

2011: Walking Into the Sunset, Wobbly

(This column was first published by the International Business Times.) By Frank Islam

The global economy cannot afford to have another unsteady year like 2011.

Perhaps the most apt adjective to describe the state of the global economy in 2011 would be "unsteady." With crisis after crisis casting giant shadows over nearly all major economies, last year, most of the world was more concerned about not falling into another recession than boosting growth.

Those crises included a disconcerting impasse over raising debt ceiling in the United States that nearly led to the first-ever federal government default -- which subsequently resulted in Standard & Poor's downgrading the country's sovereign credit rating -- and a credit crisis in the euro zone that is threatening the very euro project.

Staying too long in a crisis-aversion mode by countries, big and small, meant the world today is no closer to finding solutions to the cascade of economic problems that began in 2007, with the subprime lending crisis in the United States.

According to the U.S. Department of Commerce's Bureau of Economic Analysis, the country's real gross domestic product growth in the first, second and third quarters of 2011 were 0.4 percent, 1.3 percent and 1.8 percent respectively. In 2010, during the corresponding quarters, the GDP had grown 3.9 percent, 3.8 percent and 2.5 percent.

The unemployment rate remains high, even though the jobless claim announced Dec. 15 was the lowest since 2008.

In America, the engine of global growth for much of the past and current century, the Great Recession is still in the rearview mirror. There are more poor people in the country today than at any point in history. The latest census figures reveal that nearly 50 million Americans, or, 1 in 6, are poor. That's more than the population of Spain.

Yet, compared to Europe, the United States ends 2011 in a relatively better position.

In the third quarter of 2011, GDP increased by only 0.2 percent in the euro area known as EA17, while in the larger EA27 countries, it increased only 0.3 percent, data compiled by Eurostat, the European Union's statistical office, show. The second quarter growth rates for both zones were 0.2 percent.

What prevented the EU GDP from being in the negative zone was the growth rate in Germany, which accounts for 30 percent of the Eurozone economy.

The region was already hurt by recessive spiral from the fringe countries in the light of austerity measure that were forced upon them. Economic slowdown was visible even in core countries. Recession seems unavoidable in the region now, but how deep and how much time it will take to come out of it depends on the extent of crisis the region is facing.

Much of the year, a number of European economies were under the threat of a collapse. The problem was more severe in Greece, where the crisis resulted in political and social upheavals. The sovereign debt crisis claimed two national leaders in November, when within a span of five days two prime ministers, George Papandreou of Greece and Silvio Berlusconi of Italy, were forced to resign.

The BRIC countries -- Brazil, Russia, India and China -- which, along with Japan, form the third dominant pillar of the world economy, were beset by problems in 2011. Inflationary pressures and the effect of Europe credit crisis seemed to have affected many of these countries, as well.

China, the world's second largest economy, whose strong growth has had a positive effect on the global GDP in the past few years, too, witnessed a slowdown in growth in 2011. Having started off with a 9.7 percent growth in the first quarter, the growth slowed to 9.5 percent in the second quarter and 9.1 percent in third quarter.

India, another economy that has posted steady growth over the years, had many setbacks in 2011. In 2010, the Indian economy had grown by 8.5 percent. This year, the growth rate of 6.9 percent during the July-September months was its smallest in nine quarters.

Impacted by a weak global economy, high interest rates and runaway inflation, New Delhi revised its growth projections time and again. From an initial 9 percent growth projection, it scaled down to 8.5 percent, then to 8 percent and now to 7.5 percent.

Rating agencies such as CRISIL and Fitch have also cut their forecast on India to 7 percent from 9. The Federation of Indian Chamber of Commerce and Industry (FICCI) was even less optimistic, forecasting a growth of 6.6 percent to 6.8 percent, with more downside risk. The chamber blamed poor performance from the manufacturing segment. In October, the country's industrial production contracted by 5.1 percent.

Brazil, whose economy witnessed a growth rate of 7.5 percent in 2010, driven by commodities boom, growing middle class and mineral wealth, may now see a growth of only 3 percent to 3.5 percent 2011.

Russia's GDP growth is likely to be a little over 4 percent. But as the Organization for Economic Cooperation and Development (OECD) pointed out, the country is constrained by poor business environment and energy inefficiency.

In many countries, what exacerbated the problem was a lack of consensus among the political classes and a lack of political will among the leaderships to address the problems.

In the United States, S&P's decision to downgrade the country's credit rating was prompted by an inability on the part of its leaders to reach a consensus. The deep division between the executive and legislative branch was again on display toward the end of the year, when the House of Representatives initially refused to go along with the White House and the Senate in extending the unemployment benefits.

In Europe, there was an inordinate delay on the part of its leaders to arrive at a consensus on bailing out countries under imminent threat of a collapse. Even the final decision was taken without Britain, a major economy, on board.

In the new year, one hopes world leaders will show more unity and act more decisively in tackling global economic problems. The global economy cannot afford to have another unsteady year. (Global India Newswire)

(Frank Islam is the co-author of the book *Renewing the American Dream: A Citizens Guide*. He is also a member of the advisory committee of the US Export-Import Bank and the Department of Commerce Industry Trade Advisory Committee.)