February 3, 2014 6:02 pm

The future still belongs to the emerging markets

By Gideon Rachman

Just as the west has emerged from crisis before, the newcomer economies will return to growth

In 1996 a friend of mine called Jim Rohwer published a book called *Asia Rising*. A few months later, Asia crashed. The financial crisis of 1997 made my colleague's book look foolish. I thought of Jim Rohwer (who died prematurely in 2001) last week as a I listened to another Jim – Jim O'Neill, formerly of Goldman Sachs – defending his bullish views on emerging markets in a radio interview.

Mr O'Neill coined the term Brics for Brazil, Russia, India and China, just before the emerging market boom of the past decade really got going. He was rewarded for his prescience, and his ability to coin a good acronym, with guru status. Now Mr O'Neill is back, talking up the delicious-sounding Mints (Mexico, Indonesia, Nigeria, Turkey) as the next group of rising economic powers. But this year his timing is a bit off. Investors are panicking about emerging markets and Turkey – the pay-off in the Mint – is at the forefront of the crisis.

One moral of these stories is that in punditry, as in investment, timing is everything. It is possible to be right at the wrong time – and that is what happened to Rohwer. His bullishness about Asia was fully vindicated in the 17 years after the appearance of his book. It just looked badly wrong in the crucial months after publication, as the International Monetary Fund was forced to bail out South Korea, Thailand and Indonesia.

The speed of the recovery in Asia was just as startling as the speed of the collapse. South Korea is once again regarded as a model economy, and its per capita gross domestic product has almost tripled since the near disaster of 1997. Thailand and Indonesia also bounced back.

Those stories are worth remembering amid the current panic. The next year could make boosters of emerging markets, such as Mr O'Neill, look like false prophets. But over the course of the next decade, they will be proved right – again.

The reason for this is that the factors that have propelled the rise of non-western economies in the past 40 years still apply. These include lower labour costs, rising productivity, huge improvements in the communications and transport that connect them to global markets, a rising middle class, a boom in world trade as tariffs have fallen and the spread of best practice in everything from management techniques to macroeconomic policy. Added to this is the drive of people all over the world – from factory hands to entrepreneurs – who have realised that they are not condemned to poverty, and that a better life is there for the taking.

> The rise of non-western economies is a deeply rooted historic shift that can survive any number of shocks

In the past half century, these powerful forces have allowed emerging markets (or developing nations or rising powers, if you prefer) to grow much faster than the developed world. In their recent book, *Emerging Markets*, Ayhan Kose and Eswar Prasad show that the economies of a group of the most prominent emerging markets (including China, India and Brazil) have grown by about 600 per cent since 1960 – compared with 300 per cent for the richer, industrialised nations. Even over the past 20 years, they write, "emerging markets' share of world GDP, private consumption, investment and trade nearly doubled".

The effect has been to transform the global economy. Michael Spence, a Nobel Prize-winning economist, writes that in 1950 only about 15 per cent of the world's population lived in developed economies. In the intervening 65 years, the benefits of industrialisation, trade and rapid economic growth have spread to large parts of Asia, Latin America – and now Africa.

The story is far from over. Professor Spence argues that we are in the midst of a "century-long journey in the global economy. The end point is likely to be a world in which perhaps 75 per cent or more of the world's people live in advanced countries." If anything, the pace is likely to increase as the implications of the communications revolution become clearer and more entrenched.

The rise of the emerging markets will, however, be punctuated by crises such as the one we are experiencing today. These, too, have been part of the story all along. The Asian financial crisis of 1997 was not an isolated event. There was the tequila crisis in Mexico in 1994 and the Indian financial crisis of 1991. If you enter the words "Latin American financial crisis" into Google, it helpfully offers to complete the phrase with the dates – 1980, 1990s, 1998 and 2002. Yet despite all this, most of the leading economies of Latin America – Brazil, Mexico, Chile and others – have experienced real improvements in living standards and reductions in poverty.

The emerging markets have also sometimes been rocked by political crises that led investors to panic. Most dramatically of all, there were the protests in Beijing's Tiananmen Square and subsequent massacre in 1989. Who at the time would have predicted that – in spite of all this political turmoil – the Chinese economy would more than double in size over the next decade, and then do the same again in the decade after that?

The moral of the story is that the rise of non-western economies is a deeply rooted historic shift that can survive any number of economic and political shocks. It would be a big mistake to confuse a temporary crisis with a change to this powerful trend. The bursting of the dotcom bubble in 2001 did not mean that the internet was massively overhyped, even though some people jumped to that conclusion at the time. In the same way, today's turmoil will not change the fact that emerging markets will grow faster than the developed world for decades to come.

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