

## **East Asia and Global Imbalances: Saving Glut Economies Perspectives<sup>1</sup>**

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### **Abstract**

*The global economy is suffering from serious imbalance characterized by a deterioration of the US deficit in current account. At the same time, the East Asia major economies such as China, Japan or ASEAN, and also oil exported countries, as so called Global Saving Glut economies, are also suffering from serious imbalance in the opposite way. International capital flows run in opposite direction to the economic theory might suggest, from poor Asia economies to rich country like US, in order to finance US trade deficits. Causes of the problem under the cross country free flow of capital environment at present seem to base on the famous Feldstein-Horioka puzzle, of which the relation between saving-investment in theory does not go along with empirical evidences. This puzzle sparks an immense literatures and arguments since it is a central issue in international macroeconomics. The purpose of this paper tries to explore and explain in the angle of GSG economies by using the Feldstein-Horioka findings as a framework for the global imbalance issues.*

**Keywords:** open macroeconomics, saving investment puzzle, international capital movements

**JEL classification:** F21, F32, F41

### **1. Introduction**

The global economy is suffering from serious imbalance characterized by a deterioration of the US deficit in current account. At the same time, the East Asia major economies such as China, Japan or ASEAN countries, and also oil exported countries, as so called Global Saving Glut economies, are also suffering from serious imbalance in the opposite way. Basically, current account deficit or surplus is an outcome of the imbalance in saving and investment. In sum, it should be a balance in global or total, and price mechanism or invincible hands, especially international capital flows across countries, should be the main force behind the adjustments of the imbalances which might occur. Hence, with perfect capital mobility, surplus or deficit in current account should be a temporary situation which should be self-corrected and benign.

Feldstein and Horioka (1980) argued on the theoretical basis that under the perfect capital mobility, domestic saving should not depend on domestic investment. It should go to the most attractive projects beyond borders. As a result domestic saving should not be correlated with domestic investment. The coefficient  $b$  which so-called the saving retention coefficient, in eq. (1) as an implied indicator of the degree of international capital mobility, should be zero in case of perfect capital mobility and 1 in an autarky economy.

$$(1) \quad (I/Y)_i = a + b(S/Y)_i$$

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where I, S, and Y are savings, investments and output respectively, and subscript i denotes country.

However, the empirical findings did not go along with theoretical argument. The estimated coefficient b of the cross-country data of 16 OECD countries over period 1960-1974 lies within the range of 0.85-0.95 that is very close to one and have statistically significant even the degree of openness and capital mobility among these countries are high at that time. The Feldstein-Horioka puzzle has been arisen since then due the conflict between the theoretical and empirical evidence.

The main purpose of this paper is to explore and explain the anomaly or so-called the Feldstein-Horioka puzzle of savings - investment relationship and capital mobility for the East and South East Asia Saving Glut economies and their counterpart, the US. The next section provides the existing understanding situation of this puzzle and for these saving glut countries. Section 3 presents theoretical views and also evidences to answer why countries in focus hold so much in international reserves which has been claimed to be the cause of the current account deficits in US. Section 4 links two events, the global imbalances and the financial crisis, together by two propositions the Saving Glut Hypothesis and the Bretton Woods II. Concluding remarks are in section 5.

## ***2. The Feldstein-Horioka Puzzle and Capital Mobility: What has been Done and Where we Stand.***

Due to an immense literatures and arguments since the date of publish in this topic after 1980, the concentration in this paper will be focused on the Global Saving Glut countries. Since global imbalance has been characterized by the current account surplus in developing countries in East and South East Asia and Middle East plus some developed countries such as Japan or Germany while the developed countries led by US and most of Euro Area are the deficit countries. East and South East Asia countries together with Japan will be represented the GSG countries in focus<sup>2</sup> in this study because surplus in current account of these countries normally come from the trade of variety of goods and services, not single goods such as petroleum products as in Middle East countries.

Common wisdom and expectation might suggest that capital should be more mobile for high per capita income countries which GSG countries in East and South East Asia do not have when compared with OECD or advanced countries except Japan. The first point to explore will be the replication in estimation of correlation between savings investment in application of Feldstein-Horioka to the sample of these countries.

There are a number of empirical researches that used to extend developing countries in their sample to test for the correlation. However, they are not appropriate for our purpose for a number of reasons. First, majority of East and Southeast Asia countries became GSG countries when they were in the late of 2000s or after the 1997 East Asia Crisis was over. Most of the sample period in most of prior empirical studies is around 1980 to early of 2000s which is not a critical period of the deficit countries as US either. The followings are the selected studies that to the knowledge of author are the best fit to the purpose of this paper.

Wong (1990) and Vamvakidis and Wacziarg (1998) are empirical researches before the 2000s that re-examine the savings investment relationship in the same fashion of the Feldstein-Horioka. Wong's sample is 45 developing countries covered period between 1975-1981 while Vamvakidis and Wacziarg use more countries (83 developing countries) and longer period from 1970-1993 period. The estimated correlation coefficients of Wong are ranged between 0.082 and 0.613 without statistical significant and seems to be sensitively to outliers in sample observations. However, Wong's conclusion still supports the findings of the Feldstein-Horioka that the countries in sample are relatively open financially compared to the sample of OECD countries.

On the contrary, Vamvakidis and Wacziarg show the strong positive correlation between domestic savings and investment as in OECD countries, but no longer holds when other sample, the developing countries, is in consideration. The estimated result of correlation coefficients are statistically insignificant most of time and generally smaller than 0.3 for sample of non-OECD. Both studies seem to depend heavily on the observations in their sample. It is a petty that Vamvakidis and Wacziarg did not elaborate the list of developing countries in their sample as Wong did. However, there are only 4 ASEAN countries, Indonesia, Malaysia, Philippines, Thailand and Korea as the only one East Asia Country in Wong's sample.

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<sup>2</sup> consists of ASEAN-5 namely; Indonesia, Philippines, Malaysia, Singapore, Thailand and East Asia-5 namely; China, Japan, Korea, Taiwan and Hong Kong

Isaksson (2001) also uses the same methodology of the Feldstein-Horioka to gauge the degree of capital mobility and the accessibility to international financial markets following financial liberalization. The sample period 1975-1995 and sample of 90 developing countries in 4 regions; Africa, Asia, Latin America and the Middle East are considered closed to the two studies mentioned above. The results indicate for immobile in sample countries. Only ASEAN 5 countries; Indonesia, Malaysia, Philippines, Singapore, Thailand plus China, Hong Kong and Korea are in Asia observations.

In year 2004, there are two papers, Sinha and Sinha (2004) and Kasuga (2004), published their estimated of savings investment correlation coefficient results in Economic Letters journal. Sinha and Sinha follow the methodology introduced by Jansen (1996) in the below form:

$$\Delta IR_t = \alpha + \beta \Delta SR_t + \gamma (SR_{t-1} - IR_{t-1}) + \delta SR_{t-1} + \varepsilon_t$$

where SR and IR are savings and investment rates as percentages of GDP respectively.

The implication can be described as follows. If the error correction term  $\gamma$  is found to be statistically significant, it implies there is a long run relationship between savings and investment or both are cointegrated. That means the intertemporal budget constraint is obeyed. If  $\delta$  is statistically significant, it means the current account does not converge to a constant in the long run. That means there is capital mobility. In case of  $\beta$ , it measures the Feldstein-Horioka type relationship-short run same year saving investment are correlated.

Table 1 shows the selected estimated results of the above model for the considered GSG countries. Conclusion of findings among 123 countries in sample are as follows.  $\gamma$  is found significant for 46 countries included Hong Kong, Malaysia, Philippines, Singapore, South Korea and also Thailand. There is evidence of capital mobility for only 16 countries included Hong Kong due to  $\delta$  is significant in those countries. Most of countries, 84 in number, are low capital mobility in the Feldstein-Horioka sense since  $\beta$  in these countries are significant included China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, South Korea and Thailand. Savings and investment have a short run relationship among these countries.

**Table 1 Selected Estimated Results from 123 countries sample**

Country	#	R <sup>2</sup>	$\beta$	$\gamma$	$\delta$	$\alpha$	DW	JB	Process
China	33	0.96	0.97	0.4	-0.01	0.002	2.03	44	AR(1)
<i>t</i> -statistic			22.08	0.91	-0.4	0.04			
Hong Kong	33	0.58	0.26	1.01	-0.69	0.13	2.25	3.02	AR(2)
<i>t</i> -statistic			2.5	4.59	-2.87	2.46			
Indonesia	33	0.64	1.22	0.19	0.11	-0.04	2	4.92	AR(3)
<i>t</i> -statistic			8.79	0.59	0.63	-0.62			
Japan	43	0.74	1.07	0.16	-0.04	0.01	1.91	0.86	AR(1)
<i>t</i> -statistic			10.65	1.52	-1.4	1.5			
Malaysia	38	0.46	0.94	1.2	-0.04	-0.03	2.01	0.79	AR(2)
<i>t</i> -statistic			7.65	4.16	-0.29	-0.74			
Philippines	43	0.57	0.80	0.33	-0.09	0.02	1.96	1.06	OLS
<i>t</i> -statistic			7.07	2.81	-1.77	2.13			
Singapore	33	0.18	-0.37	0.70	-0.54	0.20	2.05	0.60	AR(1)
<i>t</i> -statistic			-1.39	2.19	-1.51	1.66			
South Korea	39	0.74	1.05	0.97	-0.08	0.04	2.01	1.87	AR(2)
<i>t</i> -statistic			11.82	2.64	-1.11	1.92			
Taiwan	40	0.43	0.95	0.3	-0.1	0.02	1.94	16.69	AR(1)
<i>t</i> -statistic			4.81	1.34	-1.2	1.08			
Thailand	43	0.67	0.9	0.36	-0.04	0.02	2.02	1.38	OLS
<i>t</i> -statistic			8.96	3.57	-1.22	2.95			

For each country, there are two rows of numbers. The first row shows the estimated coefficients of the estimated equation:  $\Delta IR_t = \alpha + \beta \Delta SR_t + \gamma (SR_{t-1} - IR_{t-1}) + \delta SR_{t-1} + \varepsilon_t$ . The second row shows the value of *t*-statistic for each estimated coefficient. # gives the number of observations (one per year). DW gives us the Durbin–Watson statistic for the equation estimated. JB gives us the Jarque–Bera statistic for each equation. The process column gives us the error process ( $\varepsilon_t$ ) governing the estimated equation. OLS stands for ordinary least square. AR(*x*) stands for autoregressive error process of order *x*.

Source: Sinha and Sinha (2004)

Kasuga (2004) also uses the same equation as the Feldstein-Horioka to test for the correlation between savings and investment among 79 developing countries and 23 OECD. However, he proposes the alternative hypothesis that the small/low in coefficient in LDCs and larger/higher saving investment correlation in OECD can be explained by differences in financial structure across countries. According to his view, the estimates coefficient on saving and investment reflects the effect of net worth in the presence of domestic capital market imperfections which caused by agency problem.

He argues to find clear evidences that countries with developed primary (financial) market have larger saving-investment correlation. Proxies to represent developed financial market have been introduced. Equity issues to GDP (EQUITY) in Beck et.al. (2001) is used as a measure of primary stock market size over period 1980-1995 available for only 38 countries (including 22 classified as developing countries) in his sample. To compare the results across different financial systems between bank-based (indirect finance) and market-based(direct finance), the index of financial structure constructed by Demirguc-Kunt and Levine (2001) which available for 65 countries (including 43 developing countries) is used. These proxies are in question of consistent with facts. For example, financial system in Thailand, by their criteria, was classified to be market-based which was not consisted with the fact that major suppliers of credit to the system is from banks not from primary market in form of issued equity.

Conclusion from his findings suggest that the saving–investment relation either in high or low coefficient value should not be interpreted as the measure of capital mobility, but should be explained by domestic capital market imperfections instead.

Payne and Kumazawa (2006) extend the work of Coakley et.al.(2004) with respect to the Feldstein-Horioka puzzle for a sample of 47 developing countries by method of Mean Group (MG) and Cross-sectionally augmented Mean Group (CMG). The results from these two methods are claimed to be better than cross-section model as Feldstein-Horioka have done more than two decades ago. Again, the developing countries in sample especially in Asia is not a major or influenced countries in the sense of GSG which only including Thailand, Philippines and Malaysia. Sample period is between 1980-2003.

Kim et.al.(2007) using method developed in Kim (2001) estimated the degree of international capital mobility in East Asia Countries as the originated in the Feldstein-Horioka (1980) from period 1980-2002. They found that the saving-investment correlation in East Asia steadily decreases over time but is still higher than OECD. These results are consistent with the fact and also expectation that capital mobility in East Asia is lower than in the OECD even there are a large number of East and Southeast Asia countries during the 1990s liberalized their financial markets to foreign capital flows.

What have been done seems to be too little in recently evidences to provide our understandings the characteristics in savings and investment relationship of GSG countries especially Japan in the former and China at present, and too few reasons or alternative hypotheses to explain why capital are so mobility in these GSG countries. In other words, why middle or low income countries have capital mobility in form of their savings across border to finance the dis-savings leading country like US more than the higher ones.

### ***3. International Reserves in East Asia***

#### **3.1. Theoretical View**

Current account surplus in East and South East Asia countries recently are the largest counterpart to the US. current account deficit. South East Asia such as ASEAN 5 countries and East Asia such as China had increased their holdings of international reserves which came from the surplus in trade after the end of 1997 financial crisis. High demand for international reserves seems to coincide with the period of current account surplus with these countries. But why do these countries hold such a high officially foreign reserves.

By definition, officially foreign reserves are the financial assets under the control of monetary authorities that are ready available to use for balance of payments financing. Most of them are in forms of liquid US dollar denominated assets. Due to the Bretton Woods System, no countries will exchange or repayment their debts with gold, but use US dollar instead because the US guaranteed the convertibility of its currency to gold at fixed price. Hence the other participating countries, in turn, guaranteed the convertibility of their currencies into US dollars at fixed exchange rates. Since then, US dollar serves as the roles of international money/currency that consist of the medium of exchange, the store of value and the unit of account.

Under this regime, the so-called Semi-Gold/Dollar Standard, the convertibility of US dollar into gold poses the problem. Since gold stock owned by US cannot grow at the same rate as the growth of the US dollars needed by the rest of the world, the confidence of the convertibility of US dollars into gold is in seriously concern. The world and US face Triffin dilemma<sup>3</sup>. If the US increases the dollars to accommodate world trade through deficits in its balance of payments, there is a confidence crisis in US dollars value that had fixed price with gold. On the other hand, if US does not allow such an increase, the world is going to face a serious deflation. No trade off seems to appear from these two roles.

Therefore, except for US which has sole authority to issue US dollar, the rest of the world countries can have reserves from either borrowing or surplus in trade, the current account surplus. Basically, the need to have reserves should fall to the reasons due to deficits in trade or repayment of their debts because US dollar is a debt of US which the holder as a creditor must finally spend in US or, in other words, exchange their purchasing power for the US assets only.

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<sup>3</sup> name after Triffin, R. (1960)

Hence, to hold dollars is in *veil of value* in short run in order to find places to store wealth in the long run. The reason why countries hold foreign exchange reserves seems to rely heavily on the view to smooth their consumptions from the unpredictable and temporary imbalances in the international payments. Hence, the basic idea in the theory of the demand for international reserves is that countries choose a level of reserves to balance the macroeconomic adjustment costs incurred if these reserves are exhausted with the opportunity cost of holding of these reserves.

### 3.2. Empirical Evidences

There are several empirical studies for the demand for international reserves. For example, Aizenman and Lee (2007) compares the precautionary and mercantilist motives in holding of international reserves by developing countries including Korea. The results support the precautionary motive as a self-insurance to avoid costly liquidation of long term investment projects when economy is susceptible to sudden stops to capital inflows. Ramachandran and Srinivaran (2007) uses the buffer stock model developed by Frenkel and Jovanovic (1981) for India case and found that their model predicts international reserves well. High demand for international reserves for the developing countries that claimed to use independent float exchange rate regime is associated with the “fear of float” according to Calvo and Reinhart (2002) since they reluctant to allow their exchange rate to move independently and using their high reserves as an instrument to intervene.

Edison (2005) has built the 5 key factors from the above idea to explain the the demand for international reserves, namely; economic size, current account and capital account vulnerability, exchange rate flexibility and opportunity cost of holding reserves. The model uses panel data of 122 emerging market countries from 1980-1996. Within the sample period, the model seems to fit well with data and brings the reserves accumulation consistent with the theoretical prediction, however, out-of-sample forecast from 2002 for selected emerging economies in Asia (figure 2.13) are not well explain by this model. The accumulation of reserves in Asia and also Russia (figure 2.15) from 2002 are in excess of what one could expect based on fundamentals from the model when compared with reserves accumulation from Latin America case in figure 2.14 in the same period. Actual reserves in Asia and Russia, the GSG countries, are built up more than the needs from fundamental value. Eliza et.al. (2008) also constructs the model followed Frenkel (1974), Dunn and Mutti (2000), McCauley (2003) that the demand for international reserves is a function of scale variable (GDP per capital), propensity to import (import to GDP), variability measure (export volatility), current account balance and external debt to explain the demand for international reserves in ASEAN 5 countries individually during period of 1970-2005. They conclude that there is a long run relationship between the demand for international reserves and these 5 determinants. However, there is no common explanatory variables that can explain the demand for international reserves for all 5 countries.

From theoretical point of view, precautionary motive in order to smooth consumption seems to be the main reason for international reserves build up for East and South East Asia countries after 1997 crisis. Given the experience in these countries over the past decades, reserves can serve best as a cushion or self-insurance against an undesired shortage of international currency that would damage the economy more than opportunity cost to hold since there is no nation or international financial institutions even IMF or World Bank could resume this lender of last resort role. Eliza et.al. (2008) also argues that the less developed financial markets in developing countries is the main reason for private sector, which is the real owner of these reserves, can not use these reserve in their own purpose and has to let their government, the public sector, to use these glut of savings to investment in foreign markets in form of international reserves. This will end up in investment in foreign currency assets especially the US dollar denominated assets by central banks in high liquidity and low return assets such as US. treasury bills and bonds. Such an investment of reserves represent capital outflows from middle or low income countries in East and South East Asia to high income countries as US. Several empirical studies as mention above are in support of this view.

## 4. Global Imbalances and Financial Crisis

### 4.1. The Saving Glut Hypothesis

Bernanke (2005) argued that the rapid increase in current account deficit in US from 1.5 percent of GDP in 1995 to 5.7 percent of GDP in 2004 was fueled by a significant global savings and the foreign capital investment in the US.

Moreover, because of US services as a global safe heaven and reserve issuer, and because of the rapid growth in US household wealth in form of capital gain from stock market and housing appreciation in the early of 2000s, US unavoidable became a deficit nation. From the savings and investment relation perspective, low savings in US - from low real interest rates rather than high stock price - is a main reason. Capital from saving glut countries especially the East and South East economies seem to be underlying factor. From this perspective, the imbalance in US current account is a problem made overseas.

The pattern of capital movement and external imbalances appears to be inconsistency with maturing or high income countries should be exporting capital to developing countries. Chinn and Ito (2005) and also Gruber and Kamin (2005) take this opportunity to offer the empirical studies to inform the recent debate over the Global Saving Glut hypothesis. Both studies aim on the behavior of the current accounts from the set of determinants for the US/Industrial economies and the developing East Asia economies. Explanatory variables related to saving either in private sector or public sector are included to see whether they can explain the dependent variable represented by the current account deficits in these countries sample or not.

Chinn and Ito confirmed the results obtained in earlier studies, Chinn and Prasad (2003), that both the industrialized and non-industrialized countries, government budget balances play an important role in determined the current account balances. Institute variables such as financial and legal developments as well as financial liberalization seem to matter for industrial countries more than developing countries. Saving is not found to be excessive in East Asia countries. They seem to suffer from lower investment because the changes in investment were lower than saving these countries had after 1997 crisis. On the contrary, US seems to be experiencing saving draught rather than investment boom since savings is lower than investment in the same period. This piece of result counters directly with the Global Saving Glut argument.

On the same token, Gruber and Kamin find that without financial crisis variable which represented by indicator on systemic banking crisis indicator developed by Caprio and Klingebiel (2003), the regression model can explain neither why the Asian economies move into current account surplus after the 1997 crisis nor why US economy recently moved so deep into large current account deficits. By using this indicator of financial crisis, the model can explain the surplus in East Asia developing economies in late 1990s, but not for the case of US when it moves to deep deficits recently. There was Saving Glut in East Asia due to the swing up in savings from investment collapsed along with bank lending, but another half of the coin why these savings went to US is still unanswered.

The 1997 crisis that affected East Asia economies may fit well with the financial crisis explanation. However, with the expectation of the declining trend in correlation between national savings and investment rate, the Feldstein-Horioka puzzle, which suggested that savings are being used to finance investment to a greater extent than in the past, but the more freely capital movement across borders does not by itself means that these surplus savings should end up in US rather than spread over the rest of the world. The flows of capital from developing countries cannot by themselves explain the imbalance in the US current account. The Feldstein-Horioka puzzle right now becomes more puzzle not only to the more movement in savings across the borders without the clear evidence of low savings and investment correlation in developing countries, but why these savings have to move to US instead of distributed evenly to the rest of the world.

Global imbalance and financial crisis are connected since the external imbalance such as current account balance is a mirror of the internal balance such as savings-investment relationship. The benign neglect policy, which just assumed the external balance will sort itself out, appears to be an unrealistic policy anymore. As can be seen from the chronic US current account deficit, the prolonged external imbalance by borrowing abroad at the end will come up with losing investor faith in the US dollar and recently crisis in late 2000s. The US could not continue to be the world's borrower of the last resort forever. If the US cannot, the export-led growth cannot be a role model for East Asia neither. Under this view, long term global re-balancing requires both of these two imbalances must be corrected to be sustainable.

#### **4.2. The Bretton Woods II**

On the contrary, the countries that have a large investment in US denominated assets to finance chronic US trade deficit such as East Asia economies after their crisis end are not blind to the above argument, but it is a win-win phenomenon.

They enjoy safety and liquidity for their savings while US benefited from easier borrowing and benign the correction of either external or internal balance. Therefore, the current account imbalance is a phenomenon of dependency on US demand as a source of growth which goes together with the US dependency on foreign savings to finance itself.

Such an optimists idea to see the imbalances as a symbolic or phenomenon that channeled the savings surplus to the investment deficits nation is called the Bretton Woods II by the series of papers of Dooley et.al.(2003, 2004 and 2009), Mann (2002, 2004) and Mendoza et.al.(2007). Although the Bretton Woods system<sup>4</sup> that evaporated more than forty years ago into xenosystem or no system at all, but the currency policies of the trade account region<sup>5</sup>, which consists mostly East Asia countries, are managed, fixed, used the US dollars as their reserves, and undervalued their exchange rates with the dollar in order to support their exports. When their imports do not keep up, they buy US government securities to finance the shortfall directly with a little regard to risk/return characteristics of that securities. Their appetite for such investment seems to unlimited since their growth capacity is far from limit. Hence, according to this view US is inevitable a buyer of the last resort with US current account has been the engine for growth of the rest of the world.

Obstfeld and Rogoff (2009) suggest on the fundamental flaw of Bretton Woods II proposition on the assumption for advanced country capital markets, especially those of the US, were fundamentally perfect and able to take on ever increasing leverage risklessly, was unrealistic.

### **5. Concluding Remarks**

- From the explored evidences, what have been done is too little in recently episodes after the 1997 financial crisis to provide our understandings the characteristics in savings and investment relationship of the East and South East Asia GSG countries especially Japan in the former and China at present. We do not really know about the high or low correlation coefficients of savings and investment. Or should this relationship able to reflect the capital mobility for these countries. Basic knowledge in this issue for the East and South East Asia GSG countries to date is quite limited.
- Either the GSG countries have high capital mobility or not, precautionary motive seems to be the main reason to fit for explaining the high level of international reserves build up for East and South East Asia countries after 1997 crisis till now. The used of reserves as self-insurance reflects (1) the out-of-mission of IMF in order to provide financial assistances when ones need to adjust/unadjust their exchange rates and (2) the conflict of interest between the international medium of exchange and the store of value function of US dollar in the future.
- As an issuer of a large volume of international currency to the rest of the world, the US is in a position of neither act as growth engine of the world, nor chooses a benign position to let the external imbalance correct itself forever. Recently sub-prime crisis, the resistant in the adjustment of Yuan by Chinese authority, a trend in high price of gold in international market that reflects the world is using gold as a substitute of dollar, and the downgrading in the long term US securities are the evidences strongly signal that the world needs to re-balance itself.
- If we believe the Feldstein-Horioka saving-investment is a long run relation, then the regional economic integrations such as TPPs, EPAs, or FTAs should focus on financial liberalized issue instead of trade liberalized issue as a starting point. For almost ten years, the unfinished Doha round is a self evidence for the WTO members have found themselves and admitted that the negotiations at last came without any solutions as a single-undertaking<sup>6</sup> in-sighted. Should we change the starting point to accomplish the financial issues to let the savings flows across the borders first or not? Since trade issues came together with so many trade disputes and matter only in short run, but not in the long run as savings investment relationship as reflected widely by the acceptance as a common practice among nations in cross border capital flows. To re-balance, the attention should focus on saving-investment - a financial liberalized issue - more than export-import – a trade liberalized issue - on the counterpart of equation.

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<sup>4</sup> countries maintained nominal exchange rates that were effectively pegged to the US dollar and used the US dollars indirectly as their reserves instead of gold

<sup>5</sup> see Dooley et.al. (2003) for the separated world into three economic and currency zones , namely, Asia as a trade account region, US and Europe, Canada and Latin America as a capital account region

<sup>6</sup> acceptance by each and every WTO member of all the agreements as a single package



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