Summary: In 2011, world economy growth is projected to reach a level of 4.4 per cent. The two-speed global economic recovery is likely to dominate 2011 and beyond. The short- and medium-term prospects for FDI inflows have improved during the first half of 2010, in line with developed countries’ economic recovery—reflected in growing production and foreign trade. Rebalancing, internal and external, continues to be crucial. Without this economic rebalancing, there will be no healthy recovery. The argument is very simple: before the crisis, growth in many countries came from excessive domestic demand, be it consumption, or housing investment.

Key words: economic growth, international trade, rebalancing, recovery.

JEL Classification: M16

1. GLOBAL ECONOMY TREND IN 2011

Following the deepest global downturn in recent history, economic growth solidified and broadened to advanced economies in the second half of 2009 and in the first months of 2010 year.

Within both groups of countries, advanced economy countries, as well as emerging and developing economies countries, growth performance, fragile for this moment, is expected to vary considerably across countries and regions, reflecting different initial conditions, external shocks, and policy responses.

In 2011, world economy growth is projected to reach a level of 4.4 per cent (Figure No.1). In spite of the revision, the recovery in advanced economies is still expected to be weak by historical standards, with real output remaining below its pre-crisis level until late 2011. Moreover, high unemployment rates and public debt, as well as not-fully-healed financial systems in some countries are presenting further challenges to the recovery in these economies.

World trade in goods and services volume is expected to grow by 7.1 per cent, in 2011.

There are still significant risks to the outlook. On the upside:

- The reversal of the confidence crisis and the reduction in uncertainty may continue to foster a stronger-than-expected improvement in financial market sentiment and prompt a larger-than-expected rebound in capital flows, trade, and private demand.
• New policy initiatives in the United States to reduce unemployment could provide a further impetus to both U.S. and global growth.

On the downside:
• A key risk is that a premature and incoherent exit from supportive policies may undermine global growth and its rebalancing.
• Another important risk is that impaired financial systems and housing markets or rising unemployment in key advanced economies may hold back the recovery.
• Yet another downside risk is that rallying commodity prices may constrain the recovery in advanced economies.

Policymakers now face a difficult balancing act in judging the timing and sequencing of exit policies, both from the monetary and financial policies, as well as starting implementation of a medium term strategy for fiscal consolidation.

The two-speed global economic recovery is likely to dominate 2011 and beyond, with:
• Weak growth in advanced economies barely enough to bring down unemployment.
• Rapid growth in emerging markets facing the challenges of success, including how to avoid overheating and handle strong capital inflows.

Countries should continue to focus on rebalancing their economies in the coming year, including structural measures and exchange rate adjustments.

Figure No.1

Source: IMF Data
October 2010 IMF - World Economic Outlook – Update provisional data have been confirmed by the United States economy trend; things turned out a bit better than expected for core Europe; Japan had higher growth than it was anticipated. As for emerging countries, the mark for China; India did better than IMF had forecast.

2. ACTUAL AND PROSPECTIVE TRENDS OF FOREIGN DIRECT INVESTMENT

In 2009, in keeping with the world economy trend, FDI flows registered a 37% decline, at a level of 1.1 thousand billion USD.

FDI flows to developed countries experienced the largest decline (44 per cent) in 2009 among all regions and sub-regions.

Among the developing economies – which as a whole registered a 24 per cent fall in inflows – South, East and South-East Asia showed the smallest decline (17 per cent) and remained the largest recipient, accounting for almost half of the total inflows. Africa recorded a decrease of 19 per cent in 2009. In terms of the decline rate, flows to Latin America and the Caribbean and West Asia fell more. However, all developing regions saw their shares rise in global FDI inflows. This is not the case for transition economies of South-East Europe and the Commonwealth of Independent States (CIS), which suffered a decline of 43 per cent. FDI outflows in 2009 showed a similar pattern to inflows: they decreased in all regions and sub-regions.

FDI outflows from developed country TNCs were almost halved in 2009. The share of developing countries in global FDI outflows rose to 21 per cent, while those of transition economies, although small, maintained their upward trend to 5 per cent. Within the developing countries, outflows from South, East and South-East Asia have been particularly noteworthy, accounting for 14 per cent of global outflows in 2009.

Developed countries. The short- and medium-term prospects for FDI inflows have improved during the first half of 2010, in line with developed countries’ economic recovery – reflected in growing production and foreign trade. FDI inflows are expected also to increase due to a new round of privatizations in European countries with large public debts. In the medium term, inward FDI to developed countries could recover to the levels seen in the first half of the past decade, provided no major economic shocks hit these economies. The further integration of developed countries’ markets, competitive pressures and the ongoing liberalization process in several areas – such as the European energy and information technology network industries – are also fostering inward FDI to these countries. A further stimulus could be expected from developing economies’ TNCs, which are increasingly interested in expanding their presence in developed countries.

Provisional figures and prospects for FDI inflows to Africa, in 2010 and 2011, suggest a slow recovery, as global economic and financial conditions are expected to improve and commodity prices to rebound from the lows reached in early 2009. The region’s largest economies are relatively well positioned: South Africa ranked 20th among the top priority economies for FDI in the world, while Egypt ranked 31st in the UNCTAD’s World Investment Prospects Survey.

The strong performance of emerging Asian economies that are important sources of FDI in Africa will support a revival of FDI inflows to Africa, and sustained intraregional investment will help small and low-income African countries ease their dependence on flows from traditional economies.

South, East and South-East Asia. FDI inflows figures were improving in 2010 and the prospects for 2011 are very good, as the region has been leading the recovery of the global economy, and TNCs continue to give priority to the region in their FDI plans. The timing and strength of the economic recovery vary across
countries, thus affecting FDI performance: inflows to China and India have picked up since mid-2009 and are rapidly expanding (inflows to the two countries in the second half of 2009 rose both by 18 per cent from the same period of 2008); inflows to the Republic of Korea, Singapore and Taiwan Province of China, on the other hand, are expected to bottom out in 2010 and 2011.

Prospects for FDI inflows to Latin America and the Caribbean was improving in 2010, as the region is recovering relatively rapidly from the global financial and economic crisis. Flows are expected to recover faster, in 2010 and 2011, in South America, given the resilience and growth potential of Latin American economies, a sub-region more reliant on commodities and exports to emerging markets, where demand is picking up strongly.

FDI inflows to the region are likely to continue increasing in the medium term, given the resilience and growth potential of Latin American economies. Brazil and Mexico, in particular, remain among the top 10 FDI destinations for TNCs.

South East Europe and CIS Prospects for inward FDI remain positive in the medium term, on the back of stronger commodity prices, a faster economic recovery in large commodity exporting countries, and a new round of privatization.

3. SHORT AND MEDIUM TIME STRATEGICAL WAYS FOR GLOBAL ECONOMIC RECOVERY

Short and medium time strategical ways for economic recovery of the main groups of countries are as follows:

In many advanced economies, the crisis damage was much deeper. The financial system was badly broken. In many of these countries, markets are still uncertain about the true health of banks and financial intermediation is not working well. Combine this with the need to correct past excesses, from low saving to excess housing investment and the result is a slow recovery, barely strong enough to decrease unemployment.

Rebalancing, internal and external, continues to be crucial. Without this economic rebalancing, there will be no healthy recovery. The argument is very simple: before the crisis, growth in many advanced countries came from excessive domestic demand, be it consumption, or housing investment. This could not go on. Those countries must rely on other sources of demand. Until now, they have used fiscal policy to prop up domestic demand. This was needed, but it is not sustainable. The deficit countries must rely more on external demand, on exports. And, by symmetry, surplus countries must do the reverse, shift from external demand to domestic demand and reduce their dependence on exports.

This is not to say that without rebalancing, the recovery cannot continue. Continued fiscal expansion, or a return by U.S. consumers to their old, low-saving ways can sustain demand and growth for some time. But they will recreate many of the problems that were at the root of the crisis.

Rebalancing is a complex process. No single measure, no one country holds the solution on its own. Structural measures are required: for example, in Asia, measures to improve financial intermediation or provide more social insurance, in the United States, reforms of the financial intermediation system. The exchange rate adjustment is an integral part of the process.

Emerging market countries were affected by the crisis through both trade and financial channels. The turnaround in trade has been nearly as sharp as the earlier collapse. But while trade has not yet fully recovered, most emerging market countries have been able to increase domestic demand so as to return to high growth. In turn, their good performance has led capital flows to come back, in some cases, with much force.

Because of their more limited financial integration with the world economy, low-income countries were mostly affected by the crisis through the trade channel. As trade has largely recovered, and as strong growth in emerging
market countries has pushed up commodity prices, many of them are doing well. Sub-Saharan Africa, for example, grew at more than 5 percent in 2010, and it is forecasted roughly the same for next year. Their performance, however, is not only due to exports. Previous sound policies allowed many to use fiscal measures to support their economies. And private domestic demand typically has also been quite strong.

A number of countries from Central and South East Europe face a tough and long macroeconomic adjustment. In most cases, they would have had to do so whether or not the global crisis had taken place. The global crisis only makes it tougher.

After 1989, they had increased domestic demand excessively, and some had run very large current account deficits. Like others, they must shift from domestic demand to external demand. Stronger growth in core Europe, if it comes, will strengthen their exports and help the adjustment. But, based on past experience, a full return to health will likely take a long time. Social programs are essential, both for their own sake and to maintain broad political support.

The countries of the region are more or less reluctant to a joint program from the European Union and the IMF. But such programs can help, in two ways: First, by putting a ceiling on the interest rate at which governments can borrow on the international financial markets. Second, even if the programs do not ask for more than the country intended to do on its own, they reinforce the credibility of these commitments, and reassure markets about the medium run.

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