

# Comments on

“The US as the ‘demander of last resort’ and its implications for China’s current account”

by Joshua Aizenman & Yothin Jinjarak

and

Globalization and the Sustainability of Large Current Account Imbalances: Size Matters”

by Joshua Aizenman & Yi Sun



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*Capital Flows Behind Global Imbalances*

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# Nice papers

- I like both the starting point and the ending point
  - Starting point: A return of academic economists to the difficult art of explaining and forecasting actual trade balances & CA balances
    - Skip the mathematics of intertemporal optimization that produces no empirical implications.
    - Plays down the real exchange rate, so prominent in traditional TB equations (and still is, at FRB, etc.)
      - Perhaps because RER is endogenous. And unpredictable anyway.
    - Focus on the special roles of the two countries that dominate global CA imbalances: US & China
  - Ending point: projects a large drop in China's current account / GDP

# “The US as the ‘demander of last resort’ and its implications for China’s current account”

Explanatory variables that are emphasized:

- Exchange rate regime (Shambaugh classification)
- Capital account openness (Chinn-Ito index)
- Wealth (Net Foreign Assets, NFA; Real estate)
- Age dependency
- Sudden stops
- GDP growth
- PPP deviation
- Foreign exchange reserves
- Lagged US Imports

# But I will mention a quibble and a question.

- (1) The measure of exchange rate regime is based solely on the variability of the exchange rate.
- But that reflects the magnitude of the shocks faced by the country as well as the regime.
  - I prefer the general method of Calvo & Reinhart or Levy-Yeyati & Sturzenegger:
    - Look at variability of exchange rate *relative to* variability of reserves.

## More importantly,

- (2) Shouldn't Capital Account openness and exchange rate regime reflect the ease of running Current Account surpluses as well as deficits?
  - I.e., should determine the absolute magnitude.
  - Wouldn't it be better to specify these parameter-like variables as *multiplying* each of the other variables, rather than additively?
    - E.g., a given growth slowdown or real overvaluation will produce a larger CA imbalance if capital mobility is high.

Perhaps this specification question helps explain some anomalous findings?

- In Table 1, if I understand correctly, NFA has a positive effect on the current account.
- In theory, shouldn't this be negative? A wealthy country does not need to save as much?

# “Globalization and the Sustainability of Large Current Account Imbalances: Size Matters”

- Can China go on running a current account surplus indefinitely?
- As in Dooley, Folkerts-Landau, Garber view that China & the US are each doing what they do best (manufacturing and borrowing, respectively)
- Answer: No.
  - Perhaps the symbiosis suits China, as a successful development strategy.
  - But it only worked when China was relative small.
  - U.S. cannot be the consumer of last resort indefinitely, and now that China is large, its ability to export is limited by the global adding-up constraint.

# Contribution

- Estimation of country current account deficits as part of a global system
- Taking in account country size and duration of deficit.
  - Allows intelligent projection of future paths that estimates parameters from past history, while yet taking into account that China's new size puts it in a new position relative to past history.
- An important contribution to understanding likely unwinding of current account imbalances now that US over-spending may have come to an abrupt end.

