

International Economic Performance and Cooperation

2



International Economic Performance and Cooperation

Overview

Global economy recovers...

The global economic recovery continued to strengthen at varying paces across regions in 2010, largely attributed to sustained fiscal stimulus and accommodative monetary policies worldwide. This was further supported by better economic performance in emerging economies, particularly China and India. In the first half

of 2010, emerging and developing economies posted strong growth, supported by consumption and investment activities. Meanwhile, the major advanced economies grew at a moderate pace, despite large public debts and high unemployment.

In the remaining half of the year, global growth is expected to moderate. Major economies, particularly the United States (US) and euro area are expected to continue to expand at a slower pace. Lower consumer spending in the US and fiscal austerity measures in the euro area affected by the sovereign debt crisis are likely to impact growth. However, strong growth in Asia, particularly China, India and the Association of Southeast Asian Nations (ASEAN) economies as well as oil producing countries will provide the impetus for global growth. For 2010, world Gross Domestic Product (GDP) growth is envisaged at 4.8% (2009: -0.6%).

TABLE 2.1

Real Gross Domestic Product (GDP) for Selected Economies 2009 – 2011

		Change (%)	
	2009	2010 ¹	2011 ²
World	-0.6	4.8	4.2
Developed Economies	-3.2	2.7	2.2
United States	-2.6	3.0 - 3.5	3.5 - 4.2
Euro area	-4.1	1.7	1.5
Japan	-5.2	2.6	2.0
Emerging and Developing Economies	2.5	7.1	6.4
China	9.1	10.5	9.6
Republic of Korea	0.2	6.1	4.5
India	5.7	9.7	8.4
ASEAN			
Singapore	-1.3	13.0 - 15.0	4.5
Thailand	-2.2	7.5	4.0
Indonesia	4.5	6.0	6.2
Philippines	1.1	5.0 - 6.0	4.5
Vietnam	5.3	6.5	6.8
Malaysia	-1.7	7.0	5.0 - 6.0

¹ Estimate.

² Forecast.

Source: IMF and national authorities.

Global Economic Performance

Developing economies contribute to recovery...

The **US** economy grew 2.8% during the first half of 2010 (January – June 2009: -4.0%). Growth was contributed by an upturn in private domestic investment, exports and a pick-up in household spending. Real private investment rose sharply by 17.2% (January – June 2009: -27.4%), on account of strong growth in equipment and software. Exports rebounded strongly by 12.9%, while personal consumption increased marginally by 1.2%. Household spending, one of the main drivers of the economy, remained subdued due to persistent weaknesses in the labour market, lacklustre income growth and tight

credit conditions. Industrial production grew 5.4% (January – August 2009: -11.7%) with capacity utilisation increasing to 73.5% (January – August 2009: 69.5%). The Institute for Supply Management (ISM) manufacturing index averaged 57.8% during the period (January – August 2009: 42.3%), while the non-manufacturing index was 53.7% (January – August 2009: 44.5%), indicating that economic activities have picked up.

Retail sales grew at a healthy pace of 5.9% (January – August 2009: -8.2%), mainly contributed by increased sales of motor vehicles and gasoline. The housing industry improved with housing starts and building permits registering positive growth of 9.7% and 7.8% (January – August 2009: -45.3%; -43.9%), respectively. Meanwhile, sales of new houses declined 10.5% (January – August 2009: -29.0%), largely on account of falling sales in July and August, following the expiry of tax incentive for first-time home buyers in April 2010. Meanwhile, inflation remained subdued with the Consumer Price Index (CPI) averaging 1.9% (January – July 2009: -0.8%), due to low energy prices and a sluggish labour market.

Risks to the economic recovery momentum have, however, emerged with recent indicators showing that the economy is heading towards a slowdown in the second half of 2010. Housing sales plunged 29.4% in July and 28.9% in August 2010, despite low mortgage rates and prices. The ISM index for manufacturing has trended down to 54.4% in September after peaking at 60.4% in April 2010. Retail sales are expected to remain weak, mainly due to high unemployment which constrains consumer spending. In the first eight months of 2010, the unemployment rate averaged 9.7%. Meanwhile, inventory has begun to flatten and trade deficit remains high. In addition, the widening sovereign debt crisis in Europe is a risk to the economic recovery. The Federal Reserve Board (the Fed) continued to keep its policy rate between 0.00% and 0.25% since December 2008. For 2010, GDP growth is expected to range between 3.0% and 3.5% (2009: -2.6%).

The 16-nation **euro area** posted growth of 1.4% in the first half of 2010 (January – June 2009: -3.7%), mainly driven by strong economic performance in Germany and France. Growth for the year is envisaged to be positive at 1.7% (2009: -4.1%). **Germany**, the biggest economy in the euro area, grew 3.7% in the first half (January – June 2009: -4.9%), following strong contribution from exports and investments. Exports increased 16.2% (January – June 2009: -32.7%), largely due to strong demand from emerging markets for goods such as vehicles and heavy machinery. Investments increased 7.8% (January – June 2009: -14.9%), buoyed by spending on machinery and equipment as well as construction of new buildings. Inflation rose 1.0% (January – August 2009: -0.4%), due to higher energy cost as oil prices increased. The unemployment rate continued its downward momentum for 12 consecutive months registering 6.8% as at end-August 2010. As the economic prospects remain uncertain, the European Central Bank (ECB) has kept the policy rate low at 1.00% since June 2009 to sustain growth. For the year, Germany is expected to grow 3.3% (2009: -4.7%).

France grew 1.4% in the first half of 2010 (January – June 2009: -2.2%), mainly contributed by higher private consumption and exports as well as an increase in inventory. Manufacturing production grew 6.4%, mainly contributed by transport materials, chemicals, electric equipment as well as metal products sub-sectors. Retail sales increased 3.8% (January – June 2009: -1.0%). For the year, France is expected to grow 1.6% (2009: -2.5%).

Japan's GDP recovered to register 3.6% in the first half of 2010 (January – June 2009: -7.3%), largely on account of strong export growth of 32.2%. This was due to demand from the Asian markets and a pick-up in the US and European markets. The manufacturing sector continued to expand, albeit at a slower rate, reflected by the Purchasing Managers' Index (PMI) which averaged 52.9% (January – August 2009: 41.9%), indicating that exports remained favourable. In the first half of 2010, private consumption rose

TABLE 2.2

**Inflation Rate for Selected Economies
2009 – 2010**

	Change (%)	
	2009	2010 ¹
World	2.5	3.7
Developed Economies	0.1	1.4
United States	-0.3	1.4
Euro area	0.3	1.6
Japan	-1.4	-1.0
Emerging and Developing Economies	5.2	6.3
China	-0.7	3.5
Republic of Korea	2.8	3.1
India	10.9	13.2
ASEAN		
Singapore	0.6	2.8
Thailand	-0.8	3.0
Indonesia	4.8	5.1
Philippines	3.2	4.5
Vietnam	6.7	8.4
Malaysia	0.6	2.0 - 2.5

¹ Estimate.

Source: IMF and national authorities.

2.6% as retail sales increased 0.7%, following improvement in household spending as a result of better job prospects. However, investment growth remained subdued at -3.6% as tight financial conditions for small and medium enterprises (SMEs) prevailed. Nevertheless, private non-residential investment recorded a turnaround in the second quarter to register growth of 2.4%. Deflation continued to plague Japan with the CPI recording an average of -1.0% (January – August 2009: -0.9%), mainly due to the decline in food prices as well as fuel, electricity and water charges. Meanwhile, the Bank of Japan continued to keep its policy rate at 0.10% to sustain economic recovery. The unemployment rate stood at 5.1% as at end-August 2010 (end-August 2009: 5.4%). New job offers indicate signs of a pick-up in economic activities as corporate profits and current business conditions

improved. In early September 2010, Japan's cabinet approved a stimulus package worth ¥915 billion (USD10.9 billion) to support domestic consumer spending, corporate investment and employment amid strengthening yen. Japan's GDP growth is expected to rebound 2.6% in 2010 (2009: -5.2%), on account of stronger external demand and continued support from monetary and fiscal stimulus.

Emerging and developing economies rebounded swiftly to lead global recovery, reinforced by resilient domestic demand and strong exports in the first half of 2010. China, Singapore and Thailand registered double-digit expansion, while the rest returned to pre-crisis growth levels. Given the favourable external environment and strong expansion in China and India, GDP of the emerging and developing economies is expected to increase strongly by 7.1% in 2010 (2009: 2.5%).

China's economy registered strong double-digit growth of 11.1% in the first half of 2010 (January – June 2009: 7.1%), largely boosted by robust export performance and resilient domestic demand. Exports rose 35.2% to USD705.1 billion as China expanded trade with emerging markets such as Brazil, India and Russia to cushion reduced demand from developed economies. Private investment accelerated, particularly in real estate which rose sharply by 38.1% as a result of low borrowing costs and increasing property prices. Private consumption improved on account of higher urban and rural per capita expenditure which grew 7.2% and 8.5%, respectively. The increase was largely attributed to strengthened consumer confidence and steady gains in personal real income, which increased 7.5% in urban areas and 9.5% in rural areas. On the supply side, retail sales rose 18.2% to CNY7,267.0 billion or USD1,066.0 billion (January – June 2009: 15.0%; CNY5,871.0 billion or USD859.0 billion). The CPI increased 2.8% in the first eight months following higher prices of food (5.9%) and housing (4.1%). To curb soaring property prices and to restrain bank lending to the sector,

the People's Bank of China raised the deposit reserve requirement ratio for large financial institutions three consecutive times to 17.00%. The unemployment rate stood at 4.2% as at end-June, with 6.4 million new jobs created in urban areas during the first half of 2010. This is in line with China's plans to create about 9 million new jobs in urban areas and to keep the urban registered unemployment rate below 4.6% in 2010. China's GDP is envisaged to grow 10.5% in 2010 (2009: 9.1%), despite strict curbs on lending and property expansion to avoid overheating of the economy.

The economy of the **Republic of Korea** grew 7.6% in the first half (January – June 2009: -3.2%), the fastest growth in 10 years, largely due to the surge in exports and pick-up in domestic demand. Exports expanded 34.4% amid strong demand from China, the US and Japan for semiconductors and vehicles. Industrial production rebounded 22.2% (January – June 2009: -10.8%), on strong foreign demand during the period. In the first half of 2010, private consumption improved 5.0%, on account of higher household spending, following strong improvements in labour market conditions. This was also reflected in the supply side where wholesale and retail trade, restaurants and hotel businesses expanded 6.5%. Similarly, private investments, which comprised spending on production equipment and facilities surged 29.4%. Inflation averaged 2.6% (January – August 2009: 3.0%) as prices of agricultural produce and oil products increased. To curb inflation, the Bank of Korea raised its benchmark policy rate by 25 basis points to 2.25% in July. Meanwhile, the unemployment rate fell to 3.3% as at end-August 2010 (end-August 2009: 3.7%), amid government efforts to create jobs and continued hiring by manufacturers. Against this backdrop, growth is expected to accelerate 6.1% in 2010 (2009: 0.2%).

India's economy grew strongly by 8.8% in the first half of 2010 (January – June 2009: 5.9%). Growth was contributed mainly by the buoyant performance in services and manufacturing

activities, which expanded 9.0% and 14.4% (January – June 2009: 8.0%; 12.3%), respectively. The economy also gained from increasing private consumption, government expenditure and investment. Meanwhile, inflation as measured by the wholesale price index, rose sharply to average 9.8% in the first eight months (January – August 2009: 1.5%), mainly on account of elevated food prices caused by the drought in 2009, the worst in four decades, which severely affected farm output. The Reserve Bank of India has tightened monetary policy since January 2010 to reduce inflationary pressures. The cash reserve ratio was increased in January and April by 100 basis points to 6.00%. Meanwhile, the policy rate was revised upward five times by a total of 125 basis points to 6.00% as at end-September 2010. For 2010, India is expected to register growth of 9.7% (2009: 5.7%), supported by strong expansion in services and manufacturing as well as improved performance in agricultural output.

In the ASEAN region, all major economies registered positive growth, with Singapore and Thailand recording double-digit growth in the first half of 2010. **Singapore** posted robust growth of 17.9% (January – June 2009: -5.3%), attributed to a surge in manufacturing output as demand for exports recovered. Manufacturing output increased 41.5%, mainly contributed by the biomedical and electronics industries. Growth in the wholesale and retail trade sub-sector rose 17.9%, supported by higher tourist spending. Inflation increased 2.3% (January – August 2009: 1.3%), mainly due to higher costs in domestic transport, housing and food. Singapore's economy is expected to expand between 13.0% and 15.0% in 2010 (2009: -1.3%).

Thailand's economy rebounded to register strong growth of 10.6% (January – June 2009: -6.0%). Growth was largely led by the strong performance of exports and resilient domestic demand. Exports of goods and services rose 19.1%, due to rising demand for electronics, agricultural goods and automobiles. Private consumption increased 5.3% as retail sales surged

7.3%, due to better employment conditions and higher farm income. Inflation increased 3.5% (January – August 2009: -1.8%) as a result of higher prices of food as well as electricity, fuel and water. The Bank of Thailand raised its policy rate to 1.75% in August 2010, the second increase in almost two years as the economic recovery strengthened. For the year, growth is expected at 7.5% (2009: -2.2%).

Indonesia's economy grew 5.9% (January – June 2009: 4.3%), mainly driven by improved investment and household spending. Capital investment rose 7.9%, largely contributed by the expenditure on domestic and imported transport equipment, which increased 15.4% and 15.1%, respectively. Similarly, private consumption increased 4.5% following better employment prospects. On the supply side, retail sales registered robust growth of 9.5%, while manufacturing output increased 4.0%. Inflation registered an average of 4.6% (January – August 2009: 6.0%), as electricity tariff and food prices remained high. Despite rising inflationary pressures, Bank Indonesia has maintained its policy rate at a historic low of 6.50% since August 2009 to stimulate lending. For the year, the economy is expected to grow 6.0% (2009: 4.5%).

The Philippines' GDP rose sharply by 7.9% (January – June 2009: 0.9%), underpinned by robust consumer and government spending, as well as a surge in exports. Private consumption grew 5.4%, supported by large remittances from Filipinos working abroad, while government consumption grew 11.5%, largely on account of higher spending on pre-election and increased provision for welfare programmes. Total merchandise exports grew 29.3%, mainly contributed by semiconductors and electric microcircuits. Inflation increased 4.2% (January – August 2009: 3.7%), reflecting higher fuel and utility prices. In August, *Bangko Sentral ng Pilipinas* maintained its policy rate at a record low of 4.00% to support economic recovery. Growth is expected to be between 5.0% and 6.0% in 2010 (2009: 1.1%).

Vietnam's GDP accelerated 6.2% (January – June 2009: 3.9%), mainly buoyed by increase in the manufacturing (7.6%), agriculture (3.2%) and retail trade (7.6%) sub-sectors. Inflation registered an average of 8.6% (January – August 2009: 8.5%) as food and transportation costs began to trend lower. The State Bank of Vietnam has held its policy rate unchanged at 8.00% since December 2009. For 2010, GDP growth is expected at 6.5% (2009: 5.3%).

Growth in **other developing countries** is expected to rebound but at varying paces across regions. The **Middle East and North Africa** (MENA) is expected to grow 4.1% (2009: 2.0%) as external demand and commodity prices improve. Expansionary fiscal policies in **oil-exporting economies** are expected to contribute to higher growth. Saudi Arabia and Qatar will lead growth with expansion of 3.4% and 16.0%, respectively supported by investment in oil and gas production capacity. Meanwhile, **oil-importing countries** are expected to gain from increasing intra-regional trade. However, revival of credit growth remains a concern for the region which has suffered corporate defaults, particularly in Dubai, Kuwait and Saudi Arabia.

Growth in **Sub-Saharan Africa** is forecast at 5.0% in 2010 (2009: 2.6%), benefiting from the recovery in exports, commodity prices, strong domestic demand in a number of economies and the implementation of countercyclical fiscal policies. Among oil-exporting countries, Nigeria and Angola are expected to register strong growth of 7.4% (2009: 7.0%) and 5.9% (2009: 0.7%), respectively supported by increasing oil production. South Africa, the largest economy in the region, is projected to grow 3.0% (2009: -1.8%), underpinned by strong demand for minerals from Asia and recovery of manufactured exports to the euro area as well as hosting of the 2010 FIFA World Cup.

The **Commonwealth of Independent States** (CIS) are expected to record modest recovery, with uneven growth prospects across the region, largely on account of different economic structures.

GDP growth is expected to rebound 4.3% (2009: -6.5%), mainly supported by improved commodity prices, the recovery in global growth and trade as well as benefiting from the turnaround in Russia. The Russian economy expanded 4.1% during the first half of 2010 (January – June 2009: -10.1%), backed by higher household consumption and strong exports. For the year, the economy is projected to expand 4.0% (2009: -7.9%), attributed to higher oil prices, government stimulus spending and improved inventory cycle. The extreme heat wave and drought in mid-June destroyed more than one-fifth of Russia's grain crops and is expected to impact near-term growth. GDP growth for Uzbekistan and Turkmenistan is expected at 8.0% and 9.4% (2009: 8.1%; 6.1%), respectively mainly due to higher commodity prices.

Meanwhile, economic recovery in **Latin America** continued to advance faster than expected, albeit at a different pace across countries. The better performance, particularly in commodity exporting countries such as Brazil, Chile, Colombia, Mexico and Peru was due to the pick-up in global trade since mid-2009. Financially integrated economies such as Brazil, Chile and Mexico benefited from improvements in financial markets and are expected to register growth of 7.5%, 5.0% and 5.0% (2009: -0.2%; -1.5%; -6.5%), respectively for the year. Overall for 2010, growth in Latin America is projected to rebound strongly by 5.7% (2009: -1.7%).

Investment Flows

Better prospects in 2010...

Global foreign direct investment (FDI) flows continued to contract in 2009 as a result of the global financial crisis and economic downturn. The World Investment Report by the United Nations Conference on Trade and Development (UNCTAD) indicated that FDI inflows plunged further by 37.1% to USD1,114.2 billion after contracting 15.7% in 2008. The sharp decline reflected falling profits and reduced financial

capabilities of companies, impacted by the global crisis. Cross-border mergers and acquisitions (M&As) were the most severely affected. The contraction in global FDI flows was accompanied by a major shift in global FDI patterns. The share of developing and transition economies for inflows and outflows of global FDI increased. Furthermore, FDI in manufacturing contracted the most compared with the services and primary sectors.

Inflows of FDI to developed countries suffered the largest decline of 44.4% to USD565.9 billion in 2009 (2008: -29.5%; USD1,018.3 billion) as these countries were severely affected by the financial crisis. The decline was attributed to a drastic drop in the number of cross-border M&As. Among the developed countries, North America experienced sharp contraction in FDI inflows at 60.9% to USD148.5 billion (2008: 1.5%; USD379.8 billion). However, the US remained the single largest recipient of FDI flows, despite a contraction of 60.0%. Meanwhile, FDI inflows to Japan shrank 51.1% to USD11.9 billion (2008: 8.3%; USD24.4 billion), while FDI inflows to 27 member countries of the European Union (EU) contracted sharply by 32.6% to USD361.9 billion (2008: -41.9%; USD536.9 billion). However, FDI flows to Germany continued to expand 46.0%, due to an upswing in intra-company loans.

FDI inflows to developing countries contracted 24.1% to USD478.3 billion (2008: 11.5%; USD630.0 billion) after six consecutive years of growth, accounting for a larger share at 42.9% (2008: 35.6%) of total global FDI. South, East and Southeast Asia remained the largest recipients, despite FDI contracting 17.5% to USD233.1 billion (2008: 9.1%; USD282.4 billion). The decrease was attributed to lower profitability and sharp decline in stock prices, which depressed the value and scope for cross-border M&As, an increasingly important mode of FDI entry. Consistent with these developments, the shift in the global FDI landscape towards developing and emerging economies continued to be led by the South, East and Southeast Asia regions. Asia's share in global FDI inflows is estimated at one-fifth,

TABLE 2.3

**FDI Inflows by Selected Host Regions
and Major Host Economies
2008 – 2009**

	USD billion		Change (%)
	2008	2009	
World	1,770.9	1,114.2	-37.1
Top 5 recipients for 2009			
United States	324.6	129.9	-60.0
China	108.3	95.0	-12.3
France	62.2	59.6	-4.2
Hong Kong, China	59.6	48.4	-18.7
United Kingdom	91.4	45.6	-50.1
Developed economies	1,018.3	565.9	-44.4
Europe	551.0	378.3	-31.3
European Union	536.9	361.9	-32.6
Japan	24.4	11.9	-51.1
Developing economies	630.0	478.3	-24.1
Asia and Oceania	374.6	303.2	-19.1
India	40.4	34.6	-14.4
ASEAN	47.3	36.8	-22.1
Singapore	10.9	16.8	54.0
Thailand	8.5	5.9	-30.4
Malaysia	7.3	1.4	-81.1
Vietnam	8.0	4.5	-44.1
Indonesia	9.3	4.9	-47.7
Transition economies	122.6	69.9	-42.9
South-East Europe	12.7	7.6	-40.4
Commonwealth of Independent States	109.9	62.4	-43.2

Source: UNCTAD.

with China, Hong Kong and India ranked second, fourth and ninth, respectively among the top 10 recipients of global FDI.

In West Asia, FDI inflows contracted 24.3% to USD68.3 billion (2008: 15.6%; USD90.3 billion). The tightening of credit markets following the Dubai debt crisis led to the sharp decline of FDI in United Arab Emirates (UAE) and Saudi Arabia. In the case of Turkey, the decline was attributed to lower export-oriented FDI. Inflows of FDI to Latin America and the Caribbean fell the most at 36.4% to USD116.6 billion (2008: 12.0%; USD183.2 billion), reflecting the decline in reinvestment earnings.

FDI into Africa decreased 18.9% to USD58.6 billion (2008: 14.4%; USD72.2 billion), mainly due to contraction in global demand and the fall in commodity prices. The rapid economic expansion in Asia, particularly industrial upgrading has increasingly become a valuable source of FDI into Africa, especially in natural resources and manufacturing.

FDI outflows from developed countries contracted sharply by 47.8% to USD820.7 billion (2008: -18.3%; USD1,571.9 billion), while outflows from developing countries declined 22.7% to USD229.2 billion (2008: 1.4%; USD296.3 billion). Developing countries, particularly China and India are steadily gaining importance as a source of FDI in tandem with increasing intra-regional trade and investment in Asia.

FDI into ASEAN declined 22.1% to USD36.8 billion in 2009 (2008: -36.1%; USD47.3 billion). Singapore recorded strong growth of 54.0% to USD16.8 billion, while all other member states registered declines. Malaysia received USD1.4 billion, followed by Vietnam (USD4.5 billion), Indonesia (USD4.9 billion) and Thailand (USD5.9 billion). In 2009, FDI outflow from ASEAN reached USD21.3 billion (2008: USD15.4 billion), as ASEAN transnational companies continued outward investment activities to seek new and profitable markets.

Global FDI inflows are expected to recover gradually in 2010. This is partly contributed by an improvement in reinvested earnings since the second half of 2009 and a pick-up in cross-border M&A activities, which grew 36.0% in the first five months of 2010. Developing countries are leading the FDI recovery, with UNCTAD expecting FDI inflows to exceed USD1.2 trillion in 2010.

Trade Flows

Trade flows expand...

Global trade volume rebounded quickly and is expected to record robust growth of 11.4% in 2010, after suffering a significant decline of

TABLE 2.4

Exports and Imports for Selected Countries January – August

	Exports			Imports			Total Trade		
	USD billion		Change (%)	USD billion		Change (%)	USD billion		Change (%)
	2009	2010		2009	2010		2009	2010	
United States ¹	885.8	1,044.2	17.8	1,089.8	1,333.0	22.3	1,975.6	2,377.2	20.3
Euro area ²	1,995.3	2,250.6	12.8	1,948.4	2,204.3	13.1	3,943.7	4,454.9	13.0
Japan	349.7	491.8	40.6	345.7	444.2	28.5	695.4	936.0	34.9
China	730.7	990.0	35.5	608.8	885.8	45.5	1,339.5	1,875.8	40.0
Singapore	167.7	226.0	34.8	152.7	202.5	32.6	320.4	428.5	33.7

¹ Includes goods and services as at end-July.

² January – July.

Source: WTO and national authorities.

11.0% in 2009. The improved performance is due to a pick-up in demand worldwide since the second half of 2009, supported by strong fiscal and monetary responses to mitigate the recession and stimulate growth as well as strong consensus to refrain from trade protectionism. Nevertheless, the 11.4% forecast is premised on continued economic recovery, particularly in developed countries, due to their larger share of world trade. Significant downside risks to the growth include escalation of the debt crisis in Europe, higher than expected unemployment rates in developed economies, volatility in major currencies and a spike in commodity prices, notably oil and steel.

As economies recover, trade imbalances are expected to widen further between developed and developing countries in 2010, particularly due to the impact of foreign exchange movement and faster GDP growth in emerging and developing economies. Emerging and developing economies are expected to lead export growth at 11.9% (2009: -7.8%), while advanced economies are expected to improve significantly by 11.0% (2009: -12.4%). For advanced economies as well as emerging and developing economies,

imports are anticipated to grow 10.1% and 14.3% (2009: -12.7%; -8.2%), respectively.

Total trade for the **US** has been on an upward trend, on account of a rebound in global trade and recovery in major trading partners, which boosted exports. In the first seven months of 2010, exports rose 17.8% to USD1,044.2 billion (January – July 2009: -19.5%; USD885.8 billion), while imports increased 22.3% to USD1,333.0 billion (January – July 2009: -28.9%; USD1,089.8 billion), driven by increased demand for imported industrial supplies and materials, capital goods as well as automotive vehicles parts and engines. The total trade deficit remained high at USD288.8 billion (January – July 2009: USD204.0 billion). However, in July, the trade deficit narrowed to USD42.8 billion, down 14.1% from USD49.8 billion in the previous month, reflecting a surge in exports, particularly aircraft, while imports declined. Major merchandise export destinations were Canada with a share of 16.9% of total exports, China (13.6%), Mexico (12.3%), Japan (5.6%), Germany (4.1%) and the United Kingdom (UK) (3.2%). For 2010, the trade deficit is expected to widen as demand for imports recover and oil prices trend up.

Total trade for the **euro area** grew 13.0% to USD4,454.9 billion (January – July 2009: -32.2%; USD3,943.7 billion) and the main trading partners were the US, China, Switzerland and Russia. Exports for the euro area rose 12.8% to USD2,250.6 billion (January – July 2009: -31.6%; USD1,995.3 billion), while imports increased 13.1% to USD2,204.3 billion (January – July 2009: -32.9%; USD1,948.4 billion). In recent years, the euro area's trade with China has increased considerably. China is now the euro area's biggest source of imports and the second largest trading partner after the US. Reflecting the rebound in global trade, total exports and imports of the euro area in 2010 is expected to increase 6.4% and 5.0%, respectively.

Total trade for **Japan** rose 34.9% to USD936.0 billion (January – August 2009: -33.7%; USD695.4 billion). China remained the leading trading partner with a share of 20.3% followed by ASEAN (14.6%), the US (12.7%) and the EU (10.5%). Exports surged 39.1% following strong demand for motor vehicles, high-tech products and industrial machinery. Vehicle exports increased significantly 65.8%, while auto parts rose 59.3%, due to higher demand from China and the US. Meanwhile, exports to and imports from the EU rose 22.1% to USD54.5 billion and 13.0% to USD43.1 billion, respectively. Japan's exports of goods and services are projected to increase 19.5%, while imports 7.5% in 2010.

China's total trade increased 40.0% to USD1,875.8 billion (January – August 2009: -22.4%; USD1,339.5 billion). China's main trading partners were the EU (16.3%), the US (12.9%), Japan (9.9%) and ASEAN (9.8%). Trade between China and the EU rose 36.2% to USD305.8 billion, while trade with the US grew 32.0% to USD242.6 billion. China's trade with Japan also grew sharply by 34.8% to reach USD186.9 billion, resulting in Japan becoming China's third largest trading partner. China's trade deficit with Japan nearly doubled to reach USD36.2 billion. Meanwhile, trade with ASEAN increased significantly by 47.2% to USD185.4 billion. Major exports included automatic data processing machines, textiles, garments and

clothing as well as handphones. Imports included crude petroleum oil, iron ores, copper and motor vehicles. China's exports of goods and services are envisaged to increase 30.3%, while imports 26.3% in 2010.

Singapore's total trade expanded 33.7% to reach USD428.5 billion (January – August 2009: -30.7%; USD320.4 billion). Total exports grew 34.8% (January – August 2009: -29.7%), on account of higher sales of electronic and non-electronic products. Singapore's main trading partners were the EU, Malaysia, the US, China, and Indonesia. For the year, total trade is projected to record USD844.1 billion, an increase of 22.7%. Exports are projected to increase 22.9%, while imports 22.6%.

International Economic Cooperation

Post-crisis challenges...

The recent global economic crisis has accentuated the need for greater international cooperation and coordination of policy responses. In addition, the crisis also underscored the pivotal role of developing economies in the global decision-making process towards achieving sustainable and balanced growth. At the multilateral and regional levels, initiatives continue to be undertaken to strengthen economic growth, while ensuring the stability of the financial system.

International financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF) have increased their lending efforts, especially in assisting low-income countries (LICs). As LICs integrate into the global economy, they are susceptible to volatile economic conditions. In response, the IMF overhauled three of its lending instruments to be more flexible and customised under the Poverty Reduction and Growth Trust (PRGT), effective January 2010. The Extended Credit Facility (ECF) caters to meet medium-term balance of payments (BOP) needs, while the Standby Credit Facility (SCF) supports short-term financing and adjustment

needs. Additionally, the IMF introduced the Rapid Credit Facility (RCF) without conditionalities and upfront disbursement for urgent BOP problems and other emergencies, including natural disasters. Since inception to August 2010, the IMF has approved new ECF for 12 countries and ECF augmentations for four countries, RCF for Nepal and SCF for Solomon Islands. In 2009, the IMF doubled its concessional lending to USD3.8 billion and concessional resources to USD17.0 billion through 2014. Meanwhile, interests due under concessional lending through end-2011 were waived.

As for middle-income countries, the IMF introduced further reforms to its lending instruments in August 2010. The Flexible Credit Line (FCL), which is an existing crisis prevention and resolution instrument for countries with very strong fundamentals and policies, was refined further. The duration of the FCL is now increased from one to two years, whereas the implicit cap on access is removed so that it is based on individual country financing needs. A new crisis prevention instrument, Precautionary Credit Line (PCL), was also introduced for countries with sound fundamentals and policies but with moderate vulnerabilities.

During the 2010 Spring Meetings, the Development Committee approved a capital increase of USD86.2 billion for the International Bank of Reconstruction and Development (IBRD), the first in more than 20 years. Of the total, USD58.4 billion was through a general capital increase (GCI), while USD27.8 billion was through a selective capital increase (SCI). The capital increase will strengthen IBRD's lending capacity, and marks a historic shift of 3.13% in voting power to developing and transition countries (DTCs) from 44.1% to 47.2%. This shift is a recognition of the dynamism of DTCs in the global economy, as well as necessary for the Bank to maintain its legitimacy in the post-crisis world. Similarly, the International Finance Corporation (IFC) will

have a capital increase of USD200.0 million through the SCI.

Lending by the World Bank Group in the financial year (FY) 2010 reached an all-time high of USD72.0 billion, notably with commitments from IBRD of USD44.2 billion (FY2009: USD32.9 billion). The International Development Association's (IDA) commitments up to mid-April reached USD7.3 billion. Meanwhile, the IFC committed USD222.0 million for initiatives to overcome agricultural food crisis and USD506.0 million towards agricultural trade finance.

At the regional level, several initiatives are in place to support the realisation of the ASEAN Economic Community (AEC) by 2015. In an effort to accelerate the process towards achieving the objectives of the AEC, connectivity among ASEAN Member States has been given great emphasis. In this context, ASEAN Member States have proposed to establish the ASEAN Infrastructure Fund (AIF) to mobilise regional financial resources to fund regional infrastructure development and boost the long-term growth potential. In addition, the ASEAN Finance Ministers' Investors Seminar (AFMIS) series launched in 2004 provides an avenue to promote ASEAN as an attractive investment destination and to brand ASEAN as an asset class. This will enhance awareness of investment opportunities and accelerate regional integration. AFMIS was previously held in major investment centres such as New York, London, Singapore, Hong Kong and Dubai. In November 2010, Malaysia will host the 7th AFMIS series in Kuala Lumpur.

Similarly, the ASEAN+3 (China, Japan and Korea) member countries will continue to focus on two major initiatives, namely the multilateralisation of swap arrangements under the Chiang Mai Initiative Multilateralisation (CMIM) and the Asian Bond Market Initiative (ABMI). The CMIM came into effect on 24 March 2010 and enables member countries to enter into multilateral currency swap

arrangements to address short-term liquidity needs and balance of payments difficulties. In addition, the ASEAN+3 Macroeconomic Research Office (AMRO), the surveillance arm of CMIM will be established to monitor, assess and report on the macroeconomic and financial status of member countries. Under the ABMI, two initiatives were endorsed by member countries, namely the Credit Guarantee and Investment Facility (CGIF) and the ASEAN+3 Bond Market Forum (ABMF). The CGIF is a trust fund managed by Asian Development Bank (ADB) with an initial capital of USD700.0 million to support the issuance of corporate bonds in the region, while the ABMF will provide a platform to discuss standardisation of market practices and harmonisation of regulations relating to regional cross-border bond transactions.

At the inter-regional level, the Asia-Pacific Economic Cooperation (APEC) provides a forum to share experiences and capacity building in various developmental issues. The APEC Finance Ministers' Meeting in Singapore in November 2009 discussed issues relating to fiscal management, structural reforms of domestic economies to support global economic growth, capacity building as well as strengthening financial surveillance. Malaysia hosted several capacity building activities under the APEC Finance Ministers' Process (FMP) Policy Initiatives. These included a workshop and seminar on Improving Strategies for Fiscal Sustainability and Economic Recovery in December 2009 and a seminar on Financial Institutions Dealing with SMEs in July 2010.

Prospects for 2011

Favourable global outlook...

Prospects for the global economy remain favourable in 2011 with continued improvements in global trade and investment, particularly in emerging and developing countries. In addition, enhanced post-crisis policy coordination, ongoing regulatory reform of the international financial system and efforts to further liberalise trade and investment are expected to facilitate private sector driven growth. However, challenges to the growth momentum remain. These include the high level of public debt and unemployment rate as well as constrained bank lending in developed economies and tightening of monetary policy in several emerging Asian economies to contain inflationary pressures.

Global growth is projected at 4.2% (2010: 4.8%), led by China, India and Indonesia, which are expected to grow 9.6%, 8.4% and 6.2%, respectively, supported by sustained domestic demand. Growth in the US is expected to range between 3.5% and 4.2%, sustained by a pick-up in private demand, while the euro area is anticipated to grow 1.5%, largely due to export growth in Germany and France. World trade is projected to grow 7.0% (2010: 11.4%), contributed by increasing trade in emerging and developing economies, while trade is expected to grow moderately in developed economies. In line with positive world growth and trade prospects, global FDI is also expected to increase between USD1.3 trillion and USD1.5 trillion.

