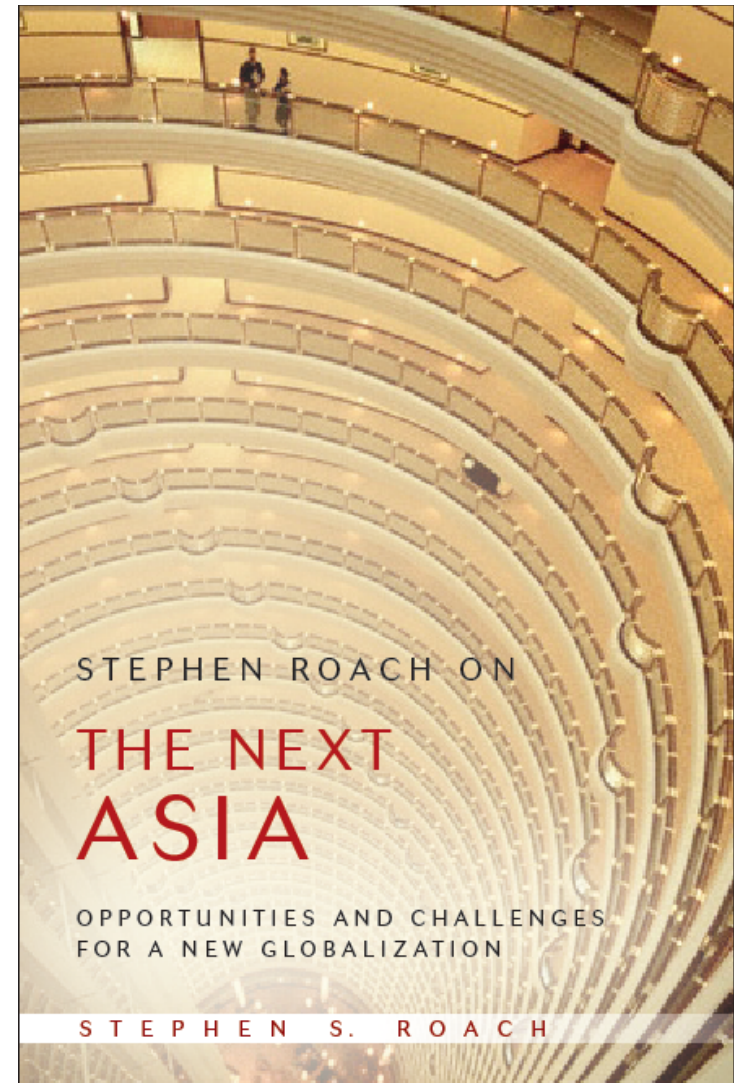


Global Challenges: The Lessons of Japan

Stephen S. Roach
Senior Fellow
Yale Jackson Institute for Global Affairs

October 2013



Conceptual Framework: Forensic Macro

- **Japan as the Template**
- **Policy Blunders or Structural Malaise?**
- **Bubbles, Imbalances, and “Zombies”**
- **The Hangover: Debt, Deflation and Lost Decades**
- **Exit Strategies: A Way Out?**

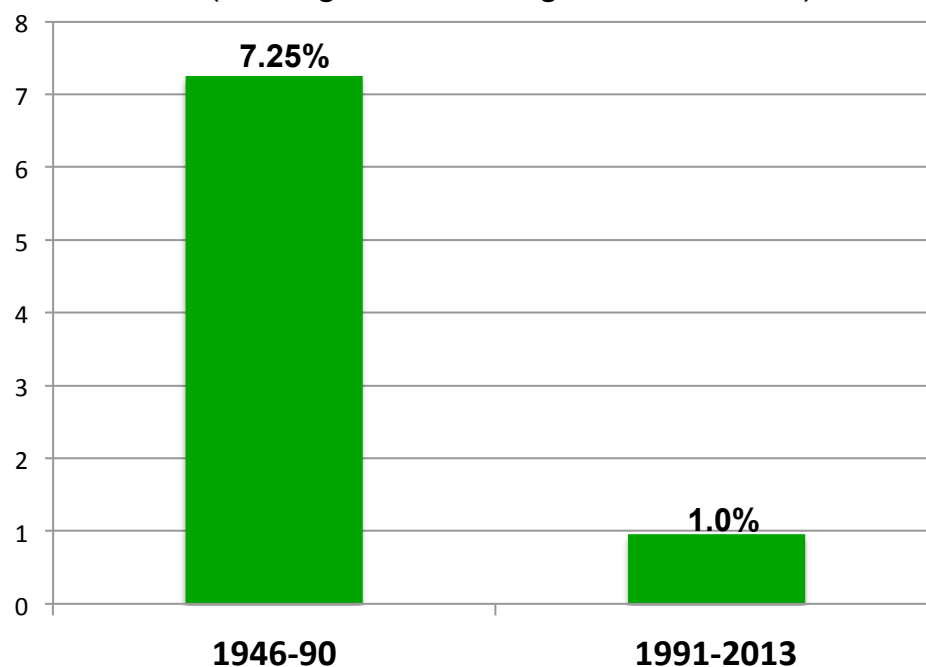
Made in Japan?

	<u>Japan</u>	<u>United States</u>	<u>Europe</u>	<u>China</u>
Model	Developmental state	Invisible hand	State-directed Capitalism	Market-based Socialism
Mandate	Lifetime employment	Full employment	Union of peace and prosperity	Growth vs stability
Policy blunder	Yen suppression and the Plaza Accord	Condone bubbles Clean not lean	Flawed currency union	Anti-consumer
Regulatory blunder	Evergreen bank lending (MITI)	Mortgage abuses Lax bank oversight	No banking union No fiscal union No political union	State-directed bank lending (NDRC)
False prosperity	Equity and Property bubbles	Property and Credit bubbles	Convergence bubble	Export bubble
Economic distortion	Zombie corporates	Zombie consumers	Zombie PIIGS	Zombie SOEs? Zombie LGFVs?

The Rise and Fall of Modern Japan

Japanese Real GDP Growth

(Averages over designated intervals)



Source: T. Ito and International Monetary Fund WEO database

Abenomics: Japan's Phoenix?

Three Arrows

- Monetary: QE on steroids
- Fiscal: Public works
- Structural reforms

Three Foils

- QE traction and deflation
- Fiscal quagmire
- Yen, equities, and complacency

Japan's Structural Imperative

Decomposition of Japanese Economic Growth

(Average annual % changes over designated 5 year intervals)

	<u>1974-79</u>	<u>1980-85</u>	<u>1986-90</u>	<u>1991-95</u>	<u>1996-00</u>	<u>2001-05</u>
GDP Growth	3.9	4.2	5.2	1.6	1.2	1.3
Labor	0.9	0.9	0.7	-0.1	-0.1	-0.1
Capital	1.7	2.0	2.5	1.9	1.3	0.9
TFP	1.3	1.2	1.9	-0.2	0.0	0.4
1974 to 1990 TFP average: 1.5%			1991 to 2005 TFP average: 0.01%			
Pre-Bubble			Post-Bubble			

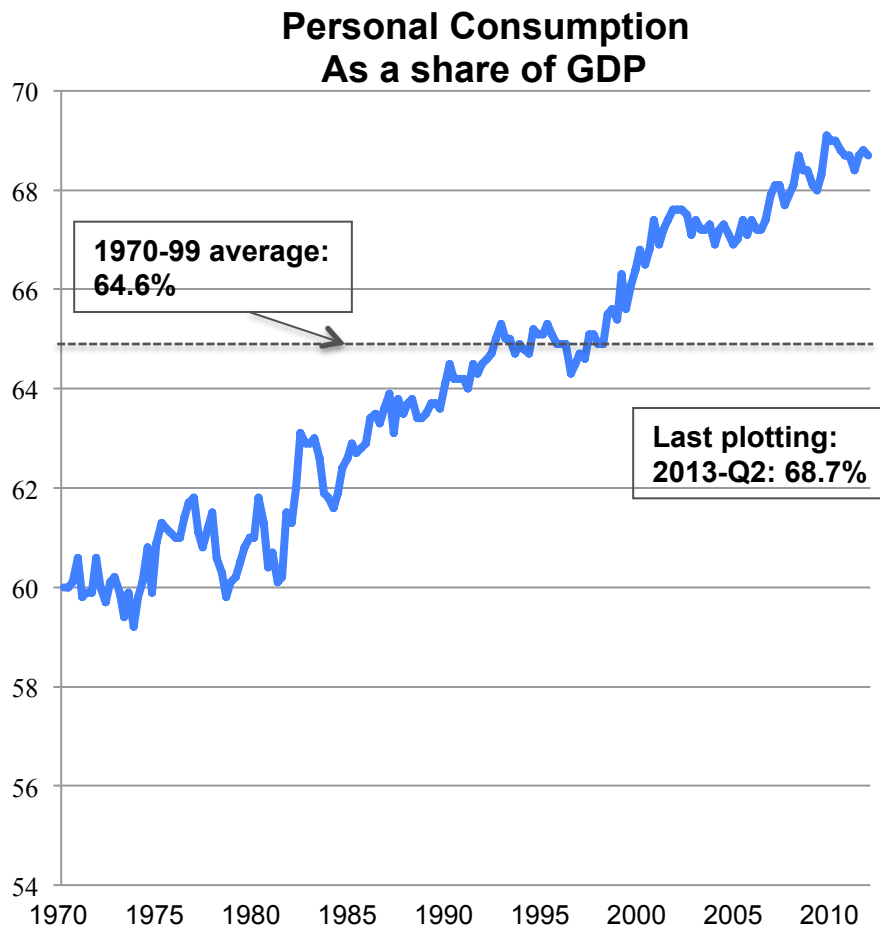
Abe's "Third Arrow" Agenda

Agriculture	Education
Medical Care	Tax System
Energy	Gov. Reform
Employment	Electoral System
Immigration	

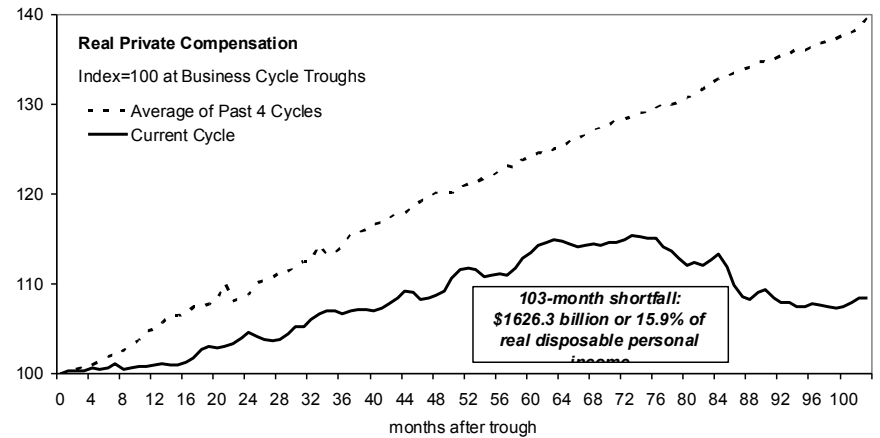
Source: KLEMS database

Growth American Style

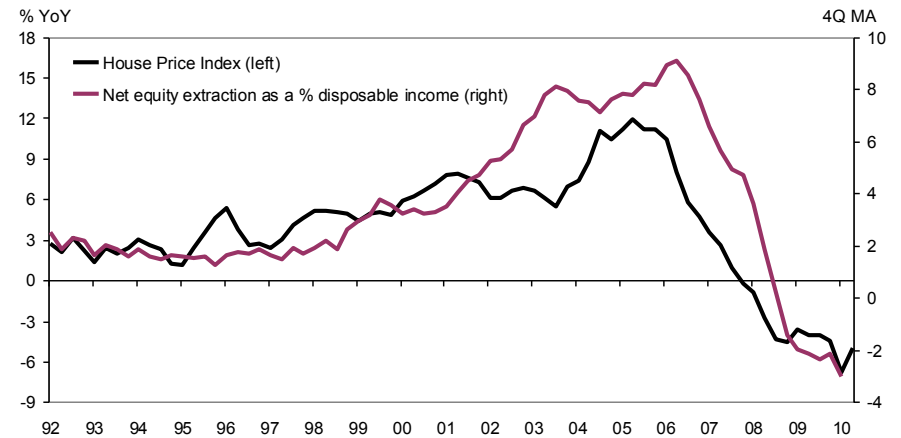
US Consumption Binge...



...Was Not Supported by Income Effects

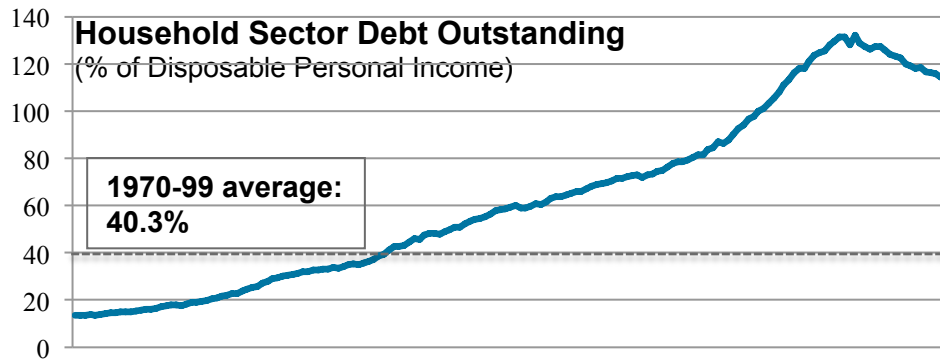


But Driven by Wealth and Credit Bubbles

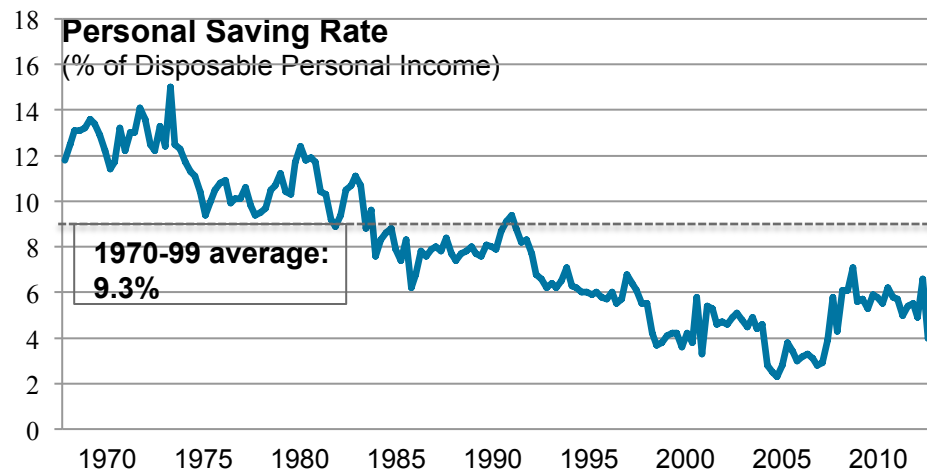


Lingering Headwinds of U.S. Balance Sheet Repair

Deleveraging



Rebuilding Saving



America's Zombie Consumers

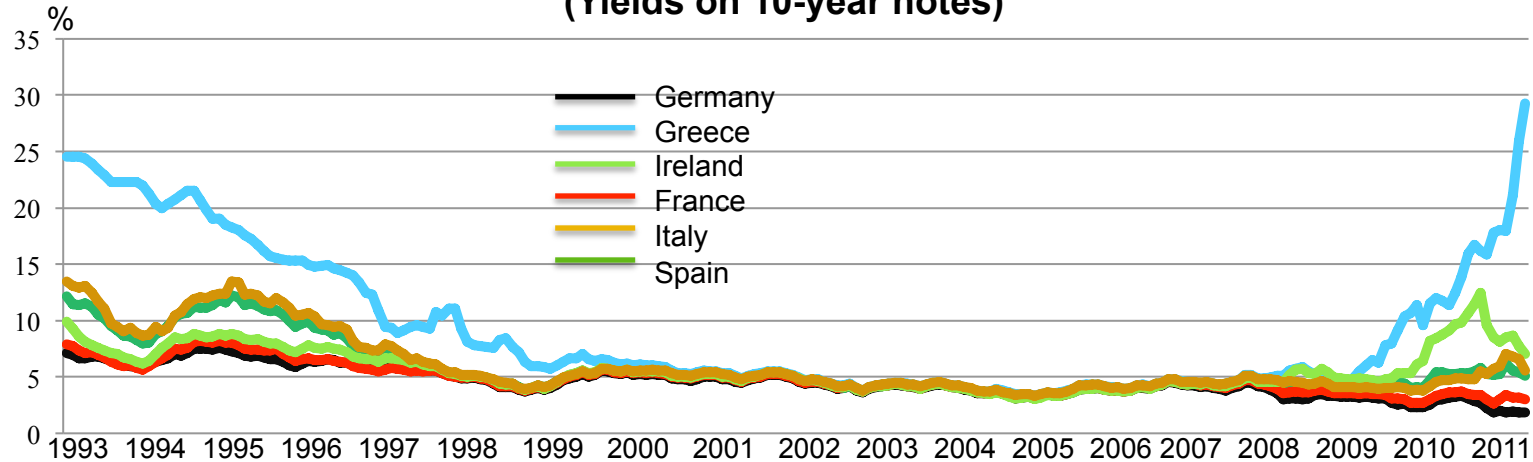
(US real consumption:
Average annualized growth)

- The Balance Sheet Recession
2008-I to 2009-II: **-1.8%**
- Anemic Recovery
2009-III to 2013:2 **+2.2%**
- 22-Quarter Average
2008-I to 2013-II: **+1.1%**
- *****
- Pre-crisis trend
1996 to 2007: **+3.6%**

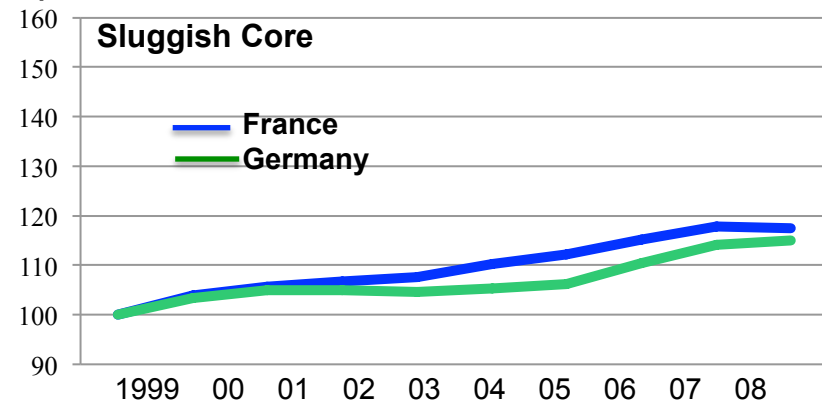
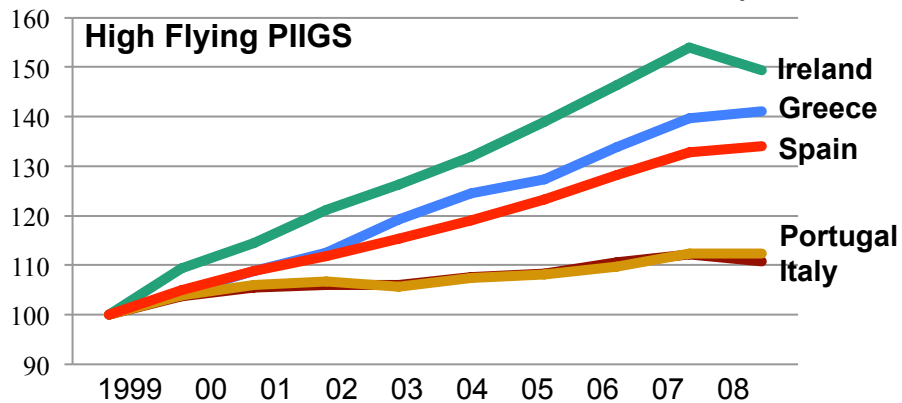
Source: Federal Reserve flow-of-funds and U.S. Department of Commerce, BEA

Growth European Style

**European Long-term Interest Rates
(Yields on 10-year notes)**

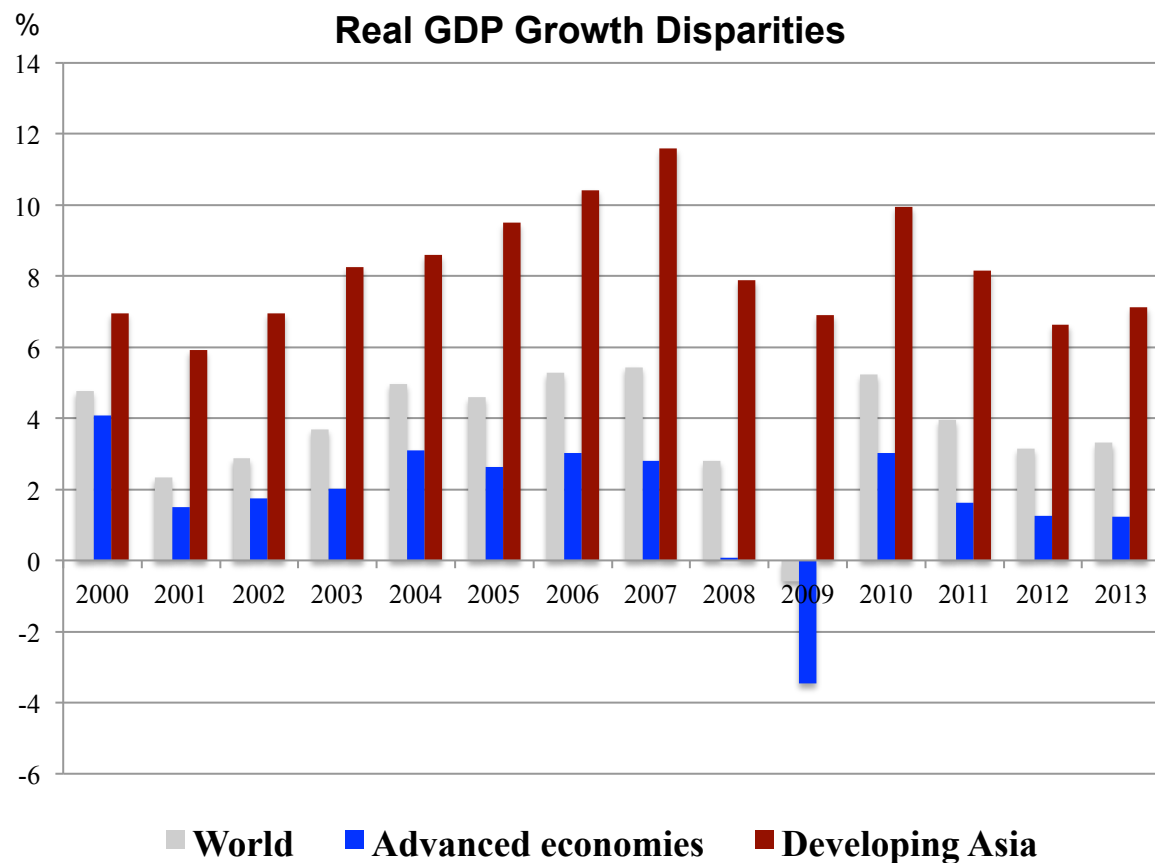


**Real GDP in Local Currencies
(Index: 1999=100)**



Sources: European Central Bank and International Monetary Fund

Developing Asia's Growth Bonanza

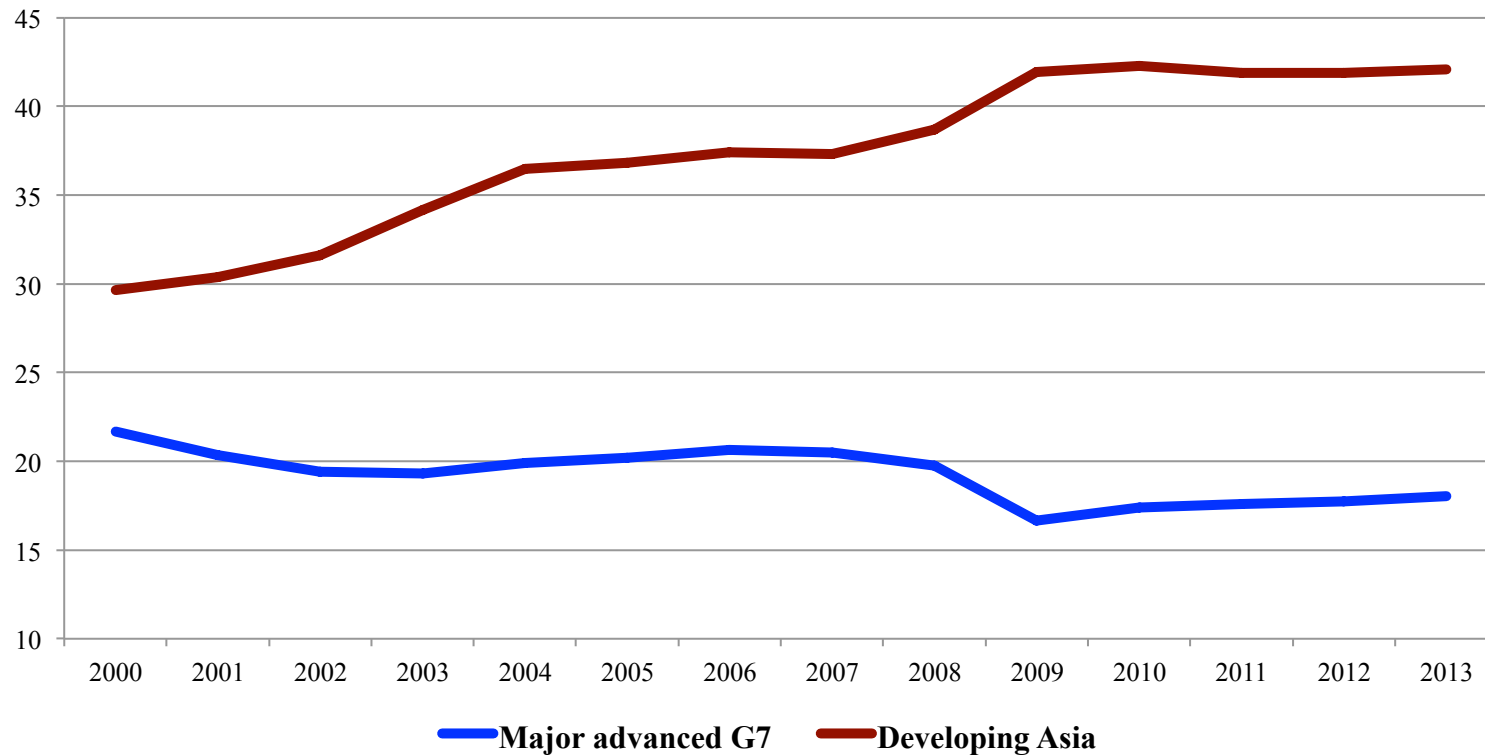


	<u>2000-13</u>	
	Average	DA Gap
Developing Asia	8.2%	---
Adv. Economies	1.8%	6.4 pts
World	3.7%	4.5 pts

Source: IMF *World Economic Outlook* data base (April 2013)

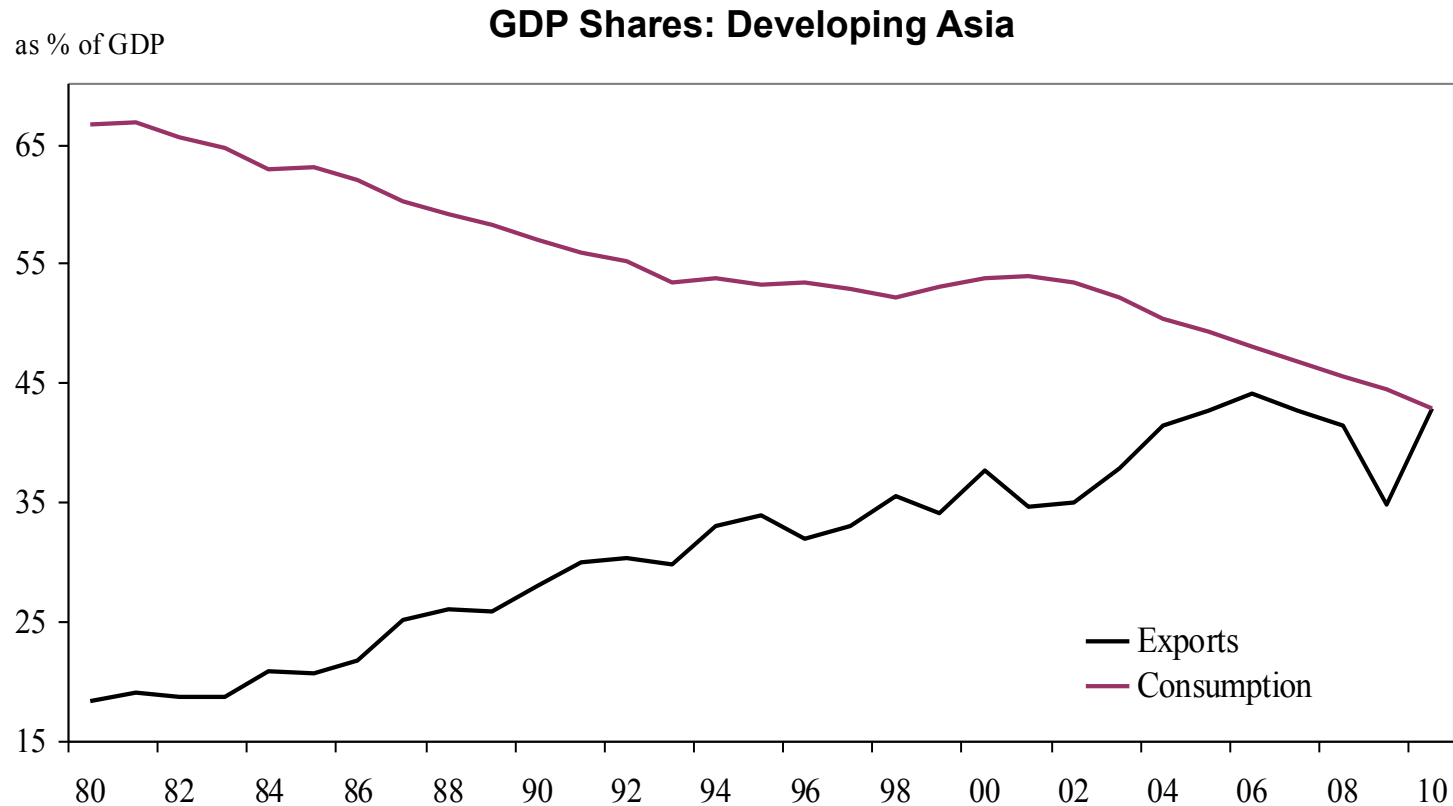
Global Rebalancing Imperatives

Investment Shares of GDP



Source: IMF *World Economic Outlook* database (April 2013)

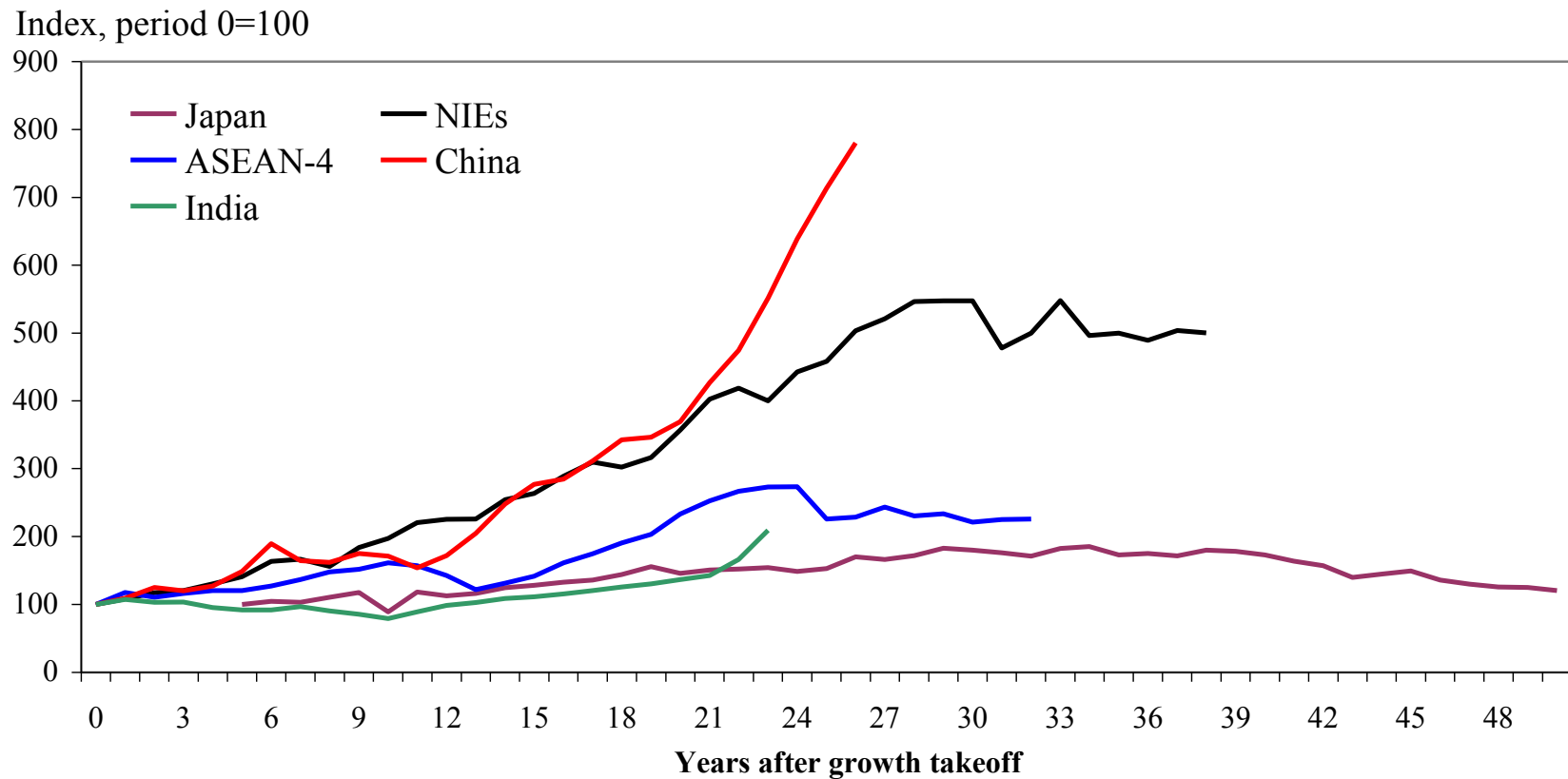
Export-Led Developing Asia



Source: IMF, national data sources

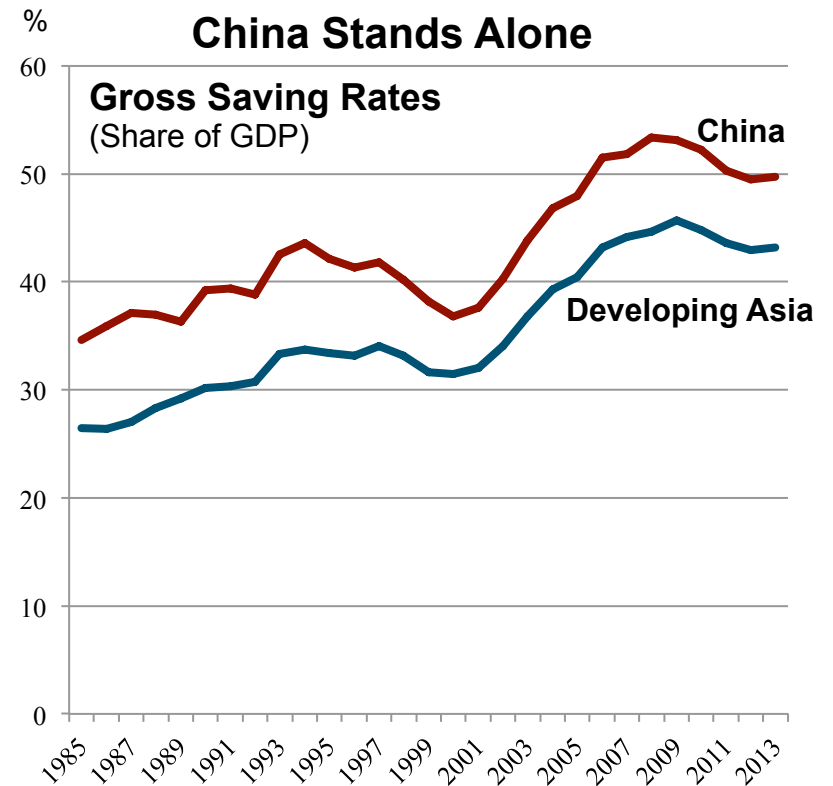
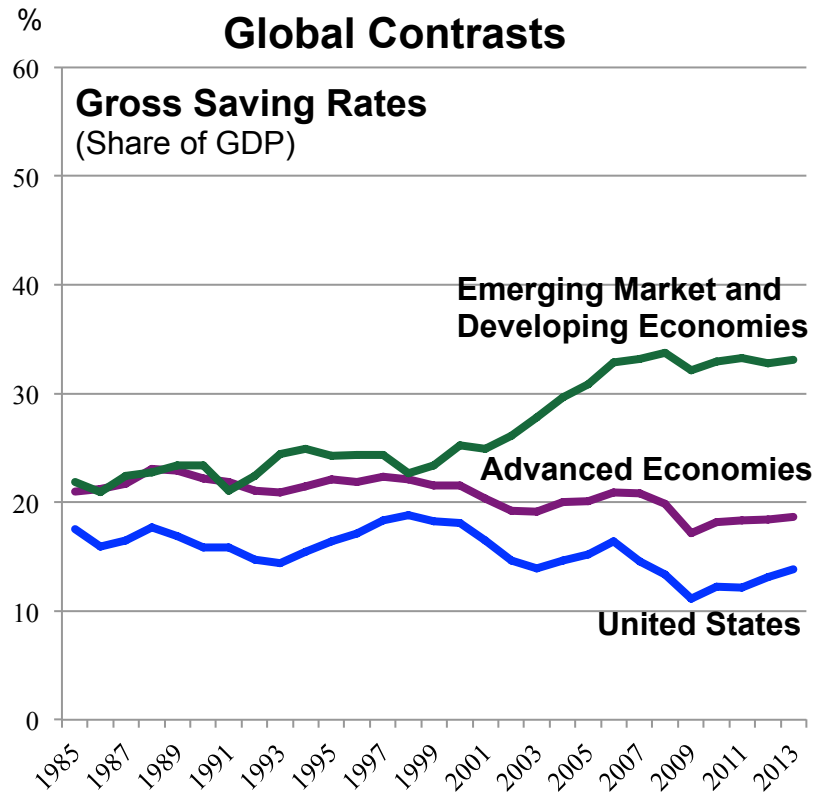
The Asian Trade Model

Shares of World Trade Indexed at "Takeoff"



Source: International Monetary Fund

Global Saving Disparities

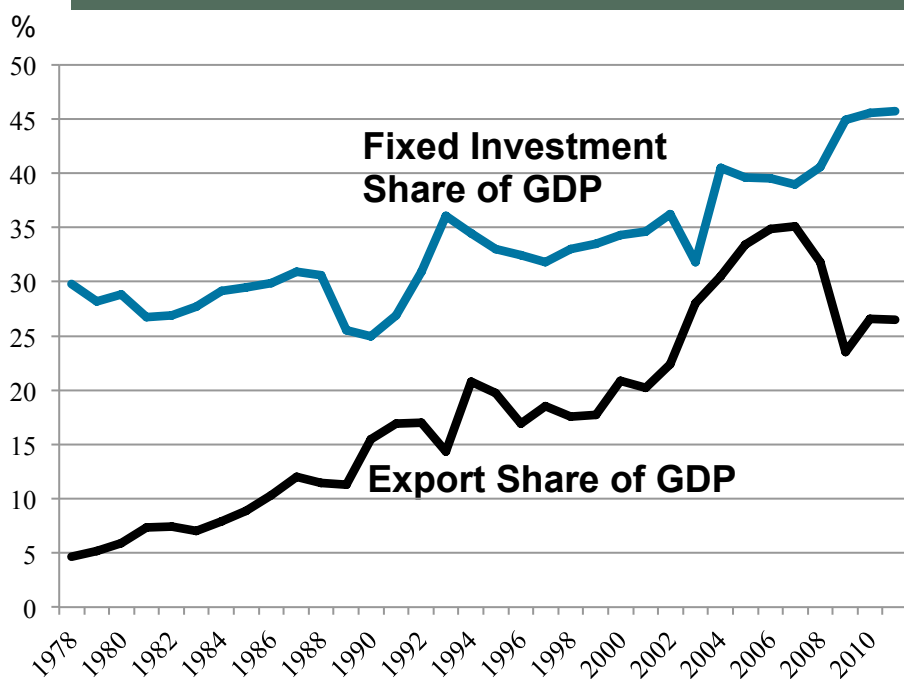


Source: IMF *World Economic Outlook* (April 2013 WEO database)

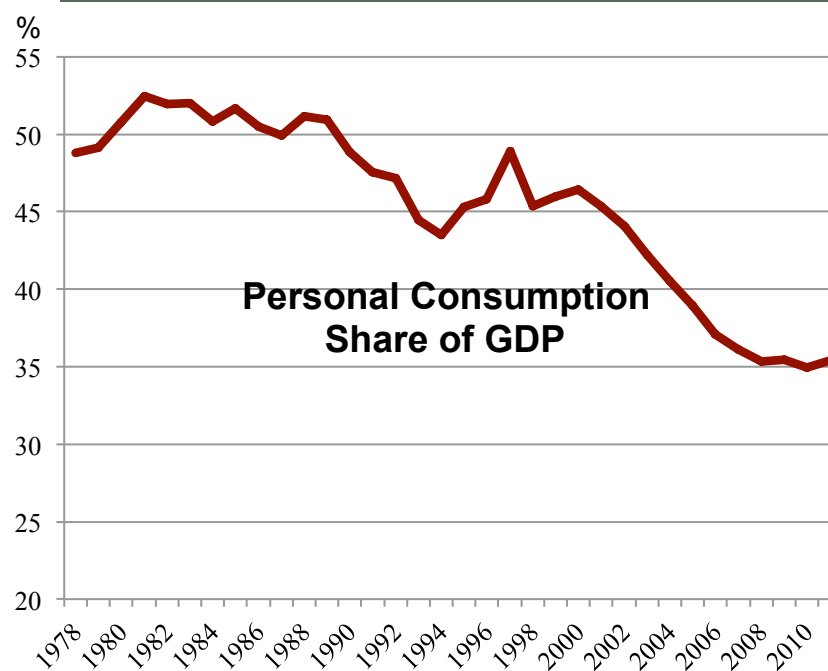
China's Unbalanced Growth Model

“Unstable, unbalanced, uncoordinated, and unsustainable.”
— Premier Wen Jiabao, March 16, 2007

China's Growth Leaders



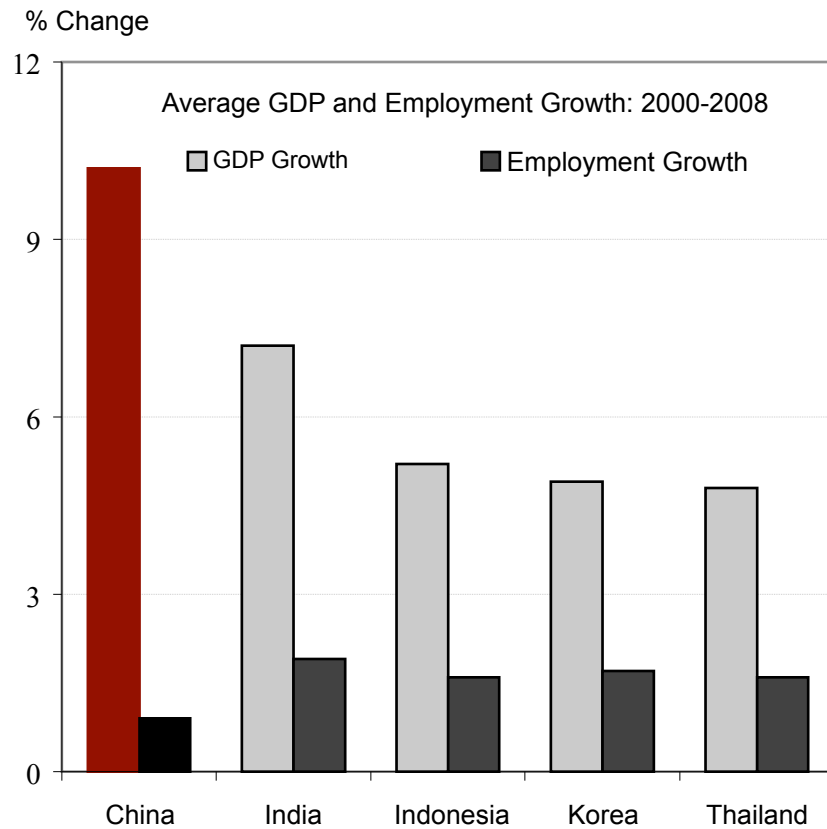
China's Growth Laggard



Source: National Bureau of Statistics of China

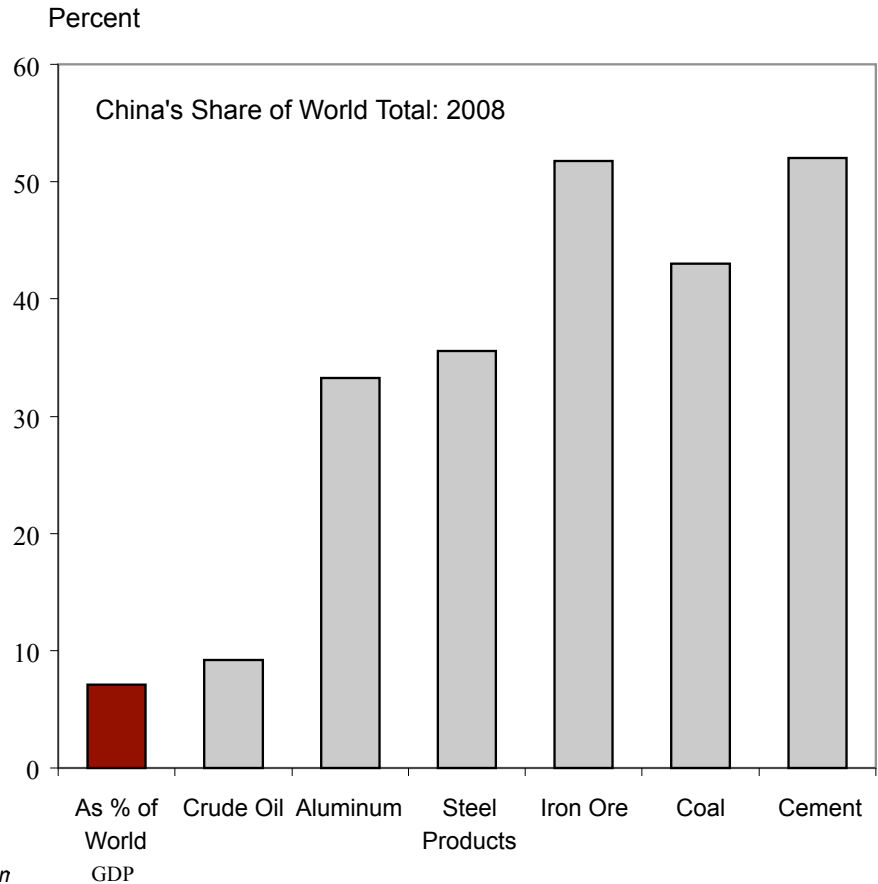
China's Internal Imbalances

Labor-Saving



Source: Eswar Prasad, "Rebalancing Growth in Asia," *Finance and Development*, Decem
IMF, WBMS, BP, CRU, Morgan Stanley Research.

Resource-Intensive

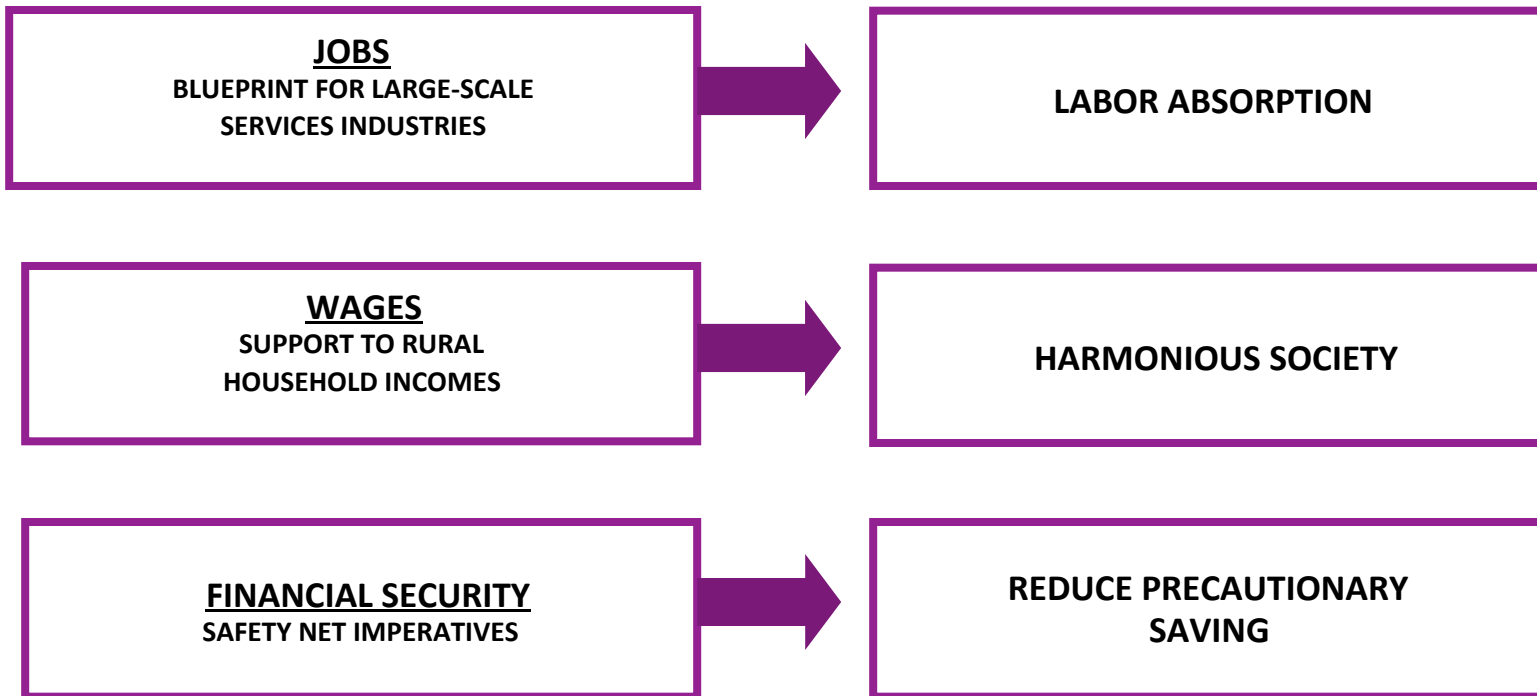


China's Pro-Consumption Rebalancing

The 12th FIVE-YEAR PLAN

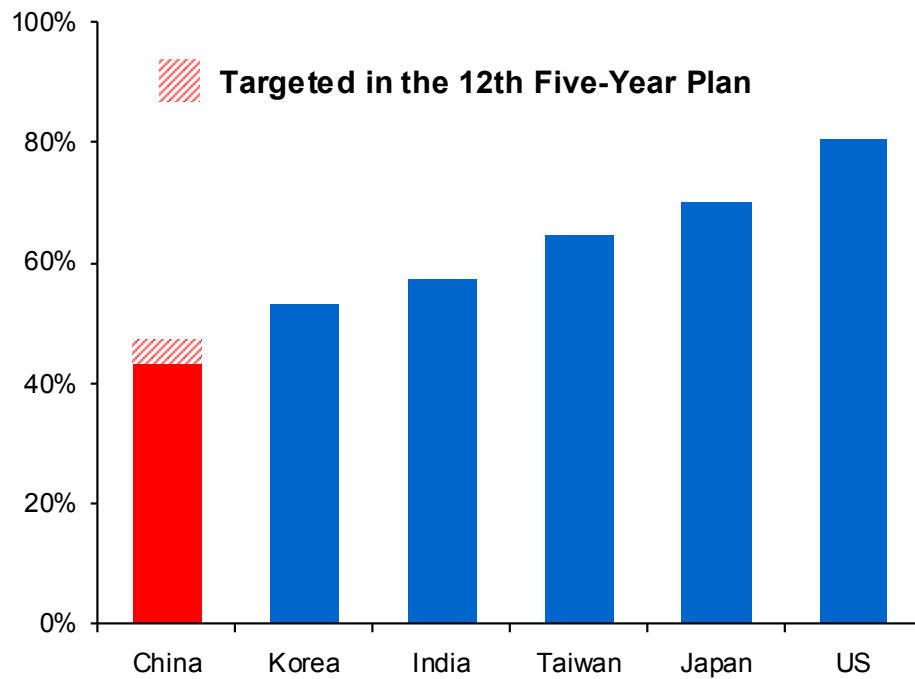
MECHANISM

GOAL

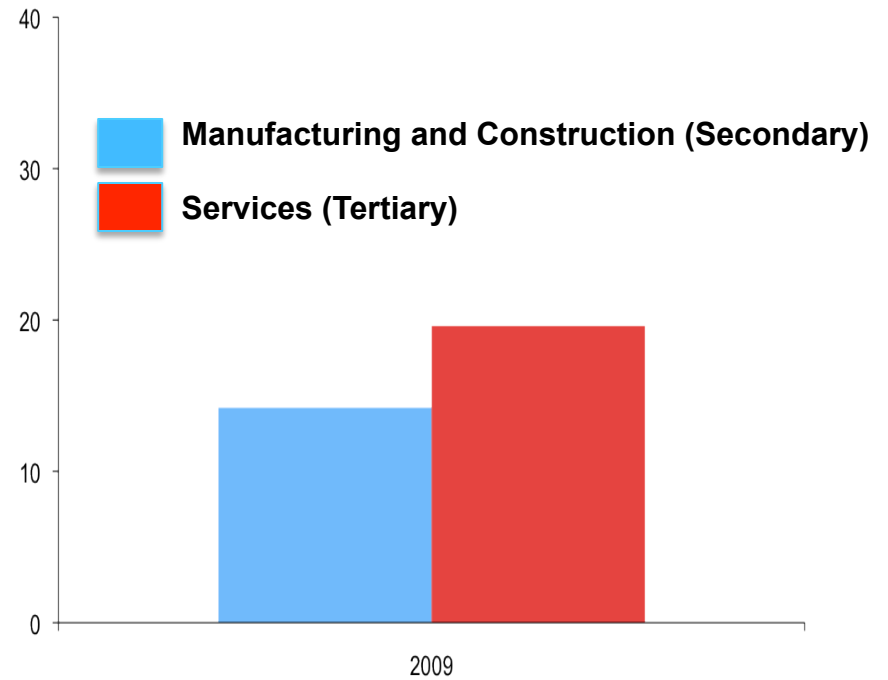


The Potential in Chinese Services

A Lagging Chinese Services Sector

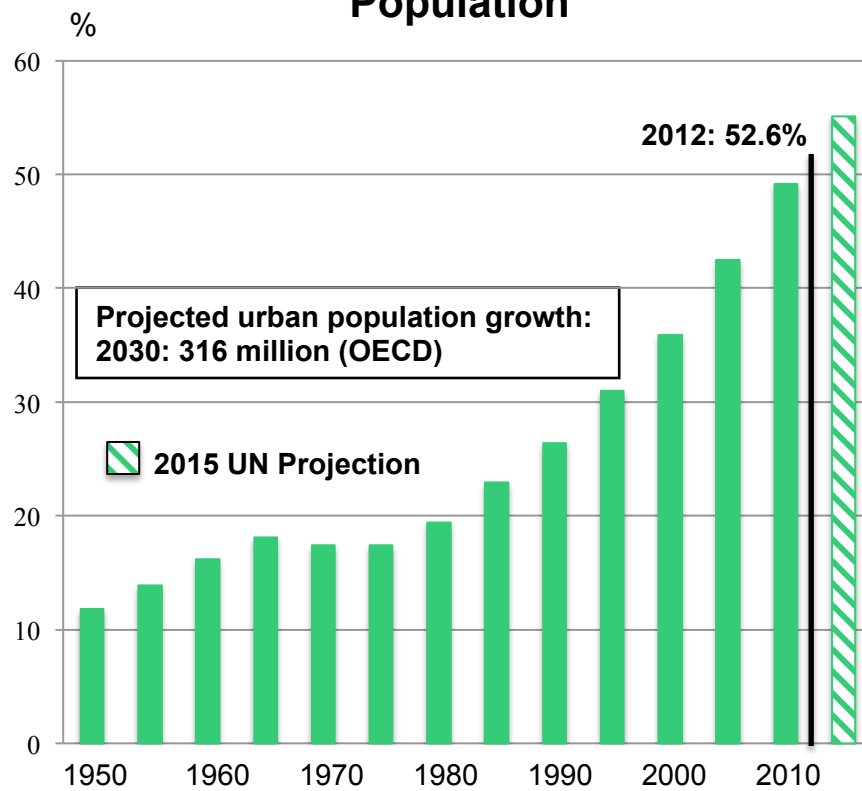


Labor Intensity: Jobs per RMB Million GDP



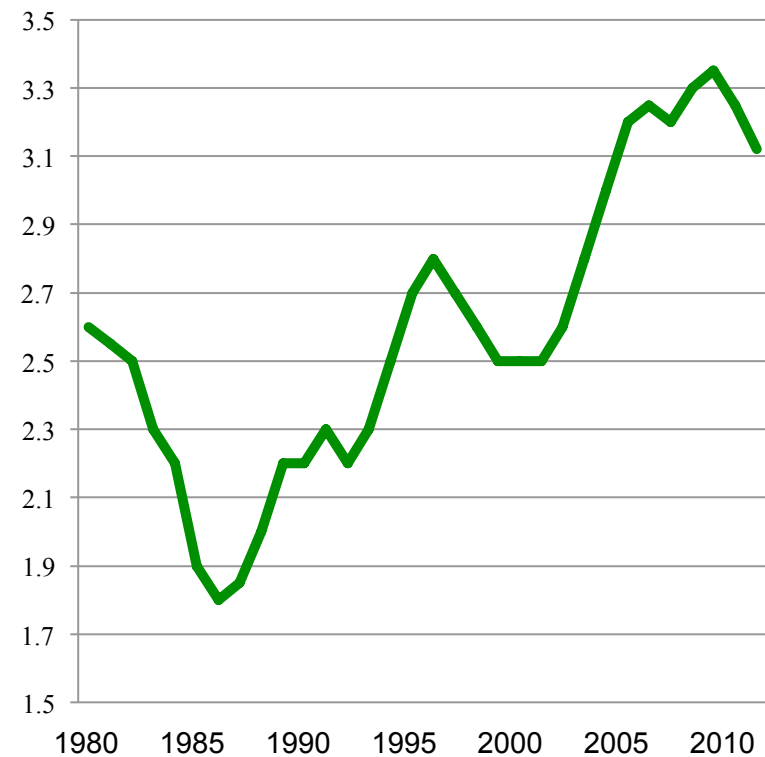
Income Leverage of Urbanization

Urban Share of Chinese Population

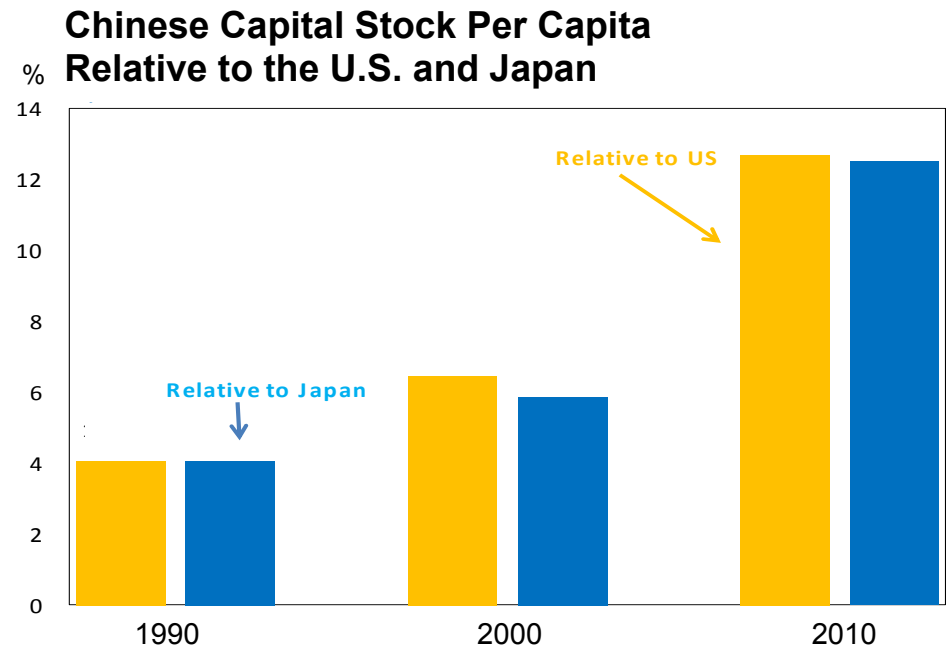
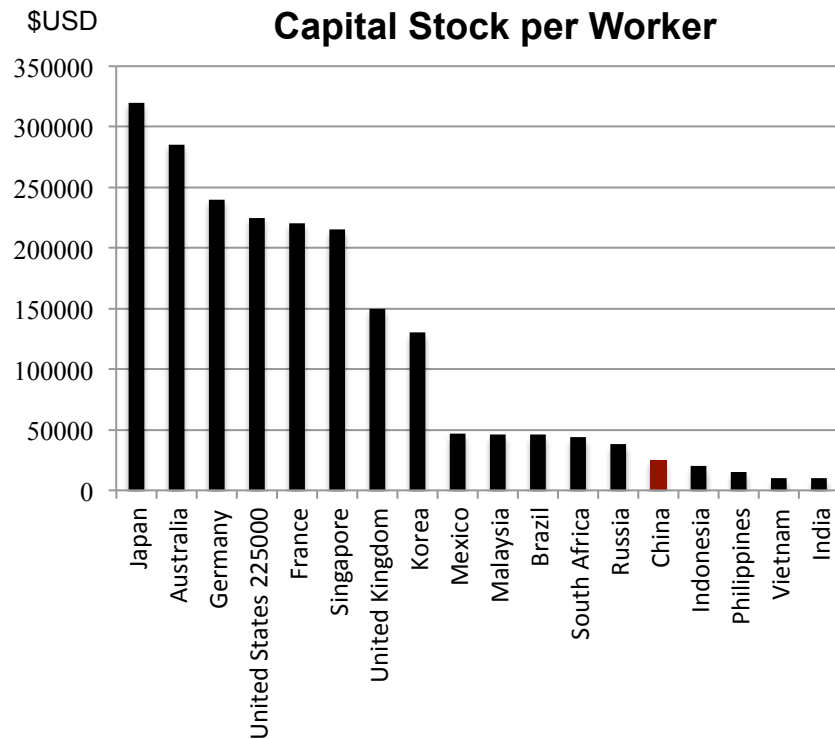


Source: UN, OECD

Ratio of Urban to Rural Income



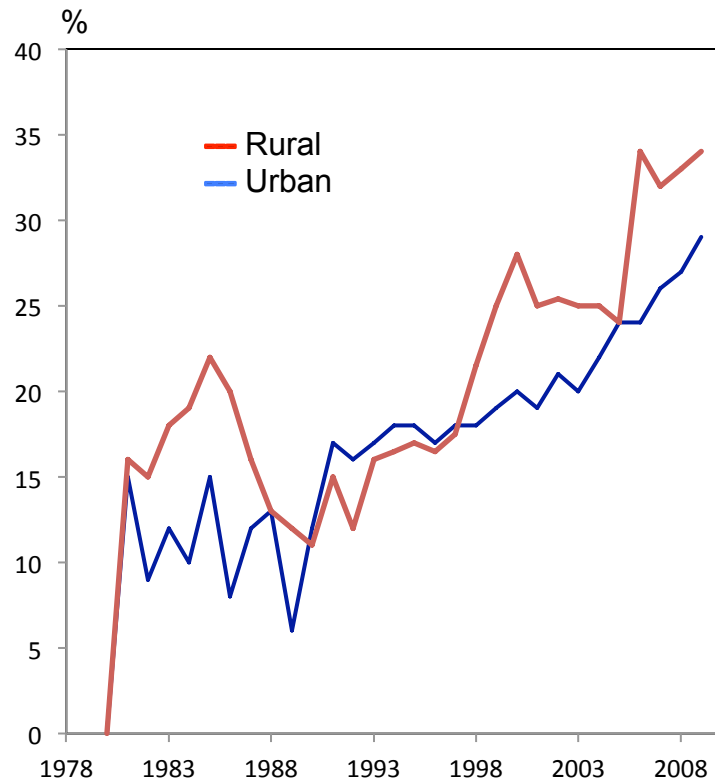
Urbanization Drives Investment



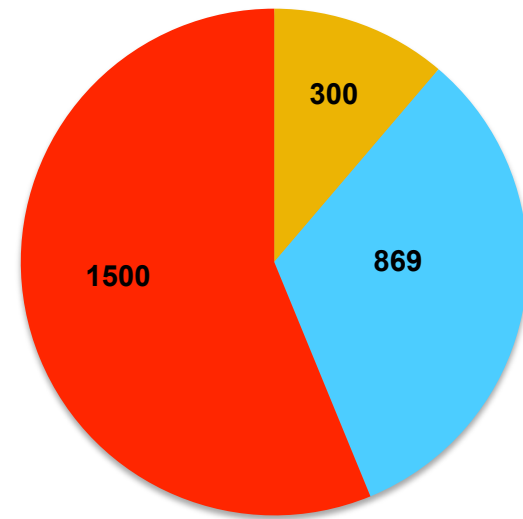
Source: Penn World Tables and International Monetary Fund

China's Safety Net Conundrum

Chinese Household Saving Rates



Retirement Assets 2010-11: RMB 2669 Bil (USD \$435 Bil or \$569 per worker)



-  National Social Security Fund (2011)
-  Local Govt Social Security Funds (2010)
-  Private Pensions (2010)

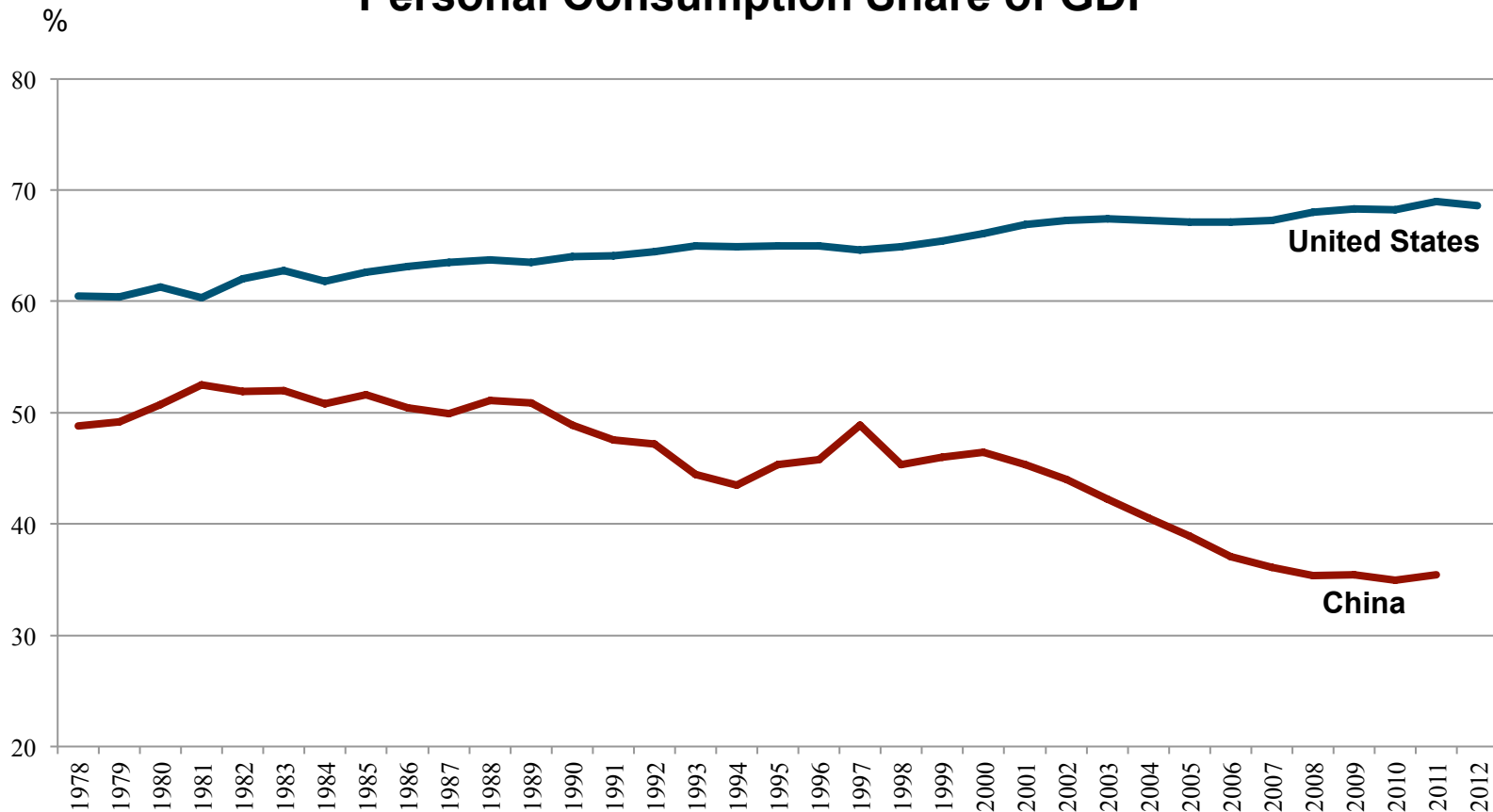
Source: International Monetary Fund, National Bureau of Statistics (China), National Social Security Fund (China), Xinhua News Service, BBVA Research

China's Strategic Advantage

<u>5-year Plan</u>	<u>Dates</u>	<u>Key Feature</u>
First	1953-57	Stalinist Central Plan
Second	1958-62	Great Leap Forward
Third	1966-70	Agricultural Push
Fourth	1971-75	Cultural Revolution
Fifth	1976-80	Post-Mao (Reforms and Opening Up)
Sixth	1981-85	Readjustment and Recovery
Seventh	1986-90	Socialism with Chinese Characteristics
Eighth	1991-95	Technical development
Ninth	1996-00	SOE Reforms
Tenth	2001-05	Strategic Restructuring
Eleventh	2006-10	Rebalancing Alert
Twelfth	2011-15	Pro-Consumption

Codependency and Rebalancing Imperatives

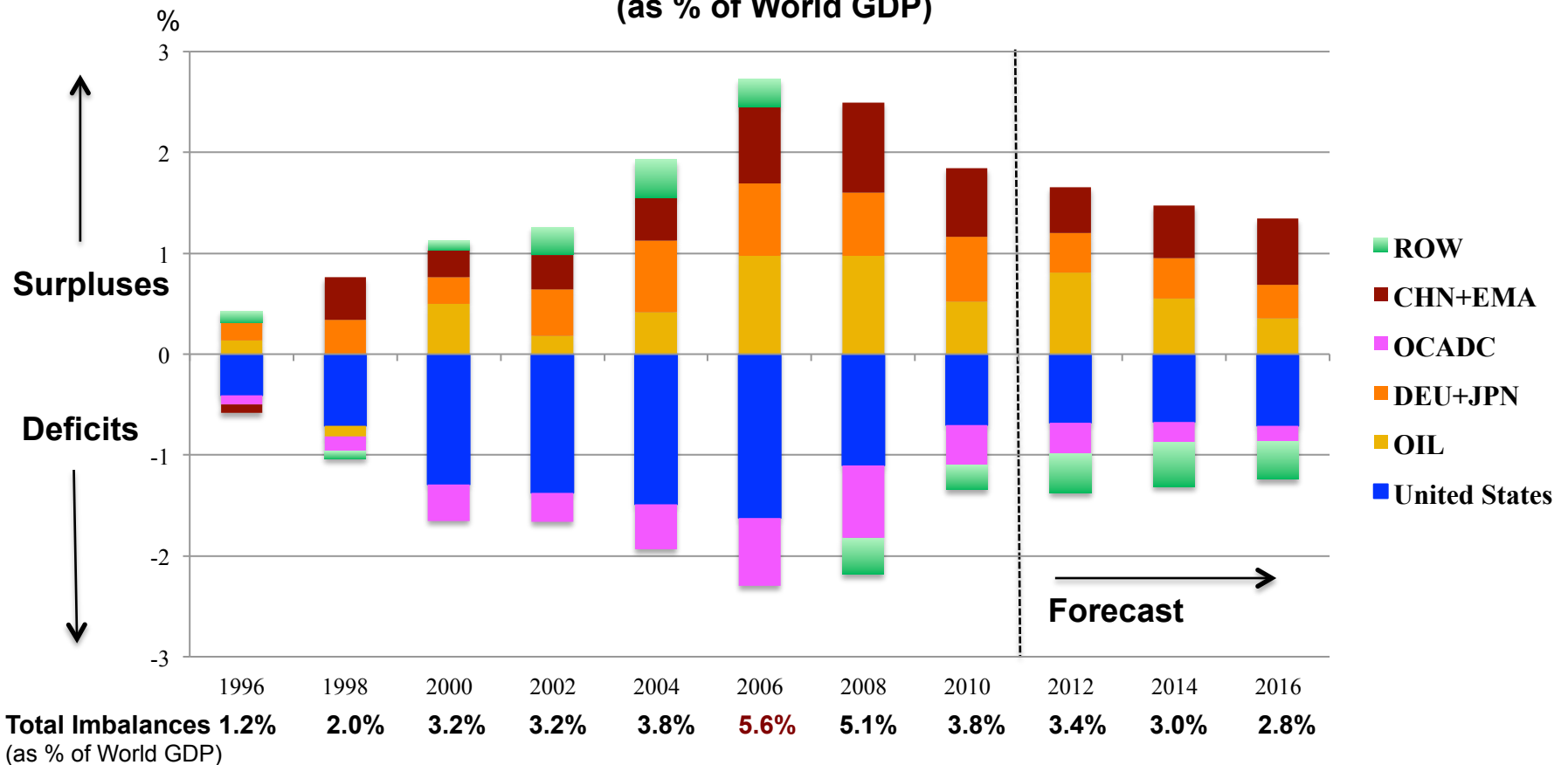
Personal Consumption Share of GDP



Source: U.S. Department of Commerce and National Bureau of Statistics (China)

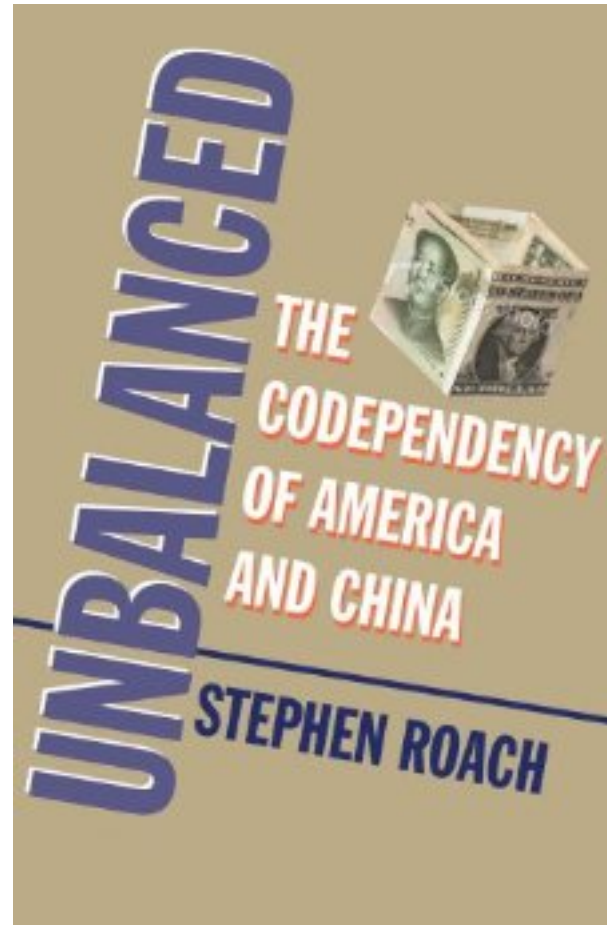
Global Imbalances and the Lessons of Japan

Current Account Disparities
(as % of World GDP)



Source: International Monetary Fund (October 2012 WEO database)

New Book



Yale University Press
January 2014

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