

## انتعاش الاقتصاد العالمي

### The Recovery of the Global Economy

The world in 2011 – The continued global economic growth in 2011 seems to suggest that the world economy has almost completely out of the crisis it landed itself into during 2009 as triggered off by the financial crisis of 2008. 2009 was an exceptionally bad year for the global economy when there was a rare, unprecedented negative growth for the first time since World War II, which turned out to be more than earlier estimated, viz. - 2.1% according to UNCTAD compared to the initial estimates -0.8% by IMF. In 2010 there was a robust recovery according to the calculations of this UN organization, with a 3.9% growth in the global economy. This growth is projected to have continued into 2011 with a projected estimate of 3.1% growth.

Global Economic Performance, Annual Growth & Projections, %

	2008	2009	2010	2011
World	1.7	-2.1	3.9	3.1
Developed Economies	0.3	-3.6	2.5	1.8
- USA	0.4	-2.6	2.9	2.3
- EU	0.5	-4.2	1.8	1.9
East & South Europe	4.3	-3.7	0.5	2.2
- Russia	5.6	-7.9	4.0	4.4
Emerging & Developing World	5.4	2.5	7.4	6.3
- Africa	5.4	1.8	4.4	3.5
Developing Asia (excl. Japan)	5.8	4.2	8.3	7.2
- China	9.6	9.1	10.3	9.4
- India	5.1	7.0	8.6	8.1
West Asia	4.8	-0.8	6.0	6.4
Latin America/Caribbean	4.0	-2.2	5.9	4.7
- Brazil	5.2	-0.6	7.5	4.0

Source: UNCTAD

Though recovery in 2010 was substantial and the global growth rate was higher than the average achieved in the past decade, in 2011 the world economy shows signs of slowdown as the growth rate is projected to drop from 3.9% to 3.1% this year.

Diverging growth rates - As for most of the past decade, growth in developing economies remains much higher than of developed economies. The divergence of growth rates between these two parts of the world is one of the key characteristic of the current global economy. Developed countries are finding it harder to resume higher growth rates, largely attributed to inadequate private demand in these countries, in turn caused by lack of consumer confidence who do not expect their incomes to rise in the future.

Higher growth in developing economies - While the global economy is now considerably interlinked, nevertheless, the developing economies continue to grow irrespective of the demand problems of the developed countries, as their own demand seems to considerably strong. Importantly, the financial crisis of 2008 did not lead to adverse impact on employment and wages in these countries which could have reduced demand. At the same time, developing countries have been helped by buoyant commodity prices since 2009.

Decline in the developed world - Advanced industrial economies and East Europe, suffered the most in the crisis of 2008-09, and there was a significant economic decline for the first time since the World War II. US, EU and Japan, together declined sharply by 3.6% in 2009, compared to a 2.5% growth in the developing countries. Decline in EU was even higher than in USA the cause of the crisis. East Europe was hit even harder with a -6.9% growth rate and Russia suffered the most with a -7.9% decline. While recovery has now taken place, growth rates are sluggish and some countries (Japan, New Zealand and Australia) have also been adversely impacted by natural disasters.

European Union – After suffering the most during the financial crisis, EU region posted a very modest growth rate of 1.8% in 2010, which is expected to remain virtually the same in 2011 at 1.9%. The level of unemployment remains high in the member countries, with some variation. The region is currently threatened by member states with public debts whose consequence is likely to be fiscal tightening makes their prospects of growth rather bleak and they remain vulnerable to a recession.

Leaders - Currently, China leads the field with 10.3% growth followed by India (8.6%). Both are expected to show some decline this year, but not very large or significant. They are followed by countries of the Middle East, particularly the oil exporting countries.

Middle East and UAE – The West Asian region, of which UAE is a part, was ranked 3<sup>rd</sup> after East Asia and South Asia in terms of growth rate. West Asia grew by 6.0% in 2010 (compared to East Asia, 9.4% and South Asia 7.2%), and is projected to grow at 6.4% in 2011. These growth rates seem to agree with the growth rate of the UAE economy in 2010. The U.A.E. economy was able to completely weather the storm of 2008-09, both on the strength of healthy oil prices and a strong non-oil sector. In the oil exporting countries of this region, growth has been supported by expansionary government spending.

Africa - African countries saw their combined growth rate tumble from 5.2% in 2008 to 1.9% in 2009, because of their vulnerability to the export market. However, they resumed healthy growth in 2010. This year a slowdown is expected because of the political instability in North Africa. Sub-Saharan Africa is nevertheless, expected to achieve growth rates close to the average in the developing world.

Table 2 – Global Exports, Annual Growth

	Exports			Imports		
	2008	2009	2010	2008	2009	2010
World	2.4	-13.3	14.0	2.6	-13.4	13.6
Developed Economies	2.5	-15.1	12.6	-0.1	-14.5	10.3
South East Europe and CIS	-0.2	-14.3	11.7	15.5	-28.1	15.6
Developing Economies	3.2	-10.3	16.7	6.7	-9.9	18.9
USA	5.5	-14.9	15.3	-3.7	-16.4	14.7
EU	2.4	-14.3	11.2	0.8	-14.3	9.0
Japan	2.3	-24.9	27.9	-0.6	-12.4	10.3
China	10.5	-13.6	29.4	2.3	-1.7	30.0
India	16.8	-6.6	12.7	29.7	-0.8	4.2
West Asia	4.3	-4.7	7.3	13.3	-13.8	10.6

Source: UNCTAD

Latin America – Latin America too, posted a growth rate average close to the developing world average. It was their highest growth in sometime, even though growth in the key economy, Brazil slowed down because of restrictive policies to curb inflation.

International Merchandize Trade – Global trade too bounced back sharply in 2010 with a greater bounce back (14%) than the downturn (-13.3%) in 2009. Outlook for trade remains positive barring some restrictive measures implemented by the advanced countries, prompted by their high unemployment rates. Growth in international trade is considerably higher in the developing countries, explained by their higher economic growth, their high consumer confidence levels as well as their smaller base.

Trade in Services – The behavior of goods trade is more or less reflected in that of services. Foremost among them, tourist and travel services grew by 7% in 2010 after having fallen in 2009 over 2008 because of the financial crisis. In 2011 too it has shown signs of growth. Once again, growth is higher in developing than developed countries, as the latter are the more favoured destinations. Transport services have an almost perfect correlation with merchandize trade growth as it is the carrier of the traded goods. Most important here is seaborne trade which accounts for four-fifths of the trade and is also of importance to UAE. Freight prices declined in 2010 because of oversupply and have continued to stay low in 2011.

Outlook - The “man-made” crisis of 2008-09 seems to have been over in most of the world. While it impacted more the countries where it originated (advanced countries), the tremors were felt in the developing countries as well. However, the impact on the latter was smaller and they were able to recover faster. The woes of the advanced countries still seem to be related to economic policy and regulation, as in the case of EU’s Euro crisis with respect to Greece. Competent and enlightened regulation would be needed to avoid such crisis in the future, not only in the developed but also in the developing world as they catch up with the developed world.