Chapter 1 World economic trends after the global economic crisis

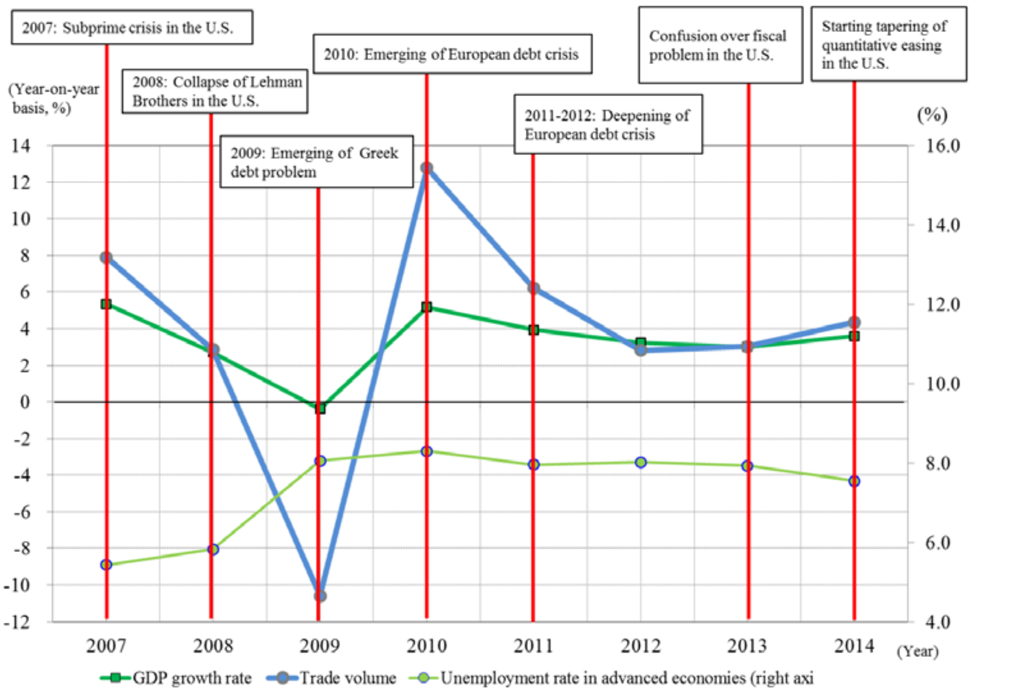
Section 1 Changes since the global economic crisis
(From just before the collapse of Lehman Brothers to the most recent year)

1. World economic trends as seen from major economic indicators

After the collapse of Lehman Brothers in the United States in September 2008, the world economy plunged into the most serious recession in recent years due to the financial crisis that spread on a global scale. Subsequently, although the world economy quickly recovered after hitting bottom in 2009, the Greek debt problem emerged in October 2009, barely more than one year after the collapse of Lehman Brothers. As this problem later developed into the European debt crisis, the world economy lost its momentum again in 2011 (Figure I-1-1-1).

Amid the protracted the European debt crisis, the world real GDP growth rate and world trade volume have remained sluggish on a year-on-year basis since 2011, and the unemployment rates have stayed high in advanced economies. In 2011, the growth of emerging economies, particularly China, had showed signs of weakening. In 2013, advanced economies displayed strength: the U.S. economy remained robust while the European economy showed signs of recovering from the prolonged stagnation. On the other hand, a slowdown stood out among emerging economies generally in 2013. As a consequence, the entire world economy as a whole grew at a moderate pace in 2013.

Figure I-1-1-1 Trends in world real GDP growth rates, global trade volume, and unemployment rates (annual rate)

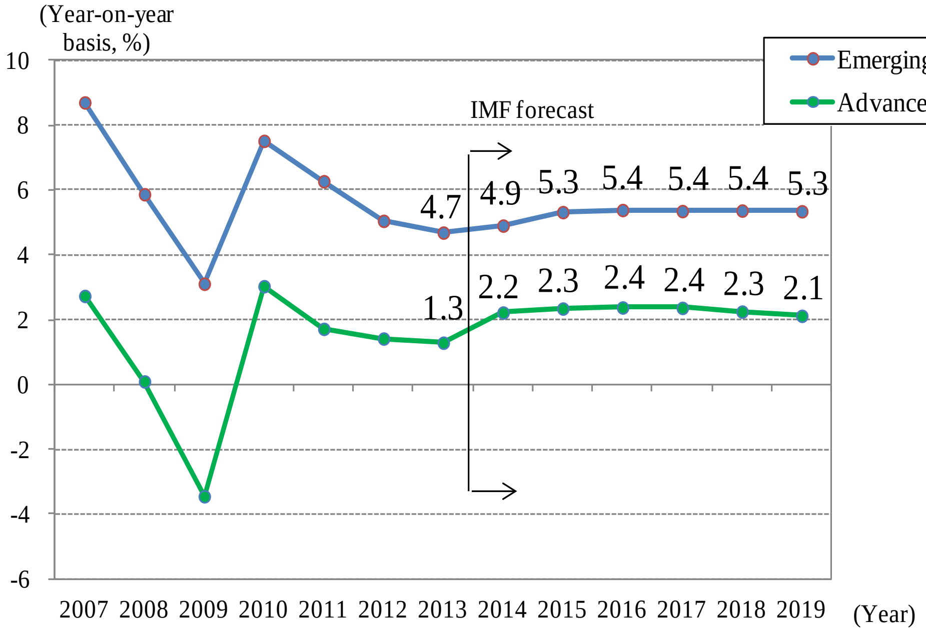


Source: *WEO, April 2014* (IMF).

(1) GDP trends

In the past five years, the world economy faced two serious crises, the global economic crisis and the European debt crisis. While advanced economies slowed down deeply during the period, emerging economies, such as China and ASEAN countries, recorded strong economic growth, acting as driving forces of the world economy after the collapse of Lehman Brothers. Although the growth of emerging economies has shown signs of weakening since 2011, the International Monetary Fund (IMF) projects[1] a recovery for those economies as well in 2014 following the improvement of advanced economies (Figure I-1-1-2). As for the China's economy, for which a slowdown has been pointed out, the annual growth rate is expected to remain at a relatively high level of 7%. In 2015, all of China, India, and ASEAN5 are projected to continue to record a higher economic growth rate than the United States, while the economies of Brazil and the euro area are also expected to recover, with higher growth rates exceeding Japan's (Figure I-1-1-3[2]).

Figure I-1-1-2 GDP forecasts of advanced economies and emerging and developing economies



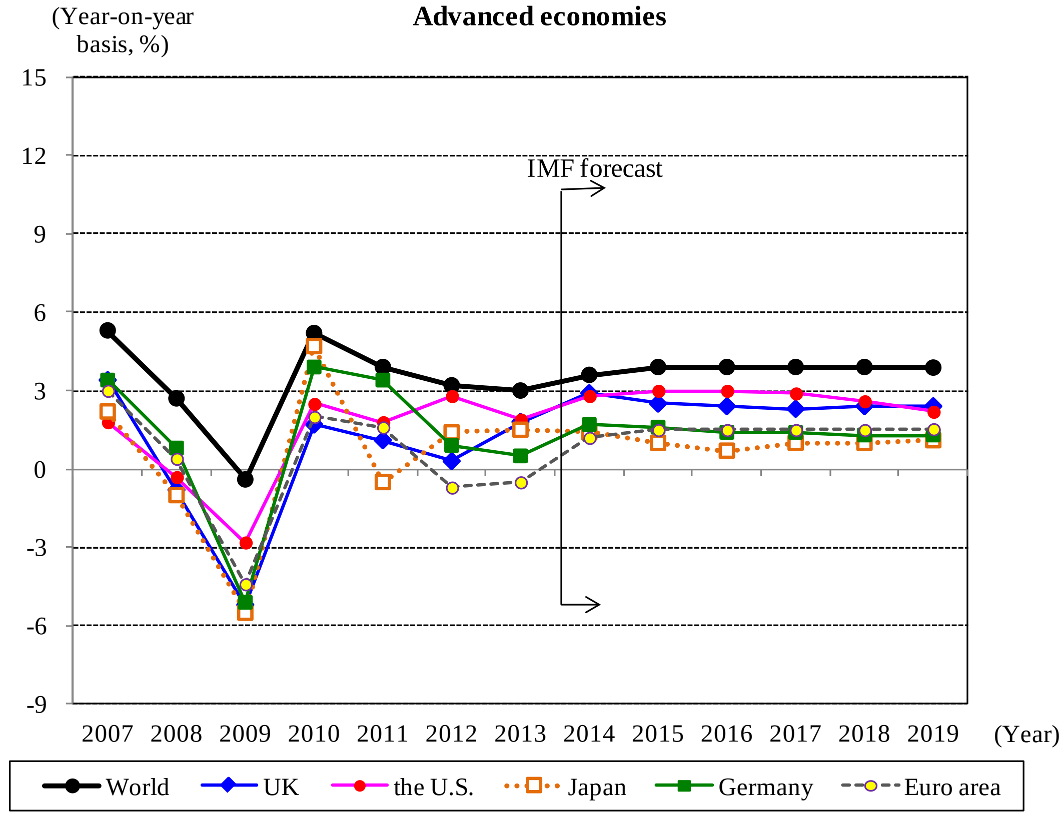
Notes: From 2014 onward, the figures show IMF estimated values.
Source: *WEO, April 2014* (IMF).

[1] "*WEO April 2014*"(IMF)

[2] The euro area was expanded to 18 countries due to the accession of Latvia in January 2014. However, as the values of Latvia's economic indicators are very small, data for the 17 euro area countries until December 2013 is used for the period after January 2013 as well for convenience's sake from the perspective of data consistency.

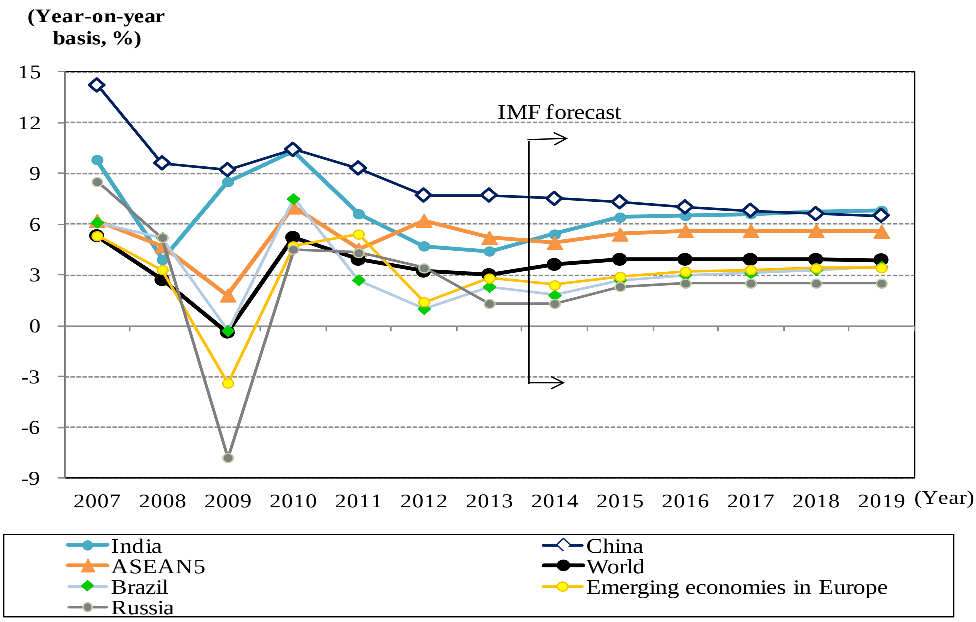
Figure I-1-1-3　GDP forecast in major economies

Advanced economies



Source: *WEO, April 2014* (IMF).

Emerging economies[3]



Notes: ASEAN5: Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam
Source: *WEO, April 2014* (IMF).

[3] On April 30, 2014, the IMF published the Concluding Statement for the 2014 Article IV Consultation Mission with regard to Russia. The projection of Russia's GDP growth rate in the World Economic Outlook was revised from 1.3% to 0.2% for 2014 and from 2.3% to 1.0% for 2015.

Because of their high growth rates, the economic presence of emerging and developing economies in the world economy is growing. The share of emerging and developing economies in the world economy, which was slightly less than 30% in 2007, became just under 40% in 2013 (Figure I-1-1-4[4]). As their share is expected to grow further in 2019, emerging and developing economies are continuously expected to play roles as driving forces of the world economic recovery and growth.

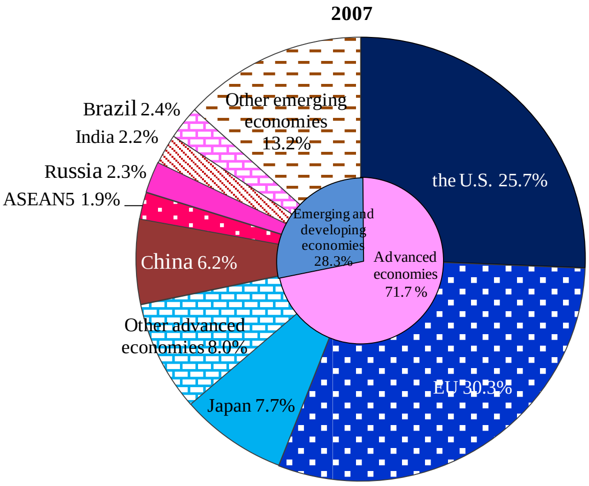
According to the IMF's projections of the shares of emerging and developing economies in the world economy for the period until 2019[5], China is projected to account for 14.7% of the world economy and more than a third of emerging economies' combined share (41.4%) in 2019. However, the pace of the expansion of China's share in 2014 is projected at 0.7%, down from the range of 1.0% to 1.2% in each year between 2007 and 2013 (except for 2010), and is expected to gradually slow down on a year-on-year basis, falling to 0.1% in 2019 (Figure I-1-1-5). Russia's share of the world economy is projected to decline moderately after peaking in 2013, while Brazil's share is expected to remain flat from 2014 onwards. Meanwhile, the shares of India and ASEAN5 are projected to grow moderately from 2014 and 2016 onwards, respectively. The shares of other emerging economies are also expected to expand moderately from 2016 onwards.

As shown above, among emerging economies, China is expected to grow at a moderate pace despite increasing its presence, while the shares of India and ASEAN5 are likely to grow gradually.

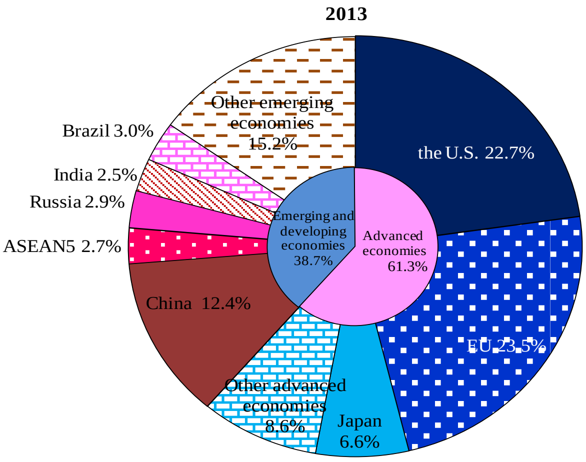
[4] The EU was expanded to 28 countries due to the accession of Croatia in July 2013. However, as the values of Croatia's economic indicators are very small, data for the 27 EU member countries until June 2013 is used for the period after July 2014 as well for convenience's sake from the perspective of data consistency.

[5] "*WEO April 2014*" (IMF)

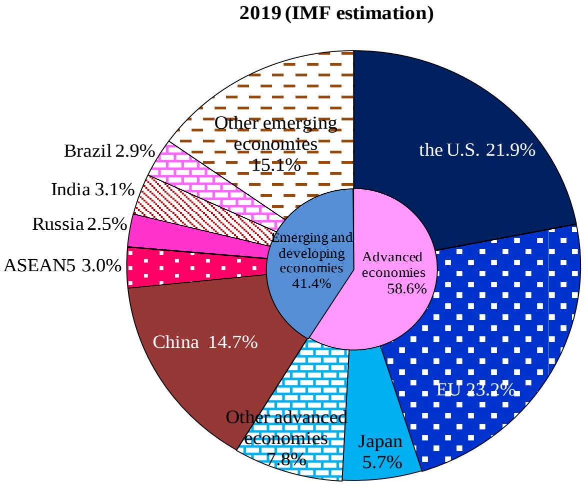
Figure I-1-1-4 Composition of world GDP (2007, 2013, 2019)



Source: *World Economic Outlook, April 2014* (IMF).

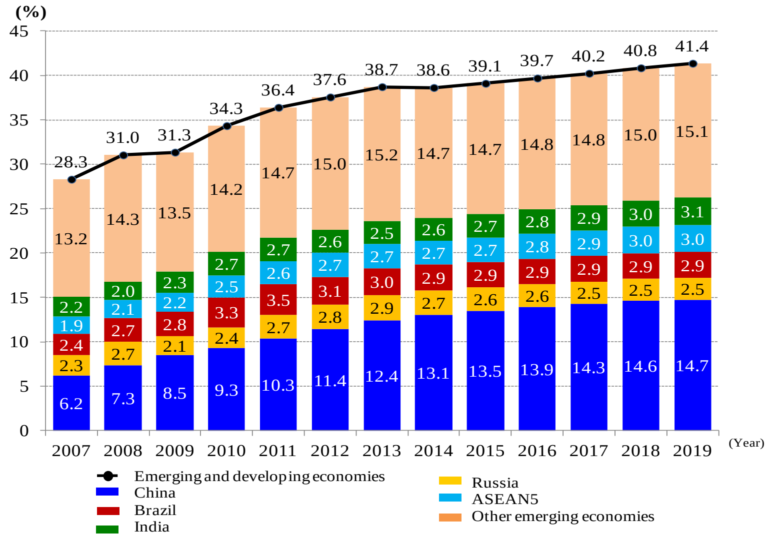


Source: *World Economic Outlook, April 2014* (IMF).



Source: *World Economic Outlook, April 2014* (IMF).

Figure I-1-1-5　Shares of emerging and developing economies in world GDP (2007-2019)

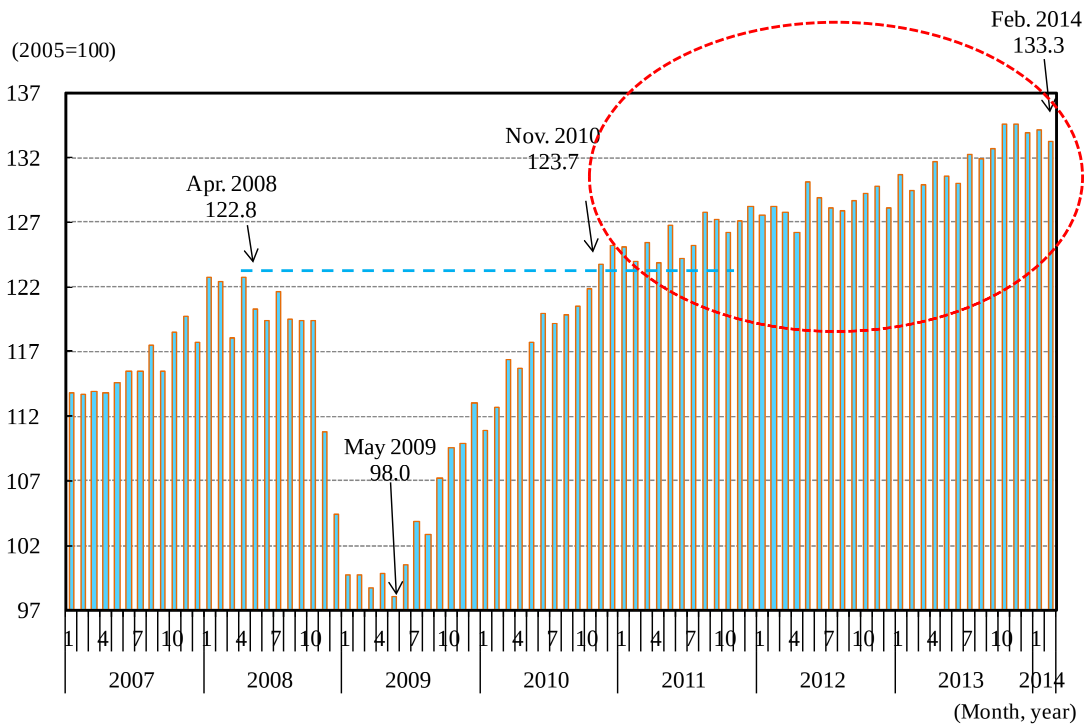


Source: *World Economic Outlook, April 2014* (IMF).

(2)　Trade trends

The world trade volume fell steeply due to the impact of the 2008 global economic crisis. However, in May 2009, trade volume hit bottom, and in November 2010, it recovered to the peak level that had been reached in April 2008, immediately before the global economic crisis. Since then, the global trade volume has grown only moderately against the backdrop of the European debt crisis, among other factors (Figure I-1-1-6).

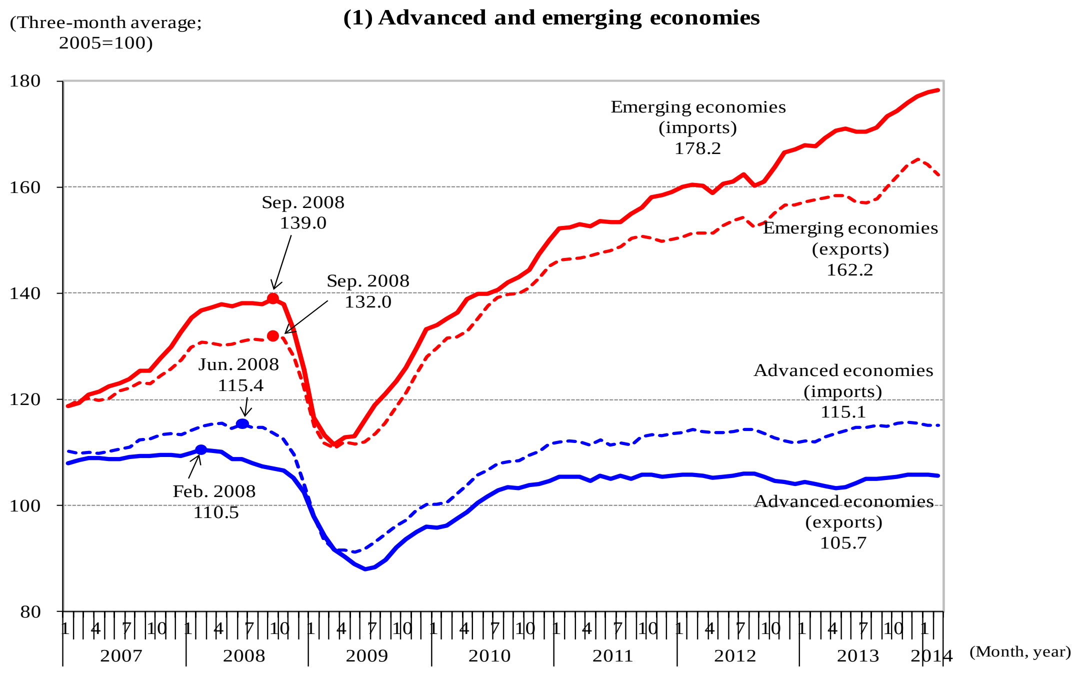
Figure I-1-1-6　Trends in world trade volume



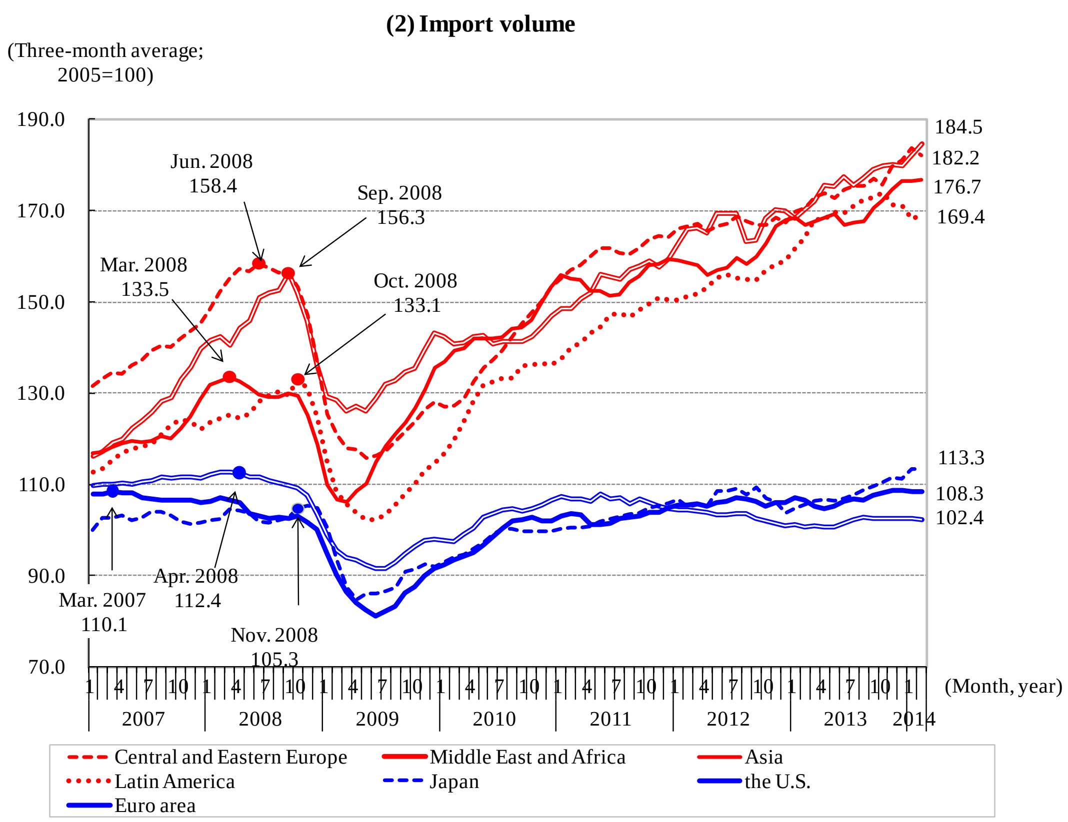
Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).

Both exports and imports by emerging economies have steadily recovered from the slump caused by the global economic crisis and have continued to record high growth rates (Figure I-1-1-7 (i)). On the other hand, both exports and imports by advanced economies have not yet recovered to the pre-crisis peak level due to the prolonged effects of the global economic crisis and the European debt crisis. As for imports, the import volumes of advanced economies, including all of the United States, the euro area and Japan, have stayed almost flat after making a recovery to close to the pre-crisis peak level. On the other hand, the import volumes of emerging economies in all of Central and Eastern Europe, Asia and Latin America have surpassed the pre-crisis level and have continued to grow steadily (Figure I-1-1-7 (ii)). In terms of exports, among advanced economies, the export volume of the United States has surpassed the pre-crisis peak and has been recovering steadily, but growth in the export volumes of the euro area and Japan has remained weak (Figure I-1-1-7-(iii)). As for emerging economies, the export volumes have grown to exceed the levels before the global economic crisis, with the volume of Asian economies recording particularly strong growth. In terms of trade value, Asia overtook the European Union in 2013 (Figure I-1-1-8). In particular, the export value of China continued to grow steadily after the global economic crisis, and in 2009, it surpassed the export value of Germany, making China the world's largest exporter country in value. In contrast, growth in the export values of advanced economies such as the United States, Germany and Japan has remained weak.

Figure I-1-1-7 Trends in trade volume in major countries and regions (Indices; three-month average)

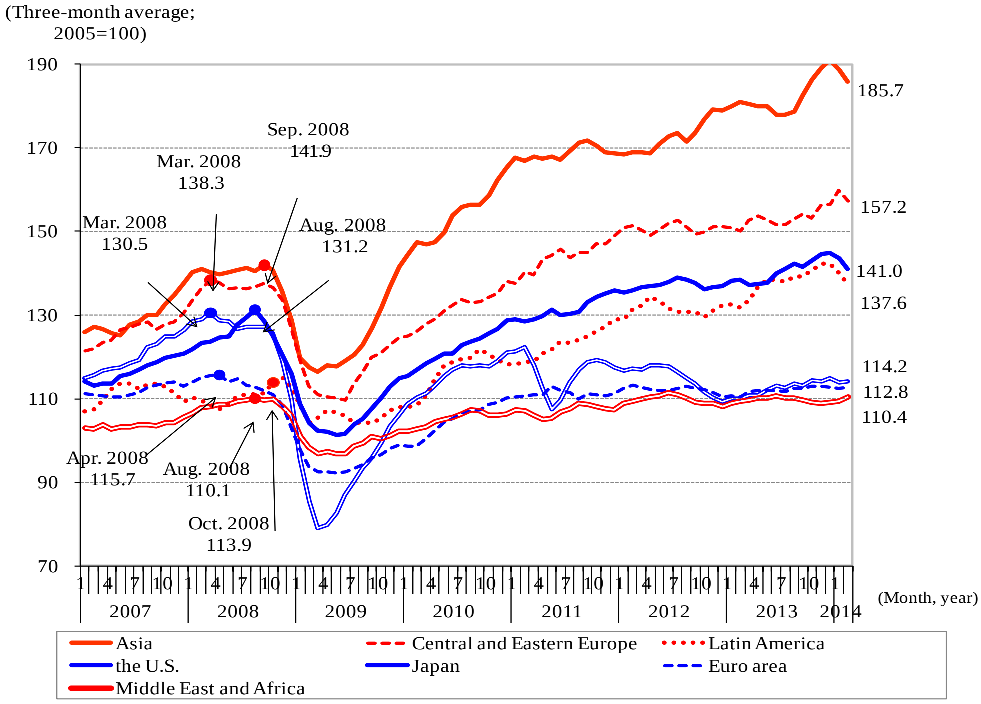


Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).



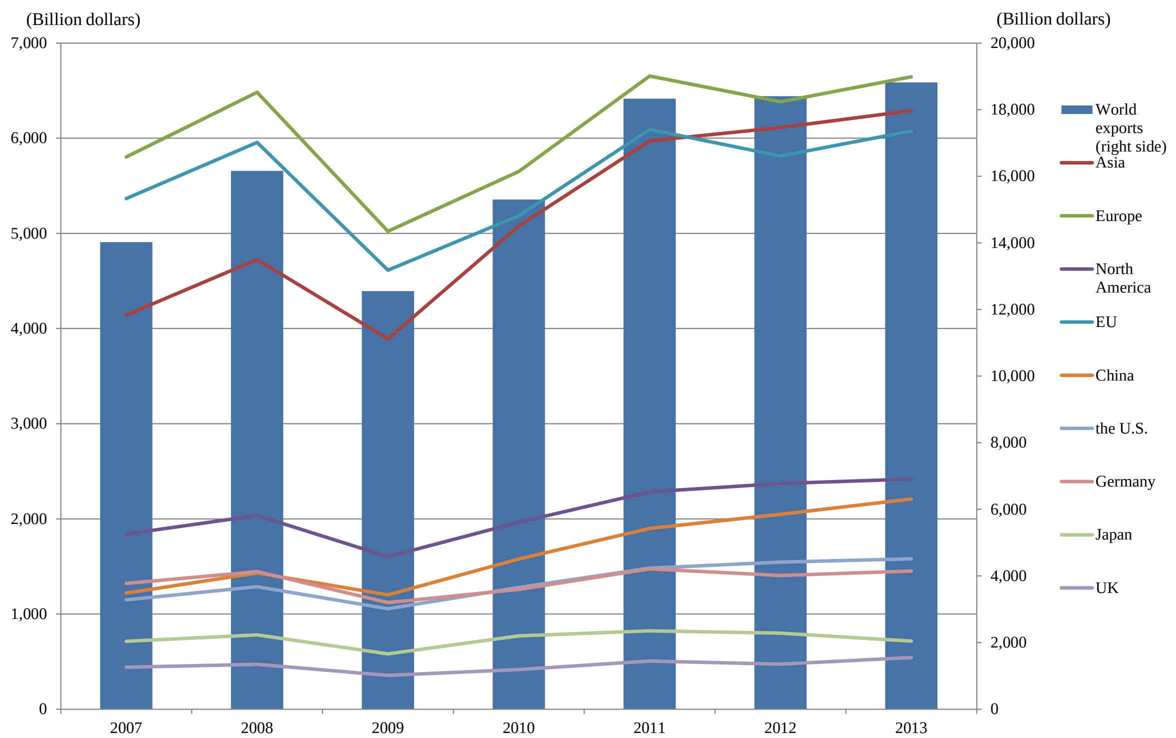
Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).

(3) Export volume



Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).

Figure I-1-1-8 Trends in export values in major economies



Source: *Short-term trade statistics* (WTO).

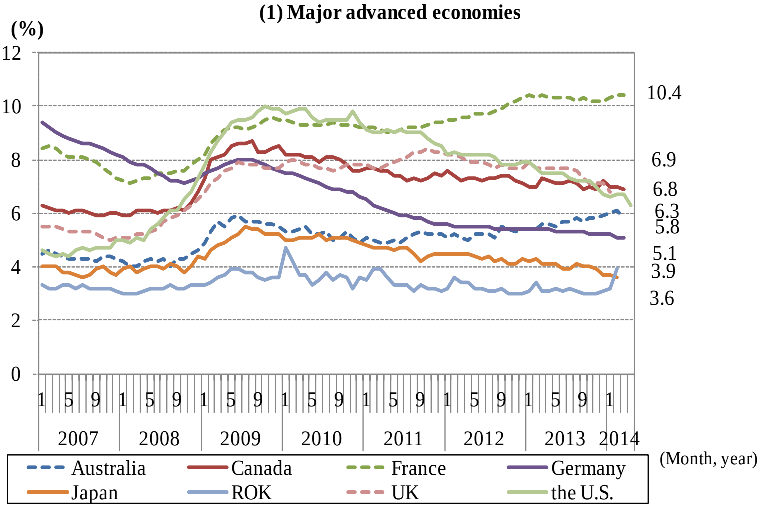
(3) Labor market trends

Although the unemployment rate in advanced economies has generally been declining moderately, the rate is still higher before the level before the global economic crisis except in Germany and Japan. In France in particular, the unemployment has risen, and in Greece and Spain, the unemployment rate has remained at the extremely high level of the 25-30% range. Meanwhile, the unemployment rate in major emerging economies has generally been declining (Figure I-1-1-9).

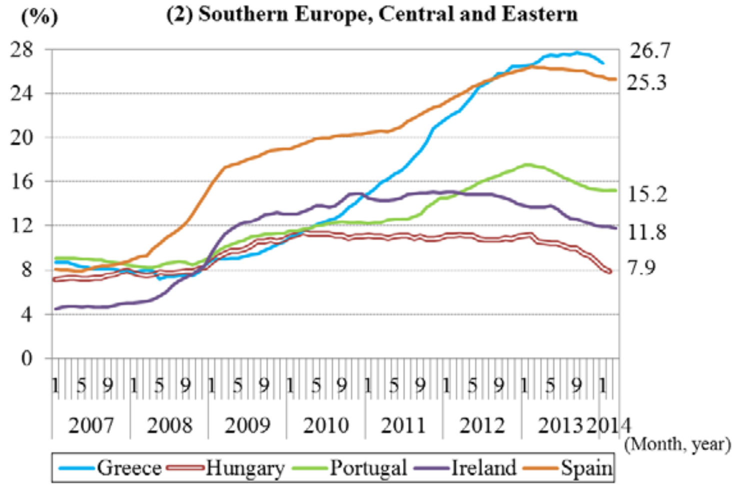
According to the International Labor Organization (ILO)[6], the number of unemployed people around the world in 2013 came to 201.8 million, surpassing 200 million for the first time. Of the total, people aged between 15 and 24 accounted for 74.5 million. As shown by Figure I-1-1-10, the unemployment rate among young people (youth unemployment rate) stood at 13.1% in 2013, having continuously risen since 2007 (11.6%), before the global economic crisis. In addition, the gap between the youth unemployment rate and the unemployment rate on an all-age basis became the largest in the past five years, underscoring the particular difficulty of finding jobs faced by young people. The ILO projects that the youth unemployment rate in 2014 will rise further to 13.2%. By region, the youth unemployment rate rose compared with the previous year in all regions except for Latin American and the Caribbean countries. The ILO points out as follows: "Young people continue to be particularly affected by the weak and uneven recovery."

[6] *"Global Employment Trends 2014"*, January 21, 2014 (ILO)

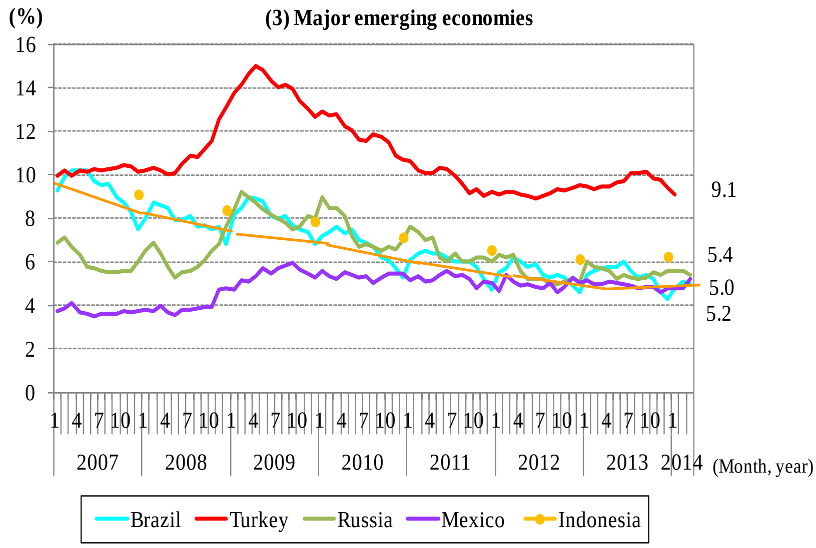
Figure I-1-1-9 Trends in unemployment rates in major economies



Source: OECD stat.

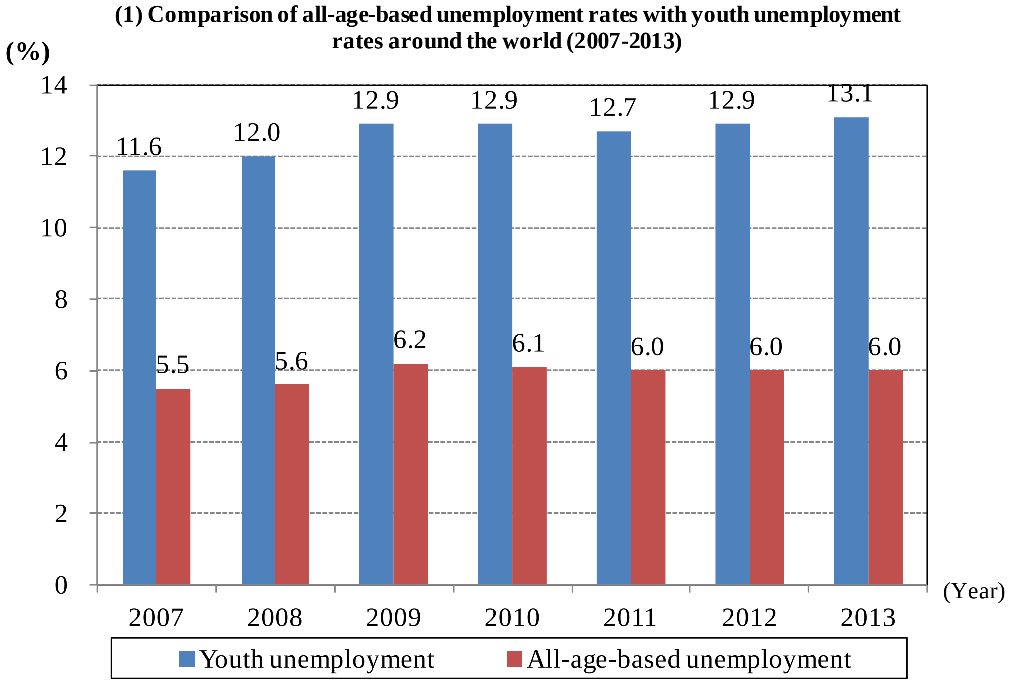


Source: OECD stat.

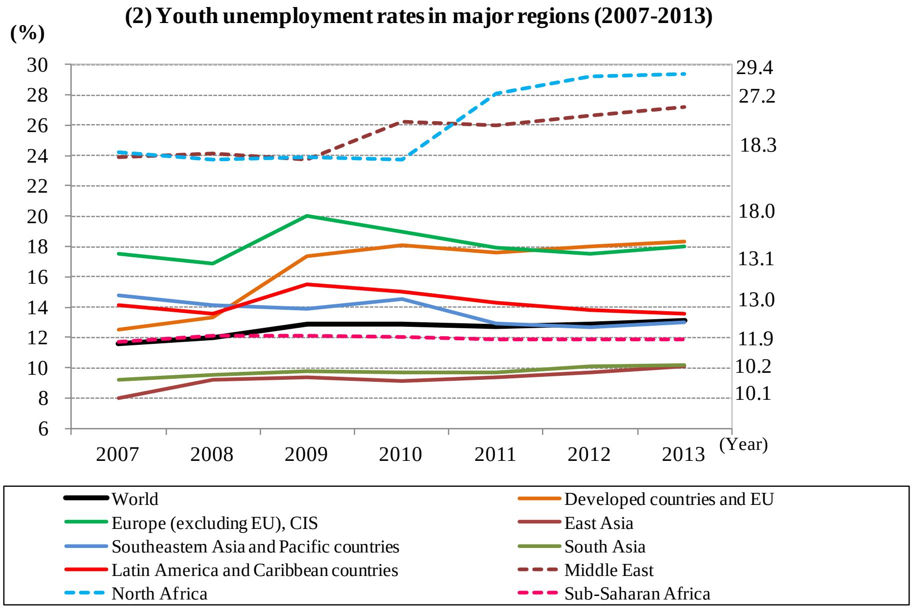


Source: CEIC database.
Note: Due to the limitation of publication data, ratios in Indonesia are year-on-year basis.

Figure I-1-1-10 Trends in youth unemployment rates in major regions



Note: Figures for 2013 are based on ILO preliminary estimation.
Source: *Global Employment Trends 2014* (ILO).

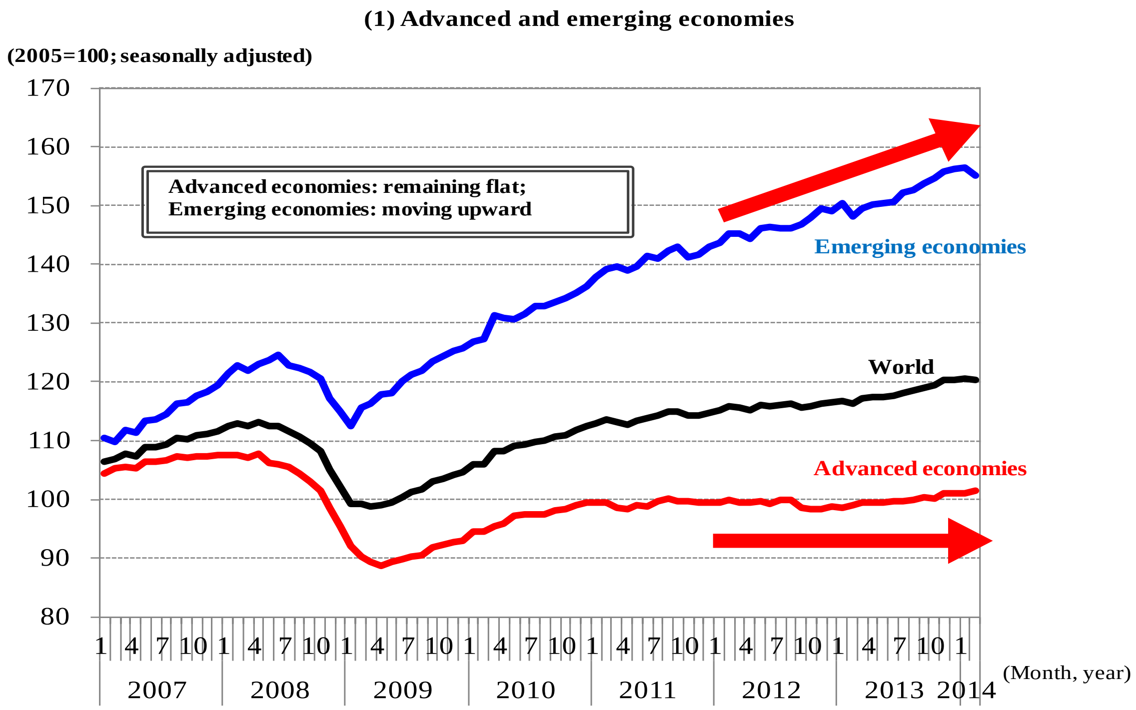


Note: Figures for 2013 are based on ILO preliminary estimation.
Source: *Global Employment Trends 2014* (ILO).

(4) Industrial production trends

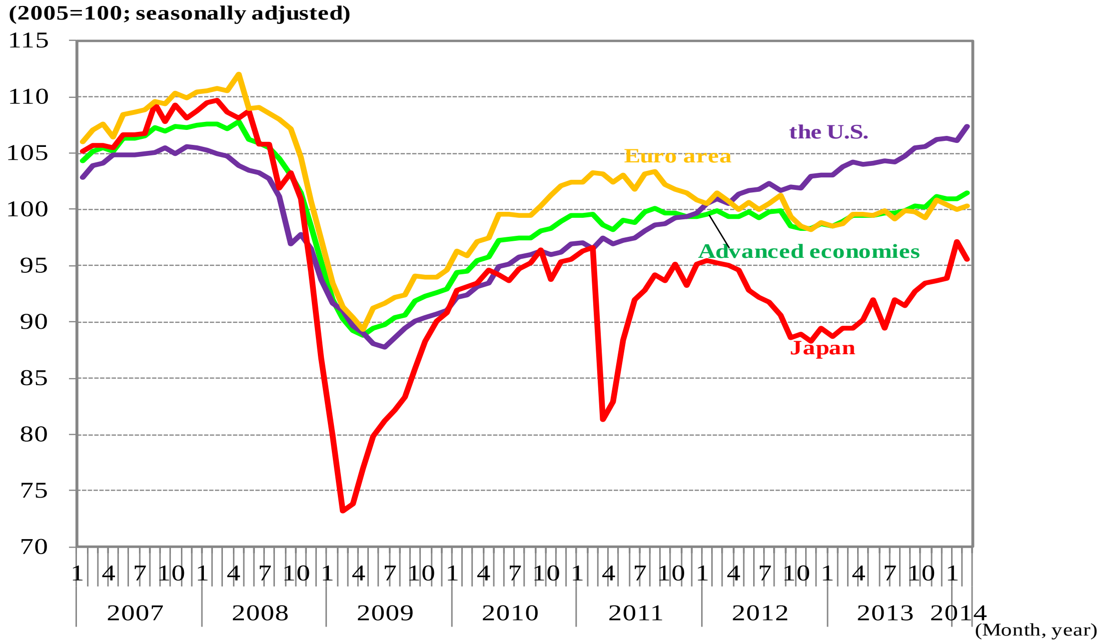
Regarding industrial production indices, advanced economies have suffered from a prolonged stagnation, as the indices have remained flat since December 2010 following the global economic crisis. As of February 2014, industrial production in advanced economies was still lower than the peak before the global economic crisis, which was reached in April 2008 (Figure I-1-1-11). In November 2013, industrial production in the United States recovered to the level in December 2007, which was the peak before the global economic crisis. In the euro area, industrial production remains stagnant as its recovery from the impact of the global economic crisis stalled due to the deepening of the European debt crisis. In Japan, industrial production fell steeply twice: after the collapse of Lehman Brothers and after the Great East Japan Earthquake. Its production continued to fall from the second half of 2012 onwards because of the deepening of the European debt crisis. Although it has been recovering steadily since the beginning of 2013, industrial production in Japan in February 2014 was still far below the pre-crisis peak level reached in February 2008. On the other hand, in the autumn of 2009, industrial production in emerging economies as a whole recovered to the pre-crisis peak of February 2008 and has continued to grow steadily since then. By region, significant growth in emerging economies in Asia has driven industrial production in the entire emerging economies. However, industrial production in Central and Eastern Europe and Latin America remained weak and the Middle East and Africa have been on a downtrend since the middle of 2012.

Figure I-1-1-11 Trends in industrial production indices in major countries



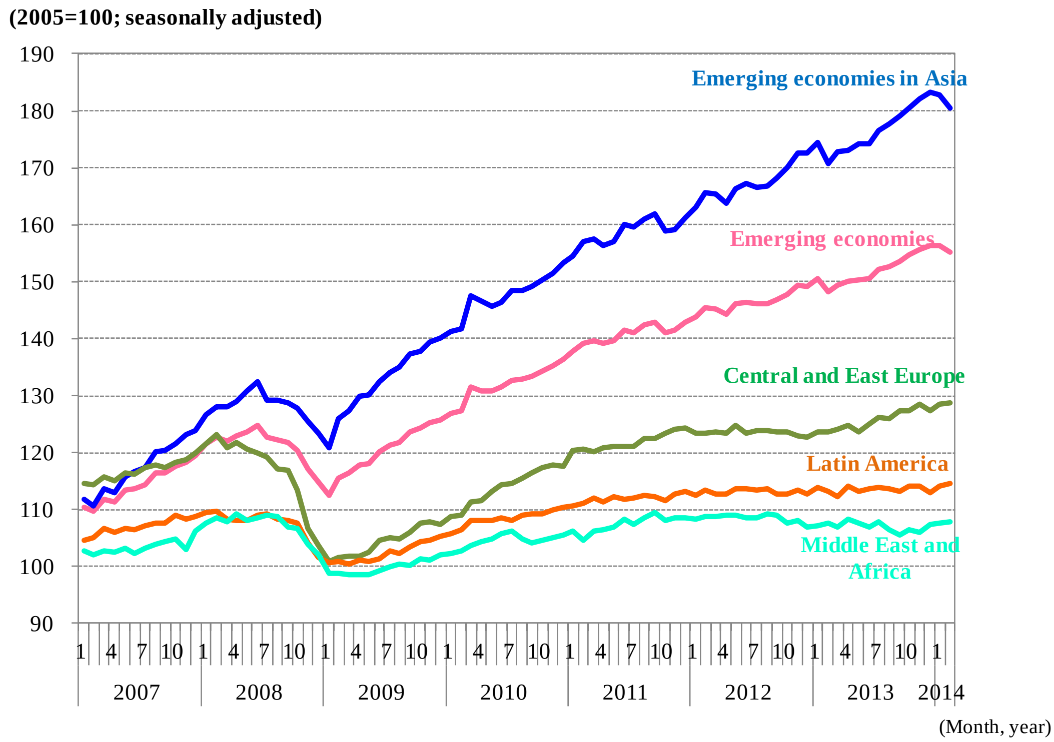
Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).

(2) Major advanced economies and regions



Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).

(3) Major emerging economies and regions



Source: *World Trade Monitor* (Netherlands Bureau for Economic Policy Analysis: CPB).

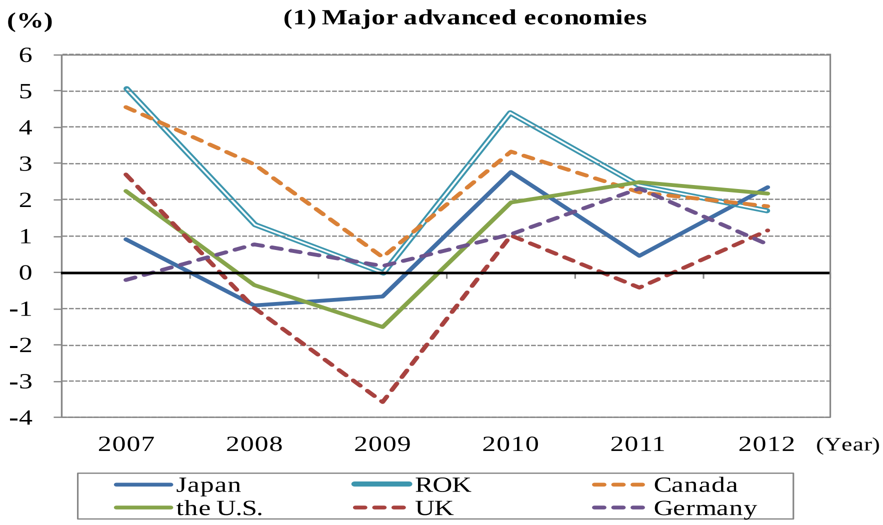
(5) Consumption trends

In major countries, the annual growth rate of final consumption expenditures by households fell steeply at the time of the global economic crisis and the European debt crisis. Although the growth rate has generally been recovering since then, the growth rate in the euro area has declined (Figure I-1-1-12).

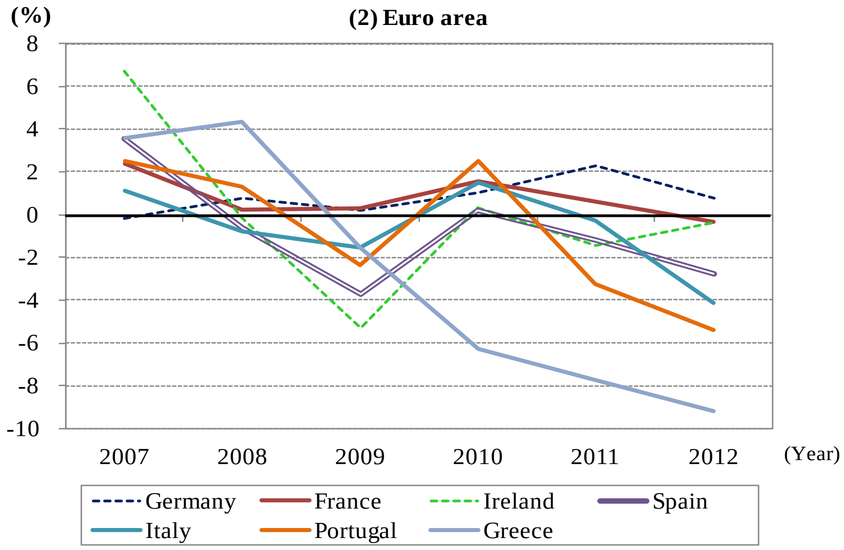
Concerning the trend in retail sales, for which vehicle sales are one reflection of household consumption, the number of new vehicles sold in the United States was by far the largest in the world until 2007, before the global economic crisis, but then declined sharply due to the impact of the crisis (Figure I-1-1-13). From 2010 onwards, new vehicle sales in the United States continued to increase and recovered to close to the pre-crisis level in 2007. Meanwhile, new vehicles sales in China grew sharply and surpassed sales in the United States in 2009, making China the largest market in the world. After that, new vehicles sales in China continued to expand steadily and exceeded 20 million in 2013, marking the first time in the world that annual sales in a country surpassed that level. Although new vehicles sales grew steadily in major emerging economies like Brazil, India and Russia after the global economic crisis, sales growth slowed down or sales declined in those countries in 2013. In Japan, new vehicles sales grew significantly in 2012 but remained flat in 2013. In the Republic of Korea as well, new vehicles sales remained flat. In Germany and France, sales declined from 2012 onwards due to the deepening of the European debt crisis.

Reflecting the trends in individual countries, new vehicles sales have recovered only moderately in advanced economies as a whole compared with emerging economies and have not yet regained the pre-crisis level in 2007. On the other hand, led by a sales expansion in China, sales in emerging economies overtook sales in advanced economies in 2011. Since then, sales in emerging economies have continued to grow steadily and higher than those in advanced economies (Figure I-1-1-14).

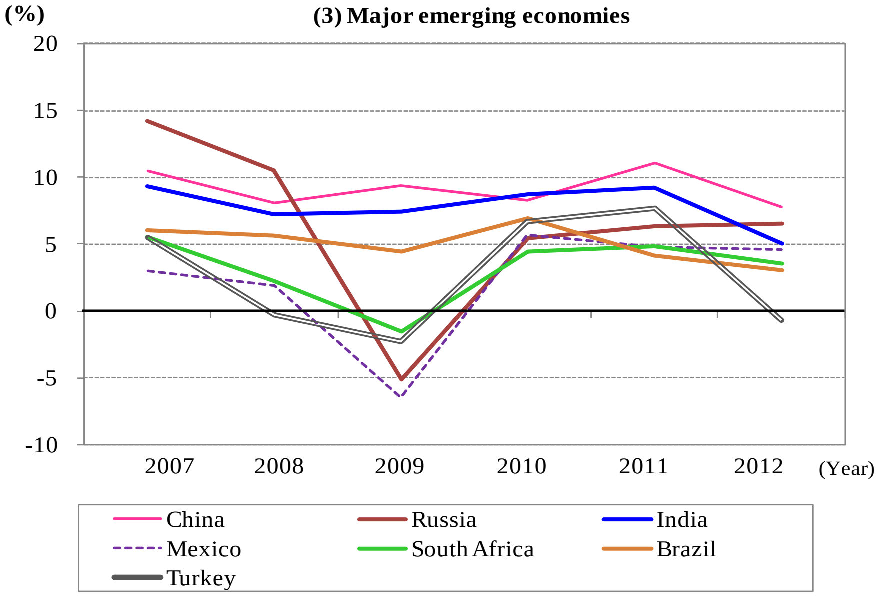
Figure I-1-1-12 Annual growth rates of final consumption expenditures by household in major countries



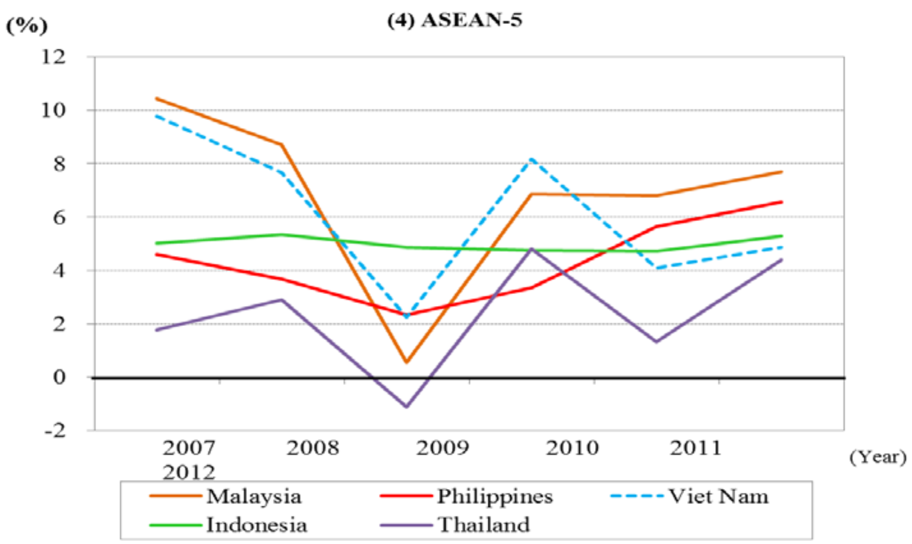
Source: *World Development Indicator* (World Bank).



Source: *World Development Indicator* (World Bank).

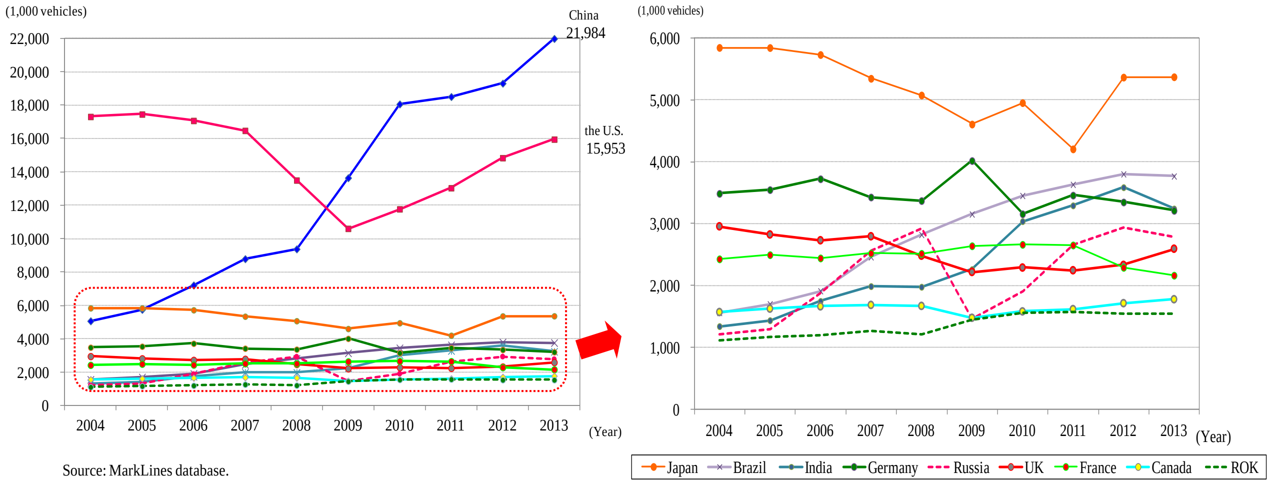


Source: *World Development Indicator* (World Bank).



Source: *World Development Indicator* (World Bank).

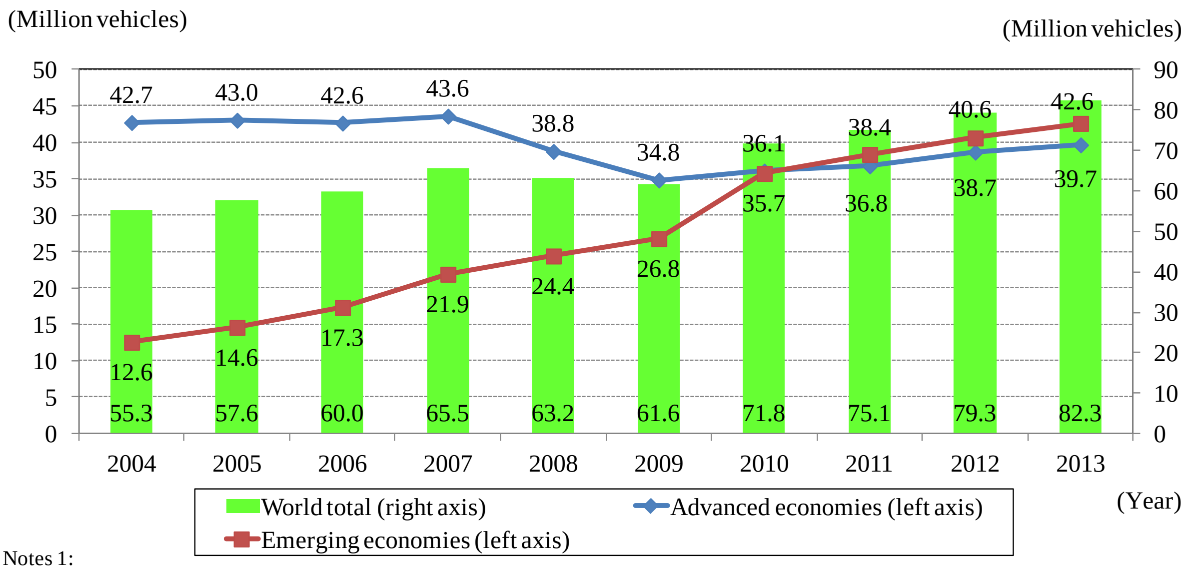
Figure I-1-1-13 Trends in new car sales in major economies



Source: MarkLines database.

Source: MarkLines database.

Figure I-1-1-14 Trends in new car sales in advanced and emerging economies



Notes 1:
Major advanced economies and regions: Ireland, Israel, Italy, UK, Austria, the Netherlands, Canada, ROK, Greece, Australia, Singapore, Switzerland, Sweden, Spain, Slovakia, Taiwan, Czech Republic, Denmark, Germany, Japan, New Zealand, Norway, Finland, France, the U.S., Belgium, Portugal, and Luxembourg;
Major emerging eonomies: UAE, Argentina, Iran, India, Indonesia, Ukraine, Uzbekistan, Uruguay, Egypt, Croatia, Colombia, Saudi Arabia, Thailand, China, Chile, Turkey, Pakistan, Hungary, the Philippines, Brazil, Bulgaria, Vietnam, Venezuela, Belarus, Poland, Malaysia, South Africa, Mexico, Romania, and Russia.
Notes 2: For some countries, calculation of figures started after 2004.
Source: MarkLines database.

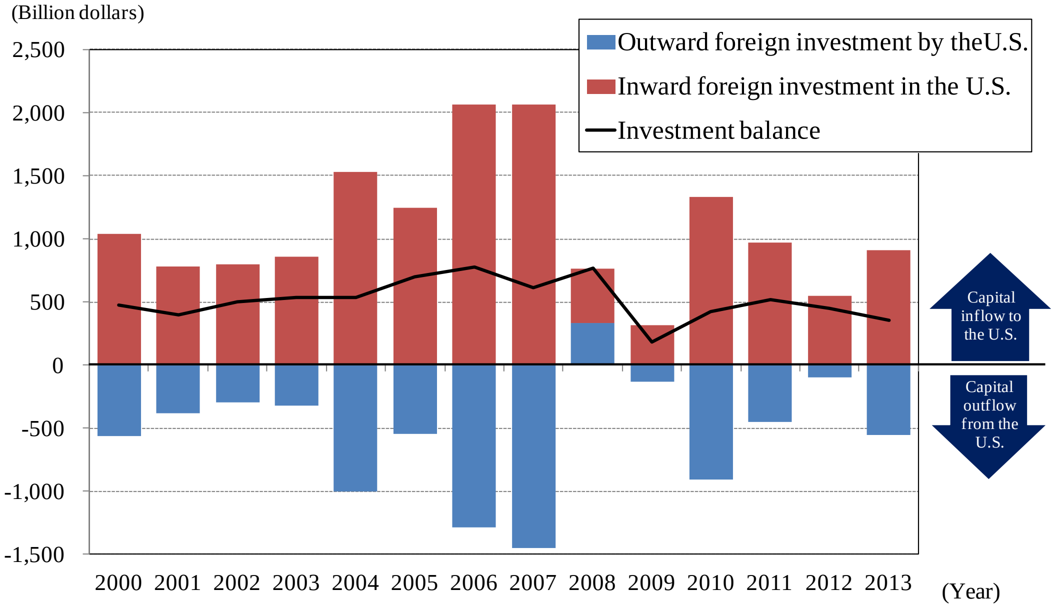
2. Capital flow trends before and after the global economic crisis

(1) Capital flow trend in the United States

The global financial crisis has sent shock waves beyond financial markets, with its impact presumed to have affected international capital flows to some degree. Here, we look at how capital flows, mainly from and to the United States, before and after the crisis, changed – specifically, trends in inward foreign investment in the United States and outward foreign investment by the United States in that order.

The amount of net inward foreign investment in the United States[7] peaked at 2,065.2 billion dollars in 2006 and then fell steeply to 315.1 billion dollars in 2009 following the collapse of Lehman Brothers. In 2013, the amount of net foreign investment in the United States came to 906.1 billion dollars, still less than half the peak level (Figure I-1-1-15).

Figure I-1-1-15 Trends in the U.S. annual foreign investment balance



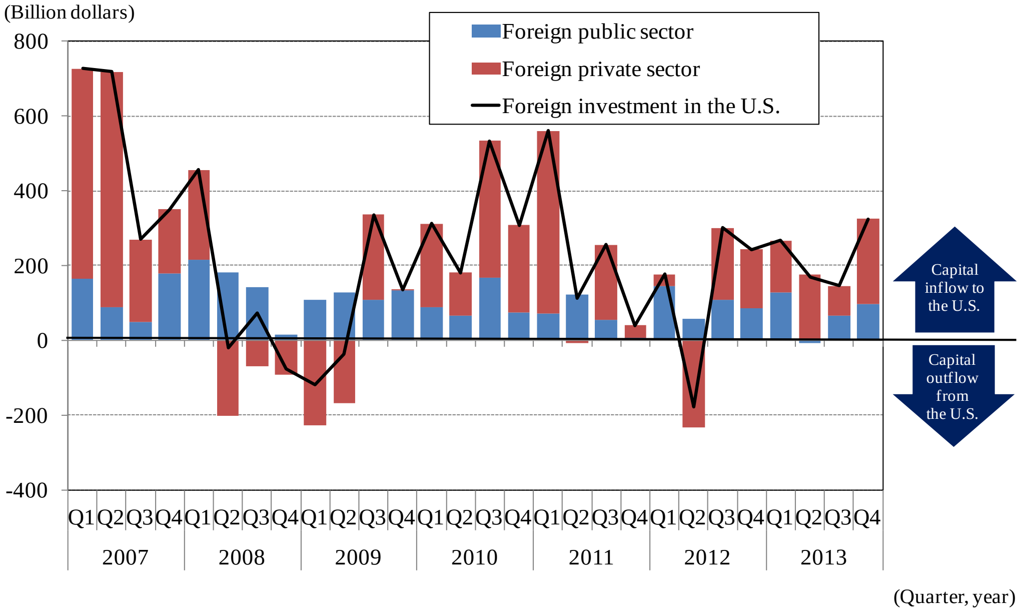
Notes: The figure in 2013 is preliminary.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

Investment in the United States by foreign public sectors has continued to register a net inflow except for the net outflow of 6.6 billion dollars registered in the second quarter of 2013. Meanwhile, investment in the United States by foreign private sectors showed wild swings, reflecting fluctuations in the market between risk aversion and risk appetite due to political and economic situations. In particular, there are indications that foreign private sectors withdrew capital from the United States in 2008 through the first half of 2009 due to the impact of the global economic crisis and in the first half of 2012 due to the deepening of the European debt crisis[8] (Figure I-1-1-16).

[7] In this chapter, "net" refers to "purchases of domestic assets by non-residents minus sales of domestic assets by non-residents" or "purchases of foreign assets by residents minus sales of foreign assets by residents" in capital transactions.

[8] The European debt crisis refers to risks related to Greece's possible exit from the euro area, instability of

Figure I-1-1-16　Trends in foreign investment in the U.S. (Inward investment)

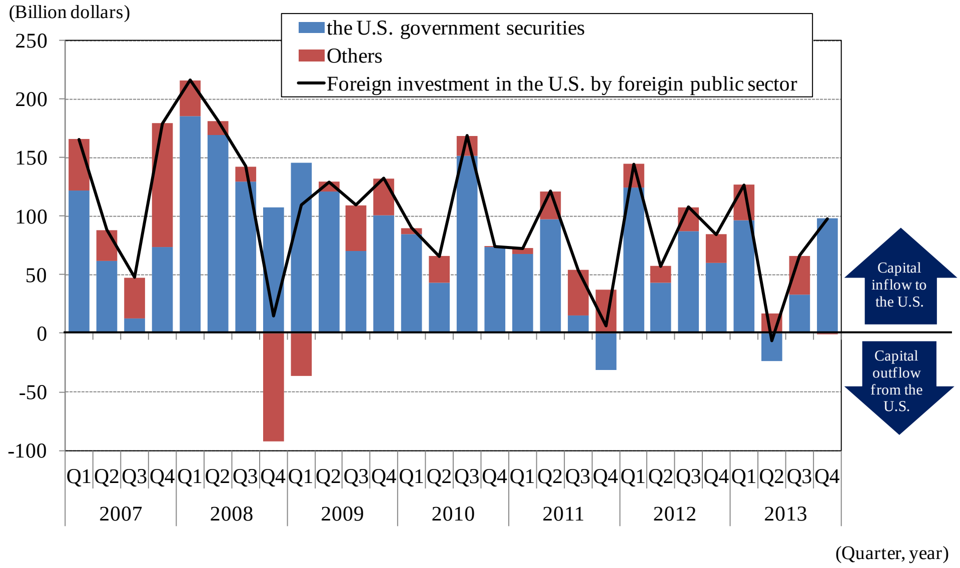


Notes: The figure of Q4 in 2013 is preliminary; Financial derivatives are excluded.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

As for targets of investments in the United States by foreign public sectors, investments in U.S. government securities, including U.S. Treasury Securiries (such as U.S. government bonds), accounted for most of the overall investments (Figure I-1-1-17). Meanwhile, investments in the United States by foreign private sectors were mostly securities investments and other investments in U.S. financial institutions, etc. In 2008 through the first half of 2009 and in the second quarter of 2012, there was a net capital outflow from the United States, mainly withdrawal of other investments in financial institutions, reflecting social and economic situations (Figure I-1-1-18).

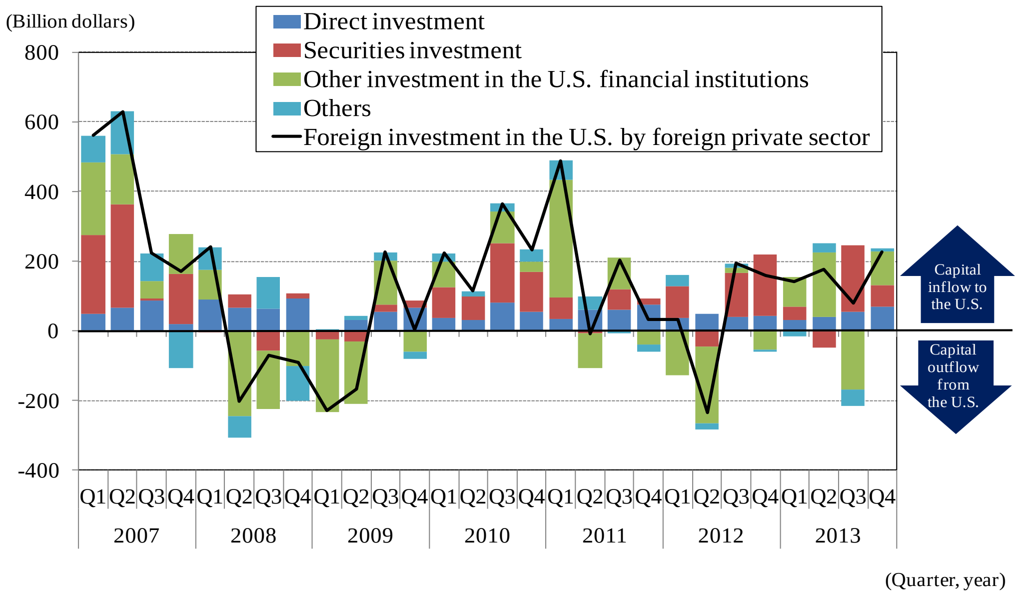
Spanish banks, the maintenance of the framework of cooperation between Germany and France, etc.

Figure I-1-1-17　Breakdown of foreign investment in US by foreign public sector



Notes: The figure of Q4 in 2013 is preliminary; Financial derivatives are excluded.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

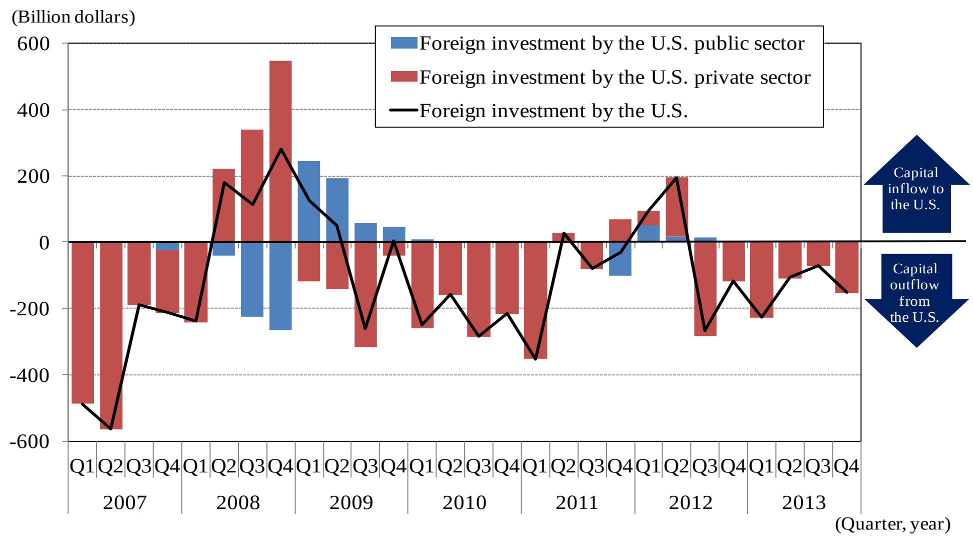
Figure I-1-1-18　Breakdown of investment in the U.S. by foreign private sector



Notes: The figure of Q4 in 2013 is preliminary; Financial derivatives are excluded.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

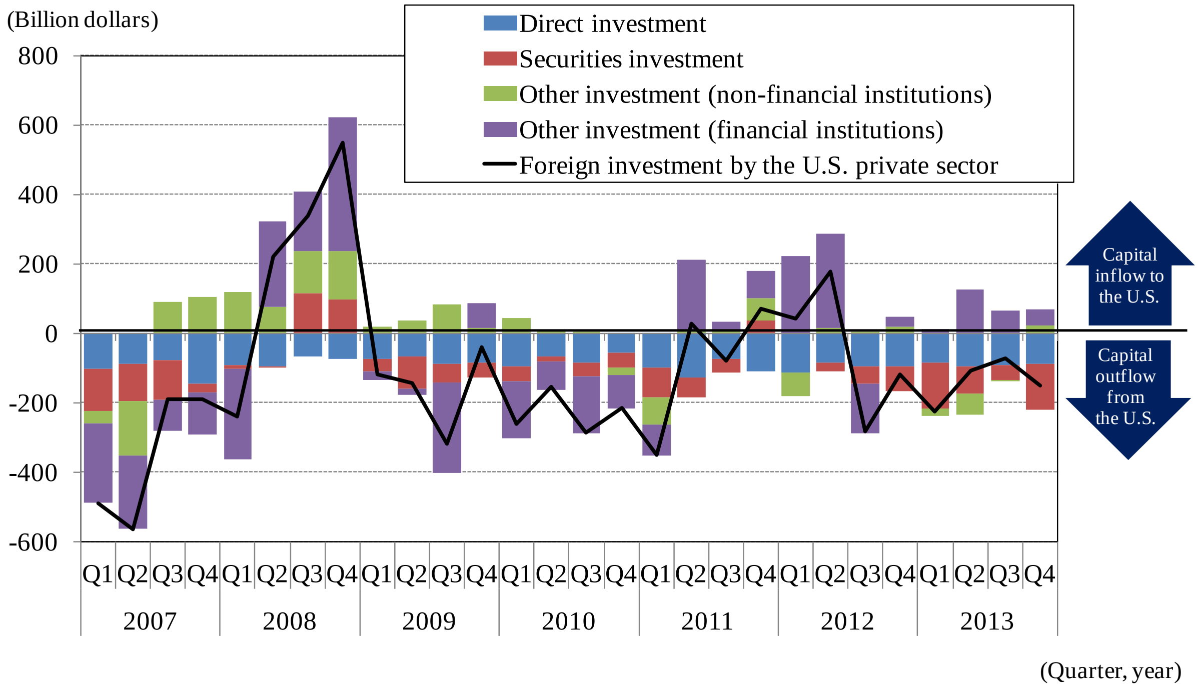
As for foreign investments by the United States, investments by the private sector accounts for most of the total (Figure I-1-1-19). A breakdown shows that direct investments have consistently recorded a net outflow. On the other hand, in the second half of 2008 and in the first half of 2012, there were withdrawals of capital, mainly of other investments by U.S. financial institutions (net capital inflow to the United States) (Figure I-1-1-20).

Figure I-1-1-19 Trends in foreign investment by the U.S. (Outward investment)



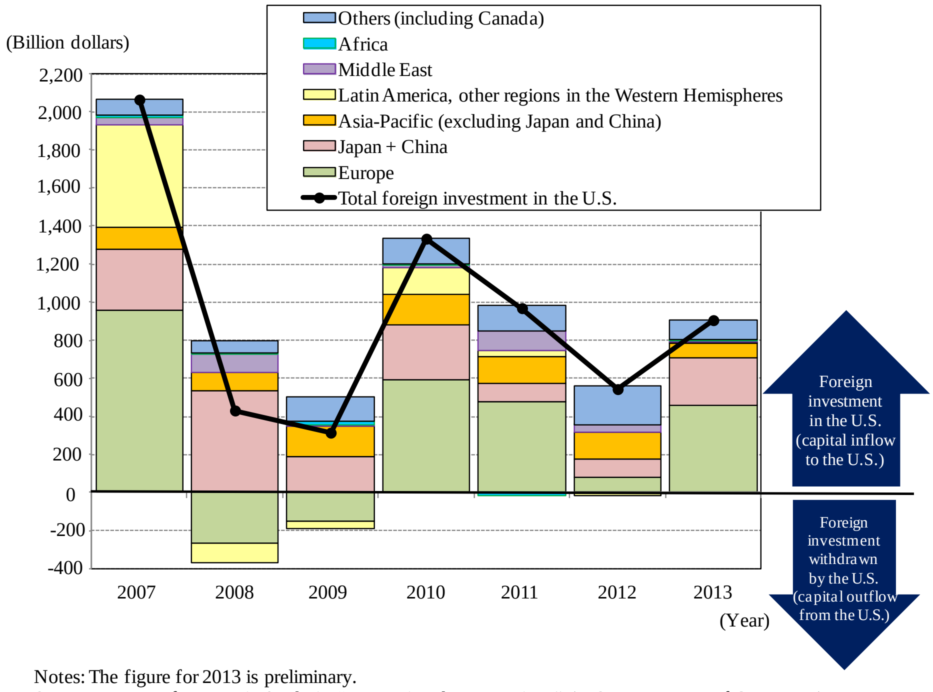
Notes: The figure of Q4 in 2013 is preliminary; Public sector does not include official reserve assets;
Financial derivatives are excluded.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

Figure I-1-1-20 Breakdown of foreign investment by the U.S. private sector



Notes: The figure of Q4 in 2013 is preliminary; Public sector does not include official reserve assets;
Financial derivatives are excluded.
Source: *Bureau of Economic Analysis "International Transactions" (U.S. Department of Commerce).*

Figure I-1-1-21 Breakdown of foreign investment in the U.S. by investing region (actual value, annual)



Notes: The figure for 2013 is preliminary.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

A breakdown by region of inward foreign investments in the United States shows that in 2007, before the global economic crisis, investments from Europe totaled 956.7 billion dollars, accounting for 46.3% of the total value of capital inflow (Figure I-1-1-21 and Table I-1-1-22).

During the period of the global economic crisis in 2008 to 2009, Europe accounted for around 70% to 80% of net capital outflow from the United States. In 2012, when the European debt crisis deepened, Europe's share in net capital inflow into the United States decreased to 14.2%, but in 2013, the share increased to 50%, meaning that Europe is again playing a significant role in U.S. finance. Meanwhile, the Asia-Pacific region including Japan and China is the next largest capital provider after Europe to the United States,. The Asia-Pacific region's share in capital inflow into the United States grew from 21% in 2007 to 35.8% in 2013. In particular, at the time of the global financial crisis, investments from the Asia-Pacific region including Japan and China made up for a capital outflow due to withdrawals of capital by Europe. Even if Japan and China are excluded, the Asia-Pacific region's share in capital inflow to the United States was 31.6% in 2009 and 24.5% in 2012, up from 5.5% in 2007.

As for the breakdown of inward foreign investments in the United States by investing country, the United Kingdom and China have a significant presence as investors. In particular, in 2008 and 2009, during the period of the global financial crisis, China made investments in the United States that were similar in amount to the capital outflow from the United States (Figure I-1-1-23).

Next, a breakdown of outward foreign investments by the United States by destination region shows that Europe accounted for 66.4% of the capital outflow from the United States in 2007, before the global economic crisis. However, at the time of the crisis, the United States withdrew investments from Europe. Meanwhile, since 2010, foreign investments by the United States have continued to record a net outflow again, and Europe's share in capital outflow from the United States recovered to 55.8% in 2013. The Asia-Pacific region's share in capital outflow from the United States has been growing. Investments in the Asia-Pacific region excluding Japan and China accounted for 37.9% of the capital outflow from the United States in 2009, up from 5.6% in 2007, but the share has stayed around 15% since 2010. Investments in the Asia-Pacific region including Japan and China have accounted for around 30% since 2010 (Figure I-1-1-24 and Table I-1-1-25).

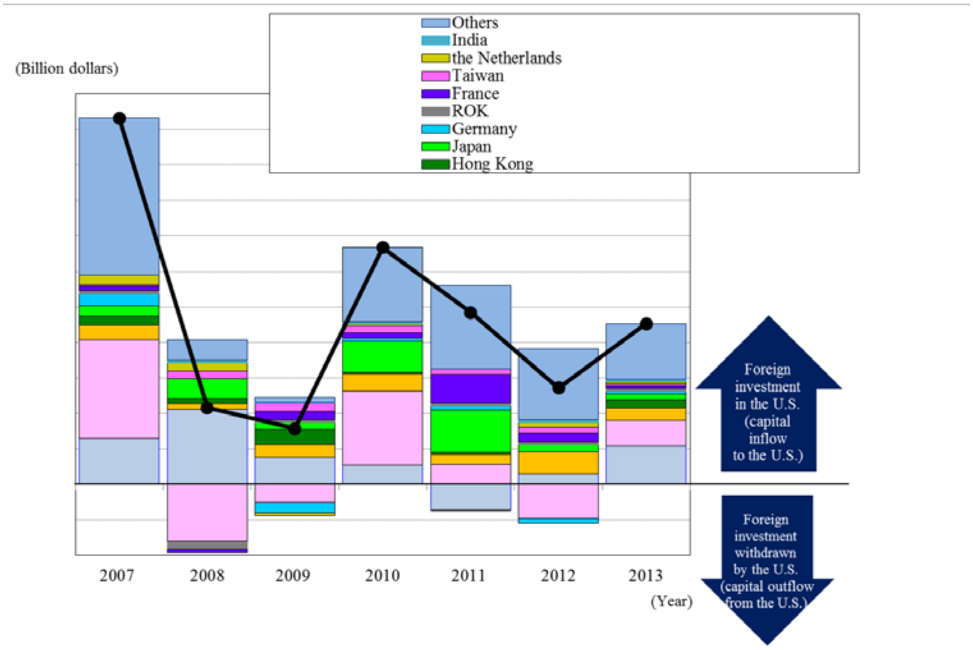
As shown above, the role of the Asia-Pacific region as a capital provider to the United States and as an investment destination of the U.S. is increasing.

Table I-1-1-22 Shares of foreign investment in the U.S. by investing region (%, annual)

	2007	2008	2009	2010	2011	2012	2013
Europe	46.3	-73.0	-81.8	44.2	48.7	14.2	50.6
Japan + China	15.5	67.3	38.0	21.8	9.7	17.7	27.2
Asia-Pacific (excluding Japan and China)	5.5	11.7	31.6	12.1	14.3	24.5	8.6
Latin America, other regions in the Western Hemispheres	26.0	-27.0	-18.2	10.2	3.2	-100.0	1.1
Middle East	2.0	11.8	0.9	1.0	10.5	7.0	0.6
Africa	0.7	1.3	3.5	0.9	-100.0	0.5	0.6
Others (including Canada)	3.9	8.0	25.9	9.8	13.7	36.1	11.3

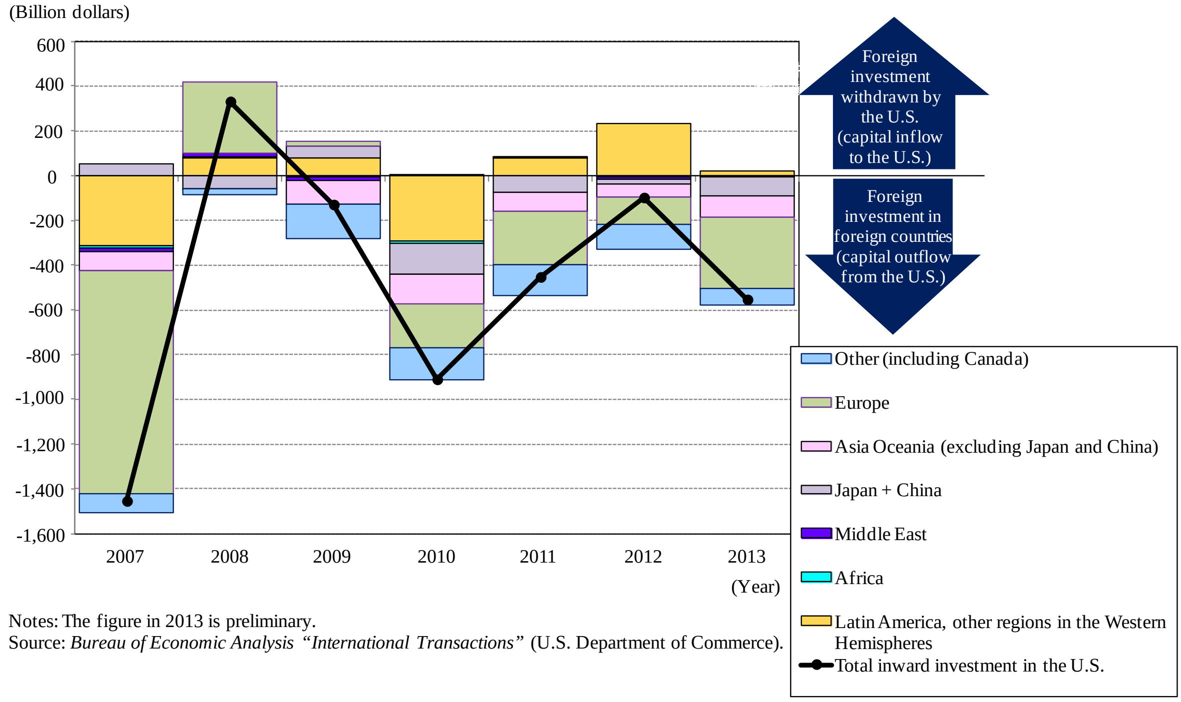
Notes: Sum of the annual values of countries whose investment amount in the U.S. are positive (capital inflow to the U.S.) and those whose investment amount in the U.S. are negative (capital outflow from the U.S.) were calculated to have the ratio of investment amount to the total capital inflow for the countries whose investment amount is positive, and the ratio to the total capital outflow for those whose investment amount is negative.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

Figure I-1-1-23 Breakdown of foreign investment in the U.S. by investing country (actual value, annual)



Note: The figure in 2013 is preliminary.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Departmento of Commerce)

Figure I-1-1-24 Breakdown of foreign investments by the U.S. by destination region (actual value, annual)



Notes: The figure in 2013 is preliminary.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

Table I-1-1-25 Shares of foreign investment by the U.S. by destination region (%, annual)

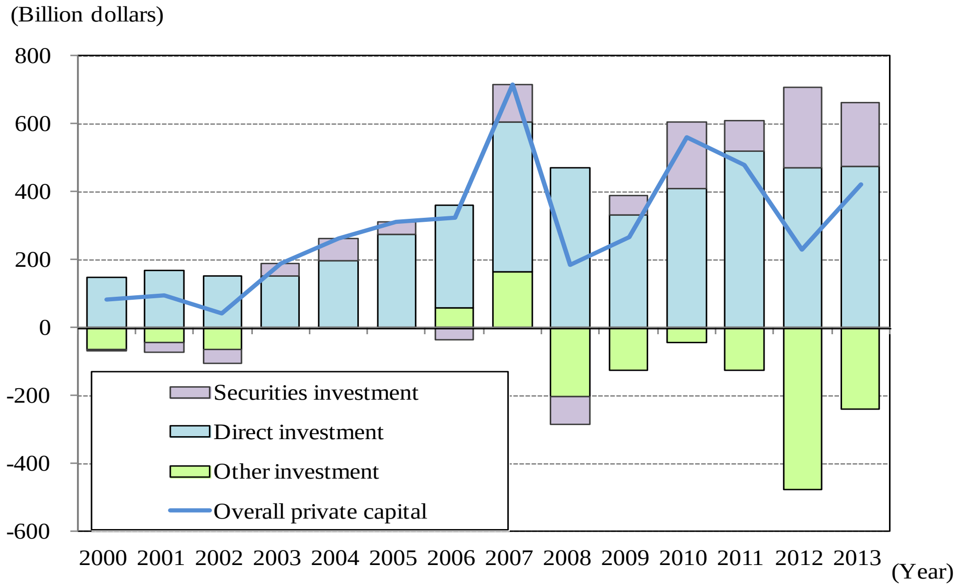
	2007	2008	2009	2010	2011	2012	2013
Europe	-66.4	75.7	15.1	-21.1	-44.2	-36.8	-55.8
Asia-Pacific (excluding Japan and China)	-5.6	-4.9	-37.9	-14.7	-16.2	-18.6	-16.6
Japan + China	100.0	-65.9	34.6	-14.9	-13.9	-6.4	-14.5
Middle East	-0.9	4.3	-5.5	100.0	5.6	-3.4	-0.8
Africa	-0.6	0.5	-1.9	-1.6	1.9	-1.2	-0.2
Latin America, other regions in the Western Hemispheres	-20.9	19.5	50.3	-31.7	92.5	100.0	100.0
Others (including Canada)	-5.6	-29.2	-54.7	-16.1	-25.6	-33.7	-12.1

Notes: Sum of the annual values of countries whose investment amount by the U.S. are positive (net capital inflow to the U.S., or net foreign investment withdrawn by the U.S.) and those whose investment amount by the U.S. are negative (net capital outflow from the U.S., or net foreign investment by the U.S.) were calculated to have the ratio of investment amount to the total capital inflow for the countries whose investment amount is positive, and the ratio to the total capital outflow for those whose investment amount is negative.
Source: *Bureau of Economic Analysis "International Transactions"* (U.S. Department of Commerce).

(2) Trends in private capital flow to emerging economies

In the 2000s, China and other emerging economies have expanded their economies by exporting. Before the collapse of Lehman Brothers in 2008, capital, mainly in the form of direct investment, flowed into emerging economies, and this strengthened their competitiveness (Figure I-1-1-26).

Figure I-1-1-26 Trends in net private capital flows to emerging and developing economies and breakdown thereof



Source: *WEO Apr. 2014* (IMF database).

Meanwhile, after the collapse of Lehman Brothers, overall net inflow of private capital into emerging economies declined steeply due to net outflow of securities investments and other investments. In and after 2009, when advanced economies implemented monetary easing to deal with the crisis, the strong economic growth of emerging countries attracted foreign capital, leading to a recovery in securities investments in emerging and developing economies. In 2011, as the European debt crisis deepened, China and other emerging economies faced an economic slowdown due to stagnant external demand. Amid concerns over the future economic outlook, the net outflow of "other investments," such as deposits, which had continued from 2008, expanded, and overall net inflow of private capital declined again. As a result, net capital inflow into emerging economies decreased in the second half of 2011 through 2012.

From May 2013, anticipation of the tapering of the quantitative easing program in the United States grew. In the market, concerns over a liquidity crunch heightened, resulting in a massive capital outflow from emerging economies. However, the U.S. Federal Reserve Board(FRB) issued a message that the tapering of the quantitative easing program will depend on the economic condition and an accommodative monetary environment will continue for a considerable period, so investors eased their risk-averse behavior (for the details, see Chapter 1 Section 2 "Effects of the Tapering of the Quantitative Easing Program in the United States"). Moreover, the trend of economic recovery in advanced economies grew in 2013 due to the progress of monetary easing in Europe and the avoidance of the "fiscal cliff" and the continued favorable readings of economic indicators in the United States. Due to these factors, financial markets gradually regained stability. In emerging and developing economies, net outflow of "other investments" shrank, and overall net inflow of private capital expanded in 2013.

Next, we will look at a region-by-region breakdown of private capital inflow (on a net basis) into emerging and developing economies.

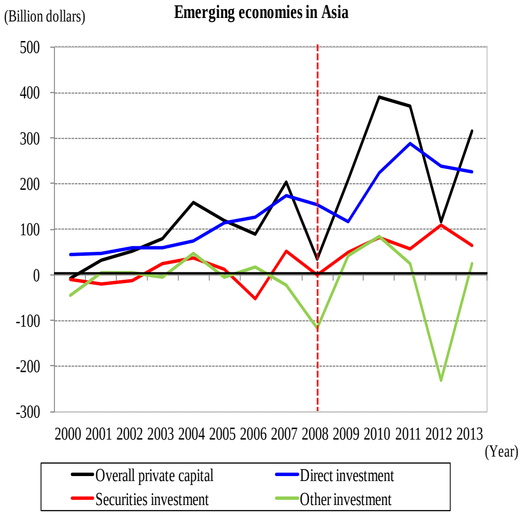
First, overall net inflow of private capital into emerging economies in Asia has been growing since the collapse of Lehman Brothers (Figure I-1-1-27). More specifically, direct investments have increased significantly since the collapse of Lehman Brothers and their proportion as a GDP has consistently been around 2%. Inflow of securities investments have also been on an uptrend. Meanwhile, since 2008, fluctuations in other investments on a net basis have made great contributions to changes in overall private capital flow.

In emerging economies in Europe, overall net inflow of private capital declined steeply after the collapse of Lehman Brothers in 2008 (Figure I-1-1-28). In other words, while there was a massive inflow of other investments until 2008[9], such investments were rapidly withdrawn in 2008-2009 and thereafter. Although inflow of securities investments trended upward later, net inflow decreased in 2013. Overall net inflow of private capital is still far below the level in 2007. In the CIS region, until 2007, there was a net capital inflow that was large as a proportion of GDP. However, in 2008, other investments were rapidly withdrawn, and net outflow has continued since then (Figure I-1-1-29).

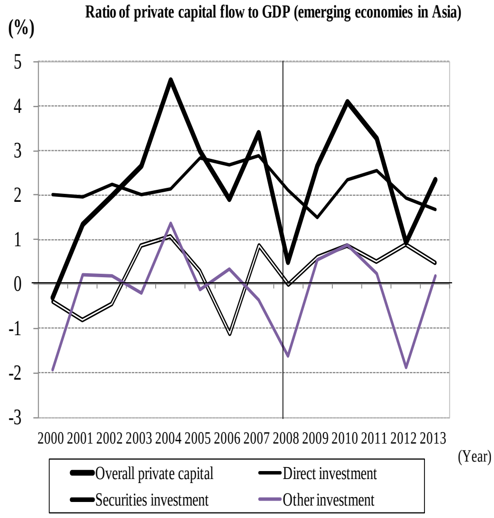
In Latin American and Caribbean countries, net outflow of other investments have continued since the collapse of Lehman Brothers. On the other hand, net inflow of securities investments have been trending upward (Figure I-1-1-30). In addition, since 2007, net inflow of direct investments has been growing. In Middle Eastern and North African countries and Sub-Saharan African countries, foreign direct investments have shown stable movements. However, in Middle Eastern and North African countries, other investments have recorded net outflow since 2007, and in Sub-Saharan African countries, other investments and securities investments have recorded net outflow (Figures I-1-1-31 and I-1-1-32). In particular, whereas net outflow of other investments in Sub-Saharan African countries has shrunk since 2010, net outflow from Middle Eastern and North African countries has been prominent. As a proportion of GDP, outflow of other investments from Middle Eastern and North African countries has also been notably high.

[9]The "*Global Economic Prospects, January 2014*" (World Bank) points out that massive inflows of other investments into Central and Eastern Europe became a cause of the housing bubble before the 2008 collapse of Lehman Brothers and that subsequently, economic recovery in the region was delayed because the other investment withdrawn did not return.

Figure I-1-1-27　Trends in net private capital flows in emerging economies in Asia

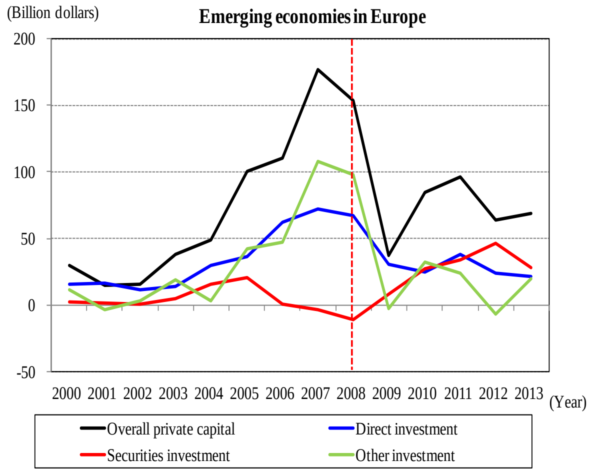


Source: *WEO Apr. 2014* (IMF database).

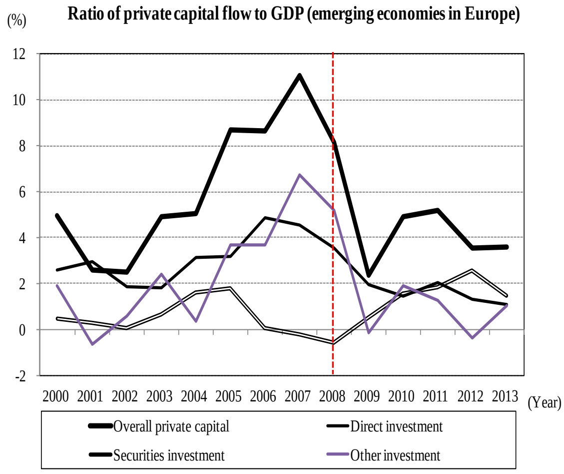


Source: *WEO Apr. 2014* (IMF database).

Figure I-1-1-28　Trends in net private capital flows in emerging economies in Europe

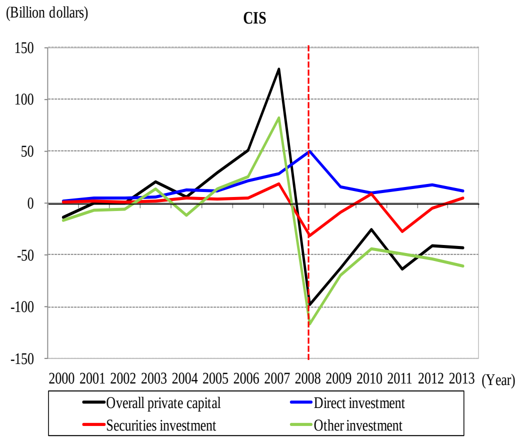


Source: *WEO Apr. 2014* (IMF database).

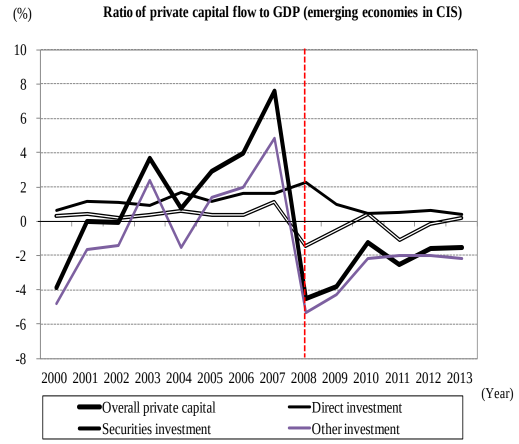


Source: *WEO Apr. 2014* (IMF database).

Figure I-1-1-29 Trends in net private capital flows in CIS

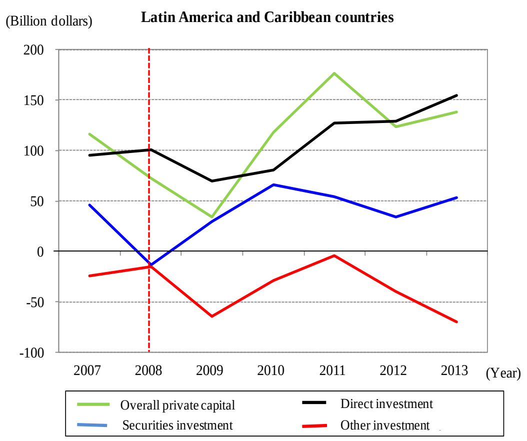


Source: *WEO Apr. 2014* (IMF database).

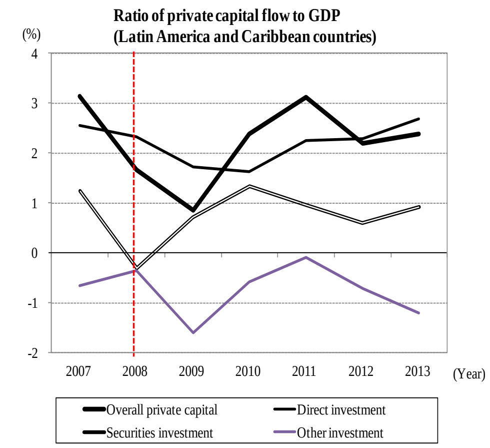


Source: *WEO Apr. 2014* (IMF database).

Figure I-1-1-30 Trends in net private capital flows in Latin America and Caribbean countries

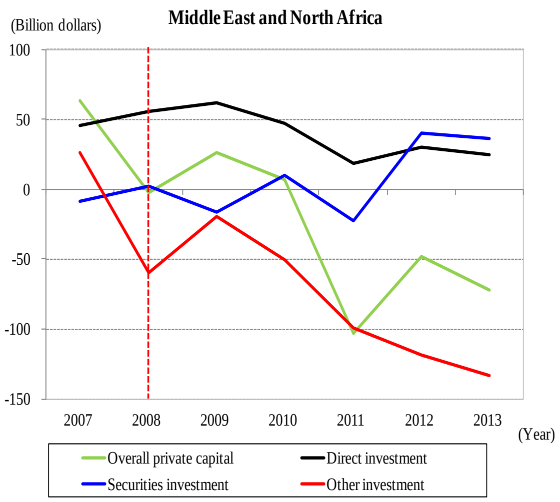


Source: *WEO Apr. 2014* (IMF database).

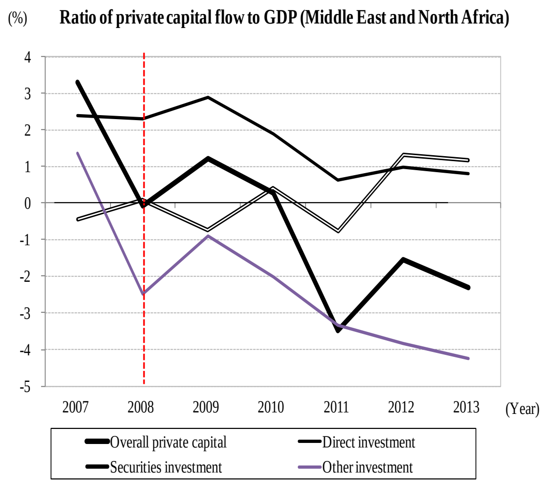


Source: *WEO Apr. 2014* (IMF database).

Figure I-1-1-31 Trends in private capital flows (net) in Middle East

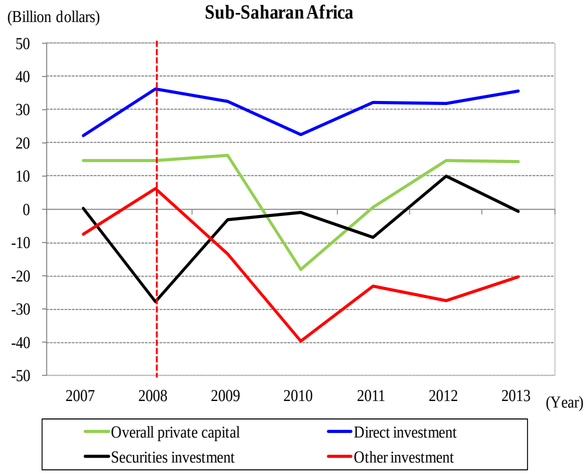


Source: *WEO Apr. 2014* (IMF database).

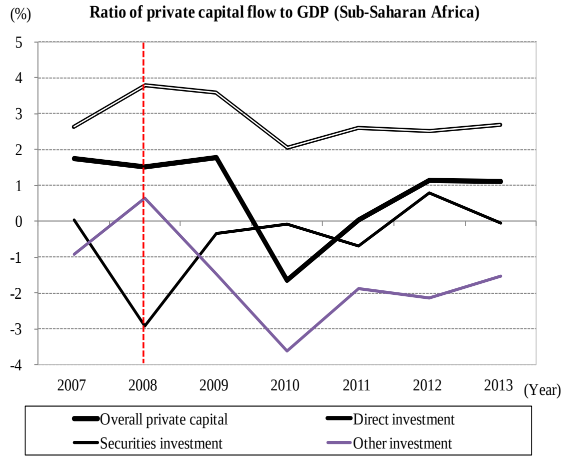


Source: *WEO Apr. 2014* (IMF database).

Figure I-1-1-32 Trends in private capital flow (net) in Sub-Saharan Africa



Source: *WEO Apr. 2014* (IMF database).



Source: *WEO Apr. 2014* (IMF database).