

## >: Twenty, not Two !

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President Obama and the first lady really turned on the charm in London last week at the meeting of the G20 heads of state. The group is actually the finance ministers or central bank governors from the nineteen largest economies plus the European Union, effectively representing 70% of the world's population and 90% of global GDP. In November 2008, for the first time, the twenty heads of state also met, in an acknowledgement of the ongoing crisis in the financial system. It was a peculiarly inconvenient moment, with President George W. Bush at the end of a contentious eight years in office, and the others reeling from the shock of the sudden ending of the party. End of meeting statements were merely hopeful and pious. However, emerging market members came away with the view that there were many elements in their own economies that had worked out well and that the recipes of free markets, free trade, dominant currency and so on were always to be taken with a dose of controls, checks and balances. In short, they came back with a greater confidence in de-coupling, and have acted much more decisively, particularly in China.

How does this confidence translate for investors?

At the gross level, there is no doubt that India and China will see over 7% growth in 2009; and Brazil, Russia, Saudi Arabia and others who are heavily dependent on commodity exploitation will also see some growth as inventories fall in the first half of the year. But what is most promising is that, since the BRIC countries have achieved an aggregate 7 trillion dollar economy, and will grow by at least 5% in 2009, that's another 350 billion dollars in growth, which should more than offset the 1-1.5% decline in the US GDP of 15 trillion- i.e. the world represented by the G20 will see growth!

This is a far and away conclusion from the general gloom being forecast, in each country, separately.

Even more importantly, this growth is not dependent on house prices in the US moving up; not on Detroit rescued; not on consumer demand at full throttle; rather, it is the fulfillment of the pent up demand of the middle classes in China and India for low cost housing, transport infrastructure, agricultural reform and credit that will be the key drivers.

In a way, there will be a reversal of behaviour as well- the Chinese and Indian wage earner will shift to greater consumption, even as the US consumer must, of necessity, tend towards greater saving and thrift.

From this point of view, it is feasible that a sharp revaluation of market capitalization, as much as 25% from April 2009, is seen over the last quarter of 2009.

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