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## From emerging economies toward the emerging triad

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**SCHUMPETER DISCUSSION PAPERS**

# **From emerging economies toward the Emerging Triad**

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## From emerging economies toward the Emerging Triad

Sebastian Dehnen, Jan H. van Dinther, Norbert Koubek\*

### Abstract:

In this article an entirely new structural approach called the ‘Emerging Triad’ is identified, which is dealing with the increasing regional, intra- and interregional integration of the emerging regions Latin America, Southeast Asia and sub-Saharan Africa. In this context the fast growing south-south cooperation’s, specific transregional free trade agreements as well as foreign direct investments are identified as the main driver for this ongoing networking process. Due to their extended industrialization a similar development like the one of the BRIC countries can be anticipated for these regions in the upcoming years. Apart from the industrialization, the integration and interdependence of specific countries or even regions like Mercosur, SADC and ASEAN is going to be a relevant factor with respect to future market entry decisions of companies of the southern developing countries and a deeper market penetration of northern developed market multinational enterprises. Finally the new approach of the Emerging Triad and the northern triad with its developed nations are included into a double helix structure which stands for the tradeoff between the industrialized world and the emerging world.

**Keywords:** Emerging triad, emerging markets, emerging market economies, BRIC, double helix structure, base of the pyramid, south-south cooperation, regional integration, Triad, FDI, trade

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## 1 Introduction - General Characteristics

Taking a look at the present global economic scene compared to its past one can notice instantaneously a shift of power in favour of the developing world regions. Labelling these regions as emerging countries or taking the case the of the BRIC countries, for example, is a conceptual attempt to express the increasing importance of the countries in a new global economic setting<sup>1</sup>. In this regard the article creates a new concept in form of an institutional approach called “Emerging Triad” which accentuates the potential amalgamation of the emerging regions in Asia, South America and Sub Saharan Africa with its regional economic communities and its upswing in economic activities via foreign direct investment and trade.

This approach is analysed in direction to the development of a counterpart to the northern triad. Using different indicators exemplary as a measure are GDP growth rates, world gross national product, trade volume, rate of innovation, foreign direct investment and exchange reserves. Next to these specifications an increasing competition between world regions, countries and a variety of different types of multinational and state-owned enterprises takes part in line with the market oriented principles of the WTO. Current approaches like the “Bottom of the Pyramid”<sup>2</sup> or the “Emerging Market Multinational Enterprises”<sup>3</sup> operate on the level of international business activities while intra- and interregional relations between the developing regions haven’t been considered in an economic model. As there is a second level to analyse the world economic developments which in particular refers to institutions, structures, the arrangement of governance and industrial relations. The system approach is here an appropriate method to analyse the relations in an international framework. Taking as a basis states, institutions, organizations and corporations there are several possibilities of combination to arrange economic systems<sup>4</sup>. Based on the measure of microeconomic autonomy there exists a market oriented model and a model of planned economy with micro- and macroeconomic specifications. While between these two poles there are large varieties of combinations which include partial adjustments to a different extent and liability.

## 2 Theoretical Background

In this context assuming the triad-model<sup>5</sup> from a historical perspective which reflects the developed regions of North America, Japan and Central Europe in the 1980s with a neoliberal policy in the US-American model, a regulated market model in Japan and an interventionist

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<sup>1</sup> See Koubek (2010), pp. 324.

<sup>2</sup> See Prahalad (2004).

<sup>3</sup> See Rugman (2010), pp.75.

<sup>4</sup> See Dunlop (1958); Staehle (1975).

<sup>5</sup> See Ohmae (1985).

approach in Central Europe. In these models only the developed regions are considered to explain or to discuss world economic changes. With the end of the cold war and other global changes this point of view was no longer realistic and Ohmae as the founder of the triad-model developed a new perspective in his publication “borderless world”<sup>6</sup> where the penetration of global markets takes place without a classification of world economic regions. With the rise of emerging economies there is an increasing diversity of varieties in the characteristics of economic systems in which political, historical and developmental aspects are the relevant factors. The impact of these adjustments is illustrated by the American-Indian author Prahalad in his publication “The Bottom of the Pyramid” in a totally new perspective compared to the “triad-concept” or the “borderless world.” He concentrates on the poorest billion people as consumers who have a specific demand for functional and cheap products other than the sophisticated and mainly expensive products offered by western multinational companies. For western multinational companies this means to adapt their products top-down to get in operating distance with the potential consumers at the bottom. If the western MNEs do not meet these requirements, the competition advantage will be in the hands of the new competitors from emerging economies. The emerging market multinationals are growing rapidly and are not competing on the same markets with western multinationals, although in some cases one can find cooperative relations between these two strategically different aligned types of companies or even business activities of emerging market multinationals in industrialized countries. The approach of Prahalad is picked up by Govindaraj/Trible in their publication “The Other Side of Innovation”<sup>7</sup> and concretized in the direction of innovations as the central sphere of business activities with an analyses of the strengths of emerging market multinationals with their advantage of understanding the basic demand of the “bottom billion consumers”, while the type of innovation is directed to the functional level and takes place in incremental steps. They represent the other side of fundamental innovations compared to the ones introduced by western multinational companies. Here profit and non-profit entrepreneurial activities become apparent as new fields of application for innovations from emerging market multinationals with respect to local small and medium sized companies gaining more and more competitive advantage.

Based on these findings a new approach should be implemented to accentuate the new emerging regions and its global role with regard to its strengths and weaknesses as well as the increasing number of varieties in economic systems in which historical, political and

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<sup>6</sup> See Ohmae (1994).

<sup>7</sup> See Govindarajan, V. / Trible, Chr. (2010).

developmental reasons are relevant – with foreign direct investments and to some extent trade as the main drivers leading to an increasing integrated double-helix structure.

### **3 Development in emerging regions**

In the following a detailed analyses of the changing economic structures of the developing regions of Asia, South America and Sub Sahara Africa are investigated to highlight the supposed alignment process between the northern and the emerging triad.

#### **3.1 Asian impact on the world economy**

Since the last 20 years or so the influence of Asia in the global economic arena is growing rapidly and notably after the deep impact of the world financial and economic crisis with strong and robust recovery of developing Asian countries to pre-crisis level or even above with a leading position in global economic recovery. The recent growth is pushed by a strong private demand in the region, in other non-Asian emerging economies as well as in some developed economies which resolved the impact of the crisis. While in average the monetary and fiscal policies in most Asian countries are quite normalized there are some concerns about the rise in inflation rates connected to increasing prices for food and energy resources and an overheating due to a rapid growth in some economies<sup>8</sup>. To sustain the recent growth there are some issues which should be addressed in the near future, for example, structural adjustment programmes after putting the macroeconomic programmes to master the crisis out of operation, extending intra- and inter-regional economic activities and strengthening the relations to other southern economies in Africa and Latin America. In contrast to many developed countries, the two other southern regions show a quite robust recovery from the crisis which will be examined later in this article. In recent years private demand is becoming a key element of growth in the region and improvements in intra- and inter regional economic activities in Asia will play more important role. The Southeast Asian region with its regional organization the Association of Southeast Asian Nations ASEAN is increasing the integration in Asia especially its activities with China. While intra-regional trade is only slightly catching up there is a sharp increase in trade with China, however, the bulk of ASEAN trade is still connected to US and EU demand<sup>9</sup>. In this regard ASEAN has to deepen its regional integration and its integration as a regional organization in the global economy in order to avoid stepping from one dependency into another. After the establishment of the regional organization in 1967 only few real initiatives to strengthen the integration process have been

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<sup>8</sup> See ADB (2011), p. 4.

<sup>9</sup> See OECD (2010a), p. 25.

arranged until the 1990s. With the end of the cold war and fast steps of globalization new dynamism pushed the organization to open up for new member states and to accelerate for new initiatives like the ASEAN Free Trade Zone (AFTA) which was achieved in 2003 and the signing of the ASEAN Charter and ASEAN Economic Community Blueprint in 2007. In this respect the Charter was the turning point of ASEAN from a more informal to a legal entity. The next milestone for the ten member states of ASEAN will be the transformation from a free trade area to a powerful integrated Asian Market the ASEAN Economic Community (AEC), by 2015. Taking into account the different levels of economic development or the heterogeneous political systems with in some cases a homogeneous structure in the industry it will be a tough challenge to implement all the required actions to meet the goals of deeper regional integration and integration in the world economy.

### **3.2 India and China in the driver seat for Asian Development**

After a fairly short overview of recent developments in Asia with its regional organization in Southeast Asia the two emerging “Giants” China and India have to be taken into account. Since the reforms initiated in 1978 China has become the fastest growing major economy over the last three decades with annually GDP growth rates of around 10 per cent holding the largest foreign exchange reserves of the world - and many more superlatives could be highlighted. During the global recession China has installed an aggressive fiscal stimulus to reduce the impact for the local economy with impressive results leading to a double digit growth rate in 2010 after a drop in 2009. Main contributors of the growth are investments and a growing consumption – which still lags investments - driven by monetary policies and an increase of incomes. The industry sector with a growth of 12.2 per cent contributed about two-thirds of the GDP in 2010 with ordinary growth rates in services and agriculture with 9.5 per cent and 4.3 per cent, respectively<sup>10</sup>. By contrast, the composition of employment in the three sectors with 27.8 per cent in industry, 34.1 in services and 38.1 in agriculture<sup>11</sup>. The 12th Five-Year Plan, released in March 2011, includes a shift in the balance of the economic drivers especially on domestic consumption – moving away from an export-led growth - and the strengthening of the service sector and a change in key indicators to achieve the goals of Chinas “greening initiative”<sup>12</sup>. While there are signs that China wants to move away from an export-led growth there are also signs of a diversification in China’s export markets with a shift from developed to developing countries like Brazil with an increase in bilateral trade

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<sup>10</sup> See ADB (2011), p.119.

<sup>11</sup> See CIA (2011).

<sup>12</sup> See Casey/ Koleski (2011), p.2.

growing more than 12-fold in the last 10 years and with a positive trend in upgrading trade relations to other emerging regions outside Asia. The same trend is to observe in terms of FDI's undertaken mostly by Chinese state-owned enterprises, although the background of investments differ between developed and developing countries, while the former are involved into more technology related FDI's and the latter underlie a more resource oriented motive of Chinese FDI activities. However, in recent years a more market based orientation seems to take place when Chinese companies invest in southern regions. Overall China faces many internal challenges occurring from fast economic growth embedded in a state-capitalism system while China's growing role in the global economy affects more and more the economic and "open" landscape in developed as well as in developing countries.

Beside China, India is the second main Asian driver, which is gaining more importance regarding south-south cooperation and investment flows. As a consequence of the financial crisis in 1991, the Indian government forced the gradual opening and deregulation of the Indian economy, which finally led to an increasing economic performance and to a rise of outward foreign direct investments (OFDI).<sup>13</sup> In general, the evolution of OFDI flows to India can be divided into two periods: the first one from 1975 to 1990 and the second one from 1991 to the present. These two waves differ significantly from one another. The first wave was mainly driven by manufacturing businesses, which were focusing especially on developing countries at similar or even lower levels of development than India. During this first period about 72% of OFDI were directed at the developing regions of the world economy, where East Asia emerged as the largest recipient with 36%, followed by Africa with 17%, West Asia and Central Asia with 10 percent each and South Asia with 9%.<sup>14</sup>

In contrast to the first period, the second wave is characterized by a growing number of Indian multinational enterprises, the emergence of new destinations and sectors as well as the different patterns of ownership.<sup>15</sup> As a consequence, especially after the turn of the century, Indian OFDI's rose dramatically,<sup>16</sup> so that the volume of OFDI flows increased from US\$ 3.4 billion in the period 1990-1999 to US\$ 37 billion between 2000 and 2007. In line with this development the number of multinational enterprises rose from 1,257 to 2,104 in these periods.<sup>17</sup> With the increasing number of multinational enterprises the choice of entry modes changed since 2004 steadily from Greenfield investments to acquisitions. The total number of

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<sup>13</sup> See Pradhan (2005), p. 3.

<sup>14</sup> See Pradhan (2005), p. 12.

<sup>15</sup> See Pradhan (2005), p. 10.

<sup>16</sup> See Pedersen (2008), p. 621.

<sup>17</sup> See Sauvart et al. (2010), p. 6.



acquisitions increased from 25 in 2000 to 277 in 2008.<sup>18</sup> Moreover, Indian outward FDIs have a balanced representation in all of the three economic sectors.<sup>19</sup>

In the second wave, the developed regions with more than 60% of the investment flows have overtaken the developing regions with only 40% as the most attractive host region during 2000-2007. Yet the developing countries continue to be important locations for outward investing Indian companies.<sup>20</sup> This relevance can especially be seen with regard to the African markets, where Indian OFDIs were 836% higher in the period of 2000-2007 than in 1990 to 1999.<sup>21</sup> A similar development of Indian OFDIs and trade can be seen in the Latin American region.<sup>22</sup> Due to India's growth it depends on the natural sources of Latin America.<sup>23</sup> From 2000 to 2009 the Latin American-Indian business grew eightfold to approximately US\$ 20 billion.<sup>24</sup>

### 3.3 Latin America's development and its dependency of Brazil as middle power

The most important regional trading bloc in Latin America is the Mercosur. With the implementation of the 'Mercado Común del Sur'<sup>25</sup> the heads of government followed the worldwide development of regional and interregional integration,<sup>26</sup> which became obvious regarding the strong increase of regional trade agreements in the 1990s.<sup>27</sup> From 1991 to 2001, the number of trade agreements rose from 34 to 168.<sup>28</sup> But Mercosur was not the first attempt regarding the regional integration in South America. In fact, the Latin American association of Integration (ALALC)<sup>29</sup> and its successor ALADI<sup>30</sup> date back to the 1960s respectively to the 1980s. Due to the fact that these formerly associations did not achieve the goal of regional integration, a new association had to be established. Therefore the Mercosur was founded - based on the treaty of Asunción - by Argentina, Brazil, Paraguay and Uruguay in March 1991.<sup>31</sup> Mainly responsible for the realization of the Mercosur was the bilateral integration

<sup>18</sup> See Athukorala (2009), p. 137.

<sup>19</sup> See Pradhan (2011), p. 143.

<sup>20</sup> See Pradhan (2008), p. 3.

<sup>21</sup> See Pradhan (2008), p. 7.

<sup>22</sup> See Pradhan (2008), p. 14.

<sup>23</sup> See Moreira (2010), p. 137.

<sup>24</sup> See Heine/Viswanathan (2011).

<sup>25</sup> For further reading see: Sangmeister (2002), Jaguaribe / de Vasconcelos (2003), Phillips (2004) as well as Guedes / Dominguez (2004).

<sup>26</sup> See Urata (2002), p. 21.

<sup>27</sup> See Behrens / Janusch (2009), p. 1.

<sup>28</sup> See Duina (2006), p. 3.

<sup>29</sup> The 'Asociación Latinoamericana de Libre Comercio' was founded with the treaty of Montevideo in 1960 by Argentina, Brasil, Chile, Mexico, Paraguay, Peru and Uruguay. In the following years Colombia, Ecuador (both in 1961), Venezuela (1966) and Bolivia (1967) joined the ALALC.

<sup>30</sup> ALADI is an acronym 'Asociación Latinoamericana de Integración'.

<sup>31</sup> See Connolly / Gunther (1999), p. 1.

process between Argentina and Brazil in the mid 1980s.<sup>32</sup> An additional reason was the fear of the worldwide marginalization due to the formation of regional blocs, like the implementation of the common European domestic market and the foundation of the NAFTA.<sup>33</sup> The joint interest of the Mercosur members is the strengthening of the South American economic integration process, which in particular is the realization of a common external tariff<sup>34</sup>, free trade of goods, services and production factors between its members.<sup>35</sup>

The common market of the south with an area of 12.8 million square kilometers and a population of more than 270 million people is the fourth biggest trade association after NAFTA, EU and ASEAN.<sup>36</sup> With more than 2.4 trillion US-Dollars, the Mercosur generates approximately 75% of the GDP of the Latin American continent. Mainly responsible for this development is Brazil, which by itself accounted for US\$ 1.6 trillion in 2008.<sup>37</sup> Therefore, it is always referred to Brazil as the engine of the South American economic area.<sup>38</sup>

Shortly after the foundation of the Mercosur in June 1991, the member states started to implement the agreed tariff reduction and the adaptation of the consistent common external tariff. In 1997, already more than 90% of the intraregional trade was duty free and only products with high relevance for particular member states<sup>39</sup> were excluded from this duty-free regulation until the beginning of the new millennium.<sup>40</sup> Due to this development, in the first years significant increases regarding intra Mercosur trade became apparent, e.g. from 12% in 1991 to 19% in 1994.<sup>41</sup> Beside intraregional improvements, the proceeding liberalization and deregulation lead to extensive investment dislocations,<sup>42</sup> so that in the early 1990s 50% more foreign direct investments went to Latin America instead of Asia.<sup>43</sup> At the end of the 1990s South America suffered from a strong economic downturn, which had its origin in the Mexican Tequila crisis.<sup>44</sup> Eventually, this was the starting point for the implementation of macroeconomic measures to protect the South American confederation against upcoming

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<sup>32</sup> See Mattli (1999), S. 140, see Mesa (2009), p. 14.

<sup>33</sup> See Bompadre (2002), p. 8, see Mesa (2009), p. 15.

<sup>34</sup> See Duina / Buxbaum (2008), pp. 200.

<sup>35</sup> See Coffey (1998), pp. 1, see Klonsky (2009), p. 1, see Franzoi (2009), p. 1.

<sup>36</sup> See Klonsky (2009), p. 2.

<sup>37</sup> See *ibidem*.

<sup>38</sup> See Sangmeister (2011), p. 5.

<sup>39</sup> The so called 'Régimen de Adecuación al Mercosur' enabled the member states to choose a specific number of products, which could be excluded from the intraregional 0% customer clearance.

<sup>40</sup> See Moncarz / Vaillant (2006), p. 4.

<sup>41</sup> See Connolly / Gunther (1999), p. 2.

<sup>42</sup> See Gereffi / Hempel (1996), pp. 18.

<sup>43</sup> See Calvo et al. (1996), pp. 123.

<sup>44</sup> For further reading see: de Souza (1999), Montero (1999), Ablin / Bouzas (2004) and de Andrade et al. (2005).

crisis situations in the future.<sup>45</sup> The harmless development of the global economic and financial crisis of 2008-2009 in this region verified the effectiveness of the implemented measures.<sup>46</sup>

In the years after the foundation six additional states - Chile (1996), Bolivia (1997), Peru (2003) Colombia (2004), Ecuador (2004) and Venezuela (2005) - reached associated status. However, their developments regarding full membership are varyingly advanced.<sup>47</sup>

To become an associate member of the Mercosur, the criteria for a gradual development of a free trade area with the Mercosur countries has to be fulfilled.<sup>48</sup> This correlates with the negotiations, which were held since 1999, between Mercosur and the Andean community of nations. The goal of these negotiations was the total integration of the South American market, named SAFTA<sup>49</sup>. In 2004, the Andean Community of Nations and the Mercosur closed a cooperation treaty,<sup>50</sup> which ended in the successful foundation of the Union of South American Nations (Unasur) at May, 23<sup>rd</sup> 2008<sup>51</sup> and the execution of the article of agreement May, 11<sup>th</sup> 2011<sup>52</sup>.

### 3.4 Mercosur's southern integration path

Beside the proceeding integration process in South America, the Mercosur and especially Brazil were interested in further trade agreements with other states or even whole trade associations. Therefore in 2000, Mercosur and South Africa signed a framework agreement regarding further negotiations with the goal of free trade between Mercosur and South Africa. In 2003, further members of the SACU<sup>53</sup> joined these negotiations.<sup>54</sup> In the same year, Brazil, India and South Africa founded the India-Brazil-South Africa Forum (IBSA) to intensify further cooperation's and trade agreements in the southern hemisphere. Finally, this leads to the implementation of a free trade agreement<sup>55</sup> between India and Mercosur on January, 1<sup>st</sup> 2010.<sup>56</sup>

<sup>45</sup> See Bulmer-Thomas (1999).

<sup>46</sup> See OECD (2010), p. 47.

<sup>47</sup> See Arieti (2006), pp. 761.

<sup>48</sup> See n. a. (2007a), p. 7.

<sup>49</sup> SAFTA stands for 'South American Free Trade Area'.

<sup>50</sup> See Davison (2004).

<sup>51</sup> See Vigevani et al. (2009), p. 3.

<sup>52</sup> See Bechle (2011), p. 7.

<sup>53</sup> SACU stands for 'South African Customs Union'. Its member states are Botswana, Lesotho, Namibia and Swaziland.

<sup>54</sup> See Maag (2005), p. 6.

<sup>55</sup> Usually, countries within a free trade agreement have the right to choose some products, which qualify for protection and therefore underlie separate tariff regulations.

<sup>56</sup> See Nayyar (2008).

Since January, 1<sup>st</sup> 2010 an additional free trade agreement exists with China as an important trading partner of Mercosur.<sup>57</sup> These free trade agreements underline the southern integration process and the increasing relevance of the south as a counter pole for the Triad.

Already in 1998, Mercosur and SADC<sup>58</sup> discussed a southern trans-Atlantic free trade area, yet since then there was no significant progress regarding a free trade agreement between SADC and Mercosur.<sup>59</sup> The main reason for this slow development was the actual marginal relevance due to the fact that the associations first of all prefer to advance their regional integration. A second aspect in this context is the already existing bilateral free trade agreements between Angola, Brazil, South Africa and Argentina.

In the upcoming years a huge expansion potential regarding Trans Atlantic trade is expected, therefore the current basis of bilateral trade agreements could be enlarged to a southern Atlantic free trade area combining Mercosur and SADC.<sup>60</sup>

At this point it has to be mentioned, that even 20 years after its foundation there is still a long way to go to complete the inter- and intraregional integration process within Mercosur/Unasur.<sup>61</sup> There is still a significant asymmetry between Mercosur and Unasur countries apparent,<sup>62</sup> which can mainly be seen in differences regarding production structures which are an eminent handicap to reach a successful integration.<sup>63</sup> Therefore, the great economies Argentina and Brazil still benefit the most from the advanced integration process, due to their immense production potential.<sup>64</sup> In the long run, the rising integration and linkages of the south lead to a decreasing dependency of the northern Triad,<sup>65</sup> which already can be seen in the remarkable performance of Brazilian companies regarding international competitiveness, e.g. Petrobras as one of the biggest oil companies, Embraer as the third biggest aircraft construction company, WEG as the global market leader for electric motors and Brazil Foods as one of the biggest food companies worldwide as well as JBS-Friboi as the market leader regarding beef exports only to mention a few.<sup>66</sup>

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<sup>57</sup> See Landivar / Scholvin (2011).

<sup>58</sup> SADC stands for 'South African Development Community'. Its member states are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

<sup>59</sup> See Stahl (2005), pp. 90.

<sup>60</sup> See Macedo (2005), p. 95, see Mbeki (2005), p. 97, see Young (2005), pp. 105.

<sup>61</sup> See de Oliveira (2005), p. 9, see Botto (2011), pp. 17.

<sup>62</sup> See Bekerman et al. (1995), see Carrera (2005).

<sup>63</sup> See Rios (2003, 2003a).

<sup>64</sup> See Bekerman / Rikap (2010), p. 183.

<sup>65</sup> See n. a. (2009a), p. 68.

<sup>66</sup> See Koubek (2010), p. 332.

Besides Brazil and the Latin American core market, Petrobras uses a global expansion strategy, which already started in the '70s. Since 1979, Petrobras operates in Angola as a producer and explorer of additional off-shore oil fields. In 2004, Petrobras signed a contract with the Tanzania Petroleum Development Corporation (TPDC), the national oil company, to extend activities to the East of the African Continent. Beyond that, Petrobras intensified oil exploration in Nigeria and Benin. In fact, the southern hemisphere is the core market for the parastatal Brazilian oil company, but the Triad markets are gaining importance. In Europe – Portugal (2007) and Turkey (2006) – as well as in the NAFTA – Mexico (2003) and the United States (1987) – Petrobras signed contracts regarding oil exploitation and production.<sup>67</sup> The increasing relevance of Latin American companies is confirmed by the upswing of inward and outward FDI flows of Latin America in 2010. FDI flows into Latin America and the Caribbean grew more rapidly (by 40% with respect to 2009) than those for any other region<sup>68</sup> and outward FDI from Latin American and Caribbean countries nearly quadrupled compared to 2009 to set a new record of US\$ 43.108 billion.<sup>69</sup> Especially the African continent benefited from these increasing outward flows of Latin American companies which directly generated the development of particular African countries.

### **3.5 Africa's recent economic development and regional integration**

Amongst other things, due to the increasing FDI flows from the Asian Drivers, the ASEAN region and Latin America, the African continent has experienced a fast economic growth with annually rates above 5 per cent of GDP in average for more than 40 per cent of its countries in the last decade<sup>70</sup>. In the global top ten of the fastest growing countries between the years 2001-2010 there are 6 Sub-Sahara African states with Angola at the top enjoying an annual average GDP growth of 11,1 per cent (China with 10,5 per cent, 2nd place)<sup>71</sup>. However, the biggest part of the recent growth trend is connected with the export of natural resources and related goods and showed only little impact on social benefits in the past. While there are common theories about the outcome of resource exports affecting poverty reduction especially in resource rich countries of Sub-Sahara Africa, it has to be differentiated between several factors – for example internal effects like good governance, strong reforms and investments in infrastructure and external effects like global demand, regional integration and

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<sup>67</sup> See n. a. (2011).

<sup>68</sup> See Bárcena et al. (2010), p. 29.

<sup>69</sup> See Bárcena et al. (2010), p. 10.

<sup>70</sup> See IMF (2009); pp. 3 / 21; African Development Bank (2010a); p. 3. ; Africa Progress Panel (2011); p. 10.

<sup>71</sup> See The Economist (2011); p. 66.

market access to other world regions – influencing social benefits through a commodity driven growth. In addition to the recent growth of the continent the financial crisis had only a short term impact different from that of developed countries, mainly due to a marginal integration into the world financial market. But the African continent was hit by the declining demand of primary goods, lower access to trade credit<sup>72</sup> and the generally weak foreign direct investments at that time and shows a fast and robust recovery since 2010<sup>73</sup>. Again, this reflects the dependency on the countries` individual resource endowments and the need to diversify their markets for manufactured goods as well as expanding the regional competitive advantages in agribusiness and renewable energy sources, while there have been significant structural changes for many African markets regarding an increasing domestic demand for consumer goods, lower public debts, more liberalized markets for trade and foreign direct investments and the managing of public budgets for infrastructure projects<sup>74</sup>. In this respect the African market is increasingly becoming a promising destination for private sector investments, especially through emerging powers from Asia and Latin America in recent years, thus attracting the attention of the private sector as well as politicians and scientists from the developed world – probably one of the biggest changes since the end of the cold war. It is about time for the African governments to reinforce their efforts for a sustained regional integration to take a chance to curtail individual state sovereignty to benefit from large-scale economies<sup>75</sup>, which are more needed than ever before focusing the investments of the new emerging protagonists.

Reflecting the Abuja Treaty June 3<sup>rd</sup> 1991 as a turning point in African integration attempts for establishing an African Economic Community (AEC) to strengthen relationships between member states in various fields of economic and non-economic cooperation, coordinating and harmonizing policies of the existing and prospective Regional Economic Communities (RECs)<sup>76</sup>, which is a part of a more democratic – at least rhetorically – positioned African Union project today. However, there is still a low level of regional unity caused by internal problems, overlapping memberships and their concerns of being locked into regional policy regimes which might be contrary to a country`s overall interests<sup>77</sup>, for example, losing revenues through trade liberalization, unwanted immigration of unskilled labour and not to forget the gains from cross border informal business. Despite intra-regional differences and to

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<sup>72</sup> See African Development Bank (2010a); pp. 4.

<sup>73</sup> See African Development Bank (2010b); p. 3.

<sup>74</sup> See AfricaProgressPanel (2011); pp. 10.

<sup>75</sup> See Collier,Paul, and Anthony J. Venables (2008); p. 73.

<sup>76</sup> See UNECA (1991).

<sup>77</sup> See UNECA (2011).

some extend questionable willingness for political and economical integration amongst member states, it might be the heterogeneous stage of the individual countries' development which promotes the consolidation of the regional integration process. Splitting the SADC with its 15 member states into four categories of pre-transition, transition, oil exporting and diversified economies shows a clear fragmentation – but more in the light of a diversified portfolio with the task to complement one another in some sectors and /or sub-sectors. For example, South Africa as the most advanced economy in the SADC region with Namibia joining the group of diversified economies, Angola as the 2nd largest African oil exporter showing a quiet respectable stability since 2002 working on reforms, Zambia, Mozambique and Tanzania in the group of transition economies and the Democratic Republic of the Congo in the group of pre-transition economies despite their tough political environment growing with an average GDP of 7 per cent since the year 2000<sup>78</sup> with a slightly favourable outlook compared to Zimbabwe. The other member states are to locate somewhere between the stage of pre-transition and diversified economies. The SADC showed the highest intra regional trade between the years 1994-1999<sup>79</sup> and is still leading in the group of RECs with 51 per cent of African intra regional trade today, however compared to the regions total trade with around 15 per cent it remains less significant<sup>80</sup>. The establishment of the SADC Free Trade Area (FTA) in 2008<sup>81</sup> was one important step to increase the intra-regional trade, while the implementation of a customs union planned for 2010 is still not negotiated which could positively affect the relation of intra regional to total trade of the SADC, although it is clear that country specific progress in industrial development and global economic trends have a strong influence in this respect. Taking into account that the SADC emerging from its predecessor SADCC in 1992, transforming from a decentralized country- based approach to a more centralized trade-based approach with its ability for restructuring the organization in 2001 to strengthen the institutional role and its capacity for the integration process is the best performer amongst the other RECs<sup>82</sup>.

#### **4 FDI and trade with emerging partners of Africa**

How the Regional Economic Communities will forge their plans to cope with intra- and inter regional contrary interests to meet with the African Economic Community to strengthen the position in global economic negotiations is in fact questionable. But it is clear that the

<sup>78</sup> See McKinsey Global Institute (2010), pp. 4.

<sup>79</sup> See UNECA (2004), p. 179.

<sup>80</sup> See McKinsey Global Institute (2010), p.34.

<sup>81</sup> See SADC (2011).

<sup>82</sup> See Peters, W.-C. (2010), p. 297.

marginal ability of African countries to participate in and benefit from the international economic architecture leads the way to a stronger economic cooperation with other non-African developing countries, i.e. Asia and Latin America. Focusing Africa's recent composition of external trade it shows that there is a significant shift from trade with partners from the developed world, primarily Europe and North America, to non-African developing countries<sup>83</sup>, especially trade in sub-Saharan Africa with developing countries accounts for more than a half of its total trade in 2008 (intra-African trade included), while Africa's trade with non-African developing countries increased from 18 per cent in 1990 to nearly 39 per cent in 2008 compared to declining trade with Europe from over 50 per cent in 1990 to somewhat above 30 per cent in 2008 and a stagnation with North American trade around 15 per cent over the period from 1990 to 2008<sup>84</sup>. In this regard it has to be mentioned that there is an overall trade deficit with non-African developing countries compared to a trade surplus with developed countries, however there is a strong trade surplus with Brazil and a quite balanced trade with China, India and Turkey generated by a well defined group of African countries<sup>85</sup>. While the structure of Africa's trade with developing countries differs only slightly compared to the one of developed countries, the share of resource-based products, low- medium- and high-technology manufactures on the export side has fallen in contrast to terms of value of the exported goods in recent years and a strong import of these manufactures from developing countries to Africa is challenging the continent's diversification attempts<sup>86</sup>. Further aspects in the continent's economic development are Foreign Direct Investments (FDIs) with an increase of FDI flows to Africa from \$9.1 billion in 2000 to a peak amount of \$88 billion in 2008 and \$55 billion in 2010 with an inward FDI stock of \$554 billion, respectively<sup>87</sup>. The biggest part of the inward FDI stock is connected to investments from developed countries with 91.6 per cent in 2008, however, the inflows are decreasing from 79 per cent in the period of 1995-1999 to 72.1 per cent in the period of 2000-2008 in contrast to the increasing inflows from developing countries, especially Asia which more than doubled its FDI inflows to the African continent in the same time frame<sup>88</sup>. The increasing numbers of FDI projects in line with rising trade relations indicate a growing importance of Africa for the emerging economies' energy demand and the establishment of new business markets, however, the impact of these activities for Africa are far from being well examined<sup>89</sup>. The bulk of current research is

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<sup>83</sup> See UNCTAD (2010), p.29.

<sup>84</sup> See McKinsey Global Institute (2010), p. 15.

<sup>85</sup> See UNCTAD (2010), p.31.

<sup>86</sup> See Kaplinsky / McCormick / Morris (2007), p.13.

<sup>87</sup> See UNCTAD (2011), pp 40.

<sup>88</sup> See UNCTAD (2010), p.81.

<sup>89</sup> See Strauss, J.C. and Saavedra, M. (2009), p.1.



focused on China-Africa relations and its outcome for African development – not surprisingly as China is Africa’s biggest trading and investment partner amongst the emerging economies with business activities operated by state owned enterprises (SOEs) all over the continent. In contrast to India’s and Brazil’s activities which are operated by private investors with the former investing mainly in eastern and southern Africa as well as other anglophone countries and the latter having large investments in lusophone countries<sup>90</sup>. The investment destinations of the two Asian drivers in form of resources, agribusiness and textile manufacturing are quite homogeneous, while Brazil’s investments are concentrated in the energy and agribusiness sector. Taking the case of Angola and its development since 2002 after around 40 years of heavy conflicts – the struggle for liberation included. In contrast to the conditionality of loans from the western world Chinese oil-backed loans helped quickly to build and rebuild the most needed infrastructure after the incomprehensible long period of conflict, although there is still a big lack of infrastructure today in addition to factors like a poor institutional framework, a weak capacity in the health and education system, corruption and others more<sup>91</sup> which hampers Angola’s recovery. Another aspect arises due to the Chinese demand for energy and its impact on the rise in oil prices which increased the Angolan GDP dramatically in the last decade since 95 per cent of the Angolan export is connected to crude oil and China has become the second largest oil importer from Angola. Given the fact that oil exploration and related FDI in this sector is much more capital intensive than labour intensive it is an urgent question about the revenues coming from the oil sector and the management of the public budget for expenditures in infrastructure and improvements in the Angolan business environment rather than investigating in poor job creation through this kind of investments. Depending on such a volatile sector recently demonstrated by the world financial crisis the Angolan government shows willingness to diversify their economy and to extend international relations<sup>92</sup>. Which role other emerging economies or developed ones play in this respect is not clear yet. However, the question about job creation and management practices is well needed for other sectors since Chinese trade and investments in Angolan non-oil sectors have increased sharply in recent years<sup>93</sup> as well as from other emerging economies.

As Africa is becoming more and more the base camp of emerging economies regarding the primary sector and recently with tendencies to the manufacturing sector there might be new space for research in direction to public management of African governments and corporate

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<sup>90</sup> See Shaw, T.M. (2010), p.18.

<sup>91</sup> See World Economic Forum (2011), p. 96.

<sup>92</sup> See Vines / Campos (2010), p. 204.

<sup>93</sup> See *ibid.* p. 200.

management of SOEs and MNEs of emerging countries to better understand the impact and alternating relations between them as well as a change in competition between developing and developed actors in Africa which might boost the economic diversification and job creation as well as initiating new business opportunities or in worst case taking the next step into direction of a new mode of imperialism.

## 5 Conclusion

This article deals with the increasing relevance of southern hemisphere markets, which are aggregated in a new institutional approach called Emerging Triad. In this context it was shown that the regional communities of SADC, Mercosur und ASEAN - beyond their regional integration - are starting an interregional networking process mainly based on south-south-co operations and further free trade agreements. This interregional networking process was documented by increasing interregional FDI flows with regard to state owned companies and nongovernmental organizations as multinational corporations like Petrobras, as one of the biggest oil companies, Embraer as the third biggest aircraft construction company and WEG as the global market leader for electric motors.<sup>94</sup>

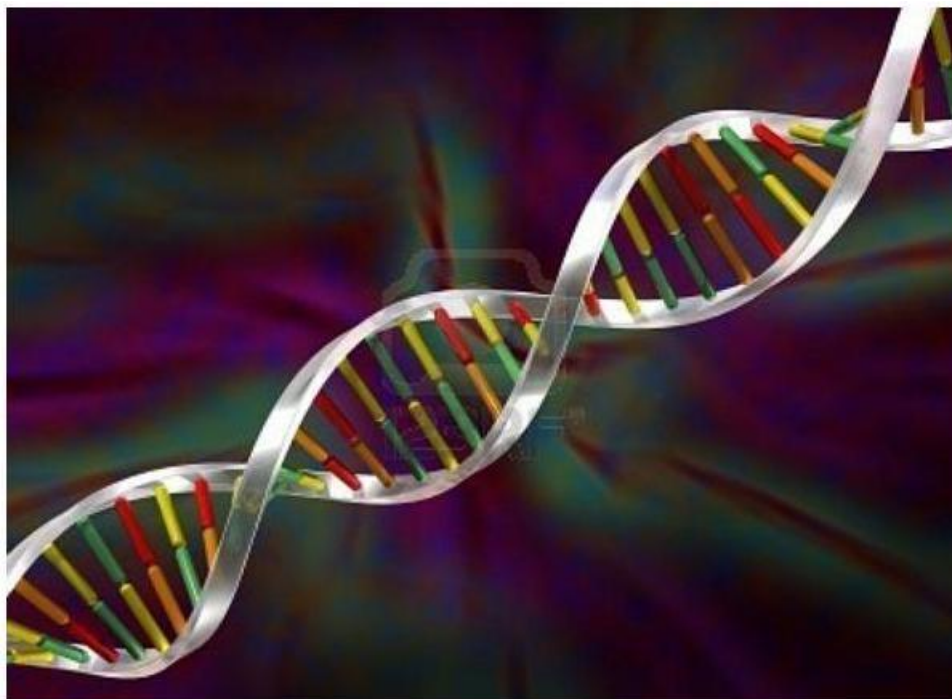
Generally, an outstanding attribute relating to the emergence of developing as well as emerging markets especially with regard to the Emerging Triad is the variety of influencing factors that are relevant for successful economic development and intra- as well as interregional integration. Relevant multipliers in this context are institutional and cultural criteria like organizational structures, traditions, ethnical and ethical principles, motivation and religious values beside quantitative parameters such as the volume of growth, income, taxes, subsidies, number and quality of available workforce. However, this heterogeneity is first and foremost a great chance for the different regions for a successful development within the new institution Emerging Triad. From a system analysis approach these heterogeneous economic characteristics can be summarized by the idea of the diversity of economic rationalities. The diversity approach<sup>95</sup>, which was developed for a different topic, is quite conferrable to the heterogeneity of different regions and countries in the way that companies have to adapt their products to the specific country requirements to be successful. The downsizing and reverse innovation are two quite common measures to fit the specific customer needs.

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<sup>94</sup> See Koubek (2010), p. 332.

<sup>95</sup> See Koall (2010).

In the end the discussed alignment of the southern hemisphere markets, which is mainly driven by the south-south-co operations, cumulated in the Emerging Triad, to the northern industrialized states and the involved complexity of different regions and requirements can be presented in a biological structure of a double helix.



Source: n.a. (2012)

The two main strands represent the industrialized economies on the one hand and the economies of the Emerging Triad on the other hand. The movement of the helix stands for the usual market cycles, with the result that in terms of crisis situation – like in 2009 - the emerging markets of the south over perform the industrialized countries regarding economic growth. The different pairs, which are connecting the two strands, stand for cooperation's between the northern and southern hemisphere companies where a future increase is expected especially with regard to the huge resource stocks of the African states like Angola and Mozambique. The ascending shift of FDI flows from the north into the south underlines the thesis of an extension of the integration between north and south.

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