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The General Council meets in Venice

KEMAL DERVIŞ: "STRUCTURAL SHIFT IN WORLD ECONOMY, CHINA AND INDIA ARE INCREASING THEIR WEIGHT WITH AN UNPRECEDENTED SPEED"

Venice, 25 September 2009. The Assicurazioni Generali General Council, the company's advisory and steering body of distinguished figures from the economic and scientific communities, held its annual meeting today in the S. Giorgio Island in Venice, chaired by Antoine Bernheim.

This year the General Council was addressed by Kemal Derviş, Vice President and Director of Global Economy and Development, Brookings Institution (Washington D.C.). He delivered a speech to the Generali Council on the *"Changing landscape of global growth: the increasing contribution of the emerging markets to growth and the prospects for a recovery".* Mr. Derviş stressed that "an unprecedented structural shift is taking place in the world economy towards the much greater economic weight of some major emerging market economies and most notably China and India".

Former head of the United Nations Development Programme, Mr. Derviş previously served also as Turkey's minister for economic affairs from March 2001 to August 2002 leading Turkey's economic recovery program after the country's 2001 financial crisis.

Summary of the speech:

The period preceding the great crisis of 2008-2009 had been called the period of "Great Moderation". The business cycle had been pronounced dead. The variation in output around long-term trend in the advanced economies had indeed been substantially reduced. But what happened over the last two years has been anything but "moderate". First, in 2007 came the initial downturn in housing prices in the US after a period of exorbitant increases. At the same time, and despite clear problems in the housing and the financial sector, there was a boom in commodity prices, more or less across the board, with oil peaking at USD 147 in the summer of 2008. The first half of 2008 was also the period when some argued that many of the emerging markets, starting with China, had "decoupled" from the advanced economies and would hardly be affected by what was then expected to be a moderate slowdown in the US, Europe, and Japan. Then, in the Fall of 2008, after the Lehman Brothers failure, it seemed for a few weeks that the emerging markets, including China, would all be strongly affected.

The story that unfolded had many surprises in store, and these surprises are still ongoing. Some argue that in sharp contrast to the "Great Moderation", we have entered an age of "Great Volatility". Looking forward it seems clear that an unprecedented structural shift is taking place in the world economy, although it is not at all clear that recent volatility will last into the medium term. It is useful to put this structural shift in historical perspective.

The following long-term features of the world economy are of particular interest:

- Perceptible economic growth is a relatively modern phenomenon, dating only to the early 19th century, -over the last two centuries the pace of world economic growth has accelerated, although that trend is not a linear one
- There has been both convergence and divergence in the world economy: some countries have started catching up with the richest advanced economies, some have fallen far behind -long-run supply side factors have been powerful drivers of economic growth
- The recent crisis shows, however, that Keynesian demand side problems have far from disappeared
- The emerging Asian countries, led by China, but recently joined by India, are increasing their weight in the world economy with an unprecedented speed.

Projections for the future vary widely. The evaluation of how the great crisis of 2008-2009 will affect future world economic growth differs dramatically between different analysts. What is quite clear, however, is the strong structural shift towards the much greater economic weight of some major emerging market economies and most notably China and India. One cannot easily generalize towards all emerging markets or all developing countries, however. Growth prospects differ widely, reflecting differences in national savings and investment rates, the fiscal head room and the capacity to conduct counter-cyclical policies, institutional and political factors, geographical and regional dynamics and different demographic trends.

Whether the great promises of “Globalization” can be realized depends on national capacities to conduct appropriate policies as well as the international community’s ability and will to “manage” globalization. That is what is at stake in Pittsburgh and beyond.