

# CESifo WORLD ECONOMIC SURVEY

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AUGUST 2004

## WORLD ECONOMIC CLIMATE

World Economic Climate remains favourable

## ECONOMIC EXPECTATIONS

Current economic situation above satisfactory, economic expectations have weakened slightly

## INFLATION

Inflation expected to pick up somewhat

## INTEREST RATES

More WES experts expect rising interest rates

## CURRENCIES

Euro still overvalued

## SPECIAL TOPIC

WES experts divided concerning the impact of globalization on economic welfare



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## Ifo World Economic Survey

### Regions

- World economy: Consolidated upturn
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- Asia: Cooling-down expected
- Oceania: Boom continues
- Latin America: Back on a recovery course
- Near East: Economic climate remains highly favourable
- Africa: Facing strong challenges to achieve sustained growth

The survey is jointly conducted by the Ifo Institute and the Paris-based International Chamber of Commerce (ICC).

## Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In July 2004 some 1,178 economic experts in 89 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

## Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: on assessment of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since economic changes are revealed earlier than by traditional business statistics.

The individual replies are combined for each country without weighting. The "grading" procedure consists in giving a grade of 9 to positive replies (+), a grade of 5 to indifferent replies (=) and a grade of 1 to negative (-) replies. Grades within the range of 5 to 9 indicate that positive answers prevail or that a majority expects trends to increase, whereas grades within the range of 1 to 5 reveal predominantly negative replies or expectations of decreasing trends.

The survey results are published as aggregated data. The aggregation procedure is based on country classifications. Within each country group or region, the country results are weighted according to the share of the specific country's exports and imports in total world trade.

*CES – Center for Economic Studies* – is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance, aspects of the economy, but also includes many diverging fields of economics.

*Ifo Institute for Economic Research* ist one of the largest economic research institutes in Germany with a three-fold orientation: to conduct economic research, to offer advice to economic policy-makers and to provide services for the research and business communities. The Ifo Institute is internationally renowned for its business surveys.

*CESifo* is the name under which the international service products and research results of both organizations are published (in English).

# WORLD ECONOMY: WORLD ECONOMIC CLIMATE STABILIZES AT A FAVOURABLE LEVEL

In July 2004 the World Economic Climate stabilized at the favourable level reached in the previous two quarters (see Figure 1). The climate indicator is at 109.2 (1995 = 100), considerably higher than its long-term average (1990–2003: 92.97). Similar to the April survey, only the assessments of the current economic situation improved, whereas the economic outlook has again been slightly downgraded, though remaining optimistic (see Figure 2).

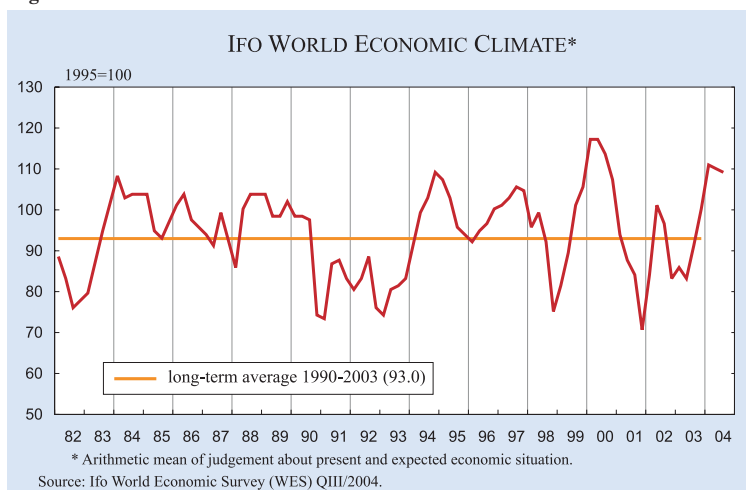
## World economy: Consolidated upturn

According to the July results, the current economic situation continued to improve. Similar to the preceding April survey, the overall economic situation is judged above the “satisfactory” level. As economic expectations – the second component of the economic climate index – have again been slightly downgraded, the overall economic climate deteriorated somewhat (see Figure 1). This constellation coincides with other forecasts that suggest that the peak of the year-long growth surge may have passed. But this does not necessarily mean that the global economy will enter a downward trend. Based on experience, such an assertion is only justified following three consecutive negative survey results of both assessments of the economic situation as well as the economic expectations for the next six months. According to the latest survey results, the

current economic situation continued to improve; only economic expectations have weakened somewhat on the world average. For a medium-term forecast a look at the Ifo Business Clock that shows the development of the two components of the economic climate index over the last six years can offer valuable clues (see Box 1). By the end of 1999 and in the first half of 2000 the world economy was in a state of a consolidated upturn. But already by the end of 2000 a cooling-down phase had set in. In the third quarter of 2001 the business cycle movement was in the offing of an upswing, but the terrorist attacks in New York in September 2001 caused a sharp deviation from the regular cyclical path. Already in January and April 2002 the overall indicator bounced back, mainly driven by optimistic expectations. However, the initial improvement of the indicator was not long-lasting, and in July 2002, the world economic index slipped into a so called “double dip” (see Figure 1 and Box 1). This renewed, strong setback of the economic climate was mostly aggravated by the escalation of the Iraq crisis. With the end of the main war activities in Iraq, the economic expectations clearly brightened compared to the period of the glooming geopolitical crisis in 2002 and in the beginning of 2003. The strong pace of recovery that started in the second half of 2003 gained more momentum in the first half of 2004. According to the latest WES results, the world economy is on track for its best performance since

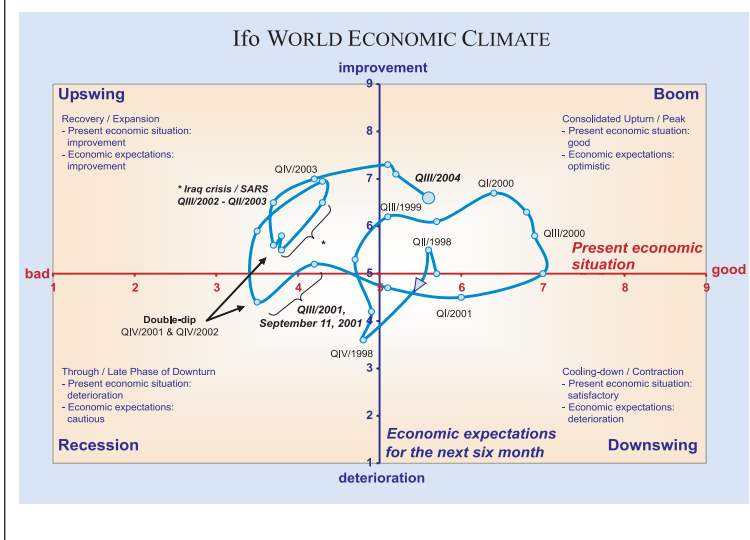
2000, thanks to an improved assessment of the present economic state in the US and Western Europe and Japan’s much better than expected performance. Thus, the current economic upturn is qualitatively different from the preceding rebound and growth is expected to continue also in the last quarter of 2004, though at a slower pace. But two factors may contribute to a slow-down of economic growth: rate hikes and rising oil prices. A cooling down in China, the world’s third largest economy, (based on its share in

Figure 1

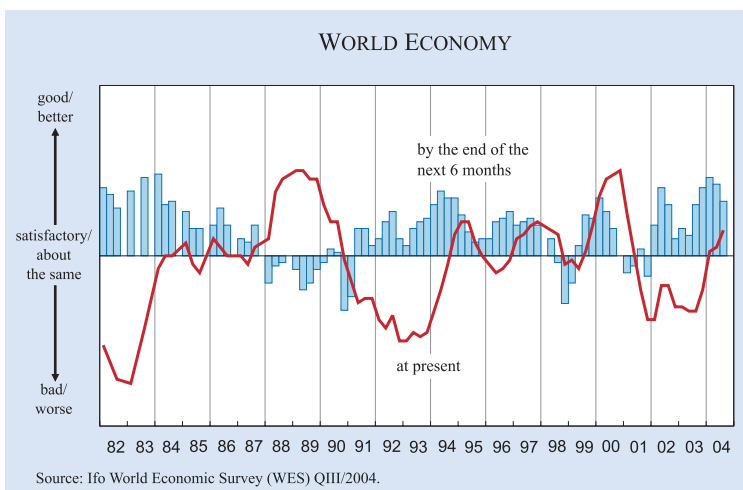


**Box 1**  
**Ifo Economic Clock and the World Economic Climate**

The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram (“Ifo Konjunkturuhr” was first published in Spring 1993. See W. Leibfritz, W. Nierhaus, Westdeutsche Wirtschaft: Wie tief ist die Rezession? in: *ifo Schnelldienst*, 46/7, 1993, pp. 12ff.). The assessments on the present economic situation are positioned along the abscissa, the responses on the economic expectations on the ordinate. The diagram is divided into four quadrants, defining the four phases of the business cycle. In the intersection of the two lines of the WES scale, the assessments of the present economic situation are “satisfactory” (5), and economic expectations for the next six month point to “no change” (5). For example, should the assessments of the interviewed experts on the present situation and expectations be negative, the values on the WES scale are in an area between 1 and 5, the world business cycle is in a recession phase (bottom left quadrant). Should the economic expectations be positive – in the area between 5 and 9 (with still negative assessment of the present situation) – the climate index moves into the recovery phase (top left quadrant). When the assessment of the present situation and expectations are both positive that is in the area between 5 and 9, a boom is registered (top right quadrant). The business cycle typically goes clockwise in a circle; expectations leading assessments of the present situation.



**Figure 2**



Source: Ifo World Economic Survey (WES) QIII/2004.

the world trade; see Table 1), is also likely to trim global expansion.

**Western Europe: Economic recovery gains momentum**

Although Western Europe is lagging behind the US and Japan, the overall trend points to a continuation of the economic recovery that started in the second half of 2003 but has not yet reached the same level as in the other economic regions of the world (see Figure 3). The assessment of the current economic situation in most Western European economies rose to an above satisfactory level, according to the July results. Economic expectations for the next six months remained optimistic in all Western European countries (see Figure 4).

The lowest marks for the current situation were given by WES correspondents in the Netherlands, Portugal, Germany and Italy, whereas, in the other countries in the euro area the present economic performance was assessed as satisfactory. The near-term prospects generally remained positive in all Western European countries (see Figure 7a/b and Box 2). Despite the continued appreciation of the euro, sentiments regarding the export outlook also remained optimistic in all countries of the euro area. Both increases in capital expenditures as well as in private consumption are expected to support economic growth in the coming six months.

The economic climate in the Nordic countries outside the euro area (Denmark, Sweden, Norway, and Iceland) and in the

Table 1

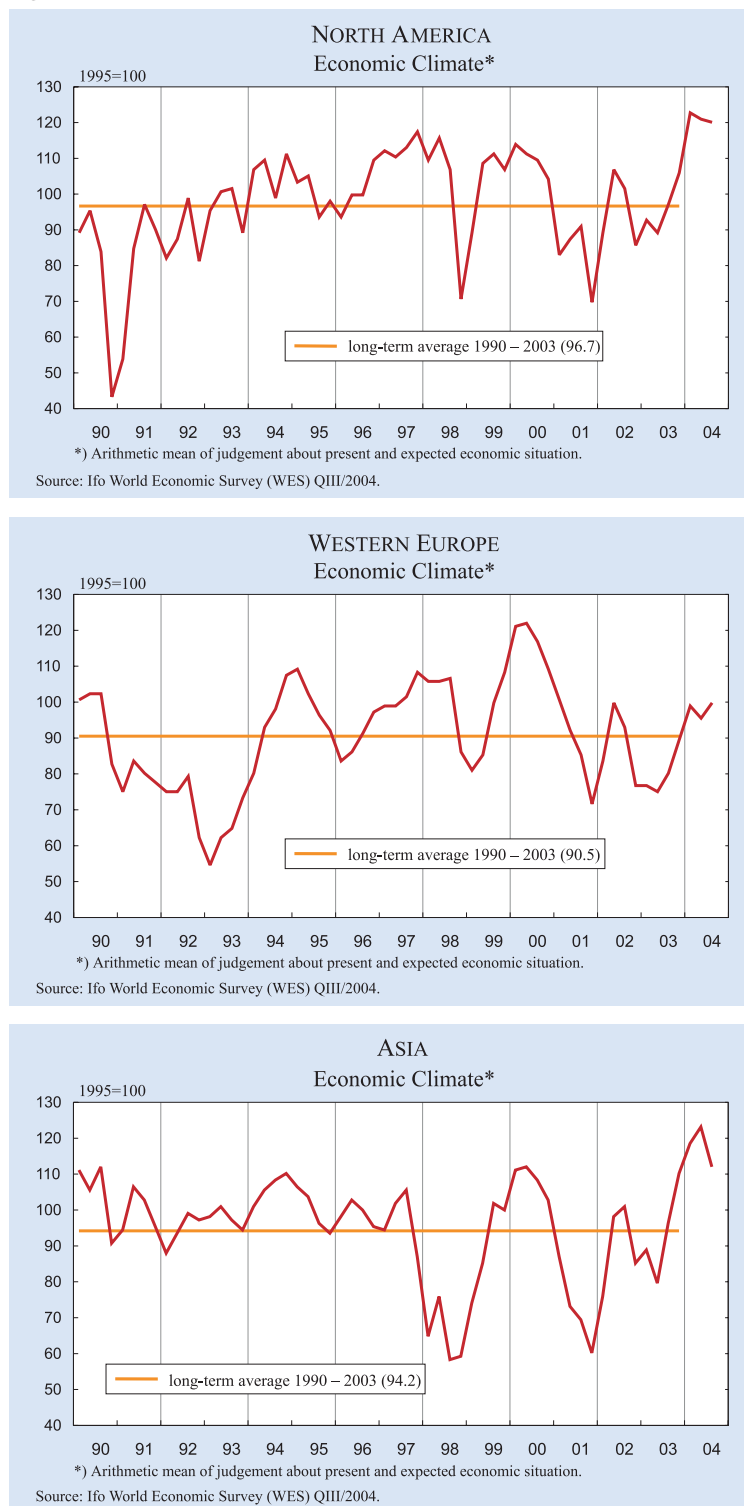
**Total Imports and Exports in Million US Dollar\*  
and the Country's Share in the Total World Trade**

Country	Exports		Imports		Total Foreign Trade			
	2003	2002	2003	2002	2003		2002	
USA	723,805	693,860	1,305,410	1,202,430	<b>2,029,215</b>	<i>14.26%</i>	<b>1,896,290</b>	<i>15.03%</i>
Germany	748,609	612,857	601,828	492,112	<b>1,350,437</b>	<i>9.49%</i>	<b>1,104,969</b>	<i>8.76%</i>
China P.R.	437,899	325,591	413,062	295,171	<b>850,961</b>	<i>5.98%</i>	<b>620,762</b>	<i>4.92%</i>
Japan	462,305	416,730	375,494	337,209	<b>837,799</b>	<i>5.89%</i>	<b>753,939</b>	<i>5.97%</i>
France	365,359	309,957	370,351	308,463	<b>735,710</b>	<i>5.17%</i>	<b>618,420</b>	<i>4.90%</i>
United Kingdom	299,768	276,315	375,170	335,458	<b>674,938</b>	<i>4.74%</i>	<b>611,773</b>	<i>4.85%</i>
Canada	269,446	252,408	236,214	221,961	<b>505,660</b>	<i>3.55%</i>	<b>474,369</b>	<i>3.76%</i>
Italy	253,349	253,349	244,289	244,289	<b>497,638</b>	<i>3.50%</i>	<b>497,638</b>	<i>3.94%</i>
Belgium	255,404	215,873	235,466	199,362	<b>490,870</b>	<i>3.45%</i>	<b>415,235</b>	<i>3.29%</i>
Hong Kong	223,762	200,092	231,896	207,644	<b>455,658</b>	<i>3.20%</i>	<b>407,736</b>	<i>3.23%</i>
Netherlands	222,406	222,406	193,784	193,784	<b>416,190</b>	<i>2.92%</i>	<b>416,190</b>	<i>3.30%</i>
South Korea	193,817	162,470	178,827	152,126	<b>372,644</b>	<i>2.62%</i>	<b>314,596</b>	<i>2.49%</i>
Mexico	165,396	160,682	170,490	168,679	<b>335,886</b>	<i>2.36%</i>	<b>329,361</b>	<i>2.61%</i>
Spain	123,563	123,563	163,575	163,575	<b>287,138</b>	<i>2.02%</i>	<b>287,138</b>	<i>2.28%</i>
Singapore	144,740	125,177	127,381	116,448	<b>272,121</b>	<i>1.91%</i>	<b>241,625</b>	<i>1.91%</i>
Taiwan	135,065	122,505	112,602	107,274	<b>247,667</b>	<i>1.74%</i>	<b>229,779</b>	<i>1.82%</i>
Russia	133,520	106,435	57,309	46,161	<b>190,829</b>	<i>1.34%</i>	<b>152,596</b>	<i>1.21%</i>
Switzerland	95,908	83,922	90,827	79,129	<b>186,735</b>	<i>1.31%</i>	<b>163,051</b>	<i>1.29%</i>
Malaysia	99,370	93,264	81,949	79,868	<b>181,319</b>	<i>1.27%</i>	<b>173,132</b>	<i>1.37%</i>
Sweden	99,356	81,141	81,167	66,108	<b>180,523</b>	<i>1.27%</i>	<b>147,249</b>	<i>1.17%</i>
Austria	87,559	70,891	88,235	72,881	<b>175,794</b>	<i>1.24%</i>	<b>143,772</b>	<i>1.14%</i>
Australia	69,873	65,037	87,094	72,679	<b>156,967</b>	<i>1.10%</i>	<b>137,716</b>	<i>1.09%</i>
Thailand	79,697	68,768	75,002	64,658	<b>154,699</b>	<i>1.09%</i>	<b>133,426</b>	<i>1.06%</i>
Ireland	92,431	87,498	53,315	51,508	<b>145,746</b>	<i>1.02%</i>	<b>139,006</b>	<i>1.10%</i>
India	55,828	49,293	70,485	56,496	<b>126,313</b>	<i>0.89%</i>	<b>105,789</b>	<i>0.84%</i>
Brazil	73,084	60,362	50,665	49,603	<b>123,749</b>	<i>0.87%</i>	<b>109,965</b>	<i>0.87%</i>
Denmark	65,397	56,230	55,857	49,288	<b>121,254</b>	<i>0.85%</i>	<b>105,518</b>	<i>0.84%</i>
Turkey	46,576	34,561	65,637	49,663	<b>112,213</b>	<i>0.79%</i>	<b>84,224</b>	<i>0.67%</i>
Norway	66,293	59,575	38,821	34,890	<b>105,114</b>	<i>0.74%</i>	<b>94,465</b>	<i>0.75%</i>
Saudi Arabia	72,550	68,064	32,312	32,312	<b>104,862</b>	<i>0.74%</i>	<b>100,376</b>	<i>0.80%</i>
Indonesia	62,631	58,120	41,682	25,388	<b>104,313</b>	<i>0.73%</i>	<b>83,508</b>	<i>0.66%</i>
Czech Republic	47,987	38,488	50,418	40,756	<b>98,405</b>	<i>0.69%</i>	<b>79,244</b>	<i>0.63%</i>
Poland	41,032	41,032	55,141	55,141	<b>96,173</b>	<i>0.68%</i>	<b>96,173</b>	<i>0.76%</i>
Finland	52,340	44,671	41,133	33,642	<b>93,473</b>	<i>0.66%</i>	<b>78,313</b>	<i>0.62%</i>
Hungary	41,910	34,512	46,897	37,787	<b>88,807</b>	<i>0.62%</i>	<b>72,299</b>	<i>0.57%</i>
United Arab Emirates	43,307	42,900	38,139	41,700	<b>81,446</b>	<i>0.57%</i>	<b>84,600</b>	<i>0.67%</i>
Philippines	35,829	36,510	39,630	37,202	<b>75,459</b>	<i>0.53%</i>	<b>73,712</b>	<i>0.58%</i>
South Africa	34,148	28,713	38,587	28,261	<b>72,735</b>	<i>0.51%</i>	<b>56,974</b>	<i>0.45%</i>
Portugal	30,714	25,536	40,843	38,326	<b>71,557</b>	<i>0.50%</i>	<b>63,862</b>	<i>0.51%</i>
Israel	31,577	29,347	35,517	35,517	<b>67,094</b>	<i>0.47%</i>	<b>64,864</b>	<i>0.51%</i>
Iran	28,186	28,186	21,180	21,180	<b>49,366</b>	<i>0.35%</i>	<b>49,366</b>	<i>0.39%</i>
Ukraine	23,080	17,957	23,021	16,977	<b>46,101</b>	<i>0.32%</i>	<b>34,934</b>	<i>0.28%</i>
Venezuela	26,881	26,881	18,263	18,263	<b>45,144</b>	<i>0.32%</i>	<b>45,144</b>	<i>0.36%</i>
Slovakia	21,549	14,459	23,281	17,458	<b>44,830</b>	<i>0.31%</i>	<b>31,917</b>	<i>0.25%</i>
Argentina	29,350	25,709	13,813	8,990	<b>43,163</b>	<i>0.30%</i>	<b>34,699</b>	<i>0.27%</i>
Romania	17,619	13,876	24,003	17,862	<b>41,622</b>	<i>0.29%</i>	<b>31,738</b>	<i>0.25%</i>
Greece	10,315	10,315	31,164	31,164	<b>41,479</b>	<i>0.29%</i>	<b>41,479</b>	<i>0.33%</i>
Chile	21,046	18,340	19,413	17,093	<b>40,459</b>	<i>0.28%</i>	<b>35,433</b>	<i>0.28%</i>
Vietnam	16,530	16,530	19,000	19,000	<b>35,530</b>	<i>0.25%</i>	<b>35,530</b>	<i>0.28%</i>
New Zealand	16,209	14,380	18,207	15,047	<b>34,416</b>	<i>0.24%</i>	<b>29,427</b>	<i>0.23%</i>
<b>Total of the 50 biggest countries</b>	<b>6,794,375</b>	<b>6,025,338</b>	<b>6,903,846</b>	<b>6,107,983</b>	<b>13,698,221</b>	<i>96%</i>	<b>12,133,321</b>	<i>96%</i>
<b>Total of 98 WES countries</b>	<b>7,036,425</b>	<b>6,244,966</b>	<b>7,197,880</b>	<b>6,373,698</b>	<b>14,234,305</b>	<i>100%</i>	<b>12,618,664</b>	<i>100%</i>

\* Imports CIF, Exports FOB, sorted by the share of the specific country's exports and imports in the total world trade in 2003.

Source: UNO (2003 and 2004): Monthly Bulletin of Statistics, No. 992, pp. 124–151 and No. 994 pp. 114–141.

**Figure 3**



**North America: Economic performance remains strong**

According to the latest survey results the economic climate indicator in North America deteriorated slightly again in July, after having reached the highest level since 1985 in January (see Figures 3). However, both in the *US* as well as in *Canada* the economic performance remained strong in July, according to WES experts.

In the *US*, the current economic situation is regarded as far above the satisfactory level, but the outlook for the next six months is somewhat less optimistic, pointing to a slowdown of economic growth rates. However, economic recovery that began in the second half of 2003 appears to be firmly established and business confidence is still high. In *Canada*, the economic climate remains highly favourable, as it has for almost a decade, according to WES experts, with both components pointing upward. Also capital expenditures, private consumption and the export sector are expected to strengthen further in the coming six months.

**Eastern Europe: Expanding markets**

The overall economic climate stabilized at a satisfactory level, with the assessments of the current economic situation continuing to improve and economic expectations for the coming six

*United Kingdom* is still significantly better than the euro area. Also in *Switzerland* the economic recovery has gained momentum, according to the July survey: the assessments of the current economic state have reached the satisfactory level and the economic outlook for the coming six months points to a continuing improvement.

months pointing upward (see Figure 4 and Figure 8). WES experts surveyed in the region forecast a marked increase in corporate investments and a strengthening of the foreign trade sector (with rising exports and imports) for the coming six months.

The present economic situation in the eight Eastern European countries that joined the European Union



## Box 2

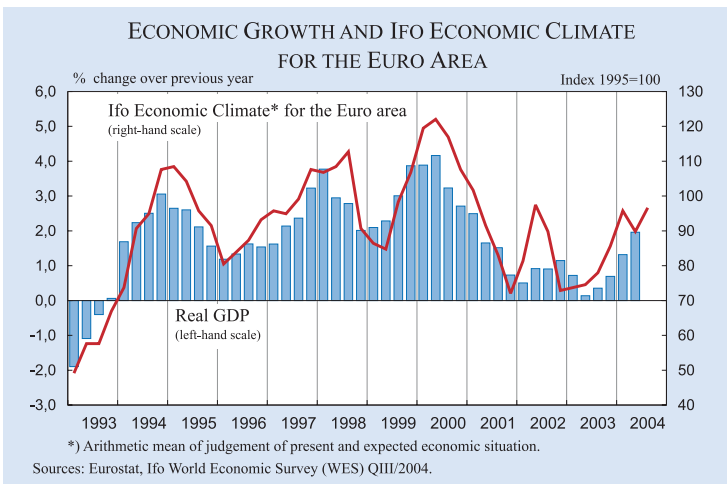
### World Economic Survey (WES) and GDP Growth in the Euro Area

The Ifo World Economic Climate for the 12 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The July results are based on the responses of 333 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo World Economic Survey confirms that the economic climate in the euro area has improved; the economic recovery will accelerate slightly in the coming months.

The WES indicator for the economic climate in the euro area rose in July 2004. The slight decline in the previous survey has been more than offset (Fig. 1). Especially the assessments of the current economic situation improved, but also the expectations for the next six months have brightened.

Within the euro area the current economic situation is favourably assessed in Ireland, Spain and Finland. Also in Greece, Belgium and Austria, the appraisals of the current economic situation were more positive than in the April survey. In France the judgements of the economic situation clearly improved over April, although a satisfactory level has still not been reached. In the Netherlands, Portugal, Germany and Italy, the current business situation was assessed more favourably by the WES experts than in April but still clearly less positively than the euro area average. The expectations for the next six months are definitely positive in all the euro countries.



on May 1 – *Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania and Latvia* – has been assessed considerably above the satisfactory level, according to economic experts polled by WES in the region. Only in *Hungary* have the marks for the current economic performance not yet reached the satisfactory level. The strongest economic performance among the new EU members prevails in the Baltic States (*Estonia, Latvia and Lithuania*), according to WES participants. But also in *Slovenia*, in *Slovakia* and to a lesser degree in *Poland*, WES experts report a high level of business confidence.

Also in the other countries outside the EU, particularly in *Albania, Bulgaria and Croatia*, the present economic situation was assessed as “satisfactory” with prospects for future development remaining highly positive. In contrast, in *Bosnia-Herzegovina*

and in *Serbia and Montenegro* the present economic situation was seen as below the “satisfactory” level. But WES experts are confident of an improvement in the near term.

### CIS: Economy remains buoyant

The economic climate in *Russia* deteriorated somewhat, according to the latest July results. However, the overall economic performance in the biggest economy of the region remains buoyant, as indicated by the positive outlook for the coming six months. According to Putin’s economic program, *Russia* is to double its GDP by 2014. As economic growth is set to surpass 7 percent in 2004, as it has in most recent years, this goal appears feasible. At present *Russia* benefits from rising oil prices and rising raw material demand on the world market. A good economic climate has also been reported for the *Ukraine*. With regard to the future economic development the participants are fairly confident. In both countries, corporate invest-

ment and private consumption are assessed as satisfactory, and particularly the private consumption sector is forecast to expand further in the near term.

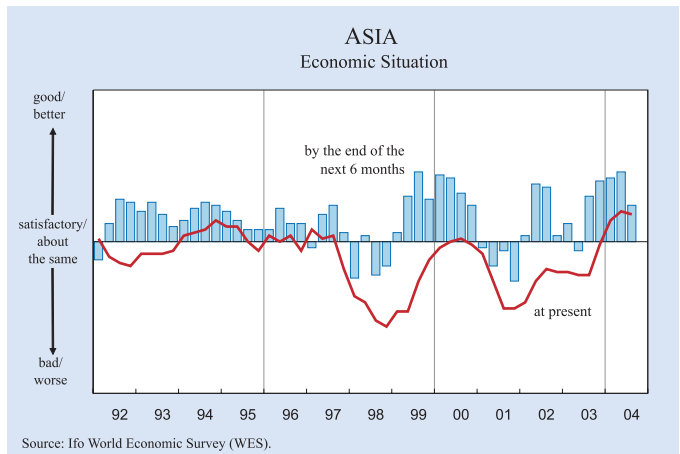
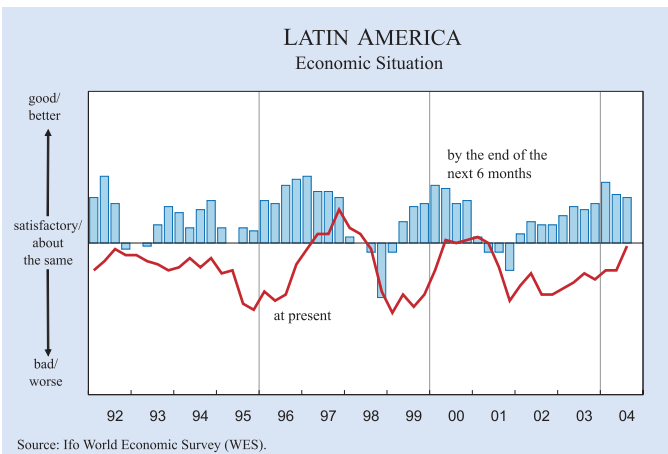
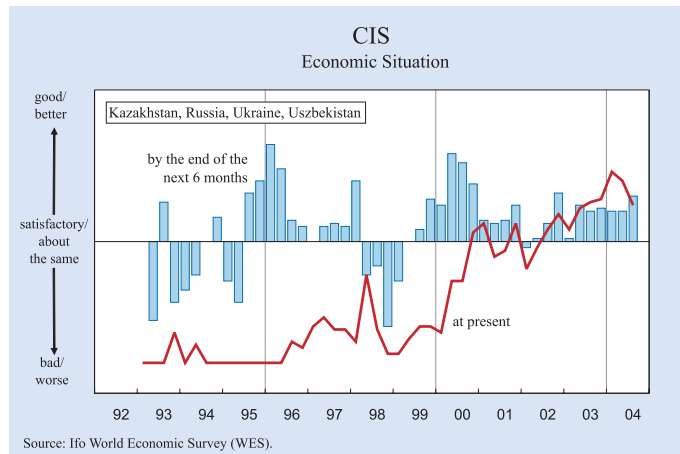
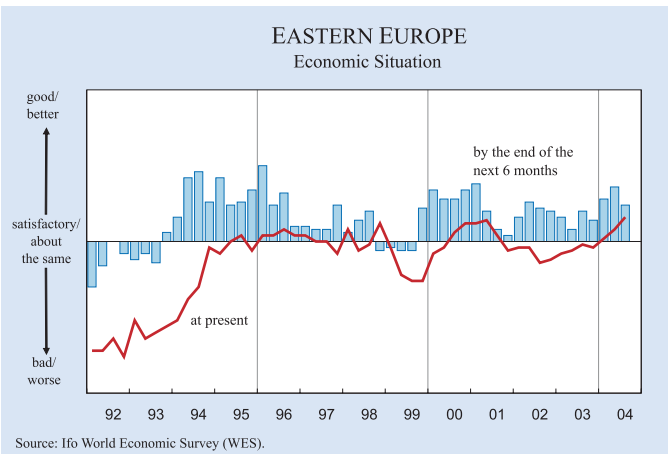
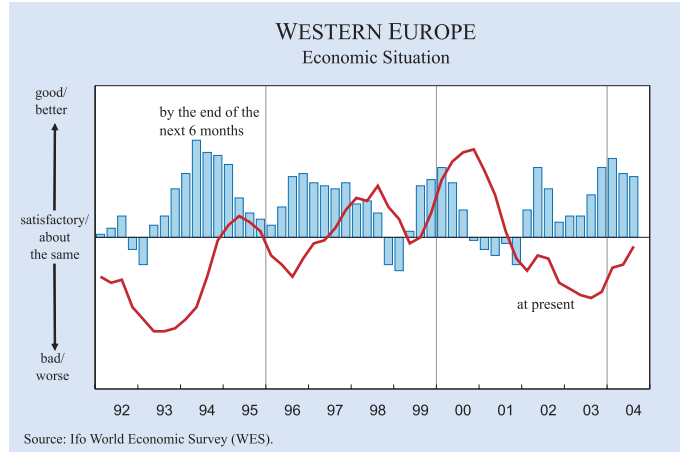
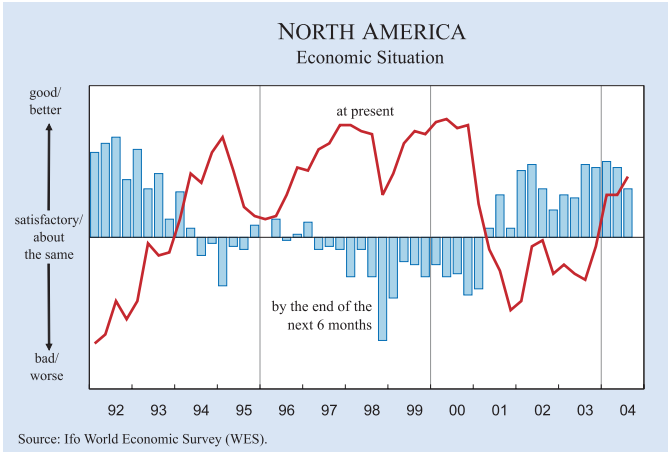
Also in *Kazakhstan* experts assessed the present economic situation as above satisfactory. The short-term expectations point to further stabilization. The export sector is expected to serve as the driving engine for further economic recovery. *Kazakhstan*, the second-largest oil producer in the CIS region, plans to increase crude oil production as demand for the fuel surges particularly in China and as the United States seeks alternative suppliers to Middle East exporters.

### Asia: Cooling-down expected

Data for the third quarter suggest that growth in the Asian region will continue to be robust though at a

Figure 4

## SELECTED REGIONS



slower pace than in the beginning of 2004 (see Figure 3 and 4). The assessment of the current economic situation remains mostly unchanged at above satisfactory, for Asia as a whole, but the economic expectations for the coming six months have been slightly downgraded. Buoyant intra-regional trade, strength of domestic demand, revival of tourism and moderate growth in the major industrial countries will continue to contribute to the economic stabilization of the region.

The biggest dip in business sentiment was reported by WES experts for *China*. In April and July the *Chinese* economy entered into a cooling-off phase. The government aims to achieve a “soft-landing” over the next two to three years to slow economic growth to more sustainable levels (see Figure 4). Also in *India* the present economic state was assessed less favorably than in the previous April survey. But the general outlook, though slightly downgraded here as well, points to further stabilization. However, experts fear that if the monsoon is less than normal this year, it will certainly affect the farm-dependent economy and dampen economic growth rates. In *Japan*, after three recessions since 1991, the strong pace of recovery which set in last year gained even more momentum in July. The recovery has spread from exports to domestic demand and is expected to strengthen further in the coming months. Surveyed experts see the overall economic recovery continuing in 2004.

In other countries of the region, particularly in *Singapore*, *Philippines*, *Malaysia*, *Vietnam* and *Taiwan*, the highly optimistic expectations concerning economic growth articulated in past WES surveys proved to be realistic (see Figure 9). This robust expansion has been driven by a combination of a rapid increase in exports and continued strength in domestic demand in most countries. Both macroeconomic components are expected to strengthen further in all countries in the region surveyed by WES, except *Thailand* and *Indonesia*. In *Thailand*, strong growth has moderated, reflecting the impact of drought, avian flu, and unrest in some provinces. The economic expectations for the coming months remain cautious. In *Indonesia*, though the assessments of the present economic situation have not yet reached the satisfactory level, the overall trend points to an upturn. *Korea's* economy has been on a recovery course since the second half of 2003, but according to the July results, the economic rebound has not yet gained momentum. Both consumer

demand and capital expenditures have weakened since last year and WES experts don't expect a clear turnaround of this trend in the coming months.

### **Oceania: Boom continues**

According to the July survey the assessments of the present economic situation in *Australia* reached an all-time high, and the forecast for the next six months points to further stabilization at the current high level. Global economic growth will remain a strong and supportive factor for the *Australian* economy. Also the stability of the *Australian* economy, buoyant market conditions and the absence of major shocks as well as Japan's economic rebound, *Australia's* biggest export market, contributed to the favourable conditions. This also holds true for the *New Zealand* economy. The current economic situation here has been assessed very positively, too, for more than two years.

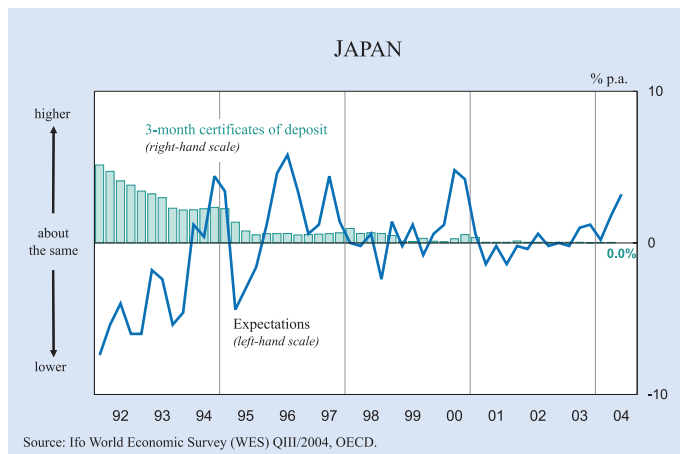
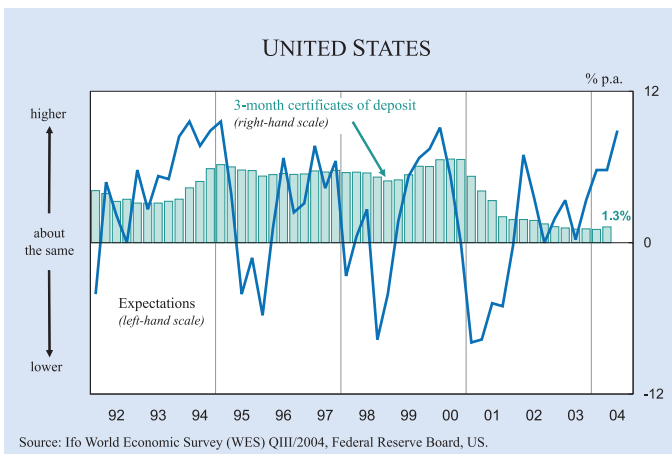
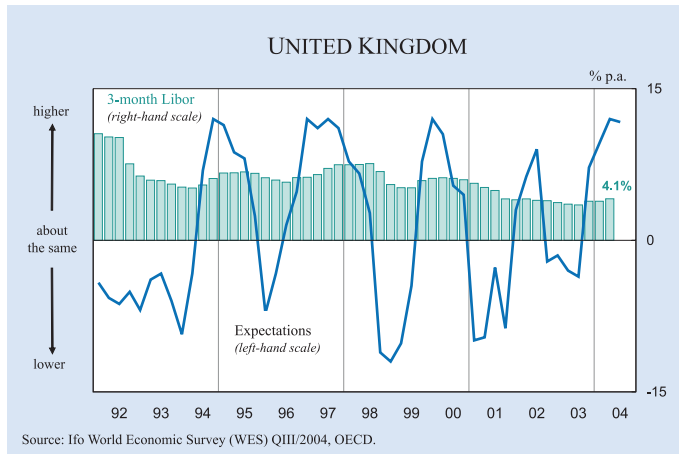
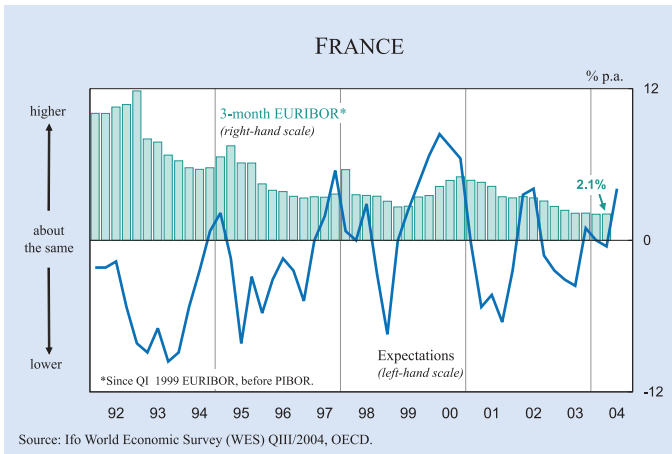
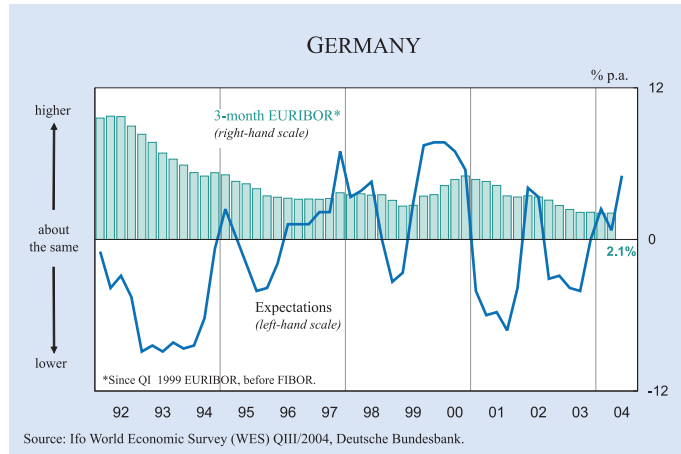
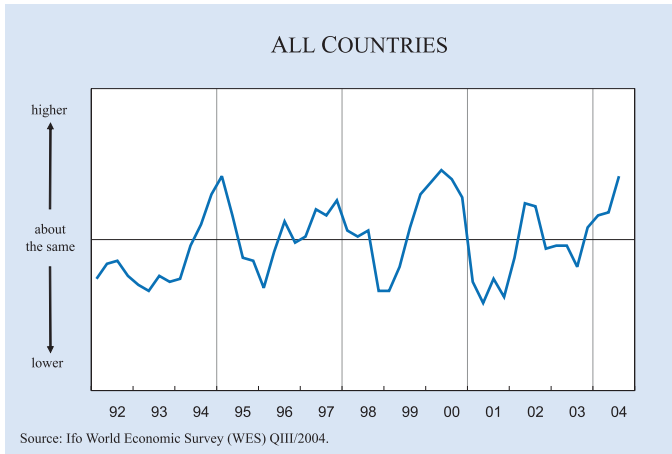
### **Latin America: Back on a recovery course**

According to the latest WES results, most Latin American countries have overcome their financial crises and are now on course to recovery (see Figure 4). The assessments of the present economic situation improved compared to the April survey, on average. Economic prospects point to further economic stabilization of the region. Although private consumption and capital expenditures have not yet reached the satisfactory level, they are expected to strengthen in the coming six months. Generally, as most Latin American countries are export-oriented economies, this sector remains the driving force behind the economic revival.

The general upturn in Latin America mostly reflects economic revival in the three biggest economies of the region (measured by share in world trade; see Table 1): *Mexico*, *Brazil* and *Argentina*. *Mexico's* economy, after more than two years of recession gained more momentum in 2004, helped by a surge in revenues from crude-oil exports primarily to the US. Also *Brazil's* present economic situation considerably improved, according to the experts' opinions (see Figure 10). Particularly, *Brazil's* exports rose to record levels. The *Argentine* economy overcame its financial crisis already in the beginning of 2003 and has demonstrated economic growth rates of more than 10 percent. The positive trend is expected to

**Figure 5**

**ACTUAL SHORT-TERM INTEREST RATES AND EXPECTED TREND FOR THE NEXT 6 MONTHS (QUARTERLY DATA)**



continue this year in all three economies, with capital expenditures and private consumption set to grow. *Peru* and *Chile*, have also joined the list of expanding economies in the region. The *Chilean* government's investment policies and the emphasis on growth and institutional security have helped the country's economy to become the most stable in the region. *Colombia*, *Ecuador* and *Uruguay* also enjoyed an economic growth in the first half of 2004 that is expected to continue into the second half of 2004, according to the July WES poll. In *Costa Rica*, *El Salvador* and *Panama* the present economic situation was assessed in July as satisfactory and the near-term prospects point to further stabilization.

However, there still are doubts about Latin America's political stability, as structural and political reforms in some countries have stagnated because of opposition from different political groups. For example, *Venezuela* will hold a recall referendum on August 15 on the government of Hugo Chavez. Also the business sentiment in the country has suffered from political tensions, despite high oil prices in the international market, the country's most important revenue source. The present economic situation in *Venezuela*, as in *Paraguay* and *Bolivia*, received very low marks and economic expectations for the next six month are very cautious.

#### Near East: Economic climate remains highly favourable

The economic climate continues to be highly favourable for countries covered by WES in the Near East region, on average. The assessments of the current economic situation are considerably above the satisfactory level, and the near-term prospects remain positive (see Figure 11).

The *Turkish* economy has become stronger, according to the July survey results. The present economic situation is now judged above the satisfactory level and economic expectations, though slightly downgraded, remain optimistic regarding an economic rebound in the coming six months. In recent years the *Turkish* government has implemented radical struc-

tural and economic reforms, not least in the course of the application process for EU accession, which had a positive impact on the economy of the country. The economic recovery in *Israel* also continued according to the July survey. WES experts again project further export growth in the coming six months. Private consumption and corporate investments are foreseen to strengthen further. Also much better than in the previous April survey, was the assessment of the present economic situation in *Bahrain* and *Jordan*. In the whole region, only in *Lebanon* is the present economic still assessed as far below the satisfactory level.

Most other countries of the region surveyed by WES, in particular the *United Arab Emirates*, *Saudi Arabia*, *Kuwait* and *Iran* maintained the state of a consolidated upturn also in July according to WES experts. High crude oil prices and world-wide economic revival will continue to benefit these export-oriented economies.

#### Africa: Still facing strong challenges to achieve sustained growth

In Africa, diverging economic trends dominate the economic landscape. While some countries are in danger of increasingly becoming victims of the HIV epidemic, famine, environment deterioration and armed conflicts that have a negative impact on foreign aid and investment inflow, production and exports of domestic products, other, especially *South Africa* remain on a sound stabilization course (see Figure 11). Thus, an aggregated climate index for countries surveyed by WES on the continent makes

Figure 6

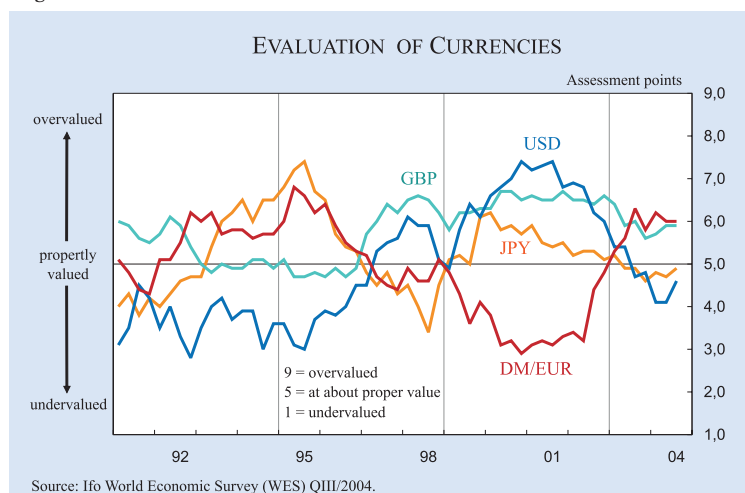


Figure 7a

# EUROPEAN UNION

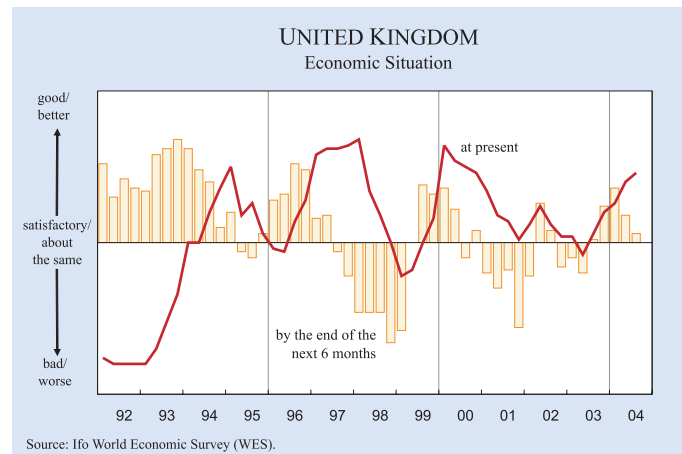
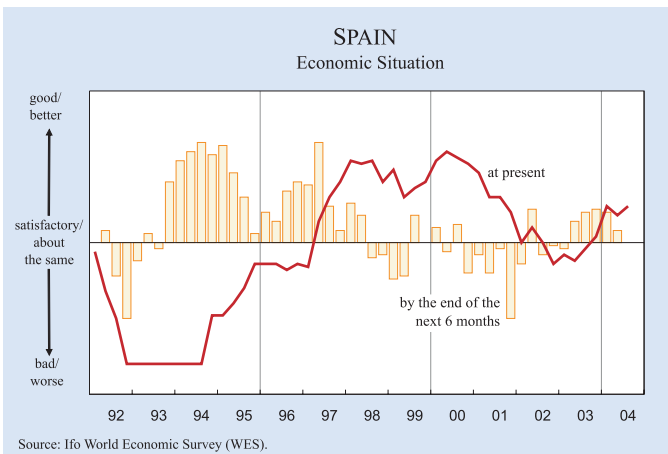
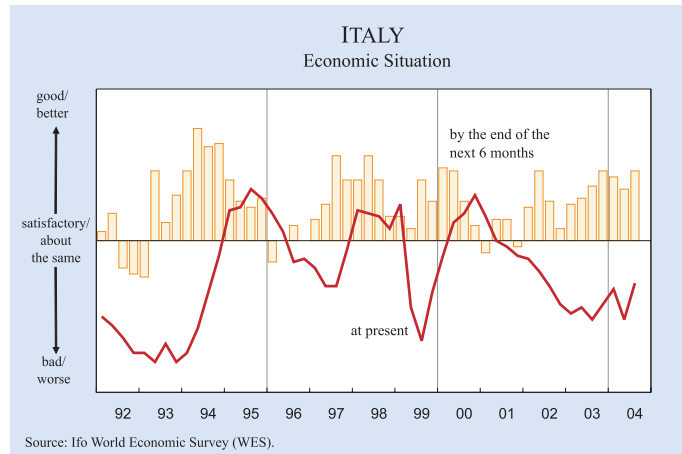
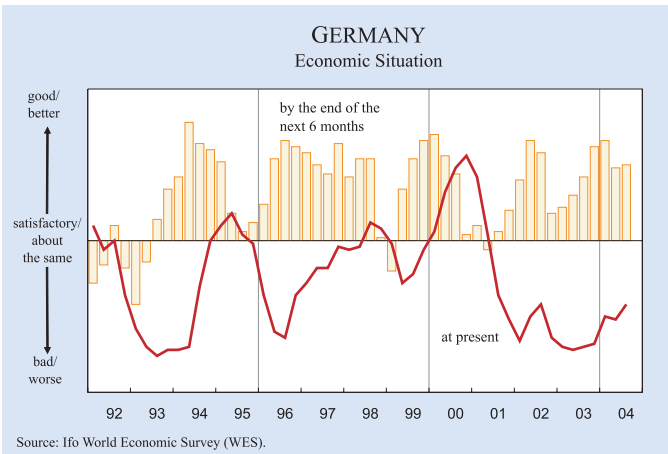
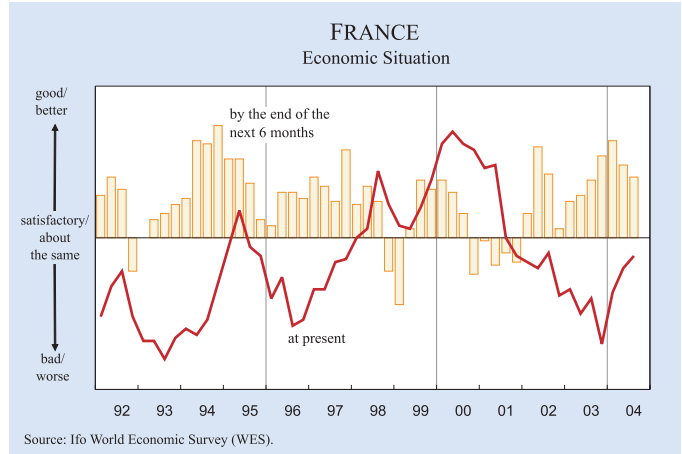
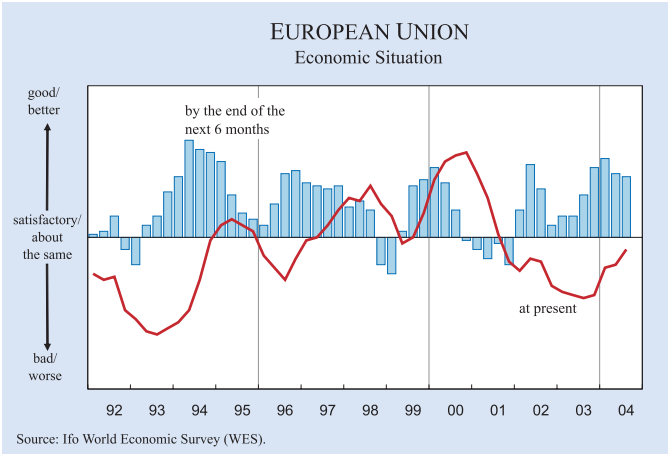


Figure 7b

EUROPEAN UNION

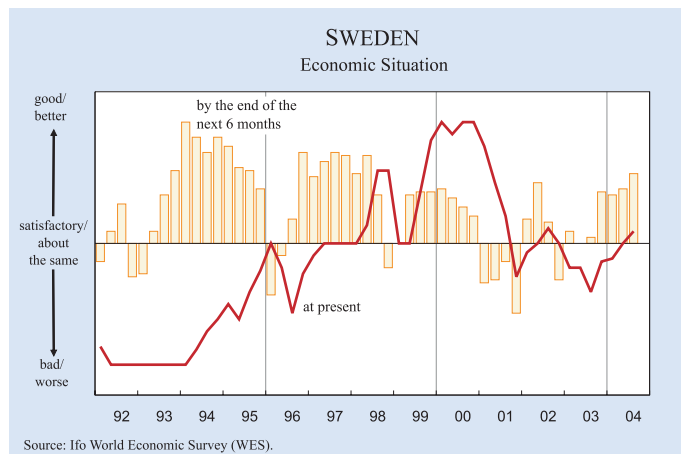
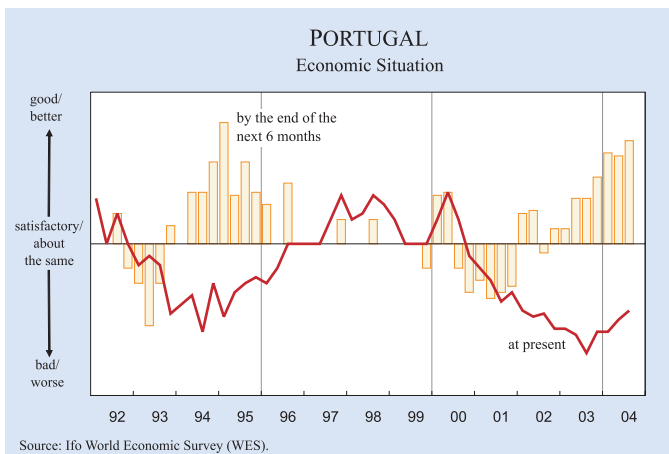
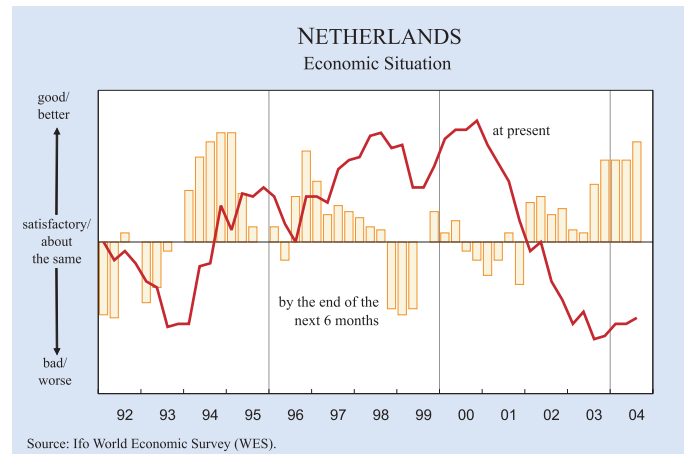
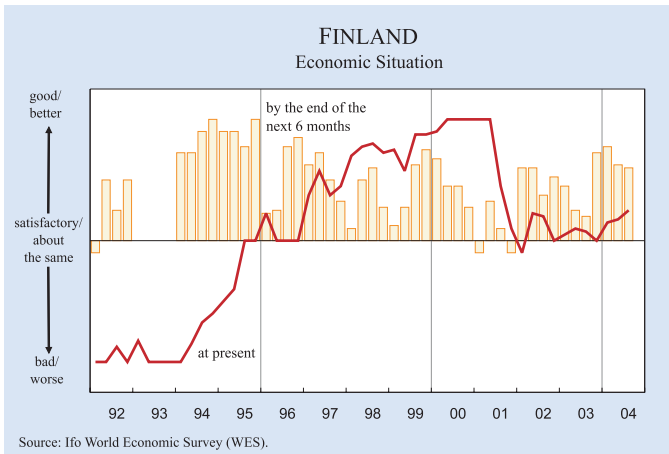
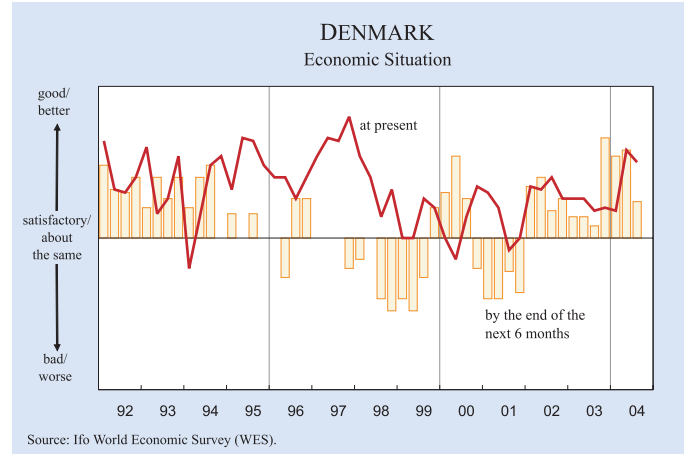
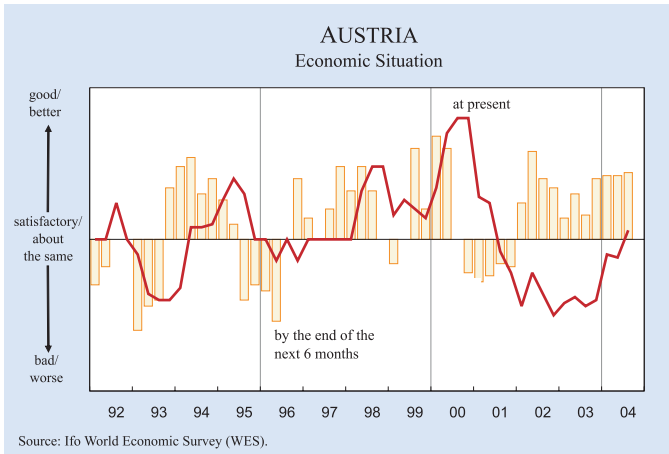


Figure 8

EASTERN EUROPE

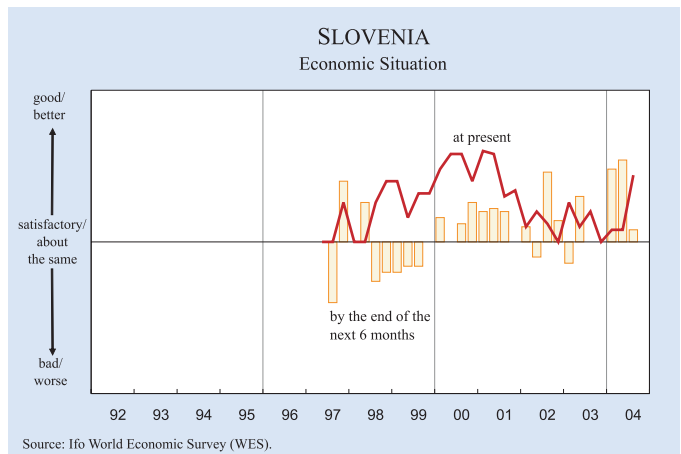
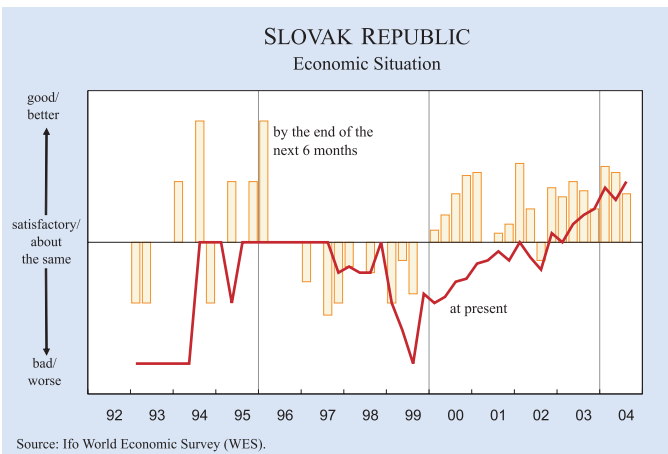
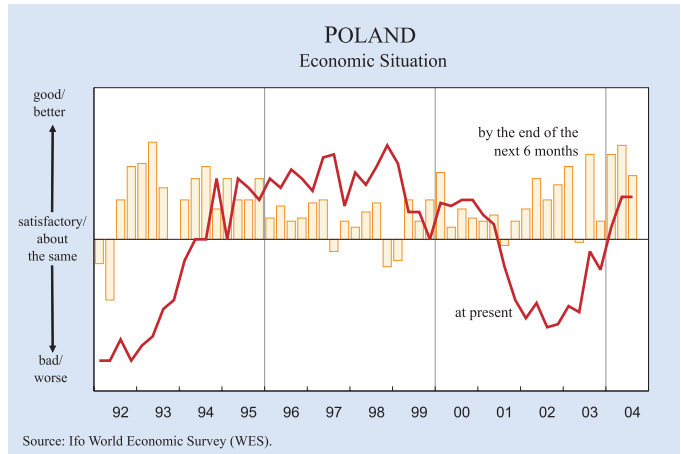
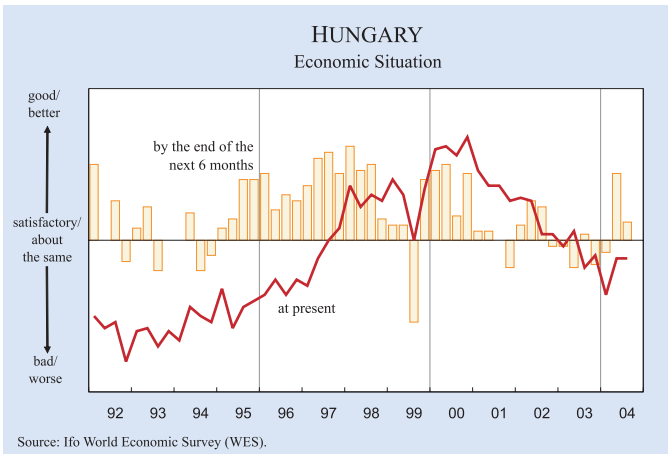
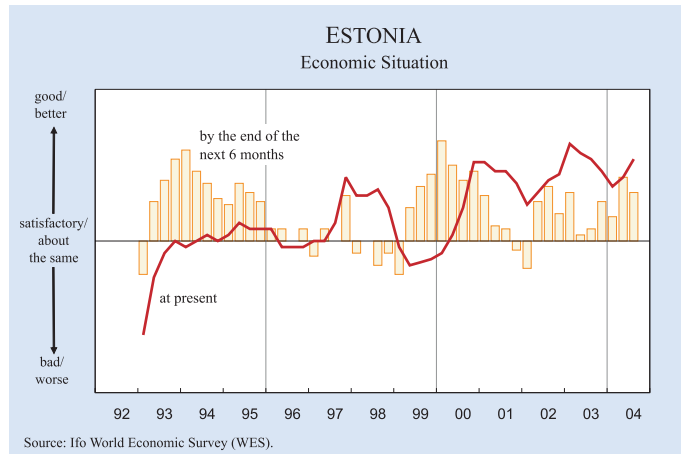
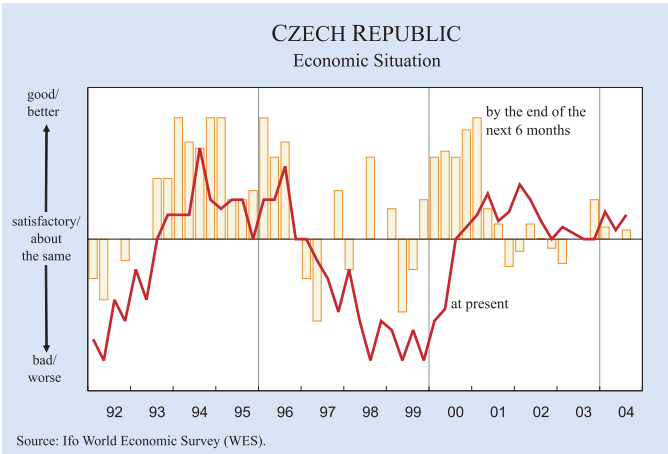




Figure 9

ASIA

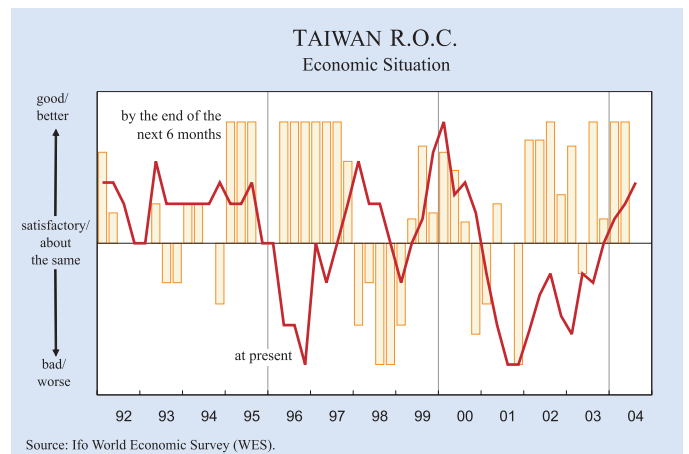
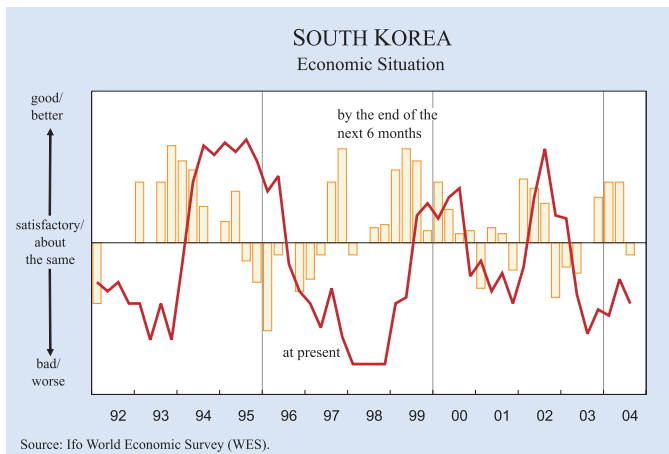
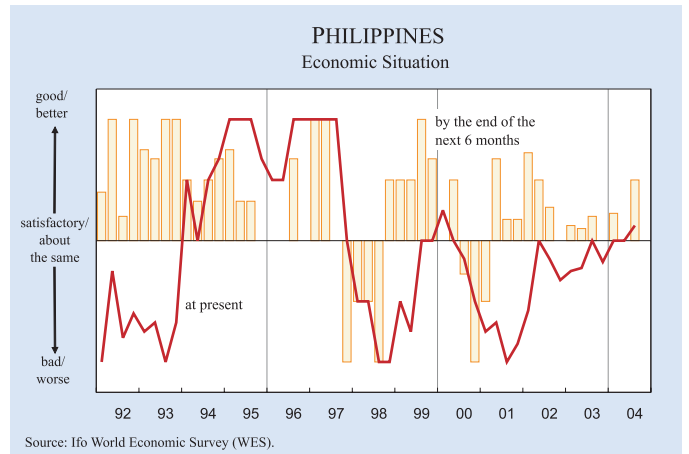
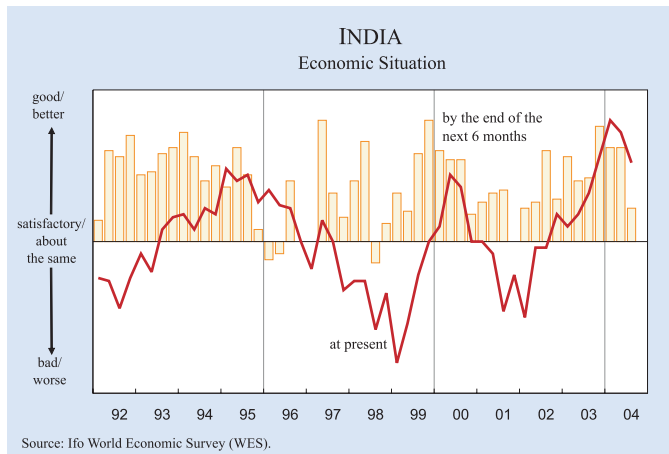
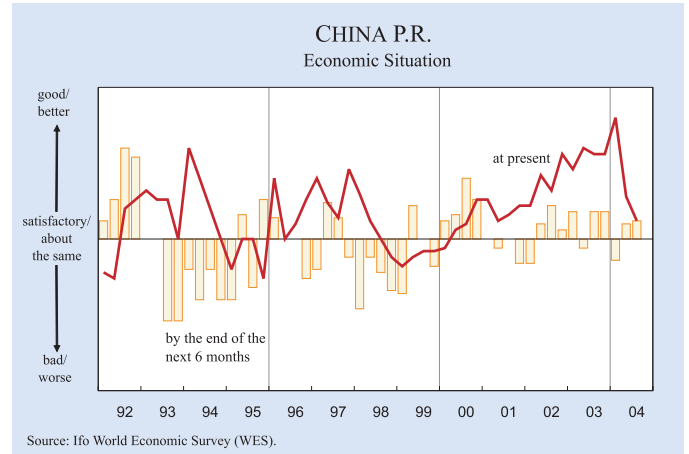
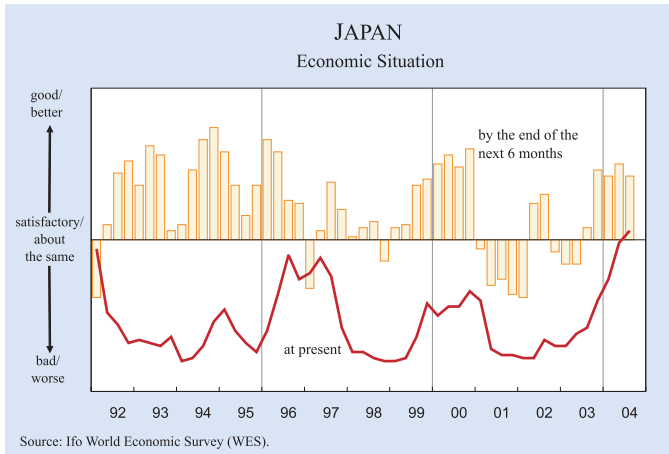


Figure 10

LATIN AMERICA

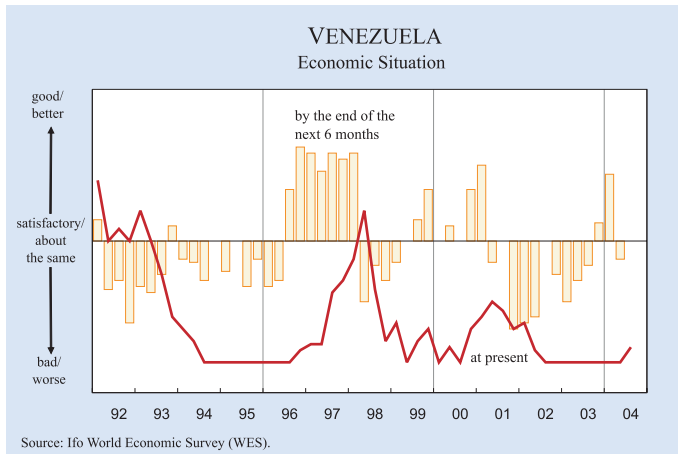
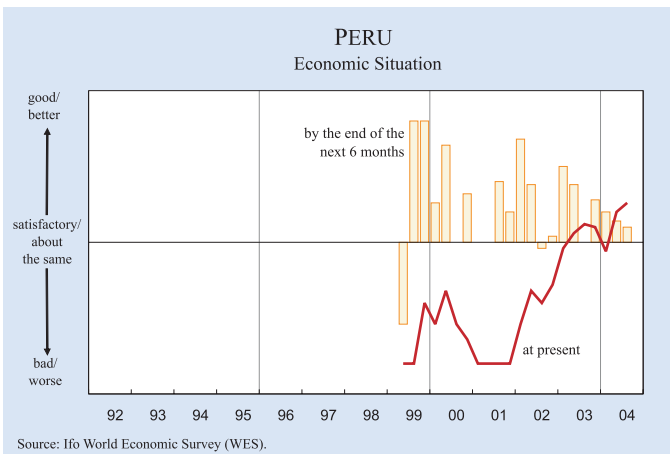
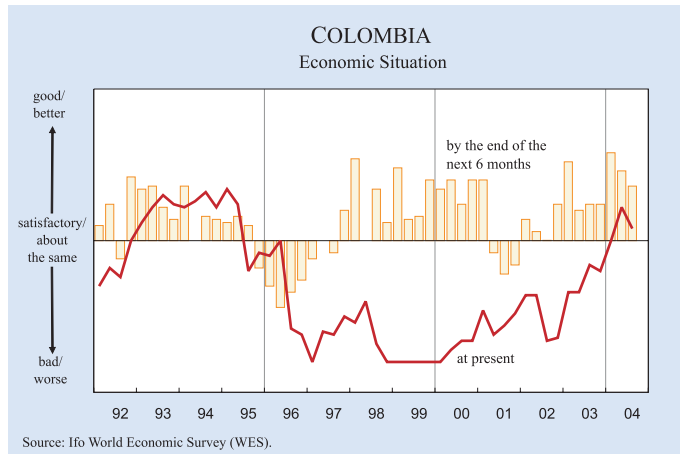
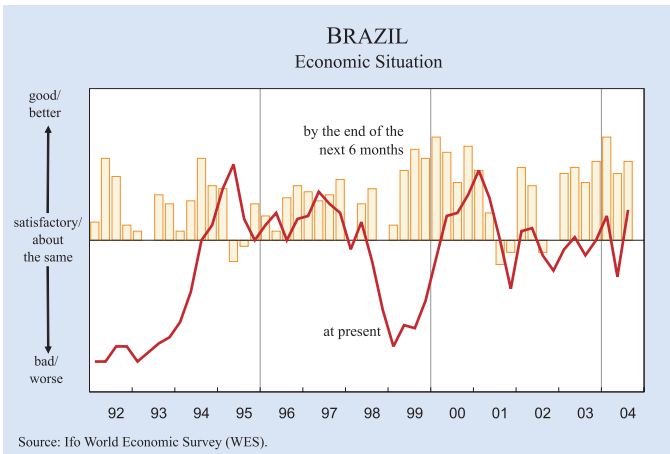
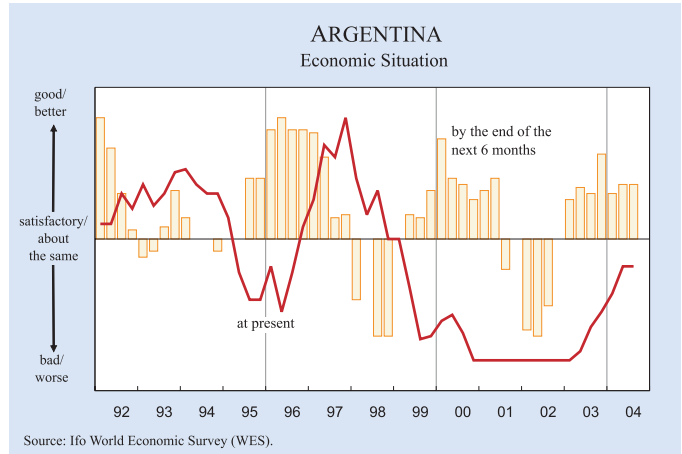
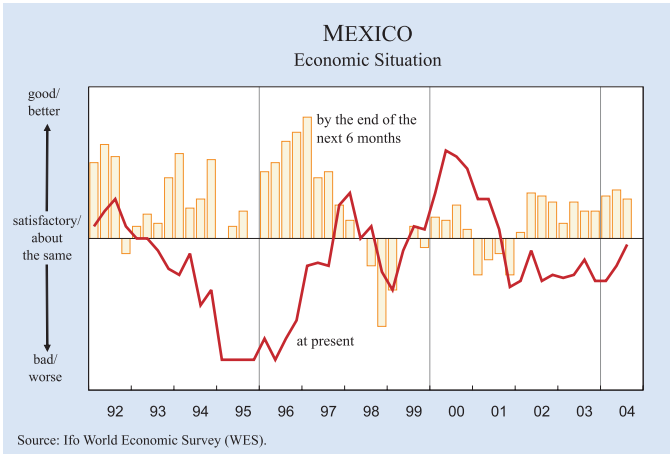
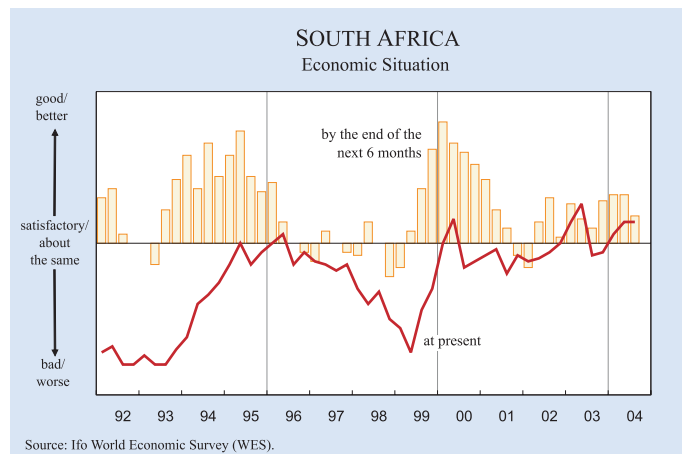
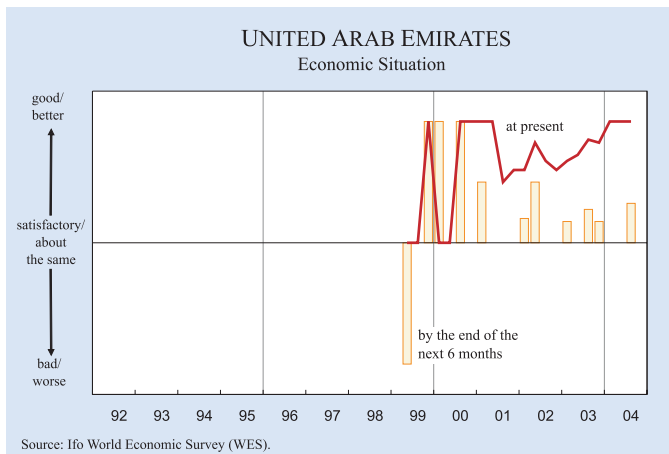
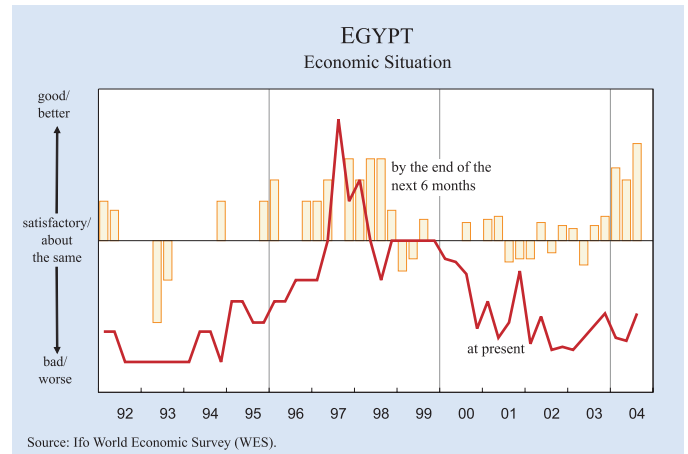
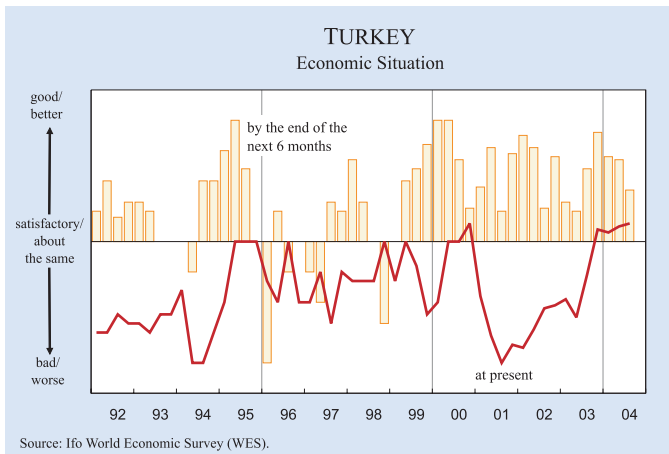
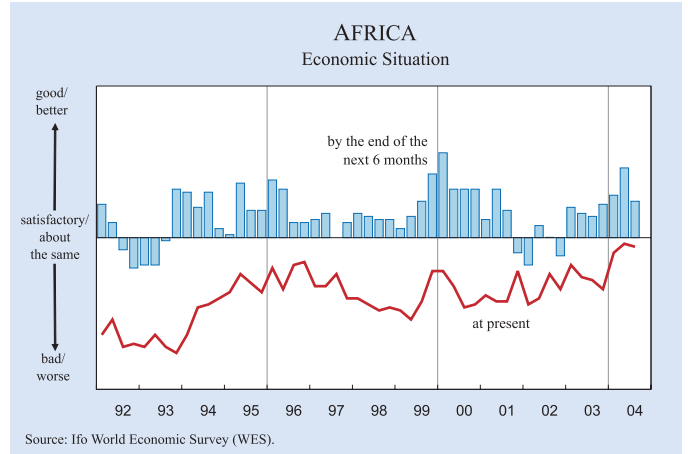
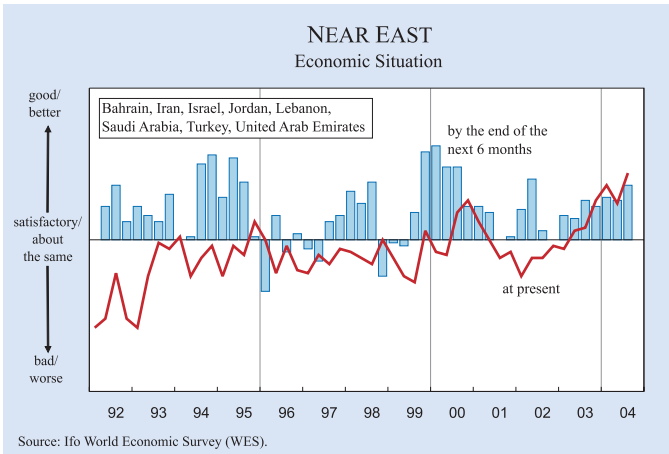


Figure 11

## NEAR EAST AND AFRICA



little sense, and the following analysis will focus on particular economic trends.

*South Africa* is different from the rest of the region in its sustained positive economic trend. The generally good outlook of the *South African* economy was partly due to the increasing global demand for its raw materials. The present economic situation in July was assessed as above satisfactory. Private consumption is still buoyant and capital expenditures are also foreseen to remain strong. Also *Egypt's* economy, which faced a major crisis in the first half of the year, has already started to recover. The assessments of the present economic situation reflect an improvement in business sentiments that were probably influenced by the President's appointment of a new prime minister, Ahmed Nazif. Highly optimistic economic expectations indicate relief and suggest that change is underway. In particular, tourism and other exports are expected to strengthen further. In the other North African countries – *Algeria, Morocco* and *Tunisia* – experts surveyed by WES assessed the present economic performance as satisfactory. In contrast, experts in *Kenya* and *Nigeria* rated the current economic situation as below the satisfactory level and no major changes are foreseen for the coming six months.

#### **Inflation expected to pick up somewhat**

On average, a 3.0 percent increase in consumer prices is now expected for the world economy in 2004 (see Table 2). Thus, since the beginning of the year the 2004 inflation outlook has been steadily revised upwards (from 2.7 percent in January 2004 and 2.8 percent in April 2004). Despite this expected pick-up world-wide consumer price inflation in 2004 will still remain well below its longer-term average (1995–2003: 4.6 percent).

In the *euro area* the inflation outlook for 2004 is seen to be somewhat less benign than in the previous two surveys of the year (2.0 percent compared with 1.9 percent in January 2004 and 1.8 percent in April 2004). The range of inflation estimates in the euro area is widening again, extending from 0.8 percent in Finland to 3.1 percent in both Spain and Greece. Whereas in Greece this figure prevailed already in the preceding April survey, it signals a relatively big jump in Spain (from 2.5 percent expected in April to 3.1 percent now).

Also in the *United States* the inflation forecast for 2004 has been revised further upwards (2.6 percent compared with 2.3 percent in April and 2.2 percent at the beginning of the year). Nevertheless, the inflation outlook is still close to the 2.5 percent mark that the Federal Reserve (Fed) considers acceptable.

A relatively marked upward revision of inflation expectations characterizes *Asian countries* (2.3 percent compared to 2.0 percent in April and 1.6 percent at the beginning of the year). This increase of the Asian average is due a large extent to China, where inflation is expected to stand at 4.1 percent in 2004 after an expected rise of only 2.0 percent at the beginning of the year and even fears of deflation in 2003. Even in Japan, after a long period of decline, consumer prices are expected to increase slightly in 2004 (0.3 percent).

In *Central and Eastern Europe* the expected dampening of inflation reported in the April survey has not materialized. On the contrary, inflation is now expected to stand at 5.0 percent in 2004 compared with the estimated 4.4 percent in April and 4.9 percent in January 2004. The expected pick-up of inflation in the region is mainly due to the worsening of the inflation outlook in Poland (from 1.8 percent in April to now 3.8 percent). The relatively highest inflation rates in the region will continue to prevail in Romania (9.7 percent), Serbia-Montenegro (9.2 percent), Slovakia (7.4 percent) and Hungary (6.5).

In the *CIS countries* inflation in 2004 will be highest in Uzbekistan (22 percent), though the inflation outlook is not as bleak as in the April survey where consumer prices were seen to rise 30 percent in 2004. In Russia inflation is expected to stabilize at around 10 percent in 2004.

In *Central and Latin America* inflation is likely to slow down somewhat. Thus, the deceleration trend that appeared to be interrupted in the April survey is likely to resume again (6.8 percent expected increase in 2004 after an expected 7.1 percent in the spring survey). The highest inflation rate in this region still persists in Venezuela (27.0 percent after an expected 31.4 percent at the previous survey) and in Costa Rica (11.2 percent after 10.5 percent in the previous survey).

Also in *Africa* inflation is expected to slow down slightly in coming months. The average inflation rate

Table 2

**Expected Inflation Rate on Average of 2004  
(based on WES QIII/2004 and QII/2004)**

Region	QIII/2004	QII/2004	Region	QIII/2004	QII/2004
<b>Average of 89 countries</b>	<b>3.0</b>	<b>2.8</b>	<b>Central a. Latin America</b>	<b>6.8</b>	<b>7.1</b>
<i>World Bank classification:</i>			Argentina	9.3	10.1
High-income countries	1.9	1.8	Bolivia	3.9	4.3
Middle-income countries	5.7	5.4	Brazil	7.2	6.7
Upper-middle	5.0	5.0	Chile	2.4	2.1
Lower-middle	6.1	5.8	Colombia	5.8	6.2
Low-income countries	12.1	12.5	Costa Rica	11.2	10.5
EU countries (old members)	2.0	1.8	Ecuador	3.9	4.4
EU countries (new members) <sup>1</sup>	4.5	3.9	El Salvador	3.3	2.4
Euro area <sup>2</sup>	2.0	1.8	Guatemala	-	11.0
Asian Pacific Rim <sup>3</sup>		2.5	Mexico	4.3	4.2
Arabian OPEC countries <sup>4</sup>		5.3	Panama	1.4	1.3
<b>Western Europe</b>	<b>2.0</b>	<b>1.8</b>	Paraguay	7.4	7.9
Austria	2.1	1.5	Peru	4.0	3.1
Belgium	1.8	1.6	Trinidad and Tobago	-	-
Cyprus	2.0	2.9	Uruguay	9.8	8.6
Denmark	1.8	1.6	Venezuela	27.0	31.4
Finland	0.8	1.0	<b>Asia</b>	<b>2.3</b>	<b>2.0</b>
France	2.1	1.9	Bangladesh	-	5.0
Germany	1.7	1.3	China P.R.	4.1	3.4
Greece	3.1	3.1	Hong Kong	0.3	0.4
Iceland	3.2	2.8	India	5.7	5.0
Ireland	2.2	2.0	Indonesia	6.6	6.1
Italy	2.5	2.2	Japan	0.3	0.1
Luxembourg	2.0	1.8	Korea	3.5	3.7
Netherlands	1.8	1.7	Malaysia	1.9	2.1
Norway	1.3	1.5	Mongolia	-	-
Portugal	2.6	2.5	Pakistan	5.4	4.6
Spain	3.1	2.5	Philippines	4.5	4.2
Sweden	1.3	1.5	Singapore	1.5	1.1
Switzerland	1.0	0.6	Sri Lanka	9.2	7.8
United Kingdom	2.2	2.3	Taiwan	1.3	1.3
<b>Central a. Eastern Europe</b>	<b>5.0</b>	<b>4.4</b>	Thailand	2.5	2.4
Albania	3.8	3.9	Vietnam	5.8	5.6
Bosnia Herzegovina	1.0	-	<b>Near East</b>	<b>6.4</b>	<b>5.8</b>
Bulgaria	4.9	5.2	Bahrain	1.5	2.5
Croatia	2.6	2.3	Iran	17.5	18.5
Czech Republic	3.0	2.9	Israel	2.3	1.9
Estonia	3.3	3.7	Jordan	2.6	3.0
Hungary	6.5	6.6	Kuwait	3.2	2.2
Latvia	5.5	5.1	Lebanon	4.5	1.5
Lithuania	1.6	1.7	Saudi Arabia	1.5	1.8
Poland	3.8	1.8	Turkey	11.6	11.5
Romania	9.7	9.6	United Arab Emirates	3.8	3.1
Serbia a. Montenegro	9.2	9.4	<b>Africa</b>	<b>14.1</b>	<b>15.1</b>
Slovenia	3.6	3.9	Algeria	4.6	4.4
Slovakia	7.4	7.2	Egypt	9.3	7.2
<b>CIS</b>	<b>10.2</b>	<b>10.1</b>	Kenya	8.8	7.0
Georgia	2.3	5.0	Mauritius	5.0	-
Kazakhstan	6.5	6.3	Morocco	1.9	2.0
Russia	10.3	10.3	Nigeria	17.7	16.0
Ukraine	9.4	7.9	South Africa	4.7	5.0
Uzbekistan	22.0	30.0	Tanzania	-	4.5
<b>North America</b>	<b>2.5</b>	<b>2.2</b>	Tunisia	2.7	4.6
Canada	2.0	2.0	Zimbabwe	400.0	500.0
USA	2.6	2.3	<b>Oceania</b>	<b>2.6</b>	<b>2.6</b>
			Australia	2.6	2.6
			New Zealand	2.5	2.3

\* Within each country group the results are weighted according to the share of the specific country's exports and imports in the total world trade.

<sup>1</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004)

- <sup>2</sup> EU countries without Denmark, Sweden, United Kingdom. - <sup>3</sup> Australia, China P.R., Hong Kong, Indonesia,

Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam. - <sup>4</sup> Algeria, Iran, Kuwait,

Saudi Arabia, Qatar, United Arab Emirates.

Source: Ifo World Economic Survey (WES), QIII/2004.

for 2004 is now seen at 14.1 percent compared with the 15.1 percent expected in the April survey. However, this slowdown is mainly due to a slight decline of the still persisting hyperinflation in Zimbabwe (400 percent compared with 500 percent in the previous survey). In South Africa, the inflation estimate for 2004 declined from 5.0 percent in the April survey to now 4.7 percent (in 2003 the South African inflation rate was 7.3 percent).

In the *Near East* the inflation outlook for 2004 has worsened somewhat (expected inflation in 2004 is now 6.4 percent compared with 5.8 percent in the April survey). The pick-up of inflation in the region is mainly due to Lebanon (expected inflation in 2004 stands now at 4.5 percent compared with 1.5 percent in the April survey). The highest inflation rate of the region still prevails in Turkey (11.6 percent). A further decline of the already low inflation is expected in Saudi Arabia (from 1.8 percent to 1.5 percent).

#### **Euro remains overvalued**

The *US dollar* is still seen as undervalued, though to a lesser degree than in the previous two surveys. On the other hand, according to WES experts, the *euro* and the *British pound* remain somewhat overvalued. The *Japanese yen*, after almost two years of slight undervaluation, appears to be approaching its equilibrium range according to WES experts (see Figure 6). This overall pattern of currency assessments characterizes most countries. The own currency was again seen generally overvalued vis-à-vis all four foreign currencies under consideration (US dollar, euro, yen and pound) in some Latin American countries (Bolivia, Mexico, Peru, Uruguay and Venezuela), and also in Turkey, Israel, South Africa and Egypt.

According to the responses to the supplementary survey question on the development of currencies, the *US dollar* is expected to increase slightly vis-à-vis most currencies in the course of the next six months. Exceptions from this general trend are mainly some Asian countries like Singapore, Taiwan – and for the first time mainland China – where the US dollar is expected to lose in value against these countries' currencies; this trend of a weakening US dollar exchange rate also prevails Canada and New Zealand.

**Table 3**  
**Legal and Administrative Restrictions for Foreign Firms**

<b>Absent</b>	
Uruguay	9.0
Hong Kong	8.7
Estonia	8.2
Spain	7.5
Finland	7.1
Norway	7.0
Lithuania	7.0
El Salvador	7.0
Singapore	7.0
<b>Rather low</b>	
Serbia and Montenegro	6.7
Switzerland	6.7
United States	6.6
Latvia	6.5
United Kingdom	6.5
Netherlands	6.5
Cyprus	6.3
New Zealand	6.3
United Arab Emirates	6.3
Denmark	6.2
Ireland	6.2
Canada	6.2
Hungary	6.2
Slovakia	6.2
Australia	6.2
Japan	6.0
Bolivia	6.0
Sweden	5.9
Austria	5.9
Slovenia	5.7
Czech Republic	5.5
Pakistan	5.5
Chile	5.4
Belgium	5.4
Portugal	5.4
France	5.4
Malaysia	5.3
Germany	5.2
Brazil	5.2
Italy	5.1
Kazakhstan	5.0
Costa Rica	5.0
Nigeria	5.0
Thailand	5.0
India	4.7
Korea	4.6
Bulgaria	4.5
<b>Rather high</b>	
Mexico	4.3
Paraguay	4.3
Kenya	4.3
Greece	4.3
Romania	4.3
Turkey	4.1
Colombia	4.1
Peru	4.1
Poland	4.0
Taiwan	4.0
Saudi Arabia	4.0
Ecuador	3.8
Sri Lanka	3.7
South Africa	3.6
Vietnam	3.6
Croatia	3.5
China	3.5
Israel	3.2
Ukraine	3.0
Indonesia	3.0
Albania	2.6
Egypt	2.6
Philippines	2.5
Russia	2.5
Argentina	2.3
Venezuela	2.0
Zimbabwe	1.8

\* Only countries with more than 3 responses have been included into the analysis.

WES scale: 9 – absent, 5 – low, 1 – high.

**Table 4**

**Assessment of the Following Factors Influencing  
the Climate for Foreign Investors  
For the Next 6 Months**

Climate due to	Change for the next 6 months *	
	Deterioration	Improvement
<b>Legal / administrative restrictions to invest and/or to repatriate profits</b>	–	China, El Salvador, Romania, Slovenia, Turkey, Vietnam
<b>Political stability</b>	Albania, Kenya, Nigeria, Peru, Thailand, Zimbabwe	Brazil, Croatia, El Salvador, Indonesia, Latvia, Philippines, Poland, Saudi Arabia, Singapore

In those countries, not mentioned in the table the climate for foreign investors is expected to remain unchanged during the next 6 months (only countries were included in the evaluation that had three or more participants in the WES QIII/2004).

**Criteria for selection of countries:** Deterioration: WES grade between **1** and **3.5**  
Improvement: WES grade between **6.5** and **9**

Source: Ifo World Economic Survey (WES), QIII/2004.

**Interest rates: More WES experts expect rising rates**

More often than in the previous surveys, going back to 2000, **short-term interest rates** are expected to rise in the course of the next six months. This holds true also for the euro area where until now stable or even further declining rate had been expected. Outside the euro area a clear upward trend of central bank rates is expected particularly in the United Kingdom, Switzerland and Denmark (see Figure 5).

In the US the Fed hiked its short-term rate by 25 basis points in early August for the second time this year to 1.5 percent. This move had been widely expected. According to WES experts, further moderate rate hikes are likely in the course of next six months. In Australia fewer WES experts than in the previous three surveys expect further monetary tightening by the Central Bank.

In Eastern Europe – on average – stable short-term interest rates are seen to be most likely in the coming months. Whereas in Hungary, Slovakia and Slovenia the downward trend of rates is seen to continue, rising short-term interest rates are expected in the Czech Republic, in Poland and in Latvia. In Russia the extended period of declining interest rates is expected to come to an end.

The trend of rising Central Bank rates in Asia is expected to continue in the coming six months, particularly in China, Hong Kong, Taiwan and the Philippines.

In Latin America the trend of sinking short-term rates is leveling off in Brazil. In most other countries of the region central-bank interest rates are expected to continue to climb somewhat in coming months.

In South Africa the phase of falling central bank rates appears to be over; for the second time since 2002 an increase in rates is expected.

Parallel to the expected increase of short-term interest rates, a trend is also reckoned for **higher capital market interest rates**. Exceptions from this general trend are mainly Brazil and some Eastern European countries like Hungary, Croatia, Slovenia and Slovakia.

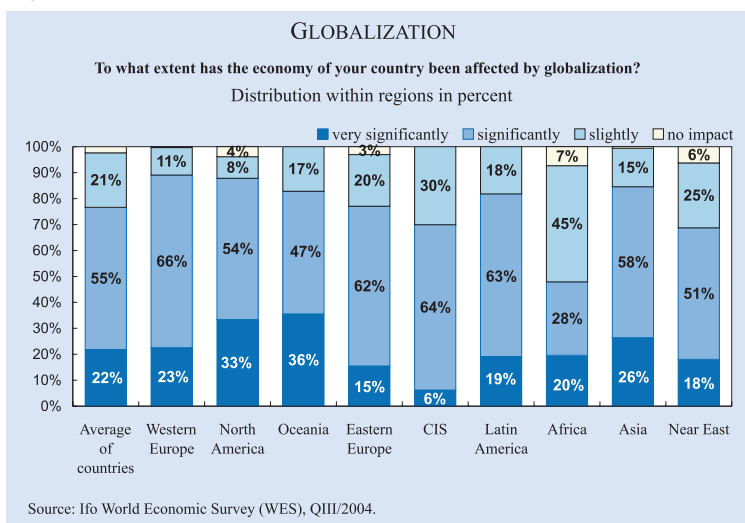
**Climate for Foreign Investors**

Table 3 shows a ranking of countries with respect to the level of legal and administrative restrictions for foreign firms to invest in the country and to repatriate profits. According to the assessments of WES experts, legal and administrative restrictions are almost absent or very low in Uruguay, Hong Kong, Estonia, Spain, Finland, Norway, Lithuania, El Salvador and Singapore. With respect to the further development in the coming six months, the current legal situation is expected to improve in China, El Salvador, Romania, Slovenia, Turkey, Vietnam (see Table 4).

**ICC Special Question: Globalization**

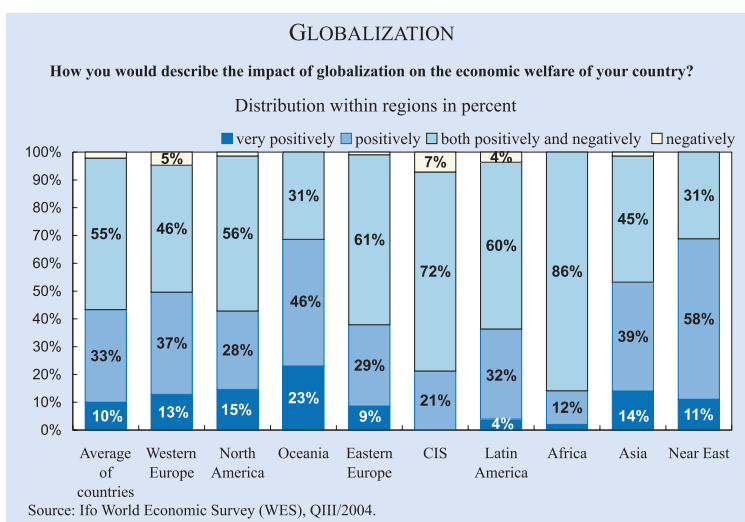
Globalization can be described as the increasing interdependence of national economies worldwide. Such economic integration occurs when countries open themselves to expanding flows of trade, capital, labor and ideas with the rest of the world, which can have profound social and cultural impacts. These

**Figure 12**



changes are unfolding at an accelerating pace. The special question asked in July focused on globalization and its impact on regional and global economic welfare. The question was divided into three parts. The first part investigated *to what extent the economy of a country has been affected by globalization*. In the second part, the focus was on *the impact of globalization on economic welfare in the respective country*. And, in the third part, experts surveyed by WES were asked to judge *the impact of globalization on world economic welfare*.

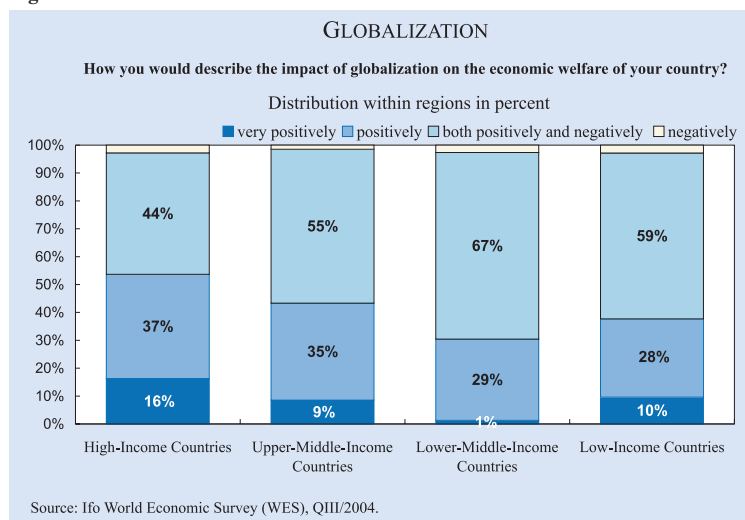
**Figure 13a**



1. *To what extent has the economy of your country been affected by globalization?*

Globalization has transformed the world economy from a set of national and regional markets into a set of markets that operate without regard to national boundaries. It is difficult to determine when this process began, but it obviously accelerated in the closing decades of the twentieth century. The faces of globalization also relate to the internationalization of production and trade as well as to communicational aspects, such as a global exchange of knowledge, information and ideas. Its nature has become more and more uncontrolled due to the new media of communication. In almost all 89 countries, the majority of experts surveyed by WES indicated that the economy of their country was very significantly or significantly affected by the process of globalization (see Figure 12). Regional breakdowns reveal that only in Saudi Arabia and in Africa – in particular in Egypt, Kenya and Zimbabwe – globalization had only a slight or no impact on the

**Figure 13b**





**Table 5**  
**Impact of Globalization on Country's Economic Welfare**

Country*	Total responses	Rank on the Wes scale
Chile	19	10.3
Ireland	13	10.2
Hong Kong	12	10.0
Vietnam	11	9.7
United Arab Emirates	6	9.7
Denmark	13	9.6
Taiwan	4	9.0
India	13	9.0
Australia	17	9.0
Israel	9	8.6
Norway	12	8.3
New Zealand	12	8.3
United Kingdom	27	8.3
Estonia	15	8.2
Poland	35	8.2
Costa Rica	4	8.0
Switzerland	24	8.0
Japan	35	7.7
Netherlands	22	7.7
Singapore	6	7.7
China	57	7.7
Turkey	14	7.6
Lithuania	8	7.5
Finland	23	7.4
Slovakia	10	7.4
Bulgaria	15	7.4
Czech Republic	15	7.4
United States	36	7.3
Belgium	19	7.3
Canada	13	7.2
Sweden	19	7.1
Germany	78	7.1
Brazil	25	7.1
Saudi Arabia	4	7.0
Korea	10	7.0
Malaysia	12	7.0
Mexico	18	7.0
Slovenia	11	6.8
Austria	55	6.7
South Africa	27	6.6
Zimbabwe	10	6.6
Venezuela	8	6.5
Romania	16	6.5
Colombia	9	6.3
Spain	32	6.3
Hungary	13	6.2
Pakistan	14	6.1
Italy	29	6.1
Bolivia	4	6.0
El Salvador	4	6.0
Latvia	8	6.0
Indonesia	8	6.0
Greece	16	6.0
Thailand	9	5.9
Russia	19	5.8
Albania	10	5.8
Ecuador	10	5.8
Portugal	20	5.8
Serbia and Montenegro	6	5.7
Paraguay	6	5.7
Croatia	7	5.6
Philippines	8	5.5
Peru	9	5.4
Ukraine	14	5.3
Uruguay	4	5.0
Egypt	5	5.0
Nigeria	5	5.0
Kenya	6	5.0
Argentina	9	5.0
France	21	5.0

\* Only countries with more than 3 responses have been included into the analysis.

**WES scale:** 13 – very positively, 9 – positively, 5 – both positively and negatively, 1 – negatively.

country's economy, according to the majority of experts.

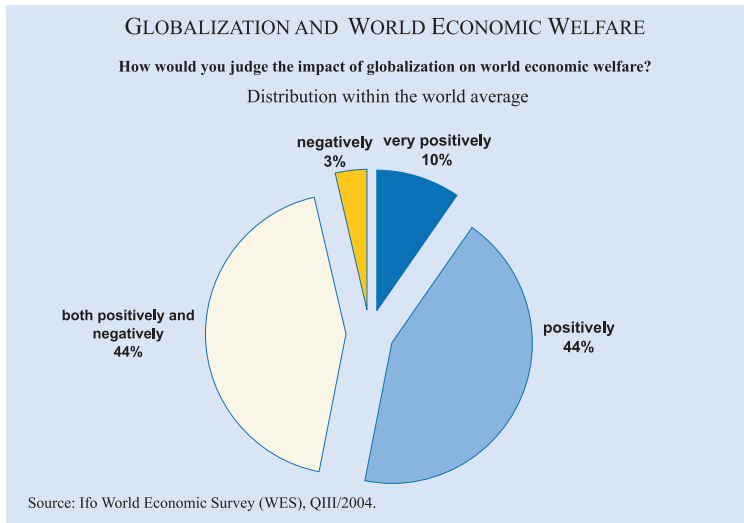
*2. How you would describe the impact of globalization on the economic welfare of your country?*

Globalization implies an increased pressure on firms by consumers and competitors to minimize their production costs. Export and import of job opportunities is the consequence. While regions, where production is relocated are benefiting from globalization, the withdrawal of capital and labor opportunities means disadvantages to other regions. Thus, the perspectives on the benefits of globalization differ between regions and country groups (see Figure 13a/b). In the majority of countries the opinion predominates that globalization had both positive and negative impacts on a country's economic welfare. Only in Oceania (Australia and New Zealand), in the Near East (particularly in Israel, Turkey and United Arab Emirates) and in Asian countries (in particular in Japan, China, Hong Kong, Taiwan, India and Vietnam) did the majority of experts describe the impact of globalization on economic welfare of their countries as very positive or positive. Figure 13b shows that according to WES experts in the majority of high-income countries globalization had a positive or very positive impact on the economy, while in the lower middle-income countries globalization brings both assets and drawbacks. In the low-income countries, the impacts of globalization differ between regions. While in the Asian region (in India and Vietnam) globalization has benefited the economic development, in the African countries the negative assessments predominate (see Table 5).

*3. How would you judge the impact of globalization on world economic welfare?*

Globalization should not only achieve greater efficiency and economic growth but also contribute to more equality and welfare worldwide. In a positive scenario, the peripheral regions gain through access to global networks of production, consumption and information. It also includes the improvement of education, infrastructure as well as exchange of technological innovation and knowledge. In a negative scenario, peripheral regions remain disadvantaged and inequality between regions rises further. However, globalization also brings risks, as has been demonstrated by the Asian and Latin American crises, terrorist attacks and SARS. 1,149 Experts polled in 89 countries were divided concerning the question, of whether globalization is good for enhancing world economic welfare. 54 percent

**Figure 14**



responded that the impact on world economic welfare was very positive or positive, and 44 percent think that globalization has both positive and negative impacts on global prosperity. About 3 percent represented the opinion that globalization has more drawbacks than benefits to world economic welfare (see Figure 14).

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