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CEAG world economic outlook - September 2003

Recent developments are giving hope that global economic recovery is on the way. This recovery is expected to be uneven across regions, however, and many imbalances remain, possibly spelling trouble in the longer run.

United States

The US is finally enjoying a strong economic recovery, driven by historically low interest rates, tax cuts, soaring defense expenditures and increased business spending. Despite accelerating growth in the second quarter, the labour market has so far been slow to react. What happens in the longer term remains uncertain, as the US economy is still purging the after-effects of the bubble. Many imbalances remain, such as high levels of consumer indebtedness and a huge budget deficit, and companies need to rebuild their balance sheets before they spend more on investment. All of this could well dampen growth in the second half of 2004.

Latin America

Last year, Latin America was in recession, largely because of the Argentina crisis. This year's slightly better performance is also led by Argentina. The average growth rate in Latin America could even reach 4% next year. But there is a risk of widespread "reform fatigue" which could jeopardize these recent improvements.

Western Europe

Last year's hopes that Europe would recover were disappointed. Confidence is low while unemployment is high. Germany, Italy, and the Netherlands are in recession. However, there has been a small change in mood recently, as stocks are on the rise and further tax cuts are expected. The big issue is whether EU members are finally going to take the "Lisbon Agenda" seriously and make their economies more flexible and competitive. Economic reforms are in the air, but political commitment is still weak.

Central and Eastern Europe and Russia

Central and Eastern European countries are experiencing strong growth rates and EU-joiners can reasonably expect to attract further investment in the years to come. Russian macroeconomic indicators are good, if not excellent. The average growth rate since 1998 is estimated to be 6%. And for the first time in new Russia's history, growth is accompanied by an increase in productivity. Capital investments are on the rise, but budget deficits and poor business conditions remain causes for concern.

Africa and Middle East

The outlook for Middle Eastern economies largely depend on what happens in Iraq and Palestine. In Africa, good prospects in South Africa, Nigeria, Angola, Mozambique and Kenya were offset by instability in C ́te d'Ivoire, Liberia, Congo and Zimbabwe. Global recovery should now support commodity prices and contribute to African economic growth.

Japan

Japan delivered good news for the second quarter, with an annualized growth of 4%, based broadly on investment, consumption and exports. Huge corporate debts and non-performing loans remain a heavy burden. The situation is improving, but it could take years for the Japanese economy to take off.

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Emerging Asia

Consumer spending and investment are growing strongly in China, leading to a risk of overheating. Growth is said to have averaged over 9% a year since the start of the reforms in 1978. China is also attracting an increasing share of foreign direct investment, all the more since joining the WTO in December 2001. Several risks, however, are facing the country: a fragile financial system, non-performing loans, evidence of a bubble in certain markets (e.g., real estate in Shanghai) and heavy reliance on government institutions.

The Indian economy is enjoying a fast-paced growth, thanks to a good monsoon rains and the current wave of service outsourcing. It is also becoming a manufacturing hub for the car industry. In south-east Asia, the strong US economic recovery should help boost exports. The issue in Asia is now the sustainability of growth in economies struggling with unemployment, non-performing loans, and the unequal sharing of the benefits of development.