BRIC Countries in Comparative Perspective

Kristalina Georgieva
Country Director, Russian Federation

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Outline

- Importance of the BRIC countries for the World economy
- BRIC countries today
  - Demographic indicators
  - General economic indicators
  - Fiscal indicators
  - Institutional indicators
  - Business environment
  - Innovation and competitiveness
- Short and long-term outlook
- Conclusions
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.

Fast growing economies with the biggest source of labor;

They are changing 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.
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.

**Population: 2004 (millions)**

- China: 1300
- India: 1100
- Brazil: 200
- Russia: 150

**Average population growth: 2000-2004 (annual %)**

- China: 1.0
- India: 0.5
- Brazil: 1.5
- Russia: -0.5

*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: current account and gross foreign reserves

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.

**Current account balance:**
2005 (% of GDP)

**Gross foreign reserves:**
2005 (bln USD)

*Source: World Economic Outlook*
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

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.

Source: World Economic Outlook
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.
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
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.

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>121</td>
<td>93</td>
<td>134</td>
<td>96</td>
</tr>
<tr>
<td>Starting a business</td>
<td>115</td>
<td>128</td>
<td>88</td>
<td>33</td>
</tr>
<tr>
<td>Dealing with Licenses</td>
<td>139</td>
<td>153</td>
<td>155</td>
<td>163</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>83</td>
<td>101</td>
<td>65</td>
<td>159</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>60</td>
<td>83</td>
<td>33</td>
<td>60</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>120</td>
<td>63</td>
<td>173</td>
<td>25</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>135</td>
<td>75</td>
<td>133</td>
<td>81</td>
</tr>
</tbody>
</table>

*Source - Doing Business in 2007: 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)
Russia: the investment climate is worse for firms that operate in a competitive environment

How severe are each of the following for the operation of your business?
At the firm level, private R&D expenditures in Russia are low relative to the BIC countries.

**Share of R&D in companies’ sales**

- Russia
- India
- Brazil
- China
Russia’s productivity in manufacturing is lower than in BIC countries, although labor costs are higher than in China and India, suggesting relative problems in industrial competitiveness.

Source: ICA surveys
Russia: recent data indicate slowing growth, especially in tradable sectors of the economy

<table>
<thead>
<tr>
<th>Sector</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>7.3</td>
<td>7.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Agriculture, hunting, forestry</td>
<td>5.5</td>
<td>2.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Extraction of mineral resources</td>
<td>10.8</td>
<td>7.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.5</td>
<td>6.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Electricity, gas, water production and distribution</td>
<td>1.6</td>
<td>0.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Construction</td>
<td>13</td>
<td>10.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Retail and wholesale trade, repair and maintenance of vehicles, white goods and personal effects</td>
<td>13.2</td>
<td>11.2</td>
<td>12.3</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>7.2</td>
<td>10.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Finance</td>
<td>9.6</td>
<td>4.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Immovable property operations, leasing and services provision</td>
<td>3.0</td>
<td>3.1</td>
<td>9.6</td>
</tr>
</tbody>
</table>
Short term outlook: GDP growth rate projections

% increase on a year earlier

Source: IMF
Short term outlook: fiscal balance and inflation

Cons government fiscal balance projection

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<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
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<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>
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<tr>
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<td>7.6</td>
<td>8.4</td>
<td>8</td>
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CPI Inflation projection (average)

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<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>
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<td>China</td>
<td>3.8</td>
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<td>12.6</td>
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</tbody>
</table>

* - year end inflation

Source: OECD Economic Outlook, World Bank staff estimates
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, further aggravation of competitiveness in manufacturing industries.
- **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.
Conclusions (2)

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.
The main comparative advantages of Russia are related to macroeconomic stability and rich natural resources. To diversify away from its growing dependence on natural resources and to maintain its comparative advantage, the Russian economy will need to boost the productivity and international competitiveness of its manufacturing sector. Russia can do this by:

- creating incentives for greater firm-level innovation,
- by improving the skill base of its labor force,
- by creating a stable policy environment that is conducive to competition.
Conclusion (4)

Although improved in recent years, the Russian investment climate is still characterized by significant instability, as well as a tendency to punish its most dynamic and innovative firms.

Creating better investment climate and promoting environment for fair competition is crucial for competitiveness and innovation in Russia.

Countries successful in creating an innovation economy are characterized by a high level of competition and competitive pressures. ICA data confirm the importance of competition for innovation in Russia.

This problem is related to key areas of structural reform in Russia: administrative reform, fiscal federalism, local self-government, competition policy, administrative barriers to business, land reform.