

## EMERGING ECONOMIES DEVELOPMENT: BRICS VS EAST EUROPEAN COUNTRIES

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**Abstract:** The aim of the paper is an overview of the emerging economies' development: BRICS and selected East European countries. BRICS countries and some East European Countries have achieved rapid economic growth, investments and stock market performances. An overview of economic development is given in both groups of countries by analysing the selected economic indicators. Strengths and weaknesses, as well as variations of development, are shown from the perspectives of both groups of countries. Also, the paper gives a brief overview of the role of emerging economies in Serbian economic development. BRICS countries have faced certain political and economic problems that influenced a slowdown in economic growth and development, while the observed East European countries have obtained higher economic growth rate.

**Key words:** emerging economies, economic development, BRICS, East European countries, Serbia

### 1. INTRODUCTION

In global movements of people, goods, services and other factors, countries show different levels of development. Developed countries have the highest level of development that other countries also want to achieve. Economic development is a process that implies different changes in society, economic structures and various institutions. It is a complex and slow process. Japan, for example, needed 27 years to become a developed economy. From an economy with an income per capita less than \$1,000 it became an economy with \$10,000 income per capita (Mahajan&Banga, 2005). In order to achieve economic progress, countries need to adjust their economies to global changes. Some countries managed to adjust to global movements and they achieve faster economic growth, while others remain on the lower level of economic development. There are numerous reasons for this lagging behind. Each country tries to achieve a higher level of development, either independently by implementing economic policies, or through certain international institutions. Developed countries are mature and old economies, and most changes primarily originate from them. Such countries have a stable growth and

constant development, but they also suffer certain imbalances and crises. Developing countries try to adjust their economies to changes and by using certain reforms they try to adjust their economies to the demands of global market and integrations. Underdeveloped countries have the lowest income and productivity, and thereby their development is on the lowest level. Among developing countries, there is a group of emerging economies.

Emerging economies are developing economies where economic development and growth is much faster and efficient than in other developing countries. Such countries have growing economies and middle-class growth. They open their economies, offer long-term investment opportunities for foreign investors and increase market activities with other countries. Some countries have new technologies that enable economic growth. The aim of this work is to gain insight into special characteristics of such countries' economic growth. The research is focused on two groups of countries, BRICS and some East European countries. The paper shows general characteristics of these countries' economic growth. The analysis of their development has been carried out according to

the given indicators. Furthermore, there is a short overview of how these countries influence Serbian economy. According to theoretical indicators and observations, the results show that BRICS countries had a strong economic growth until 2011, when it started to slow down owing to global economic and political problems. East European countries decelerated their economic activities, with the exception of Poland, which had economic growth during the global economic crisis. These countries have enhanced their performances by implementing economic and structural reforms in order to achieve a higher level of development and convergence with the EU. Emerging countries have a long-term goal to achieve a dominant position in the world by improving economic and business surroundings for future development. Although investments and cross-border trade exist between Serbia and emerging countries, these countries have no greater influence on the economic growth of Serbia.

## **2. OVERVIEW OF CLASSIFICATION AND CHARACTERISTICS OF EMERGING ECONOMIES**

Developing countries which owe their development to fast economic growth and investments are emerging economies. Emerging economies mutually differ in culture, history, language, policies, legislation, financial infrastructure development, regulations, management and institutions. They own three-quarters of the world surface, four-fifths of the world population and they control one-fifth of global GDP (Kearney, 2012). It is estimated that these economies are going to push forward world economy and surpass advanced countries. They invest in education, market development, institutions and management.

Such countries are not geographically connected within a single region, but dispersed throughout the world. In America, such countries are: Brazil, Peru, Mexico, Columbia and Argentina; in Asia: China, India, Indonesia, South Korea, Malaysia, Vietnam; in Africa: South Africa, Egypt, Nigeria, Kenya and in Europe: Russia, Poland, Hungary, Bulgaria, Romania, Greece and Turkey. Notwithstanding, certain countries

have created circles/blocks. The most important groups among them are: BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey). Moreover, various institutions, like World Bank, IMF, FTSE Russel and MSCI classify countries with emerging markets through indexes into: countries with high, middle and low income. According to the World Bank (2017), Brazil, Russia, China, South African Republic, Bulgaria, Romania and Serbia are the countries with a higher middle income, India belongs to the countries with a lower middle income, while Poland, Hungary, Slovakia and the Czech Republic belong to those with high income. IMF (2016) classifies countries into two major groups: advanced economies and developing economies, emerging markets included. IMF classifies countries according to the region and main indicators (GDP, PPP, total export of goods and services and population). According to FTSE Russel index that follows exchange market, the emerging markets or more precisely, exchange markets are divided into: developed, advanced emerging, secondary emerging or frontier emerging (FTSE Russell, 2017). This indicator is followed by investors, since it provides the most relevant and punctual information on market structure, risks, regulatory and trading practice in markets. Countries chosen according to the classification of countries from the most recent list are: developed markets (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, etc.), advanced emerging markets (Brazil, Czech Republic, Greece, Hungary, Malaysia, Mexico, Poland, South Africa, Turkey, etc.) Secondary emerging markets (Chile, China, Columbia, Egypt, India, Indonesia, Peru, Russia, etc.), and frontier emerging markets (Argentina, Bahrein, Bangladesh, Bulgaria, Croatia, Latvia, Lithuania, Macedonia, Romania, Serbia, Slovakia, Slovenia, etc.). According to MSCI (2017), emerging markets are: developed, emerging markets and frontier emerging markets. According to MSCI, the countries chosen by emerging markets' index are: Brazil, Chile, Columbia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Russia, South Africa, Turkey, China, India, Indonesia, etc.

Emerging economies are developing countries that invest in production in order to shift from the economy based on agriculture and export of raw materials to the economy with developed industry and service sectors. Such countries have rapid industrialisation and adopt free market, i.e. mixed/market economy. At the beginning of the transformation process from underdeveloped to developed countries, these economies are distinguished by: a limited volume of economic activities, small income per capita, limited openness towards global capital and technology, high volatility of exchange rates. (Simon, 1997, cited in Ioana-Cristina, & Gheorghe, 2014). According to Mahajan, & Banga (2005) the characteristics of emerging markets are: 1) high market demand (market is not developed, but consumers with small incomes demand high quality of products and services), 2) mass emigration to developed countries (the diaspora influences both financial flows from developed to emerging countries through remittances and investment capital, and creating and expanding social networks), 3) Markets are fragmented (there are several national brands on the market), 4) population is young and constantly growing (86% of the world population is in developing countries with income per capita lower than \$10,000), 5) limited income and space (low income limits consumption and population density per square meter is constantly growing), 7) undeveloped technology (undeveloped technology-intensive sectors, like fixed telephony, new technologies, pharmacy and biotechnology), 8) undeveloped distribution system and channels, 9) markets change and develop quickly (the changes depend on government regulations, activity of enterprises, income and economic conditions). According to Amadeo (2017) the characteristics of emerging economies are: 1) low or middle income per capita, 2) they are moving from closed to open market economy, 3) high rates of economic growth and fast progress, 4) high volatility, and 5) undeveloped exchange market, lack of market efficiency and regulations that could put them among developed countries. Besides the above-mentioned, markets of emerging economies attract foreign capital by high return rates. Foreign capital inflow influences foreign currency inflow in these countries, which increases exchange market transactions

and investment in infrastructure. However, it is important to know that these countries do not have the same level of access, possibilities, liquidity and market development, i.e. the development of financial and banking systems, price stability and exchange rates. These markets involve risks connected to volatility: price changes, political risks, exchange rate changes. The greatest risk is price volatility. However, in spite of the existing risks, these markets yield higher returns than mature markets (Ioana-Cristina, & Gheorghe, 2014).

Developing countries and emerging economies have a lack of capital, but abundant human resources at the beginning of development, so labour cost is low and returns on capital are high. Main goals of the countries that want to achieve higher development are economic growth, reduced poverty and social development. Increased output results in a higher standard of living, reduced poverty and increased number middle class inhabitants. This leads towards higher market turnover and rising market. Furthermore, numerous, well-educated and low-cost human capital is one of the factors that enables production competitiveness in emerging markets. Higher economic growth and development demands investments that influence the increase in production and income. In order to finance investment, it is necessary to provide funds. According to economic theory, long-term economic development has to be based on domestic funding sources. However, developing countries suffer the lack of domestic capital, so their initial development policies rely on external, i.e. international funding (Jednak et al., 2014). International capital can be in the form of loans and investments. Investment capital can be in the form of foreign direct investments or portfolio investments (Kragulj, 2016). Fund raising occurs on capital market. The characteristics of developing countries' capital markets are: high returns and volatility, as well as diversification benefits (Barry et al., 1998). The interest of investors for developing and emerging markets is constantly growing. The inflow of capital increases capital growth relatively more in comparison to labour force growth, output, consumption, so real wages increase, while return on capital, i.e. interest rates decrease.

Capital influences production growth up to a point where its influence stops being significant. That is the moment when an economy becomes mature and better developed. That is the moment when countries start investing into knowledge, which will bring about higher productivity and income (Jednak, 2017).

Creating business and investment climate by improving competition, funding, infrastructure and regulations, helps attracting foreign investors and companies (Dethier et al., 2010). Foreign companies need adequate business partners in order to come and invest into an emerging economy. Companies from developing countries try to gain maximum profit using their unique competencies and resources by choosing adequate host company that has its own competencies, national and local knowledge and market access. Companies from emerging economies provide financial assets, technology, non-material assets and readiness to share their knowledge and expertise in order to gain benefits (Hitt et al., 2000). Foreign companies buy national companies of emerging countries, but it is also vice versa, when companies from emerging countries buy foreign companies. Moreover, main clusters, i.e. specialised industrial districts (e.g. clothing, footwear and furniture) can play important roles in increasing local growth and development, but they can also influence production and market movements on both national and global levels (Scott, 2006). There are different international business strategies that are implemented on emerging markets on the basis of theoretical perspectives: institutional theory, transaction cost economics and resource-based theory (Hoskisson et al., 2000). Institutional theory shows that institutions influence organisational processes and decision-making, because institutions provide rules that organisations have to follow. The theory of transaction cost economics explains the existence of companies, and the reasons why they increase or decrease their business activities. According to this theory, a company tends to minimise external costs of exchanging resources with the surroundings, and to reduce bureaucratic costs within the company itself. This theory shows that a company needs to reduce production costs in the company itself and transaction costs with

the market. If external costs exceed bureaucratic costs, then the company grows and vice versa (BusinessMate, 2017). The theory based on resources explains that companies need to use resources, capabilities and strategic assets to achieve competitive advantage (Cao & Zhang, 2012). Strategies of certain developed economies' companies in emerging markets, competition in emerging markets, emerging markets in emerging markets and emerging markets in developed markets company theories are being applied: agency theory, transaction cost theory, resource-based theory and institutional theory), and the most important is institutional theory (Wright et al., 2005). Companies choose a theory and apply it according to the situation on emerging markets. Thereby companies make and establish business strategies in emerging markets.

Companies that do business in emerging markets often face: unreliable market measures, currency volatility, country risk, corporative governance in legal limitations and lack of capital, discontinuous risk and information gap and accounting differences (Loth, 2014). Companies appear on emerging markets because, despite risks, emerging markets provide access to large markets, numerous and low-cost labour force, which enables making business and profits.

### **3. SELECTED ECONOMIC PERFORMANCES OF BRICS COUNTRIES AND THE OBSERVED EAST EUROPEAN COUNTRIES**

#### **3.1 BRICS countries**

The BRICS countries have united because of the politics and common long-term interests. The aim was to implement economic and other reforms that would enhance the influence and importance of developing countries. These countries develop cooperation in the fields of economy, finance and trade in order to modernise the economy, build infrastructure and achieve a higher level of economic development. They mutually cooperate and complement each other. China and India are the leaders in this group of countries. These two countries are the generators of fast economic growth and represent the producers of goods and services,

while Brazil, Russia and South African Republic produce raw materials. In order to boost competition and strengthen their position these countries have oriented towards education, attracting foreign investments and stimulating domestic consumption. Every year China and India produce 1.2 million graduate engineers and scientists. For the sake of comparison, the number of graduate students in the EU, Japan and USA together is 1.2 million (Kearney, 2012). Although BRICS countries have different geographic positions and levels of political and economic

development, they managed to attract foreign capital and had strong economic growth. It was China that recorded the greatest inflow of foreign direct investments. That can be explained by a high rate of capital return and low-cost labour force. Prior to the economic crisis, the return rate of investments was 52% in the BRICS countries, while in G7 countries it was 16%. Return rates decreased after the economic crisis, as well as the inflow of foreign capital. In Table 1 basic demographic and economic indicators for the BRICS countries are given for the year 2015.

	Land area (000 sq.km)	Population (million)	Labor force(parti ciaption in )	Unemploy ment (%)	GDP(curre nt prices/billi on \$)	GDP per capita (current prices/\$)	GDP growth (annual %)	Inflation, conusmer prices (%)
<b>Brazil</b>	8516	204	66.5	6.9	1722	8668	-3.8	10.7
<b>Russia</b>	17125	146	52.5	5.6	1332	9098	-3.7	15.5
<b>India</b>	3287	1254	39.5	2.2	2035	1586	8.7	5.9
<b>China</b>	9600	1371	56.3	4.1	11006	8027	6.9	1.4
<b>South African Republic</b>	1221	55	38.4	25.3	313	6483	1.3	4.6

  

	General governme nt structural balance (%GDP)	Current account balance (%GDP)	Racio exports of goods and services (% of GDP)	external governme nt debt, total (% of GDP)	FDI inflows (in million, current \$)	Total reserves (includes gold, current \$)	HDI (rang/154)	WEF competitiv ness (rang/138)
<b>Brazil</b>	-10.7	-3.3	110.2	18.9	75075	356464	0.754 (78)	75
<b>Russia</b>	-2.4	5.0	117	46.5	22891*	309387	0.804 (49)	45
<b>India</b>	-2.4	-1.4*	69.3*	23.8	55457	341638	0.624 (131)	55
<b>China</b>	-3.4	3.0	136	12.9	126267	3330362	0.738 (90)	15
<b>South African Republic</b>	-0.7*	-4.4	96.8	41.4*	1774	45787	0.660 (119)	49

**Note:** \* podatak za 2014.god.

**Izvor:** BRICS Joint Statistical Publication (2016), UNDP; WEF

According to BRICS statistics (2016), BRICS countries make 42% of the world population, 26% geographic surface, 27% of global BDP, 46% of global labour force, 45% of global agricultural production, more than 17% of world commodities trade and 13% of global service trade. According to IMF data, in 2012 BRICS countries contributed to 56% of the global gross domestic product, while G-6 (France, Germany, Italy, Japan, UK and USA) about 9%. According to the World Bank data, GDP of BRICS countries grew from \$9.9 billion in 2001, to \$32.5 billion in 2014. In 2015 BRICS countries generated 22.5% of the

global GDP and contributed to more than 50% of global economic growth during the past ten years. Furthermore, according to the same source, if the two groups of countries are compared, the ratio would be as follows: GDP (PPP) of Russia exceeds the GDP (PPP) of the UK, GDP (PPP) of China exceeds the GDP (PPP) of Japan and GDP (PPP) of India exceeds the GDP (PPP) of Germany. This shows how important the BRICS countries are in global economic flows. BRICS countries achieved high growth rates until 2011, just to mark negative rates in certain countries in 2015. For example, in 2010, high economic

growth rates were recorded in Brazil (7.5%), Russia (4.5%), India (20.2%), China (10.6%) and South African Republic (3%, but over time the rates started to drop and in 2015 they were in Brazil (-3.8%), Russia (-3.7%), India (8.7%), China (6.9%) and South African Republic (1.3%) (BRICS Joint Statistical Publication, 2016). In the period 2001-2011, According to WTO (2017), BRICS countries doubled their export from 8% to 16%. Export in these countries grew by more than 500%, while total global export grew by 195% for the same period. The trade between BRICS members increased by 922%, from \$27 billion to \$276 billion. Besides, FDI increased among emerging countries, and from emerging countries to developing countries and developed countries (Buckley et al., 2011). The examples of the greatest acquisitions between the companies from emerging economies and developed countries were: in 2004, when Chinese *Lenovo* acquired American *IBM ThinkPad line of PCs* and thus became third biggest world PC supplier and in 2008 when Indian *Tata Motors* acquired *Jaguar Land Rover*.

However, owing to rising economic and political problems (economic crises, drop in global demand and raw material prices, aggravated conditions of cross-border trade, the lower inflow of investments) a drop in economic growth and development occurred. China, India and South African Republic put the emphasis of stimulating domestic demand and attracting investments. Throughout 2014, China recorded a lower rate of growth, Brazil was on the verge of recession, and Russia decreased its economic activity due to oil price (which depends on oil and gas export) inadequate infrastructure, sanctions and inadequate policy. Brazil is the economy with high prices, inadequate infrastructure, based on the export of raw materials and highly protectionism-oriented. A worldwide drop in the price of goods and services influenced these markets that heavily depended on export.

Moreover, China and India encountered problems that led towards a drop in economic growth and development. China, which had been the main leader of this group of countries, changed its economy that had been based on export, to the economy based on

domestic consumption. The crisis provoked by real estate boom, inefficient and undeveloped banking system and financial sector, undeveloped market, increase in salaries, old population, underestimated yuan, overheated economy, significant surplus of balance of payments, pollution and growing inequalities were some of the problems this economy encountered, and they influenced a drop in economic growth. India also had a potential for economic growth. India was the best importer of raw materials and other goods whose prices dropped and it was less dependent on export. In 2015, the share of export of goods and services in GDP was 24.8% in India, 28.4% in Russia and 31.1% in South Africa (BRICS Joint Statistical Publication, 2016). India faced inflation (7-8%), undeveloped infrastructure, education inequality, inefficient government, unfavourable conditions for business activity, disrupted the balance of payments, decrease in public finance, high budget deficit and debt, rigid labour laws and substantial inequality. Inflation occurred as a problem in all countries, especially in Brazil (10.7%) and Russia (15.5%), while China had the lowest inflation rate of 1.4% (in 2015). In order to decrease inflation, interest rates were increased which additionally decelerated growth and development. In 2015, the biggest unemployment rate was South African Republic (25.3%) and lowest in India (2.2%) (BRICS Joint Statistical Publication, 2016). However, India is the fourth emerging economy, with economic growth projected to 7.2%, due to a rise in export and increase in government spending. Despite a slowdown in economic activities, China held the 16<sup>th</sup> position with the expected growth rate of 6.5%, which is achieved through robust consumption and recovery of exports (WEF, 2017).

BRICS countries dispose of the significant amount of foreign-exchange reserves, the greatest part of which belong to China. Thanks to the reserves, China can keep its own currency low, so goods become more competitive, and export increases. Although at the moment, the BRICS countries record slower growth, it is estimated that in the future they will surpass developed countries. Along with BRICS countries, investors are increasingly interested in MINT countries

(Mexico, Indonesia, Nigeria and Turkey). It is expected that these countries will have growth due to high return on equity, large and young population, rich natural resources, acceptable legal system oriented towards economic growth, and geographic position suitable for trade. In the past, there was an idea that some of these countries (Indonesia and Mexico) join BRICS countries. There are also other candidates that could join BRICS, like Iran and South Korea. However, the idea of BRICS expansion has been abandoned for the time being.

### 3.2 Selected East European emerging countries

Since the 1990s, East European countries have been undergoing the processes of transition, economic reforms and European integration. The main characteristic of the region is that there exist certain differences between the

countries. Such differences are connected to the level of economic development, implementation of transitional processes and economic reforms, and cooperation with the European Union. Central Eastern European countries have concluded the process of transition, undergone economic reforms and become members of the European Union. These countries are better developed than South East European countries that have different levels of development and different time of joining the European Union. According to different classifications, emerging countries in Europe are: Poland, Hungary (Central Eastern Europe), Bulgaria, Romania, (South Eastern Europe). These countries are the members of the EU. During the process of transition and privatisation, international capital was attracted in the form of foreign direct investments and portfolios. Table 2 shows the selected demographic and economic indicators for Poland, Hungary, Bulgaria and Romania.

Table 2. Selected demographic and economic indicators for observed East European countries, 2015

	Land area (sq.km)	Population (thousand)	Labor force (participation in %)	Unemployment	GDP (current prices/million \$)	GDP per capita (current prices/\$)	GDP growth (annual %)	Inflation, consumer prices (%)
<b>Poland</b>	306,190.00	37,986	56,9	7.5	477,336.78	12,566.00	3.8	-1
<b>Hungary</b>	90,530.00	9,843.03	53,9	6.8	121,715.20	12,365.60	3.1	-0.1
<b>Bulgaria</b>	108,560.00	7,177.99	56,1	9.1	50,199.12	6,993.50	3.6	-0.1
<b>Romania</b>	230,080.00	19,896.97	55,8	6.8	177,522.71	8,958.80	3.9	-0.6
	General government structural balance (% GDP)	Current account balance (% GDP)	Exports of goods and services (% of GDP)	Central government debt, total (% of GDP)	FDI, net inflows (BoP, current \$)	Total reserves (includes gold, current \$)	HDI (rang/154)	WEF competitiveness (rang/138)
<b>Poland</b>	-2.6	-0.6	49.5	51.3	14,067,000,000	94,902.63	0.855 (36)	41
<b>Hungary</b>	-1.1	3.3	90.7	96.5	-5,309,180,499	33,124.29	0.836 (43)	63
<b>Bulgaria</b>	-1.64	-0.1	64.1	30.3	2,778,170,000	22,153.05	0.794 (56)	54
<b>Romania</b>	-0.52	-1.2	41.1	45	4,317,731,472	38,700.98	0.802 (50)	53

Izvor: World bank data, IMF, UNDP, WEF

Poland is one of the leading emerging economies and the eighth economy in the EU. Since the beginning of transition until this moment, it doubled real GDP, GDP per capita (PPP) has changed from 32% to over 60% EU15 GDP per capita, annual GDP rate is 4.6% (for the period 1991-2008). Average income per capita ranged from \$2,300 at the beginning of the transition to \$13,000 that is today. Poland is the only country that achieved economic growth of 3.6% during the crisis due to the

well-established macroeconomic basis, stable domestic demand and fiscal policy. Owing to such policy, in the period 2008-2015, Poland recorded constant growth of 2.5%. Poland finished transition, built up the export-oriented market economy and possesses well-educated and qualified human capital. Its growth was based on inflow of FDI, EU funds, export, high domestic demand (38 million inhabitants) and increased productivity. It holds 10<sup>th</sup> position in the

world and 5<sup>th</sup> in Europe in education; its service sector grows twice as fast as in India; it has got the best developers, significant start-ups; it is the leader in mobile trade; it has a fast growth of e-trade and best opportunities for business growth (Sales mango, 2016). Owing to its competitiveness, Poland recorded a surplus of trade balance (€3.7 billion in 2015) because of the high level of export. Export has increased by 150.3% over the past ten years. For example, in 2003 export was \$53 billion, and in 2013 it increased to \$203 billion. Companies with foreign capital are mostly included in the export. Such companies make two thirds of overall export in Poland. The greatest trade partners are the EU countries (79.3%), primarily Germany that has 27.1% share in export and 22.9% in import (Poland in Figures, 2016). If import and export values are taken together, it equals 96% of GDP. According to FTSE Russel (2017), Poland advanced from emerging to developed market and thus became one of the 25 most developed economies in the world, including Germany, France, Japan, Australia and the USA. The projected economic growth rate for 2017 is 3.3%, and in 2016 economic growth was 3.1% (Poland in Figures, 2016).

Hungary is an emerging country. At the beginning of the transition process, Hungary had low rates of economic growth (GDP dropped by 20%), high unemployment and inflation of 160%. In 2000, inflation was a single-digit number, and in the period 2000-2007 economic growth rate was 4%. By opening its economy, Hungary achieved its external trade to be 155% of GDP in 2008. In the same period, foreign direct investments made 60% of the total value added. Since Hungary is well-connected to the EU, Eastern Europe and the Balkans, investors have the market of over 493 million people in this region (Thomas White International, 2017). The sectors that contributed to economic growth above all are: automotive sector, biotechnology, IT, electronics, renewable energy industry and sector of services. Hungary disposes of the well-educated, well-trained and cheap labour force. This country suffered trade balance deficit, fiscal deficit and public debt. In 2009 its public debt was the highest in the EU and amounted to 78.3% of GDP. Moreover, the financial crisis brought this economy into recession and

increased unemployment. The crisis was overcome by applying the sound fiscal policy that is applied for gaining macroeconomic stability and promoting growth through fiscal discipline: curbing tax evasion, revising corporate and other taxes and contributions. Moreover, the central bank reduced reference interest rate to its lowest level since the beginning of transition (Thomas White International, 2017). This economy came out of recession in 2013 and has been slowly developing since then. The Investment climate has improved and fiscal deficit fallen below 3% of GDP. Hungary is the 28<sup>th</sup> largest export economy in the world. In 2016, Hungary exported \$102 billion, and imported \$91.4 billion, which resulted in trade balance surplus. The top exports were in the automotive industry and the top trade partners (export destinations) were Germany, Romania, Slovakia, France and Italy. The top import origins were Germany, China, Poland, Italy and the Czech Republic. In 2016 GDP was \$124 billion, and GDP per capita \$26.7 billion (OEC, 2017).

According to IMF, Bulgaria and Romania belong to emerging economies. Their economic transformation was similar to the rest of the East European countries. They started transition at the same time, they belong to the region of South East Europe and became EU members at the same time (in 2007).

Bulgaria has undergone many changes since the beginning of the transition. The consequences of transition and structural changes were: slow restructuring, high indebtedness and lack of its own capital, i.e. savings (World Bank, 2017a). Bulgaria was the most attractive investment area in the Balkan till the global crisis (Stankov et al., 2015). From the beginning of the transition to the economic crisis, Bulgaria had an average annual rate of economic growth of 6% and more. With the occurrence of crisis, economic activities (domestic demand, FDI inflows, production and export) decreased, and consequently the rate of economic growth. Until 2015, the average rate was 2%. Afterwards, economic recovery increased the rate to 3% due to EU demand of Bulgarian export, the inflow of EU funds and increased domestic demand (Index Mundi, 2017).



Domestic demand and export are the main factors of Bulgarian economic development. Bulgaria is the 49<sup>th</sup> export economy in the world. In 2016, export was \$24.9 billion, \$52.2 billion GDP and \$19.2 thousand GDP per capita. The top exported products are: refined petroleum, refined copper, wheat, medicaments and insulated wire. The top export destinations are: Germany, Italy, Romania, Turkey and Greece (OEC, 2017). In 2017, private consumption has increased as a result of an increase in income, employment and credits. Unemployment has been reduced significantly. Export has increased due to higher competitiveness and the surplus current account has been recorded. There is a surplus fiscal budget as a result of taxes, social contributions and reduced public investments. The rate of economic growth in the second quarter of 2017 was 3.6% (World Bank, 2017a).

Romania based its growth on export, but it is still prone to external influences. Romania suffered severely as a result of the global economic crisis. It recorded a contraction of economic activities and growth until 2011. Aid and funds were coming from the IMF, EU and other international creditors, along with conduction of fiscal discipline, structural reforms and increased stability of financial sector, contributed to economic recovery. In the period 2013-2016, economic growth was achieved by the export of industrial and agricultural products, and private consumption increased by fiscal incentives, tax reduction, building infrastructure and the increase in salaries and pensions. In 2016 Romania had one of the highest economic growths in the EU. Such trend continued in the first quarter of 2017, when economy increased by 5.8%. The fiscal deficit that existed since 2008 was reduced and employment increased. Public debt is among the lower ones in the EU (Index Mundi, 2017; World Bank, 2017b). Romania is the 34<sup>th</sup> largest export economy in the world. In 2016 Romania exported \$63.4 billion and imported \$74.4 billion (OEC, 2017). The top exports are vehicle parts, insulated wire, cars and electrical control boards. The top export destinations are: Germany, Italy, France, Hungary and the UK. Although in 2017 it has recorded the highest rates of economic growth, Romania is the country with the

highest poverty rate. Further conduction of economic policies is oriented towards reducing poverty, increasing employment, investments and reducing corruption.

Poland, Hungary, Bulgaria and Romania all have different levels of certain indicators. Poland and Hungary have been in the category of emerging countries for a long time, while Bulgaria and Romania have found their place among the emerging countries due to faster economic growth in the past few years. All the countries base their growth and development on FDI inflow, domestic consumption and export. They are conducting adequate macroeconomic policies in order to increase salaries, and thereby consumption. They also invest in infrastructure and education. Not only economic performances, but also demographic indicators are significant. These economies have a young, well-educated and numerous labour force. This way they offer better opportunities than mature economies.

### **3. THE IMPORTANCE OF EMERGING COUNTRIES FOR ECONOMIC DEVELOPMENT OF SERBIA**

In 2010, Serbia introduced a new model of growth and development. The model was based on reducing consumption and increasing domestic savings. The aim of this model was to take measures that would increase investments, without increasing deficit of current transactions and even greater economic indebtedness (Jednak et al., 2014). Cooperation with some of the BRICS countries might have positive effects. The greatest opportunities for Serbian economy are offered by Russia and China. There is a relatively stable trade between Serbia and the BRICS countries. However, the share of these countries in Serbian export is small (5%), while import from the BRICS countries is 21 – 23%. Russia is the most important cross-border partner of Serbia due to duty-free trade. In the period 2010-2014, export to Russia grew at an average rate of 26% (Mikavica, 2016; RZSS, 2016). However, Russian rouble devaluation caused a drop in demand for Serbian goods in the Russian market and in 2015 and 2016, export decreased. In 2015, the value of Serbian export to Russia was \$469 million. In the

period January-October 2016, total cross-border trade between Serbia and Russia was \$1.86 billion (Mikavica, 2016; RZSS, 2016). However, Serbia has a deficit in cross-border trade with Russia, due to the major import of oil and gas. Russia is not only a cross-border trade partner with Serbia, but also an investor. It has invested about \$3 billion in Serbian economy. Top investments have been achieved in oil and gas industry (Lukoil, GAZpromnjeft and NIS), finance (Sberbank), agriculture (C-project, MikroFinans Invest, Karun and Nestro group) and automotive industry (GSK KrasniyTreugolnik). Besides Russia, China is also present on Serbian market. In 2015, China's share in Serbian export was 0.1%, and in import 7.3% (RZSS, 2016). Serbia has a deficit in cross-border trade with this country, too. China had greenfield investments in Serbia in retail (Diplon/Belmax centre) and textile industry (Everrest and Healthcare), and acquisitions ('Smederevo' iron factory). Furthermore, China invested in Serbian infrastructure: Belgrade – Budapest railway, Pupin's bridge and 'Kostolac' thermal power plant. Brazil, India and South African Republic's presence on Serbian market is insignificant. Trade and investment with Brazil are possible in agriculture. There was a project proposal with India for investment in IT sector. However, the project has never been carried out. South African Republic is present only through certain acquisitions of their funds that took share in MPC holding and Delta City. Based on BRICS countries' investments, Serbia achieved, but not increased exports. The top export was achieved in oil derivatives, food and steel.

Poland and Serbia are partners in commodity exchange. Since 2013, export has increased, but import has increased much more. In commodity exchange with Poland, Serbia imports more goods than it exports. In 2015, import from Poland was €685.2 million, while export was €253.4 million. In 2016, both export (€303.5 million) and import (€753.7 million) increased, but the ratio was still the same. In the period 2014 – 2016 Poland invested €23.3 million in Serbia. Hungary and Serbia also cooperate. Throughout the years, commodity exchange has increased with Hungary, but Serbia imports more than it exports, and import is twice as big as export.

In 2015, import from Hungary was €780.9 million, while export was € 320.9 million. In the period 2014-2016, Hungary invested €88.8 million in Serbia. Commercial exchange with Bulgaria is well-balanced. In 2015, import from Bulgaria was €301.5 million, and export was €343.2 million. Hungarian investments in Serbia were €10.8 million (in 2015). Serbia has a good cooperation with Romania, too. The commercial exchange was €1135.0 million, where export was €670.5million, and import was € 464.4 million. Serbia has a trade surplus in the exchange with Romania. Romania's investments in Serbia were insignificant (PKS,2017).

If investments and exports are taken into account, it cannot be said that BRICS countries or the observed East European countries play any important role in Serbian development. China and Russia do invest in Serbian economy, while other countries, especially East European countries' investments are either insignificant or non-existing. The European Union still plays the leading role in the economic development of Serbia.

#### 4. CONCLUSION

Emerging economies are developing countries with high rates of economic growth and fast progress. They are located in different parts of the world. The most important group of emerging countries are the BRICS countries. They have made a group and it is estimated that they will significantly influence economic movements, and even surpass developed countries. Apart from them, there are countries in Europe that underwent a transition from planned economy to market economy. The most important emerging economy among them is Poland, and then Hungary. Other emerging economies in Eastern Europe are Bulgaria and Romania. The characteristics of such countries are that their growth is primarily based on foreign direct investments due to high returns and inflow of EU funds, and then on domestic demand due to the market size and labour force that is numerous, well-educated and relatively cheap. Both BRICS and the observed East European countries put emphasis on achieving higher competition and

export. BRICS have FDI outflow to different countries, both developed and emerging economies, and they have achieved strong economic development. The BRICS countries are facing slower growth, due to economic crisis, worldwide drop in demand, raw material prices, worsened conditions of cross-border trade and decreased inflow of investments. East European countries are recovering from the consequences of the economic crisis, and they are increasing domestic demand, consumption and export. Poland is a country with a large market, macroeconomic stability and well-educated labour force. According to certain economic indicators, it can be classified among developed countries. Each of the countries has conducted certain reforms and improved their economic activities and development. Owing to certain imbalances and economic crises, some emerging countries faced a slowdown in economic activities. Their development was based on the inflow of foreign direct investments, and today they invest in other countries. Investments and commercial exchange with Serbia are not significant, so they do not have any impact on economic development of Serbia.

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