press release

Asia to lead global recovery in 2010

China, India and Indonesia to drive growth

London, 1st December, 2009: 2010 is likely to be the year of global recovery thanks to a synchronised, sizable, and successful global policy stimulus, according to the latest edition of Standard Chartered Bank's monthly Global Focus report published today. Domestic-demand driven economies such as China, India and Indonesia are likely to be at the forefront of this recovery, reinforcing the shift in the balance of economic and financial power from the West to the East, the report said.

> *"The outlook will depend on the interaction between economic fundamentals, policy and confidence," said* ***Dr. Gerard Lyons, Chief Economist and Group Head of Global Research****. "Economies with stronger fundamentals, like China and India, may see stronger rebounds as we move through the year."*

The Global Focus report provides detailed outlook and forecasts for the world's major economies and key emerging markets and regions, including Asia, Africa and the Middle East. Among the key predictions are: global growth is likely to be 2.7 per cent in 2010, compared with an estimated 1.9 per cent contraction in 2009; Asia is likely to grow by 7.0 per cent in 2010, compared with an estimated 4.5 per cent growth in 2009 while China and India are expected to grow by 10.0 and 7.5 per cent, respectively, compared with 8.5 and 6.8 per cent in 2009. The report also provides detailed analyses and forecasts for foreign exchange, rates, credit and commodity markets.

Although Standard Chartered is not predicting a "double-dip" recession in the West, a number of economies in this part of the world could witness a negative quarter of growth at some stage next year. A double-dip recession would require either an external shock – such as an escalation of tensions with Iran – or a policy-induced shock triggered by premature policy tightening in the West.

In the U.S. and Europe, some fine tuning of interest rates and fiscal policy is possible, as governments and central bankers need to send a message to the markets that they are on top of any early signs of inflation building over the longer term. However, Standard Chartered does not expect aggressive policy tightening for some time to come and, in fact, expects the U.S. Federal Reserve to raise its benchmark rate only in 2011.

In recent years, the U.S. consumer has been, along with China's emergence, one of the main drivers of global growth, but now, the impact of the U.S. consumer has fundamentally weakened, according to the report. It predicts that the immediate impact in the U.S. and many European countries, such as the U.K., in 2010 will be stubbornly high unemployment, sluggish wage growth, stabilisation of house prices at levels far off their boom-time peak, and worries about pensions, despite this year's rally in equities.

For the emerging economies, however, exit strategies from the easy monetary and fiscal policies would be a dominating theme in 2010, the report said. There is likely to be tightening in many of the emerging markets, with domestic demand-driven economies such as India and Indonesia leading the way across Asia. However, such measures will be driven by local factors, rather than by any overarching regional trends.

> *"Our forecasts suggest that the recovery will take the shape of an L or a U in the West and a V in the East,"* ***Dr. Lyons*** *said.*

While these trends can be viewed as part of the necessary rebalancing of the world economy, rebalancing in itself has not been the number one priority for the emerging economies in 2009. Rebalancing implies that the West becomes relatively poorer, spending less and saving more, and high surplus regions such as the Middle East and East Asia do the opposite, spending more and saving less.

> *"The trouble is, in many cases, this is not the natural response to a crisis," said* ***Dr. Lyons****. "Indeed, across Asia, saving more – not less – is the natural reaction to a crisis. Hence there is a need for Asia to deepen its social safety nets, provide help to small and medium-sized firms, and deepen and broaden its bond markets. All of these are possible, but they will take time."*

The last leg of the rebalancing would involve major currency adjustments and here the key issue would be the need for the Chinese yuan (CNY) to strengthen. Although this issue was sidestepped in 2009, it is likely to take the centre stage throughout 2010.

> *"In the context of rebalancing the Chinese economy, a stronger CNY is in China's economic best interest,"* ***Dr. Lyons*** *noted. "In 2010, possibly starting after the spring, we expect the CNY to be allowed to appreciate, albeit at a gradual pace. This is a key issue, as too many countries across Asia and elsewhere are intervening to keep their currencies stable, adding to domestic monetary challenges as their foreign-exchange reserves build."*

The report highlights some challenges to the scenario of gradual economic recovery worldwide. These include:

1. Extremely low policy rates, particularly in the U.S., which is creating an environment where risk is not sufficiently priced in. Low policy rates can encourage bad behaviour and excessive risk taking, recreating the problems seen before the financial crash of 2008.
2. Low policy rates are adding to worries about large capital flows and asset price bubbles, particularly in Asia. It would not be surprising if measures such as Brazil's recent introduction of taxes to curb capital inflows were to be introduced in many Asian economies next year. Also, the report predicts targeted measures across many emerging economies, such as controls on lending growth in China, and curbs on property borrowing in Hong Kong.
3. The unintended consequences of a host of regulations governing the banking sector. The need for effective regulation – neither too heavy nor too light – remains the key, and this in the end will help the wider economy. However, one challenge for 2010 is to avoid regulatory overkill, the report warned.

Despite the challenges, the report identifies some key long-term trends which are creating opportunities for many emerging market economies:

1. The emergence of new trade corridors, reflected in the rising trade between Asia and regions such as Africa, the Middle East, and Latin America. This will involve rising flows of goods, commodities, people, remittances, and portfolio and direct investment flows. The clearest example of this in 2010 will be continued investment by China in Africa. Investors are also watching India for further market opening as that could have a profound impact on trade flows between South Asia and the Middle East and East Africa.
2. The infrastructure boom seen before the crisis is likely to return in 2010 with China leading the way, followed by economies across Asia, the Middle East, and Africa. This will lead to a significant upward trend in the demand for commodities which will, in turn, feed back into the debate over the environment and green energy, another key underlying trend

"Perhaps the least expected risk in 2010 is that growth will surprise on the upside," the report concluded. "This is partly because of the prevailing focus on the West. Yet, across the emerging world, the risk of an upside surprise should not be overlooked. The combination of policy stimulus and positive fundamentals could yet see stronger-than-expected growth in China and India, among others."

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Note to Editors:

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