

# Asia 2010+

Trends determining Emerging Asia's future



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# Overview

**1**

**Asia's current business environment**

**2**

**Asia as a global growth centre**

**3**

**Asia's vulnerabilities**

**4**

**Conclusion and outlook**





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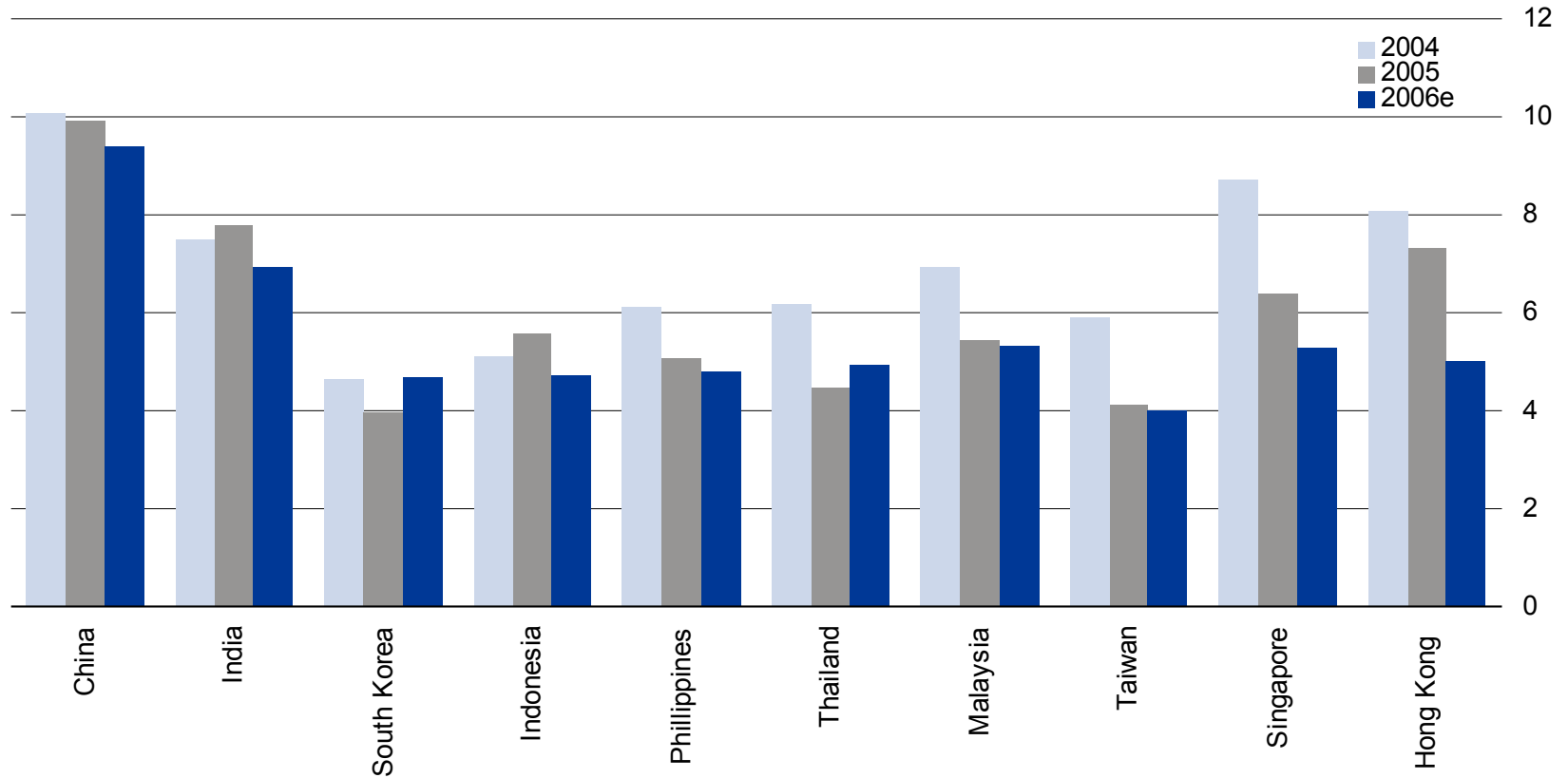
**4** Conclusion and outlook





# High real GDP growth,...

Real GDP growth, % yoy

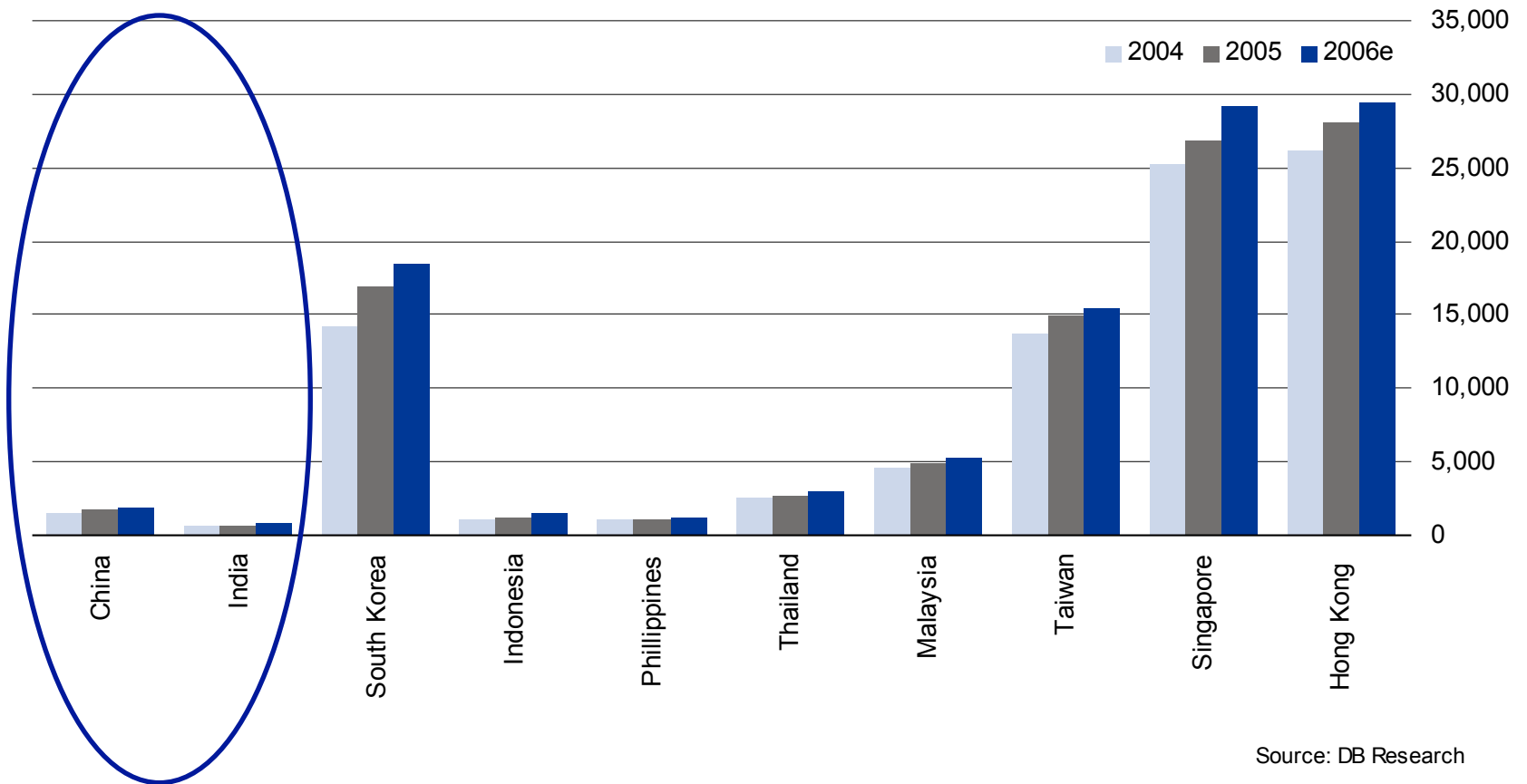


Source: DB Research



# ... but relatively low GDP per capita in some countries

GDP per capita (nominal, USD)



Source: DB Research



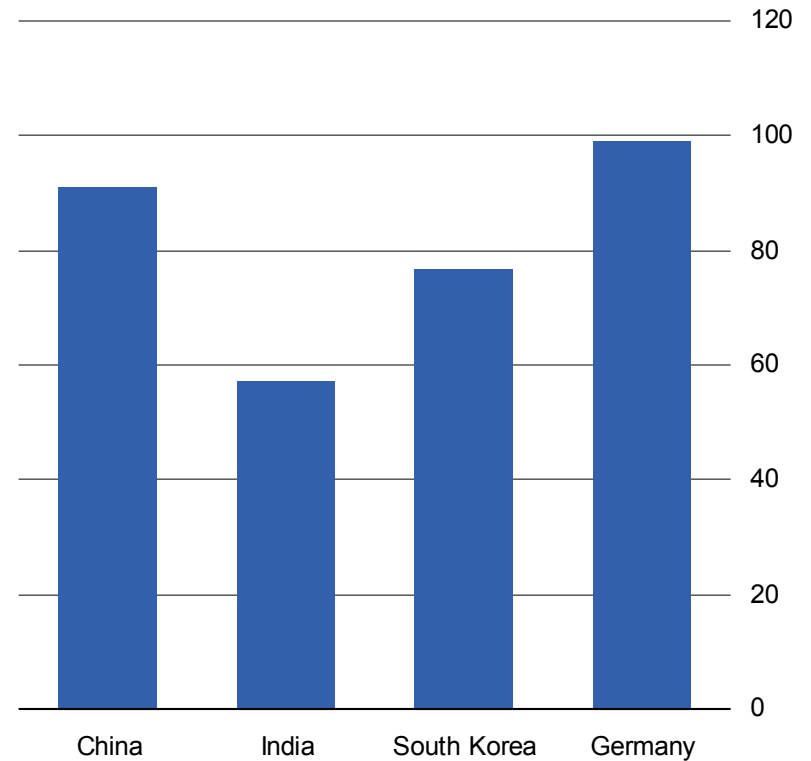


# Still huge infrastructure needs



Buckle up!

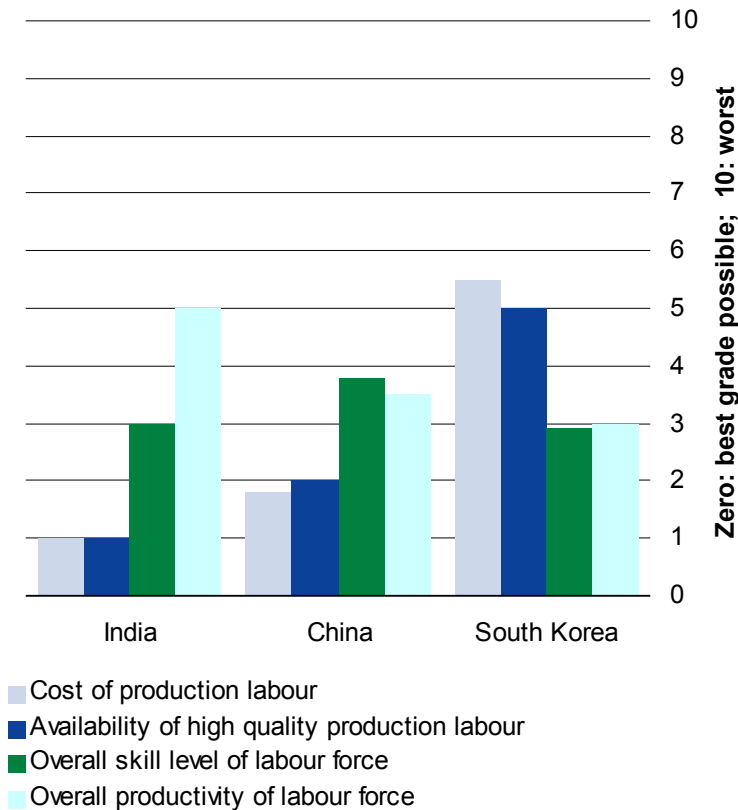
Paved roads, % of total roads



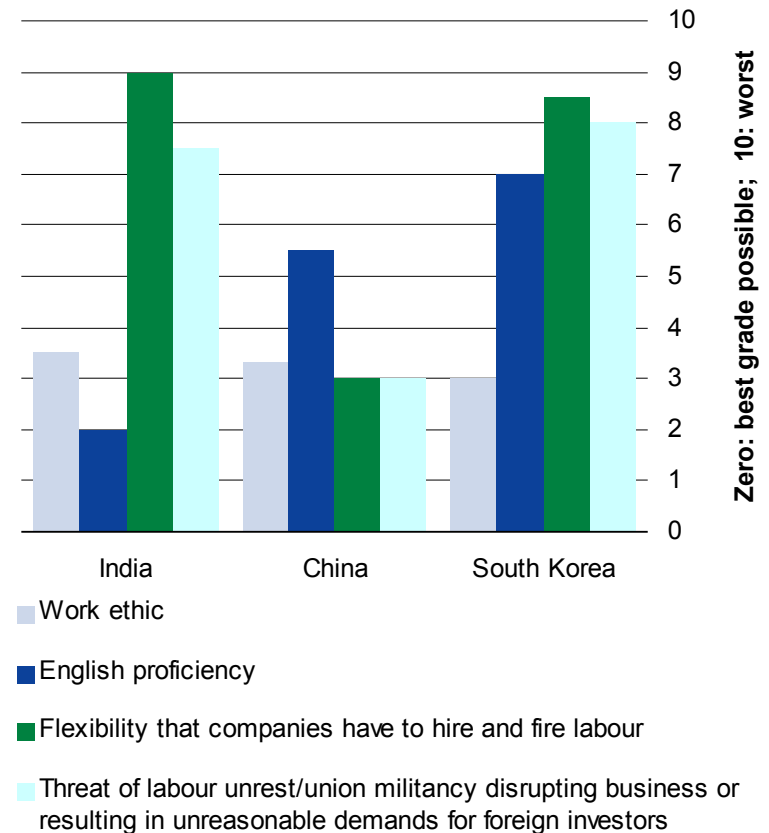
Source: World Bank (latest available data)



# Inexpensive, qualified and productive labour force with good work ethics...

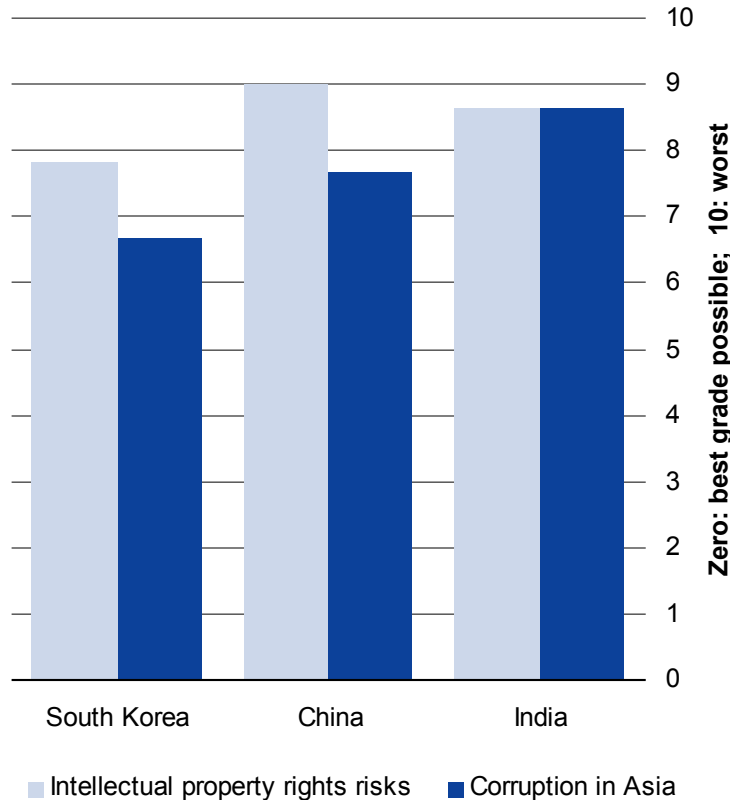


Source: PERC survey, Aug 2005

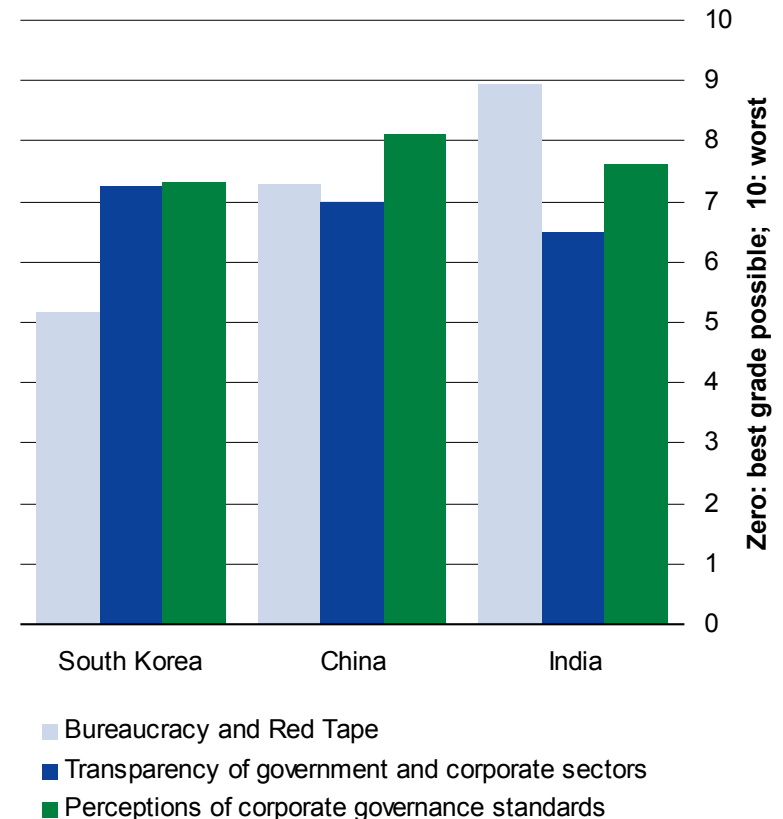


Source: PERC survey, Aug 2005

# ... but IPR protection is a problem and transparency and corporate governance need improvements



Source: PERC surveys 2004/2005



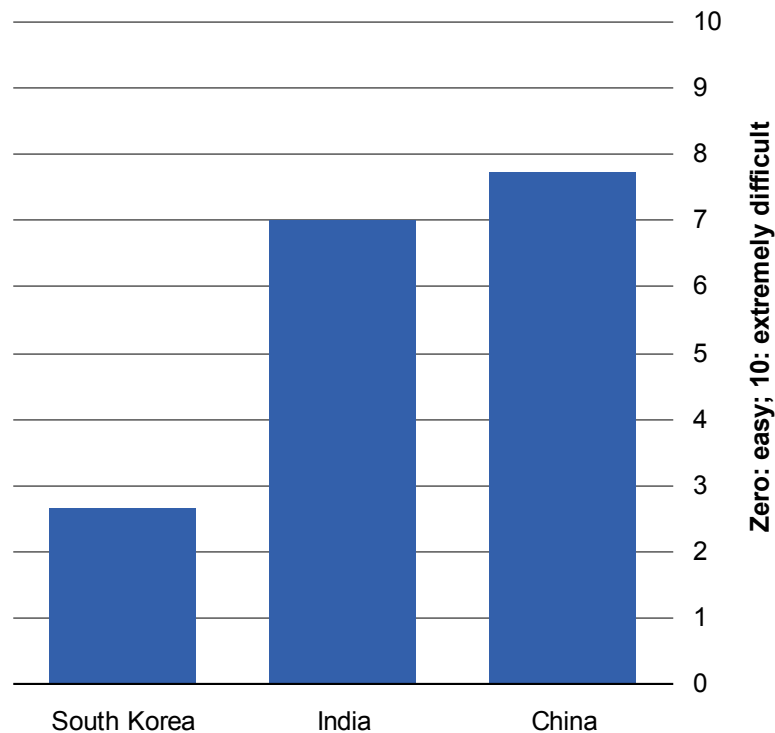
Source: PERC surveys, 2005





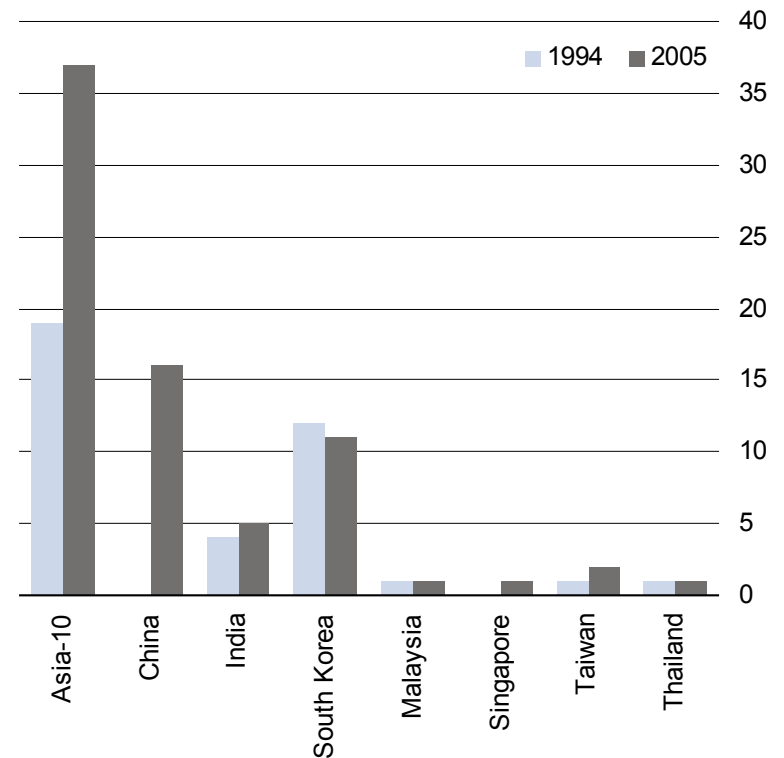
# Competition is heating up - Asian firms are entering the world stage

Degree of difficulty of maintaining profit margins in the face of growing (local and foreign) competition



Source: PERC surveys, July 2004

Number of firms included in the Fortune Global 500 list



Source: Fortune 500 (1994, 2005)





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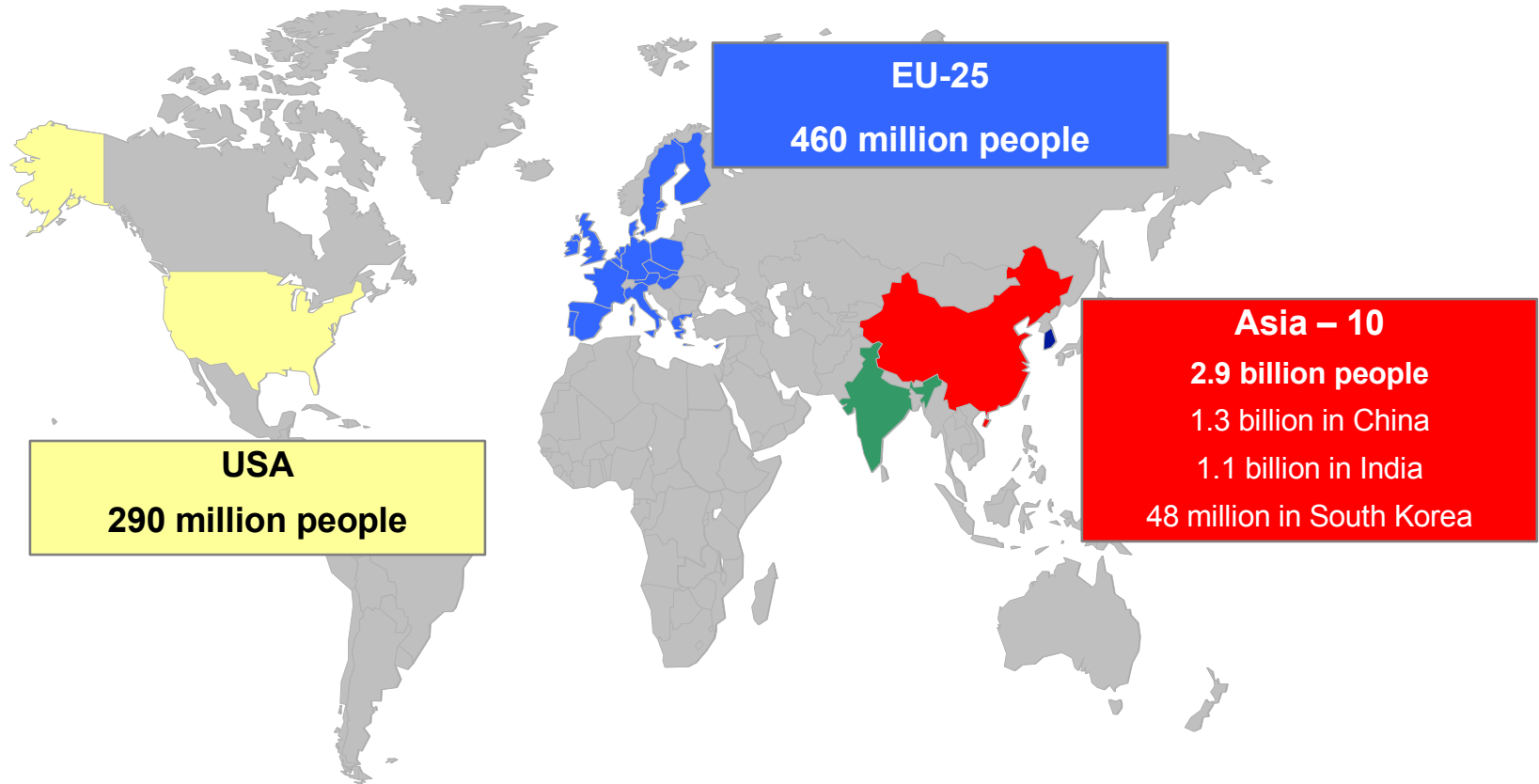
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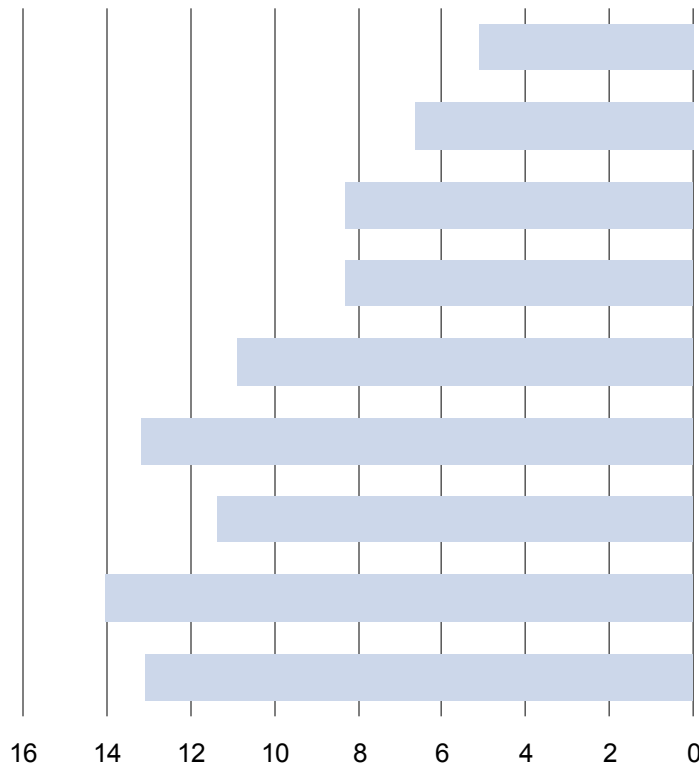
# Factors driving growth I: Large population = big labor force & potential market



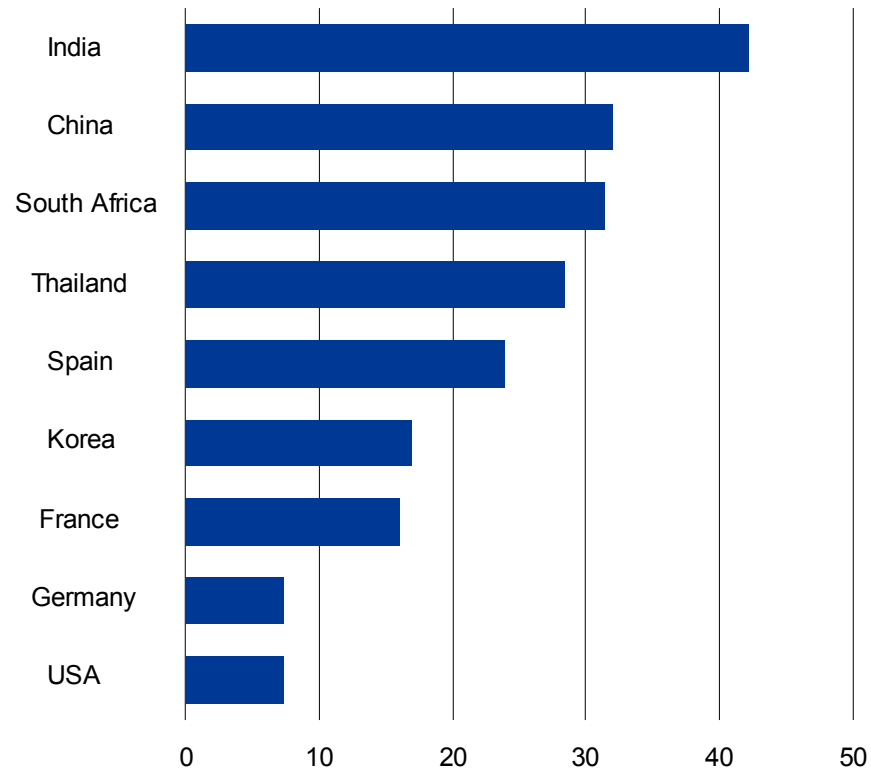


# Factors driving growth II: Huge improvements in the quality of workforce...

Average years of education in 2005



Change in years of education 2005-2020 in %

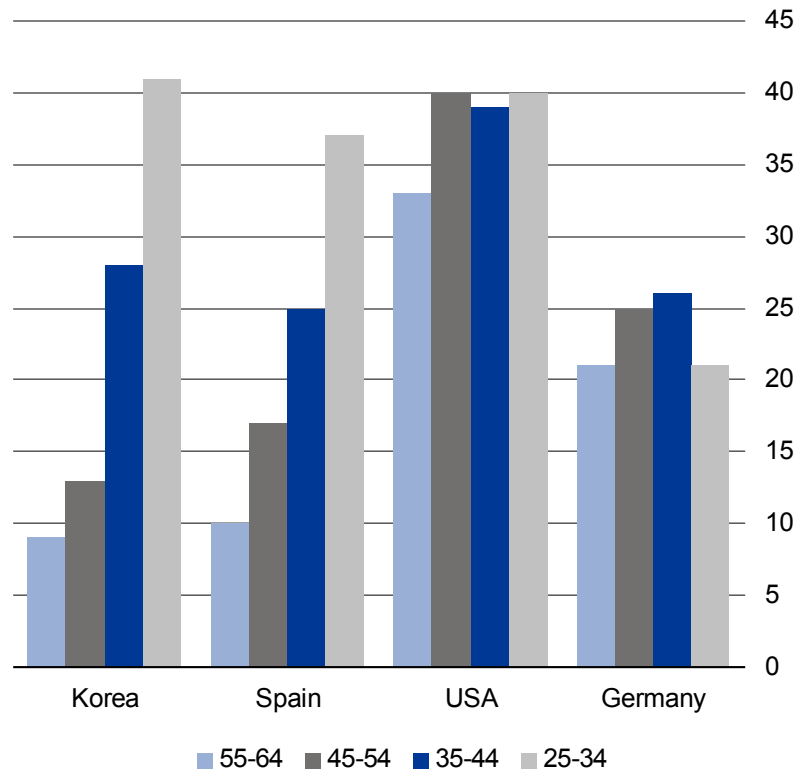


Sources: OECD, Deutsche Bank Research



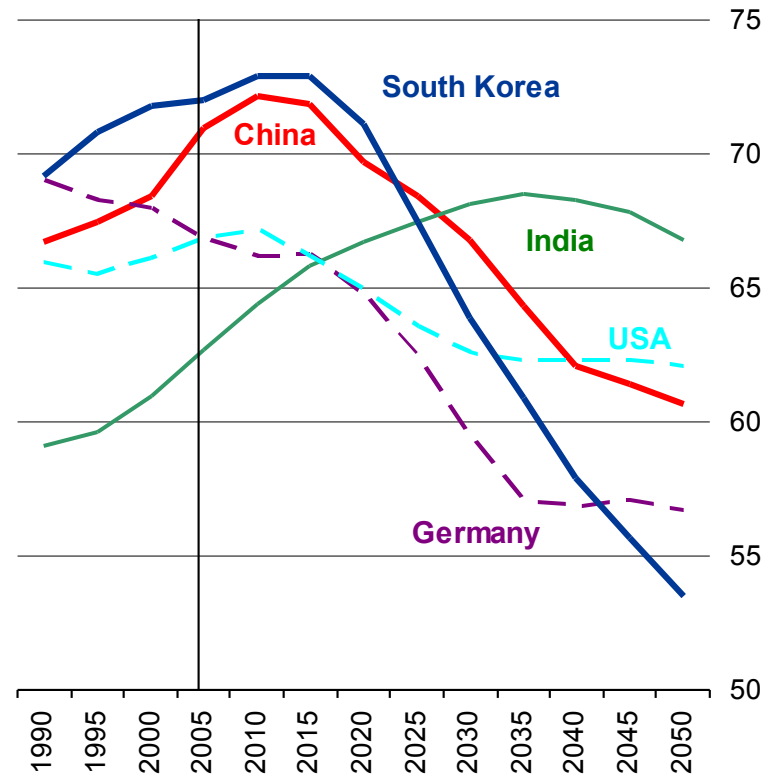
# ...South Korea is a case in point – however, greying societies are also an Asian phenomenon

Population that has attained tertiary education by age groups, %



Source: OECD

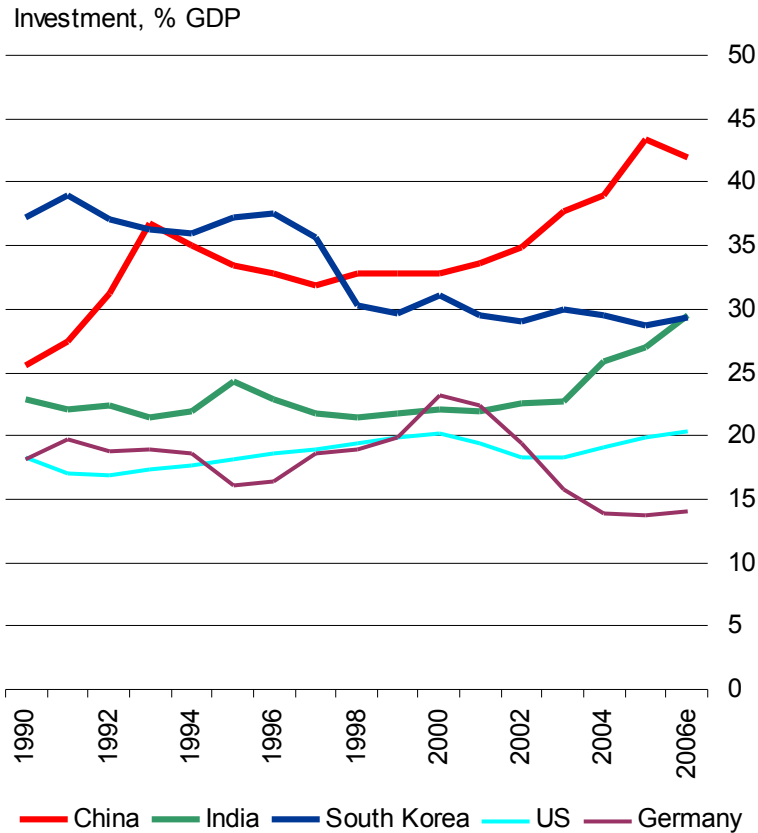
15-64 year olds, % total population



Source: UN

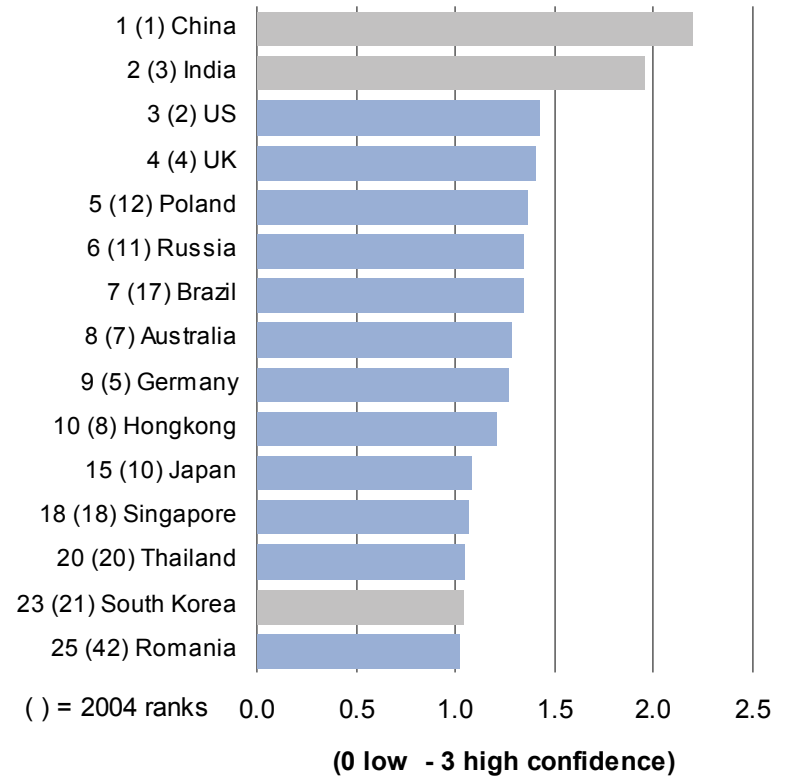


# Factors driving growth III: High domestic investment and continuing attractiveness for FDI...



Source: DB Resesarch

A.T.Kearney FDI Confidence Index 2005

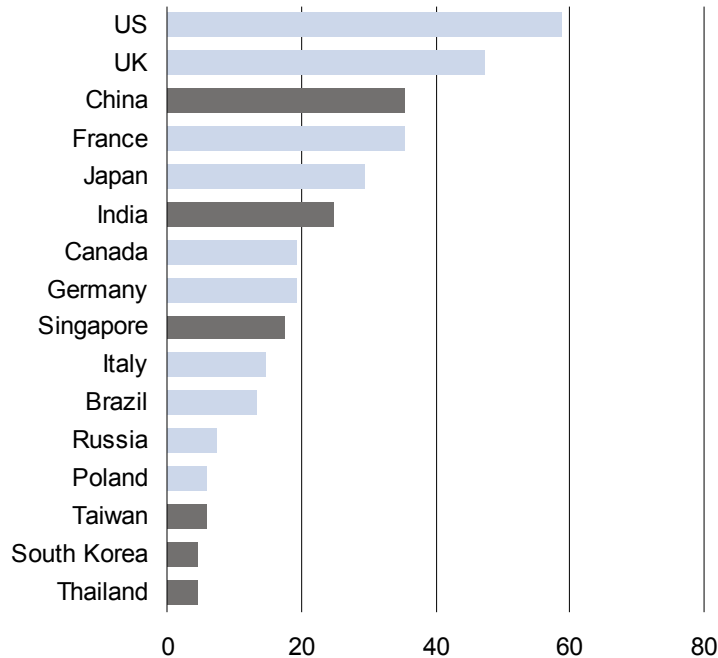


Source: A.T. Kearney

# ... especially in terms of R&D: Asia is a major location and Asian firms are becoming major spenders

**Locations of foreign R&D efforts (based on a survey of the world's largest R&D spenders)**

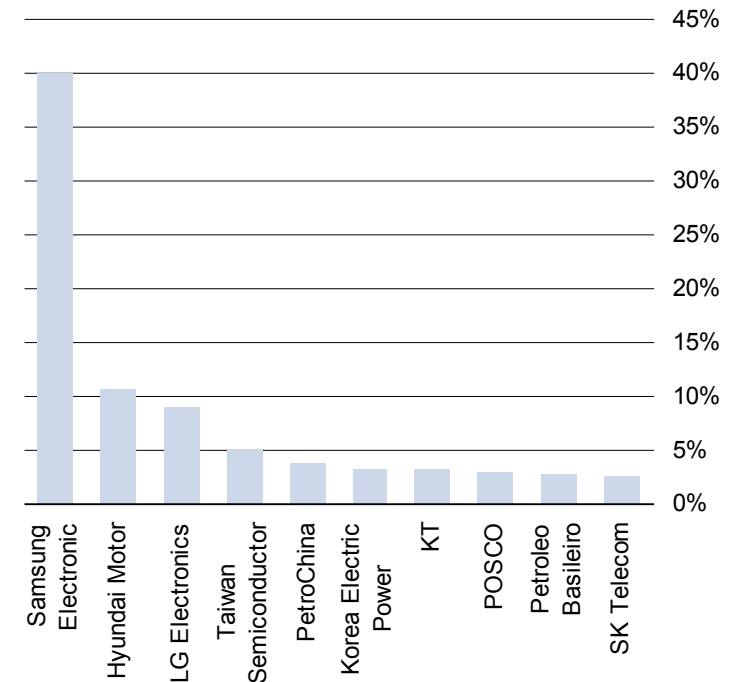
% of all the world's largest R&D spenders



Source: UNCTAD WIR 2005

**Top 10 emerging markets R&D spenders**

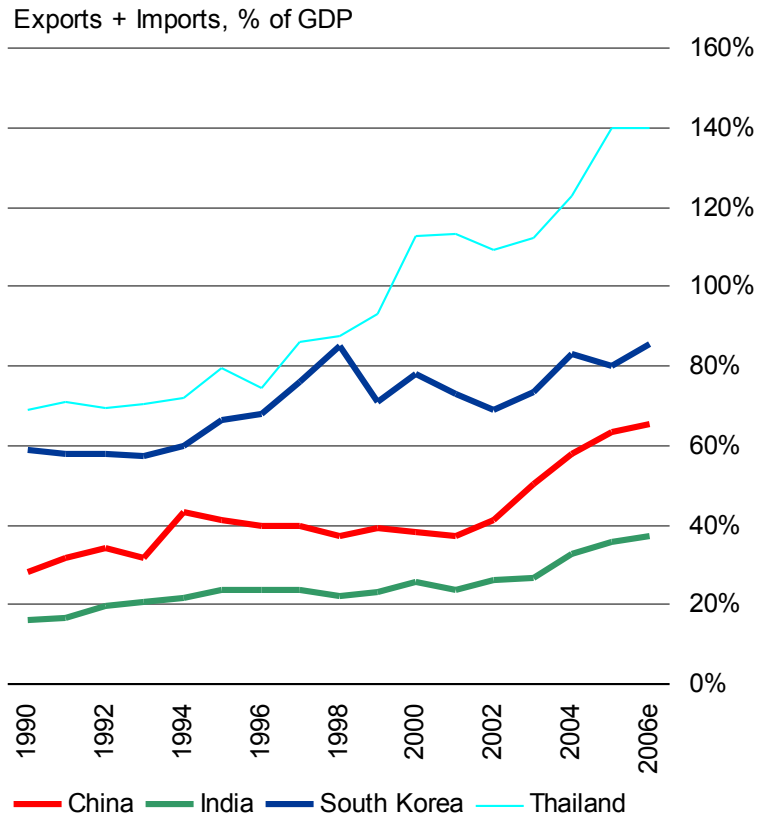
R&D expenditure, in % of world's top R&D spender in 2003



Source: UNCTAD WIR 2005



# Factors driving growth IV: Closer trade integration with the rest of the world



Source: DB Research



The problem is choice



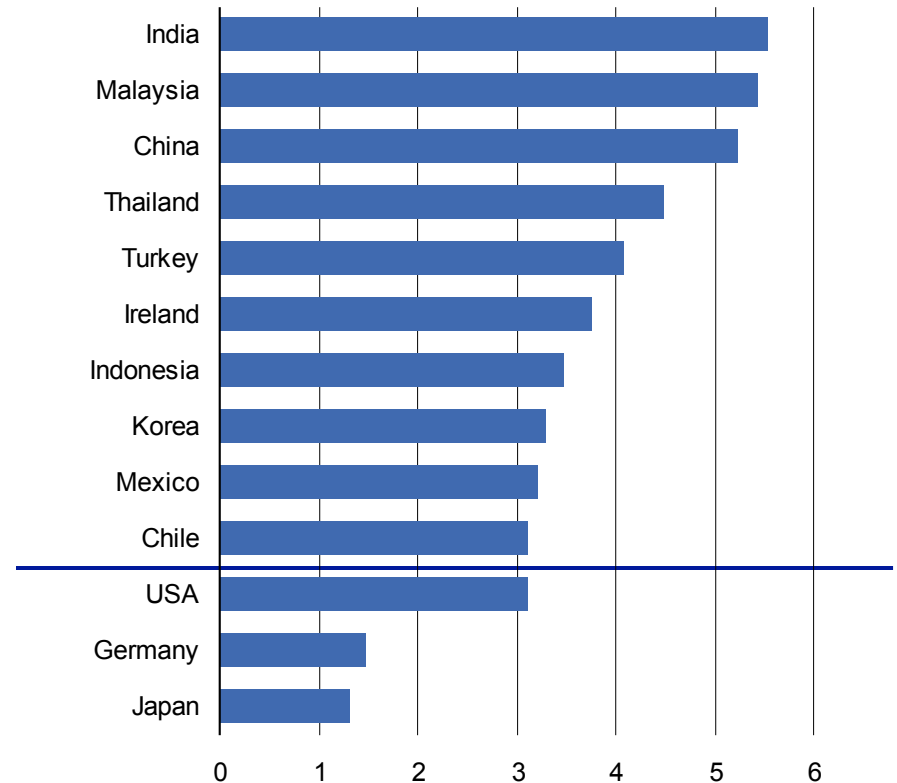


# Most future growth stars are located in Asia

## Deutsche Bank Research's Formel-G model

- Long-term economic growth forecasts for 34 economies
- Time horizon 2006-2020
- Six Asian countries are among the top 10 growth stars:
  - Top 1: India
  - Top 3: China
  - Top 8: South Korea

Ranking of GDP growth 2006-20, % p.a.



Source: Deutsche Bank Research, Formel-G



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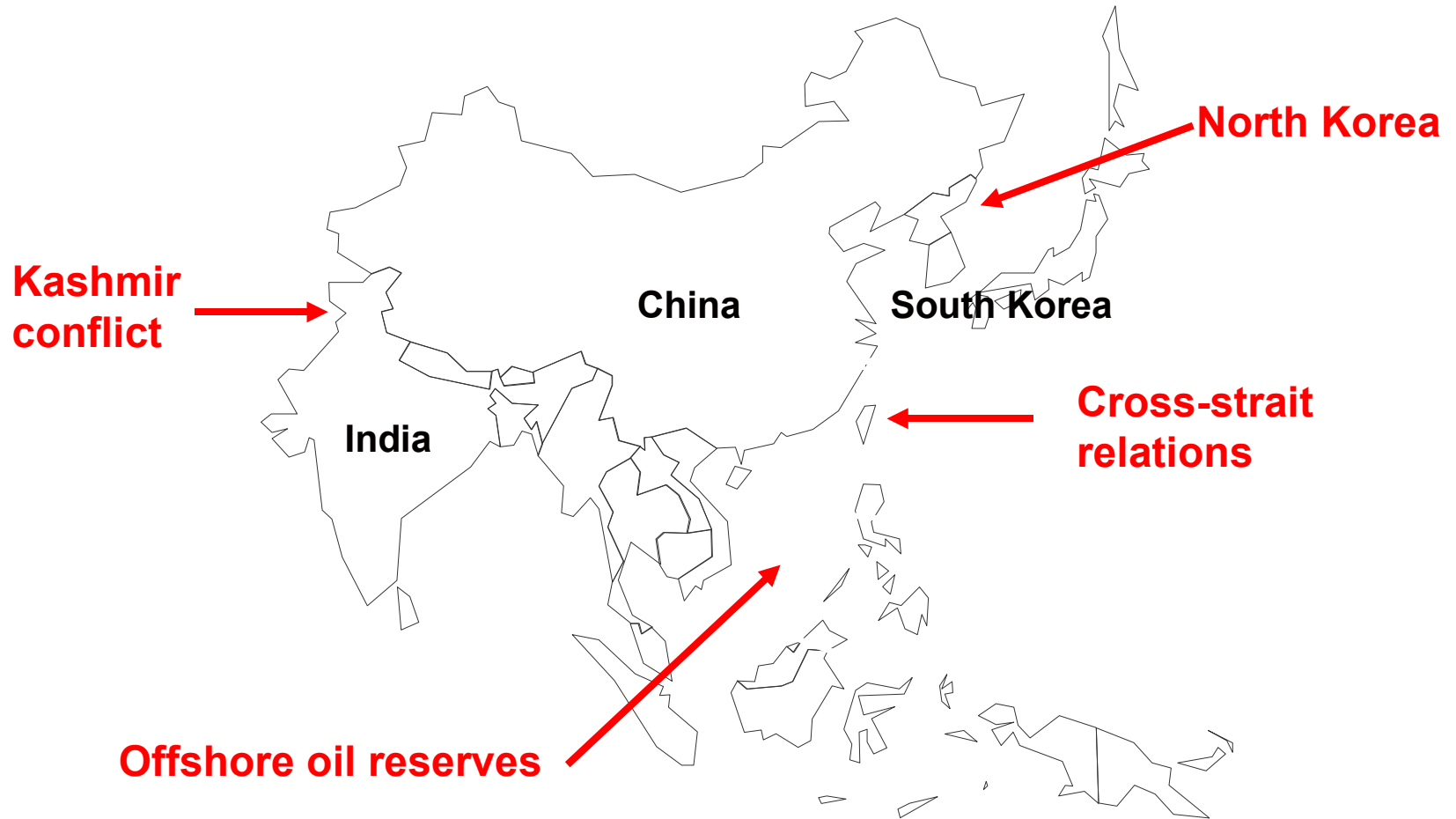
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# Political risks: Geopolitical hotspots



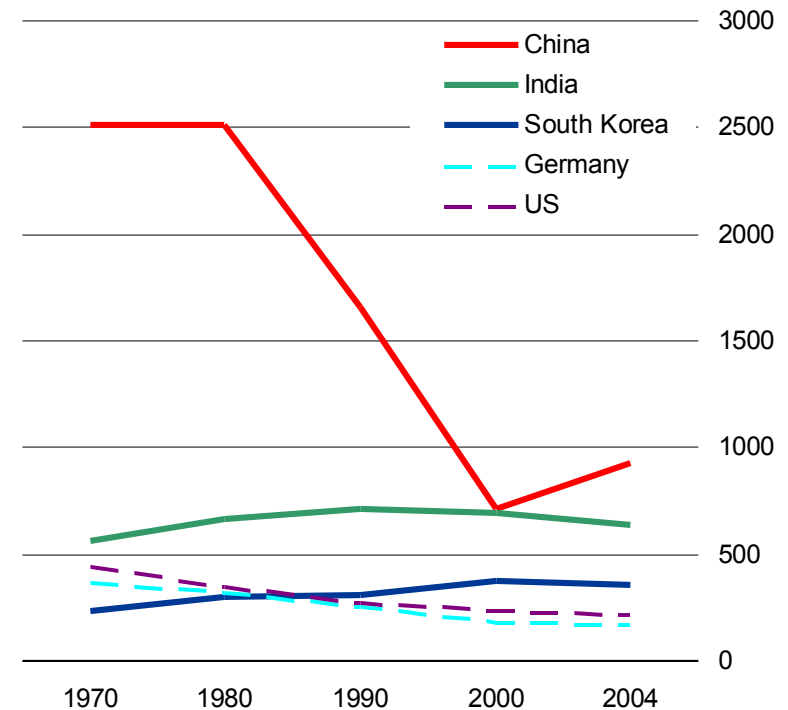


# Financial and macroeconomic risks

- **Banking sector:**
  - China: possibility of more NPLs due to past lending boom
  - India: vulnerable to rising interest rates (significant holdings of gov't bonds)
    - High public debt (80% of GDP) and deficit (-8.5% of GDP)
- Major fiscal risk for S. Korea: Re-unification with North Korea
- High commodity prices / high dependence on energy imports
- Investor sentiment (portfolio inflows)
- Protectionist trends in developed markets (and at home)

## Energy efficiency needs to be improved

Primary energy demand per GDP, in tonnes of oil equivalent per GDP in million USD at 2000 prices



Source: WMMMD





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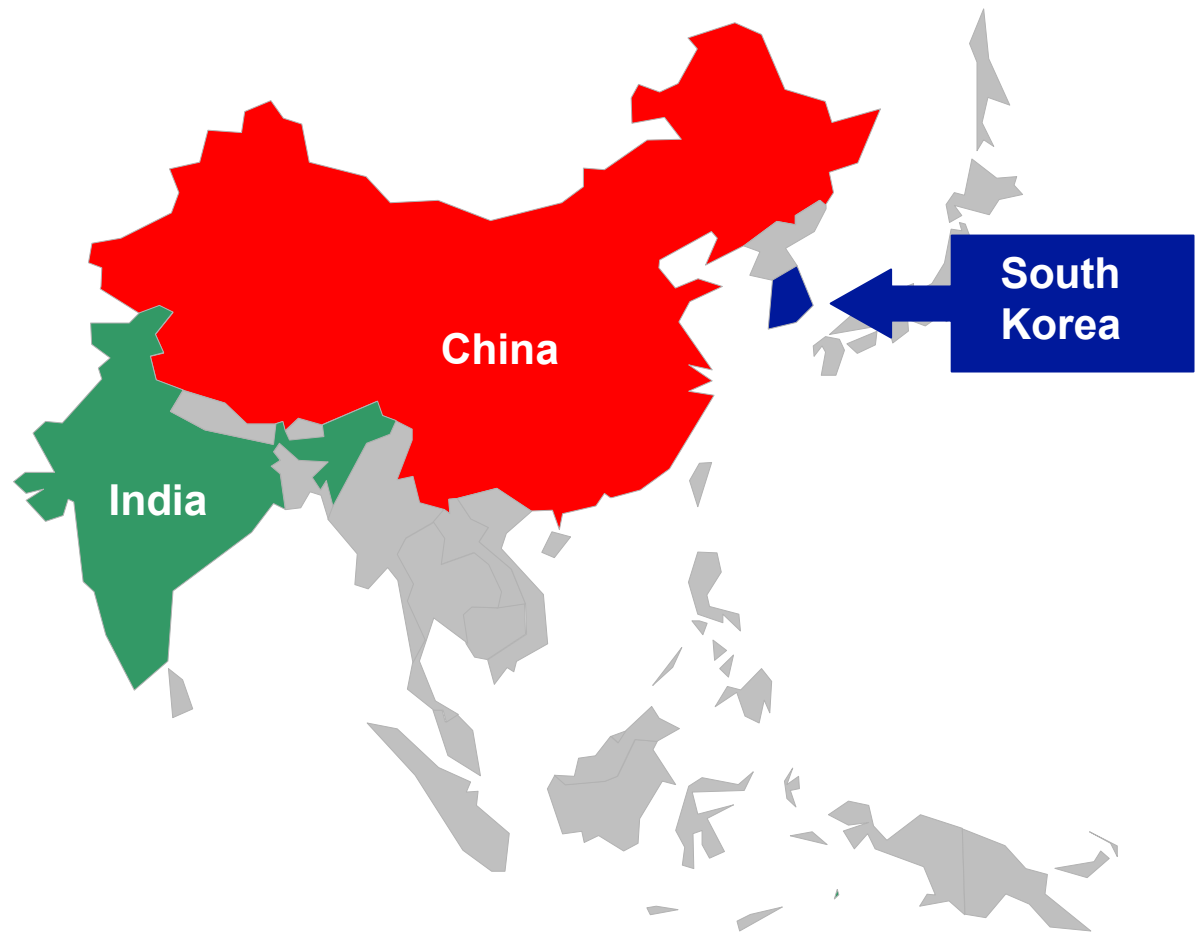
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# Go East!

## Asia 2010+

- Investment environment will improve further
- A large workforce, better education and closer trade integration will drive economic growth
- Beware of the risks, but fundamental factors point to superior growth performance





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