The Boao Forum for Asia

The Development of Emerging Economies

Annual Report 2012

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Organized by the Research Institute of the Boao Forum for Asia, the annual E11 development report has been written by the researchers of the Institute of World Economics and Politics, CASS, to help readers grasp the latest developments of the emerging economies and provide a platform for communication and cooperation across the board among those economies. The report, focusing on the 11 major emerging economies (E11) in the Group of 20 (G20), tries to use accurate statistics and thorough resources as well as in-depth analysis to reflect the latest developments in the growth and cooperation of the E11 economies and their economic and trade links with other parts of the world.

Prof. Zhang Yuyan, director of the CASS Institute of World Economics and Politics is responsible for the chapter design and compilation of the report, *The Boao Forum for Asia The Development of Emerging Economies Annual Report 2012*. It is divided into seven chapters. The first chapter summarizes the overall development of the E11 economies in 2011 so that readers can have a general and overall understanding of the situation. The second and third chapters introduce the basic social and economic conditions of the E11 economies. The fourth chapter analyses and introduces the overall performance and international ranking changes of those economies. The fifth and sixth chapters analyse the economic cooperation among the E11 economies and their economic cooperation with the developed economies. The seventh chapter is a report about certain countries. It reviews and analyses the economic situation and policies of the E11 economies in 2011. Zhang Yuyan was responsible for the writing of the first chapter while Huang Wei finished the following three chapters. Xu Xiujun wrote the fifth, sixth and seventh chapters. Moreover, Sun Dong and Zhou Dan assisted in data management. Zhang Yuyan and Xu Xiujun collaborated to finalize the report.

Mr. Zhou Wenzhong, secretary-general of the Boao Forum for Asia, and Mr. Yao Wang, executive director of the forum, have provided valuable opinions for the compilation of the report. We are also grateful to Zhang Yansheng, secretary-general of the Academic Committee under the National Development and Reform Commission, Pei Changhong, director of the Institute of Economics of the Chinese Academy of Social Sciences, Zhou Xiaojing, director of the Asia-Africa Development Research Institute, Development Research Center of the State Council, Liu Yuanchun, deputy dean of the School of Economics of Renmin University of China, and Xu Lixin, editorial board member of the *Boao Review*. We also owe a debt of gratitude to Liu Jun, president of the Beijing University of International Business and Economics Publishing Co., Ltd., and Song Hailing, Hu Xiaoping and Li Li, editors of the Beijing University of International Business and Economics Publishing Co., Ltd., for their hard work in editing and publishing this report.

There could be mistakes in this report due to limited resources available and research limitations of the authors. Any comment and criticism are welcome. This report does not necessarily represent the views of the Boao Forum for Asia and the authors are responsible for any errors and mistakes in the report.

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PREFACE

The Boao Forum for Asia, a non-governmental and non-profit international organization, has become an important and high-profile platform for dialogues on Asian and global issues for certain governments, industrial and commercial as well as academic leaders in Asia and other continents. The forum is committed to promoting the Asian countries' fulfillment of their development goals through furthering regional economic integration.

It also focuses on the development of and cooperation among, the emerging economies to expand the external communication channels of Asian economies and establish wider cross-regional links among them. The forum has started to organize the compilation of the annual development report for the emerging economies since 2010. In 2010, the forum for the first time defined the term E11 (11 major emerging economies) in its annual development report, which aroused widespread repercussions.

The 2012 report continues to mainly study the E11 and introduces and compares the basic social and economic conditions of the E11 economies and their overall performance and changes in their international ranking. It also analyses the development of and changes in the economic and trade links among the E11 and between the E11 and developed economies before reviewing and analysing recent economic situation and policies of the E11 economies. Based on the above analyses, the overview of this report summarizes the development characteristics of the E11 Economies in the past year and looks into their overall development in 2012.

This report will promote the understanding of the current development of the emerging economies, their development potentials and the obstacles facing them. It provides guidelines for policymakers in promoting the development of the emerging economies and furthering their cooperation with the developed world so as to push the world to become fairer, more equitable and more balanced.

We are grateful to all that have been involved in the compilation of the report and hope that our readers provide invaluable feedback to help us do a better job in the future.

Zhou Wenzhong
Secretary General
Boao Forum for Asia

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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 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 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 E11[2] 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.

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.

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, wich 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 resource[1] 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.

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