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***Economies and Economics of  
Emerging Countries Exemplified by  
Characteristics of South Africa***

***Abstract***

Emerging countries, also known as developing markets are important drivers for domestic growth and global exchange. Emerging countries are investing more in productive capacities. This means that they strive to move away from their traditional economies like agriculture and export of raw materials. More value added means wealth of nation and a higher standard of living. Those countries want to provide better living conditions.

South Africa is in the focus of this working paper. One focus of research is on the current status of South Africa. In addition, comparisons will be carried out exemplarily with Brasil and India in order to check, whether there is a similar profile identifiable for emerging countries in general.

Methodologically, both an empirical and an analytical approach are chosen. Using relevant literature, reliable statistical data and logical conclusions, the characteristics and key performance indicators are analysed.

The first finding is that South Africa is on the way, but there is still a long distance to go. The second finding is that there is no common profile for the checked emerging countries.

Keywords: emerging markets, economic growth, industry, GDP (Gross Domestic Product), trade balance, unemployment, inflation rate

# Economies and Economics of Emerging Countries Exemplified by Characteristics of South Africa

von

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## 1 Introduction

South Africa keeps more and more popping up in the news. For example, when South Africa became rugby world champion in November 2019 or as a participant in the BRICS state meeting in Brasilia. But on the other side, also bad news appear for example about the insufficient power supply in South Africa. It was not the first time that the electricity supply failed in the country at the Cape of Good Hope. The local people have got used to it in the meantime and some have installed their own emergency power generators. For the economy in South Africa however, the situation is still very unsatisfactory or even damaging (Cf. Drechsler, 2019). Particularly in difficult economic times such as those we are currently experiencing, such circumstances are all the more tragic.

In this paper the current status of the economy in South Africa will be examined, especially with regard to the characteristics of emerging markets. Therefore the situation and problems in South Africa will be discussed. To start with, theoretical foundations will be explained, which are important for the further understanding of this paper. Then, in the main part of this working paper, South Africa will be compared with two other emerging countries, exemplified by Brazil and India. This is done by giving general background information about each country at the beginning. Following that, the different economic sectors and their impact on GDP will be discussed. Finally the economic factors such as economic growth, balance of trade, inflation rates and unemployment rates will be compared. At the end a conclusion is drawn and a brief outlook on future development is given.

## 2 Problem Formulation, Research Questions and Working Hypotheses

South Africa is characterised as an emerging market, but there are some positive signals of further development. So the first question of research deals with the status of South Africa and whether it can still be characterized as an emerging country. In order to come out of this classification towards becoming a developed industrial nation, all emerging countries have

some problems that need to be solved urgently for further promotion of economic growth. Otherwise, the positive development could also reverse and a setback would be the consequence.

As an introduction, the biggest and most important problems are listed and briefly explained. One of the most important problem in South Africa is unemployment. More than a quarter of all South Africans of working age are currently without a job. Worse still, the future doesn't look any better in this regard, with over 50 % of young people not in regular employment. One reason for this is the poor education of many South Africans, which means that the aftermath of apartheid is still visible today. Many inhabitants, who are now of working age, had no or only very poor education during apartheid. Therefore it is difficult to integrate these people into a job (Cf. *Businesstech*, 2019a; Cf. *Cameron*, 2017). This leads directly to the next big problem that South Africa has to deal with. Especially in the Western Cape Area, income inequality is higher than anywhere else in the world. The top 10 % of the wealthiest households own 50 % of total wealth, while the bottom 60 % own only 13 %. This means a Gini coefficient of 0.63, while the second on the list, Botswana, has a ranking of 0.60 (Cf. *Businesstech*, 2019a; Cf. *World Bank*, 2018). And again this leads to the next problem: crime. In South Africa, on average 34 people are murdered per 100,000 people (Cf. *UNODC*, 2017). This puts the country in sixth place in the world in this statistic. For comparison: In Germany less than one murder per 100,000 people is committed. In consideration of the background in terms of unemployment and also income inequality, one can understand this problem. Especially because many poor people see every day what kind of life one could have, frustration arises, which unfortunately is often tried to be reduced by crime (Cf. *Businesstech*, 2019a).

Another major problem, which also has to do with crime, is corruption. South Africa ranks 73rd in the CPI (Corruption Perceptions Index), while Germany, for comparison, is ranked 11th (Cf. *Laenderdaten*, 2019). Especially in politics and business, corruption was almost commonplace in the past. For example, many members of the governing party ANC and also former president Jacob Zuma himself were involved in corruption affairs (Cf. *Mantzaris*, 2017). This also has a negative impact on the economic development of a country like South Africa. Since a few influential people control the direction in which the country should develop, so that they can enrich themselves as much as possible. All other uninvolved persons, however, have to live with great disadvantage (Cf. *Businesstech*, 2019b).

South Africa made great progress during the past decades. A situation analysis shall indicate how far South Africa developed and how close the country is on the jump to an industrial country.

In addition to that, this working paper will answer the second question of research, whether there are common characteristics of emerging countries and if there is a specific profile of these countries. This will be exemplified by comparisons with Brazil and India.

The following working hypotheses shall serve for research:

Hypothesis no. 1: South Africa is not anymore to be classified as an emerging country.

Hypothesis no. 2: Emerging countries have a common profile in their characteristics regarding economies and economics.

## **3 Theoretical Research**

This part deals with the introduction of emerging markets, definition of economies and economics as well as a short explanation of different types of economies.

### **3.1 Introduction of Emerging Countries**

In this chapter the definition of emerging countries respectively markets and their characteristics is provided. Examples of countries are given.

#### **3.1.1 Definition of Emerging Countries**

*"An emerging market economy is the economy of a developing nation that is becoming more engaged with global markets as it grows."*

(Chappelow, 2019a)

This is shown by increased liquidity in local debt and equity markets, increased trade volume and foreign direct investment, and the domestic development of modern financial institutions.

Therefore one can say, that emerging countries are in a transition from a low income, less developed, often pre-industrial economy towards a modern, industrial economy with a higher standard of living. This means that emerging countries already have some, but not all, of the characteristics of a developed country (Cf. Chappelow, 2019a)

#### **3.1.2 Characteristics and Examples of Emerging Countries**

Emerging markets are mainly categorized according to economic criteria. Some of the most important criteria are:

- Above-average economic growth
- Development of manufacturing industry
- Investment in material and social infrastructure
- High labour productivity
- Export of finished goods
- Self-sustaining economy with key industries

The economic growth rate is very high, even higher than in developed countries. The reason for this is, that in emerging countries the economy is so low and so far behind developed countries that it is easy to achieve higher growth rates. This results in a very high growth rate (Cf. wirtschaftslexikon24, 2018; Cf. Deutscher Bundestag, 2005).

The next criteria refers to manufacturing industry, which usually creates around 30% of GDP in developed countries and leads to an export of finished goods. But in most cases in emerging countries the industrial sector and production of capital goods starts at a very low level.

It can also be noted that investment in material and social infrastructure is increasing significantly, with a concomitant rise in the standard of living and life expectancy of the population.

Another reason for the high economic growth is the fact that labour productivity is very high (comparable to OECD countries), although wage levels are still significantly lower.

In addition to South Africa, Brazil and India, examples of emerging markets include Mexico, China, Russia, Thailand and Poland. However, there are many more (Cf. wirtschaftslexikon24, 2018).

## 3.2 Introduction of Economies and Economics

In this chapter, the keywords 'Economies' and 'Economics' will be introduced followed by a short comparison of both.

### 3.2.1 Introduction of Economies

*"An economy is the large set of inter-related production and consumption activities that aid in determining how scarce resources are allocated. The production and consumption of goods and services are used to fulfil the needs (...)."*

(Kenton, 2019a)

According to the definition above, an economy involves all activities belonging to production, consumption and trade of goods and services in a certain area such as a region or country, which are used to fulfil human needs by taking a resource scarcity into account. Due to the fact, that economies in certain areas depend on culture, history, geography, legislation and various

other factors, it can be said that every economy is unique as well as every individual within this economy is subject to it (Cf. Kenton, 2019a). In accordance with the philosopher and economist Adam Smith and several of his contemporaries, economies, which meaning descends from the Greek word 'household management', "evolved from pre-historic bartering systems to money-driven and eventually credit-based economies." (Kenton, 2019a).

Depending on the manner and extent of the governmental influence on economy, three various types of economies are known: 'Command Economy', 'Free-Market Economy' and 'Mixed Economy' - more details are given in chapter 3.3.

### 3.2.2 Introduction of Economics

*"The study of economies and the factors affecting economies is called economics. The discipline of economics can be broken into two major areas of focus, microeconomics, and macroeconomics."*

(Kenton, 2019a)

In accordance with this quote, economies and economics differ in the way that economics is analysing economies by measuring various quantitative factors such as the Gross Domestic Product (GDP) that exert influence on the specified economy. This analysis can be subdivided into the two fundamental areas macroeconomics and microeconomics (Cf. Kenton, 2019a).

On the contrary to microeconomic, that "offers a detailed treatment of how individuals and firms make economic decisions." (Begg, et al., 2014, p.17), macroeconomic considers the entire economy as a whole, simplifying the economy's analysis by clustering individual interactions. Thus, microeconomic focuses on analyzing one specified economic element, simplifying the analysis by ignoring any interaction within economy, while macroeconomic is more general and analyses the whole economy instead of single economical aspects by considering the interactions between those clusters (Cf. Begg, et al., 2014, p. 16f.).

Summarising, macroeconomics and microeconomics are closely interlinked due to the fact, that all changes in the decisions of the millions of individuals, households and firms will result in changes in the overall economy and vice versa. Therefore, it is necessary to consider the microeconomic decisions in order to analyse and understand the macroeconomic development (Cf. Mankiw, 2008, p. 28).

### 3.3 Different Types of Economies

In this section, short introductions about the three various types of economies, 'Command Economy', 'Free-Market Economy' and 'Mixed Economy' will be presented by explaining their definitions and key characteristics as well as their advantages and disadvantages.

#### 3.3.1 Command Economy

*"In a command economy a government planning office decides what will be produced, how it will be produced and for whom it will be produced. Detailed instructions are then issued to households, firms and workers."*

(Begg, et al., 2014, p.14)

According to that definition, a command economy system has a central planning office, steered and controlled by the government in order to plan and direct all economic decisions as well as to allocate the resources in the overall economy. As a consequence, the government makes the decisions about what and how much should be produced, what people should consume or how people should work (Cf. Begg, et al., 2014, p. 14).

In more detail the government creates a central economic plan, which sets the economic and societal goals for every country's region. Pursuant to the central plan, the government allocates all resources like nation's capital, natural resources or labor in a most efficient way, seeking to eliminate unemployment by promising to use every person's abilities. By prioritizing the entire production of goods and services with the help of price controls and quotas, the government pursues the goal of supplying enough goods and services for every country's citizen. For this purpose, the government not only creates specific laws and regulations to execute the central economic plan, but also owns own monopoly businesses without national competition in certain essential industries (Cf. Amadeo, 2019a).

The theory of the central planning command economy system is, that the government could steer and control all national economic activities by itself with the aim to promote an entire well-being national economy. Especially "communist countries worked as the premise that government officials were in the best position to allocate the economy's scarce resources" (Mankiw, 2008, p. 9). Because of this, China, Cuba and those formerly in the Soviet bloc can be mentioned as examples for countries with a command economy (Cf. Begg, et al., 2014, p. 14).

To sum up, a command economy's advantage is the fast mobilisation of economic resources on any desired scale to create national power in competition to other country's economies or to just execute large projects. One decisive factor here is, that all governmental activities try to



meet the social goals in order to improve the daily life of all citizens of that country. On the other hand, one severe disadvantage is that the governmental activities like the production of goods or the price setting are made independently of the customers' demand, which often leads to rationing (Cf. Amadeo, 2019a).

### 3.3.2 Free-Market Economy

*"Markets in which governments do not intervene are called free markets."*  
(Begg, et al., 2014, p.15)

This quote defines that free-market economies don't have any governmental activities in their economy, so that the decisions of a command economy's central planning office are replaced by the choices of millions of individuals, firms and households (Cf. Mankiw, 2008, p. 10). In strong contrast to a command economy, "in a market economy no one is looking out for the economic well-being of the society as a whole, because every single player tries to reach their own aims doing business." (Mankiw, 2008, p. 10).

Hence, producers can decide themselves what to produce and in what quantities and are free in pricing, whereas every individual consumer is allowed to choose what to buy and in what quantity as well as how much the customer is willing to pay for the goods or services. This resulting law of supply and demand impacts the production and prices itself, wherefore a market economy has the tendency to be naturally balanced (Cf. Kenton, 2019a).

One founder of free-market economies is the economist Adam Smith. He argued, that all individuals, who pursue their own economic goals, "could be led 'as by an invisible hand' to do things that are in the interests of the society as a whole. (...) produce a coherent society making sensible allocative decisions." (Begg, et al., 2014, p.15). In consequence, if the government prevents prices, which is used by the invisible hand to direct the economic activities, from naturally adjustment to supply and demand, the government hinders the invisible hand's capacity in coordinating all individual decisions which make up the economy. Because of this and the fact, that central planning offices lack the important and necessary information like production costs and customers preferences, which is reflected in a price in a free-market economy due to the law of supply and demand, central planners failed (Cf. Mankiw, 2008, p.10).

To sum up, the freedom of choice of the producers and customers as well as the individuals' motives of self-interest lead to a law of supply and demand, which enables competition as well as an efficient production resulting in lower customer prices. Otherwise, due to the limited governmental influence in ensuring an open and working market, this economic competition

will not only bring in winners, but also losers, especially as there is no care taking for the resources (Cf Amadeo, 2019b).

Because of the fact, that “pure market economies rarely exist since there's usually some governmental intervention or central planning.” (Kenton, 2019a), there is a third type of economy called 'Mixed Economy', which is described in the following subchapter.

### 3.3.3 Mixed Economy

*“In a mixed economy the government and private sector jointly solve economic problems. The government influences decisions (...) and also regulates the extent to which individuals may pursue their own self-interest.”*

(Begg, et al., 2014, p.16)

This definition is combining the two extreme economy types of a command economy and free-market economy (Cf. Begg, et al., 2014, p. 16). Therefore, mixed economies arose from socialist and capitalist economy systems, wherefore the government as well as the individuals like households and firms steer the economic activities and the allocation of resources (Cf. S, 2019).

In result, mixed economies contain characteristics and advantages of both economy types explained earlier. On the one hand, based on free-market economies, mixed economies are driven by the motivation of self-interest of the individuals, too. Furthermore, the freedom of choice by individuals leads to the law of supply and demand and in consequence to market competition, lower prices and more innovations. On the other hand, based on command economies, mixed economies permit their federal governments' economic influences in order to keep a protecting hand over the market and people, especially in areas of international trade, national transportation, military, health care or retirement programs (Cf. Amadeo, 2019c).

Figure 1 displays different countries on the scale of the various types of economies, whereby mixed economies are all intermediate levels between two other extreme economy types. As already mentioned, it is important to note that due to influences by the government as well as by the private sector both extreme economy types rarely exist. That is why most of the national economies are mixed economies which can be assigned to both extremes depending on their economy's characteristics.

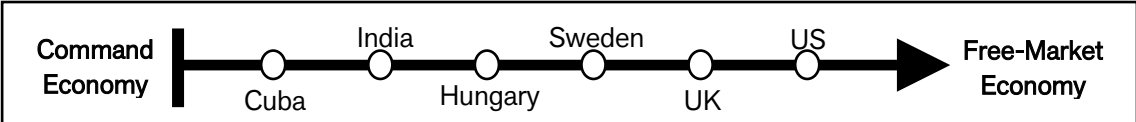


Fig. 1: Relationship between the three economy types (Cf. Begg, et al., 2014)

## 3.4 Different Types of Economics

'The study of economies and the factors affecting economies is called economics. The discipline of economics can be broken into two major areas of focus, microeconomics, and macroeconomics' (Cf. Kenton, 2019). In this section, short introductions about the two different types of economics, 'Macroeconomics' and 'Microeconomics' will be presented by explaining their definitions and characteristics.

### 3.4.1 Macroeconomics

*"Macroeconomics examines the behavior of the entire economy. To do this, it uses summarized variables to investigate changes in the economic performance or unemployment and to identify dependencies between these variables."*

(Cf. examio GmbH, 2018)

Macroeconomics describes the macroeconomic behaviour of individual sectors and analyses markets from a macroeconomic perspective. The interaction of different factors, such as demand, consumption and government, is of particular importance in this context. The study focuses on the average behaviour of economic agents. Macroeconomics can make use of the results of microeconomy research and then develop a complex study from several components (Cf. Fernstudium Guide, 2018). Macroeconomics can, for example, use the results of the demand analysis of the microeconomics. To do this, it looks at all households and their demand in a collected average quantity and analyses it. Other parameters, such as the role of foreign countries and the state, are also taken into account.

### 3.4.2 Microeconomics

*"Microeconomics deals with individual markets and the analysis of their goods. It examines the behavior and decisions of individuals, households or companies and the markets in which they operate."*

(Cf. examio GmbH, 2018)

Microeconomics deals with individual markets and the analysis of their goods. The main characteristic of microeconomics is the consideration of factors in detail. The economic cycle between household and business is a classical approach to microeconomics (Cf. Fernstudium Guide, 2018). The flow of money and goods plays an important role. Changes in consumer behavior and the role of the state are not taken into account in this model, however. The result of the microeconomic analysis can be used as a basis for the macroeconomic forecasts. To illustrate this with an example, let us take the analysis of demand from a single household in the microeconomy. This result can be used for the macroeconomic analysis of all households and their demand.

## 4 Empirical Research

The method for obtaining empirical data was through secondary research. This means that data and information from various sources were compiled and evaluated. In the succeeding step, these data were compared with each other in order to be able to finally deliver a conclusion and give an outlook into the future. For comparability reasons identical periods were chosen.

### 4.1 Economies in South Africa, Brazil and India

This chapter describes, compares and analyses the country-specific economies of South Africa, with other emerging countries exemplified by Brazil and India. Before starting to analyse these countries, it is important to compare the two basic national facts 'land surface' and 'population', see the following figure 2.

Country	South Africa	Brazil	India
land surface	1,220,813 km <sup>2</sup>	≈ 8,500,000 km <sup>2</sup>	3,287,263 km <sup>2</sup>
population	57.73 million	208.50 million	1,384 billion

Fig. 2: Comparison of land surface and population (Cf. South African Government, 2019; Gateway Brazil GmbH, 2019; Dr. Michael & Jürgenmeyer, 2019; Countrymeters, 2019).

#### 4.1.1 Economies in South Africa

According to the theoretical introductions in chapter 3.2.1, economies are large sets of interrelated activities of production and consumption of goods and services which are used to fulfil the people's needs (Cf. Kenton, 2019a).

By analysing the country's economies in practice, all production and consumption activities of goods and services have to be clustered into aggregated levels. Then developments and trends can be analysed from an economic point of view.

The data of the OECD act as the common source in this respect. Hereby it is important to note, that the sections 'Services' and 'Public Spending' are aggregated areas, which include several subareas. In detail, 'Services' includes the subareas 'Trade', 'Repairs', 'Transport', 'Accommodation', 'Food Services', 'Professional, Scientific and Support Services', whereas the section 'Public Spending' contains the subareas 'Public Administration', 'Defence', 'Education', 'Health' and 'Social Work'.

The following figure 3 shows the developments of different sections in South Africa's economy as a share of the real value added between 2011 und 2018.

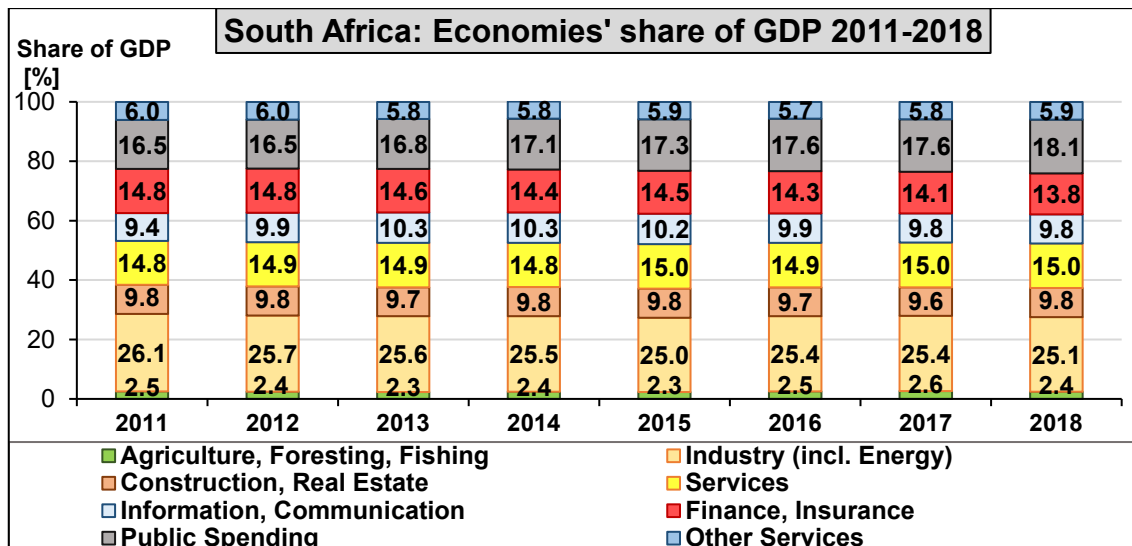


Fig. 3: South Africa - Economies' share of GDP 2011-2018 (Cf. Organisation for Economic Co-operation and Development, 2019).

By analysing South Africa's economic structure, the following three key statements can be made:

- (1) Several various economies contribute to South Africa's real value added
- (2) 'Industry (incl. Energy)' is the strongest, 'Agriculture, Forestry, Fishing' is the weakest economy by far
- (3) Between 2011 and 2018, only minor developments within the various economies occur

In detail, the economy sector 'Industry (incl. Energy)' is the strongest one by far with 26.1 % in 2011, which slightly decreased by 1.0 % to 25.1 % in 2018. The reasons for the high proportion of the real value added are all the manufacturing industries like mechanical engineering, automotive manufacturing, iron and steel production, metalworking or chemical industry (Cf. Kapstadt.de, 2019).

In strong contrast, the economy sector 'Agriculture, Forestry, Fishing' is the weakest one by far with 2.5 % in 2011, which minimally decreased to 2.4 % in 2018. The extreme climate conditions are one of the key problems for this economy sector. South Africa is an arid country that is why there are often long periods of drought, or extreme floodings, with disastrous consequences for the agricultural lands with vine, fruits or vegetables (Cf. Kapstadt.de, 2019).

Other major economy sectors are 'Public Spending' and 'Services' as well as 'Finance, Insurance', which is increasingly located in South Africa's north and northeast near to Johannesburg (Cf. Kapstadt.de, 2019). While the latter sectors absolutely decreased by 1.0 % from 14.8 % in 2011 to 13.8 % in 2018 and the economy sector 'Service' minimally increased between 2011 und 2018 by 0.2 % to 15.0 %, the share of the real value added of the economy sector 'Public Spending' increased relatively and absolutely most between 2011 (16.5 %) and 2018 (18.1 %). Whereas the economy sector 'Construction, Real Estate' remained almost

constant with 9.8% between 2011 and 2018, the economy sector 'Information, Communication' slightly increased by 0.4% to 9.8%, where in 2013 and 2014 a high of 10.3% was present.

#### 4.1.2 Economies in Brazil

In this chapter, the Brazilian economy will be analysed. For this purpose, the economic sectors contributing to the country's GDP are examined. The source is the analysis of the OECD, where the following economic sectors are identified:

- Agriculture, Forestry and Fishing
- Industry (incl. Energy)
- Construction and Real Estate
- Services (Food-Services, Transport, Trade, Repairs)
- Information and Communication
- Finance and Insurance
- Public Spending (Defence, Education, Health, Administration, Social Work)
- Other Services (Professional-, Scientific- and Support-Services)

Figure 4 shows the different economy sectors contributing to Brazil's real value added and how they changed from 2011 to 2016.

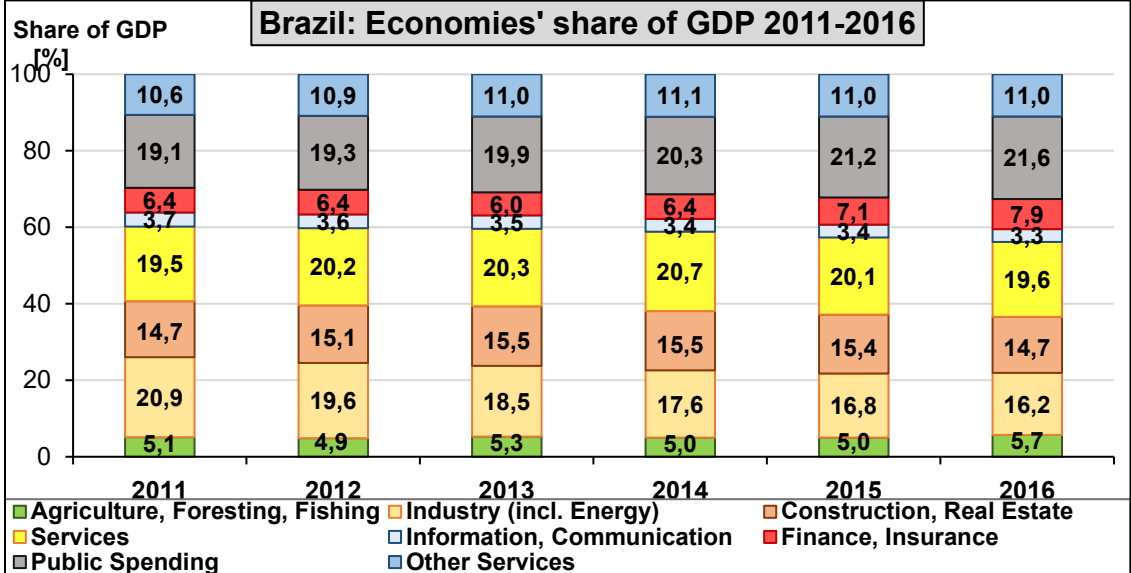


Fig. 4: Brazil - Economies' share of GDP 2011-2016 (Cf. OECD Library, 2019).

Figure 4 shows that in 2016 the strongest economic sector was public spending and the weakest was the information and communication sector. Most economy sectors have not changed or have increased slightly between 2011 and 2016. A major change can only be seen in the industrial sector. This was still the strongest sector of the economy in 2011 at 20.9% and has fallen by around 5% to 16.2% in recent years. This is mainly due to the decrease in commodity prices and the fact that many large Brazilian companies have been involved in corruption scandals in the last few years (Cf. OECD Library, 2019).

### 4.1.3 Economies in India

In this chapter the different sectors of the economy contributing to the GDP of India are analysed. This chapter deals with the structure of the economy in India. The source for the analysis is again the data from the OECD. Unfortunately, for India the data are not as extensive as they are for South Africa and Brazil, because for some of the sectors no information is given, respectively they are combined with other sectors, because the sum of the provided information is also 100 % of the GDP. Nevertheless, an overview of the most important and least important sectors in India is given. However, for reasons of consistency, the other sectors shown and explained above are retained in the diagram.

The contributions of the different economic sectors to GDP and their development in the years 2011 to 2016 are shown in figure 5.

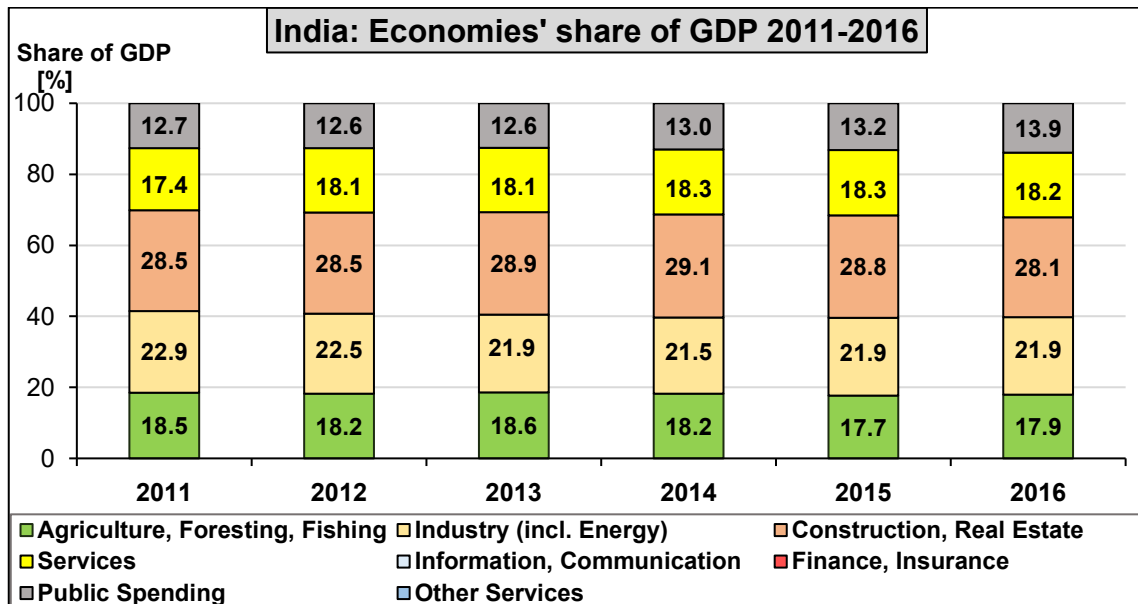


Fig. 5: India: Economies' share of GDP 2011-2016 (Cf. OECD, 2019).

The most important sector in the years between 2011 and 2016 has been “construction and real estate”. It has been very constant over the years with around 28.5 % of GDP. The second most important sector has been the industrial sector. This one decreased just a little bit from 22.9 % in 2011 to 21.9 % in 2016. The least important sector is public spending as it is at 13.9 % in 2016, but it increased over the years from 12.7 % in 2011. The only switch of positions took place between the service and agricultural sector. Because the services increased from 17.4 % to 18.2 % this sector is now ranked as third most important one. On the other side “agriculture, forestry, fishing” decreased from 18.5 % to 17.9 %. Nevertheless, this figure is still very high for this sector, as it is generally below 5 % in developed countries. One reason for this could be that there are still many rural areas in India, where poor people live, who

only do agriculture to earn their own living. But since there are so many, that adds up to a high number.

In general, however, it is noticeable that in the years 2011 to 2016 the changes within the individual sectors were very small (Cf. OECD, 2019).

## 4.2 Economics in South Africa, Brazil and India

In this chapter, each country is analysed in more detail with regard to its country-specific economics in order to give an introduction into the countries' economics.

### 4.2.1 Economics in South Africa

According to the theoretical introductions in chapter 3.2.2, economics is the study of economies and their affecting factors (Cf. Kenton, 2019a). By analysing the country-specific economics in practice, you have to choose the most important economic factors as well as the period of time. As a result and on the basis of a best possible comparability between the three emerging countries, the following eight key economic factors were chosen for a period of ten years between 2008 and 2018 in order to analyse long-term trends in the countries' economics:

- Gross Domestic Product (GDP)
- Gross Domestic Product per Capita
- Import of Goods & Services
- Export of Goods & Services
- Trade Balance of Goods & Services
- Unemployment Rate
- Inflation Rate
- Economic Growth

#### **Important note:**

In order to have a data-quality as comparable as possible, Statista was used as a standardised source, that's why all subsequent analyses are based on Statista's statistical evaluations.

The following figure 6 shows the development of South Africa's Gross Domestic Product (GDP) as well as the GDP per capita in South Africa between 2008 und 2018. The GDP is "the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.", that acts as an extensive scorecard of the country's economic position (Chappelow, 2019b).

By analysing South Africa's GDP as well as the GDP per capita, the following three key statements can be made:

- (1) The developments of GDP and GDP per capita are fairly similar
- (2) The developments of GDP and GDP per capita are wave-shaped
- (3) GDP and GDP per capita grow in the long run



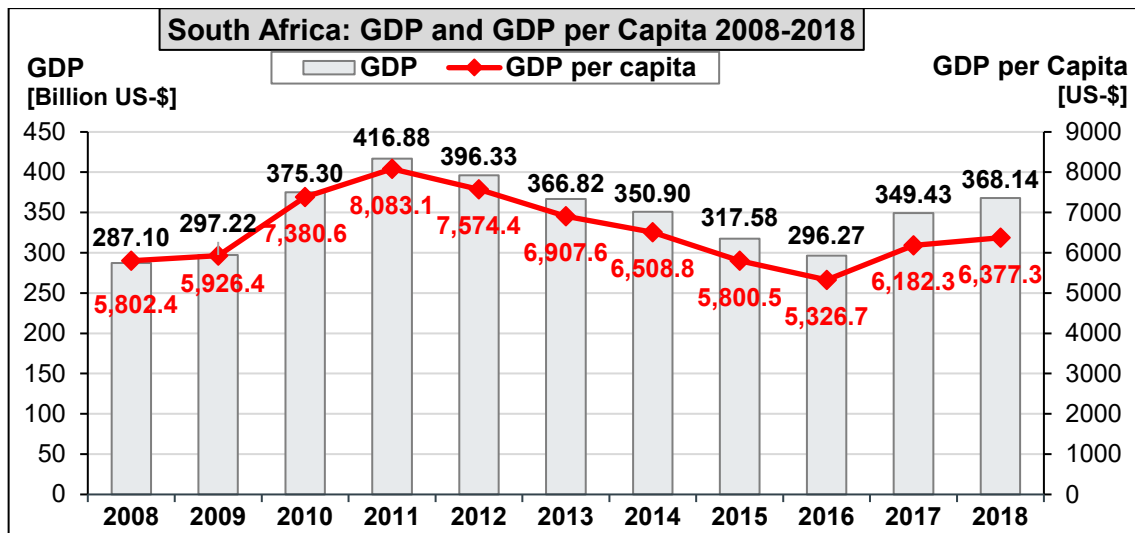


Fig. 6: South Africa - GDP and GDP per Capita 2008-2018 (Cf. Statista, 2019a; Cf. Statista, 2019b).

In detail, South Africa's GDP first absolutely increased by 129.78 billion US-\$ (45.20 %) between 2008 and 2011, then it decreased by 120.61 billion US-\$ (-28.93 %) until 2016 and finally the GDP increased again by 71.87 billion US-\$ (24.26 %) until 2018. Comparing only 2008 and 2018, South Africa's GDP rose by 81.04 billion US-\$ (28.23 %) in absolute terms, representing an average annual growth of 2.82 %.

The GDP per capita showed the same developments between 2008 and 2018, but a slighter growth in the end. When comparing the GDP per capita of 2008 and 2018, it absolutely increased by 574.9 US-\$, representing a relative growth of 9.91 % in total and an average annual growth of 0.99 %. One significant reason for the higher growth rate of South Africa's GDP compared to the GDP per capita is South Africa's increasing population. In the details, the population absolutely increased by 8.25 million between 2008 (49.48 million) and 2018 (57.73 million), representing a population growth rate of 16.67 % (Cf. Statista, 2019j). Because of the fact, that the growth rate of South Africa's population increased stronger than the GDP rate, the growth rate of the GDP per capita is slighter than the GDP growth rate in total.

Important influencing factors of the GDP are volumes of exports and imports of services and goods, as it can be seen in the following figure 7, which illustrates the development of the import and export volumes, subdivided in goods and services, between 2008 and 2018.

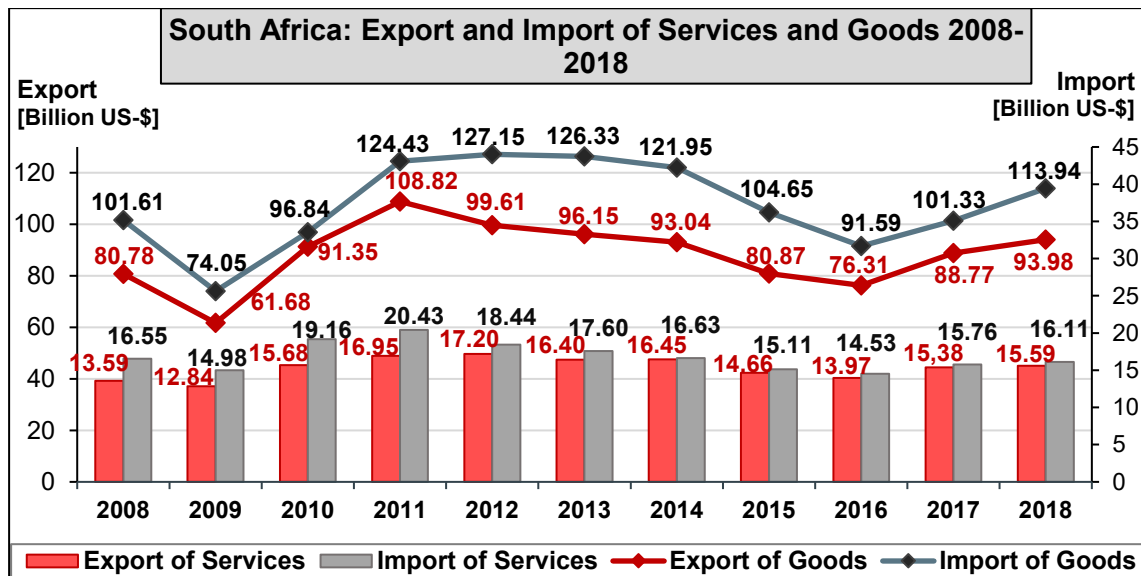


Fig. 7: South Africa - Export and Import of Services and Goods 2008-2018 (Cf. Statista, 2019c; Cf. Statista, 2019d; Cf. Statista, 2019e; Cf. Statista, 2019f).

When analysing South Africa's volumes of imports and exports of services and goods, you can highlight the following three key statements:

- (1) Volumes of goods are constantly significant higher than the volumes of services, independent whether import or export
- (2) Volumes of imports are constantly higher than the volumes of exports, independent whether goods or services
- (3) The development of volume of imports and exports of goods and services proceed in parallel with the developments of South Africa's GDP

With reference to key statement (3), all four various volumes of imports and exports of goods and services are proceeding in the same way on the one hand, and on the other hand in parallel with the development of South Africa's GDP (see figure 6). In detail, all volumes first decreased between 2008 and 2009, then increased until 2011 respectively 2012, then decreased until 2016, before all four volumes increased since 2016. The reason for the same developments with the GDP is, that according to the GDP's definition above, the volumes of imports and exports are significant influencing factors of the GDP in general.

Comparing only 2008 and 2018, the imports of goods absolutely grew by 12.33 billion US-\$ to 113.94 billion US-\$ in 2018, which corresponds to an annual growth rate of 1.21 % on average. In comparison to this, the export of goods absolutely increased from 80.78 billion US-\$ by 13.2 billion US-\$, that represents a minimal higher annual growth rate of 1.63 %. According to key statement (1), the volumes of services are much lower than the export volumes. While the export volume of services increased by 2.0 billion US-\$ to 15.59 billion US-\$ in 2018, which is equivalent to an annual growth rate of 1.47 % between 2008 and 2018, the import volumes of services minimally decreased from 16.55 billion US-\$ by 0.44 billion US-\$.

Supplementary to the described developments of the volumes of imports and exports, the main trading partners as well as the main product groups should be mentioned in addition. In relation to South Africa's export business, the most important trading partners are China (9.1 %), Germany (7.2 %) and United States (6.8 %) and the biggest trading product groups are pearls, precious stones and metals, jewellery and coins (17.2%). Also in South Africa's import business, China (18.4 %), Germany (9.8 %) and United States (6.0 %) represent the main trading partners, whereas China is the most important import partner by far. With regard to the main product groups, mineral fuels and mineral oils including other products are the biggest import product group by far (18.5 %), followed by machines and mechanical products (12.4 %) (Cf. Statistisches Bundesamt, 2019, p. 10).

The consequence of key statement (2), stating that the volumes of imports are always higher than the volumes of exports, independent whether goods or services, is illustrated in figure 8, which shows the development of the trade balances of services and goods individually and collectively in South Africa between 2008 and 2018. The trade balance or "The balance of trade is the difference between the value of a country's imports and exports for a given period. (...) to measure the relative strength of a country's economy." (Kenton, 2019b).

With reference to the analysis of the various volumes of imports and exports of goods and services above, one can see in figure 8 the resulting overview, finally summarised in the following key statements:

- (1) Every single one of the trade balances is negative due to higher volumes of imports than of exports
- (2) Every single one of the trade balances develops the same way as the development of South Africa's GDP (see figure 6)
- (3) The negative trade balance of goods is much higher than the trade balance of services

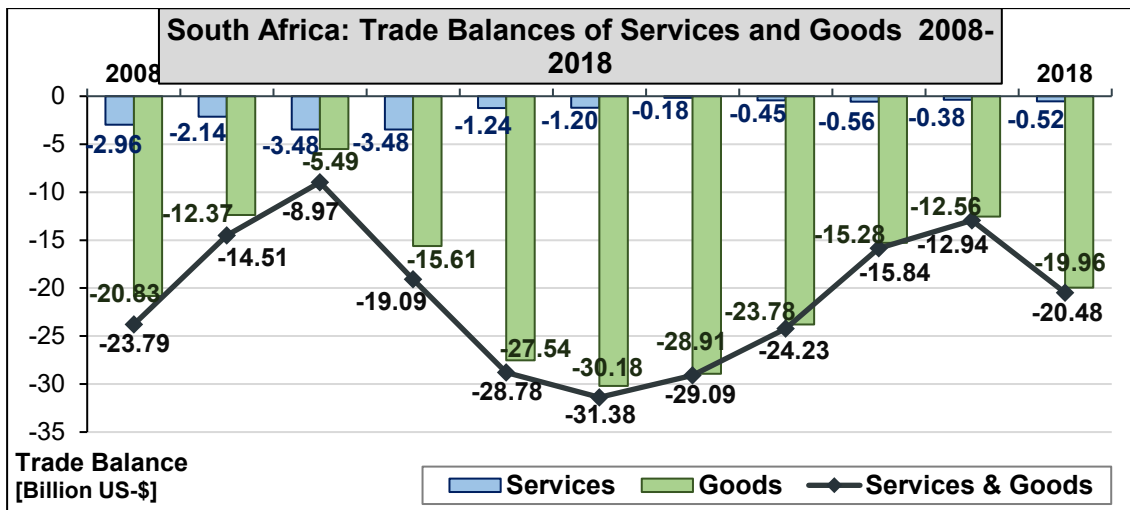


Fig. 8: South Africa - Trade Balances of Services and Goods 2008-2018 (Cf. Statista, 2019c; Cf. Statista, 2019d; Cf. Statista, 2019e; Cf. Statista, 2019f).

The previously analysed five economic key factors GDP, GDP per capita, volumes of imports and exports as well as the trade balance represent absolute values, making them difficult to classify and compare with the two other emerging countries Brazil and India. Therefore, another analysis of the three important economic key factors unemployment rate, inflation rate and economic growth rate, all of which are percentage values, will follow subsequently.

In figure 9, the development of these three key economic rates are illustrated over a period from 2008 to 2018. When analysing these important economic rates of South Africa, one can highlight the following three core statements:

- (1) The unemployment rate increased almost constantly from 2008 to 2018
- (2) The inflation rate strongly decreased between 2008 and 2010 before remaining almost constant afterwards
- (3) The economic growth rate strongly decreased between 2008 and 2009 before it increased afterwards and developed nearly wave-like until 2018

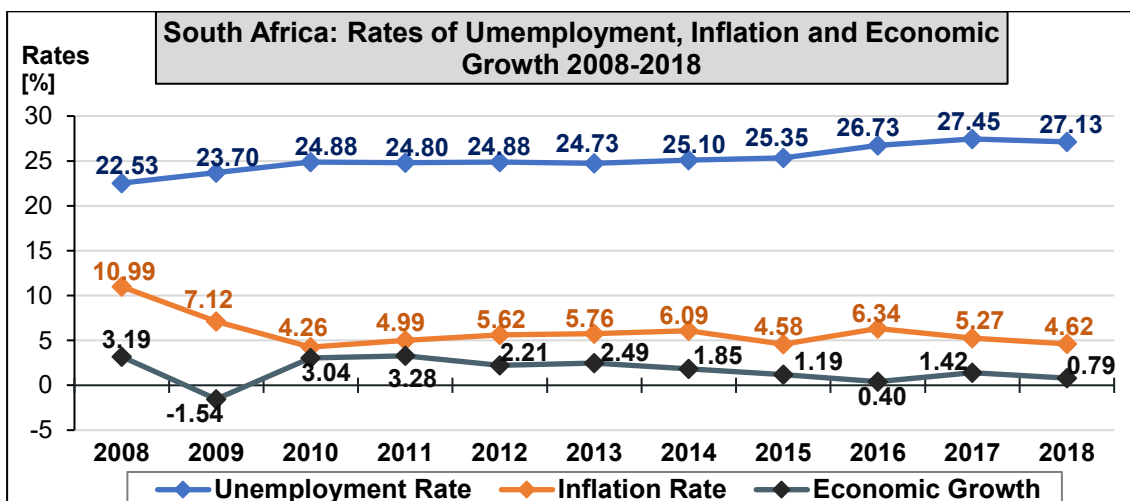


Fig. 9: South Africa - Rates of Unemployment, Inflation and Economic Growth 2008-2018 (Cf. Statista, 2019a; Cf. Statista, 2019g; Cf. Statista, 2019h; Cf. Statista, 2019i).

In more detail, according to key statement (1), the unemployment rate increased nearly constantly from 22.53 % in 2008 to 27.13 % in 2018, which represents an annual growth rate of 0.46 %. Important to note is, that these figures are the official unemployment rate figures, but several sources assume much higher figures in reality. One reason for the high and increasing rate of unemployment are the still existing effects of apartheid in the population. As a result, in particular the unemployment rate of black South Africans is much higher than of white South Africans (Cf. Südafrika - Der Reiseführer für das südliche Afrika, 2010).

Furthermore, due to their dependencies, the remaining rates of inflation and economic growth are analysed together. With reference to core statement (2), an "Inflation rate is the percentaged increase or decrease in price during a specified period. (...) [which] tells you how quickly prices rose during the period." (Amadeo, 2019d). That means, as higher the inflation rate, as higher the inflation and the less valuable the national currency, decreasing the "(...) purchasing power of each unit of currency." (Amadeo, 2019d). In contrary to this, regarding key statement (3), an "Economic growth is an increase in the production of goods and services over a specific period. (...) must remove the effects of inflation." (Amadeo, 2019e).

Analysing the development of South Africa's inflation rate and growth rate, it can be observed that both economic rates have developed nearly wave-like, but not very parallel (see key statements 2 and 3). Comparing the development of the economic growth with South Africa's GDP in total, quite similar progressions can be determined. One reason for that refers to the quotes above, which state that the economic growth rate is defined as the growth of the GDP with removal of the inflation in the measurement. In consequence, the economic growth is mainly influenced by the development of the national GDP and incidental influenced by the national inflation.

In summary, with regard to South Africa's economy, it can be stated that the economy in South Africa is increasing in the long run, which is proven by the rising GDP in total and per capita as well as by the increasing volumes of exports of services and goods and the decreasing negative trade balance. Nevertheless, the volumes of imports are still much higher than the volumes of exports. Furthermore, above all, the still growing unemployment rate, related to the still existing apartheid effects, represents a severe problem for economy and population in general.

#### **4.2.2 Economics in Brazil**

A closer look at the economic developments in Brazil between 2008 and 2018 is taken here. In order to achieve a similar data quality as possible, Statista was used as a common source. The

following eight key economic factors were selected to analyse the long-term trends in the Brazilian economy:

- Gross Domestic Product
- Gross Domestic Product per capita
- Import of goods and services
- Export of goods and services
- Trade balance of goods & services
- Unemployment rate
- Inflation rate
- Economic growth

The following figure 10 shows the development of Brazil's Gross Domestic Product (GDP) as well as the GDP per capita in Brazil between 2008 and 2018.

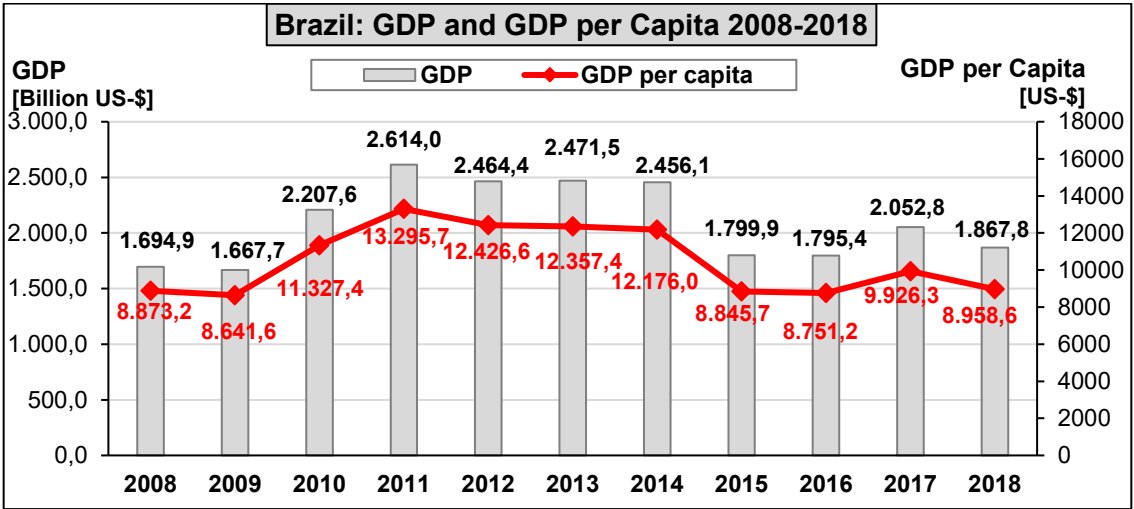


Fig. 10: Brazil - GDP and GDP per Capita 2008-2018 (Cf. Statista, 2019u, Cf. Statista, 2019v).

With a gross domestic product of about 1,870 billion USD in 2018, Brazil is the ninth largest economy in the world. The analysis of Brazil's GDP and GDP per capita shows that the development of GDP and GDP per capita is quite identical. Brazil's GDP expanded from around 1,700 billion USD to around 2,600 billion USD between 2008 and 2011 thanks to the sharp rise in global commodity prices and rising wages. However, the economic boom came to an end in 2014 as raw material prices fell and private sector debt increased. By 2016, the GDP had fallen to 1,800 billion USD. Since 2017, the economic crisis seems to have been overcome and the GDP is rising slightly again.

Important factors influencing the GDP of a country are the volume of exports and imports of services and goods.

Figure 11 shows the development of Brazil's import and export volumes, classified by services and goods, between 2008 and 2018.

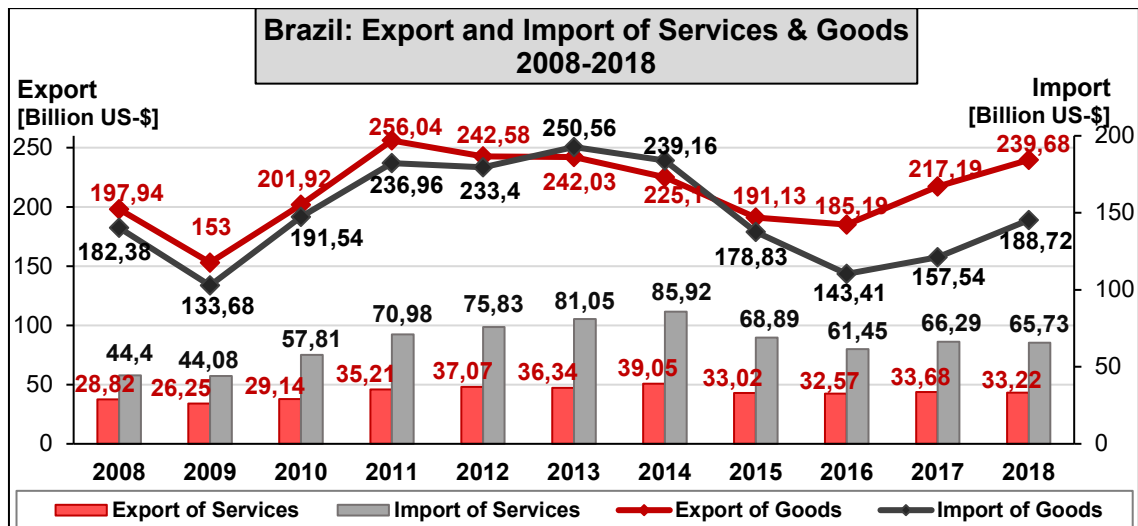


Fig. 11: Brazil - Export and Import of Services and Goods 2008-2018 (Cf. Statista, 2019z, Cf. Statista, 2019y, Cf. Statista, 2019x, Cf. Statista, 2019w).

When analysing the import and export volume of services and goods of Brazil, the following statements can be derived. The import of services (e.g. transport services, tourism, and financial and insurance services) was consistently higher than the export of services from 2008 to 2018. In 2008, the import of services amounted to 44.4 billion USD, over the years it reached its maximum of approx. 86 billion USD in 2014. By 2018, the import of services had fallen back to around 66 billion USD. The export of goods was always higher than the import of goods, except for the years 2013 and 2014. Brazil had the highest value of exports of goods in 2011 with 256 billion USD. After a few worse years, exports were rising again and amounted around 240 billion USD in 2018. The most important export products are coffee, cocoa, tropical fruits, soybeans, sugar and iron ore. The main trading partners are China, USA and Germany.

In relation to the above analysis of the volumes of imports and exports of goods and services, figure 12 shows the resulting overview of Brazil's trade balances for goods and services between 2008 and 2018. It can be seen that the trade balance for services has always been negative, as imports have always been higher than exports. The trade balance for goods has always been positive, except for the years 2013 and 2014, so in the other years the exports of goods have always been higher than the imports of goods. In 2014 Brazil had a trade deficit of about 61 billion USD. Since 2016, Brazil can again record high trade surpluses, which in 2018 amounted to approximately 18.5 billion USD.

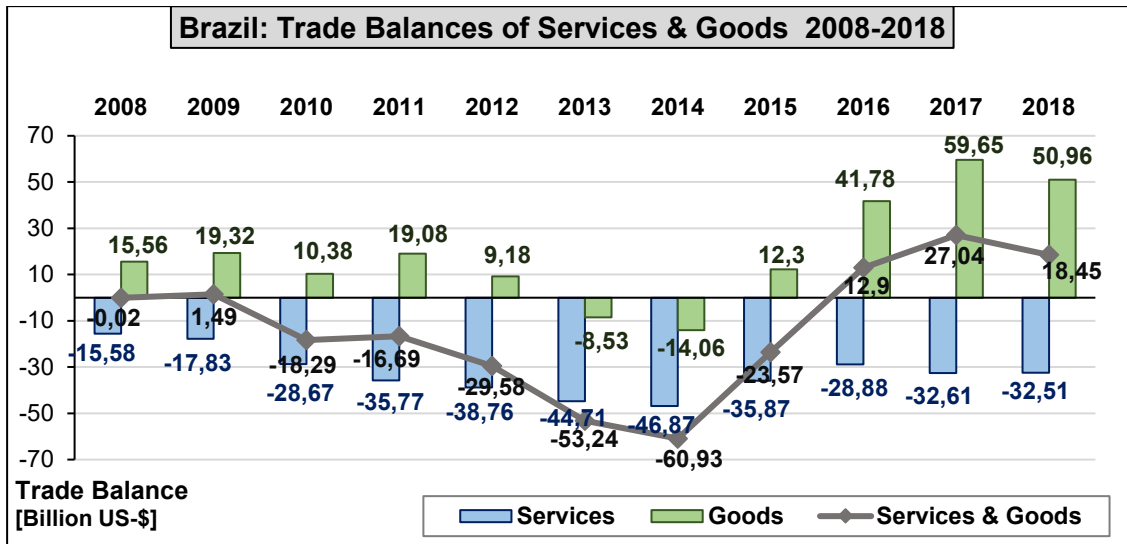


Fig. 12: Brazil - Trade Balances of Services and Goods 2008 - 2018 (Cf. Statista, 2019z, Cf. Statista, 2019y, Cf. Statista, 2019x, Cf. Statista, 2019w).

Figure 13 shows the development of the three key economic factors unemployment rate, inflation rate and economic growth from 2008 to 2018. Economic growth has swings between +7.55% and -3.55% as figure 13 displays. When the economic boom came to an end in 2012, the government attempted to artificially boost economic growth through higher government spending and subsidies.

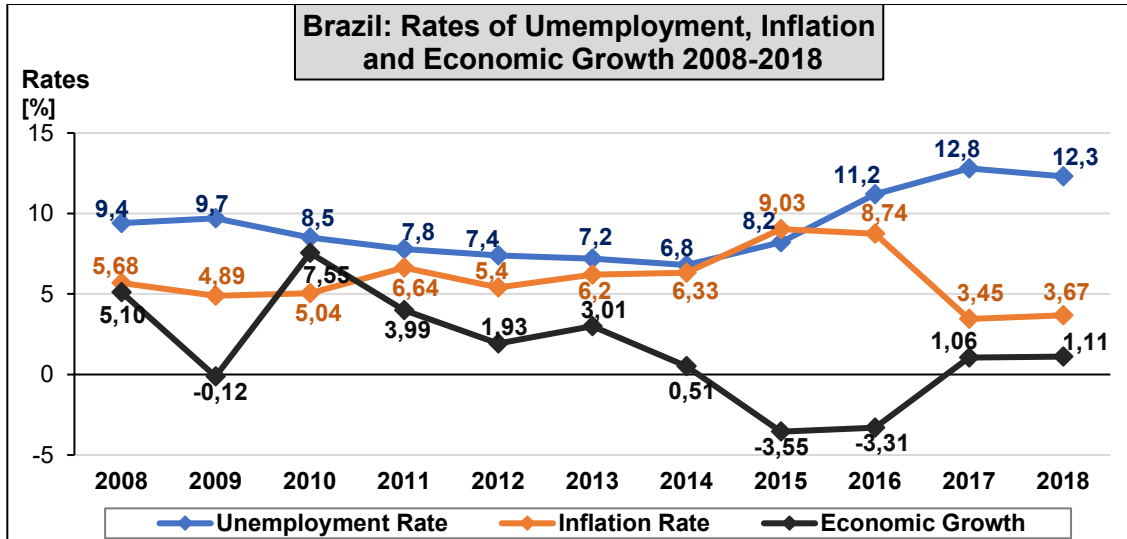


Fig. 13: Brazil - Rates of Unemployment, Inflation and Economic Growth 2008-2018 (Cf. Statista, 2019zb, Cf. Statista, 2019za, Cf. Statista, 2019t).

The result was a severe recession that hit Brazil in 2015 and 2016, with economic growth falling by 3.6 and 3.3 percent respectively in these two years. Since then, Brazil has been able to record a slight economic growth again and this is mainly due to the increasing export of goods since 2016. The situation on the labor market has also deteriorated in recent years, as it was still 6.8 percent in 2014. The unemployment rate peaked in 2017 at 12.8 % but since then, it has fallen slightly again because of the low economic growth in 2017 and 2018. The inflation rate was



relatively constant from 2008 to 2014, but then it strongly increased to 9 % in 2015 before decreasing afterwards to 3.7 % in 2018.

#### 4.2.3 Economics in India

In this chapter we take a closer look at the economics in India and how they developed between the years 2008 to 2018. The focus is on the same key economic factors as it was in the two chapters before.

Therefore the first factors shown in figure 14 are GDP and GDP per capita.

Firstly, it is striking that both GDP and GDP per capita have increased significantly over the period considered. Even if the rise has levelled off from 2011 to 2013, a closer look reveals that GDP has increased continuously, whereas GDP per capita suffered a small loss in 2012. Especially since 2014 the increase per year is very high again. This has to do with high investments of foreign companies, because the new prime minister Modi promoted them especially.

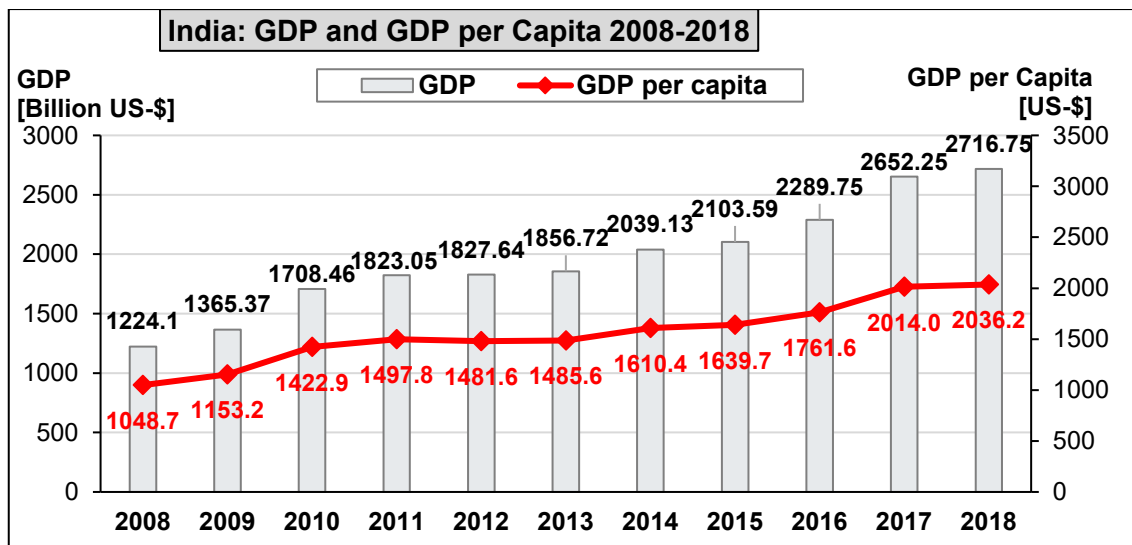


Fig. 14: India - GDP and GDP per Capita 2008-2018 (Cf. Statista, 2019k, Cf. Statista, 2019).

Otherwise, the two factors considered behave very similarly. However, it should be mentioned that GDP more than doubled from 1224.1 billion USD in 2008 to 2716.75 billion USD in 2018. The growth rate of GDP is specifically 121.9% and therefore the average annual growth rate is 12.19 %, which is very high. GDP per capita on the other side nearly doubled, too (2008: 1048.7 USD; 2018: 2036.2 USD). And the specific average growth rate is 94.2 % and the average annual growth rate is 9.42 %. It can therefore be concluded that the particularly strong increase in GDP is also related to the lasting high population growth, as mentioned in Chapter 3.5.3. Because the GDP is rising when more people are working.

In the following section, imports and exports of services and goods are analysed in more detail, as they play an important role in terms of GDP. An overview of the individual import and export volumes is shown in Figure 15.

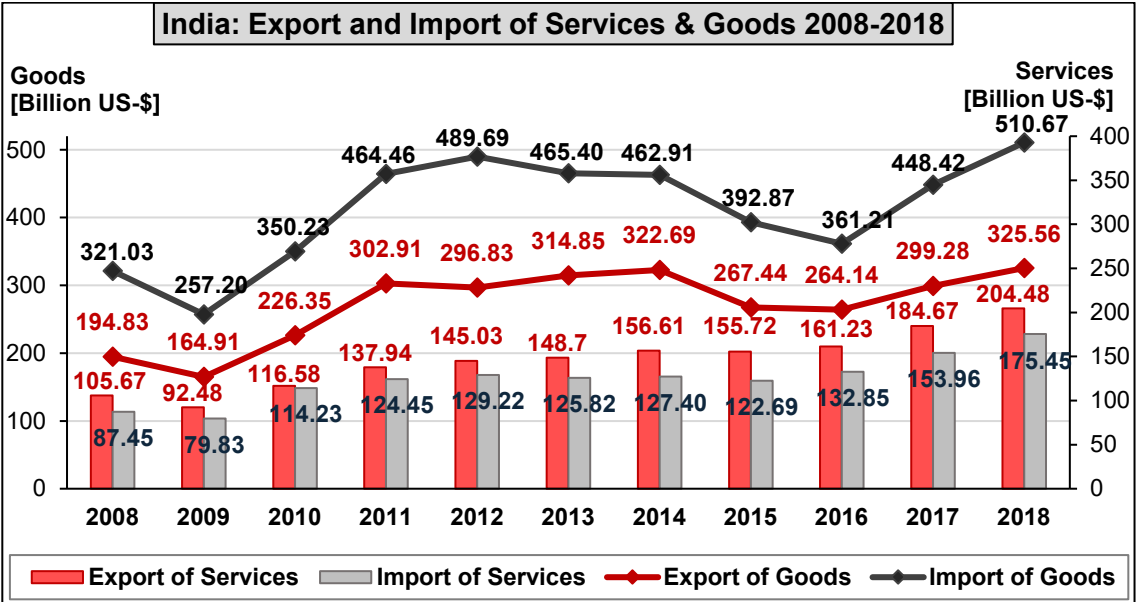


Fig. 15: India - Export and Import of Services and Goods 2008-2018 (Cf. Statista, 2019m; Cf. Statista, 2019n; Cf. Statista, 2019o; Cf. Statista, 2019p).

It should be noted that over the whole period both imports and exports of goods were higher than those of services. It can also be seen that more goods were always imported than exported. In some cases, the difference between these two factors is almost 200 billion USD. However, both curves behave relatively similar to each other. In both cases, a significant increase can be seen in the years 2009 to 2011. Thereafter from 2011 to 2014, both imports and exports were more or less constant, before falling in 2015 and 2016. Since then, both curves have been rising again, although this is happening much faster and correspondingly steeper for imports. The most important import goods for India are oil, chemical products, electronics and machinery. Chemical products, petrochemicals and textiles are the most important export goods. The main trading partners are China, USA and United Arab Emirates (UAR) (Cf. GTAI- German Trade and Invest, 2019).

The situation is different when analysing imports and exports of services. Here the exports are always higher than the imports. One reason for this is the high density of IT companies that are based in India or have a location there and offer services all over the world from there. Even if they initially resemble the curves of goods, it is noticeable that there is almost no decline in services in 2015. It can also be seen that the difference between imports and exports of services has been steadily widening since 2010 and reaches ultimately almost 30 billion USD in 2018.

A more detailed analysis of the trade balances in each year is given in figure 16.

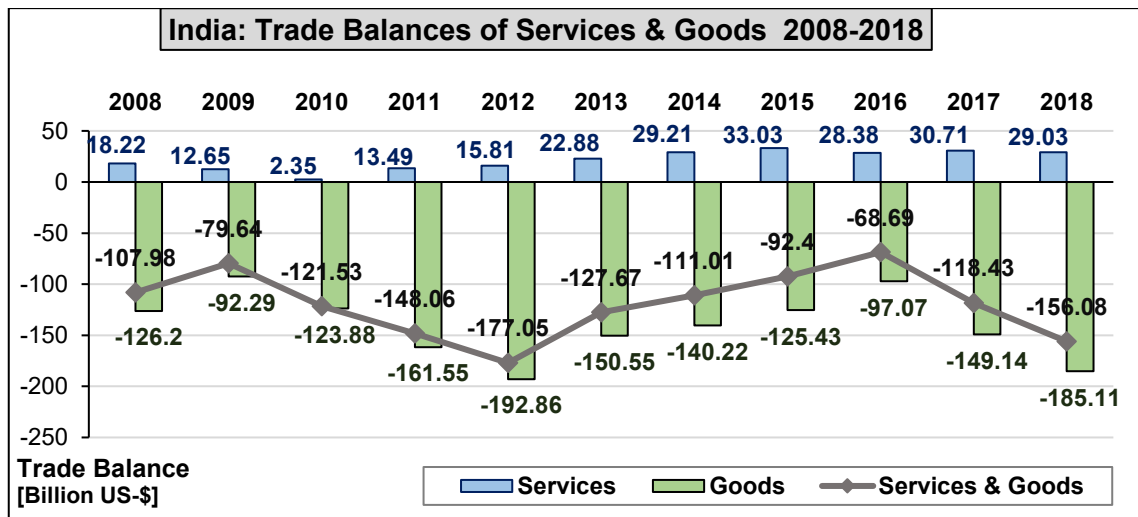


Fig. 16: India - Trade Balances of Services and Goods 2008-2018 (Cf. Statista, 2019m; Cf. Statista, 2019n; Cf. Statista, 2019o; Cf. Statista, 2019p).

Figure 16 shows the trade balances of services and goods. As mentioned above, it can be seen that the goods have a clear negative balance. On the other hand, services show a positive trade balance. Nevertheless, the large negative share of goods outweighs the share of services, which is why the overall trade balance is clearly negative. This means that India always imports more than it exports.

There are interim fluctuations in the years 2009 and 2016, with the curve approaching zero. These occur when imports of goods become less.

But even in these years the much smaller positive balance of services cannot compensate for the minus. Since 2016, the negative trade balance has been strengthening very strongly again, since imports are also rising again, as mentioned earlier.

After a look at the trade balance, the three factors unemployment, inflation and economic growth are now analysed and shown in figure 17.

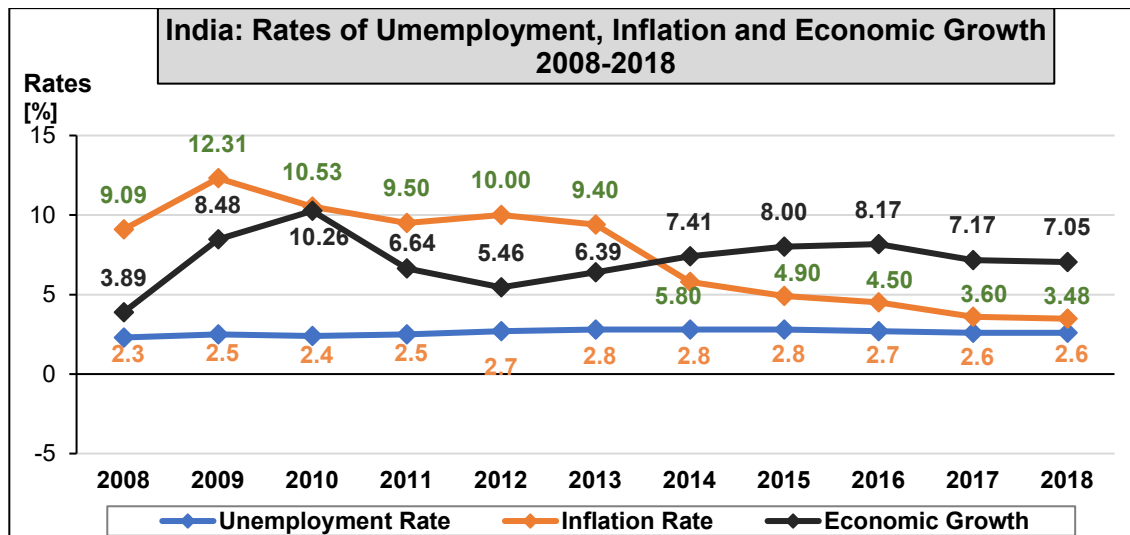


Fig. 17: India - Rates of Unemployment, Inflation and Economic Growth 2008-2018 (Cf. Statista, 2019q; Cf. Statista, 2019r; Cf. Statista, 2019s).

The first thing to note is that the unemployment rate remains almost constant over the entire ten-year period until 2018. It is also extremely low at around 2.5 %, especially for an emerging market. On the one hand, this could be due to the fact that there are a lot of small farmers, especially in rural areas, who only grow food for themselves, but are therefore not considered to be unemployed. On the other hand, it could also have to do with the enormously large population of India and the resulting difficulties in compiling such statistics.

Next, the curve of the inflation rate is examined more closely. It can be seen that it was very high in 2009 at 12.31 %. Since then, however, it has fallen almost continuously. In 2018, at 3.48 %, it was lower than at any time in the last ten years and very close to the 3 % that is usual in industrial nations.

Finally, the development of economic growth is considered. As mentioned at the beginning of the chapter, economic growth in India has been very high during the period considered. The highest value was 10.26 % in 2010, but the economy also grew strongly in the following years. Most recently with a growth rate of 7.05 % in 2018. These figures clearly reflect India's status as an emerging market. Germany had a growth rate of 2.5 % in the same year. This shows how strong the economic growth in India is.

## 5 Solution Statement

This chapter uses spider web charts to create characteristic profiles in order to compare the economies and economic indicators of South Africa with Brazil and India, which are presented above in chapter 4.1 and 4.2. In doing that, it is possible to identify the main differences between the three emerging countries. It obviously appears that there is no profile in common.

## 5.1 Comparison of Economies of South Africa, Brazil and India

For the comparison of the economy structure of South Africa with Brazil and India, the five most important economy sectors are displayed in the spider web chart (see figure 18).

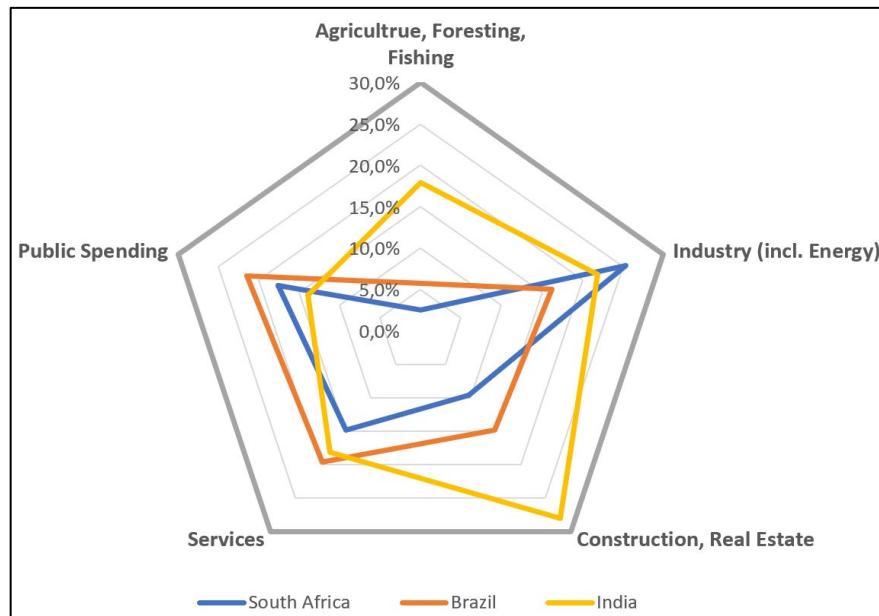


Fig. 18: Economy sectors of South Africa, Brazil and India in 2016 (Cf. OECD Library, 2019 Cf. OECD, 2019; Cf. Organisation for Economic Co-operation and Development, 2019).

These are the sectors agriculture, forestry, fishing, industry, construction and real estate, services and the sector public spending. One can easily derive that each country has its own characteristic profile, no identical profile to detect.

Table 1 shows the most important economy sectors of the three emerging countries for the year 2016. In South Africa the industry with 25.4 % is the largest economy sector. In Brazil, public spending with 21.5 % is the biggest economy sector, and in India, construction and real estate with 28.0 % is the most important sector.

Table 1: Share of the individual economy sectors of the GDP in 2016

	South Africa	Brazil	India
<b>Agriculture, Forestry, Fishing</b>	2.5%	5.7%	17.9%
<b>Industry (incl. Energy)</b>	25.4%	16.2%	21.9%
<b>Construction, Real Estate</b>	9.7%	14.8%	28.0%
<b>Services</b>	14.9%	19.6%	18.2%
<b>Public Spending</b>	17.6%	21.5%	13.9%

(Cf. OECD Library, 2019; Cf. OECD, 2019; Cf. Organisation for Economic Co-operation and Development, 2019)

## 5.2 Comparison of Economics of South Africa, Brazil and India

To compare the economic development of South Africa with Brazil and India, five indicators have been selected and are presented in the spider chart of figure 19.

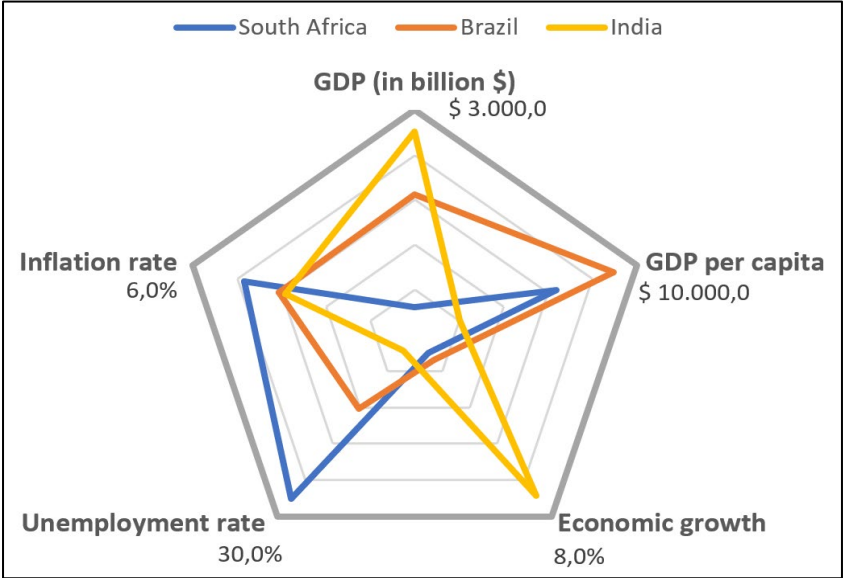


Fig. 19: Economic Developments of South Africa, Brazil and India in 2018 (Cf. Statista, 2019a; Cf. Statista, 2019b; Cf. Statista, 2019g; Cf. Statista, 2019h; Cf. Statista, 2019i; Cf. Statista, 2019k; Cf. Statista, 2019l; Cf. Statista, 2019q; Cf. Statista, 2019r; Cf. Statista, 2019s; Cf. Statista, 2019t; Cf. Statista, 2019u; Cf. Statista, 2019v; Cf. Statista, 2019za; Cf. Statista, 2019zb).

These indicators consist of: the gross domestic product (GDP) in billions of dollars, the gross domestic product per capita in dollars, the economic growth in percent, the unemployment rate in percent and the inflation rate in percent. One can also see here that each country has an individual characteristic profile.

Table 2 shows the most important economic differences between the three emerging countries in 2018. It is showing that India has the highest gross domestic product at around 2,716 billion USD, but also the lowest GDP per capita at around 2,036 USD. Other findings from the chart include a high economic growth of 7.1% in India, which is more than eight times as high as the economic growth in South Africa.

Table 2: The five most important economic indicators for emerging countries in 2018

	South Africa	Brazil	India
<b>GDP (in billion \$)</b>	\$ 368.1	\$ 1,868.1	\$ 2,716.8
<b>GDP per capita</b>	\$ 6,377.3	\$ 8,968.0	\$ 2,036.2
<b>Economic growth</b>	0.8 %	1.1 %	7.1 %
<b>Unemployment rate</b>	27.1 %	12.3 %	2.6 %
<b>Inflation rate</b>	4.6 %	3.7 %	3.5 %

(Cf. Statista, 2019a; Cf. Statista, 2019b; Cf. Statista, 2019g; Cf. Statista, 2019h; Cf. Statista, 2019i; Cf. Statista, 2019k; Cf. Statista, 2019l; Cf. Statista, 2019q; Cf. Statista, 2019r; Cf. Statista, 2019s; Cf. Statista, 2019t; Cf. Statista, 2019u; Cf. Statista, 2019v; Cf. Statista, 2019za; Cf. Statista, 2019zb)

Another cognition is a very high unemployment rate of 27.1 % in South Africa, which is more than ten times higher than the unemployment rate in India.

## 6 Lessons Learned and Conclusion

The analysis of the countries under research provide a profound insight into emerging countries characterised by their economies and economics. The comparisons of South Africa with Brazil and India show a wide variety of different constellations and developments. Finally an attempt will be made to give a brief outlook on the future of South Africa based on the data obtained.

Answering first the questions of research, the stated hypotheses can be answered as follows:

Hypothesis no. 1, indicating that South Africa is not anymore to be classified as an emerging country, must be rejected on the basis of the analysed data.

Hypothesis no. 2, indicating that emerging countries have common characteristics regarding economies and economics, must be rejected, too. The provided spider web diagrams show clearly that there are different profiles according to different country-specific situations.

The main economic challenges for South Africa in comparison with Brazil and India are the very high unemployment rate and the very low economic growth. On the other hand, it must be stated that there are no clear economic advantages for South Africa compared to the other two countries. At least in terms of GDP per capita, South Africa's USD 6377 is significantly higher than India's USD 2036. However, Brazil is even better here at USD 8968. The inflation rate can also be seen at least a little positive. Even though South Africa has the highest inflation rate, the other countries also have inflation rates of just under 4 %. So this fact does not necessarily have to be seen as a big disadvantage.

Nevertheless, this comparison shows that South Africa is currently not doing so well economically compared to Brazil and India and is lagging behind.

But a look at the economic characteristics of South Africa over the past few years shows clear developments towards improving directions. First of all, one has to take into account the very high unemployment rate, which may be a major obstacle for the future. On the other hand, however, there is a rising GDP and also a rising GDP per capita. In addition, exports are continuing to increase and the negative trade balance is shrinking. This shows that the economy is continuing to grow, albeit slowly, despite some bad factors. It can be assumed that the period from 2008 to 2018 under President Jacob Zuma was a lost decade, as he put his own interests

above those of the country. Now with Cyril Ramaphosa a new president is in power, who wants to clean up with the mistakes of his predecessor.

In conclusion, South Africa's economic future, which is very much linked to the social factors and their solutions, may be positive if some tipping points turn out well.



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