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Another Drink? Sure. China Is Paying.

By EDUARDO PORTER

GUESS who's paying for America's spending binge - for the ballooning credit card bills, the scramble for homes, the country's gaping budgetary hole? Poor countries have become the financiers of the United States, fueling one of the most extravagant consumption drives in world history.

From 1996 to 2004, the American current account deficit - which includes the trade deficit as well as net interest and dividend payments - grew to \$666 billion from \$120 billion, swelling the nation's demand for foreign financing by \$546 billion.

The cash has come mostly from what the International Monetary Fund defines as emerging markets or developing countries - nations that have piled up mountains of cash even though most of their citizens are poor. High on the list is China, whose per-capita gross domestic product of \$1,300 last year was a thirtieth that of the United States. Others are Russia, where G.D.P. per head was \$4,100, and India, where it barely topped \$600.

The current accounts of developing countries swung from a deficit of \$88 billion in 1996 to a surplus of \$336 billion last year - a \$424 billion change that has covered some four-fifths of the increase in the deficit of the United States.

This pattern troubles some policy makers in the United States. In speeches in March and April, Ben S. Bernanke, the Federal Reserve governor nominated by President Bush to be chief economic adviser, argued that a main reason for America's swelling external deficit is "the very substantial shift in the current accounts of developing and emerging-market nations, a shift that has transformed these countries from net borrowers on international capital markets to large net lenders."

The poor-country money, Mr. Bernanke said, pushed the current account of the United States deeper into the red. As the money arrived, it first lifted stock prices, encouraging both consumption and investment. When stocks tanked, it moved to the bond market, fueling the housing boom and yet more spending.

There's nothing inherently wrong with taking money from poor places - it's not as if the United States is stealing it. Developing countries are providing the funds willingly.

But it is rather odd. Conventional economic thought suggests that funds should flow the other way. Capital-rich industrial nations like the United States, where workers already have a large stock of capital goods to work with - like high-tech factories and advanced information technology networks - should be sending money to places rich in labor but with a meager capital stock.

Developing countries, of course, use this money to grow out of poverty, investing in their own factories and schools. And precisely because capital is scarce and labor abundant, money invested in these countries should achieve a higher return.

"For the developing world to be lending large sums on net to the mature industrial economies is quite undesirable as a long-run proposition," Mr. Bernanke said.

So what's going on? The efforts of China and other developing countries to keep their currencies from rising against the dollar help explain why the flow of global money is trumping conventional wisdom. Yet other forces are at play. The climb in oil prices, for one, has produced big gains for countries like Nigeria, Russia and Saudi Arabia, which have put much of the cash in dollar assets.

Most important, running a current-account surplus has become a matter of self-defense throughout the developing world.

Many of the poor countries that are now lending money to richer ones previously were big borrowers and spenders themselves. Then they were hit by a series of financial crises. Starting with the currency collapse in Mexico in 1994, and continuing with the Asian currency crisis of 1997, the Russian debt crisis of 1998, the Brazilian currency devaluation of 1999 and the Argentine default of 2002, developing countries experienced large-scale capital flight, which forced painful devaluations and sharp economic contractions.

Naturally enough, they took measures to reduce the chance of further jolts. Countries stricken by crisis or just trying to avoid it tightened their belts. They stimulated exports and inhibited imports - working to keep their exchange rates low. They reduced domestic investment and paid down foreign debt.

And they amassed vast foreign reserve war chests to protect themselves in case investors ever decided to bolt again and take their capital with them. Russia's international reserves, for instance, mushroomed to \$124 billion at the end of 2004 from \$18 billion at the end of 1997. India's jumped to \$126 billion from \$24 billion over that period.

Last year alone, according to the Institute of International Finance, a lobby group of big banks, international reserves of developing countries grew nearly \$400 billion.

The good news for the United States is that these forces are unlikely to change direction imminently. In an interconnected world, where investors can move billions across oceans at the touch of a button, these countries have little reason to shift strategies.

Guillermo Calvo, the chief economist of the Inter-American Development Bank, who has seen his share of financial crises in Latin America, put it succinctly: "Every country seeks more security. The only thing they can do is build up their war chest." The United