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What Are Emerging Economies?

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The term "emerging economy" has a relatively short history, such that there is, as yet, no clear definition, and tends to be applied to every economy other than advanced economies. Given this situation, the author developed a framework that would allow people to define emerging economies simply and objectively.

Specifically, the world's countries are classified into eight economic stages by using the three indicators of (1) GDP (gross domestic product) growth rate, (2) per capita GDP and (3) the size of GDP. From among these stages, countries in which "the GDP growth rate is higher than the global average, but in which the per capita GDP is lower than the global average" are defined as those in the stage of emerging economies.

As a result of analyzing the economic data for the last 140 years at the most for about 130 countries, it was found that there are migration paths that connect eight stages. These eight stages and the migration paths between them are together referred to as the "eight-stage model."

Over the last 140 years, Japan is the only country that has gone from being a low-growth developing economy, has passed through the emerging economy stage, to become a mature advanced economy. However, unlike a "yokozuna" (the highest rank) in sumo wrestling in Japan, the title of "advanced economy" is not one that cannot be taken away, as it is possible for an advanced economy to degrade into a low-growth developing economy.

During the last 140 years, there have been very few instances of countries moving from the "emerging economy" stage to the "advanced economy" stage because there are "traps" that prevent transition into an advanced economy. A typical example of such traps would be the trap of income inequality. The rare exception is Japan's success in quickly clearing this obstacle. Japan's success is considered attributable to the drastic farm land reform and the reform of the educational systems, both of which the country undertook after World War II.

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I Transition of the Meaning of Emerging Economies

These days, hardly a day goes by without there being a mention of “emerging economies” in newspapers and magazines. Many Japanese companies are discussing their strategies to expand and bolster their business in emerging economies, while the Japanese government is examining the way in which the growth in emerging economies can help boost Japan’s economy. However, the term “emerging economies” has not yet been used for long. Therefore, its definition is still vague, and the meaning that it implies together with the manner in which it is used has gradually changed over time. Figure 1 shows the trend, since 1990, in the number of Japanese newspaper articles with “emerging economies” in the headline. By looking at this graph, it can be seen that there was a rapid increase starting in 2005, rising to about 3,400 articles in a single year in 2011.

In 1993, there were only four such articles. These articles included one with the title using the term in the same way as it is used today. The title was “The Cost of Overseas Expansion, on the Brink of an ‘Industrial Hollowing Out,’ Intensifying Competition with Emerging Economies” (Hokkaido Shimbun, August 19, 1993, morning edition). However, one (Yomiuri Shimbun, Tokyo edition, April 19, 1993, evening edition) of the other three articles used the term to describe rapid growth in a specific field that had not been notable in the past.

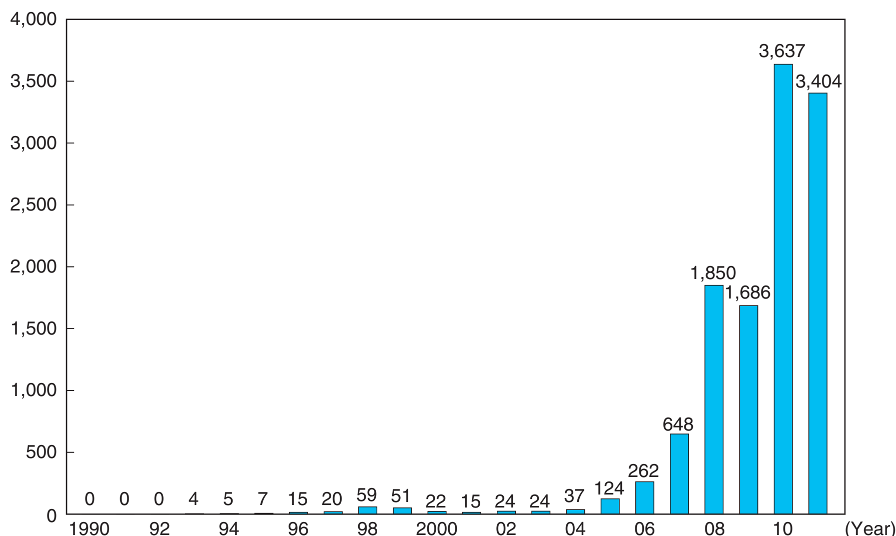
The slight increase in 1998 and 1999 can be attributed to the impact of the Asian financial crisis. During these two years, there was a sharp increase in the number of articles explaining the measures taken for dealing with emerging economies by the International Monetary Fund (IMF) and the World Bank to help alleviate the financial crisis that was crippling Asia. In this sense, it would be reasonable to assume that the financial crisis contributed to the reinforcement of the concept of “emerging economies.” In fact, since 1999, the Finance Ministers and Central Bank Governors from 20 countries and regions (known as the G20 or the Group of Twenty) including emerging economies have held regular meetings.

Since then, there has been a steady increase in the number of articles related to emerging economies, with the majority of the content relating to their attractiveness as investment destinations. In 2001, Goldman Sachs published a report entitled “Building Better Global Economic BRICs.” As represented by this report, most articles described emerging economies as destinations for investing assets. During this time, Japanese companies saw emerging economies more as production bases, while continuing to regard Europe and the U.S. as their most important overseas markets.

In 2007, the global financial crisis that was triggered by the subprime lending crisis in the United States led to a major recession in Europe and the U.S., leading to emerging economies gaining attention as markets although the attention in such regard was not so prominent in the past. After the collapse of Lehman Brothers in 2008, many articles picked out China and India, with their relatively unaffected growth rates, implying the sense that “emerging economies will save the world’s economy.” From that time on, it is reasonable to say that many Japanese corporate executives began to look seriously at the markets of emerging economies. Moreover, since 2008, the political world has seen the holding of G20 summits, further strengthening the presence of emerging economies.

As described above, the meaning attached to the term “emerging economies” seems to be changing gradually

Figure 1. Transition in the number of newspaper articles including the term “emerging economies” in their headlines



Note: Targeted newspapers include Nikkei newspapers, newspapers with a national circulation, general newspapers and specialized journals.
Source: Compiled based on Nikkei Telecom (membership database service).

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as the years pass. Because the term is relatively new, its definition remains vague. As such, there are many articles that go as far as applying the term to every economy other than advanced economies, even including countries that have attained almost no economic growth. Therefore, in this paper, the author attempts to use simple and objective indicators to define an emerging economy and discusses the position of emerging economies in the world economy. By applying this definition back to the past through history, consideration is given to how countries similar to Japan that have been "emerging economies in the past" have moved on to become advanced economies. In addition, the future prospects of those economies that are now classified as "emerging" are also discussed.

II Classification of the World's Countries into Eight Stages and the Position of Emerging Economies

To define emerging economies in a simple and objective way, this paper considers three economic indicators. These are: (1) rate of GDP (gross domestic product) growth (GDP growth is referred to as economic growth in this paper), (2) per capita GDP and (3) size of GDP. By comparing these three statistics of each country with the global average to classify a country depending on whether it ranks above or below the global average, any country can be classified into one of eight (2 × 2 × 2) stages (Table 1). In this paper, the author proposes that "emerging economies" be defined as those countries that satisfy two conditions. Specifically, emerging economies are those countries for which the "economic growth rate is above the global average" in a certain period and for which the "per capita GDP is below the global average."

The first condition relates to that an emerging economy must exhibit a high rate of growth for a given period. That is, the condition is that for a given period in the past, the "(annual average) economic growth rate is higher than the global average."

The second condition involves the per capita GDP. While the level of per capita GDP does not necessarily determine whether a country is an emerging economy, the term "emerging economy" was initially often used in the context of "fast-growing developing countries." Because it is more appropriate to classify countries with high levels of income as advanced countries, the "per capita GDP is lower than the global average" is regarded as the second condition.

While the size of GDP is taken as a third indicator in this paper, whether GDP is large or small has nothing to do with the definition of an emerging economy. The reason for adopting this indicator is to differentiate between countries that already have huge GDP, such as China, India and Indonesia, from countries that have relatively small GDP, but are attracting considerable attention, such as Myanmar and Vietnam.

To reiterate the definition proposed in this paper, an "emerging economy" is one in which:

(1) The economic growth rate is above the global average, and
(2) The per capita GDP is below the global average

Other stages are named in line with the following thinking. Those countries with higher per capita GDP than the global average are referred to as "advanced economies." From among the advanced economies, those with a higher economic growth rate than the global average are referred to as "growing advanced economies," while those with a lower growth rate are referred to as "mature advanced economies." Countries for which the economic growth rate is lower than the global average and for which per capita GDP is also lower are referred to as "low-growth developing economies." Classification of the economies of all eight stages is based on their economic magnitude as either "small-scale" or "large-scale."

Table 1. Classification of the world's countries into eight stages

	Economic growth rate (as compared to global average)	Per capita GDP (as compared to global average)	GDP size (as compared to global average)	Name of stage
(1)	Lower	Lower	Small	(Small scale) Low-growth developing economies
(2)	Lower	Lower	Large	(Large scale) Low-growth developing economies
(3)	Higher	Lower	Small	(Small scale) Emerging economies
(4)	Higher	Lower	Large	(Large scale) Emerging economies
(5)	Higher	Higher	Small	(Small scale) Growing advanced economies
(6)	Higher	Higher	Large	(Large scale) Growing advanced economies
(7)	Lower	Higher	Small	(Small scale) Mature advanced economies
(8)	Lower	Higher	Large	(Large scale) Mature advanced economies

Note: GDP = gross domestic product.

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The principal features of this definition are that (A) it is simple, (B) it allows objective classification and (C) it enables "relative" positioning among all economies in the world. Based on such definition, this paper discusses the paths taken by the world's economies in the past, as well as the future potential of those economies that are currently referred to as emerging economies.

III Historical Perspective of the Paths Taken by Countries in Economic Development and Case Studies

1 Paths taken by countries in their economic development

In order to comprehensively analyze the development paths taken by each of the world's economies over the long term based on the above-mentioned classification into eight stages, data derived from "The World Economy: Volume 1: A Millennial Perspective," written by Angus Maddison and published by the Organization for Economic Cooperation and Development (OECD) were used. As the title suggests, this publication quantitatively estimates economic activity in each of the world's countries as far back as the last 2,000 years. While data such as GDP have been estimated from the year 0, referring to such old data would be of limited use, given that the names of countries changed, as did their borders, while the forms of government were completely different or the country that exists now did not even exist. Therefore, this paper limits the range of data to 1870 onward. This date was chosen because Japan's Meiji era began in 1868. In addition, because the data in "The World Economy" only goes as far as the second half of the 1990s, for that point up until 2010, economic data published by the International Monetary Fund (IMF) was used.

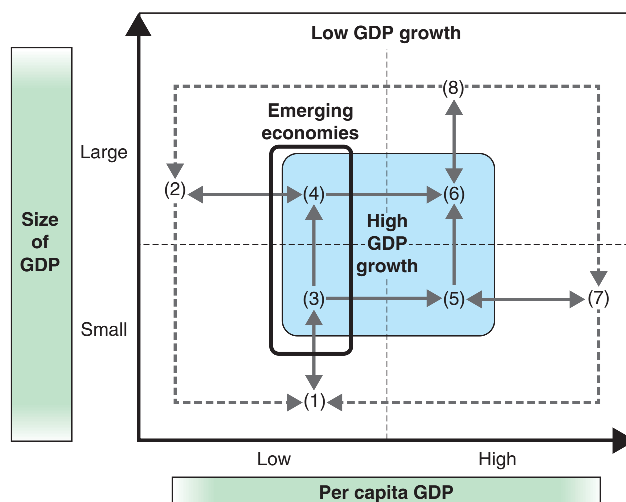
These data were used to analyze the economic data for about 130 countries over the last 140 years at the most. The results revealed that with a few exceptions, most countries followed the paths shown in Figure 2. From this point, the term "eight-stage model" is used to refer to the classification of countries into eight stages as well as the paths that countries took to move to the relevant stage. The numbers in Figure 2 correspond to those in the leftmost column of Table 1; emerging economies are grouped in Numbers (3) and (4). The four stages ((3), (4), (5) and (6)) of the shaded square in the center of Figure 2 represent high economic growth, while the four peripheral stages ((1), (2), (7) and (8)) indicate low economic growth.

Furthermore, as indicated by double-ended arrows (for example, the arrow between (1) and (3) and between (2) and (4)) in the figure, countries migrated back and forth to and from the low-growth and high-growth stages. That is to say, an analysis of data for the last 140 years shows that there are many cases in which countries classified as low-growth developing economies exhibited high growth for some time so as to enter the ranks of emerging economies, but then dropped back to low-growth developing status.

If sufficient economic growth can be achieved by countries at the stages of emerging economies, they will successfully transition into the stages of growing advanced economies ((5) and (6)). However, it is highly likely that their economies will eventually mature and these countries will migrate to mature advanced economies ((7) and (8)). However, some advanced economies exhibit repeated low and high growth phases (the U.S. is a notable example), leading some mature advanced economies ((7) and (8)) to again attain the status of growing advanced economies ((5) and (6)).

Figure 2. Classification of countries into eight stages and transition paths

Eight-stage model: The numbers in the figure correspond to those used for classification in Table 1



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In addition, as indicated by the dashed-line arrows ((8) → (7), (7) → (1), (8) → (2) and (2) → (1)), although very few in number, there are cases where the economic standing of a country has fallen. Examples include Argentina, which saw the failure of its economic policies in the late 20th century. It went from being an advanced economy to a low-growth developing economy (the country subsequently saw high economic growth, such that it has become an emerging economy). Another example is Russia, which experienced the major systemic changes brought about by the breakup of the Soviet Union. That is to say, "advanced economy" is merely a relative position within the world's economies, and is not like a "yokozuna" (the highest rank) in sumo wrestling in Japan, which cannot be demoted. Rather, if a country fails to manage its economy over the long term (or fails on a large scale), such country could easily lose its standing.

Table 2 lists the countries of the world and the stages at which they were as of 2010.

Quite a few countries are classified as being in one of the two stages that are defined as emerging economies. The four BRIC countries (Brazil, Russia, India and China) all fall into the categories of emerging economies, as do Southeast Asian countries that are currently of major interest to Japanese companies, such as Indonesia, Vietnam and Myanmar.

On the other hand, based on the definition adopted in this paper and as of 2010, there are some countries that were not classified as being emerging economies, including Mexico and those Middle Eastern and African countries with small economies. Mexico, despite having a large economy, fell into the category of low-growth developing economies because its economic growth rate in the 2000s is less than the global average. Because Middle Eastern countries already boast a high per capita GDP, they are classified as growing advanced economies, rather than emerging economies.

2 Trends in Japan, China and Argentina

By turning our attention to Japan, China and Argentina, and applying the eight-stage model to their histories, we can see the paths that these countries followed over the long term.

(1) Case of a country that transitioned from a low-growth developing country to an emerging economy, then grew to a mature advanced economy: Japan

The upper chart of Figure 3 shows the paths taken by Japan since 1870. In 1870, which is the earliest time for which data are available, Japan was a (2) (large-scale) low-growth developing economy. As mentioned in Section 1, the Meiji era began two years earlier, in 1868. At the time when data are next extracted, for 1913, the economic growth rate was high, making the country a (4) (large-scale) emerging economy. In 1913, Japan had just entered the Taisho era. This period saw rapid economic growth that had resulted from the Meiji government's policies to increase production and promote the development of industry.

Subsequently, World War II led to Japan's economic standing falling back to pre-1930 levels. However, the country had recovered from such low levels to pre-war levels by 1955. The 1960s saw a period of high economic growth. As of 1973, the per capita GDP rose above the global average, placing Japan in the stage of (6) (large-scale) growing advanced economies. Japan stayed at the stage of growing advanced economies until the collapse of the bubble economy in the first half of the 1990s, with the country being classified as a (8) (large-scale) mature advanced economy from 2000 onwards.

It is worth pointing out that in the history of the world over the past 140 years (since 1870), Japan is the only country that moved from being a low-growth developing economy, through the emerging economy stage, to being a mature advanced economy. That is to say, Japan is one of the countries that had changed most rapidly over this period. The most salient point here is the high economic growth of the 1960s. It is widely known that without such growth, Japan would not have joined the ranks of advanced economies. When the eight-stage model is applied to Japan's case, the high economic growth of the 1960s enabled the country to transition from (4) to (6).

Table 2. Examples of countries falling under eight stages as of 2010

	Classification	Countries
(1)	(Small-scale) Low-growth developing economies	Jamaica, Haiti, Central African Republic, Côte d'Ivoire, Zimbabwe, Guinea, etc.
(2)	(Large-scale) Low-growth developing economies	Mexico
(3)	(Small-scale) Emerging economies	Bangladesh, Myanmar, Malaysia, the Philippines, Thailand, Laos, Vietnam, Egypt, Morocco, Chile, Colombia, Bulgaria, Romania, etc.
(4)	(Large-scale) Emerging economies	China, India, Brazil, Russia, Indonesia, Iran, Turkey, South Africa, Argentina, etc.
(5)	(Small-scale) Growing advanced economies	Singapore, Hong Kong, Bahrain, Israel, Oman, United Arab Emirates, Qatar, etc.
(6)	(Large-scale) Growing advanced economies	Australia, Poland, South Korea, Saudi Arabia, etc.
(7)	(Small-scale) Mature advanced economies	Ireland, Portugal, Hungary, etc.
(8)	(Large-scale) Mature advanced economies	U.S., Japan, U.K., France, Germany, Italy, the Netherlands, Switzerland, etc.

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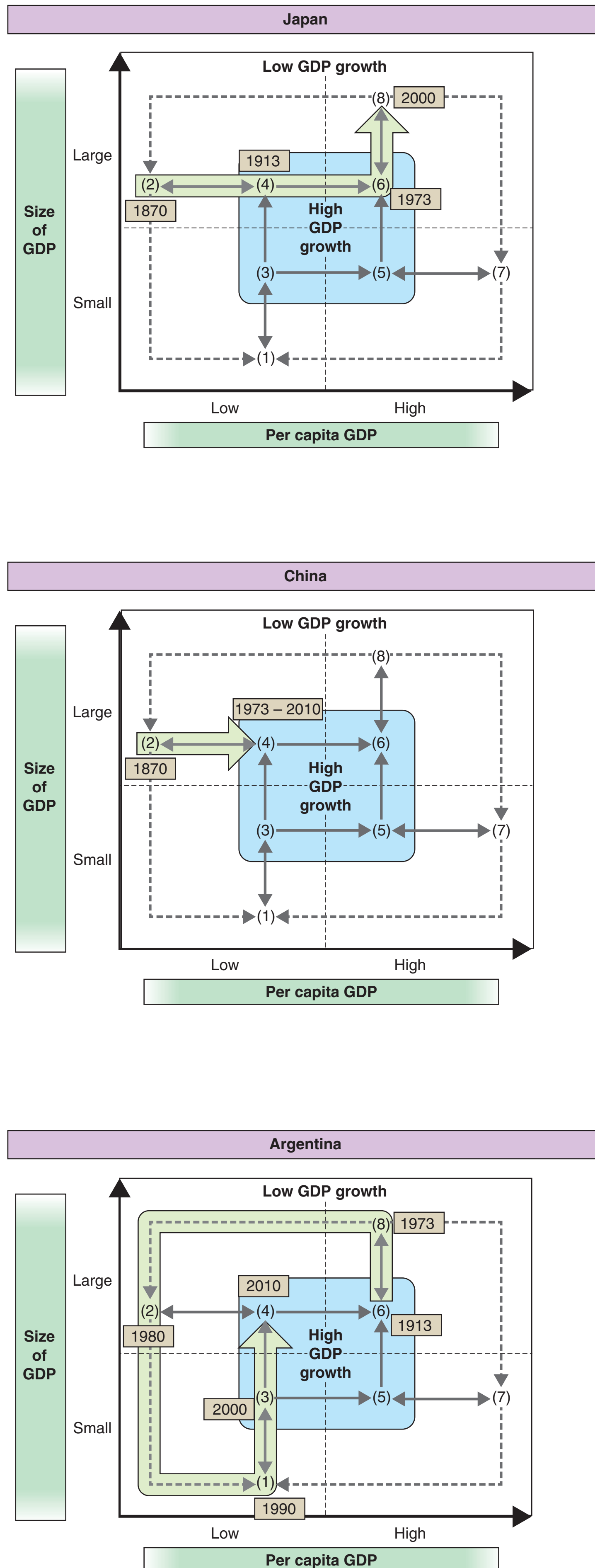
Figure 3. Economic development paths taken by Japan, China and Argentina (eight-stage model)



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(2) Case of a country that remains an emerging economy for many years: China

The center chart of Figure 3 shows the paths followed by China since 1870. As of 1870, China was one of the world's two largest economies, along with India. According to "The World Economy," the GDP of China in 1870 was nearly twice that of the UK, which was the strongest economy in the world at that time. However, the country's population was also the largest in the world at that time, standing at 360 million, making the per capita GDP smaller than not only that of Europe and the U.S., but also that of Japan, which had just entered the Meiji era. Because its rate of economic growth was also low, China at this time was classified as a (2) (large-scale) low-growth developing economy. China's high economic growth in the 1970s marked the start of its transition to the stage of being an emerging economy. The Chinese government, under the leadership of Deng Xiaoping, initiated its "reform and opening-up" policy in 1978. Therefore, it is fair to assume that the foundation for high economic growth had already been established during the 1970s. Subsequently, China entered the (4) (large-scale) emerging economy stage, and remains at that stage even today.

(3) Case of a country that transitioned from an advanced economy to a low-growth developing economy, then to an emerging economy: Argentina

The lower chart of Figure 3 shows the path taken by Argentina since 1913. It can be said that Argentina has had a turbulent history, but in the opposite sense to that of Japan. In 1913, Argentina was one of the richest countries in the world. In 1880, Buenos Aires became the capital and the country entered a period of political stability, while the economy developed rapidly with capital investment and immigration. At the beginning of the 20th century, the country was so wealthy that the phrase "as rich as an Argentine" was said to be often used.

However, after the Great Depression of 1929, the Argentine economy fell on hard times. A military coup d'état occurred in 1930. Since then, although the country's president was elected through free elections, the president was frequently replaced. This military government virtually lasted until the 1980s. Throughout this period, conflict between the military and guerrillas continued within the country, and the lack of an appropriate industrial policy led to the decline of the economy. If these circumstances are viewed from the perspective of the eight-stage model, in 1980, the per capita GDP of Argentina was already below the global average, placing the country in the classification of a (2) (large-scale) low-growth developing economy. In addition, the hyperinflation of the 1980s led to more and more of the wealthy and middle classes fleeing the country. Finally, in 1990, the country entered the classification of a (1) (small-scale) low-growth developing economy.

However, subsequently, the 1990s saw the neoliberal policies of the Carlos Menem administration, which were supported by the International Monetary Fund (IMF), leading to an economic growth rate of 9 percent per annum. As such, the country again reached the "emerging economy" stage in 2000. (Rather than implying that the country was a newly emerging economy, the use of the term "re-emerging economy" might be more appropriate here.) After 2000, however, there was a currency crisis triggered when Brazil devalued its currency. At the end of 2001, the country defaulted on its foreign debt and approached economic collapse. Since 2002, however, the country again attained a high rate of growth, reaching the stage of a (4) (large-scale) emerging economy as of 2010.

IV "Traps" that Hinder Transition from Emerging to Advanced Economy

1 Examples of transition from an emerging economy to an advanced economy are few

In building the eight-stage model, up to 140 years of economic data for about 130 countries were analyzed. In the process of the analysis, an interesting discovery was made. Among the eight stages, very few countries migrated from emerging economies to advanced economies ((4) → (6) or (3) → (5)). Given the situation where the overall world economy is growing, in order for a country to achieve a per capita GDP that is above the global average, a country would be required to exhibit considerably high growth over a relatively long time. In addition, its economic growth must be tied to an increase in average income, rather than to population growth. All of these conditions combine to constitute prerequisites that are very difficult to attain.

Specifically, those countries that have succeeded in making the transition from the emerging economy stage to the advanced economy stage are as listed below:

(4) (Large-scale) emerging economies
→ (6) (Large-scale) growing advanced economies: Japan, South Korea and Poland
(3) (Small-scale) emerging economies
→ (5) (Small-scale) growing advanced economies: Taiwan and Oman

However, it should be noted that among the world's countries, some do not appear in this list because their structures as countries have not been stabilized either in terms of name or borders for the entire 140-year period, possibly as a result of war or independence from colonial powers. For the countries of Africa and the

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Caribbean, the length of time for which data is available is relatively short. In the case of many Middle Eastern resource-producing countries whose borders were drawn at the end of World War II, their levels of per capita GDP were already high at that point. Therefore, these countries were already growing advanced economies at the beginning of their modern history.

In the case of companies, over such a long period of 140 years, it would be quite natural to see many cycles of companies appearing and disappearing. However, when the history of countries is considered, over the last 140 years, the economic balance of the world's countries has been virtually unchanged. That is, the majority of countries that were economically advanced at the end of the 19th century are still advanced economies, while most that were low-growth developing economies at that time are still at the low-growth developing economy or emerging economy stage.

In recent years, as a result of aggressive investments by companies and investors from advanced countries, many low-growth developing countries have started to see their economies attain high growth and they have transitioned to emerging economies. In order for them to make the transition from emerging economies to advanced economies, a long, stable period of high growth would be required. However, in reality, many hurdles stand in the way of this transition, with many countries regressing from the emerging economy stage to the low-growth developing economy stage. For example, Mexico and Brazil migrated several times back and forth to and from the (4) (large-scale) emerging economy and (2) (large-scale) low-growth developing economy stages. Romania and Bulgaria, new members of the European Union (EU), have also transitioned back and forth to and from (3) (small-scale) emerging economy and (1) (small-scale) low-growth developing economy stages.

Then, what stands in the way of a country's economy growing from the emerging economy stage to the advanced economy stage? The answer is known as the "middle income traps" (traps faced by middle income countries), the most important of which are listed in Table 3.

2 The difficulty of escaping the trap of income inequality

While there are many such traps, this paper focuses on the issue of income inequality, which has become a major issue in the world economy in recent years. While the eight-stage model considers only average income (per capita GDP), the issue of income inequality provides a deeper insight.

Economist Simon Kuznets developed the Kuznets curve, which describes an inverted U-shaped relationship between per capita GDP and income inequality at a given stage in a country's development. With income inequality on the vertical axis and per capita GDP on the horizontal axis, a developing country exhibits an overall low income across the entire population, but a very small inequality in incomes. However, once the economy takes off as a result of industrialization, etc., the per capita GDP increases, followed by an increase in the degree of income inequality. Then, once economic growth reaches a certain level, such growth slows and income inequality remains high. If the average income of low-income earners is raised by some factors, the country would enter a phase of attaining economic growth accompanied by a fall in inequality.

Figure 4 shows the change in the Gini coefficient (index that indicates the degree of inequality as a value between 0 and 1, where a higher value indicates greater inequality) for the four BRIC countries, Indonesia, Vietnam and Japan. In terms of position on the Kuznets curve, Brazil falls on the right-hand part of the inverted

Table 3. "Traps" that hinder transition from emerging to advanced economy

1. High growth itself gives rise to growth constraints (the trap faced by all emerging economies)	
Trap of income inequality	As a country's economy grows, income inequality within a country rises, which leads to an increase in social anxiety and results in a decline in the growth rate. If social strata and social inequality come to stay, the ruling class might adopt an obscurantist policy, based on which no efforts are made to increase the average minimum income. Rising income inequality could expand educational inequality, causing the following vicious cycle to be permanent: low-income households → low educational levels → taking low-wage jobs
2. Factors that brought about high growth can be risk factors (potential risks)	
Trap of excessive dependence on foreign capital	If a country depends excessively on foreign capital as funds for investments in an era of high economic growth, a depression occurring in an advanced economy or a recession taking place in any other emerging economy might cause such capital to be withdrawn rapidly, resulting in the country falling back into the low-growth developing economy stage
Trap of natural resources	In countries such as those in Africa that are rich in natural resources, countries would attain economic growth by exporting such resources. However, there are cases in which natural resources conversely hinder growth such as through outbreaks of civil war related to the rights and interests in resources
3. Fatal (structural) difficulties in making the transition to an advanced economy (the trap faced by specific emerging economies)	
Trap of huge population	In order for China and India from among the countries that are at the "(large-scale) emerging economy" stage to attain a per capita GDP that is above the global average, the income levels of an overwhelmingly large number of people must be raised. Furthermore, because the increase in the average income of a country means an increase in the global average, the country itself is raising the bar for transition to the advanced economy stage

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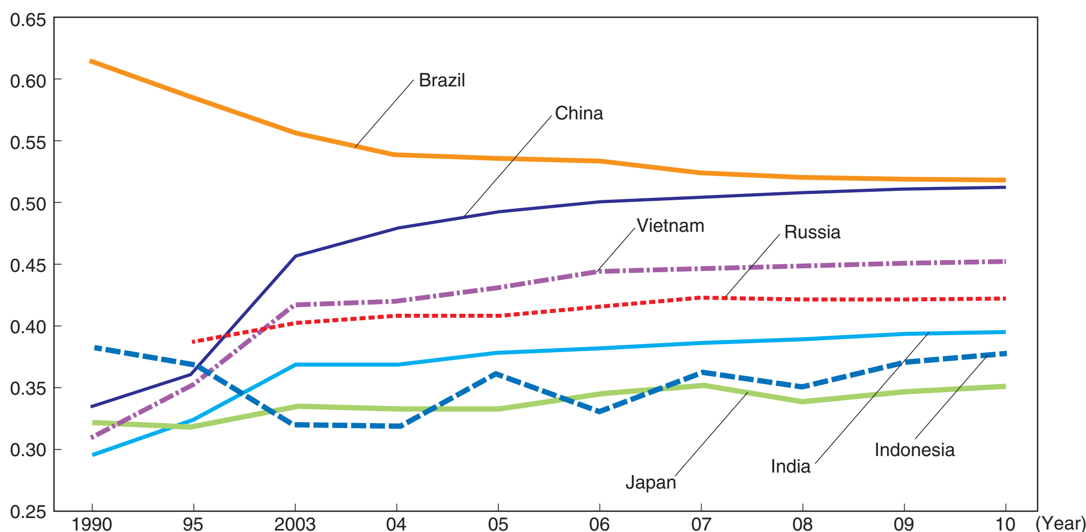
Figure 4. Change in Gini coefficient (indicating the degree of income inequality) for BRICs, Japan, Indonesia and Vietnam



Source: Euromonitor International, "World Consumer Income and Expenditure Patterns 2012."

U-curve, indicating "attaining economic growth accompanied by a fall in inequality," while China, India and Vietnam fall on the left-hand part, indicating "attaining economic growth accompanied by an increase in inequality." The fact that Brazil's per capita GDP has already reached 11,000 dollars (as of 2010), which is higher than that of China and India, supports the hypothesis of the Kuznets curve.

With Brazil entering the phase where income inequality is falling, it would appear that the country is escaping the trap of income inequality. How exactly did Brazil get to this point? While many factors have been at work, the most significant have been economic stability and the government's promotion of social welfare policies. Throughout South America, not just in Brazil, more and more left-leaning governments have come to power in recent years. While often derided as being done in order to garner votes, it cannot be denied that they have promoted welfare programs aimed at low-income earners such as single mothers. However, even though income inequality is falling, differences in terms of absolute income and education remain large. Therefore, the country has not yet reached the stage where the trap of income inequality has been completely overcome.

3 Japan was able to greatly reduce income inequality

Over the last 140 years, one country succeeded in breaking free from the trap of income inequality. That country is Japan. According to several research reports, Japan's Gini coefficient was around 0.3 in 1890. However, coming behind rapid economic growth, income inequality grew quickly. In 1940, immediately before the Pacific War, the Gini coefficient rose to between 0.55 and 0.65, which is around the same value as China today, or Brazil in the past. However, with the coming of the 1950s, the Gini coefficient fell considerably, to 0.3. Such a significant reduction is considered to be attributable to a major impact brought about by the following two measures introduced after the end of World War II under the initiative of the General Headquarters of the Supreme Commander for the Allied Powers (GHQ) as well as by changes in the economic environment.

(1) Correction of income inequality through farm land reform

In 1946, a bill created under GHQ's initiative, which came to be known as the second agrarian reform, was passed by the Diet. Under the terms of this reform, "landowners were obligated to sell land to the government, which then sold the land back to tenant farmers at the market price; landowners were allowed to own no more than about 0.99 ha of land, in principle." Through this reform, Japan's tenant farmers became owner farmers. The reform led to a rapid narrowing of the gap between the rich and the poor in rural areas and also led to the modernization of rural society.

Given that in 1946, Japan's total population stood at around 76 million, with 45 percent or about 34 million working in farming, the impact brought about by the second agrarian reform was considerable. In fact, according to the "farm household economic survey" and the "survey of household economy," the average annual disposable income of farmers in 1955 was 378,000 yen, while that of households in the city was only 310,000 yen, with farming families earning more than urban households in terms of income.

(2) Correction of educational inequality by extending the number of years of compulsory education and by adopting the single-track system for higher education

Prior to the start of the war, Japan had already introduced a system of six years of compulsory education. However, in 1947, under GHQ's initiative, this system

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was extended by three years to a 6-3 system, bringing Japan's compulsory education system into line with that of the United States. In addition, higher educational institutions were reorganized. The previous multiple track system was replaced with a single-track system, thus establishing a 6-3-3-4 education system, which is still in effect. GHQ believed that the multiple track education system led to fixed education based on social classes, and introduced the single-track system as a means of ensuring equality in education.

(3) Labor shortage led to promoting temporary workers to regular workers

Efforts were also made to raise the level of income of workers in secondary industries. In the post-war period of high economic growth, Japan was plagued by a labor shortage. While this shortage was partly due to deaths caused by the war, the issue was compounded by the above-mentioned lengthening of the number of years of compulsory education, which increased the number of students in high school and delayed their transition from school to society. As a result, in the secondary industries, temporary workers whose wages were about half those of regular workers were promoted to regular workers. Nevertheless, such promotion could not fully meet the growing demand for workers in cities. Such shortage of workers was offset by young people working in agriculture, which led to a major change in Japan's industrial structure.

V Forecasting Stage Transition for Present-Day Emerging Economies

Finally, using the eight-stage model and while keeping in mind the traps that stand in the way of an emerging economy transitioning to the next stage, let's consider the future outlook for some typical examples of countries that are currently at the emerging economy stage. Such countries include the four BRIC countries as well as Southeast Asian countries. In making any forecast, it is necessary to factor in the economic growth rate. Economic growth rate can be divided into two parts:

Economic growth rate = Population growth rate + per capita GDP growth rate

This formula is always applicable. For example, if a country has an economic growth rate of 5 percent in a given period and a population growth rate of 3 percent in the same period, the growth rate of the per capita GDP will be 2 percent. In countries where population growth is either zero or negative, such as China or Russia, the economic growth rate equals the average income growth rate. However, in those countries where the population growth rate is high, such as in Africa and the Middle East, an increase in the economic growth rate does not mean an increase in the average income growth rate. From the perspective of the eight-stage model, in those African countries in which the population growth rate is high, even if the economy grows, the per capita GDP does not increase, making it difficult for those countries to transition to the stage shown on the right-hand side of Figure 2.

Table 4 lists (a) the current stage of the country being analyzed, (b) per capita GDP (in dollars), (c) possibility of being hindered by some kind of trap and (d) the percentage of economic growth leading to an increase in average income. China and India are currently caught in the "huge population" trap, making it impossible for them to make the transition to (6) (large-scale) growing advanced economies any time soon. Even if countries were to attain 7 percent annual GDP growth for ten years, and even if all of that growth were to translate into an increase in per capita GDP, China's per capita GDP after ten years would reach 8,800 dollars, while that of India would be 2,600 dollars, both still far short of the global average. Much more likely is that these countries will continue to remain at the emerging economy stage with their continuing high growth. If the trap of "income inequality" proves to be a difficult problem to overcome, a more likely scenario is for them to become (2) (large-scale) low-growth developing economies. Currently, in Brazil and Russia, the per capita GDP is already high. If progress is made in the elimination of the "income inequality" trap, it is likely that they will move into the (6) (large-scale) growing advanced economy stage. Conversely, if they fall into some kind of trap, there is a possibility that they will become (2) (large-scale) low-growth developing economies.

Among the Southeast Asian countries, Malaysia has a very large income differential (Gini coefficient of more than 0.5). Compared to its neighbors, Malaysia has a high per capita GDP, but a low economic growth rate. In addition, for ten years in the 2000s, only 57 percent of economic growth translated into an increase in average income. If Malaysia can follow the same path as Brazil and enter a phase of "attaining economic growth while reducing income inequality," it could transition to a (5) (small-scale) growing advanced economy or could remain at the (3) (small-scale) emerging economy stage. If it fails to overcome the "income inequality" trap, it could fall back to a (1) (small-scale) low-growth developing economy. Looking at other countries in Southeast Asia, countries that are highly dependent on foreign capital such as Thailand and Vietnam present a potential risk. However, given that the trap of excessive dependence on foreign capital is not so serious as to threaten their economies and the fact that their economic growth is closely linked to the increase in average income, it is highly likely that they will continue to be classified as emerging economies.

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Table 4. Forecasts for BRICs and Southeast Asian countries

Name of country and stage number as of 2010	Per capita GDP (dollars)	Trap of income inequality	Trap of excessive dependence on foreign capital	Trap of natural resources	Trap of huge population	Percentage of economic growth linked to increase in average income	Predicted stage in 2020
China (4)	4,423	○			○	95%	(4) (2)
India (4)	1,342				○	79%	(4)
Brazil (4)	11,089	○		△	△	66%	(4) (6) (2)
Russia (4)	10,408	△	○	○	△	105%	(4) (6) (2)
Indonesia (4)	2,981		△	○	△	71%	(4)
Thailand (3)	4,992	△	○			93%	(3)
Malaysia (3)	8,737	○	△			57%	(3) (1) (5)
Vietnam (3)	1,174	△	○			82%	(3)
Philippines (3)	2,123	△	○			57%	(3)
Myanmar (3)	742	Unknown				80%	(3)
Cambodia (3)	814	Unknown	△			84%	(3)
Laos (3)	1,203	Unknown				75%	(3)

Notes: 1) All data used in this table are those as of 2010. The percentages of economic growth linked to increases in average income were calculated over a ten-year period from 2000 to 2010. 2) The Gini coefficient as of 2010 was used for the trap of income inequality: ○ = 0.5 or higher, △ = 0.4 – 0.5, blank = less than 0.4. 3) The ratio of external debt balance to GDP as of 2010 was used for the trap of excessive dependence on foreign capital: ○ = 30% or higher, △ = 20% – 30%, blank = less than 20%. 4) The population as of 2010 was used for the trap of huge population: ○ = 1 billion or more, △ = 100 million – 1 billion, blank = less than 100 million.
Source: IMF "World Economic Outlook" and materials published by the statistics department of each country for per capita GDP and external debt balance; Euromonitor International for income inequality (Gini coefficient).

VI Suggestions for Japanese Companies

By considering the concept of a "country's stage," as described in this paper, Japanese companies that are engaged in business involving emerging economies could obtain some new pointers and ideas. For example, depending on the stage that a country has reached, it is likely that the relative importance of various management indicators such as investment, sales and profits could be changed. At one stage, it will be necessary to focus on investment, at another stage to increase sales and expand market share, while it will be possible to reap profits at still another stage. By looking at the world's countries at any one time, consideration can be given to the most important management indicators for each country (stage). It could also be possible to switch focus to another set of management indicators in response to a country moving from one stage to another.

In addition, strategic planning would also have to consider a country's stage. However, for strategic planning and the business environment analysis that precedes such planning, the eight-stage model must be refined further. For example, the low-growth developing economies in categories (1) and (2) include countries that have not yet attained full-fledged economic development (such as the sub-Saharan African countries). At the same time, these categories also include countries that have previously experienced high economic growth and currently have reasonably high average income and a high GDP, but that have fallen victim to various economic traps and fallen back in their economic standing into the low-growth developing economy stage (such as Mexico). In the case of the former countries, not only has the physical infrastructure such as roads, electric power and communications networks not been developed, but also there are no well-established systems of commerce. In the case of the latter countries, because they have a history of economic development, reasonable infrastructure and commercial systems are already in place. In the case of the emerging economies classified in (3) and (4), as explained in Chapter IV, some countries are growing while their income inequality is increasing (such as China). Others are growing while their income inequality is lessening (such as Brazil). Rather than handling these countries in a single group of "emerging economies," it would probably be better to analyze their business environments separately.

The most that can be expected of the eight-stage model is that the model helps a company consider its global business portfolio from a long-term and comprehensive perspective, rather than taking a short-sighted look at the current market of a particular country. A company can use the model to obtain a comprehensive and systematic overview in determining the current stages of the countries in which it does business without being limited to emerging economies, the next stages to which they are likely to move, and the impact of government policies on their transition to other stages. In the case of emerging economies, the model facilitates a company's perspective on whether they have managed to evade the traps that would prevent their transitioning to the advanced economy stage.

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