

External Sector

Global economic recovery, which had gathered momentum in the first quarter of 2002, generated optimism regarding robust growth of global output for the year. However, the recovery could not maintain its initial upbeat trends, thus resulting in a moderation of global output growth projections as well as regional economic prospects (Table 6.1). While the projections for 2002 have remained unchanged, growth forecast for 2003 has been revised downward by 0.3 percentage points in the latest (September, 2002) World

Economic Outlook (WEO) of the International Monetary Fund (IMF).

6.2 The slower than expected global recovery is largely attributable to lack of growth impulses in major advanced economies. While real GDP growth in these economies is expected to improve marginally in 2002, there are concerns over increase in unemployment and deterioration of fiscal balances. Rising unemployment might dampen consumer demand further in the US and the European

Table 6.1 : External environment
(Annual percent change unless otherwise noted)

	2000	2001	Projections	
			2002	2003
A. World output	4.7	2.2	2.8	3.7
Advanced economies	3.8	0.8	1.7	2.5
United States	3.8	0.3	2.2	2.6
European Union	3.5	1.6	1.1	2.3
Japan	2.4	-0.3	-0.5	1.1
Other advanced economies	5.3	1.6	2.6	3.3
Newly industrialized Asian economies	8.5	0.8	4.7	4.9
Developing countries	5.7	3.9	4.2	5.2
Developing Asia	6.7	5.6	6.1	6.3
China	8.0	7.3	7.5	7.2
India	5.4	4.1	5.0	5.7
ASEAN-4*	5.1	2.6	3.6	4.2
Countries in transition	6.6	5.0	3.9	4.5
Russia	9.0	5.0	4.4	4.9
B. World trade volume (goods & services)	12.6	-0.1	2.1	6.1
C. World trade prices (in US\$ terms)				
Manufactures	-5.2	-2.3	2.6	4.2
Oil	57.0	-14.0	0.5	-0.8
Non-fuel primary commodities	1.8	-5.4	4.2	5.7
D. Net private capital flows to emerging market economies (in US \$ billion)	29.4	24.9	62.4	64.9

* Includes Indonesia, Malaysia, Philippines and Thailand.

Source: World Economic Outlook; September 2002; The International Monetary Fund.

Union. Japan, despite being projected to achieve a positive growth in 2003, is yet to recover well enough to engineer a larger global turnaround. Future growth prospects for the Japanese economy depend heavily on its ability to push through more structural reforms, particularly in the banking and corporate sectors.

6.3 The emerging market economies present a mixed scenario. The outlook for Latin America contains serious concerns on account of the financial crisis in Argentina, partial spillover of the Argentinean crisis to neighbouring economies (Uruguay, Paraguay and Bolivia), and the sharp erosion of financial market sentiments in Brazil. Developing Asia, however, presents a robust picture. Emerging markets in developing Asia have displayed faster and stronger recoveries compared to overall global trends. The most heartening aspect in the outlook for developing Asia is the significant revival of domestic demand in major Asian economies like China, India and

Korea. Notwithstanding the risks emanating from volatility in global crude prices due to war clouds hanging heavy over the Middle East, developing Asia remains a rare centre of resurgence in the subdued global economy, and is likely to be the locus for future global growth.

6.4 The decline in the volume of world trade is expected to have reversed in 2002. However, the projections for growth of world trade in 2003 are much less than the levels achieved in 2000. Step-up in the pace of global recovery will depend significantly upon the extent by which world trade picks up in the current year. Besides, greater inflows of private capital in emerging economies, which are currently nowhere near the pre-East Asian crisis levels, shall also be catalytic in hastening global recovery. Capital inflows, however, will depend largely on improvement in domestic market sentiments, which, in turn, will be determined significantly by regional and country-specific factors.