

## **China Entrepreneur April 2013**

### **The new constellation of growth in the global economy**

#### **Inaugural Meeting of the “Growth Net”**

On 10 and 11 March I was in New Delhi participating in the inaugural meeting of the “Growth Net”, a forum established to focus on the “new constellation of growth in the global economy”. The meeting was attended by leading personalities from government, business, academe and civil society from both industrialised and emerging economies.

One of the unsatisfactory elements in the contemporary discourse on the global economy is the terms we use. Terms such as “advanced economies” or “emerging economies” or “developing economies” obfuscate more than they clarify. They are rag-bags where more or less anything can be thrown in without in the process conveying any meaning of substance. There is an element of intellectual laziness.

Hence it was that at this meeting in India the term “the new constellation of growth in the global economy” was coined. It is evocative, based on a number of assumptions, which include:

- No global locomotive of growth can be expected from the North in the near to medium term (2-5 years): the US economy is stuttering, the EU is sclerotic, the magic wand of Abenomics will not shake Japan out of the doldrums.
- Growth henceforth will be coming from the more dynamic economies of the South.
- A vivid illustration of this transformation is that whereas the middle class in the North is in a state of decline (in numbers and purchasing power), the huge rise of the “new middle class” in the South is a defining feature of our era. The numbers are in the hundreds of millions. The business implications are staggering.
- Whereas the term “emerging economies” tends to imply disparate players acting on their own, the “new constellation of growth” reflects the rapidly growing interconnections – in terms of trade, investment, technology transfer – and interdependence between an increasing number of economies of the South.
- A parenthesis can be opened here to say that the constellation includes not only developing economies; Australia is enjoying its 21<sup>st</sup> straight year of growth, because it has become an integral part of the constellation.
- Thus whereas in the past countries and companies that wished to grow hitched their wagons to the American and European markets, henceforth countries and companies that wish to grow (including those from the North) must seek to engage with the constellation of growth.

So the constellation of growth is basically a very positive thing, not only for the economies that form its core, but for the world economy generally. If the constellation of growth did not exist, there would be no growth; with the planet expecting another two billion inhabitants over the next three

decades, millions and millions still to be lifted out of poverty, and the imperative of creating jobs, this would be a disaster scenario.

The good news however must not lead to the complacent conclusion that this will all be plain-sailing. Periods of profound transformation – and we are living through the most profound transformations in human history – are by definition disruptive, even if the outcomes a priori appear positive. There are extreme volatilities, uncertainties and inevitable shocks. There are tensions over a whole range of issues: currencies, intellectual property, industrial policies, trade, environment, labour mobility, immigration, etc. The constellation of growth is not set in concrete. It could disintegrate.

Perhaps the most serious threat to the constellation is the deficit of trust, which in turn is in good part the result of the absence of familiarity and knowledge. Just a few years ago, Brazil and China – two of the prominent stars in the constellation – were no more than dots on their respective horizons: today they are major trading and investment partners, but also competitors. The China-Africa relationship seemed to presage a new dawn for the continent giving rise to its perception as the new frontier of the global economy; apprehensions nevertheless are reflected, for example, in an article written in the *Financial Times* by the Governor of the Central Bank of Nigeria, Lamido Sanusi, entitled “Africa must get real about Chinese ties” and with the sub-title “the relationship carries with it the whiff of colonialism”.

Mistrust occurs not only between distant and unfamiliar partners, but also between neighbours. This is often the case especially between the smaller or medium sized countries in respect to their respective regional big powers. Chileans complain about the opacity and barriers to the Brazilian market, the African nations are apprehensive about the risks of domination by South Africa, Bangladeshis say easier access to the Indian market would add significantly to their GDP growth prospects, while China’s rapid rise is looked upon suspiciously by the countries of the Asia Pacific.

For the constellation truly to illuminate the global economic galaxy, knowledge exchange and confidence building between the member states and their respective stakeholders is an absolute imperative. Trust is the cement that will hold the constellation together and make it thrive.

Jean-Pierre Lehmann, 14 March 2013.