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GROWTH PROSPECTS: EMERGING ECONOMIES OF THE WORLD

ABLIN JOANES CARNEIRO-ALPHONSO

Assistant Professor in Department of Economics at Rishi Dayaram and Seth Hassaram National College and Seth Wassiamull Assomull Science College, Mumbai, India

ABSTRACT

An emerging economy can be defined as a country that has some characteristics of a developed market but in terms of economic performance has not yet achieved the standards of a developed economy. The acronym for BRICS that is an association of five major emerging national economies: Brazil, Russia, India, China and South Africa can be considered as emerging economies. The introductory section of the paper traces a brief history of the BRICS countries with special emphasis on key macroeconomic indicators. The second section identifies a comparative analysis on important issues between the BRICS countries. The concluding section deals with the path of transforming the BRICS countries from the status of an emerging economy into a developed economy**.**

KEYWORDS: Emerging, Economic, Transformation, Status

INTRODUCTION

Economists of the twenty-first century have defined an emerging economy on the basis of the following characteristics that include: Intermediate income wherein, a country's Purchasing Power Parity (PPP) per capita income is comprised between 10 per cent and 75 per cent of the average European Union per capita income as well as Institutional transformations for a brisk economic growth that has narrowed the income gap with advanced economies. Hence, emerging economies appears to be a by-product of the current globalization.

The acronym for BRICS that is an association of five major emerging national economies that represent over 3 billion people, or 42 per cent of the world population and includes: Brazil, Russia, India, China and South Africa. The acronym was coined in 2001 by Jim O'Neill from investment bank Goldman Sachs in a paper entitled "Building Better Global Economic BRICs." Goldman Sachs has argued that, although the four BRIC countries are developing rapidly, it was only by 2050 that their combined economies could eclipse the combined economies of the current richest countries of the world.

The 'Big Four' are at a similar stage of the newly advanced economic development while, South Africa has recently been successful in joining the bloc since 2011. South Africa's inclusion into the BRIC group follows a request by the country to join the group for numerous reasons, including it having the largest economy in Sub-Saharan Africa (SSA) and the fact that it accounts for about a third of the region's Gross Domestic Product (GDP). Other factors that have worked in the country's favour include: vast natural resources such as gold, diamonds and platinum, excellent infrastructure, established corporate footprints, a culture of innovation, easy access to finance for business, a stable macro and micro financial climate, an advanced banking system and functioning regulatory framework. The country is also viewed to have an influence on the rest of the continent. Its inclusion would offer BRIC members improved access to a very large consumer base in the African continent and also mineral resources, including oil and platinum.

The key macroeconomic indicators of the BRICS countries can be analysed from Table 1.1 that identify the potential possibility of the ‘Big Four’ that include Brazil, Russia, India, China as developed economies in the near future. Table 1.1 reveals that the strength of the BRICS countries in terms of economic performance has increased in the global economy. BRICS’ collective contribution to world GDP has increased from 11 per cent in 1990 to 25 per cent in 2011. Within the bloc, China has the largest economy and the fastest growing GDP with South Africa recording the lowest average growth of 3.5 per cent. South Africa is falling short of matching similar levels as that of those other BRICS member. Amongst other things, the country has the smallest population, the highest unemployment rate and the lowest savings.

Table 1.1: Key Macroeconomic Indicators of Brics Countries

Key Indicators	Brazil	Russia	India	China	South Africa
Geographical Total Area (In Kms.)	8,514,877	17,098,242	3,287,263	9,596,961	1,219,090
Population	203,046,886	146,378,000	1,210,193,422	1,354,040,000	51,770,560
Population Growth Rate	131st	192nd	89th	152nd	25th
Labour Force	5th	7th	2nd	1st	NA
GDP (PPP)	7th	6th	3rd	2nd	90th
Human Development Index (HDI)	85th	55th	114th	101st	118th
Exports	6th	8th	12th	1st	NA
Imports	21st	17th	8th	2nd	NA
Foreign Exchange Reserves	8th	7th	9th	1st	NA
External Debt	25th	23rd	28th	17th	NA
Public Debt	47th	122nd	29th	98th	
Government Spending (In billion $)	846.6	414.0	616.0	2,031.0	95.27

NA: Not Available

Source: World Economic Outlook Database (2015)

COMPARATIVE ANALYSIS BETWEEN BRICS COUNTRIES

According to Dr. Jeffrey Delmon, a senior infrastructure specialist at the World Bank, “In order to stimulate growth and reduce poverty, it is essential to improve the supply, quality and affordability of infrastructure services.” The infrastructure quality scores expressed by World Economic Forum (2013) on a scale of 1 to 7 with 7 being the most desirable indicate the following:

- Of air transport (6.1), roads (4.9) and ports (4.7) in South Africa are better than the rest of the BRICS members. The better quality of infrastructure in South Africa could be explained by the relatively small size of the land area of the country, thereby making it easier to maintain its smaller infrastructure stock.
- China has better infrastructure quality scoring on electricity supply (5.2) and railroad (4.6).
- The infrastructure quality of air transport (3), ports (2.6) and railroad (1.8) in Brazil lags behind that of other member countries.

- South Africa's score of overall quality of infrastructure is 4.5, followed by China at 4.3, India (3.8), Russia (3.5) and Brazil (3.4).

Table 1.2 identifies the strengths and weaknesses of the BRICS countries

Table 1.2: Swot Analysis of Brics Countries

COUNTRY	STRENGTHS	WEAKNESSES
BRAZIL	Boasts abundant natural resources (iron ore, hydropower, timber, coffee, soya beans, sugar cane, iron and crude oil)	Lacking economic infrastructure (poor investment in road, rail ports and energy) Very high lending interest rate (averaging to 16.25 per cent)
RUSSIA	Has a wealth of natural resources dominated by huge deposits of oil, natural gas, coal and other minerals. A skilled labour force Relative political stability	Has amongst the lowest investment rates compared to other emerging economies, resulting in industries not being competitive due to obsolete capital equipment
INDIA	Strong information & technology sector and service sector Has some natural resources (coal, manganese and natural gas)	Very large public debt as percentage of GDP (±74 per cent) Debt service costs eroding funds for development spending
CHINA	Very strong manufacturing base Industrially competitive Strong foreign financial investment Possess large deposits of coal, iron ore, petroleum and natural gas ga	Environmental issues becoming obstacles to sustainable growth Increasing income inequality resulting in social tension
SOUTH AFRICA	Abundant deposits of gold, platinum, coal and chromium Fairly stable political environment Competitive financial and business service sector	Very high unemployment rate The insignificance of the country's economy compared to other BRICS members Rising labour cost Declining manufacturing sub-sector to GDP

Source: South Africa's Position in BRICS Quarterly Bulletin: January to March 2013.

The economic size and trade capacity of a country plays an important role in determining its success in multilateral trade with other countries. The economic structures of BRIC countries are inadequate. An economic assessment indicates the following in terms of:

- **Gross Domestic Product**

GDP indicates the amount of economic production taking place in an economy, calculated as the total output within a specific year. A good economy also promotes investment by allowing companies to realise high profits, which in turn means high stock prices. Economic size is measured using the World Bank's Purchasing Power Parity (PPP) levels. GDP at PPP uses exchange rates to benchmark the sum value of all goods and services produced in a country valued at prices prevailing in US$.

China's GDP has increased from a low $514 billion in 1980 to $9.9 trillion in 2011, making it the second largest economy in the world. India's economy seems to also be gaining momentum, as it has increased from a low of $615 billion in 1980 to $3.9 trillion in 2011. Brazil has had gradual growths in the size of their GDP. South Africa does not only have the smallest GDP in BRICS (at $475 billion in 2011), it is the only country that has seen very little growth in the size of its GDP. All the BRICS countries have proven to be able to grow their economies greatly and are becoming potentially large economies, but South Africa has not shown this potential to be a developed economy.

- **Savings and Investment**

A high savings rate allows for large investments to take place in an economy, thereby stimulating economic growth. Within BRICS, China has the highest saving and investment as a percentage of GDP, increasing from 38 per cent in 2000 to 54 per cent in 2009 before contracting to 50 per cent in 2012. Driven by the savings in the country, investment as percentage of GDP in China is also high, at 48 percent in 2012. South Africa has had the lowest savings as percentage of GDP since 2003, at 16 per cent and 15 per cent in 2012.

According to Trade Economics, foreign direct investment (FDI) is defined as net inflows of investment to acquire a lasting management interest in another enterprise operating in a different country. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short term capital. Besides other BRICS countries, South Africa has had a fluctuating inflow of FDI.

Brazil has a complex tax structure, with a high tax burden, complex layers of taxation, frequent changes in laws and regulations and a lack of incentives for foreign investment. Nevertheless several value chain transformation (VCT) solutions have been developed for companies to adapt to Brazil's challenges and to make use of growth opportunities. There are special regimes for relief of customs duties and other indirect taxes for products manufactured for export or for targeted industries (including automotive, aerospace, and information technology).

- **Unemployment**

A high unemployment rate in a country means that a very large portion of the labour force is not economically productive. These unemployed persons, if provided with the opportunities to be productive, can boost economic growth and reduce the burden on government to provide social support, thereby allowing governments to focus on economic development.

At 24.3 per cent in 2012, South Africa clearly has the worst unemployment rate of all the other BRICS members. South Africa therefore faces a labour market challenge due to unskilled labour.

- **Trade**

Trade is critical for growth and diversity. Countries exchange goods and services to make up for the demand for products that may not be produced locally, also where there is a shortage of supply. At US$2.08 trillion and US$1.99 trillion for exports and imports respectively, China has the highest value of trade. It is also forms the largest exporting country in the world. According to Trade Economics (2013), China exports mainly electromechanical products and labour-intensive products such as clothes, furniture and toys. The country's main imports are crude oil and iron-ore. Its economic expansion is said to be strongly supported by export growth. India had the second largest value of imports, at US$450 billion. Russia mainly depends on the energy, military and heavy industries, but the service and financial sectors are underdeveloped. Amongst the BRICS members, South Africa had the lowest value of total exports and imports at US$111 and US$140 billion respectively.

BRICS COUNTRIES TRANSFORMATION TO A DEVELOPED STATUS

A country's population and demographics, among other factors, directly affect the potential size of its economy and its capacity to function as an engine of global economic growth and development. As early as 2003, Goldman Sachs forecasted that China and India would become the first and third largest economies by 2050, with Brazil and Russia capturing the fifth and sixth spots. From 2000 to 2008, the BRIC countries' combined share of total world economic output rose from 16 to 22 per cent. Together, the BRIC countries accounted for 30 per cent of the increase in global output during the period. To date, the scale of China's economy and pace of its development has out-distanced those of its BRIC peers. China alone contributed more than half of the BRIC countries' share and greater than 15 per cent of the growth in world economic output from 2000 to 2008.

The global financial crisis, which originated in the United States in the year 2008 had a major impact on the world economy and the economic recovery prospects of developed countries. BRICS countries face a great challenge as they need to adjust their development strategies when facing the new challenge in order to achieve rapid and sustainable economic development.

The economic growth in the five BRICS countries was established on the basis of low-cost labour, abundant mineral resources, and few technological innovations. The internal and external environmental changes have caused BRIC countries to pay more attention to the urgent and difficult task of transformation. There is a general increase in the inflation rate of BRIC countries. In 2012, the exchange rate of the Russian Ruble to the United States dollar appreciated by 5 per cent and Renminbi (currency of the People's Republic of China) appreciated by 5 per cent. However, the Brazilian Real, the Indian Rupee and South Africa Rand all faced serious devaluation as the countries saw a decline in the growth of foreign investment and capital flight.

Analysing the economies of India and China, the rapid economic growth and demographics of China and India are expected to give rise to a large middle class whose consumption would help drive the BRICs' economic development and expansion of the global economy. India lags on most human development parameters, when compared with the BRIC nations since 16 per cent of total central government expenditure is locked away in subsidies whereas only 5.3 per cent goes to education, health and water and sanitation put together. The subsidy spending is highly regressive, benefiting the rich much more than the poor.

A United Nations Development Programme (UNDP) report on Human Development Index (HDI) released in Tokyo revealed that none of the BRICS countries were in the high human development category and India remained at the bottom with lowest HDI value among them. The reasons advanced are that the volume of trade is inadequate, the industries do not complement each other sufficiently and information exchange needs, especially with reference to information and communication networking needs to be strengthened.

The Russian economy has recovered at a satisfactory pace in 2011-2012, as demonstrated by stable GDP growth (4.3 per cent in 2011), a falling inflation rate and a year-on-year rise in real disposable income. Together with the overall size of its market, these positive indicators continue to make Russia one of the top-tier countries for many multinational corporations. In 2012, Russia finally became a member of the World Trade Organisation (WTO).

The question that arises in the context of the future of BRICS nations is whether export-oriented production and globalization strategies are playing an important role to transform the BRICS economies from an emerging status to a developed one.

A solution for the BRICS economies as advanced in the BRICS summits that take place every two years is that these economies should become more integrated with each other and with other developing country economies, along the lines of the "South-South Trade" or "South-South Cooperation" strategies that have long been propounded by many progressive economists. The other solution is for the BRICS nations to adopt policies aimed at radically reducing income inequality and thus creating vibrant domestic markets qwith an emphasis on trade and investment issues to facilitate growth and development of the BRICS economies as well as the world economy.

CONCLUSIONS

The BRICS economies have been among the key beneficiaries of corporate-driven globalization that have been influenced by key important variables such as the advantage of having huge population providing low cost resource advantages in the international division of labour. When the global financial crisis broke out in 2008, the BRICS nations at first seemed to be dragged down by the collapse of their markets in the North, with their growth rates slowing down significantly. But, through stimulus-driven programs, their recovery has been to their advantage. For instance, in China, a \$586 billion stimulus program, keeping in mind their population size and economic growth rate was bigger in value in relation to the size of the United States \$787 billion stimulus package.

Recognizing the important role that the BRICS countries have to play in the world economy, it can be realized with the help of promotion of rapid economic development through a social atmosphere of innovation financed through the New Development Bank (NDB) also known as the BRICS Development Bank NDB is a multilateral development bank in Shanghai that was introduced with the sole purpose to foster greater financial and development cooperation among the five emerging markets.

The BRIC countries of China, India and Brazil account for much of the dramatic increase in science and research investments and scientific publications. Since 2002, global spending on science Research and Development (R&D) has increased by 45 per cent to more than \$1,000 billion (one trillion) U.S. dollars. From 2002 to 2007, China, India and Brazil more than doubled their spending on science research, raising their collective share of global R&D spending from 17 to 24 per cent. China's development planning has targeted a number of scientific fields and related industries, including clean energy, green transportation and rare earths, among others. By 2020, China plans to invest 2.5 per cent of GDP in science research.

Brazil who was lagging behind in the educational sector has improved over the decades. With the opening up of the Indian economy since 1991, India's balance of payments have improved through the government intervention of encouraging entrepreneurs to come forward and invest by providing loans, delicensing facilities and so on. In the budget of 2015, the Government of India has opened up a certain part of the defence sector to foreign direct investment.

The European Union is the largest trading partner accounting for 20 per cent of Indian trade. According to the report in 2010, India was the eighth largest trading partner behind China and Russia. Forty-one per cent of India exports to Brazil in 2012 consisted of diesel which was exported by Reliance industry. Bi-lateral trade with Brazil accounted for two per cent of Brazil's trade of 408 billion dollars. India has been the second largest market for the Russian defence industry.

The development of an economy depends on qualitative and quantitative indicators like national income, physical quality of life index for future investment and growth in the economy.The overall growth story for the BRICS economies is that they are developing into significant-end markets for multinationals.

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AUTHOR DETAILS

Dr. (Mrs.) Ablin Joanes Carneiro-Alphonso is an Assistant Professor in Department of Economics at Rishi Dayaram and Seth Hassaram National College and Seth Wassiamull Assomull Science College, Mumbai, India. She has been awarded a Ph.D. Doctorate in Economics by University of Mumbai in the year 2012 for her study on: 'Domestic Software Industry – A Study of Post-Liberalisation Scenario in Mumbai'. She has won the H. R. Batheja Gold Medal for Industrial Economics at the Postgraduate Level.