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**International Monetary Developments in Asia:  
Consequences for the Global Monetary Regime**

**Intervention of Francesco Papadia**

Comments from Jean Pisani-Ferry and assistance from Erkki Vihriälä  
are gratefully acknowledged.

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# State of discussion

- Monetary policy in Asia not highly visible in the radar screen of the market because of the good inflationary performance.
  - Still, an interesting topic
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# Small and large country assumption

- Definition of a small open economy: this is (Deardorff's Glossary of International Economics) “*An economy that is small enough compared to the world markets in which it participates that (as a good approximation) its policies do not alter world prices or incomes. The country is thus a price taker in world markets. The term is normally applied to a country as a whole, although it is sometimes used in the context of only a single product.*”
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# The largest economies cannot pretend to be small

Rank	Country	GDP (bn \$)	Trade (X+M)/GDP
1	United States	14991	31.7
2	Euro area	13080	86.6
3	China	7318	58.7
4	Japan	5867	31.4
5	Brazil	2477	24.5
6	United Kingdom	2445	66.6
7	Russia	1858	53.3
8	India	1848	54.5
9	Canada	1736	63.6
10	Australia	1379	41.1

Source: World Bank & IMF WEO

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# Consequences from a large country behaving like a small one

- Global Imbalances
  - Beggar thy neighbour
  - Financial stability
  - Effects on commodities markets
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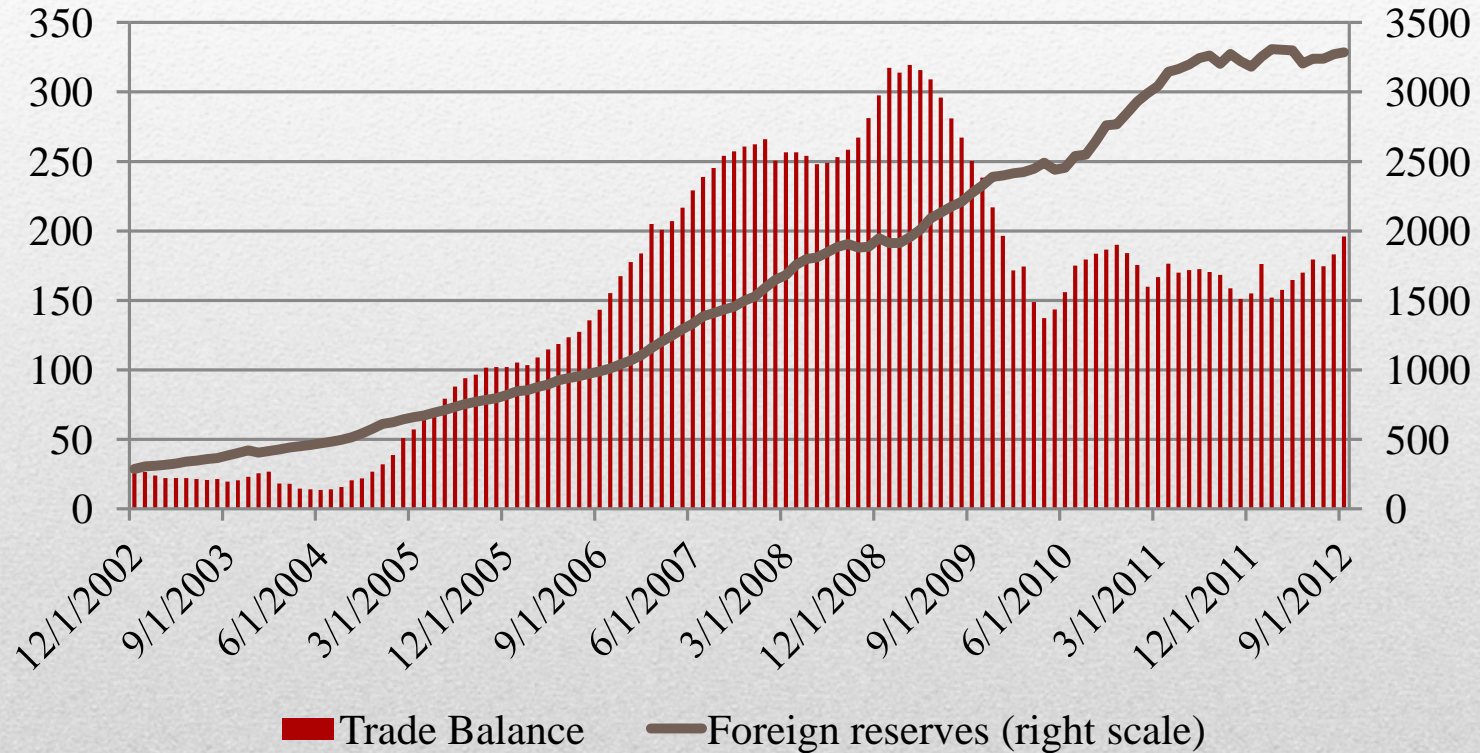


# From cross-country to China and Japan

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## Evolution of Chinese trade balance (12 month cumulative) and foreign reserves (billion USD).



Source: Datastream.

# Huge surpluses

Development of China's current account and total reserves (% of GDP).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current account	2.8	3.6	5.9	8.6	10.1	9.1	5.2	4.0	2.8	2.3	2.5	2.8	3.2	3.8	4.3
Total reserves	25.4	32.2	36.8	39.8	44.3	43.5	49.1	49.1	44.5	-	-	-	-	-	-

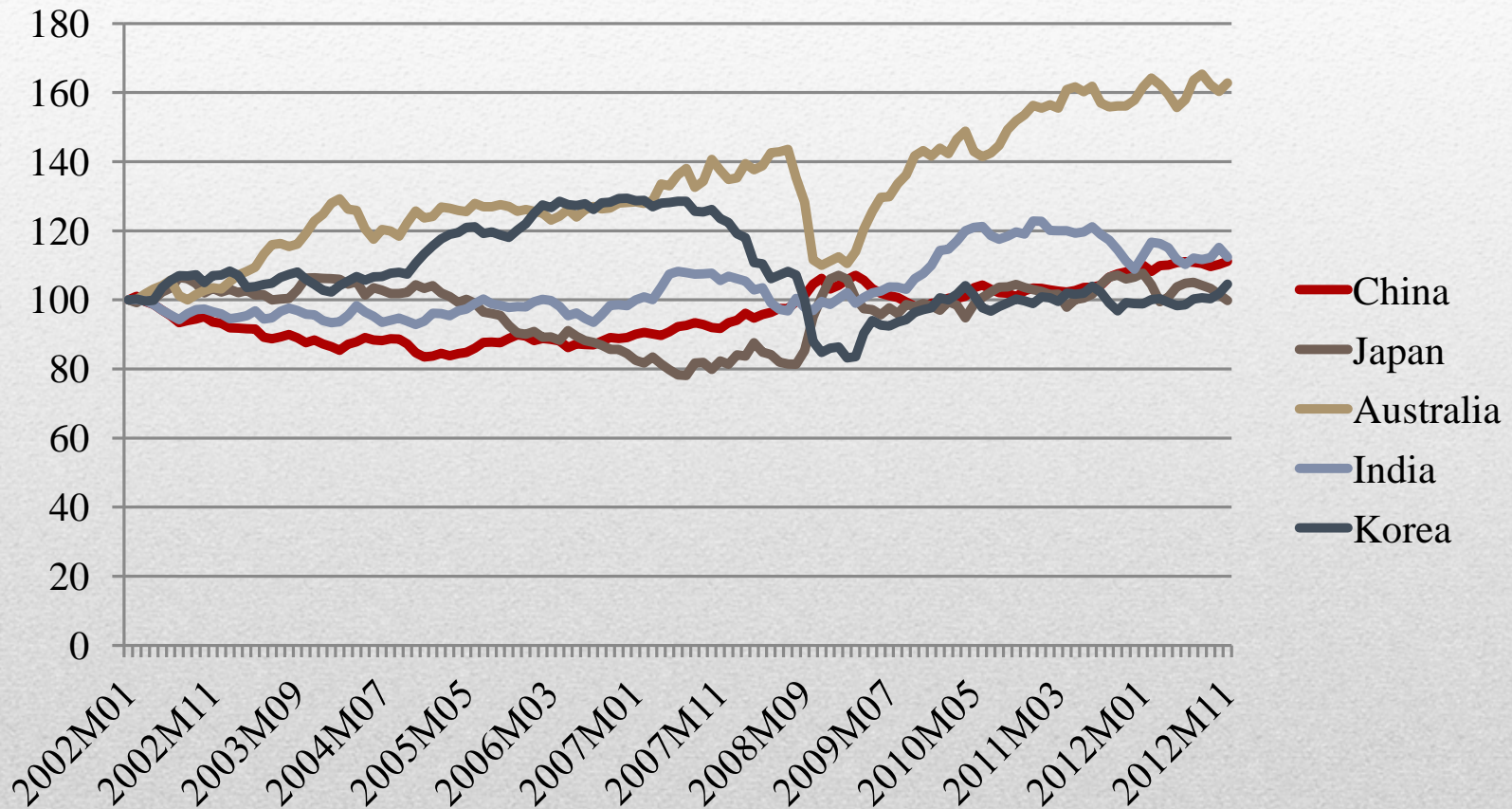
Source: World Bank and IMF World Economic Outlook.

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# Insufficient appreciation

Real effective exchange rates (index, January 2002=100).



Source: Bruegel real exchange rate database.

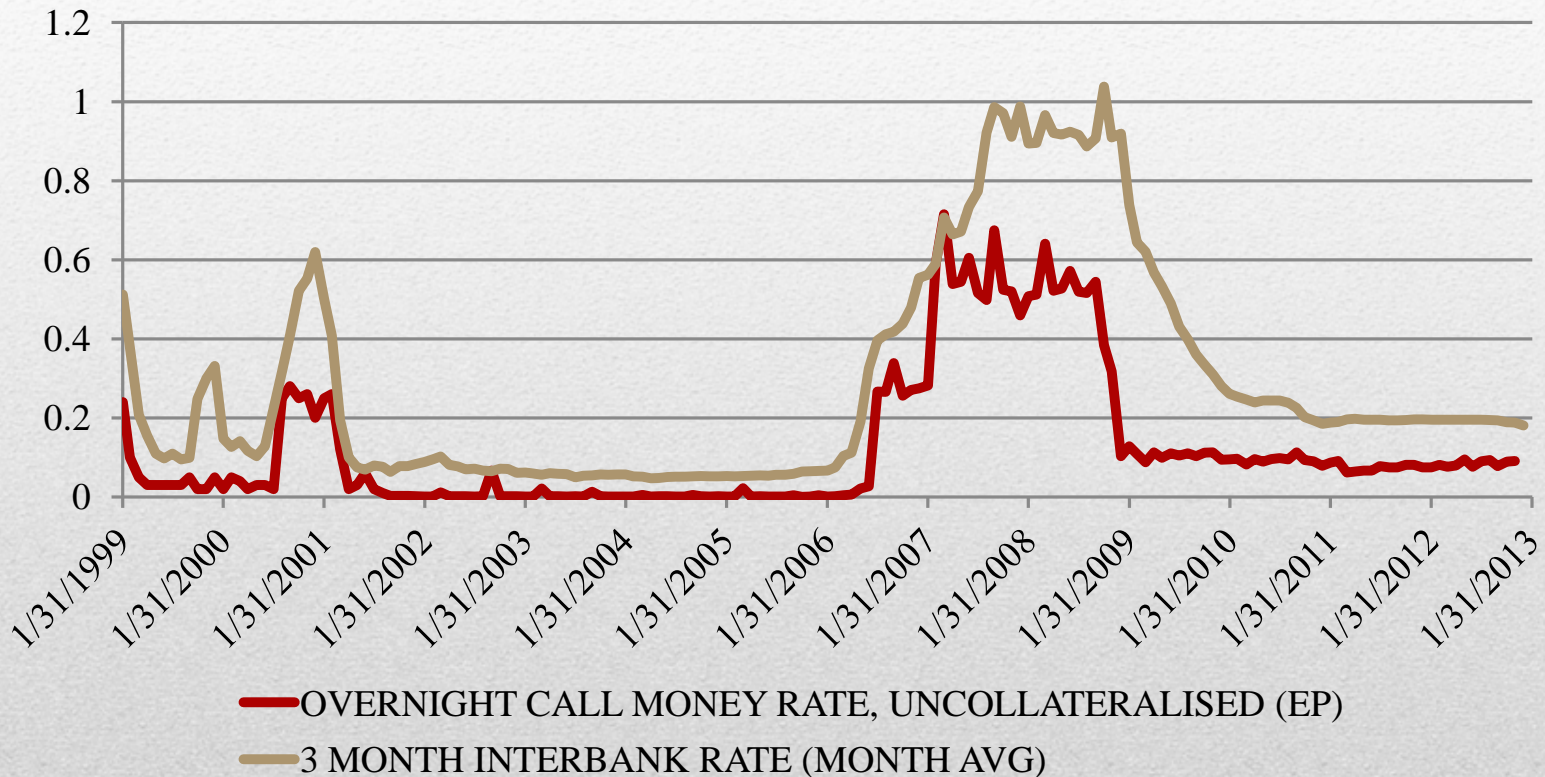
# Risks for monetary policy in Japan

Two, interrelated, risks in the new government policy:

- An analytical risk, in thinking that the problems of the Japanese economy resides mostly in the monetary sphere
  - An operational risk, in assessing that the Bank of Japan can do much more than it has done so far to bring the Japanese economy to a more vibrant state.
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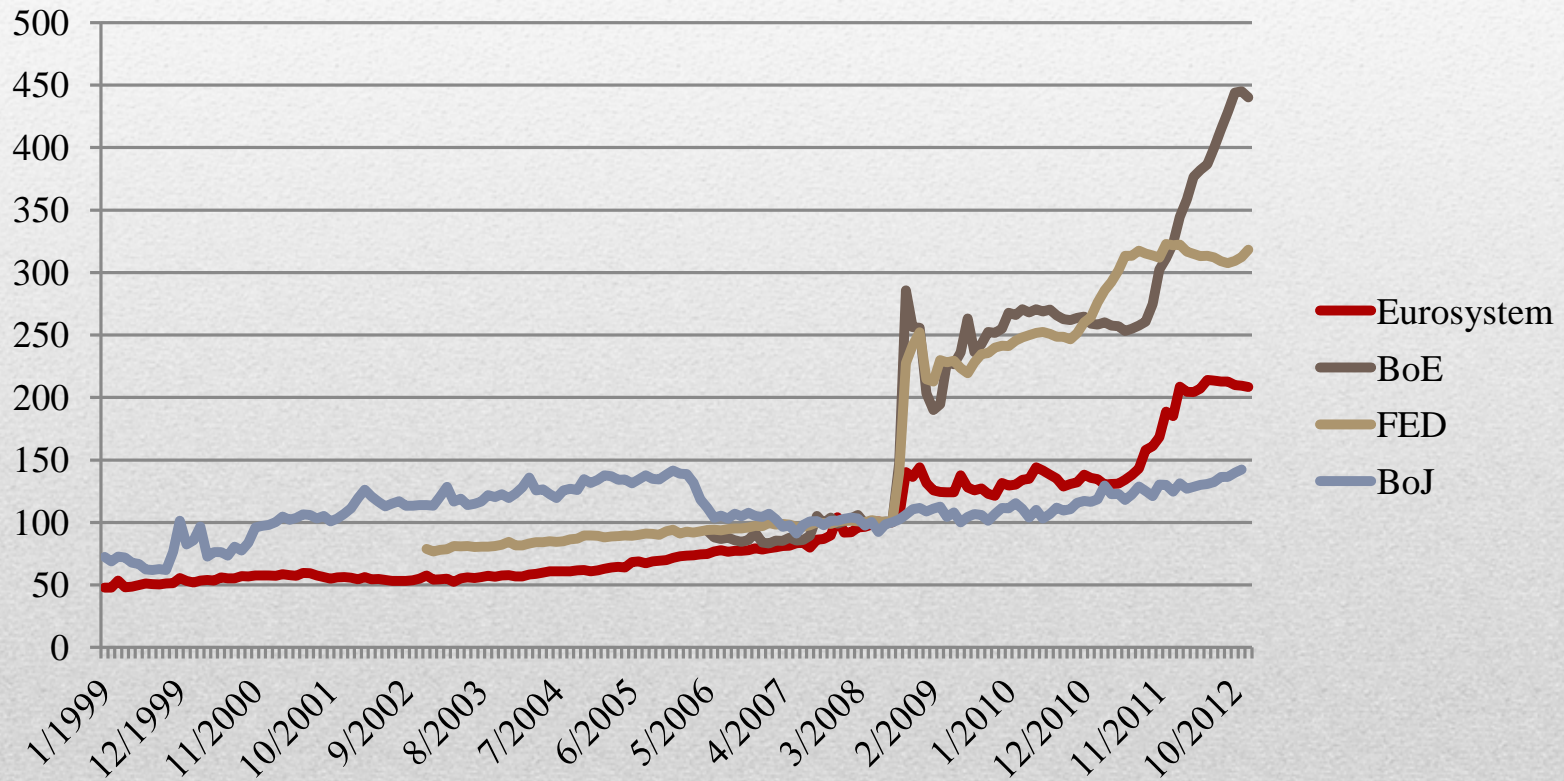
# Very low rates



Source: Datastream.

# A large expansion of the balance sheet

Evolution of the total assets (index, 8/2008=100).



Source: National central banks.