Visa Business and Economic Insights

Global Economic Insights

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China's changing role in global economic recoveries

After the most synchronized collapse and recession in economic history, will China continue its four-decade pattern of outsized contributions to the global recovery?

Synchronicity has always been a key feature of the global business cycle as the sudden stop of the 'Great Lockdown' of 2020 illustrates. Our analysis of the four major recessions and two significant slowdowns since the 1970s suggests that increased financial and trade integration globally may have increased the immediacy, depth and duration of economic collapses due to the growing importance of "common factors" in each collapse. However, while collapses have become more synchronized and intense, recoveries appear to have become more de-synchronized and protracted—perhaps due to the lack of a common factor such as a coordinated policy response.

Across all economic collapses, an important element in the recovery has been the linkage between the national business cycle of the world's prominent economy or grouping of economies and the global business cycle. In the past two decades, China has largely filled that role.

That relationship has been changing for some time, but more significantly so now as China moves out of the disruption of 2020 and into a new growth path mapped out in its 14th Five Year Plan of 2021-26. Looking ahead a few years, the global economy's historical reliance on China to meaningfully contribute to the global recovery is less assured. In fact, it could be China's lowest in modern economic history.

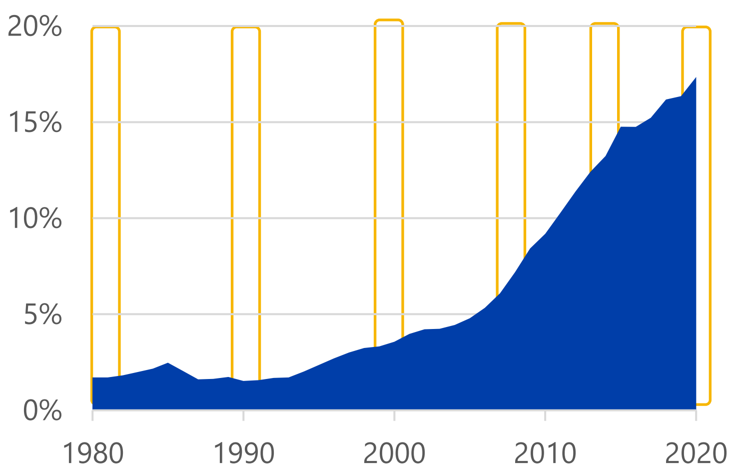
In This Issue

China's share of global GDP has been steadily rising in recent decades. A more interesting metric is the Chinese contribution to global growth (the delta)

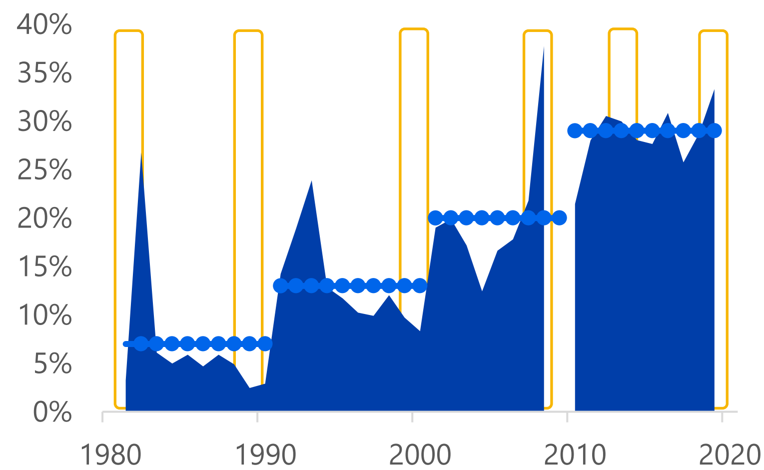
China's contributions to global recoveries had consistently increased, but has probably peaked out now

Its contribution to the Great Lockdown recovery could be significantly lower than other global revivals

China's share of world GDP (nominal USD)



China's contribution to economic recoveries



Sources: Oxford Economics/Haver Analytics

The synchronized nature of collapses and recoveries

As global integration has increased, the depth and duration of economic collapses has intensified

According to our analysis of recession episodes over the past five decades, they all had similar growth in the year preceding the recession. However, since 1975, each recession has become sequentially deeper and more protracted. Until the Great Lockdown of 2020, the Great Recession of 2009 was by far the deepest. Although consumption, on average, holds up better than other activity metrics such as investment, industrial production and trade, 2009 was also notable for a significant decline in consumption.

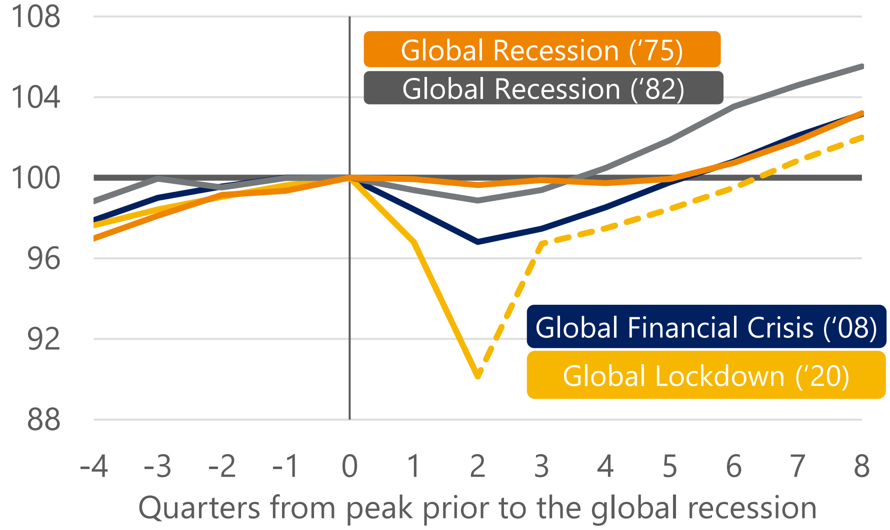
So, what makes a recovery stronger?

In the year following the 1975 recession, output had its strongest and fastest recovery. The 2009 recession had the strongest first year of recovery of all the recessions, although ultimately its recovery turned uneven and protracted. The key reason for this was the highly concentrated nature of the recovery in industrial production and trade. All other activity variables remained weak.

Four recovery similarities to 2010-12

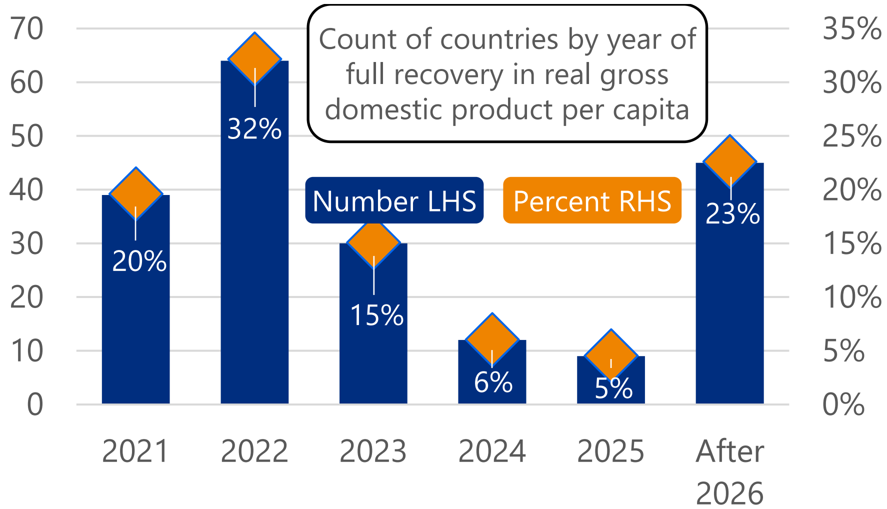
The beginning of the 2020 lockdown recovery shares many similarities to the revival of 2010-12. First, it is concentrated in trade and production in the goods sector. Second, the deterioration in labour markets (the rise in unemployment and loss of income) was more immediate and pronounced. Third, legacy issues from the Global Financial crisis remained in terms of debt in both the public and private sectors. Finally, uncertainty in not just the advanced economies but across all economies is unusually high and volatile, where the pre-2008 recessions saw declining uncertainty in the recovery.

Vaccination offers hope, but also a long-tail recovery of demand



Source: Visa Business and Economic Insights, CEIC, Oxford Economics

Nearly a quarter of the global economy will not recover until after 2026



Source: Visa Business and Economic Insights, CEIC, Oxford Economics

The changing nature of China's support and growth dynamics in the coming recovery

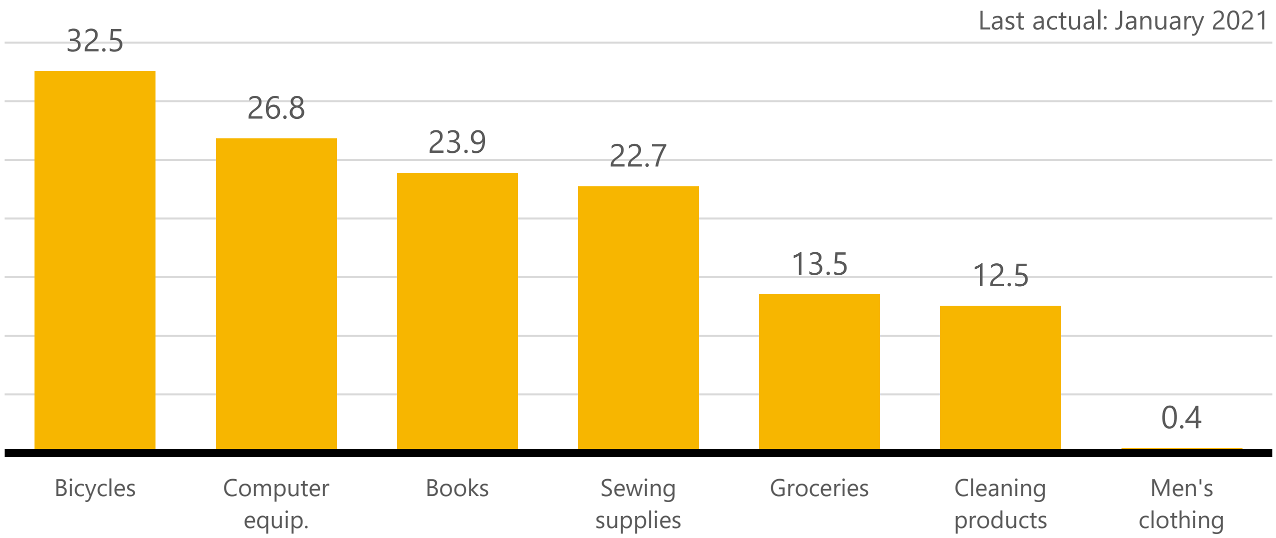
The trade and production rebound led by China (and Asia via its links to China) is already evident in the current recovery. Trade has made a V-shaped recovery over two quarters, compared to two years following the Great Recession.

That dynamic in 2010-12 was clearly led by China thanks to an import-intensive infrastructure build-out and deeper technological imprint on the world. Over the decade to 2019, China was responsible for nearly 30 percent of the delta in global growth.

China's contributing role in economic recoveries may have peaked

China has been making a larger contribution to global growth after each global collapse. For nearly a decade following the Great Recession, the delta in Chinese growth was responsible for around 33 percent of the delta in global growth each year. However, based on our forecasts for China and global growth in the three years out to 2024, it appears the Global Financial Crisis may have represented China's "peak" in terms of accelerating and sustaining global recoveries. There are two primary reasons why this recovery will be significantly different and China will be correlated with, not causal to, it. First, the U.S. and other advanced economies are simply not consuming the types of goods and services China is producing.

What the U.S. is consuming (vertical spend categories, YoY percent growth)



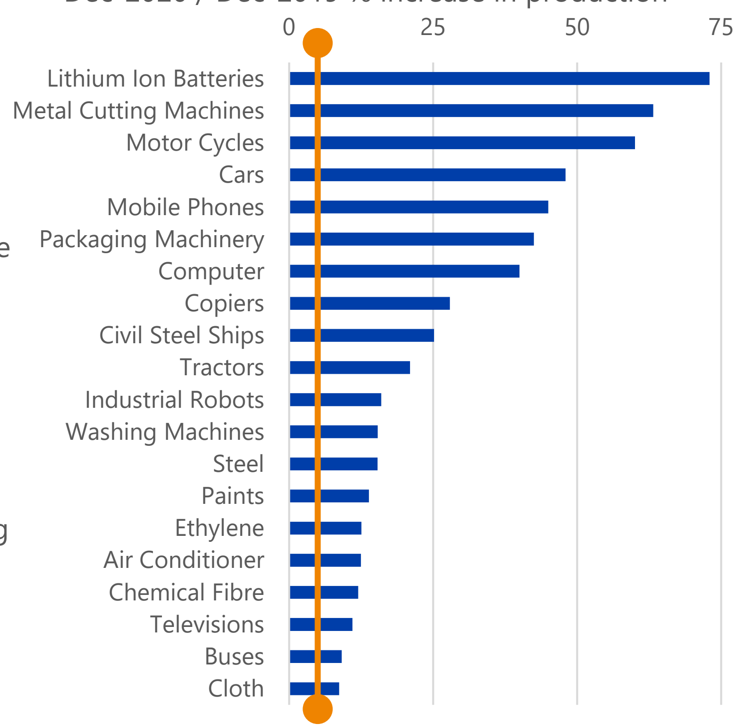
Sources: Visa Business and Economic Insights and U.S. Department of Commerce

Second, after a period of opaqueness around China's longer-term policy direction, this year China returned to work with the National Peoples Congress on 5 March producing three big reports: the Government Work Report (GWP), the Budget and the 14th Five-Year Plan (FYP). The GWR reaffirmed that policy normalisation would continue, albeit gradually and cautiously. The headline phrases of "continuity, stability and sustainability," "maintain necessary support to the economic recovery," "no sharp turns," and others, do not suggest the massive stimulus of previous cycles. The FYP outlined a picture of Chinese growth that can be characterized as:

1. More innovation, services, and green growth
2. Less industry, risk, leverage, and carbon

Based on China's production metrics for 2020, it appears China is producing less for what its past trading partners are now consuming and instead laying the foundations for its next phase of growth—one that will not be as supportive of the rest of the world.

What China is producing
(Sectors that out-perform the 2.8 percent industrial production growth rate, 2020 YoY)
Dec-2020 / Dec-2019 % increase in production



Sources: Visa Business and Economic Insights and CEIC

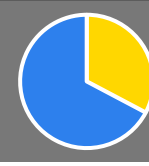
China's role in two-decades of economic collapses and recoveries

The transmission mechanism for Chinese policy support after global shocks has consistently been guiding lending by the banking sector via targets and rates

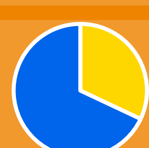
2000-01 Tech Wreck

Trigger for external collapse:	**Supply side** (excess capacity Y2K) and **demand side** (loss of wealth after Nasdaq fall	
China's national business cycle response:	SOE reform financed by central gov't budget	
Cost to China over 3 years:	Fiscal ease of 1.2% of GDP Leverage ratio rose 25ppt from 125 to 150% of GDP	
China's share of world trade:	**4%** **Of exports**	**3%** **Of imports**
China's contribution to global recovery:	**19%** **Of GDP**	

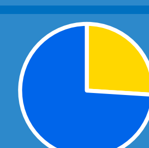
2007-08 Global Financial Crisis

Trigger for external collapse:	**Liquidity shock** following the collapse of Lehman Brothers as the global interbank market froze up	
China's national business cycle response:	Massive credit-funded stimulus spending to make up for the shortfall in external demand	
Cost to China over 3 years:	Fiscal ease of 2.1% of GDP. Leverage ratio rose 40ppt from 140 to 180% of GDP	
China's share of world trade:	**10%** **Of exports**	**8%** **Of imports**
China's contribution to global recovery:	**33%** **Of GDP**	

2014-15 Mid-Cycle Slowdown

Trigger for slowdown	Supply and demand slowdown as corporates and consumers turn cautious given high levels of debt	
China's national business cycle response:	Expansion of social housing and monetary easing	
Cost to China over 3 years:	Fiscal ease of 1.1% of GDP Leverage ratio rose 27ppt from 211 to 238% of GDP	
China's share of world trade:	**12%** **Of exports**	**11%** **Of imports**
China's contribution to global recovery:	**32%** **Of GDP**	

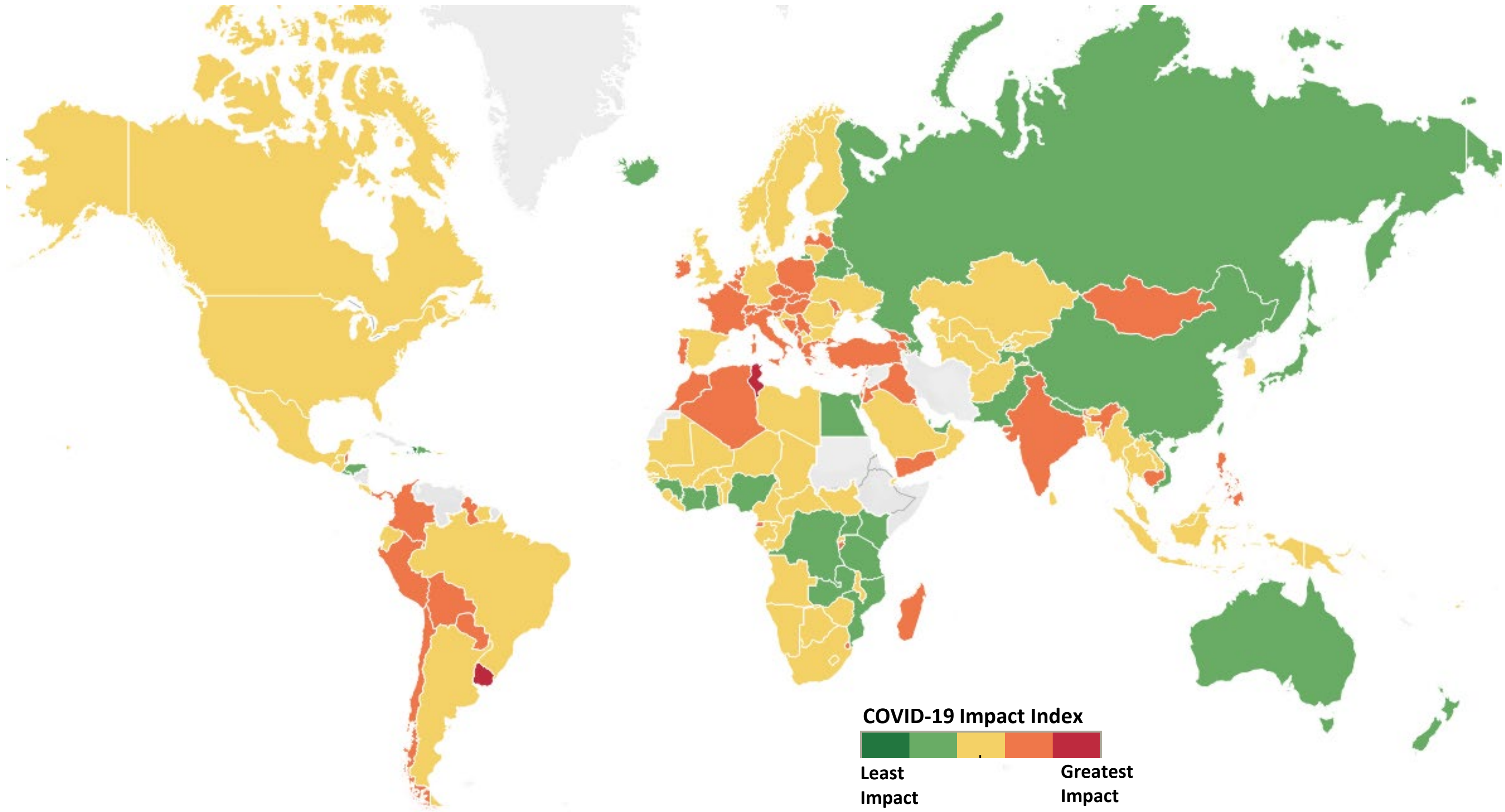
2020 COVID19 Great Lockdown

Trigger for external collapse:	**Supply, demand and liquidity shock**	
China's national business cycle response:	Fiscal and monetary policy relaxed but constrained by past speculation	
Cost to China over 1 year:	Fiscal ease of 11% of GDP. Leverage ratio rose 24ppt from 246 to 270% of GDP	
China's share of world trade:	**14%** **Of exports**	**12%** **Of imports**
China's contribution to global recovery:	**26%*** **Of GDP**	

Sources: Oxford Economics/Haver Analytics

* China's contribution becomes larger long term

Economic impact of COVID-19
(As of 16 April 2021)



- The pandemic's impact on economies around the world weakened further in March. For every four countries that improved their economic index scores over the last month, one country slipped.
- The gains may seem counter-intuitive as the latest wave of renewed transmission—which has lasted for nine consecutive weeks—has yet to peak. However, a small group of countries is driving this latest surge. The United States, India, Brazil, France, and Turkey accounted for half of the 32 million new cases that have been recorded globally since the end of February 2021.
- Spending on discretionary items, airlines, and lodging have continued to improve since March, although the recovery in manufacturing captured by purchasing manager indexes has stalled due to supply shortages.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

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