

# The Fed's Tapering

Economic and Strategic Impact  
From Advanced Economies to Emerging Asia



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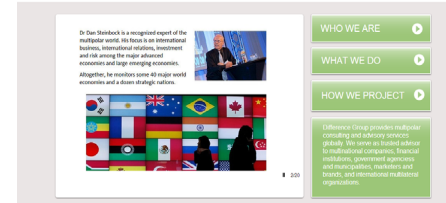
ISIS International Affairs Forum  
ISIS Malaysia  
Kuala Lumpur, April 11, 2014

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<http://www.differencegroup.net>

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## Commentaries

### Regular

- **International:** The Project Syndicate, FDI intelligence (FT)
- **USA:** Roubini Global, CNBC, China-US Focus, The Innovation Files (ITIF), Fortune
- **Europe:** EU Observer
- **China:** China Daily, Shanghai Daily, Global Entrepreneur, South China Morning Post
- **India:** Gateway House: Indian Council on Global Relations
- **Brazil:** [TBD]
- **Asia:** Myanmar Business Today, Philippine Inquirer, Asia Times, Eurasia Review
- **Africa:** BusinessDay (Nigeria)

### Occasional

- **South Asia:** The Hindu Times (India)
- **Russia:** Terra-America
- **Middle East:** Al Jazeera



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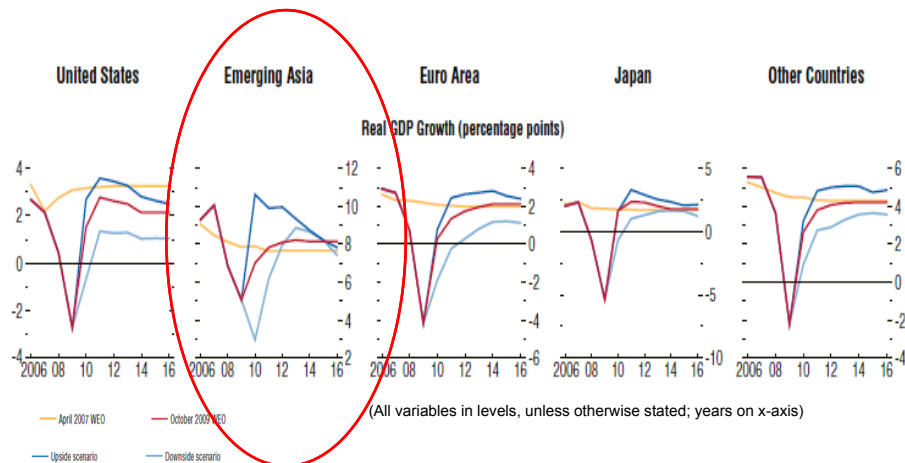
## Content

- The Great Disconnect
- US, Europe, and Japan: Debt Crises, Lingering Growth
- China: Structural Reforms, Deleveraging
- Emerging Asia: Return to Export-Led Growth
- Strategic Impact: US and Chinese Rebalancing
- What Next

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## Cyclical Crisis

Synchronized Global Recession, 2006-2016

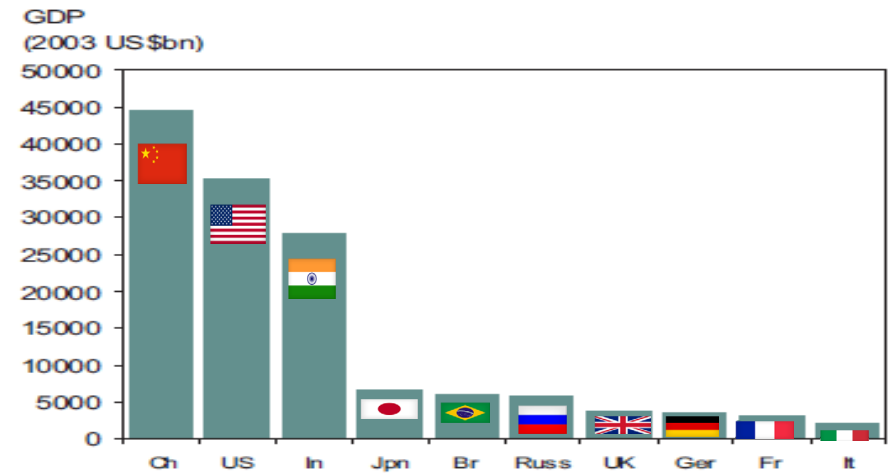


Sources: IMF

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## Structural Transition

BRICs' Rising Economic Power (2000-2050)



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## Disconnect: Markets

Between Markets and Economies

Markets soaring...

... but total debt burden rising

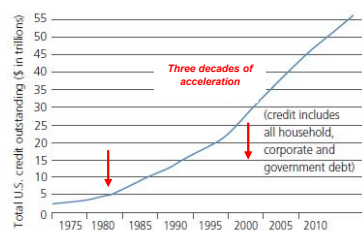
Dow Jones Industrial Index, 1994-2014



Source: DJIA

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Total U.S. Credit Market Debt, 1975-2013

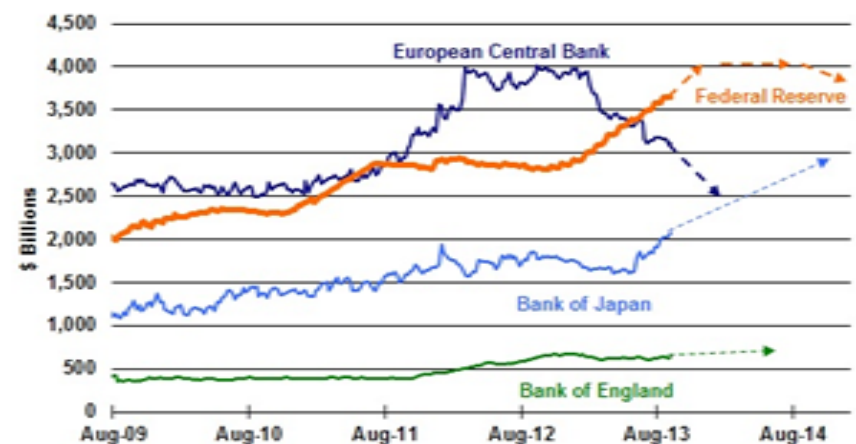


Source: Federal Reserve flow of fund accounts 2012

Source: Federal Reserve flow of funds account 2012

## Non-Traditional Monetary Policies

Balance Sheet Totals of G7 CBs (US\$ trillion)



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# Non-Standard Monetary Instruments

From 2009 to 2015/16?

- The Fed reduced the federal funds rate to 0-0.25% by Dec. 2008, moving thereafter to non-standard measures
- **Forward guidance**
  - communication to shape public expectations about the future course of interest rates
  - In Dec 2012, the Fed tied the duration of low rates to an economic threshold (unemployment rate > 6.5% and inflation + inflation expectations low).
- **Increasing the size of CB's balance sheet, or "QE";**
  - 3 rounds of large-scale asset purchases. By purchasing Treasury securities, agency debt securities, and agency mortgage-backed securities (MBS), Fed increased its balance sheet from \$0.9 trillion in 2007 to \$4 trillion end-2013.
- **Changing the composition of the CB's balance sheet through**
  - e.g, purchases of long-term bonds to reduce the long-term interest rate.
  - Under the "Maturity Extension Program," the Fed purchased \$667 billion in long-term U.S. Treasury securities, sold an equivalent amount of short-term securities.



Ben S. Bernanke,  
2006-2014



Janet L. Yellen,  
2014-

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# United States

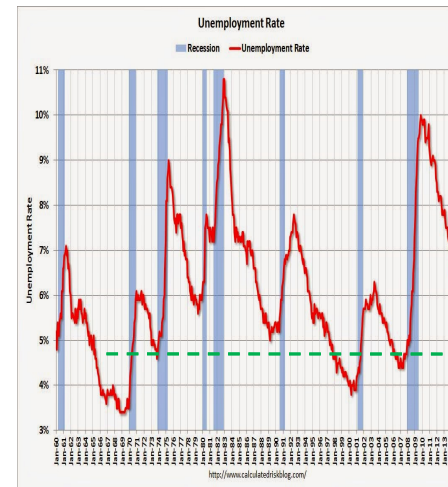
Return to (Fragile) Growth

- **US growth 2.6-2.8% in 2014-15, CPI at 1.6-2%; unemployment 6.2-5.8%**
  - **Consensus view on U.S. growth remains fairly optimistic**, with growth risks to the upside
  - Current expectation tapering to be completed by Q4 2014, the Fed's first rate hike in late 2015.
  - Some economic data—including employment, retail sales and capex—were soft in early Q1, as payback from Q4 strength.
  - Consensus may **underestimate the robustness of the housing market and the strength of the labor market** (unemployment rate vs participation rates), and **structural debt** challenges.
- **Downside risks:**
  - **Weak participation** drive unemployment rate below Fed's 6.5% tightening threshold; **markets price in premature hikes**.
  - **External risks from EZ and EMs** take toll on U.S. growth.
  - **Data weakness persists** through 2014; growth remains at 2%, due to subdued spending and lower capex.

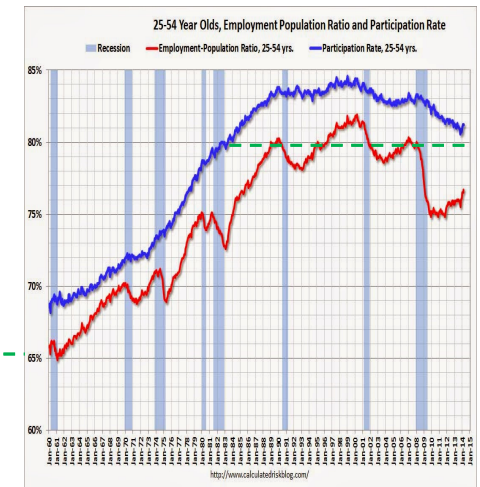
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# Unemployment

Lower Unemployment Rate, But Lower Participation Rates



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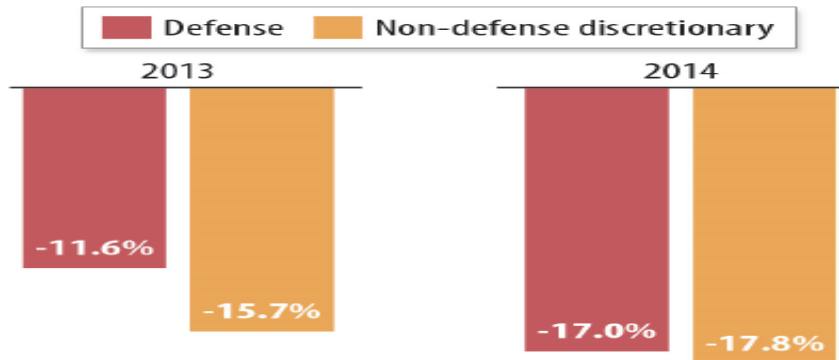


# Strategic Impact

## Automatic Spending Cuts

Non-Defense Discretionary Cuts Exceed Defense Cuts

Post-sequestration funding in 2013 and 2014 compared to 2010 funding levels (adjusted for inflation)



Source: data from CBO

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# The ECB

## The Shift to Non-Standard Policy

Expect Moves Toward QE, with European Characteristics



- Draghi pledges to defend euro "whatever it takes"

Sept 6, 2012

ECB head Mario Draghi announces new OMT program (Outright Monetary Transactions) encompassing unlimited purchases of sovereign bonds

- First rate hikes, then cuts
- ECB purchases of sovereign bonds on the secondary market

EUR 74 bn

Aug. 4-7, 2011

The ECB announces further purchases and elects to broaden the program to include bonds from Spain and Italy

May 10, 2010

The ECB begins purchasing sovereign bonds from Ireland, Greece and Portugal



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# Europe

## Fragile Stability, Lingering Growth, No Sustained Recovery

- Shift from real GDP growth at -0.4% in 2013 to 1.0 % in 2014 and 1.2% in 2015, with inflation at 1-1.4%
  - The EZ remains dependent on global demand to drive growth beyond a very slow recovery.
  - Given the large output gaps—EZ unemployment stands at 12%—the growth numbers for 2014 and 2015 remain quite low, and fueled by an expansion of the German economy.
  - The EZ periphery will continue to struggle and will not stage a strong enough recovery that will reduce unemployment or drive prices, leading to continued low inflation
  - While ECB has been very cautious in the past few months, it is likely to resort to easing during the summer.
- Downside risks
  - New government in Italy leads to severe brinkmanship in EZ, generating increased uncertainty.
  - Government in Greece creates tensions within EZ, increasing uncertainty to lesser degree.
  - Growth in U.S. and China surprises on the downside, dragging EZ down with it.

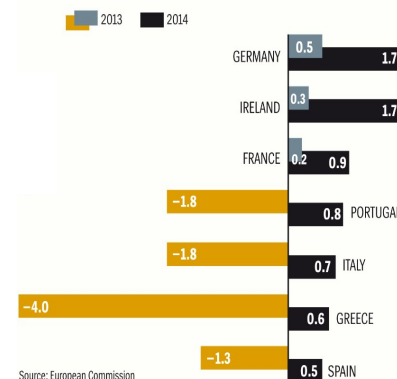
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# From Sub-Zero to Sub-Par Growth

## Signs of Reversal, But Long Road to Sustained Growth

### Trend Reversal?

Predicted economic growth in selected euro-zone countries, reflected in expected change in GDP compared to previous year.



Source: European Commission

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### Fiscal Rules Key, But Also Ambitious

General Government Structural Balance (% of GDP) adjust for the impacts of the real GDP changes in the economy

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	-3.6	-0.9	-0.9	-0.8	-1.7	-1.7	-2.5	-2.7	-2.5	-3.0	-3.1	-2.2	-1.4
Belgium	-0.6	0.0	0.0	-1.0	-1.3	-0.8	-1.3	-1.3	-2.2	-4.2	-3.6	-3.7	-3.4
Cyprus	-2.4	-2.4	-4.1	-6.4	-4.1	-2.6	-2.6	-1.4	-1.8	-5.1	-4.5	-4.0	-4.8
Finland	5.7	4.4	4.0	2.6	1.6	2.0	2.4	2.2	1.9	-0.1	-1.7	-1.1	-1.3
France	-3.2	-3.3	-4.2	-4.3	-4.1	-3.9	-3.4	-4.2	-4.1	-5.7	-5.7	-4.6	-3.5
Germany	-1.8	-3.0	-3.3	-3.2	-3.3	-2.6	-2.3	-1.1	-0.9	-1.1	-2.3	-1.0	-0.1
Greece	-2.1	-3.1	-3.6	-6.1	-8.4	-8.7	-10.8	-14.3	-19.1	-12.3	-8.3	-2.6	-2.6
Ireland	2.3	-1.4	-1.0	-0.2	-1.2	-2.6	-4.2	-8.7	-11.8	-9.9	-8.3	-7.0	-6.1
Italy	-3.2	-5.0	-5.1	-5.5	-5.2	-5.4	-4.3	-3.5	-3.8	-4.1	-3.6	-3.7	-1.3
Malta	-8.4	-3.6	-3.4	-2.6	-3.5	-6.2	-3.7	-4.8	-3.7	-4.2	-4.2	-4.2	-4.2
Netherlands	1.2	-1.2	-1.8	-2.3	-1.1	0.2	-0.1	-1.4	-1.1	-4.8	-4.4	-3.7	-2.2
Portugal	-4.2	-5.0	-5.2	-5.5	-5.8	-6.1	-3.8	-4.2	-5.4	-9.2	-9.0	-6.6	-4.1
Slovakia	-3.1	-4.8	-4.4	-0.6	-1.7	-1.0	-2.2	-3.2	-2.8	-6.3	-7.2	-4.3	-3.9
Slovenia	-1.1	-0.7	-0.9	-0.5	-0.9	-1.1	-2.0	-2.5	-3.4	-4.5	-4.8	-4.1	-2.2
Spain	-1.1	-1.3	-0.7	-0.8	-0.4	0.7	1.2	0.5	-5.7	-10.6	-8.4	-7.9	-5.7

Lower than the limit set by the Stability and Growth Pact (-3% of GDP)  
Higher than the limit set by the Stability and Growth Pact (-3% of GDP)

Source: IMF

# Multiple Eurozone Crises

Common Monetary Policy, Without Common Fiscal Policy

## Inadequate fiscal adjustment

- Heavy austerity programs, inadequate fiscal support.
- Soaring unemployment in EZ periphery, plus now in core as well
- Austerity fatigue Vs bailout fatigue

## Monetary easing required

- Trad'l instruments exhausted
- Shift to non-standard policies (OMT etc)

## Central bank challenges

- Concern for the risk of long-term inflation
- Defusing 'bad' debt

## Insolvency threats

- < 3%: Greece, Portugal, Ireland/30%: Italy, Spain; Cyprus

## Liquidity support

- Struggle to ensure effective funds for support
- Since late Sept 2012, ESM as a permanent firewall for EZ, with max lending capacity of €500 billion.

## Banking crises

- Recapitalization, systemic threats
- Legal framework for financial sector oversight, implementation in 2013
- Slow efforts toward the Banking Union.

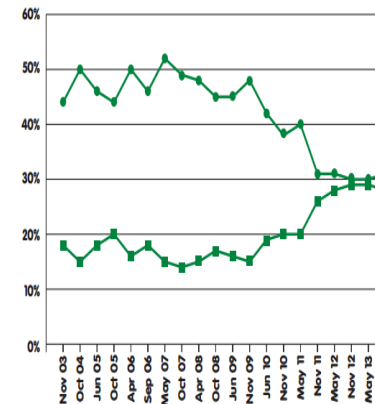
## Competitiveness and innovation challenges

- Structural reforms, investment into S&T, R&D

# Rise of Euro-Skepticism

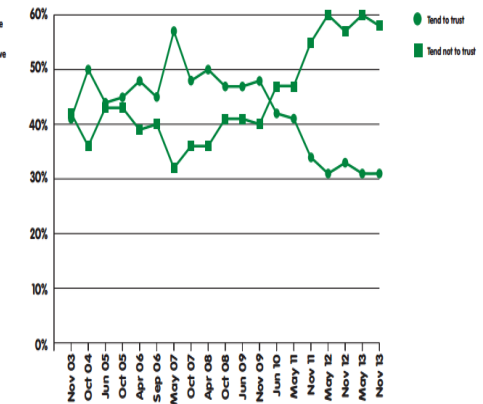
Convergence of Image, Divergence of Trust

## Image of the EU



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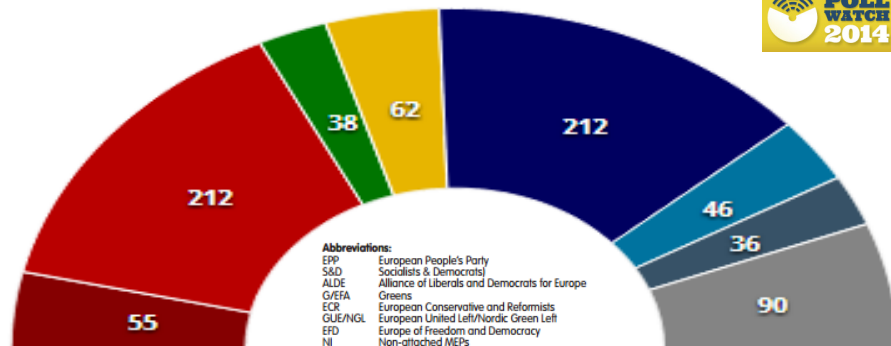
## Trust in the EU



Source: ECFR, based on Eurobarometer data

# Post-Crisis "Squeezed Middle"

European Parliament, Election Projections 2014-2019



Abbreviations:  
 EPP European People's Party  
 S&D Socialists & Democrats  
 ALDE Alliance of Liberals and Democrats for Europe  
 GUE/NGL Greens  
 ECR European Conservative and Reformists  
 GUE/NGL European United Left/Nordic Green Left  
 EFD Europe of Freedom and Democracy  
 NI Non-attached MEPs

<b>GUE-NGL: 55</b>	<i>Left-Green Socialists</i>	<b>EPP: 212</b>	<i>Center-Right</i>
<b>S&amp;D: 212</b>	<i>Social-Democrats</i>	<b>ECR: 46</b>	<i>Conservative, Euro-sceptic</i>
<b>Greens/EFA: 38</b>	<i>Green</i>	<b>EFD: 36</b>	<i>Far-Right, Anti-Federal</i>
<b>ALDE/ADLE: 62</b>	<i>Liberal-Centrists</i>	<b>NI: 90</b>	<i>Non-Inscrips</i>

# From Deflation to Reflation

PM Abe's Reform Agenda ('Abenomics')

- For 2 decades, economic activity sustained through deficit spending.
  - Japanese governments piled up debt valued at \$14.6 trillion, which translated to a whopping 230% of annual GDP in early 2013.
  - That's when BOJ initiated huge monetary stimulus.
- PM Shinzo Abe's four economic challenges:
  - ending deflation and achieving a 2% inflation target;
  - eliminating the output gap;
  - Using reforms to achieve a faster growth rate of potential output;
  - restoring fiscal-financial sustainability.



- Abe's economic program has four tenets:
  1. decisive monetary easing, incl. large-scale asset purchases by BoJ;
  2. fiscal stimulus mainly focused on infrastructure spending;
  3. Efficiency-enhancing structural reforms (incl. TPP membership)
  4. fiscal consolidation policies, starting with consumer tax increases

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# Japan

## Toward the First Defining Moment

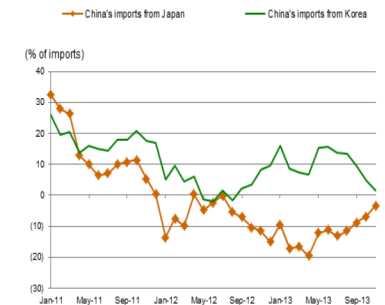
- Real GDP growth 1.6% in 2013, with 1.3-1.2% in 2014-15, with inflation rising from 0.4% in 2013 to 1.5%-1.3% in 2014-15
  - After disappointing Q4 2013, growth forecasts modestly lowered.
  - Expect the economy to digest the April consumption tax hike and additional monetary easing in H2 because BoJ will not achieve its 2% inflation target of the consumption tax hike effect.
  - The BoJ is likely to wait through much of Q3 to see the impact of the consumption tax hike before increasing or augmenting its “quantitative and qualitative easing” (QQE) program.
  - The key risk remains the spring wage negotiations; rising nominal wages are a necessary condition for sustained inflation.
- **Downside risks:**
  - Consumption tax hike more of a burden on households than expected, dragging growth down.
  - Spring wage talks do not generated adequate wage increases to maintain virtuous cycle, weighing heavily on sentiment and economic activity in H2.
  - Tensions with China heat up or boil over in response to an accident in disputed territory, weighing on export growth further.

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# Strategic Impact

## Japan-China Relations: Progressive, Dangerous Deterioration

- **Historically, a strained relationship, due to colonial and WWII legacies**
  - Since Dec 2012, the bilateral relations have deteriorated
  - **Longstanding maritime and islands disputes.**
- **Japan’s post-WWII pacifist constitution is fading**
  - Prime Minister Abe visits **controversial Yasukuni war shrine**, which includes war criminals who are responsible for imperial invasions and massacres in China, Korea and ASEAN nations
  - PM Abe is **increasing defense expenditures** and **re-started arms exports** to regional friends, in the name of peace and aid.
  - Meanwhile, **business sentiment is falling in Japan**
- **On both sides, vast majorities see the other side in negative light.**



**Increasing tension = reduced Chinese imports of goods from Japan**

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# China

## Deleveraging and Structural Reforms

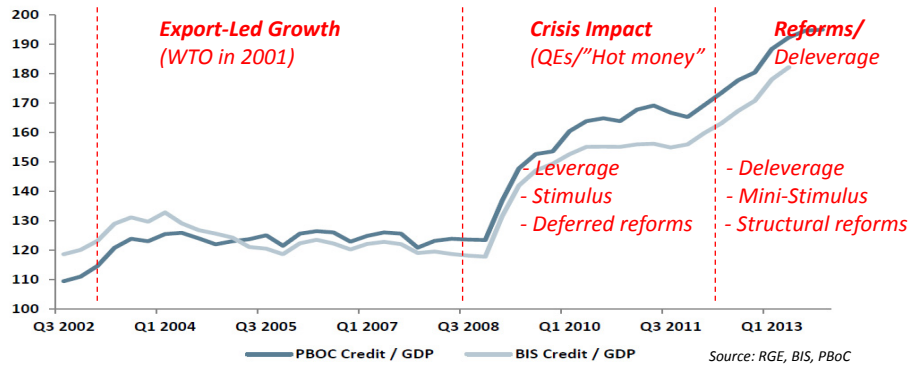
- Real GDP growth decelerating from 7.7% in 2013 to 7.4-7% in 2014-15, with CPI at 3.5% and policy rate 3.0% in 2014
  - A **new fiscal compact** allows local governments to gradually delever, but will not be fully offset by central government spending, which could result in a **mild contraction in infrastructure investment**.
  - The housing market is softening, but the government will prevent a contraction in housing starts.
  - Unproductive investments will strain the financial sector, leading to trust-product defaults and an increase of nonperforming loans, but a systemic crisis is a **lower probability**.
  - **Expect growth to pick up on a sequential basis in Q2 and Q3.** The housing market, the pace of local government deleveraging and shadow banking linkages remain the key uncertainties.
- **Downside risks:**
  - **Decline in property prices** in H1 forces developers to delever faster than anticipated.
  - New fiscal compact requires **faster-than-anticipated deleveraging** from local governments.
  - **Default in shadow banking system** impairs financial transmission in banking sector, generating more severe slowdown in investment activity.

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Economic Growth & Risk Conference 2012

Copyright by Dan Steinbock

## Crisis Impact

Total Credit to GDP Almost 200% of GDP



- Recent events in shadow banking have spooked investors. A high-profile failure of a trust product and the murky bailout; but near-term macro risks manageable.
- Financial risks are rising. Debt and credit have surged post-crisis, moral hazard concerns continue to mount in the financial sector; Weakening productivity growth needs to be reinvigorated through implementing the promised efficiency-enhancing reforms.

## China's 2<sup>nd</sup> Reform Wave

From the Deng era in the 1980s to Xi-Li Era in the 2010s

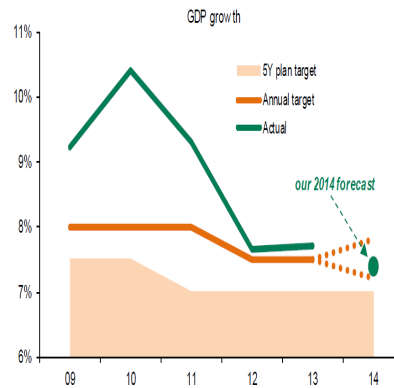
- The reform proposals focus on tripartite reforms, core sectors and packages.
  - The triple reforms comprise the market, government and corporations. Each dimension of the 383 Plan seeks to **recalibrate and reduce the government's role in the economy**.
  - The core sectors include **finance, taxation, state assets, social welfare, land, foreign investment, innovation and good governance**.
  - The reform blueprint seeks to relax control over market access, establish a **basic social security package** (e.g., modest pension, medical insurance and education support) and allowing sales of collectively-owned rural land. In the course of huge **new urbanization**, the old household registration system (*hukou*), which continues to discourage migration, will be gradually phased out.
- Shanghai's FTZ is advancing in parallel with China's financial reforms.
  - The launch of the Shanghai FTZ was accompanied by **18 new policy initiatives**, which seek to reduce restrictions in **half a dozen key industries, incl financial services and telecoms**
  - Today, the RMB is convertible for trade, but restrictions prevail on convertibility on the capital account. Expect **RMB internationalization** to accelerate in 2014/15.
- Several other megacities and provinces developing FTZ initiatives

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## Reconciling Reforms with Deleveraging

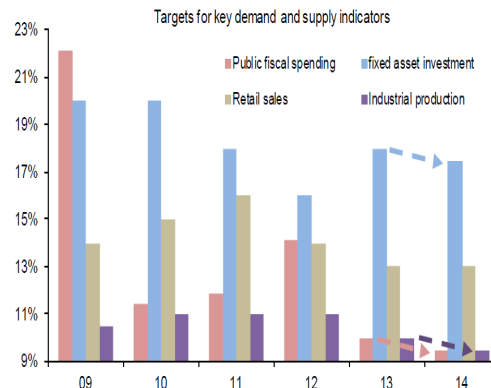
Flexible Growth, Reduced Supporting Targets

### New, Flexible Growth Target



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### Most supporting targets for 2014 have been reduced



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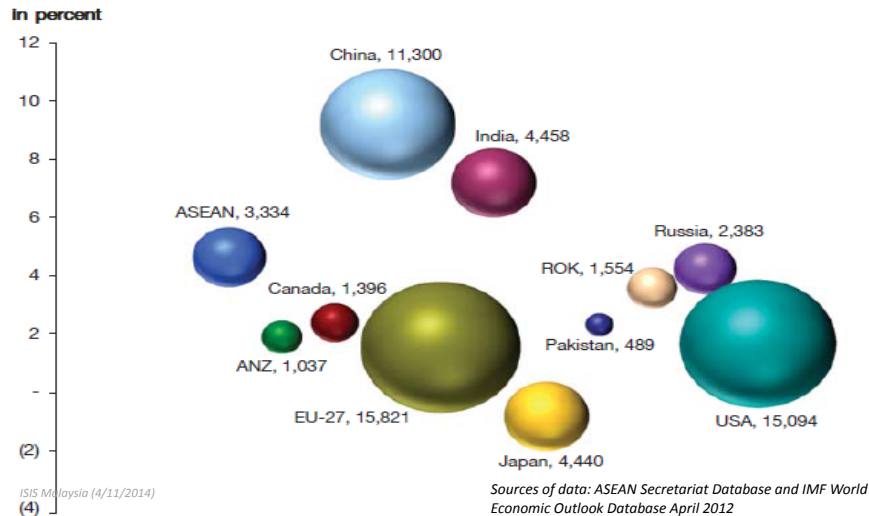
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# Economic Gravity Shifts to Asia

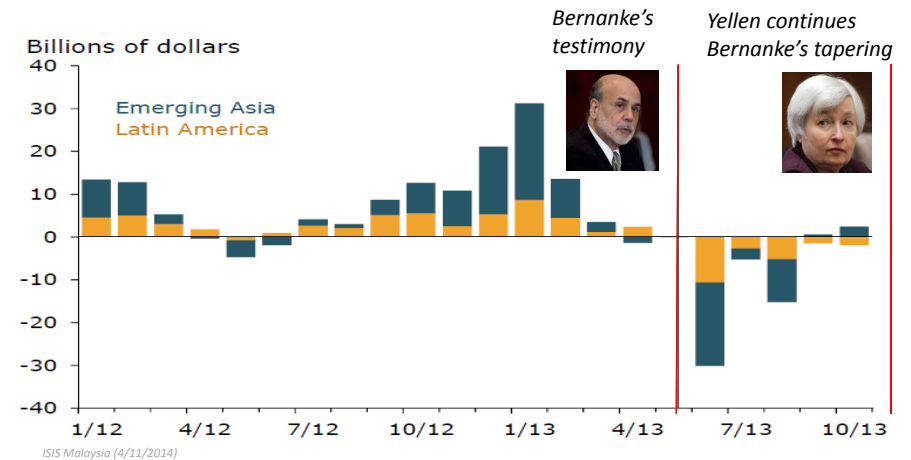
China, Japan, ASEAN, and ROK > US or EU-27

GDP in billion PPP\* US\$ and rate of change of real GDP, 2011



# The Great Reversal?

Emerging Market Bond and Equity Fund Flows



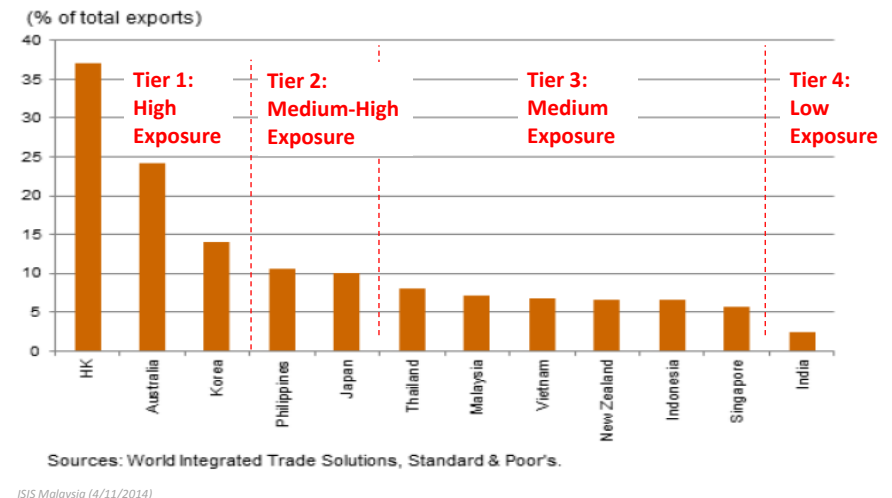
# Outflows from EMs – and AEs

Some Explanations

- Immediate trigger: a **confluence of several events**
  - EM funds seen 3-4m of outflows (\$33b since Oct 2013)
  - EMs: a currency crisis in Argentina, where the authorities stopped intervening in the forex markets to prevent the loss of foreign reserves; weaker data from China; persistent political uncertainty and unrest in Turkey, Ukraine, and Thailand.
- Deeper causes via the **'Fragile Five': India, Indonesia, Brazil, Turkey, South Africa**
  - twin fiscal and current-account deficits, falling growth rates, above-target inflation, and political uncertainty from impending legislative and/or presidential elections
  - Argentina, Venezuela, Ukraine, Hungary, and Thailand also vulnerable.
- Beware of "simple EM turmoil" explanations
  - No distinctions in terms of **regional geography, economic development**
  - **Flawed samples** (case of South Korea, Taiwan), *ideological bias*, **timing left explained**
- The sell-off was also driven by
  - The **Fed's tapering**
  - **Bad reports from advanced economies**, incl. as UK and US, plus (seasonal!) data from China
  - **End of the commodity supercycle**
  - A huge **unwinding of levered bets by the hedge funds**

# China Risk/Opportunity Exposure

Raw Materials and Capital Goods Exports to China





# EMs' Dual Future

## Short-Term Challenges, Medium-Term Potential

- While risks will not wane soon, the **threat of a full-fledged currency, sovereign-debt, and banking crisis remains low**:
  - EMs have **flexible exchange rates, large reserves** to shield against currency/bank runs
  - Sounder banking systems**; public and private debt ratios rising, but still low.
  - Relatively sound macroeconomic, financial, and policy fundamentals.**
  - Medium-term for most EMs still strong** (e.g., urbanization, industrialization, demographics).
  - But some EMs face difficult **short-run policy tradeoffs**. Damned if they tighten monetary and fiscal policy fast enough, and damned if they do not.
- During the turmoil, **capital inflows did not decline, but increased into China**
  - Between 2010 and year-end 2013, QE rounds caused massive “hot money” inflows into China.
  - Around Nov 2013, when China’s stake in US Treasuries and forex reserves (\$3.7 tr) peaked, the **PBoC began to curb the forex reserves and diversify/decrease its US Treasuries**
  - With the Fed’s tapering, **hot money deserted vulnerable EMs, but rushed to China**
  - On March 15, the PBoC **doubled the daily USD/RMB trading band to +/-2%**
  - The old era of central bank intervention, lower volatility and exclusively appreciating yuan is fading out. In the new era, central bank interventions are decreasing, **volatility is increasing and the yuan can move more up and down** – but the trend is toward gradual appreciation.

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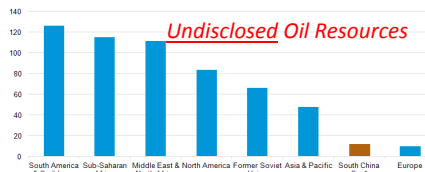
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# Strategic Energy Resources

## Vital for Industrialization and Urbanization

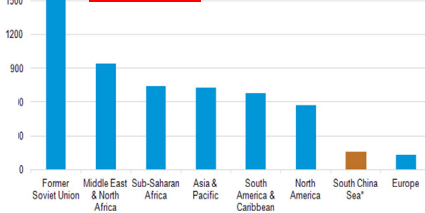
### South China Sea

World's undiscovered oil resources, 2012  
billion barrels of oil

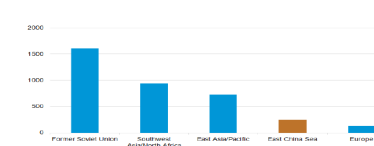


- Significant undisclosed resources
- Less than in North America
- More than in Europe

### Undisclosed Natural Gas Resources



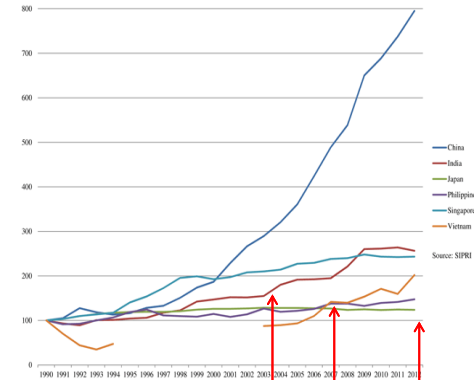
### East China Sea



# “Asian Arms Race”

## Defense Expenditures in Asia

Asia's Military Expenditures Index, 1990–2012



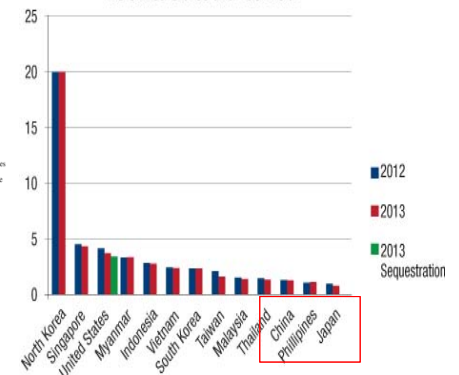
US-India defense cooperation

US pivot to Asia

Japan's rising defense spending

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Military Expenditures as a Percentage of GDP for the United States and East Asia



# US Rebalancing in Asia

## Trade, Security and Diplomacy: Security Primacy

- **Recalibrating trade in Asia Pacific**
  - **TPP (Trans-Pacific Partnership)**
  - Driven by the sense that, **for 2 decades, US failed to participate in Asia's rapid growth**
  - Domestically, fueled by Pres. **Obama's pledge to double U.S. exports.**
- **Security (alignments) in Asia Pacific:**
  - In Nov, President Obama announced US would concentrate its power in Asia Pacific to "maintain our **strong military presence in this region,**" directly and via new alignments.
  - From China's standpoint, U.S. rebalancing translates to **de facto containment.**
  - In June 2012, U.S. Defense Secretary Leon Panetta said that **America's combat ships in Asia would be doubled to 60 percent by 2020.**
  - The impact of **across-the-board cuts on the U.S. defense budget**, incl. the announced 2015 reduction of U.S. Navy vessels, has reduced US credibility in regional security.
- **Rebalancing diplomacy in Asia Pacific**
  - **Increasing diplomatic activity** across the region
  - Obama's decision to cancel a trip to Asia, due to budget battles, posed questions about US credibility, but did not undermine US role in the region.

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# China's Rebalancing in Asia

## Trade, Security and Diplomacy: Economic Primacies

- **Recalibrating trade in Asia Pacific**
  - **Regional Economic Comprehensive Partnership (RCEP)**, with an eye on the TPP process.
  - RCEP is seen as an appropriate flexible regional trade platform; membership in the TPP is seen as vital "eventually"; **bilateral trade and investment FTAs** in Asia, with US, EU and others.
  - **With ASEAN, economic cooperation, trade volume with ASEAN countries to reach US\$1 trillion by 2020, plus a regional infrastructure investment bank (new "economic Silk Road")**
  - **Regional economic partnerships in South Asia** (incl. Bangladesh-China-India-Myanmar **BCIM Economic Corridor**), deep relations with **Pakistan, and Bangladesh, FTA with Sri Lanka**, etc.
- **Recalibrating security in Asia Pacific**
  - **Continued military modernization** as an integral corollary of overall modernization in mainland.
  - The role of China's "**core interests**" in the region: international law/UN vs. historical arguments and colonial legacies (South China Sea maritime disputes)
- **Recalibrating diplomacy in Asia Pacific**
  - In the past, Chinese foreign ministers have been U.S. or Russia experts. Now, the **emphasis is shifting (back) to Asia and Asia-Pacific.**
  - **New foreign policy is reflected by a slate of new appointments**, including those of senior diplomats State Councilor Yang Jiechi; foreign ministry's Wang Yi, and US ambassador Cui Tiankai.

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# Rising Geopolitical Tensions

## Economic Risks of Territorial Disputes

- Geopolitical tension in East Asia is **unlikely to dissipate in the foreseeable future.**
  - **China, Japan, and the US have a strong economic interest in ensuring stability in Asia-Pacific**, which should help contain geopolitical risk and limit its impact on sovereign credit quality.
  - **Geopolitical events that can damage economic prospects** and sovereign creditworthiness could result from military/political miscalculations by one or more governments, esp. major powers.
- In adverse scenarios in Asia-Pacific **S&P could take rating actions.**
  - **S&P could lower the ratings on the sovereigns** directly involved in a dispute by one or more notches, depending on the scenario. Other sovereigns might see less severe rating actions than those directly affected or not at all.

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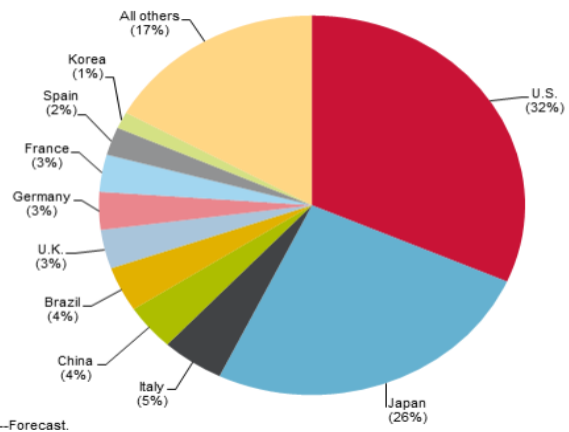
# Content

- The Great Disconnect
- US, Europe, and Japan: Debt Crises, Lingering Growth
- China: Structural Reforms, Deleveraging
- Emerging Asia: Return to Export-Led Growth
- Strategic Impact: US and Chinese Rebalancing
- What Next

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## Top Global Borrowers

G-7 Account for 75% (US and Japan 58%) of Total

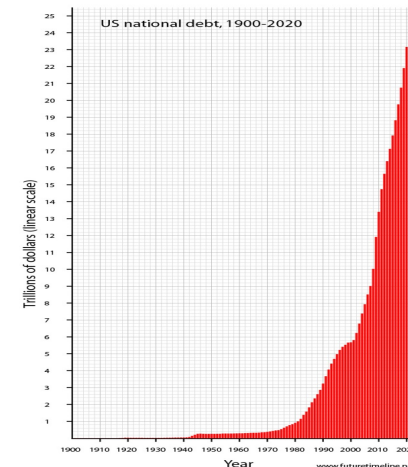


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## Slow Recovery, Rising Debt

United States: Containing the Debt Burden

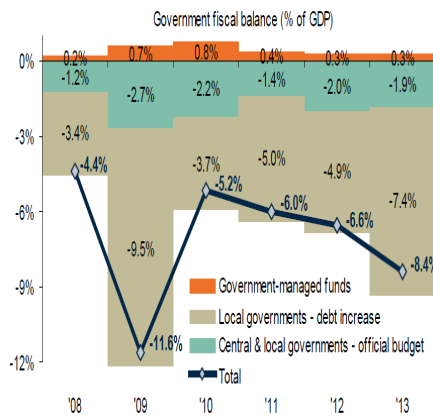
- **US sovereign debt: \$17.3 trillion**
- **Total Debt: \$61 Trillion**
- **Total interest paid: \$2,6 trillion**  
(more than three largest budget items – social security, medicare/medicaid, and defense - together)



## Structural Reforms Vs Rising Debt

China: Build-up of Large Fiscal Deficits Needs To Be Reversed

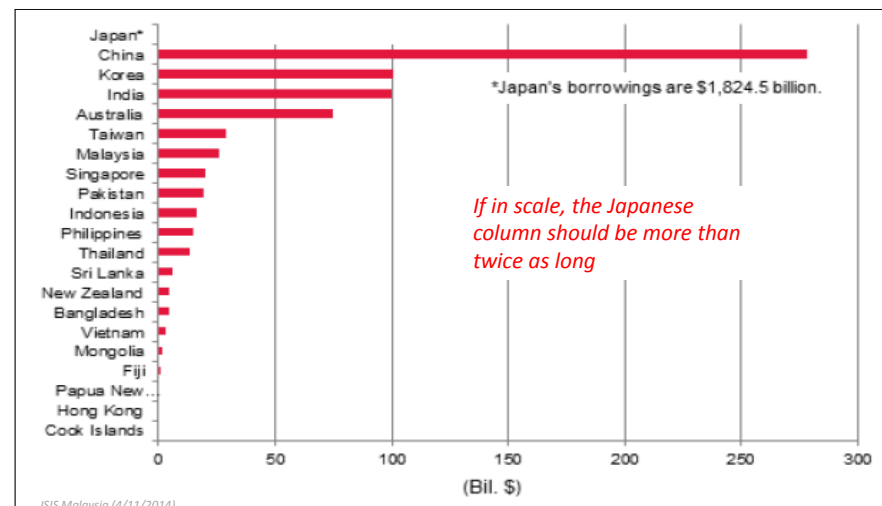
- **In the past 5 years:**
  - Stimulus
  - Leveraging
  - Deferred reforms
- **In the Xi-Li era:**
  - No stimulus (but mini-stimulus/es)
  - Deleveraging
  - Structural reforms
- **Reform drive**
  - Massive industrialization, incl. hukou reforms
  - Basic social model
  - Shanghai FTZ
  - Financial reforms, incl. RMB internationalization



Sources: Bloomberg, CEIC, Crédit Agricole CIB

## Asia as a Borrower

Japan Accounts for 70%

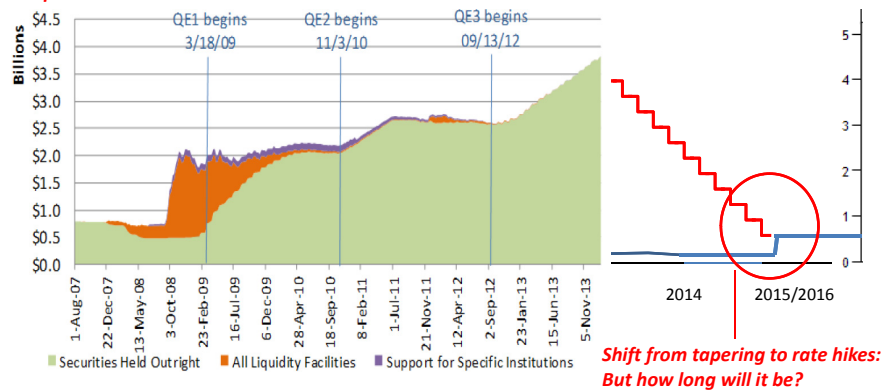


# Quadrupling Fed Assets

Select Assets on the Fed Balance Sheet, 8/2007-1/2014 – 2015/16e

**Bond purchases**

**Interest Rates**



Source: Federal Reserve.

Note: Securities Held Outright = Treasury securities, Agency securities, and Agency MBS; All Liquidity Facilities = Discount Window, foreign currency swaps, and widely available liquidity facilities created during the financial crisis; Support for Specific Institutions = assistance related to AIG and Bear Stearns.

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THE END

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