



LSE Confucius Institute public lecture

China in the Global Economic Crisis

Professor Danny Quah
Department of Economics, LSE

Nick Byrne
Chair, LSE

CIBL Lecture: China in the global economic crisis D. Quah

Nuggets of conventional wisdom

1. Asian thrift - China in particular - caused 2008 GFC through a global savings glut
2. Surplus countries, like China, are going to suffer worse in this GFC... and are only getting what they deserve
3. China cannot replace the US consumer in world demand; indeed, China relies on the US consumer for its own growth
4. If the RMB would only appreciate...

CIBL Lecture: China in the global economic crisis D. Quah

New York Times 10 August 2009

American Graduates Finding Jobs in China



Even those with limited or no knowledge of Chinese are heeding the call. They are lured by China's surging economy, the

CIBL Lecture: China in the global economic crisis D. Quah

Unconventional wisdom?

- Is Asian growth driven by exports and high savings a broken model?
- Does Chinese consumption need to be inorganically boosted?
- Did China cause the GFC?
- Is the RMB/USD exchange rate a red herring?
- Will Chinese growth continue?

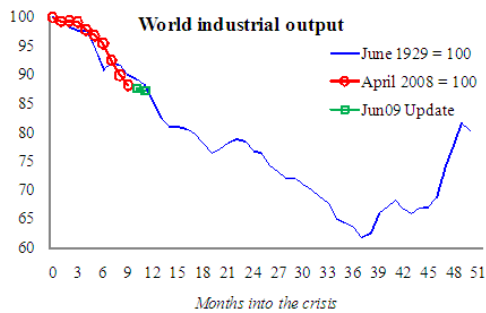
CIBL Lecture: China in the global economic crisis D. Quah

General fear...

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

CIBL Lecture: China in the global economic crisis D. Quah

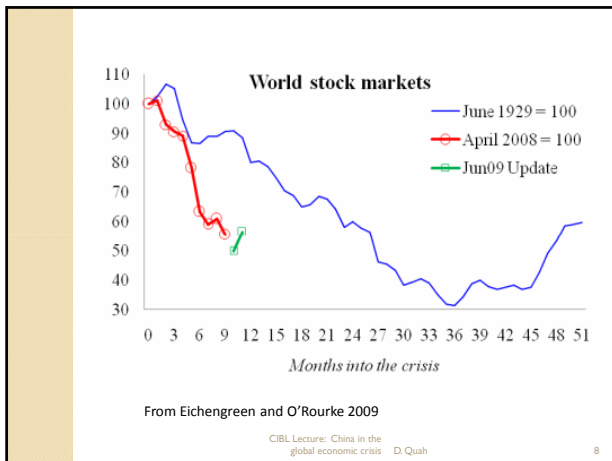
6

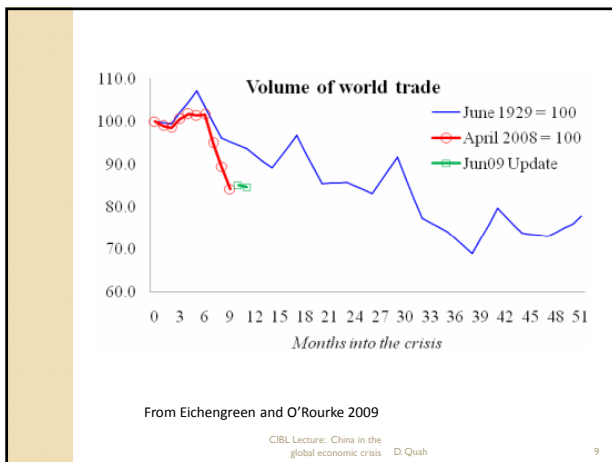


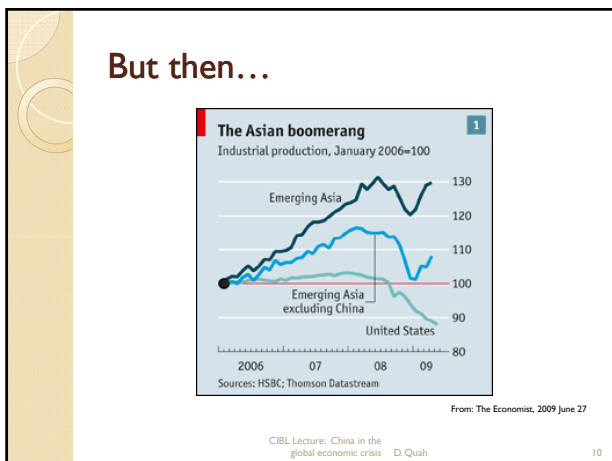
From Eichengreen and O'Rourke 2009

CIBL Lecture: China in the global economic crisis D. Quah

7







And more...

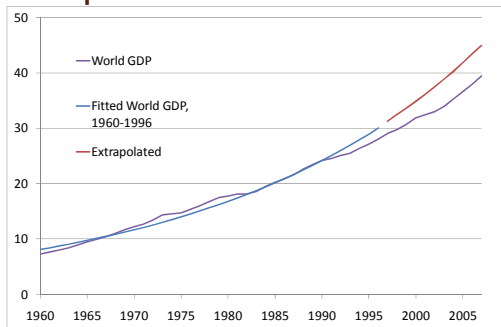


From: The Economist, 2009 August 15

CIBL Lecture: China in the global economic crisis D. Quah

11

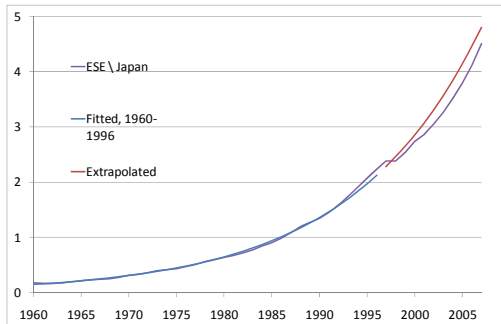
The world economy – growth and underperformance



CIBL Lecture: China in the global economic crisis D. Quah

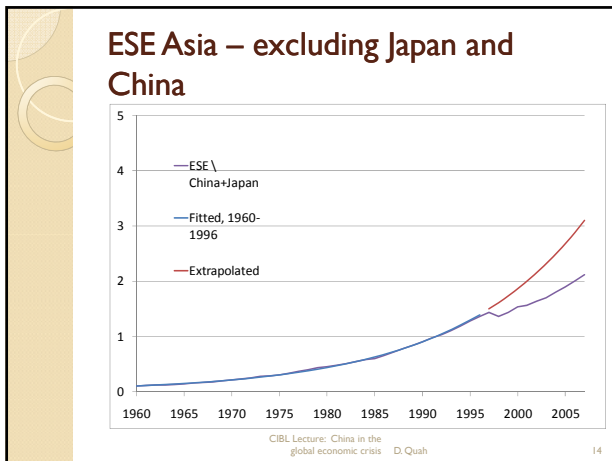
12

ESE Asia – excluding Japan



CIBL Lecture: China in the global economic crisis D. Quah

13



Why?

- Fiscal and monetary stimulus packages?
 - Why has the rest of the world gotten in even greater potential trouble with theirs?
- Turn around in world trade?
 - But where from?

CIBL Lecture: China in the global economic crisis D. Quah 15

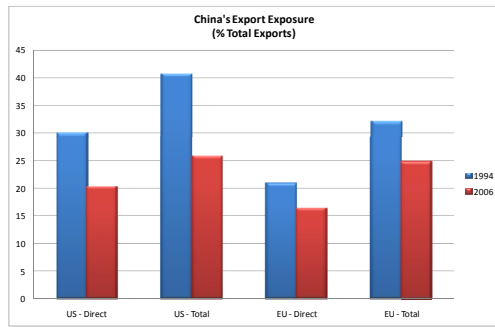
Direct and indirect trade/exports

(% 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

CIBL Lecture: China in the global economic crisis D. Quah 16

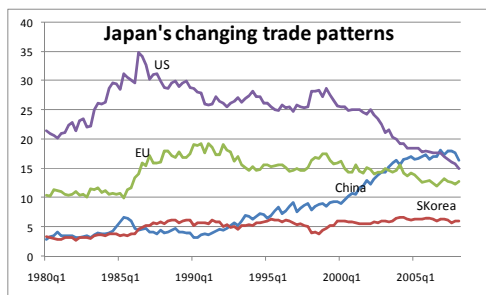
... in a graph:



CIBL Lecture: China in the global economic crisis D. Quah

17

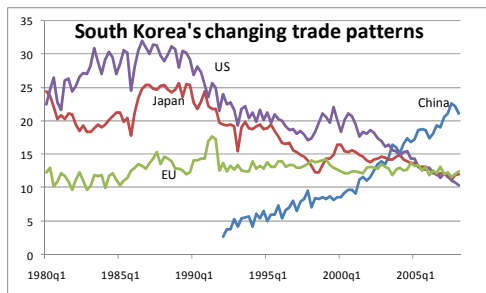
Changing trade patterns: Japan



CIBL Lecture: China in the global economic crisis D. Quah

18

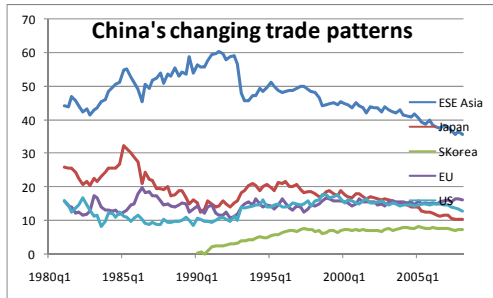
Changing trade patterns: SKorea



CIBL Lecture: China in the global economic crisis D. Quah

19

Where China's trade has gone



CIBL Lecture: China in the global economic crisis D. Quah

20

Already in previous downturns it'd been Asia... and China and India

Ratio GDP Growth	1960-1990	1991*	1991-2000	2001	2001-2007
ESE Asia/US	1.03	18.16	0.62	1.75	1.32
China/US	0.08	2.99	0.26	1.34	0.66
[China+India]/US	0.13	3.20	0.33	1.67	0.83

CIBL Lecture: China in the global economic crisis D. Quah

21

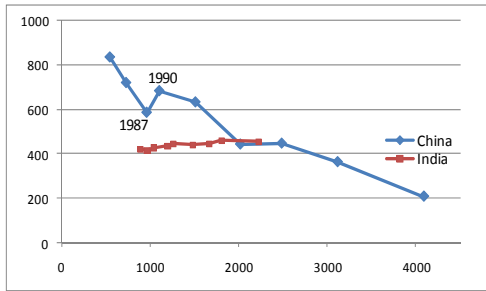
World growth and poverty

	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

CIBL Lecture: China in the global economic crisis D. Quah

22

Growth and poverty in one third of the world



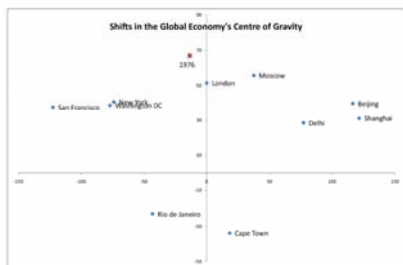
CIBL Lecture: China in the global economic crisis D. Quah 23

Spatial distribution across Earth



CIBL Lecture: China in the global economic crisis D. Quah 24

Shifts in the global economy's centre of gravity ... in flat world



CIBL Lecture: China in the global economic crisis D. Quah 25

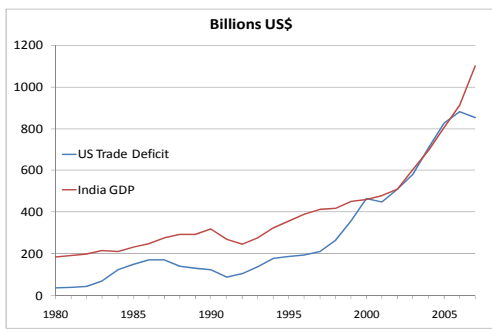
Global imbalances

- Pattern of large and persistent trade deficits and surpluses across distinct geographies
- Where did it come from?
- How do we fix it?

CIBL Lecture: China in the global economic crisis D. Quah

26

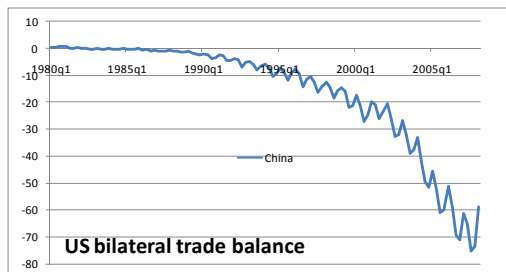
US trade deficit and a GDP



CIBL Lecture: China in the global economic crisis D. Quah

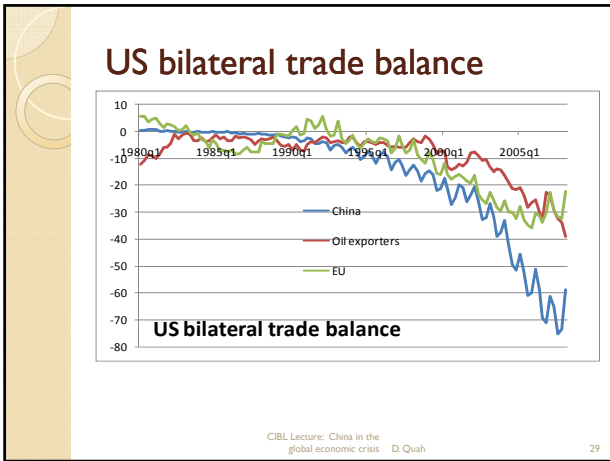
27

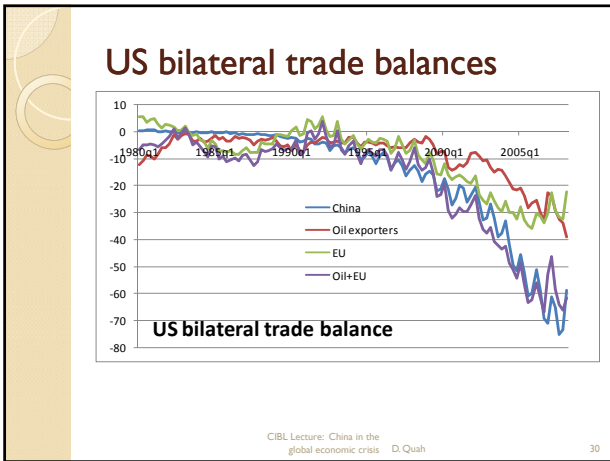
US bilateral trade balance

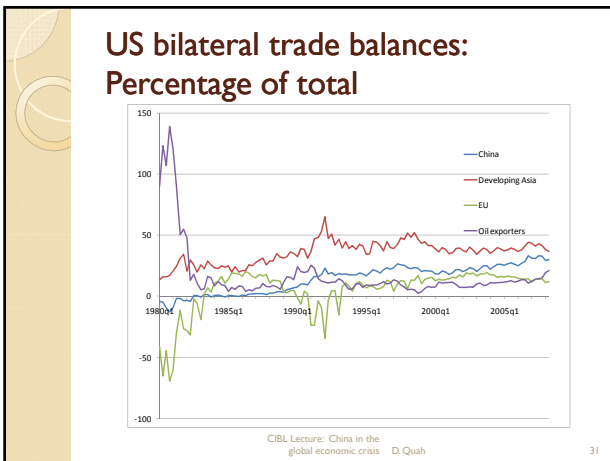


CIBL Lecture: China in the global economic crisis D. Quah

28







Stephen Roach on US-China trade

“We don’t have a bilateral trade problem with China. We have a multilateral trade problem with over one-hundred different trading partners. Last year, the United States ran bilateral trade deficits with almost one hundred countries. And the reason for that is that we have a savings problem.

“If we were to close down trade with China through some ill-begotten trade legislation or currency adjustment, we don’t save the deficit. It just goes somewhere else. And they usually go to a higher-cost producer, which taxes the American public.”

Source: CFR interview
22 October 2009

CIBL Lecture: China in the global economic crisis D. Quah

32

Bretton Woods: Keynes and the ICU

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

CIBL Lecture: China in the global economic crisis D. Quah

33

Foreign exchange holdings of official institutions

(in million US\$)	1899		1913	
	Amount	Share	Amount	Share
Pound sterling	105.1	63.4%	425.4	47.7%
French franc	27.2	16.4%	275.1	30.8%
German mark	24.2	14.6%	136.9	15.3%
Other currencies	9.4	5.7%	55.3	6.2%
Total	165.9		892.7	

Source: Chinn and Frenkel 2008, Lindert 1969; author calculations

CIBL Lecture: China in the global economic crisis D. Quah

34

Unconventional wisdom?

- Is Asian growth driven by exports and high savings a broken model?
- Does Chinese consumption need to be inorganically boosted?
- Did China cause the GFC?
- Is the RMB/USD exchange rate a red herring?
- Will Chinese growth continue?

CIBL Lecture: China in the global economic crisis D. Quah 35



LSE Confucius Institute public lecture

China in the Global Economic Crisis

Professor Danny Quah
Department of Economics, LSE

Nick Byrne
Chair, LSE

CIBL Lecture: China in the global economic crisis D. Quah
