

# Responsibility of Democratically-based Emerging Countries for Sustainable Economic Activities?

*Camillus D. N. Kassala*

*Schwellenländer zeichnen sich durch frühe Stadien der Industrialisierung mit zunehmender Arbeiterschaft und schnelles Wirtschaftswachstum mit ausländischen Investitionen aus. Diese Länder, die sich den Märkten öffnen, sind in ihrer Größe und in ihrem Gewicht sehr unterschiedlich. Der Veränderungsprozess wirft die Frage nach einer Wirtschaftsordnung zwischen reiner Gewinnmaximierung und normativen Werten sozialer Gerechtigkeit auf. Für eine nachhaltige Entwicklung sind wirtschaftliche und soziale Faktoren, Umweltschutz und kulturelle Dimension grundlegend. Kriterien sind die Versorgung mit frischem Wasser und Nahrungsmitteln unter nationaler Hoheit, die Berücksichtigung ökologischer Gesichtspunkte hinsichtlich der Landreform und der Biodiversität sowie eine effektive Währungs- und Wirtschaftspolitik. Vor dem Hintergrund des nationalen Selbstbewusstseins und des sozialen Wandels entwickeln Schwellenländer eigene Vorstellungen jenseits der profitorientierten Konzepte. Dabei gilt es, auch die afrikanische Perspektive zu sehen, um mehr Vielfalt zu gewährleisten.*

## **1. Introduction**

Emerging countries or markets are playing a growing role in the world economy. It is a role that is expected to be even greater in the future. This paper discusses a very controversial question: Should these countries accept the responsibility for sustainable economic activities? In attempting to answer that question, the paper will proceed as follows: It will first examine the definition or concept of 'emerging economy, market or country'<sup>1</sup> and some common characteristics of these coun-

1 | *In the literature the words 'economy', 'market' and 'country' are used interchangeably. See for example Gregory Clark, A Farewell to Alms, a Brief Economic History of the World, Princeton University Press, 2007; and Ayres, Robert U.; Warr, Benjamin (2006). Economic growth, technological progress and energy use in the U.S. over the last century: Identifying common trends and structural change in macroeconomic time series, INSEAD. <http://www.helsinki.fi/iehc2006/papers2/Warr.pdf>.*

tries. The paper will then critically examine a number of different lists of what are considered to be emerging economies or countries by different authorities. In the third section the paper will present a conceptual model of the mainstream globalizing economic system. This will be for the purpose of contextualizing the economies of the emerging countries, in order to deduce a principle on which to evaluate the emerging economies' contextual appropriateness of the global system, in the light of the criteria of sustainable economic development. Finally, the paper will conclude by arguing that the answer to the question, '*Should democratically-based emerging countries accept the responsibility for sustainable economic activities?*' depends on one's position, or orientation, regarding the 'social justice rationale' of the global economic system.

### 1.1 Definition of 'Emerging Market Economy'<sup>2</sup>

An 'emerging market economy'<sup>3</sup> is defined as an economy with low to middle per capita income. Such countries constitute approximately 80% of the global population, and represent about 20% of the world's economies. An emerging market economy (EME) or country (EMC) is a country also experiencing development and rapid economic growth. It is a country in the early stages of industrialization and undergoing economic growth and foreign investment.<sup>4</sup> Characteristically emerging market economies or countries are on transit to an open market economy with a growing working age population.<sup>5</sup>

Although the term "emerging market" is loosely defined, countries that fall into this category, varying from very big to very small, are usually considered emerging because of their developments and reforms. Hence, even though China is deemed one of the world's economic powerhouses, it is lumped into the category alongside much smaller economies with a great deal less resources, like Tunisia. Both China and Tunisia belong to this category because both have embarked on economic development and reform programs, and have begun to open up their markets and "emerge" onto the global scene.

2 | See <http://www.investopedia.com/articles/03/073003.asp#ixzz28oWfEFQ6>

3 | The term was coined by Antoine van Agtmael (1980's) of the International Finance Corporation of the World Bank, as a positive alternative to "less economically developed country", or LEDC.

4 | See also <http://www.qfinance.com/dictionary>).

5 | ?

Emerging market economies or emerging market countries are considered to be fast-growing economies, which are progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body as will be shown later. Emerging economies or emerging countries also do not generally have the level of market efficiency and strict standards in accounting and securities regulation to be on par with advanced economies (such as the United States, Europe and Japan). However, despite being a very highly heterogeneous group in terms of economic size, population, levels of per capita income and growth performance over the past decade (OECD, 2010a; OECD, 2010b), such countries will typically have a physical financial infrastructure including banks, a stock exchange and a unified currency.

### *1.2 Emerging market economies or emerging market countries and Foreign Investment*

One of the peculiar characteristics of democratically-based emerging countries is that they are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by Gross Domestic Product (GDP). Investments in such emerging markets come with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities because many large domestic companies may still be "state-run" or private. Also, local stock exchanges may not offer liquid markets for outside investors.

At this stage it is important to point out two important economic features which are shared by emerging market economies or emerging market countries and are relevant to the argument of this paper:

1. Before the 2008/09 meltdown these countries enjoyed a prolonged period of relatively robust growth – with growth rates generally higher than the OECD average. Their growing integration into the world economy, supported by domestic policy reforms, determined the move towards stronger and more sustainable growth.
2. They have achieved considerable progress in the fight against poverty particularly in Brazil, China and Indonesia, while India and South Africa recorded more modest reductions (See the figure 1).

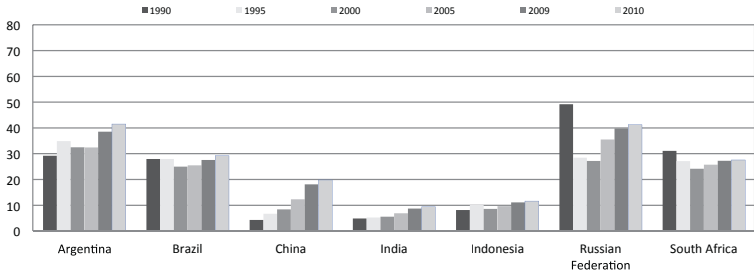


Figure 1: EMEs' GDP PER CAPITA (2005 CONSTANT PPPS)

Source: World Bank, International Comparison Programme Database  
<http://dx.doi.org/10.1787/888932535413>

These two characteristics<sup>6</sup>, namely robust sustainable growth and progress against poverty, need to be considered in the context of the mainstream economic paradigm of neoclassical economics with its ideology<sup>7</sup> of free markets. This consideration will give light to what extent the emerging market economies have 'played the neoclassical economics' game so as to be considered responsible, or not, for sustainable economic activities.

### 1.3 National Democracy and the Global Economy

As it was argued at the beginning, whether emerging market economies or emerging market countries are responsible or not for sustainable economic activities will depend on the 'social justice rationale' of the mainstream global economic system. Incidentally, the prospects of 'emerging market economies' high returns which attract foreign investors (the major protagonists of the mainstream global system) into these countries put their leaders in critical situations of having to weigh local political and social factors as they attempt to open up their economies to the world. The citizens of an emerging country, being accustomed to protection from the outside world, for instance, can often be distrustful of foreign investment. Democratically-based emerging countries may also often have to deal with issues of national pride because their citizens may be opposed to having foreigners owning parts of the local economy.

6 | Given the uncertainty of the global economy's trend due to the volatility of the markets, these characteristics hold true as of October 2012.

7 | The word 'ideology' is used here in the sense of means-ends relationship, or attitudinal emphasis on one aspect of belief system than on another.

Also, the introduction of new cultures, apart from new work ethics and standards, can change the socio-democratic fabric of an emerging market economy to the extent that its people may not cooperate with the government policies of attracting foreign investors. In such a context the question 'Should democratically-based emerging countries accept the responsibility for sustainable economic activities?' is very relevant, given the fact that most foreign investors come from the Western world where profits count more than the local people and their habitat.

#### 1.4 Emerging Countries/Markets/Nations' Lists

The loose definition of emerging market economies has led to a number of institutions which create measuring indicators (or indexes) for the global markets or financial data consumers to come up with different lists of emerging market economies. The following are the lists commonly found in the literature of such authorities in finance and economics (See table 1).

Listing Authority	Emerging Countries/Markets	Total Number of Countries
1. IMF (July, 2012)	Argentina, <b>Brazil</b> , Bulgaria, <b>Chile</b> , <b>China</b> , Estonia, Hungary, India, Indonesia, Latvia, Pakistan, Peru, Philippines, Poland, Romania, <b>Russia</b> , <b>South Africa</b> , <b>Thailand</b> , <b>Turkey</b> , Ukraine, Venezuela	23
2. EMGP <sup>8</sup> (November, 2012)	Argentina, <b>Brazil</b> , <b>Chile</b> , <b>China</b> , Hungary, <b>India</b> , Israel, <b>South Africa</b> , South Korea, Mexico, Poland, <b>Russia</b> , Slovenia, <b>Thailand</b> , Taiwan, <b>Turkey</b>	16
3. FTSE Group <sup>9</sup>	<b>Advanced</b>	10/12
	<b>Brazil</b> , Czech Republic, Hungary, Malaysia, Mexico, Poland, <b>South Africa</b> , Taiwan, <b>Thailand</b> , <b>Turkey</b>	
	<b>Secondary</b>	
	<b>Chile</b> , <b>China</b> , Colombia, Egypt, <b>India</b> , Indonesia, Morocco, Pakistan, Peru, Philippines, <b>Russia</b> , UAE	
4. MSCI Barra <sup>10</sup> (May, 2010)	<b>Brazil</b> , <b>Chile</b> , <b>China</b> , Colombia, Czech Republic, Egypt, Hungary, <b>India</b> , Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, <b>Russia</b> , <b>South Africa</b> , South Korea, Taiwan, <b>Thailand</b> , <b>Turkey</b>	21
5. S&P <sup>11</sup> (December, 2010)	<b>Brazil</b> , <b>Chile</b> , <b>China</b> , Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, <b>Russia</b> , <b>South Africa</b> , Taiwan, <b>Thailand</b> , Turkey	19
6. Dow Jones (September, 2011)	<b>Brazil</b> , <b>Chile</b> , Colombia, Mexico, Peru, <b>China</b> , <b>India</b> , Indonesia, Malaysia, Philippines, South Korea, Taiwan, <b>Thailand</b> , Czech Republic, Hungary, Poland, <b>Russia</b> , <b>Turkey</b> , Egypt, Morocco, <b>South Africa</b>	21

TABLE 1: LISTS OF EME'S

N.B.: Names of countries in bold show which countries are found in all lists. From the table, one can see that there are commonly agreed at least eight countries.

## 2. The mainstream neoclassical economics

Earlier on it was pointed out that the two characteristics (robust sustainable growth and progress against poverty) of emerging market economies need to be considered in the context of the mainstream economic paradigm of neoclassical economics. This is because most foreign investors coming from the Western world where the principle of 'profits come first, people come afterwards' is one of the pillars of neoclassical economics as it will be shown below. It was also pointed out that this consideration would give light to what extent the emerging market economies have 'played the neoclassical economics' game so as to be considered responsible, or not, for sustainable economic activities. This sub-section now deals with this issue.

In this paper the term '*mainstream economics*' refers to the set of economic ideas or thoughts considered orthodox, and the theories that are part of the neoclassical economics tradition. The tradition follows rational choice theory, which assumes that individuals make decisions that will maximize their own utility or personal benefit, and uses statistics and mathematical models to demonstrate theories and evaluate various economic developments.<sup>12</sup> This tradition is characterized by the following theoretical perspectives:

### a) *Theory of science*

This refers to the way of thinking of acquiring knowledge. Mainstream economics relies on positivism as a theory of science, or the main philosophy, of acquiring economic knowledge.

### b) *Positivism*

This is a philosophy of knowledge, empirical in perspective and is characterized by an ambition to achieve objectivity and value neutrality in order to find causality and identify universal economic regularities or laws.

8 | *The Emerging Market Global Players (EMGP) project at Columbia University*

9 | *The FTSE Group distinguishes between Advanced and Secondary Emerging markets (22) on the basis of their national income and the development of their market infrastructure.*

10 | *Morgan Stanley Capital International (MSCI). In 2004, MSCI acquired Barra, Inc., to form MSCI Barra.*

11 | *Standard and Poor's.*

12 | *Cfr. <http://www.businessdictionary.com/definition/mainstream-economics.html#ixzz22a0wpCmG>.*

c) *Paradigm*

This is a theoretical perspective with a related conceptual framework. Neoliberal (mainstream) economics is an example of a paradigm which is positivistic with respect to theory of science. This paradigm emphasizes a specific idea of markets and specific kinds of institutions, with consumers and firms as main actors, while government regulation and interventions as possibility.

d) *Ideological emphasis*

Ideology stands for means-ends value relationships. Neoliberal (mainstream) economics puts ideological emphasis on economic growth (the end), rationality and efficiency of markets (the means), and specific kinds of institutions related to goods and services.

e) *Institutional interpretations*

These are specific interpretations or models of the world and are manifested by institutions. In neoclassical economics the ideal model of the world is the business company or corporate entity, which maximizes profits in monetary terms.

Given these theoretical features of the mainstream economics, the question being discussed then can be illustrated by the following diagram:

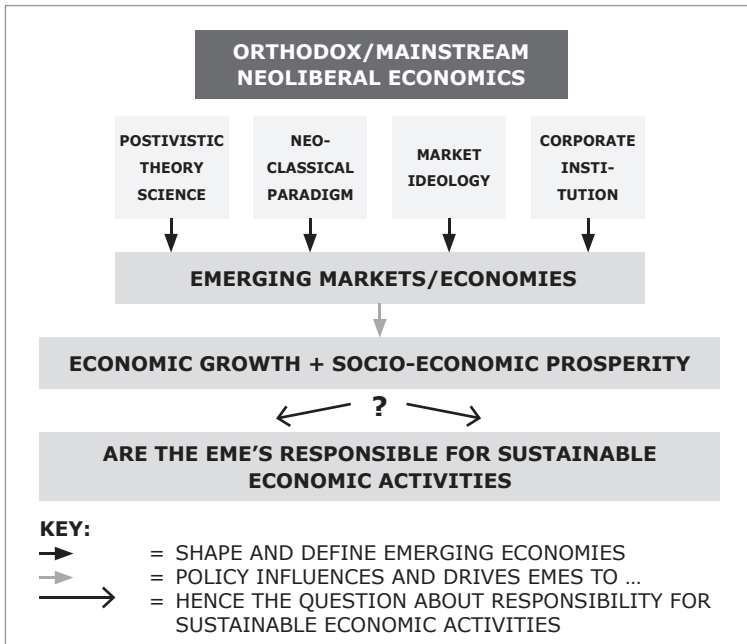


TABLE 2: CONCEPTUAL MODEL OF THE PROBLEMATIC

According to the model, the mainstream neoliberal economics stands on four pillars of positivistic theory of science, *neo-classical* paradigm, *market* ideology and *corporate* institutions. On the strength of these pillars mainstream (neo-classical) economics shapes and defines the conceptualization of EMERGING markets/economies/countries. It is in the light of this conceptualization that policymakers and economic planners of these countries determine the business environment (foreign) investment, believing that the created environment is conducive for economic growth, which is believed to bring about economic prosperity and sustainable development.

#### *Critical Questions on the Current Economic System*

Arising from the analysis of the conceptual model of the problematic, the following critical questions may be raised in order to inform a relevant answer to the question of the discussion. These questions interrogate each of the theoretical perspectives of the mainstream economics:

- a) POSTIVISM:** philosophy of knowledge, empirical in perspective. *Is it possible to achieve objectivity and value neutrality in order to find causality and identify universal economic regularities or laws?* Emerging market economies will always have this dilemma in their struggle to cope with the status-quo international economic order: Either follow the *positivistic* economics of corporate business, or the *normative* economics of socio-economic justice policies.
- b) NEO-LIBERALISM:** emphasizes a specific idea of markets and specific kinds of institutions. *Can consumers and firms act justly if government regulation and interventions are considered only as possibility and not necessity by neo-liberal economists?*
- c) MARKETS:** Neoliberal (mainstream) economics puts ideological emphasis on economic growth (the end), rationality and efficiency of markets (the means). *Can such emphasis ensure sustainability in terms of 'green economy'?*
- d) CORPORATES:** These are interpretations or models of the ideal economic world, and manifest themselves as business institutions whose fundamental mission is to maximize profits in monetary terms. *Are corporates ready to incur costs for non-economic sustainable development?*



### 3. Sustainable development and institutional interpretations of neoclassical economics

How do *institutional interpretations* of the mainstream theory of science and economic paradigm influence and shape socio-economic policies and plans of emerging market economies for the realization of sustainable development (SD)? From such interpretations, how can we deduce their responsibility to sustainable activities?

According to the UN 1987 Brundtland Report, "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."<sup>13</sup> The definition contains two key concepts: the concept of the needs of the world's poor; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.<sup>14</sup> The UN 2005 World Summit Document refers to the pillars of sustainable development as economic development, social development, and environmental protection.<sup>15</sup>

However, UNESCO 2001 *Universal Declaration on Cultural Diversity* points out that there are four pillars of sustainable development, the fourth being cultural. The Declaration elaborates the concept by stating that "...cultural diversity is as necessary for humankind as biodiversity is for nature"; it becomes "one of the roots of development understood not simply in terms of economic growth, but also as a means to achieve a more satisfactory intellectual, emotional, moral and spiritual existence". In this vision, cultural diversity is the fourth policy area of sustainable development. Hence, development and progress are not a result only of consumerism (i.e. more income and more commodities), profit maximization, market growth, and privatization. These factors are more a reflection of the ideological belief that the market mechanism will solve problems and increase society welfare. Hence, sustainable development is interpreted as 'business as usual', i.e. on

13| *World Commission on Environment and Development. „Our Common Future, Chapter 2: Towards Sustainable Development“. Un-documents.net. Retrieved 26<sup>th</sup> July 2012.*

14| *World Commission on Environment and Development. "Our Common Future, Chapter 2: Towards Sustainable Development". Un-documents.net. Retrieved 25<sup>th</sup> July 2012.*

15| *2005 World Summit Outcome Document, World Health Organization, 15 September 2005 Retrieved 25<sup>th</sup> July 2012.*

the assumption that neoclassical economics is still valid, with economic growth at the national level and profit maximization in emerging economies' businesses. In other words sustainable development is interpreted as sustainable economic growth in GDP terms.

Through institutional interpretation of the EMEs conceptualization by the World Bank, IMF and WTO, neo-liberal economics renders the peoples' representatives, especially national governments in democratically emerging countries (because of their weak institutions) powerless to protect public interests, goods and services. Such interpretation argues for the utmost importance on private capital and free markets to allocate resources efficiently and to promote growth. Consequently, it cancels the welfare function of the state. People's concrete experience shows that market-driven economic growth is inequitable, unsustainable and irreconcilable with socio-economic justice and a caring economy. Also the experience around the world is that SAPs redistribute wealth and power from the poor to the rich and deepens structural inequality.

As a matter of fact, in the economic spirit of the survival of the fittest, markets and capital are highly monitored to secure the maximum benefits for the owners of capital and share-holders. But this is done in the name of liberalization to free capital and markets from social obligation; and from a socio-economic justice perspective this is unethical and irresponsible by definition.

Despite the belief that with economic growth there is a rise of incomes, the review of human development progress by UNDP for its 2010 global Human Development Report found that it is the quality, more than the speed, of growth which matters most in human development. Development must help reduce inequalities and inequities, while ensuring that we stay within the ecological boundaries of the one planet we have to live on.<sup>16</sup> However, for this to be realized, new models of develop-

16| *According to a report by Credit Suisse, the world's richest one per cent held 43 per cent of the world's total wealth in 2010, while the lowest fifty per cent held under two per cent. UNICEF estimates that on trends observed between 1990 and 2007, it would take more than eight hundred years for the poorest one billion people to achieve ten per cent of global income. 9] See UNICEF Working Paper, April 2011, "Global Inequality: Beyond the Bottom Billion", Page 19 [http://www.unicef.org/socialpolicy/files/Global\\_Inequality\\_REVISED\\_-\\_5\\_July.pdf](http://www.unicef.org/socialpolicy/files/Global_Inequality_REVISED_-_5_July.pdf).*

ment are needed to meet existing and emerging challenges. In these new models, economic growth is not enough as a driver of development. It needs not only to be both inclusive and sustainable, but also to expand opportunities for decent livelihoods and ensure that all can benefit. Unlike market forces which create winners and losers, fair governance and public policy and its implementation can give everyone a chance to succeed. But for this to be applied in emerging economies, a contextually relevant conceptualization and definition is required.

### 3.1 *Economic Neo-liberalism and Emerging Countries*

The Development Policies of emerging countries have often been made subservient to external, especially G-8 and multinational corporate, interests. Discourses in academic and media circles usually "explain away" the rich, diversified and complicated experiences of emerging countries; mainstream economics scholars and commentators have often attributed their developmental experiences (often simplified as "success stories") to generic and reified concepts such as "marketization" and "globalization". It should be noted, however, that the process of 'emerging' involves the movement from normative (centrally-planned) to positive (market forces of supply and demand) economic approaches. However, the ethics and ideology of neoclassical economics (positivism) do not go together well with state-planning culture (normativism). Therefore, in the kind of socio-economic changes (i.e. emerging democratically-based economic transformation) under discussion, it is necessary to engage in debates where criticism even of mainstream economic thinking is a necessary part of public debate and democracy. The dominant mainstream economic conceptualization of emerging market economies prevails not only in the way development actors define emerging economies, but also in the expectations about the roles and contributions that emerging market economies can make to economic growth, and therefore sustainable development. However, both sociologically and philosophically emerging economies, with their legacy of collectivistic/egalitarian consciousness, have considered themselves more than purely economic entities: they are contexts of power relations (at the hierarchical top) and socio-cultural networking (at the grassroots). For that reason, the mainstream (economistic) definitions for emerging market economies do not reflect the *social and cultural dimensions* of the countries. Such economistic conceptualization has consequences in determining whether emerging market economies are responsible or not for sustainable development activities. This is be-

cause the 'sustainable development' practical philosophy (or green development strategy)<sup>17</sup> is founded on a belief that for anything to sustain itself over time, it must optimize or balance each of the following human needs:

1. Utility – the "satisfaction," "incentive," "desire," or "pure state" that is to be attained.
2. Effectiveness – doing the "right" things with accuracy and completeness.
3. Efficiency – achieving the lowest possible input/output ratio.

At its most basic level, sustainable development incorporates these instructions through the broad concepts of *people*, *planet* and *profit*. While profit represents the utility to be attained, planet represents efficiency and the understanding of limited resources; meanwhile people represent the opportunity for effectiveness.

This point takes the discussion to the critical issues pertaining to the people (water and food security), planet (land and ecological sovereignty) and profit (measured in currency). These are critical because in mainstream (positive) economics they are there for 'greedy grabbing' (read 'profit maximization').

### *3.2 Consideration of the Critical Issues*

Whether emerging economies are responsible for sustainable economic activities, or not, will depend on the answers to the following questions regarding 'the planet-people-profit' critical issues. These questions are as follows:

#### *3.2.1 People Issues*

- **Water Security and Sovereignty**

Do the emerging countries secure sustainable fresh water? How is resource management an imperative and pressing issue for the country's sovereignty? To fulfill in an equitable way the basic needs for fresh water as well as food for the whole population is an indispensable element of an inclusive and sustainable development.

17 | <http://www.ethosolutions.org/green-development-strategy-the-sustainable-development-matrix/>

- **Food Security and Sovereignty**

Confronted by soaring food prices and food supply instability, how do the emerging countries secure stable and independent supply of food to the people, which is vital to national security and sovereignty?

### *3.2.2 Planet Issues*

- **Land Reform**

Do what extent has the land reform been a success of, or difficult in terms of, sustainable development?

- **Ecological Sovereignty**

Is the ecology protected and managed sustainably with robust biodiversity for the future generations or expensed for short-sighted export-oriented growth for the nation's sustainable sovereignty?

### *3.2.3 Profit Issues*

- **Currency Sovereignty**

Is the integrity of the nation's currency sovereignty supported by an effective currency policy to regulate the economy? To what extent is it susceptible to the world financial market instability and international liquidity excess, etc.?

Therefore, the answer to the question: Should democratically-based emerging market countries accept responsibility for sustainable economic activities? The answer will depend on one's sustainable development concept inspired critique of the liberal market economy, and the questions raised by the critical issues to be considered.

## **4. Conclusion and Recommendations**

### *4.1 Conclusions*

The ethics and ideology of neoclassical economics do not go together well with the current and emerging socially-inclusive normative economic culture. In the kind of social change under discussion, namely the democratically-based consciousness in national affairs ('the societal springs'), it is necessary to engage in debates where criticism is a necessary part of public debate and democracy. Hence, those of us who work from a position in higher learning institutions can do a lot more to facilitate transformation towards sustainable development. Hiding

behind the dogmas of positivism and economistic market-value neutrality is no longer a contextually realistic option.

#### *4.2 Recommendations*

- 1) There is a need for the actors within the World Bank, IMF and WTO to listen and learn from the grass root voices of democratically-based emerging cries for restoring public/communal rights over corporate privileges. The mainstream conceptualization of democratically-based emerging countries renders them vulnerable to the power of investors and big corporations through deregulation, financial liberalization, tax cuts and weakening the role of non-state actors, especially during this market-driven and post meltdown predicament.
- 2) The democratically-based emerging countries' national governments as principals to the World Bank could benefit from discussions on alternatives to neoclassical paradigm, for the simple reason that the policies of the last thirty years have widened the gap between growth and poverty, in human terms the rich and the poor, and also exacerbated inequities and inequalities regarding access to resources.
- 3) The logic of sustainable development (read 'green economy') and the anthropological (people's) principle of nature being a gift for the use of all to live, not for the few to accumulate wealth, is an imperative for the efforts to rescue nature. After more than sixty years of global warming, loss of biodiversity, desertification depletion of marine life and forests, a spiraling water crisis and many other ecological catastrophies there is the need for a radical consideration of theory of science, paradigm, ideology and institutions, which questions the dominant trends of globalizing and calling for some new thinking and action. One such perspective is the Afro-centric perspective.
- 4) An increasing number of people should be encouraged not only to understand but also to openly point to the ideological character of the dominant neoclassical economics and should ask for more pluralism at university departments of economics.