

In Focus: Global Rebalancing

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Although the world economy has staged a better-than-expected recovery in 2010 following the economic downturn, both the recovery and outlook highlight major global economic divisions, while rebalancing of world demand will remain the key challenge.

Developed economies will continue to face sluggish growth while emerging markets lead the global recovery. This two-tier world growth will have implications for consumer spending prospects and the business environment overall.

The world economy is rebalancing as the shift in economic power towards emerging markets continues. By 2020, China will be the world's largest economy in PPP terms and India the third largest while the USA drops to second place and Japan to fourth. (Purchasing power parity: a method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services):

* Growth will be sluggish in many major advanced economies into 2011 and beyond as governments implement austerity measures in order to reduce government debt levels.

Developed economies will grow by an annual real average of 2.5% in 2010-2014 compared to 6.6% in emerging and developing markets, which will speed up the global economic rebalance;

* Asia Pacific will perform the best of the world regions with average annual real growth of 7.2% in 2010-2014 compared to just 2.0% in Western Europe, as countries such as China and India benefit from strong domestic demand;

* However, the recovery will continue to be fragile. The biggest risk to global growth remains rising unemployment which the ILO predicts will not recover until 2015. There are also concerns that rapid growth in some emerging economies will result in overheating and asset price bubbles.

Global divisions in the world economy highlight the need for rebalancing of demand but this will be challenging. The global imbalance between the world's major spenders and exporters (exemplified by high current account deficits/surpluses) is not sustainable.

Lower demand from advanced economies will strengthen the need for export-dependent emerging markets in particular to rebalance growth towards domestic demand:

* China, Germany and Japan have the world's largest current account surpluses with China's at US\$270 billion in 2010. The USA as the world's largest consumer have the largest current account deficit in the world at US\$467 billion in 2010, followed by Spain and the UK;

* Major deficit countries such as the USA will aim to rebalance growth towards increasing exports (private final consumption expenditure accounted for 71.4% of US GDP in 2009).

Surplus countries such as China will need to move away from export dependency and increase domestic demand – private final consumption in China only accounted for 34.6% of GDP in 2009.

Rebalancing of world demand will help to insulate economies against future economic shocks but will be challenging, which will put pressure on consumption patterns in the short-term.

However, the successful growth of domestic demand in major emerging markets will unleash significant opportunities for consumer goods and services in the longer-term.

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