

The sub-title of a recent book, *Disequilibrium*, by the noted French economist Thierry Malleret, is: "A World Out of Kilter". The last decade has witnessed rapid and profound global developments that for the most part were unexpected.

# The Challenge of Escapin



by the Professor  
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As Malleret states, in the past we lived in a world of risk; now we live in a world of uncertainty. The main difference between risk and uncertainty is that the former can be calculated, the latter cannot even be fathomed. "A world out of kilter" is one where what is familiar increasingly recedes, while random unexpected events occur with increasing frequency.

Strong evidence of the world being out of kilter is the current conditions of the so-called advanced economies: the EU, Japan and the US. All three have experienced severe doldrums. Whether the strong medicine Prime Minister Abe intends to apply will lead to the recovery of the Japanese economy, whether the Eurozone will be able to reboot growth, whether the US will be able to put its fiscal house in order: all remain to be seen. What is generally the consensus view is that all three are, for different reasons and at different degrees, in decline.

On the theorem that if something goes down, something else must be going up, there are many prognostics emanating from think tanks, banks, gurus and others that as the advanced economies decline, the emerging economies, especially in Asia, will rise. An illustration of this genre is an article (8 December 2012) in *the Financial Times* by the Singaporean thought-leader Kishore Mahbubani, entitled "the east will rise above the west". Also recently the bank HSBC released a report on the world's economies in 2050 in which many emerging economies are expected to leapfrog over advanced economies; the report also predicts that by 2050 China's GDP per capita will increase nine-fold.

It may well be that in this world out of kilter the advanced will decline and the emerging will rise. But there are also other potential scenarios: one of which is that the world economy, including advanced and emerging, may decline, possibly triggered by global economic conflict, notably the resurgence of protectionism. Whatever may be the case there are two certainties in this world of uncertainty that need be noted. The first arises from what the late econo-

mist John Kenneth Galbraith said that "the only function of economic forecasting was to make astrology look good". I am not aware of a single long-term economic forecast that has ever proved correct.

The second is that while growth per se is quite a daunting challenge; in fact, according to the Commission on Growth and Development's seminal 2008 report, out of some two-hundred countries in the world, only thirteen succeeded in sustaining 7% average annual growth over twenty-five years (during the period 1950-2005). Even more daunting to consider is that over the last six decades, leaving aside small city-state economies, such as Singapore, and petro-states, such as Qatar, **only one** reasonably sized country succeeded in going from low income (in fact in the 1960s one of the lowest) to high income: South Korea. According to the World Bank, South Korea's GDP per capita on purchasing power parity basis stands at over \$30,000, ranking it among the world's thirty richest countries. In other words, it is the only erstwhile "third world" country (with the exceptions noted above) that has succeeded in escaping the middle-income trap.

On the other hand, there are quite a number of examples of low-income countries that experienced very fast growth and then got stuck. Brazil is the most flagrant example. It is one of the thirteen countries that feature in the Growth Commission Report. During the fifties and sixties Brazil was second only to Japan in its rate of annual GDP growth: both countries' economies were deemed "miracles". It was, along with other fashionable countries at the time, such as Mexico, Iran and Nigeria, seen as having great potential by the investment community. While Brazil's economy grew spectacularly from \$900 per capita in 1950 to \$4000 in 1980 and numerous predictions about its sustained rise were made at the time, for a variety of reasons, mainly related to poor macro-economic management and governance failures, it got stuck in the middle income trap. Recent renewed economic dynamism and significantly impro-

**«Only one reasonably sized country succeeded: South Korea»**

## CV

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# g the Middle-Income Trap

ved governance notwithstanding, thirty years later Brazil has still not escaped the middle income trap.

So what about China? Will it meet the euphoric forecasts of the likes of HSBC or will it, like so many other countries before, get stuck in the middle-income trap? As things stand in the spring of 2013 there is reason to believe the answer may be the latter. On the positive side is the fact that the new government of Xi Jinping and Li Ke-qiang is perfectly aware of the risks lying ahead. But the challenges are daunting. In March Shanghai, China's leading "poster" city, saw 16,000 dead pigs floating in its river. This per se could be no more than a rather disgusting anecdote. But more than an anecdote it seems emblematic of current Chinese conditions. Challenges, in no particular order of acuity, include: environmental disastrous degradation, income inequalities that have reached chasm proportions and are among the five or so highest in the world, social unrest from both rural and urban areas, prospects for lower economic growth and serious economic imbalances, widespread corruption, the rapidly eroding legitimacy of the government and especially the party, a rapidly aging population, among others!

The leadership understands that reform is not a luxury but an imperative for survival.



Scène de rue dans une grande ville chinoise (photo Shutterstock).

The problem, however, is not the leadership, but a deeply entrenched, corrupt, nepotistic, materialist elite that will do everything in its very considerable powers to impede reform so as not to lose their egregious privileges. It is perhaps not just ironic that a highly popular book among the rising urban intellectuals is Alexis de Tocqueville's 1856 publication *The Old Regime and the*

*Revolution*. Only when China appears to have the level of governance and the solidity of institutions will it be possible to envisage realising what President Xi calls the Chinese dream: a high income economy with harmonious social, environmental, and global relations, driven by creativity and the power of ideas.



*Comment la retrouver ?*

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