

## Focus on structural reform and encourage innovation

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The G-20 group of emerging and developed countries is the right forum to address global concerns such as climate change and reform and better monitoring of the international financial system. As a key G-20 member, China should not hesitate to take up a leadership role in addressing global problems such as climate change, reform of the international financial system and other global concerns.

Few prognosticators predicted the sub-prime collapse, and even fewer economists forecasted that global demand would fall so dramatically in the wake of the financial crisis.

What are the systemic risks, industry dynamics and normative changes affecting global demand today?

### The key points of the discussion were as follows:

- \* The US consumer cannot resume its role as the world's engine of growth in the medium term, so high-saving societies like China, Japan and Europe must take up the slack.
- \* But the world should also take into account changes in consumption patterns, particularly in response to climate change and the global response to it.
- \* Recalibrating global demand also requires fixing national imbalances, including structural deficiencies in Europe and the fiscal deficit in the US.

The US will not be able to return to its previous role of the world's importer and consumer of last resort in the medium term, so high-saver countries like China, Japan, Germany and others in Europe must take up the slack.

But it takes time for consumer habits to change. It may take six to seven years for Chinese consumers to shift from saving to buying, not least because people feel they have to personally save for emergencies because the country's social insurance, healthcare and other safety nets are weak.

Still, the potential for emerging markets to become global consumption engines is enormous. If per-capita income in China and India were to approach the level enjoyed by the developed economies today, the two Asian giants would each account for 20% of global GDP – while the US and Europe would have 5% each.

It is not a simple matter of finding a replacement for the US consumer. The nature of consumption will change not only because of the geographical and cultural shift in the source of demand, but also because of climate change and the global response to it. Consumers will increasingly demand environmentally sustainable goods.

Governments can speed up this process with incentives for the purchase of energy-efficient cars and houses. Businesses should regard this trend not as a constraint to growth but an opportunity to build new industries and products.

The recalibration of global demand requires fixing national imbalances. In Europe, pension schemes allow people to retire at 55, a costly luxury in ageing societies. In the US, the fiscal deficit is forecast to rise to a frightening US\$ 7-9 trillion. In China, the economy is still heavily skewed towards exports.

Europe should have the political will to make structural changes, such as raising the retirement age. While withdrawing stimulus spending in the US at this time will do more harm than good, a medium-term consolidation plan to bring down the fiscal deficit should be put in place.

China's own stimulus package is proving effective in encouraging domestic consumption, but it can move faster on liberalizing trade, financial services, entertainment and other sectors, and help the private sector access capital that at present goes mainly to big state-owned enterprises.

### **Other Key Takeaways**

The G-20 group of emerging and developed countries is the right forum to address global concerns such as climate change and reform and better monitoring of the international financial system. As a key G-20 member, China should not hesitate to take up a leadership role in addressing global problems such as climate change, reform of the international financial system and other global concerns.

Governments must resist the temptation to raise the tax burden in order to fix their finances. It is best in the long run to focus on structural reform, boost productivity and encourage innovation. These are the real drivers of long-term growth because they make consumers richer and therefore able to buy goods and services.

Session Panellists included: David Dollar, Economic and Financial Emissary to the People's Republic of China, US Department of the Treasury; Global Agenda Council on Trade; Caio Koch-Weser, Vice-Chairman, Deutsche Bank Group, Deutsche Bank, United Kingdom; Ilian Mihov, Professor of Economics, Novartis Chaired Professor of Management and the Environment, INSEAD, Singapore; Vincent Van Quickenborne, Minister of Economy and Reform of Belgium; Wu Ying, General Partner, CTC Capital, People's Republic of China.

The session was chaired by Ian A. Goldin, Director, 21st Century School, University of Oxford, United Kingdom; Global Agenda Council on Global Institutional Governance.

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