

BOOMING ASIAN ECONOMIES: THE COMING DECADES

Barry Hughes

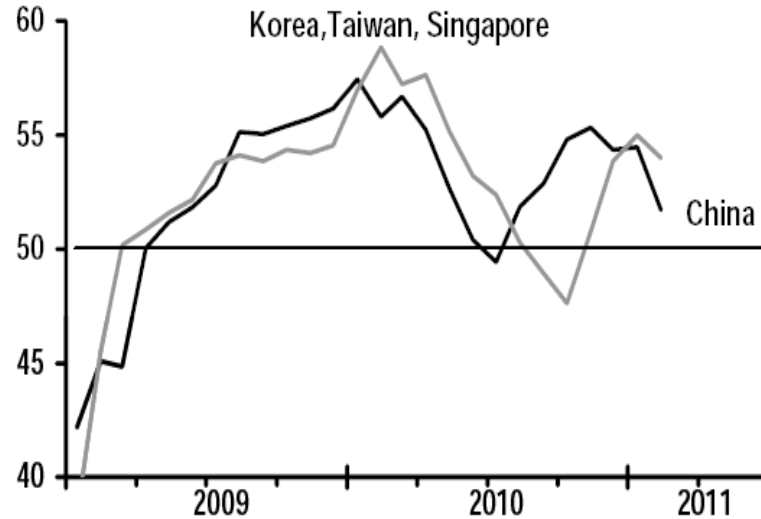
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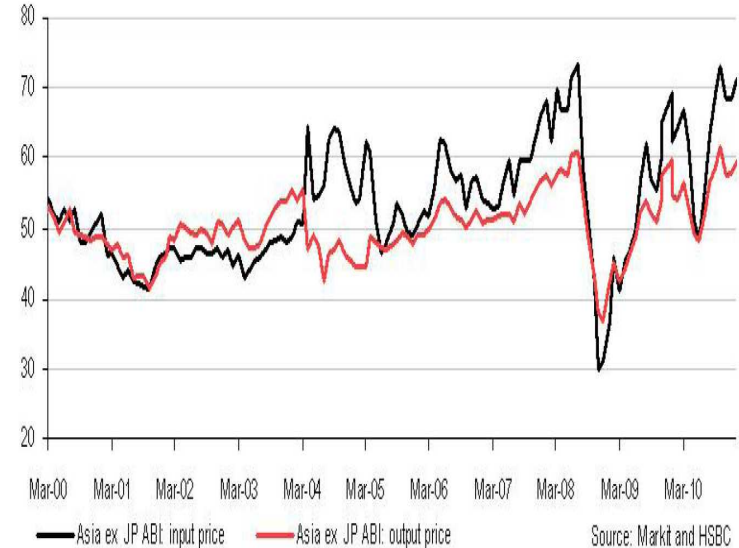
2011 ASIAN BOOM RUNNING INTO INFLATION HEADWINDS

MANUFACTURING GROWTH SLOWS...



Source: J P Morgan, 2 March, 2011.

...AS PRICE PRESSURES MOUNT IN ASIA



Source: Markit and HSBC

Strong growth continues in Asia with the February Chinese dip most likely due Lunar New Year effects.

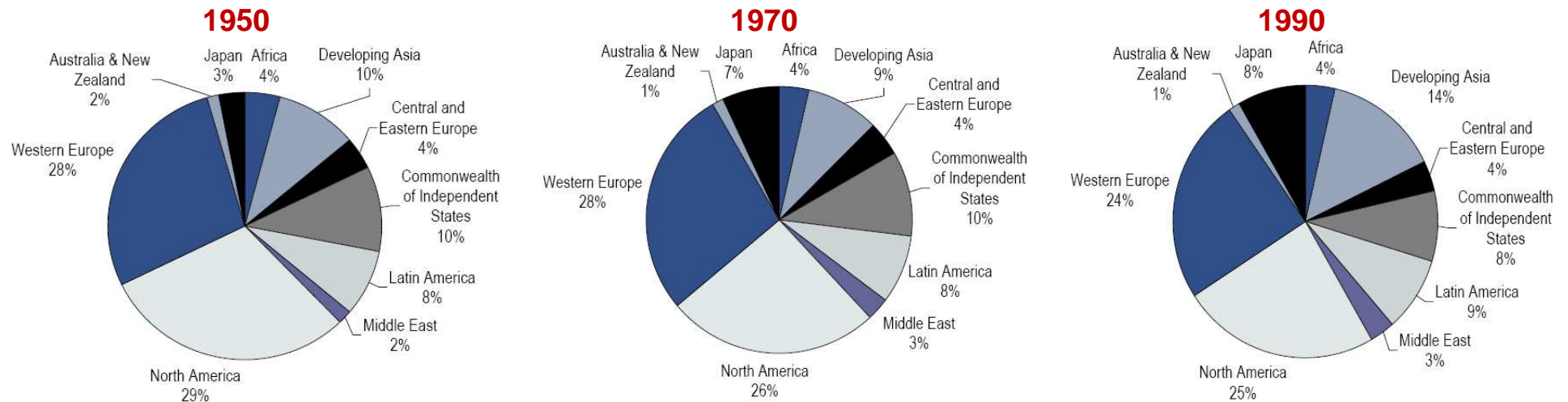
But the boom is too much of a good thing, stirring unwelcome inflation.

Policymakers in most places are trying to cool the tempo.

But this is just a speck on the surface of this talk's decades-long canvas.

NOTHING MUCH CHANGED FOR 50 YEARS

SHARES OF GLOBAL GDP

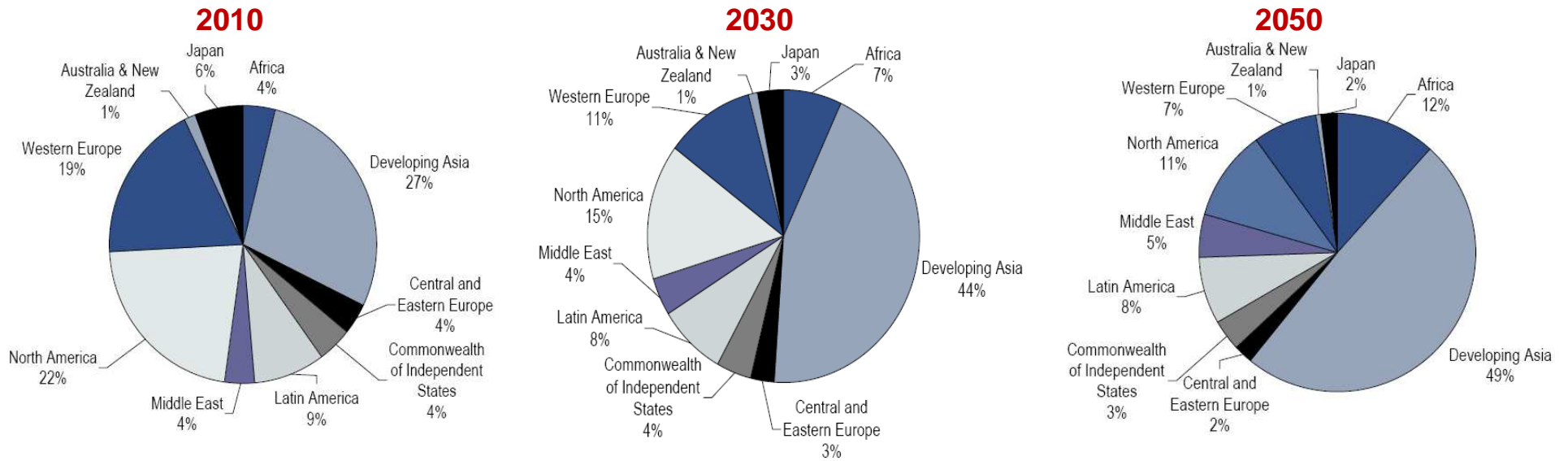


Source: Willem Buiter & Ebrahim Rahbari, Citi, 21 February 2011.

The global GDP pecking order scarcely changed in the second half of C20. North America & Western Europe slowly drifted down to about half the globe, while (even in PPP terms) Asia slowly moved up from 13% to 22%.

NOW FOR THE BIG SHAKE-UP: THE NEXT 40 YEARS

SHARES OF GLOBAL GDP

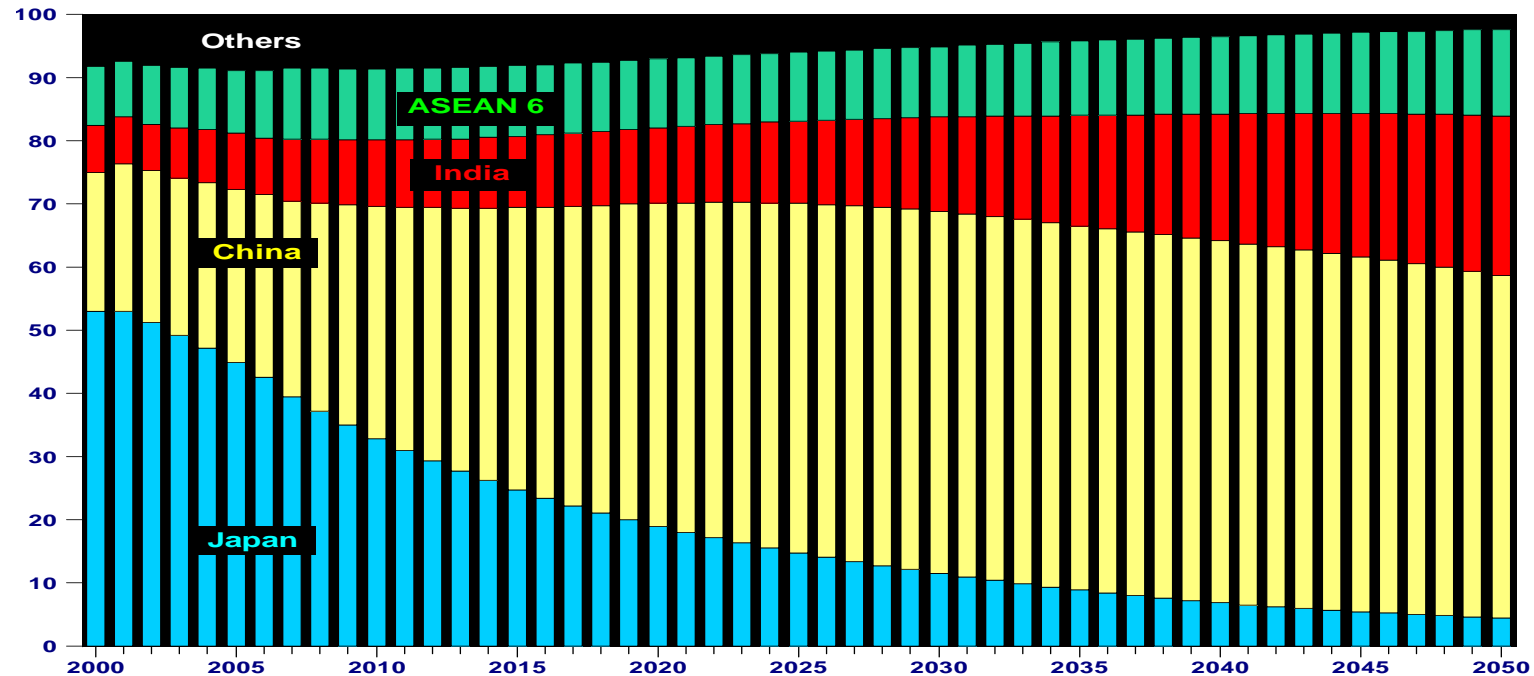


Source: Buiter & Rahbari, *ibid*.

The coming change shows up more clearly by 2010, but is exaggerated a bit by use of PPP conversions. At market exchange rates Asia (including Japan) is 27% not 33% of global GDP. But by 2050 Asia will provide 51% of global GDP (and exchange rates will reflect proper conversions?). Western Europe & North America will produce less than a fifth of global output.

BUT IS THIS JUST CHINDIA?

SHARES OF ASIAN GDP

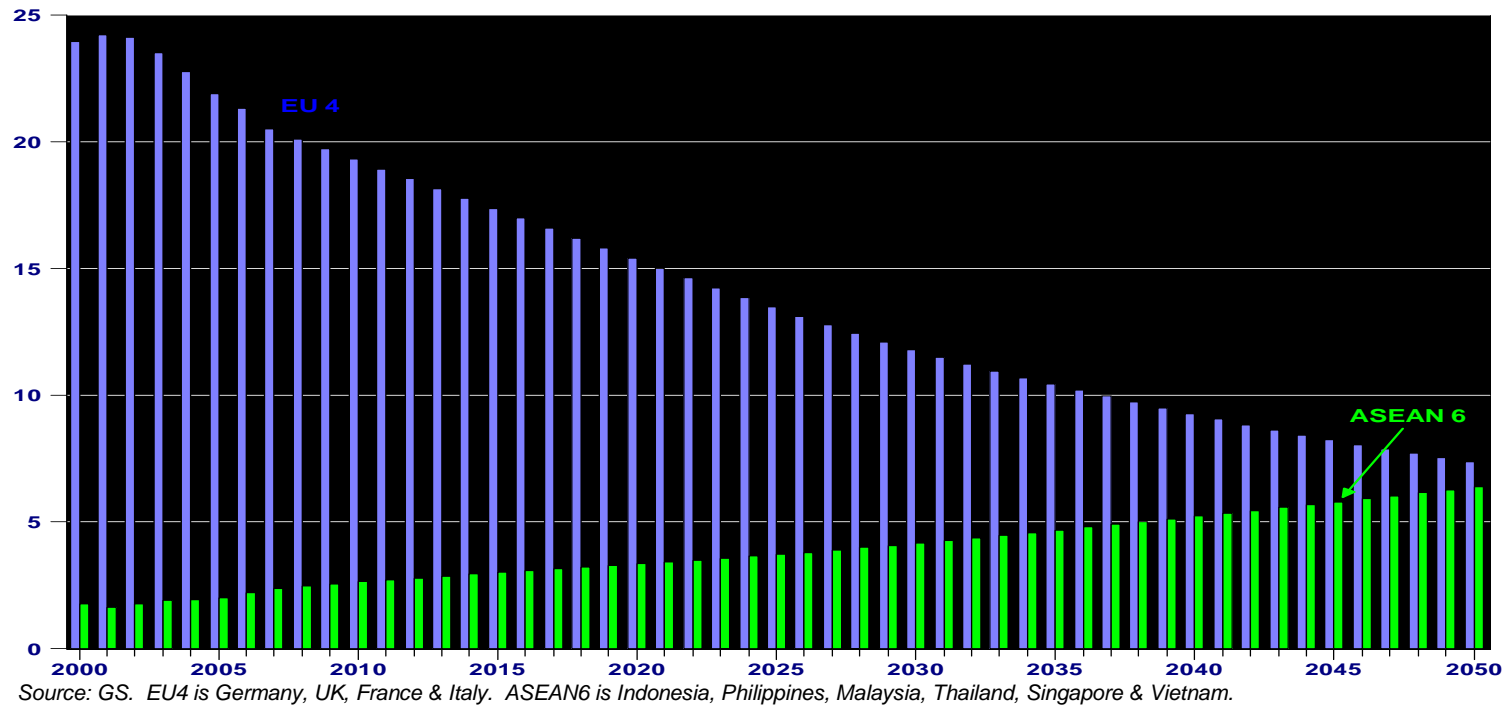


Source: GS. ASEAN 6 is Indonesia, Philippines, Malaysia, Thailand, Singapore & Vietnam. China includes Hong Kong SAR.

Essentially yes, though some other projections have less for China, more for India & ASEAN 6. But do not ignore ASEAN 6. Just to hold its share in face of Chindia expansion implies strength.

EUROPE WILTS, ASEAN THRIVES

EUROPE'S BIG 4 Vs ASEAN 6 SHARES OF WORLD GDP



*This puts ASEAN 6 in sharper focus.
Within 40 years the group will challenge Europe's big 4 for market scale.*

A MORE OPTIMISTIC VIEW OF ASEAN'S FUTURE...

THE GLOBE'S TEN LARGEST ECONOMIES BY NOMINAL GDP

Rank	Country	2010	Rank	Country	2015	Rank	Country	2020	Rank	Country	2030	Rank	Country	2040	Rank	Country	2050
1	US	14,612	1	US	18,247	1	China	23,178	1	China	57,138	1	China	115,671	1	China	205,321
2	China	5,860	2	China	13,118	2	US	23,007	2	US	35,739	2	India	75,996	2	India	180,490
3	Japan	5,465	3	Japan	5,876	3	Japan	6,786	3	India	24,824	3	US	54,822	3	US	83,805
4	Germany	3,292	4	Germany	3,886	4	India	6,453	4	Japan	9,213	4	Indonesia	20,140	4	Indonesia	45,901
5	France	2,602	5	India	3,358	5	Germany	4,557	5	Brazil	8,780	5	Brazil	17,501	5	Nigeria	42,437
6	UK	2,259	6	France	3,047	6	Brazil	4,256	6	Russia	7,380	6	Nigeria	17,347	6	Brazil	33,199
7	Italy	2,044	7	Brazil	3,026	7	Russia	3,806	7	Indonesia	7,299	7	Russia	12,885	7	Russia	19,697
8	Brazil	1,989	8	UK	2,885	8	UK	3,637	8	Germany	6,466	8	Japan	12,452	8	Japan	16,394
9	India	1,596	9	Russia	2,668	9	France	3,573	9	UK	5,819	9	Germany	9,267	9	Philippines	14,738
10	Canada	1,572	10	Italy	2,414	10	Canada	2,741	10	France	5,236	10	UK	9,135	10	UK	13,846

Source: Buiter & Rahbari, Citi, op cit. Estimates and forecasts are in nominal USD billions converted at market exchange rates.

Citi has a more optimistic view of ASEAN's future growth than GS.

Presence of 5 Asian economies in the forecast 2050 top 10, including 2 from ASEAN.

Disappearance of all European economies by 2050 save a UK hanging on by its fingernails.

...BUT MORE PESSIMISTIC VIEWS ALSO AVAILABLE

HSBC'S TOP 25 IN 2050

Order in 2050 by size		Size of economy in 2050 (Bn, Constant 2000 USD)	Rank change between now and 2050	Income per capita (Constant 2000 USD)		Population (Mn)
				2050	2010	
1	China	24617	2	17372	2396	1417
2	US	22270	-1	55134	36354	404
3	India	8165	5	5060	790	1614
4	Japan	6429	-2	63244	39435	102
5	Germany	3714	-1	52683	25083	71
6	UK	3576	-1	49412	27646	72
7	Brazil	2960	2	13547	4711	219
8	Mexico	2810	5	21793	6217	129
9	France	2750	-3	40643	23881	68
10	Canada	2287	0	51485	26335	44
11	Italy	2194	-4	38445	18703	57
12	Turkey	2149	6	22063	5088	97
13	S. Korea	2056	-2	46657	16463	44
14	Spain	1954	-2	38111	15699	51
15	Russia	1878	2	16174	2934	116
16	Indonesia	1502	5	5215	1178	288
17	Australia	1480	-3	51523	26244	29
18	Argentina	1477	-2	29001	10517	51
19	Egypt	1165	16	8996	3002	130
20	Malaysia	1160	17	29247	5224	40
21	Saudi Arabia	1128	2	25845	9833	44
22	Thailand	856	7	11674	2744	73
23	Netherlands	798	-8	45839	26376	17
24	Poland	786	0	24547	6563	32
25	Iran	732	9	7547	2138	97

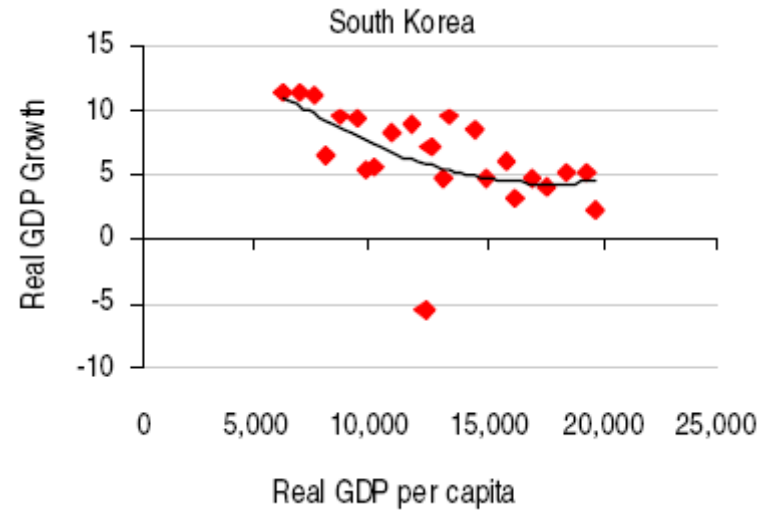
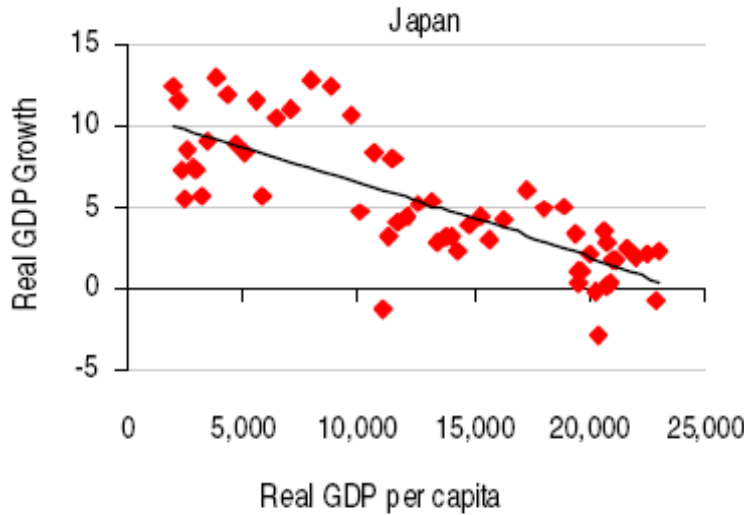
Source: Karen Ward, HSBC, January 2011.

HSBC expects little movement over 40 years.

*Why? Because strong roles for democracy, rule of law & schooling in forecasting model.
Indonesia put at similar size to Australia. The Philippines not considered.*

CONVERGENCE POTENTIAL

LIVING STANDARDS AND GDP GROWTH RATES



Source: Karen Ward, HSBC, *op cit*.

Japanese and Korean experience illustrate frontier fade as convergence occurs.

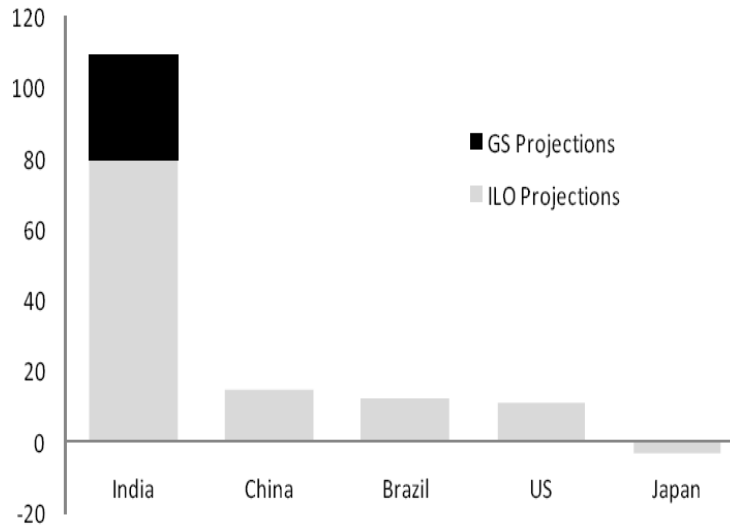
But backwardness does not guarantee growth. Plenty of backward countries stay backward.

Emphasis on necessary conditions like physical & human capital, rule of law, openness.

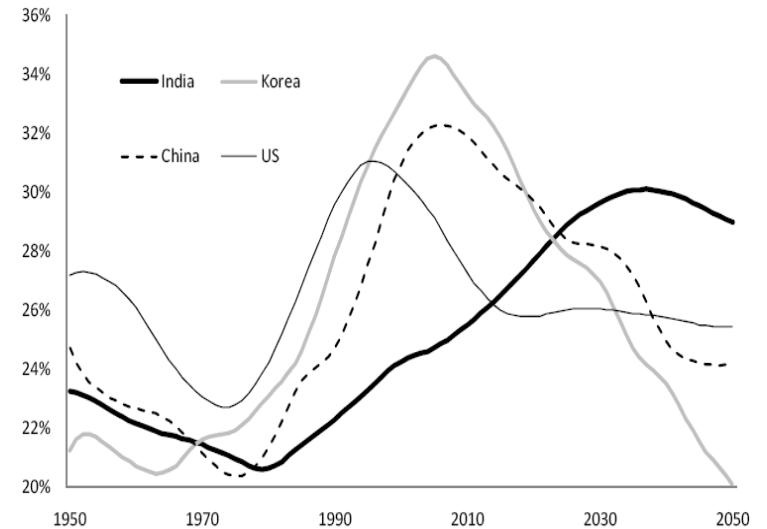
Do you really want to be rich? Deng Xiaoping.

DEMOGRAPHIC TRANSITION OF THE LABOUR FORCE

LABOUR FORCE GAIN, 2011-2020 (m)



% OF 30-49 YEAR OLDS IN TOTAL



Source: UN, ILO, Tushar Poddar, GS, July 2010.

Courtesy of demographics, dramatic differences will occur in potential labour force growth.

Late-running demographic transition trains pack labour force stations in India, Philippines, Bangladesh, and Indonesia (latter this decade only).

Age distribution is productivity & saving friendly as dependency burden lightens

BUITER'S BEST BETS FOR RISING LIVING STANDARDS

3G ECONOMIES: GLOBAL GROWTH GENERATORS

THE FIRST ELEVEN

Country	2010 GDP per capita	% of US GDP per capita	Average growth 2010 - 2050
Bangladesh	1735	4	6.3
China	7430	16	5.0
Egypt	5878	13	5.0
India	3298	7	6.4
Indonesia	4363	10	5.6
Iraq	3538	8	6.1
Mongolia	3764	8	6.3
Nigeria	2335	5	6.9
Philippines	3684	8	5.5
Sri Lanka	4988	11	5.5
Vietnam	3108	7	6.4

A DOZEN ON THE BENCH

Country	2010 GDP per capita	% of US GDP per capita	Average annual growth forecast 2010 - 2050
Brazil	10980	24	3.5
Chile	14956	33	3.4
Colombia	9302	20	3.8
Kazakhstan	12121	27	4.2
Korea	29538	65	3.0
Mexico	13689	30	3.0
Peru	9470	21	4.0
Russia	15701	34	3.7
South Africa	10360	23	3.8
Thailand	8638	19	4.4
Turkey	13063	29	3.5
Ukraine	6606	15	4.4

Source: Buiter & Rahbari, Citi, op cit. Initial living standards are measured in 2010 USD PPP per head. Growth rates are of similar incomes per head (ie. scale excluded).

Here are the optimistic Citi's best (3G) bets for living standards growth over coming decades.

Note a preponderance of Asian economies in the lists (8 of first eleven).

Add scale to late-running demographic train places like India, Indonesia and Bangladesh.

Note low %s of US incomes affords long convergence periods – best answer to whether Asian growth can last.

WILL AUSTRALIA BE SIMPLY A QUARRY?

BIG QUESTION, PROFOUND FEARS.

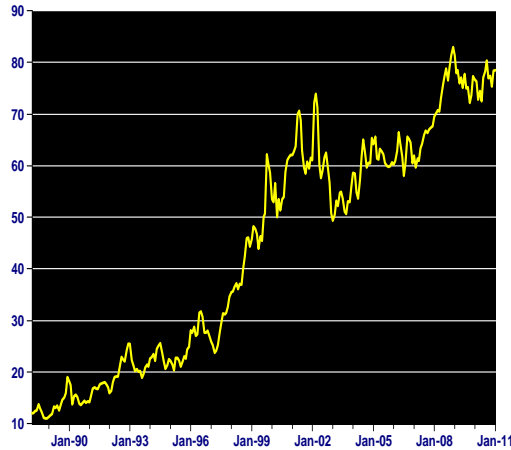
BIG OPPORTUNITIES, BIG THREATS.

***BASIC ANSWER IS WE NEED TO BE LONG WHERE ASIA IS SHORT
— AND SHORT WHERE THEY ARE LONG.***

EVEN WINNERS FIND GOING TOUGH CURRENTLY

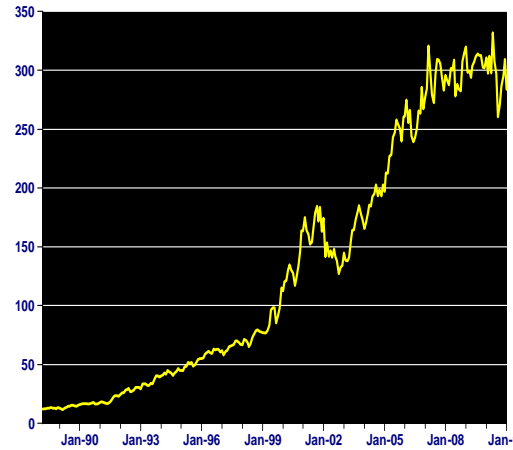
MONTHLY EXPORT RECEIPTS (\$m)

MEASURE, CHECK, ANALYSE



Measuring, checking, analysing & controlling instruments & apparatuses.

MEDICAMENTS



Medicaments (including veterinary medicaments)

MEDICAL INSTRUMENTS



Instruments & appliances for medical, dental, surgical or veterinary purposes.

It is not that difficult to find successful manufacturing exporters. Here are 3 different billion dollar a year plus exporting industries Ai Group research has been watching closely. All three are high value-added, knowledge-based activities in the fashionable jargon.

While all three have been outstanding successes, it is not hard to gain an impression they have had to battle lately. Ground has been held, but previous strong gains are now absent