THE BRICS ECONOMIES: DISSIMILARITIES AND COMMONALITIES

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THE BRICS: NOT JUST A FAD

- Large size
- China and the quest for global power
- High growth potential
- The dynamics of structural transformation
- From acronym to a formal group
The Chinese Preeminence

- The fastest growing economy and the largest among the BRICS
- A heavy weight in the world economy
  - #2 GDP
  - #1 exporter, #2 importer, #2 FDI recipient
  - #1 stock of international reserves, #2 largest exporter of capital
  - #1 manufacturer, #1 consumer of metals and energy
  - #1 producer of S&E graduates, #2 R&D investor, #2 producer of scientific papers

- But still well behind in the convergence path
THE CHINESE QUEST FOR GLOBAL POWER

▶ Creation of new multilateral financial institutions
  ▶ NDB, SILK ROAD, AIIB

▶ Becoming a global investor
  ▶ FDI outflows of US$ 580 billion – 2005/14
  ▶ Japan x China: approaches to access natural resources

▶ Pursuing the status of global currency for the CNY
  ▶ Bilateral currency swap agreements
  ▶ Gradual liberalization of capital mobility
  ▶ HKG as a major RMB offshore market – Dim Sum bonds
  ▶ SH-HKG connect
CHINA’S INITIATIVES IN GLOBAL FINANCE: POTENTIAL ECONOMIC BENEFITS

- Extraction of seigniorage, low-cost debt issuance denominated in the domestic currency, prestige
- Closer integration with global financial markets
- Diversification of the foreign asset portfolio
- Diversification of household asset portfolio away from real estate assets
- Exploitation of comparative advantages in infrastructure building and standardized capital goods
The BRICS share many of the typical commonalities of emerging market economies.

Simultaneously, heterogeneity stands out as a key feature.

Dissimilarities involve many dimensions, including the response to the growth slowdown of the last four years.
Brazil resembles the economic structure of a mature developed economy.

Its economy has been consumption-driven (84.9% of GDP) contrasting with China, where consumption’s share is too low (48.2%).

China has been investment-driven: investment to GDP ratio of 49%, very high even by Asian standards, matched only by Singapore in the 80’s.

Brazil’s saving rate has been low enough to finance its investment/GDP ratio (18).

India: adopting a different growth model, but investment to GDP ratio (33%) follows the experience of other fast growing Asian economies.
DISSIMILARITIES: DEMAND AND SUPPLY STRUCTURE

- China: an industrial economy (44% of GDP), manufacturing accounts for 32% of aggregate supply
- Manufacturing share of GDP is lower than 20% in the other BRICS, in line with EMs average
- Brazil and South Africa: large service sectors, approximately 70% of GDP, large room to boost aggregate TFP
- Services in China: 43.2% of GDP
- High-skilled labor only 15.5%, lower than Brazil (23.3%) and India (25.0%), and much lower than Korea (51.4%)
Brazil is one of the world’s most closed economies: goods and services trade flow only 28% of GDP. Not a player in the global supply chain.

Other BRICS are open to trade, average trade to GDP ratio of 51%.

Brazil, Russia and South Africa large commodity exporters.

China and India large commodity importers.

China: large exporter of manufactures (94%).

India: large exporter of services (35%).

China: #1 destination for Brazilian, Russian and South African exports and #2 for Indian exports.
DISSIMILARITIES: URBANIZATION

- Brazil: very urban, 85% of the population living in the cities
- China (54%) and India (32%) still face a long transition to urbanization
- This requires substantial investment in education, housing and infrastructure. On the other hand, there is a significant expected TFP payoff through labor reallocation and diffusion of ideas
DISSIMILARITIES: DEMOGRAPHIC TRANSITION

- India and South Africa have very young populations: demographic dividend is expected to last through 2040.
- China and Brazil are facing the prospects of an increasing dependency ratio very soon.
- The Russian population, the oldest among the BRICS, has already started to decline, which adds another growth challenge.
Chinese credit–fueled investment growth model has exhausted. TFP growth slowed down and total credit/GDP climbed to 282% in 2014 from 158% in 2007

Credit–fueled consumption growth employed by Brazil, India and South Africa are also exhausted

Brazil faces serious macroeconomic disequilibrium and TFP is stagnated

India: the poorest of the BRICS – per capita GDP 8% of the US, 69% of population living below the poverty line. Reforms stalled over the last ten years

Russia: reversal of the privatizations of the 90’s, institutionalized rent-seeking and the empire building mentality is back

South Africa: strong union activism, rigid labor and product markets, supply bottlenecks, legacies of the apartheid regime
CHINA’S REFORM AGENDA: DELEVERAGING AND BETTER RESOURCE ALLOCATION

- Anti–corruption campaign
- Fiscal reform of the provinces
- Restructuring of the SOE’s
- Financial reform
- Lifting barriers to labor mobility
- Unblocking services activities to the private sector
- Deregulation
INDIA’S REFORM AGENDA: FIGHTING POVERTY AND MISALLOCATION OF RESOURCES

- Anti-corruption campaign
- Aadhaar project
- Financial reform
- Elimination of subsidies
- Liberalization of the energy industry
- Investment in infrastructure
- Deregulation
- Relaxation of barriers to FDI inflows
- Strengthening of intellectual property protection