

Global Economic Outlook Dim, But Developing World to Grow

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The world economy faces a period of weak growth until the end of 2009, participants of the World Economic Forum's Annual Meeting of the New Champions 2008 were told today. The US may see a recession, but China and other emerging and developing economies can still drive expansion.

"We are looking now to the larger, faster-growing economies to take up the slack," said Peter Mandelson, Commissioner, Trade, European Commission, Brussels. "We need them to be sources of liquidity, of demand, of investment, of confidence in the global economy."

He expressed optimism in the longer term. "I think we are going to see the American financial system reinventing itself," said Mandelson. "And I think that we are seeing a more balanced and diversified multi-polar [global] economy and we have to have new models of governance to reflect that new distribution of economic power in the world."

Stephen S. Roach, Chairman, Asia, Morgan Stanley, Hong Kong SAR, said he is hopeful that the US will come up with a strong response to the crisis in the next few days, referring to the US\$ 700 billion rescue package being debated in the US Congress. "Please do not call it a bailout," he said. "This is a bridge loan to take distressed assets off the books of financial institutions." The initiative is meant to restore confidence in counter-party risk, which is needed to restart the financial system.

"I hope to see some light at the end of the tunnel sometime in the end of the next year," said Yoshihiko Miyauchi, Chairman and Chief Executive Officer, Orix Corporation, Japan. He urged fast action by the US. "It took the Japanese government several years before it admitted that the country was in a very serious condition financially," he observed. The result was an economy in the doldrums for more than 10 years.

Roach said he expects the US to address the financial crisis fairly quickly, but said the real economy will need a longer time to heal. "That's going to take several years, and equally a long period of time for the world economy, which is still dependent on the US." The world will not experience the 5% annual growth of the boom years for a long time, he warned.

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