

Comments on Saving and Investment Dynamics in Asian Economies by Dr. Deepak Mohanty

Presented by Donghyun Park (dpark@adb.org),
Economics and Research Department, Asian Development
Bank,

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**What causes private investment to remain relatively low
in Asia?**

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Overall comments

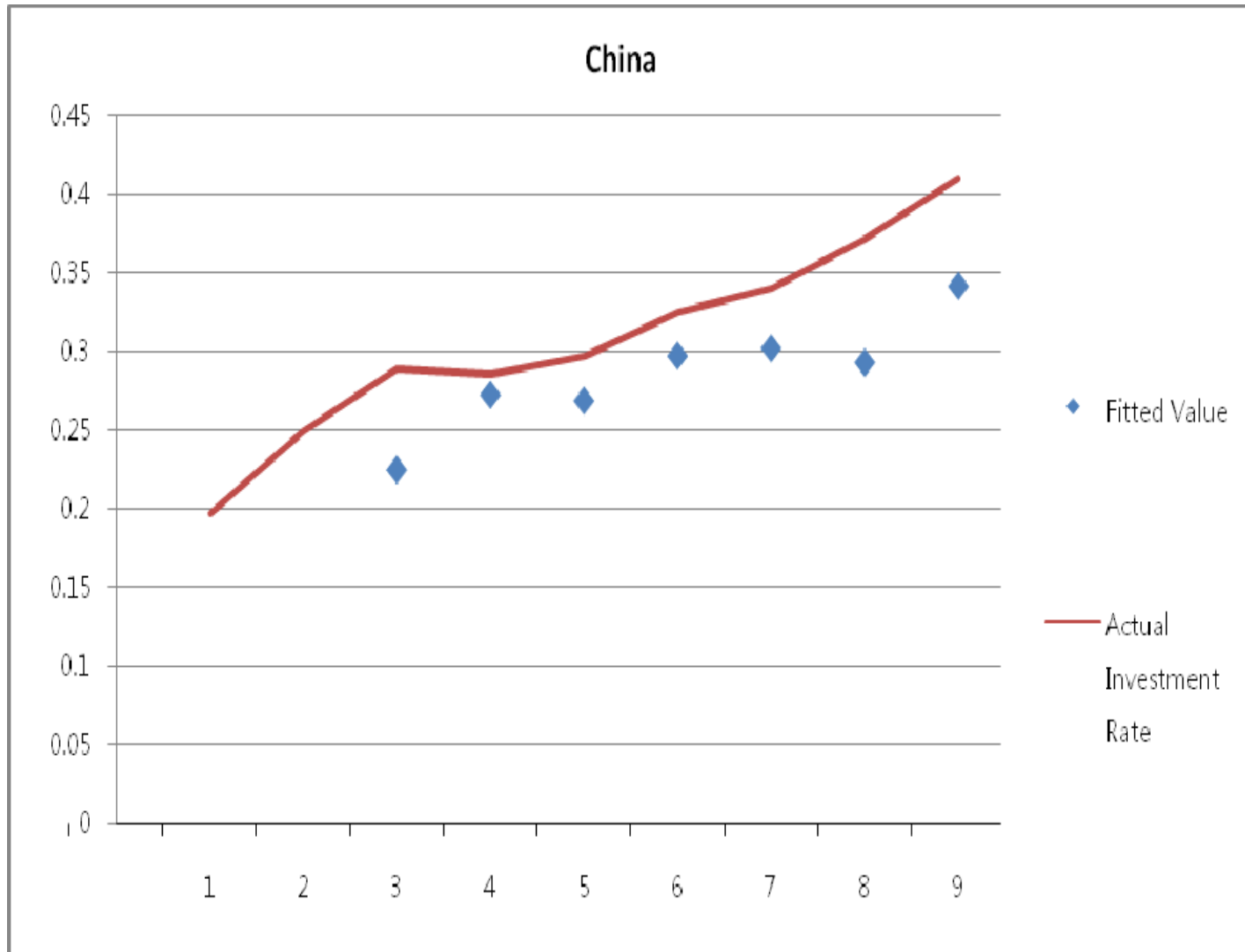
- The paper represents a useful contribution to the growing literature on the empirical analysis of the determinants of savings and investment in Asian countries.
 - ASEAN-4, Korea, China, India and Japan
 - 1990-2008
 - Pooled GLS with fixed effects
 - Explanatory variables include GDP growth, financial deepening, trade openness, income volatility and manufacturing
- GDP growth and trade openness are highly significant and have a positive effect on investment.
 - Financial development and manufacturing are insignificant

Overall comments

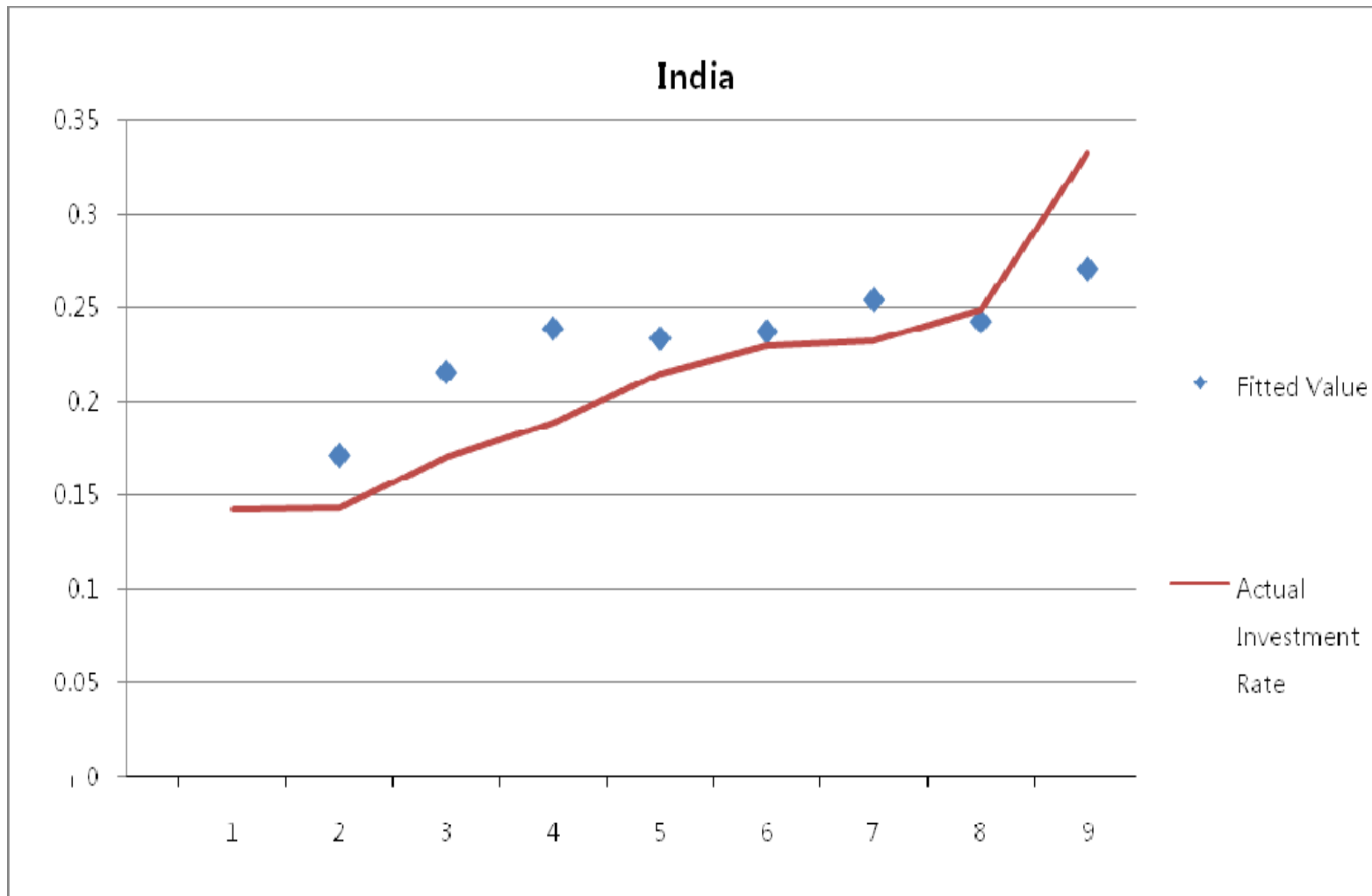
- Aged dependency is significant and has a negative effect on savings. GDP growth and income volatility are positive and significant.
 - Trade openness is mostly significant.
 - Financial development is insignificant.
 - Share of manufacturing is significant.
- A comparative empirical analysis of China and India reveals that:
 - GDP growth, income volatility and lagged savings are significant and positive determinants of India's investment but not for China.
 - GDP growth was the primary driver of savings in India while it is aged dependency ratio and lagged investment in China

Specific comments

- The comparative empirical analysis of China and India is a promising area for research, and the most interesting and original part of the paper. It should be expanded/strengthened.
 - China's saving and investment rates are substantially higher than those of India, and this is widely viewed as a root cause of China's higher growth rates.
 - Therefore, more rigorous and in-depth comparative analysis of the determinants of the two Asian giants' saving and investment would be both interesting and informative.
 - In this context, an interesting issue is the existence and extent of "over-investment" in the PRC? Is there "under-investment" in India? The answers to these questions have major implications about future growth in the two countries
 - Likewise, is there "over-saving" or "under-savings" in the



Park, Shin and Jongwanich (2009)



Park, Shin and Jongwanich (2009)

Specific comments

- Some of the empirical results are counter-intuitive. More generally, the interpretation of results has to be elaborated upon.
 - One very interesting empirical result is the positive effect of trade openness on investment, but it would be helpful to clearly spell out the economic intuition behind this result.
 - In the case of India, it is possible that economic reform, including trade liberalization, led to more trade *and* higher investment.
 - What are the policy implications? That trade openness is conducive for investment? But higher investment is also conducive for trade...
- Manufacturing is capital-intensive, but the evidence indicates that the share of manufacturing in output is insignificant as a determinant of investment.

Specific comments

- It may be useful to experiment with alternative measures of financial development and openness.
 - In particular, it is somewhat surprising that financial development is insignificant for both saving and investment.
- Manufacturing share has a significant effect on savings, but this is difficult to explain.
- It is also unclear why current account balance is included in China's investment regression.
- It is puzzling as to why GDP growth is the major driver of saving in India but insignificant in faster-growing China.
- Neither China nor India were hard hit by the