



Economic Research Analysis Ltd.

# Developed vs Emerging Markets....

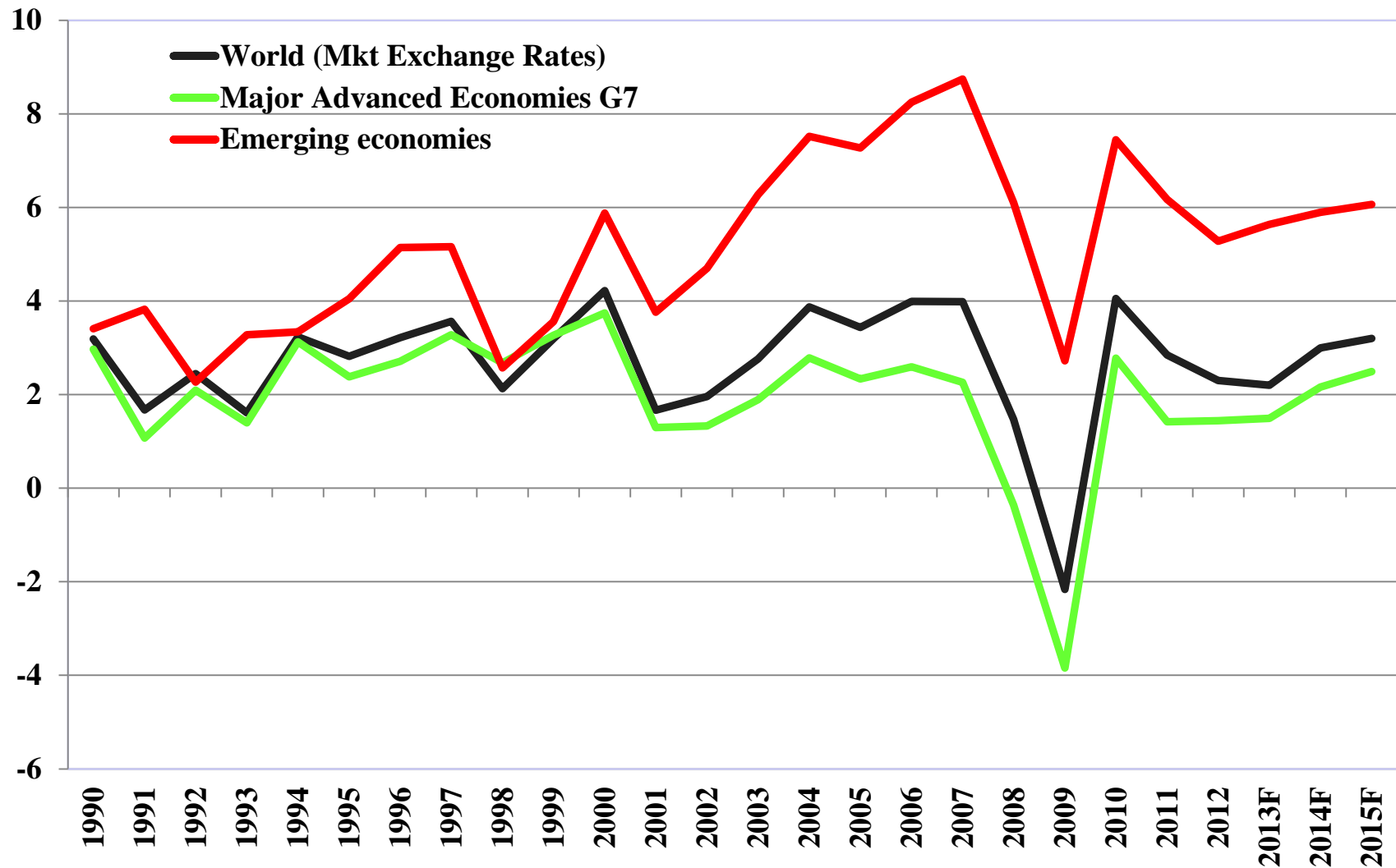
where will the recovery emanate from in 2013 & 2014?

For HKRSA

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15/F Hong Kong Club Building  
3 July 2013

# So far emerging markets have led in the growth recovery over the developed ones



Source: IMF data October 2012

# Within the developed markets, despite high debt levels in US

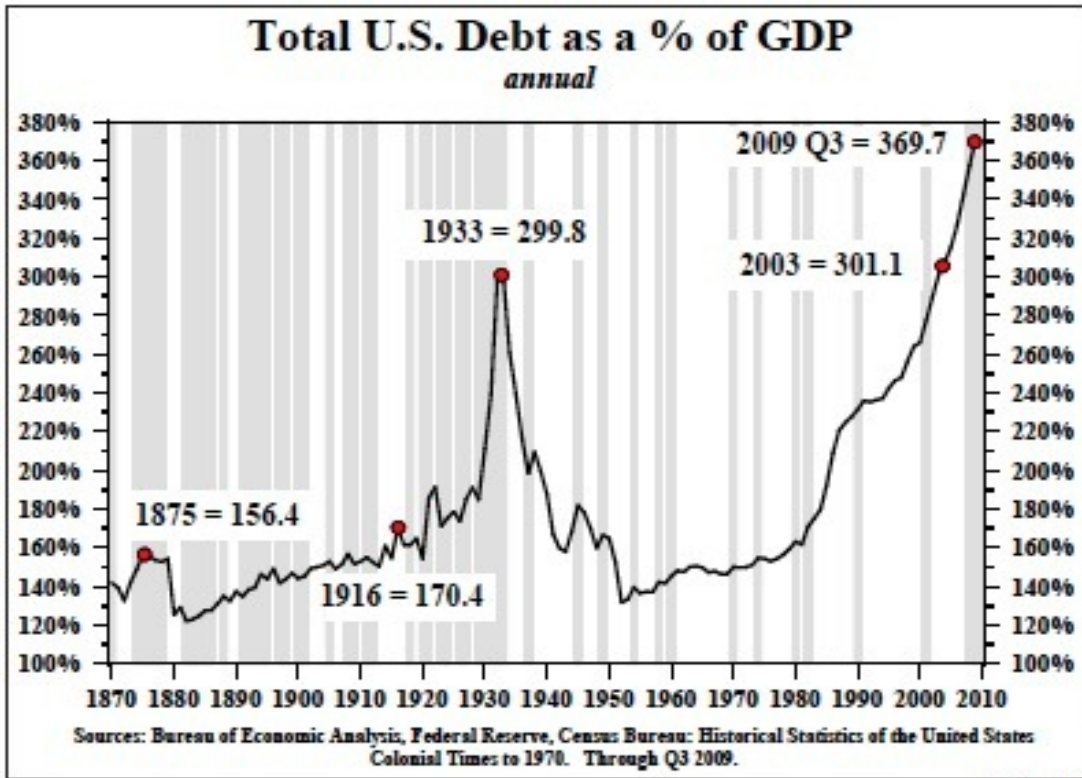
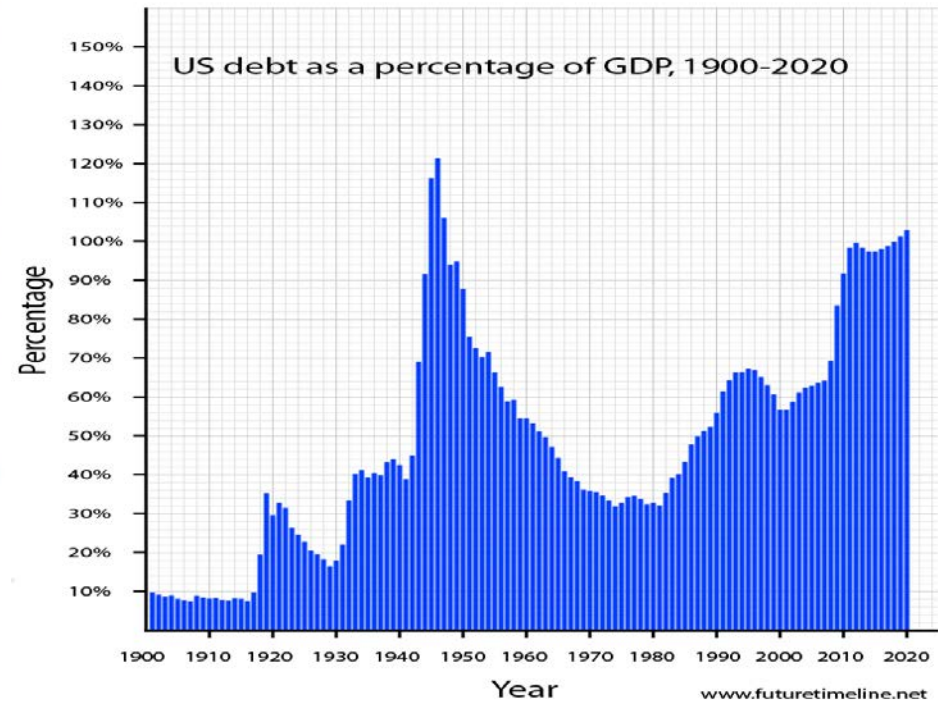
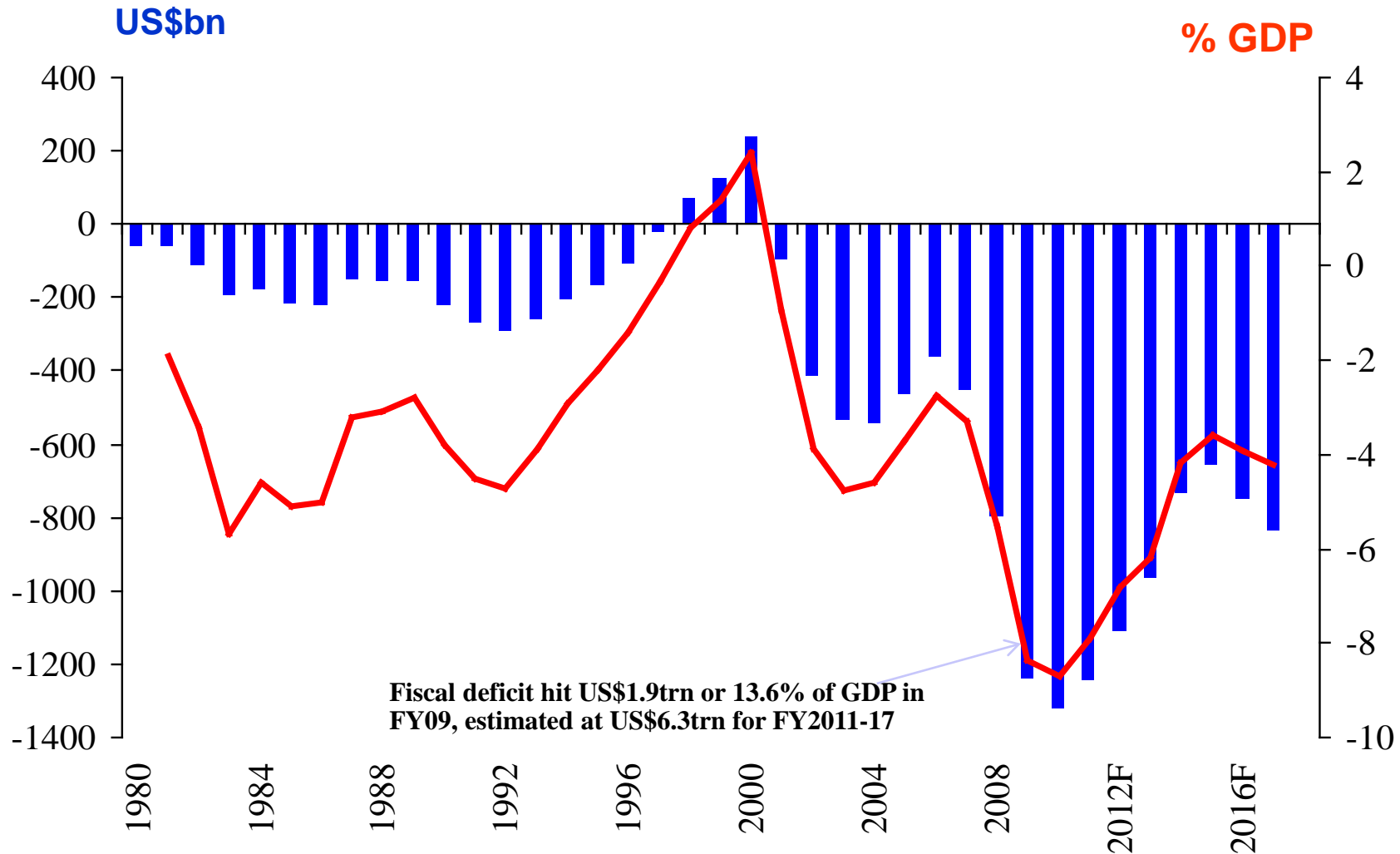


Chart 1

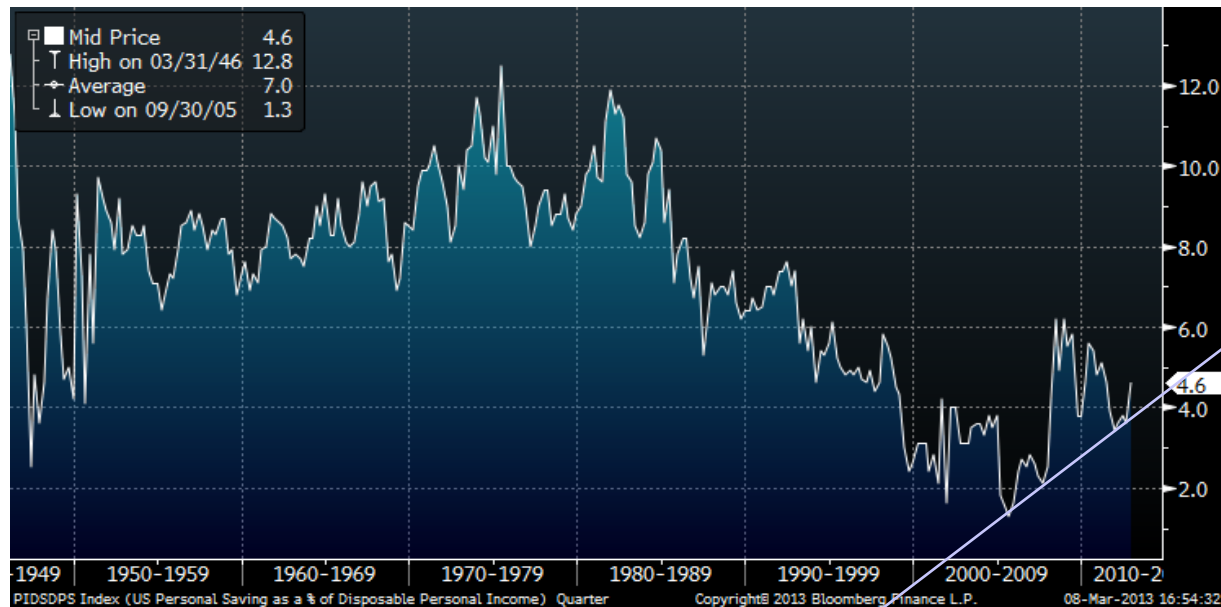
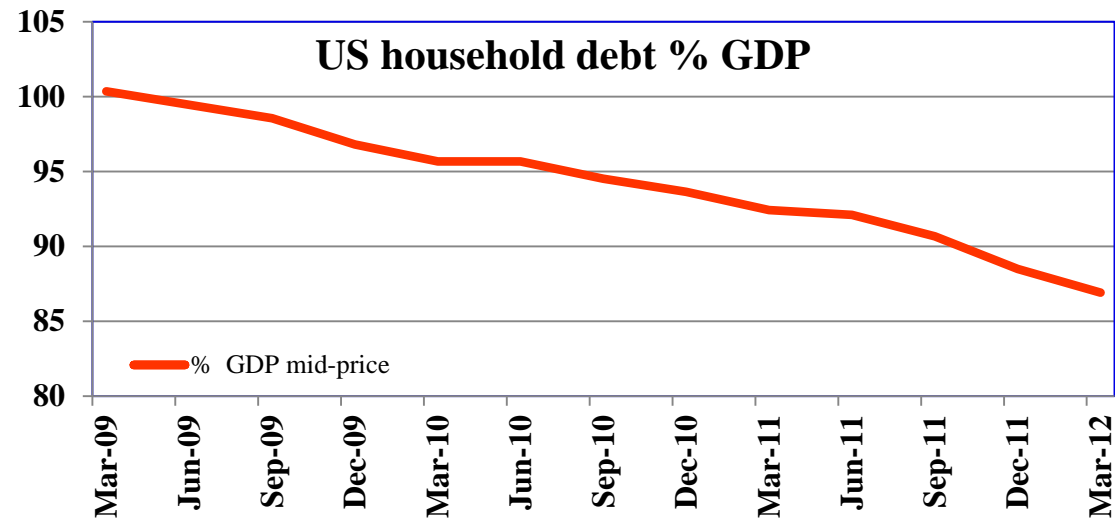
\* Including personal, corporate and public debts



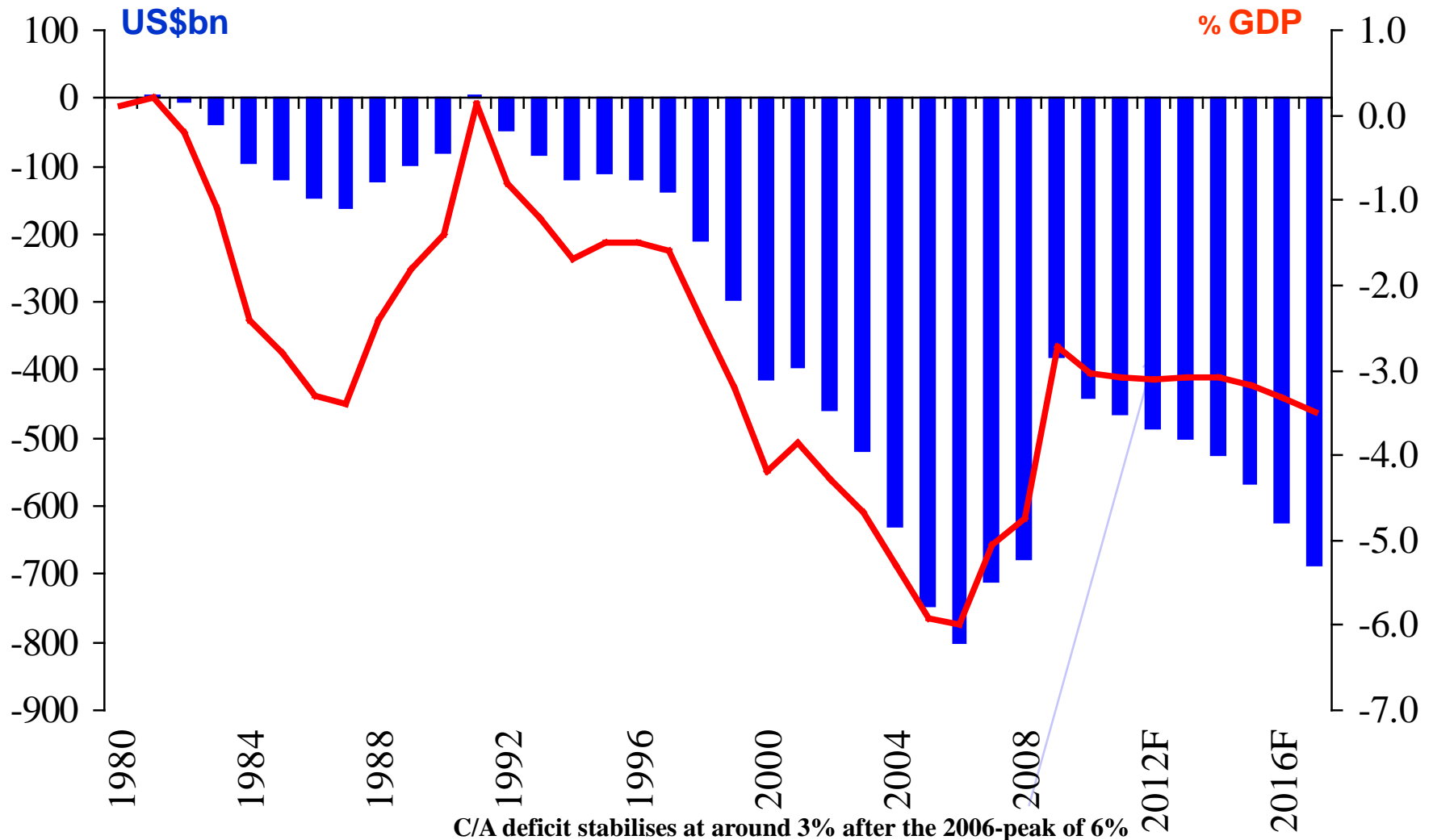
And prevalent fiscal concerns, US' fiscal deficit is expected to come down to 6% of GDP this year from the 13.6% in 2009



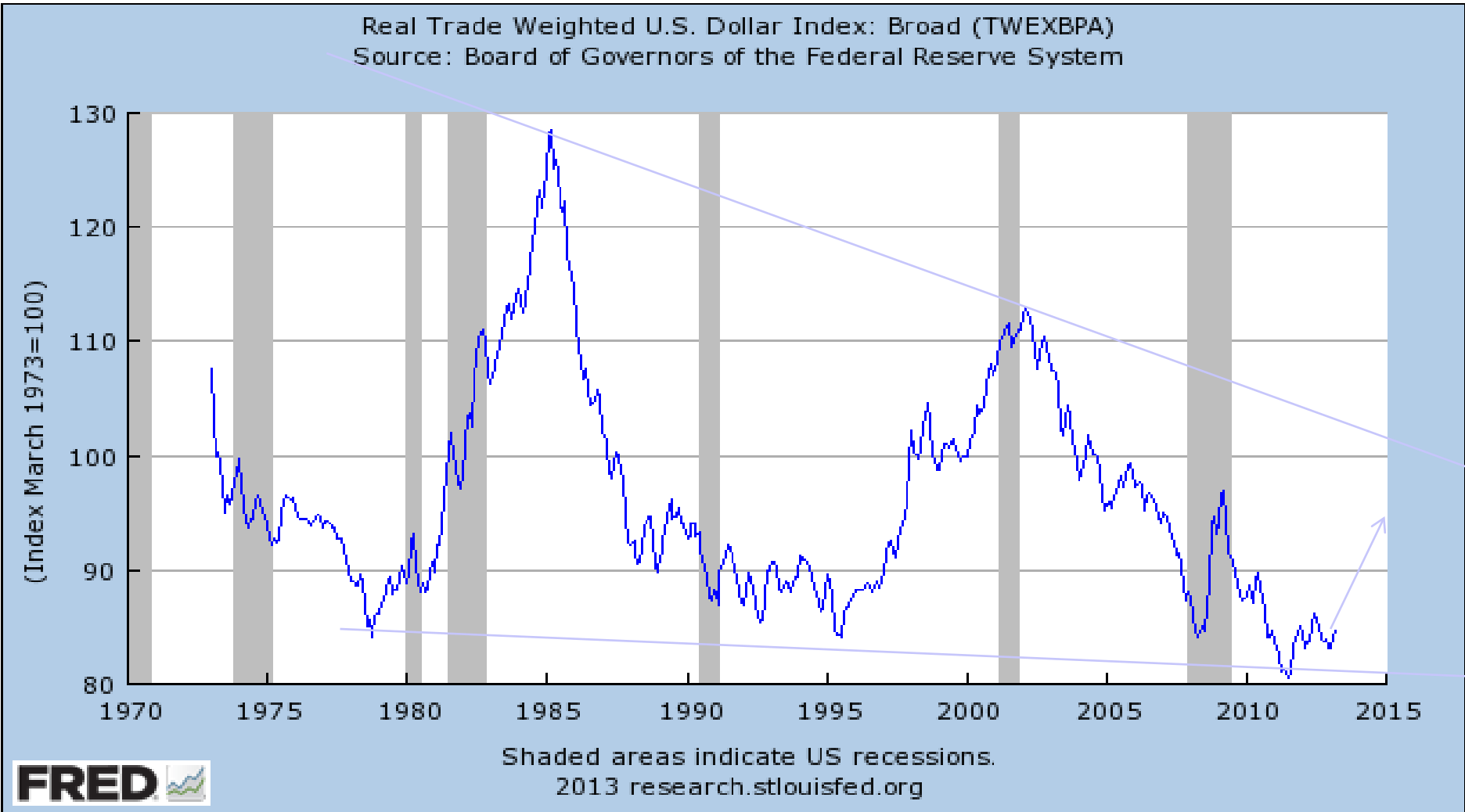
# American households continue to deleverage and personal savings rise



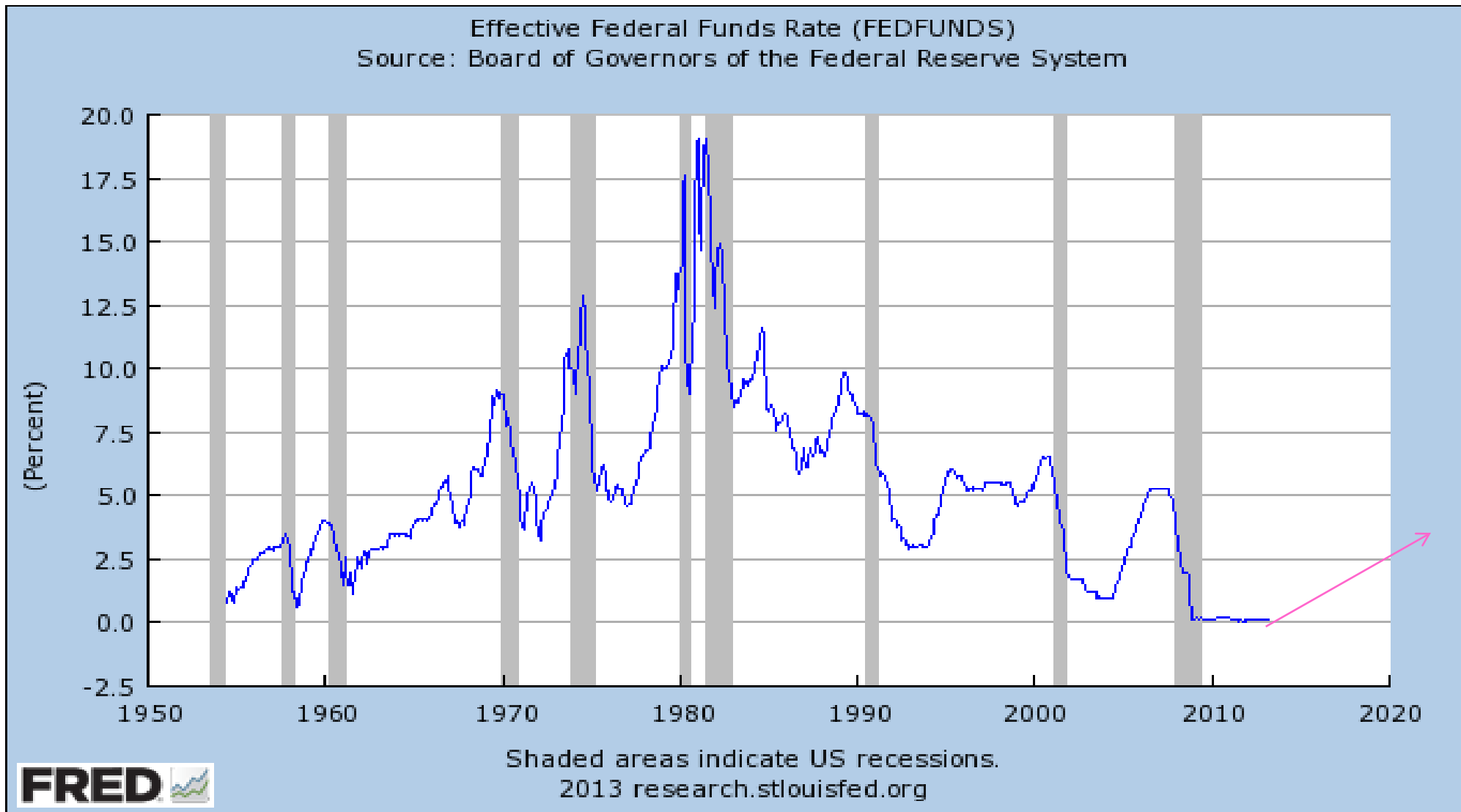
# Current account deficit is also stabilising at 3% of GDP



# Aided by the US dollar fall, but expect more volatility and narrower range from now as the Fed starts to rein in QE



# With the US yields rising over the next five years



20/09/2017

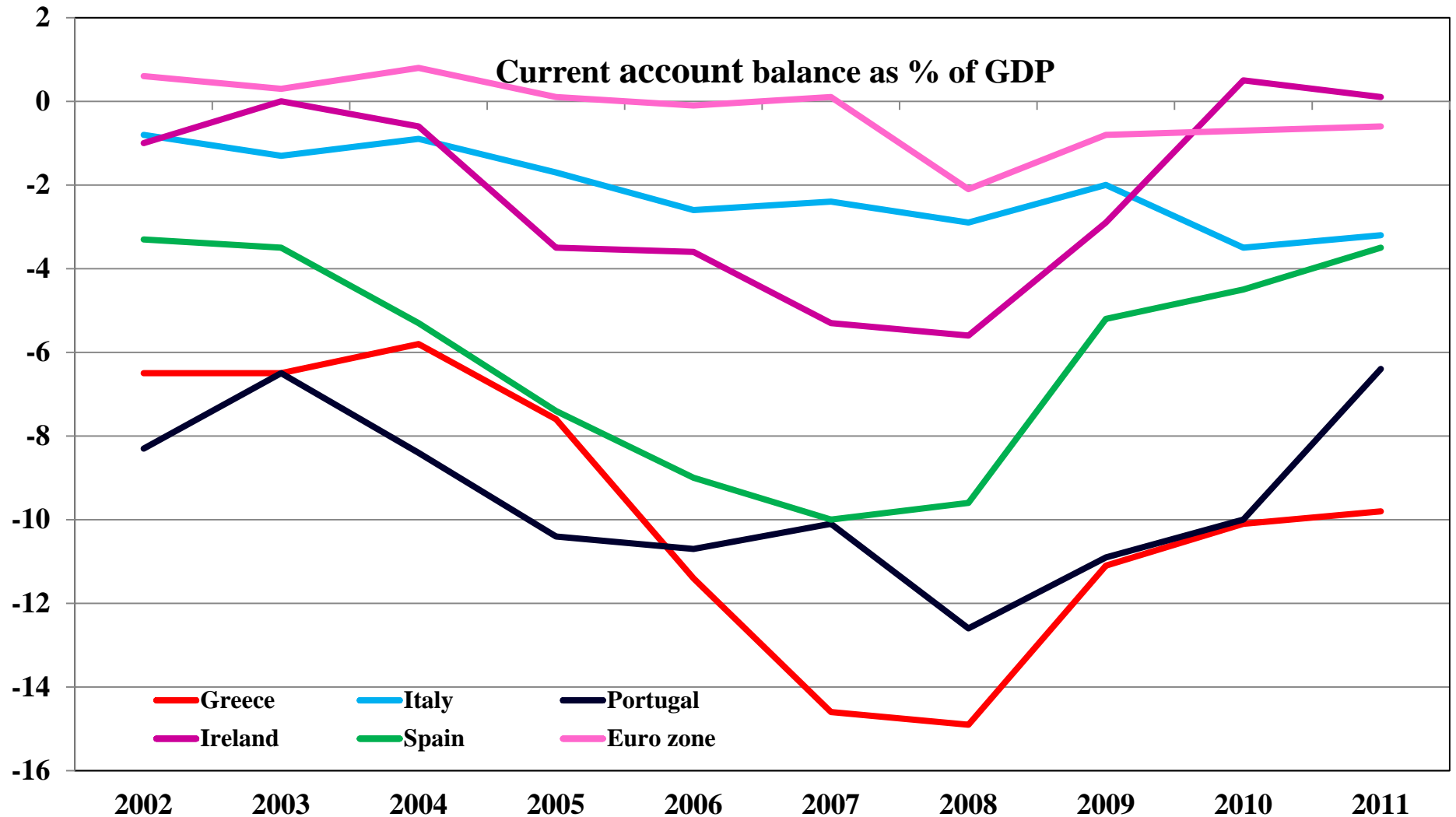


BOJ continues with its QE plan, expanding its balance sheet to 30% of GDP by end-2014 =>weaker yen=>boost growth

The lack of structural reform, amid its ageing population and high public debt  
=> this round of economic momentum may fizzle

<b>% GDP (unless otherwise stated)</b>	<b>1991-2000 (avg)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>
<b>Public Debt</b>	180	230	237	245
<b>Real GDP growth (%yoy)</b>	0.9	-0.8	2.2	2.0
<b>CPI Inflation (% yoy)</b>	-0.3	-0.3	-0.2	0.4
<b>Fiscal Balance</b>	-5.7	-9.7	-9.9	-10
<b>Current Account Balance</b>	3.3	2.0	1.6	2.3
<b>National Savings Rate</b>	26 (fell from peak of 34% in 1991 as HH paid down debt)	22	22	23

# In the euro zone, while the current account positions in the euro zone are improving

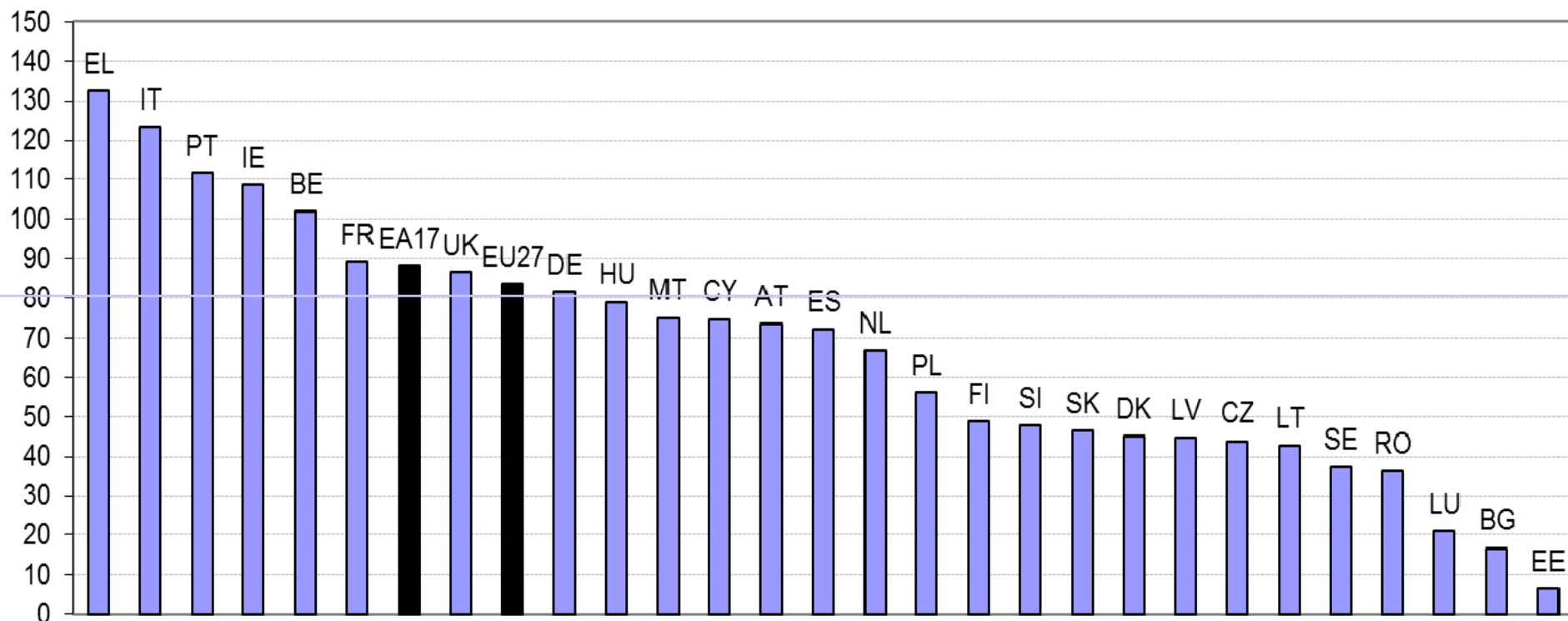


Source: Economist

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# Governments of member countries remain heavily indebted

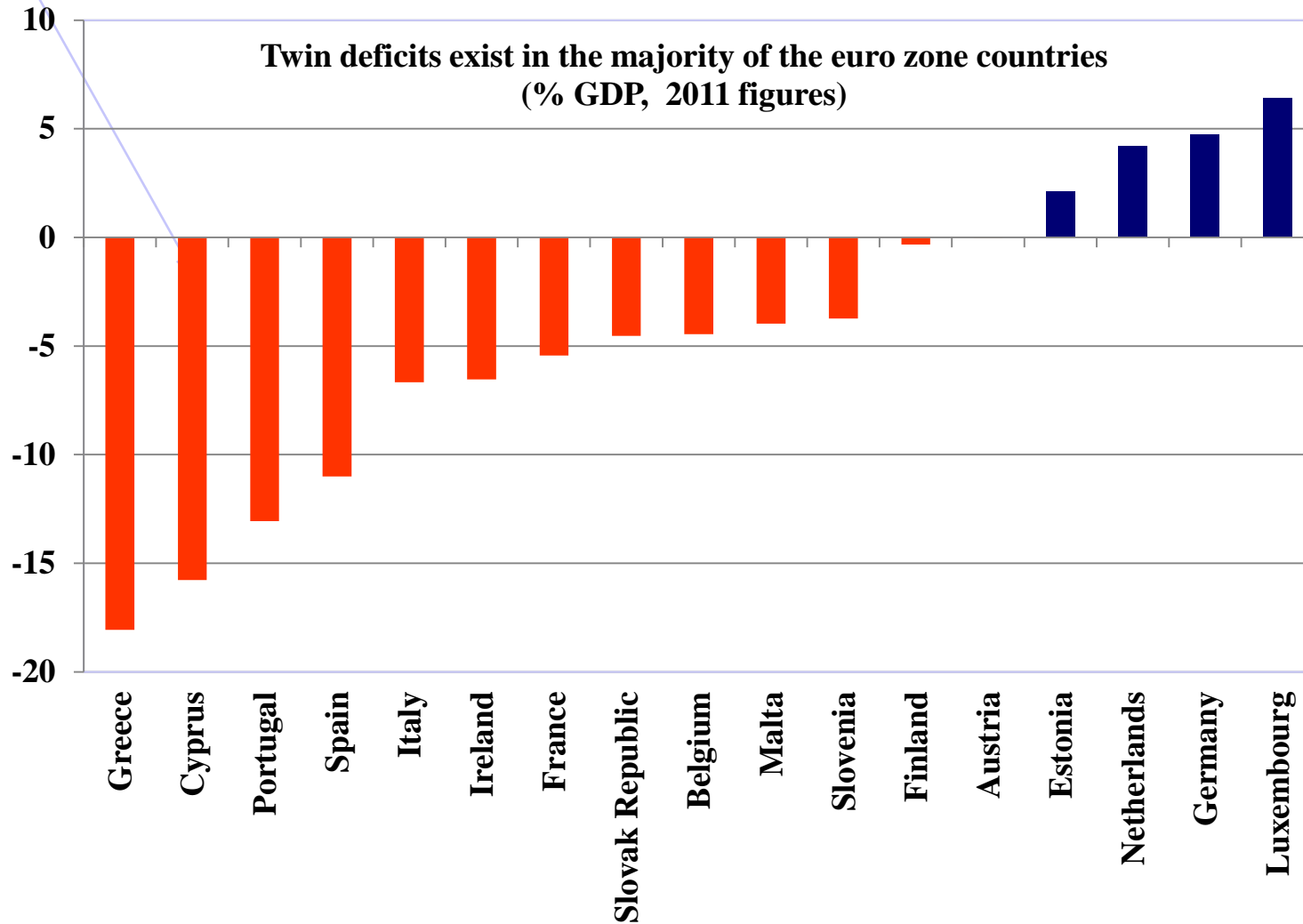
Government debt to GDP ratio, 2012Q1  
in percent



As these public debts, esp among the PIIGS, are not expected to go away any time soon => growth is constrained

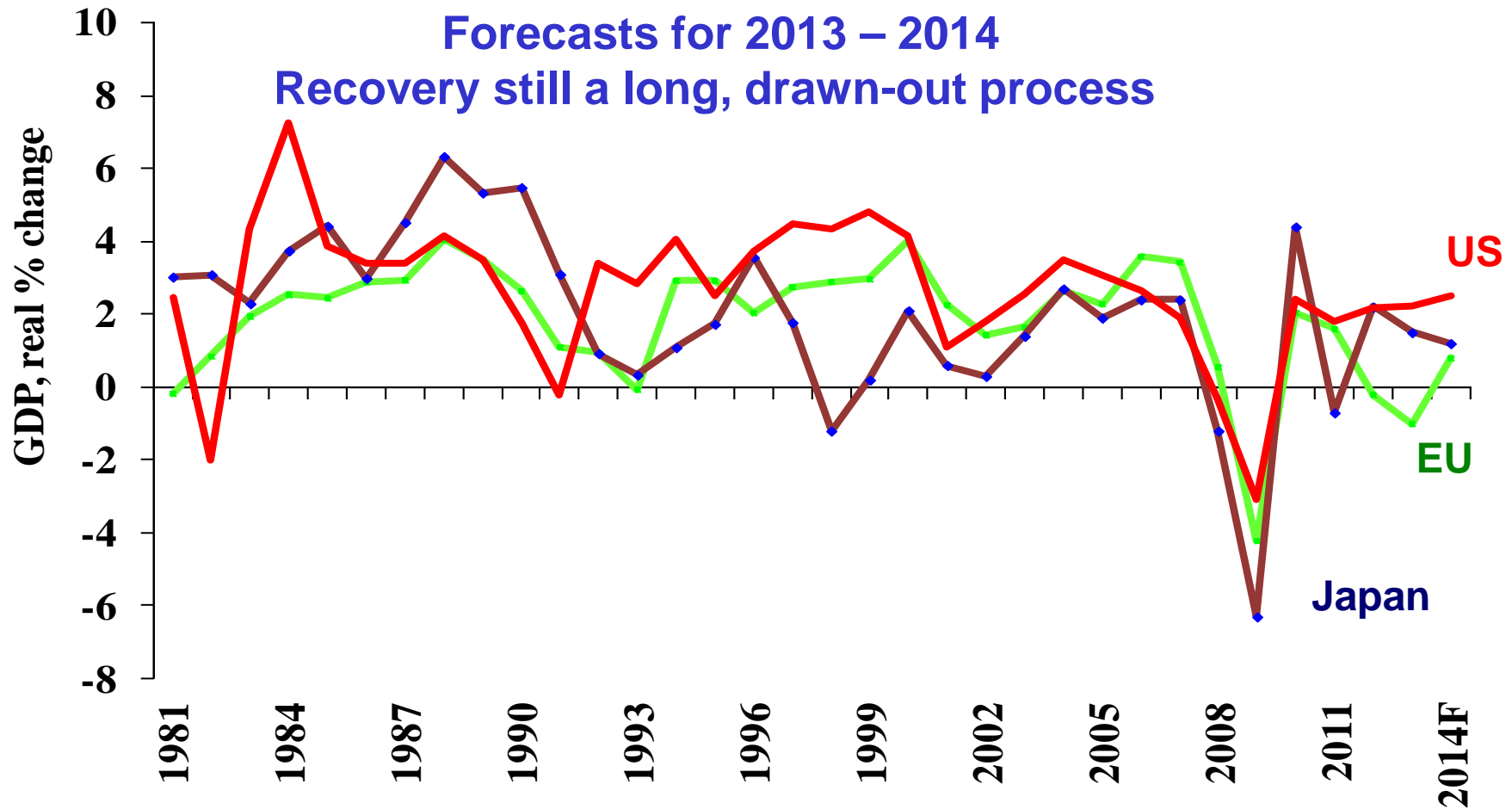
<b>Gross Government Debt to GDP (%)</b>	<b>2008</b>	<b>2011</b>	<b>2013F</b>	<b>2015F</b>
<b>Greece</b>	113	165	182	174
<b>Italy</b>	106	120	128	126
<b>Portugal</b>	72	108	124	121
<b>Ireland</b>	45	107	119	115
<b>Spain</b>	40	69	97	101
<b>Cyprus</b>	49	72	93	102
<b>Belgium</b>	89	98	99	97
<b>France</b>	68	86	92	92
<b>Germany</b>	67	81	82	78
<b>Netherlands</b>	59	65	70	73

# Cyprus' case also highlight the importance of a banking union in the euro zone, as banks remain vulnerable



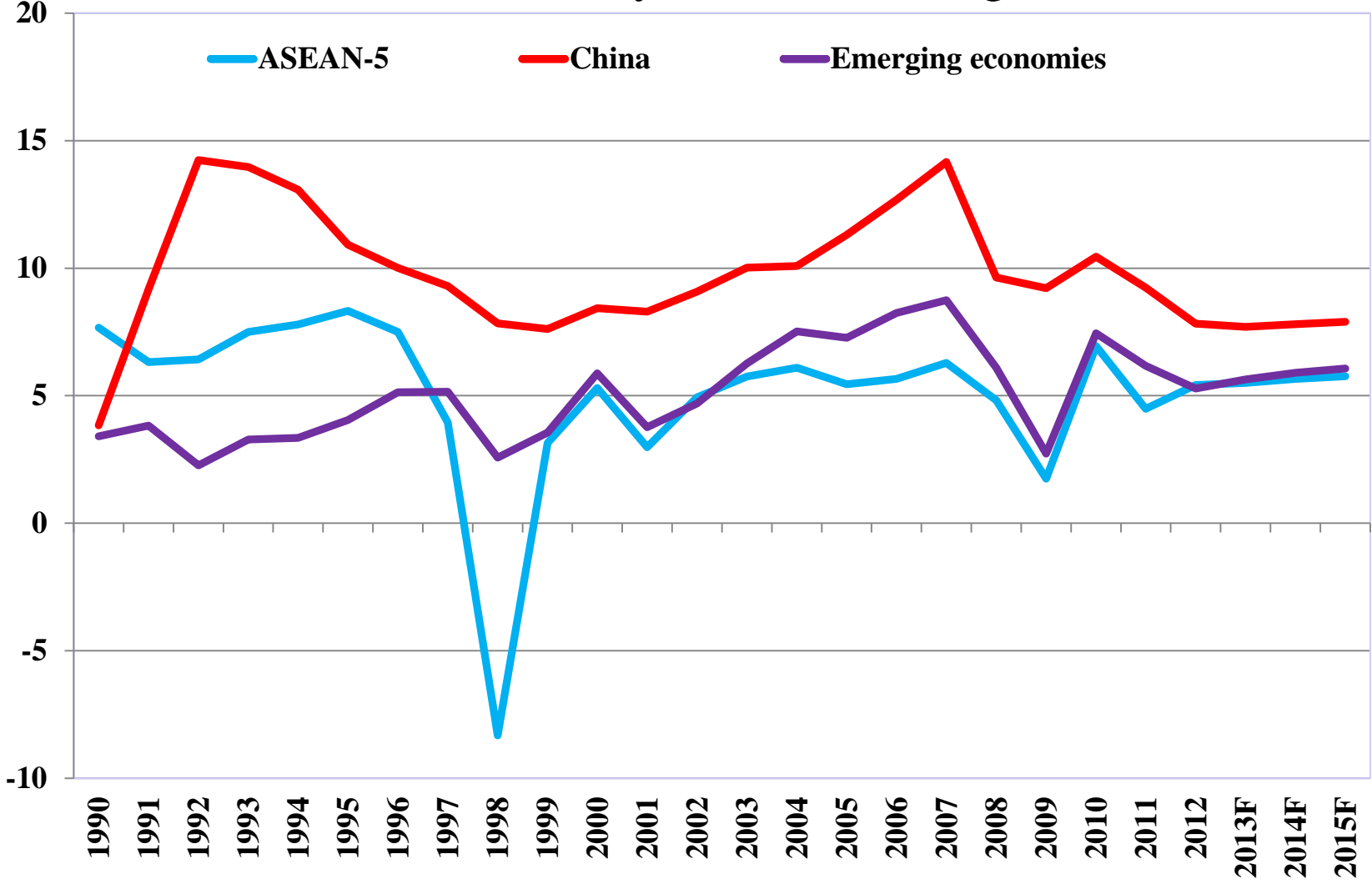
Note: Twin deficits refer to fiscal and current account deficits  
Source: IMF

All in all, US is expected to lead growth among developed nations;  
Japan may see some exports and tourism-led growth;  
But the euro zone will remain in recession till next year



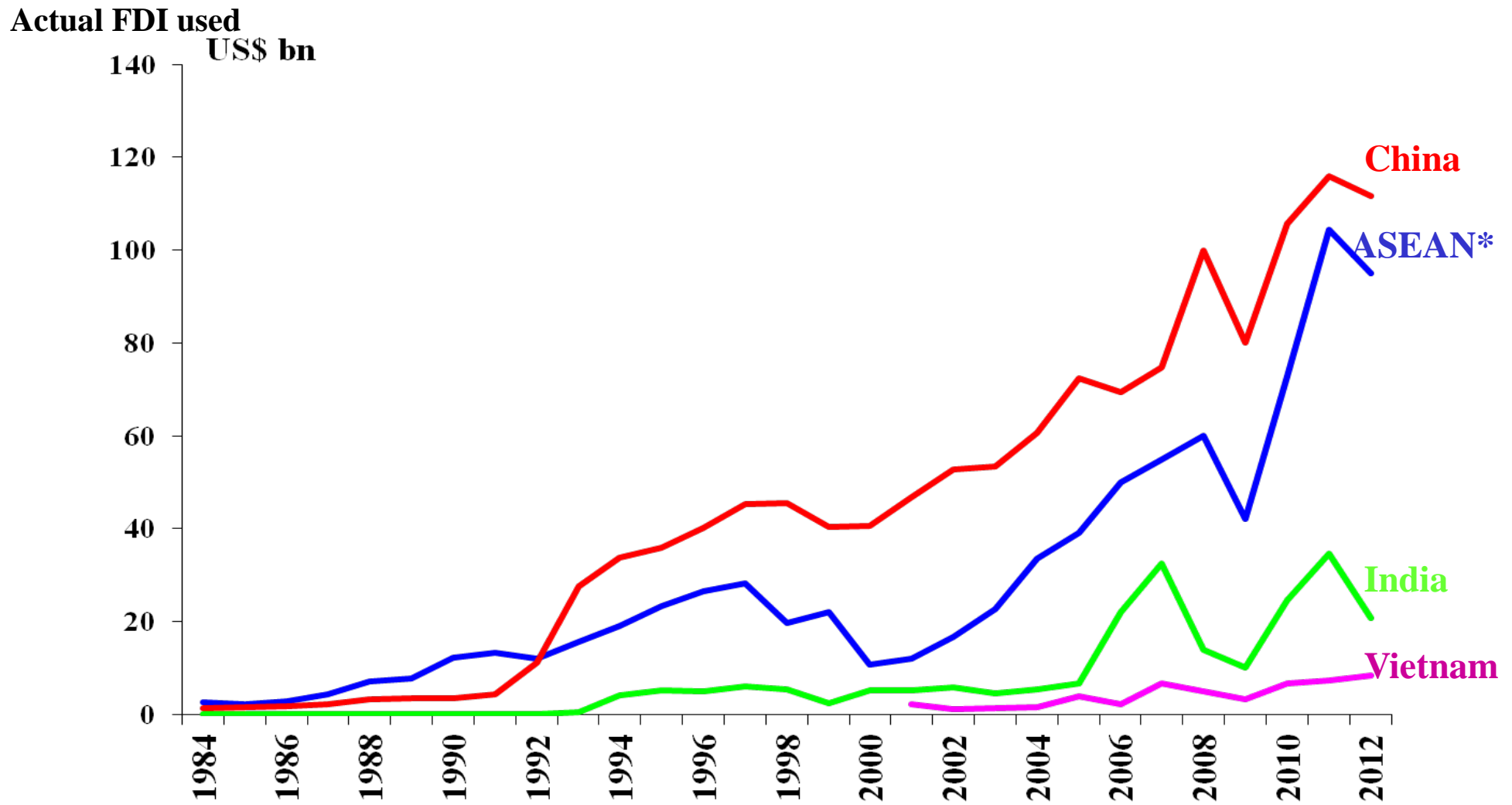
Among the emerging markets, China is still leading growth at 7.5%, though slower than last decade's annual average growth

While ASEAN-5 economies may see moderate growth at about 5%



Source: IMF data October 2012

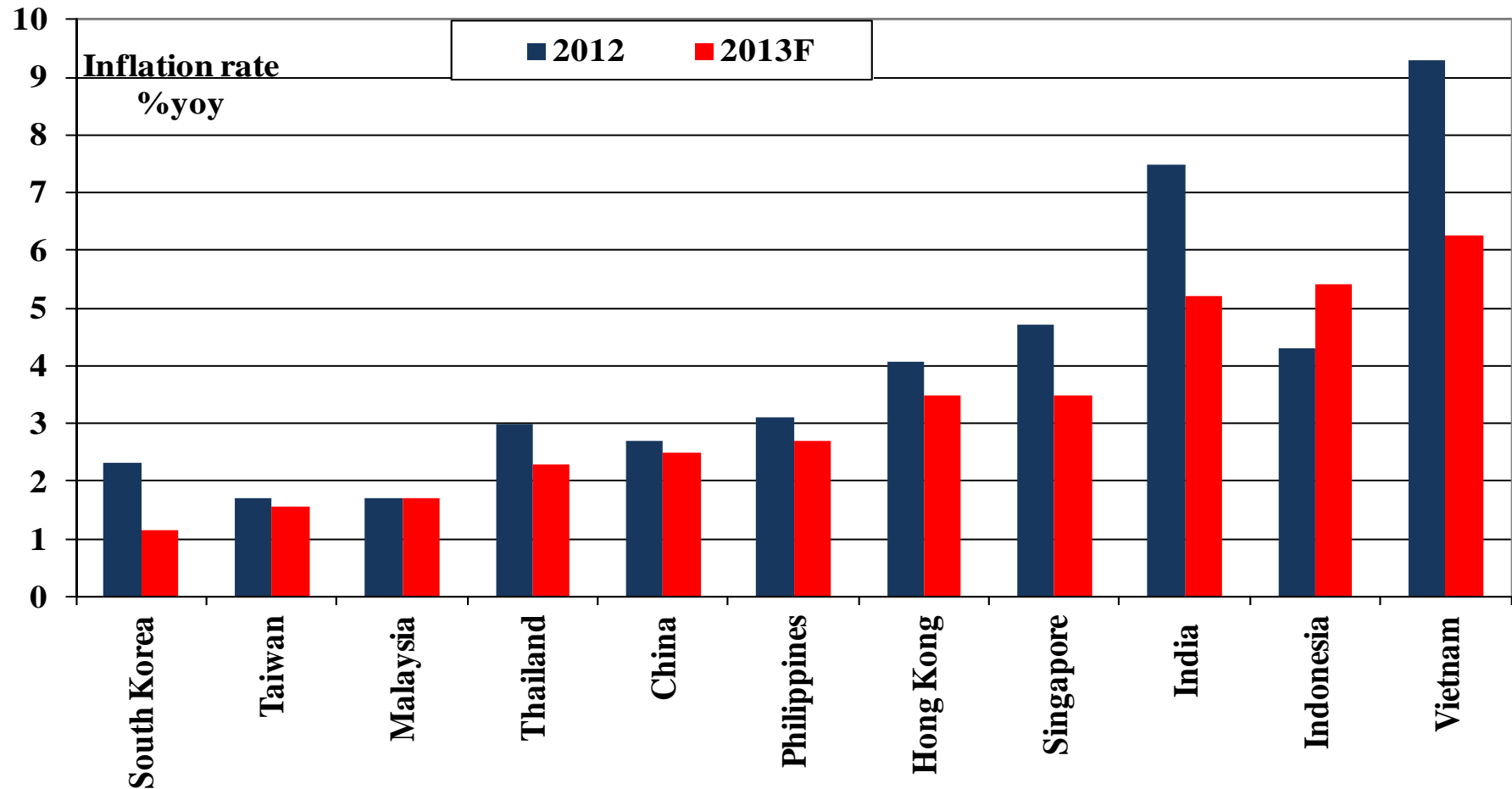
# In part due to ASEAN-5's incentives to attract more FDI, though China still captures the lion share



Source: ADB, CEIC, China Statistics Bureau, Unctad Statistics

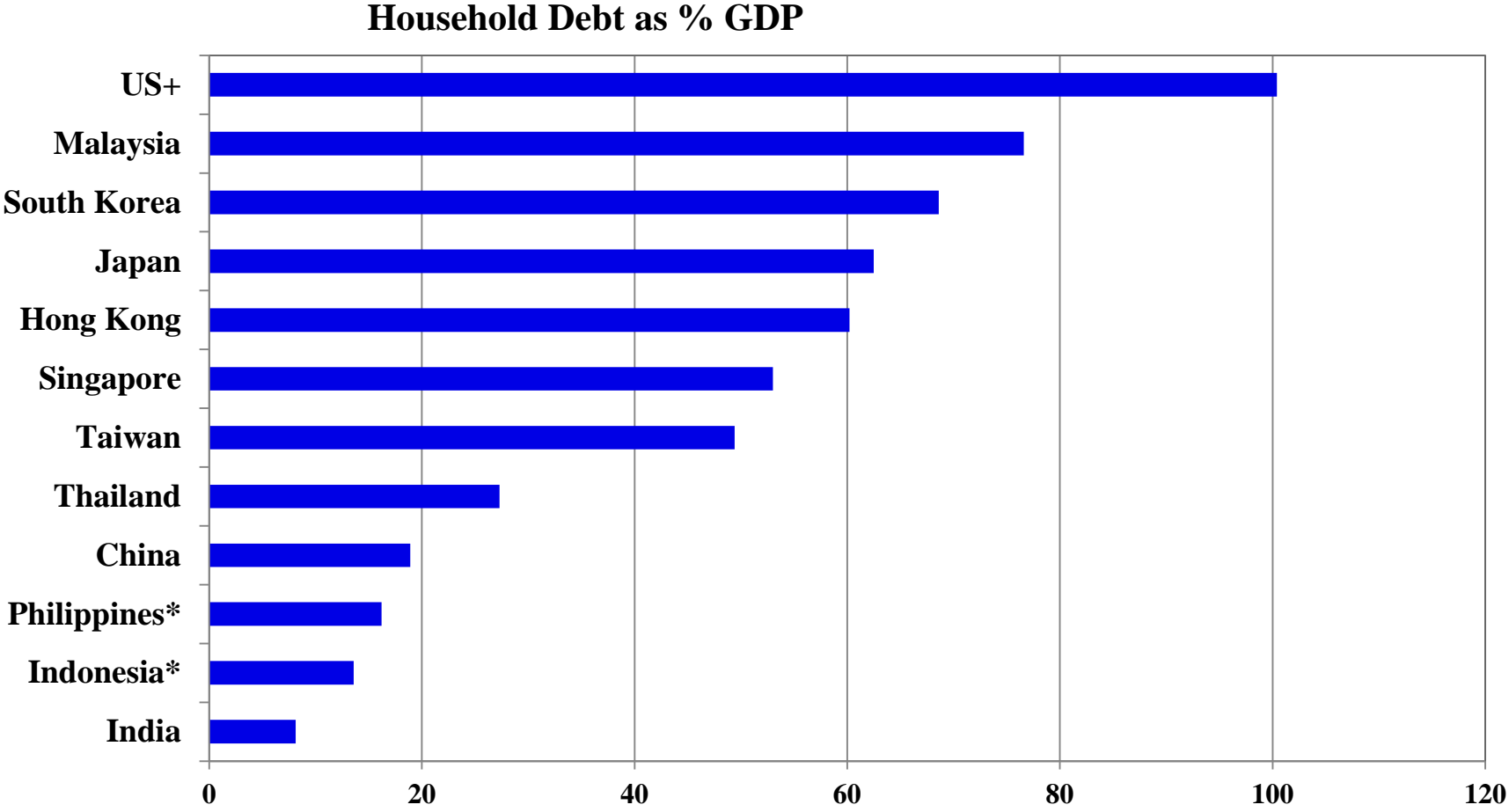


# Inflation easing in ASEAN-5 (except Indonesia), China, South Korea and Taiwan => room for rate cuts



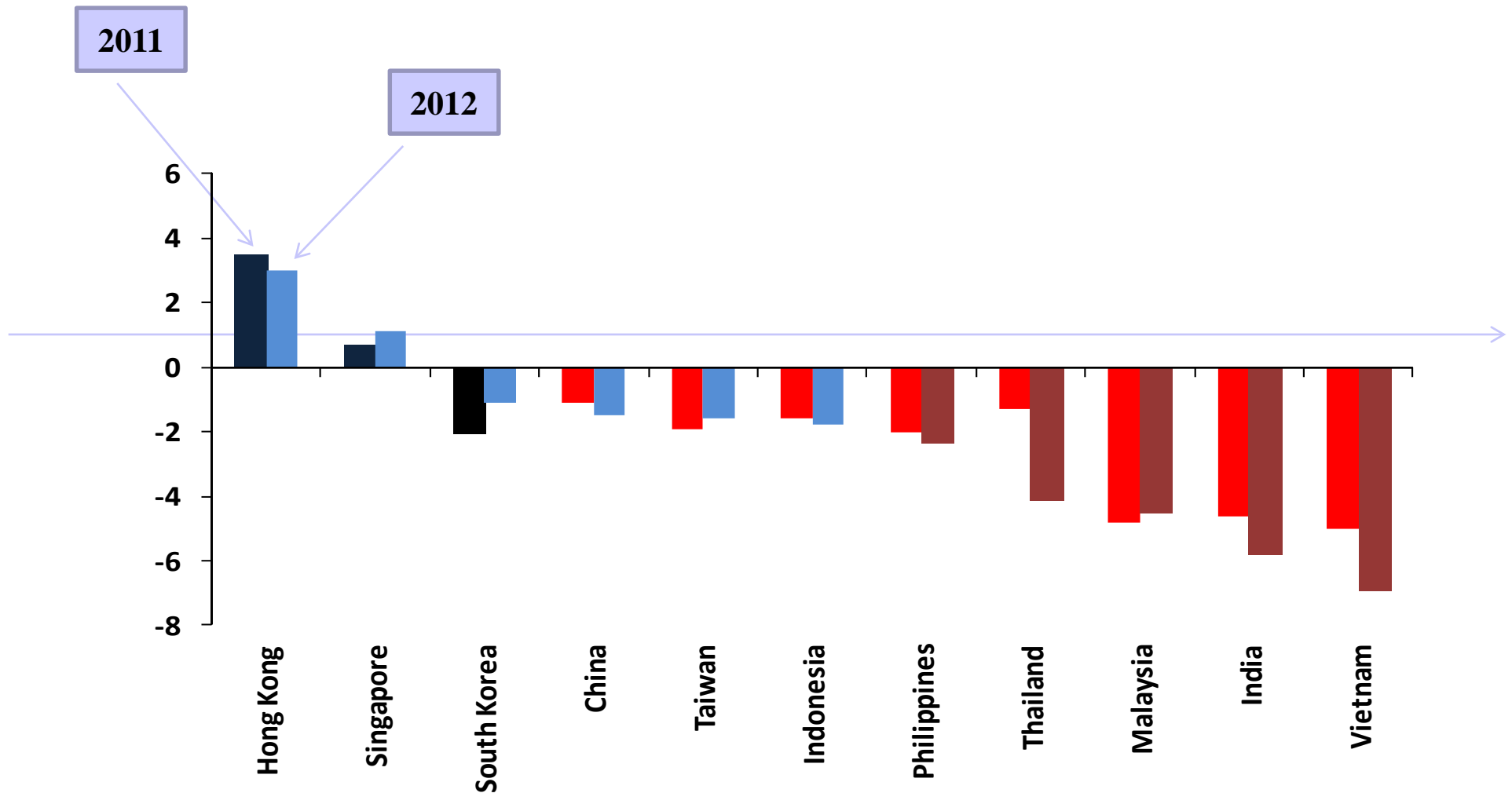
Source: ADB, figures, National Statistics., ERA Forecasts April 2013

# Household debt in China and ASEAN-5 remain quite low (except perhaps Malaysia)



Note: \* end-2010  
+ Q1 2009, right after the 2008 crisis  
Source: HSBC

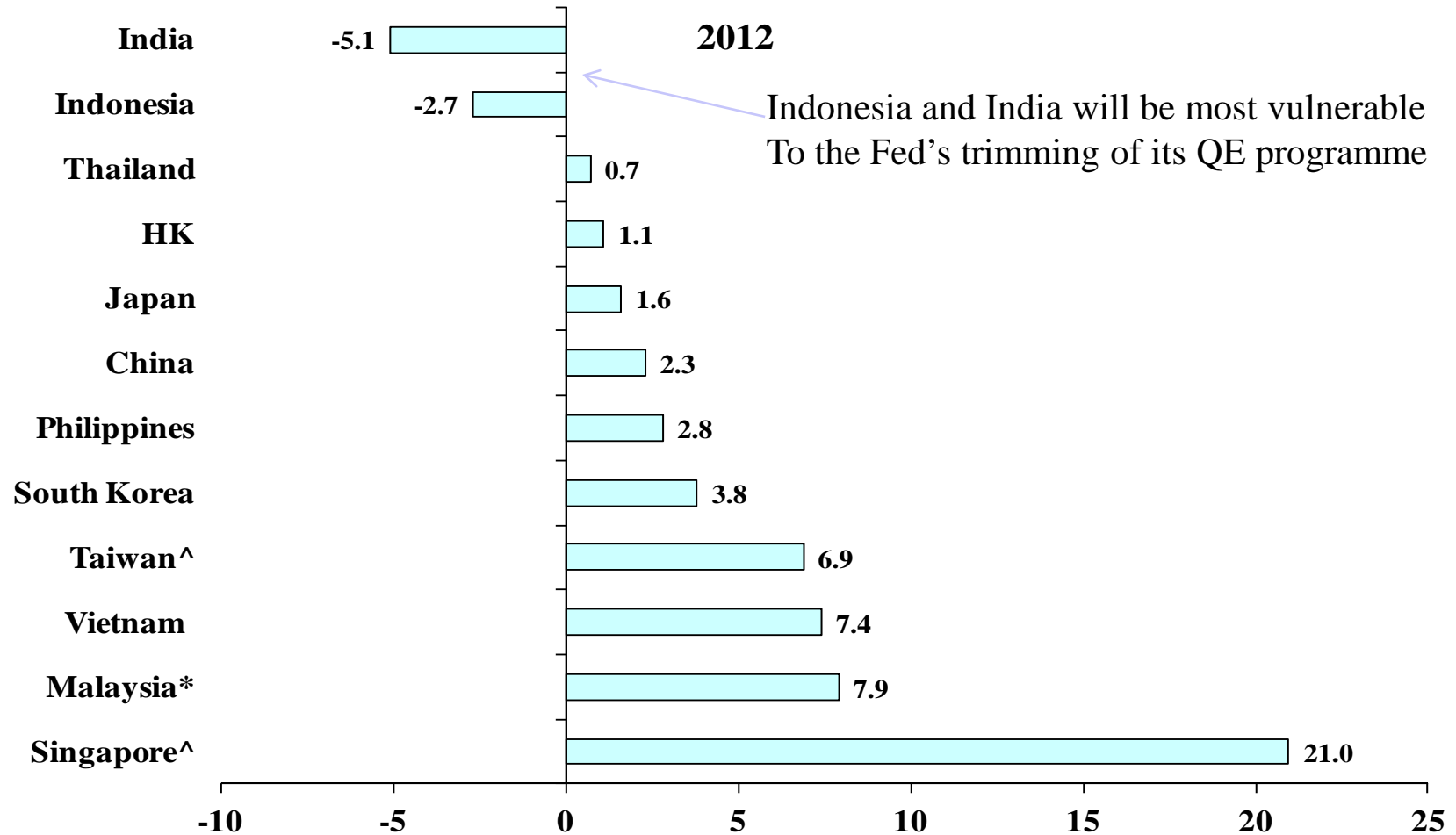
# Developed Asia (HK, Singapore, Korea) has strong fiscal positions China and ASEAN-5 economies saw mild deficits (exc Malaysia)



Source: IMF estimates

# But Malaysia's strong C/A surplus helps offset its weak fiscal stance

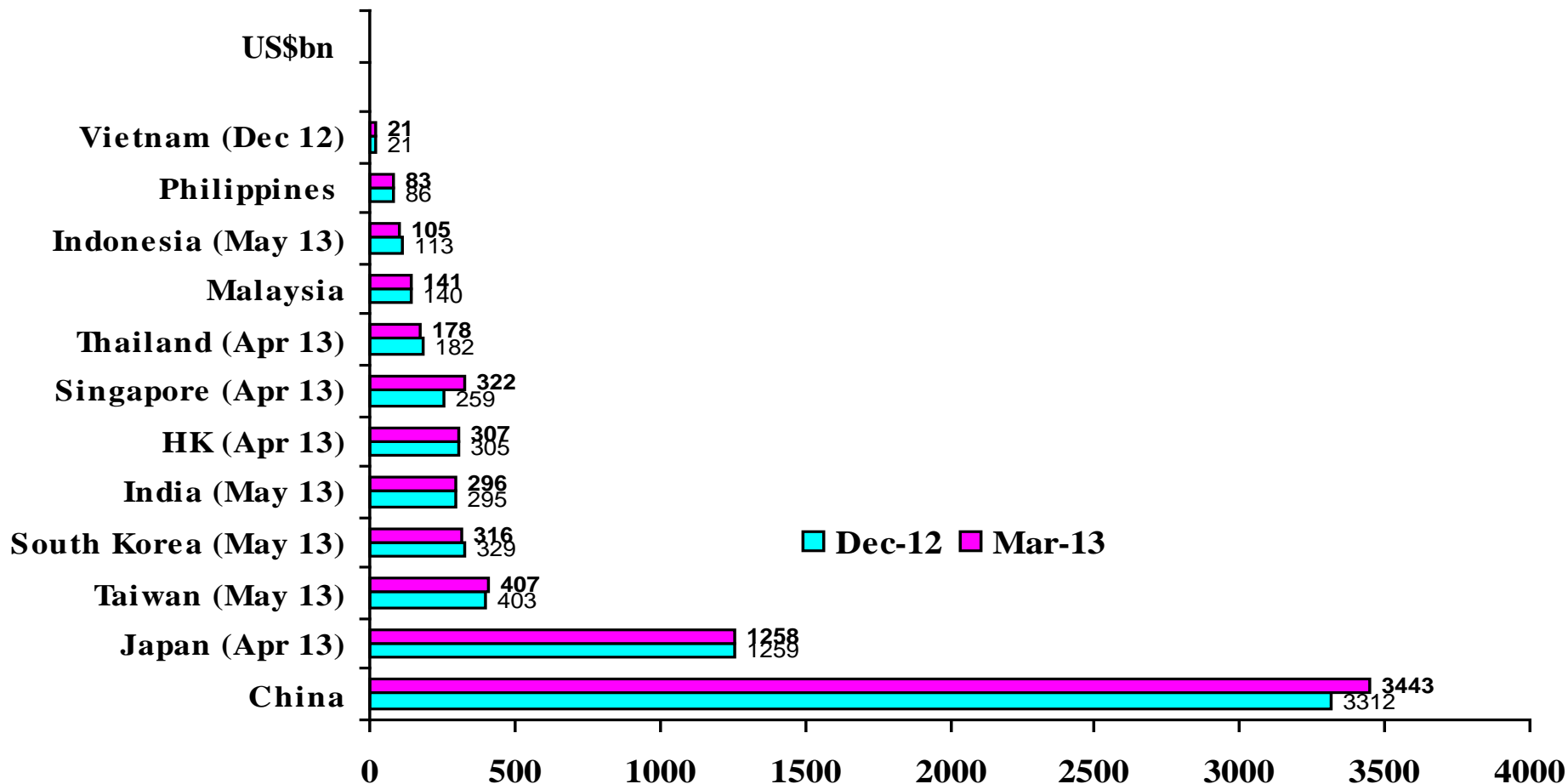
## China's and developed Asia's C/A surpluses stand them in good stead if the Fed is to rein in QE and US yields rise



Note: <sup>^</sup> Forecast ratio

Source: MF, CEIC, National statistics

# China's and developed Asia's FX reserves remain substantial, not that much for ASEAN-5

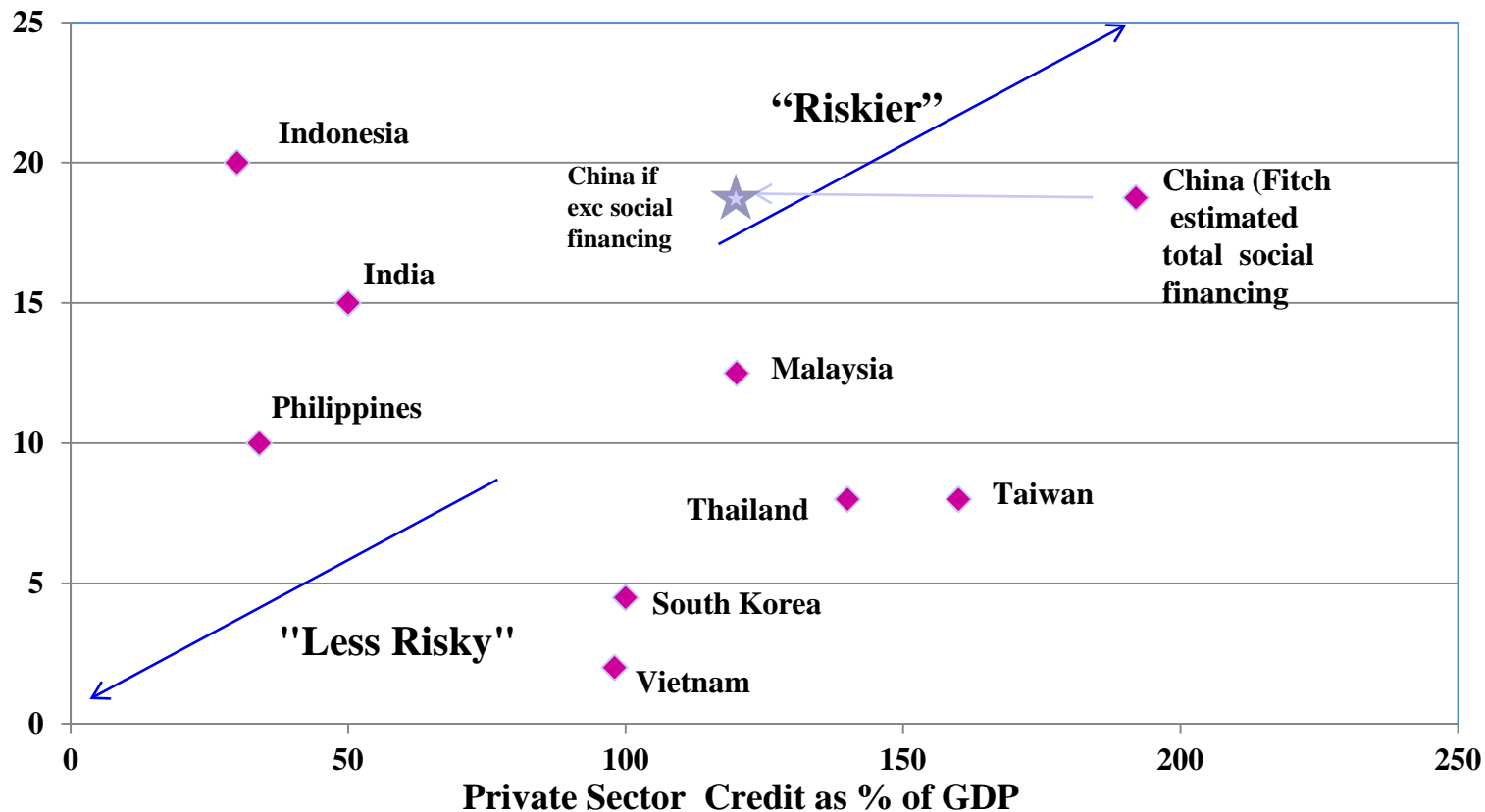


Note: \* Data for January 2013

\* Data for February 2013

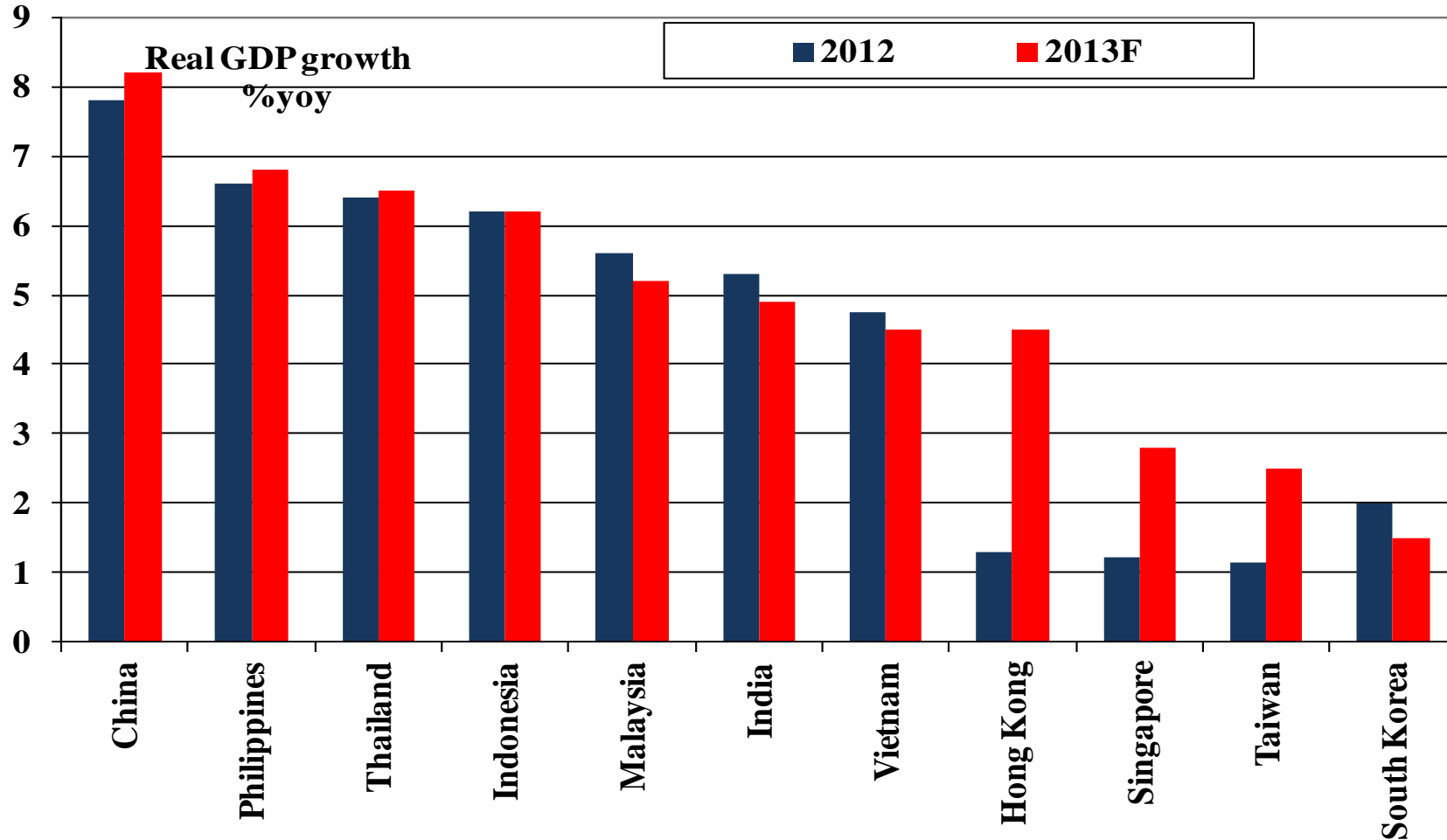
# Luckily ASEAN-5 are not as geared as their northern peers though China needs to rein in shadow banking

Projected Credit growth 2013



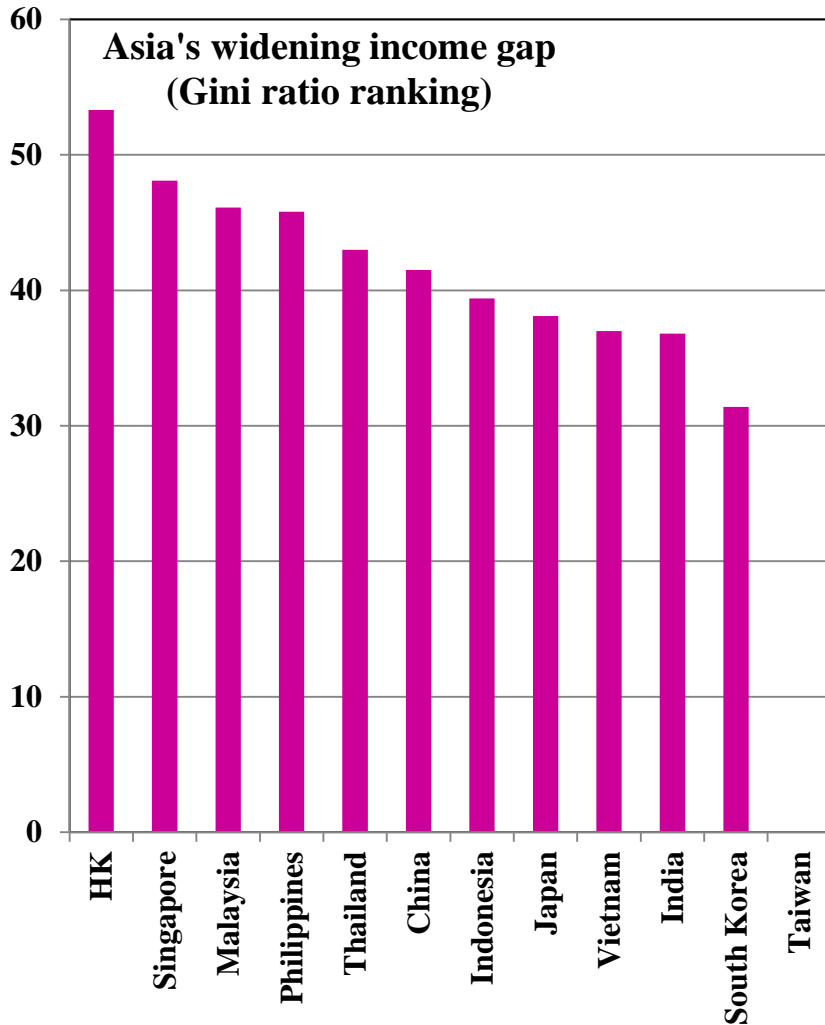
Source: Fitch Ratings

# Overall ASEAN-5 will likely trail China closely in this round of cyclical growth recovery



Source: ADB, figures, National Statistics., ERA Forecasts April 2013

# Risks: ASEAN-5 remain vulnerable to fund withdrawals and have much wider income gaps



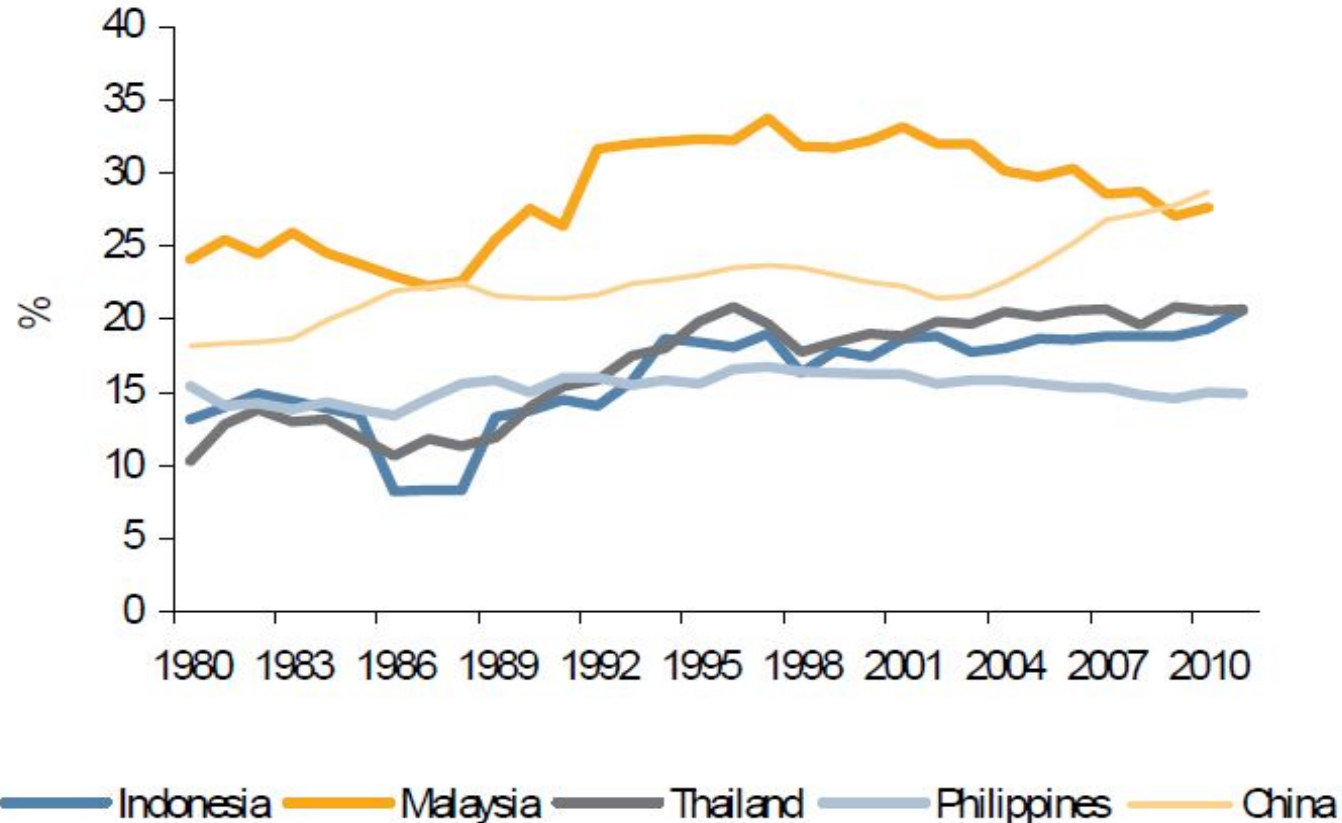
- Euro zone's debt crisis deepening, leading to need for banks to recapitalise that may trigger capital outflows from Asia, esp in Indonesia, Malaysia and South Korea where foreign holdings of their bonds are significant
- Competitive currency devaluation still possible
  - Yen to resume weakness as BoJ continues with its QE pledge to expand its balance sheet to 30% of GDP till end-2014 while the Fed starts reining in QE
  - South Korea's and Taiwan's exports under serious competitive threats if yen falls further
  - SGD, KRW and TWD to weaken in this scenario
- Other vulnerabilities
  - Bird flu (H7N9) in China
  - Geopolitical risks and trade protectionism (e.g. South China Sea, N. Korea, Thailand)



# Their long term prospects also look doubtful

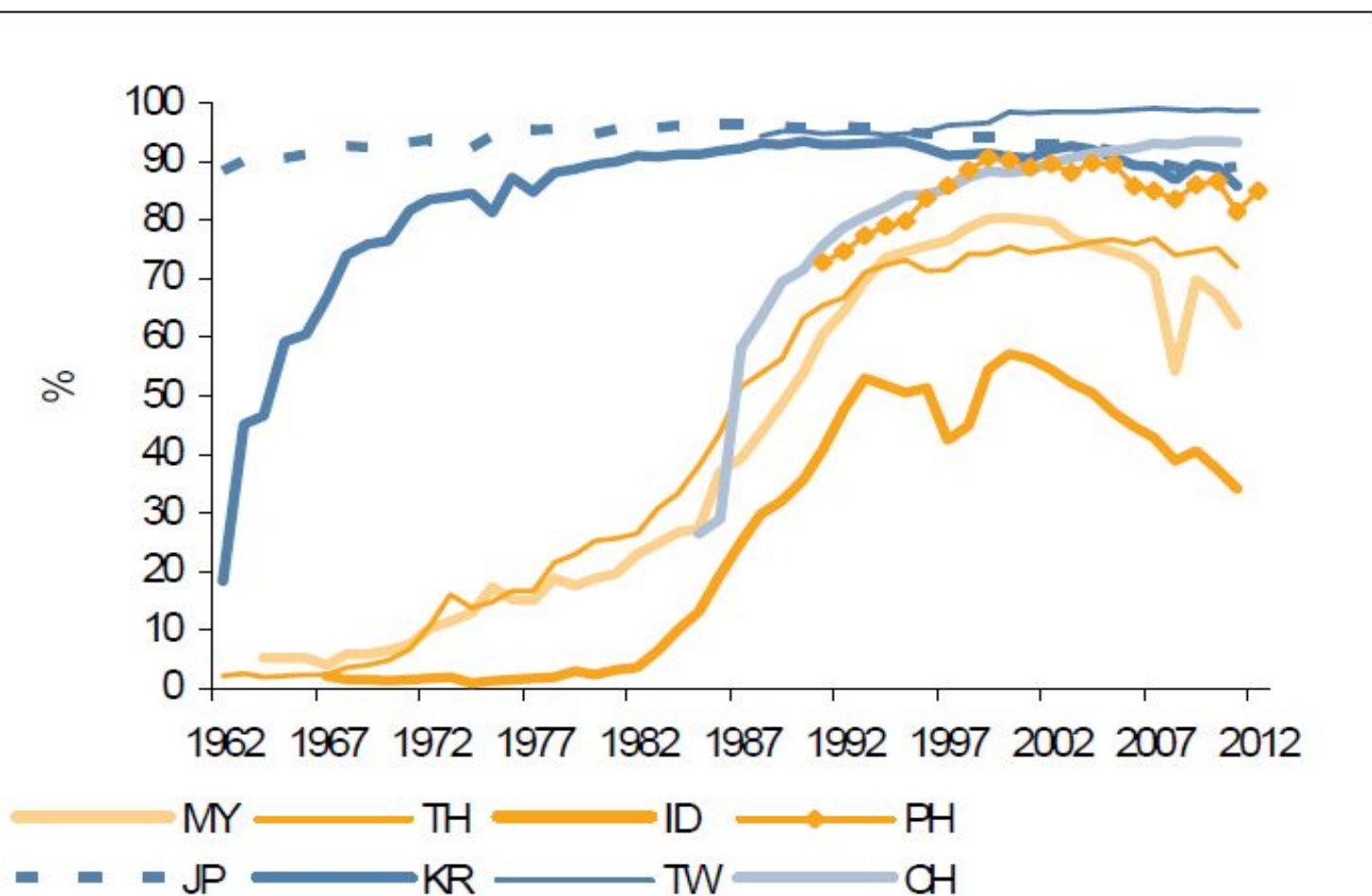
## Shares of manufacturing jobs are stagnant or falling

Employment share of manufacturing



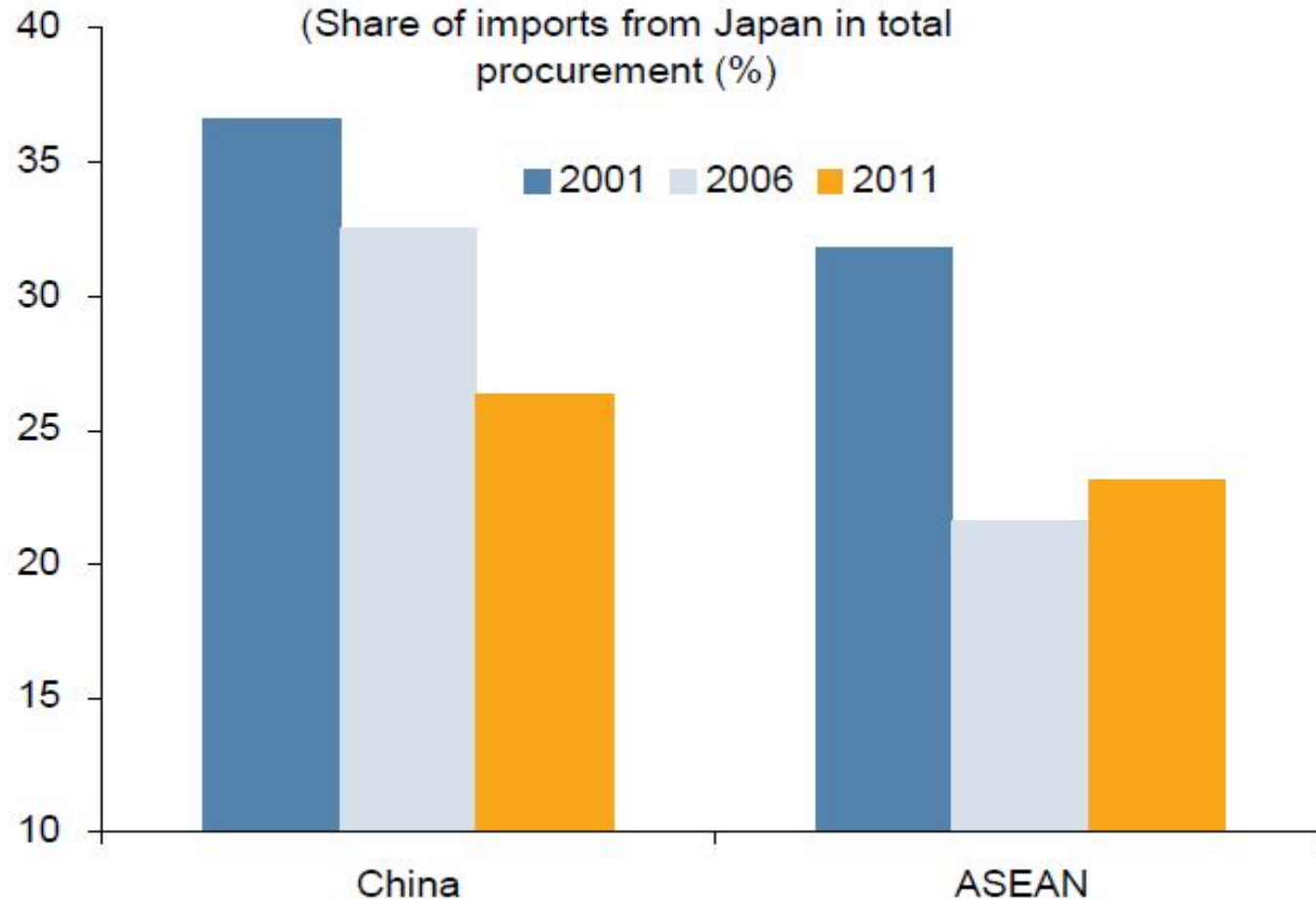
# Manufacturing's shares of exports in ASEAN are low compared to China and their northern peers at similar per-capita GDP levels before

Share of manufacturing exports



# With little industrial upgrading and knowledge transfer compared to China

## Sourcing of Japanese firms in China and ASEAN



# Summary: China will continue to lead in growth, albeit at a slower pace amid economic restructuring

China expected to outperform both developed and emerging economies

- ASEAN-5 follows with strong domestic demand in this round of cyclical recovery, though their longer term prospects will depend on industrial upgrading
- Malaysia and Thailand's lower inflation => room for rate cuts there to spur growth. Taiwan and South Korea may also do so
- As JPY resumes its fall however, SGD, NTD and KRW will be under pressure to weaken to stay competitive
- Indonesia's economy looks vulnerable on all fronts
- Overall Asia-ex Japan remains a growth region as continued diversification of exports to emerging markets and intra-regional trade will help boost growth

# Implications to financial markets: opportunities

- Currencies
  - Stronger and more stable for economies with strong C/A surpluses (Taiwan, China and Philippines) as the Fed starts reining in QE
- Bonds of economies with easing inflation
  - Notably South Korea, Taiwan, Malaysia, Thailand and China which can afford to cut rates to spur growth as the Fed scales back QE
- China's growth sectors amid economic restructuring
  - Services, health care, pharmaceuticals and some green tech sectors
- Exports and tourism sectors in Japan, Singapore and Malaysia



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Thank you!

Questions?

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