independent' large (>10% over 2 years) appreciations 1960 – 2009

- 1. Current account worsens 3% pp relative to GDP three years after appreciation.**
- 2. CA effect due to drop in corporate savings and exports.**
- 3. Aggregate level effect on output minus 1% after six years.**

Will the Asian Consumer Do the Job?

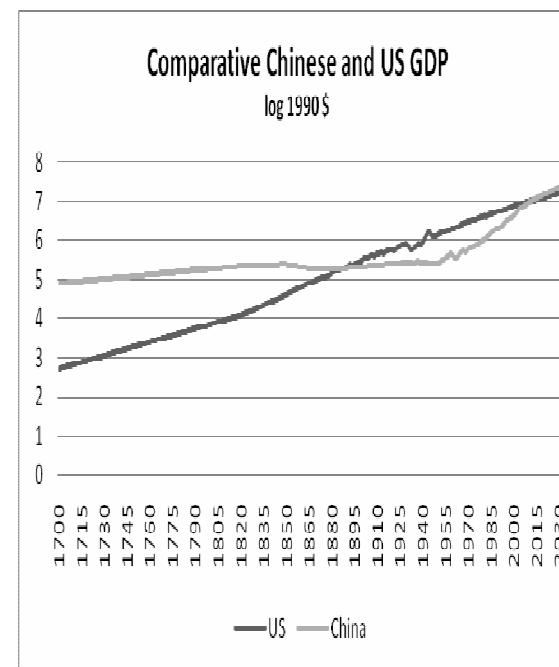
Figure 6. China's Middle Class is Small, but Quickly Rises



- Continued China growth is needed to transfer China's poor to the middle class.
- Asia's rising middle class will lower the ratio of poor-rich country goods, which may improve terms of trade for the poorest countries (Chamon/Kremer, 2009).

From the \$ to SDR?

- **Renminbi system plausible by 2050, ... but suboptimal**
- **Single-currency system: unstable, contractionary, reverse aid.**
- **Stiglitz Commission suggests SDR, ... but this equals Esperanto.**
- **Ways to spread Esperanto:**
- **SDR Substitution Account to convert FX dollars into SDRs; dollar risk;**
- **Enhance currency mix of SDR; first include convertible commodity currencies, then EM currencies once convertible;**
- **Pilot invoice/vehicle function: Yuan/Real trade deals.**



	Private Use	Official Use
Medium of exchange	Vehicle currency	Intervention currency
Unit of account	Quotation currency	Anchor currency
Store of value	Investment, debt	FX reserve currency