



**Leverhulme Centre**  
for Research on Globalisation and Economic Policy

## Yao advises investors to back China

GEP in the news

**One of China's most respected economists has urged investors to put their faith in the country as it overtakes struggling Japan to become the world's second-largest economy.**

Writing in The Daily Telegraph, GEP's Professor Shujie Yao said investors should revise traditional thinking of Japan as a safe, mature economy and China as a high-risk, emerging counterpart.

Instead, he said, investors should expect China to come through the global recession stronger, leaving Japan "worryingly fragile" and at conceivable risk of economic implosion.

Professor Yao, co-ordinator of GEP's China and the World Economy programme, is acknowledged as one of the world's leading authorities on China's economy.

He wrote: "Before the end of this year China will become the world's second-largest economy, replacing Japan about 10 years ahead of schedule. That should ring alarm bells for traditionalist investors.

"Traditional thinking is that China is an emerging market economy – usually a small, high-risk part of investor portfolios; Japan the stable, mature economy worthy of significantly greater exposure.

"But this turnaround in the global GDP league tables should also, arguably, trigger a turnaround for many investors."

Professor Yao conceded China has been hit by the global recession, with exports falling for the sixth month in succession in April and the Shanghai Stock Exchange down 65% in 2008.

But he said Beijing's recent 4,000bn Renminbi (£385bn) economic stimulus package, as well as increased bank lending, would help the country recover more quickly than its rivals.

"For all the criticisms of China's political structure, at times like this it has its economic advantages," he said.

"If the Chinese government wants a major road to be built, work will start straight away. If it needs the banks to lend, they do as they're told."

Professor Yao said a fall in food and commodity prices, the collapse of inefficient businesses and the removal of regional inequalities – all recession-fuelled – were also helping China's cause.

Meanwhile, with government debt at around 200% of GDP and no realistic prospect of the growth necessary for recovery, Japan would be deemed insolvent if it were a business, he said.

Like those of many other nations, Japan's current budget is in deficit – by around 7% of GDP – and that deficit is increasing.

It has been estimated that the economy needs to grow by at least 2.8% a year just to pay interest and keep debt stable – and Japan has not enjoyed such growth in decades.

Professor Yao said: "Japan appears to be in a classic economist's 'debt trap' – a state in which the ratio of debt to GDP can never fall.

“Exports and industrial production have imploded. Even with some recovery later in the second half, the economy is likely to contract by some 5% this year – and that’s being kind.

“For most countries this road leads to hyperinflation and a trashed currency. For the Japanese economy to implode is surely beyond imagining. But it is far from impossible.

“The logic is simple but scarily robust, yet none of this seems even to be on anyone’s agenda. It should be. Let’s hope I am wrong, but from an investment perspective plan for if I am right.”

Professor’s Yao article appeared in the May 23 edition of the Telegraph and is available online at

<http://www.telegraph.co.uk/finance/personalfinance/investing/5357795/Investment-think-China-not-Japan..html>.

Translated, it has since been published on numerous major Chinese websites.

## About GEP

GEP is based at the University of Nottingham and is substantially funded by grants from the Leverhulme Trust.

In January 2008 it opened GEP in Malaysia at the University of Nottingham’s purpose-built Semenyih campus, 30km from Kuala Lumpur.

In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise through the media and to assisting journalists whenever able.

Website: [www.gep.org.uk](http://www.gep.org.uk)

## Professor Shujie Yao



Shujie Yao is a Professor of Economics and the co-ordinator of the Globalisation and Economic Policy Centre’s China and the World Economy programme. He is also Head of School at the University of Nottingham’s School of Contemporary Chinese Studies.

In an article published in the Journal of Asian Economic Literature he was ranked in the top 10 Chinese scholars specialising in the country’s economy. He is chief editor of the Social Science Edition of the Xi’an Jiaotong University Journal and founder editor of the Journal of Chinese Economics and Business.

He has been a consultant to organisations including the World Bank, the EU and UNCDF.

May 2009

### For more information, contact:

Martin Stott, Bulletin PR  
Telephone: +44 (0) 115 922 8264  
Mobile: 07956 917 978  
Email: [martin.stott@bulletinpr.co.uk](mailto:martin.stott@bulletinpr.co.uk)

or

Sue Berry, Centre Manager  
Telephone: +44 (0) 115 951 5469  
Email: [sue.berry@nottingham.ac.uk](mailto:sue.berry@nottingham.ac.uk)