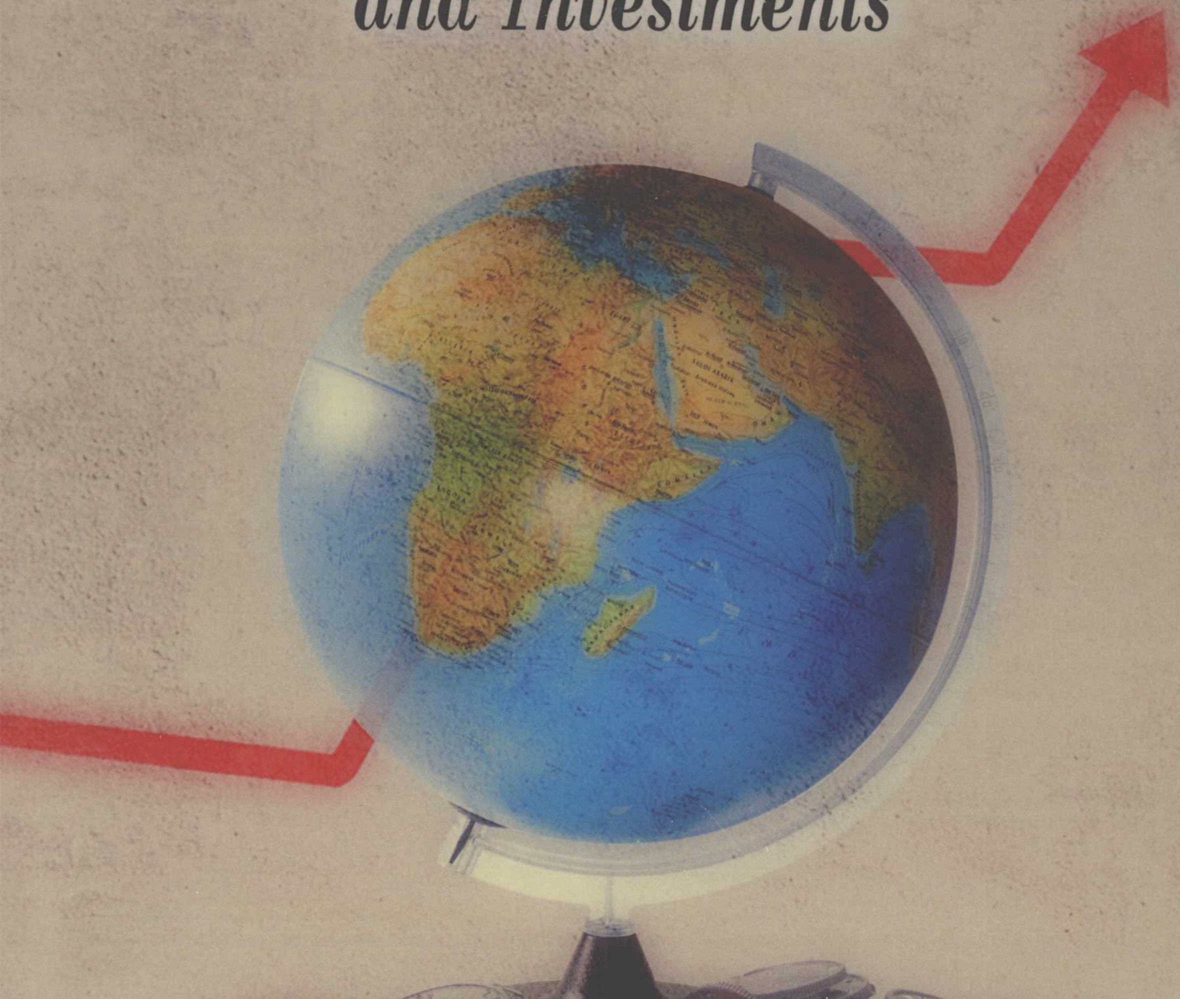
EMERGING MARKETS

Identification, New Developments and Investments



John V. Reynolds
Editor

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EMERGING MARKETS:

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JOHN V. REYNOLDS
EDITOR

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PREFACE

Emerging markets are countries that are restructuring their economies along market-oriented lines and offer a wealth of opportunities in trade, technology transfers, and foreign direct investment. According to the World Bank, the five biggest emerging markets are China, India, Indonesia, Brazil and Russia. Other countries that are also considered as emerging markets include Mexico, Argentina, South Africa, Poland, Turkey, and South Korea. Emerging markets stand out due to four major characteristics. First, they are regional economic powerhouses with large populations, large resource bases, and large markets. Second, they are transitional societies that are undertaking domestic economic and political reforms. Third, they are the world's fastest growing economies, contributing to a great deal of the world's explosive growth of trade. Fourth, they are critical participants in the world's major political, economic, and social affairs.

Chapter 1 - As an emerging market economy, China has been the fastest-growing major nation for the past quarter of a century. The rapid economic growth of China results to enormous market capacity and potentials for further growth. Undoubtedly, it is ascribed to the continuous market-oriented economic reforms in various fields of China. The economic entity behaviors are becoming increasingly regularized, tending to follow or be guided by the market economy principles. The enterprises, even the state-owned ones, make their own production and operation decisions gearing to market demands instead of the administrative arrangements. Governments are taking an active role in function transformation to focus more on the macroeconomic promotion and coordination as well as to improve the effectiveness of the financial and monetary policies. The free-flow of production factors has also been promoted markedly, represented by the factor markets of capital, labor and land use. As for the domestic commodity markets, vigorous efforts are made to eliminate the regional blockage and local protectionism for a unified domestic market. In the field of foreign trade, measures are taken to reduce the export subsidies and abolish tariffs and trade quotas to facilitate a fair international trade environment. This chapter tries to present an objective analysis on China's economic reform and practices in these fields. Additionally, it summarizes current economic performance of China and predicts China's future growth trend.

Chapter 2 - A common means of access to emerging markets is via international strategic alliances. It has been reported that the success of such alliances depends on factors related to the characteristics and culture of the partners involved (Park and Ungson, 1997; Cullen et al., 1995), on the management team and on factors concerning the handling of the alliance

(Pothukuchi et al., 2002) – and these factors are normally addressed separately. The aim of the present study is to analyze the factors that influence the success or otherwise of strategic alliances between Spanish and Moroccan companies, studying the specific circumstances arising in such situations. In particular, we focus on the factors involved in strategies adopted for conflict resolution, taken together, in the belief that this approach will allow us to account for the progress and resolution of these alliances.

This study is based upon a sample taken of 13 business alliances between Spanish and Moroccan companies that have been in existence for several years. We seek to analyze the success of these concerns, measured via the degree of satisfaction reported by the partners (Pothukuchi et al., 2002), and to determine to what extent the characteristics of the alliance, as regards conflict resolution (Lin and Germain, 1998), are decided by the ownership structure (Dhanaraj and Beamish, 2004), the characteristics of the management team and the cultural identity among the partners (Danis and Parke, 2002). For the purposes of this study, multivariate analysis techniques were applied, and these revealed the importance of cultural factors, especially the identity of the partners and the cultural characteristics of their countries of origin, in selecting and adopting strategies for resolving conflicts.

Chapter 3 - This investigation is one of the first to adopt quantile regression to examine covariance risk dynamics in international stock markets. Feasibility of the proposed model is demonstrated in G7 stock markets. Additionally, two conventional random-coefficient frameworks, including time-varying betas derived from GARCH models and state-varying betas implied by Markov-switching models, are employed and subjected to comparative analysis. The empirical findings of this work are consistent with the following notions. First, several types of beta distortions are demonstrated: the "beta smile" ("beta skew") curve for the Italian, U.S. and U.K. (Canadian, French and German) markets. That is, covariance risk among global stock markets in extremely bull and/or bear market states is significantly higher than that in stable period. Additionally, the Japanese market provides a special case, and its beta estimate at extremely bust state is significantly lower, not higher than that at the middle region. Second, this study hypothesizes two sorts of asset reallocation processes: "stock-to-stock" and "stock-to-bond", and employs them to explain these different types of beta distortions among various markets. Third, the quantile-varying betas are identified as possessing two key advantages. Specifically, the comparison of the system with quantile-varying betas against that with time-varying betas implied by GARCH models provides meaningful implications for correlation-volatility relationship among international stock markets. Furthermore, the quantile-varying beta design in this study releases a simple dual beta setting implied by Markov-switching models of Ramchand and Susmel (1998) and can identify dynamics of asymmetry in betas.

Chapter 4 - This chapter will explain how changes in product architecture have become the driving force behind a breakthrough strategy that has enabled Chinese automobile manufacturers to produce vehicles that are broadly equivalent to their western counterparts but at a fraction of the price. It will trace the evolution of this strategy, which is based on an innovative product architecture termed quasi-open modular product architecture. It will illustrate the emergence of this phenomenon through a longitudinal case study of one manufacturer, the Geely Automobile Co. Ltd, which covers the period between 1998 and 2008. The case study will show how this strategy has allowed Geely to move from being a manufacturer of refrigerators and motorbikes to the ninth largest automobile manufacturer in China in a little over 10 years. The chapter will conclude by discussing the strategic potential of innovations in product architecture in general and the role of the specific market conditions in China as a source of potential drivers for breakthrough strategies and product innovation.

Chapter 5 - With the notion that the concept of industrial cluster popularized by Micheal Porter (1990) is to enhance competitiveness of industry through effective and efficient supply chain, many economies have employed such concept to improve its industrial competitiveness in global market. This chapter examines development and experience of the automotive cluster in Thailand that has become the country's third largest economy and one of the ASEAN's largest automotive assembling with parts manufacturing bases History, structure, policy and needs are to be discussed.

Chapter 6 - The variances of returns for twenty-nine emerging market indexes are decomposed into systematic and unsystematic components. Global systematic risk, which is used as a measure of market integration, is found to contribute 15.2% of total risk in the CAPM, on average, for emerging market country-level returns. Investor protections are negatively related to the variance of emerging market returns and positively related to the proportion of global systematic risk. Thus, investor protections are inversely related to total risk in emerging market returns and positively related to the level of market integration for emerging markets.

Chapter 7 - Like in the entire Central Eastern Region (CEE) changes in health care took and still take place in South-Eastern Europe (SEE) countries. Although health care spending in SEE is still underneath US or European Union (EU) level some progress can be noticed. Comparing health care expenditure as a part of the GDP and the increase of Gross domestic Product (GDP) the level of health care spending per capita is increasing strongly. Private expenditures counting for a substantial share of health care expenditures in the region. To a not negligible part the private money is used for informal payments in conjunction with surgery or inpatient services in public facilities. In this specific market environment models of Private Public Partnerships may lead to the improvement of facilities and services by allocating informal payments out of private pockets into the health system.

Chapter 8 - Macroeconomics is the study of the entire economy in terms of the total amount of goods and services produced, total income earned, the level of employment of productive resources, and the general behavior of prices. Macroeconomics can be used to analyze how best to influence policy goals such as economic growth, price stability, full employment and the attainment of a sustainable balance of payments. It considers the performance of the economy of a country as a whole. Principal macroeconomic topics of a country may include economic growth; inflation; changes in employment and unemployment, trade performance with other countries as reflected in the balance of payments and the relative success or failure of fiscal and monetary policies. The economy of a country is based on allocation and management resources of its livelihood system. As all economies operate at different levels, it is necessary to have a clear idea of the economic situation of a particular host country in order to make appropriate decisions in international marketing.

In the 1990s, macroeconomic policies improved in a majority of developing countries, but the growth dividend from such improvement fell short of expectations, and a policy agenda focused on stability turned out to be associated with a multiplicity of financial crises[1]. Economic advancement of a country may be reviewed in reference to its fiscal, monetary, and

[1] Luis Servén, and Peter J. Montiel (2004): *Macroeconomic Stability in Developing Countries: How Much Is Enough?*, Working Paper # 3456, World Bank, November.

exchange rate policies over time, and the effectiveness of the changing policy framework in promoting stability and growth. Contemporary concepts of economic advancement for developed countries include entire range of governmental functions, including sectoral policy reform, economic integration, privatization, public sector enhancement, labor market competitiveness, investment climate enhancement, e-government, soft infrastructures for developing a knowledge economy, macroeconomic management and effective long range planning. The weight of the public sector constitutes a serious impediment to more rapid growth for many countries. Importantly the large expenditure burden it requires does not always translate into an efficient and equitable distribution of services. Such performance is reflected by the public sector efficiency and governance in promoting the economic advancement of a country. The challenges of employment generation, economic growth and societal advancement in changing demographic contexts can only be addressed through productive investment and value building. The climate for investment is therefore critical for the countries which need a strategic direction and an economic concentration on value building rather than value trading, which leads towards the higher degree of economic advancement in a country.

Chapter 9 - While there have been numerous studies of inflation targeting in industrial countries, there has been little analysis of the effects of inflation targeting in emerging market countries. Based on a new and detailed survey of 31 central banks, this paper shows that inflation targeting brings significant inflation benefits to the countries that adopt it *relative* to other strategies, giving also a "bonus" in terms of lower inflation expectations. These benefits come with no adverse effects on output. In addition, under inflation targeting interest rates, exchange rates, and international reserves are less volatile, and the risk of currency crises relative to money or exchange rate targets is smaller. Interestingly, IT seems to outperform exchange rate pegs—even when only successful pegs are chosen in comparison. The survey evidence indicates that it is unnecessary for countries to meet a stringent set of institutional, technical, and economic "preconditions" for the successful adoption of inflation targeting.

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Chapter 1

NEW TREND FOR EMERGING MARKETS: THE REFORM AND DEVELOPMENT IN CHINA[1]

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ABSTRACT

As an emerging market economy, China has been the fastest-growing major nation for the past quarter of a century. The rapid economic growth of China results to enormous market capacity and potentials for further growth. Undoubtedly, it is ascribed to the continuous market-oriented economic reforms in various fields of China. The economic entity behaviors are becoming increasingly regularized, tending to follow or be guided by the market economy principles. The enterprises, even the state-owned ones, make their own production and operation decisions gearing to market demands instead of the administrative arrangements. Governments are taking an active role in function transformation to focus more on the macroeconomic promotion and coordination as well as to improve the effectiveness of the financial and monetary policies. The free-flow of production factors has also been promoted markedly, represented by the factor markets of capital, labor and land use. As for the domestic commodity markets, vigorous efforts are made to eliminate the regional blockage and local protectionism for a unified domestic market. In the field of foreign trade, measures are taken to reduce the export subsidies and abolish tariffs and trade quotas to facilitate a fair international trade environment. This chapter tries to present an objective analysis on China's economic reform and practices in these fields. Additionally, it summarizes current economic performance of China and predicts China's future growth trend.

[1] We thank Zheng Yanting, Ren Ran, Wu Min, Zhang Yi, Sun Huixin, Chen Miao, Zhang Ai and Du Yamin for their excellent research or language assistance.

PREFACE

On Sept. 4, 2009, the finance ministers and central bank presidents of China, India, Brazil and Russia, known as the BRICs, had a conference in London. Issues about the present global financial situation, the countermeasures by the four countries against the crisis, the agenda at the third G-20 summit and the reform of global financial institutions etc. were discussed and a consensus reached. The Chinese delegates led by Xie Xuren, Finance Minister of China, and Yi Gang, Vice President of the People's Bank of China attended the conference. Also present were Kudrin, Mantega and Mukherjee, Finance Minister of Russia, Brazil and India respectively. It was stated at the meeting that the global economy was recovering thanks to the financial rescue and stimulus plans taken worldwide and that the emerging economies played an important role therein. The financial ministers and central bank presidents of the BRICs issued a united communiqué at the conference[2].

Let's discuss how the term BRICs came into being and its connection with the emerging economies.

It dated back to 1994 when the concept of emerging markets was introduced in the *National Export Strategy* of the U.S. Department of Commerce: " Perhaps the most promising opportunities for U.S. firms in the next several decades can be found in the Big Emerging Markets (BEMs)...10 markets which are expected to account for over 40 percent of total global imports (excluding intra-EU trade) over the next 20 years. The BEMs are: Mexico, Argentina, Brazil, the Chinese Economic Area, India, Indonesia, South Korea, Poland, Turkey, and South Africa.". Then a policy of big emerging markets was formulated[3].

IMF divided the world into two categories[4]: the advanced economy including U.S., Eurozone (inc. Germany, France, Italy and Spain), Japan, U.K., Canada, other advanced economies and the emerging industrial countries of Asia; the emerging and developing economy including Africa (inc. Sub-Sahara Africa), Central Europe and Eastern Europe, CIS (Russia and the other member states), the developing countries of Asia (China, India), ASEAN (Indonesia, Malaysia, Philippine, Thailand, Vietnam), Middle East, Brazil and Mexico. The share of GDP contributed by the emerging markets (inc. the emerging industrial countries of Asia, the emerging markets worldwide and the developing countries) to the world has increased from 23.56% in 1990 to 33.31%[5] in 2008, changing the global economic territory significantly.

The BRICs and VISTA are outstanding among the emerging markets. The term BRICs comes form the initials of Brazil, Russia, India and China respectively. The BRICs account for 26% of the world territory and 42% of the world population. From 2006 to 2008, the BRICs have an average economic growth of 10.7%[6]. Their international influence grows with their rapid economic development. Brazil is called the world material base, Russia the gas station of the world, India the office of the world and China the factory of the world.

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[2] Source: Xinhua News Agency, London Branch, Sep.4, 2009.

[3] Department of Commerce (2004). *National Export Strategy: the second annual report of the Trade Promotion Coordinating Committee.* http://www.archive.org/details/nationalexportst00unit.

[4] IMF (2004). *World Economic Outlook: Advancing Structural Reforms.* http://www.imf.org/external/pubs/ft/weo/2004/01/.

[5] Source: Calculated according to data of World Economic Outlook Database of IMF, April 2009. http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/index.aspx.

[6] Source: Xinhua News Agency. Also see http://news.xinhuanet.com/world/2009-04/02/content_11116584.htm.

Jim O'Neill, the chief economist of Goldman Sachs first introduced the term BRICs in *The World Needs Better Economic BRICs* in November 2001. The BRICs did not attract the world attention until Goldman Sachs released a report *Dreaming with BRICs* on October 1st 2003. According to the report, the GDP of BRICs will exceed that of the six industrial countries and the value of its stock market will grow by 66 times in 50 years. It will have a stock market three times greater and a middle class of 800 million people in 10 years, which exceeds that of U.S., Western Europe and Japan combined. The report predicts that the BRICs will lead the energy, natural resources and capital markets and become the most important consumption market of the world[7].

On December 2005, Goldman Sachs introduced the term Next-11 (N-11 for short) for 11 emerging markets whose economic potential is next to the BRICs. Those markets are Mexico, Indonesia, Nigeria, Korea, Vietnam, Turkey, Philippines, Egypt, Pakistan, Iran and Bangladesh. According to Goldman Sachs, the GDP of the BRICs and N-11 accounted for only a quarter of G7 in 2005 but will exceed the latter in 2035. The GDP of the N-11 will grow by 11 times in 2050, being equivalent of U.S. or four times as great as Japan[8].

In 2007, Akashi Kadokura, chief of Institute of Japan for BRICs, introduced the concept of VISTA for the most promising emerging markets next to the BRICs. The term VISTA comes from the initials of Vietnam, Indonesia, South Africa, Turkey and Argentina[9]. The nine economies of BRICs and VISTAs have become the most active economy of the world.

The above-mentioned countries are recognized worldwide as the emerging economies because they all have the institution of market economy and sustain a rapid economic growth.

Next, we will analyze China, an emerging market and one of the BRICs, in terms of its positioning as an emerging market, its experience in shifting from planned economy to market economy, its practice in handling the global financial crisis and its new roles in international economy etc.

1. POSITIONING: AN EMERGING MARKET

It is commonly believed that China is an emerging market. To illustrate it, we need to explain that China is emerging as a new star in the world economy as well as that China is a market economy instead of a planned economy. We will dicuss from the following three dimensions in this part: the role of emerging markets in the global economy, China's impact on the world supply and demand and China's role as a developing market economy.

1.1. The Role of the Emerging Markets in Global Economy

The emerging markets boast rapid economic growth and make greater contributions to the global economic growth.

[7] Goldman Sachs (October 2003). Global Economics Paper No.99, *Dreaming with BRICs: The Path to 2050.*

[8] Goldman Sachs (March 2007). Global Economics Paper No: 153: *The N-11: More Than an Acronym.*

[9] Akashi Kadokura (2007). *VISTA: Countries with New Potentials*. Financial View, 2007 (12).

Table 1. Contribution of Major Countries and Regions to World GDP(unit:%)

Year	USA	Japan	Germany	G7	9 Emerging markets	Brics	China	Brazil	Russia	India
2000	31.1	14.8	6	66.5	10.7	8.2	3.8	2.1	0.8	1.5
2007	25.2	8	6.1	55.3	15.8	12.7	5.8	2.4	2.4	2.2
2008	23.6	8.2	6.1	53.2	17.1	13.8	6.4	2.7	2.7	2.0

Source: Calculated with reference of the data from World Bank DDP database and World Development Indicators Database.

Firstly, the emerging markets slow down the plunge of the global economy, stabilizing the economic fluctuation

During the international financial crisis, although the emerging markets are also experiencing a downslide economy, their decline was generally less than the developed economies. For instance, in the fourth quarter of 2008, the GDP growth of the developed countries was almost all minus: U. S. -0.8%, Eurozone -1.7%, UK -1.8%, Japan -4.4%, etc., while that of the emerging markets hit 3.63%: Russia 1.1%, Brazil 1.3%, India 4.8%, China 6.8%, etc. With the emerging markets sustaining an economic growth against a global recession, the severe recession of the developed countries was mitigated and the world average output was able to keep a growth of 0.2% in the same period[10].

The reason that the emerging markets helped against the downturn of the global economy lies in their sustainable economic growth, and, more importantly, their growing share in the global economic aggregate (see Table 1).

The table shows that the share of the total GDP of the emerging markets (Brazil, Russia, China, Vietnam, India, South Africa, Turkey, Argentina)in the world GDP has increased from 10.7% in 2000 to 17.1% in 2008 , while that of the seven western countries (USA, Japan, Germany, France, UK, Italy, Canada)in the same period dropped from 66.5% to 53.2%. According to the GDP ranking list released by the World Bank[11], the BRICs' GDP amounted to US $8.3 trillion in 2008, in which the GDP of China accounted for 46.5% by US $3.86 trillion, Russia and Brazil for 19.4% by US $ 1.61 trillion each, and India came last with 14.7% by US $1.22 trillion. Furthermore, the BRICs have all ascended in the GDP world ranking and become the top twelve GDP contributors in the world. It has been recognized that the emerging markets play a role as an economic stabilizer during the severe global economic fluctuation.

Secondly, the emerging markets promote the global economic development

The emerging markets promote the global economic growth while developing their own economy. Take the BRICs. The BRICs have become the outstanding ones of the emerging markets because they are sustaining a rapid growth and enjoying increasingly stronger economic strength in past few years. The real growth rates of the BRICs are much higher than other countries in 2008. China boasts the highest growth of 9.0%, followed by India of 7.3%, Russia of 5.6% and Brazil of 5.1%. The average growth of the BRICs is 10.7% from 2006 to 2008 according to data from IMF[12]. Goldman Sachs' latest forecast indicates that the global

[10] Data source: Calculated with reference of the data from *World Economic Outlook Database*, IMF, April 2009.
[11] Data source: Calculated with the reference of the data of *World Development Indicators Database*, World Bank.
[12] Data source: Calculated with the reference of the data of *World Economic Outlook Database*, IMF, April 2009.

economy will suffer a contraction of 1.1% this year, while the BRICs will still grow by 4.8% and the global economy will increase by 3.3% next year, while the BRICs will probably enjoy a growth of 8.8%.[13]

As the economic drivers, the emerging markets accounted for 50% of the world GDP, 40% of the world trade volume and 70% of the world foreign exchange reserve in 2008, in which China, Russia and India all hold significant amount of foreign exchange reserves. Together with China, Indian has also become the world's most attractive investment location next to U.S. by a growth of 6%-7% for more than ten years. With an annual average growth of 7.8% over the past 8 years, Russia has become one of the top ten economies again. The economic growth of Brazil has been 4%-5% in recent years. The contribution of the BRICs to the global economy growth in 2008 exceeded 50%.[14]

The emerging markets are boosting the global trade by their strong consumption capacity, The U.S. consumption market has been indispensable to the global consumption market all the time but now it is time to stress the role of the emerging markets in the growth of the global consumption demand. Since the outbreak of the global financial crisis, with the U.S. consumption being sluggish, the emerging markets have become a major impetus to the expansion of the global consumption market by a total of population accounting for over 50% of the world and a rising middle class. The high-end firms of the developed countries are busy transferring product lines to the emerging markets in recent years for the much cheaper.labor force but more importantly the strong absorbing capacity there. Since the beginning of this year, China has been sending quite a few trade and investment promotion delegations to Europe, U.S. and the member countries of the Shanghai Cooperation Organization to bolster the trade and investment for the Chinese and foreign firms hit by the crisis, which also promoted the economic development of these countries to some extent.

Thirdly, the emerging markets accelerate the global technological progress and industry upgrading

International competitive capacity is an aggregate indicator and reflects a country's progress on many aspects, including the breakthrough in technological progress and industry upgrading. *The Global Competitiveness Report 2009-2010* (hereinafter referred to as *Report*) announced by World Economic Forum indicates that in the chosen 132 economies China's competitiveness ranking ascended to the 29th from the 28th, topping the other BRICs. The ranking of India and Brazil also ascended. The World Economic Forum holds that the global competitiveness indicator is determined by the infrastructure, efficiency, innovation and maturity which break down again to 12 items. According to its yearly *The Global Competitiveness Report*[15] which is an aggregate evaluation of a country, there has been considerable upgrade of the emerging markets' international competitiveness, which shows that their technological progress is contributing more and more to the global technological progress.

The four countries of the BRICs focus on different aspects of economy and enjoy different strengths. China's manufacturing industry, Russia's energy industry, Brazil's mining industry and India's information technology industry are the pillar industry of each and have

[13] Shang Jun, Fu Yunwei. *Emerging markets step onto historical front on response to financial crisis. Ecnomic Information Daily*, Sep. 16th, 2009.

[14] Data source: Xinhua News Agency. http://news.xinhuanet.com/world/2009-04/02/content_11116584.htm

[15] Data source: Xinhua News Agency. http://news.xinhuanet.com/fortune/2009-09/08/content_12016501.htm

a strong competitive edge in the world. Facing the new world economic environment, the BRICs' dynamic growth lay a solid foundation for intensifying the advantages of their technology and industry. For instance, China's industry promotion program and RMB 4 trillion economic stimulus plan will lead to another round of industrial upgrading with still huge potential in the infant industries including new energy industry, environmental protection industry, biomedicine industry and electronic information industry, etc. China is taking the lead in the economic recovery, which is crucial to the full recovery of the world economy and is conducive to forming a new world economic growth point.

Fourthly, the emerging markets boost global economic cooperation

The boosting is through stronger cooperation between the emerging markets themselves and between the emerging markets and the developed countries.

There are many examples about the reinforcement of the cooperation among the emerging markets. Here, we will only take the BRICs as an example. With complementary advantages with each other, the BRICs boast tremendous potential for collaboration. On behalf of the emerging markets, the BRICs are intensifying dialogues and cooperation with each other, and jointly claiming for the interests for the developing countries. With more exchanges being made between the leaders, the BRICs have become a major power in responding to the global financial crisis. The BRICs play an important role in the joint fight around the world against the global financial crisis, coordinating to reform the international financial system, making propositions in favor of the developing countries, making promotions in strengthening international financial regulation, reforming the international financial organizations, and so on.

The emerging markets strengthen the ties with the developed countries and seek mutual development by promoting the trade and investment liberalization, energy saving and environmental protection and new energy development. Globally, the emerging markets hold North-South dialogues with the developed countries in a positive and constructive manner. The dialogue between G-20, G-8 and the developing countries has become an important platform for the major developing countries and developed countries to meet, coordinate and cooperate. During the world's joint fight against the global financial crisis, the emerging economies play the leading role and receive considerable attention for their rising international status and the increasingly active role in international activities. They actively advocate and protect the interests of the developing countries in the reform of international financial system, make significant contributions to creating a fair, equitable, inclusive and well-organized financial order and to establishing a healthy system for the development of the global economy.

1.2. China: An Influencer of the World Market[16]

An important feature of emerging markets is their growing impact on the world market, which enables them to take a new role in the international stage. China is just one of them.

[16] Unless otherwise stated, data in this section are from a report by China's National Bureau of Statistics. See http://www.stats.gov.cn/tjfx/ztfx/qzxzgcl60zn/index.htm

Firstly, China takes a significant share in the commodity export market of the world

In 1950, China only ranked the 27th in the world in aggregate export, and remained the same rank within almost 30 years until with one rank higher in 1980. Thereafter, it has been ascending rapidly in the rank: 15th in 1990, 6th in 2001, 3rd from 2004 to 2006, and finally the second in 2007 and 2008.

Aggregate export of China has increased by 146 times during 1979-2008, from US $ 9.75 billion in 1978 to US $ 1.43 trillion in 2008, with an annual average growth of 18.1%. By 2008, the export of China accounts for 8.9% of the world total export.

More than 210 categories of China's industrial products rank first in the world. According to the data from the Ministry of Industry and Information Technology of China, export of the light industry products accounts for 20% of China's total export, among which many products take up more than half of the world market shares, such as household electric appliances, leather, furniture, feather products, ceramic, bicycle, and so on. In addition, China is a predominant producer and exporter of rare earth products in the world.

Recent data from WTO show that, although China's commodity export decreased by 21.7% in the first half of 2009 year on year, China has outpaced Germany and become the biggest commodity exporter in the world by an export of US $521.7 billion. Certainly, it must be noted that more than half of China's export in 2008 was created by the foreign funded firms.

Secondly, China becomes an increasingly important commodity importer in the world.

The aggregate import of China has increased by 103 times during 1979-2008, from US $ 10.89 billion to US $ 1.13 trillion, with an annual average growth of 16.7%. By 2008, the import of China accounts for 6.9% of the world aggregate imports. In the first half of 2009, with a decline of 25.4% year on year, China's import still amounts to US $424.54 billion.

Based on international experiences, a country's consumption go up rapidly when its GDP per capita exceeds US $2,000. China's big population possesses enormous potential in purchasing power. With an annual average growth of 13.1% during the past five years, the consumption in China has the potential to be further promoted. It is estimated that by 2014, China will be the biggest market for luxuries, accounting for 23% of the world aggregate. The expenditure on international travel has increased from US $3.7 billion in 1995 to US $33.3 billion in 2007 in China, with a share up from 0.8% to 3.6% of the world aggregate. Furthermore, the rural consumption in China is still fairly low, which is expected to be improved significantly, with the urban- rural gap being reduced gradually.

In particular, overseas group purchase is often promoted by Chinese government. For example, during Premier Wen's visit to Europe around the end of January and beginning of February in 2009, 38 cooperative agreements were signed between China and the EU as well as the four European countries, amounting to RMB 15 billion and covering multiple fields including financial, information technology, logistics, aviation, energy, telecommunication, etc. Since the end of February, the Chinese purchasing delegation has been to Europe to put the agreements into effects. The delegation is consisted of both government officials as well as the people from multiple business lines such as energy, medicine, service, light industry, machine and electrical products, textiles, and so on, and signed the detailed purchase contracts on fields stated above.[17]

[17] Source: http://www.chinanews.com.cn.