

THE TEN BIG EMERGING MARKET INITIATIVE A DECADE LATER: MEASUREMENTS AND COMMENTARY

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In 1993 the U.S. Commerce Department crafted the United State's National Export Plan focusing on what were identified as the Ten "Big Emerging Markets" (BEMs). The initiative's goal was to facilitate trade with the ten markets resulting in U.S. job growth due to the increase in exports. Data are now available to analyze the initiative ten years after its inception and this point in time affords a unique opportunity to review the projections that were the cornerstones of the initiative. We assess the performance of these ten economies against the original projections and address issues in research addressing emerging markets.

Introduction

In September of 1993, less than ten months into his presidency, U.S. President William Clinton announced a National Export Strategy for the United States, described as "a comprehensive plan that upgrades and coordinates the government's export promotion and export finance programs to help American firms compete in the global marketplace"(U.S. Department of Commerce, 1994a). The strategy was formulated based on the premise that the growth of a mature developed economy must be derived from the increasing demand in developing countries. Furthermore any significant job growth in the U.S. would be primarily the result of export growth to emerging market economies. As a result of these basic tenets, the administration had begun to scrutinize the traditional commerce initiatives and industrial policies that had traditionally been focused on Europe and Japan. With very little growth projected in these developed economies through and beyond the 1990's, growth in U.S. exports would need to come from expansion of the world's less developed economies. An interagency committee, chaired by then Secretary of Commerce Ronald Brown, evaluated over 130 economies across the globe. From this large population, a group of ten "Big Emerging Markets" (BEMs) was identified as the locations for most of the growth in international trade for the following two decades. These ten markets would be the new focal points for U.S. government trade promotions and initiatives and were believed to offer the greatest potential for market growth. The ten countries identified as BEMs in 1993 were:

Asia:	China, Indonesia, India, and South Korea.
America:	Mexico, Argentina, and Brazil.
Africa:	South Africa
Europe:	Poland and Turkey

Projections

The Department of Commerce estimated that the ten BEMs would be the largest growing markets on the globe well into the 22nd century, and projected they would triple the value of their imports (to 27% of the total world value) by 2010 providing over three-quarters of the world's economic growth for the next twenty years. In contrast, it was projected that the growth of markets in Europe and Japan, where U.S. trade had traditionally been focused would actually lag the rest of the globe. The growth in the economies of developing countries was not seen as occurring across the total breadth of emerging market economies but rather would be concentrated in the group of ten countries (Rothkopf, 1995).

It was believed by analysts that the ten BEMs not only would import more than smaller markets, but that they also would be importing more than developed nations of a similar size since the emerging countries would not have the capability to domestically produce the goods demanded by their expanding economies. It was projected that by the turn of the century the ten BEMs would be a larger import market than the European Union and that by 2010, they would be importing more than the European Union and Japan combined (U.S. Department of Commerce, 1994b).

Performance

Economic growth has not been uniform across the emerging markets of the world as depicted in Table 1 which shows the GDP growth for the period 1992-2002 for 52 emerging markets. Macroeconomic stabilization of the emerging market nations has proven to be extremely difficult to achieve. The likelihood of economic turbulence together with the potential of political instability discourages international investors from making long-term financial commitments in these markets. Lacking required support from international investors, the resulting weak capital markets in turn re-enforce the volatility of the boom and bust cycles that have long characterized these economies (Hooke, 2001). In addition to economic (and often political) uncertainties that deter investment, there has also been a failure in many of the economies to develop the institutional networks and systems required to support activities in the global business arena. For example, the underdeveloped legal infrastructures in many of these countries have provided environments that seem ineffective in erasing corruption, bribery, and other manifestations of opportunism (Nelson, Tilley, and Walker, 1998).

Established commercial legal processes and structures are the cornerstones for the development of effective corporate governance systems that control parochial self-interest. The limited experience in market based systems has resulted in little development of legal frameworks in the BEMs addressing property rights. Even when statutes have been enacted and legislated, enforcement of laws addressing the most basic issues of private ownership of property (such as exclusivity, transferability, and quality of title) has been seriously constrained (Devlin, Grafton and Rowlands, 1998; Estrin and Wright, 1999). Lins and Servas (2002) described the agency problems in emerging markets where managers run organizational entities under a system they refer to as "crony capitalism". Nepotism and favors are common as the interests of shareholders are treated as secondary to the interests of managers, government officials, and their families.

Five years after the roll-out of the Big Emerging Markets Initiative, the magnitude of this volatility of these markets was still apparent:

Developing country growth in 1998 was only 2%, roughly half its 1997 level, and is not expected to improve much this year. Private capital flows to emerging markets have all but dried up and will not soon recover. Some 36 countries, accounting for 40% of the developing world's GDP, probably suffered negative per capita growth in 1998. All across East Asia and Latin America, the social fabric continues to tear as poverty increases, with unforeseen economic and political consequences. Consider the situation in the five biggest emerging markets. Brazil is on the ropes. Indonesia is on the cusp of social revolution... China's economic reforms are under great stress as exports slow dramatically, growth rates fall well short of their targets, and regional banks default on foreign debts. India's progress is stymied by internal political paralysis (Garten, 1999).

The unpredictability that seems to be present across the entire group of ten BEMs is not limited to a few isolated sectors in some of the countries. Instability seems to be the only predictable trait both across and within the countries in the ten years that have followed their identification. Reviewing current data from the Economist.com, the Asia-Pacific Economic Cooperation Organization, Asia Times Online, Latin Focus, the United States Government's CIA World Factbook, and other sources (as cited) provides the following snapshots of the ten Big Emerging Markets in the ten years after the creation of the BEM initiative.

Argentina

Five years after the BEM Initiative was announced Argentina appeared to be a model of emerging markets. While the Argentine economy's longest ever expansion in 1991 to 1994 was impressive, it was Argentina's swift and strong recovery (with GDP growing at over 8% in 1997) after a steep recession in 1995 (fallout from the Mexican Peso crisis) that seemed to indicate that the South American country had achieved a level of stability that would serve as the foundation for a future free of the economic instability of the country's past. Comprehensive measures designed to promote market-based reforms had been enacted in the late 1980s and served as the foundation for a spectacular growth in GDP from US\$141 billion in 1990 to US\$298 billion in 1998. The Argentine government's deficit fell from an average of about 6-8% of GDP for most of the 1980s to around 2 per cent by the mid-1990s while inflation fell from a hyperinflation rate of 1000% to under 5% during the same period. (Sharma, 2002).

Table 1 GDP Growth in Emerging Markets 1992-2002

	GDP 1992	GDP 2002	GDP GROWTH 1992- 2002		GDP 1992	GDP 2002	GDP GROWTH 1992- 2002
Middle East/Africa				Europe			
Botswana	4.1	5.3	29.3%	Belarus	31.1	14.3	-54.0%
Cote d'Ivoire	12.1	11.7	-3.3%	Bulgaria	10.4	15.5	49.0%
Egypt	41.9	83.7	99.8%	Czech Republic	30.0	69.6	132.0%
Ghana	6.4	6.0	-6.3%	Greece	99.8	132.8	33.1%
Jordan	5.4	9.3	72.2%	Hungary	37.3	65.8	76.4%
Kenya	8.0	12.1	51.3%	Kazakhstan	27.4	24.2	-11.7%
Morocco	28.5	37.3	30.9%	Latvia	6.4	8.4	31.3%
Nigeria	32.7	43.4	32.7%	Lithuania	11.4	13.8	21.1%
Saudi Arabia	123.2	188.5	53.0%	POLAND	84.0	187.7	123.5%
SOUTH AFRICA	130.5	104.2	-20.2%	Portugal	97.7	121.3	24.2%
Tunisia	15.5	21.2	36.8%	Romania	28.4	42.4	49.3%
Zimbabwe	6.8	8.3	22.1%	Russian Federation	442.1	346.5	-21.6%
				Slovenia	12.5	21.1	68.8%
				TURKEY	158.9	182.8	15.0%
				Ukraine	91.5	41.4	-54.8%
				Uzbekistan	20.2	7.9	-60.9%
Asia				Latin America			
Bangladesh	31.7	47.6	50.2%	ARGENTINA	228.8	102.2	-55.3%
CHINA	454.6	1,232.7	171.2%	BRAZIL	390.6	452.4	15.8%
INDIA	244.2	510.2	108.9%	Chile	41.9	64.2	53.2%
INDONESIA	139.1	172.9	24.3%	Columbia	49.2	82.2	67.1%
KOREA	314.7	476.7	51.5%	Ecuador	21.1	24.3	15.2%
Malaysia	59.2	94.9	60.3%	MEXICO	363.6	637.2	75.2%
Pakistan	51.7	68.8	33.1%	Peru	36.1	56.9	57.6%
Philippines	53	77.1	45.5%	Venezuela	60.8	94.3	55.1%
Sri Lanka	9.7	16.6	71.1%	Yemen	5.8	9.7	67.2%
Thailand	2.5	5.2	108.0%	Tunisia	15.5	21.2	36.8%
Vietnam	9.9	35.1	254.5%	Tanzania	4.6	9.4	104.3%
				Sri Lanka	9.7	16.6	71.1%

All data in \$US Billions

The inherent frailty of emerging markets was never more apparent, however, then when the Argentine economy collapsed in the face of an economic crisis and currency devaluation in its largest trading partner (and largest trade competitor): Brazil. In December 2001 Argentina defaulted on US\$155 billion of central and provincial government debt--the largest governmental financial default ever.

The Argentine economy recorded a remarkable rebound in 2003. With a robust agricultural sector leading the way, the economy grew by 8.7% in 2003 - the first expansion in five years with 2004 growth projected at 7%. While unemployment has fallen from almost 22% in 2002 it still stands at over 15%. Almost half of the population lives below the poverty line (almost double the poverty rate of 1993). Even if the country continues its vigorous recovery,

it will take years (or even decades) to merely return to 1998 levels (Wucker, 2002). To sustain the recovery, foreign investors will need to once again believe in Argentina's future, not a level of confidence that will be arrived at easily or quickly (if ever).

Brazil

Charles de Gaulle once said, "Brazil has a great future. But it always will have." Although Brazil is Latin America's largest economy and one of the most stable democracies in a troubled region, economically it has a troubled past with a long history of foreign debt defaults. In August 2002 the IMF announced a new \$30 billion loan to Brazil, the largest ever made by the IMF – even bigger than those made to Asian countries in 1997 and 1998. With debt at a staggering 60% of GDP, Brazil's external debt remains one of the highest among the BEMs while its real GDP growth rate (1.82 per cent in the 1990s) remains one of the lowest (Amann, 2002).

Private investors are crowded out of the market by the government which, in turn has almost no money for investment itself after satisfying interest and social security expenditures. Foreign investment has plunged and it has been estimated that the country would need to invest 22% of GDP to sustain economic growth of 3 1/2% a year. In addition to the impossibility of this level of investment it is not likely that unemployment would be reduced unless an even greater growth rate was funded (The Economist, 2004). David Samuels depicts the situation as a 'fiscal straitjacket':

Brazil's government is caught in several vicious circles: it cannot improve economic growth without lowering interest rates and reforming Brazil's tax system, but it cannot cut interest rates without sparking fears of inflation, and it has few incentives to promote broad tax reform when such reforms are likely to result in reduced revenue. Moreover, it cannot address pressing needs without increasing government spending, but the need for budget surpluses precludes transferring spending to social programs.

China

China opened its "bamboo curtain" in 1978 to move to its own brand of a mixed-economy. Now the big BEM gorilla, it has the largest GDP, the fastest-growing GDP and the largest BEM trade surplus fueled by its export-oriented policy. This seeming success, however, has come at the expense of a ballooning budget deficit. Moreover, the growth fueled by foreign investment has occurred almost exclusively along its coastal areas and large cities causing a schism among much of the populace.

China's GDP almost tripled in the period 1992 – 2002 and the most populous nation in the world is the second-largest economy in the world after the U.S. by 2003. This despite a hybrid system than at times seems to embody the worst results of socialism (bureaucracy and lassitude) and capitalism (growing income disparities and rising unemployment). The government has struggled to (a) sustain adequate job growth for a growing number of migrants, new entrants to the work force, and the tens of millions of workers laid off from state-owned enterprises; (b) reduce corruption and other economic crimes; and (c) keep afloat the large state-owned enterprises, many of which had been shielded from competition by subsidies and had been losing the ability to pay full wages and pensions. Beijing says it will intensify efforts to stimulate growth through spending on infrastructure projects and poverty relief and through rural tax reform.

In spite of tangible signs of opulent growth along its coast and in its cities, China remains mostly an agricultural country populated by 900 million peasants (out of 1.3 billion people). This angry underclass, now aware of the growing gap between them and the rising middle class, wants more of the riches. (Hatton, 2004)

An example of the difficulties faced by institutions rooted in command mindset attempting to generate workable policy in a market based economy is evident in the current investment environment. Realizing that a continued policy of limiting liquidity and hiking rates risked shattering a fragile financial market, the government searched for other methods to restrain the free-flowing credit that has been fueling an investment bubble (Mehring, 2004). Attempting to reign in investment growth in the real estate, steel, and automobile sectors while, at the same time, maintaining the benchmark lending rate at 5.3%, banks were ordered to stop lending to certain segments of the economy. In theory, this would allow focused growth at affordable financing rates. However, when command theory meets free market forces, the results are often far from intended.

While fewer of the old state enterprises are receiving loans, those that do enjoy the low official rate. Entrepreneurial private firms, when they can get credit at all, are paying 20% or more on the gray market. While overall official lending by banks in 2002 surged by 19%, lending to private firms fell by 17%. This escalating credit divide and crisis is negatively impacting the private sector that is carrying 70% of total employment and generating 60% of GDP. In short, China finds itself strangling the very portion of its fragile economy that it should be supporting the most. (Roberts 2004).

India

While its large economic size gives India enough energy to manage its own economy with a fair degree of autonomy, its low per capita income leaves it with comparatively little power to influence others. India is an elephant, not a lion. (Indiresan, 2004)

India's economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of support services. Government controls have been reduced on foreign trade and investment, and privatization of domestic output has proceeded slowly. India is capitalizing on its large numbers of well-educated people skilled in the English language to become a major exporter of software services and software workers.

India's economy remains beset by stubborn inefficiencies that have hindered progress and prosperity for decades, a decrepit transportation system, inadequate communication and electrical infrastructure, and an obstructionist bureaucracy. Privatization is seen as the key factor in attracting much-needed money from abroad, but foreign investors are deterred by the country's history of red tape and corruption, and by restrictions that prevent foreigners from holding controlling stakes in key industries. In 2003, investors were stunned when India's Supreme Court derailed the government's attempt to sell stakes in two state-owned oil refineries. (Adiga, 2004)

On March, 13 2001, the news Website *tehelka.com* (which means "sensation"), released video footage that appeared to show various officials and politicians discussing and accepting bribes. These tapes create the impression of pervasive and routine corruption, which can only hurt the long-awaited "second generation" of economic reforms that would privatize big state-owned firms and reform the labor laws to make it easier for firms to fire workers. Ironically enough, the scandal is also unlikely to do much for the cause of transparency. Corruption has become a common form of fund-raising, the police and courts do not enforce limits on campaign spending, and there is no effective system of public finance (Economist.Com 2001).

India is not creating enough new jobs to keep up with the ferocious demand for work. With the working-age population (15 to 60) set to balloon, the country could face social unrest unless it can find ways to funnel a mass of poorly educated people into decent jobs. (Overdorf, 2004)

India struggles as it attempts to develop into a modern economy while 300 million of its people earn less than \$1 a day. The middle- and upper-classes thrived as growth averaged 6.2% annually in the 1990s. Outside of the booming urban areas of Bangalore, Bombay, Hyderabad, and Delhi, however, 65% of Indians subsist on agriculture, a sector that has stagnated. India's green revolution has made it more than self-sufficient in rice, wheat, and milk, and agriculture accounts for one-quarter of GDP; but it receives only 7% of India's \$125 billion in annual investment. Some 223 million Indians live in hunger, more than in all of Africa. Nearly 40% of Indians remain illiterate, and unemployment is estimated at 7-10% with ten million entering the workforce each year. (Kripalani, 2004)

Indonesia

Intensified by political and social turmoil, the impact of the Asian financial crisis was more severe in Indonesia than any other affected country. Real GDP contracted 13% from 1997 to 1998 while the rupiah depreciated by about 80% from the previous year and the annual inflation rate soared to about 70%. Several bank runs occurred as confidence in the system collapsed amid corporate loan defaults. (Bhundia, 2004).

The world's largest Muslim country, oil-rich Indonesia faces economic development problems stemming from recent acts of terrorism, unequal resource distribution among regions, endemic corruption, the lack of reliable legal recourse in contract disputes, weaknesses in the banking system, and a generally poor climate for foreign

investment. Indonesia withdrew from its IMF program at the end of 2003, but issued a “White Paper” that commits the government to maintaining fundamentally sound macroeconomic policies previously established under IMF guidelines. Investors, however, continued to face a host of on-the-ground microeconomic problems and an inadequate judicial system. Keys to future growth remain internal reform, building up the confidence of international and domestic investors, and strong global economic growth.

Indonesia’s parliament and judiciary have taken some sensible steps to deepen democracy and combat extremism, preventing its young democracy from descending into Islamist populism, military-inspired authoritarianism, or outright chaos. From 1998 to 2002, Indonesia had four presidents in as many years since the country’s highest office was decided not by a popular vote but by horse-trading among Jakarta’s notoriously corrupt and high-handed elite. The chronic political instability has derailed many urgent economic and political reforms.. (Economist.Com, 2002).

Business groups in Indonesia have tended to flourish by having access to state power. Until the mid 1990s these groups were commonly owned by ethnic Chinese or relatives of high ranking officials. Resentment at the privileges they enjoyed triggered a wave of looting in 1998 and brought about a resurgence of economic nationalism. Although many of the monopolies and favorable trading arrangements on which their success was founded have been brought to an end, most of these wealthy individuals are still well positioned and by and large have succeeded in adapting well to the new political environment. (Economist.Com, 2002b).

Mexico

Mexico, Latin America’s second-largest economy, is suffering from feeble GDP growth and rising unemployment among the BEMs. President Vicente Fox has made little progress in passing the reforms to speed up economic and social development that he promised on being elected in 2000. These include revamping the tax system to bring in more money to improve the country’s deeply inadequate education system, and liberalizing the energy sector to encourage more private investment. Mexico is a free market economy with a mixture of modern and outmoded industry and agriculture increasingly dominated by the private sector. Recent administrations have expanded competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution, and airports. Per capita income is one-fourth that of the U.S. and income distribution remains highly unequal. Trade with the US and Canada has tripled since the implementation of NAFTA in 1994. Real GDP growth was weak from 2001-2003, with the U.S. slowdown the principal reason. Mexico implemented free trade agreements with Guatemala, Honduras, El Salvador, and the European Free Trade Area in 2001. The government is cognizant of the need to upgrade infrastructure, modernize the tax system and labor laws, and provide incentives to invest in the energy sector, but progress is slow.

1995 witnessed a nearly 47% nominal depreciation of the peso, real GDP falling by more than 6% and unemployment doubling to 7.4% while consumer prices soared 52%. What may have seemed an economic recovery in the late 1990s may, in fact, have been less a sign of industrial growth than a measurement artifact of the currency devaluation. In Mexico’s case, the recession caused by the high interest rates that had been employed to support the peso, caused the currency depreciation to have an expansionary effect. Mexico’s difficulties have deepened poverty as well as increased an already appalling income distribution (*Baldacci, de Mello, and Inchauste, 2002*).

Poland

Poland has steadfastly pursued a policy of economic liberalization throughout the 1990s and today stands out as a success story among transition economies. Even so, much remains to be done. Legal and bureaucratic obstacles alongside persistent corruption hamper further development. Its agricultural sector remains handicapped by structural problems, surplus labor, inefficient small farms, and lack of investment. Restructuring and privatization of “sensitive sectors” (e.g., coal, steel, railroads, energy) have stalled. Reforms in health care, education, the pension system, and state administration have resulted in larger-than-expected fiscal pressures. The government’s determination to enter the EU, scheduled for May 2004, has shaped most aspects of its economic policy and new legislation. Improving Poland’s export competitiveness and containing the internal budget deficit are top priorities. The zloty has recently depreciated in relation to the euro, while currencies of the other euro-zone aspirants have been appreciating.

Investigating economic conditions and performance in Poland over the ten years after it was designated as a BEM yields a picture of two distinct Polands. The first personality that emerges is one of hard-working entrepreneurs, a nation of well skilled industrial workers financed by an ever-increasing group of eager foreign investors. The other face of the Janus, however, features almost dysfunctional systems embedded in the bureaucracy of a communist-era welfare state where it can take up to eight month to process an application to start a new business. This second Poland is the one with almost no transportation infrastructure and a budget deficit approaching 7.5% of GDP (Fairlamb and Turek, 2004).

South Africa

South Africa has well-developed financial, legal, communications, energy, and transport sectors; a stock exchange that ranks among the ten largest in the world; a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region; and the lowest external debt of all the BEM countries.

South African economic policy has been focused on targeting inflation and liberalizing trade as means to increase job growth and household income but apartheid remains the legacy of this resource-rich country. With the largest unemployment rate of all the BEMs, half its population remains in poverty.

The United Nation's 2004 Human Development Report, described what it referred to as a "vicious cycle of poverty, inequality and unemployment in South Africa" which it unabashedly identified as "one of the most unequal societies on the planet". The report identified significant inequalities strongly differentiated along racial lines in South Africa where "the average income in 2001 of a white household was six times more than that of an African household," and the unemployment rate among black people over two-and-a-half times greater than others (Nevin, 2004).

South Korea

The Westernized half of the Korean peninsula has grown tremendously in its post-war era. Among the BEMs, it has the highest per capita GDP, the lowest poverty rate, and the largest BEM budget surplus.

Since the early 1960s, South Korea has achieved an incredible record of growth and integration into the high-tech modern world economy. This success was achieved by a system of close government/business ties, including directed credit, import restrictions, sponsorship of specific industries, and a strong labor effort. The government promoted the import of raw materials and technology at the expense of consumer goods and encouraged savings and investment over consumption. The Asian financial crisis of 1997-99 exposed longstanding weaknesses in South Korea's development model, including high debt/equity ratios, massive foreign borrowing, and an undisciplined financial sector.

Turkey

Straddling Asia and Europe, this secular Moslem country blends East and West. Its twin budget and trade deficits fuel the highest inflation of the BEMs. The budget deficit is largely due to the huge burden of interest payments.

Turkey's dynamic economy is a complex mix of modern industry and commerce along with a traditional agriculture sector. It has a strong and rapidly growing private sector, yet the state still plays a major role in basic industry, banking, transport, and communication. The most important industry – and largest exporter – is textiles and clothing, which is almost entirely in private hands. In recent years the economic situation has been marked by erratic economic growth and serious imbalances. Perhaps because of these problems, foreign direct investment in Turkey remains low..

In 2000, an unlikely but durable three-party coalition took office, drew up a disinflation program with the IMF, led an effort to have Turkey accepted as a candidate for membership of the European Union, and zealously set about all manner of reforms. But jittery investors pulled \$5 billion out of Turkey that year as the central bank's foreign reserves of less than \$20 billion were at risk of being depleted. The government's own ability to raise money was threatened by the absurdly high interest rates. In May of that year, the ruling coalition fell out over the selection of a new president. In November, a banking crisis brought the country to the verge of financial meltdown, requiring a rescue by the IMF with a \$7.5 billion loan. In late 2000 and early 2001 a growing trade deficit and serious

weaknesses in the banking sector plunged the economy into crisis – forcing Turkey to float the lira and pushing the country into recession

Analysis

Although the data in Table 1 seem to validate the anticipated growth of the BEMs, does not provide any real answers concerning the accuracy of the projections made by the Commerce Department in 1993. As previously stated, projections on the intermediate to long range performance of the economies of the ten BEMs were far more relative (in comparison to the U.S.'s traditional trading partners) than absolute. More important than economic growth of the ten BEMs versus traditional U.S. trading partners however is the final result of the economic growth. The Big Emerging Markets Initiative was founded on the creation of U.S. jobs that would result from increased demand for U.S. imports by the emerging economies. Table 2 presents the comparative data for the ten BEMs and ten traditional partners.

In cases where GDP growth has generated increased demand, many U.S. firms eschew what they perceive as protectionist stances by BEMs in favor of more open contexts of traditional trading partners. A case has also been made that much of the demand that has been generated in the BEMs is for relatively unsophisticated products on which the U.S. does not compete well. Even when U.S. firm are successful in exporting in these categories, any resultant increase in demand for labor tends to be in lower paying jobs. (Tonelson, 1995).

Discussion

Engaging in research on emerging markets reveals three central difficulties encountered in studying public policy and economic initiatives in developing regions of the world. They are:

- A lack of clear definition of what constitutes an “emerging market”
- Data sources of questionable consequence and quality
- The confounding effect of self fulfilling prophesies

Defining Emerging Markets

While the term “emerging market” is commonplace across a number of fields and perspectives the designation lacks a clear specific definition and approaches the often paraphrased Justice Potter Stewart’s designation of “shall not today attempt further to define . . . but I know it when I see it”. (Jacobellis v. Ohio, 378 US 184, 1964). In some fields the term refers not to countries but rather is understood to be the emerging stock markets in developing countries. While there is no commonly accepted definition, Arnold & Quelch (1998) identified three characteristics of a country's economy that are addressed by the various definitions of the term:

- The absolute level of economic development
- The relative pace of economic development
- A reliable and predictable system of market governance based on a free-market system

The first two factors, dealing with the level and growth of economic development, are usually measured employing a nation’s GDP. While this measurement seems rather straight forward, there is no consensus on either the precise level of aggregate GDP or the rate of growth that would categorize a country as an emerging market. The third attribute, a movement to free market governance, is far less easy to define and even more difficult to operationalize. Arnold & Quelch suggest usage of the national investment risk indices assembled by secular business information organizations.

The three main global organizations that measure and monitor the development of nations (The World Bank, The United Nations, and the World Trade Organization) provide no precise definition of the concept of emerging markets. The World Bank uses Gross National Income per capita (which is generally considered to be merely a change in terminology from GDP per capita with some minor exceptions¹) to categorize countries into four categories: low income (\$765 or less in 2003; 61 countries), lower middle income (\$766 - \$3,035; 56 countries), upper middle income (\$3,036 - \$9,385; 37 countries) and high income (\$9,386 or more; 54 countries) (World Bank,

2004). This format is interesting in that it highlights a key question concerning the inclusion of South Korea (a high income country) as a Big Emerging Market. With a 2002 GNI per capita of over \$19,000, it would appear that South Korea has much more “emerged” than it is “emerging”.

Table 2 . Selected Data – Ten Traditional U.S. Trading Partners versus Ten BEMs

COUNTRY	GDP 1992	GDP 2002	GDP GROWTH 1992- 2002	Total Imports 1992	Total Imports 2002	Growth in Imports	1992 U.S. Imports	2002 US Imports	Growth in Imports from U.S.	U.S. Share of Imports 1992	U.S. Share of Imports 2002	Change in U.S. Share of Imports
	(U.S. \$ billions)			(U.S. \$ millions)			(U.S. \$ millions)					
Canada				129,267	227,589	76.1%	90,156	160,799	78.4%	69.7%	70.7%	0.9%
Japan	3,802	3,979	4.6%	233,246	336,385	44.2%	47,764	51,440	7.7%	20.5%	15.3%	-5.2%
United Kingdom	1,072	1,552	44.8%	221,551	339,813	53.4%	22,808	33,253	45.8%	10.3%	9.8%	-0.5%
Germany	2,020	1,976	-2.2%	408,619	493,321	20.7%	21,236	26,628	25.4%	5.2%	5.4%	0.2%
France	1,346	1,410	4.7%	239,638	326,440	36.2%	14,575	19,019	30.5%	6.1%	5.8%	-0.3%
Netherlands	334	414	23.7%	134,650	217,707	61.7%	13,740	18,334	33.4%	10.2%	8.4%	-1.8%
Belgium	226	248	9.8%	125,047	208,865	67.0%	9,779	13,343	36.4%	7.8%	6.4%	-1.4%
Singapore	50	87	74.3%	72,171	116,230	61.0%	9,624	16,221	68.5%	13.3%	14.0%	0.6%
Australia	313	411	31.3%	43,807	72,736	66.0%	8,913	13,084	46.8%	20.3%	18.0%	-2.4%
Italy	1,231	1,181	-4.1%	188,451	241,088	27.9%	8,698	10,089	16.0%	4.6%	4.2%	-0.4%
Total	10,965	11,973	9.2%	1,796,447	2,580,174	43.6%	247,293	362,210	46.5%	13.8%	14.0%	0.3%
Mean			21.3%			51.4%			38.9%	16.8%	15.8%	-1.0%
<i>sd</i>			24.4%			18.4%			21.9%			1.8%
Mexico	363.6	637.2	75.2%	62,129	168,949	171.9%	40,597	97,531	140.2%	65.3%	57.7%	-7.6%
Korea	314.7	476.7	51.5%	81,775	152,126	86.0%	14,630	22,596	54.4%	17.9%	14.9%	-3.0%
China	454.6	1232.7	171.2%	80,585	295,203	266.3%	7,470	22,053	195.2%	9.3%	7.5%	-1.8%
Brazil	390.6	452.4	15.8%	24,316	65,474	169.3%	5,740	12,409	116.2%	23.6%	19.0%	-4.7%
Argentina	228.8	102.2	-55.3%	14,982	8,989	-40.0%	3,222	1,591	-50.6%	21.5%	17.7%	-3.8%
Indonesia	139.1	172.9	24.3%	27,280	35,805	31.3%	2,778	2,581	-7.1%	10.2%	7.2%	-3.0%
Turkey	158.9	182.8	15.0%	22,871	51,270	124.2%	2,730	3,107	13.8%	11.9%	6.1%	-5.9%
South Africa	130.5	104.2	-20.2%	22,581	27,556	124.2%	2,425	2,525	4.1%	10.7%	9.2%	-1.6%
India	244.2	510.2	108.9%	24,316	65,474	169.3%	1,914	4,098	114.1%	7.9%	6.3%	-1.6%
Poland	84	187.7	123.5%	18,913	42,833	126.5%	637	687	7.8%	3.4%	1.6%	-1.8%
Total	2,509	4,059	61.8%	379,748	913,679	140.6%	82,143	169,178	106.0%	21.6%	18.5%	-3.1%
Mean			51.0%			122.9%			58.8%	18.2%	14.7%	-3.5%
<i>sd</i>			69.3%			84.1%			78.6%			2.0%

The United Nations (2001) identifies 27 countries as “developed market economy countries” (Australia, Canada, the fifteen European Union countries, Faeroe Islands, Gibraltar, Iceland, Israel, Japan, New Zealand, Norway, South Africa, Switzerland and the United States) 49 countries are identified as “least developed”² and the remaining countries of the world (by default) as “developing”. Except for South Africa (categorized as a developed market economy country) the remainder of the BEMs all fall within the U.N. “developing” category.

The World Trade Organization employs a two category system (“developing” and “developed”) but neither defines the terms nor classifies countries. Instead, member countries announce for themselves whether they are developed or developing countries. However, other members can challenge the decision of a member to make use of provisions available to developing countries. (World Trade Organization, 2004)

The following quotation from the World Bank (2004a) discussing the concept of country class demonstrates little impetus for clarification of these ambiguities:

In general discussions in Bank reports, the term "developing economies" has been used to denote the set of low and middle income economies. Bank publications with notes on the classification of economies state that the term "developing economies... does not imply either that all the economies belonging to the group are actually in the process of developing, nor that those not in the group have necessarily reached some preferred or final stage of development.

Measurement Issues

Research on the performance of emerging markets faces severe difficulties at the most basic level: the quality and meaning of data. In environments of rapid economic growth and institutional change, information quickly becomes outdated. Many emerging economies lack the institutional infrastructure to allow the accurate collection of information. Many countries have experienced rapid and decentralized privatization controlled at the regional level, with no central national agency accumulating comprehensive data. In China, data collected at the state, province, and city levels is inconsistent and information from one governmental department is often at odds with the information reported by a different agency (Hoskisson, 2000)

Even when systems exist, they are often not compatible at the global level. While the United Nations uses the Standard International Trade Classification (SITC) system (developed in 1950 by the United Nations) to collect economic statistics on emerging markets, U.S. trade is reported on the basis of the Standard Industrial Classification (SIC) system (originally developed for analyses of domestic commerce). The incompatibility is often concealed as different industries and commodities are identified by similar sounding descriptions and nomenclatures (Aguilar and Singer, 1995). While the World Bank collects data in accordance with the 1993 System of National Accounts (SNA) many countries continue to report based on the 1968 SNA. A few low-income countries use concepts from even older SNA guidelines (World Bank, 2004b).

The Confounding Effects of Self Fulfilling Prophecies

In a seminal article Robert Merton (1948) defined a self- fulfilling prophecy as a prediction that "is, in the beginning, a false definition of a situation evoking a behavior which makes the originally false conception come true". Central to the BEM Initiative was the intent of the federal government to correct what was seen as an unfair situation facing U.S. firms in international trade where they competed against foreign firms who were being assisted by their governments. In order to level the playing field the U.S. government was committed to aiding U.S. business by employing methods ranging from securing market access, to providing financing, to actively lobbying on behalf of U.S. firms (Garten 1996).

The Department of Commerce opened its Emerging Market Advocacy Center in the spring of 1994 to provide a central clearing house for assistance and lobbying requests (U.S. Department of Commerce 1994). Efforts by the government were focused on assisting American firms competing for major infrastructure projects with BEM governments or joint ventures with BEM firms. The center maintains information on major projects and procurement opportunities worldwide and tracks advocacy requests (U.S. Department of Commerce (1993). In its first twenty months of operation the center was credited with assisting numerous firms win over \$30 billion in projects in the BEMs (McGiffert, 1995).

During the early years on the BEM initiative, it seemed that Ronal Brown, other members of the administration and even the President himself would rush to lobby vigorously whenever a U.S. firm was competing for a major contract within the BEMs. Successful efforts included a \$1.5 billion Brazilian contract won by Ratheon for an environmental, telecommunication, and air traffic control surveillance system, a \$500 million Korean power plant project won by General Electric, and Mission Electric's victorious bidding for a \$2 billion power plant in Indonesia. Demonstrating the potential size of contracting with BEMs Exxon won the 35 billion Natuna Sea Project to produce and distribute natural gas in Indonesia. Active lobbying by the Clinton Administration was seen as key in all of these situations (Stremlau, 1994)

Future Directions for Research

As we have noted, conceptual work providing a classification system based upon clear definitions and measurements that operationalize the central characteristics of emerging markets is urgently needed. Additionally, the topic of Big Emerging Markets may well provide a fertile arena for the investigation of self-fulfilling prophecies at the global level.

Notes:

¹The world bank described the defenses between GDP and GNI as follows “only the terminology has changed. Exceptions are: GNI in constant prices, which differs from GNP in that it also includes a terms of trade adjustment; and gross capital formation which now includes a third category of capital formation: net acquisition of valuables. Included in gross capital formation under the 1993 SNA are capital outlays on defense establishments that may be used by the general public, such as schools, airfields, and hospitals. These expenses were treated as consumption in the earlier version of the SNA” (World Bank, 2004a)

²The United Nations has designated 49 countries as least developed: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People’s Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia

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