Emerging Market Economy (EME)

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What Are Emerging Markets?

- Emerging markets or emerging market economies are economies of countries that are in the progress of becoming a developed country and typically are moving toward mixed or free markets.
- Emerging market economies often have lower per capita income than developed countries, and often have liquidity in equity markets, are instituting regulatory bodies and exchanges, and see rapid growth.
- The term "emerging market economy" was first used in 1981 by Antoine W. Van Agtmael of the International Finance Corporation of the World Bank.
- Emerging markets have played a large role in stimulating global economic growth, especially after the 1997 currency crisis – which necessitated an overhaul of many emerging market economies to become more sophisticated.
- Around 80% of the world's economy is composed of emerging markets – including some of the largest countries in the world like China, India and Russia.
- As of 2017, China and India made over $32.6 trillion worth of economic output – while also making up 40% of all labor force and population on the planet. And, according to World Bank data last year, China is expected to represent over 35% of global gross domestic product (GDP) growth from 2017-2019.

Characteristics of an Emerging Market Economy

- **Rapid growth:** The economic growth of countries with an emerging market economy typically grow by 6% to 7% annually, whereas countries with an already well-established economy report a growth rates below 3%
- **High productivity levels:** Labor is characterized by low

costs, which can stimulate production and increase employment levels. As a result, emerging markets can increase their international presence and improve their exports to foreign countries.

- **Increase in the middle class:** Economic improvement in a country can lift its people out of poverty, which shifts them into the middle class.
- **Transition from a closed economy to an open economy:** Developing countries run a closed economy, as they mainly focus on the local agricultural market. As such countries work towards economic advancement, they will want to engage in international trade to stimulate economic activity.
- **Instability and volatility:** Emerging markets are vulnerable to changes, as their economies are still developing. They are especially susceptible to financial changes in currency, interest rates, and inflation.
- **Attraction of foreign and local investments:** Investing in businesses in emerging markets is riskier than businesses in developed countries. However, higher risk means higher returns, which attracts investors.

Significance of an Emerging Market Economy

- Emerging market economies in developing countries are essential in driving global economic growth.
- Currently, emerging market countries generate more than 50% of the world’s economic growth.
- By 2050, it is predicted that the top three largest economies will be China, India, and the United States. Two of the three countries are emerging market economies.
- There are also increasingly more investments that are made in emerging market economies, which shows the investors’ confidence in such countries. For example, specific hedge funds help such economies raise more capital.

- The increase in foreign investments also helps to add more trading volume in the local stock exchange and generates more funding for businesses to succeed in the long-term.

Countries with an Emerging Market Economy

BRICS

- The BRICS countries is an acronym that refers to Brazil, Russia, India, China, and South Africa.
- They make up 40% of the world's population and contribute to more than 25% of the world's GDP.
- The BRICS countries are predicted to generate the economic potential to match the G7 countries.

Next Eleven

- The "Next Eleven" (or N-11) is a term that refers to countries that can potentially become like the BRICS countries and with positive growth prospects.
- The countries are Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam.
- The criteria used to select the N-11 countries were based on the country's macroeconomic stability, political maturity, openness of trade, investment regulations, and educational quality.

MINT

- MINT is a new term to distinguish Mexico, Indonesia, Nigeria, and Turkey.
- MINT countries were selected due to their rapid growth rate and investment opportunities