

The USAID Economic Analysis and Data Services team produces ten regional economic trends reports annually, covering particular regions in Asia, Sub-Saharan Africa, Latin America and the Caribbean, the Middle East, and North Africa. The reports summarize the latest *World Economic Outlook* (April 2013) 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/](http://esdb.eads.usaidallnet.gov/docs/econ_trends/).

## World Economic Growth Rates Edge Upward, But Risks Remain

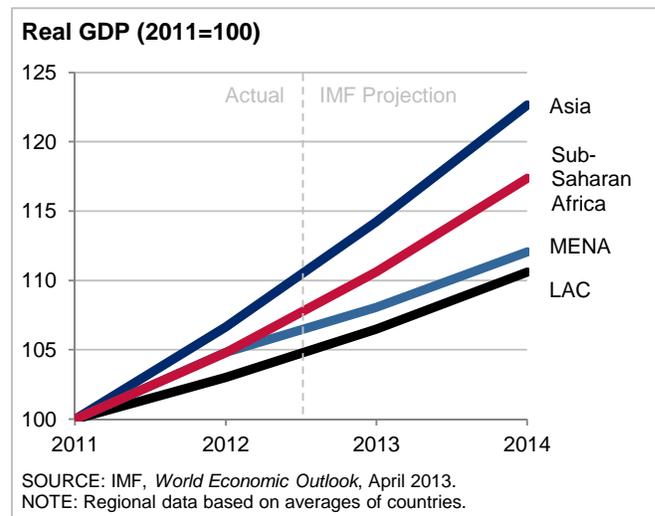
The EADS review of ten regions in light of the recent IMF *World Economic Outlook* shows that economic growth rates in many countries remain favorable and are improving, but many risks remain to the recovery from the 2008–2009 global slump. Commodity producers have not typically diversified enough to escape the boom-bust cycle and euro area demand for developing country exports lacks secure footing.

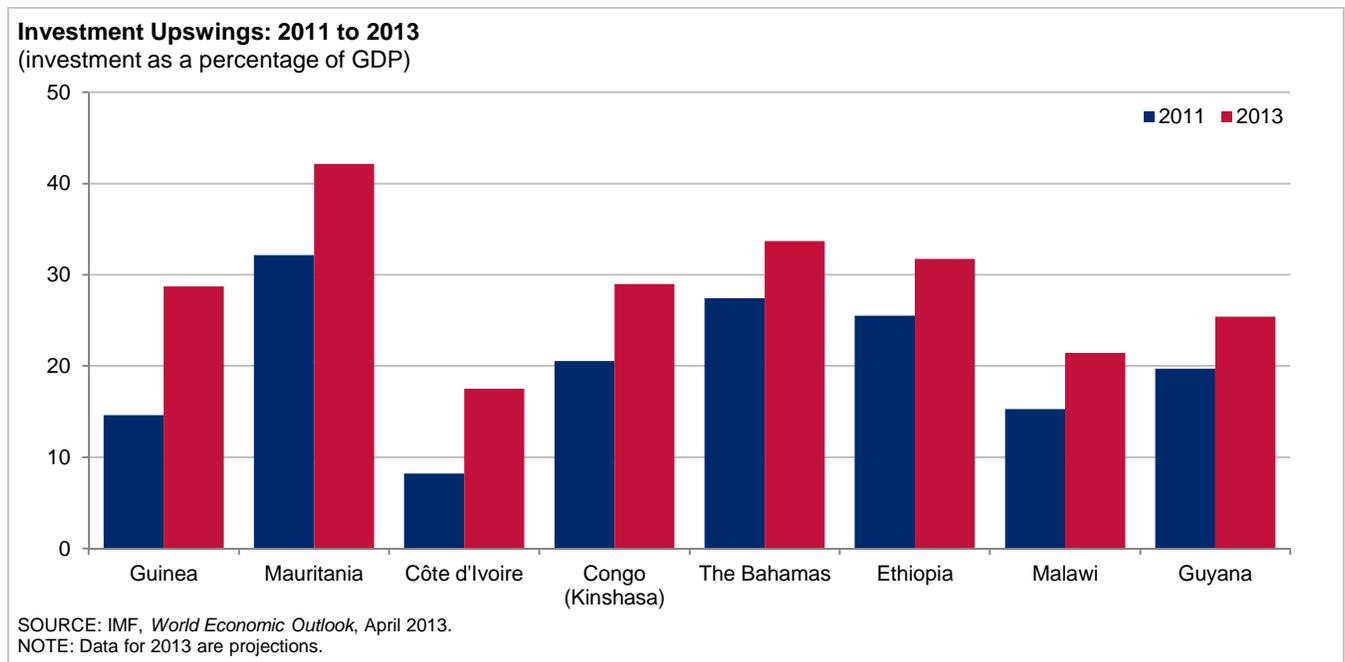
Based on unweighted average real GDP growth rates projected for this year and next, Asian developing countries have outpaced the other regions since 2011. Sub-Saharan African countries have a firm hold on second place, while the growth rates in the Middle East and North Africa (MENA) and Latin America and the Caribbean (LAC) have been and are projected to be almost evenly matched.

Although inflation is under control in many developing countries, the exceptions to this trend include Venezuela, Argentina, Jamaica, and most of East and Central Africa. The relatively small number of high-inflation countries have had mixed success in getting price pressures down for 2013.

Recent and projected investment ratios (investment as a percentage of GDP) show stability at the average regional level. Asia is well above the other regions, MENA is firmly in second place, while Sub-Saharan Africa and LAC jockey for third position.

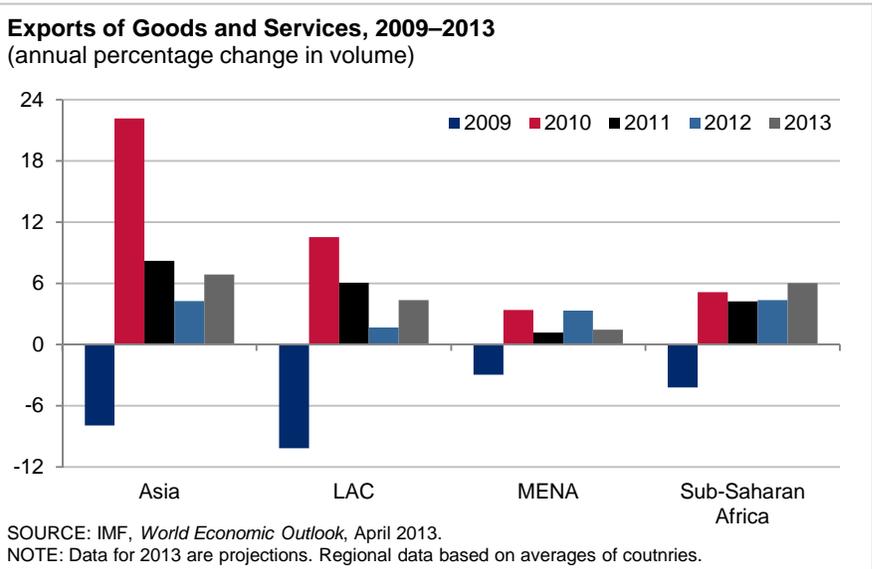
But the average stability of the ratio hides the sometimes startling upswing in investment for some countries. Based on projections for 2013, Guinea will nearly double its investment as a percent of GDP, while Mauritania will add ten percentage points to its ratio. For many African countries, higher investment is associated with expansion of the mining and oil sectors, as well as with increased access to international finance.





Elsewhere, countries that are sustaining high levels of investment include Panama, with large scale projects on transport infrastructure, and Brazil, with preparations underway for hosting the World Cup and Olympics.

Many countries are dependent on favorable conditions for world trade to accelerate their real GDP growth rates. Although regional patterns vary, export trends follow some common themes among the regions. In 2009, all regions suffered a contraction in the volume of exports of goods and services. All regions returned to positive growth rates in 2010, with Asia posting the largest upswing. MENA countries averaged only a modest gain in exports for 2010 and are projected to show only a similarly small gain this year. The other three regions are projected to have faster export growth this year than in 2012, with Asia continuing to show the most strength.



## Regional Summaries

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### East Asia

For many years the fastest growing developing region, East Asian economic growth moderated only slightly in 2012 and projected growth rates in 2013 will remain robust. In terms of its dominating size, China is central to overall economic growth in the region and the IMF projects rates of around 8 percent each year for 2013–2015.

In Vietnam, a long run of rapid economic growth can only be sustained by a resolution of banking sector problems and structural reforms to the state-owned enterprise (SOE) sector. The government began implementing banking reforms last year, announced a plan to develop the bond market in February 2013, and plans to announce SOE reforms by mid-2013. Vietnam's government is working with the IMF and World Bank on a comprehensive finance sector assessment to be completed during 2013.

Cambodia's economy overcame droughts in some areas and floods in others to post a growth rate above 6 percent last year, with agriculture, manufacturing, and tourism all showing strength. Indonesia's economy shrugged off an export decline in 2012 and grew by more than 6 percent. Burma's economy is benefiting from government reforms and a renewed engagement with the world, with the economic growth rate accelerating to more than 6 percent in 2012. Strong consumption, investment, net exports, and remittances are boosting economic growth in the Philippines, also above 6 percent.

Among those rapidly growing economies in East Asia, East Timor and Mongolia stand out as expanding even more quickly. The oil boom in East Timor is fueling double-digit economic growth rates, widespread electrification, and non-oil sector investment outlays. In Mongolia, real GDP grew by more than 12 percent last year, led by a strong mining sector, construction boom, and a recovered agricultural sector.

### South Asia

South Asia is expected to experience steady GDP growth through 2018, but at a slower rate than before the financial crisis. Low investment, a lack of fiscal and monetary options, and political uncertainty in some countries are restraining the expansion. Economic strains in the euro area, South Asia's largest export market, contributed to a general fall in South Asian exports, international bank lending, and foreign direct investment inflows in 2012.

India, which accounts for 80 percent of South Asia's GDP, contributed significantly to the regional slowdown as its GDP growth weakened from 7.7 percent in 2011 to 4.0 percent in 2012. The slowdown reflects a slump in domestic consumption, exports, industrial production, and investment. Equity inflows to India, however, did increase in 2012 and the growth rate of real GDP is projected to increase to 5.7 percent in 2013 and to 6.2 percent in 2014.

Due to inflationary pressures, many countries in the region had limited monetary options to encourage growth. They generally pursued conservative monetary policies, either maintaining interest rates to keep inflation in check despite slow growth, or lowering rates only when inflation was within targets.

Investment has remained relatively stable in South Asian economies, with structural challenges and difficult business environments preventing investment from increasing much as a percent of GDP. South Asia's investment rate lags behind that of East Asia, contributing to the somewhat slower growth in the region. Pakistan has the lowest investment in South Asia and investment declined by almost six percentage points of GDP from 2009 to 2012. Investment in Pakistan is not expected to pick up due to low export demand, security uncertainty, and power shortages.

## Central Asia

Economic growth for Central Asia is strong but has moderated since 2011 as a result of the euro area sovereign debt crisis. The average annual change in real GDP for countries in the region fell from 8.7 percent in 2011 to 6.1 percent in 2012, but is projected to rise in 2013 to just under 7.0 percent. Weaker export demand from Europe is hurting several Central Asian countries; however, high oil and commodity prices and strong domestic demand continue to support growth, particularly among net energy exporters (Turkmenistan, Uzbekistan, and Kazakhstan).

Turkmenistan had the highest growth rate in the region in 2012, boosted by exports and government investment in infrastructure. The buoyant growth lifted Turkmenistan to upper-middle-income status, and the country is expected to have the strongest growth in the region again in 2013. Indeed, Turkmenistan, Kazakhstan, and Uzbekistan (the energy-exporting countries) all achieved current account surpluses in 2011 and 2012, allowing them some space to pursue more expansionary fiscal policies.

Kazakhstan is pursuing industrial and social spending and a conservative monetary policy to contain inflation, though it did have low interest rates in 2012. Uzbekistan has also increased spending on public investment, wages, and social services. It has tightened its monetary policy somewhat in response to inflationary pressures; it has also continued to depreciate its currency in order to encourage exports.

Improving the business environment is a critical challenge for Central Asian countries. According to the World Bank's *Doing Business* rankings of 185 countries and territories, Kazakhstan has the best business environment in the region with a strong rank of 49th in the world, while the two lowest ranked countries in the region (Tajikistan and Uzbekistan) both improved their scores for the 2013 index. The World Bank does not include Turkmenistan in its *Ease of Doing Business* rankings, but Business Monitor International considers Turkmenistan's business environment unfriendly, with high levels of state ownership and control.

## West Africa

In general, economic growth in West Africa has remained robust despite a global economic slowdown in 2012. The brisk expansion has been supported by strong domestic demand and high commodity prices, although political unrest weakened growth in Mali and Guinea-Bissau, while a fall in agriculture trimmed Senegal's growth rate. In 2012, the region's growth was 6.4 percent with two-thirds of countries in the region growing by at least 6.0 percent. Average growth is predicted at 6.8 percent for 2013 with all countries in the region expected to grow at a rate of at least 4.0 percent.

In 2012, the fastest growing economies were Sierra Leone at 19.8 percent followed by Niger and Cote d'Ivoire with growth rates of 11.2 and 9.8 percent respectively. The mining sector, particularly iron ore production, continues to be the main driver of economic growth in Sierra Leone in 2013–14 with oil-exploration activities expected to pick up following the announcement of offshore discoveries.

Real income growth has driven an increase in consumer demand in the region over the past few years. Income growth has been underpinned by improved access to credit, declining inflation rates and lower interest rates, a rebound in the agricultural sector. Niger, Guinea and Mauritania all experienced better rains compared with the 2010/2011 crop year.

With respect to foreign direct investment into West Africa, the extractive industry sector currently dominates in terms of the overall value. However, mining is falling in importance as infrastructure-related projects in construction, transportation, electricity, and water become more widespread. This welcome shift in investment trends will mitigate the binding constraints to growth facing many countries in the region. In addition, countries such as Nigeria and Ghana are beginning to attract investment flows to their fast growing consumer sector.

## East and Central Africa

Economies in the East and Central African region continue to grow at a steady pace. Lower inflation and interest rates, infrastructure projects, and increased activity in the telecommunications and transportation sectors are among the positive trends contributing to growth. Several challenges to sustainable economic growth do remain, including infrastructure constraints and the impacts of climate change on agriculture.

Congo (Kinshasa), Rwanda, Tanzania, and Ethiopia are among the strongest economic performers in the region. However, Rwanda's growth expectations have been adjusted slightly downward owing to the suspension of aid by donors and its impact on the government budget. A robust performance in the agricultural sector will partly offset the suspension of foreign aid. Even though electricity generation from methane gas in Lake Kivu is expected to add significantly to the national electricity supply, poor infrastructure will remain the highest barrier to the expansion of manufacturing in Rwanda.

Growth in Congo (Kinshasa) is driven by the expansion of mining with new mines coming into production and the resumption of operations at existing mines. Large infrastructure projects will also contribute to strong growth, but the Economist Intelligence Unit predicts that weak governance and the poor business climate will act as a drag on investment. Congo (Kinshasa) ranks 181 out of 185 countries for overall ease of doing business in the World Bank's 2013 *Doing Business* report.

Madagascar's growth rate remains constricted by the political crisis that toppled the president in 2009 and is projected to stay below three percent in 2013. Economic growth is expected to accelerate to nearly four percent in 2014 owing to a stronger economy in Europe, a major source of tourists and investment.

## Southern Africa

Economies in Southern Africa are still shaking off the effects of the global financial crisis, with an average growth rate of only 4.2 percent in 2012. Several of the countries in the region attained growth rates of at least 7.0 percent, while South Africa, the largest economy in the region, grew modestly at a rate of 2.5 percent.

Many countries in the region rely predominantly on a particular natural resource for export and fiscal revenues, such as diamonds in Botswana, oil in Angola, and copper in Zambia. Poor infrastructure remains one of the main obstacles to economic diversification in Southern Africa, leaving the countries especially vulnerable to commodity price fluctuations.

The World Bank forecasts that Mozambique will attract substantial foreign investment over the next decade to extract its large coal deposits and offshore gas discoveries, with investment as a percent of GDP projected to peak at more than 54 percent in 2014. The World Bank is also forecasting that Zambia's copper sector will continue to receive large investments, with investment as percent of GDP expected to continue growing and exceed 30 percent in the near future.

A growing number of African countries are raising capital from international sources and having their bonds added to international bond indexes. In 2012, Zambia issued its first long-term euro bond with the intention of raising funds for infrastructure projects, particularly in the transport and energy sectors. The ten-year Zambian bond was very oversubscribed and became one of the most successful bonds in Sub-Saharan Africa. Other African countries that accessed global bond markets for the first time include Ghana, Namibia, Nigeria, and Senegal.

## Middle East and North Africa

Real GDP growth rates in the MENA region were higher in 2012, but a slowdown is projected for 2013. Oil-exporter countries (Iraq, Libya, Yemen, Algeria, and Oman) grew faster than oil-importer countries (Egypt, Lebanon, Jordan, Tunisia, Syria, Israel, and Morocco), partly due to increased investment from the Gulf Cooperation Council (GCC) countries and the restoration of Libyan oil production. Uncertainties over the euro area economy and political stability in MENA will restrain investment, capital flows, and tourism in the oil-importing countries.

The MENA region is still in the throes of a political transformation that is curbing economic vitality. Tunisia, Egypt, Libya, and Yemen have changed their political regimes, while Morocco and Jordan are still undergoing political reforms. Successful political transitions and reforms could potentially boost economic growth in the medium and long-term if they lead to greater accountability and transparency in governance, more effective use of resources, and a reduction in unproductive rent-seeking behavior.

The Libyan economy is the fastest growing in the MENA region, primarily due to higher crude oil production and exports. Egypt's economy eked out a modest growth rate in 2012, after contracting in 2011 as tourism and investment fell off. Tunisia is preparing a new investment code to improve the investment climate in the country. Investors are following a wait-and-see approach for the results of any improvement in investment legislation.

Despite an increase in international food prices, inflation remained steady in most of the MENA countries, mainly because of price controls and subsidies for fuel and food. Yemen's projected double-digit inflation in 2013 is the glaring exception, with frequent supply chain disruptions due to political conflict in southern regions of the country.

## Caribbean

Growth in the Caribbean remains restrained by high debt levels, lackluster tourism, and relatively uncompetitive industries. Given the comparative weakness of financial sector development in the Caribbean, slow economic growth runs the risk of causing credit quality to deteriorate, which would further trim the economic expansion. Although each Caribbean economy is projected to show growth in 2013, nearly all are at 2.0 percent or less.

Haiti, with a projected 6.5 percent real GDP expansion this year based on a favorable agricultural harvest and increased public investment, is the only Caribbean economy growing briskly. Haiti's current favorable growth rate continues its haphazard recovery from a sharp contraction after the earthquake in 2010. Macroeconomic policies have been supportive of economic expansion in the last few years, but investment activity is hampered by administrative capacity shortcomings, an unattractive business environment, and continued political tension. Cholera outbreaks and tropical storms continue to burden the economy.

Despite the tepid economic growth rates, some Caribbean economies have relatively high ratios of investment to GDP. But robust investment levels are not consistent across the Caribbean. In Barbados, the Central Bank says that the country needs to accelerate the process by which new projects can be started. The difficulty in boosting investment contrasts with the generally favorable business environment in Barbados.

Econometric analysis by the Inter-American Development Bank, reported in their most recent regional survey, *Rethinking Reforms*, indicates that the Latin America and Caribbean economies are relatively less integrated than other developing regions. The implication is that faster economic growth in the two largest Latin America and Caribbean economies (Brazil and Mexico) has relatively less of a multiplier effect on the region as a whole, than would be expected among developing countries in Europe or Asia when the largest economies in the region grow faster. In fact, according to the IADB econometric model, faster economic growth in Brazil and Mexico has a small negative impact on economic growth in Jamaica.

## South America

South America's GDP is projected to grow 4.6 percent in 2013, the fastest in the LAC region. However, South America is a commodity-exporting region which is vulnerable to a weakening global economy, contraction in domestic demand, and country-specific factors.

South American exports have typically been strongest in oil, iron, and copper, but for the last decade the region has been diversifying. Brazil and Argentina continue to expand their transport sectors and Venezuela expands ship construction. With export volumes projected to grow nearly seven percent in 2013, South America will lead the LAC region.

The majority of South American countries have implemented effective policies designed to maintain inflation within targeted ranges. Venezuela and Argentina are still the exceptions. High inflation in Venezuela is mainly caused by an expansionary monetary policy and devaluation of the Venezuelan Bolivar. In Argentina, high inflation is primarily caused by the current expansionary monetary and fiscal policy to support economic growth. Of further concern is the poor quality of official inflation data from Argentine authorities.

Brazil's investment as a percentage of GDP is projected to increase in 2013 as a result of recent oil discoveries, as well as infrastructure investment in preparation for hosting the FIFA World Cup and Olympic Games. By contrast, investment as a percentage of GDP in Argentina is expected to remain low in 2013, primarily because of the uncertain political landscape, elevated corruption, high inflation, and possible devaluation and technical default on restructured debt. Paraguay has the lowest investment as percentage of GDP in the South American region, mainly due to a high level of corruption.

## Central America and Mexico

Growth rates in Central America and Mexico were overall little changed in 2012 and a modest deceleration is projected for 2013. Countries currently expanding the slowest—El Salvador, Guatemala, Honduras, and Mexico—will grow about the same pace in 2012 and 2013. Other fast growing economies in the region—Costa Rica, Nicaragua, and Panama—will see a modest decline in their growth rates for 2013, while fast-growing Belize will slow down sharply as oil production continues to ease.

Panama continues to lead the pack with double-digit economic growth, the highest investment-to-GDP ratio in the region, and rapid export expansion. Infrastructure spending on the Canal and a new metro subway system has sparked a sustained burst of economic vitality which, combined with the associated private sector investment in new hotels and offices, gives Panama the leading investment ratio in the region.

Nicaragua has also been increasing its construction and investment spending recently, while Mexico's manufacturing sector continues to attract relatively high levels of investment.

Countries in the rest of the region have investment ratios that are mostly stable but relatively low compared with other Latin America and Caribbean economies.

Central American and Mexican exports began to lose some momentum during 2012 and are projected to expand more slowly in 2013 before rebounding in 2014. On the bright side, export volumes for all the economies are expanding each year during the projection period through 2015. The sole exception is Belize, where exports of goods and services are projected to be essentially flat for 2012–2015.

**Additional Information**

For more information on the EADS Economic Trends Reports, please contact Michael Shea at [mshea@devtechsys.com](mailto:mshea@devtechsys.com).

For country-specific data and additional information about the countries covered in this report, please visit the ESDB Country Portal at [http://esdb.eads.usaidallnet.gov/query/do?\\_program=/eads/esdb/countryPortal](http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal).