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”Objects in the mirror are closer than they appear“

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The great importance and especially the pace at which BRIC nations are catching up, merits a "glance in the rear-view mirror" at the following emerging and developing countries.

Barely two years after the last crisis, the world economy is once again experiencing turbulent times. In the aftermath of the financial crisis, private liabilities which were transferred to government debt, have pushed a number of countries to the brink of bankruptcy – and beyond.

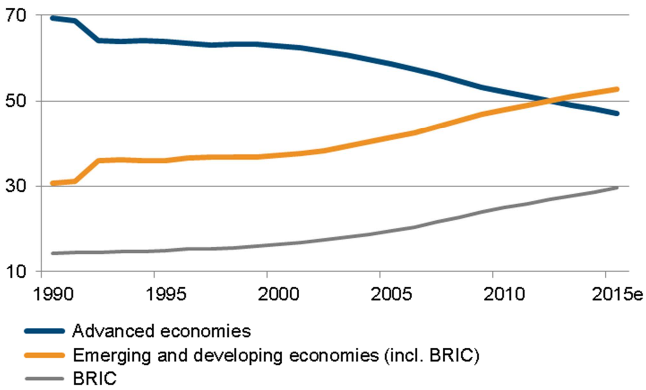
The economic policy counter-measures of the western industrialised nations are not only widely exhausted, moreover individual states are even being forced to follow restrictive austerity programmes. This is in sharp contrast to the joint approach employed in 2009, and heightens the downwards trend. For the year 2012 an "enforced" recovery brought about by mutual monetary and fiscal instruments as in 2010, now not only seems unlikely, indeed it seems ruled out.

Furthermore, the risk of unilateral economy policy approaches and protectionism has taken on new proportions. This is reflected in the continuing discussion and uncertainty surrounding the future of the Eurozone, financial market regulations and controversial monetary policy measures in some industrialised countries ("quantitative easing"). Additionally, these liquidity measures seem increasingly out of place, in view of deep-rooted state solvency problems, and can not restore the confidence of financial markets.

Considering this development, attention is drawn to key emerging economies, in the hope that especially the strongest emerging countries can act as drivers to boost the world economy and, once again, cushion the global slowdown in growth. The question is even more justified, the more one recalls that these economies, namely the BRIC states, have almost doubled their proportion of global production in only ten years (2011: 27%). On a weighted average basis, GDP growth amounted to well over 8% during this period (IMF-weighting, purchasing power parity).

At the same time, there are also cracks in the image of the strong BRIC nations. Misallocation of resources in the guise of over-investments and a real-estate bubble in China might point towards the government financing a second economic stimulus package which, in reality, it can no longer afford. Indeed, further impetus would only serve to aggravate the situation. The fact that continued high levels of growth in BRIC countries is not set in stone, has also been shown by the slowdown of the Indian economy, challenges which are likely to confront the Russian banking sector and the credit-financed consumption of Brazilian households.

Proportion of world economic output
in %



Source: IMF, own figure

Furthermore, the BRIC countries (with the exception of Russia, where economic output collapsed by almost 8% in 2009) considerably cushioned the global economic crash in 2009, yet were not able to offset it. The industrialised countries – which have decreased in importance but still hold sway – and their gloomy growth prospects, mean that a slowdown of world economic growth has once again been forecast. After growth of more than 5% and almost 4% in 2010 and 2011, the rate will probably fall to no more than 3% this year.

If the speed with which the BRIC nations have conquered the world stage is set against this backdrop, the natural question is who will be the new drivers for growth in the future. After the publication of the BRIC concept by Goldman Sachs in 2001, the concept of the "Next Eleven" followed four years later. This concept is based on a group of countries, hard on the heels of the BRIC group, who have high potential both for growth and in their markets. These "stars – waiting in the wings" are, in general, the world's most populous countries after the BRIC states and are composed of: Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam.

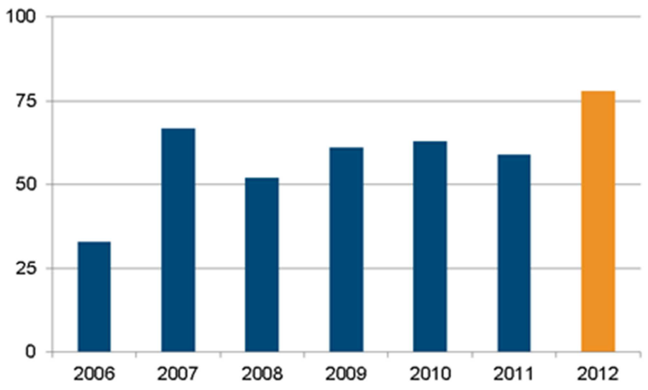
Their contribution to world economic output and the world population is more than 11% respectively 19% (BRIC: 27% respectively 41%). Alongside high population density, a common feature of this country grouping is high economic growth accompanied, in general, by decreasing inflation. These countries have recorded average growth of almost 5% since the year 2000. A fundamentally positive outlook is also underlined in most of these countries by reform efforts, declining poverty, improving living conditions and a high degree of openness. The arduous transitional process in Egypt is, however, an example which shows that political factors can act as a brake or even have an outright negative influence.

The concept of the "Next Eleven" evolved during the economic boom and glory days in the period 2003 - 2007. It therefore does not constitute a promise for the "future of the world economy", rather it is a selection of candidates which most probably have significance and potential for the world economy - nothing more but also nothing less.

The impressive development and the underestimated pace of catching up of the BRIC countries, emphasise that it is worth glancing into the "rear-view mirror", towards up and coming emerging and developing countries. A high number of countries from Asia, Latin America and especially Africa have recently embarked on promising new courses of action. This development has been confirmed by the "World Bank/IFC Doing Business Report", among others. For example, this publication states, that more than three quarters of all the countries in sub-Saharan Africa listed at least one reform in 2011, which improves the framework conditions for business and investment. But this is also highlighted by the development of global direct investments.

Sub-Saharan Africa: Countries with a minimum of one reform aimed at facilitating business

Proportion in %, Doing Business Report

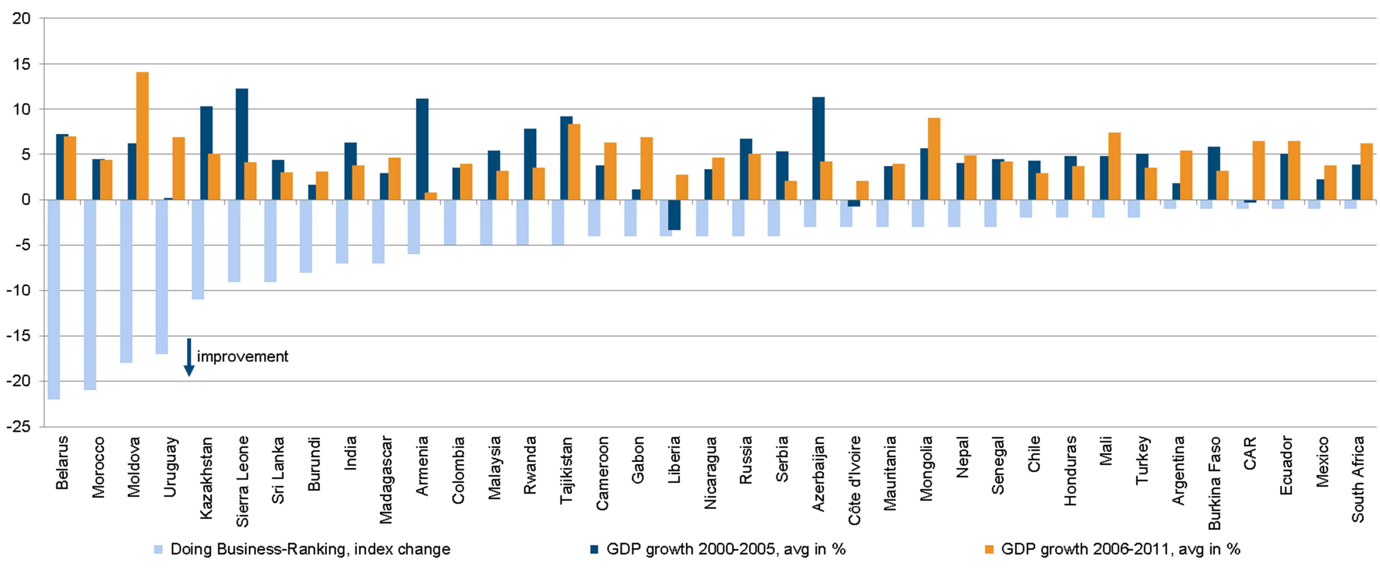


Source: World Bank/IFC, own figure

Yet despite this positive outlook, many emerging and developing countries still reveal, in part, serious development deficits. Against the backdrop of the impressive pace of catching up in many countries, these deficits should be viewed as opportunities as well as having potential in market and development terms.

Doing Business Report 2012

Change in Doing Business Ranking resp. economic growth, index points resp. averages in %



Source: World Bank/IFC, own figure