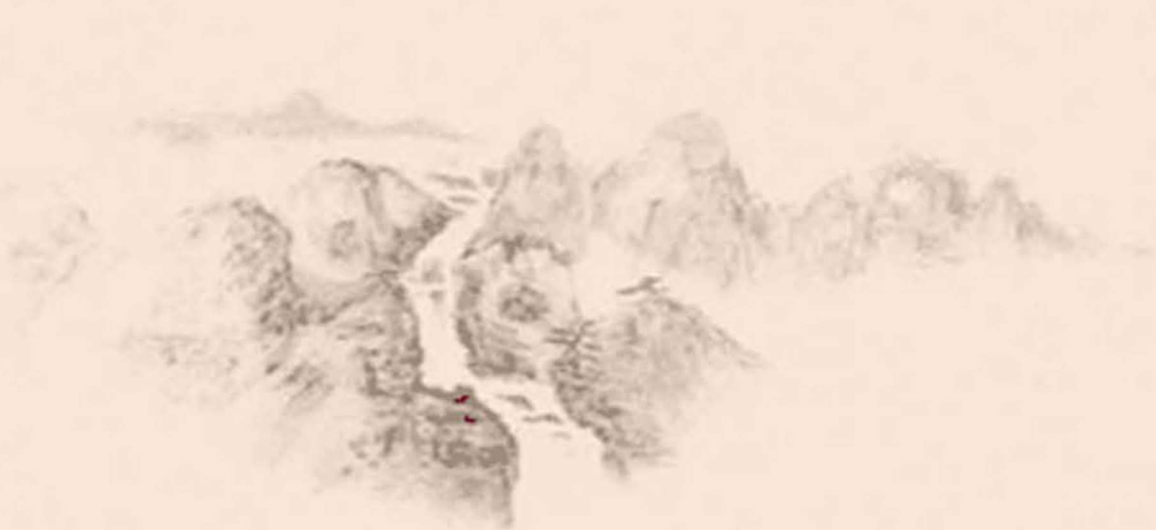
Boao Forum for Asia
Development of Emerging Economies
Annual Report 2018

责任编辑　邱蓓蓓



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Preface

The Boao Forum for Asia, a non-governmental and non-profit international organization with a fixed conference date and a fixed domicile, has become an important and high-profile platform for dialogues on Asian and global issues for government, industrial and commercial as well as academic leaders in Asia and other continents. It aims to promote economic exchanges, coordination and cooperation among economies within Asia and between Asia and other continents. To expand the external exchange channels of the Asian economies and establish wider cross-regional links, the forum is committed to pushing development of, and cooperation among, the world's emerging-market economies. The forum has started to organize the compilation of the annual development report for the emerging-market economies since 2010.

In 2010, the forum for the first time defined the term "E11" (11 major emerging-market economies) in its annual development report. The 2018 report continues to focus on study of the E11 and, in particular, analyzes their new developments in economic growth, employment and income, price and monetary policy, international trade, international direct investment, international commodities, and debt and financial markets. It also anticipates the economic situation of the E11 in 2018.

Benefiting from a drastic rise in external demand and generally stable domestic consumption demand, the economic growth of the emerging economies obviously accelerated and generally maintained an upward momentum in 2017. The E11 saw a Gross Domestic Product (GDP) growth of about 5.1% in 2017, or an increase of 0.5 percentage points year-on-year, which, 1.4 percentage points higher than the world's average economic growth, made the E11 continuously take the lead among the emerging-market and developing economies. At the largest emerging economy, China kept a middle-high economic growth of 6.9% in 2017, contributing approximately one-third to global economic growth and continuously acting as the largest contributor to global economy. Russia and Brazil pulled themselves out of a lingering economic recession and their economic growth turned from negative to positive. Over 2017, the job markets of the emerging economies have generally kept stable, with their inflation pressures eased to some extent, international trade vigorously rebounded and the financial markets generally stable, but their debt levels have kept soaring and international trade growth remained feeble.

At the same time, the economic cooperation among the emerging economies has achieved remarkable progresses. In terms of internal cooperation, the declining proportion of the E11's internal trade to its total foreign trade has been checked and the proportion in 2017 already exceeded that of 2015. Mutual direct investment within the E11 has seen steady growth. In terms of foreign cooperation, the E11's trade has long remained relatively highly dependent on the developed economies, but due to good economic recovery of the emerging-market and developing economies, the proportion of the developed economies to the E11's trade saw a decline in 2017. In the context of an exacerbated inward-looking approach of the US and other developed economies, the E11 has made slow progresses in trade and investment talks with the developed economies.

Currently, the economic growth of the emerging economies represented by the E11 takes on a good momentum. However, the influences of those factors that affect their labor productivity, technological progress, youth unemployment, balanced income distribution, economic globalization and regional integration, and public and private debt, as well as the growing financial bubbles and the spillover effect brought about by US President Donald Trump's tax reform of their economic growth still cannot be ignored. In the meantime, whether their external demand can maintain continuous growth and the dynamism of their investment growth can be re-forged remains yet to be seen.

Looking into the year of 2018, the emerging economies are expected to continuously maintain a good growth momentum, but they still need to take precautionary measures against various risks and challenges, and dig out an endogenous growth power to lay a solid foundation for long-term and steady economic growth.

周文重

Zhou Wenzhong
Secretary-General
Boao Forum for Asia

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Chapter 1

Overview

It was forecast in the 2017 Annual Report that recovery of the 11 major emerging-market economies (E11)[1] would be stable and improving in 2017 and their economic growth would be higher than in 2016. The real economic development of the E11 has matched our forecast, although their economic recovery momentum beat our expectations. Growth of the weighted purchasing power parity (PPP) converted total GDP of the E11 is 5.1% in 2017. The high growth was mainly supported by significant external demand increase and largely stable domestic consumption demand. Meanwhile, factors such as slowing labor productivity growth, widening income distribution gap, rising debt levels, exacerbating foreign exchange market fluctuations, escalating protectionism, uncertainties caused by the economic policies of the Donald Trump administration in the US and various geopolitical risks, which were mentioned in 2017 Report, have, to varying degrees, affected the foundation of the stable economic recovery of the E11.

1.1 Overall Situation in 2017

In 2017, the economic growth of the E11 accelerated significantly; growth of main E11 economies beat expectations and their inflation levels dropped; price rises of bulk commodities eased and international trade growth was strong; employment and income growth, however, fell and international direct investment growth weakened; worse, public debt levels continued to rise.

1.1.1 Economic Growth Accelerated Significantly

Thanks to the accumulative effect of the ultra-loose monetary policy stances in the past years, the global economic growth significantly accelerated in 2017 and the E11 economy stabilized and recovered, with its growth picking up remarkably. According to forecast of the International Monetary Fund (IMF), the GDP growth of the E11 was about 5.1%, 0.5 percentage points higher than in 2016 and 1.4 percentage points higher than global average, marking its first upsurge since 2011. The E11 economies weakened before starting to stabilize in 2016; in 2017, the per capita GDP growth of the E11 recovered and reached 4.3%. The growth rates of both E11 and the Group of Seven (G7) picked up, but the growth gap between the two groups had continually widened in 2016-2017. The economic scale and GDP proportion of the E11, in terms of market exchange rate, both increased. In terms of PPP-based incremental GDP, the economic value added of the E11 had continually risen and was much more than that of G7 and the European Union (EU). Stable consumption and the increasing effect of net exports of goods and services were beneficial for the remarkable economic growth of the E11, while

1 "E11" refers to the 11 major emerging-market economies in the Group of 20 (G20), namely, Argentina, Brazil, the People's Republic of China (hereinafter referred to as China), India, Indonesia, the Republic of Korea (hereinafter referred to as Korea), Mexico, Russia, Saudi Arabia, South Africa and Turkey. Although Korea has been seen as a developed economy by many international organizations, it still lags significantly behind mature developed economies in terms of per capita GDP; and to maintain the continuity of this report, we still take Korea as a member of the E11.

investment had played a diminishing role in stimulating the economy. The contribution of the important driving force of net exports of goods and services to economic growth of the E11 was larger than that of consumption and investment combined. The composite leading indicator, consumer confidence index and business confidence index of the OECD show that the E11 economy would remain active and continue to improve in the short term. In 2018, the E11 economy is expected to maintain its sound development momentum against the backdrop of strengthening global economic growth momentum.

1.1.2 Growth of Employment and Income on the Decline

Some of the E11 countries suffered from serious unemployment and their jobless rates could have been underestimated. The number of employed people grew at a slower pace or even dropped in most E11 countries in 2017, although their employment structure had improved and their gap with the developed countries, in terms of the ratio of employed people in the services sector to total employment, had narrowed. Unemployment rates rose in most E11 countries, with that of Brazil and South Africa rising significantly year-on-year, up by 1.3 percentage points and 1.1 percentage points, respectively, to 12.9% and 27.7%; that of Turkey, Argentina, Indonesia, China and Korea all rose; youth unemployment among people aged at 15-24 was especially serious and on the rise in most E11 countries, with that of South Africa and Brazil rising by 4.0 percentage points and 3.2 percentage points year-on-year to 57.4% and 30.5%, respectively; it was also high in Saudi Arabia, standing at 34.7%. Special attention should be paid to the hovering youth unemployment rates and their potential impact on social stability. Meanwhile, labor force participation rates had dropped in most E11 countries. The falling labor force participation rate as a result of the lost job-seeking willingness of long-time unemployment can lower the jobless rate and cover problems in the labor market. Therefore, the E11 economies may face more serious structural employment problems reflected by the current unemployment levels. In recent years, the per capita national income growth, real salary growth and final residential consumption growth in most E11 economies had been negative or on the decline, with Brazil and Russia facing the toughest situation. Income distribution of the E11 countries had on the whole improved. The average Gini co-efficient of the E11 countries was 43.4% in this reporting period, moderately down compared with the previous reporting period. The social security capacity of some E11 countries had improved, with the ratio of social contributions to incomes rose in Brazil, Russia, Mexico and Turkey and that of Argentina, Brazil, China, Korea, Russia, and Turkey exceeded that of the UK.

1.1.3 Inflationary Pressure Moderately Eased

Inflation rates dropped in most E11 countries due to falling food prices and currency appreciation in 2017. Brazil's inflation rate dropped to 3.4% in 2017 from 8.7% in 2016, the lowest in recent years. China's CPI growth was 1.6% in 2017, down by 0.4 percentage points compared with 2016. It also dropped in India, Russia and South Africa. Deflation even occurred in Saudi Arabia in 2017. Although inflation rates rose moderately in Indonesia and Korea in 2017 compared with 2016, they did not face much inflationary pressure. Some E11 countries, however, faced quite severe inflationary pressure. Inflation rate was above 20% in Argentina in 2017, when it also soared in Mexico and Turkey, surging to 6.0% and 11.1%, respectively, up by 3.2 percentage points and 3.4 percentage points from 2016. In 2018, affected by such factors as price rallies of bulk commodities, continual economic recovery of the emerging-market economies, and currency depreciation, inflation is expected to rise moderately in the E11 countries. In 2017, Brazil and Russia continued to sharply reduce their benchmark interest rates to stimulate the economy against the backdrop of falling inflation; India and South Africa also cut their interest rates. Pressured by rising inflation, however, Argentina, Mexico and Korea raised interest rates in 2017; Turkey did not raise interest rate, but adopted a relatively tight monetary policy. As their economy continued to recover, inflationary pressure, the E11 countries are expected to face heavier inflationary pressure; meanwhile, as the US Federal Reserve gradually tightens its monetary policy stance, the E11 countries may possibly face heavier pressure of monetary policy tightening.

1.1.4 International Trade: Strong Rally

The foreign trade growth of the E11 countries, in terms of trade value, had first dropped before recovering and resuming a solid momentum since 2016. In terms of trade of goods, the nominal growth of foreign trade of the E11 countries was a negative 5.8% in 2016; in the first half of 2017, the foreign trade value of those countries increased significantly, up by 12.7% year-on-year compared with 2016, 4.1 percentage points higher than that of the world's overall trade of goods growth in the same period. In terms of trade of services, their nominal growth of foreign trade was a negative 1.6% in 2016, 4.7 percentage points higher than 2015; in the first half of 2017, trade of services growth of the E11 countries increased by 7.6% year-on-year, reversing the downward trend seen a year before. In particular, for oil, gas and raw material exporters, such as Saudi Arabia, Russia, Brazil, Indonesia and South Africa, their export growth had strongly rallied thanks to rebounding prices of bulk commodities. In 2017, the proportion of trade of goods and services of the E11 countries in overall global trade stopped falling, reversing the downward trend since 2014. According to the IMF statistics, in the first half of 2017, the proportion of trade of goods of the E11 countries in overall global trade increased slightly by 0.2 percentage points to reached 25.3% while their services trade proportion rose by 0.7 percentage points to reach 18.7%. In 2016, import of the E11 countries fell by a smaller margin than export; in the first half of 2017, their import growth was faster than export; as a result, their trade balance had improved and their currency account to GDP ratio also continued to decline. According to the IMF calculation, the ratio dropped to 0.5% in 2017. Given the solid economic recovery in the emerging-market and developing economies, trade links within the E11 group and between the E11 countries and other emerging-market and developing economies had strengthened since 2017. The trend of continually falling ratio of trade among the E11 countries to their total foreign trade was also stopped in 2017, when it was higher than in 2015. IMF statistics show that in the first half of 2017, the ratio rose by 0.6 percentage points over 2016 to 23.7%, up by 0.7 percentage points compared with 2016.

1.1.5 International Direct Investment: Fragile Growth

Since 2016, global foreign direct investment (FDI) had failed to maintain its growth momentum seen in 2015; its overall scale continued to decrease. In terms of FDI inflow, the FDI scale of developing and transitional economies dropped moderately in 2016 compared with 2015. Statistics of the UN Conference on Trade and Development (UNCTAD) show that FDI flowing into the developing and transitional economies was valued at USD713.8 billion in 2016, down by 9.6% compared with 2015; FDI flowing out of those countries was valued at USD408.525 billion, down by 3.1% year-on-year, or less than 40% of FDI flowing out of the developed economies. In 2016, FDI flowing into the E11 countries was valued at USD342.211 billion, down by 1.8% year-on-year, while FDI flowing out of those countries increased by 4.5% year-on-year to reach USD232.579 billion. It indicates that the E11 countries had become more capable of making foreign investment. Boosted by the implementation of the Belt and Road Initiative, China's outbound direct investment (ODI) in overseas markets increased by 43.5% year-on-year in 2016 to USD183.1 billion, hitting a new record in history; it thus for the first time became the world's second-largest investor in terms of ODI scale. As a result, China also for the first time registered net FDI outflows, which stood at USD49.4 billion. From the start of 2017, given the increasingly uncertain economic environment of major economies, the scale of global FDI had increasingly declined and different countries had a diversified performance in terms of FDI flows. According to estimation by the Global Investment Trends Monitor report released by UNCTAD, in 2017, global FDI inflows stood at USD1.518 trillion, down by 16% year-on-year; FDI inflows of the developed economies fell by 27% year-on-year, those of the developing economies increased by 2%, and those of transitional economies fell by 17%; economies that have sound economic growth and encourage both outbound direct investment and foreign direct investment had still maintained sound FDI inflow and outflow momentum. To attract foreign direct investment, the E11 countries had actively promoted international investment liberalization and facilitation and signed some new international investment pacts. Some E11 countries had released a series of new investment promotion policies, which had further improved their business-doing environment.

1.1.6 Bulk Commodities: Easing Rises of Prices

In 2017, international bulk commodities price rallies gradually flattened amid fluctuations. The Commodity Research Bureau (CRB) Index had recovered or rallied since the start of 2016 but showed signs of flattening in 2017. Among the major commodities, prices of energy products, such as crude oil, natural gas and coal, continued to rise as they did in 2016. Prices of energy commodities are expected to maintain the rising momentum in 2018 thanks to the inking of oil output reduction and global economic recovery. In 2017, prices of steel and most non-ferrous metals continued to rise thanks to rising demand from the recovery of major economies, such as China, India and the US, and increasing infrastructure investment demand and expectations in countries involved in the Belt and Road Initiative. Prices of metals are expected to continue to rise in 2018. Prices of precious metals, which can be a hedge for risks, had a mixed performance; prices of some precious metals rose while those of others dropped, although price changes were quite small. It is expected that prices of precious metals would be stable. Prices of fertilizer commodities largely dropped moderately in 2017, although prices of some products still rose. Due to the scenario of market supply exceeding demand, prices of fertilizer commodities may, like in the year 2017, continue to fall in 2018. Seen from the spot prices of agricultural commodities, such as soy bean meal, wheat and corn, in 2017, prices of most agricultural products had a mixed performance and fluctuated within a narrow band. It is expected that in 2018, prices of agricultural products would rise moderately thanks to rising demand from such major economies as the US, China and India. The impact of price fluctuations of bulk commodities on exporting and importing countries in the E11 group is not neutral. Rising prices of such commodities as crude oil will contribute to the economic and fiscal conditions of energy-exporting countries, such as Saudi Arabia and Russia; however, they would raise costs for major importing countries in the E11 group. In 2017, China's extra spending on oil import as a result of rising oil prices accounted for 21% of its total oil import expenditure.

1.1.7 Debts Decreased in Non-Financial Private Sector

The current high debt levels have become a hurdle to the fast recovery of the world economy. Our analysis of the debts of emerging-market economies shows that, first, the overall fiscal deficit ratios of the E11 countries are high and their public debt levels are generally low, with the public debt ratios of some E11 countries rising moderately. Main causes of the public debt level and fiscal deficit ratio changes in the E11 countries include excessively fast fiscal expenditure growth, deepening of various reforms and the slow rises of bulk commodities prices. The emerging-market economies should devise policies to balance deepening of reforms and fiscal health to provide a solid support for sustainable and stable economic growth; second, the non-financial private sector debt levels of the E11 countries have been on the decline, although their debt levels in various sectors differ remarkably. Loose monetary policy environment is the main factor behind hovering non-financial private sector debt levels and the unfolding effect of continual leverage cut policies is the main cause of falling non-financial private sector debts. The emerging-market economies should take comprehensive measures to depress the borrowing impetus of non-financial private entities and actively tackle the contraction risks brought by the US entering an interest rate hike cycle; third, both the foreign debt levels and debt servicing ratios of the E11 countries are high and continuing to rise. The emerging-market economies should build and improve the external debt and cross-border capital flow management system under a macro-prudent management framework to effectively reduce foreign debt risks. To sum up, the emerging-market economies should, based on their own economic conditions, promptly take policy measures to cut leverage levels to reduce future debt repayment pressure and prevent eruption of any systemic debt crisis.

1.1.8 Financial Market: Largely Stable and Healthy

In 2017, the E11 countries had faced less pressure of currency depreciation against the US dollar thanks to falling dollar index and their economic recovery; currencies of some E11 countries appreciated against the dollar. Russia's ruble rose by 13.0% against the dollar while rand of South Africa and real of Brazil appreciated by 9.4% and 8.6%, respectively, against the dollar. India's rupee and Korea's won appreciated against the dollar by a small margin of 3.1% and 2.6%, respectively. As in 2016, however, currencies of some E11 countries continued to depreciate against the dollar in 2017; Argentina's peso depreciated by 12.2% against the dollar, while currency depreciation of China and Mexico was mild and smaller than that in 2016. The new Turkish lira fell by 20.8% against the dollar in 2017, and the depreciation margin was bigger than that in 2016. Indonesia's rupiah dropped slightly against the dollar in 2017 and failed to maintain its momentum of mild rise in 2016. In 2017, Treasury yields of most E11 countries rose by varying degrees thanks to benchmark interest rate hikes and rising US Treasury yields. However, risks in the Treasury markets of a small number of E11 countries increased. Stock markets of the emerging-market economies had an impressive performance in 2017, with stock indexes of most E11 countries surging remarkably and their capitalization further expanding. In 2017, the real estate markets of the E11 countries largely repeated their 2016 development trends; property price changes became less drastic and the markets were largely stable. In 2018, the momentum of the world economic recovery would continually strengthen and growth of the emerging-market economies would accelerate; as a result, the improving economic fundamentals would contribute to the stable development of the financial markets in the emerging-market economies. As the US Fed continues to raise interest rates, however, the emerging-market economies would face heavier pressure of international capital outflow and currency depreciation. Meanwhile, non-economic factors, such as geopolitical situation, may also destabilize the financial markets of the E11 countries and pose a challenge for those countries.

1.2 Outlook in 2018

In 2018, growth of the E11 economies would still be subject to influence of multiple factors, such as labor productivity, technological advancement, youth unemployment, income diversification, economic globalization and regional integration, public and private debts, financial bubbles and the spill-over effect of the Donald Trump administration's tax reform.

1. Labor productivity. Rising labor productivity is an important contributor to sustainable economic growth. Many factors can affect growth of labor productivity and even cause labor productivity stagnation. They include slow technological diffusion resulting from imperfect competition or entrenched dependence on existing systems, technological advancement and investment growth slowdown (closely related to technological advancement), severe population ageing in some countries, such as China, Russia and Korea, slowing human capital accumulation, and resource misallocation caused by ultra-loose policies, a problem that many emerging-market economies have been forced to solve. Although global labor productivity rose moderately in 2017, given the above-mentioned factors, there has not been fundamental improvement in labor productivity, which has not risen by a large margin. As a result, the E11 countries should continue to deepen reforms, increase inputs in the field of technological innovation, optimize resource allocation, and improve human capital levels to raise their labor productivity and provide unending impetus for their sustainable economic development.

2. Technological advancement. The growth of mid-tech and high-tech manufacturing is a key indicator that reflects the positive role of technological advancement in pushing economic growth. Statistics of the UN Industrial Development Organization show that global manufacturing growth significantly accelerated in 2017, standing at 4.5% in the third quarter, the highest in the past five years. Among the low-tech, mid-tech and high-tech manufacturing industries, mid-tech and high-tech manufacturing represented by automation, robotics and digital products has had the most eye-catching performance and grew by 6% year-on-year in the third quarter of 2017. Manufacturing of the E11 countries accounts for only about 30% of their total GDP and the steady expansion of their mid-tech and high-tech manufacturing is yet to lead to labor productivity growth, but manufacturing, especially high-tech manufacturing, no doubt constitutes an important source of the long-term economic growth of the E11 countries. It should be pointed out, however, that technological advancement is a double-edged sword; while unleashing a positive effect, it can also cause some problems, such as social stratification, thus directly or indirectly affecting economic growth.

3. Youth unemployment. Rising youth unemployment may weaken a country's economic growth potentials. Some E11 countries have seen their youth unemployment rates hit a new high in history, which will affect their economic growth. According to data released by Statistics Korea on January 10, 2018, Korea's youth unemployment rate was 9.9%, the highest in history. Brazil's 30% youth unemployment was the highest since 1991 and may continue to rise; it has been close to youth unemployment level of some Arab countries, such as Saudi Arabia, which has one of the highest youth unemployment rates in the world thanks to its unstable political situation and falling international oil prices. Among the E11 countries, South Africa has the highest youth

unemployment rate, which was 55.9% in the second quarter of 2017 and may be kept at above 50% for a long time. As the problem of high-rate youth unemployment lasts for a long-time, it will directly affect the innovation capacity of the society, reduce social cohesion and long-term credibility of the public sector, serve as the hotbed for populism and protectionism, and ultimately exacerbate social fragility and affect economic growth potentials.

4. Income diversification. In 2017, the Gini co-efficient sample average of the E11 countries dropped slightly over 2016, but the Gini co-efficient has exceeded the internationally accepted warning line of 40% in South Africa, Brazil, Mexico, China, Argentina and Turkey; that of Indonesia and Russia has also been close to 40%. The overall average Gini co-efficient of the E11 countries is about 10 percentage points higher than G7. In South Africa, which has the highest Gini co-efficient among the E11 countries, incomes of the richest people that account for 10% of total population are equal to half of the country's total salaries, while incomes of the poorest people that account for 50% of total population are only equal to 12% of the country's total salaries. In Mexico, South Africa and India, 93%, 79% and 73% of survey respondents held that wealth gap is an urgent or the most urgent problem that needs to be solved. 84% of respondents in Mexico held that it is very difficult or even impossible for one to increase their wealth even if he or she works hard. [1] If the problem of income diversification cannot be solved promptly and lasts for a long time, it would exacerbate anxiety, frustration and discontent of the public, especially the vulnerable groups, and reduce social vitality or even rip apart the society.

5. Economic globalization and regional integration. As international trade growth started to pick up, the US announced to withdraw from the Trans-Pacific Partnership Agreement and the negotiations between the US and the EU on Trans-Atlantic Trade and Investment Partnership and between the US and China on Bilateral Investment Treaty stagnated. Little headway was made at the December 2017 WTO ministerial meeting held in Buenos Aires, capital of Argentina, at which topics of elimination of trade barriers and revising of trade rules were discussed. As the US suffered from more fiscal and trade deficits following the Donald Trump administration's tax reform, the US would become tougher in its trade policies and take more forceful protectionist measures, bringing more challenges to the global battle against anti-globalization and giving rise to more trade protectionist policies and actions. Global trade and world economic growth are closely interrelated; the growth of real global export of goods is expected to be about 5% in the future, which can only buttress a mid-rate global economic growth. The emerging-market economies depend heavily on strong trade recovery to achieve accelerated economic growth; therefore, in the future, whether economic globalization and regional integration can fare well and have a positive influence on international trade would undoubtedly have a direct bearing on the economic recovery of the E11 countries.

6. Public and private debts. An appropriate debt scale is conducive to easing liquidity shortage of the emerging-market economies, but hovering debt levels can increase the borrowing country's debt repayment burden and menace its stable economic growth. For the E11 countries, on the one hand, their public debt levels are generally low; but the public debt levels of most of the E11 countries are rising at a fast pace, which means their largely low public debt levels have given them much leeway to adopt expansionary fiscal policies to stimulate economic growth; meanwhile, however, much attention should be paid to the trend of excessively fast growth of the public debt levels in some E11 countries. On the other hand, some structural, systemic and cyclical factors have combined to push up debts of some E11 countries to high levels, although the non-financial private debt levels of the E11 countries have, on the whole, stabilized and dropped mildly. It would be a long-time process for the E11 countries to lower their non-financial private sector leverage levels; the overall philosophy of leverage reduction should be first reducing their debt growth rates before lowering their overall debt levels; hasty and drastic leverage reduction as a result of a rush for quick results should be avoided to prevent new risks from being triggered. In the future, as the developed economies, such as the US, start to tighten their monetary policies, the loose monetary policy environment that the E11 countries face would also become tight. Those E11 countries with relatively high debt levels should be careful about the potential debt default risks as a result of rising interest rates that would

1 Oxfam. Reward Work, Not Wealth. Oxfam Briefing Paper Summary. January 2018.

increase their debt repayment pressures.

7. Financial bubbles. In 2017, international capital flow into the emerging-market economies had accelerated thanks to such factors as accelerated economic growth of the emerging-market economies, the falling US dollar index dropped, and rising global risk appetite. As a result, the emerging-market economies had faced less currency appreciation or depreciation pressure and their asset prices had soared. The stock markets of the E11 countries had performed especially well and stock indexes of many E11 countries had led the global markets. However, soaring asset prices have also brought some potential risks. In February, 2018, global stock markets, including the emerging markets, tumbled, indicating that currently, the global financial markets remain fragile. The US Fed would continue to tighten its monetary policy in 2018 and the dollar index may rally; thus the emerging-market economies would once again face the pressure of currency depreciation and capital outflow. Meanwhile, if the emerging-market economies are forced to tighten their monetary policy in tune with the US Fed, it would cause domestic liquidity crunch and increase the risks of asset price slump.

8. Donald Trump's tax reform. The US President Donald Trump signed the Tax Cuts and Jobs Act in December 2017, which marked a major change in the country's tax regime. The act concerns multiple taxation reforms, such as sharply reducing corporate income tax, encouraging overseas US enterprises to remit their profits in overseas markets back home, and cutting personal taxes. The implementation of the tax reform act will have a major impact on international direct investment. According to estimation by the UNCTAD, the act will drive nearly USD2 trillion worth overseas capital owned by US multinationals back into the US, which will directly and sharply reduce global foreign direct investment stock.[1] The implementation of the act will also drive American capital in the E11 countries back into the US, thus having a negative impact on economic growth and employment of those countries. Meanwhile, as industry capital flows back into the US, the emerging-market economies may face heavier pressure of capital outflow. The US tax measures may also trigger a worldwide "taxation war", worsening the external environment for economic recovery of the emerging-market economies.

On the analysis of the overall economic development of the E11 in 2017 and factors that may influence future development trends, authors of this report hold that the trend of mid- and high-rate economic growth in the E11 would hopefully continue in the coming years, but the possibility of those countries registering sharp increases in growth is small and the occurrence of economic recession in some countries cannot be ruled out. Compared with the year 2017, the economic growth of the E11 may basically be at a similar level or possibly edge up in 2018 and the weighted purchasing power parity (PPP) converted total GDP of the E11 may expand by 5.2% year-on-year. As the largest E11 economy, China will very possibly achieve a year-on-year GDP growth of about 6.6%.

1 UNCTAD. *Tax Reforms in the United States: Implications for International Investment*, Investment Trends Monitor, Special Edition, 2018-2-5.