FORUM BACKGROUND NOTE

SHIFTING WEALTH

GENERAL INTRODUCTION TO SESSION

Over the past decade, a group of emerging and developing economies has achieved remarkable advances in terms of growth and development, shifting the world's economic centre of gravity away from the industrialised countries. If current trends continue, developing countries will account for 57% of world gross domestic product (GDP) by 2030.

This growth has transformed lives -- nearly half a billion people out of a global population of now nearly 7 billion have moved out of extreme poverty in the last two decades, a rate of progress unprecedented in recent times. Growth in dynamic economies, such as China and India has made an important contribution to the global recovery from the financial and economic crisis. It has also helped to buffer the impact of the crisis on poorer countries. Countries that just a few years ago were aid recipients are now aid donors and some are increasingly important investors in the developing world.

This economic transformation has also strengthened ties between developing countries. Between 1990 and 2008, South-South trade multiplied by a factor of 20 while global trade expanded only four-fold. And investment flows are rivalling those from the industrialised world in a number of countries. But more could be done to harness the full potential of South-South aid, trade and investment. In addition to financial links, those who have successfully made the transition from developing to emerging economy have useful knowledge, experience and best practices to share about how to navigate the transition.

And as developed countries found in the boom years leading up to the crisis, economic growth on its own will not automatically reduce inequality, and indeed may increase it. This has also proved to be the case in fast-growing giants such as China and India, which radically reduced poverty over the past two decades but saw inequality rise at the same time.

At a transnational level, a growing technological divide is emerging within the developing world which could hamper future development and raises questions whether the issue of technology transfer should be revisited and how low-income countries should deal with the challenge of technological acquisition in a far more competitive environment than that of two decades ago.

And there are clear implications for policy making at the international level. Fast-developing economies mean rising demand for food and raw materials, increased pressure on the environment, raising questions of how to manage natural resources in a sustainable way while protecting everyone's right to a decent way of life.

PANEL 1: EMERGING ECONOMIES

The shift in the world economic balance has put the emerging economies to the fore on many levels. In addition to their contribution to global economic growth, they have become a vital development resource in terms of aid, trade and investment.

One of the positive consequences of rapid growth in China, India and elsewhere is poverty reduction. Since 1990, the number of people in the world living in extreme poverty, on less than a dollar-a-day, has fallen by more than a quarter – approximately half a billion. About 90% of these people were in China.

Thanks to their new-found wealth and prosperity, emerging economy governments can afford to boost public spending on social protection and welfare assistance to reduce inequality in their own countries.

And they can also help developing countries who have yet to make the transition. Emerging economies now give over 100 times more aid to developing countries than they did in 1990, the equivalent of about 15% of the flows of OECD-DAC donors.

The shift in the centre of global economic gravity needs to be reflected in the global governance architecture if emerging economies are to continue to grow, and more countries are to join them.

The financial crisis has reinforced the need for intensified international co-operation between advanced, emerging and developing economies. The strong, effective and co-ordinated crisis response of the G20 leaders, bringing together all these groups, was unprecedented.

But many challenges remain and much remains to be done in terms of enhanced international policy co-ordination. As the aid donor map changes, the players in co-ordinating aid policy change also. Emerging economies are taking part in common efforts such as ground rules for export credits in the aircraft sector, for example.

On the policy front, emerging economies can share experiences and best practice with developing countries who have yet to make the transition, as well as investing in and trading with them. But whoever the players, a level playing field for investors is important.

New challenges may emerge – emerging economies may have larger state-owned enterprise sectors than developed economies, for example, so whether they are treated differently from private sector enterprises or enjoy a competitive advantage compared with private sector competitors may be an issue.

Questions for discussion

1. *How to make the most of the sustainable growth opportunity offered by fast-growing emerging economies, and what role does civil society have to play?*
2. *Will the post-crisis recovery further shift global economic balance and what new issues will it raise?*
3. *How can the developed world contribute to ensuring lasting, shared growth in the developing world?*

4. *How can we make the most of the sustainable growth opportunity offered by fast growing emerging markets and what role does civil society have to play?*
5. *Will the post crisis recovery further shift the global economic balance and what new issues will this raise?*

PANEL 2: TRADE AND INVESTMENT

Trade and international investment are vital for growth and for employment. Many people are concerned about the effects of open trade on employment and wages where they live. Liberalised trade and investment is an engine for global job creation, as long as market opening is accompanied by appropriate employment and social policies so that the potential benefits of open markets can actually be realised and widely shared.

The global economic shift of recent years extends to trade; emerging and developing countries already account for more than 20% of global trade and this is expected to continue to rise. In 2009, China became the leading trade partner of Brazil, India and South Africa, and more than 40% of the world's researchers are now in Asia.

Gains from increased prosperity in the developing world can benefit rich and poor countries alike. Improvements in the range and quality of exports, greater technological dynamism, better prospects for doing business, more consumers – all these factors can create substantial welfare benefits for the whole world.

But there are many challenges. Increased competition is just one issue raised by shifting wealth. Investors need a level playing field to be able to compete in new markets, and newly emerging giants need to be involved in developing an international framework of standards and best practices.

Increased trade, particularly between fast-growing emerging economies and between developing economies, can help boost growth for all. As emerging economies become major exporters and providers of export credits to the developing world, it is important that they are also part of the international governance architecture in these areas, such as the OECD Export Credit Arrangement.

Questions for discussion

1. *What does the new economic geography mean for global governance?*
2. *How to ensure a level playing field for investment in a changing global economic balance?*
3. *How to boost trade and investment links between developing countries?*