

InterTradeIreland  
Economic Forum 2010

# Shaping Recovery

**Dr Linda Yueh**

Fellow in Economics, University of Oxford



# Asia, the emerging economies and the shape of recovery

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Dr. Linda Yueh

[www.lindayueh.com](http://www.lindayueh.com)

# Outline of presentation

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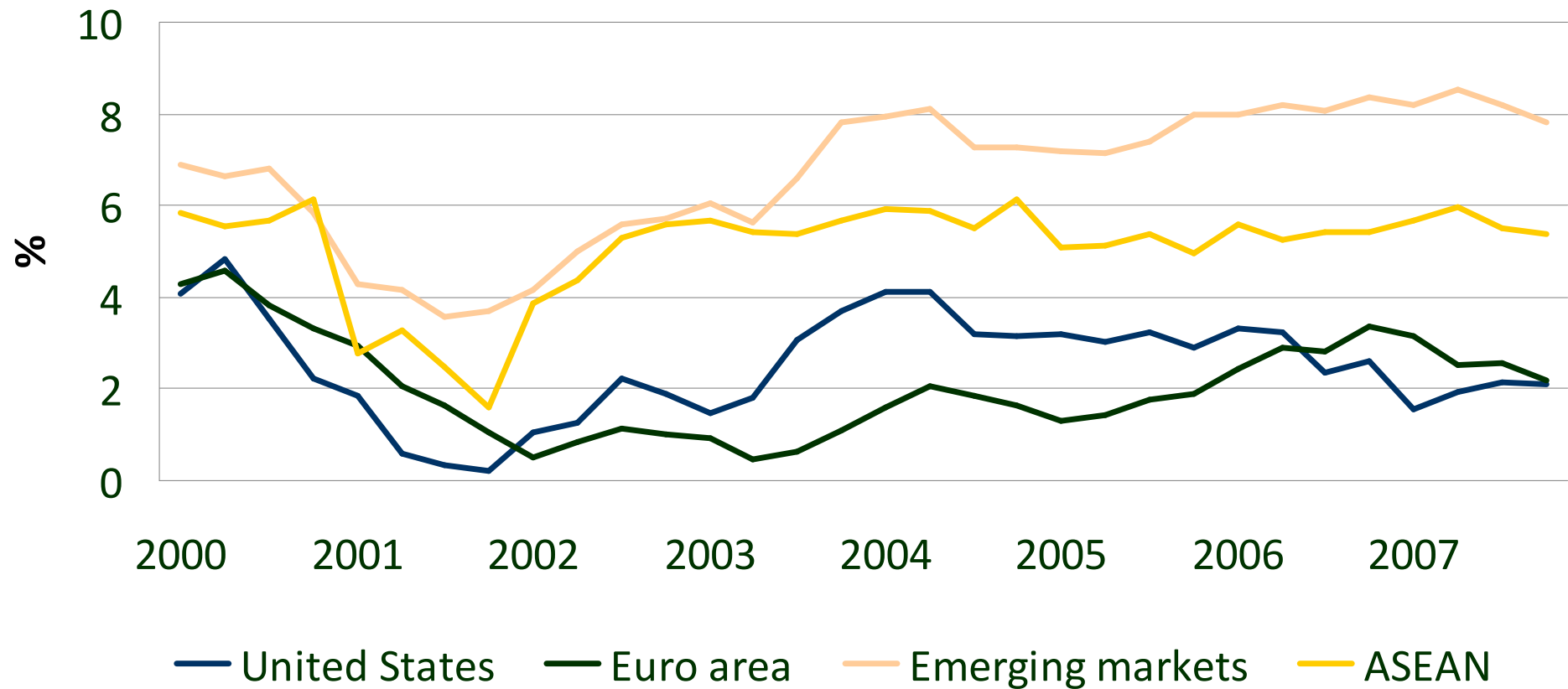
- Asia and emerging economies . China as the engine of global recovery?
- Implications for a global export-led recovery
- The changed global economy & global re-balancing

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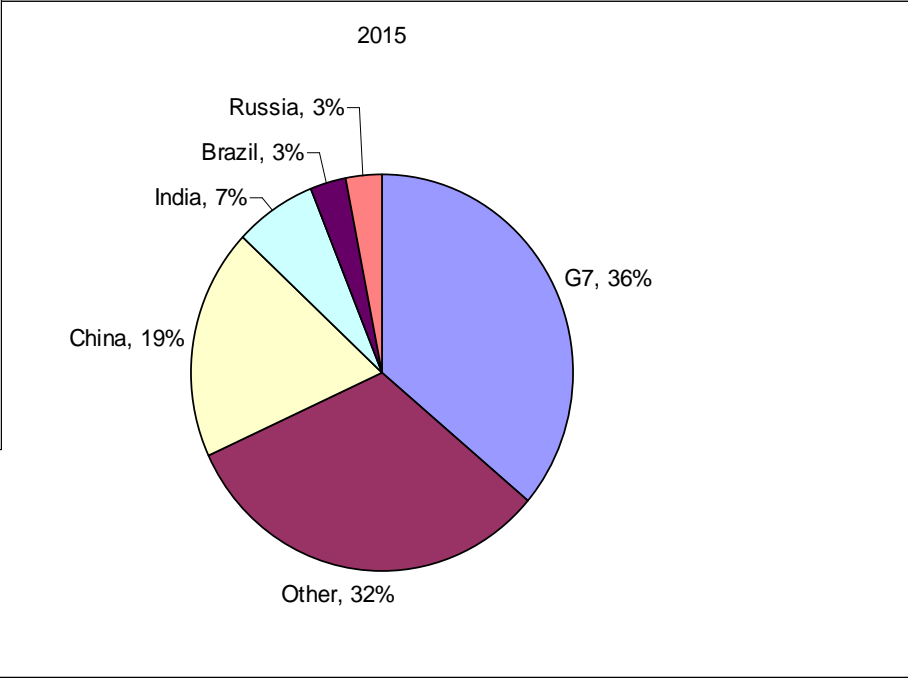
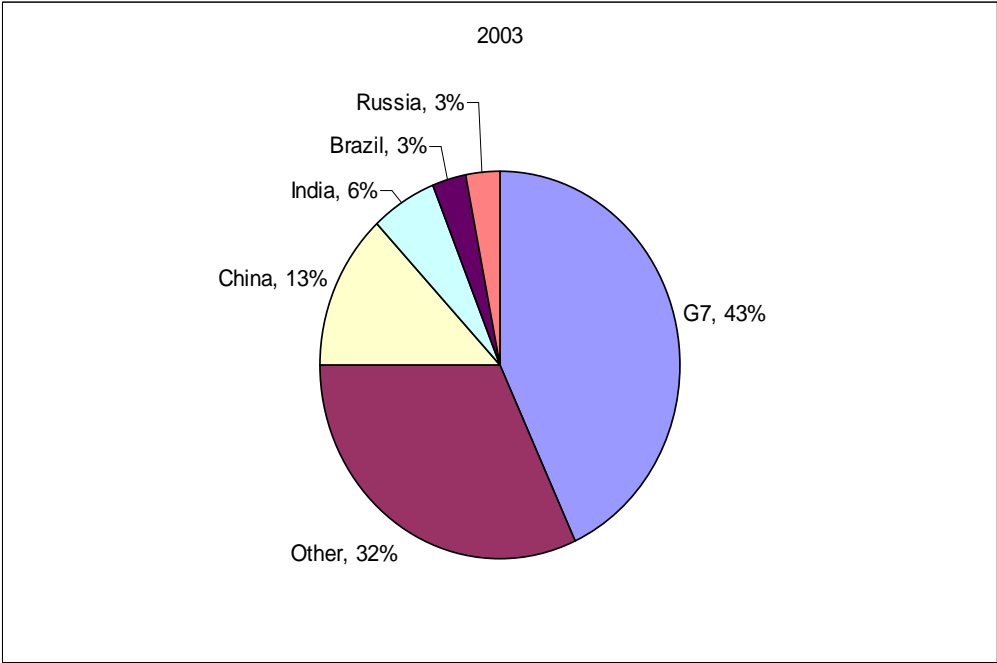
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- Asia & emerging economies . China as the engine of global recovery?
- Implications for export-led economies
- Re-balancing the fundamentally changed global economy

# Fast-growing Asia & other emerging economies



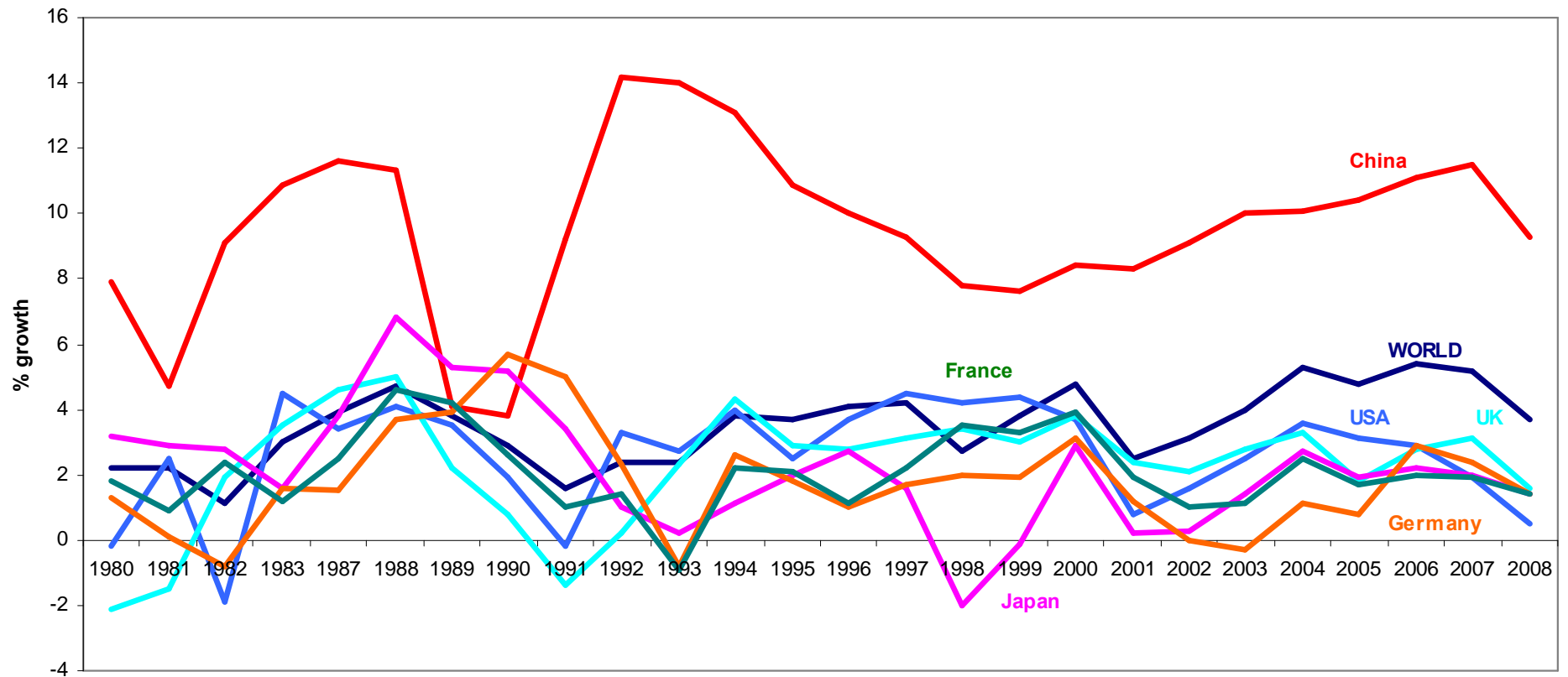
# G7 vs. BRICs



Source: Consensus forecasts.

# China rising

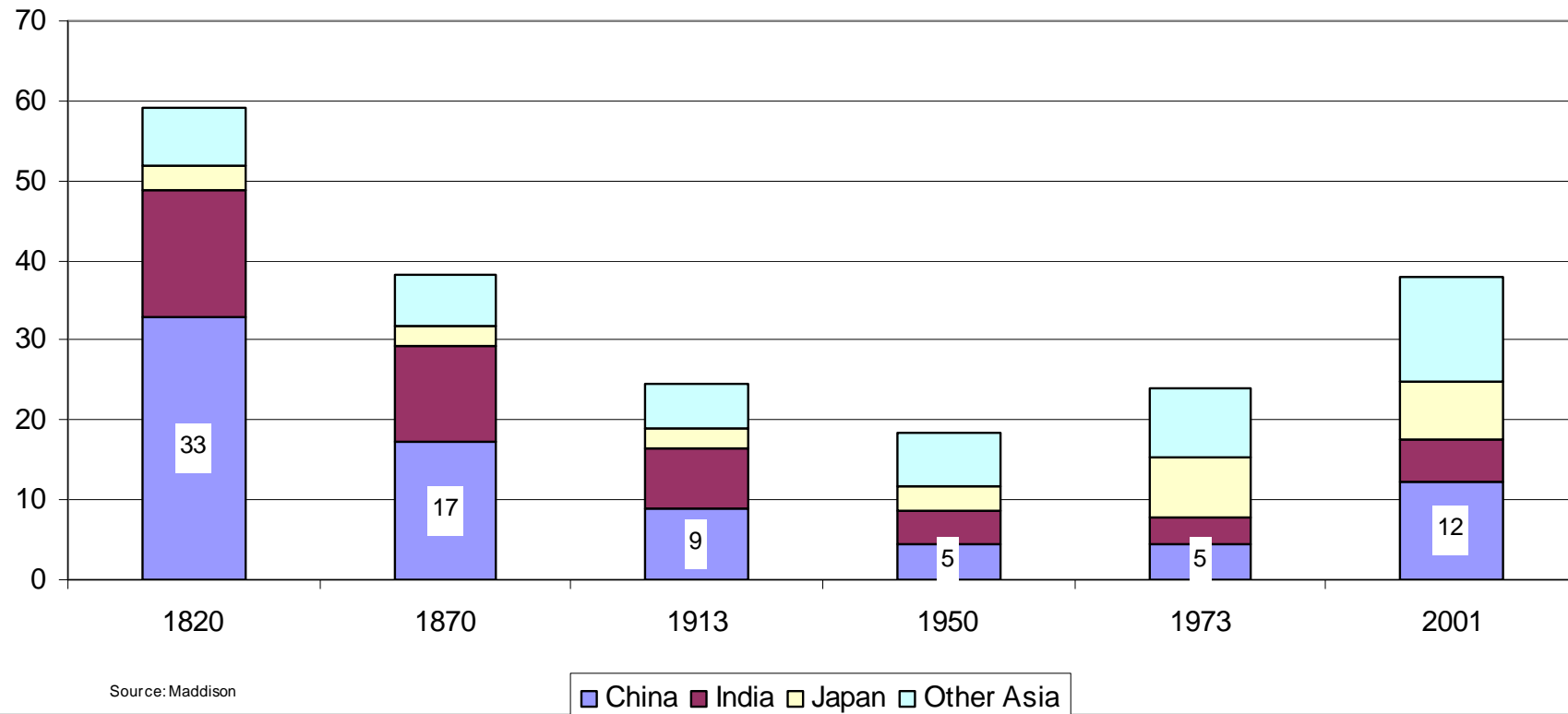
Real GDP growth, 1980-present



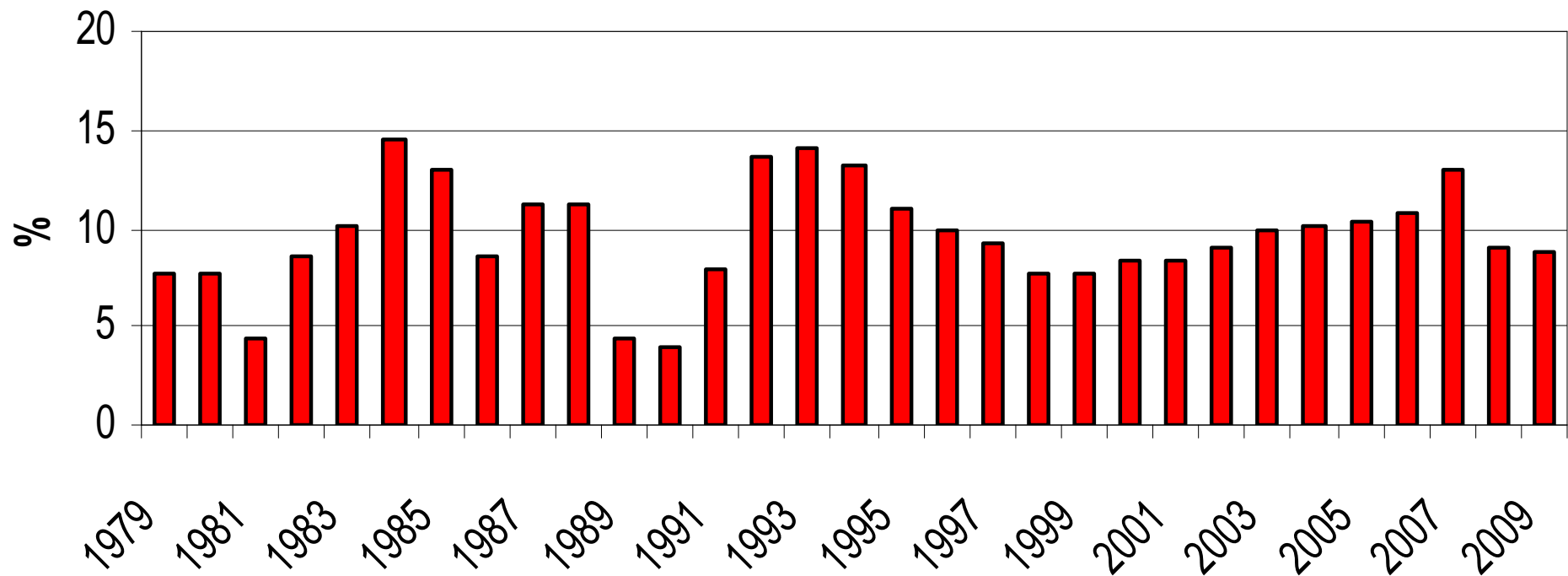
Source: IMF

# Asia in the global economy

ASIA'S SHARE IN WORLD GDP  
(at PPP)



# China's GDP growth, 1979-2009



Source: China National Bureau of Statistics (NBS).

# Weathering the crisis

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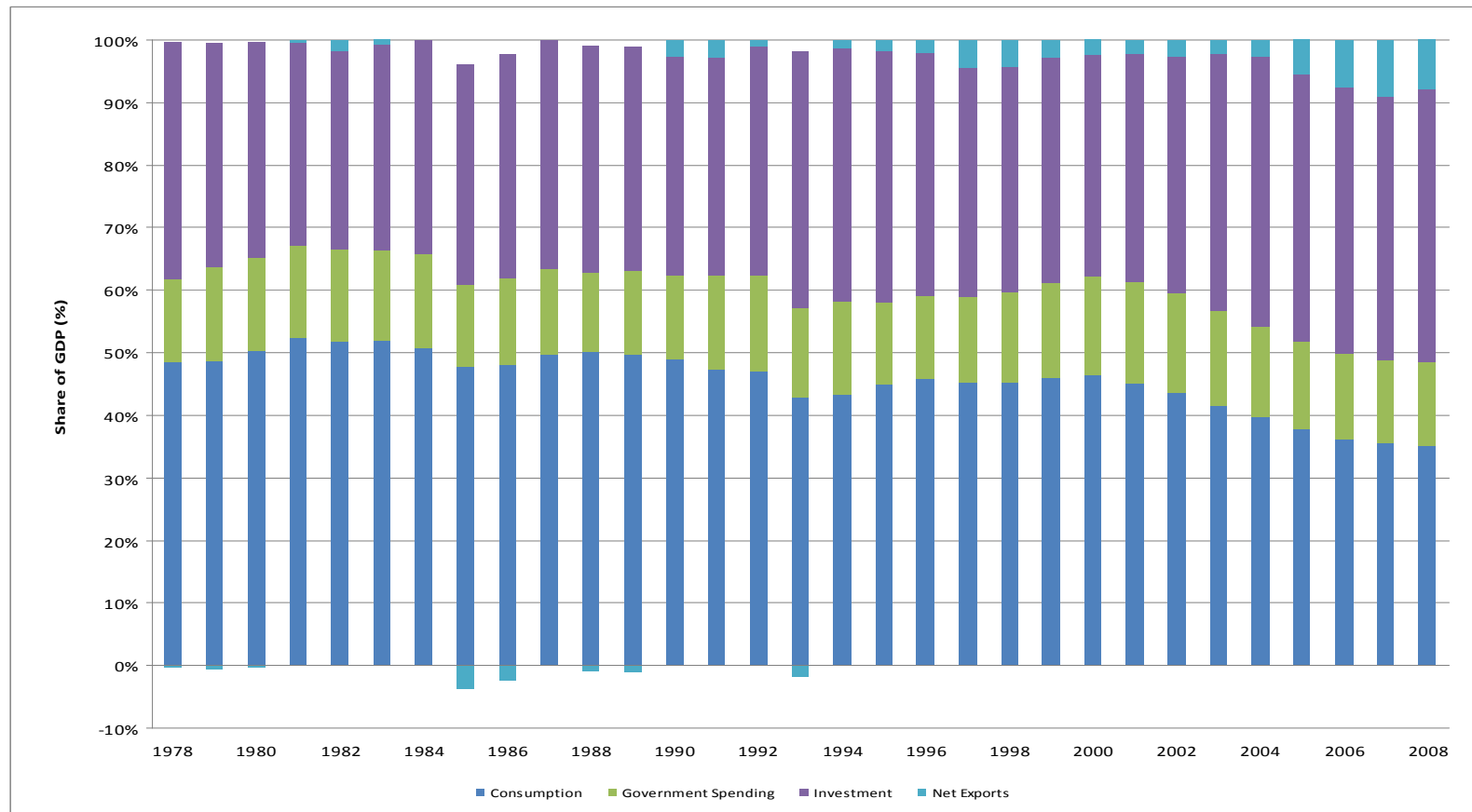
- Limited financial sector exposure, and plenty of reserves.
- Volatility in GDP (resulting in unemployment) point to need for internal re-balancing.
- Can China re-orient toward domestic demand?

# Fiscal stimulus & public spending

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- 4 trillion RMB/\$586 billion to be spent as a stimulus measure, plus another \$125 billion on health (to achieve universal coverage by 2020) and around \$400 million on rural pensions.
- \$1.26 trillion in lending in 2009 has led to GDP growth at 8.7%, but asset bubbles building in stock markets and real estate.
- Infrastructure is needed, but few measures to address corporate savings and little on other social welfare coverage, e.g., pensions, unemployment.

# Falling consumption/rising savings



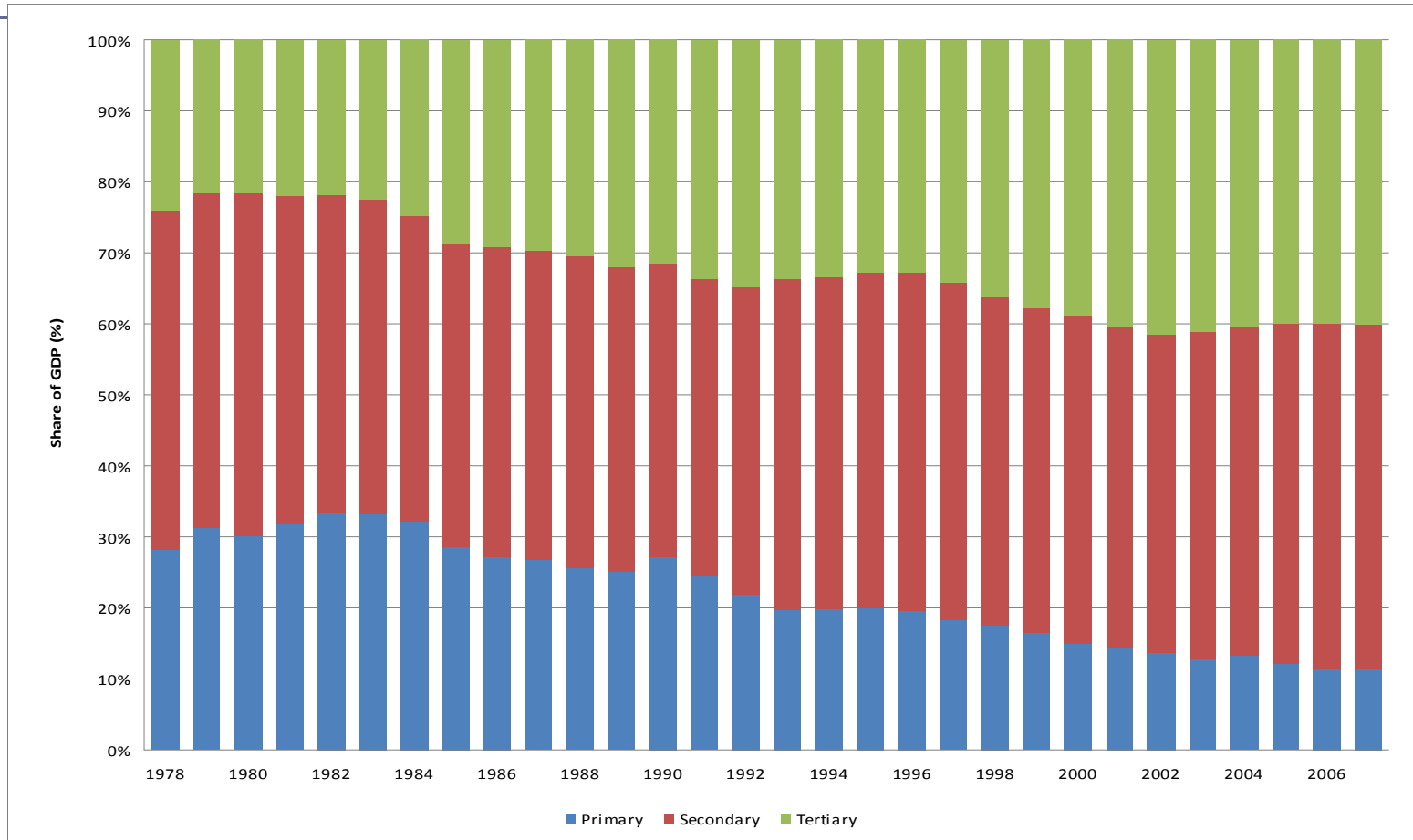
Source: China NBS

# Savings, jobs & institutional reform

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- Opportunity to focus on reducing motives for precautionary savings and address social insecurities to increase consumption.
- Reforming capital markets to reduce corporate savings so that productive investments can take place and increase domestic demand.
- Public works (infrastructure) create jobs to absorb job losses and provide future benefits.
- Must do more to shore up institutional foundations of the market, including promoting urbanisation, income growth and liberalise demand

# Re-industrialization & services



Source: China NBS

# The Yuan

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- Upsides and downsides to the dollar peg
  - exporter margins & hedging
  - import prices & subsidies
  - inflation/liquidity/rising asset prices, e.g., stock markets and housing
  - revert to 2005 regime?
- Reserve accumulation → global liquidity → but China can also go global+

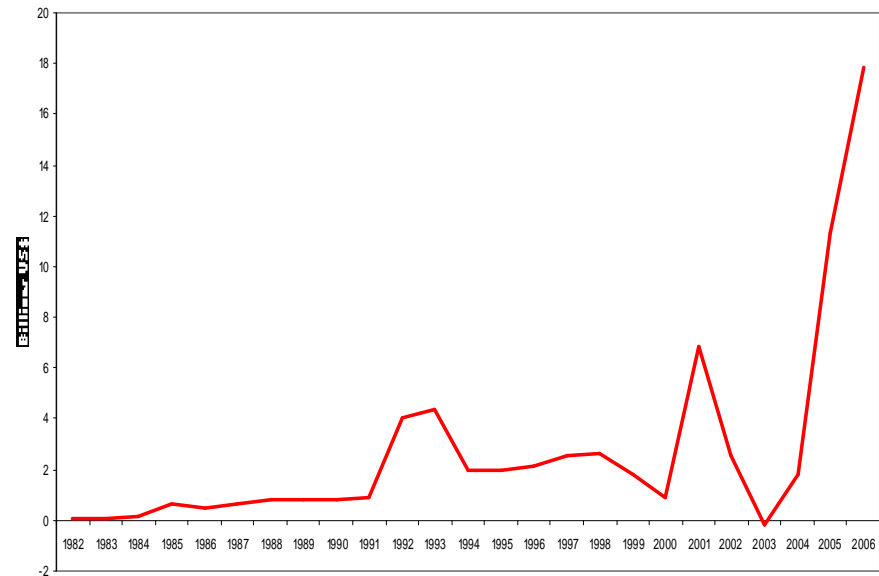
# Going out policy

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- Launched in mid 1990s and culminated in first commercial outward FDI with TCL and Thomson deal in 2003, Lenovo and IBM, Rover, Hummer, etc.
- Before crisis fully hit, Chinese firms were raising funds for overseas M&A deals.
- Stalled but renewed as second half of 2008 witnessed the first capital account deficit in a decade.
- However, backlash exists & there is need to differentiate among SWFs, SOEs and private firms.

# Outward FDI

- 2008: outward FDI totalled \$55.6 billion, a 194% increase over a year earlier
- Of which, \$40.7 billion in the financial sector and \$11.9 billion in other sectors.
- Also, \$130 billion deficit in portfolio investments.
- China receives around \$60 billion p.a. in inward FDI, so it may be a capital exporter, especially as investments in energy, minerals, raw materials have accelerated.



# Implications for global imbalances

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- Already some global re-balancing:
  - China's exports (and imports) are down and the U.S. trade position has improved.
  - U.S. savings rate is up some four-fold and Chinese consumption is steady.
- Gradual re-balancing is preferable as Western economies issue record levels of debt, and China may well continue its surplus this year.
- Participate in global regulatory reforms, including an early warning system against build up of macro imbalances.

# Outlook

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- Inflationary risk & potential banking crisis
- Difficult mix of economic policies (fiscal, monetary, exchange rate)
- But, 12<sup>th</sup> Five Year Plan has right emphasis, e.g., re-orientation to domestic demand, urbanisation, greater external sector liberalisation

# Will China serve as an engine?

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- In a limited sense, but
  - Consumption base is poorer
  - Market access restrictions
  - Institutional instability
- Nevertheless, re-orientation toward domestic demand is promising, including for trade partners, e.g., Asia: market linkages, US/EU: technology, Japan: cars, Africa/Australia/L. America: commodities, and the wider global economy.

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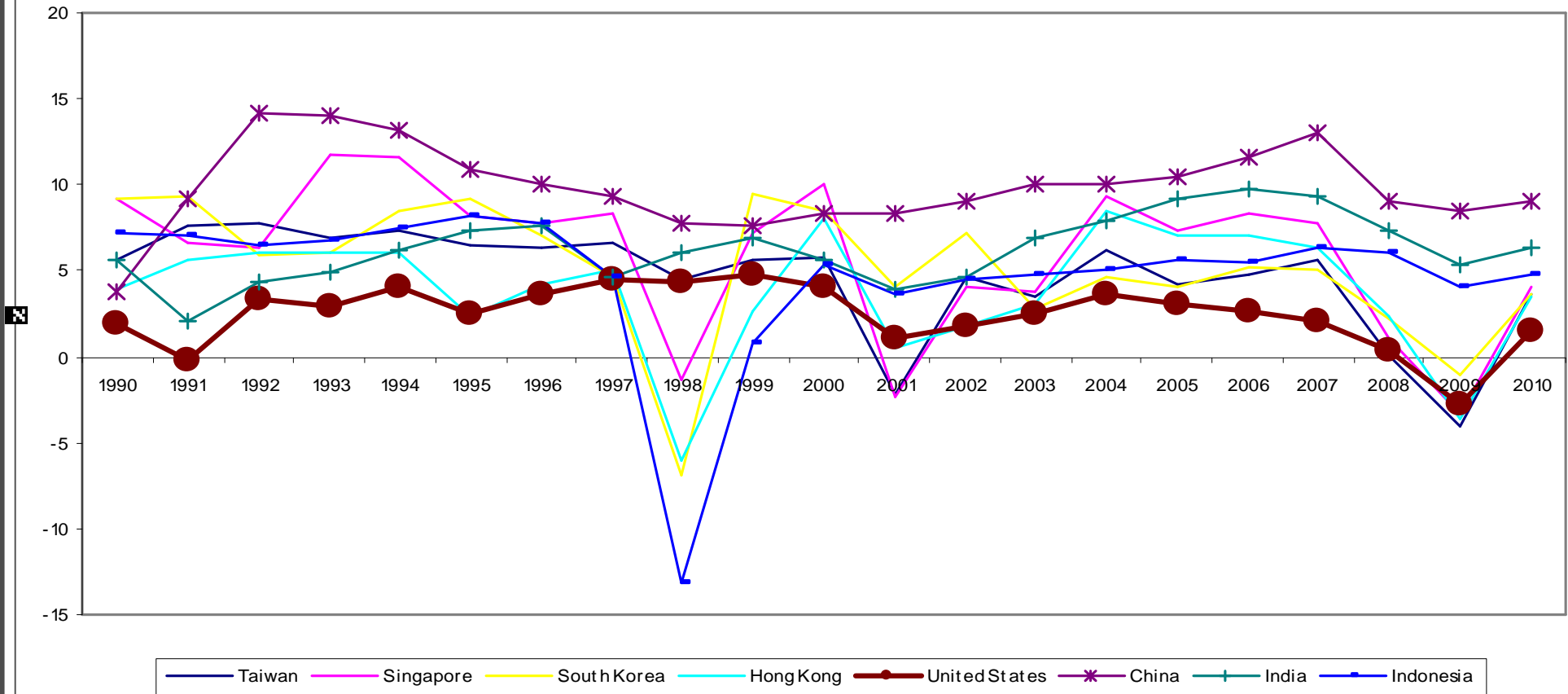
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# Disparate emerging economies

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- Worst affected:
  - Indebted ones needing IMF bailouts, e.g., Eastern Europe, Latin America and Sub-Saharan Africa
  - Export-led emerging economies, e.g., former %Tiger economies+of Singapore & South Korea, most of developing Asia
- But, large countries with domestic markets avoided recession and are growing, e.g., China, India, Indonesia

# Tigers or canaries?

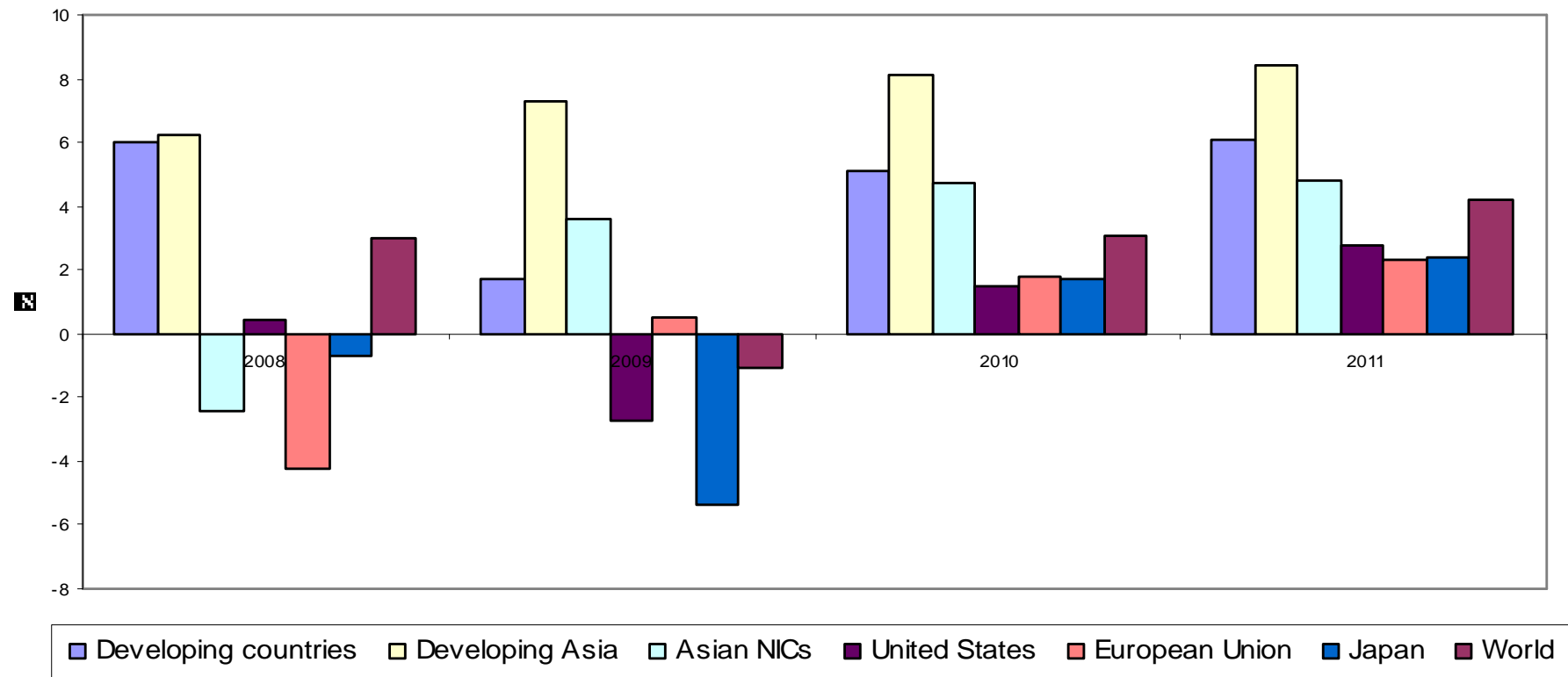


# Export-orientation in Asia

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- Nearly all countries in Asia have trade-to-GDP ratios of over 100%
- Collapse in exports, though, has not resulted in bail-outs
- Though stable, recovery will depend on consumption growing ã but looking toward not just USA/EU but China

# Economic forecast: 2008-2010



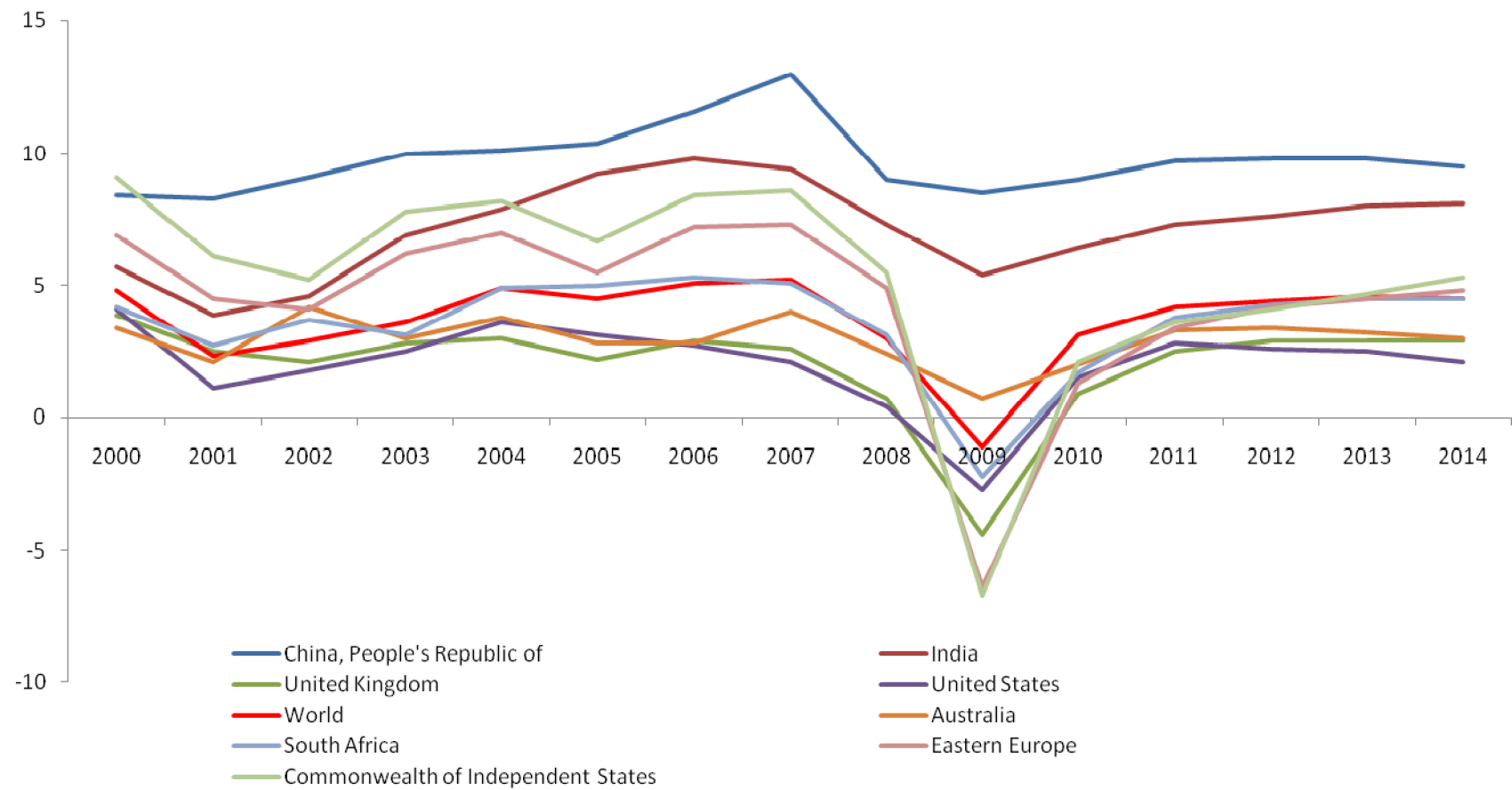
Source: IMF.

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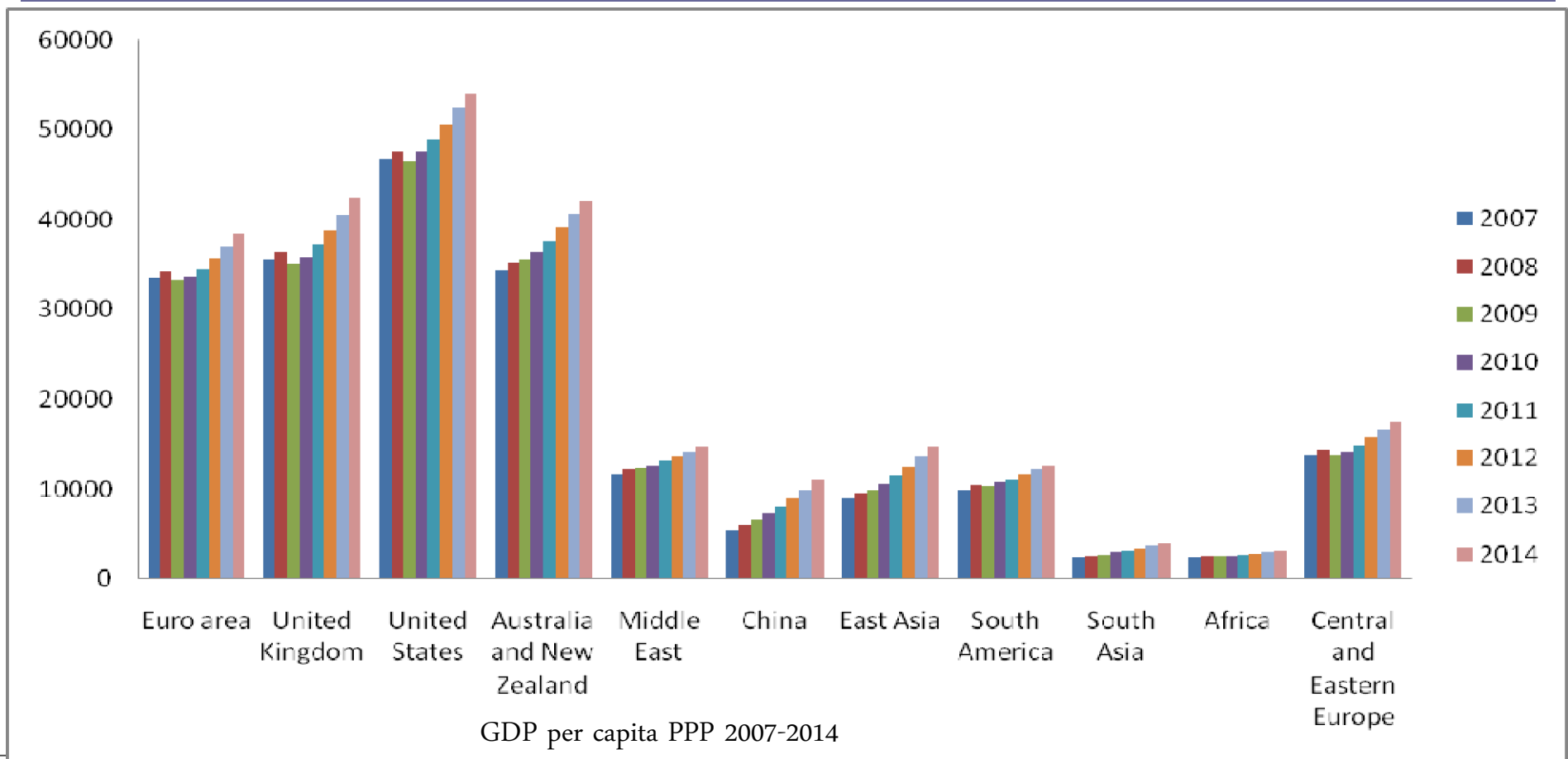
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# New fast growing large economies

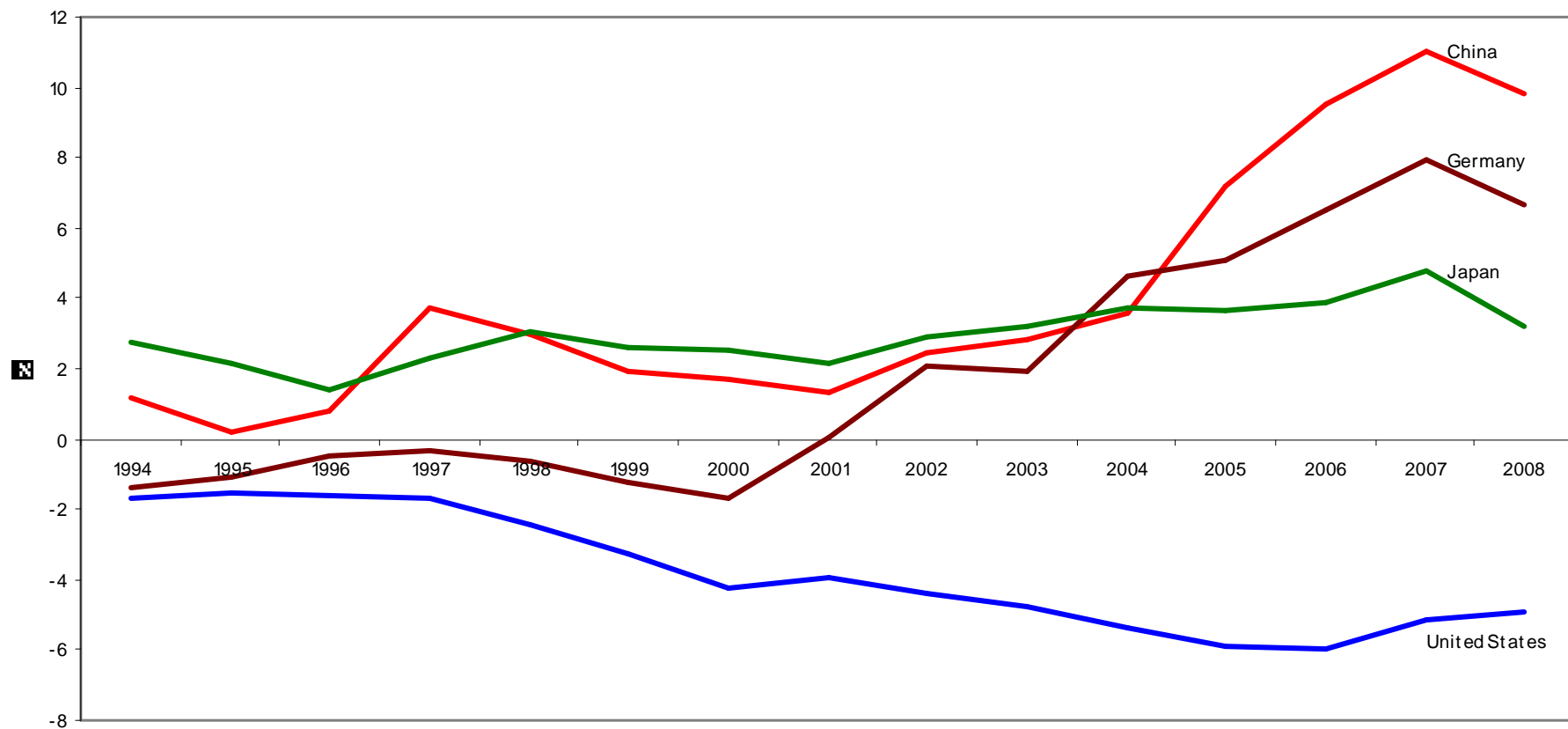


# But, poorer for some time yet



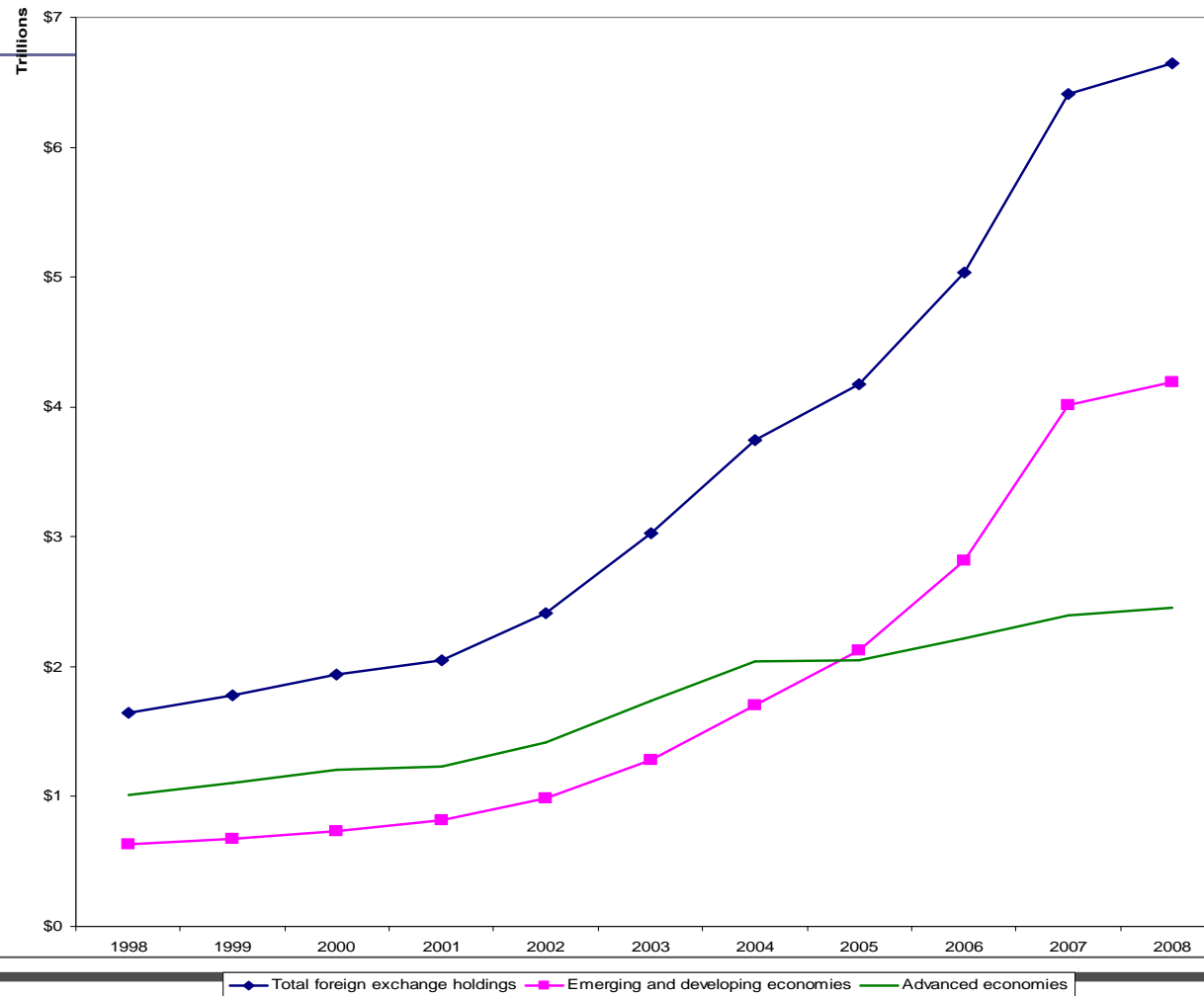
Source: IMF

# Disparate trade positions remain

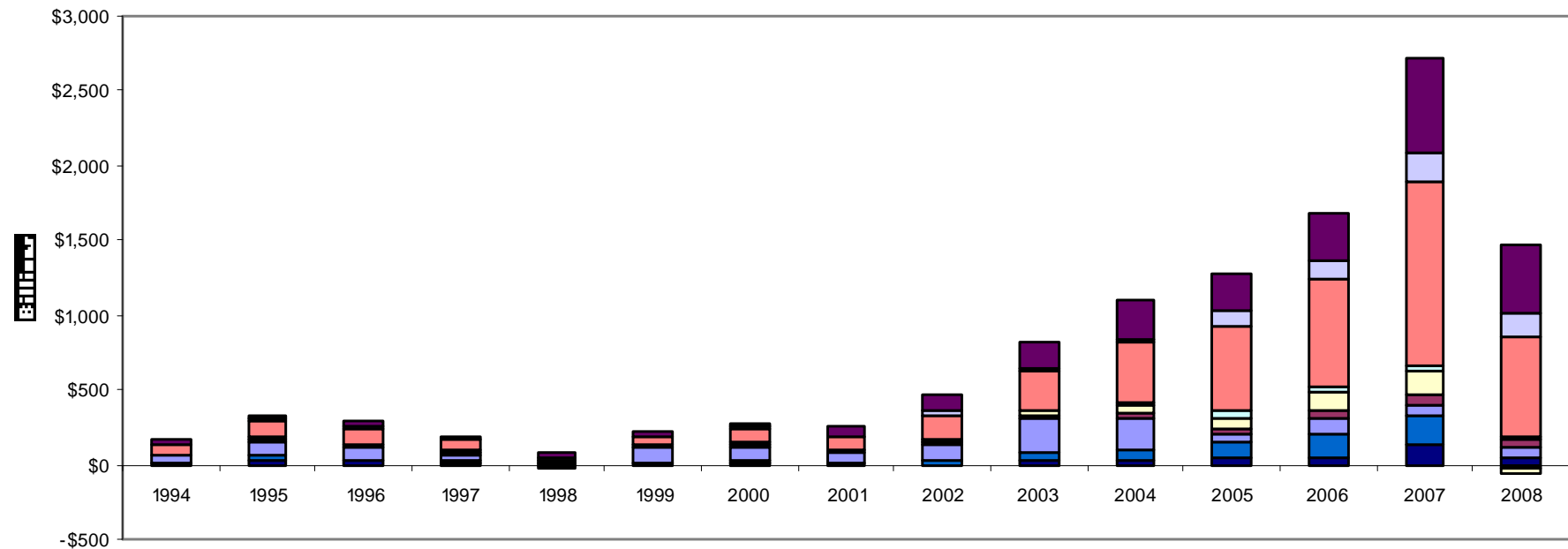


Source: IMF

# Four-fold growth in reserves



# Held by developing countries



- Western Hemisphere
- Europe
- Africa
- CIS and Mongolia
- Emerging and Developing Economies
- Middle East
- Advanced Economies
- Central and Eastern Europe
- Developing Asia

# Resolving these imbalances

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  - U.S. savings rate is up some four-fold and Chinese consumption is steady.
- Gradual re-balancing is preferable as Western economies issue record levels of debt, and China may well continue its surplus.
- Unlikely to be complete with implications for policy-setting in the West and liquidity problems in the East.

# Conclusions

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- Where are we at? Global economy is recovering, led by Asia
- Where are we headed? Many downside risks in the short-term but long-term outlook is bright with the world economy powered by large emerging economies, particularly China & India

# New global economic structure

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- Poorer but large middle class in large emerging economies, particularly China
- Growing competitiveness pressures due to greater global integration of economies
- Future of U.S. dollar as global reserve currency?