

## Dominic Barton Davos 2015 Insights

The consensus view is that **global growth should remain on a 3-3.5% path in 2015, amid rising volatility.**

**The main anchor for growth is the US economy**, whose relative resurgence was central to any positive outlook here. As one information technology CEO put it, “the big question for the next 18 months is, ‘can the US stay strong enough to pull the world along until others can again pick up the slack?’”

With Europe still sluggish (despite pockets of optimism), Asia—and China in particular—remains the other growth engine with enough scale and momentum to matter. China’s difficult transition to a higher quality growth path is requiring everyone to get used to a slower pace there (though at around 7% still one that most countries would envy). But **Indian executives were brimming with optimism**, as was the large and growing African contingent here. **In North America, Mexico was also a “star”**; lots of CEOs at Davos were bullish on Mexico as the government has moved forward reforms in the energy, telecom and education sectors.

**Coping with increased volatility** was the other big macro theme of the week. Numerous executives noted that no one here last year saw coming, among other big shocks, the stunning collapse in oil prices, the stand-off between Russia and the West, and the rise of ISIS.

The one area where I heard consensus is that the supply-demand imbalance in oil is not great enough to justify the current sharp declines. There’s **a broad view that oil will settle in at \$65-70 a barrel by the third quarter**, but some fear that radical cuts in drilling and exploration may spark more volatility down the road as supply and demand gyrate more than they should.

Inflation is not on anyone’s risk agenda. As former US Treasury Secretary Larry Summers advised at our McKinsey lunch, when it comes to raising rates, “The Fed should not act until it sees the whites of inflation’s eyes.”

One **too little-noted geopolitical positive surprise, by the way, is the dramatic lowering in past months of tensions between China and Japan**; that had been a major concern earlier in 2014. Every organization needs to **renew efforts to build resilience and increase agility.**

Among the many business challenges discussed at Davos, one I would highlight—and I know I’ve been a broken record here but this week just reinforced it—is the **imperative**

**for leaders to drive business model innovation.** Cisco's John Chambers, for example, said he continues to believe that "**digital through mobile technology will have 5-10 times the impact of what the Internet did in the 1990s**" and predicts that "**40% of business enterprises will not survive.**" But it's much bigger than accelerating digitization. Traditional industry barriers will continue to fall as a broad array of disruptive technologies in energy, materials, biotech and elsewhere, coupled with expanding urbanization, give birth to **new or re-invigorated challengers to market incumbents.** Think how Alibaba has so quickly joined the ranks of the world's 10 most valuable companies.

**Indian CEOs** are enormously bullish and **talking openly about 8-10% GDP growth on a sustained basis going forward.** Even the Chinese, while recognizing that their GDP growth rates are going to come down, point out that the likely level of absolute growth off a very significant base will still contribute over 1% of overall world growth.

**ASEAN was notably absent from much of the dialogue.** This felt odd given the significance of 2015 for the ASEAN Economic Community and our own sense of the opportunity for our clients to grow in a market of some 600 million people. That said, **Indonesia garnered plenty of interest, albeit without the fanfare surrounding India.**

Japan had a significant presence with many Japanese clients attending - more than last year. In our conversation, it became clear that most felt the "jury was still out." As one client put it: "**we are still waiting for the 'third arrow', and we worry whether it exists.**" While South Korea didn't quite deliver the sizzle of the Psy-led exploits of Davos 2014, many clients made the trip and the country's session on "Unification" was hard-hitting and poignant.