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Asia's economic growth forecast for 2011 comparatively high

While Asia's economy will feel the impact of slowing growth rates among the industrialized nations in 2011, the forecast for economic growth in the region is comparatively high, boosted by expanding demand in the newly emerging economies included in Asia. China and India are expected to enjoy economic growth rates in the upper 8% range.

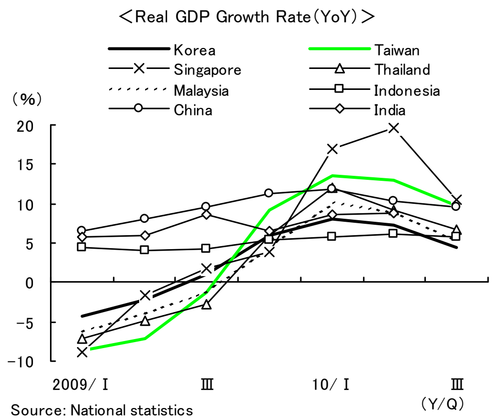
1. Asia's economic performance in 2010

Asia's economy was bolstered by expansion in domestic and foreign demand and grew at an exceptionally high rate in the first half of 2010. Though recovery strength appears to have waned somewhat recently, the powerful growth of the first half is likely to mean that growth for the whole year will be higher than anything seen in recent years.

■ From fast growth to stable growth

(1) Extremely high growth rates in first half of year

China, Singapore and Taiwan posted double digit real GDP growth rates (compared to the same period in the previous year) for two consecutive quarters, Q1, January to March, and Q2, April to June, 2010, while Thailand and Malaysia enjoyed the same for Q1, January to March. Korea also posted record growth rates, 8.1% in the period January to March, and 7.2% in April to June.



Source: National statistics

Although one reason behind this extremely high rate of growth is the fact that the same period in the previous year suffered considerable negative growth, rapid export recovery may be said to have contributed to the high growth rates. In terms of contribution rates to Korea's economic growth over the months from January to September (6.5%, compared to the same period in the previous year), exports were 6.3% (imports minus 6.9%), total capital formation 4.7%, and private sector consumption 2.4%. As can be seen, recovery thus far has been export-dependent to a significant degree.

Export performance figures (customs cleared basis) for each country show that export growth was very strong at over 30% across the board for both the first and second quarters. Among the contributory factors have been 1) improved economic performance in the industrialized nations, bolstered by economic stimulus measures, 2) continuing expansion of consumption against the backdrop of the emergence of the 'middle tier' in newly emerging economies, including those of Asia (see below), 3) progressive trade liberalization within Asia (in addition to the abolition of customs tariffs between China and ASEAN, and within ASEAN, which effectively created a China-ASEAN free trade zone with a population of around 1.9 billion from January, 2010, and the lowering of tariffs between China and India has also begun), and 4) accelerated growth in China. In addition to playing the role of 'the world's factory', China has now begun to assume the role of 'the world's market'. Consequently, as production has expanded, imports from neighboring Asian countries of parts and components, raw materials, machinery etc., have increased and, as consumption has expanded, imports of final goods and intermediate goods destined for local production have expanded. For example, the implementation of China's project to encourage the purchase of household appliances in rural areas has resulted in a rapid increase in the export of Korean and Taiwanese liquid crystal displays and electronic parts and components for use in the production of flat screen televisions and PCs in China.

It needs to be borne in mind, however, that, partly in recoil reaction to the rapid recovery, and also in response to global economic slowing, exports have begun to lose a little bit of momentum recently.

Another driving force behind the high levels of economic growth has been the expansion in domestic demand. Firstly, with regard to fixed capital investment, along with the rapid recovery in exports there has been a revival of investment in facilities. In Taiwan in 2008 and 2009, private sector fixed capital investment growth was down on the previous year's performance by double digits, but recovered to a high growth of over 30% in the periods January to March and April to June, 2010. Also, there has been investment in infrastructure. India has been pushing ahead with the construction of trunk routes to develop distribution networks, the expansion of harbor capabilities, and the development of road networks linking harbors and major industrial zones. In addition, there has been investment attracted by the growth in consumption. In Indonesia the rapid growth of consumption in recent years has led to the construction of shopping malls and communications related facilities investments, as well as investments by automobile manufacturers in order to ramp up production. Thanks to solid, steady growth in domestic demand, Indonesia has continued to enjoy stable economic growth.

Expansion in consumption also leads to growth in domestic demand. Asia's automobile markets in recent years, particularly China and India, have been growing rapidly, and in other ASEAN countries also are enjoying steady growth and recovery. Automobile sales for the period January to September, 2010, were up 64.8% in Indonesia, compared to the same period in the previous year, and 51.8% in Thailand, surpassing the growth rate in China (36%). Also, in Korea and Taiwan, where tax reductions for automobile replacement purchases finished at the end of 2009, there had been concerns about a possible recoil effect on automobile sales, but growth has been fairly steady until most recently.

Among the factors supporting this expansion in consumption are, firstly, the effects of government policies. In the wake of the Lehman Brothers collapse, many countries and regions around the world attempted to stimulate consumption by reducing taxes (lower income taxes and added value taxation rates, 'Eco-car tax benefits') and by raising public workers' salaries and minimum wage levels. Some of those measures have continued into 2010. In China particularly, in an attempt to sustain economic growth, new consumption stimulus measures have been added in 2010.

Second, there is the effect of the easing of monetary policy. As economic recovery progresses, many countries have begun to adopt 'exit strategies' in 2010, with interest rates being increased. India's policy interest rate has been raised six times, reflecting demand-induced strong inflationary pressure. Nevertheless, there are still many countries that have continued to implement easy monetary policies and have kept their interest rates low.

The third factor has been the improvements in the income and employment environments. Korea's real gross domestic income (GDI) growth rate for January to September, compared to the same period in the previous year, was 6.5%. This boosted consumption expansion. Taiwan's unemployment rate (seasonally adjusted) fell from 6.09% in September, 2009, to 5.08% in September, 2010, and Thailand and Malaysia have also seen their unemployment rates fall, with labor shortages being felt in some instances (see Thailand and Malaysia, below).

Fourth is the stability of commodity prices. Some countries are feeling inflationary pressure grow stronger in recent times but, overall, increases in commodity prices have stayed within a certain range. Indonesia's consumer price index increase rate was at double digits in 2008, but fell to single digits by 2009. The combined effects of increased incomes and lower interest rates have bolstered the expansion of consumption.

Further, as will be seen below, efforts till now to sustain economic growth have resulted in higher income levels and this and a growing 'middle tier' may be said to have encouraged growth in consumption.

(2) Asian economic growth supported by the rise of newly emerging economies and the 'middle tier'

One characteristic that can be observed from recent export trends is the continuing high growth in exports to Asian and other newly emerging markets. This fact suggests that Asian economic growth, more than ever before, is beginning to depend to a degree upon demand from newly emerging markets, as well as from within Asia itself.

Examination of the composition of Korea's export destinations in the 2000s reveals that, while the portion accounted for by Europe and the US has declined, that accounted for by Asian and other newly emerging economies has grown. It can also be seen that the share occupied by newly emerging economies other than China has grown. This is related to the fact that Korean enterprises have been very active in developing markets in the newly developing economies. An interesting fact is that a similar trend can be identified in China's export trends. Unlike Korea, the share of China's exports to

Europe and the US has not declined, but the share of exports to newly emerging economies such as ASEAN, BRI (Brazil, Russia, India) and Africa, is growing. Thus, the growth of the 'middle tier', resulting from sustained economic growth, may be considered to be part of the background to the expansion in exports to the newly emerging economies.

However, there is still some debate as to how to define the 'middle tier'. For example, the Asian Development Bank's 'Key Indicators 2010' uses a per diem expenditure of between $2 and $20 (based on 2005 purchasing power parity) as a reference, which would, as of 2008, equal 56% of the population of ADB member developing countries, some 1.9 billion people, but in China 817 million people are included in the 'middle tier'. This figure is clearly too large. If the reference is set at $4 or more, then China's middle tier consists of 370 million people. Meanwhile, Japan's Ministry of Economy, Trade and Industry 'White Paper on International Economy and Trade 2009' uses the reference of an annual household disposable income of between $5,000 and less than $35,000 and, as of 2008, estimates Asia's total middle tier population to be 880 million people (6.2 times the size in 1990). The breakdown is: China 440 million, India 210 million, ASEAN5 190 million, NIEs 40 million. In 2010's edition of the White Paper the forecast is that a population of 220 million in 2000 will have grown to 940 million by 2010, and to 2 billion by 2020 (China 970 million, India 620 million, others 410 million).

In connection with the growth of the middle tier, attention has recently been focused on the increase in the number of foreign capitalized firms investing in China's interior, encouraged by accelerated growth in those regions. In addition to expanding investment in supermarkets and automobile dealerships, the construction of factories in the interior regions of the country is growing. The shift of production facilities into the interior is being prompted by 1) infrastructure development, 2) higher income levels, and 3) investment incentives, as well as rapid increases in labor costs in the coastal regions. In particular, there has recently been a succession of Taiwanese firms building factories in China's Sichuan province and Chongqing city and other locations. In addition to reducing production costs, the aims would appear to include exploiting some of the expanding demand in the interior regions.

2. Asia's economies in 2011

■ Comparatively high growth levels in 2011

Asia's economy enjoyed high growth levels in the first half of 2010, but recovery strength has begun to wane in recent months. Singapore's real GDP growth rate for July to September grew negatively compared to the previous quarter, while those of Korea and Taiwan fell respectively to 0.7% (from 1.4% in April to June) and 0.02% (0.48%, similarly). China's year on year growth rate also fell to 9.6%.

Though there will be an impact in 2011 from slowing economic growth rates among the industrialised nations (US: 1.9%, EU: 1.1%), stable growth in exports to the newly emerging markets including Asia, and solid growth in consumption, mean that, in general, comparatively high growth levels are expected. China and India will likely post growth levels in the upper 8% range.

Among the NIEs, Korea and Taiwan are expected to post economic growth rates in the 4% range. The falling growth rates are due to lower growth rates for exports and fixed capital formation. However, given the fact that China is the biggest export destination for Korea and Taiwan and is expected to generate growth of around 8%, and that demand for durable consumable goods in the newly emerging economies is continuing to expand, a dramatic fall in export growth is likely to be avoidable.

In addition, consumption is expected to grow stably. In Korea, the pace of consumption growth is believed likely to fall below 2010 levels, due to the slowing pace of improvement in incomes and employment situations and the impact of increases in consumer commodity prices, but commodity price increases will be temporary and there is a strong possibility that interest rates will continue to stay at low levels, so growth in the 3% range is expected. Taiwan also is expected to be able to maintain growth in the upper 2% range.

For Hong Kong, the prediction is that economic growth will be limited to around 2.4%, as a result of the loss of momentum in domestic and foreign demand, particularly the expected slump in China's process trade in the wake of economic deceleration among the industrialized economies.

In ASEAN, though Thailand, Malaysia and the Philippines continue to enjoy expanding domestic and foreign demand, recoils from the high growth levels of 2010 are expected to mean growth in the 4% range. In Thailand, while exports overall have lost momentum, there is a strong possibility that HDD and automobiles, for example, which have become principal export products in recent years, will grow solidly, and there is expected to be a recovery in consumption and tourism related revenues, which suffered as a result of political instability in 2010. Malaysia is still strongly dependent on exports and it is feared likely to be vulnerable to economic deceleration among the industrialized nations, but it is thought that exports to Asian and other newly emerging economies will perform solidly, and that healthy income and employment situations will support strong growth in consumption. The kickoff of the Tenth Five Year Plan in 2011 will also probably have a positive effect on growth. Additionally, continued expansion of domestic demand in Indonesia will likely mean growth of 6.0%, almost the same as that recorded in 2010, while Vietnam (see Vietnam, below) is looking forward to a faster pace of export growth, with a forecast growth of 7.0%, slightly in excess of 2010's level.

As India's domestic and foreign demand continues to expand, economic growth of 8.7% is forecast. As a result of the interest rate increases implemented thus far and the improvements in agricultural production, it is expected that inflation can be curbed. This, combined with improvements in incomes and employment, will bolster an increase in consumption. Also, this means that, in addition to continued investment in infrastructure, increased direct investment from abroad, etc., there is a very strong possibility of stable growth in domestic demand. In addition, exports are also expected to increase, particularly for primary produce, petroleum products, automobiles and electronics.

China is looking forward to 8.7% growth, backed up by expanding domestic demand. While export momentum will be blunted somewhat by deceleration among the industrialized economies, it is believed that domestic demand will continue to grow. The reasons are that 1) facilities investment is vigorous, 2) real estate investment continues to expand against the backdrop of a population shift towards the cities, and 3) consumption maintains high growth levels, supported by higher income levels (the growing 'middle tier'). Some consumption stimulus measures are due to finish within 2011 but, if consumption growth fails to meet government expectations, some stimulus measures could very well be extended, or new ones added.

■ Future risk factors

In 2011, along with expansion in intra-regional consumption and trade, it is believed that there will be more energetic movement towards intra-regional economic integration. Reductions in customs duties between China and Taiwan have already begun, based on the ECFA (Economic Cooperation Framework Agreement). As Asia's profile in the global economy is expected to become all the stronger, consideration needs to be given to the following trends and risk factors.

First, there is the danger of economic instability arising from rapid capital inflow. Should additional monetary easing by the US result in large amounts of capital inflow, there is a very real danger of 1) excessive currency fluctuation, 2) accelerated inflation, and 3) a real estate bubble. Measures designed to curb capital inflow have already been implemented; some restrictions on foreign currency transactions have been introduced in Korea, and in Indonesia the issue of Central Bank three-month debt papers, which had become the target of foreign short term investment, has been put on hold.

Second, there are real estate related risks. In China, faced with soaring real estate prices, restrictions on real estate loans have been tightened. The results are beginning to show themselves but the above mentioned large volume inflow of foreign capital could very well weaken government policy effectiveness. By contrast, the real estate market in the Seoul Metropolitan area is continuing to deteriorate, leading to worsening business results in the construction industry and increasing non-performing loans in the financial organizations. The impact on the household budget is, at the moment, limited but future interest rate hikes will very likely have a detrimental impact on household income and expenditure.

Third, there is the risk of destabilization of the Thai political situation. For the time being, attention will need to be paid to what kinds of actions the United Front of Democracy Against Dictatorship (UDD) will take during the agricultural off season, from the year end until April.

Fourth, there are the risks that accompany the structural changes in China's economy. In an attempt to switch its growth model to a consumption led one, the Chinese government is raising minimum wage levels but, if this is implemented hastily, in addition to probable increases in production costs and increased pressure on business, this could well lead to an expansion in demands for laborers' rights, and political instability. In addition, the easy continuation and enhancement of consumption stimulus measures could serve to amplify the recoil effect when such measures come to an end.

Japanese businesses developing their businesses in Asia will need to be able to deal with these risks.

(Hidehiko Mukoyama)

Economic Prospects for 2011

(year–on–year, %)

1. Economic Growth

	2008	2009	2010 (forecast)	2011 (forecast)
Korea	2.3	0.2	6.0	4.1
Taiwan	0.7	−1.9	9.7	4.4
Hong Kong	2.2	−2.8	6.4	2.4
Thailand	2.5	−2.3	7.7	4.4
Malaysia	4.7	−1.7	7.3	4.3
Indonesia	6.1	4.5	5.9	6.0
Philippines	3.7	1.1	6.2	4.8
Vietnam	6.2	5.3	6.6	7.0
India	6.7	7.4	8.5	8.7
China	9.6	9.1	10.1	8.7

2. Consumer Prices

	2008	2009	2010 (forecast)	2011 (forecast)
Korea	4.7	2.8	3.0	3.2
Taiwan	3.5	−0.9	0.9	1.6
Hong Kong	4.3	0.6	1.9	1.0
Thailand	5.4	−0.9	3.3	3.5
Malaysia	5.4	0.6	1.3	2.5
Indonesia	9.8	4.8	5.5	6.0
Philippines	9.3	3.2	4.2	4.1
Vietnam	23.1	5.8	9.8	7.0
India	9.1	12.4	10.0	7.0
China	5.9	−0.7	3.2	2.9

3. Exports

	2008	2009	2010 (forecast)	2011 (forecast)
Korea	13.6	−13.9	26.3	14.2
Taiwan	3.6	−20.3	34.9	19.7
Hong Kong	5.3	−12.2	23.0	8.0
Thailand	16.9	−14.2	27.4	14.1
Malaysia	13.3	−21.2	28.0	12.0
Indonesia	20.1	−15.0	12.3	8.3
Philippines	−2.8	−21.7	26.0	10.0
Vietnam	30.0	−8.9	30.0	25.0
India	13.7	−3.6	18.0	15.0
China	17.4	−16.0	30.3	9.1

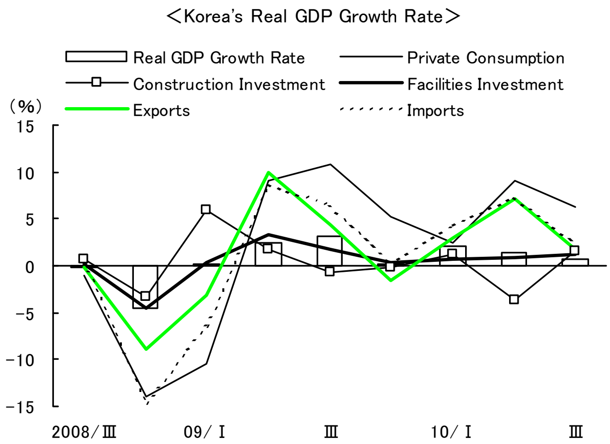
4. Imports

	2008	2009	2010 (forecast)	2011 (forecast)
Korea	22.0	−25.8	30.4	15.9
Taiwan	9.7	−27.4	42.0	21.3
Hong Kong	5.6	−10.6	26.0	7.0
Thailand	27.7	−25.1	36.8	17.5
Malaysia	6.8	−21.1	34.8	12.6
Indonesia	41.6	−24.1	13.5	10.1
Philippines	2.2	−24.1	22.0	9.0
Vietnam	32.2	−15.8	25.0	25.0
India	21.2	−5.5	20.0	18.0
China	18.5	−11.2	34.3	9.3

Notes: The figures in 2010, 2011 are forecasts by JRI.
Source: National statistics

Korea 4.1% growth forecast for 2011

■ 6.0% growth in 2010



Source: The Bank of Korea、*Economic Statistics System*

Korea's economy appears to be on the road to recovery, boosted by a rally in export performance and government stimulus measures. In 2010, as growth rates for exports and facilities investment accelerated, consumption was able to grow at a stable pace, so that the economic growth rate for the first quarter, January to March, was 8.1%, compared to the same period in the previous year, and was 7.2% in the period April to June, and 4.4% in the period July to September. The contribution to growth in the period January to September (up 6.5% compared to the same period in the previous year) was 6.3% for exports (minus 6.9% for imports), 4.7% for total capital formation, and 2.4% for private consumption, a clear indication that economic recovery thus far has depended greatly on exports.

It should be noted, however, that the pace of economic recovery has begun to slow, as can be seen from the falling quarter on previous quarter rate, slipping from 2.1% in Q1, January to March, to 1.4% in Q2, April to June, and 0.7% in Q3, July to September. Recent figures show that exports (on a customs cleared basis) posted record growth of 29.9% in October, compared to the same period in the previous year, but on a three monthly comparison (3 month moving average) there has been virtually zero growth. The loss of momentum in exports is evident from the fact that the 1.7% growth in the period July to September (for goods and services) was well below the year on year 7.2% growth posted in the period April to June. One factor behind the loss of momentum in export growth has been, in addition to the recoil from the rapid recovery seen so far, deceleration in the global economy. In particular, China oriented exports enjoyed rapid growth, especially of liquid crystal displays and semiconductors, for example, as China's scheme to promote the purchase of household appliances in rural communities got fully underway, but in recent months, growth in that sector has been average.

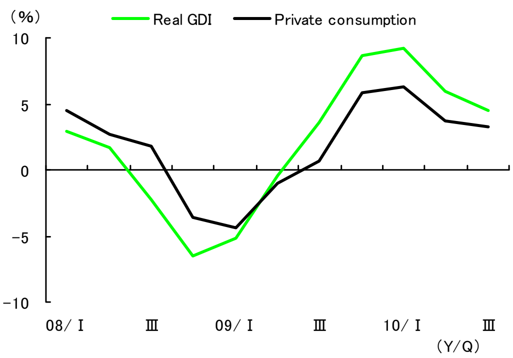
Additionally, it was feared that private consumption would suffer the effects of a recoil after the 2009 implementation of consumption stimulus measures (lowering of income tax ratios, tax incentives for the replacement purchase of automobiles in the period May 1 to December 31), but the figures for the third quarter, July to September, exceeded those of the second quarter, April to June, at 1.3%. Further, while automobile sales in some months fell below the previous year's levels, the effect of new purchases meant that the cumulative year on year total till October was 8.7%, maintaining steady growth overall. The first contributory factor behind this improvement has been the recovery in incomes (improved income terms of trade have also contributed). Korea's real GDI (gross domestic income: includes business surpluses in addition to employees' remuneration) growth in the period January to September, compared to the same period in the previous year, was 4.5%, providing support to consumption expansion (up 3.3%, compared to the same period in the previous year). Second, there has been a sustained positive consumption sentiment. The consumer expectation index that focuses on standards of living six months hence has been over 100 as far as September of this year. Third, interest rates have stayed low. In July, 2010, the policy interest rate was raised for the first time in about two years, followed by another hike in November. Nevertheless, Korea's policy interest rate remains low. It should be noted, however, that consumption has begun to face an ever tougher set of circumstances in recent weeks and months, as can be seen by the fact that 1) the pace of improvement in incomes and employment has slackened, 2) consumer commodity prices are rising (due to the soaring prices of agricultural products, up 2.6% in August, to 3.6% in September and 4.1% in October), and 3) the consumer confidence index in October fell below 100 for the first time in a year and a half.

Still, high economic growth was enjoyed in the first half of 2010, and the forecast for the whole year is on the order of 6.0%

■ Recoil from 2010 will keep growth in 2011 within the 4% range

As described below, Korea's economic growth rate in 2011 is expected to be held to no more than 4.1%, due to the global economic deceleration and the recoil from the high growth levels of 2010.

＜Growth Rate of Real GDI and Private Consumption(YoY)＞



Source: The Bank of Korea、*Economic Statistics System*

Concerning exports, while on the one hand exports to the economically industrialized nations will likely fail to grow by much, it is expected that there will be increased demand for exports of durable consumer goods (in particular, mobile phones, multi-function mobile terminals, automobiles) to the newly emerging markets with their continuing high growth rates, due in part to the growth of the 'middle tier' in those countries. For this reason, a comparatively high level of export growth should be able to be maintained. Export expansion is being bolstered by the fact that Korean enterprises have worked actively to develop new markets in the newly emerging economies, and that the won's appreciation was able to be kept to within a certain range.

Private consumption growth is expected to fall below 2010 levels, due to 1) a slower pace of improvement in incomes and employment, 2) rising consumer commodity prices, and 3) a gradually deteriorating consumer sentiment. However, the recent rise in consumer commodity prices has been a limited factor and, as time passes, commodity prices are expected to settle so that, even if there are further interest hikes in 2011, interest rates will continue to be at a relatively low level. As a result, consumption growth is expected to be somewhere in the 3% range.

In terms of fixed capital formation, facilities investment looks set to grow at a fairly low rate in 2011, in recoil from the high growth rates enjoyed in 2010 (28.3% growth in the period January to September, compared to the same period in the previous year). Additionally, construction, which fared rather poorly in 2010 (growing minus 1.2% in the period January to September), is expected to trend gradually towards recovery, but this will likely fall short of a full recovery. Given the progress of economic recovery, restrained budgetary expenditure in 2011 will probably also serve to curb construction investment.

From the foregoing, Korea's economic growth in 2011 is thought likely to be on the order of 4.1%. One factor that will have a significant impact on economic performance is the protracted exacerbation of the real estate market situation. The impact is already being seen in 1) deteriorating business results in the construction industry and 2) increased non-performing loans held by the financial institutions. The commercial banks' non-performing loan ratio rose from 1.48% in March, 2010, to 1.94% in June and 2.32% in September. Careful attention will need to be paid to the degree that ordinary household budgets will be affected. Bank of Korea's 'Financial Stability Report April 2010', concludes that, while household debt ratios are high (higher than those of the US or Japan), this trend tends to concentrate among those in higher income brackets, whose individual debt ratios are relatively low, and that there is, consequently, minimal danger to the stability of the financial system (however, mention is made of the high debt ratio among low income households).

Upon consideration of the facts that incomes are increasing along with the economic recovery and that the housing loan non-performing ratio is low (although it did rise from 0.38% in March, 2010, to 0.51% in September), the impact on household budgets may be said to be limited at this moment in time but, should interest rates go up amidst falling prices and a reduced number of transactions, the impact on household balances may well become much more severe.

2011 will see President Lee's administration tested as to whether they will be able to secure stable growth while they create 'high quality' employment through the technological advancement of industry.

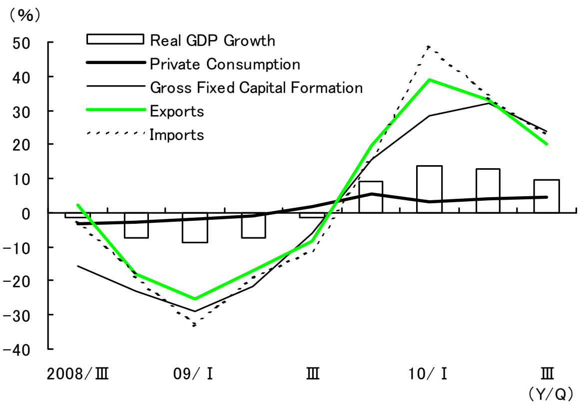
(Hidehiko Mukoyama)

Taiwan 4.4% economic growth in 2011

■ Economy grows 9.7% in 2010

Taiwan's real GDP growth ratio for the thir quarter, July to September, 2010, was 9.8%, compared to the same period in the previous year, a bit down from 12.9% (revised) in the period April to June, but a high level nonetheless. Exports were up 20.1% and total fixed capital formation 23.7% (34.3% for the private sector), and these were the drivers of growth, while private consumption was up 4.5%. The strong growth of fixed capital formation has been influenced by the fact that for two consecutive years, in 2008 and 2009, it suffered double digit decline.

<Taiwan's Real GDP Growth Rate(YoY)>



Source: Directorate General of Budget, Accounting and Statistics

Though year on year growth continues to be strong, growth rates compared to the previous period have fallen steadily since January to March, 2010, from 4.08% to 0.48% and 0.02%. In addition, the CI (composite index) leading index has been negative compared with the previous month since June of this year, a clear indication that the pace of recovery is flagging. This is confirmed by recent export and manufacturing production trends.

Export worth in October was up 21.9%, compared to the same period in the previous year, but seen against the three monthly comparison (3 month moving average) there has been virtually zero growth. China-oriented export growth overall has been trending downwards since August. By export item, exports of precision equipment (including liquid crystal displays) have been down on the previous year's levels in September and October. China-oriented exports of liquid crystal displays fell due to increased inventory of liquid crystal display televisions in China. From a global perspective, demand for small and medium sized panels for smart phones and other mobile multi-function terminals is growing steadily, but demand for large panels for flat screen televisions and PCs is slowing.

Meanwhile, growth in private consumption has been stable. Retail sales have continued to post high growth levels of between 7 and 8%, compared to the same period in the previous year, since March. Also, though automobile sales have fallen below the level of the end of last year with the end of the tax reduction incentives, until September they were above the previous year's levels, month by month. Consumption growth is being supported by improvements in the income and employment situations, and low interest rates. Taiwan's unemployment rate (seasonally adjusted) fell from 6.09% in September, 2009, to 5.08% in September, 2010, and the number of people employed has continued to increase by over 200,000 since May, compared to the same month in the previous year. Average monthly salaries in the manufacturing industry have been growing steadily. Due to raises in June and October the policy interest rate now stands at 1.5%, but this is still a low rate in comparison with the pre-Lehman collapse rate of 3.625%. Given that commodity prices are fairly settled, the consumption situation looks comparatively good.

Taiwan's economy is strongly dependent on its IT industry, and so trends in that industry need to be watched carefully. Export orders received in September were up 16.7%, compared to the same period in the previous year (Hong Kong/ China-oriented exports up 14.4%) but, as described above, exports of liquid crystal displays are down. In contrast to strong growth in exports of general machinery, 41.6%, telecommunications equipment, 22.2%, and electronic equipment, 15.8%, growth in exports of liquid crystal displays and other precision equipment was a wafer thin 1.0%.

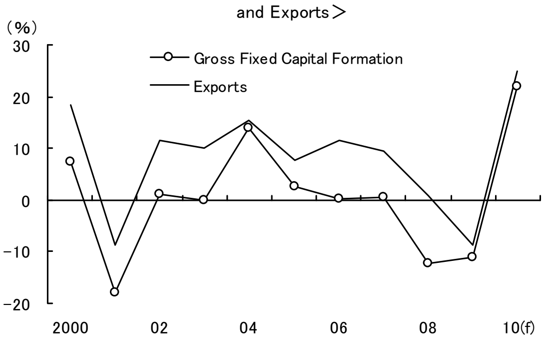
Due to the effects of the recoil reaction to the rapid recovery enjoyed until now and the global economic deceleration, growth will likely slow towards the end of the year, and the forecast is for 9.7% growth for 2010.

■ 2011 growth will fall to the 4% range in recoil from 2010's strong performance

The forecast for 2011 is that economic growth will fall to around 4.4%, as a result of the recoil from the high growth levels enjoyed in 2010.

First, in terms of export growth, contributory factors to the rapid recovery in export growth since the spring of 2009 have included 1) China's project to encourage ownership of household appliances in rural communities, 2) stable growth in demand in the emerging markets, and 3) economic recovery amongst the industrialized nations. Of these, the effects of the household appliance project in China are already wearing off, and the industrialized nations are beginning to experience economic deceleration. In 2011, while there will be the effect of economic stagnation in the industrialized nations, Taiwan's biggest export partner, China, will continue to enjoy strong economic growth and the terms of the ECFA (Economic Cooperation Framework Agreement) will mean lower customs duties in 2011, so China -oriented exports will likely grow solidly. Also, other emerging markets are expected to continue to grow comparatively strongly, and demand for multi-function mobile terminals and other IT related products is expected to expand. All this will likely result in healthy export growth, mainly of electronic parts and components and semiconductors. Additionally, relaxed restrictions have brought about an increase in the numbers of tourists from mainland China and, if this trend continues through 2011, the forecast is that exports of goods and services could expand by as much as 7%.

＜Growth Rate of Gross Fixed Capital Formation and Exports＞



Note: Figure of 2010 is forecast by JRI.
Source: Directorate General of Budget, Accounting and Statistics

On the private consumption front, given that 1) employment and incomes continue to improve, albeit at a more pedestrian pace, 2) commodity prices continue to be stable, and 3) it is believed that interest rates will stay low for the time being, private consumption is thought likely to grow at 2.5%, slightly down from the 3.0% (estimate) in 2010.

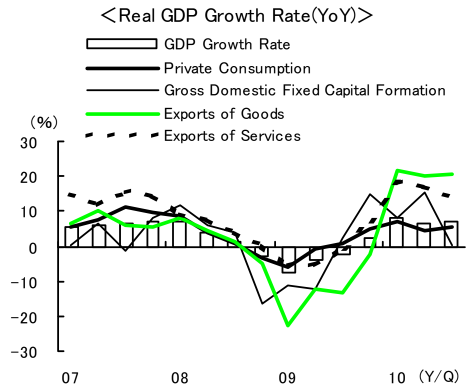
Additionally, there is a strong possibility that total fixed capital formation (divided roughly into private, government, and public sectors, with the private sector accounting for around 70%) will post almost zero growth, compared with the previous year. Among the reasons are 1) the forecast that growth in 2010 will have been high, 2) export growth in 2011 is expected to fall to single digits, 3) the shift of production to mainland China, and 4) the failure of foreign direct investment to grow. Trends over the past ten years show that, with the exception of 2004 when there was a series of large scale investment projects, since 2000, even though exports have grown by around 10%, total fixed capital formation has only grown by around 2% (private sector between 3 and 6%). Given that in 2010 total fixed capital formation is expected to grow by close to 20% and that in 2011 export growth is expected to fall to single digits, the figure for 2011 will likely be 0.5%.

Thus, given that the forecast is for a significant drop in export and fixed capital formation growth in 2011, economic growth is expected to be 4.4%. Since the inauguration of his administration, President Ma Ying-jeou has worked to strengthen economic ties with China, through the realization of the Three Links, to deregulate Taiwanese firms' investment in China, and repeal prohibitions on Chinese firms' direct investment in Taiwan. Tariff reductions will begin in 2011. Another recent development is that, as labor costs have risen in China's coastal regions, some Taiwanese firms with production facilities in mainland China have relocated to regions in the interior, at the same time planning to strengthen sales there, where demand is expanding. For these reasons, it is thought likely that economic relations will deepen further in 2011. At the same time, Taiwan's economy and enterprises will find themselves more vulnerable than ever before to the effects of fluctuations in China's economic situation, and will need to work out measures to counter that risk.

(Hidehiko Mukoyama)

Hong Kong 2.4% economic growth in 2011

■ Economy growing to plan



Source: Census and Statistics Department of Hong Kong

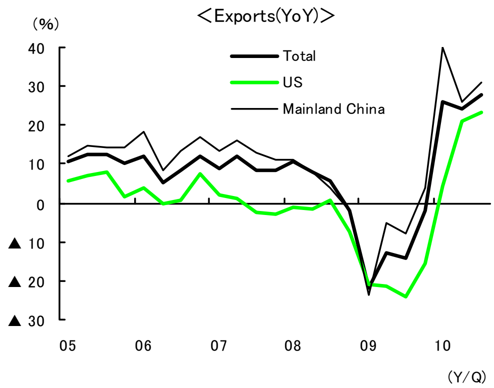
Hong Kong's real GDP maintained a high level of growth in July to September, 2010, posting growth of 6.8%, compared to the same period in the previous year (0.7% on the previous period). Economic growth is right on track, supported by solid domestic and foreign demand.

In terms of foreign demand, exports of goods in the period July to September maintained a high growth level of 20.8% compared to the same period in the previous year (up 0.0% on the previous period). US-bound exports were up 23.3%, similarly, and China-bound exports up 31.1%, in both cases a slight increase in the degree of growth compared to the period April to June. Also, as the majority of Hong Kong's exports are transit trade, the fact that China has been able to maintain high levels of growth in exports to Europe and the US is reflected in the robust performance of Hong Kong's exports to the mainland. Moreover, China's domestic demand is expanding strongly. Exports of services in the period July to September grew by 14.0%, compared to the same period in the previous year (up 0.8% on the previous period), due to increases in trade related services and increased numbers of travelers.

As for domestic demand, individual consumption, which tends to be vulnerable to the effects of share prices and housing prices, was up 5.7% in July to September, compared to the same period in the previous year, maintaining its forward momentum (up 1.7% on the previous period). This growth was due to the fact that consumer sentiment improved as a result of rising asset prices and improvements in the employment situation. Housing prices grew by 16.2% from the end of 2009 to the end of September, reaching the same levels as 1997 when the highest ever prices were recorded. Reflecting the very high level of total fixed capital formation growth in the same period in the previous year, this year's growth was 0.3%. But the level of investment has returned to pre-financial crisis levels.

The unemployment rate (seasonally adjusted) for July to September was 4.2%, down 0.4 points compared with April to June. Trade, finance and domestic demand related industries all showed signs of improvement. Hong Kong's economy is judged to have recovered to where it was prior to the financial crisis, and the economic growth forecast for the whole year 2010 is 6.4%.

■ Driving force of foreign demand weakening, domestic demand growth also slowing.



Source: Census and Statistics Department of Hong Kong

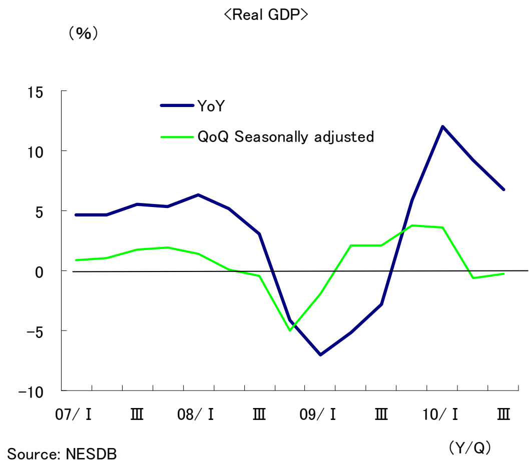
The future outlook is that the pace of growth of foreign demand is expected to slow. As the effects of economic stimulus measures in Europe and the US begin to wear off, exports to Europe and the US will probably lose some momentum. At the same time, as China's process trade finds it difficult to grow, Hong Kong's China and process trade oriented exports will also weaken. Although Chinese domestic demand oriented exports are expected to grow solidly, Hong Kong's share of process trade exports is large, so the possibility is that, overall, the driving force of Hong Kong's foreign demand will weaken.

Domestic demand is also expected to slow. Since individual consumption cannot be expected to enjoy the same asset effects and big improvements in employment and incomes that were seen in 2010, growth is thought likely to be a bit slower. Also, due to poor growth in corporate earnings, total fixed capital formation is expected to enjoy only modest growth at best. From the foregoing, it may be concluded that Hong Kong's economy will grow by 2.4% in 2011.

(Shinichi Seki)

Thailand 2011 Economic growth forecast 4.6%

■ 7.7% growth in 2010 thanks to recovery in domestic and foreign demand



Real GDP growth rate in 2010, though threatened by the effects of political turmoil, recovered more strongly than had been anticipated, thanks to increased exports and improved domestic demand, posting 12.0% in Q1, the period January to March, compared to the same period in the previous year, and 9.1% in Q2, April to June, similarly. Real GDP has exceeded pre-crisis levels and the economy is now moving out of the recovery phase and into the expansion phase. The growth rate for the whole year is forecast to be 7.7%, year on year.

Exports grew 31.1% in the period January to September, compared to the same period in the previous year, worth $143.2 billion. In particular, exports of automobile related and computer related products grew rapidly. Automobile sales are expected to have reached an all time record high of over 900,000 vehicles. In terms of export destinations, exports to ASEAN were up 44.5%, compared to the same period in the previous year, India 42.5%, similarly, and China 39.8%, all very significant increases. Although export growth will have lost more and more impetus towards the end of the year, the forecast is for 27.4% for the whole year, year on year, with a total value of $194.2 billion. Furthermore there is further good news in that, though not yet at pre-crisis levels, exports to Japan, Europe and the US have also performed well, up 26.1% similarly. Along with this recovery in export growth, the manufacturers' production index was also up 31.2% in the period January to March, compared to the same period in the previous year, and up 17.6%, similarly, in the period April to June. Though the pace of growth blunted somewhat in July to September, slowing to 9.8%, in real terms the growth rate has exceeded the levels recorded prior to the global financial crisis. Imports for the whole year are expected to have been up 36.8%, year on year, worth $183.1 billion, leaving a balance of trade surplus of $11.1 billion.

Domestic demand has also recovered steadily. Thanks to expanded plant and equipment investment following increased exports, and investments in large scale public works as part of economic stimulus measures, fixed capital formation grew 12.9% in the period January to March, 12.2% for April to June, and is expected to grow 10.2% for the whole year, the first double digit growth since 2005. Private consumption also, encouraged by better income and employment conditions following the export recovery, is expected to do well, posting 4.0% year on year growth for the first quarter, January to March, 6.5% for the second quarter, April to June, and forecast to post 5.6% for the whole year. In particular, sales of durable consumable goods have been doing well, and automobile sales for the period January to September were up 51.8%, compared to the same period in the previous year, at 560,000 vehicles.

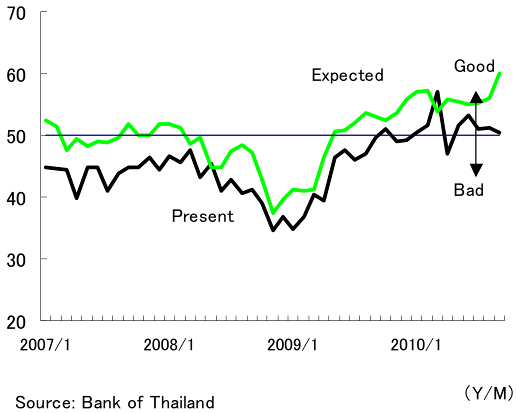
■ Upper 4% range growth in 2011, in spite of economic slowdown

In 2011, with poor export performance as a result of low economic growth and inventory adjustment in the industrialized nations, Thailand's economic growth is estimated to be 4.6%. Note, however, that since 2010's growth rate appears high in relation to the low level of the previous year, 4.6% does not represent a significant deceleration.

With regard to exports, China-bound exports in the electronics and electrical sector continue to lose momentum, but are expected to regain momentum from mid 2011 onward. As regards exports of automobiles, until now the main item has been pickup trucks. Added to this now are eco-cars and other passenger vehicles, and exports are forecast to be one million vehicles. The outlook for export growth is 14% up on the previous year, but there are concerns over the downward risk posed by baht appreciation. The baht's exchange rate against the dollar went from $1 to Bt32.9 in January, 2010, to $1 to Bt29.8 by

October. This is the highest that the baht has been since the currency crisis, but given that local currencies are strong against the dollar all over Asia, and that Thailand still has competitive strength as a global production base for its major export items, automobiles and HDD, the impact is thought likely to be slight. Nevertheless, given that competition from Vietnam and China is expected to get tougher in exports of rice, clothing and textiles, the government has already to decided to go ahead with low interest loans for export oriented small and medium sized enterprises. If the current level of baht appreciation continues, import commodity prices will be restrained, so the consumer price index increase rate will probably be within the 3% range, compared to the previous year.

<Business Sentiment Index by Manufacturing>



Source: Bank of Thailand

Though there are indeed misgivings about the impact of economic stagnation among the industrialized nations and the baht's strength, at the present moment there does not appear to be any sign of such impact in terms of the manufacturing industry's future outlook. In the business confidence index prepared by Thai Central Bank, those responding that the future looks likely to get 'better' still outnumber those who respond 'worse'. Part of the background to this is that the utilization of ASEAN centric FTA (Free Trade Agreements) is expected to result in expansion of exports targeting the new emerging markets.

In 2011, private sector consumption is also expected to expand steadily. The future outlook as per the consumer confidence index prepared by the University of the Thai Chamber of Commerce has recovered to levels prior to the September 2006 coup d'état. In addition to low interest rates and higher salaries for public officials, minimum wage levels are expected to be raised by significant margins, and growth for the whole year is forecast at 6% up on the previous year.

With regard to fixed capital formation, in addition to the bringing forward of the 'Strong Thailand' plan, which used the baht's strength to accelerate imports of capital goods, steps taken by foreign car manufacturers to strengthen their production facilities of eco-cars and other passenger vehicles will be a positive factor. Further, the fact that 72 projects (total worth: Bt400 billion) that had been placed under injunction in 2009 to stop operating andr construction at an industrial estate in the east of the country (Rayong province) now have schedules to restart operations, and that, while the yen continues to appreciate, more and more Japanese small and medium sized businesses are setting up operations in Thailand, -there will also contribute to fixed capital formation growth. Growth for the whole year is forecast to be 7.5% up on the previous year.

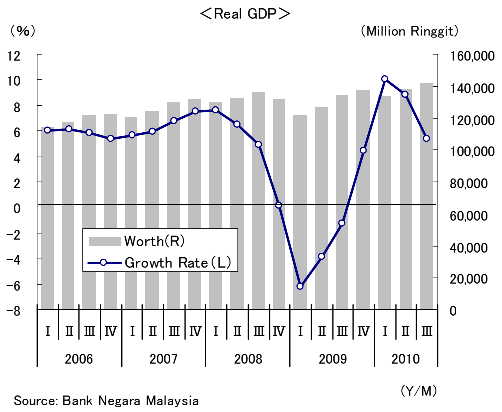
For Thailand, the biggest economic downside risk continues to be the political situation. The Abhisit administration deserves praise for the way in which it has actively presented processes aimed at healing the rifts in society and has continued to press for organization and debate based on these proposals. The government has also encouraged citizen participation, including anti-government elements, in the drafting of the Eleventh Five Year Plan (October 2011 till September, 2016), and has been taking bold steps towards correcting income disparity, one of the major causes behind the recent political unrest. The government has already started to enhance the social security system to cover the entire population, and to implement debt relief for farmers. Many have criticized these measures as populist and, given that the fiscal deficit is over 4% of GDP, there is only a very slight possibility that they will have a negative impact on the macro-economy in the short term. Rather, the key point would appear to be whether these measures will be able to secure political stability in the long term. For the time being, the focus of attention will likely be on what kinds of actions the United Front of Democracy Against Dictatorship (UDD) and other anti-government groups will take during the agricultural off season, from the year end until April. If there is a repeat of the large scale demonstrations in Bangkok, there is every likelihood that Thailand's growth will be impeded over the long term, as well as the short term.

(Keiichiro Oizumi)

Malaysia 4.3% economic growth in 2011

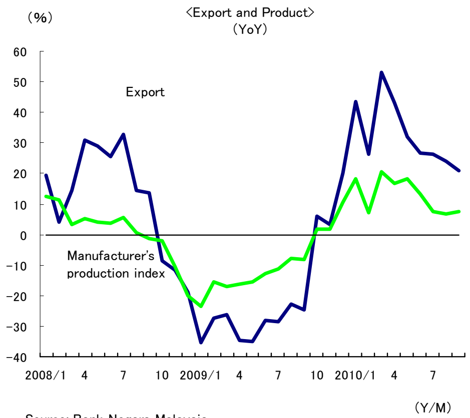
■ 7.3% economic growth in 2010

Against a backdrop of some 60 billion ringgit ($17 billion) worth of additional economic countermeasures and rapid increases in exports, mainly to the emerging markets, Malaysia's real GDP growth rate in 2010 displayed recovery strength in excess of expectations, reaching 10.1% in Q1, January to March, compared to the same period in the previous year, and 8.9% in Q2, April to June. Though there was a loss of impetus in the second half of the year, growth for the whole year is forecast to be 7.3%, year on year.



Source: Bank Negara Malaysia

Exports grew 32.3% in the months between January to September, compared to the same period in the previous year, worth $146.4 billion, recovering to 93% of their pre-crisis level. While exports to the US and Europe have been slow to recover, those to the emerging markets of China, ASEAN and India grew 40.6%, 31.8% and 36.1%, respectively, over the same period.



Source: Bank Negara Malaysia

In terms of export items, major export items electronic and electrical products recovered strongly, increasing 27.4% in the same period, worth $62.3 billion. In particular, exports to China grew rapidly, accounting for 51.4% of growth. Furthermore, boosted by increased prices, palm oil product exports increased by 35.7% over the same period, worth $10.1 billion, and crude oil exports by 64.9%, similarly, worth $7.8 billion. Meanwhile, imports were up 39.1% in the same period, worth $120.5 billion, due to the increases in exports of raw materials and intermediate materials, leaving a balance of trade surplus of $30 billion. While exports have lost some momentum towards the end of the year, the outlook is for a 28.0% increase over the whole year, compared to the previous year, worth $225.8 billion.

The rapid increase in exports had a significant impact on the manufacturing industry, and the manufacturers' production index converted to positive year on year growth from October, 2009, recovering to 15.3% for the period January to March and 15.6% for April to June. While there was a slight drop in performance in the third quarter, from July to September, exports have more or less returned to pre global financial crisis levels.

In terms of domestic demand, fixed capital formation was up 5.4% in Q1, compared to the same period in the previous year, and 12.9% in Q2, due to increased public works investments as part of economic stimulus measures and increased plant and equipment investment in the wake of an expansion in export production. The figure for the whole year is estimated to be 9.1% up on the previous year. Favorable employment conditions caused incomes to increase steadily, which resulted in a healthy level of private consumption being maintained, with 5.1% growth in the period Q1, compared to the same period in the previous year, and 7.9% for Q2. The whole year figure is expected to be 6.0%, year on year.

■ 4.3% growth forecast for 2011

I With export dependence of over 100%, Malaysia's greatest downside risk is the uncertainty of the future of the global economy, but in 2011, the economy will be supported by continued exports to the emerging markets and by domestic demand, and is forecast to grow by 4.3%.

Exports to Malaysia's export destinations, Japan, the US and Europe, appear to be heading towards recovery. Exports to Japan in particular were up 37.2% in the period January to September, compared to the same period in the previous year, worth $14.9 billion and recovering to 97% of pre-crisis levels. In 2011, the export worth of crude oil and agricultural produce is expected to increase, due to enlarged foreign demand and increased prices, leading to a forecast of continued double digit export growth. Additionally, exports destined for China are thought likely to grow further thanks to the establishment of a one stop service that provides support for application procedures, and the acceptance of transaction settlements in yuan. Also, an India-ASEAN FTA came into effect in January, 2010, and increased numbers of foreign capitalized firms attempting to concentrate their production of electronic and electric products for export to Indian markets will provide a boost to India-oriented exports.

The ringgit's exchange rate against the dollar (monthly average) has trended strongly, going from $1 to 3.41 ringgit in January, 2010, to $1 to 3.09 ringgit in October, but the impact on exports is likely to be limited. In fact, Central Bank has expressed the view that the ringgit's strength against the dollar reflects Malaysia's solid economic growth, and Prime Minister Najib has shown approval of the strong ringgit, commenting that, given the country's high levels of foreign reserves and the ringgit's strength, the time may be right to investigate the permitting of ringgit based overseas transactions. Further, amid plans to make wide ranging cuts to financial subsidies, the strong ringgit is helping to rein in inflation. The consumer price index increase rate is expected to stay at just under 3%, year on year.

Nonetheless, careful attention needs to be paid to the fact that as the global economic situation becomes ever more opaque, business confidence has softened slightly. The business confidence index prepared by the Malaysian Institute of Economic Research (MIER) dropped from 124.0 points in the period January to March, to 119.6 points for April to June, and down to 104.9 points in July to September.

Domestic demand will drive the economy in 2011. Private consumption is expected to grow by 5.0%, year on year, encouraged by an improved employment situation, improved levels of household disposable incomes, comparatively stable movement of commodity prices, and growing asset values due to rising share prices. The MIER consumer confidence index was favorable in July to September also. Elsewhere, though plant and equipment investment will likely increase due to increased exports to the newly emerging markets, fixed capital formation is thought likely to grow at no more than 4.0%, year on year. Within the budget for fiscal 2011, the government has earmarked some 12.5 billion ringgit for the construction of highways, gas and electric power stations, and hospitals. The government's portion of that investment will be 1 billion ringgit, with the remainder to be financed by utilizing private sector funds. Although there are exceptions, such as the agreed 26 billion ringgit investment by United Arab Emirates in the development of a new international financial district in Kuala Lumpur, with the global economy in a state of stagnation at the moment, it will be no easy matter to secure funding from abroad. And, with foreign direct investment (net) growing negatively in recent years, the problem will be to what extent local funding can be kept to within Malaysia.

Since its inauguration, the Najib administration has shown its clear intention to embark upon a bold economic reform with the aim of making Malaysia an industrialized nation by the year 2020. In March, 2010, the 'New Economic Model for Malaysia' was announced, with 1) the utilization of market principles, 2) the shift towards prioritizing ability, 3) guaranteed transparency, and 4) the strengthening of the industrial base, as its basic policies. Next, in June the Tenth Malaysia Plan (2011 to 2015) was announced, revealing numerical targets such as a growth rate of 5.8% during the period of the Plan, and raising the per capita GDP to $12,140 by 2015. In terms of concrete strategies, 12 national key economic areas (NKEA) have been suggested, with 13 trillion ringgit (approx. $444 billion) earmarked for investment in these areas. In addition to strengthening information and communications technology (ICT), the plan also calls for efforts to foster industries where Malaysia has its own competitive strength, such as tourism and environment related industries, halal (food, etc., permitted by Islamic law) industries, Islamic finance, etc., and the enhancing of Kuala Lumpur's functionality as an international city. However, with the fiscal deficit still a problem, the implementation of the goods and services tax (GST, similar to Japan's consumption tax) has had to be put off, and with a review of the policy of preferential treatment for Bumiputra needing to be corrected subsequently, there are not a few who voice criticism of the government's policies. In 2011 the Najib administration's ability to implement its policies will be tested.

(Keiichiro Oizumi)

Indonesia *6.0% real GDP growth in 2011*

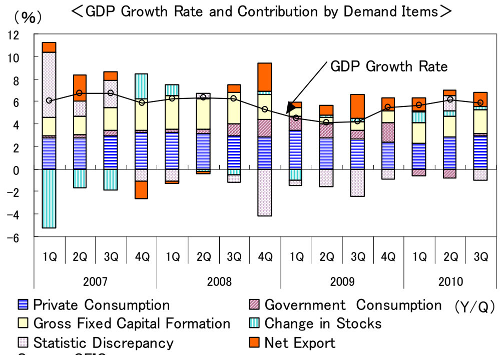
■ 5.9% growth in 2010

Indonesia's real GDP growth rate in the period January to September, 2010, was 5.8%, compared to the same period in the previous year. Quarterly growth has been fairly consistent, at 5.7%, 6.2% and 5.8%. The fourth quarter, October to December, also appears to have had a similar growth rate to the previous quarters, and the growth rate for the whole year is expected to be 5.9%.

Individual consumption and investment are the growth drivers. Individual consumption is very healthy and the consumer confidence index announced by Central Bank, and the real retail sales index, have suffered no major setbacks since the latter half of 2009, and have maintained high levels of growth. Sales of motorbikes in the period January to September, 2010, were up 33.1% compared to the same period in the previous year, at 5.51 million vehicles, and automobiles 64.8%, at 560,000 vehicles, over the same period, and sales are expected to reach record levels for the whole year.

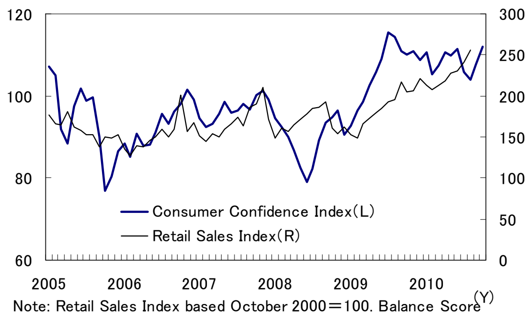
Investments have also been performing solidly. According to Central Bank's business survey, although corporate business confidence dipped slightly in the latter half of 2009, it has continued to rise since the start of 2010, and recorded high levels in the period July to September, 2010. In terms of specific industry sectors, the rising price of palm oil boosted agriculture to 4.60, and this and other industries, manufacturing (6.73) and construction (5.23), are contributing to the improved business confidence. The Business Tendency Index prepared by BPS-Statistics Indonesia also bears this out. Indonesia's Investment Coordinating Board reports that investments (actual basis, domestic and foreign direct investments combined) between January and September, 2010, grew 33.4% compared to the same period in the previous year, with confidence in investment recovery deepening.

＜GDP Growth Rate and Contribution by Demand Items＞



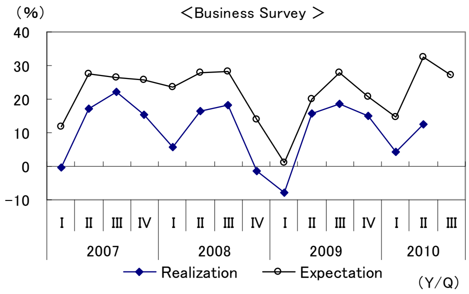
Source: CEIC

＜Consumer Confidence Index and Retail Sales Index＞



Note: Retail Sales Index based October 2000＝100. Balance Score Method (net balance+100) has been adopted to construct the consumer confidence index , where the index above 100 points indicates optimism.
Source: CEIC

＜Business Survey＞



Note: Method (net balance+100) has been adopted to construct the index, where the index above 0 points indicates optimism.
Source: Bank Indonesia, *Business Survey Quarter Ⅱ-2010*

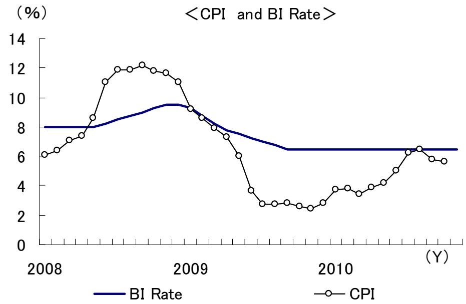
■ 6.0% growth rate in 2011

In 2011, individual consumption and investment will be the growth drivers, and real GDP is expected to exceed the previous year's growth very slightly at 6.0%. Individual consumption thus far has been supported by low commodity prices and interest rates in the wake of a steady pace of growth. While the consumer price index increase rate in August, 2010, reached 6.4% compared to the same period in the previous year, it subsequently fell, returning to 5.7% in October.

Central Bank, fearing that an inflow of capital and increases in international commodity prices as a result of easier US monetary policies might push up commodity prices, decided to raise the reserve requirement from 5% to 8% (to be implemented from November), but has kept the policy interest rate at 6.5% since July, 2009. The inflation rate in 2010 is expected to be kept within the target 5±1%, and Central Bank has set 5±1% as the target for 2011 also.

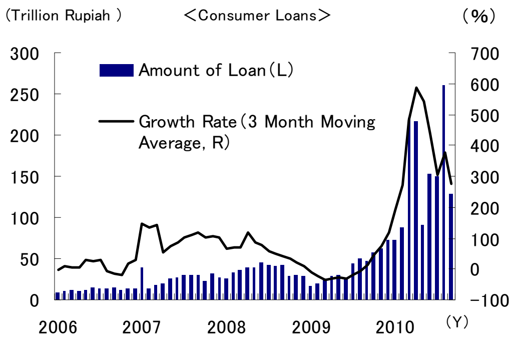
According to Central Bank's market awareness survey (July to September, 2010), there are few who share the view that commodity prices will hinder macro-economic management. As long as expectations of high growth rates and low commodity prices continue, it is believed that individual consumption will expand in 2011 also. Consumer loans, which have been expanding rapidly since the latter half of 2009, will also likely boost consumption growth.

Investment growth is also expected to grow solidly. The Investment Coordinating Board believes that investment in the transportation, communications, infrastructure, foodstuffs and real estate sectors will be growth drivers, and expects investments to increase by 15% in 2011, year on year. Indonesia has the largest population in South East Asia, with 240 million people. As such, it is attracting new attention as a potential market and, as its rivals China and Vietnam experience rapid increases in labor costs, there is also evidence that Indonesia is being reassessed as a potential production base.



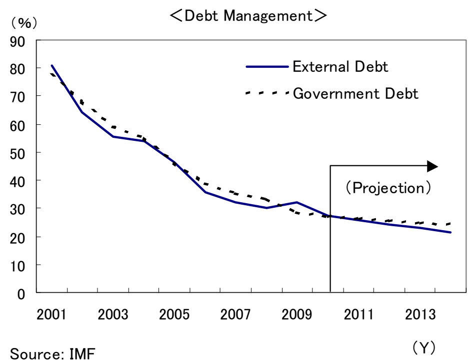
Note: CPI compared to the same period in the previous year.
Source: CEIC

Neither can the fact be ignored that the economy's health is receiving much praise. According to the mid-term debt management framework drafted by the IMF (International Monetary Fund) in September, 2010, Indonesia should be able to hold its future fiscal deficit to within 2% of GDP, and foreign debt and government debt are expected to be reduced at a steady pace. In addition, the financial organizations' non-performing debt ratios also continue at low levels.



Source: Bank Indonesia Web

Meanwhile, the contribution of external demand to economic growth is expected to decline as imports increase. According to flash report data issued by BPS-Statistics Indonesia (appended data do not always match), exports for January to September, 2010, were 38.3% up on the same period in the previous year, worth $110.8 billion, and imports 42.2%, similarly, worth $97.3 billion. Raw materials, which account for 70% of total imports were up 45.3% in the same period, capital goods, which account for 20%, up 30.9%, and consumer goods up 48.8%, high growth levels in each case. Sharply rising prices resulted in solid export growth of coal and palm oil, but increased imports of petroleum products will mean a strong possibility of a balance of trade deficit in 2011.



Source: IMF

In the market awareness survey, around 50% of economists questioned look forward to economic growth of between 6.1 and 6.5% in 2011, and there is a growing sense of optimism about the future. The problem for the Yudhoyono administration in the meantime is how to curb fluctuations in commodity prices and exchange rates, stemming from increasing global liquidity. Additionally, it will be important to secure investors' positive assessment of Indonesia through improvements in the investment environment.

According to a competitive strength survey (2009 to 2010) conducted by the World Economic Forum, Indonesia's competitive strength ranks 54th out of 133 countries. This is by no means low, but Indonesia's rank has virtually stayed the same, and the gap with China (29th) is getting wider. Additionally, in the World Bank's latest business environment survey, Indonesia's rank is 121st out of 183 countries, and is lower than last year's rank (115th). In order for the government to be able to realize its mid term target of 8% growth, it will need to produce concrete results by measures such as a review of the labor laws, the development of infrastructure and the eradication of corruption. **(Yuji Miura)**

Philippines 4.8% economic growth for 2011

■ 2010 forecast for real GDP growth rate is 6.2%

The Philippines' real GDP growth rate for January to June, 2010, was 7.9% compared to the same period in the previous year (7.8% for Q1, January to March, and 7.9% for Q2, April to June), the highest level since the period January to June, 2004, when the previous presidential election was held. Among the reasons for strong GDP growth cited are the facts that the presidential election was completed without disruption and domestic and foreign investor confidence appears to be recovering, and that public works expenditure has increased.

A major element of these high levels is that they also represent a recoil from the depression of the previous year so that the pace of growth in the period July to December may have slackened somewhat. However, the real GDP growth rate for 2010 is still expected to be of the order of 6.2%. The prediction is that solid growth in domestic demand will be maintained, and that the export recovery trend will also continue.

Personal consumption in the period January to June was up 5.1%, compared to the same period in the previous year. Food, beverages, fuel, transportation and communication have all gone up. Contributory factors include an improved consumer sentiment since the economic recovery moved into top gear and the presidential election was successfully concluded, as well as an increase of 6.9%, compared to the same period in the previous year, in the amount of money remitted home by laborers working abroad, thus encouraging consumption. In response to strong demand for Filipino workers, the steady growth in money remitted home is likely to continue in the future, supporting solid growth in personal consumption.

The growth rate for fixed capital formation in the period January to June was 20.8%. From the middle of last year, improved corporate sentiment and increased exports have fuelled a recovery in durable equipment investment. The growth rate for January to June was 30.1%, reflecting the size of the slump experienced in the previous year. High levels of growth are being experienced in a wide range of industry sectors, from automobiles and industrial machinery to communications equipment and mining related construction equipment. In the future, it is expected that comparatively high growth rates can be sustained, supported by strong domestic and foreign demand. Meanwhile, construction related investment has posted strong growth, particularly for the infrastructure development in public and private sectors, and grew 15.2% in January to June. It is expected that construction will continue to bolster investment growth.

Exports have been recovering since the middle of last year, posting 38.1% growth in January to July, compared to the same period in the previous year (customs cleared basis for both exports and imports). Electronics related exports, which account for roughly 60% of the total, have enjoyed growth rates of around 50%, particularly for semiconductors. Meanwhile, imports, consisting mainly of raw materials for export products could only manage 27.8% growth in January to July, and the trade deficit contracted. In the future, it is hoped that, if there is no major deterioration in the global economy, export and import growth levels will be sustained.

In the wake of the global financial crisis, between December 2008 and July 2009, the policy interest

＜Real GDP by Expenditure Shares＞

(compared with the same quarter of last year、%)

	2009-Q1	2009-Q2	2009-Q3	2009-Q4	2010-Q1	2010-Q2
Real GNP	3.3	4.4	4.1	4.1	8.6	7.9
Real GDP	0.5	1.2	0.2	2.1	7.8	7.9
Personal Consumption	3.0	5.5	2.6	5.0	5.4	4.9
Government Consumption	6.1	11.9	12.1	13.7	20.0	5.6
Fixed Capital Formation	−7.4	−0.3	−0.1	6.7	16.0	25.5
Exports	−14.6	−18.0	−12.9	−6.7	22.4	27.4
Imports	−11.2	−2.1	−2.6	6.8	22.4	23.9

Source: National Statistical Coordination Board rates were lowered by a total of 2%, and currently, the overnight borrowing rate is 4.0%, and the lending rate 6.0%. On the other hand, the consumer price index increase rate between July and September 2009 was lower than 1% year on year, but increase in the crude oil price and rising prices of agricultural products due to typhoon damage caused the index to stay around 4% in 2010, and this was one factor that inhibited personal consumption. In January, the discount rate was raised from 3.5% to 4.0%, and the government is looking for an exit strategy. Since inflation is not a big problem, policy interest rate hikes are most probably going to be after the new year.

■ 4.8% real GDP growth rate predicted in 2011

Real GDP growth rate for 2011 is forecast to be on the order of 4.8%. Both domestic and foreign demand are expected to perform fairly solidly, though the growth rate will likely be comparatively lower than that of 2010, which was recovering from a slump in the previous year. If the Philippines is to achieve higher growth rates, it will need to enhance its investment environment in order to attract direct investment, and take steps to foster manufacturing and other industries. The new administration plans to expand the private-public partnership (PPP) and increase the procurement of capital from the private sector in order to progress with infrastructure development, but the fact remains that it is imperative that the fiscal deficit be improved. For that reason, there is only a very slight possibility that increased fiscal spending will be used to implement short-term economic stimulus measures.

As regards personal consumption, economic recovery and low interest rates have helped to improve consumer sentiment, and consumption is expected to grow at a steady pace in the future. It is predicted that money remitted home by Filipinos working abroad will grow at a certain pace, providing important support for personal consumption. Additionally, along with the economic recovery, the unemployment rate will fall, and this and the expected implementation of measures to aid the poor will undoubtedly lead to increased disposable income.

Inflation is a risk factor, but at the current time it is highly unlikely that there will be any significant rise in the consumer price index increase rate. In addition to measures such as increasing rice imports to make up for the poor harvest, the appreciation of the peso has been a factor in restraining inflation. Central Bank's inflation targets are between 3.5% and 5.5% for 2010, and between 3.0% and 5.0% for 2011. If inflation can be kept within these ranges, it is very likely that the policy interest rates will be kept unchanged, and the impact on personal consumption will be limited. However, it is forecast that there will be unfavorable weather ahead, such as La Niña, and if the agricultural industry is affected, rural areas will suffer a loss of income and inflationary pressure will increase.

With regard to fixed capital formation, it is believed that the implementation of infrastructure projects will help to bolster construction investment. Also, business sentiment is currently very healthy, with many companies thinking of increasing production and employment, which is sure to result in a certain level of growth in durable equipment investment. Low interest rates, high capacity utilization ratios, improvements in the capital procurement environment thanks to rising share prices and increased bank lending, healthy direct investment and sustained export growth are all positive factors. However, the fragility of the manufacturing industry has not been sufficiently improved, and it is difficult to expect that high levels of growth can be maintained over the mid term.

The Philippines' export destinations are widely dispersed, with the US and Japan accounting for just over 15% each, Europe around 20%, and Asia around 40%. In the months ahead, it is expected that Asia-centered exports will increase. The recovery in electronics related demand is another positive factor. In addition to the shrinking trade deficit, business process outsourcing and other service exports are on the increase, as is the amount of money being sent home by Filipinos working abroad, resulting in a larger current account surplus, which improves the soundness of the external sector.

Meanwhile, the fiscal balance trend is a major cause for concern. The deficit during the period January to July was 22.0% up on the same period in the previous year, at 229.4 billion pesos. While expenditure grew 11.1% in the same period, revenue growth was only 7.9%. The new president is attempting to cut tax evasion and increase the tax collection rate, but no president has ever been able to achieve this so far. Also, although attempts to achieve fiscal balance have been abandoned, the government is trying to reduce the fiscal deficit against GDP from 3.9% (projected) in 2010 to 2.0% by 2013. On the other hand, expenditure on education, poverty and social security will be increased significantly, and it must be said that the outlook for any improvement in fiscal balance is very unclear.

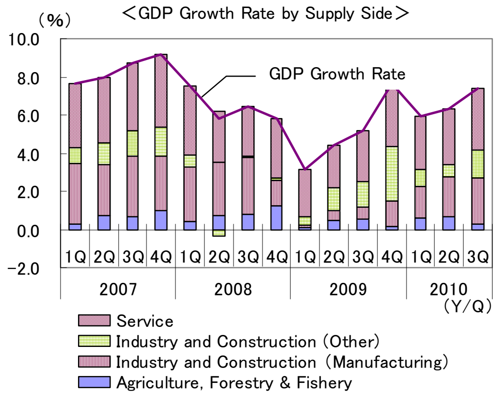
(Satoshi Shimizu)

Vietnam 7.0% real GDP growth in 2011

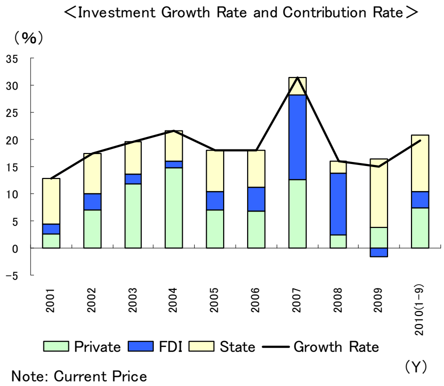
■ 6.6% economic growth in 2010

Vietnam's real GDP growth rate for the period January to September was 6.6%, compared to the same period in the previous year. Quarterly growth rates were 5.9% for Q1, January to March, 6.3% for Q2, April to June, and 7.4% for Q3, July to September, a steady rise throughout the year. Growth in the fourth quarter, October to December, will likely be in the 6% range, meaning that growth for the whole year will likely be 6.6%, slightly in excess of the target, 6.5%.

Examining GDP in the period January to September in terms of supply side items, industrial manufacturing, construction and services contributed strongly. Industrial manufacturing and construction were up 7.4%, compared to the same period in the previous year, and services were up 7.2%, similarly, and powered economic growth. Within industrial manufacturing and construction, mining and manufacturing growth was down 6.9%, but manufacturing and construction grew strongly at 8.3% and 10.3%, respectively. Agriculture, forestry and fisheries grew 3.0% in the same period, up from 1.8% in the previous period.



Source: CEIC



Note: Current Price
Source: GSO

Vietnam's government does not publicize statistics for demand items, but it is clear that individual consumption has been a driver of growth. Real growth in retail turnover has been consistently high, scoring 14.4% in the period January to March, compared to the same period in the previous year, 16.4% in the period January to June, and 15.0% for January to October. Though automobile sales for the period January to October were down 4%, compared to the same period in the previous year, this is believed to be in recoil from the previous year's tax reduction measures. Motorbike production in the same period was very solid, up 15.2%.

Investments are firmly on the road to recovery. Gross capital formation for the period January to September grew 19.8% compared to the same period in the previous year, beating the previous year's actual performance of 14.9%. In terms of contribution by sector, as with the previous year, the state sector continues to drive investment, though the contribution rates of the private and foreign sectors have risen significantly compared with the previous year. Some large state run enterprises suffered significant losses in real estate and securities investments in the 2007 bubble, and saw business performance fall as a result. For the future, the private and foreign sectors are expected to play a bigger role in supporting investment growth.

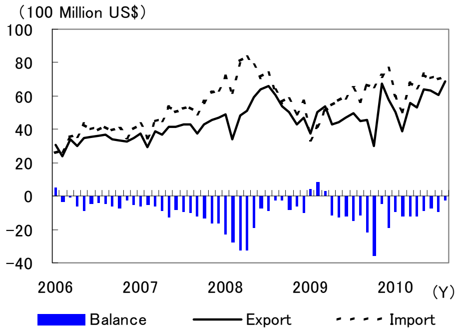
■ 7.0% growth in 2011

The government has set a real GDP growth target of 7.5% for 2011, but the actual growth rate looks likely to be just slightly higher than the previous year, at 7.0%. While individual consumption and investment will lose a bit of momentum in 2011, the soaring prices of primary produce, etc., look likely to result in an increase in exports. The most pressing issue currently is how to stabilize commodity prices and the exchange rate, and consumption and investments, and not throw consumption and investments off track.

In the case of Vietnam, there are almost no statistics available to indicate future trends in individual consumption but, according to Nielsen, consumption sentiment has deteriorated since mid 2010. In July, the Nielsen Global Online Consumer Survey ranked Vietnam's consumer confidence index at 119 points, well above the then global average of 93 points, and just behind India (129) and Indonesia (119). However, the survey published in October ranked Vietnam at 88 points, below the then global average of 90 points.

Part of the reason for this is that the easier monetary policies introduced in the wake of the financial crisis have come to an intermediate stage. This is graphically demonstrated by the exchange rate. The divergence between the dong's official rate and black market rate has continued to widen as the expanding trade deficit gives rise to fears of dollar shortages. The government attempted to halt the dong's depreciation by devaluating by 2.1% in August, 2010, but the gulf began to widen again from October. Since the trade deficit is contracting, this is believed to have been caused by the rapid increase in dollar based financing and the rise of gold prices. The government warned that the market was becoming more and more speculative and on November 14 used some of its foreign currency reserve to supply the market with dollars, announcing that the dong would not be devalued until after the 2011 Lunar New Year (February).

＜Monthly Trade＞



Source: CEIC

Rising commodity prices are another cause for concern. The interbank market 12 month lending rate converted to upward movement in August. The consumer price index increase rate (reference 2009) in October, 2010, was up 9.7%, compared to the same period in the previous year, significantly above the government's target of 7%. On November 5, Central Bank raised the basic interest rate, which had remained unmoved since February, to 8%. The basic interest rate is usually announced at the end of the month and since the announcement at the end of October had been 'no change', this decision took the market quite by surprise. The introduction of demand restraint measures would appear to have been in an attempt to prevent commodity price increases and further dong depreciation.

Steering in the direction of tighter monetary policy will likely cause state run enterprises' investments to cool somewhat. However, private and foreign sector investments will probably continue to perform solidly. New foreign direct investment in the period January to October, 2010, on a monetary basis, was down 30% compared to the same period in the previous year, but additional investments are solid and, on an actualized basis, are up 7%, similarly. For Japan, the good news included confirmation of an order for the second phase of construction of a new nuclear power plant.

The deceleration in private consumption and investment is being made up by foreign demand. Although low growth rates in the industrialized countries will mean that a major increase in exports cannot be hoped for, it is believed that rises in the prices of primary produce and the addition of crude oil to the list of major export items will cause the negative contribution of net exports to GDP to contract. Exports in the period January to October, 2010, were up 23.3% compared to the same period in the previous year, worth $58.7 billion, while imports were up 20.7%, similarly, worth $67.3 billion, export growth topping that of imports.

In terms of individual export items, exports of primary produce, such as rice, sea food, rubber, etc., and labor intensive products that utilize cheap labor, such as wood products, textile products and shoes and sandals, are performing solidly. Exports of gasoline and chemical products, etc., are also on the rise. These are due to the fact that related production plants have begun operating, and have been effective in their role in curbing imports of fertilizer and petroleum products. As a result, it is believed that the trade deficit will trend towards contraction in 2011.

＜Main Export Items from January to October＞

（Million US$,%）

	Amount	Share	Growth Rate
Rice	2,666	9.9	10.8
Sea Food	4,011	14.9	15.3
Rubber	1,686	6.3	94.5
Wood Products	2,756	10.2	36.2
Textile	9,116	33.8	22.3
Shoes and Sandals	4,058	15.0	24.8
Crude Oil	4,040	15.0	▲ 24.6
Gasoline	960	3.6	24.0
Chemical Products	518	1.9	81.1
Total	26,964	100.0	23.8

Source: GSO

Depending on the extent to which commodity prices and the exchange rate can be kept stable, the success or failure of financial policy in 2011 will exert considerable influence on the economic growth rate.

(Yuji Miura)

India 8.7% economic growth in 2011

■ 2010 real GDP growth rate expected to be 8.5%

India's real GDP growth rate in the period April to June 2010 was 8.8%, compared to the same period in the previous year, continuing high after 8.6% for January to March, and indicating that the economy is continuing to perform well. In terms of specific industries, the return of normal levels of rainfall has meant high growth in the agricultural sector, and industry, which has been the driver of the economic recovery, has been able to maintain robust growth. Supported by a healthy corporate sentiment and improvements in the capital procurement environment, manufacturing has continued to post double digit growth. Also, in the services sector, the trade recovery, increased numbers of visitors from abroad, rapid increases in automobile sales and mobile phone subscriptions, have resulted in high levels of growth in the trade, hotels, transportation, storage and communications sector.

Expanded fiscal expenditure and easier monetary policy were both instrumental in quickening the economic recovery in the wake of the global financial crisis. However, worsening inflation is a major source of concern now. The wholesale price index increase rate, which had been growing negatively, year on year, in mid 2009, began to grow between 8.5% and 11.0% in 2010, and was 8.6% in September. Subsequently, India's monetary policy switched to one of tighter monetary control from October of last year. In addition to increases in the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR), the policy interest rates were also raised in stages from March, bringing the repo rate from 4.75% to 6.25%, and the reverse repo rate from 3.25% to 5.25%.

In the future, in addition to the strong performance shown by domestic demand, the recovery in exports since the middle of last year is expected to continue, and the forecast for real GDP in fiscal 2010 is on the order of 8.5%. In terms of positive factors for economic recovery, the return of normal levels of rainfall is expected to lead to a continuation of the trend towards recovery in agricultural production, strong domestic demand is likely to allow corporate production activity to maintain its momentum, and the services, principally the trade, hotels, transportation, storage and communications sector, are expected to maintain their high levels of growth. With respect to the industrial production index growth rate, due to a natural pause in the rebuilding of inventory, and other factors, growth fell from 15.2% in January to March to 10.6% in April to June, but given the recovery trend in private consumption, is likely to maintain its robustness.

Turning to private consumption, the slump in agricultural production and the quickening consumer price index increase rate have slowed consumption growth till now, but in the future, a recovery in agricultural production is expected, with consequent increases in incomes of rural areas, and the effect of the tight monetary policy is likely to lower the inflation rate, and this as well as improved employment conditions and continuing increases in laborers' wages in the cities will likely bring about higher growth in consumption. In particular, there is expected to be growth in the consumption of durable consumer goods, such as passenger cars, two wheeled vehicles, and household electrical appliances. Also, though fixed capital formation slowed between April and June along with production activity, judging from plans for new durable equipment investment, it is likely that increased momentum will be maintained and a high level of growth can be expected in the future.

Exports and imports converted to positive growth from the middle of last year, when the global economy began to recover. In 2010, while the economies of the industrialized nations recovered at a rather gentle pace, India's domestic demand expanded rapidly, so that imports grew much more quickly than exports, resulting in an expanded trade deficit. This trend is likely to continue in the foreseeable future, and exports and imports are unlikely to contribute much to India's economic growth.

■ 8.7% real GDP growth forecast for 2011

India's real GDP growth rate for fiscal 2011 is predicted to be around 8.7%. India is currently enjoying a high level of mid term growth, and with inflation coming down, domestic demand is

＜Real GDP by Expenditure Shares (YoY)＞

(%)

	F2009					F2010
		Q1	Q2	Q3	Q4	Q1
Real GDP	7.7	5.2	6.4	7.3	11.2	10.0
Private Consumption	4.3	2.9	6.4	5.3	2.6	3.8
Government Consumption	10.5	15.3	30.5	2.5	2.1	14.2
Gross Fixed Capital Formation	7.2	−0.7	1.6	8.8	17.7	7.6
Exports	−6.7	−16.0	−15.8	−7.5	14.2	5.7
Imports	−7.3	−8.5	−10.5	−5.8	−3.7	8.4

Source: Center for Monitoring Indian Economy expected to grow, and it is hoped that exports will grow by around 15% year on year. Also, strong growth in the agricultural sector will be a positive factor for private consumption.

Reserve Bank of India recognizes a wholesale price index increase rate of between 5.0 and 5.5% as being normal, and continues to warn against the still high rate of inflation. In the future, recognizing that the economy is likely to continue at strength, the forecast is that the tight monetary policy will be maintained. Also, RBI seems to be attempting to improve its monetary policies by measures such as increasing the frequency of its regular policy committee meetings from once every three months to once every one and a half months. The fact that prices of primary products and fuels remain high is still of concern, but since improvements in agricultural production are expected, the inflation rate will likely recede through fiscal 2011.

This will very probably promote consumption of non-durable consumer goods, which has been languishing of late. In addition, along with economic recovery, improvements in the employment and income environments are expected to continue. The continuing increase in share prices accompanying the expansion in capital inflows will also have the effect of encouraging private consumption. Furthermore, as national income levels rise, the spread of durable consumer goods will likely continue to increase. Domestic sales of passenger cars in the period April to September were up 32.9% compared to the same period in the previous year, at 1.18 million vehicles, and are expected to continue to grow strongly.

The rupee's nominal exchange rate against the dollar has appreciated about 15% since March of last year, negatively impacting labor-intensive exports. As upward pressure on the exchange rate increases as a result of capital inflows, if a falling inflation rate causes the real exchange rate to depreciate, it may be expected that this will have the effect of curbing trade deficit expansion.

The fact that the fiscal deficit is trending towards improvement is another positive factor for the economy. Due to expanded fiscal expenditure in order to aid economic recovery, central government's deficit against GDP became 6.0% in fiscal 2008, and 6.7% in fiscal 2009. The targets for fiscal 2010 and beyond are 5.5%, 4.8%, and 4.1%. The size of the deficit in the period April to August was minus 16.9%, compared to the same period in the previous year, at 1.5143 trillion rupees. The main reason for this was that tax collection was up 29.6% in the same period, because of economic recovery, increased imports, and the discontinuation of some indirect tax reduction measures that were implemented to encourage economic recovery. The possibility is considered strong that the deficit target for the whole fiscal year can be achieved. Also, in fiscal 2011, the contraction in the fiscal deficit will mean a greater degree of freedom in government spending, and it is expected that there will be increased spending on items which contribute to pushing up the growth rate, such as infrastructure development and social policies.

Infrastructure development also has the effect of supporting fixed capital formation. Fixed capital formation is forecast to grow ever more strongly against the backdrop of a sustained positive investment sentiment due to increased corporate earnings, continuing high capacity utilization ratios, and improved capital procurement conditions thanks to rising share prices and a recovery in banking credit. In order to maintain a high level of economic growth, it will be vital to expand production capacity and to ease supply restrictions, such as electricity, distribution, etc. Furthermore, the rapid increase in direct investment since 2008 is another contributor to fixed capital formation growth.

As regards exports, primary products (agricultural products, mineral products) and petroleum products, which account for approximately 30% of the total, will perform well. In addition, exports of automobiles and electronic equipment by foreign firms are increasing, so that an overall export growth of around 15% is predicted. Exports to Asia (China, Korea, Singapore, Vietnam, Indonesia, etc.), which account for just under 30% of the total, are expected to grow. Other positive trends include an FTA between India and ASEAN, which came into effect in January 2010, and an agreement reached with Japan. On the other hand, the increased numbers of automobiles have led to an increase in the demand for crude oil, and along with a recovery in domestic production and investment activity, this will likely cause the trade deficit to swell.

Moreover, economic trends among the industrialized nations and the international financial situation pose a risk to India's domestic economy. It will be important to continue to pay particular attention to the control of capital inflows, which is very likely to cause excessive fluctuation of asset prices and exchange rates.

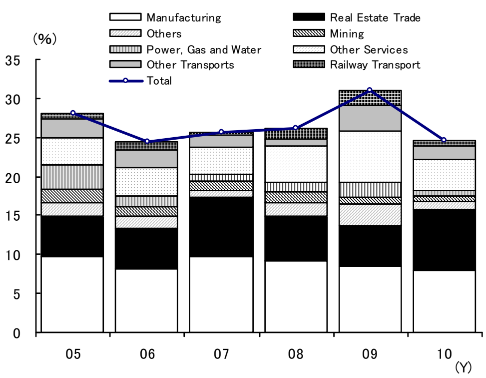
(Satoshi Shimizu)

China 8.7% economic growth in 2011

■ Domestic and foreign demand both strong

China's real GDP growth rate between January and September, 2010, was 10.6%, compared to the same period in the previous year, exceeding the 9.1% scored for the whole year in 2009, and in the same range as the 10.4% average annual growth between 2001 and 2009. Both domestic and foreign demand are performing strongly, and China's economy appears to be growing at cruising speed.

<Investment in Fixed Assets in Urban Area (YoY)>



Note: The figures in 2010 are for January–September 2010.
Source: National Bureau of Statistics

In terms of domestic demand, investments have expanded solidly. Fixed asset formation investment in the cities, which accounts for 90% of the total, grew by 24.5% between January to September, compared to the same period in the previous year, which is below the 31.0% posted for the whole year in 2009. However, growth in 2009 was influenced by the implementation of emergency economic stimulus measures and was significantly larger than average years. Given the fact that the average annual growth rate in the years 2001 to 2009 was 22.6%, it can be seen that investments have been expanding at a steady pace of late.

In particular, investment in manufacturing and real estate has been outstanding. The contribution level of manufacturing in the period January to September, 2010, was 7.9 points, and that of real estate 7.8 points. In recent years direct investment from abroad has been outstripped significantly by domestic investment, and the number of manufacturing companies has increased by 580,000 in the years between 2000 and 2008, reaching 1.5 times the number in 2000. These companies purchase new plant and equipment and compete with others in their industries in terms of scale and productivity. Driving investment to the same extent as manufacturing is the real estate industry. Housing demand is flourishing in China. With the shift of population from rural communities into the cities, the populations of major conurbations such as Shanghai, Beijing and Shenzhen have increased, and the urban permanent resident population in 2009 was 160 million larger than in the year 2000. Along with the increase in housing demand brought about by the population increase, the demand for high quality housing has also increased. In recent years, the number of apartments with shared toilets has decreased, and there has been a steady increase in the number of houses being built with bath and shower facilities. As a result of the dual factors of quantity through urbanization and quality through improvements in housing environments, the total floor area of new housing construction has increased by 3.8 times in the last nine years. In addition, given that construction equipment, iron and steel, cement and a great many other materials are required, housing investment spurs investment in many related industries. Further, investment in railways and other industries has expanded, thanks to 4 trillion yuan worth of economic stimulus measures. With the demand for financing resulting from this vigorous domestic demand, M2 and the banks' loan totals a t the end of October, 2010, were both up 19.3% compared to the same period in the previous year, growing at levels similar to pre-Lehman collapse levels.

In terms of individual consumption, growth in 2010 was above average levels. The retail sales growth rate in the period January to September, was up 18.3%, compared to the same period in the previous year, which is higher than the 15.5% for the whole year 2009, and well above the annual average growth rate of 14.5% in the years between 2001 and 2009. Automobile sales for January to September were up 36.0%, compared to the same period in the previous year, at 13.14 million vehicles. Three reasons for such healthy consumption are as follows. First, the employment situation has gotten a lot better. In the period July to September, the job opening-to-application ratio was 0.99, which is above the 0.86 posted for the whole of 2009. Second, income levels have been increasing at a faster pace. In the period January to September, 2010, the per capita disposable income (nominal basis) in the cities was up 10.5%, compared to the same period in the previous year, a wide margin of growth compared to 8.8% growth posted for the whole of 2009. The per capita cash earnings in rural communities were up 13.1%, similarly, well up on 9.3% recorded in 2009. These big increases in income levels have boosted consumer purchasing power. In addition, encouraged by the general feeling that incomes will continue to rise moving forward, some consumers have been making purchases of expensive commodities that might be considered rather extravagant, given their income levels. Third, government consumption stimulus measures have boosted individual consumption. In addition to the 'Car Replacement' and 'Cars in Rural Communities' schemes of providing tax reductions and subsidies for purchases of small cars, the government announced lists of energy saving automobiles in June, August and September, and offers a standard rate subsidy of 3,000 yuan to anyone who purchases one of the models on the list. Also, the 'Household Appliance Replacement' and 'Household Appliances in Rural Communities' policies of paying subsidies to people in rural areas, who purchase household appliances, such as refrigerators and televisions, are to be continued.

Meanwhile, due principally to the implementation of economic stimulus measures in Europe and the US, and the focus on lower prices, foreign demand has recovered to pre-financial crisis levels. Exports between January and September were up 34.0%, compared to the same period in the previous year, marking a rapid recovery from 2009 (down 15.9% for the whole year, year on year). Exports to the US, which account for 18% of the total export value, grew by 30.6% in the same period (down 12.5% for the whole year in 2009). Machinery exports accounted for 50% of exports to the US and grew 39.7% on the previous year. The US economy, encouraged by economic stimulus measures worth $787 billion, is trending towards recovery. As a result, exports of machinery to the US have rallied to above 2008 levels. Many US consumers seek out the comparatively cheaper Chinese products, and exports of textiles and toys (accounting for 30% of US-bound exports) grew 27.2%, similarly. EU-bound exports account for 20% of the total and grew 35.0% in the same period, converting to positive growth from minus 19.3% in 2009.

Encouraged by healthy growth in domestic and foreign demand, industrial production (including mining and manufacturing, electricity, gas and water) grew 16.3% in the period January to September, compared to the same period in the previous year, well up on 11.0% growth posted for the whole of 2009. Not only transportation equipment and other domestic demand related industries, but industries that produce many export items, such as information and communications equipment, electronic parts, components and devices, etc., have rallied noticeably.

Nevertheless, the tempo of economic expansion is slowing ever so slightly. The real GDP growth rate has been cooling, coming down gradually from 11.9% in the first quarter, January to March, 2010, to 10.3% in the second quarter, April to June, to 9.6% in the third quarter, July to September. October's urban fixed asset investment growth was 23.7%, compared to the same month in the previous year, automobile sales 25.5%, similarly, and exports 22.9%, similarly, all falling below the growth margins posted in the period January to September. The deceleration in domestic demand is greatly influenced by government policy. In 2009, the government fully mobilized its fiscal and financial policies and made every effort to avoid the deterioration of corporate earnings and employment in the wake of the financial crisis. From the start of 2010, as a side effect of these policies, real estate and other commodity prices began to rise and local governments' non-performing debt problems became quite pronounced. October's consumer price index increase rate was 4.4%, compared to the same month in the previous year, and real estate prices in 70 major cities rose by 9.1% in the same period. For this reason, the government, while maintaining the pace of economic growth at a certain level, has been switching its financial and other policies from 'emergency' to 'normal'. Economic growth in the period October to December is expected to have slowed further, due to October's interest rate hikes and the raising of the reserve requirement in November. Whole year growth for 2010 is estimated to be 10.1%.

■ Foreign demand growth slipping, but domestic demand expanding solidly

Looking forward to 2011, it is expected that the pace of foreign demand growth will slacken. Once the effect of European and US economic stimulus measures wears off, exports will lose their rapid pace of recovery and begin to grow at a more mild pace. In particular, machinery and equipment, such as televisions, PCs and industrial machinery, tend to be more sensitive to economic trends in the industrialized nations. While there are concerns that this blunting of momentum will cause the economy to begin to slow, the impact will probably be comparatively limited. China's export industry imports parts and components and raw materials, processes them and then exports final products. In the electrical machinery, communications and computers and other machine manufacturing industries, many parts and components and capital goods are imported from Japan and other regions in Asia. The imported parts and components have high added value, and in many cases the work done in China is low added value assembly. In this way, since the products exported as 'made in China' are only partly processed in China, the production knock-on effect created by the export industry in China is very small. This is different from the countries and regions that supply the parts and components, where the production knock-on effect is strong. This industrial structure means that, when China's exports declined after the financial crisis, the impact on Japan and other Asian countries and regions that were supplying high added value parts was quite severe, whereas the impact on China's economy was comparatively slight.

Additionally, growth in domestic demand is forecast to continue to be strong. Investments are expected to maintain their expansion trend, thanks to increased competition among businesses and the progress of urbanization. The manufacturing industry is full of small and medium sized enterprises that have been in business for less than 10 years. These companies are eager to expand their size and improve productivity in order to catch up with and overtake state run and foreign enterprises, and have a considerable investment appetite. Foreign capitalized companies too, as markets in the industrialized countries begin to flag, have better expectations of China's growing markets, and are thought likely to want to increase their investments. In the real estate industry, if around10 million people migrate from rural communities (710 million people as of the end of 2009) into the cities in an average year, there will be an increase in the number of city residents who rent out their accommodation to migrants and move into newly built homes of their own. Real estate operators are thought likely to try to take advantage of consumers' growing purchasing power and increase the housing supply. Real estate investment accounts for 24% of total investments, so the impact of housing investment trends is considerable. As stated above, investment in housing triggers further investment in related industries. The value of investment in non-metal manufacturing, such as cement and glass, accounts for 10% of investment in manufacturing and is greater than that of electrical machinery (6%) or communications, computers and other machinery (5%). In contrast, the 4 trillion yuan worth of economic stimulus measures will come to an end at the end of 2010. The possibility is strong that interest rates will be raised and that growth in M2 and bank lending will be slightly restrained as a result. Therefore, it is assumed that the pace of investment expansion will decline slightly.

Individual consumption will likely be able to maintain high levels of growth. While exports and investments have decelerated slightly recently, retail sales turnover has been able to maintain high levels of growth. October's retail sales were up 18.6%, compared to the same month in the previous year, higher than the growth rate for January to September. In the weeks and months ahead, stable employment and rising income levels will surely continue to be the motive force behind consumption expansion. On the other hand, some of the government's consumption stimulus schemes, such as reduced tax on small cars and the 'Cars in Rural Communities' scheme, are due to come to an end and part of the tax on vehicles and vessels, essentially an automobile tax, is due to be raised in 2011. As part of its economic policy management plan for 2011 to 2015, the government is emphasizing the shift to an economic structure in support of growth with a good balance of consumption, investment and export. Therefore, if consumption begins to fail because of the weakening of the effects of government policies, the government will very probably decide to continue with current measures and or add new ones. Of course, it is hoped that, if the reform of the income distribution structure proceeds, the purchasing power of those in the middle income brackets will increase and the driving power of individual consumption will increase further.

＜Real GDP Growth Rate(YoY)＞

Source: National Bureau of Statistics

From the foregoing, it may be expected that, although China's economy in 2011 may suffer some deceleration due to the blunting of foreign demand, supported by vigorous domestic demand, it will likely achieve a comparatively high 8.7% growth. **(Shinichi Seki)**