The End *of the* Third World

BY ROBERT B. ZOELLICK

The case for modernizing multilateralism.

For decades, students of security and international politics have debated the emergence of a multi-polar system. It's time we recognize the new economic parallel.

If 1989 saw the end of the "Second World" with Communism's demise, then 2009 saw the end of what was known as the "Third World." We are now in a fast-evolving multi-polar world economy in which some developing countries are emerging as economic powers, others are moving towards becoming additional poles of growth, and some are still struggling to break out of poverty.

Poverty remains and must be addressed, as well as post-conflict and failed states and global challenges such as climate change. But the manner in which we address these issues is shifting. The outdated categorizations of First and Third Worlds, donor and supplicant, leader and led, no longer fit. The implications for multilateralism, global cooperative action, power relationships, development, and international institutions are profound.

MULTILATERALISM MATTERS

The global economic crisis has shown that multilateralism matters. Staring into the abyss, countries pulled together to save the global economy. The modern G20 was born out of crisis. It showed its potential by quickly acting to shore up confidence. The question now is whether this cooperation was an aberration.

Will historians look back on 2009 and see it as a singular case of international cooperation, or the start of something new?

The danger now is that as fear of the crisis recedes, so will willingness to cooperate. This would be a mistake. Economic and political tectonic plates are shifting. We can shift with them, and not continue to view a new world through the prism of the old.

Robert B. Zoellick is president of the World Bank Group. This article is based on a speech Mr. Zoellick delivered at the Woodrow Wilson Center for International Scholars April 14, 2010.

THE INTERNATIONAL ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com

FUTUREATLAS.COM

Changes in government policies can create opportunities for private-sector growth, which in turn offers services to other entrepreneurs. In the ten years to 2008, the private sector has invested more than $60 billion in information and communications technology in Africa; 65 percent of Africans are now within reach of wireless voice services, and there are four hundred million mobile phones in use in Africa.

WHAT IS DIFFERENT?

The developing world was not the cause of the crisis, but it could be an important part of the solution. Our world will look very different in ten years, with demand coming not just from the United States and advanced economies but from around the globe.

Already we see the shifts. Asia's share of the global economy in purchasing power parity terms has risen steadily from 7 percent in 1980 to 21 percent in 2008. Asia's stock markets now account for 32 percent of global market capitalization, ahead of the United States at 30 percent and Europe at 25 percent. Last year, China overtook Germany to become the world's biggest exporter. It also surpassed the United States to become the world's largest car and vehicle market.

The developing world is becoming a driver of the global economy. Much of the recovery in world trade has been due to strong demand for imports among developing countries. Even though developing world imports are about half of the imports of high-income countries, they are growing at a much faster rate. As a result, they accounted for more than half of the increase in world import demand since 2000.

NEW POLES OF GROWTH

The world economy is rebalancing. We are witnessing a move towards multiple poles of growth as middle classes grow in developing countries, billions of people join the world economy, and new patterns of integration combine regional intensification with global openness.

This change is not just about China or India. The developing world's share of global GDP in purchasing power parity terms has increased from 34 percent in 1980 to 43 percent in 2010. Developing countries are likely to post robust growth rates over the next five years and beyond. Sub-Saharan Africa could grow by an average of over 6 percent to 2015, while South Asia, where half the world's poor live, could grow by as much as 7 percent a year over the same period.

Southeast Asia has become a middle-income region of almost six hundred million people, with growing ties to India and China, deepening ties with Japan, Korea, and Australia, and continuing links through global sourcing to North America and Europe.

The Middle East region is an important source of capital for the rest of the world, and increasingly a business-service hub between Asia—East and South—and Euro-Africa. Gross official reserves of the Gulf Cooperation Council countries were over $500 billion at the end of 2008, with estimates of sovereign wealth fund assets of as much as $1 trillion. If the Maghreb can move beyond historical fault lines, it can be part of a Euro-Med integration linked to both the Mideast and Africa.

In the Latin American and Caribbean region, sixty million people were lifted from poverty between 2002–08 and a growing middle class boosted import volumes at an annual rate of 15 percent.

AFRICA'S POTENTIAL

Africa missed out on the manufacturing revolution that lifted East Asia's economies out of poverty and into prosperity. But Africa no longer needs to be left behind.

Today in many African countries even small, inexpensive items such as soap or slippers, or basic tools or consumer goods, are imported. If Africans remove the barriers to domestic production and local entrepreneurship, while creating conditions for outside investors to shift production to Africa, then African development could blossom. Unlike past failed efforts to favor import-substitution interests behind protectionism, this approach could capture benefits from regional integration within global markets.

What would it take? As a first step, the 80 percent of Africans earning $2 a day or less need to earn enough income to be able to buy basic consumer goods. Agriculture is the main source of jobs and an early opportunity to boost productivity and income. Investment is needed all across the agricultural value chain: property rights, seeds, irrigation, fertilizer, finance, basic technologies, storage, and transport to market. Since about two-thirds of African farmers are women, we need to help them get legal and property rights and access to services.

With slightly higher incomes and living standards in place, local manufacturers could target or customize for the local market, and eventually for export.

To grow further, Africans need the same things Europe and Japan needed after World War II: infrastructure, energy, integrated markets linked to a global economy, and the conditions for a vibrant private sector. These public goods will foster much more than local manufacturing.

Today's shifts open new opportunities for Africa. As the global crisis hit, some Chinese officials recognized that it was time to shift beyond toys and footwear. China could move up the value chain, increase wages and consumption, and expand its "harmonious society." Chinese companies, in turn, could relocate lower value-added manufacturing for both domestic production and export elsewhere, including to Africa, following China's resource developers and construction enterprises. These manufacturers bring know-how and machinery, as well as access to marketing and distribution networks. The World Bank Group is already working with Africans and Chinese to create industrial zones.

Early investors are sensing the promise in Africa and are not dissuaded by the risks—after Lehman Brothers and Greece, investors know developed markets can be risky, too.

Changes in government policies can create opportunities for private-sector growth, which in turn offers services to other entrepreneurs. In the ten years to 2008, the private sector has invested more than $60 billion in information and communications technology in Africa; 65 percent of Africans are now within reach of wireless voice services, and there are four hundred million mobile phones in use in Africa.

IFC, the World Bank Group's private-sector arm, is helping catalyze this business revolution. A new IFC equity fund has attracted $800 million from sovereign wealth and pension funds to invest in companies in Africa, Latin America, and the Caribbean.

The old world of fireside chats among G7 leaders is gone.

POWER SHIFTS

Increased income and growth in the developing world means increasing influence. The old world of fireside chats among G7 leaders is gone. Today's discussion requires a much bigger table, and developing countries must have seats at it.

Last year's G20 Summit in Pittsburgh recognized that change. But arranging a new sharing of responsibilities among mutual stakeholders in international systems will not be easy.

The Doha World Trade Organization round and the climate change talks in Copenhagen revealed how hard it will be to share mutual benefits and responsibilities between developed and developing countries.

If it is no longer possible to solve big international issues without developing and transition country involvement, it is also no longer possible to presume that their biggest members, the so-called BRICs—Brazil, Russia, India, and China—are representative of the rest.

In discovering a new forum in the G20, we must be careful not to impose a new inflexible hierarchy on the world. Instead, the G20 should operate as a "Steering Group" across a network of countries and international institutions.

THE DANGER OF GEOPOLITICS AS USUAL

The danger is that we address this changing world through the prism of the old G7. Developed country interests, even if well-intentioned, cannot represent the perspective of the emerging economies.

Nor can we retreat into an "Old Multilateralism"—a solution that seeks to resist change. A new geopolitics for a multipolar economy needs to share responsibility while recognizing different perspectives and circumstances.

Take financial reform. The world has paid a big price in lost jobs and ruined lives for the breakdowns of the global financial system. We need better financial regulation, with stronger capital, liquidity, and supervisory standards. A new supervisory framework should consider systemic risks, reverse regulation that reinforces the ups and downs of cycles, consolidate supervision to avoid gaps, and monitor inflation in asset prices as well as in goods and services.

But we should beware of unintended consequences, and not compound costs by encouraging financial protectionism or unfairly constraining financial services to the poor. For smaller banks, whether in developed or developing countries, these regulations could choke off the financial sector, innovation, and risk management. They could make it harder to invest across national borders.

Take climate change. It can be linked to development and win support from developing countries for low-carbon growth—but not if it is imposed as a straitjacket. Developing countries need support and finance to invest in cleaner growth paths. Worldwide, 1.6 billion people lack access to electricity. While we must take care of the environment, we cannot consign African children to homework by candlelight or deny African workers manufacturing jobs. The challenge is to support transitions to cleaner energy without sacrificing access, productivity, and growth that can pull hundreds of millions out of poverty.

The developing world is becoming a driver of the global economy.

Take crisis response. In a world in transition, the danger is that developed countries focus on summits for financial systems, or concentrate on the mismanagement of developed countries such as Greece. Developing countries need summits for the poor. Hearing the developing country perspective is no longer just a matter of charity or solidarity: It is self-interest. These developing countries are now sources of growth and importers of capital goods and developed countries' services. Developing countries do not just want to discuss high debt in developed countries; they want to focus on productive investments in infrastructure and early childhood development. They want to free markets to create jobs, higher productivity, and growth.

NEW ROLE FOR RISING POWERS

But modernizing multilateralism isn't all about developed countries learning to adapt to the needs of rising powers. Developing countries need to recognize that they have an interest in healthy, dynamic international systems for finance, trade, movement of ideas and people, the environment—and strong multilateral institutions. Conditional cash transfer programs in Mexico are being studied around the world. Indians in Africa are explaining the so-called "white revolution" that boosted milk production. Developing countries are not only recipients but providers of aid and expertise.

Nor is the future of development only about old aid concepts. The sovereign and pension funds wanting to invest with the World Bank Group in Africa represent a new form of financial intermediation. This is not charity, but investment looking for good returns. IFC is revolutionizing financial flows to developing countries.

MODERNIZING MULTILATERAL INSTITUTIONS

How will we manage a new geopolitics for a multi-polar economy where all are fairly represented in Associations for the Many, not Clubs for the Few?

The World Bank Group is reforming to help play this role. And it must do so continually at an ever-quicker pace. A modernized World Bank Group recognizes the role and responsibility of growing stakeholders, but also their diversity and special needs, and is providing a larger voice for Africa.

Reflecting these needs, at the Spring Meetings in late April our shareholders endorsed an increase in developing and transition countries' shares at the World Bank to over 47 percent. Developing and transition countries' shares at IFC will increase by 6 percent to almost 40 percent. Our shareholders also endorsed the first major capital increase for the World Bank in more than twenty years. Over half the resources raised to strengthen our capital will come from developing countries, through price increases and greater capital investments. Agreement on this package of measures represents a multilateral success story that contrasts with recent stumbles in climate change and trade.

Reform cannot be a one-time effort, but needs to continually meet changing realities. We still live in a world of nation-states, but more states now wield influence. The contours of this new multi-polar economy are still forming. And the modern multilateral system needs to change in order to fit.

Modern multilateralism must be practical, and recognize that most governmental authority still resides with nation-states. But many decisions and sources of influence flow around, through, and beyond governments. It must bring in new players, build cooperation among actors old and new, and harness global and regional institutions to help address threats and seize opportunities that surpass the capacities of individual states.

Modern multilateralism will not be a constricted club with more left outside than seated within. It will look more like the global sprawl of the Internet, interconnecting countries, companies, individuals, and NGOs through a flexible network. Legitimate and effective multilateral institutions, backed by resources and capable of delivering results, can form an interconnecting tissue, reaching across the skeletal architecture of this dynamic, multi-polar system.

Woodrow Wilson wished for a League of Nations. We need a League of Networks. It is time we put old concepts of First and Third Worlds, leader and led, donor and supplicant, behind us. We must support the rise of multiple poles of growth that can benefit all. ◆