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Theme 233

EMERGING MARKET ECONOMIES - EMEs & BRICS

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THEME 233 : EMERGING MARKET ECONOMIES – EMEs & BRICS

For a long period, the national economies were classified into developed, developing and under developed, depending upon the stages of economic development. Economies like the U.S.A., the U.K., Japan etc were considered developed while India, Brazil, Indonesia etc were considered developing economies. Most of the countries in Africa were considered under developed. In 1981, Antoine van Agtmael, the well-known investment analyst and the author of the famous book "The Emerging Markets Century", introduced a new term called 'Emerging Market Economy' (EME). The basis of the classification was the state of economic reforms and developments that a particular country has achieved. The size of country is not considered very significant. In simple terms, emerging market economies can be defined as those countries that are growing fast and opened up their market and emerged into the international scene by way of increased economic, financial and trade relations.

Continuous and steady growth of a nation requires increased investment in infrastructure and production of goods and services. Foreign investors have a lot of confidence in emerging market economies and huge funds are flowing into these economies, enabling them to have sustained growth and development.

What are the distinguishing features of emerging market economies?

The fundamental feature of all the emerging market economies is the strong economic growth. As a result of economic growth, gross domestic product (GDP) and standard of living of the population will have remarkable increase. Infrastructure development is another important feature. Faster economic growth and development will not be possible without infrastructure growth. The main reason for the slow growth of some of the African countries is lack of infrastructure, even though they have abundant natural resources. In fact, infrastructure development is the cause and effect of economic growth. Fast developing money and capital markets, growing banking sector, fast growing hotel, tourism and automobile industry, increasing demand for the consumer goods are some of the other important features of emerging market economies.

Continuous and high rate of economic growth has created a number of problems for the emerging market economies. Inflation, pollution, volatility of foreign exchange reserves etc are some of the problems faced by emerging market economies. Most of the emerging market economies are deficient in market efficiency, accounting and security regulations, tax rules (corporate and individual) etc. Once these factors reach on par with those of advanced countries, most of the problems can be reduced to the minimum possible extent.

Briefly describe 'Big Emerging Market (BEM)'?
Emerging market economies are further classified into 'Big Emerging Market' (BEM) and emerging market economies. The generally accepted big emerging markets are Brazil, China, Egypt, India, Indonesia, Mexico, Philippines, Poland, Russia, South Africa, South Korea and Turkey. It is very difficult to exactly define the emerging market economies. Different study groups and economists give diverse interpretations and classifications. The following countries are generally considered as emerging market economies- Argentina, Bahrain, Chile, Colombia, Czech Republic, Hungry, Jordan, Malaysia, Mauritius, Morocco, Peru, Romania, and Thailand.

Explain the term 'BRIC' / 'BRICS' nations?
The term 'BRIC' was coined by Goldman Sachs in 2001. It is an acronym for Brazil, Russia, India and China, which are together known as BRIC countries. They are considered as the best and the strongest among the emerging market economies. In the recent past, there were many ups and downs due to credit crisis and various asset bubbles in the global economic scenario.

A number of developed countries faced problems like bank failure, shutting down of industries resulting in unemployment etc. Global investors were finding it difficult to invest their funds and were searching for new avenues and places for parking their funds. BRIC countries also faced all these problems but were able to come out quickly and efficiently in much shorter time than the developed countries.

By the end of the year 2010, South Africa joined the group and now it is BRICS (Brazil, Russia, India, China and South Africa). Top leaders of BRICS countries, on April 14 2011 met at Southern Chinese Island of Hainan for two days to discuss the steps to be taken to have a new era of prosperity. There was a consensus among the BRICS to establish mutual credit lines denominated in their local currencies

rather than in US dollars and have signed the frame work accord. Some more countries like Mexico, South Korea, Saudi Arabia, and Qatar may join the BRICS group.

What is meant by 'decoupling hypothesis' in the context of the spread of economic crisis?

At the beginning of the recent economic crisis, many analysts put forward a thesis known as 'decoupling hypothesis', to show that the crisis in the advanced economies would not spread to emerging economies in a very significant manner. This is known as 'decoupling hypothesis'. It was maintained that the EMEs would not be affected by the crisis owing to their highly regulated macroeconomic management, robust external reserves, stable financial sectors and growing intra-EME trade. But, soon it was proved wrong, and the recession in the advanced economies had its ripple effect in almost all other economies in varying degrees depending on the level of integration of the domestic economy with the global economy. There was economic slowdown, if not recession, in the emerging / developing economies. Recent studies indicate that long-term economic prospects of advanced economies and EMEs are interlinked through trade, finance and movement of factors of production including natural persons.

What are the demographic, geographic and other competitive features of 'BRICS'?

At present, the BRIC countries together account for around 40 percent of the world population. About 25 percent of geographical land area is occupied by BRIC countries. China is the most populated country of the world. They have the second highest gross domestic product (GDP). The USA occupies the first place. India is the second most populated country in the world. India is having the fourth highest GDP rank in terms of purchasing power parity (IMF data). Russia is having sixth rank in GDP. Brazil is the fifth most populated country in the world and is having eighth rank in GDP. By 2050, the combined economic wealth of BRICS nations will be more than the combined wealth of the advanced nations of the world. India and China will become major suppliers of manufactured goods and services. Brazil and Russia will become major suppliers of raw materials. In short, the BRIC countries together have a high potential of forming a powerful economic bloc competing with group of G7 countries.

The banking system is generally well-regulated in the EMEs, and the banks have higher capital ratios. This can result in orderly growth of the economies.

What is meant by 'Demographic Dividend' in the context of EMEs?
The emerging economies, especially India and China, can enhance economic growth on the strength of increasing number of young working population group. The age profile of the population is conducive for economic growth. The more the proportion of the working age population in the total population, the more will the economic growth by way of increased employment and output. This is applicable in the case of India with the youngest age profile of the population among the emerging economies. But, this requires more investment in building up social infrastructure such as education, healthcare and skill development. The term 'demographic dividend' denotes leveraging demographic features – increased share of working age population - for furthering economic growth.

What are the new challenges for the EMEs in the changing global economic scenario?
The EMEs were slowly liberalizing their markets and making phased changes towards integration of the domestic economies with the global market place. But in the wake of economic crisis and recession, many of the advanced economies are resorting to 'protectionism' – a retreat from the long era of the globalization pursued by the advanced economies, as many in those countries perceive that globalization meant loss of jobs for the domestic population owing to outsourcing by cheap labour from abroad. This can affect the growth prospects of the EMEs in the knowledge- intensive sectors like IT and BPO.

The loose monetary policy followed by the advanced economies for the past few years has led to abnormal increase of liquidity. This has resulted in increased speculative activity in commodities market, thus driving up commodity prices. This has caused sustained inflationary trends in the EMEs that are net commodity importers.

The volatile capital flows into EMEs have become a cause of concern in recent times. The capital flows are required as investible resources, but these flows should be stable and should be for long term direct investment. The increased flows of short term nature have resulted in volatility in foreign exchange markets, causing currency appreciation and imbalances in foreign trade.

The shift in the global balance of economic power in favour of EMEs / BRICS is quite evident. But this requires very challenging tasks to be undertaken by these economies towards social and economic adjustment.

Demographic Dividend: Opportunities & Challenges

India's working age population -20-60 years - largely consists of youth in the age group of 20-35 years, and as a result, the economy has the potential for higher growth compared to other emerging / developing economies including China. The favourable demographic profile can be turned into a demographic dividend only if adequate investment in social infrastructure is made by the government and the private sector. More social opportunities are to be created aimed at improving health, imparting education and equipping the youth with necessary skills.

The demographic dividend is a rise in the rate of economic growth due to a rising share of working age group in a population. The demographic dividend played a dominant role in the "economic miracles" of many EMEs. This happens when the fertility rate falls and the dependency rate – reduction in the proportion of dependent children and aged group - declines. During the demographic transition period, comparatively fewer investments are needed to meet the needs of the youngest age groups and resources are released for investment in economic development and family welfare.

During this demographic window of opportunity, there will be additions to the labour force and employment and thus output per capita increases. But this opportunity will be materialized only if emerging human resources are made competent and resourceful. This necessitates huge investments in healthcare, education from primary level to higher research level and training in technical skills. In India, increased investment in social infrastructure in the rural areas is urgently required to leverage the 'population advantage' for long-term sustainable economic growth. Thus, the dividend is not automatic, but requires well-planned strategies to capitalize on the human resources.

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in

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