

## **Asian Financial Forum**

**21 September 2007**

### **Speech of Mr James D Wolfensohn, KBE, AO**

(9.15 am)

Ladies and gentlemen, as an ex-head of the World Bank who was here at the meetings of the bank and fund that opened this wonderful facility, I feel somewhat naked without all my assistants, helpers, speech writers, organisers, and coming here before you as an individual now is a daunting challenge. But given my age and given the respect that China has shown for the aged, I have decided that I will nonetheless give you a few reflections on what I see as the subject of today, the leveraging of new opportunities and advancing regional stability.

As you can hear from my accent, I grew up somewhat near in this region, in Australia, and came here first in 1961, so I have a deep and abiding knowledge of this area and a enormous respect. So when I hear Donald Tsang talking about the future, I feel very confident about it, in light of the very real achievements that have been made in this city and in this country in recent years.

If I just go back 25 years, all of you will know that in the world we have had a period of extraordinary growth, a period in which we have moved from a global GDP of \$11 trillion (1980) to something over

\$51 trillion (2007, current dollars), in a period of 25 years -- unprecedented in the history of our planet. It's been a time when living standards have been raised for hundreds of millions of people. It's a time when we have been able to congratulate ourselves on a growing equity in the world, and a growing equity even in this part of the world, in Asia. I say "even", although this part of the world leads in the question of equity development.

In China, as you know, there is now a significant increase in opportunities and in level of wealth, and you now have vast segment of your great population living in what is defined as the middle class. In India we have had this growth but just 3 per cent of the people live above \$5 a day. But that is a significant advance in terms of the GDP of the country over where it was 20 years ago, when many of us in this room, I guess, started their careers in this field. Donald Tsang talked in his campaign of the resolute programmatic action that needed to be taken within Hong Kong to bring about a breadth and a greater distribution of wealth.

And the world has looked on with extraordinary amazement at the way in which this country and the region has changed its position in terms of global economic power. In 1965 the developing countries, as you know, accounted for 20 per cent of the global GDP, and the so-called rich countries, the colonising countries -- the United Kingdom, the United States -- were 80 per cent of the global GDP.

When I grew up and was looking at university for the career that I might have, it was common for me and my contemporaries to think that with the education that we had, we would go out and help this poor developing world improve its lot. Many of us thought, "Let's go work for two years and see if we can change the situation in India or China or Bangladesh". There was a sort of arrogance of history there which we all had, and it wasn't arrogance in a nasty sense. There was a feeling amongst my generation, or amongst some in my generation, that you couldn't have a stable world unless you had greater economic development and greater equity.

By the time I reached the World Bank, things were changing with rapidly emerging economies in the developing world increasing their shares of global GDP. But still, people of my generation and people behind me that come from the so-called developed world still had an image of our planet which belies the truth.

I was last week giving a speech at Harvard University, where I attended class some 50 years ago, and I went to buy myself a Harvard T-shirt so that I could show my children that I was educated once, and I went into the Harvard co-operative. Half of the people in that place were Asians, and I do not exaggerate, and I thought, "My God, how this place has changed in 50 years". And the same is true at MIT and the same is true at so many of the American universities. And yet curiously, very curiously, the leadership in the developed world, and even people who should know better, still have not adjusted to the fact that there is

not just a modest change in terms of global economic power and influence, but it is a tectonic shift.

At dinner last night, talking to the speakers and knowing some of them for many years, there is no issue of confidence, academic training, experience, intelligence, forthrightness in terms of what is being done. But to the average person in America and in the United States, the revolution that is occurring in this part of the world -- sadly, in my judgment -- is wholly underestimated, and in fact the partnership that could better exist is in fact not occurring, at a time when the Asian continent is making such dramatic strides in terms of its economic and intellectual promise.

But there is something which, when one looks at the statistics, is not adequately appreciated, in my judgment. We have had this tremendous growth in China and in India, as all of you know, in the GDP in the last 25 years, from \$183 billion (1980) to close to \$2 trillion (\$1.89 trillion in 2005; these are 2000 constant dollar figures) -- the numbers seem to vary in terms of the estimates of China's GDP, but the Governor, I have no doubt, will tell us exactly what they are -- and in India from \$153 billion to something between \$644 billion. These are not single-digit achievements. These are compound achievements with dramatic consequences, and they are not just quantitative, they are qualitative changes in terms of the nature of these economies and their positions internationally.

But as I said, in India and China, which are the two major forces, as they are perceived in going forward, there are significant differences still, as I said earlier; in India, with 97 per cent of the people under \$5 a day, and a growing middle class in China, which is evident in so many ways as we look at what is going forward.

I was at the G7 meetings five years ago when, for the first time, India, China, Brazil and South Africa were invited by the G7 to participate. It was a sort of strange feeling, because the Premier of China, the Prime Minister of India, the leaders of these countries were being welcomed by the G7 -- the United States, Japan, France, Germany, Italy, the United Kingdom -- in a sort of colonial way, a patronising way, with some respect of course, but nonetheless a feeling that they are inviting these people to come in because it's a nice extension of hospitality and the world is changing; until President Lula of Brazil stood up and said how proud he was, as an ex-trade union person, to be there with President Shirac and President Bush and all these great people that he had heard of, and then he said, "But, you know, the thought occurs to me, gentlemen, as I sit here, that maybe next year we should have these meetings in Brazil or in China or in India, because I hope you understand that by 2040 or 2050 we are going to be the G7 and you are not."

And of course this is true. It's true statistically; it's true in every sense. Many estimates, as I'm sure you know, put China and the United States roughly equal in terms of GDP by 2045. By 2050 China, is likely to have an economy that is \$3.5 trillion ahead of the

United States (with China expected to have \$36 trillion and the US \$32.5 trillion in 2000 constant dollars). Then comes India with \$32.4 trillion (very close to the US), and then somewhere down the back, at \$7.65 trillion, is Japan, and then everybody flows thereafter.

All these figures may be excessive, but in terms of direction and in terms of the movements which are occurring in our planet, there is absolutely no doubt that directionally they are correct, and why shouldn't they be, because from the year 2000 to the year 2050 global population moves from 6 billion to 9 billion people -- 6 billion to 9 billion -- of whom about 100 million go to the rich countries and 2.9 billion go to the so-called developing countries.

Again, these statistics might be out 50 million or so, but the quantum of this change is inadequately appreciated in terms of the way in which certainly the rich world looks at the so-called developing world, because the situation is reversed. By 2040 the so-called developing world, which we have been patronising for a long time, is now going to be not just the developing world but the rich world -- not per capita, as I'm sure you know; in the United States and Europe we will still have per capita incomes significantly greater, maybe double the level in China and more than double the level in India -- but in terms of quantum, in terms of economic power, the accumulation of this is changing dramatically, the economics in which we are living. And we are ill prepared for it in terms of the preparation of the United States, of Europe, of the so-called developed world, when the 80 per cent of global GDP for the rich

countries will drop to about 35 per cent of the global GDP.

This is not some minor change in development. This is the tectonic shift that one is anticipating and which is clearly there, and which requires not just economic adjustment but social adjustment. It requires a change of mind. It requires a different openness. And when you look at how the world of the so-called billion people is addressing the question of knowledge, understanding and reaching out to the Indias, Chinas and developing countries, the steps that are being taken are relatively trivial.

I am sure, if I went to Beida University to get my T-shirt, I would not find it full of Americans and Europeans. It is an Asian university, and there are some people in the United States that are learning Chinese and there are some people that are educating themselves, but when I spoke at Beida University about a year ago, I had 600 or 700 people in the audience, in China, with no translation, all in English. It is inconceivable that you would have a reverse situation at an American or a European university.

So, as someone who is coming to the end of my career, after a long time feeling part of that developed world, I think of my kids and I think: what changes are they going to have to make in terms of their perception? How is there going to be a better partnership created between the so-called rich of today individually and the developing countries, which are so pronounced in terms of their growth and so

pronounced in terms of their achievements, at all levels? This is not just, again, a world in which the science and the technology is passed down from big American companies or big American universities or big European universities to the rest of the world, as so many of you know. The reverse flow is happening, and happening with an amazing force.

I have a side interest at a place called the Institute of Advanced Study at Princeton, where I've been chairman for 23 years. A third of the 23 professors are now from India and China. It is not us going out to try and educate the world. The truth is that without a recognition of the changes that are happening, it is happening in an inevitable, certain and, I think for myself, positive way.

So this world of 8 billion out of 9 billion people that we are anticipating in 2050 is a world to which both sides need to adjust. It is not just that the West, so-called, is not adjusting. It is also very necessary, in my judgment, that you should understand, in the developing countries, that a change that is responded to by the currently rich countries, as they see their markets being taken, as they see the changes in the economic competition, as they see a reduction in jobs, is not something that is just going to happen in a lineal way. It is something that requires a high degree of understanding and discussion, which is not there at the moment.

It's a need that I believe we have for a coming together, and as Donald Tsang said, in terms of economic power, as you look at the



international reserves today, you start with China, with \$1.3 trillion, the figures that I have in front of me, and the United States \$69 billion. This is a pretty big change in 20 years. I have noticed that the Governor from China has a new suit and a new tie, so things must be pretty good at the moment in terms of his attention to what is going on.

But all is not perfect. There is an issue which you are now facing, the issue of development which is leaving people behind. There is a sense of affluence, of which there is no doubt. There is a sense of increase in terms of the general goodwill, the general state of life of people in Asia. Poverty, however, measured by under a dollar a day, is still close to a billion people, and the challenge which you face and which your Government faces is the challenge of how you bring about equitable development.

The "India Shining" example, which was used by the Government at the last attempt to get re-elected, found the Government being thrown out because they were not dealing with the question of people in poverty. There is a very significant change in China in the rhetoric of your leaders at the 11th Party Congress, and I understand, although I read the English translations of what's going to happen in October at the meetings of your leadership, that again there is a new sense of prioritisation which has to be given to those parts of China which are not meeting the average statistics.

And it is not just a few people, as I need hardly tell you. The

difference between the sectors of the country, between the coastal areas and the inland areas, between some areas in the north and the south, to which I have travelled as part of my work at the World Bank, they are different countries in terms of stage of development and in terms of the general goodwill, the general reputation, the general way of life of the people.

We have seen in Latin America, in the countries of Latin America, how, when you leave people behind, political instability emerges. I'm not of course predicting there will be political instability in China or in India, but you had something like 70,000 incidents last year in China, however they measure them, and we have seen domestic upheavals in India. So, assuming that that's highly exaggerated, there are still some incidents that are going on in the country in terms of an awakening that there is a difference that exists in the country.

And what happened in the more developed economies is that over decades, in fact over centuries, one was able to address this question of equity and social justice. It is an issue which is now, as I see, happening in the developing world: it is this issue of the rich and the middle class getting richer and the rump being left behind, very often in rural areas but not always in rural areas. But the rump of poor people is not something that one can do as a matter of economic policy and hope that because the average statistics are going up they lead to political stability within a country. Your own commentators and your own leadership are now addressing this question in a very, very serious way.

We have, as you know, really four groups of countries in our planet today. We have the leading countries, which will grow maybe two and a half times in the next 30/40 years. You have the globalisers, the countries like India and China, Indonesia, Sri Lanka, Thailand, Vietnam, which are growing at a very, very rapid pace. They have a group which they redefine now as the rentiers, the people who are using their natural resources, both the oil countries and some other countries in development, that are unable to translate the wealth of their resources into sustained economic growth and provide opportunity to their people.

But we still have 40 or 50 countries where the growth is zero to negative, and we cannot, either as a matter of economic prudence or as a matter of what is right, allow the rump of our planet to be there as though it doesn't exist. It's one thing to come and enjoy the developments in places like this and in meetings like this, for those of us who are fortunate enough to be part of that top third or top 5 per cent or top 10 per cent.

But the issue of social responsibility, in which I worked for a decade at the Bank, I have to tell you is very little understood in the international community. The level of development assistance is really trivial to the need. The level of development assistance to Africa in terms of cash transfers hasn't changed for 14 years. We can play around with the numbers but take it from me, it has not changed, the level of

\$12 billion a year.

So we are seeing new alliances between Africa and, not the developed countries but, as we saw last year, African leadership coming to China, African business leaders going to India. These are the new dynamics of the global economy. Of the global force in the oil countries, we find also a set of challenges which are not insignificant: 350 million people, around 200 million of them young, with not many suitable jobs. What happens in an environment like that where you have enormous wealth but no equity, no social justice?

I'm not trying to sound like a preacher and I'm not trying to sound like someone who is leaving the stage after working in the area and leaving you all a message which is very difficult to deal with. But for me the challenge that you will face and that our planet will face is not the global economic statistics. It is not even the shift between the world as we know it today of the so-called developed countries and the world in development, where we move from 80/20 to 35/65. It is not the tectonic shifts that are happening. For me, the weakness in our planet is the weakness of people and the people that are left behind.

People that are left behind today are no longer in jungles. They are no longer out there with no information. They are no longer not being got at by people who are trying to stimulate uncertainties and events in the countries. You are talking about 1 billion to 2 billion people on a planet which has exceptional growth, and we now, with the 1

billion to 2 billion people, you have lots of earpieces to give the information, where if you go to villages you find out what is happening, where you have greater mobility, where you have greater information, where you have greater organisation.

China is addressing this question, and Hu Jintao has made many speeches on the subject, and the Government is talking about the crucial need to address the question of equitable development in terms of investing in people, in health and education services, providing safety nets for vulnerable groups, expanding access to justice, to land, to economic infrastructure, roads, power, water, and promoting fairness in the economy.

I am raising this with you not as a preacher and not as someone who happened to work in an institution which was devoted to these issues. I am raising it with you because, for me, it is not the question of whether China grows X per cent faster or less fast in the next 20, 25 years or India grows a few per cent more or less, or the balance between the rich and the poor countries. The issue for me is the issue of global stability that is going to be driven by those that are not on the freight train, those that are not on the express. And these are not a few people; these are billions of people.

So, while I look forward to a world of growth, a world of development, as was stated in last year's World Development Report, crucially there is a need for greater equality, greater access to political

freedoms, greater access to power, if the prospect that we all have of this economic development is to be peaceful, lasting and available for our children.

Thank you very much.