Alla Kobylianska*

EMERGING ECONOMIES IN CRISIS AFTERMATH

Annotation: *the paper is devoted to the analysis of the role of emerging economies in after crisis World. The rebalance of economic powers is considered. The changes in international investments are stressed.*

Key words: emerging economy, emerging market, world financial crisis, international investment.

Анотація: *стаття присвячена аналізу ролі країн з ринком, що формується, в посткризовий період. В статті розглядається зміни в балансі економічних сил Світу. Особлива увага приділена зміні в тенденціях іноземного інвестування.*

Ключові слова: країна з ринком, що формується, світова фінансова криза, міжнародні інвестиції

World economic crisis of 2008 revealed the main weaknesses of the world economy in whole and each region and country in particular. While major problems were quite common for the most of economies (e.g. financial sector troubles provoking plunge in private consumption, current account imbalances etc.), they were aggravated by local specifics. World financial crisis spillovers affected different economies in different manner. Consequently the solutions made were adapted to the countries' needs.

The actuality and the goal of the paper

Emerging market economies (EME) did not stay aside the world turmoil. Accounting for near 46% of world GDP, 30% of world FDI and 16% of world trade turnover in 2007 [1], thus being important international players, the countries showed themselves being rather sensitive to the external shocks. Although countries of EME group are quite different in the conditions they are characterized by, it is possible to figure out some common traces. Therefore, the paper is devoted to the comparative analysis of EME role in world economy in pre-crisis and after-crisis world. A particular attention is paid to the world investment flows, as a driver of economic growth, and change in their volumes and patterns. The goal of the paper is to figure out the importance of EME economies in post-crisis world development and rebalance of world economic powers. Some questions of possible economic over-heating related to financial injections in emerging economies are also discovered.

The economic development of EME countries in pre-crisis and post-crisis world was analyzed in depth by a variety of international institutions, governmental bodies of various countries, NGOs etc. due to their specific importance in world economic development. Current research will significantly enrich the literature on the issue addressing the questions of the role of particular countries entering the group of EME countries.

The object of the research is the development of world economy and its regionalization.

The subject of the research is EME countries and their role in international capital flows.

* 3d year postgraduate student of National University of "Kyiv-Mohyla Academy"

The methods of the research

The goal of the paper which will be sequentially discovered in the process of its object and subject investigation and will be reached with the tool of comparative statistic analysis of EME key economic indicators of 2007 and thereafter, enriched by cross-country analysis. The dynamics of world and EME renewal will be also highlighted. At the same time the essential attention will be paid to the anti-crisis policies and the capital flows' reversals. Despite considerable efforts made by the authors of preceding research in the area, there is a lack in a comprehensive overview and analysis of world development in crisis aftermath with respect to the role of EME countries in the process. Thus, the paper is aimed to fill in the gap. The descriptive analysis will complement the general methodology of the paper.

The body of the paper

Crisis dynamics and projections and anti-crisis measures

World crisis showed an unprecedented drop in world industrial production and international capital flows after years of economic growth and rising financial globalization. It should be mentioned that there is evidence that that the variability of economic indices of emerging market economies (EME) depended on the vulnerabilities associated with respective economies in pre-crisis period. The impact of the crisis could be measured in several dimensions, the most exhausting of them are: real sector dimension and financial sector dimension. The former could be represented be deviations of observed during the crisis GDP growth rates from their potential average. The latter could be judged from variations in credit conduction, increase in sovereign debt spreads and changes in capital market indices. In most of the cases countries that experienced high real sector distresses simultaneously experienced financial sector instabilities. In sum, while advanced economies experienced around 4,5% drop in GDP growth rates, the respective contraction for emerging economies reached 4,9%. [2, 15] While there was a significant variability in economic performance changes between emerging economy countries with the most affected region Europe. At the same time emerging economies experienced a shorter-lived retrenchment than developed economies and showed faster recovery (Table 1).

Table 1.
World Economic Outlook Projections (% year on year)

	Projections				**Difference from April WEO projections**	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**
World Output	**–0,5**	**5,1**	**4,3**	**4,5**	**–0,1**	**0**
Advanced Economies	**–3,4**	**3**	**2,2**	**2,6**	**–0,2**	**0**
United States	–2,6	2,9	2,5	2,7	–0,3	–0,2
Euro Area	–4,1	1,8	2	1,7	0,4	–0,1
Germany	–4,7	3,5	3,2	2	0,7	–0,1
France	–2,6	1,4	2,1	1,9	0,5	0,1
Italy	–5,2	1,3	1	1,3	–0,1	0
Spain	–3,7	–0,1	0,8	1,6	0	0
Japan	–6,3	4	–0,7	2,9	–2,1	0,8
United Kingdom	–4,9	1,3	1,5	2,3	–0,2	0
Canada	–2,8	3,2	2,9	2,6	0,1	0
Other Advanced Economies	–1,1	5,8	4	3,8	0,1	0
Newly Industrialized Asian Economies	–0,7	8,4	5,1	4,5	0,2	0

	Projections				Difference from April WEO projections	
	2009	2010	2011	2012	2011	2012
Emerging and Developing Economies	**2,8**	**7,4**	**6,6**	**6,4**	**0,1**	**–0,1**
Central and Eastern Europe	–3,6	4,5	5,3	3,2	1,6	–0,8
Commonwealth of Independent States	–6,4	4,6	5,1	4,7	0,1	0
Russia	–7,8	4	4,8	4,5	0	0
Excluding Russia	–3,0	6	5,6	5,1	0,1	0
Developing Asia	7,2	9,6	8,4	8,4	0	0
China	9,2	10,3	9,6	9,5	0	0
India	6,8	10,4	8,2	7,8	0	0
ASEAN-54	1,7	6,9	5,4	5,7	0	0
Latin America and the Caribbean	–1,7	6,1	4,6	4,1	–0,1	–0,1
Brazil	–0,6	7,5	4,1	3,6	–0,4	–0,5
Mexico	–6,1	5,5	4,7	4	0,1	0
Middle East and North Africa	2,5	4,4	4,2	4,4	0,1	0,2
Sub-Saharan Africa	2,8	5,1	5,5	5,9	0	0
Memorandum						
European Union	–4,1	1,8	2	2,1	0,2	0
World Growth based on market exchange rates	–2,1	4	3,4	3,7	–0,1	0
World Trade Volume (goods and services)	**–10,8**	**12,4**	**8,2**	**6,7**	**0,8**	**–0,2**
Imports						
Advanced Economies	–12,5	11,6	6	5,1	0,2	–0,4
Emerging and Developing Economies	–7,9	13,7	12,1	9	1,9	–0,4
Exports						
Advanced Economies	–12,0	12,3	6,8	6,1	0	0,2
Emerging and Developing Economies	–7,9	12,8	11,2	8,3	2,4	–0,4

While the crisis originated in advanced economy of USA, its effects quickly spread around the world and touched EME. The major transmission mechanism consisted of several channels. First of all major financial institutions hit by crisis withdrew their funds from subsidiaries located in EME. This led to significant weakening of balance shit positions and need to regain capital adequacy, consequently imposing some restrictions on lending to other institutions. The lack of funding was partly filled in by governmental support injected into the banking system.

Secondly, the global financial crisis led to significant drying up of global capital markets. Credit flows were hit the most. EME countries experienced high distress especially CEE ones experiencing high current account deficits. The contraction in capital flows was observed on all other investments positions as well, accounting for around 50-60% of decline between 2007 and 2008. Besides decrease in financial inflows, the withdrawal of investments in particular portfolios contributed to the worsening of financial account balance. This put significant pressure on EME being indebted and having needed to finance both current account deficits and refinance maturing debt. Emerging countries showed significant capital outflows with subsequent depreciation of local currencies and decline in international reserves.

Folding up of economic activity was the third transmission mechanism of world financial crisis. Decline in incomes of households and real sector led to decrease in respective demand and therefore in exports from emerging economies being the largest exporters to the advanced economies and those EME that entered the World supply chain. In addition to an obvious result of such a contraction of world trade, this provoked worsening of internal demand and deterioration of domestic credit and further weakening of financial sectors.

The plunge in economic activity throughout the world led to increase in unemployment and, thus, the decrease in demand for labour including foreign one. This resulted in the plunge in emigrant workers remittances. The estimate for total remittances being improved tends to lag behind the decline in economic activity and therefore the recovery. In any case remittances constitute a significant portion of EME population incomes and represent one of the sources of foreign currency injections entering to the current account. Remigration of labour migrants might put an addition pressure on local labor markets and, thus, local unemployment funds during the period of economic recovery. [4, 5-8]

While all EME were affected by the same crisis factors, the response to the economic slowdown varied across countries which predetermined further growth prospects. As the availability of external capital reduced extremely, some of EME (Brazil, Mexico, Singapore and South Korea specifically) entered into swap arrangement in order to strengthen reserves. Some emerging economies addressed to IMF to get the support from the institution seeking for some ways of export reduction combating and assuring debt repayments (Table 2).

Table 2.
IMF loans in the framework of stand-by-agreements to selected EME (as on 31 of August, 2011)

Country	Approved amount of support (m SDR)
Colombia	3870
Poland	13700, 19166
Latvia	1522
Hungary	10538
Mexico	31500, 47292

Source: IMF [1]

The financial sector of emerging economies countries also needed significant support and modification. The first steps in the area included deposit insurance schemes' revision. Thus, the coverage was broadened or introduced in case it was absent at all (e.g. in Asia). The measures were considered as those that should increase the credibility of banking system.

Besides, governmental support in the form of capital injections was provided in order to address capital adequacy problems and to support crediting, especially trade credit. Despite rather significant amounts of capital injected to the banking systems the mechanism lacked coordination with another measures.

Mimicking an experienced of advanced economies, some EME countries introduced substantial fiscal stimulus packages most of them aimed to stimulate internal activity (Tables 3-4). The most ambitious ones were introduced by China, India, and Turkey. On average stimulus packages amounted to around 1,5% of GDP of most EME. Besides direct governmental support of some infrastructure programs, these packages foresaw lowering of tax burden.

Table 3.
Fiscal stimulus packages in 2008-2010, % of GDP 2008

Country	Net effect	Tax measures					Expenditures increase					
		total	Physical persons	Legal entities	Consumption	Social insurance	total	Final consumption	Investment	Household transfers	Transfers to business	Transfers to local authorities
Czech Republic	-3	-2,5	0	-0,4	-0,4	-2	0,5	-0,1	0,2	0	0,4	0
Hungary	4,4	0	-0,1	-1,5	1,6	0	-4,4	-1,9	0	-1	-1,5	0
Poland	-1	-0,4	0	-0,1	-0,2	0	0,6	0	1,3	0,1	0	0
Mexico	-2,8	-1,9	-1,5	-0,2	0	-0,2	0,9	0,7	0,3	0,1	0	0

Source: OECD Economic Outlook. Interim report, March 2010, p.11

Table 4.
Fiscal Expansion (% of GDP with respect to 2007)

	2009			2010			Fiscal expansion Change from April WEO	
	Overall Balance	Crisis-related discretionally measures	Other factors	Overall Balance	Crisis-related discretionally measures	Other factors	2009	2010
Argentina	-1,1	-1,5	0,4	0,7	0	0,7	0,2	1,5
Brazil	-0,7	-0,6	0	1,2	-0,6	1,8	-1	-0,2
China	-5,2	-3,1	-2,1	-5,2	-2,7	-2,5	-0,7	-0,7
India	-4,7	-0,6	-4,1	-3,3	-0,6	-2,7	0,3	0,3
Indonesia	-1,4	-1,4	-0,1	-0,9	-0,6	-0,2	-0,1	0,1
Korea	-6,7	-3,6	-3	-7,8	-4,7	-3,1	0	0,4
Mexico	-2,5	-1,5	-1	-2,6	-1	-1,6	-0,3	-0,3
Russia	-12,2	-4,1	-8,2	-11,7	-1,3	-10,4	0,7	0
Saudi Arabia	-11,6	-3,3	-8,3	-7	-3,5	-3,5	8,1	10,2
South Africa	-4	-3	-1	-4,2	-2,1	-2,1	0,2	0,1
Turkey	-3,7	-0,8	-2,9	-3,3	-0,3	-3	0,1	-0,3

Source: IMF. [5, 125]

General composition of stimulus package was done in the next way: 1/3 accounts for revenue measures fostering private consumption and 2/3 were assigned to expenditure measures. The respective proportions varied from country EME was possible thanks to the years of international reserves building up and fiscal surpluses. At the same time CEE EME and India were rather restricted in their ability to inject some capital into the market. It should be noted that the practice of fiscal support alongside with worsening balance of payment may lead to weakening of fiscal position and debt repayment in future especially in case of further deterioration of world economy.

The third way to tackle economic challenges was taking of some protectionists measures. While leaders of G20 at summit in November 15, 2008 agreed to avoid protectionism, in early 2009 already 17 members of G20 introduced trade or trade related restrictive measures. In contrast to developed countries introduced subsidies and some other supports, developing countries made use of variety of instruments such as subsidies, import duties and banks, non-tariff measures. The most protected sectors were automotive industry and financial sector. As for the last, subsidies were introduced for domestically owned banks. While the support was relatively minor, its significance for some exports was of crucial importance.

Some countries specifics made their contribution to the after-crisis recovery of emerging economies. Thus, Emerging Latin America recovered rather quickly from the crisis owing to introduction of countercyclical macroeconomic policies before the crisis, high commodity prices and domestic demand stimulus alongside with external financing. In 2010 the group of countries experienced growth followed by South Africa. At the same time the crisis may end up with economy overheating and subsequent rising inflation current account deficit.

It is expected that Latin America emerging economies will demonstrate moderate economic renewal at 4-5% p.a. approaching the potential GDP growth. The main triggers of such increase will be sustained domestic demand while accompanied with current account deficit. It is highly possible that fiscal support will fold which will result in lower private demand affecting exporters. The countries of the region that were more integrated to world economy also showed some improvement. It could be more pronounce in case of higher remittances, more favorable terms of trade and lower public debt. There still exists the threat that loosening of fiscal policy may result in higher inflation and current account position leading to economy disequilibrium. On the other side there is a risk of slower renewal of global capital markets which could negatively affect financial side of balance of payments position.

Capital markets

As EME capital markets played crucial role in pre-crisis world economy and taking into account financial component of the crisis, it is important to investigate the effect of world economic turmoil on capital flows associated with emerging economies. In whole, the period of financial crisis regarding the changes in capital flows could be symbolically divided into three main stages. The first stage of the crisis was characterized by a slowdown in capital flows primarily banking ones among developed economies. In contrast, capital flows to and from emerging markets were generally not affected. The second stage of the crisis was marked by a broad reversal of capital flows, with investors across the globe liquidating holdings abroad. At that moment emerging markets were hit by a sharp reversal in flows. The third stage of the crisis saw a recovery of non-bank capital flows, particularly in Asian and Latin American emerging markets. While flows among developed economies remained well below pre-crisis level, with bank flows still contracting.

Looking more closely the composition of flows, it should be noted again that the reversals in flows to and from advanced economies was driven by banks. Besides, banks have continued reducing their cross-border exposure in advanced economies even in the final recovery stage. Although banking flows also played a major role during the collapse stage in emerging markets, their magnitude remained relatively small compared to other types of flows. Capital inflows to emerging markets took mainly the form of FDI and portfolio investment, which quickly resumed after the collapse. On the outflows side, the accumulation of foreign reserves plays a dominant role. In the collapse stage, emerging countries used the reserves to cover capital flows reversals instead of having the economy go through a costly shift in the net external balance. [6, 17]

Despite general tendencies were quite common for the most of EME, flows to and from emerging markets were marked by regional differences. Flows have quickly resumed for Latin America and emerging Asia, nearly reaching pre-crisis levels. By contrast, flows to and from emerging Europe remained at a very low level in the recovery stage of the crisis due to the fact that the region suffered the most from the crisis.

While discussing general capital flows' behavior during the crisis, the main causes of investments retrenchment could shed the light on regional differences. Actually the causes could be split into two broad groups. The first one is concerned with financial excesses (e.g. asset price bubbles, weak financial regulation) and associated macroeconomic imbalances and vulnerabilities; and the second one is international financial linkages explaining the transmission of the crisis. As emerging economies showed themselves experiencing less financial excesses and relatively weaker linkages with countries suffered the most from world crisis, they followed another pattern of development during the crisis and after it as it was shown.

Some examples could be provided. By dealing with weaknesses in their financial systems in the aftermath of pervious crisis, some emerging economies, such as Brazil and Indonesia, have been able to withstand the recent financial shocks. In other cases, such as India and China, very cautious financial opening and tight regulation (including direct state controls) prevented risky behavior before the crisis and enabled a rapid restarting of growth through credit expansion. For example, Asian equity markets rose by 30% since late 2008, while Latin America's ones showed 40% of improvement. These figures far exceed those of advanced economies and result in higher GDP growth. Thus, China, Indonesia, South Korea, and Singapore experienced GDP growth on average at 10 percent.

Further development of emerging capital markets could be considered from the prospective of different assets. The biggest share of capital in emerging markets is represented by bank deposits followed by equities. The share of the latter could increase in case of privatization of state enterprises or rise in value of private companies. The former also has significant potential for growth as a lot of population even does not have bank account. Increase in population incomes as well as increase in population itself will also contribute to deposits volumes increase.

There exist the prospective of growth in share of corporate bonds (15% of GDP comparing with 119% in Europe) and other private debt securities. While the increase will be possible only in case of legal and financial reforms especially that is concerned with regulation of bond markets which constitute the alternative for bank financing. [7,6]

At the same time further financial market development is not guaranteed- the main obstacle is an absence of financial market reforms. The crisis revealed the dangers of imperfect financial system deepening. At the same time the development of financial system has the main benefits in the form of more efficient capital allocation and better risk diversification. If proper reforms are introduced, emerging capital markets may project to 50% of world GDP in 25 years. [8, 12]

The recovery has long-term prerequisites which do not lose power. Among them there are traditionally high internal savings rates supporting investments. The latter are mostly directed to infrastructure projects resulting in increase in industrial production. In addition emerging capital markets are relatively smaller than those of advanced economies, thus, having higher convergence growth rates. At the moment the size of capital markets equals 165% of EMEs' GDP or 145% if excluding China which is far lower than in mature economies.

Boom-boost cycles

Up to the moment, the capital influx has taken the form of debt placement. These inflows are generally considered to be highly volatile but they strengthen domestic liquidity positions. If the situation continues, there exists the risk of too fast re-leveraging. There is a pattern of strong inflows into mutual funds of EME- the figure for the first quarter of 2011 was the highest in three years. EME bonds in comparison to US corporate high-yield bonds are more attractive for investors thanking to lower leverage and higher returns taking other things being equal. These preconditions are easing access of previously constrained companies to credit, while there is a serious worry that there could be over-inflows of capital into EME. In its turn in case of adverse movements in capital, this may lead massive outflows and incorrect pricing of credit.

The mentioned risk of economies overheating in crisis aftermath is in the center of last economic debate, capital influxes into emerging economies led to the spectacular credit increase aligned with high inflation. As weaker firms are entering capital markets due to rising corporate leverage this may lead to higher vulnerability of corporate balance sheets. Main economic measures in emerging economies should be simultaneously directed on three goals: avoidance of economy overheating, decrease of the possibility of financial risks and increase of policy credibility. Some macro prudential tools, e.g. capital controls, can support main ones. In other words main efforts should be directed on strengthening of financial system.

As most of the countries succeed to achieve their potential economic growth macroeconomic policy should be seriously reviewed. That is concerned with fiscal expenses, as in the context of sizable capital inflows and respective currency appreciation this may pose significant burden on monetary policy. As there is observed improvement in lending conditions causing asset price growth, some capital controls should be introduced in aim to strengthen financial systems of countries. Thus, Central America should replenish its international reserves eaten up during recession; Caribbean region should paid specific attention to fiscal policy issues in order to ensure sustainable economic growth.

Emerging market economies that achieved pre-crisis economic growth rates give the priority to tightening of macroeconomic policies supported by introduction or use of flexible exchange rates and high macro-controls in order to prevent boom-bust cycles. At the time when these countries increase policy rates, real rates remain law. Therefore further tightening of fiscal policies is needed supported by transparent monetary policies aimed to restrain inflation and manage inflation expectations. Those emerging economies that experience high fiscal deficits or substantial debts should strengthen their position especially those that have problems with current account or are subject to adverse capital movements. However, all these restrictions should be concerned with areas others than social sector spending or infrastructure projects financing. Countries with high current account surpluses may become the triggers of economic development of the regions for the medium term.

In sum, policymakers must act now to make the financial system more robust. Downside risks have again risen, including that the global economic recovery may be more fragile than had been thought, so time to address existing vulnerabilities may be running out. At the same time, the room for maneuver to counter shocks has been reduced, especially via traditional fiscal and monetary policy levers. Thus, it will be critical to make the financial system strong enough to withstand potential major shocks, thereby enabling it to support ongoing recovery. The key priorities are, first, to make the current financial system more robust, especially to clean up from the legacy of the crisis in advanced countries. Second, the financial reform agenda must be completed as expeditiously as possible.

Re-balancing of world economic powers

Still general outperformance of emerging economies lead to the revision of the role they play in world economy. The Summit of G-20 agreed that the role of the emerging economies (at least the largest ones) within the IMF and the World Bank would be expanded through agreement to increase their quota shares.[4] Although the large emerging market economies were hardly immune from the global crisis, their deeper integration into the international economy over the past two decades also gave them a strong interest in international collaboration designed to restore the global economy on a sustainable growth path.[9, 31]

The discussions on the new economic order became widespread. Despite an existence of controversial points of view, it seems to be that the trend to financial and economic globalization will persist. However, its nature is likely to change. This is because international bank flows are unlikely to regain their pre-crisis magnitude for a variety of reasons, so that the relative importance of some donors of capital would change. In contrast, financial globalization in emerging markets, which had proceeded at a less dramatic drop, could well prove more robust. So the revision of world financial and economic architecture is just the matter of time.

Although the world economic arena was divided among four main economic powers such as US, China, Japan, and India, there is a number of EME that gain more and more attractiveness in eyes of foreign investors and world manufactures. Any of them being integrated in world supply chains could seriously affect the composition of world economic powers in future and the direction of capital flows.

In Asia there are three possible locomotives for further economic renewal of the region: Malaysia, Indonesia and India. Thus, Malaysia succeeds to attract some automotive giants to build assembly lines in the country. The FDI will be also directed into hi-tech and resource intensive industries. In sum, this gives significant push to the market of logistic services. Indonesia will benefit from previously introduced softening of capital controls and may incur significant inflow of FDI Into telecommunication and logistics especially in the light of decrease in investment attractiveness of China. India may experience growth in investment flows into retail sector being an attractive investment destination due to relatively cheap and highly educated labor force and absence of language barrier.

The situation in Middle East differs a little bit. During the crisis Saudi Arabia indeed suffered from the world economic slowdown, but seemed to be able to develop its transportation system. The latter may become the source of future economic prosperity due to strategic geographical position of the country. Egypt, on the other side, lost its relative logistic advantage due to recent political turmoil. The situation in UAE varies across administrative districts. Dubai, Abu Dhabi and Sharjah are expected to be the main triggers of further economic development of the country. The last country of the region, Turkey, will benefit from its geographical position and the process of alignment of EU, thus as far as EU and Middle East will develop, Turkey may become the strategic player in economic and political dialogue between counterparties.

Russia is the main CEE emerging country to consider in the context of global production chains. Still it has significant resource based potential and possibly will set its rules in the region.

While considering Latin America specific attention should be paid to Mexico and Brazil. Mexico seems to benefit further to its tight connections with US companies which redirected their attention from China to Mexico. Despite economic growth, internal problems distract possible foreign investors. Brazil is indeed the leader of the region, possessing vast natural resources, being the large exporter of food and finished industrial production and representing big consumer market. In addition, the government introduces macroeconomic reforms aimed to stimulate economic activity that only gives an additional incentive for foreign investors. [10, 25]

Another most discussed result of the crisis is possible further decoupling of emerging economies from advanced world. Before the crisis the relative independence of emerging economies was the predominated point of view. At the same the examining of financial transmission mechanism of the crisis allow to figure out three phases: decoupling, re-coupling and re-decoupling. The last phase started in early 2009 and was marked by stabilization on emerging economies capital markets in parallel with striking gap opened between high vulnerability countries and others. These also affected capital flows. While low and medium vulnerable countries started experiencing inflows of capital already in the first quarter of 2009, highly vulnerable countries still experienced gross outflows.

In any case EME are supposed driving world recovery for a number of reasons. The countries experienced smaller economic slowdown (in particular Sub-Sahara Africa and Middle East) or even showed economic growth in 2008-2009 (China), and nowadays have higher recovery speeds. The reasons for the latter are improved trade and financial linkages, rising incomes and wider middle class, and therefore growing domestic markets. Taking into account that BRIC countries enter EME group, their indeed significant role in global economic governance seem to strengthen even further.

Conclusions

At the moment the prospects of EME development are better than of advanced economies. Besides, the group of the countries showed positive economic results during the crisis, the projections of future economic growth are also more prominent. [1] Asian EME industrial growth in crisis aftermath is higher than its potential industrial growth. Growth in EM Asia still may decelerate only slightly due to earthquake in Japan and disruption in production networks. Latin America is also on the path to the improvement and would be bolstered by commodity exports and internal demand. European emerging economies and some of CIS countries are lagging behind, while showing considerable and fast improvement. The countries will indeed growth faster than advanced economies of the region owing to sharp domestic demand cycle in Turkey. Higher oil demand and increase in prices support the development of Nearest East. Situation in Africa is a little bit different. An economic renewal in middle income countries and oil-exporters is supported by revival in world trade and increase in prices for traded goods. Low income countries just restored their output at the trend level. [11, 14] In future Sub-Sahara African activity will strengthen, with domestic demand remaining robust, and world price increase will support commodity exporters. The only region where fast and sustainable economic recovery seems to be questionable is Middle East due to political and social unrest.

For the sake of truth, it should be noted that in whole the speed of World economic recovery was underestimated, as real and financial sector restored their confidence more quickly than it was expected. Developed countries experienced positive changes due to favorable changes in inventories, less pronounce weakening of labor markets and more quickly revival in capital flows. However, EME are commonly accepted being locomotives of world economic development.

References

1. International monetary fund/- available at: http:// www.imf.org
2. Llaudes, R., Salman, F. and M.Chivakul. 2010. "The Impact of the Great Recession on Emerging Markets". IMF Working Paper, WP/10/237.
3. World Economic Outlook Projections. Mild Slowdown of the Global Expansion and Increasing Risks . IMF Report./- available at:http://www.imf.org/external/pubs/ft/weo/2011/update/02/pdf/0611.pdf
4. Boorman, J. 2009. "The Impact of the Financial Crisis on Emerging Market Economies: The Transmission Mechanism, Policy Response and Lessons". Global Meeting of the Emerging Markets Forum, India, June 23.
5. Horton, M., Kumar, M. and P. Mauro. 2009. "The State of Public Finances: A Cross-Country Fiscal Monitor," IMF Staff Position Note 09/21.
6. Milesi-Ferretti, Gian, M. and C. Tille. 2010. "The Great Retrenchment: International Capital Flows During the Global Financial Crisis," IHEID Working Papers 18-2010, Economics Section, The Graduate Institute of International Studies.
7. Yehoue E. B. 2009. "Emerging Economy Responses to the Global Financial Crisis of 2007-09: An Empirical Analysis of the Liquidity Easing Measures}IMF Working Paper 09/265,
8. International Monetary Fund. 2010. "World economic outlook: Rebalancing Growth"./- available at: http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf
9. Murray M. Emerging Economies For 2011./- available at: http://logistics.about.com/od/trendsandissues/a/Emerging-Economies-For-2011.htm
10. Kahler, M. 2009. "Economic Crisis and Global Governance: The Stability of a Globalized World" // -available at: http://wwww.cpe.ucsd.edu
11. Deutchebank research. 2010 "The new world: Emerging markets after the crisis"./- available at http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000256937.pdf