



OECD Seminar on 'The Impact of Shifting Wealth on Developing Countries'

10 May 2010

The Organisation for Economic Cooperation and Development (OECD) on 10 May 2010 organised a seminar on 'The impact of Shifting Wealth on developing countries' as part of the Perspectives on Global Development project (formerly Global Development Outlook (GDO)). The seminar aimed to prompt policy makers, academics and development practitioners to reflect on what the 'shifting wealth' phenomenon means for the way we think about development. It looked at the shift of economic power toward the developing world and emerging economies, attributable to a great extent to the high growth rates of large developing countries such as China and India. The discussion focused in particular on the effect of Chinese investments on Africa and South America, as well as at the increasing linkages between developing countries in terms of trade flows, aid and investment.

Martyn Davies, Director of the China Africa Network at the Gordon Institute of Business Science, University of Pretoria, presented the results of his study on how China is influencing African development. He highlighted that following increased commitments for cooperation in the mid-90s, there has been a strong correlation between Chinese and African growth. Sub-Saharan African growth has been underpinned by China's demand for commodities, primarily in the energy sector, and this trend is likely to continue. Some of the reasons behind the trend are that the Chinese Ministry of Commerce (MOFCOM) is encouraging of overseas establishment of firms. In addition, the Chinese state, through its state-influenced banking sector, is in a strong financial position to acquire foreign assets. One of the principal areas of investment in Africa is in Infrastructure. Considering the low degree of regional integration in Africa (intra-regional trade accounts only for 9.5% of African trade), this could present a real opportunity for better integration and better coordination between African states.

Rajneesh Narula, Professor at University of Reading Business School, discussed the significance of Developing Country Multinational Enterprises' (DC MNEs) activity for development. He noted that some DC MNEs are increasingly indistinguishable from conventional MNEs from developed countries, but that they do not shift wealth to other developing countries. This is often the result of inadequate supply of knowledge and infrastructure in some developing host countries, which results in a preference of DC MNEs to invest abroad. This could result in a trend where developing countries in Africa no longer have to compete for aid but for investment.

Eliana Cardoso, Professor of Economics at Fundação Getúlio Vargas, São Paulo, explored the effect of Chinese investments in South America. She stated that in the past ten years, Chinese demand for natural resources has grown, which makes South America an expected place for investment. China has grown to become Brazil's largest trading partner, surpassing the US and Europe. Professor Cardoso further pointed to the link between the price of commodities and growth in South America. She explained that the price volatility of commodities implies volatile income resources, which means

that there is a need to diversify exports and highlight the importance of sound fiscal policies. According to Professor Cardoso, Brazil cannot act as a counterbalance to China in South America as most countries in the region have a similar comparative advantage in terms of commodities and agricultural goods.

During the final part of the discussion, participants considered obstacles to sustainable development from Foreign Direct Investment (FDI). One challenge remains keeping a long-term view of investment. Often, government and institutional failure can reduce the investment efficiency. Another problem can arise from inappropriate counter-cyclical fiscal policy. Countercyclical policies slow down the economy when it is in an upswing, and stimulate the economy when it is in a downturn. Overly expansionary economic policies, i.e. increased government spending (for example in public works), in developing countries have led to inflation and are slowing their rebound from the financial crisis. Lacking capacity to use FDI means that every dollar invested does not yield a proportional increase in development. The right policies are also important in accommodating foreign assistance to tackle development challenges. Participants also noted that there still remains a global governance gap. The rise of the G20 in the last 10 years was not accompanied by a concrete agenda. There is still the question of how to bring small, affected countries as well as actors from the private sector to the discussion table.

The considerations presented during the seminar potentially imply the need for improved economic policies in developing countries in order to make better use of FDI. Parliamentarians are directly involved in the policy making process, which means that it is crucial for Parliamentarians to be well informed of their country's economic policy requirements. Parliamentarians should closely follow global investment trends and thoroughly investigate the potential impact these might have for their respective countries' economies.

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