

# China.

## Rise and fall of a taxonomy: should we keep calling it Emerging Market?

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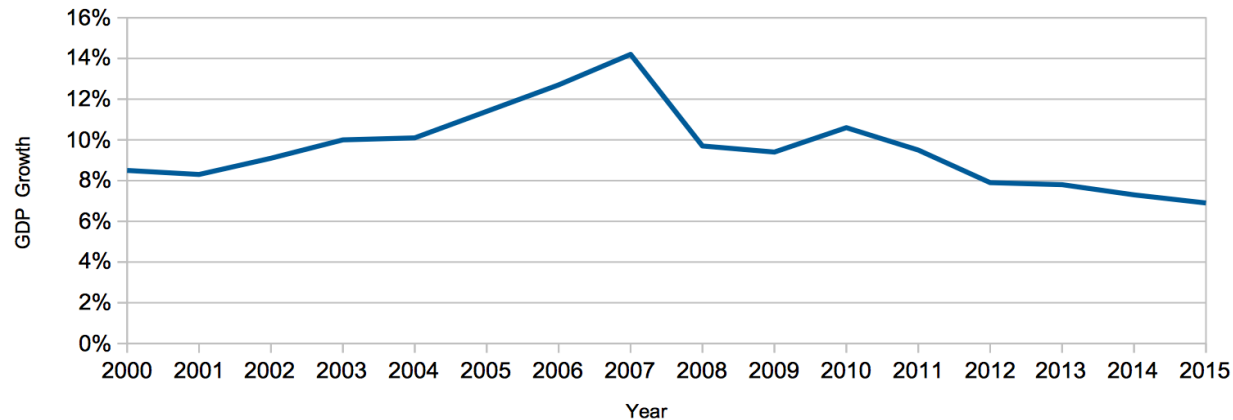
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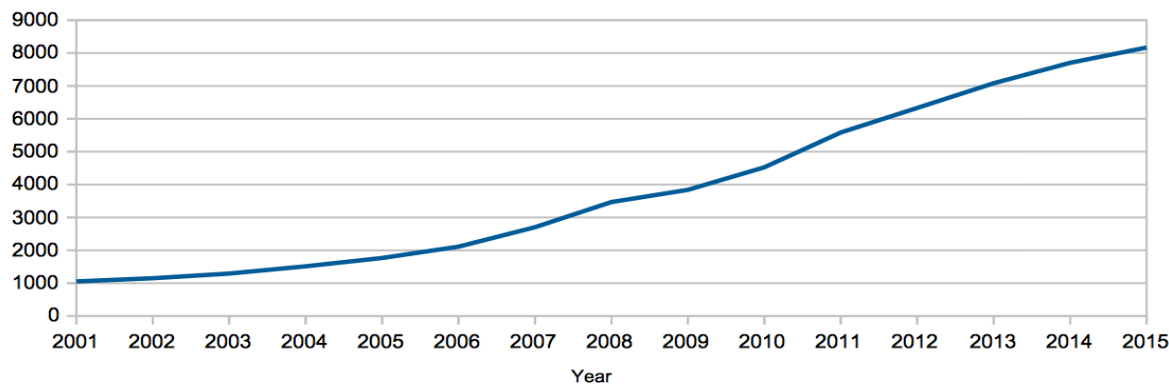
# Chinese economy

China GDP Growth (2000-2015)



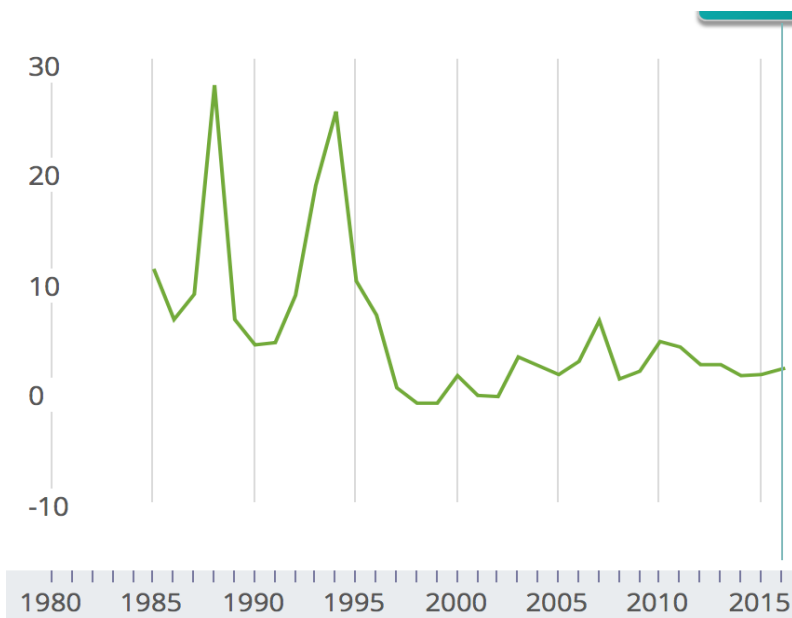
GDP has been continuously growing during the past four decades, with high performance since early 2000s (IMF Datamapper).

GDP Per Capita (1990-2015)



Behind such an astonishing growth there is also a growing trend for inequality, with Income GINI index which peaked 0,49 in 2008 and 2009, and then slightly turned down to 0,47 in 2014. (Center of Chinese Social Sciences, 2014).

# Chinese economy



**Inflation** was very unstable during the earliest phases of the reform, in 80s' and 90s', while it got stable and under control in 2000s.

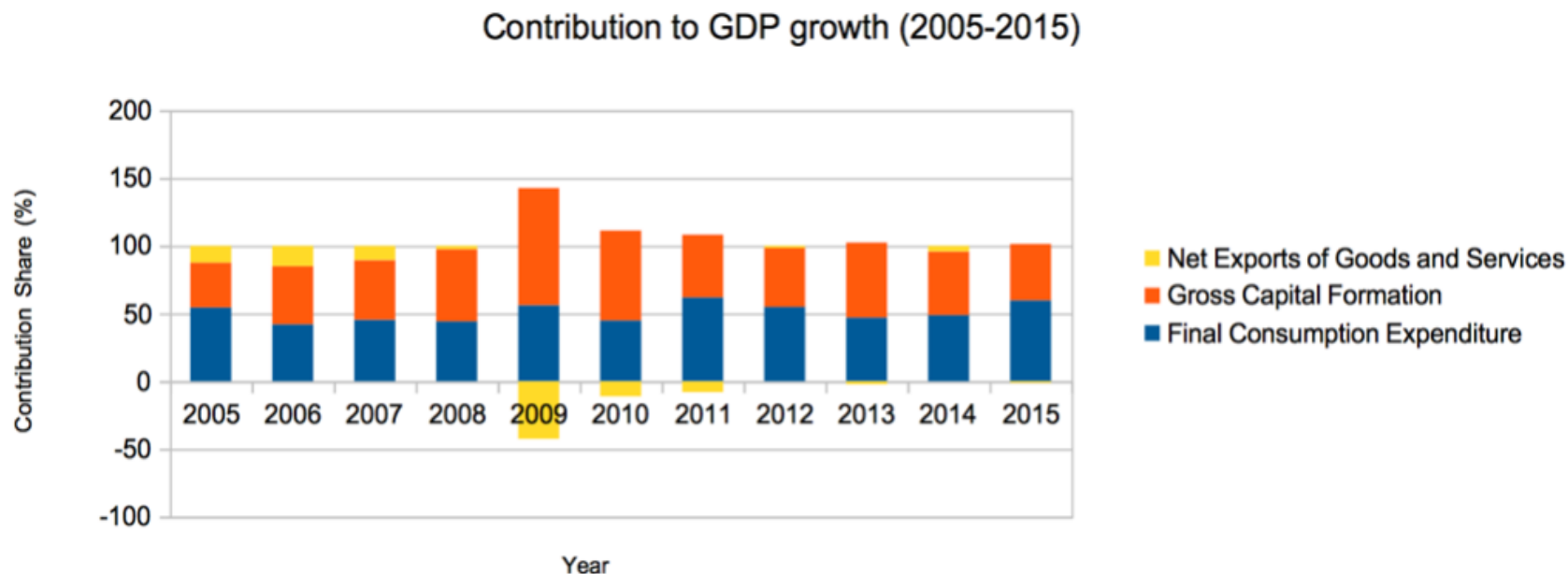
In particular, stable prices (low inflation) is one of the cornerstone for the New Normal course, which is the government's narration referring the new phase of development which the country is undergoing, after thirty years of double-digit growth (IMF Datamapper).



**Exchange rate with USD:** after the global crisis break out in 2007/2008, the government began to reduce the importance of the export as an engine of growth, in favour of internal consumption.

This strategy has been reflected in a continuous strengthening of the RMB towards the USD, up to the mid 2014, when the government attempted to rebalance the situation by partially devaluating the RMB (data sourced from [xe.com](http://xe.com)).

# Chinese economy - New Normal course



## New Normal strategies:

- Increase internal consumption
- Extend social welfare
- Stabilize prices and growth
- Reduce Export dependance
- Increase Manufacture Value added
- Develop Services
- Boost innovation
- Quality growth should replace quantitative growth

# What are EMs?

- The term “Emerging Markets” was coined by the Dutch-born US investment banker Antoine van Agtmael in 1981
- While he was working for the World Bank’s International Finance Corp., van Agtmael presented an idea to Salomon Brothers for a “third-world equity fund”
- Salomon Brothers rejected the “third-world” descriptor, asking for a more “uplifting name” which is how the term “emerging” was coined

# What are EMs?

- There is no uniform definition of what constitutes an Emerging Market in business practice or academia

## Business Practice:

- some use World Bank categorization of “middle income” countries (GNP per capita of more than \$1,045 but less than \$12,736) and consider these countries as emerging (*e.g. JPMorgan's EMBI Global*)
- others use ratings and consider all countries rated below high BBB as emerging (*e.g. Barclays*)

# What are EMs?

## Business Practice:

### Agility Logistics Emerging Market Index 2016

- surveyed 1,200 supply chain and logistics executives worldwide (2016 global economic outlook, prospects for EMs, key growth drivers and trends affecting EMs)
- used 3 metrics to assess and rank 45 emerging markets:
  - ✦ market size and growth attractiveness (50%)
    - ✦ market compatibility (25%)
    - ✦ market connectedness (25%)

# What are EMs?

## Business Practice:

*Mr. Gregorio Rainstein, former Vice President of Emerging Markets and International Market Development of Fisher-Price (a division of Mattel, a Fortune 500 company):*

*Quote 1: “Japan and Italy are emerging markets for us [i.e. Fisher-Price] and are still emerging”*

*Quote 2: “Emerging Markets is a great term for a cocktail party – if you chat about Emerging Markets, everyone says uhhh – aahh, and another great term for a cocktail party is BRIC ”*



# What are EMs?

- There is no uniform definition of what constitutes an Emerging Market in business practice or academia

## Academia:

- it seems easier to define what EMs are not, than what they are
- often defines “developed” countries and then considers all remaining countries as “emerging”
- *operationalization*: membership in the OECD (*e.g. Gubbi et al. 2010*), i.e. all countries that are not members of the OECD are considered “emerging” (plus Mexico, Chile and Turkey, which are OECD members, and perhaps Israel?)

# What are EMs?

## Academia (continued):

- some work attempted to define EMs, e.g. *Hoskisson et al., 2000*:

“low-income, rapid-growth countries using liberalization as their primary engine of growth”

*(identified 64 countries at the time, including Israel and South Korea – although South Korea was a member of the OECD at the time, and Israel joined the OECD later on in 2010)*

# What are EMs?

## Academia (continued):

- more recently, scholars started to provide a more fine grained definition of emerging markets, such as *Hoskisson et al. 2013*:

- ✦ “*traditional emerging economies*” (e.g. Sub-Saharan Africa)
- ✦ “*mid-range emerging economies*” (e.g. BRICs)
- ✦ “*newly developed economies*” (e.g. South Korea, Israel)

# The origin of EM definition: the UNDP definition

## Very high human development

Norway, Australia, Netherlands, United States, New Zealand, Canada, Ireland, Liechtenstein, Germany, Sweden, Switzerland, Japan, Hong Kong China (SAR), Iceland, Korea (Republic of), Denmark, Israel, Belgium, Austria, France, Slovenia, Finland, Spain, Italy, Luxembourg, Singapore, Czech Republic, United Kingdom, Greece, United Arab Emirates, Cyprus, Andorra, Brunei Darussalam, Estonia, Slovakia, Malta, Qatar, Hungary, Poland, Lithuania, Portugal, Bahrain, Latvia, Chile, Argentina, Croatia, Saudi Arabia, Montenegro, **Russian Federation**, Romania, Kuwait

## High human development

Uruguay, Palau, Cuba, Seychelles, Bahamas, Bulgaria, Mexico, Panama, Serbia, Antigua and Barbuda, Malaysia, Trinidad and Tobago, Libyan Arab Jamahiriya, Belarus, Grenada, Kazakhstan, Costa Rica, Albania, Lebanon, Saint Kitts and Nevis, Venezuela (Bolivarian Republic of), Bosnia and Herzegovina, Georgia, Ukraine, Mauritius, The former Yugoslav Republic of Macedonia, Jamaica, Peru, Dominica, Saint Lucia, Ecuador, **Brazil** (84), Saint Vincent and the Grenadines, Armenia, Colombia, Iran (Islamic Republic of), Oman, Tonga, Azerbaijan, Turkey, Belize, Tunisia, Samoa, Jordan, Algeria, Sri Lanka, Dominican republic, Fiji, **China**, Turkmenistan, Thailand, Suriname, Maldives, Mongolia, Uzbekistan

## Medium human development

El Salvador, Gabon, Paraguay, Bolivia (Plurinational State of), Moldova (Republic of), Philippines, Egypt, Occupied Palestinian Territory, Micronesia (Federated States of), Guyana, Botswana, Namibia, Honduras, Kiribati, South Africa (123), Indonesia, Vanuatu, Kyrgyzstan, Tajikistan, Viet Nam, Nicaragua, Morocco, Guatemala, Iraq, Cape Verde, **India** (134), Ghana, Equatorial Guinea, Congo, Lao People's Democratic Republic, Cambodia, Bhutan, Kenya, Sao Tome and Principe, Pakistan, Bangladesh, Timor-Leste, Myanmar, Nepal, Zambia

## Low human development

Solomon Islands, Angola, Cameroon, Madagascar, Tanzania (United Republic of), Papua New Guinea, Yemen, Senegal, Nigeria, Haiti, Mauritania, Lesotho, Uganda, Togo, Comoros, Djibouti, Rwanda, Benin, Gambia, Sudan, Côte d'Ivoire, Malawi, Afghanistan, Zimbabwe, Ethiopia, Mali, Guinea-Bissau, Eritrea, Guinea, Central African Republic, Sierra Leone, Burkina Faso, Liberia, Chad, Mozambique, Burundi, Niger, Congo (Democratic Republic of the), Syrian Arab Republic, Swaziland, South Sudan

# World Bank definition

<p><b>High income non oecd members (\$12,476 or more)</b>  <i>39 countries</i></p> <p>Andorra, Aruba, The Bahamas, Bahrain, Barbados, Bermuda, Brunei Darussalam, Cayman Islands, Channel Islands, Croatia, Curaçao, Cyprus, Equatorial Guinea, Faeroe Islands, French Polynesia, Gibraltar, Greenland, Guam, Hong Kong SAR - China, Isle of Man, Kuwait, Liechtenstein, Macao SAR – China, Malta, Monaco, New Caledonia, Northern Mariana Islands, Oman, Puerto Rico, Qatar, San Marino, Saudi Arabia, Singapore, Sint Maarten (Dutch part), St. Martin (French part), Trinidad and Tobago, Turks and Caicos Islands, United Arab Emirates, Virgin Islands (U.S.).</p>
<p><b>High Income OECD members (\$12,476 or more)</b>  <i>31 countries</i></p> <p>Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea Rep., Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States.</p>
<p><b>Upper-middle-income economies (\$4,036 to \$12,475)</b>  <i>54 countries</i></p> <p>Albania, Ecuador, Namibia, Algeria, Gabon, Palau, American Samoa, Grenada, Panama, Antigua and Barbuda, Iran Islamic Rep., Peru, Argentina, Jamaica, Romania, Azerbaijan, Jordan, <b>Russian Federation</b>, Belarus, Kazakhstan, Serbia, Bosnia and Herzegovina, Latvia, Seychelles, Botswana, Lebanon, South Africa, <b>Brazil</b>, Libya, St. Kitts and Nevis, Bulgaria, Lithuania, St. Lucia, Chile, Macedonia FYR, St. Vincent and the Grenadines, <b>China</b>, Malaysia, Suriname, Colombia, Maldives, Thailand, Costa Rica, Mauritius, Tunisia, Cuba, Mayotte, Turkey, Dominica, Mexico, Uruguay, Dominican Republic, Montenegro, Venezuela RB.</p>
<p><b>*Lower-middle-income economies (\$1,026 to \$4,035)</b>  <i>56 countries</i></p> <p>Angola, <b>India</b>, São Tomé and Príncipe, Armenia, Iraq, Senegal, Belize, Kiribati, Solomon Islands, Bhutan, Kosovo, Sri Lanka, Bolivia, Lao PDR, Sudan, Cameroon, Lesotho, Swaziland, Cape Verde, Marshall Islands, Syrian Arab Republic, Congo, Rep. Mauritania, Timor-Leste, Côte d'Ivoire, Micronesia Fed. Sts. Tonga, Djibouti, Moldova, Turkmenistan, Egypt, Arab Rep., Mongolia, Tuvalu, El Salvador, Morocco, Ukraine, Fiji, Nicaragua, Uzbekistan, Georgia, Nigeria, Vanuatu, Ghana, Pakistan, Vietnam, Guatemala, Papua New Guinea, West Bank and Gaza, Guyana, Paraguay, Yemen Rep., Honduras, Philippines, <b>Zambia</b>, Indonesia, Samoa.</p>
<p><b>*Low-income economies (\$1,025 or less)</b>  <i>35 countries</i></p> <p>Afghanistan, Gambia, The Myanmar, Bangladesh, Guinea, Nepal, Benin, Guinea-Bissau, Niger, Burkina Faso, Haiti, Rwanda, Burundi, Kenya, Sierra Leone, Cambodia, Korea Dem Rep., Somalia, Central African Republic, Kyrgyz Republic, Tajikistan, Chad, Liberia, Tanzania, Comoros, Madagascar, Togo, Congo Dem. Rep., Malawi, Uganda, Eritrea, Mali, Zimbabwe, Ethiopia, Mozambique.</p>

\* Low-income and middle-income economies are sometimes referred to as developing economies

# IMF definition

## **Advanced Economies** by subgroups

*Major Currency Areas:* United States, Euro Area, Japan

*Euro Area:* Austria, Greece, Portugal, Belgium, Ireland, Slovak Republic, Cyprus, Italy, Slovenia, Finland, Luxembourg, Spain, France, Malta, Germany, Netherlands

*Newly Industrialized Asian Economies:* Hong Kong SAR, Singapore, Korea, Taiwan Province of China

*Major Advanced Economies:* Canada, Italy, United States, France, Japan, Germany, United Kingdom

*Other Advanced Economies:* Australia, Iceland, Singapore, Czech Republic, Israel, Sweden, Denmark, Korea, Switzerland, Estonia, New Zealand, Taiwan Province of China, Hong Kong SAR, Norway

## **Emerging and Developing Economies** by subgroups

*Central and Eastern Europe:* Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Montenegro, Poland, Romania, Serbia, Turkey.

*Commonwealth of Independent States:* Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, **Russia**, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

*Developing Asia:* Islamic Republic of Afghanistan, Bangladesh, Brunei Darussalam, Cambodia, **China**, Fiji, **India**, Indonesia, Kiribati, Lao People's Democratic Republic, Maldives, Maldives, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Viet Nam.

*Latin America and the Caribbean:* Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Bolivia, **Brazil**, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela.

*Middle East and North Africa:* Algeria, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Republic of Yemen

*Sub-Saharan Africa:* Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, **South Africa**, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe.



# Challenges in new taxonomy of countries

EMs are often wrongly treated and considered as an homogeneous group of actors. They share some patterns, but they are extremely different.

Each country's history, size, and features of their economies differ, as do their economic development paths (Khanna, Palepu, 2009).

Key aspects:

- ✦ Etherogeneity (among countries and within regions)
- ✦ Dynamism
- ✦ Economic activism in the global context
- ✦ Role of institutional voids
- ✦ Differences in the legal framework
- ✦ Differences in culture (social networks and ties)

# China: legal environment

China defines itself as a Socialist Market economy with Chinese characteristics (Third Plenum of 14th Central Committee, 1992).

Although the supreme source of law is the Constitution, it is impossible to ignore the substantial overlay between State and CPC Party, whose leading role is mentioned in the Preamble of the Constitution.

The juridical basis for the Communist Party's leadership is to be found in its own Constitution, where it is stated that “the Party commands the overall situation and coordinates the efforts of all quarters, and the Party must play the role as the core of leadership among all other organizations at corresponding levels”.

Such a role of the CPC implies a prevailing role of politics over the economical and administrative processes, with the consequences of distortion in the implementation and certainty of law.



# China: institutional environment

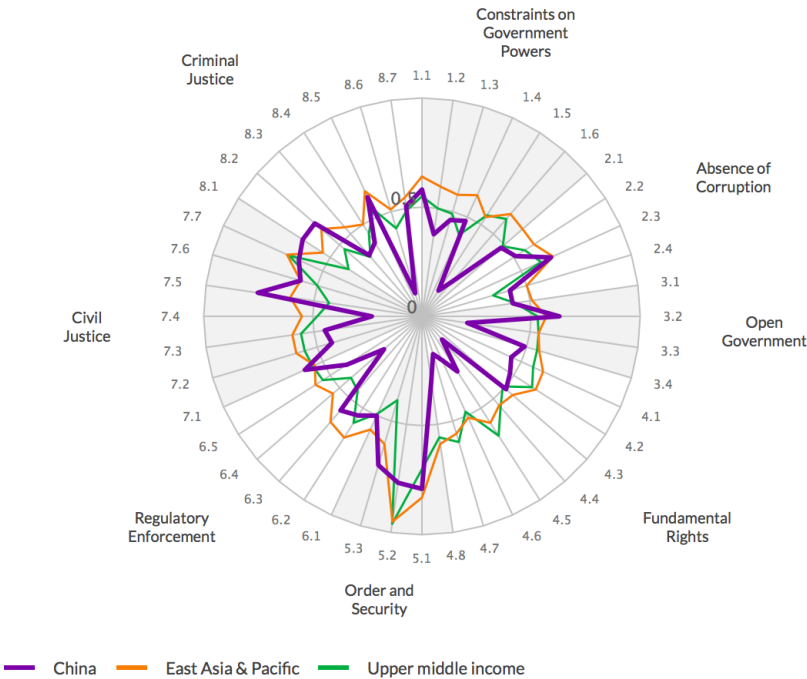
One of the most important facets of China’s institutional environment is the Rule of Law. Even though giving each definition for it can be controversial, especially with regard to the historical and institutional particularity of China, Data Justice Project offers a series of indicators to assess it in a comparative manner.

## China

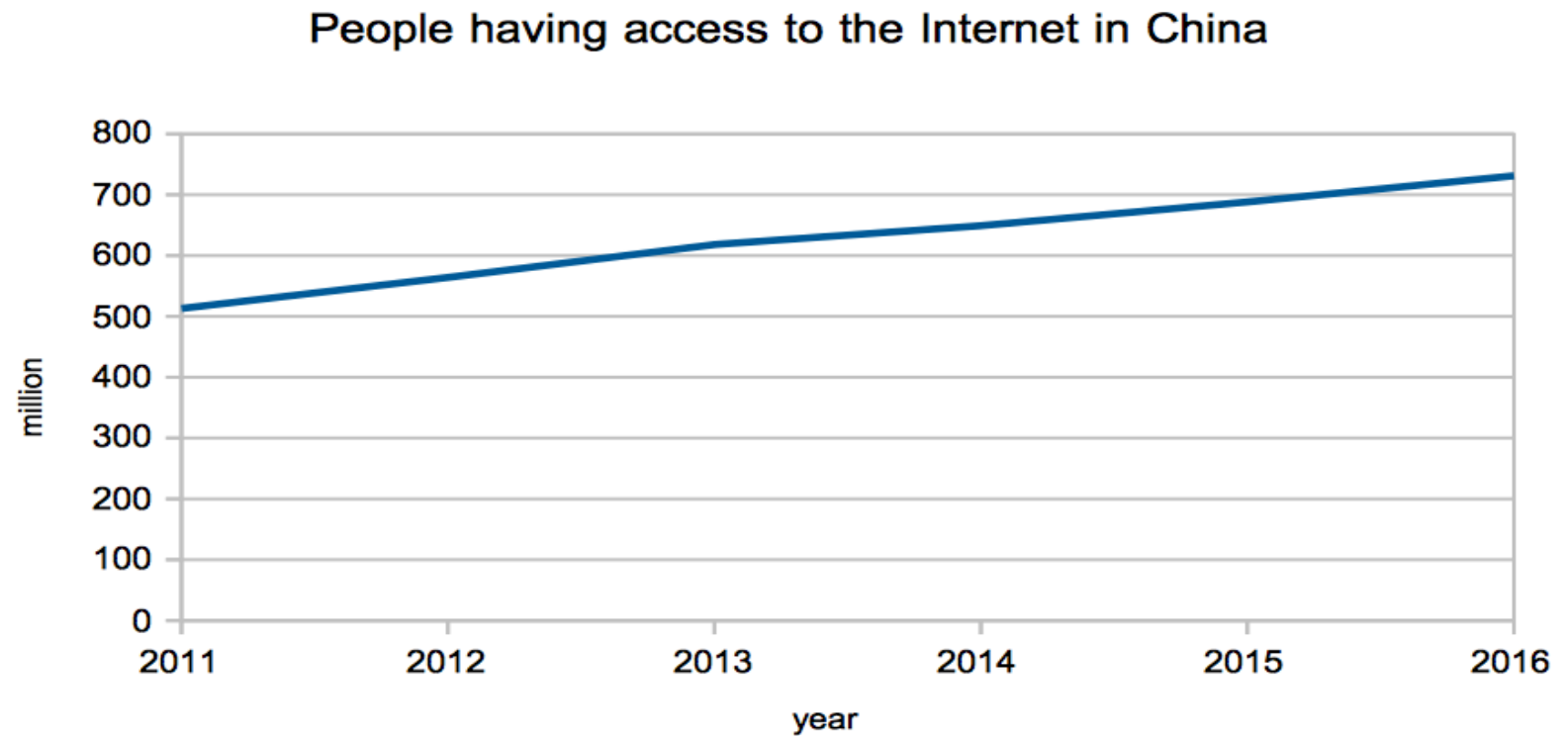
Shanghai, Beijing, Chongqing  
Region: East Asia & Pacific | Income group: Upper middle income

Overall Score	Regional Rank	Income Rank	Global Rank
0.48	13/15	28/37	80/113

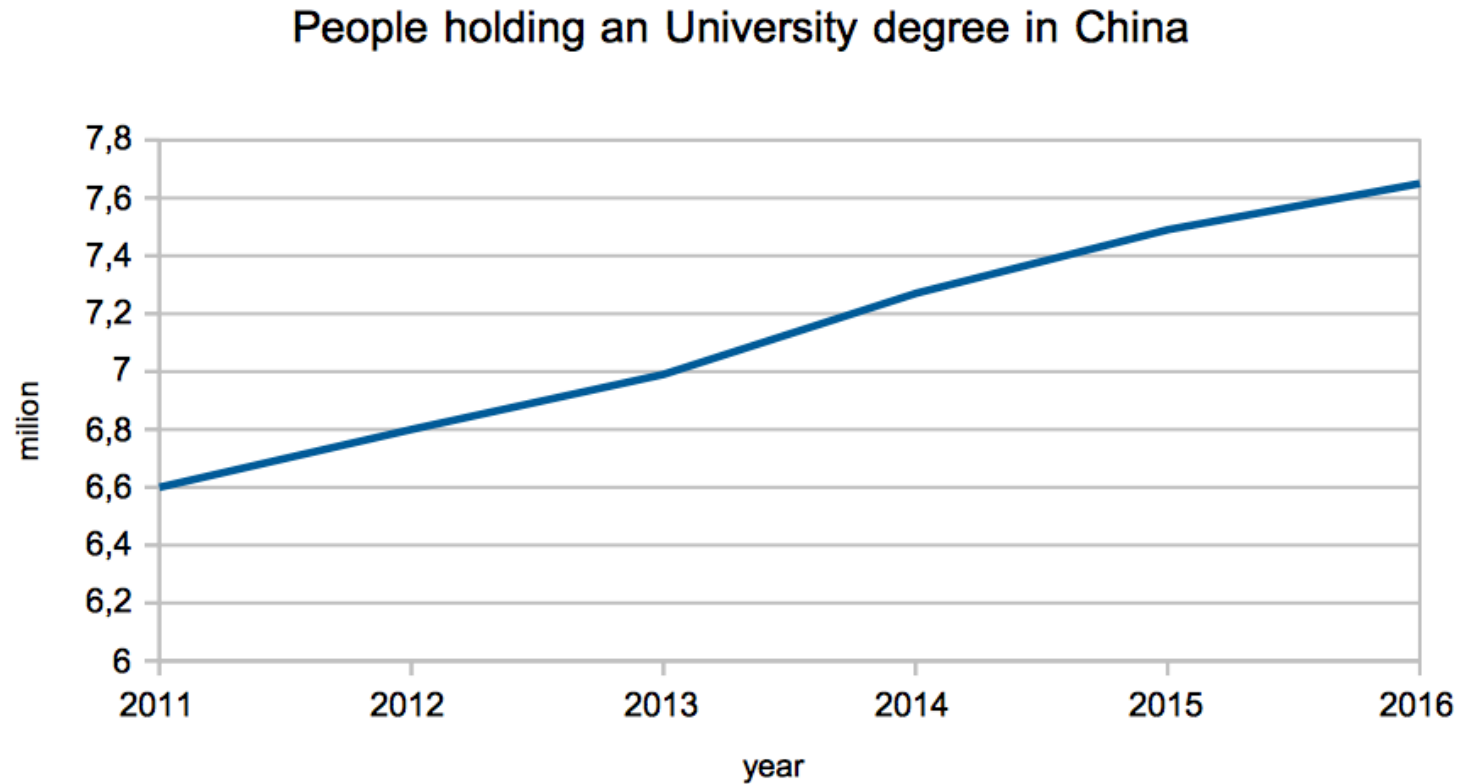
	Factor Trend	Factor Score	Regional Rank	Income Rank	Global Rank
Constraints on Government Powers	—	0.38	14/15	34/37	104/113
Absence of Corruption	—	0.52	8/15	15/37	52/113
Open Government	—	0.44	11/15	30/37	89/113
Fundamental Rights	—	0.32	14/15	36/37	108/113
Order and Security	—	0.76	10/15	8/37	41/113
Regulatory Enforcement	—	0.45	12/15	30/37	80/113
Civil Justice	—	0.52	10/15	21/37	62/113
Criminal Justice	—	0.47	10/15	16/37	55/113



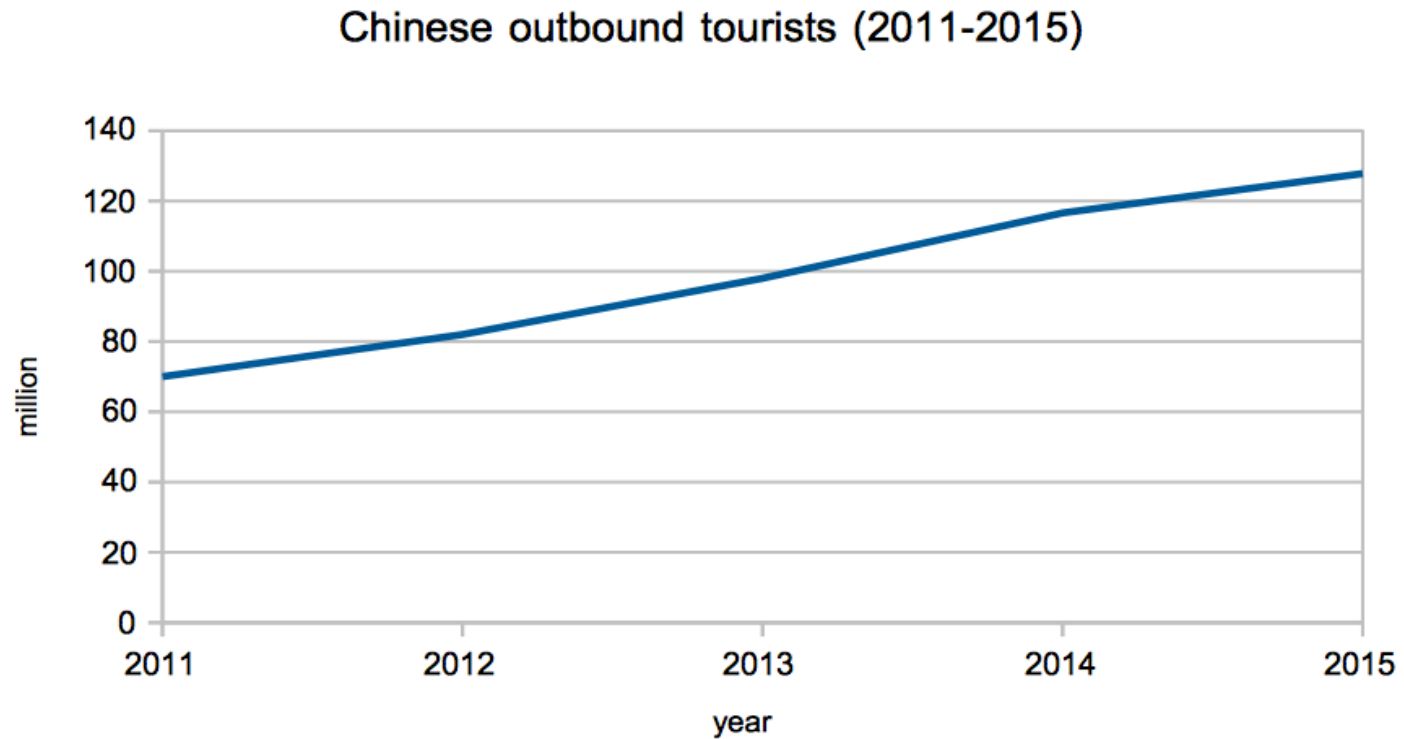
# China: Internet Users



# China: people holding an University Degree (bachelor)



# China: outbound tourists



# The case of China

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China may be emerged from an economic development perspective (formal) but not from a political, legal (both formal) and social (informal) perspective.

But... a caveat in this conclusion may be biased from a Western-based conceptualization of formal and informal institutional development.