



The Daily Interview: West will face 'mayhem' in face of emerging markets

By David Campbell | 08:21:00 | 11 July 2008

The rise of emerging markets will cause untold 'mayhem' among the western economies and require a complete redrawing of investment risk, Bryan Collings of Hexam has said.

Collings, managing partner of Hexam and lead manager of its Hexam Global Emerging Markets fund, said European economies were in absolute as well as relative decline.

The fund has returned 41.8% over the last year versus an average manager return of 17.4% and MSCI benchmark of 22.1%.

'In the 1990s the emerging markets were wracked by banking losses and huge amounts of leverage that crippled consumers. The situation now is basically reversed,' said Collings.

'The mature markets have had consumption patterns out of control, driven by debt, which has benefitted producers and transferred a huge amount of wealth.

'The gorilla is now out of its cage and in our kitchen. We are going to have to compete and that is going to hurt. Pricing is going to go up and the UK consumer will hurt.'

Western states were now fundamentally ex-growth and would face 'massive pressure' to achieve or maintain expansion in coming years in the face of increased spending power.

The excess of the global lending bubble – itself a product of an attempt to leverage growth in the face of decline – would lead to additional layers of regulation, with a further impact on profit margins.

While seductive, the parallels between the rise of Japan, Taiwan and Korea and the current generation of emerging markets was false, due to the massive internal economies, populations and infrastructure projects of China, India and Russia, he said.

'Korea and Japan are geographically small states. The steel that it takes to connect Osaka and Tokyo by rail is miniscule compared to connecting the major cities of developing nations. China alone is looking to spend \$25 trillion (£12.5 trillion) on infrastructure in the next seven years.'

The fundamental redrawing of global economic power required a parallel redrawing of risk parameters to reflect the change he said, mirroring the long-term prospects for western growth in the face of demographic decline.

Regulators needed to accept that risk could no longer be viewed solely through the prism of volatility and had to be put in the context of providing income for an ageing population.

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