

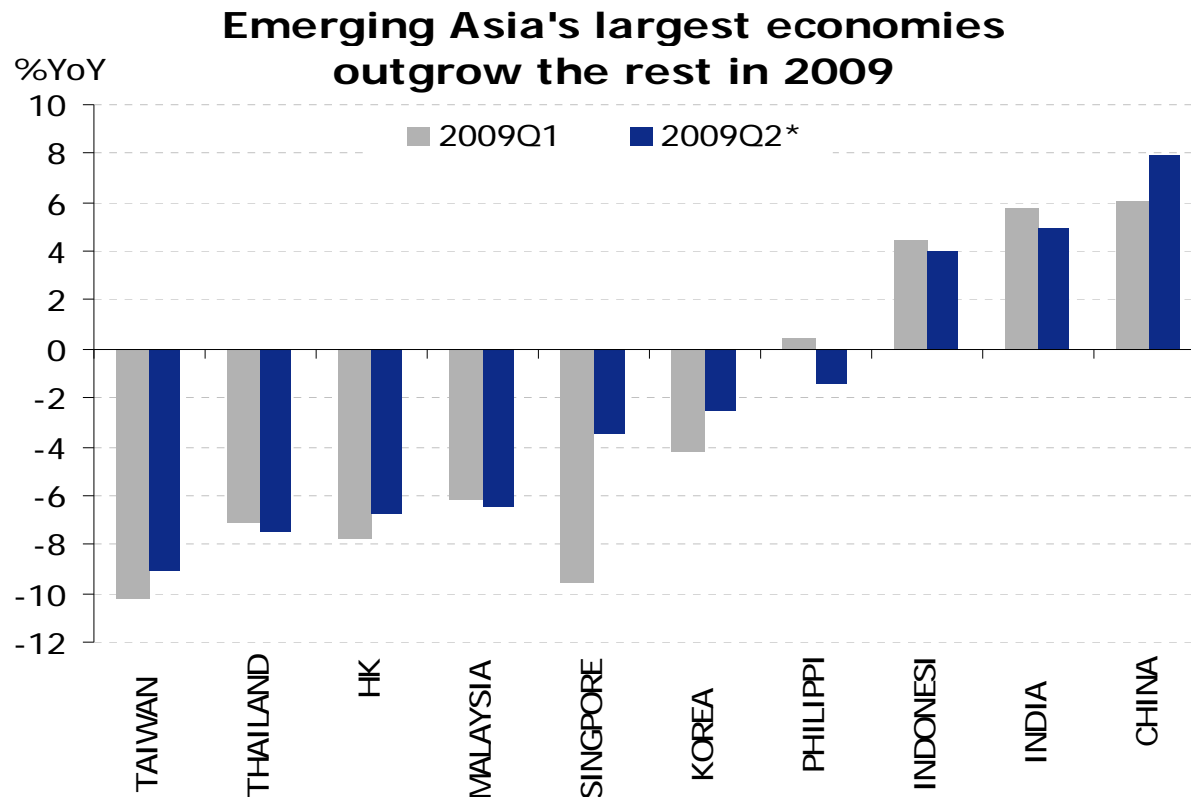
FROM WHERE WILL THE RECOVERY COME?

FROM ASIA, NO DOUBT!

Alicia Garcia-Herrero

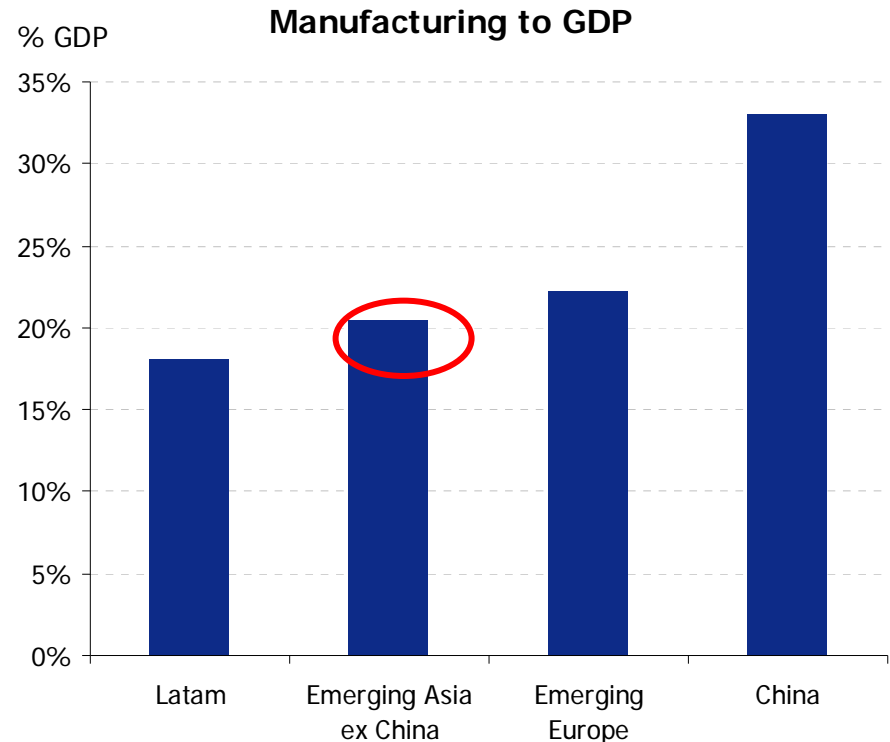
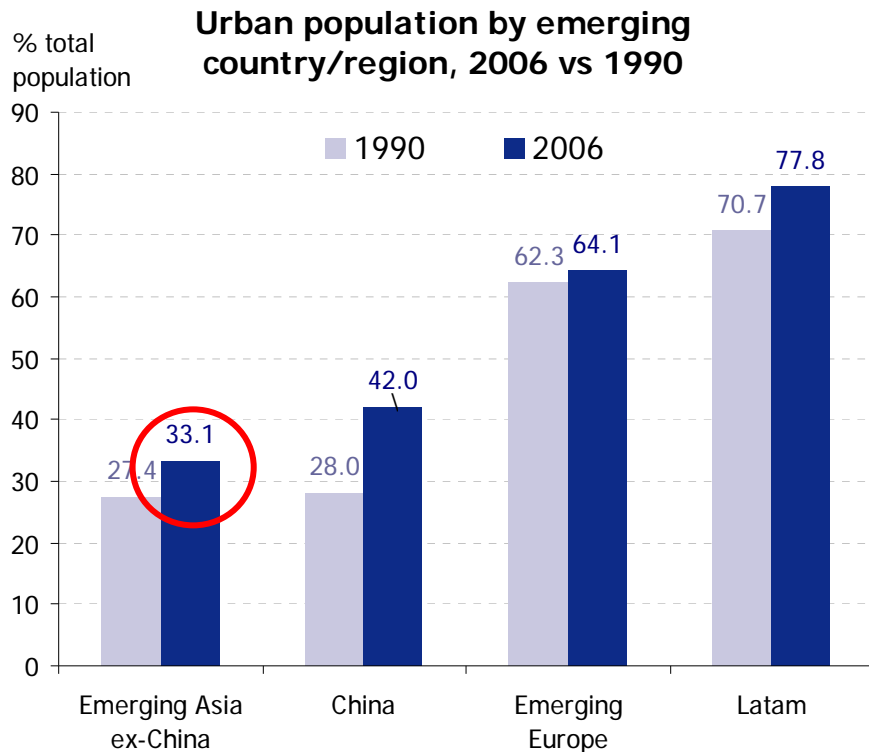
Chief Economist for Emerging Markets, BBVA HK

- In the aftermath of the crisis, Emerging Asia continues to have highest potential growth nearly 7% (only 2% in the developed world)
- Even more true for the largest economies less dependent on external demand



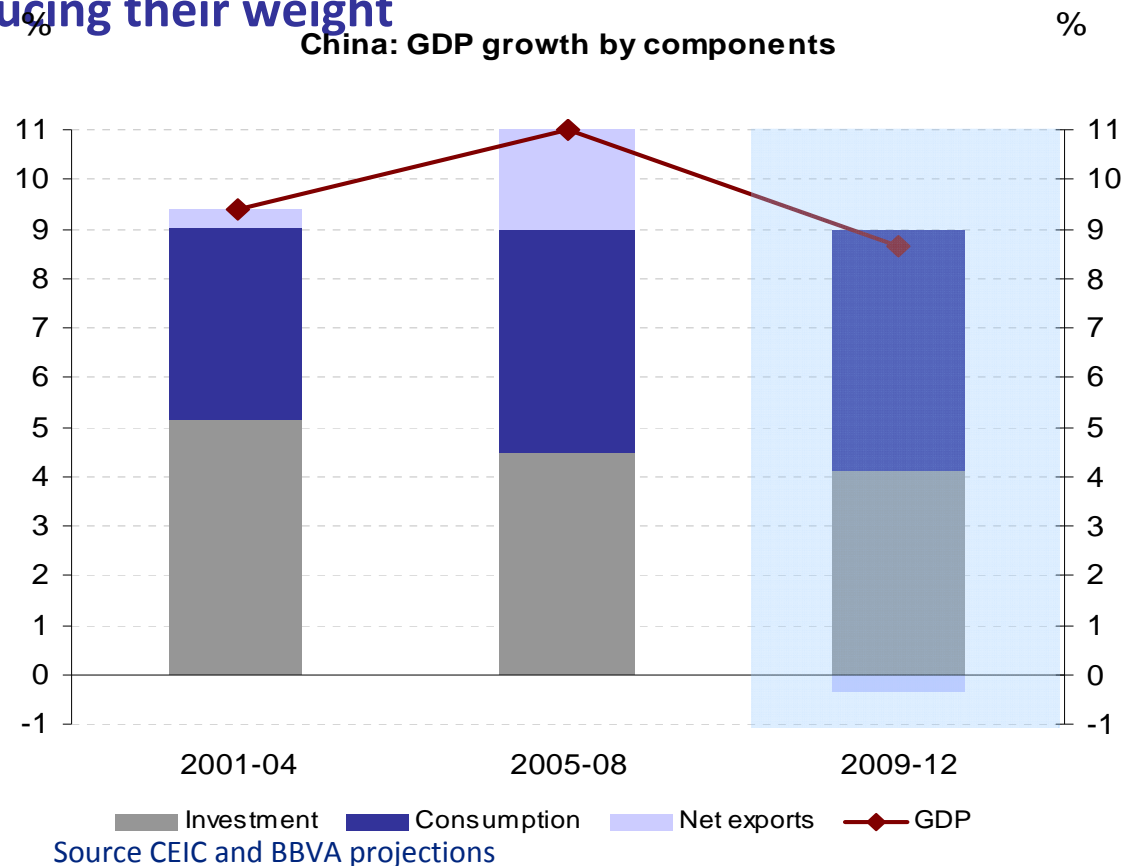
ENGINE FOR REST OF EMERGING ASIA WILL BE INVESTMENT, HOPEFULLY PRIVATE

- Urbanization still embryonic in rest of Emerging Asia, even compared with China
- Also manufacturing has a long way to go. Both processes need massive amounts of investment, particularly in infrastructure



FOR CHINA IT WILL BE PRIVATE CONSUMPTION, FINALLY!

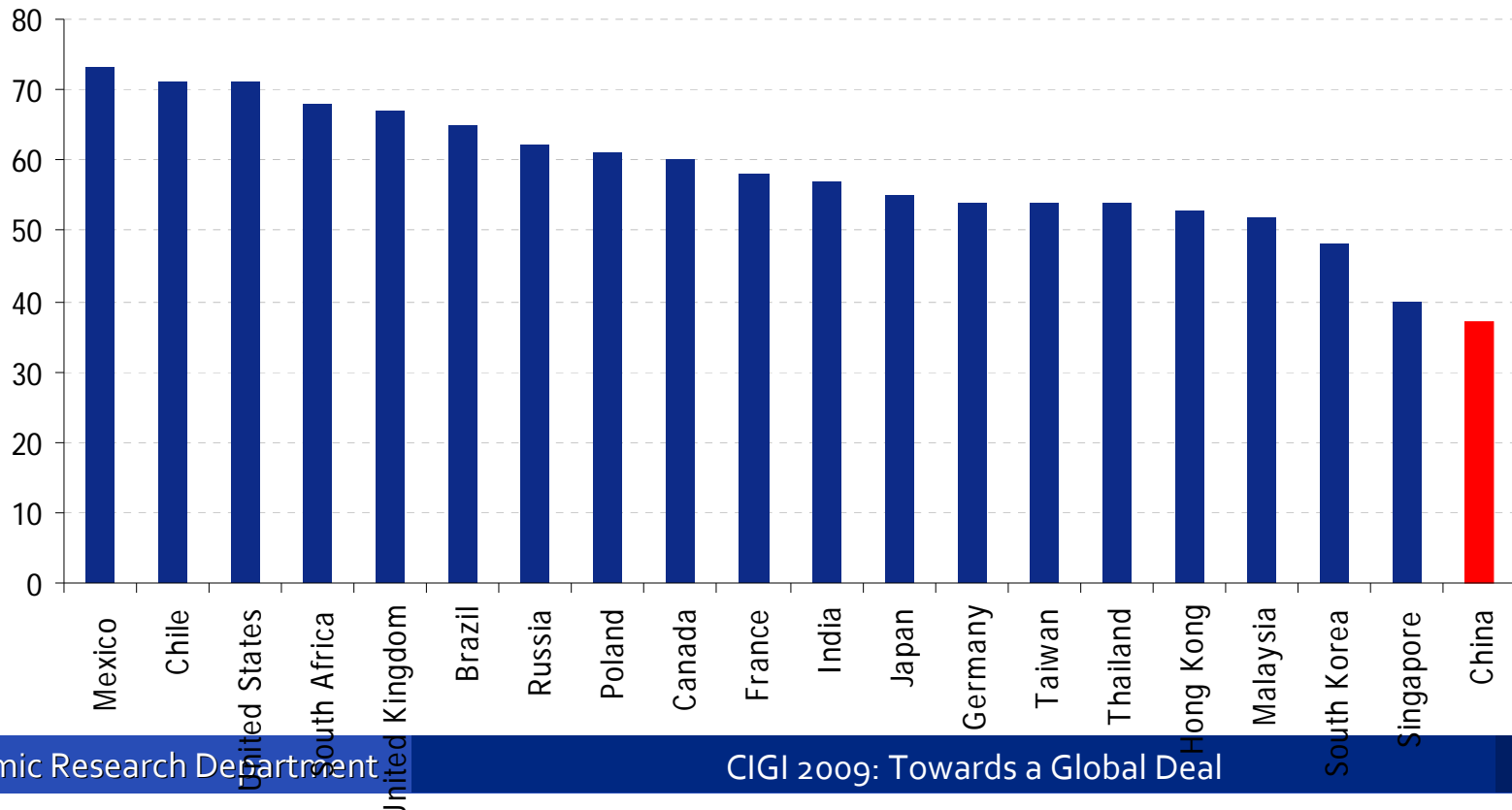
The share of Chinese private consumption to GDP should reach at least 40% in less than 10 years (from the current 35%). Investment and, even more so, net exports will start reducing their weight



1. VERY LOW STARTING POINT

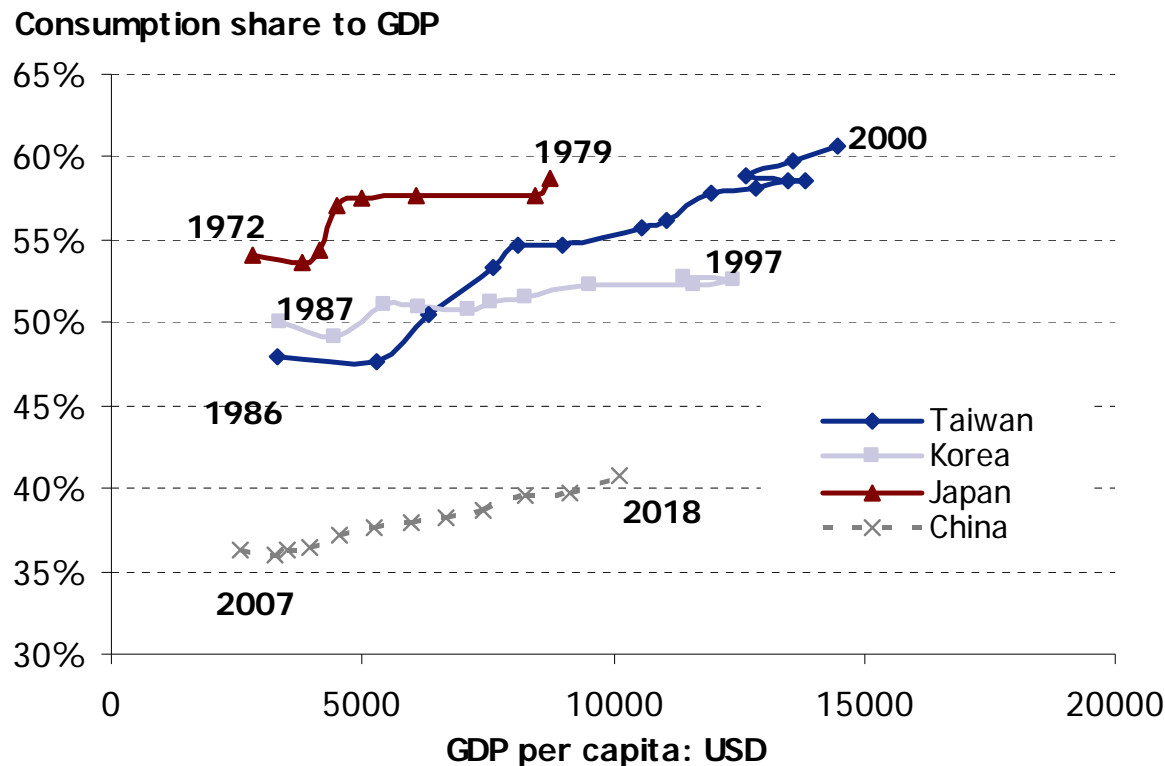
Even after private consumption increases to 40% as we expect, it would still be much lower than most emerging economies

Private Consumption as a share of GDP, 2008 (%)



2. SIMILAR EXPERIENCE IN OTHER ASIAN COUNTRIES

When Korea, Japan and Taiwan reached an income per capita of about 3.500 USD per year (close to China's today), private consumption grew faster.

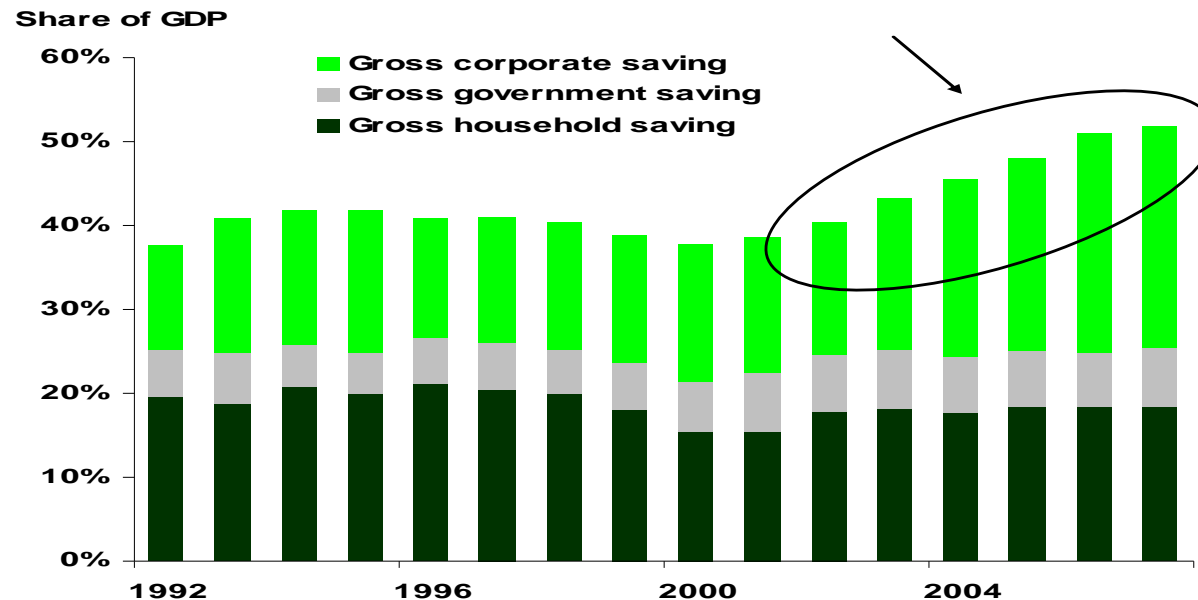


3. CHINESE HOUSEHOLDS WILL NEED TO SAVE LESS SO AS TO CONSUME MORE

- To lower precautionary savings two different sets of actions are being taken:
 1. On the social front, a social safety net is on the making:
 - On health, medical insurance will be provided for 90% of the population over the next three years (using 1/5 of fiscal package).
 - On retirement: the three-pillar pension system has been designed in urban areas and a plan now is being worked out to provide pensions for rural residents
 - On education, plans are being developed to make education financially more accessible to all students
 2. On the housing front, affordable housing is key in current fiscal package
 - Very large down payment and very limited supply of affordable housing is also behind large savings

4. EXCESSIVE CORPORATE SAVINGS WHICH WILL NEED TO BE REDUCED

- The process has already started since SOEs are now obliged to distribute 10% of their savings as dividends to the government.
- Such dividends should be an important source of financing for the government to build up its safety net and promote private consumption



Note: Saving ratio=(net profit-dividend)/Net profit, from 2001 to 2008.

Of course good news but with a very heterogeneous impact

CLEAR BENEFIT FOR

- Commodity exporters
- Exporters of luxury brands (specially if China dismantles its large tariffs)

MUCH LESS OF A BENEFIT THAN BEFORE FOR

- Rest of Asia since China will import less to re-export
- Major exporters of machinery (such as Germany) due to China's increasing import substitution (protectionism but also more value added in production)