

A Germany Every Three Years

Prior to 2008, everyone thought the US consumer drove global growth. Asians, supposedly, didn't buy anything. They produced and sold to the West and saved the money and ran big surpluses. The argument was, if the US consumer ever died, Asia would die a death even worse.

But in 2008 the ultimate test came. The global economy collapsed in what became the biggest financial crisis in a century. The US consumer did die. So did the Japanese one and the European one. Those economies went nowhere for four years. Meanwhile, Asia, led by China, 'added' an entire Germany to the global economic map over the same period. Almost everyone missed it. Almost as many argued that the very idea was impossible.

The International Monetary Fund released a report in 2013 stating that China's economy has now become as large as the US in purchasing power parity terms. Led by China, Asia-10 (China, India, Indonesia, Korea,

Taiwan, Singapore, the Philippines, Malaysia, Thailand, and Hong Kong) now has roughly the same GDP with the US, about \$16 trillion. And when it comes to generating new demand, Asia actually surpassed the US a long time ago.

With 6.25% growth, on US\$16 trillion base, Asia will generate US\$ 1 trillion of new demand this year. For better or worse, incremental growth in Asia is mainly about China and, to a much lesser extent, India, Indonesia and South Korea. After hitting GDP per capita of \$7000 in 2010, history suggests that China's GDP growth could plausibly average 5-5.25% between now and 2039.

And it's not going to stop here. Over the next 25 years, Asia's contribution to growth will rise further and faster than ever before. The world will watch all this growth happen in real time. Asia will build the first Eurozone over the next nine years.

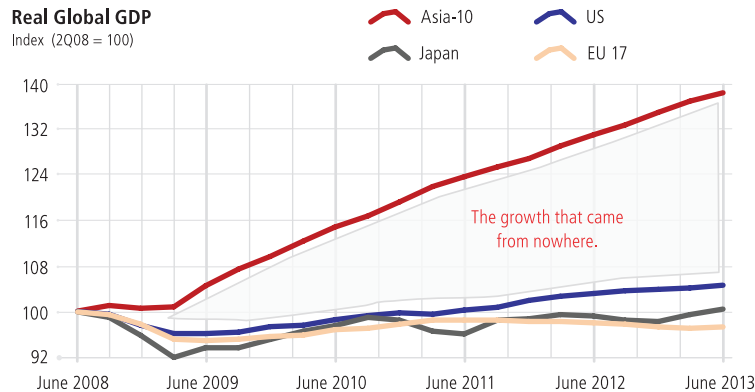
It will take only eight years to build the second Eurozone and only seven

FROM WEST TO EAST

The 2008 global economic crisis has led to a big transformation. The world's top three economic powers, namely the US, Europe, and Japan ran sideways-to-downwards for four full years. On the other hand, ten Asian countries (Asia-10) will shift the global economic powers from West to East.

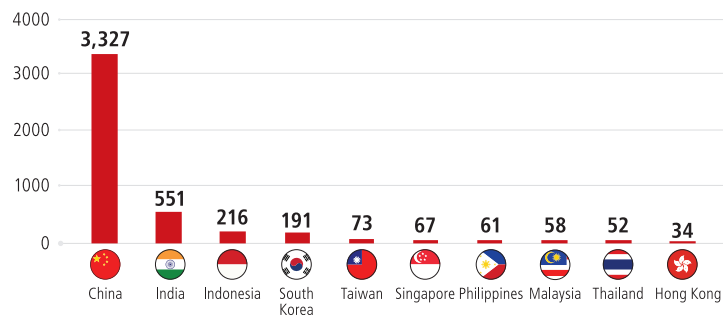
Real Global GDP

Index (2Q08 = 100)



Asia-10: Incremental Economic GDP Growth, 2008-2013

\$ billion (constant 2013 US\$ prices)



years to build the third. By 2039, three Eurozones will have been constructed and some 80% of those three Eurozones will be situated in China.

To be sure, the Chinese economy has slowed and will continue to slow in the years ahead. But even with China's slower (7.5%) GDP growth, Asia now adds a Germany every 3.5 years. In four years' time, it will do the deed in three. Four years after that, it will take even less time. By 2039, Asia will be adding a Germany every seven months.

The shift in economic gravity is the biggest structural change underway in the global economy today. Almost by definition, that makes it one of the biggest – if not the biggest – gamechanger out there. As David Carbon, Chief Economist of DBS Bank puts it, "The shift in economic gravity from West to East is nothing new but we've reached a tipping point. We've gotten to the state where Asia is no longer too small to matter.

This also means a great change in the world economic structure, a gradual transfer of power from the traditional group to a new one, which is followed by consequences one has to consider.

Among others, the first consequence is the change in geopolitics. In the short-run, politics may drive eco-

nomics. But having a Germany every seven months, three Eurozone within 25 years and so on will affect the global pecking order. There will be consolidation of the new power.

In terms of demography and urban planning, China will need to urbanise like never before. This means there will be an increase in the demand of new cities as the existing cities in the east coast are highly populated and polluted. This will require the authorities to create new economic and financial centres in the inland area.

There will be a globalised renminbi. As the biggest trader in the world, China and all countries need the currency located in every corner of the globe. Renminbi will supercede the Dollar.

Capital will flow to Asia like never before because businesses want to be where the growth is. Inflows mean currency appreciation. Asian currencies will rise against the dollar, euro and yen.

Another result is the decreased role of the Federal Reserve, European Central Bank and Bank of Japan. When renminbi has become worldwide and the growth of Asia drives global energy prices, it would be the time for the People's Bank of China to be the most dominant central bank.