Institute of Policy Studies

IPS Roundtable, 10 June 2011: World Bank Report "Global Development Horizons 2011 – Multipolarity: The New Global Economy"

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The World Bank has released its first edition report on "Global Development Horizons 2011 – Multipolarity: the New Global Economy", which addresses transformational changes in the global economy. The report projects that emerging economies will grow by 4.7 percent on average between 2011 and 2025, twice the 2.3 percent forecast growth rate of advanced economies over the same period. It also maps out the challenges and benefits that an increasing multipolar world economy may pose for the world's least developed countries (LDCs).

On 10 June 2011, the authors of this report presented the highlights of their findings to close to fifty participants at an IPS Roundtable. Lead author Dr Mansoor Dailami, Manager of the Emerging Global Trends Team in the World Bank's Development Prospects Group, shared the report's three key messages:

1) A new global economic order is unfolding as the balance of global growth shifts from developed to emerging economies;

2) changes in the corporate landscape will reflect these macroeconomic changes – as emerging market companies become increasingly globalised and venture overseas for financing and investments, multinationals from emerging economies become increasingly important sources and drivers of global investment flows;

3) the architecture of the international monetary system will also shift in response to changes in corporate investments and the growth of global financial flows, as emerging economies enjoy surplus rather than current account deficits and increase their pool of capital.

The report has concluded that the world is moving towards a new "multipolar" economic order, entailing the concurrent existence of more than two "global growth poles". By 2025, six major emerging economies—Brazil, China, India, Indonesia, South Korea, and Russia (BRIICS)—will account for more than half of all global growth, joining the ranks of China and advanced economies as drivers of global economic growth.

Dr Dailami shared the authors' use of three broad criteria to determine which economies would emerge as growth poles: a) their size; b) how dynamic their growth rates are; c) their linkages with the rest of the world in quantifiable terms of trade, finance, technology transfers and migration. Dr Dailami said that these diffused poles of growth could experience economic activity at different rates but would also give the world economy a

diversified stability as it would no longer be dependent on one or two advanced economies and their policies for growth.

The report shows how this transformation has been reflected in global corporate transactions, with more than one-third of foreign direct investment (FDI) inflows to developing countries now originating in other developing countries. In 2010, 5623 – more than half – of the 11,113 cross-border merger and acquisition (M&A) deals announced worldwide involved emerging market companies, either as buyers or as takeover targets by advanced economy firms. Dr Dailami noted that emerging market companies have not only been venturing outside their home regions for increased growth opportunities and market share abroad, but have also brought their home country investment clients abroad for more favourable investment conditions.

The World Bank expects that South-South FDI is likely to rise, with most of it entering green field investments, while South-North FDI is likely to target acquisitions. According to the report, the annual value of cross-border M&A deals undertaken by emerging market companies is predicted to more than double by 2025, while the annual number of cross-border M&A deals is expected to more than triple from fewer than 2,500 in 2011 to almost 8,000 in 2025. Dr Dailami attributed this increased activity to emerging markets' increasing access to financial markets, listing of equity on major stock exchanges and the rise of emerging market companies as major borrowers in global markets.

Given these changes in global investment behaviour, Dr Dailami advocated the development of a multilateral framework to govern cross-border investment flows. While the institutional architecture for managing international trade and monetary relations exists, investment governance has largely fallen under the purview of various bilateral investment treaties (BITs). While BITs surged in the 1990s, largely between developed and developing countries, they have not been the most efficient way of managing cross-border investments in an age of increasing globalisation.

The report also examines the disparately modest role of emerging markets in the international monetary system, despite their increasing role in the global economy. Currently, no emerging economy has a currency used internationally for reserve accumulation. The report predicts that by 2025, the United States Dollar (USD) will no longer be the single dominant currency for cross-border transactions in the international monetary system, but is likely to be accompanied by the euro, and the *renminbi*. Dr Dailami qualified this prediction by noting that these three dominant currencies may not function at an equal rate, as the USD will continue to be ahead as an international reserve currency due to the size of the Dollar market, although a higher percentage of international debt is already denominated in Euros. He said that the *renminbi* is likely to become increasingly important in international trade as a denominator of the debt market. Although the *renminbi* is not a free floating currency, its use in trade invoicing and settlements has been growing since 2004 with significant growth in 2009 and 2010, and 7 percent of China's trade is currently denominated in its home currency. The *renminbi* offshore market has also taken off on the back of government policy with the Hong Kong Stock Exchange launching its first *renminbi*-denominated initial price offering (IPO) in May 2011. These have been significant developments in internationalising the *renminbi* as an increasingly global currency.

Such transitions in the world economy could help drive economic activity in the LDCs due to growth spillovers via cross-border trade, finance, technological transfers, and migration. However, multilateral institutions such as the World Bank should also be prepared to assist LDCs as they are also likely to face struggles adjusting to economic shocks and various challenges involved in the transition to a new multipolar world.

Dr Jamus Lim, one of the co-authors of the report and an economist at the World Bank, explained the methodology and choice of data in deriving the results for this inaugural report.

Dr Denis Hew, Director of the Policy Support Unit at the Asia-Pacific Economic Cooperation (APEC) Secretariat noted that four of the six global growth poles as forecast by the report were APEC member economies. He agreed with the report's authors that sustained improvements in total factor productivity and investments into human capital were key for emerging economies if they wished to become important growth poles. Whereas in the past policy makers may have believed that investments into infrastructure would attract FDI, the attraction of foreign talent is now immensely crucial as well to developing new sources of growth. He commented that economic growth alone in emerging economies was not sufficient, but must be examined for their balance, inclusiveness, innovation, security and sustainability. To promote higher quality growth in these countries that would promote a conducive environment for innovation and investment, he added.

On Dr Dailami's advocacy for structural reform in international governance architecture, Dr Hew said that APEC has done work on key areas of structural transformation including regulatory reforms and corporate governance. However, amidst the rise of the emerging economies, he observed that multilateral reform is proving difficult for the international community to reach consensus on, for instance on trade, as it is very unlikely that the current Doha round of the World Trade Organization will be resolved by the end of 2011, ten years after commencing in 2001. In addition, given that economic size was a large determinant in the report's forecast of emerging global growth poles, he asked where "trapped" economies such Malaysia and Thailand would fit into a new economic order. Could growth going forward also be affected by changing demographic dynamics, such as China's ageing population? If China's population grows old before it grows rich, this may also have an impact beyond China's domestic economy, he said.

The World Bank presentation was followed by a discussion on the report's methodology and conclusions, moderated by IPS Adjunct Senior Research Fellow Mr Manu Bhaskaran.

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If you have comments or feedback, please email ips.enews@nus.edu.sg

The full World Bank Global Development Horizons 2011 report is available at:
http://siteresources.worldbank.org/INTGDH/Resources/GDH_CompleteReport2011.pdf

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