

Recent Evolution of the Economic Situation in Asia: Opportunities and Challenges for the CPLP

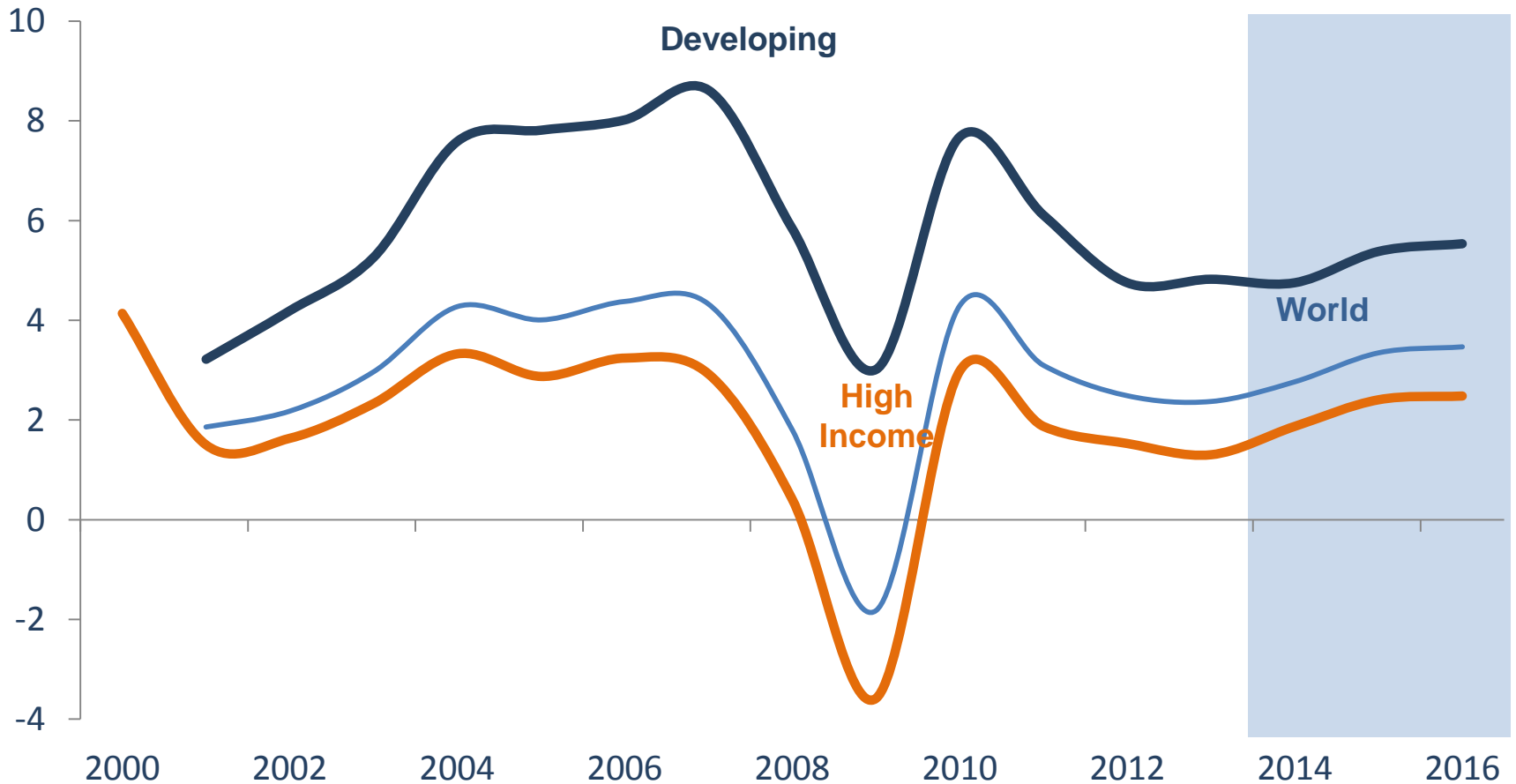
Meeting of the Ministers of Finance of the
Comunidade dos Países de Língua Portuguesa

Dili, July 21, 2014

Bert Hofman, World Bank

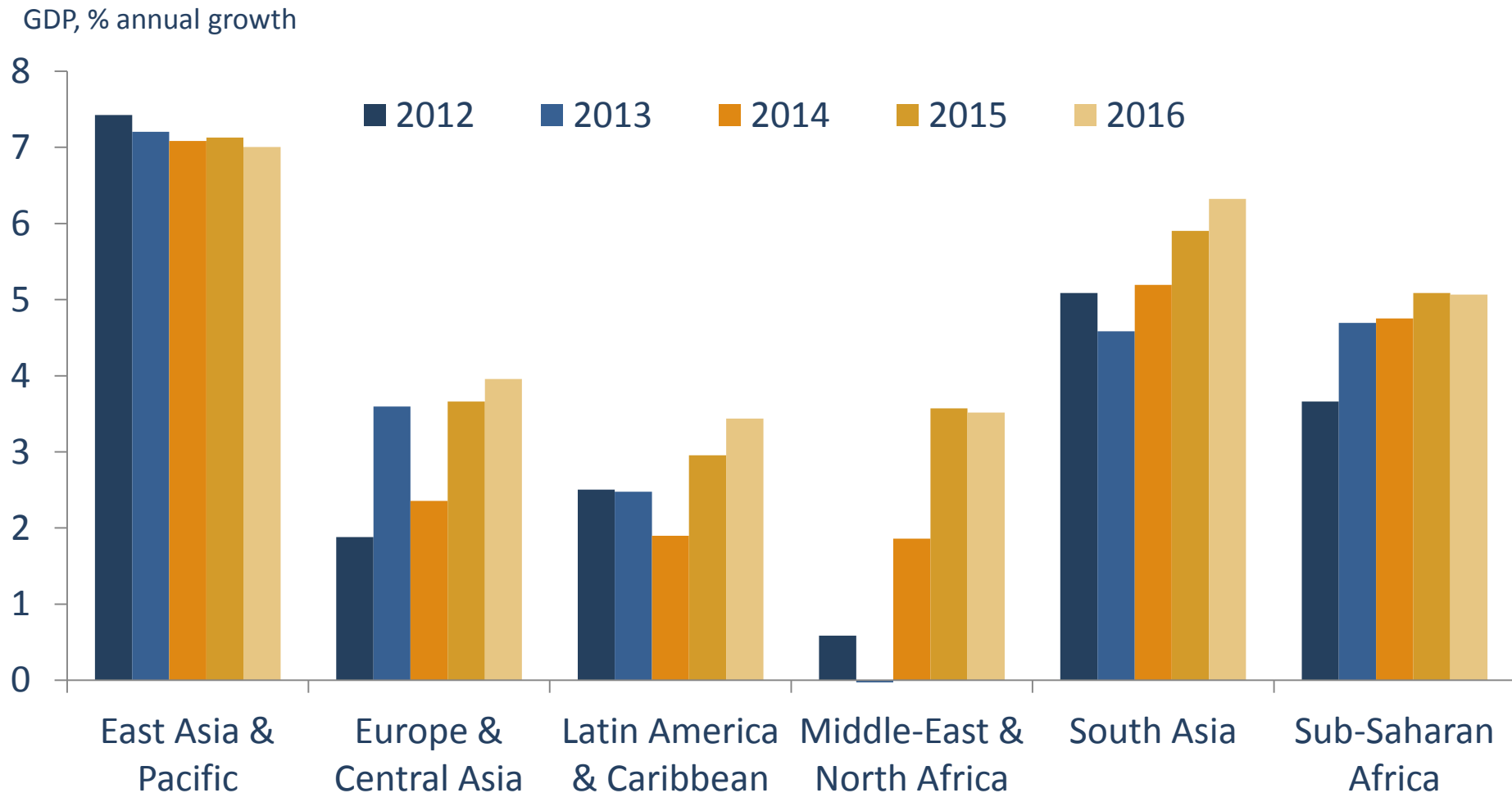
A gradual pick up in global growth, led by high-income countries

Percent annual GDP growth



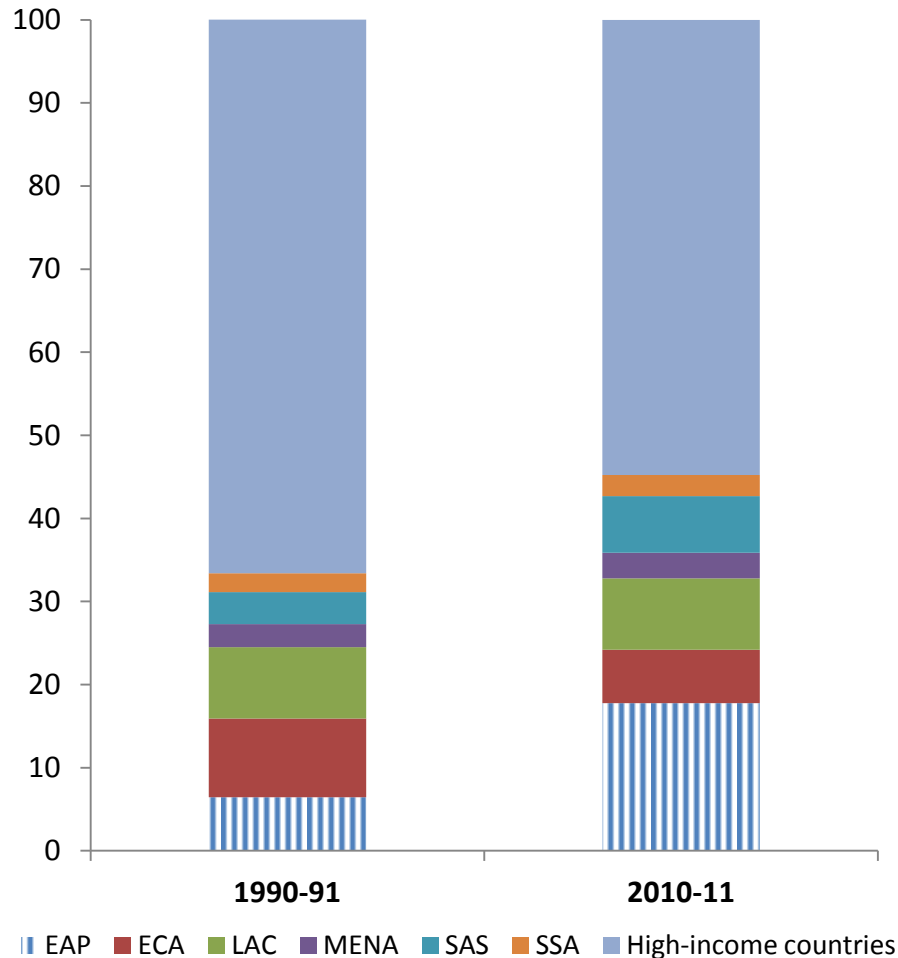
Source: World Bank.

Most developing regions will see accelerating growth

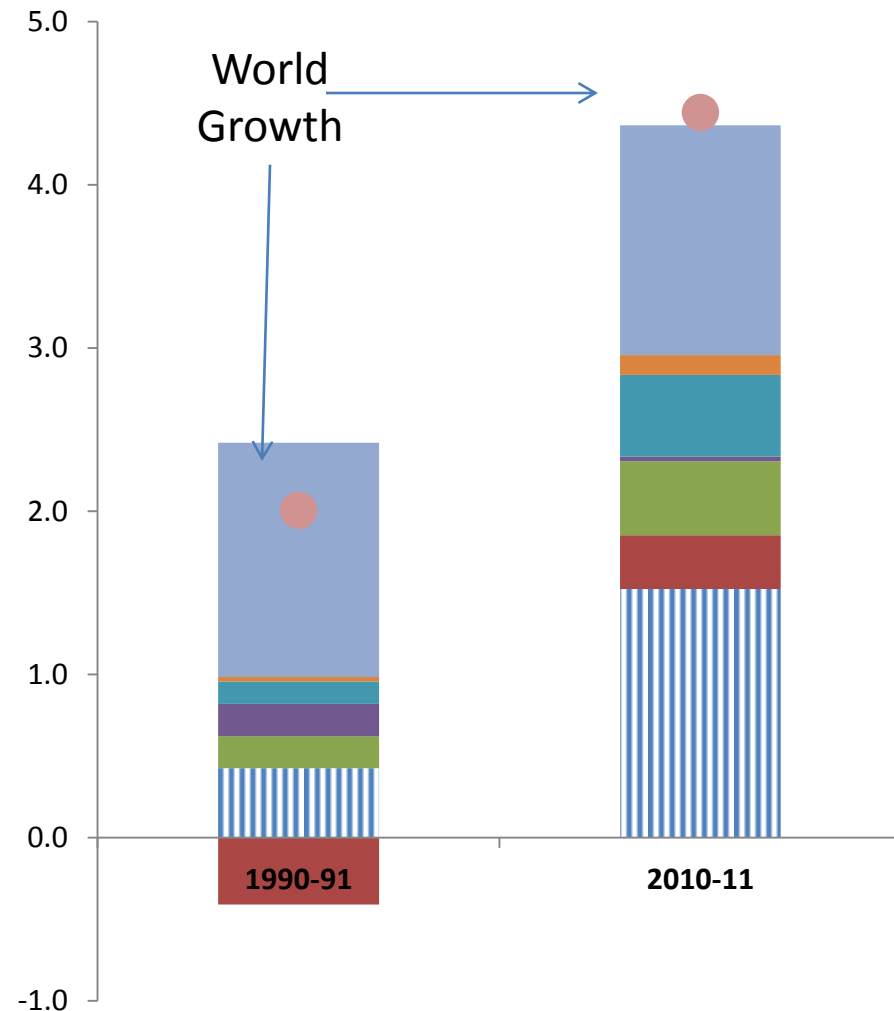


A Changing World

Developing countries share of global GDP (PPP, Constant 2005 International \$)



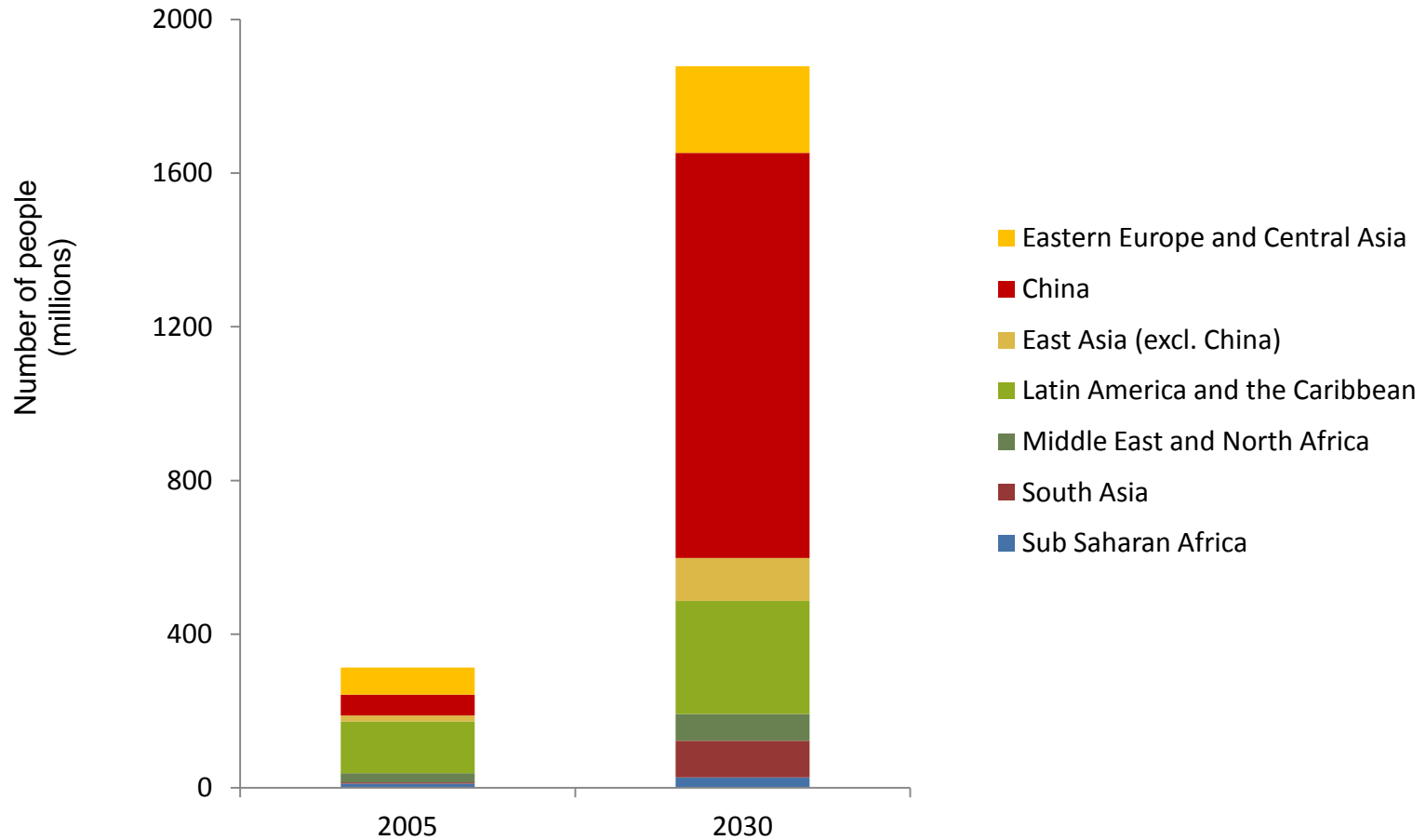
Developing countries' contribution to global GDP growth (PPP, Constant 2005 International \$)



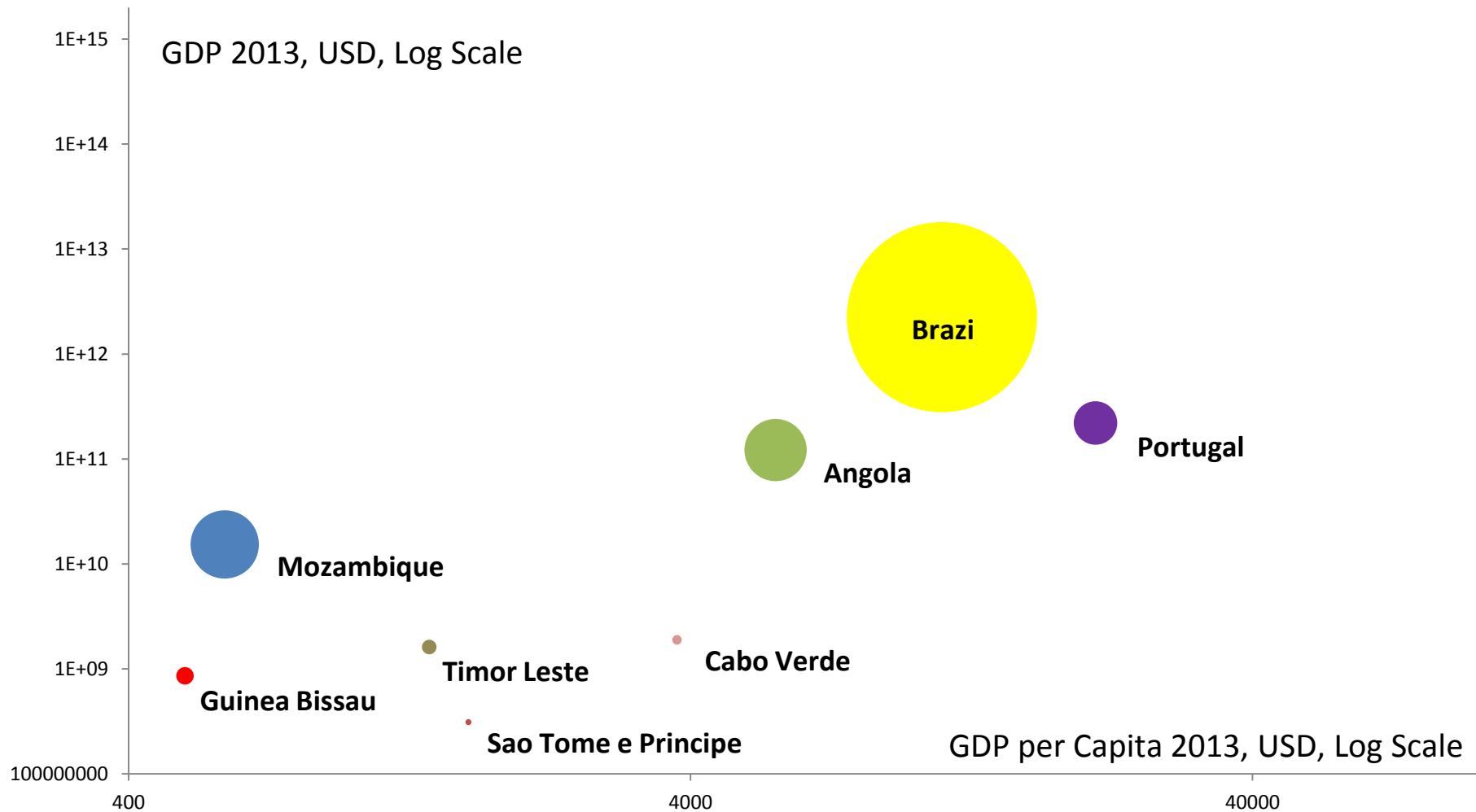
(Source: WB, World Development Indicators)

Rising Middle Class

Projections of people living on \$10-\$50 per day 2005-2030

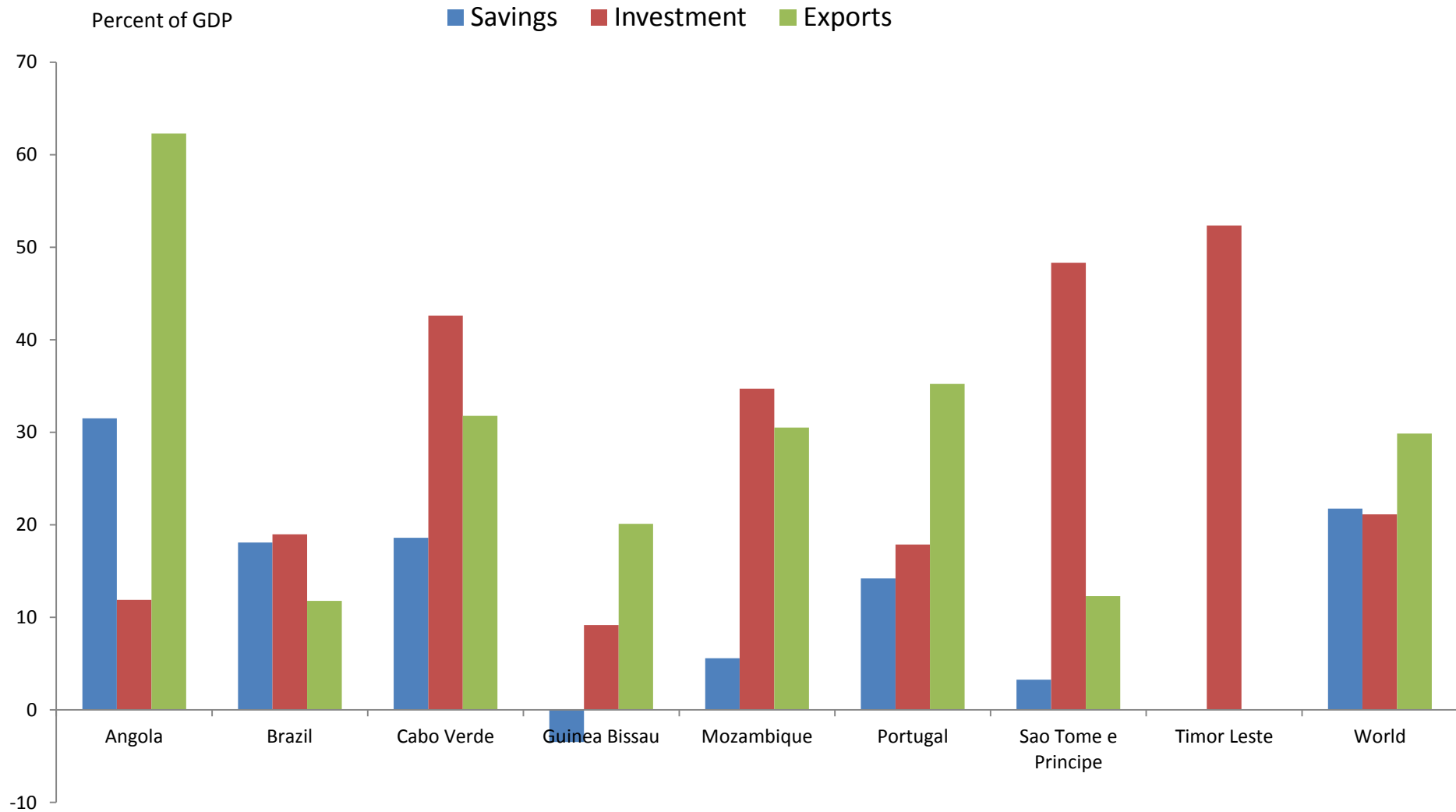


A diverse group....

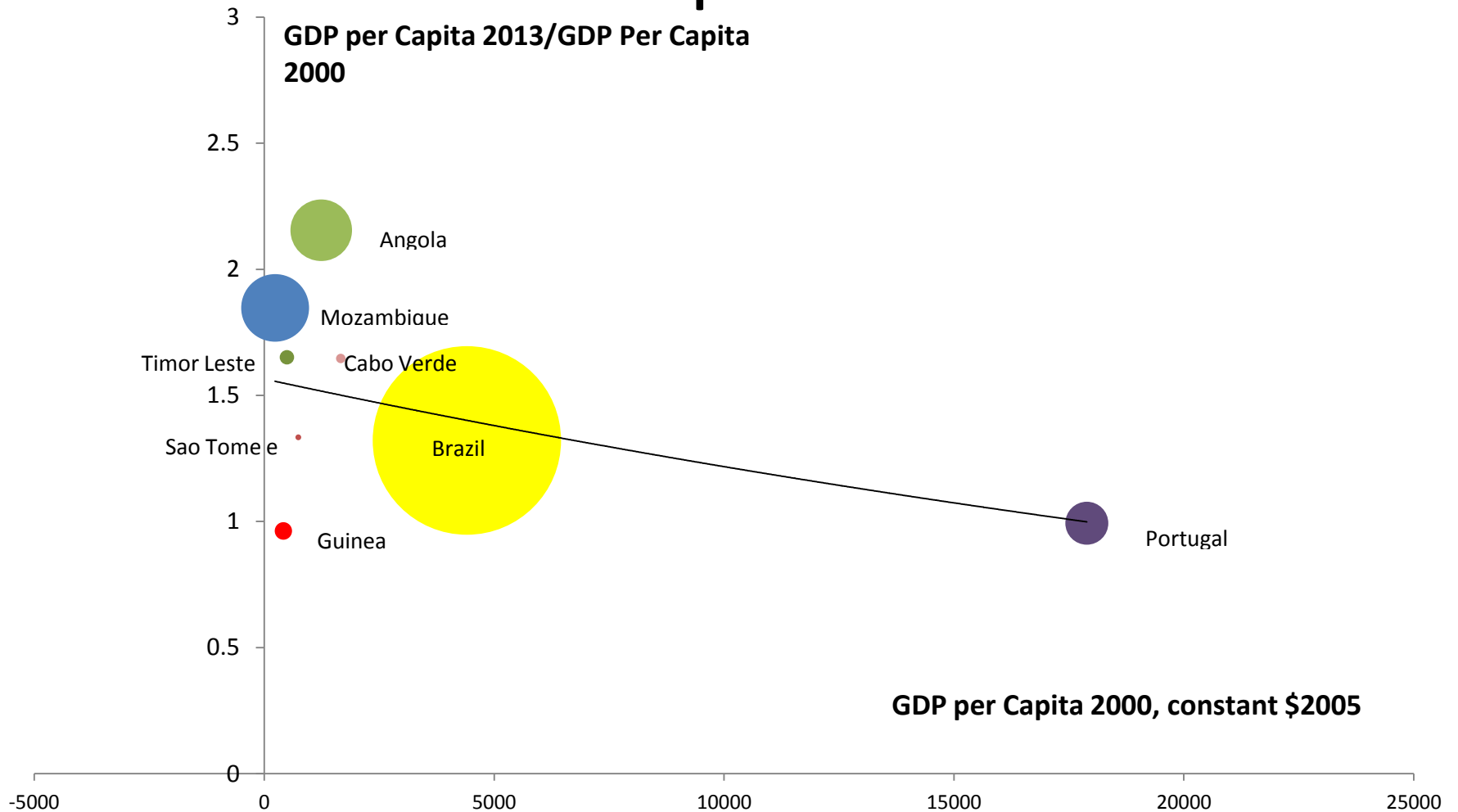


Note: Size of Bubbles signifies population

Diverse in Savings, Investment and Exports



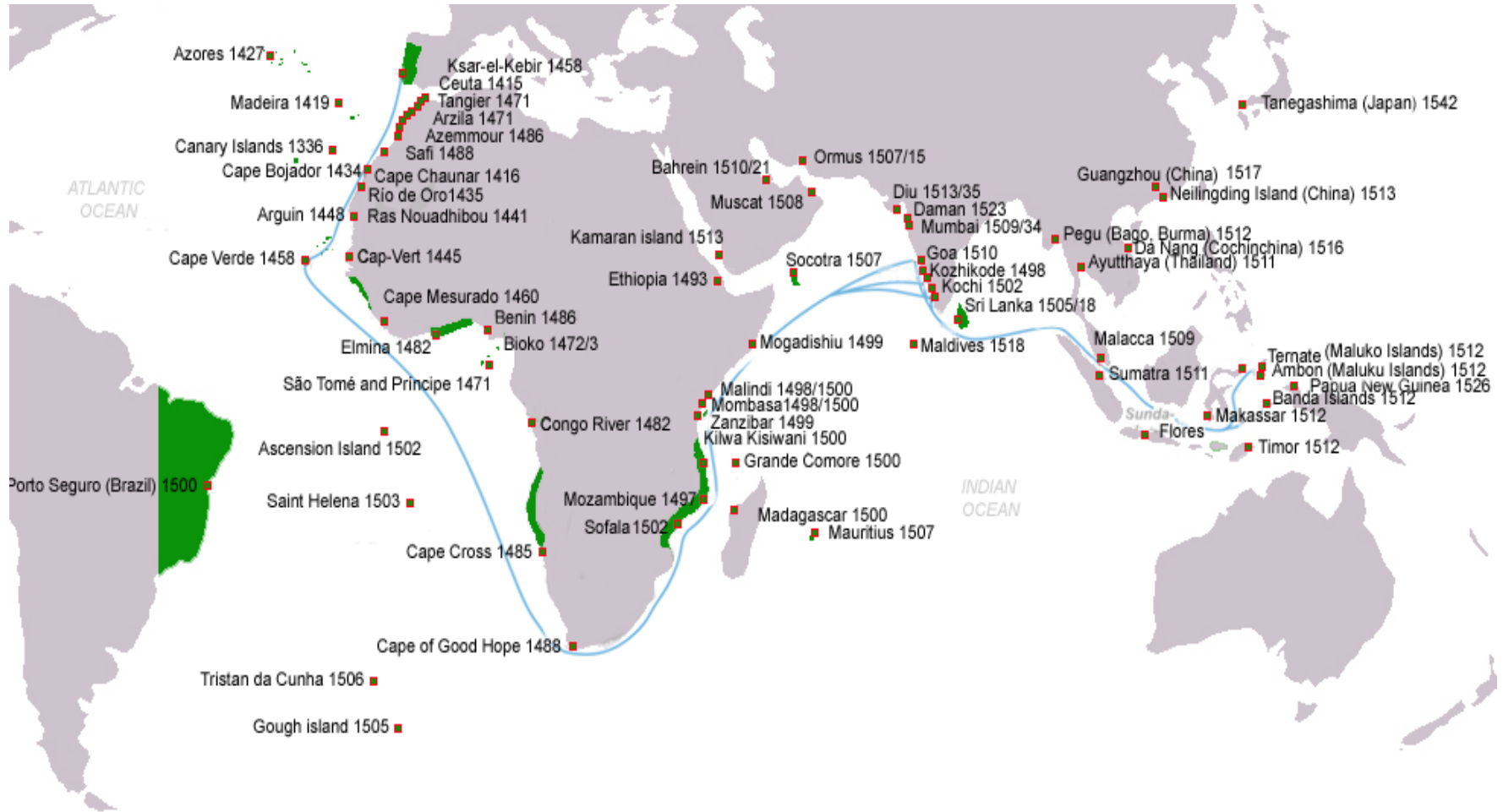
Mostly converging in income per capita



Note: Size of Bubbles signifies population

Bound Together by Old Ties

(Portuguese Explorations 1400-1600)



Changing Winds of Trade

(Shipping routes 1800-2000)

to 1860



1860 to 1900



1900 to 1945



1945 to 2000

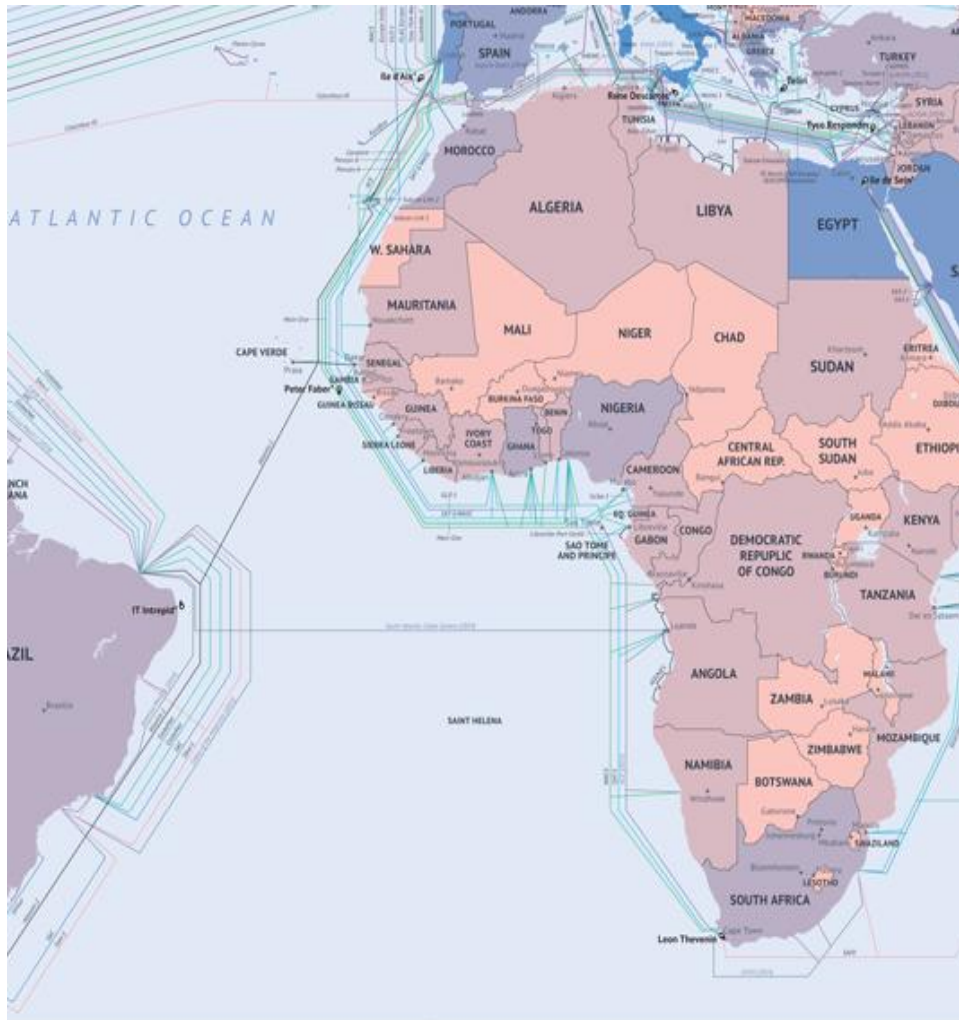


Shipping lanes 2000s

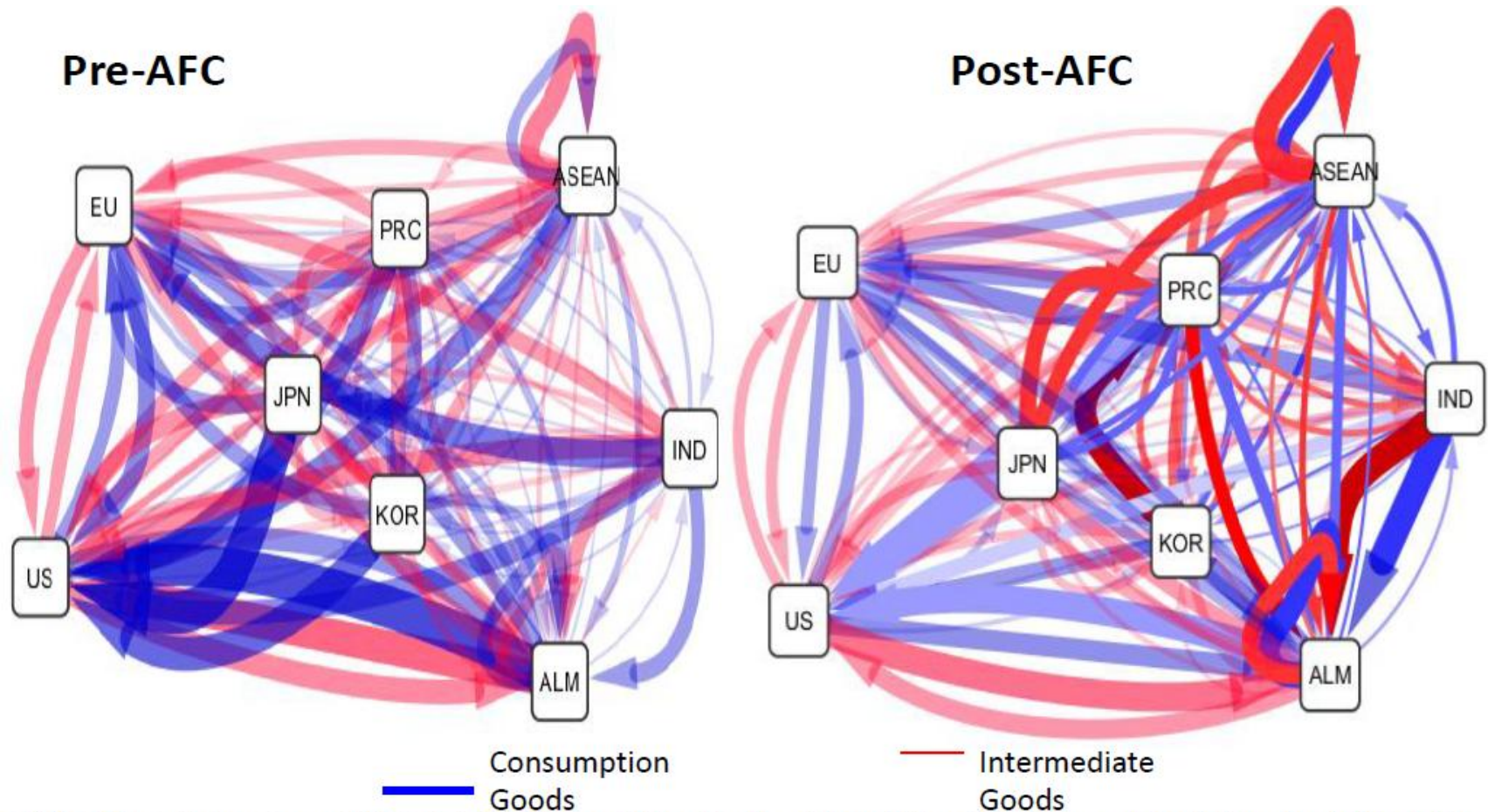


Connected in other ways

(Submarine Cables EAP 2014)



Intensifying Trade Network in East Asia



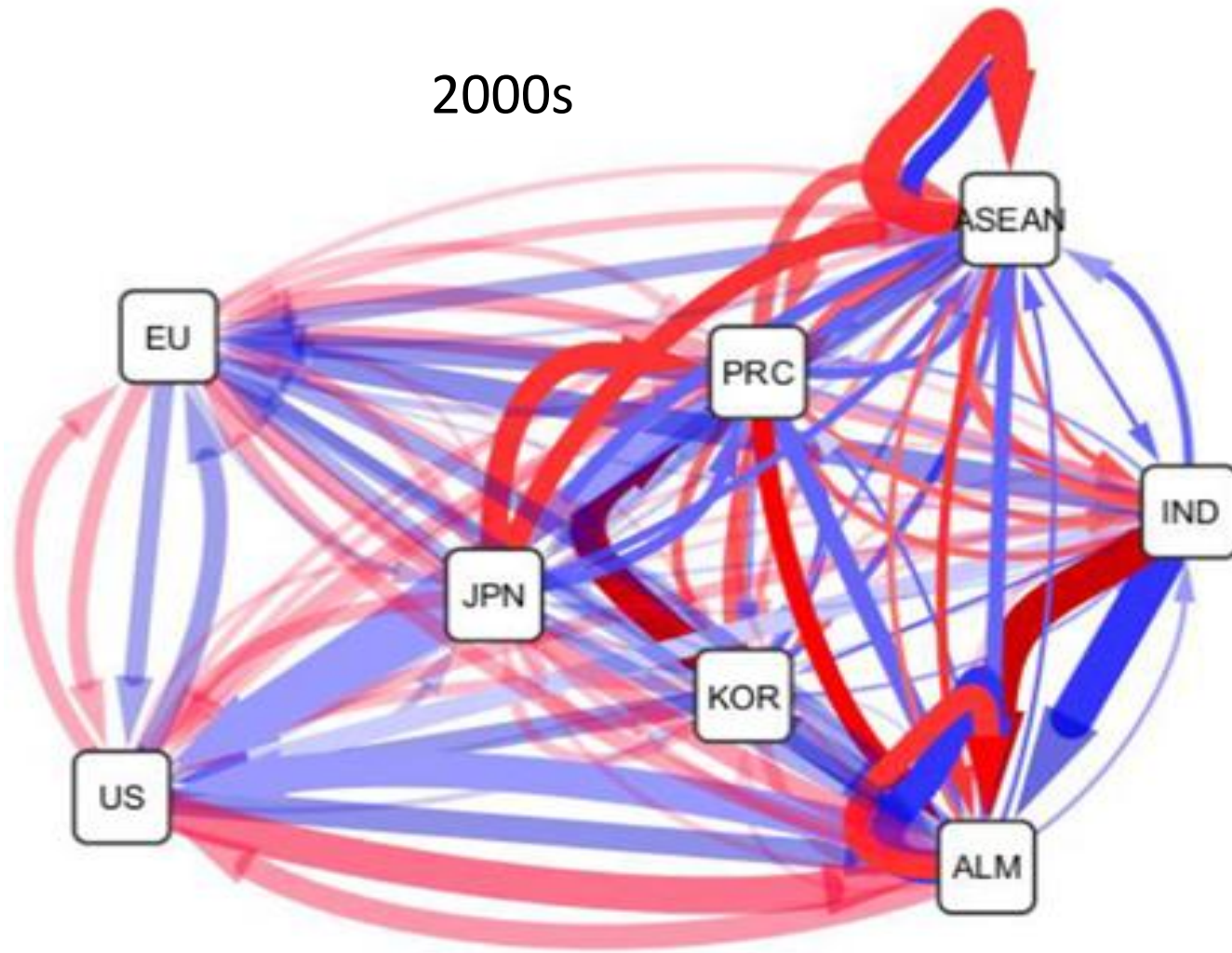
ALM = Africa, Latin America, and Middle East; ASEAN= Association of Southeast Asian Nations; EU = European Union (27 members); IND = India; JPN = Japan; KOR = Republic of Korea; PRC = People's Republic of China; ROW = Rest of the World. US = United States.

Note: Data based on Broad Economic Categories. The map is rendered in Cytoscape 3.0.2.

Source: ADB from UN Commodity Trade Data

Intensifying Trade Network in East Asia

2000s



Source: ADB/UN Data

— Consumption
Goods

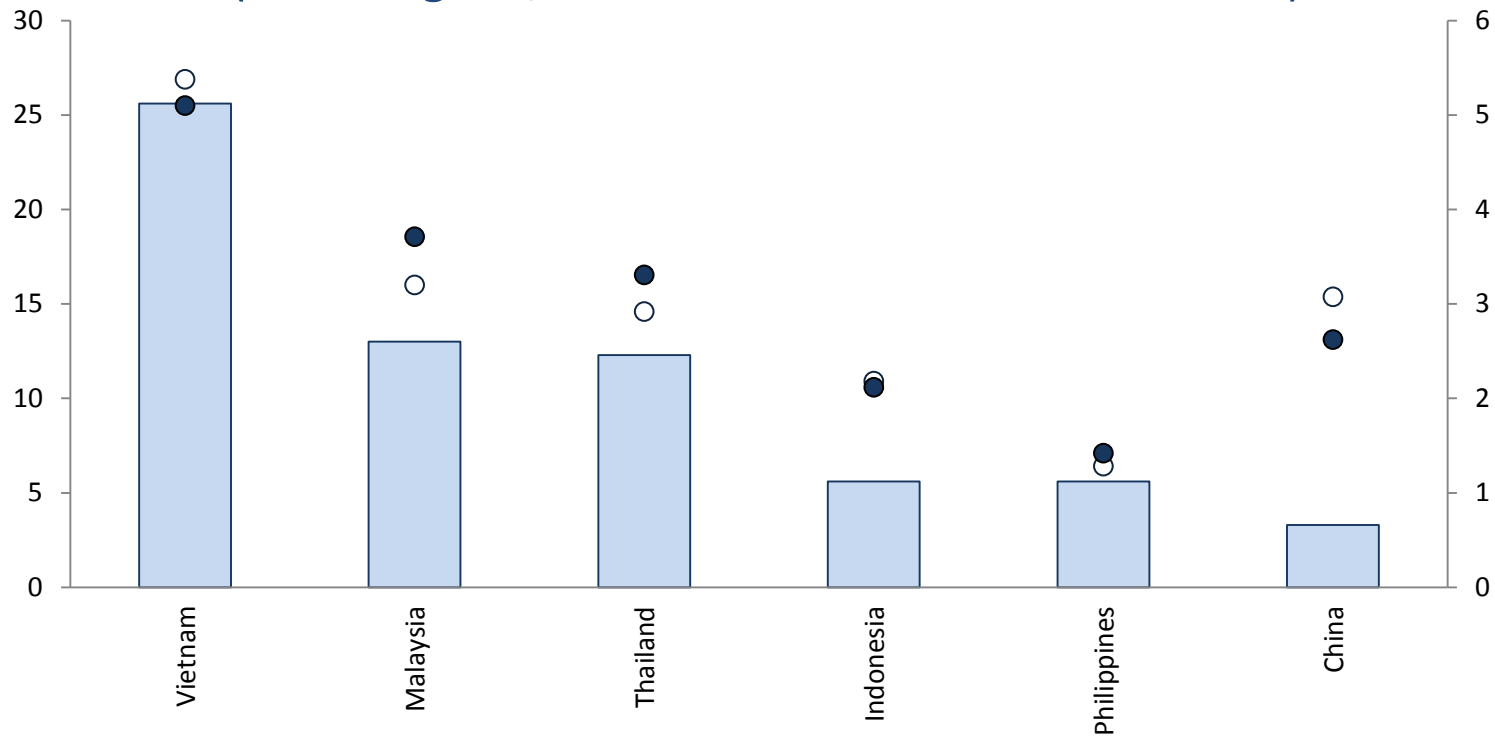
— Intermediate
Goods

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The backbone of East Asia's trade network

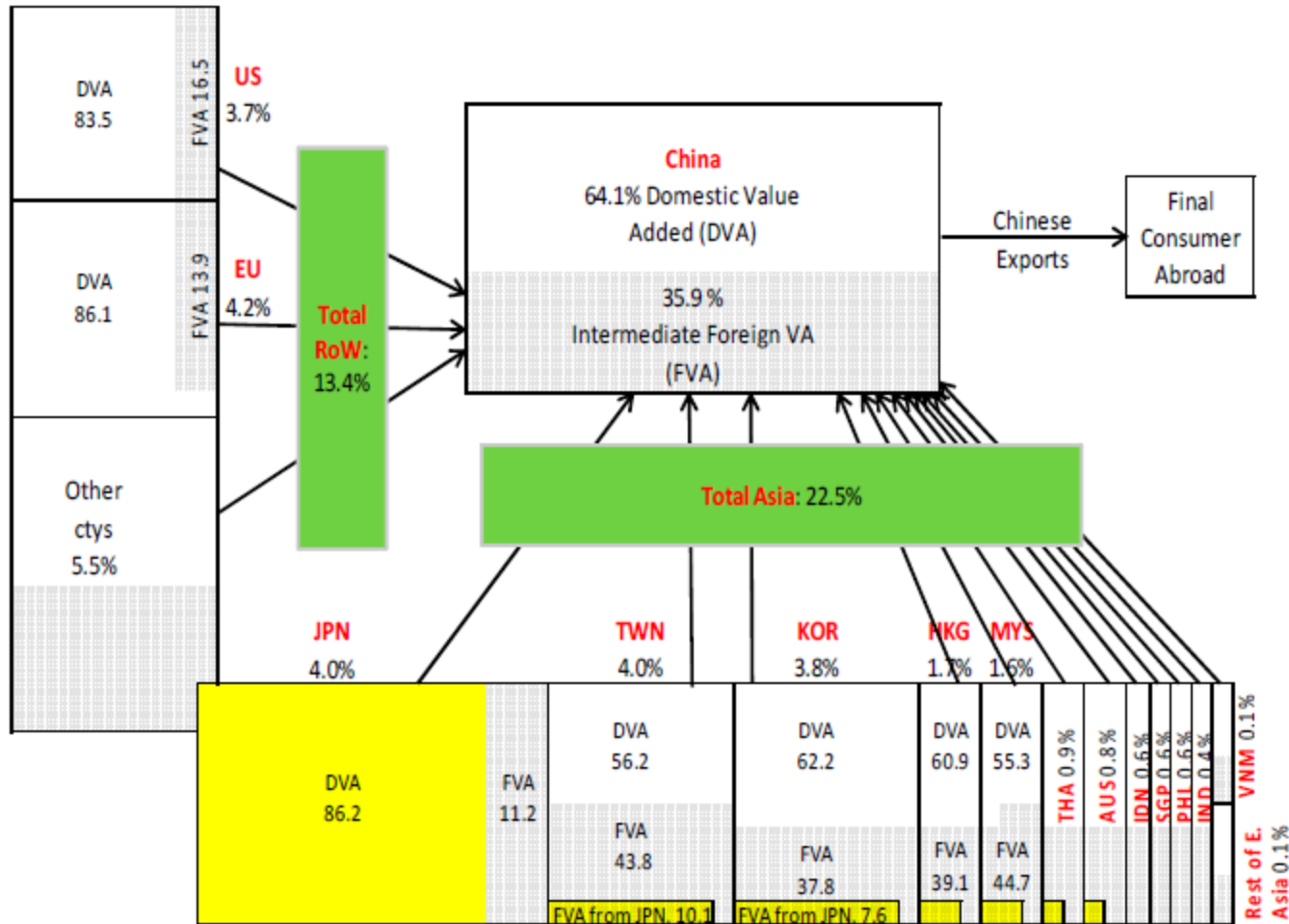
(Incoming FDI, Percent of GDP and of Investment)



■ FDI/Gross fixed capital formation, 2012 ○ Inbound FDI, in percent of GDP, 2012 (RHS) ● Inbound FDI, in percent of GDP, 2013 (RHS)

China central to many supply chains

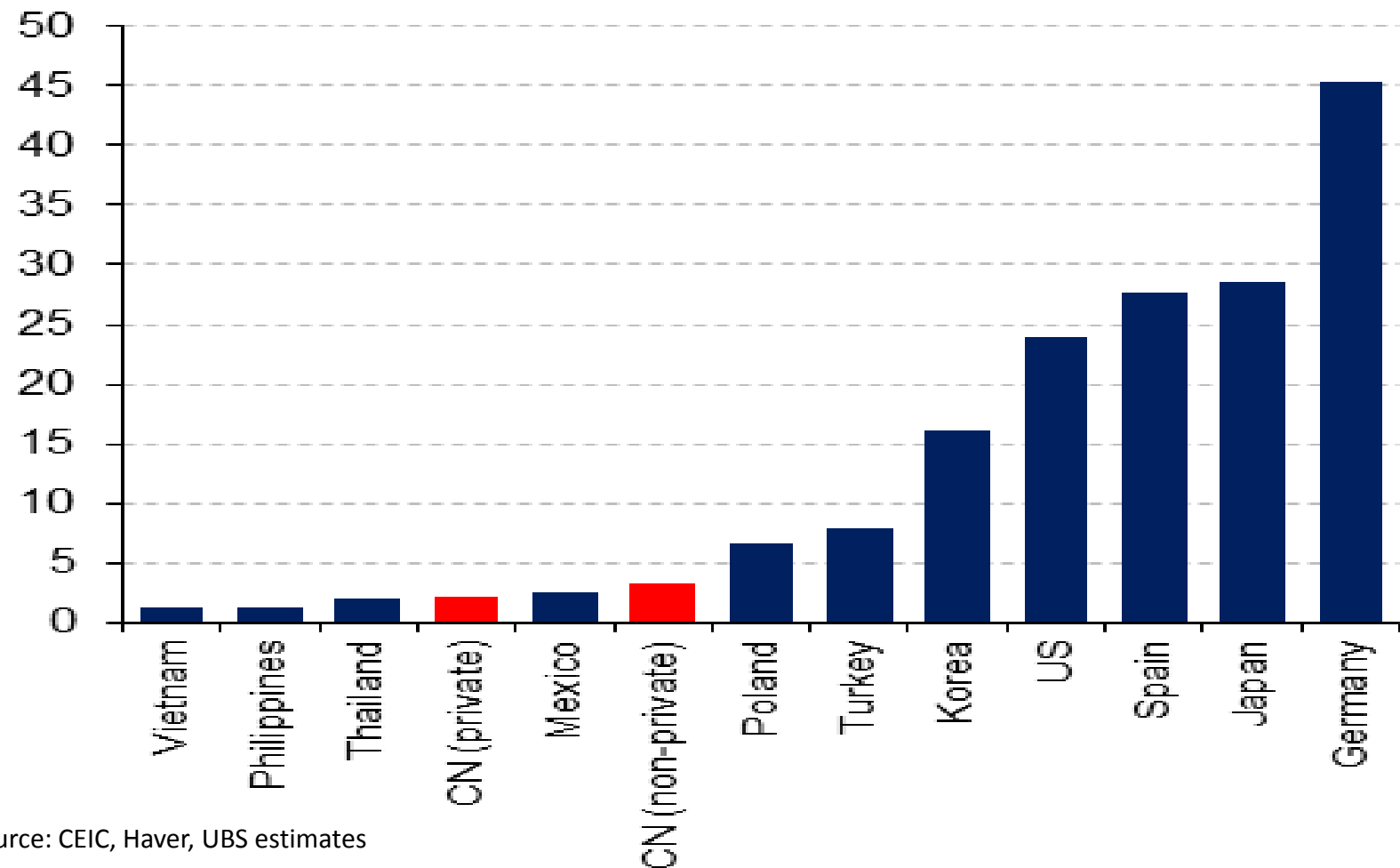
Value Added in China's Export Supply Chain (2004)



Source: IMF ((2011) China Spillover Report, as Adapted from Koopman et al. (2010), "Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains," NBER WP 16426 Note: DVA refers to Domestic Value Added, while FVA refers to intermediate Foreign Value Added.

China still Cheap

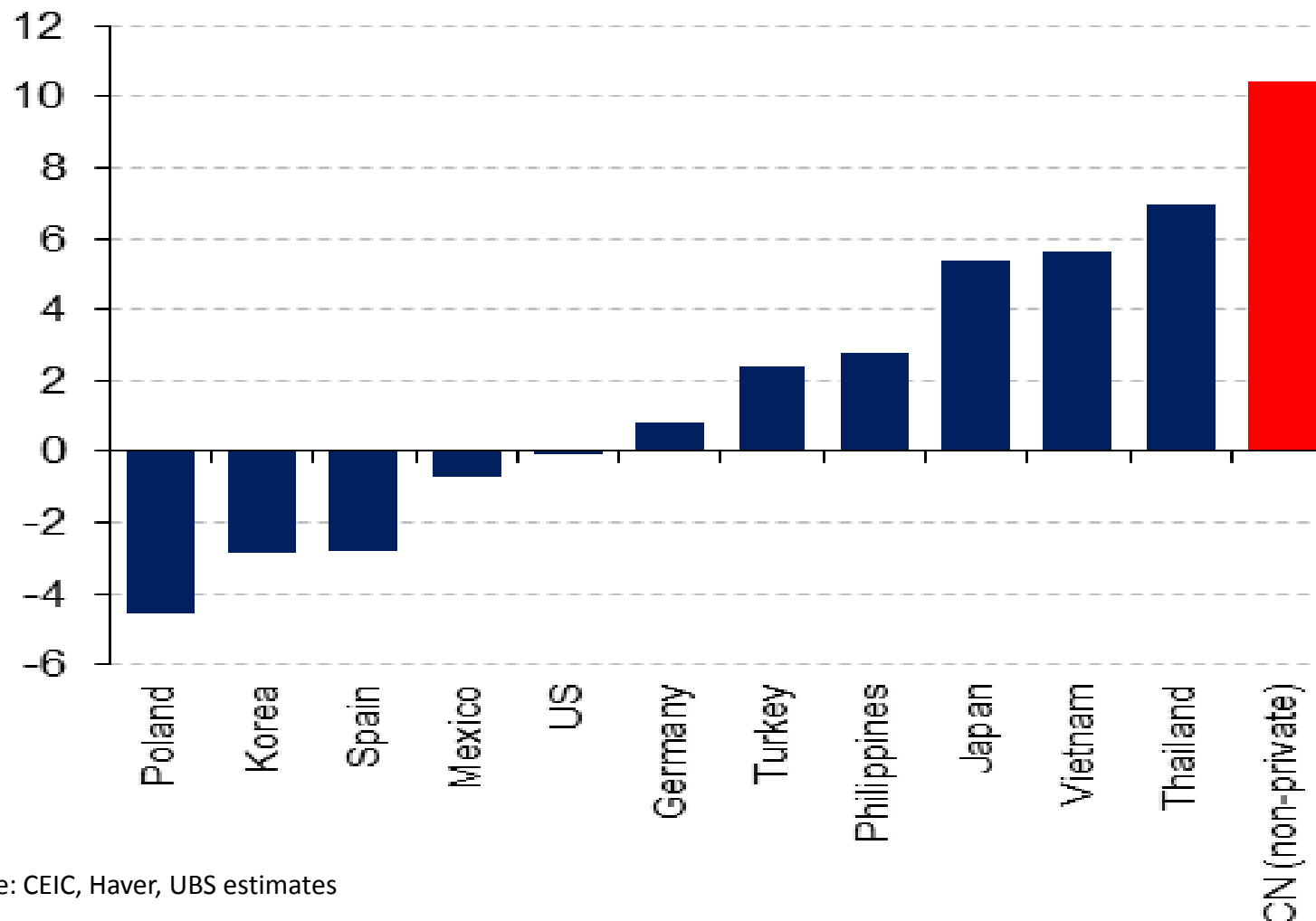
2012 Hourly Compensation Costs: Manufacturing (USD)



Source: CEIC, Haver, UBS estimates

But rapidly becoming more expensive

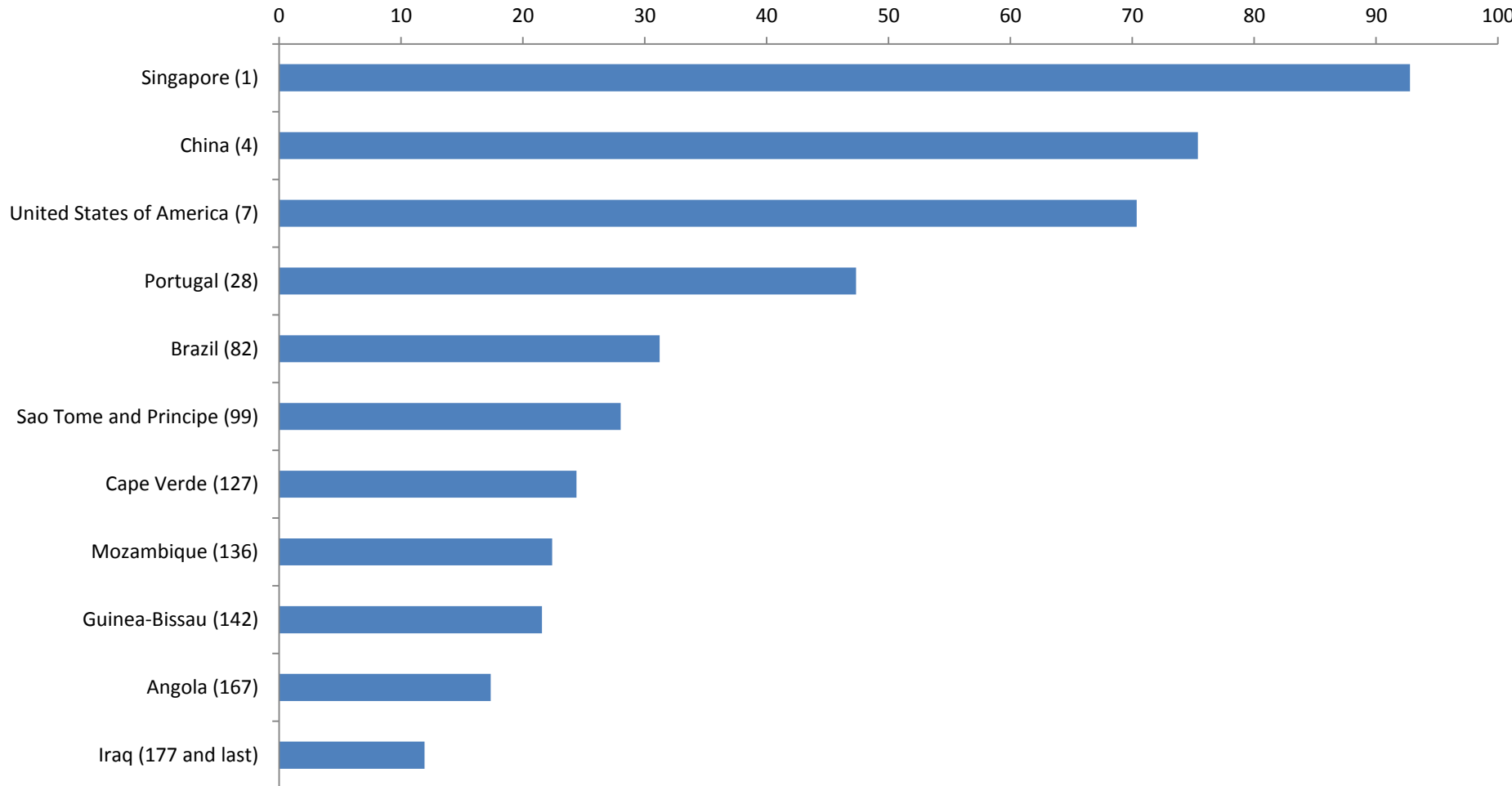
5yr average growth of ULC in USD (%)



Source: CEIC, Haver, UBS estimates

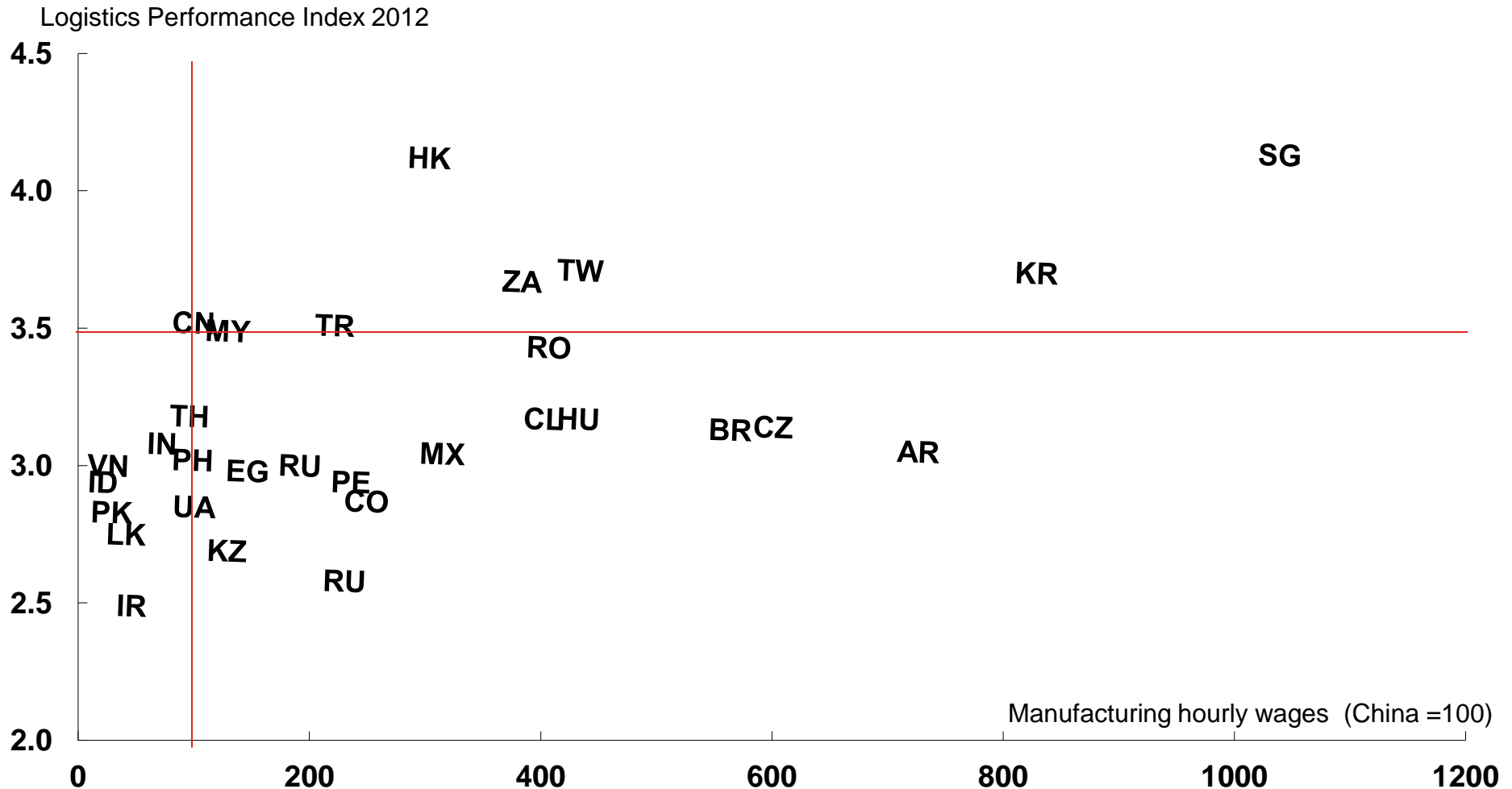
Connectivity key to linking with global supply chains

(ISCC Index)

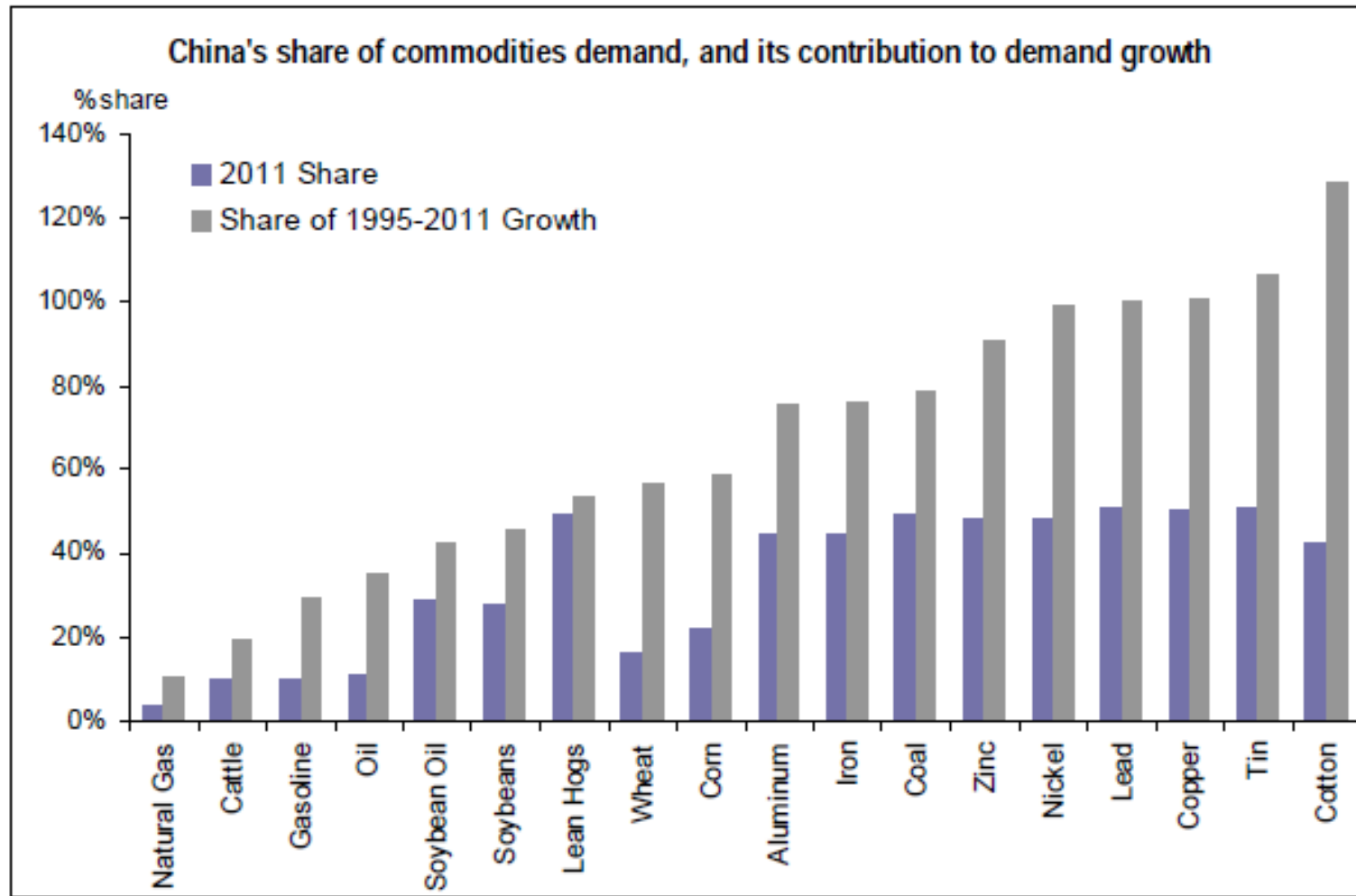


Note: The ISCC index is a composite index consisting of the ease of exports and imports indicator (World Bank) and UNCTAD's Linear Shipping Connectivity Index.

Who is next after China

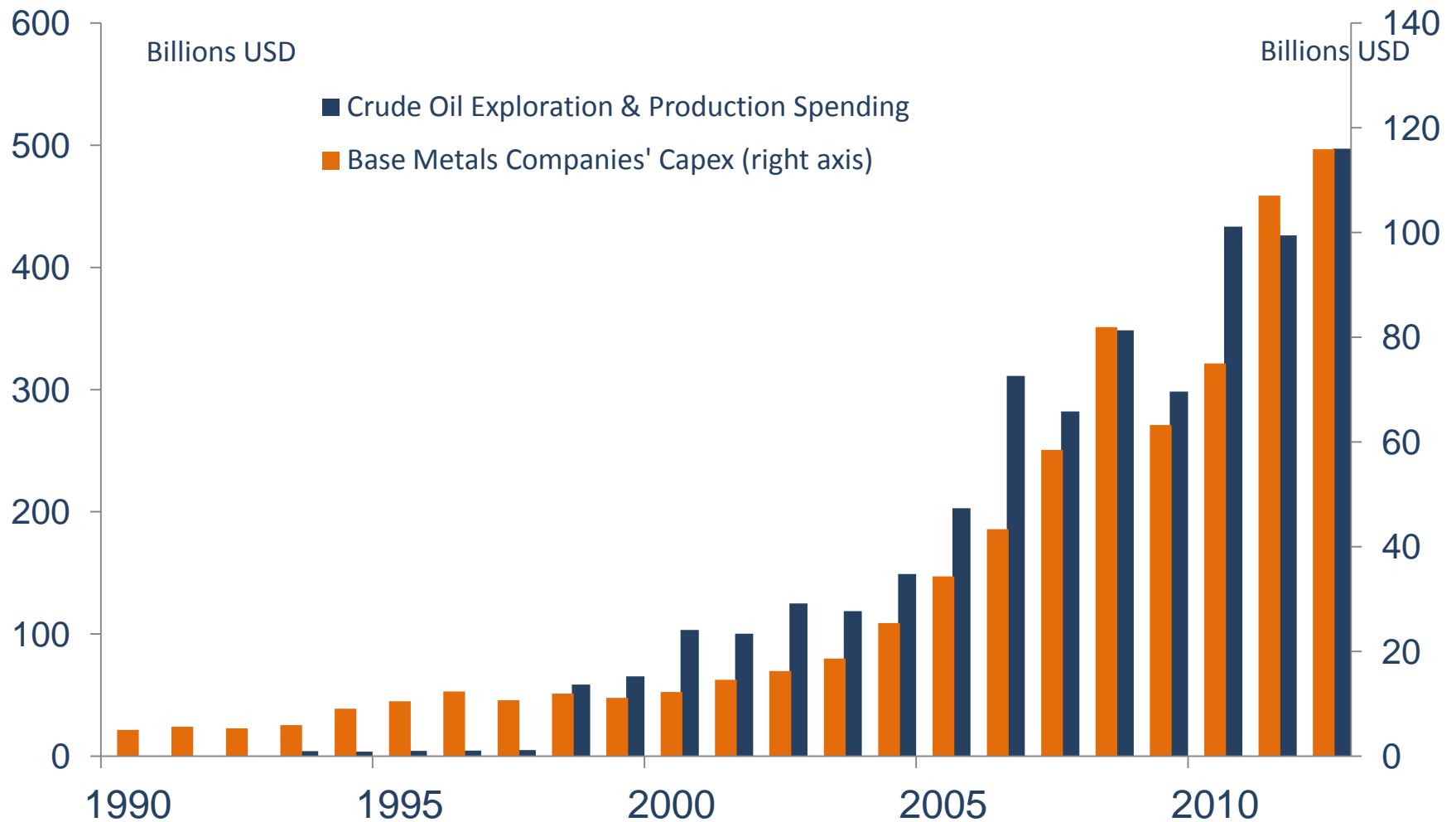


China's Role in Commodities Demand

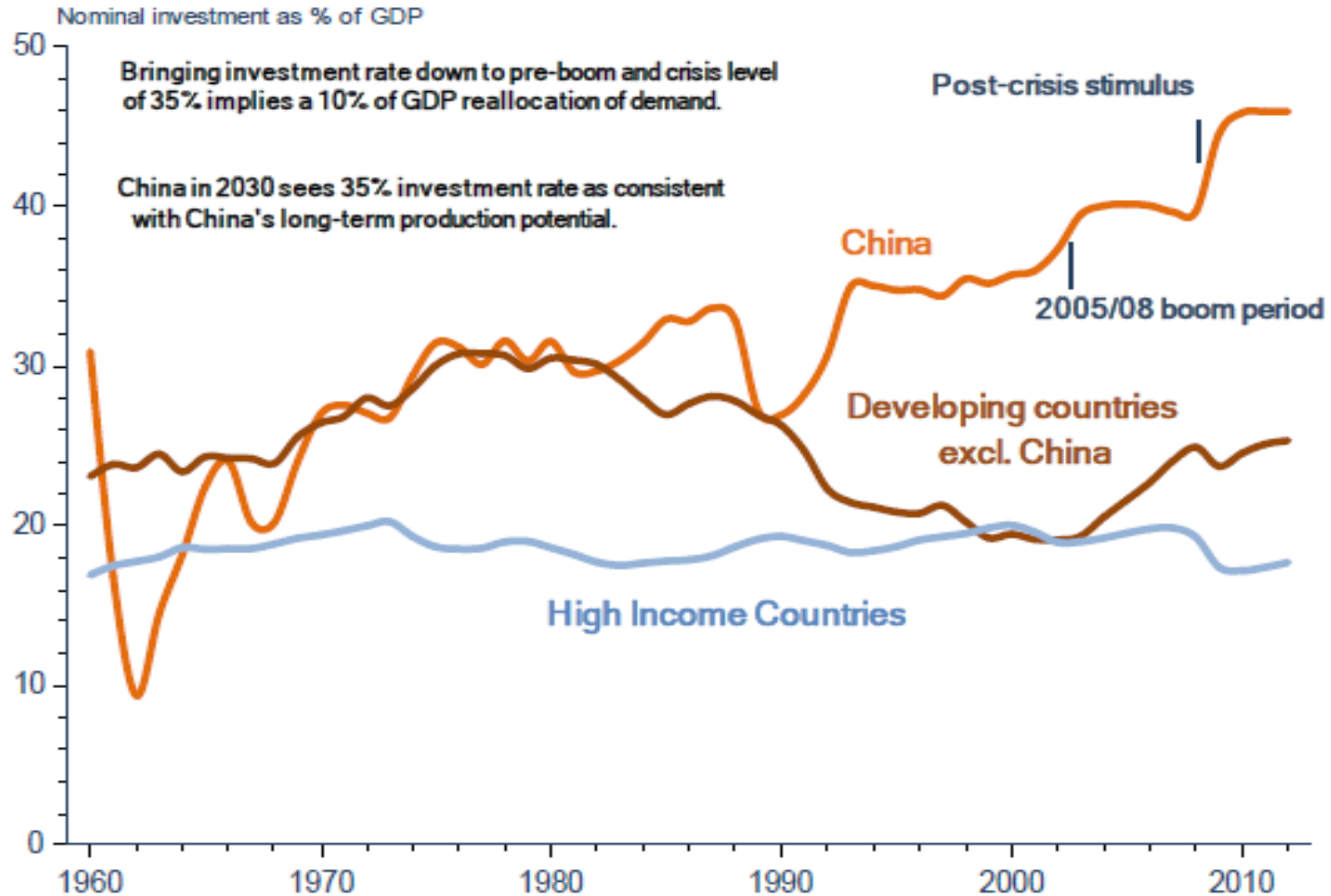


Source: Citi Research

Global commodity supply is responding to resource investments

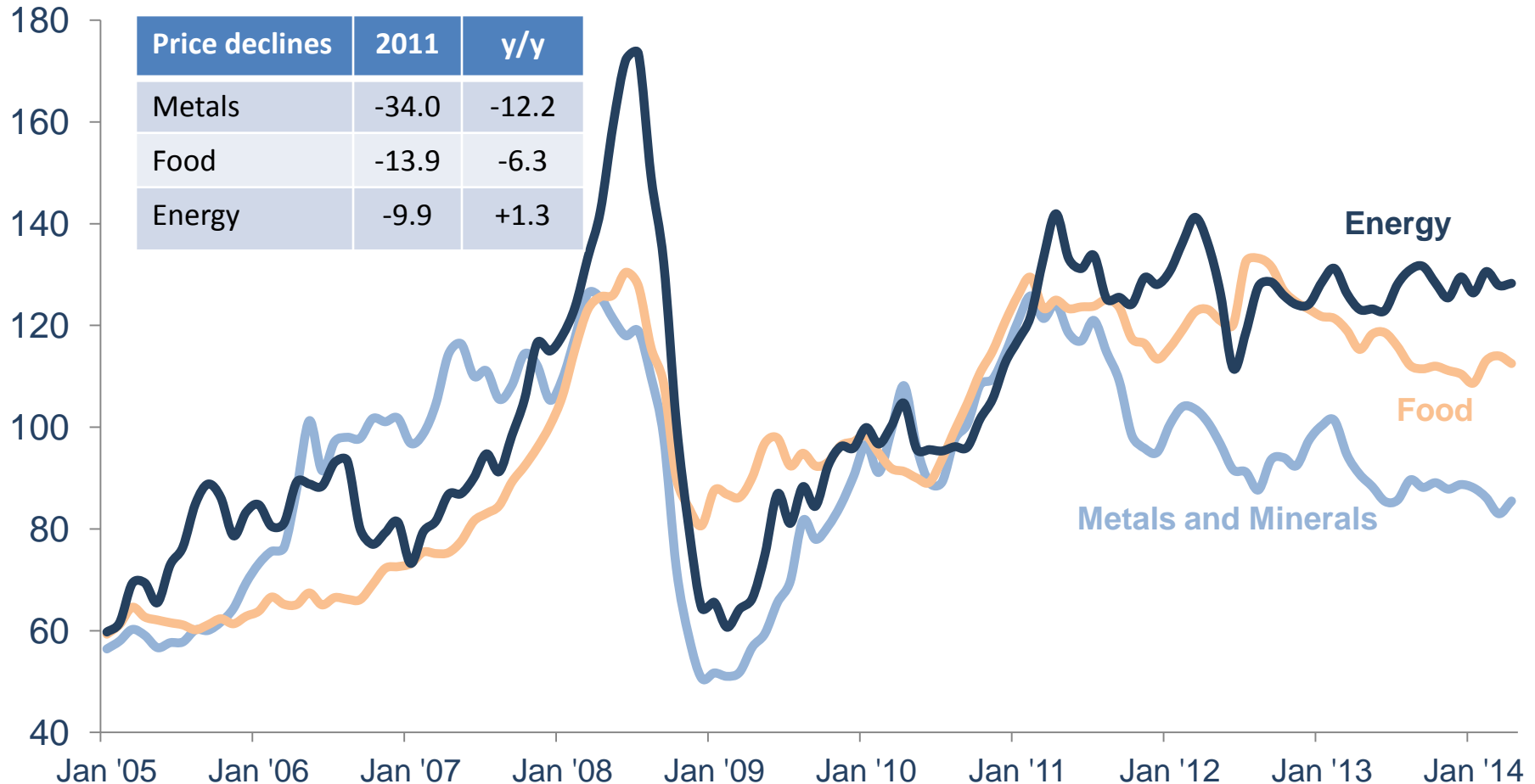


China's investments have been exceptionally high



Commodity prices have been soft.

USD price of internationally traded commodities, index 2010=100



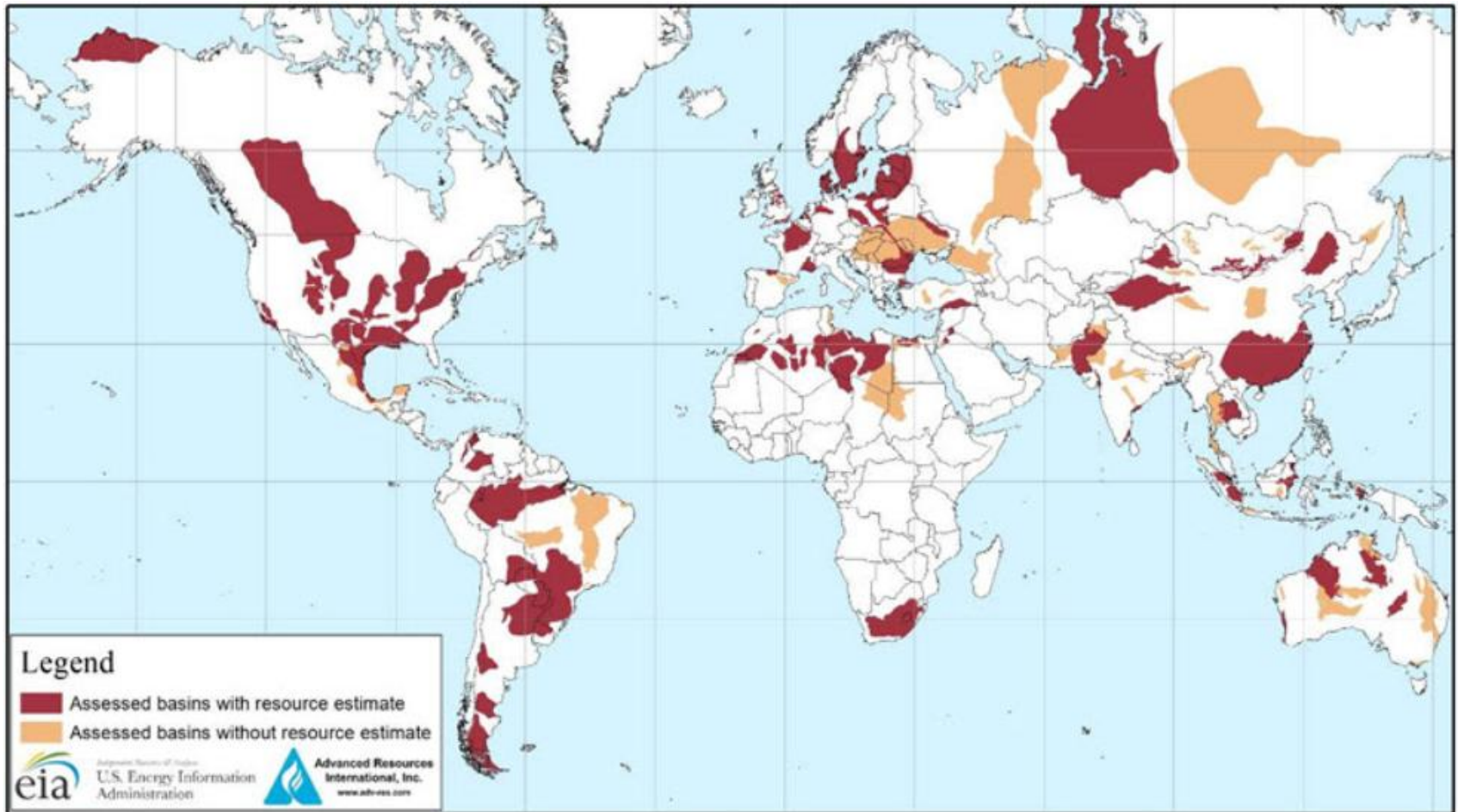
China's future growth will be less investment driven

China: Projected growth pattern assuming steady reforms and no major shock

Indicator	1995–2010	2011–2015	2016–20	2021–25	2026–30
GDP growth (percent per year)	9.9	8.6	7.0	5.9	5.0
Labor growth	0.9	0.3	–0.2	–0.2	–0.4
Labor productivity growth	8.9	8.3	7.1	6.2	5.5
Structure of economy (end of period, %)					
Investment/GDP ratio	46.4	42	38	36	34
Consumption/GDP ratio	48.6	56	60	63	66
Industry/GDP ratio	46.9	43.8	41.0	38.0	34.6
Services/GDP ratio	43.0	47.6	51.6	56.1	61.1
Share of employment in agriculture	38.1	30.0	23.7	18.2	12.5
Share of employment in services	34.1	42.0	47.6	52.9	59.0

Source: DRC.

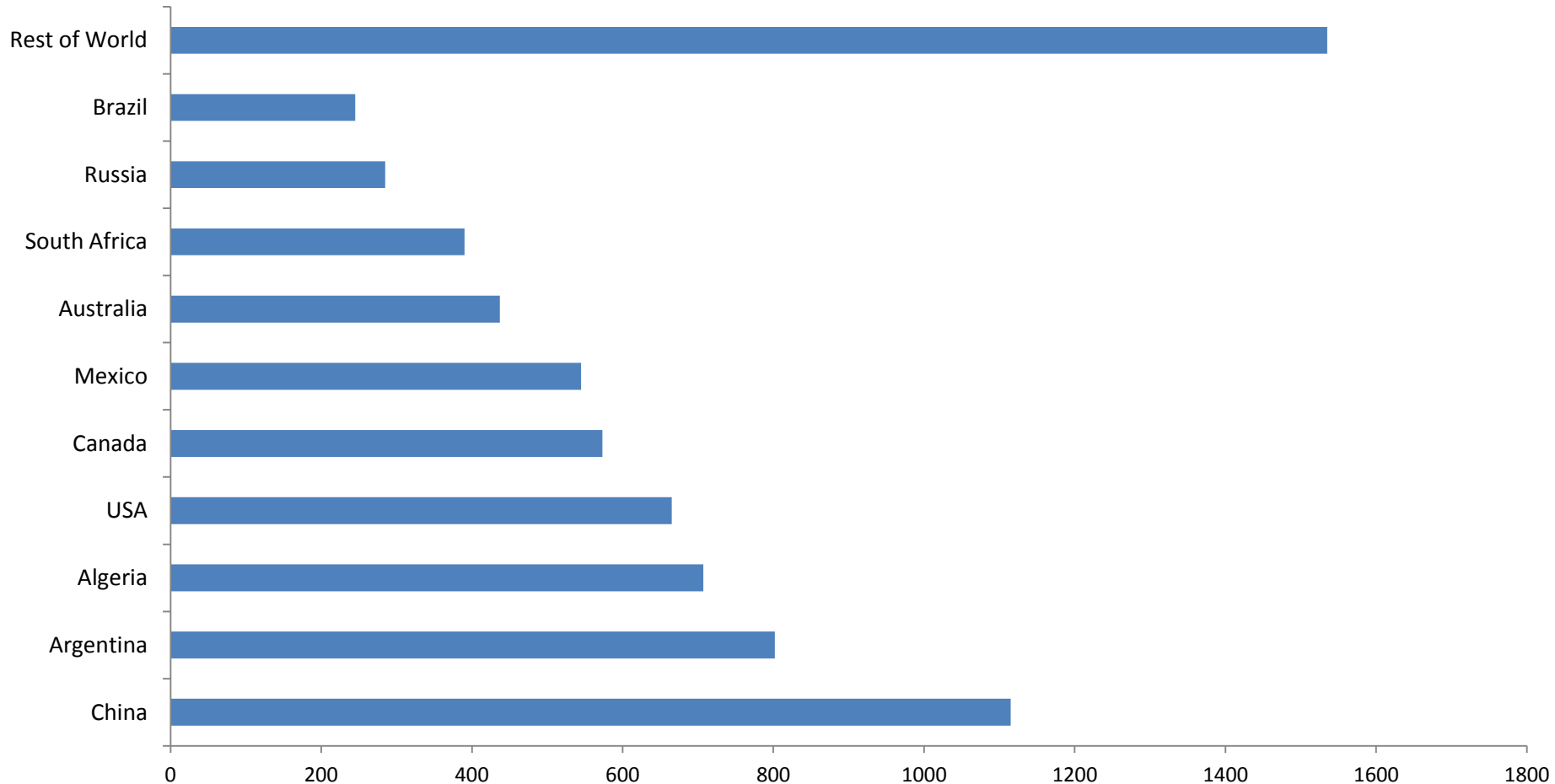
The coming shale gas revolution



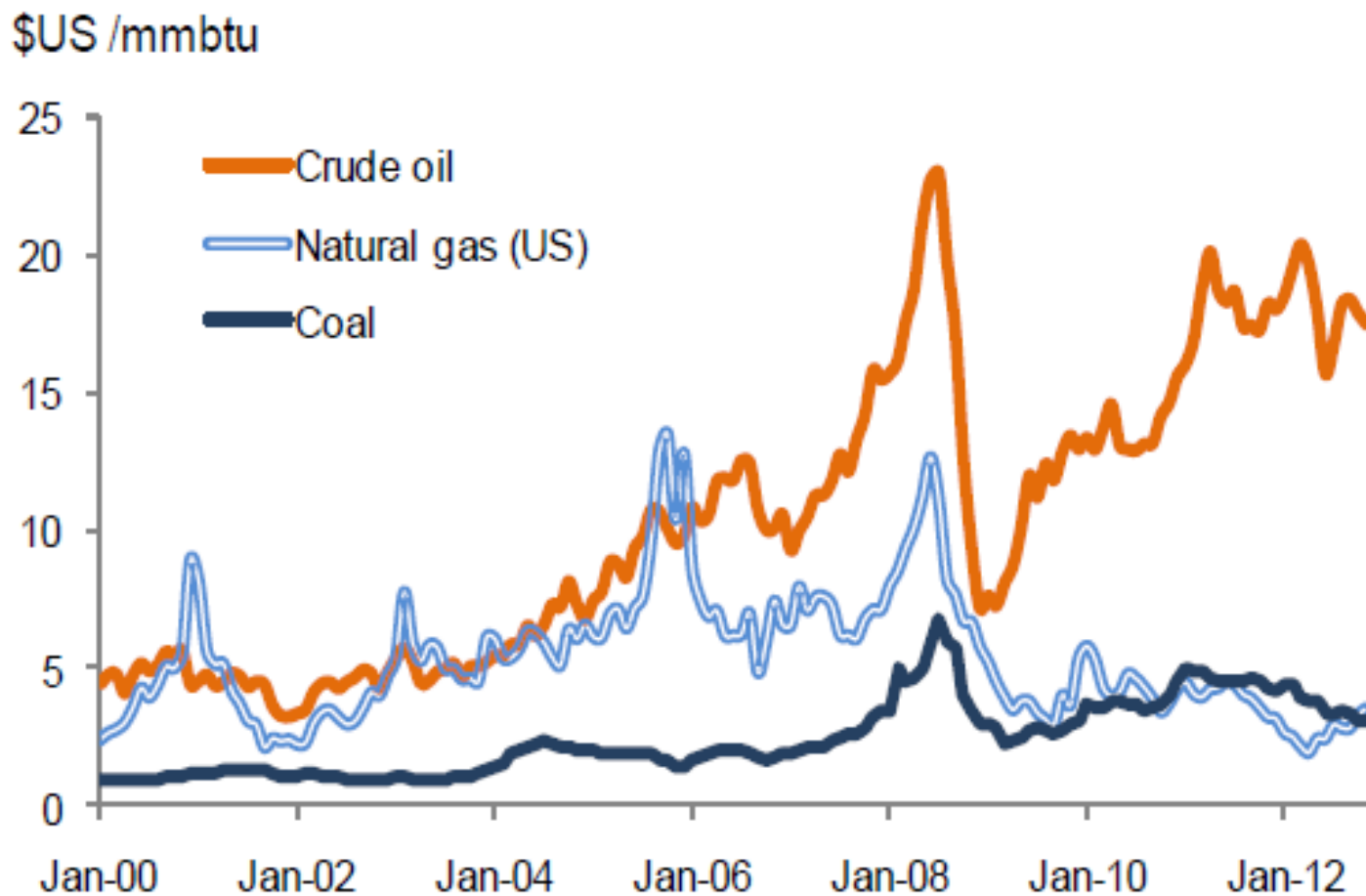
Source: United States basins from U.S. Energy Information Administration and United States Geological Survey; other basins from ARI based on data from various published studies.

China could be ahead

Trillion Cu Feet Technically Recoverable Resources



US Gas Prices have Collapsed



Summing Up

- East Asia and Pacific is likely to grow rapidly for a considerable time to come
- It is likely to become a rapidly growing market for final consumption, not just production
- A rising China offers opportunities for other countries
- Connectivity, business environment and human capital key to success in a changing world
- China slowing and rebalancing could mean further weakness in commodity prices
- Shale gas could be a game changer in energy markets