Leverhulme Centre
for Research on Globalisation and Economic Policy

The inaugural Youngor Globalisation Lecture

The growth of emerging economies will be unaffected by the developed world's worsening slump, a leading Western economist has told a major conference in China.

David Smith, economics editor of *The Sunday Times*, said increasing decoupling between East and West would allow the former to power on in the face of the latter's struggles.

The first global financial crisis has already accelerated the inexorable shift from West to East by up to a decade, he told an audience at the University of Nottingham, Ningbo, China.

And the threat of further turmoil, with the eurozone crisis deepening and Western economies in general running cold, would not halt the rise of the likes of China and India, he said.

Smith was delivering the inaugural *Youngor Globalisation Lecture* at GEP's fourth annual China conference.

The lecture was sponsored by Ningbo-based Youngor Group, one of China's leading textiles and clothing companies. Founded in 1979, the firm is now a major multinational corporation employing more than 50,000 people and is listed on the Shanghai Stock Exchange.

Smith said: "Long-term growth in emerging economies is becoming much less dependent on what is happening in the developed world.

"Trade dependency is declining as emerging economies increasingly trade with each other as opposed to the developed world.

"Between 2003 and 2007 emerging economies grew 5% faster than advanced economies in evidence that decoupling was already occurring. Then the financial crisis hit emerging economies hard, giving the theory of decoupling a bad name.

"However, the growth gap between developing and developed economies continued to widen in 2009 and was maintained during the 2010 upturn. It is clear a large element of decoupling is taking place."

The world economy rebounded strongly in 2010, with global growth up 5.1% and global trade up 13%. Two thirds of this growth came from emerging economies, said Smith, and this will continue until 2030.

Emerging market economies in general are in much healthier fiscal positions than their advanced counterparts, he added.

Not only is their government debt as a proportion of GDP falling: unlike developed economies, they have the ability to deliver impactful firepower when required – as evidenced by China's $586bn stimulus plan, which sustained economic growth following the financial crisis.

David Smith

David Smith is an award-winning journalist and author. He has been the *Sunday Times*' economics editor since 1989 and is also an assistant editor and policy adviser. He has written a number of books on economics and is a Visiting Professor at the University of Wales.

Smith, author of The Dragon and the Elephant: China, India and the New World Order and, more recently, The Age of Instability, said: “We are in the middle of a very profound shift in the world economy.

“Economic divergence will persist, and emerging economies will be able to grow during a period of significant economic weakness in the developed world.

“I’m no outrageous optimist about China, given the serious challenges it faces, but it is better to face challenges from a position of strength rather than the position of extreme weakness currently experienced by advanced economies.”

The darkest cloud hanging over the world economy is the eurozone crisis, said Smith, but the outcome is unlikely to impact on the long-term growth of BRIC countries.

The combined GDPs of the BRICs – Brazil, Russia, India and China – may exceed the combined GDPs of the G6 developed economies by 2040, he added.

Smith criticised eurozone leaders for failing to foresee the pitfalls of liberally inviting a host of European countries to join the euro without ensuring policies across the region were integrated.

He said: “The eurozone crisis is the result of a gamble that hasn’t paid off. My view more than a decade ago was that if Europe wanted to proceed with the euro they would have to be extremely careful about whom they chose to join the single currency.

“After inviting 17 countries, policies diverged rather than converged. Countries thought that by joining the euro they had bought credibility – but you have to earn credibility.”

The possibility of Greece leaving the euro may prove a “blessing in disguise”, according to Smith.

He said: “One potential solution is to allow Greece to leave the eurozone, default and effectively do an Argentina. The eurozone leaders can then respond by recapitalising the banks, ring-fencing the rest and making it clear that Greece was a mistake and should never have been allowed to join the single currency.”

The future, though, said Smith, belongs to the likes of China and India as they rapidly regain the influence they once had 2,000 years ago, when between them they made up 60% of the global economy.

“India has a considerable demographic advantage over China, despite much of its population living in poor rural areas,” said Smith.

“Around three quarters of the Indian population is under the age of 35. China, on the other hand, has an ageing population without the pension system that exists in developed economies to back it up.

“Never before have we had the huge populations of China and India growing together at such a fast pace and for so long. This is a huge moment for the BRICs and other emerging economies – there is little doubt that they have the capacity to meet the growth challenges in the coming decades.”

GEP

Based at the University of Nottingham in the UK and primarily funded by grants from the Leverhulme Trust, GEP is the major centre in Europe studying the impacts of globalisation and economic policy.

In January 2008 it opened GEP in Malaysia at the University of Nottingham’s purpose-built Semenyih campus, 30km from Kuala Lumpur. In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise. Its academics have advised the Treasury, the OECD, the World Bank and the WTO.

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