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China's Trade & Economic Growth: Lessons for MENA

China's trade has been leaping forward at rates that are even higher than its fabulous economic growth rates. With population of 1.3 billion and GDP of 2.7 trillion, 2006 figures, China ranked third in terms of exports and imports in the world. Nearly 21% of its exports went to the US, 20% to EU-27, 16% to Hong Kong, 10% to Japan and 5% to Korea (WTO, 08).

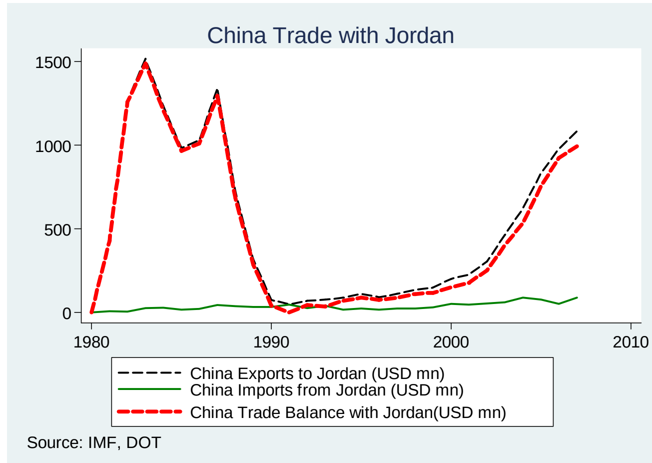
In the jargon of economic growth, trade is considered an engine of economic growth and one of the three hard determinants of society's economic performance. The other two determinants are society's institutions, including culture, and geography, including security & resources.

The leap forward could not have been done without the aid of the conducive culture; that is the high economic and trade growth was achieved mainly because the Chinese people kept their "bowl of rice" as is and did not explode their consumption behavior nor shifted consumption towards imported products. Accordingly, relative to GDP, China's national saving rate has been extraordinarily high by any standard of comparison; in 2006 it was 54 percent (IMF 2008).

A few economic historians pointed out that China was historically the most "candid" economy in the world to lead the global industrial revolution that took place some six centuries ago, in the 14th century. They claim (probably correctly) that even then, China had advanced well ahead of peer countries including England in the technology arena, most notably, in the textiles industry that the world then needed most. What inhibited China from taking the real lead and become a "global exporter" was supposedly its inward-looking Confucius culture. In other words, looked at as institution, the Chinese culture was at that time considered not so conducive to economic growth even when technology was home-grown and "made in China". Taking this claim on face value, China seems to have learnt an important history lesson that helps its economy grow at double-digit figures to become the second-largest economy in the world despite heavy reliance on energy imports and non-satiated thirst for oil and natural gas and similar fuels & products.

China, Jordan & MENA Trade

According to latest available data by the IFS, , in 2007 China's exports to Jordan amounted to $1084 million and imports from Jordan were only under 90 million, giving a trade surplus of nearly one billion in China's favor.

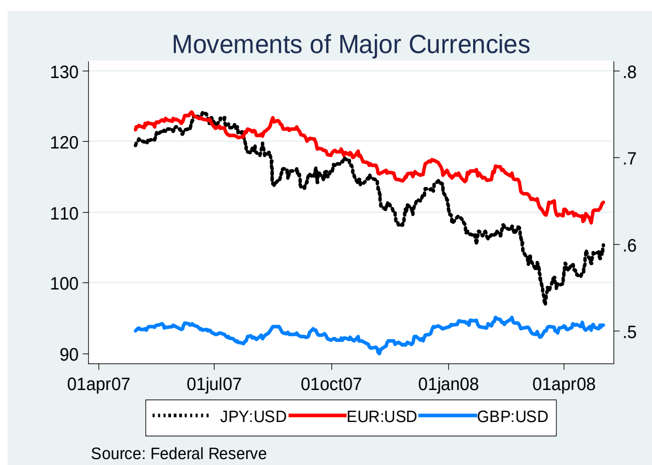


Source: IMF, DOT

In the case of the GCC however, China realized an overall trade deficit of about 254 billion, thanks to high oil and gas imports and rising prices of hydrocarbons.

Commodity, FX and Stock Markets

The past week saw the US dollar appreciating amidst optimism that the US slowdown is less severe than expected, especially with unemployment and job loss figures being less than expected. In contrast, speculation is rising on whether the Euro is nearing the end of its climb with fears over a Euro zone slowdown mounting recently[1].



Source: Federal Reserve

[1] FT, Bloomberg and Others

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The appreciation in the US currency caused commodity prices to decline late last week with oil, aluminum, copper, lead and gold all recording losses.

Table 1 Selected Commodities

	Week ending 4/25/2008	Week ending 5/2/2008	Change
Oil WTI ($/bbl)	121.57	**116.32**	(4.32%)
Gold ($/oz)	891.50	**853.50**	(4.26%)
Natural Gas	10.74	**10.480**	(2.42%)

Source: WSJ

Global equity markets continue to go up as the release of better than expected US job figures relieved investors. In the UK, FTSE100 rose by 2.04% this week boosted by the financial sector, while in Asia markets recorded their highest levels in over 3 months.

In our region, performance was mixed in the Amman Stock Exchange with the index declining at the end of the past week despite rising above 8800 points for the first time since 2006[2]. The GCC markets gained almost $60 bn in April with markets in the UAE, Qatar and Saudi Arabia being the best performers. In fact GCC market capitalization constituted for more than 80% of total Arab market capitalization[3]. Shares on the Casablanca Bourse achieved profits of $4bn in 2007 which represented an increase of 31% compared to the year before.

Table 2 Selected Market Indices

Index	Week ending 4/25/2008	Week ending 5/2/2008	Change
Jordan	8,739.00	**8,712.00**	(0.31%)
KSA	9,754.10	**10,066.16**	3.2%
Morocco	14,335.77	**14,384.60**	0.34%
S&P500	1,397.84	**1,413.90**	1.15%
NIKKEI	13,863.47	**14,049.26**	1.34%
FTSE100	6,091.40	**6,215.50**	2.04%

Sources: Bloomberg and Official Markets

Did You Know?

- Last winter, 604, 000 Alaskans each pocketed a $ 1654 check from the state's Permanent Fund, which invests Alaska's oil revenues on their behalf. They do not have to work for it and they are free to spend it as they wish (The Economist, 08).
- The GCC economies now have, on average, only 5 percent of the total production capacity of six of the world's most energy-intensive commodities- aluminum, ethylene, polyethylene, styrene, and steel (IMG). Accordingly, the race is accelerating to located energy-intensive industries especially petrochemicals in the GCC. Evidence: More than $ 70 billion of petrochemical projects are currently under way in Saudi Arabia. One reason for this race is that in the case of petrochemicals, 70% of production costs are in terms of NG and oil which give the Gulf a 50% advantage over North American competitor,(Emerging Markets Report).
- However, cost –run-ups play havoc with project budgets. For instance, Saudi Aramco, is facing an escalated cost of its planned refinery complexes. The initial budgeted cost of $ 6 billion for the Jubail & Yanbu refineries have soared to $ 10 billion for Jubail and to between $12-13 billion for Yanbu (MEED).
- Egyptian money supply jumped 23.9 percent in the year to March, its fastest pace in at least a decade, as urban consumer inflation in the most populous Arab country surged to a three-year high. On the other hand, Tunisia's central bank last Wednesday signaled it would increase the obligatory bank reserve requirement to absorb liquidity and stem inflation, but kept its benchmark interest rate unchanged at 5.25 percent

INFORMATION

AB Weekly Economic Monitor provides weekly review of information and regional development. The weekly is authored by Dr.Sulayman Al-Qudsi, Chief Economist, AB Plc. Jordan

E-mail: Dr.sulayman.alqudsi@arabbank.com.jo , phone: +96796181733

Contributors are: Shifa Obeid, Faris Numan, Ala' Kaloti, Heba Khalid

Research Department at AB, Jordan Headquarters.

[2] Al-Ghad

[3] Emirates 24/7 via Zawya