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GLOBAL CURRENT ACCOUNT IMBALANCES SINCE THE 2008 FINANCIAL CRISIS

Dr. S. Krishnakumar

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Contents

Table of Figures & Tables

List of Figures

List of Tables

Acronyms

ABS	Asset backed Securities
ADV	Advanced economies
BCA	Balance on Current Account
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
BOPS	Balance of Payments Statistics
DOTS	Direction of Trade Statistics
EMDA	Emerging and Developing Asia
EMDE	Emerging and Developing Economies
EME	Emerging Europe
FAANG	Facebook, Amazon, Apple, Netflix, Google
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIIPS	Greece, Ireland, Italy, Portugal, Spain
GVC	Global Value Chain
IFI	International Financial Integration (index)
ILO	International Labour Office
IMF	International Monetary Fund
LDC	Least Developed Countries
MBS	Mortgage Backed Securities
MECA	Middle East and Central Asia

NASDAQ	National Association of Securities Dealers Automated Quotations
NIIP	Net International Investment Position
OECD	Organisation of Economic Co-operation and Development
SDR	Special Drawing Rights
SSA	Sub Saharan Africa
TiVA	Trade in Value Added
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UK	United Kingdom
USA	United States of America
WEO	World Economic Outlook
WTO	World Trade Organisation

Global Current Account Imbalances since the 2008 Financial Crisis

Abstract

In the run-up to the 2008 global financial crisis, the burgeoning US current account deficits were considered to be unsustainable. It was argued that this would bring an end to the supremacy of the dollar. The huge surpluses of the Asian economies, in particular, that of China, were also considered to be unsustainable. It was widely believed that the global imbalances would pose a severe problem to the global economic system. But in the course of the global financial crisis, it was reconciled that more than the global imbalances, it was the two-way gross capital flows, in particular, between United States and Europe, in an environment characterised by free capital mobility, which was pivotal in enhancing risks in the global economy. This paper tries to take stock of the global imbalances ever since the 2008 global financial crisis using the databases of the IMF. Even when the US current account deficit has declined in comparison to the 2006 levels, this has resulted in large shrinkage of demand in the global economy. Though the current account surplus of China has come down ever since the crisis, that of Germany has been witness to a

steep increase instead. The paper examines the external balances of United States, China and Germany in detail, and makes an argument that the advanced economies like United States should not make its bilateral trade deficits with a set of developing economies as an excuse to derail the multilateral trading system.

Associate Professor, Department of Economics, Sri Venkateswara College, University of Delhi. This work has benefited from the author's doctoral thesis Capital Flows, Global Liquidity and Emerging Market Economies (1990-2015): Revisiting the Bretton Woods II Postulate under the mentorship of Prof C P Chandrasekhar. The views expressed are fully of the author. The usual disclaimer applies.

Global Current Account Imbalances since the 2008 Financial Crisis

Introduction

This paper on "Global Current Account Imbalances since the 2008 Financial Crisis" comes almost after more than a decade since the occurrence of the global financial crisis. The world is already in the midst of another pandemic induced downturn and is trying to find its way out of the same. In the run-up to the global financial crisis, concerns were raised about the unsustainable nature of the large current account deficits of United States. The current account surpluses of the resource rich economies of the Middle East as well as the East Asian economies were also a matter of concern. Certain other scholars attributed the fragility of the growth in the global economy to the large process of financial globalisation. This paper tries to take stock of the changing pattern of global imbalances ever since the global financial crisis.

In the series of financial crises which had occurred since the nineties, it was largely the emerging market economies which were under turmoil. The Mexican crisis of 1994 failed to caution the international community of the risks associated with absence of capital controls. The paradigm of financial globalisation was taken forward and the policies based on Washington Consensus were initiated in different emerging economies.[1] Some of these economies of the erstwhile socialist bloc, and others which had a stint with planned industrialization through *dirigiste* regimes were subjected to economic reform based on the principles of Washington Consensus. The arguments of neoclassical political economy based on the theories of rent-seeking and government failure were marshalled to usher in economic reform in the developing world.[2] The repressed financial markets were portrayed to be antithetical to the growth prospects of developing economies, and financial globalization was purportedly expected to result in capital flowing from the capital-rich to the capital-poor economies. But this logic of capital flowing downhill was not found to be observed in reality. The high correlation between investment ratios and savings ratios continued to be true. But, the world economy characterised by free capital mobility was now exposed to more risks and vulnerabilities.[3]

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1 For the defining features of Washington Consensus as he originally conceptualized it, see (Williamson, 2004)

2 For a theoretical perspective in this regard (Krueger, 1974) and for a critique of the various neoclassical approaches towards state see (Ghosh, 1995).

3 There are number of studies which draw attention to the high correlation between investment ratios and savings ratios across economies. (Feldstein & Horioka, 1980)The same has been subjected to empirical scrutiny many times ever since.

The 1997 East Asian crisis which witnessed speculative attacks on the currencies of different economies resulted in the policymakers of the emerging and developing economies being far more cautious. The inability of the developing Asian economies towards accessing short-term liquidity from the international financial institutions even during extraordinary situations resulted in their resorting to a large scale accumulation of forex reserves in a big way. This precautionary motive of holding reserves later became a trend followed by many economies. This accumulation of foreign exchange reserves incurring a heavy social cost was the outcome of the asymmetries of the international monetary system, which was not quick to respond to the demands of the developing economies Further, there was the recurrence of financial crises in Argentina, Russia, and different other economies.

The *differentia specifica* of 2008 Global Financial Crisis was that at the centre of the crisis was the economies on either side of the Atlantic -directly involved were United States and the different economies in Europe.[4]The whole argument that the financial crises were endemic to the emerging market economies due to the absence of institutions and the extant asymmetric information, and, the advanced economies were immune to the same was no more true. Competitive deregulation of banking and financial institutions on

4 In his work on the global financial crisis, Adam Tooze refers to the global financial crisis as North Atlantic Financial Crisis, this he does, acknowledging the usage originally to Rakesh Mohan (Tooze, 2018)

both sides of Atlantic in the name of enhancing profitability ended up with a heavy cost. Alan Greenspan's illusion that self-regulation would serve the interests of the financial institutions has ultimately proved to be too costly. The efforts at deregulation through the abrogation of the Glass-Steagall Act of 1933, replacing the same with the Gramm-Leachy-Bliley Bill during President Clinton's regime ushered in an era of deregulation in United States, in the name of making finance competitive. The world economy had to bear a heavy cost for over the last ten years as a result of all of the same. The US Financial Inquiry Committee Report held the lack of regulation from the part of the Federal Reserve to be singularly instrumental in the occurrence of the crisis.[5]

In the run-up to the global financial crisis, it was widely viewed that the global imbalances would pose serious risks to the global economy. It was argued that the rising current account deficits of United States have reached unsustainable levels that the rest of the world might refuse to finance the same. Among others, it was argued by Nouriel Roubini and Paul Krugman that the very status of dollar as a reserve might come under threat. But given the growing demand for safe assets, Dooley, Folkerts-Landau and Garber argued that irrespective of the growing current account deficit, demand for US Treasuries from the part of the resource rich Middle Eastern economies as well as the East Asian economies would continue unabated. They considered the informal international monetary

5 See (The Financial Crisis Inquiry Commission, 2011)

system which has evolved to be a stable one.[6] They have characterised this informal international monetary arrangement as Bretton Woods II.[7] And, with the crisis, the safe haven role of the dollar proved to be far more to the advantage of the United States. Making things even smooth for the dollar was the European Sovereign Debt Crisis, which nipped off all challenge which could have come from euro. Paradoxically, the demand for safe Treasury securities has resulted in the strengthening of the dollar in one of the most severe crises which had its origin in the US financial markets, contrary to the prognostications to the contrary.

This paper tries to address the issue of the global imbalances in the context of the growing challenges posed by certain countries to the multilateral rules-based framework in the name of the growing bilateral trade deficits. This paper is divided into four sections. The first section gives a glimpse of world economy in the run-up to the global financial crisis. The second section highlights certain trends in the composition of output and trade in the contemporary global economy. The next section gives an overview of foreign exchange reserves, given the steep increase of the same in the current world economy. In the fourth section, we discuss about the state of global imbalances since 2007, drawing attention to the external balance sheet of USA, the leading debtor country and China and Germany, two of the leading creditor countries relying on data from international databases. The paper ends with some concluding observations.

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6 See (Dooley, Folkerts-Landau, & Garber, 2003)

7 For a critical appraisal of Bretton Woods II see (Krishnakumar, 2019)

I

Global Imbalances in the run-up to the financial crisis

There are a set of economies which spend or absorb far more than they produce incurring current account deficits. And, there are another set of them which absorb or spent far less in comparison to what they produce resulting in current account surplus. The current account surpluses and deficits across some economies in the first decade of this century were considered to be beyond reasonable limits by a set of policymakers and economists. In the run-up to the crisis of 2008, the global imbalances which emerged in the world stage was viewed to be unsustainable. Taking cognizance of the same, the IMF initiated the process of bringing out External Balance Reports. The current account deficit of United States in 2006, at 6% of its GDP or 1.56% of the world GDP was unprecedented in nature. Even as the same was serving as a source of demand for the rest of the world, the huge increases in deficit was adding to the external liabilities of the country, and, for the given rate of growth of the US economy, it was argued that the world would lose its confidence in the dollar.[8]

Nonetheless, the financing of the US current account deficit was far easier by virtue of the large subscription of Treasury securities, by not just the current account surplus producing economies of East

8 This argument is otherwise a modern version of the revised Triffin Dilemma.

Asia and Middle East, but also those with a surplus of inflows on the financial account. While the rest of the world have been subscribing to the low yielding US Treasuries, (China and Japan being the main subscribers), United States invests in risky assets in the form of foreign direct investment abroad. Nonetheless, the mechanism has made it possible for United States to enjoy unidirectional net transfers from the periphery through the exorbitant privilege which the dollar commands in the international financial markets.[9] By virtue of being the leader country in the world with the currency which is considered to be as good as gold in the contemporary world, the United States could afford to sustain a current account deficit for such a long period of time.[10]

The large scale demand for Treasuries resulted in the price of US treasuries increasing and the yield on these assets falling. The large increase in current account deficit in United States was coming in the backdrop of reduction in domestic saving rate. The high level of absorption in United States was driven by consumption financed

9 See (Gourinchas & Rey, 2007) and (Varoufakis, 2011) for different perspectives in this regard. Drawing attention to the unusual advantage which the dollar had in this regard with the term "exorbitant privilege" was Valery de Estaing, the Minister of Finance during the de Gaulle years in France. For a brief overview of the history of dollar, see (Eichengreen, 2011)

10 Given that the developing countries could not borrow in the international financial markets in their domestic currency, they can least afford to sustain current account deficits beyond a particular level. Barry Eichengreen refers to this inability of the developing economies to borrow in the international financial markets as the original sin.

by credit rather than on the basis of increase in real wages. As per the data of the Federal Reserve, the real median household income has remained stagnant at $63000 levels between 1999 and 2006.[11] Moreover, 80% of the stock market capitalization was owned by top 10% of the US population. But the capital was able to buy peace with labour in the period prior to the global financial crisis, through the provision of an array of credit instruments at very low rates of interest. Not only were the American financial markets producing a series of credit products towards financing consumption and residential property purchases, but they were also effectively selling these derivatives far and wide.[12]

The asset backed securities (ABS) and mortgage backed securities (MBS) issued in the financial markets of the United States were bought by bankers of Europe, as well as Asia. Whereas there were no sub-prime mortgages in the total mortgage loans in 1990, its share went up to 40% in 2006. With loans extended to households with no income, no jobs and no assets (NINJA loans), the property price bubble was kept alive by the financial system in alliance with the Federal Reserve, which stood by the doctrine of self-regulation. The US financial system was able to diversify some risks from its shores to far-off places, and those interested in partaking in the gains of the US residential property bubble were only too eager to purchase

11 It moved from $63423 in 1999 to $62865 in 2007. Access data on the same at https://fred.stlouisfed.org/series/MEHOINUSA672N

12 See (Vakulabharanam, 2009) in this regard. It also brings out a contrast between changes in real wage under the Golden Age of Capitalism and the post nineties scenario.

these asset backed securities. The wholesale funding market in United States was only too eager to provide the funds towards the financing of the purchase of the asset backed securities. But then, the downturn in the property prices, which in the initial stages were restrained by different types of sub-prime mortgages, finally set in. With the squeeze of the two-way capital flows, the wholesale funding market went for a big squeeze.[13] This global liquidity squeeze, and collapse of banks and financial institutions worldwide, was too important a matter to be left to be resolved by the free markets. It is at this juncture that the Federal Reserve had to step in to inject liquidity by resorting to asset purchases on an unprecedented scale.[14] The balance sheets of Central Banks of advanced countries: Federal Reserve, European Central Bank and Bank of Japan were witness to huge expansion with the purchase of these securities, and the interest rate had fallen to far lower levels.[15] The protagonists of self-regulation and libertarianism could ill-afford to leave the future of the economic system to the markets. The prompt intervention from the Central Banks saved the world from a massive catastrophe.

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13 ….sub- prime mortgages to the total mortgages reached 40% by 2006 as against near to nil in 1990…..nearly on quarter of the loans originated in the first quarter of 2005 were interest only loans, and, a 68% of them were originated in Countrywide and Washington Mutual See (Lagarde, 2018)

14 Informative of the response of the Federal Reserve in the aftermath of the crisis is (Bernanke B. , 2013)

15 The balance sheets of the Central Banks have further increased with massive asset purchases done to deal with the Covid-19 pandemic driven downturn in the global economy.

More than the current account surpluses and deficits in the world economy, it was the two-way gross capital flows without any restrictions across countries which ultimately resulted in the severe crisis in the global economy. The banking glut explains the crisis far better than the global savings glut suggested by Ben Bernanke.[16]In any case, it would be interesting to take stock as to what has happened to the global imbalances ever since. But before that, let us take a glimpse of the contemporary trends in the global economy.

II

Contemporary Trends in the Global Economy[17]

There are four important trends of the international economy which requires emphasis right at the beginning. Firstly, there has been change in the relative share of economies in the total world output since 2000. Second, the share of emerging markets and developing economies in world trade has been on the increase. Thirdly, there has been an increase in the share of services trade in the global

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16 For the argument based on global savings glut (Bernanke B. S., March 10, 2005),and, for the one based on huge two way capital flows or banking glut, (Shinn, 2011).

17 The data utilized towards undertaking the findings in the sections have been accessed from the IMF e-library sources of International Financial Statistics, Direction of Trade Statistics and Balance of Payments Statistics, and has been accessed from IMF Datawarehouse. Some of the data has also been accessed from World Economic Outlook Database. All links from www.imf.org. The classification of economies in this article as advanced economies and emerging market and developing economies, is according to the IMF classification in this regard.

economy. Lastly, there has been an increase in the stock of external liabilities and assets of economies, reflected in the rise in the index of international financial integration ratio.[18] About these four, we look into in details in this section. In the next section, we try to look at the growing pace of accumulation of foreign exchange reserves in emerging and developing economies.

(i) Rising share of the emerging economies: changing composition of the world economy

According to the World Economic Outlook Database, the output of the world economy, (in current dollar terms) increased from $34 trillion in 2000 to $84.97 trillion in 2020.[19] While the output of the advanced economies increased from $26.8 trillion (2000) to $50.66 trillion (2020), that of the emerging market and developing economies increased from $7.13 trillion to $34.3 trillion during the same period (Figure 1). It is important to note that in the course of the last two decades the relative share of the EMDEs in the world output has increased from 21% to 40.4% .

The increase in the share of the emerging economies in the world output is linked to the steep increase in the GDP of China from $1.21 trillion (2000) to $14.87 trillion (2020). While the GDP of

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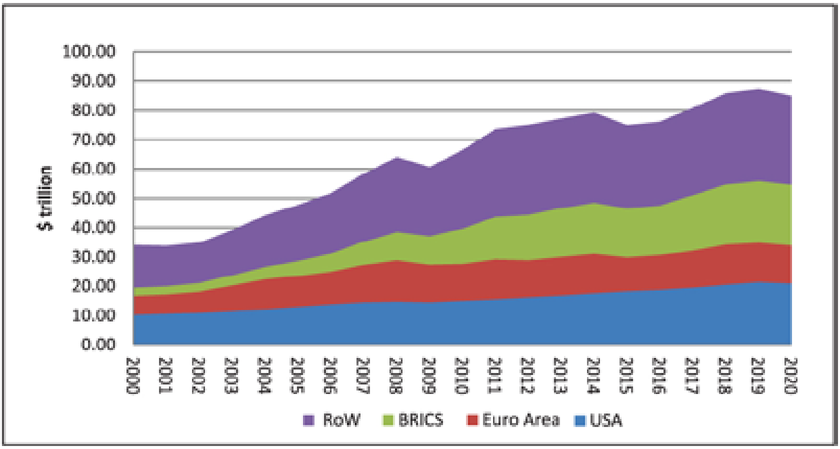
18 The earlier database of Lane and Milessi Ferrreti on external assets and liabilities has been updated. (Lane & Milesi-Ferretti, Extended database of the 2007 The External Wealth of Nations., 2010)

19 It should be noted here that the world was witness to a steep decline in output from $87.4 trillion in 2019 to 84.9 trillion in 2020 in the backdrop of the Covid-19 pandemic.

Figure 1: Composition of output in the world economy (2000 to 2020)



Source: World Economic Outlook Database 2021

China was just11.8% of the US GDP in 2000, it increased to 71.2% in 2020. During the same period, the GDP of India increased from $0.47 trillion to $2.66 trillion. Its relative share in comparison to USA, increased from 4.6% (2000) to 12.7% (2020). It should be noted that while the GDP of the euro area increased from $6.5 trillion in 2000 to $14.11 trillion(2008), i.e., almost 95.8% of the US GDP, the euro area GDP in 2020 at $13 trillion is just 62% of the USGDP, and is lower than the Chinese GDP of $14.87 trillion.

Even with these manifold changes in the global economy, though the relative share of United States has declined from 30% in 2000 to 24.6% in 2020, it continues to account for almost a quarter of the total output in the world economy. While the relative share of euro area has decreased from 19% to 15.3% that of China has increased from 3.6% to 17.5% during the same period. The deflation since the nineties has taken a toll on economic growth in Japan that the GDP in current dollar terms of Japan did not change much during the period, it barely changed from $4.9 trillion to $5.04 trillion, with some fluctuations in between. The share of Japan in the world GDP decreased from 14.6% to 5.9%. Figure 1 illustrates the share of USA, euro area, BRICS and the rest of the world in the total world GDP in the time period from 2000 to 2020.

For long, it has become a practice to characterize the United States and the euro area as large economies, of which the policies would have an impact on the rest of the world. The increase in the relative size of China in particular, and BRICS at large, should compel the policymakers to think in terms of reverse spillovers from the growth and policies of the emerging market economies.[20] No wonder that in the aftermath of the Global Financial Crisis, the G-8 group was expanded to G-20, giving due importance to the BRICS and resource/oil exporting economies. It was not without any purpose that the club of advanced economies was expanded, even when G-8still continues to be active. Though there is no alternative to the democratization of economic institutions with universal membership for all countries, the expansion to widen its domain resulted in G-20, which is far more representative of the global economy in comparison to G-7. The concerns relating to

20 Even when this argument is valid, in the ranking of the per capita income in current dollars in 2020 as reported by the WEO database, Brazil, Russia, India, China and South Africa are at 85th, 64th, 143rd, 62nd and 96th positions.

financing development of the least developed economies, subject to the vagaries of commodity price volatility is too important to be neglected.

(ii) Rising share of emerging economies in the world trade

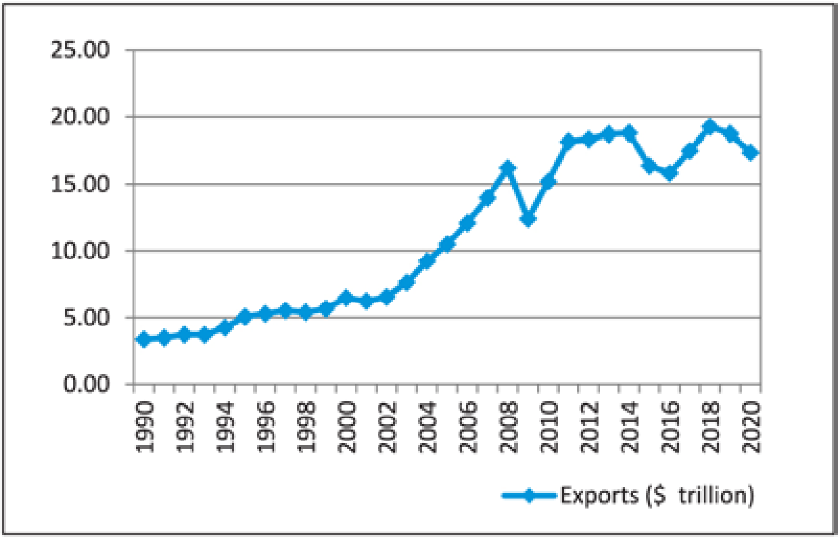
Along with the change in share of output of different economies in the world economy, there has been change in the share of the advanced and emerging economies in the total exports and imports in the period from 1990 to 2020.

In the period from 1990 to 2000, the exports in the global economy have almost doubled from \$3.38 to \$6.48 trillion. In the period from 2002 to 2008, it increased from \$6.54 trillion to \$16.23 trillion, i.e., by two and a half times (Figure 2). The global financial crisis resulted in the steady decline of exports to \$12.4 trillion. Ever since, there has not been any clear trend. Though an increase was registered to \$18.16 trillion in 2011, it has stagnated and further declined to \$15.83 trillion in 2016. The Covid-19 pandemic has resulted in a decline of exports from \$19.26 to \$17.37 trillion. The data clearly reveals that there was a high buoyant growth of exports in the period from 2002 to 2008, after which there has been high level of volatility.

Overall, during this period from 1990 to 2020, the exports have registered an annual rate of growth of 6.5% per annum.[21] The

21 All calculations on the rate of growth done by the author using the relevant data.

Figure 2: Exports in the global economy ($ trillion)



Source: Direction of Trade Statistics, IMF (2021)

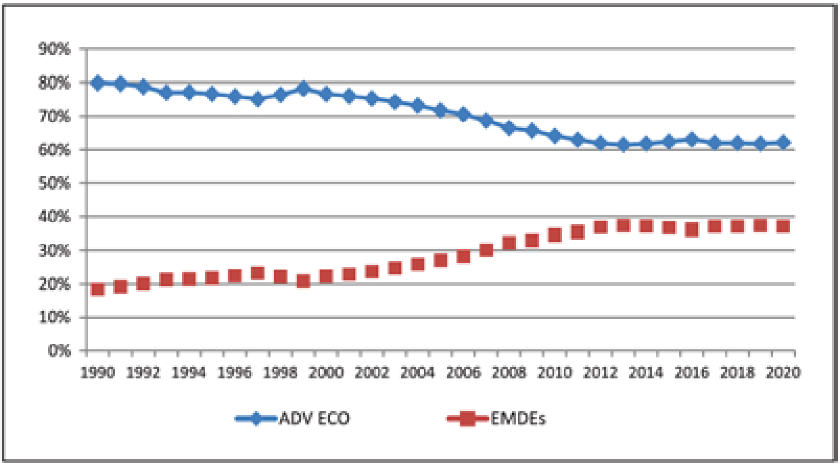
growth registered in the period from 2002 to 2008 has been far steeper. Even as the exports increased from $3.37 trillion (1990) to $16.1 trillion (2008), there was steep decline thereafter, but it recovered back, and is at $17.52 trillion (2017). But, it is should be noted that as a proportion of world output, the share has not yet reached the pre-crisis high level of 25.3% (Figure 3). While the exports from the advanced economies rose from $2.7 trillion (1990) to $10.89 trillion (2017), at a trend rate of growth of 6.6%, in the case of the emerging economies, it grew from $0.62 trillion (1990) to $6.51 trillion (2017) at a trend rate of 9.9% per annum.

This has paved the way for the distinct change in the share of exports in the advanced and emerging market economies .It is

Figure 3: Exports in the world economy (as a share of the world GDP)

Source: World Economic Outlook Database and DOTS IMF (2021)

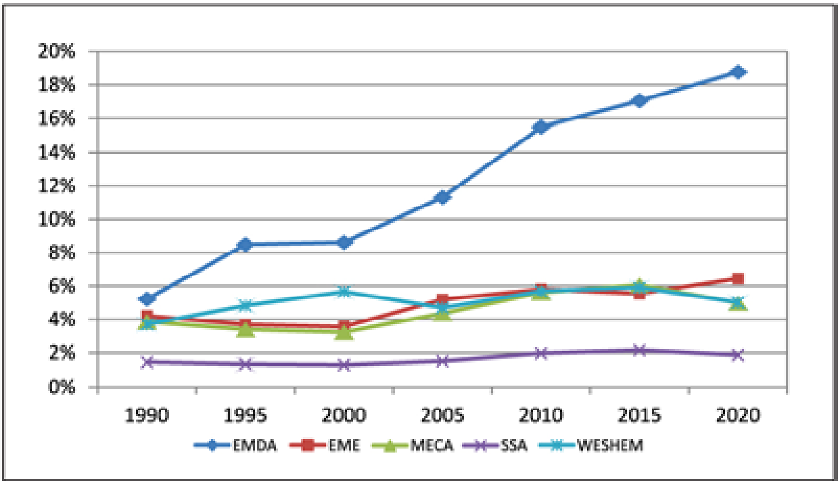
Figure 4: Share of advanced and EMDEs in world exports



Source: World Economic Outlook Database and DOTS IMF (2021). Author's calculations important to note that as per the data of the Direction of Trade Statistics of IMF, the relative share of advanced economies in total exports shows a distinct decline from 80% (1990) to 62% (2020) and that of the emerging market and developing economies has registered an increase from 18% to 37% (Figure 4). The same has occurred as result of the organisation of production through the global value chains which has resulted in the splintering of the production process across different countries. Though the share of the emerging and developing economies in the total gross exports has been on the rise, the share of the value added by the developing countries, as revealed by the OECD-TiVA database, continues to be at levels far from desirable.

During the period from 1990 to 2020, there has been increase in the exports from EMDEs in the global economy. In absolute terms, it has increased from \$0.6 trillion in 1990 to \$6.4 trillion in 2020. In relative terms, the share of the emerging and developing economies in world exports has increased from 5% to 19%. Even when in an era where production is organised through the global value chain and the gross exports would not give much sense of the share of the value added, the overall increase in this share is significant. However, it would be pertinent to inquire as to whether all of the emerging market economies were part of this growth in exports. Though all of the emerging economy groupings have witnessed an increase in their share of world exports, emerging Asia had registered the largest increase from 5% (1990) to 19% (2020). The other groups also registered an increase in the relative share in world exports, with the

Figure 5: Share of the EMDE groupings in world exports



Source: Direction of Trade Statistics, IMF(2021)

increases of sub-Saharan Africa (SSA) and Middle East and Central Asia (MECA) being the least. The Western Hemisphere (i.e. Latin America) saw its relative share increasing from 4% in 1990 to 6% in 2017, but in the light of commodity price slowdown as well as the disruptions in the global value chains during the pandemic, its share has decreased to 5% in 2020(Figure 5).[22]

It would be of particular interest to note as to what has happened to the level of exports in the period after financial crisis. The total exports of goods in the world economy have increased from $12.4 trillion in 2009 to $17.37 trillion in 2020. As per the World and Regional Tables of the IMF, of the total exports, China accounts for

22 In the figure, the ratio of emerging Asia is not included.

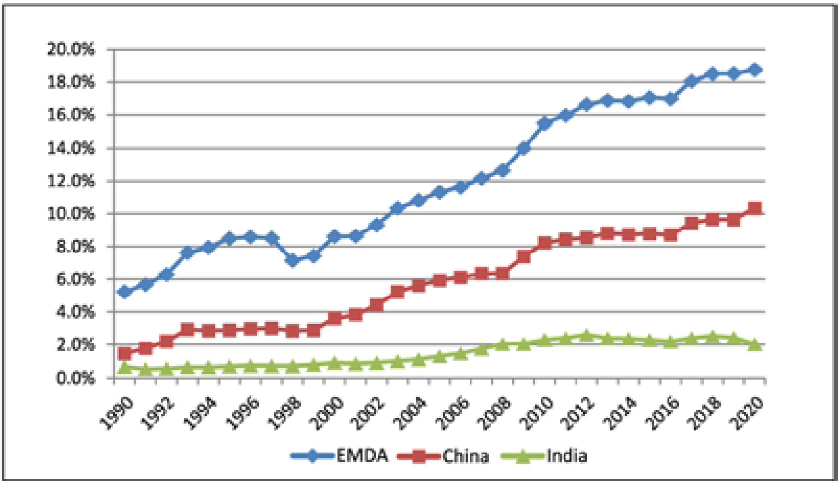
$1.79 trillion (10.3% of the total exports), United States for $2.32 trillion (13.4%) and, Germany for $1.17 trillion (6.7%). It should be noted that amidst the emerging market economy groupings, other than Emerging Asia, which accounts for $3.26 trillion of exports, i.e., 19% of the total exports, the numbers of the other groupings are far lower (Table 1).Though in absolute terms, the other groupings have also been witness to a small increase, their relative share in the total exports of the global economy has remained stagnant.

This brings us to the emerging Asia region, the share of which has increased from 5% to 19% during the period since the nineties. At the disaggregated level, what proportion of this increase in the share of exports could be on account of China and India? Whereas the share of China has increased from 1.5% in 1990 to 10.3% in 2020, that of India has increased only marginally from 0.7% to 2%. In any case, it could be argued that the distinct upward shift in the share of emerging Asia would not have occurred but for the strong performance of Chinese exports. Many of the small industrializing

Table 1: Exports in the World Economy ($ trillion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EMDA	1.74	2.36	2.90	3.05	3.16	3.16	2.79	2.69	3.16	3.56	3.47	3.26
EME	0.70	0.88	1.13	1.15	1.18	1.15	0.91	0.91	1.06	1.17	1.16	1.12
MECA	0.73	0.85	0.96	1.07	1.12	1.15	0.99	0.92	0.97	0.99	0.99	0.87
SSA	0.24	0.30	0.39	0.39	0.41	0.43	0.35	0.31	0.33	0.35	0.36	0.33
West Hem	0.66	0.87	1.06	1.10	1.11	1.10	0.97	0.89	0.98	1.07	1.03	0.87
EMDE	4.07	5.26	6.44	6.76	6.98	6.99	6.02	5.72	6.49	7.14	7.00	6.44
ADV	8.15	9.76	11.44	11.36	11.51	11.62	10.23	9.99	10.86	11.94	11.59	10.80
World	12.40	15.21	18.16	18.33	18.71	18.80	16.38	15.83	17.50	19.26	18.75	17.37

Figure 6: Share of EMDA, China and India in the total exports



Asian economies have also performed well on the export front contributing to this high increase in the share of emerging Asia in world trade (Figure 6).

A good 8% of the almost 20% increase in the share of EMDEs in world trade during this period has been on account of China. Though significantly tilted in favour of China, it should also be noted that the share of the emerging economies other than China in world exports has also been witness to an increase in their share from 17% (1990) to 26.7% (2020). This is largely attributed to the global value chain based production in which parts of the product are manufactured in different parts of the world with the explicit intent of cost reduction. Different emerging and developing economies have been witness to rising global value chain (GVC) participation rate. In the light of number of instances of labour rights violation which was evident with incidents like the Rana Plaza Tragedy in Bangladesh, enforcement of decent standards of work in the global value chain has been an important challenge at the policy level for organizations like ILO.[23]

(iii) Increasing growth of service trade and the change in trade openness ratios

Trade in services has also grown in value over the years. The advanced economies have a distinct advantage in the field of services. As per the Balance of Payments Statistics Yearbook of the IMF, the exports of services grew to almost 30% of the value of total merchandise exports in the global economy. Technological changes in the field of telecommunications have made it possible to undertake trade in set of services which were once considered non-tradable. While the export of services in the global economy increased from \$3.52 trillion (2009) to \$4.83 trillion (2015), the export from advanced economies has increased from \$2.72 trillion to \$3.57 trillion. United States is the single largest exporter of services, and its exports during this period have increased from \$0.51 trillion to \$0.75 trillion during the same time period. The latest World Trade Report of the WTO draws attention to the possibly large increase in the share of the trade in services in the total trade due to the significant developments in the period after the outbreak of the pandemic. There has been a

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23 For an overview of the initiative in the form of Asia Floor Wage and a critique in this regard, see (Krishnakumar, Asia Floor Wage, International Labour Standards and 21st Century Issues, 2016)

phenomenal increase in e-commerce transactions in the period post-pandemic. The rise in digital trade with the developments in the field of telecommunications has resulted in the possibilities of the rise in the share of Mode I sort of services.[24]

It should be noted that the trade openness of the economies have been on the increase till 2007, before going for a reversal.[25]With the production in the global economy happening through the global value chains, there has been increase in exports and imports which has happened to facilitate further value addition. There has been large increase in global value chain participation rate in the course of the last two decades

Though there has been an overall decline in the trade openness ratio after the global financial crisis, the economies of Germany and Switzerland have been witness to even higher trade openness ratios in the period after global financial crisis. Whereas the trade openness ratio of Germany rose from 61% (2000) to 87% (2017), that of Switzerland increased from 97% (2000) to 119% (2017). Despite being one of the largest exporters and importers in the world, trade

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24 The services trade is largely categorized into four categories: Modes I to IV. Mode I refers to the cross-border supply of services with producer and consumer being in two different countries. Mode II refers to the requirement that the consumer has to go to the country providing the service to consume it (tourism), Mode III refers to commercial presence in another country and Mode IV to natural movements of persons for a short duration of time for the provision of the service.

25 Trade openness ratio refers to the sum of exports and imports to GDP.

Table 2 : Trade openness ratio on the basis of exports of goods and services

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
USA	12%	11%	12%	13%	15%	15%	17%	19%	21%	17%	18%	21%	19%	19%	19%	16%	16%	16%
German	61%	62%	61%	62%	66%	70%	77%	79%	81%	71%	79%	85%	86%	85%	84%	86%	84%	87%
Switzerland	97%	95%	91%	89%	94%	100%	104%	111%	115%	107%	117%	122%	123%	131%	116%	112%	120%	119%
Singapore	366%	353%	354%	383%	406%	423%	430%	399%	442%	361%	373%	380%	371%	366%	359%	329%	310%	322%
China	29%	29%	31%	51%	59%	62%	64%	62%	57%	45%	49%	51%	48%	46%	45%	39%	37%	34%
India	28%	27%	28%	29%	34%	40%	44%	42%	56%	43%	46%	55%	56%	55%	51%	44%	40%	40%

Source: BOPS, IMF (2018), World Economic Outlook Database, Oct 2018, Author's calculations openness of US economy has been at far lower levels (16%), by virtue of the large size of the US GDP, which is approximately equal to 25% of the world GDP. The large ratio of trade openness of Singapore is on account of the large element of entrepot trade which is a defining feature of the city-state. But, the trade openness ratio of Singapore too was witness to steep decline from 442% (2008) to 322% (2017).[26] Though there was significant increase in the trade openness ratio of India from 28% to 56% between 2000 and 2008, and of China, from 29% (2000) to 62% (2007), the period after global financial crisis was witness to a decline in the trade openness ratio of these economies. As of 2017, the trade openness ratio of India and China are at 40% and 34% respectively (Table 2).[27]

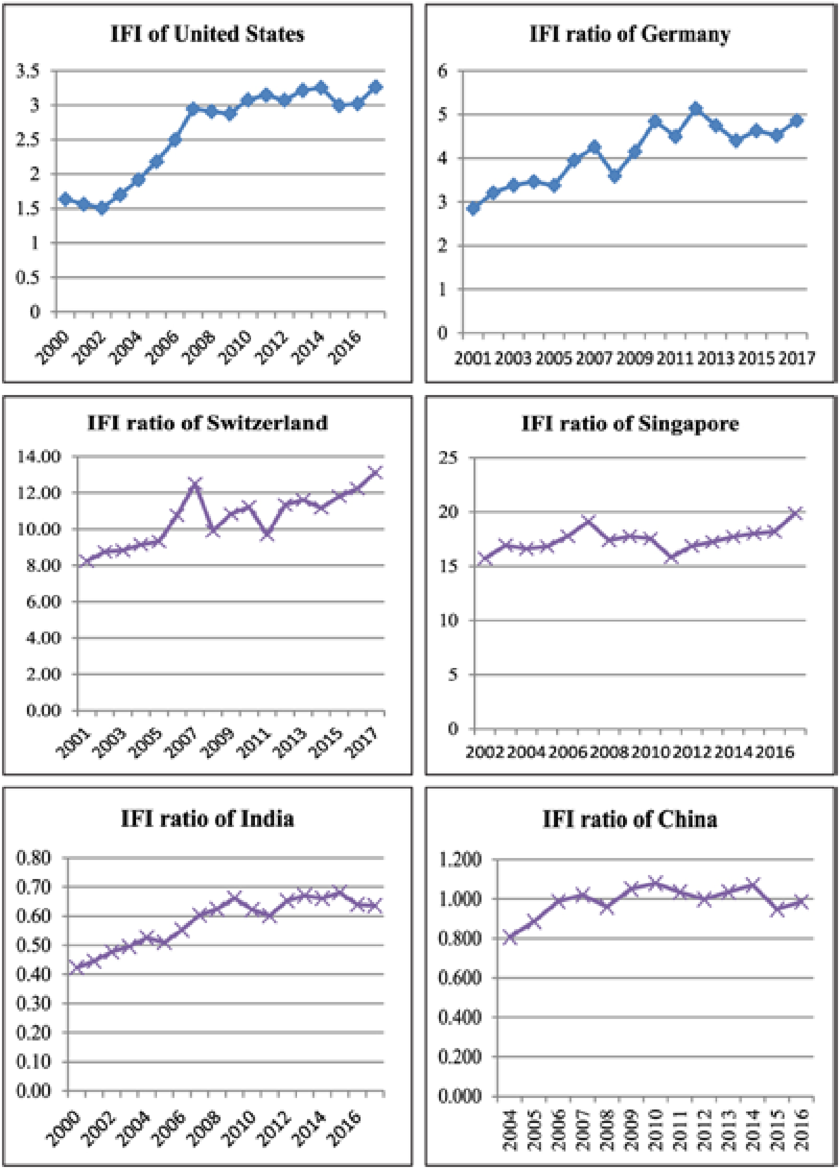
(iv) Rising levels of external assets and external liabilities in the world economy

The process of financial globalization has resulted in a large increase in the external assets and liabilities of economies. Since the nineties, there has been large increase in the index of international financial integration. Figure 7(a to f) below illustrates the swings in the IFI ratios of representative economies from different categories: USA and Germany from advanced economies, Switzerland and Singapore

26 The same is true with respect to different economies like Netherlands

27 All calculations on trade openness(X+M)/GDP have been made here is on the basis of the data of exports and imports of goods and services from Balance of Payments Yearbook of IMF. Towards calculating it in terms of GDP, the figures of GDP has been taken from World Economic Outlook Database.

Figure 7: IFI ratios of economies



from international financial centres, and, India and China from emerging economies, (Note: International financial integration ratio refers to the sums of the external assets and external liabilities as a share of the GDP.)

The protagonists of financial globalization have been arguing that the capital would move from capital-rich to capital-poor economies resulting in efficiency gains as well as increase in the level of output. It was also considered important towards facilitating risk diversification. This untramelled mobility of capital has exposed different emerging economies to a series of crises.

While both assets as well as liabilities are at least 150% of its GDP, the IFI ratio of United States is above 3. Between 2002 and 2006, there was large increase in the IFI of United States from 1.5 to 3. The IFI ratio of Germany has increased from 3 to 4.5 between 2001 to 2007. After a small dip, it is at present around 5, implying that its assets and liabilities are almost 250% each of the GDP.

The international financial centres have far higher levels of assets and liabilities to GDP ratio. Both Switzerland as well as Singapore have positive NIIP too. Switzerland has a NIIP equal to 120% of its GDP. Singapore has also been witness to large fluctuations in its IFI ratio from 19 (2007) to 15.81(2011), before further rising to 20 in 2017. It is pertinent to note that the valuation changes caused by changes in exchange rates would have huge impact on the external balance sheet of such economies, of which the assets and liabilities are five to ten times their GDP. For India, the external assets and liabilities are 40% and 23% of the GDP respectively, making its IFI

0.63 in 2017. Though like the rest of the world its IFI has increased in the period till 2008, its extent of external exposure is far less. China too has a low IFI ratio of 1, but the assets to GDP ratio is far higher than its liabilities ratio. It has positive net international investment position.

III

Foreign exchange reserves in the contemporary global economy

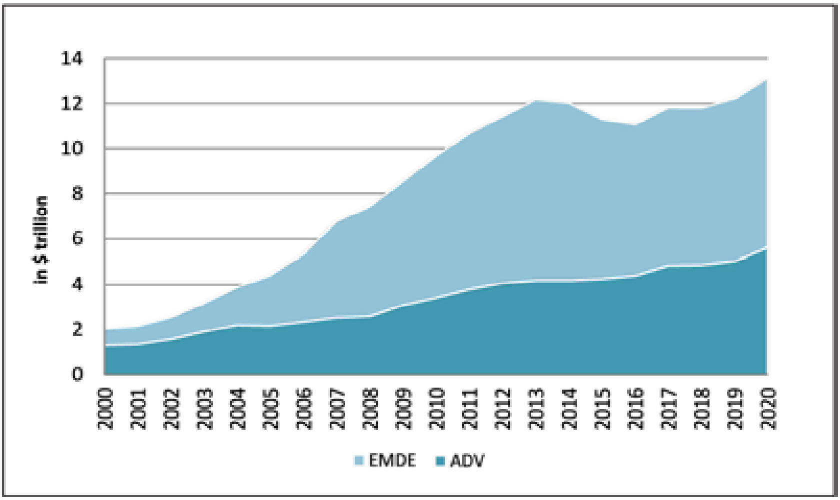
In the introductory part, we have drawn attention to the compulsions which have been responsible for the large accumulation among countries, in particular, among the emerging and developing economies. The period since 2000 has been witness to a steep increase in the foreign exchange reserves. Much of the same has been undertaken by the emerging and developing economies as a precaution against the speculative attack on their currencies. In the period from 2000 to 2020, the foreign exchange reserves held by all the countries had increased from $2.03 trillion to $13.13 trillion.

Whereas the foreign exchange reserves of the advanced economies grew at an exponential trend rate of 7% per annum in the period from $1.3 trillion(2000) to $5.6 trillion (2020), that of the emerging market and developing economies grew from $0.73 to $7.56 trillion, i.e., at an exponential annual trend rate of 11.9% per annum. The foreign exchange reserves of all the countries of the world have grown at the rate of 9.4% per annum during this period.

The faster pace of accumulation of the foreign exchange reserves from the part of the emerging economies resulted in the share of the EMDEs increasing from 35.8% in 2000 to 65.7% in 2013. The share of the advanced economies in the foreign exchange reserves decreased from 64.2% to 34.3% during the same period (Figure 10) It should be noted that though the foreign exchange reserves have continually increased till up to 2013, the same has declined to $11.78 trillion in 2017, and, further increased to $13.13 trilion (Figure 11).It is also to be noted that during this phase after 2013, the forex reserves of the advanced economies have been on the increase, which implies that the decline has been on account of the EMDEs. The foreign exchange reserves of the EMDEs has decreased from $7.98 trillion to $6.98 trillion in 2017, i.e., by one trillion dollars, or, by 12.5%, ever since it has reached the levels of 2013. A good part of the decline has been on account of the reduction of the foreign exchange reserves held by China, following their intervention in the foreign exchange markets to save the value of the yuan in 2015 following the outflow of capital from China during the year.

The policy circles have often been concerned with respect to what the optimal amount of reserves should be. The Greenspan-Guidotti rule considers reserves as sufficient in case they could cover three months of imports as well as meet the total short term foreign liabilities. It has also been observed that even as they accumulate reserves incurring a cost, the emerging economies are reluctant to run down the same to defend the currency below a particular level.

Figure 8: Foreign exchange reserves in the global economy (2000-2020)



Source: International Financial Statistics, IMF(2021)

Figure 9: Share of ADV and EMDE in the total foreign exchange reserves

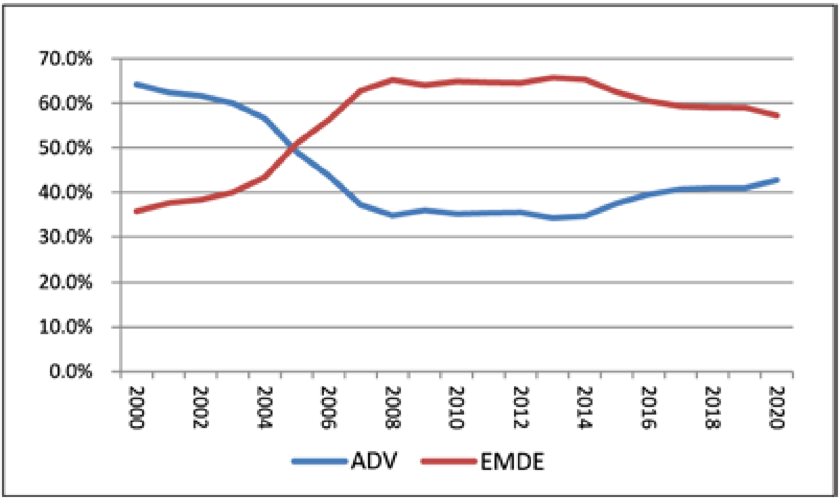
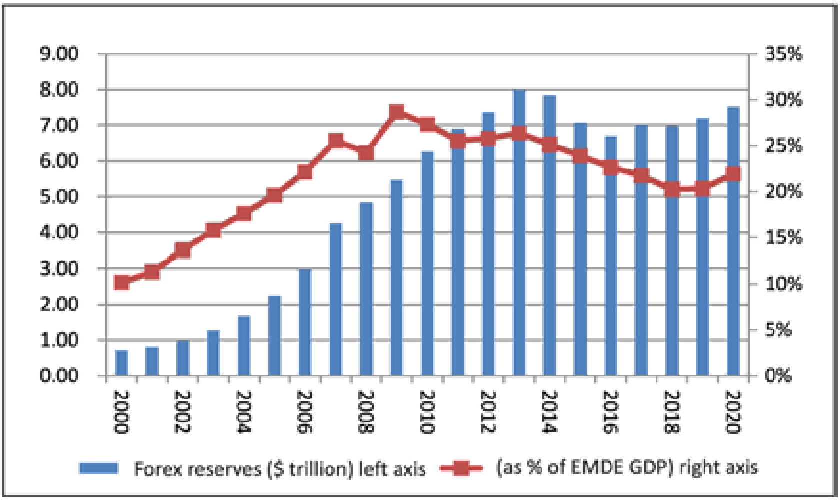


Figure 10: Foreign exchange reserves (as % of EMDE GDP)

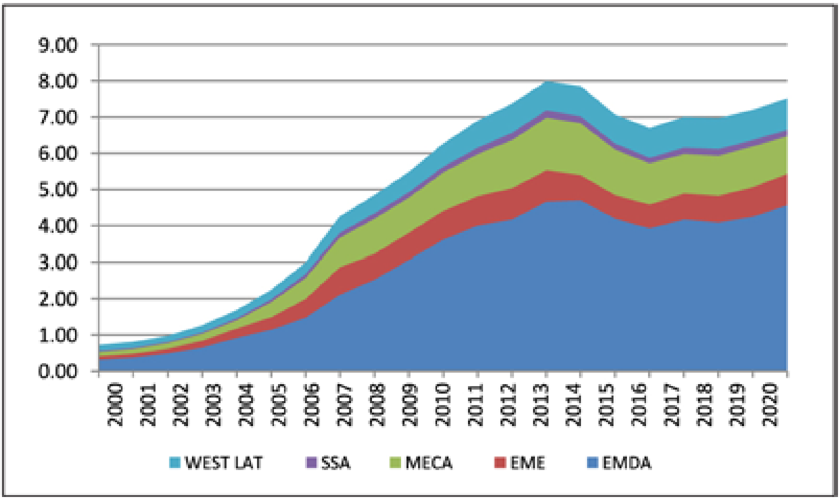


Source: International Financial Statistics and WEO Database, IMF (2021). Author's calculations

If the stigma associated with approaching the IMF prevented them from doing so in the previous epoch, the developing economies are reluctant to run down their reserves nowadays fearing the responses of international financial markets. Given that the forex reserves accumulated by those economies (which do not have current account surpluses) have been on account of net inflows on the financial account, the policy shifts in the form of monetary tightening in advanced economies, would result in capital flight abroad, and, hence lead to the running down of the reserves.

The forex reserves of the emerging market and developing economies has increased to $7.98 trillion in 2013, after which it has declined. The forex reserves as percentage of GDP of the EMDEs

Figure 11: Foreign exchange reserves ($bn) of EMDEs



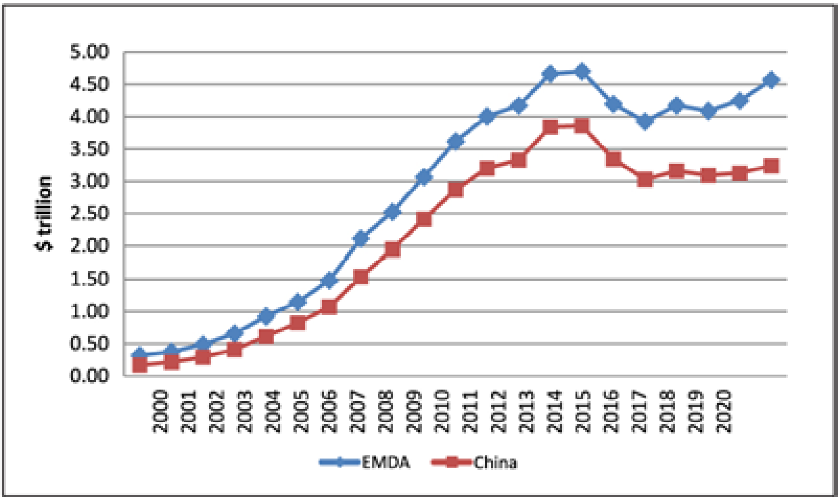
Source: International Financial Statistics, IMF (2021)

has grown up from 10.32% in 2000 to 28.94% in 2009. Ever since, it has declined to 21.9% in 2020 (Figure 10). These reserves are usually invested only in low yielding Treasury securities of the advanced economies and in the domestic front, the developing country central banks have to resort to sterilisation of foreign inflows through the issue of bonds bearing higher interest rates. This is a heavy social cost which the developing countries have to bear given the asymmetries in the international monetary system. The recent decision from the part of the IMF towards enhancing the issuance of the SDRs to countries is sure to have a favourable impact on the developing countries which were hard pressed with problems on the external payments front, triggered by the Covid-19 pandemic. Given the air of uncertainty as well as the volatility of growth to which they were exposed to in a debt-driven growth scenario, since the global financial crisis, there has been a larger increase in the accumulation of foreign exchange reserves from the part of the advanced economies. As a share of their GDP, it was witness to an increase from 7.4% in 2009 to 11.1% in 2020.

Of all the emerging market and developing economies, the share of emerging Asia in the foreign exchange reserves has been the highest. Its share in the forex reserves of the emerging market and developing economies has increased from 44% to 60%.(Figure 11) However since 2013, the forex reserves of emerging Asia too has decreased from $4.7 trillion in 2013 to $4.17 trillion in 2017, i.e., by $500 billion. The period was witness to a large decrease in the foreign exchange reserves of China, during this period, the rest of emerging Asia was witness to an increase in foreign exchange reserves. The forex reserves has decreased for MECA by $400 bn. All regions other than Latin America have been witness to a reduction in foreign exchange reserves during this period. It is extremely important to note that with the decline in the current account surpluses of China, there has been a decrease in the stock of forex reserves of China (Figure 12).A part of the decline has been on account of the sale of forex reserves which it did in the process of defending the yuan.

The post 2013 developments on the foreign exchange reserves presumes significance in the sense that the reserve accumulation on the basis of borrowed liabilities have substantially increased, for the regions which are witness to increase in forex reserves, both Latin

Figure 12: Foreign exchange reserves of emerging Asia



Source: International Financial Statistics, IMF (2021)

America as well as emerging Asia sans China are the regions which are witness to increase in forex reserves, i.e. purely on account of central bank intervention on account of capital inflows done with an intent to prevent the appreciation of the currencies. And most importantly, even as the forex reserves of the emerging economies have declined, those of the advanced economies have been on the increase. There has been a steep increase in the forex reserves of Switzerland, which has reached 120% of its GDP in 2017.The Swiss Central Bank had to intervene in the foreign exchange market to keep the value of its exchange rate intact. The central bank authorities bought up foreign currency with intent of defending the exchange rate of the Swiss franc to euro. With a huge inundation of funds from Europe in the context of the monetary easing policies of the European Central

Bank, the Swiss National Bank could not sustain the fixed exchange rate and allowed the franc to appreciate.[28]

Though the rationale provided for the accumulation of foreign exchange reserves has been that of a precautionary motive, even when the facility of foreign exchange reserves are available, they have been reluctant to use it beyond a particular level. The developing economies which were confronted by the 'fear of floating' has gone for an unprecedented accumulation of foreign exchange reserves indeed to serve as a buffer against any attack on their currency. But, in due course, it was clear that from the "fear of floating" the developing countries were now confronted with the fear of using the foreign exchange reserves. After the reserves being run down to some extent, they were refusing to touch the foreign exchange reserves. As a matter of fact, the EMDEs were confronted by a "cleft stick" problem of sorts (Chandrasekhar & Ghosh, 2018).Many of the emerging economies would have been under stress, during global financial crisis, had it not been for the swap lines extended by the Fed Reserve. But, this facility of Fed swap line is extended other than for the advanced country central bankers only to Mexico, Brazil, Singapore and South Korea.

In the contemporary global economy, these sort of *ad hoc* liquidity arrangements from the part of the Federal Reserve have been of relatively more importance, even compared to the liquidity

28 Though later in 2015, the exchange rate peg of the Swiss franc against the dollar could not be sustained, resulting in the Swiss franc appreciation.

support extended by the IMF during times of crisis. The IMF initiative through the enhanced allocation of SDRs is a step in the right direction. A reform of the international monetary system redefining the voting rights of the members taking into cognizance the changing shares of the economies in the world economy, and, a liberal framework for assistance to least developed countries facing liquidity issues would be a step forward towards addressing this issue of high levels of foreign exchange accumulation . The IMF does not raise objections to capital controls like in the past, but it has insisted on capital flows management rather than outright capital controls. In the context of number of capital-account driven crises, the compulsions of forex accumulation is now not limited to developing countries. There are advanced countries which are accumulating reserves at a faster pace. Given the extent of private liquidity and the risks assisted with the high level of two-way gross capital flows, only a proper re-organisation of the international monetary system bestowing the international financial institutions with sufficient resources would help. Otherwise, this level of foreign exchange accumulation would only help towards adding to the deflationary tendencies.

IV

Global Imbalances since 2007

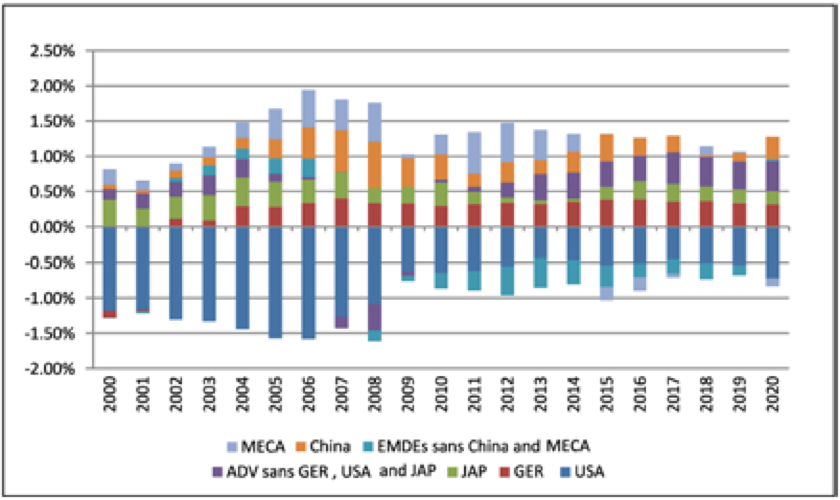
This section would start with an overview of the changes to global imbalances since 1997, and give specific focus to the shifts since

2007. After the same, we shall look into the external balance sheet of the country with the largest deficit: United States, and two of the economies with the largest current account surpluses: Germany and China.

In the period prior to the global financial crisis, concerns were raised with respect to the growing imbalances in the world economy. While the growing current account deficit of United States was considered to be unsustainable, there were serious objections to the current account surpluses of different economies in east Asia, in particular, that of China. The current account surpluses which accrued to the Asian economies were on account of the unit labour costs being far lower than the productivity of labour. This was possible due to the large labour reserves in these economies. That said, not infrequently, there were allegations that the competitiveness was on account of the manipulation of exchange rates through intervention in the foreign exchange market.

It should be borne in mind however that in the aftermath of the Asian financial crisis, the asymmetry faced by the developing countries in getting access to international liquidity from the international financial institutions like the IMF came to the fore, and there has been a large accumulation of foreign exchange reserves with a precautionary motive in mind. This is notwithstanding the huge social costs associated with the holding of foreign exchange reserves. As against the low interest which accrues to central banks

Figure 13: Current Account (as % of world GDP)



Source: World Economic Outlook Database, IMF(2021) Author's calculations

from the US Treasury securities, they end up paying far higher returns on the corresponding external liabilities.[29]

As Figure 13 illustrates, the current account deficit of United States increased to 1.56% of the world GDP in 2006. This is the highest current account deficit ever in the history of United States. The figure also brings out distinctly the rise in the current account surplus of China since 2002 till 2008. The MECA (Middle East and Central Asia) group, which has most of the oil producers, have also been part of the large surplus producing countries, but its surpluses

29 The paper by Dani Rodrik estimates that the emerging and developing economies were bearing a cost of about 1% of their GDP. This, though, he did not consider to be a very heavy cost, given the risks of financial crises, could be considerably reduced. (Rodrik, 2006)

were inextricably linked to the price of oil in the international economy. During the period prior to the financial crisis, at least 60% of the surpluses of the world economy were gobbled up by United States.

Since the global financial crisis, while the surplus of China has been on the decline, that of Germany has been showing an increase. Ever since 2002, Germany has emerged as important exporter to the international economy, and its position has only got consolidated since the global financial crisis. It has a large surplus on the goods front too. The Chinese current surplus in 2008 was as high as 0.66% of the world GDP; it has ever since decreased to 0.27% in 2016. In terms of its own GDP, the current account surplus of China has been witness to a steep decline. However its current account surplus has since increased and reached 0.32% of the WGDP in 2020. On the other hand, from having a current account deficit till 2001, Germany has emerged as a major exporter with a current account surplus of 0.39% of the world GDP in 2016. In 2020, it is at 0.31% of the world GDP.

Though Japan continues to be a country with a current account surplus, there has been a distinct decrease with respect to its merchandise trade surplus. Its surplus has been more on the basis of the investment income which it earns from the rest of the world in the form of dividends, profits, interest and royalty. It is of importance to note that the advanced economies other than US, Japan and Germany, which used to have a deficit on the current account are now in the surplus region. And, on the other hand, the EMDEs other than China and MECA (Middle East and Central Asia) have moved from a surplus category to a deficit category.

The informal international arrangement which has emerged in the course of the first decade of the current century has been characterised as Bretton Woods II. This system has been rationalized under the premises that it facilitated current account surpluses for the emerging economies. The data of the recent years show that this is on the reverse. The surpluses of China has declined ever since the global financial crisis, but the small surplus which the emerging and developing economies (other than China and Middle East) had in the period from 2002 to 2006 got transformed into current account deficits. The reversal of the unconventional monetary policies, through monetary tightening, with recovery in United States, emerging market economies could be in for years of turmoil, when the capital outflow would pick up momentum from different economies, once yield picks up in the advanced economies. The advanced economies are least bothered of the damage inflicted by the reversal of these policies on the emerging economies.[30]

Among those with a current account deficit in the global economy, United States is way ahead of others. In 2006, when the

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30 Rajan argues that "the current non-system in international monetary policy poses a substantial risk not just to economic growth, but also to the financial sector". He laments that economies are being pushed to competitive monetary easing, by virtue of there being no collective action.(Rajan, 2014)

current account deficit of United States was close to $800 bn, i.e., 5.8% of its GDP, the current account deficit of UK was far lower compared to that of US. While the current account deficit of United States was six times as large as that of United Kingdom in 2007, it was only four and half times as large by 2017. However in the post-2017 period, the US deficit has been on a rise both in absolute terms as well as in terms of other deficit economies. Indeed, in 2020, the US deficit is more than six times larger than the UK deficit. The other economies having a current account deficit include Canada, Turkey, India, Australia, Argentina, Algeria, Mexico and Indonesia. Of all the economies in this list, Argentina, Algeria and Indonesia have moved from a current account surplus in the 2007 to 2009 period to a deficit in 2017(Table 3).

As far as countries with a current account surplus are concerned, we find that there has been a lot of change. China had the highest current account surplus in absolute terms from 2007 to 2010. In the post 2007 period, its current account surplus was highest at $420 bn in 2008. In most of the years after 2010, Germany emerged as the country with the largest current account surplus in the global economy. Though Japan retains its position in the top three throughout, its current account surplus has now much to gain from the surplus it has on the investment income front. Of particular importance in the emergence of Korea with a huge current account surplus, that too, in a period of unfavourable global trade conditions. Its current account surplus has moved from $33 bn (2009) to $106 bn (2015). Singapore and Switzerland figure in the set of economies

Table 3: Current Account Balance in the World Economy(2007-20): Deficit economies

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
USA	-736.55	-696.53	-379.74	-432.00	-455.30	-418.11	-339.46	-369.98	-408.88	-397.57	-361.70	-438.24	-472.15	-616.09
UK	-104.93	-115.71	-79.78	-77.46	-48.00	-94.59	-136.46	-149.41	-147.25	-147.72	-100.43	-104.80	-87.54	-95.42
Canada	11.05	3.18	-40.78	-58.16	-49.75	-64.58	-58.11	-41.87	-54.70	-47.26	-46.24	-40.44	-35.69	-29.72
Turkey	-36.95	-39.43	-11.36	-44.62	-74.40	-47.96	-55.86	-38.85	-27.31	-27.04	-40.81	-21.74	6.76	-37.30
India	-8.08	-30.97	-26.19	-54.52	-62.52	-91.47	-49.12	-27.31	-22.46	-12.11	-38.17	-65.60	-29.76	32.73
Australia	-64.16	-52.12	-48.90	-44.71	-44.43	-64.48	-47.87	-43.40	-56.96	-41.04	-35.95	-29.79	7.92	34.37
Argentina	6.05	5.42	7.25	-1.62	-5.34	-2.14	-13.12	-9.18	-17.62	-15.10	-31.15	-27.08	-3.71	3.31
Algeria	30.35	33.95	0.43	12.22	17.67	12.09	1.19	-9.26	-27.04	-26.20	-22.07	-16.91	-16.95	-18.22
Mexico	-9.90	-16.81	-7.76	-4.83	-11.89	-18.64	-31.52	-25.44	-31.08	-24.40	-20.42	-25.10	-3.94	26.12
Indonesia	10.49	0.13	10.63	5.14	1.69	-24.42	-29.11	-27.51	-17.52	-16.95	-16.20	-30.63	-30.28	-4.45

Source: Balance of Payments Yearbook, IMF (2021) with the highest current account surpluses, they have really high current account surpluses relative to their national incomes. Despite the decline in oil prices, Russia has been having a current account surplus throughout these years. Saudi Arabia, which has been one of the major surplus economies had slided to deficit in 2017 due to low price of crude. It is to be noted that the deflationary situation in the domestic economy has resulted in Italy transforming from being a deficit country to one with a surplus. (Table 4)

The economies affected by European banking/ sovereign debt crisis (Greece, Ireland, Italy, Portugal and Spain) have moved to a current account surplus due to the forces of deflation. Falling price levels, worsening unemployment rate and decreasing rates of growth are resulting in far lower imports, resulting in a surplus. Unfavourable and uncertain expectations on the future of economic activity also have resulted in a slump in investment activity in these economies. The current account surpluses of these economies are an outcome of this situation (Figure 14).

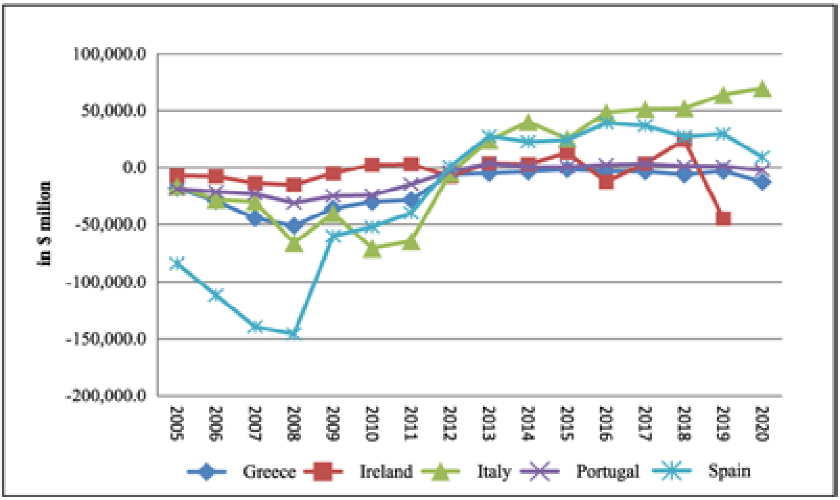
On the other hand, Germany continues to have even higher exports, and, current account surpluses. Right at the time while peripheral Europe is reeling under recession, Germany has thought it go slow on fiscal expenditure, thus even reducing the scope of any favourable impact abroad in the form of higher imports. This again brings to the fore the predicament wherein the deficit economies are forced to adjust, with the surplus economies unwilling to play the role of adjustment. This has been an in important issue right through the fifties in the international economy.

Table 4: Current Account Balance in the World Economy (2007-20) : Surplus economies

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Germany	235.78	213.25	201.14	196.17	231.97	251.55	245.38	278.66	288.62	295.08	288.54	312.70	289.61	268.53
Japan	211.74	142.12	145.68	220.89	129.60	60.12	46.38	36.35	136.47	197.05	203.17	177.27	176.81	164.50
China	353.18	420.57	243.26	237.81	136.10	215.39	148.20	236.05	293.02	191.34	188.68	24.13	102.91	273.98
Netherlands	50.05	38.96	50.06	61.80	81.37	89.51	85.50	75.95	48.58	62.97	90.23	99.06	85.28	63.66
Korea, Rep. of	10.47	1.75	33.09	27.95	16.64	48.79	77.26	83.03	105.12	97.92	75.23	77.47	59.68	75.28
Switzerland	46.90	14.36	40.96	88.32	57.07	75.14	81.05	59.09	72.11	62.62	50.80	49.09	49.15	28.09
Singapore	49.11	29.20	31.83	55.00	62.07	52.06	48.31	56.52	57.57	56.01	59.28	57.93	53.40	59.79
Italy	-30.13	-66.40	-40.41	-70.82	-64.81	-5.13	23.97	40.10	25.38	48.42	51.46	52.08	64.01	69.74
Thailand	15.58	0.93	22.19	11.49	9.43	-4.90	-8.83	11.64	27.75	43.44	43.95	28.42	38.21	17.60
Russian Fed	72.19	103.94	50.38	67.45	97.27	71.28	33.43	57.51	67.78	24.47	32.18	115.68	65.40	36.11

Source: Balance of Paym nts Yearbook IMF (2021)

Figure 14: GIIPS : Forced into a Current Account Surplus



Source: BOPS, IMF(2021)

Creditor economies and debtor economies in the world economy

Amidst the top creditor economies (in absolute amounts) in the world in 2017 are Japan, China and Germany. In terms of their GDP, the economies of Hong Kong, Switzerland, Norway and Singapore are ahead. Table 5 gives the list of the top creditor economies of the world. It is pertinent to note that almost all of the economies other than Korea have had current account surpluses over a long period of time.

Leading the top debtor economies in the world, i.e., with negative net international investment position is USA, of which the external liabilities are far in excess of the assets to the tone of $8 trillion, which is approximately 40% of the US GDP. The negative net international investment position apart, United States earns a far higher return on its assets abroad as against its payments on its liabilities. Leading in the list of the economies with the highest NIIP are Spain, Australia, Brazil, Mexico, Ireland, Turkey and India (Table 6). Even when negative NIIP might not be a severe concern for reserve currency issuing countries like the Unites States, given the large volatility in the markets of exchange rates and interest rates, it could affect the other economies.

Given their predominant role in contributing to global imbalances, we shall explore further in detail on certain aspects of United States, China and Germany. Leading the top debtor economies in the world, i.e., with negative net international investment position is USA, of which the external liabilities are far ahead of assets to the tone of $8 trillion, which is approximately 40% of the GDP of USA. The negative international investment position apart, United States gains a far higher return on its assets as against its liabilities. Table 6 illustrates the shifts in NIIP of the other economies which have large negative NIIP: Spain, Australia, Brazil, Mexico, Ireland, Turkey and India. Given their preponderant role of United States,China and Germany in contributing to the global imbalances, let us have a detailed look into these three economies.

Table 5: Top Creditor Economies (in terms of NIIP $bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Japan	2194.93	2489.35	2913.82	3141.88	3419.21	3458.13	3093.37	3012.35	2815.08	2879.34
China	1188.12	1493.82	1490.52	1688.03	1688.42	1866.50	1995.97	1602.76	1672.83	1950.37
Germany	693.21	646.82	884.97	884.18	811.40	1038.67	1344.26	1449.32	1539.24	1689.21
HongKong	491.88	632.22	735.25	665.14	711.21	721.47	757.98	870.19	1003.13	1153.82
Switzerlan	649.68	621.92	756.20	844.27	879.09	837.82	728.90	668.32	613.79	770.52
Norway	226.18	219.23	326.16	386.99	429.29	493.59	640.47	708.99	696.83	734.82
Singapore	418.36	340.63	444.23	512.29	533.39	590.63	605.57	584.90	622.46	666.67
Saudi Aral:	379.81	470.97	434.58	478.66	585.27	684.76	763.17	791.58	689.80	597.27
Netherland	-137.75	-74.86	7.96	89.52	164.48	262.87	279.37	391.69	376.41	468.35
Korea, Rep	-187.45	-69.33	-99.87	-131.10	-81.03	-94.37	-37.22	84.23	204.46	277.89
Belgium	142.90	255.41	288.92	318.04	298.72	264.61	281.06	279.29	205.23	255.25
Russ Fed	-148.64	250.25	102.91	18.41	149.45	142.33	185.50	310.10	331.73	211.09

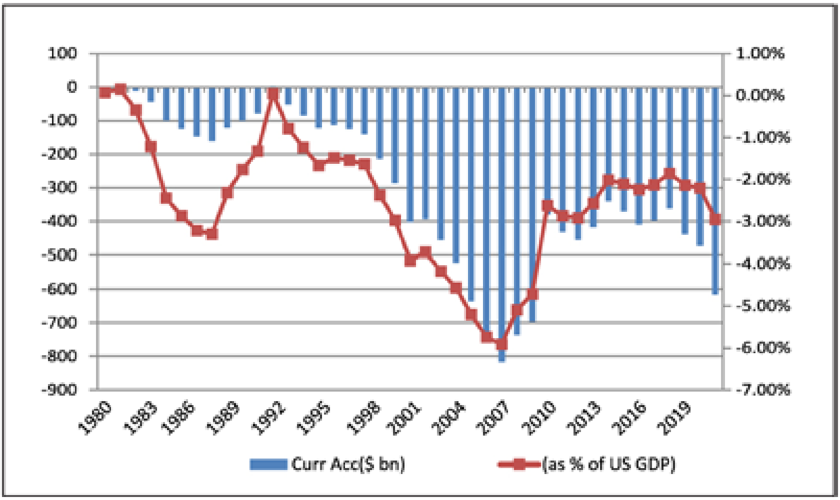
Source: Balance of Payments Statistics, IMF

Table 6: Top Debtor Economies (in terms of NIIP $ bn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
USA	-1279.49	-3995.3	-2627.63	-2511.79	-4455.36	-4518.01	-5368.65	-6945.42	-7461.58	-8181.59
Spain	-1265.83	-1246.52	-1453.89	-1279.2	-1273.38	-1233.03	-1334.53	-1234.21	-1053.09	-1006.19
Euro Area	-1665.26	-2392.45	-2322.84	-1721.49	-1945.31	-1899.9	-1983.38	-1488.15	-1313.47	-806.044
Australia	-564.205	-485.062	-675.103	-754.365	-814.189	-864.184	-752.26	-695.202	-674.195	-699.804
Brazil	-495.454	-243.106	-559.113	-906.15	-820.35	-794.826	-723.914	-705.912	-374.683	-583.538
Mexico	-396.871	-361.108	-393.399	-461.025	-441.332	-563.222	-617.432	-602.352	-600.992	-530.938
Ireland	-54.3632	-178.941	-226.281	-199.46	-235.989	-318.338	-327.22	-380.265	-556.718	-519.151
Turkey	-313.621	-199.612	-275.923	-361.269	-316.205	-426.281	-398.076	-446.848	-387.578	-369.284
India	-74.766	-87.4691	-125.66	-205.783	-221.689	-297.22	-319.384	-357.963	-364.123	-362.977

Source: Balance of Payments Statistics, IMF

Figure 15: Current Account Balance of USA



The External Balance Sheet of United States and the US Current Account Deficit

Compared to its 2006 highs, the current account deficit of the United States has declined substantially. As can be seen from Figure 15, the current account deficit of United States was at its highest at 5.9% in 2006, when it touched almost $800 billion. Even in 1987, it was only at 3.3% of the GDP. It has drastically got reduced from its 2006 levels, in 2017, it is at 2.3% of the US GDP, almost at $300 bn. Given the reserve currency status of dollar, rationally, this should not be much of concern for United States.

However, the United States has been going out of the way towards levelling barriers to trade. But in all these debates, its focus has been on its merchandise trade deficit. Moreover, one should also discount for the current period when dollar has picked up strength, which also would have an impact on its current account. It seems that the foreign economic policy advocates would want the issue of bilateral trade deficit with different economies as a tool towards sidelining the multilateral framework towards the making of which it has also played a role. The current impasse, which has manifested in the form of growing tariff escalation across economies has resulted in a beggar-thy-neighbour environment in the world economy. It has gone to the extent of even posing a threat to the multilateral trading framework in the world economy.

It is pertinent to note that notwithstanding the huge merchandise trade balance which United States has, it has surplus on services front as well on the investment income front. It is also important to note with respect to United States current account deficit or higher level of absorption as against the level of output, particularly over the last three decades has been serving as source of demand for the rest of the world. The large increase in the external liabilities of United States, however, has become an important issue. It has transformed itself into being the single most important debtor country of the world, by virtue of its external liabilities being far more than external assets. The sustainability of the same and the risks it poses to the dollar continues to rule supreme in the international financial markets. Given the growing external liabilities, Krugman has predicted a serious crisis for the dollar in the run-up to the global financial crisis.[31]But, there were others like Richard Cooper, who was optimistic about the dollar and its long term performance.[32]

Even when the world was rocked by the global financial crisis, the status of dollar as a safe haven helped it to gain strength. Making matters easier for the dollar was the sovereign debt crisis in Europe. It should be noted that notwithstanding its negative net international investment position, i.e., of external liabilities being more than that of assets, United States has had a surplus on the investment income front for all these years. This is by virtue of the fact that the return which accrues to its external assets have been far higher than the rate of payment which it had to make on its external liabilities.[33] This is also by virtue of the fact that United States has a balance sheet which has a larger part of its assets in the form of equity with higher return, and, a good part of the liabilities side being held in the form of debt, that too low yielding debt held in the form of Treasury securities.[34]

Even after a decade after the global financial crisis, United States is continuing to make an issue of the large bilateral merchandise trade deficit which it has with China. This is used as an excuse towards subverting the multilateral trading arrangement in the WTO. The premises on the basis of which trade injunctions are imposed on other countries by United States, i.e., Report on Macroeconomic

31 (Krugman, 2007)

32 (Cooper, 2008)

33 See Gourinchas and Rey (2007)

34 As per US Treasury International Capital, of the $5.5 trillion worth long term Treasury securities held by foreigners, China and Japan holds $1.14 trillion and $1.03 trillion respectively, as on June 2017.

and Foreign Exchange Policies of Major Trading Partners of United States, is analytically flawed and lacks any macroeconomic sense.[35] The series of tariffs which the largest economy of the world has imposed on a number of commodities is with this intent. The efforts of this sort is coming from an economy, which in the post-war period, was in the forefront of multilateralism. It has expressed not just disenchantment with the dispute settlement mechanism within WTO, but has also taken exception to the accommodative clauses in the form of special and differential treatment to the developing economies. All of it is being done towards extracting further concessions with respect to investment rules, as well as with rules relating to intellectual property rights, royalty payments as well as further liberalization in the field of services.

Current account balance of China and its net international investment position

With the current account surpluses accumulated over the last decades, China has emerged as one of the leading creditor countries of the world. This has also resulted in large initiatives which it has undertaken in the form of the Belt and Road Initiative (BRI).There has been various issues raised about the same, which is beyond the scope of the current paper. But it should be noted that as a share of its GDP, the current account surplus has got reduced tremendously since the global financial crisis; a good share of the exports done from China has been done by affiliates of multinational corporations

35 For a critique of the same , (Krishnakumar, 2018)

based in China.[36] It has emerged as an important centre in the global value chain of production.

Notwithstanding its creditor status, China continues to have a deficit on the investment income account in most of the years, since the crisis. Contrary to United States, it has been a risk-averse investor, investing largely abroad in Treasury securities as well as other debt instruments. On the other hand, its liabilities have been more in the form of the direct investment. China and Japan are two of the largest holders of the stock of US Treasury securities. The deficit on the investment income front is on account of the return from its external assets is far lower in comparison return which it has to pay to the foreigners. That said, it should also be noted that the stock of foreign direct investment of China in the rest of the world has been witness to an increase in absolute terms over the years, though its share in the total assets has been very low. The BRI has also to been instrumental in the change in the composition of the external assets of China. Over the years, there has been a large increase in the lending done by the banks headquartered in China.[37]

Though it sounds a little bit childish, what concerns United States most is the rising bilateral trade surplus which China has with the United States. It is indeed strange that the bilateral trade deficit

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36 The 2012 issue of Global Economic Prospects of World Bank has drawn attention to this growing phenomenon of Arm's Length Trade, i.e., trade with firms other than own affiliates. But different studies in international trade report that at least one-third of the total trade is intra-firm in nature. (World Bank, 2012)

37 One of the recent reports of the World Bank draws attention to the same. (World Bank, 2018)

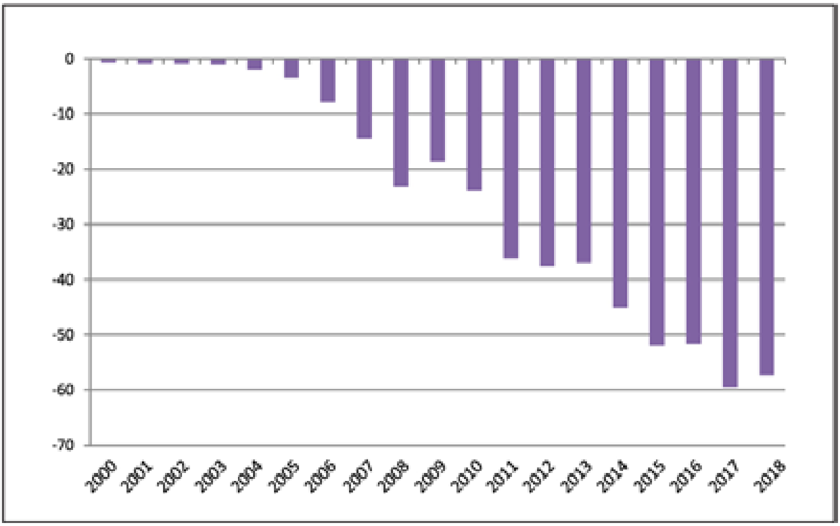
which the United States has with China is effectively manoeuvred by US as logic for rocking the boat of multilateralism in the international economy. As per Direction of Trade Statistics of IMF, the bilateral trade deficit of USA with China has increased from $163.18 bn (2007) to $278.8 bn (2017).[38] But, here one can ill-afford to ignore the fact, even as China has an overall merchandise trade surplus, it has a bilateral trade deficit with many of the leading economies like Japan, Australia, Germany and South Korea.

As per the data from IMF, the bilateral trade deficit of China with Korea has increased from $48 bn (2007) to $74 bn (2017). Here, it should also be noted that in 2013, it was as high as $91 bn. With Australia, it has increased from $7.76 bn (2007) to $51 bn(2017). For Germany, it moved from a bilateral trade surplus of $3 bn, to a deficit of $25 bn. So, if all of these economies could have a surplus with China, it speaks more about the competitiveness of those economies. Indeed, it is precisely because it lacks in competitiveness in different product lines that US ends up having a deficit with China. All of this forces us to conclude that being part of the larger global value chain of production, China was engaging economies from different parts of the world economy, in this era. The contemporary world economy is best characterised by Feenstra as one with the disintegration of production and integration of trade.[39]

38 Restricting the analysis of bilateral trade of China and Germany to 2018 since then there has been changes in trade composition due to Covid-19.

39 (Feenstra, 1998)

Figure 16: Bilateral trade balance of India with China ($bn)



Source: Direction of Trade Statistics, IMF(2019). Author's calculations

Apart from its understandable trade deficit with the oil rich countries, it should be noted that China had consistent bilateral trade deficit with emerging market economies like Brazil and Malaysia. It is also pertinent to note that with the emerging economies of sub-Saharan Africa, China had a trade deficit since 2007 throughout, except for 2015 and 2016.

However, India has a huge increase in its bilateral trade deficit with China. From a very trivial amount in 2000 to 2004 period, the bilateral trade deficit has increased to $50bn to 60 bn in the 2015 to 2018 period (Figure 16).But, this has also to be seen in the context of lack of preparedness with respect to state support for industrialisation in India while it has been eager to integrate itself to the global value chains and the free trade areas.[40]

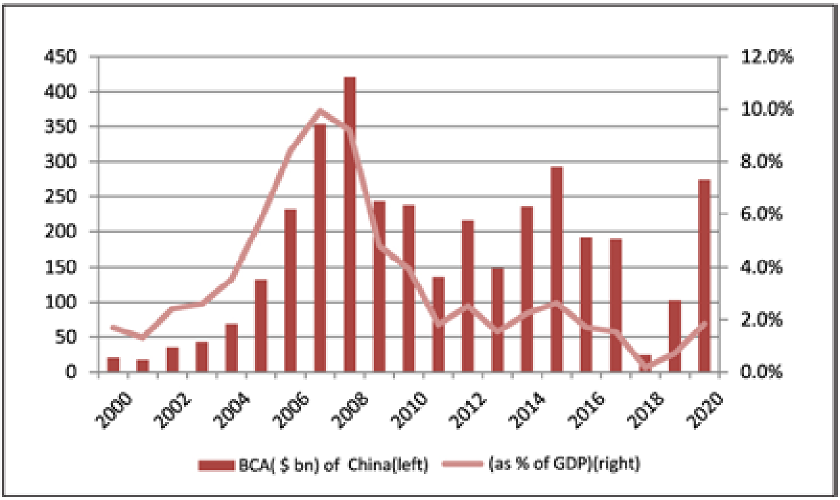
But when all these allegations against China on merchandise trade deficit of China is made by the Department of Commerce at United States, which has the largest surplus in the world on invisibles, it would only be appropriate to look as to how has the current account balance of China been performing in the aftermath of the global financial crisis?

Not only has the Chinese current account surplus dwindled from $353.18 bn to $164.88 bn from 2007 to 2018, in terms of its GDP, it has declined from 9.9% to 0.2%, which is a very steep decline. (Figure 17 looks like a fall from the cliff). At least in the period after the global financial crisis, it would be a travesty of justice to allege that China is contributing to global imbalances. However the current account has been improving since 2018, which could be due to sharp reduction in imports.

Given that the overall current account surplus of China has been on a steady decline, the rumblings of US gets confined to merely its own bilateral trade deficit with China being on the increase. This, as a matter of fact, holds true for India too. To this, United States should ask itself as to why is it that China had a bilateral trade deficit with Germany, Japan, Australia and Korea? Should the leader country of the world economy, which is sitting pretty over the ever increasing income balances and invisibles trade surplus, be highly bothered

40 (Francis, 2019)

Figure 17: Current Account Balance of China(2007 to 2020)



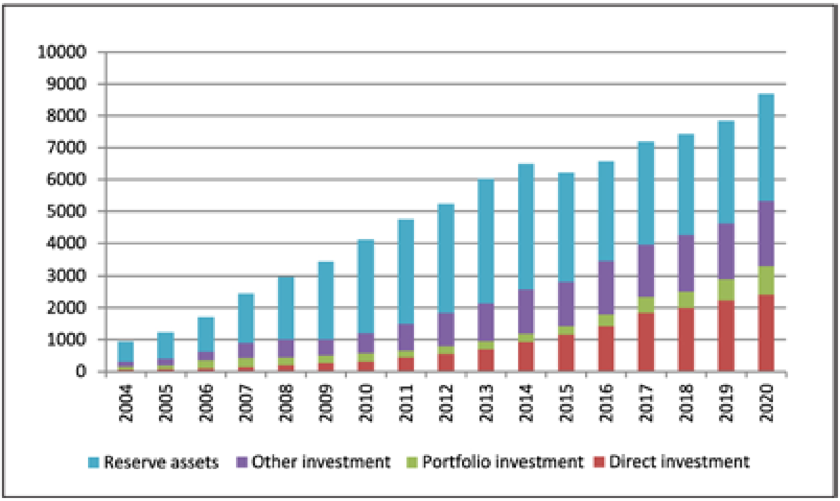
Source: World Economic Outlook Database. IMF (2021)

about this bilateral trade deficit with them? Worse, it is using this as an excuse to lobby against the special safeguard measures in the world trading system. Among other things, the former President of USA Donald Trump was indeed finding in it, an excuse to dislodge the multilateral trading system in place. One could not agree more with Adam S Posen, when he says that that "all of this could lead us to a post American Economy, much to the peril of America itself."[41] We are yet to see as to what the economic strategies of President Joe Biden's US is to be.

One of the largest creditor economies in the world, China has its external assets more biased in favour of reserve assets. It should

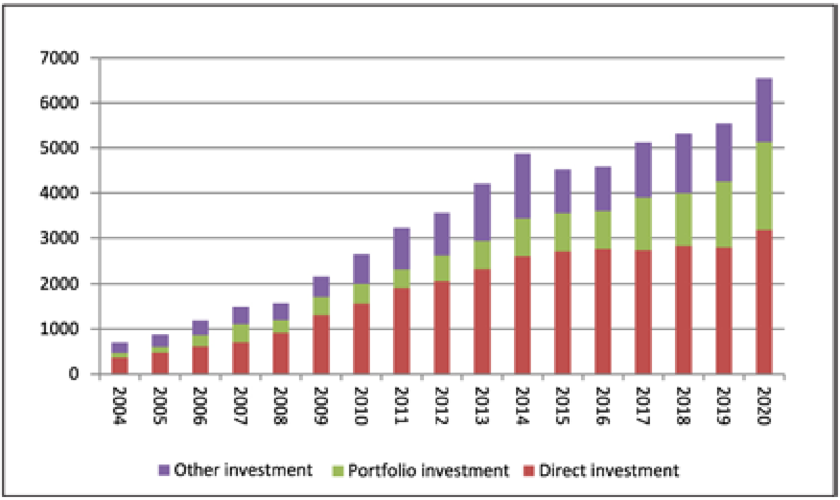
41 (Posen, 2018)

Figure 18: Composition of external assets of China($bn): 2000 to 2020



Source: BOPS, IMF(2021)

Figure 19: Composition of external liabilities of China($bn): 2000 to 2020



Source: BOPS , IMF(2021)

be noted that of the total external assets of China, of $6.5 trillion in 2016, more than 47% is invested in reserve assets. 66% to 70% of the total external assets used to be invested in reserve assets in the period prior to 2010(Figure 18).It should also be noted that the stock of foreign direct investment in China has been witness to a steep increase from $52 bn (2004) to $2.42 trillion in 2020 .

This is largely driven by the significant increase in direct investment abroad mostly in the post 2010 period when the debt driven BRI initiative was started. Might be this increase of direct investment towards other regions is also part of larger strategy of the trade restrictions on goods exported from China in the name of its growing surplus.

The composition of stock of external liabilities has been biased in favour of foreign direct investment(Figure 19). Though the net international investment position of China has been on the rise from $240 bn in 2004 to $2.15 trillion in 2020, given the far lower returns on the external assets in comparison to that of the external liabilities, the balance on primary income of China has been largely in deficit, except for a few years.

The External Balance sheet of Germany and Its Growing Current Account Surplus

Even when much of the angst with respect to current account surplus is targeted against China, the country which has witnessed increase in its current account surplus in the post 2007 period is Germany, which has emerged as an important exporter in the international economy. This is also due to the series of reforms initiated in the country, particularly in the field of labour markets, in the form of Hartz reforms. Largely these reforms have been inspired by ideas of labour market flexibility. The strategy of Germany in this regard has been blunt: keep unit labour costs from rising with improvements in labour productivity. This results in the relative unit costs of Germany being at an advantage, thus enabling it to gain competitiveness with respect to its commodities. Germany has over the years become one of the largest exporters of goods, this is apart from its massive export of capital to different parts of the world.[42]

As per the Direction of Trade Statistics of IMF, the merchandise trade surplus of Germany increased from $246 bn (2012) to $281 bn (2017). It is the country with the largest merchandise trade surplus in 2017. It had a trade surplus with the advanced economies, emerging and developing economies as well as the euro area in groups. It should be remembered that even when a number of economies were reeling under deflation and moving from current account deficits to current account surpluses, there was an increase in the overall merchandise trade surplus of Germany with the euro area, the same increased from $8.07 bn (2012) to $12.03 bn (2017).

And most importantly, other than a few set of European economies and oil producers, Germany has a bilateral trade surplus with most of the important economies in the world. A cursory

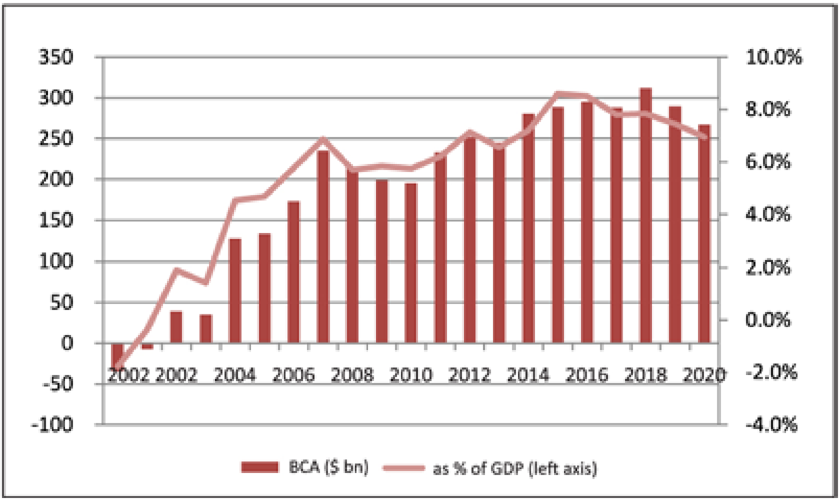
42 For the factors which went to the transformation of Germany into a big exporter, (Dustmann, Fitzenberger, Schinberg, & Spitz-Oener, 2014)

glance through the Direction of Trade Statistics of 2012 would be revealing in this regard. While it has a bilateral trade deficit with Netherlands ($71.45 bn), Belgium ($16.99bn), Norway, Czech Republic, Ireland, Slovak Republic and Slovenia, with very few other economies outside Europe it has a bilateral trade deficit. Outside Europe, it has a trade deficit with Vietnam, Libya, Russia, Kazakhstan and Bangladesh. Incidentally, it has a bilateral trade surplus with many of the leading exporters like China, Korea, Japan, UAE, Saudi Arabia and Switzerland (Table 7).

Ever since 2002, Germany has had a current account surplus, with the surplus on the merchandise trade continually being positive. As one of the major exporter of goods in the world economy, it has been able to reinforce its competitiveness by keeping its relative unit labour costs in comparison to its productivity at lower rate. It has a deficit on invisibles and secondary income (Figure 21). The aggressive exporter of finance capital that Germany is shows up in the form of an increasing share of primary income surplus in its overall current account surplus.

In the period after the global financial crisis, the overall current account balance has increased from $210 bn (5.6% of its GDP) in 2008 to $300 bn (8.6% of its GDP) in 2015. As shown in Figure 20 the balance on current account has been continually on the increase till 2018. This is the classic case of the burden of adjustment being borne by the deficit economies, with the surplus country refusing to bear the burden of adjustment. The fiscal deficit of the government of Germany has got reduced during this period, adding to its growing

Figure 20: Balance of current account of Germany (2000 to 2020)



current account surplus. Within the euro area itself, it should be noted that, to the contrary, we have the set of crisis-affected economies in Europe (in particular GIIPS) generating a surplus, due to the pressures of deflation. Indeed certain commentators have remarked in the context of the severe crisis confronted by GIIPS economies that Germany should have a Marshall Plan of sorts for the affected economies of Europe, rather than nurturing imperial ambitions, hiding behind the euro and benefiting from its weakness.[43]

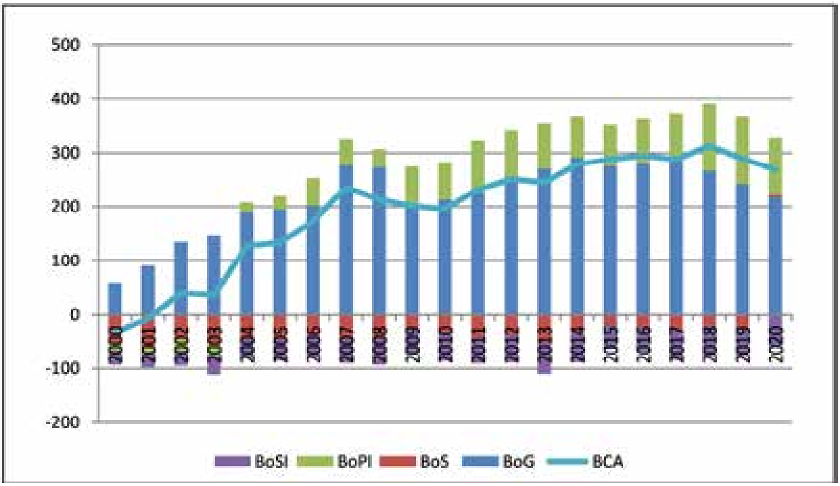
43 Further, recalling from the annals of history, Kuttner reminds us that the reparations imposed on Germany was reduced to one-tenth and it was only a year back that Germany has made the final settlement. Further contrary to the early Morgenthau Plan, extracting war reparations from Germany after second World War was given up, and the Marshall Plan of resource transfer for reconstruction was offered to Germany. For more on the same lines,(Kuttner, 2013)

Table 7: Merchandise Trade Balance of Germany

	2012	2013	2014	2015	2016	2017
World	246.12	263.80	287.02	275.07	279.03	281.32
ADV	157.18	170.66	191.65	197.10	197.21	197.20
Euro area	8.07	2.90	2.59	8.62	12.92	12.83
Belgium	-17.00	-19.12	-19.31	-17.56	-18.15	-18.57
Ireland	-3.32	-1.26	-2.30	-4.64	-4.76	-3.79
Netherlands	-71.45	-72.03	-69.01	-55.23	-53.07	-63.53
Slovenia	-1.06	-0.75	-1.06	-0.82	-0.90	-1.08
Slovak Rep	-2.84	-2.82	-3.13	-2.58	-2.77	-2.57
Czech Rep	-6.42	-6.60	-8.24	-6.29	-7.55	-9.12
Norway	-15.19	-11.40	-10.55	-7.56	-2.84	-4.87
Switzerland	16.95	14.49	12.83	10.66	9.44	12.45
Japan	0.73	3.66	3.37	3.67	3.32	4.44
Korea	8.04	10.15	11.74	12.67	12.12	9.52
UK	37.74	40.91	52.09	53.96	51.73	48.72
USA	61.84	70.29	78.72	76.89	70.36	74.90
EMDE	83.96	87.73	90.17	74.43	78.33	80.00
EMDA	8.33	11.08	15.55	-3.39	0.27	9.93
China	7.09	12.61	18.67	3.05	7.59	16.99
UAE	11.66	12.17	13.98	15.20	15.03	11.32
Saudi Arabia	8.63	10.25	10.54	10.18	7.53	6.71
Azerbaijan	-1.04	-2.17	-2.14	-1.67	-1.43	-0.72
Kazhakstan	-2.46	-3.05	-3.50	-1.71	-1.92	-2.54
Russian Federation	-2.74	-4.47	-9.21	-6.35	-2.78	-2.95
Nigeria	-4.06	-3.67	-3.43	-0.97	-0.55	-0.66
Bangladesh	-2.73	-2.76	-2.87	-3.26	-3.25	-3.45
Cambodia	-0.61	-0.76	-0.86	-0.94	-0.93	-0.88
Vietnam	-3.09	-3.82	-3.97	-4.86	-5.04	-4.65

Source: Direction of Trade Statistics, IMF Datawarehouse. Author's calculations

Figure 21: Balance of current account ($bn) of Germany



With external assets of $10.02 trillion (272% of GDP) and external liabilities of $7.89 trillion (214% of GDP), the index of international financial integration has increased from 2.84 (2001) to 4.86 (2017). It has been one of the major creditor economies of the world and its NIIP increased from $125 bn (2001) to $2.12 trillion (2017). In the course of these years, its NIIP/GDP too increased from a meagre 5% of the GDP (2001) to 58% of the GDP (2017). Germany is a net investor abroad both with respect to equity investment as well as with respect to debt. Its return over external assets has invariably been higher than of its external liabilities since 2003.

But the approach of Germany of trying to utilize economic and financial institutions of European Union, much to its geoeconomic advantage has worked antithetical towards the collective idea of Europe. Its strategy of extracting a surplus through keeping its unit labour costs from increasing compared to its productivity improvements has dangerous implications from the point of aggregate demand in the global economy.

V

Some Concluding Observations

This paper has drawn attention to the issue of global imbalances since the financial crisis. The sustainability of the same was under question in the run-up to the global financial crisis of 2008. Despite its current account deficit being far lower compared to the 2006 levels, in the name of large bilateral trade deficits with some economies, United States has been displaying unwillingness in providing leadership to the world economy, trying to derail the project of multilateralism, much to its own peril. Even political commentators like Adam S Posen has been highly critical about the position of US economic diplomacy in this regard. Countries like Germany which fail to recognize the importance of the creditor countries in playing the adjustment role could push the world to a plethora of highly protectionist policies. Both in absolute terms as well as a share of its GDP, the Chinese surplus has got reduced ever since the crisis. But the engagements of China with the developing economies in the Belt and Road Initiative have also emerged as an important matter of concern.

The problem of asymmetry in access to liquidity from international financial institutions has resulted in an unprecedented accumulation of foreign exchange reserves by the emerging economies. The recent decision from the IMF towards increasing SDR allocations across economies would go a long way towards addressing the pressing concerns on the external sector of a number of economies. Given the decrease in the absolute amount of current account surpluses in the emerging and developing economies, as well as the capital outflows from the developing world in the context of the unconventional policies being reversed, the relative size of the foreign exchange reserves held by the emerging economies was witness to decline, but, with the large bond purchases further initiated in the wake of the Covid-19 pandemic, capital continues to flow to some of the emerging markets in search for yield. The foreign exchange accumulation is driven more in the emerging economies through debt-creating capital inflows rather than current account surpluses. With surpluses on the current account in the contemporary global economy largely accruing to the advanced economies, the problem of external financing continues to be severe, an unfavourable debt servicing ratio stares at many of the developing economies.

Certain conjectures on the global imbalances in the light of the recent developments would be in order. A scenario could emerge wherein the current bull run which has occurred in the post-Covid era of the NASDAQ Composite Index continues.[44] This has been

44 As per the data of the Fed Reserve St. Louis, the Nasdaq index has increased from levels of 6860 in March 23 2020 to 14486 in 11 Oct 2021, a steep increase. Among others, it is driven by the low interest environment unleashed by the massive asset purchase. Even when recovery of the real economy has not been smooth, the low interest policies by the advanced country central bankers have been able to prop up asset price bubbles in markets for stocks to residential property across the world.

rationalised by some as being on account of the new space which the FAANG[45] companies (digital monopolies in USA) have carved for themselves in the global economy through the unprecedented growth in transactions and trade through e-commerce extending to the field of music, films and entertainment, and reliant on the new developments in digital technologies.[46] In this case, the US spending could increase, and, so too its current account deficit. This could serve as a source of demand for the global economy. It would be interesting to note as to who the new beneficiaries of this expansion could be. An asset price burst could push the world economy to further volatility too.

The recent spurt in the prices of commodities as well as oil, even as it would pull some of the developing economies as well as oil-rich ones from the unfavourable current account situation in which they are in now. But could it turn out to be inflationary for other economies? Or, is this dose of inflation going to hasten the process of recovery by its impact on real interest rates. There is an associated development in the light of the Evergrande crisis in China, with its inability to meet its payment obligations in the international debt markets. Should this go beyond a set of firms, the debt-driven boom in the Chinese economy could meet with serious obstacles. Given

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45 This popular acronym refers to Facebook, Amazon, Apple, Netflix and Google

46 For an overview and a highly readable introduction of the virtual dominance of the world of digital platforms by firms based in US, the reader is referred to (Vipra, 2021)

that the relative share of China in the global economy is even more than that of the euro area, this would be of significance to the global economy also.

The world looks forward for better co-ordination across economies, through the re-designing of international economic institutions. This alone would give confidence to economies to live with far less foreign exchange reserves than they pile up. And all of this alone would be able to get them address the growing planetary concerns. Rather than using the bilateral trade deficits which it has with different economies as an excuse towards sidestepping the rules- based multilateral system, United States and other economies should realise that when unprecedented planetary concerns haunt its existence, such institutions have to be strengthened for effective co-ordination.

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