

# EMERGING ECONOMIES AND SUSTAINABLE DEVELOPMENT

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## Abstract

*In the present paper we will try to present the relationship between the emerging economies and the concept of sustainable development. Emerging economies are considered very important in the context of globalization and some economists believe that there are at least five emerging economies that might change the world in the future. These economies are confronted with considerable problems since they have to compete with developed economies, so they need a sustainable development in order to do that. Sustainable development refers to meeting the needs of the present generation without jeopardizing the future generations, stressing the importance of creating a better quality of life for everyone, now and for generations to come. In our opinion, emerging economies do need a sustainable development in order to have competitive economies and to obtain remarkable success in the future.*

## Emerging Economies Inequality in the emerging economies

Emerging economies do play an important role in the world economy. The most representative economies from this group are considered: Argentina; Brazil, the Russian Federation, China, India, Indonesia and South Africa (known as the BRIICS). Despite being diverse, the emerging economies (EES) have some common economic features as the Organisation for Economic Co-operation and Development (OECD) pointed out (OECD, 2011):

- Prior to the Great Recession, all EEs had a prolonged period of relatively high growth, with growth rates higher than the OECD average.
- Economic growth enabled the EEs to achieve progress in fighting against poverty. The fall in the extent of absolute poverty was particularly dramatic for Brazil, China and Indonesia. India still has the highest poverty rate among these seven countries, while Argentina and Russia have virtually eradicated absolute poverty.
- The potential for catch-up to the income levels of the OECD countries remains significant for the EEs going forward.

Regarding within-country inequality in the EEs we can underline the following aspects:

- All EEs have levels of income inequality higher than the OECD average.
- Brazil, Indonesia and, to some extent, Argentina, have recorded considerable progress in reducing inequality over the past 20 years. Meantime, China, India, the Russian Federation and South Africa have become less equal and inequality in Argentina and Brazil is still high.

- The underlying forces of inequality in the EES are different from in the OECD countries. Key sources of inequality are: a large and persistent informal sector, widespread regional divides, gaps in access to education, barriers to employment and career progression for women.
- The benefit and tax systems in the EES play a lesser role than in the OECD countries regarding easing market-driven inequality. The coverage and generosity of social protection systems are lower than in most OECD countries. The causes are a high level of self-employment and sizeable informal sectors which are limiting the capacities of the tax authorities to verify taxpayers' declared income.
- Reducing income inequality while promoting more and better jobs in the EES requires a complex approach encompassing four key areas: 1. better incentives for more formal employment; 2. provision of social assistance targeting those in most need; 3. spreading the rewards from education; and 4. preparing to finance higher social spending in the future.

In order to solve the problem of inequality, beside labour, social welfare and tax policies, other policies aiming at improving the business environment, product and market regulation, infrastructure development, health care and public administration reforms have a role to play in reducing inequality.

Assessing the extent of income inequality and its evolution over time is very complex due to the fact that EES are using different statistical measures of household well-being. The economic factors influencing income inequality in the EEs tend to differ from those in most OECD countries. Large informality and persistently large geographical disparities in economic performances are important in

shaping income inequality in the EEs, but they are also intertwined with other drivers of inequality like gender, ethnic differences, and disparities in educational outcomes and in labour market conditions and so on.

In respect of *spatial inequality*, inequality within both rural and urban areas is higher in Brazil and South Africa than in China, India and Indonesia. Brazil is the only country among these seven where rural areas outpaced urban areas in *per capita* income growth. In China (OECD, 2009b) there are great disparities in access to basic services between rural and urban populations and access to education is also very unequal. In India the tendency is the accentuation of imbalances between the country's states. Where historically disadvantaged ethnic, racial and social groups are concentrated in particular regions, group-based inequality is reflected in regional disparities (World Bank, 2006).

*Informality* is very difficult to assess but various indicators are suggesting that informal economic relations are in some cases widespread. In Brazil, informal jobs are concentrated in low-skill-intensive sectors, in China undeclared rural migrants and workers lay off by urban state and collective enterprises account for the largest part of informal employment. In India and Indonesia informal employment includes women, home-based workers, street sellers and workers sub-contracted by firms in the formal sector. In the end, informality means that many workers from the EEs are outside the scope of labour market and social protection regulations.

*Education.* School attainment rates increased considerably in the EEs, being similar to the average in OECD in respect of primary enrollment, with the exception of India and South Africa. We should stress that enrolment varies geographically and between population groups (is lower in rural areas and for girls compared with boys).

Spatial divides, high shares of informal-sector jobs and disparities in access to education do have important *impacts on earnings*. In what concerns *social protection*, there are significant variations between the EEs. The unemployment compensations schemes have two main instruments in place for protecting workers against income losses induced by job loss: severance pay (SP) and unemployment insurance (UI). SP is the main form of income support for workers from the formal sectors in most EEs with the exception of the Russian Federation and South Africa, where UI has a higher value than SP. In practice, the average level of income support available to job losers is much lower in EEs than in the OECD countries due to the fact that most are not eligible to any form of support.

### **Emerging economies and globalization**

The rapid integration of the six of the largest non-OECD economies (BRIICS) into the world economy represented an important element of globalization during the past two decades. Economic incentives across world markets and particularly in the BRIICS have been aligned more closely with countries' and businesses' genuine strengths. (OECD, 2009a) As a result, entrepreneurs gained from access to larger potential markets and consumers from access to a wider variety of less expensive products.

In recent decades, all of the BRIICS opened their economies and consequently improved their connectedness to world trade networks. One can observe the reduction of trade barriers in the decline of the average applied tariffs on non-agricultural products, even if there are still differences between countries. Dispersion of tariffs fell and contributed to a further reduction in economic distortion. We have to mention the fact that trade performance and

openness are difficult to assess in the area of services.

There are similar developments as in the BRIICS across a wide range of other countries around the world. If global third-country influences are separated from factors specific to each of the BRIICS, it is clear that BRIICS expanded their exports over the last two decades much faster than the leading developed countries and this distinguishes them from OECD and many other countries.

The BRIICS grew in importance in world trade. In respect of trade connectedness, data suggest that China, India and Russia are at same level of importance as the highest income OECD countries and only Indonesia remains at the periphery. As a conclusion, globalization did not led to the polarization and marginalization of less well-connected countries, but the world trade network has become more multilateral. As a foreseeable result, some BRIICS economies could play important roles in international trade organisations like WTO in the future.

Despite differences in their levels of economic and institutional development, the BRIICS and OECD countries have a common interest in co-operation and commercial policy would benefit from it.

The mutually beneficial economic relationships between the OECD and the BRIICS and other countries need further nurturing. It has been, indeed, significant trade liberalization but trade and behind-the-border policy challenges persist and hinder growth.

The economic re-emergence of the BRIICS means that some of the most important economies of the world are not members of the OECD (OECD, 2009a), a reason for the OECD to work with important non-members to help ensure that multilateral programmes will continue to play a central role in the global economy.

## Sustainable development

Since the turn of the millennium the world has significantly changed. New economic powers have emerged, new technologies are reshaping the societies and new patterns of human settlement and activity are increasing the pressures on the planet. Inequality is raising both in rich and poor countries.

A new era demands a new vision and responsive framework. *Sustainable development* (UN, 2013b) enabled by the integration of economic growth, social justice and environmental stewardship, must become the global guiding principle and operational standard. Such a framework can bring together the full range of human aspirations and needs while offering a template for mutually reinforcing approaches to global challenges. Sustainable development can be, thus, defined as the *pathway to the future*.

Sustainable development has been defined in many different ways, but the most quoted definition is that from the Brundtland Report (World Commission on Environment and Development -WCED-, 1987): Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It comprises two main concepts:

- the concept of *needs*, particularly the essential needs of the world's poor, to which should be given priority and
- the idea of *limitations* which are imposed by the state of technology and social organizations on the environment's ability to meet present and future needs.

The definitions of sustainable development require looking at the world as to a system that connects space and time. The concept of sustainable development is rooted in this sort of systems thinking.

## Millennium Development Goals

The eight Millennium Development Goals (MDGs) established over a decade ago provided a clear roadmap, targets and common goals. These goals and the results will be discussed here (United Nations – UN-, 2013c).

### Goal 1 Eradicate extreme poverty and hunger

The target is to halve, between 1990 and 2015, the proportion of people whose income is less than one \$ day. The target has been met but still 1.2 billion people live in extreme poverty. The target to halve, over the same period, the proportion of people who suffer from hunger is within reach, as in 2013, if recent slowdowns in progress can be reversed.

### Goal 2 Achieve universal primary education

The target is to ensure that, by 2015, children everywhere, boys and girls, will be able to complete a full course of primary school. It is appreciated that, if current trends continue, the world will not meet the goal by 2015. One in four children who enter primary school will probably leave before reaching the last grade. Girls are less likely to start school than boys, but once enrolled they are more likely to reach the last grade of primary school with the exception of Western and Eastern Asia, where boys tend to repeat grades more than girls, a fact that can increase the risk of leaving school early.

### Goal 3 Promote gender equality and empower women

The target was to eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015. Gender parity is closest to being achieved at the primary level, but not at all levels of education. As of 31 January 2013, the average share of women members in parliaments worldwide was just over 20 per cent. More targeted actions are needed in order to achieve the objectives.

### Goal 4 Reduce child mortality

The target is to reduce by two thirds, between 1990 and 2015, the under-five mortality rate. Big gains have been made in child survival, child mortality dropping by 41 per cent until now but efforts must be redoubled to meet the global target. The overwhelming majority of child deaths are occurring in the poorest countries and regions of the world and in the most unprivileged areas within countries.

### Goal 5 Improve maternal health

The target is to reduce by three quarters, between 1990 and 2015, the maternal mortality ratio. Generally, maternal mortality declined by nearly half and in Eastern Asia, Northern Africa and Southern Asia by around two thirds. Still, efforts should be made to meet the target.

### Goal 6 Combat HIV/AIDS, malaria and other diseases

The target is to have halted by 2015 and begun to reverse the spread of HIV/AIDS. Despite the fact that the incidence of HIV is declining in most regions, still 2.5 million people are newly infected each year.

### Goal 7 Ensure environmental sustainability

The target is to integrate the principles of **sustainable development** into country policies and programmes and reverse the loss of environmental resources. As of 2013 global emissions of carbon dioxide have increased by more than 46 per cent since 1990, nearly one third of marine fish stocks have been overexploited, many species are at risk of extinction, despite the increase in protected areas. More than 2.1 billion people and almost 1.9 billion people, respectively, have gained access to improved water sources and sanitation facilities since 1990, but around 863 million people reside in slums in the developing countries. Forests continue to disappear at an alarming rate.

### Goal 8 Develop a global partnership for development

The global financial crisis and euro zone turmoil continue to take a toll on official development assistance. In 2012, net official development assistance (ODA)

from developed countries stood at \$125.6 billion, meaning a four per cent drop in real terms from 2011, which was two per cent below the 2010 level. The decline is attributed to the economic financial crisis and euro zone turmoil, which have led many governments to implement austerity measures and reduce their aid budgets.

### **Accelerating progress towards the Goals to 2015**

The one billion \$ Millennium Development Goals initiative of the European Union has been supporting countries in the African, Caribbean and Pacific regions in order to accelerate progress. In 2012, the African Union Commission adopted a road map on shared responsibility and global solidarity to accelerate progress in response to HIV, tuberculosis and malaria. The road map is organized around three pillars: diversified financing, access to medicines and enhanced health governance. In 2012 as well, the Association of Southeast Asian Nations adopted a road map for the attainment of the MDGs focusing on five key areas: advocacy and linkages, knowledge, resources, expertise and regional cooperation and public goods.

Every Woman Every Child, a multi-stakeholder partnership launched in 2010, seeks to save the lives of 16 million women and children by 2015. The Sustainable Energy for All initiative, launched in 2011, aims to provide universal access to modern energy, double the global rate of improvement in energy efficiency and double the share of renewable in the global energy mix, all by 2030 and more than 70 countries have signed up. The Global Agriculture and Food Security Programme mobilizes resources to scale up agricultural assistance to low-income countries. The Zero Hunger Challenge, launched at the United Nations Conference on Sustainable Development, calls for universal access to adequate food year-round. The Global

Education First Initiative, launched in September 2012, aims to raise the political profile of education and seeks to ensure access, improve the quality of learning and foster global citizenship. The Call to Action on Sanitation, initiated in March 2013, provides new momentum on an area that has received inadequate attention. Multi-stakeholder arrangements have proven successful because they expand on traditional partnerships by increasing available resources, improving the effectiveness of their use and increasing policy and operational coherence. Other initiatives are also in place in order to meet the global targets.

### **A post-2015 development agenda**

Such an agenda will provide the opportunity to place sustainable development at the core of humankind's pursuit of shared progress. With a new agenda on development world can achieve the eradication of extreme poverty by 2030, the protection of the environment and the promotion of social inclusion and economic opportunities for all. The framework for a sustainable development should include three dimensions: economic development, social inclusion and environmental sustainability.

The key elements of the emerging vision for the development agenda beyond 2015 include (UN, 2013b):

- universality, to mobilize all developed and developing countries;
- sustainable development, with a clear focus on ending extreme poverty in all its forms;
- inclusive economic transformations ensuring decent jobs backed by sustainable technology, in order to shift to sustainable patterns of consumption and production;
- peace and governance, outcomes and enablers of development;
- a new global partnership, recognizing shared interests,

different needs and mutual responsibilities, to ensure commitment to and means of implementing the new vision; and

- being 'fit for purpose', to ensure that the international community is equipped with the right institutions and tools for addressing the challenges of implementing the sustainable development agenda at the national level.

The vision for a Post-2015 development world needs to be global, holistic, measurable and meaningful (OECD, 2013). *Global*, because the developed and developing divisions between North and South no longer reflect the growing interdependences. *Holistic* because sustainable development goals and the poverty and human development agenda must be addressed jointly. *Measurable and meaningful* so it will be possible to assess progress, achieve high levels of transparency and hold ourselves accountable for our future actions.

The five areas that need to be prioritized in the Post MDG Framework are education, health, agriculture, infrastructure and the fight against corruption. Both quantitative and qualitative indicators would be important for the Post MDG Framework.

## Conclusions

As we saw, Emerging Economies represent an important part of the world economy and their role will most probably grow in the future if they will develop their economies. This group of countries is heterogeneous. In order to reduce gradually inequality in the Emerging Economies over long-term is necessary a multipronged approach addressing four areas (OECD, 2011):

- better incentives for more formal employment;
- targeting social assistance to those in need;

- spreading the rewards from education; and
- preparing to finance higher social spending in the future.

The EEs can alter their distribution of incomes by adjusting their benefits and government transfer systems and improving tax provisions. This kind of redistribution policies, if appropriately assessed to reflect domestic circumstances and priorities, can become powerful tools for reducing inequality.

Some conclusions regarding inequality in the EEs:

- Shifting the emphasis from protecting jobs to enhancing employability could lead to more hiring in the formal sector and to the creation of better quality jobs.
- Social welfare programmes could be further strengthened by better targeting individuals in most need, alongside with promoting mechanisms of in-work benefits.
- Conditional cash transfers, probably, can be well suited to reducing inequality and promoting social mobility in the EEs and will have long-term positive effects on labour market outcomes in the EEs.
- Addressing inequalities in access to and quality of education can also contribute to lowering inequality in labour income.
- Enhancing the distributive capacity of the tax system would require putting emphasis on improving revenues collection procedures and strengthening the extent to which taxpayers comply voluntarily with their obligations. A focus on the fight against corruption will also help improve tax collection.

**Poverty eradication** is the central objective of development and the Second United Nations Decade for the Eradication of Poverty (2008-2017) seeks to achieve this goal (UN 2013a) with the theme 'Full employment and decent work for all'. It is recognized the fact that poverty is a

multidimensional phenomenon that extends beyond income poverty and reflects both lack of opportunity and capability. This manifest itself in the decent work deficit; pervasive hunger and malnutrition; limited access to health care, social protection, education, water, sanitation and other basic social services; social exclusion and inequality; vulnerability to economic shocks, climate change and disasters.

This important objective refers at almost all of the MDGs and is crucial for the development in general and for the progress of the underdeveloped and emerging economies. It is also an indispensable requirement for sustainable development.

The MDGs were useful because they focused the attention and mobilized political and financial support. International goals must accommodate national goals and targets. In this respect, the new framework should have broader targets, adjustable for each nation and OECD should do more to provide better data. Green growth is important and should be integrated into society, job creation, getting out of the informal sector, fiscal management and in the politics of a nation.

We can observe that the EEs could achieve their goals through their own efforts but being part of the world economy. While national states are mainly responsible for their countries' development, they cannot do it alone due to the fact that they lack capacity, effective institutions and financial resources. In order to accelerate their development an effective partnership through the international community should help governments addressing the challenges they face.

Sustainable development in emerging economies is of worldwide concern to many different stakeholders due to the global impacts that billions of people will collectively have and do have on employment conditions, working standards, climate change, energy supplies,

natural resources and many other critical issues.

Interest in impact investments (Arosio, 2011) in developing countries grew in recent years for various reasons. On one hand, the slow growth of OECD economies and the high positive correlation among them, as shown by the recent global financial crisis, have helped shifting interest towards the developing world. On the other hand, the depletion of natural resources coupled with a rising demand of a growing world population will require in the future more responsible and sustainable business practices.

Sustainable development is crucial for our future and for a development of all kind of countries. Despite the progress made in the field, a lot of work is needed in order to achieve in the first place the Millennium Goals. We must underline the fact that nowadays there are many problems due to different systems used for statics. Reliable, timely and internationally comparable data are crucial for establishing appropriate policies and interventions when needed.

We do believe that MDGs will be achieved by 2015 and future efforts will be made for sustainable development. After 2015 the development agenda will change in a positive way but will also require even bigger and more coordinated efforts and initiatives. Emerging economies and developed countries and international organizations should work together in order to find the most suitable solutions and resources for financing them. We believe that it is possible to do so and that the outcomes will be beneficial for each part involved and for the whole world.

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