

Bulls and Bears in the China Shop

Global Crises, Global Linkages and Asian Manufacturing



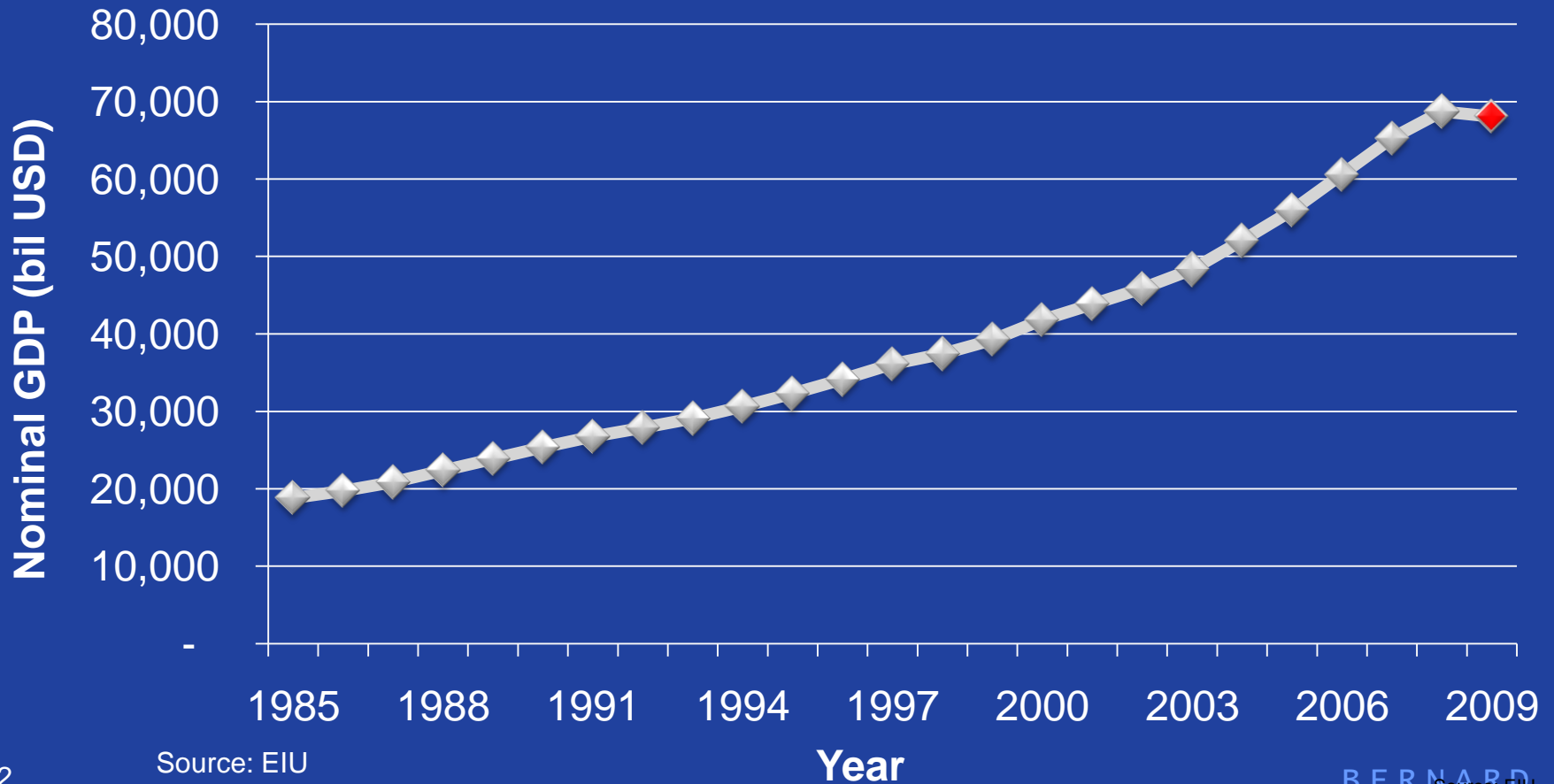
Sir Patrick Gillam Lecture
LSE, May 18 2009

Professor Andrew B. Bernard
Tuck School of Business

Introduction

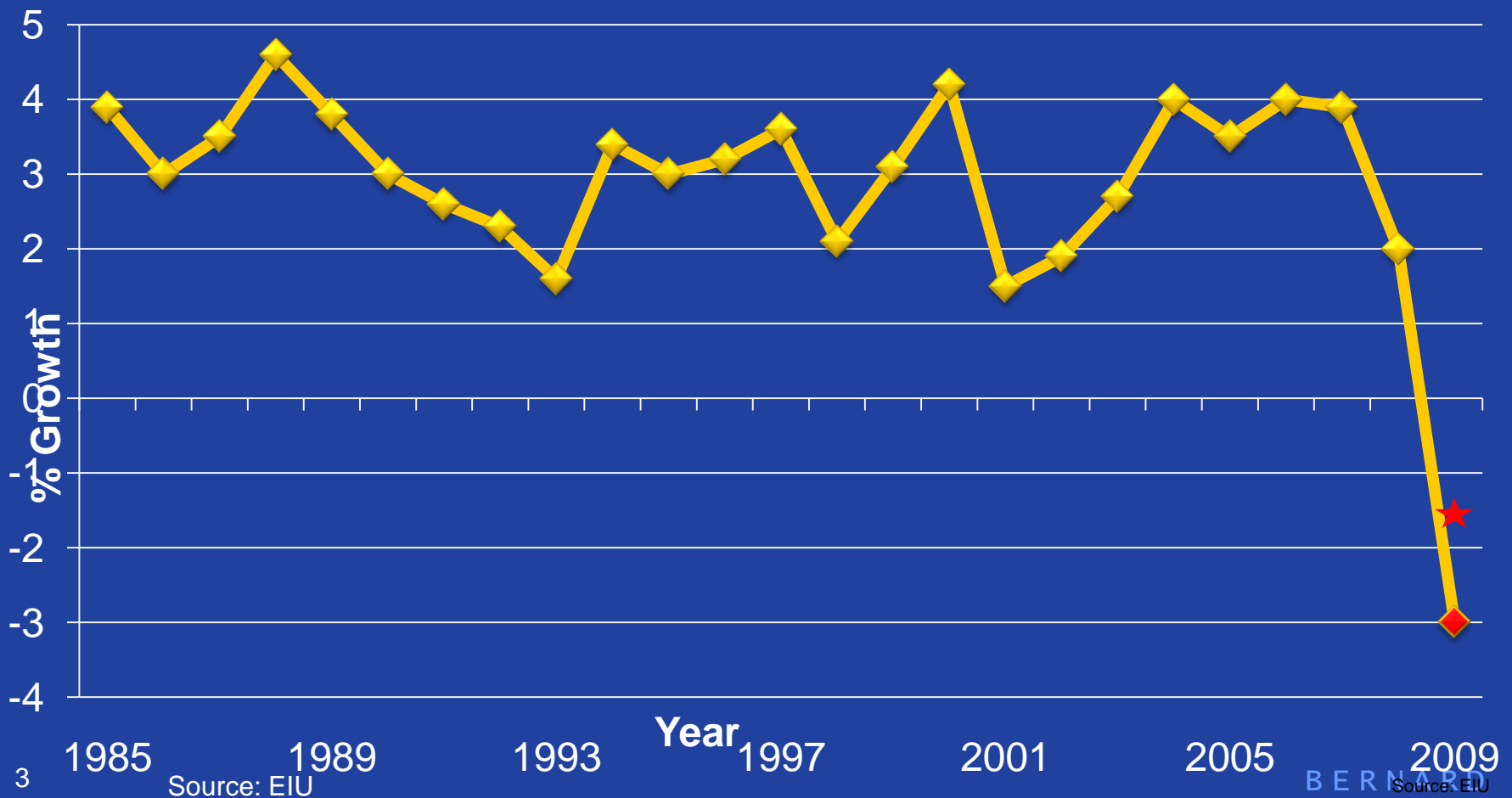
- A Productivity Perspective on the Crisis
- Trading Firms in a Crisis

World GDP 1985-2009

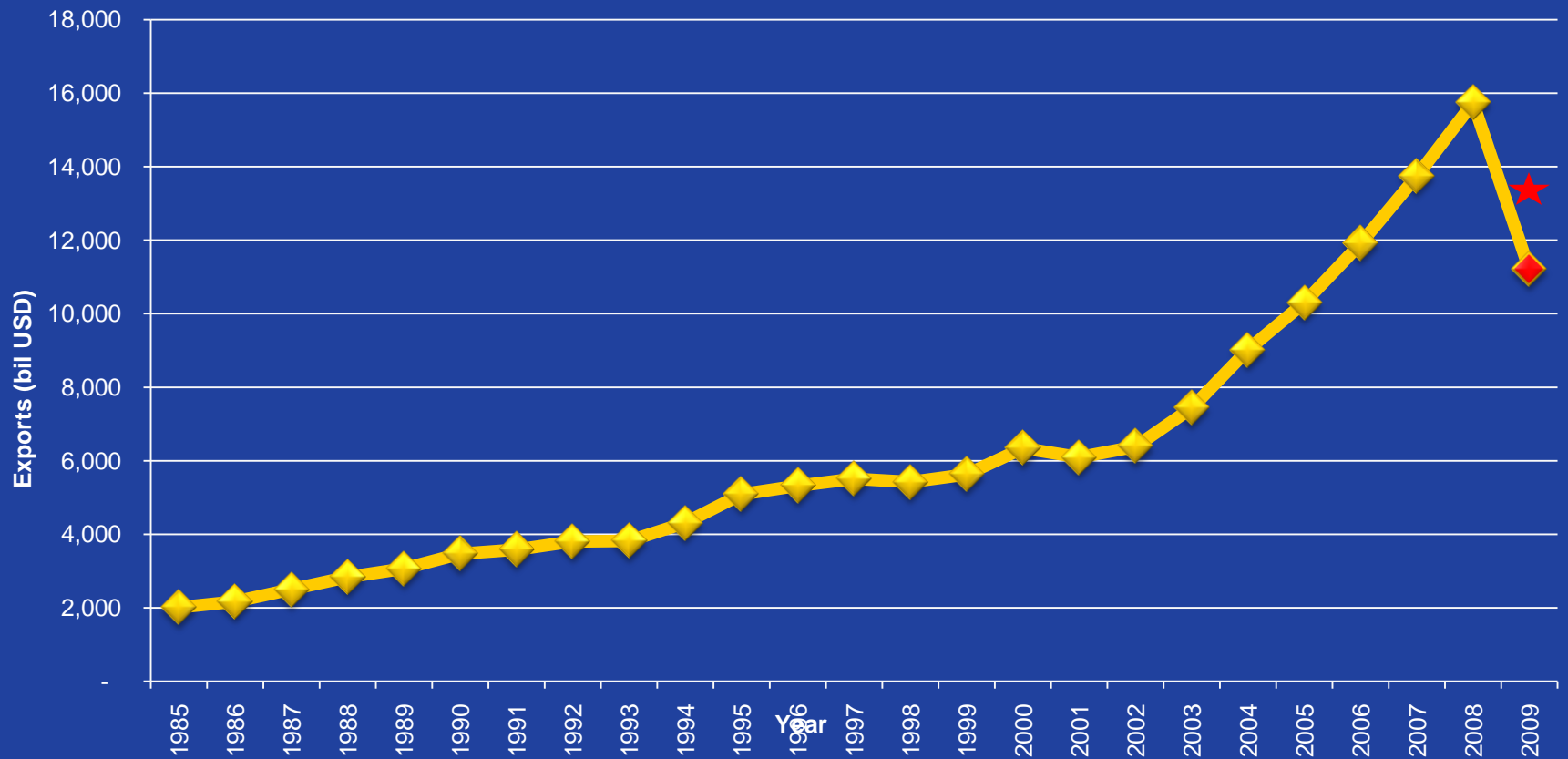


Source: EIU

World GDP Growth 1985-2009



World Total Exports 1985-2009



A Perspective on the Current Crisis

- Global Imbalances
- The Productivity Story

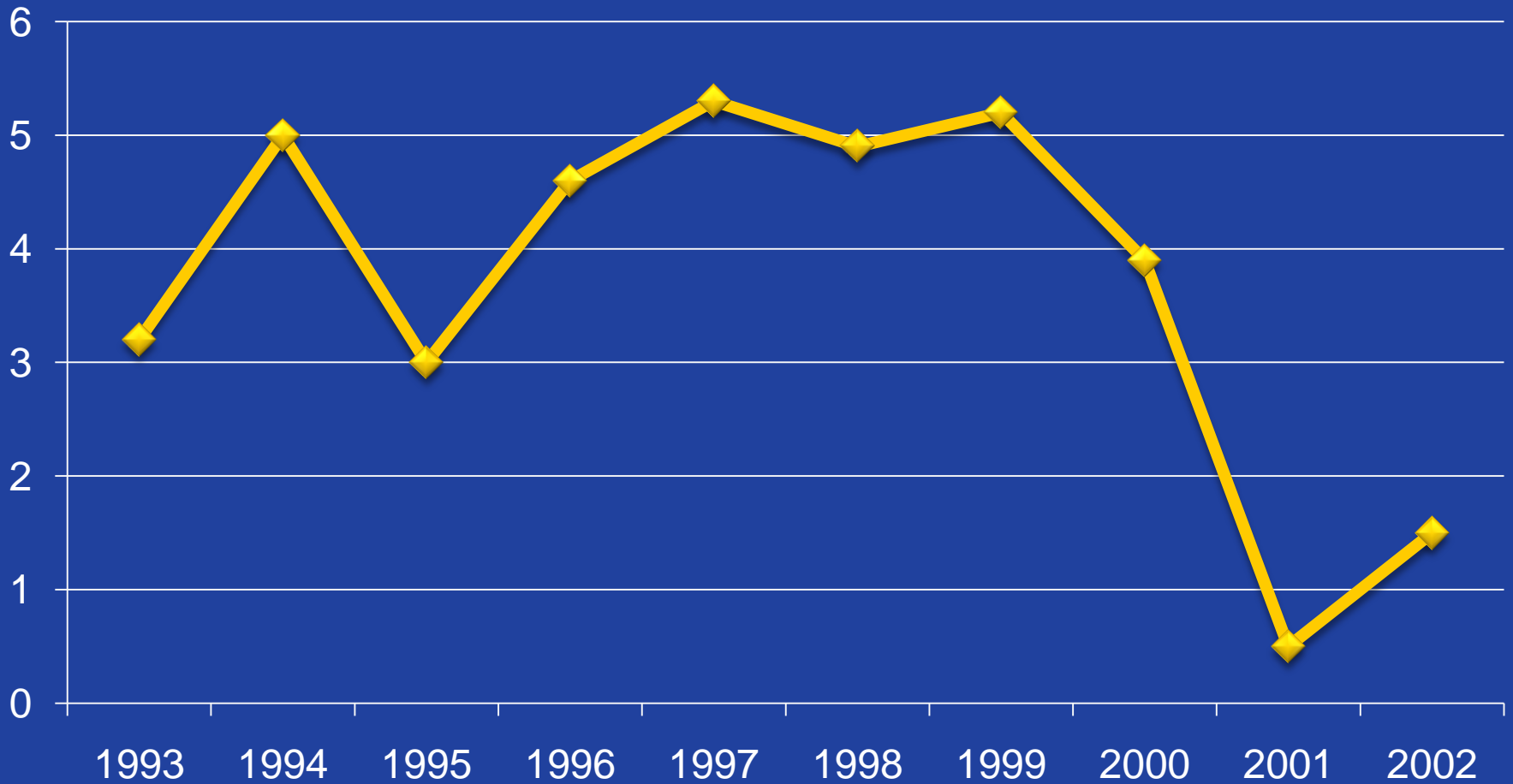
The Key Questions

- Why did the U.S. import so much capital?
- Why did the rest of the world export so much capital to the U.S.?

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- Why did the U.S. import so much capital?
 - Runaway government deficits
 - Insatiable, myopic consumers
- Why did the rest of the world export so much capital to the U.S.?
 - Windfall gains from commodity price rises + Low returns at home
 - Aging rich economies
 - Rainy day savings – a legacy of the Asian and other financial crises
 - Government intervention in capital markets

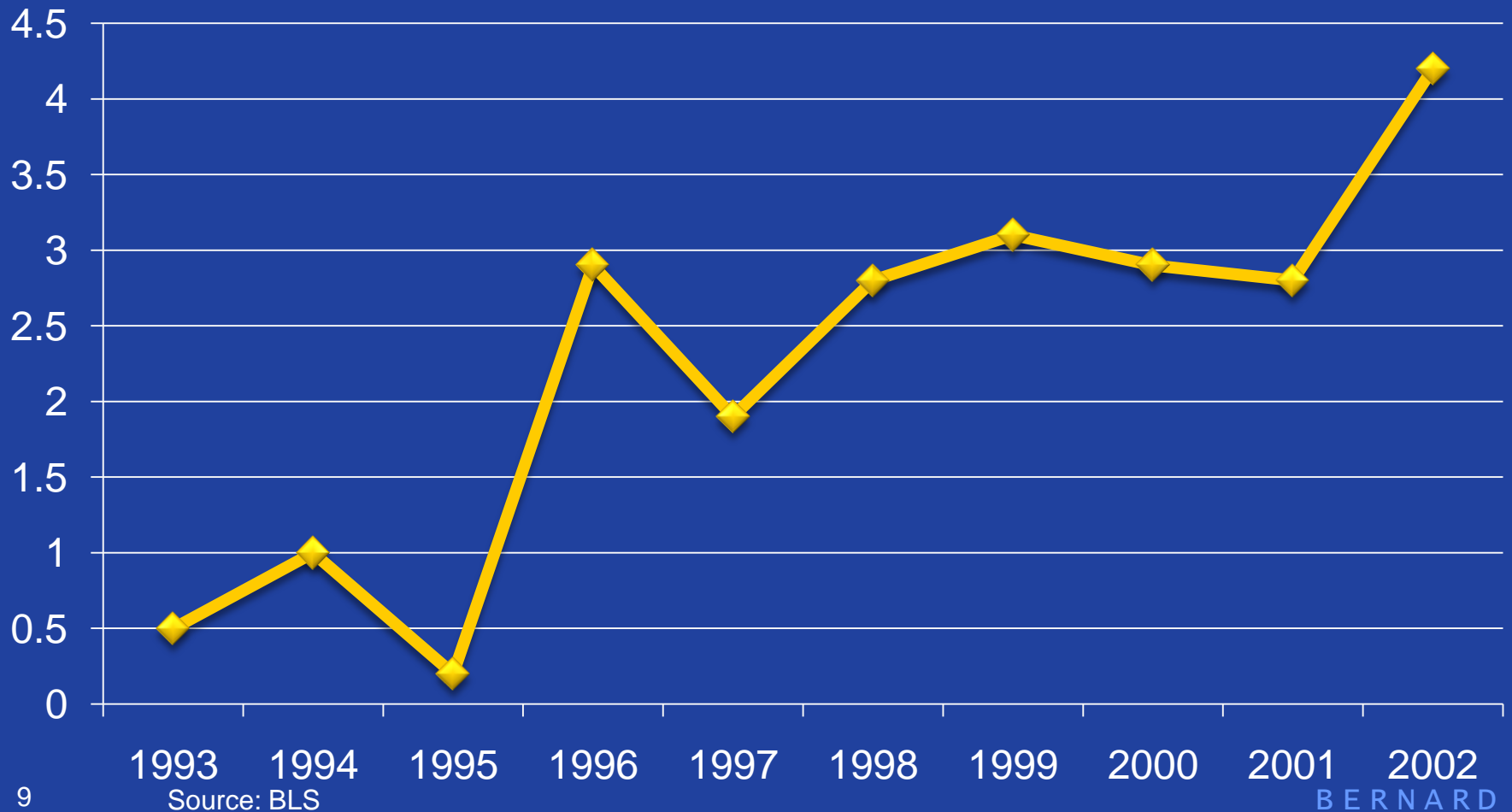
U.S. Output Growth



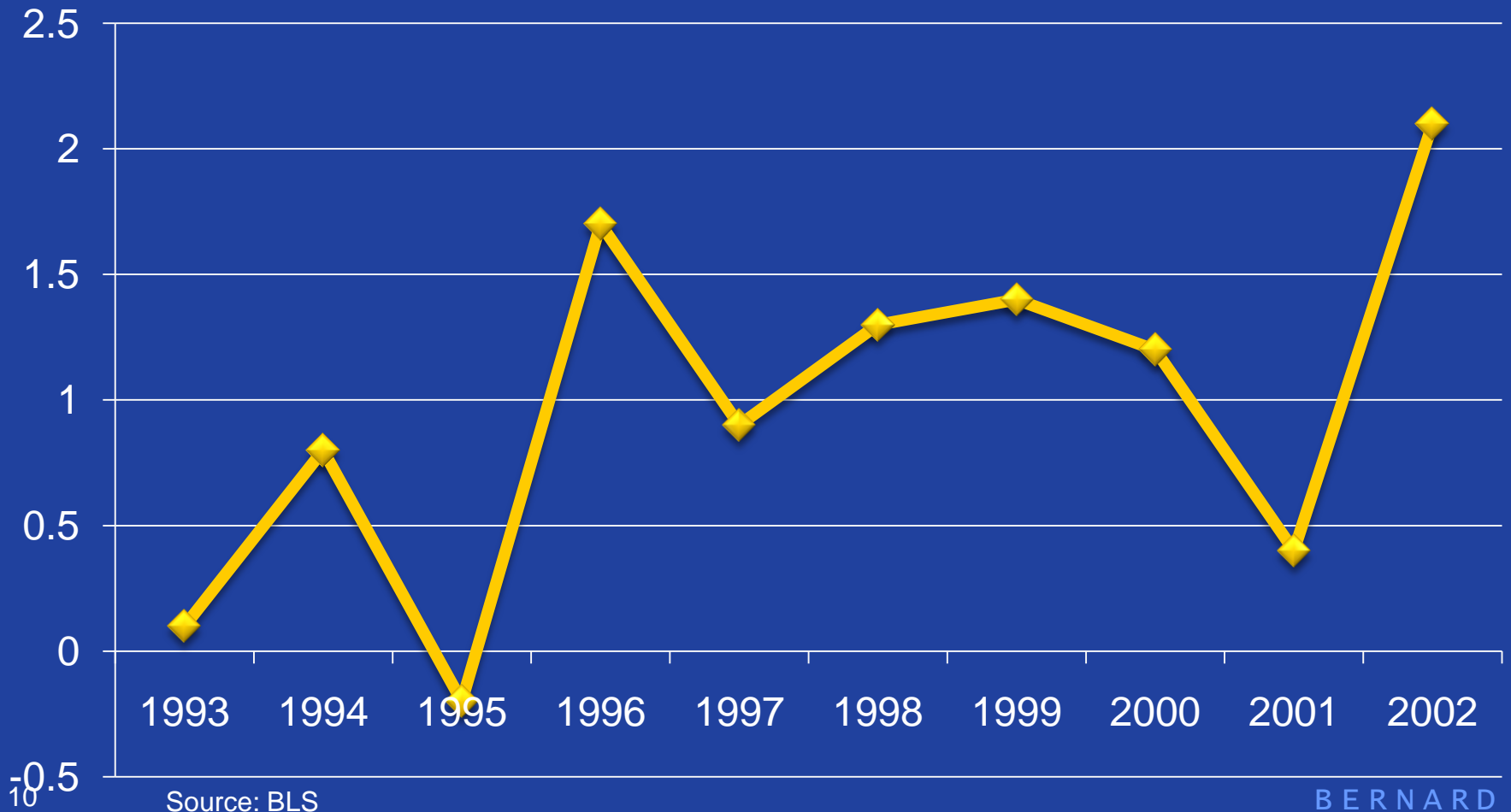
Source: BLS

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U.S. Labor Productivity Growth



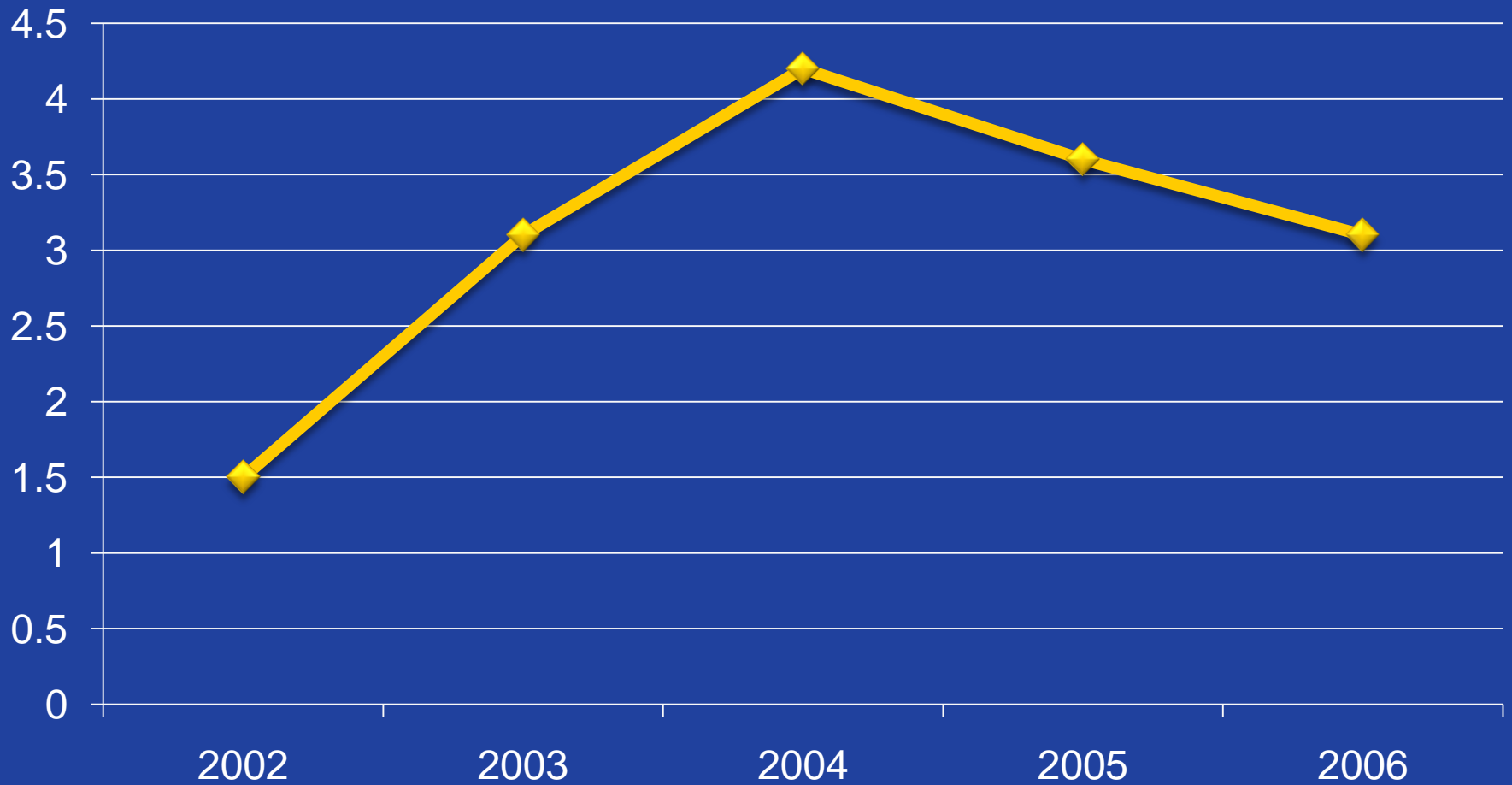
Multi-Factor Productivity Growth



Emerging from the 2001 Recession

- Low interest rates
- Low inflation
- Lots of fiscal stimulus
- The US booms again

U.S. Output Growth



Two choices for US firms and consumers

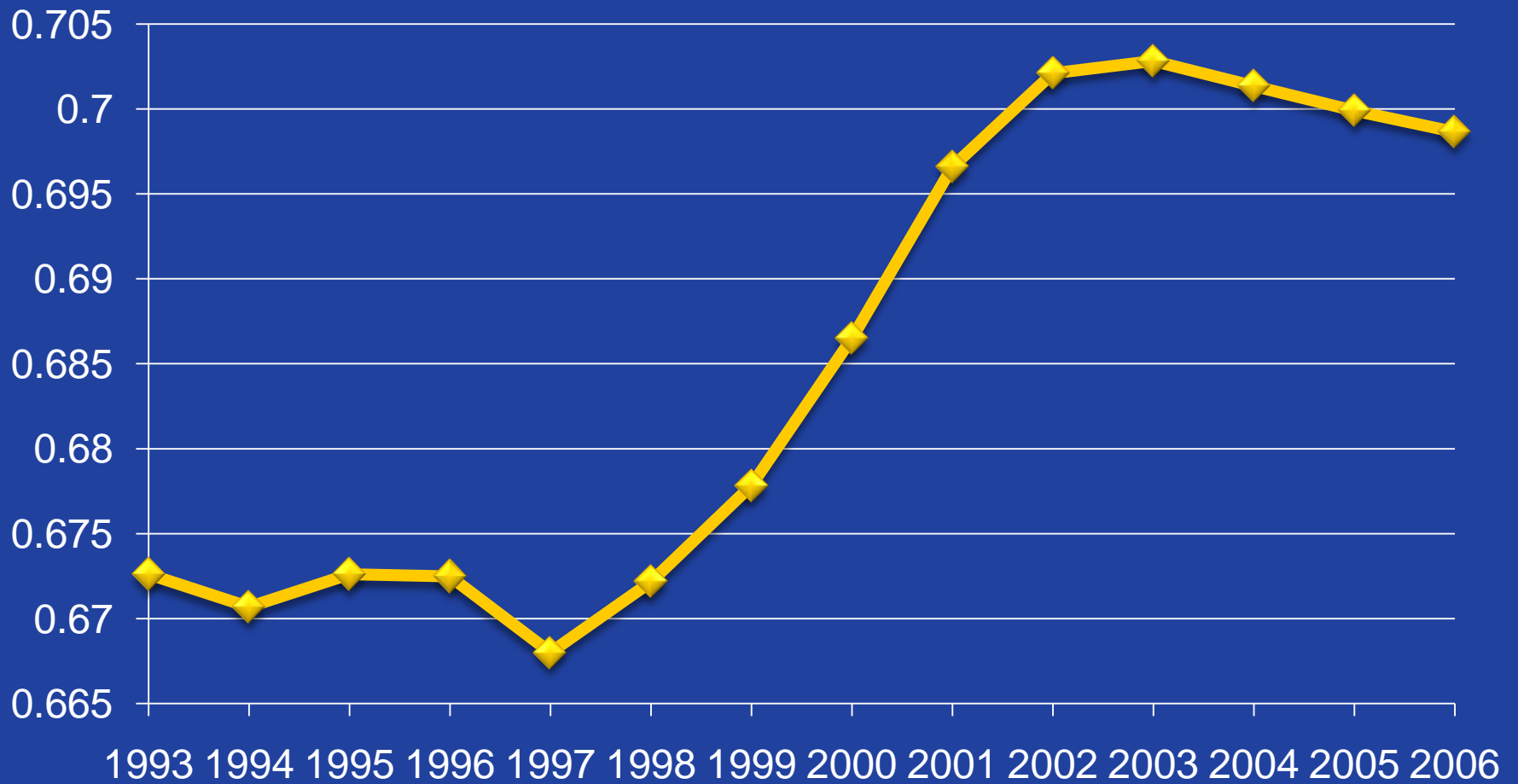
A matter of beliefs

- A. A temporary boom— slower growth will return
- B. New economy – high long run growth

Responses

- A. Be careful, borrow less
- B. Enjoy some of the gains now, borrow more

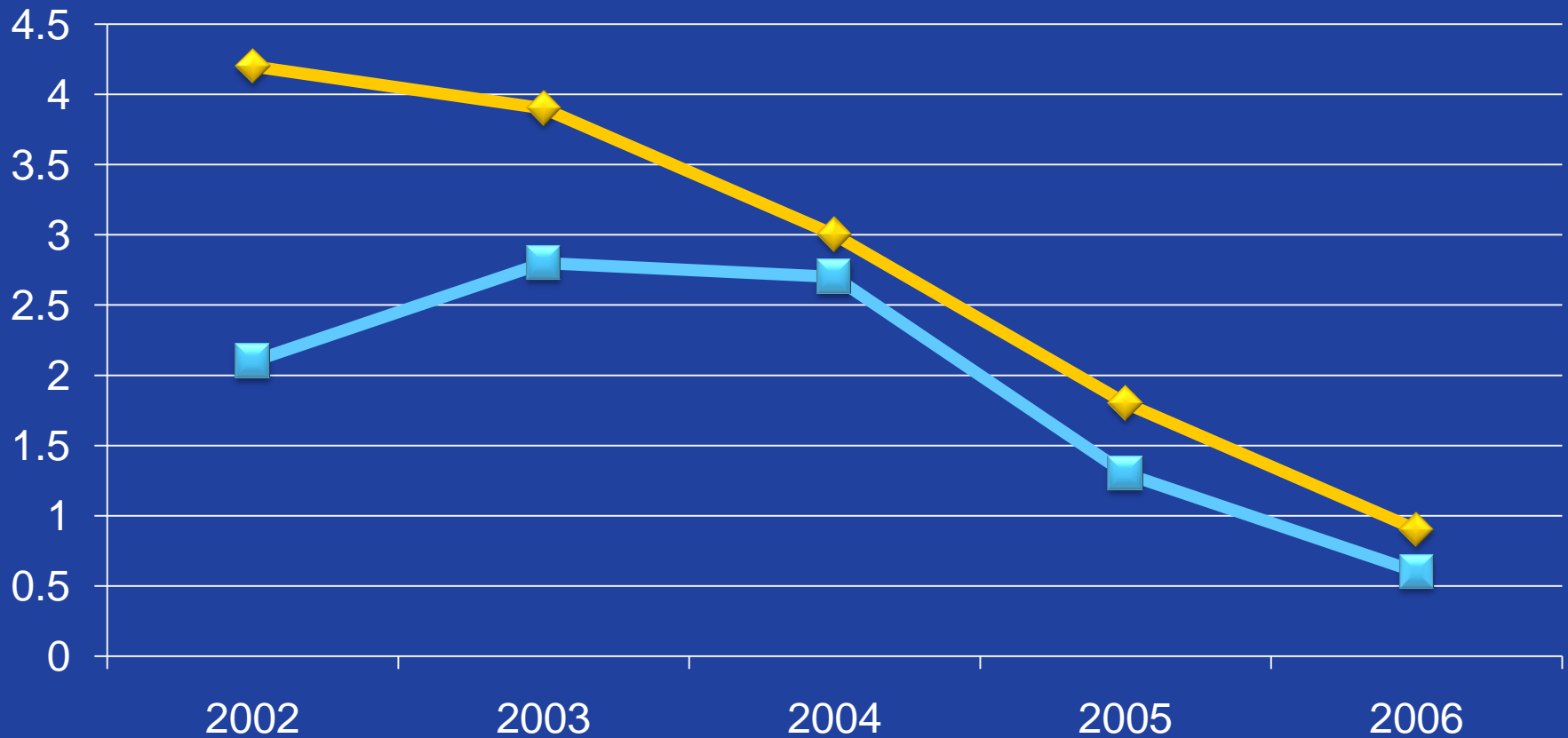
US Consumption Share



The Productivity Warning Signs

- Both labor and multifactor productivity growth are slowing

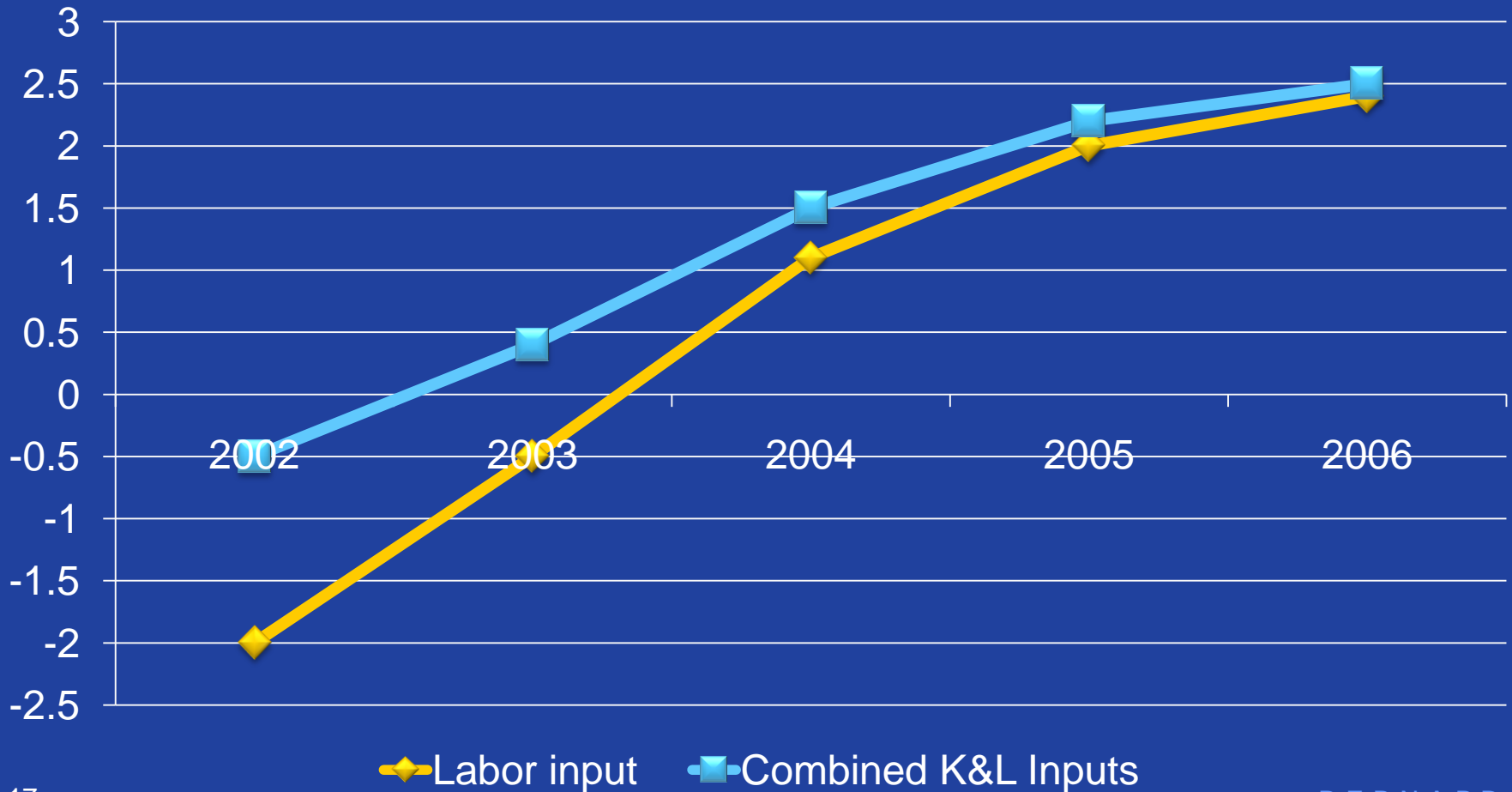
Productivity Growth



◆ Labor Productivity

■ Multi-factor Productivity

Input Growth



In the rest of the world

- Commodity exporters
 - Prices are starting to rise (for the first time in 2 decades)
 - Commodity exporters are flush with cash
 - Few domestic opportunities to invest

Commodity Prices (2005 = 100)



In the rest of the world

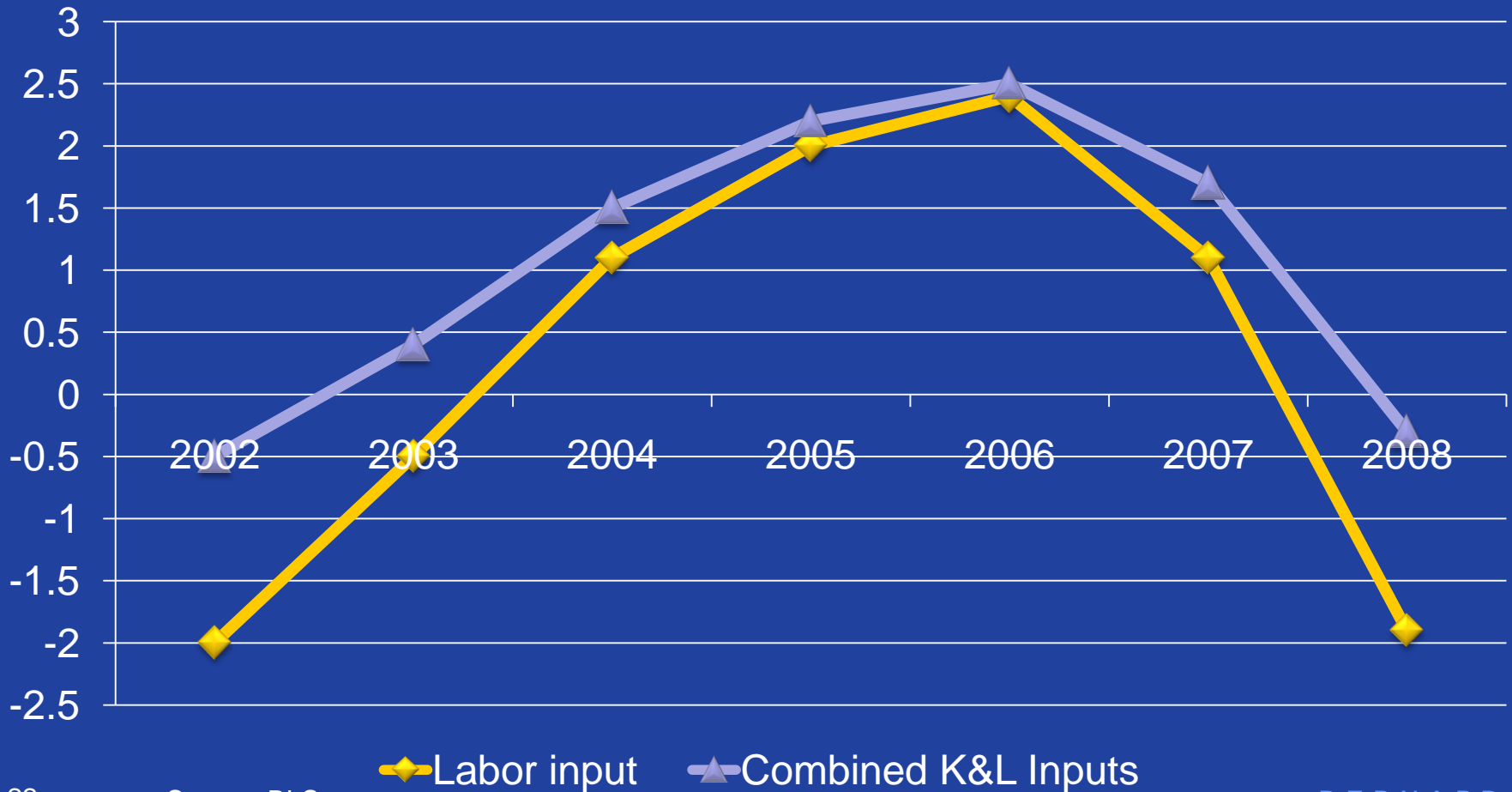
- Commodity exporters
 - Prices are starting to rise (for the first time in 2 decades)
 - Commodity exporters are flush with cash
 - Few domestic opportunities to invest
- Goods producers
 - Export markets are booming
 - Desire to build foreign currency reserves (legacy of past crisis)
 - Good time for more export-based investment

Global supply of capital is plentiful

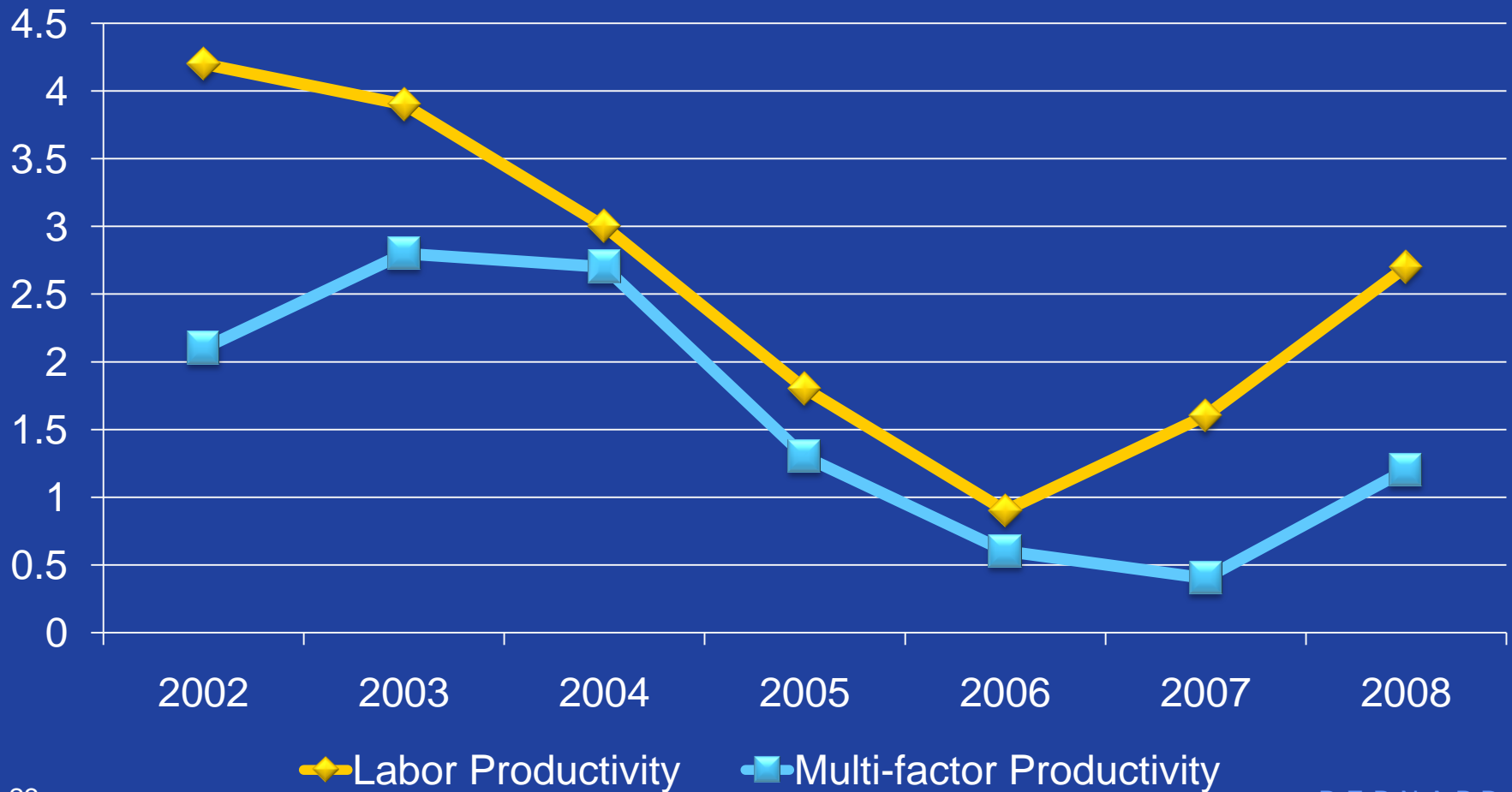
The Finale

- Productivity growth dries up
- Input growth falls

Growth of U.S. Inputs



U.S. Productivity Growth



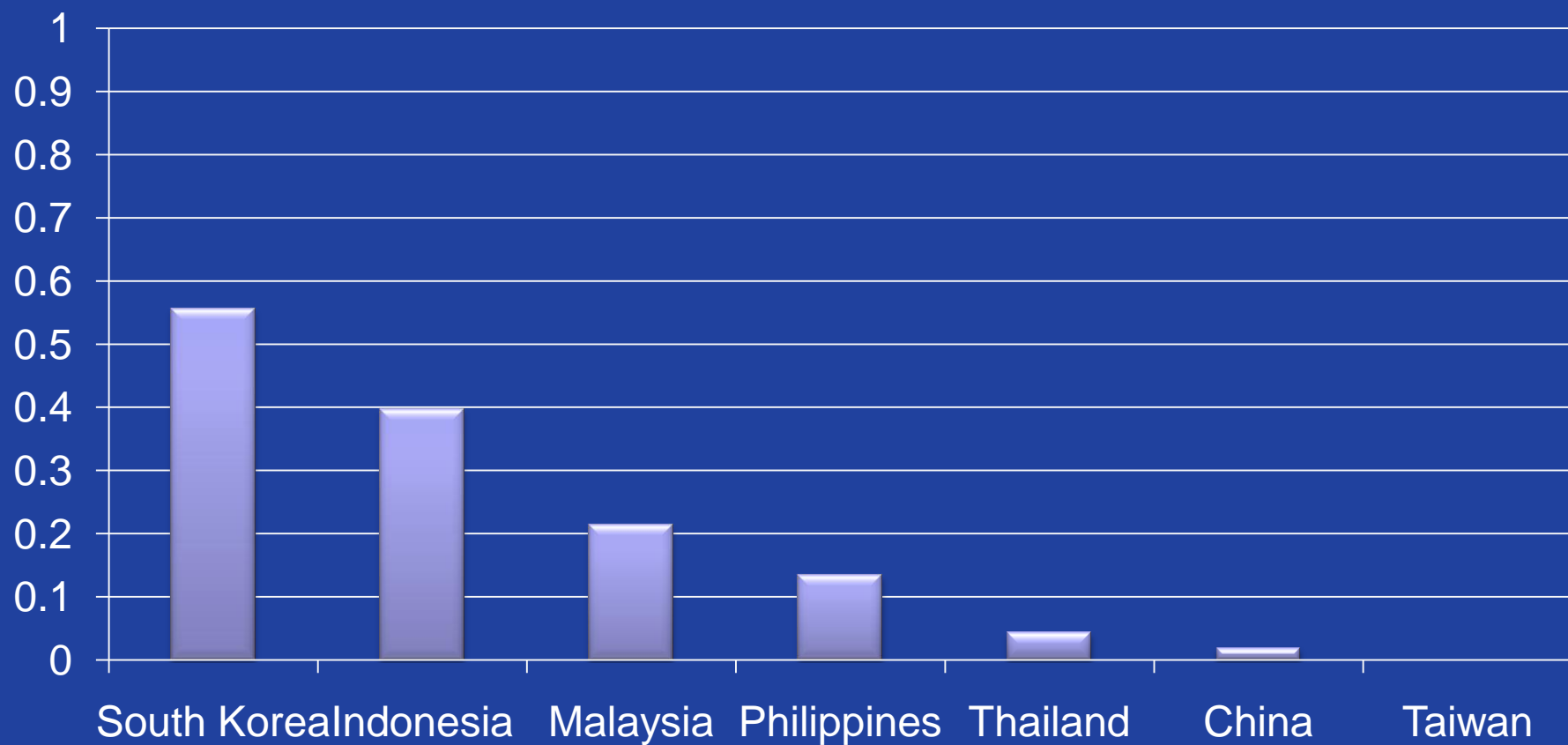
Looking Forward

- Will rapid productivity growth resume?
- If no, then demand for Asian manufactures will have to come from elsewhere

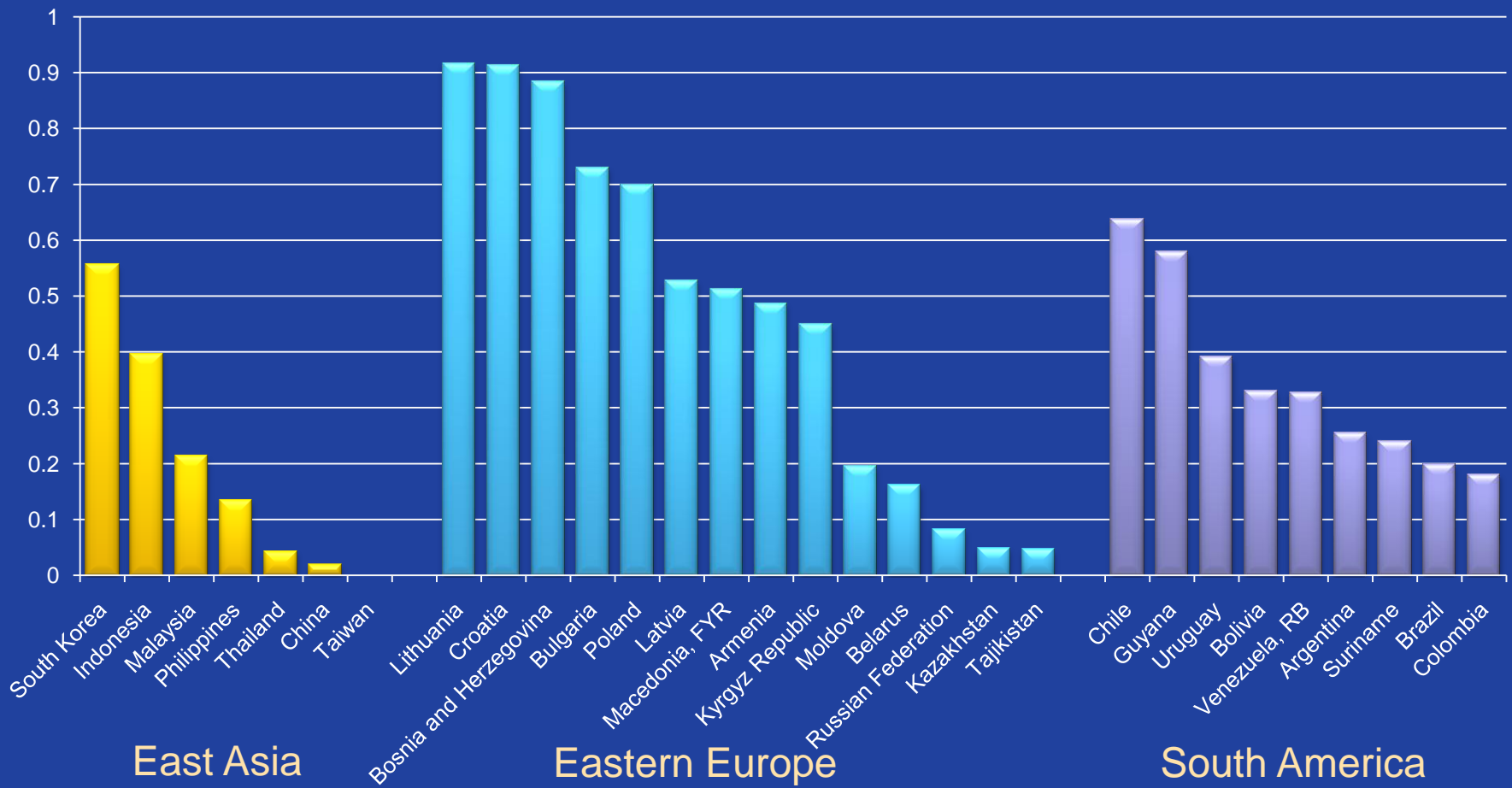
East Asia, The Crisis and the Aftermath

- Financial Exposure
- Manufacturing Linkages

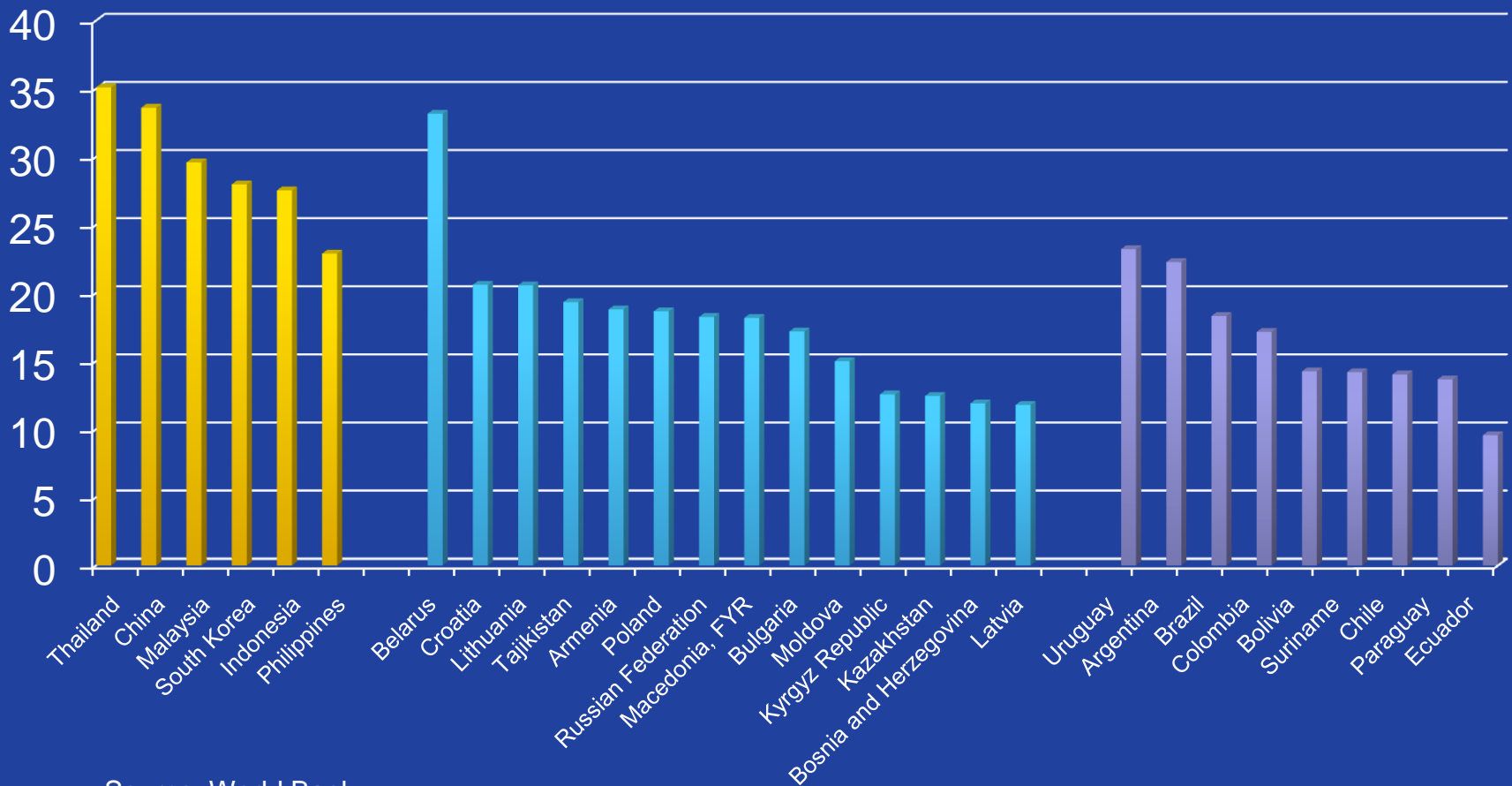
Share of Assets in Foreign Banks East Asia 2005



Share of Assets in Foreign-Controlled Banks



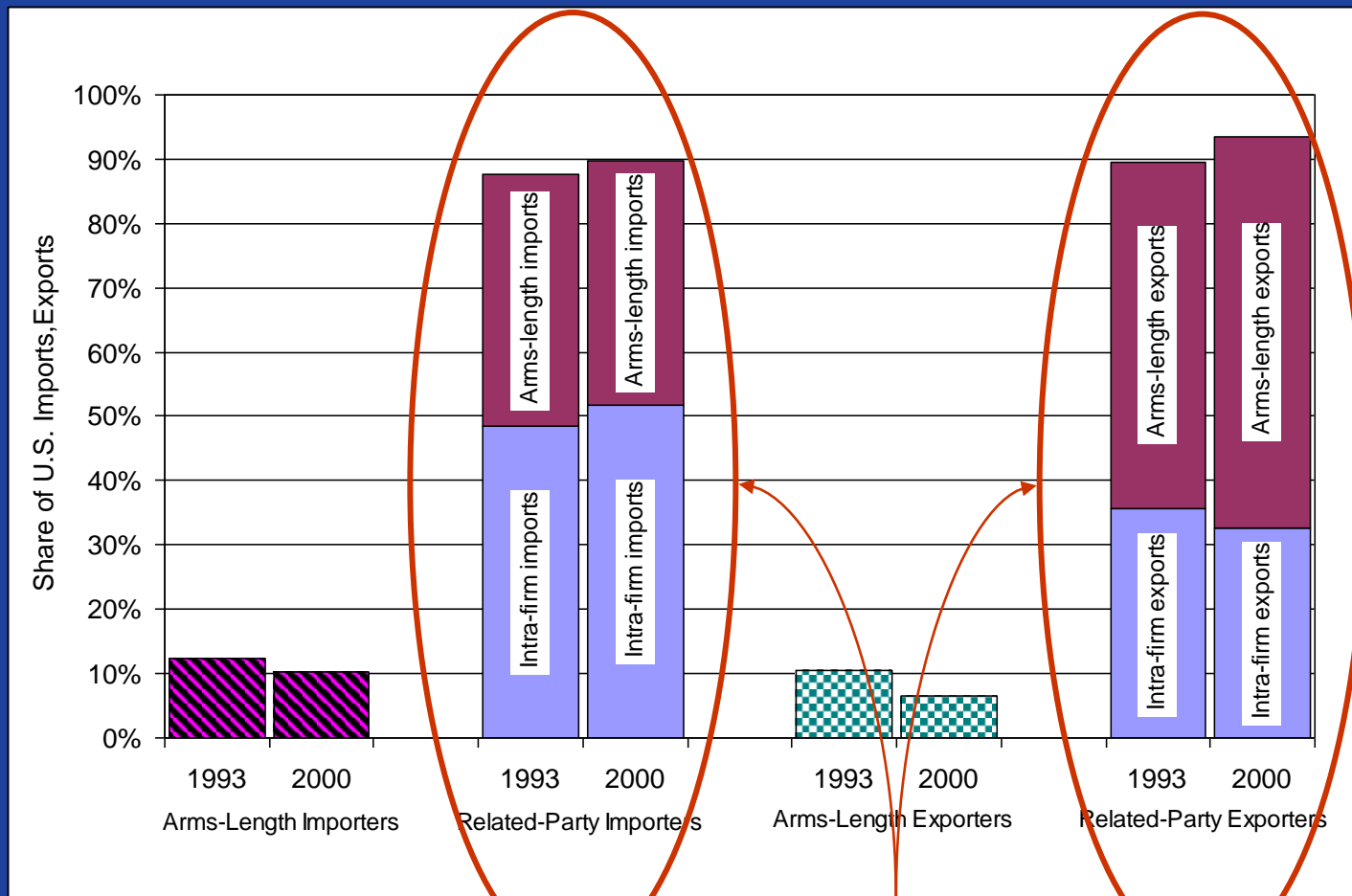
Manufacturing as a % of GDP - 2006



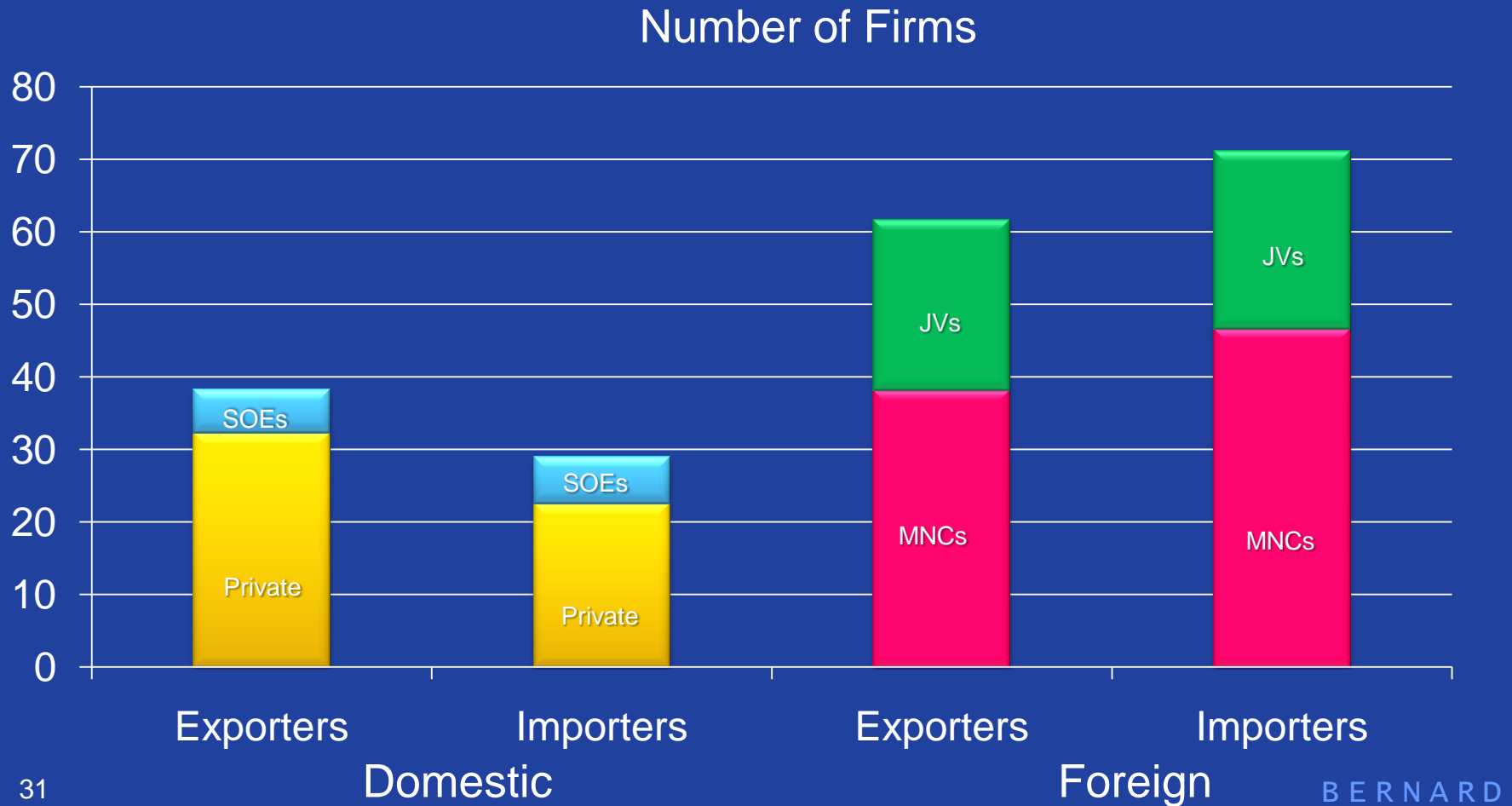
Who Trades, How Do They Behave

- Arms-length trades
 - Domestic firm – domestic firm
 - Multinational firm – domestic firm
- Intra-firm trades
 - Within multinational

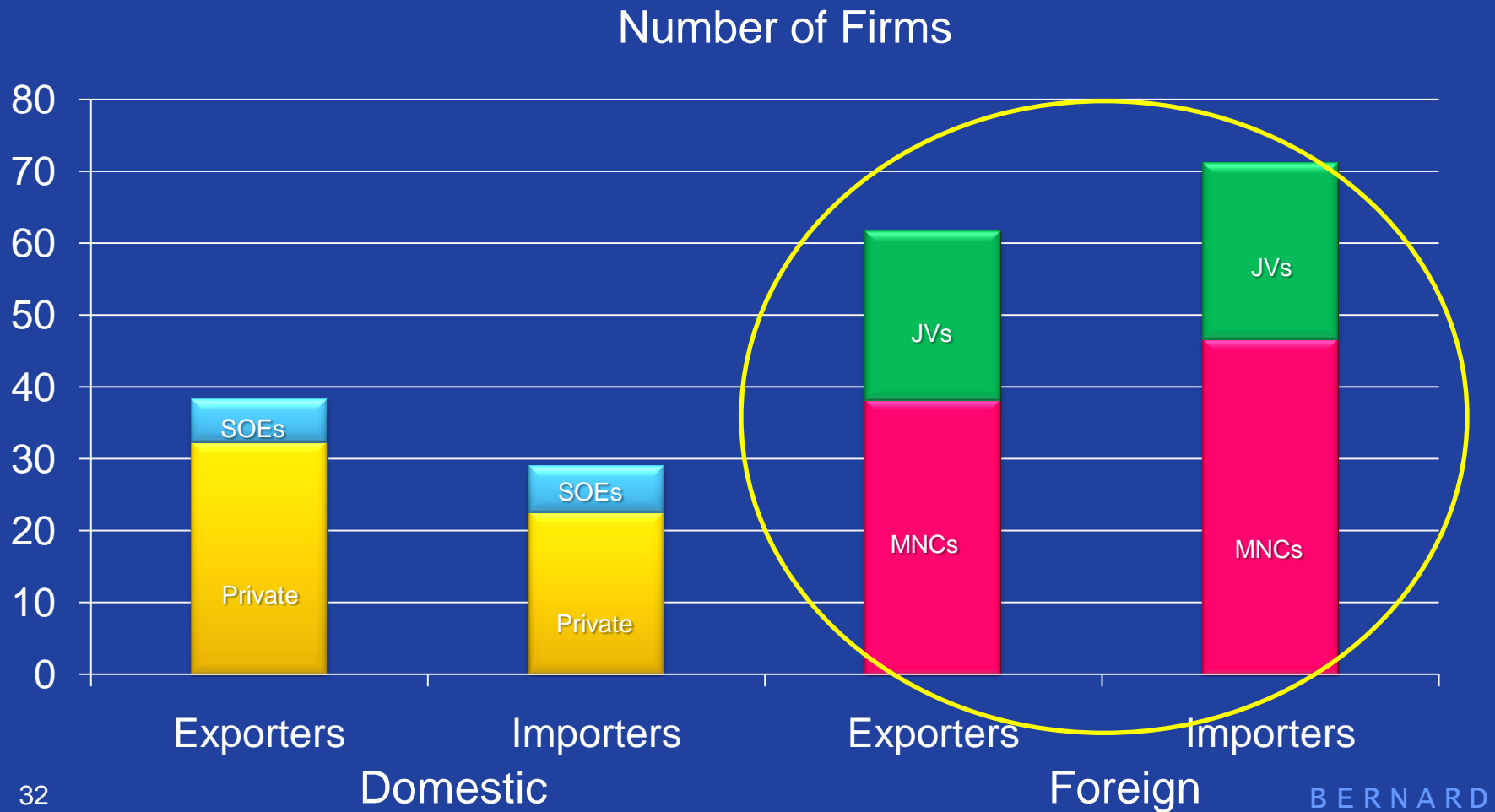
Multinationals mediate most U.S. trade



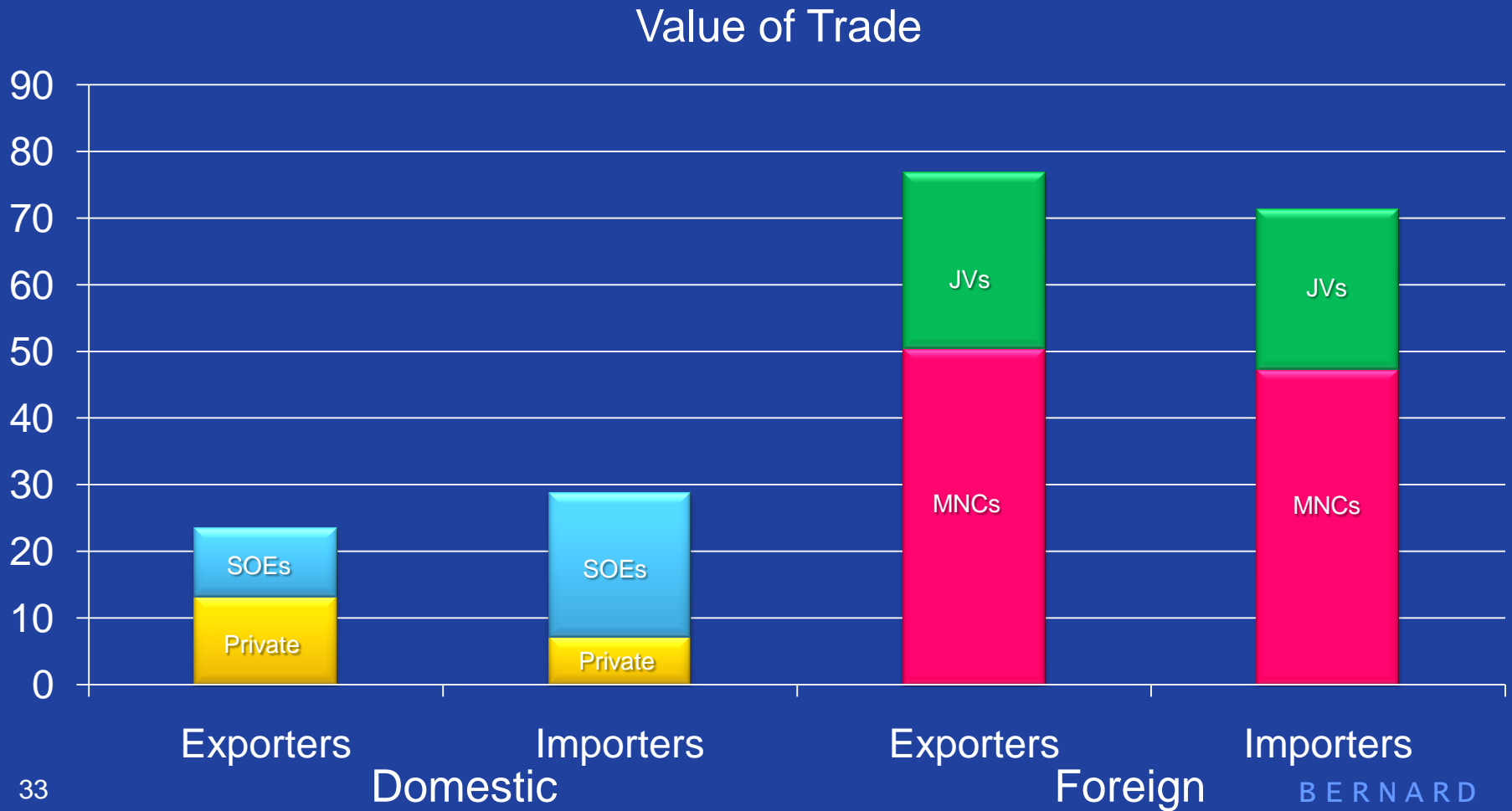
Foreign Firms in Chinese Trade - 2005



Foreign Firms in Chinese Trade - 2005

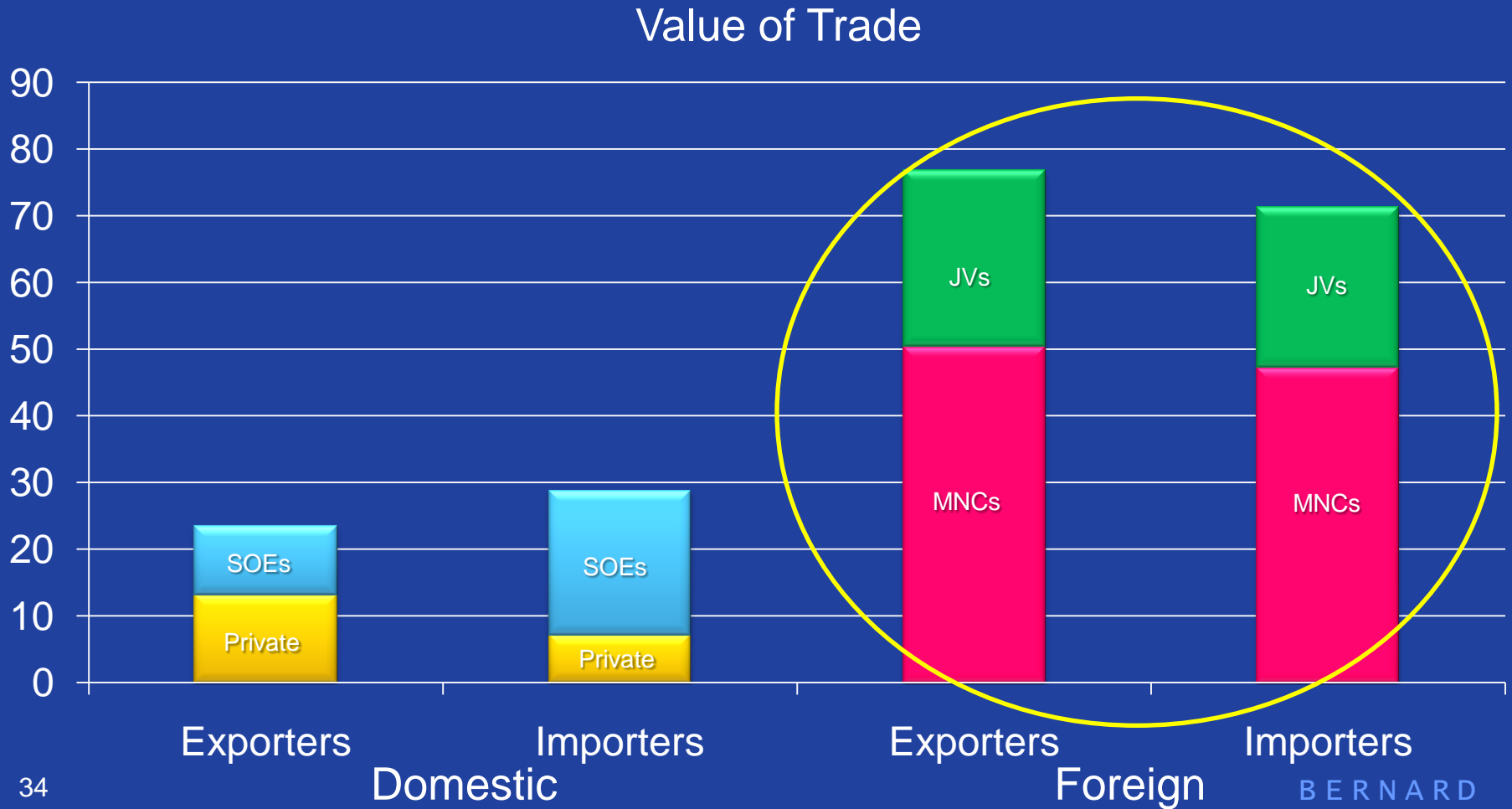


Foreign Firms in Chinese Trade - 2005

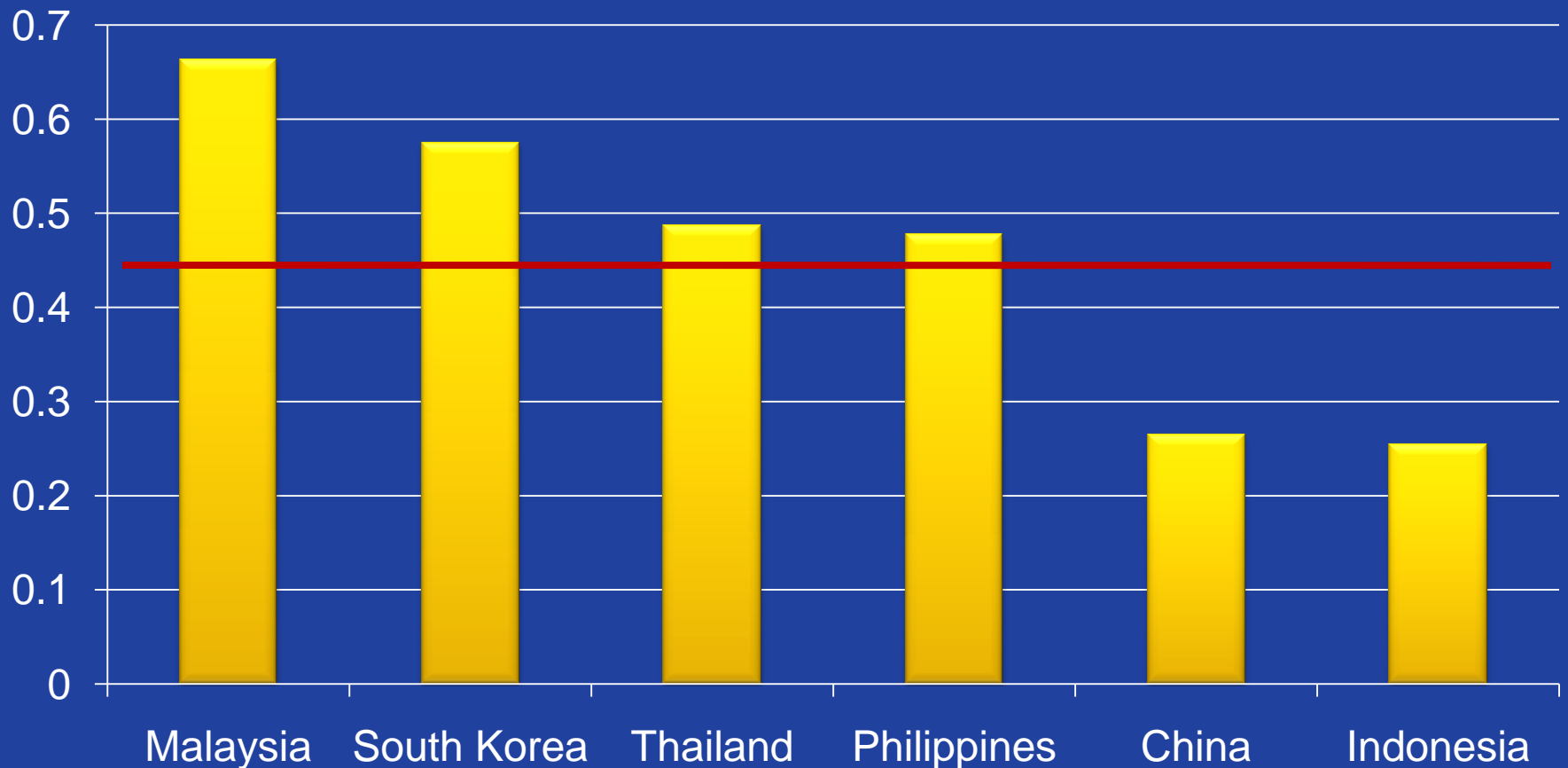


Source: Manova and Zhang (2008)

Foreign Firms in Chinese Trade - 2005



Share of intra-firm exports to US (2008)



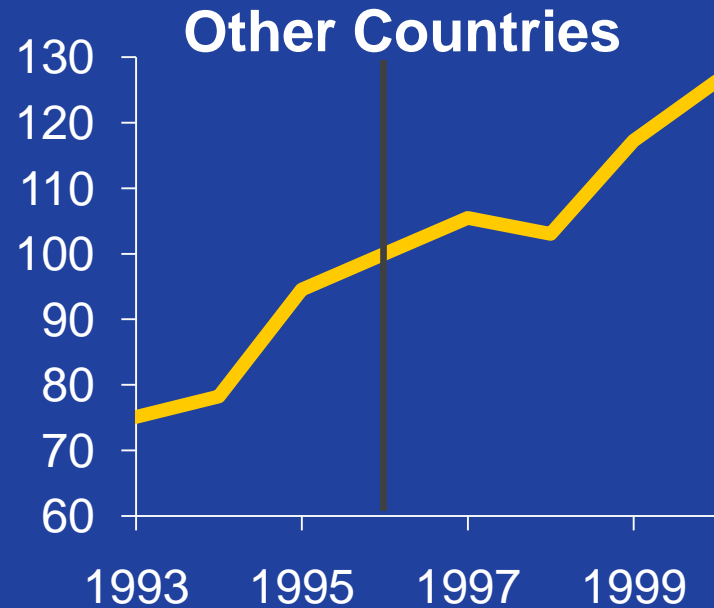
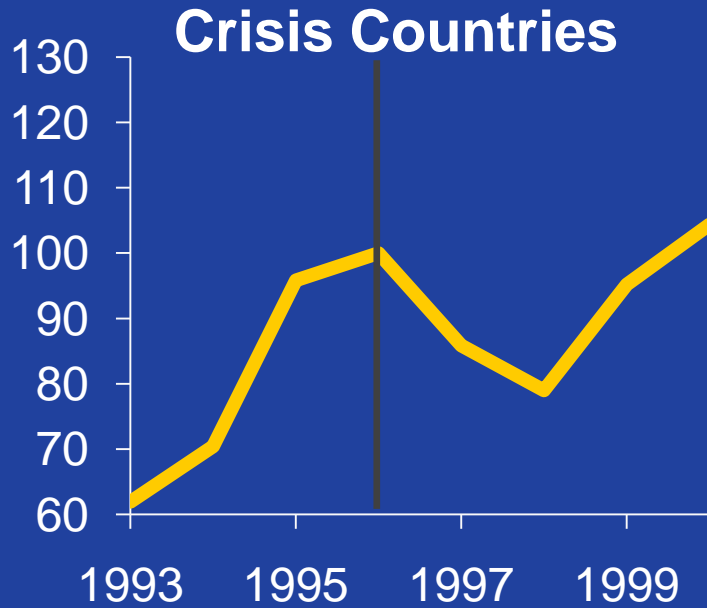
The Role of Multinationals

- Are multinationals different from other firms?
- How do they behave in a crisis?

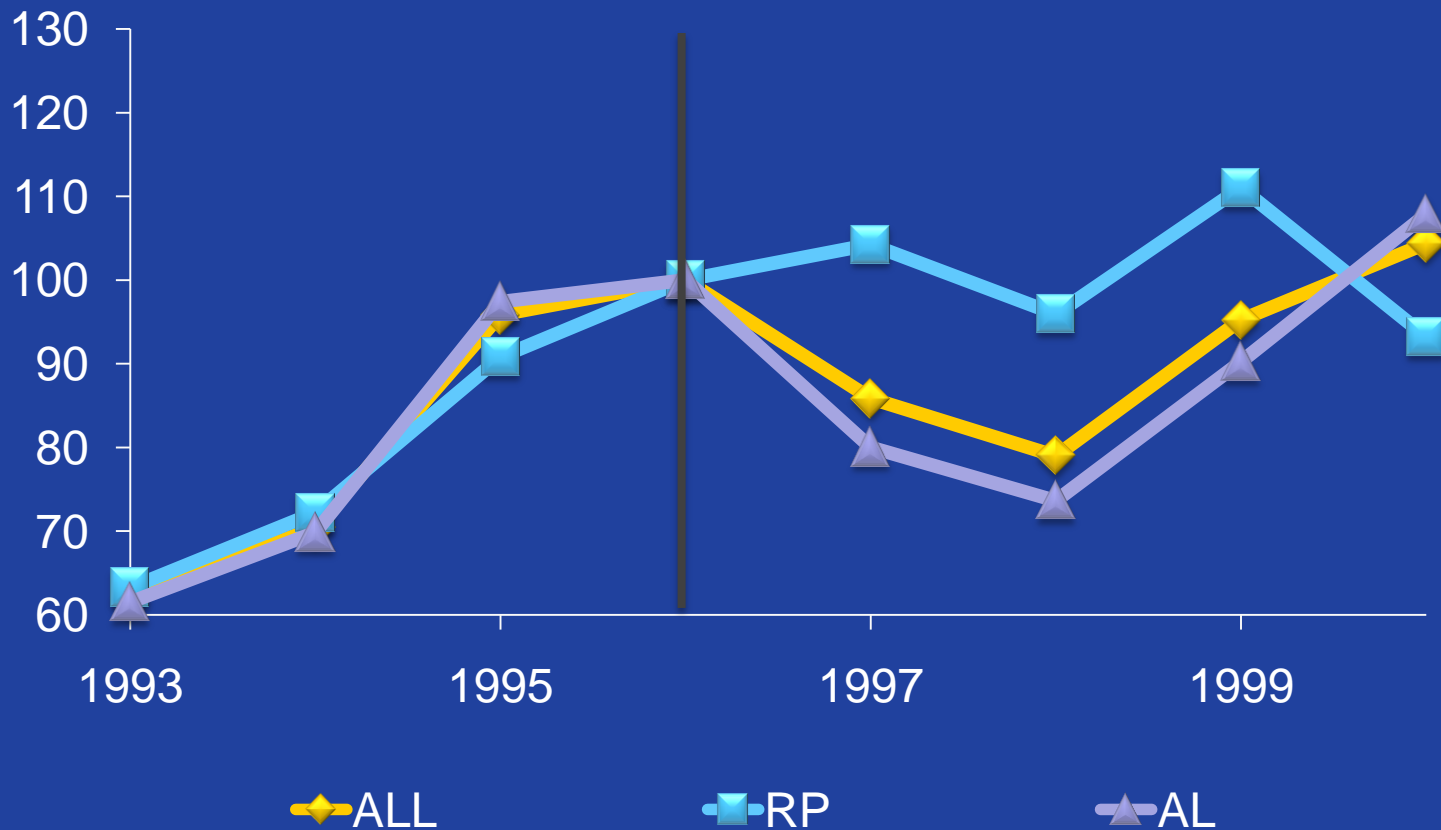
Bigger Faster Stronger

- Multinational establishments are
 - More productive
 - Larger
 - More skill-intensive
 - More R&D intensive
 - Less likely to fail

U.S. Exports

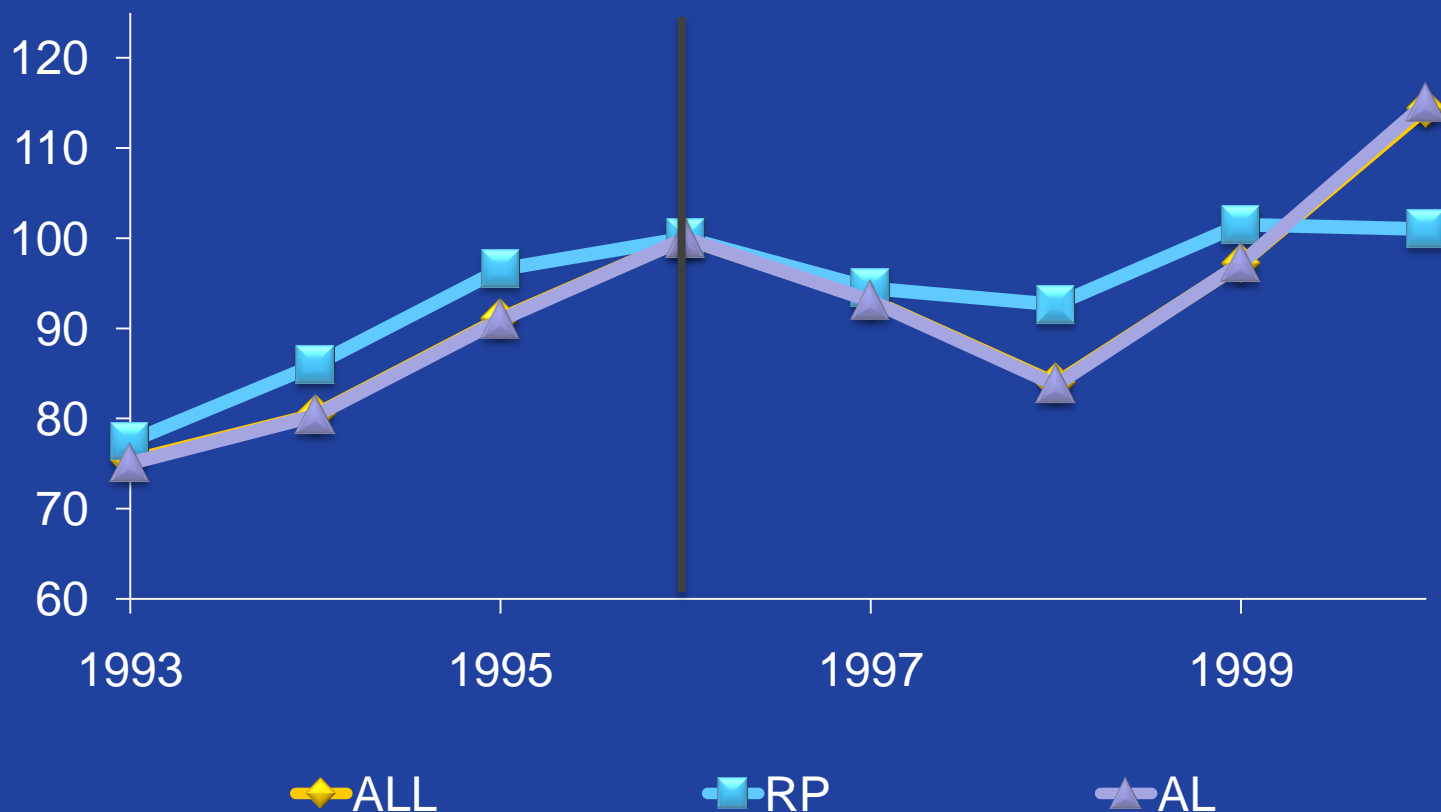


Exports to the Asian Crisis Countries Value



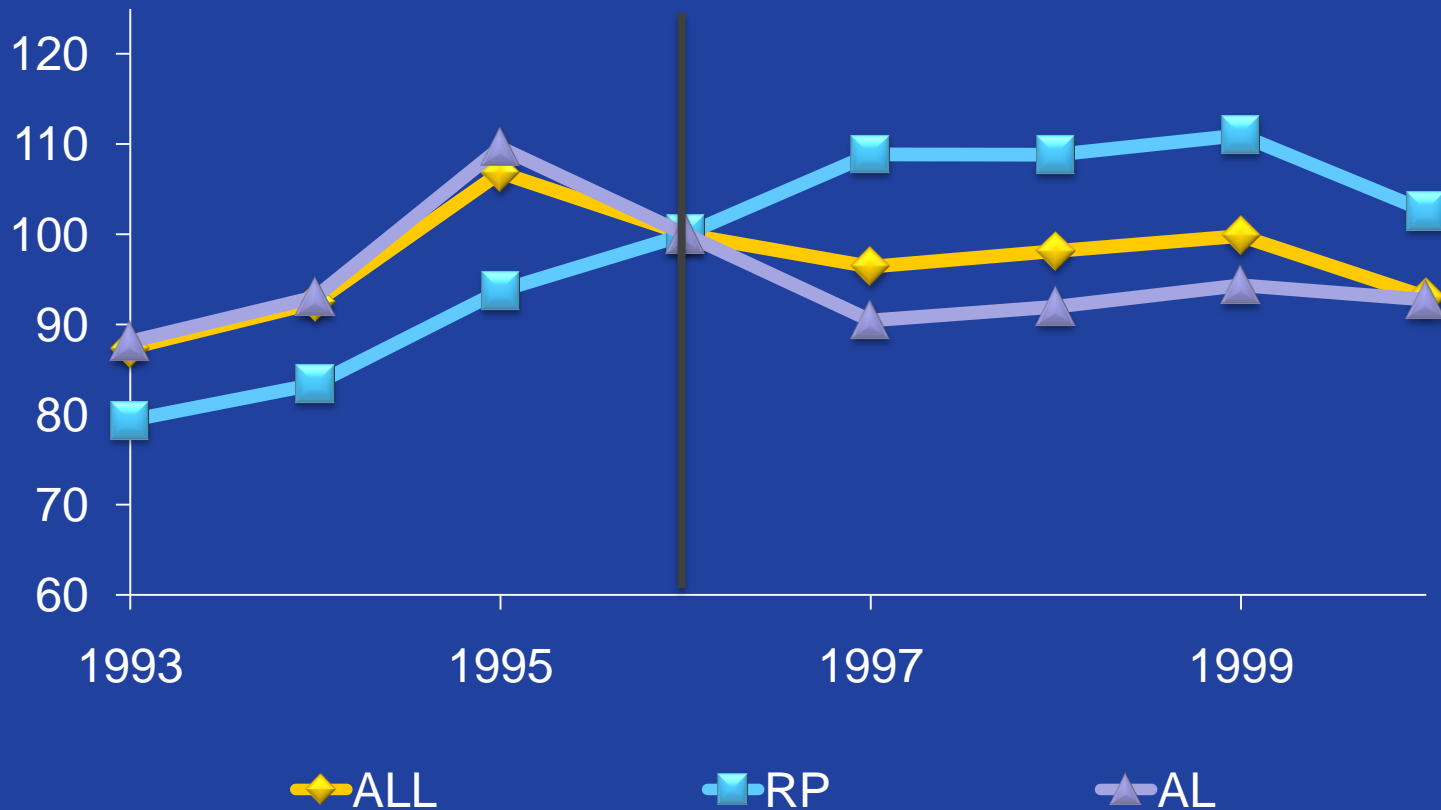
Exports to the Asian Crisis Countries

Number of Firms



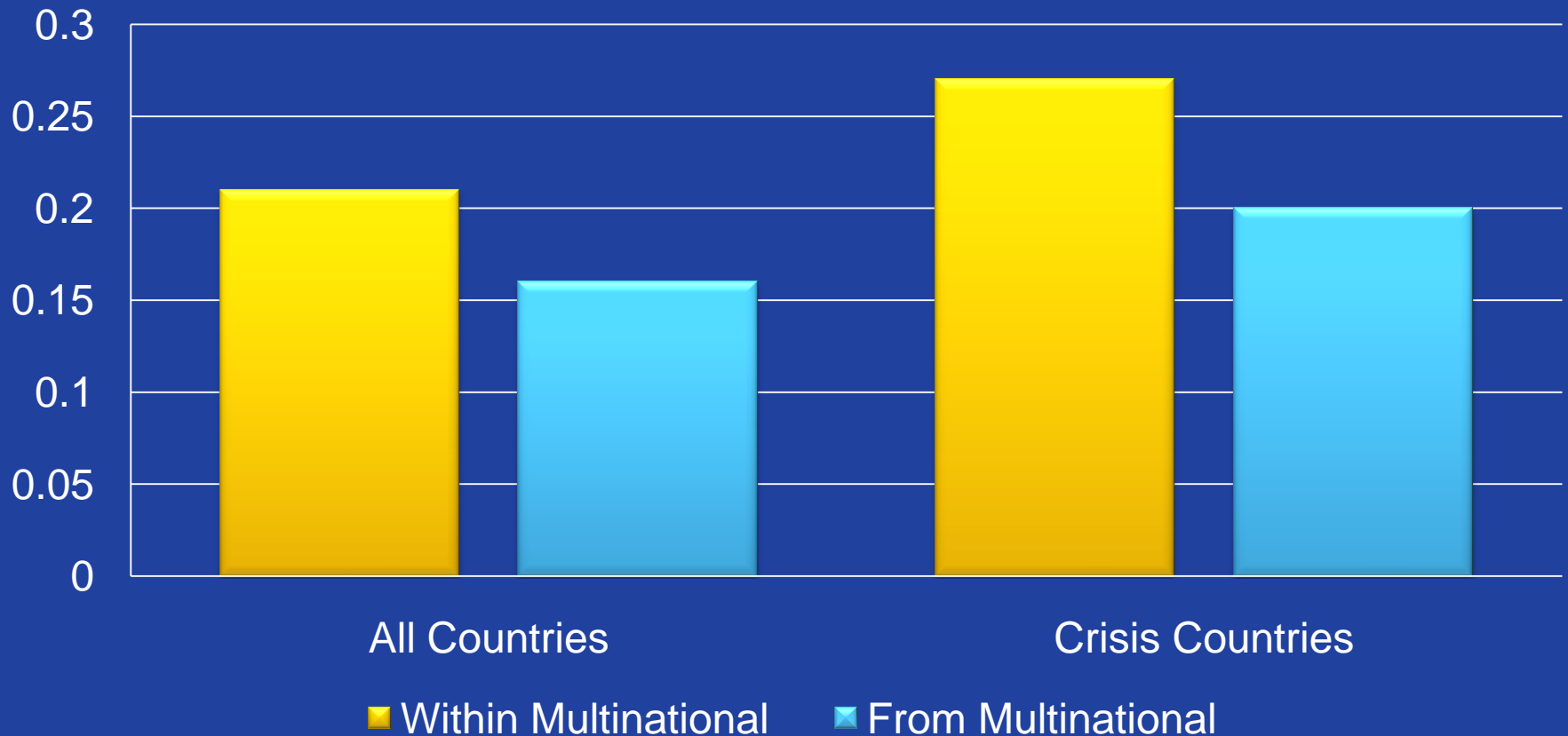
Exports to the Asian Crisis Countries

Value per product per firm



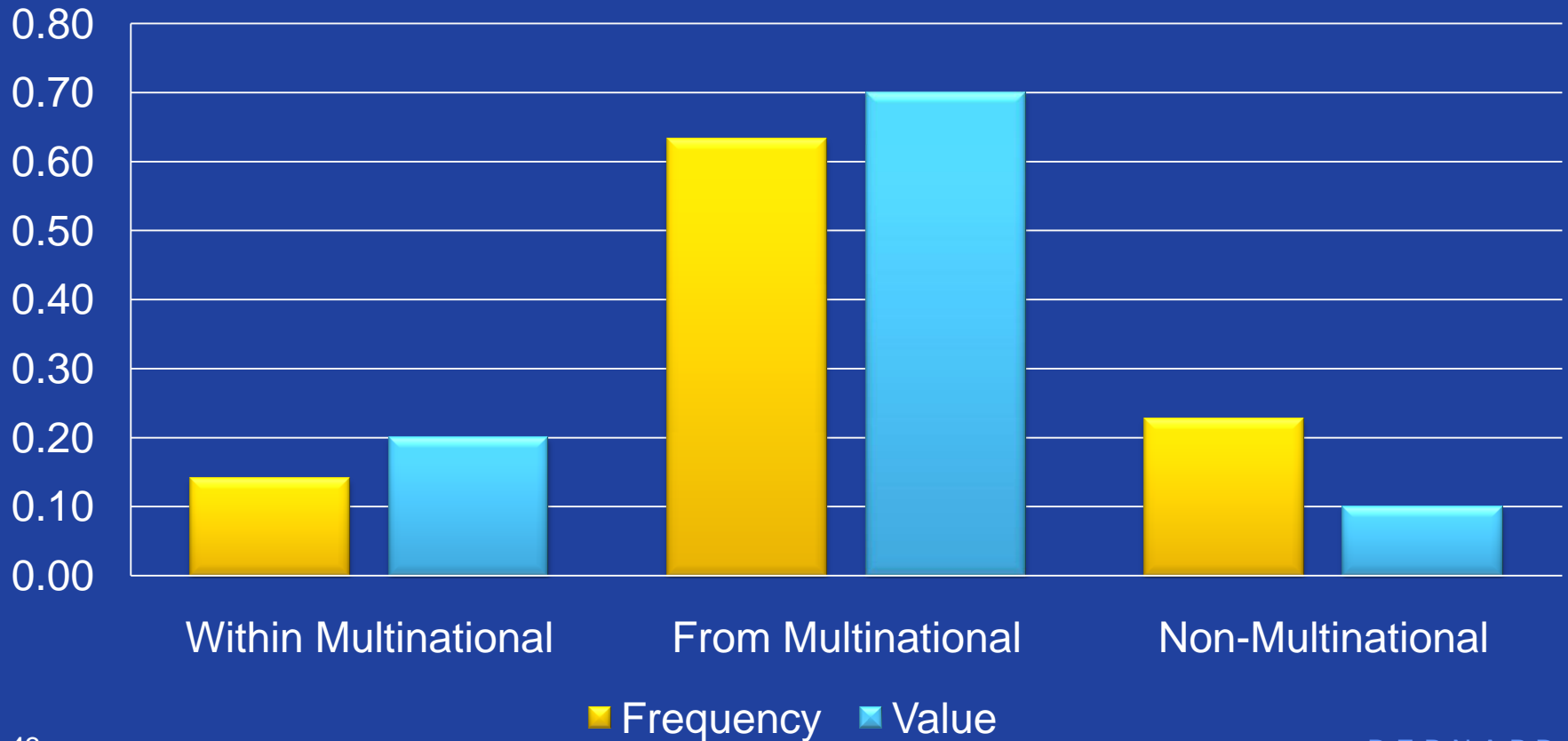
Trading relationships that survive

Increased Probability of Survival 1996-1999



Starting to trade during the crisis

Share of New Trading Relationships



Multinationals during a crisis

- Trading links are more likely to survive
 - Trade falls off less, or even rises
 - Much more likely to maintain their trading relationships

Why are multinationals performing better

- Largely unanswered
- Finances
 - Access to working capital
 - Access to trade credit
- Managerial Talent
- Proxies for long run contracts
 - Implicit or explicit

The Protectionist Threat

- Trade Barriers
- Investment Restrictions

Conclusions

- An epoch of wealth creation has ended
- The pieces are in place to renew global growth
- What are we going to do to help