THE INTERNATIONAL ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
888 16th Street, N.W., Suite 740
Washington, D.C. 20006
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The Coming *Multipolar* World Economy

Is the developed world prepared?

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At a time when the global economy is suffering from a crisis of confidence, structural imbalances, and subdued growth prospects, looking ahead ten years to predict the course of development requires careful modeling and something beyond sagacity. What is needed is a multifaceted approach that combines a sense of history with careful analysis of current forces such as the shift in the balance of global growth toward the emerging world.

Such forecasting also requires an understanding of how advanced economies are coming to grips with that shift, and how the international monetary system will adjust as a result. Having studied these factors, we believe that the world economy is on the verge of a transformative change—the transition to a multipolar world economic order.

Throughout history, paradigms of economic power have been drawn and redrawn according to the rise and fall of those countries best equipped to drive global growth and provide stimulus to the global economy. Multipolarity, meaning more than two dominant growth poles, has at times been a key feature of the world economy. But at no time in modern history have developing countries been at the forefront of a multipolar economic system.

This pattern is set to change. By 2025, six emerging economies—Brazil, China, India, Indonesia, South Korea, and Russia—will collectively account for about one-half of global growth. The international monetary system is likely to cease being dominated by a single currency over the same years. As they pursue growth opportunities abroad and are encouraged by improved policies at home, emerging-market corporations will play an increasingly prominent role in global business and cross-

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border investment, while large pools of capital within their borders will allow emerging economies to become key players in financial markets.

As dynamic emerging economies evolve to take their place at the helm of the world economy, a rethink of the conventional approach to global economic governance is needed. The current approach rests on three premises: the link between concentrated economic power and stability; the North-South axis of capital flows; and the centrality of the U.S. dollar.

Since the end of World War II, the U.S.-centered global economic order has been built on a complementary set of tacit economic and security arrangements between the United States and its core partners, with emerging economies playing a peripheral role. In exchange for the United States assuming the responsibilities of system maintenance, serving as market of last resort, and accepting the international role of the dollar, its key economic partners, Western Europe and Japan, acquiesced in the special privileges enjoyed by the United States—seigniorage gains, domestic macroeconomic policy autonomy, and balance-of-payments flexibility.

Broadly, this arrangement still holds today, though hints of its erosion became evident some time ago. The benefits that emerging economies have reaped from expanding their presence in international trade and finance are but one example of this.

An increasingly multipolar global economy is likely to change the way the world conducts international business. A number of dynamic emerging-market firms are on a path toward dominating their industrial sectors globally in the coming years—much in the same way that companies based in advanced economies have done for the past half-century. In the years ahead, such firms are likely to press for economic reforms at home, serving as a force for increased integration of their home countries into global trade and finance.

So the time may be ripe to move forward with the sort of multilateral framework for regulating cross-border investment that has been derailed several times since the 1920s. In contrast to international trade and monetary relations, no multilateral regime exists to promote and govern cross-border investment.

For now, the U.S. dollar remains the most important international currency. But this dominance is waning, as evidenced by its declining use as an official reserve currency, as well as for invoicing goods and services, denominating international claims, and anchoring exchange rates.

The euro represents the dollar's strongest competitor, so long as the eurozone successfully addresses its current sovereign debt crisis through bailouts and longer-term

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institutional reforms that safeguard the gains from a long-running single-market project. But developing countries' currencies will undoubtedly become more prominent in the longer term.

The size and dynamism of China's economy, and the rapid globalization of its corporations and banks, makes the renminbi especially likely to take on a more important international role. In *Global Development Horizons 2011,* the World Bank presents what it believes to be the most probable global currency scenario in 2025—a multicurrency arrangement centered on the dollar, euro, and renminbi. This scenario is buttressed by the likelihood that the United States, the eurozone, and China will constitute the three major growth poles at that time.

Finally, the international financial community must live up to its responsibility to ensure that the development agenda remains a priority. Countries with global economic clout have a special responsibility to accept that their policy actions have important spillover effects on other countries. Monetary policy initiatives that emphasize increased collaboration among central banks in order to achieve financial stability and sustainable growth in global liquidity thus would be particularly welcome.

Despite the considerable progress that developing countries have made in integrating themselves into international trade and finance channels, there is still much work to be done to ensure that they share the burden of maintaining the global system in which they have a rapidly growing stake. At the same time, it is critical that major developed countries craft policies that take into account their growing interdependency with developing countries. More and more, global governance will depend on leveraging that interdependency to strengthen international cooperation and boost worldwide prosperity. ◆