

Chapter 1

Overview

In 2011, the world economy was still struggling with recovery, and the pace of recovery was slowing. According to the data from the IMF, in January 2012, the real growth rate of the global output in 2011 should be 3.8 percent in PPP terms, 1.4 percentage points down compared with the real GDP growth rate in 2010. The developed economies, according to the IMF, should see their growth drop by 1.6 percentage points to 1.6 percent. The GDP growth rate of the emerging and developing economies should be 6.2 percent, 1.1 percentage points down from the 2010 level. The world economy continued to show a "two-speed growth" pattern, characterized by slow growth in the developed economies and rapid growth in the emerging economies.

In line with the global economic downturn, in 2011, the major 11 emerging economies—Argentina, Brazil, China, India, Indonesia, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey (hereinafter referred to as the E11)¹ also saw their growth momentum weaken. Compared with the developed economies, however, the E11 have maintained strong growth momentum and made some headway in economic and social development. Generally speaking, the domestic economy and external economic and trade links of the E11 mainly have the following features in 2011:

First, their economic scale has been expanding continually, which resulted in their improved economic prowess. According to the IMF, in 2010, the economic scale of the E11, in PPP terms, was 25.41 trillion international dollars, 2.4 times that in

¹ While there are many emerging economies, the term "E11" refers to the most representative 11 emerging economies, which are also members of the Group of 20.

2000. Their economic scale in market exchange rate terms amounted to \$15.75 trillion, 3.3 times that in 2000. Among the E11 economies, China saw its market exchange rate-based nominal GDP increase by a net \$887.4 billion, which was more than the nominal scale of the Netherlands, which is the 16th largest world economy. The net increase in Brazil's GDP was close to the nominal output of Switzerland, and India's net GDP expansion amounted to \$358.4 billion. According to the IMF estimates, in terms of economic scale, in 2011, the PPP-based GDP of the E11 would total 27.81 trillion international dollars, accounting for 35.3 percent of the global total, 1.1 percentage points higher than that in 2010, while the market exchange rate-based GDP of those economies would reach \$18.6 trillion, accounting for 26.6 percent of the global total, 1.5 percentage points higher than that in 2010.

Second, economic recovery pace of the E11 was obviously slowing down, with varied performances in different economies. According to the IMF estimates, in 2011, the real GDP growth rate of the E11² was 7.2 percent, 1.2 percentage points down from the 8.4 percent in 2010. Among the E11 economies, Brazil had the biggest drop—in 2011 its growth rate was 4.6 percentage points lower than the 2010 level. In India, growth rate was 2.4 percentage points lower while both Mexico and China saw their growth rate fall by 1.3 and 1.2 percentage points respectively. In Indonesia, Russia, Saudi Arabia and South Africa, however, growth rates rose, with that of Saudi Arabia increasing by 2.3 percentage points to reach 6.5 percent.

² The real growth rate of the E11 is based on the weighted calculation of the constant-price growth rates of the E11 economies in a certain year after taking into account their proportion of PPP-based GDP.

Comparatively, China had the best economic performance in 2011, when its economy expanded by 9.2 percent. Argentina and India had the second best performance, with their growth rates expected to reach 8.0 percent and 7.4 percent, respectively. Brazil, whose economy expanded by 2.9 percent, had the lowest growth rate among those economies, 6.3 percentage points lower than that of China, the fastest-growing economy in the E11.

Third, inflationary pressure in the E11 continued and generally weakened in the latter half of 2011. In 2011, most E11 economies had relatively high inflation (CPI), which was mainly manifested in continually rising food and property prices. In the first three quarters of 2011, CPI in Argentina, India and Russia was all above 9.0 percent, with that in Argentina and India having had remained at or above 8.9 percent in seven consecutive quarters since 2010. The quarterly CPI in Brazil, China, the Republic of Korea, Saudi Arabia and Turkey was all on the rise year-on-year. Later, as the global economic growth slowed and demand weakened, the commodities prices had been on the decline and to an extent reduced the pressure of "imported inflation" in those emerging economies. In December, China's CPI grew by 4.1 percent year-on-year, the lowest level in the past 15 months and 2.4 percentage points down from the July peak.

Fourth, the E11 economies had varied job performances. In 2011, China, Brazil and Indonesia had relatively better performance in terms of job creation. They had not only relatively higher labor participation, but lower unemployment rate, which were combined to help their sustainable economic development. South Africa, Saudi Arabia and Turkey, however, had high unemployment rate, even higher than that of the developed economies in the G7. In 2011, the registered jobless rate of those three economies was 23.9 percent, 10.9 percent and 10.1 percent, respectively. Their labor participation was also lower than that of the other E11 economies. The varied performances of the E11 in job creation indicate that they have varied market prospects and policy orientations. For some economies, the hovering jobless rate would sow seeds of social unrest that would affect stability.

Fifth, trade growth of the E11 economies slowed and their trade dependency on the developed economies continued to be on the decline. In 2010, the E11 economies saw their external trade recover rapidly and their weighted

nominal export and import growth rate reached 30.6 percent and 35.0 percent, respectively. In the first half of 2011, the foreign trade volume of the E11 reached \$3.37 trillion, up 26.9 percent year-on-year but the growth rate was lower than that in 2010. The weighted nominal growth rate of export and import was 26.4 percent and 27.4 percent, respectively. In the first half of 2011, exports of the E11 to the US, EU and Japan totaled \$960 billion and their imports from the three major economies reached \$760 billion, up 22.08 percent and 26.79 percent, respectively, both lower than the global performance of the E11. The three major economies of the US, EU and Japan accounted for 40.10 percent of the E11's trade volume, 2.09 percentage points lower than that in 2009.

Sixth, the internal trade links of the E11 continued to strengthen. In the first half of 2011, the internal trade among the E11 economies amounted to \$780 billion, up 28.8 percent year-on-year and 1.9 percentage points higher than their foreign trade growth. In 2010, the internal-external trade ratio of the E11 was 23.46 percent, 1.21 percentage points higher than that in 2009. Although the ratio dropped to 21.61 percent in the first half of 2011, it was 0.1 percentage point higher than that in the same period of the previous year. Meanwhile, the ratio of trade volume of Argentina, Brazil, the Republic of Korea and Saudi Arabia with the other E11 economies to their foreign trade was all above 35 percent.

Last but not least, the fiscal policy of the E11 was mainly expansionary and featured moderate tightening while their monetary policy had had major adjustments. In 2011, the recovery momentum of the E11 weakened and Argentina, Indonesia, Saudi Arabia and Turkey maintained their loose fiscal policy they adopted in 2010 and increased fiscal expenditure to stimulate the economy and stabilize recovery. Although the fiscal policy of Brazil, India, Mexico, Russia and South Africa was basically tightened, they maintained relatively large scale of fiscal expenditure to cope with economic downturn. China, meanwhile, adopted a fiscal policy of striking a balance between its fiscal revenue and expenditure. In terms of monetary policy, as the inflationary situation changed, the E11 economies adjusted their monetary policy accordingly. In the first half of 2011, the E11 economies basically maintained the policy tightening adopted in 2010. In the second

half of the year, as inflationary situation improved in some E11 economies, the E11 economies had deviated from each other in terms of monetary policy. Brazil, China, Indonesia, Russia and Turkey loosened their monetary stance while India and the Republic of Korea maintained their previous stance. Other economies either hesitated to take action or adopted a discretionary monetary policy.

Looking forward, in 2012, the emerging economies represented by the E11 will face many uncertainties. They mainly include:

1. The continued economic doldrums in the developed economies could possibly lead to further weakening of global demand, which would affect the sustainable and stable growth of the E11.

2. Some economies may continue to face high jobless rate and it is also possible for consumer prices to rebound. The need to strike a balance between job creation and growth and inflation management makes it more difficult for those economies to adjust their macroeconomic policies.

3. As trade relations become closer, some economies may suffer from increasing trade frictions, which would become a hot issue to affect their development of trade relation.

4. As the global financial markets are getting increasingly intertwined, where the debt crisis in the developed economies is heading for will become an important factor behind the uncertain prospects of the financial markets in the emerging economies.

5. As the developed economies are yet to show solid signs of fundamental improvement, international capital can flow back to the developed economies from the emerging economies, which would lead to major fluctuations in the exchange rates of currencies in the E11.

6. The foreign policy adjustments of the developed economies (for example, the "return-to-Asia" strategy of the US and the "competitive neutrality" framework put forward by the OECD economies) would have varied impacts on the E11 economies, which may lead to the E11 economies differing from each other on certain issues and become a factor limiting policy coordination of the E11 economies.

7. Many major E11 economies will select their

new governments and the reshuffling of leadership may highlight or play down some specific issues and certain policies may also be changed or adjusted, which will directly or indirectly affect the economic and social development of those economies.

8. It is still too early to tell whether the 2012 G20 Summit to be held in Mexico would be able to hammer out positive results regarding global economic stability, structural reform, sustainable development, economic imbalance and exchange rate that would benefit the emerging economies.

9. Unexpected natural disasters and regional security crisis cannot be ruled out and whether the E11 economies can cooperate smoothly in coping with those contingencies and whether the political turbulences and military confrontation in some disputed regions will escalate and spread to other parts of the world will have varied impacts on the economic and social development of the E11 economies.

Due to the many uncertainties in the economic recovery of the E11 and based on the description and analysis of the development of the emerging economies, this report holds that in the first half of 2012, the overall economic slow-down of the E11 will worsen but can stabilize in the second half of the year. The whole-year growth is expected to be about 6.7 percent. China's economic growth is expected to be about 8.8 percent while that of Brazil can be 4.0 percent. That of India and Russia will be about 7.5 percent and 3.8 percent, respectively. Although the possibility of China encountering an economic hard landing is slim, the possibility of some other economies suffering from hard landing cannot be ruled out. Regarding economic cooperation, since the E11 economies continue to maintain fast growth, their trade and investment links will continue to grow and their dependence on the developed economies will continue to decline. Moreover, international cooperation of the E11 economies may see some breakthroughs in some major fields, and in particular, the BRICS (Brazil, Russia, India, China and South Africa) may possibly take new measures to promote trade, investment and financial cooperation among them.

Chapter 2

Resource Endowment and Infrastructure of the E11

Although resource endowment is not necessarily a sufficient condition for a country's fast economic growth, ample resource supply is a prerequisite for stable and fast economic development. Russia, Brazil and China, among the E11 economies, have advantage in terms of basic natural resources while among the developed economies, Canada and the US boast rich resources and other economies possess a relatively small scale of natural resources. Within the E11, there remains a big gap among those economies in terms of resources and infrastructure. Russia, Brazil, China and India have more resource reserves compared with the other economies and are major resource powers. China, Brazil, Russia and India also have the obvious advantage of scale in such fields as infrastructure and telecommunications due to their vast territory and population advantages. In per capita terms, however, rich economies such as the Republic of Korea and Saudi Arabia perform better. The Republic of Korea, Argentina and Turkey have made more inputs in terms of environment and health while the Republic of Korea and China top the E11 economies in terms of science and education.

2.1 Natural resources

2.1.1 Land resource

The total land area of the E11 economies is 47.98 million square kilometers, accounting for 37 percent of the globe's total, while the G7 only has a land area of 20.05 million square kilometers, or 42 percent of that of the E11. Russia, China and Brazil account for 72 percent of the whole land area of the E11 economies and they all each have a land area of

more than 8 million square kilometers while the Republic of Korea has a land area of only 100,000 square kilometers, the smallest among the E11 economies (See Figure 2.1). Small land area limits a country's economic development and industrial choices and ultimately affects its economic diversity and comprehensiveness.

2.1.2 Renewable water resource

Brazil and Russia, among the E11 economies, boast far more renewable water resource¹ than the other countries in the world (See Figure 2.2). Brazil ranks the first globally in terms of holding of renewable water resource while Russia, which has the world's largest land area, ranks the second. China is also vast in territory and has two major river systems, namely, the Yangtze River and the Yellow River, but it ranks only the fourth among the E11 economies and the fifth globally in terms of renewable water resource. Indonesia has the world's second longest coastline and two-thirds of its territory are covered by sea and inland water systems that have rich natural resources. Its aquaculture is built almost entirely on fresh water farms.

2.1.3 Forest resource

Currently forest covers about 31 percent of the land areas of the globe and as human activities intensify and material demand increases, global forest acreage has been on the decline year by year. The Food and Agriculture Organization of the United Nations points out in its Global Forest Resources Assessment 2010 report that during the

¹ Renewable water resource refers to the total of fresh water including rainwater, surface water and ground water within a country's border. The World Bank updates the data every five years and the latest are 2007 data.

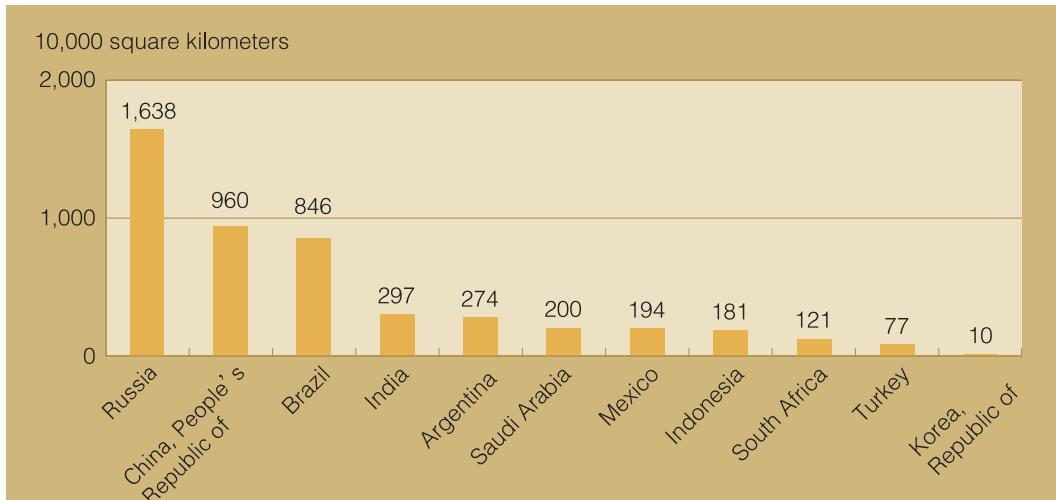


Figure 2.1 Land areas of the E11 economies in 2011

Note: The data of China is from China Statistical Yearbook.

Source: World Bank and WDI database, December 2011

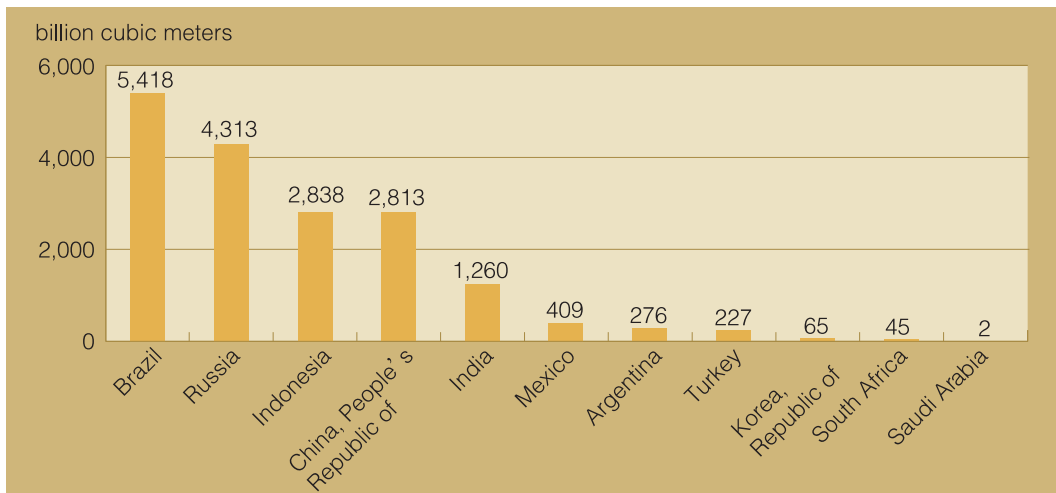


Figure 2.2 Renewable water resources of the E11 economies in 2007

Source: World Bank and WDI database, December 2011

2000-2010 period, the acreage of forest decreased by 5.2 million hectares annually. The overall forest acreage of the E11 accounts for 45 percent of the global total, much higher than the G7's proportion of about 17 percent. Russia, Brazil and China in total account for about 38.2 percent of the global forest resources. What is worth noticing is that the forest resources in China, Brazil and Indonesia underwent major changes in the past five years. China's forest increased by a net acreage of 14 million hectares while the forest contracted by 10 million and 3.5 million hectares in Brazil and Indonesia, respectively. Since the start of the 21st century, Asia's net increase

in its forest resources is mainly attributable to China's large-scale tree planting. See Figure 2.3 for the forest resources of the E11 economies in 2010.

2.1.4 Mineral resources

Saudi Arabia of the Middle East and Russia hold the majority of oil reserves of the E11 economies. The remaining proven oil reserves of Saudi Arabia are about 2.2 times those of the other E11 economies. However, there is no positive correlation between oil reserve and output in the E11 economies as Russia, which has far less oil reserve than Saudi Arabia (See Figure 2.4), has remained the top producer among the E11 economies (See Figure 2.5).

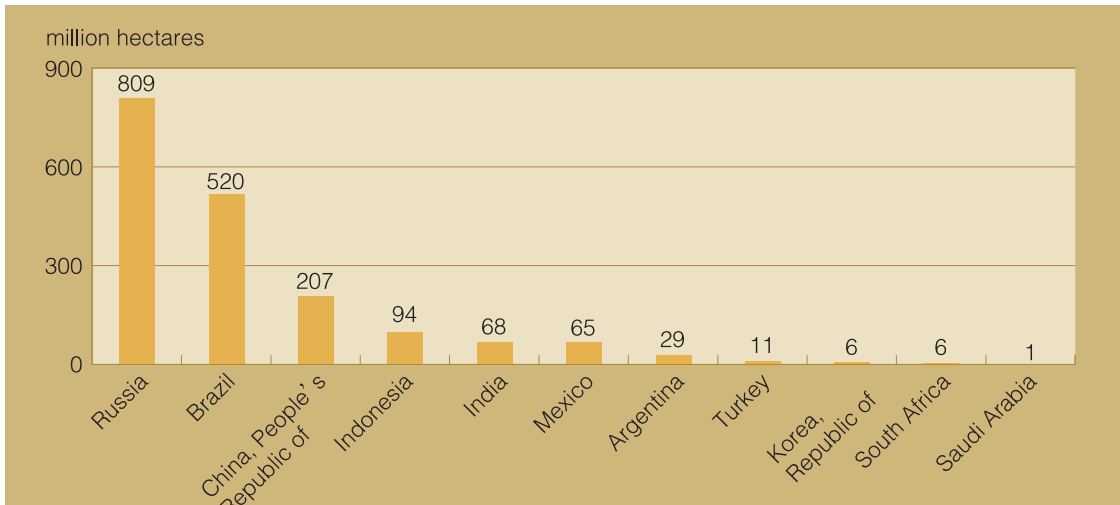


Figure 2.3 Forest resources of the E11 economies in 2010

Source: World Bank and WDI database, December 2011

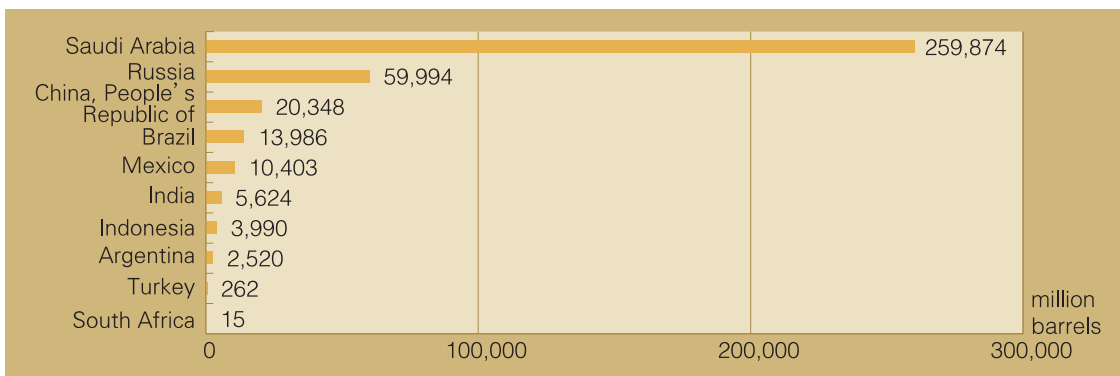


Figure 2.4 Remaining proven oil reserves of some E11 economies in 2010

Source: PennEnergy Research, <http://www.pennenergy.com>

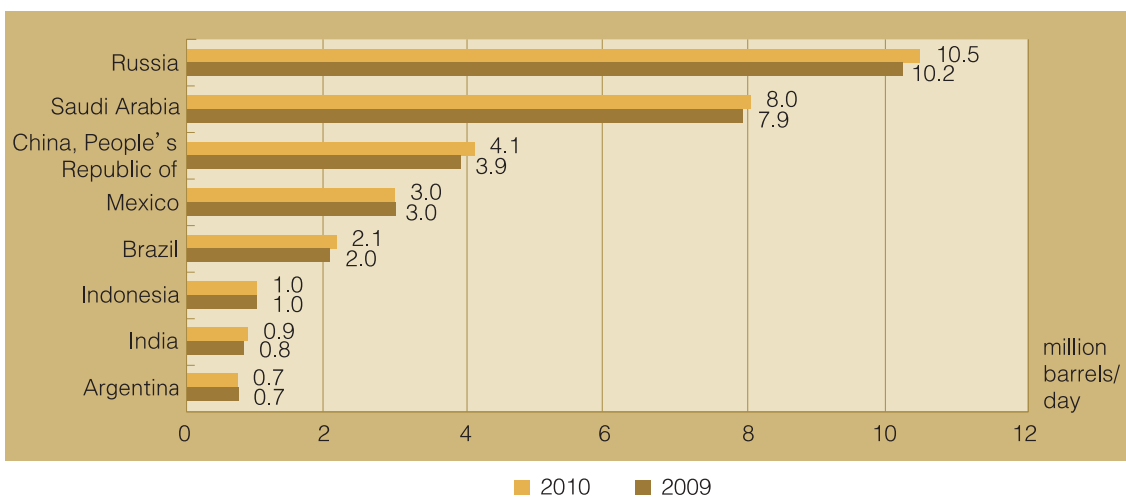


Figure 2.5 Oil production of some E11 economies in the 2009-2010 period

Source: International Energy Agency, 2010 Oil Market Report, December 2010

The E11 economies boast rich iron ore reserves and, meanwhile, are also major sources of iron ore demand. Brazil, Russia, and China have high levels of iron ore reserves (See Figure 2.6), accounting for 16.1 percent, 13.9 percent and 12.8 percent, respectively, of the global reserves. In 2010, the iron ore production of China, Brazil

and India accounted for about 37.5 percent, 15.4 percent and 10.8 percent, respectively, of the global output. Brazil, China and India all saw their iron ore production increase significantly compared with that in 2009. Their production increased by 70 million, 20 million and 15 million tons, respectively (See Figure 2.7).

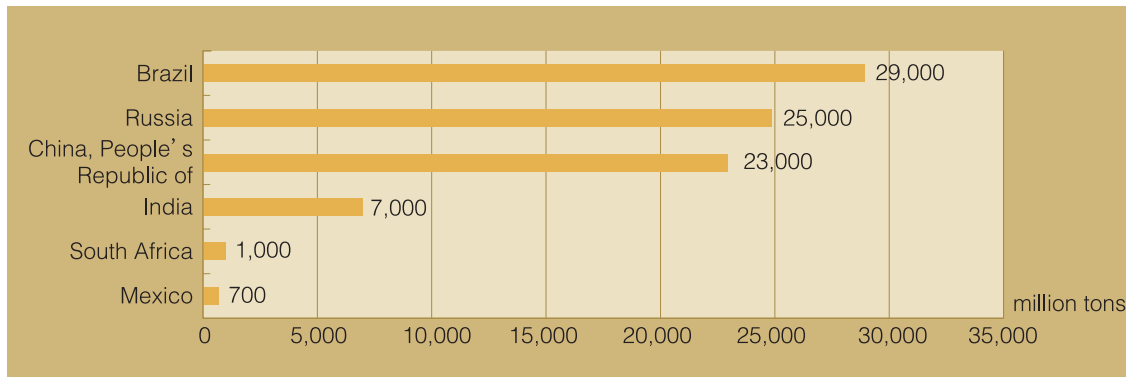


Figure 2.6 Iron ore reserves of some E11 economies in 2010

Source: US Geological Survey, Mineral Commodity Summaries 2011

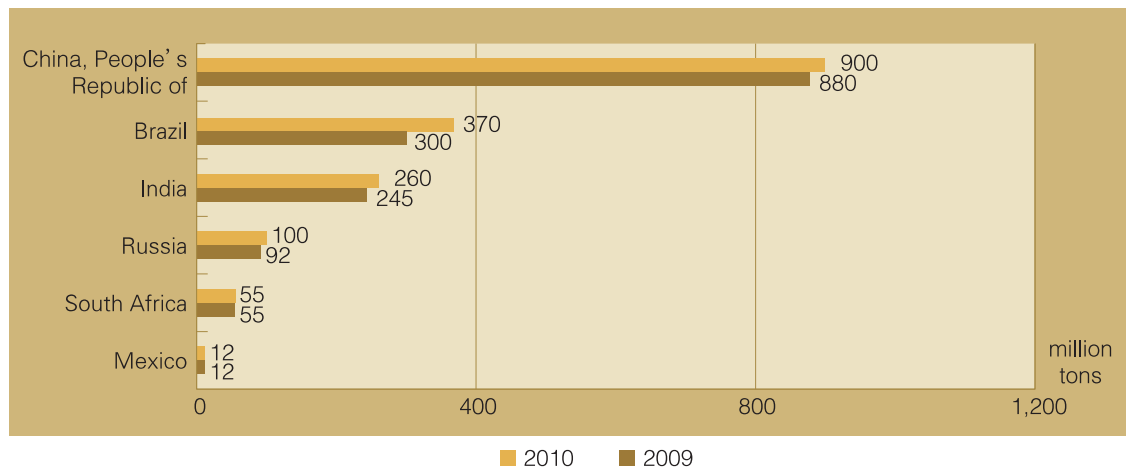


Figure 2.7 Iron ore production of some E11 economies in the 2009-2010 period

Source: US Geological Survey, Mineral Commodity Summaries 2011

2.2 Demographic resources

2.2.1 Population scale

China and India, traditionally as populous nations, each has a population much larger than that of the other E11 economies (See Figure 2.8). In *the State of World Population 2011* report compiled by the UN Population Fund, the UN revised the population forecast statistics it released in 2008. According to the new forecast, China's population will peak at

nearly 1.4 billion by 2025 before starting to gradually decline. Although the Indian government has decided to impose family planning, due to failure to put a birth control system in place to strictly carry out the planning, the country's population will grow continually in the coming decades and by 2050 it is projected to reach 1.7 billion and India will surpass China to become the most populous country in the world. It is projected that the world will see an increase of 2.5 billion people by 2050, with 100

million in the developed economies and 1 billion in the emerging economies, such as China and India.

The remaining will be scattered in the countries that have never had sustained, stable economic growth.

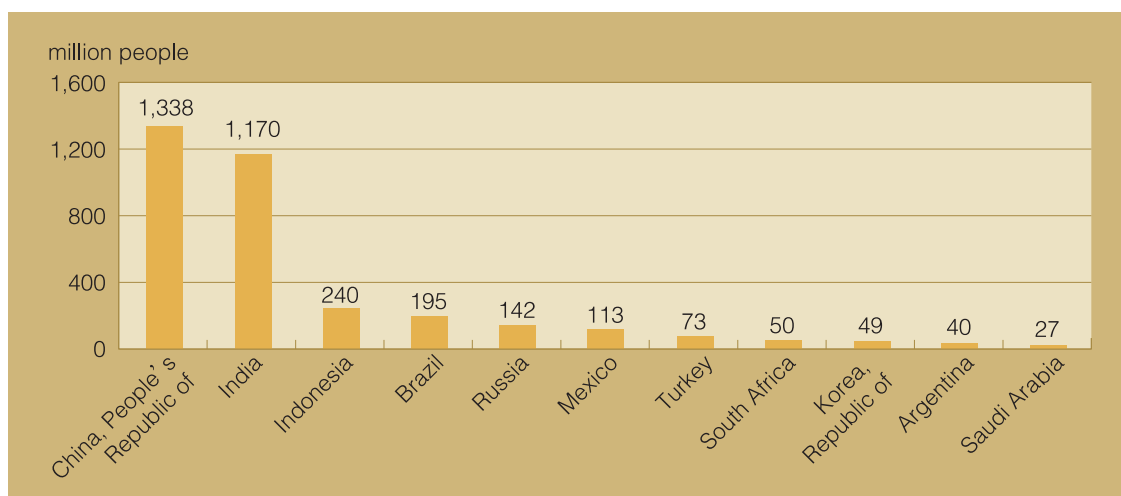


Figure 2.8 Population of the E11 economies in 2011

Source: World Bank and WDI database, December 2011

2.2.2 Population growth

The slowing global population growth has become an entrenched trend. The slowing in the developed economies started in the 1960s while it occurred in the emerging economies in the 1980s, although the pace of slowing is faster in the emerging economies. The population growth of the emerging economies dropped to 1 percent in 2010 from 2.3 percent in 1970. Saudi Arabia, South Africa, India, Turkey, Mexico and Indonesia have all maintained a population growth rate of 1 or above 1 percent (See Figure 2.9) while that of the other economies was lower than the overall growth of the E11. Only Russia in the E11 had a negative population growth. Although China adopted the family planning policy and made it a national policy in 1982, in recent years there have been signs of policy loosening and population growth has rebounded slightly.

Comparatively, the population growth of the developed economies dropped to 0.4 percent in 2010 from 0.9 percent in 1970. Canada has seen its population growth rate exceed 1 percent due to its preferential policies encouraging immigration, but other countries have had slow population growth. In 2010, Canada, the US and Italy saw their population growth significantly lower than that in 2009, while Japan and Germany had negative growth.

2.2.3 Population structure

The global trend of population ageing is spreading in the developed countries and starting to emerge in some emerging economies. By the middle of the 21st century, the ratio of working-age population to overall population in the developed economies will have fallen below 60 percent and that in the emerging economies will have fallen to about 65 percent. The trend of ageing can be attributed to two factors: declining fertility rate and increase in average life expectancy. As the economy develops, people's living standards and medical techniques have both improved greatly and old people are living longer. Meanwhile, due to the faster pace of social life and people's enhanced awareness of life quality, more and more people have opted not to give birth or have fewer children. Currently, due to the population ageing, some economies have felt the pinch of pension repayment of the government, leading to extended working time or change in the mode of pension repayment to ease capital pooling pressure. The problem of ageing, as it intensifies, will change the mode of investment and saving in a country and further affect economic growth.

In June 2011, the Population Division of the UN Department of Economic and Social Affairs revised the population development trend forecast made in 2008. According to the new forecasts, in the 2025-

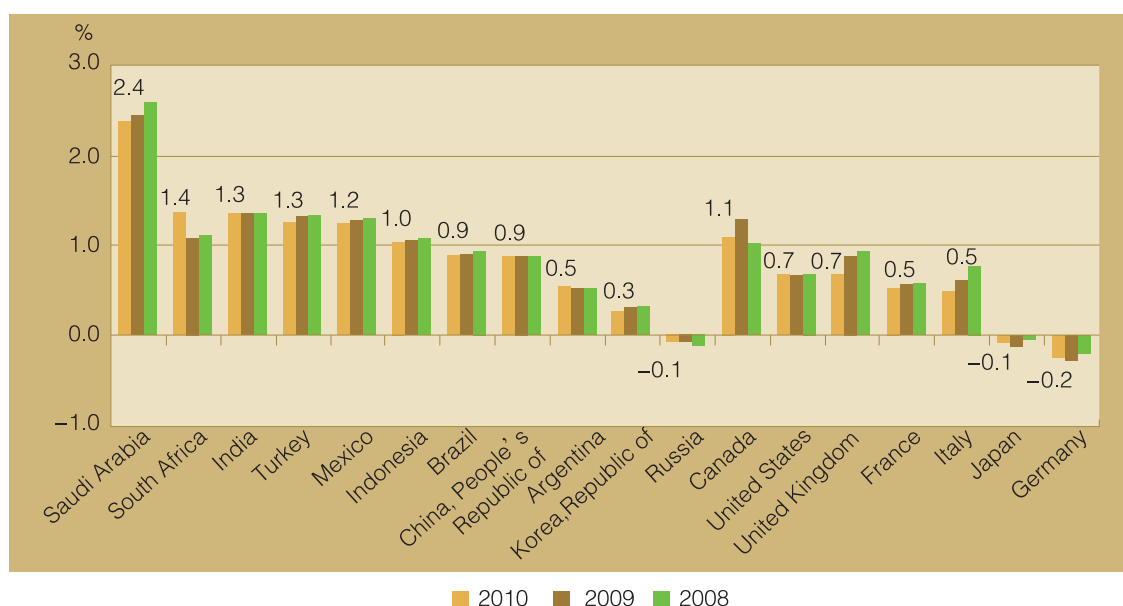


Figure 2.9 Annual population growth of the E11 and G7 economies in the 2008-2010 period

Source: World Bank and WDI database, December 2011

2030 period, except Indonesia, the US, Canada, France, China and Brazil, whose life expectancy is expected to drop by 1.4 years, 0.7 year, 0.2 year, 0.2 year and 0.1 year, respectively, all the other economies will have seen their life expectancy increase. In addition, according to the revision, the proportion of ageing population of France, Mexico and Japan by 2030 will have been adjusted down by 1.2 percentage points, 0.7 percentage point and 0.5 percentage point, respectively. Meanwhile, that of China, Canada and the UK will have been adjusted up by 0.6 percentage point, 0.3 percentage point and 0.2 percentage point, respectively.

According to the revised data, economies whose proportion of ageing population exceeds 20 percent by 2030 will have been Japan, Germany, Italy, the Republic of Korea, France, Canada and the UK (from the highest

on down); economies whose proportion of ageing population exceeds 30 percent by 2050 will have been Japan, the Republic of Korea, Italy and Germany (See Table 2.1). Among the E11 economies, the Republic of Korea faces the most severe problem of population ageing. Since 2010, the proportion of ageing population in the Republic of Korea has been expected to rise by 5 percent for every ten years. By 2030, the proportion of working-age population (people at 15-64) in the Republic of Korea and Russia will have been expected to be lower than that of the overall global level while that of all the other E11 economies will have been higher than the world average. That in all the G7 economies, however, is far lower than the world average. The gap shows that in the coming 20 years labor supply will remain relatively sufficient in the E11 economies.

Table 2.1 The forecast of trend in population development in the E11 and G7

Country/ Region	Life expectancy (years old)			Proportion of workingage population (%) (15-64 years old)				Propotion of ageing population (%) (65 years old and above)	
	2005- 2010	2025- 2030	2045- 2050	2030	Gap from average	2050	Gap from average	2030	2050
Argentina	75.3	78.4	80.9	65.5	0.1	63.1	-0.2	13.6	19.1
Brazil	72.2	76.8	79.4	68.3	2.9	62.8	-0.5	13.7	22.5
China, People's Republic of	72.7	76.4	79.1	68.9	3.5	61	-2.3	16.5	25.6
India	64.2	69.9	73.7	67.9	2.5	67.6	4.3	8.3	13.5

continued

Country/ Region	Life expectancy (years old)			Proportion of workingage population (%) (15-64 years old)				Propotion of ageing population (%) (65 years old and above)	
	2005- 2010	2025- 2030	2045- 2050	2030	Gap from average	2050	Gap from average	2030	2050
Indonesia	67.9	74.3	77.6	69.4	4	64.2	0.9	10.5	19.2
Mexico	76.2	79.5	81.8	67.2	1.8	63.6	0.3	11.7	19.9
Korea, Republic of	80	82.4	84.5	62.5	-2.9	54	-9.3	23.3	32.8
Russia	67.7	72.4	75.5	65.1	-0.3	60	-3.3	19.1	23.1
Saudi Arabia	73.1	76.7	79.3	70.5	5.1	67.9	4.6	6.4	15.1
South Africa	51.2	58.5	64.2	67	1.6	68.8	5.5	7.8	10.1
Turkey	73	76.8	79.4	69	3.6	64.3	1	11.4	19.6
Canada	80.5	82.9	85	60.7	-4.7	58.9	-4.4	23	24.9
France	81	83.7	85.8	59.4	-6	57.5	-5.8	23.1	24.9
Germany	79.8	82.7	84.9	58.2	-7.2	54.6	-8.7	28	30.9
Italy	81.4	83.6	85.7	60.3	-5.1	53	-10.3	26.4	32.7
Japan	82.7	85.4	87.4	57.3	-8.1	51.1	-12.2	30.3	35.6
United Kingdom	79.6	82.1	84.3	61.3	-4.1	59.2	-4.1	21.1	23.6
United States	78	80.7	83	61	-4.4	60	-3.3	19.9	21.2
World	67.9	72.4	75.6	65.4	-	63.3	-	11.7	16.2

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2010 Revision*, June 2011. <http://esa.un.org/unpd/wpp/unpp/>

2.3 Infrastructure

The E11 economies have varied performances in terms of infrastructure construction. Infrastructure construction is directly related to a country's economic development phase and whether a country attaches importance to infrastructure construction also helps or obstructs its economic development. The traditional major powers in the E11 that boast a large population and vast territory perform well due to their large scale of economy and they have benefited from the effect of scale in their transportation, telecommunications and Internet sectors. Construction of relevant industries has brought and will continue to bring enormous commercial opportunities for their domestic economic development. Inputs in medical care, education and scientific research, meanwhile, reflect a country's effort to improve people's awareness as modern citizens and play a more fundamental role in pushing a country's stable development. China, the Republic of Korea and Saudi Arabia perform better in that respect.

2.3.1 Transportation

Smooth transportation is a basic element in guaranteeing economic activities. The E11 as a whole lags behind the developed economies in

terms of infrastructure construction and therefore has grown fast in that respect. As logistics develop, modern transportation is no longer a traditional way to facilitate human mobility. It also includes shipment of goods and is no longer limited to the traditional way of air, land and waterway travel; it also includes channel construction on the ground or underground. Due to statistical limitations, this report only analyses traditional ways of transportation.

Compared with the developed economies, the emerging economies still suffer from low level of air transportation. If the relatively larger population is taken into consideration, the gap will become bigger. The air transportation capacity is determined by such factors as economic development level, per capita income, population structure and quantity, air travel cost and consumer propensity, among others. Most E11 economies are middle- and low-income economies and their development phase determines that their air transportation remains premature and has great potential for further development. The eruption of the global financial crisis has had varied impacts on the developed and emerging economies. In 2009, the airline passenger capacity of China, Brazil, Turkey, India and Saudi Arabia increased by 38 million, 9 million, 6 million, 5 million and 1 million person-times compared

with that in 2008. Some developed economies, however, saw their capacity decrease significantly, with that of the US, Japan and Germany falling by 22 million, 10 million and 5 million person-

times, respectively, in 2009 compared with their 2008 level (See Figure 2.10). The fast economic development of the emerging economies is reshaping the global aviation landscape.

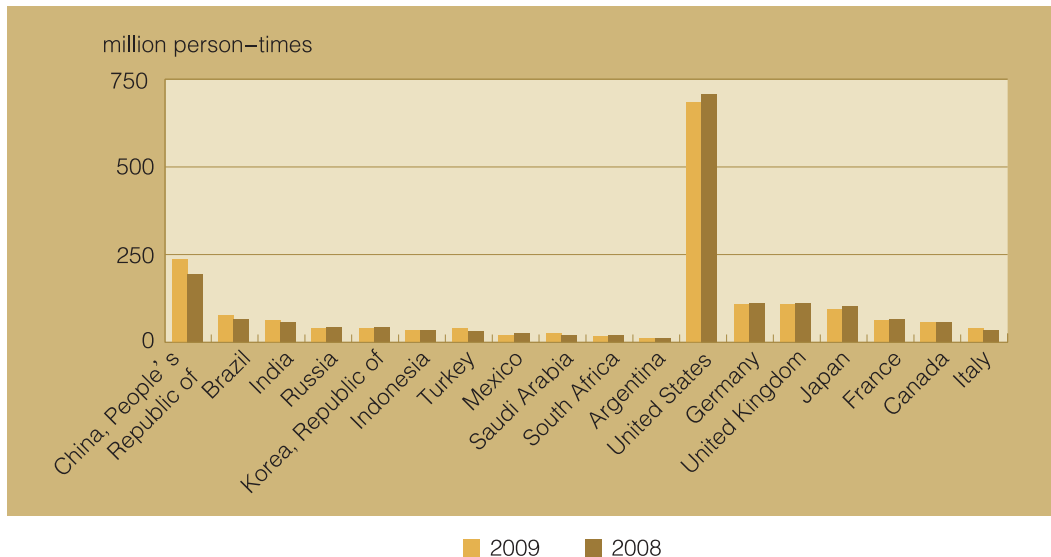


Figure 2.10 Air transportation of the E11 and G7 economies in the 2008-2009 period

Source: World Bank and WDI database, December 2011

Although the E11 economies lag behind in terms of air transportation, they have not suffered so big a gap in railway construction. Take the BRICS. In 2009, the railway freight density in China, India and South Africa all improved, with their freight per kilometer increasing by 12 billion tons, 30 billion tons, 7 billion tons, respectively. Meanwhile, that in the US and UK dropped by 357 billion tons and 12.5 billion tons, respectively. China's freight capacity in 2009 surpassed that of the US, with a gap of 92.7 billion tons, and became the world's largest, while in 2008, it lagged behind the US by 276.4 billion tons. China's leading position is expected to continue. Russia, with large land areas, saw its freight capacity drop dramatically in 2009, falling to 0.186 5 trillion tons per kilometer from 0.24 trillion tons per kilometer, but still ranked the third in the world, and India ranked a far fourth.

2.3.2 Telecommunications

Industrialization, globalization and informationization have become important pillars supporting the development of emerging economies. The telecommunications technologies are conducive to improving corporate productivity and resource utility efficiency and indirectly promoting corporate competitiveness. Seen from

the number of cell phone users, China and India, since they have population advantages, have gained unrivaled competitive edge in the mobile communication. The number of cell phone users in China and India reached 747 million and 525 million, respectively, in 2009, surpassing those of the US in 2001 and 2008, respectively (See Figure 2.12). The expansion pace of the number of cell phone users has been much faster in China and India than that in the developed economies. In the 1990-2000 period, the average annual increase of the number of cell phone users in China was 146 percent while that in India was 147.3 percent. In the 2001-2009 period, it dropped to 35.1 percent and 78.3 percent, respectively. As more and more people are using cell phones, the growth rate has been 17 and 40 percent in recent years in China and India respectively, and it is expected to grow at a two-digit rate in the coming years.

There is a substitutional relation between the fixed-line telephone and cell phone, both of which are main telecommunications tools. Generally speaking, mobile communication has increasingly become the main tool for communication as economic and technological levels improve. All the E11 economies saw their ratio of cell phones to population rise dramatically in the past years, a trend that was

especially obvious in India, Russia, Saudi Arabia, China and Argentina. The number of cell phones per 100 people in the five economies increased by 49

percent, 16 percent, 15 percent, 15 percent and 11 percent, respectively, in 2009 compared with that in 2008 (See Figure 2.13).

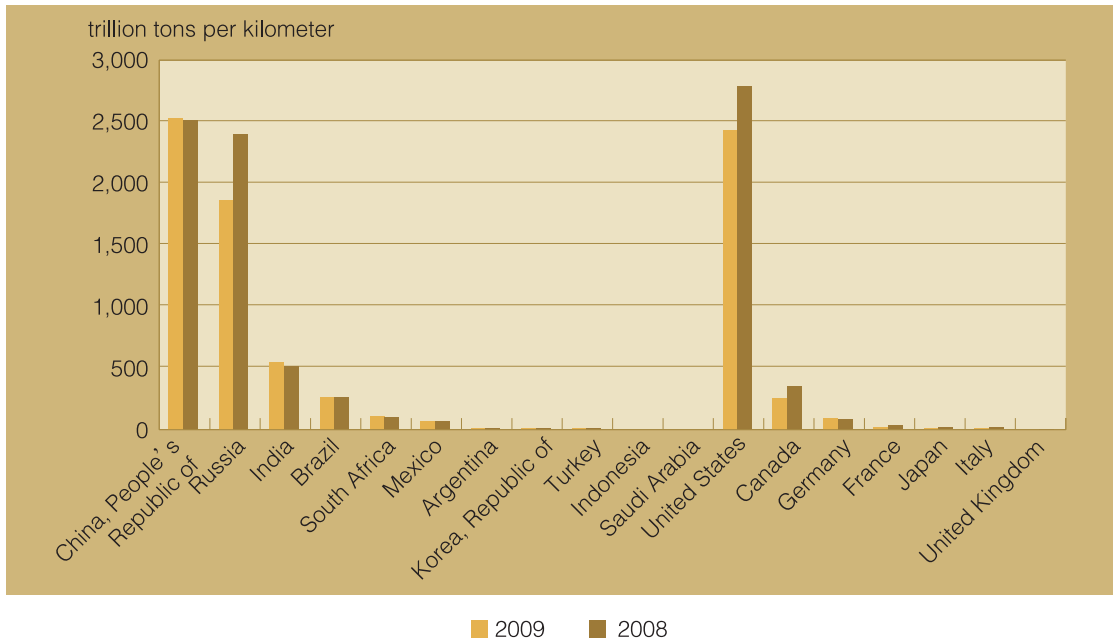


Figure 2.11 Railway freight of the E11 and G7 economies in the 2008-2009 period

Source: World Bank and WDI database, December 2011

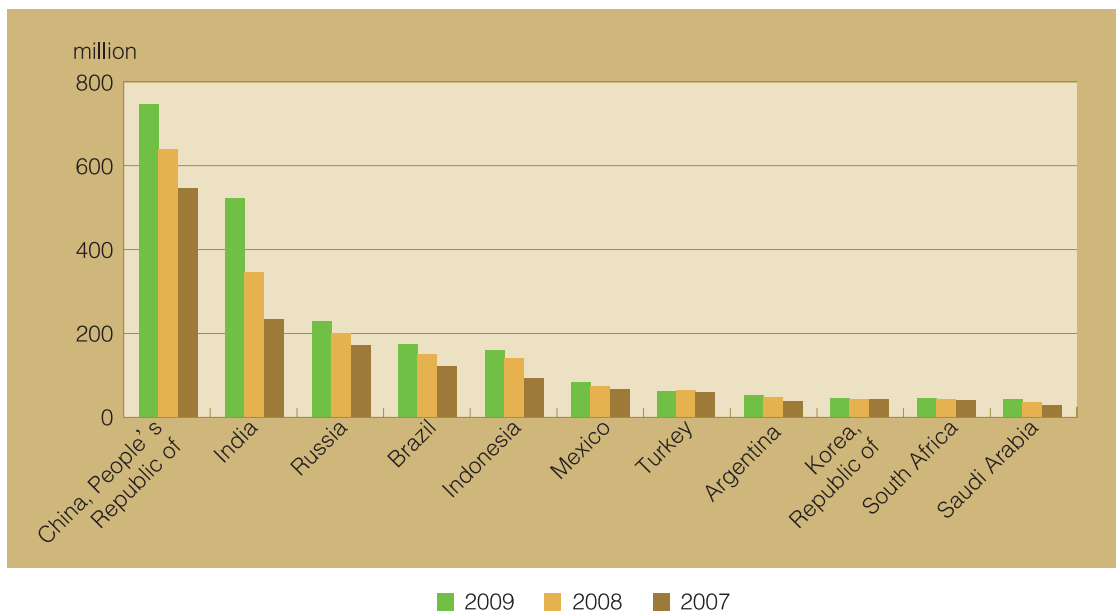


Figure 2.12 Number of signed mobile phone users of the E11 economies in the 2007-2009 period

Source: World Bank and WDI database, December 2011

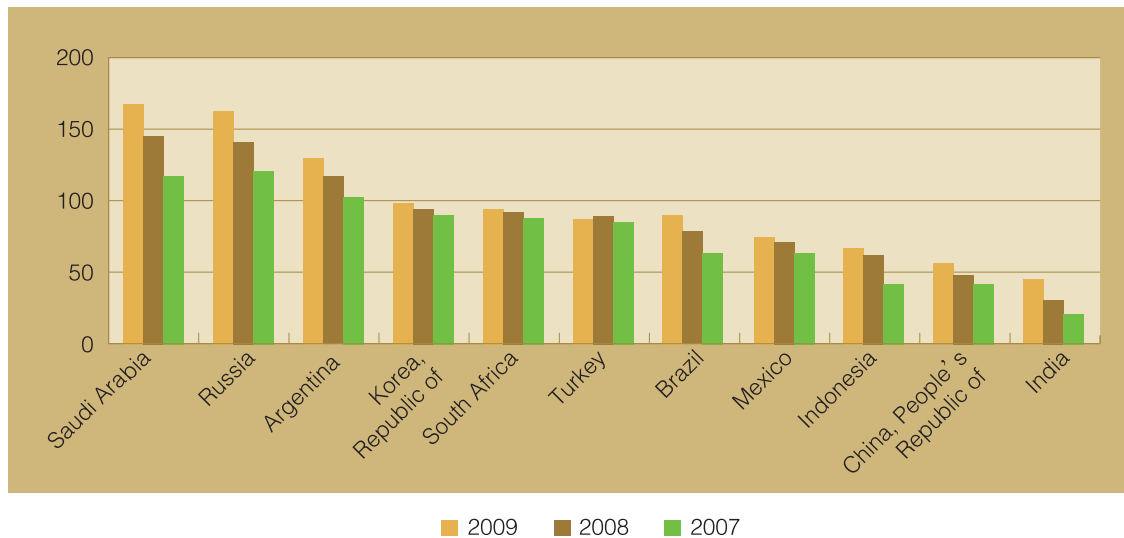


Figure 2.13 Number of mobile phones per 100 people of the E11 economies in the 2007-2009 period

Source: World Bank and WDI database, December 2011

The mobile communication boom in the E11 has led to the shrinking of fixed-line communication systems. In 2009, except in Indonesia, where the number of fixed-line telephones per 100 people rose by 10.9 percent year-on-year, the number in all the other E11 economies declined. The shrinking was especially obvious in Mexico, the Republic of Korea and China (See Figure 2.14), where the number dropped by 10.8 percent, 9.8 percent and

8.2 percent, respectively. In the major developed economies, the number of fixed-line telephones per 100 people also dropped. In 2009, compared with that in 2008, it dropped by 8.3 percent, 5 percent, and 2 percent in Japan, Germany, and France, respectively. As the mobile communication technologies further improve, which further reduces the cost of mobile communication, the use of fixed-line systems will continue to decline.

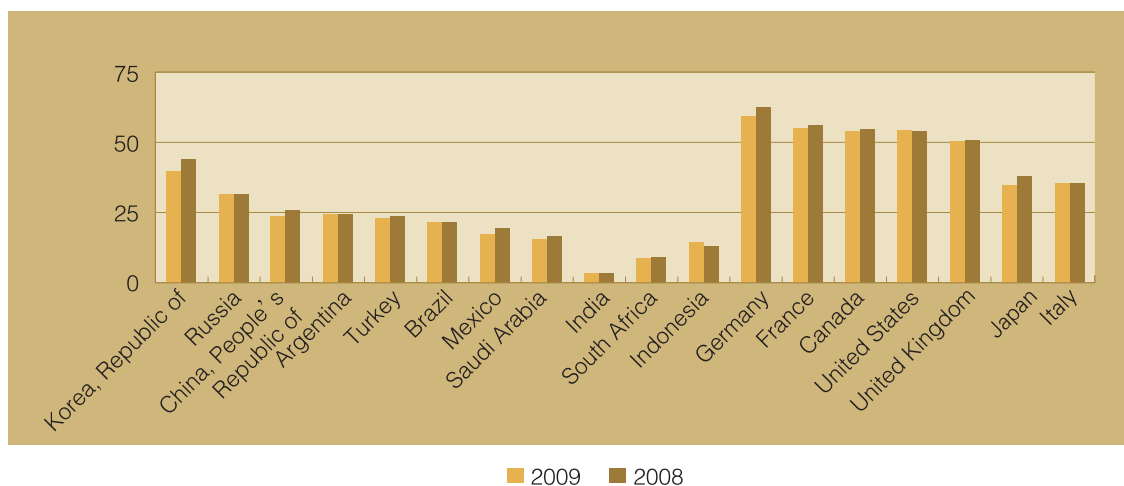


Figure 2.14 Number of fixed-line telephones per 100 people of the E11 and G7 economies in the 2008-2009 period

Source: World Bank and WDI database, December 2011

In terms of the number of Internet users, China ranked the first in the world (See Figure 2.15). In 2009, the number of its Internet users reached 384 million, about 21 percent of the global total. The US and Japan ranked the second and the third, with a number of 238 million and 99 million respectively. Seen from the perspective of the number of Internet users, the level of some emerging economies has reached or surpassed the general level of the developed economies, but the emerging economies still lag far behind in terms of Internet usage. Only the

Republic of Korea out of the E11 economies has a similar Internet usage to that of the major developed economies. Other E11 economies lag behind. India, Indonesia and South Africa have the lowest level of Internet usage among the E11 economies. The number of people using Internet per 100 people is only 5, 8 and 9, respectively, in those countries, making them lag far behind other economies (See Figure 2.16). The underdevelopment, however, is not discouraging since it means the E11 economies have enormous development potentials in the use of Internet.

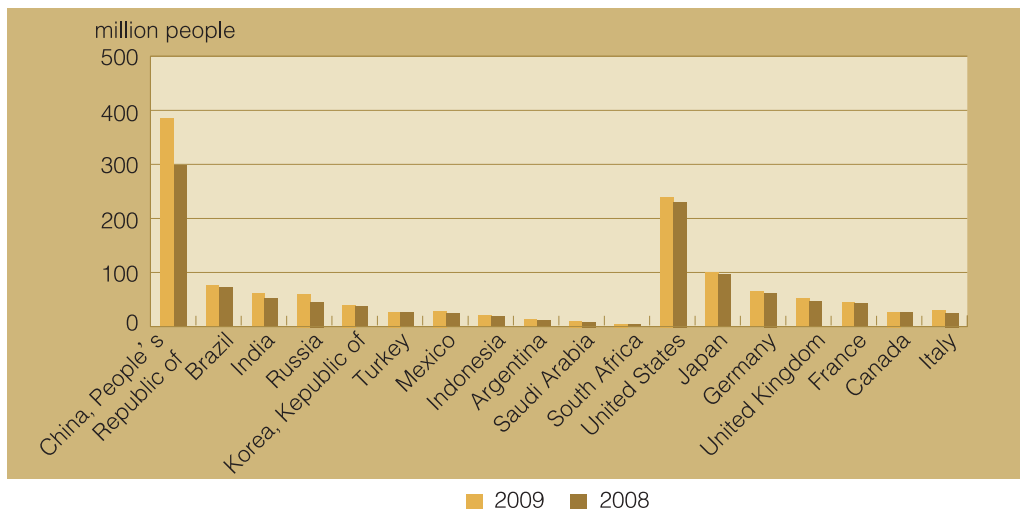


Figure 2.15 Number of Internet users of the E11 and G7 economies in the 2008-2009 period

Source: World Bank and WDI database, December 2011

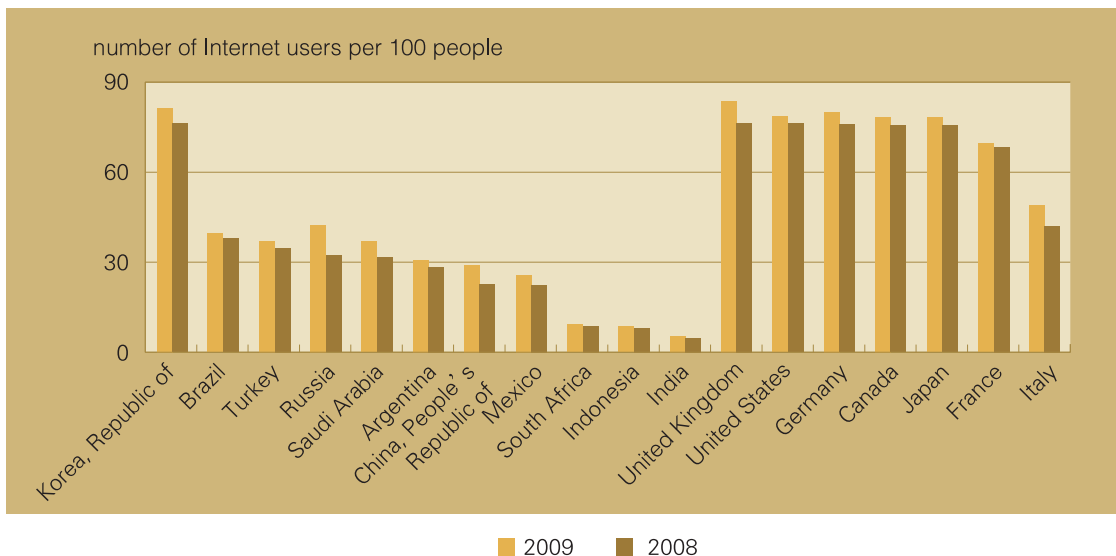


Figure 2.16 Internet penetration rate of the E11 and G7 economies in the 2008-2009 period

Source: World Bank and WDI database, December 2011

The Networked Readiness Index is provided by the World Economic Forum (WEF) and the European Institute of Business Administration (INSEAD) through analyzing and assessing the maturity and effectiveness of a country in utilizing information and communications technology (ICT), overall business, regulatory and infrastructure environment for application of ICT, as well as preparedness of individuals, businesses, and the government to use ICT.

In the 2010-2011 report, compared with the place in 2010 the Republic of Korea rose by 5 notches in 2011 and still topped the E11 economies (See Figure

2.17), far exceeding the other E11 economies. Saudi Arabia and China advanced to the 33rd and 36th place, up by 5 notches and 1 notch, respectively. As a major emerging economy, China has attached great importance to the construction of telecommunications and network facilities. The Chinese government has put in billions of dollars to build communications infrastructure. Indonesia has also increased inputs in network construction in recent years and it rose by 16 and 14 notches in the global ranking in 2010 and 2011, respectively. Compared with the other economies, in 2011 India and Argentina each fell by 5 notches over a year ago in the ranking.

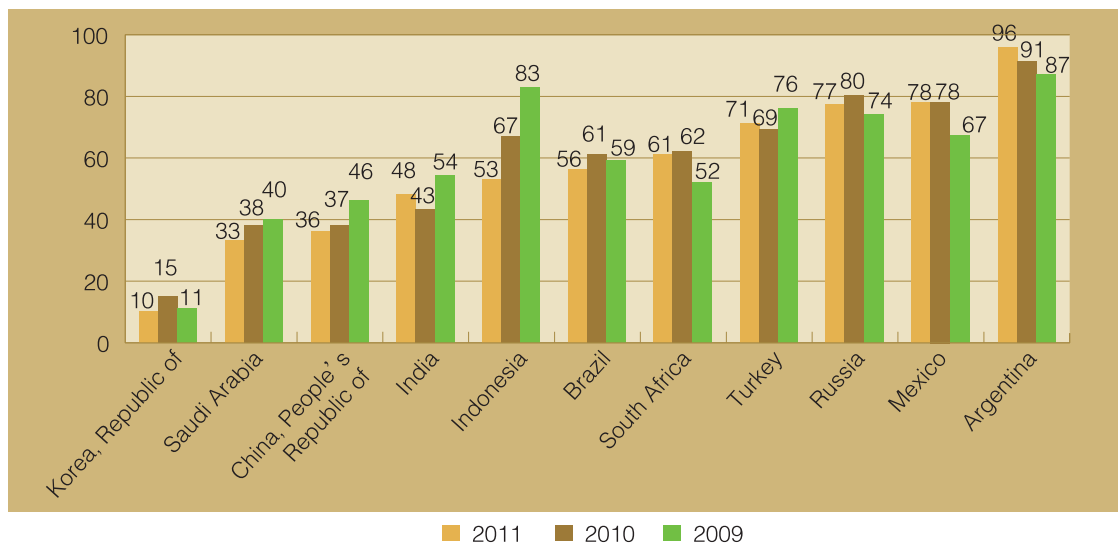


Figure 2.17 Network readiness index of the E11 economies in the 2009-2011 period

Source: INSEAD, WEF, Global Information Technology Report 2010-2011- ICT for Sustainability, 2011

2.3.3 Environment and health

The Yale Center for Environmental Law & Policy, in its Environmental Performance Index (EPI)¹ released in 2010, covers 163 economies and largely reflects their basic environmental and climate conditions. Although they also face environmental problems, the rich

developed economies rank higher than the emerging economies. The EPIs of all the E11 economies are below 70. Mexico (43rd place), Brazil (62nd place), Russia (69th place) and Argentina (70th place) relatively have fewer environmental problems and rank higher among the E11 economies. Indonesia (134th place), India (123rd place), China (121st place) and South Africa (115th place) rank lower in the list for their relatively serious environmental problems.

Early in the 17th century, English economist William Petty pointed out in his *Verbum Sapienti* (published in 1691) that the health inputs for workers would bring about economic benefits. However, limited by their development stage and economic strength, the emerging economies still lag behind the developed economies in terms of overall medical facilities and conditions (See Figure 2.19).

¹ The EPI is published every two years. It systematically monitors environmental pollution that directly affects people's health, ecosystem pressure and vitality, and contribution to climate change. With 25 indicators, the index provides quantitative basis for setting up national environmental policy targets. The index, on the basis of taking into consideration the average income gap in different countries, grades for the environmental conditions of targeted countries and provides rankings. The center has released such a report for many times, but the methodologies of those rankings are often different from each other and therefore are not comparable. This report only picks up the 2010 index. What should be noted is that we do not necessarily agree to the design of the index and we use it only as a reference for discussion.

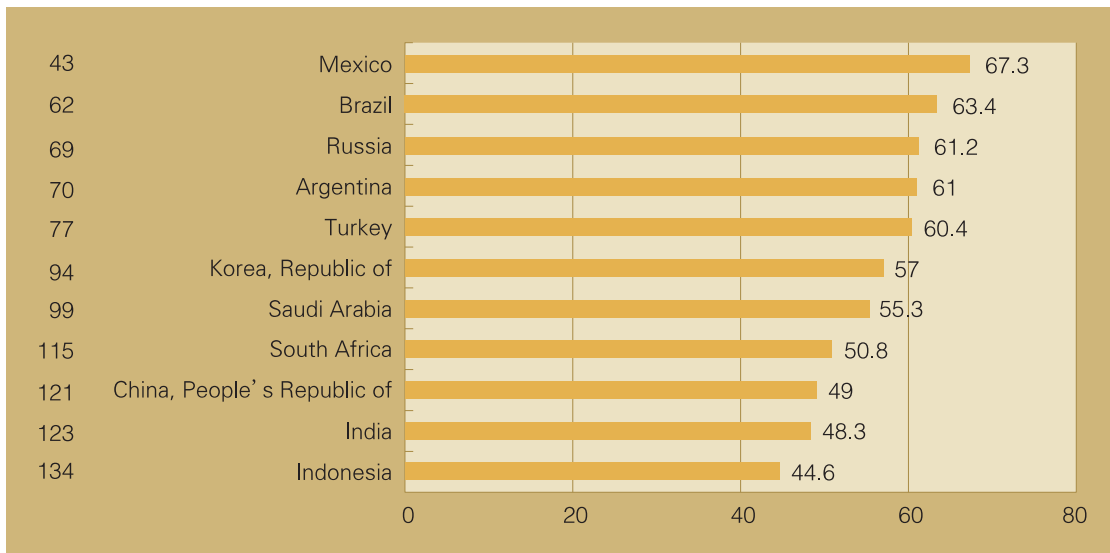


Figure 2.18 EPI scores and rankings of the E11 economies in 2010

Source: Yale University, Columbia University and WEF, 2010 Environmental Performance Index, Connecticut, 2010

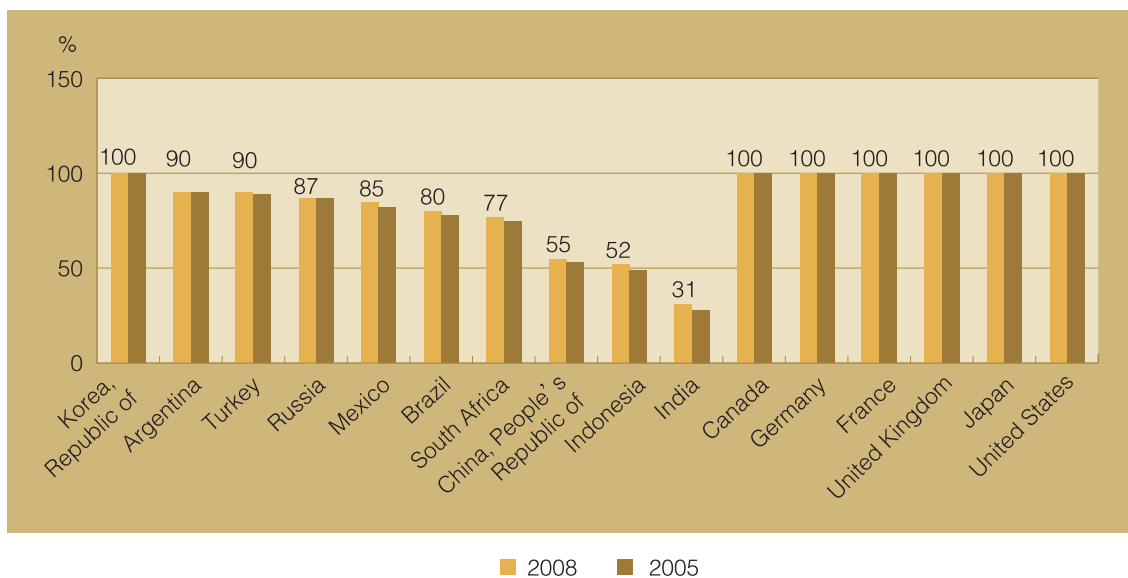


Figure 2.19 Ratio of people having access to improved sanitary facilities in the E11 and G7 economies in 2005 and 2008

Note: Saudi Arabia's and Italy's statistics are unavailable.

Source: World Bank and WDI database, December 2011

Only the Republic of Korea out of the E11 economies can ensure that every citizen has access to improved sanitary facilities. In terms of the use of improved sanitary facilities¹, India lags far behind. In 2008, only

¹ According to the WHO definition, improved sanitation facilities refer to connection to a public sewer, connection to a septic system, pour-flush latrine, access to a pit latrine, and ventilated improved pit latrine.

less than one-third of the Indian people had access to improved sanitary facilities. The level of sanitary conditions will have an impact on a country's health level and demographic quality and most emerging economies should pay adequate attention to this issue.

Per capita health cost is obviously limited by per capita income level, or the economic

development stage. Even in the Republic of Korea, a relatively developed economy in the E11, in 2009, its per capita health cost was \$1,110, only accounting for 15 percent of the US level. India, Indonesia and China had the lowest level of health cost among the E11 economies (See Figure 2.20), with their per capita health cost being \$44.8, \$55.4

and \$177, respectively, in 2009, much lower than that of the Republic of Korea, Brazil, Argentina and Saudi Arabia. The low level of health cost is closely related to the large rural population of those economies. As economic development and urbanization continue, the per capita health cost of the E11 economies is expected to rise significantly.

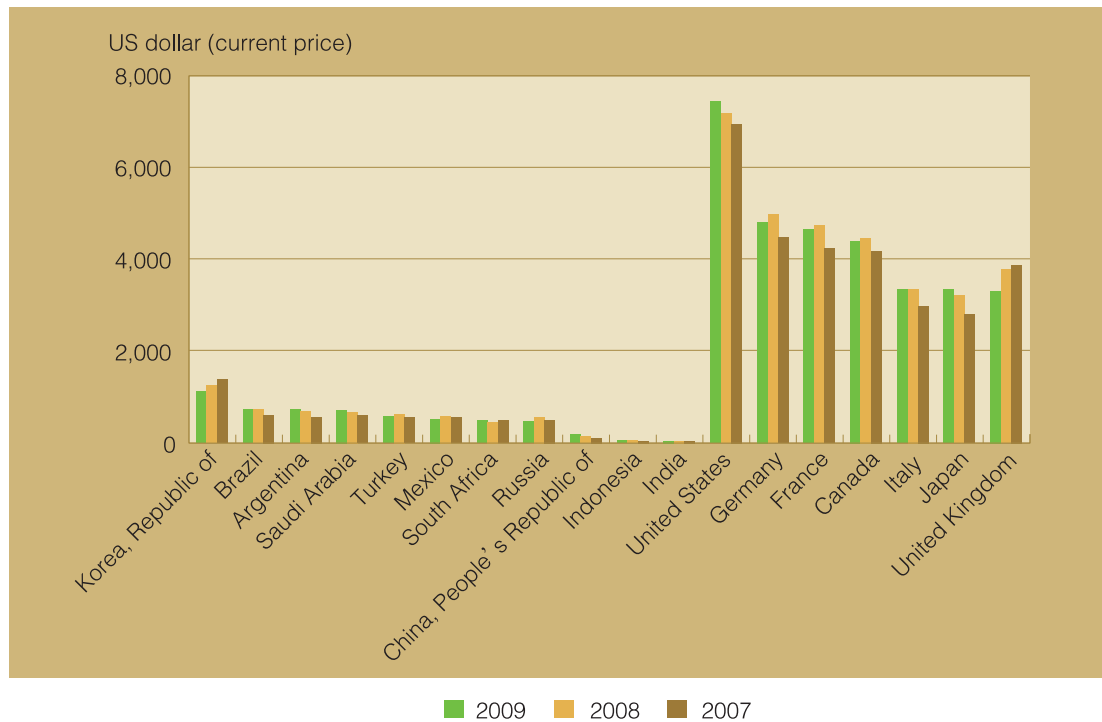


Figure 2.20 Per capita health cost of the E11 and G7 economies in the 2007-2009 period

Source: World Bank and WDI database, December 2011

If we look at the issue from the perspective of the proportion of health cost to fiscal expenditure, there will be some new findings. Generally speaking, the proportion of fiscal inputs in health in the E11 economies is smaller than that in the developed economies. If the fact that the absolute quantity of fiscal expenditure of the E11 is already less than that of the developed economies is considered, then the smaller proportion means that the inputs in improving people's well-being and quality are seriously inadequate. Among the E11 economies, the proportion of health cost to fiscal expenditure in Argentina, Turkey, the Republic of Korea, Mexico and China is higher than 10 percent (See Figure 2.21). China, Saudi Arabia, India and Indonesia have seen their proportion of health cost to fiscal expenditure remain stable for many years, but for the other E11

economies, some of them, such as Argentina, Turkey, the Republic of Korea and Brazil, have seen the proportion rise, while others, such as Mexico, South Africa and Russia have seen the proportion decline year by year. The proportion in South Africa fell to 9.3 percent in 2009 from 10.4 percent in 2008 and 11.1 percent in 2007. That of Russia also contracted in recent years, falling to 8.5 percent in 2009 from 9.2 percent in 2008 and 10.2 percent in 2007.

2.3.4 Education and science and technology

A country's overall educational level is subject to the influence of its economic development stage and; meanwhile, it can push social and economic development through application of science and technology. Although the E11 economies lag far behind the developed economies in secondary education, they have seen solid improvement

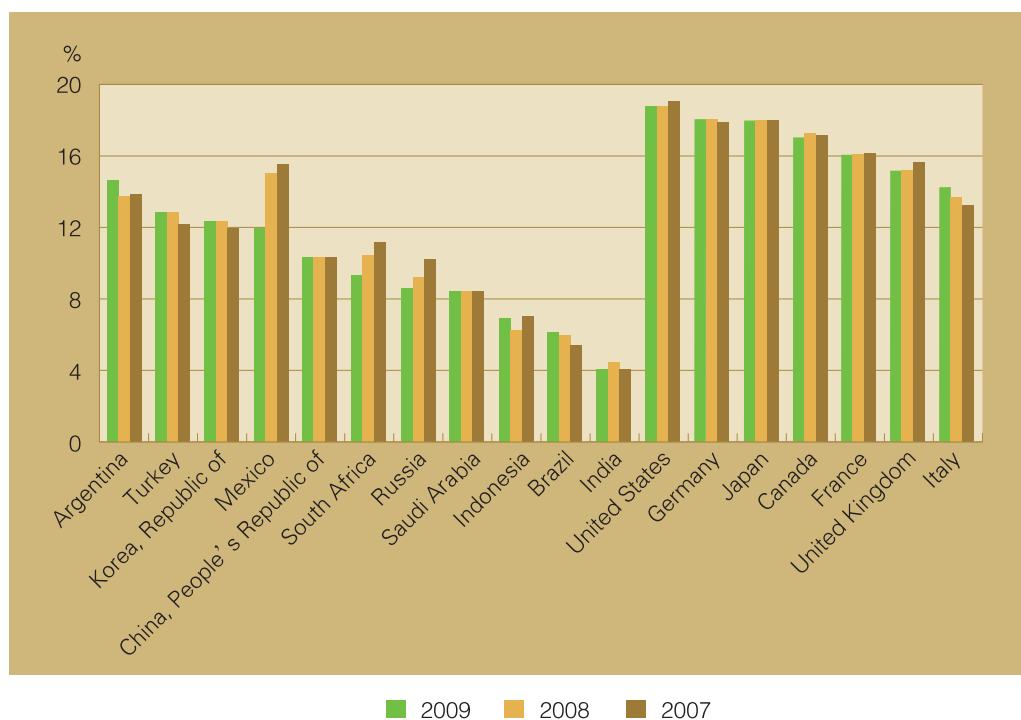


Figure 2.21 Proportion of health cost to fiscal expenditure in the E11 and G7 economies in the 2007-2009 period

Source: World Bank and WDI database, December 2011

in recent years. Given China's nine-year compulsory education system, the ratio of its people above 15 years old who have completed secondary education to the whole population is much higher than that of the other emerging economies—it's even higher than that of some developed economies (See Figure 2.22). The Republic of Korea and Mexico led other emerging economies in terms of high education, with 16 percent and 12 percent, respectively, of their population receiving college education in 2010. The Republic of Korea, Mexico and China have made more headway in pushing the development of college education than the other economies (See Figure 2.23).

A country's R&D inputs have a direct bearing on its future scientific development abilities. Although the inputs may not necessarily transform into outputs instantly, failure to make adequate investment is set to affect that country's effort to find the proper driving force for its future economic growth. The Republic of Korea has had high levels of R&D inputs. The ratio of its R&D inputs to GDP is 3.2 percent in 2007. The G7 economies have seen

their R&D expenditure far exceeding that of the other E11 economies (See Figure 2.24). Considering their large economic scale, the gap in R&D inputs between the developed and emerging economies would become bigger. In recent years, there are signs that the gap is narrowing down, but the emerging economies still face severe scientific and technological development challenges.

Among the E11 economies, China ranks the second in terms of R&D expenditure. In 2007, the proportion of its R&D research to GDP was about 1.5 percent, 0.3 percentage point higher than that of Russia. Japan has the largest proportion of 3.4 percent in the G7 economies. The G7 economies, except Italy, the UK and Canada, all see their proportion higher than 2 percent in 2007. Admittedly, the R&D input statistics of the E11 economies are inadequate due to statistical limitations and can be underestimated, but the current statistics can still indicate that there is a big gap between the E11 and G7 in terms of R&D input level. The inadequate R&D inputs of the E11 economies would affect their innovation capabilities and quality of growth and more attention should be paid to the deficiency.

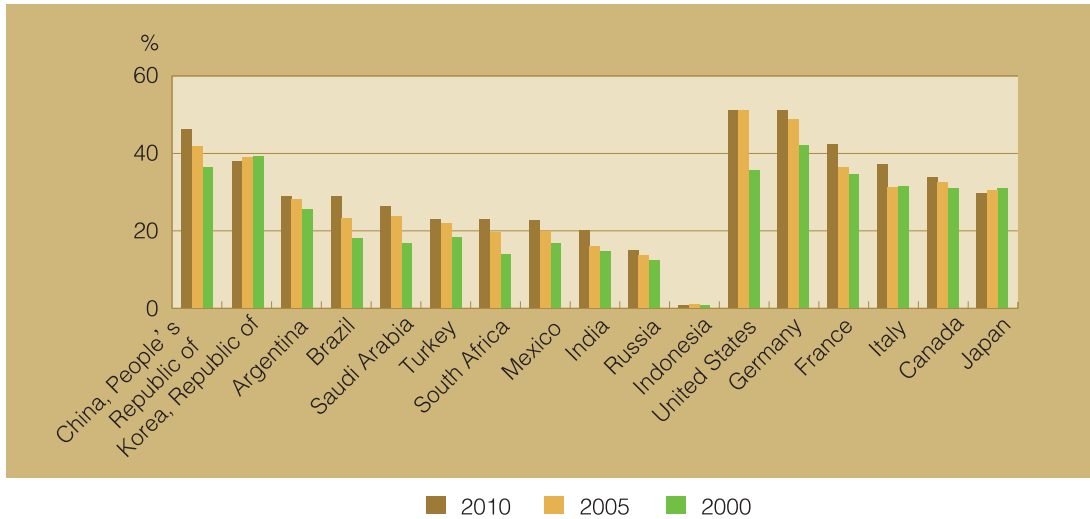


Figure 2.22 Proportion of people above 15 years old who complete secondary education in the E11 and G7 economies

Note: Data of the UK is not available.

Source: World Bank and Ed-Stats, December 2011

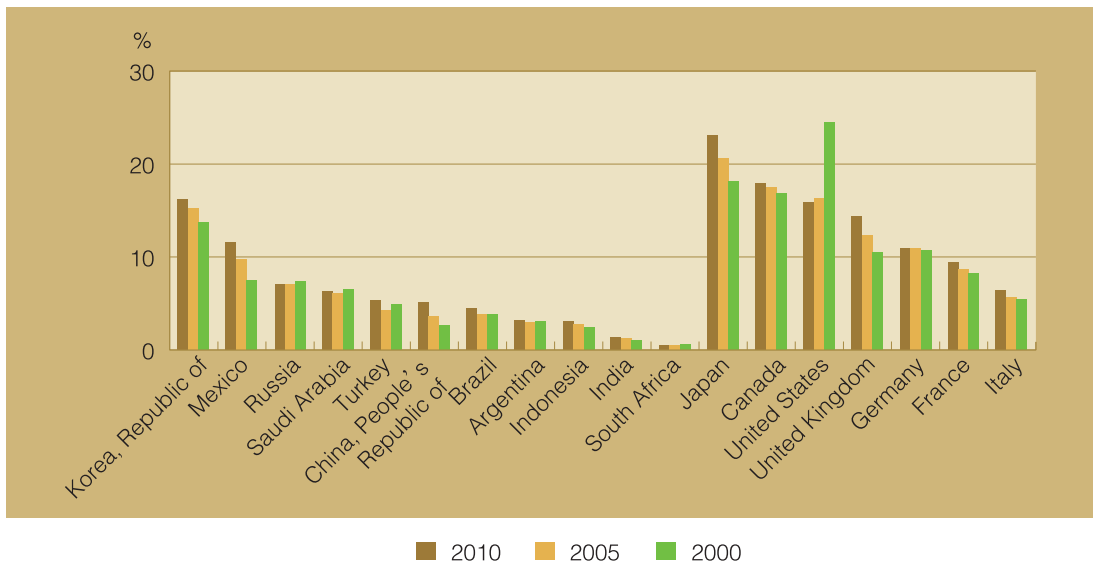


Figure 2.23 Proportion of people above 15 years old who complete college education in the E11 and G7 economies

Source: World Bank and Ed-Stats, December 2011

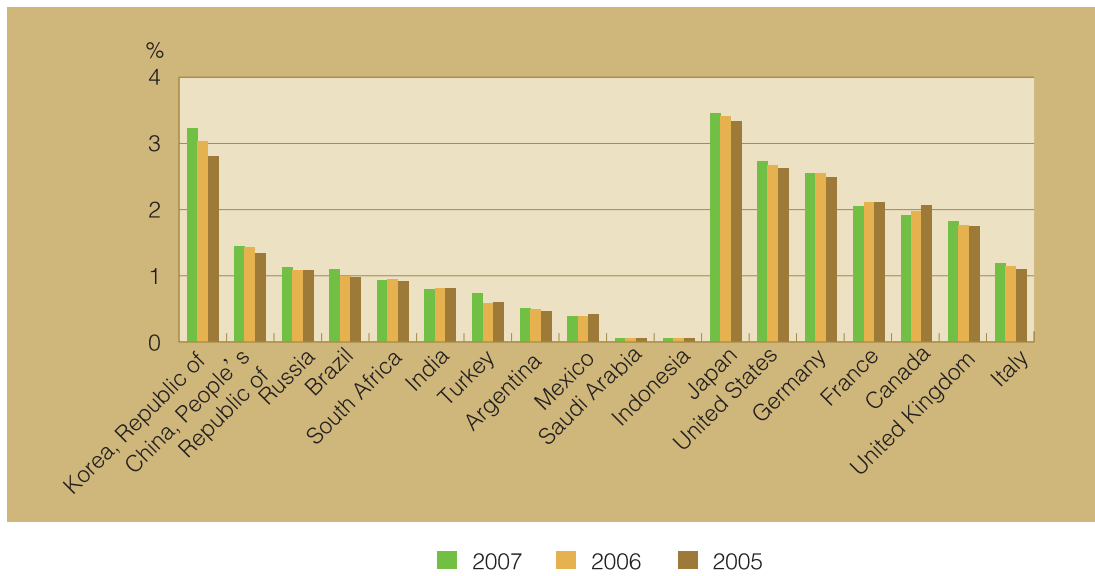


Figure 2.24 Proportion of R&D spending to GDP in the E11 and G7 economies in the 2005-2007 period

Source: World Bank and WDI database, December 2011

Chapter 3

Basic Economic Conditions of the E11 Economies

The global financial crisis, triggered by the US sub-prime mortgage crisis, dragged the world economy into the abyss of recession. In 2009, the global economic growth registered the lowest level since the World War II. As the destocking in the crisis came to an end, in 2010, the emerging economies led by the E11 had shown signs of rapid recovery in their economy. As the government and private sectors of the developed economies suffered from worsening debt conditions and rising unemployment rates in those economies, the global economy had shown signs of slack recovery since the second quarter of 2011. The economic performance of the E11 in 2011 will be analysed in the report about certain countries in Chapter VII. This chapter will focus on major macroeconomic targets, such as growth, price, employment and balance of payments, and the financial markets that reflect liquidity conditions to analyse the basic macroeconomic conditions of the E11.

3.1 Aggregate and per capita GDP

Due to recovered economic growth and the real appreciation of their currencies, the E11 economies saw their nominal GDP scale expand greatly in 2010. Compared with 2009, in 2010, all the E11 economies saw their global ranking in terms of nominal GDP move up. China's dollar-denominated nominal GDP surpassed that of Germany in 2007, before it replaced Japan to become the world's second largest economy in 2010 (See Figure 3.1). Brazil continued to move up in the global ranking in terms of nominal GDP scale in 2010 and replaced Italy to become the world's 7th largest economy. In 2010 India and Russia also moved up by 2 notches and 1 notch, respectively, to become the 9th and 11th largest world economy.

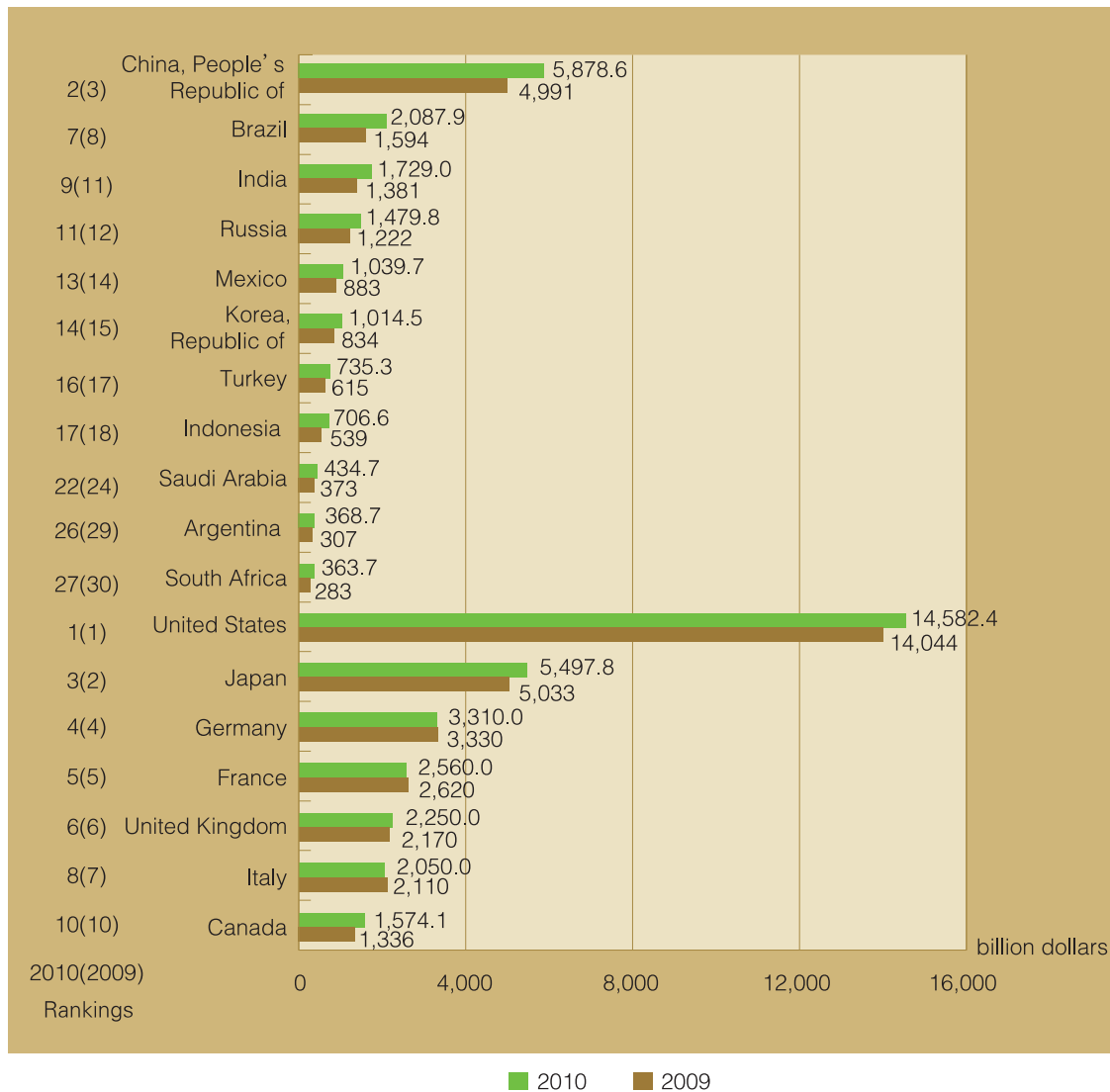


Figure 3.1 Nominal GDP scale and rankings of the E11 and G7 economies in the 2009-2010 period (current price; exchange rate-based)

Source: World Bank and WDI database, December 2011

Although the E11 economies have improved a lot in terms of nominal economic scale and become the top economies of the world, their nominal GDP levels generally lag behind the developed economies' and there is a big gap even within the E11. In 2010, the per capita nominal GDP of the Republic of Korea was \$20,800 (See Figure 3.2), the highest among the E11 economies. In the same year, the per capita nominal GDP of India was only \$1,480, 7.1 percent of the Republic of Korea's level and 3.1 percent of the US's level. In 2010, per capita nominal GDP of Saudi Arabia and Republic of Korea of the E11 Economies

was higher than \$15,000, which means they have become de facto developed economies. Per capita nominal GDP of India, Indonesia, China and South Africa was lower than \$8,000, which means they still belong to the low-income group. Moreover, there's a big gap between the overall economic scale and per capita level in China and India. It means people's life and development level in those economies are yet to improve and can even be a bottleneck blocking their further development. Meanwhile, however, it also indicates those economies have great development potentials.

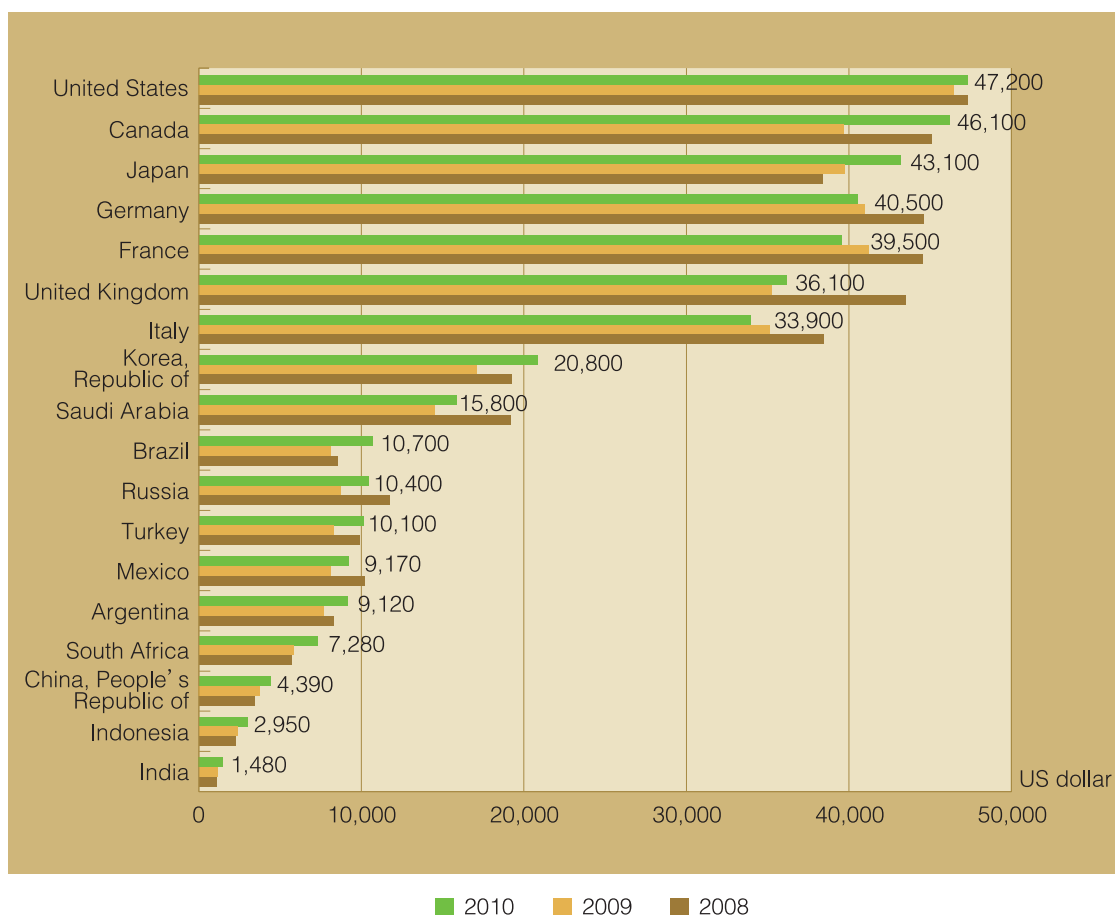


Figure 3.2 Per capita nominal GDP of the E11 and G7 economies in the 2008-2010 period (current price; exchange rate-based)

Source: World Bank and WDI database, December 2011

In 2010, the global rankings of the E11 economies in terms of real GDP remained relatively stable and only Brazil, Turkey, Argentina, Saudi Arabia and South Africa saw their rankings move up (See Figure 3.3). In 2010, China's 2005 constant price PPP-based GDP accounted for about 13.5 percent of the global total, 0.7 percentage point up compared with the previous year, but still 6 percentage points lower than that of the US. The real GDP scale of India expanded by 330 billion international dollars compared with that in 2009, nearly half of China's level.

In 2010 the Republic of Korea leads the E11 economies in terms of 2000 constant price ppp-

based per capita real GDP (16,400 international dollars per capita), about 20 times that of India (830 international dollars), which was the lowest in the E11. Argentina ranks higher in terms of per capita real GDP than in terms of per capita nominal GDP. In 2010, Argentina ranked the second in the E11 and its per capita real GDP was 10,700 international dollars, only lower than that of the Republic of Korea and slightly higher than that of Saudi Arabia. Among the developed economies, Japan ranks the first globally in terms of per capita real GDP. In 2010, its PPP-based per capita real GDP was 39,700 international dollars, nearly 2,000 international dollars higher than that of the US.

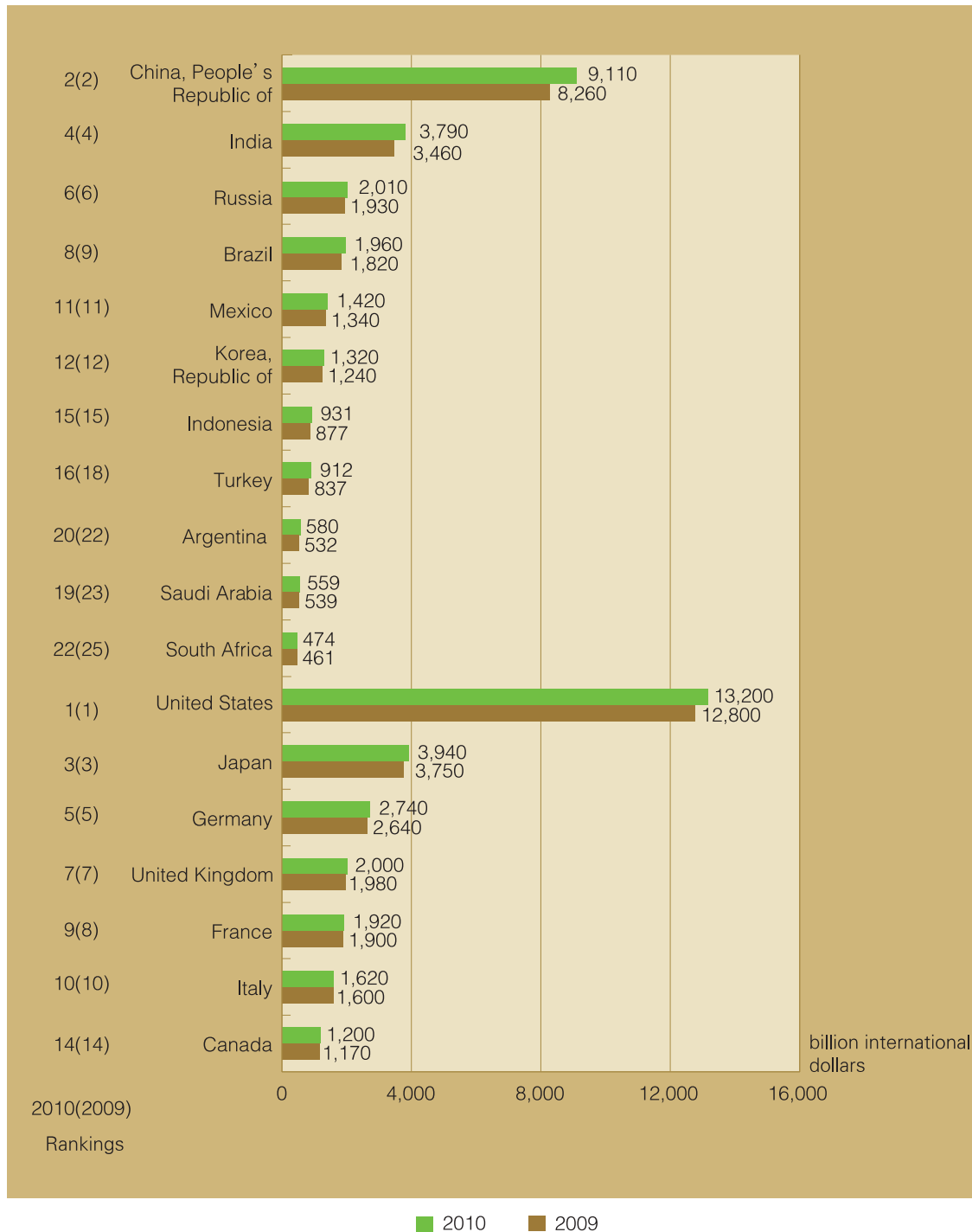


Figure 3.3 Real GDP scale and rankings of the E11 and G7 economies in the 2009-2010 period (2005 constant price, PPP)

Source: World Bank and WDI database, December 2011



Figure 3.4 Per capita real GDP of the E11 and G7 economies in the 2008-2010 period (2000 constant price, PPP)

Source: World Bank and WDI database, December 2011

3.2 Economic growth

Stable growth is one of the most important social and economic targets of an economy since even if the annual economic growth changes are not very significant, the accumulative effect in the long term will have a great impact on that economy. Compared with the developed economies, governments of the developing economies generally attach more importance to economic growth. Since 2003, all the E11 economies except Mexico, whose growth was lower than 3 percent, have had a growth rate of above 3 percent. Some economies, such as China, India and Argentina, even achieved a GDP growth rate of more than 7.5 percent.

In 2009, the E11 economies all suffered from falling growth rate and some economies even registered negative growth. However, the growth

deceleration changed in 2010, when all the E11 economies maintained a growth rate of above 2.8 percent (See Figure 3.5). Although their overall economic scale has been quite large, China and India are yet to see falling growth rates. After the obvious economic contraction in 2009, China's economy maintained two-digit growth rate in 2010, while that of India, Argentina, Turkey and Brazil all exceeded 7.5 percent. South Africa had the worst performance among the E11 economies, but its growth rate still reached 2.8 percent, up by 7.5 percentage points compared with that in 2009. The sustained high-rate economic growth has not only led to expanded real economic scale, but also has made currencies of those economies strong and, with the two factors combined, the E11 economies have expanded rapidly in terms of nominal economic scale.

The eruption of a series of issues, such as

severe natural disaster, social unrest and the hovering debt in the developed economies has dragged on global economic performance. Globally, the economic performance of the E11 economies remains eye-catching, but the pace of growth in those economies has slowed and the slow-down will last in 2012 (See Figure 3.5). Despite that, the E11 will remain the leader of the global economy and how big the growth

gap between the developed and emerging economies will hinge on the E11's resource utility rate, output activities and their ability to coordinate the development of real economy and virtual economy. It also depends on whether the increasingly affluent E11 economies can create adequate domestic market demand that can well compensate for the losses of demand in the developed economies.

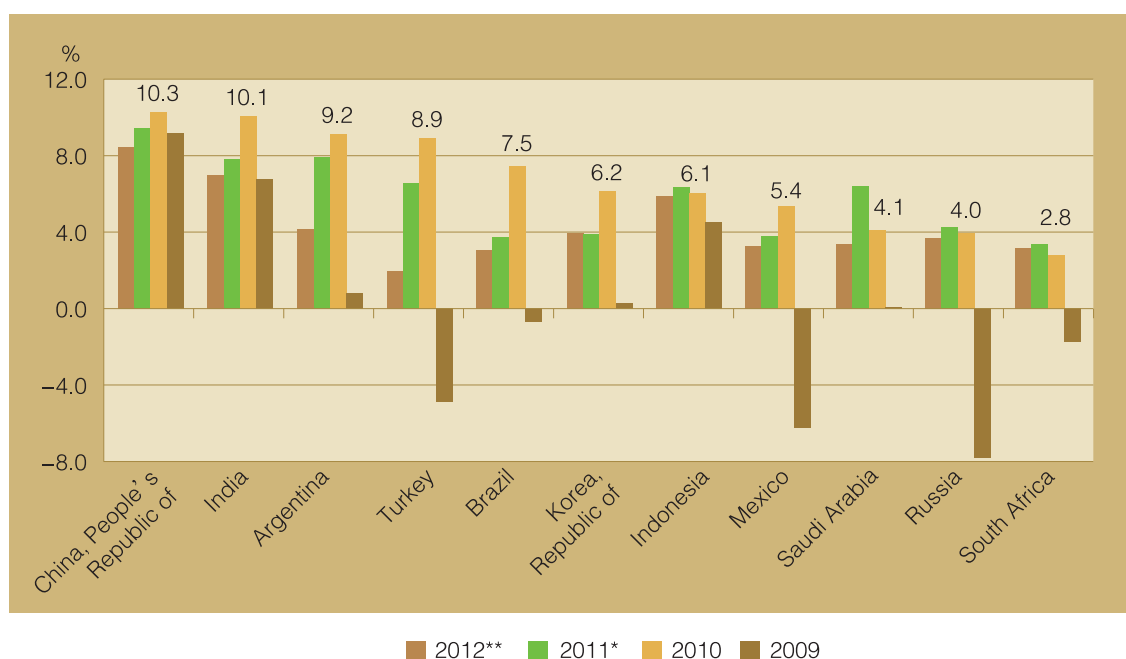


Figure 3.5 PPP-based GDP growth rates of the E11 economies in the 2009-2012 period

Note: 2011* is an estimated figure and 2012** forecast figure.

Source: IMF and WEO database, September 2011

3.3 Price fluctuations

Price stability is usually taken as a valuable target. On the one hand, the cost of inflation is often very high. Some cross-border studies (e.g. Barro, 2004) have shown that there is an obviously negative correlation between high inflation and economic growth. On the other hand, excessively high inflation can exacerbate poverty and unfair distribution. For example, the inflation spiral in Argentina in the 1980s encroached upon the interest of middle class and the poor, who were not very capable of hedging against such exorbitantly high inflation. Moreover, once high inflation risks became uncontrollable, people would lose confidence in the currency authorities and monetary policies would fail to work.

In India, Argentina, Turkey, Indonesia and China, prices have shown strong rising momentum, but in the other E11 economies (especially those resource-exporters), inflationary pressure has been easing gradually. Only India and Argentina out of the E11 economies had a price change of more than 10 percent in 2010, which was higher than the 2008 level (See Figure 3.6). In 2011, some E11 economies continued to suffer from high inflation, but due to the lingering contraction of the external demand in the developed economies and the capital outflows as a result of international financial market turbulence, since the second half of 2011, the inflationary pressure in the emerging economies has begun to ease. The emerging economies are generally not very capable of controlling prices

and the easing inflationary pressure will allow the governments of those economies to take the opportunity to adjust their policies to lower their dependence on the developed economies in trade, investment and financial activities. Compared

with the E11, the developed economies have had relatively smaller price changes; however, the prices in the developed economies should be noted. The prices are gradually rising up, although they remain mild at the current stage.

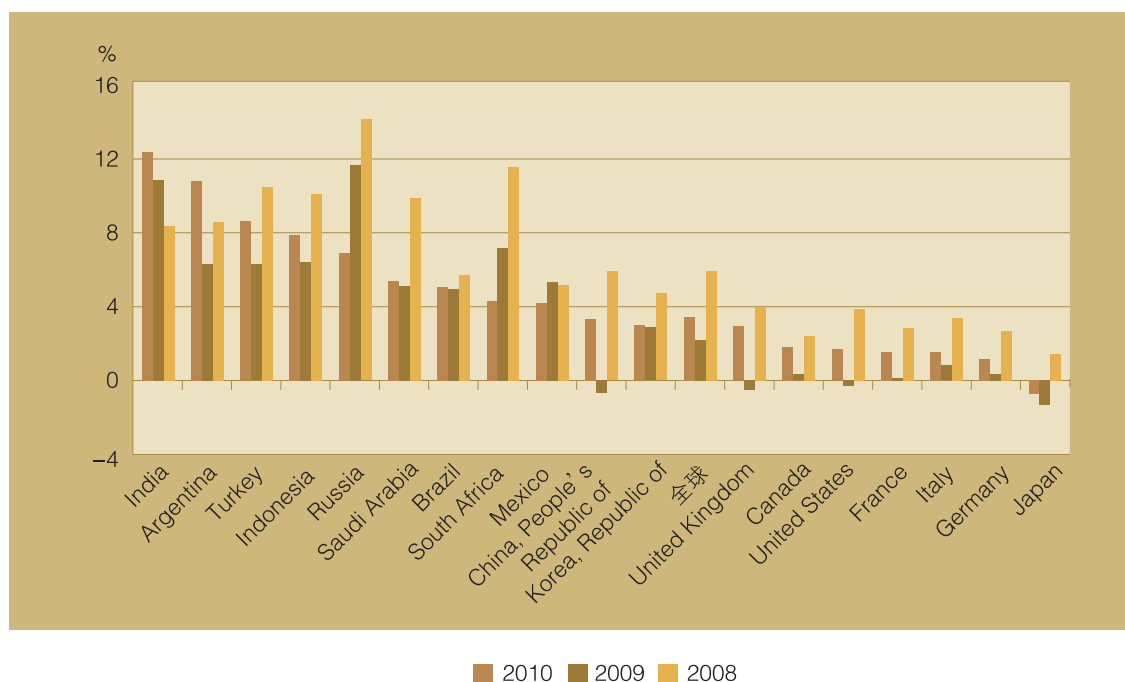


Figure 3.6 Domestic consumer price index changes in the E11 and G7 economies in the 2008-2010 period

Source: IMF-IFS, December 2011

The tradable industrial goods price-related producer price index (PPI) better reflects the effect of the deepening global trade and is often the leading indicator for a country's domestic inflation. In 2010, except Mexico, where PPI declined, the index in all the other E11 economies rebounded (See Figure 3.7). In Argentina, where PPI remained high since the start of the 21st century and maintained 10 percent before the eruption of the global financial crisis, suffered from the highest PPI changes in 2010. Meanwhile, major manufacturing powers in the E11, such as China, the Republic of Korea and Indonesia, had relatively stable PPI changes.

Nominal exchange rate changes have a bearing on the currency links between a country's economic activities and cross-border trade and investment. After the eruption of the global financial crisis, initially the nominal value of the currencies of many E11 economies

slumped in 2009. For example, the value of Russian rouble, Mexican peso and Korean won fell by 17.4 percent, 16.7 percent and 13.9 percent, respectively (See Figure 3.8). In 2011, the Turkish new lira, Argentine peso and Saudi riyal depreciated the most among the E11 currencies. Their nominal value fell by 13.1 percent, 9.3 percent and 4.7 percent, respectively. Their real value fell by 11.4 percent, 5.3 percent and 3.6 percent, respectively. Meanwhile, Brazilian real and Mexican peso appreciated by 3.7 percent and 1.4 percent, respectively. Their real value rose by 5.8 percent and 1.2 percent, respectively (See Figure 3.8 and 3.9). Brazilian peso appreciated by 14.8 percent nominally in 2010 and continued to appreciate in 2011. It is understandable that Brazil has been seriously worried about the appreciation because in the mean time, the country has also suffered from current account deficits.

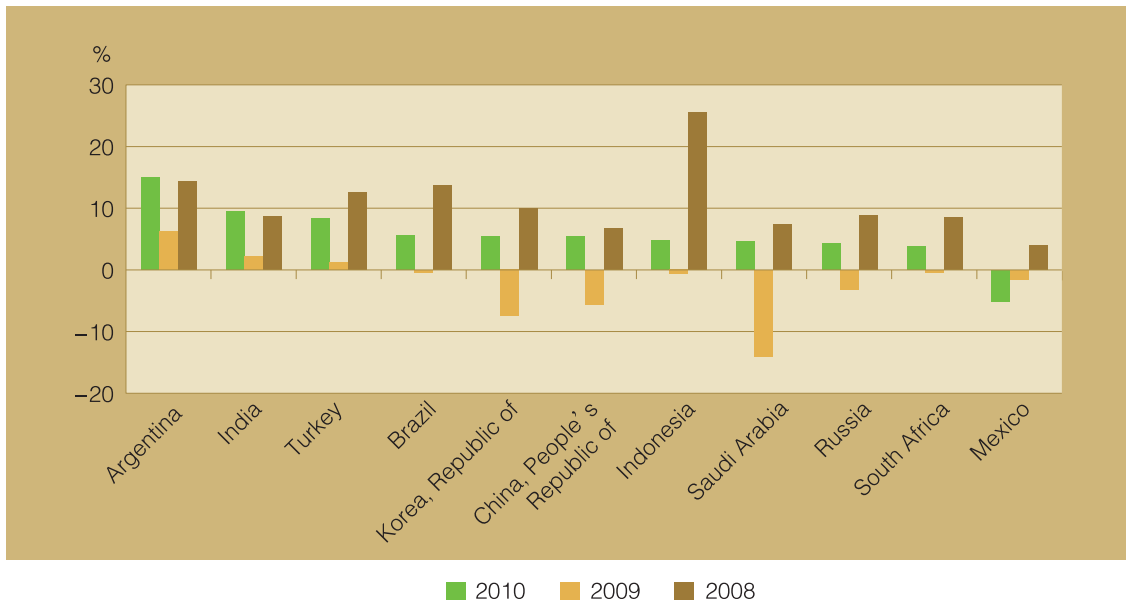


Figure 3.7 PPI changes in the E11 economies in the 2008-2010 period

Source: IMF-IFS, December 2011

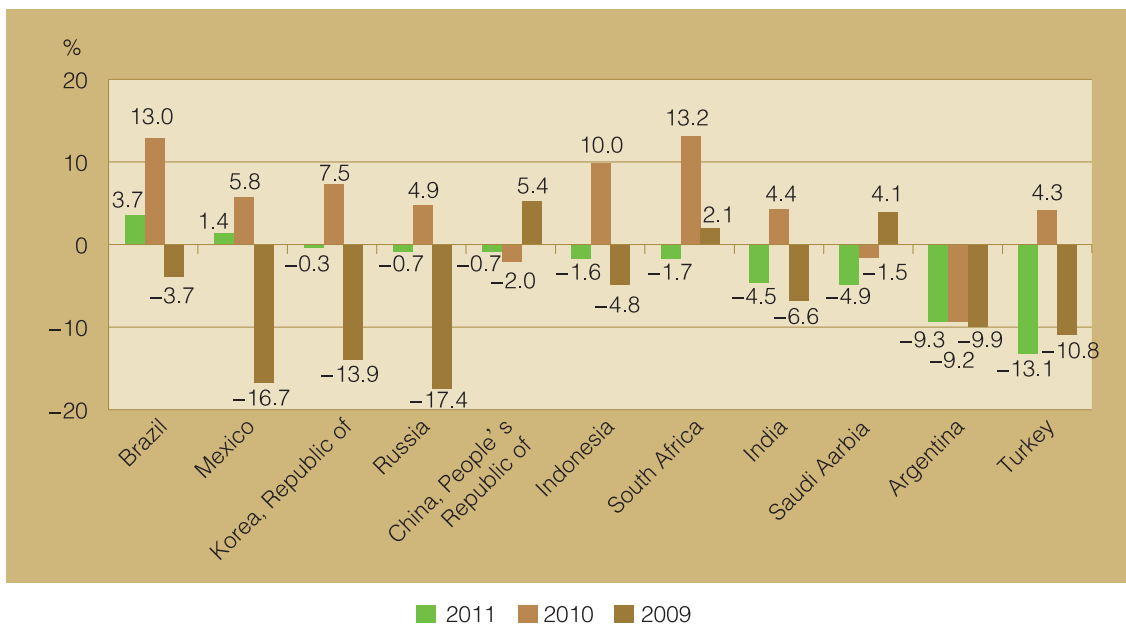


Figure 3.8 Annual changes in nominal effective exchange rates of the E11 economies in the 2009-2011 period

Source: IMF-IFS, December 2011

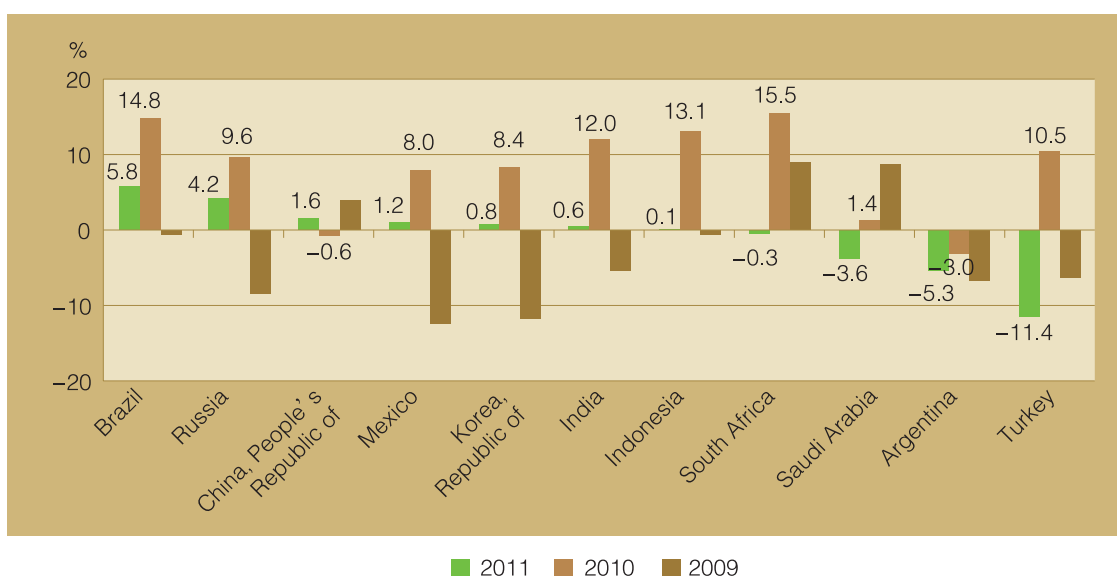


Figure 3.9 Annual changes in real effective exchange rates of the E11 economies in the 2009-2011 period

Source: IMF-IFS, December 2011

3.4 Employment

The E11 economies have had very different employment situations due to their cultural tradition and statistical differences. The cultural difference is mainly reflected in labor participation while statistical difference is shown in the cross-section data of registered unemployment.

Labor participation refers to the percentage of people engaged in economic activities (including both the employed and unemployed) to the working-age population and is an indicator used to measure people's involvement in economic activities. The current labor-participation rate available was that in 2009. However, due to the influence of the tradition and social system, the rate is relatively stable in the mid- and long-term. If only male population is considered, then Indonesia has the highest labor participation rate. In 2009, the overall labor participation rate in China, Brazil and Indonesia was 73.7 percent, 70.7 percent and 68.9 percent, respectively, higher than that in the other E11 economies and G7 economies (See Figure 3.10). Similar to the developed economies, the E11 economies also have higher male labor participation rate than female labor participation rate due to the social difference of gender. In Saudi Arabia and Turkey, such a gender difference is especially obvious. China tops the E11 economies

and surpasses the G7 economies in terms of both overall labor participation rate and female labor participation rate. On the one hand, it reflects the independence of Chinese women; on the other hand, it's a reflection of cultural and social traditions. Among all the E11 economies, Saudi Arabia has the biggest gap—58.6 percentage points—between male and female labor participation rates. India ranks the second. There's also a big development gap between the two countries. As a resource exporter, Saudi Arabia is an affluent country while the per capita nominal GDP of India was only \$1,480, the lowest in the E11. Therefore, the argument that poverty or survival pressure has forced women to participate more in economic activities does not apply to the E11 as a whole.

Due to the differences in statistical diameters and methods as well as national conditions, there is a gap between the real employment market conditions and the scenario as indicated by the unemployment rates in the E11 economies. However, generally speaking, the historical changes in the registered unemployment rates of those countries can still provide some information regarding changes in the labor market. In 2011, registered unemployment rate exceeded 10 percent in such E11 economies as South Africa (23.9 percent), Saudi Arabia (10.9 percent) and Turkey (10.1 percent) (See Figure 3.11). Their registered unemployment

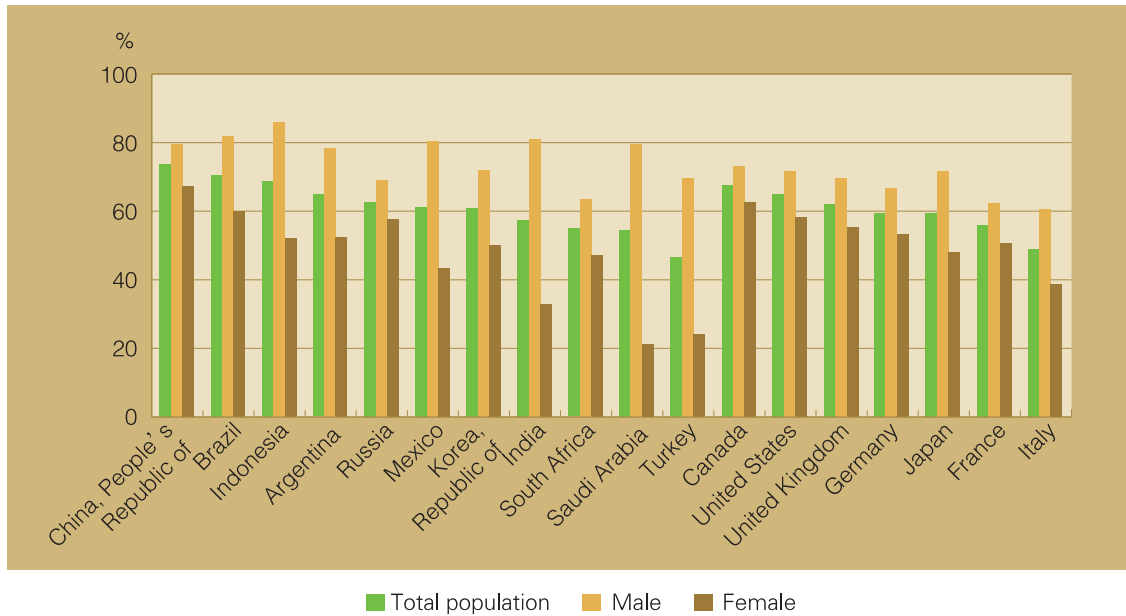


Figure 3.10 Labor participation in the E11 and G7 economies in 2009

Source: World Bank and WDI database, December 2011

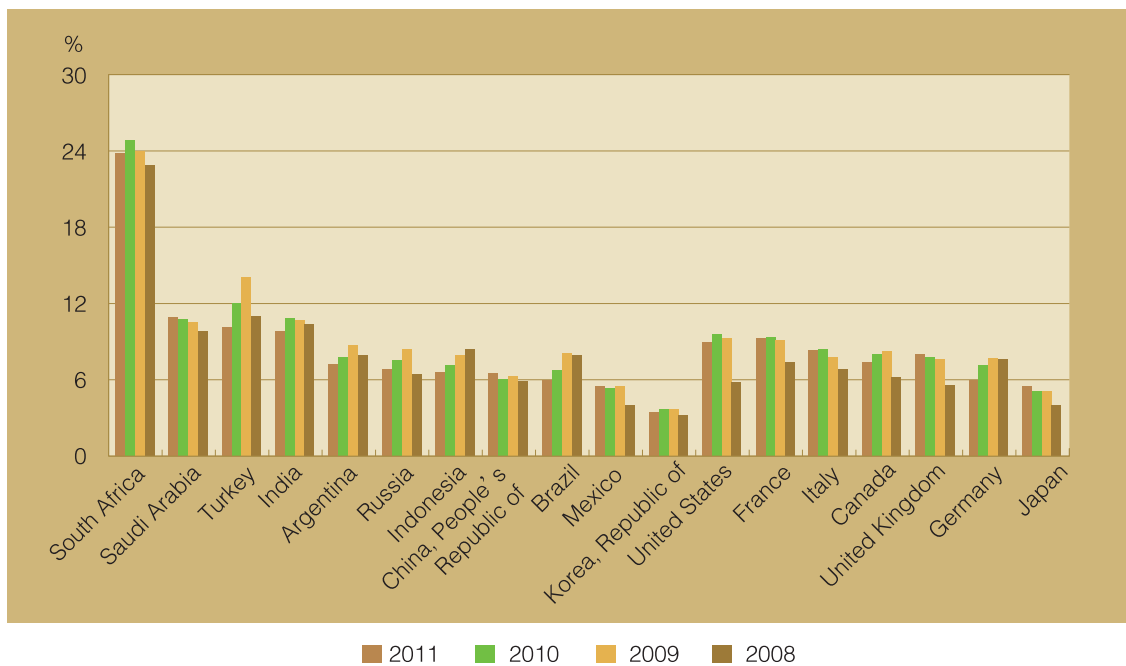


Figure 3.11 Registered unemployment rates of the E11 and G7 economies in the 2008-2011 period

Source: EIU, December 2012

rates were even higher than those of the G7 economies. Meanwhile, the labor participation rates of those economies were also lower than the other E11 economies. Despite the cultural or traditional

influence, the high unemployment rates and low labor participation indicate that they are far away from full employment, which has brought a series of problems to their macroeconomy and social stability. Most

developed economies are yet to have their jobless rates in 2011 fall below the pre-crisis level, some E11 economies, such as Brazil, Indonesia and Argentina, have seen their jobless rates drop substantially, which indicates relatively promising market prospects.

3.5 Balance of payments

For the developing economies, since their own currencies are not used in international payments and therefore are not reserve currencies, they find it difficult to find low-cost foreign currency resources to guarantee imports or satisfy other demands once their international reserves run out. In the meantime, for an open economy, the exchange rate of its currency is subject to the influence of balance of payments and if it suffers from large amounts of deficits for a long time, then its home currency would have to depreciate sharply, which further reduces its purchasing power of foreign goods. Meanwhile, given the networked financial system, the poor performance in the currency market would directly affect that country's capital and liquidity performance and harm the whole economy.

Therefore, it is crucial for a country to maintain balance of payments and have adequate amounts of international reserves.

Current account is an often-used measurement for the rebalancing of the global balance of payments. After the global imbalance peaked in 2007, the global trade contraction in 2009 contributed to the rebalancing of the global current accounts. In 2010, as trade activities picked up, some economies' current account imbalance worsened again. The proportion of current account deficit to GDP in such economies as Turkey and India in the E11 and Italy, the US and UK in the G7 increased again. Meanwhile, the proportion of current account surplus to GDP in such economies as Saudi Arabia and Russia in the E11 and Germany and Japan in the G7 also rose. In 2010, performance of manufactured goods-based current accounts of the E11 was weaker than that in 2009. For example, the ratio of current account to GDP in China, the Republic of Korea and Indonesia fell to 5.2 percent, 2.8 percent and 0.9 percent, respectively, in 2010 from 5.9 percent, 3.9 percent and 1.9 percent (See Figure 3.12).

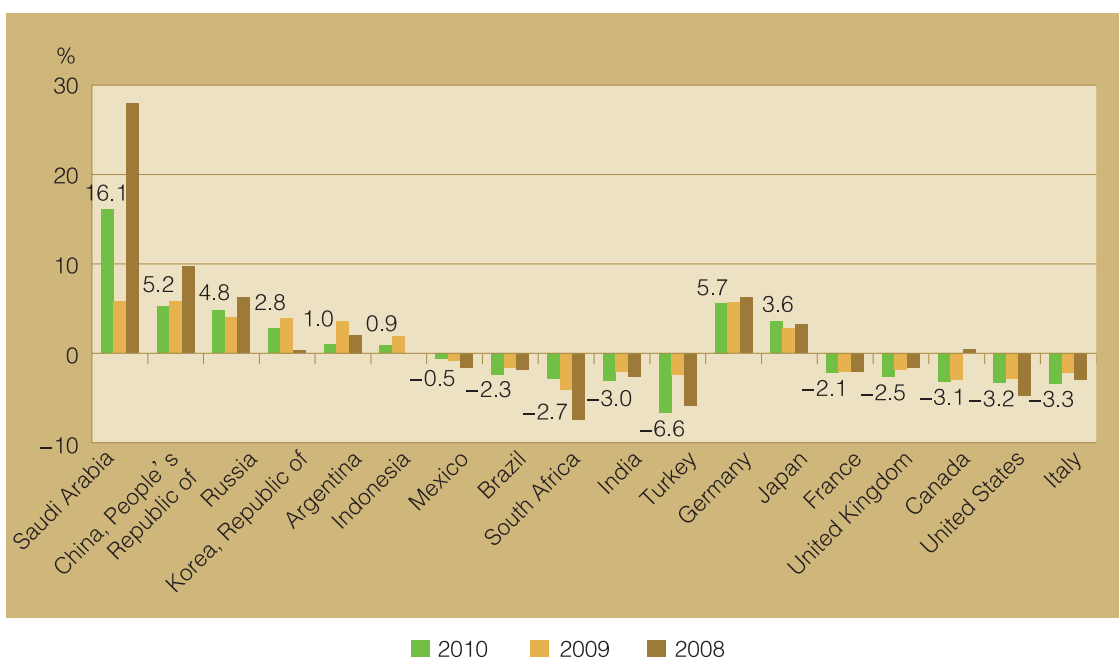


Figure 3.12 Ratio of current account to GDP in the E11 and G7 economies in the 2008-2010 period

Sources: IMF-IFS and WDI, December 2011

As the largest holder of current account surplus in the world in absolute terms, China saw its ratio of current account surplus to GDP fall gradually from 10.6 percent in 2007 to 9.6 percent in 2008,

5.9 percent in 2009 and 5.2 percent in 2010. As the external environment changes and China tries to tap its domestic market, it is expected that the ratio will continue to drop.

The trade sector contributes the most to the balance of payments in the E11. In the past 20 years, the E11 economies have generally seen their trade volume expand rapidly. India ranked the first in terms of ratio of trade expansion. In 2010, its exports and imports of goods were valued at \$804.467 billion, 98.7 times its 1990 level. China ranked the first in terms of absolute volume of trade expansion. Its volume of traded goods increased to \$3.337 302 trillion in 2010 from \$125.477 billion (See Figure 3.13). Moreover,

China and India maintained a high expansion rate of trade of goods in the past ten years. Compared with the 2000 level, in 2010, their volume of traded goods expanded by 6.17 times and 6.43 times, respectively, far exceeding the growth rates among other economies. In the recent ten years, Germany doubled its volume of trade thanks to the trade integration as a result of the unified currency in the euro zone. Other G7 economies have failed to double their trade volume.

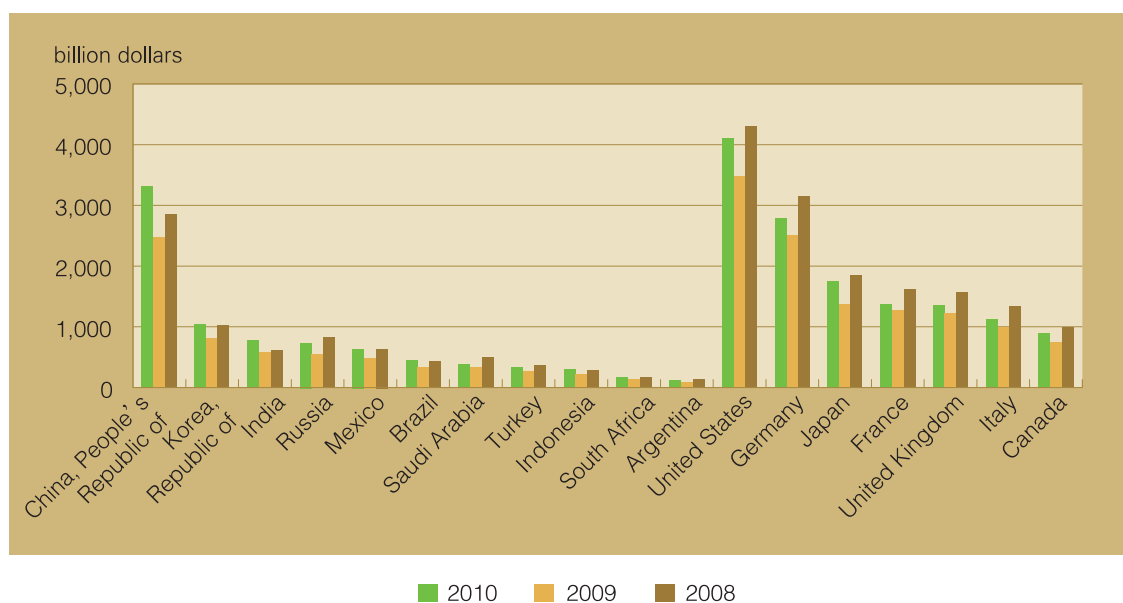


Figure 3.13 Exports and imports of the E11 and G7 economies in the 2008-2010 period

Sources: IMF-IFS and WDI, December 2011

Following the global trade contraction in 2009, global trade activities rebounded rapidly in 2010 as a result of the recovery of global economic activities. Compared with that in 2009, the real volume of global trade of goods (exchange rate and price factors deducted) increased by 14.5 percent, the largest growth after 1950. Such a change happened simultaneously in almost all the economies that participated in global trade, although the growth rates varied. China's volume of traded goods picked up substantially in 2010, exceeding the 2008 level (See Figure 3.13). Since the developed economies—the main consumers of global trade—were yet to achieve an all-round economic recovery in 2010, their trade volume was still lower than the 2008 level. Therefore, China's performance in trade of goods

may indicate that while it is gradually reducing its dependence on the developed country consumers, it is shifting to tap the larger markets of emerging and developing economies. As main oil and gas exporters, Russia and Saudi Arabia had an exceptionally good performance in trade in 2008 thanks to the surging energy prices. As energy prices dropped, their trade volume also slumped. The dramatic fluctuations of resource product prices affect resource exporters' effort to balance their international payments and maintain stable domestic prices.

There is an obvious trend of convergence in China's exports and imports of goods. On the one hand, it stems from the fact that the ratio of China's processing trade is decreasing but remains high; on the other hand, it comes from the exceptionally

good performance of the import sector thanks to the wealth effect as a result of the national wealth increase brought about by exports. In 2010, its imports of goods amounted to \$1.39469 trillion, up by \$390.52 billion year-on-year, \$14.04 billion higher than its export

increase (See Figure 3.14). In 2010, other E11 economies had varied performances in trade. The Republic of Korea, which ranked the second among the E11 economies in terms of trade volume, saw the increase in its imports of goods far exceeding that in its exports.

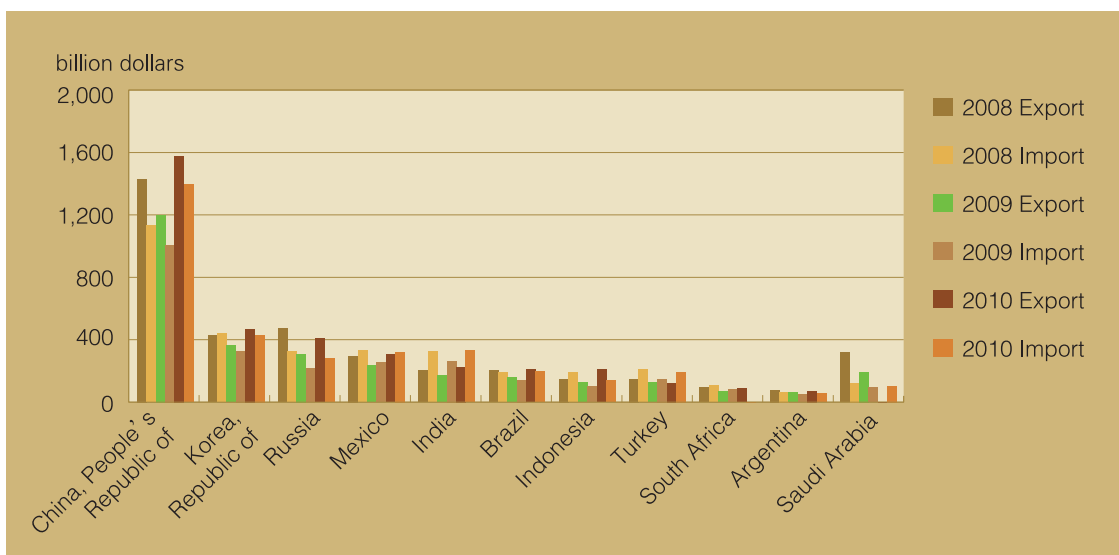


Figure 3.14 Export and import performances of the E11 economies in the 2008-2010 period

Source: World Bank and WDI database, December 2011

3.6 Financial markets

We use the 3-month inter-bank interest rates as the main indicators to reflect the liquidity performances of the E11 economies' currency market. In terms of the short-term cost of inter-bank loans, the cost of the E11 is higher than that of the developed economies (See Figure 3.15 and 3.16). The gap, on the one hand, stems from the fact that the E11 economies opted to keep high policy interest rates to cope with high inflation; it was also attributable to the relatively low lending efficiency of the E11 economies. On the other hand, it came from the continual unleashing of liquidity by policymakers in the developed markets to bail out the market at the sacrifice of interest rates. Among the E11 economies, the 3-month short-term exchange rate in Saudi Arabia was the lowest; it was about 0.66 percent in October 2011. The annualized rate of the loans in the other economies was generally above 3 percent, with that of Argentina and Brazil exceeding 10 percent (12.87 percent and 11.5 percent, respectively, in October 2011). In stark contrast,

since the major developed economies allowed their currencies to weaken in 2009, the annualized 3-month inter-bank interest rate had been kept below 2 percent. As the debt problems continue to bog down the developed economies, it is expected that in 2012, the short-term costs of loans in some developed economies bogged down in financing difficulties, such as the euro zone, will continue to rise.

There has been an obvious upward trend in the securities market of the E11 economies. The trend has not stopped even after the eruption of the global financial crisis. Except the unusual securities market performance of the Republic of Korea, which boasted higher development level, securities markets of the other emerging economies were basically in line with the same movement trajectory in the past more than 10 years. The E11 securities market did not have a very long history but they developed at a fast pace during the 1995-2007 period, with their index rising and market scales expanding. Due to the trend of financial globalization and converging market participation,

as well as the relatively less mature financial sectors, external impacts on those economies have shown

the trend of convergence regardless of whether their financial markets are opened up.

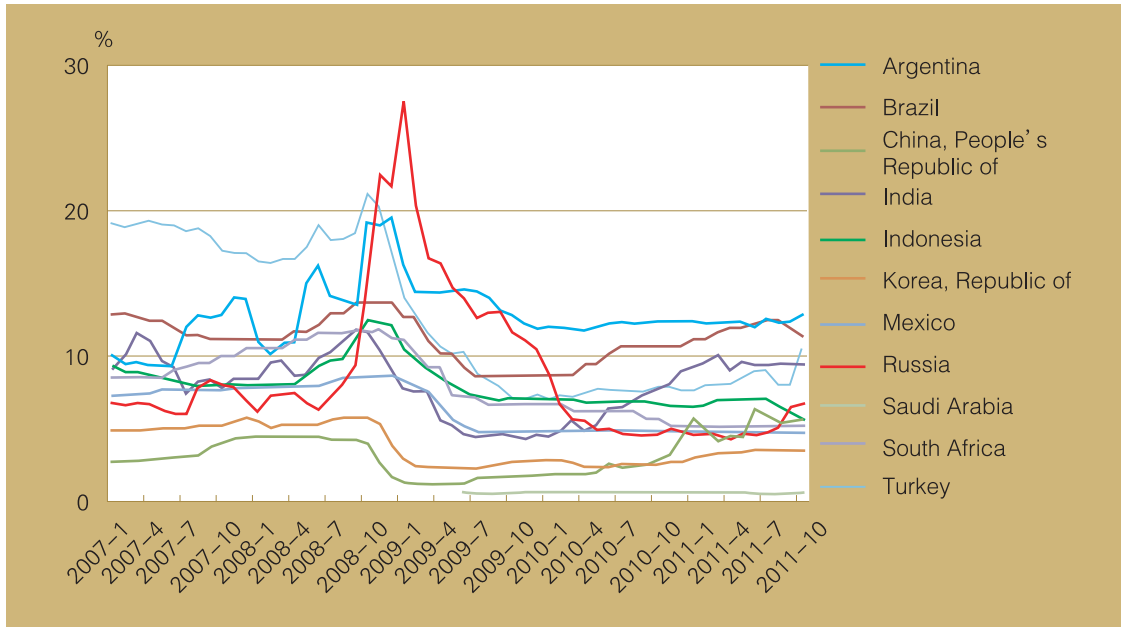


Figure 3.15 E11's 3 months short term interest rate in the 2007-2011 period

Note: Argentina: 3 months BAIBOR; Brazil: month end policy rate; China: 3 months SHIBOR; India: 3 months MIBOR; Indonesia: 3 months interbank offer rate; The Republic of Korea: 3 months KORIBOR; Mexico: 28 days interbank equilibrium interest rate; Russia: 3 months MIBOR; Saudi Arabia: 3 months SIBOR; South Africa: 3 months SABOR; Turkey: 3 months TRLIBOR

Source: CEIC, January 2012

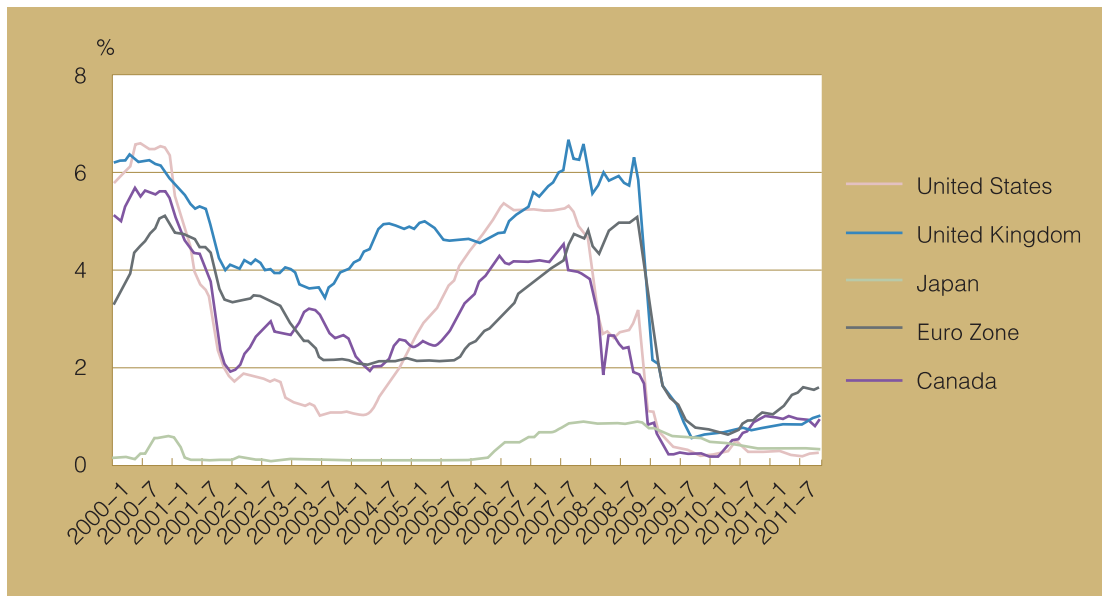


Figure 3.16 Major developed economies' 3 months short term interest rate in the 2000-2011 period

Source: CEIC, January 2012

Since the eruption of the global financial crisis in 2008, the global stock markets hit the trough in February 2009 and the indices of the E11 economies slumped by nearly 50 percent. Compared with the October 2007 level, by February 2009, the stock indices of Russia, China, Turkey and Argentina had fallen by 75.5 percent, 65 percent, 58.3 percent and 56.7 percent, respectively (See Figure 3.17). Then

thanks to the support from their economic stimulus policies, the E11 economies saw their capital market rebound even as fast as it slumped. Although in some economies, such as China, Russia and Saudi Arabia, the indices failed to rebound to pre-crisis levels, the other economies saw their indices rebound to or even exceed the levels of October 2007.

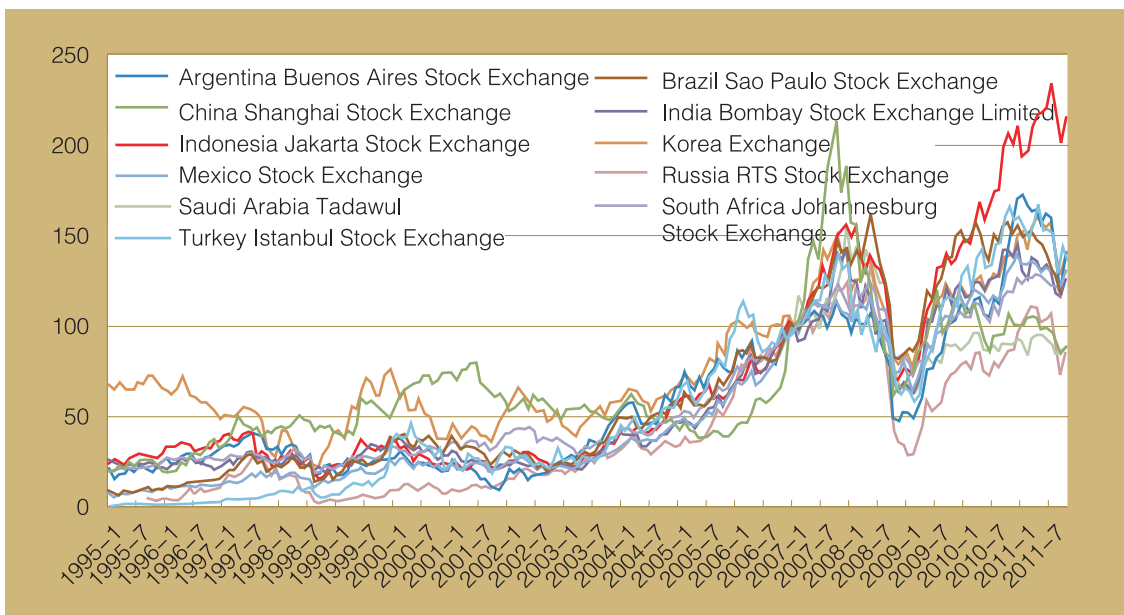


Figure 3.17 E11's stock exchange market index in the 1995-2011 period (monthly, 2007=100)

Source: CEIC, January 2012

In contrast with the stock index movement in E11 economies, indices of the major developed economies obviously feature cyclical fluctuation and the length of the cycles is diminishing. The 1995-2000 period witnessed rising indices before they fell in the following three years; then they rose again during the 5-year period from the first quarter of 2003 to the third quarter of 2007. After that, they have been declining for two years (See Figure 3.18). Actually since the eruption of the crisis, the major developed economies have not entirely withdrawn from their bail-out policies

and there has been still ample liquidity on the international markets. But given the serious debt problems in the developed economies since 2009, the stock markets of those economies have been subject to the influence of bond market and market confidence in the security of traditional sovereign debt has been shaken and changed the risk propensity of investors. Since 2011, as the debt problems of the southern European countries were revealed and worsened, the stock markets of Italy, France and Europe in general have slumped in the first three quarters of the year.

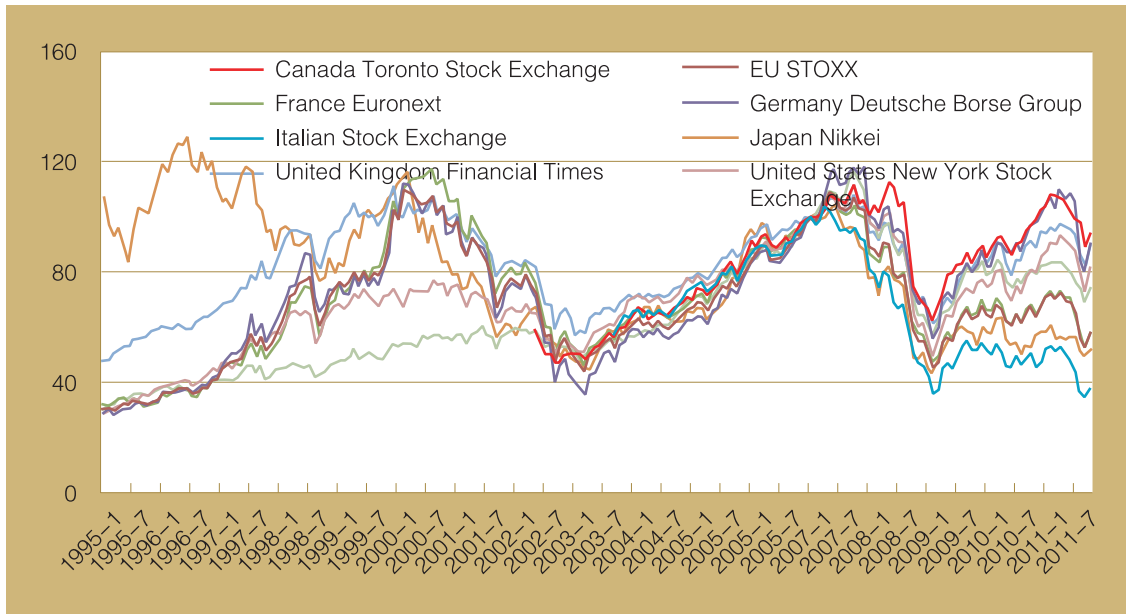


Figure 3.18 Major developed economies' stock exchange market index in the 1995-2011 period (2007=100)

Source: CEIC, January 2012

Chapter 4

Comprehensive Performance and International Comparison of the E11

The economic scale of the E11 led by the BRICS countries has expanded significantly due to sustainable high-rate economic growth. The nominal GDP scale of the E11 as a whole has expanded by 5.6 times compared with that 20 years ago and its global proportion has doubled, leaving other economies far behind. To reflect the global development performances of the E11 economies more comprehensively, this chapter mainly analyses the development momentum of the major E11 economies starting from showcasing the economic and trade performance of current multi-lateral dialogue platforms.

Relatively stable development of the E11 will be maintained in the coming decade. We forecast that China will become the largest economy in 2021 in terms of nominal GDP. The globalization and deepening economic opening up have made the E11 more and more important in global trade. Moreover, as the economic strength of the E11 improves, investment activities also become gradually more and more active. The third and fourth parts of the chapter analyse the overall performance in terms of the E11's trade, investment and foreign exchange reserves. In addition, this chapter also analyses and introduces the changes in the main international rankings of the E11 and their microeconomic corporate performances.

4.1 Narrowing the gap between the emerging and developed economies in economic scale

Since the 1990s, the nominal economic scales of the E11 economies have expanded rapidly. The nominal exchange rate-based GDP of the E11 as a whole rose from \$2.81 trillion in 1990 to \$15.84 trillion in 2010, up by about 5.6 times (See Figure 4.1). Its proportion to global GDP doubled to 25.1 percent from 12.9 percent. Meanwhile, the nominal GDP of the G7 expanded to \$31.82 trillion from \$14.48 trillion, up by about 2.2 times and its proportion to global GDP dropped to 50.5 percent from 66.1 percent, down by 16 percentage points. The rapid rise of the emerging economies is in stark contrast with the slow growth of the developed economies. Within the E11, the BRICS countries have had better performance. In the start of the 21st century, the proportion of GDP of the BRICS countries to global GDP rose to 18.3 percent in 2010 from 8.4 percent in 2000. As their economic scales expand rapidly, the E11 economies have seen their global status improve continually, which is reflected in the changes in their voting power in the World Bank and the IMF and the rising importance on the G20 platform.

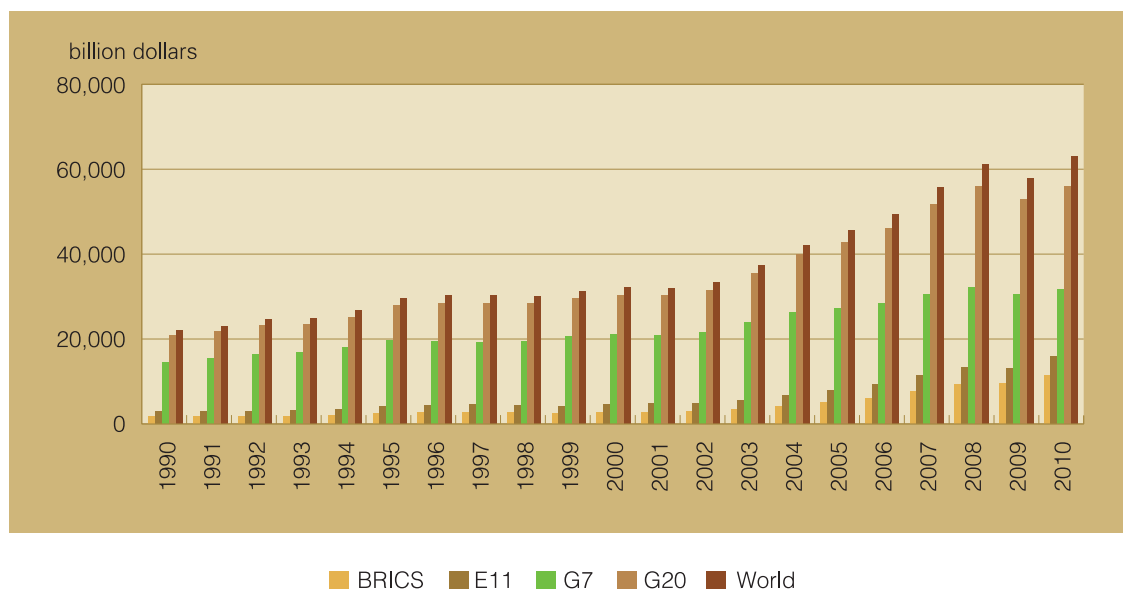


Figure 4.1 Nominal GDP of major country groups in the 1990-2010 period (current price, exchange rate-calculated)

Source: World Bank and WDI database, November 2011

In terms of real output measured in constant prices, the gap between the E11 and G7 has obviously narrowed down¹. Even during the Asian financial crisis and the Latin America financial crisis, the trend of narrowing gap had remained. In 1990, the real GDP gap (in 2005 constant price, PPP) between the two blocs was 9.88 trillion international dollars; in 2010, it decreased to 3.55 trillion international dollars. In 1990, the proportion of real GDP of the E11 to the global real GDP was 22.9 percent in 1990 while that of the G7 real GDP 50.4 percent, about double that of the E11 (See Figure 4.2). Since 2000, the proportion of the E11 has increased by about 1 percentage point each year while that of the G7 dropped by about 1 percentage point each year. In 2010, the proportion of the E11 rose to 34.1 percent while that of the G7 declined to 39.4 percent.

In the past two decades, the overall economic growth rate² of the E11 has been significantly higher than the average rate of the G7. In the 1990-1999 period, the economic growth rate of the E11

was about 1.7 percentage points higher than that of the global average. In the 2000-2010 period, the gap widened to 3.6 percentage points (See Figure 4.3). While the growth of the E11 economies accelerated, that of the G7 showed signs of slowing down. In the 21st century, the growth of the G7 was more than 1 percentage point lower than that of the global average. The “rule of 70”³ has shown that even if the annual economic growth gap between two countries is very small, in the long term, there will be a big gap between their economic scales. In the wake of the 2008 global financial crisis, the public finance of the developed economies became ever more problematic. With the implementation of the plan to reinforce fiscal conditions the public finance is to further drag on the economic growth performance of those economies. In 2011, the global economic growth rate declined but the emerging economies led by the E11 and BRICS nations were expected to continue to lead the globe. If the growth rate of the G7 and E11 is 1.5 percent and 5 percent⁴, respectively, in the coming four years, then the overall PPP-based economic scale of the E11 is likely to exceed that of the G7 in 2015.

1 Please refer to the third chapter of *the Development of Emerging Economies Annual Report 2011* for more detailed analysis of the growth engines driving the development of emerging economies.

2 The calculation of GDP growth rate of a group in this report is the same with that adopted by the World Bank, i.e., it is calculated using the proportion of GDP (constant dollar price in 2000) of a single country to GDP of the group as the weight to get the weighted sum of GDP growth rates of all the countries in the group. Such a method does not need to take asset depreciation or natural resource losses and exhaustion into consideration.

3 Rule of 70: A way to estimate the number of years it takes for a certain variable to double. It states that the number of years for a variable to double is 70 divided by the annual growth rate of the variable.

4 The average growth of the E11 as a whole was about 6.3 percent in the 2000-2010 period while that of the G7 was about 1.5 percent.

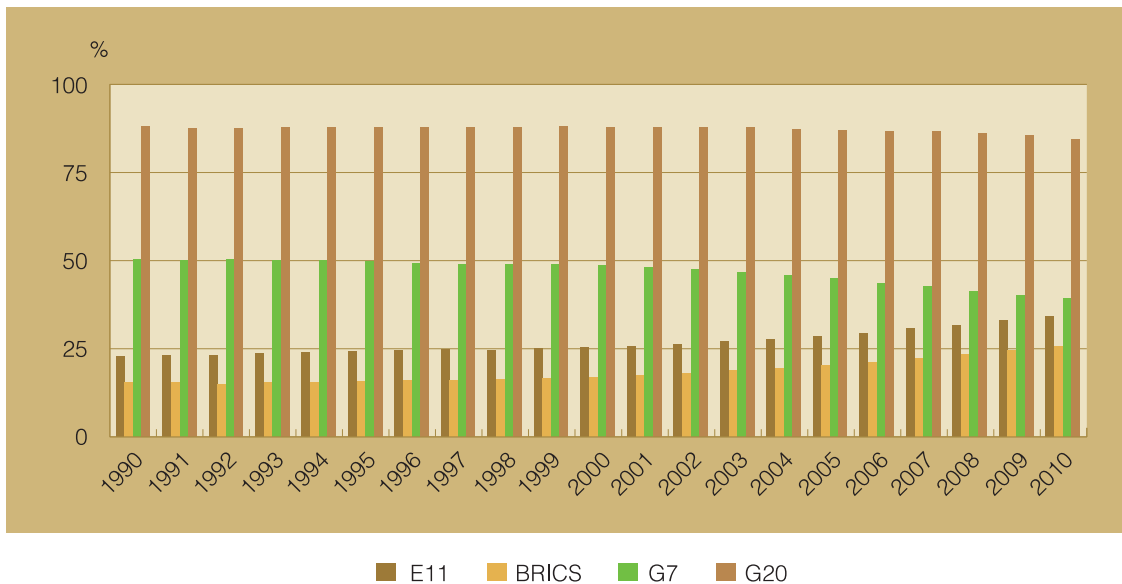


Figure 4.2 Proportion of real GDP of major country groups to the global total in the 1990-2010 period

Note: Real GDP is PPP-based (2005 constant price).

Source: World Bank and WDI database, November 2011

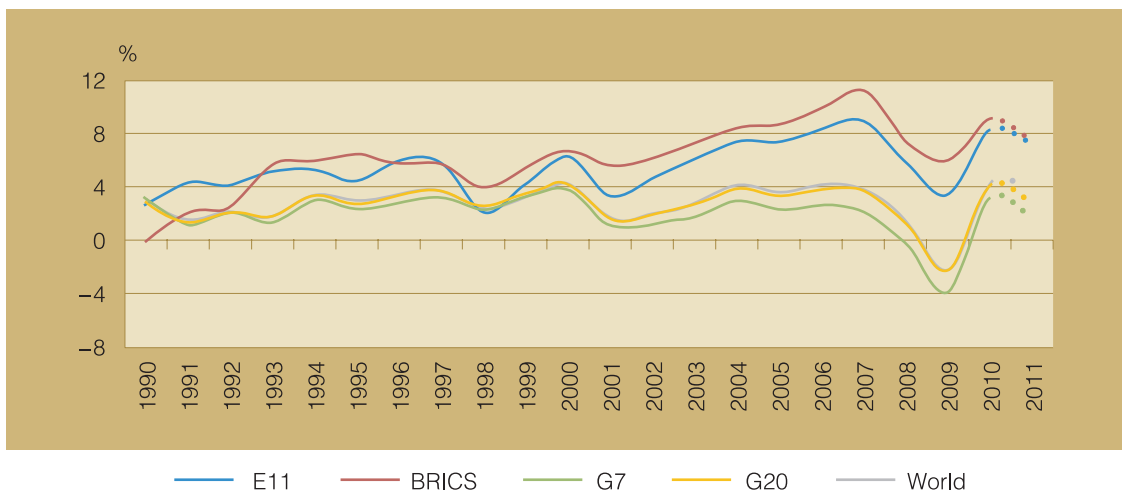


Figure 4.3 GDP growth rate of major country groups in the 1990-2011 period

Note: 2011 data are estimated.

Source: World Bank and WDI database, November 2011

4.2 Major emerging economies leading the globe in economic growth

4.2.1 Changes in nominal economic scales of China, India and Brazil

PPP-based economic scale of a country can reflect its real strength; in reality, however, due to the fact

that the international payments are determined by current exchange rates, the economic scale of a country calculated using nominal exchange rate can better reflect the resource availability of that country. Moreover, since nominal GDP scale indicates the overall level of output measured by current domestic price and currency exchange rate, it is easier for the public to understand it and make comparisons. Therefore, this chapter

highlights the changes in the exchange rate-based nominal GDP of the major E11 economies (the top three major economies in nominal terms).

In terms of the absolute amount of nominal GDP, although there is still a big gap between the E11 and G7, the E11 is catching up at a surprisingly fast pace. In 2010, the nominal exchange rate-based GDP of the G20¹ accounted for 88.8 percent of the global total; that of the G7 was 50.5 percent; that of the E11 was 25.1 percent; and that of the BRICS was 18.3 percent, i.e., the economic scale of the G7 was about double that of the E11 and 2.76 times that of the BRICS. Generally speaking, the emerging economies have maintained relatively high real growth rates, but they still lag behind in terms of nominal scale. In the past two decades, China has grown at a fast pace and its real GDP growth rate was about 10

percent annually, much higher than that of Europe and the US. If the renminbi appreciation was taken into account, then China's nominal US dollar-based GDP growth rate would be even higher to reach 18 percent in 2010 and 29 percent in 2008 (See Figure 4.4). The factor of domestic price contributed 5.8 percentage points to the nominal growth and the contribution of the exchange rate factor was 2.7 percentage points. Affected by the Latin America financial crisis in the 1998-1999 period and the financial crisis in Argentina in 2001, Brazil saw its growth decelerate and its currency depreciate remarkably, leading to negative nominal GDP growth. Bolstered by the services industry and high-tech sectors, India achieved relatively fast and stable growth and saw its economic scale expand despite hovering inflation in 2010.

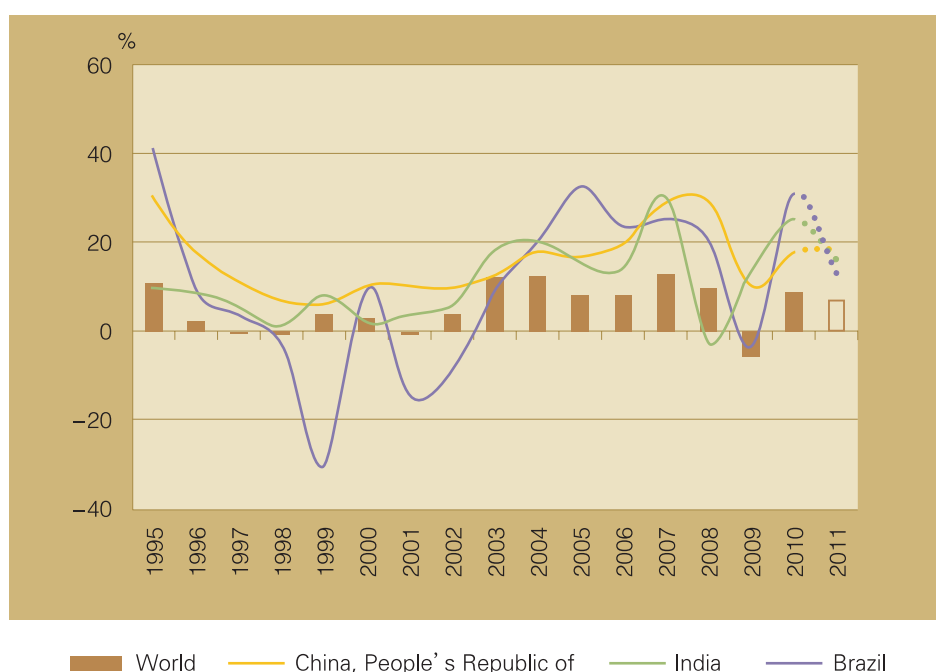


Figure 4.4 Nominal GDP growth rates of China, India and Brazil in the 1995-2011 period (nominal exchange rate-based)

Note: 2011 data are estimated by the authors.

Source: World Bank and WDI database, November 2011

Since 2007, the annual increment in China's nominal US dollar-denominated economic scale has started to exceed that of the US to top the world. In the short term, that scenario will not change. In 2010, China's nominal GDP increment was \$887.4

billion, \$104.4 billion more than the nominal GDP scale of Holland (\$783 billion), the 16th largest world economy. If China can maintain relatively high economic growth and currency appreciation rates in the future, then its net incremental scale will further expand (See Table 4.1). In 2010, the net increment in Brazil's nominal GDP was \$493.4 billion, close to the

¹ The economic scale of the G20 equals the total of the E11, Australia, Canada, Japan, the UK, US and EU economies.

nominal output of Switzerland and about one third of Canada's nominal GDP that year. In the same year,

the net increase in India's nominal GDP amounted to \$358.4 billion.

Table 4.1 Estimated changes in China-US economic power¹

		2007	2008	2009	2010	2011	2012	2015	2018	2021
China, People's Republic of	Nominal GDP (billion US dollars)	3,494	4,522	4,991	5,879	7,484				
	Estimated nominal GDP ² (billion US dollars)	3,471	4,430	4,929	5,932	6,988	8,127	12,253	17,602	24,839
	Net annual increase (billion US dollars)	781	1,028	469	887	1,057	1,139	1,552	1,956	2,562
	Annual growth rate of GDP deflator (%) ³	4.8	8.0	0.7	3.2	5.2	4.0	4.0	4.0	4.0
	Annual change rate in the exchange rate of the RMB against the US dollar (%) ⁴	6.1	7.5	0.4	2.7	4.5	3.5	3.0	2.0	2.0
	Annual real GDP growth rate (%) ⁵	14.2	9.6	9.2	10.3	9.2	8.8	7.5	6.5	5.5
United States	Nominal GDP (billion US dollars)	13,995	14,297	14,044	14,582	15,087				
	Estimated nominal GDP (billion US dollars)	13,978	14,258	13,949	14,631	15,143	15,749	17,972	20,805	24,084
	Net annual increase (billion US dollars)	659	302	-253	539	512	606	774	991	1,147
	Annual growth rate of GDP deflator (%) ⁶	2.9	2.2	1.1	1.2	2.1	2.0	2.0	2.0	2.0
	Annual change rate in the exchange rate of the US dollar against the US dollar (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Annual real GDP growth rate (%) ⁷	1.9	-0.3	-3.5	3.0	2.1	2.0	2.5	3.0	3.0

Notes:

1. The data in black are real statistics and those in red bold are estimated figures. The prerequisite is that the European crisis evolves in a relatively stable and orderly manner and the European debt problem will be solved through deepening European integration.
2. Method of estimated GDP calculation: Nominal GDP of the previous year \times (100 + annual real GDP growth rate + GDP deflator annual growth rate + annual change rate of the exchange rate) / 100
3. The annual change rate in China's GDP deflator ranges from 1 percent to 8 percent and has been about 5 percent since 2004. Considering the long-term inflationary pressure, such as rising income level and labor cost, the change rate in GDP deflator of 2012 or after is supposed to be about 4 percent.
4. By the end of 2011, the RMB (against the US dollar) had appreciated by 4.5 percent compared with a year ago. Considering domestic inflationary pressure and the possibility of slowing recovery of the developed economies in the coming decade, and assuming that in 2012 the appreciation of RMB against the US dollar is 3.5 percent and the appreciation rate decreases by 0.5 percent every two years, i.e., 3 percent in 2014 and 2015, 2.5 percent in 2016 and 2017 and so on. It can be estimated that by 2020, the RMB exchange rate could be 5.14 against one US dollar.
5. The annual real GDP growth rate is price-deducted real growth rate. China's annual real GDP growth rate is expected to drop slightly and remain relatively stable. It is expected to reach 8 percent in 2012. Considering China's goal of 7 percent for its GDP growth in the 12th Five-Year Plan period, if we assume in the 2013-2015 period, its GDP growth rate would be 7.5 percent and drop to 6.5 percent in the 2016-2020 period and further down to 5.5 percent in 2021 and after.
6. The annual change rate in US GDP deflator historically ranged from 1 percent to 3 percent. We assume it would be 2 percent after 2012.
7. According to the data released by the US Ministry of Commerce on January 27, 2012, the annual GDP growth rate of the US was 2.1 percent in 2011. Considering continual contraction in the real estate market, hovering jobless rates and fiscal reinforcement, we assume that GDP expands by 2 percent in 2012, and 2.5 percent in the 2013-2015 period before recovering to 3 percent after 2016.

Sources: IMF WEO database, January 2012; <http://www.stats.gov.cn>, March 2012; <http://www.bea.gov/>, March 2012; <http://fx.sauder.ubc.ca/data.html>, March 2012

4.2.2 Trend of changes in nominal economic scales of China and the US

To provide a clearer forecast for the development of the major E11 economies, we have chosen China, the largest E11 economy, and the US, the largest world economy, to study and analyse the possible changes in the strengths of the two countries in the coming decade. Suppose the global economic environment remains relatively stable in the future and there will not be any extreme external shocks, then a conservative estimation is that China will replace the US to become the largest world economy by 2021 (See Table 4.1). Starting from 2011, the Chinese economy's net annual nominal GDP added value

will be more than \$1 trillion and the total net increases in the coming three years will be equal to the total output of Germany in 2010. The changing of economic prowess has made China one of the essential powers in global economic activities and governance. The changing of economic prowess has also prompted China to change its development pattern and the smoothly accomplish its economic restructuring goals set in the 12th Five-Year Plan (2011-2015) to provide more boost for the global economic development. In reality, not only China is rising in its economic prowess, but also the other E11 economies have seen their nominal GDP scale rapidly exceed that of the developed economies (See Figure 4.5).

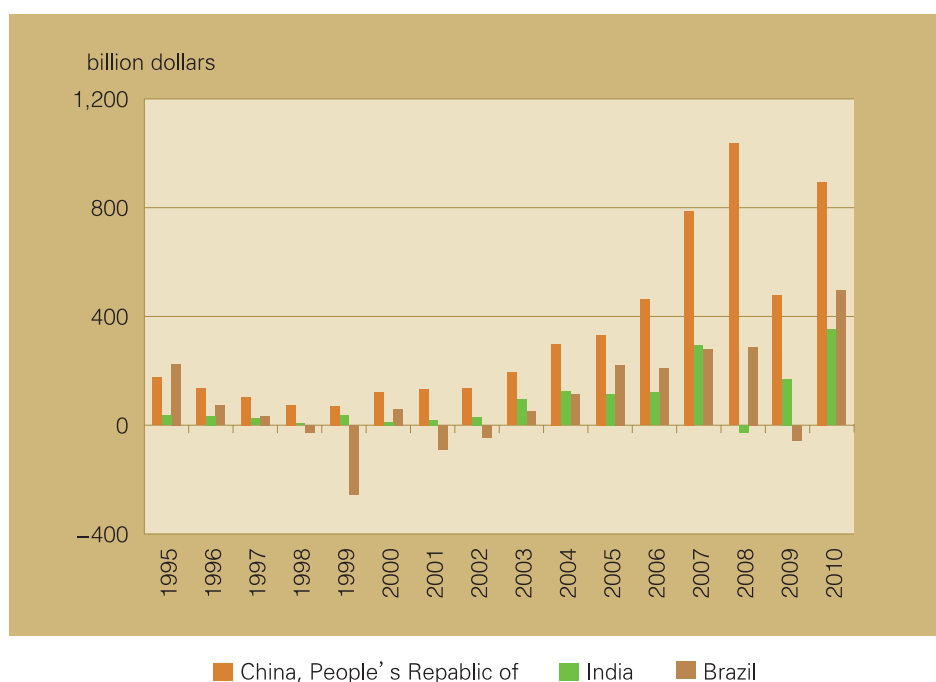


Figure 4.5 Net increases in GDP of China, India and Brazil in the 1995-2010 period (nominal exchange rate)

Source: World Bank and WDI database, November 2011

4.3 Rising global trade proportion

As globalization accelerates and the economic opening up improves, the importance of E11 in the global trade is also on the rise, which is directly reflected in the rising proportion of the E11 trade to the global total. The proportion rose to 23.6 percent in 2010 from 8.7 percent in 1990 (See Figure 4.6). Meanwhile, proportion of their imports to the global total rose to 22.3 percent in 2010 from 8.2 percent in 1990, up by 14.1 percentage points. The trade performance of the BRICS countries is similar to that of the E11. In the meantime, the foreign trade of developed economies has shown a trend of gradual contraction and their exports proportion dropped to 35.1 percent in 2010 from 51.1 percent in 1990, down by 16 percentage points.

In terms of export performance, the E11 has come closer to the G7. In 2010, the E11 exports totaled \$4.414 trillion, more than two thirds of the G7 economic scale (\$6.571 trillion). In terms of import performance, although the E11 has maintained relatively fast growth momentum, it still lags far behind the G7. In 2010, the E11 imports

totaled \$4.064 trillion, only 57.8 percent of that of the G7 (\$7.028 trillion).

When it comes to the rapid development of the emerging economies, most people would hold that exports are the major driving force for the development. In reality, however, the emerging economies have had equally sound performance in terms of imports. In 2010, the nominal imports of the E11 were 11 times the 1990 level of \$360 billion while the imports of the G7 expanded by only three times. The E11 has become an important provider of external demand for global trade activities. The sound performance of the emerging economies in trade activities has made up for the decline in the developed economies. Therefore, seen from the perspective of the G20, which includes the E11 and G7 economies, its proportion to global trade has not fluctuated dramatically. In the 1990-2010 period, the proportion remained at 76-81 percent. Since the start of the 21st century, the proportion of imports of the G20 to the global trade has been higher than that of the imports and the bloc has become the major driving force for international market activities.

Due to the government debt problem, worsening balance sheets of the private sector and

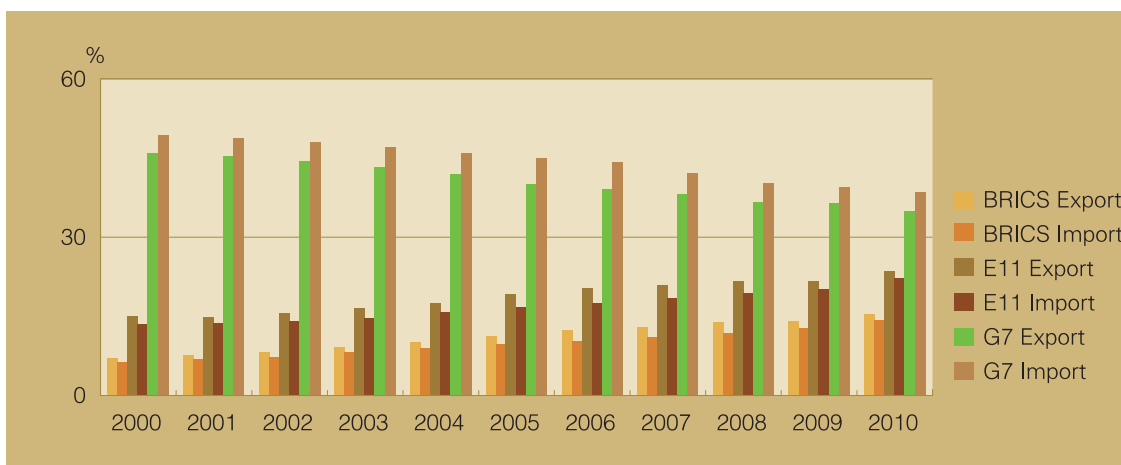


Figure 4.6 Proportion of exports and imports to the global total in the BRICS, E11 and G7 in the 2000-2010 period

Source: World Bank and WDI database, November 2011

the overall deleveraging operations, it would become increasingly difficult for the developed economies to act as a major source of demand in global trade in the future. Considering the decisive role of the developed economies in global trade, their demand changes would change the global trade landscape and trend. However, as the emerging economies become more and more mature economically and domestic consumer market awakens as a result of rising income, the emerging economies still hope to maintain their growth momentum in terms of the proportion of their trade to the global total, although they would inevitably be subject to global trade situation.

As the telecommunications and logistics technologies become more sophisticated, traditional industry chain has been broken geographically and international trade is evolving toward outsourcing- and module-based pattern. There has been a fundamental change in the scenario in which labor cannot flow internationally due to the limit of border. Such a change is reflected not only in the manufacturing sector, but also in the tertiary industry. The improving globalization also means the dependence of both emerging and developed economies on the international market has increased. Since the start of the 21st century, the trade dependence of the emerging economies has been higher than that of the developed economies. The dependency ratio of the E11 as a whole was 53.8 percent in 2010 and that of the BRICS was 48.1 percent while that of the G7 was only 42.9 percent

(See Figure 4.7). In 1990, the trade dependency ratio of the E11 as a whole was only 29.7 percent compared with 31.1 percent of the G7.

The trade dependency ratio hinges on multiple factors, such as economic scale, industrial structure and level of opening up. Generally speaking, if a country has rich resources and a big domestic market, with its industrial structure centered on agriculture and tertiary industry, then its external dependency ratio is relatively low. Among the E11 economies, Saudi Arabia, the Republic of Korea, Russia, Indonesia and South Africa have a relatively high trade dependency ratio. In the 1990-2010 period, their average trade dependency was 80.6 percent, 72.2 percent, 56.7 percent, 54.4 percent and 50.2 percent, respectively. As their participation in foreign trade activities improves, the E11 economies have seen their trade dependency increase accordingly. Since the start of the 21st century, the trade dependency ratio of the E11 has been all above 40 percent and recently that of some has been even as high as 80 percent (See Figure 4.8). Although international trade can help improve the well-being of a country and facilitate its effort to tap international markets, excessively high trade dependency ratio also means it is vulnerable to external shocks. It is true especially for the small-scale economies, whose high trade dependency ratio indicates that their growth lacks the guarantee of stable growth and it is more difficult and costly for them to coordinate macroeconomic policies.

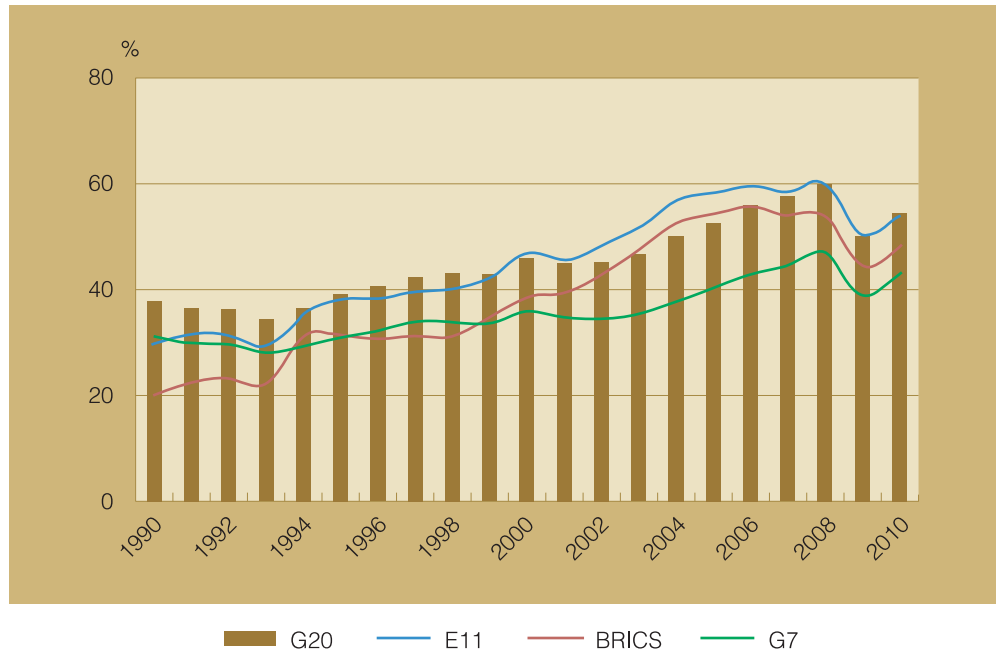


Figure 4.7 Changes in trade dependency ratio of major country groups in the 1990-2010 period

Source: calculated based on World Bank WDI data, November 2011

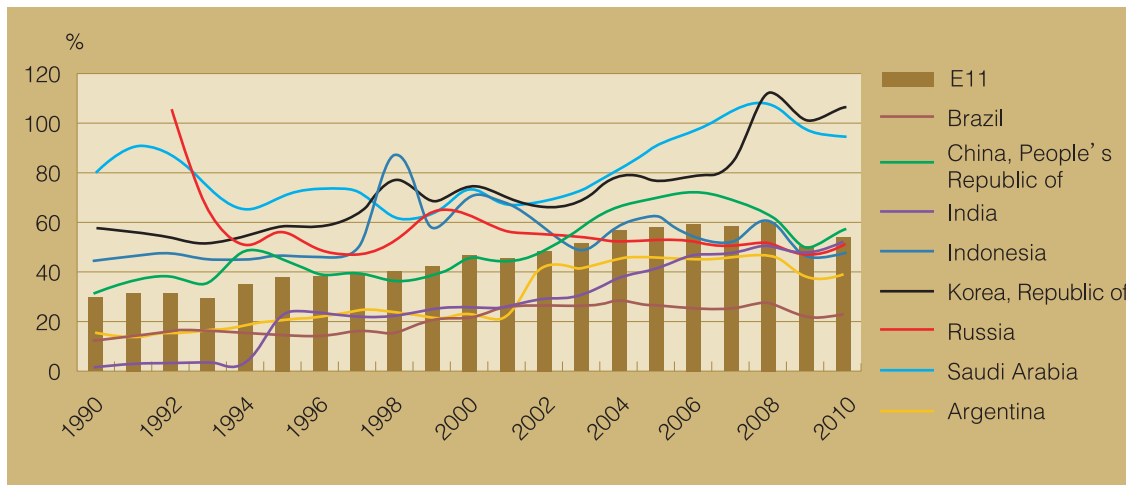


Figure 4.8 Changes in trade dependency ratio of some E11 economies in the 1990-2010 period

Source: calculated based on World Bank WDI data, November 2011

4.4 Net FDI inflow and foreign exchange reserve pile-up continuing

Seen from the flux of international investment, there has been a trend of emerging economies rapidly catching up with their developed counterparts. The FDI inflows into the E11 rose to \$2.82 trillion

in 2010 from \$140.4 billion in 1990, up by about 20 times. The FDI flowing into the G7 expanded by only more than six times in the same period. In 2010, the E11 accounted for 14.7 percent and 6.7 percent of the global total in terms of FDI inflow and outflow, respectively. Although the ratios are not high, the progress has been remarkable compared with 20 years ago.

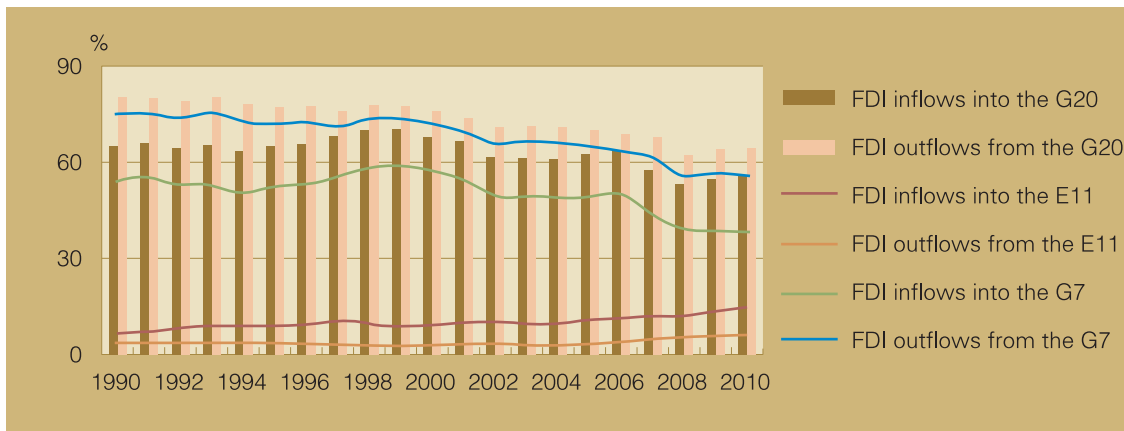


Figure 4.9 Proportion of FDI flows of the E11, G7 and G20 to the global total in the 1990-2010 period

Source: UNCTADstat, December 2011

Comparatively, the performance of the E11 in FDI outflow is poorer than that in FDI inflow. In 2010, the FDI outflow of the E11 reached \$1.36 trillion, only 12 percent of the amount of the G7 (\$11.4 trillion). Accompanying that phenomenon is the excessive pile-up of foreign exchange

reserves by the emerging economies (See Figure 4.10). Compared with those in 1990, in 2010, the international reserves of the E11 increased by 47.8 times and those of the BRICS countries increased by 87.9 times, far exceeding the pace of other countries in international reserve accumulation.

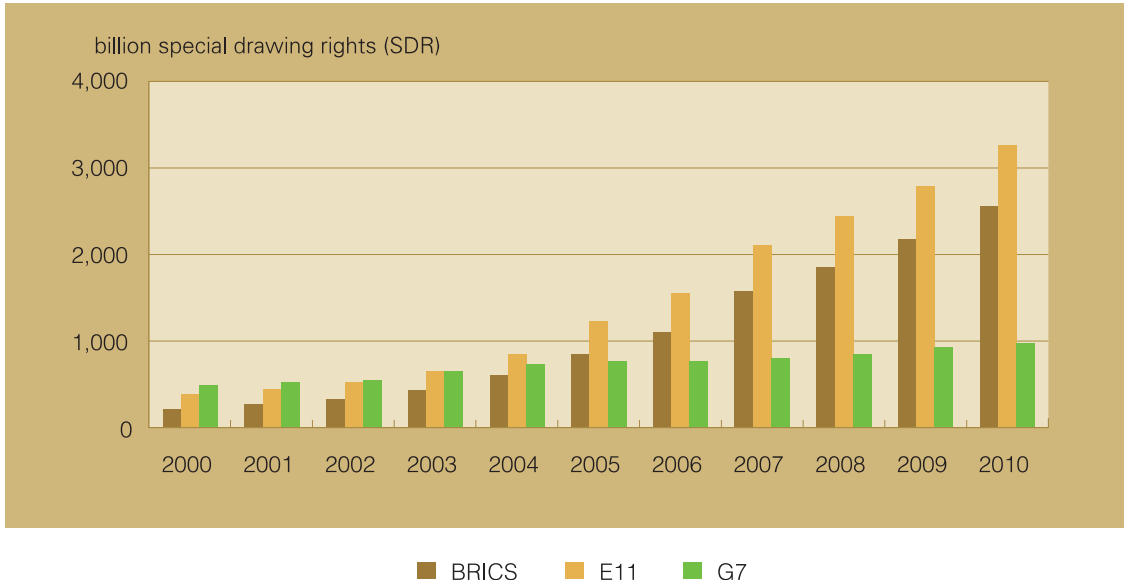


Figure 4.10 International reserves of the BRICS, E11 and G7 in the 2000-2010 period

Source: IMF-IFS, November 2011

Although the emerging economies have the desire to prevent financial crisis or are subject to the ratchet effects as they attract foreign investment, such desire cannot fully explain why the international reserves of the E11 have expanded strongly. The low opening up level of their financial

market and its poor maturity as well as inadequate inputs to provide guarantee for overseas investment have led to the large amounts of foreign exchange reserve pile-up and inadequate outbound investment of the emerging economies. Although the financial systems of the developed economies

also differ a lot from each other, generally speaking, they have played a quite comprehensive role of financial intermediation and are relatively complete. Although in recent years, their ignorance of the serious externalities of financial activities and the resulting regulatory loopholes has caused a series of economic and financial crises, it cannot be denied that the developed economies still lead the world in financial market construction.

In recent years, more and more attention has been paid to the outbound investment of the emerging economies. However, they still have a long way to go since they have much to improve; for example, they need to provide legal guarantee for investors, avoid dual taxation for investors and establish stable state-level economic cooperative relations with other countries. By May 2011, the number of international investment treaties¹ of the E11 economies had reached 1,534, with each of them having 139 such treaties on average, but the G7 had had a total of 1,710 investment treaties. In terms of type of treaties, the E11 economies have signed many types of treaties in traditional bilateral investment, but they have a lot to improve in DTTs and other types of international investment treaties.

4.5 Diversified changes in international competitiveness rankings

Much attention has been paid to the study of global competitiveness (or world competitiveness) as a comprehensive indicator. In *The Research Institute of Boao Forum for Asia Asian Competitiveness Annual Report 2012*, released by the Boao Forum for Asia, the Asian emerging economies within E11 have varied performances in the overall competitiveness ranking for 2011. The Republic of Korea was replaced by Japan, Singapore, China's Taiwan and China's Hong Kong and dropped to the fifth place from the first place while Japan moved to the fourth from the third place. Saudi Arabia was the 15th, down from the 14th place while India was the 32nd, down from the 29th place. Meanwhile, China moved up to the 10th place from the 11th place. The Lausanne-based International Institute for Management Development (IMD) and the World Economic Forum

¹ The United Nations Conference on Trade and Development (UNCTAD) puts international investment treaties into three categories, namely, bilateral investment treaties (BITs), double taxation treaties (DTTs) and treaties other than BITs and DTTs, such as free trade treaty, economic cooperative partnership agreement and framework treaty.

every year analyze the competitiveness of major countries and regions as well as enterprises and provide their rankings. Different institutions have different methodologies and ideological priorities for the rankings of the E11 economies and therefore the rankings could be very different. Although we may not necessarily agree to those rankings, the knowledge of the ranking information and changes in the places of emerging economies is conducive to their efforts to better understand their positions and handle the problems that have occurred in their development.

4.5.1 International competitiveness ranking by Lausanne-based International Institute for Management Development (IMD)

Since 1989, the World Competitiveness Index (WCI) compiled by the Lausanne-based IMD has continued for 23 years. It covers 59 countries and regions and the assessment indicators are divided into four categories, namely, economic performance, governance performance, corporate performance and infrastructure. Each category is composed of five sub-categories, or a total of 300 sub-indices, two thirds of which are quantitative data and the remaining being survey-based qualitative data. Among the four categories, governance performance is composed of five indicators, including public finance, fiscal policy, institutional framework, business legislation and societal framework, all of which are mainly based on qualitative survey results.

In the 2011 overall WCI ranking, China, leader among the E11 economies, was in the 19th place (See Figure 4.11), down by one notch compared with that in 2010. Although China moved up by 3 notches compared with that in 2010 in business efficiency and infrastructure, it dropped by 8 notches in governance performance, which is the main reason for its drop in the overall ranking. India, Indonesia, Mexico and Russia also dropped in the overall ranking. Mexico and Russia dropped by 6 and 8 notches, respectively. Meanwhile, Brazil and South Africa of the E11 moved up to the 38th and the 39th, respectively. Both advanced by 9 notches.

4.5.2 Global Competitiveness Index (GCI) ranking by World Economic Forum

The World Economic Forum (WEF) provides the global competitiveness index for 140 economies. It is composed of 12 pillars of competitiveness, including institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market

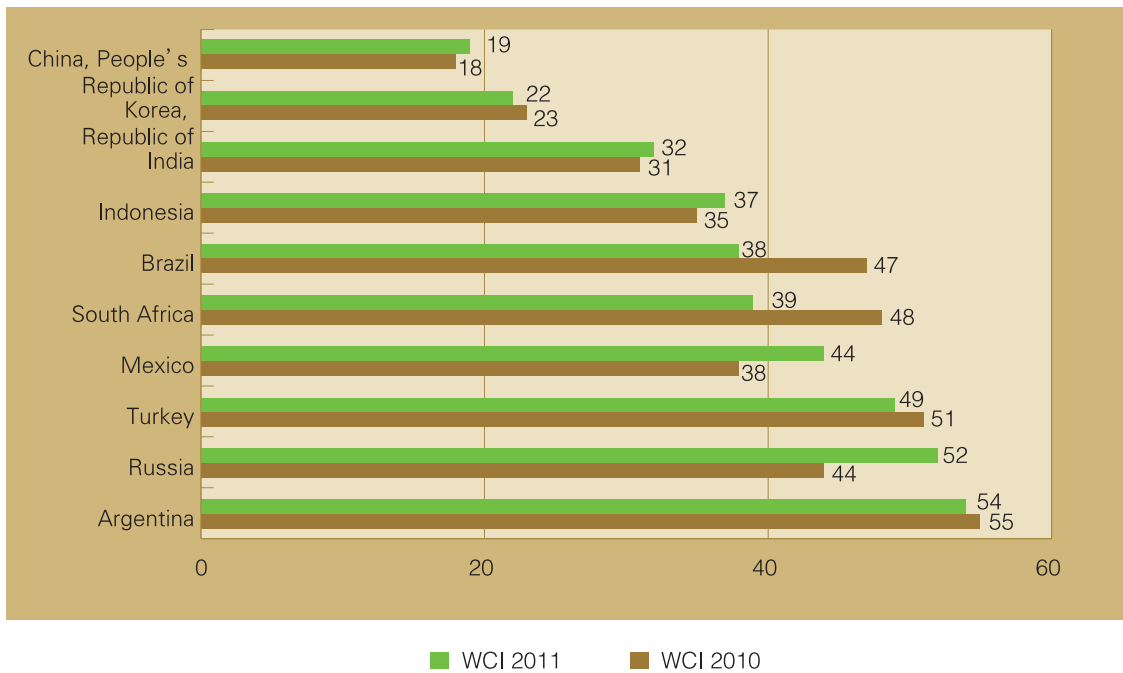


Figure 4.11 WCI ranking of the E11 economies in the 2010-2011 period

Note: Saudi Arabia data are unavailable.

Source: IMD, *IMD World Competitiveness Yearbook 2011*, Lausanne.

efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. It comprises 104 sub-indices.

In 2011, seven economies out of the

E11 economies moved up in the ranking compared with that in 2010 and Mexico and Brazil moved the fastest, up by 8 and 5 notches (See Figure 4.12), respectively. Saudi Arabia

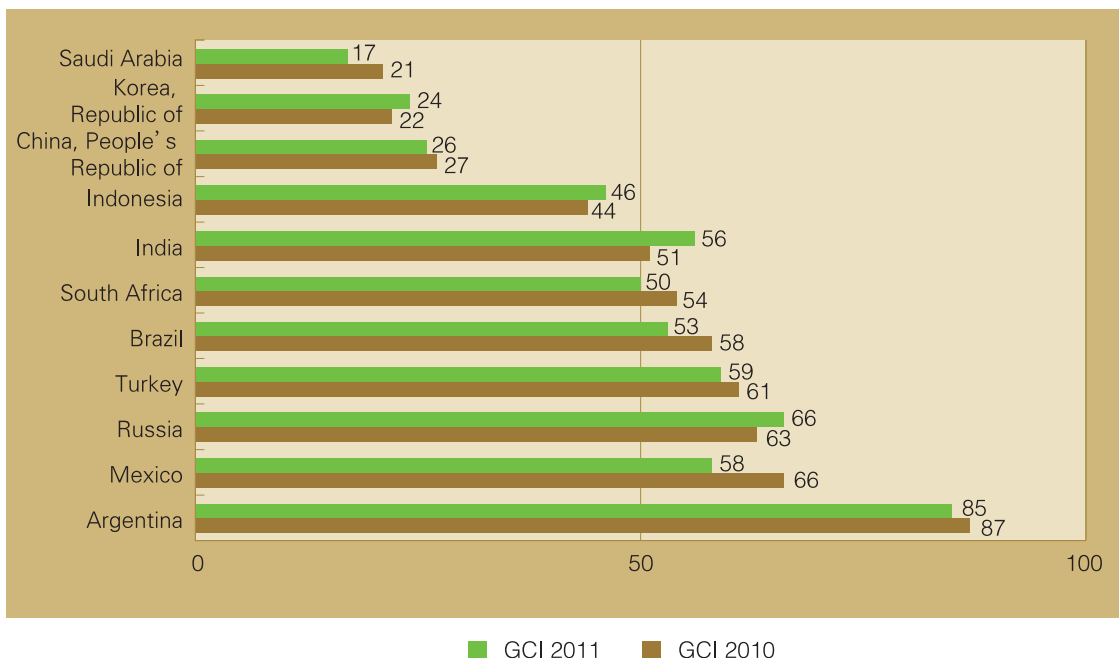


Figure 4.12 GCI rankings of the E11 in the 2010-2011 period

Source: WEF, *The Global Competitiveness Report 2011-2012*, Geneva

and China were the two E11 economies that saw their places rise for the second consecutive years. China moved up to the 26th place in 2011 from the 27th in 2010 while Saudi Arabia rose to the 17th place from the 21st. In 2011, India and Russia saw their rankings drop significantly, down by 5 and 3 notches compared with that in 2010, respectively. 2011 saw India's ranking drop for the second consecutive year. Russia dropped significantly in the GCI ranking, due to its lack of governance efficiency, judicial justice, property right protection and interference by the government into private sectors. WEF pointed out that the decline in India's position was attributable to its reforms aimed to maintain growth momentum and its failure to carry out investment plans or improve efficiency of investment.

4.6 Steady rise in corporate rankings

The development of the private sectors in the E11 has pushed forward the rapid change in their overall economic landscapes. In the wake of the 2008-2009 global financial crisis, the global landscape has undergone rapid changes and the emerging economies, while seeing their international status improving, have also been entrusted with more responsibilities and expectations by the international community. Although the E11 economies have made much headway in economic development and, increasingly, the corporate sector development, they still lag behind in terms of the scale and quality of

enterprises. A more favorable systematic environment and resource support are often the prerequisite for the development and fostering of enterprises. However, the crisis, which has just gone, has helped us understand that "big may not necessarily mean good". The E11 economies should pay more attention to helping their enterprises shift their focus to the improvement in quality, efficiency and innovation.

4.6.1 Fortune global top 500 ranking of the E11 enterprises

The *Fortune* magazine provides a ranking of enterprises worldwide by their revenues in a typical fiscal year ending on March 31, 2011 (See Table 4.2). In the *Fortune* global top 500 ranking for 2011, 110 enterprises are from the E11 economies, 29 more than those of the year of 2010. 23 of those E11 enterprises are newly listed. Most of the listed E11 enterprises are from China, which has 69 enterprises in the ranking. 16 of Chinese enterprises are newly listed. The Republic of Korea has 14 enterprises listed and five of them are new entries. India, Brazil and Russia have 8, 7 and 7 enterprises included in the ranking, respectively. The Surgutneftegas of Russia is the latest entry from the E11 enterprises. In the top 50 ranking, 39 enterprises are from the G7, compared with 40 in the previous year, while China has 3 companies and the Republic of Korea, Brazil, Russia and Mexico each has one enterprise. The E11 enterprises have all moved up significantly in the ranking in 2011. The remaining two companies in the top 50 ranking are from Holland and Switzerland.

Table 4.2 The E11 enterprises in the *Fortune* global top 500 ranking in the 2010-2011 fiscal year

2011 ranking	2010 ranking	Company name	Revenues (billion \$)	Country	Up by
5	7	Sinopec Group	273.42	China, People's Republic of	2
6	10	China National Petroleum	240.19	China, People's Republic of	4
7	8	State Grid	226.29	China, People's Republic of	1
22	32	Samsung Electronics	133.78	Korea, Republic of	10
34	54	Petrobras	120.05	Brazil	20
35	50	Gazprom	118.66	Russia	15
49	64	Pemex	101.51	Mexico	15
55	78	Hyundai Motor	97.41	Korea, Republic of	23
60	112	Hon Hai Precision Industry	95.19	China, People's Republic of	52
69	93	Lukoil	86.08	Russia	24
77	87	Industrial & Commercial Bank of China	80.50	China, People's Republic of	10
82	104	Sk Holdings	78.44	Korea, Republic of	22
87	77	China Mobile Communications	76.67	China, People's Republic of	-10
95	137	China Railway Group	69.97	China, People's Republic of	42
98	125	Indian Oil	68.84	India	27

continued

2011 ranking	2010 ranking	Company name	Revenues (billion \$)	Country	Up by
105	133	China Railway Construction	67.41	China, People's Republic of	28
108	116	China Construction Bank	67.08	China, People's Republic of	8
113	118	China Life Insurance	64.63	China, People's Republic of	5
117	148	Banco Do Brasil	62.89	Brazil	31
127	141	Agricultural Bank of China	60.54	China, People's Republic of	14
132	143	Bank of China	59.21	China, People's Republic of	11
134	175	Reliance Industries	58.90	China, People's Republic of	41
139	242	Noble Group	56.70	China, People's Republic of	103
145	182	Dongfeng Motor	55.75	China, People's Republic of	37
147	187	China State Construction Engineering	54.72	China, People's Republic of	40
149	156	China Southern Power Grid	54.45	China, People's Republic of	7
151	223	Shanghai Automotive	54.26	China, People's Republic of	72
156	135	Banco Bradesco	53.01	Brazil	-21
161	272	Posco	52.46	Korea, Republic of	111
162	252	China National Offshore Oil	52.41	China, People's Republic of	90
168	203	Sinochem Group	49.54	China, People's Republic of	35
171	-	LG Electronics	48.24	Korea, Republic of	N/A
172	269	América Móvil	48.13	Mexico	97
179	211	Rosneft Oil	46.30	Russia	32
186	363	Vale	45.29	Brazil	177
197	258	China Faw Group	43.43	China, People's Republic of	61
210	293	Sabic	40.53	Saudi Arabia	83
211	224	China Communications Construction	40.41	China, People's Republic of	13
212	276	Baosteel Group	40.33	China, People's Republic of	64
220	375	Hyundai Heavy Industries	39.00	Korea, Republic of	155
221	254	Citic Group	38.98	China, People's Republic of	33
222	204	China Telecommunications	38.47	China, People's Republic of	-18
227	275	China South Industries Group	38.00	China, People's Republic of	48
229	332	China Minmetals	37.56	China, People's Republic of	103
235	318	Tnk-Bp International	36.88	Russia	83
238	300	GS Holdings	36.57	Korea, Republic of	62
247	327	Quanta Computer	35.72	China, People's Republic of	80
248	273	KOC Holding	35.71	Turkey	25
250	348	China North Industries Group	35.63	China, People's Republic of	98
259	281	Cathay Life Insurance	34.80	China, People's Republic of	22
271	306	Korea Electric Power	34.11	Korea, Republic of	35
272	307	Bharat Petroleum	34.10	India	35
276	313	China Huaneng Group	33.68	China, People's Republic of	37
279	314	Hebei Iron & Steel Group	33.55	China, People's Republic of	35
289	371	People's Insurance Co. of China	32.58	China, People's Republic of	82
292	282	State Bank of India	32.45	India	-10
293	356	Shenhua Group	32.45	China, People's Republic of	63

continued

2011 ranking	2010 ranking	Company name	Revenues (billion \$)	Country	Up by
297	315	China Metallurgical Group	32.08	China, People's Republic of	18
298	256	Sberbank	32.07	Russia	-42
307	496	JBS	31.28	Brazil	189
311	330	Aviation Industry Corp. of China	31.01	China, People's Republic of	19
320	382	Jardine Matheson	30.05	China, People's Republic of	62
321	358	Hanwha	30.04	Korea, Republic of	37
326	-	Shougang Group	29.18	China, People's Republic of	N/A
328	383	Ping An Insurance	28.93	China, People's Republic of	55
331	436	Aluminum Corp. of China	28.87	China, People's Republic of	105
333	316	Samsung Life Insurance	28.77	Korea, Republic of	-17
336	354	Hindustan Petroleum	28.59	India	18
340	431	Compal Electronics	28.17	China, People's Republic of	91
341	428	Wuhan Iron & Steel	28.17	China, People's Republic of	87
342	460	Sistema	28.10	Russia	118
343	-	China Post Group	28.09	China, People's Republic of	N/A
346	395	China Resources	27.82	China, People's Republic of	49
350	434	Cpc	27.57	China, People's Republic of	84
352	397	Huawei Technologies	27.36	China, People's Republic of	45
354	352	Sinosteel	27.27	China, People's Republic of	-2
359	442	Tata Motors	27.05	India	83
360	117	Itaúsa-Investimentos Itaú	26.98	Brazil	-243
361	413	Oil & Natural Gas	26.94	India	52
362	302	Hutchison Whampoa	26.93	China, People's Republic of	-60
366	312	Cofco	26.47	China, People's Republic of	-54
367	415	Jiangsu Shagang Group	26.39	China, People's Republic of	48
370	410	Tata Steel	26.06	India	40
371	368	China United Network Communications	26.03	China, People's Republic of	-3
375	412	China Datang	25.92	China, People's Republic of	37
398	440	Bank of Communications	24.26	China, People's Republic of	42
399	-	China Ocean Shipping	24.25	China, People's Republic of	N/A
400	471	Ultrapar Holdings	24.14	Brazil	71
405	477	China Guodian	24.02	China, People's Republic of	72
408	-	China Electronics	23.76	China, People's Republic of	N/A
410	452	Formosa Petrochemical	23.73	China, People's Republic of	42
430	-	China Railway Materials Commercial	22.63	China, People's Republic of	N/A
431	-	China National Aviation Fuel Group	22.63	China, People's Republic of	N/A
435	-	Sinomach	22.49	China, People's Republic of	N/A
440	-	LG Display	22.07	Korea, Republic of	N/A
446	-	Henan Coal & Chemical	21.71	China, People's Republic of	N/A
450	-	Lenovo Group	21.59	China, People's Republic of	N/A
458	-	Jizhong Energy Group	21.26	China, People's Republic of	N/A
463	-	China Shipbuilding Industry	21.05	China, People's Republic of	N/A

continued

2011 ranking	2010 ranking	Company name	Revenues (billion \$)	Country	Up by
467	-	China Pacific Insurance (Group)	20.88	China, People's Republic of	N/A
475	-	Chemchina	20.72	China, People's Republic of	N/A
483	-	CFE	20.14	Mexico	N/A
484	-	Zhejiang Materials Industry Group	20.00	China, People's Republic of	N/A
485	-	China National Building Materials Group	20.00	China, People's Republic of	N/A
487	487	Acer	19.98	China, People's Republic of	0
489	-	Doosan	19.94	Korea, Republic of	N/A
492	-	Samsung C&T	19.77	Korea, Republic of	N/A
496	-	Surgutneftegas	19.66	Russia	N/A
498	-	Korea Gas	19.56	Korea, Republic of	N/A
500	-	Wistron	19.54	China, People's Republic of	N/A

Source: Fortune, July 2011.

4.6.2 The Banker magazine's top world banks ranking

Affected by the global financial crisis and the recent European debt crisis, there have been significant changes in the rankings of large-scale financial companies. In the list of the top 20 world banking institutions, the E11 economies have four places in 2011, one more than that in 2010. The four institutions are all from China and their places all move up at different levels in the ranking compared with that in the previous year (See Table 4.3). The industrial structure of the E11 economies is tilted toward agriculture and industry and they lag

behind in terms of tertiary industry led by financial services sector. They are in a disadvantageous position in terms of financial market and financial institutional construction. As the economy develops and financial globalization deepens, the healthy growth of the real economy will need more support from the financial system. The financial industry of the emerging economies is facing historical opportunities and their efforts to maintain stable development of the financial industry, strengthen financial system construction and improve financial regulatory regime will pave the way for their future development.

Table 4.3 Top 20 world banking institutions in 2011

2011 ranking	2010 ranking	Bank name	Country	Tier-1 capital (billion \$)	Change in ranking
1	1	Bank of America	United States	163.6	0
2	2	JPMorgan Chase	United States	142.5	0
3	5	HSBC	United Kingdom	133.2	2
4	3	Citigroup	United States	126.2	-1
5	11	Mitsubishi UFJ Financial Group	Japan	119.7	6
6	7	ICBC	China, People's Republic of	113.4	1
7	6	Wells Fargo	United States	109.4	-1
8	15	China Construction Bank	China, People's Republic of	95.8	7
9	14	Bank of China	China, People's Republic of	94.6	5
10	4	The Royal Bank of Scotland	United Kingdom	94.1	-6
11	8	Banque BNP Paribas	France	91.6	-3

continued

2011 ranking	2010 ranking	Bank name	Country	Tier-1 capital (billion \$)	Change in ranking
12	10	Barclays Bank	United Kingdom	83.8	-2
13	9	Banco de España	Spain	81.0	-4
14	-	Agricultural Bank of China	China, People's Republic of	79.3	N/A
15	13	Crédit Agricole	France	77.4	-2
16	-	Sumitomo Mitsui Financial Group	Japan	76.1	N/A
17	-	Mizuho Corporate Bank	Japan	74.2	N/A
18	-	Lloyd's Bank	United Kingdom	73.8	N/A
19	16	Goldman Sachs Group	United States	71.2	-3
20	17	UniCredit	Italy	57.5	-3

Source: *The Banker*, Dec. 2011.

Chapter 5

Economic Cooperation Among the E11 Economies

Against the backdrop of global economic interdependence and integration, the emerging economies have broad development prospects in terms of economic cooperation among them. Especially in the wake of the global financial crisis, the emerging economies have become the main growth engine of the world economy and their economic cooperation has become the most promising part of South-South Cooperation. They have been in the global spotlight as an emerging economic bloc.

In 2011, the E11 economies on the whole maintained sound recovery momentum and their foreign trade activities further recovered. The internal economic cooperation among the E11 economies was strengthening. In the fields of trade, investment, finance and currency, the E11 economies saw the trade dependence among them increase continually. In terms of outbound investment, although investment among the E11 economies remained limited in scale, the momentum of growth was strong. In terms of financial cooperation, the E11 economies started late but there would be promising prospects and broad space for their cooperation, especially in pushing currency swap and local currency trade settlement. Generally speaking, in 2011, trade links and interest coordination mechanism within the E11 economies strengthened, which provided a shot in the arm of the E11 economies and the world economy. It was in particular reflected by trade and investment links within the E11 economies.

5.1 Continued strengthening of trade links

The global trade growth slumped in 2009 as a result of the fallouts of the global financial crisis. In 2010, the global trade activities resumed rapidly. According to the WTO, in 2010, global exports of goods amounted to \$15.24 trillion, up by 14.5 percent year-on-year in real terms. It was the highest growth rate since 1950 when such statistics became available. In 2011, global trade growth also slowed down, which was in line with the trend of slow global economy growth and recovery. Against that backdrop, however, growth in foreign trade and internal trade of the E11 remained relatively sound.

5.1.1 The E11 overall characteristics of foreign trade development

Since 2011, the momentum of global economic recovery has remained weak and the E11 economies have been exploring new methods to promote growth. As major trade participants of the global trade regime, the E11 economies have seen their foreign trade maintain stable growth despite declining external demand and increasing production costs and therefore played an important role in pushing global trade and economic growth. Generally speaking, in 2011, foreign trade of the E11 had the following characteristics.

1. Exports and imports of the E11 have maintained sound recovery momentum. In 2010, foreign trade growth of the E11 had resumed rapidly. Their weighted nominal growth of export

and import remained relatively high, reaching 30.6 percent and 35.0 percent, respectively. In the first half of 2011, the foreign trade growth of the E11 slowed down compared with that in 2010, but remained relatively high. The weighted nominal growth of export and import reached 26.4 percent and 27.4 percent, respectively. Among the E11

economies, India, Saudi Arabia, Indonesia and Brazil saw their year-on-year export growth exceed 30 percent at 44.4 percent, 38.9 percent, 36.0 percent and 32.6 percent, respectively. The year-on-year import growth of Turkey, Russia and Argentina reached 43.4 percent, 43.1 percent and 40.3 percent (See Figure 5.1), respectively.

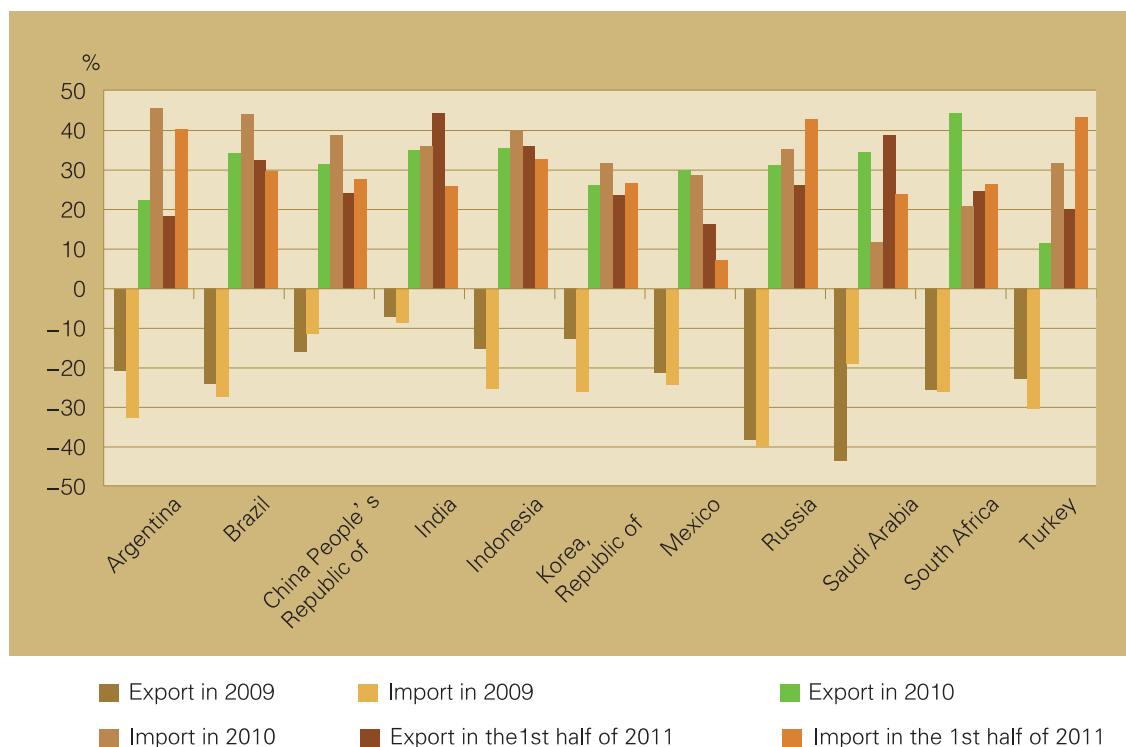


Figure 5.1 Nominal trade growth of the E11 economies in the 2009-2011.6 period

Source: IMF-DOT, Dec. 2011

2. Import growth has been faster than export growth. Since 2010, due to weakening demand from the developed economies, the export growth of the E11 has suffered setbacks and on the whole, the export growth of the E11 has been slower than import growth. In general, in 2010 and the first half of 2011, the nominal year-on-year growth of export in the E11 economies was 4.4 percentage points and 1.0 percentage point lower than that of import. In the first half of 2011, the nominal year-on-year growth of import of Turkey, Argentina and Russia was 23.5, 22.0 and 17.1 percentage points higher than that of export. The gap in China and the Republic of Korea, two major E11 powers, was 3.6 and 3.1 percentage points (See Figure 5.1).

3. Trade imbalance has eased. The main trade

surplus economies in the E11 include China, Russia and Saudi Arabia while India, Turkey, Mexico and South Africa have long been trade deficit-suffering economies. The overall trade imbalance of the E11 has eased since 2009 (See Figure 5.2). In the first half of 2011, against the backdrop of weak global economic recovery, the trade imbalance of the E11 continued to ease. China, which has large amounts of trade surplus, has seen its surplus decrease year by year and it contracted dramatically in 2011. In the first ten months of 2011, its trade surplus was registered at \$124.02 billion, down 16.1 percent year-on-year. Imbalance of India, Mexico, the Republic of Korea and Russia also eased to a varied degree.

5.1.2 Development of internal trade of the E11

In recent years, the internal trade of the E11 has

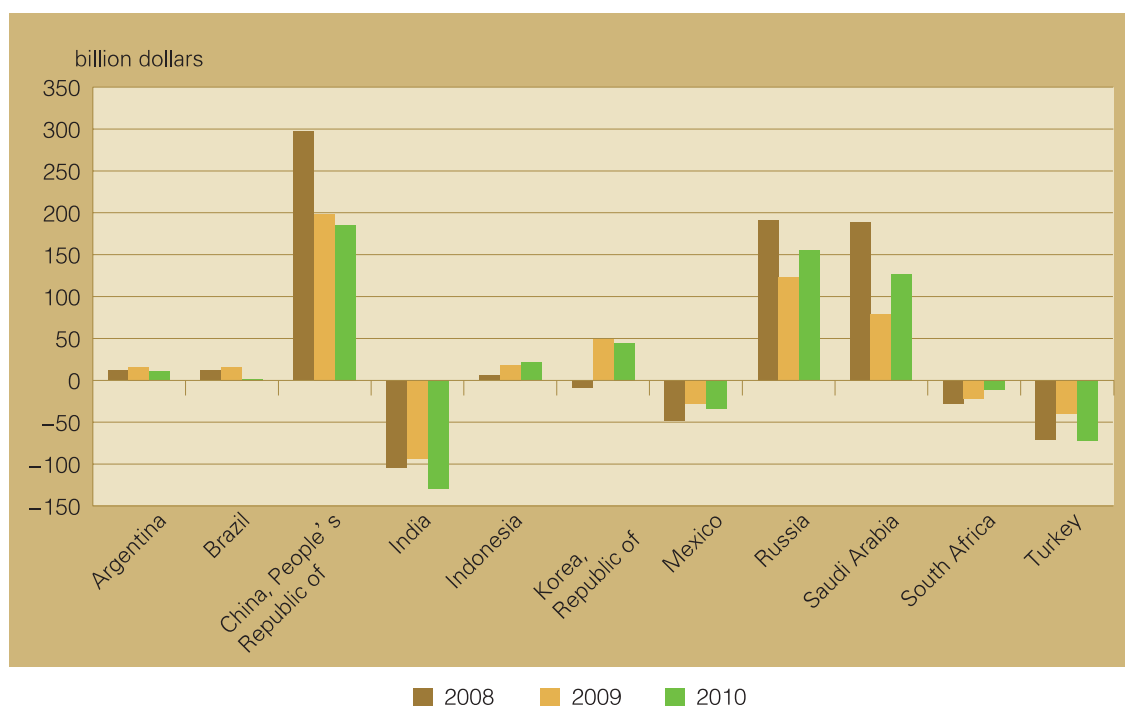


Figure 5.2 Trade balances of the E11 economies in the 2008-2010 period

Source: IMF-DOT, Dec. 2011

continually strengthened and it has expanded further in 2011. It is to an extent attributable to the weak recovery of the developed economies, which reduces their demand for products from the E11 economies. More importantly, the sound economic recovery of the E11 economies has laid solid foundation for the development of trade relations among them. Moreover, the E11 economies have attached great importance to the trade relations among them to continually improve their economic cooperation. In retrospect, the internal trade development within the E11 has had the following achievements.

1. Internal trade of the E11 has continually expanded. In the first half of 2011, the foreign trade volume of the E11 exceeded \$3.37 trillion, up 26.9 percent year-on-year. The internal nominal trade volume among the E11 economies reached \$780 billion, up 28.8 percent year-on-year, which was 1.9 percentage points higher

than the overall foreign trade growth of the E11. Except India, Mexico and Turkey, the other eight economies have seen their growth of volume of trade within the E11 economies higher than their global level. In Indonesia, South Africa, Saudi Arabia and China, the growth gap was 6.4, 5.7, 3.5 and 3.4 percentage points, respectively. In terms of export, in the first half of 2011, the export of the E11 economies totaled \$2.21 trillion, up by 26.4 percent, while the internal export volume of the E11 economies reached \$480 billion, up by 34 percent. Except Argentina and Saudi Arabia, the other nine E11 economies have seen their growth in volume of export within the E11 higher than that of their global level. In Mexico, India, South Africa, China, Turkey and Indonesia, the growth gap was 64.5, 20.0, 14.8, 9.2, 7.0 and 6.1 percentage points (See Table 5.1, Table 5.2 and Table 5.3), respectively.

Table 5.1 Export matrix¹ of the E11 economies in the first half of 2011

Exporter Export to	Argentina	Brazil	China, People's Republic of	India	Indon- esia	Korea, Repu- blic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey
Global	34,689	118,304	875,517	152,797	98,617	276,550	164,232	228,460	153,237	44,807	65,669
Argentina		10,438	3,619	185 176	513	814	387	15	63	103	
Brazil	7,991		14,588	2,727	880	6,232	2,277	746	1,519	446	405
China, People's Republic of	1,032	20,044		11,202	9,631	64,365	4,030	15,514	21,062	7,094	1,085
India	533	1,199	22,610		6,674	6,265	750	2,017	10,433	3,288	434
Indonesia	598	580	14,025	3,535		6,603	161	344	2,146	347	151
Korea, Republic of	375	1,961	40,991	3,464	7,580		1,117	6,499	16,208	1,506	255
Mexico	677	1,886	10,724	549	290	5,227		289	194	-	65
Russia	453	2,994	17,201	1,109	418	5,375	293		84	182	2,865
Saudi Arabia	168	1,680	6,426	3,112	660	3,616	38	100		183	1,322
South Africa	464	800	5,831	2,519	658	992	-	34	2,414		171
Turkey	190	723	8,001	2,369	724	2,657	331	7,285	1,483	452	
Total	12,479	42,304	144,018	30,770	27,693	101,845	9,810	33,215	55,558	13,561	6,855

Unit: million dollars

Source: IMF- DOT, Dec. 2011

Table 5.2 Import matrix of the E11 economies in the first half of 2011

Exporter Export to	Argentina	Brazil	China, People's Republic of	India	Indon- esia	Korea, Repu- blic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey
Global	34,556	115,844	828,493	215,419	83,592	258,091	166,249	129,542	60,588	51,690	119,629
Argentina		8,790	1,135	486	657	413	663	498	184	510	209
Brazil	11,482		22,170	1,532	706	2,919	2,075	2,959	1,848	880	1,125
China, People's Republic of	3,981	16,214		23,710	12,414	43,149	11,797	21,323	7,068	6,414	10,725
India	243	2,829	12,649		2,305	4,096	864	1,258	3,423	2,771	3,014
Indonesia	194	1,134	13,474	7,074		8,206	320	724	726	724	957
Korea, Republic of	564	5,461	76,596	6,043	5,926		5,750	4,690	3,978	1,091	3,003
Mexico	836	2,504	4,433	884	177	1,229		322	42	-	364
Russia	425	1,235	18,459	1,938	711	5,254	318		110	37	10,887
Saudi Arabia	16	1,671	23,169	11,476	2,361	17,829	213	93		2,655	1,631
South Africa	69	491	7,804	3,617	382	1,656	-	201	201		497
Turkey	113	440	1,398	492	259	429	71	3,000	1,454	188	
Total	17,924	40,769	181,286	57,252	25,898	85,179	22,071	35,067	19,035	15,270	32,411

Unit: million dollars

Source: IMF-DOT, 2011

¹ Due to the difference in statistical methodology, in the collection of the E11 export and import statistics, there are statistical gaps regarding bilateral trade volumes, but they will not have a substantial impact on the analysis of the overall trade development trend.

Table 5.3 Nominal import and export growth among the E11 economies in the first half of 2011

Exporter Export to	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	Total
Global	28.32	31.09	25.71	32.85	34.49	25.02	11.54	31.72	34.27	25.54	34.13	26.88
Argentina		26.54	11.49	8.07	78.54	27.90	12.00	66.60	15.81	12.00	108.74	24.65
Brazil	36.38		39.39	15.61	29.98	70.79	10.56	26.24	42.36	26.82	81.63	37.84
China, People's Republic of	8.98	43.30		31.29	36.86	20.31	-32.88	45.06	47.21	34.70	34.07	25.30
India	-6.33	-0.86	16.08		55.03	27.65	8.07	-9.00	19.10	18.94	87.92	20.35
Indonesia	75.99	43.17	41.09	66.37		31.12	-28.38	39.10	12.59	94.51	40.32	40.52
Korea, Republic of	25.99	26.09	20.29	44.86	42.26		-4.17	41.46	47.61	43.66	60.78	26.16
Mexico	12.00	20.14	42.81	35.19	46.88	29.06		131.31	24.67	-	63.34	35.12
Russia	85.04	39.34	38.42	20.02	44.32	34.16	19.41		3.46	9.55	10.90	30.72
Saudi Arabia	15.96	44.02	47.82	18.25	12.59	46.89	25.01	10.33		26.15	37.42	37.82
South Africa	12.00	26.89	36.00	18.35	92.61	46.02	-	7.86	25.99		39.98	31.95
Turkey	147.31	46.08	30.61	91.33	57.19	58.70	103.42	11.59	34.79	34.03		32.20
Total	29.46	32.97	29.15	32.46	40.92	27.98	-18.41	33.86	37.78	31.26	32.04	28.80

Unit: %

Source: Calculated based on IMF-DOT data, Dec. 2011

2. The internal trade dependence of the E11 economies has been further strengthened. Seen from their trade dependence reflected by the proportion of their trade volume within the group to their global trade volume, in recent years, the international trade links of the E11 has been continually strengthened. On the whole, the internal trade volume within the E11 accounted for 22.25 percent of their total trade volume in 2009. In 2010, the proportion rose to 23.46 percent, up by 1.21 percentage points. Regarding the situation of individual economies, the trade links of the E11 economies within the group have been improved to a varied degree. In 2010, the proportion of

trade of Argentina, Brazil, the Republic of Korea and Saudi Arabia within the E11 to their total global trade each exceeded 30 percent to reach 45.28, 35.18, 34.61 and 34.41 percent, respectively, up by 3.64, 3.00, 2.21 and 1.76 percentage points (See Table 5.4). Although in the first half of 2011, the proportion of internal trade volume within the E11 to the overall foreign trade volume of the E11 economies dropped to 21.61 percent, it still rose slightly by 0.1 percentage point year-on-year. In the same time, the proportions of volume of trade of Argentina, the Brazil, the Republic of Korea and Saudi Arabia with the other E11 economies to their total foreign trade volume all exceeded 35 percent.

Table 5.4 Export and import proportion of the E11 economies in 2010

	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	Total
Global	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Argentina		8.56	0.43	0.25	0.42	0.19	0.47	0.19	0.11	0.65	0.15	0.79
Brazil	25.97		2.10	1.21	1.11	1.39	1.36	0.98	1.63	1.31	0.66	1.94

continued

	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	Total
China, People's Republic of	10.79	14.67		10.26	12.31	21.02	8.63	9.95	12.30	13.28	6.49	7.57
India	1.52	2.03	2.08		4.50	1.91	0.47	1.28	7.00	6.14	1.34	2.06
Indonesia	0.94	0.83	1.44	2.49		2.55	0.23	0.29	1.56	0.73	0.58	1.31
Korea, Republic of	1.40	3.24	6.95	2.37	6.91		2.38	2.99	8.76	2.32	1.69	4.48
Mexico	2.44	1.98	0.83	0.31	0.33	1.16		0.13	0.15	-	0.21	0.70
Russia	0.83	1.56	1.86	0.87	0.57	1.97	0.19		0.12	0.29	8.76	1.58
Saudi Arabia	0.27	1.34	1.45	4.34	1.88	3.50	0.09	0.06		3.01	1.55	1.67
South Africa	0.82	0.53	0.75	1.84	0.41	0.44	-	0.09	1.39		0.42	0.65
Turkey	0.30	0.44	0.51	0.54	0.47	0.48	0.08	3.19	1.39	0.72		0.70
Total	45.28	35.18	18.40	24.47	28.91	34.61	13.88	19.16	34.41	28.45	21.86	23.46
Total in 2010	41.64	32.18	17.74	23.84	27.32	32.40	13.12	17.35	32.65	26.70	21.18	22.25

Unit: %

Source: Calculated based on IMF-DOT data, Dec. 2011

3. Cross-regional trade links have been continually strengthened. The trade link imbalance among the E11 economies has long been especially noticeable across different regions. The E11 economies that are in the same region or geographically close to each other have closer trade relations; for example, Argentina and Brazil have closer trade links while China have sound trade links with both India and the Republic of Korea. It also applies to Russia and Turkey. Although currently trade among the E11 economies is active especially between economies of the same region, the cross-regional trade links within the E11 have also been continually strengthened. It is reflected not only in trade between resource and energy product exporters and importers, but also in trade between economies of different regions. Seen from statistics in the first half of 2011, year-on-year growth in trade of Argentina with Indonesia, Russia and Turkey reached 76.0, 85.0 and 147.3 percent, respectively. That of India, the Republic of Korea and Mexico with Turkey reached 91.3, 58.7 and 103.4

percent, respectively while that between Indonesia and South Africa was 92.6 percent (See Table 5.3). Moreover, the proportions of trade volume of most cross-regional E11 economies to their overall foreign trade also increased to a varied degree.

4. China still has dominance in terms of internal trade relations of the E11. In 2010, China's import from the other ten E11 economies amounted to \$253.129 billion and its exports to those economies reached \$298.827 billion. Based on China's statistics, China's exports to the other ten E11 economies reached \$242.847 billion and its imports were \$304.535 billion. In the first half of 2011, China's import from the other ten E11 economies reached \$155.058 billion, up by 33.9 percent year-on-year. Its exports to them amounted to \$156.796 billion, up by 17.8 percent year-on-year. In terms of trade proportion, the proportion of volume of China's trade with each of the other ten E11 economies to the total foreign trade of each of them was the highest in eight of them except Argentina and Turkey (See Table 5.5).

Table 5.5 Ranking in terms of trade relations among the E11 economies in 2010

Ranking	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey
1	Brazil	China, People's Republic of	Korea, Republic of	China, People's Republic of	China, People's Republic of	China, People's Republic of	China, People's Republic of	China, People's Republic of	China, People's Republic of	China, People's Republic of	Russia
2	China, People's Republic of	Argentina	Brazil	Saudi Arabia	Korea, Republic of	Saudi Arabia	Korea, Republic of	Turkey	Korea, Republic of	India	China, People's Republic of
3	Mexico	Korea, Republic of	India	Indonesia	India	Indonesia	Brazil	Korea, Republic of	India	Saudi Arabia	Korea, Republic of
4	India	India	Russia	Korea, Republic of	Saudi Arabia	Russia	India	India	Brazil	Korea, Republic of	Saudi Arabia
5	Korea, Republic of	Mexico	Saudi Arabia	South Africa	Brazil	India	Argentina	Brazil	Indonesia	Brazil	India
6	Indonesia	Russia	Indonesia	Brazil	Russia	Brazil	Indonesia	Indonesia	South Africa	Indonesia	Brazil
7	Russia	Saudi Arabia	Mexico	Russia	Turkey	Mexico	Russia	Argentina	Turkey	Turkey	Indonesia
8	South Africa	Indonesia	South Africa	Turkey	Argentina	Turkey	Saudi Arabia	Mexico	Mexico	Argentina	South Africa
9	Turkey	South Africa	Turkey	Mexico	South Africa	South Africa	Turkey	South Africa	Russia	Russia	Mexico
10	Saudi Arabia	Turkey	Argentina	Argentina	Mexico	Argentina	South Africa	Saudi Arabia	Argentina	Mexico	Argentina

Source: based on IMF-DOT data, Dec.2011

5.2 Unbalanced development of direct investment

In recent years, the emerging economies led by the E11 have seen their scale of foreign direct investment (FDI) expand continually and become increasingly important in the international investment landscape. In terms of global FDI inflow, in 2010, FDI inflows into emerging and developing economies have not been affected by the global financial crisis very seriously and increased slightly year-on-year to reach \$573.6 billion. The FDI inflows into non-developed economies accounted for 51.6 percent of the global total in 2010. In terms of global FDI outflow, the proportion of FDI outflows from emerging and developing economies to the global total also increased continually. In this situation, the direct investment among the E11 economies also

increased.

5.2.1 Development of outbound direct investment of the E11

In the wake of the global financial crisis, the overall FDI of the E11 economies has declined. According to the United Nations Conference on Trade and Development (UNCTAD), in 2009, the FDI inflows into the E11 were \$270.703 billion, down by 30.8 percent year-on-year. FDI outflows of the E11 were \$138.098 billion, down 22.9 percent year-on-year. Starting from 2010, FDI of the E11 has increased rapidly. FDI inflows into the E11 were \$303.929 billion in 2010, up 12.3 percent year-on-year. FDI outflows of the E11 were \$189.182 billion, up 37.0 percent year-on-year (See Table 5.6). In retrospect, the development of outbound direct investment of the E11 in recent years has the following characteristics.

1. The proportion of FDI scale of the E11 to global FDI has risen continually. In terms of the amount of FDI, although the overall FDI flows of the E11 had declined in the wake of the global financial crisis, the proportion of both FDI inflows and outflows of the E11 to the global total has been on the rise in recent years. From 2007 to 2010, the proportion of FDI inflows of the E11 to the global total rose to 24.44 percent from 14.96 percent, up by 9.48 percentage points.

In the same period, the proportion of FDI outflows of the E11 to the global total increased by 8.24 percentage points to reach 14.30 percent (See Table 5.6). In terms of investment stock, the trend has been similar. From 2000 to 2010, the proportion of FDI inflow stocks of the E11 to the global total rose to 14.73 percent from 9.11 percent. That of outflow stocks of the E11 to the global total also increased to 6.09 percent from 2.52 percent (See Table 5.7).

Table 5.6 FDI flows of the E11 in the 2007-2010 period

	Inflow				Outflow			
	2007	2008	2009	2010	2007	2008	2009	2010
Argentina	6,473	9,726	4,017	6,337	1,504	1,391	712	964
Brazil	34,585	45,058	25,949	48,438	7,067	20,457	-10,084	11,519
China, People's Republic of	83,521	108,312	95,000	105,735	22,469	52,150	56,530	68,000
India	25,350	42,546	35,649	24,640	17,234	19,397	15,929	14,626
Indonesia	6,928	9,318	4,877	13,304	4,675	5,900	2,249	2,664
Korea, Republic of	2,628	8,409	7,501	6,873	19,720	20,251	17,197	19,230
Mexico	29,734	26,295	15,334	18,679	8,256	1,157	7,019	14,345
Russia	55,073	75,002	36,500	41,194	45,916	55,594	43,665	51,697
Saudi Arabia	22,821	38,151	32,100	28,105	-135	3,498	2,177	3,907
South Africa	5,695	9,006	5,365	1,553	2,966	-3,134	1,151	450
Turkey	22,047	19,504	8,411	9,071	2,106	2,549	1,553	1,780
E11	294,855	391,327	270,703	303,929	131,778	179,210	138,098	189,182
Proportion to global total	14.96	22.44	22.84	24.44	6.06	9.38	11.80	14.30

Unit: million dollars, %

Source: UNCTAD, World Investment Report 2011, July 2011

Table 5.7 FDI stocks of the E11 in 2000 and 2010

	Inflow		Outflow		Net inflow	
	2000	2010	2000	2010	2000	2010
Argentina	67,601	86,685	21,141	29,841	46,460	56,844
Brazil	122,250	472,579	51,946	180,949	70,304	291,630
China, People's Republic of	193,348	578,818	27,768	297,600	165,580	281,218
India	16,339	197,939	1,733	92,407	14,606	105,532
Indonesia	25,060	121,527	6,940	1,703	18,120	119,824
Korea, Republic of	43,738	127,047	21,497	18,984	22,241	108,063
Mexico	97,170	327,249	8,273	66,152	88,897	261,097
Russia	32,204	423,150	20,141	433,655	12,063	-10,505
Saudi Arabia	17,577	170,450	5,285	16,960	12,292	153,490
South Africa	43,451	132,396	32,325	81,127	11,126	51,269
Turkey	19,209	181,901	3,668	23,802	15,541	158,099
E11	677,947	2,819,741	200,717	1,243,180	477,230	1,576,561
Proportion to global total	9.11	14.73	2.52	6.09	-	-

Unit: million dollars, %

Source: UNCTAD, World Investment Report 2011, July 2011

2. The net FDI inflows of the E11 has been on the decline year by year in the wake of the global financial crisis. In 2008, net FDI inflows of the E11 were \$212.117 billion; in 2009, they decreased sharply by \$79.512 billion to \$132.605 billion and further to \$114.747 billion. Seen from the situation

in individual economies, except Brazil and Indonesia, in 2010, the net FDI inflows of all the other nine E11 economies had declined compared with that in 2008. Russia became a country with net FDI outflow in 2010 although it was a country with net FDI inflow in 2008 (See Figure 5.3).

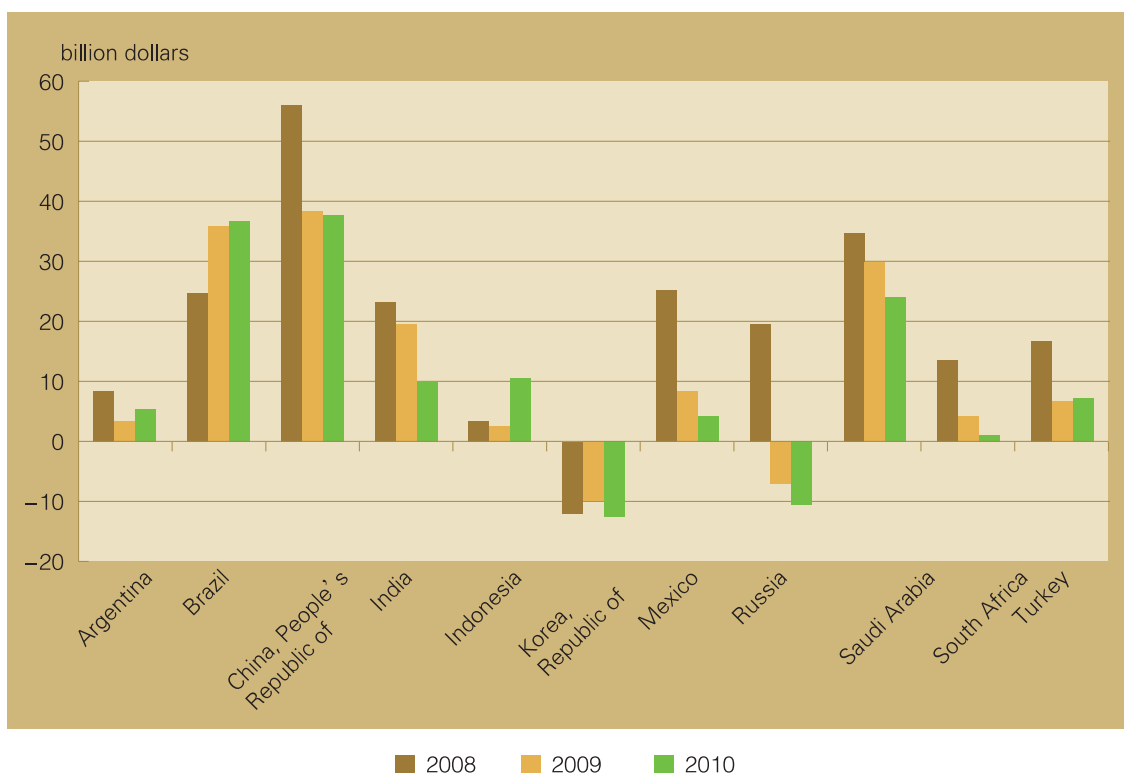


Figure 5.3 Net FDI inflows of the E11 in the 2008-2010 period

Source: UNCTAD, World Investment Report 2011, July 2011

3. International investment cooperation has been on the rise. In recent years, the scale of outbound investment of the E11 has been expanding continually and, to an extent, the increase is attributable to the signing of bilateral and multilateral international investment agreements by the E11 economies. The various international investment agreements have made it more convenient for the E11 economies to invest overseas. By May, 2011, the E11 economies had signed 1,419 international investment agreements, accounting for 9.65 percent of the global total. Among them, 621 agreements are on bilateral investment, accounting for 10.99 percent of the

global total and 659 treaties are on avoidance of double taxation, accounting for 11.11 percent of the global total (See Table 5.8). China is one of the largest economies in terms of the number of signed international investment agreements. Now Argentina, India, Indonesia, the Republic of Korea, Russia, Saudi Arabia, South Africa and Turkey have all signed bilateral investment agreements, which have taken effect, with China. In addition, China has signed agreements on avoidance of double taxation with Brazil, the Republic of Korea, Russia, India, Turkey, South Africa, Mexico and Saudi Arabia.

Table 5.8 Number of international investment agreements of the E11 economies

	Bilateral investment agreement	Avoiding double taxation agreement	Others	Total
Argentina	58	41	16	115
Brazil	14	38	17	69
China, People's Republic of	127	107	15	249
India	81	80	14	175
Indonesia	62	60	17	139
Korea, Republic of	90	85	15	190
Mexico	28	49	17	94
Russia	69	68	4	141
Saudi Arabia	22	23	12	57
South Africa	46	67	9	122
Turkey	82	82	19	183
E11	621	659	139	1,419
Proportion to global total (%)	10.99	11.11	4.43	9.65

Note: data up to May, 2011

Source: UNCTAD, World Investment Report 2011, July 2011

5.2.2 Direct investment among the E11 economies

As the outbound direct investment of the E11 economies develops, the direct investment among the E11 economies has also been on the rise and the scale of such investment among some E11 economies has increased rapidly. On the whole, however, the level of direct investment among the E11 economies remains low. In retrospect, the direct investment among the E11 economies in recent years has the following characteristics.

1. Growth in the overall scale of investment among the E11 economies has been unstable. Take direct investment between China and the other ten E11 economies. There have been significant fluctuations in the growth rates of China's FDI inflows and outflows and there was once negative growth. From 2003 to 2008, China's direct investment in the other E11 economies rose to \$5.712 billion from \$230 million, but decreased by \$4.378 billion in 2009 and further declined to \$1.092 billion (See Table 5.9). There has been a similar trend regarding direct investment of the other E11 economies in China. It has continually decreased since 2005 and the trend was reversed as late as in 2010, when it grew by a positive 11.1 percent (See

Table 5.10). There has been an even bigger fluctuation in investment of the E11 economies in India, with the scale of the E11 investment in India increasing and decreasing alternately from 2006 to 2010.

2. The level of direct investment dependence among the E11 economies remains low. In terms of the proportion of FDI, the direct investment dependence among the E11 economies has remained at a low level. In terms of scale of China's FDI outflow, in 2003, China's direct investment in the other ten E11 economies accounted for 8.05 percent of its total outbound direct investment; in 2006, it dropped to 4.05 percent. In 2008, due to the big increase in its investment in South Africa, the ratio once hit 10.22 percent before slumping to 1.59 percent. In terms of stock of China's FDI outflow, the ratio of China's FDI in the other ten E11 economies to its total outbound direct investment has been kept at a low level of less than 5 percent (See Table 5.9). In terms of FDI flow into China, the ratio of its real utilized FDI from the other E11 economies to the total foreign FDI in China has risen slightly, but it has started to drop year by year since 2004 and it was only 3.3 percent in 2010, down 7.76 percentage points compared with that in 2004 (See Table 5.10).

Table 5.9 China's direct investment in other E11 economies

	FDI flow					FDI stock		
	2006	2007	2008	2009	2010	2004	2007	2010
Argentina	6.22	136.69	10.82	-22.82	27.23	19.27	157.19	218.99
Brazil	10.09	51.13	22.38	116.27	487.46	79.22	189.55	923.65
India	5.61	22.02	101.88	-24.88	47.61	4.55	120.14	479.80
Indonesia	56.94	99.09	173.98	226.09	201.31	121.75	679.48	1,150.44
Korea, Republic of	27.32	56.67	96.91	265.12	-721.68	561.92	1,214.14	637.25
Mexico	-3.69	17.16	5.63	0.82	26.73	125.29	151.44	152.87
Russia	452.11	477.61	395.23	348.22	567.72	123.48	1,421.51	2,787.56
Saudi Arabia	117.20	117.96	88.39	90.23	36.48	2.09	404.03	760.56
South Africa	40.74	454.41	4,807.86	41.59	411.17	58.87	702.37	4,152.98
Turkey	1.15	1.61	9.10	293.26	7.82	2.89	11.99	403.63
Total	713.69	1,434.35	5,712.18	1,333.90	1,091.85	1,099.33	5,051.84	11,667.73
Proportion to China's total outbound direct investment	4.05	5.41	10.22	2.36	1.59	2.46	4.28	3.68

Unit: million dollars, %

Source: CEIC, Dec. 2011

Table 5.10 Direct investment of the E11 economies in China in the 2001-2010 period (actually utilized, FDI flow)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Argentina	16.38	10.30	18.89	30.80	10.89	6.86	11.13	12.66	12.41	0.94
Brazil	3.90	15.36	16.71	30.70	24.61	55.60	31.64	38.79	52.48	57.25
India	11.97	30.57	15.93	19.48	21.40	52.39	34.04	88.05	55.20	49.31
Indonesia	159.64	121.64	150.13	104.52	86.76	100.68	134.41	167.25	111.72	76.84
Korea, Republic of	2,151.78	2,720.73	4,488.54	6,247.86	5,168.34	3,894.87	3,678.31	3,135.32	2,700.07	2,692.17
Mexico	1.82	7.31	5.55	21.29	7.10	12.34	5.66	3.85	0.91	15.25
Saudi Arabia	15.13	13.14	3.55	7.01	9.37	8.16	122.65	275.24	113.65	483.97
South Africa	8.36	25.93	32.45	109.40	106.35	94.81	69.16	25.60	41.20	66.47
Russia	29.76	38.65	54.30	126.38	81.99	67.20	52.07	59.97	31.77	34.97
Turkey	3.37	2.43	12.70	7.45	22.16	13.45	9.84	7.29	18.64	9.86
Total	2,402.11	2,986.06	4,798.75	6,704.89	5,538.97	4,306.36	4,148.91	3,814.02	3,138.05	3,487.03
Proportion to total FDI in China	5.12	5.66	8.97	11.06	7.65	5.92	4.97	3.52	3.34	3.30

Unit: million dollars, %

Sources: CEIC and Ministry of Commerce of China, Dec. 2011

3. The direct investment among the E11 economies has been unbalanced. Take China's direct investment in the other E11 economies. In 2010, China's stock of FDI in South Africa and Russia was \$4.153 billion and \$2.788 billion while that in Mexico and Argentina was only \$153 million and \$219 million, respectively (See Table 5.9). The situation is similar if we look at the direct investment of the other E11 economies in China. For example, from 2000 to 2010, China's annual actually utilized direct investment from the Republic of Korea reached 3.488

billion on average, but in the same time, its annual actually utilized direct investment from Mexico and Turkey was each less than \$10 million on average (See Table 5.10). Similarly, although the scale of direct investment of the E11 economies in India on the whole is small, imbalance still exists. In the 2005-2010 period, the annual direct investment of Indonesia and the Republic of Korea in India was on average \$938 million and \$718 million, while that of Brazil and Mexico was only \$3.26 million and \$7.12 million (See Table 5.11).

Table 5.11 Direct investment of the E11 economies in India in the 2005-2011 period (FDI flow)

	2005	2006	2007	2008	2009	2010	2011.1-8
Brazil	0.24	0.47	3.40	5.40	1.83	8.24	34.73
China, People's Republic of	11.08	4.05	1.36	25.56	169.49	5.09	70.41
Indonesia	1.94	2.33	34.15	52.83	346.88	5,190.96	0.37
Korea, Republic of	261.44	243.29	449.96	1,121.83	345.97	1,884.36	411.76
Mexico	0.25	0.00	0.02	0.00	0.10	42.32	-
Russia	0.37	206.77	5.15	311.47	16.12	572.84	0.73
Saudi Arabia	3.60	0.30	42.44	5.30	81.91	15.67	9.10
South Africa	44.58	250.73	10.90	70.97	163.82	68.97	1.35
Turkey	0.00	0.00	0.00	4.31	7.30	218.85	46.10
Total	323.50	707.94	547.38	1,597.67	1,133.42	8,007.30	574.55
Proportion of total FDI in India	1.33	1.25	0.43	0.63	0.63	5.81	0.72

Unit: million dollars

Source: CEIC, Dec. 2011

5.3 Broad prospects for the E11 economic cooperation

On the whole, the economic and trade links among the E11 economies have been strengthened in the past year and they have made new headway in economic cooperation. It indicates that the basis for economic cooperation of the E11 has been reinforced. It is reflected in the increasingly important role of the cooperative mechanism of the E11 and the common interests of the E11 becomes ever more apparent and their complementarity increases.

5.3.1 Development of the cooperative mechanism

Although currently the E11 is yet to develop into a unified and exclusive international economic cooperative organization, their economic cooperation and coordination have been strengthened through the existing bilateral and multilateral cooperative mechanism networks. Their increasingly close cooperation has also pushed forward the construction of a systematic internal cooperative mechanism within the E11, which is reflected in the dialogues and forums among the BRICS and the IBSA economies and the deepening cooperation within the G20 framework.

Since its establishment, the BRICS cooperative mechanism has roughly formed a multi-tier cooperative framework that is centered on meetings of state leaders and supported by senior security affair representative meetings, foreign minister

meetings and meetings of envoys in multilateral organizations as well as cooperation among thinktanks, industrial and commercial and banking sectors. The cooperative mechanism of the BRICS is not only the main platform for the economic cooperation among the five economies, but the bridge to push cooperation among emerging economies and the North-South dialogue. At the BRICS summit in April, 2011, leaders of the five economies conducted widespread discussions and in-depth dialogues on major issues such as global economic and financial situation, international financial institution reform, grain security, energy security, climate change and development aid. They reached consensus regarding the major issues in international finance and social development and announced the passage of *Sanya Declaration*. The declaration provides guidelines for the future cooperation among the BRICS economies and paves the way for further cooperation of the BRICS. It has attracted widespread attention from the world, which indicates the influence of emerging economies led by the BRICS in the global political and economic affairs.

Within the E11, another cooperative dialogue forum was initiated by India, Brazil and South Africa (IBSA) in 2003. Since its launch, the IBSA dialogue forum has played an important role in coordinating the common interests and policy stance of the three economies. In October, 2011, they held the fifth summit of the IBSA dialogue forum and expressed their common stance in global governance reform, European debt crisis, financial regulatory reform,

capital flow management and international reserve currencies. They also exchanged views on the Millennium Development Goals of UN, TWO Doha round, climate change, grain security, anti-terrorism, and New Partnership for Africa's Development (NEPAD) and released the *Tshwane Declaration* after the meeting to further improve the cooperative relations among them.

Within the G20 framework, the E11 economies have been actively pushing policy coordination and economic cooperation among the E11 economies and between the emerging and developed economies. In the Cannes G20 summit in November 2011, the state leaders of emerging economies discussed the strengthening of cooperation among them and exchanged views regarding the current world economic situation and European debt crisis. They unanimously agreed to maintain close communication and coordination to push the summit to reach an agreement and achieve positive results. The G20 has not only become an important platform for the E11 economies to strengthen cooperation among themselves but also provided renewed support for the global economic governance by the E11 economies.

5.3.2 Highlighted common interests

In recent years, the E11 economies have achieved great economic results and the proportion of their economy to the world's total has risen rapidly. For example, in terms of exchange rate-based GDP, China replaced Japan in 2010 to become the second largest country. Despite that, the dominance of the developed economies in global economic regime remains while the emerging economies are in a disadvantageous position in the global economic and financial regime. This is mainly reflected in the US dollar dominance and hegemony in the current international monetary system, the unmatched power and responsibility of the US as a global reserve currency issuing country and the developed economies' control of the global economic governance mechanism represented by the IMF and World Bank, so that the interests of the emerging and developing economies cannot be fully respected. Therefore, the E11 economies have the practical requirement and common desire to improve their international status and reform the existing international financial and monetary regime. Meanwhile, the E11 economies also share common interests regarding a series of global issues that the globe is facing. They mainly includes the

following aspects.

1. Coping with the pressure of slowing economic growth. In the wake of the global financial crisis, the economy of the E11 economies had been battered to a varied degree, especially Russia, Mexico, Turkey, South Africa and Brazil, where growth fell into the negative territory. In 2009, these five economies' real growth rate was -7.8 percent, -6.2 percent, -4.8 percent, -1.7 percent, and -0.6 percent, respectively. The economic growth of the remaining E11 economies also fell sharply. Against that backdrop, the E11 economies economies that solely relying on their individual effort would not suffice to cope with the various risks and challenges of the current world economy; they also realized the importance and necessity to strengthen external economic cooperation to tackle crisis. Since 2011, the world economy has again risked falling into recession following the stable recovery in 2010. The slow recovery of the world economy, especially the weak growth momentum of the developed economies, had increased the economic growth risks of the E11 economies. Therefore, the E11 economies have attached more importance to the cooperation among the emerging economies and the E11 economies rely on the overall competitiveness and great development potential of the emerging economies to boost their confidence in economic recovery.

2. Unstable international capital flow. Due to the sound economic prospects and fiscal conditions of the E11, plus the low interest rate caused by the loose currency policies of the developed economies, a large amount of low-cost, speculative capital has flowed into the E11 economies, which has increased the pressure of inflation and risk of asset bubble in these economies. For example, in the 2009-2010 period, the scale of capital flowing into South Africa, Brazil and India accounted for 5.3 percent, 5.1 percent and 4.1 percent of the respective GDP in those countries. In China, the ratio was 3.1 percent. Large-scale capital inflows have become an adverse factor affecting the macroeconomic stability of the emerging economies and its main fallout lies in the rising inflation and asset bubble problems in most emerging economies. Since the second half of 2011, due to the failure of the developed economies to stimulate their weakening economy, the international capital has begun to flow back to the developed world from the emerging economies, bringing about big fluctuations in the exchange

rates of some E11 economies. Compared with the developed economies, the E11 economies have had smaller financial markets and, to cope with those problems, the E11 economies need to strengthen their own capital regulation and policy coordination to avoid the risks and impacts brought by large-scale flows of international capital.

3. Regulation of commodities market. In recent years, the fluctuations of commodities prices, which have already risen to high levels, have raised overall global prices. According to the UNCTAD, from June, 2010 to February, 2011, the dollar-based commodities price index rose to 320.5 from 223.4, up by 43.5 percent. The SDR-based commodities price index rose to 271.3 from 201.2, up by 34.8 percent. After that, the prices of commodities have been fluctuating at high levels. According to IMF estimation, in 2011, the average oil prices would have reached 103.20 dollars per barrel, up by 24.17 dollars per barrel compared with that in 2010. The fluctuations of high-level commodities prices have brought great adverse effect on world economic recovery as the most serious impact is to raise the overall price levels. Due to their high dependence on external trade, the E11 economies have become easy prey to market turbulence. Russia, Saudi Arabia and Brazil, which are resource and energy exporting powers, and China and the Republic of Korea, which are on the receiver side, need a stable and orderly commodities market. It caters to the interest of the E11 economies, therefore, to strengthen regulation of the international commodities market and push the establishment of a commodities regulatory mechanism.

Moreover, the E11 economies also share widespread common interests regarding such issues as global climate change, emission reduction, poverty reduction and development aid.

5.3.3 Rising economic complementarity

The E11 economies have converging social development phases and economic development levels and compete with each other in economic growth, but they share great economic complementarity since they have different national conditions and development strategies. Since the 1990s, the E11 economies have seen their economy expand rapidly. Their domestic production structure has undergone changes due to the factor of technological advancement and they have gradually formed their own industries

where they have comparative advantage. While they share complementarity in cross-industry trade, their intra-industry trade volume has expanded continually. On the whole, the E11 economies have strong complementarity in industry structure and resource supply and demand and some of them heavily depend on each other for their economic development.

First, the E11 economies have strong complementarity industrial structure. Argentina has an advanced agriculture and animal husbandry, is the main producer and exporter of grain and meat. Brazil has a solid foundation for agriculture, animal husbandry and industry and it leads in civil regional jet airliner manufacture as well as bio-fuel industry. China has a sound agricultural sector and strong manufacturing abilities. Indonesia is the largest ASEAN economy and its agriculture and industry play an important role in its national economy. India boasts advanced information technology industry and is a major exporter of global software and financial services. The Republic of Korea has advantage in manufacturing and services sector. It leads in ship-building, auto, electronics, steel and textile industries. Mexico has advanced petrochemical, power, mining, metallurgy and manufacturing sectors. Russia boasts great abilities in space technology and military industry. Saudi Arabia leads the world in oil production and petrochemical industry. South Africa has a comprehensive financial system and tourism develops at a fast pace. Turkey has a sound industrial basis and an advanced tourism sector.

Second, the E11 economies share a strong resource complementarity. Argentina boasts rich reserves of oil, natural gas, copper and gold. Brazil is a major raw material producer of the world. China has rich capital and labor resources, but has a great demand for energy and mineral resources. India has rich mineral resources and is the largest producer of mica and the third largest producer of coal and barite. However, it has a great demand for other resources. Indonesia is one of the largest producers of zinc, coal, nickel, gold and silver. The Republic of Korea has rare mineral resources and also lacks in natural resources. It relies on import for major industrial raw materials. Mexico is a main oil and industrial goods exporter and imports mainly petrochemical products, food and pharmaceutical products. Russia is a major power in terms of reserves and production of oil and natural gas. Saudi

Arabia has rich reserves of oil and natural gas and leads the world in terms of proven oil reserve. It is also the fifth largest country in terms of proven natural gas. South Africa has rich mineral resources and has the largest reserves of gold, platinum group of metals, manganese, vanadium, chrome and aluminosilicate. Turkey has 40 percent of the global natural stone and marble reserves, the most in terms of both type and quantity. The E11 economies have had more prominent complementarity regarding energy production and consumption.

Third, regarding trade, the E11 economies have formed a structure of industrial and resource complementarity. Argentina and Brazil export agricultural products while China, the Republic of Korea and Mexico export manufactured goods.

In the mean time, India, South Africa and Turkey export mineral products and Russia and Saudi Arabia export energy and petrochemical products. They have advantage in the above-mentioned sectors. In recent years, as the E11 economies push their industrialization and innovative development of science and technology, there have been new growth points in their economic cooperation, namely, such new industries as electronics, information, biotechnology, new materials, new energy, marine industry and space technology. The economic complementarity of the E11 economies has laid a solid foundation for the deepening of their trade relations. They have great potential in economic cooperation.

Chapter 6

Economic Cooperation Between the E11 and Developed Economies

The deepening of the economic globalization and integration has brought the emerging and developed economies closer to each other. The developed economies boast advanced technologies and rich capital resource, and, therefore, they have long dominated the current international division of labor landscape. The emerging economies' manufacturing and demand for capital still heavily depend on the developed economies. The cooperation between the emerging and developed economies, therefore, to a large extent reflects their relationship of dependence and being depended. In recent years, the rise of the emerging economies has gradually brought changes to that dependence-based relationship and the emerging economies have had increasingly obvious competitive advantage in some fields. Seen from the economic and trade relations between the emerging and developed economies, although on the whole the developed economies remain the main trade partners of the E11, such a partnership is different in the fields of trade, investment and financial. It may also differ when it comes to the US, EU and Japan. This chapter mainly analyzes the development trend of the economic cooperation between the E11 and the developed economies from the perspective of trade and investment.

6.1 Continually declining trade dependence on the developed economies

Argentinean economist Raul Prebisch once defined the trade links between the developing and developed economies as a center-periphery

relationship¹. The developed economies are in the center of the global regime while the developing economies form the periphery of the world economy. The asymmetry of their trade relations is mainly reflected in the fact that the developed economies have advantage in technology, capital and management and are dominant in global trade regime while the developing economies are heavily dependent on the developed economies for their trade development due to their relatively single structure of economy; they have easily become manufacturers of raw materials and primary products to the developed economies and the target markets for the manufactured goods of the developed economies. In the start of the 21st century, the rapid increase in the foreign trade, especially export, of emerging economies, has led to large amounts of surpluses in the emerging economies while the developed economies led by the US have seen their trade deficits soaring continually due to their deficit-based fiscal policy, high consumption rate and export regulation. The issue of trade imbalance then becomes a factor affecting the development of trade relations between the two groups of economies. Therefore, on the whole, the trade links between the E11 and developed economies are mainly reflected by the issue of trade dependence and trade imbalance.

6.1.1 Trade dependence of the E11 on the developed economies

In the current trade relations between the E11

¹ Raul Prebisch, "Commercial Policy in the Underdeveloped Countries", *American Economic Review*, Vol. 49, No. 2 (May, 1959), pp. 251-273.

and developed economies, although there is improvement in the traditional international division of labor in the trade sector, the dependence of the E11 on developed economies remains. However, in recent years there have been some new trends regarding the trade dependence relationship. On the whole, the current condition and future development of the trade dependence relationship between the E11 and developed economies have the following characteristics.

1. The foreign trade of the E11 mainly depends on the developed economies.

Seen from the main trade partners, the E11 economies mainly rely on the developed

economies and regions to develop their foreign trade. Seen from the top five export destinations and sources of import, the US, Japan and Germany are all important export destinations of the E11 economies and their major sources of import (See Table 6.1). Moreover, the degree of trade concentration of the E11 economies is high. The proportion of trade of most E11 economies with their top trade partners to their total foreign trade is above 40 percent. In 2010, the ratio of Mexico was as high as 81.5 percent. Therefore, the developed economies account for a large proportion in the foreign trade of the E11 economies.

Table 6.1 Major trade partners of the E11 economies in 2010

Ranking	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	
Export destination	1	Brazil	China, People's Republic of	United States	UAE	Japan	China, People's Republic of	United States	Holland	Japan	China, People's Republic of	Germany
	2	China, People's Republic of	United States	China's Hong Kong	United States	China, People's Republic of	Japan	Canada	Italy	China, People's Republic of	United States	United Kingdom
	3	Chile	Argentina	Japan	China, People's Republic of	United States	United States	China, People's Republic of	China, People's Republic of	United States	Japan	Italy
	4	United States	Holland	Korea, Republic of	China's Hong Kong	Singapore	Saudi Arabia	Spain	Germany	Korea, Republic of	India	France
	5	Holland	Germany	Germany	Singapore	Korea, Republic of	Australia	Brazil	Poland	India	Germany	Iraq
Source of import	1	Brazil	United States	Japan	China, People's Republic of	China, People's Republic of	China, People's Republic of	United States	China, People's Republic of	United States	China, People's Republic of	Russia
	2	China, People's Republic of	China, People's Republic of	Korea, Republic of	UAE	Singapore	United States	China, People's Republic of	Germany	China, People's Republic of	Germany	Germany
	3	United States	Argentina	United States	Switzerland	Japan	Japan	Japan	Ukraine	Germany	United States	China, People's Republic of
	4	Germany	Germany	Germany	Saudi Arabia	United States	China's Hong Kong	Korea, Republic of	Japan	Japan	Saudi Arabia	United States
	5	Mexico	Korea, Republic of	Australia	United States	Malaysia	Singapore	Germany	Italy	France	Japan	Italy

Source: based on IMF-DOT data, Dec. 2011

The E11 economies have a varied dependence on trade with such major developed economies as US, EU and Japan, but on the whole, in 2010, the

proportion of trade of the E11 economies with the three major developed economies to the overall trade of the E11 exceeded 41 percent. That of

Mexico and Russia was even exceeded 50 percent to reach 73.93 percent and 54.37 percent, respectively, which indicates that their trade is highly dependent

on the developed economies such as the US, EU and Japan (See Table 6.2).

Table 6.2 Ratio of trade of the E11 with major developed economies to their total trade in 2010

	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
Global	100	100	100	100	100	100	100	100	100	100	100	100
United States	7.85	12.31	12.97	7.45	8.08	10.11	63.19	3.68	12.64	8.24	5.40	15.01
EU	16.81	21.46	16.14	14.64	9.21	10.29	7.81	46.84	14.67	29.41	41.71	18.39
Japan	1.64	3.69	9.97	2.28	14.57	10.32	2.93	3.85	11.84	6.46	1.19	7.64
Total	26.30	37.47	39.07	24.37	31.85	30.72	73.93	54.37	39.16	44.10	48.30	41.04

Unit: %

Source: calculated based on IMF-DOT data, Dec. 2011

Moreover, the trade dependence of the E11 on the developed economies is also reflected in the fact that exports of most E11 economies to the developed economies are largely semi-finished products for the large multinationals of the developed economies to produce manufactured goods and they are in the downstream of the industrial chain. The root cause is the backward technologies, irrational economic structure and lack of corporate competitiveness that have long existed in the emerging economies.

2. The trade growth of the E11 with the developed economies is lower than their global growth.

In the first half of 2011, the nominal export of the E11 amounted to \$2.21 trillion, up by 26.43

percent year-on-year. Their nominal import reached \$2.06 trillion, up by 27.36 percent. In the mean time, nominal export of the E11 to US, EU and Japan amounted to \$960 billion and their import from those developed economies reached \$760 billion, up by 22.08 percent and 26.79 percent, respectively, lower than the overall export and import growth of the E11. The growth of export of the E11 economies to the three major economies was 4.35 percentage points lower than their overall trade growth (See Table 6.3, 6.4, 6.5 and Table 6.6). This is attributable to the market contraction of the developed economies, which has made the E11 economies to shift their export destinations to emerging and developing economies.

Table 6.3 Export of the E11 to major developed economies in the first half of 2011

Exporter Export destination	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
Global	34,689	118,304	875,517	152,797	98,617	276,550	164,232	228,460	153,237	44,807	65,669	2,212,878
United States	2,063	11,753	145,692	17,174	8,384	27,940	118,644	6,947	19,750	4,292	2,210	364,848
EU	6,436	25,563	164,557	28,131	10,598	30,943	9,489	112,369	15,147	11,549	31,580	446,362
Japan	419	4,090	67,744	3,183	17,149	18,935	1,827	7,080	22,057	3,828	134	146,444
Total	8,918	41,406	377,994	48,488	36,131	77,817	129,959	126,396	56,953	19,670	33,923	957,654

Unit: million dollars

Source: IMF-DOT, Dec. 2011

Table 6.4 Year-on-year nominal growth of the E11 export to major developed economies in the first half of 2011

Exporter Exportdestination	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
Global	18.28	32.63	24.00	44.38	35.98	23.57	16.28	26.04	38.85	24.62	19.93	26.43
United States	34.81	30.36	16.85	45.24	25.93	18.47	4.75	36.13	36.73	31.19	25.16	15.77
EU	34.56	32.45	16.87	48.14	38.37	17.87	45.64	24.81	83.90	9.93	25.71	24.61
Japan	25.75	43.29	23.68	21.74	44.60	48.19	97.03	30.23	34.27	29.94	0.08	31.83
Total	34.17	32.84	18.03	45.05	38.03	24.28	7.67	25.67	45.63	17.62	25.55	22.08

Unit: %

Source: Calculated based on IMF- DOT data, Dec. 2011

Table 6.5 Import value of the E11 from major developed economies in the first half of 2011

Exporter Exportdestination	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
Global	34,556	115,844	828,493	215,419	83,592	258,091	166,249	129,542	60,588	51,690	119,629	2,063,692
United States	4,995	17,447	59,856	11,217	5,090	22,304	104,325	5,539	7,032	4,234	8,581	250,621
EU	5,740	23,512	101,413	27,861	5,787	23,059	17,027	55,468	17,265	16,789	46,708	340,629
Japan	471	4,351	93,979	5,120	8,677	34,208	5,292	6,660	3,245	2,150	1,957	166,110
Total	11,206	45,310	255,248	44,199	19,555	79,572	126,644	67,667	27,542	23,172	57,245	757,360

Unit: million dollars

Source: IMF-DOT, Dec. 2011, 12

Table 6.6 Nominal year-on-year growth of the E11 from major developed economies in the first half of 2011

Exporter Exportdestination	Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
Global	40.27	29.56	27.58	25.73	32.77	26.62	7.23	43.09	23.93	26.34	43.44	27.36
United States	82.43	30.13	25.64	24.58	19.44	9.99	37.43	33.39	10.83	65.08	62.84	30.82
EU	23.15	23.26	28.99	33.97	29.75	25.44	3.67	46.78	25.92	28.53	44.00	31.30
Japan	-12.47	24.57	15.75	29.29	13.27	10.62	-32.30	70.69	-6.73	11.32	35.29	13.51
Total	41.19	25.95	23.04	30.92	19.36	14.35	26.45	47.60	17.03	31.98	46.21	26.79

Unit: %

Source: calculated based on IMF- DOT, Dec. 2011

Given the individual situation of US, EU and Japan, the E11 economies have had mixed performance regarding their trade with the three major developed economies. In terms of export, since the debt crisis has led to contraction of US and European markets, the growth of export of the E11 to US and EU has significantly slowed, especially in the first half of 2011, when the export of the E11 to the US increased only by 15.77 percent year-on-year, far lower than the global average of the E11 export, which was 26.43 percent. In terms of import, due to the fallout of the March 11 earthquake and the ensuing nuclear accident in Japan, Japan's export had slumped and the import growth of the E11 from Japan in the first half of 2011 dropped to 13.51 percent, 14 percentage points lower than the global average of the E11 import.

3. The trade dependence of the E11 on

developed economies is on the decline.

In the wake of the global financial crisis, the importance of the developed economies in the foreign trade structure of the E11 has been on the decline. In 2009, the three major developed economies of US, EU and Japan accounted for about 42.19 percent of the total trade volume of the E11. In 2010, it fell to 41.04 percent. In the first half of 2011, the ratio further dropped to 40.10 percent, 2.09 percentage points down from the 2009 level. The US accounted for 14.39 percent of the total trade of the E11, down by 1.02 percentage points; EU accounted for 18.40 percent, down by 0.71 percentage point, and Japan's proportion was 7.31 percent, down by 0.36 percentage point. It is clear that the trade dependence of emerging economies on the developed economies is gradually easing (See Table 6.7).

Table 6.7 Changes in proportion of the E11 trade with major developed economies in the first half of 2011

		Argentina	Brazil	China, Peo- ple's Repu- blic of	India	Indon- esia	Korea, Repu- blic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
United States	1	10.19	12.47	12.06	7.71	7.39	9.40	67.47	3.49	12.52	8.84	5.82	14.39
	2	0.8	-0.72	-1.49	-0.55	-1.03	-0.22	4.13	-0.16	0.07	0.69	0.88	-1.02
EU	1	17.58	20.96	15.61	15.21	8.99	10.10	8.02	46.88	15.16	29.37	42.25	18.40
	2	-0.06	-1.61	-0.9	-1.79	-1.44	-1.23	-0.36	1.22	-1.77	0.14	-0.34	-0.71
Japan	1	1.28	3.60	9.49	2.25	14.17	9.94	2.15	3.84	11.83	6.19	1.13	7.31
	2	-0.21	0.05	-0.88	-0.01	0.86	-0.28	-0.75	0.64	-0.42	0.28	-0.11	-0.36
Total	1	29.06	37.03	37.16	25.17	30.56	29.44	77.65	54.21	39.52	44.40	49.20	40.10
	2	0.55	-2.27	-3.28	-2.35	-1.61	-1.73	3.03	1.7	-2.1	1.11	0.43	-2.09

Unit: %

Note: "1" refers to data for the first half of 2011; "2" refers to percentage changes compared with 2009 data

Source: Calculated based on IMF-DOT data, Dec. 2011

Seen from the perspective of trade dependence of the E11 on developed economies, except South Africa, whose dependence on US, EU and Japan has increased slightly, the trade dependence of at least some of the remaining E11 economies on the developed economies has declined. What is noteworthy is that compared with that in 2009, in the first half of 2011, trade dependence of China, Brazil and India on the US, EU and Japan had on the whole declined significantly, down by 3.28, 2.27 and 2.35 percent, respectively. In addition, the proportion of the Republic of Korea's trade with US, EU and Japan to its overall foreign trade has also declined

to a varied degree.

6.1.2 Trade imbalance between the E11 and developed economies

Since 1990s, as economic activities have become more internationalized, global economic imbalance has also become an increasingly serious problem. Although an open economy cannot maintain the basic balance of its international payment in the long term, the deepening of global external accounts can increase the risk of economic operation in countries suffering from economic

imbalance. Since the start of the 21st century, the emerging and developing economies had made a successful transition from countries with current account deficit to those with surplus, while the developed economies had suffered from worsening current account balance. Moreover, the imbalance of global external accounts had been worsening; especially since 2004, the external account imbalance between developing and developed economies had worsened rapidly before it peaked in 2006. At that time, the current accounts of emerging and developing economies accounted for 5.0 percent of their GDP while it was -1.24 percent in the developed economies. In the 2007-2009 period, the global economic imbalance eased for a while and began to worsen after 2010. Since trade balance is the most important part of the current account,

the economic imbalance between the emerging and developed economies is mainly reflected in trade imbalance.

Regarding the issue of trade balance between the E11 and the developed economies, on the whole, the E11 economies have maintained a large scale of foreign trade surplus while the developed economies have suffered from trade deficit. In 2009, the E11 economies had a trade surplus of \$303.433 billion with the US, EU and Japan; in 2010, it rose to \$401.869 billion. Seen from statistics in the first half of 2011, however, due to the slumping growth of the E11 export to the developed economies and the rapid increase in the group's import, its trade surplus with the three major developed economies slumped by \$187.086 billion, far less than the same period of the previous year as the trend of contraction continues (See Table 6.8).

Table 6.8 Trade balance of the E11 economies with major developed economies in the 2009-2011.6 period

		Argentina	Brazil	China, People's Republic of	India	Indonesia	Korea, Republic of	Mexico	Russia	Saudi Arabia	South Africa	Turkey	E11
United States	2009	-1,502	-6,531	143,612	1,636	3,795	8,642	61,503	-1,008	9,246	-439	-5,159	213,796
	2010	-2,469	-10,524	181,720	4,476	4,886	9,403	79,176	2,085	16,934	1,441	-8,482	278,645
	2011	-1,208	-4,391	77,040	2,820	2,396	3,306	37,350	951	8,100	707	-3,504	123,567
EU	2009	3,860	2,059	108,603	-2,033	4,911	14,392	-17,787	58,280	-15,213	-8,322	-9,608	139,140
	2010	1,424	134	143,033	-894	7,293	14,819	-20,602	90,572	-11,182	-6,634	-19,556	198,407
	2011	122	225	62,182	-1,806	3,199	7,867	-9,909	52,245	-5,474	-2,556	-7,316	98,779
Germany	2009	-602	-4,504	-5,973	-5,271	-47	-3,478	-7,490	-9,276	-6,812	-4,479	-4,314	-52,244
	2010	-1,383	-5,667	-6,310	-5,474	-22	-3,603	-8,613	-10,759	-6,910	-4,410	-6,070	-59,220
	2011	-611	-2,500	-3,820	-2,613	31	-954	-4,044	-3,383	-3,215	-2,302	-2,406	-25,817
Japan	2009	-416	-1,647	-32,883	-3,200	8,731	-27,657	-10,936	-247	20,618	682	-2,549	-49,504
	2010	-337	-538	-56,042	-3,469	8,816	-36,120	-14,591	2,238	25,488	2,396	-3,026	-75,183
	2011	-205	-639	-26,417	-1,346	4,199	-18,148	-6,890	1,535	12,948	1,015	-1,313	-35,260
Total	2009	1,942	-6,120	219,332	-3,596	17,436	-4,622	32,780	57,025	14,651	-8,079	-17,316	303,433
	2010	-1,382	-10,928	268,711	113	20,995	-11,898	43,984	94,895	31,240	-2,796	-31,064	401,869
	2011	-1,290	-4,805	112,805	-332	9,794	-6,974	20,552	54,730	15,574	-834	-12,133	187,086

Unit: million dollars

Note: 2011 data are those in the first half of 2011; total sum does not include that of Germany.

Source: calculated based on IMF-DOT data, Dec. 2011

The E11 economies as a whole have had mixed performance when it comes to their trade imbalance with different developed economies. In 2009, the E11 had a trade surplus of \$213.796 billion with the US, but suffered a deficit of \$52.244 billion and \$49.504 billion with Germany and Japan, respectively. In 2010, the trade surplus of the E11 with the US expanded to \$278.645 billion, but the group's trade deficit with Germany and Japan also rose to \$59.220 billion and \$75.183 billion, respectively. Meanwhile, individual E11 economies also have had mixed performance regarding their trade imbalance with the developed economies. According to 2010 trade data, China, India, Indonesia, Mexico, Russia and Saudi Arabia had trade surplus with the US, EU and Japan as a whole, while Argentina, Brazil, the Republic of Korea, South Africa and Turkey suffered trade deficit with them.

Among the developed economies, the US suffers the largest scale of deficit as a result of global trade imbalance while China has the largest scale of surplus among the E11 economies. Therefore, the trade imbalance between the E11 and developed economies is mainly reflected in unbalanced trade between China and the US. According to statistics from the Chinese General Administration of Customs, in 2009, China had a trade surplus of \$143.38 billion with the US and it rose to \$181.26 billion in 2010. In the first eleven months of 2011, China's export to the US reached \$295.17 billion while its import from the US reached \$110.71 billion, with a surplus of \$184.46 billion. Apart from the effect of the US policy that discourage exports of some products to China, the Sino-US trade balance is mainly because part of the surplus is transferred from other countries that have surplus with the US. According to the existing international trade statistical methodology, country of origin refers to those where finished goods are assembled and ultimately exported. It cannot describe the whole production process. Since some economies, such as Japan, have some of their goods to be exported to the US processed and assembled in China and some US enterprises also engage in processing trade in China, which boasts advanced processing trade, the statistics of Chinese exports to the US have been seriously overestimated. According to statistics of Chinese General Administration of Customs, in the first eleven months of 2011, China's foreign trade surplus was \$138.39 billion and the processing trade surplus was as high as \$331.82 billion. According

to estimates by Andreas Maurer, chief of WTO International Trade Statistics Section of Economic Research and Statistics Division, WTO, if the value-added method is used and the factors of processing trade used in the calculation are adjusted, then China's trade surplus with the US in 2005 would have been cut by half and their trade balance in 2008 would also be reduced by more than 40 percent. Since reform of the trade statistical system is impossible in the short term and the trade policies of both China and the US cannot be changed substantially, the trade imbalance between China and US would continue. As a result, it is very difficult to find a fundamental solution to the problem of trade imbalance between the E11 and developed economies.

6.2 Diverging development trends of the direct investment

The direct investment between the emerging and developed economies are mainly reflected in the net capital flows from the developed to emerging economies. But as the economic prowess of emerging economies grows, the outbound direct investment of emerging economies has become ever more active and the traditional unilateral capital flow from the developed to emerging economies as a result of direct investment has been replaced by bilateral capital flow. Since the start of the 21st century, growth of outbound direct investment of the emerging economies has been accelerating and unlike in the past, when only some emerging economies and regions invested overseas, now they have made direct investment in the developed economies and compete with local enterprises.

6.2.1 Current conditions of outbound direct investment of developed economy

In recent years, the development situation and trend of outbound direct investment mainly have the following characteristics.

1. The developed economies still play a dominant role in global outbound direct investment. In 2010, the developed economies attracted a total of \$601.906 billion foreign direct investment, down 0.2 percent compared with that in 2009 and they accounted for 48.4 percent of the global FDI inflows. The FDI outflows of the developed economies amounted to \$935.190 billion, up 9.9 percent year-on-year and they accounted for 70.7

percent of the global total FDI outflows. Seen from the situation of major developed economies, the scale of direct investment into EU slumped by 12.1 percent year-on-year to reach \$304.689 billion in 2010 and its FDI outflows amounted to \$407.251 billion, up by 10.1 percent year-on-year. In 2010, the US attracted \$228.249 billion worth FDI, up by 49.3 percent year-on-year while its FDI outflows were \$328.905 billion, up by 16.3 percent year-on-year. It remains the most attractive destination for global investors (See Table 6.9). In terms of FDI inflow, the scale of developing economies in 2010 for the first time exceeded that of the developed economies,

but they lagged far behind in terms of FDI outflow, which means the developed economies on the whole remain a source of net FDI outflows. Seen from FDI flow, except the UK, the remaining six G7 economies are all sources of net FDI outflows in recent years and the net FDI outflows of the US reached \$129.79 billion and \$100.66 billion in 2009 and 2010, respectively (See Figure 6.1). Seen from FDI stock, all G7 economies are sources of net FDI outflows. In 2010, the net FDI outflows of US, Germany, Japan and UK reached \$1.39192 trillion, \$747.12 billion, \$616.19 billion and \$603.19 billion, respectively (See Table 6.10 and Figure 6.2).

Table 6.9 FDI flows of the G7 in the 2007-2010 period

	Inflows				Outflows			
	2007	2008	2009	2010	2007	2008	2009	2010
United States	215,952	306,366	152,892	228,249	393,518	308,296	282,686	328,905
Germany	80,208	4,218	37,627	46,134	170,617	77,142	78,200	104,857
France	96,221	64,184	34,027	33,905	164,310	155,047	102,949	84,112
United Kingdom	196,390	91,489	71,140	45,908	272,384	161,056	44,381	11,020
Italy	40,202	-10,845	20,073	9,498	90,778	67,002	21,271	21,005
Japan	22,550	24,426	11,939	-1,251	73,548	128,019	74,699	56,263
Canada	114,652	57,177	21,406	23,413	57,726	79,794	41,665	38,585
G7	651,523	479,838	327,698	362,443	1,165,155	896,562	604,186	606,162
Global proportion	33.06	27.51	27.65	29.14	53.58	46.93	51.62	45.81

Unit: million dollars, %

Source: UNCTAD, World Investment Report 2011, July 2011

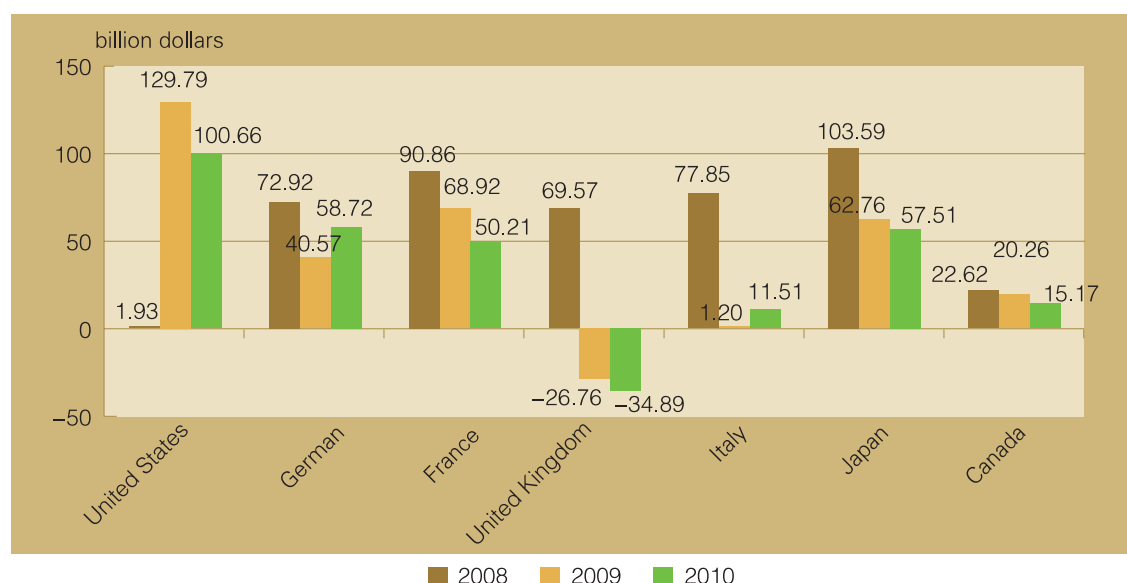


Figure 6.1 Net FDI outflows of the G7 in the 2008-2010 period (FDI flow)

Source: UNCTAD, World Investment Report 2011, July 2011

Table 6.10 FDI stock of the G7

	Inflows			Outflows		
	1990	2000	2010	1990	2000	2010
United States	539,601	2,783,235	3,451,405	731,762	2,694,014	4,843,325
Germany	111,231	271,613	674,217	151,581	541,866	1,421,332
France	97,814	390,953	1,008,378	112,441	925,925	1,523,046
United Kingdom	203,905	438,631	1,086,143	229,307	897,845	1,689,330
Italy	59,998	12,170	337,401	60,184	180,275	475,598
Japan	9,850	50,322	214,880	201,441	278,442	831,074
Canada	112,843	212,716	561,111	84,807	237,639	616,134
G7	1,022,399	3,946,924	6,772,424	1,486,716	5,518,367	10,783,705
Global proportion	49.12	53.01	35.38	70.99	69.31	52.84

Unit: million dollars, %

Source: UNCTAD, World Investment Report 2011, July 2011

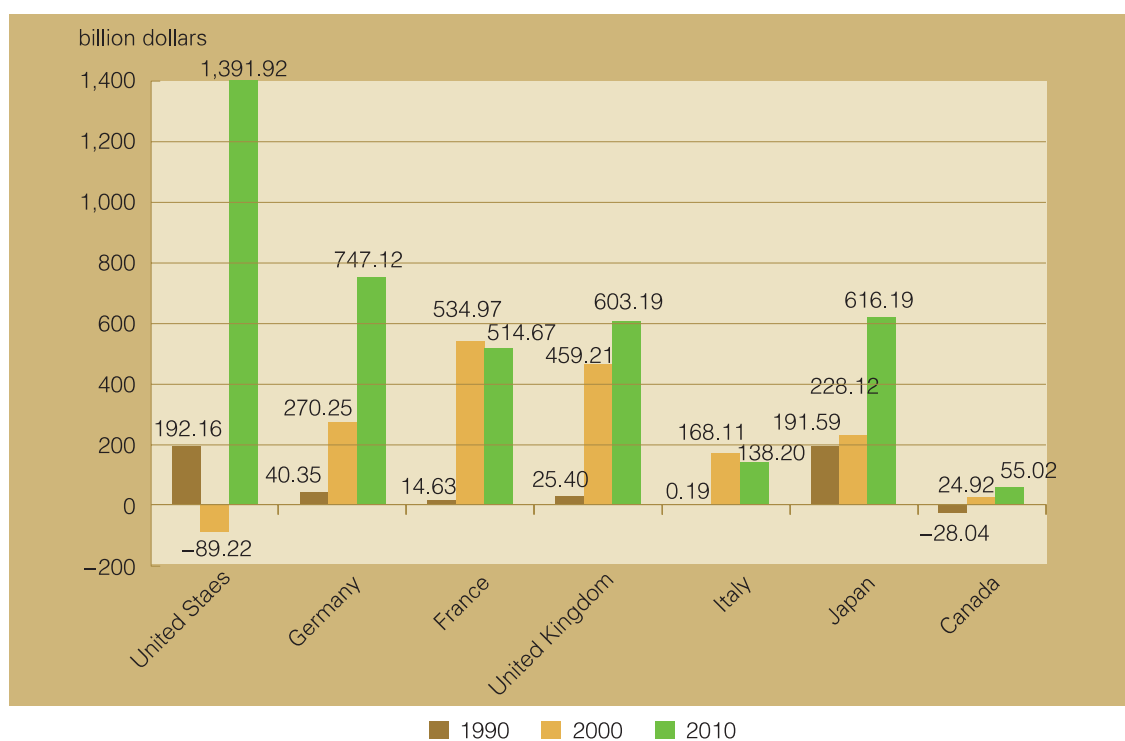


Figure 6.2 Net FDI outflows of the G7 (FDI stock)

Source: UNCTAD, World Investment Report 2011, July 2011

2. The proportion of outbound direct investment by developed economies to the global total drops. Seen from the FDI flow, in 2010, the FDI inflows of G7 reached \$362.443 billion and its FDI outflows reached \$606.162 billion, down by 44.4 percent and 48.0 percent, respectively, compared with those of 2007. Its global proportion also dropped to 29.1 percent and 45.8 percent, respectively. Seen

from FDI stock, in 2010, the FDI inflows and outflows of G7 accounted for 35.4 percent and 52.8 percent, respectively, of global total, down by 17.6 percent and 16.5 percent compared with that in 2000.

6.2.2 Direct investment of developed economies in the E11

In recent years, the direct investment of the developed economies in the E11 has undergone

many new, noteworthy changes regarding scale and locality of investment. On the whole, the absolute scale of the direct investment of the developed economies in the E11 has continually risen, but the proportion of such investment to their total investment has dropped significantly. However, the US, EU and Japan have had mixed performance in terms of the development trend of their direct investment in the E11.

1. The direct investment of the US in the E11 has been on the decline. In the 2006-2010 period, the US' direct investment in the E11 had fluctuated in terms of both the absolute scale of investment and the proportion of investment

in the E11 to the total US outbound direct investment. In 2006, the FDI outflows of the US to the E11 reached \$26.249 billion, accounting for 11.7 percent of the total of US' outbound direct investment. In 2008, the direct investment of the US in the E11 reached \$37.660 billion, the highest level in recent years, accounting for 12.2 percent of the total of US' outbound direct investment. In 2009, however, affected by the global financial crisis, the proportion of its direct investment in the E11 to its total outbound direct investment slumped to 5.4 percent; in the Jan. 2011-Sept. 2011 period, the ratio was still lower than 6 percent (See Table 6.11).

Table 6.11 Direct investment of US in the E11 economies in the 2006-2011 period (FDI flow)

	2006	2007	2008	2009	2010	2011.1-9
Argentina	4,273	546	1,542	1,094	-2,076	-1,618
Brazil	223	5,585	3,826	2,835	9,097	8,819
China, People's Republic of	4,227	5,242	15,971	-7,854	9,565	-1,813
India	1,834	3,915	4,311	2,143	5,868	2,730
Indonesia	771	2,925	1,751	583	-310	-470
Korea, Republic of	2,518	821	2,157	3,678	2,337	3,433
Mexico	9,444	9,799	4,522	8,582	1,887	5,803
Russia	1,781	2,628	2,715	375	-3,456	1,019
Saudi Arabia	769	560	341	2,902	-2	-218
South Africa	158	1,000	306	478	716	674
Turkey	251	3,740	218	306	567	-1,297
E11	26,249	36,761	37,660	15,122	24,193	17,062
Proportion to total outbound direct investment of US	11.71	9.34	12.22	5.35	7.36	5.57

Unit: million dollars, %

Source: CEIC, Dec. 2011

2. The direct investment of EU in the E11 has been on the rise. Different from the US, in recent years, the EU has increased its direct investment in the E11. In 2006, FDI outflows of the 25 EU countries (EU 25) to the E11 (except Saudi Arabia) were 49.825 billion euro, 5.67 percent of the bloc's total FDI outflows; the ratio has increased gradually year by year and in 2010, it almost doubled year-on-year in 2010 to reach 70.434 billion euro, accounting for 17.44 percent of the total FDI outflows of EU 25 that year. Meanwhile, from 2006 to 2010, the proportion of the outbound direct

investment stock of EU 25 in the E11 (except Saudi Arabia) to the total investment stock of EU 25 rose from 5.41 percent to 7.29 percent, up by 1.88 percentage points. However, the growth in the direct investment of EU 25 in the E11 economies is not balanced. The incremental direct investment has mainly flown into Brazil and Mexico. In 2010, the direct investment of EU 25 in Brazil and Mexico reached 21.511 billion euro and 10.083 billion euro, respectively, accounting for nearly 45 percent of the total direct investment of EU 25 in the E11 (except Saudi Arabia) (See Table 6.12).

Table 6.12 Direct investment of EU 25 in the E11 economies in the 2006-2010 period

	Flow					Stock				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Argentina	3,418	2,398	4,123	757	2,939	39,984	35,243	40,324	38,992	49,549
Brazil	5,417	14,903	9,070	8,809	21,511	92,381	107,749	108,480	132,218	187,738
China, People's Republic of	6,728	7,214	5,241	5,836	7,128	32,586	40,949	52,386	58,306	75,147
India	2,491	4,595	3,667	3,439	4,672	12,359	16,201	17,432	27,193	34,408
Indonesia	-723	-189	-151	1,497	589	10,609	12,636	14,338	17,459	20,398
Korea, Republic of	1,850	914	1,022	453	2,823	28,436	32,818	27,811	28,947	39,026
Mexico	1,786	5,786	5,615	3,960	10,083	45,122	49,105	50,569	58,287	81,070
Russia	11,437	18,174	27,340	654	7,857	50,442	71,419	83,173	88,793	119,972
South Africa	5,124	5,118	3,018	5,918	7,072	42,483	55,134	55,108	77,015	92,185
Turkey	12,297	15,678	6,506	4,168	5,760	33,873	48,915	44,977	51,408	65,487
Total	49,825	74,591	65,451	35,491	70,434	388,275	470,169	494,598	578,618	764,980
Proportion to total FDI outflow of EU 25	5.67	5.87	7.29	7.75	17.44	5.41	5.56	5.55	6.07	7.29

Unit: million euro, %

Note: EU 25 refers to the 25 EU members that joined EU before 2005; data for Saudi Arabia is unavailable.

Source: CEIC, Dec. 2011

3. Japan's direct investment in the E11 has fluctuated dramatically. The proportion of Japan's direct investment in the E11 to the total Japanese direct investment has changed dramatically in recent years. In 2005, Japan's direct investment in the E11 economies, except Argentina and Turkey, reached 1.3276 trillion yen, accounting for 26.3 percent of its total outbound direct investment that year. The ratio had remained roughly at 17 percent in the following three years. In 2009 and 2010, despite the impact of its domestic economic

environment, the scale of Japan's direct investment in the E11 decreased, but the proportion had risen. In 2010, the nine E11 economies except Argentina and Turkey accounted for over 30 percent of the total Japanese outbound direct investment. Although the ratio dropped in the first ten months of 2011, it remained at a high level. On the whole, despite the dramatic changes in Japan's direct investment in the E11, the E11 has been an important part of Japan's outbound direct investment landscape (See Table 6.13).

Table 6.13 Japan's direct investment in the E11 economies in the 2005-2011 period (FDI flow)

	2005	2006	2007	2008	2009	2010	2011.1-10
Brazil	106.8	165.4	145.9	537.9	351.2	374.5	595.6
China, People's Republic of	726.3	717.3	730.6	670.0	649.1	628.3	787.2
India	29.9	59.7	178.2	542.9	344.3	241.0	131.3
Indonesia	134.3	86.3	120.7	73.8	45.9	40.9	213.6
Korea, Republic of	196.5	176.8	153.4	244.8	101.7	93.5	172.5
Mexico	68.9	-307.5	58.9	33.0	20.0	69.2	-1.5
Russia	10.6	18.7	11.7	31.7	36.4	31.2	24.0
Saudi Arabia	56.8	29.6	88.6	93.0	35.4	10.2	7.9
South Africa	-2.5	53.7	9.3	68.7	13.7	9.3	31
Total	1,327.6	1,000.0	1,497.3	2,295.8	1,597.7	1,498.1	1,961.6
Proportion to Japan's total outbound direct investment	26.3	17.1	17.3	17.4	22.9	30.3	28.6

Unit: billion yen, %

Note: Argentina and Turkey data are unavailable.

Source: CEIC, Dec. 2011

Seen from situation in individual E11 economies, in recent years, the direct investment of developed economies in different E11 economies has shown mixed trends. Take China and India, which are the major destinations of FDI among the E11 economies. China's dependence on direct investment from the developed economies has been on the decline while it has been on the rise in India. In 2001, the direct investment of G7 in China reached \$12.240 billion, accounting for 26.1 percent of China's actually utilized foreign investment. In 2005, the ratio dropped to 18.6 percent. In 2010, the direct investment of G7 in

China further dropped to \$10.969 billion, accounting for 10.4 percent of China's actually utilized foreign investment, down by 15.7 percentage points compared with that in 2001 (See Table 6.14). In 2003, the direct investment of G7 in India accounted for 13.85 percent of India's total FDI inflows. The latest statistics show that in the first eight months of 2011, the direct investment of G7 in India amounted to \$27.144 billion, close to the whole-year level of the previous year. It accounted for 33.95 percent of India's total foreign investment in the same period (See Table 6.15).

**Table 6.14 Direct investment of the G7 in China in the 2005-2011 period
(actually utilized, FDI flow)**

	2005	2006	2007	2008	2009	2010	2011.1-11
Total	72,406	72,715	83,521	108,312	94,065	105,735	103,769
Canada	454	424	397	543	862	635	406
France	615	383	456	588	654	1,238	731
Germany	1,530	1,979	734	900	1,217	888	1,100
Italy	322	350	348	493	352	396	356
Japan	6,530	4,598	3,589	3,652	4,105	4,084	5,919
United Kingdom	965	726	831	914	679	710	535
United States	3,061	2,865	2,616	2,944	2,555	3,017	2,154
G7	13,477	11,325	8,971	10,035	10,423	10,969	11,201
Proportion to total foreign investment in China	18.6	15.6	10.7	9.3	11.1	10.4	10.8

Unit: million dollars, %

Sources: CEIC and Chinese Ministry of Commerce, Dec. 2011

Table 6.15 Direct investment of the G7 in India in the 2005-2011 period (FDI flow)

	2005	2006	2007	2008	2009	2010	2011.1-8
Canada	61.21	92.68	183.56	914.46	321.82	491.23	46.18
France	232.55	436.52	771.33	3,061.98	1,825.15	3,006.54	1,885.03
Germany	513.24	3,216.26	2,482.30	5,752.06	3,695.41	1,535.18	4,525.95
Italy	104.32	365.01	211.89	3,123.87	798.60	1,565.03	347.73
Japan	849.93	959.24	4,661.40	3,267.99	7,946.61	6,577.94	6,263.38
United Kingdom	1,252.31	3,267.36	3,441.07	14,420.87	2,837.70	5,358.63	11,715.98
United States	3,259.21	4,422.86	6,040.99	14,237.79	14,115.22	9,472.52	2,359.40
G7	6,272.77	12,759.93	17,792.54	44,779.02	31,540.51	28,007.07	27,143.65
Proportion to total foreign investment in India	25.81	22.54	13.85	17.67	17.54	20.33	33.95

Unit: million dollars

Source: CEIC, Dec. 2011

6.2.3 Direct investment of the E11 in developed economies

Outbound direct investment has long been seen as an important channel for the capital and technologies of the developed economies to flow

to the developing economies. As the economic globalization deepens, the development of global outbound direct investment has become diversified. The emerging economies led by the E11 have become a major source of global outbound direct

investment and played an increasingly important role in global investment. Some of their investment has flown into the developed economies.

The direct investment of the E11 in major developed economies, such as the US and EU has on the whole been expansionary in recent years. In 2006, the total direct investment of Brazil, China, India,

the Republic of Korea, Mexico and South Africa in the US was \$5.968 billion, and in the first nine months of 2011, it already reached \$8.537 billion, accounting for 5.4 percent of the total FDI inflows of US in the same period, up by 2.9 percentage points compared with that in 2006 and 4.4 percentage points higher than the 2009 level, which was the lowest (See Table 6.16).

Table 6.16 Direct investment of some E11 economies in the US in the 2006-2011 period (FDI flow)

	2006	2007	2008	2009	2010	2011.1-9
Brazil	-468	492	278	-1,652	2,679	3,853
China, People's Republic of	316	8	500	35	1,364	164
India	443	731	1,231	310	861	842
Korea, Republic of	3,282	4,752	1,441	501	1,567	2,223
Mexico	2,264	291	732	2,589	1,152	1,340
South Africa	131	-325	438	-287	103	115
Total	5,968	5,949	4,620	1,496	7,726	8,537
Proportion to the total direct investment in the United States	2.5	2.8	1.5	1.0	3.4	5.4

Unit: million dollars, %

Source: CEIC, Dec. 2011

Meanwhile, the direct investment of the E11 in EU has also gradually risen year by year. In 2006, the direct investment of the E11 economies (except Saudi Arabia) in EU 25 amounted to 6.580 billion euro, accounting for 0.93 percent of the total FDI flows into EU 25. In 2011, the direct investment of the E11 (except Saudi Arabia) in EU 25 rose

to \$23.869 billion, 3.6 times the 2006 level and accounting for 8.35 percent of the total FDI flows into EU 25. Similarly, the proportion of the direct investment stock of the E11 economies (except Saudi Arabia) in EU 25 rose to 1.81 percent in 2010 from 0.89 percent in 2006 (See Table 6.17).

Table 6.17 Direct investment of the E11 in EU 25 in the 2006-2010 period

	FDI flow					FDI stock				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Argentina	13	-214	-334	370	217	1,805	1,980	2,431	2,454	1,765
Brazil	1,509	24,701	9,955	360	7,226	14,603	41,202	52,542	56,305	67,324
China, People's Republic of	2,181	735	-157	255	737	3,519	4,541	5,557	5,686	6,659
India	488	1,153	3,523	885	494	2,286	4,526	6,107	5,485	7,005
Indonesia	-493	746	215	-133	44	-3,494	-2,738	-2,975	-2,629	-2,746
Korea, Republic of	785	465	-1,049	1,040	3,798	7,327	9,152	8,507	9,827	13,718
Mexico	304	426	730	2,691	1,976	9,677	10,681	10,918	14,401	10,287
Russia	1,363	10,202	170	2,549	7,515	14,326	24,117	25,525	26,518	40,725
South Africa	878	1,820	2,475	1,007	1,099	3,095	5,781	6,785	6,242	7,390
Turkey	-448	380	-287	1,167	763	4,293	4,640	5,834	6,771	7,293
E11	6,580	40,414	15,241	10,191	23,869	57,437	103,882	121,231	131,060	159,420
Proportion to FDI inflows of EU 25	0.93	3.87	3.00	3.02	8.35	0.89	1.37	1.56	1.59	1.81

Unit: million euro, %

Note: Saudi Arabia statistics are unavailable.

Source: CEIC, Dec. 2011

6.3 Rising trade protectionism by the developed economies

In the wake of the global financial crisis, trade, investment and financial protectionism had been resumed across the world. One of the protectionist phenomena is that the developed economies, which uphold the principle of economic liberalism and opening up, have taken various measures to strengthen protection of their domestic industries to achieve economic recovery and gain maximum economic benefits globally. Against that backdrop, the emerging economies have become victimized by the rising trade protectionism and investment barriers of the developed economies and protectionism has become an adverse factor affecting the economic and trade relations between the emerging and developed economies. It's also an important factor behind the worsening economic and trade relations between the emerging and developed economies in recent years.

6.3.1 Trade barriers of the developed economies

As major trade and economic powers, the developed economies have had relatively open markets and an import management framework and relevant trade protection measures to safeguard the interest of domestic producers. One of those measures is tariff barrier. Although the overall tariff level of the developed countries is low, they have maintained relatively high tariff regarding such products as agricultural goods, textile and shoes. For example, the tobacco tariff in the US is as high as 350 percent; that for sour cream and peanuts is 177.2 percent and 163.8 percent, respectively. Tariffs for milk, cream, cheese, goose liver, sugar and cocoa powder ranges from 50 percent to 110 percent. According to the tariff table of the EU in 2009, the tariffs for agricultural product imports are generally high in the EU, reaching 17.9 percent on average. Almost all tariffs higher than 100 percent are imposed on import of agricultural products, with the highest reaching 604.3 percent (sugar substitute HS17024010). Protectionist measures also include non-tariff barriers. Non-tariff barriers are the most used by the developed economies to protect trade and they can be technical trade barriers in the form of technical standards, technical laws and regulations, testing, labeling and certification, mandatory label of origin rules,

government procurement limiting foreign goods and services, as well as unreasonable stipulated fees of import and abused certificate rules. Many of them violate WTO rules and their application has also gone beyond the framework of the WTO rules. Regarding trade remedy measures, in recent years, anti-dumping and anti-subsidy investigations have become the most direct and most often used administrative tools the developed economies use to block entry of foreign goods into their domestic markets. They adopt double standards against some emerging economies. Regarding export limitation, some developed economies have established a sophisticated export control and management system to regulate export of high-tech products and block and punish exports of high-tech products by other countries. Regarding agricultural subsidy, some developed economies have taken a series of subsidy and other encouraging measures for domestic agricultural products, agricultural product futures, forestry, horticulture, organic agriculture, animal husbandry and rural development and devise subsidy plans for agricultural product export to boost agricultural export. For example, on June 18, 2008, the US passed the *Food, Conservation and Energy Act of 2008*, which covers federal government subsidy and relevant plans from 2008 to 2012 fiscal year. The authorized funding for agricultural subsidy was as high as \$290 billion. Regarding the service trade barriers, developed economies impose strict control over foreign investors in services sectors such as telecommunications, finance, transportation, professional services and commerce and sometimes impose differential treatment. Regarding the protection of intellectual property right, they take unreasonable intellectual property right protection measures. For example, Article 337 of the *Smoot-Hawley Tariff Act*, passed by the US in 1930, violates the national treatment principle of WTO and it can be used to provide double remedy for its domestic products at the sacrifice of foreign enterprises that suffer from differential treatment.

In the wake of the global economic crisis, the trade protection of developed economies has had some new features. First, trade protection measures have become more random and discriminatory and trade barriers have become covert. The US, Japan and EU have set up multiple technical barriers for trade regarding commodity standards,

technical regulation and technical certification. Their systematic difference means the cost and difficulty of certification are high and therefore they have become the main trade protectionist measures taken by the US and European countries to set up barriers to prevent the emerging economies from entering their markets. For example, the developed countries have moved those energy-consuming and high-emission industries to the emerging economies while they plan to use “carbon tariff” to force the emerging economies to purchase the environmental protection and emission reduction technologies from them to abide by the environmental rules devised by the developed countries. Second, the developed economies have increasingly resorted to trade protectionist measures and the emerging economies have become the main target. Take the US. In the first three quarters of 2010, it launched altogether 42 investigations based on Article 337 of the Smoot-Hawley Tariff Act, up by 90.9 percent year-on-year. Emerging economies such as China have been the main target for investigation. The trade remedy investigations the EU has launched are also case in point. According to the Chinese Ministry of Commerce, in the first ten months of 2010, EU had launched ten trade remedy investigations – more than the total number of 2009. The amount of money involved was about \$4.74 billion, 5.5 times that of the entire year of 2009. Third, the trade protectionist measures are closely related to the domestic economic and political conditions. The US Senate passed the *Currency Exchange Rate Oversight Reform Act of 2011* in October 2011. Although it is yet to become a law, it is a solid proof that the US simply carries out protectionism in the disguise of redressing trade imbalance.

Since a large part of goods exported by most emerging economies are labor-intensive products, the various trade barriers set up by developed economies will have an even greater impact and become the biggest hurdle facing the foreign trade sector of emerging economies. According to the research report released by Global Trade Alert in November 2010, the emerging market economies have suffered the most from trade protectionism. To overcome trade barriers set up by the developed economies, the emerging economies need to improve the comprehensive competitiveness to their enterprises, increase the technical value added to their products and pursue sustainable growth so that they can narrow the gap with the

developed economies. On the other hand, the role of the government should be brought out so that government departments, such as technological, legal and administrative departments, could help enterprises improve their competitive edge, safeguard their legal interest overseas and break the many trade barriers of various forms.

6.3.2 Investment barriers in the developed economies

Most developed economies have long adopted liberal policies regarding foreign direct investment. In recent years, however, as the outbound investment of emerging economies increases continually, some developed economies in America and Europe have increased protection of domestic enterprises and strengthened reviewing procedures targeted at foreign investors. Some measures and regulations are not in line with their stance of liberalism and even go against the spirit of facilitating cross-border investment and safeguarding free competition as embodied in the *Agreement on Trade-Related Investment Measures* of WTO.

The investment barriers of developed economies can be divided into three categories. First, they can be investment entry barriers, which refer to unreasonable restriction on market entry of foreign investors and failure to open to foreign investors certain areas as committed in the TWO and bilateral investment agreements. Second, they can be operational barriers, which refer to unreasonable restrictions on operational activities of foreign enterprises, such as production, supply, sales, human resources and accounting. Third, they can be investment exit barriers, which refer to barriers blocking exit of foreign investors or restrictions on the remittance of profits of foreign enterprises overseas.

The US Department of Treasury released the implementation rules for the *Foreign Investment and National Security Act of 2007*. It's called Regulations Pertaining to Mergers, Acquisitions, and Takeovers by Foreign Persons. The new law target projects and deals regarding infrastructure, energy and core technologies concerning national security of the US and stipulates strict rules for foreign investment, among which many articles constitute obstacles for foreign investors. First, the law expands the scope of review by the Committee on Foreign Investment in the United States (CFIUS) and provides it with

excessive discretionary power. Second, the many required materials for the review increase the burden and transaction costs of investors. Third, the law emphasizes the case-by-case principle and lacks foresight, therefore could cause misjudgment by the potential buyer. Fourth, it requires that written report should be provided to the Congress after the review and investigation, which increases merger and time costs. Fifth, the President can shelve or veto a deal without going through any court hearing if he or she holds that it could threaten national security. No compensation is stipulated. Sixth, the law has retroactivity, which means transactions of the past could be revoked and investors could even be fined by a large amount of money. This increases risks for investors involved in the current or previous deals. Seventh, it lacks transparency; when any of the CFIUS members believes the deal could threaten national security, the committee can then launch an investigation lasting 45 days while the law does not stipulate whether investors should be informed of the reason or whether the investigation decision should be canceled if investors can provide solid proof against the accusation.

The EU has also strengthened management of foreign direct investment in the continent. The *Treaty of Lisbon*, effective since December, 2009, puts foreign direct investment in EU's common trade policy framework. Comparatively, in many fields of investment, the impact of individual member's laws, policies and customary rules on the investors from emerging economies are more significant than that of EU's common policies. In the laws, policies and practices of EU members, there are still some restrictive regulations and

measures that prevent foreign investors from entering the local market and therefore constitute investment barriers. Those barriers mainly have the following features. First, there is differential treatment toward non-EU investors. Second, there are restrictions on industries that can be invested in by foreign investors and more strict conditions are required. Third, there are protective measures for local enterprises. Moreover, some countries have complicated administrative procedures and laws and regulations that are not transparent, which also increase cost of investment.

There are various investment barriers also in other developed economies. For example, Japan is very conservative regarding foreign investment and it is quite difficult for foreign direct investment to enter Japan. That's why it has maintained low growth rate of FDI inflow for a long time. In addition, there lacks transparency in acquisitions and mergers and the porous laws and regulation also prevent foreign direct investment from flowing into the country. Canada stipulates that foreign investment in the cultural and publishing sectors must undergo investigation and approve procedures and it has special restrictions on the ratio of controlling stake in sectors such as financial service, transportation, uranium mining, telecommunications and fishery.

Those investment barriers of the developed economies are set to increase the cost of investment for enterprises in the E11 economies and affect the investment and business activities of the E11 enterprises in those economies, therefore bringing adverse effect on the expansion of the outbound direct investment.

Chapter 7

Country Report of the E11 Economies

7.1 Argentina

7.1.1 Economic situation

In 2010, Argentina's market exchange-based GDP reached \$370 billion, the 28th largest globally. It increased by \$59.6 billion, or 9.2 percent, year-on-year. In terms of PPP, its GDP was 640 billion international dollars, accounting for 0.87 percent of the total global output. In 2011, the Argentinean economy continued its high-rate growth momentum in 2010. According to the statistics from the Ministry of Economy and Production of Argentina, in the first three quarters of 2011, the country's real GDP growth was 10.0 percent, 9.5 percent and 9.3 percent, respectively. The slowing growth was attributable to the weakening private and government expenditure and decreasing capital formation. Meanwhile, the slumping export also had a negative impact on economic growth. Growth of private consumption, government consumption and fixed-asset investment dropped to 8.0 percent, 8.9 percent and 14.6 percent, respectively, in the third quarter from 10.8 percent, 10.6 percent and 21.1 percent in the first quarter. In the first three quarters, inventory increase accounted for -1.2 percent, -1.3 percent and 0.0 percent of GDP growth. The country's trade deficit expanded in the first three quarters. Based on 2005 prices, its net export of goods and services worsened from -500 million dollars, \$700 million and -400 million dollars in the first three quarters, respectively, of 2010 to -7.6 billion dollars, -13.7 billion dollars and -8.5 billion dollars in the same period of 2011.

Inflation eased slightly in 2011 compared

with that in 2010, but remained high. In the first three quarters of 2011, year-on-year CPI growth of Argentina dropped below 10 percent; it was 10.1 percent, 9.7 percent and 9.8 percent, respectively. The month-on-month growth was 2.4 percent, 2.4 percent and 2.3 percent, respectively in the first three quarters of this year. The severe inflation situation in Argentina is mainly attributable to the hovering food prices and the rising prices of apparels, health, and education is also a major factor behind the uncontrollable inflation growth. The continually rising inflation has become a major negative factor affecting the country's social and economic development. In addition, the rising prices of raw materials and labor has pushed up the producer price. In the first nine months of 2011, the produce price index of Argentina rose by 0.2 percentage point year-on-year to reach 14.8 percent.

Despite the easing growth momentum of Argentina, its employment situation improved in 2011 thanks to the industrialization process that started in 2003. By the third quarter of 2011, the jobless rate of Argentina had been kept below 10 percent for 20 consecutive quarters. In the third quarter of 2011, its jobless rate fell to 7.2 percent, the lowest in 20 years. It was 0.1 percentage point lower than that in the first quarter (See Table 7.1).

The Argentinean stock market fluctuated violently in 2011, especially in the second half of that year. By early October, 2011, the Merval Index of the Buenos Aires stock market had slumped by 35.1 percent since the start of the year, which was one of the worst-performing markets in Latin America, and the capitalization of listed firms there had contracted

by \$16 billion. The slump was even sharper than the European stock markets that had been battered by the debt crisis. The slumping stock market of Argentina can be attributable to external factors, such

as the global financial market turbulence, but the fast pace of market expansion and the withdrawal of private pension funds from the market after they were nationalized are to blame.

Table 7.1 Changes in major economic indicators of Argentina¹

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	2.30	6.86	9.57	9.74	10.43	10.03	9.47	10.04
Real export growth rate (%)	2.69	9.80	10.92	27.24	11.11	8.16	0.39	1.19
Real import growth rate (%)	-4.20	28.94	35.58	39.81	31.66	20.98	23.01	17.77
Oil production (1,000 barrels/day)	720	710	710	700	640	690	610	670
International reserves (billion \$, end of period)	48.03	47.46	49.45	51.43	52.23	51.36	51.69	48.59
Foreign exchange reserves (billion \$, end of period)	46.09	45.50	47.26	49.13	49.73	48.83	49.05	45.37
CPI growth rate (% on average)	7.10	9.01	10.62	11.13	11.03	10.10	9.69	9.77
PPI growth rate (% on average)	10.88	14.17	14.34	15.42	16.24	15.86	14.78	13.61
Registered unemployment rate (%)	8.4	8.3	7.9	7.5	7.3	7.4	7.3	7.2

Sources: EIU and National Statistical Bureau of Argentina, Feb. 2012

7.1.2 Economic policy

In 2011, Argentina continued the expansionary fiscal policy. The main measures for the policy include expansion of fiscal expenditure and continuity to carry out tax cut policy. 2011 is the year of election and Cristina Fernández expanded fiscal spending in pursuit of re-election. The increase in fiscal expenditure was used in cost of increasing public projects, raising pension level and providing subsidy for the poor families. Seen from actual implementation of fiscal budget, the country had stricken a balance between fiscal revenues and expenditures for the first half of this year and it is expected the whole-year situation would be similar.

In 2011, the monetary policy of Argentina remained stable. By November, the benchmark interest rate had been kept at 9.0 percent, which was unchanged since the end of 2010. The short-term savings and lending rates had been raised. In the first half of 2011, the 30-day lending rate experienced small-margin fluctuations and was raised to 12.64 percent in the third quarter. The rate

of savings ranging from 30 days to 89 days also rose slightly from 9.28 percent in the fourth quarter of 2010 to 10.11 percent in the third quarter of 2011. Regarding the exchange rate policy, the central bank of Argentina has sought to maintain the stability of its monetary policy to avoid large-scale depreciation of the local currency. In the first three quarters of 2011, the US dollar appreciated by a total of 5.8 percent against peso of Argentina. Since August 2011, the peso has faced great depreciation pressure and the central bank has sold a large amount of foreign exchange reserves on the forex market and has taken a series of new foreign exchange control measures to keep corporate and individual purchase of foreign exchanges under strict control (See Table 7.2).

Regarding the trade policy, the government of Argentina has further strengthened control of export and import to ensure adequate supply on the domestic market and maintain a positive trade balance. According to the statistics from the Global Trade Alert in September 2011, currently there are 148 trade protection policies in place in Argentina, the most globally.

¹ If without specific explanations, the quarterly growth rates in this chapter should all be year-on-year data.

Table 7.2 Changes in currency, credit and exchange rate of Argentina

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (billion home currency)	315.07	330.15	351.42	381.67	414.12	452.58	482.73	515.23
M1 growth rate (% end of period)	17.34	20.20	14.32	22.15	31.84	26.57	29.98	22.75
M2 growth rate (% end of period)	17.00	17.71	23.30	30.22	33.11	36.12	35.95	31.58
Lending rate (% average)	11.54	10.47	9.85	10.59	11.32	11.10	11.25	12.64
Savings rate (% average)	10.32	9.27	8.90	9.23	9.28	9.54	9.55	10.12
Exchange rate (home currency/dollar, average)	3.79	3.83	3.88	3.92	3.95	3.99	4.06	4.15
Exchange rate (home currency/dollar, end of period)	3.78	3.86	3.91	3.94	3.96	4.03	4.09	4.19

Source: EIU, Feb. 2012

7.2 Brazil

7.2.1 Economic situation

In 2010, Brazil's market exchange rate-based GDP amounted to \$2.09 trillion, the 7th largest globally. It was up by \$489.5 billion, or 7.5 percent, year-on-year. Its PPP-based GDP reached 2.18 trillion international dollars, accounting for 2.93 percent of the total global output. In 2011, affected by the global economic slow-down, the Brazilian economy also showed a slumping trend. According to the Brazilian Institute of Geography and Statistics (IBGE), the country's GDP grew by 3.6 percent year-on-year in the first half of 2011 and the risk of economic cool-down was growing. In August 2011, the Brazilian government cut its forecast of GDP growth for 2011 to 3.7 percent from the previously forecast 4 percent. In September, IMF also adjusted downward its forecast of Brazil's growth rate to 3.8 percent from 4.1 percent.

Regarding consumption, due to rising inflation, the private consumption has been affected and government expenditure also slumped due to the withdrawal of the fiscal stimulus policy. In the first three quarters of 2011, the private consumption grew by a real 5.1 percent year-on-year, down 1.8 percentage points compared with that in the same period of the previous year. Government expenditure growth fell to 2.7 percent. From the perspective of capital formation, the economic growth is mainly driven by fixed-asset investment.

In the first quarter, Brazil's fixed-asset investment expanded by a real 8.7 percent year-on-year, but it was far lower than the 22 percent growth achieved in 2010. In the third quarter, it further dropped to 6.5 percent. Meanwhile, the contribution of inventory increase to GDP growth fell into the negative territory in the second quarter and it drove GDP growth down by 1.3 percentage points in the third quarter. Regarding export and import, since the start of 2011, Brazil's export has slumped sharply and the import growth has been much higher than that of export. In the first three quarters of 2011, its real growth of export dropped below 5 percent while import growth exceeded 14 percent. Preliminary estimates show that in 2011, the ratio of Brazil's current account deficit to GDP could be at around 4 percent. In recent years, the international reserves of Brazil have been increasing rapidly. In 2006, reserves amounted to \$85.8 billion; in the first half of 2011, they expanded to \$334.14 billion. The ample reserves help Brazil improve its ability to ward off external shocks.

While its economic growth slumps, Brazil also faces severe inflationary pressure. Since the start of 2011, inflation in Brazil has worsened continually. According to IBGE, in the third quarter of 2011, CPI increased to 7.14 percent and was 7.31 percent in September, the highest since 2005. In line with the trend of economic slow-down, Brazil's unemployment rate in 2011 also rose compared with that in 2010. It was 6.3 percent in the first half of the year (See Table 7.3).

Table 7.3 Changes in major economic indicators of Brazil

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	5.28	9.17	8.73	7.07	5.37	4.15	3.25	2.23
Real export growth rate (%)	-4.03	14.27	7.30	12.05	12.58	4.13	6.46	4.28
Real import growth rate (%)	7.16	41.42	38.30	40.33	25.91	13.71	14.66	5.96
Oil output (1,000 barrels/day)	1,991.7	2,017.0	2,067.7	2,044.0	2,089.0	2,088.7	2,087.0	2,076.0
International reserves (billion \$, end of period)	238.54	243.76	253.11	275.21	288.58	317.15	335.77	349.70
Foreign exchange reserves (billion \$, end of period)	237.36	242.56	251.77	273.79	287.06	315.59	374.14	347.95
CPI growth rate (% average)	4.23	4.86	5.11	4.60	5.58	6.10	6.59	7.14
PPI growth rate (% average)	-4.50	-1.09	3.42	8.07	12.70	13.75	11.02	8.21
Composite stock index (Dec 29, 1983=100)	68,588	70,372	60,936	69,430	69,305	68,587	62,404	52,324
Unemployment rate (%)	7.23	7.40	7.27	6.60	5.70	6.33	6.33	6.00

Sources: EIU and Bloomberg, Feb. 2012

7.2.2 Economic policy

After she became president of Brazil, Dilma Rousseff said on Jan. 1, 2011 that she would continue the economic policies adopted by her predecessor Luiz Inácio Lula da Silva, but would soon withdraw the fiscal stimulus policy and make efforts to curb inflation. In early 2011, the Brazilian government cut fiscal budget, raised the ratio of money used for payment of principal and interest of public debt, and balanced the funding for social security and public subsidies. Due to the impact of external economic shocks, the government decided in November to take a series of measures, such as tax cut and loosening of credit to stimulate the economy.

In the first half of 2011, due to worsening inflation, Brazil adopted stringent monetary policy. In the Jan.-July 2011 period, Brazil raised the

benchmark interest rate five times. The rate rose to 12.5 percent after the country raised it by 25 basis points on July 21. High interest rates have played a positive role in controlling inflation, but they also raise the corporate cost of financing and cause inflow of large amounts of speculative capital, which increases pressure for Brazilian real appreciation. In the first half of 2011, the exchange rate of real rose to 1.56 against the dollar from 1.67 against the dollar at the end of 2010. The appreciation of real has an adverse impact on the competitiveness of the country's exports. On August 31, 2011, the central bank of Brazil announced to cut the benchmark interest rate to 12 percent from 12.5 percent, which marked the loosening of the stringent monetary policy adopted since the start of the year and the shift of macroeconomic focus to growth (See Table 7.4).

Table 7.4 Changes in currency, credit and exchange rate of Brazil

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (billion home currency)	3,076.53	3,238.21	3,354.19	3,542.90	3,652.58	3,808.81	3,928.33	4,147.33
M1 growth rate (% end of period)	11.04	19.26	16.07	18.65	13.62	9.84	8.15	2.47
M2 growth rate (% end of period)	8.56	9.89	8.77	11.99	16.96	19.89	22.07	21.92
Lending rate (% average)	41.30	40.40	39.90	39.97	39.70	43.23	45.10	44.30
Savings rate (% average)	8.24	8.17	8.74	9.30	9.28	9.93	11.57	11.76
Exchange rate (home currency/dollar, average)	1.74	1.80	1.79	1.75	1.70	1.67	1.60	1.64
Exchange rate (home currency/dollar, end of period)	1.74	1.78	1.80	1.69	1.67	1.63	1.56	1.85

Source: EIU, Feb. 2012

7.3 China

7.3.1 Economic situation

In 2010, China's market exchange-based GDP reached \$5.88 trillion, the world's second largest, up by \$887.7 billion, or a real 10.3 percent, year-on-year. Its PPP-based GDP amounted to 10.12 trillion international dollars, accounting for 13.61 percent of the total global output. In 2011, the Chinese economy continued to expand at a fast pace. According to the National Bureau of Statistics, China's nominal GDP reached 47.1564 trillion yuan in 2011, up by 9.2 percent in real terms year-on-year. Its growth was slower in the latter part of the year. Its year-on-year growth was 9.7 percent, 9.5 percent, 9.1 percent and 8.9 percent (See Table 7.5), respectively, in the four quarters. Among the 9.2 percent growth, total capital formation contributed to 54.2 percent, consumption 51.6 percent and net export contributed a negative 5.8 percent. In 2011, China's economic slow-down was mainly affected by the following factors. In the supply side, rising labor cost, more inputs to promote environment protection and the market-oriented reform of pricing mechanism for other resource elements all led to rising investment costs. In the demand side, as China, a large-scale economy, expands, it has become ever harder for the global market to accommodate it; its economic development strategy centered on export will face more and more serious challenges while the domestic real estate market contraction has also affected domestic investment demand.

Regarding export and import, according to

the National Bureau of Statistics of China, in 2011, China's foreign trade volume amounted \$3.6421 trillion, up by 22.5 percent year-on-year. Its trade surplus was registered at \$155.1 billion, down by 14.6 percent year-on-year. In terms of bilateral trade with its main trade partners, China has seen its trade with the emerging-market economies grow strongly. Regarding FDI, according to China's Ministry of Commerce, in the first 11 months of 2011, foreign enterprises established 25,086 new companies, up by 3.23 percent year-on-year; its actually used foreign investment was \$103.769 billion, up by 13.15 percent year-on-year. The downward trend of foreign direct investment in China is attributable to the escalating debt crisis in the developed economies, which has caused overseas demand uncertainties, and China's economic slow-down and the stagnant domestic real estate market.

China still faced inflationary pressure in 2011. The whole-year CPI rose to 4.2 percent, far exceeding the target of 4.0 percent set at the start of the year. Since the second half of the year, however, China's year-on-year CPI growth has eased gradually; in December, it fell to 4.1 percent, the lowest in 15 months, down 2.4 percentage points from the July peak. The obviously easing inflationary pressure was mainly caused by falling food prices and the disappearance of the carryover effect also played an important role in reducing inflationary pressure. Meanwhile, in 2011, China's producer price index (PPI), after it rose continually in the first half of the year, fell significantly to 1.7 percent in December from the peak of 7.5 percent registered in July (See Table 7.5).

Table 7.5 Changes in major economic indicators of China

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	10.7	11.9	10.3	9.6	9.8	9.7	9.5	9.1
Export of food (FOB, billion \$)	355.0	316.1	388.9	429.6	443.4	399.6	474.7	518.3
Import of food (CIF, billion \$)	293.9	301.9	347.8	364.7	380.8	400.6	428.0	455.4
International reserves (billion \$, end of period)	2,425.9	2,473.4	2,481.0	2,676.7	2,875.9	3,077.0	3,229.6	3,223.0
Foreign exchange reserves (billion \$, end of period)	2,416.0	2,463.5	2,471.2	2,666.9	2,866.1	3,067.2	3,219.8	3,223.0
CPI growth rate (% average)	0.7	2.2	2.9	3.5	4.7	5.1	5.7	6.0
PPI growth rate (% average)	-2.1	5.2	6.8	4.5	5.7	7.0	6.9	7.1
A-share index at Shanghai exchange (Feb. 21, 1992=100, end of period)	3,437.5	3,260.0	2,514.2	2,782.0	2,889.5	3,065.9	2,893.5	2,471.1

Sources: EIU and NBS, Feb. 2012

7.3.2 Economic policy

In 2011, China continued to adopt the pro-active fiscal policy and maintained a proper amount of fiscal deficit and national debt. In 2011, the fiscal budget shows that there was 900 billion yuan worth fiscal deficit, with 700 billion yuan contributed by the central coffer, and the remaining 200 billion yuan was put in the local budget. Compared with that in 2010, China's deficit scale was reduced by \$150 billion and the ratio of fiscal deficit to GDP was reduced to about 2 percent. Seen from the implementation of the budget, in the first 11 months of 2011, the central fiscal revenue reached 4.97522 trillion yuan, up by 23.6 percent year-on-year. The local fiscal revenue was 4.75568 trillion yuan, up by 30.3 percent year-on-year. The national fiscal expenditure totaled 8.895578 trillion yuan, up by 1.736288 trillion yuan year-on-year, or 24.3 percent and the total expenditure accounted for 88.8 percent of the budget, 4.1 percentage points higher than that in the same period of the previous year. Regarding fiscal expenditure structure, inputs in rural economy, the under-developed regions, people's well-being, social causes, restructuring and scientific and technological innovation have been increased. Meanwhile, general expenditure items have been reduced; construction of buildings by Party and government entities, and costs of government officials traveling abroad, vehicle purchase and maintenance as well as expenditure in reception of guests have been downsized. Structural tax reform continued and tax collection was strengthened. The pro-active fiscal policy was in line with the scenario of economic restructuring and has played a role in stabilizing growth, improving structure and balancing income distribution.

The monetary policy has been transferred from being "pro-active" to "prudent". The practical tools used to carry out the policy include quantitative and price instruments, which are combined to improve the efficacy of monetary policy. In the first half of 2011, the central bank raised the interest rates three times, each time raising one-year savings and lending rates by 25 basis points. It raised the reserve requirement ratio six times and that for large-scale financial institutions was raised by 3 percentage points to reach 21.50 percent while that for medium- and small-sized financial institutions was raised also by 3 percentage points to reach 18.00 percent. As the economy cooled down and inflation eased in the second half of the year, China's monetary policy began to become "prudent" and the reserve requirement ratio was reduced by 50 basis points on Dec. 5, 2011, which was equal to injection of 400 billion yuan worth liquidity into the market. Regarding the exchange rate of renminbi, the Chinese government has continued to improve the reform of the currency's exchange rate formation mechanism and basically achieved its goal of moving the exchange rate of renminbi to close to the equilibrium level. From 2005, when the Chinese government started to push exchange rate regime reform, to the end of November, 2011, the renminbi appreciated by 30 percent against the dollar and its appreciation since 2010, when the country resumed its effort to make the currency more flexible in the wake of the global financial crisis, has been close to 8 percent. The expectations for a one-way renminbi appreciation have weakened and the trend of two-way movement of the currency's exchange rate has gradually become apparent (See Table 7.6).

Table 7.6 Changes in currency, credit and exchange rate of China

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (billion home currency)	49,458	52,102	54,068	55,983	58,732	61,106	63,050	64,755
M1 growth rate (% end of period)	33.23	29.94	24.56	20.88	20.40	16.07	14.17	8.9
M2 growth rate (% end of period)	28.42	22.49	18.46	18.97	19.70	16.65	15.86	13.0
Savings rate (% end of period)	2.25	2.25	2.25	2.25	2.75	3.00	3.00	3.00
Lending rate (% end of period)	5.31	5.31	5.31	5.31	5.81	6.06	6.06	6.06
Exchange rate (home currency/dollar, average)	6.83	6.83	6.82	6.77	6.66	6.58	6.50	6.42
Exchange rate (home currency/dollar, end of period)	6.83	6.83	6.79	6.70	6.62	6.56	6.47	6.36

Sources: EIU and People's Bank of China, Feb. 2012

7.4 India

7.4.1 Economic situation

In 2010, India's market exchange-based GDP amounted to \$1.63 trillion, the ninth largest globally and up \$367.1 billion, or 10.1 percent, year-on-year. Its PPP-based GDP was 4.06 trillion international dollars, accounting for 5.46 percent of the total global output. In 2011, India's economic growth slowed down significantly. According to the Indian Ministry of Statistics and Program Implementation, in the second quarter of 2011, its GDP based on constant prices calculated using factor costs increased by 7.7 percent year-on-year, down 0.1 percentage point compared with that in the previous quarter. In the third quarter of 2011, Indian growth was 6.9 percent year-on-year, which was much lower than that in the second and the lowest since the second quarter of 2009. The main constraints for India's economic growth are long-term factors such as inadequate infrastructure and lower quality of labor. India boasts high savings rate and investment rate and it has a vast market. It also has an obvious advantage in the age structure of its population. Therefore, it has great potential in maintaining a relatively high growth rate. However, the worsening of external economic environment will drag on the Indian economy in the short term.

In 2011, India achieved a fast growth in terms of foreign trade and FDI inflow. According to the Ministry of Commerce & Industry of India, in the first nine months of 2011, its foreign trade totaled

\$566.6 billion, up by 44.9 percent year-on-year. Its exports reached \$238.6 billion, up by 57.2 percent year-on-year while import was registered at \$328.0 billion, up by 37.1 percent year-on-year. It suffered from a trade deficit of \$95.3 billion, up by 9 percent year-on-year. In the first nine months of 2011, India actually utilized a total of \$22.527 billion foreign investment, up by 41 percent year-on-year.

While its economic growth slowed down, India has seen easing inflation, although its inflation rate remained high. In the first eight months of 2011, India's CPI increased by 8.9 percent year-on-year and in August, it hit 9.1 percent. By October, India's core inflation rate, measured in WPI wholesale index, had remained above 9.6 percent. Meanwhile, the depreciation of Indian rupee has worsened domestic inflation and made it harder to control inflation. The sustained high inflation has become a major factor complicating the country's macroeconomic policymaking.

As the European debt crisis worsened and the euro continued to weaken, the Indian rupee slumped against the dollar in 2011. By the end of September 2011, rupee had slumped to 48.9 against one dollar, the historical low. It had depreciated by 6 percent since the start of the year and fallen by nearly 9 percent from the yearly highest of 44 against one dollar. It had the worst performance among all Asian currencies. The rising dollar, sell-off of rupee by foreign investors and the sustained trade deficit of the country are the main reasons for the sharp depreciation of the currency (See Table 7.7).

Table 7.7 Changes in major economic indicators of India

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (1998 fiscal year constant price, %)	12.8	9.2	9.1	9.4	7.4	8.5	6.9	6.5
Real export growth rate (%)	3.5	9.6	12.2	23.8	24.2	24.9	28.7	10.5
Real import growth rate (%)	17.8	15.4	11.5	0.5	10.0	23.9	10.9	9.9
Oil output (1,000 barrels/day)	810.0	830.0	840.0	880.0	910.0	880.0	880.0	865.8
International reserve (billion \$, end of period)	274.7	270.8	266.5	293.0	297.7	305.5	316.4	312.5
Foreign exchange reserves (billion \$, end of period)	265.2	261.4	256.3	272.5	275.3	282.5	291.7	283.8
CPI growth rate (% average)	13.2	15.0	13.7	10.5	9.3	9.0	8.9	9.2
PPI growth rate (% average)	4.6	9.4	10.5	9.4	8.9	9.4	9.6	9.8
Composite stock index (1978/79 fiscal year=100, average)	17,464.8	17,527.8	17,700.9	20,069.1	20,509.1	19,445.2	18,845.9	16,453.8

Sources: EIU and Indian Ministry of Statistics and Program Implementation, Feb. 2012

7.4.2 Economic policy

As its domestic economy picked up and fiscal deficit continued to rise, the Indian Ministry of Finance had gradually withdrawn the country's economic stimulus plan since the 2010-2011 fiscal year. Measures it took include: The consumption tax of non-oil products was raised to 10 percent from 8 percent; the base petroleum tariff was raised to 5 percent before June 2008, from zero; the base tariff for gasoline and diesel was raised to 7.5 percent; and the base tariff for other refined products was raised to 10 percent. India still has some fiscal stimulus policies in place. For example, the service tax is still maintained at a preferential level of 10 percent. The Indian government also put forward a plan to cut the fiscal deficit in the 2011-2012 fiscal year. According to the plan, the ratio of the government fiscal deficit to GDP should fall to 5.5 percent from the current 6.9 percent. In August 2011, however, the Indian government announced to cancel the petrol import tariff, which was 5 percent, and cut the import tariff for diesel and gasoline to 2.5 percent from 7.5 percent. Those measures led to the contraction of direct tax revenues by 240 billion rupee in this fiscal year. Therefore, to implement the plan to cut

the fiscal deficit in this fiscal year, India had taken a series of measures to control fiscal expenditure. For example, it ordered to reduce the frequency of holding meetings at five-star hotels, cut overseas travel and purchase of automobile and strictly check the spending plans of local governments and state enterprises. In addition, it also studied the possibility of exploring new taxation sources, such as auctioning broadcast frequency range, increasing usage fees and raising dividend payment by state enterprises.

Due to the severe inflationary pressure, in the 2011-2012 fiscal year, India continued to adopt a stringent monetary policy. To control inflation, in 2010, Indian central bank raised the repo rate and reverse repo rate six times, pushing the rates to 6.25 percent and 5.25 percent, respectively. In October 2011, the Indian central bank announced to raise again the benchmark interest rate by 25 basis points, which means the repo rate and the reverse repo rate would be raised to 8.5 percent and 7.5 percent, respectively. It was the 13th interest rate hikes since March 2010 and the total hikes amounted to 375 basis points, making India a leader among the E11 economies in terms of monetary policy tightening (See Table 7.8).

Table 7.8 Changes in currency, credit and exchange rate of India

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (billion home currency)	45,441.7	49,614.2	51,055.7	52,258.0	56,002.8	59,654.6	61,212.6	64,269.9
M1 growth rate (% end of period)	17.8	18.6	18.5	15.6	17.3	10.0	7.1	4.3
M2 growth rate (% end of period)	18.0	16.9	15.1	14.9	17.8	16.0	17.1	19.6
Lending rate (% average)	12.0	12.0	12.0	8.0	8.7	9.3	9.8	10.8
Savings rate (% average)	7.5	7.5	7.5	7.6	8.2	9.3	9.3	9.3
Exchange rate (home currency/dollar, average)	46.6	45.9	45.6	46.5	44.9	45.3	44.7	45.8
Exchange rate (home currency/dollar, end of period)	46.7	45.1	46.6	44.9	44.8	44.7	44.7	48.9

Source: EIU, Feb. 2012

To expand export and offset the sustained trade deficit, the Indian central bank announced in October 2011 to take a new measure to stimulus export. It includes provision of 9 billion rupee in the form of tax cuts for small- and medium-sized enterprises in the labor-intensive sectors, such as those producing handicraft, knitting products and carpet, and 2 percent interest subsidy. The export

stimulus totaled 17 billion rupee. The measure is part of the country's foreign trade policy for 2009-2014, which is aimed to actively tap the emerging markets of Latin America, Africa and the Commonwealth of the Independent States and achieve the goal of exporting \$300 billion worth goods and services in the 2011-2012 fiscal year.

7.5 Indonesia

7.5.1 Economic situation

Indonesia's market exchange-based GDP amounted to \$710 billion in 2010, the 18th largest globally, up by \$168.3 billion, or a real 6.1 percent, year-on-year. Its PPP-based GDP reached 1.03 trillion international dollars, accounting for 1.39 percent of the total global output. In the first three quarters of 2011, driven by domestic demand, investment and export, the Indonesian economy maintained fast rate of growth and its GDP growth reached 6.5 percent, one of the highest in Asia. Industrywise, handicraft manufacturing was the largest industry, accounting for 23.9 percent of the national GDP. It was followed by agriculture, forestry, animal husbandry and fishery, which altogether accounted for 15.7 percent of the total output, trade and catering industry, which accounted for 13.9 percent, mining, which accounted for 11.4 percent, tertiary industry, which accounted for 10.8 percent, and construction, which accounted for 10.1 percent. The whole-year growth was likely to reach the target of 6.3-6.8 percent set by the Indonesian government in its budget plan.

The dependence of the Indonesian economy

on external demand is low, but the reliance, especially that on Chinese demand, has been rising gradually in recent years. Among its exported goods, natural resources and primary products are the main items. Driven by Chinese demand, Indonesia's export has picked up at a fast pace. Apart from external demand, the pick-up in consumption demand is also attributable to the interest rate gaps and large-scale inflows of international capital, including that in the form of FDI.

Indonesia's sound economic performance is also reflected in the easing inflation on its market. Its inflation rate dropped to 4.42 percent—which is controllable for the country—in October 2011, from 7.02 percent in early that year (See Table 7.9).

In addition, the Indonesian stock market had a good performance in 2011. According to a Dec. 23 report in the *International Daily News* newspaper, in 2011, Indonesia's composite stock index (IHSG) rose by 0.86 percent on average. Against the backdrop of dramatic turbulence in global financial and securities market, that growth marks the fourth best performance among all stock markets of the world. It was only lower than that of the Philippine stock index—which rose by 1.83 percent—in Asia.

Table 7.9 Changes in major economic indicators of Indonesia

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	5.3	5.6	6.1	5.9	6.7	6.5	6.6	6.6
Real export growth rate (%)	3.1	20.2	14.9	9.7	15.6	12.4	17.7	18.6
Real import growth rate (%)	1.0	22.6	18.8	12.6	16.2	15.6	15.6	14.5
Oil output (1,000 barrels/day)	980.0	990.0	1,000.0	980.0	950.0	940.0	930.0	910.0
International reserve (billion \$, end of period)	66.1	71.8	76.3	86.6	96.2	105.7	119.7	114.5
Foreign exchange reserves (billion \$, end of period)	63.6	69.2	73.4	83.5	92.9	102.4	116.1	110.7
CPI growth rate (% average)	2.6	3.7	4.4	6.1	6.3	6.9	5.9	4.6
PPI growth rate (% average)	-0.6	4.3	5.0	4.4	5.8	7.2	7.4	8.1
Jakarta Stock Exchange composite index (Jan. 8, 1982=100, average)	2,534.4	2,777.3	2,913.7	3,501.3	3,703.5	3,678.7	3,888.6	3,549.0

Sources: EIU and Badan Pusat Statistik (BPS), Feb. 2012

7.5.2 Economic policy

In 2011, Indonesia strengthened its fiscal stimulus measures and sharply raised the scale of fiscal deficit. According to the national budget for 2011, which was set by the Indonesian government in the previous year, the country's national revenues and foreign donations were 1,104.9 trillion rupiah, up by 11.3 percent year-on-year. Its national expenditure was 1,229.6 trillion rupiah. The deficit is estimated to be 124.7 trillion rupiah, accounting for 1.8 percent of national GDP, up from 1.5 percent in the previous year. In June 2011, the Indonesian ministry of finance revised the national fiscal budget for 2011 and the budgeted proportion of fiscal deficit was raised to 2.1 percent from 1.8 percent. Meanwhile, it launched a series of taxation deduction policies. For example, to encourage investment, the Indonesian government revised the industrial taxation rules and loosened the industrial standard rules so that enterprises could enjoy preferential income tax rates. The number of designated industrial fields sectors where preferential tax rates are applied was raised to 38 from 17 and the number of designated areas where preferential tax rates are applied was raised to 35 from 9.

In 2011, Indonesia's monetary policy had been adjusted in accordance with changing economic situation and it had been gradually loosened as time went by. In February 2011, Indonesia raised the benchmark interest rate by 25 basis points to 6.75 percent and kept it unchanged for eight consecutive months. As domestic inflation eased gradually, the target of the country's monetary policy had changed from inflation control to maintaining growth. On October 11, 2011 and November 10, 2011, the Indonesian central bank cut interest rate by 25 and 50 basis points, respectively, and the benchmark rates were cut to 6.00 percent from 6.75 percent. The interest rates were cut as inflation eased and therefore the aim was to reduce the impact of the global economic recession expectations on the Indonesian economy so that it could maintain a 6.5 percent annual growth rate (See Table 7.10).

In addition, to boost economic growth, increase jobs and reduce poverty, the Indonesian government also released a number of policies to stimulate domestic demand, attract investment, improve people's livelihood and develop green industries.

Table 7.10 Changes in currency, credit and exchange rate of Indonesia

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (trillion home currency)	1,998.2	1,964.5	2,032.5	2,086.1	2,284.7	2,292.5	2,340.6	2,515.1
M1 growth rate (%)	12.9	10.4	13.0	12.1	17.4	17.4	16.6	19.3
M2 growth rate (%)	13.0	10.2	12.8	12.7	15.4	16.1	13.1	16.2
Lending rate (% average)	13.9	13.7	13.3	13.1	12.9	12.6	12.3	12.5
Savings rate (% average)	7.7	7.1	7.0	7.0	7.0	6.9	6.9	6.9
Exchange rate (home currency/dollar, average)	9,454.3	9,270.5	9,131.9	8,995.0	8,964.3	8,897.2	8,584.2	8,600.0
Exchange rate (home currency/dollar, end of period)	9,400.0	9,115.0	9,083.0	8,924.0	8,991.0	8,709.0	8,597.0	8,823.0

Source: EIU, Feb. 2012

7.6 Republic of Korea

7.6.1 Economic situation

In 2010, the Republic of Korea's market exchange-based GDP reached \$1.01 trillion, the 15th largest globally, up \$180.4 billion, or a real 6.2 percent growth, year-on-year. Its PPP-based GDP reached

1.47 trillion international dollars, accounting for 1.97 percent of the total global output. Since 2011, as unstable external factors increased, the country's export and manufacturing had experienced a gradual cool-down. Regarding private consumption, driven by slumping car sales, the demand for durable goods fell, and

the month-on-month export and import growth dropped slightly. Therefore, the whole economic growth was slowing. According to the Republic of Korea's central bank, in the first three quarters, the country's real year-on-year GDP growth reached 3.9 percent, 3.6 percent and 3.4 percent (See Table 7.11), respectively. In the third quarter of 2011, the country's private consumption increased by 2.2 percent year-on-year while construction investment decreased by 4.2 percent; equipment investment increased by a slight 1.4 percent year-on-year; export increased by 9.6 percent over that in the same quarter of the previous year; service export expanded by 6.0 percent year-on-year.

After experiencing the export slump in 2009, the Republic of Korea saw its export sector achieve a strong performance in 2010 and the first half of 2011 and its nominal year-on-year growth rate exceeded 20 percent. According to the initial estimates of the Republic of Korea's Ministry of Knowledge Economy, by December 5, 2011, the country's annual trade volume for the first time had exceeded the target of \$1 trillion, with its export volume reaching \$515.0 billion while import volume amounting to \$485.0 billion. In the first 11 months of 2011, the accumulative export of the country's IT products reached \$144.45 billion, up from \$100.01

billion of 2010, the historical high. The strong export performance had brought along strong growth in domestic and foreign investment as well as employment rate and private consumption. The hiring rate of the Republic of Korea had risen to 59.3 percent in 2011 from 58.1 percent in early 2010.

In 2011, the Republic of Korea's price level rose slightly compared with that in 2010. According to statistics from the Statistics Republic of Korea, the national statistical bureau, the country's CPI was 4.3 percent in August 2011, the highest in three years. It dropped in September and October but rebounded in November to hit 4.2 percent, 0.6 percentage point higher than in August, when it was 3.8 percent. It was 3.6 percent in September.

Affected by the economic slow-down and the negative factors in the US and Europe, the Republic of Korea's stock market has fluctuated dramatically. Since the second half of 2011, the stock index once slumped below 1,800. By November 23, the KOSPI index slumped by 2.4 percent, or 43.18 points, to close at 1,783.10. The slump was mainly caused by sell-off by foreign investors. According to the Republic of Korea's Financial Supervisory Service statistics, by November 22, 2011, foreign investors sold off 2.4 trillion Korean won worth stocks on the negotiable securities market.

Table 7.11 Changes in major economic indicators of the Republic of Korea

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	6.3	8.4	7.3	4.4	4.7	3.9	3.4	3.6
Real export growth rate (%)	9.6	17.0	14.4	11.5	15.6	16.8	9.7	9.6
Real import growth rate (%)	8.8	21.7	18.0	14.6	14.1	10.9	7.8	6.0
International reserves (billion \$, end of period)	270.0	272.3	274.2	289.8	291.6	298.6	310.8	310.8
Foreign exchange reserves (billion \$, end of period)	269.9	272.2	274.2	289.7	291.5	298.6	309.5	309.5
CPI growth rate (% average)	2.4	3.0	2.6	2.9	3.2	3.8	4.0	4.3
PPI growth rate (% average)	-0.6	2.6	4.1	3.5	5.0	6.7	6.4	6.3
KOSPI index (January 4, 1980=100, average)	1,682.8	1,692.9	1,698.3	1,872.8	2,051.0	2,106.7	2,100.7	1,769.7
Employment (%)	3.3	4.7	3.5	3.5	3.3	4.2	3.4	3.1

Sources: EIU and Statistics Republic of Korea, Feb. 2012

7.6.2 Economic policy

In 2011, the tone for the country's fiscal policy was tightening, but it had been adjusted in a flexible manner in accordance with the trend of economic performance, employment and prices. According to the Republic of Korea's Ministry of Strategy and Finance, in 2011, the country's fiscal expenditure was \$236.57 billion, with the expenditure in the first and second quarter reaching \$68.64 billion and 66.99 billion, respectively. The proportion of expenditure was 29.0 percent and 28.3 percent, respectively, in those quarters. In the second half of the year, the ratio of fiscal expenditure to total government expenditure of the year was 42.7 percent. The fiscal surplus accounted for 2 percent of GDP. The ministry, however, said that if the country's growth was lower than the expected target of 5 percent in 2011, then fiscal expenditure plan would be increased.

In November 2011, the ministry decided to adjust the basic principle of the fiscal budget and shift to adopt a pro-active manner in carrying out the fiscal budget to cope with the downside risks of the economy. The focus would be shifted to maintain economic growth from price stability control to combat the economic risks brought by European debt crisis.

Regarding monetary policy, the Republic of Korea's central bank continued to adopt a tightening policy. Since July 2010, the Republic of Korea's central bank raised the benchmark interest rate by five times, pushing it to 3.25 percent by June, 2011. After that, despite the existent inflationary pressure, the benchmark interest rate had been frozen by the central bank for six months. It was mainly aimed to ward off the possibility of economic slow-down and achieve the goal of maintaining stable growth (See Table 7.12).

Table 7.12 Changes in currency, credit and exchange rate of the Republic of Korea

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (trillion home currency)	1,164.8	1,193.8	1,215.5	1,220.3	1,210.1	1,222.3	1,238.0	1,265.2
M1 growth rate (%)	14.4	4.5	6.8	6.4	8.4	7.1	6.4	3.3
M2 growth rate (%)	12.2	13.9	17.1	16.0	14.9	11.7	8.0	7.6
Lending rate (% average)	5.9	5.8	5.4	5.5	5.4	5.7	5.8	5.8
Savings rate (% average)	4.0	4.3	3.5	3.9	3.7	4.2	4.2	4.2
Exchange rate (home currency/dollar, average)	1,168.0	1,143.9	1,165.5	1,182.6	1,132.2	1,119.8	1,083.3	1,085.9
Exchange rate (home currency/dollar, end of period)	1,164.5	1,131.3	1,210.3	1,140.2	1,134.8	1,096.7	1,067.7	1,178.1

Source: EIU, Feb. 2012

Regarding foreign trade policy, the Republic of Korea actively pushed free trade agreement negotiations to expand foreign trade links. In July 2011, the Republic of Korea-EU free trade agreement took effective. In early 2012, the Republic of Korea-US free trade agreement took effect and the Republic of Korea has become the third largest country after Chile and Mexico in terms of coverage of free trade agreements.

7.7 Mexico

7.7.1 Economic situation

In 2010, Mexico's market exchange-based GDP reached \$1.03 trillion, the 14th largest globally, up by \$155.2 billion, or a real 5.4 percent compared with

that in 2009. Its PPP-based GDP reached 1.56 trillion international dollars, accounting for 2.10 percent of the total global output. In 2011, Mexico's economic growth significantly slowed down. According to the National Statistics Institute of Mexico, in the second quarter of 2011, the country's economic growth was 3.6 percent, the lowest since the fourth quarter of 2009 (See Table 7.13). The industry and the tertiary industry expanded by 3.4 percent and 3.6 percent, respectively. The agricultural sector output decreased by 3.7 percent due to the reduced agricultural production as a result of the bad weather. External factors contributed to the country's economic slow-down, including the poor performance of the US and European economy. In the third quarter, the recovering agricultural

and livestock farming growth resumed to reach 8.3 percent, pushing the overall economic growth to above 4 percent in the third quarter, when the year-on-year growth was 4.4 percent.

According to statistics from the Banco de México, the central bank, due to hovering prices of minerals such as gold, silver and copper, in the first nine months of 2011, the country's mineral exports (excluding processing) amounted to \$2.563 billion, up 93 percent year-on-year. The rapid export growth had driven growth in production of relevant industries. In the first nine months of 2011, Mexico's mineral production expanded by 18.8 percent year-on-year. According to the bank, in the first nine months of 2011, the country's accumulative trade deficit was \$6.475 billion, accounting for 0.7 percent of the total GDP, up by 0.4 percentage point compared with that in 2010. The increase in the international payment deficit was mainly attributable to the poor economy of the US, its main trade partner that had caused contraction in foreign trade demand. Among the exported products, manufactured goods export slowed

down. By the end of the third quarter of 2011, the country's accumulative foreign exchange reserves had amounted to \$141.0 billion.

The Mexican peso depreciated by 6.6 percent in the first three quarters of 2011. By November 23, the peso had fallen to 14 against one dollar, the lowest since March 2009. The depreciation is conducive to offsetting losses incurred by decreasing exports and improving the export products' competitiveness on price. The sharp depreciation, however, adds to inflationary pressure and increases import costs.

In the wake of the 2008 global financial crisis, the unemployment rate was at a high level of 5-6 percent in Mexico. In 2011, the rate was still hovering at a high level. According to the National Statistics Institute, in March 2011, the country's jobless rate dropped to 4.61 percent, the best performance in 27 months. In August 2011, there were 2.865 million unemployed people, up by 70,000 month-on-month and the jobless rate was 5.79 percent, the highest in 19 months and the underemployment rate was 9 percent.

Table 7.13 Changes in major economic indicators of Mexico

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	-2.3	5.1	7.2	5.1	4.2	4.3	3.6	4.4
Real export growth rate (%)	2.7	24.7	34.5	28.0	16.9	14.2	7.6	4.4
Real import growth rate (%)	-3.7	21.5	33.2	23.7	16.9	10.3	7.0	6.2
Oil output (1,000 barrels/day)	2,582.7	2,606.7	2,577.3	2,567.3	2,552.3	2,571.0	2,557.7	2,524.7
International reserve (billion \$, end of period)	99.9	101.6	105.6	113.7	120.5	128.7	134.1	140.9
Foreign exchange reserves (billion \$, end of period)	99.6	101.3	105.2	113.4	120.3	123.6	128.8	135.6
CPI growth rate (% average)	4.0	4.8	4.0	3.7	4.2	3.5	3.3	3.4
PPI growth rate (% average)	4.0	4.1	3.8	3.3	3.8	4.9	5.9	6.9
Composite stock index (October, 1978=0.7816, average)	32,120.5	33,266.4	31,157.0	33,330.3	38,550.8	37,440.5	36,558.1	33,503.3
Unemployment rate (%)	5.3	5.4	5.2	5.6	5.3	5.1	5.2	5.7

Sources: EIU and National Statistics Institute of Mexico, Feb. 2012

7.7.2 Economic policy

Regarding fiscal policy, in 2011, Mexico adopted a mildly tightening fiscal policy. Compared with that in 2010, in 2011, the biggest difference in fiscal policy was the reduced fiscal expenditure and deficit. According to the Ministry of Finance of Mexico budget, in 2011, the country's fiscal expenditure would have amounted to \$3.44 trillion peso (about \$27.51 million) and the

priority would have been put in creation of jobs and infrastructure construction. The expenditure was the highest historically. The proportion of fiscal deficit to GDP was reduced to 0.5 percent compared with that in 2010.

Regarding monetary policy, in 2011, Mexico continued its loose policy of 2010. Since early 2009, Mexican central bank had reduced benchmark interest rate for seven times and

it was cut by 350 basis points altogether to 4.5 percent from 8 percent. Entering 2011, the Mexican economy saw significant slow-down and domestic demand weakened. And inflation pressure remained controllable. Therefore, the country continued to adopt the loose monetary policy that had been in place in the wake of the

global financial crisis. By November 2011, Mexico still had kept the key overnight lending rate of 4.5 percent unchanged. On the whole, its current monetary stance was in line with the expected goal of keeping inflation at or below 3 percent for the whole year (See Table 7.14).

Table 7.14 Changes in currency, credit and exchange rate of Mexico

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (billion home currency)	4,280.8	4,262.4	4,354.0	4,439.0	4,624.2	4,684.1	4,788.6	4,866.3
M1 growth rate (%)	8.9	8.7	10.4	11.9	13.5	13.8	14.7	19.2
M2 growth rate (%)	6.4	5.7	8.0	9.5	8.0	7.9	7.9	9.1
Lending rate (% average)	5.5	5.4	5.4	5.3	5.1	5.1	5.0	4.8
Savings rate (% average)	1.3	1.3	1.3	1.2	1.0	1.0	1.0	1.0
Exchange rate (home currency/dollar, average)	13.1	12.8	12.5	12.8	12.4	12.1	11.7	12.3
Exchange rate (home currency/dollar, end of period)	13.1	12.5	12.7	12.5	12.4	12.0	11.8	13.4

Source: EIU, Feb. 2012

7.8 Russia

7.8.1 Economic situation

Russia's market exchange-based GDP reached \$1.48 trillion in 2010, the 11th largest globally, up by \$257.8 billion, or a real 4.0 percent year-on-year. Its PPP-based GDP amounted to 2.23 trillion international dollars, accounting for 3.0 percent of the total global output. Entering 2011, the Russian economy changed for the better and continued the recovering trend. According to the Federal State Statistics Service of Russia, in the first three quarters of 2011, the country's GDP rose by 4.1 percent year-on-year and was expected to grow by 4.2 percent year-on-year. The nominal GDP scale in the third quarter reached 14.06 trillion ruble (about \$466 billion), up by 4.9 percent year-on-year in real terms. The main factors driving economic growth were the stable expansion of the processing industry production, the recovery in construction, increases in retail sales and the significant increases in export. In 2011, Russia's oil output and natural gas production hit new historical highs. In the first nine months of 2011, the Rosneft Oil, which accounted for one fourth of the country's oil and natural gas production, registered oil production of 88.60

million tons, the highest of the world. By the end of 2011, Russia had had oil and condensed natural gas reserve of 2.5 billion tons, the world's largest.

Regarding export and import, according to Russian customs, in the first ten months of 2011, Russia's foreign trade volume reached \$667.7 billion, up by 33 percent year-on-year. It had a trade surplus of \$170.1 billion. In terms of international capital flow, due to the unfavorable domestic environment, the European debt crisis and the slowing pace of global economic growth, flow of capital out of Russia had been unexpectedly high in 2011. According to the Russian central bank, in the first 11 months of 2011, capital flow out of Russia was \$74 billion, far exceeding the previously anticipated \$70 billion. In November alone, the outflows from Russia hit \$10 billion. In the first ten months, meanwhile, Russia registered a capital inflow of \$360 billion, up by 12 percent year-on-year.

Due to the impact of capital outflow and monetary policy, Russia's inflation had eased significantly. According to the Federal State Statistics Service, in the first 11 months of 2011, Russia's inflation rate was 5.6 percent; its food prices rose by 3.2 percent and non-food prices 6.3 percent; services prices rose by 8.4 percent. The whole-year

inflation was likely to drop to about 7 percent, the lowest in 20 years.

As its economy expanded steadily, Russia has had an improving job situation. In the first half of

2011, Russia's unemployment rate was 7 percent, down from 8.1 percent in the same period of the previous year. The jobless rate further declined to 6.2 percent in the third quarter of 2011 (See Table 7.15).

Table 7.15 Changes in major economic indicators of Russia

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	-3.0	3.0	5.2	3.4	4.4	4.1	3.4	4.8
Real export growth rate (%)	6.7	16.7	6.1	4.6	4.9	-3.1	3.1	0.5
Real import growth rate (%)	-17.1	19.1	24.2	27.8	26.9	23.3	22.8	15.1
Oil production (million tons)	127	124	126	127	128	125	127	128
Growth rate (%)	3.1	3.8	2.6	1.7	1.3	0.9	0.7	0.9
Natural gas production (billion cubic meters)	178	182	152	122	176	177	161	143
Growth rate (%)	6.1	18.4	26.3	-5.9	-1.5	-2.8	5.7	17.1
International reserves (billion \$, end of period)	439.4	447.4	461.2	490.1	479.4	502.5	524.5	516.8
Foreign exchange reserves (billion \$), end of period)	416.6	423.3	433	458.3	443.6	465.4	484	472.5
CPI growth rate (% average)	9.2	7.2	5.9	6.2	8.1	9.5	9.5	8.1
PPI growth rate (% average)	4.5	13.9	12.4	8.4	14.5	21.4	19.2	18.4
RTS stock index (Sept. 1, 1995=100, end of period)	43,691	46,174	41,782	45,837	53,953	58,115	53,532	42,747
Unemployment rate (%)	8.0	8.8	7.4	6.8	6.9	7.5	6.6	6.2

Sources: EIU and Federal State Statistics Service, Feb. 2012

7.8.2 Economic policy

Regarding fiscal policy, Russia had gradually tightened its fiscal policy since 2011. According to the Russian government's budget plan for 2010 and 2011-2012 period, in 2010, Russia's fiscal deficit should be 2.9369 trillion ruble, accounting for 6.8 percent of GDP; in 2011, its budgeted fiscal deficit should be 1.9341 trillion ruble, accounting for 4 percent of GDP; the revised budgeted fiscal deficit of 2010 was 2.3810 trillion ruble, accounting for 5.3 percent of GDP. Due to the rapid expansion of the oil and natural gas industry, in 2011, Russia's fiscal balance improved greatly. In the first 11 months of 2011, Russia's federal fiscal revenue was 10.16 trillion ruble (about \$327.7 billion), accounting for 91.4 percent of the planned income; its expenditure was 8.82 trillion ruble (about \$284.5 billion), accounting for 79.3 percent of the planned expenditure. The country, therefore, had a surplus of 1.34 trillion ruble (about \$43 billion). The oil and natural gas industry contributed to 5.5877 trillion ruble (about \$177.952 billion) fiscal surplus, about 54.9 percent of the total surplus. Apart from taxation increases, the fiscal surplus was also attributable to decreasing budgeted expenditure. In December 2011, the budgeted costs decreased from

the previously estimated 2 trillion ruble to 1.85 trillion ruble.

Regarding monetary policy, as inflation situation changed, Russia has opted for a discretionary monetary policy. Since 2011, Russia has held the benchmark interest rate (one-year refinancing rate) steady at 8.25 percent. Despite the unchanged rate, the Russian central bank has flexibly used quantitative and price tools—raising savings rate and reserve requirement ratio for many times—in accordance with changing inflation expectations. In September, the central bank also adjusted two other policy rates: The overnight repo rate was adjusted down by 25 basis points to 5.25 percent while the overnight savings rate was raised by 25 basis points to 3.75 percent, so that the financial market fluctuation could be reduced through narrowing down the gap between savings and lending interest rates. As inflation went further down at the end of 2011, Russian central bank announced to cut the one-year refinancing rate by 25 basis points to 8 percent, effective from December 26, 2011. It was the first cut in the benchmark interest rate since June, 2010, marking the shift of the country's monetary stance to policy loosening (See Table 7.16).

Table 7.16 Changes in currency, credit and exchange rate of Russia

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
M1 growth rate (%)	15.9	48.0	44.8	48.3	26.6	18.1	3.0	4.0
M2 growth rate (%)	17.7	35	33.6	35	31.1	26.5	22.7	21.5
Lending rate (% average)	13.9	12.8	11.4	10.1	9.0	8.7	8.3	7.9
Savings rate (% average)	8.7	7.5	6.2	5.4	5.0	4.4	4.1	4.0
Exchange rate (home currency/ dollar, average)	29.5	29.9	30.2	30.6	30.7	29.3	28.0	29.1
Exchange rate (home currency/ dollar, end of period)	30.2	29.4	31.2	30.4	30.5	28.4	28.1	31.9

Source: EIU, Feb. 2012

Regarding trade policy, Russia has made efforts to push multilateral trade cooperation and actively got integrated into the global trade regime. In June 1993, Russia formally applied to join the GATT, predecessor of WTO. After 18 years of negotiations, its application was formally approved at the eighth WTO ministerial meeting on December 16, 2011. Taking advantage of its membership, Russia will further improve domestic business environment and corresponding investment and trade policies to reinforce its position in the global trade regime.

7.9 Saudi Arabia

7.9.1 Economic situation

Saudi Arabia's market exchange-based GDP was \$450 billion in 2010, the 23rd largest globally, up by \$71.2 billion, or a real 4.1 percent year-on-year. Its PPP-based GDP was 620 billion international dollars,

accounting for 0.84 percent of the total global output. In 2011, Saudi Arabia's economy expanded at a fast pace. According to the statistical department of the Saudi Arabian government, in the first half of 2011, its nominal GDP was 1.024 trillion riyal (about \$273 billion), up by a nominal 26.1 percent year-on-year. The oil industry contributed to 573.4 billion riyal, up by a nominal 38.9 percent year-on-year; non-oil sectors contributed to 12.9 percent of GDP. According to the annual report by Saudi Arabian Monetary Agency released in December 2011, the country's GDP was expected to expand by 5.1 percent in 2011 and its growth had been more than 4.1 percent for 11 consecutive years while the non-oil sectors registered an average annual growth of 4.9 percent. Apart from oil price rose and output increased, the strong GDP growth was also attributable to the rapid growth of non-oil sectors supported by the government's expansion policies (See Table 7.17).

Table 7.17 Changes in major economic indicators of Saudi Arabia

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (% annualized)	0.1				4.1			5.1
Export (FOB, million \$)	51,835	52,593	57,772	57,276	63,856	74,347	80,117	-
Import (FOB, million \$)	25,133	22,318	26,568	26,707	28,123	27,853	32,088	-
Trade balance (million \$)	26,701	30,275	31,204	30,569	35,733	46,494	48,028	-
Oil production (million barrels/day)	8.21	8.20	8.23	8.40	8.57	8.83	9.17	9.67
International reserves (billion \$, end of period)	410.11	420.24	421.11	426.59	445.14	465.79	497.27	523.56
Foreign exchange reserves (billion \$, end of period)	409.69	419.82	420.69	426.17	444.72	465.38	496.86	534.08
CPI growth rate (% average)	3.9	4.5	5.2	6.0	5.7	5.0	4.7	5.0
TASI stock index (Feb. 1985=1,000, end of period)	6,122	6,801	6,094	6,392	6,621	6,563	6,576	6,112

Sources: EIU and Saudi Arabian Monetary Agency, Dec. 2011

Regarding trade, Saudi Arabia registered an export volume of \$154.46 billion in the first half of 2011 and its import was registered at \$59.94 billion. Its trade surplus was \$95.52 billion. By the end of 2010, the country's foreign exchange reserves (including gold) had amounted to 1.7 trillion riyal (about \$445.1 billion), the world's fourth largest holder of foreign exchange reserves. In the first ten months of 2011, its foreign exchange reserves increased by 18 percent to reach 1.97 trillion riyal (about \$525.2 billion) and was expected to further increase to above 2 trillion riyal at the end of 2011 to make the country the world's third largest foreign exchange reserve holder.

In the first half of 2011, Saudi Arabia's inflation situation eased gradually. From the second half of 2011, however, inflation picked up again. By October 2011, its inflation had been kept at 5.2 percent. The rising prices were driven by continually rising prices of goods and services. From September 2010 to September 2011, prices of goods and services rose by 11.8 percent; those of rent, fuel and water by 7.9 percent; those of food and drinks by 4.9 percent while those of transportation and telecommunications by 2.0 percent.

7.9.2 Economic policy

Regarding fiscal policy, the Saudi Arabian government continued its pro-active fiscal policy to support domestic public expenditure increases. In June 2011, the Saudi Arabian Monetary Agency announced it planned to put in 488.0 billion riyal

in its effort to improve people's well-being, such as housing construction, job creation, and aid for the unemployed. The funding for supporting real estate development and aiding public sector employees as well as the 15 percent pay rise greatly boosted consumer confidence, which helped push the country's strong economic growth. Despite the fiscal expenditure increases, the country would still maintain much fiscal surplus in 2011, when it would realize a budgeted surplus of 185.3 billion riyal (about \$49.4 billion), about 9.1 percent of national GDP. The current account was expected to achieve a surplus for 13 consecutive years, which would be 378.3 billion riyal (about \$100.9 billion), about 18.6 percent of GDP. The budgeted surplus would come mainly from the big gap between real oil revenues and expected oil revenues. The oil income was expected to contribute 674.0 billion riyal (about \$179.7 billion) to the budget while non-oil income was expected to contribute to about 90 billion riyal (about \$24 billion).

Regarding monetary policy, the Saudi Arabian Monetary Agency continued its relaxed monetary policy. Since February 2009, when it cut the benchmark interest rate to 2 percent, the Saudi Arabian monetary authorities had kept that rate unchanged until the end of 2011. In July 2011, the three-month savings rate of riyal fell by 20 percent to 0.6 percent to unleash the accumulated deposits in the banks as borrowing by private enterprise and individual declined (See Table 7.18).

Table 7.18 Changes in currency, credit and exchange rate of Saudi Arabia

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
M1 growth rate (%)	22.6	17.9	21.2	20.0	19.9	26.5	24.2	22.9
M2 growth rate (%)	10.7	4.7	3.4	5.1	5.0	13.8	13.1	11.9
Benchmark interest rate (%)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Exchange rate (home currency/ dollar, average)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Exchange rate (home currency/ dollar, end of period)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75

Sources: EIU and Saudi Arabian Monetary Agency, Dec. 2011

7.10 South Africa

7.10.1 Economic situation

South Africa's market exchange-based GDP was \$360 billion in 2010, the 29th largest globally, up by \$79.7

billion, or a real 2.8 percent year-on-year. Its PPP-based GDP reached 530 billion international dollars, accounting for 0.71 percent of the total global output. In the first half of 2011, the South African economy continued to expand. In the first quarter

of 2011, its economy expanded by 4.5 percent quarter-on-quarter. Affected by the strike waves in crucial sectors and external economic recession, its economic growth was only 1.3 percent quarter-on-quarter in the second quarter. The main reasons for the current problem of the weakening South African economy include the slow reaction of the manufacturing industry to outside changes and excessive inflationary pressure as a result of rising food and fuel prices. According to statistics from the statistical department of South Africa, in October 2011, the country's manufacturing output increased by 1 percent year-on-year, far lower than the market expectation of 5.6 percent. Due to the contraction of gold mining, in October, its mining industry output dropped by 12.7 percent year-on-year. In November 2011, due to rising food and fuel prices and hikes in housing and public facilities taxation, the country's inflation rose by 0.5 percentage point to reach 6.1 percent, which breached the normal range of 3-6 percent set by the central bank for the first time in two years. South Africa's inflationary risks mainly came from rising costs, especially the continually rising international oil and food prices thanks to European sovereign debt crisis and geopolitical factors. In addition, the labor-union negotiation also added to the inflationary pressure. The central

bank expected inflation to reach 4.7 percent in 2011 (See Table 7.19).

High unemployment rate is another crucial issue of South Africa's macroeconomic policymaking. According to the Statistics South Africa, in the second quarter of 2011, the number of the country's unemployed people increased by 174,000 to reach 4.538 million. The unemployment rate was 25.7 percent, up by 0.7 percentage point compared with that in the first quarter. Due to the serious unemployment, in early 2011, Jacob Zuma, President of South Africa, in his State of the Nation address defined 2011 as "the year of job creation" and listed infrastructure construction, agriculture, mining, manufacturing, green economy and tourism as the pillar industries for creating jobs. In the third quarter, the country registered an unemployed population of 4.442 million, accounting for 25 percent of the total working population; its unemployment rate in the third quarter was 0.7 percentage point down from the second quarter, but remained high. The hovering unemployment rate becomes a factor hindering the development of the South African economy.

Although the South African government has taken a series of measures to improve fiscal conditions and increase jobs, in the short term, scenario of high jobless rate combined with low growth rate will not change.

Table 7.19 Changes in major economic indicators of South Africa

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	-1.0	1.6	3.0	3.4	3.6	3.7	3.3	2.5
Industrial production index growth rate (%)	-3.8	3.8	8.9	4.6	2.5	4.8	0.7	2.5
Mining output index (the 2000 level=100)	65.0	60.9	64.9	64.6	65.5	63.5	62.6	57.6
International reserve (billion \$, end of period)	39.68	41.96	42.17	44.03	43.83	49.27	50.04	49.72
Foreign exchange reserves (billion \$, end of period)	35.24	37.50	37.20	38.77	38.18	43.51	43.98	43.21
CPI growth rate (% average)	5.8	5.4	4.2	3.4	3.4	3.7	4.6	5.5
PPI growth rate (% average)	-1.1	3.2	7.2	7.4	6.3	6.4	7.0	9.7
JSE stock index (all categories, Dec. 1960=100)	27,666	28,748	26,259	29,456	32,119	32,204	31,865	29,674
Gold index (the 2000 level=100)	66.2	59.1	63.4	63.5	69.5	68.6	67.3	68.7
Unemployment rate (%)	24.2	25.2	25.2	25.3	24.0	25.0	25.7	25.0

Sources: EIU and Statistics South Africa, Feb. 2012

7.10.2 Economic policy

In October 2010, the South African minister of finance announced to adopt relaxed monetary policy and tightening fiscal policy in the following three years to further reduce government expenditure and budgeted fiscal deficit and help the economy shake off the economic cool-down as soon as possible. According to the fiscal budget of the government, in the three years starting from 2011, the government will make great effort to cut government expenditure, forcing the ratio of budgeted fiscal deficit to GDP down to 3.2 percent

from 5.3 percent.

To stimulate the country's economic growth, from December 2008 to December 2010, South African central bank cut the repo rate for nine times by a total of 650 basis points to 5.5 percent, the lowest in 30 years. By December 2011, the central bank had maintained the rate at 5.5 percent. It stressed that since market demand and domestic economic growth remained weak, which affected private consumption growth, and the job growth fell short of expectations, the country would continue to keep interest rate low to boost the economy (See Table 7.20).

Table 7.20 Changes in currency, credit and exchange rate of South Africa

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Domestic credit stock (billion home currency)	2,108.5	2,098.6	2,114.1	2,190.7	2,238.1	2,197.3	2,215.9	-
M1 growth rate (%)	7.0	11.5	6.6	11.2	7.0	8.3	7.5	-
M2 growth rate (%)	1.7	0.2	0.3	2.9	5.6	4.6	6.1	-
Lending rate (% average)	10.5	10.3	10.0	9.8	9.2	9.0	9.0	9.0
Savings rate (% average)	7.3	7.2	6.8	6.5	5.4	5.9	5.7	5.6
Exchange rate (home currency/dollar, average)	7.5	7.5	7.5	7.3	6.9	7.0	6.8	7.2
Exchange rate (home currency/dollar, end of period)	7.4	7.3	7.6	7.0	6.6	6.8	6.8	8.0

Source: EIU, June, 2012

7.11 Turkey

7.11.1 Economic situation

Turkey's market exchange-based GDP reached \$740 billion in 2010, the 17th largest globally, up by \$121.1 billion, or a real 8.9 percent, year-on-year. Its PPP-based GDP reached 970 billion international dollars, accounting for 1.30 percent of the total global output. The Turkish economy continued to grow at a fast pace in 2011. In the first three quarters of 2011, its nominal GDP was 957.33 billion lira, up by 18.7 percent year-on-year; and its real GDP was 85.14 billion lira, up by 9.6 percent year-on-year. The high-rate GDP growth comes mainly from fixed-asset investment and private consumption growth. In the first quarter of 2011, the fixed-asset investment and private consumption of Turkey increased by 33.8 percent and 12.3 percent, respectively, in real terms.

It was 22.2 percent and 8.7 percent in the second quarter.

Turkey's export growth is lower than its import growth and its trade deficit has shown the trend of widening. According to the Turkish Statistical Institute, in the first half of 2011, the country's trade of goods was valued at \$185.24 billion, up by 34.1 percent year-on-year. Its export was \$65.63 billion, up by 19.9 percent year-on-year while its import was \$119.61 billion, up by 43.4 percent year-on-year. Its trade deficit was registered at \$53.98 billion, up by 88.2 percent year-on-year. To stop the widening of trade deficit, in July the Turkish government took measures to make lira depreciate to increase export competitiveness and narrow trade deficit. Regarding FDI attraction, Turkey's FDI inflows increased strongly. According to the Turkish central bank, in the first half of 2011, the country

attracted a total of \$6.9 billion FDI, up by 324 percent year-on-year. The whole-year FDI inflows could exceed \$10 billion.

Although the Turkish economy is improving, it still faces some potential risks. For example, in July 2011, the current account deficit of Turkey amounted to \$5.3 billion, far more than the \$3.6 billion deficit in July 2010. By the end of July 2011, the accumulative current account deficit of Turkey in the previous 12 months had amounted to \$74.6 billion, accounting for about 9.5 percent of the country's economic output during the same period. In addition, the country's PMI in August 2011 fell to

48.8 from 52.3 in July, the lowest since April 2009. Moreover, inflation picked up and unemployment rate remained high. In the first three quarters of 2011, the country's CPI gradually picked up and reached 6.4 percent in the third quarter, up by 2.1 percentage points from that in the first quarter, when it dropped to 4.3 percent. According to the employment report released by the Turkish Statistical Institute, in the first quarter of 2011, the jobless rate hit 11.5 percent, although it dropped to 9.4 percent, down by 2.1 percentage points. Its youth unemployment rate was over 15 percent (See Table 7.21).

Table 7.21 Changes in major economic indicators of Turkey

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Real GDP growth rate (%)	5.8	11.1	10	5.9	9.2	10.6	8.6	9.1
Real export growth rate (%)	6.2	0.1	11.5	-0.7	3.4	9.5	0.4	11.0
Real import growth rate (%)	10.7	22.2	19.4	16.0	25.3	27.5	19.1	7.4
International reserves (billion \$, end of period)	74.995	73.564	75.853	82.668	85.971	92.159	99.361	93.583
Foreign exchange reserve (billion \$, end of period)	70.9	69.4	71.2	77.8	80.7	86.8	93.7	87.5
CPI growth rate (% average)	5.7	9.3	9.2	8.4	7.4	4.3	5.9	6.4
PPI growth rate (% average)	2.5	7.2	9.1	8.7	9.0	10.6	9.3	11.2
ISE composite 100 index (Jan. 1986=1, end of period)	52,825	56,538	54,839	65,774	66,004	64,435	63,269	59,693
Unemployment rate (%)	13.1	14.4	11.0	11.4	11.0	11.5	9.4	9.2

Sources: EIU and Turkish Statistical Institute, Feb. 2012

7.11.2 Economic policy

To cope with the instability of the global economy that could lead to domestic economic slow-down, the Turkish government adopted relaxed fiscal and monetary policies in 2011. In the wake of the global financial crisis, the Turkish economic development slowed down significantly, with export contracting and unemployment rate surging. Foreign investment also declined. The Turkish government, therefore, took a series of measures to cope with the financial crisis by launching a four-stage economic stimulus plan. In 2011, the government continued to adopt the economic stimulus plan through tax cuts and subsidies to support such pillar industries as

manufacturing and boost domestic demand and stabilize the job market.

Regarding monetary policy, Turkey on the one hand cut interest rate to boost economic growth; on the other hand, it encouraged lira depreciation to ease the widening of its trade deficit. In August 2011, the central bank cut the benchmark interest rate sharply by 50 basis points to 5.75 percent after it had kept it unchanged at 6.25 percent for seven months. After the central bank cut the interest rate, lira depreciated seriously, falling by 2 percent against the dollar. By the end of September 2011, the exchange rate of lira had dropped to 1.86 against one dollar, which, to an extent, helped ease the further widening of the country's trade deficit (See Table 7.22).

Table 7.22 Changes in currency, credit and exchange rate of Turkey

	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
M1 growth rate (%)	17.1	19.4	29.1	28.7	28.9	32.0	29.2	23.3
M2 growth rate (%)	11.0	16.8	24.7	23.9	24.4	24.0	21.5	19.4
Lending rate (% average)	16.2	15.9	15.9	15.8	13.5	12.1	14.2	15.0
Exchange rate (home currency/ dollar, average)	1.49	1.51	1.54	1.51	1.46	1.58	1.56	1.73
Exchange rate (home currency/ dollar, end of period)	1.49	1.52	1.58	1.45	1.54	1.54	1.62	1.86

Source: EIU, Feb. 2012

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