

Supercycle Subdued?

Kati Suominen

UCLA
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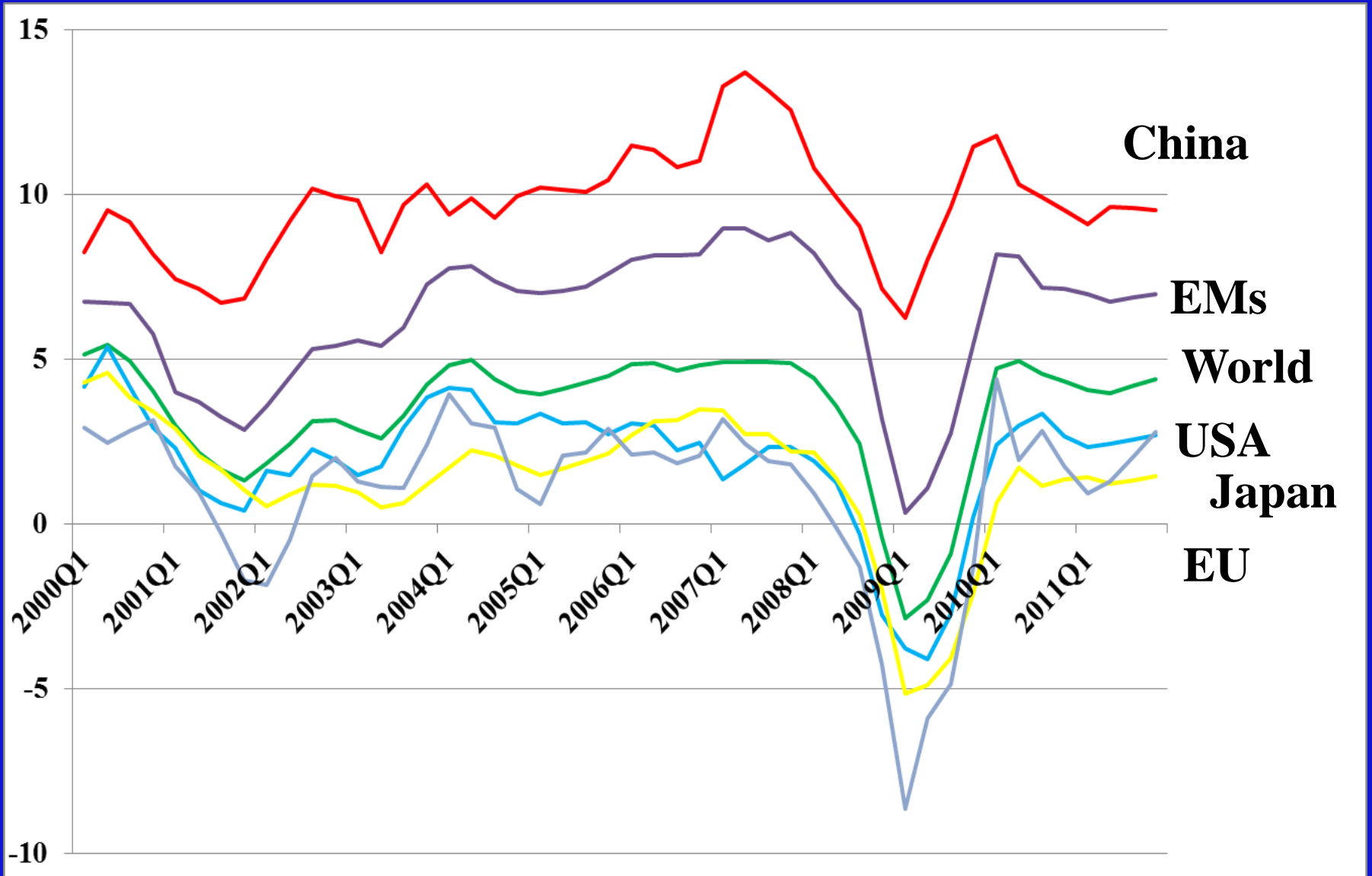
Organization

I. Good News

II. Features of Post-Crisis World Economy

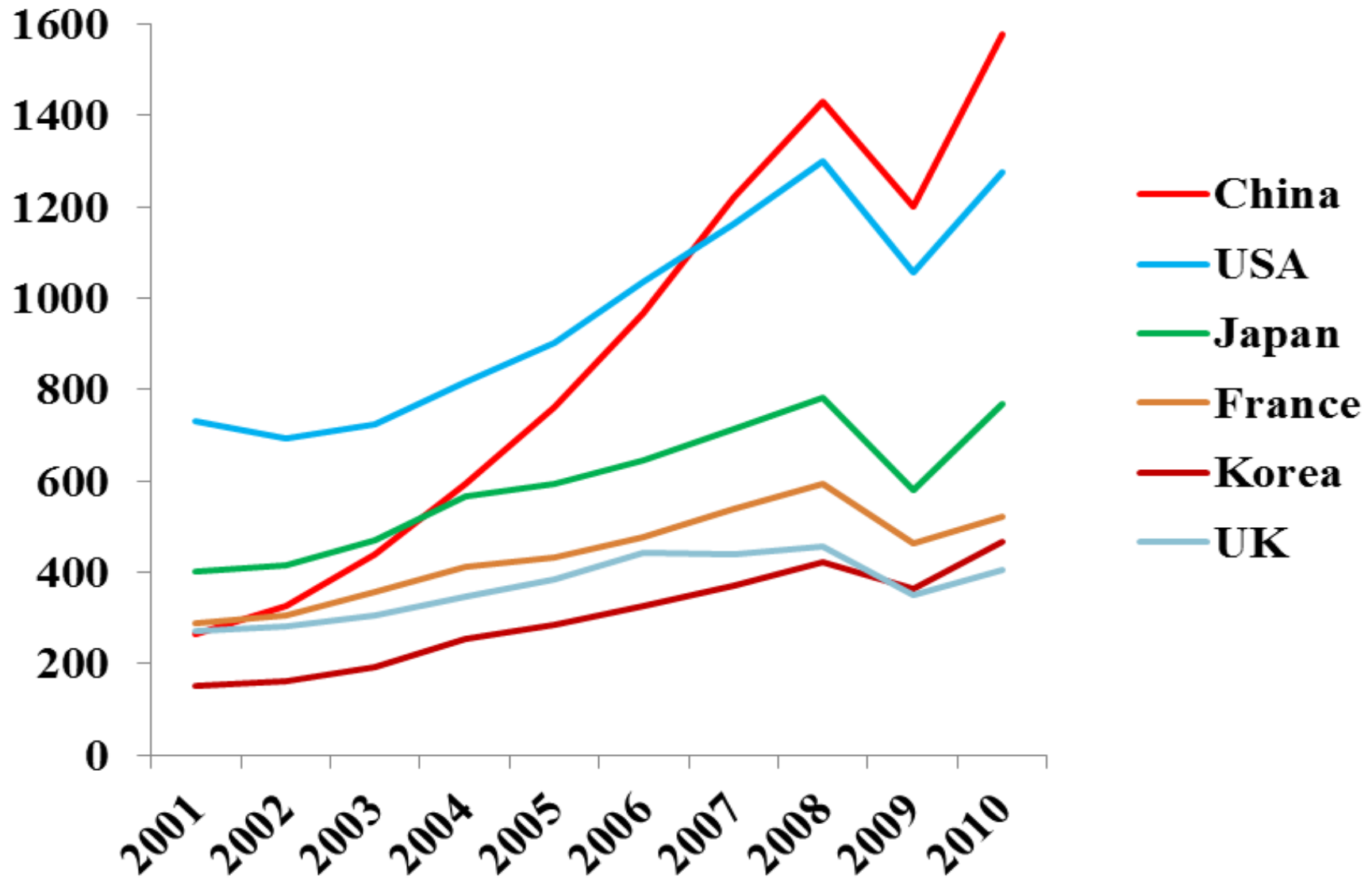
III. The Risks

Growth is Back



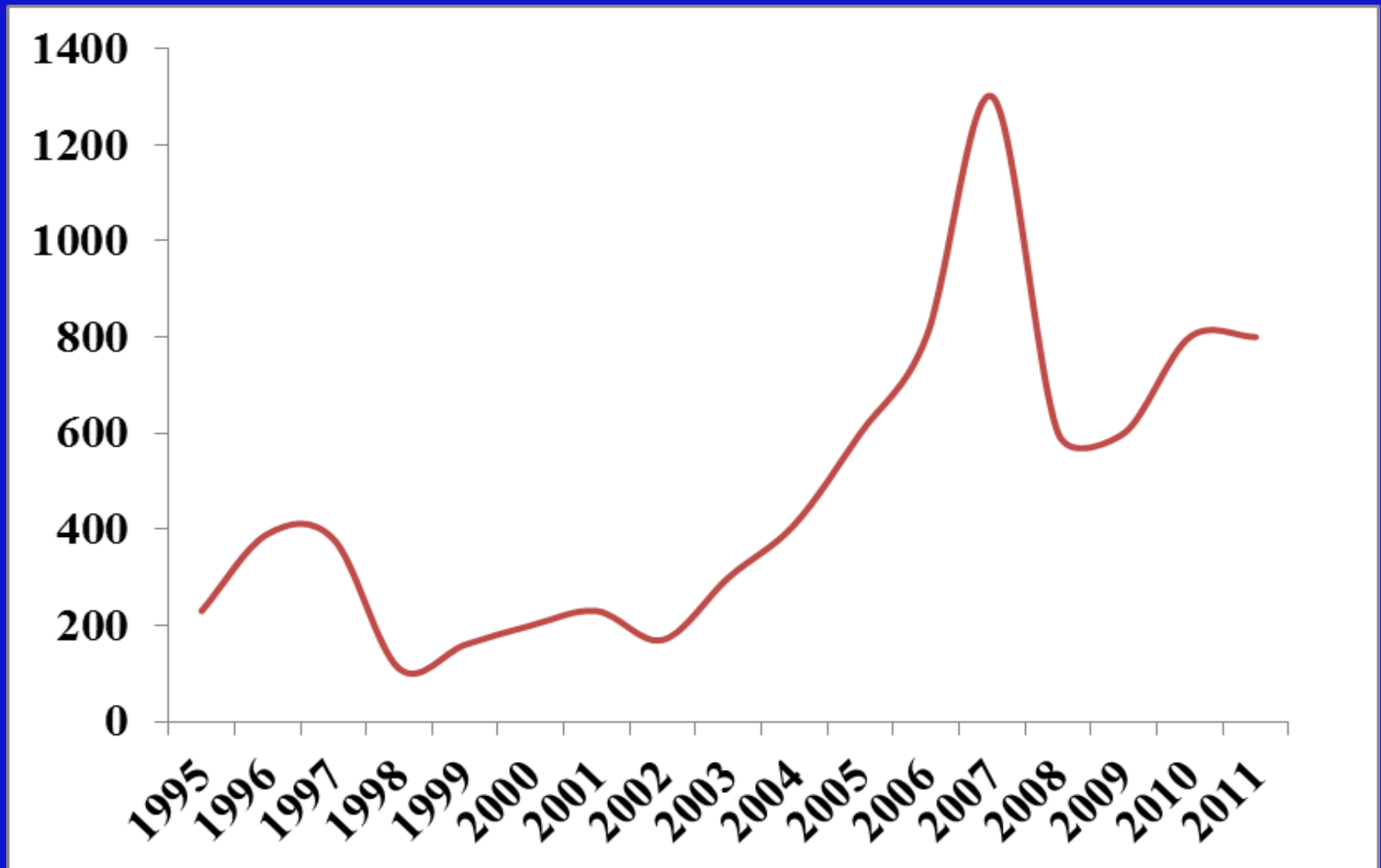
Global Trade Rebounds

Exports to the World, in billions US\$



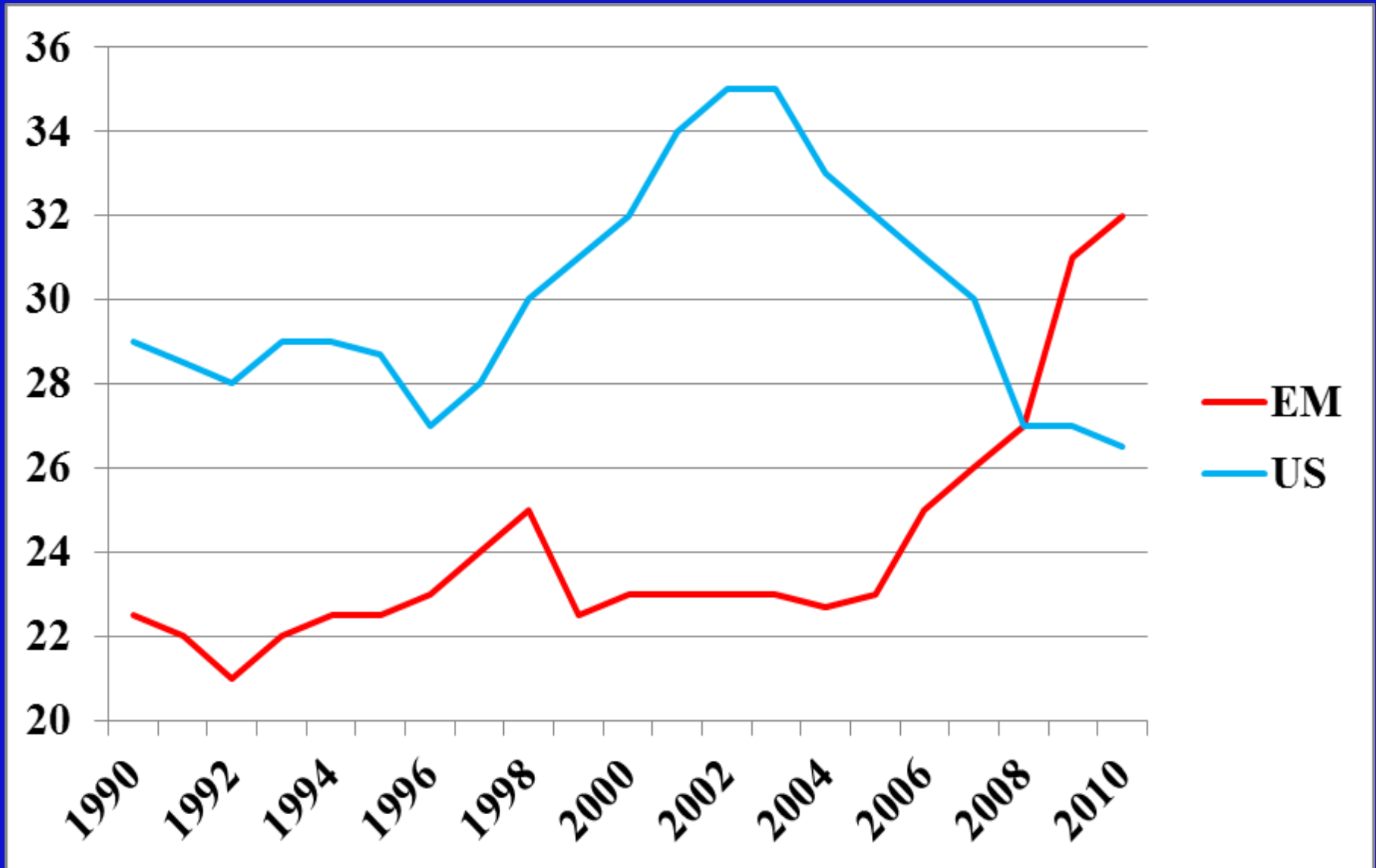
Portfolio Flows to EMs Recover

Net private capital flows to emerging markets, 1995-2011

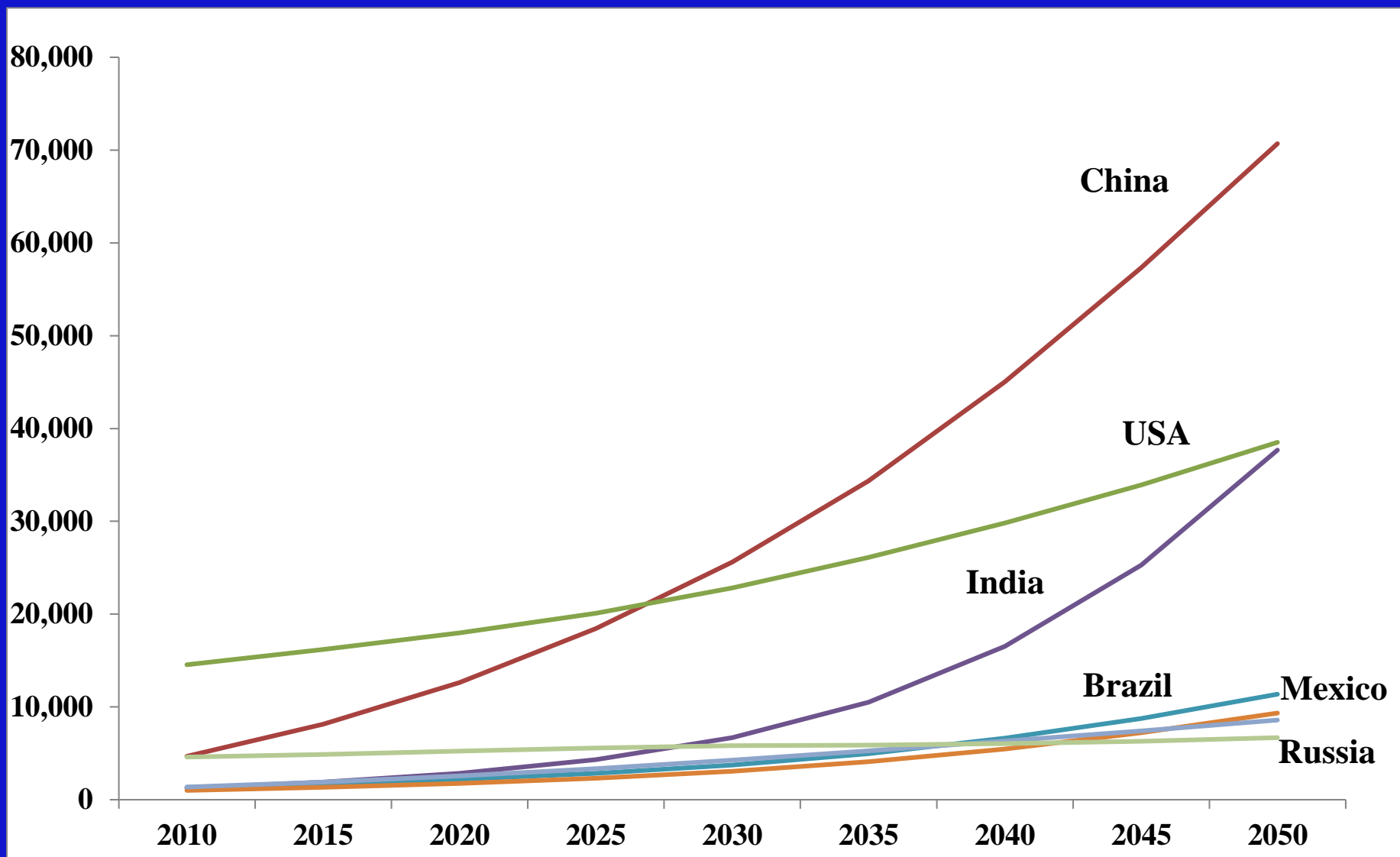


Next Supercycle = great for US business!

% of Global Consumer Spending



*EMs 50% of world GDP by 2017;
Global GDP 5X: \$62T → \$308T in 2030!*

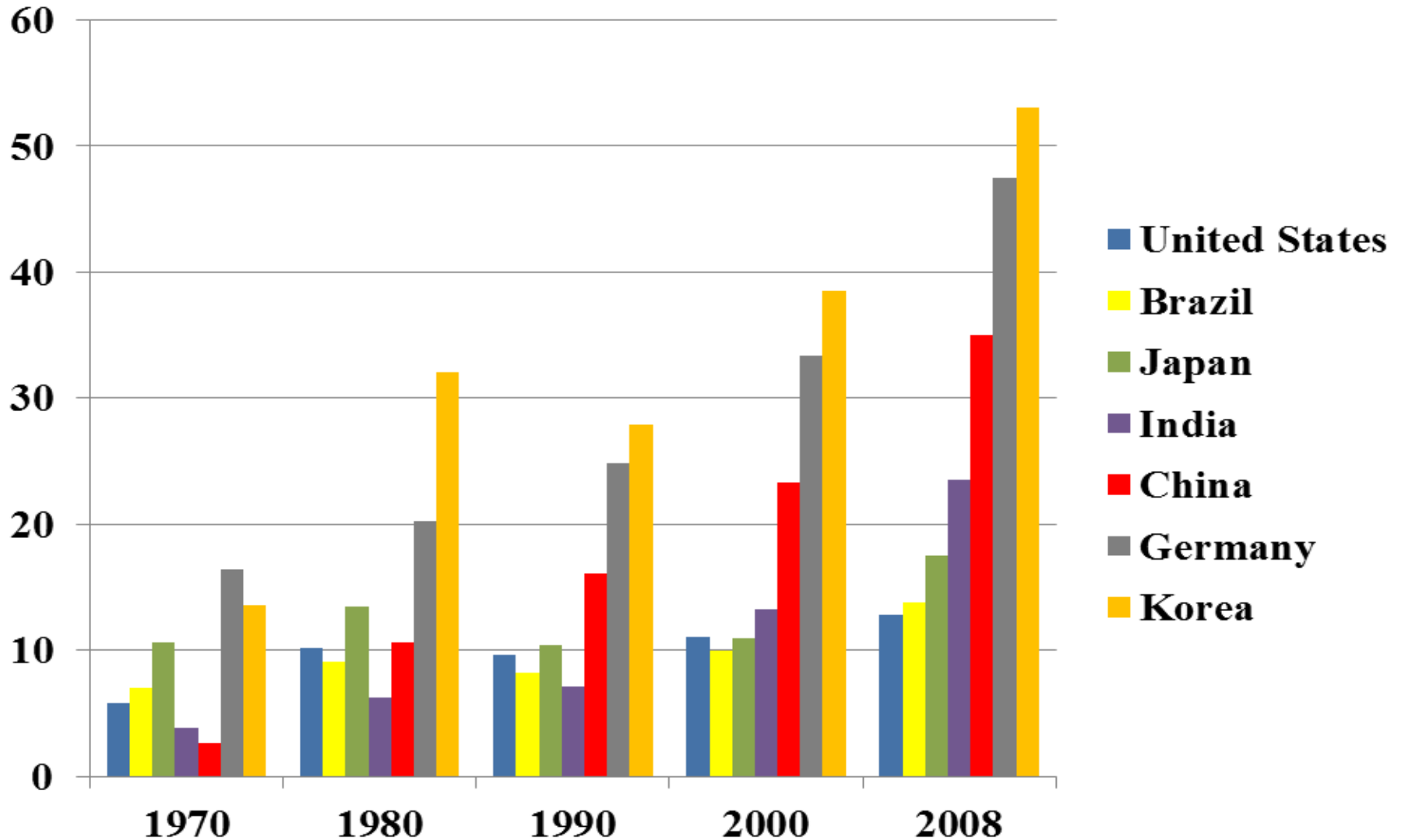


What Kind of Supercycle?

- Integrated: all countries more dependent on world economy
- Coupled: EMs rise and fall with advanced economies
- Imbalanced: Asians export, we import

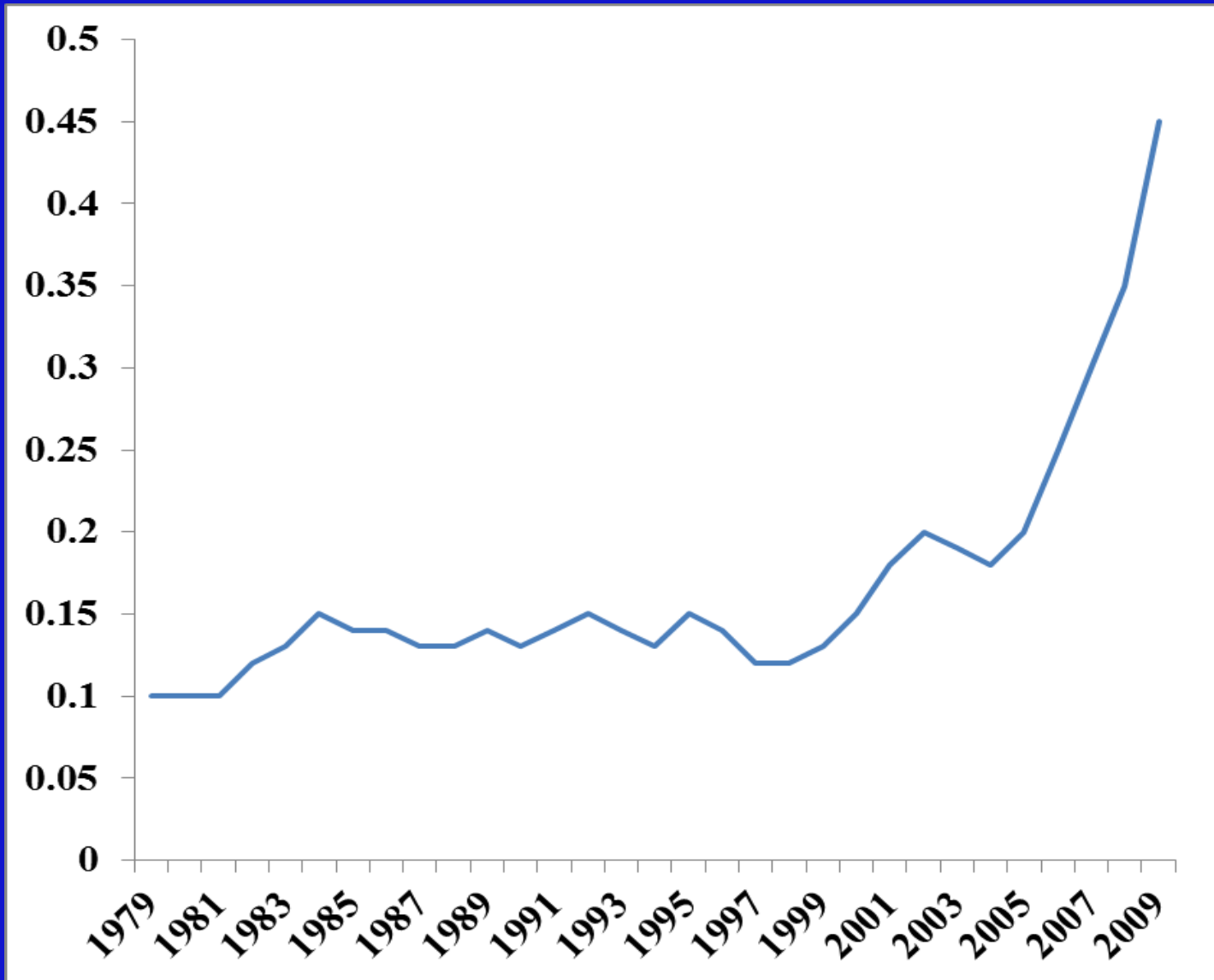
Tightening Global Integration

Exports as % of National GDPs

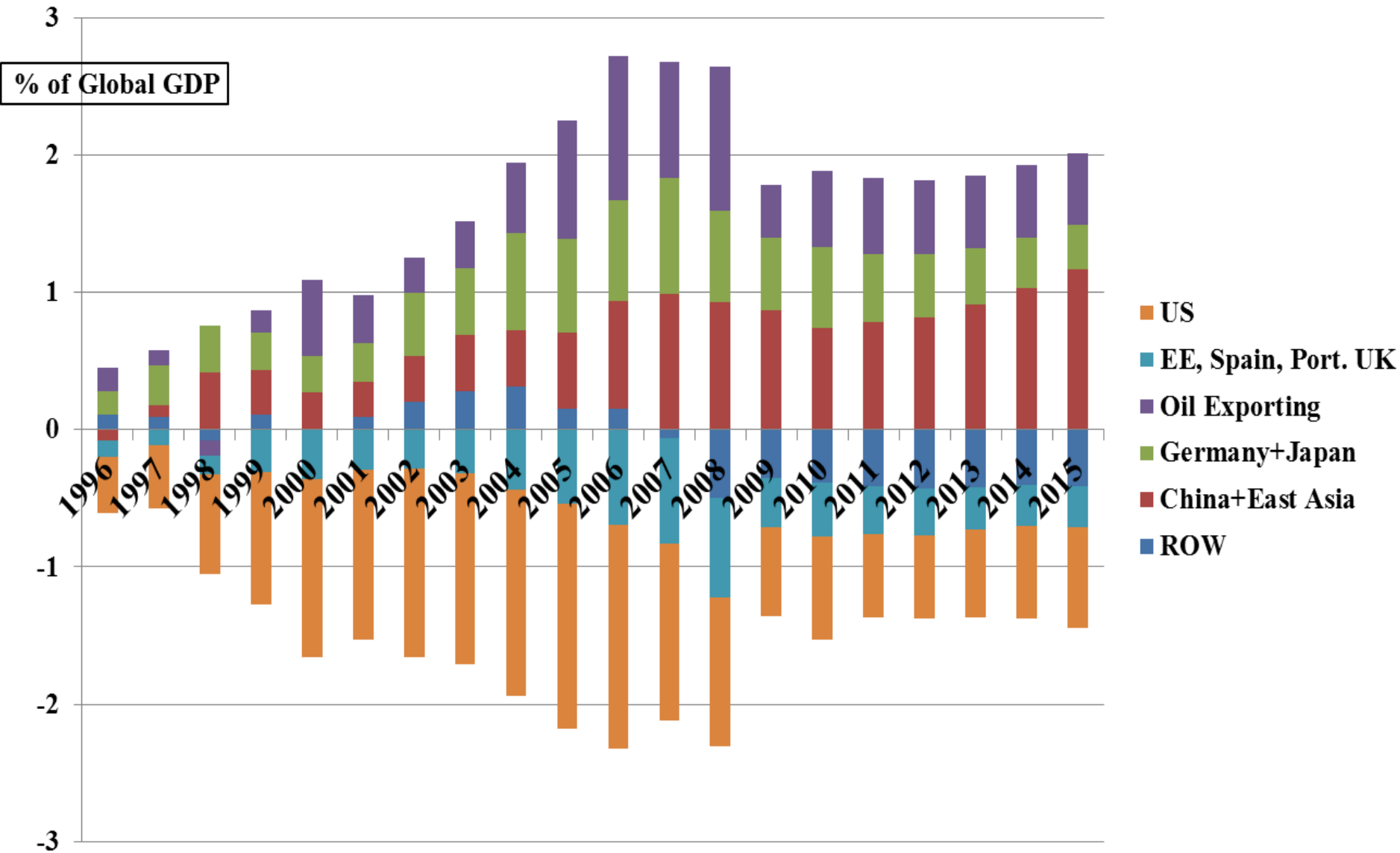


Mirage of “Decoupling”

Correlation of Advanced Economy and EM Output



Imbalances Rebound



Supercycle Risks

- “Wealth Management” in Emerging Markets
- Global Contests
 - Race for resources
 - Scramble for consumers
 - Battle for power
- Inward-Looking America

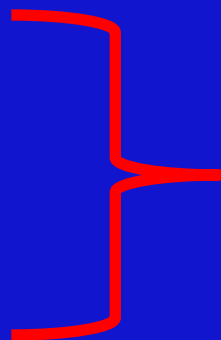
BRICs Poor in Governance

Ease of Doing Business

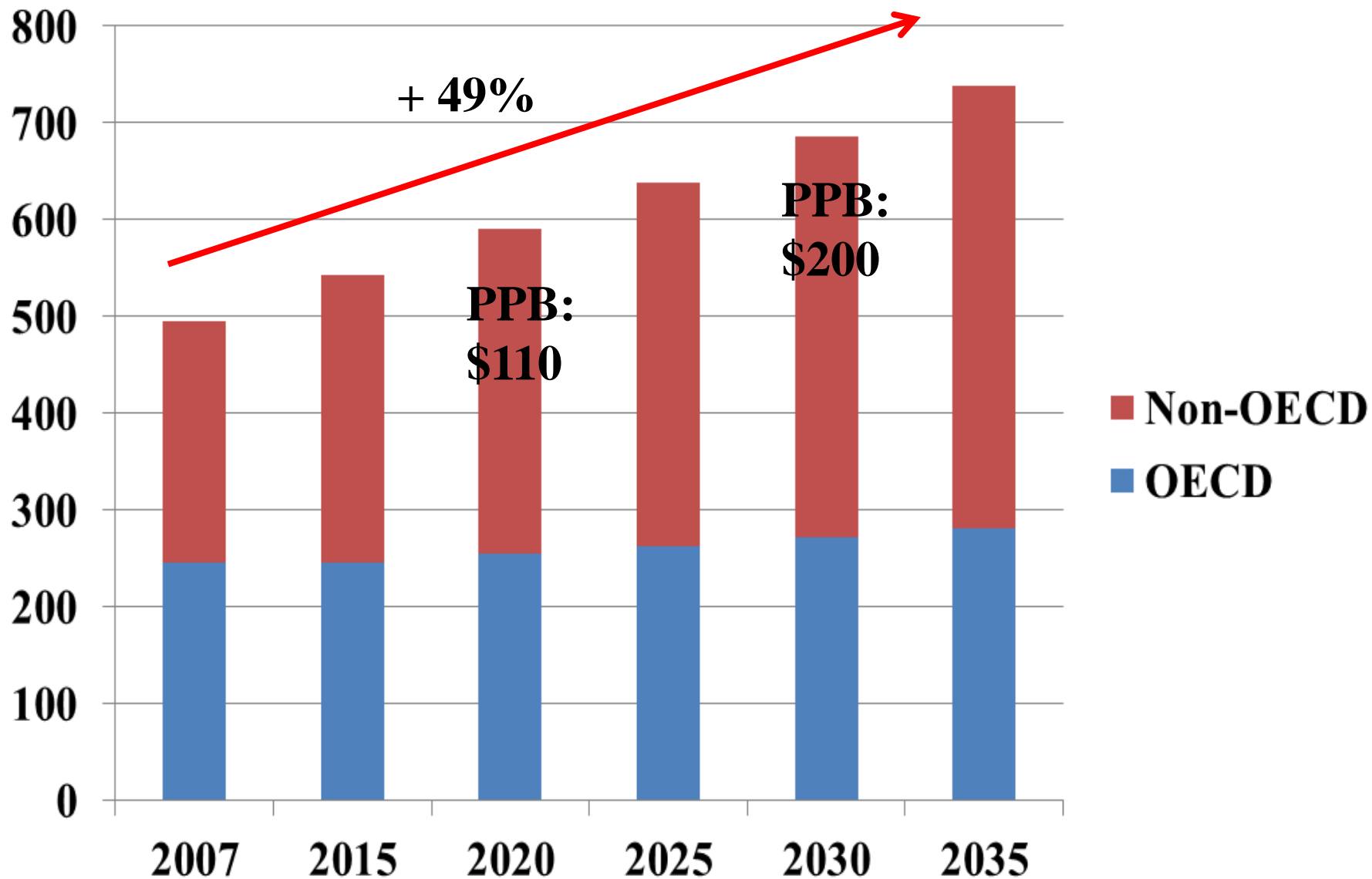
Singapore	1
Hong Kong	2
New Zealand	3
UK	4
USA	5
Korea	16
Japan	18
Germany	22
Mexico	35
Peru	36
China	79
Italy	80
Russia	123
Brazil	127
India	134
Nigeria	137
Chad	183

Regulatory Quality

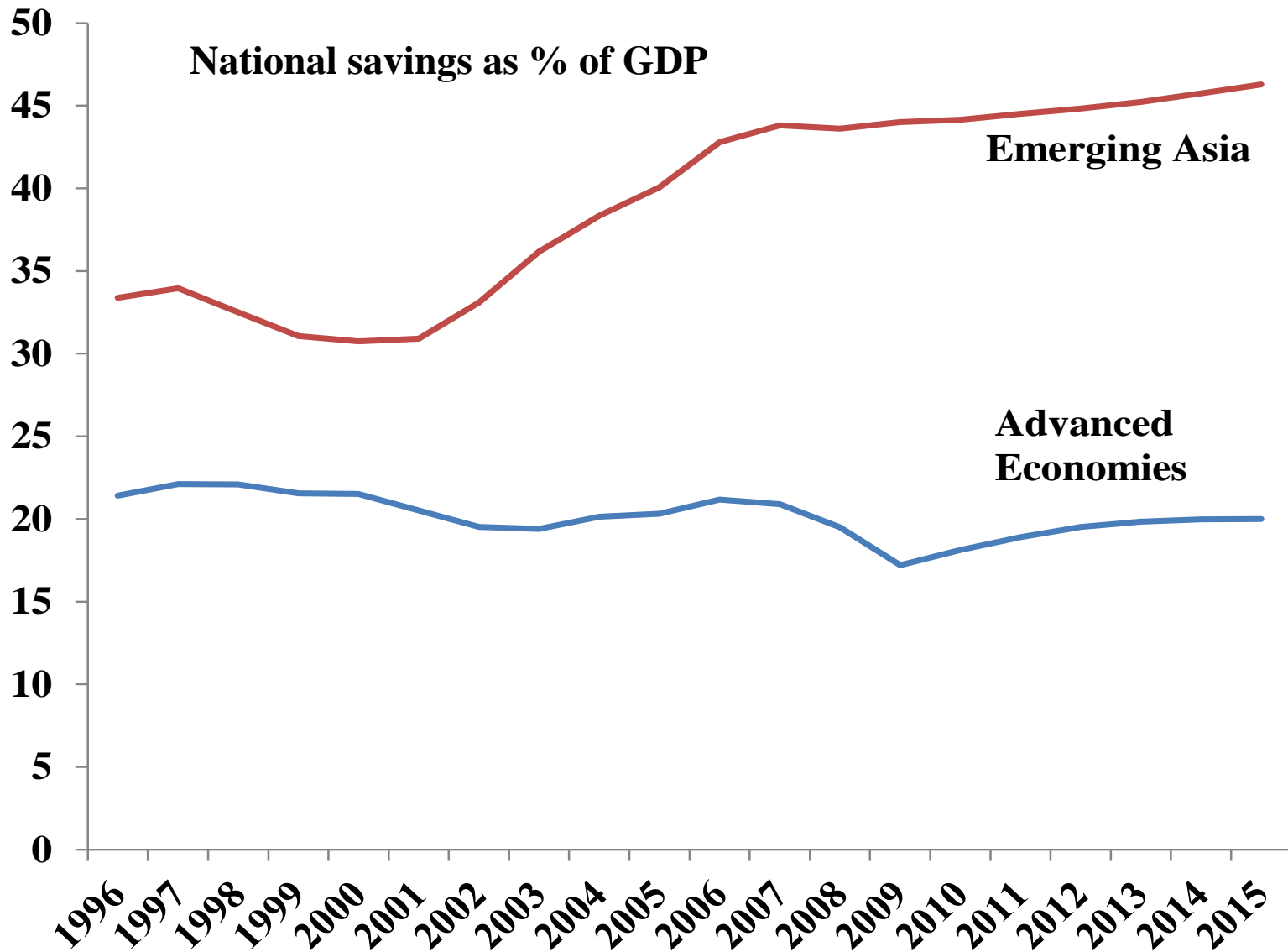
Singapore	1
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UK	13
Germany	17
USA	23
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Italy	48
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Peru	77
Mexico	83
Brazil	95
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India	118
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Nigeria	157
Chad	178



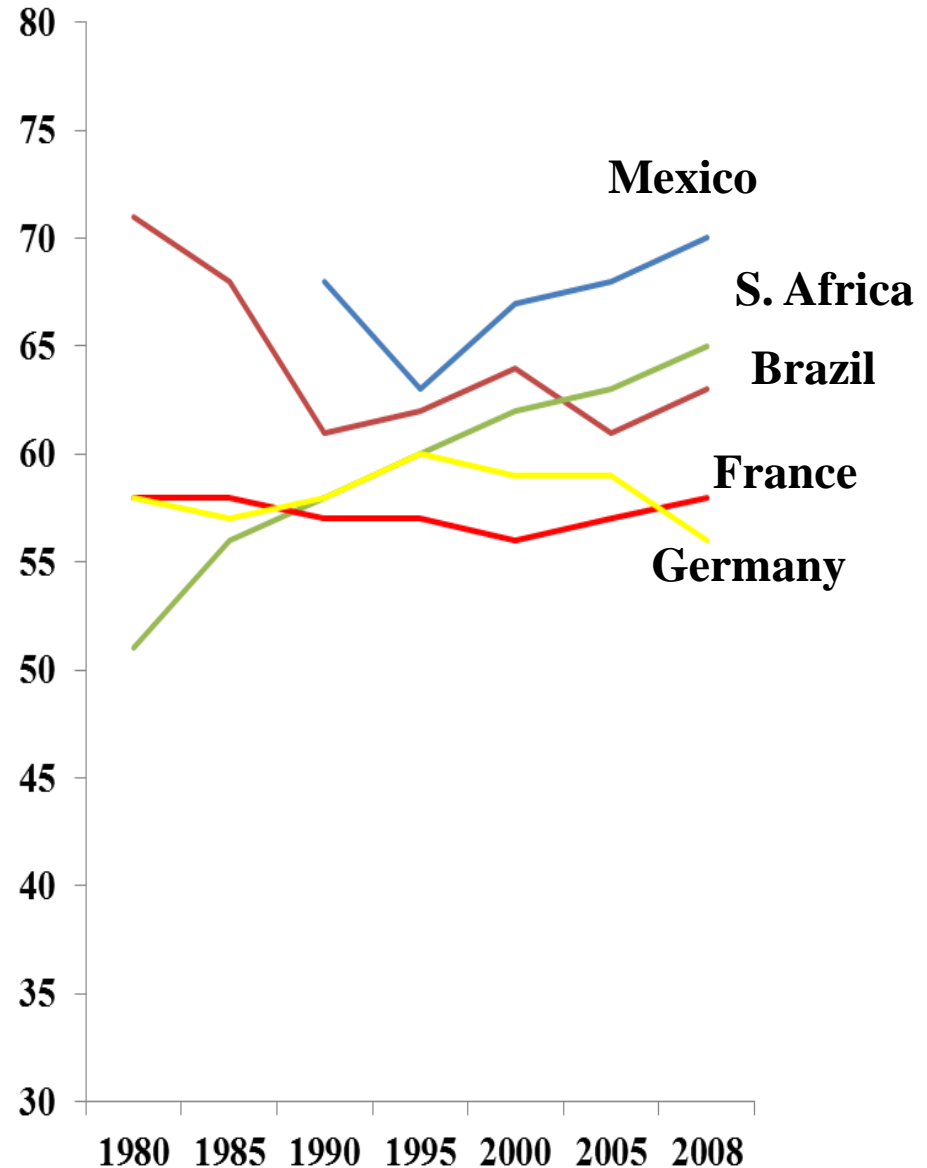
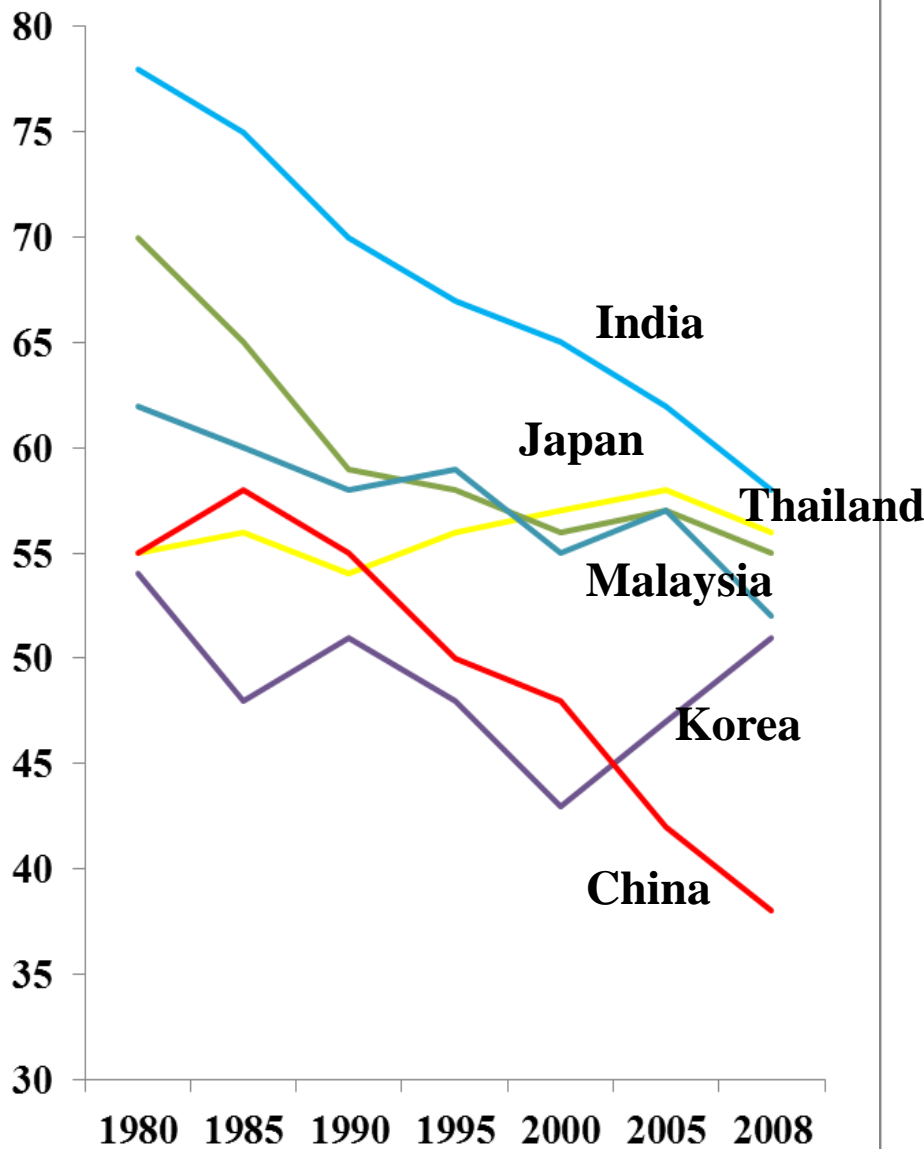
Race for Resources: World Energy Demand Surges



Asian savings will only rise



Asia's Unlikely Shoppaholics: Private Consumption as % of GDP

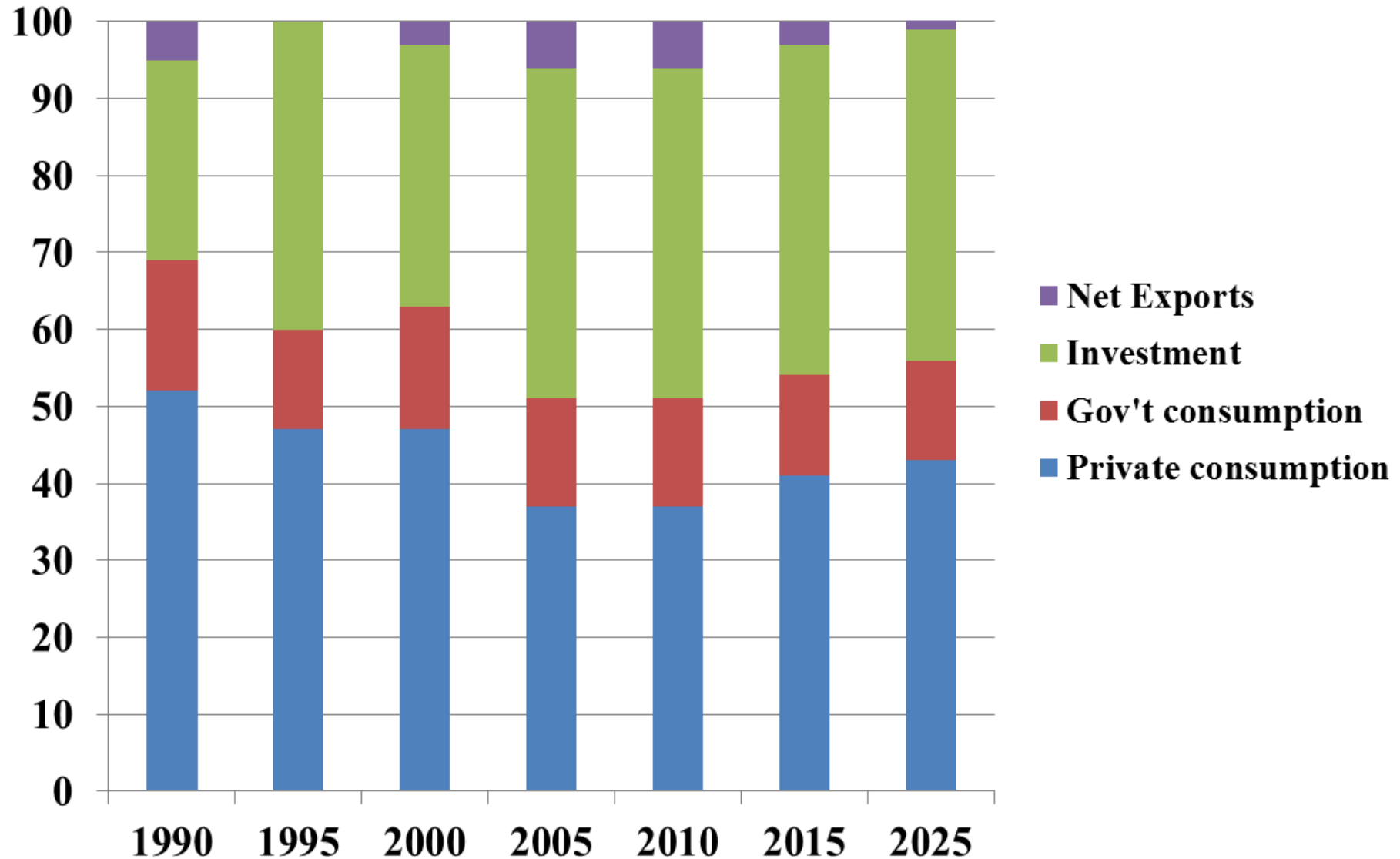


Scramble for Consumers

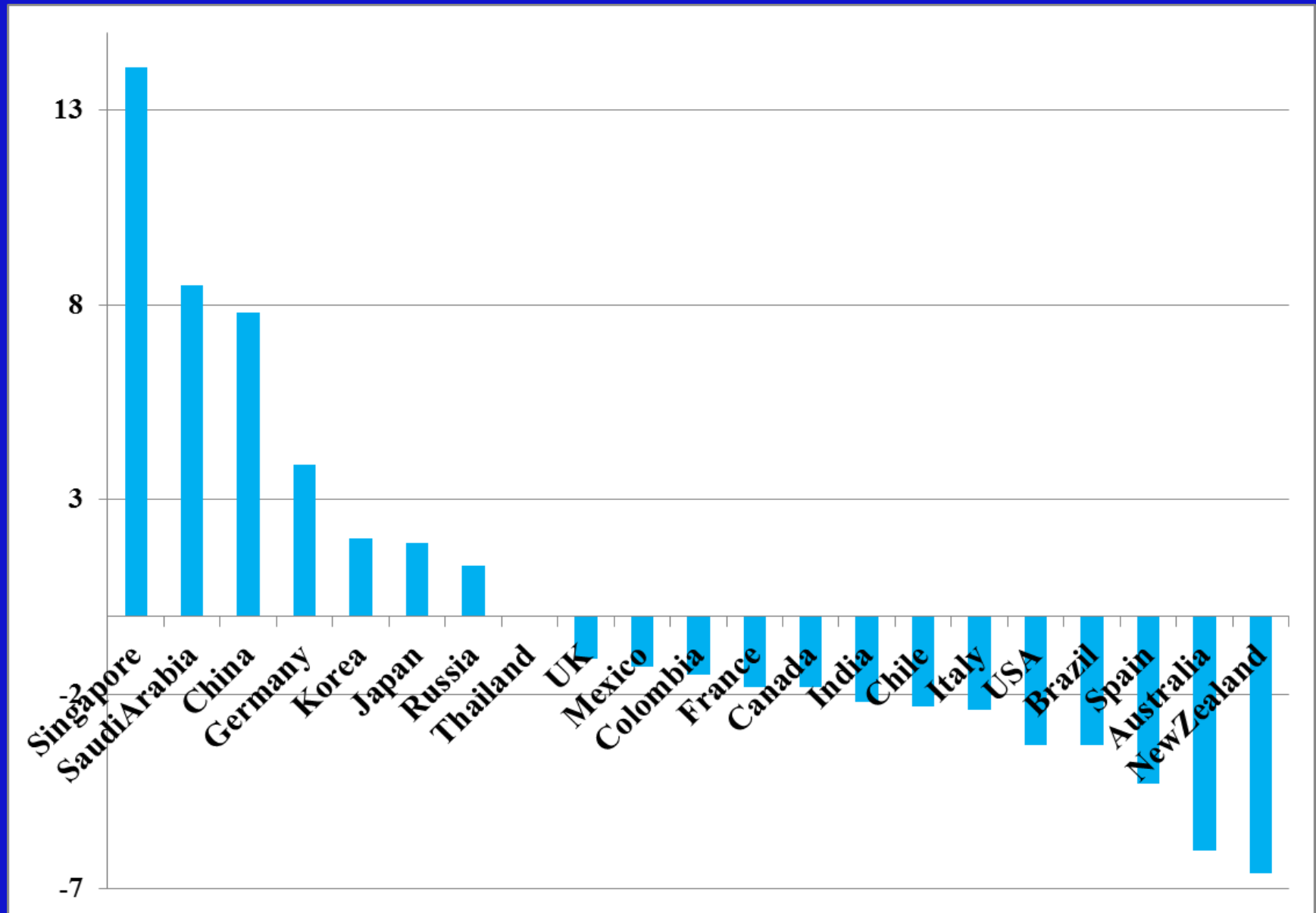
- Asian booming economies under-consume
 - Chinese save 25% of household income, 45% of GDP
 - Consumption ~38% of GDP
- If all policies – housing, credit, education financing, health care, pensions, shift in investment to labor-intensive sectors – go right, consumption will be 45-50% of GDP in 2025
 - Post-WW II, US consumption never below 50%

Chinese consumption goes up – VERY slowly

Components of Chinese GDP, 1990-2025



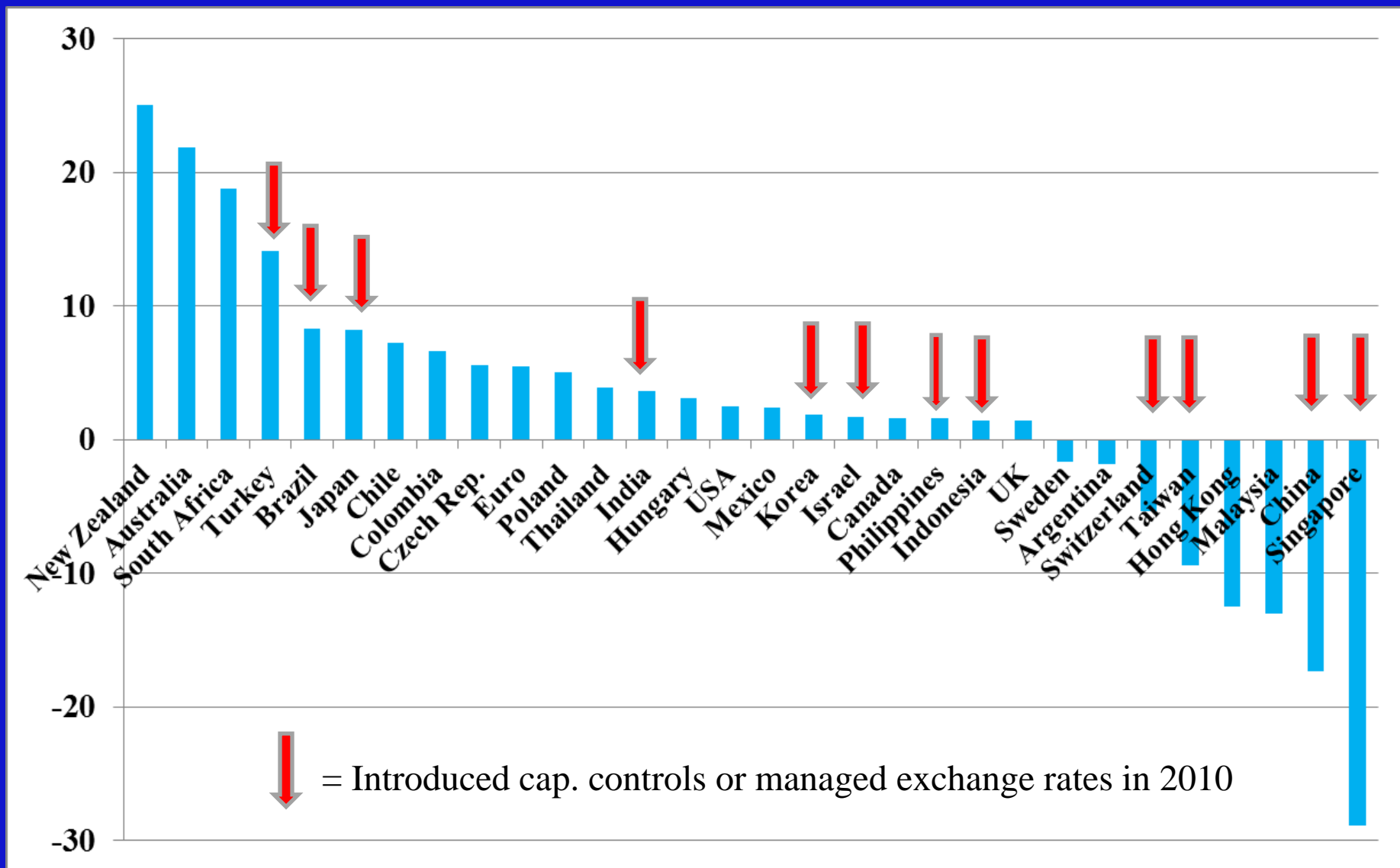
Global Issue: Trade Balances in 2015



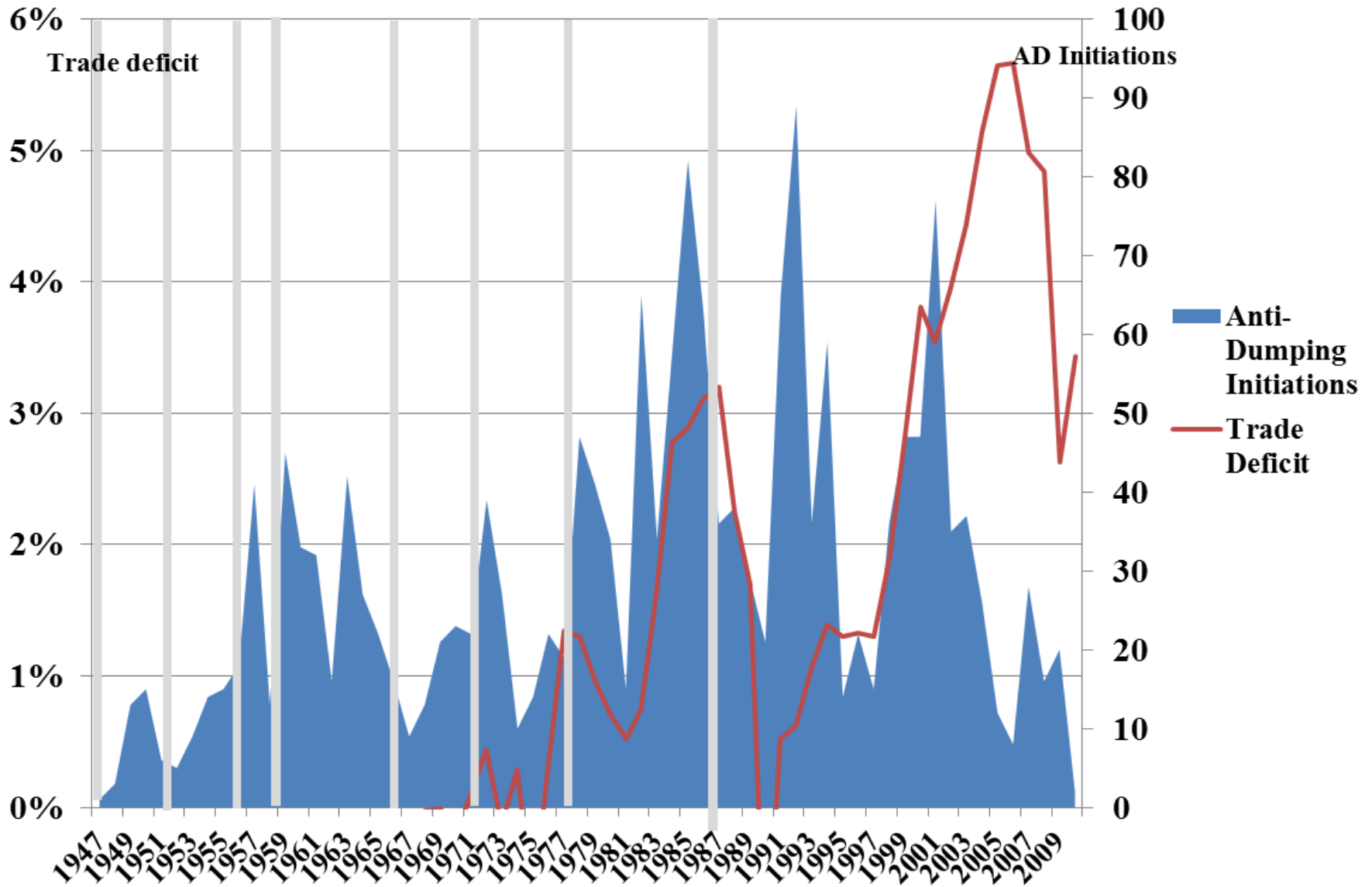
*Asia's high savings +
advanced economies' slow demand =*

- **Everyone wants to grow by exporting**
- **More currency wars & capital controls**
- **Pressure on US (& others') trade deficit**
- **Protectionist pressures**

Asian Currencies Undervalued

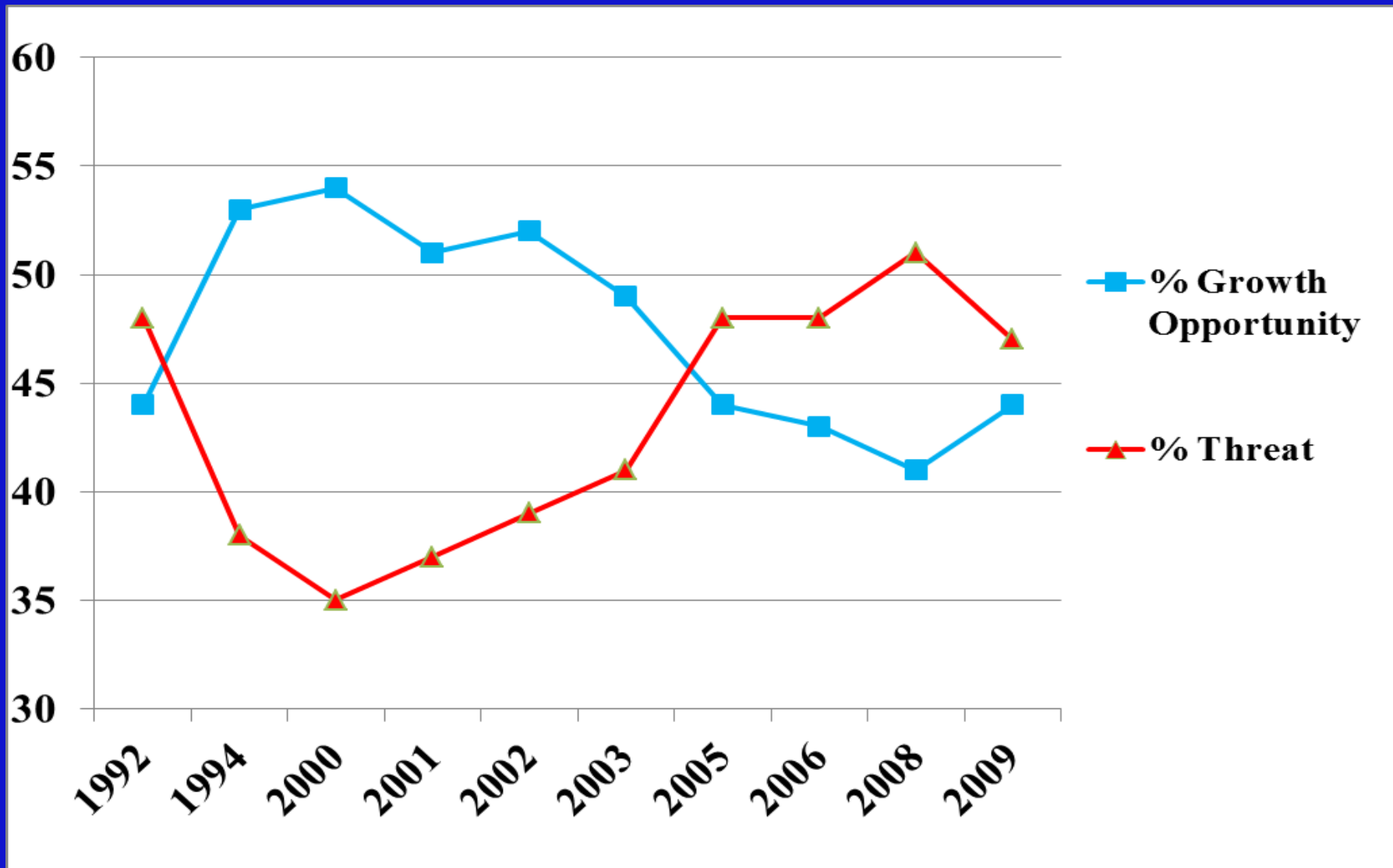


Trade Deficits Drive Protectionism



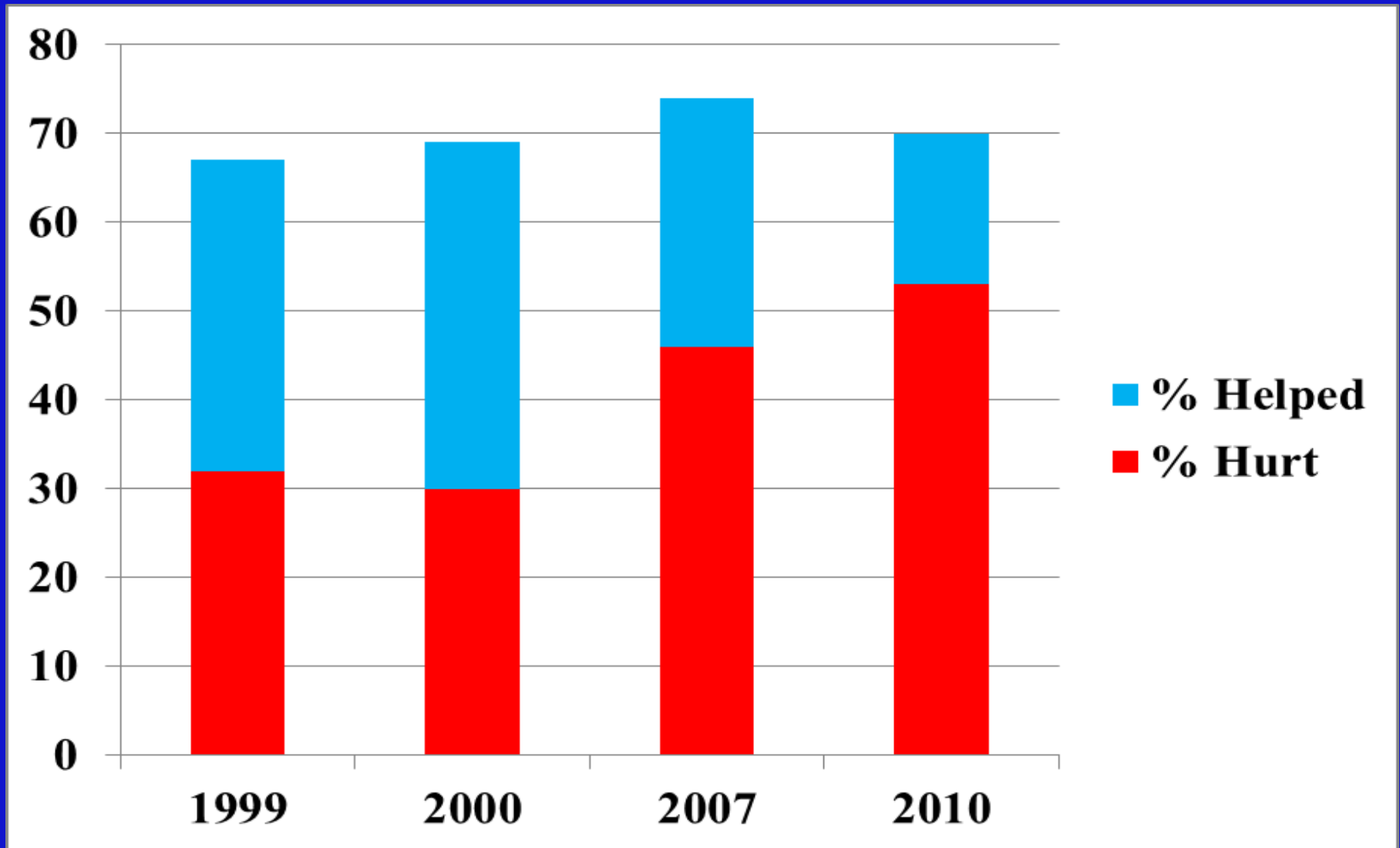
Americans Sour on Trade [Imports, Really]

“Do you see trade as an opportunity for more exports or threat by more imports?”

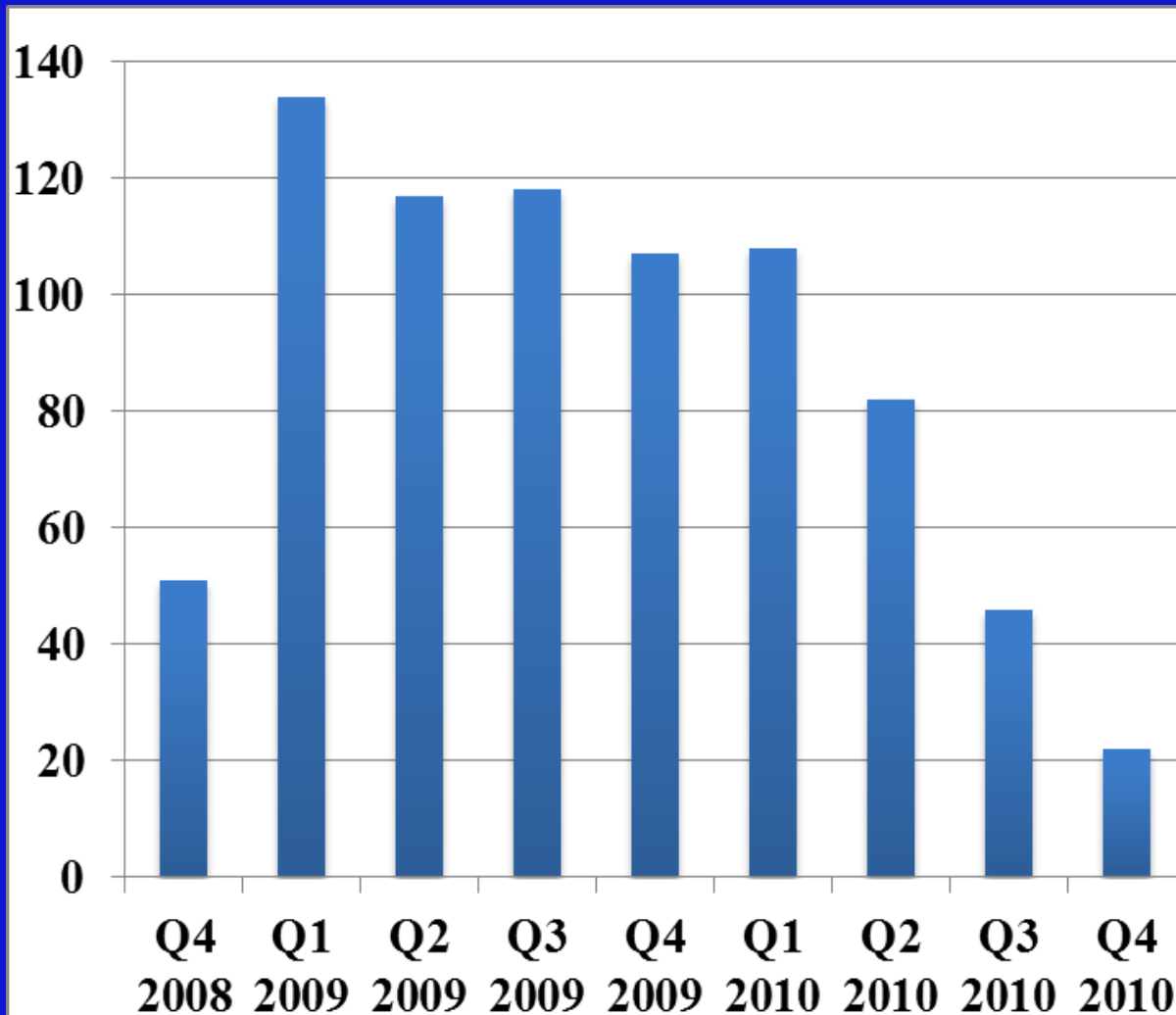


Don't Like Trade Deals Either

“Have free trade agreements between the US and foreign countries helped or hurt US?”



Trade Protectionism Subdued – but there Protectionist Measures Globally, 2008-2010



**Main
offenders:**

- **EU27**
- **Russia**
- **Argentina**
- **India**

Main targets:

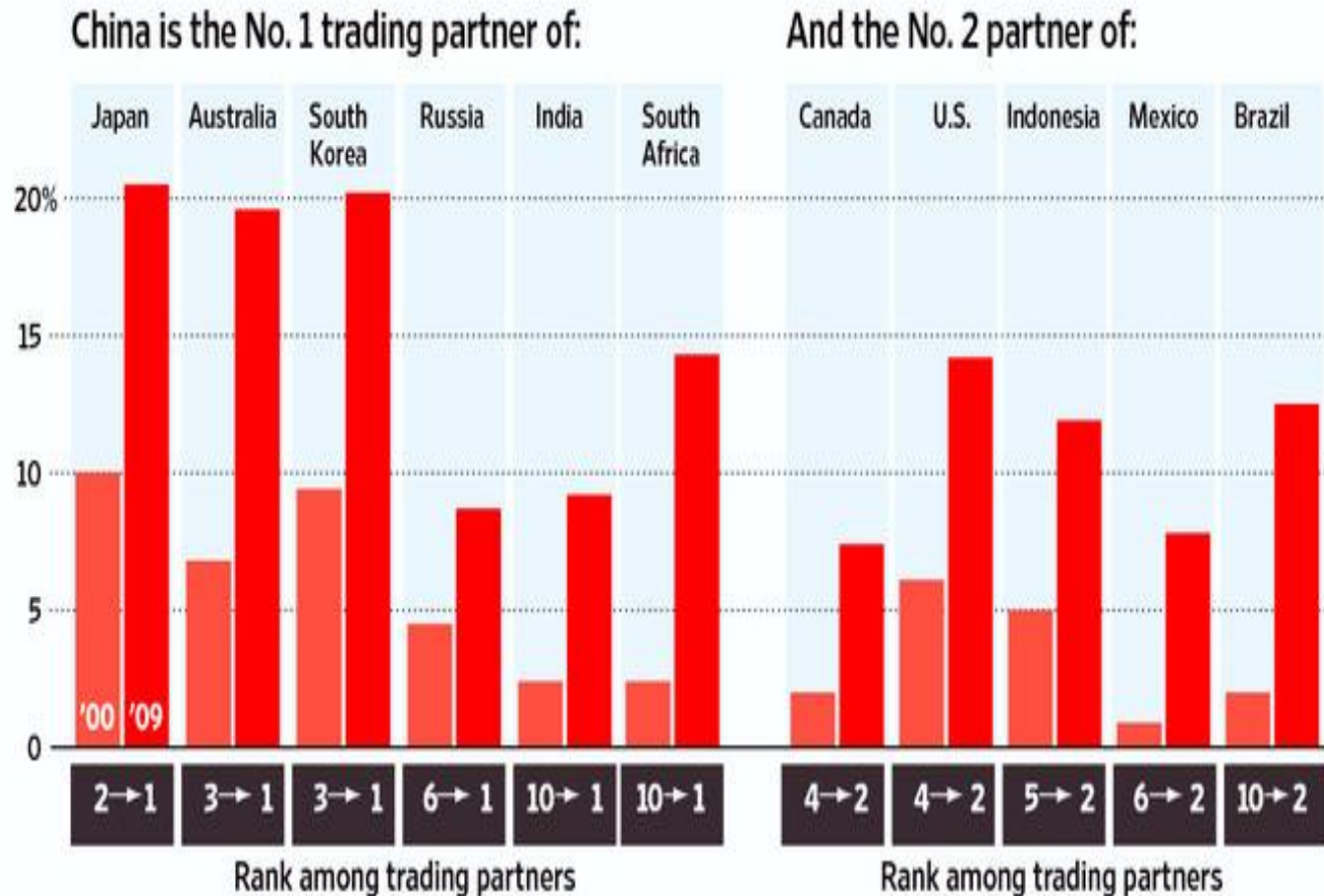
- **China**
- **EU27**
- **USA**

**NO DOHA IN
SIGHT**

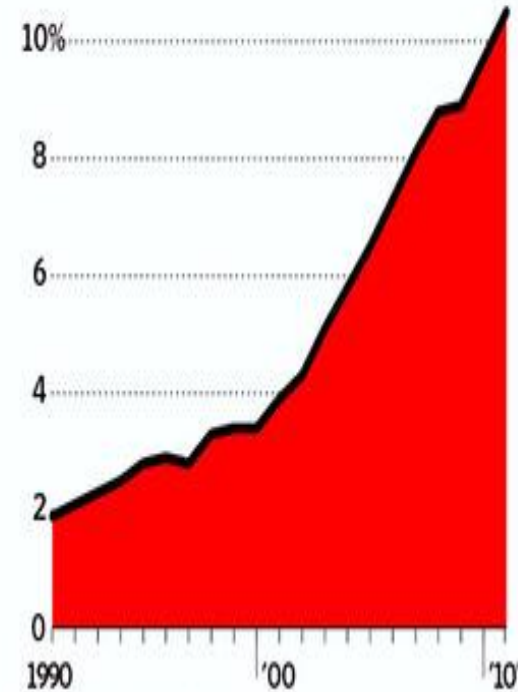
The elephant in the room

The China factor | China is the No. 1 trading partner of six G-20 nations

Share of selected countries' trade (imports plus exports) with China at the start and the end of the 2000s.



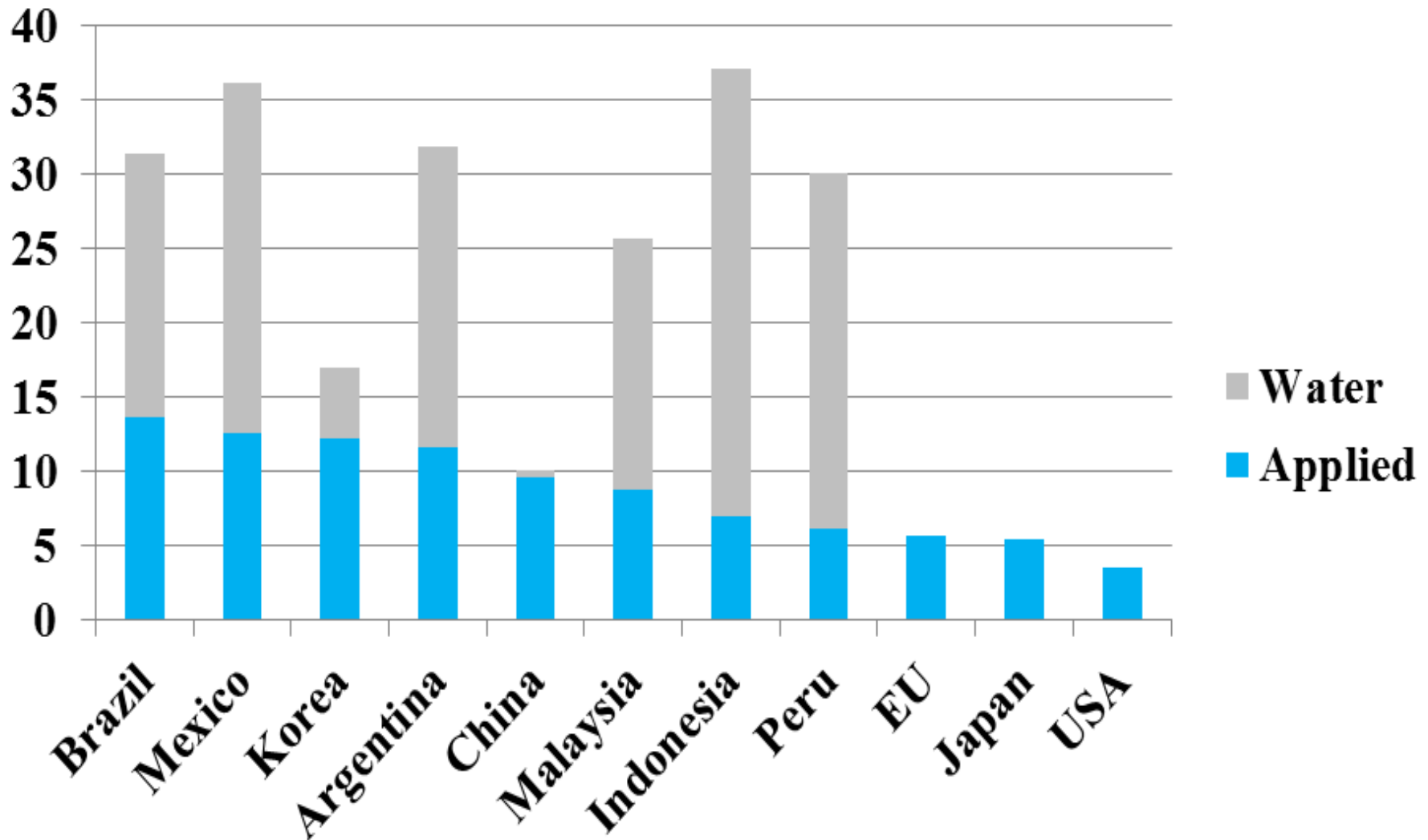
China's share of total world exports



*Data are through October

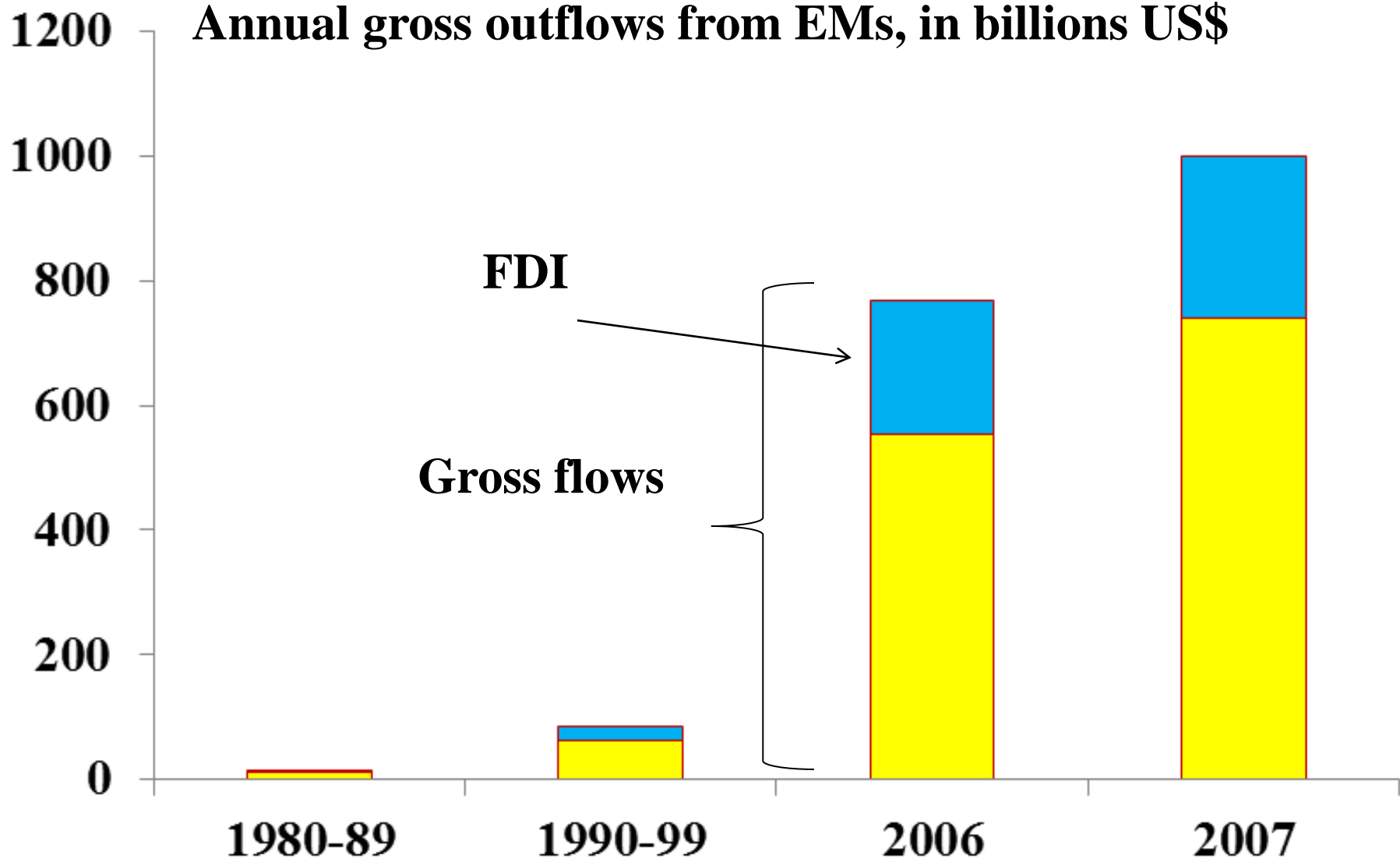
Water = Uncertainty

Applied and Bound tariffs, 2009

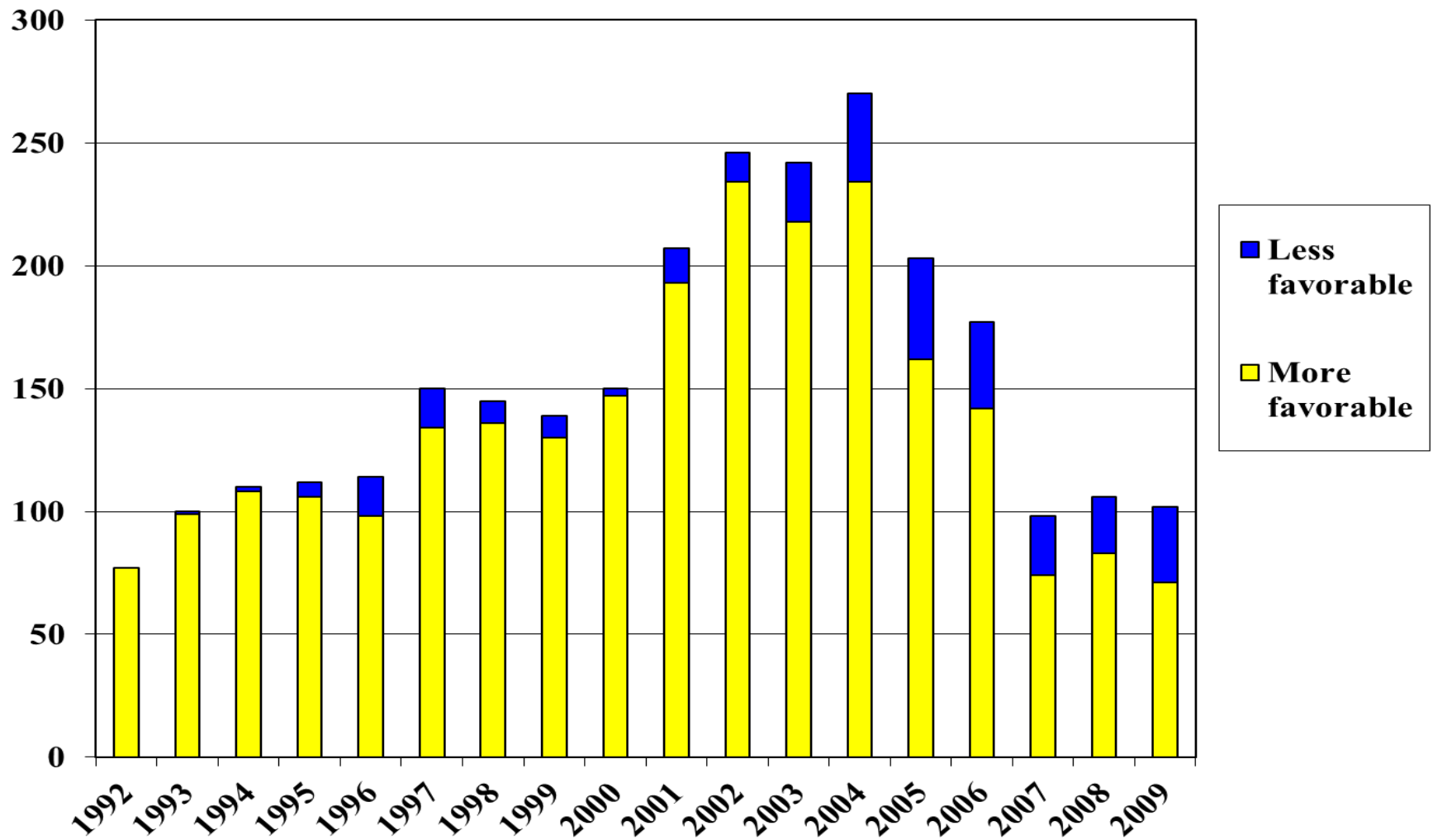


Capital flows from EMs Surging

Annual gross outflows from EMs, in billions US\$



> 5,900 Investment Agreements – but Restrictions to FDI Up National Regulations on FDI, 1992-2009

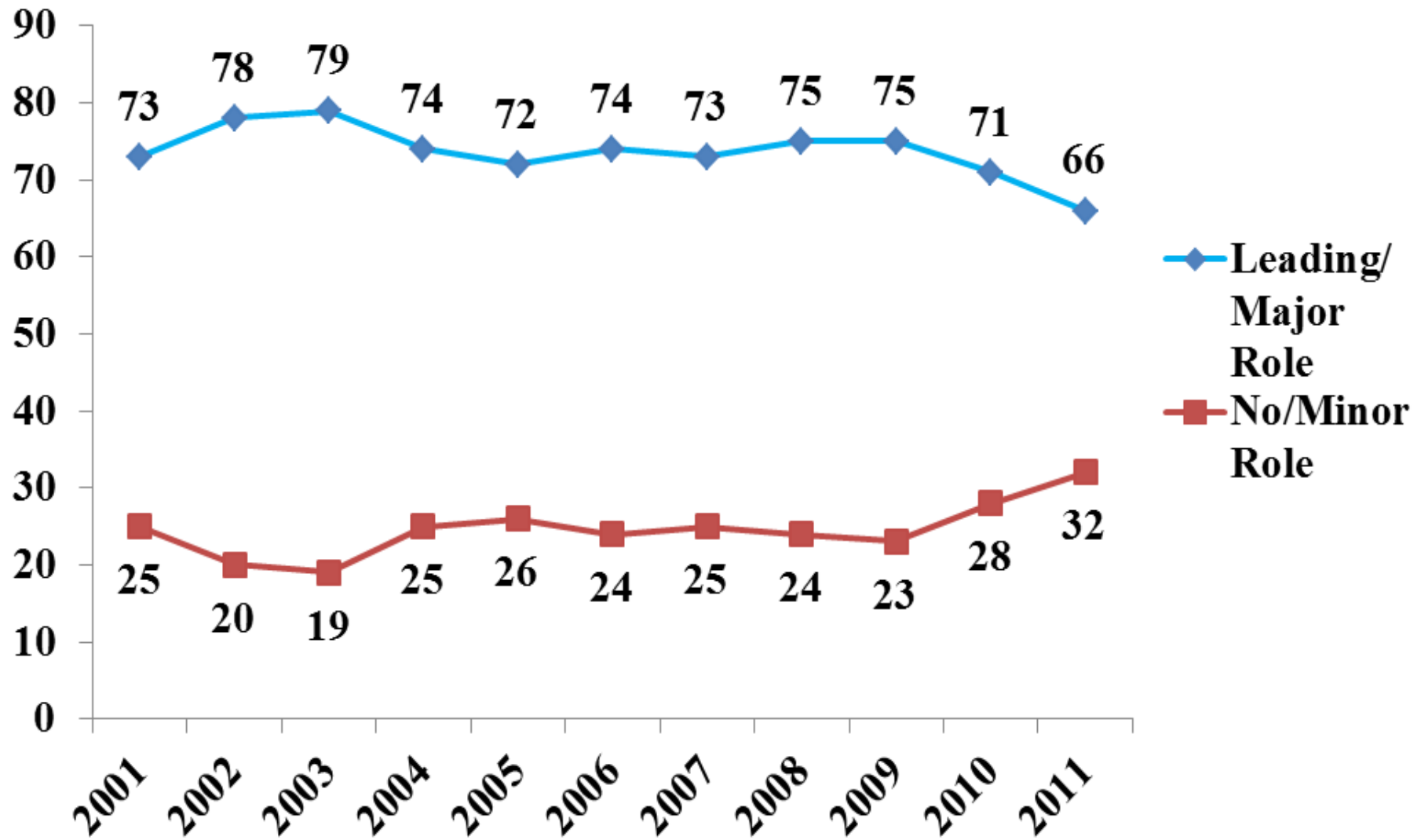


Global Governance

- **Global economy requires global management**
- **Prisoner's Dilemmas**
 - Policy – trade, imbalances, currencies, financial regulations, environment, resources
 - Battles intensify if growth flails
 - Power in institutions – IMF, G20, WTO, World Bank
- **Leadership**
 - EMs Won't Lead
 - US must lead, but will we?

Embracing or Escaping the World?

Americans' Preferred Role in World Affairs



Supercycle in Sum

- World economy growing, integrated, coupled – and imbalanced
- Great opportunities for innovation, exports, growth
- But need savvy risk management
 - EM rise is rickety
 - Global challenges of inflation, protectionism, competition, conflict
- US economy (and consumption) still pivotal
- US political leadership necessary