

# How are the CIVETS doing and who's in the new zoo?

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Publishing

IMnI annual conference

Istanbul

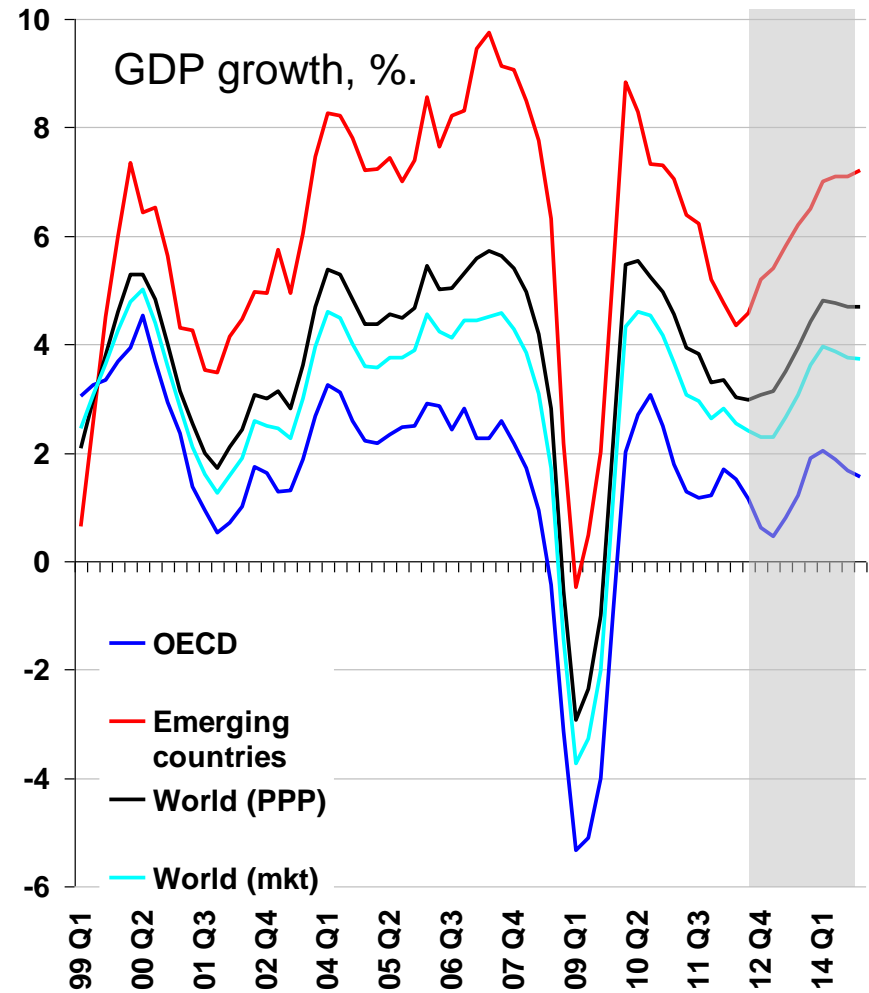
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June 2013

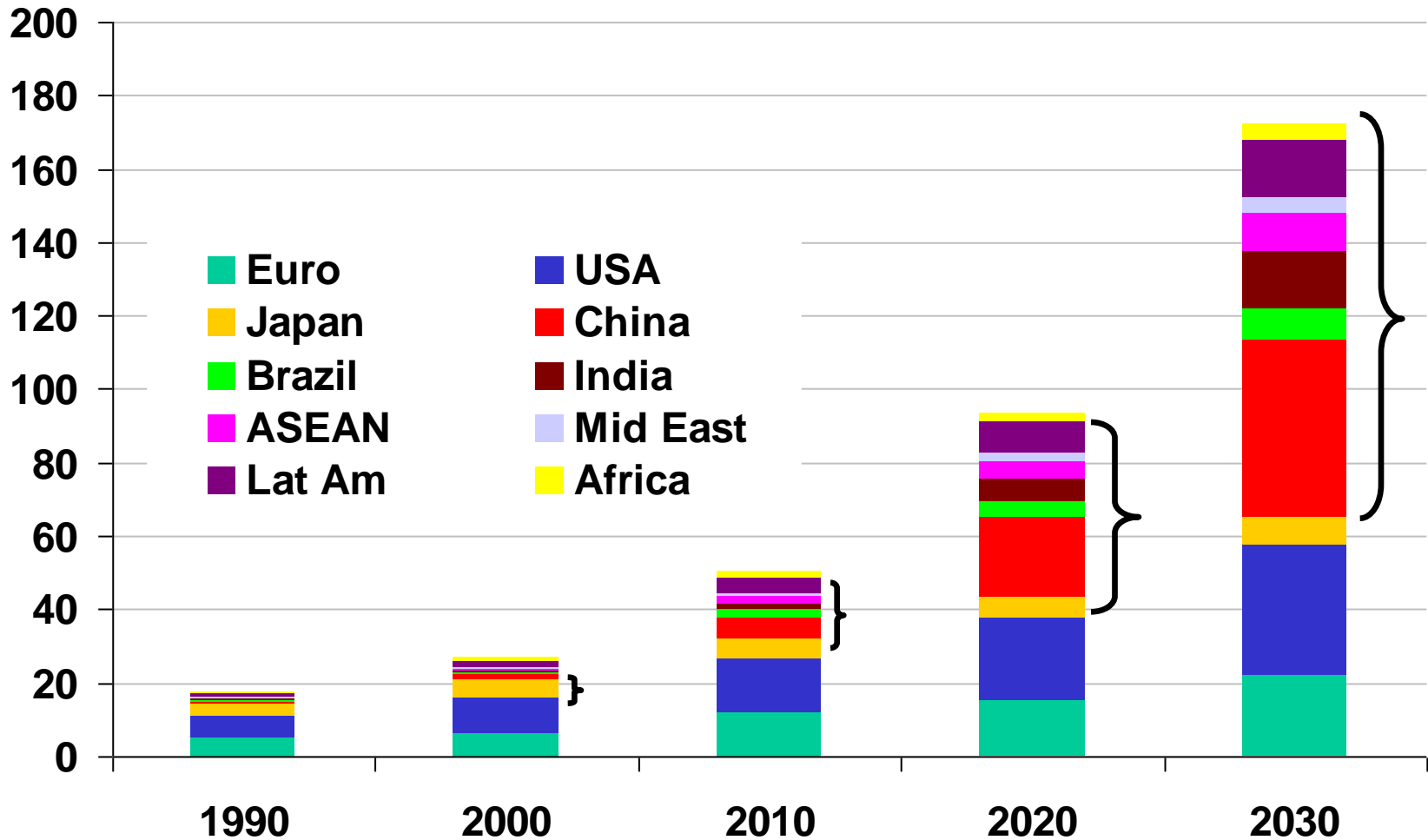


# 2013—better than 2012, but it may not feel like it

- Europe struggles will continue
  - Euro recovery anaemic—0.4% GDP contraction
    - Parts of periphery in depression
  - UK returns to weak growth
- US recovery momentum is accelerating
  - The housing market is recovering
  - Watch for cliffs and ceilings!
- China yoyo-ing—about 8.5% growth
  - Strongly outperforming the West
    - But experiencing growing pains as it moves to middle-income status
- Oil remains in comfortable surplus
- Asia remains the fastest growing region, but watch Africa too
- Assets will stay on their sugar high



# The big tilt



Global GDP, nominal US\$ trn at PPP. Source: EIU.

The developed world  
From crisis management  
to future planning

# Euro zone: The evolution of a crisis—2009

**Policies that are  
politically  
feasible**

**Policies that  
might  
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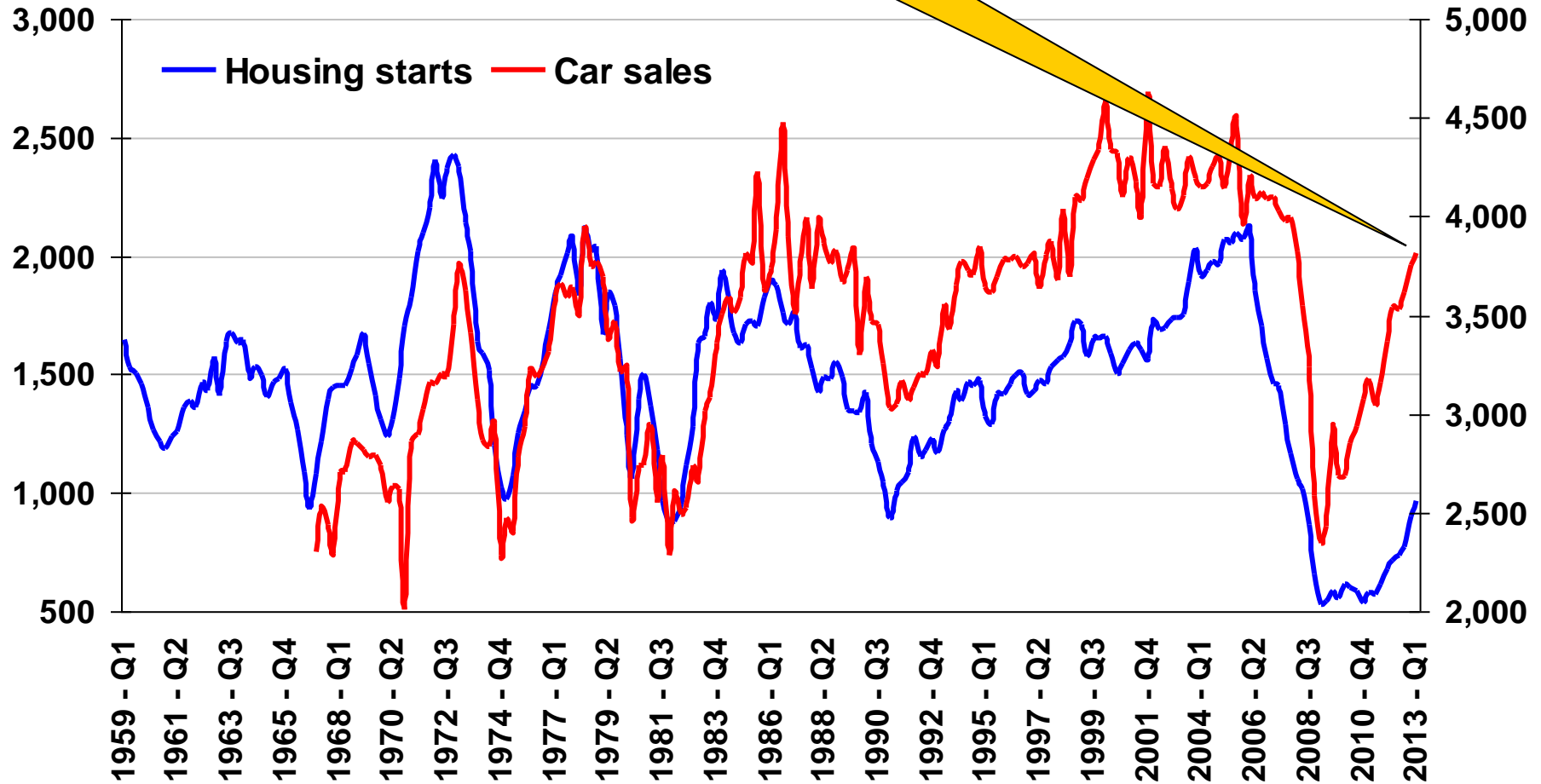
**Policies that  
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# Euro zone: Watch the politics



# US: Green shoots

Recovery!



US: Housing starts, car sales, '000s. Source: Haver.



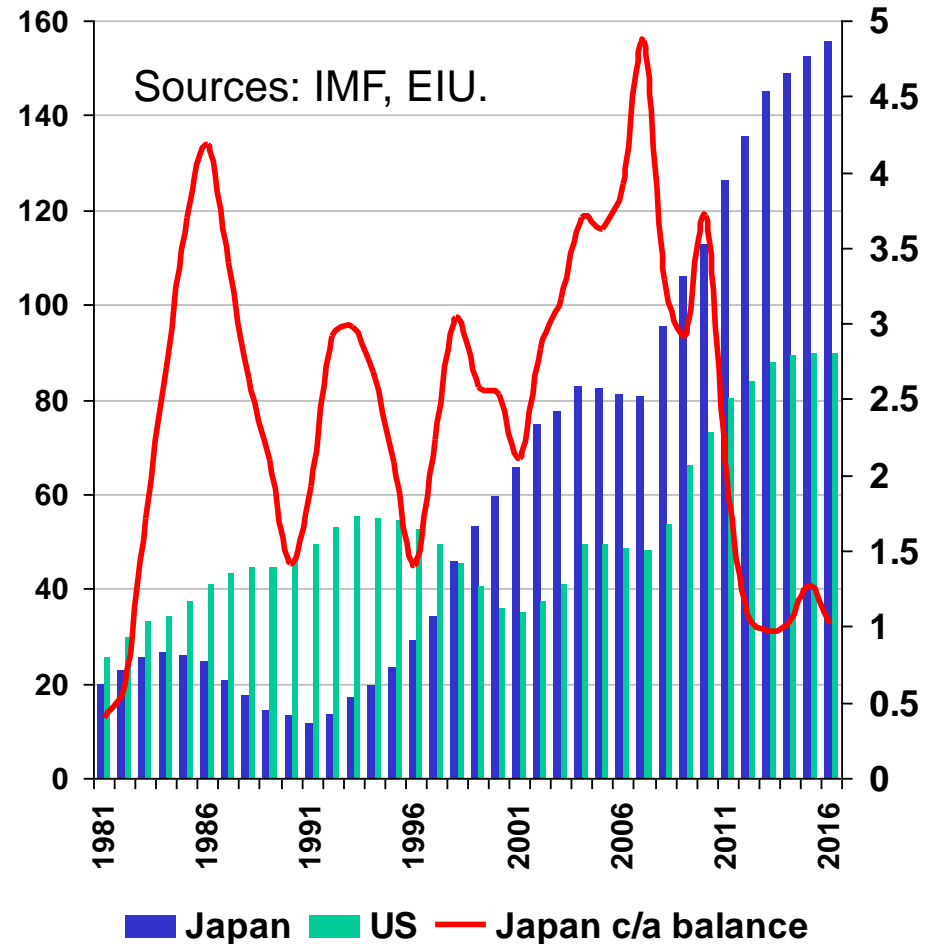
# Japan: Abenomics—be careful what you wish for

## Positive

- A weaker yen will boost net exports—domestic demand is too weak to do this on its own
- Japan could then import foreign demand
- Stimulus will boost nominal GDP and hence tax revenue, reducing debt ratios
- Japan is in an economic cul-de-sac, so why not try something different?!

## But

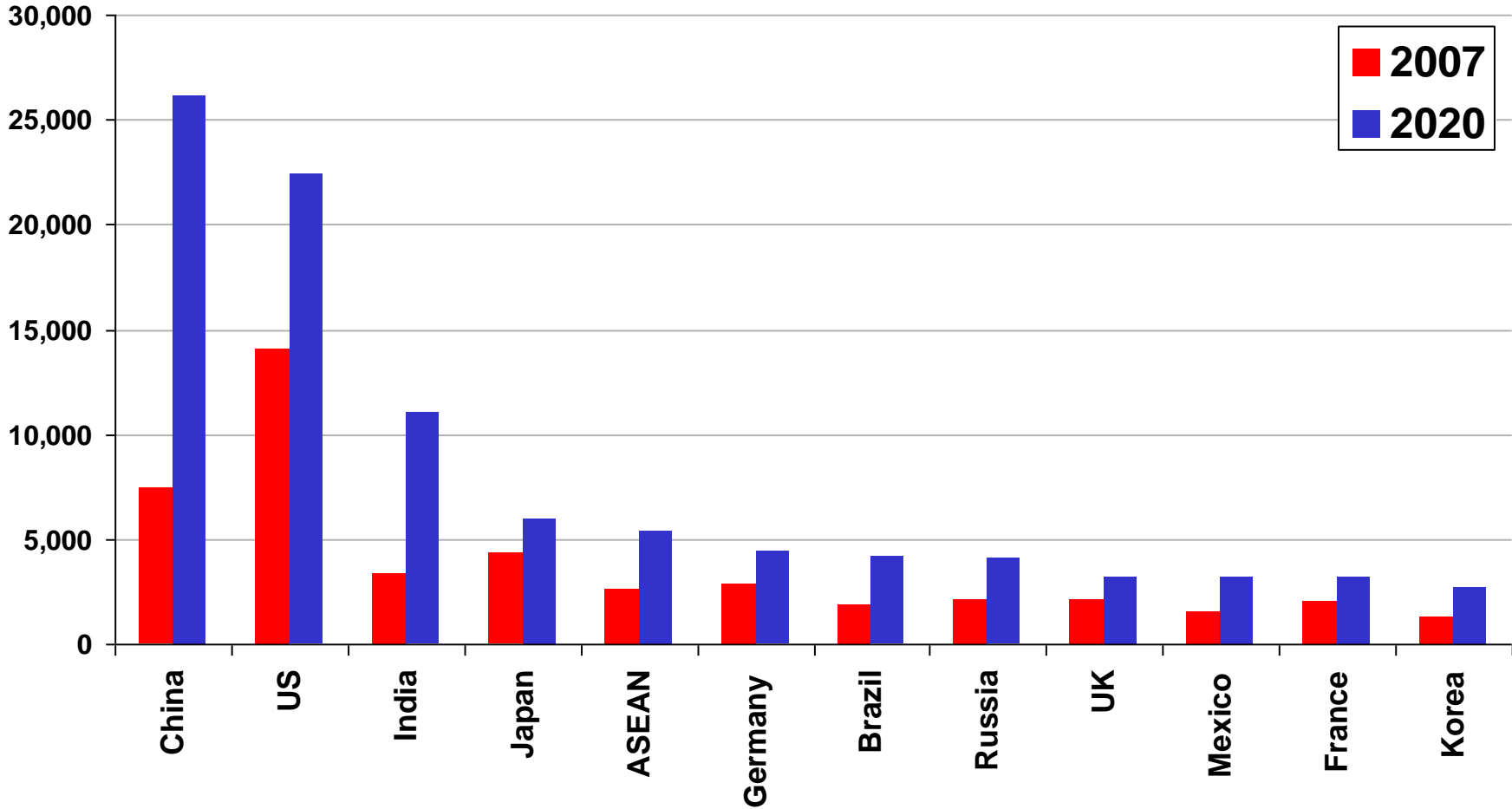
- Extreme macro policy can reduce trend growth through distortions/zombie proliferation
- Ending deflation won't automatically boost growth
- Internal currency wars suggest the yen won't weaken as much as it needs to (>¥120:US\$1?)
- In the short term, deflation needs to continue to keep real rates high, which keeps cash at home
- If inflation takes off, “independent” central bank may be needed to rein in prices



Net govt debt/GDP, c/a balance %.

High-growth markets  
China centric?

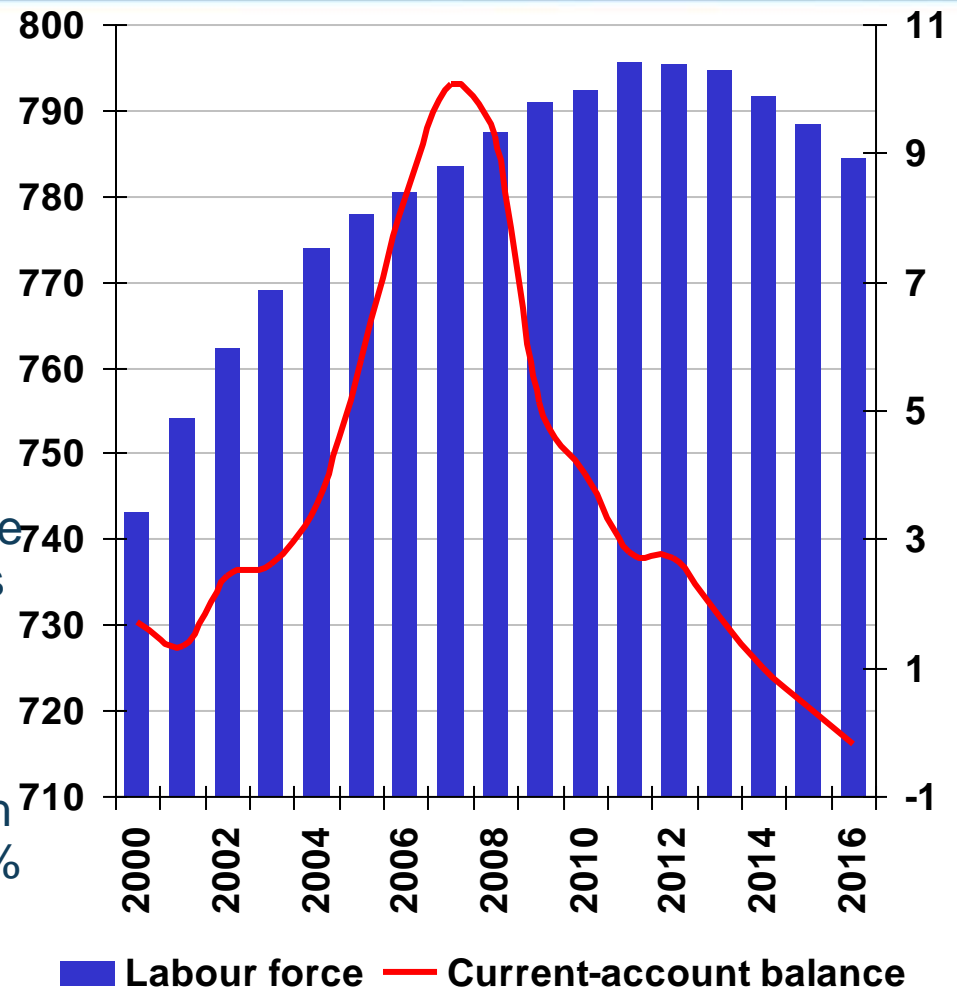
# Asia—five of the top 12 in 2020



GDP, purchasing power parity; US\$ bn. Source: Economist Intelligence Unit.

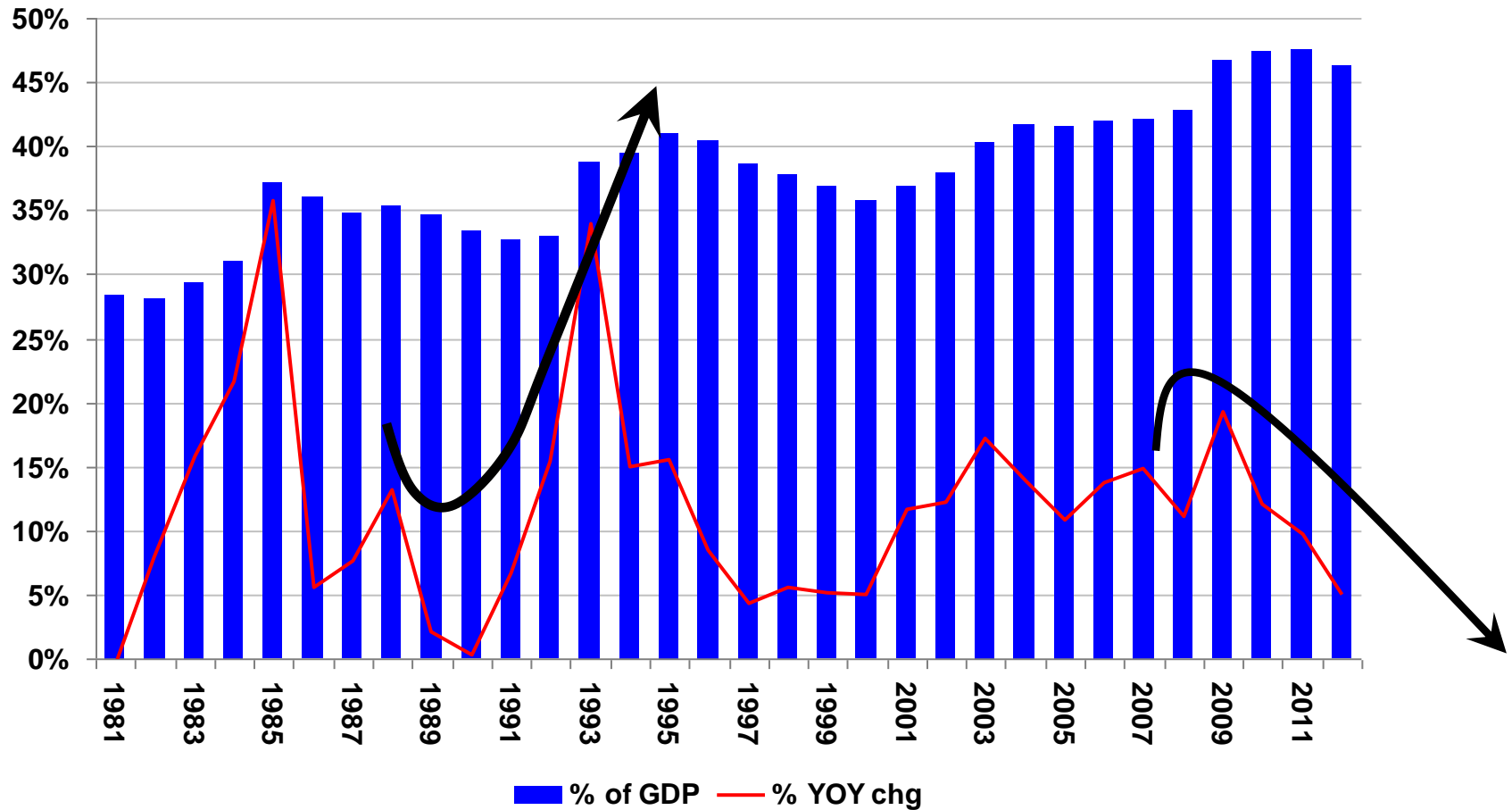
# China: At a crossroads

- China is moving to a period of structurally lower growth—less growth “needed” now
- New leadership will take a cautious approach to policy
- Economic rebalancing is under way—private consumption will increasingly drive growth
- Lower level manufacturing will be shed to Asia as the shift towards higher-value added products/rising wages continues
- A relaxation of the *hukou* residence permit system would accelerate urbanisation
- RMB trading band will be widened, with RMB set to appreciate by just under 1% a year against US\$ in the next five years



Labour force, m. C/a balance, % of GDP. Source: EIU.

# China: Investment provides less bang for buck now



Fixed asset investment and growth: Source: China National Bureau of Statistics, EIU.

# China: Mega-urbanisation

Year in which average disposable income per capita exceeds RMB30,000

**2009**

Dongguan

**2011**

Hangzhou  
Guangzhou  
Ningbo  
Suzhou  
Shenzhen  
Shanghai

**2012**

Beijing  
Jinan  
Nanjing  
Wuxi  
Xiamen

**2013**

Baotou  
Hohhot  
Qingdao  
Taizhou  
Tianjin  
Yantai

**2014**

Changsha  
Dongying  
Maanshan  
Wuhan  
Xi'an  
Yangzhou  
Zhongshan  
Zibo

**2015**

Fuzhou  
Langfan  
Harbin  
Hefei  
Jining  
Linyi  
Nanchang  
Shenyang  
Shijiazhuang  
Tai'an  
Tangshan  
Weifang  
Xiangtan  
Xiangfan  
Xuzhou  
Zhengzhou  
Zhuzhou

**2016**

Anyang  
Changchun  
Chengdu  
Dalian  
Guilin  
Huainan  
Jiaozuo  
Kunming  
Luoyang  
Nanning  
Pingdingshan  
Wuhu  
Zhangjiakou

**2017**

Anshan  
Datong  
Hengyang  
Liuzhou  
Panzhuhua  
Qinhuangdao  
Xiangfan  
Zhaozhuang  
Zhuhai  
Zunyi

**2018**

Changde  
Guiyan  
Haikou  
Huainan

**Jilin**

Chaoyang  
Taiyuan  
Xingtai

**2019**

Daqing  
Huaibei  
Qiqihar

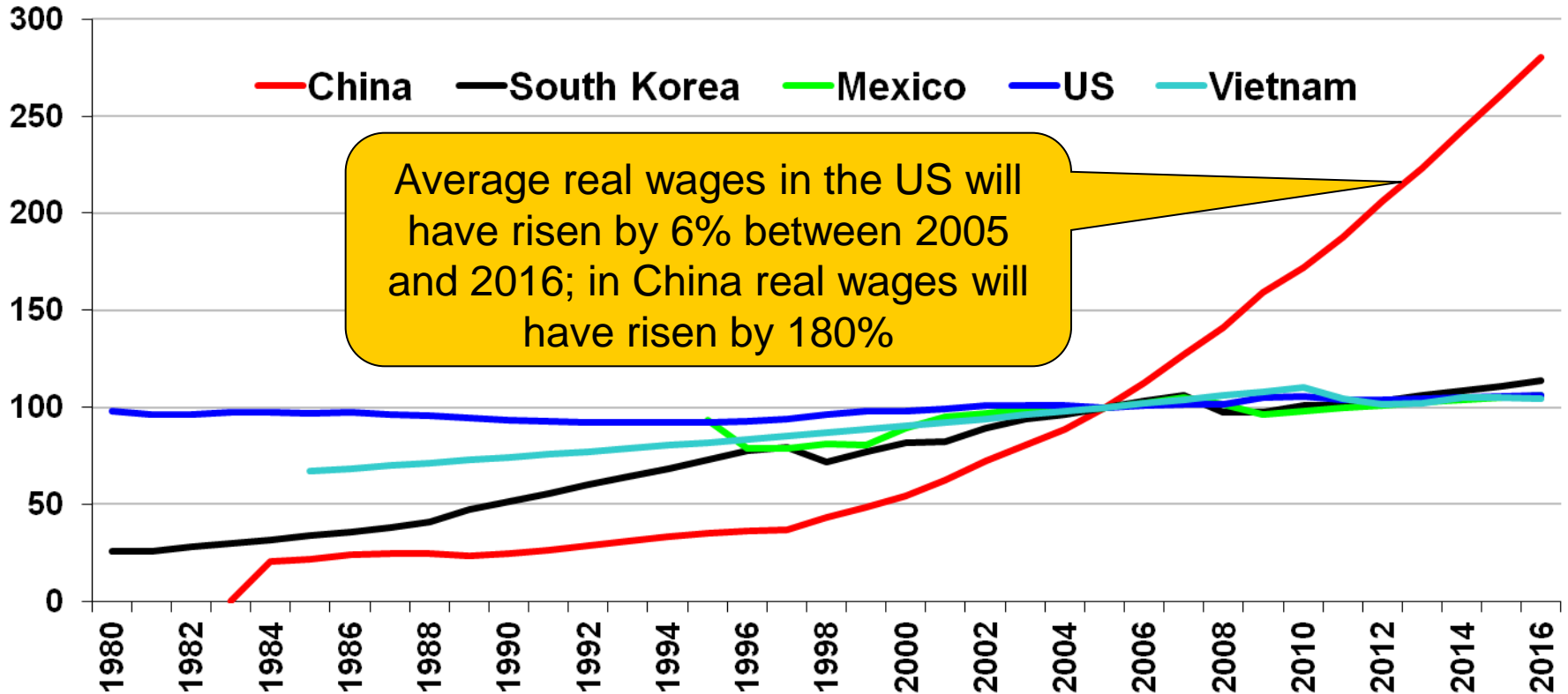
Source: Access China,

Economist Intelligence Unit.

Download CHAMPS report for free at

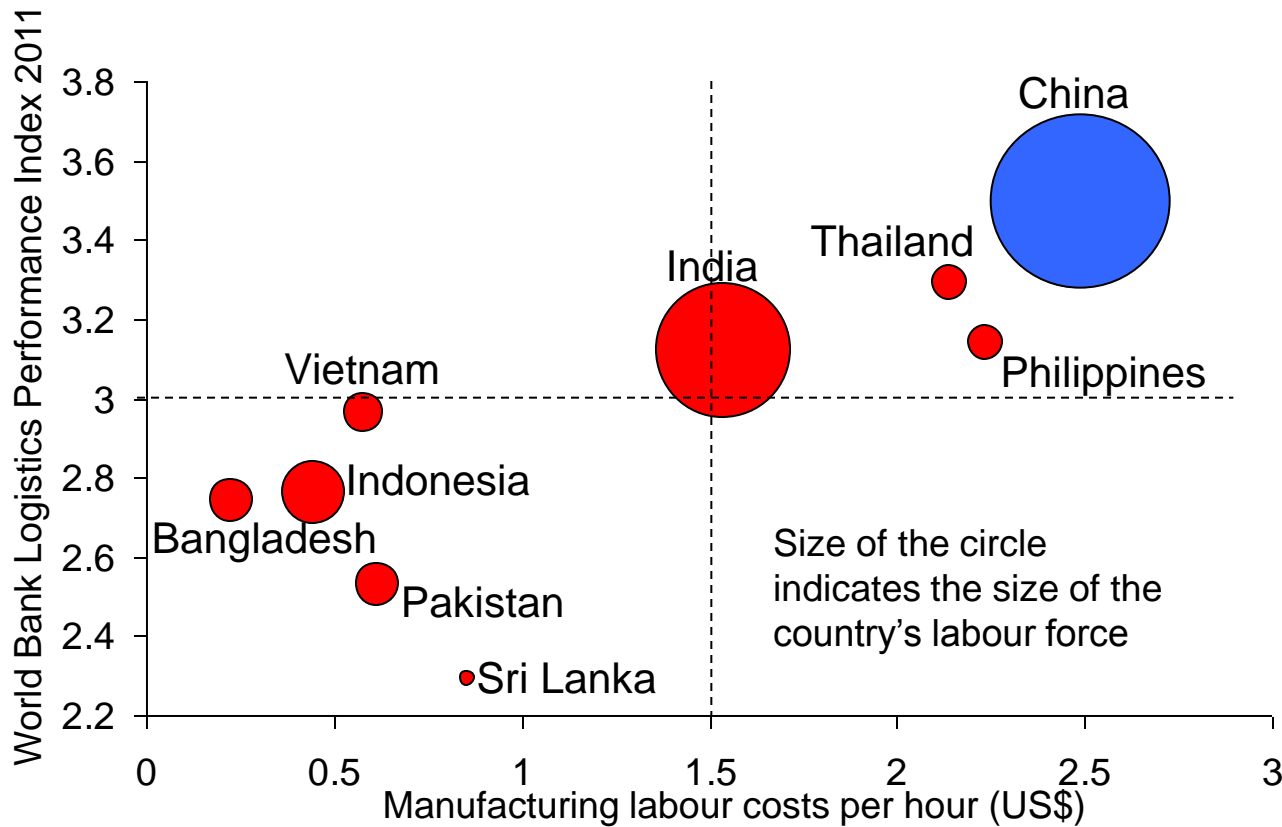
<http://www.eiu.com/public/accesschina/marketing.aspx>

# China's wages are rising quickly

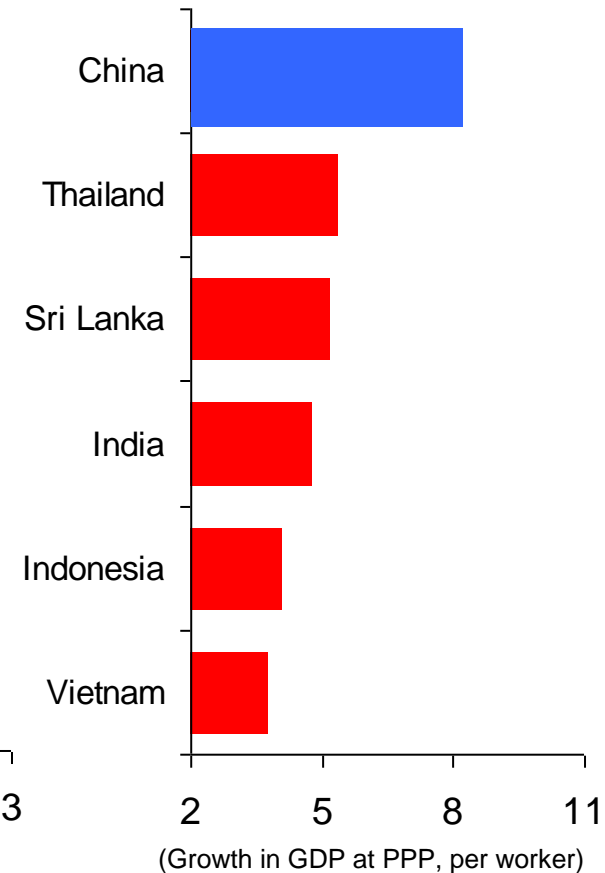


# EMs: Are there any other Chinas out there?

Labour costs vs logistics vs labour force



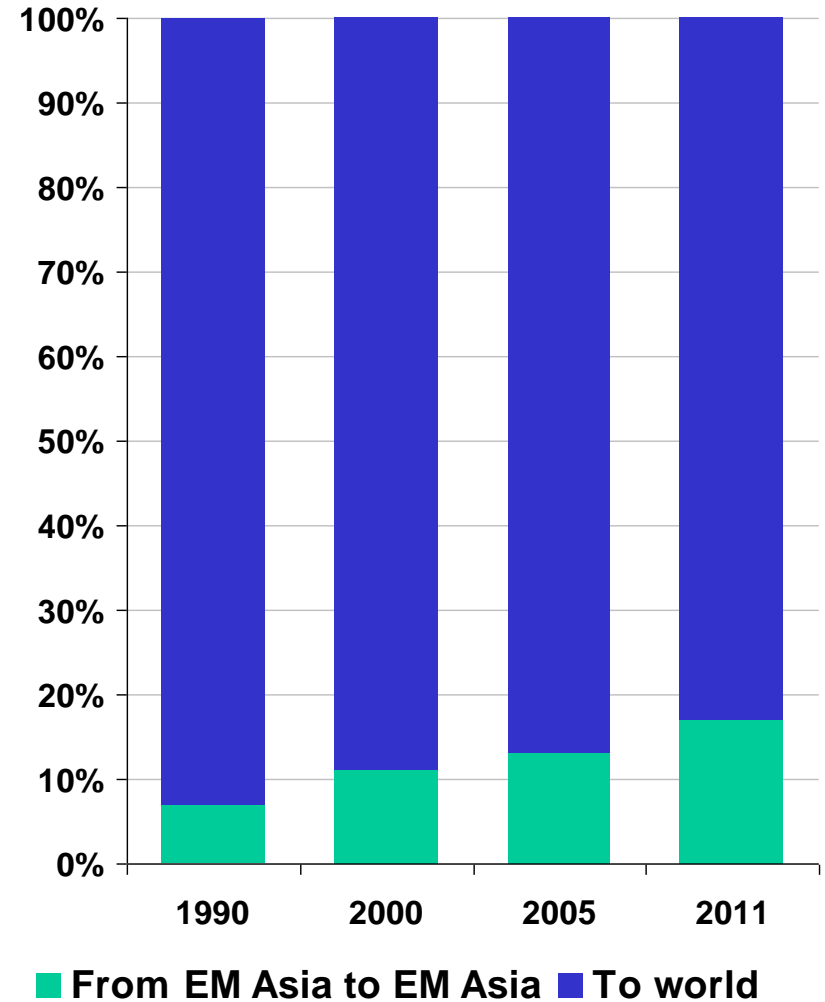
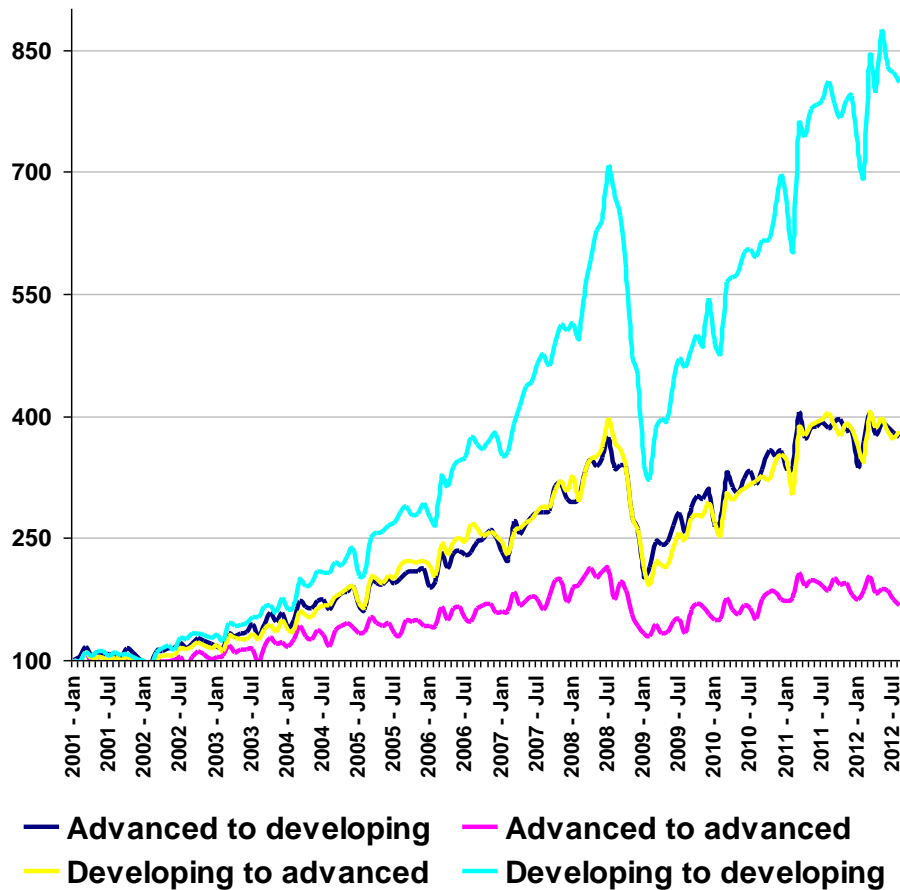
Labour productivity growth (% per annum)



Source: EIU CountryData 2012, World Bank



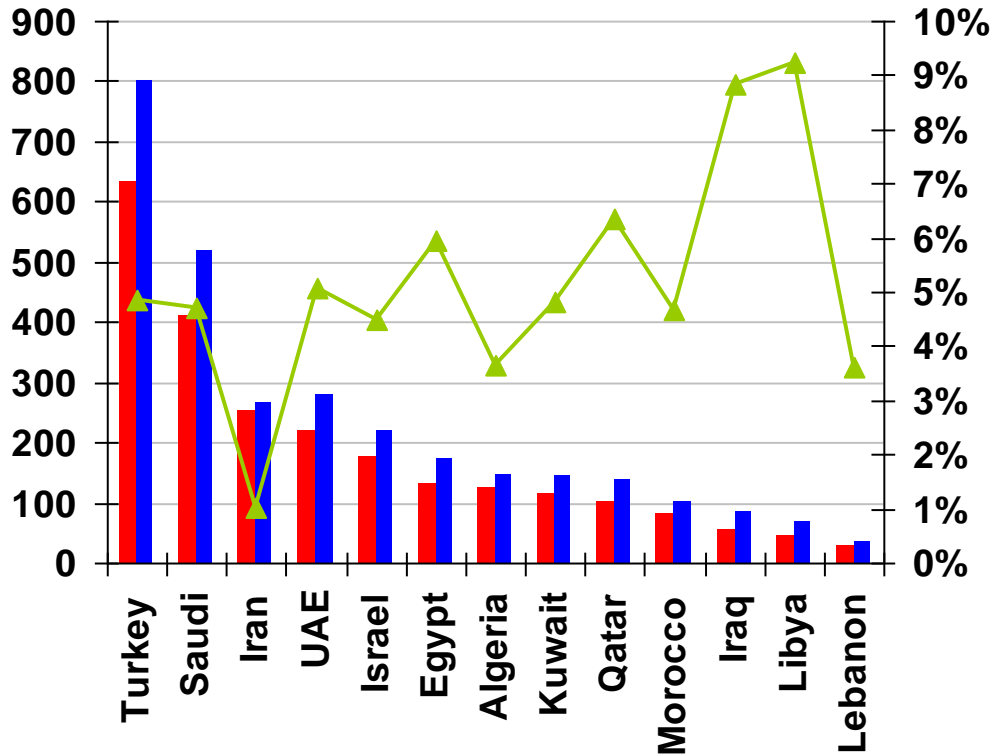
# EMs: China stimulates South-South trade



Exports. Em Asia, IMF definition. Source: IMF.

# Africa: The final frontier

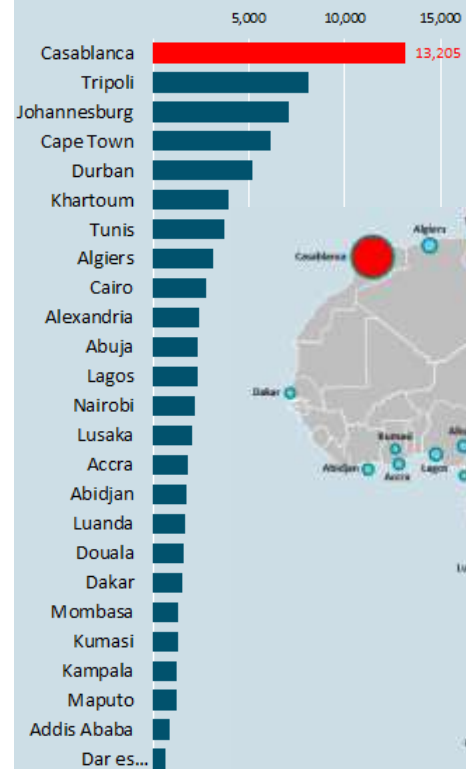
2012 2017 CAGR



## The rise of African consumers

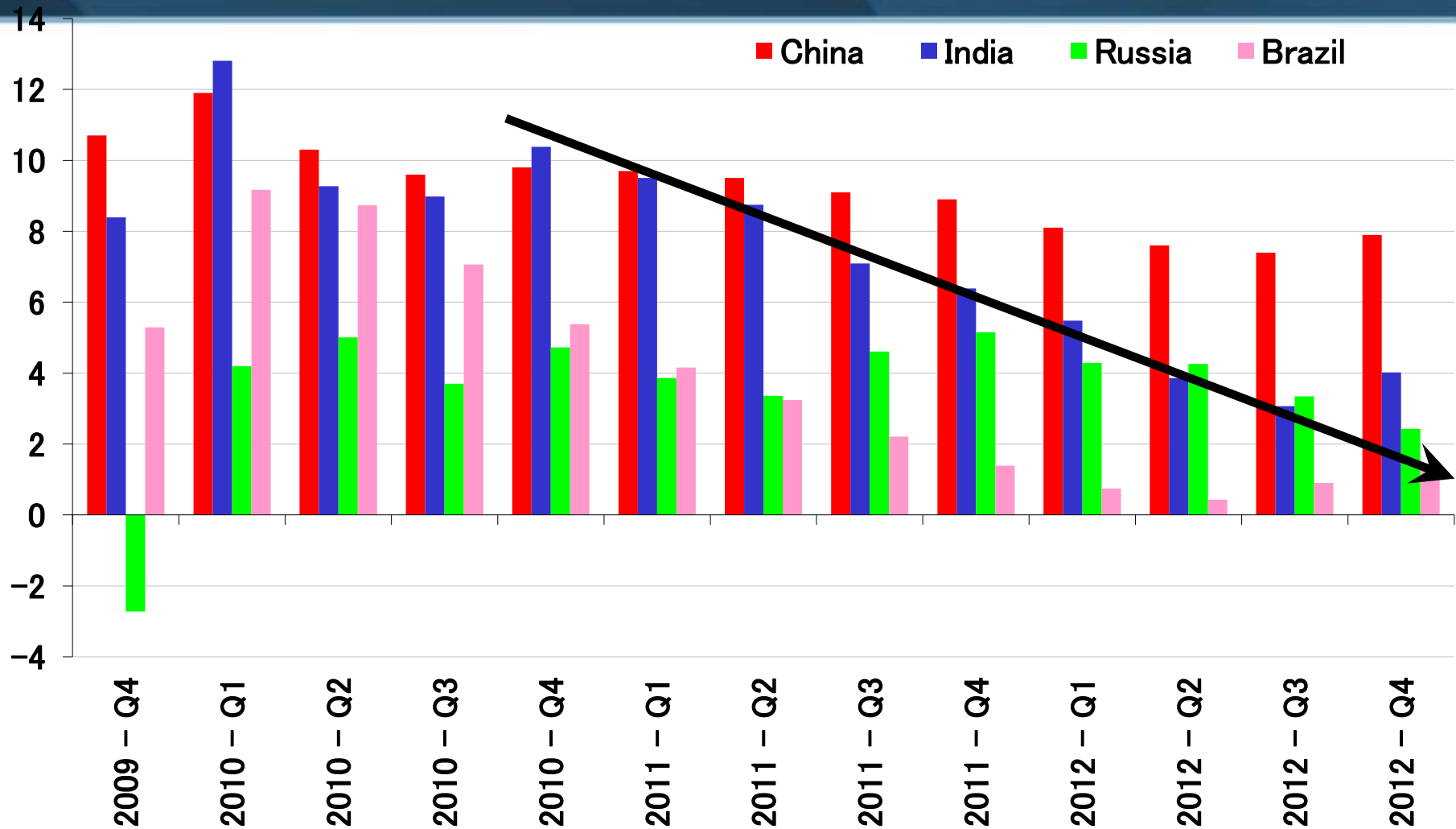
### Total expenditure per capita

US\$ / capita  
2012



MENA's largest economies, real GDP growth, %; US\$ bn; 2005 prices. Source: EIU, CountryData.

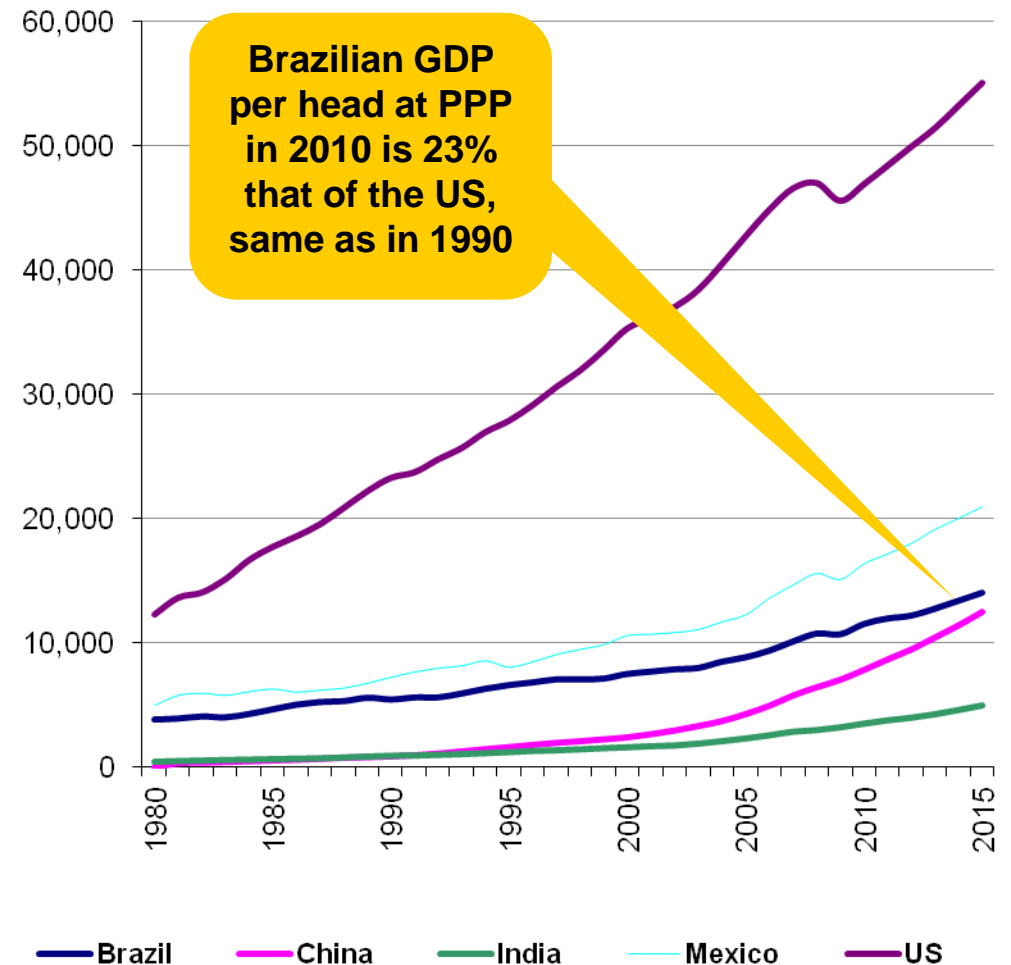
# The BRICs: So yesterday!



Real GDP growth, % change, year on year. Sources: Haver, EIU.

# Latin America: A mixed bag

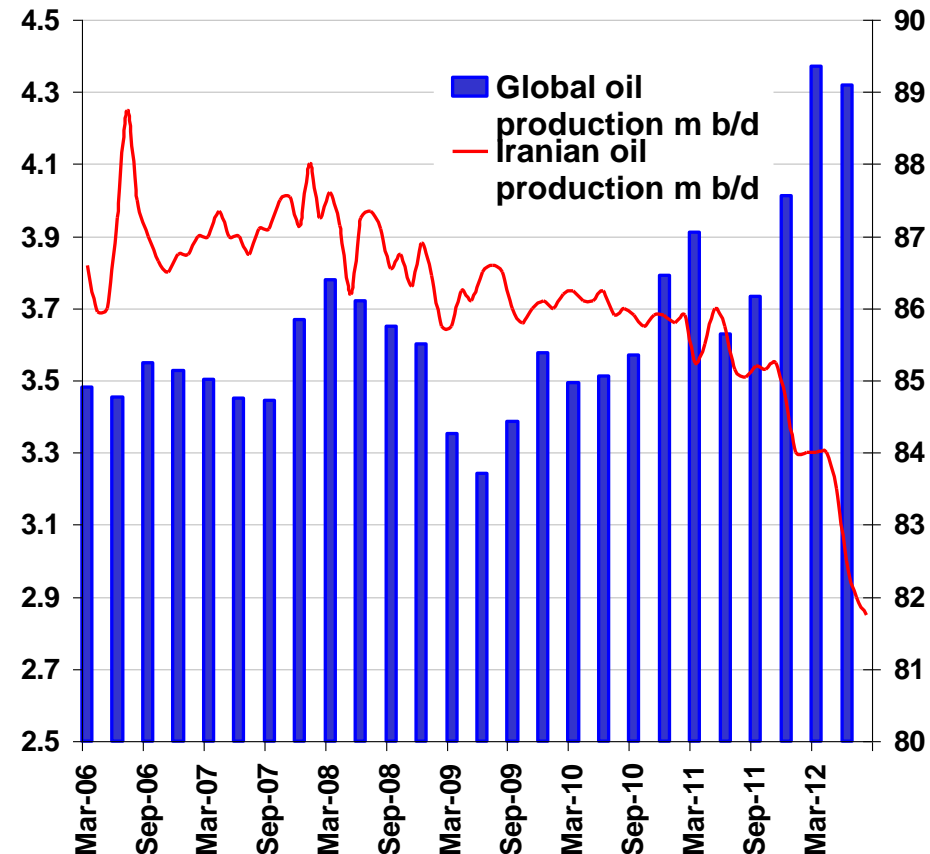
- Slowdown in 2012; external headwinds
- Region is expected to grow around 4% annually in 2013-16
- **Panama, Peru, Chile and Colombia** among the top performers, with annual rates of 5% to 6%
- Most other countries to grow faster than the global annual average
- **Brazil** needs to reform; **Mexico** is driven by trends in the US and also needs structural reforms



GDP/head as % of US GDP/head, PPP. Source: EIU.

# Oil: Demand weakness raises downside risks

- Global oil consumption to grow just 1% this year and 1.3% in 2013; OECD consumption in structural decline
- Supply rose by 3.3% in 2012, 2.5% in 2013: Iraq, Saudi Arabia and the US!
- The market should be in surplus and prices lower, but the risks are high
  - Iran
  - Syria, Yemen, Sudan, North Sea
  - China bounces back more strongly than anticipated
  - Non-fundamental factors are positive for prices: loose monetary conditions, ample liquidity



Oil production trends. Source: IEA.

# Risk factors for a broad-based EM crisis

## China

- Hard landing
- Social unrest political instability

**15%  
chance**

## Euro zone break-up (exit of large member state(s))

- Damage to global financial system, real economy

**20%  
chance**

## Steep rise in interest rates in developed world

- Possibly associated with exit from QE

**15%  
chance**

Dei ex machina

# Top business issues

- Hyper-globalisation
  - Chinese car firms come to Europe
- Manufacturing revolution
  - Rising Chinese wages
    - Helps other emerging countries
  - Erosion of economies of scale
    - Mass customisation and shrinking supply chains
    - Additive manufacturing (3D printing)
- Emerging market innovation
  - New business models, e-commerce, mobile banking
  - China produces a worldwide brand—Alibaba, Huawei, Haier?
- Managing for growth markets—Asia a growth market hub?



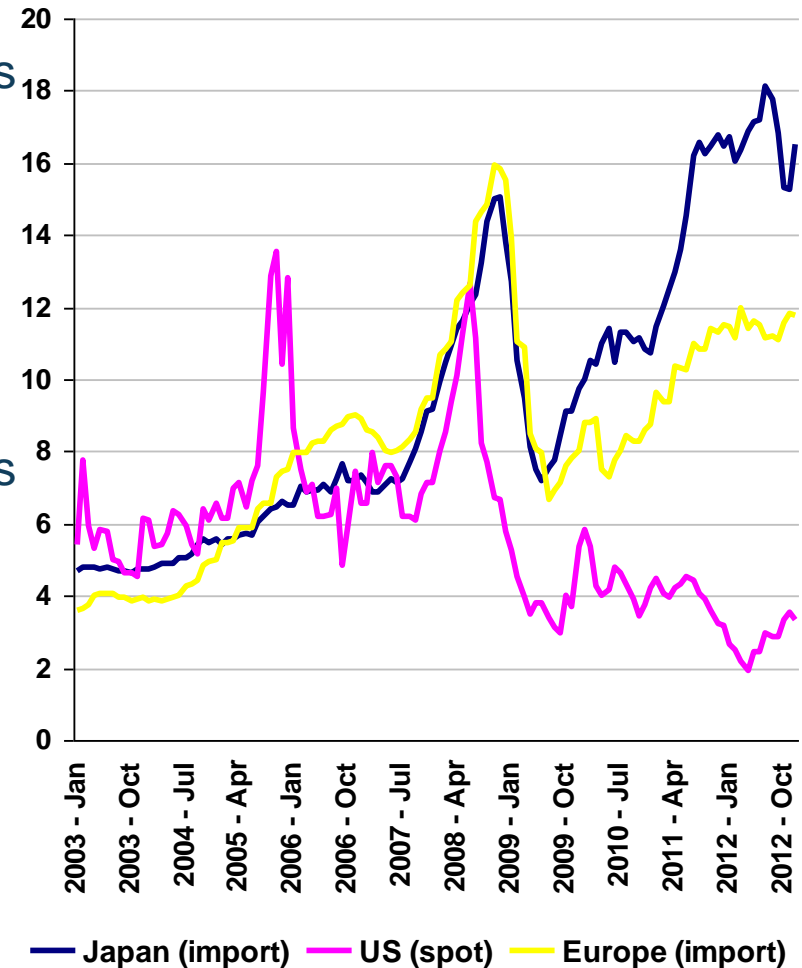


# US gas: A global game changer?

- US gas exports could lower global gas prices—first licence already granted, others may follow
- Rising US gas production allowing fuel-hungry industries (aluminium, PVC etc) to move back to the US
- Some convergence between US and other global gas prices is likely
- Australia at risk from lower gas prices—gas infrastructure build-out for Gorgon project slated to cost US\$52bn (and rising)
- China has large shale gas reserves, but accessibility problems and poor regulatory environment are holding back investment

BUT:

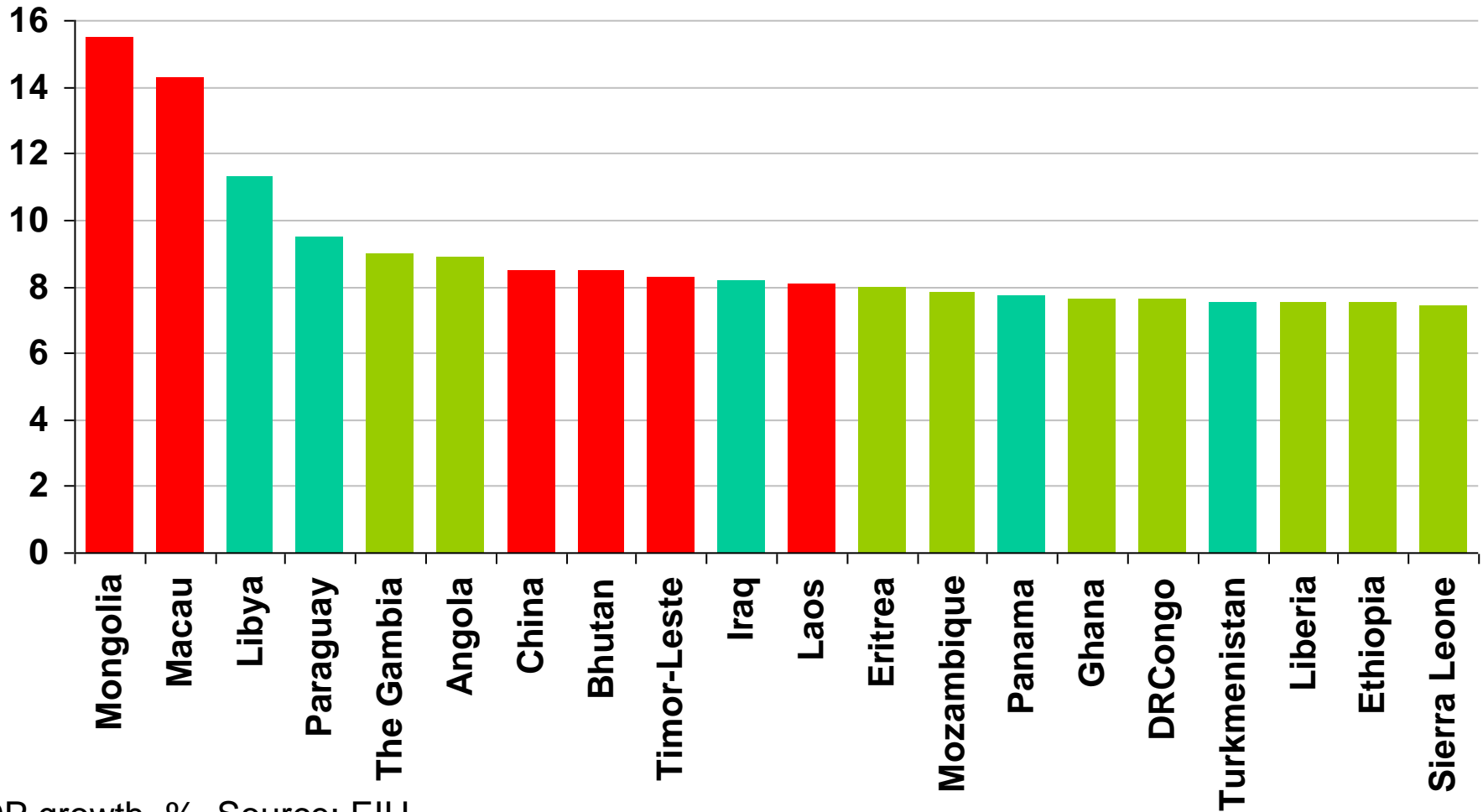
- Fields deplete quickly
- Environmental issues about



Natural gas prices, US\$/mmbtu. Source: World Bank.

The winners in 2013 are...

# Global round-up: The top 20 fastest-growing economies in 2013



GDP growth, %. Source: EIU.