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Emerging Nations Powering Global Economic Boom

The expansion is the strongest since the 1970s, with China, India and Russia setting the pace. But many U.S. workers are left behind.

Tom Petruno, Times Staff Writer

The global economy is on a growth streak that is shaping up to be the broadest and strongest expansion in more than three decades.

Rising spending and investment by consumers and businesses worldwide are boosting national economies on every continent, pushing down unemployment rates in many countries and lifting business earnings and confidence.

Of 60 nations tracked by investment firm Bridgewater Associates, not one is in recession -- the first time that has been true since 1969.

Yet this is a different kind of boom from any other in the post-World War II era, analysts say. The soaring economies of China, India, Russia, Brazil and other emerging nations increasingly are setting the pace, overshadowing the slower growth of the United States, Europe and Japan, where the benefits of the expansion have eluded many workers.

"This is the first recovery where developing economies are playing a dominant role," said James Paulsen, chief strategist at Wells Capital Management in Minneapolis, which manages money for big investors such as pension funds.

The trend is being driven by free trade, which has created millions of jobs in emerging nations in recent years, fueling stunning new wealth in those countries.

China's meteoric rise has been well-documented, but the boom has spread far and wide to include much of the rest of Asia, as well as Latin America, Eastern Europe and Africa.

With commodity exports and tourism surging, the South African economy grew about 5% last year, adjusted for inflation. That was nearly four times the average growth rate of the major European countries.

The township of Soweto in South Africa, once on the front line in the anti-apartheid struggle, today is the scene of a more subtle revolution: the transformation into an upwardly mobile, black middle-class neighborhood where wine tastings and car shows are regular events and where a 700,000-square-foot mall is under construction.

"Business is good," says retired teacher Lolo Mabitsela, 69, who runs a thriving Soweto bed-and-breakfast. Foreign tourists and white South Africans who once avoided Soweto now book rooms at her inn, she says.

In India, economic deregulation and a fast-growing technology service sector are powering consumer demand.

College teacher Rakhi Maral notes that local stores in her city of New Delhi now stock expensive imported perfumes that in years past could be found only at duty-free shops.

"People are being paid better, hence the buying capacity is more," she says.

For Russia, the global hunger for energy and other raw materials has created a financial windfall. The country has become the world's largest exporter of natural gas and second-largest exporter of oil, as well as a major supplier of metals, timber and other resources.

Wealth from those exports now is filtering down to drive growth in the country's retail and consumer goods sectors, said Al Breach, chief economist at investment bank Brunswick UBS in Moscow.

"Culturally, you always had a middle class here, but it was extremely poor," Breach said. "Now, increasingly, that class is getting money, especially the younger generation."

The simplest yardstick of economic success is a country's growth in real gross domestic product, or how fast its total output of goods and services is rising after inflation. For the developing world, that growth is expected to be 6.9% this year -- more than double the 3% pace of the developed world, according to the International Monetary Fund.

By contrast, in 1999, emerging economies grew 3.8%, relatively close to the 3.2% rate of developed nations.

The breakaway growth of the developing world is why the global economy overall is on track to post its fourth straight year of 4%-plus expansion, the IMF estimates. The last such streak was in the early 1970s.

With the developed world's growth lagging well behind that of emerging economies, however, workers in industrialized nations may not feel like they are part of the global boom. Wages in the United States, for example, have been slow to rise in recent years. In Western Europe, unemployment rates remain stubbornly high.

The U.S. and other countries in the developed world have lost jobs to emerging nations as a result of free trade, triggering protectionist sentiment here and in Europe.

Also, zooming prices for oil and other commodities, which have enriched the developing nations that export them, have come largely at the expense of the West.

"We can't really see an improvement in living standards for a large segment of the population" in industrialized nations, said C. Fred Bergsten, director of the Institute for International Economics in Washington.

There is no question that some of the developing world's gains are, in effect, a transfer of wealth from the industrialized world, but experts say emerging countries' success also is flowing back to the U.S., Europe and Japan -- which combined still account for about two-thirds of the global economy.

The strength of the emerging economies could mean that this global expansion cycle will last longer than normal, as more people join the ranks of the consumer society. That could be good news for aging industrialized nations as well.

U.S. corporations, for example, are selling more abroad than ever before. American exports hit a record $115 billion in March. Companies in the blue-chip Standard & Poor's 500 index derived 32% of their sales from outside the U.S. last year, brokerage Lehman Bros. calculates.

"A new 'Mall of America' is being created in these smaller, younger-demographic, emerging economies," Wells Capital's Paulsen said.

Average Americans also have profited from the global expansion by investing heavily in foreign stock markets, many of which have dramatically outperformed the U.S. market the last three years. Americans bought a net $105 billion of foreign stock funds last year, compared with $31 billion of U.S. funds.

What's more, low-cost goods from developing nations have helped keep inflation pressures muted despite the jump in oil prices, economists say.

"A lot of people are benefiting from globalization and they don't know it," said Paul Kasriel, economist at Northern Trust Co. in Chicago. "If you're buying things at lower prices and you still have your job, you're benefiting."

Global demand for Japanese exports has helped pull that nation out of a 15-year funk. Cheered by reviving domestic spending, the Bank of Japan has said it expects to begin slowly raising short-term interest rates from the current near-zero levels.

Global growth also has kept Germany at the top of the list of world exporters. The nation last year exported goods worth nearly $1 trillion, a record for any country. That kept German economic growth positive by offsetting weak domestic consumption.

Last month, a regular survey of 7,000 German businesses indicated that their confidence level in the economy was the highest since the poll began in 1991. The German stock market last week hit a five-year high.

But many German workers may have a hard time identifying with the global boom. The nation's unemployment rate is 11.5%, compared with 4.7% in the U.S. Germany and the rest of Western Europe have seen jobs migrate to lower-cost labor in Eastern Europe.

Even in developing countries where the boom is centered, prosperity isn't evenly distributed.

In South America, many economists have criticized the lack of \o7chorrea\f7, or trickle-down, from the wealth explosion fueled by the continent's exports of oil, soybeans, copper and other raw materials.

The poverty level in Peru, for example, still tops 50%, and popular dissatisfaction has boosted the upstart presidential candidacy of Ollanta Humala, a nationalist ex-army officer who has pledged to renegotiate contracts with mining firms and other multinational companies in Peru.

Bolivian President Evo Morales, an ally of leftist Venezuelan President Hugo Chavez, shocked the world this month by nationalizing Bolivia's energy businesses in the name of halting what he said was the pillaging of South American resources by foreigners.

The potential for a mounting backlash against globalization, in both the developing and developed worlds, is one big risk to the economic boom. In the U.S., protectionist voices are rising in Congress, where some want to slap new tariffs on Chinese goods.

As U.S. consumers have continued to spend on imports, driving the U.S. trade deficit to unprecedented levels, some analysts have warned of a false prosperity. The deficit means the nation is going deeper into debt to sustain consumption.

"This trade deficit is financing a standard of living we really can't afford," said Byron Wien, investment strategist at Pequot Capital Management in New York.

Yet some analysts say the greater risk to the boom is that it will sow the seeds of its own demise by fostering rising inflation and interest rates.

Emerging nations have benefited from the low interest rates that prevailed in the developed world in recent years, as policymakers in the U.S., Europe and Japan sought to keep their economies out of recession. Those low rates kept the cost of money down worldwide and served as a "steroid injection" for the developing world, said Michael Darda, economist at investment firm MKM Partners in Greenwich, Conn.

But growing inflation pressures, stemming in part from higher energy costs, are putting upward pressure on interest rates. And that is raising questions about how long the global economic boom can last.

Stock markets worldwide tumbled late last week on those fears after the Federal Reserve raised its benchmark short-term rate for the 16th time since mid-2004 and left open the possibility of more increases. Rates also have been rising in Europe, Canada and China this year.

Typically, policymakers seek to push up rates when they want to cool the economy and inflation. The perennial risk is that they will go too far and turn a boom into a bust -- a recession that could trigger collapses of commodity prices and stock markets.

Kasriel, the Northern Trust economist, believes that the U.S. will fall into recession by year's end if the Fed continues to tighten credit.

"If the global economy is going to weaken, it's going to be because of the U.S. consumer," he said.

That would pose a major challenge for China and other export-dependent developing nations: Could they cope with a temporary drop in demand from U.S. consumers by encouraging more consumption at home or among other emerging-market trading partners?

The future of the global boom increasingly may depend on consumers like Huang Qingqi, a 43-year-old taxi driver for a five-star hotel in the Xiangtan area of Hunan province, where Mao Tse-tung was born.

"These days people are visiting hotels, karaoke bars and having dinner out," says the mustachioed Huang. "More are taking taxis. Before they preferred buses."

Huang's income has tripled in two years to about $375 a month, he says. For his family, that has meant more consumption -- wooden floors for their 850-square-foot apartment, two new TV sets and a new refrigerator.

Also, Huang said, "These days if guests come to our house, we don't bother to cook. We take them out."

Among Huang's customers are some of the thousands of workers at Xiangtan Steel, which has been thundering with activity to supply materials for China's new cars, railroad lines and countless products that are churning out of the nation's factories.

Wells Capital's Paulsen says the underlying strength of emerging economies makes him optimistic about the global boom. He views the massive U.S. trade deficit that has built up over the last decade as a modern "Marshall Plan" for developing economies.

Like the post-World War II Marshall Plan in Europe, by which the U.S. jump-started the rebuilding of the continent's economy, the U.S. trade deficit has gotten the developing world on its feet and able to take on sustained leadership in supporting global economic growth, Paulsen says.

"I think we're just starting to reap the benefits of that investment," he says.

Contributing to this report were Times staff writers Shankhadeep Choudhury in New Delhi; Robyn Dixon in Johannesburg, South Africa; Chris Kraul in Bogota, Colombia; Don Lee in Xiangtan, China; Patrick McDonnell and Andres D'Alessandro in Buenos Aires; Christian Retzlaff in Berlin; and Natasha Yefimova in Moscow. Special correspondent Elizabeth Love in Johannesburg also contributed.