

GLOBAL CHALLENGES

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1. SOME FACTS

GDP for four major countries, billion dollars, 2009:

USA	14.270
Japan	5.049
China	4.758
India	1.243

1978: China embarks upon economic reform

1991: India does likewise

Source: CIA World Factbook



2. CHINA ON THE MOVE

“Open up and reform”, Deng announced in 1978

“Seeking truth from facts”, is another slogan

China grew out of the planned economy, by allowing private businesses to develop *alongside* the planned one. People in SOEs did not protest.



Incredibly high rate of savings. Finance own investments.
Finance American consumption

130 SOEs under the umbrella of SASAC

BUT: How to make them pay dividende?

Power is distributed more subtly than imagined

Consumption has to increase to maintain demand



Lack the legitimacy of a democracy. But the CCP is popular.
And the top leaders likewise. Legitimacy:
Accepted by the people that those in power are in power

Obtain legitimacy by:

- Economic growth
- "Harmonious society" – uneven income distribution
- Attentative to peoples demands and feelings
 - Mr. Hu back from Latin America to attend relieve work after earthquake



CCP will not give up its monopoly on power.
Then, cannot have a fully independent judiciary
PLA takes order for the Party. Not from the State.

Financial crisis ” Made in America”

- China managed the crisis quite well
- Increased confidence in own model
- BUT: NPLs in banks are likely to increase

Rest of the world looks to China



3. INDIA IS CATCHING ON

India, the world's largest democracy
"Hindu rate of growth" of three per cent belongs to the past

1962: Border war with China

Uneasy with a more powerful China.

"Sandwiched" between Pakistan and China is India's nightmare.



Earnings of foreign exchange

<i>Textile</i>	20 billion dollars	50 millioner employees	400 dollar per head
<i>Outsourcing</i>	60 billion dollars	1.6 millioner employees	40.000 dollar per head
<i>Remittances</i>	50 billion dollars from Indians living and working abroad		

The old and the new, side by side, to a greater extent in India than in most other nations

50.000 people working in IBM in India. "Cutting edge research", is being done, cf. Palisamo

Infrastructure needs upgrading. From five to nine per cent of GDP. Manufacturing will also increase significantly



Hope and self confidence

Can grow by 8-9 per cent for many years (Martin Wolf, FT)

Savings rate has increased impressively and needs to remain at around 35 per cent of GDP to finance real investments

Pragmatic – like the Chinese. What works?



4. WHAT IS GOING ON IN GREECE?

To have a common currency, countries must have same preferences for the rate of inflation. If this is not the case, a monetary union across countries will not survive

Greece has one short run and two long run problems.

Short run problem: Bridge finance over the next two-three years

Long run problems:

- Same preference for low inflation as the Germans.
- And secure economic growth so that the debt becomes bearable.

Not succeeding in the long run, and default in the making.



EMU and disagreement between Jean-Claude Trichet (French) and Axel Weber (German)

France: Triple-A in danger?

Germany: Constitutional Court, agree with Angela on Greece?

Spain: Labor reforms?



EU is more than an alliance, but short of being a federation

Playing down military capabilities and may become politically marginalised in the long run

Nation state still the dominant entity – and deeper integration is difficult

How to handle Turkey? Which wants to join the EU

EU needs to be more pragmatic. What works?



5. USA REMAINS THE INDISPENSIBLE NATION

USA on a long run downward trend? Without realising it?

16 per cent of GDP spent on health in the US

10 per cent in Norway – as number two

5 per cent of GDP on defence in USA

Fiscal prudence – are Americans unable to deal with the issue?

McCain: USA needs seven years to get down to business

Advantage USA: Demographics and Melting Pot



USA will consume 27 per cent of total consumption this year, and emerging markets 34 per cent.

Eight years ago it was the reverse

→ **Gigantic structural changes**

Obama concerned with making friends with emerging powers like China, India, South-Africa, Indonesia, Brazil, Mexico and Turkey

Hillary Clinton becoming more pragmatic, playing down Human Rights and Democracy with China.

USA is down, but not out.

Will for a long time remain "the indispensable nation".





Price of euro in terms of dollars

Financial crisis "made in America", but the dollar strengthens.
Fiscal crisis in EU, and the euro weakens further.





Price of RMB in terms of USD

China may continue gradual appreciation of RMB



6. LONG-RUN CONCERNS

In the longer term, RMB should strengthen more against the dollar than against the euro, i.e. the euro should strength against the dollar.

Provided EMU does not break down.

Forecasting exchanges rates is like tossing coins.
Best you can do is:

- UNDERSTAND risks involved
- MINIMIZE these risks



Financial crisis met by heavy government intervention that have limited room for future fiscal expansions in most developed economies

→ May expect expansionary monetary policies for a long time, i.e. low interest rates.

But inflation may eventually pick up

Debt problems of households and banks have become debt problems for governments.

