

The Next Wave of Globalization: the Role of the BRIICS

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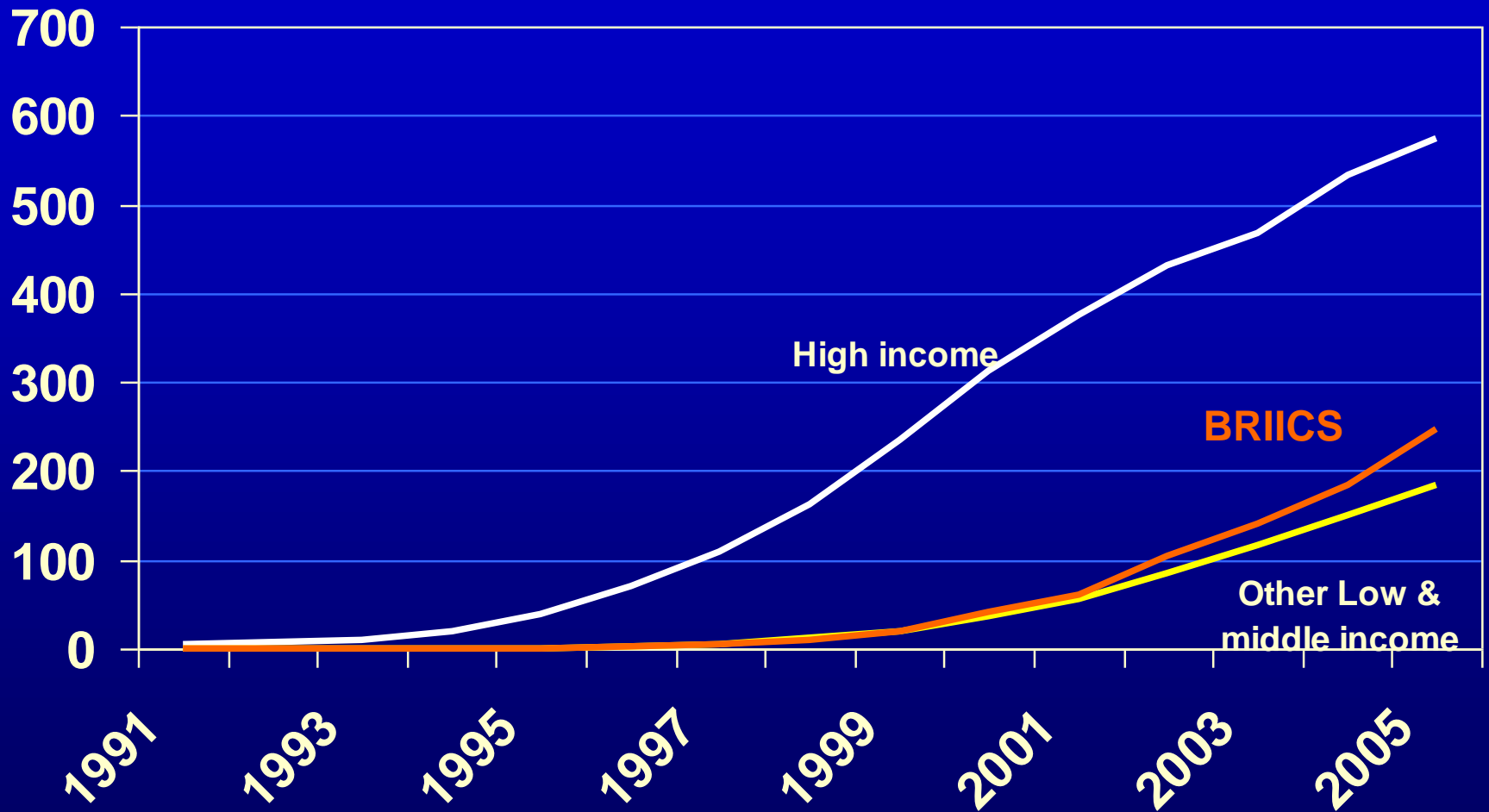
June 25, 2008

The next wave of globalization..

- ...is coming faster and BRICS will become central actors
- ...and pose critical challenges
 - Stresses over income distribution could undermine growth
 - Disruption in selected markets – labor, energy and food -- could become more common
 - ...and failure to manage environmental pressures entails serious risks
- Policy responses are so far inadequate to the challenges, so new national and multilateral efforts are needed

A key driver of the next wave of globalization is rapid diffusion of technology

Millions of internet users



Source: World Bank, Global Economic Prospects (2008)

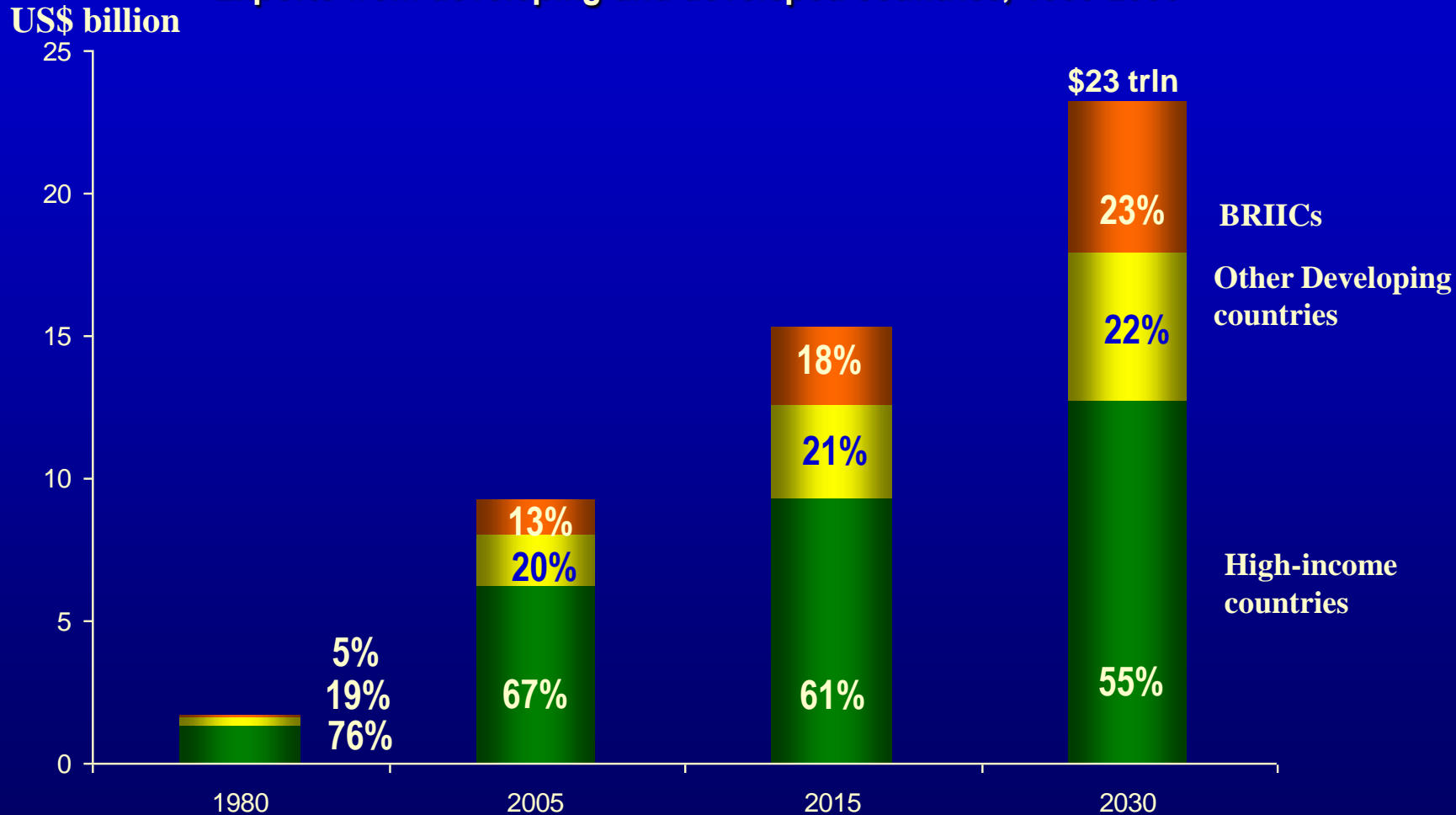
What will be the likely key features of the global economy, and what will be the role of the BRICs?

To analyze these questions, a long-term scenario...

- Assumes 25 year growth slightly faster – 0.25% - than last 25 years
- Different composition – rich countries grow marginally slower and poor countries grow somewhat faster (reflecting widespread policy improvements)
- Robust to all the shocks of the 1980s and 1990s – fall in the Berlin wall, recession in 1990, East Asia crisis – and several regional conflicts.
- Huge global shocks – world war, unpredictable effects of global warming, etc – could conceivably derail the scenario

As globalization intensifies, BRICS – and other developing countries' -- share of world trade will likely rise...

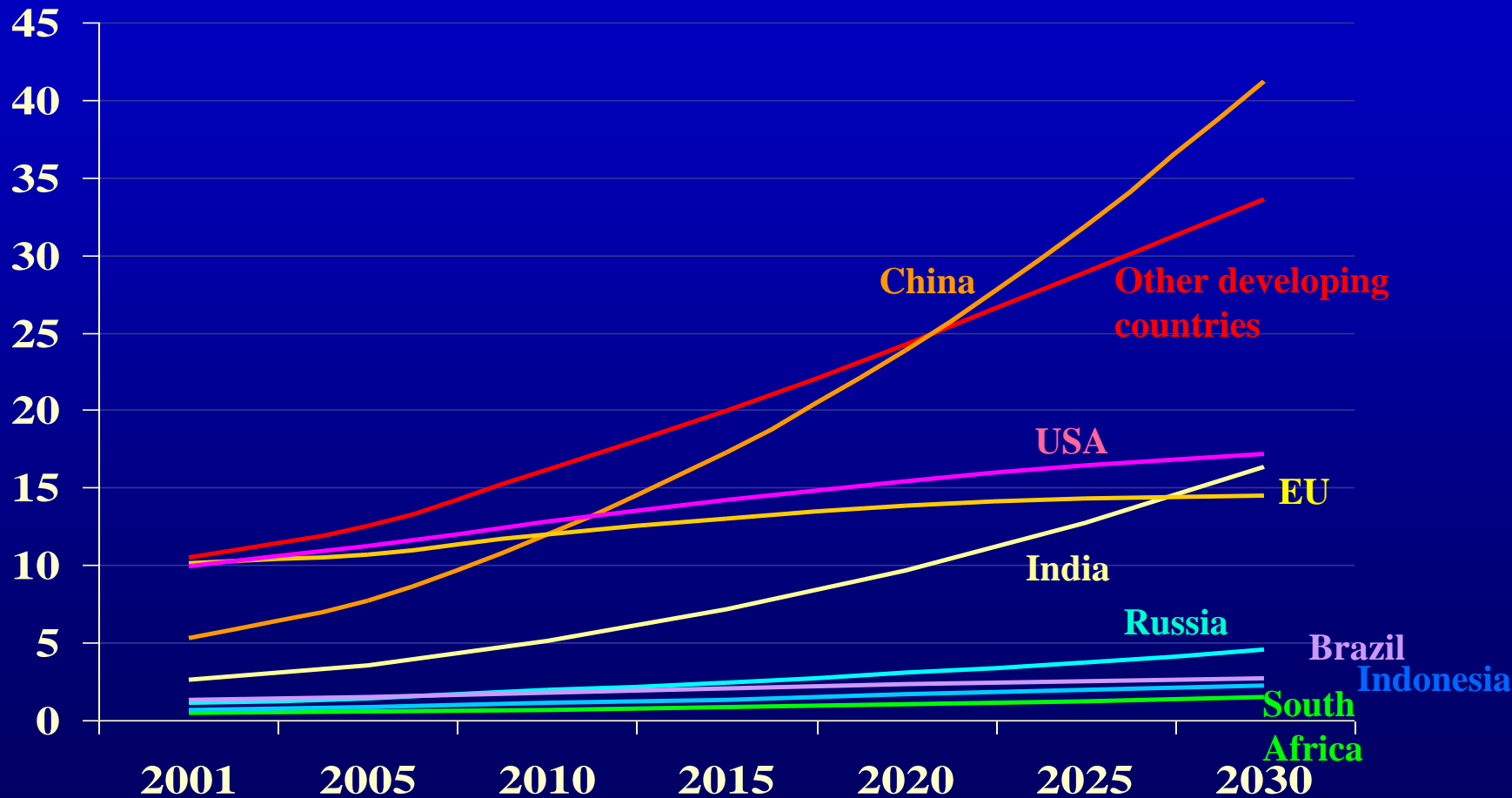
Exports from developing and developed countries, 1980-2030



China, India, and other developing countries will become centers of global demand over the next quarter century

GDP at PPP exchange rates

US\$ trillion



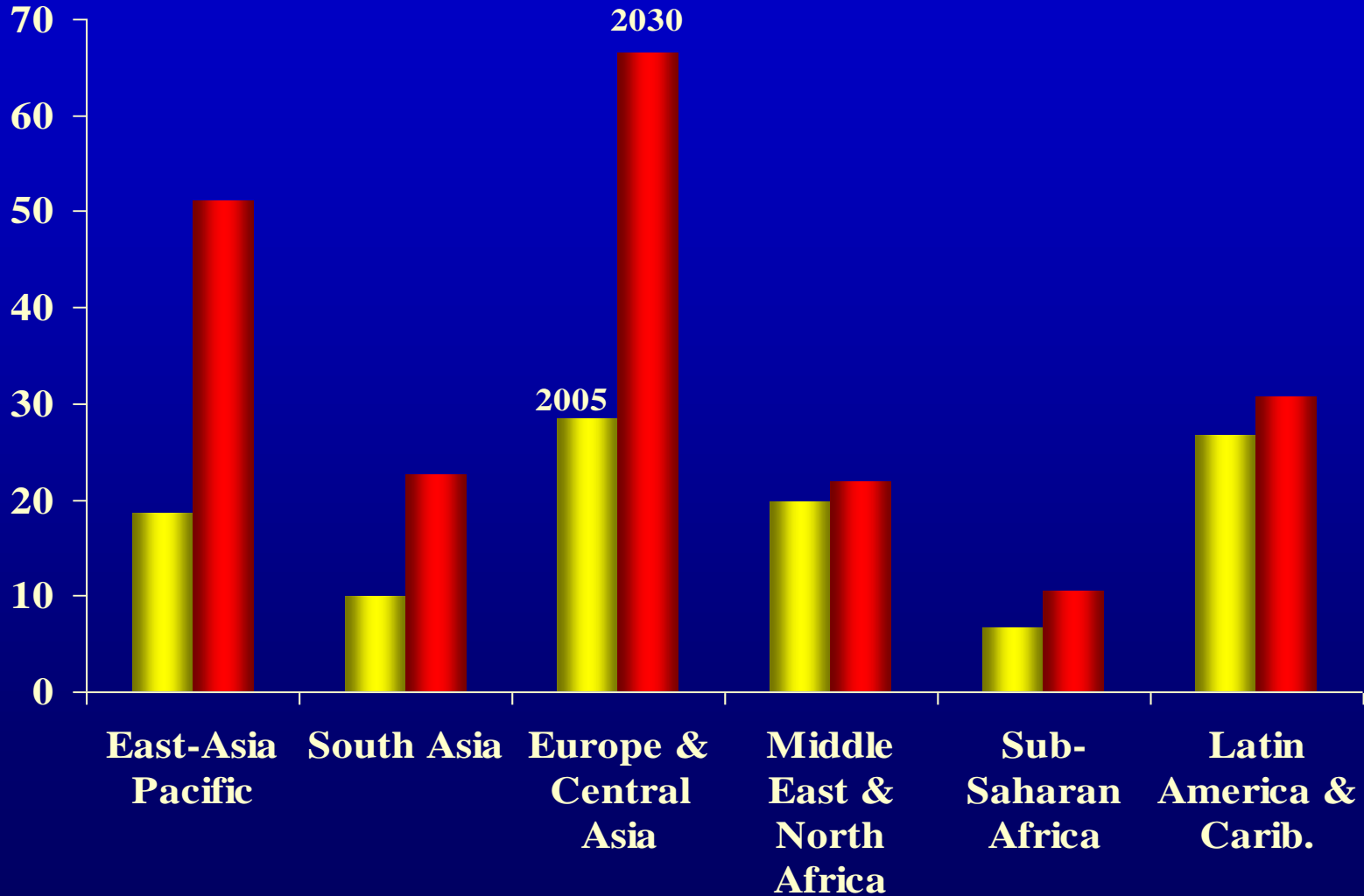
Globalization will portend huge stresses as economies integrate into the world economy...

- **Distribution of benefits will be uneven**
- **Disruptions in some globalized markets could become more common -- labor markets, food and energy**
- **Environmental pressures will become severe**

Managing stresses: uneven benefits

At global level, some regions lag, notably Africa...

Per capita incomes as percent of high-income countries



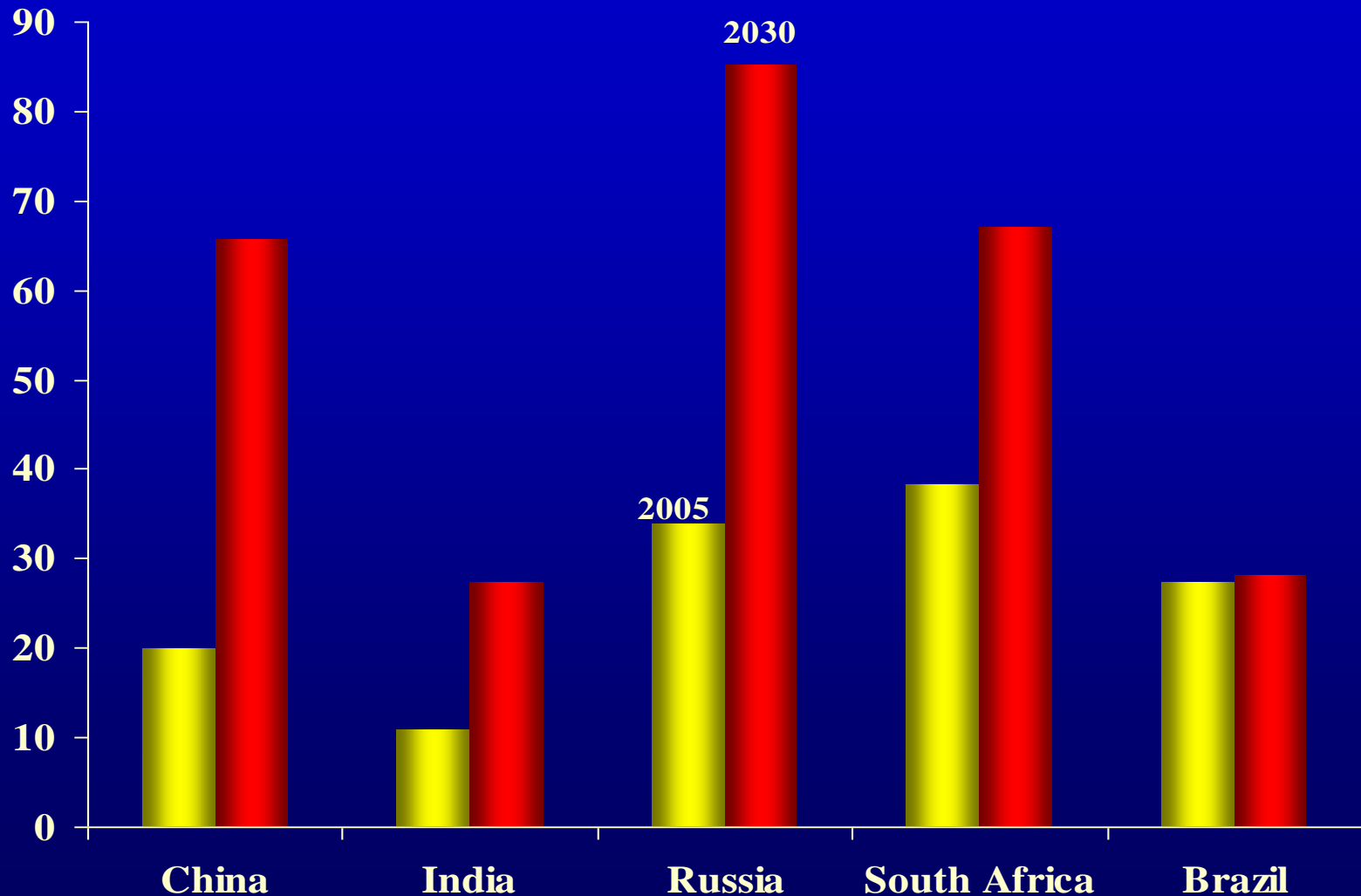
Note: Ratio of GDP per capita at PPP exchange rates relative to high-income average. PPP is fixed at base year (2001) level.

Source: World Bank simulations with Linkage model.

Managing stresses: uneven benefits

...while the BRICS narrow the gap

Per capita incomes as percent of high-income countries

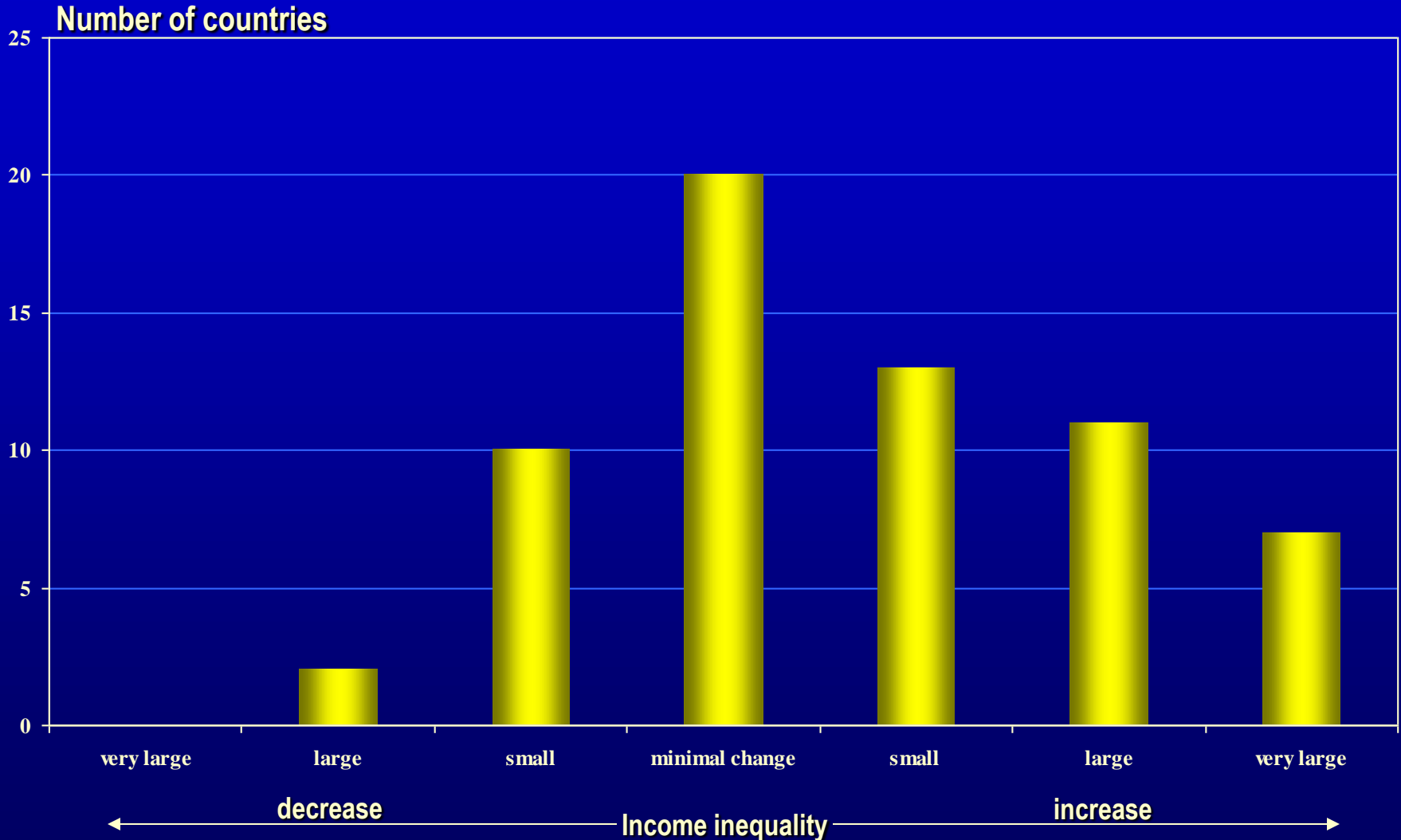


Note: Ratio of GDP per capita at PPP exchange rates relative to high-income average. PPP is fixed at base year (2001) level.

Source: World Bank simulations with Linkage model.

Managing stresses: uneven benefits

Within some countries, income distribution could become unequal in coming years



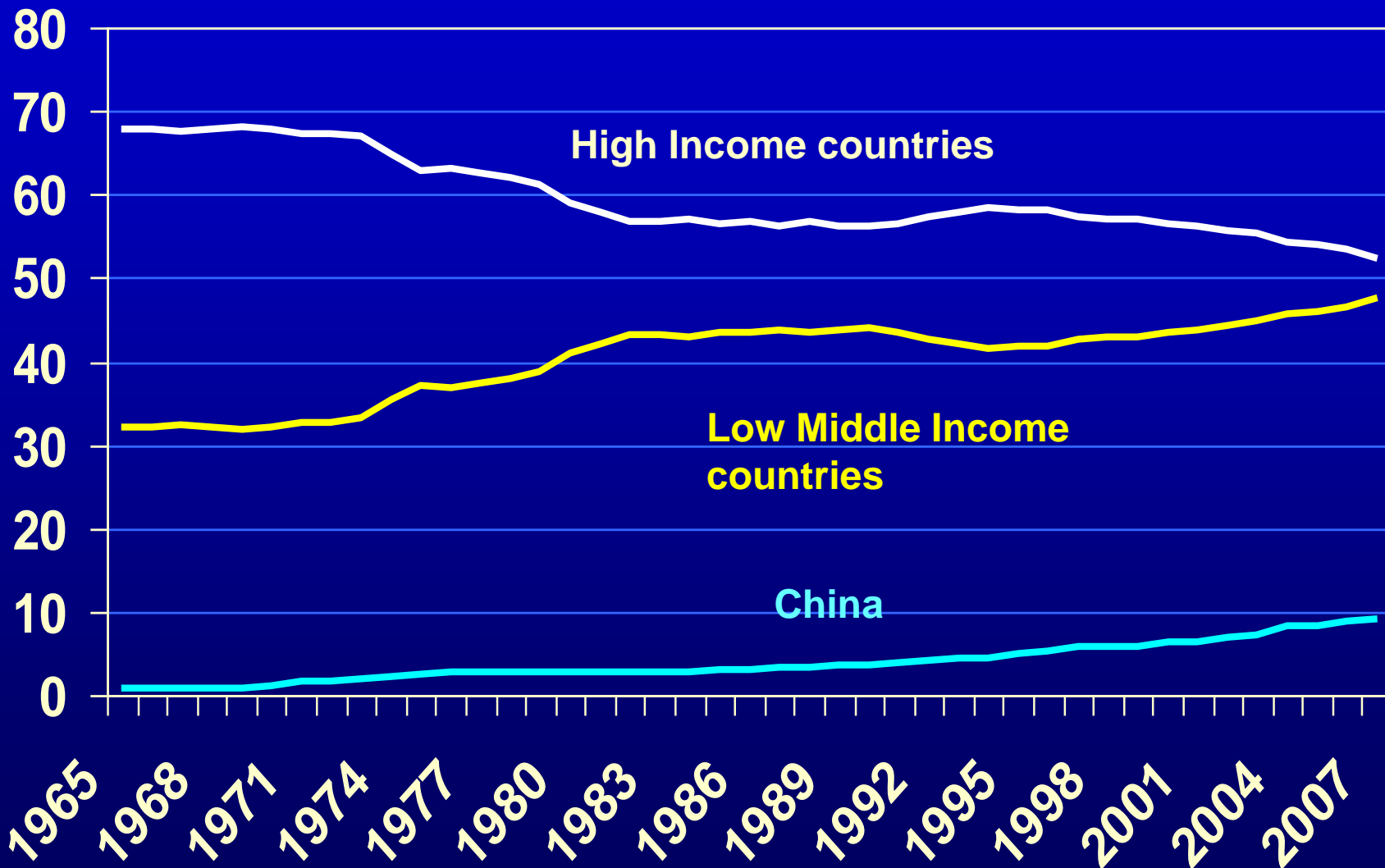
Note: Based on changes in the Gini-coefficient: very large $>|0.05|$, large $>|0.03|$, minimal change $<|0.01|$

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Demand from developing countries will create upward pressure on energy

Barrels, % of global total

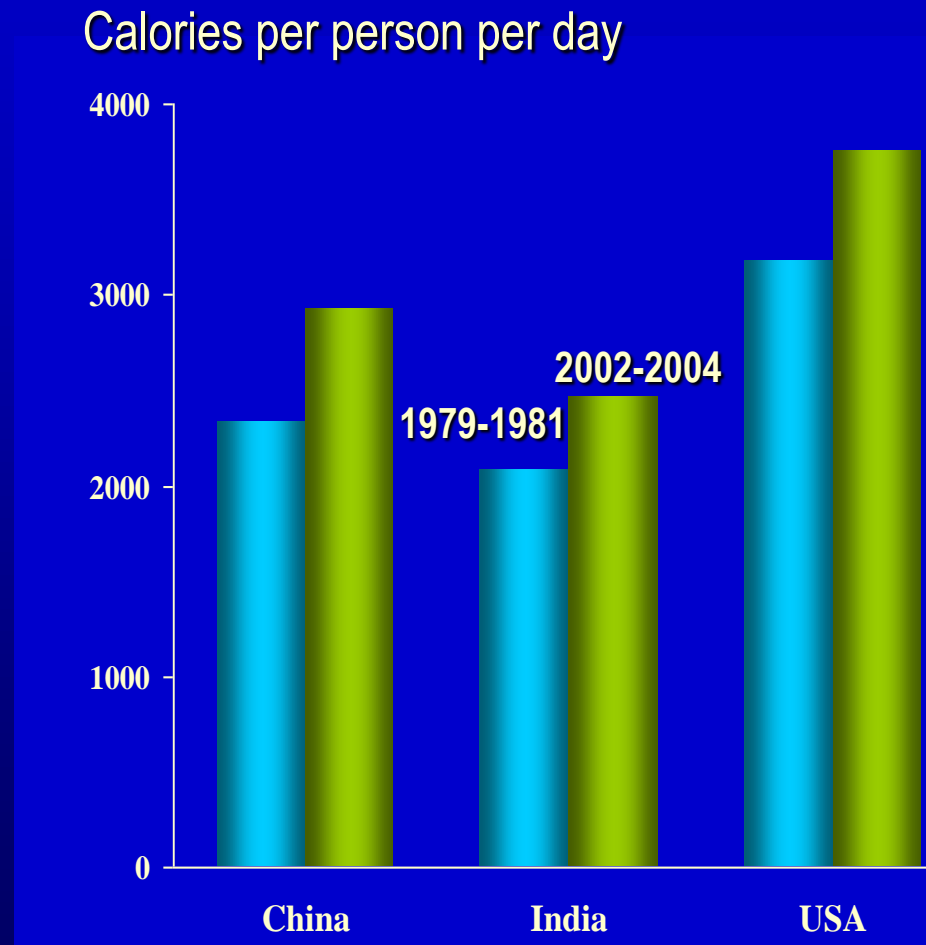


Source: Statistical Review of World Energy 2008, World Bank staff calculations

Surging food prices today portend a reversal of past trends in real food prices

Causes of food crisis:

- Poor harvests
- Bio-fuels link food to energy prices
- Fall in US dollar
- Export restrictions
- History of N-S trade policy



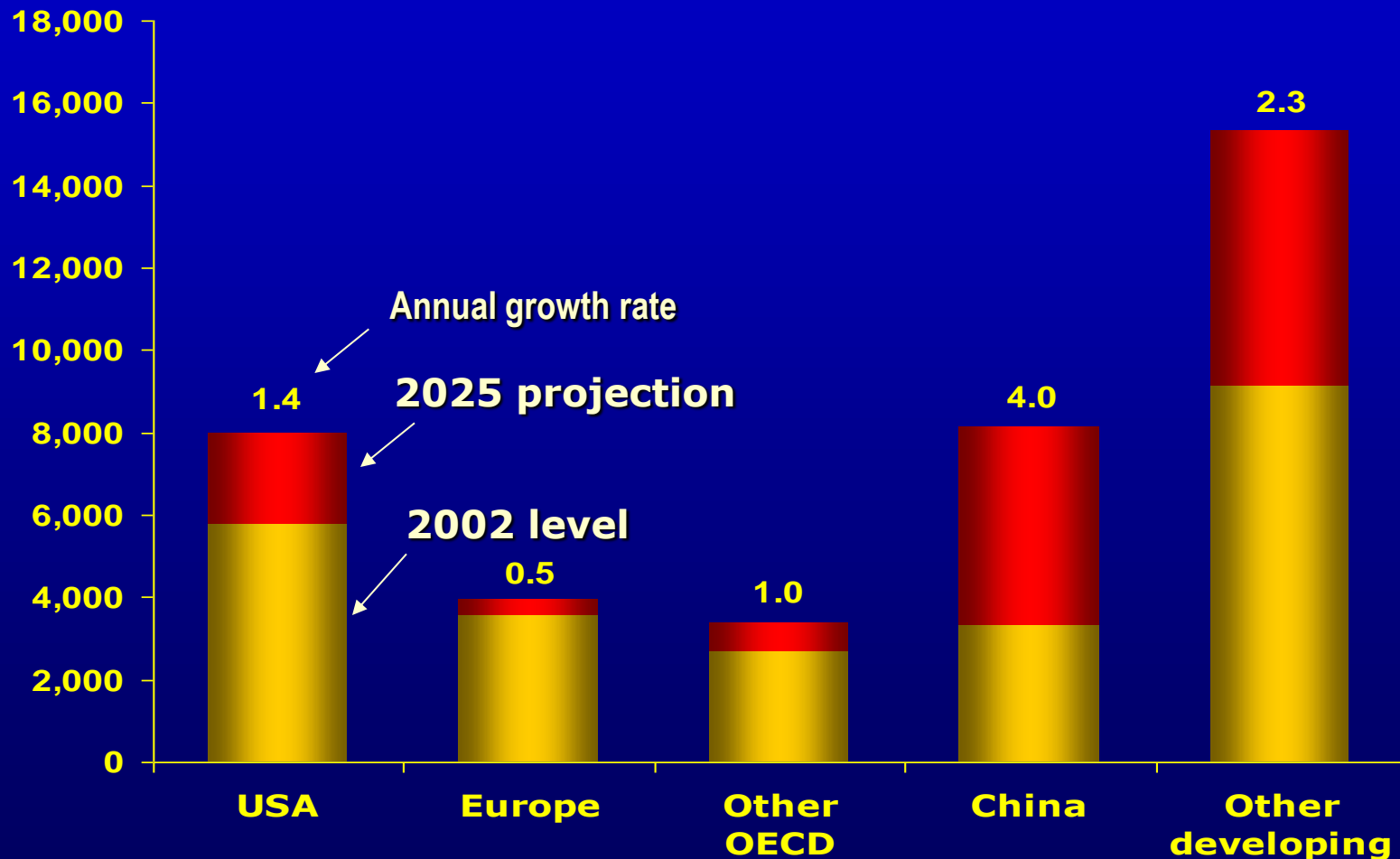
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Managing stresses: environmental pressures

Curbing greenhouse gases: Rich countries are largely responsible for current concentration, but emissions of developing countries will rise

CO₂ emissions from energy, mn. ton
percent annual growth rates above bars



Source: World Resources Institute, CAIT Energy Information Administration Reference Scenario, Energy emissions only

Realizing the potential of global integration requires an affirmative policy response – domestically and globally

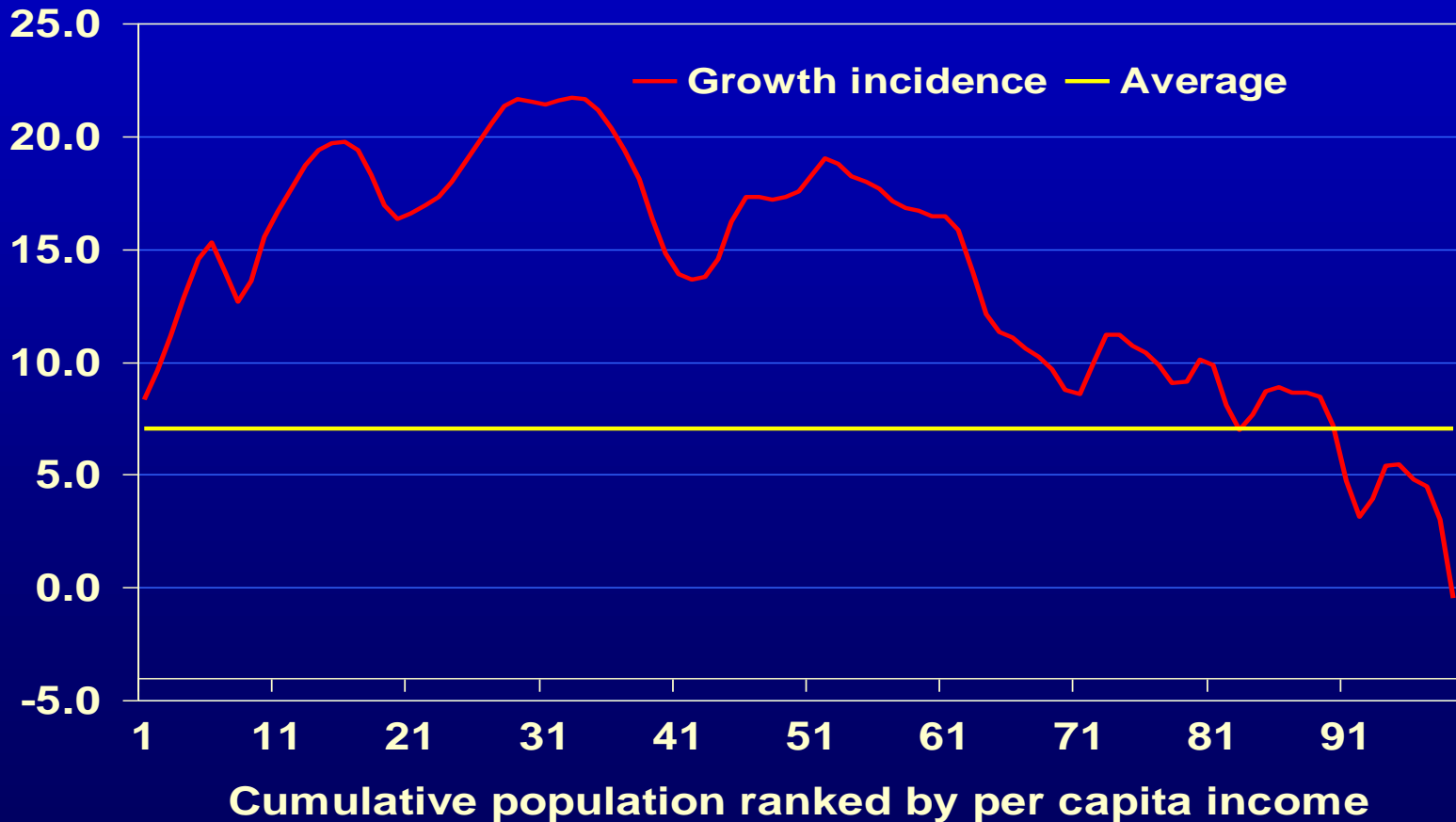
- Domestic policy must enhance competitiveness and ensure that growth is broadly shared
 - Institutional measures to raise productivity and growth
 - Removing barriers to integration
 - Improving investment climate
 - Investing in education
 - Protecting workers – but not jobs

- Multilateral collaboration
 - Increasing participation of BRICS in global institutions
 - Using development assistance to promote integration of lagging countries
 - Removing trade barriers to the products that the poor produce
 - Reinforcing mechanisms to protect the global commons

Strengthening the world trading system

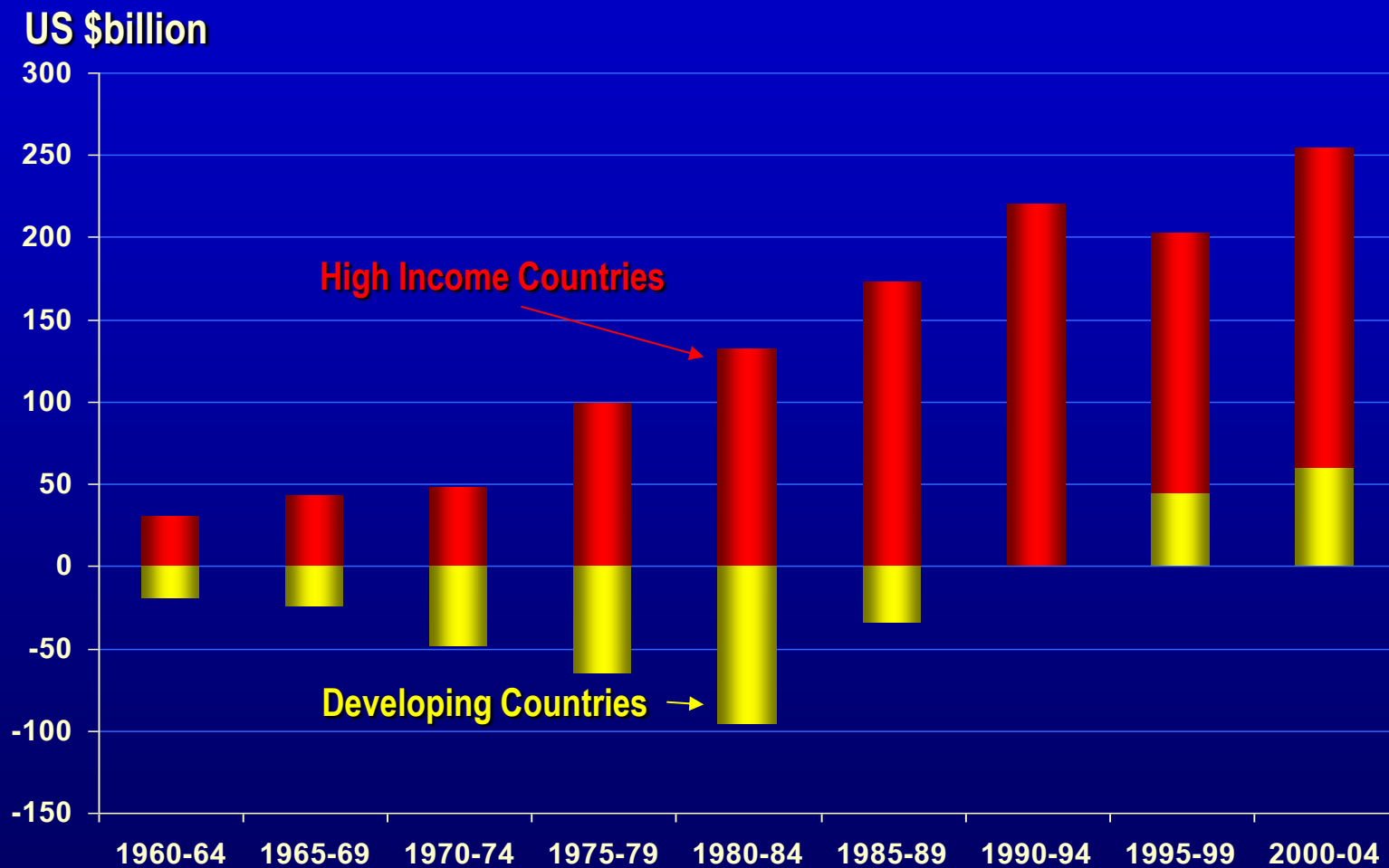
One way to promote global equality: multilateral trade reform

Percent income gains by centiles of global distribution expressed as difference from central scenario from global merchandise trade reform

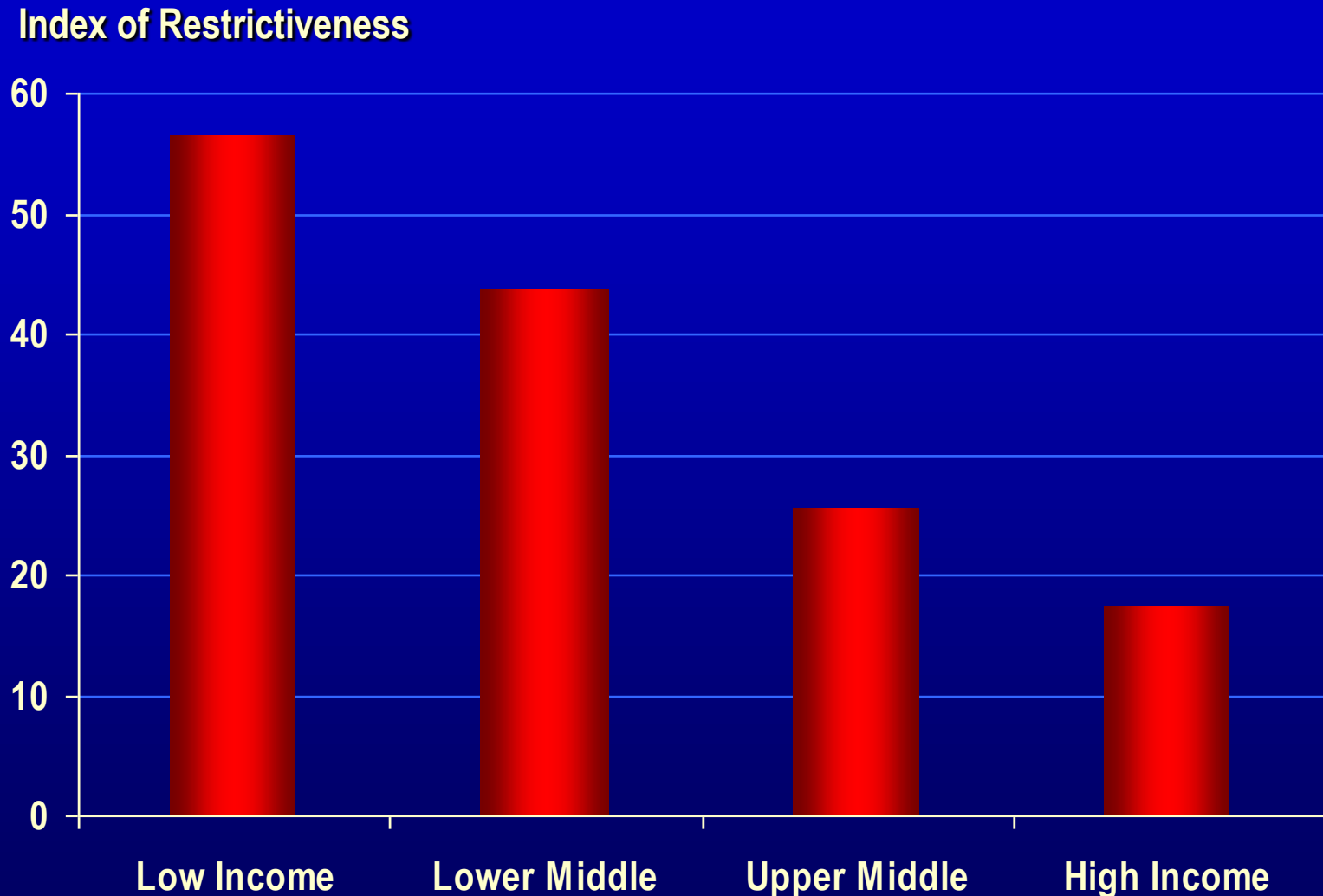


Note: Effects of a 75% reduction in tariffs and subsidies completed by 2025

Completing the Doha round would discipline agricultural subsidies for the first time



Doha is more than disciplines on merchandise trade restrictions... it includes services



Doha is more than disciplines on merchandise trade restrictions... it includes services and trade facilitation



Source: World Bank, *Doing Business 2008*

Conclusions: Strengthening the multilateral trading system requires....

- **Completing the Doha round**
 - Will lock in existing levels of openness
 - Establish new disciplines in agriculture
 - Give impetus to new unilateral reforms
- **Providing aid for trade to help low-income countries take advantage of new opportunities**
- **... and bringing all trading countries into the multilateral system**

This presentation benefitted from projections of Dominique Van Der Mensbrugghe and research assistance of Elisa Gamberoni

References and Further Reading

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