On Monday, The Economist's Society welcomed Professor Douglas McWilliams, Chief Executive and founder of Centre of Economic and Business research, to UCL to give an interesting talk on the impact of China's saving glut. In the beginning of the year, he made a list of his top 10 predictions for 2013, which can be accessed at "http://www.cebr.com/wp-content/uploads/Top-ten-for-2013.pdf"

To begin with, Professor McWilliams explained that the reason behind the high savings rate of China (50% of GDP) is that saving behavior is partly conditioned. He explained that if an individual have had past experience of not having sufficient to consume, it is likely that they would save more when they can afford to. In addition to that, their experience would also affect the behaviour of their descendent and thus maintaining the high savings rate in the country. As this is more of a cultural issue, he reckons that it is unlikely for the Chinese savings rate to fall by a significant amount in the near future. To support his prediction, he highlighted Singapore, whom is a developed country but still maintains a very high savings rate of about 44%. He reckons that the developments in China are similar to that of Singapore but everything is just happening at a much larger scale.

Personally, I do agree that the high savings rate in Asia is conditioned by their culture. Being a Singaporean, I do observe a strong saving culture amongst my Singaporean peers. Perhaps this might be because we are on a student's budget or simply because since young we were taught by our parents to save part of our pocket money for future use. However, even those who are working, especially those in their late 40s and early 50s, do save quite a lot. Perhaps this is due to the high cost of living in Singapore and thus there is a need for them to save more so as to ensure that they have sufficient funds for a comfortable retirement. Thus, I believe that the high savings rate in Singapore is due to cultural and economic reasons.

Moving on, Professor McWilliams went on to highlight the importance of balance of payments today. He explains that the emerging nations make up half of the world GDP today and the scale and speed of the development of their economies have been amazingly fast. This has led to the need of large-scale adjustments required by the developed West to resolve problems in their balance of payment. His argument being that the East is becoming super competitive. Perhaps instead we should be questioning ourselves: "Does competitiveness between countries really pose such a huge impact on the balance of payment?"

When Chinese modernisation started, the saving ratio increased and is expected to stay around the current rate of 50% (similar to the path of Singapore's savings rate). Currently the Chinese government is in the process of dissaving. However, China's corporation savings is much larger than many would have thought that it to be, resulting in the maintenance of the high savings rate in China. According to Professor McWilliams, most Chinese's have several saving books and most of their savings are in the "black" books, which are invested in the property market. Recently, the Chinese government imposed a tax on the second property in an attempt to deflate the property bubble. However, due to the reason above, this policy might not be very effective.

Professor McWilliams also highlighted that Chinese GDP started picking up from late 90s and he predicts that China will save about 7% of world GDP by 2015 (currently saving 6% of world GDP). In cash term, China's savings is forecasted to go well above $6trn and they are likely to account for more than a quarter of world's savings by 2015. He went on to explain the implications of the Chinese saving glut. By basic theory, excessive savings results in the fall of interest rates. This has been observed where bond yields have been falling way below expectations with US 10-year bond having a yield of 1.87% when according to FSA guidelines; individuals should be expecting returns of about 4.5%. Professor McWilliams also predicts that interest rates are expected to be low for most of our life and thus we should save more. However, he also highlights that this method would not work if everyone were to save, as interest rates would only plunge further. He believes that the only way to beat the low interest rates is to work longer to earn more. For that, he predicts that our generation would have to work till the age of 75.

To me, that seems incredibly unbelievable as I cannot imagine myself still working when I reach 65 years old much less 75. But, I guess only time will tell if his prediction is true and I look forward to testifying it.

With regards to the sub-prime mortgages, Professor McWilliams went on analyse why the financial crisis happened and how everyone should have saw it coming. Basically, he explains that slicing and dicing those sub-prime mortgages and repackaging them in an attempt to reduce the risk does not work as risk cannot just disappear. As seen, 20% of these bonds defaulted in first year. Thus, why was it possible for this to happen in the US but not the UK? In the UK, there is an immensely strict planning control enforced and thus, supply of housing is very inelastic. In US, it is controlled at a local level and thus tends to be very lax. When the property price appreciates, people would build more and hence it is very cyclical. Thus, Professor McWilliams describe the sub-prime mortgage crisis as more of a game of pass the parcel.

On the topic of the UK public finances, he predicts that UK borrowing would end up to be nearly ￡40 bn above target by 2017/18. In addition, debt to GDP ratio will hit 80% by 2015.

Last but not least, Professor McWilliams went on to talk about the impact of China’s saving glut on assets. China share of world asset will likely to be equivalent to their share of world GDP. Currently China has invested quite heavily in Africa, South America and US. He predicts that base on this trend, many UK businesses will become Chinese owned. Unless UK raises their share of exports in the emerging economy, UK citizens can expect increasingly expensive raw materials and food.

All in all, I believe that those who were present would agree that this was a very insightful talk. For those who have missed it, I would encourage you to attend Professors McWilliams next public lecture which will be held on the 21st of March at the London Museum and that talk will focus on the upcoming Spring Budget.