

# Can Asia Hold its Place at the Edge of the Global Abyss?

Asia - Inside the Global Economy  
Asia Entrepreneurship Forum 2012

Macau

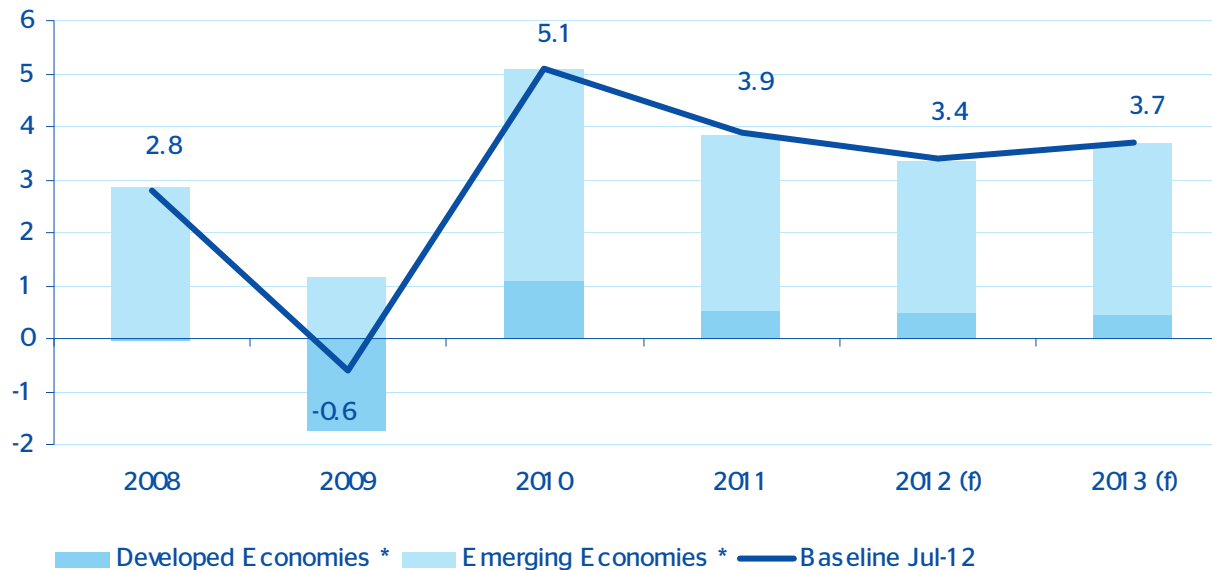
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September 20, 2012

## The global backdrop

- Global growth will recover gradually in 2013 with policy action in the US and Europe.
- Despite recent positive policy steps, downside risks to growth remain.
- Emerging economies are on track for a soft landing, buttressed by domestic demand and growth-supporting policies.

### Global growth (%)

Source BBVA Research

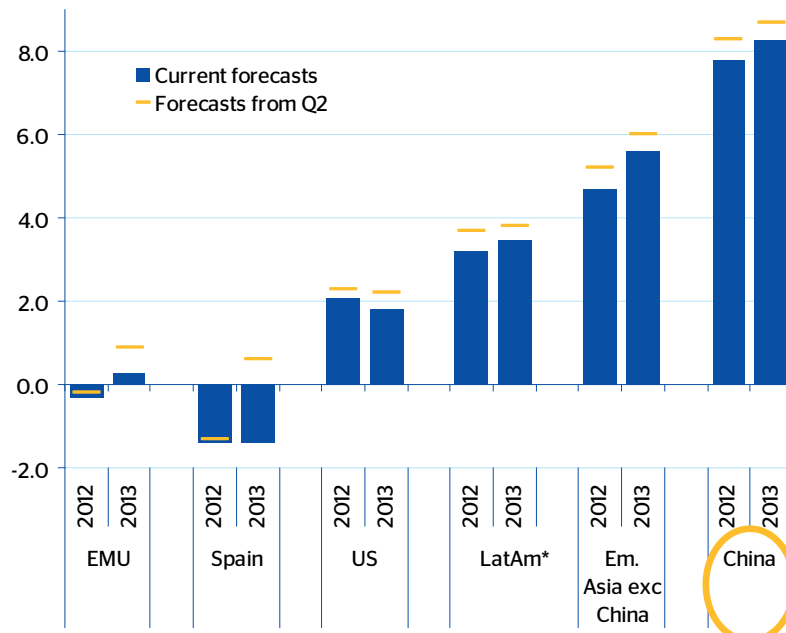


## Asia still a growth engine, led by China

- Though slowing, emerging markets are still the engine of global growth, and Emerging Asia leads the pack
- The region's larger economies—China, India, and Indonesia—have propelled growth in recent years, with China accounting for around one-third of global growth
- Asia has strong fundamentals—solid fiscal positions, high reserves, and sound banking systems

### GDP growth forecasts have been lowered...

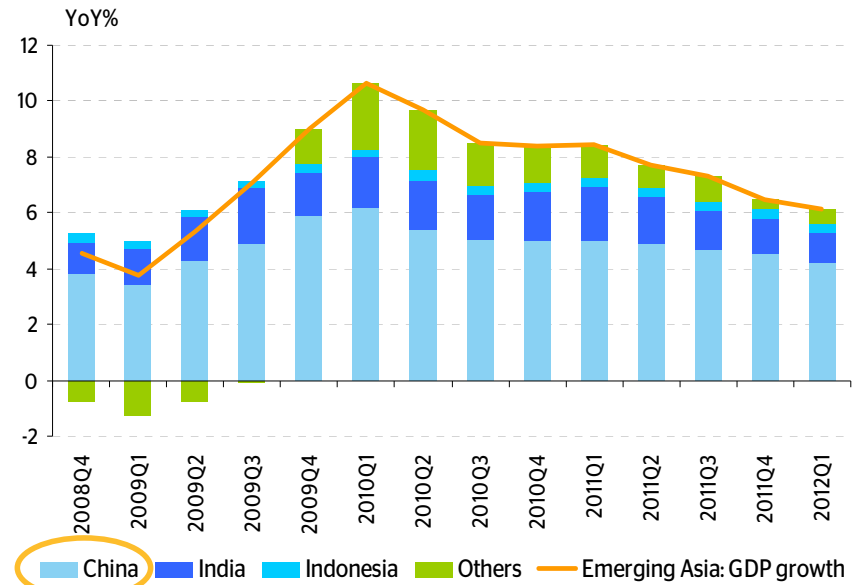
Source: CEIC and BBVA Research



\* LatAm: Arg, Bra, Chi, Col, Mex, Per, Ven

### ...but Asian growth remains relatively high

Source: CEIC and BBVA Research

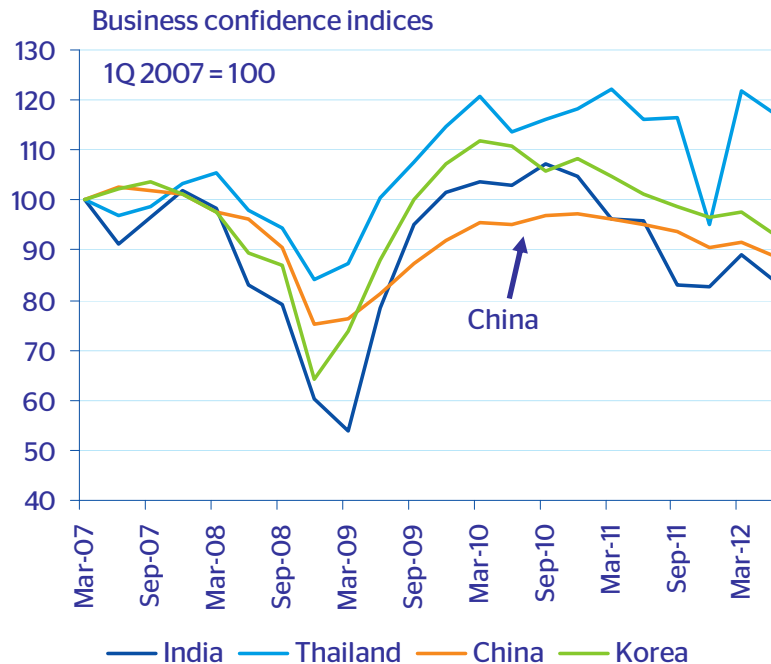


# Asia's resilience is the buzzword

- Exports have slowed substantially and the outlook remains uncertain, resulting in falling business confidence
- However, the fallout has been limited, as utilization ratios show that Asia continues to operate near pre-crisis levels

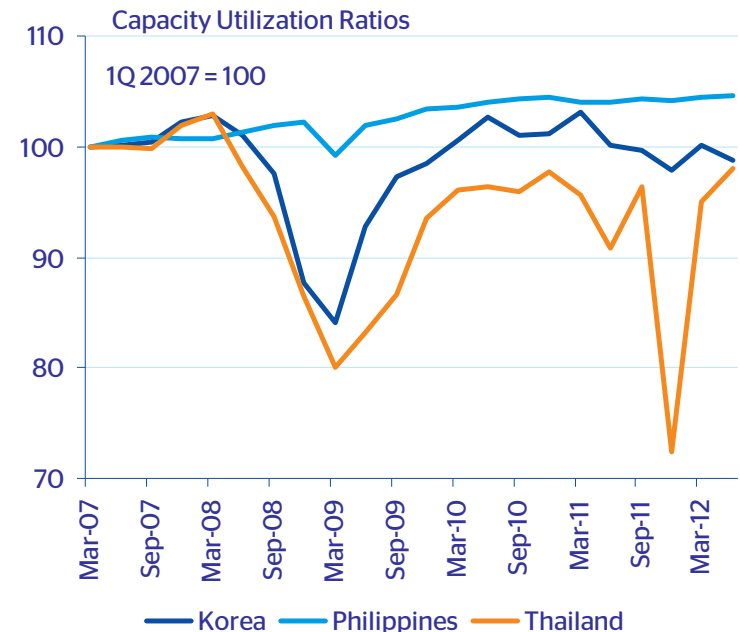
## Business confidence has been falling...

Source: CEIC and BBVA Research



## ...though capacity utilization ratios remain near 2007 'pre-crisis' levels

Source: CEIC and BBVA Research

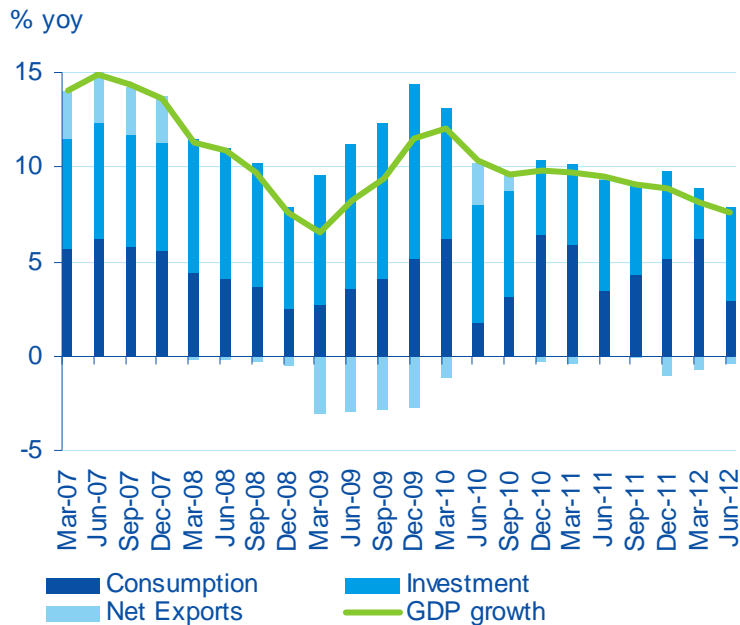


# China is slowing, but moderately!

- Q2 growth slowed to 7.6% y/y, below previous expectations
- The contribution of net exports has been negative, offset by strong domestic demand (investment)
- PMI and activity indicators have continued to weaken in Q3

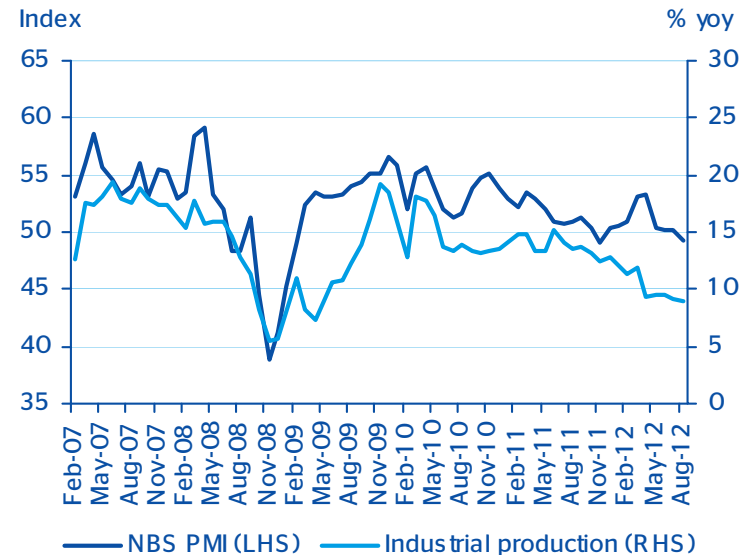
## Q2 GDP growth fell to a three-year low

Source: NBS, CEIC and BBVA Research estimates



## PMI and industrial production are continuing to weaken

Source: CEIC and BBVA Research

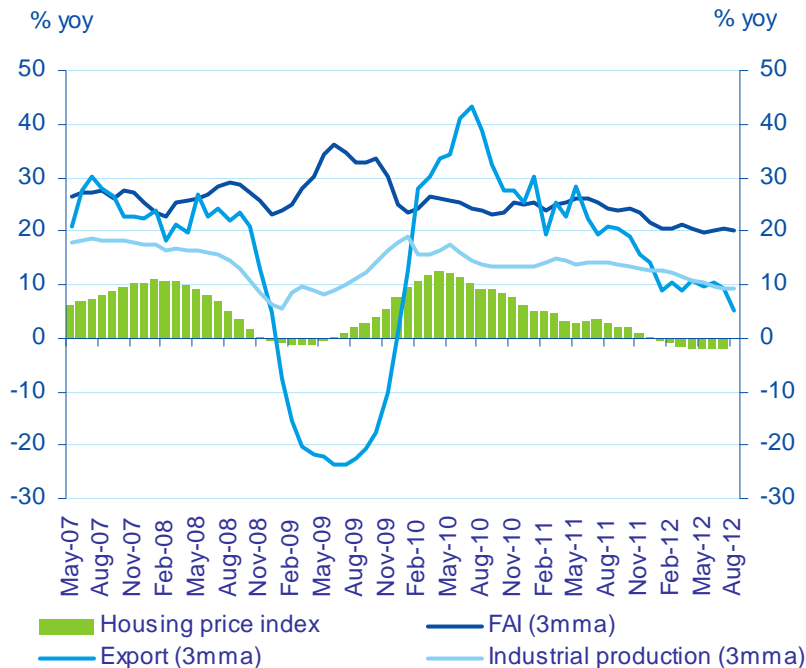


# China: risk of a hard landing

Near-term risks are being addressed through stimulus policies to counter weakening external demand, and through measures to prevent a buildup of domestic financial fragilities. Medium-term risks remain.

## Weakening economic indicators underscore downward risks to economy

Source: CEIC and BBVA Research



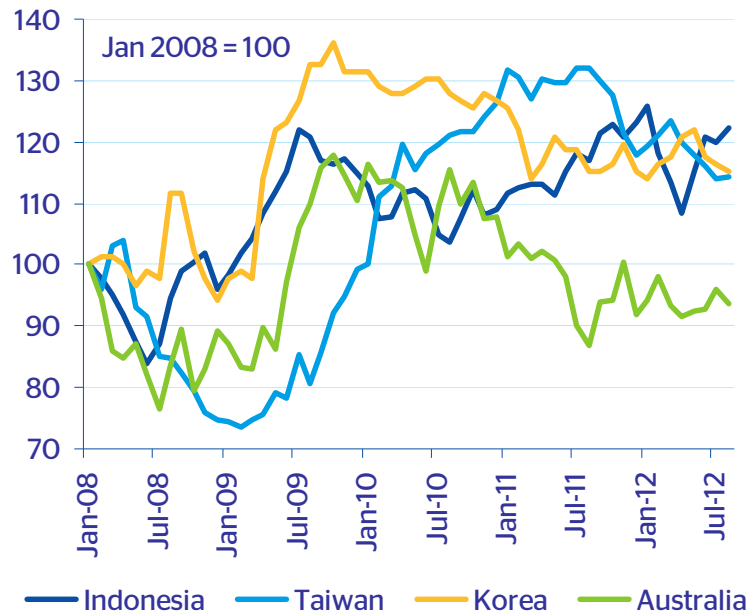
- Slowing export growth due to the deteriorating global environment (high risk)
- Falling housing prices that could constrain investment, although recent data show the market may have bottomed (low risk)
- Local government debt and the aftermath of rapid shadow bank lending could lead to a rise in NPLs; interest rate liberalization could undermine bank profits and lead to financial instability (moderate risks over the medium term)
- Leadership transition could generate political risk and additional uncertainty (low risk)

# Strong labor markets clearly help

- Consumer confidence has faltered as the crisis has continued
- But labor markets are still strong, helping to sustain domestic demand

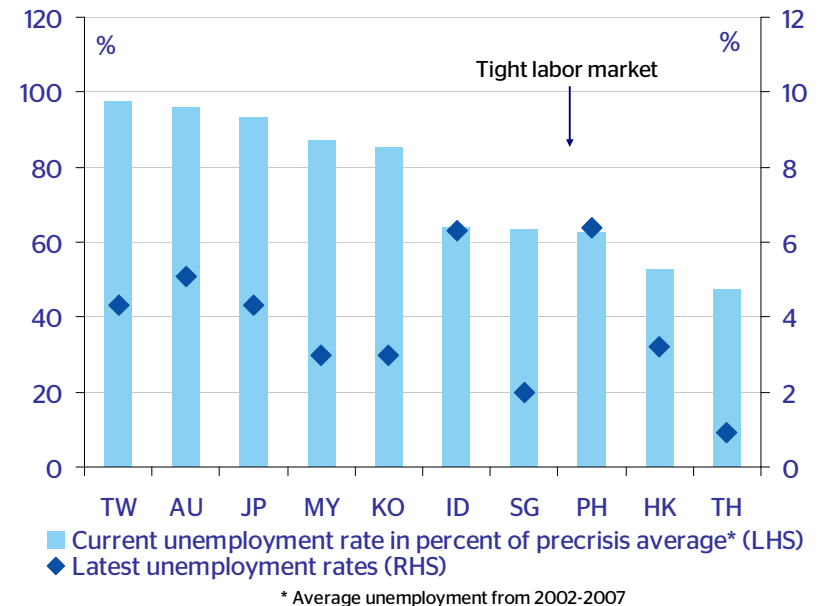
## Consumer confidence has faltered recently...

Source: CEIC and BBVA Research



## Though domestic labor markets remain robust

Source: CEIC and BBVA Research

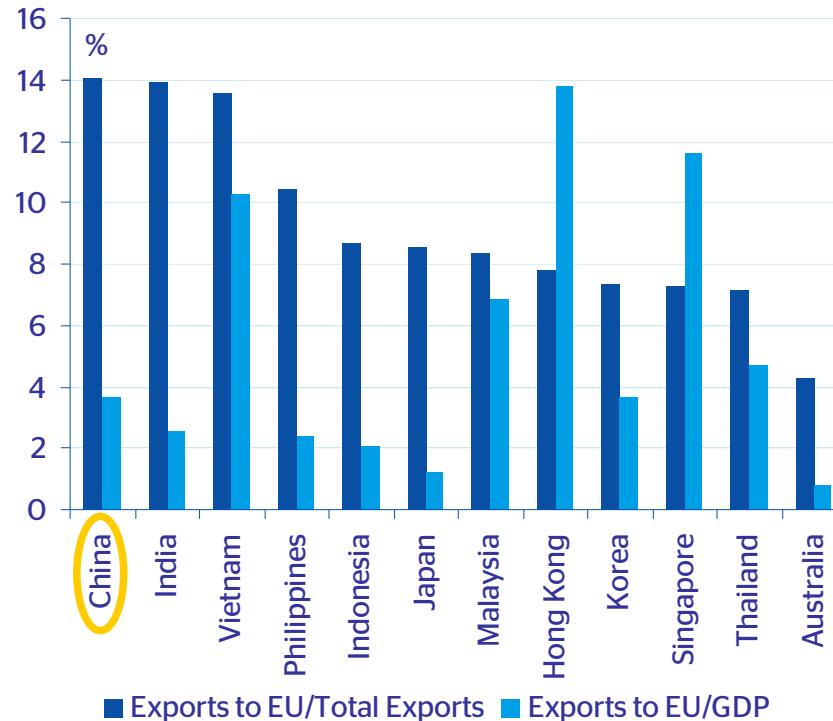


## Europe's impact on China and the rest of Asia: the trade channel

- Asia has a relatively large trade exposure to Europe, especially China, India, and Vietnam
- The crisis is causing authorities to focus on rebalancing their economies towards domestic growth

### China and India have the highest % of their total exports shipped to the EU

Source: IMF and BBVA Research



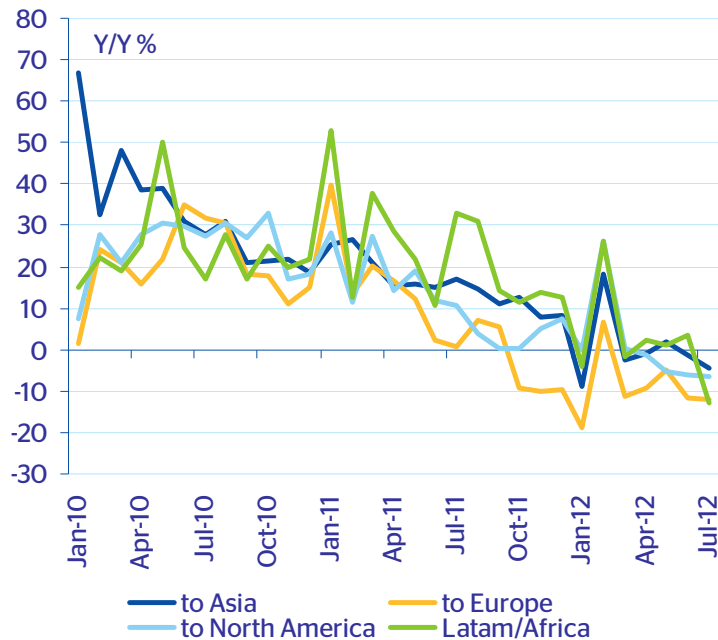


# What about exports?

- Demand from Europe has fallen sharply, but the weakness in external demand is now broad-based

## Exports\* to Europe and North America have been weak since the end of last summer

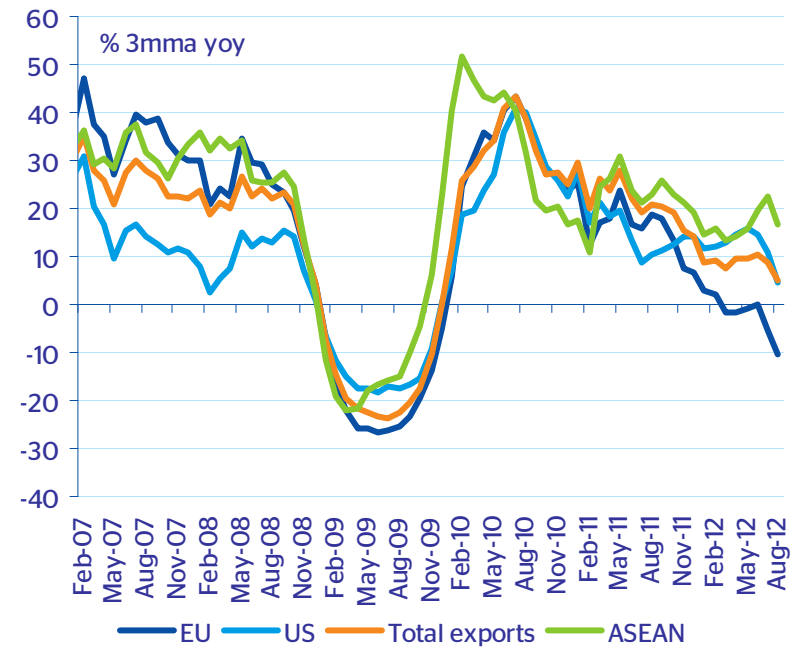
Source: CEIC and BBVA Research



\* Denotes exports from KO, TW, SG and HK

## China's exports to Europe have fallen sharply

Source: CEIC and BBVA Research

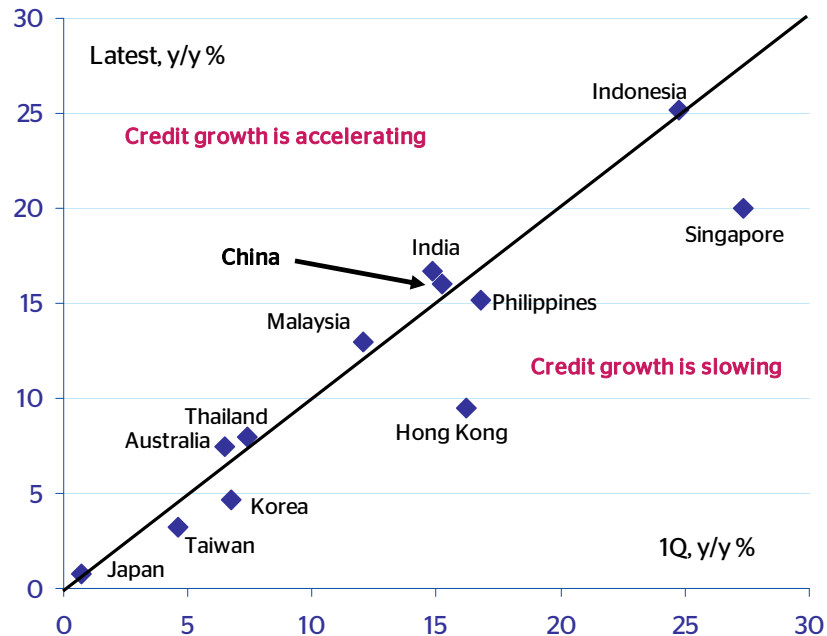


## Europe's impact on China and the rest of Asia: the financial channel

- Strong liquidity and well-capitalized banking systems are enabling regional lenders to offset European bank deleveraging
- The impact of the European crisis through financial channels is very limited

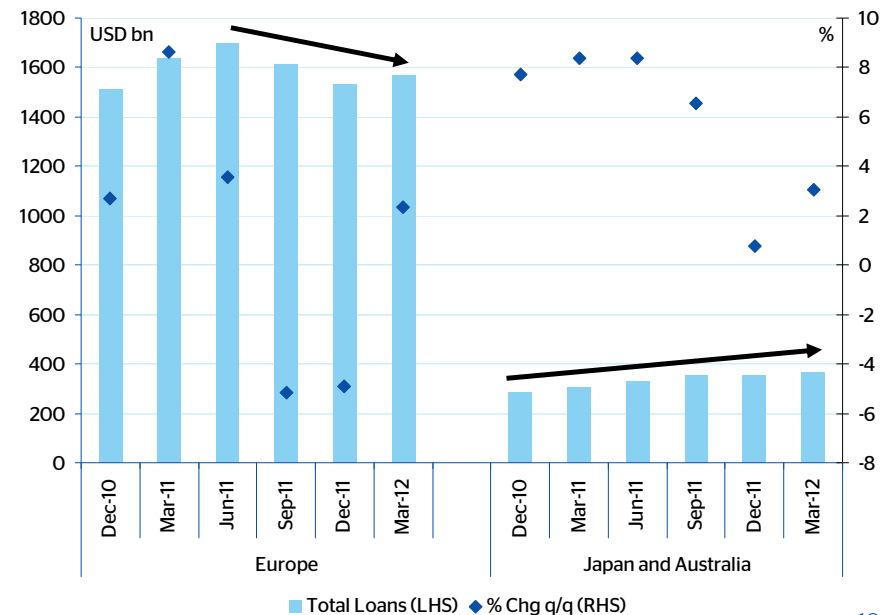
### Credit growth in Asia has remained strong despite the European crisis...

Source: CEIC and BBVA Research



### ...and local banks are filling the gap from European bank deleveraging

Source: CEIC and BBVA Research

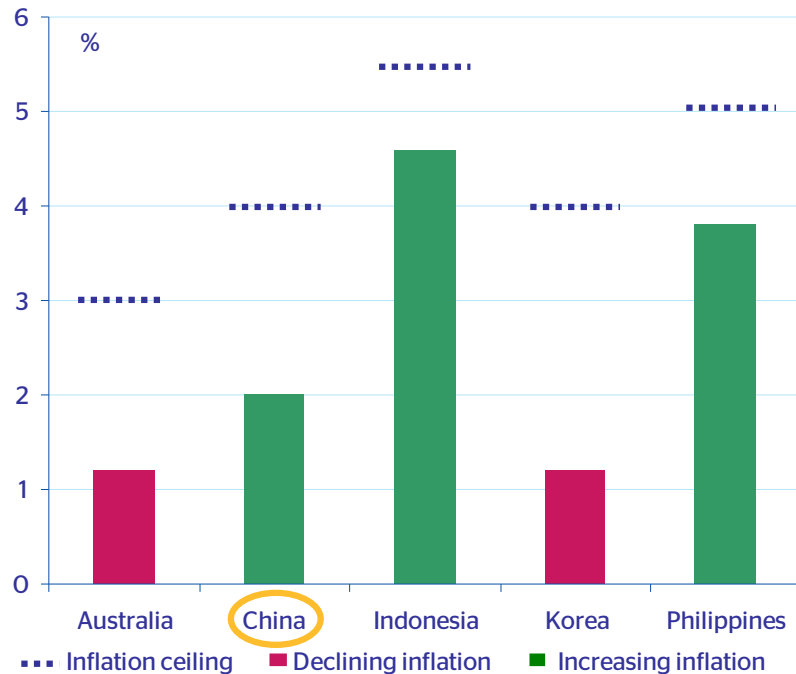


## Falling inflation enables policy easing, in China and elsewhere

- Inflation has fallen due to weak global demand
- Further fiscal and monetary policy support may be needed to re-ignite growth momentum
- QE3 may boost capital inflows and lead to higher asset prices

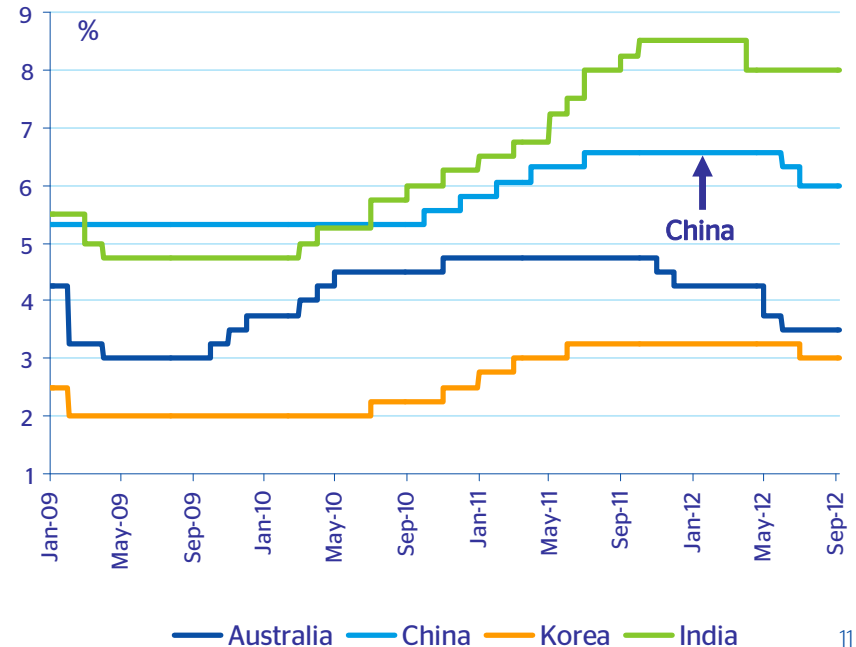
### Inflation remains below official ceilings...

Source: CEIC and BBVA Research



### ...leaving policymakers with room for further interest rates cuts

Source: CEIC and BBVA Research



## Risks to the downside notwithstanding the FED & ECB

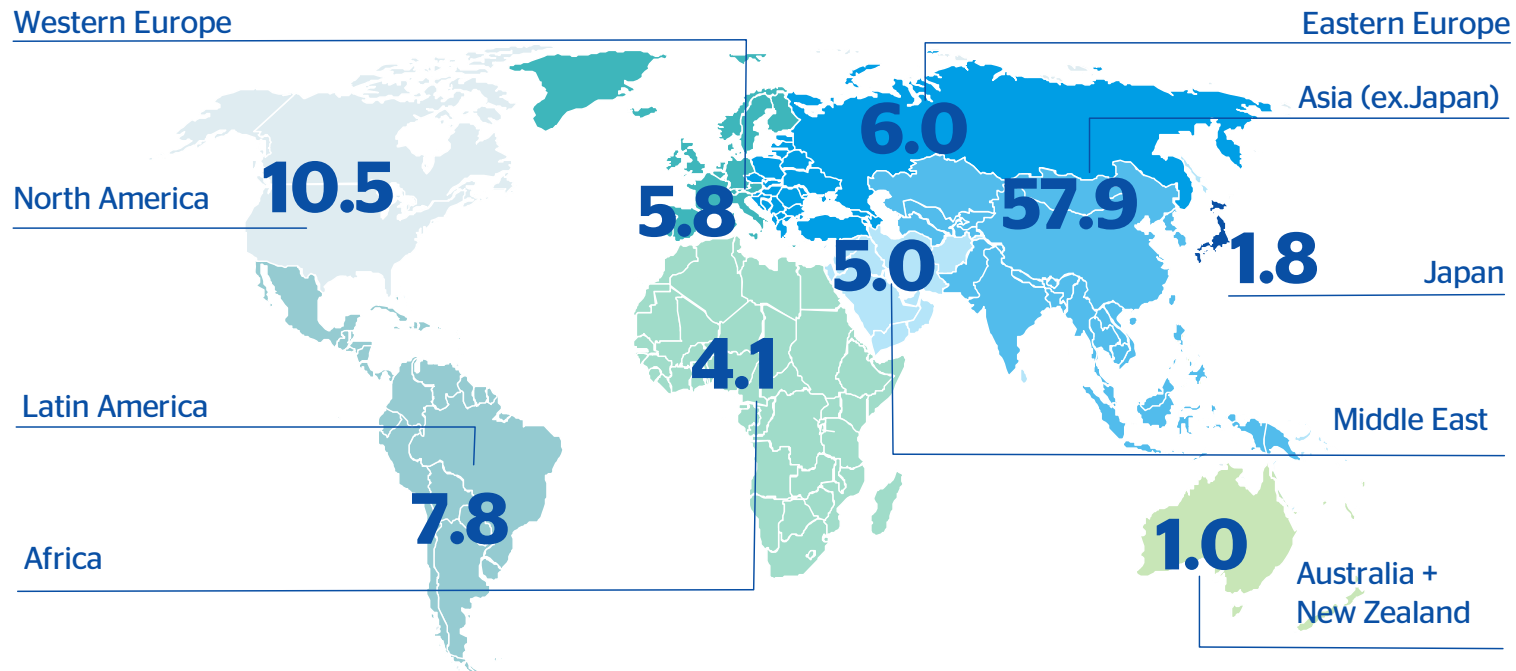
- Primary risks:
  - Ongoing difficulties in the external environment
  - Possibility of a hard-landing in China
  - Increased borrowing costs due to bank deleveraging
  - Geopolitical risks, including in the Middle East (and North Korea, though lower now)
- On the domestic side, spillovers from weak exports
- Country-specific risks:
  - India's lagging reform agenda
  - Japan's high public debt level
  - Leadership change in China
  - Presidential election in Korea (December)

## No matter how big the abyss, everything is relative: this century will be Asia-centric

- Emerging Asian economies to contribute 58% to global growth in next 10 years
- China is the largest contributor at 34% of global growth followed by India at 12%
- 5 of the 9 EAGLE economies are located in Asia

### Contribution to global economic growth by region, 2011-2021 (%)

Source: BBVA Research and IMF WEO



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