

JANUARY 25, 2013, 4:06 PM

## On Lookout in Davos for Next Growth Story in Emerging Markets

By *LIZ ALDERMAN*

DAVOS, Switzerland -- With Europe in a sharp slowdown and the United States forging only a slow recovery, the business and academic elites gathering here are scouring the global landscape for any new economic success story. And a number of countries are stepping forward here at the [World Economic Forum](#) to peddle their tales - even if the smart money knows that betting on emerging markets continues to be risky.

Just a few years ago, Brazil and Argentina generated much of the buzz here in Davos, as their growth rates exceeded 7 percent. There was talk of a new economic engine that could help offset lagging growth in the United States and Europe.

Fast forward to today, and Brazil and Argentina have stumbled. It is an economic renaissance in Mexico, Chile, Colombia, Panama and Peru that has become the focus in Latin America.

Half a world away, sub-Saharan Africa has also flashed onto the radar screen, with an average 5 percent growth rate that many hope will improve in the coming decade as investment deepens, perhaps finally fostering a new middle class.

Whether those trends are sustainable, though, remains an open question.

As far as the opinion-makers here are concerned, Africa is coming of age. At a dinner Thursday night feting "Africa's Promise," the economist Lawrence H. Summers of Harvard waved an iPhone at the audience. "By the end of the decade, half the African people will have this," he predicted. "Africa can leapfrog in terms of economic growth."

Joe Saddi, chairman of the global management consultancy Booz, is equally bullish. "The buzz in the business community is that the time of Africa is coming soon," he said. "Everyone is interested in exploring it."

But others at the dinner, which gathered many African heads of state, acknowledged that the road could be rocky.

"There is no doubt that Africa is on the move and making progress, but there will also be trouble spots," President [Paul Kagame](#) of Rwanda said. "We can't talk about Africa versus China, when Africa is still a place in which each country is on its own."

Kandeh Yumkella, director-general of the United Nations Industrial Development Organization in Vienna, said the region was turning heads because of its 5 percent growth rate. "But it's almost entirely from a commodities boom," he said. "There is no creation of high-value growth."

Africa still sorely needs infrastructure and an industrial base so that it can export more than just oil and minerals to markets around the world, African officials say. What is lacking is a cohesive industrial policy that investors can grasp. "I don't see a strategic vision being forged for Africa," Mr. Yumkella said.

Small loans that are typically aimed at financing cottage industries are simply not enough to lift sub-Saharan Africa into an emerging-market powerhouse, he added. "Microfinance is basically poverty management," he said of that tactic. "We define poverty alleviation for Africans as basket weaving. Lending someone \$50 a month will not create large numbers of jobs for the future."

But with lingering corruption and poor governance, significant flows of private investment may be slow in coming. "As long as the priority of African heads of state is to have bank accounts in Europe, there will be hurdles," President Alpha Condé of Guinea said. "The problem with Africa is the leaders of Africa."

Pointing to the deadly conflict in Mali, they fretted that all of Africa tends to be painted with the same brush.

"People say there was a terrorist event in Mali, so don't come to Africa," Prime Minister Raila Amolo Odinga of Kenya said. "But when things deteriorate in Venezuela, people don't say, 'Don't invest in Latin America.' Africa is held to a different standard."

Latin America, though, is going through some turbulence of its own, as growth in its two largest economies trails off sharply after several boom years, as exports wane and as domestic demand slackens. In Brazil, global uncertainties and earlier fiscal tightening had an impact larger than expected, especially on private investment, the [International Monetary Fund](#) said in a recent report on Latin America.

Argentina, for its part, recently turned toward economic nationalism and retaliatory protectionism after growth slumped.

Widespread controls in Latin America on imports and foreign exchange are also adversely affecting investment and consumer confidence, the I.M.F. said.

Growth in Venezuela has been slowed by a number of factors. "The problems there are aggravated by an absent president, an impossible macroeconomic situation with ridiculous fiscal deficit, and rising inflation," said Ricardo Hausmann, director of the Center for International Development at Harvard.

Latin American officials say the region is divided into several markets with divergent trends. "It's absolutely clear that there are two speeds in Latin America," Finance Minister Felipe Larraín Bascuñán of Chile said in an interview. "The question is what is sustainable."

His country has experienced an average growth rate of 5 percent for the last three years. As in Africa, much of that success has been based on exports of commodities, especially to China.

He cited Chile as an example of an economy that is modifying its contours for the future. Among other things, Mr. Larraín said, private investment has become the main driver of growth

after the government amended tax laws to make it easier for small and medium-size businesses to operate.

Smaller Chilean companies that reinvest in themselves pay little or no corporate taxes. A credit tax on loans was slashed to 0.4 percent from 1.2 percent. The middle class has been gaining ground in Chile. And unemployment, around 6 percent, is near its lowest level in a decade, while wages are rising.

"It's a virtuous circle" Mr. Larraín said. Still, he added, "we don't want this to be a big fiesta" where growth is driven only through consumption. "We are working to make this sustainable."

Investors have also been prowling Mexico after President Enrique Peña Nieto pledged a series of energy and tax measures to lift growth and began a crackdown on violence.

Luis Videgaray Caso, finance minister of Mexico, said the changes were bearing fruit. "We are attracting investments that 10 years ago went to China," he said at a forum on Latin America. "The feeling now is that China is a complement, not a competitor."

Still, the risks of a slowdown remain, given how sharply growth has been curbed not only in the United States, but also in Europe and in major emerging economies, including the powerhouses of Latin America.

While South America's more nimble economies have profited by opening their markets and cutting regulations, "some countries are starting to ask if they should put in more protectionist measures," José Luis Silva Martinot, Peru's trade and tourism minister, said at the same forum. "In Peru we want to continue with a free market."

And despite the problems afflicting the region's biggest economies, he added, "what happens in one country will not lead to contagion - unlike in Europe."