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BRICS countries challenge to the world economy new trends

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Abstract

This paper analyzes the importance of the BRICS group as representatives of emerging countries in the global economy. It is worth noting that the financial crisis had no strong effect on the BRICS group and it had a much better economic performance than developed countries. The main factors that led to the economic expansion of the group were an increased input of factors, and enormous scales of population and resources. For example, Brazil and Russia are mainly based on huge reserves of mineral resources and speculations made in international markets. China has an advantage of cheap labor and resources at low prices. India is also based on low-cost workforce. And last but not least, all the BRICS countries, except Brazil, show very high rates of investment. The current concern is to estimate whether the BRICS countries will have the same upward trend given the weakness identified within them: the high level of corruption, political different ideologies, over exposure to commodities etc.

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1. Introduction

In the last period, the emerging countries have had an important role on the world stage, even they have faced with a huge financial crisis. In this sense they represent an important force for global economic recovery, as it was observed in their economic performance.

The reorganization of global economy and the global influence changing are based on the rise of the great powers. The first specialist who has approached the influence of market size and power upon country's trade was Adam Smith (1776). Paul Kennedy (1989) showed that the relative status of developing countries into the world economy is changing due to differences in growth and organizational reforms.

Clyde Prestowitz (2008) shows in his study that in globalization Era almost 3 billion people from emerging countries such as China, India, Russia and Brazil have managed to integrate into the global market. According to Lin Yueqin (2009) the rise of the great powers is due to the boom of the emerging countries that seek to catch-up the advanced countries.

Since there are few studies on the growth pattern of the BRICS countries and on their influence on the global economy of the XXI century, the purpose of this article is to analyze the evolution of emerging economies in recent years and their importance in the world economy.

In the past decade, the emerging economies had a much faster growth rate compared to the developed economies, which led to a significant increase of their share in world GDP in international trade, in total foreign direct investment, and international financial markets. The economic crisis has led to relevant changes in global economic governance, especially the G20 replacing the G8 as international leader on the global stage. These changes can be interpreted as a manifestation toward a multipolar international economic order, where developing countries should have a much more significant role.

During this period, an important role was played by the BRIC countries (Brazil, Russia, India and China) that have several similar features (Truman, 2006):

- They are developing countries with relevant global economic performance and high potential;
- They are countries with systemic importance for the world economy; in this respect their national performances have profound implications both regionally and globally;
- They are able to exert influence on the governance of the global economy.

All these features together with a number of common interests' shows that BRIC countries have emerged as a coalition of developing countries where government representatives have some weight in decision-making at the international level. However, it should be noted that there are important differences in the four countries in terms of production structure by sector, opening outward, exchange rate regime etc. making this coalition to be more an ambitious project. China has a much greater economic power as against the other three BRIC countries which do not have very good prospects in its absence. However, China's presence in this group of developing countries is beneficial (if we make a comparison with its affiliation to G8), both for her and for the BRICs. BRICS countries have focused on their growing economic strength and development to create an agency to rival the World Bank. In this respect the member countries have been signed several trade arrangements for extensive use of local currencies in their commercial exchanges, the main purpose being to reduce transaction costs (Yardley, 2012).

2. Trends and developments in the BRICS group

As is known, the emerging countries are concentrated in regions with the largest population in the world. At the beginning of the century, their image has undergone a radical change through the most dynamic growth in the world and through the diminishing of the growth population rate which has led to an increase in GDP per capita close to that of developed countries. This was possible due to the increasing degree of economic integration of emerging countries in the global economy materialized in the trade and financial sectors. Favorable prospects of these countries have resulted in the reduction of risk perception coming from emerging markets and consolidating the trends mentioned above. BRICS countries are part of those emerging countries which have the characteristics listed above.

For an overview of the huge size of the BRIC countries some geographic, economic and social variables of the developed and emerging economies are presented in Table 1.

Table 1 Geographical and economical indicators of BRICS countries, 2012

	Area(million km^2)	Population (milion persons)	GDP (PPP) mld. $	GDP per capita ($)
Brazil	8,6	198,7	2330,2	11747,6
China	9,6	1351	12261,2	9055,3
India	3,6	1237	4715,6	3842,6
Russia	17,1	143,5	2486,2	17518
South Africa	1,2	51,19	576,1	11281,1

Source: Based on data from www.imf.org, World Economic Outlook, October 2013

According to IMF estimates, world population growth in the period 1960-2015 could reach 138.2%, while emerging countries would be 165.1%. Until now BRICS group increased by 132.7% of the population, compared to 192% in Latin America or the Middle East and Africa with an increase of 295%.

In the last two decades of the last century, the average GDP growth was 2.9% in developed economies and 3.6% in developing countries, compared to the 2000-2010 period when average rates were 1.9% and 6.2% respectively. According to IMF estimates, the difference will remain between 2011 and 2015 (6.6% for developing countries and 2.5% for advanced one). In the developing countries group, BRIC countries stands out because of their GDP growth with an average rate of 7.9% between 2000 and 2010, and will increase to 8.1% between 2011 and 2015.

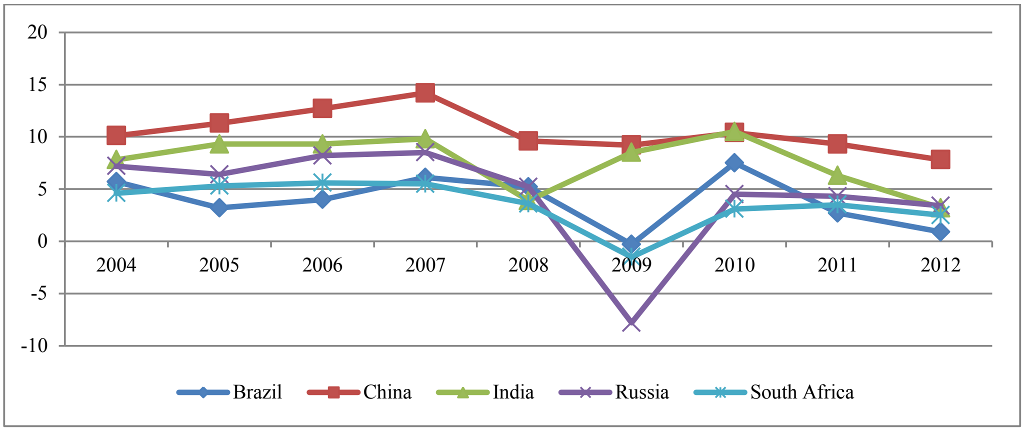

Fig. 1 GDP annual growth
Source: Based on data from www.worldbank.org

This acceleration is due to the fast pace of growth in Brazil (2.3% in 1980-1999, 3.7% in the period 2000-2010 and an estimate of 4.1% for 2015) and India (5.5%, 7.1% and 8.2% during examined periods). Strong GDP growth has made these countries to become the engines of the global economy. Thus, in the eighties and nineties developed countries have contributed more than half of global growth, while between 2000 and 2010, the situation was reversed, contributing only 1.1 percentage points compared to 2.6 points made by developing countries.

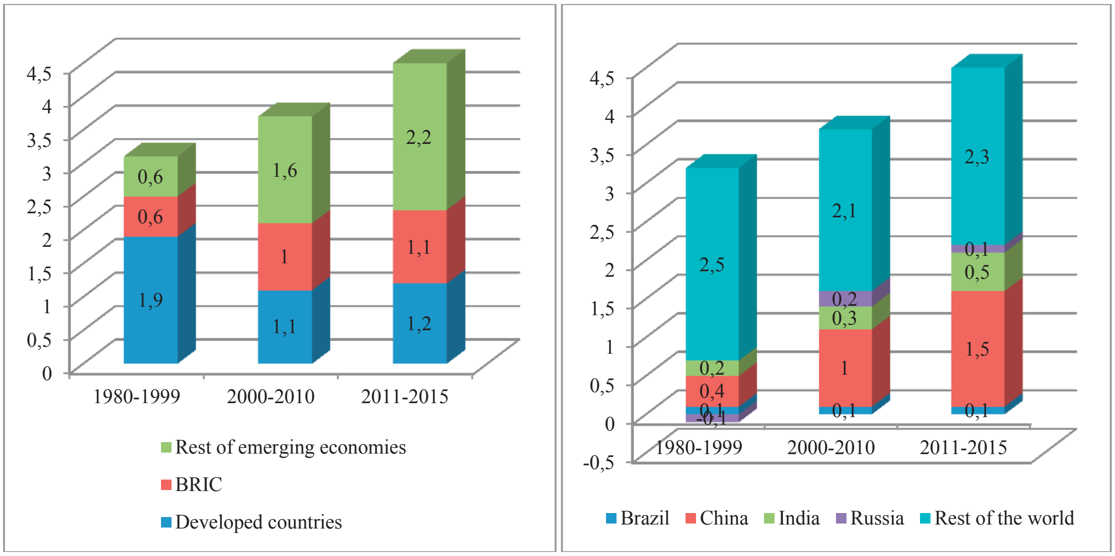

Fig. 2 Contributions to global GDP growth rate
Source: Based on data from www.worldbank.org

Similarly, there has been a rapid growth in GDP per capita in emerging economies compared to the advanced ones; in this period it was observed the real convergence process. The GDP per capita in emerging economies began to grow steadily since 1995, with an average of 1.4% by 2003, to 4.8% between 2004 and 2008 which represent a cumulative growth of 26% over the five years. Again we can observe that BRIC countries stand on global level with rates from 7% in 2004-2008, especially in China (10.6%) and India (4.8%) (Orgaz, Molina and Carrasco, 2011).

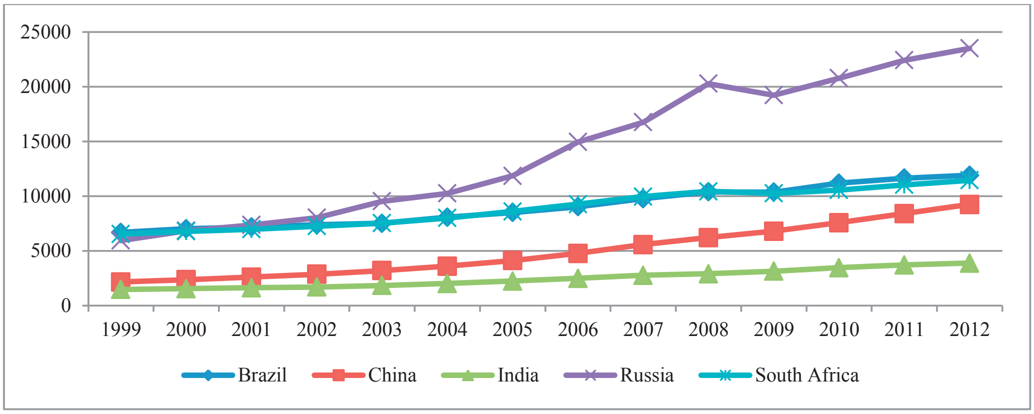

Fig. 3 GDP per capita (US $)
Source: Based on data from www.worldbank.org

Real convergence was also noted on the other welfare indicators such as the Human Development Index: for the BRICs group we can see a clear progress in 2000 with Russia's recovery.

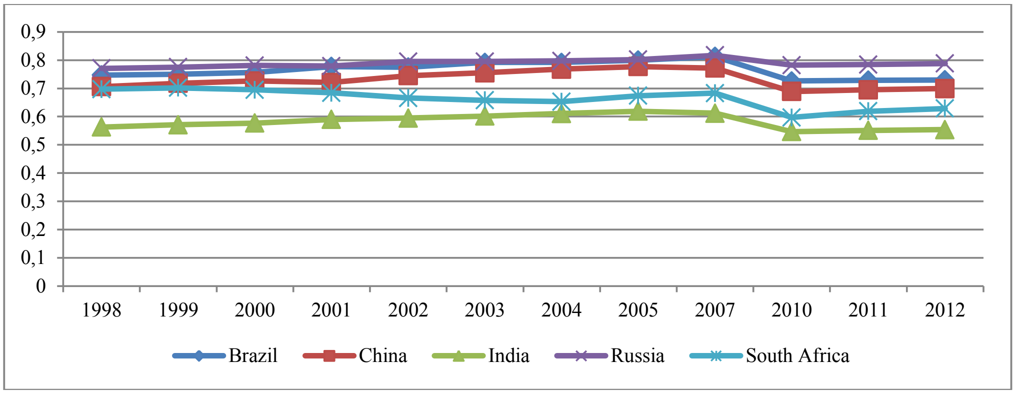

Fig. 4 Human Development Index of BRICS countries
Source: Based on data from www.undp.org

It can be said that the four BRIC countries have demonstrated in recent years that they represent a model of economic growth that exert a global influence. Versus the Asian Tigers or the growth model of a single economy, the BRIC countries have exercised power as a group, not individually, because of their resources, territory and population at large scale. There are several elements that characterize the evolution of this group, namely:

- Fast economic growth was based on the massive entry of factors at very low prices. China relies on cheap labor and resources at low prices. India follows China's model in terms of workforce, while Russia and Brazil hold huge advantages over stocks of natural resources and international market speculation;
- BRIC countries have low rates in terms of contribution to science and technology, because they don't have too many innovations;
- Economic growth of Brazil, India and Russia relies heavily on domestic demand, much of that being consumption. In Brazil, consumption accounts for 80% of GDP, while external demand is only 2-3%. Compared with other emerging countries, Brazil has a lower investment rate (at least 20%) due to the high level of real interest rates, fees and investment costs. In 2007, the government launched the PAC (la Programa de Aceleracao do Crescimento) which aimed to increase the investment rate to 25% (Jiagui and Xiaojoing, 2010). Like Brazil, India development depends largely on domestic demand, where consumption plays an important role (50% of GDP). In Russia, consumption accounts for 60-70 % of GDP, investment 20% and 10% net exports .
- BRIC countries have an unbalanced economic structure. Average private sector across the economy is almost 50% lower than the average for advanced countries. BRIC is based mainly on primary sectors and heavily dependent on foreign markets.

Table 2 The contribution of the tertiary sector in BRIC countries, 2004

	Primary industry	Second industry	Tertiary industry
Brazil	10.4	40.0	49.6
China	13.1	46.2	40.7
India	19.6	27.3	53.2
Russia	5.1	35.5	59.4

Source: Lin Yueqin, 2010

- In terms of competitiveness, BRIC countries have very low rates, although they have surpassed some countries by their economic performance.

Table 3 The BRICs' world competitiveness rankings

	2009-2010	2013-2014
Brazil	56	56
China	29	29
India	49	60
Russia	63	64
South Africa	45	53

Source: World Economic Forum, 2013

Economic performance of these countries took place as a result of greater openness to emerging markets. Average growth rate of exports was from 11.3% between 1990 and 1999, to 31.7% between 2000 and 2009, while those of imports, from 10.5% to 31%. Once again, BRIC followed these general trends, China became the third largest exporter in the world after the U.S. and Germany, while Russia ranked 10 place (Radulescu, 2008).

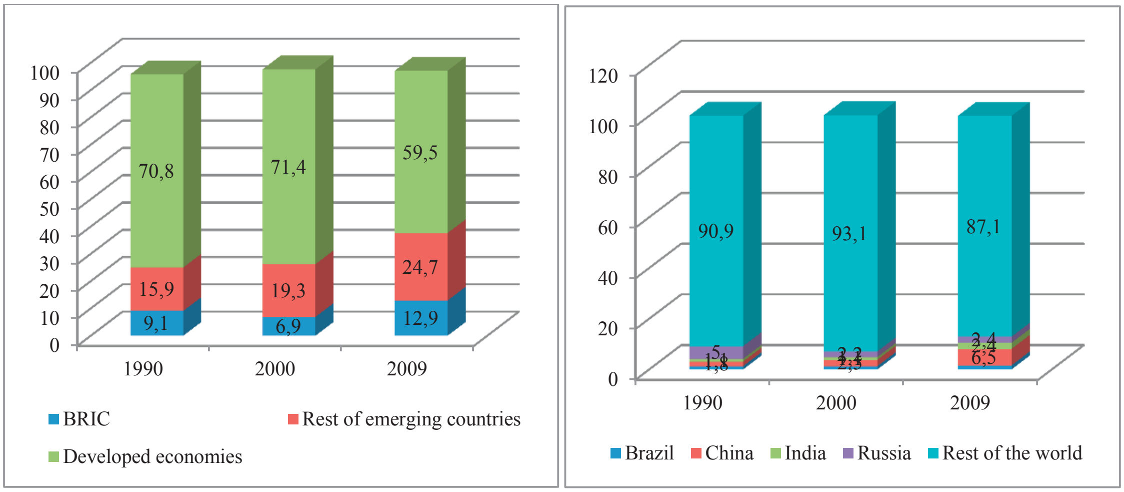

Fig. 5. Share of foreign trade (%)
Source: Based on data from www.worldbank.org

This increased openness of emerging economies based on trade between them was mainly focused on raw materials. In 2009, China became the leading importer of agricultural raw materials (17.4% of total world imports) and metals (20.7%) and third importer of oil (6.7% of the total, after the U.S. and Japan) while Brazil is the ninth in the export of agricultural commodities and the fifth in the export of food, and Russia is the first on the export of fossil fuels.

BRIC countries have substantially integrated in the financial field, the main driver being direct investments. If in the years' 90 the advanced countries generated the most capital inflows and outflows, in the period 2000-2009 the FDI flows to emerging economies rose by 14.8%. BRIC's role in this evolution has been relevant since almost half of the direct investment inflows in emerging economies have led to this group (Ivan and Muresan, 2010). In fact, in 2009 China became the second recipient of direct investment after the United States, Russia was the sixth, and China and Russia were issuers of direct investment from places 11 and 12 at world, ahead of countries like Switzerland, Italy and the Netherlands.

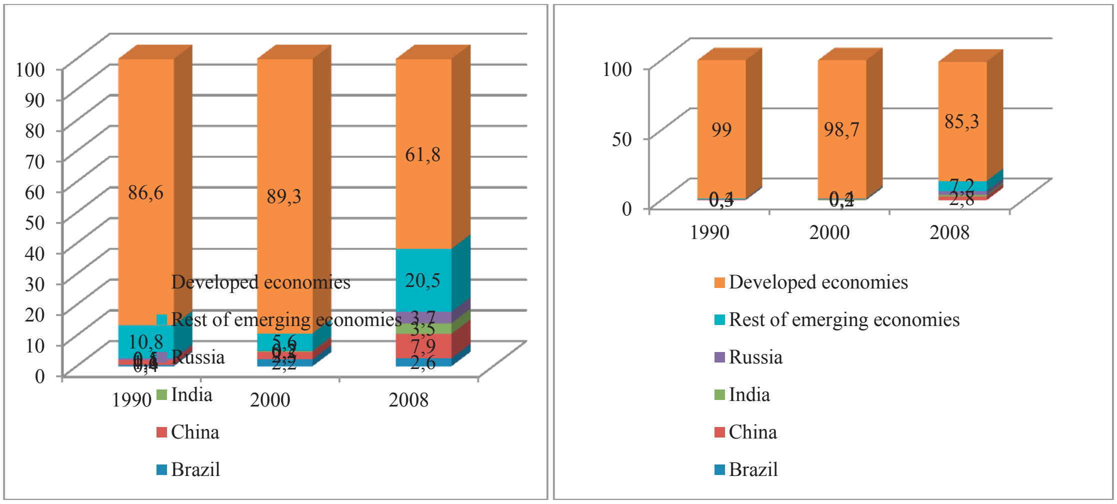

Fig. 6 FDI inflows (%); (b) FDI outflows (%)
Source: Based on data from www.worldbank.org

As we can see, these countries are increasingly involved in the economy and finances development at global level, although the degree of institutional maturity and legal security is still not at the same level and in the same direction (Subic, Vasiljevic and Andrei, 2010). This can be seen by examining one of the most economic freedom indices used for BRIC countries, namely economic freedom indicator calculated by the Heritage Foundation. From the figure we can observe a general regression of the BRIC countries, even if some of them are part of the G20.

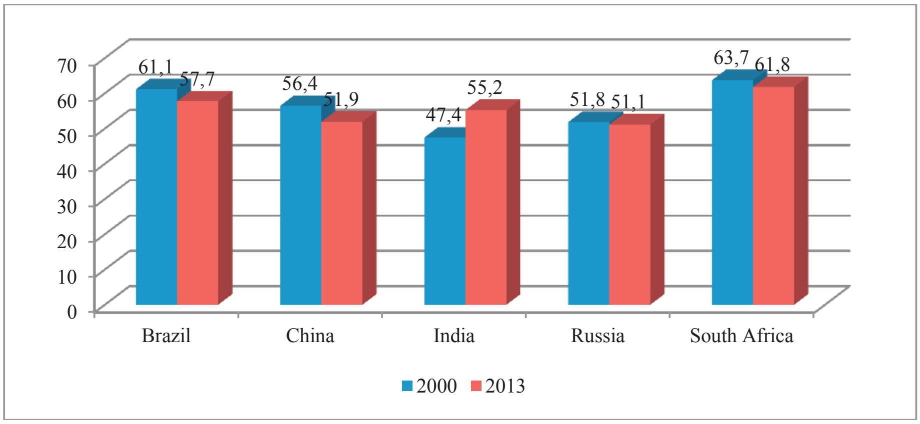

Fig. 7 Economic freedom index for BRICS
Source: Heritage Foundation, 2013

3.Possible future for BRICS

BRICS countries have to face a number of challenges in the current context, namely:

- There are many gaps in their economic development and in their process to reach the level of the developed countries. In 2008, the BRICs accounted for nearly 15% of the world economy, but GDP per capita was only one third of the world average and less than one tenth of the average of developed countries.

According to World Bank standards, 120 million people in China and 300 million in India live below the poverty line. This represents a great challenge for BRIC countries to build a modern society and to catch up with developed countries.

- Secondly, there is a trend in the emerging economies to integrate as much as possible in the process of economic globalization which makes them more susceptible to fluctuations in the foreign markets. Currently, there are some constraints related to BRIC trade, finance, exchange rates, etc. For example, the depreciation of the dollar could cause large losses for the BRIC countries because they hold more than 60% of their reserves in dollars.
- Third, there is a strong sense of cooperation among BRIC countries given their common goal. But, in the same time they are in constant competition to win markets. Therefore, the cooperation and competition between BRIC countries have a dual role in their economic development .
- There are other developing countries coming behind the BRIC group, the so-called VISTA states (Vietnam, Indonesia, South Africa, Turkey and Argentina), which put pressure on the group regarding the operation of markets, global resources and their allocation.
- There is some difficulty regarding the growth model in the BRIC countries. They focus more on the growth of GDP and less on quality given the lack of creative minds and innovation incentives. Investments in technology and education system are insufficient, there is no motivation and entrepreneurial spirit, and it doesn't exist a rational allocation of resources.
- Last but not least, corruption affects the economic development of these countries causing a negative image at international level, preventing rational allocation of social resources and exacerbating social conflicts.

Table 4 Corruption Perceptions Index for BRICS countries

	Rank	Score
Brazil	69	43
South Africa	69	43
China	80	39
India	94	36
Russia	113	33

Source: www.transparency.org

Conclusions

Although they were among the countries that have relaunched the XXI century world economy after the financial crisis, the emerging economies recorded a sharp slowdown after a decade of global boom. BRICS group has proposed a growth rate of 5% per year, which is the worst performance of emerging economies in the last decade. This may be the end of the first stage of emerging markets Era in which there were economic performance of over 50% .

China is in a period in which take place the change from the growth based on investment to a more balanced model based on consumption. The Chinese government has the ability to cover losses from bad loans and the power to stimulate the economy. Even if there were some monetary constraints, emerging economies have a defense policy that includes flexible exchange rates, relatively low debt and high foreign reserves. Slower growth rate of China will affect the performance of other emerging countries. Although there was a boom in commodities and credit, Brazil no longer grow at the same speed and in India there is a general confusion about the potential recovery of this country taking into account its annual growth rate.

In the coming years the emerging economies will still growth but gradually which will affect global economy on the long-term. Meanwhile, cooperation between emerging powers play a vital role in promoting pluralism and balance in foreign affairs and reduce their dependence on developed economies. As each of the BRIC countries has limited power, strengthening cooperation is not only a requirement to combat the global financial crisis, but also a safe choice for the five countries to grow together in the post-crisis period.

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