Dollar to share power with euro and renminbi by 2025: World Bank

By Editor Test *Wed, May 18, 2011*

The growth of emerging-market firms in global investment and finance will bring "the sort of multilateral framework for regulating cross-border investment that has been derailed several times since the 1920s," the bank's report said.

By 2025, six major emerging economies—Brazil, China, India, Indonesia, South Korea, and Russia—will account for more than half of all global growth, and the international monetary system will likely no longer be dominated by a single currency, a new World Bank report says.

The report, *Global Development Horizons 2011—Multipolarity: The New Global Economy,* projects that emerging economies will grow on average by 4.7% a year between now and 2025. Advanced economies, meanwhile, are forecast to grow by 2.3% over the same period, yet will remain prominent in the global economy.

Most developing countries, particularly the poorest ones, will continue to use foreign currencies to carry out transactions with the rest of the world, and will remain exposed to exchange rate fluctuations in an international multi-currency regime.

“Over the next decade or so, China’s size and the rapid globalization of its corporations and banks will likely mean a more important role for the renminbi,” said Mansoor Dailami, lead author of the report and manager of emerging trends at the World Bank**.** “The most likely global currency scenario in 2025 will be a multi-currency one centered around the dollar, the euro, and the renminbi.”

Global Development Horizons’ authors use empirically-based indices to identify high-growth countries with strong human capital and technological innovation, and that also drive economic activity in other countries. Growth spillovers are likely via cross-border trade, finance, and migration, which will induce technological transfer, and increase demand for exports.

The report highlights the diversity of potential emerging economy growth poles, some of which have relied heavily on exports, such as China and Korea, and others that put more weight on domestic consumption, such as Brazil and Mexico.

With the emergence of a substantial middle class in developing countries and demographic transitions underway in several major East Asian economies, stronger consumption trends are likely to prevail.

The shift in economic and financial power toward the developing world has important implications on corporate financing, investment, and the nature of cross-border merger and acquisition (M&A) deals.

As more deals originate in emerging markets, South-South FDI is likely to rise, with most of it going into greenfield investments, while South-North FDI is more likely to target acquisitions. As they expand, more developing countries and their firms will be able to access international bond and equity markets at better terms to finance overseas investments.

The growing role and influence of emerging-market firms in global investment and finance can facilitate moving forward with the sort of multilateral framework for regulating cross-border investment that has been derailed several times since the 1920s, the report says.

In contrast to international trade and monetary relations, no multilateral regime exists to promote and govern cross-border investment. Instead, the surge of bilateral investment treaties (BITs) —more than 2,275 BITs as of end of 2007—has provided the most widely used mechanism for interstate negotiation over cross-border investment terms, including access to international arbitration of disputes through referral to the International Centre for the Settlement of Investment Disputes, an affiliate of the World Bank.