

Outlook 2011

South-South Economic Links

Asian Development Bank

Asian Development Outlook 2011

South-South Economic Links

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8 April 2011

Outline

Economic outlook

- Global outlook
- Developing Asia's outlook

Key challenges

- Managing inflation
- Finding new growth source:
South-South economic links?

Key Messages

- Asia's recovery is firm, with growth nearing 8% in the next 2 years
- Asia is leading the global recovery
- Rising inflation is a concern
- Expanding South-South links present a supplementary growth source
- But structural weaknesses need to be addressed to maximize their potential



Economic outlook

Modest growth expected in major industrial economies

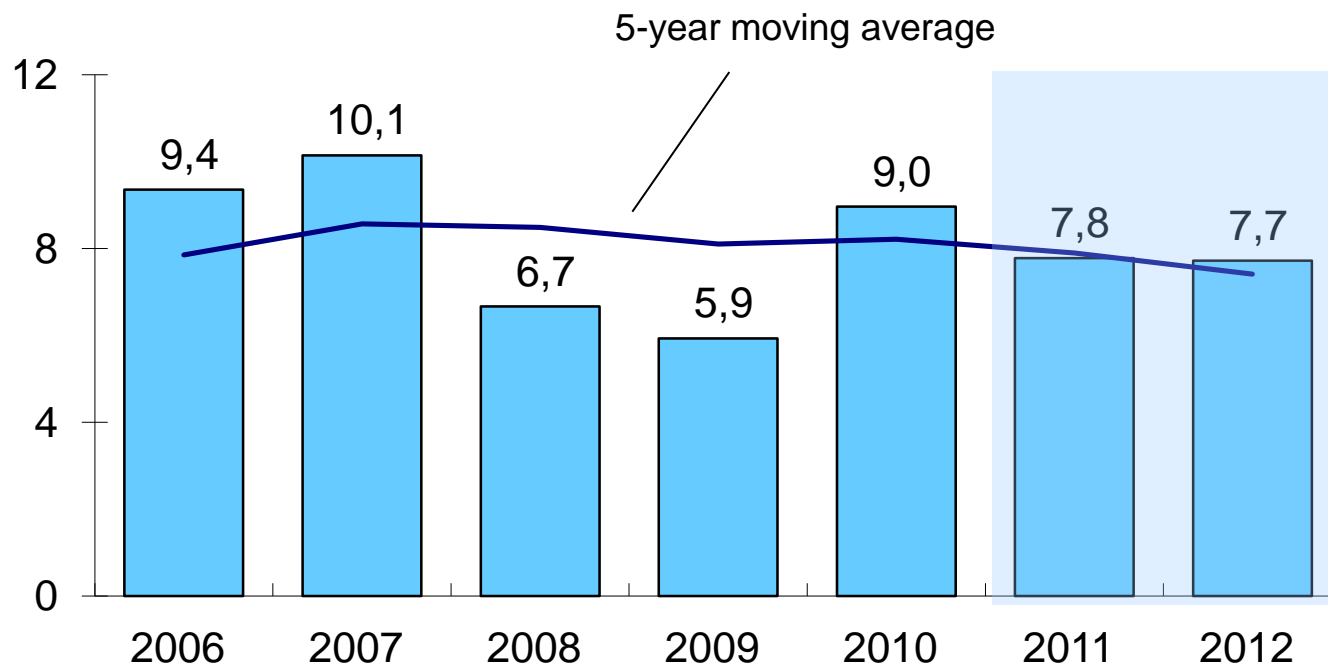
	2009 Actual	2010 Actual	2011 <i>ADO 2011</i> projection	2012 <i>ADO 2011</i> projection
GDP Growth				
Major industrial economies (%)	-3.8	2.6	2.1	2.1
United States (%)	-2.6	2.9	2.8	2.6
Eurozone (%)	-4.1	1.7	1.6	1.6
Japan (%)	-6.3	3.9	1.5	1.8
World trade				
Merchandise exports (% change)	-12.2	13.5	7.5	8.5
Inflation				
Inflation (G3 average, %)	-0.2	1.2	1.3	1.8

But risks remain

- Recent surge in oil and food prices
- Sovereign debt problems in the eurozone periphery
- High unemployment and weak housing market in the US
- Impacts of the Japan earthquake

Developing Asia's recovery is firming

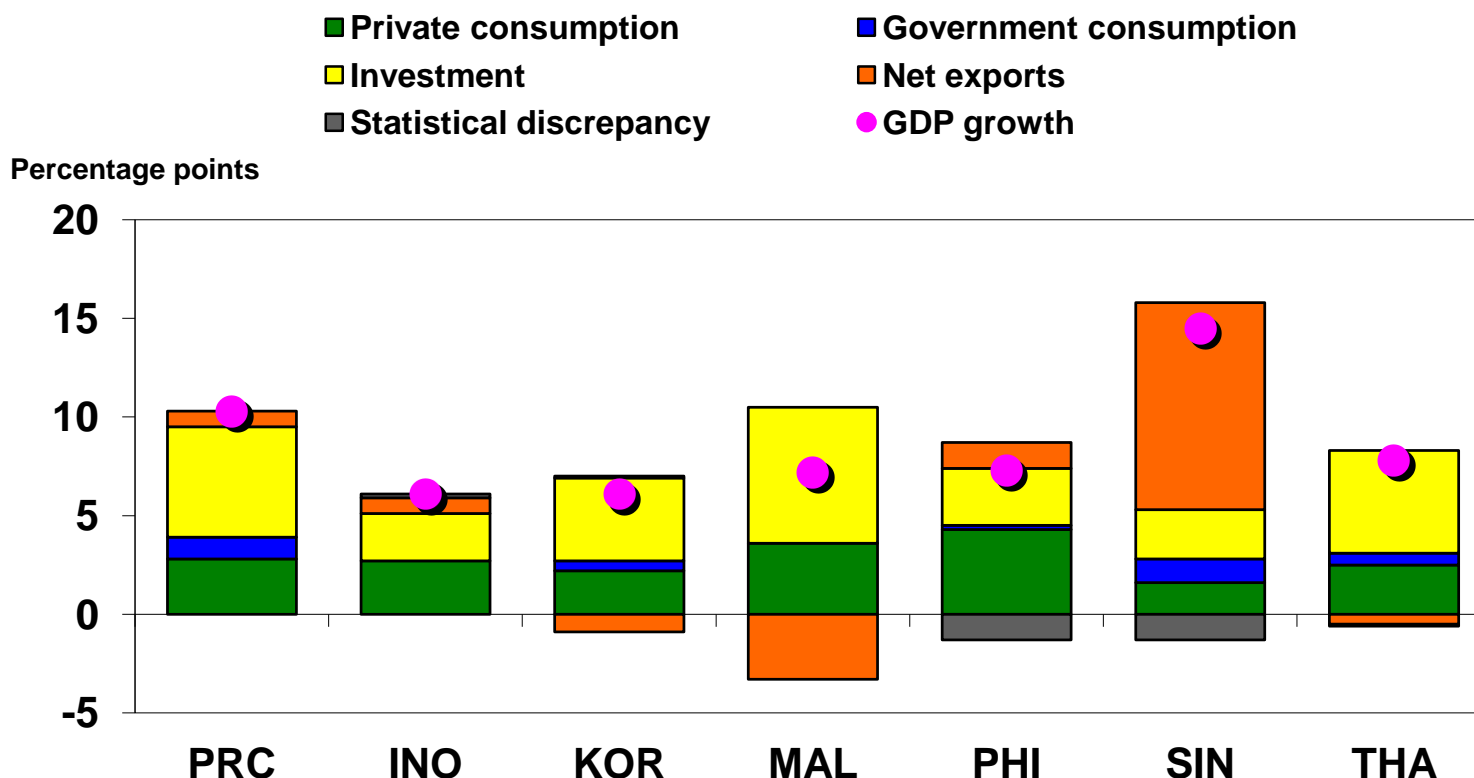
GDP growth



...due to robust domestic demand

Propelled by robust domestic demand

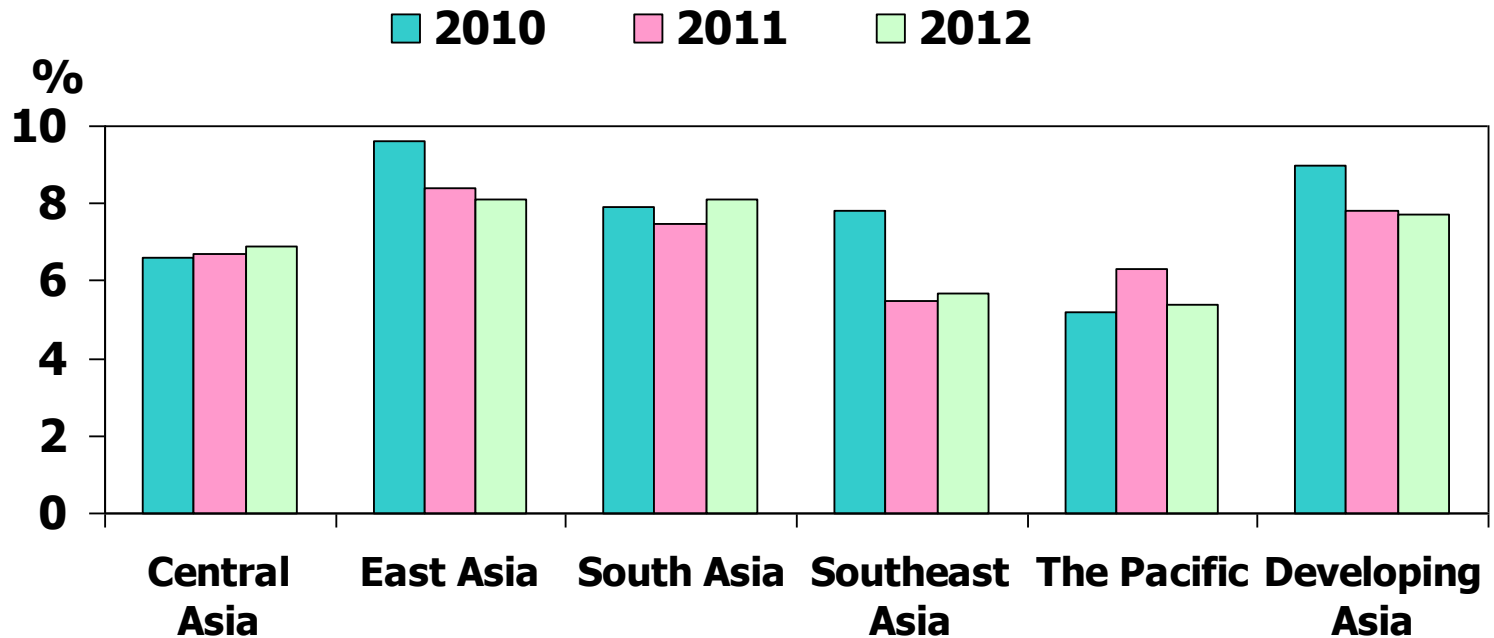
Contributions to GDP growth



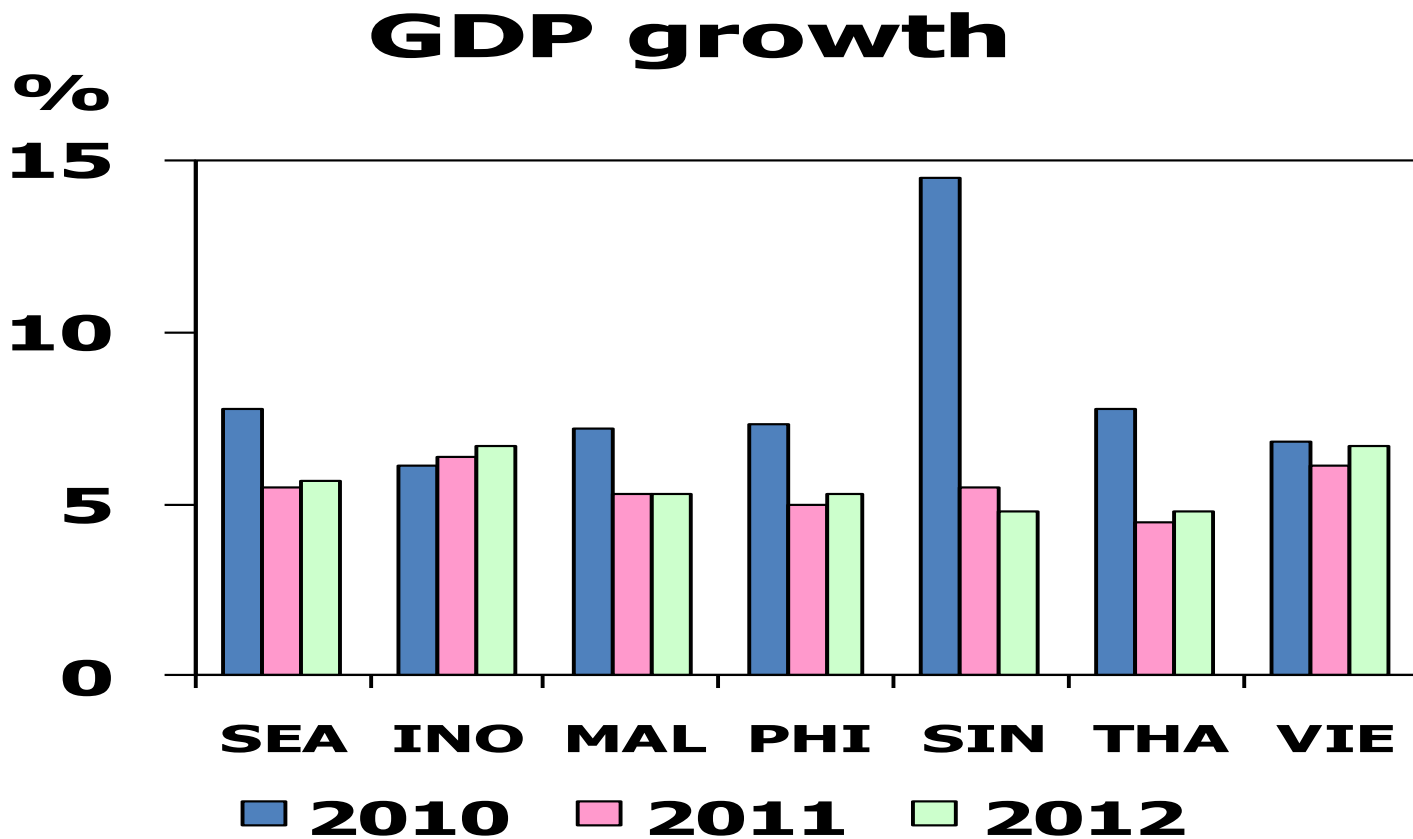
PRC=People's Republic of China; INO=Indonesia; KOR=Republic of Korea; MAL=Malaysia; PHI=Philippines; SIN=Singapore; THA=Thailand.

Region's recovery is widespread

GDP growth



Southeast Asia moderating



SEA=Southeast Asia
INO=Indonesia

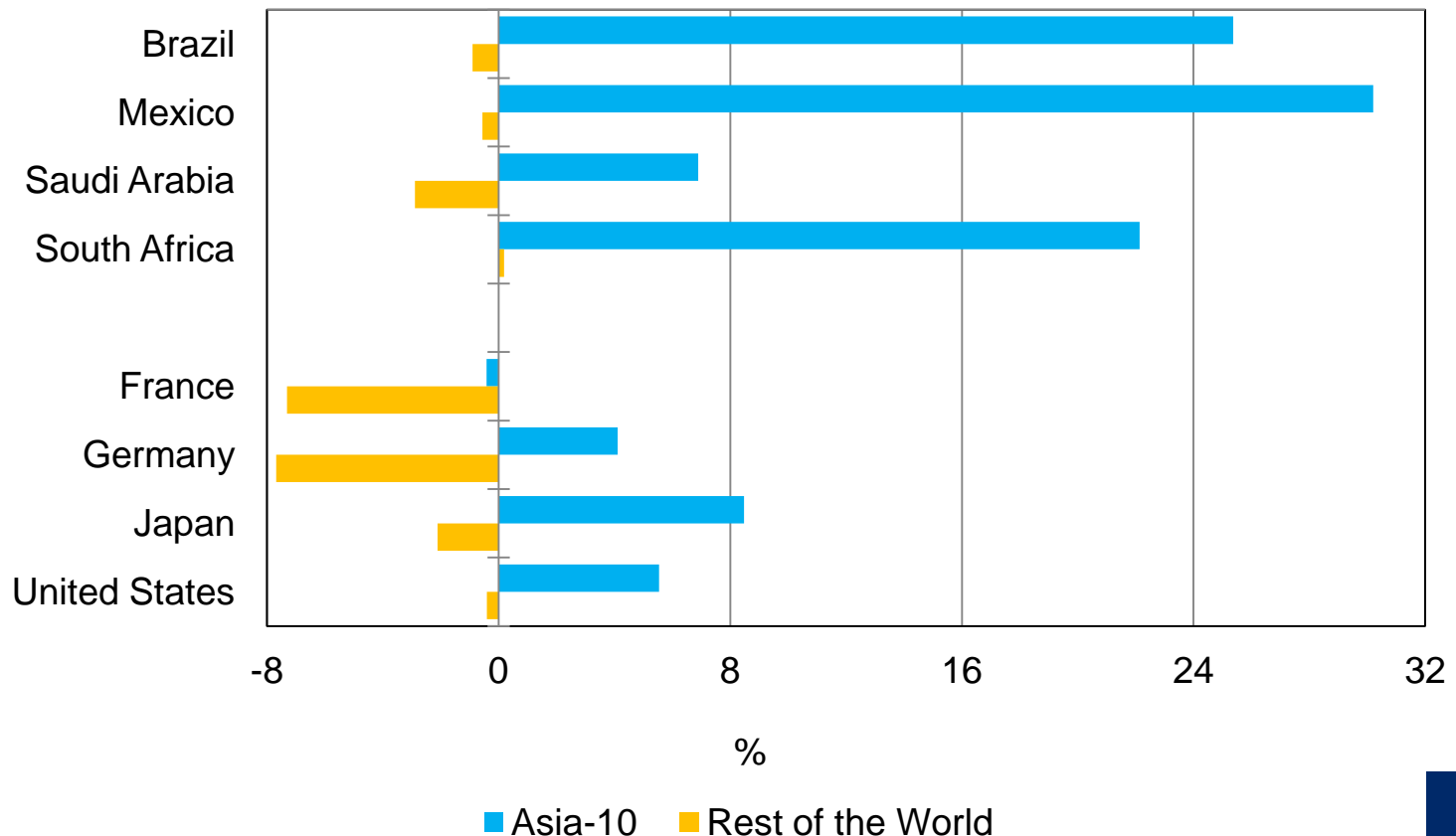
MAL=Malaysia
PHI=Philippines

SIN=Singapore
THA=Thailand

VIE=Viet Nam

Asia contributed to the global recovery

Average quarterly growth rates of exports to developing Asia (Q3 2008–Q3 2010, y-o-y)

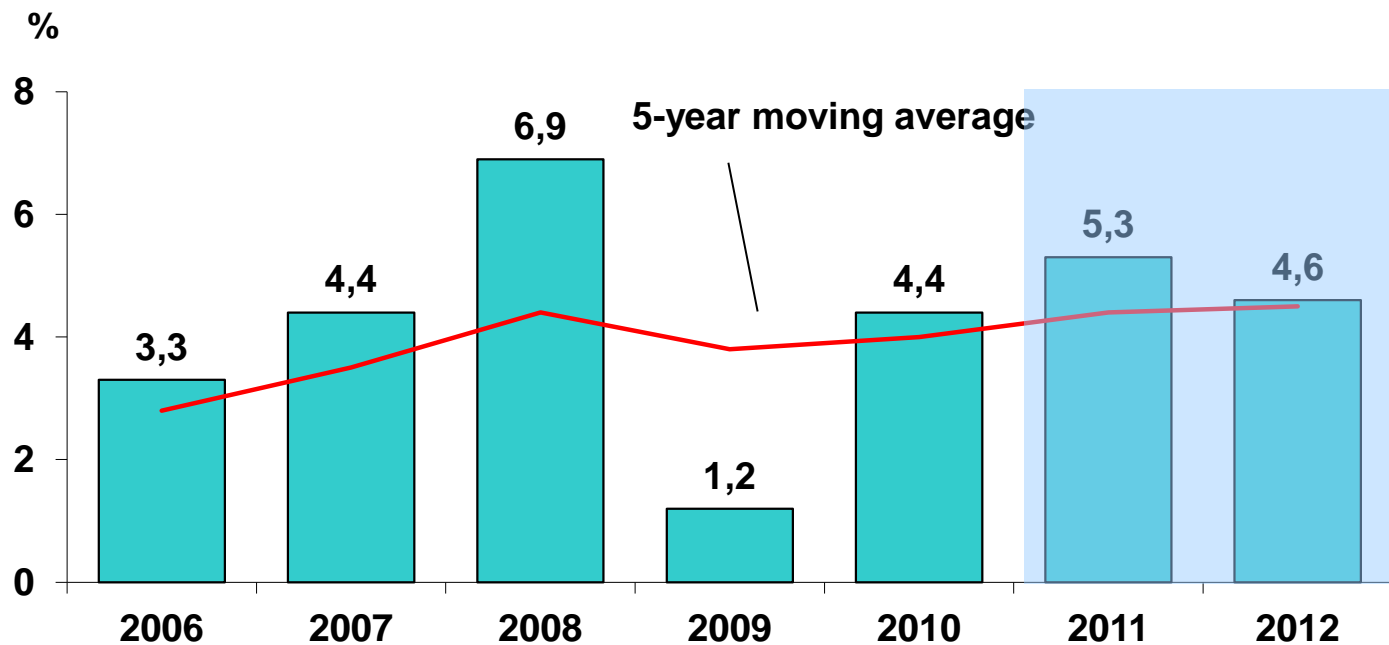




Key challenge: Managing inflation

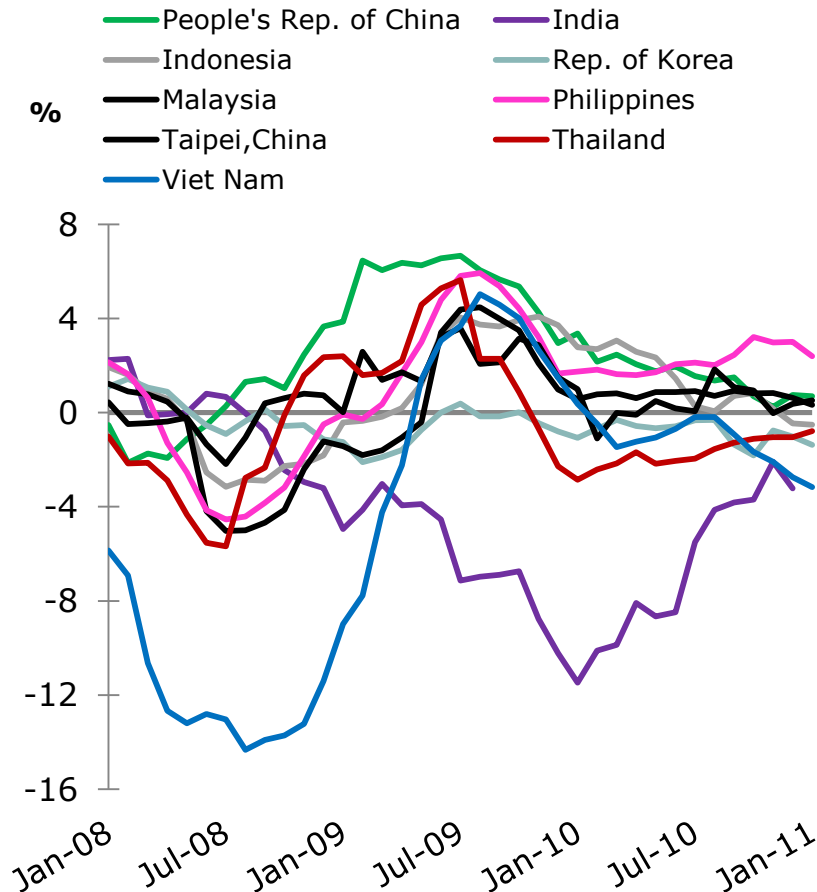
Inflation pressures are building...

Inflation



...with some signs of overheating

Real Interest Rates



- Negative real interest rates
- Output near or above its potential

Inflation matters more for Asia

Food share in CPI (%)

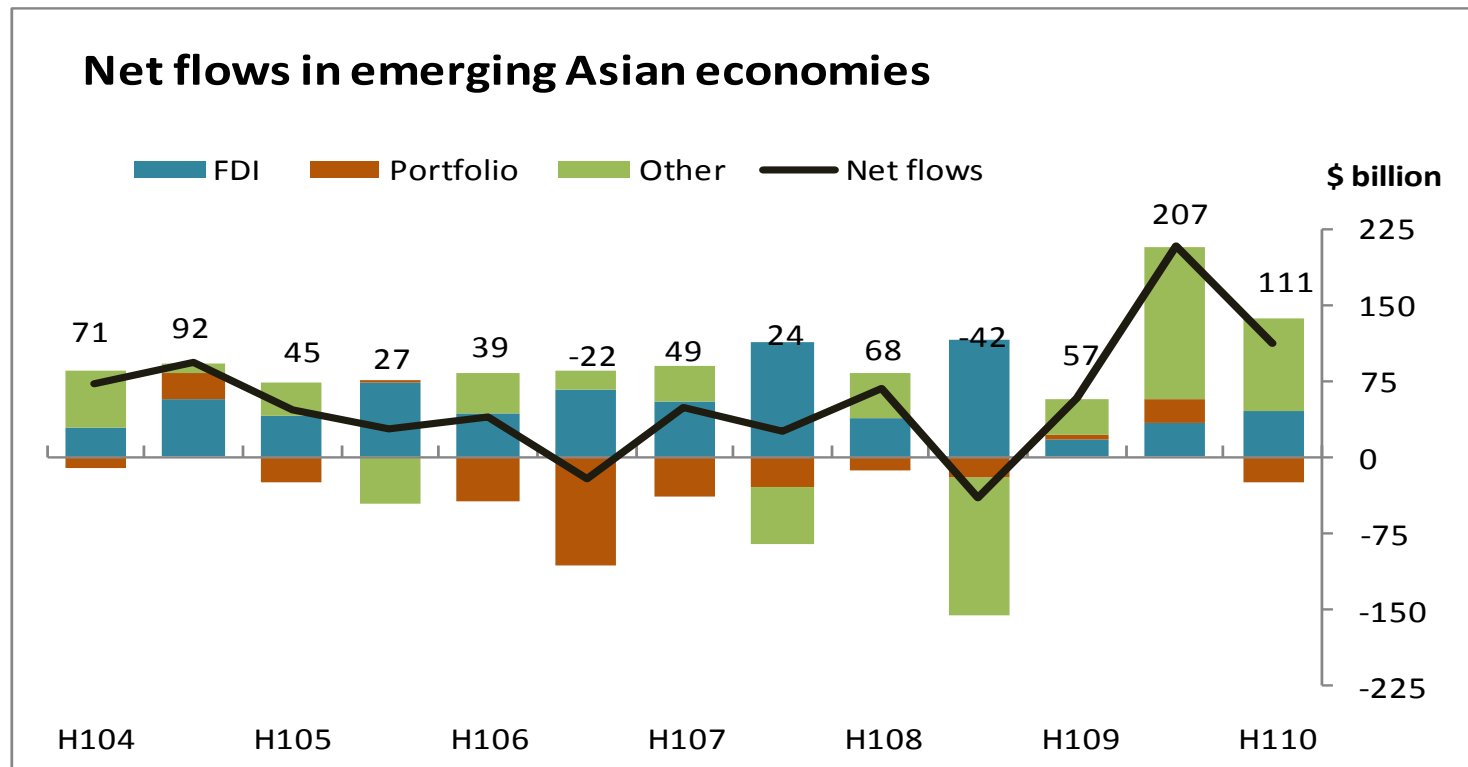
Bangladesh	58.8
Philippines	46.6
India	46.2
Sri Lanka	45.5
Cambodia	44.9
Pakistan	40.3
Viet Nam	39.9
Indonesia	36.2
Thailand	33.0
Malaysia	31.4
PRC	30.2

United States	14.8
Eurozone	14.0
Japan	25.9

- The poor are especially vulnerable
- Rising in part to Asia's faster recovery
- Inflation expectations can fuel wage-price spiral

But managing inflation is not easy

- Higher policy rates attract more capital inflows



Coherent policy mix is key to success

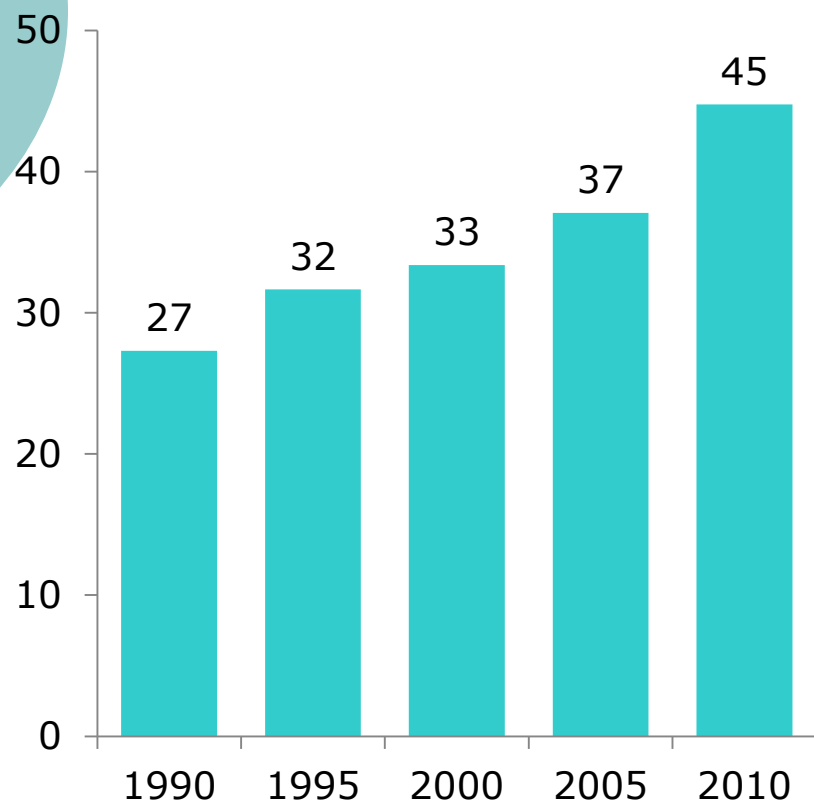
- For countries with persistent current account imbalances and misaligned exchange rates: More flexible exchange rates
- For countries without the above symptoms: Internationally coordinated temporary measures, such as capital controls
- G20 could provide useful tools: practical indicative guidelines and principles for capital controls



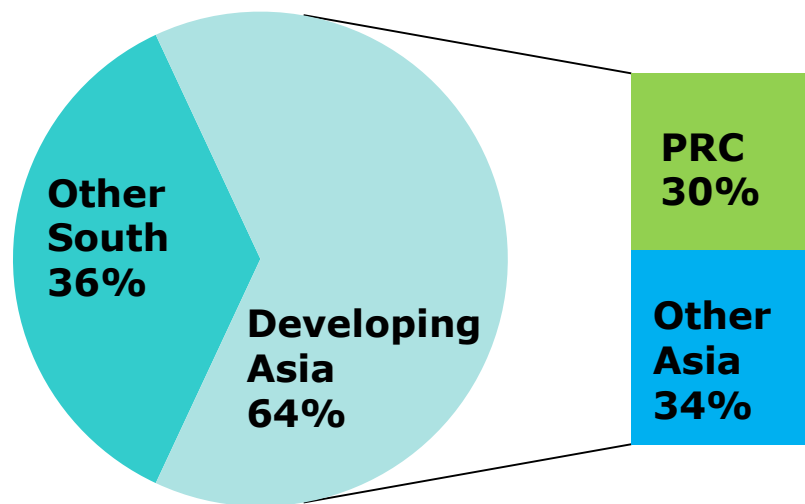
Key challenge: South-South economic links

Share of the South in global GDP is rising

Share of South in world GDP (%)



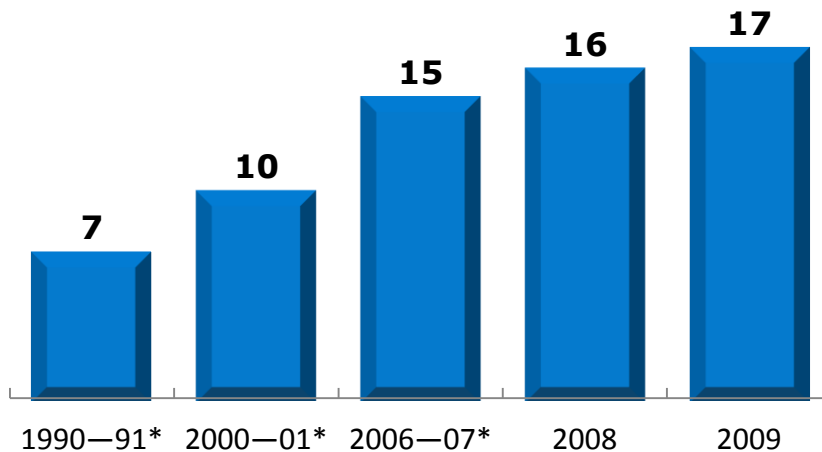
Developing Asia's share in South GDP, 2010



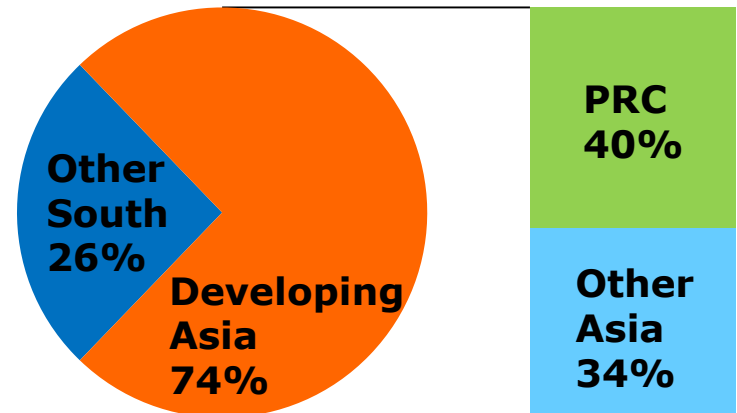
PRC = People's Republic of China

South-South trade is growing

South-South trade as share of world merchandise trade (%)



Developing Asia's share in South-South trade, 2009



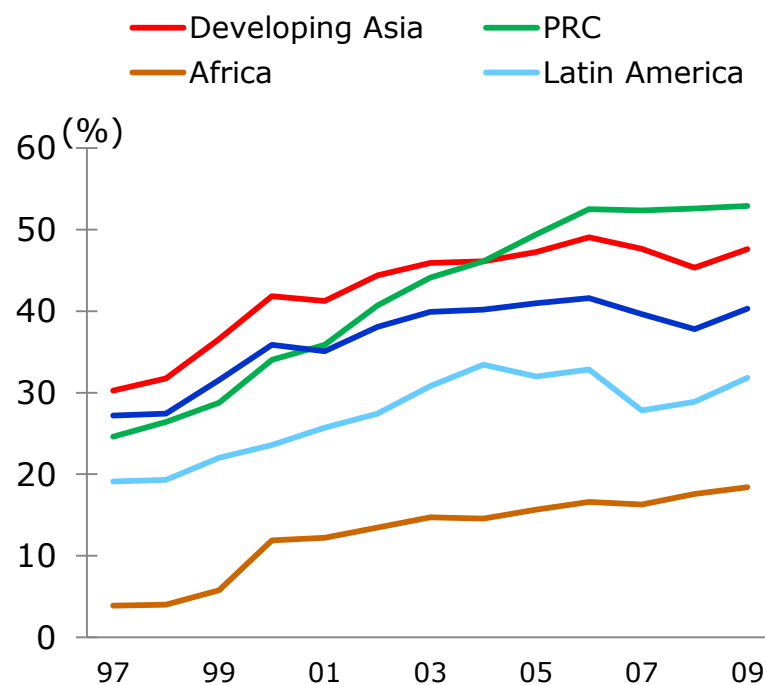
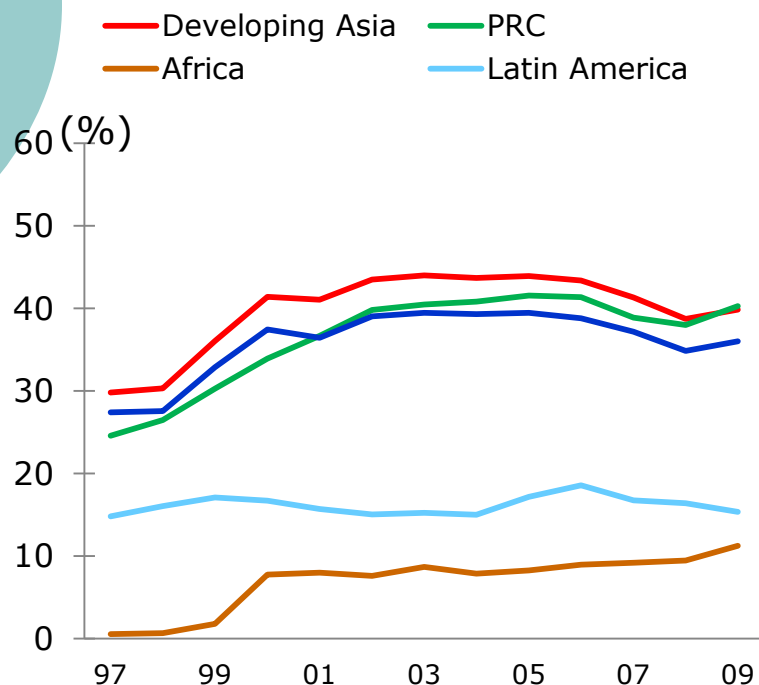
Note: Merchandise trade, non-fuel
PRC = People's Rep. of China

But developing Asia's trade is driven by factory Asia

Share of parts and components (%)

Exports

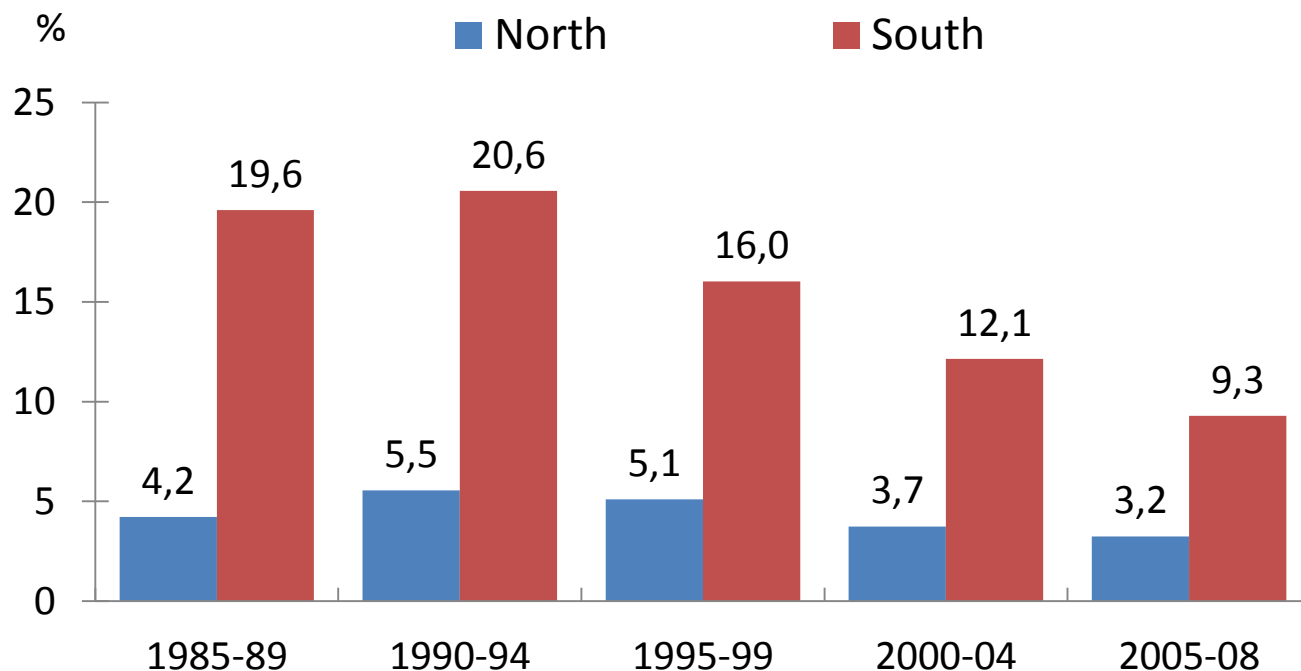
Imports



- Factory Asia: intermediate goods sourced from South for assembly and subsequent export to North
- Growing South-South links do not necessarily mean greater economic independence!

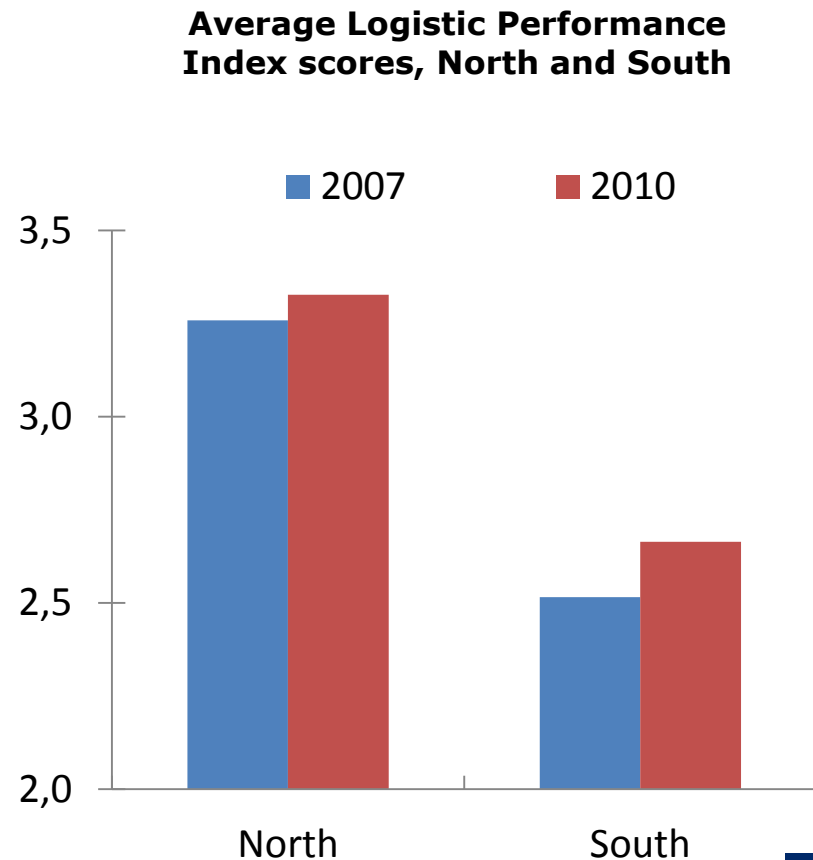
Structural weaknesses need to be addressed

Applied tariffs, simple mean



Other barriers remain too

- Trade-related infrastructure and logistics performance of the South lag considerably behind the North
- South-South FTAs are generally less consistent with WTO and other global rules



Potential gains from stronger South-South links are large

- Lowering tariffs could increase South-South trade by 6% points
- Industrial migration among the South could boost global growth
- Recycling South savings for investment could help global rebalancing

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