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Emerging Economies, Emerging Horizons

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In the twenty-first century, growth in emerging economies outstripped growth in developed economies to the point that they have become drivers of the world economy. This chapter discusses the rise of emerging economies, why they are important, through what lenses they can be viewed, what discussions they have generated, phases in the rise of emerging economies, and their role in international finance.

Some basics first. Emerging markets (EMs) are developing countries with sustained growth over 5%; they number 23. Advanced economies number 23 and developing countries 60, per 2010 (Kose and Prasad 2010). Emerging markets and developing countries represented 45% of world gross domestic product (GDP) in 2011 (at the time they were anticipated to rise to 60% by 2030). The developing world's share of global GDP in purchasing power parity (PPP) terms was 33.7% in 1980, 43.4% in 2010, and 50% in 2013.

Finance and business use the term emerging markets. Emerging economies is a term used in global political economy and development studies, a successor to the earlier terminology of newly industrializing countries NICs. International relations and political science typically use the term emerging powers (see Mahrenbach (Chap. 14), this volume). EM is one among many investment memes that have been in circulation over the past three decades. A sample is in Table 15.1. The proliferation of investment memes indicates the growing importance of this category.

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Table 15.1 Investment memes

EM, EME	Emerging markets, Emerging market economies
BRICS	Brazil, Russia, India, China, 2001, with South Africa, 2010
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa
MINT	Mexico, Indonesia, Nigeria, Turkey
MIST	Mexico, Indonesia, South Korea, Turkey
PINEs	Philippines, Indonesia, Nigeria, Ethiopia
N-11	Next 11 growth economies (Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey, Vietnam)
EAGLES	Emerging and Growth-Leading Economies
7% club	Countries that have averaged growth of at least 7% a year
E7	Seven largest emerging economies (BRICs, Indonesia, Mexico, Turkey)
'Fragile five'	India, Indonesia, Brazil, South Africa, Turkey, 2013
Growth markets	Indonesia, South Korea, Mexico, Turkey
SICS	Systemically important countries (BRIC, Mexico, South Africa, Turkey, South Korea)
VARP	Vietnam, Argentina, Romania, Pakistan, 2016

The rise of emerging economies stems from wider structural trends. One is the widening international division of labour that took shape in the 1970s when industries in advanced economies relocated basic operations in low-wage zones. The second major trend is the rise of Asia that began with the rise of Japan, followed by East Asia, India, and China. The rise of emerging economies includes and follows the 'East Asian miracle' of the 1990s. With the rise of Asia has come the growth of global East-South trade, energy, financial, and political relations. The rise of Asia is a 'return of the East' and is part of a long time series.

According to Kemal Dervis, then director of the United Nations (UN) Development Programme (UNDP), globalization in the past was a profoundly 'unequalizing process', yet 'today, the process is rapidly turning on its head. The south is growing faster than the north. Southern companies are more competitive than their northern counterparts… Leading the charge is a new generation of southern multinationals, from China, Korea, India, Latin America and even the odd one from Africa, aggressively seeking investments in both the northern and southern hemispheres, competing head-to-head with their northern counterparts to win market share and buy undervalued assets' (quoted in Peel 2005; see also Talani (Chap. 26), this volume). This matches several upbeat accounts (such as Marber 1998; Agtmael 2007). Also optimistic though complex in its assessments is the Human Development Report 2013, *The rise of the South* (UNDP 2013).

According to International Monetary Fund (IMF) estimates, China and India will overtake the GDP of the world's leading economies in the coming decades. China passed the GDP of Japan in 2015 and will pass that of the US by 2025. In 2005, China surpassed the US as Japan's biggest trading partner, surpassed Canada as the biggest trading partner of the US, and surpassed the US as the world's top choice of foreign direct investment. If these trends continue, China will soon become the biggest trading partner of practically every nation. By 2025, the combined GDP of the BRICs—Brazil, Russia, India, China—would grow to one-half the combined GDP of the G6 (US, Japan, Germany, France, Italy, Britain). By 2050, according to a Goldman Sachs paper, the combined BRICs will surpass that group. 'China, India, Brazil and Russia will be the first-, third-, fifth- and sixth-biggest economies by 2050, with the US and Japan in second and fourth place, respectively' (Whelan 2004).

We can view the rise of emerging economies through various lenses—such as twenty-first-century globalization, the rise of the rest, and oriental globalization. Each perspective involves different dynamics, emphases, and time series. The keynote of twenty-first-century globalization as a lens is a comparison of the 1980–2000 era of neoliberalism and the Washington consensus and the twenty-first-century rise of emerging economies. While this involves large pattern changes, they are gauged in short-term changes. The degree to which these are trends or blips, time will tell. As a lens, twenty-first-century globalization is episodic, with an argument structure in the order of 40 years (1980–2020).

The 'rise of the rest' is a much wider angle than twenty-first-century globalization. Then the rise of emerging economies is part of long time series. This perspective enables us to view ongoing developments in the context of dynamics that unfold over 100 years or more. Alice Amsden used the notion of the rise of the rest in her book about the new industrializing economies of Northeast Asia, in particular, South Korea (Amsden 2003). It was a spoof, of course, on the rise of the West. Yet, a subtext of the rise of the rest is that it implicitly accepts the narrative of the rise of the West—the West rose and now it's the turn of the rest—and thus implicitly recycles a Eurocentric account of global history. Besides, the category is rhetorical and too wide; not *all* the rest is rising. Least developed countries, especially landlocked low-income countries such as Niger and Burundi, have not been rising. A perspective with a still longer time frame is oriental globalization, which involves the theme of the return of the East. Asia was the driver of the world economy during 18 of the past 20 centuries. Accordingly, oriental globalization preceded occidental globalization by many centuries, from about 500 CE (Nederveen Pieterse 2018 devotes a chapter to oriental globalization).

Narratives of Emergence

Until fairly recently, the rise of EM was a straightforward account of *convergence*: developing countries are growing faster than developed countries, hence in the not too distant future, for some countries even within a generation or so, they will converge with developed countries in per capita GDP and living standards.

A strong version of this account was the idea of *decoupling*; during the noughties, the growth of EM was so momentous that they no longer seemed to depend on advanced economies. The 2008 crash belied this notion, which was controversial all along. When slowdown in the US was followed by downturn in Europe, lagging demand in advanced economies caused slowdown for exports from emerging economies, notably China.

The idea that per capita GDP in developing and developed nations is converging has fallen by the wayside; it is occurring but much more slowly than was thought earlier. What came in its stead is the idea of the *middle-income trap*. Long time series of developing countries show that, as they rise to a level of around 30% of the living standards of the US, they often remain stuck at that level (Gill and Kharas 2007). This idea too has been tempered. According to later World Bank research, it isn't actually a 'trap'; but still the transition to a high-income economy and living standards remains difficult (Gill and Kharas 2015). Achieving high-income status remains part of the vision programmes of several countries, such as Malaysia's Vision 2020 and China's Vision 2050.

Why is the rise of emerging economies important? First, their above-average growth affects the world economy. With it comes a reconfiguration of the world economy which involves a 'new geography of trade' in relations between Asia, Latin America, the Middle East, and Africa. In development studies, the talk is of 'Asian drivers' of growth in developing countries (Kaplinksy and Messner 2008). Emerging economies are increasingly fulfilling core functions on the world stage—acting as development role models, providing markets, loans, aid, and security, with China as the leading force. Emerging economies don't just play this role in relation to developing countries; some of their model, creditor, and stabilizing functions unfold at a global level.

Second, with growing middle class and urbanization in developing countries come their growing importance as markets of goods and services across a wide spectrum, including luxury goods and investment markets (see Dayton-Johnson (Chap. 11), this volume). This involves long- and short-term dynamics. The growing middle class and urbanization in developing countries is a long-term trend, while consumption patterns, life-styles, and ideological leanings are trend-sensitive and subject to fluctuations in purchasing power and volatility.

Third, the role of emerging economies in finance has been growing as well. Sovereign wealth funds from Asia and energy-exporting countries provide credit on a world scale and to international financial institutions (Teslik 2009). 'It was the emerging markets, most notably China, that pulled the world back from the brink of financial meltdown' (Oakley 2009). In the noughties, there was a remarkable reversal of creditor-debtor relations between the US and Asia and Middle East oil exporters, remarkable because it unfolded in international finance, the powerhouse of Western influence through which the US has sought to shape the course of emerging economies. High growth in emerging economies relative to slow growth or stagnation in advanced economies means their growing importance for international finance.

Fourth, there has been a reversal, too, of perspectives on globalization and classic economic postures. EMs are now the world's leading protagonists of free trade while the US and advanced economies opt for protectionism. Xi Jinping's presentation at the Davos World Economic Forum 2017 stands in marked contrast to President Trump's 'America First' policies and protectionist trade tariffs.

Fifth, it portends a reconfiguration of world order, though so far much of this is only dimly visible on the horizon. The unipolar world is no more nor is the world of the big powers, as the shift from the Group of Eight (G8) to the Group of Twenty (G20) in the wake of the 2008 crisis indicated (Altman 2009). Yet, even as hegemonic capacity isn't what it used to be, some of the habits of hegemony and following hegemony linger on. Global governance is 'still lost in the old Bretton Woods' (Editorial Financial Times 2009). The G20 may actually be a step back for it expands the rule of big countries over small countries and has transformed into an arena of contention over trade and currencies. Political transformations are more salient at regional levels, as in the Shanghai Cooperation Organization, the Association of Southeast Asian Nations (ASEAN) Economic Community, China's Free Trade Agreement (FTA) with ASEAN, ASEAN plus Three, and cross-regional cooperation such as India, Brazil, and South Africa (IBSA) and between Gulf Emirates and Asian countries. China's Belt and Road Initiative (BRI) is a major project of global historical significance (Nederveen Pieterse 2018).

Taken together, these trends signal a tipping point in history. North-South relations have been dominant for about 200 years (1800–2000) and current trends see the onset of an East-South turn. That emerging economies are the world's leading economies in the twenty-first century is a profoundly significant turnaround of a 200-year pattern of North-South domination and its familiar expressions of colonialism, imperialism, and American hegemony. It poses major questions, which cannot all be addressed here.[1] Is the rise of East Asia, China, and India just another episode in the rise and decline of nations, another reshuffling of capitalism, a relocation of accumulation centres without affecting the logics of accumulation? Does it advance, sustain, deviate from, or halt neoliberalism? What is the relationship between zones of accumulation and regimes of regulation? What are the ramifications for social inequality? The rise of Asia has been interdependent with neoliberal globalization and yet unfolds outside the neoliberal mould. Is the lead of emerging economies a temporary deviation or does it reflect structural transformations? Is above-average growth sustainable over time? Across which dimensions does it unfold? The lead of the Global North (or the West) involved a technological lead, summed up as the industrial revolution along with second, third, and fourth waves of industrialization (see Brass and Hornsby (Chap. 38), this volume). Is the rise of emerging economies merely a matter of growth numbers (GDP-ism, as they say in China) or does it involve more profound transformations, including technological changes and sociopolitical institutions?

The US, Europe, and Japan rode the previous wave of globalization during 1970–2000, but in recent years, their lead in manufacturing, trade, finance, and international politics has been slipping. The US set macroeconomic rules through the Washington consensus, in trade through the World Trade Organization (WTO), in finance through the IMF and the US dollar standard, and in security through its hegemony and formidable military. Each of these dimensions has been out of whack for some time. The old winners are still dominant in several domains, but in production and services, education and demography, the advantages are no longer squarely with the old winners. In several respects in the maelstrom of contemporary globalization, the incumbents have become conservative forces. Compare the 1980–2000 era of neoliberalism and the Washington consensus and the twenty-first-century profile of emerging economies. The twenty-first-century momentum is markedly different from twentieth-century globalization and involves a new geography of trade, a shift in the organization of market economies towards state-led capitalism, weaker hegemony, and growing multipolarity.

Hence, there are now three sets of relations to consider. First, between the *core and semiperiphery*, or between incumbents and new forces; second,

[1] These questions are addressed in Nederveen Pieterse 2018. This article draws on some chapters in this book.

relations between *the semiperiphery and periphery*, East-South or South-South relations, such as between China and Africa and Latin America, which is the theme of a fast-growing literature; and third, relations *within* semiperipheral countries, between industrial and agro-mineral sectors, between rich and poor, and between urban and rural populations (Nederveen Pieterse and Rehbein 2009).

Phases in the Rise of Emerging Economies

The rise of emerging economies is the most obvious and widely discussed pattern change in the twenty-first century. It shows a steep upward curve during the noughties, a downturn after 2009 and rollercoaster trends since then. Since the early 2000s, the rise of emerging economies has gone through several phases, interacting with wider changes in the world economy. Thus, the reasons why emerging economies are important changes over time, their rank order changes over time, and their significance will continue to fluctuate over time.

So far, four phases of twenty-first-century globalization have unfolded: (1) High growth of EMs and the commodities boom of 2003–2013; (2) the crash of 2008 and recession in the US and Europe, followed by slowdown in EM; (3) from 2011, recovery in the US and repositioning of EMs, especially China; and (4) a trend break with Brexit and the election of Donald Trump, in which in the erstwhile champions of trade liberalization, majorities reject trade liberalization. An overview is in Table 15.2.

The boom phase ended with the 2008 crash. When the ripples of crisis also affected the EU, slowdown spread to EMs, and countries shifted to crisis management mode. Along with the shift from the G8 to the G20 came a

Table 15.2 Phases in the rise of emerging economies

Period	Headings	Keynotes
2000–2009	Boom	High growth, commodities supercycle
		Surge of East-South trade
2008–2012	Crash and rebalancing	Austerity in EU; QE in US, UK, Japan, EU
	2009–2010 Stimulus	In advanced economies 4.2% GDP
		In emerging economies 6.9% GDP
2013–2015	Stormy weather	EM reorient towards regional, global South and domestic markets
		US proposes TPP, TTIP
		China starts Belt and Road Initiative (BRI)
2016	Brexit, election of Trump	End of TPP, TTIP; rise of China-backed RCEP

comeback of the IMF, now with funds from EM and a commitment to increase the vote quota of developing countries. American crisis management involved bank bailouts, stimulus spending, and quantitative easing (QE, tapering off in 2014–2016). Austerity in the European Union deepened slowdown. EMs' sovereign wealth funds stepped into the liquidity gap in advanced economies and moved in and out of financial assets (see Xu (Chap. 27), this volume). China intervened with a massive stimulus programme, marking a shift from export-led to investment-led growth. China's momentous stimulus spending kept up growth but also set a precarious course of overinvestment and growing debt.

Emerging economies have gone through the crises of 1990s, have learned from the Asian crisis of 1997–1998, and experienced a fast comeback after the 2008 crisis. EM had a 'good crisis', their high growth resumed, domestic and regional markets are growing, they borrow at cheap rates, and they have mostly young populations. Asian EMs have grown faster than developed countries during every year since 1980 (except 1998). Their rise represents historical depth as well as a deeply rooted historic shift.

The end of the commodities supercycle, slower growth in China, and the tapering off of QE in 2013–2014 ushered in phase three. Commodities demand meant easy revenue and QE meant easy money; when both were no longer available, growth slowed across EMs, currencies fell, interest rates rose, and the receding tide revealed who had been bathing without trunks. With interest rates rising in the US, credit shrunk for EMs. Because their domestic financial markets are smaller, EMs rely more on foreign capital than developed countries and foreign capital is susceptible to fluctuations (due to political instability, reputation issues, and external shocks). Debt bubbles popping in several EMs, particularly in oil-exporting countries, triggered debt crises and brought back the IMF, with the usual conditionalities.

Curves to Watch

The rise of EMs is an expression of several curves. One is the demand for commodities—as an expression of industrialization and urbanization, notably in Asia and Latin America. In a structural sense, this matches the post-war decades when industrialization in the US, Europe, and Japan drove worldwide demand for commodities. It found expression in the commodities' supercycle of 2003–2009, which tapered off after the crash of 2008. In the years ahead, will demand for commodities climb back up in view of ongoing urbanization and infrastructure investment, particularly in Asia? Because it concerns structural transformations, this is likely to continue though at a lower clip than in the past.

The second curve is industrialization. With more and more EMs entering industrial export-led growth, industry becoming more globalized and dynamic and manufactured goods becoming cheaper, is industrialization a sustainable growth path? Industrialization as a growth path requires climbing higher on the productivity ladder, or else it may lead to 'premature deindustrialization' (Rodrik 2015). Growth economies such as South Korea and Taiwan—which have emerged already—may be able to continue doing this, but are others?

The third curve is institutional transformation (e.g. Ezrow et al. 2016; Pérez Caldentey and Vernengo 2017; Nederveen Pieterse et al. 2017). Will EM be able to establish institutions of accountability and responsive governance? Major corruption investigations in China, South Korea (Hyundai, Park, Samsung), Brazil, and Latin America (Lava Jato, Odebrecht), South Africa (Gupta brothers), Saudi Arabia, and disclosures such as the Panama Papers signal that transformations are underway. Since across all emerging economies, the public sector is far more important than in the free market fundamentalism that prevailed during the period 1980–2000, the quality of state institutions is a variable of crucial importance. It is important in relation to the quality of growth and with a view to social inequality. The quality of governance has also become part of international investment monitoring (discussed later). The Asian Infrastructure Investment Bank, the BRICS, New Development Bank, the Chiang Mai Initiative, and the Asian Bond Fund all subscribe to international standards of governance; China's BRI, however, does not. This is a vulnerable point for a major historical investment programme, which is increasingly under discussion in China and internationally.

The fourth curve is ecological sustainability, which is of global significance. Are EMs able to marshal resources in sustainable ways in energy use, urban design, industrial technology, and agricultural transformation?

The trend break of 2016 with Brexit and the election of Donald Trump as US President signals another turn in the road. It reveals profound imbalances and growing socio-economic inequality in liberal market economies. The Atlantic economies, the torchbearers of neoliberalism, and the 'liberal international order' have yielded to so-called populism and unstable paths. At this stage, Nordic Europe and Northeast Asia are anchors of the world economy, China ranks as the main driver of world economic growth, and emerging economies emerge as more important than before. Since EMs are new forces, theirs is a different path dependence than advanced economies. They engage in new transnational combinations that gradually reshape global dynamics.

In sum, features of the rise of emerging economies include the following:

- Growth—developing countries have been growing much faster than developed countries (which continues in phase three at a slower pace).
- Demand for commodities in China and other EMs generated a cycle of high prices.
- Fast-growing middle classes—which involves new purchasing power and innovation and draws Western companies and brands to EM.
- Convergence—a gradual convergence of per capita incomes (which is now far off).
- A global East-South turn—developing countries no longer rely on Western institutions but on markets, loans, investment, aid from Asia and other EM.
- New institutions—such as the BRICS, New Development Bank; the Asian Infrastructure Investment Bank; China's BRI; and new cooperation and trade pacts in Asia.

Investment Horizons

The main sources of information on emerging economies are international institutions, the IMF, World Bank, and UN agencies such as UNDP, regional development banks, such as the Asian Development Bank, and international finance. International finance is the most influential driver of information that frames perceptions of emerging economies in Western media (such as *The Economist*, *Financial Times*, *Wall Street Journal*, *Bloomberg Businessweek*, *Fortune*) and to some extent, media generally.

EMs are often perceived through the lenses of the investor class, by analysts such as Jim O'Neill (Goldman Sachs), Ruchir Sharma (Morgan Stanley), Mohamed El-Erian (Pimco, Allianz), Stephen Roach (Morgan Stanley Asia), Mark Mobius (Templeton EM), consultancies such as McKinsey, PwC, BCG, Ernst &Young, and banks and insurance companies such as Allianz. Analyses are often incisive but are from international finance angles, the world viewed from Davos, often short term with a view to return on investment.

Ever since the rise of EM as an asset class, the refrain has been volatility and risk. A *Wall Street Journal* headline echoes the refrain: 'Risks lurk in emerging markets'. Yet, at the end of 2017 'Emerging market stocks and bonds are among the best assets globally on a total-return basis… the gap between yields on EM sovereign bonds and U.S. Treasuries has narrowed. Volatility has been low', even taking into account several sovereign credit ratings trending down and numerous corporate downgrades in EM (Trivedi 2017).

Even so, by some assessments, the EM asset class has gradually lost credibility. The main indices, the MSCI EM Index, the benchmark for global equity investors in 24 economies (tracked by US$ 1.6 trillion in funds) and the Financial Times Stock Exchange (FTSE), which together involve US$ 8.5 trillion market capitalization (Charles Schwab 2017), and the JP Morgan EM Bond Index in bond markets, have not fared well since the 2008 crisis. Now other indices outperform the benchmarks, notably the environmental, social, and governance (ESG) standards: the MSCI EMF ESG Leaders Index has outperformed the MSCI EM Index in every year since the 2008 crisis (Kynge 2017).

Thus, once the easy money is gone (energy, commodities, and QE in advanced economies), investor attention shifts to institutional governance standards. In phase one, finance followed commodities trade (the Asian drivers), in phase two, finance followed QE (money from advanced economies that parachuted into developing countries), while in the current phase, finance begins to approximate some of the development and governance criteria of institutions such as the World Bank and UNDP because adoption of these standards reduces volatility. An unusual but welcome marriage of convenience of international finance and international development.

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