Reform, Opening-up and Development[1]

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Abstract: *The World Bank forecast that global economic growth is expected to stabilize in 2024, but the global growth rate will continue to remain below the pre-pandemic decade's average of 3.1%. Weak growth could result in serious consequences such as fewer new jobs and an increase in the number of people living in poverty. Complex economic and geopolitical factors continue to exert significant pressure on the global economy. To revive growth, countries must first revitalize economic reforms. Specifically, they should relax policy restrictions on market access and competition in the services sector while establishing regulatory frameworks. Secondly, there should be an increase in human capital investment, particularly in education, healthcare, and strengthening social safety nets. Thirdly, efforts should be made to curb geo-economic fragmentation. Countries should avoid falling into a vicious cycle of escalating trade restrictions and promote further integration wherever possible. Lastly, countries should work together to tackle climate change.*

I. Introduction

It is a pleasure to join you today at the sixth Bund Summit in Shanghai. Gatherings like this are vital to navigate the complexities of our time which demand a robust exchange of ideas and a spirit of collaborative action.

This session's theme – reform, opening up and development – addresses a central challenge that policymakers and development institutions such as the World Bank are facing. Development occurs when governments put in place policies that foster productivity, entrepreneurship, and innovation in a context of closer international cooperation. That was the model that flourished after China's opening more than 40 years ago and similar reforms have had a positive impact around the world: from Brazil's "Plano Real" and India's liberalization in the 1990s to Poland's transition from a closed, centrally planned and impoverished economy to one of Europe's most dynamic markets.

The world today is vastly different from when China first embarked on its path of opening up. We now face a multitude of new challenges—climate change, rising geopolitical tensions, and rapid technological disruption, to name just a few. China itself is grappling with significant economic challenges, including slowing growth, persistent inequality, an aging population, and evolving global trade dynamics.

Yet, with these challenges also come opportunities—opportunities to build more resilient and inclusive economies and ensure that the benefits of growth are shared more equitably among all people, both within and across countries.

In my remarks today, I would like to offer some observations on the current global economic context, the challenges we face, the opportunities before us, and how we can navigate this complex landscape to foster sustainable and inclusive growth.

1 The article is a keynote speech delivered by the author at the opening ceremony of the 6th Bund Summit Navigating a Changing World. The script was provided by the author, and the abstract was added by CF40 Secretariat.

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II. Global and Regional Economic Environment

Let's start with a bit of good news: Global growth is projected to hold steady this year. According to the World Bank's latest estimates, we expect global growth to be around 2.7% in 2024. Meanwhile, global inflation is on track to reach a three-year low and financial conditions have brightened. The world economy, in short, appears to be in final approach for a "soft landing."

Yet, despite these signs of stabilization, the global economy remains under significant pressure from a complex mix of economic and geopolitical factors. More than four years after the upheavals of the COVID-19 pandemic and subsequent global shocks, it's clear the world—and developing economies, in particular—has yet to rediscover a reliable path to prosperity.

Global growth is stabilizing well below the 3.1 percent average in the decade before COVID-19. Especially emerging markets and developing economies are facing a troubling outlook. Potential growth in these economies is on track to fall to 4 percent during this decade —a full percentage point lower than the average of the previous decade.

Developing East Asia and the Pacific, which has long been a beacon of economic dynamism, is not immune to these trends. Growth remains below pre-pandemic levels and China, in particular, is experiencing a notable slowdown in its growth trajectory.

The current pace of economic expansion is too slow to meet our development aspirations. Weaker growth has severe implications: In the next 10 years, 1.1 billion young people across the Global South will become working-age adults. Yet, on the current growth trajectory, we will create fewer than 350 million jobs in the same period and same countries. Moreover, every lost percentage point of growth traps an additional 100 million people in poverty.

Such figures are deeply concerning to all of us.

They underscore the urgency of addressing a range of critical challenges:

First, declining productivity growth: Despite rapid advancements in technology, productivity growth across emerging markets has been on the decline over the past two decades. The labor productivity growth decline since the global financial crisis of 2007-9 has been broad-based, affecting 70 percent of economies and over 80 percent of the global extreme poor as well as reaching all regions of the developing world, including East Asia. This poses a significant challenge to sustained economic growth.

Second, Since the global financial crisis in the late 2000s, investment has been in a prolonged slump and economic growth – which is so critical for poverty reduction – has slowed. In emerging markets and developing economies, average investment growth halved from the 2000s to the 2010s—falling to 5 percent, the slowest pace in the past three decades. Meeting the Sustainable Development Goals and our commitments under the Paris Agreement will require a significant acceleration in investment – rising up to $2.4 trillion per year in the developing world alone.

Third, aging populations: By 2050, there will be 1.25 billion people over 65 in less developed regions, around 750 million more than today. As you will know, this trend particularly affects East Asia, including China. The youthful labor force that once drove economic expansion is now shrinking. East Asia faces the risk of growing old before becoming affluent.

Fourth, an increasingly fractured global economy: The rise in protectionism and trade barriers is exacerbating economic uncertainties. In 2022 alone, nearly 3,000 new protectionist measures were introduced globally, many originating from this region. This trend threatens to undermine global trade, investment, and knowledge flows. This fragmentation has negative consequences especially for export-oriented emerging economies.

Fifth, disruptive technologies and digitization: Rapid and disruptive technological change is creating immense opportunities for faster productivity growth but also pose threats to labor markets, especially for lower-skilled workers in labor-intensive manufacturing and service sectors.

For example, recent research by the World Bank shows that the rapid adoption of industrial robots in high-value manufacturing sectors in Viet Nam led to approximately a 10% increase in employment and a 5% rise in labor income. However, while overall employment and labor income increased, low-skilled workers engaged in routine manual tasks experienced reduced employment opportunities and income.

Finally, accelerating climate change: Emerging and developing economies are particularly vulnerable to climate risks. The East Asia and Pacific region is a case in point. Already today, the region accounts for more than half of global losses from natural disasters, intensified by climate change. Looking ahead, we estimate that the economic impact of climate change could exceed 10% of GDP by 2050 in countries such as the Philippines and Vietnam.

III. A Path to Revived Growth

But forecasts are not destiny. There are steps we can take to reinvigorate growth:

First, a renewed commitment to economic reforms is essential.

Let me highlight one area of reform that we think is particularly important: Services.

Services are becoming important drivers for development especially as countries accede to high income status. In fact, services already play a key role in boosting jobs and development. In the past three decades, the services sector has grown faster than manufacturing in many developing economies. By 2019, services accounted for 55 percent of GDP and nearly half of the labor force is employed in services. In developed economies, services account for an even larger share of economic growth—three-quarters of on average. And in many developing countries, including major East Asian economies services contribute more than manufacturing to productivity growth, with digitization boosting service productivity further.

But service markets in many developing countries, especially in the East Asia and Pacific region remain more heavily regulated than in other parts of the world. To unleash the full potential of dynamic service sectors, reforms need to pursue both liberalization and regulation. Advancing liberalization requires addressing policy restrictions on entry and competition in the region's services markets, ranging from discretionary and opaque licensing to limits on foreign ownership. For example, reforming electricity sectors to enable more competitive power markets can play a crucial role in mobilizing private investment in renewable energy. In parallel, countries need to institute a regulatory framework that addresses old and new market distortions, including concentration and data misuse that can arise in markets where digital platforms dominate.

Second, investing in people: To maximize the benefits of a service-oriented economy, we must invest more in education and healthcare. It is a shocking fact that around 70 percent of 10-year-olds in low- and middle-income countries can't read and understand a simple text. Children who can't read by age 10 risk being left behind for good and will not thrive in modern economies. Strengthening social safety nets is also crucial, especially in aging societies. Effective safety nets can not only meet basic needs but also stimulate consumption and economic activity.

Third, resisting geoeconomic fragmentation: Countries should avoid a vicious cycle of trade restrictions and instead pursue further integration where possible. This will not be easy in the current environment. But, pragmatically, countries could leverage existing bi-lateral and regional trade agreements to reduce nontariff barriers, liberalize trade in services and pursue key agendas such as digital trade, harmonization of standards, power trade, and connectivity.

Fourth, addressing climate change: As we seek to foster growth, we must ensure that it is sustainable. The pursuit of economic growth can no longer come at the expense of our planet's health. We must accelerate the transition to a low-carbon economy, investing in renewable energy, energy efficiency, and green infrastructure. This will help mitigate the impacts of climate change and also create new economic opportunities in the emerging green economy.

Investment needs are enormous. For example, we estimate China alone will need to invest an additional US $14 trillion by 2060 just in the power and transport sectors to achieve its carbon neutrality goal by 2060. Meeting these needs will require targeted public investment but also reforms and policies to unlock private capital. Carbon pricing, for instance, is a vital tool in this regard. By putting a price on carbon emissions, we can drive investment towards cleaner technologies and incentivize businesses to reduce their carbon footprint. This approach not only supports environmental sustainability but also stimulates economic innovation and growth in the green sector.

IV. The World Bank's Role

The World Bank is committed to supporting our partner countries in tackling these development challenges, both through financing and— just as importantly—through knowledge, analysis, and policy advice.

Last year alone, we invested over $30 billion in climate projects that reduce greenhouse gas emissions and boost resilience while also delivering on broader development goals. This integration of climate action with critical development progress is exemplified by our new initiative with the African Development Bank to provide at least 300 million people in Africa with electricity access by 2030, with a focus on renewable energy.

We are pursuing similarly ambitious initiatives across economic sectors, including investing up to $30 billion in food security globally and aiming to provide affordable healthcare to 1.5 billion people by 2030. A robust replenishment of the World Bank's fund for the world's poorest – IDA – this year will be critical to sustain these and other initiatives.

V. Conclusion

Representing an institution founded on the principles of global cooperation, I hold a deep belief in our capacity to work together to meet the challenges of our time. With a renewed sense of common purpose, we have the opportunity to combat climate change, reinvigorate growth, create jobs, and safeguard a livable planet. We hope you will join us in these efforts.

1. World Bank, Global Productivity – Trends, Driver and Policies; 2021; p.16
2. World Bank, Global Economic Prospects, June 2024; p.105;
3. https://www.worldbank.org/en/topic/pensions/brief/societal-aging
4. https://www.worldbank.org/en/news/immersive-story/2022/09/16/learning-in-crisis-prioritizing-education-effective-policies-to-recover-lost-learning