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**Post-crisis period expected to be marked by the resurgence of “country risk”
and lower global economic growth than in the last decade**
Analysis by Euler Hermes

Number one credit insurer Euler Hermes assesses the impact of globalisation and considers its development post-crisis.

“The current crisis marks a turning point. Businesses’ globalisation strategies will undergo radical change in the coming years”, according to Karine Berger, Head of Research at Euler Hermes. “While the global economy has been driven over the past decade by credit-led demand from OECD countries, in the coming years it will depend on the ability of emerging countries to develop their domestic markets.”

1. Globalisation over the past five years generated 0.5 to 1 point of excessive global economic growth each year as a result of ballooning credit in OECD countries

Global GDP practically doubled in the last decade, rising from USD 37,240 billion in 1998 to nearly USD 69,000 billion in 2008. Euler Hermes has seen emerging countries take an increasing share of global GDP and playing a larger role in driving its growth, in parallel with a clear decline in the preponderance of developed countries.

Nevertheless, over the same period developed countries have remained far and away the world’s leading consumers and investors. Domestic demand in OECD countries, coupled with the transfer of low value-added production from developed countries to low wage-cost countries has boosted emerging countries’ exports and growth: one additional point of OECD domestic demand boosted emerging countries’ exports by between 3 and 4 points over the past decade.

Part of the increased demand in OECD countries over the past five years was linked to increases in the money supply: we estimate this contributed between 0.5 point and 1 point of growth annually over the past five years. “As a result, the forecast 2%-3% contraction in global GDP this year will clearly not be sufficient, and growth is expected to stay under its 4% trend line for several years”, comments Karine Berger.

2. Emerging countries’ domestic markets have shown low growth over the past decade

Per capita demand has grown little over the past ten years in the main emerging countries. Whereas per capita consumption in OECD countries grew strongly in the pharmaceutical, toys and clothing sectors, it was virtually unchanged in emerging countries. The beginnings of growth in domestic markets were seen in only a few sectors, and most frequently for capital goods, notably in the technology and cement sectors.

At the same time, production in emerging countries showed an upward trend as a result of rising exports from these regions to OECD countries, accompanied by the appearance of imbalances in current account balances.

“At this stage, private-sector domestic demand in emerging countries cannot serve as the engine of global growth, which explains why these regions have suffered badly in the current crisis: the fall in



demand from OECD countries resulting from the credit crisis has had serious consequences for production in emerging countries”, adds Karine Berger.

3. The post-crisis period will be marked by the resurgence of “country risk” and low global economic growth for several years

Credit and demand in OECD countries “post-crisis” will not recover rapidly, resulting in lower growth in sales and international trade than seen in recent years.

At the same time, emerging countries will need to develop more solid domestic demand if they are to continue growing at the same rate as in the past few years. This will lead to current account imbalances and the resurgence of “country risk”.

The globalisation strategies of businesses in OECD countries are expected to change, on a sector-by-sector basis as a function of developments in dynamic countries’ domestic markets.

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Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The group protects worldwide business transactions totalling €800 billion.

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