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The Transpacific Imbalance:
What Can Be Done about It?

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The Transpacific Imbalance: What can be done about it?*

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I. Introduction: How serious is the Imbalance?

Ten East Asian[1] economies have chalked up large amounts of foreign currency reserves since the 1997-98 crisis. For analytic purposes, these ten countries may be divided into Japan, China, and other emerging market economies of East Asia. At the end of 2003, total reserves of these countries stood at $1.5 trillion, up from 0.6 trillion five years earlier. All of these countries have been running sizable amounts of surplus on their current accounts, the bulk of which have been sterilized and added to their reserves (see Table 1). A large portion of East Asia's current account surpluses has come from the region's trade with US, and not surprisingly has been converted into its holdings of short-term US treasury securities.

In managing exchange rate policy, China, Hong Kong, and Malaysia have maintained a fixed parity vis-à-vis the US dollar. Other countries including Japan are in theory on a flexible exchange rate system, but in practice have intervened extensively in the foreign exchange market to moderate excessive volatility of exchange rate movements, but mostly to secure their export competitiveness.

Is this trans-pacific imbalance a serious concern? Could it undermine stability of US and international financial markets? According to Economist (2003), Alan Greenspan argues that America's current account deficit, which mirrors much of East

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[1] They are: China, Japan, Korea, Taiwan, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, and Thailand

Asia's surplus, poses few dangers. Messrs Dooley, Folkerts-Landau and Garber (2003) say the imbalance does not present any systemic risks to the global financial system as it can be sustained for a long time as long as East Asian countries do not shake off their fixation on an export-led growth strategy. They are right about East Asia's proclivity to export-led growth; they may not right about the prospects of adjustment.

It is incorrect to argue that the export-led strategy is the principle cause of the growing imbalance or that it will block the adjustment that will reduce the transpacific imbalance. Many East Asian countries ran large current account deficits in the course of promoting exports before the crisis. Much of the increase in the imbalance since the crisis is explained by a sharp reduction in domestic investment demand while domestic saving as a proportion of GDP has remained largely unchanged in East Asia.

It is true that despite the weakening of the dollar East Asian countries will not unload large amounts of their dollar reserves any time soon for fear of losing export competitiveness and incurring capital losses on their holdings of dollar reserves. This reluctance, however, does not mean that East Asia's surplus is sustainable or that East Asian policymakers will remain content with the growing imbalance. East Asia's surplus will in due course fall off as it is bound to cause a real appreciation of Asian currencies and an expansion of domestic demand. What is uncertain is that a reduction in East Asia's surplus may not necessarily lead to a corresponding reduction in the US current account deficit. This possibility arises because a decline in East Asia's surplus may occur as East Asian countries start importing more from one another or from Europe and other non-US regions, while exporting less. If this happens, then the dollar may continue to fall, complicating global adjustments involving the US, Europe, and Asia.

East Asian policymakers have also been searching for ways in which these reserves could be used to finance more investment in East Asia without disrupting regional and global financial markets.

Recent proposals for constructing Asian bond markets that include ABF II and a new scheme announced by the Asian Cooperation Dialogue are all designed to invest dollar reserves of these countries in Asian currency denominated bonds. If these proposals are carried out as expected, they are likely to strengthen most of the East Asian currencies including the Chinese Reminbi over time.

The purpose of this paper is to analyze the causes and consequences of the transpacific imbalance. Section II discusses some of the internal and external

developments that have led to the large reserve accumulation and drift to interventionist foreign exchange regimes in East Asia. Section III provides suggestions for exchange rate adjustments centering on China and Japan that could at least deflect the ongoing controversy on the transpacific imbalance, if not resolve it. Section IV is devoted to a long-term solution to the imbalance problem seen from an East Asian perspective. Concluding remarks are in a final section.

II. Rationale for Intervention in the Currency Market: Conflict between Export-led growth and Financial Opening with Free Floating

The balance of payment imbalance does present serious policy problems to the East Asian economies. The reserve accumulation has been costly, as the rates of return on their holdings of US Treasuries and other dollar denominated assets have been paltry. It has resulted in misallocation of resources: it has discouraged investment in the non-tradable sector, thereby causing an unbalanced sectoral growth of the economy.

Current account surpluses have also brought about a substantial increase in net capital inflows as they are viewed in the eyes of foreign investors an improvement in economic fundamentals and also have generated expectations of currency appreciation. Not all of US dollars that have flooded local foreign exchange markets have been fully sterilized. The subsequent increase in the supply of money has sparked off an ominous real estate boom in countries such as China and Korea and has been building up inflationary expectations, although price increases have been modest.

These problems are serious and could even precipitate another round of a financial crisis as the rigid exchange rate policy could rekindle a real asset boom. Yet, East Asian policy makers have shown little indication that they would make any macroeconomic policy adjustments soon.

Why are they so complacent? From their point of view, the current account surpluses and reserve accumulations are the consequences of the 1997-98 crisis that have curtailed dramatically investment demand. With the continuing global recovery, they argue that investment demand in East Asia is bound to pick up, thereby gradually reducing the region’s current account surpluses.

Immediately after the 1997-98 crisis, exports provided the only way out of the crisis and of sustaining recovery to the crisis-hit countries, as they were not able to implement expansionary monetary and fiscal policy to expand domestic demand. Since

the crisis, interest rates have come down to a historically low level, leaving little room for additional monetary expansion. East Asia has traditionally valued highly fiscal prudence, and with the IMF on the watch these countries have not seriously considered fiscal expansion as a means of expanding domestic demand regardless of its effectiveness.

Since most East Asian countries had benefited from, and put in place a system of promoting, an export-led growth strategy before the crisis, it was perhaps natural then that they turned to exports as the major source of growth. Although the worst of the crisis was over by 2000, many of the East Asian economies found themselves with large underutilized capacity in manufacturing and vacant commercial and residential buildings that were constructed before the crisis. The existing excess capacity, despite the sharp decline in real interest rates, has held back new investment in many East Asian countries.

Between 1995 and 2002, investment as a proportion of GDP fell in all East Asian countries (see Table 2). In Indonesia, the investment-GDP ratio in 2002 was less than a half of what it was in 1995. Malaysia saw their ratio plummet to 24.4 percent from the high of 43 percent in 1997. Korea and Thailand experienced a similar setback amounting to decreases of 11 and 20 percentage points respectively.[2] Unable to stimulate domestic demand, East Asian countries have been driven to rely on exports to sustain a fledgling recovery. Most East Asian countries have also had to generate current account surpluses to replenish their reserves they lost in the run-up to the crisis. And it is no secret that international financial institutions and G-7 countries have tacitly approved the strategy of exporting out of the crisis in East Asia to speed up East Asia's recovery after the crisis.

While going along with East Asia's export-led growth, however, the IMF and G-7 countries have placed these economies under a strict Washington Consensus regimen of financial, corporate, and public sector reform and at the same time demanded adoption of a flexible exchange rate system, not fully realizing the potential conflict between the export-led growth and financial market opening with free floating.

Despite the apparent conflict between the growth objective and financial market opening, immediately after the crisis, the crisis-stricken countries except for Malaysia

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[2] In recent years, capital intensity of Asian exports has also declined as the region has shifted to exporting more IT industry products and services that are skill and knowledge intensive than before. This shift has also contributed to a weaker investment demand.

had to embrace a more flexible exchange rate system. A greater exchange rate flexibility together with capital account deregulation increased volatility of the nominal exchange rate. The volatility increase in turn made it difficult to maintain competitiveness of East Asia's flexible currencies and hence to promote the export-led growth strategy.

The export-led growth strategy also has an undesirable side effect in that it is prone to creating a boom-bust cycle. An export boom that is accompanied by a current account surplus brings in large capital inflows, thereby magnifying a cyclical upswing while an export slowdown deepens a cyclical downturn. Monetary and fiscal policies may not be reliable enough to moderate these cyclical swings. Capital controls may be necessary to reduce volatility of capital flows, and once these controls are set up then free floating has to give way to an intermediate exchange regime.

Staying with a flexible exchange rate system has been also hampered by the slow progress in financial market deregulation and opening and impracticalities of relying on a macroeconomic framework of free floating, inflation targeting, and a deregulated capital account. According to conventional wisdom, in countries that are fully integrated into international financial markets, current account surpluses or deficits do not necessarily present any serious policy problems as they reflect changes in capital account transactions. There is no need to manipulate exchange rates to balance the current account; on the other hand these countries may find it necessary to float their exchange rates to retain monetary independence with an inflation target as a monetary anchor (Fischer, 2001).

Such an open economy regime may not be consistent with the export-led growth strategy, because in a free floating and deregulated capital account regime, determination of the nominal exchange rate will be dominated by capital account transactions, irrespective of developments in the current account. The nominal exchange rate that is driven by the capital account may not help keep export competitiveness of these countries vis-à-vis their competitors: free floating could easily thwart the export-led growth strategy. It was therefore as if international financial institution and G-7 were asking East Asian countries to beef up their reserves by generating current account surpluses and at the same time to stick to a stabilization model that does not allow them to do so.

Six years after the crisis many East Asian banks and other non-bank financial institutions have yet to restore soundness of their balance sheets as they are still struggling with large amounts of non-performing loans. As far as NPLs are concerned,

of course China and Japan have not fared any better.

East Asian banks have a long way to go before installing an effective system of risk management and corporate governance. Large corporations in the region have not fully worked off their excessive investment undertaken during the 1990s before the crisis or have shown any visible improvement in transparency. After six years of reform, accounting, auditing, and disclosure requirements hardly meet the global standards Reform of the legal and regulatory systems has also been held over in many countries. Other market supporting institutions for domestic capital markets are still in their infancy.

Under these circumstances, policymakers of many East Asian countries including the crisis-hit ones do not feel confident that their financial sectors are sound and stable enough to be opened for integration with global financial system. Difficulty in reforming domestic financial institutions and markets together with the lack of interest on the part of G-7 in reforming the international financial system have therefore left these countries as vulnerable to external financial shocks including speculative attacks as they were before; sensing the vulnerability, they have taken refuge in large reserves amassed for a war chest for warding off future crises.

At this stage of development, few East Asian emerging market economies are prepared to give up their reliance on exports for growth and development. In order to catch up with advanced economies, East Asian economic planners argue that they will have to return to the rapid growth path of the pre-crisis period and the export-led growth strategy present the best hopes of reaching their development goal. This growth objective and the fact that most East Asian countries have not reached the stage where they can open fully their financial markets have provided the rationale for their intervention in the foreign exchange market.

As long as the East Asian countries are intent on buildings reserves and trying to export out of economic slowdown, it is unlikely that they will let the nominal exchange rate fluctuate with changes in capital flows. Since they are also locked in competition for a large share of export markets among themselves within and outside of the region, they have been conscious about preventing any slippage of their relative export competitiveness. They are unabashed about their intervention, as they can always point to Japanese policymakers who have frequently and extensively intervened to improve Japan's export competitiveness. Except for the peggers, therefore, most East Asian countries have been intervening in the currency market to stabilize their trade weighted

real exchange rates. This intervention is reflected in remarkable stability of the real effective exchange rates of East Asian countries except for Indonesia in recent years (see JP Morgan data in Figure 1).

III. Realignment of East Asian Currencies: China and Japan hold the key

Now that they have piled up large amounts of reserves, and the fear of another round of financial crisis has receded to some extent, one would expect that these countries would be inclined to intervene less frequently than before to let their dollar exchange rates appreciate. Many analysts argue that unless it is very large an appreciation of the East Asian currencies across the board on the order of, for example, five to ten percent on average will not have much impact on the transpacific imbalance. Fred Bergsten argues for a 25 percent appreciation of the Chinese Reminbi.[3] Although a large across the broad revaluation of East Asian currencies is not expected, even a small upward adjustment may send a signal to the market that the East Asian countries are serious about inducing a resource shift to the non-tradable sector, which will in turn set in motion a much needed macroeconomic adjustments in East Asia.

Currency adjustments may be needed, but East Asian policymakers have not restrained themselves from market intervention, and recent policy developments in East Asia suggest that they are not likely to change their policy anytime soon. Are there any policy constraints that compel perpetuation of the interventionist or the dollar peg regime in East Asia?

In this section it will be argued that individual East Asian countries have lost much of freedom in managing their foreign exchange rate policy. As a result, the current policy regime will trigger a painful adjustment which will in due course result in real appreciation of East Asian currencies, possibly igniting a real estate and construction investment boom, raising inflationary expectations, and eventually curbing further increase in their current account surpluses.

The widespread expectation of further weakening of the dollar has also induced a large increase in foreign portfolio capital inflows into East Asia. This increase will speed up the adjustment process. East Asian policymakers are well aware of these possible consequences of the adjustment, which could even provoke a financial crisis.

[3] See Eichengreen on China's Currency problems.

Yet they have been unable to change their policies. Their adherence to export-led growth explains only part of the story.

The main cause of this policy paralysis can be traced to the collective action problem in East Asia. Many East Asian policymakers argue that they could and would revalue their currencies if all other East Asian countries did at the same time. Clearly there is a need for a collective exchange rate policy for the entire region. The ASEAN+3 meetings of finance ministers or their deputies, which have been regularly held in addition to informal policy dialogues they have institutionalized could provide fora for the discussion of coordination of exchange rate policy for the region as a whole. However, if the past experience with policy coordination among ASEAN+3 is any guide, the thirteen countries will not be able to agree on any issue as complicate as the realignment of the regional currencies vis-à-vis the dollar. This difficulty in policy coordination can be attributed to the following two structural problems.

Japan and China, the two major countries that should provide leadership for any collective policy actions and cooperation, have not seen eye to eye on many regional issues, largely because of a rivalry for a greater economic and political clout in East Asia between them. The more complicating problem is that the thirteen countries will not be able to agree on the extent of appreciation each country is willing to accept, even when they could in principle agree to a readjustment of their currencies.

This potential disagreement stems from differences in bilateral trade imbalances among East Asian countries. When the ten East Asian countries are divided into China, Japan, and the group consisting of other emerging market economies, Japan and all other emerging market economies have recorded surpluses in their trade with China (Chinese data) In contrast, the group of emerging market economies has been running large deficits in its trade with Japan.

The group of emerging market economies may therefore be able to accept an equal appreciation of both their currencies and the Reminbi against the dollar at the same time. What about the Japanese yen? Japanese authorities insist that China should revalue its currency much more than Japan on the ground that China has been in surplus in its trade with both Japan and the United Stats (Japanese data show that China has been running surpluses vis-à-vis Japan). However, such an adjustment between China and Japan is not acceptable to the group of emerging market economies, as it does not help reduce the group's persistent structural deficit in its trade with Japan. To economists, bilateral trade imbalances may not matter, but to politicians and policymakers, they matter and a

lot, especially when they are engaged in coordination of exchange rate policy.

If East Asian policymakers realize the adverse consequences of undervalued currencies, then will it not be in their interest to manage revaluation of their currencies individually regardless of what other countries do? Perhaps they should, but they are reluctant to do so for two reasons. Understandably, they are worried about losing their relative currency competitiveness if other countries do not make a similar adjustment. In particular if China insists on maintaining the fixed parity, they are not likely to make the necessary adjustment as China has surpassed the US as their largest export market.

A more important reason is that if any country unilaterally were to let the exchange rate float or to adjust it upward, then it would experience an appreciation of its currency larger than otherwise, because the policy change will attract large capital inflows. That is, the appreciating country will bear the brunt of the effects of depreciation expectations of the dollar.

IV. A long Term Solution: Trade and Financial liberalization

What could international financial institutions and G-7 do to slowdown the expansion of the trans pacific imbalance? As far as the U.S is concerned, it may continue to maintain a position of benign neglect under the assumption that the imbalance is not likely to pose any serious threat to stability of its financial market or the global financial system. Of course there is the problem that as long as East Asian countries refuse revaluation of their currencies and the U.S current account deficit mounts, the Euro may appreciate more than otherwise.

Should the U.S and multilateral financial institutions exert pressure on China, Japan, and other East Asian countries to revalue their dollar exchange rates so that the effects of a weaker dollar could be absorbed more or less equally by both Europe and East Asia? In insisting on East Asia’s currency realignment, international financial institutions and G-7 should make it clear whether they are asking for non-intervention in the foreign exchange market and hence unfettered free floating or whether they are demanding discrete exchange rate adjustments to the East Asian countries including those with a fixed exchange rate system. The former is a long-term issue, which cannot be discussed independently of prospects for financial integration of these countries into the global financial system.

If indeed international financial institutions and G-7 find it necessary to put pressure

on East Asian countries to make upward discrete adjustments of their currencies, the key to their success will depend on their ability to persuade or force both China and Japan to initiate a substantial revaluation of their currencies vis-à-vis the dollar at the same time. Other East Asian countries will then easily fall into line.

Suppose that both China and Japan refuse an upward adjustment of their currencies needed to bring the imbalance under control. G-7 should then leave them alone. A painful domestic adjustment will eventually run its course to cause real appreciation of their currencies, which may lead to a bad equilibrium. A real appreciation of East Asian currencies whether it is engineered by nominal appreciation or price inflation may not make a dent on the US current account deficit. On the other hand, the real appreciation may aggravate the incipient real asset boom in some of East Asian countries. Nevertheless, some cynics would argue that it might be more desirable as it will bring home to these countries the need to speed up financial reform.

The conundrum of exchange rate adjustment involving Europe, East Asia, and the US defies a quick fix. East Asia's current account surplus is bound to shrink. It may fall off as East Asian economies start to trade more among themselves or to import more from non-US regions. If this happens, the dollar will continue to fall and the Euro will face stronger pressure for appreciation.

If the G-7 countries were serious about reducing the transpacific imbalance, they should first decide whether and how they are going to adjust to East Asia's export-led growth strategy. Although the export-led strategy itself is not necessarily responsible for the transpacific imbalance, it will deter free floating. At the same time, they should also make it clear whether they are intent on continuing with promotion of financial globalization.

If indeed they are committed to global financial integration, they may find it in their interest to assist East Asia's emerging market economies in building their capacity to restructure their financial institutions and markets and to continue with institutional reform. It would be also desirable to resurrect the reform of the international financial system in order to facilitate integration of East Asian economies into global financial markets. If the resurrection is not realistic at this stage, G-7 could support the ongoing regional movement for financial integration in East Asia. Deeper integration of regional financial markets may then push East Asian countries to either free floating or forming a region wide collective exchange rate system as it did in Europe.

While demanding financial liberalization, the G-7 countries could also encourage

and support in any way they can to help East Asian economies liberalize further their trade regimes. China has taken the lead in promoting free trade with ASEAN. Not to be outmaneuvered by China in competition for the leadership role in East Asia, Japan has proposed negotiations for free trade agreements with a number of ASEAN member states. Intra-regional trade in not only raw materials and intermediate goods but also final products and services has been growing in East Asia. Free trade negotiations will create incentives for and hence stimulate further the expansion of regional trade in the future. Trade integration is then expected to create pressure for stable currencies in the region, which will in turn generate incentives for cooperation for developing a collective exchange rate system for the region. (Bergsten and Park, 2002)

Not in the distant future- perhaps before the end of this decade, China is likely to replace the U.S as the final destination of exports of many East Asian countries. Assuming China is able to sustain rapid growth as it has, East Asia's dependence on the U.S market will decline, and with this development the trans-pacific imbalance will gradually decrease.

Unlike other large countries, China has been able to export a large share of its output. In recent years, the ratio of exports to GDP has risen to almost 25 percent of GDP, twice the average ratio of other large countries. Foreign firms investing in China account for a lion's share of China's total exports. Rapid growth in China will inevitably bring about a large increase in the demand for non-tradables, which will in turn shift allocation of resources to the non-tradable sector over time. China may continue to be a major exporting country but its demand for imported intermediate and final goods will also increase as rapidly as their exports. China will not be as important a contributor to the trans-pacific imbalance as it has in the past.

Another development in East Asia, which may contribute in the long run to mitigating the potential trade and financial frictions between the two sides of the Pacific, is the initiative for creating regional bond markets in Asia by the ASEAN+3 and Asian Cooperation Dialogue. This development will help East Asian countries move into a higher gear for regional financial integration. EMEAP central bankers have been working on schemes to invest some of their reserves in bonds denominated in Asian currencies (ABF II) Although the size of EMEAP's planned investments will be relatively small initially, once their investment operations are institutionalized, regional political leaders may allow a greater involvement of their central banks in regional financing, if they feel less vulnerable to future financial crises. This development could loosen up East Asia's pegging to the dollar and reduce region's investment in US short-

term Treasury securities.

V. Concluding Remarks

If the Americans and the Europeans believe that East Asian economies, led by both China and Japan, will continue to run up surpluses on their current accounts and use these surpluses to buy up American securities, they are shortsighted: they ignore the macroeconomic adjustment process already in operation that will stem the growth of East Asia's surplus.

After five years of an investment slump, East Asian economies will soon begin to step up their spending on plant and equipment as they have worked off much of the excess capacity they built before the 1997-98 crisis. The ongoing export boom will serve as a catalyst for more spending on capital goods. Low interest rates and the abundance of liquidity will also stimulate consumer spending and the demand for real assets. There are signs indicating that real estate bubbles are already in the making in China, Korea, and Thailand.

These developments will combine to curb any further increase in East Asia's surplus, although they may not prevent further weakening of the dollar as long as the US budgetary deficit is expected to grow. One may also raise questions as to whether this type of a real sector adjustment is preferable to an adjustment through an across the board revaluation of Asian currencies. What is clear is that the transpacific imbalance will eventually work itself out through a revaluation of the real exchange rates of the Asian currencies. In the process East Asia's import demand will increase, but it is uncertain whether it will be met by US exporters.

Table1. Current Account Surpluses and Foreign Exchange Reserves, 1998-2002

(Unit: billion dollars)

	Indonesia	Malaysia	Philippines	Korea	Singapore	Thailand	China	Japan	Hong Kong	Taiwan
(1) Foreign Exchange Reserves at the end of 2002	31.6 (19.15) [1)]	34.6 (33.29)	16.2 (20.12)	121.4 (21.05)	82.3 (86.86)	38.9 (26.74)	129.6 (15.90)	273.3 (7.47)	96.3 (66.13)	16.6 (58.90)
(2) Change in Foreign Exchange Reserves (1998~2002)	27.5	24.8	14.6	81.0	63.7	24.6	23.2	119.4	6.6	71.0
(3) Cumulative total of Current account surpluses (1998~2002)	32.2	45.1	20.3	91.4	81.9	50.0.01	27.5	344.4	24.2	59.4
(3)/(1)	1.02	1.30	1.25	0.75	1.00	1.28	0.21	1.26	0.25	0.36
(3)/(2)	1.17	1.82	1.39	1.13	1.29	2.03	1.00	3.64	0.84	1.17

1) Percentage of GDP

Source: IFS (International Financial Statistics: http://ifs.apdi.net/imf)

Table 2. Investment as share of GDP

(Unit: percent)

Country	Hong Kong	Singapore	Indonesia	Malaysia	Philippines	Korea	Thailand	Japan	Taiwan	China
1995	30.57	42.94	31.93	33.78	22.70	37.17	42.09	31.47	21.19	40.81
1996	28.99	43.93	30.69	41.48	24.02	37.94	41.82	32.71	20.63	39.32
1997	31.02	40.23	31.75	42.92	24.78	34.23	33.66	32.39	22.12	38.00
1998	28.03	32.33	16.77	26.68	20.34	21.17	20.45	30.82	22.78	37.40
1999	22.75	32.44	11.37	22.38	18.75	26.67	20.50	30.04	23.16	37.14
2000	25.57	32.28	16.10	27.18	21.46	28.20	22.81	30.25	22.57	36.37
2001	25.10	24.23	17.45	23.95	20.65	26.87	24.09	25.34	17.35	37.99
2002	22.92	20.62	14.27	24.45	19.30	26.04	23.94	23.52	16.44	37.24

Source: ARIC (Asia Recovery Information Center: http://aric.adb.org) Data Base, Asian Development Bank

Table 3. Fiscal surplus or deficit as share of GDP

(Unit: percent)

	1996	1997	1998	1999	2000	2001	2002
Korea	0.1	-1.3	-3.8	-2.6	1.4	1.8	1.6
Japan	-3.5	-2.8	-4.6	-5.4	-4.4	-5.1	-5.3
China	-1.3	-1.2	-1.5	-2.4	-3.1	-4.4	-3.0
Hong Kong	2.1	6.5	-1.8	0.8	-0.6	-5.0	-4.9
Indonesia	1.2	-0.7	-2.9	-1.1	.	-1.2	.
Malaysia	0.7	2.4	-1.8	-3.2	.	.	.
Philippines	0.3	0.1	-1.9	-3.8	-4.1	-4.0	-5.2
Singapore	14.5	9.6	16.9	10.6	11.5	-0.3	-1.6
Thailand	0.9	-0.3	-2.8	-3.3	-2.2	-2.4	-1.4
Taiwan	-1.7	-2.4	1.2	0.5	-1.3	-2.5	-2.5

Source: Government Finance Statistics yearbook 2003, IMF
IFS (International Financial Statistics: http://ifs.apdi.net/imf)

Table 4. External Financing of Five East Asian Economies [1)]

(Unit: billion dollars)

	1996	1997	1998	1999	2000e	2001f	2002f
Current account balance	-55	-27	69.8	62.9	46.2	33	26.3
External financing, net	116	40.5	-14	-3.3	10.5	-20.7	-6
Private flows, net	118	5.6	-37	-5.8	7.6	-11.8	-3.1
Equity investment. net	16.8	5.2	17.8	30.8	24.4	10.6	11.2
Direct investment. net	4.8	6.8	13.3	15.3	13	7.2	8
Portfolio investment. net	12	-1.7	4.5	15.4	11.4	3.4	3.2
Private creditors, net	101	0.5	-55	-37	-16.8	-22.5	-14
Commercial banks, net	69.4	-17	-48	-33	-16.1	-14	-7.6
Nonbanks, net	31.8	17.4	-6.5	-3.7	-0.7	-8.5	-6.7
Official flows, net	-2.1	34.9	23.4	2.4	2.9	-8.8	-2.8
IFIs	-1.9	22.7	19.7	-5.2	2	-8.3	-2.9
Bilateral creditors	-0.2	12.2	3.8	7.7	0.9	-0.5	0.1
Resident lending/other, net [2)]	-43	-46	-16	-23	-27.7	-6.4	-13
Reserves (- = increase)	-18	32.9	-40	-37	-28.9	-5.9	-7.5

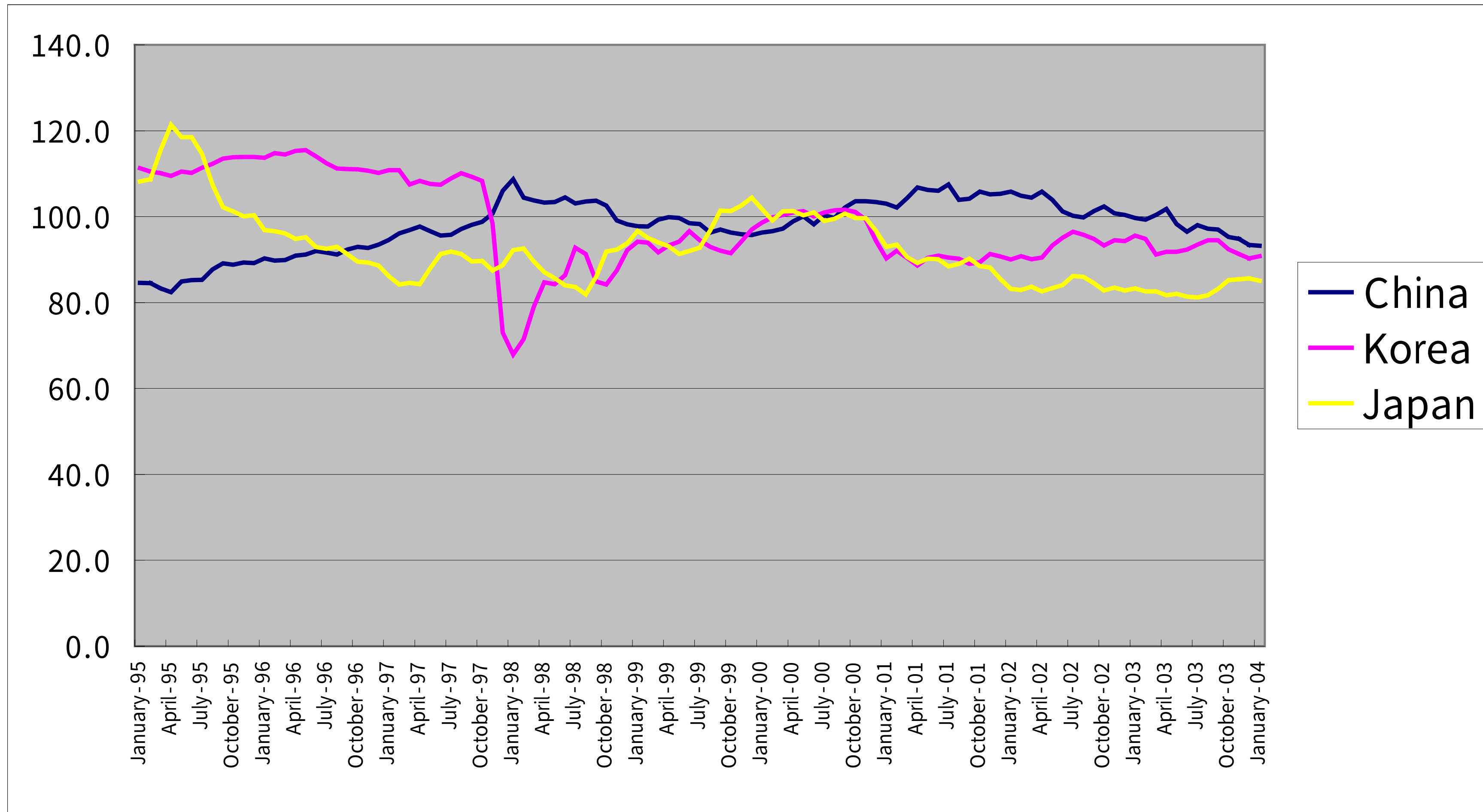
e = estimate, f = IIF forecast

1) Indonesia, Malaysia, Philippines, South Korea and Thailand.

2) Including net lending, monetary gold, and errors and omissions.

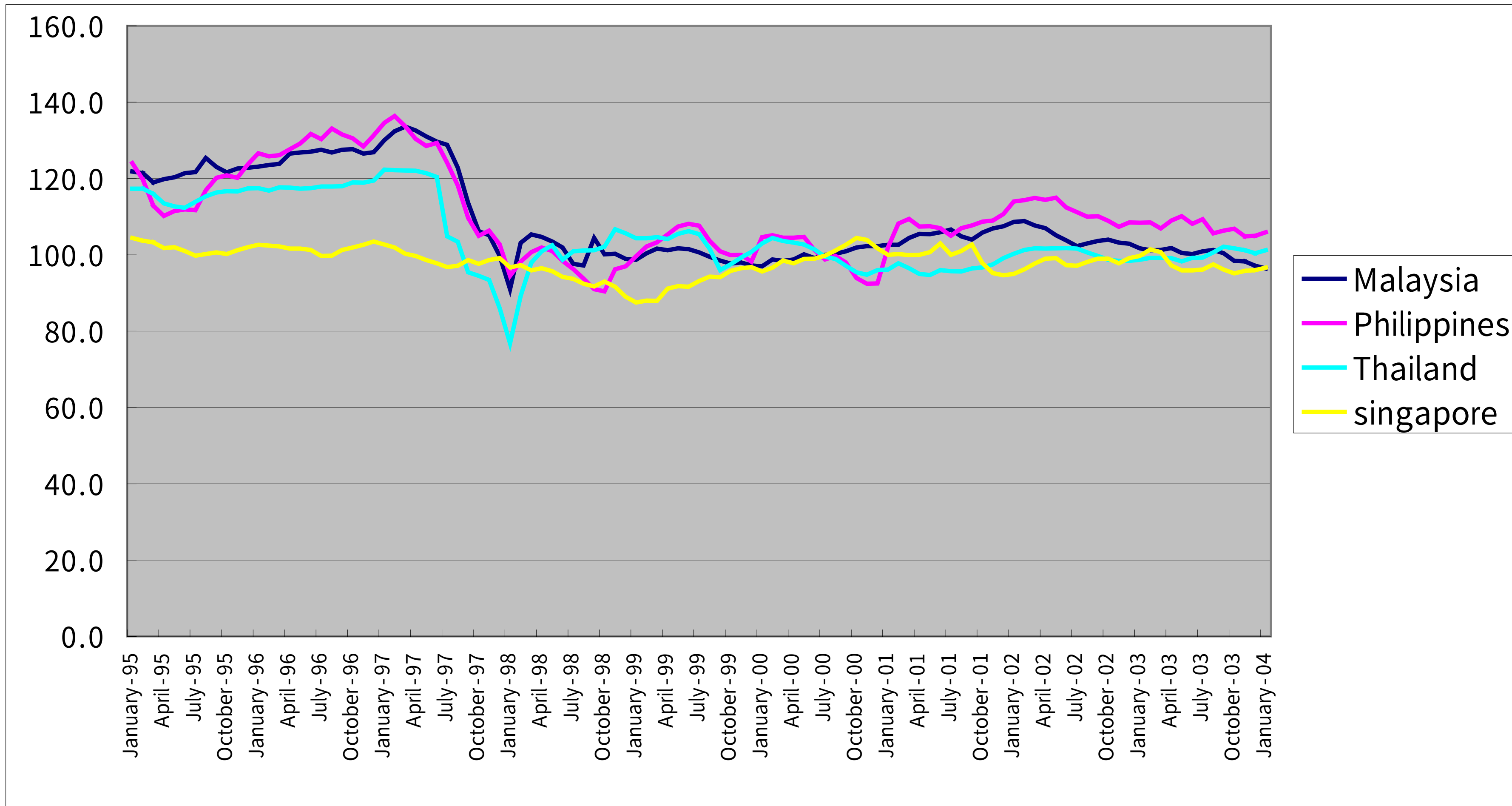
Source: Institute for International Finance Data

Figure 1-A. Real Effective Exchange Rate (China, Japan, and Korea)



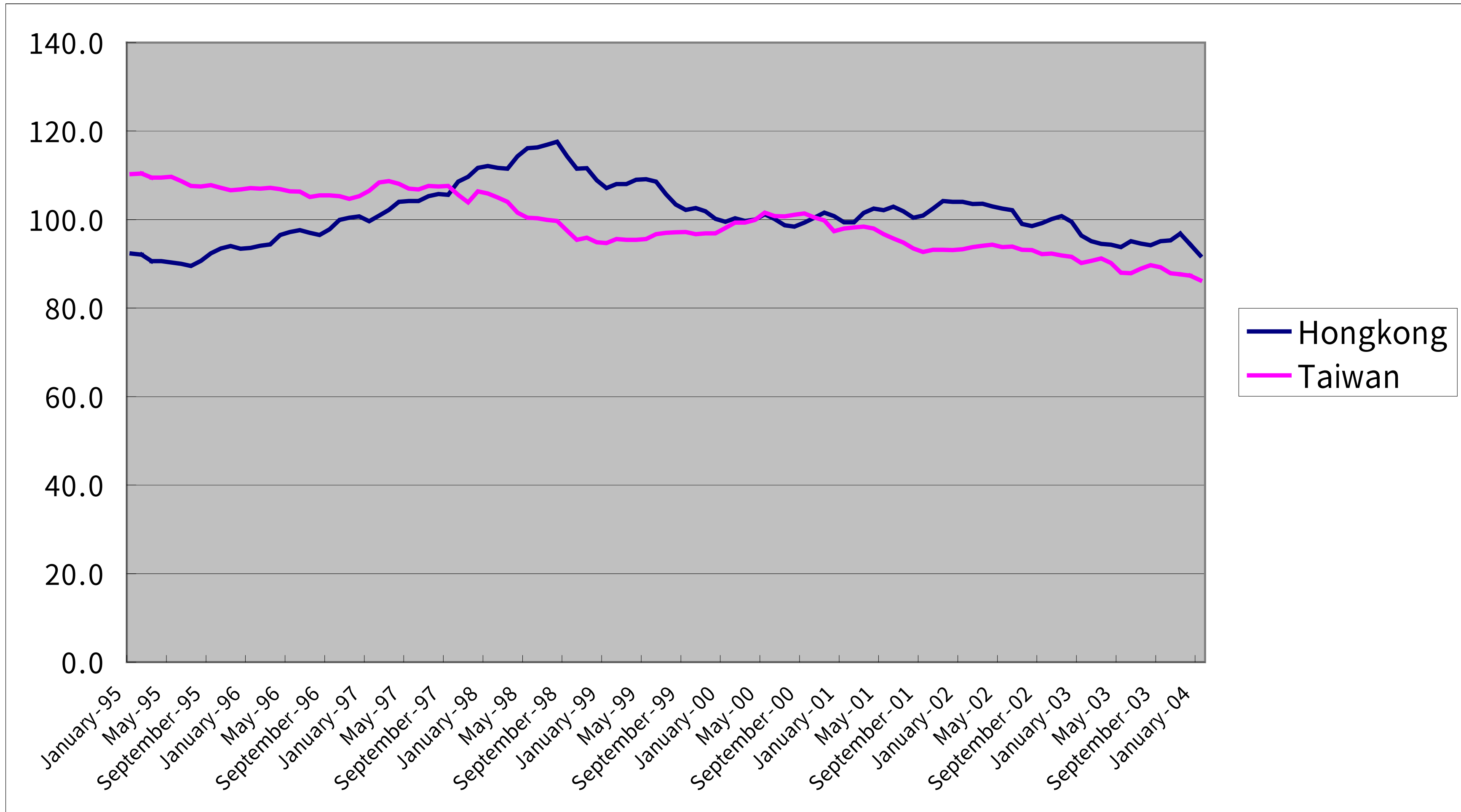
Source: JP Morgan

Figure 1-B. Real Effective Exchange Rate (Malaysia, Philippines, Singapore, and Taiwan)



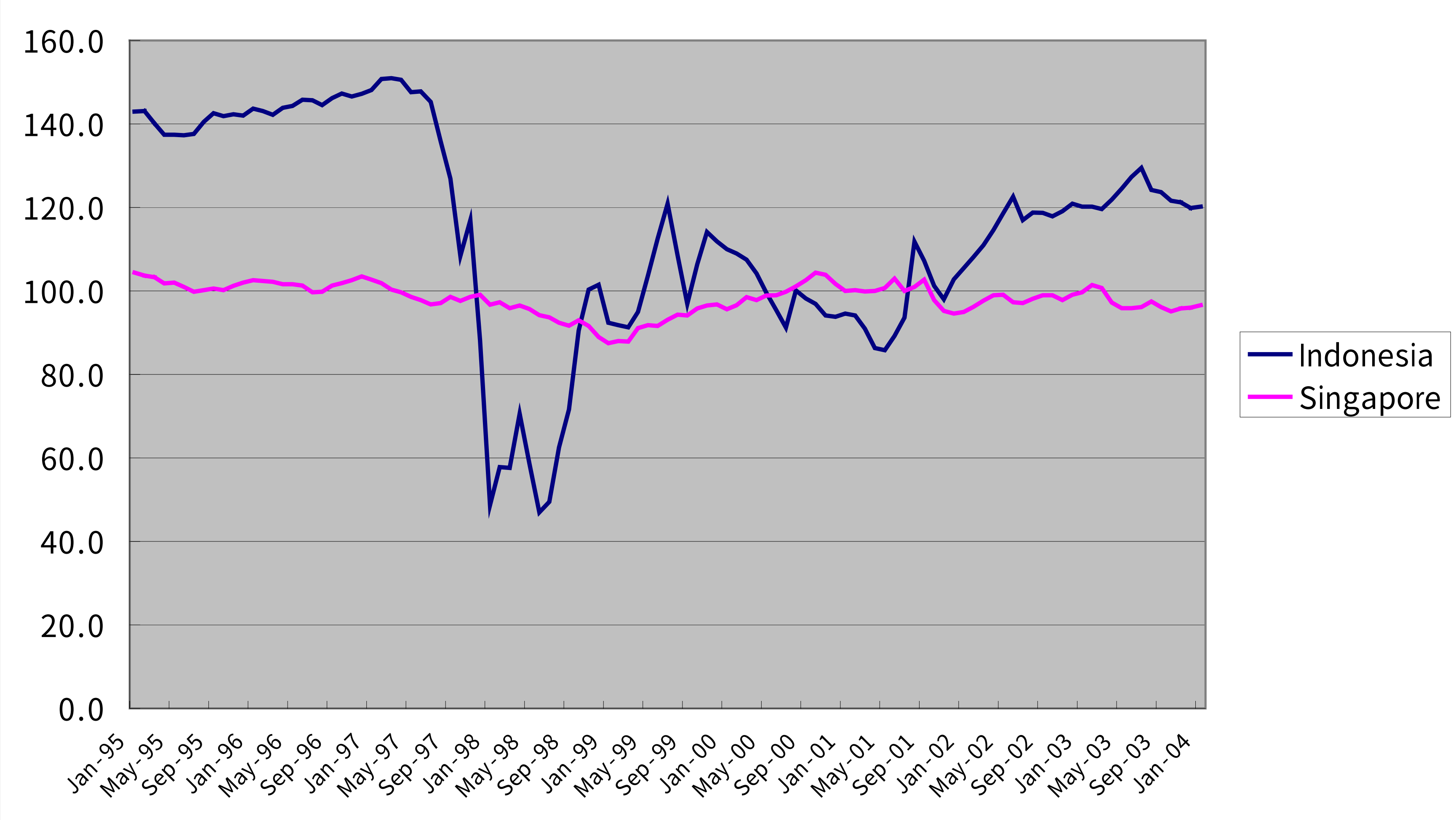
Source: JP Morgan

Figure 1-C. Real Effective Exchange Rate (Hong Kong, and Taiwan)



Source: JP Morgan

Figure 1-D. Real Effective Exchange Rate (Indonesia, and Singapore)



Source: JP Morgan

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