

The Triad in Crisis

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The PRC, Japan and the US: Deepening Linkages

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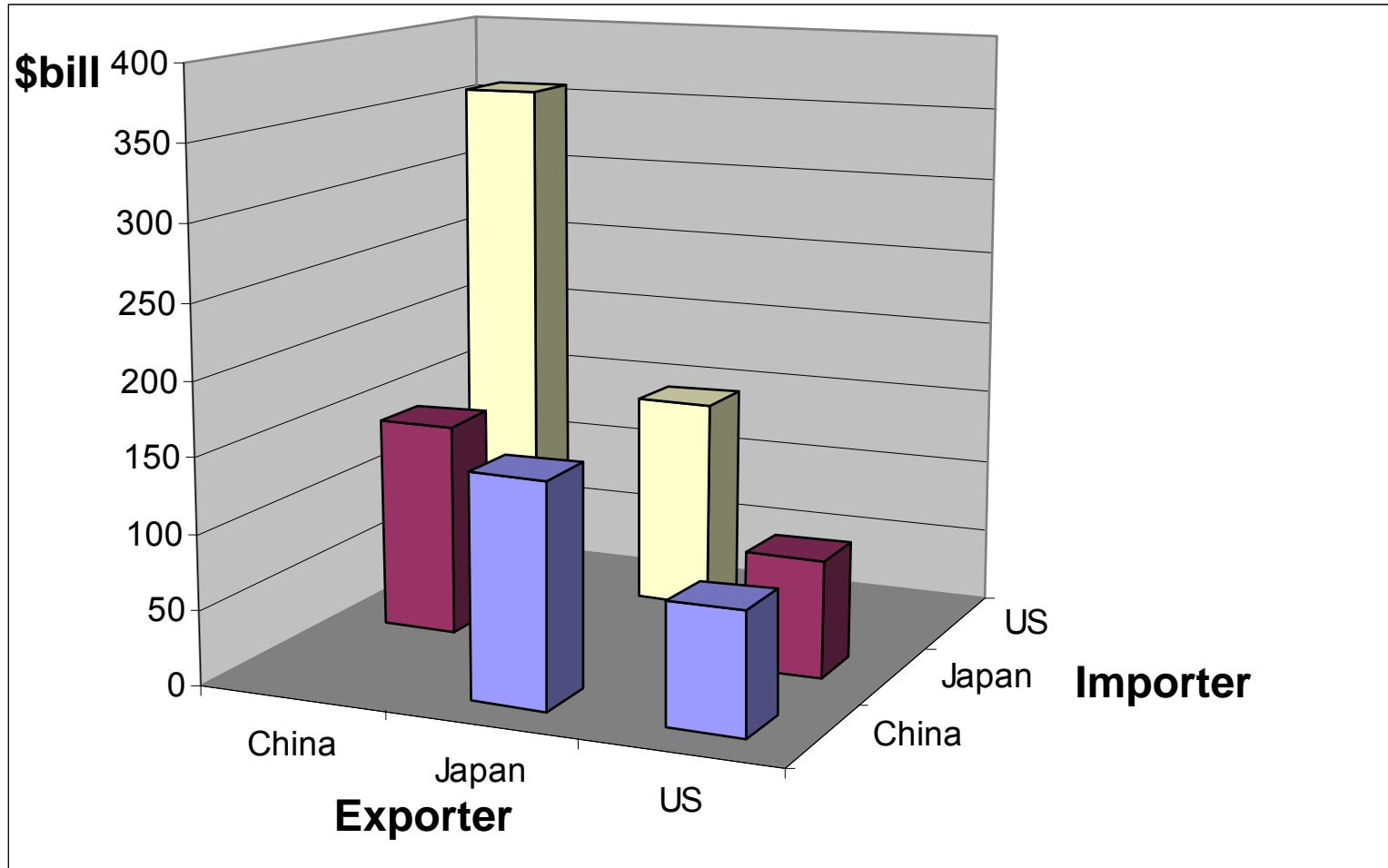
Themes

- Triad important in crisis, recovery
- Has responded, but independently
- Results as good as can be expected
 - “Green shoots” in China, US
 - Much smaller imbalances
 - New engines for global recovery
- But will these be sustained?
 - Policy switching will be needed
 - Cooperation will help
 - What modalities and how?

Why the triad is important

- Two (soon 3) largest economies in world
- Significant source of imbalances
- Have policy space
- Willing to deploy policy nationally and to lead policy internationally

Triad trade 2008 ~ \$1 trillion



How the crisis propagated: 2009Q1

	JAPAN			UNITED STATES		
	Δ	YOY	% of Δ	Δ	YOY	% of Δ
GDP	-13,635	-10%	100%	-305	-3%	100%
Consumption	-2,146	-3%	16%	-102	-1%	33%
Res. Investment	29	1%	0%	-89	-23%	29%
N-Res Investment	-5,842	-23%	43%	-233	-16%	76%
Inventory Investment	-9	0%	0%	-94	917%	31%
Gov Consumption	235	1%	-2%	35	2%	-11%
Gov Investment	13	0%	0%			
Net Exports	-6,149	-80%	45%	154	-33%	-50%

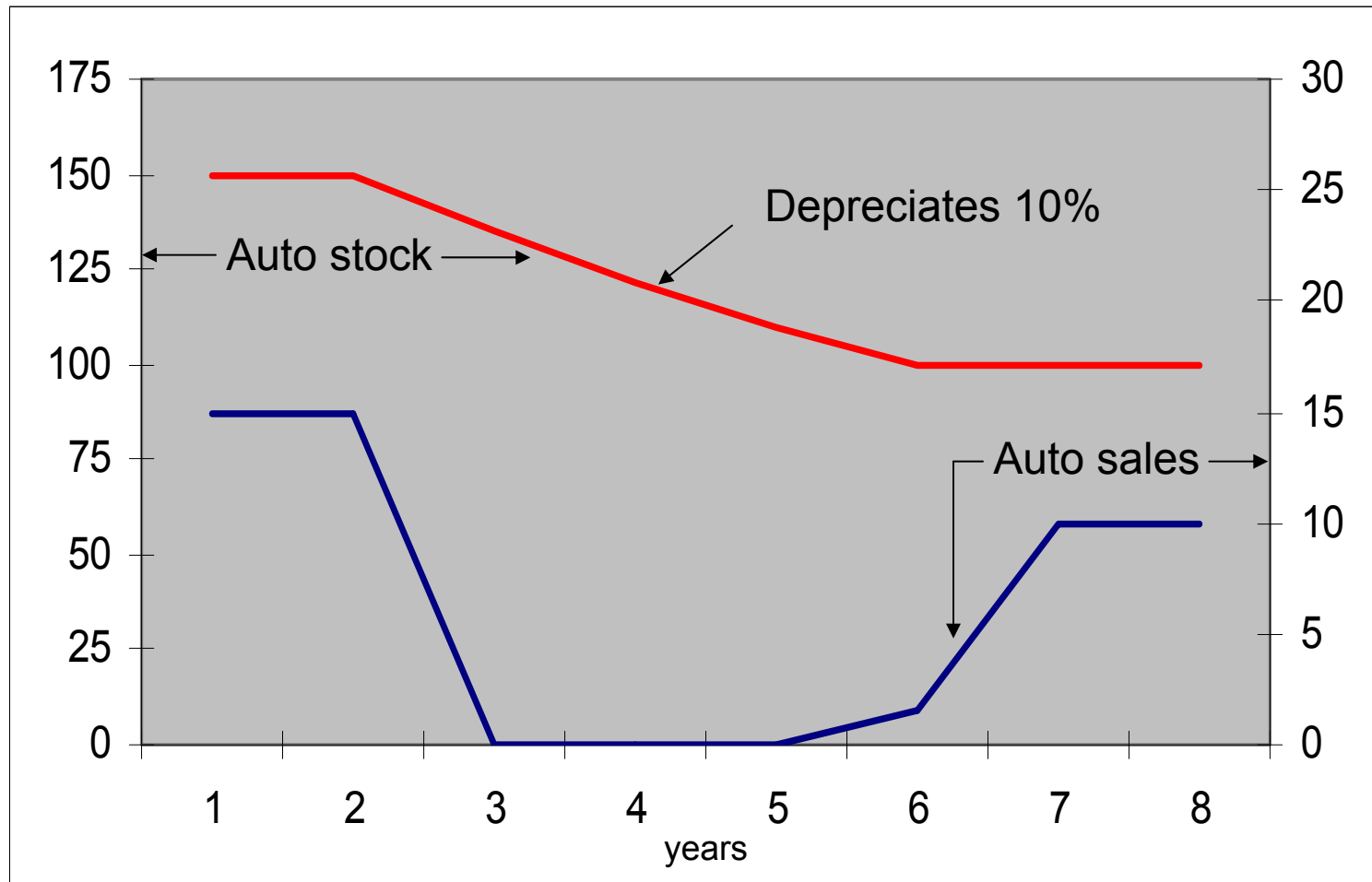
Trade in freefall

	China		Japan		US	
	2009Q1	YOY	2009Q1	YOY	2009Q1	YOY
EXPORTS						
Goods	245,639	-20%	133,034	-38%	246,577	-22%
Agriculture	6,950	-8%			17,135	-21%
Mining	1,725	-32%			13,970	-27%
Fuels	3,972	-30%	1,942	-41%	11,360	-29%
Chemicals	13,280	-28%	19,054	-34%	35,452	-18%
Metals	39,154	-26%	9,833	-30%	18,719	-29%
Machinery	117,941	-21%	45,889	-40%	88,462	-25%
Electronics	58,576	-23%	8,844	-42%	8,205	-28%
Transport	12,584	-17%	25,647	-52%	10,697	-26%
Miscellaneous	61,958	-10%	17,740	-35%	23,641	-14%
IMPORTS						
Goods	183,127	-31%	139,420	-28%	352,485	-30%
Agriculture	3,043	-7%	20,080	-7%	19,335	-5%
Mining	26,624	-33%	12,532	-34%	5,357	-30%
Fuels	18,068	-53%	35,721	-42%	53,694	-52%
Chemicals	21,312	-25%	11,454	-14%	37,345	-15%
Metals	19,458	-25%	4,053	-49%	38,729	-30%
Machinery	77,217	-24%	26,056	-29%	124,924	-30%
Electronics	14,356	-24%	7,165	-36%	54,811	-22%
Transport	7,537	-17%	3,844	-37%	35,852	-43%
Miscellaneous	14,080	-38%	17,740	-35%	57,152	-15%

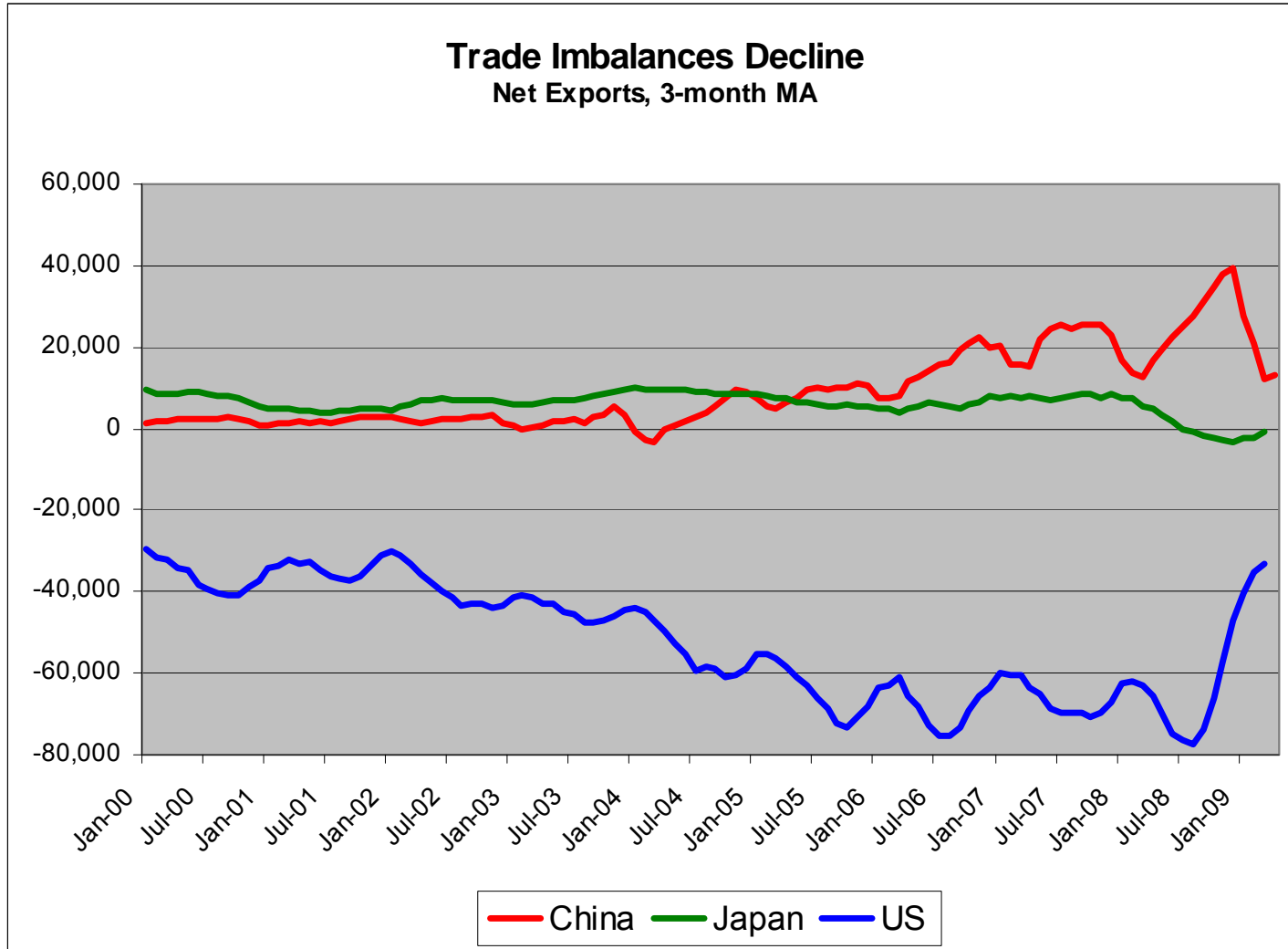
Key observations about trade

- Almost half the decline is fuels, minerals
- Decline is proportional to durability
- Perishables declined ~10% like income
- Long-lived durables declined ~50% like stocks
- Recession surplus: imports decline faster than exports

Stock adjustment and sales

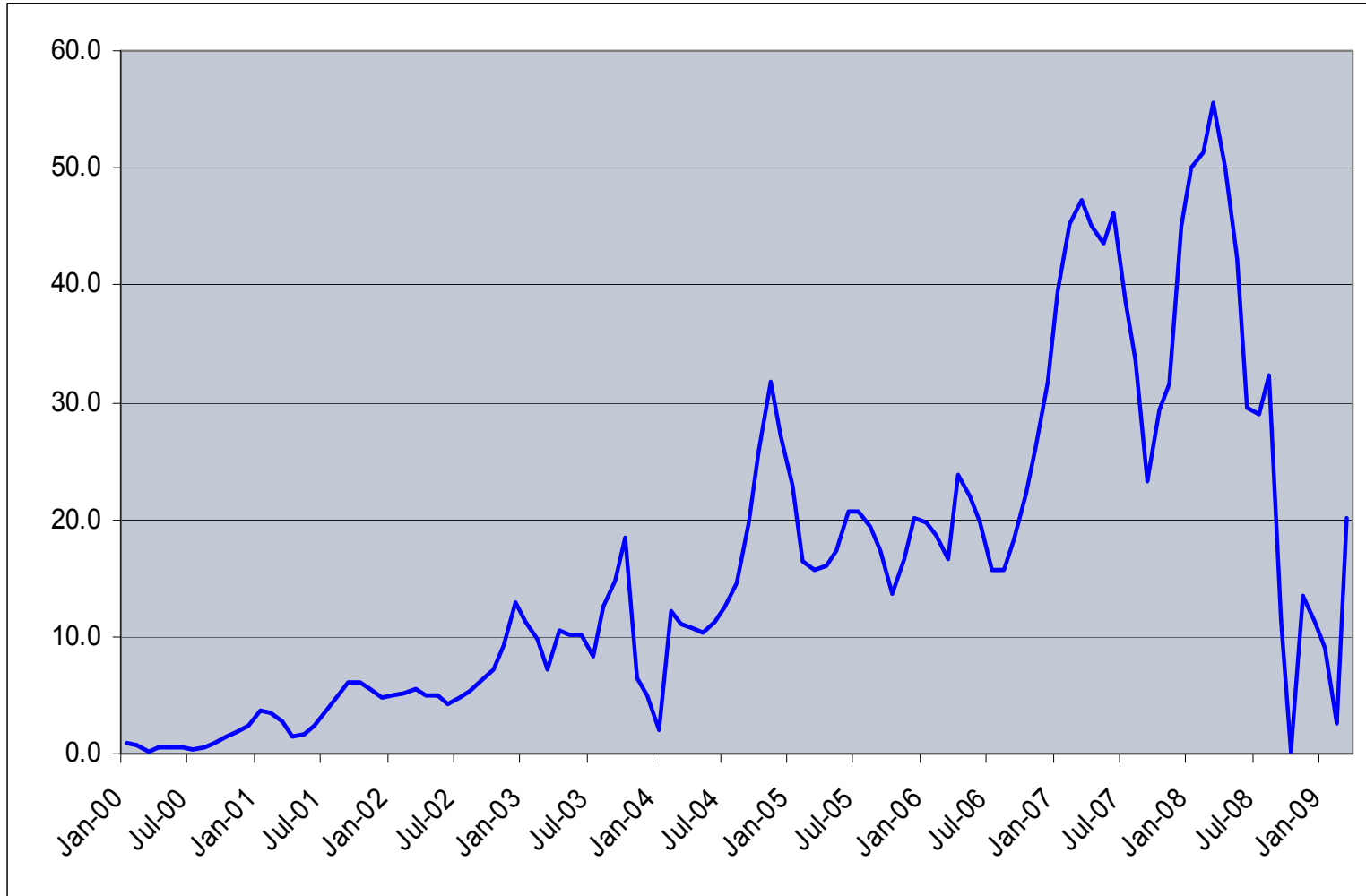


Imbalances have become acceptable



China reserve accumulation is down

\$USb/mo, 3-mo MA



Source: Global Insight.

How will net exports change?

	China	Japan	US
Recovery of primary prices	-	--	-
End of stock adjustment	+	+++	-
End of recession surplus	-	--	-
Resumption of exchange rate trends	-	~	+
Future fiscal policy	--	~	-
Total effect	- 😊	+ ✓	-- 😊 😊

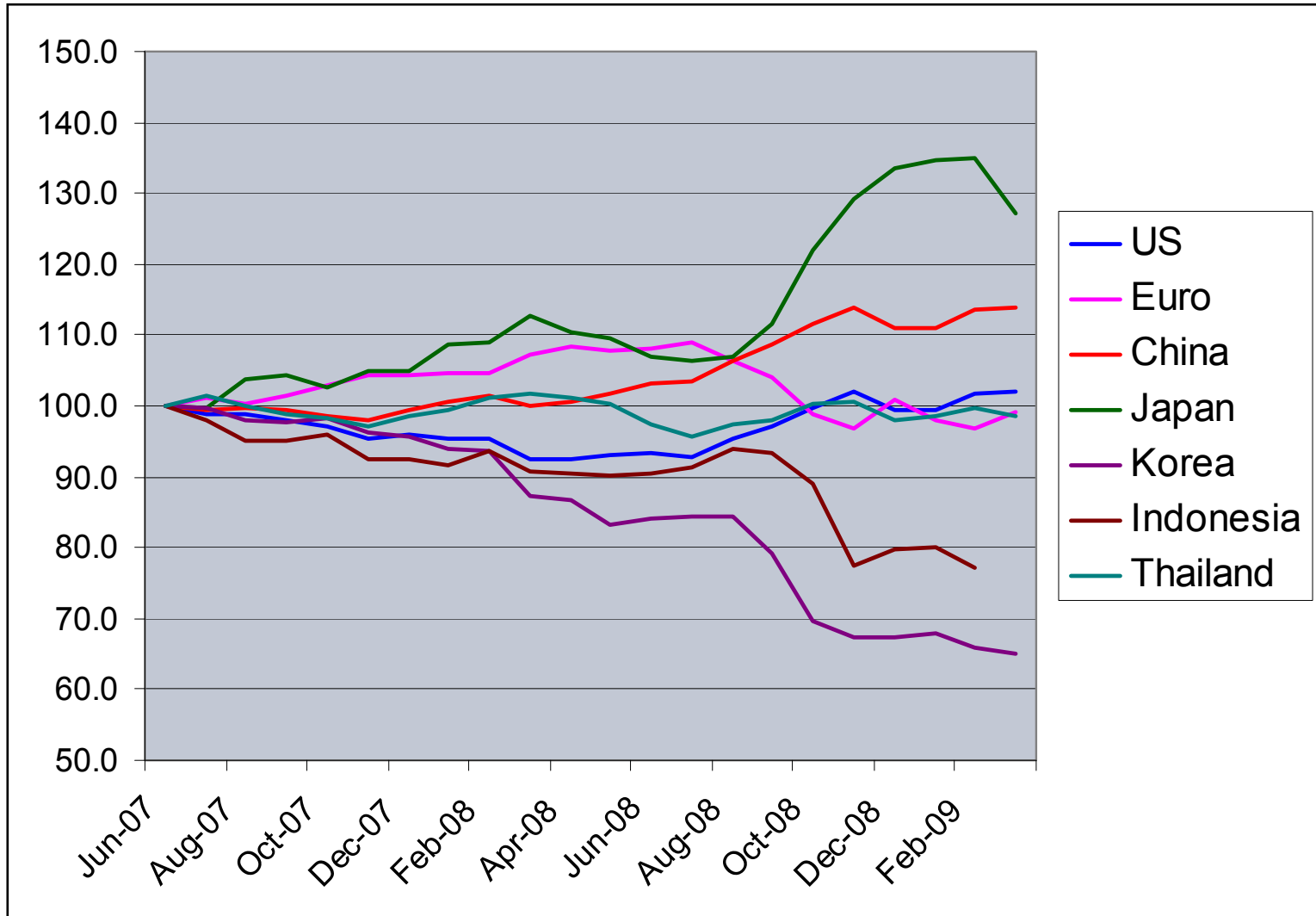
Policy responses

- Financial bailouts (US)
- Significant monetary easing (Triad)
- Significant fiscal stimulus (Triad)
- Support for global institutions (Japan)
- Bilateral swaps (Triad)



- Stock market bottom
- Returning confidence
- Strengthening currencies

Triad currencies have appreciated



Why cooperate?

<i>Type of Policy</i>	Problem targeted	Remedy	Outward Spillovers	Side effect
Fiscal policy	Inadequate demand	Spending	Demand leakage	+
Monetary policy	Inadequate liquidity	Easing	Boost liquidity	+
			Depreciation	-
Trade policy	Inadequate demand	Protection	Declining trade	-
Regulation	Loss of confidence	Oversight	Regulatory arbitrage	+
Intervention	Loss of confidence	Bailouts	Boost confidence	+
			Boost competitiveness	-

At what level to cooperate?

- * Global vs. Regional goods: Living with second-best
- * Subsidiarity: practical and conceptual limits
- * Example: global versus regional cooperation in finance
 - i. Intermediate in most liquid market?
 - ii. Rely on IMF alone?
- Example: trade cooperation
 - i. Focus only on WTO/DDA?
 - ii. FTAs?
- * Room for cooperation at regional as well as global levels...key is to make sure they are not contradictory

Forums for cooperation

	Global	Trans-Pacific	Asian
Macroeconomic Policy	<ul style="list-style-type: none"> • G7 • G20 • IMF Surveillance 	<ul style="list-style-type: none"> • China-US SED • APEC 	<ul style="list-style-type: none"> • Economic Policy Review Dialogue
Financial Regulation	<ul style="list-style-type: none"> • BIS • Financial Stability Forum 		<ul style="list-style-type: none"> • BIS Asia meeting • Financial Stability Dialogue (proposed)
Liquidity Support	<ul style="list-style-type: none"> • IMF 		<ul style="list-style-type: none"> • Chiang Mai Initiative
Trade Policy	<ul style="list-style-type: none"> • WTO • G20 	<ul style="list-style-type: none"> • APEC 	<ul style="list-style-type: none"> • ASEAN • ASEAN+

How to cooperate?

- Improve surveillance
 - Monitor currencies, imbalances, markets
- Limit future imbalances
 - Adjust national savings imbalances
 - Use fiscal policies to support rebalancing
- Stimulate non-triad demand
 - Maintain open markets
 - Provide insurance mechanisms (CMIM)
 - Identify and support “growth engines”
- Ensure non-triad liquidity (diversify reserves)