Time to Realize the Opportunities for Growth?
Growth and Stagnation in the World Economy

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Optimism seems to be in the air …
Consumer confidence in the U.S. remained near its post-crisis high with expectations maintaining its momentum.

Note: Shaded area represents a recession.
Sources: Nielsen, TNS, The Conference Board.
Quarterly CEO confidence in U.S. keeps improving, providing some hope for more investment

Note: Shaded areas represent recessions.
Sources: Bureau of Economic Analysis, The Conference Board
Even globally, consumers are reasonably optimistic
Time to realize the opportunities for growth?
Is the optimism confirmed by the facts?
Five short-term trends do not give much hope for major acceleration of global growth in 2014 and 2015

1. Among mature economies only **United States** shows most potential for continued faster growth beyond 2014

2. **Europe** and **Japan** are struggling to remain competitive in global economy while fighting off deflation

3. Gradually slowing economic growth in **China, India** and **South America** – **Southeast Asia** and **Africa** create a small positive

4. **Elevated risk of financial crisis in China**—freeze of capital markets, drastic cuts in investments

5. **Russia (and Ukraine), Western Asia** and the **Middle East** on the borderline of free market economies and autocratic command economies
Quarterly growth rates remain volatile reflecting mature economies’ struggle to get on a sustainable growth path.

Source: Haver Analytics
Unemployment rates come down only gradually while labor participation rates drop or stay low

Source: The Conference Board International Labor Comparisons Project, Eurostat
Leading Economic Indicators suggest some levelling off in the expansionary phase of the business cycle - Japan portrays more weakness

Source: The Conference Board
Emerging markets remain at lower end of growth cycle, but divergence between Asia and South America apparent

-30 -20 -10 0 10 20 30
2006 2007 2008 2009 2010 2011 2012 2013 2014
China (Mar '14)
India (Mar '14)
TCB/FGV Brazil (Mar '14)
Mexico (Feb '14)

Source: The Conference Board
Even as growth in China slows, investment remains too much of a growth driver and falling returns

**Key Assumptions**

- Export environment improves only marginally
- Fiscal impulse as a percent of GDP remains stable
- Real household consumption growth remains flat; despite higher prices
- Investment growth reverts back to its 2012 pace

**Sources:** NBS, CEIC, The Conference Board
Low labor compensation in manufacturing industries has been key to competitive advantage for emerging economies, but costs have been rapidly rising.

Hourly compensation costs in manufacturing, selected economies and regions, as a percentage of costs in the United States, 2000–2012

Note: Data for China refer to 2002–2009. Data for India refer to 2000–2010 and correspond to the organized (or formal) manufacturing sector only. Due to limitations with official Chinese and Indian data sources, compensation estimates for China and India are not directly comparable to compensation estimates for other countries. The Euro Area includes EU member states that have adopted the Euro as of January 1, 2011, except Cyprus, Luxembourg, Malta, and Slovenia. Eastern Europe includes the Czech Republic, Estonia, Hungary, Poland, and Slovakia. East Asia ex-Japan includes the Philippines, Singapore, South Korea, and Taiwan.

Unit labor costs drastically vary between emerging markets as productivity and wage gaps between countries do not align.

Manufacturing labor productivity, labor compensation and unit labor cost, 2011, USA=1

Source: The Conference Board
Update of global outlook suggests slight downward trend in near-term projections

**Europe includes 27 members of the European Union (excluding Croatia) as well as Switzerland and Norway.
**Other mature economies are Australia, Canada, Iceland, Israel, Hong Kong, South Korea, New Zealand, Singapore, and Taiwan Province of China.
***Southeast Europe includes Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and Turkey.

In medium term slowing sources of growth dominate – hence looking for growth opportunities is crucial
Long term global trend will be slowing in mature economies, but much more dramatically in emerging markets.

GDP Growth (projected and trend growth), year over year % change

*Europe includes all 27 members of the European Union (excl. Croatia), as well as Switzerland and Norway.
**Other advanced economies are Australia; Canada; Iceland; Israel; Hong Kong; Korea; New Zealand; Singapore; and Taiwan Province of China
*** Southeast Europe includes Albania, Bosnia & Herzegovina, Croatia, Macedonia, Serbia & Montenegro, and Turkey.

Five reasons why base scenario global growth will slow over the next decade

6. Aging of population in mature economies has increased labor market shortages, especially for skilled labor, and reduces potential to accelerate productivity rapidly

7. Even the largest emerging markets may begin using up their demographic dividend

8. Global demand shifts to emerging markets continue but at much slower pace than in previous decade

9. Prospect of slow productivity growth in emerging economies as the transition to consumer- and services-driven economies proceeds

10. Slow pace of globalization with narrow trade agreements, coordination hurdles in dealing with environmental challenges and major imbalances in energy supply and demand
In coming decades, labor force growth will also likely slow worldwide and become flat across mature economies.

<table>
<thead>
<tr>
<th>Labor force</th>
<th>Million workers</th>
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<tr>
<td>Global aggregate</td>
<td>2,143 (1990) to 3,464 (2030E)</td>
</tr>
<tr>
<td>Developing economies(^1)</td>
<td>1,726 (1990) to 2,355 (2030E)</td>
</tr>
<tr>
<td>Mature economies(^2)</td>
<td>417 (1990) to 494 (2030E)</td>
</tr>
</tbody>
</table>

\(^1\) Includes 45 countries from the Young Middle-Income, China, India, Young Developing, and Russia & CEE clusters.

\(^2\) Includes 25 countries from the Young Advanced, Aging Advanced, and Southern Europe clusters.

Sources: United Nations Population Division (2010 revision); ILO; local statistics for China and India; McKinsey Global Institute analysis.
The shift of economic activity from mature to emerging markets will continue, creating increased purchasing power, but at slower pace.

Region Shares in Global Output
(PPP-converted levels of GDP)

*Europe includes all 27 members of the European Union (excl. Croatia), as well as Switzerland and Norway.
**Other advanced economies are Australia; Canada; Iceland; Israel; Hong Kong; Korea; New Zealand; Singapore; and Taiwan Province of China
*** Southeast Europe includes Albania, Bosnia & Herzegovina, Croatia, Macedonia, Serbia & Montenegro, and Turkey.
The change towards a larger middle class in emerging markets is even bigger than the shift in GDP

Distribution of Population in Global Rich and Middle Class*, %

2009 (N = 1.561 bln)  
- Mature economies
- Developing G20 economies

2030 (N = 2.549)  
- Mature economies
- Developing G20 economies

Note: Global Rich and Middle Class are all individuals with a per capita income above $4,000
Demographics are challenge for Japan and Europe – accelerating productivity is the key to faster growth

Rebalancing investment and productivity is main challenge for the largest emerging markets

The 30-70% switch in global trade changes the ballgame for trade negotiations entirely

Trade (exports and imports) as percentage of total world trade

Trade relations will shift rapidly to emerging markets, especially China

U.S. and China’s Share of Trade (Exports & Imports) by Country, 2050

Emerging markets are rapidly gaining share in global manufacturing value added

Share of GVC income in global manufacturing

Sources: WIOD, The Conference Board
Note: * BRIIAT includes Brazil, Russia, India, Indonesia, Australia, and Turkey.
While the US will become energy net self-sufficient, China and Europe will increasingly rely on imports of gas and oil.
Time to realize the opportunities for growth?

- **In the short-term, growth will depend on:**
  - Orderly adjustments to monetary and fiscal stances around the world
  - Bring down unemployment, grow wages and restore purchasing power
  - Return to investment in growth in mature markets
  - Commitment to labor, capital and product market reforms, especially in emerging markets

- **In the medium-term, growth will depend on:**
  - Tackle long-term demographic challenges through entitlement and educational reforms
  - Conclude comprehensive trade and other multilateral agreements
  - Manage a transition to a more sustainable path to tackle environmental challenges in climate change and shifts in the global energy market
  - Focus investment agendas on innovation to drive productivity