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# China Rebuts Lew as Emerging Markets Keep Up Pressure on Fed (2)

By Shamim Adam, Michael Heath and Svenja O'Donnell February 22, 2014

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Feb. 23 (Bloomberg) -– China (CNGDPYOY) led developing markets in hitting back at the U.S. as India and South Africa kept up pressure on the Federal Reserve to consider the spillover effects of tapering its bond-buying program.

A day after Treasury Secretary Jacob J. Lew questioned the pace of China's economic opening, Chinese Finance Minister Lou Jiwei said yesterday the U.S. recovery had been buoyed by monetary policy rather than structural changes. Indian central bank Governor Raghuram Rajan said countries should ensure tightening doesn't upset the global economy and is done in a measured way.

As Group of 20 finance ministers and central bank governors began their two-day meeting in Sydney yesterday trying to find common ground to support economic growth, officials are less unified on monetary policy. While the U.S. and fellow industrial countries have put the onus on their emerging counterparts to get their houses in order to withstand volatility, developing-market officials want policy calibration.

"The tension is likely to continue," said Tomo Kinoshita, chief economist at Nomura Holdings Inc. in Tokyo. "China is on the side of the emerging economies rather than on the side of the advanced economies."

Nations including South Africa, Brazil and India have seen their currencies rattled as the Fed begins to dial-back unprecedented stimulus measures. The MSCI Emerging Markets Index has lost 4.3 percent so far this year, its worst annual start since 2010.

## Lew Vs Lou

Lew, speaking in Sydney on Feb. 21, said while China wants "to move in the right direction" on opening its economy, "I have yet to see the signs that they are moving with the speed that we would want."

Turning the tables yesterday, China's Lou said while developed countries now seem very positive about their growth prospects, "that may not be totally true."

"Take the U.S. for example: Its recovery is being helped by monetary policy and not much by structural adjustment," he told Bloomberg News. "They have always been saying that China should boost its consumption ratio and the U.S. should boost its investment ratio, but that structural change is not happening in the United States."

The Fed has kept rates low to spur the economy as a budget deficit restricted President Barack Obama's administration's ability to stimulate demand. The unprecedented monetary stimulus steered investors toward emerging markets in search of yield, a process that is reversing along with the Fed's taper.

# G-20 Backing

The G-20 is backing the normalization of monetary policy in advanced economies in line with stronger growth, according to a draft communique seen by Bloomberg News. The final statement is scheduled to be released today.

"It will take a fair amount of turmoil to move any industrial country's monetary policy away from looking at its own situation first," Rajan said in an interview with the Australian Financial Review. "That said, I think the international community has some responsibility -- not just the multi-lateral organizations -- but everybody, to ensure we all come out of this together rather than piecemeal."

G-20 delegates have held extensive discussions on the impact of U.S. tapering on emerging markets and the direction of the global economy, Australian Treasurer Joe Hockey, who is hosting the meeting, told reporters in Sydney today.

# Job Creation

"I don't think there's a person in the room that doesn't believe that if we're going to create more jobs, we're going to have to undertake structural reform in our economy," he said.

South Africa wants agreement within the G-20 on the coordination of economic policies as it pushes for stronger acknowledgment of the impact of the Fed's moves on smaller nations, Deputy Finance Minister Nhlanhla Nene said in an interview yesterday.

The Fed should seek a consensus among global counterparts on "what is the optimum level of withdrawal that the world economy can manage," India's Economic Affairs Secretary Arvind Mayaram said in Sydney Feb. 21.

# Growth Reversal

Strengthening in developed economies and a slowdown in growth in China, India, Brazil and elsewhere reverses the trend that had shaped global growth since 2008. Carlos Cozendey, Brazil's deputy finance minister, said yesterday in Sydney that the Fed had helped reduce emerging markets' concern over tapering, saying it would be mindful of spillovers.

A number of emerging markets have not undertaken reforms that are needed in their economies, U.K. Chancellor of the Exchequer George Osborne said in an interview in Sydney today.

"There's no doubt that there are risks to the global economy and problems in emerging markets are some of the most evident risks," Osborne said. "But it's important to note that it's not all emerging markets" and it "somewhat exposes the charge you hear that this is all due to U.S. monetary policy and western monetary policy," he said.

Emerging markets may not forget easily should their concerns go unheeded. After learning from the Asian financial crisis of the late 1990s to accumulate reserves, allow flexible exchange rates and not have too much foreign-currency debt, this episode is teaching them another lesson, said Eswar Prasad, a former International Monetary Fund economist who now teaches economics at Cornell University in Ithaca, New York.

"The next time if capital does start flowing in, every one of these economies is going to use the opportunity to accumulate more reserves" and prevent currency appreciation, Prasad said. "We will be seeing some complaints coming from the advanced economies when this starts happening."

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