| **Sujet:** La Chine est 10 fois plus importante que l'Europe / China 10 times more important than Europe | **Source:** Dundee Capital Markets<br>**Date:** 03.06.2010 |
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# Dundee Strategy Incubator ™

**New Idea**
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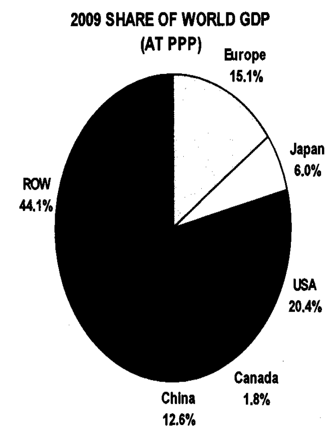
## China is Nearly 10 Times More Important Than Europe!

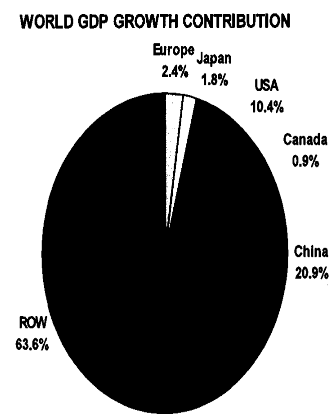
**Despite recent fiscal austerity plans adopted in Europe, we believe the chances that the European bloc would derail and cause a worldwide economic train wreck are small at this point in time. In this Incubator, we revisit countries economic contribution to global economic growth. We conclude that European economic jitters are overblown and China remains the key.**

Since the sovereign debt crisis erupted in Europe, governments and central banks worked together to pull a rescue plan embedding both loose monetary conditions and tight fiscal policies. Quantitative easing, low interest rates and a weakening Euro all contribute to accommodative monetary conditions in Europe. On the fiscal front, while drastic budget cuts and fiscal reforms are unwelcome by local populations, the economic impact of these austerity programs should prove contained among distressed PIIGS countries. The net result for Germany, France, and Netherlands (accounting for 53% of European GDP growth) is that these countries now enjoy explosive monetary conditions without any fiscal tightening. This reality explains why in its recent economic forecasts for 2010, the IMF sees economic growth in these three countries (about 1.2-1.5%) offsetting the negative impact of fiscal restraint on PIIGS countries' GDP.

With Europe set to grow at 1% only in 2010 (1.5% in 2011), what can we expect in terms of global economic growth numbers for this year and next? We calculated an approximation of world GDP shares, growth and contributions based on the last IMF World Economic Outlook forecasts. The results are shown in the charts and table at right. First, according to the IMF growth forecast, we calculated that the European union account for only 15% of total economic activity. ***Second, real world GDP should grow 4.2% in 2010, of which, 0.1% only will stem from Europe, a meagre 2.4% contribution to world economic growth. This is in sharp contrast with US contribution at 10%, China at 21% and that of the rest-of-the-world (ROW) with a stunning 64% contribution.*** In other words, the IMF maintains a forecast where economies in North America and developing countries decouple from those in Europe and Japan. While investors should not adopt a complacent attitude towards sovereign debt risks, they should nevertheless take note of the relatively weak economic contribution of Europe in the grand scheme of things. Also, investors should turn their attention to China (nearly 10x more important than Europe) where a successful soft-landing could be needed to stir the global stock market out of its funk.

**Bottom line:** To the extent that European debt and economic jitters could derail the global economy, these fears are overblown. China is nearly 10 times more important when it comes to GDP growth contribution. Thus, a successful soft-landing in China is likely to be the catalyst that brings the equity market back on its tracks. Thus, keep an eye on Chinese inflation and the economy this summer.




### World GDP Shares, Growth and Contribution

| Country | 2009 Share of the world GDP (at PPP) | 2010 GDP growth (constant prices) % | ppt | % contrib. | 2011 GDP growth (constant prices) % | ppt | % contrib. |
|---|---|---|---|---|---|---|---|
| World | 100.0% | 4.2% | 4.2 | 100.0% | 4.3% | 4.3 | 100.0% |
| Europe | 15.1% | 1.0% | 0.1 | 2.4% | 1.5% | 0.2 | 3.5% |
| Japan | 6.0% | 1.9% | 0.1 | 1.8% | 2.0% | 0.1 | 1.8% |
| USA | 20.4% | 3.1% | 0.4 | 10.4% | 2.6% | 0.4 | 8.2% |
| Canada | 1.8% | 3.1% | 0.0 | 0.9% | 3.2% | 0.0 | 0.9% |
| China | 12.6% | 10.0% | 0.9 | 20.9% | 9.9% | 0.9 | 21.2% |
| ROW | 44.1% | 6.3% | 2.7 | 63.6% | 6.4% | 2.8 | 64.4% |

57% 84% 86%

*Source: IMF World Economic Outlook, Dundee Securities Corp.*

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