Emerging Markets Reshape the World

Jeffrey E. Garten, dean of the Yale School of Management and former U.S. undersecretary of commerce for international trade, is author of the newly published book "The Big Ten: The Big Emerging Markets and How They Will Change Our Lives." He spoke with Brian Knowlton of the International Herald Tribune about the risks and opportunities of these markets.

Q. Your book predicts sweeping, even cataclysmic change as the 10 biggest emerging markets develop, gain confidence, become more assertive and change the rules we live by. You say that the countries you include in this group — Argentina, Brazil and Mexico; China, India, Indonesia and South Korea; Poland and Turkey, and South Africa — deserve at least as much foreign-policy attention as Japan and Europe. But first, why did you exclude Russia from your list?

A. Russia is significant, above all else, because it has nuclear weapons. For all the talk, the economic reforms are virtually nonexistent. If Russia went into recession tomorrow, I don’t believe it would matter to the world economy. On the other hand, if the progress in Poland began to unwind, people would begin to worry about all of Eastern and Central Europe.

Q. So why are the big 10 emerging markets so important?

A. A couple of sweeping influences are shaping the post-Cold War world. One is information technology and the communications revolution. Equally important is the rise of a number of countries that share certain characteristics — they’re big physically, they have large populations, they’re economically dynamic, they’re politically influential regionally and, increasingly, on the global scale. They will be the engines of world trade for the next decade.

They will have a major influence on the kind of values the world ultimately embraces. These countries represent, at one time, a political challenge, an economic challenge and a challenge of dealing with a clash of values in such areas as human rights, labor standards, corruption and illegal trade in narcotics.

Q. How much weight will these 10 markets carry?

A. The United States already exports more to the 10 Big Emerging Markets than to Europe and Japan combined, and the trajectory is straight up. Take the example of infrastructure. In Latin America, spending has reached $1 billion a week in infrastructure, and all that’s going to lead to great demand for more capital, capital equipment and technology.

Q. What about the impact on the world labor market?

A. That’s another dimension, even more startling: From these 10 countries will come, over the next decade, about a billion and a half young workers not now in the work force. They will be working for $5 to $10 a day, compared to an average manufacturing wage in the United States of $100 a day. And they will have, for the first time, great access to Western management and Western technology and all the capital they can use, so they will be producing at very high levels of efficiency.

I see this as a freight train coming down the rails. It’s going to create job dislocations in the West on an order that few people are talking about. It’s going to produce tremendous downward pressure on wages.

Q. So there’s enormous opportunity but also a feeling of danger ahead.

A. Exactly. American thinking about foreign policy and trade is so focused on Europe and Japan — the big emerging markets are still seen as peripheral. I would switch that focus. Granted, Europe and Japan will remain the center of economic gravity well into the next century.

But the real dynamism will be in the emerging markets. It’s here where things could go very right or very wrong.

Q. China seems to embody a lot of what you say about the emerging markets in general — it’s too big and too powerful to ignore, Western firms feel they can’t afford not to do business with it, but it resists all outside pressures on matters like human rights. China represents an example of a Big Emerging Market in very clear relief. It has everything: the economic opportunities, the economic risks, the difficulties of political engagement and the clash of values.

I think there’s only one approach to China, and that is a policy of engagement, recognizing all the imperfections. The alternative, the so-called containment theory, to me is an insane approach.

I also think that when we talk about engagement, the way to relate to big emerging markets, the way to have influence so that you can talk about human rights, is to have a very strong commercial link. The approach many in Congress would take — to use trade as a negative lever — is the exact opposite of what I am suggesting.

Too many people see commercial engagement as deal-making alone. I see it as running the gamut from real hard-nosed trade negotiations to technical assistance in such areas as helping China and Brazil to develop stronger banking systems and better-regulated stock markets, to improve criminal justice administration. All these are the underpinnings of modern capitalism.

Q. How far do you take engagement with the emerging markets? Suppose that after Hong Kong reverts to Chinese sovereignty there’s a crackdown of Tianamen proportions. Does America do nothing? Are concerns about prison labor and environmental depredation forgotten?

A. Engagement doesn’t mean subordinating all the other issues we care about. It simply means we are not going to tie trade, legally, to other issues and that if we were to use trade as a pressure point for anything other than reciprocal trade — for human rights or child labor — we have to do it multilaterally. To do it unilaterally is totally ineffective.

If we can’t get multilateral pressure, then we have to deal with human rights, child labor, environmental protection as forcefully as we can, but short of withdrawing trade privileges. Without the commercial relationship, we have no leverage.

Q. Looking ahead, say, 10 years, do you see the outlines of a golden new age, with vibrant and agile new markets, or a chaotic and more dangerous time?

A. The answer to that question, I would say, is balanced on a knife edge.