Whether we find it useful or not, we seem to have been stuck with the acronym BRIC ever since Goldman Sachs created it in 2001. The idea was that Brazil, Russia, India, and China had so much economic potential that they could become among the most dominant economies by 2050. Although the idea seemed incongruous at the time, the name stuck.

Each of the four countries has since demonstrated that indeed they, and perhaps other emerging market economies, might challenge the pre-eminence of the advanced countries by midcentury, if not before. Although the BRICs were not immune to the fallout from the international crisis, they have shown resilience. Even Russia, the worst affected, seems to be poised for a strong recovery in 2010, although the advanced economies will still be languishing.

Trying to rank countries is a mug’s game. Arguments and data can always be aligned to confirm a predetermined view — history is rife with examples. Unfortunately, there has been an onslaught of articles explaining why Russia should not be included in the BRIC — the most recent by economists Nouriel Roubini and Anders Åslund — and why Brazil is the up-and-coming star of the BRICs and Russia is simply an outlier. For example, The Economist recently observed, “Sometime in the decade after 2014 — rather sooner than Goldman Sachs envisaged — Brazil is likely to become the world’s fifth-largest economy”, behind only the United States,

Keeping the ‘R’ Where It Belongs in BRIC

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China, Japan, and India. Pointedly, Russia was not even mentioned.

Of course, Brazil has come a long way and deserves to be commended. At the same time, I suggest that it is not Russia that is the outlier among the BRIC countries. When it comes to economic dynamism, that designation should go to none other than Brazil.

While all the BRICs have had their problems, it is Brazil, not Russia, that has been and is likely to remain the outlier for some time to come. Using 2000 as a base — starting just after the major crises in Russia in 1998 and in Brazil early in 1999 — and using estimates for 2009, Russia’s real GDP grew at an average annual rate of 5.6 percent. True, this was considerably less than that of India and China for the same period — and although the Brazil did manage to grow slightly faster than advanced countries, it still only chalked up a rate of 3.2 percent.

Why the surprising disparity? Perhaps there is no simple explanation, but it seems likely that Brazil lagged behind for a very basic reason: low savings and low investment. Since 1995 China has annually saved 42 percent of its GDP and invested 39 percent; India saved 26 percent and invested 28 percent; and Russia saved 30 percent and invested 22 percent. In Brazil the corresponding average figures were a more anemic 17 percent for both savings and investment, a level well below that in most advanced economies. This gives Brazil a higher real cost of capital than its BRIC colleagues and makes it harder for it to generate anywhere near the same headline growth.

Of course, it could be argued that Russia in particular used more leverage and foreign inflows to generate its outsized growth, which helps explain the much sharper contraction in 2009. But that still does not come close to erasing the cumulative gap between the two economies. In any case, there are growing indications that in 2010 recovery, both nominal and real, will be faster in Russia.

Brazil is an outlier in other ways. Many in Russia are, or should be, embarrassed that the country ranks 120th in the World Bank’s “Doing Business for 2010.” But Brazil comes in at an even
To become a global growth engine, Russia needs to cut its excessive and inefficient spending to reduce inflation and interest rates. Russia’s performance has in some ways been more impressive, and over the next few years Russia is poised for significantly higher growth. But to become a global growth engine, Russia needs to cut its excessive and inefficient spending in order to reduce inflation and interest rates. This in turn will promote a more robust recovery.

For sustainable growth, Russia needs to address its reputation, and the reality, for corruption and its arbitrary legal regime. Still, by about 2020 Russia is quite likely to be in third place among the BRICs in terms of nominal GDP, with Brazil being the outlier.

Of course, conventional wisdom does not appreciate having its underlying assumptions challenged. In this case, what happens may involve merely an innocent game of projected rankings in a world where a great deal can change in 10 years. To the extent that real savings and investment are allocated based upon these perceptions, however, the game becomes more serious — and the conventional wisdom needs to be reconsidered.