



Global Development
Horizons 2011

Multipolarity: The New Global Economy

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Multipolarity: A New Global Economy

- A new global economic order is unfolding as the balance of global growth shifts from developed to emerging economies
- Multinationals from emerging markets will be increasingly important sources and drivers of global investment flows
- The international monetary system will move toward a multi-currency regime

Growth poles in a multipolar world

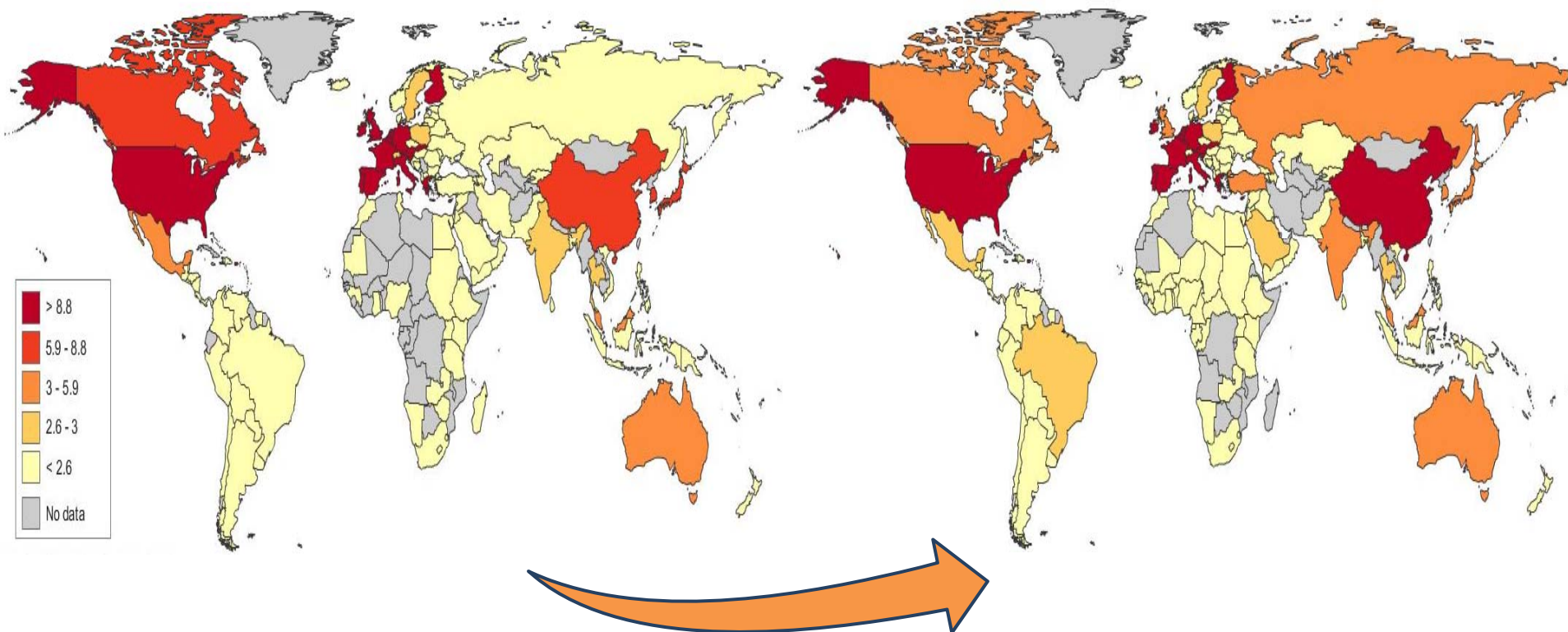
- Multipolarity
 - The concurrent existence of more than two global growth poles
- Growth poles
 - An economy that drives global growth by virtue of its:
(a) size (b) dynamism (c) linkages with the rest of the world
- By 2025, leading emerging economies such as Brazil, India, Indonesia, Korea and Russia are likely to join the ranks of China and the advanced economies as global growth poles

Emerging economies are increasingly becoming the drivers of global growth...

Global distribution of growth poles

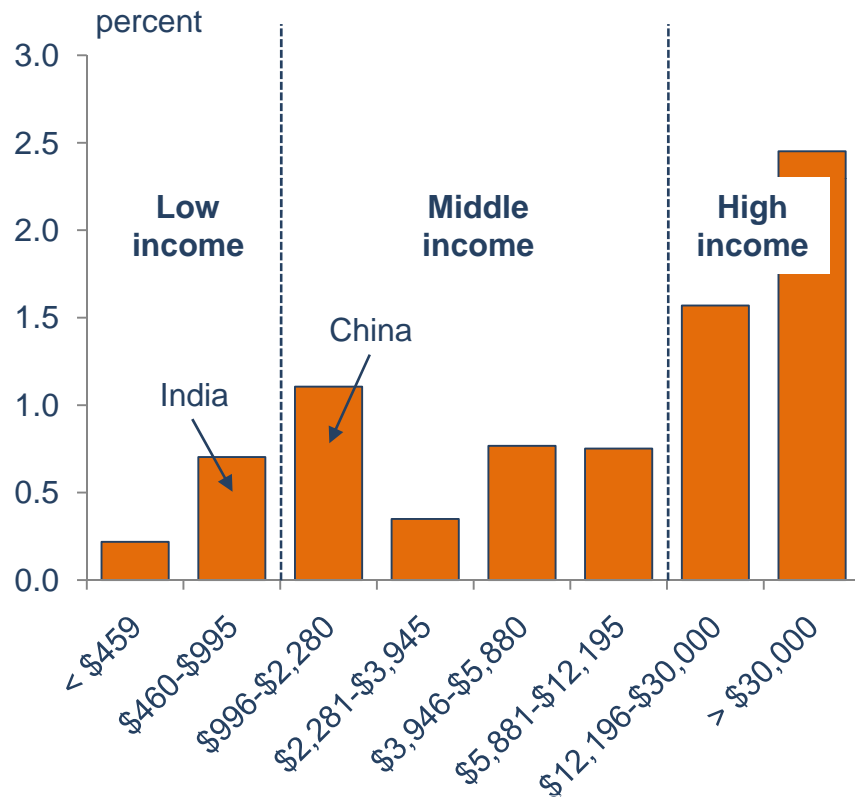
1994–98

2004–08

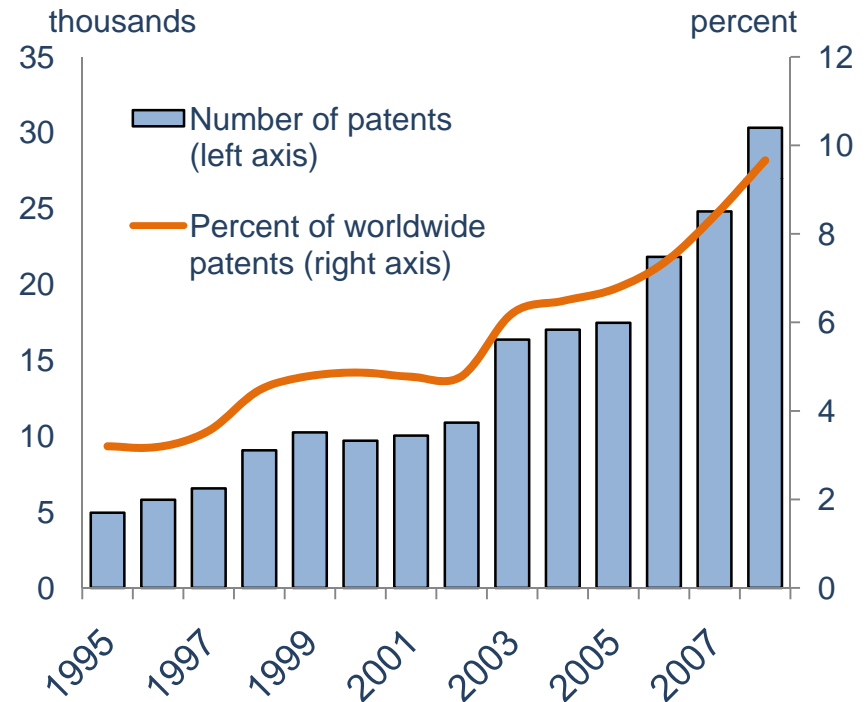


Innovation in emerging economies is likely to take off as income levels rise

Global distribution of R&D expenditure in GDP, 2004–08



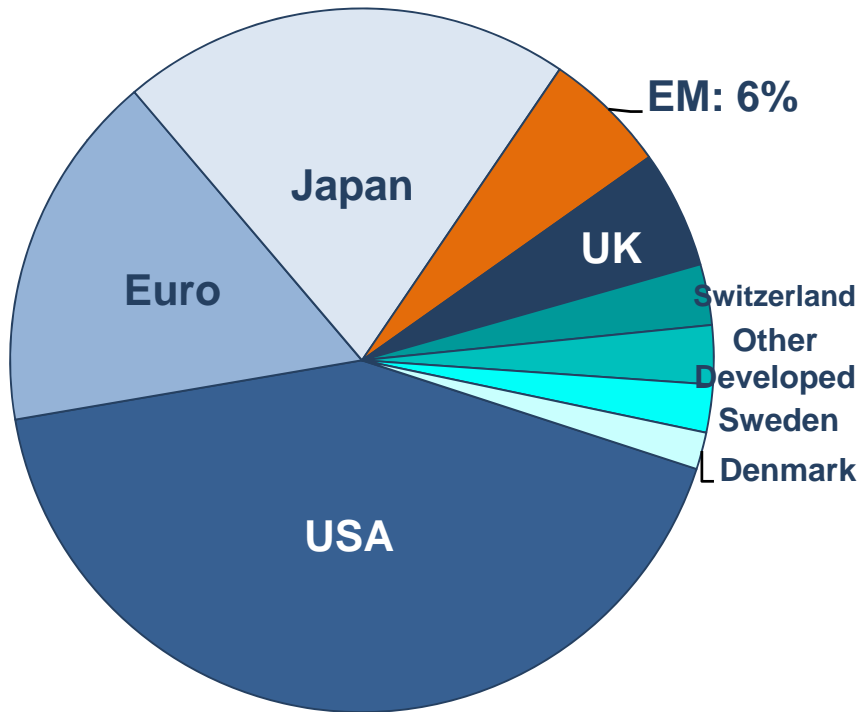
Cross-border patents granted worldwide to EM residents



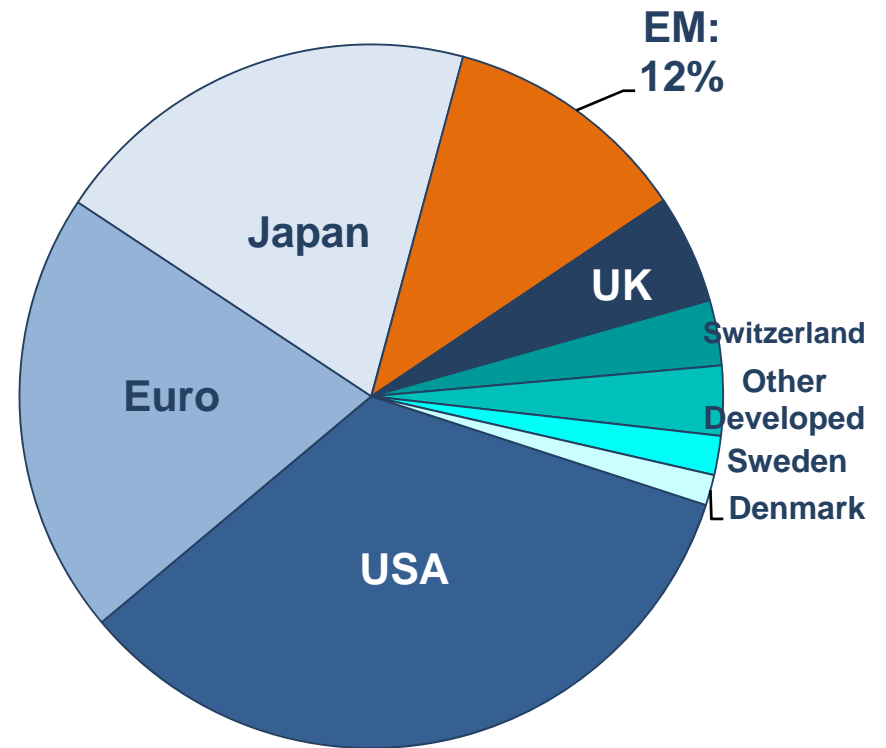
Sources: Global Development Horizons 2011, based on IMF IFS, World Bank WDI and World Intellectual Property Organization.

Firms from emerging market countries have a growing presence among corporate innovators

Top 1,000 firms by R&D spending, 2004

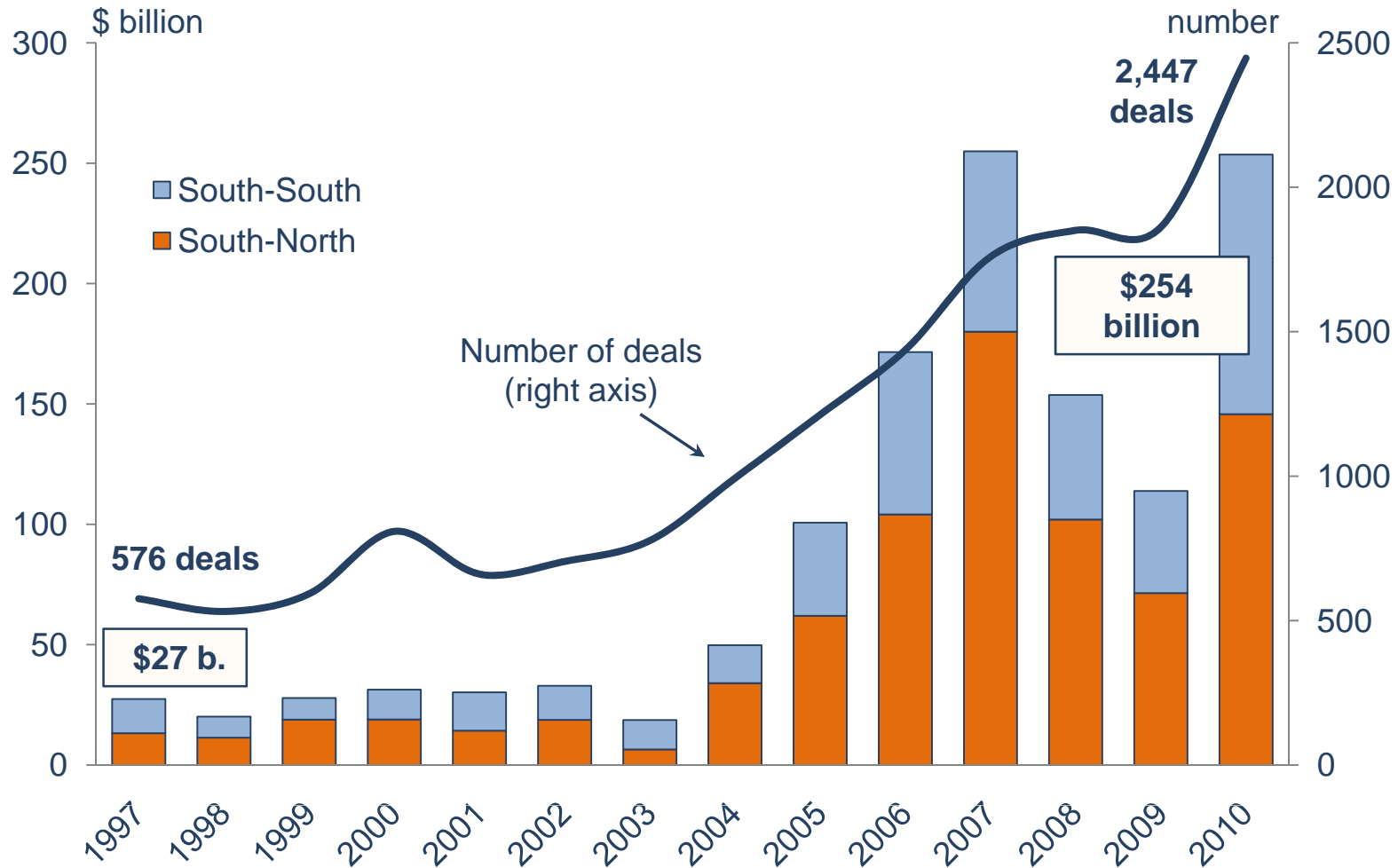


Top 1,000 firms by R&D spending, 2009



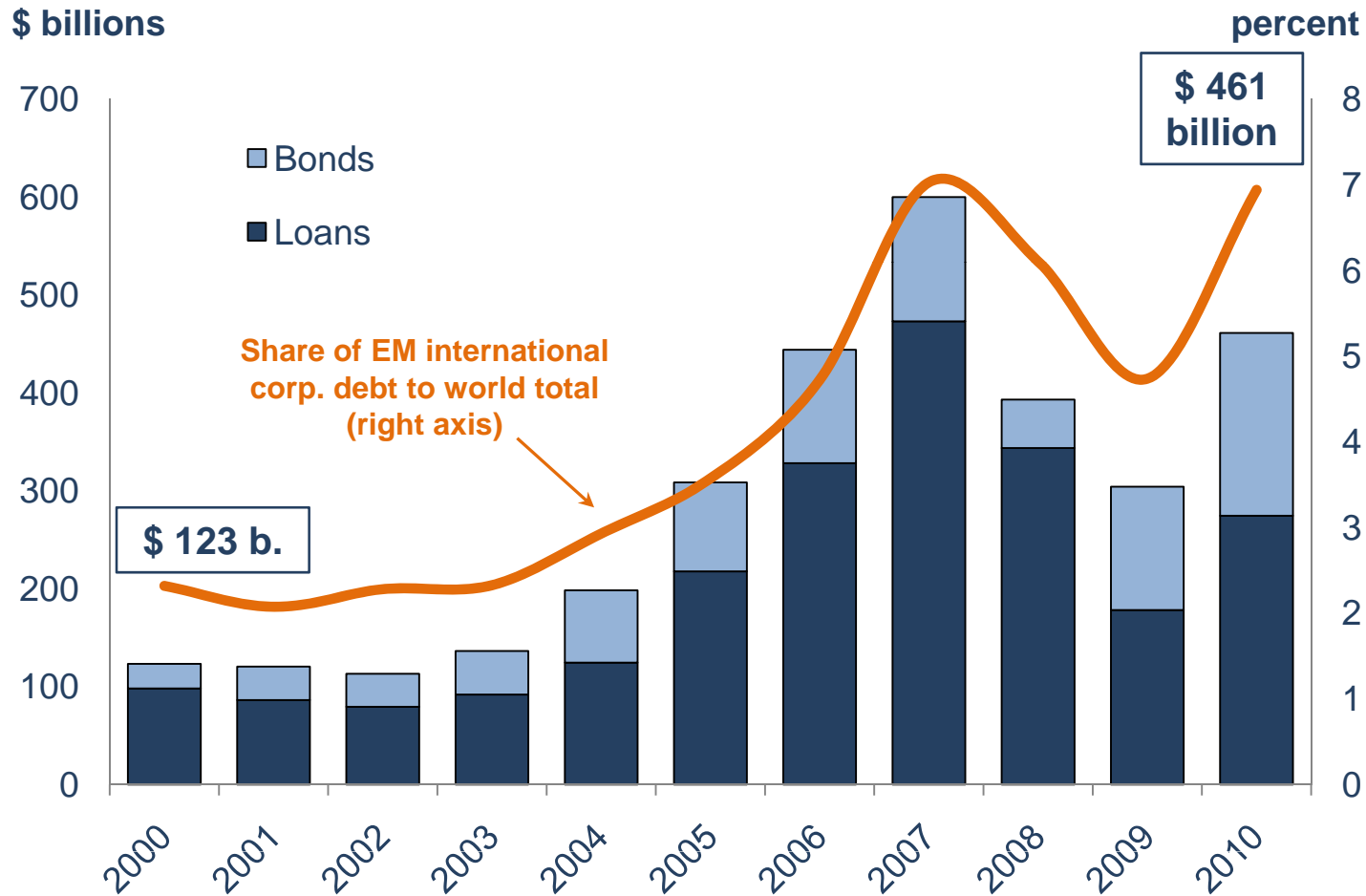
Sources: Global Development Horizons 2011, based on UK Dept. for Business, Innovation and Skills

Increasing cross-border M&A deals originating in EM is a feature of the new corporate landscape



Sources: Global Development Horizons 2011, based on Thomson-Reuters.

EM firms have become important borrowers in global markets

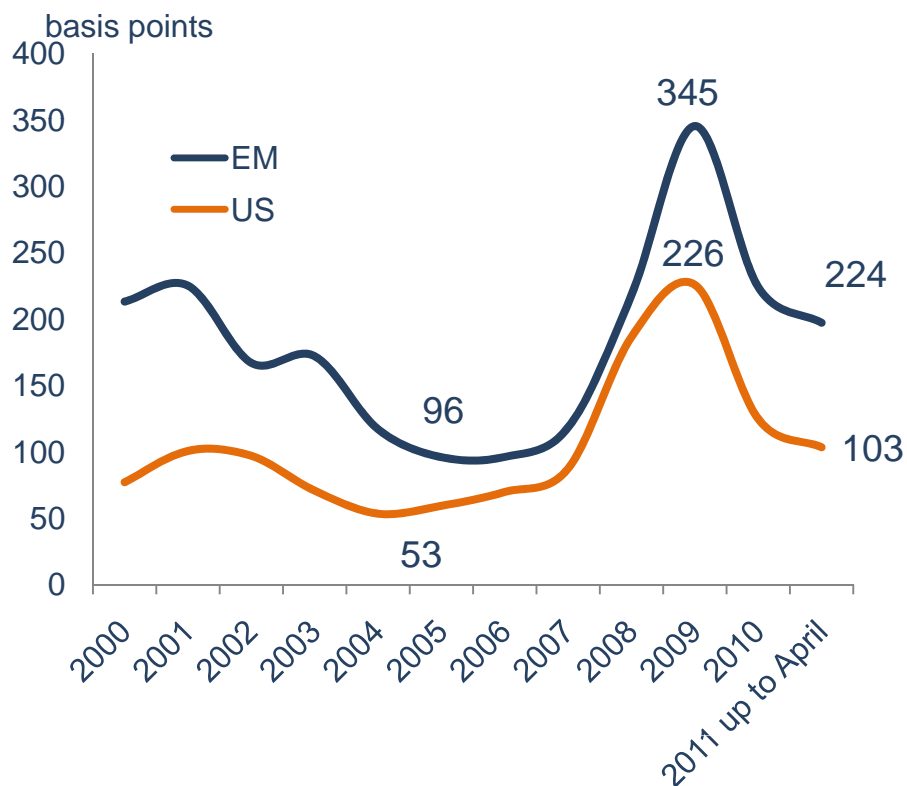


Sources: Global Development Horizons 2011, based on Dealogic.

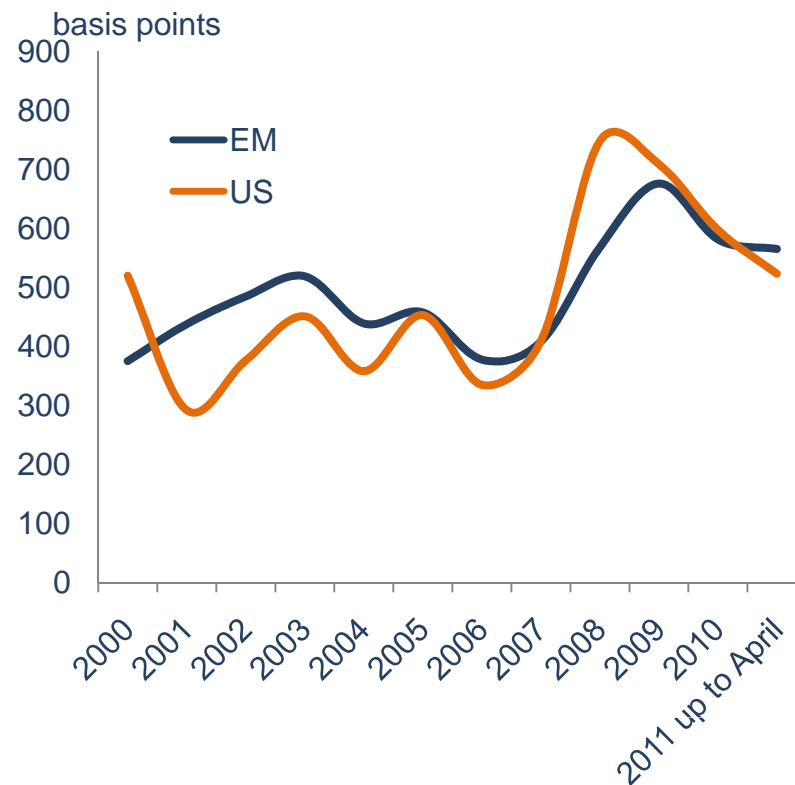
EM corporate cost of foreign capital has declined, but remains higher than in developed countries

U.S. dollar corporate bond spread to benchmarks

Investment Grade



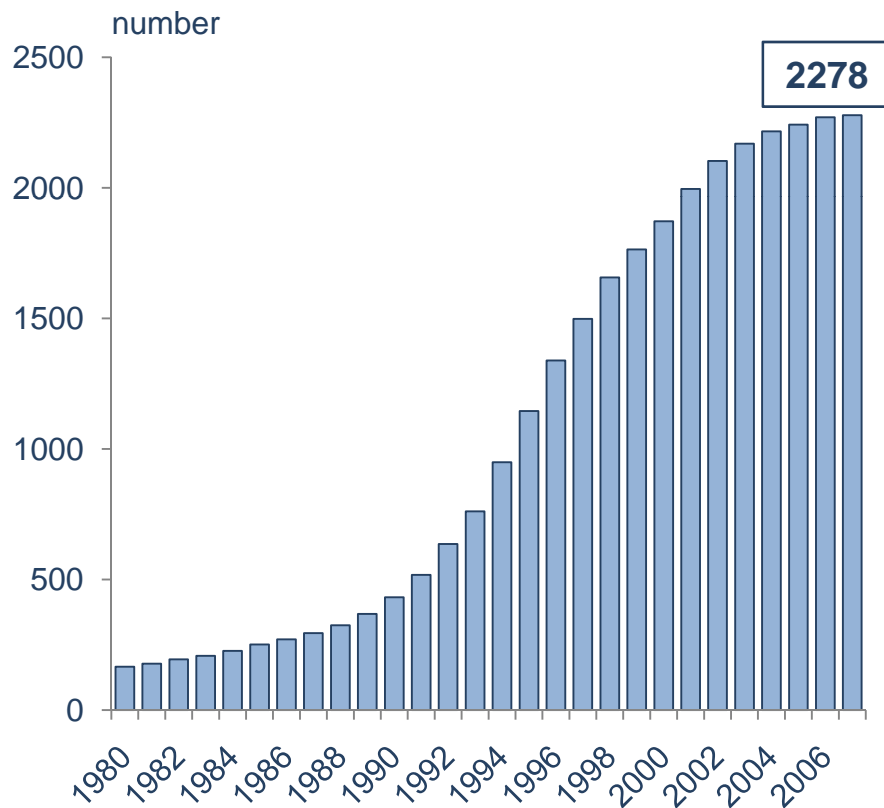
Non-investment Grade



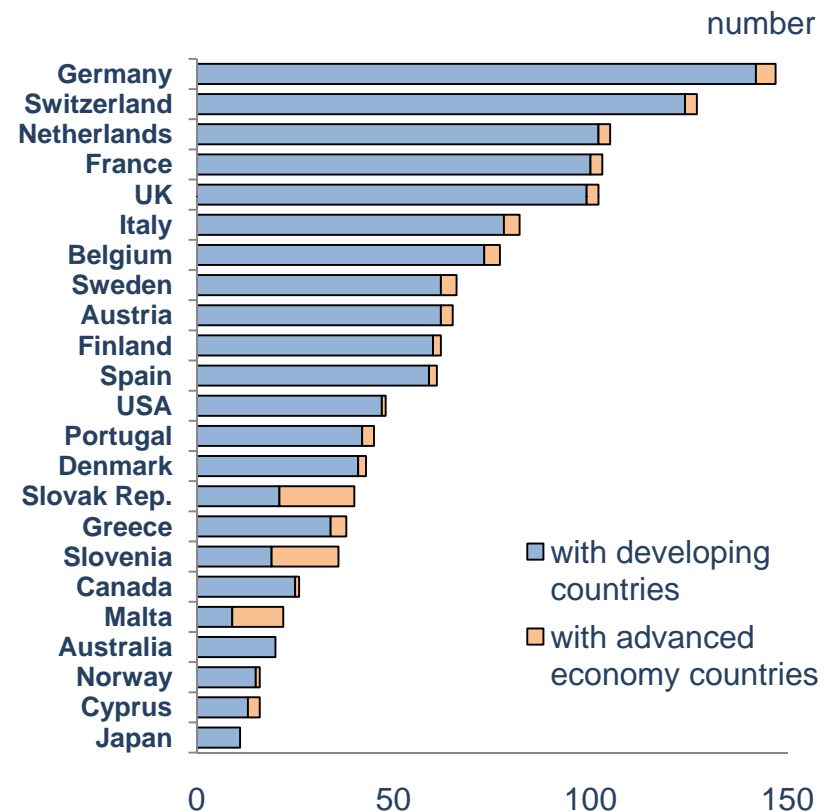
Sources: Global Development Horizons 2011, based on Dealogic.

With rising prominence of EM as a source of FDI, it is time to think about a multilateral framework to govern cross-border investment flows

BITs surged in the 1990s



European countries have led the way among advanced economies



Sources: Global Development Horizons 2011, based on International Centre for the Settlement of Investment Disputes.

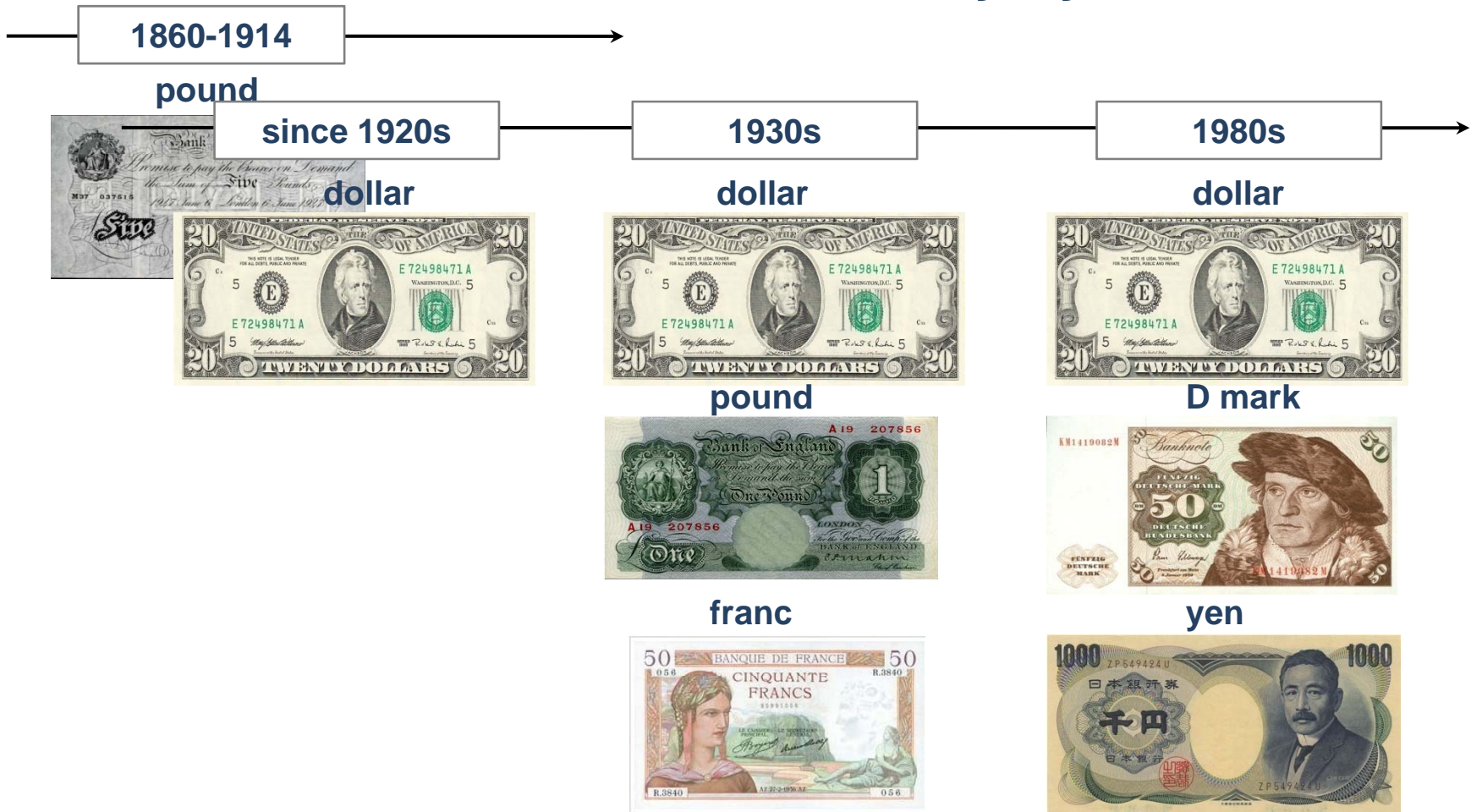
The role of EM in the international monetary system remains modest –despite their growing economic size

- Virtually no EM has a currency used internationally for reserve accumulation, invoicing, or exchange rate anchor
- Developing countries are exposed to currency mismatch
- Addressing these disparities requires urgent attention, both to manage the system and to affect its future evolution

Three potential scenarios

- A status quo centered on the US dollar
- A system with the Special Drawing Rights (SDR) as the main international currency
- A multicurrency system

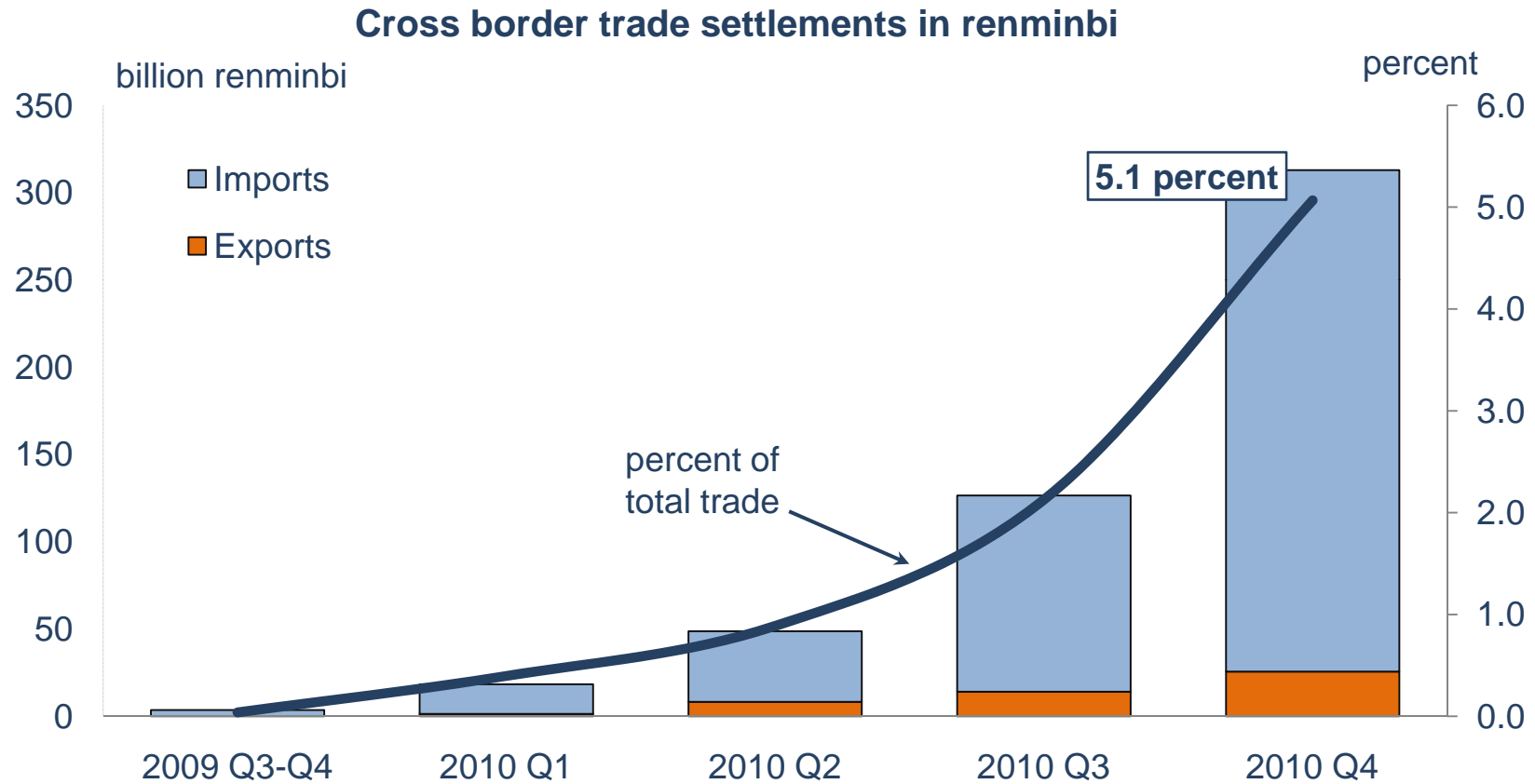
Historically few currencies have dominated the international currency system



This century may witness the emergence of a new multi-currency system



The use of renminbi in trade settlement is growing...

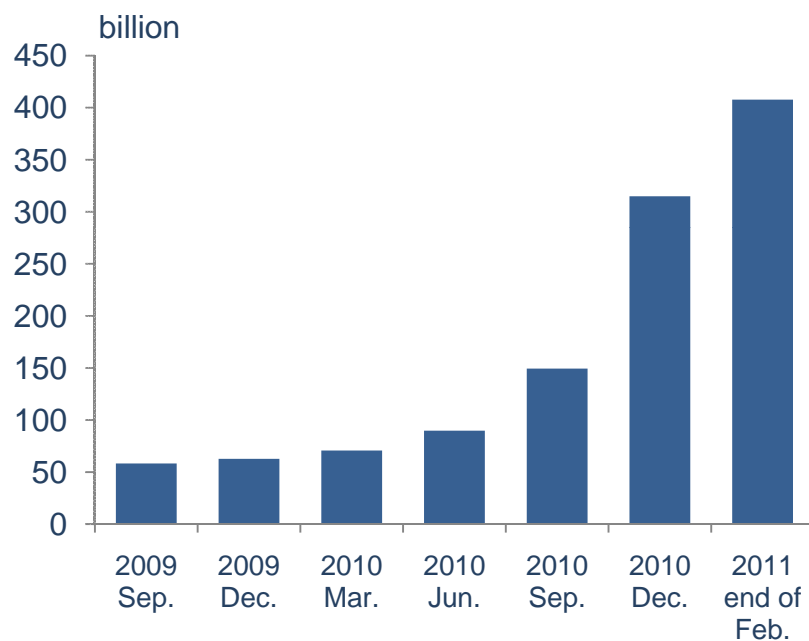


China's total exports 2010: \$1.75 trillion
China's total imports 2010: \$1.52 trillion

Sources: People's Bank of China.

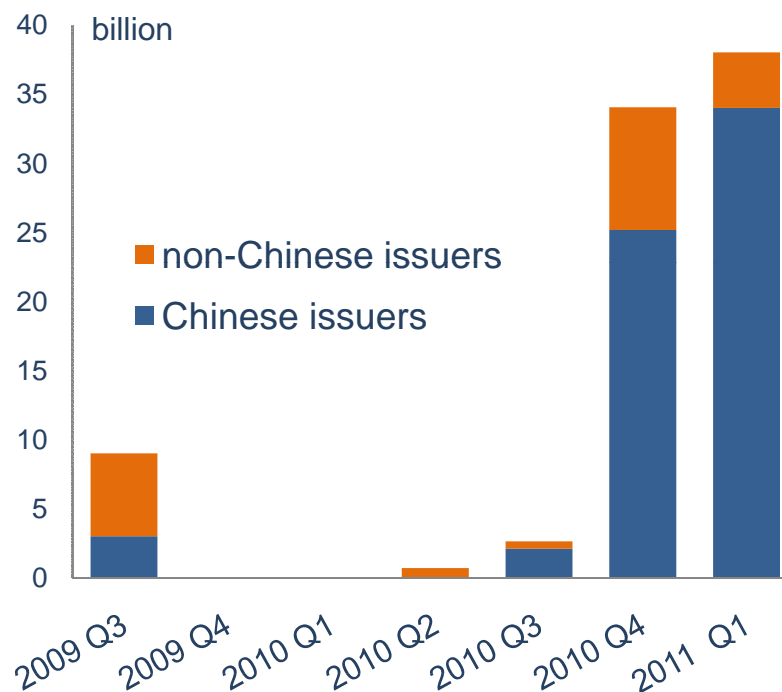
...and the renminbi offshore market has taken off on the back of government policy

Renminbi-denominated bank deposits in Hong Kong SAR, China



Source: Hong Kong Monetary Authority

Offshore renminbi bond issuance

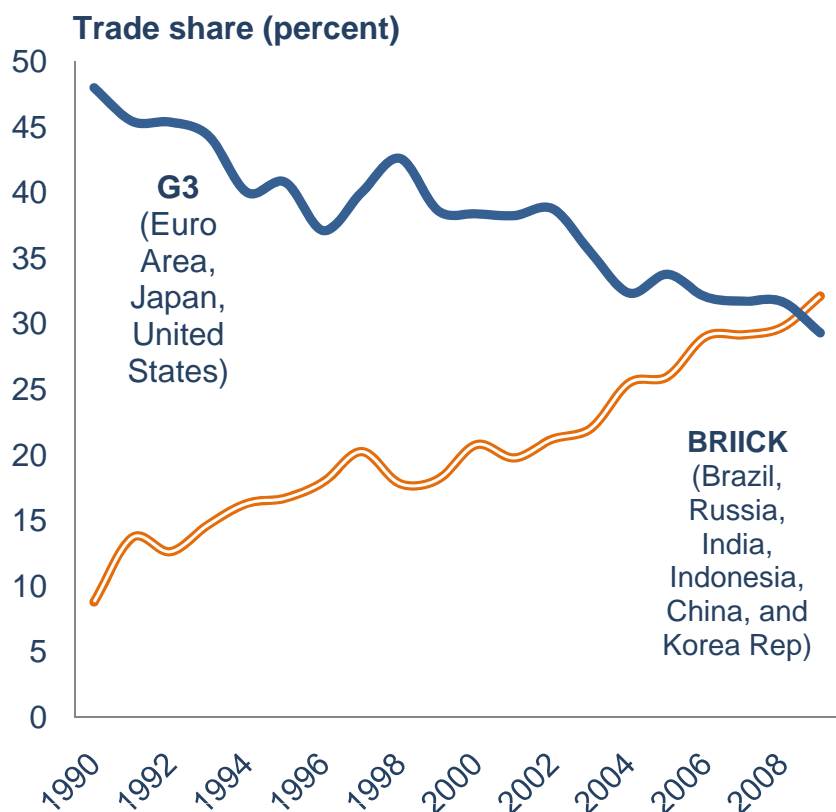


Source: Dealogic DCM

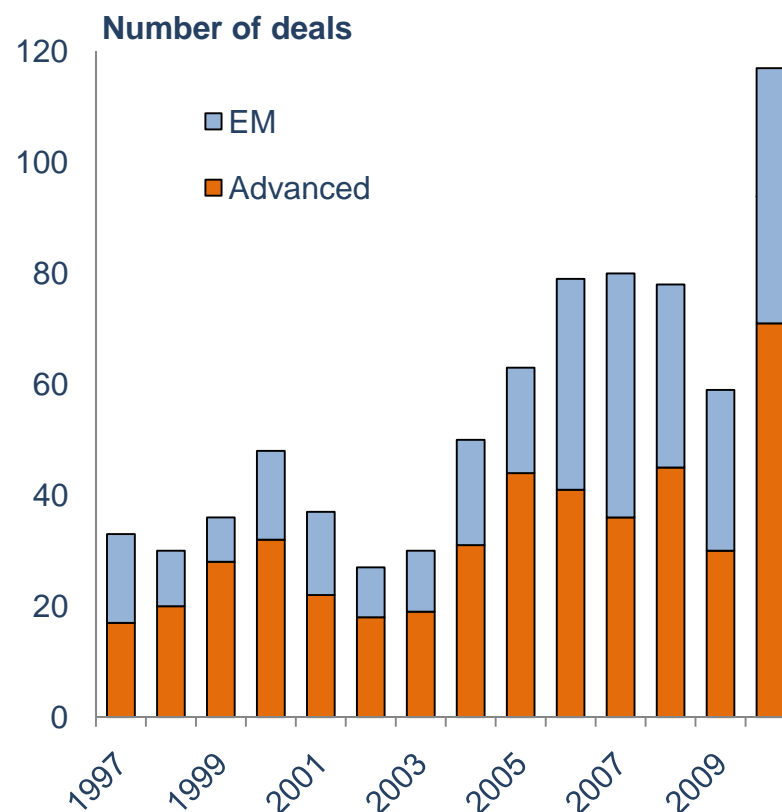
- On the equity side, the Hong Kong Stock Exchange will launch its first renminbi-denominated IPO.

In managing the transition underway, it is necessary to assist Least Developed Countries to adjust to the challenges of a multipolar world

Shares of total LDC bilateral trade



Cross-border M&A investment in LDCs



Sources: Global Development Horizons 2011, based on IMF DOT and Thomson-Reuters.

Conclusion

- The postwar global economic structure –defined by the dominant position of advanced countries –is in the midst of a fundamental change
- Rapid globalization and expected higher growth rates in emerging market economies will translate into greater economic influence for developing countries
- The move to multipolarity will be by and large positive for developing countries, but the transition needs to be managed