BRIC Countries in Comparative Perspective

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Outline

- Importance of the BRIC countries for the World economy
- BRIC countries today
  - Demographic indicators
  - General economic indicators
  - Fiscal indicators
  - Debt indicators
  - Institutional indicators
  - Business environment

- Short and long-term outlook
- Conclusions
Why are the BRIC countries important?

- Fast growing economies with the biggest source of labor;
- They will soon change the consumption and production pattern in the world economy;
- As their influence on the global economy grows so do the risks for the sustainable world development;
- Their role in the global policy is increasing as well the geopolitical importance for their regions and the world.
Why are the BRIC countries important?

In 2005 the emerging economies overcome developed economies by their share in the World GDP calculated at purchasing power parity. The BRIC countries were the main driving force for GDP growth of the emerging economies.
BRIC Countries

These 4 large countries account for more than 40% of the world’s population and almost a third of the world’s land mass.

<table>
<thead>
<tr>
<th></th>
<th>Population, mln people</th>
<th>Land area, thousand sq. km</th>
<th>Number of regions/provinces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>179</td>
<td>8459</td>
<td>27</td>
</tr>
<tr>
<td>China</td>
<td>1296</td>
<td>9327</td>
<td>22</td>
</tr>
<tr>
<td>India</td>
<td>1080</td>
<td>2973</td>
<td>35</td>
</tr>
<tr>
<td>Russia</td>
<td>143</td>
<td>16888</td>
<td>89</td>
</tr>
<tr>
<td>World</td>
<td>6345</td>
<td>130329</td>
<td></td>
</tr>
</tbody>
</table>

*Source: World Development Indicators*
Demographic indicators: size and growth of population

These countries exhibit considerable variability with respect to population and population growth. Only Russia is experiencing an absolute population decline, which is expected to increase in future years as the population ages.

Source: World Development Indicators
Demographic indicators: age structure

Russia has a significantly older population than the other 3 countries.

Source: World Development Indicators
Russia is the only country where until recently life expectancy was not correlated positively with strong growth in incomes.

Gross National Income per Capita and Life Expectancy
General economic indicators: GDP volume and GDP growth

Most of these countries have been experiencing significant economic growth in recent years, particularly a number of those countries with relatively low GNI per capita.

Source: World Development Indicators, World Economic Outlook
General economic indicators: GDP per capita

GDP per capita: 2005 (USD)

GDP per capita, PPP 2004 (constant international 2000 $)
China has a relatively small service sector, and a relatively large share of industry in GDP. In reality, Russia may be a bit closer to China than appears in the graph due to transfer pricing schemes that shift a good share of oil profits to services (trade).

**Composition of GDP: 2004**

Source: World Development Indicators
With the exception of India, BRIC countries exhibited current account surpluses in 2005. Russia’s current account is particularly strong due to high oil prices. China has accumulated foreign reserves that dwarf those of any other of these countries.
General economic indicators: inflation and unemployment

BRIC countries have achieved unemployment rates of close to or less than 10 per cent of the active population. But many of these countries still have significant disguised unemployment as surplus labor in the countryside or budgetary sphere.

**Average CPI inflation:**
2000-2005

- Russia
- Brazil
- India
- China

**Unemployment:**
2004 (ILO definition, %)

Source: World Development Indicators, World Economic Outlook, ILO
General economic indicators: investments and FDI flows

With respect to levels of investment and the attraction of FDI, China’s performance dwarfs that of other large client countries. Investment rates in Brazil and Russia appear to be rather low.

Investment = gross fixed capital formation

Source: World Development Indicators, World Economic Outlook
In per capita terms, inflows of FDI in 2005 favor Russia. Russia exhibits substantial fixed capital investment abroad.

**Gross FDI inflows and net FDI: 2005 (bln USD, from BoP)**

- **Gross FDI per capita: 2005 (USD, from BoP)**

*Source: World Economic Outlook*
Fiscal indicators: central government fiscal balance

With the exception of Russia, BRIC countries operated with budget deficits in 2005. Fiscal imbalances were particularly severe in India. Adding the regional budget deficits would bring India’s deficit to over 7 percent of GDP.

**Central government fiscal balance: 2005 (% of GDP)**

*Source: Rosstat, World Economic Outlook*
Fiscal indicators: government expenditures

With the exception of Brazil, central government expenditures for these countries fall in the range of 15-20 percent of GDP

Central government expenditure and net lending: 2005 (% of GDP)

Source: World Economic Outlook
Debt indicators

Brazil is relatively burdened by government debt and debt service.

Public sector long term debt outstanding and disbursed: 2004 (% of GDP)

Public and publicly guaranteed debt service: 2004 (% of GNI)

Source: World Development Indicators
Outstanding domestic credit at end-2004 was an order of magnitude higher in China than in any other of these four countries. Financial markets are relatively poorly developed in Russia.

**Private sector and domestic banking sector development: 2004**

*Source: World Development Indicators*
Institutional indicators: corruption

Corruption perception index
(10 – highly clean, 0 – highly corrupt): 2004

Numbers in the bars indicate country’s rank.
In 2004 146 countries were ranked from 1 (Finland) to 145 (Bangladesh, Haiti)

India: 90, Russia: 90, China: 71, Brazil: 59

Source: Transparency International
Institutional indicators: investment ratings

China, Russia, and India now have Standard and Poor’s sovereign investment ratings of BB+ and above.

Standard & Poor’s foreign currency sovereign investment rating: 2005

Investment grade

Brazil | India | Russia | China

Source: Standard & Poor’s
Institutional indicators: market capitalization

Market capitalization in BRIC countries is less than 60 percent of GDP.

Market capitalization: 2004 (% of GDP)

Source: World Development Indicators
## Business environment

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ease of Doing Business</strong></td>
<td>119</td>
<td>91</td>
<td>116</td>
<td>79</td>
</tr>
<tr>
<td>Starting a business</td>
<td>98</td>
<td>126</td>
<td>90</td>
<td>31</td>
</tr>
<tr>
<td>Dealing with Licenses</td>
<td>115</td>
<td>136</td>
<td>124</td>
<td>143</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>80</td>
<td>113</td>
<td>84</td>
<td>148</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>53</td>
<td>100</td>
<td>29</td>
<td>73</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>70</td>
<td>47</td>
<td>138</td>
<td>62</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>141</td>
<td>59</td>
<td>118</td>
<td>71</td>
</tr>
</tbody>
</table>

*Source - Doing Business in 2006: Protecting Investors*
Russia: positive changes in the business environment, 2002-2005

Percent of firms indicating a problem:

Telecommunications
Contract violations
Access to financing
Title or leasing of land
Customs and trade regulations
Uncertainty about regulatory policies
Macroeconomic instability
Access to land
Tax rates
Tax administration
Organised crime/mafia

Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)
Russia: negative changes in the business environment, 2002-2005

Percent of firms indicating a problem:

- Labour regulations
- Corruption
- Skills and education of workers
- Functioning of the judiciary
- Electricity
- Street crime, theft and disorder
- Business licensing and permits
- Anti-competitive practices of others
- Cost of financing
- Transportation

Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)
Short term outlook: GDP growth rate projections

Source: OECD Economic Outlook
Short term outlook:
fiscal balance and inflation

Cons government fiscal balance projection

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<tr>
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<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>India</td>
<td>-7.7</td>
<td>-7.2</td>
<td>-6.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>-3.1</td>
<td>-2.5</td>
<td>-1.8</td>
</tr>
<tr>
<td>China</td>
<td>-0.7</td>
<td>-1.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>Russia</td>
<td>7.6</td>
<td>6.5</td>
<td>5</td>
</tr>
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</table>

Inflation projection

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<th>2006</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td>India</td>
<td>4.2</td>
<td>4.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.7</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>China</td>
<td>3.8</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Russia</td>
<td>10.9</td>
<td>10.5</td>
<td>10</td>
</tr>
</tbody>
</table>

* - year end inflation

Source: OECD Economic Outlook
Long term outlook:

The rise of the BRICs

BRICs Have a Larger US$ GDP Than the G6 in Less Than 40 Years

By 2045 BRICs overtake the G6

2025: BRICs economies over half as large as the G6

The Largest Economies Will Not Be the Richest

Source: Goldman Sachs
In the short term, strong overall macroeconomic fundamentals sustained in China, India and Russia and improvements reached in Brazil. This will continue to attract substantial flows of foreign investment, further boosting potentials for the future output growth.

Risks related to global economic imbalances will continue to weight on the outlook for BRIC countries and especially Brazil.

Country specific risks and challenges include:
- *Russia* - sustained upward pressure on the exchange rate and inflation; potential fiscal easing.
- *China* - potential for increased protectionism at Chinese exports.
- *India* - high level of off-budget subsidies for petroleum products.
- *Brazil* - expansionary fiscal policy.

Presidential election in October 2006 (in Brazil) and in March 2008 (in Russia) may add uncertainty to the outlook for these countries.
The BRICs are likely to maintain their comparative advantages in the long term. This will help to ensure relatively high growth rates and therefore increasing share of these economies in the world market.

But the sustainability of high growth will depend on the several crucial factors:

- sound and stable macroeconomic and development policies;
- development of strong and capable institutions (including political);
- human development (improved healthcare and education);
- increasing degree of openness.