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China's Spillover Effects: How and How Much?

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Key Questions

1. What are the direct and indirect channels of spillover from China to other Asian economies?

1. Direct:
 1. Trade
 2. Capital Flows
2. Indirect
 1. Commodity prices
 2. Global risk appetite

2. What is the impact of RMB depreciation on the region's currencies and how will it affect economic and financial stability in the region?

1. Asian currencies cycle through largely common periods of high or low correlation with CNY
2. Main effect on regional financial stability is more likely to come from a banking crisis and its effect on output rather than from the RMB

Key transmission channels

1. Trade channel

1. Competitor for the rest of Asia
 1. General exports as a proxy for DVA
2. Market for the rest of Asia
 1. Change in consumer goods imports (share)
 2. Tourism growth

2. Commodity prices/terms of trade

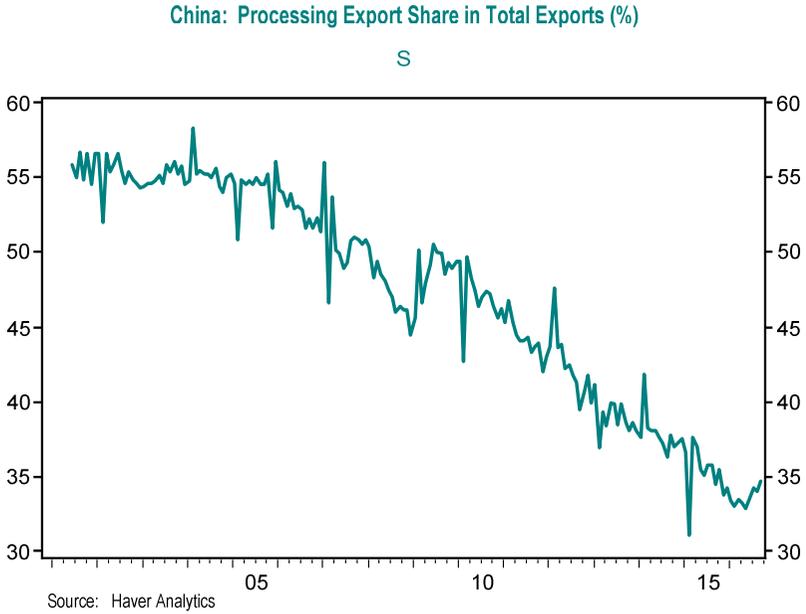
3. Financial channels

1. FDI
2. Portfolio flows
 1. Mostly international reserve allocation
3. Equity market correlation
4. FX market correlation (more on this later)

4. Political/Policy Channels

1. Tensions with Japan; in the SCS; influence (lack thereof in North Korea)

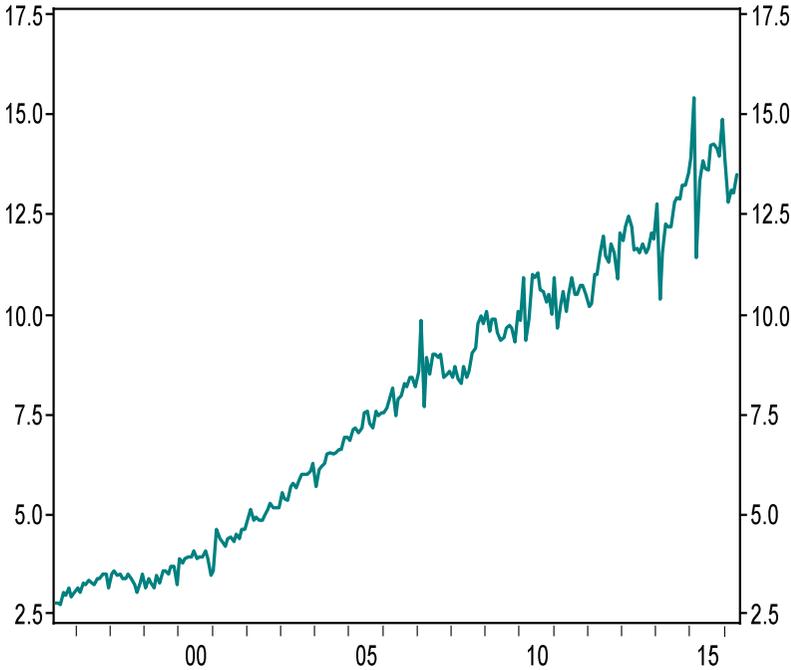
Elements of Trade Linkages: Market and Competitor



Some Basic Facts: China & the rest of Asia

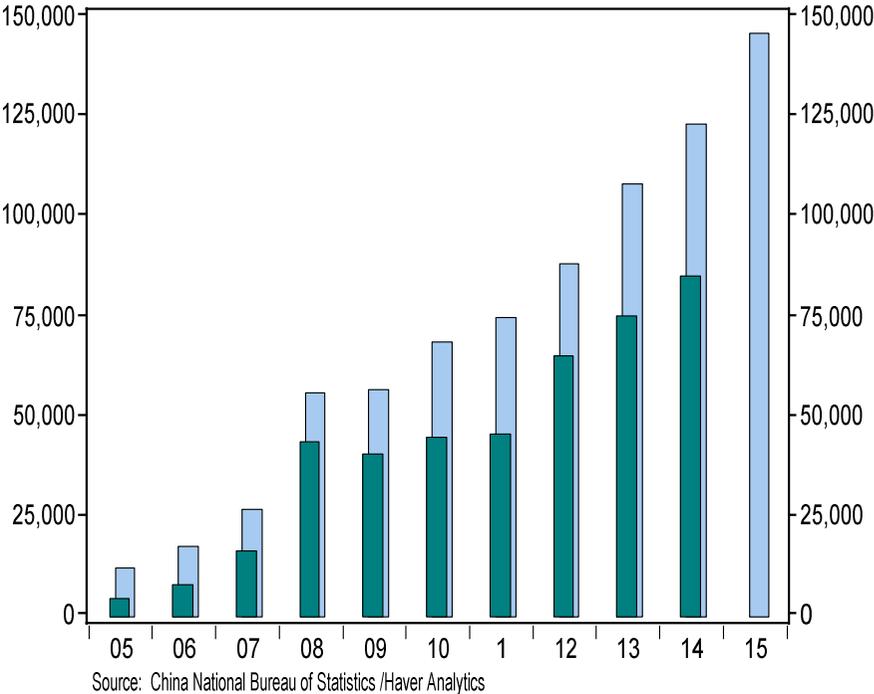
China, PR: Share of World Exports

SA



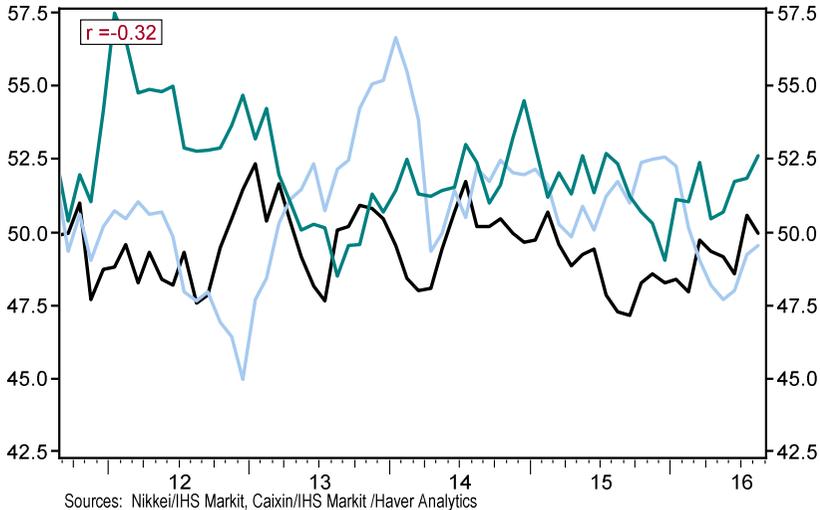
China: Direct Investment in Asia
Mil.US\$

China: Net Direct Investment Abroad
Mil.US\$

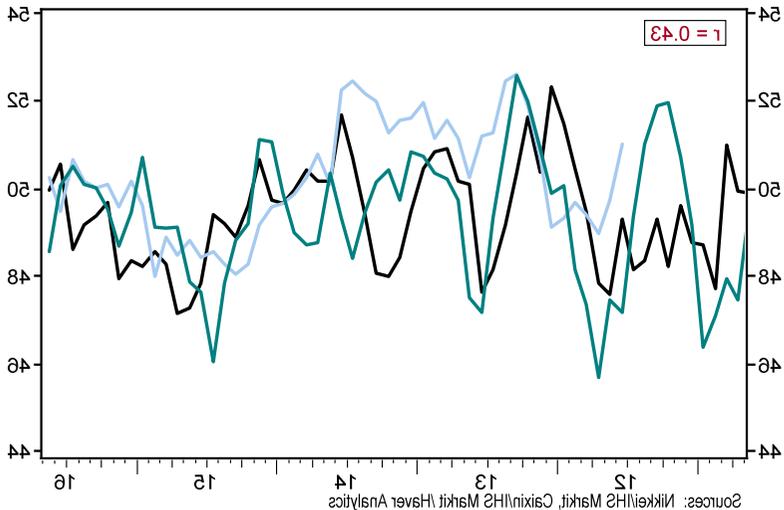


Chinese PMI is not highly correlated with others in Asia

India PMI: Manufacturing (SA, 50+=Expansion)
 Japan PMI: Manufacturing (SA, 50+=Expansion)
 China PMI: Manufacturing (SA, 50+=Expansion)

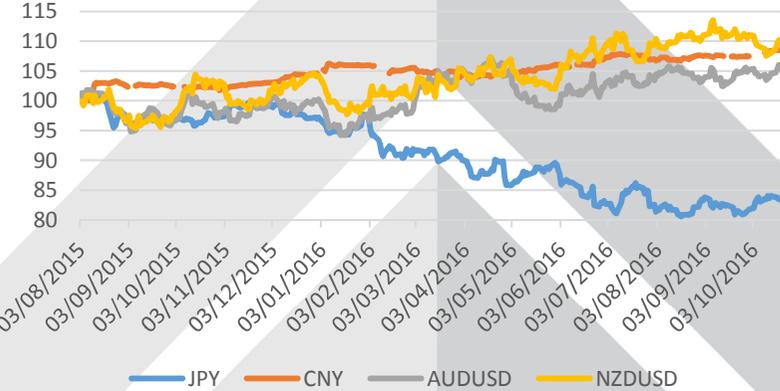
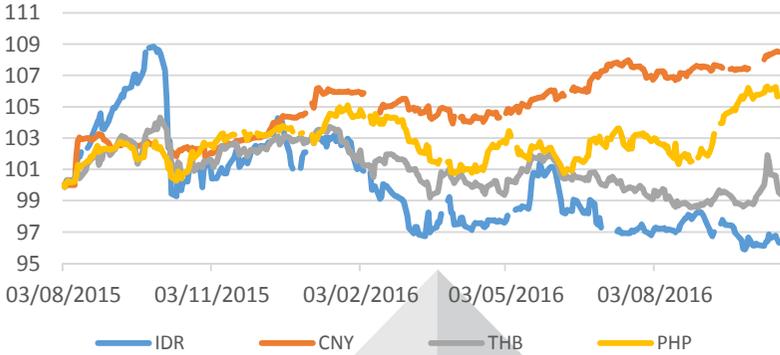
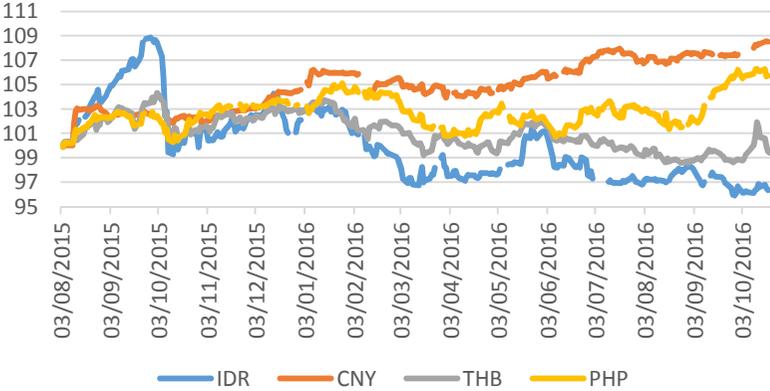
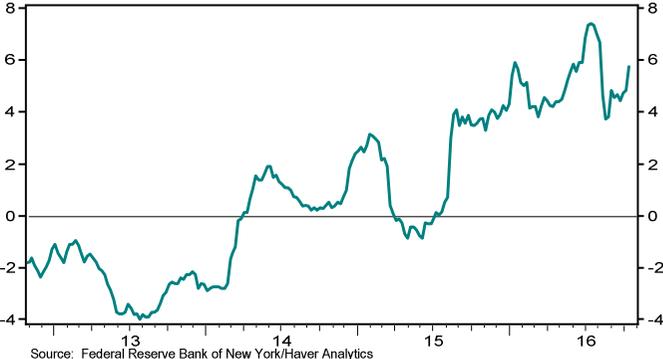


Korea PMI: Manufacturing (SA, 50+=Expansion)
 ASEAN PMI: Manufacturing (SA, 50+=Expansion)
 China PMI: Manufacturing (SA, 50+=Expansion)

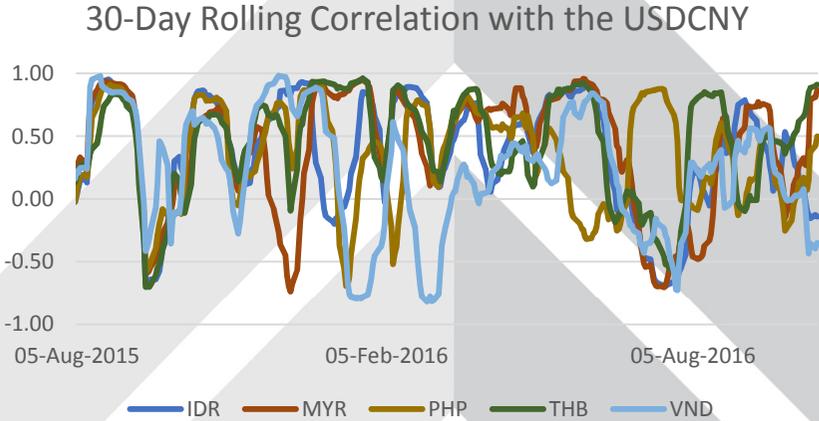
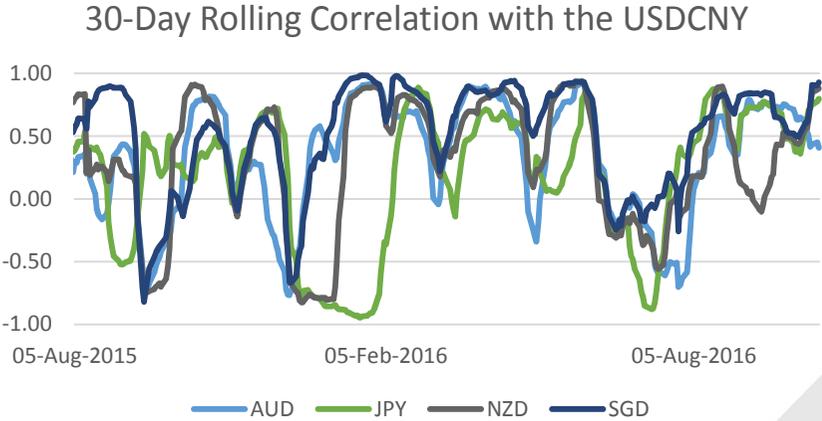
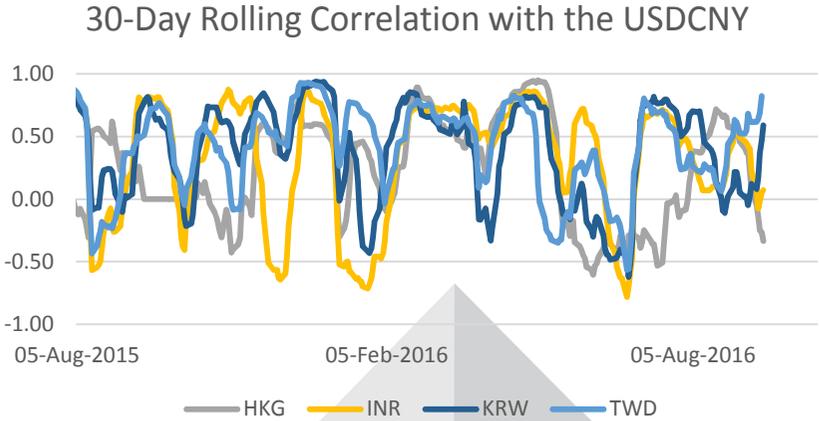
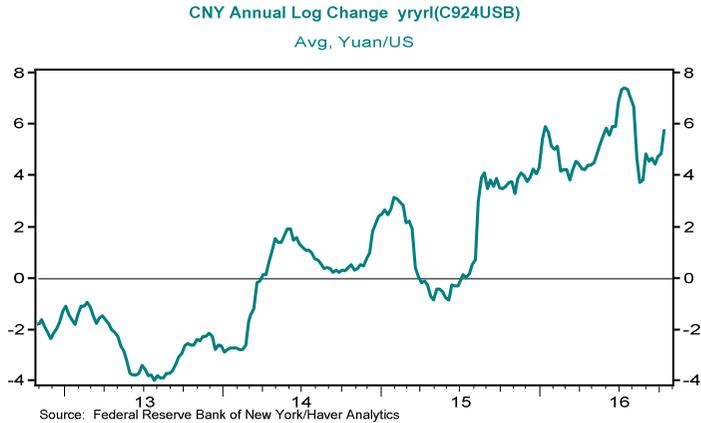


Responses to USDCNY Not Uniform Across Asia

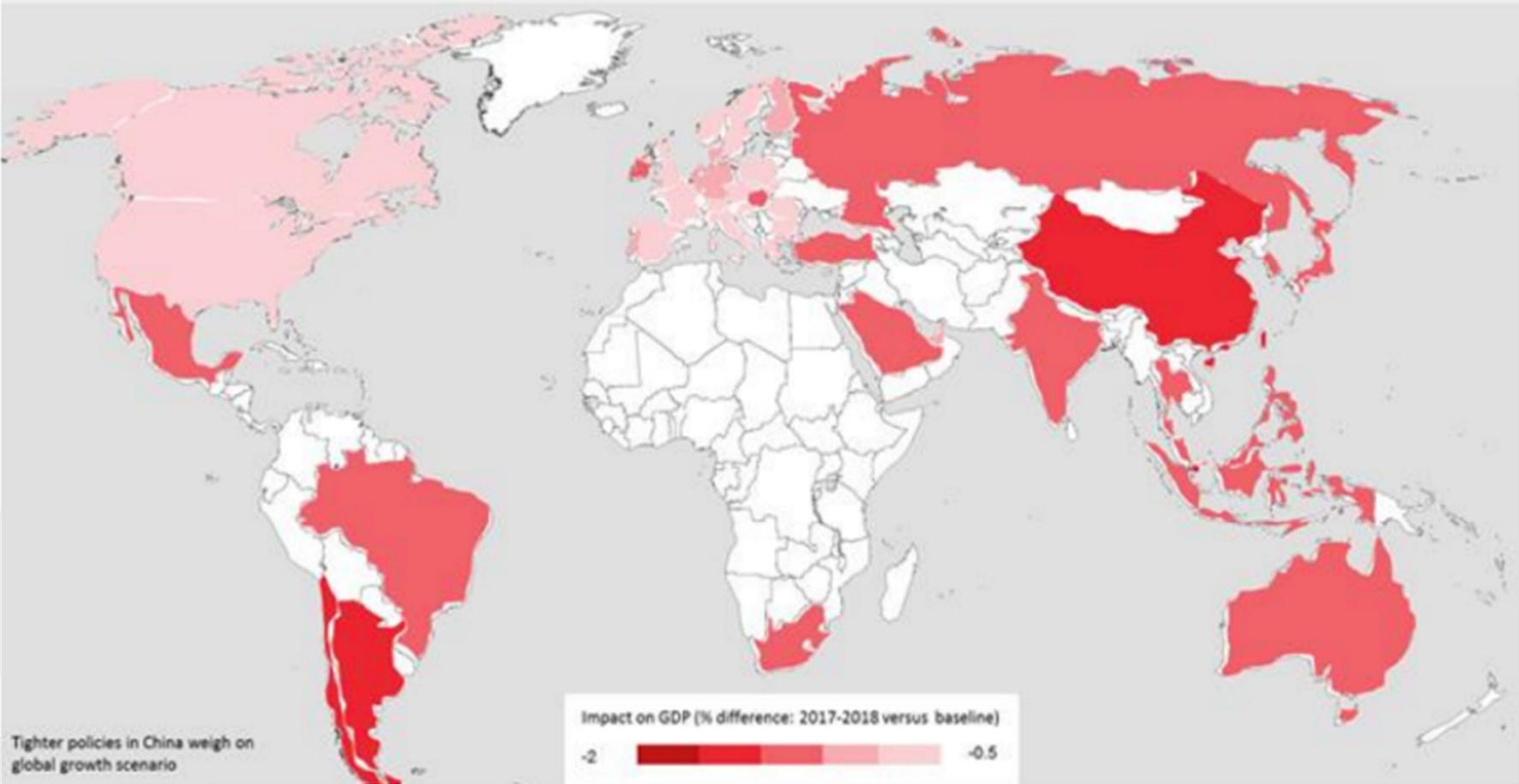
CNY Annual Log Change yrlyr(C924USB)
Avg, Yuan/US



Currency correlations not very stable

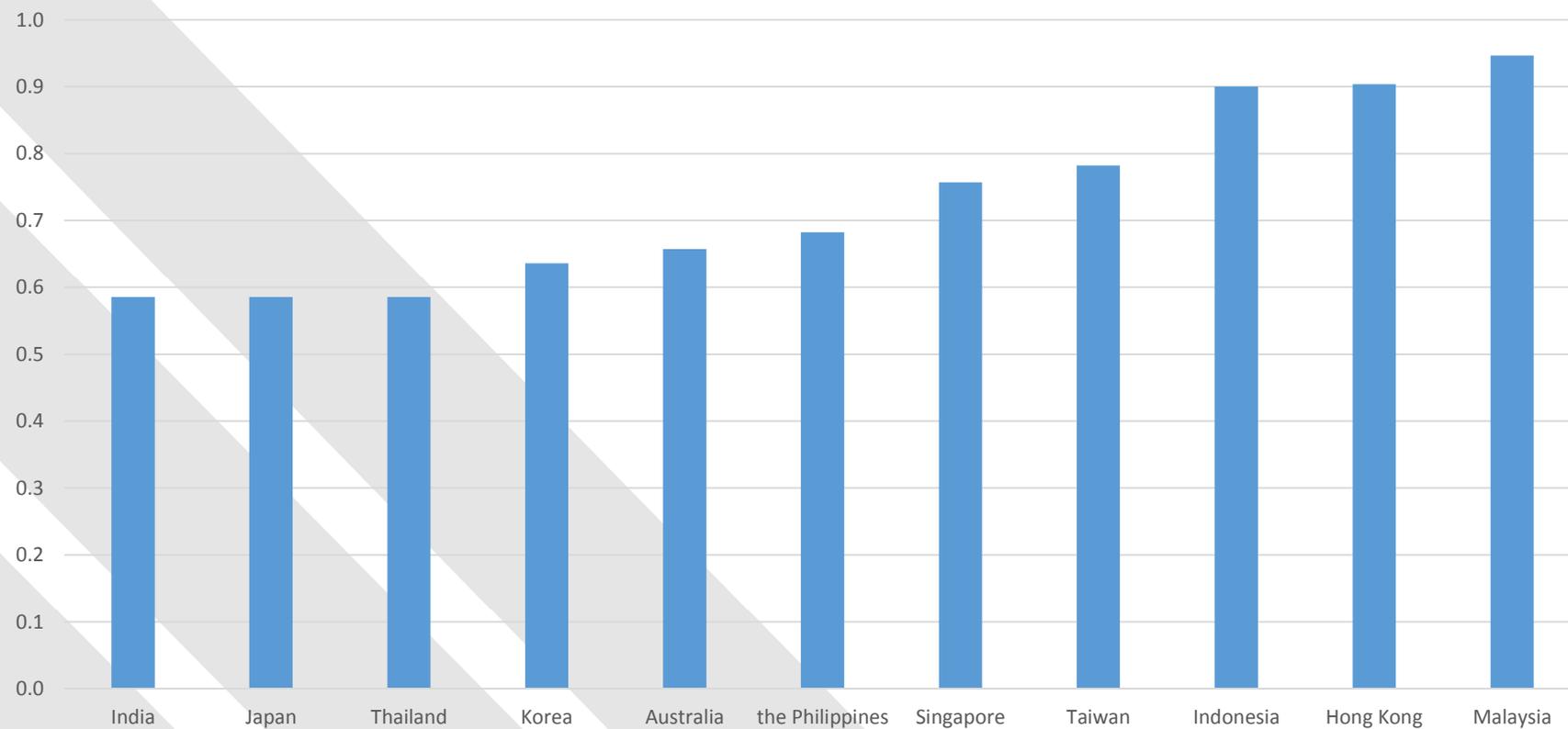


OEF: GDP Effects of a Chinese Tightening



Exposures to China are high, especially in ASEAN

Elasticity of Asian GDP to Chinese GDP (%)

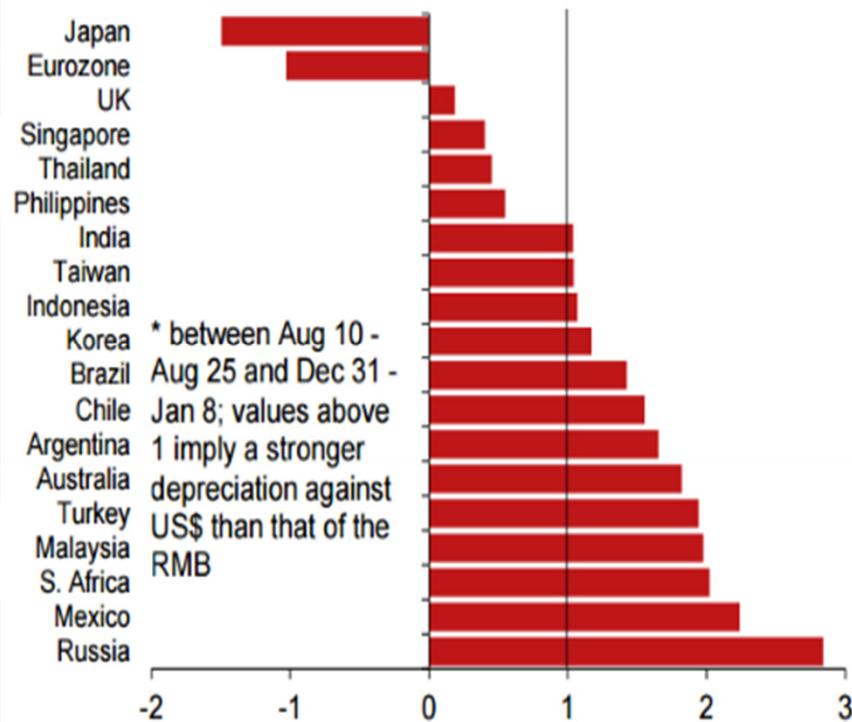


Source: OEF

Running CNY Depreciation through OEF Model

World: Exchange rates vs US\$

average % change relative to change in USDCNY *

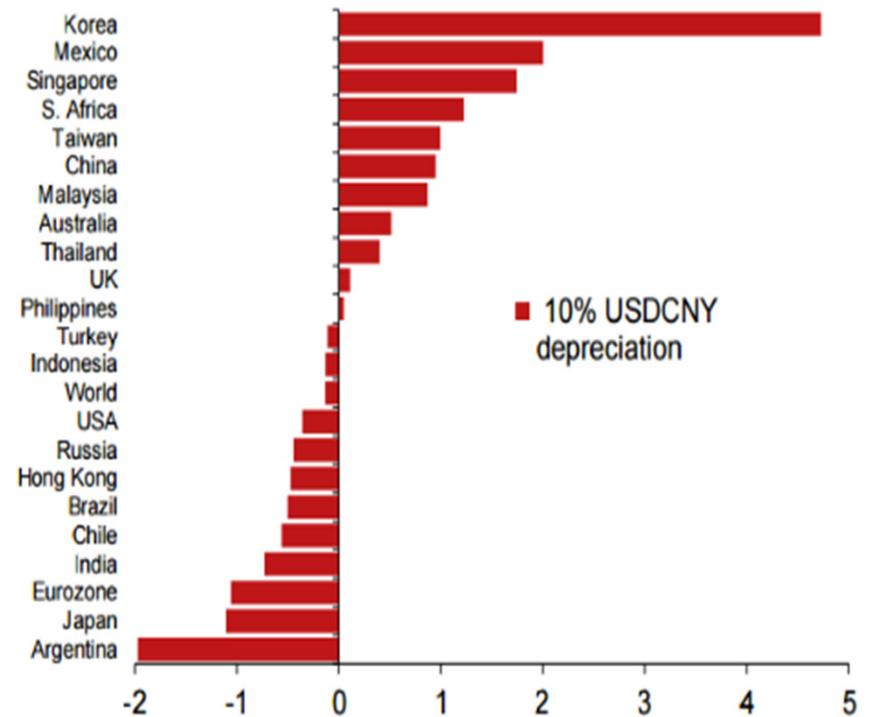


* between Aug 10 - Aug 25 and Dec 31 - Jan 8; values above 1 imply a stronger depreciation against US\$ than that of the RMB

Source : Oxford Economics / Haver Analytics

World: GDP in FX spillover scenario

% difference in level of GDP vs baseline, 2017



■ 10% USDCNY depreciation

Source : Oxford Economics

OEF Potential Asian GDP & HP Filtered GDP

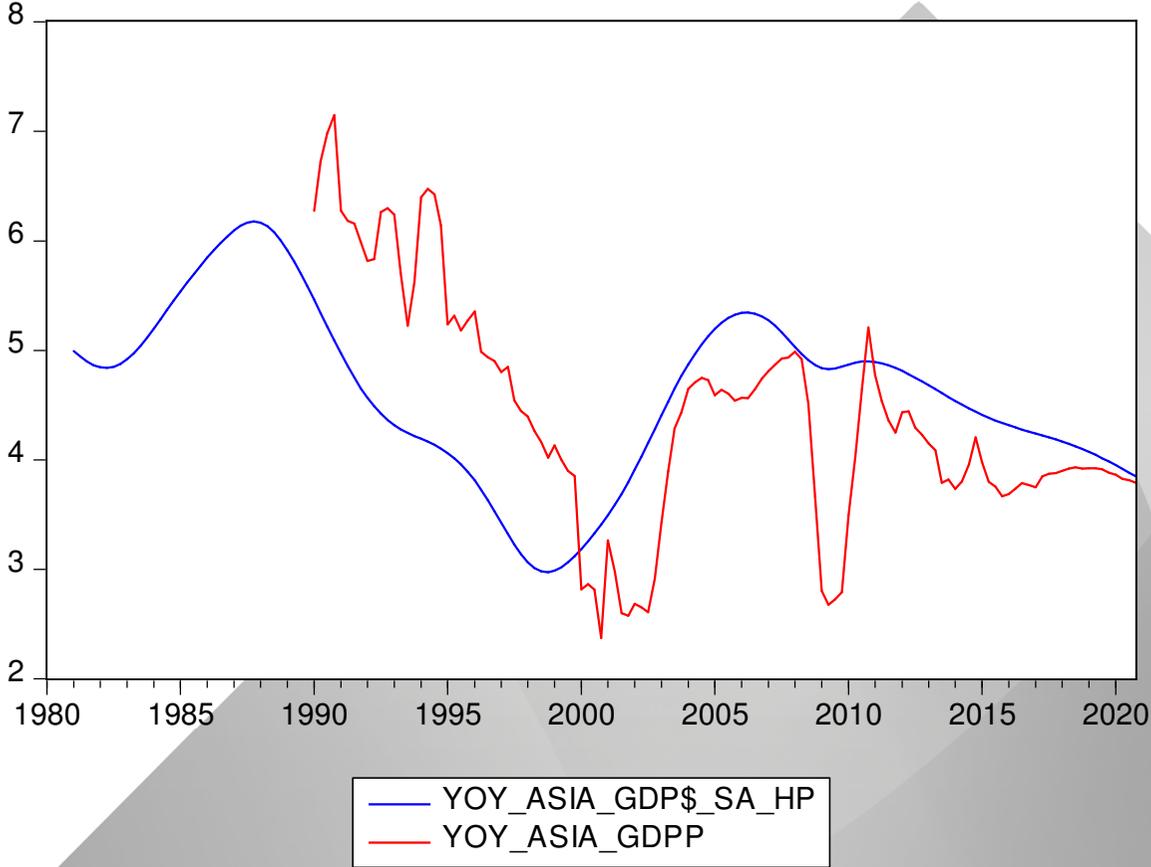


Figure on ICORs in 2002-2006 and 2011-2015

Asian Average ICORs

