



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

# Looking ahead: EM countries will be key players in a multipolar world

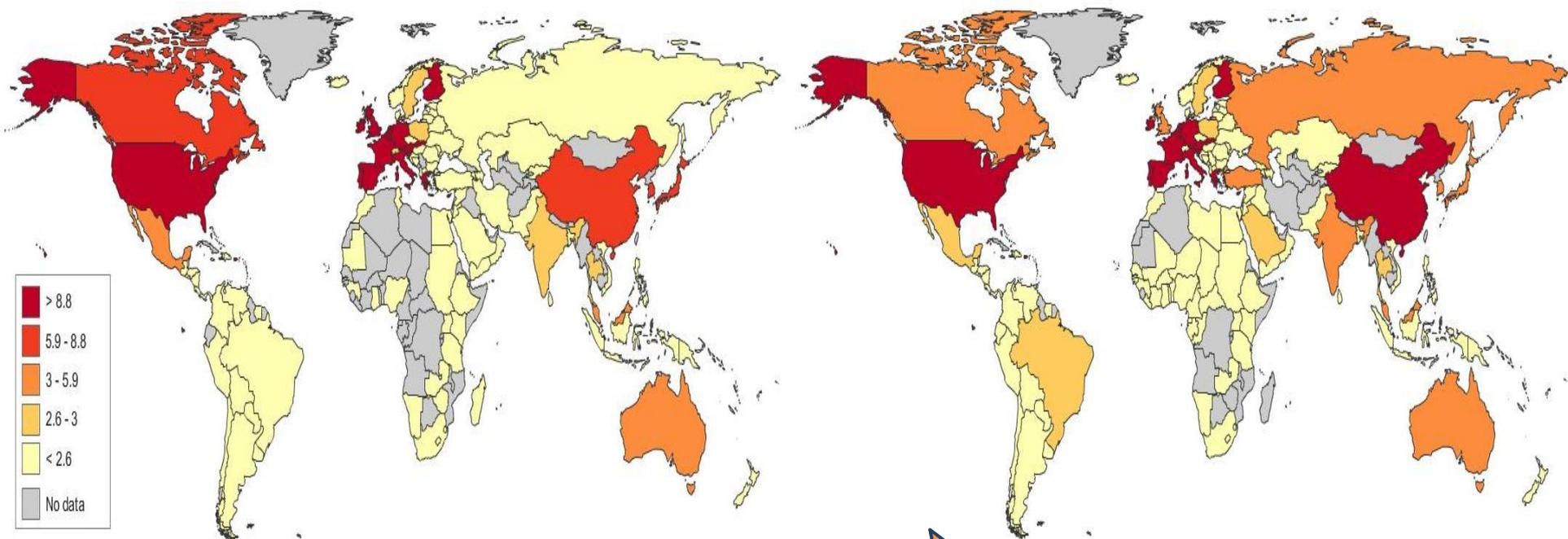
- Multipolarity
  - The concurrent existence of more than two global growth poles
- Growth poles
  - An economy that drives global growth by virtue of its: (a) size (b) dynamism (c) linkages with the rest of the world
- By 2025, leading emerging economies such as Brazil, India, Indonesia, Korea and Russia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

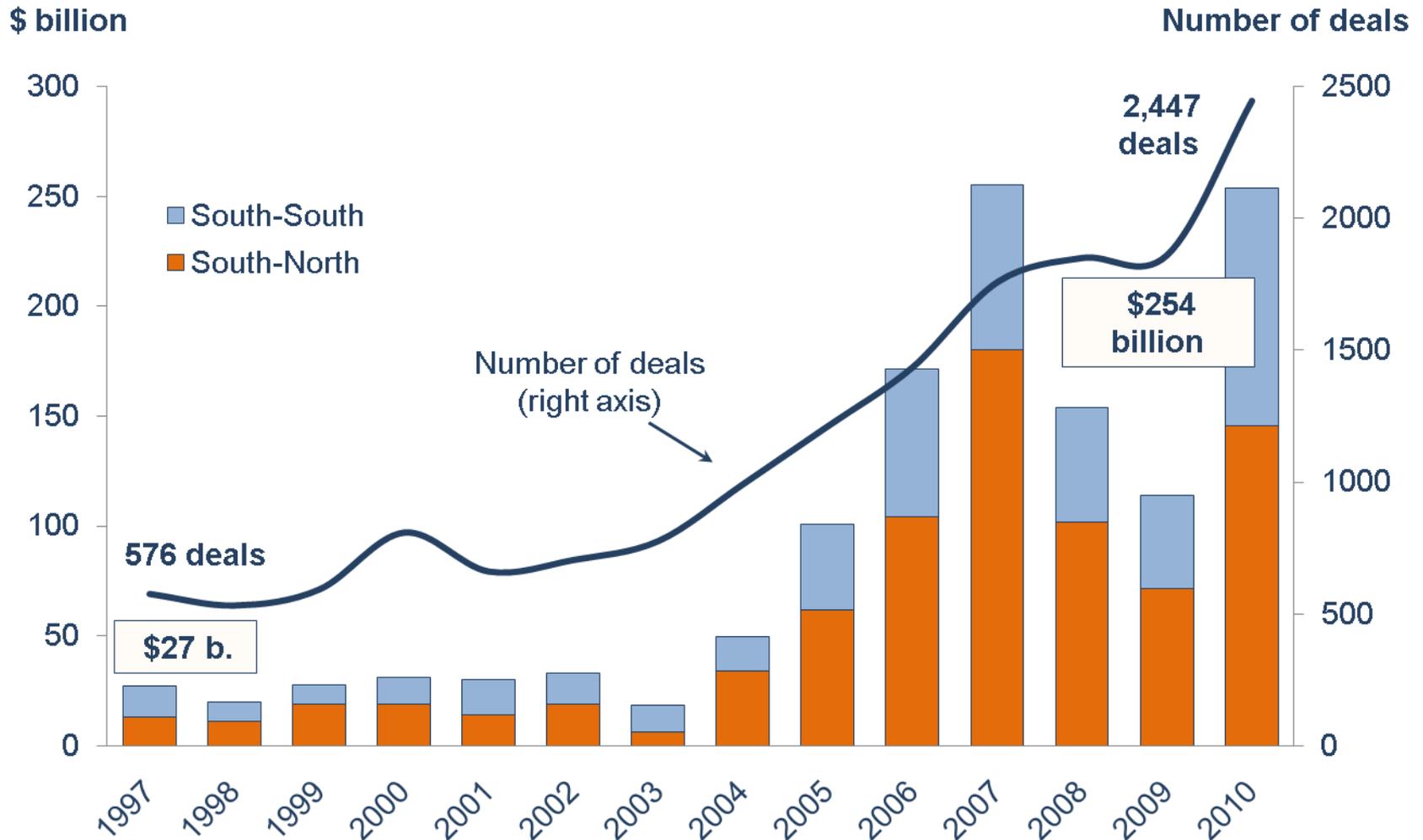
*Global distribution of growth poles*

1994–98

2004–08

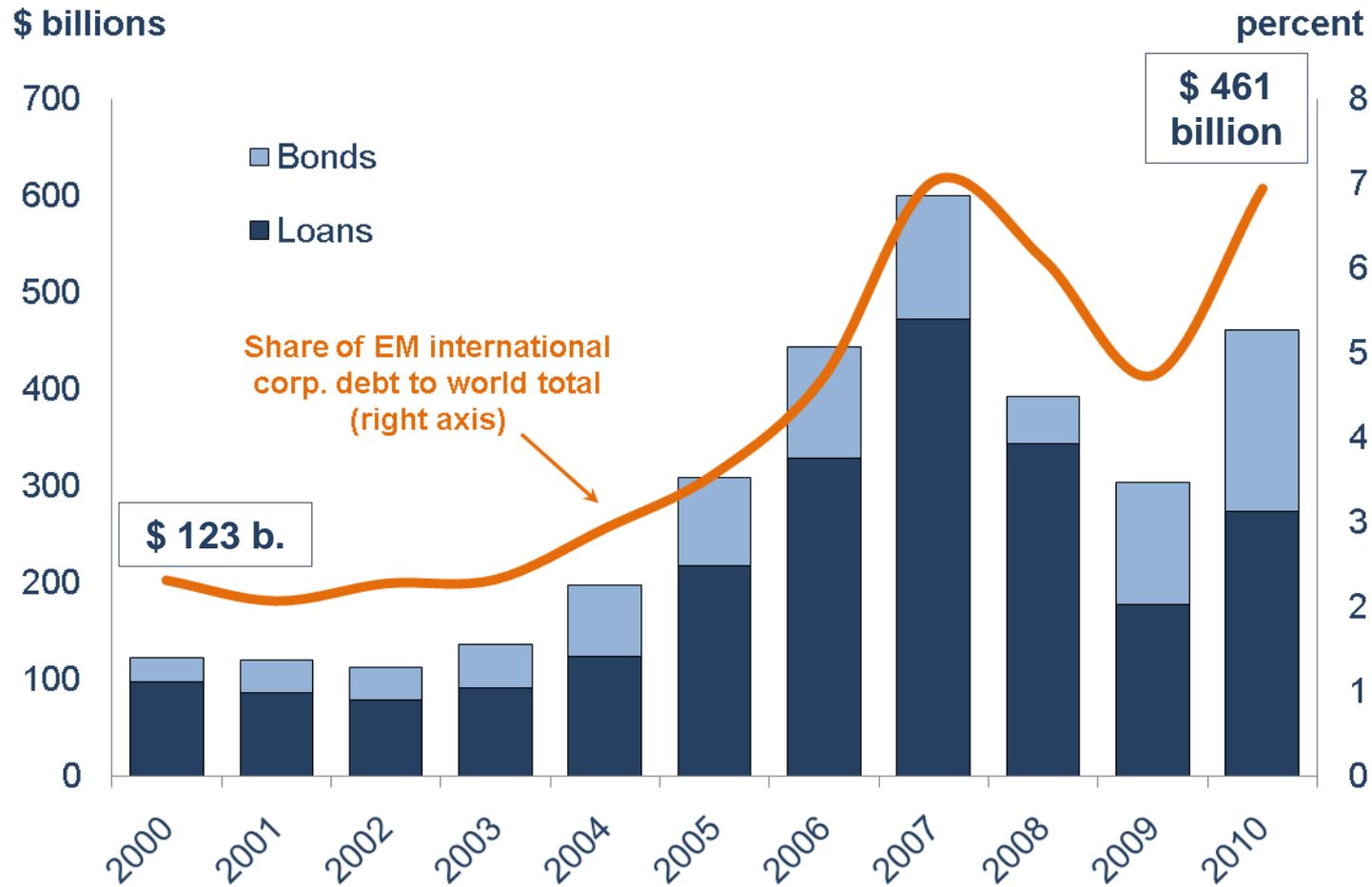


# Increasing cross-border M&A deals originating in EM is a feature of the new corporate landscape



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

# EM firms have become important borrowers in global markets

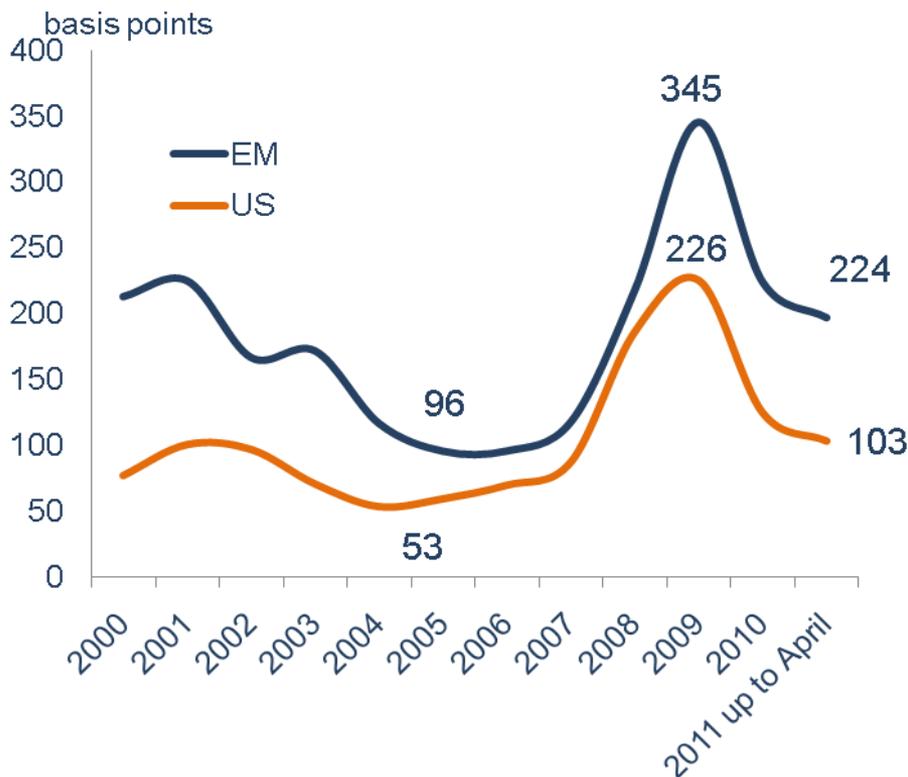


Sources: Global Development Horizons 2011, based on Dealogic.

# 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



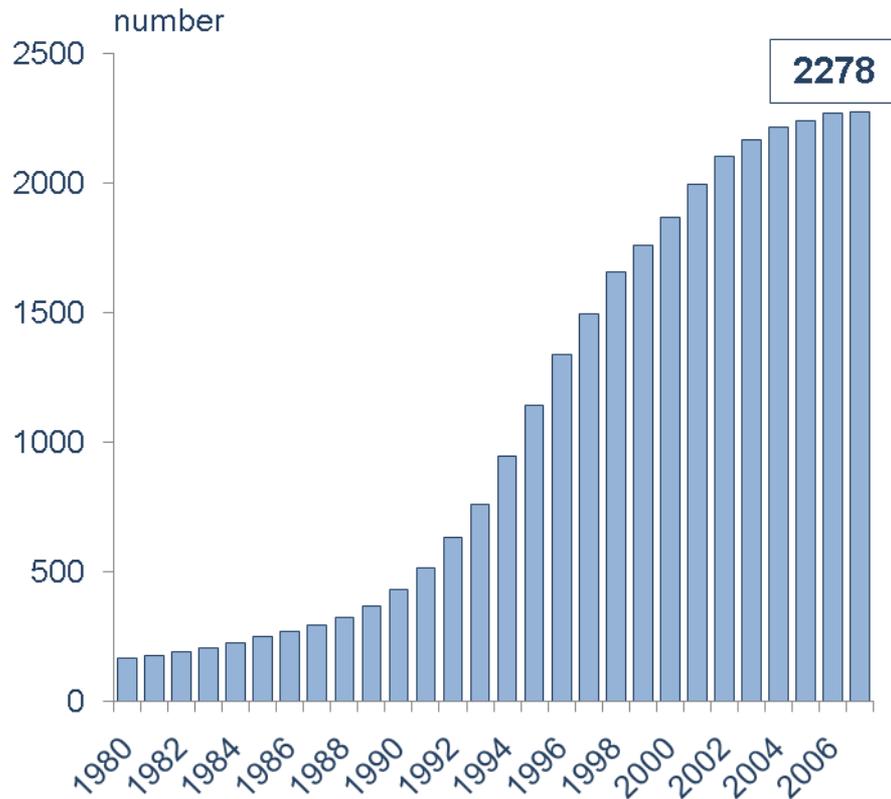
### Non-investment Grade



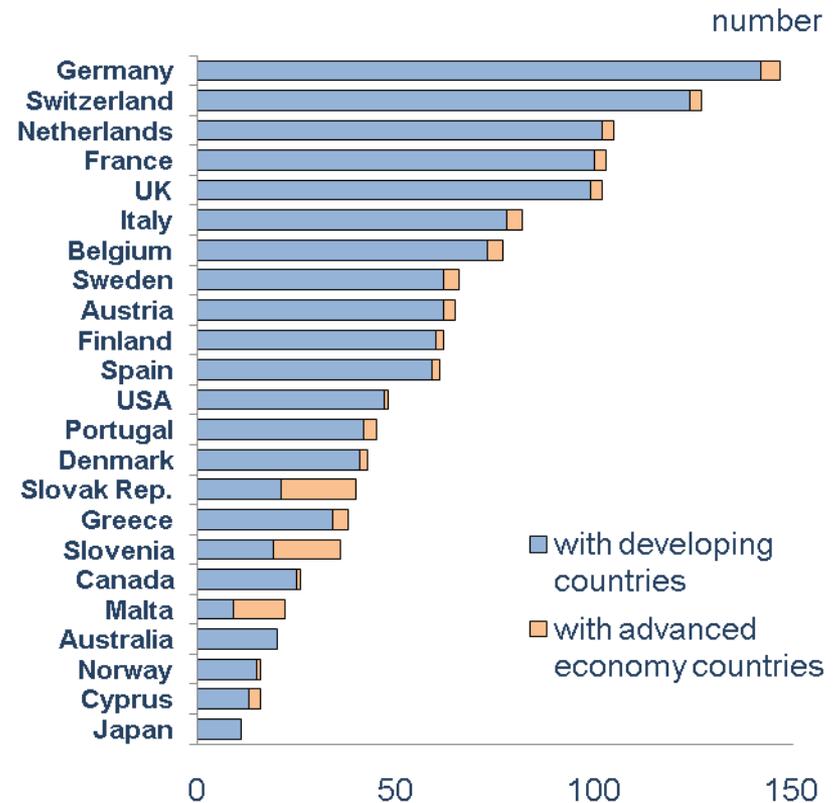
Sources: Global Development Horizons 2011, based on Dealogic.

# 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

## Regarding the future of international monetary system, three potential scenarios can be envisaged

- 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

1860-1914

pound



since 1920s

dollar



1930s

dollar



pound



franc



1980s

dollar



D mark



yen



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



21th c.

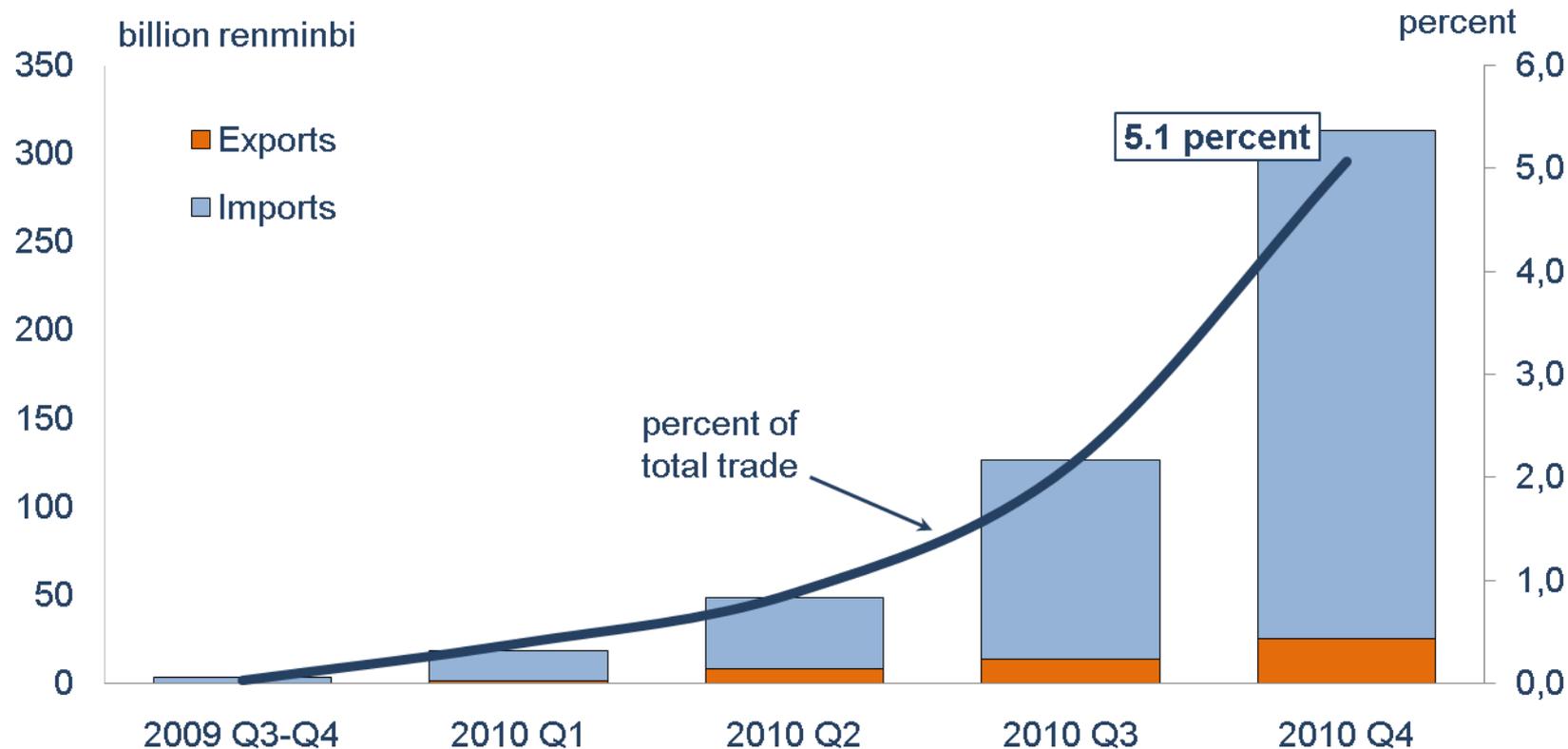
dollar

euro

renminbi

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

Cross border trade settlements in renminbi

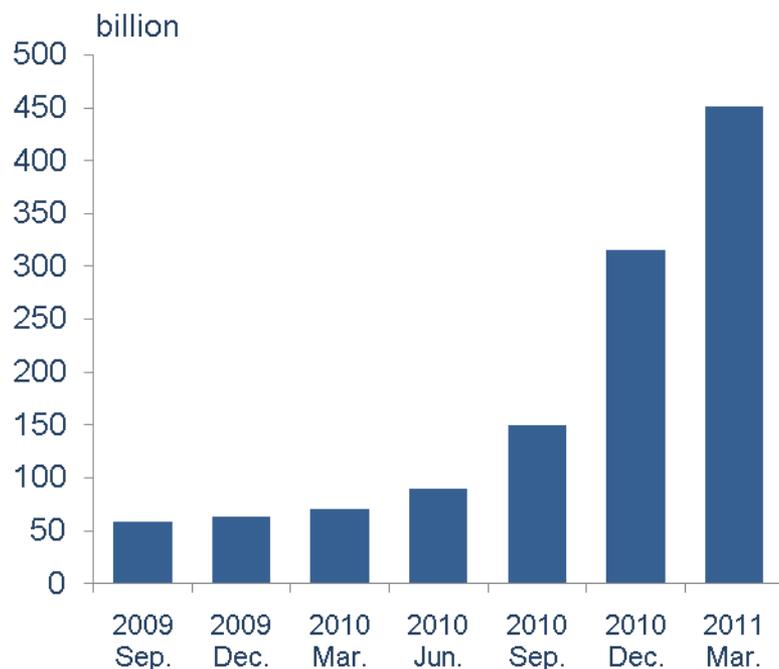


**China's total exports 2010: \$1.75 trillion**  
**China's total imports 2010: \$1.52 trillion**

Sources: People's Bank of China.

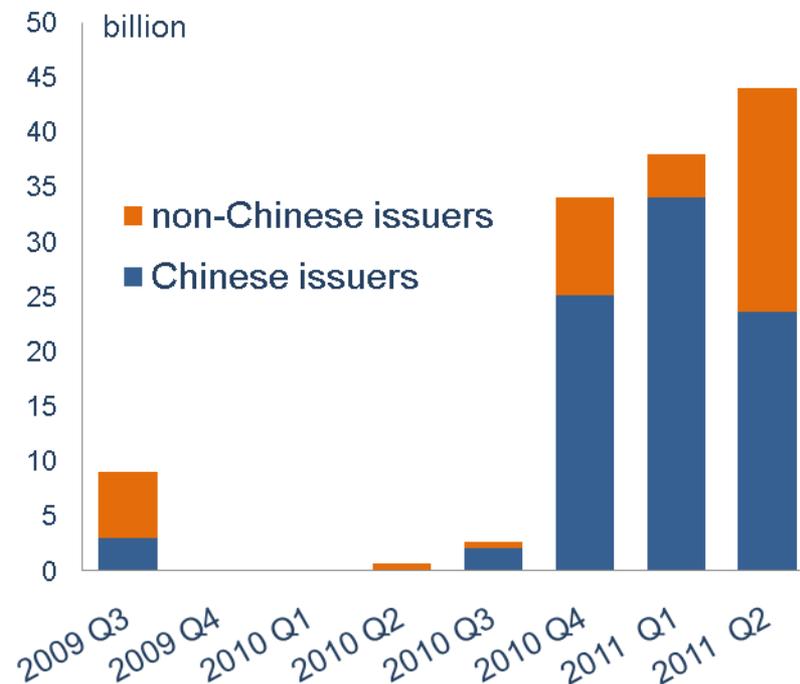
# ...and the renminbi offshore market has taken off on the back of government policy...

### Renminbi-denominated bank deposits in Hong Kong SAR, China



Source: Hong Kong Monetary Authority

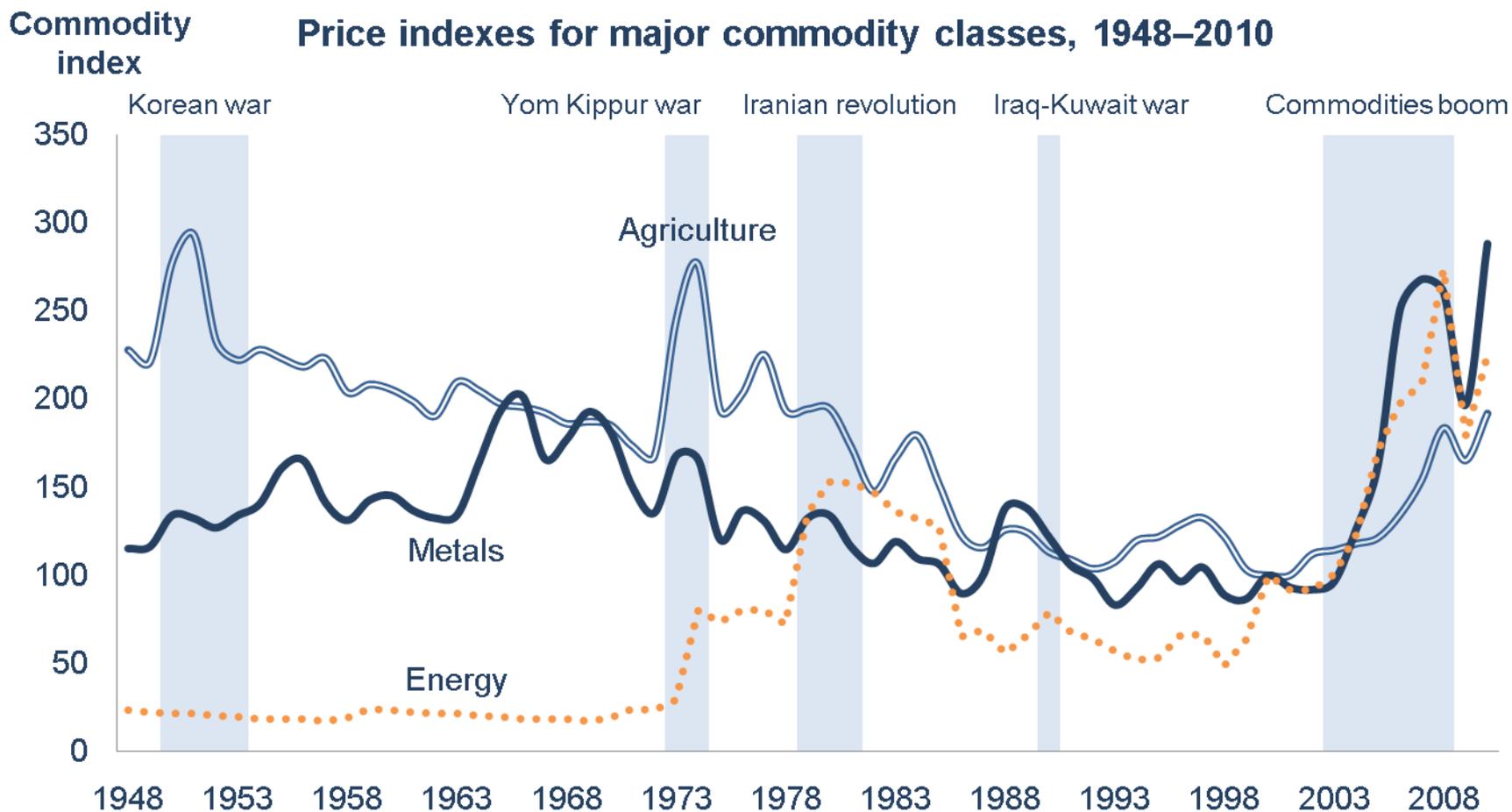
### Offshore renminbi bond issuance



Source: Dealogic DCM

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

# While commodity prices have seen significant pressure in recent times, in part due to demand from emerging economies...

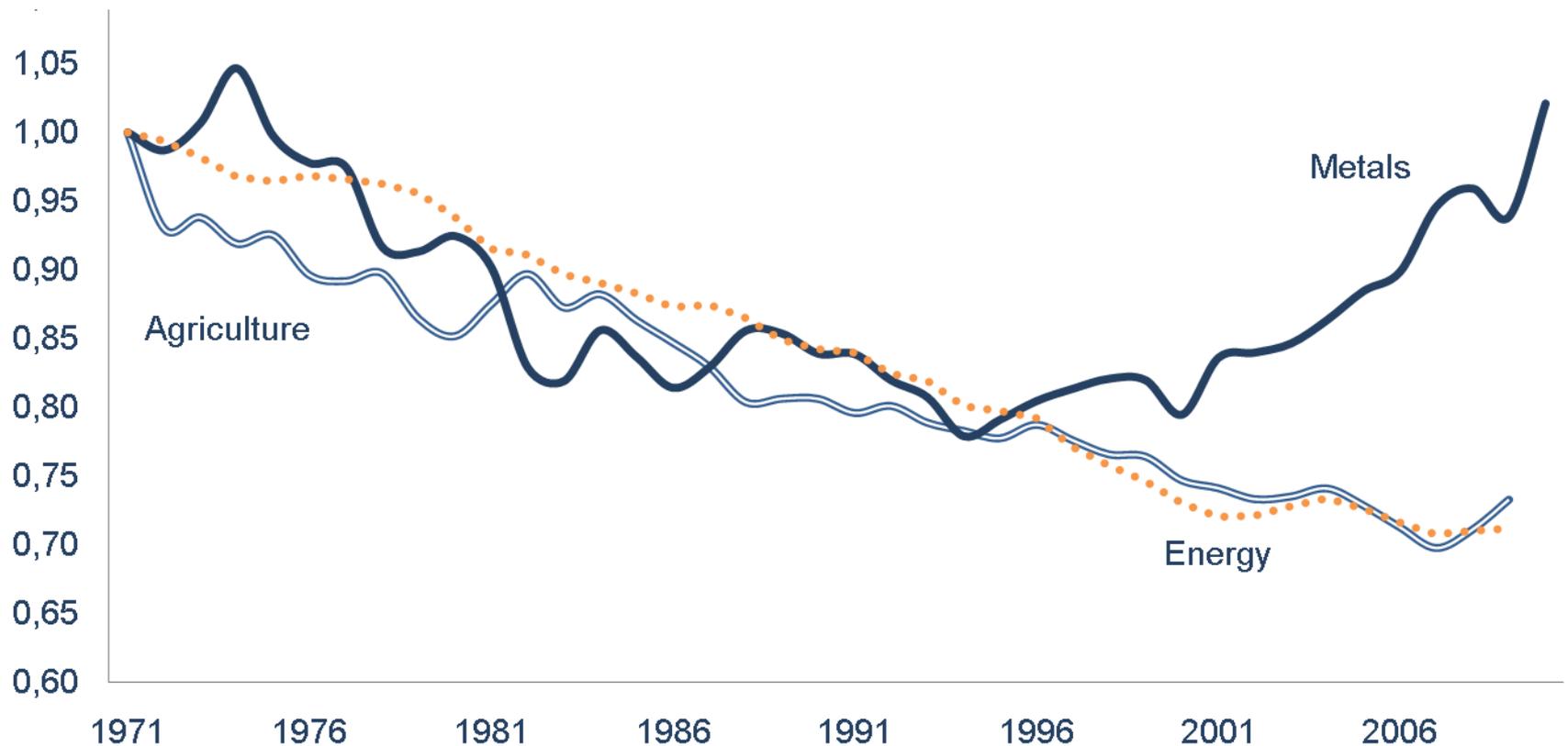


Sources: Global Development Horizons 2011.

# ...multipolarity is likely to impact long-run base metals prices more than agriculture and energy

Intensity of demand for commodities, 1971–2010

Commodity use/GDP

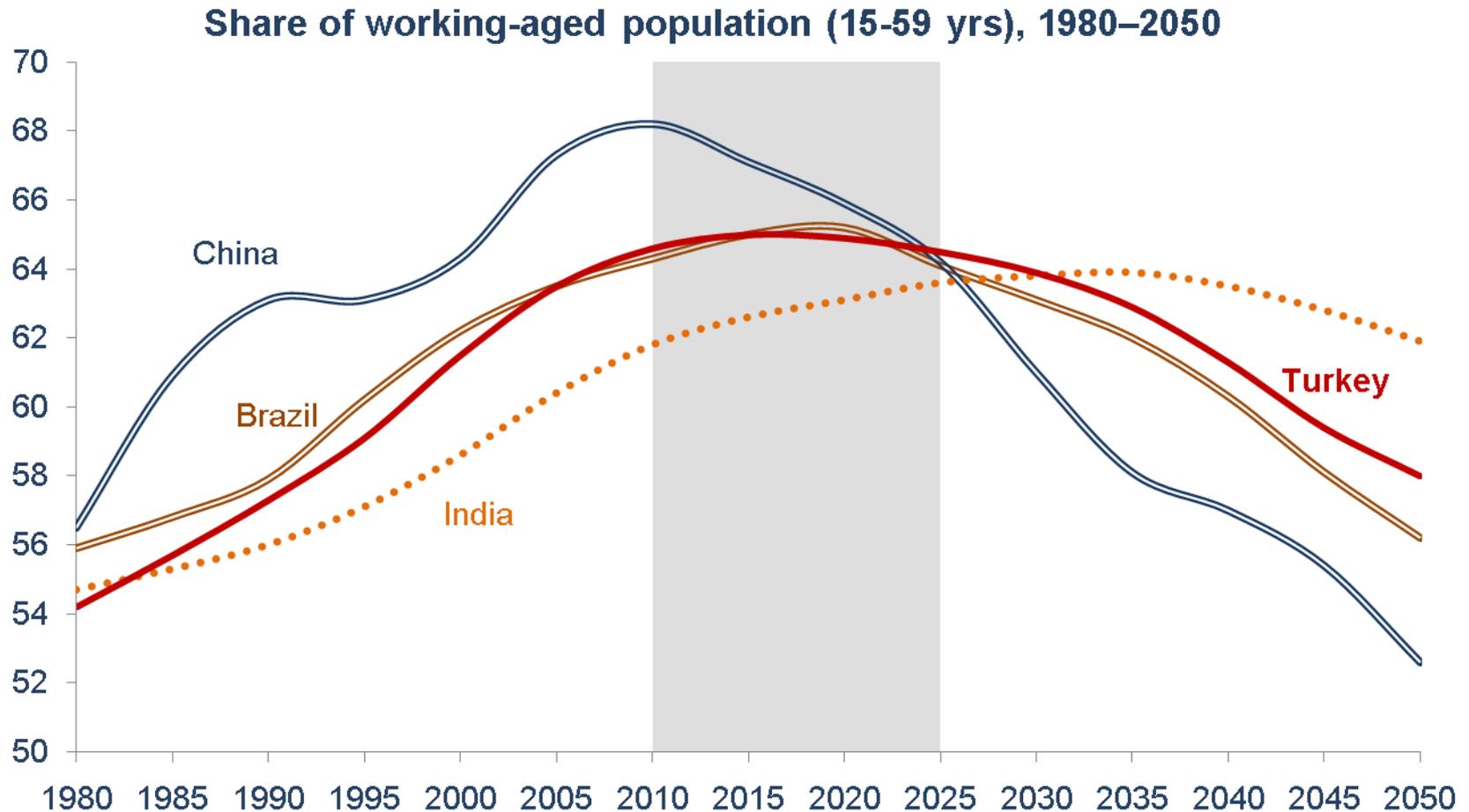


Sources: Global Development Horizons 2011.

# Turkey in a Multipolar World

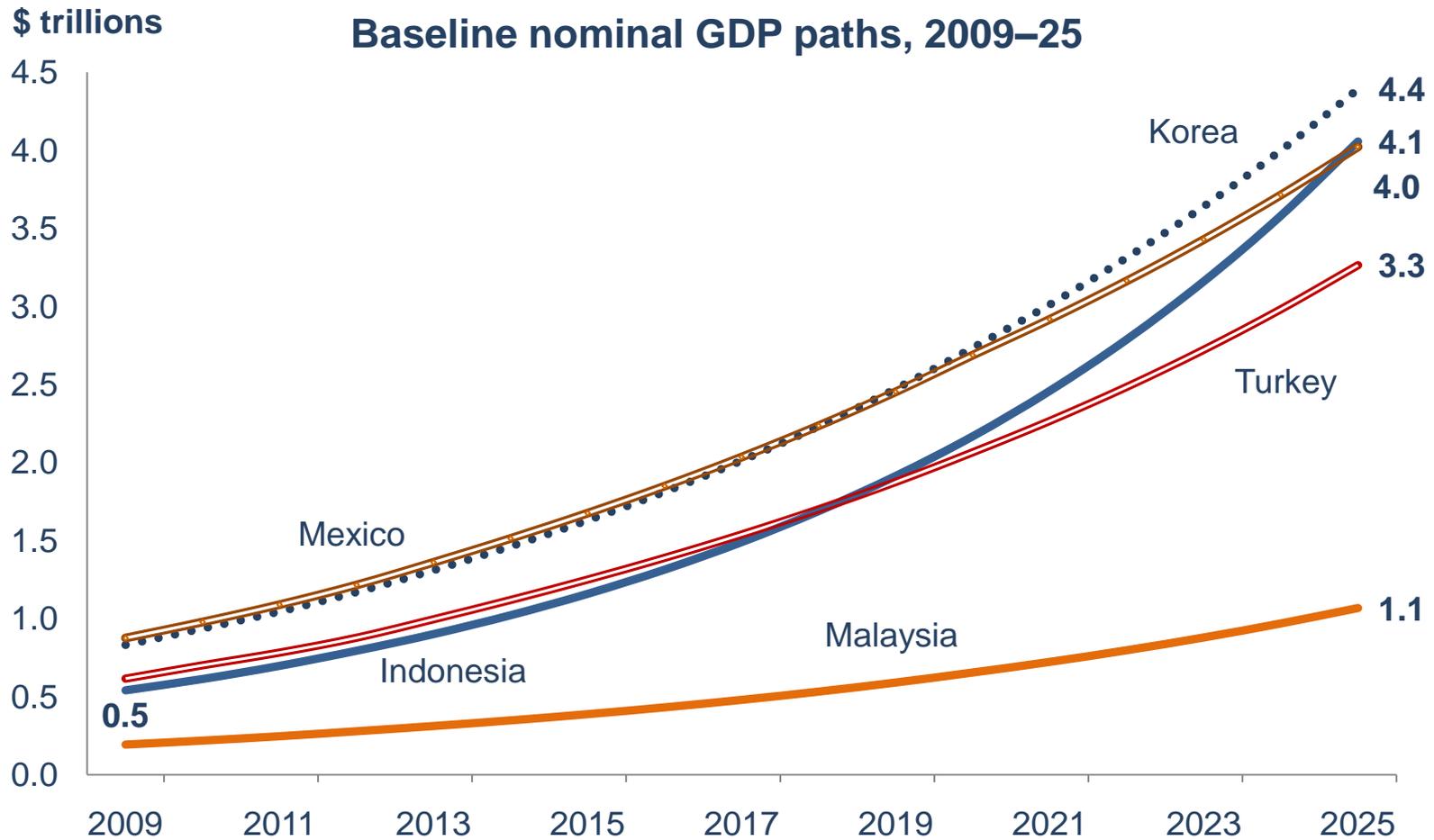
- Turkey will be an important contributor to global growth by 2025
- Turkey's global growth contribution will be supported by:
  - Dynamic growth relative to advanced economies
  - Increasing economic size
- These factors will in turn require:
  - Improvements in TFP through technological adoption and factor reallocation
  - Sustained levels of investment, especially in human capital
  - Prudence in macroeconomic policymaking

# Turkey's demographic dividend will be a key asset for a number of more years



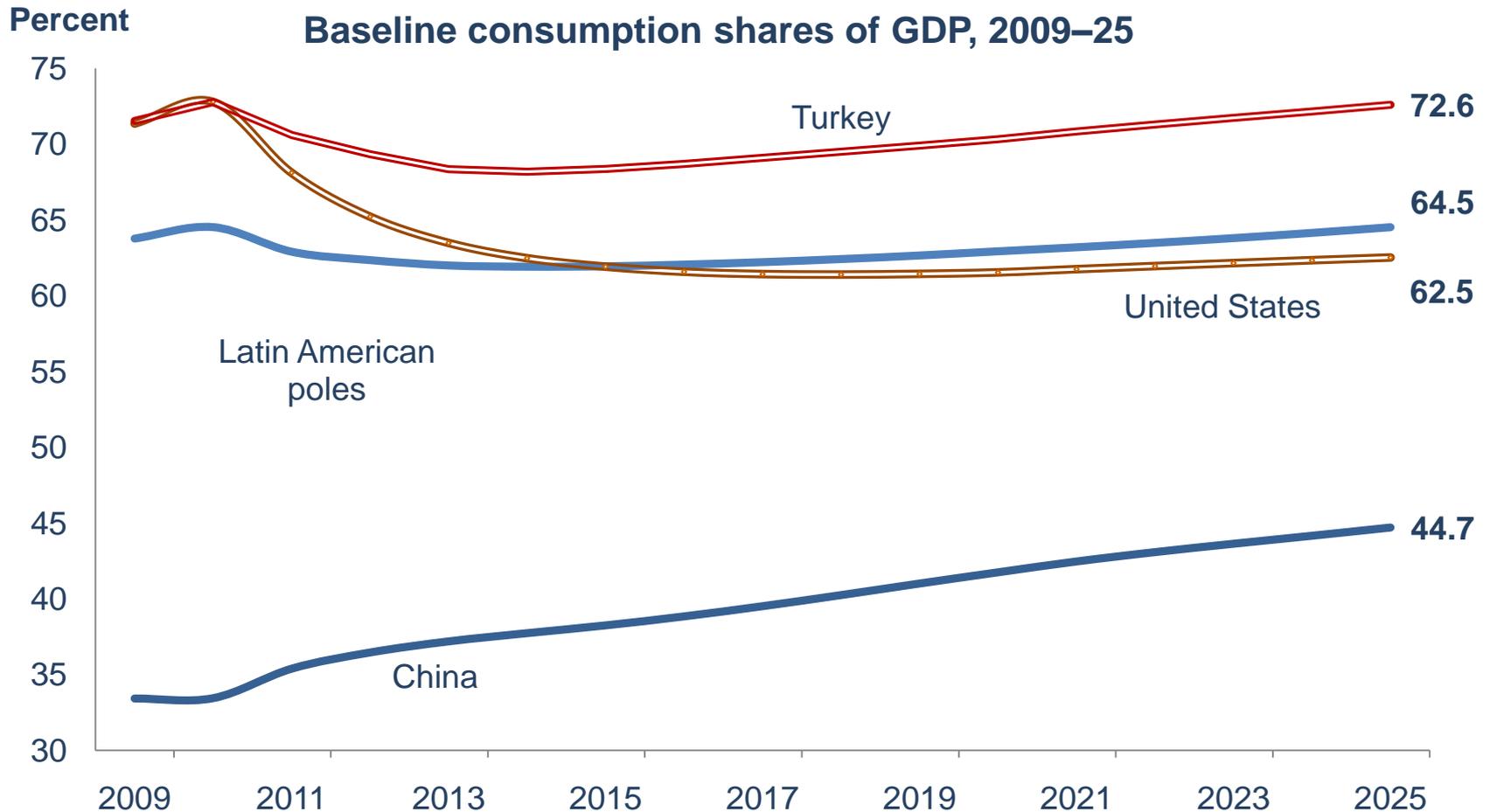
Sources: UN population projections

# ..with Turkey likely becoming one of the larger emerging economies in the world



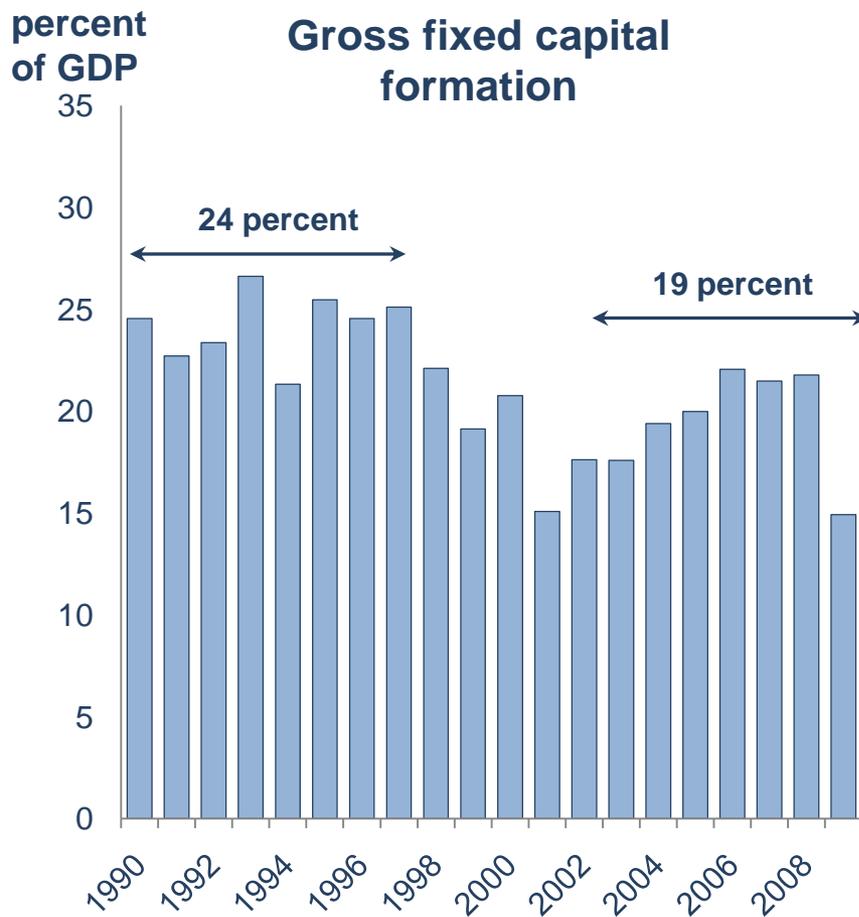
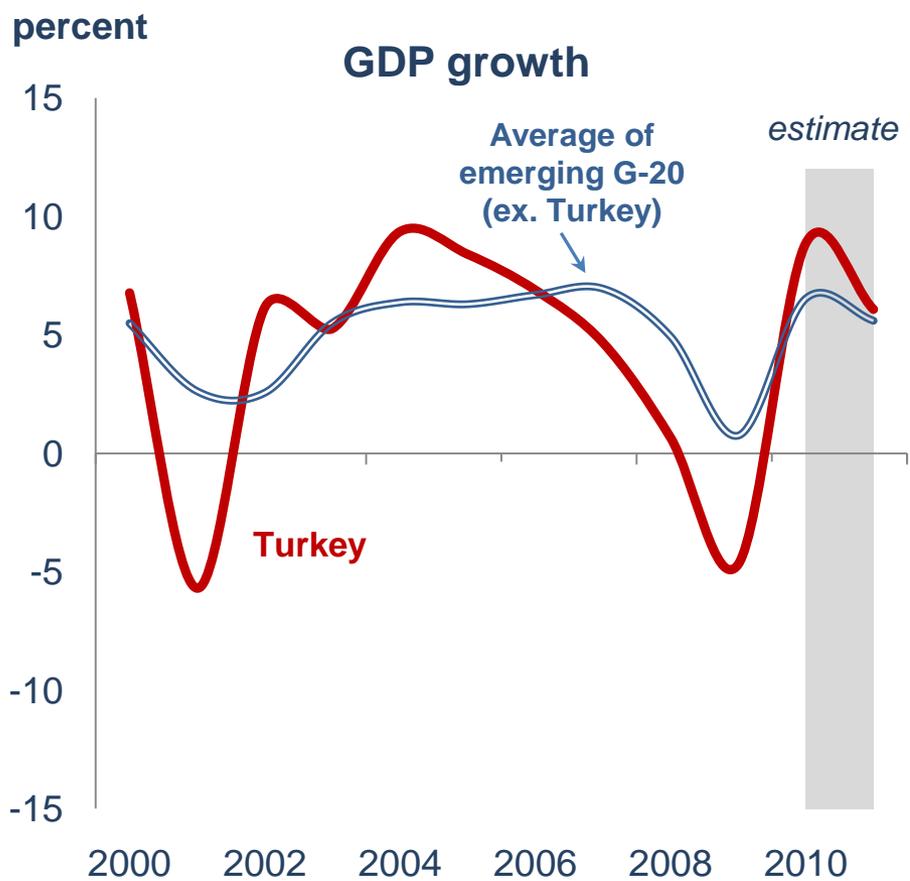
Sources: Global Development Horizons 2011.

# ...and domestic consumption will rise, supported by a growing middle class...



Sources: Global Development Horizons 2011

# Sustaining high growth requires careful macroeconomic management..



Sources: World Bank DECPG and WDI.

# Conclusion

- Rapid globalization and expected higher growth rates in emerging market economies will translate into greater economic influence for developing countries
- For Turkey to realize this potential as a key driver of global growth:
  - Productivity growth through indigenous technological adoption and innovation
  - Sustained levels of investment in human capital to offset the diminishing demographic dividend
  - Continued prudence in macroeconomic policymaking
- Conduct foreign economic policy in line with Turkey's growing presence and economic responsibility