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Good morning. I'm going to talk about three issues. First, the tensions facing the world economy today, and there are a variety of these. Second, the implications of these tensions for the world economic recovery and global macroeconomic imbalances. And third, the possible resolutions for these tensions.

If one thinks about the various tensions facing the world economy, one can consider these within the context of systematically important economies like the United States and China. These two economies, in fact, will be my prime metaphors for the broader world economy.

In the United States, there are some very difficult tensions facing the economy right now. There is a desire to get the financial system revived and, at the same time, jump-start the economy through macroeconomic stimulus.

Naturally, monetary and fiscal stimulus are much less effective if the financial system is not working well. And, unless the stimulus leads to rapid macroeconomic recovery, it will be that much harder to get the financial system back on its feet. So these two will have to go together but this nexus also poses a serious risk to the recovery if either one falters.

Ultimately, private consumption will be the key to a sustained recovery. The reality is that the government by itself cannot pull the economy along. Governments need private consumers to do what they previously admonished them for doing, which is consuming too much and saving too little.

Now, the U.S. private saving rate has gone from essentially zero percent of current disposable income to almost 5-6 percent. In terms of rebuilding private-sector balance sheets, we are making some progress. But, unfortunately, this process of balance sheet rebuilding is not easy to square with our hope that the American consumer will start consuming again and pull the economy up.

When one projects this on a global scale, things become more complicated. If one looks around the world for sources of strength—and given the fact that many markets in the world, including advanced countries such as Germany and Japan, plus many of the emerging markets, are still looking to exports as a driver of growth—the question then becomes which country is going to absorb these exports. The United States seems to be the one economy that the world is still expecting will absorb these exports. This obviously creates a tension as reliance on U.S. imports to jump-start the world recovery would slow down recovery in the U.S. and could also raise trade tensions.

If one thinks about systematically important countries, such as China, India, and many of the other emerging markets in Asia, basically, they have been able to hold their own and maintain relatively good growth rates. The IMF is projecting negative growth in the advanced economies in 2009 and essentially zero growth in 2010. But the emerging markets, especially those in Asia, look quite good by comparison in terms of their prospects for output growth.

The Chinese stimulus package, for instance, has been effective at maintaining healthy GDP growth. The downside is that a lot of the stimulus has been through investment, which is still being financed through the banking system and, in my view, will ultimately lead to the buildup of a fair amount of excess capacity in industries where there is already excess capacity.

So in terms of pushing out this excess capacity, which the Chinese economy simply is not going to be able to absorb in the medium term, and generating employment growth, which even during the boom years of the 2000s was only about 1 percent, China will still need rapid growth in exports. This also creates a very fundamental global macroeconomic tension.

One other aspect of the export-led growth model concerns reserve accumulation, which has slowed recently. But if one regards reserve accumulation as a process of self-insurance, again, we have a tremendous paradox developing. Two trillion dollars of foreign exchange reserves in China, \$300 billion in India, \$500-600 billion in Russia—before the crisis hit, these seemed like staggering amounts based on standard notions of reserve adequacy—for instance, relative to the level of imports or short-term external debt. Yet, within a period of about three months, India lost about a quarter of its reserves. Russia went from \$600 billion to \$480 billion in a similar period. All of a sudden, the notions of reserve adequacy have changed and emerging markets feel they need a lot more reserves to protect themselves from crises.

One could argue that an institution like the IMF [International Monetary Fund] should provide this insurance, and I'll come back to this issue. But there have been fundamental changes in international financial markets that affect the role of the IMF.

First, the amount of resources needed from the IMF has increased enormously. Second, money provided by the IMF used to be a signal to private investors. A country would receive money from the IMF and, based on the macroeconomic policy measures agreed to as part of the IMF loan, private capital inflows would soon follow. That has changed; private capital does not seem to follow IMF funding as surely anymore.

Thus, all of a sudden, even the ability of the IMF to insure countries, especially the very large countries, is in question. Consequently, we face this even more paradoxical situation in which countries that had built up large stocks of reserves have an incentive to accumulate even more reserves in order to self-insure.

Although some economists maintain that global imbalances already are adjusting, I do not see that as a certain outcome as we come out of this recession. In fact, I see a potential risk that once the recovery is underway, global imbalances could perpetuate or perhaps become even worse.

This is because the United States will again find itself becoming the consumer of last resort and the Asian economies will continue to rely on exports to a significant extent, not just to generate employment growth, but also to increase self-insurance. I see many of these tensions potentially becoming a great deal larger in the medium term.

One hopes that we have learned our lessons. Even with large global macroeconomic imbalances, perhaps we won't end up with another cataclysmic outcome like the one we are in the midst of right now. Perhaps with better financial market regulation and more coordinated international financial regulation, one can make progress in fortifying our economic systems against collapse. But the rules of the game are not clearly defined, either in terms of how to deal with macro imbalances or a more effective regulatory framework, so I remain far from sanguine.

What is the ultimate solution to many of these problems? The crisis provides an opportunity to think about fundamental reforms in a variety of dimensions. The big question in my mind is whether in the process of trying to get out of the crisis, we essentially use stop-gap solutions that solve the immediate problem but create bigger problems down the road. The scenario I've described is essentially one where the short-term problems are solved, that is to say, the United States begins growing again and the rest of the world breathes a sigh of relief and begin to grow again, too. But the fundamental tensions would remain festering.

Rebalancing growth in the Asian economies, especially China, is one important component of the eventual solution. So how does China rebalance its growth towards domestic demand and private consumption-led growth rather than relying on investment- and export-led growth? To me, the real core issue that ties all of this together is the financial system.

There is a notion that the western financial model has not worked very well, either in terms of innovation or regulation, and that has led us to where we are. However, I am very encouraged by the statements of the policymakers in China, India, and other emerging markets who, it seems to me, are dealing with this in a far more mature way.

They are saying things like, "This is not a sign that financial development should not go forward. Rather, we need a more back-to-basics approach to strengthen banking systems. We must make sure that our banking systems work more efficiently to intermediate both domestic and foreign capital into productive domestic investment. We must provide more insurance mechanisms within the country through the widening of the social safety net so households do not feel they need to increase precautionary savings to such a large extent." And, of course, diversifying financial income can be helpful in terms of stimulating consumption-led growth.

It seems to me that the financial system can be a mechanism for providing far more stability. But there is an international dimension to this, as well, as I alluded to earlier. We still need to think about how countries are going to insure against the risks of balance of payments and capital account crises through an institution like the IMF, rather than maintaining a tightly managed exchange rate in order to build up more reserves.

This leads to another issue, which is fundamental reform of the international financial architecture. The G20 has expressed all the right sentiments about reforming an institution like

the IMF so that it not only has more resources, but also has more legitimacy and credibility among the emerging market economies.

On the resource front, we have made significant progress, with a number of countries already having committed to contribute to a massive expansion of the IMF's resource base. However, the legitimacy issue, which would entail changing the governance structure of the IMF so that emerging markets feel they actually can use this institution to insure them against serious risks, remains an important concern.

Much of the discussion of macroeconomic reforms tends to focus on emerging markets with the notion that they have played an important part, perhaps not in the proximate causes of the crisis, but in helping to lead the crisis into a more explosive outcome. But there is a huge amount of reform that needs to be undertaken in the industrial countries, as well.

In fact, many of the mantras we were invoking before the crisis still remain relevant. There is a need for significant structural reforms in Europe, where this crisis seems to have turned into an opportunity for backsliding on many issues such as labor market flexibility and product market deregulation. In the United States, which has been the epicenter of the crisis, it is encouraging that the Obama Administration seems to be engaging in more introspection and is willing to admit that there were issues related to U.S. regulatory and macroeconomic policies that need to be addressed. Tackling the exploding levels of public deficit and debt will have to be key priorities in the U.S. once the recovery is on track.

It is likely to be a long and rocky road ahead--in terms of resolving these short-term growth concerns and managing medium-term tensions--towards achieving macroeconomic and financial stability. The United States has a critical role to play in all of this. Washington needs to serve as an important model leader in pulling other countries along, not by lecturing them about what to do, but essentially leading by example. Thank you.