


China and the Global Economic Recovery

Chevening Alumni Lecture
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Why will China save the world?

1. Historical pattern – already much more important for world economic growth than most realize
2. Trade clustering in globalization
3. Fiscal stimulus: Speed and delivery

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Why does it matter?

- Global welfare
- Shift in the world's centre of economic gravity
- Longer-term solution needed to problem of global imbalances

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General suspicion...

- A year in: declines of 15% industrial production, 50% world stock markets, 20% world trade
- Deficit countries, surplus countries

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But then...



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Already in previous downturns it's been Asia... and China

| Ratio GDP Growth | 1961- 1990 | 1991* 1990 | 1992- 2000 | 2001 | 2002- 2006 |
|------------------------|---------------|---------------|---------------|------|---------------|
| ESE Asia/ US | 1.0 | 18.2 | 0.6 | 1.8 | 1.1 |
| China/ US | 0.08 | 2.99 | 0.26 | 1.34 | 0.54 |
| [China+ India] /US | 0.13 | 3.20 | 0.33 | 1.67 | 0.69 |

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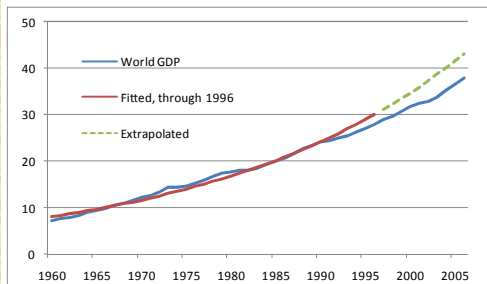
Even when ...

- 1997 Asian currency crisis, with arguably greater impact on this part of the world...

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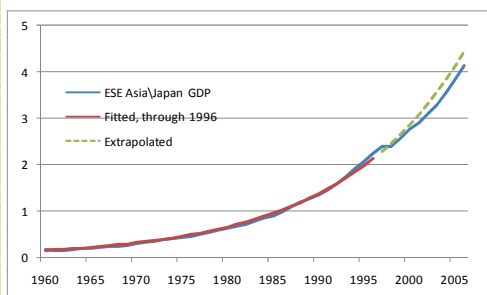
The global economy



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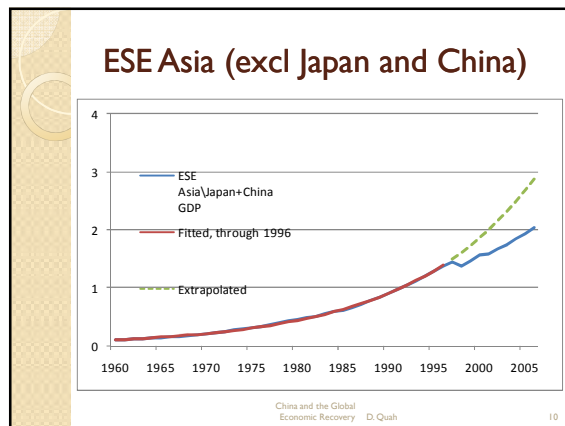
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ESE Asia (ex Japan)



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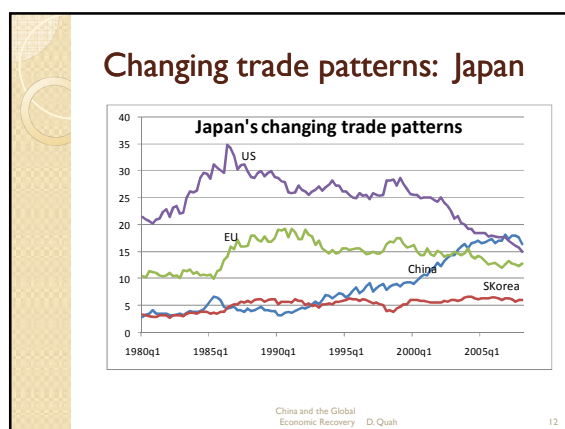
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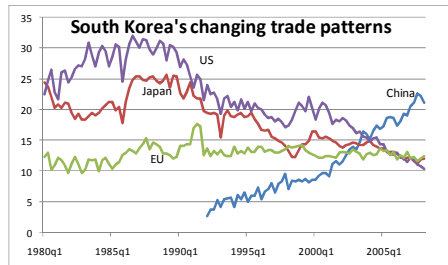
What about globalization...

- ... and the over-reliance on exports to the US as the engine of economic growth

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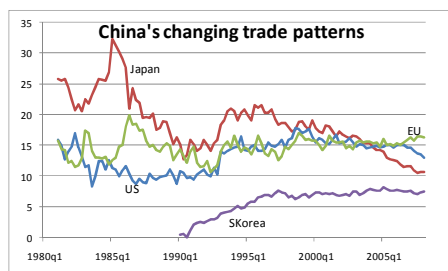
Changing trade patterns: SKorea



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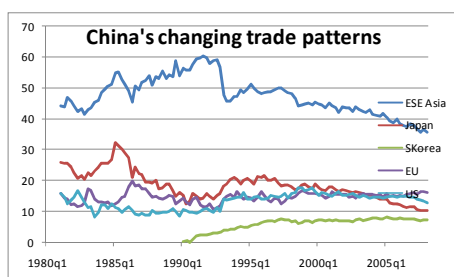
Changing trade patterns: China



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Where China's trade has gone



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But maybe all this just hides...

- Vertically integrated supply chain, and the US remains the final destination for export demand?

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Direct and indirect trade/exports

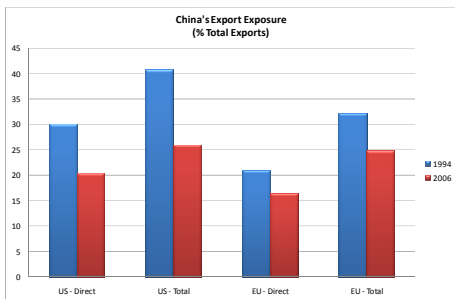
| (% Total Exports) | US Exposure | | | | EU Exposure | | | |
|-------------------|-------------|------|-------|------|-------------|------|-------|------|
| | Direct | | Total | | Direct | | Total | |
| | 1994 | 2006 | 1994 | 2006 | 1994 | 2006 | 1994 | 2006 |
| Japan | 29.2 | 24.8 | 35.0 | 32.1 | 16.3 | 16.0 | 23.3 | 25.5 |
| China | 30.0 | 20.3 | 40.7 | 25.9 | 20.9 | 16.3 | 32.1 | 24.8 |
| HK | 12.8 | 8.0 | 15.3 | 11.8 | 9.6 | 8.5 | 12.9 | 13.4 |
| S. Korea | 23.2 | 8.8 | 28.8 | 15.1 | 12.8 | 8.7 | 18.4 | 14.2 |
| Singapore | | | | | | | | |
| Indonesia | 8.6 | 7.5 | 11.7 | 12.0 | 8.9 | 7.9 | 12.5 | 13.7 |
| Malaysia | 18.9 | 17.4 | 26.2 | 24.3 | 11.9 | 10.6 | 19.2 | 19.5 |

Source: IMF (2008); WDI
and author calculations

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... in a graph:



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Increased financial integration (1)

| (% GDP) | US Holdings of Asian Portfolio Securities | | Asian Holdings of US Portfolio Securities | |
|-----------|---|---------------|---|---------------|
| | December 1994 | December 2006 | December 1994 | December 2006 |
| Japan | 2.5 | 13.0 | 4.4 | 25.0 |
| China | 0.3 | 2.2 | 2.3 | 28.8 |
| HK | 12.6 | 42.2 | 14.8 | 61.3 |
| S. Korea | 1.4 | 12.4 | 1.2 | 14.2 |
| Singapore | 8.6 | 35.8 | 42.9 | 129.2 |
| Indonesia | 1.2 | 3.7 | 1.0 | 3.4 |
| Malaysia | 11.5 | 9.2 | 6.8 | 10.5 |
| Asia | 5.1 | 13.3 | 8.3 | 25.9 |

Asia denotes unweighted average

Source: IMF (2008)

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Increased financial integration (2)

| | Stock market returns: Correlation | |
|-----------|-----------------------------------|-------------|
| | 1990 – 1996 | 2000 – 2007 |
| Japan | 0.26 | 0.52 |
| China | ... | 0.08 |
| HK | 0.35 | 0.69 |
| S. Korea | 0.12 | 0.59 |
| Singapore | 0.49 | 0.61 |
| Indonesia | 0.26 | 0.43 |
| Malaysia | 0.37 | 0.30 |
| Asia | 0.29 | 0.45 |

Asia denotes unweighted average

Source: IMF (2008)

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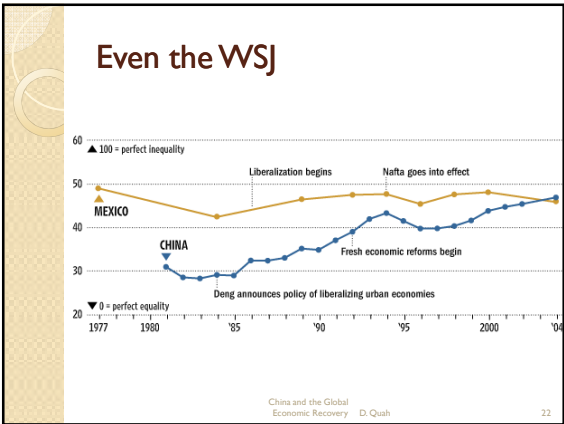
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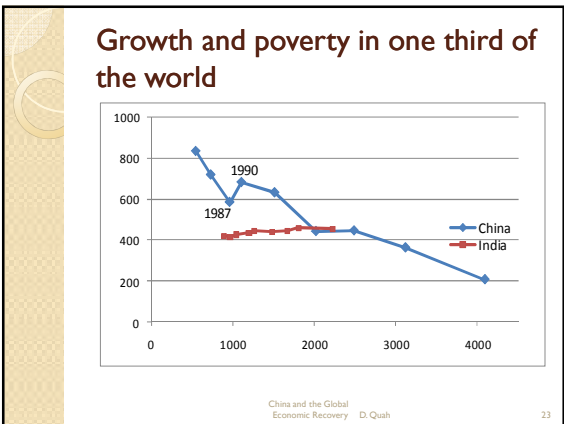
Why does it matter

- ...that China in particular or Asia more generally leads global economic recovery...
- ... or at least not suffer the backwash of economic contagion?

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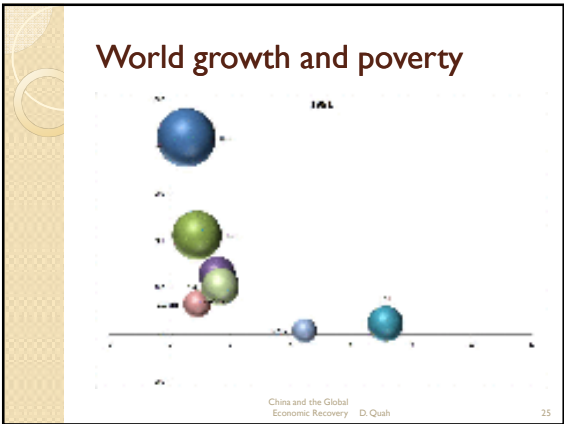


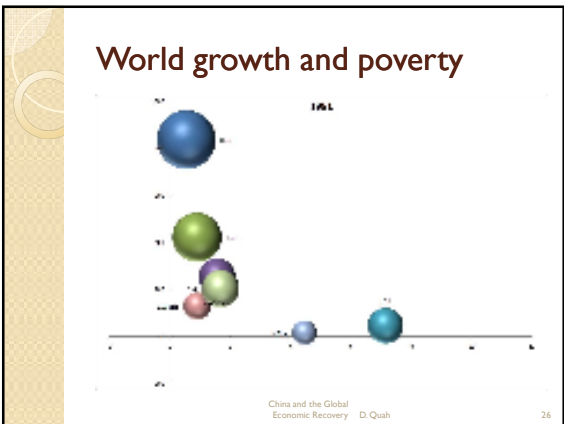


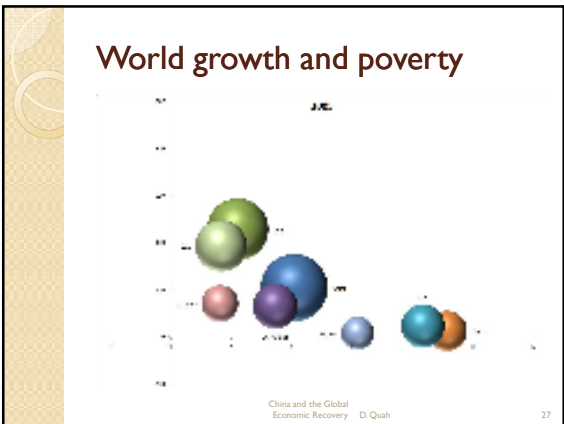
World growth and poverty

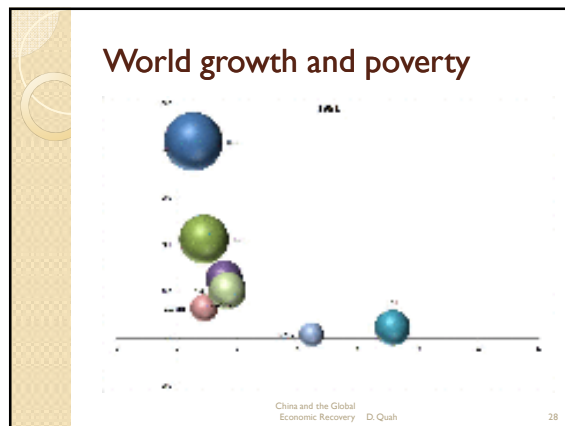
| | 1981 | 1990 | 1999 | 2005 |
|-----------------------------------|------|------|------|------|
| World GDP, 10 ¹² PPP\$ | 26 | 35 | 45 | 56 |
| GDP per capita, PPP\$ | 5876 | 6704 | 7505 | 8662 |
| World's poor, 10 ⁶ | 1904 | 1815 | 1695 | 1400 |
| China's poor, 10 ⁶ | 835 | 683 | 447 | 208 |
| Remainder, 10 ⁶ | 1069 | 1132 | 1248 | 1192 |

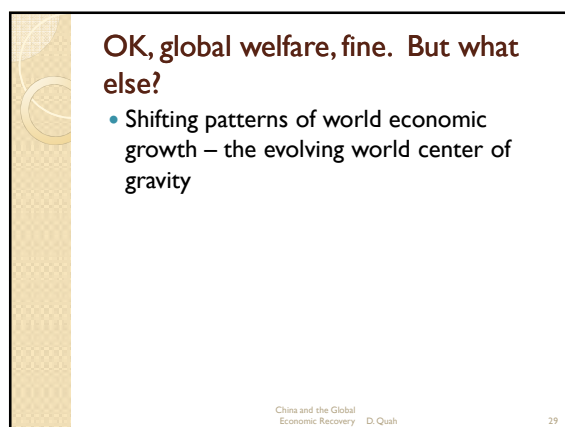
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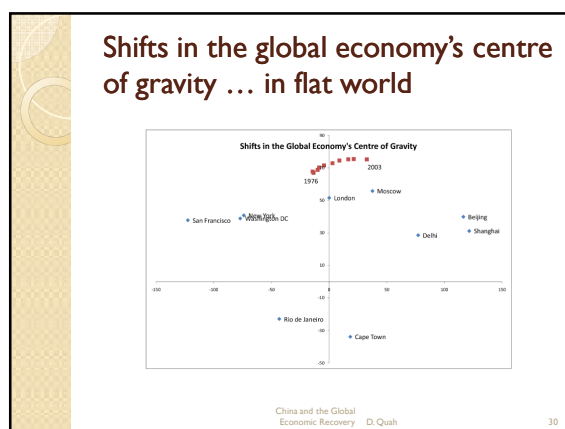


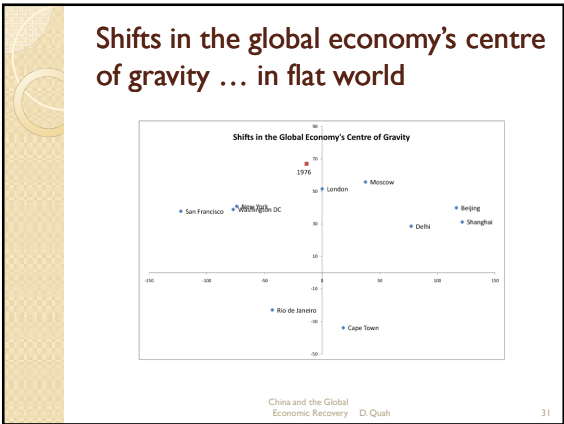


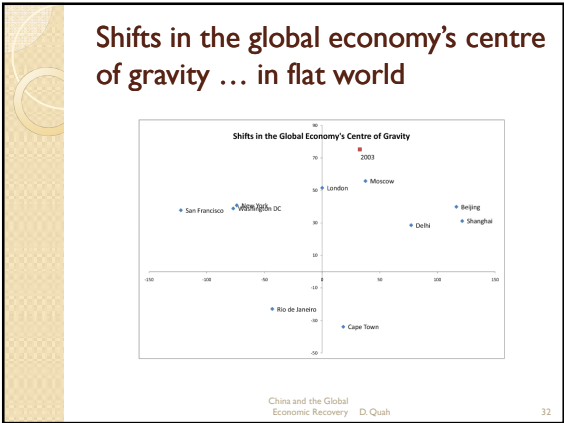


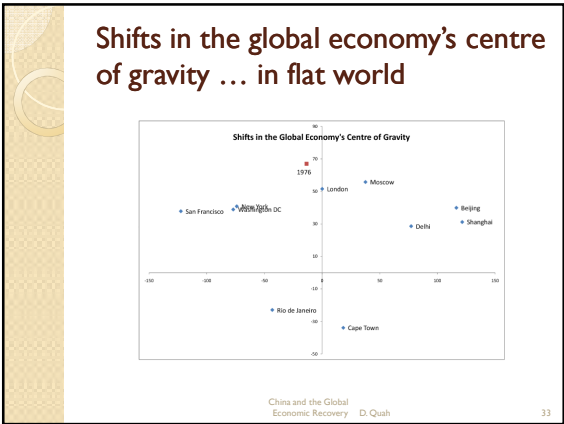












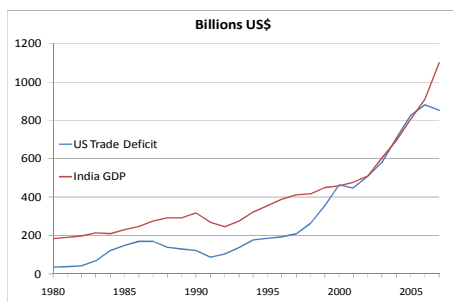
Needed: Longer-term

- Solution to the problem of global imbalance
- Global savings glut and excessive financial engineering
- Asian thrift?

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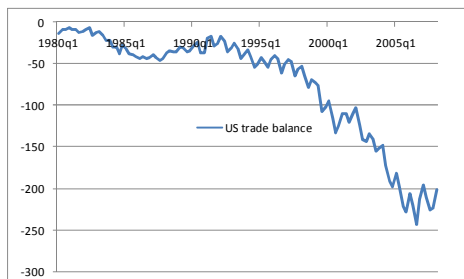
US trade deficit and a GDP



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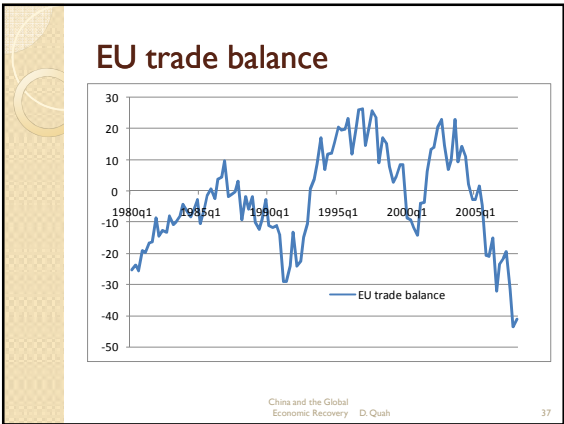
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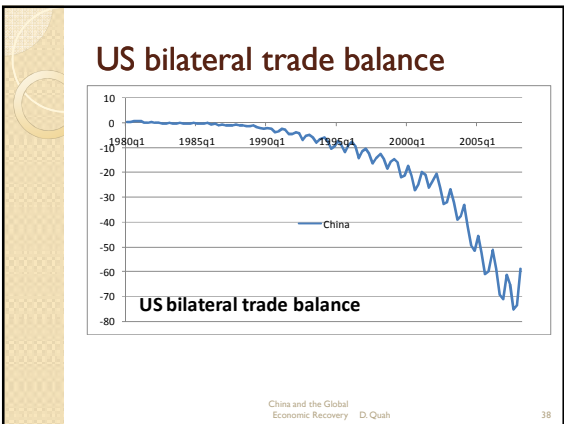
US trade balance

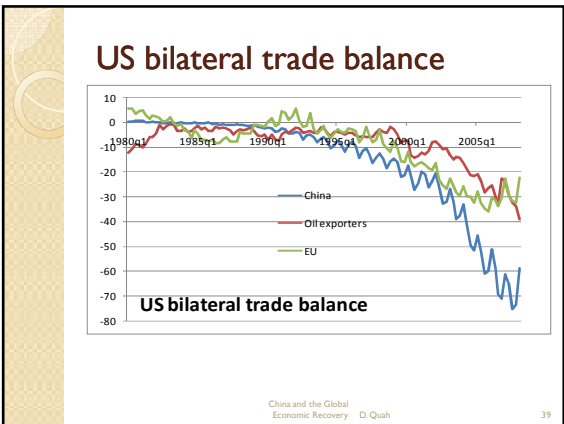


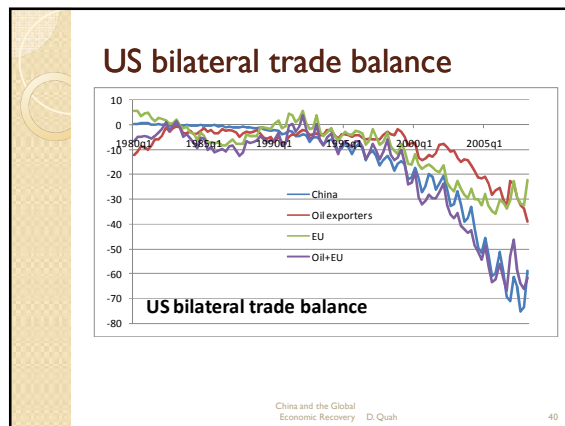
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Bretton Woods: Keynes and the ICU

- “Asymmetric obligations”
- World’s reserve currency
- Short-term versus long-term forces in USD adjustment

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Why will China save the world?

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Why does it matter?

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