

Press Release



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Moving Emphasis from Exports to Consumption Is Best Course for China to Maintain Growth, According to BNY Mellon's Fixed Income Manager

Standish Sees Currency Appreciation, Higher Inflation, Faster Wage Growth Affecting Competitiveness

LONDON & ZURICH, January 20, 2012 — China's best plan for sustaining high growth rates would be to transition from its export-led growth model to one driven by consumption, according to a white paper by Standish Mellon Asset Management Co. LLC, the fixed income specialist for BNY Mellon Asset Management.

The report notes that China's economic success has sustainable roots, including high domestic savings, strong foreign direct investment, and general openness to international trade. Other factors in China's favor cited by the report include low labor costs, a relatively strong central government balance sheet, and an entrepreneurial culture.

However, the report also makes clear that the population is aging and the surplus of labor is gradually disappearing. In addition, the report points to rising wages, which could impact China's export competitiveness versus its Southeast Asian neighbors. According to Thomas D. Higgins, global macro strategist and an author of the report, other factors that might slow down China's export-driven economy include its relatively immature financial markets, allocation of capital by state agencies instead of the markets, and the rising environmental costs of rapid growth.

"China has attempted to address its challenges by rebalancing the economy away from exports and investment and toward consumer spending," said Edward Ladd, chairman emeritus of Standish and a co-author of the report. "It also has introduced financial reforms aimed at gradually liberalizing interest rates and increasing the flexibility of the exchange rate. Progress on these fronts has been challenging, while the old growth model based on export and investment is becoming less viable."

One key factor that could increase the emphasis on consumer spending would be expanding the social safety net, increasing the probability that households will not need to save as much for retirement income and healthcare as the population ages, the report said. The transition to a new country leadership, expected to happen in 2012, also could set the tone for future policies, according to Standish.

Copies of the report are available at:

<http://us.bnymellonam.com/core/library/documents/knowledge/Viewpoints/sStandishChina.pdf>

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