



Two-Speed Global Recovery On Display At Davos Gathering

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If you hear the word BIC in Davos this week, don't think people are talking about the French pen company, although it may present a temporary but lucrative marketing opportunity.

When it comes to global growth this year, BIC will lead the way—Brazil, India and China, though probably in reverse order. (Forget BRIC, as Russia may not even emerge from recession in 2010 without a jump in oil prices, according to some economists.)

Developing Asia, Latin America and even the Middle East will also post above average growth rates with the weakest showings coming from Japan, Europe and the U.S. (in that order).

"This is shaping up to be a two-speed global recovery," says Nariman Behravesh, chief economist at Global Insight, who'll be among the 2,500 people at the World Economic Forum's annual meeting in Davos, Switzerland Jan. 27-30.

"The emerging economies of Asia are certainly putting in a strong performance," says Eswar Prasad, a former IMF economist now with Cornell University and The Brookings Institution. "They were strong in 2009 and they are likely to turn in an even stronger performance in 2010. The big question is whether this is going to be a sustainable performance because of domestic demand."

That's a common assessment, from Wall Street economists to academics to NGOs, such as the World Bank, and may wind up being an important area of discussion at the event, whose main theme is the amorphous, "Rethink, Redesign, Rebuild".

Those three Rs are already part of the global economic dynamic. The U.S. and most countries in Europe will continue to pay a price for the debt boom of the past decade, which many emerging markets—from Thailand to South Korea to Brazil—avoided, having suffered from a crippling one of their own making in the 1990s.

Even more painful will be Japan's continuing struggle to emerge from a two-decade long economic slump, which made it all the more vulnerable to the global crisis of 2009-2009.

"Japan is a very important case study for the global economy," says Paul Sheard, global chief economist at Nomura Securities. "It's a story of policy error."

"Looking beyond the crisis, we are moving to a much different economic environment with growth being much more diffuse," says Mansoor Dailami, economist and manager of the development prospects group at the World Bank. "If you project the whole shift in the economic balance, it is a multi-polar order, such that in the next five, ten years, you will see a multiplicity of economic powers."

The World Bank in late January raised its forecast for global growth this year to 2.7 percent, versus a decline of 2.2 percent in 2009. Global GDP growth for 2011 is projected to be even stronger—at 3.2 percent.

• Complete World Bank Global Economic Prospects

A lot of that has to do with BIC GDP growth rates in 2010 and 2011: Brazil (3.6, 3.9), India (7.5, 8.0), China (9.0, 9.0). Private economists expect even more from these three countries.

Compare that to the Euro Zone (1.0, 1.7), Japan (1.3, 1.8) and the U.S. (2.5, 2.7) and the two-track recovery is stunningly obvious.

"You're looking at a much more shallow recovery, in the aftermath of the financial crisis, deleveraging, and the belt tightening of the U.S. consumer, says Sheard.

The International Monetary Fund's managing director, Dominique Strauss-Kahn, recently offered a similarly uneven assessment of the global recovery.

In Europe, budget deficits for some members (Greece, Ireland, Italy and Spain) are so high, there's been ample speculation that at least one of will be disqualified from European Monetary Union, now half way through its second decade.

"I think the chances of a shock are high," says Behravesh. "Our bet is they won't let them drop out and will preserve the EU."

Economists warn that countries in Europe with export-driven economies will have to find ways to increase domestic demand, much like emerging countries.

China and Brazil have also relied on exporters, but like India, have also been able to make key adjustments in the past decade and throughout the crisis.

China, for instance, pumped up its public sector while building a formidable manufacturing base.

"Right now the China boom is helping to sustain the recovery in emerging markets," says Prasad.

India has benefited from the globalization of the IT industry, foreign direct investment and domestic demand, driven by its large middle class and a growing urban population.

Brazil is adding oil and gas to its already impressive stable of commodities and is also getting its financial house in order.

"Brazil has been able to manage inflation, its currency, with a floating exchange rate, very well, and has kept sovereign debt under control," says Dailami. "That's a major achievement."

Those economies with the more solid and sustainable recoveries will be better positioned to remove monetary and fiscal stimulus imposed during the crisis.

For instance, Australia, a natural resource powerful, has already raised interest rates. South Korea is likely to be among the first group to follow.

The U.S., EU and Japan will be among the laggards,

"There's the risk that the policy support that was given is taken away too quickly before private sector demand and the balance sheet have a chance to heal," says Sheard.

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