regime, since the economy is small and highly open to financial flows. Usually, however, Asian central banks have multiple objectives: growth, price stability, and exchange rate stability, some of which temper the conventional framework. It is fair to say that many East Asian countries deal with inflation more on the basis of discretion than preset rules. In Cambodia and Vietnam, dollarization and the lack of independence of the central bank is a serious problem in stabilizing inflation. India has a hybrid regime without an explicit inflation objective and with exchange rate management in principle limited to moderating sharp movements in the currency's value.

China is the largest nation with a managed exchange rate. The renminbi was delinked from its US dollar peg in 2005 but remains tightly managed against the dollar. Among the explanations for this choice of exchange rate regime are the government's objective of promoting export-led growth. Another is the desire to self-insure against external shocks by accumulating a large stock of reserves. China's foreign exchange reserves now exceed $3 trillion, dwarfing by a wide margin all evaluations of the reserve buffer necessary to insure against sudden stops of inflows or a surge of capital outflows.

National and regional differences aside, a common feature of policies in these countries is a reluctance to allow exchange rates to move as much as needed to accommodate external disturbances, especially those originating in the capital account. Non-floaters monitor nominal and sometimes also real exchange rates and use not just foreign exchange market intervention but a whole array of instruments to prevent unwanted exchange rate movements.

In sum, notwithstanding the perceived success of inflation targeting with flexible exchange rates, countries operating a freely floating exchange-rate regime, whether measured in terms of global GDP or global exports, have not increased over the last two decades. To the contrary, the share of such countries, so measured, has actually declined (Figure 1).

The main consequence is that the adjustment mechanism implied by the standard IT-plus-floating arrangement has not been allowed to operate. This is one explanation for the size and persistence of global imbalances. According to the IMF's *World Economic Outlook,* these imbalances reached 3% of world GDP in 2007, before the advent of the crisis.[17] The subsequent crash then reduced current account deficits in countries such as the US and the UK as their demand for imports dropped sharply. But according to the April 2011 *WEO*, imbalances once again began to grow starting in 2010 and will hover around 2% of world GDP between now and 2016.

A prominent instance of the uneasy coexistence of floaters and fixers is the tug of war between US monetary policy and exchange rate policy in emerging market "fixers" such as China. A highly stimulative US monetary policy is potentially fueling inflation elsewhere, including in emerging markets that have closed their output gaps and are facing inflationary pressures. Of course, emerging market central banks could raise interest rates more rapidly, but they would then attract capital inflows and experience faster exchange rate appreciation. Meanwhile, emerging market resistance to exchange rate appreciation is limiting export and employment growth in industrial countries already experiencing high and persistent unemployment. In normal circumstances, the United States and other advanced economies would adjust by cutting interest rates. But these countries are already at the zero bound. In this context, the exchange rate policy of emerging market "fixers" is imposing a negative demand externality on the advanced economies. In tandem with the inflationary externality imposed by US monetary policy, this has created severe policy complications for

[17] That is the size of the current account surpluses in countries like China, Japan, Germany, Switzerland, and the oil producers, matched (up to errors and omissions) by the corresponding deficits in the US, the UK, Spain and elsewhere.