

The Boao Forum for Asia

The Development of Emerging Economies

Annual Report **2011**



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FOREWORD

The Boao Forum for Asia, as an international organization, has become an important platform for dialogues on crucial Asian and global issues. In the past year, the international landscape has undergone some major changes, including the elevation of major international dialogue platforms, adjustment of the voting shares in major international organizations and changes in the relative economic strength of some countries. The development of the emerging economies has become an increasingly important driving force for the global economic development and attracted unprecedented attention from the world.

Since 2010, the forum has started to release annual report on the development of emerging economies and, for the first time, defined E11 (11 emerging economies). The Boao Forum Annual Report 2011 is a continuity and extension of the previous report. It focuses on the E11 economies which best represent the emerging economic group. It introduces and compares their basic endowment of resources, social development and economic conditions, and in particular, analyzes their changes in the international status and their economic prospects. The report has provided a more comprehensive perspective for looking at and analyzing the E11 economies as it includes analysis of their overall economic development potentials and introduction to the recent performance of individual economies. It not only provides an economic comparison between the E11 and G7, but describes recent internal economic links between the E11 economies. Moreover, it analyzes major challenges facing those countries. The report will help readers better understand the basic conditions, potentials and possible hurdles facing the development of emerging economies, promote development of emerging economies and strengthen coordination among them, so that they can help push a more equitable, fair and balanced growth track of the world.

I am grateful to all the friends who have been involved in the compilation of the report and wish our readers could feed back to help us do a better job in the future.



Zhou Wenzhong
Secretary General
Boao Forum for Asia

INTRODUCTION

The year 2010 witnessed the start of recovery of the global economy from the financial crisis. While major developed economies realized positive growth in 2010, the emerging economies, in comparison, registered more glaring performance. According to statistics released by the World Bank in January 2011, emerging and developing economies registered an output growth rate of 7 percent, compared with 2.8 percent for developed economies. It is predicted that in 2011, their growth rate gap will be similar with that of 2010, with their output growth at 6 percent and 2.4 percent, respectively. According to the IMF data, the growth rate of emerging and developing economies was more than 4 percentage points higher than that of the developed economies each year from 2003 to 2010, with the highest being at 5.6 percentage points. It is also predicted that the gap will be 4.2 percentage points in 2011. Sustained and continual growth rate gap means comparative changes in their economic strength and those comparative changes in economic strength will in turn lead to reshaped global economic landscape, which will ultimately be gradually reflected in the international division of labor, global governance, and world currency and financial systems.

The rise of the emerging and developing economies as a whole is a major event of great ramifications for the mankind in the globalized era. Given that, it is of great importance to conduct long-term, systematic and comprehensive study of the emerging and developing economies' growth track. To be more exact, we should pay special attention to such topics as the current development of those economies, how their status and role in the global economy has been changing, their relationship with the developed economies, their competition and cooperation with each other, the challenges they are facing as well as the way they are to cope with those challenges.

It is a big challenge to thoroughly study the emerging and developing economies because of their variety. In its World Economic Outlook, the IMF, based on geographic difference, puts six regional groups under the "emerging and developing economies" category, including East and Middle Europe, the Commonwealth of the Independent States (Georgia and Mongolia also included), developing Asia, Middle East and North Africa, sub-Saharan Africa, and Western Hemisphere. The emerging and developing economies cover a total of 152 countries or regions, or more than 80 percent of the world's 183 economies monitored by the organization. It would be a Herculean task to fully study all of the 152 economies, which, meanwhile, would also lose focus. Therefore, we have selected the most prominent members of the group and will reflect their overall conditions.

This report has continued to use the definition in the 2009 report, i.e. to confine the study of the development of "emerging economies" to the 11 major emerging economies within the Group of 20, including China, Brazil, Argentina, Mexico, Korea, Indonesia, India, Saudi Arabia, South Africa, Turkey and Russia, or E11. It is less painstaking and more convenient to choose those 11 economies to study the overall conditions of all the emerging and developing economies. Reasons for selecting them also include:

First, they are all at the stage of relatively rapid economic development. Even Korea, which already boasts the highest per capita income, registered an average annual growth rate of 4.8 percent during the 2002-2007

period. Second, on the whole they remain developing economies, with their per capita GDP far less than that of the developed economies. The challenges they face are largely common concerns shared by other developing economies. Third, they boast relatively large population and economic scale in the developing world. Their overall GDP, based on 2010 market exchange rates, accounts for about 70 percent of GDP of all the emerging and developing economies monitored by the IMF. Fourth, they have relatively more open markets, are active in participating in international division of labor, and have some influence on the global economy. Fifth, they are geographically representative. For example, South Africa has the smallest economic volume among the E11 economies but it represents Africa. Sixth, it is more acceptable to choose those 11 economies as representatives of the developing world. They are not only major economies of their respective regions and core members of regional economic, social or political organizations, but also core members of important international agencies, especially international economic and financial organizations.

This report is divided into seven parts. The first part introduces basics of the E11 economies from perspectives of the overall economic development, basic price situation, and finance and external financial position. The second part introduces changes in the international status of the E11 economies. The third part compares the E11 economies as a whole with the G7 economies. The fourth part analyzes the internal economic cooperation among the E11 economies. The fifth part analyzes recent economic situation and macroeconomic policies of the E11 economies. The E11 economies are listed in alphabetical order. The sixth part analyzes major challenges facing the E11. The last part is conclusion.

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Chapter 1

Economic Basics of the E11

Some of the E11 economies have achieved growth rates higher than the world's average in the past decade, except only a few of the E11 economies that have already had advantages in economic development. Their overall economic strength has greatly improved. This chapter will review the overall economic development, basic price situation, and finance and external financial position.

1.1 Overall Economic Development

Currently, the output level of the E11 still lags behind that of the G7, regardless of the methods of calculation—whether it is calculated based on purchasing power parity (PPP) or nominal exchange rate, or whether it is calculated using total amount or per capita amount. The predominance of the developed economies in the global economy has not fundamentally changed. However, due to the faster growth rates of the emerging economies, gradual changes are taking place in the global economic landscape. The sustained expansion of an economy is often accompanied with technological advancement, more rational distribution of resources, and improved consumption and investment confidence. It does not simply mean accumulation of wealth.

1.1.1 Real GDP Calculated Based on PPP

The ranking of world economies based on the scale of GDP calculated using PPP is relatively stable. There was no change in the world economy ranking for the top ten major economies in 2008 and 2009, if we used PPP to calculate their real GDP. In 2009,

America's GDP accounted for 18 percent of the global GDP if PPP was used, while China's proportion was only 12 percent, 6 percentage points lower. Among the E11 economies, Indonesia and Turkey replaced each other in the global ranking, with Indonesia rising by one notch while Turkey slipping by one place. Other economies saw their places unchanged (See Figure 1.1).

From 2005 to 2009, the average growth rates of almost all the E11 members were higher than those of the slow-paced developed economies. If we had used PPP to calculate GDP, China would have outpaced Japan as early as in 2000 as the world's second largest economy. In 2009, the gap between India's and Japan's real outputs narrowed to 356.2 billion dollars, down by more than 50 percent from 809.8 billion dollars in 2008. Such a catch-up, if it is sustained, will make India surpass Japan in terms of GDP scale just in the near future.

From 2005 to 2009, all the other E11 members outperformed the G7 developed economies, especially China (with an average rate of 11.4 percent) and India (with an average rate of 8.2 percent), both of which had achieved eye-catching economic success, except Mexico, whose average economic growth rate, which was only 0.1 percentage point higher than that of the US, was relatively low (See Figure 1.2).

1.1.2 Exchange rate-based Nominal GDP

In 1995, China's nominal GDP was the ninth largest in the world, based on the exchange rate level at that time. In 2007, China replaced Germany to become the world's third largest economy in terms of GDP based on nominal dollar exchange rate.



Figure 1.1 GDP¹ (PPP, Constant 2005 International US\$)

Unit: billion International \$

Source: World Bank, WDI, 2010 Dec.

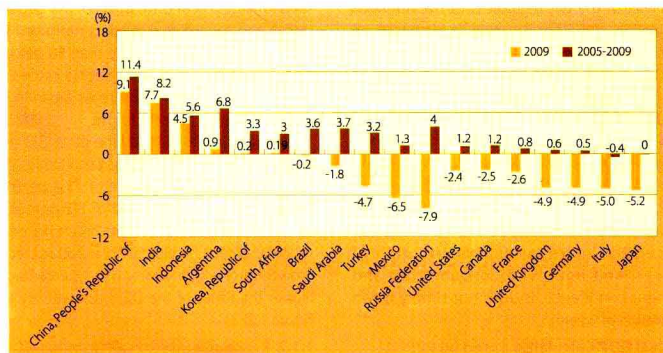


Figure 1.2 GDP Growth Rate² (PPP, Constant 2005 International US\$)

Source: World Bank, WDI, 2010 Dec.

¹ Numbers in the brackets refer to 2008 rankings

² Figures for the 2005-2009 period are arithmetic mean of their real growth rates.

In 2010, it could have hopefully surpassed Japan as the world's second largest economy. Japan has been bogged down in economic stagnation for more than 20 years, which is in stark contrast with China's glaring growth rates. Japan has inevitably lost its status as the top Asian economy. In 2009, Brazil surpassed Russia to become the eighth largest world economy, based on current dollar exchange rates. In 2008, Brazil was in the ninth place. Russia, meanwhile, slipped to the 12th place in 2009 from the eighth a year earlier. India and Indonesia both saw their place rise by one notch while place of Korea, Turkey and South Africa remained unchanged. Mexico, Saudi Arabia and Argentina dropped by one or two notches in the ranking.

Currently the economic scale of the E11 members is much smaller than that of the developed economies in terms of nominal exchange rate-based GDP. Other E11 economies all lag behind the G7 developed economies in terms of economic output except China and Brazil. The overall output of the E11 was only 40 percent of that of the G7. China's quarterly output exceeded that of Japan in the second quarter of 2010 and the trend continued in the third quarter. Although the output statistics for the fourth quarter are yet to be released, based on the current economic situation, China will surpass Japan in terms of nominal dollar-based GDP and become the world's second largest economy (See Figure 1.3).

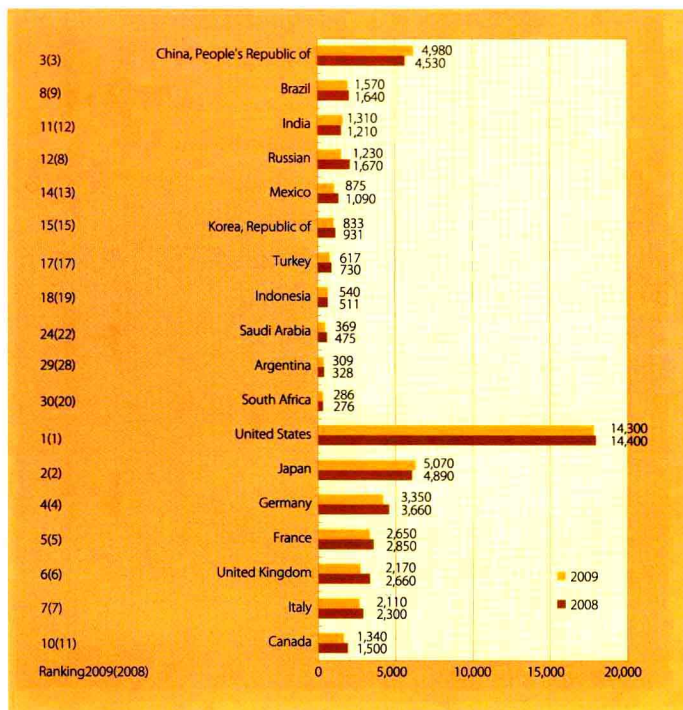


Figure 1.3 Nominal GDP (Current US\$)

Unit: billion US \$

Source: World Bank, WDI, 2010 Dec.

1.1.3 Changes in Per Capita Income

In the past decade, the economic scale of the E11 as a whole greatly increased and they moved to the front ranks of the world. However, in terms of per capita GDP, they still lagged behind. In 2009, China's per capita GDP—calculated using PPP and in 2005 prices—was 7,000 dollars, about one fifth of Japan's and one seventh of the US'. In the same year,

its nominal dollar-based per capita GDP was only 3,740 dollars, one tenth of Japan's and one twelfth of the America's (See Figure 1.4). There is a huge gap between China's overall economic scale and its per capita level. Although China has become one of the largest world economy in terms of total GDP, its per capita GDP remains very small and it needs to rely on sustained economic growth to fill that gap.



Figure 1.4 Real GDP Per Capita (PPP, 2005 International US\$)

Unit: 2005 International US\$

Source: World Bank, WDI, 2010 Dec.

Due to the large population gap among the E11 members, there is often a big gap between their rankings based on overall economic scale and those based on per capita GDP. China and India lead the E11 bloc in terms of overall economic scale, but their per capita level is among the lowest of the E11 economies. Although the overall economic scales of emerging economies, such as China and India, increase rapidly, their low per capita output level

means their status as developing countries remains unchanged. In terms of per capita GDP, the gap between the emerging and developed economies are widening. The nominal per capita GDP of the US, which leads the G7 economies, is about 2.7 times that of Korea, which has the largest per capita GDP among the E11 economies. Such a big gap will not be bridged within a short period of time (See Figure 1.5).

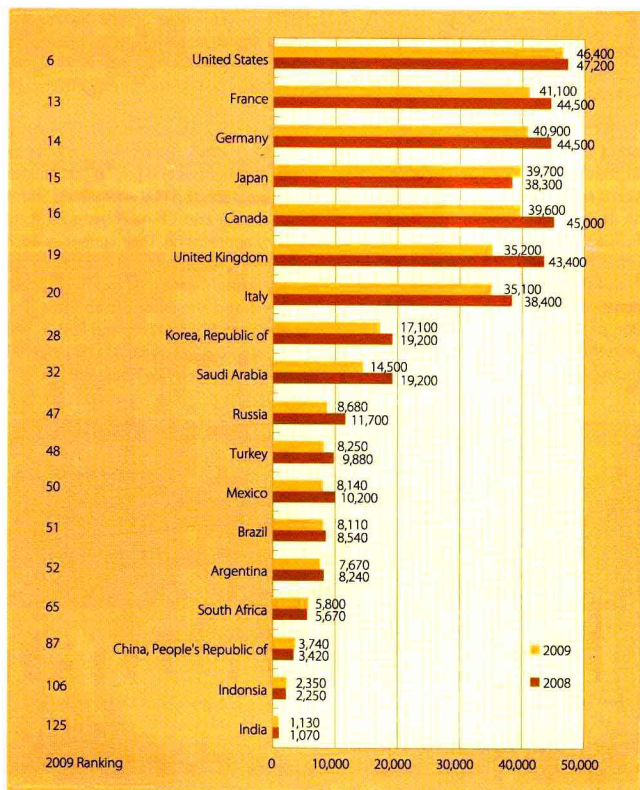


Figure 1.5 Nominal GDP Per Capita

Unit: Current, US \$

Source: World Bank, WDI, 2010 Dec.