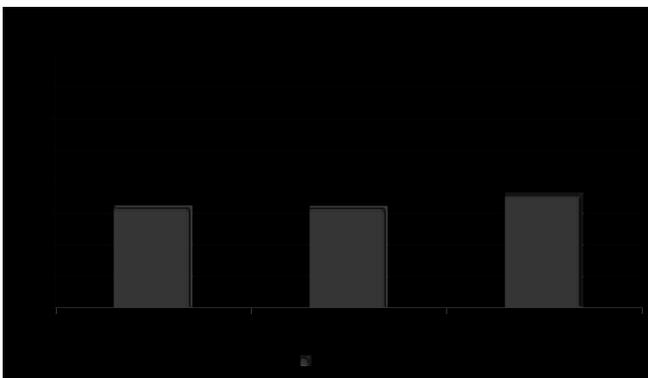


Secular Stagnation or Secular Boom?

Growth sceptics think low growth is here to stay in advanced economies, and fear is growing that emerging markets won't continue to grow as fast as they have.

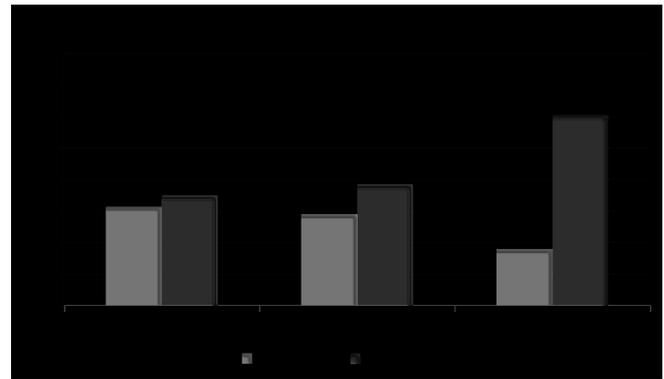
The notion that some countries are caught in a long and protracted period of low growth has received an increasing amount of attention and has been labelled "secular stagnation". The pessimism that the idea of secular stagnation has created has been reinforced by the notion that the potential for emerging markets to grow is becoming weaker. The point that I want to make in this post is that one of these notions (secular stagnation) is looking backwards at the performance of advanced economies while the other one (potential pessimism about emerging markets) is looking forward and speculating with their inability to do as well as in the last decade.

Let's start with a simple chart that summarises the pattern of annual growth in the world over the last decades. The data comes from the World Economic Outlook database (IMF). I have decided to include the last 13 years for the decade that starts in 2000.



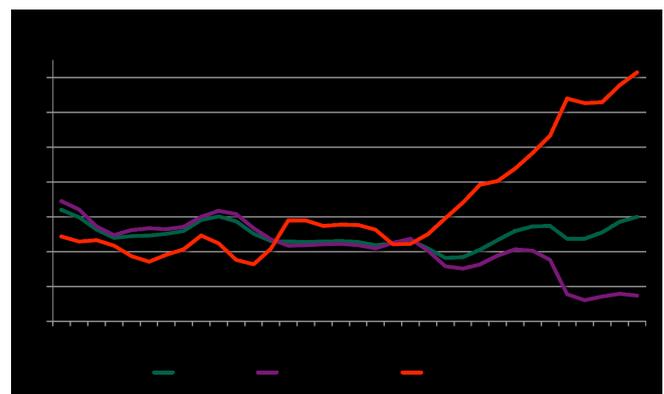
Two observations are worth noting here. First, growth (by decades) has been remarkably stable in the world, between 3.2%-3.6%. Second observation: during the last 13 years growth has increased relative to the previous two decades. No global stagnation, if any, acceleration of growth.

But if we split the world into advanced and emerging markets we see a very different pattern. [I will use the label emerging for any country which is not advanced - the IMF will call them emerging and developing countries].



While in the 80s, and to some extent in the 90s, both groups grew at a very similar rate, in the last 13 years annual growth rates in emerging markets have been three times higher than those of advanced economies. So stagnation might be the right label for 50% of the world, but accelerating growth is the right label for the other half.

And if we look at the engines of growth, in particular investment rates (in physical capital) we can see again the divergence in performance.



Investment rates for the world are fairly stable over all these years with possibly some mild increase in the last 13 years. And that increase is driven by an explosion in investment rates in emerging markets (by 50%) at the same time that investment falls in advanced economies below the 20% level.

Looking at the above charts, one wonders whether the divergent performance of emerging markets and advanced economies is related. Could it be that investment opportunities in emerging markets

moved capital away from advanced economies? Not obvious because we know that the explosion in investment rates in emerging markets came in many cases with even larger increases in saving rates and (financial) capital flew away from these countries. In fact, interest rates in the world were trending downwards during this period. And this makes the performance of advanced economies even more surprising: despite a favorable environment in terms of low interest rates, investment and growth declined.

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