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A Global Economy with Multiple Growth Poles

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Globalization has been a powerful force for economic development over the last three decades. One of the historically largest declines in poverty was led by developing countries that successfully integrated into the global economy.[1] During a period when trade and financial flows across borders increased at a much faster pace than national gross domestic product (GDP), these countries used globalization as an opportunity to expand production and income opportunities in their home countries.

As the world emerges from the global economic crisis, however, policy makers need to remind themselves that globalization also means interdependence across nations. During 2009 interdependence became the carrier of economic ruin. Systemic financial distress spread across many countries, and global trade links collapsed precipitously.

One of the primary lessons of the recent global crisis is that coordinated economic policy responses are necessary in an interdependent world. We should remind ourselves of the severity of the situation at the start of the crisis. Equity markets were in a tailspin, there was the risk of bank runs in the world's largest financial centers, and trade and industrial production plummeted. This all was occurring at a faster pace than in

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1929, at the start of the Great Depression. Indeed, without a rapid international policy response, the global economy faced a looming depression.

The Group of Twenty (G-20) served as a key policy coordination forum, and the coordinated actions of G-20 members—along with the efforts of the international financial institutions and many non-G-20 governments—have all helped avert a global financial meltdown and establish the basis for an incipient economic recovery. Central banks and governments in G-20 economies engineered financial rescues and rapid liquidity support. These were complemented by fiscal packages that enhanced aggregated demand and expanded social protection during the recession. The G-20 made an overall commitment to avoid trade protectionism that could have triggered a continued downward spiral in global trade flows.

As financial markets recover and growth resumes, we cannot be complacent about the need for coordinated policies to assure a sustainable recovery and renewed growth over the medium-term. The risks of a sluggish recovery or even a "double-dip" recession are not negligible. The crisis has inflicted heavy costs on economies around the world. Unemployment is at record levels, fiscal fragility is a legacy of the crisis, and capacity utilization rates in industry remain substantially below precrisis levels in many countries. The events in Europe of the spring of this year provide a clear indication of the risk for renewed economic and financial stress globally.

More than ever before, there is the need for capital to flow to the highest productivity investment. That requires a global view and mechanisms to ensure that financial, trade, and knowledge flows are not inhibited by borders. Countries at lower stages of development generally have the investment opportunities with the highest rates of return. Many emerging market economies are able to finance these investments through improved mobilization of local savings, improved domestic financial intermediation, and substantial stockpiles of international reserves. Many other developing countries are more constrained, and there may be additional institutional characteristics that inhibit foreign investment. Domestic reforms are needed in these cases. In addition, international organizations may play a critical role in ensuring financial flows in areas where private investors still see risks that outweigh the potential for profitable investment.

In addition to finance, the reforms alluded to above can benefit greatly from the diverse experience of G-20 countries. The best practice and

experience of reform for economic development are generated by successful developed and developing countries. This experience can, and needs to, be shared with other countries. The globally representative nature of G-20 policy experience can be an ideal forum to promote knowledge sharing, and the World Bank can be a knowledge exchange to facilitate the process of sharing development experiences.

In summary, the G-20 could help design and implement a mutually beneficial strategy to achieve sustained global recovery: a framework whereby policy coordination, knowledge sharing, and financial assistance from high-income countries are channeled to promote productivity-enhancing investment in developing countries. Complementary public investment strategies across all countries (in areas such as science and technology, green technology, aid for trade, and infrastructure) can support a strong recovery and the transition to sustained growth.

This chapter discusses how to initiate this mutually beneficial strategy within the G-20 framework and how the World Bank and other multilateral development institutions can assist the realization of this strategy. But first it sets the stage with some views on where the global recovery stands, and what might be required to reignite a sustained multipolar pattern of growth in the coming years.

The Global Crisis and the Challenge Ahead

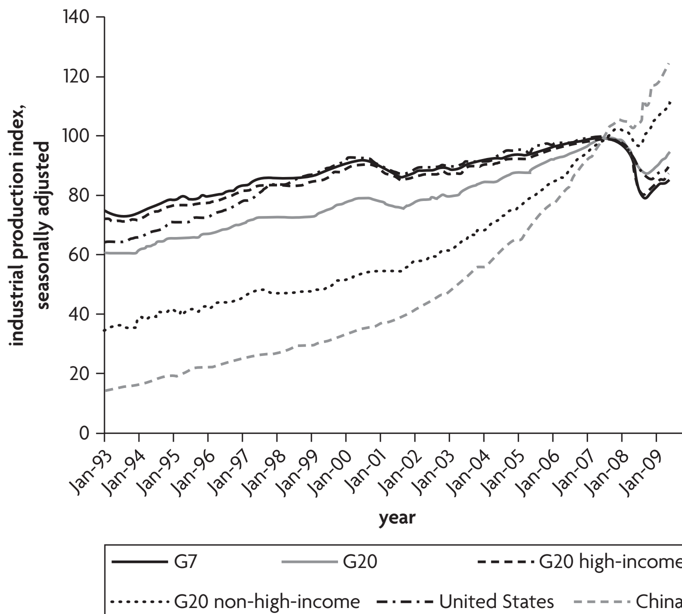
The world economy is recovering from the global financial crisis, which many called the Great Recession. This recovery process began to take shape in the middle of 2009 in developing Asia—particularly in China—where manufacturing production has already returned to precrisis levels. However, postcrisis economic performance varies greatly across countries. This heterogeneity can be explained by the degree of direct exposure to the financial roots of the crisis as well as to its main transmission mechanisms and by the condition before the crisis and thus the ability (or feasibility) to implement countercyclical policies to mitigate the effects of the crisis.

Excess Capacity and Fragility

Most countries in developing Asia had little exposure to the financial derivatives that triggered the crisis, and they had the fiscal space as well as the foreign reserves necessary to apply strong policy stimulus

programs. Developing countries that were hit the hardest at the onset of the crisis—those that had enormous short-term capital inflows through multinational bank branches, large current account deficits, overpriced housing markets, or limited fiscal space to implement countercyclical measures—are still struggling to regain momentum. Growth in advanced countries (many of them directly related to the financial origins of the crisis) remains modest, with fiscal stimulus components still playing a significant role. Households, financial institutions, and firms are still in the process of deleveraging and cleaning their balance sheets, and hence private consumption and investment demand are not yet likely to be strong driving forces behind the recovery process. With significant excess capacity in most countries, the world economy is still fragile, and unemployment is likely to remain high relative to precrisis levels. Despite the revival of industrial production displayed in figure 3.1, many high-income countries continue to have relatively low levels of capacity utilization. For example, in the first quarter of

Figure 3.1. Industrial Production Index, 1993–2009

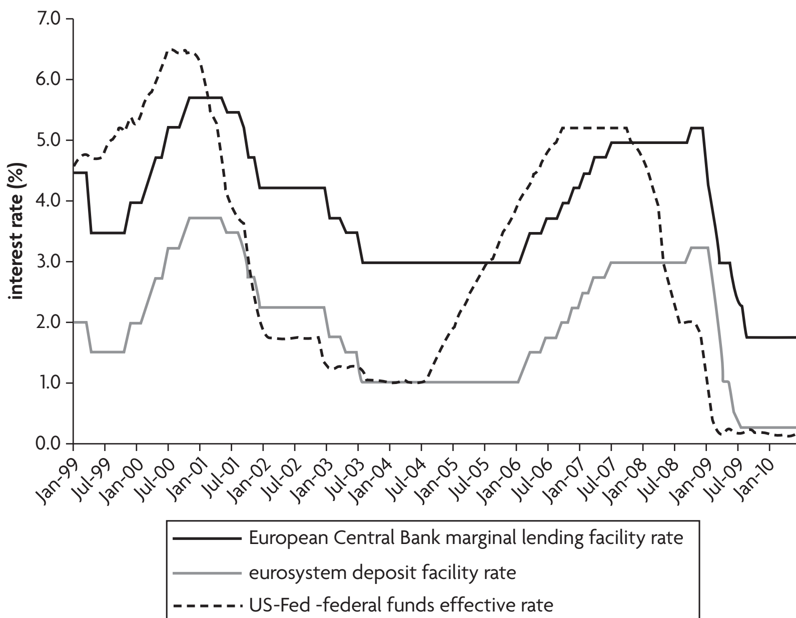


Source: World Bank, Development Prospects Group.

2010, capacity utilization rates in manufacturing were at 73 percent in the United States and at 72 percent in the Euro Area (aggregate index).[2]

Strong policy responses and international coordination by international financial institutions and governments prevented a global economic meltdown and helped buffer the impact of the crisis. Central banks provided the required liquidity to avoid a financial system meltdown by using a wide array of instruments. Both the Federal Reserve and the European Central Bank eased their monetary stances (figure 3.2). Signaling the severity of the situation, unconventional instruments, such as capital injections, purchase of financial derivatives, and special liquidity facilities, were used successfully to provide liquidity to the financial system. While providing important liquidity support, monetary policy has limited effectiveness for stimulating an economy with excess capacity; that is, near-zero interest rates in an environment of excess installed capacity and highly leveraged economic agents are unlikely to stimulate

Figure 3.2. Interest rates in the Euro Area and the United States, 1999–2010



Source: World Bank, Development Prospects Group.

private investment or consumption demand. Overindebted households and firms fear taking on additional loans for purchasing consumer durables or expanding their businesses. In uncertain times, it is more prudent for firms to await additional demand and reemploy existing capacity than invest in new capacity.

Fiscal Policy Dilemma: Continue or Exit from Stimulus

Countercyclical fiscal policies during the crisis (in most cases accompanied by accommodative monetary policy, as mentioned earlier) helped buffer the negative impact on output and aggregate demand. The overall change in the fiscal balance for advanced G-20 economies for 2009 (relative to the precrisis year 2007) is estimated to be around 6.3 percent of GDP, of which crisis-related discretionary measures account for 1.9 percent of GDP, whereas for emerging G-20 economies the corresponding numbers are 5.4 percent and 2.2 percent, respectively. Fiscal stimulus packages contributed one-third of the total increase in the aggregate fiscal deficit of the G-20 countries (IMF 2009).

Additional fiscal stimulus might be needed to cement the recovery process, since economic agents have yet to clean their balance sheets, and consumption and investment demand remain weak relative to precrisis levels. However, political economy considerations as well as future inflation risks represent significant constraints in the continuous use of fiscal stimulus packages, especially in the United States and Europe. Tightly linked to these factors is the rapid accumulation of government debt, accentuated by the current situation of Greece, Ireland, Italy, Portugal, and Spain and by concerns regarding the increasing level of the U.S. government debt. According to the International Monetary Fund, for advanced G-20 economies, gross general government debt is expected to rise from 78 percent of GDP in 2007 to over 118 percent of GDP in 2014. The situation in emerging G-20 economies is less worrisome, with the ratio of general government debt to GDP expected to stay around precrisis levels (IMF 2009).

Growth: A Solution to the Fiscal Dilemma

If governments can identify and make investments in key areas that represent binding constraints to growth, then current spending not only will

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have a short run effect, but may also pave the way toward a brighter future of sustained strong economic growth. Increased infrastructure is estimated to have contributed an additional 2–2.5 percentage points to per capita income growth during the early 2000s in Latin America.[3] Developing countries are already an engine of global growth, but a further strengthening of their supply potential could further increase their demand for the products of high-income countries. Such strengthening would, at the same time, help reduce the gap between high-income and low-income countries, significantly lower poverty, and make the world a more equitable place. Furthermore, support for investment and growth in the developing world is in the interest of the high-income world. Historically, a one unit increase in investment is accompanied by a half unit increase in imports, and given the high-income country share of traded capital goods, a US$1 increase in developing-country imports is associated with a US$0.35 increase in the production of high-income country capital goods.[4]

The Emergence of Multiple Growth Poles

The World Economic Landscape

After the Industrial Revolution, the world was economically polarized. Growth accelerated strongly in the industrial countries. For most of the 20th century, only a few developing countries were able to accelerate growth and eventually catch up with the developed countries. The Republic of Korea is a notable example of this phenomenon; however, most developing countries failed to have sustainable growth.

Strengthening regional growth spillovers would be good for the world economy. During the past quarter century, the world has been witnessing only a gradual shift in economic power from the traditional high-income countries of the Group of Seven (G-7) to emerging markets, and we see this in the transition of global policy debates from the G-7 forum to the broader G-20. At the start of the 21st century, the G-7 still dominated the global economy, as noted in table 3.1.

Before the global crisis, developing countries were growing faster than high-income countries and provided the main source of increased demand for high-income countries' exports. GDP growth was higher in developing countries than in high-income countries every year from 2000 to 2008, and the difference widened over the period to an average

Table 3.1. G-20 Shares of Global Gross National Income and Global Exports *(percent)*

Category	1970	1980	1980	2000	2008
Share of Global GNI (USD)					
G-7	67	61	66	66	53
"Other" G-20	13	13	14	16	23
Share of Global GNI (PPP)					
G-7		52	51	49	42
"Other" G-20		16	24	26	32
Share of Global Merchandise Exports (USD)					
G-7	55	47	52	46	35
"Other" G-20	8	14	11	17	24

Source: Derived from World Development Indicators.
Note: G-7: United States, United Kingdom, France, Germany, Italy, Canada, and Japan. "Other" G-20: Argentina, Brazil, China, Australia, India, Indonesia. Korea (Rep.), Mexico, Russia, Saudi Arabia, South Africa and Turkey.

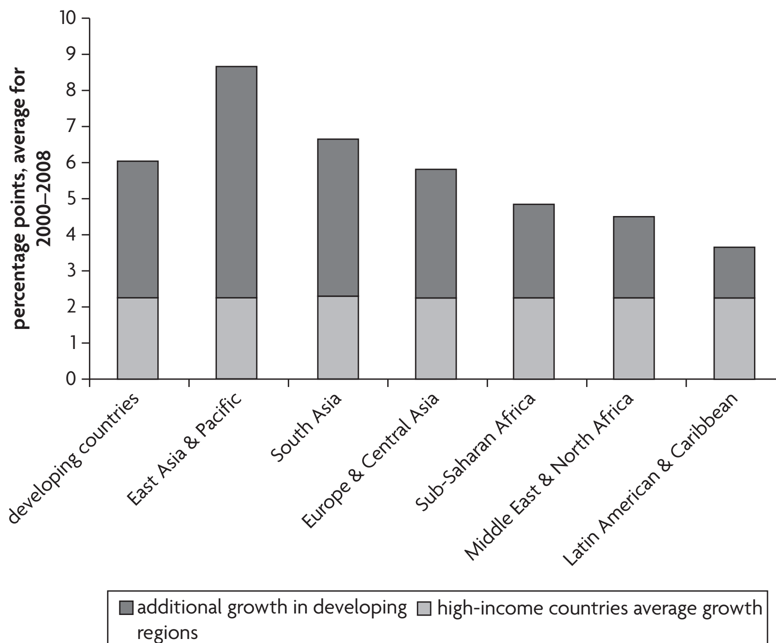
of 3.7 percentage points. This phenomenon was not restricted to a single country or region. Every region of the developing world grew faster than the high-income countries, with the average gap over the period ranging from 1.4 percentage points (Latin America and the Caribbean) to 6.5 percentage points (East Asia and the Pacific). Accompanying these growth patterns were growing trade links—developing-country merchandise imports from developed countries *tripled* in dollar terms from 2000 to 2008. Despite this rapid growth, the share of developing-country imports from high-income countries actually declined as a share of all imports—indicating that trade among developing countries grew even faster. As part of that dynamic, intraregional trade links expanded and growing economic ties—through trade, finance, and the movement of people—were established across regions among lower- and middle-income countries. As an example, Latin American and Caribbean imports sourced from within the region increased their share from 15 to 20 percent over the period, and total developing-country-sourced imports increased from 21 to 38 percent of the region's total merchandise imports.[5]

The multiple poles of growth can contribute significantly to the global economy's sustained recovery and dynamic growth, especially if the policy response is adequate and the remaining risks avoided.

In the current decade the shift in economic growth has accelerated dramatically. Clearly, the rise of China and India are part of this process, but other large emerging markets have grown vigorously: Brazil, the Russian Federation, and Indonesia are examples, but the Africa region—while still a small share of the global economy—has experienced a new dynamism. Figure 3.3 displays the higher levels of growth of developing countries relative to high-income countries and shows that the difference is important for every region of the developing world.

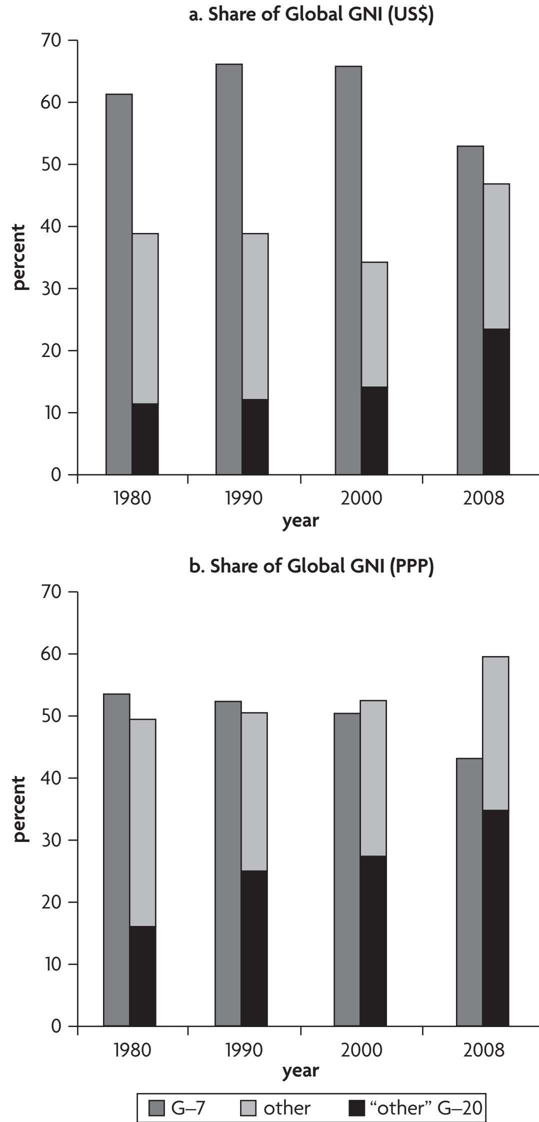
This growth acceleration of the past decade has resulted in a rebalancing of the global economic landscape. While shares of global gross national income were fairly stable in the final decades of the past century, these shares started to change more strongly during the first decade of the 21st century (figure 3.4).

Figure 3.3. Gap in Growth Rates between Developing Regions and High-Income Countries, 2000–08 (Average)



Source: World Development Indicators.

Figure 3.4. G-20 Shares of Global Gross National Income

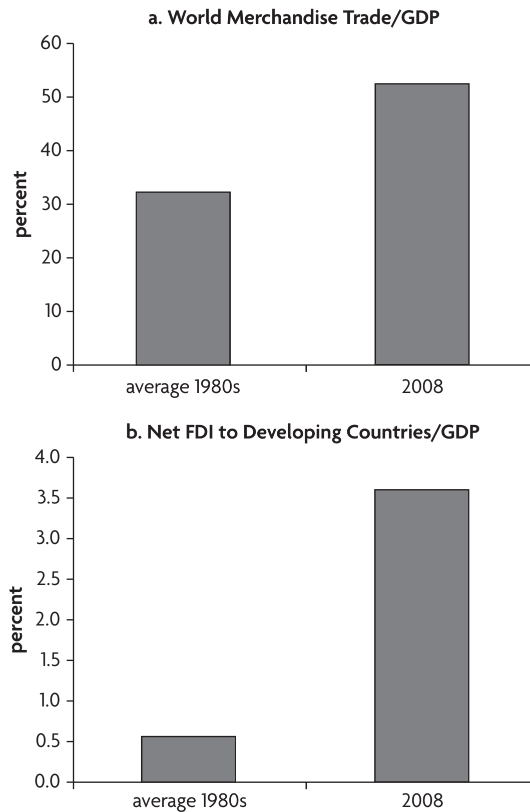


Source: World Development Indicators.

Note: PPP = purchasing power parity. G-7: United States, United Kingdom, France, Germany, Italy, Canada, and Japan. “Other” G-20: Argentina, Brazil, China, Australia, India, Indonesia, Korea (Rep.), Mexico, Russian Federation, Saudi Arabia, South Africa, and Turkey.

The growth acceleration was facilitated by trade and capital flows. International economic relations across countries multiplied dramatically over this period. Merchandise trade as a proportion of GDP increased from about one-third in the mid-1980s to just over half of world GDP in 2008, and the increase was even larger for developing countries than for high-income countries. Net foreign direct investment to developing countries (as a share of GDP) increased almost fivefold between the 1980s and the first decade of this century (from an average of 0.6 percent of GDP during the 1980s to an average of 2.9 percent of GDP in 2000–08) (figure 3.5).[6]

Figure 3.5. Increasing Trade and Capital Flow Links



Source: World Development Indicators.

Import numbers tell a revealing story: the developing world is becoming a driver of the global economy (table 3.2). Much of the recovery in world trade stems from strong demand for imports among developing countries. Developing-country imports are already 2 percent higher than their precrisis peak in April 2008. In contrast, the imports of high-income countries are still 19 percent below their earlier high. Even though developing world imports are about half the imports of high-income countries, they are growing at a much faster rate. As a result, they have accounted for more than half of the increase in world import demand since 2000.

Why does the world need multipolar growth?

Many high-income countries need to rebalance their growth path toward greater exports, higher domestic savings and less domestic consumption. Growth in developing countries would add new sources of growth to global demand and new markets for capital goods produced in high-income countries. For this demand to accelerate, finance and knowledge need to flow from high-income countries to developing countries.

The Emergence of a Multipolar Growth World

The Growth Commission Report identified 13 economies that had an average growth rate of 7 percent or higher for 25 years or more following World War II. The conditions for those economies to achieve this remarkable level of economic growth were identified as openness; macroeconomic stability; high rates of saving and investment; market mechanism for resource allocation; and a committed, credible, and facilitating government. Before the global crisis, 29 economies achieved this outstanding growth rate over the 2000–08 period—including 11 countries from Sub-Saharan Africa.

Table 3.2. Share in Global GDP Growth

	G-20 High-Income Countries	G-20 Developing	Rest of the World	Total
1980s	59.7	20.7	19.6	100
1990s	67.0	15.2	17.8	100
2000s	47.9	27.3	24.8	100
2005–2009	46.6	27.9	25.5	100
2010f	45.8	40.5	13.7	100

Source: World Bank Development Prospects Group.
Note: G-20 high income: G-20 member countries with an "atlas" GNI per capita greater than US$11,906 in 2008.

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From the perspective of low-income countries, the emergence of growth poles in middle-income countries is beneficial for several reasons. First, strong growth in middle-income countries creates large demand for natural resources from low-income countries. Second, investment from middle-income countries to low-income countries (from China into Africa, for instance, or from Thailand into Cambodia) is highly productive in that it effectively transfers labor-intensive activities that the middle-income investor countries have outgrown. Both natural-resource-intensive and labor-intensive manufacturing generally fit the comparative advantage of low-income countries. Third, fostering South-South manufacturing links can enhance the potential benefits from outsourcing (for example, business-process outsourcing in Kenya and Ghana), which in turn can increase economic opportunities in low-income countries and enhance productive efficiency globally.

Another element of multipolar growth is the high-income countries' role as a source of new technology. At the technological frontier, these countries need to create new products, new production processes, and new organizational techniques in order to sustain economic growth. These technologies can later be adopted and imported by both middle- and low-income countries.

Knowledge flows are critical to spreading the understanding of successful cases of development. It is an issue not only of technology transfer but also of understanding how development strategies can be successfully implemented.

The story of Korea is a particularly good illustration of successful industrialization. The Korean government took a proactive approach to industrial upgrading. It adjusted its strategy to enter industries that were consistent with the country's latent (and evolving) comparative advantage. In the automotive sector, for example, early in Korea's growth period, domestic manufacturers concentrated mostly on assembly of imported parts—a labor-intensive process that was in line with Korea's comparative advantage at the time. Similarly, in electronics the focus was initially on household appliances, such as televisions, washing machines, and refrigerators; it then moved to memory chips—the least technologically complex segment of the information industry. Korea's technological ascent has been rapid, as has been its accumulation of physical and human capital, because of the conformity of Korea's main

industrial sectors to the existing comparative advantages even as its underlying comparative advantage changed over time (Lin and Monga 2010). As a result, Korea has achieved remarkable GDP growth rates in the past 40 years and has performed impressively on industrial upgrading into such industries as automobiles and semiconductors.

The experience of Korea and other East Asian countries provides evidence that low-income countries can transform themselves into dynamic high-income countries and create new growth poles that help the global economy and contribute to world stability. While each country should design a development strategy that is rooted in its own reality, other low-income countries in various parts of the world can learn from East Asian successes. In particular, three key features of these success stories can be emulated: a country can develop industries that are consistent with its comparative advantage in each stage of its development; it can use the market as the basic mechanism for effective resource allocation at each given stage of development; and it can build a facilitating state to upgrade the industrial structure and move from one stage of development to another (Lin 2010).[7]

The G-20 and a Multipolar Growth World

During the current crisis growth in developed countries relied significantly on government policies. Output is still substantially below precrisis levels, and consumption demand remains weak. Precrisis growth was supported mainly by consumption growth, which was the result of wealth effects from capital gains in real estate and housing markets. But over the medium term, the developed countries need to rely on developing-country growth to stimulate their exports. This interdependence will become even more important as more developing countries expand their role as growth poles.

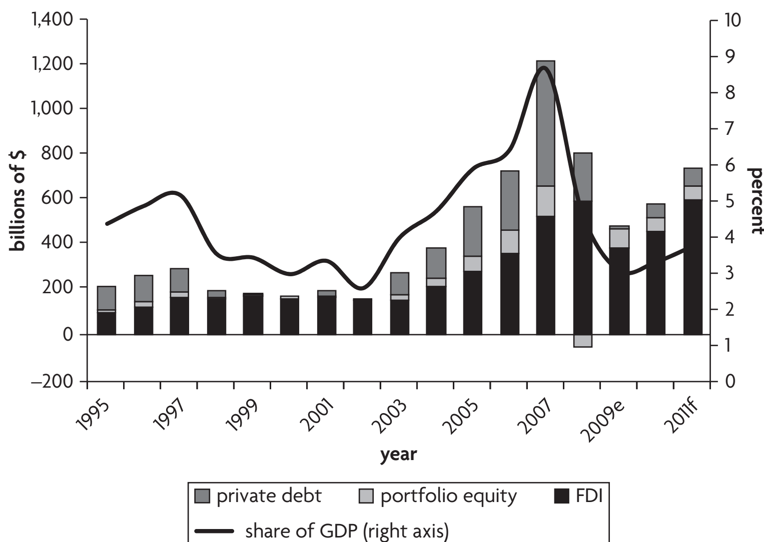
While developing countries as a group are thriving, there is a lot of heterogeneity among them. Developing countries still represent a small fraction of the global economy. Emerging markets, on the one hand, are recovering strongly. Recovery there takes the form of a rebound in investment demand, which creates demand for investment goods that are produced by high-income countries. Low-income countries, on the other hand, have the potential to contribute substantially to global growth.

Sub-Saharan Africa could become a growth pole if certain conditions are met. The region's precrisis performance offers evidence of this potential. Reforms can deliver concrete results, as witnessed for example in the telecommunications reforms that have spurred important growth in the information and computer technology sector.[8]

Different growth poles do not compete for the same slice of global demand—rather they reinforce each other. Growth in a given pole is likely to spill over to other poles and to other surrounding regions, through export demand, capital flows, or worker remittances. Trade is not a zero-sum game, and neither are investment or migration flows. Trade allows for mutually beneficial transactions, and it leads to the creation of supply chains across countries where production efficiency can be maximized globally. Factor flows represent movement of factors to locations where they can earn a higher return. These flows are all part of realizing the growth potential from distinct locations and the links across different poles of economic activity.

Prospects for capital flows are a source of concern, however (figure 3.6). In the medium term, private capital flows to developing countries

Figure 3.6. Evolution of Net Capital Flows to Developing Countries



Source: World Bank Development Prospects Group.

(especially for smaller economies) are likely to be quite different from the past, both in volume and in pattern. The extraordinary growth levels recorded in developing countries in 2002–07 (averaging 6.6 percent over the period) were possible partly because of the low cost of borrowing and the excess liquidity in the United States. With low interest rates and excess liquidity, large capital outflows emanated from the United States and other high-income countries to the rest of the world in search of higher yields. The recent crisis has led to increased risk aversion and mounting uncertainty, convincing financial institutions to withdraw credit from risky assets in emerging economies, even though macroeconomic conditions in many of these economies did not show any signs of instability and their financial systems were relatively healthy (flight to safety). Moreover, liquidity needs of many of these financial institutions caused by the credit crunch in advanced economies also contributed to reducing capital flows (and hence the availability of private financial flows) and to raising the cost of capital. Capital flow volatility and higher risk premiums may constrain growth prospects in many developing countries.

There is a need to rethink some of the sources for long-term growth. The key is to avoid a "new normal" low level of growth, but the outcome depends upon discovering new sources of global demand in the medium term. Many developing countries can fill this vacuum and become the new growth poles of the global economy. This is a unique opportunity to accelerate the changing dynamics of the global economy. Developing countries have played a significant role in global investment and growth. Some of the most vibrant growth poles are in the developing world, and that is likely to remain so in the future. Such a new pattern of source of growth is a win-win for both the developing and developed worlds. It is time to enhance even further the developing countries' role in the global economy.

Fiscal deficits and increasing general government debt may have an impact on interest rates, increasing costs of servicing debt, as the recent case of Greece has shown. As government spending increases, economic agents might foresee that current spending will have to be paid off by tax or inflation hikes in the future. If agents behave as if "Ricardian equivalence" holds, then they will save more in the present in anticipation of future tax increases, rendering government efforts ineffective.

But fiscal stimulus money can be directed appropriately toward investments that not only support current aggregate demand but also increase future productivity. In this case the so-called “Ricardian equivalence” can be broken (Lin 2009). Therefore it is very important to focus fiscal stimulus spending on projects that provide the largest social rate of return. The other required characteristic is that these investments be for public or quasi-public goods that would not be provided by the private sector.

The strategy for high-income countries differs from the strategy for developing countries. Developed countries are at the technology frontier, and few profitable investment opportunities are immediately available when their manufacturing sectors have large excess capacity and there are few bottlenecks in their infrastructure. Therefore in high-income countries the Ricardian equivalence problem may arise (as it did in Japan in the 1990s). But high-income countries could channel fiscal stimulus money toward enhanced research and development expenditure, especially in investments related to climate change and renewable energy, energy efficiency improvement, and technologies with lower carbon paths.

The situation differs in developing countries, which present more opportunities to funnel fiscal stimulus money toward investments that directly enhance future productivity. Major infrastructure bottlenecks exist. Power shortages and constraints in electricity generation are common. There is ample room for technological adaptation and industrial structure upgrading.

Some conditions must be fulfilled for new growth poles to take root. While emerging economies are likely to maintain their growth momentum by themselves, most middle-income countries and almost all low-income countries with the potential to grow dynamically need to implement internal reforms and receive external assistance to realize that potential. The key reforms are the following:

- Developing countries should undertake structural reforms that help them mobilize domestic financial resources and attract foreign direct investment. An important area of focus is the development of their own domestic financial markets, which will counteract expected tightness in global financial markets (the World Bank’s *Global Economic*

Prospects 2010 stressed the point that costs of intermediation still can come down significantly); and will also mobilize domestic and foreign savings and allocate them in productive investment opportunities.

- Some developing countries will need external assistance. In some countries access to global financial markets is extremely limited, and the economies are so poor that domestic savings will never be adequate for financing development.
- Developing countries need to improve their implementation capacity and governance, so they can provide a favorable investment climate for foreign direct investment in infrastructure projects.

Five Areas of Collaboration

Developing countries represent a timely and profitable investment opportunity for high-income countries. The main challenge for a sustained global recovery is the existence of large unused capacity in the capital goods sector in high-income countries. A logical solution to escape from the downward pressure created by this excess capacity—while avoiding the problem of debt sustainability and Ricardian equivalence—is to invest in productivity-enhancing projects. In high-income countries, the "green" economy is one area of such investments; however, it may not be enough to absorb the current large excess capacity. Investment and technical assistance in developing countries to release bottlenecks can unleash potential growth in developing countries and create demand for high-income-country exports.

The multipolar growth of the future requires a new multilateralism in international relations. The multipolar growth based on the investment and knowledge flows described here requires actions by a multitude of countries across the spectrum of development status. Global cooperation to promote the needed actions must be based on a new more inclusive leadership structure. The G-20 represents an excellent starting point; however, G-20 members need to reach out to their neighbors and trading partners to exchange ideas and create the learning community that can help create the environment for mutually beneficial economic exchange.

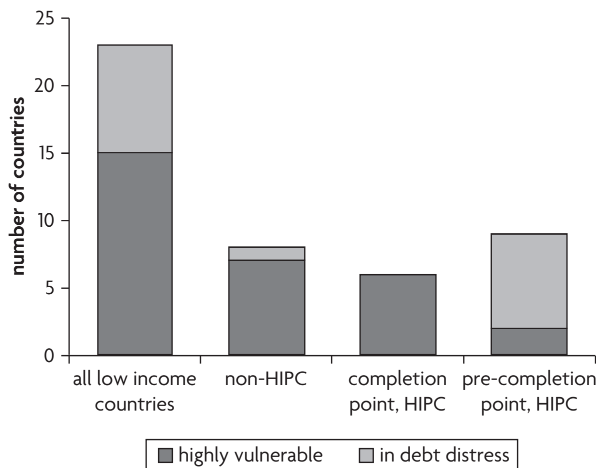
Taking the G-20 as a starting point, then, allow me to elaborate briefly on five key areas for G-20 collaborative efforts.

Infrastructure

Investing in bottleneck-releasing infrastructure projects in developing countries is an important way of creating demand for capital goods. There are many such opportunities in developing countries. Such investments will contribute to the global recovery as well as to a sustainable and inclusive global growth. However, many developing countries are constrained by their fiscal space and limited availability of foreign reserves. From an external perspective, of the 95 developing countries for which there are data for 2008, 39 had current account deficits exceeding 10 percent of GDP.[9] Like their high-income counterparts, developing countries also increased their budget deficits in response to the global crisis. This occurred in low-income countries as well; however, an increasing number of countries are exhibiting a moderate to high risk of debt distress (see figure 3.7).

If infrastructure and other constraints can be removed, developing countries, including those in Africa, could become growth poles. External assistance could be channeled to economically profitable investment in developing countries. Public investment can remove bottlenecks to growth caused by a limited stock or low quality of infrastructure. Both

Figure 3.7. Risk of Low Income Countries Debt Distress (Number of Countries in Each Category)



Source: World Bank, Staff estimates.

Note: Debt distress is defined in terms of significant breaches in policy-dependent debt-burden threshold. See IMF (2010).

private and public investment can play a key role in this regard. The state has a dual facilitating role both in directly producing some infrastructure and in providing the regulatory framework for private investment in infrastructure.

What are the implications for multipolar growth? The empirical evidence is strong that the quantity and quality of infrastructure has an important impact on economic growth, and a number of regions of the world have lagged in infrastructure investment in recent decades. For example, past estimates indicate that if Costa Rica, the top performer in infrastructure in Latin America were to have the quantity and quality of infrastructure in Korea, then Costa Rica's growth would accelerate by 1.5 percentage points (Calderón and Servén, 2004, 2010). For other countries in the region, the payoff would be substantially higher. More recent research showed that if African countries could "catch up" to the infrastructure quantity and quality of regional leader Mauritius, then Sub-Saharan African countries could grow 2.3 percentage points faster, on average (Calderón 2009). These results illustrate the growth potential that could be achieved in new growth poles through the elimination of infrastructure bottlenecks to growth. The same research also indicated that infrastructure investment also has a positive impact on reducing inequality within countries. From either an international or national perspective, infrastructure investment thus can promote inclusive growth.

Infrastructure investments are generally lumpy and costly and thus require finance. Government access to finance for public sector investment will depend upon progress in the G-20 financial reform agenda to ensure that global financial markets continue their recovery from the difficult circumstances of the past two years. Developing economies—both within the G-20 and beyond—have an important reform agenda focused on improving the functioning of domestic financial systems. The knowledge and best practice accumulated within the G-20 could be critical in this regard.

In addition to finance, there is the need for consolidating best practice in the design of public and private partnerships for infrastructure development. Many of these partnership projects have been implemented over the last few decades and economists and policy makers are reevaluating the conditions under which public-private arrangements can be most efficient and effective in delivering infrastructure services (Engel,

Fischer, and Galetovic 2008; Guasch, Laffont, and Straub 2008). The appropriate regulatory structure and contract design will depend upon the nature of the physical investment, the scope for monitoring quality of services, and the nature of risks with regard to demand and maintenance costs over time.

Finally, there may be room for international financial institutions and the G-20 to work together to promote innovative new financing mechanisms. One possibility is to leverage sovereign wealth funds and global long-term investment funds more generally through mechanisms like the International Finance Corporation's Asset Management Company.[10] Such a mechanism can play an important informational role by being a "first mover" that demonstrates how to construct stable and profitable investment portfolios in emerging markets.

Another new initiative could be the further development of indexed sovereign debt instruments (Perry 2009; Shiller 2003, 2004). Both the volatility of international commodity prices over the last decade and the recent financial crisis are reminders of the risk of external shocks that developing countries face. One way to reduce that risk—at least for idiosyncratic shocks to particular countries or groups of countries—would be to issue government debt that is indexed either to national GDP growth or to the terms of trade. With such instruments, governments would face lower debt service costs during times of stress. If enough countries issued these instruments, then investors would be able to diversify their holdings based on the different risks faced by countries (such as commodity exporters versus commodity importers, or diverse regions). To make diversification possible, international cooperation would be needed in order to get a large enough group of countries to issue these instruments. This coordinated effort should lower costs, given the diversification benefits to investors. The G-20 could be a forum for assisting a group of countries to take these steps—perhaps with the assistance of the international financial institutions. With lower (diversified) risk, there could be better access to global capital markets to finance infrastructure and other investments.

Human Capital

Many developing countries lack sufficient qualified labor, a constraint that poses a bottleneck for multipolar growth. A number of middle-income

countries have experienced positive results with conditional cash transfers for improving attendance at primary and lower secondary education; however, the results in educational achievement have been less promising. In addition, in poorer countries, basic access to schooling remains a challenge even at the primary education level.

Since the pioneering work of Barro and Lee (1993, 2001), there have been improvements in the measurement of educational attainment and its role in economic growth. A recent survey highlights the importance not only of attending school but of acquiring cognitive skills, as measured by performance on internationally comparable test scores (Hanushek and Woessmann 2008). The survey provides compelling empirical evidence to support the impact that cognitive skills have on individual incomes as well as on macroeconomic growth. This work provides evidence of the need to promote both quality of education and years of attendance. Many countries require improvements in this area if they are to contribute to multipolar growth over the medium term.

There is also increasing evidence of the need for attending to human development at the early stage of life. The World Bank has launched a new funding program to promote the multidimensional package of interventions—in health, nutrition, and preschool education—to assure that the potential human capital of the very young is not handicapped before entering primary education systems.

As industries in developing economies upgrade, the need for tertiary and vocational training in developing countries increases. The G-20 can set up partnerships for improving educational outcomes across the group as well as models for improving education globally. There are also opportunities for increased trade in educational services across the G-20. Certification programs for international tertiary and vocational education could be an important tool for ensuring the quality of educational services received internationally. As firms integrate production across countries, the supply of labor becomes more globalized, despite limits to labor mobility. Global growth then becomes dependent upon the skills of the global labor force. Education improvements in developing countries can help remove constraints to industrial expansion globally.

A key feature of human capital development in developing countries is to prepare the labor force for production of goods and services that are consistent with their comparative advantage. Governments need to

maintain this focus when addressing reforms to their education and social welfare systems.

Trade

Trade was a motor for multipolar growth before the crisis, with global exports growing at about four times the pace of global GDP during 2003–08. Going forward, the G-20 can promote completion of the Doha Development Round for trade liberalization along with institutional reforms for trade facilitation. In addition, during the crisis many countries increased the use of antidumping measures, countervailing duties, and safeguards provisions to restrict imports (Brown 2009). While these measures have been applied to only a small share of global trade, the G-20 can be an effective forum for discussion of these measures and work toward ensuring that they are applied in only a limited and legitimate manner. Another issue of critical importance is continued efforts to open up duty- and quota-free access for goods originating in the world's least developed economies.

The empirical evidence on trade and economic growth is mixed. Part of the difficulty may lie in the need to combine openness with other complementary policy and institutional reforms to prepare economies to take advantage of the opportunities provided by trade. These reforms may span "traditional" areas of hard infrastructure, human capital, and the business climate. In fact, recently published empirical research has identified the importance of these complementary reforms in interacting with trade openness in promoting economic growth (Chang, Kaltani, and Loayza 2009).

For many low-income countries to participate in emerging growth poles, additional policy reforms may be needed to promote the type of structural transformation required for producing new tradable products. Developing practical approaches for countries to identify these potential products and the policies needed for relieving binding constraints to their production is not the topic of this chapter; however, the main thrust is to use the experience of past successful countries to guide low-income countries' progress in industrial upgrading (Lin and Monga 2010). A growing literature explores the structure of exports and how the resulting structure affects economic growth (Hausmann, Hwang, and Rodrik 2007).

In addition, many countries need assistance for trade facilitation. Some progress has been made on this front; however, more needs to be done to improve the quantity and quality of aid for trade. This issue is discussed in chapter 7. At this point, however, allow me to highlight several areas for G-20 action. The G-20 should lead efforts to improve data to better monitor and evaluate aid for trade; create a knowledge exchange for best practice in improved regulation and infrastructure for facilitating trade flows; and develop a forum for joint government and private sector dialogue on the need for trade facilitation.

Governance and Anticorruption

G-20 countries have a mutual responsibility to promote strong governance and anticorruption measures. These are key elements affecting the investment climate and essential for the efficiency of financial flows and investment across countries. Domestically, developing countries need strong governance mechanisms to enhance the efficiency and effectiveness of government spending, whether it be for infrastructure investment or social spending for enhancing human capital.

It is a difficult and evolving field of study to measure the quality of governance, more broadly, and the extent of corruption, more specifically. A variety of research results identify a strong link between quality of governance and economic growth—in particular, if one defines governance to include the quality of regulation and other factors (Loayza and Servén 2010). A further challenge is to understand the channels through which governance affects growth and identify the priorities for reform (Kraay and Tawara 2010).

The World Bank is actively engaged in governance reforms through institutional development lending and knowledge services to help countries improve the quality of government regulation and spending. On the pure corruption front, the World Bank has been active in investigating and sanctioning firms that are involved in corrupt activities related to Bank-financed projects, and the Bank has taken a leadership role in promoting the joint disbarment agreement across multilateral development banks. Based on this experience, the Bank looks forward to working closely with G-20 countries in implementing international efforts to eliminate corruption from assistance programs.

Governance, broadly speaking, is a key element for developing countries to ensure that markets can allocate resources efficiently. Effective regulation and efficient government spending are needed to ensure that the state facilitates rather than inhibits the functioning of this market mechanism.

Information and Knowledge Sharing

Because its members are leading economic powers, the G-20 is an ideal forum for sharing information and knowledge on economic growth and development. Asia—and in particular, Korea—has a special role to play given the recent success of a number of Asian economies; chapter 5 is devoted to the lessons from the Korean experience. The World Bank would like to partner with the G-20 in sharing the lessons from development experience globally. In fact, the Bank is undergoing a set of reforms to enhance the "knowledge bank" aspects of its work. The Bank is uniquely placed for this role, given the combination of global breadth, country-specific depth, and in-house analytical capacity in terms of knowledge on development topics. The objective is to maximize the sharing of development solutions across countries and also to make the best use of the skills and experience of international expertise, both within the Bank and from national research institutions.

Governments can play an active role in bringing global knowledge to the business community and thus encourage industrial upgrading. Box 3.1 provides examples from "emerging" Asia and Latin America.

In summary, providing assistance (both financial and knowledge) to middle- and low- income countries to help them realize their growth potential would yield mutually beneficial opportunities for all categories of countries. Such assistance would require global coordination and cooperation, and the G-20 is an appropriate forum to design and implement a framework for this global cooperation. With this global cooperation in place, developing countries can accelerate their development progress, following the three principles set out here:

- Develop industries that are consistent with comparative advantage.
- Use the market as the basic mechanism for effective resource allocation at each given stage of development.
- Build a facilitating state to upgrade the industrial structure and move from one stage of development to another.

Box 3.1. Examples of Knowledge Sharing for Export Development

Government support to foreign direct investment in new products. When local Asian firms had no historical knowledge in a particular industry of interest to the country, the state often attracted foreign direct investment or promoted joint ventures. After its transition to a market economy in the 1980s, China, for instance, proactively invited direct investment from Hong Kong, China, Taiwan, China, the Republic of Korea, and Japan. This promotion policy helped the local economy to get started in various industries. Bangladesh's vibrant garment industry also started with the direct investment from Daiwoo, a Korean manufacturer, in the 1970s. After a few years enough knowledge transfer had taken place and the direct investment became a sort of "incubation." Local garment plants mushroomed in Bangladesh, and most of them could be traced back to that first Korean firm (Mottaleb and Sonobe 2009; Rhee, 1990; Rhee and Belot 1990). The booming cut-flower export business in Ecuador from the 1980s onward also started with three companies established by Colombia's flower growers (Sawers 2005). The government can also set up an industrial park to incubate new industries. The Hsingchu Science-based Industrial Park in Taiwan, China, for the development of electronic and information technology industries (Mathews 2006) and the Fundación Chile's demonstration of commercial salmon farming (Katz 2006) are two successful examples of government incubation of new industries.

Government support to local discoveries, combined with international knowledge. Asparagus farming in Peru is a good example. The possibility of growing asparagus, a foreign crop, was discovered by Peruvian farmers in the 1950s. However, the industry and exports did not take off in earnest until 1985 when the U.S. Agency for International Development provided a grant for a farmers' association to obtain expert advice. A key piece of information was received from a specialist from the University of California, Davis, who had recently invented the UC-157 variety of asparagus that was suitable for the U.S. market, and another expert showed the members of the association's experimental station how to set up seedbeds for large-scale production and how to package the products for export. The state also supported cooperative institutions such as the Peruvian Asparagus Institute and the Frio Aéreo Asociación Civil for engaging in research, technology transfer, market studies, export drives, and quality promotion. Furthermore, the state invested in the freezing and packing plants that handled 80 percent of fresh asparagus exports. With these interventions, Peru has overtaken China to become the largest asparagus exporter in the world (O'Brien and Rodriguez 2004).

Source: Lin and Monga, 2010

Concluding Remarks

The global recovery during 2010 is stronger than expected, but the recovery may be fragile. Fiscal risks are at center stage in developed countries, and there is a risk that capital flows to developing countries may not be sufficient to support the superior investment opportunities that exist there.

A multipolar growth world is forthcoming. It was already taking shape during the years leading up to the crisis. The multipolar nature of future growth is likely to be more stable and result in stronger global poverty reduction. It represents a global win-win for all.

The G-20 can play a major role in supporting the multipolar growth and strengthening the global recovery. Potential new mechanisms for infrastructure finance, knowledge sharing for economic development, openness in trade and investment, financial sector reforms, and governance reforms are critical to the success of future multipolar growth and development. They depend upon the leadership of the G-20 for the promising opportunity for multipolar growth to become a reality.

Notes

1. See, for example, World Bank 2002.
2. Index numbers from the World Bank's Development Prospects Group (DECPG) Database.
3. Calderón and Servén, 2010. While the focus of the paper is the Latin America region, a global empirical model is estimated to provide the quantitative information for the regional discussion.
4. Bank staff estimates made by the Development Prospects Group.
5. World Development Indicators data catalog (http://data.worldbank.org/data-catalog).
6. Net FDI data is from the World Development Indicators catalog.
7. One of the key differences between the New Structural Economics and past "structuralist" approaches is the focus on industrial structures that are compatible with a country's comparative advantage. One of the failures of past structuralist policies was the desire to force industrialization into modern goods that were not compatible with the country's factor endowments and comparative advantage. A facilitating state plays an important role in providing an adequate business climate, providing key public goods, and addressing coordination failures and other externalities.
8. See Obiageli Ezekwesili's speech at Harvard, April 17, 2010, and World Bank president Robert Zoellick's speech at TICAD IV in Tokyo. Both at http://www.worldbank.org.
9. Data from World Development Indicators.
10. The Asset Management Company (AMC) was set up in 2009 as a wholly owned subsidiary of the International Finance Corporation (IFC) of the World Bank Group. The idea is that private investors can take advantage of IFC experience in investing in emerging markets and low-income countries. The AMC houses a new initiative—the IFC Capitalization Fund—with initial capital of US$1 billion from the IFC and US$2 billion from the Japan Bank for International Cooperation—that is designed to provide support to systemically important banks in developing countries. The AMC also houses the US$1 billion Sovereign Fund Initiative that allows for global sovereign wealth funds to co-invest in IFC transactions—starting with the Africa and Latin American and Caribbean regions.

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Comments by Ifzal Ali

Islamic Development Bank

Justin Lin's paper conveyed the following key messages to me. The Great Recession of 2009 has unleashed forces that will lead to the emergence of a multipolar global economic order. Coordination played a pivotal role in the short-term rescue of the world in 2009. In the medium term high-income countries need to rely on middle- and low-income countries to stimulate their exports. In the long-term developing countries will be able to become the engines of global growth. A new multilateralism will be needed in international relations to ensure sustained growth. And there is a broad and interventionist role for the G-20 in the emerging new economic order. The broad thrust of my comments is to challenge the much-too-broad and much-too-interventionist roles advocated for the G-20.

It is a huge leap of faith to extrapolate from the G-20's effective policy coordination in response to a specific crisis to permanent, multilateral, and broad economic governance. *We don't want to see a G-20 that has an agenda that is "too big to succeed."* However, what the paper is suggesting is a truly "visible hand" of government(s) to oversee the distribution of national and international investment in physical and human capital, trade, and knowledge sharing, as well as to set international rules for good governance. What is it, other than the number of actors, that suggests the G-20 would be any more efficient and effective than the G-7 or the G-8 (too small a number) or the Asian-Pacific Economic Cooperation (APEC) forum (too large a number) in handling a quite diverse set of policy issues? Isn't there a real risk that the approach Justin Lin sets out will result in the G-20 becoming a set of permanent standing committees of experts looking at a wide range of issues in isolation and on different time frames (APEC) or making numerous commitments on many issues but with limited accountability over time for meeting them (G-7/G-8)? Would it not be better to identify a maximum of three issues—over any given medium-term period—*where the known or perceived externalities are so large and pervasive that they define the unquestionable need for G-20*

Comments on the paper "A Global Economy with Multiple Growth Poles" by Justin Yifu Lin in chapter 3 of this volume.

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engagement? I don't think investment in infrastructure and human capital or information and knowledge sharing fall into that category. However, I do think macroeconomic stability, financial regulation, trade, intellectual property rights, climate change, arms control, biodiversity, combating the source and spread of pandemic diseases, and managing the oceans do fall into that category. But there is only so much the G-20 can do at any point in time, and paramount externality considerations should lead the decision. In that regard we don't need the G-20 to get involved in the incubation of pioneer firms or in partnerships to improve educational outcomes or to promote awarding some firms special recognition for their contribution to a country's development.

Private companies (not countries or their policy makers) are the real "growth poles" in the global economy. No government policy ever created or sustained a "value chain" or served as *the* engine of sustained real increases in returns to labor or capital. Private economic activity does that. True, the vast pool of global liquidity is looking for countries with macroeconomic stability and good corporate governance, but that liquidity will be *invested in individual firms* that generate growth. In almost all high-income countries we saw differential performance across industries and companies (and within an industry) during the Great Recession. Companies that are at the frontier of new technology or that use new technology to achieve high productivity in established industries flourished. Even within a "frontier industry," the best-managed companies succeeded and poorly managed ones did not. And growth in sales in high-income countries for the products of frontier companies was as strong if not stronger than in emerging markets. In contrast, China's lack of internationally recognized brands (that is, Chinese-owned companies that could demand premium economic rents based on brand name recognition and preference) results in a prevailing industrial structure that is relatively low value added. But that is a firm- or industry-level problem of a lack of product innovation and a "bank" of patent ownership. The underlying dynamics of that economic activity and growth performance do not require G-20 involvement. The chapter reads as if the role of the G-20 is not simply to level the playing field in terms of the essential "rules of the game" and their fair enforcement (its proper role) but to somehow collaborate directly to lead or determine future economic performance across different "country poles."

No country, be it a high-, medium-, or low-income one, should let its comparative advantage be defined predominantly in terms of the "comparative advantage" of another country. Any given national stock of natural resource endowments and human capital can serve multiple economic purposes, albeit within limits defined by technology. Leave regional and international economic competition and reinforcement and the identification of appropriate factor and product markets up to individual companies in terms of *their* relative competitive advantages. *It is firms that compete, not nations.* Government should put in place an economic development plan that does not discriminate against any particular industry while also encouraging some degree of industry heterogeneity and complementarity in the use of the country's resources.

For the future we should think of the sources of multiple growth poles in terms of new technology and the industries they spawn (rather than demand from developed versus emerging economies). The world badly needs new industries based on new technologies. Currently, continued growth of the information and communications technology industry is founded primarily on the ability to bring the silicon chip ever closer to the limits of Moore's law. What future global economic growth needs is a set of truly revolutionary technological breakthroughs (similar to the silicon chip) that can generate new industries. Otherwise, all that will happen is greater investment and associated economic competition from established technological bases, plus greater consumption that is often environmentally unsustainable—and that *is* a zero sum game. The G-20 could play a useful role by establishing a truly global and strategic pooling and funding of public and private knowledge entities to *accelerate* scientific breakthroughs and new technology in relation to developing renewable energy efficiencies; environmentally sustainable, high-productivity food production; and safe synthetic organisms that could recycle unsafe wastes into safe materials (such as genetically engineered saltwater algae) as well as ending highly infectious diseases, cancer, and diabetes. If these are achieved as a result of the G-20's public good leadership and other support, then there would be a sound argument that these technologies should be made available like open-source software and thus vastly expand the potential for *inclusive* multipurpose economic use *by the private sector and civil society everywhere* (truly multipolar).

The underlying principle here is this: if paramount externalities are the criterion for deciding the G-20's agenda, then the products of the G-20's efforts should be an enlarged global public good—from which a myriad of other abundant private and civil society economic growth and human welfare benefits could be derived. That is how we should conceive multipolar growth in relation to the G-20.

Comments by Jong-Wha Lee

Asian Development Bank

Justin Lin's paper made several important points. First, the recovery from the global financial crisis remains fragile, particularly because of prevailing excess capacity in the high-income countries. Second, developing countries have the potential to lift growth in a faltering global economy, but their multilateral relations need to be further strengthened. And third, an expanding role for the G-20 will create mutually beneficial opportunities for developed and developing countries and can pave the way for stronger cooperation with international financial institutions in creating innovative financing mechanisms.

My comments will focus on these issues, emphasizing Asia's role in creating sustained regional and global growth. Let me begin with a snapshot of the region's recent performance.

Developing Asia weathered the harsh global environment of 2009 well. It was the first region to emerge from the turmoil, helped by decisive and large-scale fiscal and monetary policy measures. Domestic demand has been resilient, especially in the region's larger economies, and the economic cycle clearly suggests that economies have troughed and begun to recover. A number of Asian economies posted double-digit GDP growth in the first half of 2010.

We are therefore optimistic that economic recovery in the region will be robust, supported by the sustained impact of the stimulus measures. We project growth to rebound to 7.5 percent in 2010, a strong acceleration from 5.2 percent in 2009, though still below the record 9.6 percent growth of 2007 (ADB 2010). As such, Asia will make a significant contribution to multipolar world growth. Nonetheless, it faces the challenge of maintaining this momentum as governments gradually unwind the expansionary measures and as external demand picks up only slowly.

The critical issue is whether private demand can take up the slack as public demand wanes amid a sluggish external environment. This rebalancing depends on the region's governments employing a combination

Comments on the paper "A Global Economy with Multiple Growth Poles" by Justin Yifu Lin in chapter 3 of this volume.

of policy measures to reinforce domestic demand and revitalize domestic economies. For example, more government spending on health, education, and housing will reduce the precautionary motive for savings among households. Governments should also give priority to enhancing the investment climate rather than to a quantitative expansion of investment. Supply-side policies that promote small and medium enterprises and service industries will increase the relative importance of production catering to domestic demand. Policies encouraging financial development and adjustment of the exchange rate can also better balance domestic supply and demand and help sustain the regional recovery.

Asian exports remain heavily dependent on global demand, as seen in the highly synchronized movements between Asian export growth and the major advanced economies' nonoil imports. China clearly plays an important role as Asia's main assembly and production center in this regional production network. But its role as a regional and global consumer is also becoming increasingly important. Indeed, China's imports from East and Southeast Asia have gradually shifted to final goods in recent years—from the initial dominance of parts and components—implying that it is consuming more Asian products.

In the long run measures are needed to ensure that the region enhances and realizes its economic growth potential. The theme of this volume—postcrisis growth and development—is very important in this context. In my view, raising developing Asia's growth potential requires five key components (Brooks et al. forthcoming).

First is infrastructure investment. Infrastructure is vital to the production of goods and services, facilitates trade and factor mobility, reduces business costs, allows the exploitation of economies of scale, and improves efficiency and productivity.

Second is human capital. Education improves labor productivity, facilitates technological innovation, and increases returns to capital.

Third is external trade and long-term finance, which developing countries depend on for stable long-term growth.

Fourth is governance and institutional quality. Governance and institutions drive economic growth through the enforcement of property rights and contracts that allow market exchange, investment, and innovation.

Fifth, a well-developed financial sector supports economic growth by mobilizing and pooling savings and allocating resources efficiently.

Likewise, greater cooperation is crucial to the long-term sustainability of economic growth. The G-20 world leaders recently affirmed their commitment to reforming the global financial architecture, bringing down macroeconomic imbalances, and narrowing development gaps. Such global cooperation is needed to avert future crises. We must therefore make sure the promise is kept.

Better policy coordination is also vital to sustaining the recovery and to lifting the global economy to new heights. This requires a rebalancing of growth toward greater domestic demand, particularly consumption and investment, and greater regional demand for final goods.

Trade and financial openness must continue. We must shun protectionism, particularly during crises. And we must work together to bridge the income and nonincome development gaps. Despite many years of high growth in developing Asia before the global crisis, significant development gaps remain. There are considerable differences in health and education outcomes across regions and countries.

The importance of knowledge sharing cannot be overemphasized. We must learn from the lessons and experiences, the successes and failures, of others. The Republic of Korea, as the first emerging economy to chair a G-20 summit, can play an active role in strengthening capacity to share its development experience, so that low- and middle-income countries can benefit from accumulated knowledge.

In summary, the key messages of my discussion are as follows. First, we see a sustained rebound in Asia in 2010–11 as the recovery takes firm hold. Second, some rebalancing of growth toward domestic demand sources is needed. While this rebalancing is widely accepted as a requirement for sustained growth, actually putting it into practice is a major challenge. Third, several components are necessary to enhance the region's long-term growth potential. As I mentioned earlier, these include human capital accumulation, infrastructure investment, external trade and financial openness, financial sector development, and governance and institutional quality. Finally, we need to improve cooperative efforts to ensure balanced and sustainable growth for the region and the world.

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Comments by Tunde Lemo

Central Bank of Nigeria

The initiative of the World Bank and the Korean government is to be commended. Multiple growth poles can be regarded as developing clusters in a global system.

The world is witnessing the beginning of a new era of global growth based on multiple growth poles. It is apparent that poverty and inequality have become major challenges for the global agenda. A fair distribution of failed states and pseudodemocracies exist, and their impact on regional and global growth is becoming substantial. Calamities (man-made or natural) now have global impacts and must be addressed. Global and social economic failures exist and must be tackled.

Issues Central to Balanced and Sustainable Growth: Africa's Perspective

- Failure of infrastructure in Africa and other developing countries
- Water shortages and food security
- Environmental degradation
- Diseases and death
- Migration and unemployment
- Demographics and lopsided deployment of global resources
- War, disarmament, and terrorism
- Drugs and growing social tension
- Corruption and other governance issues

African Countries Need to Be Assisted

The G-20 must play a catalytic role in the following arenas:

- Ensuring food security and sustainable development. The G-20 must lead countries in making a more concerted effort to address food security, availability, access, and nutrition.
- Developing and strengthening the private sector for sustainable growth.

Comments on the paper "A Global Economy with Multiple Growth Poles" by Justin Yifu Lin in chapter 3 of this volume.

- Increasing public investment in infrastructure across Africa; such investment has been insufficient and is critical to economic development.
- Facilitating development of infrastructure through public-private partnerships in order to boost productivity in various sectors and facilitating technological breakthroughs in physical infrastructure.
- Addressing problems of financing constraints in Africa, where financing gaps remain large.
- Diversifying the export base by opening economies for export growth in low-income countries, enhancing capacity for trade development, and adopting policy and regulatory reform to support diversification of exports.
- Recovery from the financial crisis, which has weakened many African economies, needs to be fast-tracked.
- African economies are overly dependent on export of primary products, which has made them vulnerable to external shocks. African countries should therefore trade more with each other.
- The African share of foreign direct investment inflow is very low and African domestic savings is low as well, coupled with the fact that Africa lacks institutional transparency.

Conclusion

It is no longer feasible to solve big global problems with global consensus. Articulate economic groupings to generate synergy for action are needed in evolving a new consensus. The multilateral trading system epitomized by the World Trade Organization is under threat. More inclusive openness in trade must be ensured and Doha revisited as G-20 countries must help Africa. Emerging economies must gear up to higher responsibilities and stop being mere onlookers. For multipolar growth to flourish, there must be a new multilateralism in international relations. The G-20's role will be to create mutually beneficial global opportunities and provide the necessary support in promoting a more innovative financial mechanism for the needed financial inclusion agenda. Developing countries must fix infrastructure, become more transparent, and drive private sector growth. The global financial system needs stronger regulation. Africa does not need pity but a deliberate, implementable plan of action.

Chair's Summary by Trevor Manuel

South Africa National Planning Commission

My first question is whether the paper presented by Justin Yifu Lin should simply set the scene for the rest of the papers, or if we should tease out more specific points for further examination. Mr. Lin presented a conjectural analysis that gave voice to the debate that arose before the crisis on decoupling. Now new questions are being raised. Where are we now? What does the capacity utilization issue mean for development going forward? How would this influence the immediate future? What opportunities do we stand to lose? How should we think about multipolarity going forward, given the fact that high-income economies historically have been the global engine of growth, largely fueled by consumption? The issue of rebalance arises, followed by the questions: Who defines the future agenda for action? What should be on the agenda of G-20, and what criteria should be used to determine what the G-20 talks about?

During the question and answer period, a participant asked whether peace and reconciliation efforts are within the mandate of the G-20. This observation provides a nice transition to the question of whether the G-20 has within itself the capacity to take on these issues. How limited or broad should the remit of the G-20 be as opposed to the United Nations?

There was a constant refrain heard from Dr. Il SaKong, chairman of the Presidential Committee for the G-20 Summit; Ngozi Okonjo-Iweala, managing director of the World Bank; and the discussants that the G-20 is a very important forum but that it needs to be mindful of the other 172 countries that are outside its membership. This balance between G-20 and non-G-20 countries is becoming important in defining the agenda and understanding the limitations and the impact on sustainability. Other important questions were raised concerning public goods and social goods, as well as an interesting split on state versus the private sector.

Summary on the paper "A Global Economy with Multiple Growth Poles" by Justin Yifu Lin in chapter 3 of this volume.

From my perspective, there are five issues for the G-20 development agenda going forward:

- Infrastructure development, both physical and human, which serves as the undergirding of growth. Future questions will likely include: How will infrastructure investment be made? Where will it be made? With what speed will it be made so that rebalancing can take effect?
- The expansion of trade and foreign direct investment. These activities are fundamental to growth and raise important questions about whether the World Trade Organization is useful to us at the present moment. If not, what are more appropriate institutions that can carry these issues forward?
- The quality of institutions, both public and private.
- The quality of governance.
- Financial sector inclusion.

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