Developmental issues in emerging economies

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BRICS, EAGLE, GDP, Global Recession

Abstract

The last two decades have witnessed the growth of the emerging market economies.These mainly comprise countries who account for three fourth of the world population and represent about one fourth of the global economy. These countries are so labeled on account of their growth and reforms. This Paper attempts to concentrate on two economies namely India and China. These two Asian giants are pursuing different paths. While China is concentrating on manufacturing India is following a global integratedapproach. Going back to the historical background of the initiation of reforms in these two countries, one can say that India faced a crisis of sorts in 1991 and had to seek financial help from the IMF. She had to liberalize her economy as per the directives received from the latter. Likewise China, who was under rigid communist rule introduced reforms in late seventies and early eighties. There was a remarkable spurt in the rate of growth of these economies between 1993 and 2007. While the developed countries are gradually recovering from the global crisis the developing countries are marching ahead. Post 2012, however, there were brakes in the growth trends, but of late the economies are gradually picking up.

These emerging economies are plagued with several problems and have a long way to go before they actually catch up with the advanced countries. Adoption of the right policy mix will help tackle the hindrances and pave the way for the future march.

Introduction

In the recent past the world has witnessed the remarkable growth of the emerging market economies, notably BRICS (Brazil, Russia, India, China, and South Africa) and EAGLE nations. This has to a great extent led to the transformation of the global economy. The entire issue warrants a careful and detailed discussion. In this Paper an attempt has been made to examine the concept of emerging economies, the factors responsible for their emergence, the significance of the concept and analyze the trends in their rate of growth and thereby try to predict the future course of development.

Concept of Emerging Market Economies

The concept of an emerging market economy was first introduced by Mr. Antoine W. Van Agt of the International Financial Corporation of the World Bank. It can be defined as an economy with low to middle Per Capita Income. These economies constitute 80% of the world population and represent 20% of the global economy.

They represent a highly heterogeneous group in terms of economic size, population, Per capita income, and growth performance. They are labeled as emerging on account of their developments and reforms. China which is generally considered as the world's Powerhouse comes in this category, along with smaller countries like Tunisia.

Rise of Emerging Market Economies

When discussing the rise of emerging economies let us look into two distinct groups viz:

1) BRICS &
2) EAGLE.

Before the onset of the Global Recession, the emerging economies enjoyed a prolonged period of prosperity. The BRIC Nations a term coined by Jim ONeil in 2001 refers to a select group of four large developing countries who can be said to be at a similar stage of newly advanced economic development. This group includes Brazil, Russia, China and India. South Africa joined the group later. Together they comprise 40% of the world population, cover more than 20% of the world's land area and account for more than 25% of GDP. The BRIC countries are grouped together because each country is considered to be at a similar stage of newly advanced economic development.

In the midst of rapid growth each, BRIC country accounts for a large portion of the world's GDP. While China is the second largest economy, Brazil ranks seventh, India ranks 10th and Russia 11th. Narrowing down one can say that India and China are two emerging economies which are considered as Superpowers particularly with respect to trade.

EAGLE on the other hand, is a term coined in late 2010 by BBVA (Banco Bilbao Vizcaya Argentaria) Research, a multinational Spanish banking Group, to identify all emerging economies. This is a dynamic group where the present country members of EAGLE are:

1) Brazil
2) China
3) India
4) Indonesia
5) Mexico
6) Russia
7) Turkey

The former Eagle members included Egypt, South Korea and Taiwan.

The criteria of the EAGLE membership are very different from other similar groups. This is detailed below:

a) Less importance is given to economic size and population which can be misleading;
b) It focuses on the incremental GDP that the countries will generate instead of concentrating on current or expected size of GDP;
c) For a country to be eligible for EAGLE membership it is essential that its incremental GDP in the next ten years should be greater than the one anticipated for the average of G6 economies, G7 excluding USA;
d) It has a short term horizon of 10 years, unlike others having longer perspective running up to 15-20 years.

We can in this Paper concentrate on two emerging economies that are part of both the above mentioned groups namely India and China.

Initially India was a very closed economy. But in 1991 she faced severe deficits in her Balance of Payments. This was coupled with the on - going Gulf war and disintegration of the erstwhile USSR. As per the directives from the IMF, from whom she had to seek financial assistance, India was forced to introduce a series of reforms.

China on the other hand, after stagnating for a long time under the rigid communist Regime introduced reforms in the late seventies and early eighties. Today China is considered as one of the top exporters of the world, where she is an attractive destination for foreign investment while she herself is investing a lot abroad. Several factors could have facilitated the growth of emerging market economies. These include lower labor costs, rising productivity, huge improvements in global connectivity, a rising middle class and the wide-spread awareness ranging from management techniques to policy making. This has been accompanied by large scale industrialization and fostering of entrepreneurial skills which have led to the realization of a better standard of living.

Importance of the Study of Emerging Market Economies

At the time when the developed countries are struggling to come to terms with the impact of the Global Recession, an air of pessimism, regarding their future prospects seems to be haunting them. The emerging countries on the other hand, apparently seem to be more relaxed with the thought that their future generations would be enjoying a better standard of living, giving rise to the general optimism that the youth would stay back in their homeland rather than migrate abroad in search of better pastures. Good education and hard work are the two vital ingredients for progress. However, the point to be noted is that these countries suffer from inequalities of income. This has been compounded with other problems like rising prices and growing unemployment. But inspite of clear progress in recent years, as will be discussed later, the emerging economies still lag behind the advanced nations.

Growth of Emerging Market Economies

Today there is no doubt about the fact that the shift towards the emerging economies will continue. However, of late the growth rate in all BRICS nations has dropped. Between 1993 and 2007 China averaged a growth rate of 10.5%, India on the other hand managed 6.5%. This was twice the growth rate of America. The combined global output share of these two countries was nearly 16%. Foreign exchange interventions made the export surge doubly difficult to manage. After the financial crisis of late nineties many emerging economies began accumulating dollar reserves to protect themselves. While most of the developed countries are gradually recovering from the financial crisis, the developing countries have quickly returned to their fast growing trend. China was the first economy to emerge from the crisis and quickly returned to growth of around 10%. India experienced a stronger contraction but soon attained 10% growth.

In 2007 China's economy expanded by 14.2%, India managed 10.1% growth, Russia 8.5% and Brazil 6.1%. The IMF is of the opinion that in 2013 China will grow by 7.8%, India by 5.6% and Russia and Brazil by 2.5%. This implies that the BRICS economies are contributing less to global growth at present. In 2008 they accounted for 2/3rd of Global GDP growth, in 2011 half of it and in 2012 a little less than that. In case of India one can say that after enjoying a speedy growth over the past decade Indian economy hit the brakes in 2012, with growing inflation, continuous deficit in the Balance of Payments and declining value of the Rupee. However, in the midst of all this there is scope for optimism as regards the future as the economy seems to be coming back on track.

Let us now turn our attention to the general growth trends of the two countries: China and India.China and India can today be safely considered as two giants of the emerging world. They account for more than 1/3rd of the total population and have a profound influence on global trends. But over the past decade, these countries can be considered as being among the fastest growing economies in the world. Both the countries have pursued different paths..

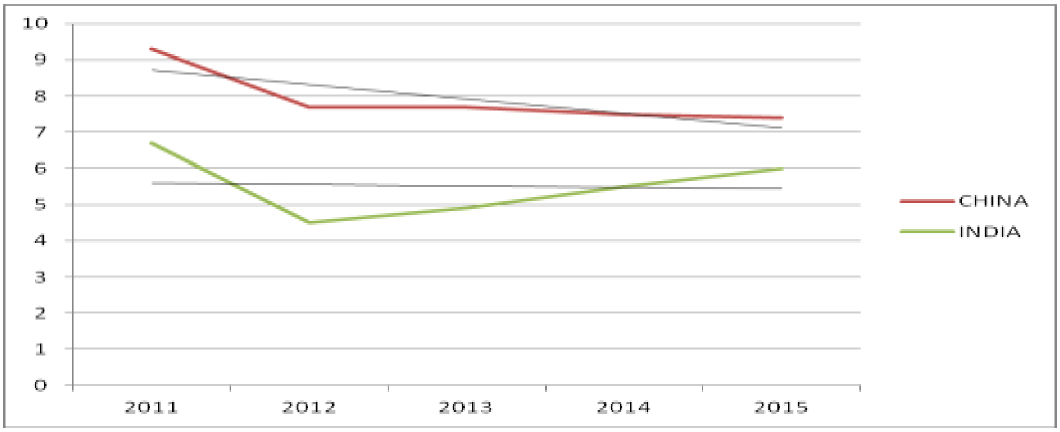
The following table indicates the percentage rate of growth for India and China from 2011-2013 and the predicted growth for 2014 and 2015

Table 1

YEAR	CHINA	INDIA
2011	9.3	6.7
2012	7.7	4.5
2013	7.7	4.9
2014	7.5*	5.5*
2015	7.4*	6.0*

*Stands for predicted rates of growth.

GRAPH



The graph above shows that both India and China have had a decline in the growth rate since 2011, with a sharp decline in 2012, but it was steeper in case of India. The two countries have picked up since, with the trend line of India having a steeper slope.

Let us compare the growth trends in India and China.As mentioned both countries have pursued different paths. While China has been emphasizing on gearing its manufacturing industries towards exports the world over, India, on the other hand, has been adopting a policy of becoming increasingly integrated with the rest of the world.

India's growth has been less spectacular; she has gained international success in several industries, ranging from petrochemicals to software. With liberalization of the Indian economy, India's foreign exchange reserves have increased from 129 million US Dollars to 316 billion US Dollars in October 2014.

What is noteworthy is the performance of the service sector over the years. Today the service sector is the largest contributor, with its share increasing to 57% of GDP in 2012. This has been accompanied by rapid progress in the agricultural sector, increased life expectancy, improving literacy rate,better health and sanitation and a rising middle class.

But at the same time we must not forget that she is one of the poorest nations largely due to the rapidly rising population.

China on the other hand is the world's fastest growing major economy. Apart from being the largest manufacturing economy she is also the largest exporter of goods. Ever since China introduced measures liberalizing foreign investment, the latter remains a strong element in Chinese expansion of world trade. Today China boasts of having the largest stock of foreign exchange reserves namely 3.9 trillion US Dollars.

Outward foreign direct investment is a new feature of the Chinese process of globalization. Between January 2009 and December 2013 China has contributed 161.03 billion US Dollars in outward foreign investment creating about 3, 00,000 jobs.

Experts however point out that China has a high inflation rate; besides low education level and productivity characterize China's lower income groups. Strong commodity exports have produced an overvalued currency that has affected manufacturing competitiveness.

Future Prospects and Conclusion

The emerging markets have gone through economic, social and political turmoil such as the Asian financial Crisis of 1997 / Indian financial crisis of 1991/ protests in Beijing's

Tiananmen Square and the resultant massacre in 1989. However, their rise only bears testimonial to their capacity to survive amidst a number of shocks.

The growth rates in these economies had fallen, but are soon picking up. They still have a long way to go if they have to sustain their progress and match the most advanced nations of the world. With a less favorable environment, growing demographic challenges, the perpetuation of continued strong economic performance will largely depend on how well policy makers are able to unlock productivity growth by bringing about improvements in economic efficiency and ensuring a better allocation of resources.

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Emerging and Developing Economies Much More Optimistic than Rich Countries about the Future Education, Hard Work Considered Keys to Success, but Inequality Still a Challenge.