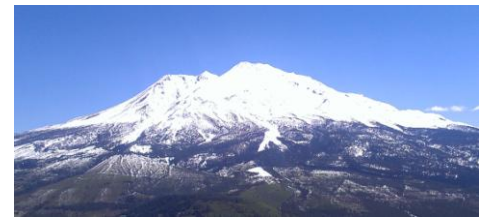


The Great Divergence



(Updated 31/10/2012)

Human endeavour and activity have always progressed in cycles. Whether lasting weeks, years, or centuries, indeed millennia; these cycles have ceaselessly driven human impulses, with civilisations and empires flourishing and declining off the back of them.

As previously illustrated in the [Five Act Drama](#), the Industrial Revolution cycle, starting around 1785-89 and lasting (to date) some 225 years, completed its growth phase in 2000. The industrialised economies that benefited from that growth are now experiencing the down phase of the cycle, whilst those countries that did not participate are currently undergoing and experiencing wholly different stages of economic, political and social development. They are catching up to the industrialised nations and undergoing their own cycles of activity.

There lies the source of the “Great Divergence.” Emerging between industrialised nations (USA, UK, Germany, France, Spain, Italy, Japan, China) and nations that started their industrialization much later.

For the industrialised nations within the industrial cycle itself, the great deflation/inflation battle continues to intensify reflecting the acute stage we have reached in this battle. Cycle analysis indicates that the next four years at least will be very tough for the industrialised nations. The great deflation/inflation battle continues to intensify. Notwithstanding the best attempts of political leaders and governments alike, little headway has been made in generating a solid, sustainable recovery. In truth, they are working against the cycle trend, still inflated by the hubris and ebullience of the latter phases of the extraordinary growth and prosperity witnessed in the latter part of the 20th century.

Part of the explanation lies in economic methodology, where the effect of Keynesian economic policies is delaying but not changing the inevitable. The economic framework necessary for recovery is not in place as further malinvestment liquidation, debt reduction, deleveraging and deregulation is required for a foundation for recovery. 2013 will be decisive in determining the outcome of the battle. This November 2012 will also complete the four year US Presidential cycle that primes the US for each presidential election.

The Great Divergence is the split between industrialised nations and on the other side, emerging economies and stock markets in long term bull markets more recently established in the last 40 years. Whilst industrialized nations find themselves in declining bear markets and economies (also accompanied by negative demographics), diverging nations are undergoing long term secular growth phases (bullish markets). These nations include India, Turkey, Philippines, Pakistan, Malaysia, Brazil, Indonesia, Tanzania, Vietnam, Nigeria, and the oil & gas rich Middle-Eastern countries. Other countries like Myanmar, North Korea, and most African nations remain on the runway, waiting to begin their climb towards prosperity. A fourth group of countries including Australia, New Zealand, Canada, South Korea and Sweden retain further growth potential based on similar cycles of development. These countries started their development late in the 19th century.

Often characterised by favourable demographics, these growth nations must overcome tall obstacles in order to establish themselves as prosperous nations for the 21st and 22nd centuries. Such obstacles

include geography, education, lack of infrastructure & capital, corruption, rule of law, resources and political situation. Indeed, the difficulties facing the industrialised nations may well hold back their development as many of these nations are dependant to some extent on exports to fuel their growth.

To stand on a street corner in India, Indonesia or Philippines, for example, is to witness huge, largely self-sufficient nations at work. Their internal economies are so large and independent of the industrialised nations. Any dip in industrialised nation economic activity will affect the growth nations described but hindsight will show this to be recessionary dips setting those economies up for the next stage of economic advancement whilst industrialised nations are set to languish.

The main feature of these nations is the so-called ‘sweet spot of population’ which remains young (average age under 30), educated and thirsty for the material rewards enjoyed by industrialised countries. Currently India witnesses 5 million people migrating from the countryside to cities each year looking for work, similar to China’s recent industrial and economic growth phase.

Furthermore as the Great Divergence gains momentum we will see an escalation of the migration process with huge shifts in capital and trade flows. People will move to position themselves according to their skills and opportunities and the emergence of the Migration Wars, the forthcoming subject of a Free Article on this website. Similarly capital will flow to diverging nations offering security and return.

The Great Divergence promises to alter the way the world is viewed. In a mere 20 years from now the industrialised nation-centricity will have evolved to a new focal point, most probably in or near South-East Asia. It is already shifting. The OECD ranking list of GDP figures will have altered significantly. A time of crisis and opportunity is at hand for billions of people as the cyclic nature of human endeavour unfolds.

© Pointmen Pte Ltd 2011-2012

Proprietary Rights Notice: By reading a copy of this essay, you acknowledge and agree as follows:

This essay is provided to you only for your personal, non-commercial use. This essay does not constitute advice. Except as expressly authorized by Pointmen Pte Ltd (PPL), you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of PPL. You also agree not to use the information provided in this report for any unlawful purpose. This essay and its contents are the property of PPL and are protected by applicable copyright, trade secret or other intellectual property laws.

Hope for Humankind