GLOBAL ECONOMIC PROSPECTS 2007: "MANAGING THE NEXT WAVE OF GLOBALIZATION"

Pre-embargo launch Brussels, December 7, 2006

The World Bank is publishing its Global Economic Prospects 2007 (http://media.worldbank.org) on December 13. Kristian and I attended yesterday's Pre-embargo launch at the World Savings Banks Institute in Brussels. The Global Economic Prospects is a yearly publication that reviews recent developments and prospects for the global economy. This year's report is titled "Managing the Next Wave of Globalization".

The World Bank economists' presentation emphasised the sound growth performance of developing countries in the last decade (1996-2006), which they attribute to improved policies, both at the international level (integration into the world markets) and at the national level (fiscal and monetary policies). The charts used at the presentation - which unfortunately cannot be found in the report - demonstrated that developing countries' growth rates in the last decade were considerably higher than in the period from 1986 to 1996, and – much to my surprise – that the overall good growth performance is only to a minor extent due to the high growth rates of China and India.

The World Bank report has, however, found that the global economy is at a turning point and that growth rates are likely to decrease. Surplus liquidity on financial markets, the U.S. trade deficit and the respective surpluses in other parts of the world, and the danger of a disruption in oil supply were identified as the major risks faced by the global economy.

Turning to the "Next Wave of Globalisation", they presented their projections for the Global Economy from 2006 to 2030. Developing countries are expected to outperform high-income countries with respect to growth rates also in the next decades. Until 2030, their share in global GDP will rise to 32% (1980: 16%), and their share in world trade is likely to amount to 45%. An increasing proportion of people living in developing countries will move to what they call the "global middle class" and thus constitute the "global market place".

Some regions, however, are likely to lag behind. Africa is at a disadvantage because it starts out at a very low level. To tap the full potential, an improvement of the investment climate and its governance is crucial. Attracting foreign investors via tax incentives and reducing corruption is identified by the Bank as the key to future growth.

Other problems they mentioned were income distribution and labour market problems, as well as population growth in developing countries and environmental problems.

Income distribution could become more unequal, they found. However, according to the World Bank economists, this is the natural price that has to be paid for the increasing skill-intensity of the growth path of an emerging economy. One of the participants asked whether higher returns to capital and a decrease in the income share going to labour could have (had) an influence on income distribution. Unfortunately, the issue was not addressed by the World Bank economist who continued arguing that increasing inequalities have to be attributed to technology, whose benefits could of course not be doubted. Kristian asked whether the developments in income distribution should be attributed to the fact that growth was turning jobless, and whether they had looked at this phenomenon. And if they had, if they had deeper analysis of the phenomenon than just attributing it to technological progess. This was not answered either.

They emphasised that trade reform – they meant trade liberalisation – is the best way to promote global equality. The liberalisation of sugar markets in Europe and the United States, which would benefit Brazil and its workers, was mentioned as an example. Labour market problems must of course be addressed adequately in both developed and developing countries, they conceded. A social safety net for workers is therefore crucial, in contrast to job protection, which is devastating, since it cuts off the efficiency gains and thus impairs the gains from trade. Education is another important factor. However, there was no advice for poor countries on where to take the money from (taking into consideration that lowering tariffs would mean a considerable reduction in the income of many poor countries).

A few comments from a (very) critical perspective:

Well, this according to the World Bank's view, nothing has changed: Liberalise trade and you will experience development. If you haven't yet felt the benefits, you have not reformed enough. Or you lack the infrastructure and the sound governance necessary to attract the foreign investors you might need to produce something you could exchange on the world markets.

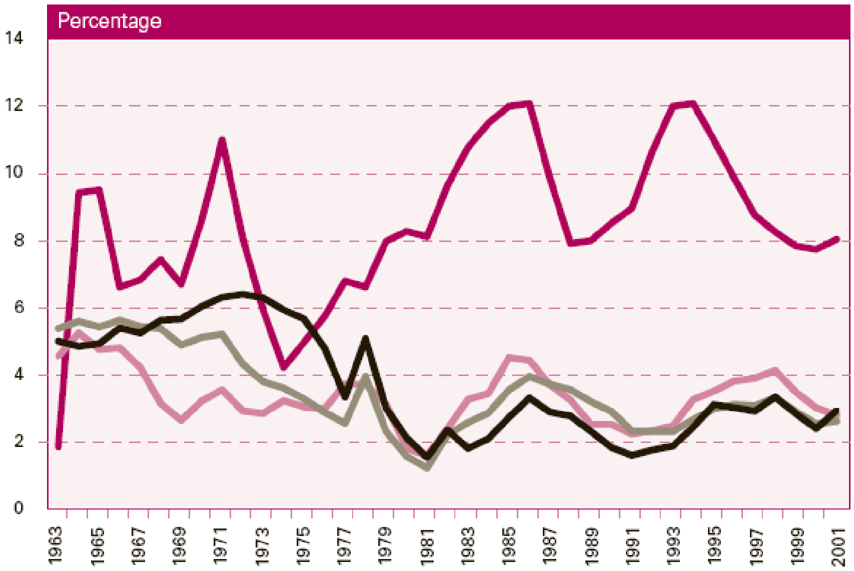
However, if developing countries' growth rates from 1996 to 2006 – except those of China and India, which clearly have not followed the Bank's recommendations – are compared to those before the 1980s, their current performance cannot be considered equally successful. Once you take into consideration that the period which the Bank took as a reference point was the one when developing countries (except China) experienced the lowest growth rates since World War II, recent improvements are less impressive. I have attached some graphical illustrations on this below.

Moreover, I am very critical about the way in which they addressed the issue of inequality. I felt that in some way they used it to justify the current international division of labour by arguing that equality within poorer countries could rather be promoted by concentrating on low-skill intensive production, such as agriculture or the type of manufacturing carried out in EPZs, than by using more skill-intensive methods of production. Therefore, if a country chooses to upgrade its economic activities, as India for example did, it has to deal with the inequalities arising from the skill premiums which have to be paid to the better qualified workers. Countries have to choose between either more value-added or more equality, the Bank would argue.

Further critics on the mainstream view that poor countries will develop via concentrating on the production of goods in which they currently have a comparative advantage (agriculture, low-skilled manufacturing industries) - whose prices on world markets have constantly decreased - could hopefully soon be found in detail in the study on trade and development that we are currently working on.

Karin

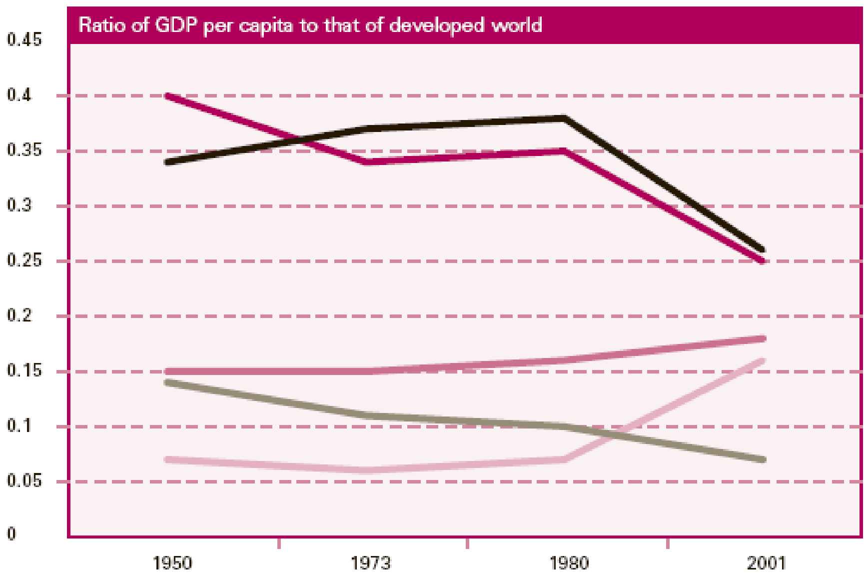
Figure I.9.
Growth rates of output of the global economy, China, the United States of America, and the group of developing countries (excluding China), 1963-2001[a]



Source: World Bank, World Development Indicators 2005 database.
a Five-year moving averages.

UN, World Economic and Social Survey 2006: Diverging Growth and Development, p 21

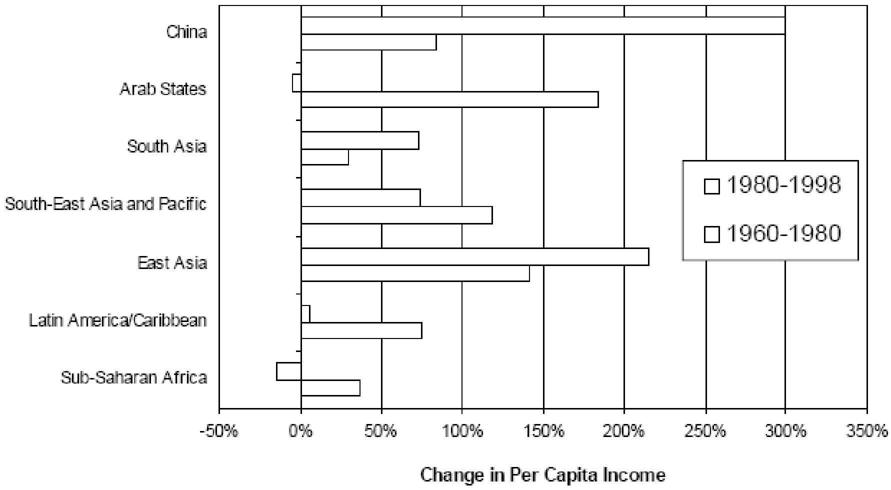
Figure O.1.
GDP per capita in selected developing regions and China relative to that in the developed world, 1950-2001



Source: UN/DESA, based on Maddison (2001).
Note: Data for GDP per capita are in purchasing power parity dollars.

UN, World Economic and Social Survey 2006: Diverging Growth and Development, http://www.un.org/esa/policy/wess/

Figure 1: Change in Per Capita Income in the Developing World: 1960-1980 vs. 1980-1998



Source: UNDP Human Development Reports 1998, 2000.

Weisbrot, Mark et al. (2001): Growth May Be Good for the Poor – But are IMF and World Bank Policies Good for Growth? A Closer Look at the World Bank's Recent Defense of Its Policies, Center for Economic and Policy Research, May 2001, http://www.cepr.net/publications/econ_growth_2001_05.htm, 26.08.2006.