The emerging economies and Sweden's exports

The emerging economies form a growing share of the world economy and have become increasingly important trading partners for Sweden. Since 2007, increasing exports of goods to these economies have compensated for reduced Swedish goods exports to the European Union and United States. However, exports to the emerging economies are expected to increase more slowly over the coming years as growth in these economies is expected to fall off.

The emerging economies are increasingly important to the world economy

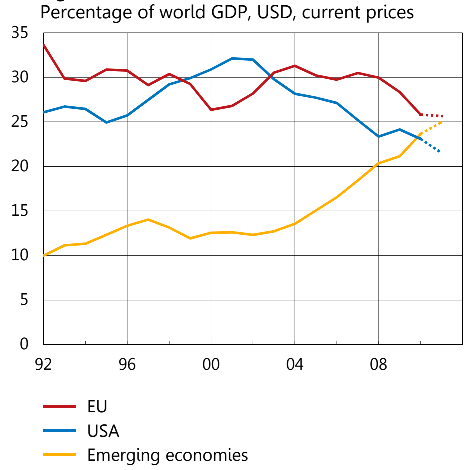
The emerging economies, that is countries with high growth rates in Africa, Asia, eastern Europe and South America, form a growing part of the world economy. In 2011, this group of countries was responsible for more than 25 per cent of the world's GDP, a strong increase from 12 per cent in 2002 (see Figure A10). 80 per cent of this increase can be explained by the strong growth in Brazil, Russia, India and China, the so-called BRIC countries. The picture is the same when international trade is examined. The OECD countries' share of the world's imports and exports has declined steeply in the last 10 years (see Figure A11). China alone now stands for an equally large share of the world's exports as the United States.

Increased exports, particularly to developed economies, have been the driving force behind the development of the emerging economies. Recently, however, trade between the emerging economies has become increasingly important. Figure A12 shows how an ever larger proportion of Chinese and Indian exports is now going to other Asian countries, while exports to the European Union and, above all, the United States have decreased in importance.

The emerging economies are increasingly important export markets for Sweden

Following the financial crisis that started during 2008, export growth to several of Sweden's traditional trading partners has been week. The value of exports of goods to the euro area, the United States, Denmark and other areas has decreased. On the other hand, exports to emerging economies have increased strongly, more than compensating for the overall fall in exports to the European Union and United States (see Table A1). These increased exports to the emerging economies mirror the strong increase in the emerging economies' overall imports (see Figure A13).[28]

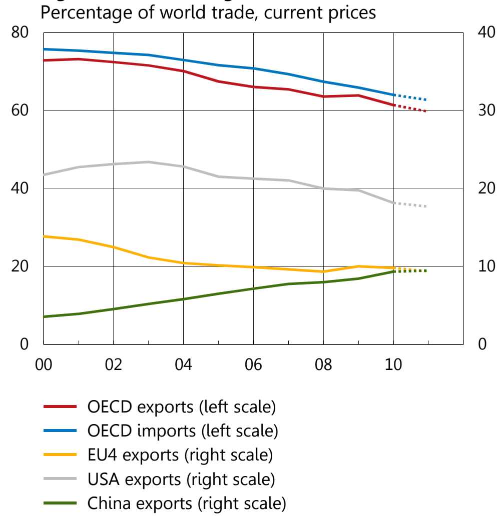
Figure A10. GDP
Percentage of world GDP, USD, current prices



Note. The sample of emerging economies comprises Argentina, Brazil, Chile, Philippines, India, Indonesia, China, Malaysia, Peru, Poland, Russia, South Africa, Thailand, Turkey and Uruguay. The broken line represents the IMF's forecast.

Source: The IMF

Figure A11. Percentage of international trade
Percentage of world trade, current prices

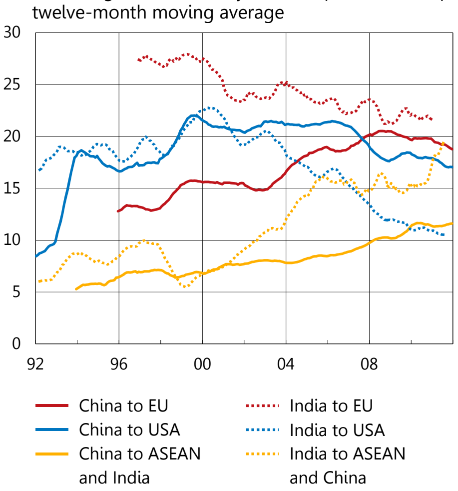


Note. EU4 is France, Germany, Italy and the United Kingdom. The broken line represents the OECD's forecast.

Source: OECD

[28] A number of OECD countries, including Germany, the USA and the UK, have like Sweden increased their exports to the emerging economies substantially since 2007.

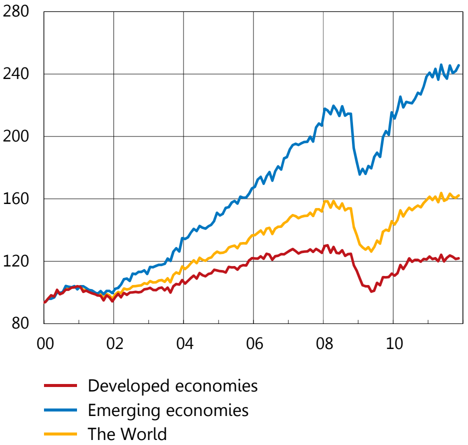
Figure A12. India's and China's exports per recipient countries
Percentage of the country's total exports, current prices, twelve-month moving average



Note. ASEAN stands for the Association of Southeast Asian Nations.

Sources: Ministry of Commerce and Industry, India, National Bureau of Statistics, China och Reserve Bank of India

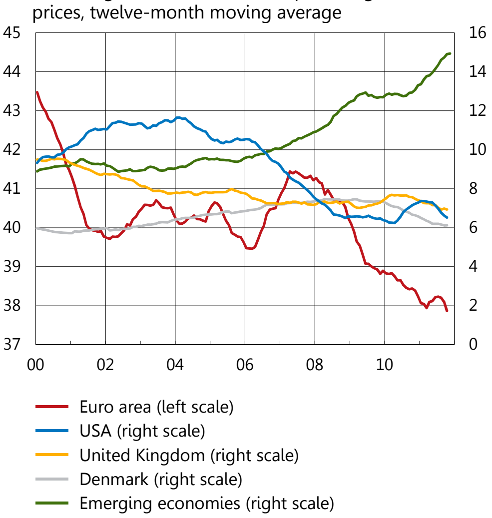
Figure A13. Imports
Index, 2000 = 100



Note. Emerging economies defined by the Netherlands Bureau for Economic Policy Analysis.

Source: Netherlands Bureau for Economic Policy Analysis

Figure A14. Sweden's goods exports per a sample of recipient countries
Percentage of Sweden's total exports of goods, current prices, twelve-month moving average



Note. The sample of emerging economies comprises Argentina, Brazil, Chile, Philippines, India, Indonesia, China, Malaysia, Peru, Poland, Russia, South Africa, Thailand and Turkey.

Source: Statistics Sweden

Table A1. Sweden's goods exports to the European Union, United States and a selection of emerging economies
Current prices, average of monthly exports, January to November, SEK billions

	2007	2011	Change, SEK billion, 2007-2011
EU	57.9	56.7	-1.2
USA	7.3	6.4	-0.9
Emerging economies*	10.4	15.1	4.7

* Argentina, Brazil, Chile, China, India, Indonesia, Malaysia, Peru, Philippines, Poland, Russia, South Africa, Thailand and Turkey.

Source: Statistics Sweden

Measured as a percentage of Sweden's total exports of goods, exports to the emerging economies are now twice the size of exports to traditionally important trading partners such as the United States, United Kingdom and Denmark (see Figure A14). The percentage of exports of goods going to the euro area has decreased, but the area remains very important for Swedish exports (see Figure A14).[29]

The weakening of Swedish exports is due, to a certain extent, on lower growth in the emerging economies

According to the main scenario in this report, GDP in the euro area is expected to develop weakly in 2012, and growth is also expected to be slow in 2013. The euro crisis is expected to influence developments in other neighbouring countries and, in the main scenario, the overall GDP growth among Sweden's traditional trading partners (TCW-weighted GDP) is predicted to be very weak in 2012 and 2013 (see Figure A15). In the main scenario, the GDP growth of the emerging economies is also expected to slacken off. This is because the growth in exports to developed economies is expected to be weak, while domestic demand will be somewhat dampened due to the high level of interest rates. Additionally, in a number of the emerging economies, investment demand is being negatively affected by falling property prices. However, the overall growth in these countries is expected to remain relatively strong at over 4 per cent per year over the forecast period (see Figure A15).

Exports of goods, which make up about 70 per cent of Sweden's overall exports, decreased during the fourth quarter of 2011. Furthermore, the development of export orders indicates that the growth of exports will also be weak in the first six months of 2012. However, growth is expected to increase slightly during the second six months of 2012. When growth is slower in the emerging economies, the growth in exports to these economies will slacken off. At the same time, the weak development of exports to Sweden's traditional trading partners will have a dampening effect on Sweden's exports. Growth in overall Swedish exports is thus expected to be relatively weak in 2013–2014 compared with 2010–2011 (see Figure A15).

[29] The most important countries in the euro area for exports of Swedish goods are Germany (10 per cent of Sweden's total goods exports), Finland (6 per cent), France (5 per cent), Belgium (5 per cent), The Netherlands (5 per cent) and Italy (2 per cent).

Development is uncertain also for the emerging economies

The forecast for the development of the economies of the European Union and United States is uncertain (see Chapter 2), but there is also uncertainty on the development of the emerging economies. China has experienced very high growth in property prices and credit in recent years. Among other causes, this is due to temporary stimulation measures such as increased government lending and favourable loans for construction. The withdrawal of these stimulation measures and the weaker development of exports and GDP may dampen confidence and lead to larger decreases of property prices, thereby further dampening investments and domestic consumption. Furthermore, the emerging economies are dependent on good access to commodities and fossil fuels. If energy and/or commodity prices were to increase strongly, for example due to supply shocks, growth would be dampened in these countries.

At the same time, there are factors that suggest that developments may be more positive than in the forecast. Among these, a more expansionary monetary and fiscal policy may lead to higher growth. Inflation is on the way down (see Figure A16) and, in several of the largest emerging economies, there is scope to deflect weaker demand with more expansionary monetary and fiscal policies (see Table A2).

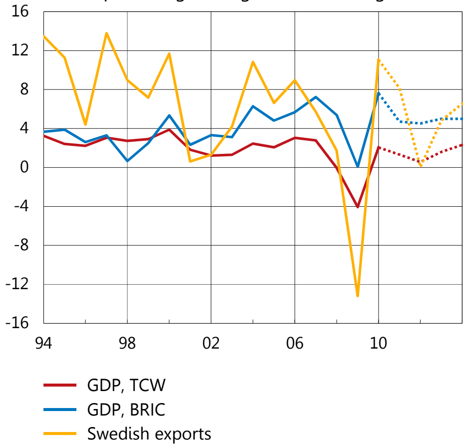
Table A2. Interest rates, inflation, budget balances and sovereign debt in the BRIC countries, 2011
Current prices, average monthly exports, SEK billions

	Policy rate	Inflation	Budget balance/GDP	Sovereign debt/GDP
Brazil	10.5	6.5	-2.5	65
Russia	8.0	6.1	-1.1	12
India	8.5	7.5	-7.7	62
China	6.6	4.1	-1.6	27

Note. Policy rate and inflation in December 2011. IMF forecast for budget balance and sovereign debt.

Sources: National sources and the IMF

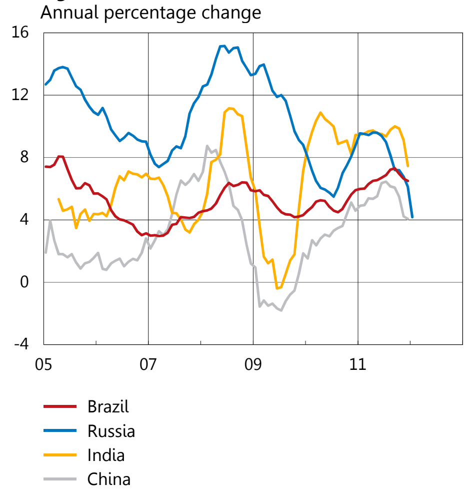
Figure A15. GDP growth TCW and BRIC, and growth in Swedish exports
Annual percentage change, annual averages



Note. The BRIC countries consist of Brazil, Russia, India and China. The IMF's forecast for Brazil, India and Russia. The BRIC countries are weighted with purchasing-power adjusted GDP weights.

Sources: The IMF and the Riksbank

Figure A16. Inflation in the BRIC countries
Annual percentage change



Note. The BRIC countries consist of Brazil, Russia, India and China.

Sources: Federal State Statistics Service, Russia, National Bureau of Statistics of China, OECD and Office of the Economic Adviser to the Government of India