

Asia, China and the World: Macroeconomic Outlook and Risks

FAN Gang

Peking University & NERI-China

I. Asia, particularly the Developing Asia, in Good Shape

Table 1. Economic Growth Slowdown, 2007-2009, by Country Groups

Country Group Name	2007	2008	2009f (July)	2007-2009f, change
Developing Asia ¹	10.6	7.7	5.5	-5.1
ASEAN-5 ²	6.3	4.9	-0.3	-6.6
Newly industrialized Asian Economies ³	5.7	1.6	-5.2	-10.9
Central and eastern Europe	5.4	2.9	-5	-10.4
CI S and Mongolia	8.6	5.5	-5.8	-14.4
Middle East	6.3	5.9	2	-4.3
Western Hemisphere	5.7	4.2	-2.6	-8.3
World	5.2	3.2	-1.4	-6.6
Advanced economies	2.7	0.9	-3.8	-6.5
Emerging and developing economies	8.3	6.1	1.5	-6.8

1 . Developing Asia: Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kiribati, Laos, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga Vanuatu, Vietnam.

2 . ASEAN-5: Indonesia, Malaysia, Philippines, Thailand, Vietnam

3 . Newly industrialized Asian economies(NIE): Hong Kong, Korea, Singapore, Taiwan Province of China

Chart 2: GDP growth by region

Real growth rate (% y/y)

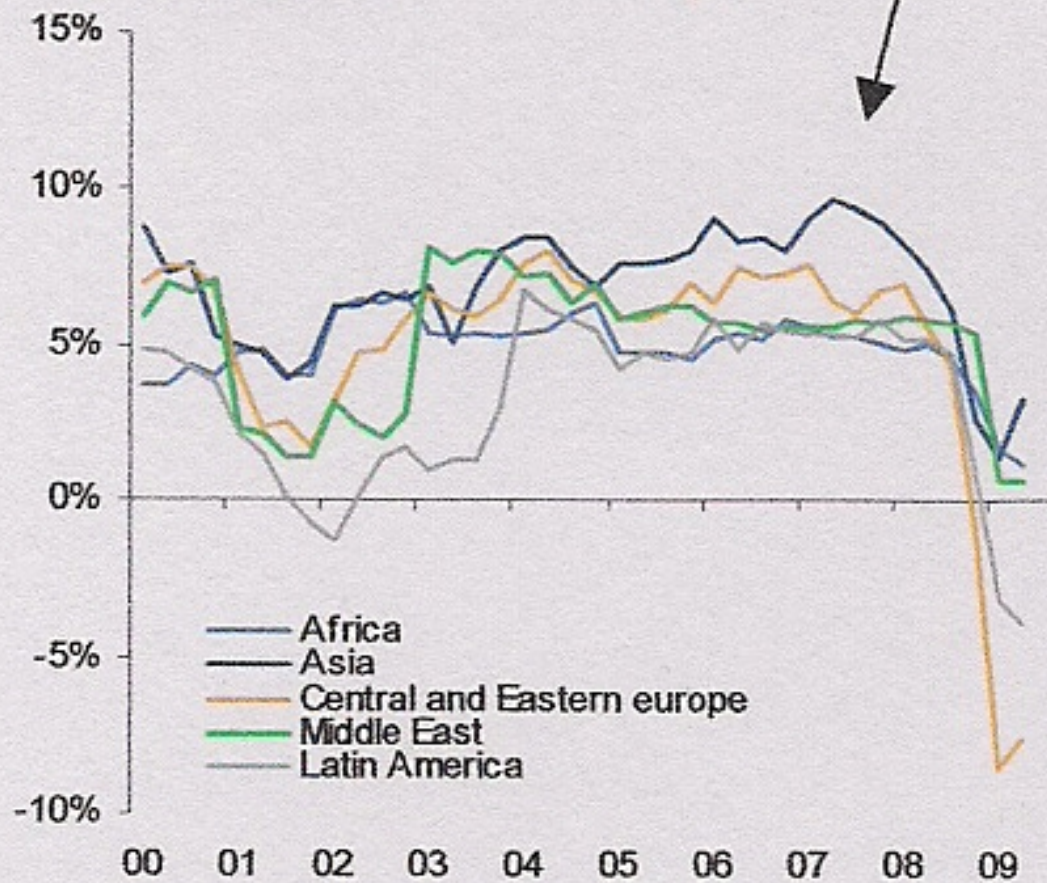


Table 2. EMS, Economic Growth Slowdown, 2007-2009

Economy	2007	2008	2009f	2009f - 2007
Singapore	7.8	1.1	-10	-17.8
Russia	8.1	5.6	-6	-14.1
Hong Kong	6.4	2.5	-4.5	-10.8
Venezuela	8.4	4.8	-2.2	-10.6
Argentina	8.7	7	-1.5	-10.2
Malaysia	6.3	4.6	-3.5	-9.8
Turkey	4.7	1.1	-5.1	-9.8
Korea	5.1	2.2	-4	-9.1
Thailand	4.9	2.6	-3	-7.9
Colombia	7.5	2.5	0	-7.5
Poland	6.7	4.8	-0.7	-7.4
Philippines	7.2	4.6	0	-7.2
Mexico	3.3	1.3	-3.7	-7
Brazil	5.7	5.1	-1.3	-7
China	13	9	8	-3.5
South Africa	5.1	3.1	-0.3	-5.4
Peru	8.9	9.8	3.5	-5.4
India	9.3	7.3	4.5	-4.8
Chile	4.7	3.2	0.1	-4.6
Hungary	1.1	0.6	-3.3	-4.4
Indonesia	6.3	6.1	2.5	-3.8
<i>Emerging Asia, average</i>	<i>7.4</i>	<i>4.5</i>	<i>-0.5</i>	<i>-6.6</i>
<i>Non-Asia CEMs, average</i>	<i>6.1</i>	<i>4.1</i>	<i>-1.7</i>	<i>-7.8</i>

Reasons

- “Prudence” has been paid off;
- Lessons from Asia financial crisis;
- Intra-region trade and economic cooperation, toward freer trade in the region.

II. China's Recovery: Sustainable

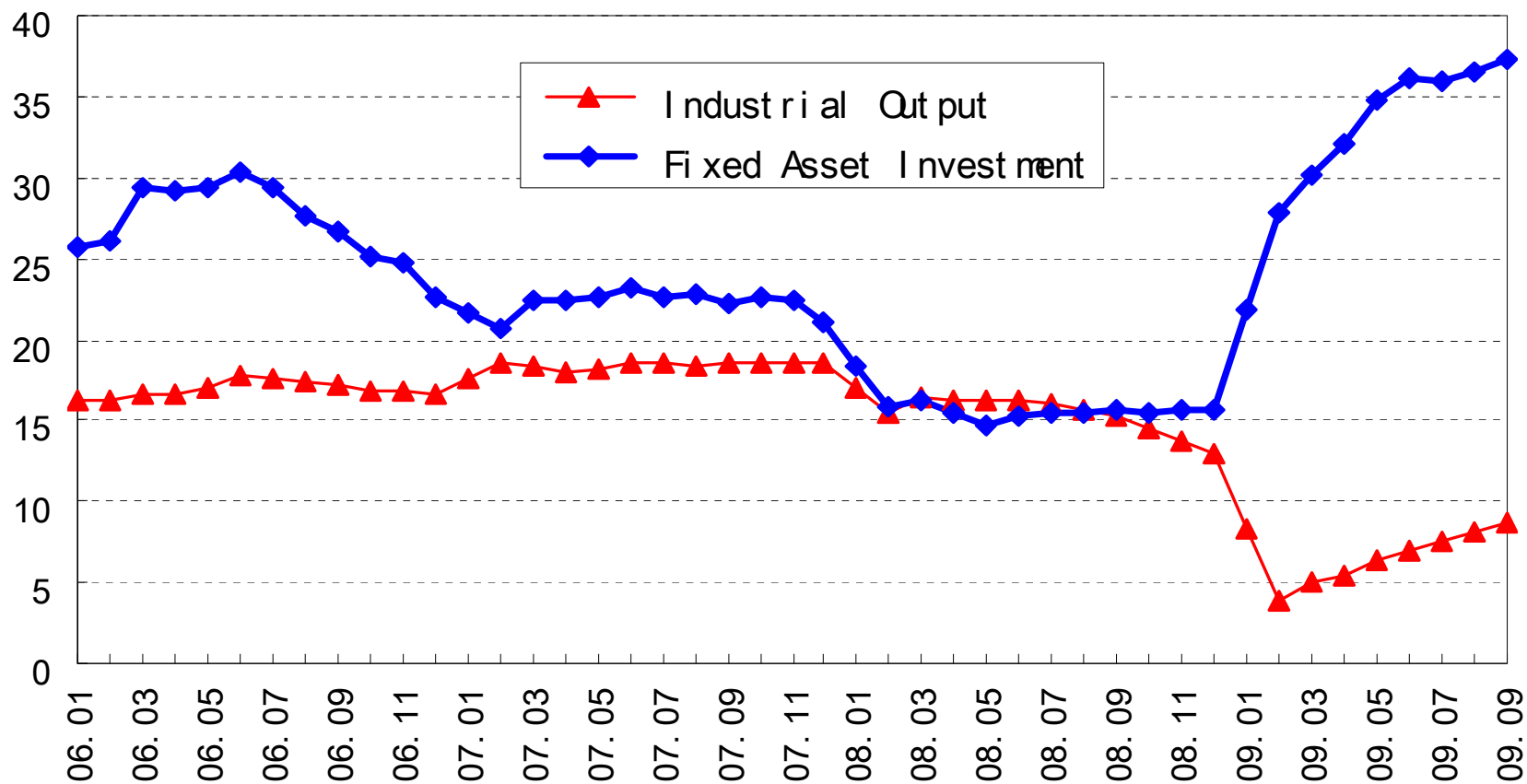
II-1, The reasons for the slowdown

- Domestic adjustment by its own:
 - It is better to have a strong macroeconomic policy during the booming time, instead of doing nothing to let things bubble up!
 - Having had that, China does not have big problem and possible to recover quicker;
- Global financial crisis and recession.

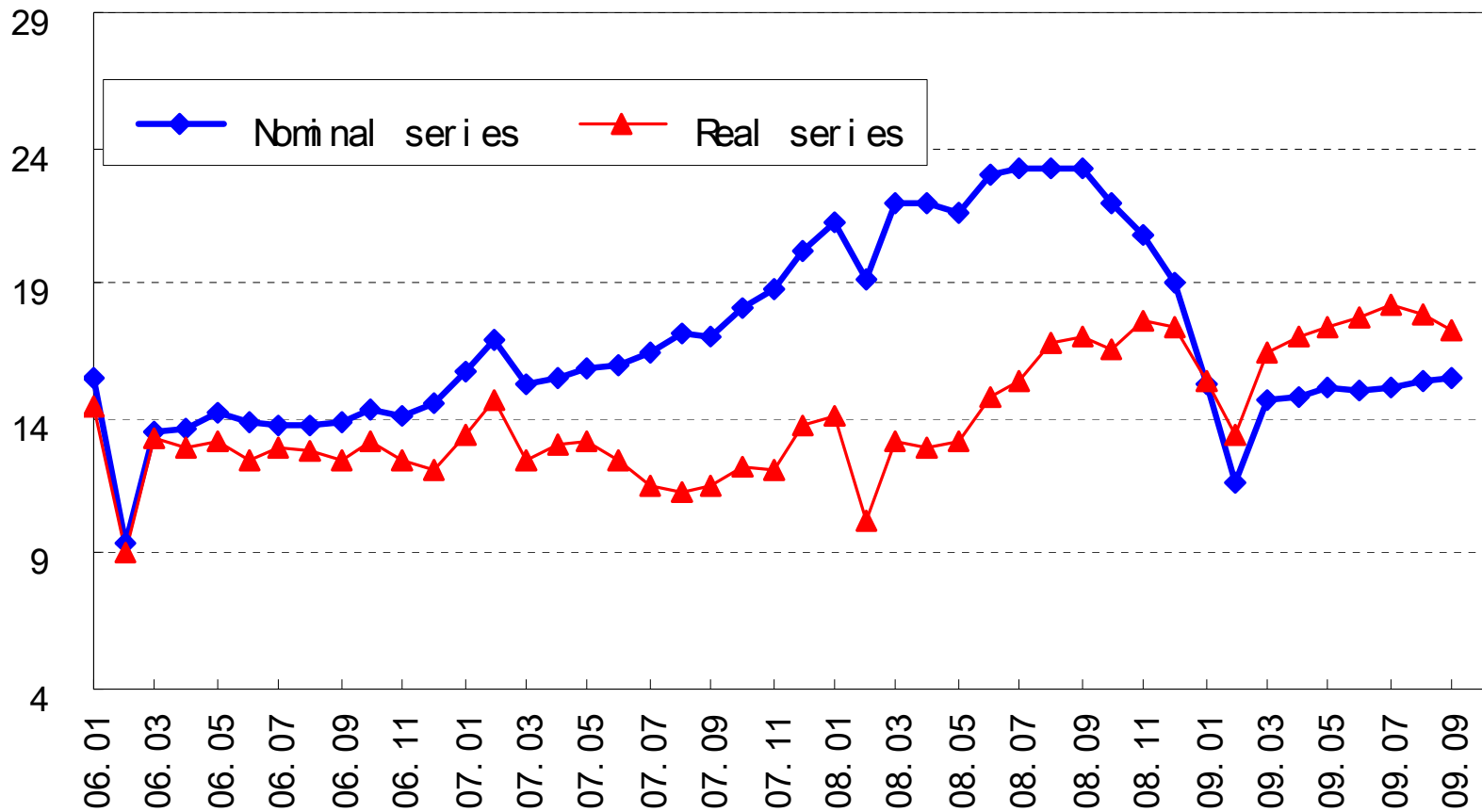
II-2, Reasons for quick rebound

- Prudent macroeconomic and financial management which have prevented big bubbles;
- Earlier adjustment, earlier recovery;
- Adequate and timely response to the crisis – the stimulus policies;

Change in Industrial Output and Fixed Asset Investment (y/y, %)



Retail Sales of Social Consumption Goods (M/M, %)

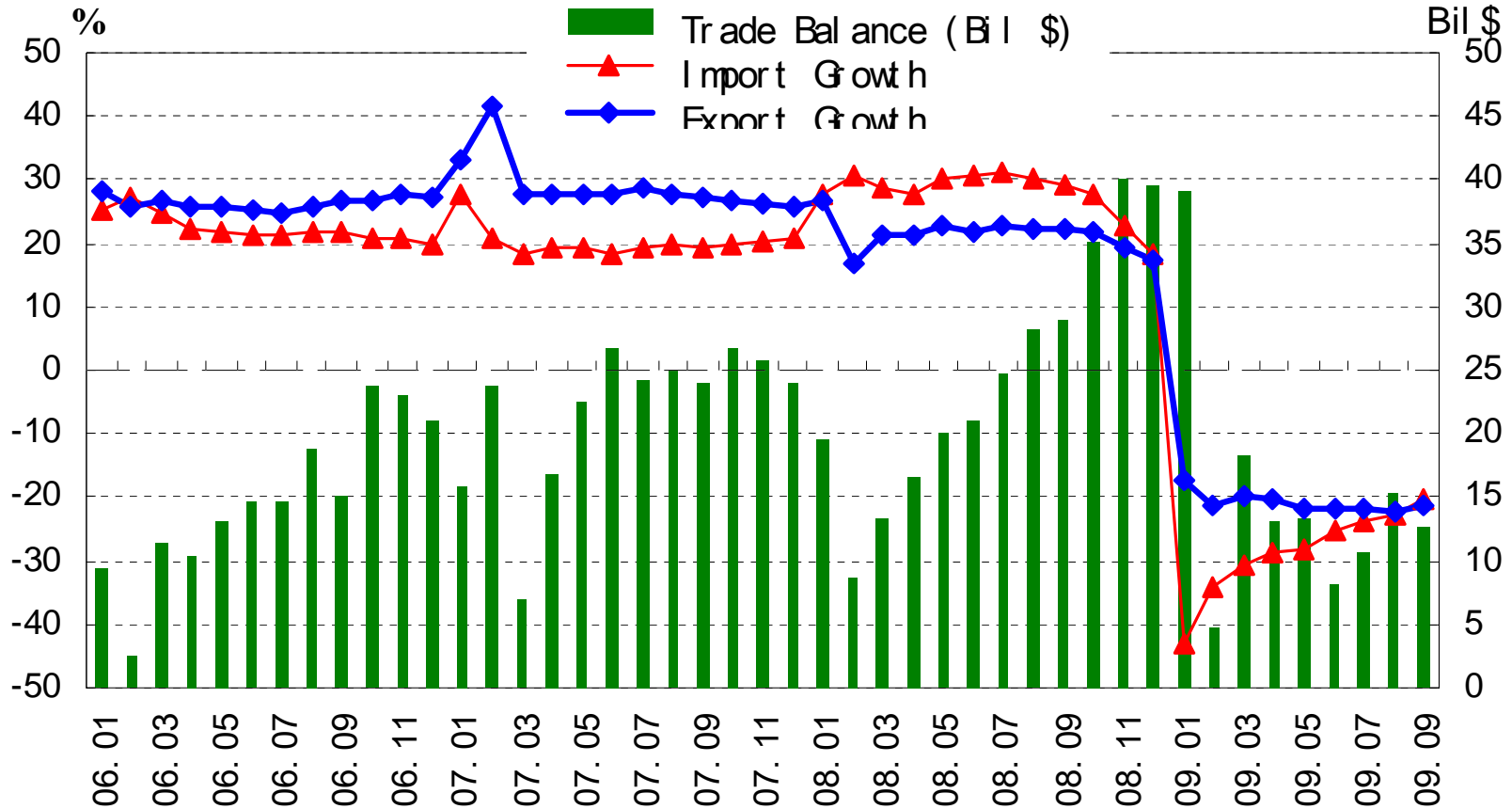


II-3. Reasons for its sustainability

- Expansionary fiscal policy will continue for another year, with declining effect on growth rate of course.
- But Meanwhile, other factors may start to come up to substitute the roles of policies, such as --

- Investment in real estate sectors will grow much faster in 2010;
- Corporate investment in some industries will recover soon through 2010;
- And exports, and net exports, may grow significantly in 2010, on the low base of 2009.

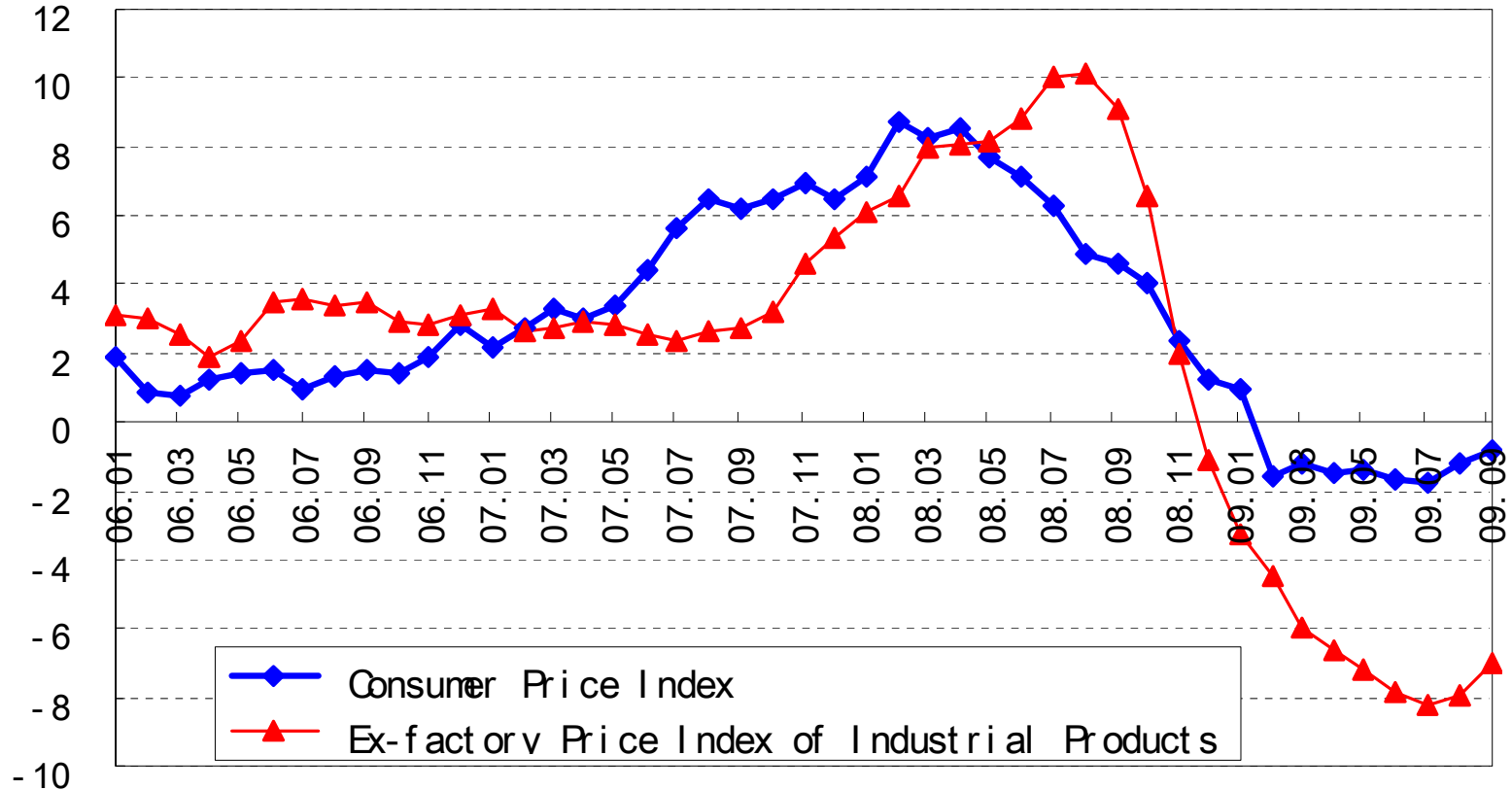
Import and Export Growth (% , y/y), and Monthly Trade Balance (\$b)



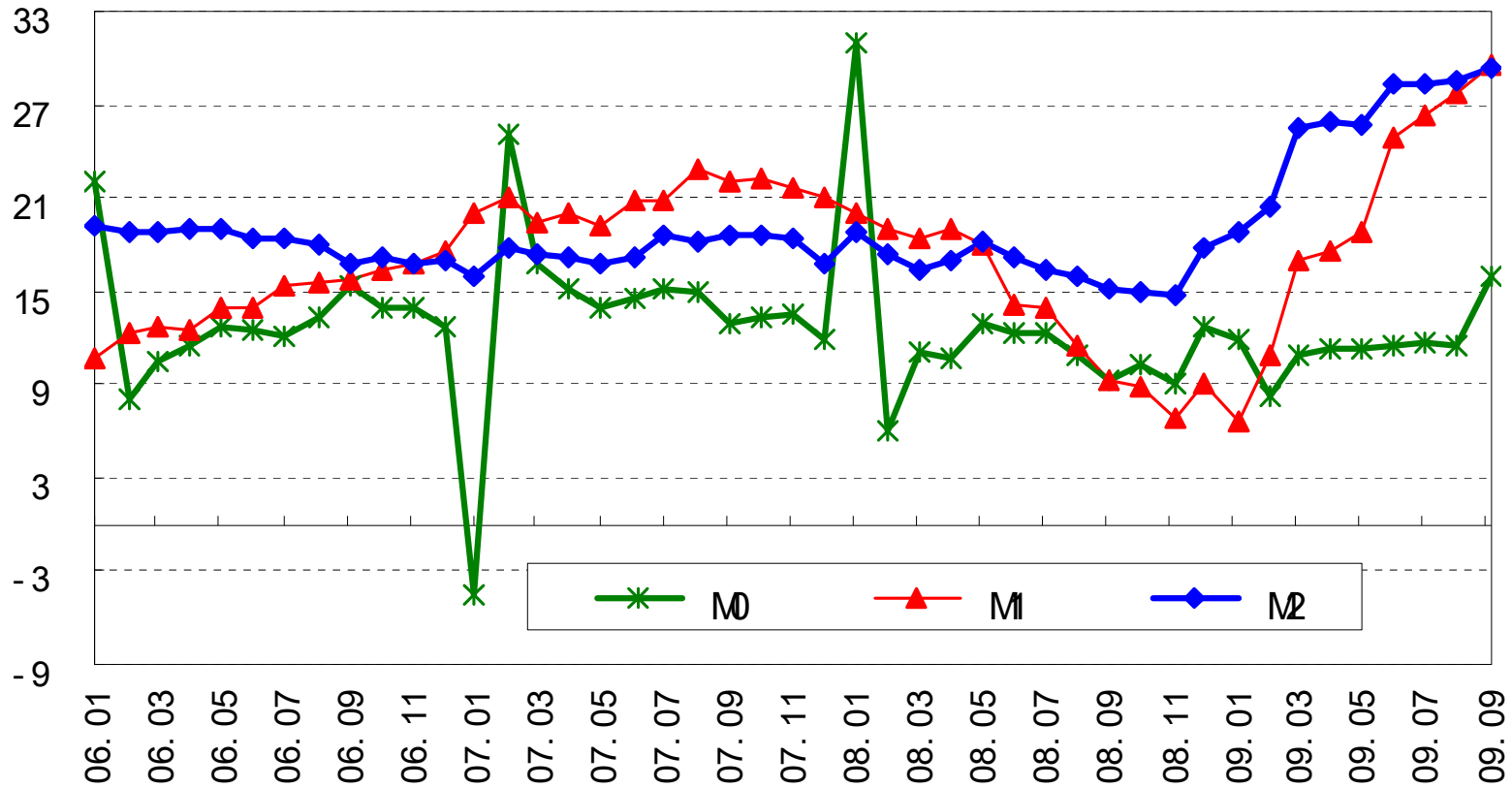
II-4. Risks? – asset bubbles

- Headline CPI Inflation may not be high in foreseeable future, even given the possibility of global over-liquidity.

Change in CPI and Ex-Factory Price Index of Industrial Products (m/m, %)



Change in M0, M1, and M2 (y/y, %)



The real risk is the asset bubbles,
particularly for the emerging market!

- Dramatic increase in money supply in past 12 months world wide;
 - Interest rates remain so low in developed countries, particularly in US, and we start to see signs of “re-leveraging” (so-called “reforms” are still not in place!) ;
 - There could be a rush of capital flows into the emerging economies given their higher domestic growth and stable financial condition;
- that may cause over heating in asset markets and instabilities, and call for precaution!

III. Mid-long term issue: Consumption vs. Savings

Can we improve Global Imbalance?

- : the first question (or first bunch of questions) on this issue is what the US would do!
 - Can the US increase savings?
 - Can the US reduce the budget deficits?
 - Can the US increase interest rate to have less loose monetary policies?
 - Can the US move forward timely to reform the financial regulatory system, and really made the future “leverage” and debt ratio lower?
 - Can the US stop the US\$ from devaluating, that requires everyone else revaluating?

Of course, there is question about China too

- Can China consume more?
- (Is the request for China to export less legitimate?)

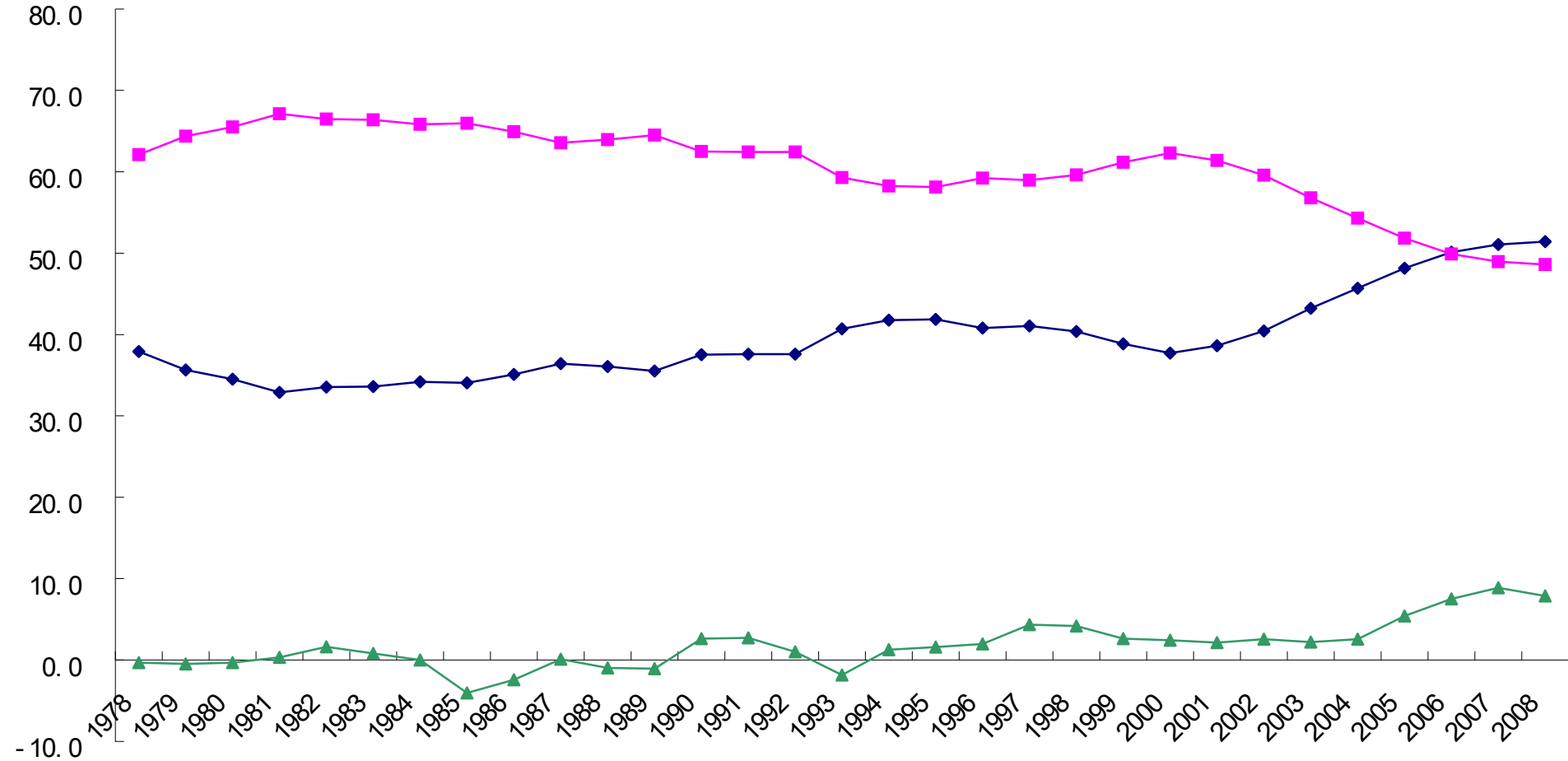
Table 3. Contributions to Economic Growth, 2000-2008

GDP Economy	Average GDP Growth	GDP Growth Contributions					Net Exports' Share of Contribution to Growth	Net Exports as % of GDP, 2008
		Consumption			Investment	Net Exports		
		Total	Private	Government				
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)/(1)	(8)	
China	10.2	4.1	2.8	1.3	5	1.1	10.8%	7.9
Hong Kong	5	2.3	2.1	0.2	1.3	1.7	34.0%	12.2
India	7.2	4.1	3.5	0.5	3.6	-0.3	-4.2%	-4.3
Indonesia	5.2	3.1	2.5	0.6	1.4	0.4	7.7%	9.6
Korea	4.9	2.5	1.9	0.6	1	1.4	28.6%	4.4
Malaysia	5.1	4.6	3.5	1.1	0.4	0.1	2.0%	13.1
Philippines	5	3.9	3.8	0.2	0.7	1	20.0%	1.4
Singapore	5.5	2.8	2.1	0.6	1.5	1.5	27.3%	20.4
Thailand	4.8	2.7	2.4	0.4	1.5	0.5	10.4%	15.4
Median:								
All Countries	5.1	3.1	2.5	0.6	1.4	1	10.8%	9.6
All excl. China	5.1	3	2.5	0.6	1.4	0.8	15.2%	10.9
International Comparisons:								
Germany	1.4	0.5	0.3	0.2	0.1	0.9	64.3%	6.8
Japan	1.5	1	0.6	0.4	0.2	0.5	33.3%	4.9
U.S.	2.3	2.3	2	0.3	0.1	-0.1	-4.3%	-3.3

Source: Prasad et al (2009); CEIC, IMF's WEO, ADB, and author's calculations.

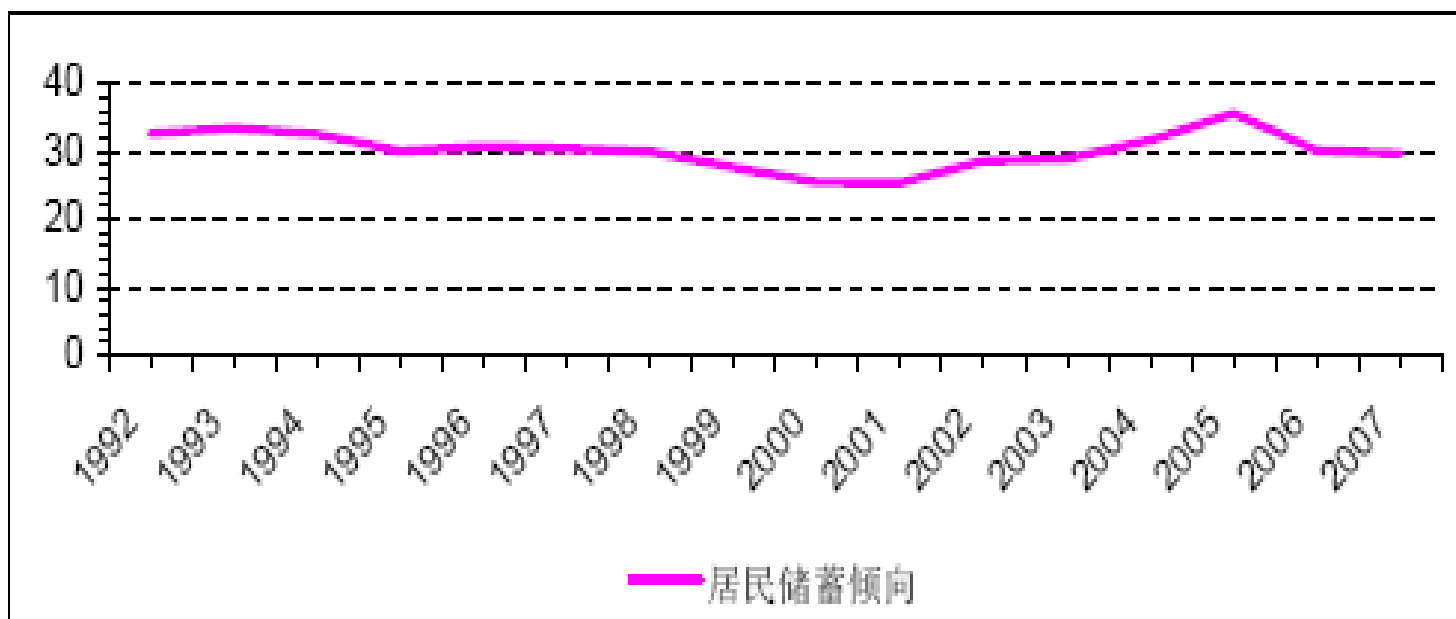
China's Consumption-Savings in GDP

◆ National Savings ■ National Consumption ▲ Net Export



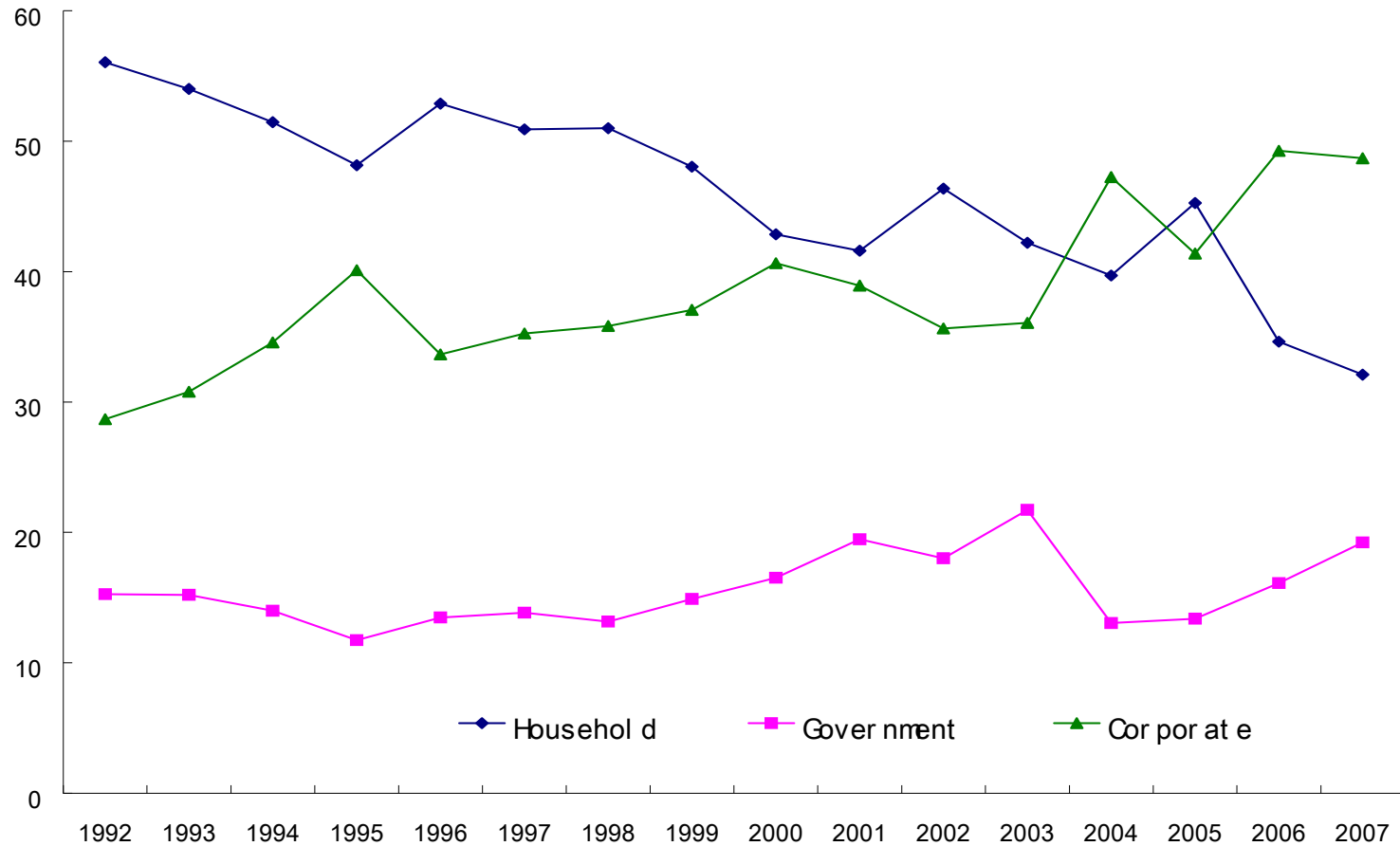
Household sector savings rate

居民储蓄倾向

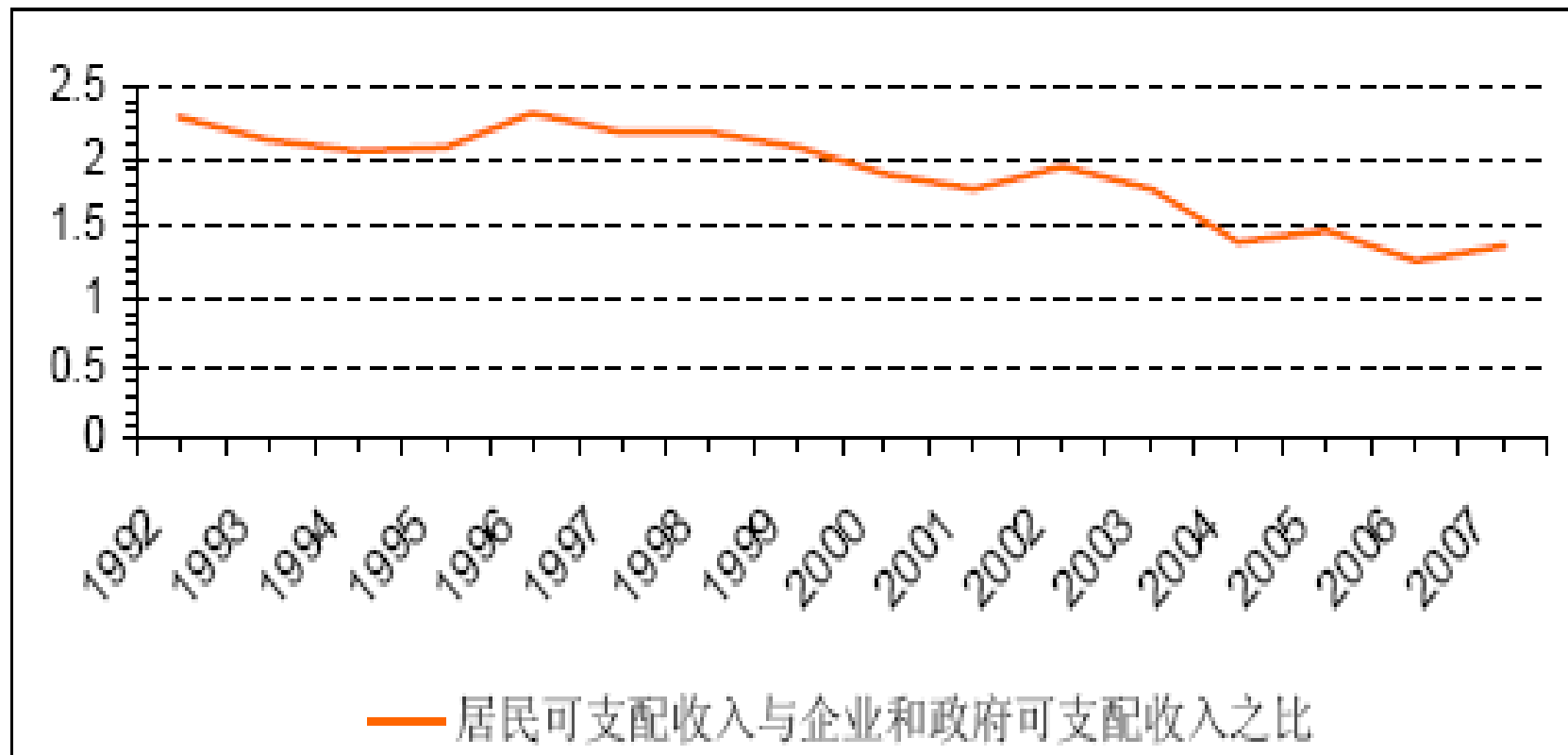


数据来源：中国统计局，历年《中国统计年鉴》，资金流量表。2006 和 2007 年的数据是根据相关变量进行估测的。

Various sectors as % of total savings



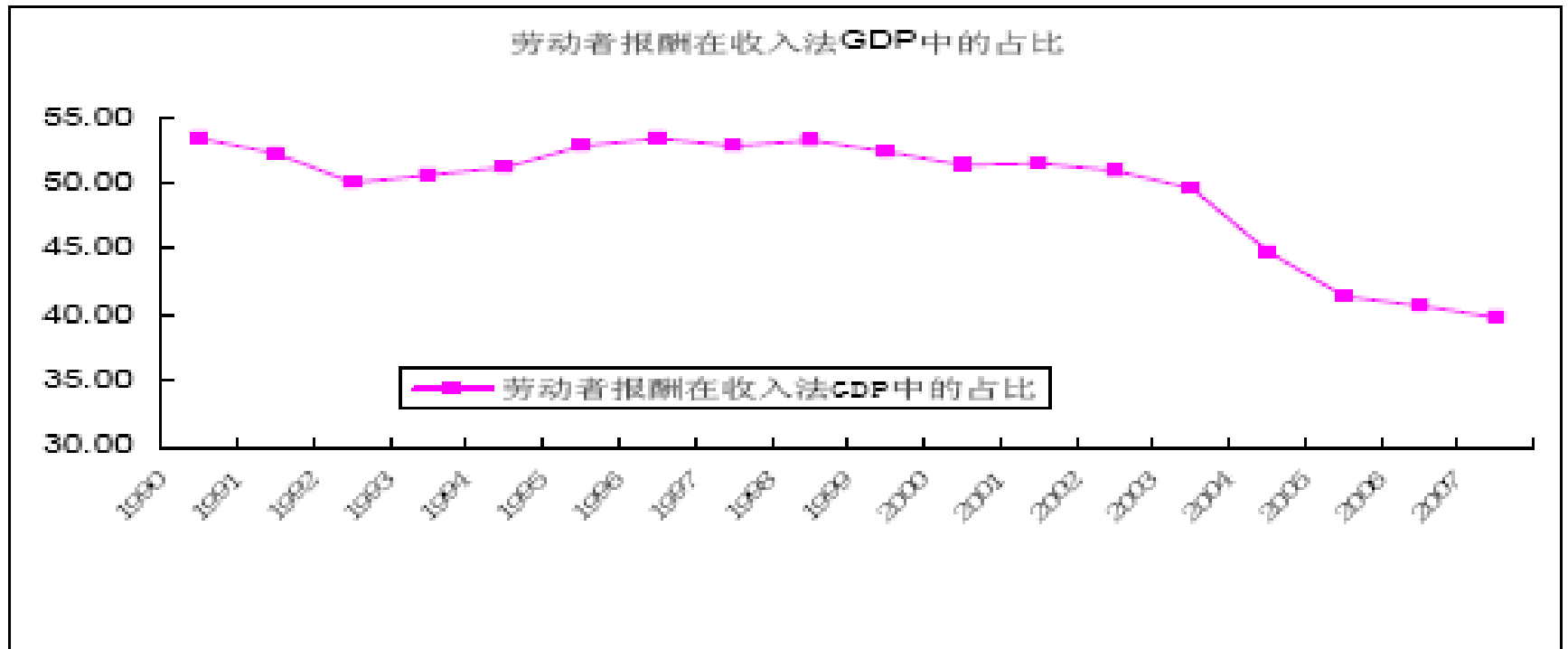
Households' disposable income / other incomes



数据来源：中国统计局，历年《中国统计年鉴》，资金流量表。

Wage as % of GDP

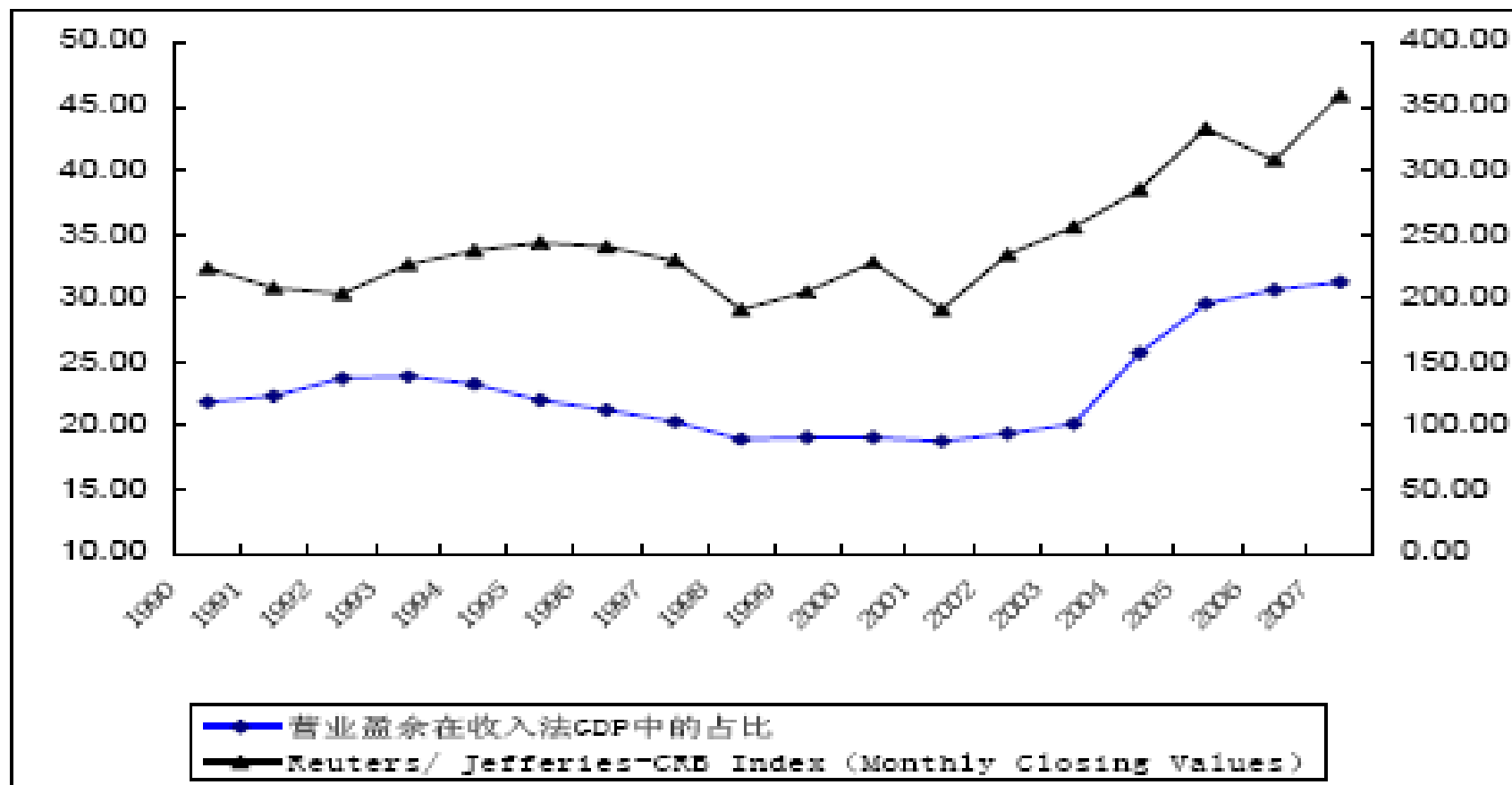
劳动者报酬在 GDP 中占比的变动趋势



资料来源：《中国统计年鉴》，各年。

“Corporate net revenue” as % of GDP

收入法 GDP 中企业营业盈余与国际大宗商品价格指数关系



How to increase Households' Income

- Increasing gov't expenditures on social security/health care?
- Minimum wage increase?
- Fiscal / taxation reforms – transfers between different sectors;
- Redistribution of wealth?

V. Growth with urbanization

- China's Industrialization: 35% -- about 200 million more migrant workers are going to be reallocated in next 20-40 years.
- China's urbanization: 47% -- about 600 million more rural people are moving to cities.

- It is in the development stage of “hardware nation-building”, a lot of infrastructures and urban facilities, including urban housing, to be constructed.
- Among these investments, a great deal are actually “public consumer goods”.

- 2nd and 3rd tier cities will become the main part of urbanization;
- The whole process may take 50-70 years, or even longer.