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Economies in China, India recovering faster than those in Western nations

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The giant and emerging economies of China and India appear to be lurching toward recovery faster than their more developed Western counterparts, including the United States, although the recovery is not without potential pitfalls.

Beijing said Thursday that China's fourth-quarter gross domestic product (GDP) shot up a breathtaking 10.7 percent, well surpassing expectations and marking its fastest quarter of growth since 2007.

In India on Thursday, government officials said that fourth-quarter GDP is expected to decline slightly from the previous quarter but that even with the pullback, the nation's GDP will expand by at least 6 percent, which is more than twice what is expected in the United States. That follows a forecast Wednesday from the World Bank that India's economy will grow at a 7.5 percent clip this year and China's at a 9 percent rate.

By comparison, World Bank forecasters expect the recession-weary U.S. economy to grow only 2.5 percent this year, but that more than doubles expectations for stagnant Europe, where growth might have trouble surpassing 1 percent. The United States and Europe are struggling with the long-term prospect of 10 percent unemployment and rising deficits and national debts.

For developing economies, however, rapid growth can bring rising inflation and asset bubbles. China is looking at the first and trying to head off the second. India, on the other hand, is trying to balance a recommitment to capitalism -- last year's reelection of free market Prime Minister Manmohan Singh and the drubbing of communists in the congress -- against fears of a double-dip slump.

In its report Thursday, Beijing said inflation rose 1.9 percent in the fourth quarter, which was more than expected. China is trying carefully to cool down its feverish growth, saying it will increase interest rates and force banks to raise more capital. When central governments identify rising asset prices and falling interest rates -- frequently the warning signs of a bubble -- they can attempt a gradual deflation by tightening the money supply and forcing banks to shore up their balance sheets.

In China, the boom is in residential property, where individual homeownership has hit a frenzy, as it did here during the past decade, Jefferies international analyst James Chataway wrote this week.

China faces a paradox, Chataway wrote: To sustain the near double-digit growth, the economy depends on housing. But too much housing could inflate a dangerous bubble.

"Chinese exports are still declining year on year, and they need to keep their economy growing at 8 percent or so per year," Chataway wrote. "Construction, cement, steel, furniture have all been doing well, and are all directly tied to real estate growth. Without this boom in property and construction where would the Chinese economy be in the absence of any real recovery in export markets?"

China is set to overtake the United States as the world's largest construction market by 2018, with India close behind, according to a report out Thursday from Global Construction Perspectives, which tracks the worldwide construction industry. By 2020, the report said, nine of the world's 10 fastest-growing construction markets will be found in emerging economies.

Some analysts caution that China's runaway growth numbers should be taken with a grain of salt because the figures come from an authoritarian government.

"I don't trust the numbers," said Daniel Mitchell, an economist at the conservative Cato Institute. "That being said, their growth numbers presumably are good." He added that the numbers are not necessarily surprising because poorer countries develop faster.

In India, where manufacturing grew at a runaway 20 percent pace in the second half of last year, some economists are preaching a gradual removal of government stimulus and others wish it had never begun.

"Industrial turnaround is at an early stage," said Venu Srinivasan, president of the Confederation of Indian Industry. He cautioned the government against a rollback and said it should be "gradual and calibrated."

As in the United States, the Indian stimulus package -- small by comparison at only $37 billion since December 2008 -- has caused a widening federal deficit, which some economists say is more dangerous than a protracted recession.

"Stimulus packages and bailouts only prolong the economic agony by creating the illusion of a solution," said Barun Mitra, director of the Liberty Institute, an economic think tank in New Delhi.

Staff writer Rama Lakshmi contributed to this report from New Delhi.