


# The Global Economy and the Gulf States

by  
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Economics Department, LSE  
LSE Gulf Breakfast Briefing  
10 June 2008



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## Large forces in the global economy

- US – growth and consumption
- Asia
- The Gulf States and oil. SWFs both
- Climate change
- Fuel and food
- Global poverty
  
- **FOCUS:** Global imbalance, global policy

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## Conclusions

- Shifting global centre
- International tensions
  - Trade imbalance
  - Trade and inequality
  - Food, fuel, natural resources
- The reality
  - Single source for trade imbalance
  - World well-being has improved much more from Asian growth than from... pretty much anything else
  - The critical role of resource-rich economies

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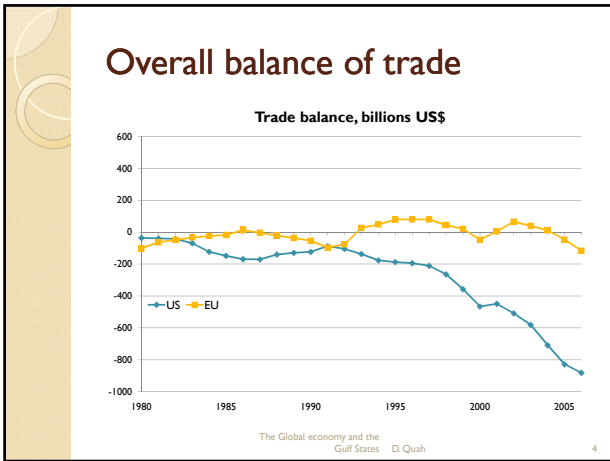
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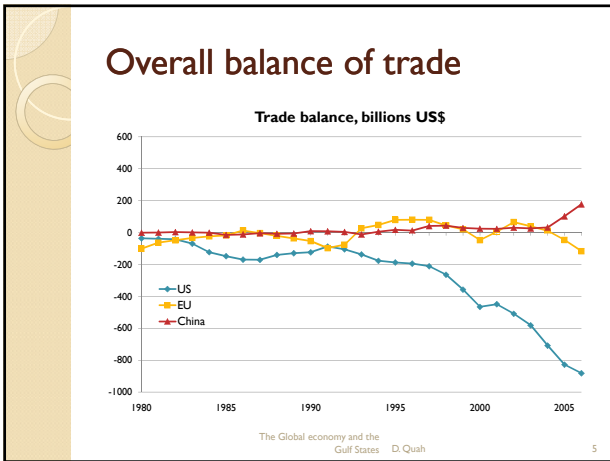
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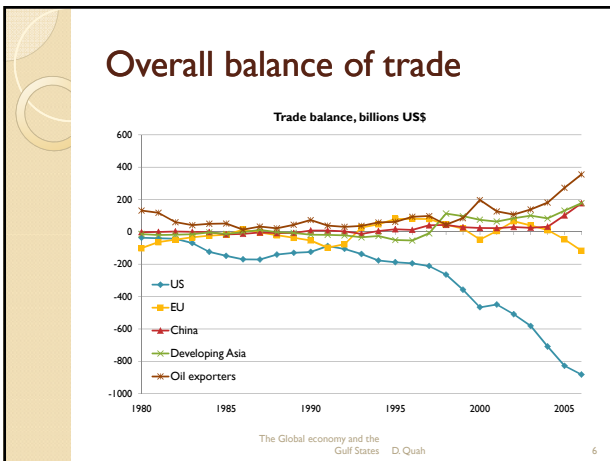
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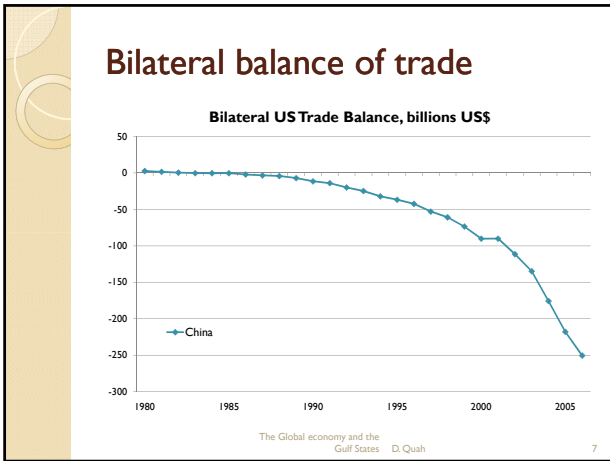
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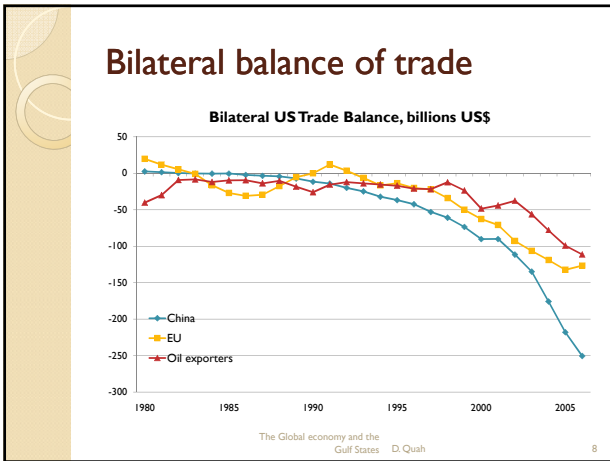
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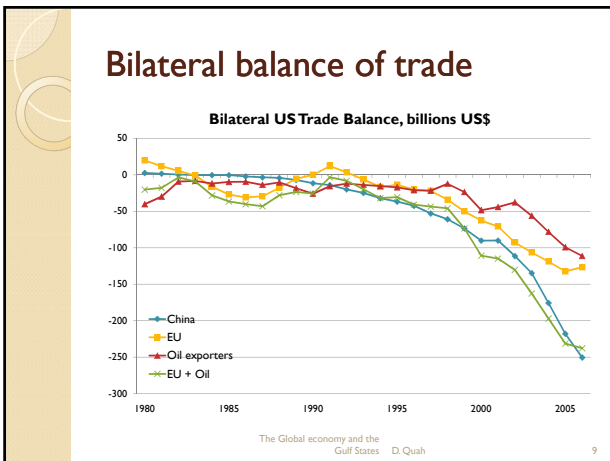
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### Trade balance: Summary

- Bilateral: US trade balance with China matches that with oil exporters and EU taken together
- Overall: Oil exporters by far the dominant surplus
- Source of global imbalance
  - Whose savings glut?
  - US-specific explanations?

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Even at market exchange rates, China and India already contribute a US to global growth

	2005 Fraction of World GNI	2006 Growth, billions US\$
<b>US</b>	28.6%	533.1
<b>China</b>	5.0%	371.8
<b>India</b>	1.8%	102.5
<b>China + India</b>	6.8%	474.3
<b>Gulf CC (2003-)</b>	1.1%	23.2

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### Food prices, energy prices, ... prices

- **Rice** (Thai White): world prices have risen 3½-fold since 2003; over 2½-fold last year alone
- **Oil** (Brent Crude): world prices up 3½-fold since 2003; **doubled** since beginning of 2007
- Contrast 2003-2007 real income growth **3.2%** per year
- ... inflation **2%** per year

Rise and fall of subsidies D. Quah

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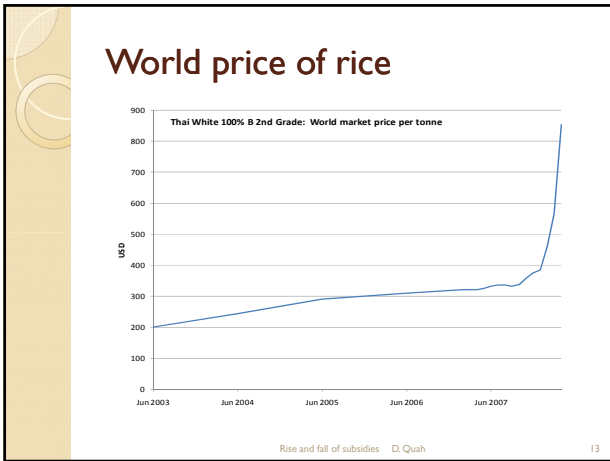
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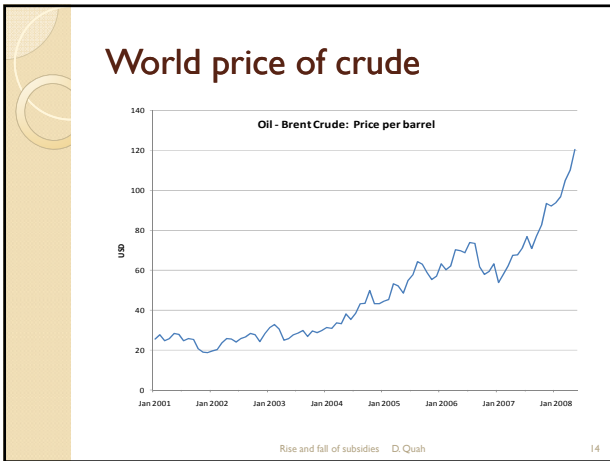
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### \$200 per barrel oil?

- “Cars now compete with people for food”
- Demand for fuels from Asia
  - 2-3 times per unit of GDP
  - 11% of production, 22% of consumption
  - Subsidised everywhere (still)
- Middle East
  - Consume as much as all of China
  - Demand growing as rapidly as China’s

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## World Poverty

	1981	1990	1999	2004
<b>World GDP 10<sup>12</sup> PPP\$</b>	24	33	43	52
<b>GDP per capita PPP\$</b>	5408	6292	7231	8198
<b>World's poor 10<sup>6</sup></b>	1470	1247	1109	969
<b>China's poor 10<sup>6</sup></b>	634	374	223	128
<b>Remainder 10<sup>6</sup></b>	836	873	886	841

- PPP\$ means constant International Dollars corrected for inflation and Purchasing Power Parity
- Poor means living on less than PPP\$1/day

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