Emerging Market Growth Poles are Redefining Global Economic Structure, Says World Bank Report

WASHINGTON, May 17, 2011 – By 2025, six major emerging economies—Brazil, China, India, Indonesia, South Korea, and Russia—will account for more than half of all global growth, and the international monetary system will likely no longer be dominated by a single currency, a new World Bank report says. As economic power shifts, these successful economies will help drive growth in lower income countries through cross-border commercial and financial transactions.

The report, Global Development Horizons 2011—Multipolarity: The New Global Economy, projects that as a group, emerging economies will grow on average by 4.7 percent a year between 2011 and 2025. Advanced economies, meanwhile, are forecast to grow by 2.3 percent over the same period, yet will remain prominent in the global economy, with the euro area, Japan, the United Kingdom, and the United States all playing a core role in fueling global growth.

“The fast rise of emerging economies has driven a shift whereby the centers of economic growth are distributed across developed and developing economies – it’s a truly multipolar world,” said **Justin Yifu Lin, the World Bank’s chief economist and senior vice president for development economics**. “Emerging market multinationals are becoming a force in reshaping global industry, with rapidly expanding South-South investment and FDI inflows. International financial institutions need to adapt fast to keep up."

According to the report, emerging economies that used to rely on technological adaptation and external demand to grow will have to make structural changes to sustain their growth momentum through productivity gains and robust domestic demand.

Global Development Horizons maps out the challenges that a multipolar world economy poses for developing countries over the next twenty years. The authors use empirically-based indices to identify high-growth countries with strong human capital and technological innovation, and that also drive economic activity in other countries. Growth spillovers are likely via cross-border trade, finance, and migration, which will induce technological transfer, and increase demand for exports.

The report highlights the diversity of potential emerging economy growth poles, some of which have relied heavily on exports, such as China and Korea, and others that put more weight on domestic consumption, such as Brazil and Mexico. With the emergence of a substantial middle class in developing countries and demographic transitions underway in several major East Asian economies, stronger consumption trends are likely to prevail, which in turn can serve as a source of sustained global growth.

“In many big emerging economies, the growing role of domestic demand is already apparent and outsourcing is already under way,” said **Hans Timmer, the World Bank’s director of development prospects**. “This is important for the least developed countries, which are often reliant on foreign investors and external demand for their growth.”

The shift in economic and financial power toward the developing world has important implications on corporate financing, investment, and the nature of cross-border merger and acquisition (M&A) deals. As more deals originate in emerging markets, South-South FDI is likely to rise, with most of it going into greenfield investments, while South-North FDI is more likely to target acquisitions. As they expand, more developing countries and their firms will be able to access international bond and equity markets at better terms to finance overseas investments.

The growing role and influence of emerging-market firms in global investment and finance can facilitate moving forward with the sort of multilateral framework for regulating cross-border investment that has been derailed several times since the 1920s, the report says. In contrast to international trade and monetary relations, no multilateral regime exists to promote and govern cross-border investment. Instead, the surge of bilateral investment treaties (BITs) —more than 2,275 BITs as of end 2007—has provided the most widely used mechanism for interstate negotiation over cross-border investment terms, including access to international arbitration of disputes through referral to the International Centre for the Settlement of Investment Disputes, an affiliate of the World Bank.

“Over the next decade or so, China’s size and the rapid globalization of its corporations and banks will likely mean a more important role for the renminbi,” said **Mansoor Dailami, lead author of the report and manager of emerging trends at the World Bank**. “The most likely global currency scenario in 2025 will be a multi-currency one centered around the dollar, the euro, and the renminbi.”

To sustain growth and cope with more complex risks, economies that are home to emerging growth poles need to reform domestic their institutions, including in the economic, financial, and social sectors. China, Indonesia, India, and Russia all face institutional and governance challenges. Human capital and ensuring access to education is a concern in some potential growth poles, particularly Brazil, India, and Indonesia.

“The projected changes in the global economy are fundamental. Overall, these shifts will likely be positive for developing countries. However, a key question is whether existing multilateral norms and institutions are sufficiently strong to accommodate the passage toward multipolarity. The challenges of managing global integration among power centers makes strengthening policy coordination across economies critical to reducing the risks of economic instability,” said Dailami.

Most developing countries, particularly the poorest ones, will continue to use foreign currencies to carry out transactions with the rest of the world, and will remain exposed to exchange rate fluctuations in an international multi-currency regime. Multilateral institutions have to help countries transition to the new multi-polar world. This will require technical assistance, aid, and policy advice to equip developing countries with the necessary tools and financial capacity to respond to anticipated challenges and risks, while capitalizing on their strengths and opportunities.

The full report, projections of growth poles and other data are available at www.worldbank.org/gdh2011. Registered journalists can access the embargoed report through the World Bank Online Media Briefing Center: http://media.worldbank.org/secure. Accredited journalists may register at http://media.worldbank.org/

Contacts
In Washington: Merrell Tuck +1 (202) 473-9516, mtuckprimdahl@worldbank.org
Rebecca Ong +1 (202) 458-0434, rong@worldbank.org
For TV/Broadcast: Mehreen A. Sheikh +1 (202) 458-7336, msheikh1@worldbank.org