Time for Asia to get serious about debt

China's debt troubles leaped onto many a front page last week when the government grabbed control of Anbang Insurance Group, one of its most overextended conglomerates.

The dramatic act amplified Beijing's determination—and desperation—to curb the soaring debt imperiling its future. Yet China's globally acquisitive conglomerates are one part of a challenge that also involves local-government borrowing and excessive credit. Left unchecked, it will dampen prospects for Asia's biggest economy. Even if China doesn't crash, debt headwinds will lower revenue growth over the next decade.

China isn't alone, though, and that gets at a bigger region-wide threat that must be addressed—the more ungently the better. Asia's other debt trouble spots include India, Malaysia and Thailand.

India, for example, faces outsized corporate leverage. Thailand's main vulnerability involves household debt; Malaysia's is a high ratio of external funding. More generally, though, Hong Kong, Malaysia, Singapore, South Korea and Thailand also feature debt-to-gross domestic product (GDP) ratios of between 120% and 300%. "From this perspective," says Priyanka Kishore of Oxford Economics in Singapore, "Asia does seem to have a debt problem. In fact, a sizeable one."

The good news is that these debt challenges probably won't send the region over the cliff. The bad news: there's no one-size-fits-all remedy in a region that has long tried to grow its way out of debt rather than treat the problem directly.

Admittedly, Asia has a bad teacher in Japan, which devised East Asia's favoured development model. Since its bubble economy burst in 1990, Japan has borrowed trillions of dollars to stimulate growth. This nearly three-decade binge built scores of white elephant edifices, international airports with only a couple of overseas flights and the largest debt burden in the developed world. Even today, though, Tokyo is still struggling to overcome deflation, revitalize rural communities and prod cash-rich companies to fatten paychecks.

It's a tantalizing Catch 22. Reducing debt would make it harder for Japan to grow fast enough to address its rising debt burden. If Tokyo proved anything these past 28 years, it's the folly of policymakers thinking they can grow their way to greater solvency. That, sadly, is China's current strategy. Donald Trump's, too, as he adds another $1.5 trillion to US debt, arguing the gamble will pay for itself (it won't).

Such track records bode poorly for China, India, Malaysia and Thailand which, Oxford Economics finds, "most susceptible to debt-induced spending cutbacks". In other words, GDP might immediately suffer from efforts to trim debt. India, of course, has another problem: it lacks a clear and proven mechanism to engineer bankruptcies so as not to slam top-line GDP.

What's more, says Kishore, "India is entrenched in the vicious cycle where a highly indebted infrastructure sector is impinging on investment and growth, which, in turn, is affecting the corporate sector's revenues and impacting its ability to reduce debt."

Other nations face their own idiosyncrasies. The answer, though, is to devise ways to stimulate domestic demand without increased borrowing. Here, Asia does have some positive trends going for it, including heady GDP rates, high domestic savings and room for supply-side policy shifts to increase productivity and incomes.

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“These should act as substantial buffers,” Kishore says. “Even with growth slowing to 3.5% by 2030 (from around 5% currently), we expect Asia to remain the largest contributor to global growth in the long run.”

That is, if Asia can keep debt from getting in the way. Developing Asia is still poised to outpace global growth, led by India, China and the Philippines. It’s vital, though, to address the debt-related headwinds bearing down in Asia, including higher yields and less corporate and household demand.

A recent Bank for International Settlements report found that debt-to-GDP ratios are rising even in key financial centres such as Hong Kong and Singapore, places that pride themselves for fiscal rectitude.

Not surprisingly, China is at the centre of debt worries. It’s by far Asia’s main growth engine—more than twice the size of Japan. China’s debt is about 260% of the economy’s size, up from 158% in 2005. Beijing has been pledging to curb excessive leverage and credit. That’s partly why President Xi Jinping’s seizure of Anbang, an unprecedented act against a private insurer, turned so many heads.

Domestically, Anbang is among the handful of national champions spreading China Inc.’s tentacles around the globe, including Dalian Wanda Group, Fosun Group, HNA Group and Zhejiang Luosen Neili.

Internationally, they are the vanguard of Xi’s rising influence. Anbang, in particular, came to prominence in 2014 by paying $1.95 billion for New York’s fabled Waldorf Astoria Hotel. Now, it’s at the centre of Xi’s crackdown on runaway debt.

It’s an Asia-wide challenge, though; one best addressed when growth is buoyant and a synchronized global expansion provides a rare economic tailwind. There’s no time like the present to get Asia’s fiscal house in order. The future depends on it.

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