Development Outlook in East Asia and Pacific

Presentation at the Timor Leste & Development Partners Meeting
June 19, 2013
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THE SHORT RUN

Global growth is picking up

Quarterly GDP growth, annualized


East Asia and Pacific Continues to Outpace Others

Annual GDP growth, %

Source: World Bank, Global Economic Prospects 2013B.

Short Term Risks

Old Ones are Fading
• Eurozone
• Fiscal Cliff
New Ones Emerging
• Strong capital flows and asset bubbles
• Impact of Abenomics
• Quantitative Easing Phase Out
• China slowdown and Commodity Prices

Capital flows to developing countries have rebounded

Gross international capital flows to developing countries, billions USD

Source: World Bank, Dealogic.
Industrial commodity prices are easing due to new supply


Global commodity supply is responding to resource investments


Will shale gas come to Asia?

United States Energy Prices 2000-2012

THE LONG RUN

A Changing World

Developing countries' share of global GDP (PPP, Constant 2005 International $) and their contribution to global GDP growth (PPP, Constant 2005 International $)

East Asia and Pacific most rapidly urbanizing

Getting older....

Only Timor Leste Not Aging for a Long Time to Come

Increasingly Middle Income

And Middle Class

Still lots of poor

Far to grow
Structural Change key for Rapid Rise in Labor Productivity

productivity growth 1999-2008


Countries are increasingly tied into 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

The Challenge of Distance

Few middle income economies became rich, but many of those are in EAP
(Per capita income relative to the United States, 1960 and 2008)

Source: World Bank and Development Research Center 2012, China 2030

China Rising, and Changing

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

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<td>GDP growth (percent per year)</td>
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<td>Labor growth</td>
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<td>Labor productivity growth</td>
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<td>Structure of economy (end of period, %)</td>
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<td>Investment/GDP ratio</td>
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<td>Share of employment in agriculture</td>
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<td>38.0</td>
<td>23.7</td>
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<tr>
<td>Share of employment in services</td>
<td>34.1</td>
<td>40.0</td>
<td>47.6</td>
<td>52.9</td>
<td>56.0</td>
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Source: DRC

THE CHALLENGE OF SOCIAL COHESION
Poverty has fallen dramatically
(Poverty headcount at $2/day)

The pace of poverty reduction is slowing
Reduction in number of people living on less than US$2 a day, in millions

Inequality on the rise

High Share of Vulnerable Employment

Youth unemployment high in some places, notably the Pacific

Underutilized Women in Some Places

Growth has created jobs, although less in EAP than in some other regions

Long-term employment elasticity to GDP growth


Small and Medium Enterprises Create most jobs

New Businesses Create Lots of Jobs

Employment Creation 2006-10 by age of the firm as share of total employment change

Not always easy doing business

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
• Demographics and a rising China offers opportunities for young countries
• Connectivity, business environment and human capital key to success in a changing world