The Largest Emerging Market Economies as a Part of the World Economy

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Abstract: The aim of this paper is to demonstrate the new and increasing economic and political power of the largest emerging economies as a part of the world economy, their fast economic growth based on the main economic developments during the last three years. The paper also presents the significant influence of the five BRICS countries(Brazil, Russia, India, China and South Africa) on regional and global affairs, representing almost 43% of the world's population, 30% of its dry surface, producing 25% of global gross domestic product, attracting 53% of the world capital and holding foreign reserves totaling approximately 4500 billion US dollars. The huge economic potential of these five countries from the BRICS Group is such that they could become the world's most dynamic and dominant economies. The paper also highlights the low performance of the emerging world, in terms of inflation and unemployment and concluded that currently, despite the economic difficulties faced by the Western developed countries and according to trends in the world economy, emerging economies continue their rapid economic growth.

Keywords: developing economies; global economic system; foreign reserves; BRICS

JEL Classification: E02; F15; F43; O11

1. Introduction

The term „emerging market" was coined by Antoine van Agtmael in the 1980s and is used for countries which are considered to be in a transitional phase between developing and developed status. Dr. Vladimir Kvint, president of the International Academy of Emerging Markets, defines the emerging market as: "… a society transitioning from a dictatorship to a free-market-oriented-economy, with increasing economic freedom, gradual integration with the global marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in cooperation with multilateral institutions." (Kvint, 2009, p. 11)

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The World Bank defines emerging markets as low-income to middle-income countries with gross national income (GNI) per capita between $975 and $11,900, those that haven't reached the minimum gross national product (GNP) per capita of $9656.

According to Julien Vercueil, more than 50 countries, economies, and/or political entities comprise the emerging markets of the world contributing over 60 percent of the world's population and at least 45 percent of its gross domestic product (GDP). Brazil, Russia, India, China, Mexico, Indonesia, Turkey, and Poland are among the largest emerging market economies. (Vercueil, 2012, p. 232)

Regardless of the approach, emerging economies have as common traits:

- transitioning from a closed economy to an open market economy;
- implementing economic reforms;
- increasing in both local and foreign investment(portfolio and direct)
- rising production levels, and thus increasing GDP;
- stabilizing the political climate;
- shifting balance of economic power from sellers to buyers (Kalinowski, 2012, p. 11).

Currently, the twenty countries listed in the Table 1, are classified by MSCI Barra, as emerging markets:

Table 1. Emerging Markets/ GNI per Capita (Current US$) – 2012

America	GNI per capita($)	Europe, Middle East & Africa	GNI per capita($)	Asia	GNI per capita($)
Brazil	11.630	Czech Republic	18.130	China	5.680
Chile	14.280	Hungary	12.370	India	1.530
Colombia	6.990	Poland	12.660	Indonesia	3.420
Mexico	9.600	Russia	12.700	Korea	22.670
Peru	5.880	Turkey	10.830	Malaysia	9.800
		Egypt	3.000	Philippines	2.470
		Morocco	2.950	Thailand	5.210
		South Africa	7.610		

Source: MSCI Barra, www.msci.com

The emerging economies are grouped under several terms such as BRIC, which is used to describe the largest developing countries of Brazil, Russia, India and China, BRICS (+ South Africa), BRICET (BRICS + Eastern Europe + Turkey), BRIK (+ South Korea), the Next Eleven, known also by the numeronym N–11, including the following eleven countries: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea and Vietnam.

2. BRICS – the Major Emerging Economies of the World

The acronym BRIC was used for the first time in 2001 by Chief Wizard of the Bank Goldman Sachs, the economist Jim O'Neill (O'Neill, 2001, p. 9), in an attempt to bring together under a title the biggest emerging economies of the world. The report drafted by him, "Building Better Global Economic BRICs", drew attention to Brazil, Russia, India and China, which with their economic growth rate, population size and economic potential, can become major economies until 2030. The BRIC group acquires an official character in the first summit which took place on June 16, 2009 in Yekaterinburg, Russia. In the context of the third summit which was held on April 14, 2010, the BRIC becomes BRICS through joining South Africa to the Group, at China's initiative, as an expression of the Group's presence on the African continent. Totaling currently no less than 43% of the world's population, 30% of its dry surface, producing 25% of global GDP, attracting 53% of the world capital and holding foreign reserves totaling approximately 4500 billion US dollars, the BRICS has come to represent more than an acronym, becoming a group of countries with an increasingly higher influence in the global economic and financial system, being possible that in the future to move the centre of economic and political power from the developed countries to the emerging economies.

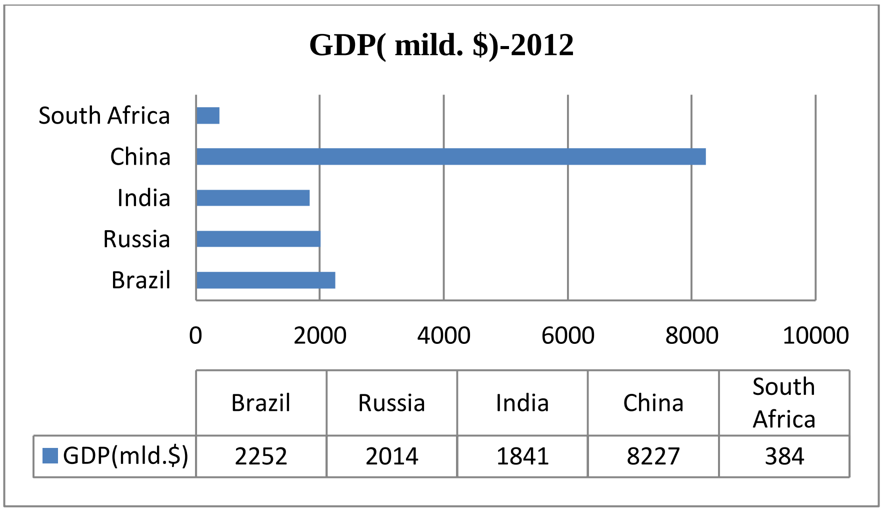


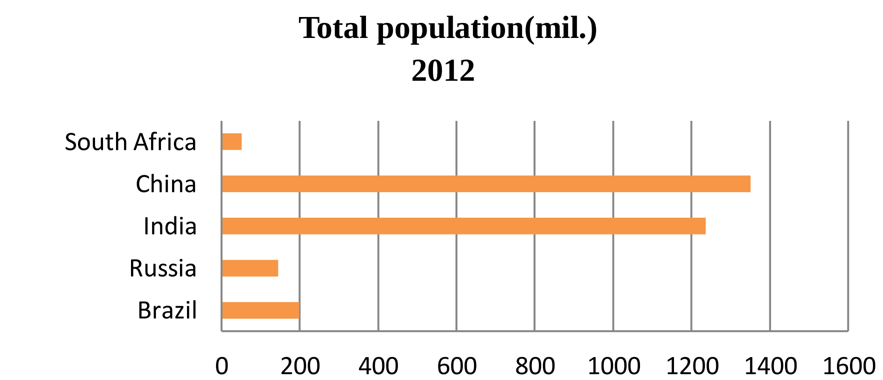
Figure 1. The GDP of the BRICS Countries in 2012

Source: Author – Representation of the Data from The World Bank Group: Data Bank 2012, Available at: www.dataworld.org

	Brazil	Russia	India	China	South Africa
Foreign exchange reserves(mld.$)	369	487	271	3,331	44

Figure 2. The Foreign Exchange Reserves of the BRICS Countries in 2012

Source: Author – representation of the Data from The World Bank Group: Data Bank 2012, Available at: www.dataworld.org



	Brazil	Russia	India	China	South Africa
Population(mil.)	198	144	1,236	1,351	51

Figure 3. The Total Population of the BRICS Countries in 2012

Source: Author - Representation of the Data from The World Bank Group: Data Bank 2012, Available at: www.dataworld.org

BRICS group was founded for political and economic reasons, settling as major objectives to protect their own economies and the internal resources from the pressures of the global corporations, giving up the external financial assistance and to leave behind the financial practices of World Bank and International Monetary Fund, engaging in competition with Western economies and diminishing the political influence of the G-7, the international coordination of macroeconomic policies, and last but not least, the establishment of a new equilibrium in the global geopolitical relations through the establishment of a new pole of power.

During the last summit of the Group, held in Durban, South Africa, on 26 and 27 of March 2013, the leaders of the five countries have established a common development bank which will finance only the emerging countries. At the same time, will allow the creation of resources for financing the national projects in the field of transport infrastructure, and the first major such project, worth 1.2 billion US dollars, would have to be a submarine cable for the transmission of high data flow between Brazil and Russia, passing through South Africa, India and China with the possibility of extension for Iran and Indonesia, what is a global system of internet via fiber optics, independent of that of the West. The establishment of this Bank, with a capital of 50 billion US dollars (10 billion US dollars for each member), it means the independence from the World Bank and from the policy applied by the International Monetary Fund in financing agreements ratified with the poor countries. In this sense, the five states of the Group take into account the use of a part of their enormous foreign exchange reserves, meaning about 4.502 billion US dollars, as a common fund to tackle balance of payments crises or currency crisis. According to the Governor of the Central Bank of Brazil, the value of that fund might be 100 billion US dollars, enough to afford and to ensure the independence of the two international financial institutions.

These important foreign reserves are used by the Group to invest in countries on the African continent, in South America and in the EU countries, as a strategic stake in the competition for new spaces of influence. China, which has become the richest country in the world, holds an impressive foreign reserve, 3.331 billion US dollars (see Figure 2), that distinguish it as the global financier. The surplus of the international trade in goods and the massive foreign investment in the economy, are the main ways of its formation. Given the sustained annual growth of foreign exchange reserve, 43% in 2007, 27.3% in 2008 to 23.3% in 2009, 18.7% in 2010, 11.7% in 2011 (NBSC, 2012), it is important to diversify the channels through which it can be invested. Overall the foreign investments of China consist mainly of portfolio investment, direct investment in sectors considered strategic (oil or gas) and takeover of Western companies.

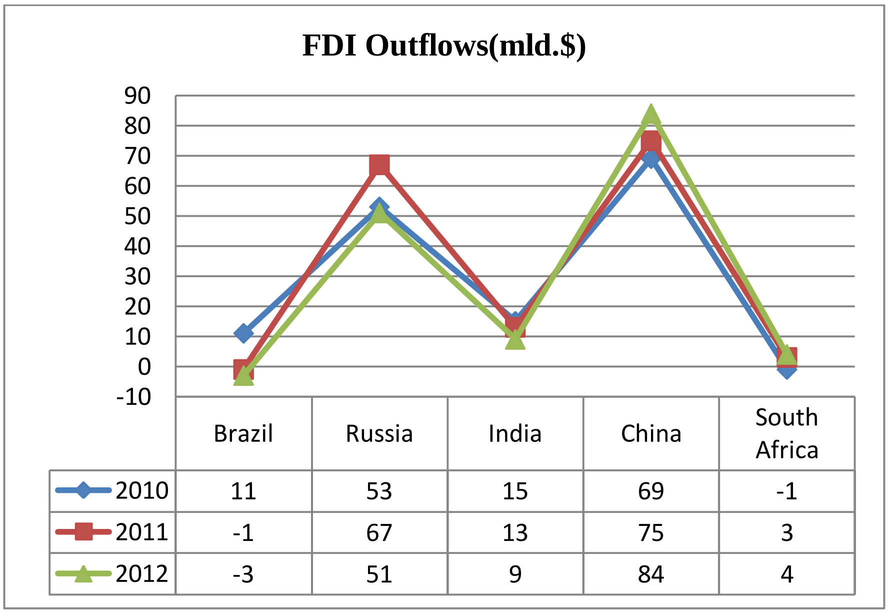
More than one-third of China's foreign reserves represent public securities issued by the U.S. Treasury, currently totaling 585 billion US dollars, China being the main holder of the U.S. Treasury bonds in the world, outpacing Japan which holds public securities worth 573, 3 billion US dollars. (The United States Treasury)

An important part of China's foreign exchange reserve is used to support state companies to acquire strategic assets in energy, finance projects that enable access to technologies, targeted investment in natural resources.

3. The Foreign Direct Investment Flows of the BRICS Countries

Over the years 2010-2012, the BRICS countries, especially China and Russia have strengthened their position as the global investors, providing significant financial resources used for the acquisition of strategic assets abroad, considering the fact that their value has decreased as a result of the international economic and financial crisis.

China's foreign direct investment abroad, in 2010 was worth \$68.9 billion, in 2011 was worth \$74.7 billion and reached the amount of \$84.2 billion in 2012. Russian foreign direct investment outside the country, were worth \$52.7 billion in 2010, increased to \$66.9 billion in 2011, dropping to \$51.1 billion in 2012. Russia stands in the ranking of FDI generating countries. (see Figure 4)



	Brazil	Russia	India	China	South Africa
2010	11	53	15	69	-1
2011	-1	67	13	75	3
2012	-3	51	9	84	4

Figure 4. The BRICS Countries FDI Outflows between the Years 2010 2012

Source: Author – Representation of the Data from OECD International Direct Investment Database, International Monetary Fund, United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2013, Available at: www.unctad.org

China's investment in large-scale projects on the African continent, roads, railways, petrochemical plants, port terminals, computer science, telecommunications technology, between 2006-2012, were estimated at $67 billion. At the same time China invests 20 billion US dollars in Africa (double the amount offered in the framework of the forum for cooperation between China and Africa, which took place in 2009), as a credit line for the development of the local natural resources exploitation projects, financial support to agriculture, manufacturing and small business development in Africa.

According to the Chinese Ministry of Commerce, the Chinese investment abroad surged by 150% in the first two months of 2013, the Chinese companies are investing $18.39 billion outside the border. (NBS, 2012)

China also accelerates investments in South America, Argentina being the second destination of Chinese investment, represented by 5.6 billion US dollars in 2012, particularly in agriculture and oil sectors, seeking the access to a wide variety of natural resources.

Also China has invested $12.6 billion in European companies in 2012, pursuing the increasing access to cutting-edge technology, twice higher than FDI placed in the U.S. businesses. The Chinese investment projects were in number of 268 in Germany, 108 in the United Kingdom, 50 in France and 34 in Italy. China will build in Romania since 2014, a thermal power plant worth one billion Euros, making the biggest investment in the European Union.

According to statistics provided by the Chinese Ministry of Commerce, Chinese investment in Australia increased by 281, 8%, in Hong Kong by 156%, in the U.S. by 145, 7% and in the EU countries by 81, 9%.

The Russia's foreign investment is focused on investing in assets from the profitable industries. Approximately 53% of the Russian assets abroad are held by four companies specialized in hydrocarbons, 25% belong to a group of nine companies specialized in steel and mining. Their value has accounted for 1.6% of GDP in 2012, less than in previous years, 2.8% in 2010 and 2.6% in 2011. Russia has conducted 63 investment projects in Germany, 38 in the United Kingdom and 15 in France. From among the BRICS countries, FDI generated by Russia have the largest percentage of the GDP, 2.8% in 2010, 2.6% in 2011, and 1, 6% of the GDP in 2012. At the same time, Russia has invested $ 77.5 billion in the economies of the European Union countries, of which 53 billion US dollars were direct investment, accounting for 60% of total Russian investment abroad.

Although decreased by about 44% in 2012 compared to 2010 (from $15.3 billion in 2010 to$12.6 billion in 2011 and $8.6 billion in 2012), India’s foreign direct investment abroad (see Figure 4) have resulted in an increase in greenfield investments, especially in the extractive industry, the metallurgical and in the services for business. India's investments abroad are directed to the USA, the United Kingdom and South East Asia. The UK received most of the investment projects, India being the 8th investor in this country, Indian companies having here more than 440 investment projects. The number of Indian investment projects between 2003 and 2011, was 96 in Germany, 30 projects in France and 14 in Italy.

Brazilian investors have as their favorite destinations countries such as the United Kingdom with 16 investment projects, France with 13 investment projects, Germany with 6 projects and Italy with an investment project, despite the fact that the value of FDI flows generated by Brazil, was negative in both 2011 and 2012.(see Figure 4)

The emerging market companies continue the tendency of expansion in European markets. Thus in the first half of 2012, the entrepreneurs of Brazil, Russia, India and China have generated 5.7% of FDI and 7% of the jobs created in Europe.

Globally, the FDI flows dropped by 18 percent to $1.35 trillion in 2012 compared to $1.65 trillion in 2011, in contrast to other macroeconomic variables such as the global gross domestic product, trade, unemployment rates, which all remained relatively constant in 2012 compared with 2011. For 2013 the FDI flows are estimated to $1.45 trillion, and with the regaining of the investor confidence in the international business environment, it is expected that the FDI flows will reach the level of $1.6 trillion in 2014, and $1.8 trillion in 2015. (The World Bank, 2011) For the first time, in 2012, emerging economies have attracted foreign direct investment of more than $700 billion, representing 52% of global FDI, unlike the developed economies, $561 billion.

Last year, 44% of global FDI had as a final destination just five countries. China attracted a record level of the foreign investment with $253.4 billion, 18% of the total and 3.1% of GDP (The World Bank, 2013)

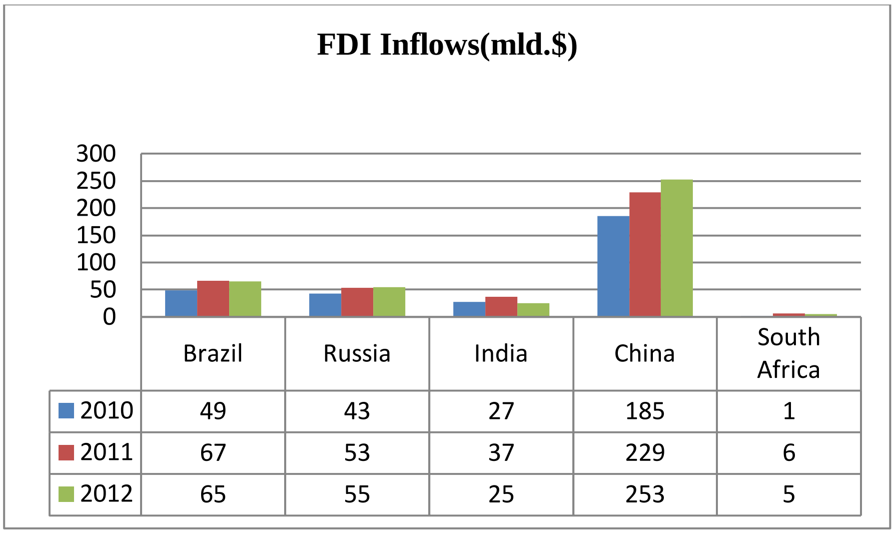


Figure 5. The FDI Inflows in the BRICS Countries between the Years 2010-2012

Source: Author –Representation of the Data from OECD International Direct Investment Database, International Monetary Fund, United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2013, Available at: www.unctad.org

In the BRICS, China continues to lead in 2013. Only in February this year, FDI inflows increased by 6.32 % to $8.21 billion. The European Union is the main investor, whose foreign direct investment in China rose by 34.01% to $1.21 billion, while the U.S. investment fell by 5.37%, their value being of $497 billion. The most important area is that of the alternative energy in the context of the abundance of natural resources and of the increasing demand for energy, the field where China is the world leader of attracted investments with $54.4 billion in 2010 and 103,3 GW installations in renewable energy production capacity. FDI inflows are directed selectively to peak areas as well as in the sphere of services (in 2012 they have recorded an increase of 4.8% from the previous year), focusing on the China's economic policy interests.

Between the years 2012-2014, among the host countries for FDI, China ranks no. 1, followed by the U.S., India no.3, Brazil the 5th place, Russia and Germany the 6th place, South Africa being present for the first time in this top ranked 14, number 42 in 2011.(The World Bank, 2013)

4. The Economic Prospects for the BRICS Countries

The annual rate of GDP growth in the emerging economies of the BRICS during 2010-2012, highlights the potential of international pressure of the BRICS, maintaining the role of the engine of the global economy. The combined gross domestic product of the BRICS countries, increased in 2012 to over $14.8 trillion.

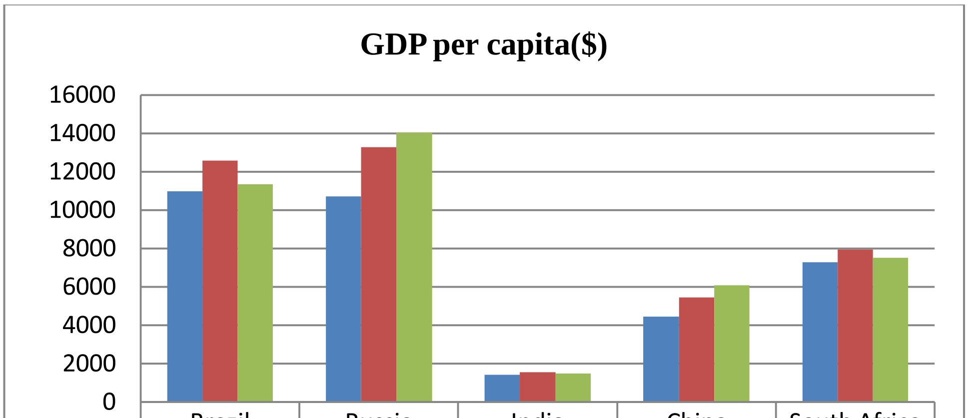
We notice a slowdown in GDP growth rhythms in the BRICS countries in 2012, because these countries still depend on the U.S., the EU and the euro zone which are affected by their unfavorable economic and financial situation.

China's GDP was about $8.2 trillion in 2012, which represents more than a half of the U.S. GDP of approximately $15.7 trillion, and in terms of the annual growth rate of 7.9%, Chinese GDP growth in 2012, is equivalent to an increase of 2.2%, the rate of growth of the United States GDP, surpassing Japan for the second consecutive year. The industry contributed with 46.8% to the Chinese GDP, the services with 40.5% and the agriculture with 10.1%.(CIA World Factbook, 2012) The Chinese GDP annual growth was 9.3% in 2011, over the government target of 8%, but below the level of 10.4% in 2010, and also a decrease to 7.9% in 2012. Slowing the pace of GDP growth generates a number of negative effects, aimed at including the level of employment of the workforce. Thus the unemployment rate grew in China to 6.5% in 2012, compared with 4.3% in 2010.

Decrease in the pace of economic growth is due on the one hand to the debts problems in the euro area, the fall in consumption and demand from major export markets (the U.S. and the euro zone), and on the other hand, the measures taken by the Chinese Government to reduce the inflation rate (3.3% in 2011 compared to 5% in 2010), the restrictions on bank lending and the real estate speculations.

According to Chinese officials, this evolution can be explained through a strategic reorientation of the Government's economic policy to more moderate growth rates, considering that the Chinese economy has fulfilled the objective of being able to compete on an equal position with the developed Western economies.

However, China remains a developing country with a GDP per capita of only $ 6.091, people living in the vast majority still relatively modest. Within the group, Russia has the highest GDP per capita ($ 14.037 in 2012), followed by Brazil with $ 11.340. (see Figure 6)



	Brazil	Russia	India	China	South Africa
2010	10978	10710	1419	4433	7266
2011	12576	13284	1534	5447	7943
2012	11340	14037	1489	6091	7508

Figure 6. The GDP per Capita of the BRICS Countries between the Years 2010-2012

Source: Author – Representation of the Data from The World Bank Data Bank, Available at: www.dataworld.org,

Report for Selected Countries and Subjects, International Monetary Fund

According to the Ernst & Young Report, “Rapid Growth Market Forecast (RGMF) (Ernst & Young, 2013), “over the next 25 years, the poles of economic power will be changed, China, India, Brazil and Russia will enter as the first six world economies“. The same report also estimated that the global GDP will grow at an annual rate of 4.1% between 2011 and 2020, compared with a growth rate of 3.5 percent in the three previous decades.

The investments in the real economy will remain the main engine of economic growth; the fields most aimed are transport infrastructure, communications, production, education and research.

5. Conclusion

The decision of these five emerging countries to constitute a joint development bank, funded only by them, will allow them to implement policies appropriate to their own economic and financial interests, countries which according to statistics currently provides global economic growth, attracting no less than 53% of the capital of the world.

China continues to remain the most attractive destination for the foreign investors, being the main receptor of foreign investment globally. However, foreign investor confidence continues to move towards European countries, the economic issues facing the region being outweighed by the presence and concentration in the European area of a large number of consumers with a high purchasing power, the existence of various professional skills, as well as a superior infrastructure.

As FDI flows to take a positive role in generating economic growth, countries with emerging economies must have a workforce with a high level of training (in South Africa the expenditures for education represented 5.4% of GDP in 2012, in Brazil 5% of GDP, 3.9% of GDP in Russia and 3.1% of GDP in India)(CIA World Factbook, 2012), must have financial markets sufficiently developed and a high degree of trade liberalization, stimulating domestic demand due to the increase in labor productivity and wage growth so that their effect to materialize in the development of the business environment, to help the employment in receptacles countries of FDI. At the same time foreign companies and the greenfield investment in host countries will provide an adequate infrastructure and human resources, including the development of new technologies in these countries.

In the context of the economic difficulties faced by the Western countries, we can say that emerging economies are currently the main source of economic growth globally. However, the five countries of the BRICS group are putt in difficulty by the unfavorable developments in inflation and unemployment that continues to have high values in spite of the economic favorable developments at the global level.

The inflation rate in Russia increased by 1.7 percentage points in 2012 compared to 2010 reaching 8.4%. In South Africa the increase was by 0.5 percentage points in the same period, in Brazil with 1.7 percentage points declines it managed to obtain only India from 11.7% in 2010 to 8.9% in 2012 and China from 5% to 3.3%, owing to the slowed growth pace of the consumer prices. The unemployment rate reaches high values too, South Africa 24.9% in 2012, 9.8% in India, Russia 6.6%, Brazil 6% and China with 6.5%, increasing compared to 2010 when it was 4.3%.(CIA World Factbook, 2012)

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