Comments on Professor Yu’s Paper

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Large and Immediate Impact
-Background-

- US as source of impact

Note: changes before and after crisis
Source: MacMillan, FACTSET
## Background(2)

- Close links among countries owing to globalization

### Impulse Response of Annual GDP to Counterpart’s GDP Shock

<table>
<thead>
<tr>
<th>Great Depression (1920–40)</th>
<th>German</th>
<th>France</th>
<th>UK</th>
<th>Canada</th>
<th>Australia</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>US GDP → Other</td>
<td>x</td>
<td>x</td>
<td>2</td>
<td>2</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Other → US</td>
<td>2</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>3</td>
<td>x</td>
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</table>

<table>
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<tr>
<th>1970–2010</th>
<th>German</th>
<th>France</th>
<th>UK</th>
<th>Canada</th>
<th>Australia</th>
<th>Japan</th>
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<td>x</td>
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<td>x</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2000’s</th>
<th>German</th>
<th>France</th>
<th>UK</th>
<th>Canada</th>
<th>Australia</th>
<th>Japan</th>
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</thead>
<tbody>
<tr>
<td>US GDP → Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other → US</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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</tr>
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Source: Mitsubishi Research Institute
Globalization(1)
- International trade -

- China and Japan consists of the core

⇒ But policy implication is relatively weak....

Source: IMF, *World Economic Outlook*
Globalization(2) - Financial transactions -

- Both volume and channels expanded
- Strong policy implication

Primary Investors to US MBS
($6.6 trillion, as of mid-2007)

- GSEs 17.6%
- Foreign investors 18.4%
- Banks 18.6%
- Mutual funds 9.9%
- REITs 1.3%
- Insurance/pension funds 14.5%
- Other 19.7%

Source: IMF, GFSR
Increasing channels of capital flow

- Liberalization of financial transaction
- Financial tools including derivatives
- Natural resources including oil
- Forex intervention and reserves

A kind of global monetization?
Case of Japan - early 2000’s -

Unofficial “Cooperation” among BOJ, MOF and US

- MOF
  - ① ¥ cash
  - ④ $ cash
  - ⑥ US GB
  - ③ Buying $
- BOJ
  - ② Selling ¥
  - ⑤ $ cash
- US (Treasury)
  - ⑥ US GB

FX market

Japan side

US side
Contemporaneous Forex intervention and quantitative easing in early 2000’s

Timing of Quantitative Easing

Trillion ¥

Source: BoJ, MoF
Lessons for Japan

- China’s case: much more drastic “monetization” for US, in a sense
  - More difficulty of international monetary control than before
- Should consider drastic fall in US$ and depreciation of foreign reserves
  - Emergent needs for new international system
- Is preference for “Weak Yen” appropriate?