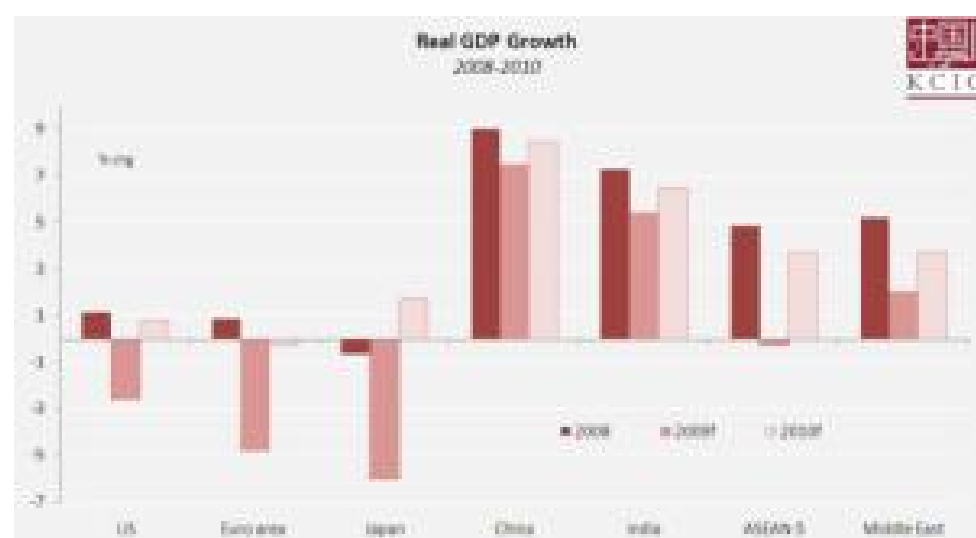


KCIC WEEKLY ANALYSIS

The East to perform better than developed world in 2010



Why is this chart important?

This chart shows the growth rates of different regions of the world. In almost every economy, the projected rates for 2009 and 2010 are lower than those recorded in 2008. In other words, we should expect lower growth worldwide. Why? Because the United States is in the middle of a severe financial crisis and globalization - via increasingly integrated trade networks and financial system - has synchronized the business cycles and economic growth. If the U.S. and Europe do not consume, many emerging

economies are bound to suffer, because of reduced exports. Yet, the industrialized world (U.S., Europe, and Japan) will suffer the most, experiencing a severe contraction in 2009 and minimal growth in 2010. In contrast, the "Middle East" will hold up relatively well, while China and India will lead the pack. Smaller economies in Asia look more vulnerable. In sum, over the next two years, rich countries will suffer, while the "East" will fare better.

What does this indicator tell us?

"Real GDP growth" is an indicative measure of the "economic momentum" of a nation, i.e. its increased capacity to produce goods and services. In other words, this indicator - the percent rate of increase in real gross domestic product (GDP) - quantifies the country's economic growth in a given year. A nation's real GDP is the total market value of all final goods and services made in a year, and is inflation adjusted, in order to eliminate the effect of the change in the general price level.

What are the implications for the economy and the financial markets?

As a result of the current crisis, all regions will suffer a decline. Still, the "East" will perform better than the developed world, with the developing Asia leading this trend. There are probably three main drivers behind the higher growth of Asian emerging markets: 1) because of the size of the domestic market, the big developing countries' domestic consumption and investment (e.g. infrastructure spending) are holding up relatively well; 2) many countries are able to cushion the adverse impact of the economic shock with fiscal stimuli and monetary easing, as they have a current-account surplus, large foreign reserves, and a fiscal balance in surplus or close to balance in previous years; and 3) globally, emerging economies are increasingly trading with each other; today, over half of their total exports - and half of China's exports - go to other emerging markets. Also, the emerging markets, as a group, export more to China than to the U.S. As the global investors get more confident about these trends, capital markets might respond accordingly, especially in case of a likely correction of the U.S. and European markets later this year.

Last updated on Sunday 30/8/2009