Adjusting Global Imbalances

China's Role and Its Implications for Asian Countries

(Work in Progress and Not To Be Quoted)[1]

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Many a little makes a mickle.
(old saying in Scotland)

Chirimo tsumoreba yamatonaru
(old Japanese saying)

I. Introduction

Global imbalances, particularly in industrial countries, have persisted in recent years, attracting world attention to the problems. For example, the Unites States has suffered large current account and fiscal deficits. Japan has not yet overcome deflationary pressures, while the fiscal deficit has continued large, contributing to rapidly increasing the government debt. European countries have continued to struggle with high unemployment. Interest rates in most industrial countries have been abnormally low (Chart 1).

Developing countries have experienced imbalances as well. Take, for examples, China, which has registered robust growth in output and trade even in the aftermath of the Asian financial crisis in the late 1990s. China's blistering growth in recent years has tightened commodity markets, contributing to rapid increases in their prices. At the same time, China has accumulated international reserves rapidly in recent years—particularly in 2003, prompting some, particularly those in the U.S., to call for an appreciation of China's currency, the renmimbi, or to resort to protectionist measures. Despite robust growth and strong external sector performance, however, China has seen no tangible signs of improvement in the overall unemployment situation.

Elsewhere in Asia, countries have also faced imbalances. For example, Korea has been struggling with heavy household sector's debt, while the Philippines has been afflicted by large fiscal deficits and mounting public debt, as well as increasing

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unemployment. India has incurred large and unsustainable fiscal deficits (hovering around 10 percent of GDP) in recent years (AsDB (2004)).

Meanwhile, the economic linkages among countries in the Asian region have deepened significantly, supported by the rapid expansion of the intra-regional trade. Trade within emerging Asian countries and Japan has increased from 40 percent of the region's total trade in 1990 to about 50 percent in the early 2000's (Table 1, 1a, & 1b). [2] At the same time, such closer economic linkages in the region seem to have increased its sensitivity to fluctuation in business activity and the region has become vulnerable to a wider synchronization in business cycles than ever before. [3] [4]

Against the background of macroeconomic imbalances in industrial countries, there has been an increasing call for corrective action in industrial countries and some developing countries, particularly China. [5] As a result, many countries in the region have become concerned about implications of what China will do in macroeconomic management and structural reform areas. How much should China tighten monetary and fiscal policies to rein in economic activity—particularly investment? Would such policies result in a "hard landing"? What would be implications for exports from countries in the region? Should China appreciate its currency as some in official and business circles have argued? If so, what would be implications for the countries in the region?

The rest of the paper is organized as follows. Section II critically examines China's economic developments from global perspectives and discusses how China might adjust its macroeconomic policies and what crucial areas for reforms are. Section III discusses how China's adjustment polices and reforms might affect emerging Asian countries and how they should adapt to China's evolving economic situation. Section IV offers concluding remarks.

II. China's Economic Performance and Policies from Global Perspectives

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[2] Emerging Asia is defined here to include China (Mainland), Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China, and Thailand, following the definition adopted by Zebregs (2004).

[3] The closer linkages among Asian countries seem attributable to China's emergence as a dominant manufacturing center as it imports up-stream materials from emerging Asian countries and advanced capital goods from Japan, Korea, and others, producing down-stream items and exporting them to Japan, the United States, the Euro area and advanced industrial countries.

[4] Kose, Prasad, and Terrones (2003) find in their empirical study that there is some support for the notion that globalization increases the synchronization of business cycles.

[5] Bergsten (2004) argues that China should implement a one-time revaluation of 20-25 percent.

1. Macroeconomic Landscape

Over the years, China has attracted international attention to its economic performance. Its output growth exceeded an annual average rate of 8 percent over the past 2 ½ decade since the onset of the opening-up policy and market-oriented structural reforms in the late 1970's. In the earlier years of this reform period, China experienced cycles of boom and bust. However, over the past decade, China managed to weather several economic crises—severe overheating of the economy in the early 1990's, the Asian financial crisis in the late 1990's, and the global slowdown in 2001. Meanwhile, per capita real GDP tripled since 1990, and more than 130 million people have been lifted from poverty during the 1990's. [6]

China's increased presence in the global scene is attributable to its rapidly expanding trade (Chart 2). As highlighted by many (e.g. Prasad and Rumbaugh (2003)), China's share in the world trade was merely 1 in 1980, but increased to 1.6 percent in 1990 and to 5 ½ percent in 2003, amounting to $850billion virtually the same as that of Japan.

In the aftermath of the Asian financial crisis, China pursued easy monetary and expansionary fiscal policy with a view to maintaining growth momentum. In the backdrop of the global slowdown of the early 2000's, the monetary authorities continued to lower interest rates and reserve requirements. The easy monetary was reflected by monetary aggregates expanding at a rate in mid to high teens (Table 2)--much faster than nominal GDP. Meanwhile, the authorities began to tighten fiscal policy somewhat in the early 2000's in view of the need to improve fiscal sustainability over the medium term, while making conscious efforts to accelerate spending on health, education, social safety nets, and infrastructure under the banner of "proactive fiscal policy." The government issued the "construction" bonds amounting to about 1-1 ½ percent of GDP a year to finance public investment.

China's rapid growth, supported by the strength of domestic demand and the external sector, was the highest among all the major countries in the world. During 2001-03, real GDP growth averaged slightly above 8 percent, compared with the world average of about 3 percent. For 2004, the IMF projects output growth of 8 ½ percent and about 8 percent for 2005 (Table 2). [7]

Although there were deflationary pressures in the first few years of this decade, China crawled out of it in 2003, and now is facing inflationary pressure (Table 3). Thus far, such pressures are not widely spread. However, prices of industrial materials such as cement, steel, aluminum, and textiles are rising rapidly, and so are prices in the

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[6] During 1990-99, the number of people with consumption of less than US$1 a day fell by 133 million to 235 million (World Bank (2003)).

[7] Given that output grew at an annual rate of about 10 percent in the first quarter and it is most likely to be equally fast in the second quarter, followed by some slowdown in the second half on account of the recently introduced tight monetary policy and cutting down on the government spending on investment, China is likely to record a growth of close to around 9 percent for the year as a whole.

real estate sector (mainly housing in large cities). As a result, interest rates on deposits are now negative and those on loans are getting close to zero (Chart 3). The major culprit appears to be sharp increases in fixed asset investment (27 percent in 2003 and 47 percent in the first quarter of 2004 over the same period of 2003). In relation to GDP, such investment steadily increased from 37 percent in 2000 to 47 percent in 2003, most of which was financed by the private sector saving (Table 4). These developments prompted many commentators and analysts to argue that China is again experiencing the "overheated" economy, similar to that experienced during 1993-95. [8]

Despite apparent inflationary pressures in the goods market, they did not seem to have an impact on the labor market as far as employment is concerned. The rate of unemployment remained high and has been increasing as reform of the state-own enterprises has resulted in firing redundant workers (4-5 million workers a year) and a large number of surplus workers in rural areas have continued to migrate into urban areas (Table 5).[9] [10] These developments, together with social unrest and widening income gaps between the rural and

urban areas, have drawn the government attention in recent years, and the State Council has intensified its efforts to mitigate the situation. [11]

Activity in the external sector expanded robustly, particularly since China's WTO accession in December 2001. During 2000-2003, exports in terms of the U.S. dollar increased by an average annual rate of 21 percent, partly reflecting economic recovery in China's trading partners. Meanwhile, imports increased by 23 percent annually, supported

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[8] For example, Fred Bergsten's remarks during the conference on "Dollar Adjustment: How far? Against what?" in Washington, D.C. May 25, 2004. However, the current situation is much milder than the 1993-95 episode (Chart 4).

[9] According to Brooks and Tao (2004), OECD (2002) estimates that the number of surplus workers in the rural area ranges from 150 million (about 1/3 of the "employed workers") to 250 million (about ½ of the "employed workers").The estimate by the Ministry of Labor and Social Security stands at 150 million (2004).

[10] Despite the abundant supply of labor in urban areas, real wages have risen by about 16 percent during 2000-23. Under the competitive economy, one would expect that real wages would not increase under the condition of excess supply of labor, but this did not happen in China's urban areas, perhaps reflecting soft budget constraints under which many companies, particularly SOEs, have been operating or large profit margins. In the manufacturing sector, nominal wages in China is about 1/20 or 1/25 of those in Japan or the U.S..

[11] Premier Wen Jiabao's speech at the People's National Congress held in March this year focused on the government intention to allocate more resources to improve the social safety net of the rural population. The government boosted its spending on poverty relieve programs this year by Y0.8 billion to Y12.2 billion (0.5 percent of the total spending).

by strong domestic demand and the continued decline in import tariff rates. [12] The trade surplus narrowly fluctuated just above 3 percent of GDP. As the services account was in a small deficit, the current account surplus averaged about 2 percent during the period (Table 6), next to the smallest among the emerging Asian countries. In fact, many economies in the region—such as Hong Kong, Taiwan, Malaysia and Singapore-- have recorded much larger surpluses in terms of GDP (Table 7).

The capital and financial account, which was dominated by foreign direct investment inflows, has been in surplus during the period under review. In relation to GDP, the surplus ranged from 0.2 percent to nearly 3 percent, indicating the attractiveness of China for foreign investors—particularly for investors from Taiwan, Hong Kong, and more recently from industrial countries including those in the EU, Japan, and the United States. [13]

Errors and omissions, which largely reflect unrecorded short-term capital flows across boarders, fluctuated widely in recent years. For many years prior to 2002, errors and omissions were negative, reflecting capital flights evading official capital controls. However, they turned into positive, indicating capital reflows into China as many speculated an appreciation of the renminbi. With large surpluses in both current and capital accounts as well as reflows of speculative capital, the overall balance of payment position recorded large surpluses in the past few years.

The monetary authorities intervened heavily in the foreign exchange market, resulting in a large build-up of international reserves in 2002-03. The official international reserves increased by some 75 billion in 2002 and by 117 billion in 2003 to reach at $408 billion at the year-end, equivalent to 10 months of imports. The net foreign assets (NFA) of the banking system in relation to GDP narrowly fluctuated around 0.3 and its import coverage increased from 3 months at end-2001 to 4 months at end-2003.

The nominal effective exchange rate (NEER) and the real effective exchange rate (REER) broadly moved together over the past 5 years as inflation differentials between China and its major trading partners were very small (Chart 5)**.** Within the 5-year period, both appreciated by 10-12 percent during 1998-February 2002 (the most recent peak), and since then depreciated by 12 percent through end-2003, mainly reflecting the movement of the U.S. dollar again the other key currencies. Thus, the nominal and effective exchange rates at end-2003 stood virtually at the same level as at end-1998.

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[12] The unweighted average tariff rates declined from about 35 percent in 1995 to 16 percent in 2000 and further to 12 percent in 2002. The weighted average rate is estimated to be around 6 percent in 2002 (Rumbaugh and Blancher (2004)).

[13] It is widely recognized by many analysts that some funds for FDI inflows from Hong Kong and Taiwan into China originate in the mainland against the background of preferential tax policies provided by China to foreign investors. Thus, mainland investors first take out funds abroad and take them back into China as foreign direct investment. However, it is difficult to estimate the size of such inflows (so called “round-tripping) and so far there are no accurate estimates.

2. Impact on fiscal and monetary-cum-exchange rate policy

China's macroeconomic developments in the past two years clearly signaled the end of the deflationary period and the beginning of the inflationary period. The authorities began to tighten fiscal policy first, and then started to tighten monetary policy in the second half of 2003. However, its effectiveness has been hampered by a number of factors.

On fiscal policy, the government budget deficit declined gradually in recent years from the recent peak of 4 of GDP in 1999 to about 3 percent in 2002 and 2003 (Tale 8). The modest and gradual tightening reflects the government's employment and social objectives as well as the insufficient influence on the provincial government budget management. The following illustrates some concrete examples.

- With a view to reducing the widening income gap between the rural and the urban areas, the government spending on the social safety nets--particularly for the poor in western provinces--and on health and education increased significantly.

- Potential for rapid increases in the number of the unemployed and its implications for social unrest prevented the government from cutting other major expenditures in relation to GDP.

- The central government does not have effective means to control quasi-fiscal operations of local governments; in fact, the State Council has been concerned about large debt that local governments have been accumulating through their joint-venture enterprises or shadow companies, information on which is not available in a comprehensive manner (Wei (2004)).

On monetary policy, the intervention in the foreign exchange market has made the authorities' ability in influencing monetary aggregates more difficult. As a result, broad money (M2) and domestic credit expanded at an annual rate of around 20 percent in 2002 and 2003 (Chart 6 and Table 9). This difficulty was attributable to a number of factors.

- The sterilization of the increased local currency liquidity was not effective due to the insufficient available resources.

- The central bank raised reserve requirements on bank deposits from 6 percent to 7 percent in September 2003 and further to 7.5 percent in April 2004. However, the effectiveness of these measures was limited mainly because commercial banks had excess reserves that were sufficient to meet the increased requirements. [14]

[14] At end-August 2003, the banking institutions had Y1.8 trillion of reserves at the central bank against Y21 trillion of deposit liabilities. Given the required reserve ratio of 6 percent, the required reserves amounted to Y1.3 trillion and the excess reserves to Y0.5 trillion. The additional required reserves that the commercial banks had to meet at end-September were estimated to have been Y0.2 trillion. Thus, excess reserves were

(continued)

- In December 2003, the authorities increased a band within which interest rates on loan can be charged beyond the administratively determined "benchmark" rates. [15] However, commercial banks extended loans rampantly for investors and consumers.

- The possible increase in interest rates would increase financial burdens of the borrowers (enterprises as well as individuals who borrowed to finance their purchases of consumer durables and residence), leading to the weakening of the financial positions of commercial banks.

- The central bank did not increase interest rates thus far with a fear that higher interest rates would attract inflows of foreign capital, adding additional pressures on the renminbi at the time when the authorities wanted to keep the renminbi's value against the U.S. dollars stable.

Thus far, the authorities have maintained their view that a stable exchange rate of the renminbi is desirable. [16] To achieve this objective, they seem to have taken other measures, including structural reforms so that pressures in the foreign exchange market can be mitigated. Some of these measures are: promotion of foreign direct investment abroad; outward portfolio investment under the qualified domestic institutional investor (QDII) scheme and liberalization of rules on the foreign exchange remittance; the amount of foreign exchange Chinese tourists can take abroad; and the reduction in tariff rates. [17]

On the exchange rate system, the authorities have often stated that they will improve the exchange rate determination mechanism that more fully reflects market forces. However, they have not indicated a time frame by which a more flexible exchange rate

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sufficient to meet the requirement. Similarly, in mid-April, when the central bank announced 0.5 percentage point increase in the required reserves (amounting to Y0.1 trillion), the banking institutions had Y2 trillion reserves at the central bank, of which Y0.3 was excess reserves and was sufficient to meet the increased requirements.

[15] The commercial banks and urban credit cooperatives were allowed to set their lending rates between 90 percent and 170 percent of the central bank's benchmark rate, and the band for the rural credit cooperatives would be 90-200 percent of the benchmark rate. Previously, the bands were narrower.

[16] The authorities have never publicly stated the exact definition of a stable exchange rate for the renminbi as far as I know. However, I interpret it to mean the rate against the U. S. dollar.

[17] Vice Minister Li Yong of the Ministry of Finance was quoted as saying on the sideline of the recent Asian Development Bank Annual Meeting held in May in Korea that such measures taken by the authorities in recent months are estimated to be equivalent to an appreciation of 5-8 percent.

determination mechanism will be put in place. [18] Therefore, they have not bent to foreign pressures calling an appreciation of the renminbi or the adoption of a more flexible exchange rate system.

3. Agenda for macroeconomic policies and structural reforms

China's medium-term policy objectives aim at both internal and external balances. In more concrete terms as expressed by the government's 10th 5-year plan (2001-05), the Premier's policy statement at the National People's Congress held in March 2004, and other related comments by senior officials of the government, these objectives would suggest that, on the domestic front, robust output growth (around 8 percent a year) with relatively low inflation (2-3 percent a year) is essential to create jobs with a view to improving the employment situation gradually and minimizing the deterioration of the unemployment situation while raising living standards of the people, in particular the poor. On the external front, the balance of payments position needs to remain strong. I interpret the latter to mean that the basic balance needs to be in surplus over the medium term so as to let net foreign assets (NFA) of the financial institutions to grow broadly in tandem with imports. In other words, the ratio of the NFA to imports would remain roughly constant over time. Moreover, these objectives would imply that the efficiency of the economic system needs to be improved to reduce bottlenecks in resource allocation and improve the sustainability of the financial and fiscal sectors.

Accordingly, the attainment of the medium-term objectives would involve both macroeconomic policies and structural reforms. The former would aim at achieving high growth with low inflation and maintaining a strong external sector performance, while the latter at improving the efficiency and soundness of the economic system.

Macroeconomic policies that have been calibrated and adjusted in recent months appear to be broadly consistent with the macroeconomic objectives. The tightening of monetary and fiscal policy that has been put in place in recent months has not yet led to a tangible result, but there appear to be some favorable signs. For example, most recent data show that growth of fixed assets investment in April dropped somewhat and some of raw material prices actually started to decline. However, it is too early for the authorities to eliminate inflationary pressure.

If the pressure does not abate and instead increases, then further adjustment in monetary and fiscal policy would be necessary. There are several options available to the authorities.

- First, the excess reserves that the commercial banks still maintain at the central bank needs to be completely eliminated so that the impact of the authorities'

[18] For several years, the IMF has stated that a more flexible exchange rate determination mechanism would be beneficial to China as it would "provide more room to pursue an independent monetary policy, help cushion China's economy against adverse shocks, and facilitate adjustment to the major structural reforms that are under way" (IMF (2003)). Despite such recommendation, the IMF has did not give any specific date for the adoption of such a system and stressed that it is up to the authorities to decide the timing.

tighter monetary policy would exert a more effective impact on the behavior of the commercial banks. Toward this end, interest rate on excess reserves could be reduced and eventually be eliminated.

- Second, interest rates on loans could be liberalized completely to be determined by markets. This would encourage more efficient allocation of resources and reduce inefficient and poor quality investment.
- Third, the government spending policy needs to be further shifted towards the improvement of health, education, the social safety nets, and away from investment of low quality. This shift would increase consumption of domestically produced goods. [19]

Structural measures aimed at improving the efficiency and soundness of the economic system would include the reform of the financial sector, the government finance, the state-owned enterprises and the labor market. Since the detail discussion of specifics on these measures is beyond the scope of this paper, it is suffice to list some of the major reforms that are highlighted elsewhere. [20]

- **Financial sector reform:** To improve the allocation of financial resources, China needs to strengthen the functioning of the banking sector, including the improvement of its balance sheet, the market orientation of business, internal control, risk management, ownership structure, development of commercial papers, bonds, equity, and foreign exchange markets. Similarly, the equity, bond, and insurance markets need to be developed substantially.
- **Fiscal sector reform:** To improve the fiscal role of the government, the budgetary process (preparation, execution, monitoring, spending assignments, tax policy and collection, intergovernmental transfers, and information sharing) needs to be improved substantially. The social security system (pension, health, unemployment and work-related safety net systems) needs further improvements, as well.
- **State-owned enterprise (SOE) sector reform:** To reduce losses of SOEs and increase profitability, governance of the sector needs to be further strengthened by imposing hard-budget constraints, establishing management independent of the government and party influence, and further reducing redundant workers. Moreover, there is further need to divest those enterprises that can be managed efficiently by the private sector.
- **Labor market reform:** To improve the productivity of labor and strengthen the performance of enterprises (SOEs or private sector enterprises), the functioning of the labor market needs to be further improved. This would require, among others, the market orientation of employment practices,

[19] Press reports that the government has recently started to initiate a tighter examination of investment projects undertaken by SOEs and the line ministries.

[20] See also Feyzioglu (2004).

increased training and education of workers, the improved portability of the social security benefits, and better worker-employer relations.

China's policy makers are well aware of the importance of furthering the reforms that are listed above. In fact, the government is making efforts to make further progress in these areas and seeking technical assistance from the multilateral and bilateral donors in this respect.

III. Implications for the Emerging Asia

The emergence of China as a prominent economic player in the world and as an economic giant for countries in the emerging Asia has prompted their concerns on several fronts. First, would China's pursuit of tighter macroeconomic policies lead to a hard landing, which would severely reduce China's demand for exports from other countries in the emerging Asia, which would in turn have an adverse impact on their output growth? Second, would FDI inflows into China continue to grow fast and thus cloud out inflows that would have been destined to other countries in the emerging Asia? Third, would China adopt a flexible exchange rate system in the coming year, and if so what would be its implications for merging Asian countries? Would it revalue the renminbi? In what follows below, I will address to these questions.

1. Hard landing or soft landing?

An increasing number of commentators and policy makers in the emerging Asia have recently concerned about whether China is heading toward a hard landing, just as in the case of the overheating episode of the early 1990's. To answer this concern, it would be helpful to look at the episode of a decade ago.

Chart 4 clearly indicates that the current macroeconomic situation is quite different from the situation in 1993-94; in the previous episode, the peak rate of inflation reached over 24 percent in 1994, two years after the peak rate of output growth was recorded at nearly 15 percent in 1992 and one year after M2 growth peaked at over 48 percent in 1993. In contrast, in the present episode, output growth has been less than 10 percent in the recent years, with M2 growth less than or around 20 percent and inflation somewhat above zero thus far. [21]

Moreover, the authorities' ability to conduct monetary policy is much more effective than a decade ago, and the number of policy instruments is significantly more than in the previous episode. For example, the central bank can now use open market operations with many instruments at their disposal, and the authorities' knowledge of the market-based control of monetary aggregates is much deeper than a decade ago.

The initiation of tightening monetary and fiscal policy in relation to the cyclical upswings was much earlier than in early 1990's. As noted earlier, fiscal policy began

[21] However, there are sings for further increases in inflation. Most analysis project the year-on-year rate of inflation could go up to 5-7 percent by mid-2004.

to tighten in the late 1990's when there were no signs of inflationary pressure, [22] while the central bank began to tighten monetary policy already in September 2003. Recent policy statements by the leadership of the central bank also suggest that the monetary authorities would stand ready to tighten monetary policy in the coming months as needed.

In light of the above, it is most likely that the authorities would be able to guide the economy to a soft landing. As a result, I expect that output growth would still be close to 9 percent this year and more than 8 percent next year. Inflation should be contained around 5 percent for 2004 as a whole and would be expected to decline somewhat in 2005, barring unexpected developments in the Middle East. The balance of payments would continue to be strong this year and the next, with the net foreign assets position of the banking sector growing roughly in tandem with imports. This implies that the rate of international reserve accumulation would be much slower than in 2003 as the growth of imports would also slow down in the coming years.

2. FDI inflows to China and other emerging Asian countries

How fast will FDI inflows to China grow in the future and would they cloud out inflows to other countries in the emerging Asia? While no one would be able to predict future FDI inflows to China with great accuracy, it would be safe to say that China would continue to receive a growing amount of FDI inflows barring major political, social and economic developments.

To begin with, China has not yet fully utilized FDI inflow potentials (Wei (2000)) mainly because of corrupt business practices. Had not corruption been as severe as in the past, China would have received higher FDI inflows. Furthermore, Wei's empirical study suggests that the ongoing economic reforms and growth prospects would, on balance, further increase FDI potentials for China. [23] By far the most significant variable is an economic activity variable, which is expected to grow at a rapid pace. FDI restrictions and corporate tax rate are expected to be reduced in the coming years. Even the government budget deficit would be on a declining trend if the authorities' intention to improve fiscal sustainability is actually carried out. Against these salutary effects of prospective developments, there are a few downside risks that may dampen future FDI inflows to China. For example, FDI incentives would be phased out in the coming years as the authorities plan to create a level ground for both domestic and foreign-funded companies, but the adverse impact would be more than offset by the favorable impact of other prospects discussed above.

Larger prospective FDI inflows to China would have both negative and positive implications for other countries in the emerging Asia, but on balance positive

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[22] This initiative was taken primarily because of the need to improve fiscal sustainability over the medium term.

[23] Wei 's empirical study shows that FDI inflows into China is a positive function of economic activity (proxied by GDP or per capita GDP), FDI incentives, presence of linguistic ties, and a negative function of corruption, corporate tax rate, FDI restrictions, distance between China and an FDI source country, and the government budget deficit.

implications would outweigh negative ones. On the negative side, smaller portion of FDI sources would be available to these countries with other things unchanged. Of course, other things would not remain unchanged. Fortunately, a number of prospective developments auger well for growing FDI inflows to these countries. First, increasing FDI inflows to China would raise growth potential in China, which would lead to increased demand for exports from these countries. Second, China would be able to provide larger FDI resource potentials that these countries could tap. Third, the government has begun to promote outward FDI, particularly by SOEs, that has a strategic importance to China, and other countries in the emerging Asia can attract Chinese outward FDIs. [24]

How best the emerging Asian countries should attract FDI flows from China would depend on the specific situation of each country in the region. However, at a general level, the best practice would be to create an environment that is conducive to such FDI. That means that the establishment of good governance, legal framework, the availability of infrastructure (transportation, utility, and administrative institutions) and qualified personnel, among others, is the key. There is a general consensus that FDI incentives, such as reduced tax rates, tax holidays, concessions and privileges accorded to foreign investors, would not be long lasting measures (see, for example, Tseng and Zebregs (2002)) .

3. Exchange Rate—System and Level

Over the past 7-8 years, the IMF has recommended to the Chinese authorities that China adopt a more flexible exchange rate system for the reasons noted earlier. [25] The authorities have seriously looked into the issues related to the adoption of such a system and more recently the leadership of the central bank has expressed their sympathy

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[24] Greater FDI outflows from China would relieve pressures on the foreign exchange market and thus on the renminbi.

[25] Recently, not only the IMF but also many research analysts have suggested that China should move toward a more flexible exchange rate system. For an initial step, the renminbi should fluctuate in a band, which should gradually be widened. In a variation of this idea, Goldstein (2003) proposed a two-step approach in his testimony before the Sbcomsittee on Domestic and International Monetary Policy, Trade and Techonology Committee on Financial Services, US House of Representatives, Washington, DC. October 1, 2003. This proposal is: "in the first step, China would immediately revalue the renminbi by 15 to 25 percent, and it would widen the currency band (to between 5 and 7 percent, from less than 1 percent) and it would switch from a unitary peg to the dollar to a three-currency basket (with roughly-equal weights for the dollar, the euro, and the yen)," and in the second step, China would adopt a managed float, after China takes further reforms to put the domestic financial sector on a sound enough footing to permit significant liberalization of capital outflows."

for such a system for China. [26] Nevertheless, the authorities have not yet indicated a time frame for the adoption of a more flexible exchange rate determination mechanism. [27]

If remarks made recently by senior officials of the government are any indication of their current thinking on the issue, China will continue to maintain the current de facto peg to the U.S. dollar for a foreseeable future. If I venture into guessing what the rationale behind the current stance of the authorities on this issue, it would be their overriding objective of minimizing uncertainty at the time when uncertainty over the current cyclical position of the world and China and the on-going structural reforms, particularly those in the financial sector, has increased.

It is difficult to estimate a medium- to long-term equilibrium exchange rate for any country, and particularly for a country, like China, which is suffering a massive unemployment and underemployment while undergoing structural reforms. [28] Because of this difficulty, many researchers have used many different and relatively simple approaches and their assessments varied widely. In the case of China, some argue that the renminbi is undervalued, but among them, there is no consensus on the extent of the undervaluation. On one extreme, some say that the undervaluation is 30-40 percent, while Goldstein and Lardy (2003) estimate the undervaluation to be on the order of 15 to 25 percent. The Chinese officials' recent comments suggest that the extent of undervaluation is so small, if any, that there is not much justification for a revaluation. [29]

From the perspective of the employment situation, the current exchange rate could well be overvalued. In fact, any exchange rate is likely to be overvalued as long as the massive unemployment situation persists. Even if one sets an objective of preventing the worsening unemployment situation over the medium term, the current exchange rate is most likely to be overvalued since current macroeconomic policies and reform measures

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[26] It is interesting to note the official announcement of the People's Bank of China that, in April 2003, the Renminbi Real Effective Exchange Rate Monitoring System was established to monitor and analyze the trade-weighted exchange rate and bilateral real exchange rate of the renminbi." (www.pbc.cn/english/xinwen)

[27] The U.S. Treasury is providing technical assistance to the Chinese authorities to deal with the issues related to the adoption of a flexible exchange rate system.

[28] Excellent reviews of issues related to equilibrium exchange rates can be found in Williamson (1994) and Hinkle and Montiel (1999). Particularly of interest is the concept of the "fundamental equilibrium exchange rate" that focused more on the medium- to long-term rate that reflects fundamental structure of the economy, rather than focusing on short-term rates that are subject to cyclical factors and the temporary shocks.

[29] The assessment of the renminbi exchange rate often focused mainly on the balance of payments consideration (flow analysis) and did not sufficiently take into account the domestic factors, particularly the employment situation or dynamic aspects of a growing economy (stock analysis). Future work on fundamental equilibrium exchange rates for developing countries needs to pay greater attention to the consistency required for flow and stock analyses as well.

are not likely to achieve this objective at the existing exchange rate. Under these circumstances, an appropriate exchange rate adjustment could well be depreciation.

The truth is most likely somewhere between the two extremes. Taking into both domestic economic objectives and international economic situation —including China's need to make a "fair contribution to the reduction in global payment imbalances—the needed adjustment is likely to be much less than 25 percent (the upper-end of the Goldstein-Lardy proposition) mainly because such an extent of appreciation would have sever consequences for the domestic side of the economy, particularly for the employment situation. [30] [31] Since it would be difficult to calculate the fundamental equilibrium exchange rate with any accuracy, it would be the best to let the market to determine the exchange rate in the initial phase. Then, taking into account this rate and macroeconomic and structural factors, one can estimate a benchmark rate for the medium-term analysis and policy formulation.

Thus, my suggestion would be to broaden a band gradually over 2-3 years to 10-15 percent within which the exchange rate can fluctuate. Meanwhile, the authorities should take steps to improve the infrastructure of the financial sector and gradually move toward the capital account convertibility. [32] This would then reduce the need for the authorities to intervene in the exchange market and avoid a massive accumulation of the international reserves.

The above recommendation of the exchange rate policy would not mean that China is relieved of its responsibility for adjusting its balance of payments surpluses in the global context. While it is premature to quantify the extent of the balance of payments adjustment over time, the general idea is for China to have an overall surplus (or a surplus in the basic balance, assuming that short-term capital including errors and omissions will

[30] According to the simulation exercise conducted by Kadokura (2003) for 2003, a revaluation of 23 percent would reduce output growth by 3 1/3 percentage points (pps), private consumption by some 4 pps, fixed asset investment by 3 ½ pps, and exports by 11 pps, increase imports by about 5 ½ pps, and reduce the trade balance by $14 billion. Thus, such an appreciation would have reduced the employment opportunities for many—the major concern of the government.

[31] Taking into account the job creation capacity of growth (700,000 jobs per 1 percent of output growth) during the 1990's that was estimated by the Ministry of Labor and Social Security (2003) and the development of the labor-intensive tertiary sector in the 2000's, more than 2.3 million jobs would have been lost in 2003 due to the 23 percent appreciation.

[32] This does not imply, however, that the capital account convertibility needs to be completed in three years or so. Literature on the sequencing of the financial sector liberalization and recent experiences with the Asian financial crisis clearly suggest that the domestic financial market liberalization should precede the external capital market liberalization.

be zero over business cycles), so that the net foreign assets of the banking system in relation to payments obligations, say imports, would be in line with a steady-state ratio. [33]

In light of the above and the prospective slowdown in import growth in the coming year, there will be some room for a reduction in the current account surplus. How much is a reduction? It is difficult to say at this time and there will be a further study on this issue. [34]

At any rate, there will be a number of options that the authorities can use to discharge China's responsibility for sharing the adjustment burden without relying on the exchange rate appreciation until they are ready to adopt a more flexible exchange rate system. These options would include: acceleration of tariff reductions, reduction of restrictions on agricultural imports, rigorous enforcement of intellectual property rights, further reduction VAT rebates on exports (culminating in the VAT reform, shifting from the production-based one to the consumption-based one), and further promotion of outward FDIs.

While the implementation of these measures would not be as transparent as the exchange rate adjustment, these are integral elements of the ongoing structural reform; without a well-functioning economic system, any adjustment in the exchange rate would be ineffective.

Implications for other countries of the emerging Asia would be that those countries that are using a single currency peg would also benefit from a more flexible exchange rate system, while further strengthening their infrastructure in the financial sector. In this way, these countries would be able to better deal with external shocks, including fluctuations of the renminbi's exchange rate if and when such a system is adopted by China.

IV. Concluding Remarks

To recap the substance of this paper, several points need to be summarized as follows.

- China will continue to serve as an engine of growth for the world and particularly for the emerging Asia in the coming years. China cannot afford to bring the economy to a hard-landing because of the need to create jobs to minimize the

[33] John Williamson (2004) suggests that China, as a responsible citizen of the world, needs to virtually eliminate its current account surplus in about three years. Given that the capital account (excluding errors and omissions) would be in surplus on account of expected large inflows of FDIs, the basic balance is targeted at a surplus equivalent to net FDI. Therefore, his view on the strength of the balance of payments position for China is qualitatively consistent with the notion that the ratio of the net foreign assets of the banking system to some scale variable such as GDP or imports needs to be in a steady state over a longer run (Chart 7).

[34] This issue will be dealt with in a final version of this paper.

expected deterioration in the unemployment situation. The authorities would be able to guide the economy to a soft-landing, with output growth close to 9 percent this year and somewhere between 8 percent and 9 percent in 2005. Beyond 2005, China would be able to grow at faster than 7 percent, provided that necessary structural reforms as discussed earlier would be implemented. [35]

- Given such prospects, other countries in the emerging Asia can expect favorable demand for their export to China and other countries in Asia.
- While a large proportion of FDI destined to developing countries will continue to China, FDI flows from China to these countries would also increase. Therefore, it would not be necessary for other countries in Asia to take a pessimistic view on China as a threat but rather take China as presenting additional opportunities to be taken advantage of by these countries. Such FDI inflows play an important role in obtaining advanced technology and better management skills that are crucial to improve the efficiency of their economic system and enhance the competitiveness in the world market (Zebregs (2002)). Thus, my interpretation of the work suggests by Heytens and Zegregs (2002) suggests that China could grow, on average, at about 8 percent a year during the remainder of this decade.
- The Chinese authorities expressed their sympathy for a flexible exchange rate system but did not indicate a time frame. Surely, the timing is to be decided by the authorities. Meanwhile, countries in Asia that are currently pegged to a single currency would benefit from a more flexible exchange rate system which would better absorb real and external shocks, including the fluctuation in the renminbi should China adopt a flexible exchange rate system.

[35] Heytens and Zebregs (2002) show in their simulation exercise that, during 2006-10, output growth could be 7 ½ pecent a year, with most of contribution made by capital accumulation and labor force growth contributing only 0.2 percent a year. However, given that effective labor supply could grow significantly faster because of better utilization of surplus workers in the rural area, labor's contribution could be more and output growth could be somewhat higher than their simulation result.

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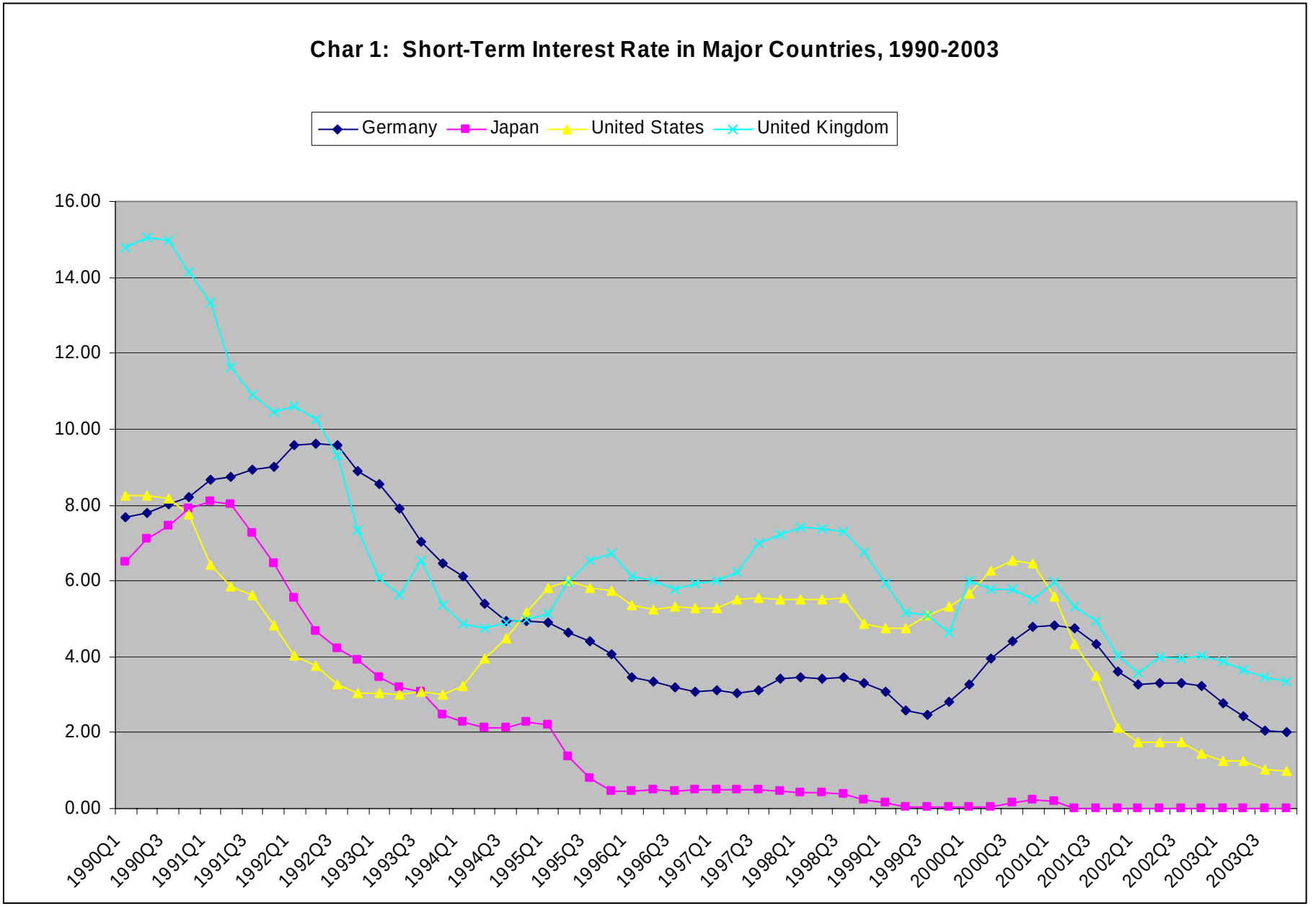
Char 1: Short-Term Interest Rate in Major Countries, 1990-2003



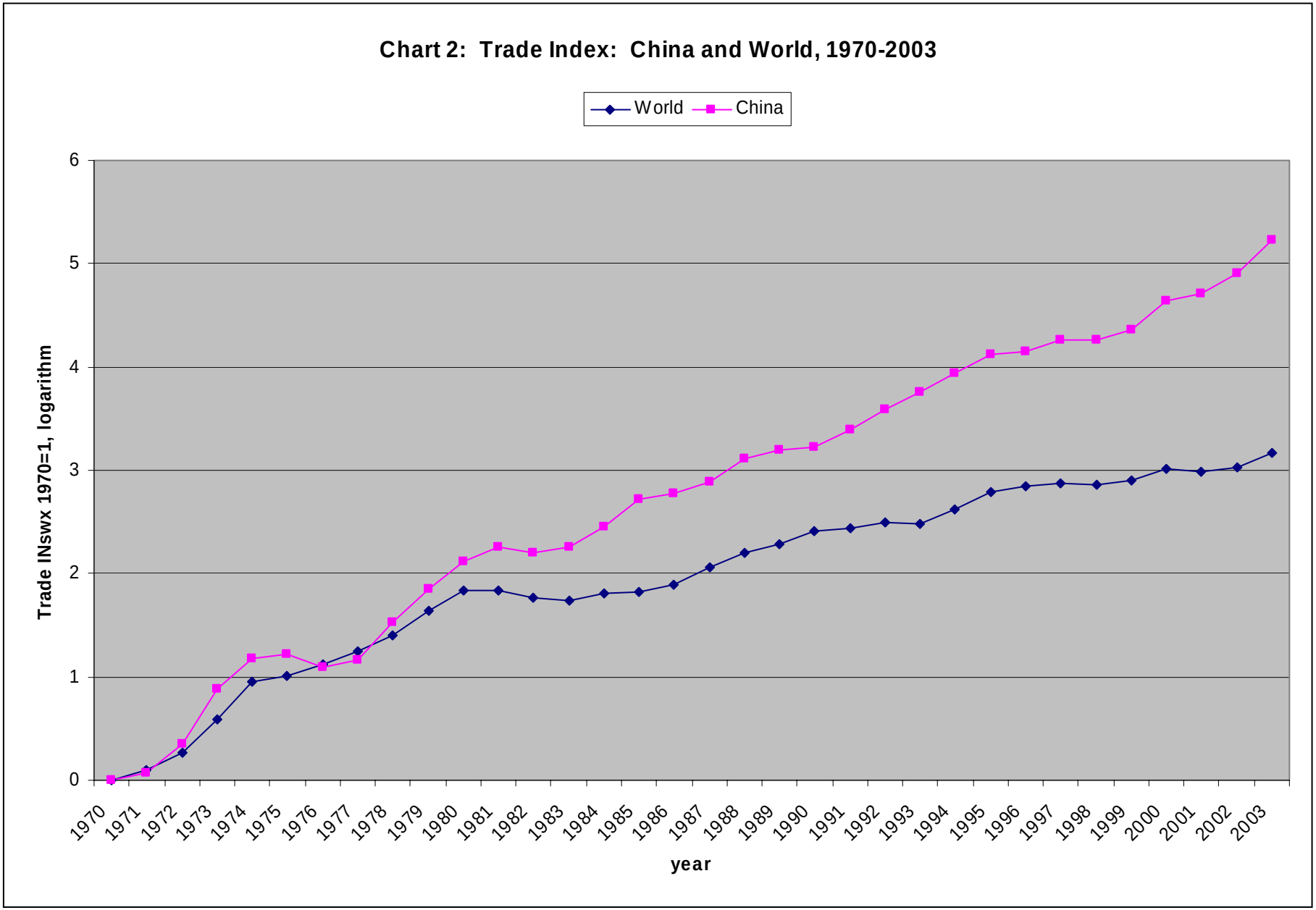
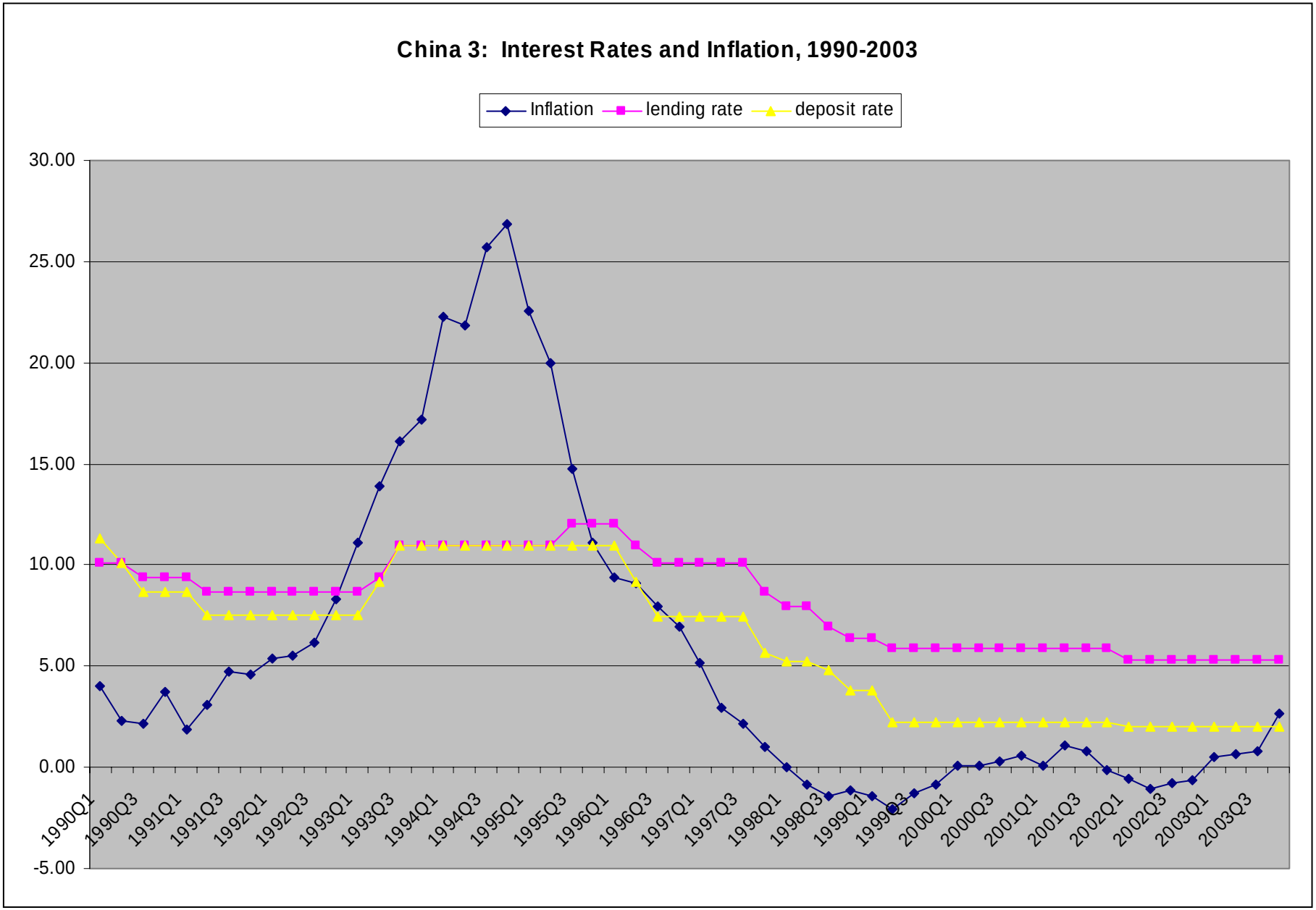


Chart 2: Trade Index: China and World, 1970-2003
World
China
Trade INswx 1970=1, logarithm
0
1
2
3
4
5
6
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
year


China 3: Interest Rates and Inflation, 1990-2003
Inflation
lending rate
deposit rate
30.00
25.00
20.00
15.00
10.00
5.00
0.00
-5.00
1990Q1
1990Q3
1991Q1
1991Q3
1992Q1
1992Q3
1993Q1
1993Q3
1994Q1
1994Q3
1995Q1
1995Q3
1996Q1
1996Q3
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2002Q3
2003Q1
2003Q3

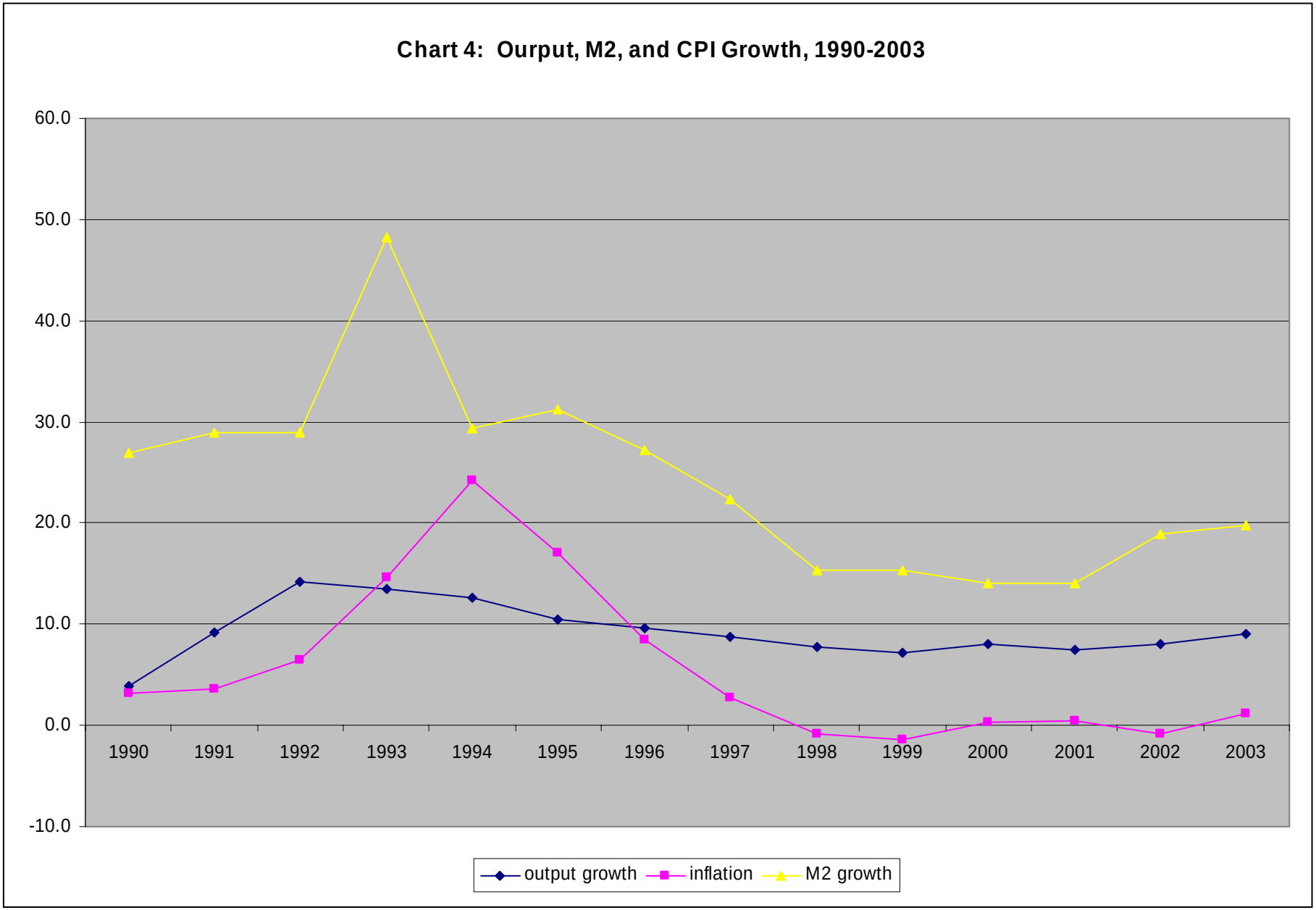
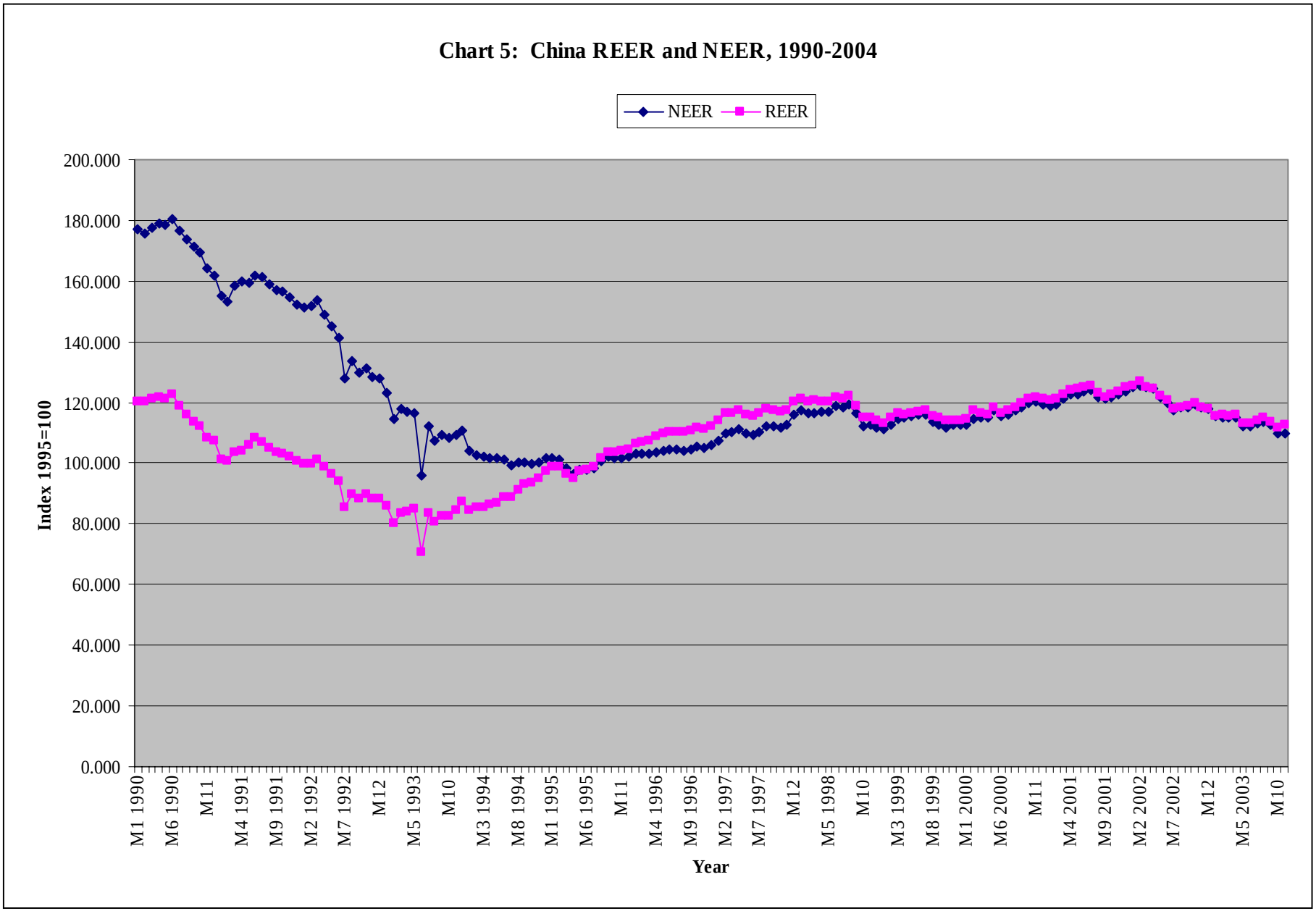


Chart 4: Ourput, M2, and CPI Growth, 1990-2003
60.0
50.0
40.0
30.0
20.0
10.0
0.0
-10.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
output growth
inflation
M2 growth

Chart 5: China REER and NEER, 1990-2004



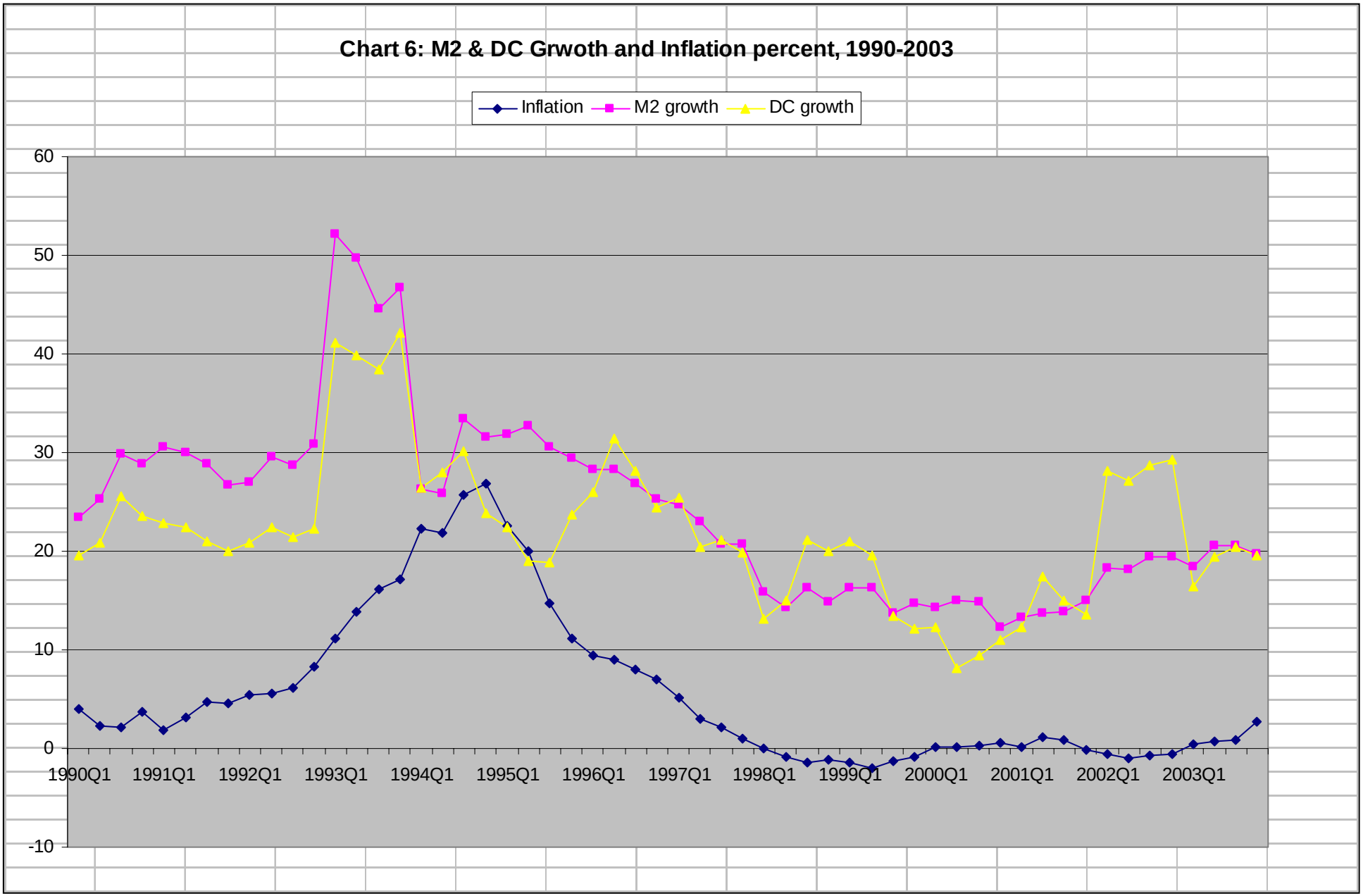


Chart 6: M2 & DC Grwoth and Inflation percent, 1990-2003
Inflation
M2 growth
DC growth
60
50
40
30
20
10
0
-10
1990Q1
1991Q1
1992Q1
1993Q1
1994Q1
1995Q1
1996Q1
1997Q1
1998Q1
1999Q1
2000Q1
2001Q1
2002Q1
2003Q1

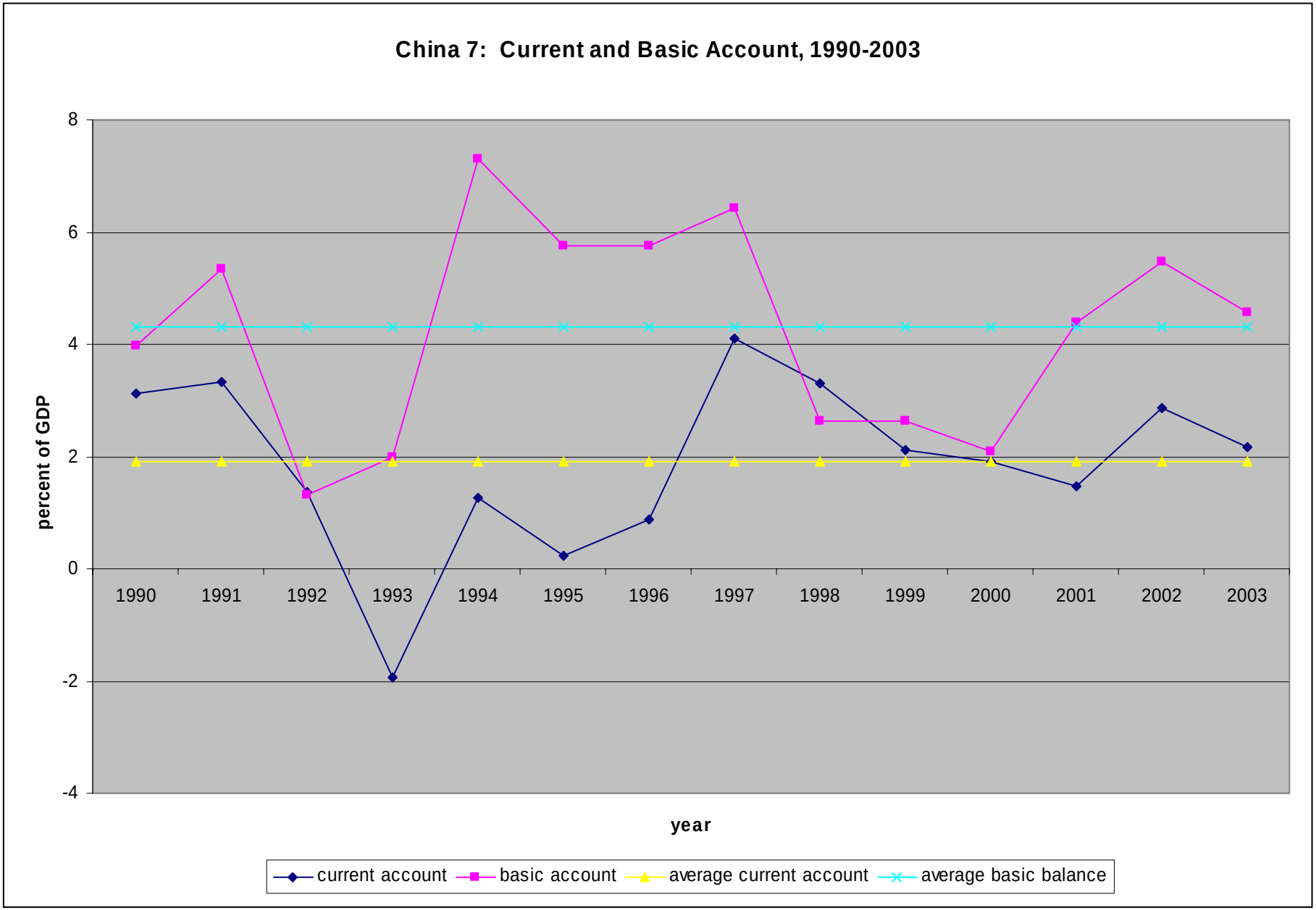

China 7: Current and Basic Account, 1990-2003
8
6
4
2
0
-2
-4
percent of GDP
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
year
current account
basic account
average current account
average basic balance

Table 1: Intra-Regional Trade 1990, 2000, & 2002
(Billions of U.S. Dollars)

Expoeting country	1990			2000			2002		
	to ROW (bn $)	to Region (bn $)	Share (%)	to ROW (bn $)	to Region (bn $)	Share (%)	to ROW (bn $)	to Region (bn $)	Share (%)
Japan	523	152	29.1	859	345	40.2	754	315	41.8
Korea	135	49	36.3	332	144	43.4	314	143	45.5
China	114	64	56.1	474	240	50.6	621	315	50.7
Hong Kong SAR	164	97	59.1	415	273	65.8	408	275	67.4
India	42	6	14.3	93	18	19.4	106	29	27.4
Indonesia	48	26	54.2	96	51	53.1	83	48	57.8
Malaysia	58	34	58.6	180	106	58.9	173	102	59.0
Philippines	21	6	28.6	77	34	44.2	74	37	50.0
Singapore	114	55	48.2	273	154	56.4	241	138	57.3
Taiwan	122	45	36.9	288	150	52.1	243	133	54.7
Thailand	56	26	46.4	131	64	48.9	134	71	53.0
Total	1397	560	40.1	3218	1579	49.1	3151	1606	51.0

sources: IMF, International Financial Statistics (various issues) and IMF, Direction of Trade (various issues)

Table 1a: Intra-Regional Trade–Exports, 1990, 2000, & 2002
(Billions of U.S. Dollars)

Exporting county	1990			2000			2002		
	to ROW (bn $)	to Region (bn $)	Share (%)	to ROW (bn $)	to Region (bn $)	Share (%)	to ROW (bn $)	to Region (bn $)	Share (%)
Japan	288	87	30.2	479	193	40.3	417	174	41.7
Korea	65	24	36.9	172	74	43	162	72	44.4
China	61	39	63.9	249	120	48.2	326	152	46.6
Hong Kong SAR	82	37	45.1	202	103	51	200	110	55.0
India	18	3	16.7	42	9	21.4	49	12	24.5
Indonesia	26	17	65.4	62	34	54.8	58	32	55.2
Malaysia	29	17	58.6	98	57	58.2	93	54	58.1
Philippines	8	2	25.0	40	18	45.0	37	17	45.9
Singapore	53	24	45.3	138	76	55.1	125	72	57.6
Taiwan	67	24	35.8	148	74	50.0	130	70	53.8
Thailand	23	8	34.8	69	31	44.9	69	33	47.8
Total	720	282	39.2	1699	789	46.4	1666	798	47.9

sources: IMF, International Financial Statistics (various issues) and IMF, Direction of Trade (various issues)

Table 1b: Intra-Regional Trade–Imorts, 1990, 2000, & 2002

(Billions of U.S. Dollars)

Importing country	1990			2000			2002		
	from ROW (bn $)	from Region (bn $)	Share (%)	from ROW (bn $)	from Region (bn $)	Share (%)	from ROW (bn $)	from Region (bn $)	Share (%)
Japan	235	65	27.7	380	152	40.0	337	141	41.8
Korea	70	25	35.7	160	70	43.8	152	71	46.7
China	53	25	47.2	225	120	53.3	295	163	55.3
Hong Kong SAR	82	60	73.2	213	170	79.8	208	165	79.3
India	24	3	12.5	51	9	17.6	57	17	29.8
Indonesia	22	9	40.9	34	17	50.0	25	16	64.0
Malaysia	29	17	58.6	82	49	59.8	80	48	60.0
Philippines	13	4	30.8	37	16	43.2	37	20	54.1
Singapore	61	31	50.8	135	78	57.8	116	66	56.9
Taiwan	55	21	38.2	140	76	54.3	113	63	55.8
Thailand	33	18	54.5	62	33	53.2	65	38	58.5
Total	677	278	41.1	1519	790	52.0	1485	808	54.4

sources: IMF, International Financial Statistics (various issues) and IMF, Direction of Trade (various issues)

Table 2: Output Growth--Selected Countries and Regions, 1996-2005

(percent)

	Average 1996-2000	2001	2002	2003	2004	2005
World	3.9	2.4	3.0	3.9	4.6	4.4
United States	4.1	0.5	2.2	3.1	4.6	3.9
Euro area	2.6	1.6	0.9	0.4	1.7	2.3
Japan	1.4	0.4	-0.3	2.7	3.4	1.9
Emerging Asia						
China	8.3	7.5	8.0	9.1	8.5	8.0
Hong Kong, SAR	3.6	0.5	2.3	3.3	5.5	4.5
India	6.1	4.0	4.7	7.4	6.8	6.0
Indonesia	1.0	3.5	3.7	4.1	4.8	5.0
Korea	4.6	3.8	7.0	3.1	5.5	5.3
Malaysia	4.9	0.3	4.1	5.2	5.7	6.0
Philippines	3.6	3.0	4.4	4.5	4.5	4.2
Singapore	6.5	-1.9	2.2	1.1	5.0	4.0
Taiwan, Prov.	5.7	-2.2	3.6	3.2	4.9	4.9
Thailand	0.6	2.1	5.4	6.7	7.0	6.7

Source: IMF (2004)

N.B. Figures for 2004 and 2005 are forecast by IMF (2004)

Table 3: Inflation--Selected Countries and Regions, 1996-2005

(percent)

	Average 1996-2000	2001	2002	2003	2004	2005
"Big Three"	0.8	0.7	0.6	0.0	0.2	
United States	1.7	2.4	1.5	1.6	2.1	1.7
Euro area	1.4	1.3	1.6	1.0	1.0	1.2
Japan	-0.8	-1.5	-1.2	-2.5	-2.4	-1.4
Emerging Asia	4.7	2.6	2.0	1.2	2.1	2.4
China	1.9	0.7	-0.8	1.2	3.5	3.0
Hong Kong, SAR	-0.1	-1.9	-3.0	-5.1	-2.6	0.5
India	7.6	3.8	4.3	3.8	4.3	4.1
Indonesia	19.3	11.5	11.9	6.6	5.0	4.5
Korea	3.2	3.5	2.8	2.3	0.8	1.2
Malaysia	3.1	1.4	1.8	1.1	2.2	2.5
Philippines	7.1	6.1	3.1	3.1	3.9	4.0
Singapore	-0.2	-1.6	0.4	-0.4	1.2	1.5
Taiwan, Prov.	0.9	0.6	-1.0	-2.2	0.3	1.2
Thailand	4.3	1.7	0.6	1.8	2.2	1.3

Sources: IMF (2004) and the author's calculation.

N.B. Figures for 2004 and 2005 are forecast by IMF (2004)
GDP-deflator based inflation for, the U.S., Euro ara, Japan, Hong Kong, SAR, Korea, Singapore, and Taiwan Province. CPI based inflation for China, India, Indonesia Malaysia, the Philippines, and Thailand.

Table 4: China--Estimates of Investment and Saving, 1996-2003

(Percent of GDP)

	1996	1997	1998	1999	2000	2001	2002	2003
National investment 1/	39.3	38.0	37.4	37.1	36.4	38.0	42.5	47.2
Private saving 2/	42.1	41.9	40.8	38.9	37.0	38.5	44.5	50.1
Government saving 3/	-0.7	-0.1	0.5	1.2	1.9	1.7	1.5	1.2
Net Exports 4/	2.1	3.8	3.9	3.0	2.5	2.2	3.5	4.1
Memorandum items:								
Government revenue 5/	10.8	11.6	12.5	13.8	15.0	15.0	18.7	18.5
Government consumption	11.5	11.7	12.0	12.6	13.1	13.3	17.2	17.3
GDP (Y bn)	6833	7489	7900	8267	8936	9862	10240	11669

Sources: IMF IFS (various issues) and the author's estimates

1/ Investment in fixed assets and inventory

2/ National investment - government revenue + net exports

3/ Government revenue - government consumption expenditure

4/ Net exports of goods, services, and transfers

5/ Government tax and non-tax revenue and transfers

Table 5: China--Labor Market Condition, 1990-2003

	1990	1995	2000	2001	2002	2003 est.
	(in millions, at year-end)					
Population	1143	1221	1266	1276	1285	1292
Urban	302	352	458	481	502	525
Rural	841	869	808	795	783	767
Urban (percent of total)	26.4	28.8	36.2	37.7	39.1	40.6
Rural (percent of total)	73.6	71.2	63.8	62.3	60.9	59.4
Working Population (15-64)	763	829	888	894	903	913
Labor force	653	687	740	744	751	760
Participation rate (in percent)	85.6	82.9	83.3	83.2	83.2	83.2
Urban	174	195	247	253	261	269
Rural	479	492	493	491	490	491
Employment						
Urban	170	190	232	239	248	256
Rural	477	490	489	491	490	488
Unemployment						
Urban						
Registered	4	5	6	7	7	8
Laid-off workers (*Xiagang*)	0	0	9	7	6	3
Total	4	5	15	14	13	13
Rural	0	0	0	0	0	0
Average income of residents (yuan/year)						
Urban	1510	4283	6280	6860	7703	8472
Rural	686	1578	2253	2366	2476	2622
Ratio of Urban to Rural	2.2	2.7	2.8	2.9	3.1	3.2
Average real wage rate (1990=100)						
Overall	100	130	219	...	...	...
(of which SOEs)	100	124	209			
Manufacturing	100	125	211	...	...	...
(of which SOEs)	100	118	187			
Transp., Wharehouse, and Post&Teleco	100	144	254	...	...	...
(of which SOEs)	100	142	234			
Finance and Insurance	100	192	322	...	...	...
(of which SOEs)	100	174	312	...	...	...

Sources: Ministry of Labor and Social Security, Yearbook of Labor Statistics (various issues) and Information Office of the State Council of the People's Republic of China, "China's Employment Situation and Policies" (2004), and the author's estimates.

Table 6: China--Balance or Payments and Related Indicators, 1999-2003

(in Billions of U.S. Dollars)

	1999	2000	2001	2002	2003
Exports fob	194.7	249.1	266.1	325.7	438.4
Imports fob	158.7	214.7	232.1	281.5	393.7
Trade balance	36.0	34.4	34.0	44.2	44.7
Services net	-5.4	-5.6	-6.0	-6.8	-8.6
Income net	-14.5	-14.6	-19.2	-15.0	-9.2
Transfers net	5.0	6.3	8.5	13.0	19.0
Current account	21.1	20.5	17.3	35.4	45.9
(percent of GDP)	2.2	1.9	1.6	2.9	3.2
Capital and Financial account	5.2	1.9	34.8	32.2	52.3
of which					
FDI outflows	1.7	0.9	6.9	2.5	13.5
FDI inflows	38.8	38.4	44.2	49.3	53.5
FDI net	37.1	37.5	37.3	46.8	40.0
Erros and ommisions net	-17.6	-11.7	-4.7	7.6	18.8
Overall	8.7	10.7	47.4	75.2	117.0
Memorandum items					
Basic balance 1/	58.2	58.0	54.6	82.2	85.9
International reserves	157.7	168.3	215.6	291.1	408.2
(in months of imports)	11.4	9.0	10.6	11.9	11.9
NFA of banking system	205.7	243.0	319.1	383.4	455.7
(im months of cif imports)	14.9	13.0	15.7	15.6	13.2
NEER (annual average) 2/	113.6	116.8	122.1	121.0	112.6
REER (annual aveage) 2/	115.3	118.2	123.3	121.4	114.6

Sources: IMF IFS (various issues), China, State Administration of Foreign Exchange (www.safe.gov.cn), and the authors estimates

1/ Defined here as the sum of the current account balance and net FDI.

2/ 1995=100

Table 7: Current Account Balances–Selected Countries & Regions, 1996-2005

(percent of GDP)

	Average 1996-2000	2001	2002	2003	2004	2005
"Big Three"						
United States	-2.5	-3.9	-4.6	-4.9	-4.2	-4.1
Euro area	0.7	0.2	1.2	0.6	0.7	0.8
Japan	2.4	2.1	2.8	3.2	3.1	3.2
Emerging Asia						
China	2.5	1.5	2.9	3.2	1.6	1.9
Hong Kong, SAR	1.0	6.1	8.5	11.0	10.3	9.8
India	-4.8	-0.8	4.8	3.0	1.3	1.9
Indonesia	3.6	4.9	4.5	3.7	3.4	3.1
Korea	2.8	1.7	1.0	2.0	1.5	0.9
Malaysia	6.4	8.2	7.6	13.0	7.9	6.5
Philippines	2.0	1.8	5.4	4.2	3.0	2.8
Singapore	17.3	18.7	21.4	30.9	28.0	26.7
Taiwan Prov.	2.7	6.4	9.1	10.0	7.3	6.2
Thailand	4.1	5.3	6.1	5.6	3.9	3.9

Sources: IMF (2004) and AsDB (2004)

N.B. Figures for 2004 and 2005 are forecast made by IMF (2004) and AsDB (2004)

Table 8: Fiscal Balances; Selected Countries and Regions, 2001-05

(percent of GDP)

	2001	2002	2003	2004	2005
Big Three					
United States 1/	-0.2	-3.3	-4.9	-4.8	-3.5
Euro area 1/	-1.7	-2.3	-2.8	-2.8	-2.4
Japan 1/	-6.1	-7.9	-8.2	-7.1	-6.6
Emerging Asia					
China 2/	-2.5	-3.0	-2.7	-2.5	-2.3
Hong Kong, SAR 1/	-5.0	-4.9	-4.0	-4.9	-2.7
India 2/	-9.9	-10.1	-11.0	-10.0	-9.5
Indonesia 2/	-2.3	-1.7	-2.1	-1.3	-0.8
Korea 2/	-1.7	0.4	-1.7	-0.5	0.0
Malaysia 2/	-5.5	-5.6	-5.3	-3.6	-1.8
Philippines 2/	-4.0	-5.2	-4.6	-4.2	-4.2
Singapore 2/	-0.9	-1.6	6.4	3.5	3.6
Taiwan Prov. 2/	-1.5	-2.5	-3.1	-3.0	-2.9
Thailand 2/	-2.1	-2.2	0.6	-0.1	-0.3

Sources: AsDB (2004) and IMF (2004)

1/ From IMF (2004)

2/ From AsDB (2004)

Table 9: Money Supply Growth; Selected Countries and Regions, 2001-05

(percent)

	2001	2002	2003	2004 Proj.	2005 Proj.
"Big Thress" 1/					
United States	11.4	3.6	6.3	...	...
Euro area	6.4	9.6	10.3	...	...
Japan	13.7	23.5	4.1	...	...
Emerging Asia 2/					
China	14.8	19.7	19.0	14.0	13.0
Hong Kong, SAR	-2.7	-0.9	8.4	10.0	5.3
India	13.9	15.1	15.9	16.0	15.1
Indonesia	13.0	4.7	8.1	5.0	5.0
Korea	10.2	11.8	7.8	7.0	9.0
Malaysia	2.2	5.8	11.1	9.8	11.0
Philippines	6.8	9.5	3.3	5.0	5.5
Singapore	5.9	-0.3	6.9	8.2	8.5
Taiwan Prov.	4.4	2.6	5.9	5.5	5.0
Thailand	4.2	2.6	4.9	1.9	4.5

Sources: AsDB (2004), IMF (2004), Bank of Japan (www.boj.or.jp), and Federal Reserve Board (www.federalreserve.gov/release)

1/ M1 growth.

2/ M2 growth.