Crisis in a Global Economy. Re-planning the Journey
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THE CRISIS AND ITS AFTERMATH FROM THE POINT OF VIEW OF THE DEVELOPING COUNTRIES

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'Crisis? Oh, yes! I have heard there is something like that in the USA and Europe. Here we somehow have less work, that's all'. Had many people in China or India been asked about the most serious crisis since the Great Depression they would very probably have answered in such a way. They didn't need to see Table 1 to know this, because they have kept improving their living standards during the last three years, only a bit less than in the last few of decades. Table 1 gives reasons to them. By the end of 2010, GDP per capita will have grown since 2007 at an annual rate of 8.8% in China, 5.4% in India and 2.4% in the rest of Developing Asia. GDP per capita growth will be also positive for the majority of emerging countries (EC)[1] by the end of this year. For instance, African countries will end 2010 with an average GDP per capita growth of 1.4% per year during the last four years, what is faster than their historical performance.

Even more amazing is that total GDP gains of EC between 2007 and 2010 (US$ 4.08 trillion) will largely surpass DC's losses (US$ 0.21 trillion), resulting in a world GDP growth of 3.87 trillion. Even taking into account a shorter period (2007-2009, not shown in Table 1), world GDP increased by 1.23 trillion dollars, as EC gains of 2.41 trillion more than offset DC's losses of 1.18 trillion.

This argument does not imply to deny the negative effects of the crisis on EC and their people, very well documented in Dasgupta (2010). But the fact is that in spite of these damages both (gross) welfare measures, GDP and GDP per capita have been positive since 2007 for 5.1 billion people or 77.7% of the world population. In sharp contrast, predominant discourses

[1] Most of the developing countries are beginning to emerge, so I will call them emerging countries (EC) from now onwards. We didn't use this name in the title of the paper because its current use is limited to the most successful or bigger developing countries.

Table 1. The other inequality – Growth by groups of countries, 2007-2010

	GDP pc Δ%	GDP pc annual rate	Δ Total GDP US$ Trill.	% of Total US$ Trill. Growth	World Pop. %
World	**2.1**	**0.7**	**3.87**	**100**	**100**
Developed, E. Europe ,CIS	**-2.0**	**-0.7**	**-0.21**	**-5.4**	**22.3**
Emerging	**12.9**	**4.1**	**4.08**	**105.4**	**77.7**
-Sub Saharan Africa	*4.2*	*1.4*	*0.20*	*5.2*	*12.9*
-North Africa & Middle East	*6.6*	*2.2*	*0.29*	*7.5*	*5.0*
-LATAM and Caribbean	*2.0*	*0.7*	*0.33*	*8.5*	*8.6*
- Developing Asia	*20.5*	*6.4*	*3.31*	*85.6*	*51.3*
o/w China	28.7	8.8	2.24	57.9	19.6
o/w India	17.1	5.4	0.70	18.1	17.1
o/w Others	7.6	2.5	0.37	9.6	14.5

Source: Author's estimates based on World Bank data. Note: partial sums may not coincide due to round off.

in Japan or in the West referred to the same period have been limited to its dramatic effects in developed countries (DC).[2] This is natural, because if everything goes well, they will recover their pre-crisis GDP per capita only in 2012. What is not natural, instead, is that the subject of those discourses is 'the world', just when we are beginning to live a historical, civilization-wide change, i.e., the new role of EC under Asian leadership. They are now stronger than before the crisis, and everything indicates that they will remain at the centre of the global economy for a very long time, opening new life opportunities to 5600 million people,[3] almost 85 percent of the world population.[4] After analyzing this phenomenon in the first part of the paper, we discuss in the second part what changes in the architecture of the world economy would be needed to get, at the same time, the continuity and improvement of the development of EC as well as the recovery of the DC.

[2] An interesting exception is Checki (2009).
[3] In this case we include CIS's and Eastern Europe's populations in the EC's total.
[4] In Table 1, 77.7% excludes CIS's and Eastern Europe's populations.

1. The new stage of the global economy and the emerging power

1.1. *Emerging countries, stronger than ever*

Alter the worst world economic crisis since 1929 – the first really global one – the world economy is very clearly beginning to recover, slowly in DC and very rapidly in the EC, particularly in Asia.[5] This is one of the many evidences of the megatrend of the new role of EC that is now in the process of reinforcing itself and will have deep, mainly positive consequences all over the world.[6] As it can be seen in Table 2, EC will continue increasing their share in the global GDP from 25% before the crisis to 35% in 2020 in current US$, and from 41.9% to 54.9% in PPP US$ (purchasing power parity), a more relevant measure from the point of view of internal welfare. More impressive yet is EC's share in world GDP growth. After surpassing 100% between 2007 and 2010, because of the drop in DC's GDP, from now onwards that share will reach more than 55% in current US$ and 75% in PPP US$. EC' resiliency to confront the global crisis has been noteworthy, and geographically widespread and uneven at the same time. Less than half of them dropped in a recession in 2009 (62/150, 41.3%). North Africa and the

Table 2. DC and EC shares in global GDP and GDP growth

	Global GDP's share (%)			
	Developed countries		Emerging countries	
	US$	US$ PPP	US$	US$ PPP
2007	75.1	58.1	24.9	41.9
2008	74.1	56.8	25.9	43.2
2009	73.2	55.6	26.8	44.4
2010	72.5	54.6	27.5	45.4
2015	68.4	49.9	31.6	50.1
2020	64.4	45.1	35.6	54.9
	Global GDP growth share (%)			
2007-10	-70.0	-19.3	170	119.4
2010-15	46.6	24.8	55.4	75.2
2015-20	39.8	23.4	60.2	76.6

Source: author's elaboration on IMF and World Bank data.

[5] As anticipated in PASS (Juan J. Llach, editor, 2008).

[6] See J.J. Llach and M. Marcela Harriague (2009); *The Economist*, December 30th, 3009.

Middle East was the best performer (3/20, 15%), followed by Sub-Saharan Africa (10/44, 22.7%), and then Developing Asia (10/26, 38.5%). The worst performers were the countries of the Commonwealth of Independent States (7/13, 54%), LATAM and the Caribbean (20/32, 62.5%)[7] and Central and Eastern Europe (12/15, 80.0%). In sharp contrast, only three out of thirty-three DC – Australia, Israel and Korea – escaped from a recession in 2009.

1.2. *Explanations of emerging countries development and new role*

It is possible to identify at least five factors to explain this new megatrend of increasing EC's prominence. All of them have good probabilities to be long lasting, so it is also very probable that this new megatrend has arrived to remain with us for a long time.

1. *'Unlimited' supply of labor at constant initial wages*. A central key of EC's development model – particularly noteworthy in Asia – is that, given the low labor *market* productivity in the agricultural sector, a continued rural-urban migration process takes place. Once they arrive, migrant workers offer their labor in the cities at constant wages, higher than in the agricultural sector but lower than their urban marginal productivity, giving their contractors the opportunity to make more than 'normal' benefits. This is the model developed more than half a century ago by Nobel Prize-winner W. Arthur Lewis (1954). Given the international mobility of capital and the growing supply of new technologies, conditions are thus created to a sustained growth of investments in those EC characterized by the Lewisian model. China, India and other Asian countries are very clear examples, but this process is also taking place in Latin America and Africa. As it can be seen in Graphs 1 and 2 (see pp. 605-6), both agricultural employment and rural population are still very abundant in Asian countries – 60% in China and 70% in India in the case of rural population – which implies that the Lewisian model can continue working for two more decades, at least.

Lewisian model poses per se serious challenges and even threats to manufactures in other parts of the world, particularly in DC, because it is not only based on low wages but also on artificially depreciated exchange rates, as it is briefly analyzed in the second part of the paper.

[7] Even when LATAM has improved its performance during the last couple of decades, it has also continued losing positions in the world rankings (Izquierdo and Talvi, 2010).

2. *Terms of trade appreciation and wide match-up margins*. Half a century ago Raúl Prebisch and Hans Singer presented the *EC's terms of trade deterioration* hypothesis. According to it, raw materials or commodities' prices secularly tended to lose value in terms of industrial goods, and this trend was an invincible impediment to the economic growth of commodities' producing countries. Both demand and supply factors coincided to cause of this trend. On the one hand, the demand for industrial goods normally grew more rapidly than that of commodities. On the other hand, commodities markets tended to be competitive, while industrial markets tended to be oligopolic or monopolic. Although controversial from the empirical point of view most of the evidence shows that since the crisis of 1929 and the Second World War, commodities prices were effectively weak. In the case of food, it is very probable that the protectionist policies enforced by DC since the postwar period played a relevant role in this process, as they reduced the size of food world markets.

The situation has changed since the beginning of this century. Just to give a couple of examples, the price of a notebook computer in 2000 was 20 tons of soybeans, and nowadays is just 2 tons, i.e., ten times cheaper. In the year 2000 1 ton of soybeans could buy 1 mobile phone, and nowadays it can buy 25 mobile phones, i.e., 25 times more. If you put either oil, copper, cotton or corn instead of soybeans, this amazing change in relative prices is similar. So what we are experiencing nowadays is a process of *EC's terms of trade appreciation*. Their immediate causes are twofold, an increase in the nominal prices of commodities and a continuous drop in the price of industrial goods, particularly intense for technological goods coming from IT or biotechnologies. But which are the explanations of this relative prices movement? On the one hand, the increase of commodities prices is basically due to the growth and the growing importance of Asia, a continent whose natural resource endowments are very poor compared to those of Africa or South America. On the other hand, the price of technological or capital goods goes down because they are produced by ever lower-wage workers in more and more competitive markets. It is very probable that these two factors will tend to remain with us for a long time, and this appreciation of its terms of trade gives wide margins of productivity increase and catch-up to commodities-producers in EC.

The case of mobile phones is particularly amazing. As shown in Graph 3, the world stock of mobile phones jumped from 800 million in 2000 to 4 billion in 2008, to 4.6 billion in 2009 and to more than 5 billion in 2010 (not shown in the Graph). In the case of EC, the increase was from 200 million in 2000 to 3.2 billion in 2009, while in DC the growth was from 600 million to 1.4 billion. A mobile phone is more and more not only a way to talk person to person, but a connection to the world. In few more years most mobile phones will be computer-like, but they are already helping very poor people in cities as well as in the countryside to increase their productivity and their income. For instance, they allow poor farmers to know weather forecasts and market conditions, and they also allow many people to learn to read and write, because they need these abilities to have access to the cheapest communication device, i.e., mobile phone text messages.[8] Analogous processes are taking place with computers and, to a lesser extent, with biotechnologies (Graph 3, see p. 607).

3. *Increased and improved investment in education*. A growing number of EC are investing more and better in education, and their enrollments are gradually converging to those of DC (J.J. Llach, PASS, 2005). East Asian countries lead international education assessments in which they participate (like OECD-PISA). Chinese, Korean and Indian students are the biggest populations among foreign students in US universities and, together with the Taiwanese, they are the fastest growing ones too. Every year 700,000 people in China and 350,000 in India get an engineering degree, compared to 70,000 in the USA. This implies that the engineers/population ratio is growing faster in these Asian countries than in the US (Li *et al*, 2008).

4. *Two thirds of the world population are improving their consumption patterns and getting out of poverty*. Urbanization, productivity growth and increased education obviously lead to an acceleration of consumption growth. Since 2007, consumption increases in China and India contributed more than that of the US to world GDP growth. McKinsey (2006) forecasts that in the next 20 years most Chinese people will leave poverty: the percentage of those living with less than US$ 285 per month will fall from 77% to 2.5%. Chinese middle classes will have 78% of urban income in 2016, from 42% in 2006, and the richest will increase their share from 0.1% to 19.4% of urban income. In 2025 Chinese cities will be one of the biggest world markets, with a consumption of US$ 3 trillion, more than the current Japanese

[8] See *The Economist* (9/25/09 and 1/7/2010) and A. Goyal (2010). Babajob (Bangalore, India) and Soukel (Palestine) offer job search services through msn. In Kenya, M-Pesa offers different forms of electronic payments trough mobile phones. In Moldova and Iran they helped organize demonstrations against authoritarian governments, and in India they help people vote and check election results.

consumption. A similar story can be told of India. McKinsey (2007) forecasts that in twenty more years India will be the fifth world consumption market, jumping from US$ 370 billion to 1.5 trillion, and middle classes there will jump from 50 to 583 million people.[9]

Table 3. ESCAPING FROM POVERTY – NON-POOR PEOPLE IN EC, 1990-2005

Table 3: Living between $2 a day and $13 a day

Region	Number living between $2 and $13 per day (millions) 1990	2005	Change 1990-2005 (millions)	Percent of total change	Percent of the population 1990	2005
East Asia and Pacific	315.5	1117.1	801.6	65.9	39.8	59.3
Of which China	173.7	806.0	632.3	52.0	15.3	61.8
Eastern Europe and Central Asia	355.3	347.8	-7.5	-0.6	76.3	73.4
Latin America and Caribbean	276.7	362.1	85.4	7.0	63.2	65.8
Middle East and North Africa	170.2	240.1	69.9	5.7	75.5	78.7
South Asia	192.7	380.2	187.5	15.4	17.2	25.8
Of which India	146.8	263.7	116.9	9.6	17.3	24.1
Sub-Saharan Africa	117.7	197.1	79.4	6.5	22.8	25.8
Total	1428.1	2644.3	1216.2	100.0	32.7	48.5
Total excluding China	1254.4	1838.3	583.9	48.0	38.9	44.3

Source: M. Ravaillon, (World Bank, 2009).

Changes in consumption patterns can be observed not only in China or India, but also in Africa and Latin America. Between 2000 and 2010 Africa GDP per capita has grown at 2.62% per year, almost twice the level of Latin America (1.37%), the fastest in African modern history[10] and in sharp contrast with an annual drop of 0.2% from 1980 to 2000. Table 3 shows that non-poor people in EC increased from 1.428 billion in 1990 to 2.644 billion in 2005. Around half of this growth came from China.

5. *Better economic policies*. It is very evident that EC's economic policies have significantly improved from the times of the previous commodities bonanza in the early seventies of the last century, when most of them used to be oriented to a closed economy, huge government interventions,

[9] See also A. Panagariya (2008).

[10] The previous record was from 1960 to 1970 (2.35%).

twin deficits (fiscal and external), high inflation and chronic indebtedness problems. During the last decades, instead, most of them practice good macroeconomics – twin surpluses or equilibrium, administered floating exchange rates and low inflation – and good microeconomics as well, as it can be seen in market-friendly policies and competition to attract foreign and domestic investments. Some cases are particularly noteworthy. Peru's President, Alan García, was also president 25 years ago. But his current economic policies have completely changed, adapting them to what most ECD currently do. As a result, Peru is very clearly the economic star of LATAM in this century. Most of us also have vivid memories of the Vietnam war. Although it still has – like China – an authoritarian single-party political regime, Vietnam has left behind its past of cruel devastation and has become one of the main factories of the world and one of the most successful economies. These EC's economic policies have not been positive only as regards EC's growth. They also lead their financial assets to be the least risky worldwide (Graph 4, p. 608) and, what is more important, they have allowed them to enforce very strong anti-cyclical, Keynesian-oriented policies to successfully fight against the world crisis.

1.3. *EC's growth megatrend in the very long run*

Such is the strength of the aforementioned EC's growth megatrend that it could even evolve into forecasts like the ones made by Nobel Prize-winner Robert Fogel (2007 and 2009), shown in Table 4. According to him, in 2040 China, India and parts of SE Asia would have 63.6% of world GDP, almost three times the 22% level they had in 2000. The whole group of EC would increase their participation from 49.1% to 80%. Surprisingly, LATAM would have in 2040 a bigger total GDP than Europe and similar to the sum of Europe and Japan. EC, in contrast, would increase their share from 49.1% in 2000 to 80% in 2040. A bit incredibly, LATAM's share in world GDP would be equivalent to the sum of Europe and Japan (Table 4, p. 604).

Of course, lots of assumptions and potential mistakes underlie these projections. Just seeing the magnitude of current environmental problems in China or India it is almost impossible to think of China and India with a total GDP of US$ 160 trillion in 2040, almost four times the world GDP in 2000. Other relevant questions also arise. Could such a change in the distribution of economic powers between different civilizations be as peaceful as was the transfer from the UK to the US? Notwithstanding these deep doubts, there are good pieces of evidence to believe that the trend described by Fogel is basically right.[11] The world has begun a one-way, civilization-wide change process through which the axis of the world's economic power is constantly moving from the Atlantic to the Pacific. Some people in the Far East think that this is nothing else but a return to the normal state of world affairs, the same as it had been from 2000 BC onwards, and that the last seven or eight centuries of Western hegemony (1200 to 2000) were just an exception.

1.4. *Impacts on commodities*

There are at least five ways through which EC's growth megatrend, and particularly that of Asia, has impacted on commodities demand and prices.

a) *Direct consumption effect.* While Asia has a relative scarcity of natural resources per person, Africa and South America have the opposite factors endowment. So Asia is and will be a growing net importer of natural resource-based goods. This is an obvious channel of positive influence of Asian growth on commodities markets and commodity-producer countries.

b) *Producer countries' consumption effect*. The positive impact of Asian demand on African and South American growth also has, in turn, a positive impact on their consumption through a sort of foreign trade multiplier. So Asia's impact on EC growth is twofold, through higher commodities prices and/or bigger commodities markets and through a foreign trade multiplier. The most notorious case is that of Africa, as shown in Graph 5 (see p. 609).

c) *Environmental limits effects.* Most Asian countries, and particularly China and India, have serious environmental problems that, among many other effects, put ceilings to increasing agricultural production at the pace of the growth in demand.[12] Of course, this situation could eventually change in the future with the help of (unpredictable) new agricultural technologies, as was the case with the Green Revolution in the sixties and GMOs since the nineties of the last century.

d) *Oil and biofuels effect.* As is very well known, the increase in energy prices in this century is at least partially explained by the growth of EC's

[11] Just think of this data: from January 2006 through December 2009, industrial production in Asia grew 56% and that of the US dropped by over 10%.

[12] See Lester Brown, in www.earthpolicy.org. A non pessimistic vision of China's environmental situation can be read in Dean and Lovely (2008).

demand. As a consequence, many countries that are net energy importers have significantly augmented their biofuels production. The clearest case is ethanol production in the US. Although very doubtful from the point of view of their net environmental effects and food price increases, the fact is that this substitution creates additional demand for grains.

e) World economy current adjustment: wages and consumption increases in EC. The fifth transmission channel has deserved scarce attention, but it is probably the most important regarding future developments. As a consequence of this first really global crisis, Asian countries are learning that excessive reliance on an export-led growth model has its faults. The main one is that it creates equally excessive dependence on events out of their own control. This is more evident for countries like China or India, whose domestic markets are as big as they are underdeveloped and whose exports and investment aggregate demand shares look exaggerated. For these reasons it is very probable that in the years to come they will gradually change their growth drivers, increasing the role of consumption at the expense of exports and investment. This change would not be very positive only for Asian countries, but for the whole world as well. It is beyond any doubt that monster balances of payment imbalances – particularly US deficit and the surpluses of Asia and oil-producing countries – have played a relevant role in the origin of the world crisis, as they provided the ultimate source of liquidity afterwards recycled through very risky financial conduits. For these reasons, in order to help prevent or moderate a next world financial bubble it is crucial to have more equilibrated balances of payments in the years to come.

These processes will imply an appreciation of Asian currencies and an increase of Asian wages in dollar terms. The first one is not only important from the point of view of macro balances but also in order to keep world economy open to trade. If it does not take place, retaliations from countries in other continents will very probably take place, damaging world economy. As regards Asian wages, their increase in dollar terms will be very positive for wage-earners all around the continent as well as for all the countries that sell goods and services to Asia, reinforcing in that way the EC's growth megatrend we are describing.

1.5. *Less poverty, better income distribution*

The aforementioned long run trends have had very clear positive effects in reducing poverty and improving income distribution (Sala-i-Martin, 2006). Asian stories are very well known. But the same is going on in Africa, the continent in which 75% of the poorest of the world live on less than US$ 1 per day. Sala i Martin and Pinkovskiy (2010) show that African poverty is falling in such a way that if present trends continue, the poverty-related Millennium Development Goal of halving the proportion of people with incomes less than one dollar a day will be achieved on time. African poverty reduction is remarkably general: it cannot be explained by a large country, or even by a single set of countries possessing some beneficial geographical or historical characteristic. Additionally, the growth acceleration that began in 1995 decreased African income inequality. The obvious fact that the global crisis has seriously damaged the living standards of many poor people in EC should not make us forget that the continuity and improvement of their growth patterns will allow millions of people to leave poverty in the years to come. A clear example of these patterns is the improvement of drinking water access shown in Graph 6 (see p. 610).

1.6. *The scandal of hunger*

Of course, not everything is rosy in ECs. Not only because of the dramatic life patterns of the EC's megalopolis in which billions live, from polluted environment to crime and high incidence of drugs, but also because the economic crisis has had very negative impacts on those already struggling to survive (Dasgupta, 2010). Besides, the number of chronically hungry people in the world rose from 913 million in 2008 to 1.02 billion in 2009, almost a sixth of the global population (FAO). Food prices that are 17% higher than they were two years ago, and big shortfalls in remittances and investment are contributing to growing hunger. The economic slump has meant a growing share of the world's population is going hungry, after a steady decline since 1970. And FAO notes that global food output will have to increase by 70% to feed a population projected at 9.1 billion in 2050. Sixty-three percent of this increase will come from Asia, and 26% from Africa.

2. Are these developments sustainable? Structural and world governance issues

Now it's time to ask. Is this megatrend of EC's rapid development and increasing importance in the world economy sustainable? Which conditions would make it lasting? What are their relationships with DC developments?

2.1. *Connectedness*

It is very evident that the world economy's connectedness increases every year. Just to mention one example, world exports doubled in volume from 1989 to 2000 and grew 50% from 2000 to 2008. In such a context, although EC have an incredible growth dynamics it still significantly depends on DC growth. Take for instance balances of payments. At world level they are equal to zero – we don't yet trade with other planets or stars. One's surpluses are another's deficits, and given the export-led growth model that prevails in most of Asia and the Middle East it is very relevant to remember this point. Both of them need DC's demand for their products to grow fast, and this in turn requires the economic growth of DC. Another relevant case of connectedness is that if the current recovery of the world economy were to imply, as in the last cycle, ever increasing Asian and Middle East surpluses and US deficits, there will be similar risks of a new crisis. As we have already mentioned, balance of payments disequilibria have been the raw material without which it would have been impossible to issue the enormous amount of risky financial assets whose explosion was the detonator of the crisis.

2.2. *New structural forces*

Balance of payments disequilibria have some deep, structural forces behind them. On the one hand, there are factors that contribute to an EC's structural balance of payments surplus. The Lewisian model plus the high proportion of rural population in countries like China and India keep under control Asian wages and the prices of the goods so produced, pushing Asia's exports permanently up. Additionally, Asian growth impulses the exports of commodity-producing countries, giving way to balance of payments surpluses in many other EC.

This structural trend toward EC's exports growth could be from now onwards counterbalanced by forces operating the other way in DC. Japan and Europe appear to be pursuing the impossible triad of no kids, no immigrants and good pensions. As it was shown in Table 4, Japan's population is projected to fall 15% between 2000 and 2040, and European population will remain stable in the same period. This leads to low savings and investments, to unsustainable fiscal balances – the demographic pyramid makes it impossible to finance current pensions – and to a general lack of the social and economic dynamism you can see in countries with younger populations, plenty of projects and confident in the future. In the case of Europe, economic inequalities between countries inside the euro zone are nowadays very evident and cast doubts on its competitiveness in the long run. The situation in the US is somewhat different, as they are more open to immigration and more prone to scientific and technological developments. It is true that there are many differences among DC, but in a large majority of them the next decade will be characterized by heavy fiscal burden and slow economic growth. And it will be very difficult for them to resume growth at the same rates they enjoyed before the crisis.

2.3. *The risk of a negative adjustment*

It is probable that, as a result of the aforementioned trends, the world economy will negatively adjust its imbalances in the years to come. Both EC's growth and balances of payments surpluses could be limited by a slower DC growth. This would be negative not only from the social point of view, given DC's high rates of unemployment, but from the fiscal situation too. In a slow growth context it will be much more difficult to reduce unemployment and to fix the unsustainable fiscal deficits and the burden of the public debt.

2.4. *The potential role of improved world governance*

April 2009's G20 London summit created new hopes of a badly needed improvement in world governance. Coordinated credit credentials were given in such a way to countries and banks that financial markets strongly recovered. Together with monetary and fiscal policies previously enforced by many countries – although in a less coordinated way – those signals were decisive to give way to the very clear current recovery of the world economy. By the way, it's strange how many Keynesian economists, together with many others, who advocated these kinds of measures, have been so far very skeptical about the recovery, predicting an imminent new crisis that never arrives.

Unfortunately, the hopes of improved world governance have gradually begun to erode. The clearest case is financial regulation in which enough progress has neither been enforced at the country level nor at the world level (Tietmeyer, 2010). Another very relevant case is all that is going on around Greece, of course not just a Greek issue, but a European one. An eventual Greece default would create very serious problems for many other countries in Europe, perhaps not only in the Mediterranean or the Baltic, but in other unsuspected places too.

In order to allow a sustainable growth of both EC and DC, deep changes in current processes and policies would be necessary. All of them look difficult per se and even more improbable in the absence of better world governance.

1. *Fixing exchange rate misalignments*. In order to preserve their export-led growth model, many Asian countries have been reluctant to allow the market-driven appreciation of their currencies. At variance with what normally happens, the Lewisian structure of their labor markets allows them to perform this policy without an inflation risk. However, this is not good for the world equilibrium as it favors permanent and sometimes increasing balance of payments surpluses.

2. *Less poverty and better income distribution in EC, particularly in Asia*. Asia's exchange rate policies lead to lower wages in dollar terms. On the contrary, a more accommodative exchange rate management would increase wages in dollars and would also lead to a bigger share of consumption in aggregate demand. Of course, this would also imply a gradual change from a pure export-led growth model to a combined consumption-plus-export-led growth. This would be good not only from the point of view of world economy equilibrium and growth, but for the reduction of poverty and the improvement in income distribution in Asia as well.

3. *New demographic, immigration or pension system policies, particularly in Western Europe and Japan*. Without a population-prone change in their demographic and/or immigration policies both Europe and Japan seem to have no destiny but one of slow growth, serious fiscal and indebtedness problems and social conflicts on pension systems. A reform of the pensions systems could play an analogous role, but social resistances to it is very intense (A.H. Boersch-Supan and A. Ludwig, 2010; C. Horioka, 2009).

4. *New and coordinated financial regulation*. As Sinn (2010) and Tietmeyer (2010) argued in this same session, without a rapid, new and sound coordinated financial regulation, the risk of a new deep world crisis is very high.

3. Conclusions: new values and behaviors or playing dice once again

It is improbable and for sure uncertain that the aforementioned policies or something similar to them will appear endogenously or spontaneously. As a matter of fact, it has not happened up to now. Better world governance, instead, would make more probable the enforcement of policies like 1 and 4, with positive effects on 2. But this is not endogenous either. The world appears now in a very different vein of no-lateralism, after leaving behind one of would-be unilateralism and a weakening of multilateralism. True, there are some positive signals, such as the unexpected central role of the G20 as the most important forum to discuss global economic policies. But everything appears light, in tune with the times, and there are so many Gs that it is very difficult to understand each one's role. It is true that G2, the six-monthly meeting between China and the US, is the most powerful forum. But none of them appear to have enough capacity to reach understandings, much less to enforce them.

Marx believed that, when productive forces were developing in such a way that production relationships were not functional to them, a change in such relationships would take place. He first thought of this change as something endogenous but afterwards changed his mind and reached the conclusion that changing capitalist production relationships required a conscious and deliberate action of the proletariat. We all know how cruel, and at the end unsuccessful, the socialist revolutions so inspired turned out to be. Now we are in a situation in which the development of productive forces is in conflict with national and even supranational regional governments. Perhaps it is not clear up to what point it would be convenient for humankind to definitively surpass national or regional sovereignties. But the conflict is there, and if new forms of world governance do not develop, the economic results will be some sort of slow down of the development of EC and of the recovery of DC and an increased risk of a new world crisis.[13]

We are probably experiencing an even deeper conflict between capitalist development at a planetary scale and postmodern values and culture. It seems clear, at least, that in order to get a sustainable and less crisis-prone development, values and behaviors not abundant in postmodern societies are needed. They are justice, intergenerational solidarity and an active subsidiarity both at the national and international levels. It is not clear what leaderships or institutions will have a clear and loud enough voice to induce these new values and behaviors. The Social Doctrine of the Church has consistently insisted on their importance and it is one of the best endowed to fulfill more clearly and firmly this role in the near future.

[13] Of course, the lack of good world governance is having, and perhaps will have even more in the future, very negative effects on geopolitical and environmental issues. Their analysis is far beyond the reach of this paper.

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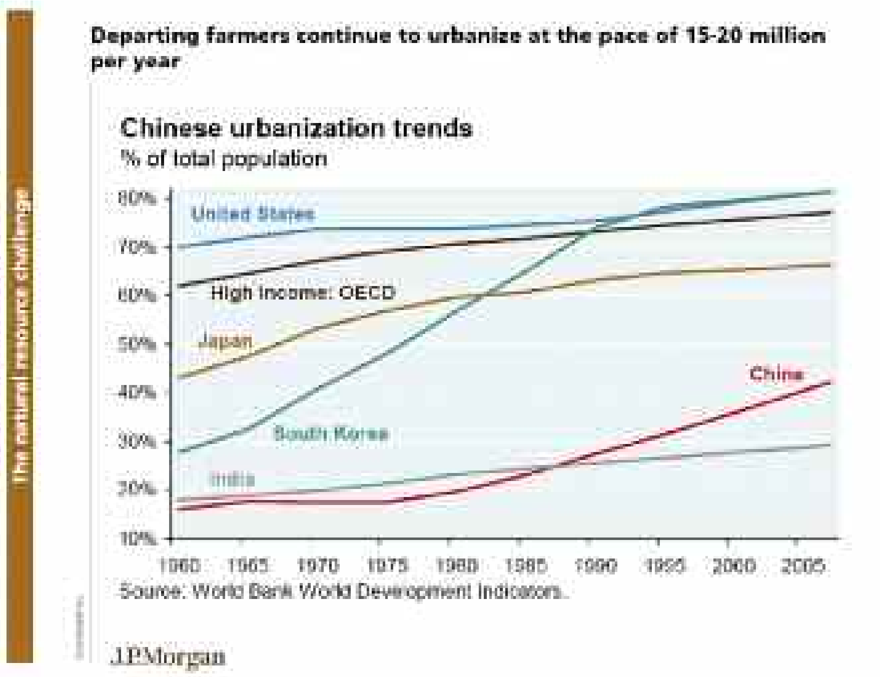
Table 4. A civilization-wide change: the East coming back
Population, GDP and shares: 2000 and 2040

	2000			2040		
	Population and (share)	GDP US$ T.	GDP Share %	Population and (share)	GDP US$ T.	GDP Share %
USA	282 (4.6)	9.6	22	392 (4.5)	41.9	13.6
EU	378 (6.2)	9,3	21	376 (4.3)	15.0	4.9
India	1003 (16.5)	2.4	5	1522 (17.5)	36.5	11.9
China	1369 (22.5)	5,0	11	1455 (16.7)	123.7	40.1
Japan	127 (2.1)	3.5	8	108 (1.2)	5.3	1.7
SE Asia *	381 (6.3)	2,6	6	516 (5.9)	35.6	11.6
LATAM **	530 (8.7)	4.1	8,5	961 (11.0)	19.7	6.4
Rest	2016 (33.2)	8.3	18,5	3371 (38.7)	30.1	9.9
DC	787 (12.9)	22.4	50.1	876 (10.1)	62.2	20.1
EC	5299 (87.1)	22.3	49.1	7825 (89.9)	245.6	79.9
World	6086 (100)	44.7	100.0	8701 (100)	307.8	100.0

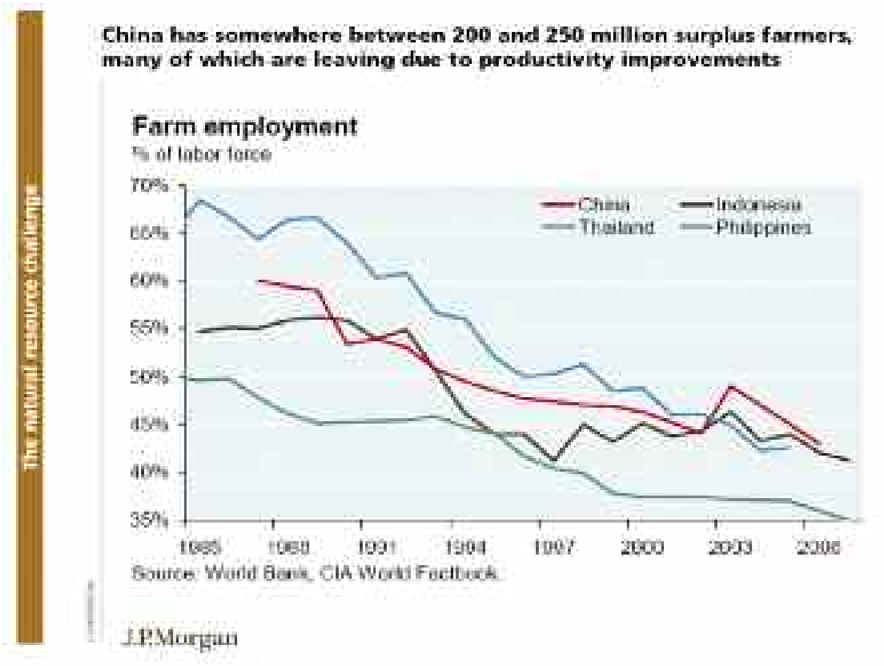
Notes: (*) South East Asia includes Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand. (**) In Fogel (2007) LATAM is included in the Rest of the World. In our Table it is separated and estimated by the author of this paper. Source: based on R. Fogel (2007 and 2009).

Graph 1. LEWIS MODEL'S ROOTS (I): RURAL POPULATION AND URBANIZATION TRENDS



Source: M. Cembalest (2009).

Graph 2. LEWIS MODEL'S ROOTS (II): RURAL EMPLOYMENT

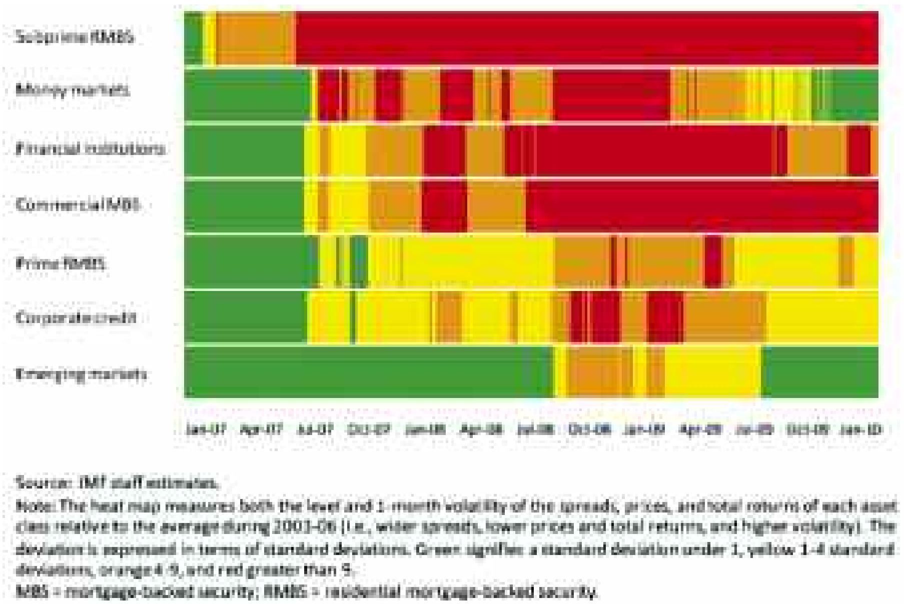


Source: M. Cembalest (2009).

Graph 3. Mobile revolution

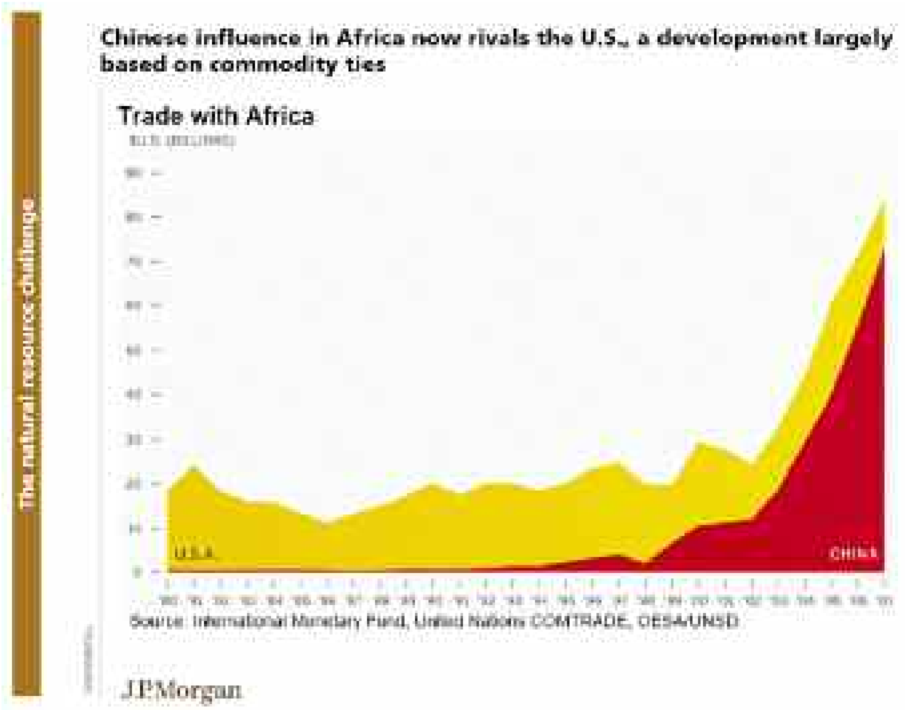
Source: *The Economist*, 25/9/09.

Graph 4. Emerging countries, now the less risky financial assets



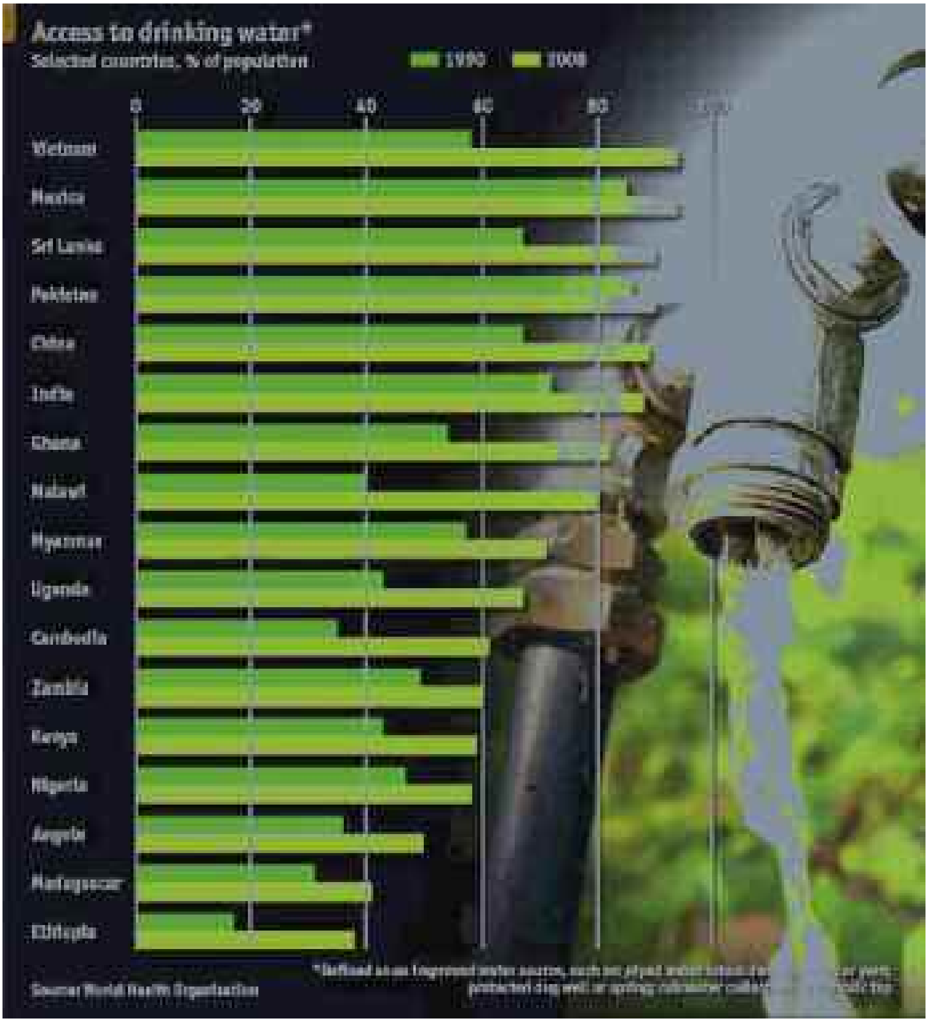
Source: FMI, *World Economic Outlook*, April 2010.

Graph 5. CHINA PUSHES AFRICA



Source: Cembalest (2009).

Graph 6. Access to drinking water



Source: *The Economist*, March 22, 2010.