

СЕКЦИЯ «ИННОВАЦИОННАЯ ЭКОНОМИКА И ЭКОНОМЕТРИКА»

BRIC countries as future global giants: the determinants of future economic growth and steps to be taken for its consistency

Тимофеева Людмила Юрьевна

Студент

Сибирский Федеральный Университет, Институт Экономики, Управления и

Природопользования, экономический, Красноярск, Россия

E-mail: tmilya@mail.ru

The economic powers of the world economy have a habit of shifting over time. The new “titans-to-be” are so-called BRICs countries: Brazil, Russia, India, China. These have now all become a synonym to “growth engines of the world economy”. Are these countries really going to become the leaders of the new global economy? What needs to be done to ensure their success? And, more importantly, why is every participant of the globalized economy to care?

BRIC acronym was coined to these countries by Jim O’Neil in his “Building Better Global Economic BRICs” paper for Goldman Sachs Global Economics Series (O’Neil, 2001), where he made predictions regarding these countries’ growth. He could have been much bolder, actually, as the countries have already exceeded his expectations. “By 2008, the BRICs’ combined GDP was about 75% bigger than Goldman Sachs had suggested five years before.” (Puns and punditry How the BRICs were baked, 2011). To give a further example, rather than increasing its GDP to quite lower than that of Italy, Brazil’s GDP overtook Italy’s in 2010, “making it the seventh largest economy in the world, with a GDP of around \$2.1 trillion.” (O’Neil, 2011). By 2011, the economy of China had already outrun Japan’s and had become the second largest in the world. IndiGo, a very low-cost Indian airline, had ordered 180 A320 planes and had become two-thirds the size of long existing easyJet of Europe, while Russia had turned into the largest car sales market in Europe.

Generally speaking, economic growth can be divided into growth in employment, growth in the capital stock and technological progress. Also, according to Robert Barro, a poor country could expect a faster growth than a rich one in case of prevailing rule of law and favorable terms of trade, as well as consistent level of education. Such characteristics as life expectancy, schooling, better health, lower fertility rates, less government consumption relative to GDP, greater adherence to uncorrupted rule of law, improvements in the terms of trade, and lower inflation, along with openness to international trade and the development of financial markets all go hand-in-hand with faster rates of economic growth. (Barro, 1996) BRICs have the potential in those characteristics. What growth drivers BRICs share are their big population, their productivity increase potential as well as their ambition to participate in the globalizing world. However, countries do differ in the way they exploit this potential. One countries absorb foreign innovations faster than others. Consequently, the convergence speeds would vary, even if the gap to be covered was the same.

To estimate the convergence speed, Global Environment Scores (GES) index has been devised. It varies from 0 to 10 and consists of five macroeconomic and eight microeconomic indices, namely inflation, government deficit, investing spending, external debt, degree of openness (macro) and use of cell phones, internet, computers, life expectancy, education, rule of law, corruption and stability of government (micro). “By 2010 Brazil ranked the

highest with GES of 5.5, China second at 5.4, somewhat ahead of Russia at 4.8, with India at 4.0.” (O’Neil, 2011) Compared to that of South Korea at 7.6, BRIC countries have many improvements to undertake in order to be able to fulfill their potential.

A potential problem, facing these four countries, is their level of consumption. Nowadays BRIC countries are dependent on American, European and Japanese demand as that of biggest consumers of the global economy. Should there be a collapse in this demand, BRICs may fail in realizing their growth potential. Global demand contraction may indeed hold great danger for BRIC countries. The countries are trapped, too, as a big part of these countries’ today’s growth model includes low wage growth, compared to high productivity growth, as well as undervalued currency and understated interest rates. The growth model thus needs to be transformed in such a way that also grows domestic demand in order to become less dependent from global demand fluctuations.

Speaking of the importance of BRIC in today’s world, they do not only matter because of their economic weight, but also due to their enormous share of foreign-exchange reserves, accounting for 40% of that of the world. “If the BRICs were to set aside one-sixth of their reserves, they could create a fund the size of the IMF.” Another reason why the BRICs matter is that the world’s most important country thinks they do, and is willing to rope them into decision-making, which is America making way for BRIC in G20. The BRICs are now becoming a way of “telling America that the largest developing countries have their own options and that not all roads lead to Washington.” (The BRICs – the trillion-dollar hub, 2011) However, it should be taken into consideration that being similar in economic perspectives does not necessarily mean similar interests for BRIC.

Another influential characteristic of BRIC is that they not only withstood the crisis better than other economies, but these countries have also recently become donors themselves, helping poorer countries after crisis. It seems that without BRICs the world would have been hit by the recession even harder. Presently, such countries as BRICs “increasingly affect the growth prospects of poorer ones”, according to a study by Overseas Development Institute. The new ties include both Foreign Direct Investment and share of trade: poorer countries now get investment and trade more with middle-income countries (including BRIC), rather than with richer countries. This, of course, has some disadvantages to it as poorer countries stop diversifying their industry: “more trade with the BRICs and less with the rich world is a step down the value chain”, which is not the way BRICs themselves developed. (Crumbs from the BRICs-man’s table, 2010) BRIC influence on the world economy grows, so do the risks, associated with sustainable development of the world as we know it.

To sum up, the BRIC countries have yet to raise their growth environment scores and productivity in order for their potential to be actually achieved. Once they do so, it is very likely that their emergence is going to boost global trade in a dramatic way, and as a result help the rest of the world. Finally, these countries should be seen as “growth markets”, not “emerging markets” to illustrate the whole scale of opportunity lying there.

Литература

1. Barro, R.J., Sala-i-Martin X. Economic Growth, 2nd edition. The MIT Press. 2004
2. Barro, R. J. Determinants of Economic Growth: A Cross-Country Empirical Study. National Bureau of Economic Research. 1996

3. Crumbs from the BRICs-man's table. //Economist.com magazine. 2010
<http://www.economist.com/node/15731508>
4. The BRICs. The trillion-dollar club. // Economist.com magazine. 2009.
<http://www.economist.com/node/15912964>
5. Puns and punditry. How the BRICs were baked. //Economist.com magazine. 2011
<http://www.economist.com/node/21541390>
6. O'Neil, J. Building Better Global Economic BRICs. Goldman Sachs. 2001
7. O'Neil, J. The Growth Map: Economic Opportunity in the BRICs and Beyond. Viking. 2011