

# Breakout Nations: In Pursuit of the Next Economic Miracles

**Roli Pradhan**

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**Ruchir Sharma (2012). *Breakout Nations: In Pursuit of the Next Economic Miracles*, published by Penguin Allen lane, Price: Rs 599/-, Pages 263, ISBN: 9781846145568.**

The book titled Breakout Nations focuses on the factors regulating the development of nations. It talks about the pace of development when the economic and political factors are in play. In the present context of slowdown in global growth, there is a need to eye emerging markets carefully and cautiously. This book travels round the world to examine which nations would flourish and which would collapse in the new era of diverging economic prospects. Ruchir Sharma in his journey lays down certain rules to identify emerging markets with star potential.

The view laid down in Breakout Nations is that the astonishing rapid growth of the world's economy observed during the last decade is coming to an end. The era of easy money and easy growth is over. The book mentions that the much talked about China would reduce its pace of growth. The emerging nations, would probably not be Brazil, Russia or India owing to weaknesses possessed by each of them. To identify the actual emerging nation it is essential to give up the habit of extrapolating from global trends but must instead focus upon nations individually. His presumption is that they would probably be from the margins or from the shadows. Sharma lists each of the probable nations and also provides reasons for the nation being a breakout nation.

Ruchir Sharma is head of one of the world's leading emerging market funds. He has spent two decades travelling all around the globe to evaluate the actual state of developing countries. Sharma takes his readers on a ride into two dozens of the world's most interesting economies, introducing the crucial players and analyzing the forces, which may be general or specific to that nation, that play a role in the success or flop in future. The book focuses on issues such as:

- How the current mania for oil echoes the dotcom mania of 2000.
- How an industrial revolution in Asia is redefining what manufacturing can do for a modern economy.
- How the coming shakeout in big emerging markets could shift the spotlight back to the West.
- Why the next two trillion dollar economics will be big Muslim democracies.

The book says it has been long since the farmers shifted their farm houses out of Delhi, which have now become abodes of rest on weekends for the upper class. The village lanes have been transformed into lavish mansions with sprawling gardens. The streets of Delhi have undergone a total transformation and have been the seat of major events.

On a foggy night in 2010 in a party, a lad of 20 years had passed a comment "where else will the money go?". This comment made a mark on Sharma. He realized that the size of his investments had blown up and the partying youth had taken for granted that the emerging market investors would be the masters of the universe. He was fascinated with this thought and wanted to explore it further which led to this work.

Emerging markets were spoofed in investment circles as an inversion of the 80/20 rule, which states that 80 percent of profits came from 20 percent clients. But post war history revealed that emerging markets accounted for 80 percent of world' population but only 20 percent of its economic output. When Latin America showed a rise in 1960's and 1970's, Africa and large parts of Asia showed a downfall. 1980's and 1990's showed rise of Asia at a rapid pace but Africa did not show any growth and Africa was rejected as the "Hopeless Continent". The trends in 2000's were private capital inflows into developing countries that had surged from an annual

pace of \$ 200 billion in 2000 to nearly a trillion dollars in 2010. Even on Wall Street, all the experts said that west was witnessing a terminal decline, so the money was bound to flow east and south.

By the middle of the last decade it seemed that every man and his dog could raise money from emerging markets. By the end it appeared that just the dog would do. But history proves that economic development is a game of snakes and ladders, with no straight path to the top, having more snakes than ladders suggesting the fact that it is much easier to fall than to climb. A nation could climb a ladder for 1, 2, 3 decades but just a hit from the snake could make it fall back to the bottom, where the nation has to start all over again and would be surpassed by its rivals. This phenomenon prevails most of the time. There is a huge pool of competitors and only few nations defy the long odds against success. Those are the rare breakout nations, and they beat the game by growing faster than rivals in their own income class. The growth game is all about beating expedition and peers. In the last decade all the emerging markets did grow together suggesting that the way to success was suddenly easy and approachable. But this was the first and last event of its kind and would be set aside in the decade to come.

From over 10 years Ruchir Sharma has engaged himself in crucially observing emergent markets, meeting all sorts of local characters and travelling to many countries. He has tried to infer the connection between good economics and good politics over many such nations. He strongly believes that no one can pinpoint the exact mix of reasons that makes a nation grow or fall. There is no magical formula but a long list of ingredients exists. Some of them are:

- Allow free market flow of goods, money and people
- Encourage savings and ensure that banks funnel money into productive avenues

- Stabilize the economy
- Reduce deficits
- Keep watch over inflation
- Open doors to foreign investment

But all these are armchair academics that offer a long list of do's and don'ts but do not disclose how they would contribute to growth.

Ruchir Sharma, through this book, makes an effort to understand economic and political forces that influence the growth of nations. According to him, creating the right conditions for rapid growth is more of an art rather than science. Some of the biggest stars like China, South Korea, Taiwan adopted unconventional policies like trade free zones, subsidizing/giving tax benefits, ensuring investment guarantees, but their businesses did not show any continuous rise.

It is apparent that not all emerging markets will be the breakout nations and their growth patterns would be different. It is also evident that in the third coming, the investor would not only evaluate the avenue of investment but would also be critical about the country of investment. He would treat emerging markets as individuals and not as a homogenous class. No nation can grow as a free rider in the global scenario. They would have to work on their nations. According to the author the mantra for breakout nations would be "If there is no wind, row".

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