GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

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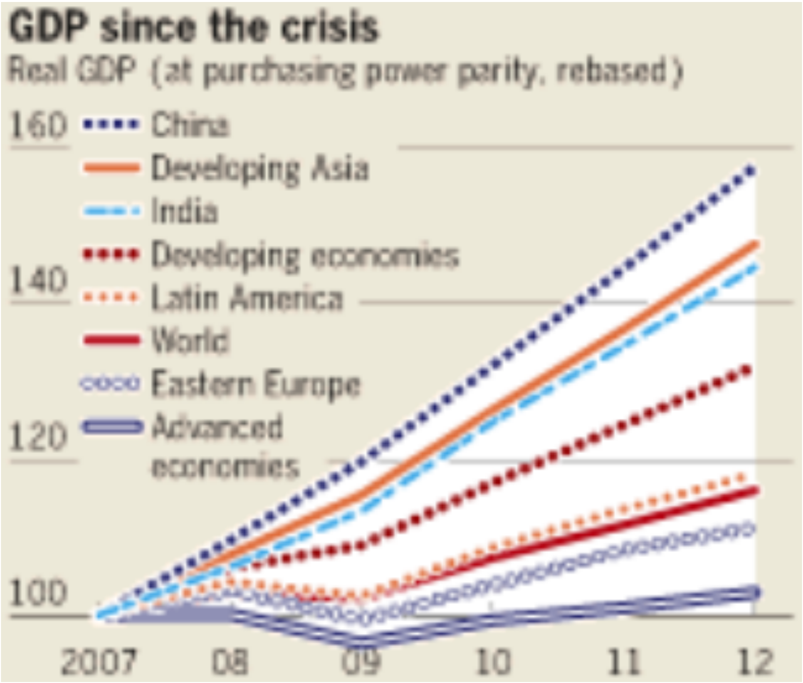
- Shift to the East

- Sharp divergence of economic performance after GFC
- Accelerates long-run convergence of emerging markets, especially in Asia, on West
- Angus Maddison’s projections to 2030
- Policy outlook: Western pessimism, Asian optimism – but growth slowdown this year


GDP since the crisis
Real GDP (at purchasing power parity, rebased)
160
140
120
100
China
Developing Asia
India
Developing economies
Latin America
World
Eastern Europe
Advanced economies
2007
08
09
10
11
12

Overview of the *World Economic Outlook* Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
			Projections		Difference from January 2012 WEO Projections		Estimates	Projections	
	2010	2011	2012	2013	2012	2013	2011	2012	2013
World Output[1]	**5.3**	**3.9**	**3.5**	**4.1**	**0.2**	**0.1**	**3.2**	**3.7**	**4.1**
Advanced Economies	**3.2**	**1.6**	**1.4**	**2.0**	**0.2**	**0.1**	**1.2**	**1.6**	**2.2**
United States	3.0	1.7	2.1	2.4	0.3	0.2	1.6	2.0	2.6
Euro Area	1.9	1.4	–0.3	0.9	0.2	0.1	0.7	–0.2	1.4
Germany	3.6	3.1	0.6	1.5	0.3	0.0	2.0	0.9	1.6
France	1.4	1.7	0.5	1.0	0.3	0.0	1.3	0.5	1.4
Italy	1.8	0.4	–1.9	–0.3	0.2	0.3	–0.4	–2.0	0.7
Spain	–0.1	0.7	–1.8	0.1	–0.2	0.4	0.3	–2.5	1.3
Japan	4.4	–0.7	2.0	1.7	0.4	0.1	–0.6	2.0	1.8
United Kingdom	2.1	0.7	0.8	2.0	0.2	0.0	0.5	1.5	2.3
Canada	3.2	2.5	2.1	2.2	0.3	0.2	2.2	2.0	2.3
Other Advanced Economies[2]	5.8	3.2	2.6	3.5	0.0	0.1	2.5	3.6	2.9
Newly Industrialized Asian Economies	8.5	4.0	3.4	4.2	0.1	0.1	3.1	4.8	3.1
Emerging and Developing Economies[3]	**7.5**	**6.2**	**5.7**	**6.0**	**0.2**	**0.1**	**5.8**	**6.3**	**6.4**
Central and Eastern Europe	4.5	5.3	1.9	2.9	0.8	0.5	3.8	1.6	3.6
Commonwealth of Independent States	4.8	4.9	4.2	4.1	0.5	0.3	3.7	3.8	4.0
Russia	4.3	4.3	4.0	3.9	0.7	0.4	3.7	3.9	4.1
Excluding Russia	6.0	6.2	4.6	4.6	0.2	–0.1	. . .	. . .	. . .
Developing Asia	9.7	7.8	7.3	7.9	0.0	0.1	7.2	8.1	7.7
China	10.4	9.2	8.2	8.8	0.1	0.0	8.9	8.4	8.4
India	10.6	7.2	6.9	7.3	–0.1	0.0	6.1	6.9	7.2
ASEAN-5[4]	7.0	4.5	5.4	6.2	0.2	0.6	2.5	8.5	5.5
Latin America and the Caribbean	6.2	4.5	3.7	4.1	0.2	0.1	3.6	3.9	4.8
Brazil	7.5	2.7	3.0	4.1	0.1	0.1	1.4	4.7	3.4
Mexico	5.5	4.0	3.6	3.7	0.1	0.2	3.7	3.6	3.8
Middle East and North Africa (MENA)	4.9	3.5	4.2	3.7	0.6	–0.2	. . .	. . .	. . .
Sub-Saharan Africa	5.3	5.1	5.4	5.3	–0.1	0.0	. . .	. . .	. . .
South Africa	2.9	3.1	2.7	3.4	0.1	0.0	2.6	3.0	3.7
Memorandum									
European Union	2.0	1.6	0.0	1.3	0.1	0.1	0.9	0.2	1.7
World Growth Based on Market Exchange Rates	4.2	2.8	2.7	3.3	0.3	0.1	2.3	2.7	3.4

World Trade Volume (goods and services)	**12.9**	**5.8**	**4.0**	**5.6**	**0.2**	**0.2**	**. . .**	**. . .**	**. . .**
Imports									
Advanced Economies	11.5	4.3	1.8	4.1	–0.2	0.2	. . .	. . .	. . .
Emerging and Developing Economies	15.3	8.8	8.4	8.1	1.3	0.4	. . .	. . .	. . .
Exports									
Advanced Economies	12.2	5.3	2.3	4.7	–0.1	0.0	. . .	. . .	. . .
Emerging and Developing Economies	14.7	6.7	6.6	7.2	0.5	0.2	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil[5]	27.9	31.6	10.3	–4.1	15.2	–0.5	20.8	10.8	–6.2
Nonfuel (average based on world commodity export weights)	26.3	17.8	–10.3	–2.1	3.7	–0.4	–6.4	0.1	–2.4
Consumer Prices									
Advanced Economies	1.5	2.7	1.9	1.7	0.3	0.4	2.8	1.7	1.6
Emerging and Developing Economies[3]	6.1	7.1	6.2	5.6	0.0	0.1	6.5	5.5	4.5
London Interbank Offered Rate (percent)[6]									
On U.S. Dollar Deposits	0.5	0.5	0.7	0.8	–0.2	–0.1	. . .	. . .	. . .
On Euro Deposits	0.8	1.4	0.8	0.8	–0.3	–0.4	. . .	. . .	. . .
On Japanese Yen Deposits	0.4	0.3	0.6	0.1	0.0	–0.1	. . .	. . .	. . .

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during February 13–March 12, 2012. When economies are not listed alphabetically, they are ordered on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

[1]The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

[2]Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and Euro Area countries.

[3]The quarterly estimates and projections account for approximately 80 percent of the emerging and developing economies.

[4]Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

[5]Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $104.01 in 2011; the assumed price based on futures markets is $114.71 in 2012 and $110.00 in 2013.

[6]Six-month rate for the United States and Japan. Three-month rate for the euro area.

Selected Asian Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Asia	**5.9**	**6.0**	**6.5**	**5.0**	**3.9**	**3.6**	**2.0**	**1.4**	**1.7**	...	...	...
Advanced Asia	**1.3**	**2.6**	**2.8**	**1.6**	**1.4**	**1.4**	**2.2**	**1.8**	**2.0**	**4.3**	**4.3**	**4.2**
Japan	–0.7	2.0	1.7	–0.3	0.0	0.0	2.0	2.2	2.7	4.5	4.5	4.4
Australia	2.0	3.0	3.5	3.4	2.7	3.0	–2.2	–4.6	–5.1	5.1	5.2	5.2
New Zealand	1.4	2.3	3.2	4.0	2.1	2.4	–4.1	–5.4	–6.3	6.5	6.0	5.4
Newly Industrialized Asian Economies	**4.0**	**3.4**	**4.2**	**3.6**	**2.9**	**2.7**	**6.5**	**5.9**	**5.7**	**3.6**	**3.5**	**3.5**
Korea	3.6	3.5	4.0	4.0	3.4	3.2	2.4	1.9	1.5	3.4	3.3	3.3
Taiwan Province of China	4.0	3.6	4.7	1.4	1.3	1.8	8.8	8.0	8.4	4.4	4.4	4.3
Hong Kong SAR	5.0	2.6	4.2	5.3	3.8	3.0	4.1	3.2	3.5	3.4	3.5	3.5
Singapore	4.9	2.7	3.9	5.2	3.5	2.3	21.9	21.8	21.3	2.0	2.1	2.1
Developing Asia	**7.8**	**7.3**	**7.9**	**6.5**	**5.0**	**4.6**	**1.8**	**1.2**	**1.4**	...	...	...
China	9.2	8.2	8.8	5.4	3.3	3.0	2.8	2.3	2.6	4.0	4.0	4.0
India	7.2	6.9	7.3	8.6	8.2	7.3	–2.8	–3.2	–2.9	...	...	...
ASEAN-5	**4.5**	**5.4**	**6.2**	**5.9**	**5.4**	**4.7**	**2.8**	**1.7**	**1.4**	...	...	...
Indonesia	6.5	6.1	6.6	5.4	6.2	6.0	0.2	–0.4	–0.9	6.6	6.4	6.3
Thailand	0.1	5.5	7.5	3.8	3.9	3.3	3.4	1.0	1.4	0.7	0.7	0.7
Malaysia	5.1	4.4	4.7	3.2	2.7	2.5	11.5	10.8	10.4	3.2	3.1	3.0
Philippines	3.7	4.2	4.7	4.8	3.4	4.1	2.7	0.9	1.0	7.0	7.0	7.0
Vietnam	5.9	5.6	6.3	18.7	12.6	6.8	–0.5	–1.6	–1.4	4.5	4.5	4.5
Other Developing Asia[4]	**4.6**	**5.0**	**5.0**	**10.6**	**9.7**	**9.2**	**–0.7**	**–2.0**	**–2.0**	...	...	...
Memorandum												
Emerging Asia[5]	7.3	6.8	7.4	6.1	4.7	4.3	2.5	1.9	2.0	...	...	...

GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- Caveats to Asian optimism

-- Short-term: global/emerging-market growth slowdown

-- Medium-term:

- Stalled reforms
- Repressed business climates
- Still coupled to the West

World Ranking in
Ease of Doing Business

	Ease of Doing Business	Starting a Business	Dealing with Construc tion Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Ta xes	Trading Across Borders	Enforcing Contracts	Closing a Business
US	4	8	25	1	12	4	5	61	18	8	15
Japan	20	91	45	40	54	15	16	123	17	20	1
Singapore	1	4	3	5	14	8	2	4	1	12	2
H-Kong	2	18	1	6	75	4	3	3	2	3	13
N-Zealand	3	1	5	15	3	4	1	9	26	10	17
Denmark	5	28	10	9	47	15	27	13	6	28	7

Asia

	Ease of Doing Business	Starting a Business	Dealing with Construc tion Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Bhutan	142	83	135	142	83	126	147	67	169	35	183
Japan	20	107	63	26	58	24	17	120	16	34	1
Malaysia	18	50	113	59	59	1	4	41	29	31	47
Singapore	1	4	3	5	14	8	2	4	1	12	2
Sri Lanka	89	38	111	95	161	78	46	173	53	136	42
Thailand	17	78	14	9	28	67	13	100	17	25	51

BRIICS

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Brazil	129	126	113	138	120	87	73	150	100	100	131
Russia	120	106	182	109	45	87	93	103	162	19	92
India	133	169	175	104	93	30	41	169	94	182	138
Indonesia	122	161	61	149	95	113	41	126	45	146	142
China	89	151	180	140	32	61	93	130	44	18	65
S-Africa	34	67	52	102	90	2	10	23	148	85	76

Economic Freedom of the World: 2010 Annual Report Complete *Publication* - *freetheworld.com*. *Fraser Institute*.

Rank	Country	Summary index
1	Hong Kong	9.05
2	Singapore	8.70
3	New Zealand	8.27
4	Switzerland	8.08
5	Chile	8.03
6	United States	7.96
7	Canada	7.95
8	Australia	7.90
9	Mauritius	7.82
10	United Kingdom	7.81
11	Ireland	7.74
12	Estonia	7.73
12	United Arab Emirates	7.73
14	Denmark	7.69
15	Austria	7.61
16	Luxembourg	7.60
16	Slovakia	7.60
18	Bahrain	7.58
19	Finland	7.55
20	Cyprus	7.54

GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- **USA**
  - Obama administration: interventionism at home; ambivalence on trade; domestic weakness cramps external leadership
  - Weak recovery this year; low growth prospects medium-term
  - Deadlock and polarisation in US politics; but a real choice on the future of the US economy in this election year
  - Reasons for optimism

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- EU

-- Flat growth/mild recession

-- Crisis aftermath: Single Market under stress; internally divided and externally weak

-- Eurosclerosis – but pockets of good performers

-- Euro crisis: a triple crisis of sovereign debt, banking and the currency

-- Half-baked solutions followed by attempts at strong policy centralisation

-- Why I think it will fail

-- Consequences of a euro breakup

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- **China**
  - Now one of Big 3; a China-centred Asia
  - Enormous external opening 1990s-mid 2000s; border barriers low, but still high non-border barriers
  - Recent policy slippage: stalled reforms and industrial- policy activism; translates into trade protectionism and conflict
  - Supercharged stimulus: macroeconomic dangers; reinforces public sector at expense of private sector and MNEs

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-- Structural distortions in the economy getting worse: over-saving, over-investment, under-consumption; demographics; declining productivity

-- Need for second-generation reforms – factor markets as well as product markets (land, labour, capital)

-- But much more difficult: vested interests at heart of Party State

-- 2012: growth slowdown; Bo Xilai affair; mini-reforms on currency and financial markets

-- Policy scenarios for new leadership

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-- India

- Sailed through GFC with 8% growth; very optimistic prognosis up to early 2011
- But India Hype: “reform pause” since 2004; need new reforms to expand economic freedom and keep growth at 8% upwards
- Dramatic fall in growth and sentiment in last 15 months; corruption scandals and policy paralysis
- Urgent need for new reforms but prospects not good

GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- Silver linings

- Crisis or low growth
- Emergence of stronger civil society and independent institutions, supported by emancipated, aspirational middle class
- Opening of Indo-Pak trade
- Reforms in the states

GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- What implications for Sri Lanka?

-- Western markets remain the lifeblood; much more economic integration with India, esp. south India; stronger links with southeast Asia; China much less important for exports

-- Depends on reducing large deficits in policies and institutions – more economic freedom!

-- Economic branding depends on national reconciliation and stable, balanced international relations