

# The rise of emerging markets: Be worried

## A view from an economist at HSBC

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YOU might expect a book on the rise of emerging markets by the chief economist of HSBC to be a rose-tinted puff piece. After all, HSBC is one of the global banks that has the biggest presence in the emerging world. You would be mistaken. Stephen King may be employed by a firm that is profiting handily from the emerging giants' prosperity, but his assessment of the impact of that rise on the West is provocatively pessimistic.

The rich world's policymakers, he argues, have been far too complacent about how emerging markets might affect the West's future prosperity and the workings of the world economy. As the book's title suggests, Mr King reckons the rise of the emerging giants means Western countries will increasingly forfeit control over their economic destiny. They will face far greater competition for scarce resources, such as commodities, even as the globalisation of labour markets decreases their workers' bargaining power.

Emerging economies' rising heft will also undermine some of the cushy global arrangements that have benefited the West, such as, in America's case, the dollar's reserve-currency status. The result will be a dramatic redistribution of income, a rapid erosion of the West's relative economic clout and, for many Western citizens, an end to the cosy expectations of ever rising living standards.

The book ranges widely: from a quasi-Malthusian discussion of the impact of limited resources to the more familiar territory of how wage competition from emerging economies influences income inequality. But the main focus is a discussion of global capital markets and the international monetary system.

Mr King writes that the rise of emerging economies has distorted the traditional macroeconomic indicators in ways that Western policymakers have been too slow to appreciate. As emerging economies push the prices of commodities up and those of manufactured goods down, consumer-price inflation is no longer a reflection of domestic monetary conditions, nor is low inflation a guarantor of economic stability. At the same time emerging economies' behaviour, particularly the accumulation of massive foreign-exchange reserves, has distorted capital markets by artificially pushing down long-term interest rates. The combination of state-led investment decisions in the emerging world and a parochial focus on price stability in the rich world produced serial asset bubbles rather than efficient capital allocation. Or, as Mr King puts it, "a gold rush" in which ordinary investors gained little.

What's more, Mr King reckons today's international monetary system is unsustainable. Though emerging economies' excess saving will not disappear quickly (he is unconvinced, for instance, that a stronger Chinese currency would make much difference), Mr King believes these rising giants will be increasingly unwilling to hold the bulk of their reserves in dollars. A shift away from the dollar would raise America's borrowing costs and reduce its long-run growth potential.

Mr King lays out his arguments in accessible and engaging prose. He is a lively writer with a deft eye for catchy historical analogies. He likens America's foreign borrowing to the sale of indulgences by medieval Catholic priests for instance, and wonders what will be the financial equivalent of the Protestant Reformation.

It is hard to dispute Mr King's basic macroeconomic instincts—that the effect emerging economies are having on the world economy is considerable and is easily underestimated by policymakers. Nonetheless, "Losing Control" has its weaknesses. Mr King caricatures globalisation's proponents as pollyannas who see only winners and no losers from the integration of emerging economies. He gives short shrift to a wealth of well-known economic analysis—on everything from the determination of consumer prices to the causes of income inequality—which suggests that the impact of emerging economies is more nuanced than he allows.

His conclusions are too glib. Mr King's main proposal, sketched out in a few breezy pages, is the creation of three big monetary unions—an expanded euro zone along with currency unions in Asia and the Americas. It is hardly his fault that this book appears at a time when Greece's financial crisis provides a glaring example of the risks in monetary union. But Mr King fails to make a convincing case for why such a reform would ever happen or why it would lead to a more stable global monetary system. "Losing Control" is more a series of provocative comments than a convincing argument.