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FORMATION, DEVELOPMENT AND CATEGORIZATION OF THE GLOBAL EMERGING MARKET

Key Definitions

Emerging Market (EM) is a society transferring from command economy to economy strategically focused on market relations, with the growing level of economic freedom, consistent integration into the global market space (GMS) and with other parties of the GMS, expanding middle class, improving the standard of living, strengthening social stability and tolerance as well as developing cooperation with multi-faceted institutions.

Global Emerging Market (GEM) is a new strategic, economic and political phenomenon in the global market space, encompassing emerging markets and their regional blocks that, notwithstanding differences in a number of geopolitical characteristics, are united by comparable risk levels, maturity of free market's infrastructure, orientation of the vectors of strategic development of emerging markets in the direction of economic freedom and global integration. The GEM motivates further international economic and corporate cooperation and competition.

Origination of the Global Emerging Market as a New Economic, Strategic and Political Phenomenon

The GEM's origination has no certain date. The term "emerging stock market" first appeared in books and papers on finance in the end of the 1970s. It was originally described as stock exchanges, one's own capital, debts and securities market beyond the economically developed countries.[2] By that time there were already 43 such countries and they had their national stock exchanges. The term "emerging stock markets" mostly refers exactly to securities markets of these

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[2] Park, Keith K.H. and Van Agtmael, Antoine W. (Eds.). (1993). *The World`s Emerging Stock Market: Structure, Development, Regulations and Opportunities.* Chicago and Cambridge: Probus Publishing Company. 650 pgs.

countries. However, up to the beginning of the 1990s there was no category to describe and characterize the maturity of national economies of these countries as a whole. The original terms started forming at that time, reflecting vague ideas of emerging markets' (EMs) development, but yet not the global emerging market (GEM). Categories and definitions of such countries lacked fundamental theoretical basis, generalizing their systemic research focused on the analysis of the nature and special features of the countries with new market relations. Notwithstanding the fact that the GEM has been existing for about 40 years, the first definition of the GEM and emerging markets was published only in 2009 in my book[3] (which was later translated into Russian)[4], directly addressing this issue. For example, International Finance Corporation (IFC) thought in the 1970s and still thinks in 2017 that all countries with GDP per capita below the minimum requirements of the World Bank for high-income countries are the emerging countries. The current World Bank classification of countries by GDP per capita is as follows:

World Bank's classification of countries by GDP per capita for 2006 and 2013.

Income	**2006**	**2013**
Low income	< US$ 905	< US$ 1,035 or less
Below average income	US$ 905–3,595	US$ 1,036–4,085
Higher than average income	US$ 3,595–11,115	US$ 4,086–12,615
High income	> US$ 11,115	> US$ 12,616

These figures show that according to one of the most integrated indicators – GDP per capita – the world economy has made a giant progress in the quality and standard of living over the seven years. The income of the lower middle class in the past became the income of lower-income people. The income considered high in 2006 became the income of people with the income higher than average in 2013, high-income class figure increased by US$ 1,500. This progress would have been

[3] Vladimir Kvint (2009) *The Global Emerging Market Strategic Management and Economic*. Routledge.
[4] Владимир Квинт (2012) *Стратегическое управление и экономика на глобальном формирующемся рынке.* Business Atlas.

impossible without the new level of economic cooperation's integration on the global market. This data also confirms the continuing decrease of the gap between incomes of people in developed countries and emerging countries. Strategists should appraise this dynamics for the strategized horizon by introduction of the required coefficients. This will surely help them provide the best view of the strategized objects in future.

When on the initiative of Antoine van Agtmael, IFC renamed "Third World Database" and it became "Emerging Stock Market Database" [5] (which later appeared as two parallel indexes: S&P/IFC Emerging Market Index acceptable for investments, covering 22 markets, and S&P/IFC Global Index, covering 33 markets[6]), IFC incorrectly equaled these two terms. Nevertheless even that was a step in the right direction of admitting the origination of a new economic phenomenon which was described and analyzed in detail in my book of 2009[7], directly addressing the Global Emerging Market, in which this new category was fixed.

Maturity Appraisals and Ranking for Emerging Markets

A single indicator, even so multi-faceted as GDP per capita, cannot fully categorize EM. First of all, it's very important to view the vector and kinematics of this indicator's changes as a whole. Exactly the direction of changes of the standard and quality of living of the people had a significant impact on the maturity of the economies of these countries. However, there are examples when certain states were categorized as EM but returned to their original category of developing and/or underdeveloped. For example, Zimbabwe where the government changed political and economic course and attitude to international cooperation. However, even description of a country exclusively as appraisals of the GDP per capita vector does not create an adequate basis for analysis of economic maturity or determination

[5] Agtmael, Antoine van. (2007). *The Emerging Market Century: How a New Breed of World-Class Companies is Overtaking the World.* New York: Free Press. p. 5.
[6] Russell Investments. S&P/IFC Emerging Market Indexes. Accessed November 2, 2007.
[7] Vladimir Kvint (2009) *The Global Emerging Market. Strategic Management and Economic.* Routledge.

of the right categorization of the national development strategy. A more complex analysis is required, such as strategic comprehensive system for classification of countries, the foundation of which was also laid and described in my book of 2009 mentioned above.[8]

The first periodical printed media specially addressing the research of EMs were presented at the World Congress of Economic Management and Development, and the World Bank Group and the International Monetary Fund annual meeting in October, 1994 in Madrid. For the first time, the world community focused its attention on EMs in October, 1995 at the World Congress of Economic Management and Development, and the World Bank Group and the International Monetary Fund annual meeting in Washington. Also in 1995, the US Department of Commerce and the International Trade Administration of the United States demonstrated the understanding of the EMs' new role and arranged the workshop "Beyond Borders: Big Emerging Markets". Argentina, Brazil, China, Hong Kong, Mexico, Poland, Turkey, Sooth Korea, South Africa and Taiwan took part in the workshop. Even before the start of the workshop, experts argued what countries exactly should be qualified as EM. Besides, the fact that EMs were a part of the global formation – the GEM – was hardly understood at the time. However, 20 years later it's hardly arguable that EMs can be grouped according to their general focus and long-term development trend in the direction of economic freedom and integration into the GMS. While some EMs can occasionally deviate from such course (as Venezuela, Bolivia, Zimbabwe, Uzbekistan) and the speed of the others' movement differs significantly, finally all ways to the GEM lead to economic and even political freedom and improvement of the quality of life.

In order to determine the level of the country's economic maturity, the degree of its integration into the GMS and possibility of its referring to EM, strategists should refer to several sources. There is a fairly wide range of ranking, including international multilateral organizations, rating agencies and various research institutions. There are several organizations and agencies regularly publishing

[8] Vladimir Kvint (2009) *The Global Emerging Market. Strategic Management and Economic.* Routledge.

appraisals and/or data acceptable for strategic analysis when assessing the country's maturity. There are World Bank Group, Moody's, Standard and Poor's (S&P), Fitch, Dun and Bradstreet, Heritage Foundation, Wall Street Journal, Economist Intelligence Unit, Morgan Stanley Capital International Barra (MSCI Barra) and others among them.

Strategists should compare various agencies' ratings, find discrepancies and understand reasons behind these variations. In order to adhere to this practice, it's required to have considerable theoretical knowledge and practical experience. It's absolutely necessary to emphasize the fact that all above mentioned agencies and organizations lack clearly defined systems for classification of countries to ground their ranking, forecasts or assessments on. As a result, strategists should be very careful and conscientious when using reports by organizations and agencies describing such groups of countries as EMs, developing or developed countries. These categories are nearly never well-studied and/or their assessments are based not on convincing methods, and that distorts results and conclusions of the said organizations and agencies in respect of specific groups of countries. A strategic comprehensive classification system for countries should help to put in order, arrange and strategically analyze data obtained from the above mentioned agencies, organizations and institutions. It's important to analyze not only absolute country ratings but also their dynamics and ratings in comparison with other countries. Strategists should compare opinions of home and foreign experts and analyze any discrepancies between them. As EMs get profits from positive assessments by big rating agencies as this helps to attract investments, many national governments react to big agencies' requirements. This is direct and positive impact of rating agencies on the economic and financial situation in a country and the world. Investors can also profit from that, developing strategy focused on entering the country that aspires to be better assessed by rating agencies. The assets of the countries included in ratings for the first time, immediately increase their market value.

Determining Characteristics of an Emerging Market

What are the requirements and characteristics of a country for it to be considered a part of the GEM? First of all, acquiring these characteristics is not a linear process. As economy in an EM is developing and continues its advancement, some characteristics are acquired and others are being lost. From the very start of practical application of the term "emerging markets" by financiers, economists and managers of commercial entities (even before the term "newly emerging economies" was created), there was always a need to understand general characteristics of this economic phenomenon. It was especially required because originally, when the term did not have a precise definition, "emerging stock market" and "emerging market" were used as synonyms.

Below is the list of the main, in my opinion, characteristics that all EMs have, had or will have at certain stages of the economic maturing and development process. All these characteristics (maturity indicators) are enriched via empirical and comparative analysis by special features of developed or developing countries. And though the presence of all mentioned below characteristics is not necessary for a national economy to be an EM, all EMs run across the following special features and processes in certain periods of their development.

45 Main EM Strategic, Economic and Political Special Features:

1. Trying search for strategic way from dictatorship to democracy.
2. Quick transfer from administrative and command economy to free market economy.
3. Quickly growing level of economic freedom.
4. Often but not always growing level of political freedom.
5. Brief anarchy period at the time of original transfer from dictatorship to free market economy which ends quickly as soon as the law and order are consistently provided.
6. Replacement of one-party system by multi-party system (in case if it didn't have several parties under the dictatorship).

7. Formation of a more open society.

8. Original increase of corruption but decrease of nepotism and possible decrease of both while openness grows.

9. Replacement of dictatorship legal framework with the legal system focused on free market, protecting private property and private interests.

10. Poor protection of intellectual property rights.

11. Decrease of differences in legal status of foreign and local enterprises.

12. Original increase in crime, accompanied by gradual advancement of laws and strict law enforcement with the strengthening of power.

13. Quick change of legal, business and economic environment which makes investments more risky, even if these changes go in the positive direction.

14. Gradual transfer from the society where rulers are above the law to government responsible to the law and society.

15. Search for religious tolerance and growth of various political and ethnic associations based on increasing interest in historical roots and national memory.

16. Transfer of numerous economic functions of the national government to regional and local authorities.

17. Large-scale privatization.

18. Increase of workforce efficiency.

19. Economy develops at a quicker rate than the GMS as a whole.

20. Considerable deregulation of companies' and other legal entities' setting up and activities.

21. Setting up such free market institutions as commercial and investment banks, insurance companies; audit, accounting and law firms, etc.

22. Creation and development of stock market institutions and tools (shares, currency, commodity and stock exchanges, trusts and boards of trustees and guardians, securities, authorities regulating the market, etc.)

23. Strengthening of national currency's exchange rate.

24. Gradual integration with other GEM member states and integration into the GMS.

25. Strengthening of the global trend for rationalization via increase of economic cooperation in regional blocks and on multi- and bilateral basis.

26. Slow integration of economies of internal regions of the country in comparison with the rates of their integration with the economies of foreign regions, especially developed economies.

27. Elimination of most remaining limitations for foreign investments into the country.

28. Foreign direct investments gradually replace help by foreign states.

29. Regular outflow of domestic and periodically foreign capital.

30. Diversification of national economies mostly focused on natural resources and raw materials, to more complex and high-tech sectors and services.

31. Decrease of raw materials' production in GDP and export.

32. Growing state and corporate attention to ecology and environmentally friendly technologies.

33. General movement to a more efficient economic structure, focused on consumer interests.

34. Promotion and diversification of tourist and hospitality industry.

35. Increase of the numbers and role of family business, small and middle-sized companies.

36. Positive trade balance originally as a result of lack or reduction of resources for import. Need for more technologically complex and/or high-quality goods and services, that cannot be produced inside the country, grows with the economy's development. In general, the weaker economically EM is originally, the more positive its trade balance is.

37. Development and expanding of the middle class.

38. On the average 15–25 percent of the population live below poverty level.

39. Increase of differences and inequality at the time of the original stage of market economy development.

40. Increase of the numbers of emigrants among blue collar workers as well as specialists and scientists (brain drain) when national borders are opened. Many

return later when the economy and the level of economic freedom improve.

41. Advancement of infrastructure for industry, telecommunications, transport and electrical grids thanks to considerable state investments.

42. Exponential increase of telecommunications and IT sectors' development because of quickly increasing demand for the access to information.

43. Higher level of general education than in developing and underdeveloped countries and lower illiteracy level.

44. Significant deficit of specialists in finance, but many-times increase of students' interest in economic, financial and strategic research, with considerable advancement of these fields of knowledge at the same time.

45. Increase of interest in the English language as international business language in parallel to local languages.

These 45 main EM characteristics can be used by a strategist as a test to find out if the country of interest refers to the GEM or not. However, as it was emphasized above, the country does not need to obligatory have all the said features at the same time to be considered an EM.

Classification of Emerging Markets

In accordance with the assessment methods, well-grounded in my book of 2009 mentioned above[9], there are 83 EMs in the world economy in the second decade of the 21st century. However, there is only one GEM which is a subsystem of the GMS. The GEM is constantly cooperating with other GMS subsystems, i.e. developed, developing and underdeveloped countries. In most cases, EMs greatly differ from one another in the level of their maturity, economic or industrial structure, middle class development and presence of democratic institutions, etc. They may be classified using several various methods. The following classification of EM categories is based on the levels of their maturity in the period of transformation from developing countries into the category of emerging market and later into developed countries. This does not mean that each EM should go

[9] Vladimir Kvint (2009) *The Global Emerging Market. Strategic Management and Economic.* Routledge.

through all presented transition stages. Each EM has its own “starting point”. It’s possible that one country, an oligarchial emerging market, was an emerging market in the dictatorship environment in its starting point, while another country could originate as a developing market – a category even before the first stage of the group of emerging market. After all, all EMs are directed to one and the same goal: to become a developed country.

Развитые страны	Developed countries
Экономики в фазе расцвета	Flourishing economies
Демократии с формирующимся рынком	Democracies with emerging market
Олигархические формирующиеся рынки	Oligarchial emerging markets
Формирующиеся рынки в диктатурах	Emerging markets in dictatorships
Страны, приступившие к формированию рынков	Countries where markets just start to emerge
Развивающиеся страны	Developing countries

A typical mistake is combination of the terms “EM” and “GEM” to create a pseudo-term “global emerging markets”. Examples of use of such a pseudo-term can be found e.g. in the name of the company Global Emerging Markets or academic databases, such as the Global Emerging Market Database that uses both terms on its home page – the right global emerging market and the wrong global emerging markets – alternately as synonyms. If a market is global, already because of that it cannot be plural.

The GEM's role in the GMS increases with the EMs' and their regional blocks' increasing economic power and political maturity and increasing level of political stability and democracy. While in some EMs democracy may possibly not be growing, it definitely strengthens in the GEM as a whole. In the overwhelming majority of EMs society democratization and liberation processes are going on. Most EMs also diversify their national economy, though development in this direction goes slower. While not every EM goes through these processes, most EMs transfer from the mono-industry economy, where one or two sectors dominate, or from an inefficient industry's structure to a more efficient diversified innovative economy. This process requires giant investments and political will. In some EMs such as Argentina, Brazil, the Philippines and Egypt, there were several main free market institutions – commercial and investment banks, audit and law firms, stock exchanges – even before internationalization of their economic systems. However, mostly EMs are at the early stages of setting up and development of such market institutions. Not all EMs are constantly developing so quickly from the economic point of view as the GEM as a whole. EMs can have considerably different GDP per capita and as a result various standards of living. In some cases the standard of living in EM may be closer to the standard of living in developed countries, while in other cases the standard of living may be closer to the standard of living in developing countries. However, the average GDP per capita and the standard of living in the GEM is unique, i.e. lower than in developed countries and higher than similar average figures for developing countries. It's important to understand that the GEM as a whole has certain specific characteristics that may differ from similar characteristics in certain EMs that are GEM parties. As it was well-grounded above, the global emerging market is a new phenomenon.

Business professionals, strategists, experts often have contradictory opinions about what countries can be viewed as a part of the GEM, and contradictory opinions may be even presented in special books and papers addressing this issue. Analysts, strategists or managers should study the opinions of all accessible rating agencies, professionals and publications in the leading media and come to their own conclusions as to a country's level of development. Even if a country e.g. has all the EM characteristics, this does not mean that this market is really opened for all or any foreign company. Not all companies are ready to work in the environment of certain EMs.

Increasing Contribution of the Global Emerging Market

The global emerging market is developing much quicker than the world economy as a whole, and quicker than developed countries. And what is more, EMs of Eastern Europe with the slowest development rate in the GEM as well as most countries that were a part of the Soviet Union, are nevertheless developing at a higher rate than the world economy as a whole. Starting from 2003, the output of industrial products on the global emerging market increased by 35 percent while in developed countries it increased only by 10 percent. In the second decade of the 21st century, the emerging economic markets are looked upon as the leading locomotive for the growth of the world economy as it was never done in the past[10].

Actually, over the most part of economic history, emerging economic systems developed much quicker than more developed economies. It's easy to explain it: it's much easier to rise from a very low economic level than grow from a higher level of economic development. Each percentage point at the time of the primary development stages consists of much less economic investments and output of industrial products. But certainly, economic crises and business recessions are more often seen in less developed economies than in more developed economic systems. In 2007, as a result of the four-year review, all 32 emerging economies, followed by *The Economist*, demonstrated growth. This is an

[10] Dizzy in Boomtown. (2007, November 15). *The Economist.* Accessed December 1, 2007

outstanding result as every previous year starting from the 1970s, at least one of them was in recession if not a serious financial crisis[11].

It's clear that even the rating agencies have no definite, agreed upon idea of what countries should already be classified as emerging markets, and what countries are important to be paid attention to as promising for inclusion in this category. This observation is true not only in case of quickly developing economies of South-East Asia and Russia but also for developing Europe – old economies reviving again after the Communist period. This is another indicator that notwithstanding different geographical locations, all emerging markets have many similar features and development dynamics.

We did not have to wait for the result for long: already in May, 2014, the contribution of 83 emerging markets in the world GDP approached 56.3 percent and exceeded the total GDP of all developed countries. However, because of the lack of a single widely recognized classification of national economies, the data differs significantly.

Strategic Prospects for Business

Strategic leaders of EMs should strive for development of the environment that creates opportunities for their residents to improve the quality of life as a basis for the economic system's success. Usually this is achieved by promotion of economic freedom, market-focused reforms that in their turn lead to high level of freedom of choice for people and organizations. This is the source of high standard of living of the people. Using existentialism terms, one can say that production of goods and services of various quality by any company is determined by freedom of choice based on individual needs and preferences. But on the other hand, freedom of choice cannot exist without production of goods and services of various quality for consumers to really have a choice. Various standards of living and/or various preferences of consumers with the same purchasing power lead to appearance of differences in consumption.

[11] Dizzy in Boomtown. (2007, November 15). *The Economist.* Accessed December 1, 2007

The choice is always limited in command economy, if there is a choice at all, because of insufficient goods and services, especially of higher quality. In GEM countries freedom of choice is created by development of economy with free market relations that is focused on the needs and interests of individual consumers. Certainly, the main goal of companies from developed countries entering the GEM, is getting profits. In this case, there is increase of output of goods and services, and from that the society gets even more freedom of choice for individuals.

A company on the global emerging market should determine its strategy, publically announce it via announcing its mission and not the confidential part of vision, social focus of the company, a part of priorities (open for the society) and responsibility to the society, regional and local communities, as well as inform the society about offers and services. This will help an enterprise to be more efficient strategically and have support of the people.

The Future of the Global Emerging Market in the Global Market Space

Strategic analysis shows that the role of the GEM in the GMS will continue to expand at least till the end of the 21st century. As a result, most of the more mature EMs will reach the flourishing stage, characteristic of averagely-developed countries and won't be referred to the GEM any more. This will undoubtedly have a great impact on the GMS.

No later than by 2025–2030, several EMs will transfer to the highest category according to the level of development within the GEM limits – "flourishing economies", or even leave the GEM to the category of "economically developed country" (mature economy). In Europe, the Czech Republic, Greece, Portugal, Slovenia and Slovakia will follow Spain (which is already now referred to "flourishing economies" notwithstanding the 2010–2015 crisis) and Ireland, which by that time will already transfer to the category of developed countries. In Asia, Singapore, South Korea, UAE, Bahrain and possibly Taiwan will also be referred to the category of developed countries. Costa Rica will be the only developed country in Latin America.

On the other hand, countries with low standards of living which now lack economic and political freedoms will finally (over ten years) initiate political and economic reforms and become a part of the GEM. The processes that began in the Maghreb countries and the Arab states of the Persian Gulf only confirm the strategic analysis offered five years before the events. Certainly, it would be unreasonable to suggest that all EMs are constantly developing in the direction of progress. Sometimes progress can be stopped, suspended or even reversed. But apparently, the people and governments of these countries will in the end understand that there is no reasonable alternative to economic freedom and integration in the GMS.

Spreading democracy and economic freedom will lead to transfer of the most successful EMs to the category of developed (mature) economies. A number of countries that in the end of the first decade of the 21^{st} century were recognized as the countries where markets just start to emerge, developing and even underdeveloped, will become a part of the GEM. Nevertheless, it's important to note that the GEM is not a short-term formation consisting of countries at the transient development stage. Over the next 100 years, these countries will not only provide additional opportunities but also create strategic challenges for developed countries. It is indisputable that all the main problems of the humankind like poverty, hunger, unemployment, mass illnesses, ecological catastrophes, terrorism and migration may be only solved by way of partnership of national governments of various categories of countries and the international business community, regional and world multi-national institutions. These global challenges should be smoothed over and solved in accordance with global agreed upon strategies necessary for that. Under the GEM impact, common to the humanity problems will at the same time intensify and be solved, and as an answer to that the global world order will be constantly brought in the renewed accordance.