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

COMMONALITIES AND DISSIMILARITIES

- 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

DISSIMILARITIES: DEMAND AND SUPPLY STRUCTURE

- 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

STELLAR GROWTH RATES ARE GONE

- 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