

# Global Markets Exploration

By: Noriyuki Oharazawa, Index Strategy Director

MARCH 2011

## Emerging Asia has arrived

Against the backdrop of high economic growth, developing equity markets and a spate of new listings, emerging Asia is becoming a market that attracts investors from around the world.

Looking at the Russell Emerging Asia Index gives you an idea of just how much growth it has experienced.

Made up of eight countries, the Russell Emerging Asia Index comprises approximately 2,100 stocks investable for foreign investors, up from 700 investable stocks 10 years ago. The main countries included in the index are China, Taiwan, Korea and India while four ASEAN countries — Malaysia, Indonesia, Thailand, and the Philippines are also included. It is a sub-index of the Russell Global Index which comprises about 10,400 stocks from 48 countries around the world.

Compare this to the Russell Developed Asia-Pacific Index that currently comprises about 2,100 stocks from Japan, Australia, Hong Kong, Singapore and New Zealand. The number of stocks in this index has actually fallen over the past 10 years when it comprised around 2,200 stocks.

From this comparison it is apparent emerging Asia has seen dramatic growth. This issue of *Global Markets Exploration* studies emerging Asian markets and their development over the past 10 years, using data from the Russell Global Index.

### Overview of the results

- Emerging Asia is increasing its presence in the Asian equity market through dramatic market expansion and has shown strong long-term performance.
- Although emerging Asia is growing, this growth varies depending on the country. The largest and fastest growing equity market in the region is now China. Five years ago, Korea held that title and 10 years ago it was Taiwan's claim to fame. In terms of stock performance, Indonesia delivered the highest rate of return in the past five and 10 years.
- Emerging Asia has outperformed the developed Asia-Pacific in many periods. However, volatility has remained high. Emerging Asia tends to outperform developed Asia-Pacific when the market is on the rise and fall behind when the market declines.
- Emerging Asia small cap stocks perform better than large caps in the same region or small caps in developed Asia-Pacific countries.

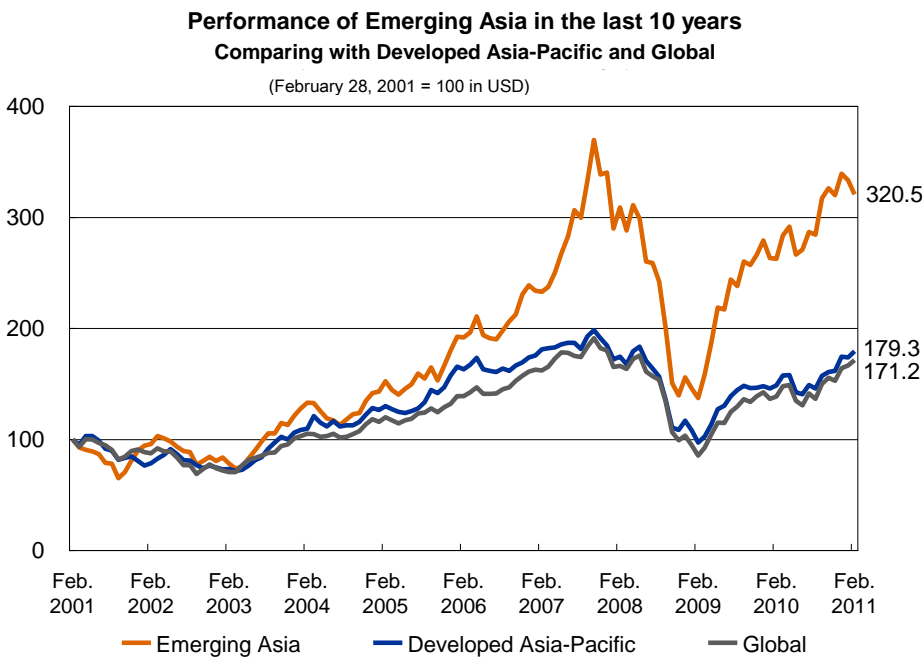
## Emerging Asia as an attractive target for investment

### Outperforms developed Asia-Pacific in long-term

Emerging Asia has experienced higher long-term performance returns than in any other region in the last 10 years.

Take a look at Figure 1. The orange line represents the past 10 years' changes in performance (on a US dollar basis) of the Russell Emerging Asia Index. If US\$100 had been invested at the end of February 2001, the equity assets would now be worth \$320.5, more than tripling in 10 years. If the same amount had been invested in Asian developed countries, it would have only increased about 1.8 times (see blue line in Figure 1, Russell Developed Asia-Pacific Index) and in the entire global market it would have increased 1.7 times.

**Figure 1 (As of February 28, 2011)**



Source: Russell Indexes

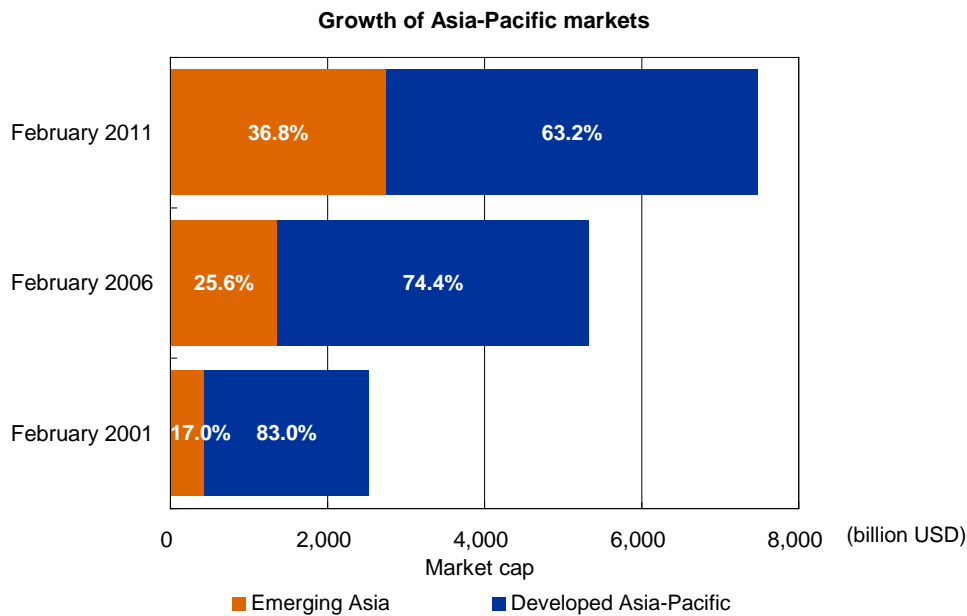
---

## Emerging Asia has enhanced its presence in Asian equity markets

Strong economic growth in the region and strong stock market returns stirred the rapid expansion of the number of investable stocks in emerging Asia's equity markets.

Figure 2 shows changes in the size of investable markets for emerging Asia and developed Asia-Pacific. Asian equity markets as a whole are expanding, and emerging Asia is growing particularly fast. 10 years ago emerging markets only accounted for 17.0% of Asia but now accounts for 36.8%.

**Figure 2 (As of February 28, 2011)**



Source: Russell Indexes

## Growth of Emerging Asia varies by country

### China, Taiwan, and Korea are top 3 countries by investable market size

Although emerging Asia is growing as a whole, growth varies depending on the country. As of end of February 2011, emerging Asia comprises China, Taiwan, Korea, India, Malaysia, Indonesia, and the Philippines.

Table 1 shows each country's investable market cap and its weight in the whole market. China's A-class shares are not included in the calculation because they are, in general, not open to trading by foreign investors. Even so, China has the largest investable equity market in emerging Asia, followed by Taiwan and Korea. These top three countries alone account for about 3/4 of the emerging Asia market and have larger markets than Hong Kong, Singapore, and New Zealand, which are classified as developed Asia-Pacific.

**Table 1 (As of February 28, 2011)**

<b>Constituent countries - Emerging Asia and Developed Asia-Pacific</b>					
Russell Emerging Asia Index			Russell Developed Asia-Pacific Index		
Country	Market cap (billion USD)	Weight (%)	Country	Market cap (billion USD)	Weight (%)
China	787	28.6	Japan	2,893	61.2
Korea	608	22.1	Australia	1,142	24.1
Taiwan	599	21.8	Hong Kong	416	8.8
India	398	14.5	Singapore	257	5.4
Malaysia	132	4.8	New Zealand	22	0.5
Indonesia	109	4.0			
Thailand	80	2.9			
Philippines	38	1.4			
<b>Total</b>	<b>2,752</b>	<b>100.0</b>	<b>Total</b>	<b>4,730</b>	<b>100.0</b>

Source: Russell Indexes

**China experiences fastest growth**

As mentioned above, the emerging Asia markets have been expanding faster than those of developed Asia-Pacific. Next, we break down changes in equity market size by country.

Looking at Table 2 you can see China's equity market is currently the largest in emerging Asia, which overtook Korea five years ago and Taiwan 10 years ago. During this decade the largest market in emerging Asia has changed twice. China's market ranked only fifth among eight countries 10 years ago.

In the past five years, high growth occurred in China (5.2 times), the Philippines (3.3 times), and Indonesia (2.9 times). Over the past 10 years, China (26.4 times) and Indonesia (25.2 times) saw outstanding growth.

**Table 2 (As of February 28, 2011)**

<b>Growth of Emerging Asia countries</b>					
Country	Market cap (billion USD)			Growth	
	February 2011 (A)	February 2006 (B)	February 2001 (C)	(A)/(B)	(A)/(C)
China	787	151	30	5.2	26.4
Korea	608	443	89	1.4	6.8
Taiwan	599	345	193	1.7	3.1
India	398	235	56	1.7	7.1
Malaysia	132	70	39	1.9	3.4
Indonesia	109	38	4	2.9	25.2
Thailand	80	59	13	1.4	6.3
Philippines	38	12	6	3.3	6.8
<b>Total</b>	<b>2,752</b>	<b>1,353</b>	<b>430</b>	<b>2.0</b>	<b>6.4</b>

Source: Russell Indexes

---

## Indonesia performed best in the past five and 10 years

While China may be the fastest growing by size, market expansion does not necessarily correlate with market performance. Table 3 lists the top 10 performing Asian-Pacific countries in descending order based on average rates of return (on a US dollar basis) for the past five years and for the past 10 years. It shows many ASEAN countries delivered higher average rates of return in the past five years while Indonesia ranked first both in the past five and 10 years. China, although having the fastest market expansion, ranked fourth in the past five years and fifth in the past 10 years.

**Table 3 (As of February 28, 2011)**

<b>Top 10 performers in Asia-Pacific countries (Countries with over 10 stocks during the period, % in USD)</b>			
<b>Past 5 years (annualized return)</b>		<b>Past 10 years (annualized return)</b>	
<b>Country</b>	<b>Return</b>	<b>Country</b>	<b>Return</b>
Indonesia	23.1	Indonesia	27.9
Philippines	21.4	Thailand	19.5
Malaysia	18.4	India	18.0
China	16.7	Australia	16.9
Thailand	15.8	China	15.6
Singapore	12.8	Philippines	14.6
Australia	12.7	Malaysia	14.4
India	11.4	New Zealand	13.7
Hong Kong	9.6	Korea	13.3
Taiwan	9.4	Singapore	11.3

Source: Russell Indexes

## Emerging Asia has exceeded developed Asia-Pacific in performance by region

### Emerging Asia performance varies between regions

Table 4 lists 12 month performances by country (on a US dollar basis) in descending order, showing changes in the ranking of the past 10 years. Most of the top three or four are occupied by emerging Asian countries.

However, the ranking of countries in emerging Asia is variable. Indonesia, which delivered the best performance both in the past five and 10 years, ranked highly in many periods, but fell out of the top 10 during the period Mar. 2008 – Feb. 2009 when the financial turmoil sparked by the collapse of Lehman Brothers unfolded.

**Table 4 (As of February 28, 2011)**

**Ranking of 12-month country returns (% in USD)**

Mar2001	Mar2002	Mar2003	Mar2004	Mar2005	Mar2006	Mar2007	Mar2008	Mar2009	Mar2010
Feb2002	Feb2003	Feb2004	Feb2005	Feb2006	Feb2007	Feb2008	Feb2009	Feb2010	Feb2011
Korea 18.2	New Zealand 33.3	Thai -land 120.2	Paki -stan 69.6	Paki -stan 63.9	Philipp -ines 53.6	Indo -nesia 63.9	Japan -38.6	Indo -nesia 168.0	Philipp -ines 59.5
Indo -nesia 13.2	Indo -nesia 2.5	Indo -nesia 111.2	Philipp -ines 50.3	India 51.3	China 45.4	India 60.5	Malay -sia -42.3	India 115.6	Thai -land 52.9
Thai -land 9.7	Thai -land 0.9	India 98.1	Indo -nesia 40.0	Korea 41.7	Malay -sia 41.7	China 45.7	Hong Kong -49.0	Aust -ralia 109.6	Malay -sia 38.7
Malay -sia 7.9	Aust -ralia -0.2	China 97.2	New Zealand 36.0	Japan 29.7	Indo -nesia 39.3	Thai -land 41.1	Philipp -ines -49.1	Korea 104.9	Indo -nesia 37.6
New Zealand 6.6	India -0.4	Hong Kong 65.7	Korea 35.0	China 28.1	Singa -pore 38.9	Paki -stan 28.9	China -50.2	Singa -pore 103.8	Taiwan 28.7
Aust -ralia 6.5	China -0.4	Taiwan 64.4	Aust -ralia 32.4	Indo -nesia 21.3	Aust -ralia 32.2	Malay -sia 27.9	Taiwan -50.5	Thai -land 95.1	Korea 27.8
Taiwan -8.9	Malay -sia -3.9	Korea 61.9	India 30.5	Singa -pore 19.5	New Zealand 27.3	Aust -ralia 19.9	Singa -pore -53.7	Taiwan 80.0	Aust -ralia 26.4
Singa -pore -12.1	Japan -7.1	Singa -pore 61.4	Singa -pore 18.3	Aust -ralia 16.3	India 23.7	Korea 19.5	New Zealand -54.3	China 79.2	Singa -pore 25.9
Philipp -ines -14.1	Hong Kong -11.9	Aust -ralia 60.9	Japan 15.8	Philipp -ines 16.2	Hong Kong 23.6	Philipp -ines 19.1	Thai -land -54.7	Philipp -ines 77.8	Hong Kong 21.8
Hong Kong -21.0	Singa -pore -20.1	New Zealand 57.4	Thai -land 14.6	Hong Kong 14.2	Taiwan 20.3	Hong Kong 18.7	Aust -ralia -56.8	New Zealand 76.1	New Zealand 19.1

Source: Russell Indexes

## Emerging Asia has high return/volatility

Now we look at emerging Asia's performance by region. Table 5 shows annualized rates of average return and standard deviation in the past one, five, and 10 years compared with developed Asia-Pacific. In each period, the average return of emerging Asia exceeds that of developed Asia-Pacific. However, the standard deviation of emerging Asia is also large, indicating high return/high volatility.

**Table 5 (As of February 28, 2011)**

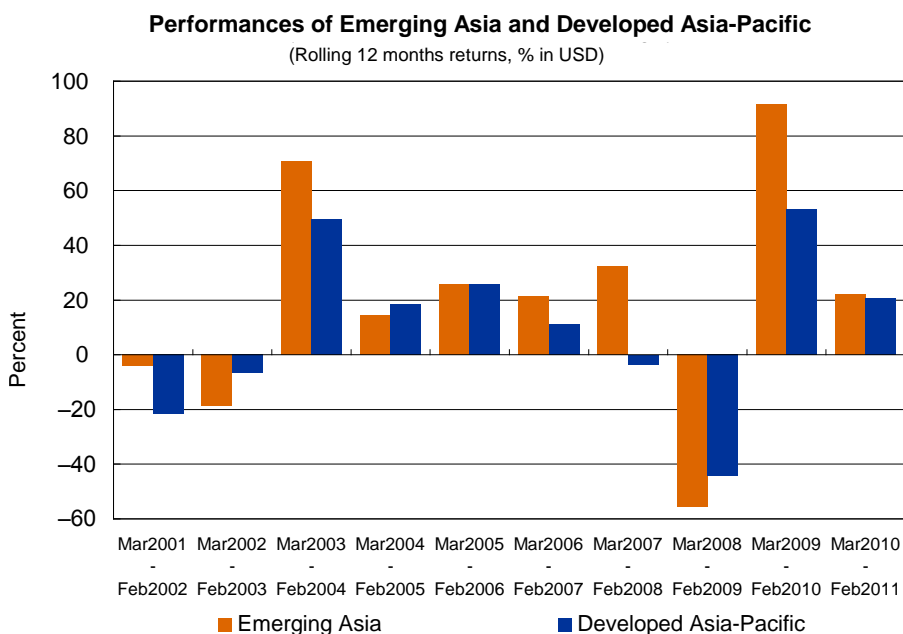
Average return and standard deviation - Emerging Asia vs. Developed Asia-Pacific (% in USD)				
	Average Return		Standard Deviation	
	Russell Emerging Asia Index	Russell Developed Asia-Pacific Index	Russell Emerging Asia Index	Russell Developed Asia-Pacific Index
Past 1 year	22.1	20.7	19.5	17.5
Past 5 years	10.8	1.9	28.6	19.2
Past 10 years	12.4	6.0	25.4	17.4

Source: Russell Indexes

To compare the 10 years' performances of emerging Asia and developed Asia-Pacific, we have examined 10 12-month periods in Figure 3. Emerging Asia outperformed developed Asia-Pacific in seven out of the 10 periods, including four out of the past five periods.

Emerging Asia fell behind developed Asia-Pacific during the global financial crisis (March 2008 – February 2009). But during the subsequent period (March 2009 – February 2010), it recovered faster than the developed Asia-Pacific.

**Figure 3 (As of February 28, 2011)**



Source: Russell Indexes

## Emerging Asia more sensitive to market rises and falls

The following analysis shows when returns across Asia Pacific as a whole fall, emerging Asia is less resilient than developed Asia-Pacific, but when it rises emerging Asia outperforms. In Table 6 below, average monthly returns over the past two years for the whole Asia-Pacific are arranged by overall returns and compared between emerging and developed Asia. When the Asia-Pacific monthly return is less than -5%, the average rate of drop of Emerging Asia is greater than that of developed Asia-Pacific. When the overall return is higher, the average return of emerging Asia is higher than that of developed Asia-Pacific.

**Table 6 (As of February 28, 2011)**

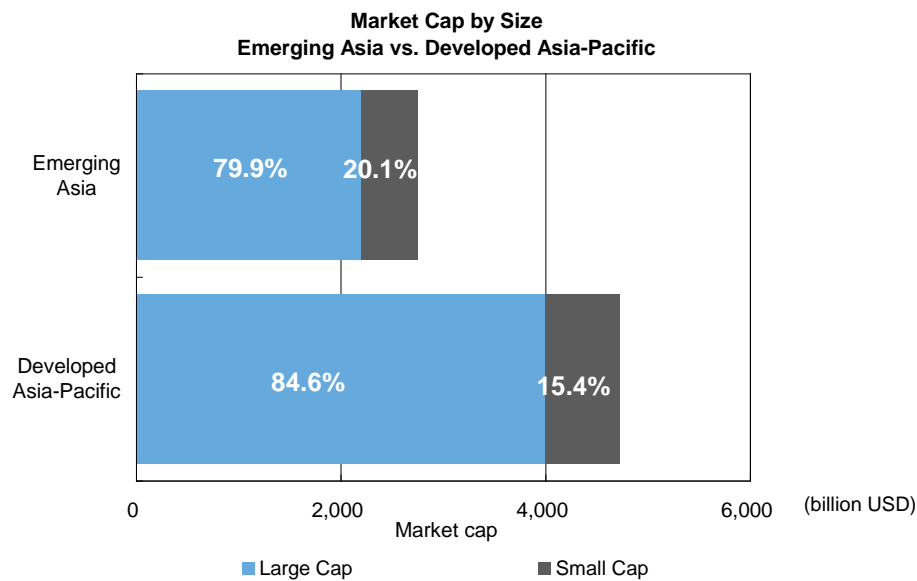
Arithmetic average monthly returns by range of Asia-Pacific returns (USD)			
Range of whole Asia-Pacific monthly returns	Number of months	Average returns (%)	
		Russell Emerging Asia Index	Russell Developed Asia-Pacific Index
Over 5%	24	8.91	7.02
Over 0% Less than 5%	47	3.46	2.20
Over -5% Less than 0%	32	-1.63	-2.12
Less than -5%	17	-10.27	-7.67

Source: Russell Indexes

## Small cap outperforms large cap

Looking at emerging Asia by large cap and small cap stocks (see Figure 4) we can see small caps account for about 20% of emerging Asia, whereas they only account for 15% of developed Asia-Pacific.

**Figure 4 (As of February 28, 2011)**



Source: Russell Indexes

---

## In emerging Asia, small cap outperformed large cap

Table 7 shows total returns of the Asia-Pacific region divided into large cap stocks and small cap stocks, and then into emerging Asia and developed Asia-Pacific. In emerging Asia, small caps outperformed large caps in the past one, five, and 10 years and also outperformed small caps in developed Asia-Pacific in the last five and 10 years. Small caps are particularly attractive in emerging Asia.

**Table 7 (As of February 28, 2011)**

<b>Average returns by market cap size - Emerging Asia vs. Developed Asia-Pacific (% in USD)</b>				
	<b>Large Cap</b>		<b>Small Cap</b>	
	<b>Russell Emerging Asia Index</b>	<b>Russell Developed Asia-Pacific Index</b>	<b>Russell Emerging Asia Index</b>	<b>Russell Developed Asia-Pacific Index</b>
Past 1 year	21.7	19.7	24.0	25.5
Past 5 years	10.7	2.0	11.3	1.2
Past 10 years	11.8	5.4	13.4	9.3

---

For more information about Russell Indexes, call us or visit [www.russell.com/indexes](http://www.russell.com/indexes).  
Americas: +1-877-503-6437; APAC: +65-6880-5003; EMEA: +44-20-7024-6600

## Important information

---

Russell Investments is a Washington, USA Corporation, which operates through subsidiaries worldwide and is a subsidiary of The Northwestern Mutual Life Insurance Company.

Russell Investments is the owner of the trademarks, service marks and copyrights related to the Russell Indexes.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

The source for all data in this document is Russell Investments unless otherwise noted.

This material is proprietary and may not be reproduced, transferred, or distributed in any form without prior written permission from Russell Investments. It is delivered on an "as is" basis without warranty.

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

This is not an offer, solicitation or recommendation to purchase any security or the services of any organization.

Copyright © Russell Investments 2011. All rights reserved.

First use: March 2011.

CORP-6590