ASIA AND THE EMERGING WORLD ORDER

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GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- Shift to the East

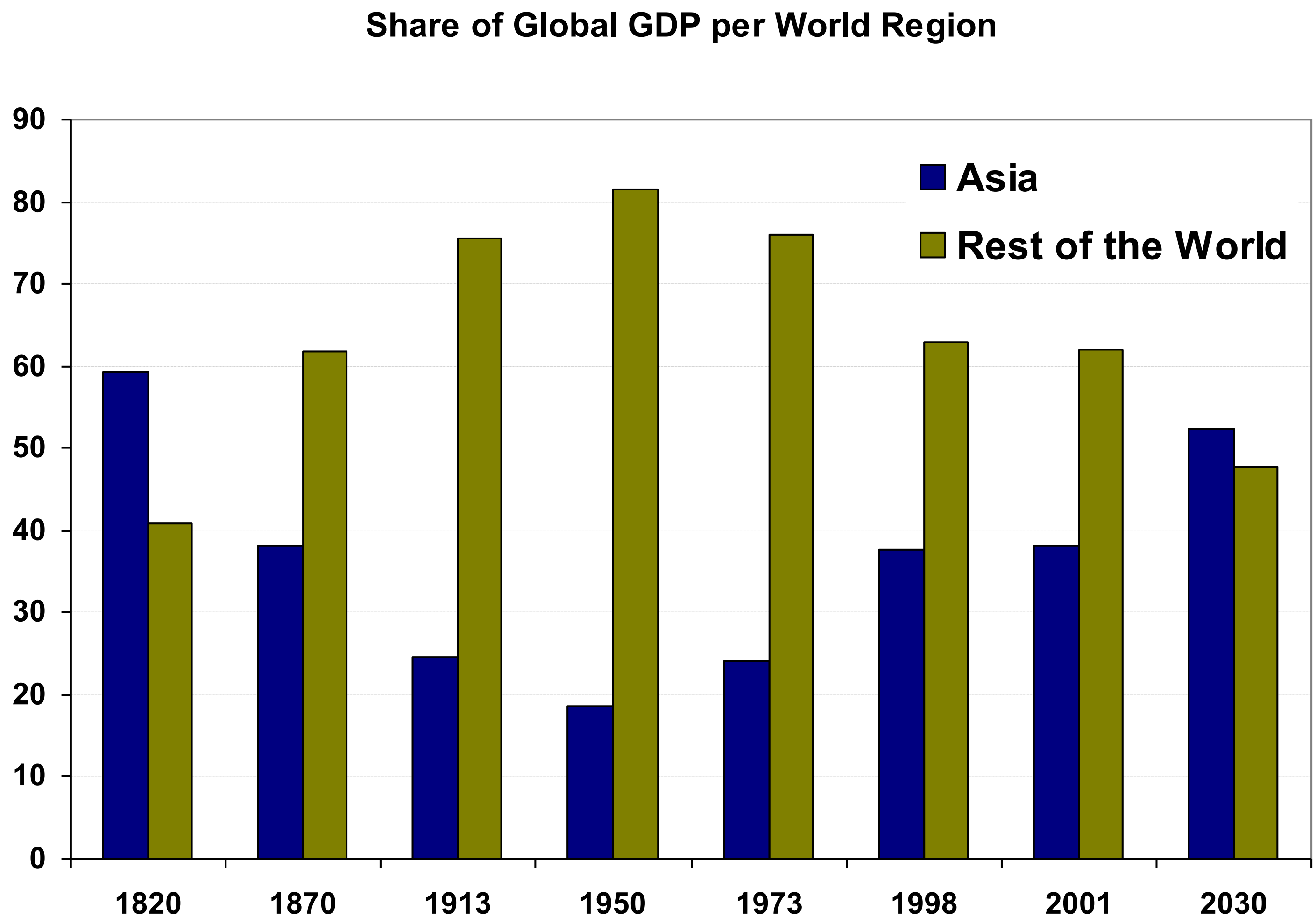
- Sharp divergence of economic performance after GFC
- Accelerates long-run convergence of emerging markets, especially in Asia, on West
- Angus Maddison’s projections to 2030
- Policy outlook: Western pessimism, Asian optimism – but growth slowdown this year


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

Table 5 China in the world economy, 1300–2030 AD

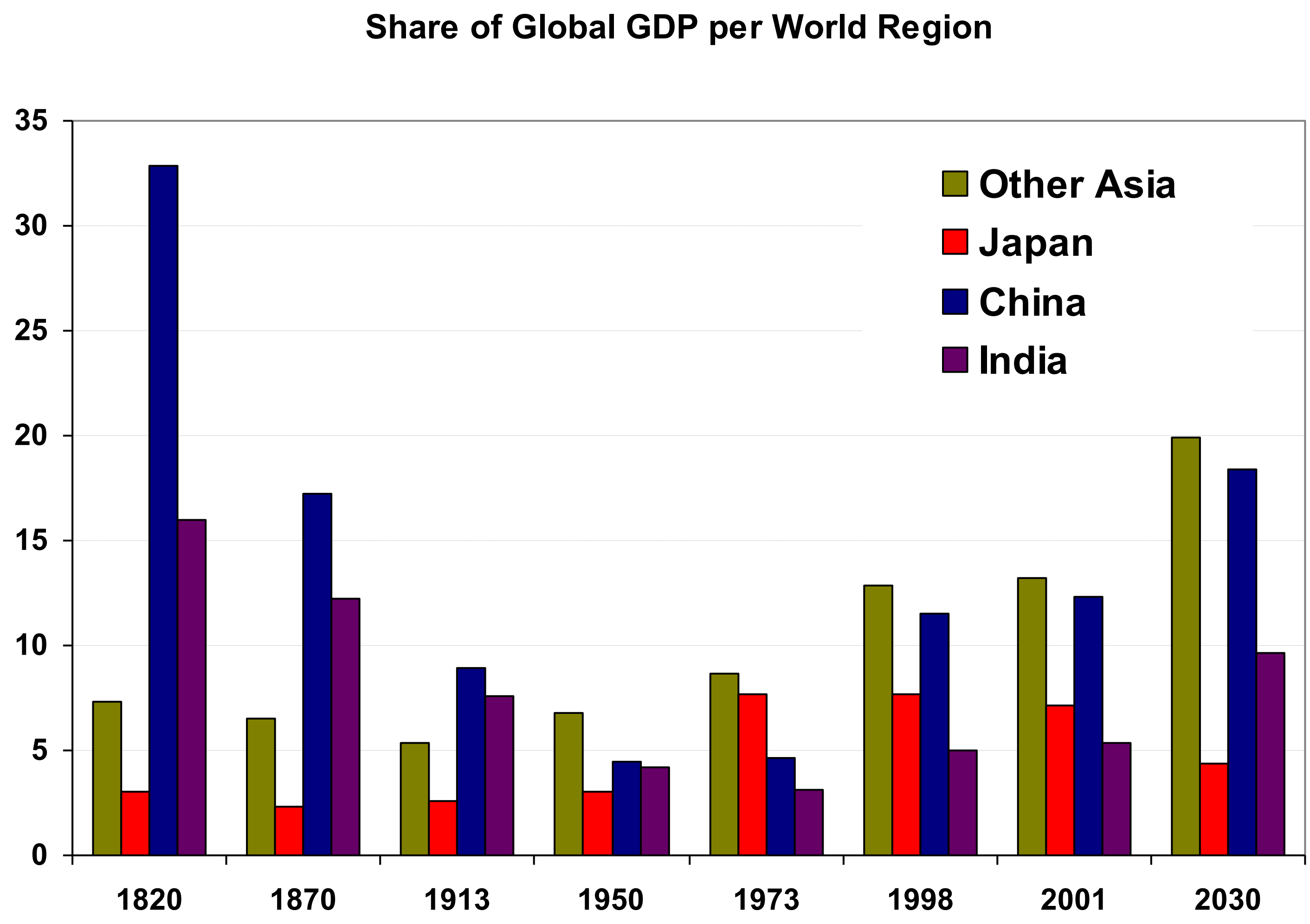
Year	China	Japan	India	Western Europe	USA	World	China/World Ratio
				Population (million)			
1300	100.0	10.5	88.0	58.4	1.7	360.0	0.28
1500	103.0	15.4	110.0	57.3	2.0	438.4	0.23
1820	381.0	31.0	209.0	133.0	10.0	1,041.8	0.37
1913	437.1	51.7	303.7	261.0	97.6	1,791.1	0.24
1950	546.8	83.8	359.0	304.9	152.3	2,524.3	0.22
1973	881.9	108.7	580.0	358.8	211.9	3,916.5	0.23
2003	1,288.4	127.2	1,049.7	394.6	290.3	6,278.6	0.21
2030	1,458.0	121.0	1,421.0	400.0	364.0	8,175.0	0.18
			Per Capita GDP (1990 international $)				
1300	600	475	500	593	400	530	1.13
1500	600	500	550	771	400	566	1.06
1820	600	669	533	1,204	1,257	667	0.90
1913	552	1,387	673	3,458	5,301	1,526	0.36
1950	439	1,921	619	4,579	9,561	2,111	0.21
1973	839	11,434	852	11,416	16,689	4,091	0.21
2003	4,392	21,218	2,160	19,912	29,037	6,432	0.68
2030	14,416	27,758	6,227	30,566	44,574	11,207	1.29
			GDP (billion, 1990 international $)				
1300	60.0	5.0	44.0	34.6	0.7	190.0	0.32
1500	61.8	7.7	60.5	44.2	0.8	248.3	0.25
1820	228.6	20.7	111.4	160.1	12.5	694.6	0.33
1913	241.3	71.7	204.2	902.3	517.4	2,733.3	0.09
1950	239.9	161.0	222.2	1,396.2	1,455.9	5,331.6	0.05
1973	740.0	1,242.9	494.8	4,096.5	3,536.6	16,023.8	0.05
2003	5,659.2	2,699.0	2,267.1	7,857.4	8,430.8	40,384.6	0.14
2030	21,019.0	3,229.0	8,848.0	12,217.0	16,217.0	91,623.0	0.23

Share of Global GDP for Asia and ROW



(Million 1990 international $) Source: Maddison and OECD

Share of Global GDP for parts of Asia



(Million 1990 international $) Source: Maddison and OECD

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
			Projections		Difference from April 2012 WEO Projections		Estimates	Projections	
	2010	2011	2012	2013	2012	2013	2011	2012	2013
World Output 1/	**5.3**	**3.9**	**3.5**	**3.9**	**–0.1**	**–0.2**	**3.2**	**3.4**	**4.1**
Advanced Economies	**3.2**	**1.6**	**1.4**	**1.9**	**0.0**	**–0.2**	**1.2**	**1.4**	**2.2**

[redacted]

World Trade Volume (goods and services)	**12.8**	**5.9**	**3.8**	**5.1**	**–0.3**	**–0.5**	**. . .**	**. . .**	**. . .**
Imports									
Advanced Economies	11.5	4.4	1.9	4.2	0.0	0.1	. . .	. . .	. . .
Emerging and Developing Economies	15.3	8.8	7.8	7.0	–0.6	–1.1	. . .	. . .	. . .
Exports									
Advanced Economies	12.2	5.4	2.3	4.3	0.0	–0.3	. . .	. . .	. . .
Emerging and Developing Economies	14.4	6.6	5.7	6.2	–0.9	–1.0	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil 5/	27.9	31.6	–2.1	–7.5	–12.4	–3.4	20.8	–7.7	–2.1
Nonfuel (average based on world commodity export weights)	26.3	17.8	–12.0	–4.3	–1.7	–2.2	–6.4	–3.9	–2.5
Consumer Prices									
Advanced Economies	1.5	2.7	2.0	1.6	0.1	–0.1	2.8	1.8	1.7
Emerging and Developing Economies 3/	6.1	7.2	6.3	5.6	0.1	0.0	6.5	5.8	3.9
London Interbank Offered Rate (percent) 6/									
On U.S. Dollar Deposits	0.5	0.5	0.8	0.8	0.0	0.0	. . .	. . .	. . .
On Euro Deposits	0.8	1.4	0.7	0.6	–0.1	–0.2	. . .	. . .	. . .
On Japanese Yen Deposits	0.4	0.3	0.4	0.3	–0.2	0.2	. . .	. . .	. . .

Note: These forecasts incorporate information received through Friday, July 6, 2012. Real effective exchange rates are assumed to remain constant at the levels prevailing during May 7–June 4, 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 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 $101.80 in 2012 and $94.16 in 2013.

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

GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- Caveats to Asian optimism

-- Short-term:

- Global/emerging-market growth slowdown
- Growth fuelled by big increase in bank credit

-- 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

World Ranking in Ease of Doing Business (2012)

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contract	Resolving Insolvency
Brunei	83	136	83	28	107	126	122	20	35	151	44
Singapore	1	4	3	5	14	8	2	4	1	12	2
Thailand	17	78	14	9	28	67	13	100	17	24	51
Indonesia	129	155	71	161	99	126	46	131	39	156	146
Malaysia	18	50	113	59	59	1	4	41	29	31	47
Philippines	136	158	102	54	117	126	133	136	51	112	163
Vietnam	98	103	67	135	47	24	166	151	68	30	142
Cambodia	138	171	149	130	110	98	79	54	120	142	149
Laos	165	89	80	138	72	166	182	123	168	110	183
Myanmar	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
China	91	151	179	115	40	67	97	122	60	16	75
India	132	166	181	98	97	40	46	147	109	182	128

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

GLOBAL ECONOMY, EMERGING MARKETS, ASIA 2012

- 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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- Japan

-- Untackled structural problems

-- A political dwarf on the international stage and eclipsed by China - “passing Japan”

-- But long-term positives

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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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-- Good news: current-account surplus narrowed sharply and real exchange rate has appreciated

-- Bad news: 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

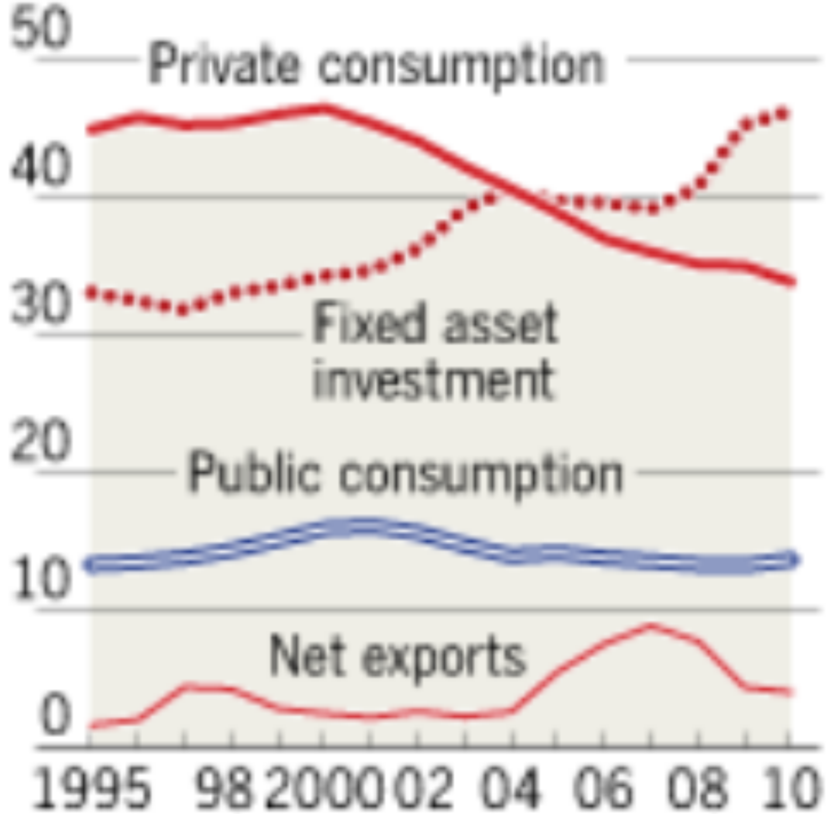
-- 2012: growth slowdown; Bo Xilai affair; mini-reforms on currency, FDI and financial markets

-- Policy scenarios for new leadership

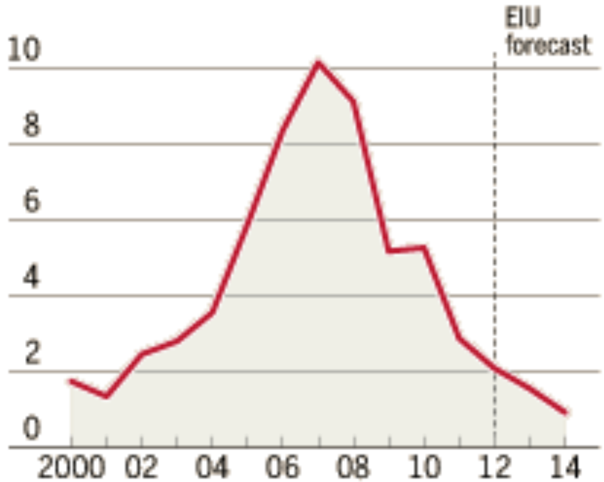
Bound and Applied MFN Tariffs (WTO 2010)

Country/ Economy	Year	Tariff Binding Coverage in %	Simple Average Final Bound (All goods)	Simple Average Applied Tariff (Manufacture)	Simple Average Applied Tariff (Agriculture)	Simple Average Applied Tariff (All Goods)	Trade Weighted Average (All goods)	Maximum MFN Applied Duties
EU	08/09	100,0	5,2	3,9	13.5	5,3	2.9	166
US	08/09	100,0	3.5	3.3	4.7	3.5	2.0	350
Japan	08/09	99.7	5.1	2.5	21.0	4.9	2.0	641
Brazil	08/09	100	31.4	14.1	10.2	13.6	8.8	96.7
Russia	08/09	-	-	10.1	13.2	10.5	10.3	357
India	08/09	73,8	48.5	10.1	31.8	12.9	6.0	246
Indonesia	08/09	95.8	37.1	6.6	8.4	6.8	4.1	150
China	08/09	100,0	10.0	8.7	15.6	9.6	4.3	65
South Africa	08/09	96.4	19.0	7.5	8.9	7.7	5.0	878

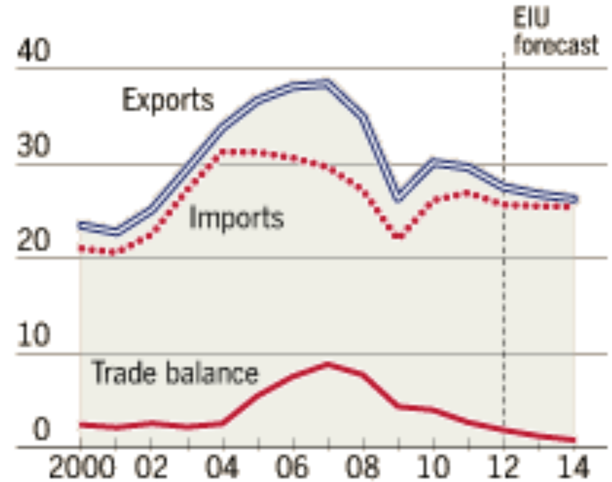
Share of GDP
Per cent



China's current account balance
As a % of GDP

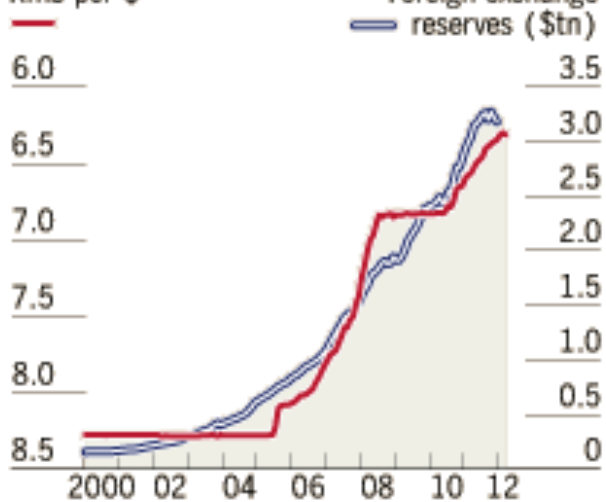


Trade
Goods and services (as a % of GDP)

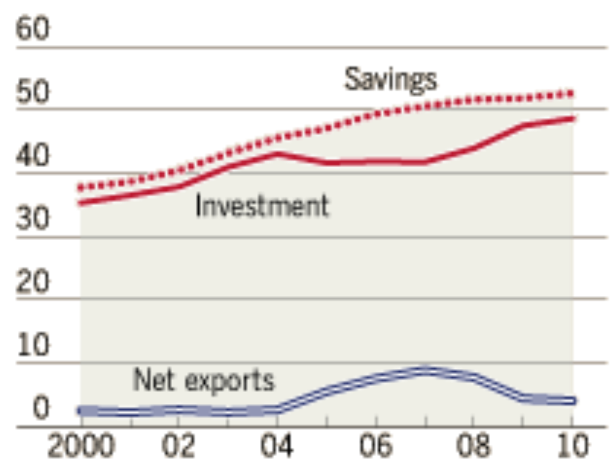


Renminbi and reserves
Rmb per $

Foreign exchange reserves ($tn)



Savings and investment
As a % of GDP



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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

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- India (cont.)

-- Big reform gaps:

- Public finances
- The financial system
- Unreformed agriculture
- Lack of labour-intensive manufacturing and throttled labour markets
- Overregulated, underperforming services sectors
- Infrastructure and power generation
- Remaining trade and FDI barriers
- The unreformed Indian state

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- India (cont.)

-- Dramatic fall in growth and sentiment in last 15 months; corruption scandals and policy paralysis

-- Urgent need for new reforms but prospects not good

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- 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

INDIAN ECONOMY 2012

TABLE

Overall Economic Freedom Ratings: 2009

States	2005		2009	
	Overall	Rank	Overall	Rank
Tamil Nadu	0.57	1	0.59	1
Gujarat	0.46	5	0.57	2
Andhra Pradesh	0.40	7	0.51	3
Haryana	0.47	4	0.47	4
Himachal Pradesh	0.48	3	0.43	5
Madhya Pradesh	0.49	2	0.42	6
Rajasthan	0.37	12	0.40	7
Jharkhand	0.40	8	0.38	8
Jammu & Kashmir	0.34	15	0.38	9
Kerala	0.38	10	0.36	10
Maharashtra	0.40	9	0.36	11
Punjab	0.41	6	0.35	12
Karnataka	0.36	13	0.34	13
Uttar Pradesh	0.35	14	0.34	14
West Bengal	0.31	18	0.33	15
Chhattisgarh	0.33	16	0.33	16
Orissa	0.37	11	0.31	17
Assam	0.30	19	0.29	18
Uttarakhand	0.33	17	0.26	19
Bihar	0.25	20	0.23	20

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Concluding observations 1

•Economic policies and Institutions

-- Much unfinished business – "getting basics right" but also structural reforms; big variation across Asia

-- Poorer countries should focus on 1st generation reforms (getting basics right) for input-led growth ("perspiration"); middle and high-income countries have to focus more on 2nd generation (structural) reforms for output-led growth ("inspiration")

-- Catch-up growth does not need big institutional reforms, but output-led growth demands more institutional reforms

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- Policies and institutions (cont.)

-- Can middle-income countries rise to the challenge? Or will political sclerosis keep them in a middle-income trap?

-- Are structural and institutional reforms compatible with largely unreformed political systems? Or do they require *liberal* and *democratic* political reforms?

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- Concluding observations 2

-- Global governance is less than meets the eye – decreasingly effective with increasing multipolarity

-- Asian regional cooperation is and will remain “soft”

-- Asian powers will exercise increasing “voice” in global economic institutions, but “effectiveness” is another matter

-- Global and regional problems will have to be tackled more “from below” than “from above”

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Concluding observations 3

•Geopolitics

-- Imperative to maintain regional and global *Pax* for stable and expanding commerce

-- Global fault-lines: tension and conflict between declining US and rising China

-- Regional fault-lines: unstable balance of power; increasing rivalry between China, Japan and India

-- USA must be active balancing power to contain intra-regional rivalries and preserve regional and global *Pax*