**Faculty of Economics and Business**

# Current Account Imbalances and Indebtedness in Asia Countries

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# Current Account Imbalances and Indebtedness in Asia Countries

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## DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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## ABSTRACT

The primary focus of international economics is external imbalances which act as a powerful impetus for historical changes in the economy. This study's objectives are to analyse the determinants of current account imbalance as well as to examine the relationship between current account balance and indebtedness. This study is on 48 Asia countries and spans a sampling period from 1990 to 2020. The fiscal balance, public debt, household debt, age dependency ratios for old and young, information and communications technology (ICT), real GDP, and real effective exchange rate are independent variables while the current account balance is a dependent variable. The primary methodologies are dynamic GMM panel estimation and panel threshold splitting model estimation. The empirical result indicates that the determinants of current account imbalance are the fiscal balance, public debt, age dependency ratio for old, and real GDP. However, the age dependency ratio for young, ICT, and real effective exchange rate are insignificant to the current account balance. Besides, debt levels have a positive and strong association with both the fiscal balance and current account balance. Next, the current account balance and the fiscal balance have a positive and significant association under both regimes when the threshold level of public debt-to-GDP is at 62.72%. Besides, the threshold level of household debt-to-GDP is achieved at 52.22%. Yet, both balances perform a negative relationship which is a twin divergence situation below the household debt threshold level and demonstrates positive significant nexus above the household debt threshold level. In the policy recommendation, fiscal consolidation is proposed for the Asia

countries. The application of fiscal rule can help to slow down deficit phenomenon and act as a stabilization mechanism in moderating the current account position of Asia countries. Moreover, the managing of the optimal debt threshold position of a country by policymakers is also crucial to overcome the economic uncertainties for sustaining economic growth in the Asia region.

**Keywords:** Current account imbalance, fiscal balance, public debt, household debt, threshold debt level

***Ketidakseimbangan Akaun Semasa dan Keberhutangan di Negara-negara Asia***

## *ABSTRAK*

*Tumpuan utama ekonomi antarabangsa ialah ketidakseimbangan luaran yang bertindak sebagai pendorong kuat untuk perubahan sejarah dalam ekonomi. Objektif kajian ini adalah untuk menganalisis faktor penentu ketidakseimbangan akaun semasa serta mengkaji hubungan antara baki akaun semasa dan keberhutangan. Kajian ini adalah ke atas 48 negara Asia dan merangkumi tempoh persampelan dari tahun 1990 hingga 2020. Imbangan fiskal, hutang awam, hutang isi rumah, nisbah kebergantungan umur untuk golongan tua dan muda, teknologi maklumat dan komunikasi, Keluaran Dalam Negara Kasar (KDNK) sebenar, dan kadar pertukaran berkesan sebenar adalah pembolehubah bebas manakala imbangan akaun semasa adalah pembolehubah bersedia. Metodologi utama ialah anggaran panel GMM dinamik dan model penganggaran pemisahan ambang panel. Keputusan empirikal menunjukkan bahawa penentu yang ketidakseimbangan akaun semasa ialah imbangan fiskal, hutang awam, nisbah kebergantungan umur untuk golongan tua, dan KDNK sebenar. Walau bagaimanapun, nisbah kebergantungan umur untuk golongan muda, teknologi maklumat dan komunukasi, dan kadar pertukaran berkesan sebenar adalah tidak penting kepada imbangan akaun semasa. Selain itu, paras hutang mempunyai perkaitan yang positif dan kukuh dengan kedua-dua imbangan fiskal dan imbangan akaun semasa. Seterusnya, imbangan akaun semasa dan imbangan fiskal mempunyai perkaitan yang positif dan signifikan di bawah kedua-dua rejim apabila tahap ambang hutang awam kepada KDNK adalah pada 62.72%. Di samping itu, paras ambang*

*hutang isi rumah kepada KDNK dicapai pada 52.22%. Namun, kedua-dua imbangan melakukan hubungan negatif yang merupakan situasi perbezaan berkembar di bawah paras ambang hutang isi rumah dan menunjukkan perhubungan signifikan yang positif melebihi paras ambang isi rumah. Dalam pengesyoran dasar, penyatuan fiskal dicadangkan kepada negara-negara Asia. Penggunaan peraturan fiskal boleh membantu memperlahankan fenomena defisit dan bertindak sebagai mekanisme penstabilan dalam menyederhanakan kedudukan akaun semasa negara-negara Asia. Selanjutnya, pengurusan kedudukan ambang hutang optimum sesebuah negara oleh penggubal dasar juga penting untuk mengatasi ketidaktentuan ekonomi unntuk mengekalkan pertumbuhan ekonomi di rantau Asia.*

***Kata kunci:*** *Ketidakseimbangan akaun semasa, imbangan fiskal, hutang awam, hutang isi rumah, tahap hutang ambang*

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| ADF | Augmented Dickey-Fuller |
| ADRO | Age dependency ratio for old |
| ADRY | Age dependency ratio for young |
| APEC | Asia-Pacific Economic Cooperation |
| AR | Autoregressive |
| ARDL | Autoregressive distributed lag |
| ASEAN | Association of Southeast Asian Nations |
| BOP | Balance of payments |
| BRICS | Brazil, Russia, India, China, and South Africa |
| CAB | Current account balance |
| CEE | Central and Eastern Europe |
| CEEC | Central and Eastern Europe Countries |
| CEIC | Canada Employment Insurance Commission |
| CIS | The Commonwealth of Independent States |
| COVID-19 | Coronavirus disease 2019 |
| CPI | Consumer price index |

| | |
|---|---|
| DOLS | Dynamic ordinary least squares |
| DSGE | Dynamic stochastic general equilibrium |
| DTC | Debt trap country |
| ECM | Error correction model |
| EU | European Union |
| FB | Fiscal balance |
| FDI | Foreign direct investment |
| FGLS | Feasible generalized least squares |
| FMOLS | Fully modified ordinary least squares |
| GDP | Gross domestic product |
| GMM | Generalized method of moments |
| HD | Household debt |
| ICT | Information and communications technology |
| IDI | ICT development index |
| IMF | International Monetary Fund |
| IV | Instrument variable |
| IVQR | Instrumental variable quantile regression |
| JJ | Johansen and Juselius |

| | |
|---|---|
| LLC | Levin, Lin, and Chu |
| M | Import |
| MENA | Middle East and North Africa |
| MG | Mean group |
| NDTC | Non-debt trap country |
| OECD | Organization for Economic Co-operation and Development |
| OLS | Ordinary least squares |
| OLS-PCSE | Ordinary least squares - panel corrected standard error |
| PCA | Principle component analysis |
| PD | Public debt |
| PLS | Partial least squares |
| PMG | Pooled mean group |
| QR | Quantile regression |
| QRPD | Quantile regression estimator for panel data |
| REER | Real effective exchange rate |
| RGDP | Real gross domestic product |
| RIR | Real interest rate |
| SEE | South-East European |

| | |
|---|---|
| SUR | Seemingly unrelated regression |
| SVAR | Structural Vector Autoregressions |
| U.A.E. | United Arab Emirates |
| U.K. | United Kingdom |
| UNCTAD | United Nations Conference on Trade and Development |
| U.S. | United States |
| USD | U.S. Dollar |
| VAR | Vector autoregression |
| VECM | Vector error correction model |
| WDI | World Development Indicators |
| WEO | World Economic Outlook |
| X | Export |
| 2SLS | Two-stage least squares |

# CHAPTER 1

# INTRODUCTION

## 1.1 Introduction

In this era of globalisation, the fusion of financial and commercial activities will provide advantages like effective resource allocation for saving and investing. In the meantime, this integration will result in global current account imbalances (Altuzarra et al., 2010). Global imbalances are circumstances where certain countries have more assets than others. Practically, huge deficits and surpluses in the global economy's current account positions are also referred to as global imbalances (Sadiku et al., 2015). In theory, when the current account reaches equilibrium, its value is zero, and the inflow and outflow of capital cancel each other out, there is an external balance. In contrast, an imbalanced current account has deficits that have persisted for a predetermined amount of time.

The primary focus of international economics is external imbalances, which act as a powerful impetus for historical changes in the economy (Bracke et al., 2010). During the time of interwar, the growing imbalances led to the collapse of international trading and the currency arrangement, which later led to the Second World War. In the 1970s, the Bretton Woods system folded up because there was pressure across the external imbalances that resulted in a prime overhaul of the international monetary system. In 1980s,