EADS Snapshot on
Economic Trends Reports

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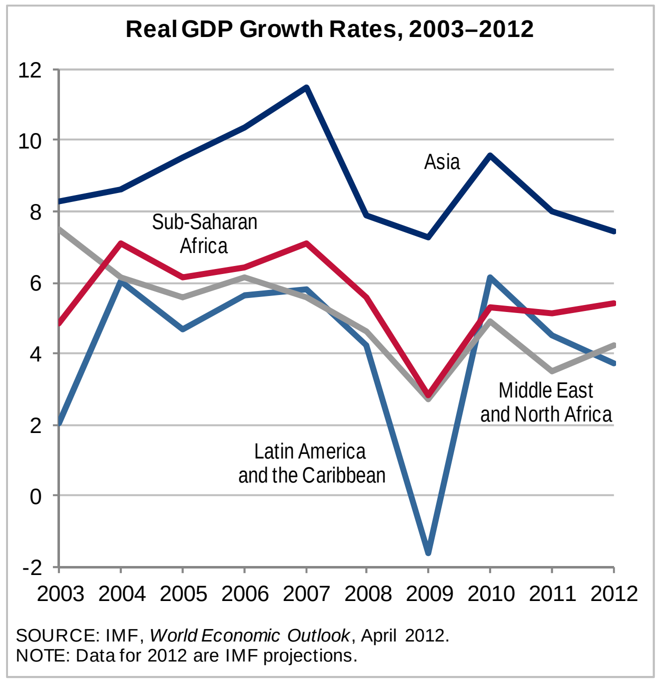
The USAID Economic Analysis and Data Services team produces ten regional economic trends reports annually, covering particular regions in Asia, Africa, Latin America, and the Middle East. The reports summarize the latest *World Economic Outlook* projections from the IMF and utilize other sources to analyze trends in real GDP, inflation, investment, trade, and poverty reduction. All ten reports are available at http://esdb.eads.usaidallnet.gov/docs/econ_trends/.

Regional Growth Patterns Show Rebound From World Economic Slowdown



Projected real GDP growth rates among different regions of the developing countries for 2012 are generally slower than the fast rates seen in 2010 as the world economy bounced back from the financial crisis. Key features of the growth patterns between regions include:

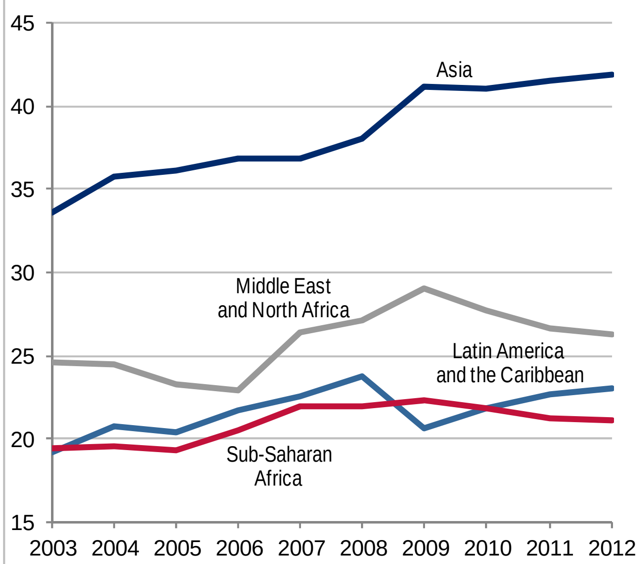
- Developing economies in Asia are still the fastest growing in the world, a rank they have consistently held going back several years prior to the 2008–2009 slowdown.
- Sub-Saharan African economies are again back into the second position. Africa's slide in the ranking for 2010 proved to be temporary.
- Middle East and North Africa economies had a sharp slowdown 2010–2011, but have improved to return to a typical position posting growth rates in the middle of the pack.
- Latin America and the Caribbean had a relative growth surge in 2010, but are now back in the position as the slowest growing economic region.

The IMF's latest *World Economic Outlook* explains continued rapid growth in South and East Asia as due to strong domestic demand and financial conditions, as well as scope for policy easing by governments. At the other end of the expansion scale, Latin America and the Caribbean are seen as having slower growth rates as recent policy tightening (both monetary and fiscal) in many countries begins to take effect.

Although different regions fall into different rankings with respect to real GDP growth rates from year to year, the regional ranking on investment as a percentage of GDP is somewhat stable. Asia economies consistently have the highest investment ratios. In the last few years, Asia has widened the gap between itself and most of the other regions.

The IMF summarized the policy challenge for developing economies as to appropriately "calibrate macroeconomic policies to address the significant downside risks from advanced economies while keeping in check overheating pressures from strong activity, high credit growth, volatile capital flows, still-elevated commodity prices, and renewed risks to inflation and fiscal positions from energy prices." (*World Economic Outlook*, April 2012)

Investment as a Percentage of GDP, 2003–2012

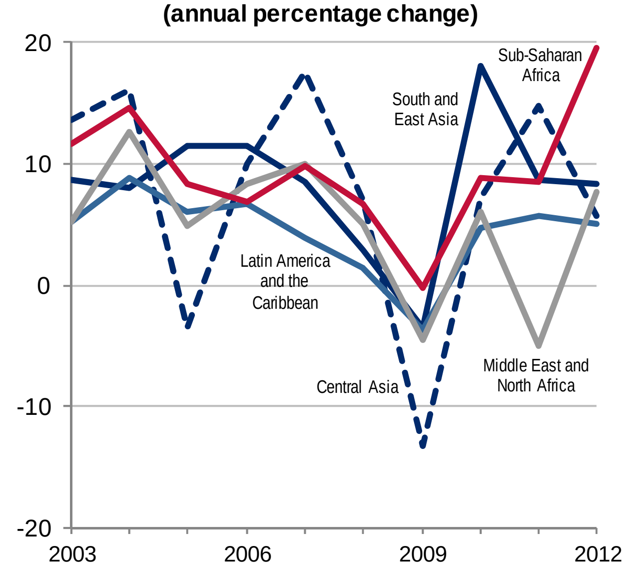


SOURCE: IMF, *World Economic Outlook*, April 2012.
NOTE: Data for 2012 are IMF projections.

Spillovers from Euro Area Effects

Slow growth in the euro area has translated into lower export growth, while financial uncertainty has led to volatile capital flows in emerging economies. Economies in Central and Eastern Europe remain most vulnerable to spillovers from bank deleveraging. Economic growth projections for Central Asia, though strong, have moderated since the September 2011 IMF report as a result of the negative spillover effects from the euro area sovereign debt crisis. Weaker export demand from Europe is hurting several Central Asian countries; however, high oil and commodity prices as well as strong domestic demand continue to support growth, particularly among net energy exporting countries (Turkmenistan, Uzbekistan, and Kazakhstan).

Export Volume of Goods and Services (annual percentage change)



SOURCE: IMF, *World Economic Outlook*, April 2012.
NOTES: Values represent unweighted averages. 2012 values are projections.

In South and East Asia, though exposure to euro area banks is limited, the European debt crisis has hit equity finance with regional stock markets retreating in concert with the rest of the world during the second half of the year. In addition, a downside risk to economic growth remains in the deleveraging by European banks. While Asian banks are generally in good financial health and many have sufficient capacity to increase lending, euro area banks handle a substantial share of trade credit in the region and often specialize in complex project financing, for which it is difficult to find quick substitutes. The typical growth rates, however, remain faster than in any other region of the world.

Countries in Sub-Saharan Africa were largely shielded from the global financial crisis due to their limited integration into global manufacturing and financial networks. In Sub-Saharan Africa, growth has continued largely unabated, helped by favorable commodity prices. While the crisis in the euro area has dampened export demand, the region has benefited from increased trade with developing countries, particularly China, and increased regional integration.

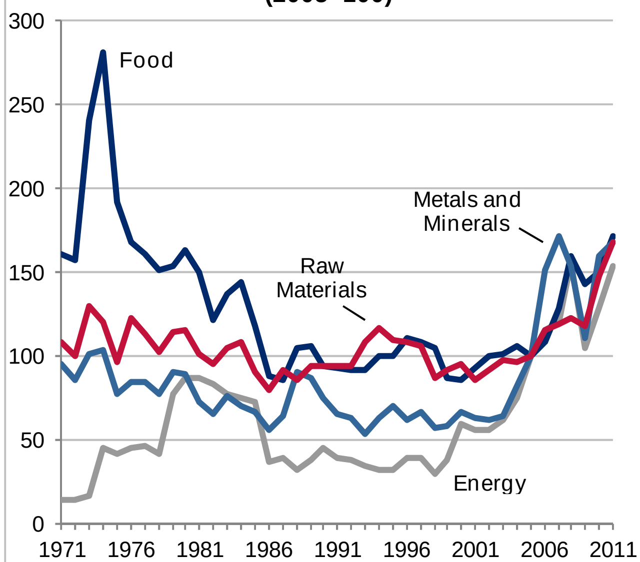
The euro zone is an important export market for many Middle East and North Africa (MENA) economies, so economic problems in Europe will feed back to less investment in MENA through the trade channel but the financial channel is less significant for MENA economies. With respect to manufactured goods, Tunisia, Morocco, and Egypt are all heavily dependent on the European market. As the euro zone financial difficulties continue, countries more reliant on Europe are more vulnerable to a downturn.

While the pace of economic growth was strong in South America in 2011, at 4.8 percent, there are significant risks that negative spillovers from the euro area sovereign debt crisis will dampen growth in several of the more financially integrated economies. There are concerns about weakened export demand from Europe if conditions related to the sovereign debt crisis worsen. According to the World Bank's *Global Economic Prospects* 2012, exports to the euro area represent 20 percent of total exports from Brazil and Chile and almost 15 percent from Argentina and Peru. While increased trade with China has helped South America remain resilient to the financial crisis in the U.S. and Europe, it also leaves the region vulnerable to negative external shocks related to a potential slowdown in Chinese economic growth. Economies in the Caribbean have struggled to recover from the global crisis. Slow growth in high-income countries has constrained growth in tourism revenues in the Caribbean. Tourism arrivals were up 4 percent in the first part of 2011, following growth of 3 percent in 2010. In addition, increased risk aversion internationally will weigh on foreign direct investment (FDI) inflows, which account for a particularly large share of the national income of the Organization of Eastern Caribbean States.

Commodity Price Swings

The April 2012 *World Economic Outlook* (*WEO*) examines the impacts of volatile commodity prices on low-income countries (LICs) by comparing commodity price booms in the 1970s and the rise in prices over the past decade. Given the weak global economic outlook and the cyclical nature of commodity prices, the authors predict that commodity prices will grow more slowly or decline in the next few years and suggest policy responses to buffer against this volatility.

World Bank Commodity Price Indices (2005=100)



SOURCE: World Bank, *Comodity Price Data*, May 2012.

Net Commodity Exporters

Overall, the IMF finds that macroeconomic performance in commodity exporters tends to move in line with commodity price cycles (economic growth improves during commodity price upswings and vice versa). This pattern is more pronounced for energy and metal exporters than for exporters of food and raw materials. In addition, cyclical variability is stronger for exporters with pegged exchange rates, relative to flexible exchange rates, and with greater capital account openness.

The IMF analyzes several policy stances for commodity exporters trying to achieve sustainable economic growth. A countercyclical rule, in which fiscal authorities save surplus revenues and increase taxes to dampen aggregate demand during a commodity price upswing, is highlighted in the report as an effective approach to mitigate inflationary pressures and output volatility. The *WEO* report finds that over the past decade most commodity exporters are moving in the right direction by reducing their debt levels (particularly OPEC members), strengthening fiscal balances (Botswana and Chile), and adopting monetary policies to support inflation targeting (Indonesia, South Africa, and several Latin American countries). For LICs, the IMF also suggests that governments implement a sustainable investment approach which includes creating an investment fund to save some resource revenues and gradually increasing public investments. Timor-Leste's petroleum fund and strategic development plan is a good example of this approach.

Net Commodity Importers

Most LICs are net importers of food and fuel. Food makes up a greater share of commodity baskets in LICs compared to high-income countries, thus rapid rises in food prices have a greater negative impact on inflation rates, poverty, social stability, and fiscal deficits in LICs. In response to rising food prices in 2010 and 2011, the IMF finds that about half of LICs took fiscal measures to mitigate the impacts of the shock with an estimated budgetary cost of more than 1 percent of GDP. If commodity prices continue to rise, LICs that are net importers of food and fuel may have trouble finding cost-effective mitigating strategies given limited fiscal room. The IMF suggests the following policies for LICs to buffer against future price shocks:

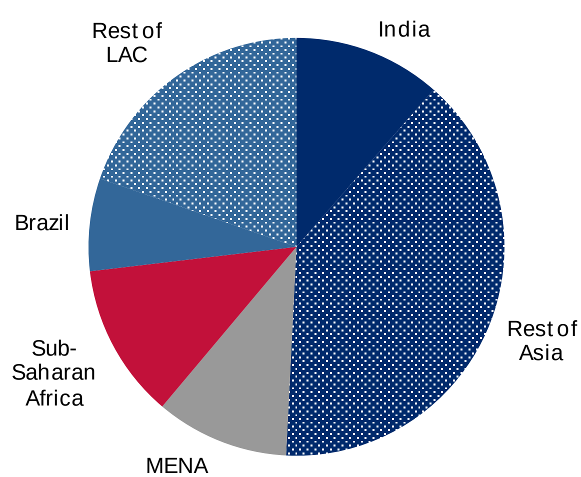
- make structurally robust budgets,
- put in place stronger social safety nets,
- encourage increased domestic saving and deepen financial sector, and
- adopt policies to encourage greater production and export diversification.

Will China Remain a Source of Global Growth and Demand?

Many countries struggling in the face of decreased demand from Europe and the U.S. have begun exploring greater trade linkages with China, one of the world's fastest growing and largest economies. The Chinese economy has proven remarkably resilient to negative spillovers from the financial crisis. However, there are several indicators pointing to risks that may weigh down future demand from China.

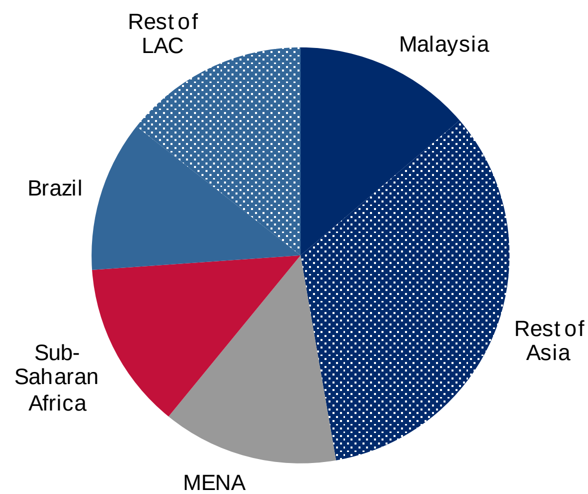
The Chinese economy is expected to have a 'soft landing' in 2012 with GDP growth slowing from 9.2 percent in 2011 to 8.2 percent in 2012. China is encountering a significant shift in its current account surplus—declining from a surplus of 10.0 percent of GDP in 2007 to 2.8 percent in 2011—reflecting a sharp drop in demand from Europe and the U.S., which generally absorb 40 percent of China's exports. In the meantime, strong public and private investment rates, strong domestic demand, and efforts to restock inventories in China have increased China's demand for imports, particularly for commodities such as energy and metals. While many developing countries have benefited from demand for their commodities from China there remain questions about the limits of this demand. China's real estate market is cooling, fallen inventories have largely been restocked, and potential further negative spillovers from the euro crisis are among several causes for concern about the sustainability of commodity demand from China.

China's Developing Country Export Markets 2011
(share of total Chinese exports to developing countries)



SOURCE: IMF, *Direction of Trade Statistics*, May 2012.

China's Developing Country Import Markets 2011
(share of total Chinese imports to developing countries)



SOURCE: IMF, *Direction of Trade Statistics*, May 2012.