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CESifo WORLD ECONOMIC SURVEY

VOLUME 6, No. 2

MAY 2007

WORLD ECONOMIC CLIMATE

World Economic Climate remains stable

ECONOMIC EXPECTATIONS

Favourable assessments of current economic situation and stable economic expectations

INFLATION

Expectations for 2007 revised upwards

INTEREST RATES

Trend of rising interest rates

CURRENCIES

Western European currencies – euro and UK pound – seen as overvalued

SPECIAL TOPIC

International investment protectionism in “strategic industry sectors”



International Chamber of Commerce
The world business organization

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Ifo World Economic Survey

Regions

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Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In April 2007 1,024 economic experts in 91 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: on assessment of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since economic changes are revealed earlier than by traditional business statistics.

The individual replies are combined for each country without weighting. The "grading" procedure consists in giving a grade of 9 to positive replies (+), a grade of 5 to indifferent replies (=) and a grade of 1 to negative (-) replies. Grades within the range of 5 to 9 indicate that positive answers prevail or that a majority expects trends to increase, whereas grades within the range of 1 to 5 reveal predominantly negative replies or expectations of decreasing trends.

The survey results are published as aggregated data. The aggregation procedure is based on country classifications. Within each country group or region, the country results are weighted according to the share of the specific country's exports and imports in total world trade.

CES – Center for Economic Studies – is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance, aspects of the economy, but also includes many diverging fields of economics.

Ifo Institute for Economic Research ist one of the largest economic research institutes in Germany with a three-fold orientation: to conduct economic research, to offer advice to economic policy-makers and to provide services for the research and business communities. The Ifo Institute is internationally renowned for its business surveys.

CESifo is the name under which the international service products and research results of both organizations are published.

WORLD ECONOMIC CLIMATE INDEX REMAINS FAVOURABLE

In April 2007 the Ifo World Economic Climate stabilized at a favourable level (see Figure 1). The climate indicator stands as in the January survey, at 106.5 (after 104.7 in October 2006: 1995=100), considerably above its long-term average (1991–2006: 95.3). The assessments of the present economic situation remained favourable, on a global average. The economic expectations for the next six months continue to point to an economic stabilization (see Figure 2).

six months. This pattern particularly reflects a cooling of the economic climate in *Japan*, where the economic situation has deteriorated somewhat over the first quarter 2007, according to WES experts.

The slowing *US* economy bears the main risk to the continuation of the global economic expansion. Although the rest of the world is not as dependent on the *US* economic growth as it was a decade ago and all large regions of the world economy are in relatively good health, negative spillovers may curb the exceptional economic growth rates observed in the

World economy: stable economic growth

The latest WES survey results indicate that the global economic expansion will continue to be stable. The index of the present economic situation reached a six year high in the first quarter 2007 and remained almost unchanged at this high level in the second quarter WES survey. The economic outlook for the coming six months points to a robust global economic expansion in the second half of 2007. However, these positive prospects do not apply to all main economic regions (see Figure 3). In *Western Europe* the improvement of the overall climate index has a similar pattern as the world average: the assessments of the present economic situation remained stable, at a favourable level, and economic expectations have been slightly upgraded. In contrast, in *North America* and particularly in the *US*, both assessments of the present economic situation and economic expectations have been markedly downgraded. Also in *Asia* the economic climate index deteriorated due to both less positive assessments of the present economic situation and less optimistic expectations for the next

Figure 1

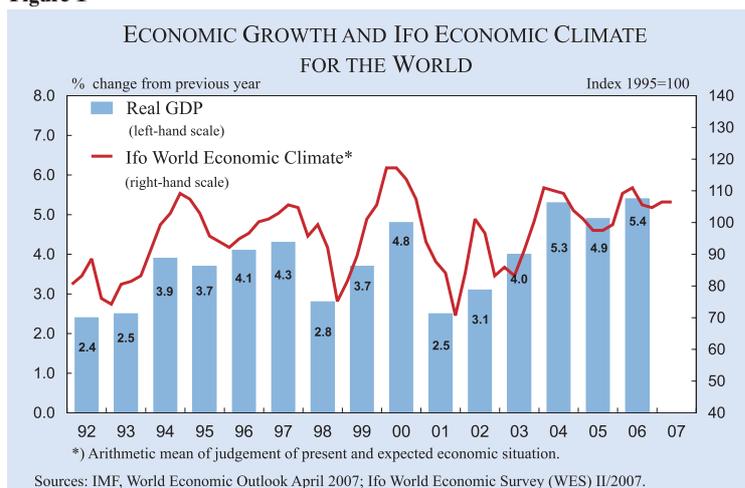
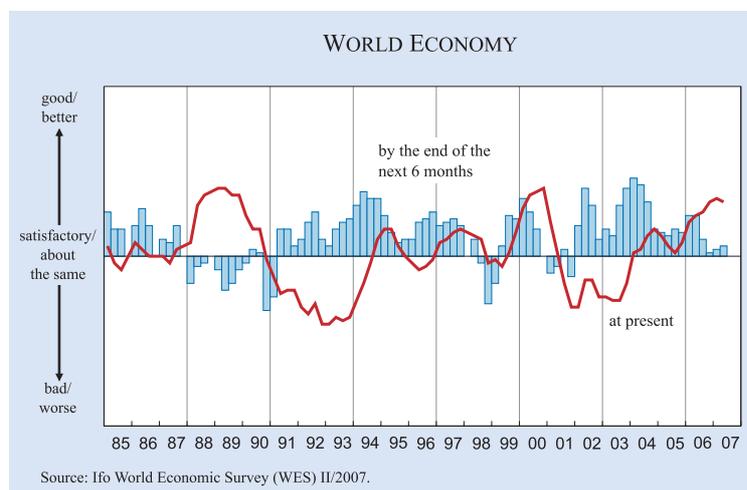


Figure 2

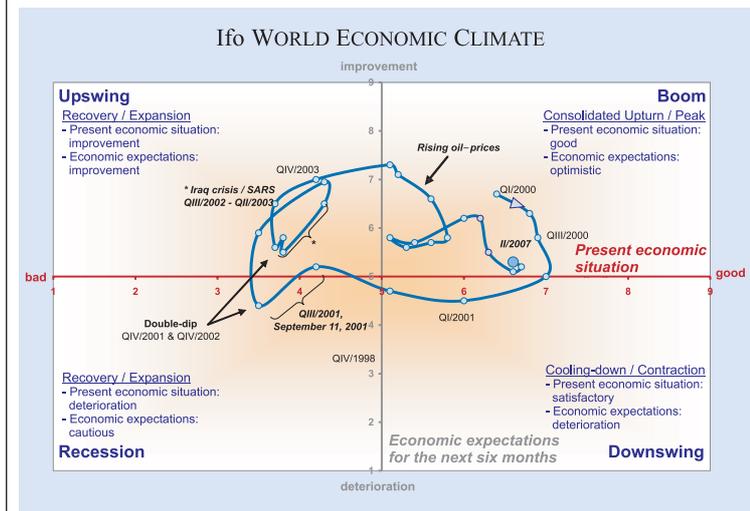


Box 1
Ifo Economic Clock and the World Economic Climate

For a global, medium-term forecast a look at the Ifo Economic Clock showing the development of the two components of the economic climate index over the last seven years visualizes the trend. The business cycle typically goes clockwise in a circle; expectations leading assessments of the present situation.

According to the Ifo Economic Clock, the Ifo World Economic Climate indicator remained in the consolidated uptum phase in the second quarter 2007. The very positive assessment of the current economic situation weakened only slightly. The expectations for the coming six months have improved further and point to a robust world economic development in the second half of 2007. However, the Ifo World Economic Climate Index displayed varying results in the three major economic regions: Western Europe, North America and Asia (see Figure 3). The most striking difference to last year's data is the expected decoupling of growth in North America and the rest of the world. This would certainly be a novelty in the development of the world economy. Though such a decoupling appears to be possible, given the economic strength and increased economic independence of the European and Asian economies, there is some risk in this scenario.

The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram ("Ifo Konjunkturuhr"). The assessments on the present economic situation are positioned along the abscissa, the responses on the economic expectations on the ordinate. The diagram is divided into four quadrants, defining the four phases of the world business cycle. For example, should the assessments of the interviewed experts on the present situation be negative, but the expectations became positive, the world business cycle is in an upswing phase (top left quadrant).



past two years. However, looking at the economic cycle clock (see Box 1), the latest survey results confirm the conclusion that the world economy will probably remain in a consolidated upswing phase in the next six months. Most surveyed economists throughout the world are generally upbeat about the global economic growth, despite some downside risks.

Western Europe: Robust economic expansion

The overall economic climate indicator for Western Europe rose again in April (see Figure 3). The increase resulted from more optimistic expectations for the next six months, while the assessments of the present economic situation remained stable at a six year high reached in January. According to the panel's forecast the economic expansion will remain stable or

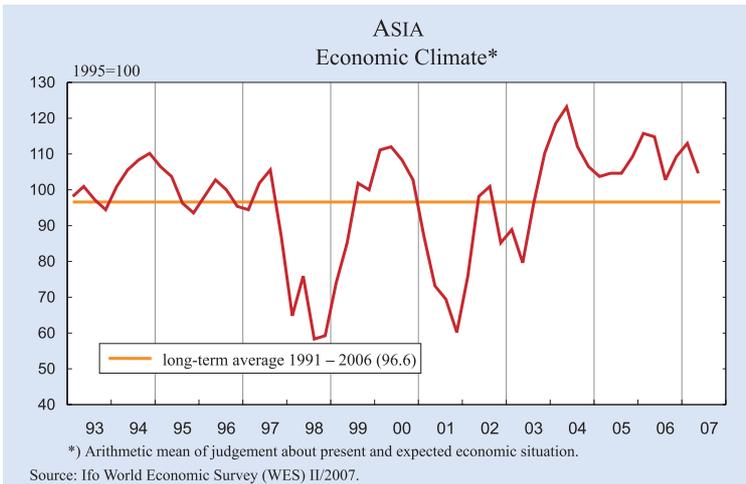
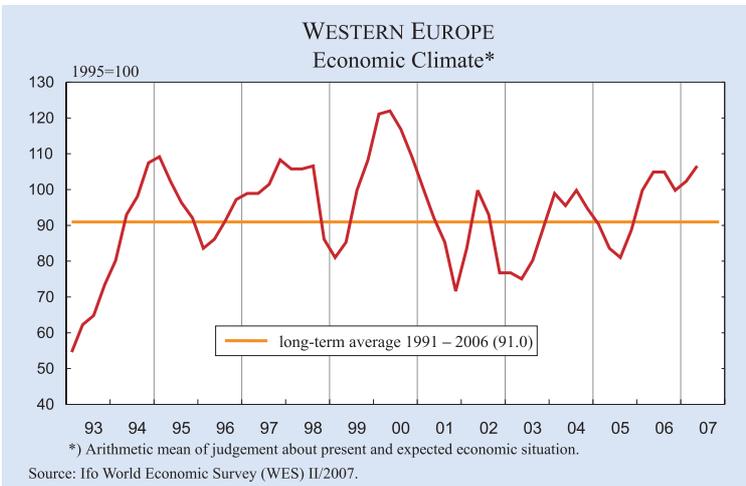
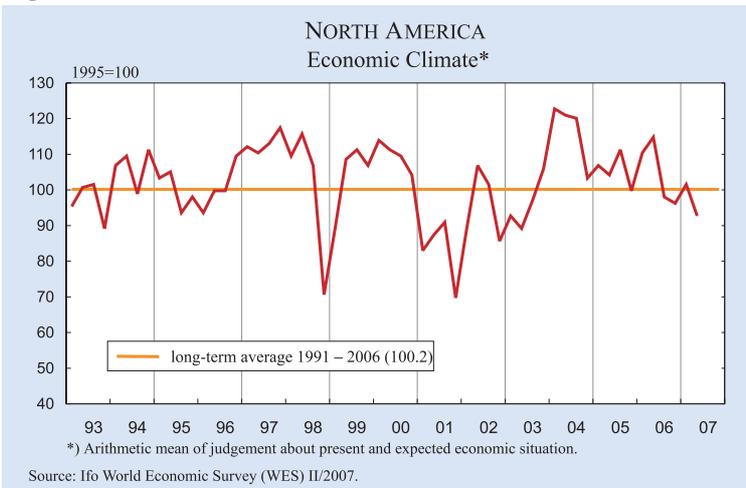
even accelerate somewhat in 2007 (see Figure 4 and Box 2).

In the euro area the highest marks for the present economic performance have been given by the surveyed economists in *Finland, Germany and the Netherlands*. The economic expectations for the next six months are optimistic and have been even upgraded in *Germany* over the January survey. Economic stabilization at the currently favorable level is forecast by the WES experts in *Austria and Belgium*. The economic climate improved somewhat also in *Greece and Italy*, where the present economic situation is now assessed as satisfactory and economic expectations for the coming six months point to an economic stabilization in *Greece* and further economic recovery in *Italy*. A similar pattern of business sentiments prevails in *Slovenia*, which introduced the euro as the country's currency on 1 January, 2007. The present economic situation has been assessed here as very favourable; the outlook for the coming six months remains bright. In *Spain and Ireland*, the present economic performance

has been assessed at a very favourable level too, although the business sentiments relating to the second half of 2007 have cooled somewhat. The current economic situation has again been assessed below the satisfactory level in *France*. The economic expectations, although having picked up somewhat since the January survey, are still rather cautious. The survey was conducted before *France* elected its new president – Nicolas Sarkozy – who is planning to implement a series of economic reforms aimed at ending the economic stagnation. The only country in the euro area where the assessments of the present economic situation have remained considerably below the "satisfactory" level was *Portugal*.

In the Nordic countries outside the euro area – *Sweden, Denmark and Norway* – the assessments of the present economic situation remained highly

Figure 3



favourable. However, the economic expectations have deteriorated somewhat in all three countries, pointing to some economic cooling in the next six months. The same pattern of business sentiments holds for the *United Kingdom* and *Switzerland*. In both countries the present economic performance has again been assessed as positive, but economic expectations have been downgraded, particularly in *Switzerland*.

somewhat lesser degree in *Estonia* and *Romania*. While in *Estonia* and the *Czech Republic* the present economic situation has been assessed with the highest possible marks on the WES scale and in *Romania* at a very favourable level too, the present economic performance in *Hungary* has not yet reached the “satisfactory” level, according to WES experts. Both components of the economic climate index have been

North America: Economic cooling

According to the latest survey results, the economic climate indicator in *North America* deteriorated in April. Both components of the economic climate index – assessments of the present economic situation and economic expectations – have been downgraded (see Figures 3 and Figure 6). This pattern particularly holds for the *US*, while in *Canada* the recent deterioration of the assessments of the current economic performance have been offset by more optimistic expectations for the next six months. In the *USA* growth is projected to remain relatively weak in the further course of 2007.

Central and Eastern Europe: Economic climate remains stable

The economic climate index improved somewhat in Central and Eastern Europe, on average (see Figure 4). The improvement resulted entirely from more optimistic economic expectations, while the assessments of the present economic situation remained stable at a very favourable level (see Figure 8). However, this overall pattern resulted from quite divergent economic trends across the countries of the region.

The forecasts for the next six months have been upgraded particularly strongly in the *Czech Republic* and *Hungary*, and to a

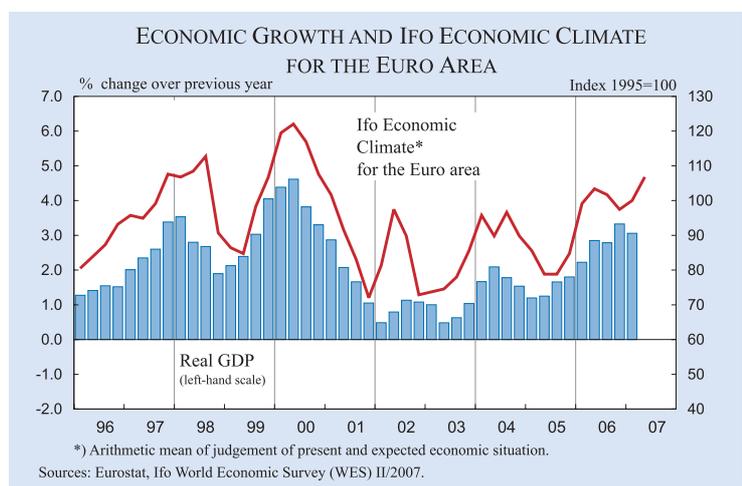
Box 2

World Economic Survey (WES) and GDP Growth in the Euro Area

The Ifo World Economic Climate for the 13 member countries of the euro area (including Slovenia) is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The April results are based on the responses of 264 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate in the euro area has improved again in the second quarter of 2007. The improvement applies to both survey components: the assessments of the current economic situation that have reached a new six-year high and the expectations for the coming six months. The latest survey results indicate a robust economic upswing also in the second half of 2007.

The appraisals of the current economic situation were particularly favourable in Finland, Germany and the Netherlands. Also in Austria, Belgium and Greece the WES experts expect stable development in the coming six months. In Ireland and Spain, however, the survey participants foresee a slight weakening of the economic upswing in the second half of 2007. Also in France, the experts remain sceptical with regard to an acceleration of economic activity in the coming six months. In Slovenia, which joined the euro area on 1 January 2007, the current economic situation has been assessed quite favourably and the six-month outlook remains positive. Within the euro area, only in Portugal was the general economic situation again assessed as poor.



downgraded somewhat in *Bulgaria, Poland, Slovenia* and *Slovakia*. However, in all four countries the surveyed economists judged the present economic situation as far above “satisfactory”. The economic expectations for the next six months point to stabilization at the current favourable level, or even further improvement. Particularly the export sector is expected to strengthen in the course of the coming months. In *Bulgaria* and *Poland* also capital expenditures and private consumption are foreseen to rebound. A highly favourable economic climate continues to prevail in *Lithuania*. In *Latvia* the assessments of the present economic situation have even improved again; however, the surveyed economists expect some cooling in the course of the next six months. In *Croatia*, the assessments of the present economic situation have been downgraded somewhat but remain at the “satisfactory” level. The economic expectations, in contrast, have been upgraded and point to economic revival, with exports and capital expenditures forecast to

strengthen in the second half of 2007. Economic stabilization has been reported by the surveyed WES experts in *Albania*. In *Serbia*, in contrast, WES experts assessed the present economic performance as still weak and remain cautious regarding a turn-around in the coming six months.

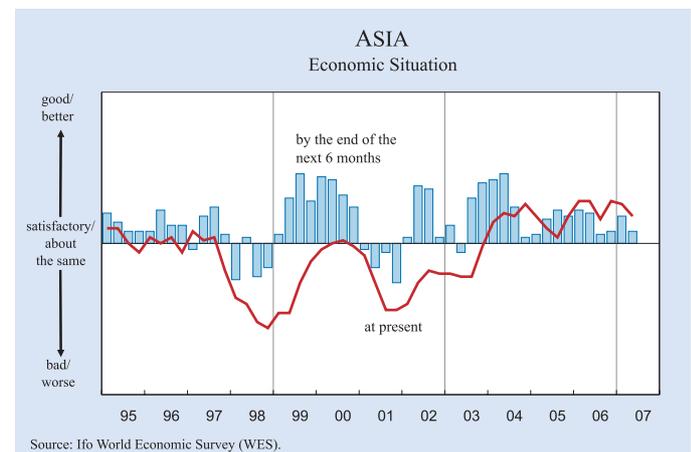
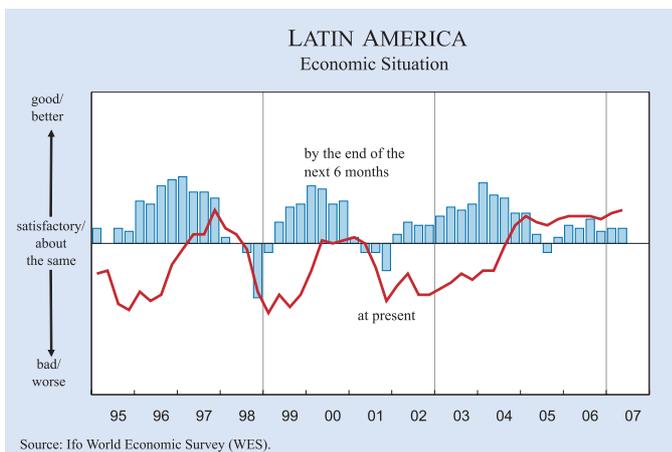
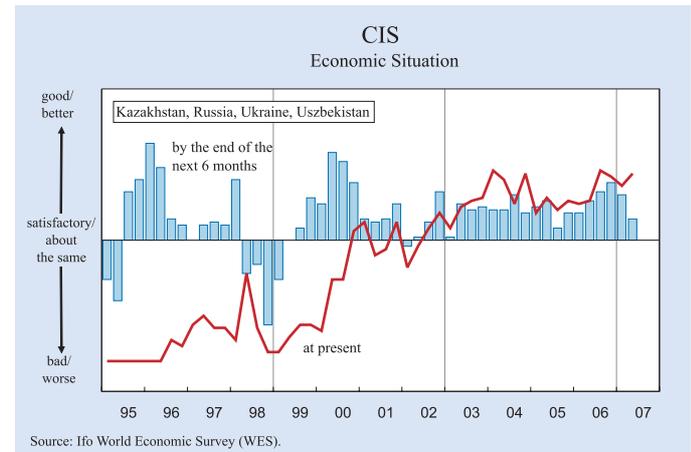
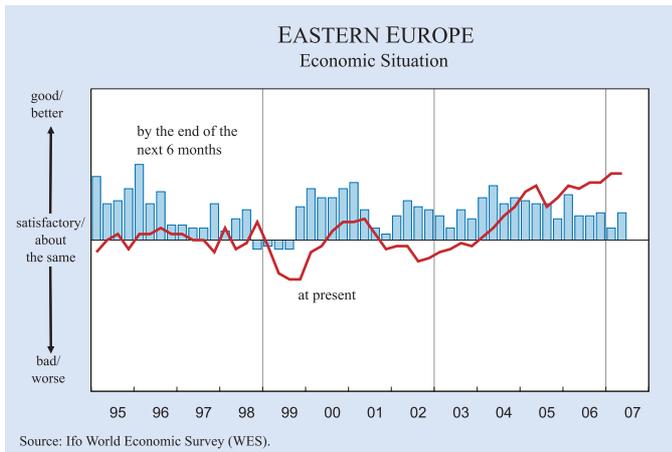
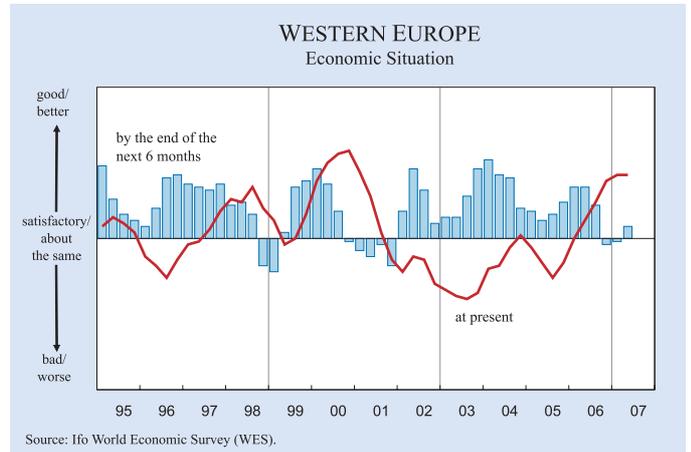
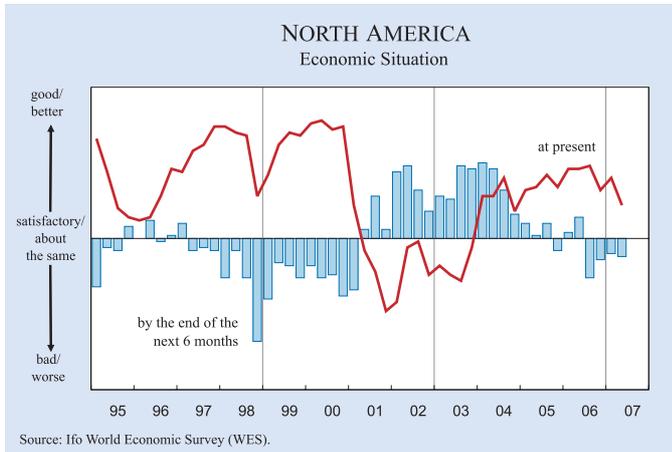
CIS: Favourable economic climate in Russia

The overall economic climate for the CIS countries covered by WES (*Russia, Kazakhstan, Ukraine* and *Kyrgyzstan*) cooled somewhat in April. The slight decrease of the region’s economic climate index resulted primarily from the economic deterioration in the *Ukraine*, where both the assessments of the present economic situation and economic expectations for the next six months have been strongly downgraded. Capital expenditures and private consumption are expected to weaken further here during the summer months. Lack of confidence in the government’s economic policy poses a

major problem to the country’s economy, according to the surveyed WES experts. In contrast, in *Russia*, the economic climate remained positive over the previous January survey. The present economic situation is regarded as “good”. The economic expectations continue to be optimistic. While in Western countries, President Putin has been criticized for a lack of democracy in his internal policy, his government’s economic policy receives better marks, although the surveyed economists see room for further improvements. Lack of international competitiveness and lack of skilled labour are some of the most important economic problems at present in *Russia*, according to the WES panel. The economic climate index improved further in *Kazakhstan*, whose economy similarly to that of *Russia*, continues to benefit from the high oil exports that stimulate capital investment and private consumption. For the first time in the history of WES, economists have also been surveyed in neighbouring *Kyrgyzstan*, although the picture that they draw

Figure 4

SELECTED REGIONS



appears less encouraging. The present economic situation has been assessed as weak. No turn to the better is forecast for the next six months. As the main economic problems, the surveyed economist named “lack of confidence in the government’s economic policy” and “unemployment”.

Asia: Expectations downgraded

The economic climate in Asia has cooled somewhat in April (see Figure 3). However, although somewhat deteriorated, the assessments of the present economic performance remain favourable, on average, for the region. The economic expectations declined also only marginally and continue to promise stable economic development in the course of the next six months. But this overall pattern resulted from very different underlying economic trends across countries of the region.

The deterioration of the Asian economic climate index resulted primarily from the economic cooling in *Japan* and *Hong Kong*. While in *Japan* the surveyed economists have downgraded their forecasts, but still expect the present economic performance to stabilize, further deterioration in the coming months is forecast for the *Hong Kong* economy. The export sector, capital expenditures but also private consumption are foreseen to weaken in the course of the next six months. Also in *India* and *Indonesia*, the prospects for the second half of 2007 have been downgraded but remain generally bright. The present economic performance in *India* is still assessed with very high marks on the WES scale. In the three bordering countries – *Pakistan*, *Bangladesh* and *Sri Lanka* – the present economic performance is forecast to remain stable, according to WES experts. Particularly *Bangladesh* is witnessing high economic growth rates of more than 6 percent per annum. Main impediments to stronger economic expansion are, according to the surveyed economists, pronounced “capital shortages”. In *Sri Lanka* and *Bangladesh*, the surveyed economists expect robust growth in exports in the next six months. However, in *Sri Lanka* the escalation of the armed conflict with the radical separatist Tamil Tigers and their attacks on major military and economic targets in and around Colombo may threaten the country’s economy. In *Indonesia* the surveyed economists assessed the present economic situation as satisfactory. Somewhat less optimistic than in the January survey are the forecasts of the WES experts for

Taiwan and *Thailand*. In both countries the present economic situation was assessed as below “satisfactory”. However, while in *Taiwan* the surveyed economists foresee particularly the export sector and private consumption to rebound, the economists in *Thailand* expect a further weakening in both areas in the next six months. In *Vietnam*, the *Philippines* and *Malaysia* the economic climate improved, according to the WES experts. The present economic situation has been assessed with very positive marks. The economic outlook for the coming months is very optimistic in all three countries, with exports, capital expenditures and private consumption expected to grow in the near-term future. The present economic performance was judged as “satisfactory” in *South Korea*. The economic expectations have been continuously improving since the end of last year and are now pointing to further strengthening in the coming months. Last but not least, the *Chinese* economy remains buoyant, according to the panel’s forecast. Although capital expenditures are foreseen to weaken somewhat in the course of the next six months, private consumption and the export sector are expected to pick up further.

Oceania: Buoyant economy

According to the April survey results, the economic climate strongly improved in *Australia* and *New Zealand*. Both components of the economic climate index have been strongly upgraded in both countries. The surveyed economists expect the *Australian* export sector to rebound strongly in the course of the next six months. In *New Zealand* the surveyed economists remained cautious, although to a somewhat lesser degree than in the beginning of the year. Particularly the capital expenditures have been assessed as weak. Lack of international competitiveness and lack of skilled labour have been named as the country’s major economic problems at present.

Latin America: Favourable economic climate

For more than two years the economic climate index in Latin America has remained stable at a favourable level. The present economic situation is again assessed above the satisfactory level, on average, for all countries surveyed in the region. The outlook for the coming six months continues to point to economic stabilization (see Figure 9).

The assessments of the present economic situation improved further in *Brazil*, where the surveyed economists judged the country's economic performance as "good" in April. The economic expectations point to further strengthening. The export sector, capital expenditures and private consumption are expected to pick up in the next six months, according to WES experts. Also in *Argentina* the present economic performance was assessed at a favourable level. The economic expectations for the next six months are generally positive, particularly with regard to the export sector. Capital expenditures, in contrast, are expected to weaken. The economy in *Mexico* has been on stabilization course for more than one year now, according to WES polls. The present economic situation has been judged as "satisfactory", and the economic expectations point to further stabilization in the course of the next six months. Lack of international competitiveness has been named by the surveyed economists as the major impediment to stronger economic growth. At a highly favourable level is how the present economic performance has been again assessed in *Peru*, *Uruguay* and *Guatemala*. The outlook for the next six months continues to be very bright in all three countries, according to WES experts. The same holds true for *Chile* and *Costa Rica*, where the surveyed economists assessed the present economic performance as very favourable, too, although to a somewhat lesser degree than in the preceding January poll. Also in *Colombia* and *Venezuela* the present economic state has been judged as above the "satisfactory" level. The economic expectations for the next six months, however, remain cloudy. Particularly the export sector is expected to weaken in *Venezuela*, but also capital expenditures and private consumption are forecast to lose some dynamism in the coming months, according to the surveyed economists. In *El Salvador*, *Panama*, *Bolivia* and *Trinidad and Tobago*, the economic situation is expected to remain positive. *Ecuador* was the only country in the region where business confidence strongly slipped in April. The outlook for the coming months appears bleak. Since *Ecuador* adopted the *US* dollar as the country's currency in 2000, its economy has been steadily growing. However, during the election period at the end of 2006, growth slumped as the economy and foreign investors were in doubt about the new President Rafael Correa's economic policy. In April, the surveyed economists judged "lack of confidence in the government's economic policy" as the country's main economic problem.

Near East: Economic climate remains stable

The economic climate remains stable in the majority of countries surveyed in the Near East region (see Figure 10). The present economic situation has again been assessed as highly favourable in the *United Arab Emirates*, *Saudi Arabia* and *Kuwait*. The economic expectations relating to export activity continue to be positive. As "satisfactory" and stable is how economic performance has been judged in *Bahrain*. In contrast, in *Iran* the surveyed economists forecast economic deterioration in the course of the coming months, with export cutbacks and decline in capital expenditures and private consumption activity. In *Israel* the present economic performance has been assessed very positively. However, the economic expectations have been downgraded somewhat. The majority of WES experts foresee a decrease in exports and capital expenditures in the summer months. Also in *Turkey* the forecasts for the next six months have become cautious, although the present economic performance has again been assessed as above the "satisfactory" level by the surveyed economists. The export sector is forecast to remain dynamic, but private consumption and capital expenditures are expected to slow.

Africa: Renewed economic upswing in South Africa

In *South Africa* the economic climate index recovered strongly in January (see Figure 10), after an economic slow-down in 2006. This positive trend continued in April. The present economic situation has been assessed with very high marks on the WES scale. The economic expectations have been strongly upgraded again and point to further strengthening of economic activity in the next six months. Although private consumption is expected to remain weak, capital expenditures and exports are foreseen to act as economic drivers. The present economic situation was described as positive by the surveyed economists in the North African WES countries – *Morocco*, *Tunisia* and *Algeria*. The outlook for the next six months promises a strengthening of the export sector. In contrast, in *Egypt* and *Nigeria* the surveyed economists still judged the present economic situation as "bad". A turnaround is unlikely to happen in the coming months, according to WES experts. However, in both countries the export sector is expected to recover. In *Ghana*, *Kenya* and *Mauritius* the present economic activity has been judged as "satisfactory". The WES experts expect economic stabilization in the course of the coming months

Table 1

Inflation Rate Expectations for 2007
(based on WES QII/2007 and QI/2007)

Region	QII/2007	QI/2007	Region	QII/2007	QI/2007
Average of countries	3.8	3.6	Central a. Latin America	5.9	6.6
<i>World Bank classification:</i>			Argentina	12.5	-
High-income countries	2.2	2.2	Bolivia	6.6	4.2
Middle-income countries	5.6	6.0	Brazil	3.9	3.9
Upper-middle	5.7	6.2	Chile	3.0	3.1
Lower-middle	5.5	5.6	Colombia	5.0	4.5
Low-income countries	28.3	21.4	Costa Rica	8.0	8.9
EU 27 countries	2.3	-	Ecuador	3.5	3.6
EU countries (old members) ¹	2.1	2.2	El Salvador	5.0	4.8
EU countries (new members) ²	3.8	3.7	Guatemala	5.8	4.9
Euro area ³	2.1	2.1	Mexico	4.3	4.2
Asian Pacific Rim ⁴	3.0	3.3	Panama	2.0	1.9
Western Europe	2.1	2.1	Paraguay	10.1	11.6
Austria	1.7	1.8	Peru	1.9	2.1
Belgium	1.9	1.9	Trinidad and Tobago	12.0	9.6
Cyprus	2.5	2.3	Uruguay	6.5	6.5
Denmark	2.0	2.0	Venezuela	17.3	20.0
Finland	2.0	1.9	Asia	2.5	2.8
France	1.6	1.8	Bangladesh	7.2	7.7
Germany	1.9	2.2	China P.R.	2.6	2.7
Greece	3.1	3.1	Hong Kong	2.1	2.8
Iceland	4.0	4.5	India	6.0	5.5
Ireland	4.4	4.0	Indonesia	6.3	6.5
Italy	2.1	2.1	Japan	0.4	0.6
Luxembourg	2.4	2.0	Korea	2.9	3.1
Malta	2.3	2.5	Malaysia	3.1	3.7
Netherlands	1.7	1.6	Nepal	-	8.0
Norway	2.0	1.9	Pakistan	8.0	7.7
Portugal	2.4	2.4	Philippines	4.4	4.7
Spain	2.9	3.1	Singapore	-	-
Sweden	1.9	1.9	Sri Lanka	10.0	14.4
Switzerland	0.8	1.2	Taiwan	1.8	1.6
United Kingdom	2.4	2.7	Thailand	2.6	3.9
Central a. Eastern Europe	3.9	3.9	Vietnam	6.6	7.2
Albania	3.4	3.4	Near East	6.5	6.3
Bulgaria	5.4	4.9	Bahrain	3.5	-
Croatia	2.7	3.0	Iran	15.5	15.5
Czech Republic	2.7	3.0	Israel	1.8	1.6
Estonia	4.5	4.4	Jordan	6.3	5.1
Hungary	6.8	7.2	Kuwait	2.8	2.7
Latvia	6.9	6.7	Lebanon	3.5	3.0
Lithuania	4.0	3.4	Saudi Arabia	2.2	2.0
Poland	2.6	2.3	Turkey	8.3	7.5
Romania	4.7	5.1	United Arab Emirates	8.3	8.0
Serbia	8.7	7.0	Africa	n.a.	n.a.
Slovenia	2.5	2.6	Algeria	4.3	5.0
Slovakia	2.6	2.7	Egypt	6.7	6.5
CIS	8.9	8.8	Kenya	10.9	10.0
Georgia	-	10.0	Mauritius	7.0	8.0
Kazakhstan	8.2	7.6	Morocco	2.0	-
Russia	8.4	8.5	Nigeria	11.0	11.5
Ukraine	11.0	11.1	South Africa	5.5	6.1
Kyrgyzstan	3.9	-	Tunisia	3.7	3.0
North America	2.7	2.4	Zimbabwe	3000.0	2000.0
Canada	2.1	1.9	Oceania	3.2	3.1
USA	2.9	2.5	Australia	3.2	3.2
			New Zealand	3.0	2.8

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

¹ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – ² Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004), Bulgaria and Romania (from 1. January 2007) – ³ Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovenia (from 1. January 2007) – ⁴ Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam.

Source: Ifo World Economic Survey (WES) II/2007 and I/2007.

Figure 5a

EUROPEAN UNION

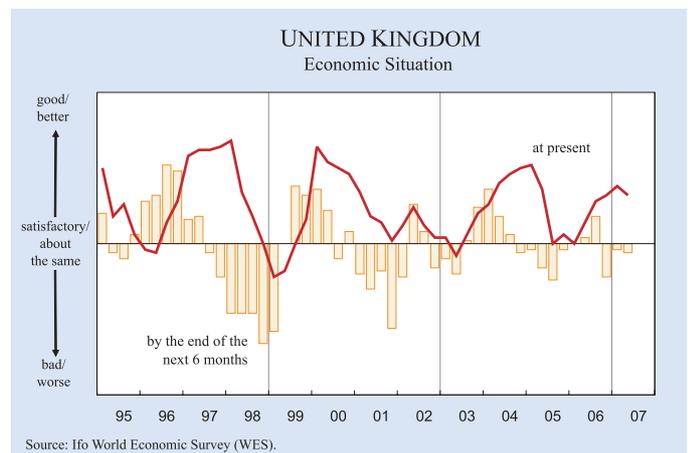
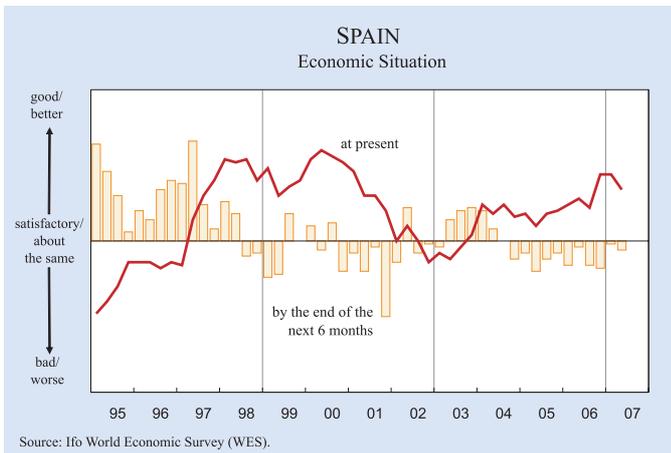
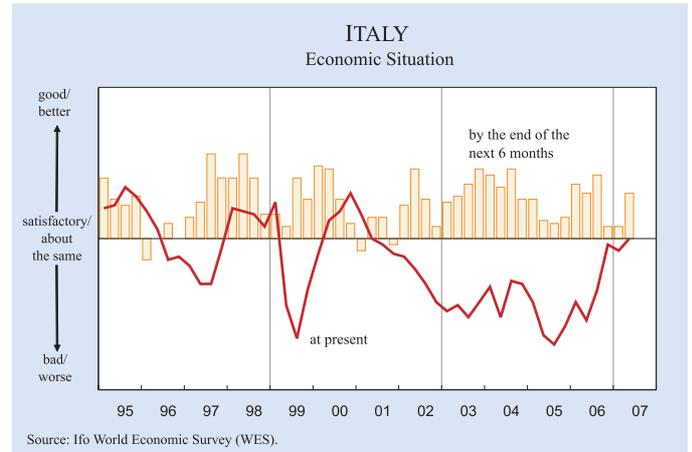
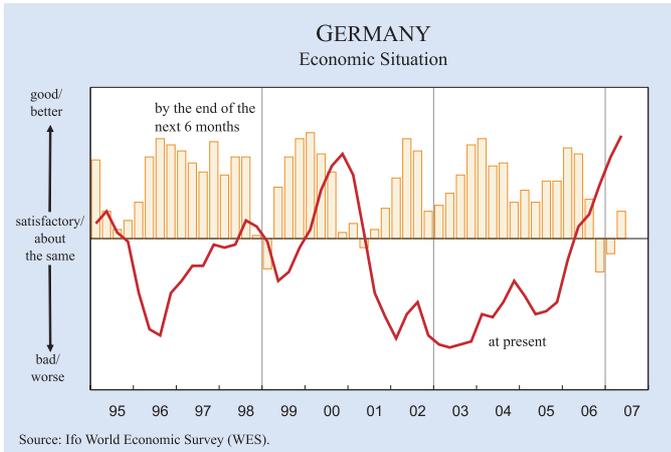
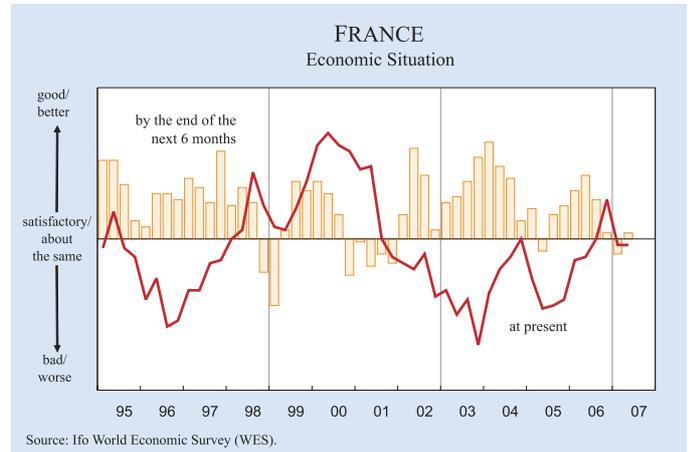
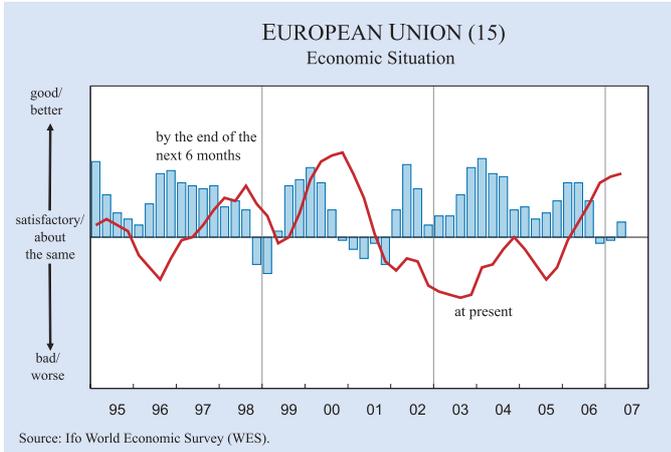


Figure 5b

EUROPEAN UNION

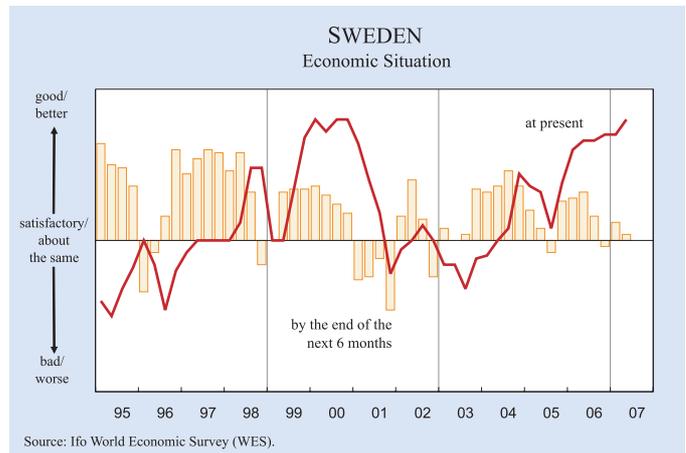
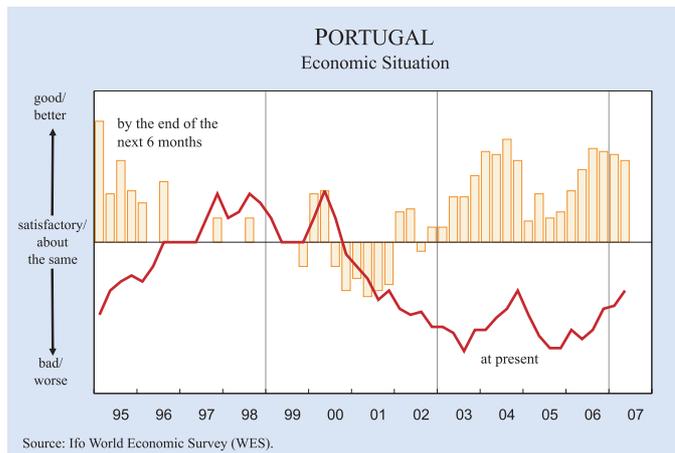
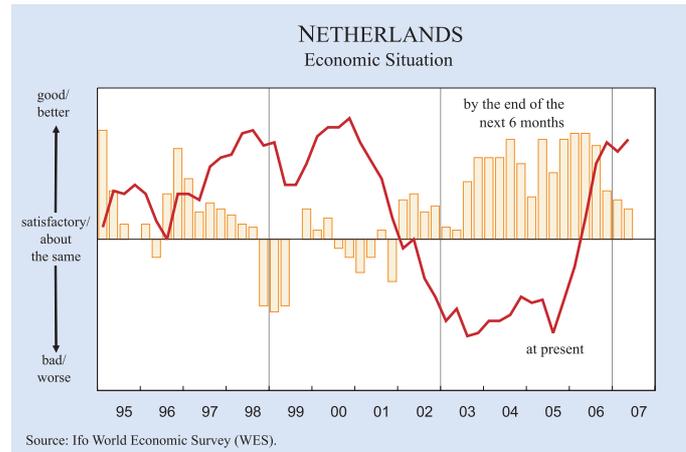
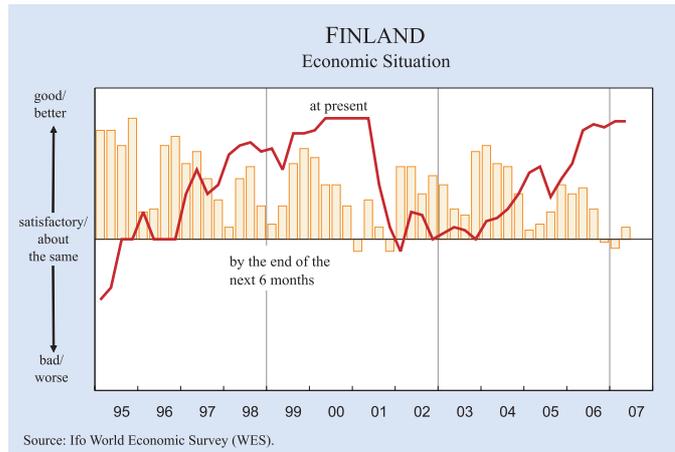
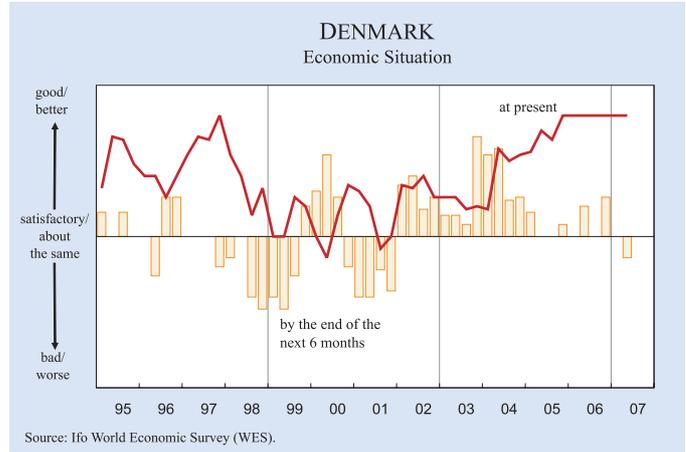
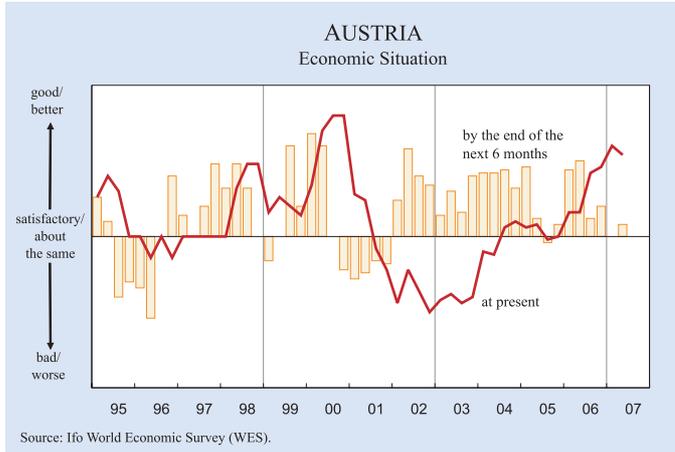


Figure 6

NORTH AMERICA, OCEANIA AND CIS

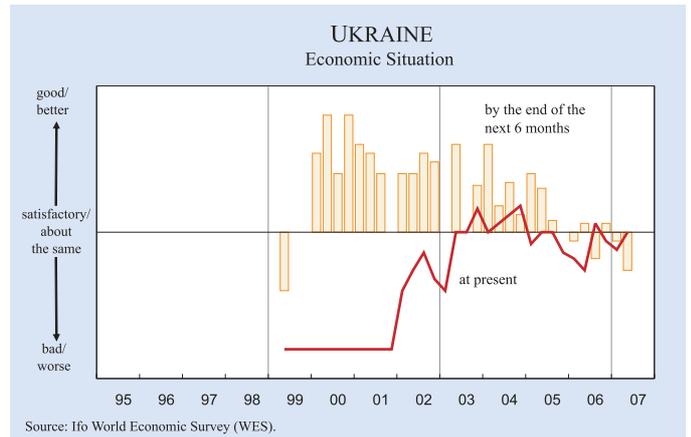
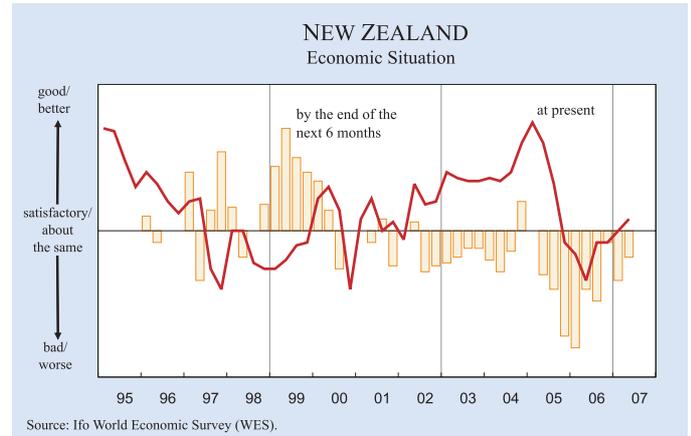
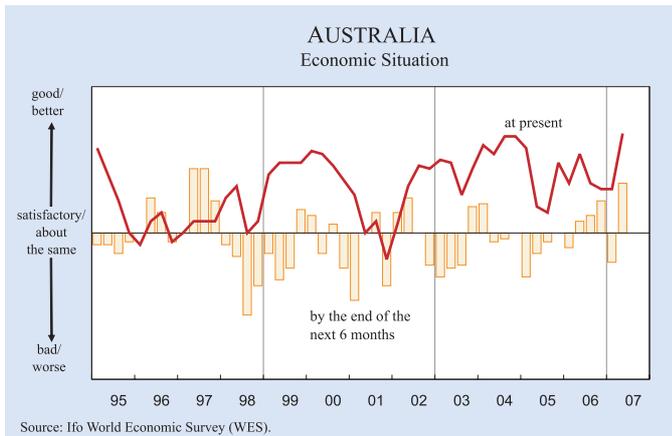
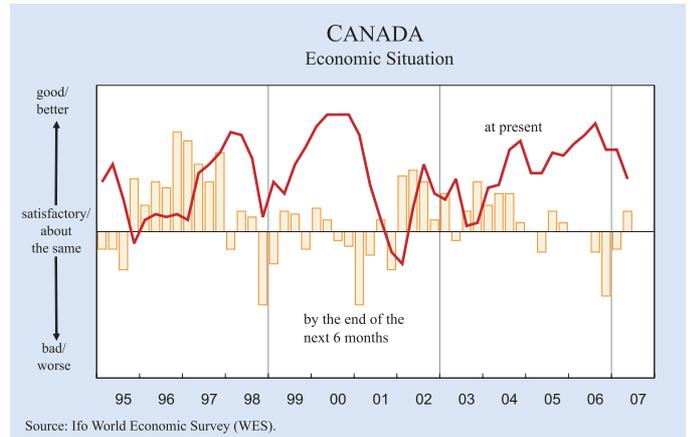
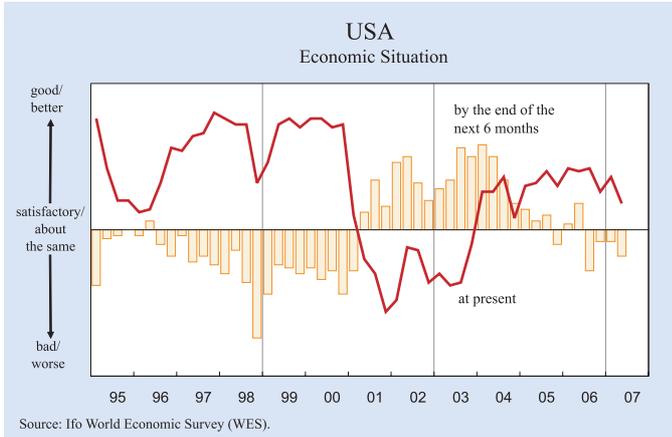


Figure 7

EASTERN EUROPE

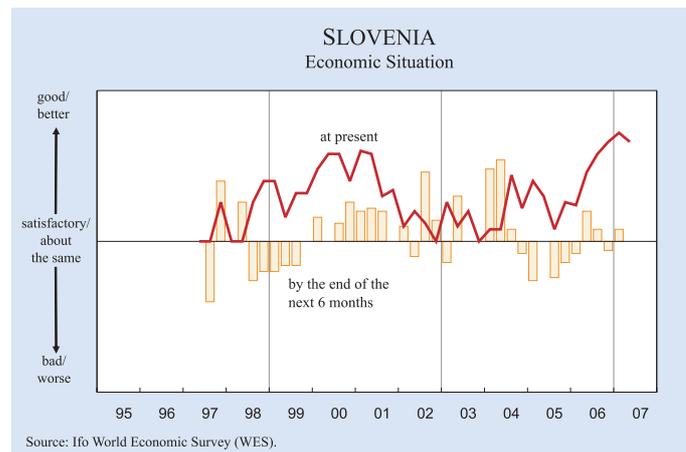
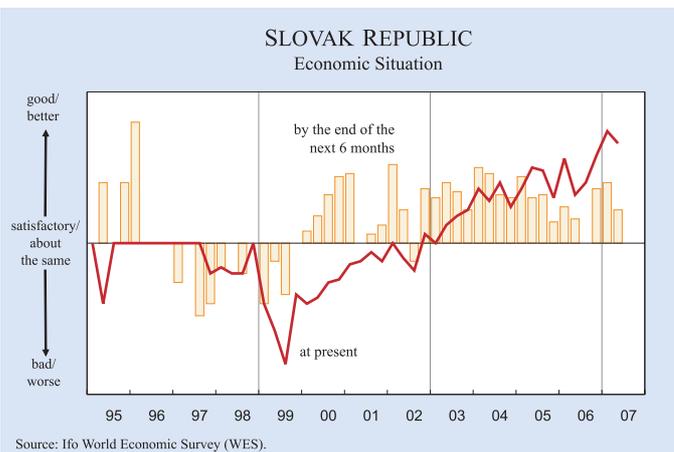
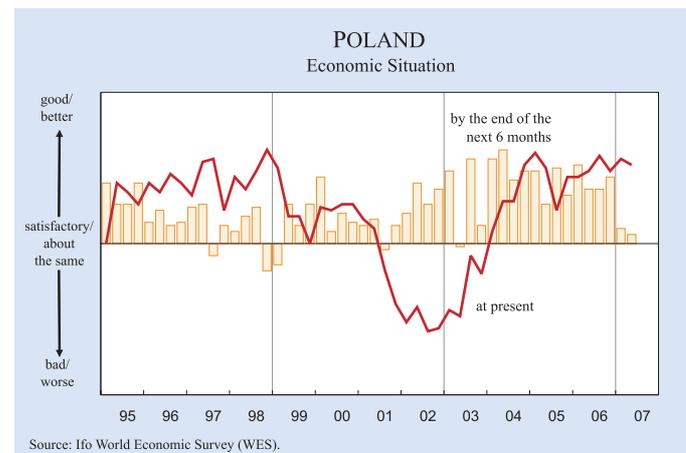
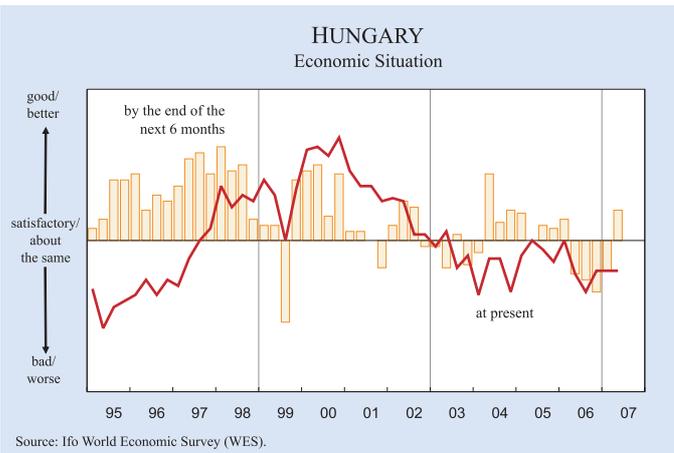
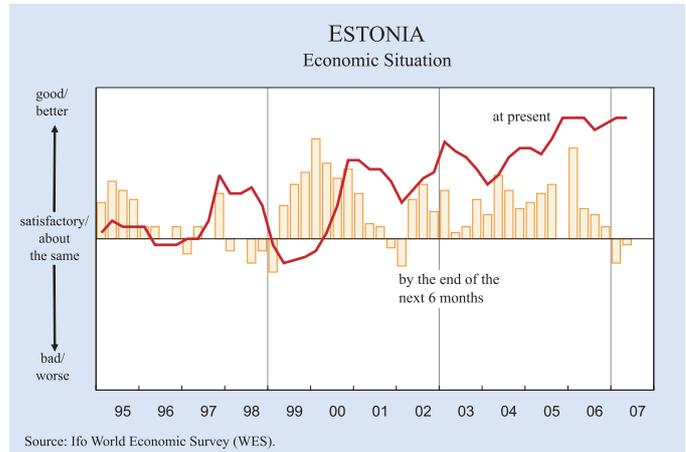
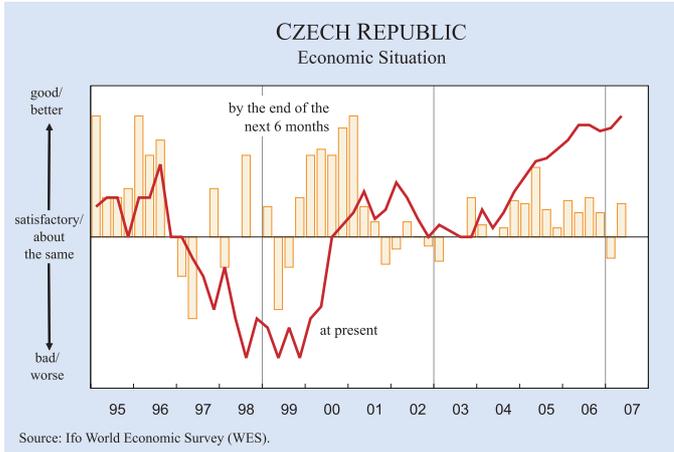


Figure 8

ASIA

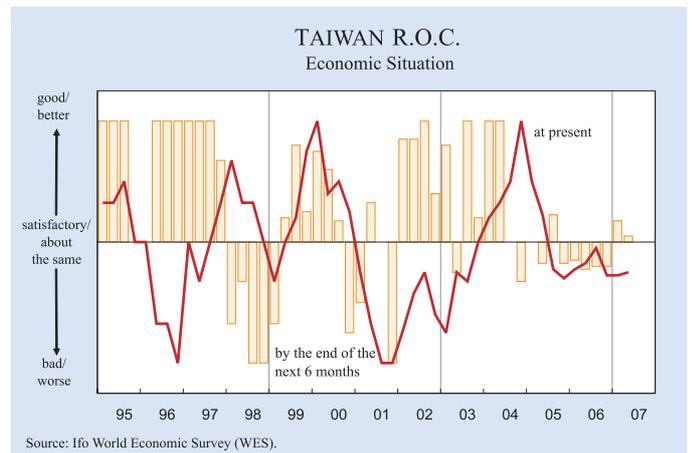
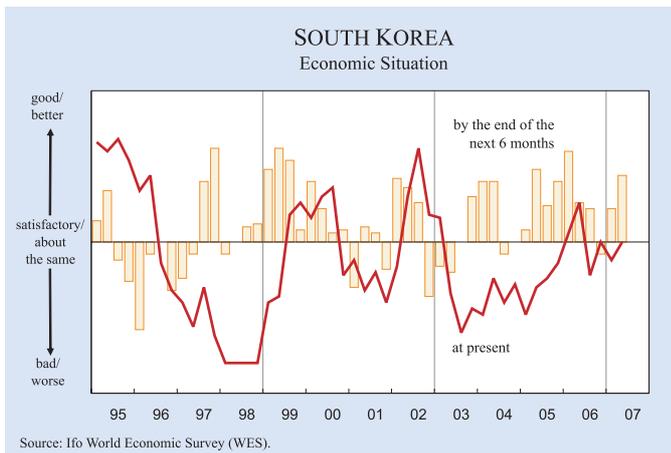
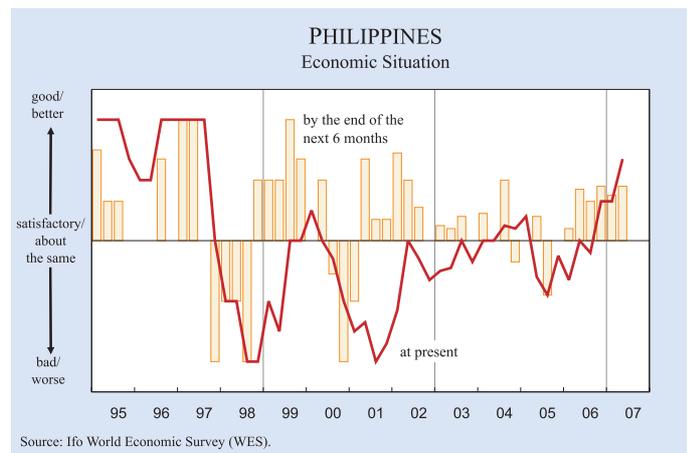
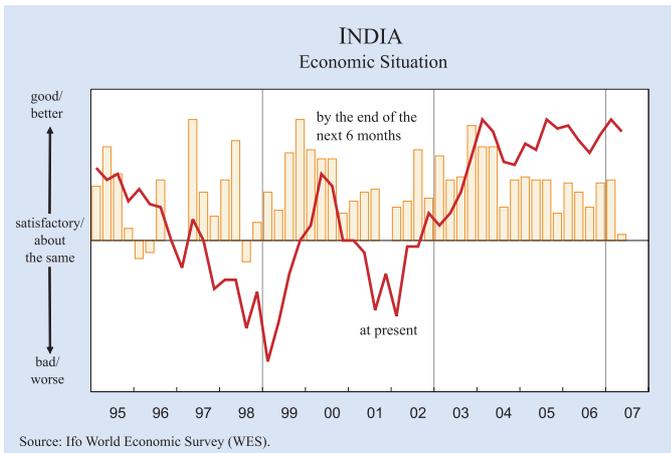
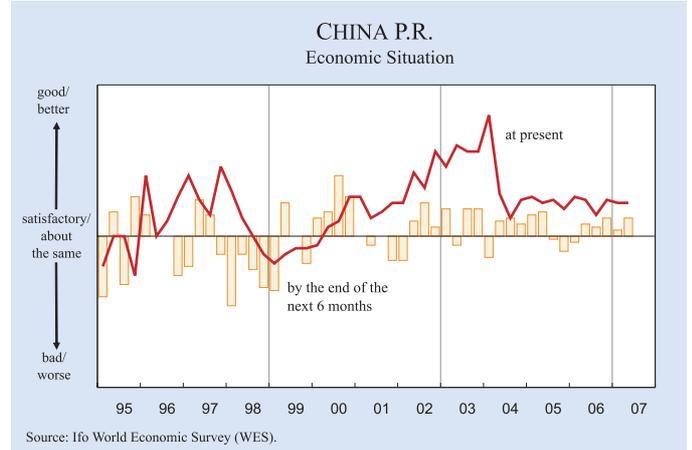
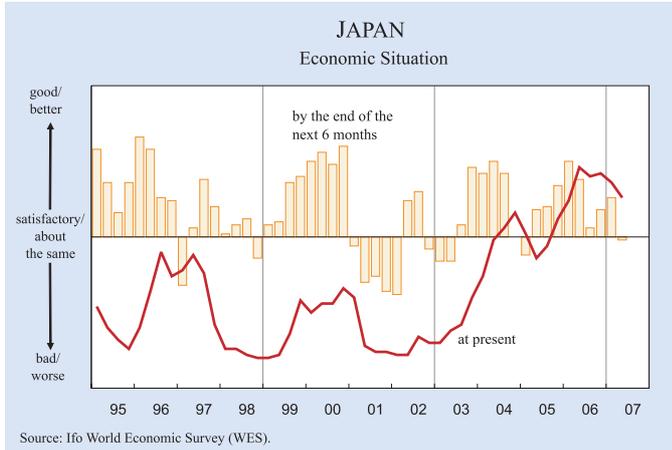


Figure 9

LATIN AMERICA

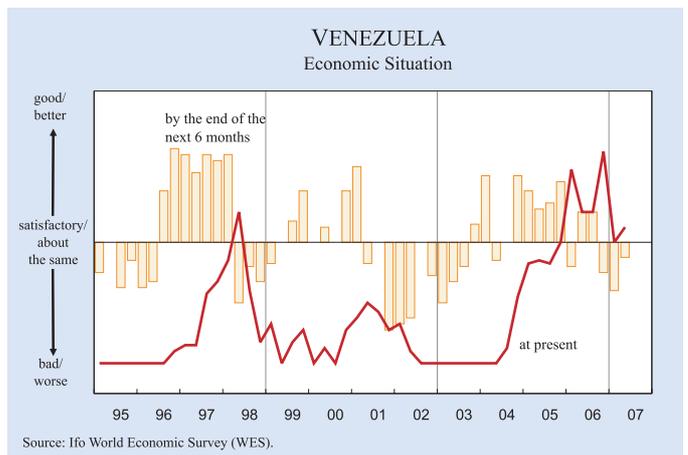
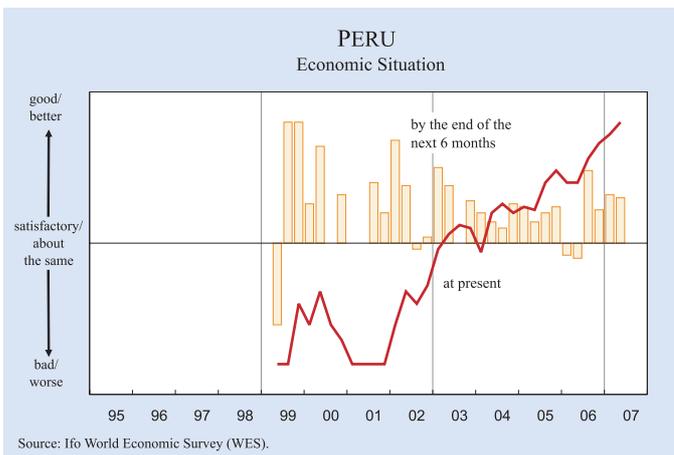
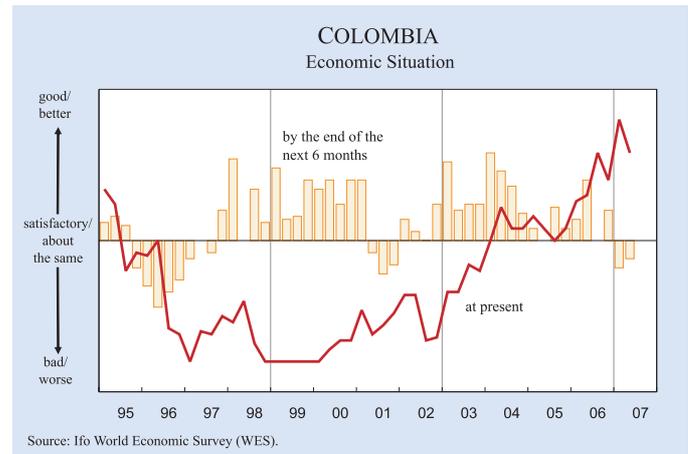
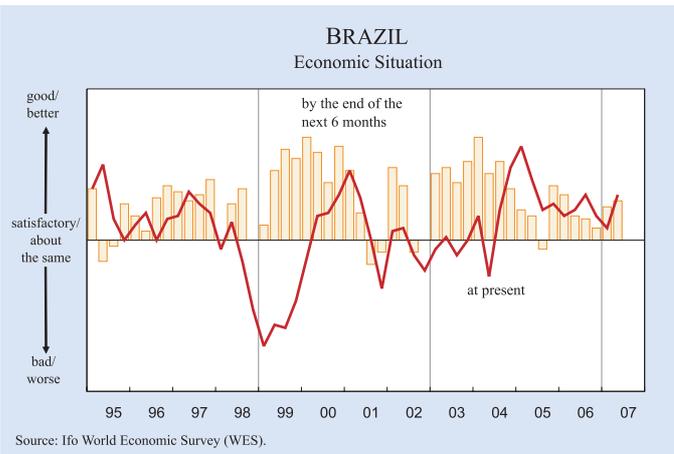
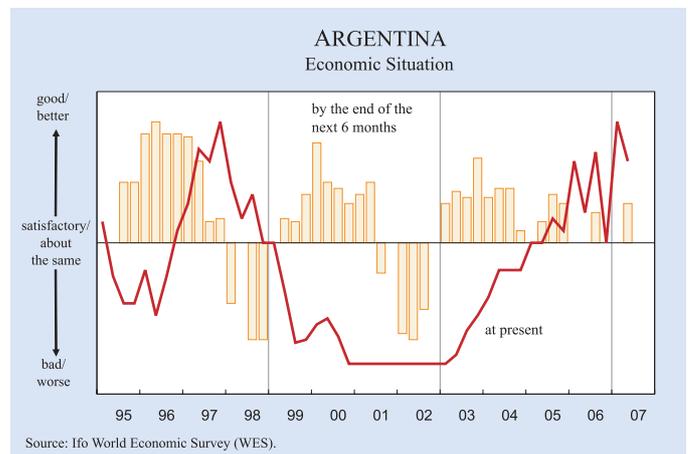
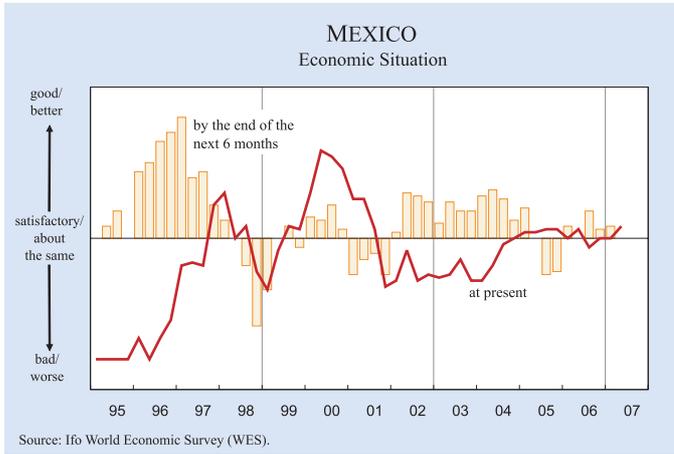
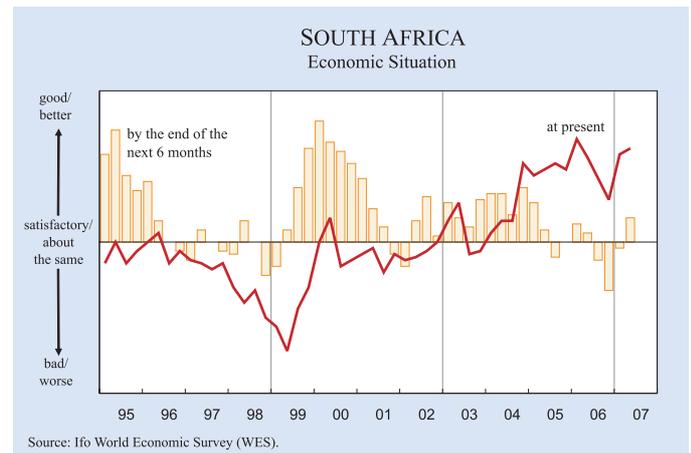
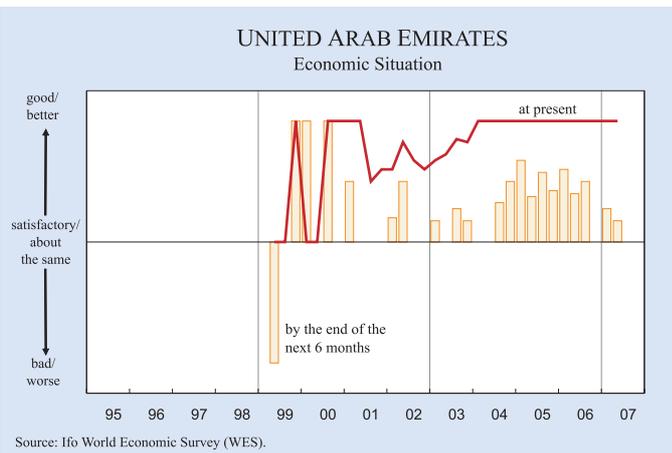
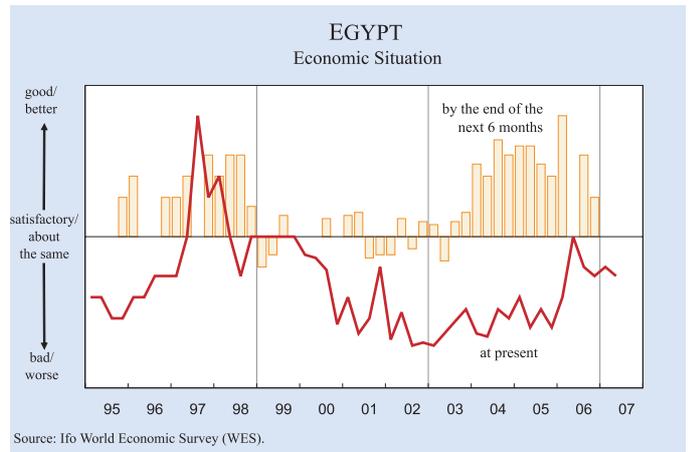
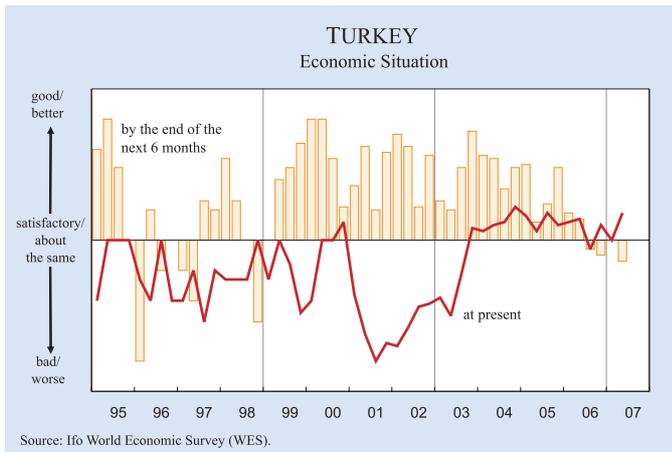
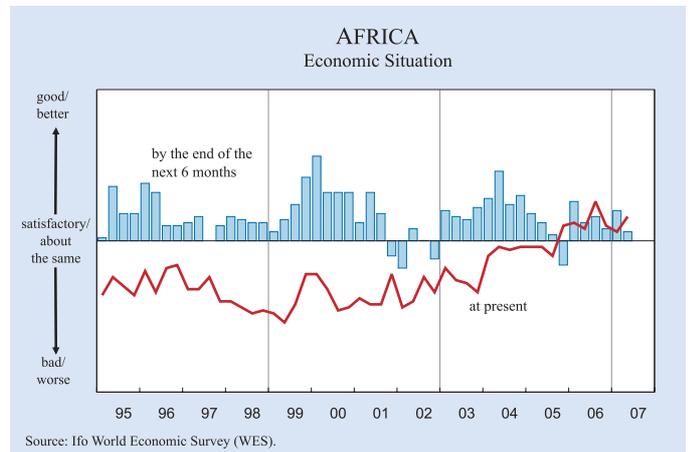
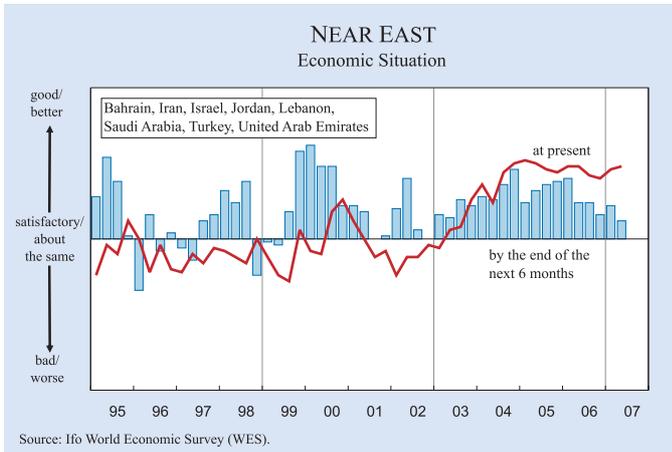


Figure 10

NEAR EAST AND AFRICA



2007: Inflation expected to pick up somewhat

For the year 2007 WES experts expect on a worldwide scale 3.8 percent (see Table 1) inflation, which is slightly higher than had been expected at the beginning of the year (3.6 percent). The increase is mainly restricted to North America (from 2.4 percent to 2.7 percent) and here particularly to the *USA*. WES experts now expect for this year in the *USA* a similarly high inflation rate than was observed in 2006 (2.9 percent) whereas at the beginning of the year a significant slowdown of inflation (towards 2.5 percent) appeared to be the most likely outcome. Outside North America inflation expectations increased to a lesser degree also in the CIS area (from 8.8 percent to 8.9 percent), in Oceania from 3.1 percent to 3.2 percent and in the Near East from 6.3 percent to 6.5 percent. On the other hand inflation expectations remained unchanged in Western Europe (2.1 percent) as well as in Central and Eastern Europe (3.9 percent). They even decreased somewhat in Central and Latin America (from 6.6 percent to 5.9 percent) and in Asia from 2.8 percent to 2.5 percent.

In the *euro area* the inflation outlook for 2007 remained unchanged at 2.1 percent, which would be still somewhat above to the ECB's target of "slightly below 2.0 percent". The highest inflation rates in the euro area in 2007 are again expected in *Ireland* (4.4 percent after an expected 4.0 percent at the beginning of the year). In the two other "high inflation countries" of the euro area, *Spain* and *Greece*, some further progress in bringing down inflation is expected (in *Spain* 2.9 percent compared with 3.1 percent in early 2007 and in *Greece* at least no acceleration of the inflation rate of 3.1 percent is expected). In *Germany* – due to the hike of the regular VAT rate from 16 percent to 19 percent – inflation expectations for 2007 jumped at the beginning of the year to 2.2 percent according to the January WES survey, but have retreated in the meantime again to 1.9 percent. The lowest inflation rates in 2007 are expected to prevail in *France* (1.6 percent), *the Netherlands* (1.7 percent) and *Austria* (1.7 percent).

In *Western Europe* outside the euro area, inflation expectations in 2007 – as in previous years – are particularly low in *Switzerland* (0.8 percent compared to 1.2 percent expected at the beginning of the year). Relatively low inflation in 2007 will remain according to WES experts also in *Sweden* and *Norway* (1.9 percent and 2.0 percent). In the *United Kingdom* the inflation outlook for 2007 has improved somewhat in recent months (2.4 percent after an expected inflation rate of 2.7 percent at the beginning of the year).

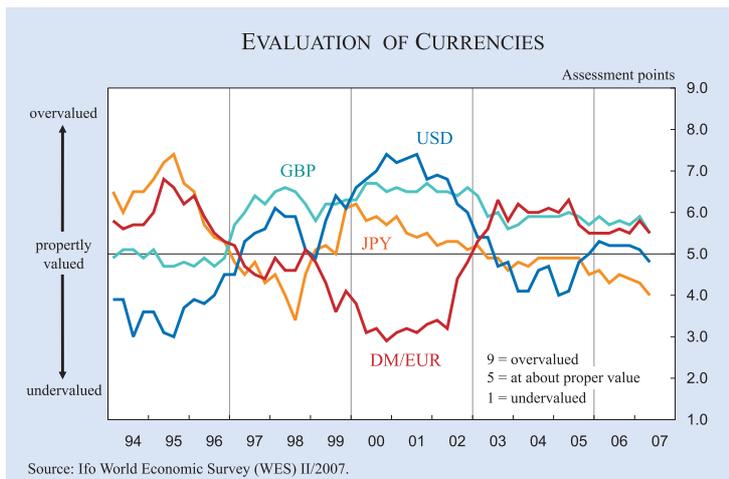
In *North America*, as already mentioned, in the *United States* as well as in *Canada* inflation expectations picked up somewhat (from 2.5 percent to 2.9 percent and from 1.9 percent to 2.1 percent, respectively).

In *Asia* consumer price inflation in 2007 is expected to be somewhat lower than originally expected (2.5 percent compared to 2.8 percent foreseen at the beginning of the year). The lowest inflation rates in 2007, according to WES experts, will continue to prevail in *Japan* at 0.4 percent; the expected increase of consumer prices is even lower than in the January WES survey (0.6 percent). Moderate although slightly higher inflation rates than expected at the beginning of the year characterize *Taiwan* (1.8 percent after 1.6 percent in early 2007). The relatively highest inflation expectations for 2007 prevail again in *Sri Lanka*, though some improvement appears to be likely (10.0 percent against 14.4 percent expected in January) and in *Pakistan* (8.0 percent against 7.7 percent). Also in *Vietnam* and in *Bangladesh* inflation expectations for 2007 stay well above the average in Asia though to a slightly lesser degree than at the beginning of the year (6.6 percent compared to 7.2 percent respectively 7.2 percent against 7.7 percent in *Bangladesh*). In *China* the 2007 inflation outlook has changed only marginally (2.6 percent against a previously expected 2.7 percent).

In *Central and Eastern Europe* inflation in 2007 is seen to remain unchanged at 3.9 percent. The highest rate of inflation this year is expected in *Serbia* (8.7 percent after an originally expected 7.0 percent). Also in *Hungary* and *Latvia* inflation will remain relatively high (close to 7.0 percent) The same holds true for *Romania* and *Bulgaria* where inflation expectations remain clearly above the average of the region. The lowest rate of inflation in the region for 2007 is seen in *Slovenia* (2.5 percent), *Slovakia* and *Poland* (in each case 2.6 percent) as well as in *Croatia* and *Czech Republic* (2.7 percent, which would be somewhat lower than the 3.0 percent expected at the beginning of the year).

In the *CIS* countries inflation expectations picked up slightly (8.9 percent) but remained below the 10 percent mark. Whereas in *Russia* inflation expectations declined marginally from January to April 2007 (from 8.5 percent to 8.4 percent) they increased somewhat in *Kazakhstan* (from 7.6 percent to 8.2 percent). In the *Ukraine* the inflation rate in 2007 is expected to remain at around 11 percent.

Figure 11



Positive news from the inflation front come this time from *Central and Latin America* where inflation expectations for 2007 are now lower than at the beginning of the year (5.9 percent compared to 6.6 percent in the January WES survey). However, this was caused mainly by a few countries – particularly *Venezuela* and to a lesser degree *Costa Rica* – and is not a widespread phenomenon in this region. In most of the other countries in the region the 2007 inflation outlook is about the same as at the beginning of the year (*Brazil*: unchanged at 3.9 percent; *Chile*: 3.0 percent compared to 3.1 percent; *Mexico*: 4.3 percent compared to 4.2 percent; *Peru* 1.9 percent compared to 2.1 percent).

In the *Near East* the inflation outlook for 2007 is now slightly worse than at the beginning of the year: 6.5 percent compared to 6.3 percent. This can be blamed mainly on *Turkey* (8.3 percent compared to 7.5 percent) and *Jordan* (6.3 percent compared to 5.1 percent). By far the lowest inflation rates in the region will prevail again in *Saudi Arabia* (2.2 percent) and in *Israel* (1.8 percent).

In *Oceania* an inflation rate of 3.2 percent is now expected for 2007; this is only marginally higher than expected at the beginning of the year (3.1 percent). The 2007 inflation outlook in *Australia* and in *New Zealand* is very similar (around 3 percent).

In *Africa*, by far the highest inflation rate in the world is expected also in this survey round by WES experts in *Zimbabwe* (3000 percent after 2000 percent at the beginning of the year). In other African countries again no clear inflation trend can be observed: In *South Africa* 2007 inflation is expected to be somewhat lower than at the beginning of the year (5.5 percent compared with 6.1 percent), whereas the oppo-

site is true in *Nigeria* (11.0 percent compared with 11.5 percent at the beginning of the year) as well as in *Tunisia* (3.7 percent compared to 3.0 percent) and in *Egypt* (6.7 percent compared with 6.5 percent).

Japanese yen remains undervalued

The number of WES experts regarding the *Japanese yen* as undervalued has increased further (see Figure 11). To a lesser degree also the *US dollar* was regarded by

WES experts as undervalued. On the other hand, both the *British pound* and the *euro* were regarded again as somewhat overvalued.

A supplementary survey question has been asked on the likely development of the *US dollar* in the next six months, regardless of how currencies have been assessed from a fundamental point of view. According to the answers to this question, on balance, a further weakening of the *US dollar* in relation to other currencies is expected in the course of the next six months. This is the case in Western Europe (particularly in *Norway*), in Asia (here particularly in *China*, *Malaysia*, *Thailand* and *Taiwan*) and also in *Russia*, *Kazakhstan* and *Kyrgyzstan*.

Exceptions from the general trend of a weakening *US dollar* are again mainly Latin American countries as well as countries in Africa and the Near East, where the *US dollar* is expected to gain in value. Also in *Canada* and *New Zealand* a continued moderate upward trend is seen for the *US dollar* in the course of the next six months.

In most Eastern European countries the *US dollar* is expected to remain more or less stable vis-à-vis the individual currencies of this region; exceptions from this general trend are again *Estonia*, *Czech Republic*, *Slovakia* and also *Romania*, where WES experts expect some weakening of the *US dollar* in the course of the next six months.

Interest rates: upward trend is slowing down further

In contrast to the previous two surveys the number of WES experts expecting higher *short-term interest*

Figure 12

ACTUAL SHORT-TERM INTEREST RATES AND EXPECTED TREND FOR THE NEXT 6 MONTHS (QUARTERLY DATA)

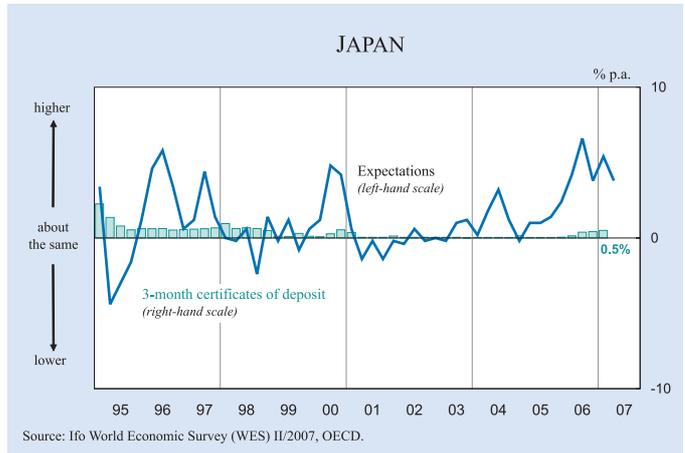
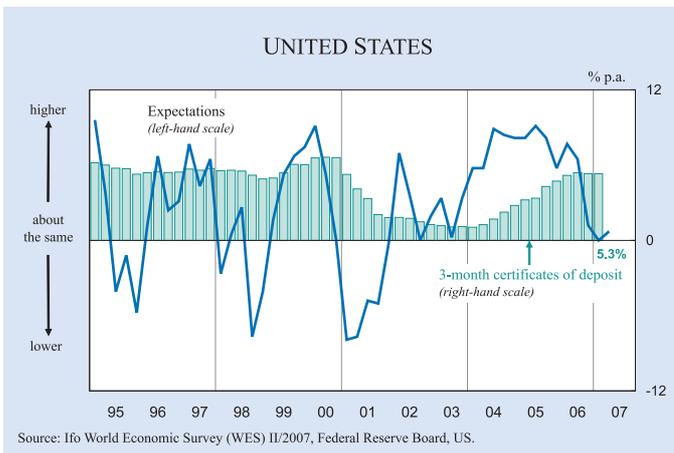
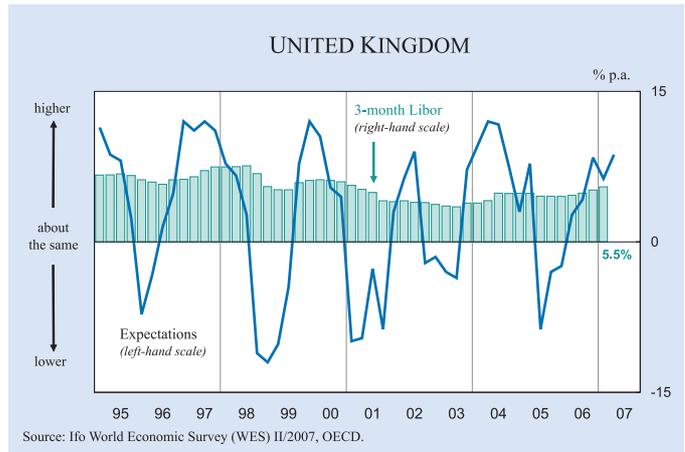
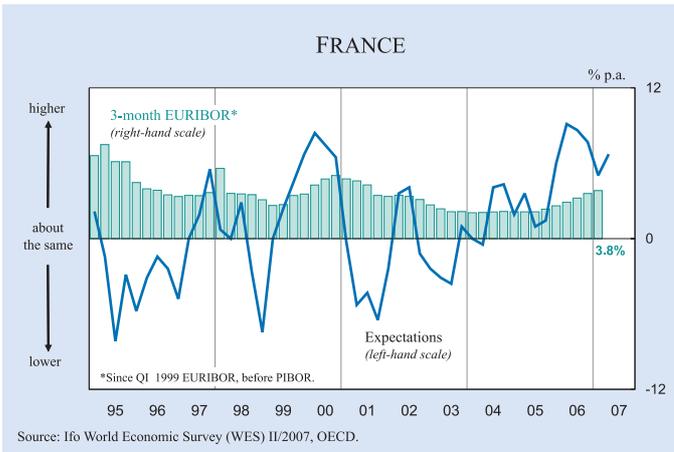
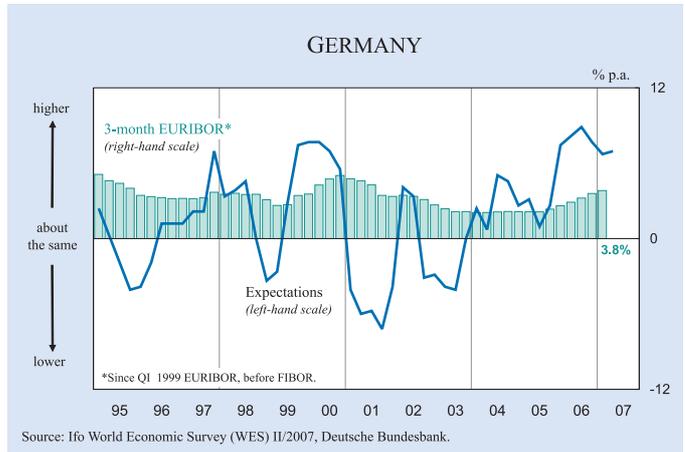
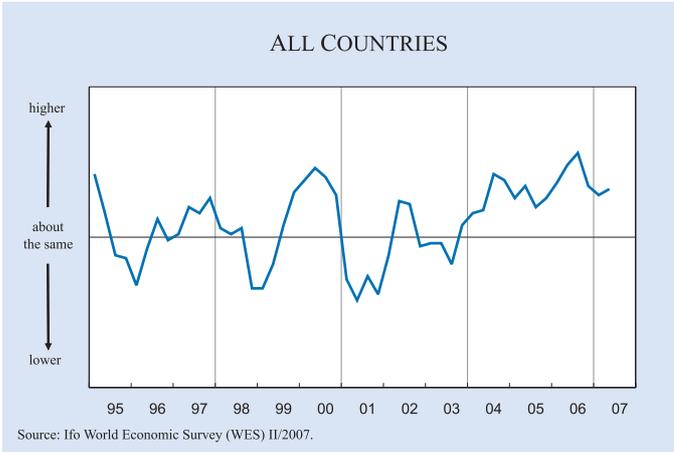


Table 2

Expected Growth of Real Gross Domestic Product (GDP) in 2007 and 2006
(based on WES QII/2007 and QII/2006)

Region	QII/2007	QII/2006	Region	QII/2007	QII/2006
Average of countries	3.5	3.3	Central a. Latin America	4.5	3.9
<i>World Bank classification:</i>			Argentina	6.8	6.0
High-income countries	2.8	2.9	Bolivia	4.3	4.4
Middle-income countries	5.4	4.9	Brazil	3.9	3.7
Upper-middle	5.3	4.8	Chile	4.8	5.9
Lower-middle	5.6	5.2	Colombia	5.5	4.6
Low-income countries	7.0	6.7	Costa Rica	5.3	4.2
EU 27 countries	2.8	-	Ecuador	3.3	3.2
EU countries (old members) ¹	2.5	2.2	El Salvador	3.5	2.9
EU countries (new members) ²	5.4	4.7	Guatemala	3.5	-
Euro area ³	2.5	2.1	Mexico	3.5	3.3
Asian Pacific Rim ⁴	5.0	5.0	Panama	6.9	5.5
Western Europe	2.5	2.2	Paraguay	4.3	2.9
Austria	2.7	2.3	Peru	7.0	4.9
Belgium	2.5	2.2	Trinidad and Tobago	7.0	-
Cyprus	3.8	3.8	Uruguay	5.3	4.7
Denmark	2.5	2.7	Venezuela	7.3	6.2
Finland	3.0	3.5	Asia	4.5	4.6
France	2.1	1.9	Bangladesh	6.4	6.2
Germany	2.2	1.8	China P.R.	9.4	8.8
Greece	3.6	3.4	Hong Kong	5.4	5.2
Iceland	2.0	5.0	India	8.3	8.0
Ireland	4.7	4.7	Indonesia	6.1	5.4
Italy	2.0	1.0	Japan	1.9	2.4
Luxembourg	4.4	4.0	Korea	4.5	4.7
Malta	3.5	1.8	Malaysia	5.5	5.5
Netherlands	2.7	2.5	Nepal	-	-
Norway	3.2	3.1	Pakistan	6.7	6.4
Portugal	1.7	1.0	Philippines	5.7	5.3
Spain	3.3	3.0	Singapore	-	5.4
Sweden	3.5	3.4	Sri Lanka	7.8	5.5
Switzerland	2.1	2.0	Taiwan	3.8	4.0
United Kingdom	2.8	2.3	Thailand	4.1	4.5
Central a. Eastern Europe	5.4	4.7	Vietnam	7.3	7.6
Albania	5.0	5.6	Near East	5.3	6.1
Bosnia Herzegovina	-	6.0	Bahrain	3.5	5.5
Bulgaria	6.0	5.0	Iran	4.8	4.5
Croatia	4.2	4.2	Israel	4.8	4.0
Czech Republic	5.4	4.9	Jordan	7.3	5.3
Estonia	9.2	8.0	Kuwait	4.0	-
Hungary	2.9	4.0	Lebanon	3.0	2.5
Latvia	8.8	7.8	Saudi Arabia	3.5	5.6
Lithuania	6.6	6.7	Turkey	4.9	5.1
Poland	5.8	4.3	United Arab Emirates	8.5	8.9
Romania	6.3	4.6	Africa	n.a.	n.a.
Serbia	5.5	5.7	Algeria	5.0	6.7
Slovenia	4.5	4.1	Egypt	6.0	5.0
Slovakia	8.2	5.4	Kenya	5.5	-
CIS	6.6	5.5	Mauritius	5.0	3.0
Kazakhstan	9.7	8.5	Morocco	5.5	5.4
Kyrgyzstan	4.8	-	Nigeria	6.0	6.5
Russia	6.6	5.8	South Africa	4.8	4.6
Ukraine	5.4	2.8	Tunisia	5.3	5.5
North America	2.5	3.1	Zimbabwe	-6.1	-4.0
Canada	2.5	3.0	Oceania	3.1	2.8
USA	2.4	3.1	Australia	3.2	3.1
			New Zealand	2.3	1.3

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

¹ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – ² Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1, May 2004), Bulgaria and Romania (from 1. January 2007) – ³ Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovenia (from 1. January 2007) – ⁴ Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam.

Source: Ifo World Economic Survey (WES) II/2007 and II/2006.

rates in the course of the next six months has increased somewhat (see Figure 12). Thus there is no further evidence from the WES data that the pace of interest rate hikes will slow in the near future. This shift in responses is probably due to rising inflation expectations in a number of countries. *Long-term interest rates* are expected to remain stable around the current level in the second half of 2007.

In the *euro area* the number of WES experts expecting a further increase of short-term and long-term interest rates did not shrink further, as in the previous three surveys, but increased somewhat. The experts expecting a continuation of the upward trend are still clearly in the majority. Thus, there still seems to be some upward leeway before the peak in interest rates is reached.

Also in *Western Europe* outside the euro area both types of interest rates are expected to increase further, though in the case of long-term rates at a slower pace than in the recent past (so in *Denmark, United Kingdom, Sweden* and *Switzerland*); only in *Norway* is some softening of the upward trend of interest rates now expected.

In *North America*, in the *USA*, WES data no longer provide a clear signal that the upward trend of short-term interest rates has come to an end; the number of WES experts expecting further interest rate hike(s) by the Fed has slightly increased. With regard to long-term interest rates, however, the trend of slowing rate increases has continued. In *Canada*, WES experts expect a stabilization of short-term rates at the current level and, differently from the previous survey, an increase of long-term interest rates in the course of the next six months.

In *Eastern Europe* the upward trend of short- and long-term interest rates is expected to slow further in coming months, with the exception of *Poland*, the *Czech Republic* and *Slovenia* where both short- and long-term interest rates are forecast to increase more than previously expected in the coming six months.

In the *CIS* countries, particularly in *Russia*, the trend of shrinking interest rates will continue in coming months according to WES experts, though with a tendency to level off in the course of the second half of 2007.

In *Latin America* more or less stable short- and also long-term interest rates are expected in the coming six months. However, there are strong differences

between countries: In *Brazil* the downward trend of interest rates has been going on for quite some time and is expected to continue in coming months, though the scope for further rate cuts appears to be getting smaller. In *Argentina* short-term interest rates are expected to be increased further in the next six months and, differently from the previous survey, also long-term interest rates are expected to rise in the near future. In *Chile*, both short- and long-term interest rates are no longer expected to decline further, but to stabilize at their current level.

In *Asia* the upward trend of interest rates will, according to WES experts, slow down further in the next six months. The situation in the individual countries is not uniform, however: In *Indonesia, Hong Kong* and *Thailand*, both short- and long-term interest rates are expected to decline in coming months. On the other hand, some increase of short-term rates is expected in *India* and *China* but also in *Japan* and *South Korea*.

Stronger growth expected in 2007 than at the same time last year for 2006

On a worldwide average, economic growth is expected to reach 3.5 percent this year (see Table 2), which would be slightly higher than the figure (3.3 percent) expected last year at this time, according to WES. Higher growth rates than last year are expected mainly in Western Europe (2.5 percent compared with 2.2 percent in April 2006), in Central and Eastern Europe (5.4 percent compared to 4.7 percent), CIS countries (6.6 percent compared to 5.5 percent), Central and Latin America (4.5 percent compared to 3.9 percent) and Oceania (3.1 percent compared to 2.8 percent).

On the other hand growth prospects are assessed this year as worse than last year in North America (2.5 percent compared to 3.1 percent) and the Near East (5.3 percent compared to 6.1 percent). In Asia the growth-outlook for the current year is almost identical with that reported last year (4.5 percent compared with 4.6 percent).

¹ Country economic growth rate is the GDP in constant prices. Within each country group or region, as well as for the world GDP forecast, the country results are weighted according to the share of the specific country's exports and imports in total world trade. These global GDP growth rates are different from the world GDP growth that is calculated using purchasing power parities as country specific weights, as applied by the IMF forecasts

Table 3

Rating of Potential Consequences to the New Tide of Investment Protectionism by the Governments under the Pretext of Protecting "Strategic Sectors"

Country	Damages investment climate	Increases costs	Decreases competitiveness	Forces companies to alternative markets
Western Europe	6.0	5.9	6.6	5.2
Austria	5.7	6.3	5.0	6.3
Belgium	6.1	6.3	7.4	5.2
Denmark	7.0	6.0	8.0	5.0
Finland	6.7	6.0	7.2	4.9
France	4.9	4.6	5.8	4.8
Germany	6.4	6.1	6.4	5.6
Greece	5.8	6.0	7.3	6.2
Ireland	7.5	5.0	5.0	4.0
Italy	6.6	5.9	7.4	5.9
Netherlands	5.4	5.7	7.0	3.9
Norway	3.0	5.0	5.7	3.7
Portugal	5.8	6.3	6.3	6.0
Spain	6.5	6.0	8.0	5.8
Sweden	6.7	6.5	6.2	5.8
Switzerland	5.7	6.5	7.6	5.5
United Kingdom	6.6	5.4	5.2	4.1
North America	6.3	5.7	6.9	5.0
Canada	6.3	5.8	7.5	5.0
United States	6.3	5.6	6.3	5.0
Latin America	7.1	5.7	6.4	6.8
Bolivia	8.3	5.0	6.3	5.7
Brazil	5.9	6.4	6.7	7.1
Chile	7.0	5.8	5.8	7.0
Colombia	7.7	6.3	6.3	8.3
Ecuador	8.2	4.2	5.8	6.6
Mexico	5.0	5.0	6.6	6.8
Paraguay	7.4	5.8	7.4	4.6
Peru	7.0	6.3	6.3	6.3
Uruguay	6.3	5.7	5.0	7.0
Venezuela	8.3	6.1	7.5	8.4
Oceania	5.4	6.0	5.9	5.7
Australia	4.7	5.3	4.7	5.3
New Zealand	6.1	6.7	7.0	6.1
Asia	7.2	6.1	6.7	6.4
China	5.9	5.9	5.9	5.4
Hong Kong	8.5	4.5	5.5	7.0
India	7.2	6.3	6.6	6.6
Indonesia	7.4	6.3	7.0	5.2
Japan	5.9	7.0	6.3	5.5
Malaysia	7.3	5.8	7.0	6.0
Pakistan	8.3	7.7	7.7	7.7
Philippines	6.2	6.2	7.8	7.0
South Korea	7.5	5.3	6.3	5.0
Taiwan	7.0	5.7	7.0	7.8
Thailand	8.0	6.5	6.8	6.8
Near East	4.8	5.6	6.5	6.9
Israel	4.6	5.4	6.6	7.8
Turkey	6.4	7.4	7.0	6.8
United Arab Emirates	3.5	4.0	6.0	6.0
South Africa	7.3	6.7	7.6	6.8
CIS	6.7	5.3	5.9	5.4
Kyrgystan	6.0	4.0	4.5	4.0
Russia	6.8	5.8	7.1	5.5
Ukraine	7.3	6.0	6.0	6.7
Central- and Eastern	6.5	6.0	7.0	5.8
Albania	6.3	5.0	7.0	5.0
Bulgaria	6.5	6.1	7.7	5.4
Croatia	7.4	6.2	7.0	6.2
Czech Republic	6.3	5.9	6.4	5.9
Hungary	7.3	7.7	7.3	6.7
Latvia	5.0	7.0	7.0	5.0
Lithuania	6.6	5.4	6.2	5.4
Poland	6.3	6.1	6.5	6.2
Romania	6.7	6.3	7.7	7.3
Serbia	8.0	7.3	7.7	5.7
Slovakia	5.3	4.5	5.8	4.8
Slovenia	6.0	4.5	7.3	5.5

* Only countries with more than 3 respondents have been included into the analysis.

WES scale: 9 – most important, 1- least important.

Source: Ifo World Economic Survey (WES) II/2007

Thus, the most striking difference to last year's data is the expected decoupling of growth in North America and the rest of the world. This would certainly be a novelty in the development of the world economy. Though such a decoupling appears to be possible, given the economic strength and increased economic interdependence of the European and Asian economies, there is some risk in this scenario.

ICC Special Question: Foreign investment protectionism in "strategic sectors"

Foreign investment and openness of markets to receive such investment have played an important role in the development of economies in many regions of the world. However, in a number of countries governments are discouraging the flow of cross-border investment under the pretext of protecting "strategic sectors" or "preserving national security". Such sectors can include national defence, energy and technologies considered vital to national sovereignty. In some European countries, for example, governments behaved defensively about international mergers in sectors such as steel, banking, energy and toll-roads. This quarter's ICC special question deals with the recent resurgence of politically-motivated investment protectionism.

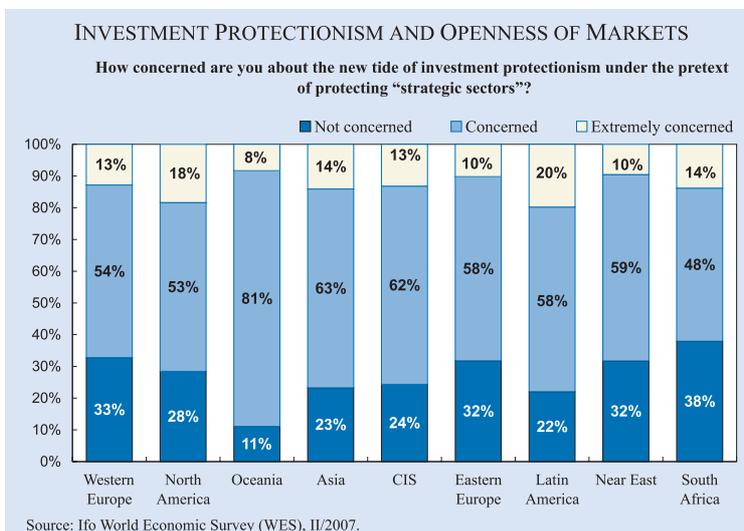
More than 870 economists from 91 countries have responded to this quarter's special question. WES participants were asked to judge how concerned they are about the new tide of investment protectionism under the pretext of protecting "strategic sectors". In all regions of the world the majority of surveyed economists expressed that they are extremely concerned or concerned about the new resurgence of international investment protectionism (see Figure 13). This share of experts was particularly high in Asian countries (*Pakistan, Malaysia, China, Indonesia, Thailand, Philippines, South Korea, Japan and Taiwan*), in *Australia and New Zealand*. But also in the European Union, the vast majority of experts in Western Europe, particularly in *Greece, France, Belgium, Germany, Netherlands and UK*, and in Eastern Europe, particularly in *Poland, Slovakia, Romania,*

Bulgaria and Czech Republic are worried about the recent anti-globalization sentiments.

The OECD advises governments against a tide of investment protectionism as other countries may begin to tighten their own investment regimes as well. Increasing barriers to cross-border ownership may have several negative consequences, including damages to global and national investment climate, costs increases, decrease of competitiveness. Furthermore, businesses may migrate to more attractive alternative markets. The majority of surveyed economists rated all consequences named above as important risks to business in their countries (see Table 3). In Western, Central and Eastern Europe, in North America, in the majority of Asian countries, and *Russia and South Africa*, a decrease of competitiveness and damages to investment climate have been ranked as the most important consequences to the governmental impediments of cross-boarder investments (see Table 3). In the majority of Latin American countries, *Israel, United Arab Emirates and Taiwan*, the WES experts were most concerned that politically motivated trade barriers will force international investors to search for alternative markets. In *Japan and Australia* the economists worry most that governmental interference can drive up costs to businesses by retarding corporate efficiency gains and discouraging innovation.

According to the OECD, in the light of the collapsed WTO negotiations, keeping the investment regimes transparent and non-discriminatory while finding ways to safeguard essential national interests will be the major challenge in the international trade and investment arena in the near future.

Figure 13



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