OECD Seminar on 'Shifting Wealth: The New Shape of the World Economy'

Paris, 15 March 2010

The Organisation for Economic Cooperation and Development (OECD) on 15 March 2010 organised the '*Shifting Wealth: The New Shape of the World Economy*' seminar as part of the Global Development Outlook (GDO) project. The discussion focused on the shift in economic and political power towards the developing world and emerging economies that has taken place over the past twenty years, and what these fundamental changes might mean for global development.

During the first session, Homi Kharas, Yasheng Huang and Augustin Fosu, three of the Global Development Outlook's Non-Residential Fellows, presented the findings of their background papers prepared for the GDO report.

According to Homi Kharas, Senior Fellow, Wolfensohn Centre for Development at Brookings, the 'middle class' can be considered the 'consumer class' as they are a society's economic driver. Today, there are 1.8bn people in the global middle class, concentrated in the US, Europe and Japan. In his paper, '*The emerging middle class in developing countries*', he looks at the projected growth of the middle class in the developing world over the next 20 years. The projections indicate that in 2020, the global middle class will have increased to 3.2bn people and to 4.9bn by 2030. Eighty-five percent of this growth will be in Asia, with the US remaining constant and Europe declining slightly due to a decrease in population growth. Mr. Kharas further explained that the "economic centre of gravity" would shift to Asia, which today accounts for 34% of global activity, but by 2034 could account for 57% of global output. He also predicted that three "giant economies" of China, India and Japan would lead Asia's resurgence.

Focusing on China, Professor Yasheng Huang, MIT Sloan School of Management, examined linkages between urbanization and household income development in the context of China's consumption decline over the past years in his paper '*Urbanization, Hukou System and Government Land Ownership'*. He explained that in 2009, 230mn people in the Guangdong province were rural migrants, which added to the productivity of the cities to which they migrated but not to the consumption. This is because, despite the improvement in their income, rural migrant workers have a savings rate of 40% compared to 20% for urban residents. He reasons that the *hukou* system of household registration in China is partly responsible as non-registered residents do not have the same social advantages such as free or low-cost education, which leads to precautionary savings on the part of migrant workers. Professor Yasheng suggested that a reform of the *hukou* registration system might be needed to strengthen overall Chinese consumption.

Augustin Fosu, Deputy Director, United Nations University-Wider, presented evidence on the transformation of economic growth to poverty reduction in developing countries, with an emphasis on the role of income inequality. His study, '*Growth, Inequality and Poverty Reduction in Developing Countries: Recent Global Evidence*', finds that on average, income growth has been the major driving force behind both the declines and increases in poverty. However, he also notes substantial regional and country differences. Inequality has played a crucial role in maintaining poverty in areas such as Sub-Saharan Africa. He concludes that even in countries where growth has been the main driver of poverty reduction, further progress could have occurred under better income distribution.

The second session was a policy panel and an opportunity for a more interactive debate with the audience. The participants -- who included representatives from development agencies, international institutions and the private sector -- raised questions about the potential impact of a financial crisis in Asia on the global economy, and why economic growth has led to poverty reduction in some countries, but not in others. The latter, according to Mr. Fosu, is explained partially by the fact that income does not always reflect GDP growth. Governments need to identify and apply polices that strengthen the link between GDP and income. A potential stagnation in the Chinese economy would naturally have an effect on the global economy, but at this point there is no evidence that this would be devastating.

The discussion turned to the potential replication of the Chinese development model in other parts of the world. Panellists put an emphasis on the need for checks and balances, especially in fragile states. To sustain growth, a government has to be able to support private actors but also ensure a fair income distribution. Development strategies should always reflect country specificities, which means that there is no overall development model applicable to every country. The shift of wealth does not have to be a zero-sum game. Sustaining regional poles of growth will encourage spill-over effects on neighbouring countries. Finally, there is potential to strengthen South-South linkages by facilitating trade relationships and exploiting currently untapped resources.

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