

# Paths to Recovery in a Multipolar Growth World

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# Presentation Overview

- I. The Global Crisis and Challenge Ahead
- II. The Emergence of Multiple Growth Poles
- III. The Multipolar Growth World and Global Recovery

# I. The Global Crisis and Challenge Ahead

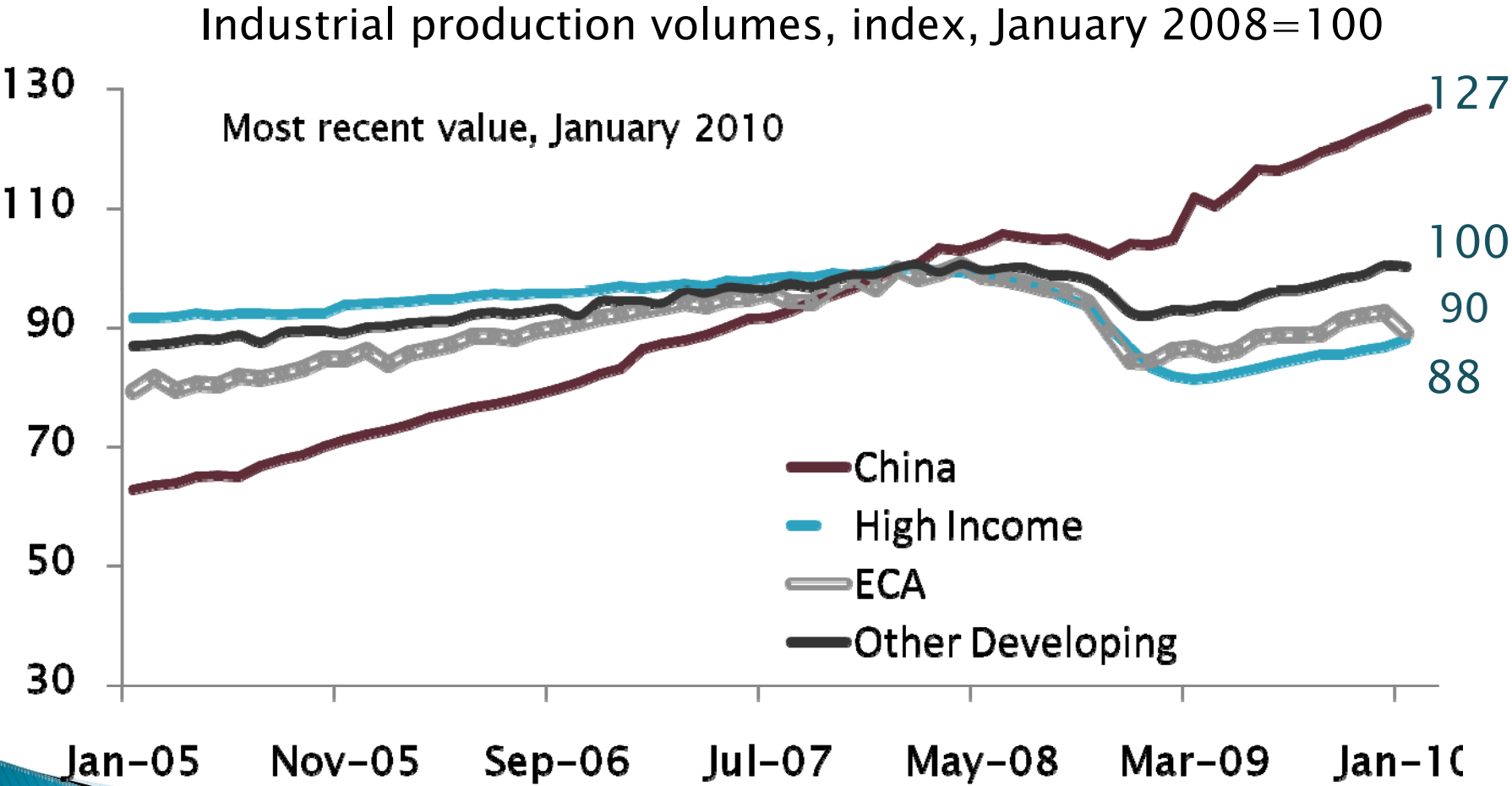
# The Global Crisis and the Policy Responses

- ▶ The global financial crisis erupted in September 2008.
- ▶ The initial shocks to global equity markets, trade, and industrial production were more serious than the initial shocks of the Great Depression.
- ▶ The danger of another depression on a global scale was immense.

# The G20 and Coordinated Policy Responses

- ▶ The governments learned lessons from the past, quickly held the G20 meeting in Washington and adopted coordinated policy responses. Major policies included:
  - Financial rescues
  - Free trade
    - These two policies helped avoid the worst-case scenario.
  - Monetary easing
  - Fiscal stimuli
    - The two policies above increased demand.
- ▶ With the inventory cycle, the recovery is stronger than initially expected. The global economy is likely to grow from a contraction of 2.1 percent in 2009 to a positive rate of around 3.3 percent in 2010.

# Despite Strong Recovery, Excess Capacity is Still Large in High-Income Countries



Source: World Bank, DEC Prospects Group

# Excess Capacity and Fragility

- ▶ Excess capacity repressed domestic demands
  - Low consumption demand due to high unemployment and job insecurity
  - Low incentives for private investment
- ➡ • Slower growth ➡
  - A weakening domestic financial system
  - Worsening sovereign debts

# Dilemma and Solution

- ▶ **Dilemma of fiscal stimulus:**
- ▶ Continuing fiscal stimulus
  - Effectiveness? (Ricardian Equivalence)
  - Sustainability? (Rapid accumulation of public debts)
- ▶ Exiting from fiscal stimulus
  - Likelihood of a double dip
    - Increasing unemployment
    - Public debts may also increase due to lower fiscal revenues and higher social spending.
- ▶ **Solution:**
  - ▶ Productivity-enhancing type investment-led growth, domestically and or globally
  - ▶ Such opportunity is limited in developed countries but abounds in developing countries



# II.

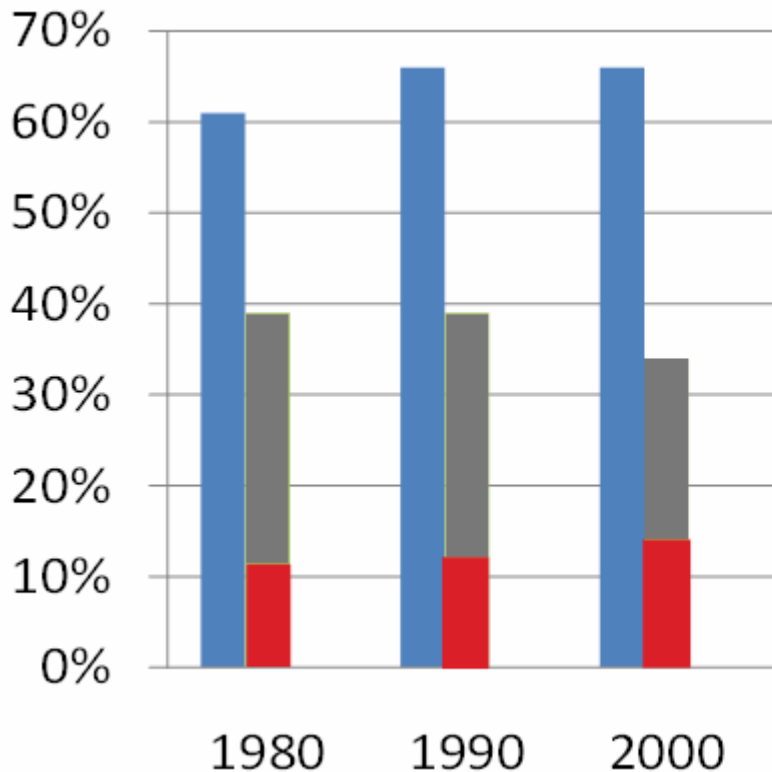
## The Emergence of Multiple Growth Poles

# The World Economic Landscape

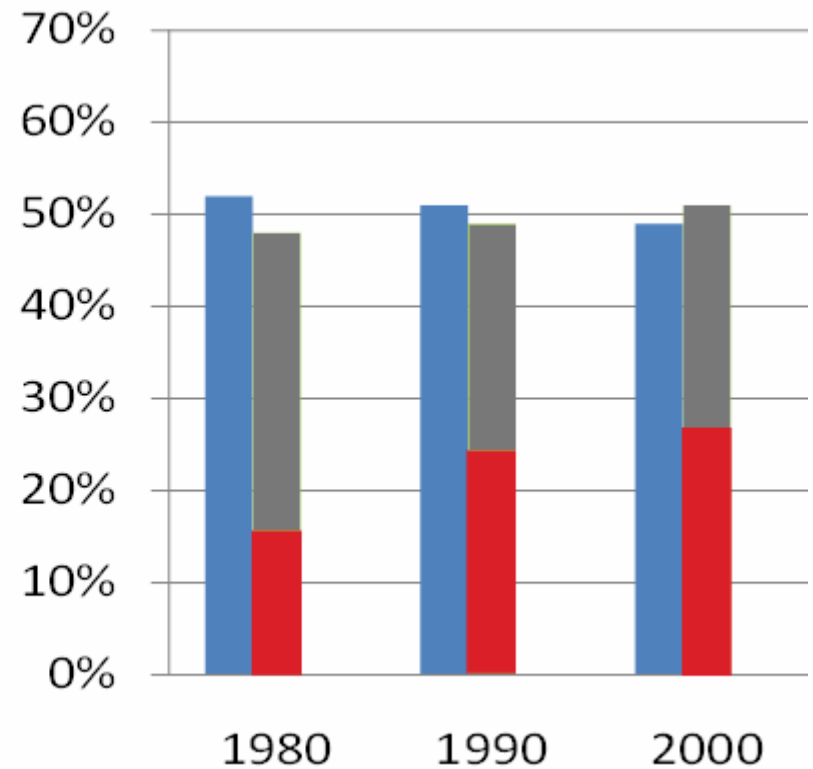
- ▶ After the Industrial Revolution, the world was polarized.
- ▶ Growth in industrialized countries accelerated.
- ▶ Before the 2000, only a few developing economies were able to accelerate growth and caught up with industrialized countries.
- ▶ Most other developing countries failed to have sustainable growth.

# The Global Economic Landscape was Dominated by the G7 before 2000

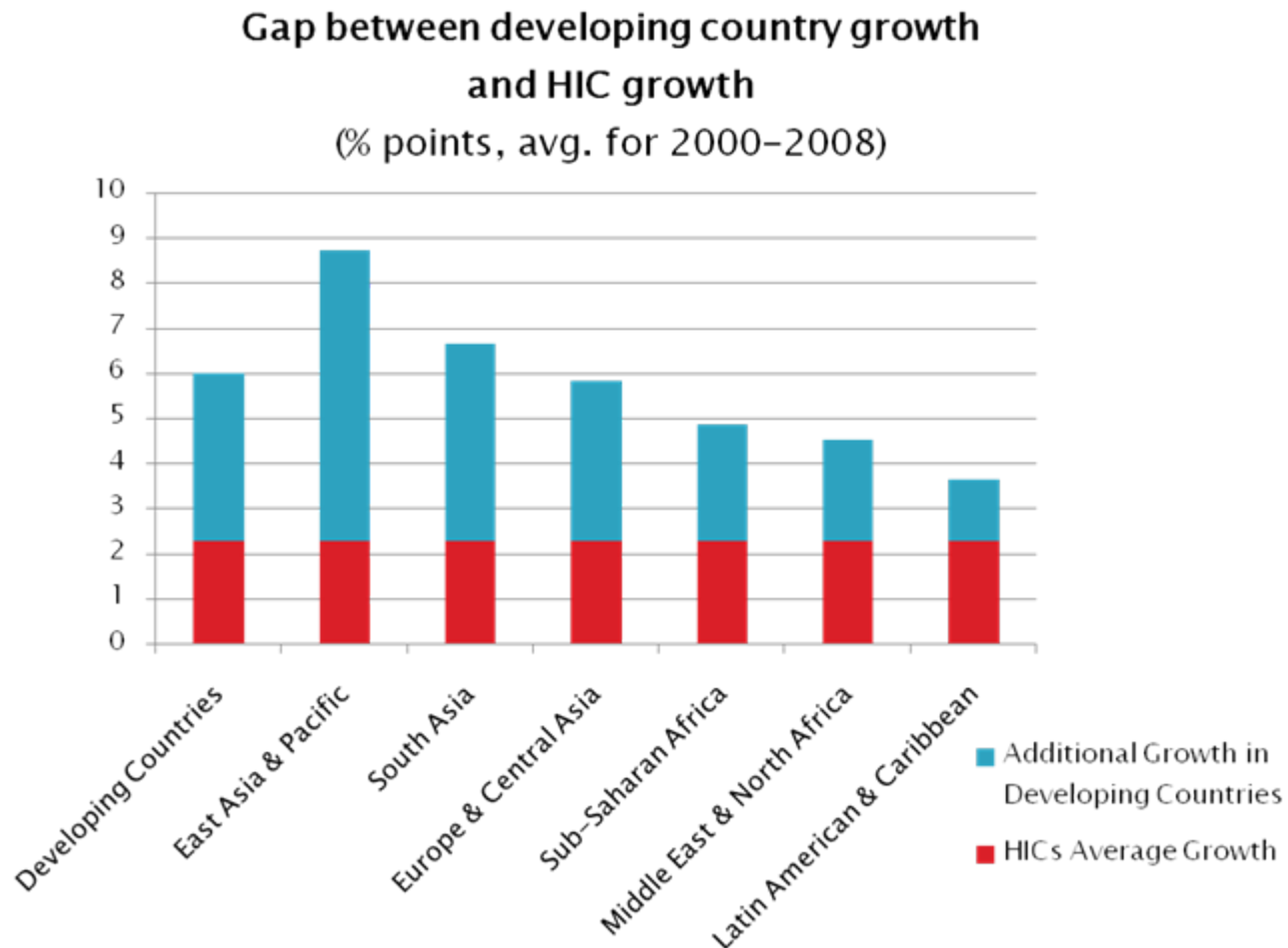
Share of global GNI (USD)



Share of global GNI (PPP)

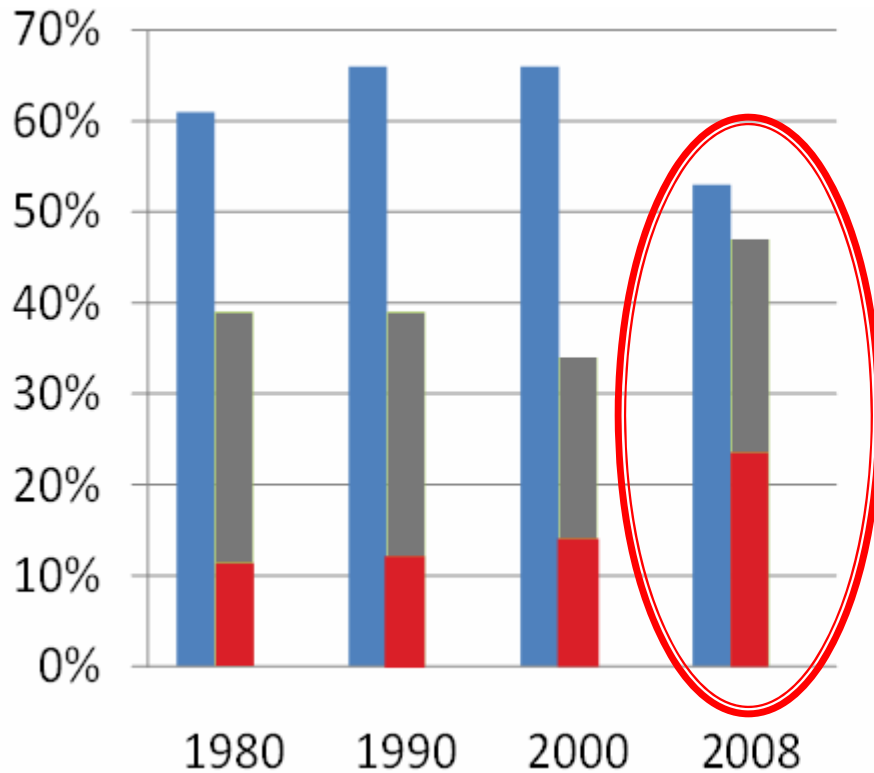


# There was Growth Acceleration in Developing Countries After 2000

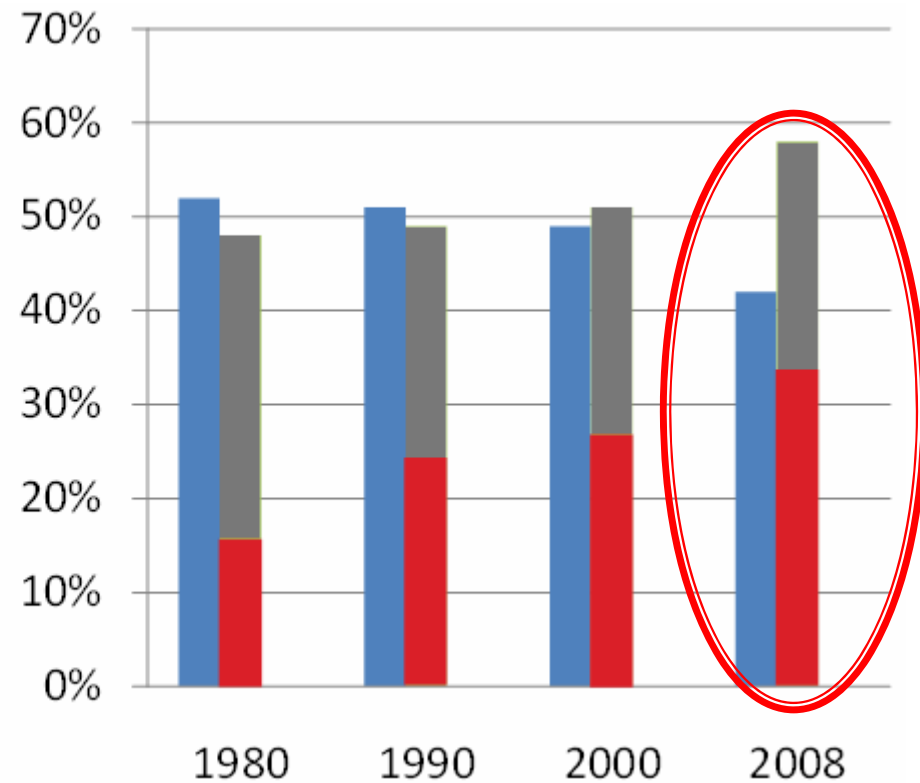


# Rebalancing of the Global Economic Landscape

Share of global GNI (USD)

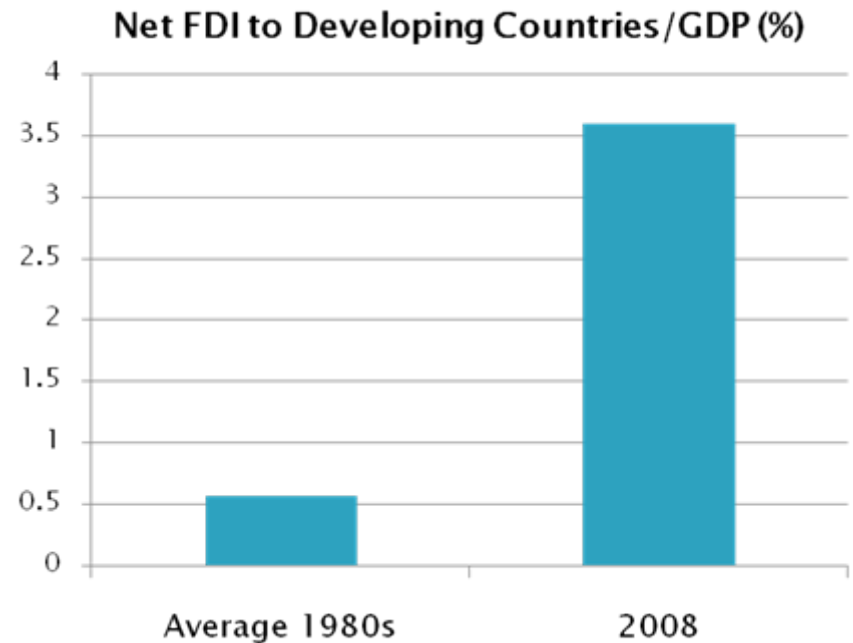


Share of global GNI (PPP)



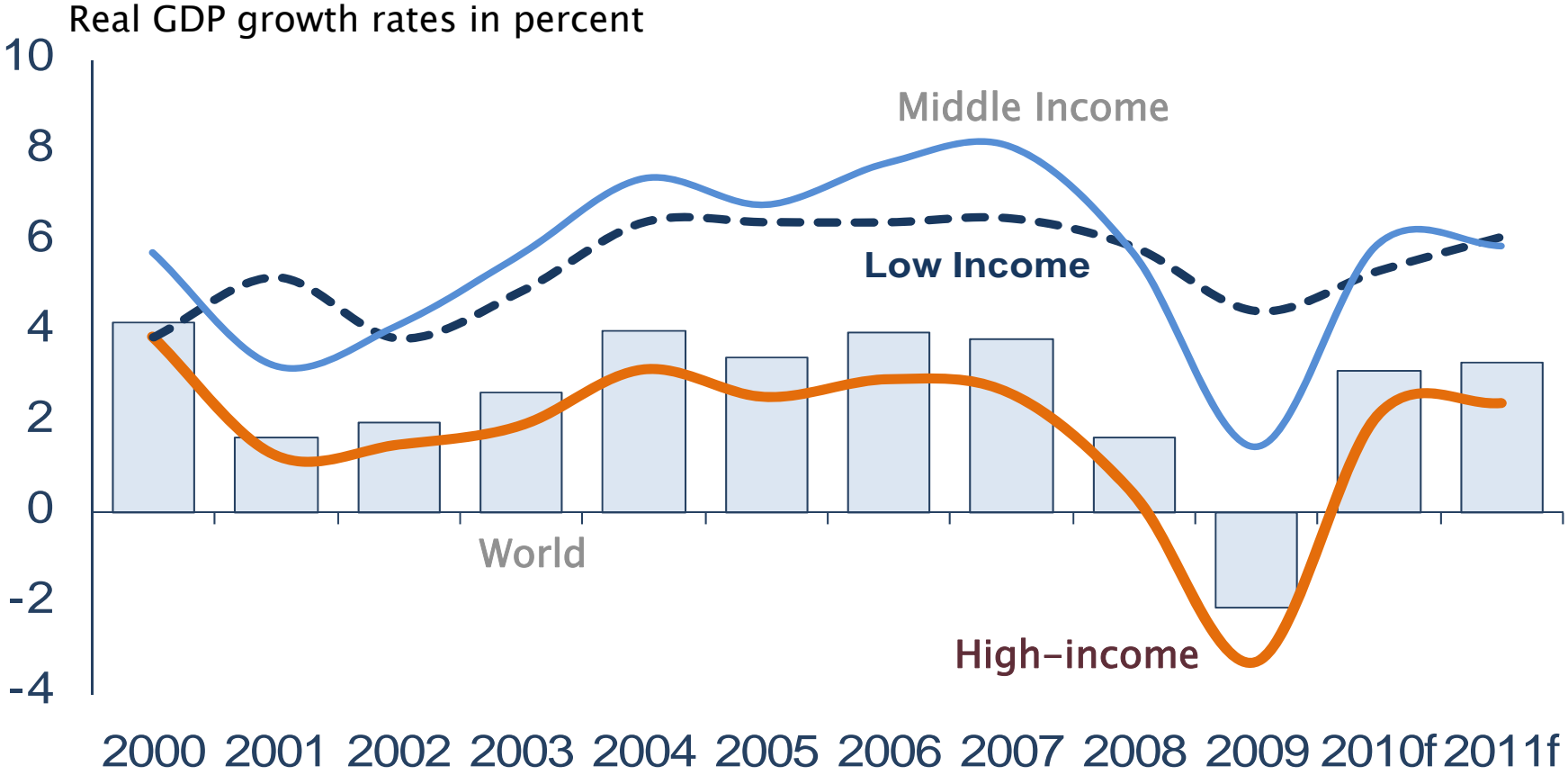
# The Growth Acceleration was Facilitated by Globalization in Trade and Capital Flow

*The world is more interconnected via trade and finance...*



Source: World Development Indicators, available at [data.worldbank.org](http://data.worldbank.org)<sup>14</sup>

# Developing Countries were Hit by the Crisis but Continue to have High Growth Rates



Source: World Bank, Global Economic Prospects 2010: Crisis, finance, and growth

# The Emergence of a Multipolar Growth World

- ▶ The Growth Report identified 13 economies that had an average 7 percent or higher growth rate for 25 years or more in the post-WWII period.
- ▶ The conditions for those economies to achieve that remarkable rate were:
  - Openness
  - Macro stability
  - High rates of savings and investment
  - Market mechanism
  - Committed, credible, facilitating state
- ▶ In 2000–08, 29 economies achieved that outstanding rate, including 11 from Sub-Saharan Africa.



# III. The Multipolar Growth World and Global Recovery

# Mutually Beneficial Global Opportunities

- ▶ The main challenge for a sustained global recovery is the existence of large, underutilised capacity in the capital goods sector in HICs.
  - A continuation of fiscal stimulus faces problem of Ricardian Equivalence and public debt accumulation
- ▶ Developing countries possess abundant, profitable investment opportunity for industrial upgrading and bottleneck–releasing infrastructure projects.
- ▶ The dynamic growth in developing countries is a win–win, contributing to:
  - A sustainable recovery in the world.
  - The achievement of MDGs in developing countries and narrowing the income gaps with the high–income countries.

# Improving Conditions for Global Recovery and Multipolar Growth

- Many developing countries also face fiscal stress in the crisis and about one-third of them has already been constrained by their external accounts.
- External assistance is required for those developing countries to implement countercyclical investments:
  - Recent capital increase in the IFIs are welcome
  - More financial innovations for supporting investments in developing countries are desirable
- Internal conditions must be improved in developing countries for new growth poles to take root.
  - Developing countries should adopt policies along the recommendation of the Growth Report to improve the function of markets and the government, so as to help mobilize domestic financial resources, attract foreign direct investment, and tap into the potential advantage of backwardness.

# Concluding Remarks

- ▶ The global recovery is stronger than expected but the foundation is fragile
- ▶ The world is moving toward multipolar growth
- ▶ The multipolar growth world provides a favorable condition for sustainable global recovery.

# Thank you

