

BRIC Countries in Comparative Perspective

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ВСЕМИРНЫЙ БАНК

Outline

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



Why are the BRIC countries important?

§ In 2005 the emerging economies overtook developed economies by their share in the World GDP calculated at purchasing power parity.

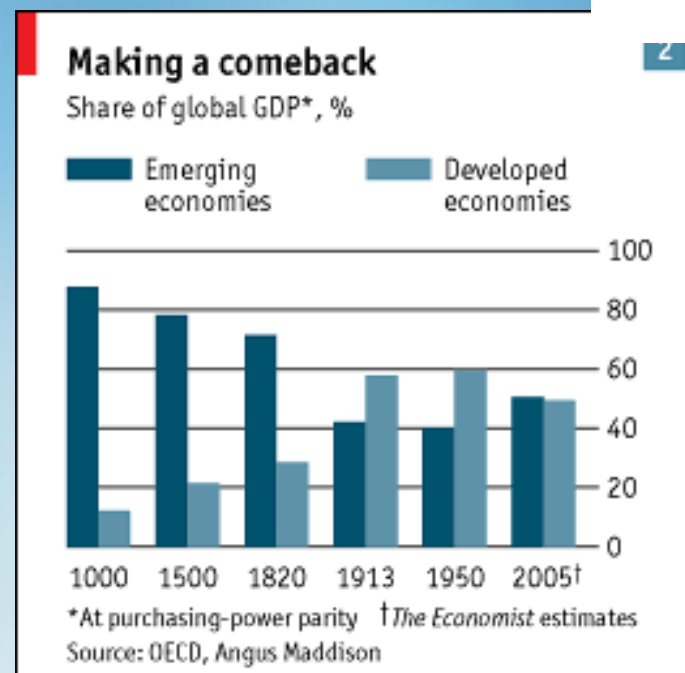
§ The BRIC countries were the main driving force for GDP growth of the emerging economies.

§ 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;

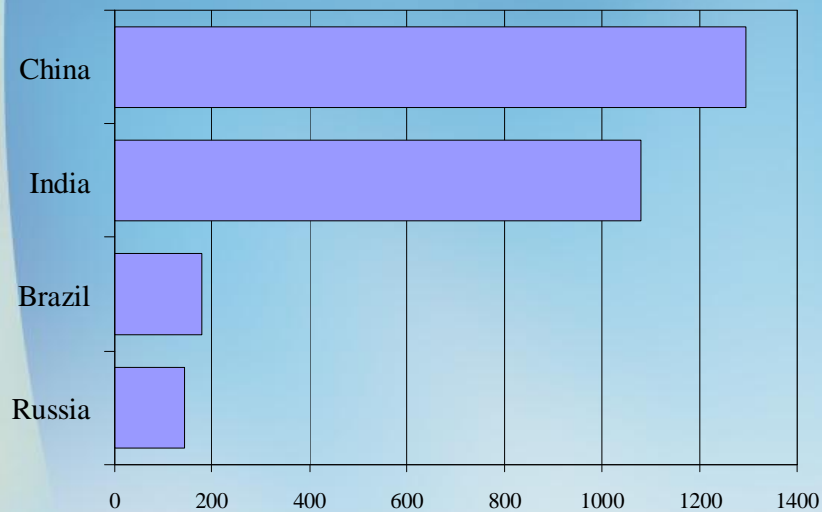
§ Their role in the global policy is increasing as well the geopolitical importance for their regions and the world.



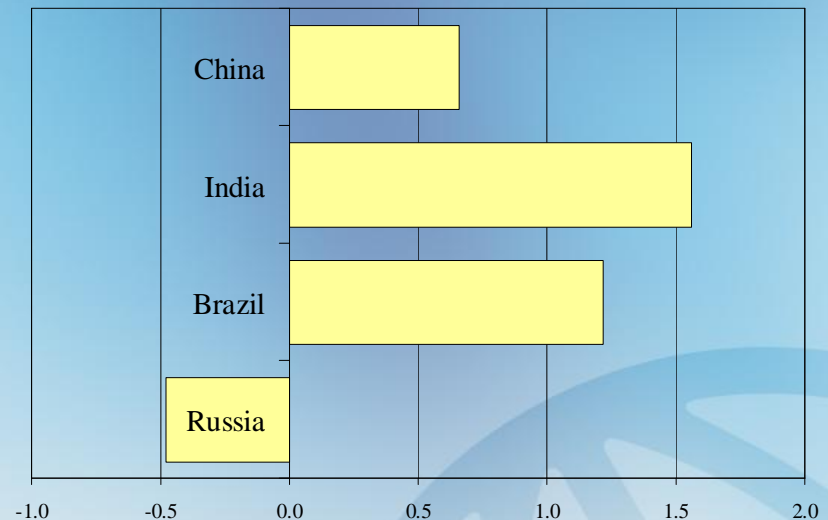
Demographic indicators: size and growth of population

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)



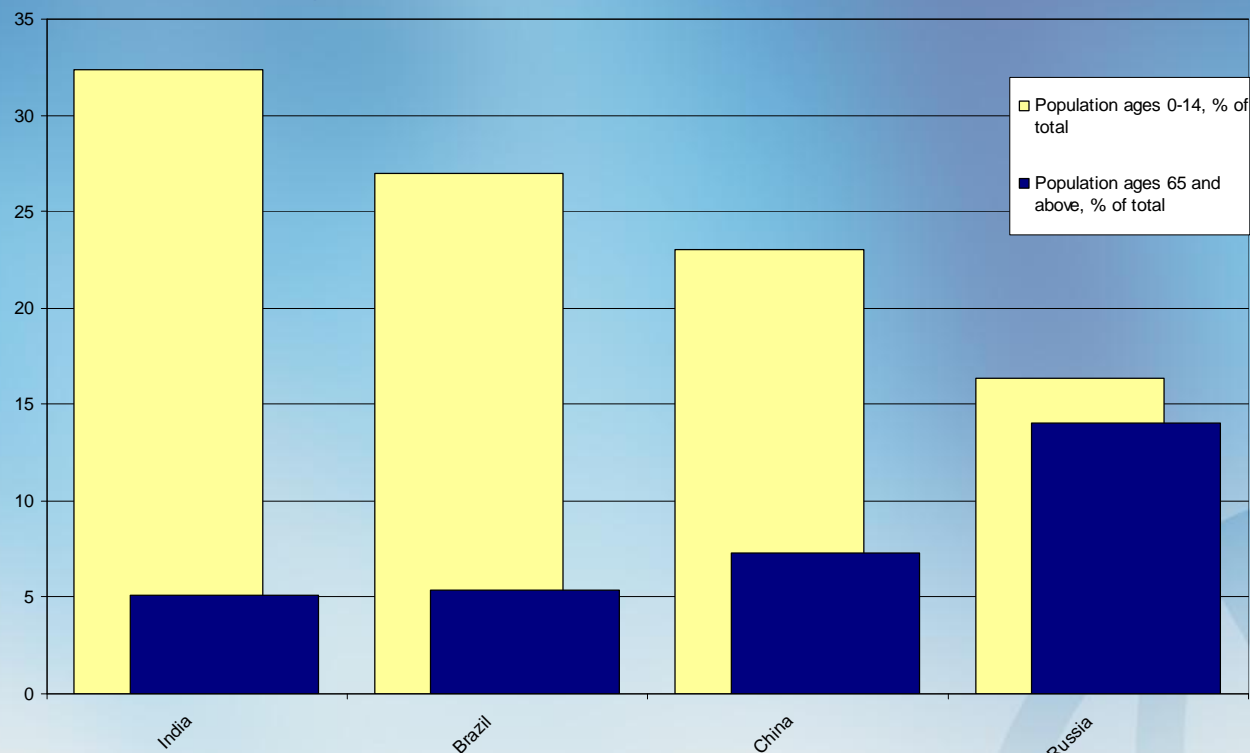
Average population growth: 2000-2004 (annual %)



Demographic indicators: age structure

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

Age structure of the population: 2004



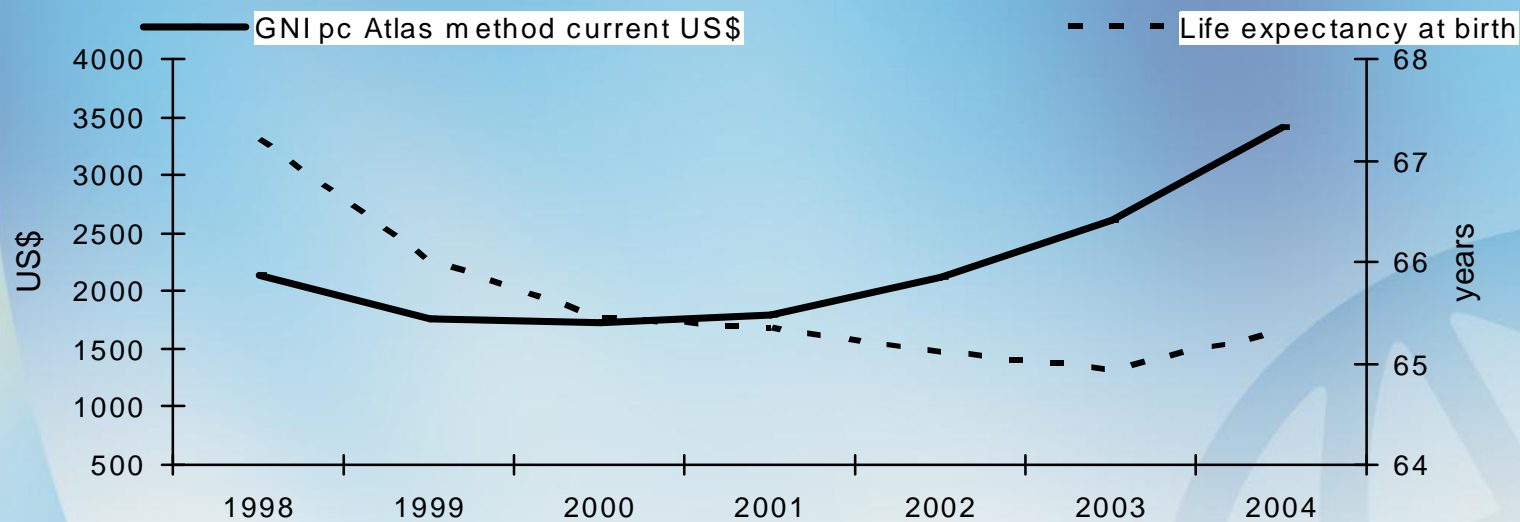
Source: World Development Indicators



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Russia is the only country where until recently life expectancy was not correlated positively with strong growth in incomes

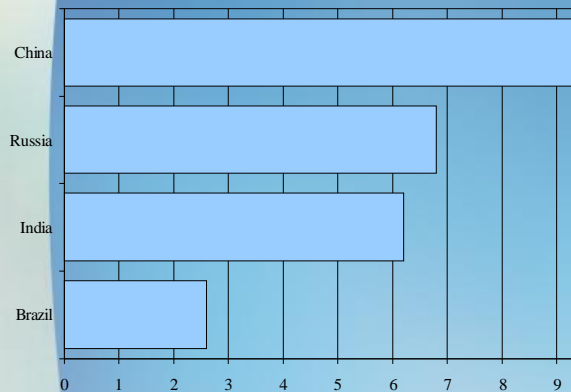
Gross National Income per Capita and Life Expectancy



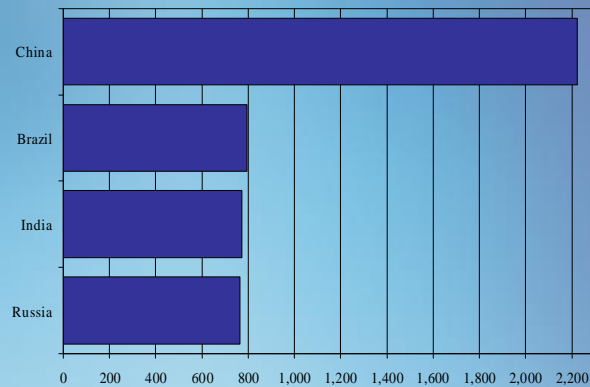
General economic indicators: GDP volume and GDP growth

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.

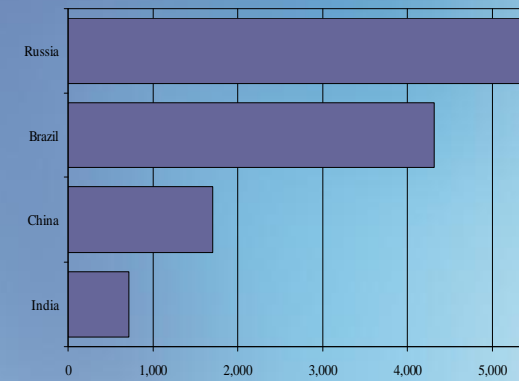
Average GDP growth: 2000-2005 (annual %)



GDP: 2005 (bln USD)



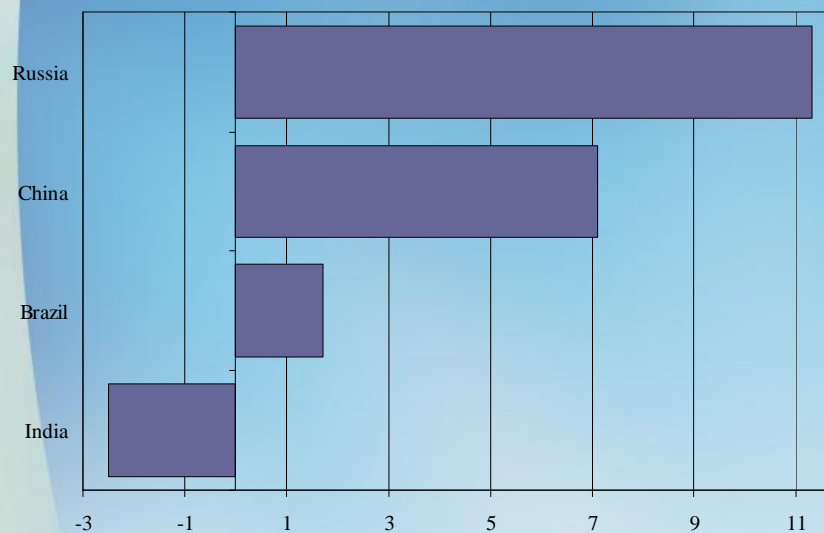
GDP per capita: 2005 (USD)



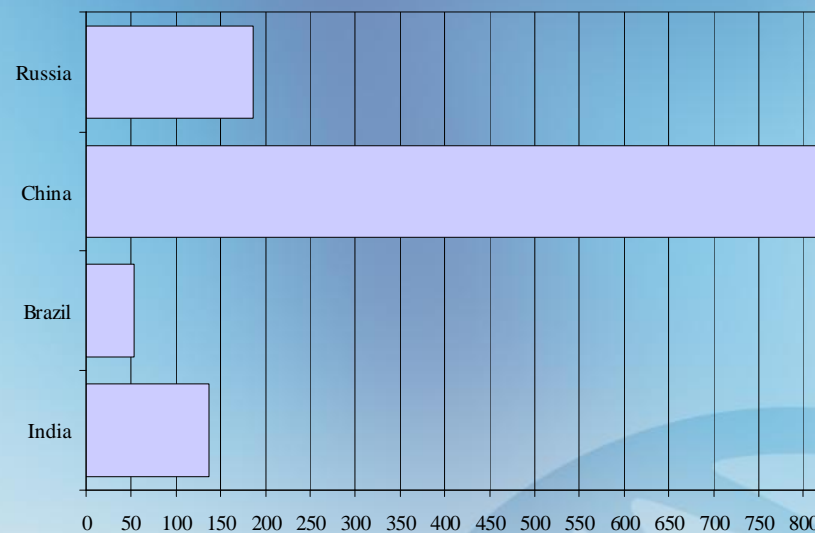
General economic indicators: current account and gross foreign reserves

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)**



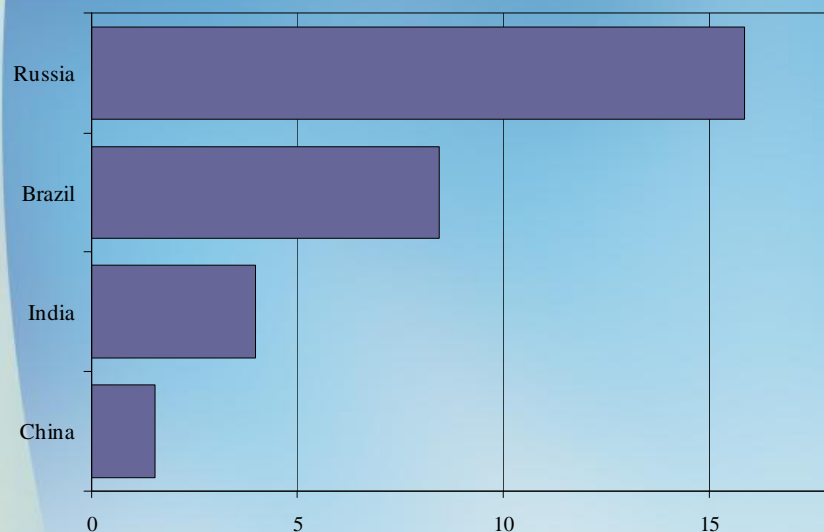
**Gross foreign reserves:
2005 (bln USD)**



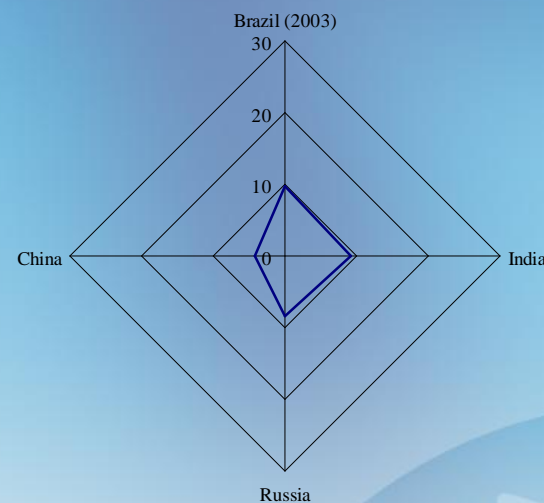
General economic indicators: inflation and unemployment

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**



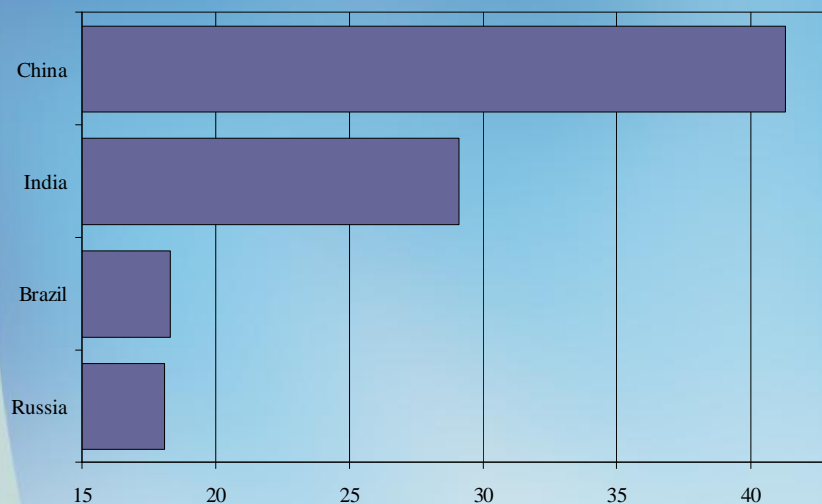
**Unemployment:
2004 (ILO definition, %)**



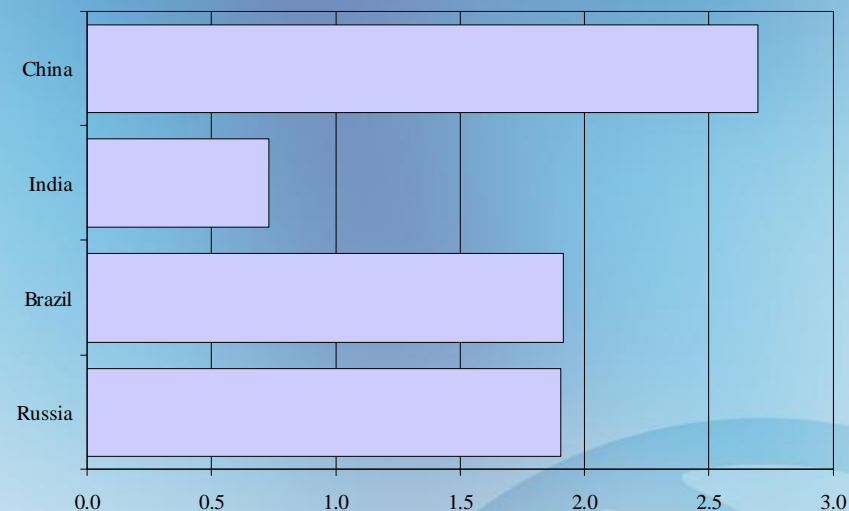
General economic indicators: investments and FDI flows

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.

Share of investment in GDP: 2005 (%)



FDI inflows: 2005 (% of GDP)



Investment = gross fixed capital formation

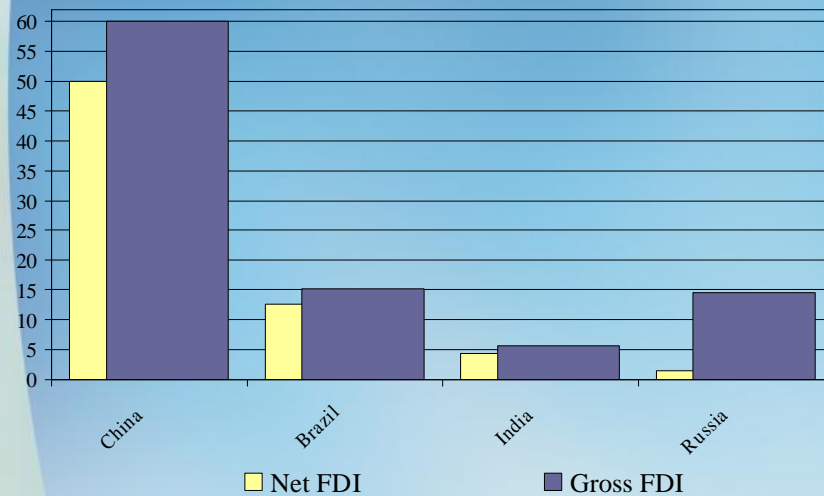
Source: World Development Indicators, World Economic Outlook



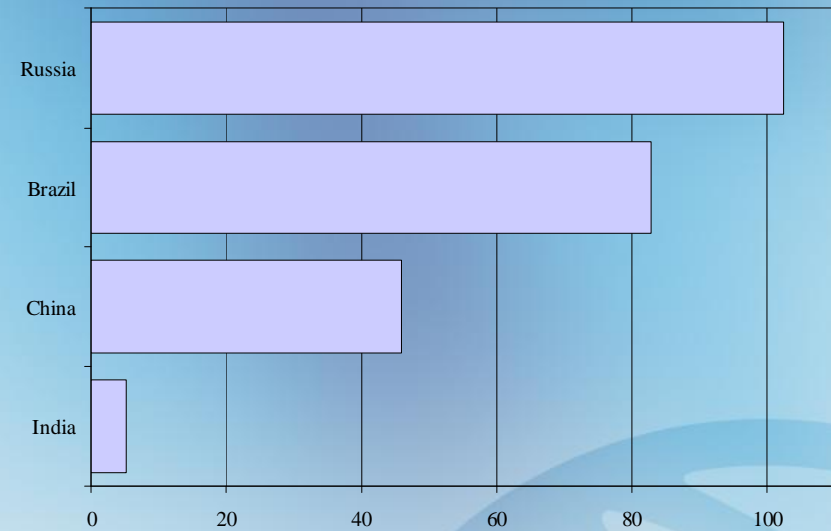
General economic indicators: gross and net FDI

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 (bIn USD, from BoP)



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



Source: World Economic Outlook

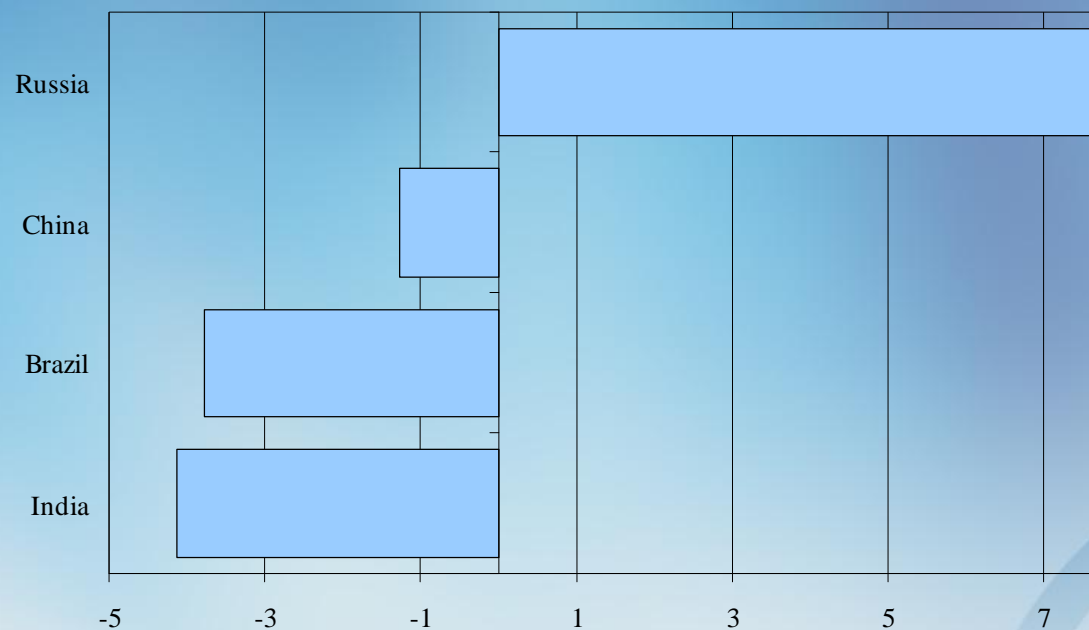


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Fiscal indicators: central government fiscal balance

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

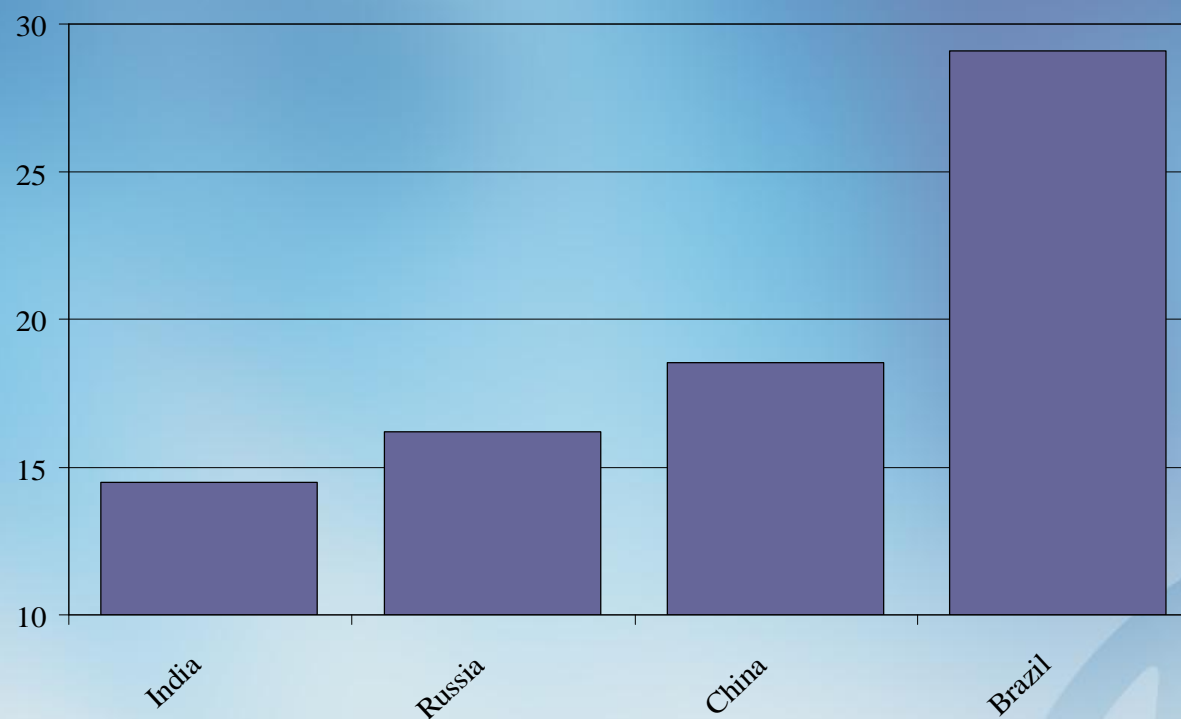


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Fiscal indicators: government expenditures

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

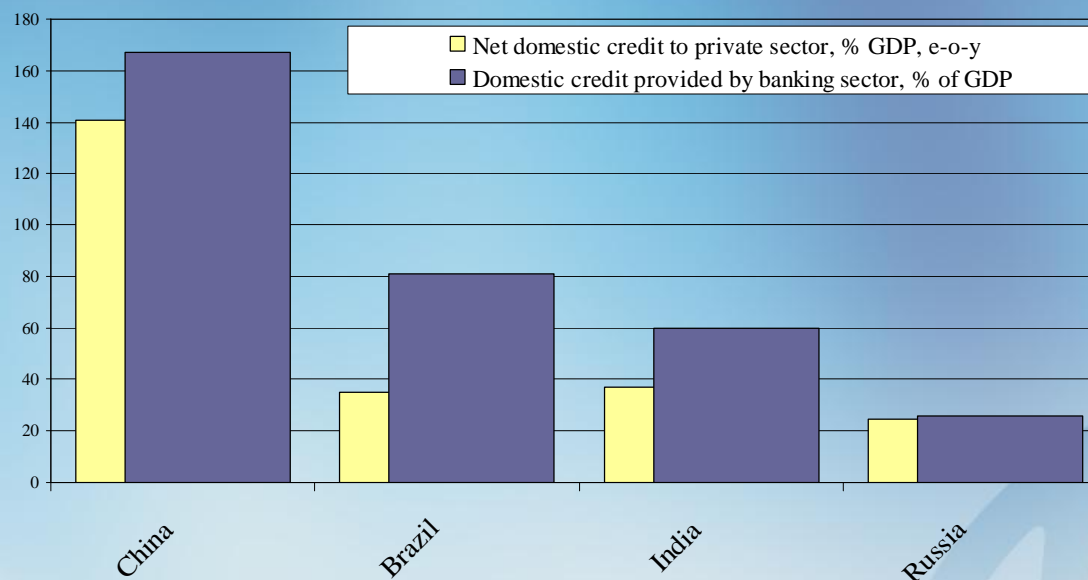


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Institutional indicators: banking sector

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



Business environment

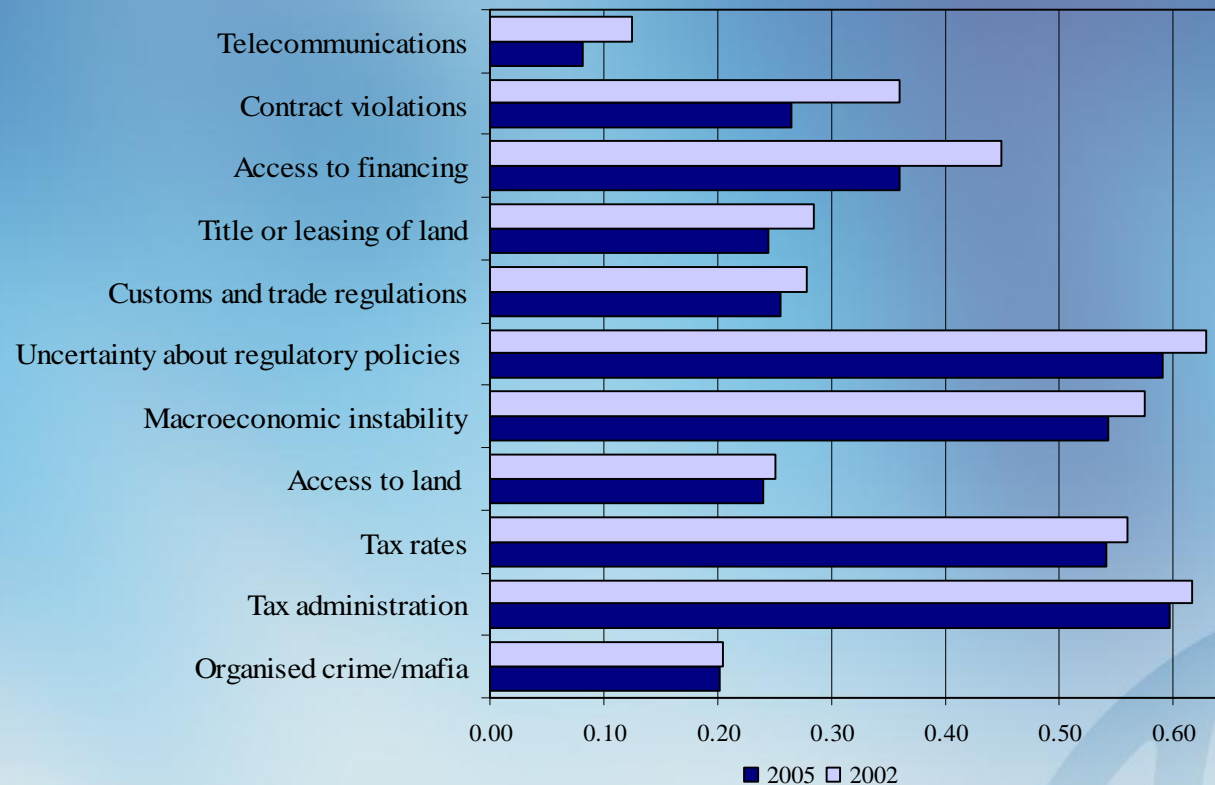
	Brazil	China	India	Russia
<i>Ease of Doing Business</i>	121	93	134	96
Starting a business	115	128	88	33
Dealing with Licenses	139	153	155	163
Getting Credit	83	101	65	159
Protecting Investors	60	83	33	60
Enforcing Contracts	120	63	173	25
Closing a Business	135	75	133	81

Source - Doing Business in 2007: Protecting Investors



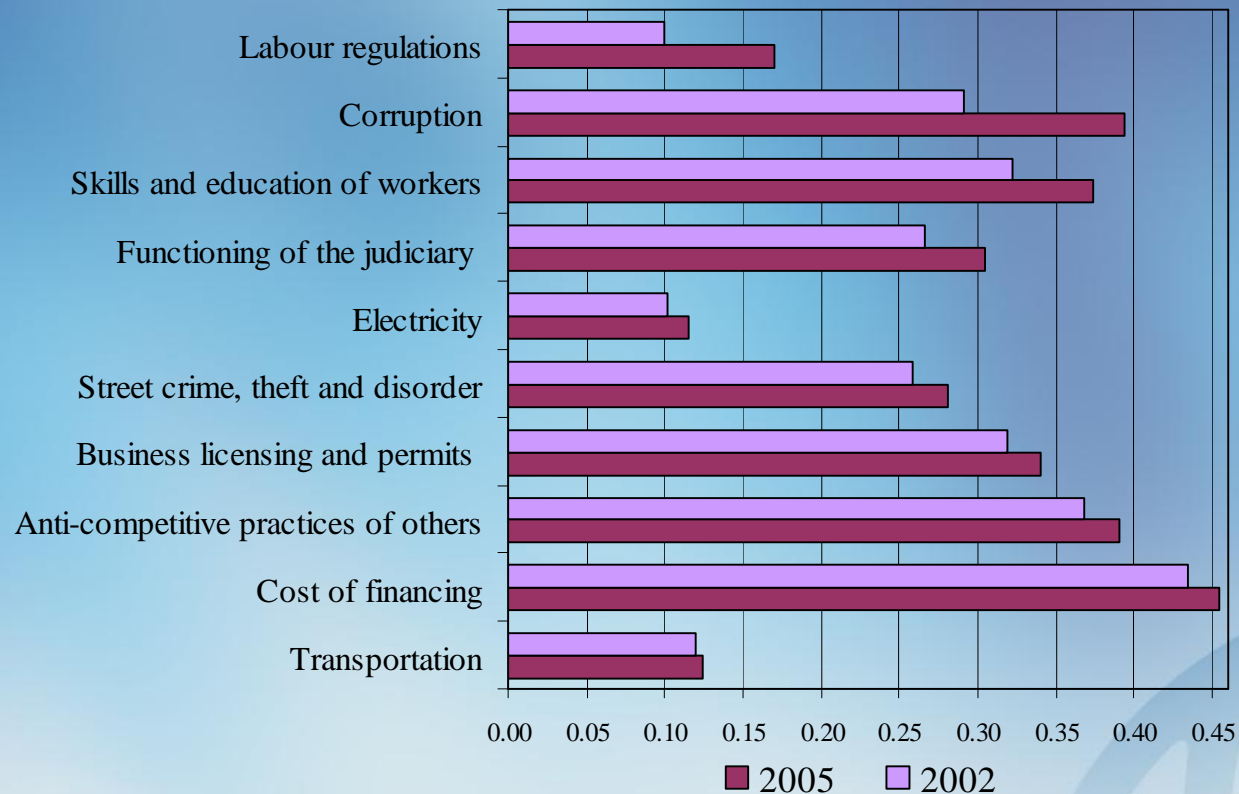
Russia: positive changes in the business environment, 2002-2005

Percent of firms indicating a problem:



Russia: negative changes in the business environment, 2002-2005

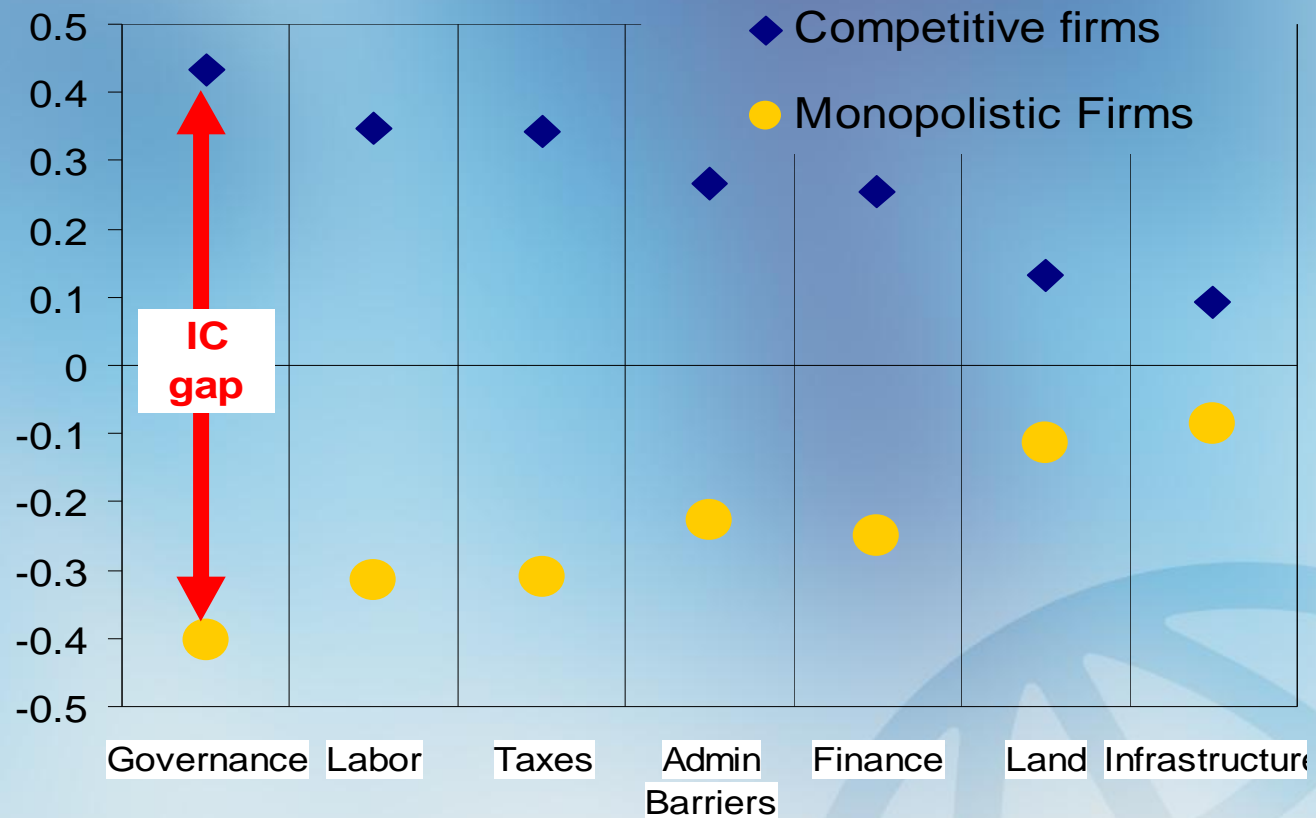
Percent of firms indicating a problem:



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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

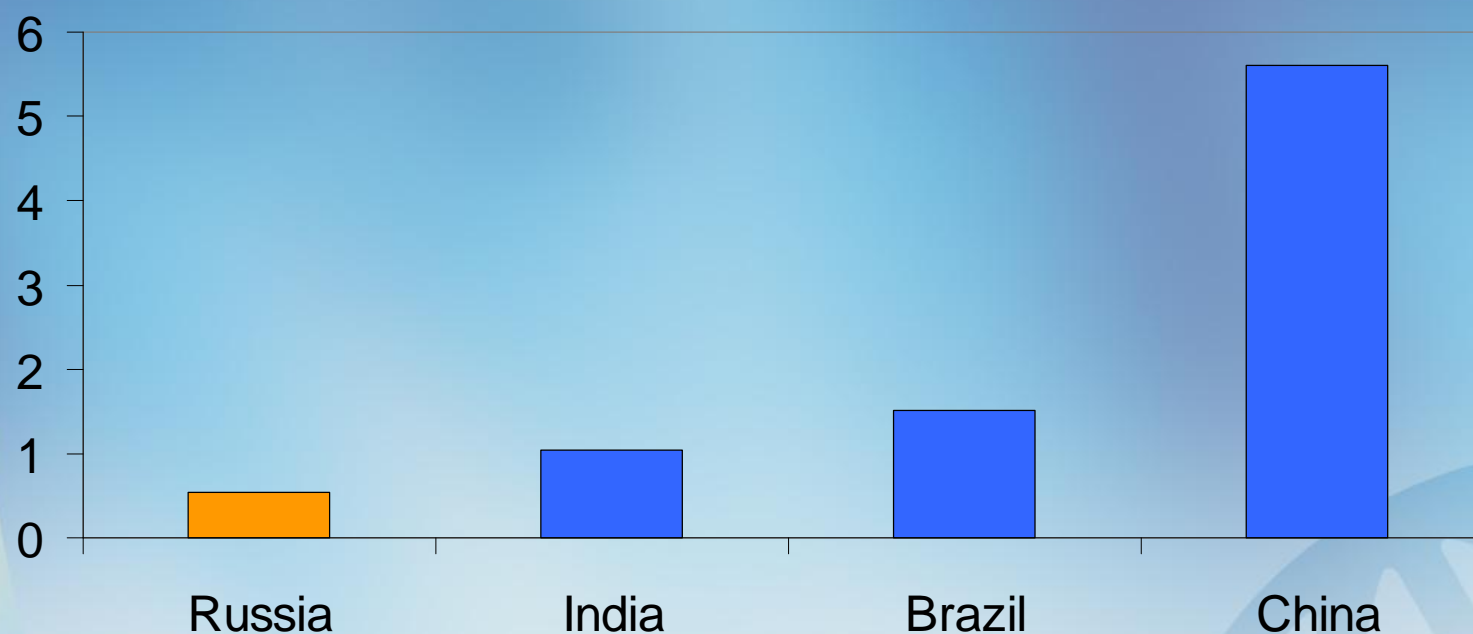


How severe are each of the following for the operation of your business?

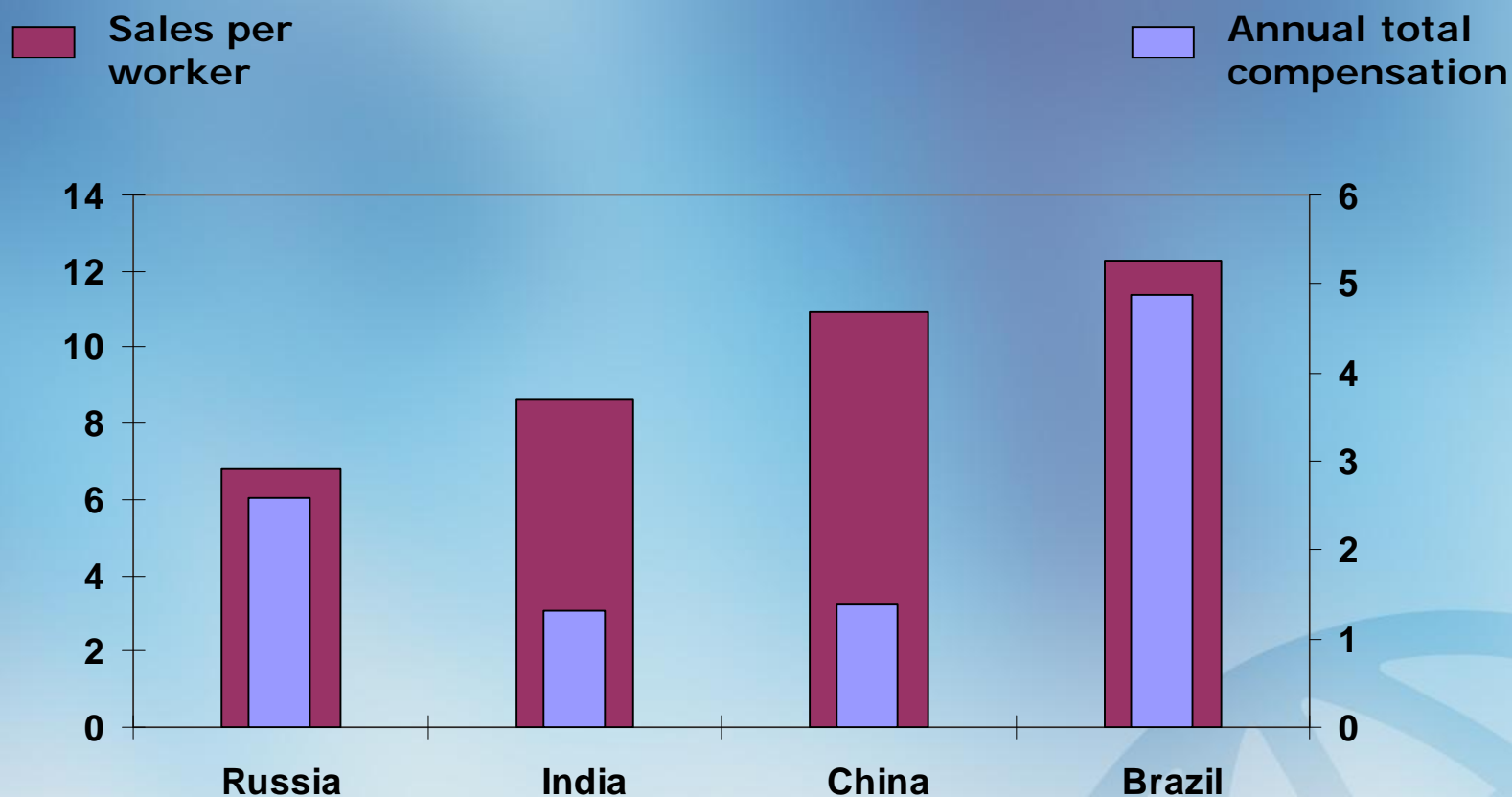


At the firm level, private R&D expenditures in Russia are low relative to the BIC countries.

Share of R&D in companies' sales



Russia'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

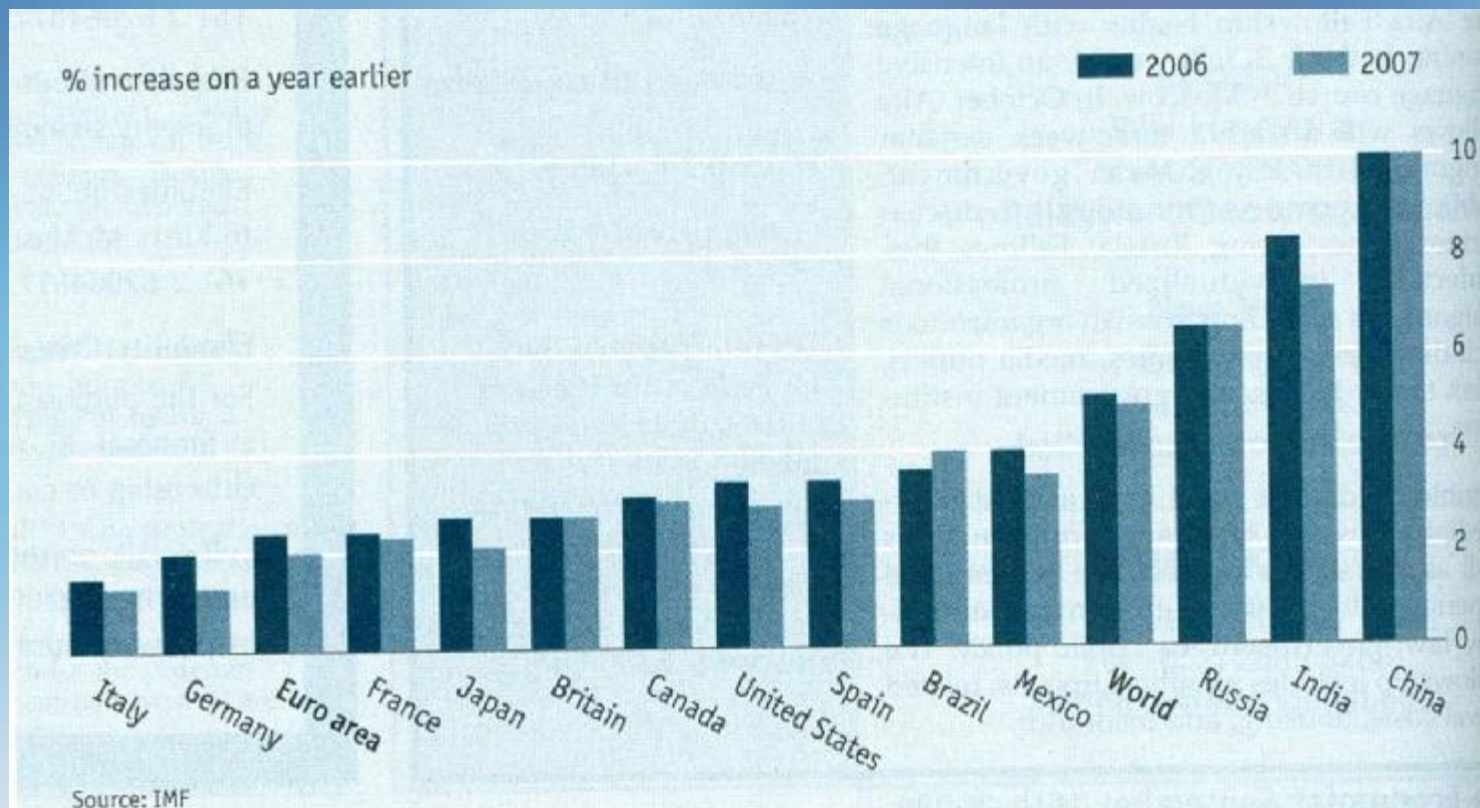


Russia: recent data indicate slowing growth, especially in tradable sectors of the economy

	2003	2004	2005
GDP	7.3	7.2	6.4
Agriculture, hunting, forestry	5.5	2.9	1.1
Extraction of mineral resources	10.8	7.2	1.8
Manufacturing	9.5	6.6	4.4
Electricity, gas, water production and distribution	1.6	0.9	2.2
Construction	13	10.1	9.7
Retail and wholesale trade, repair and maintenance of vehicles, white goods and personal effects	13.2	11.2	12.3
Transport and communication	7.2	10.5	6.1
Finance	9.6	4.5	6.5
Immovable property operations, leasing and services provision	3.0	3.1	9.6



Short term outlook: GDP growth rate projections



Short term outlook: fiscal balance and inflation

Cons government fiscal balance projection

	2005	2006	2007
India	-7.7	-7.2	-6.8
Brazil	-3.1	-2.5	-1.8
China	-0.7	-1.1	-1.2
Russia	7.6	8.4	8

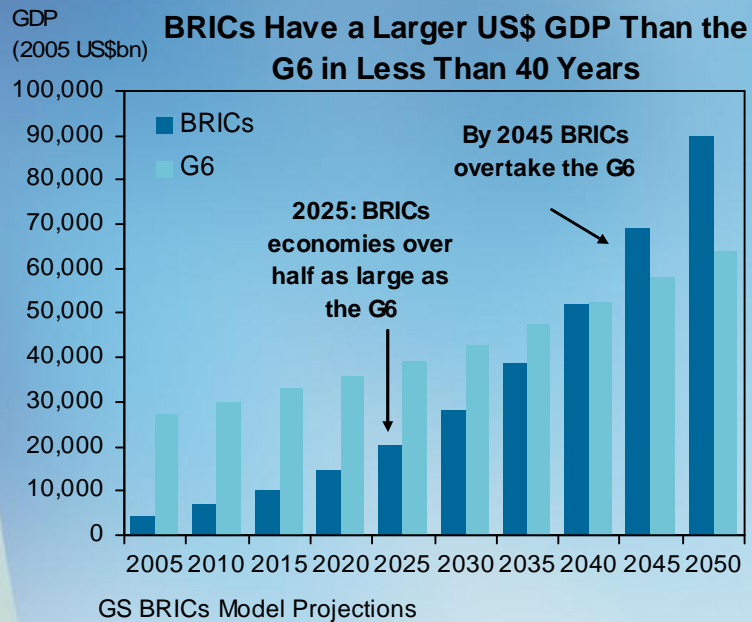
CPI Inflation projection
(average)

	2005	2006	2007
India	4.2	4.8	4.3
Brazil*	5.7	4.5	4.5
China	3.8	3.4	3.5
Russia	12.6	10	8

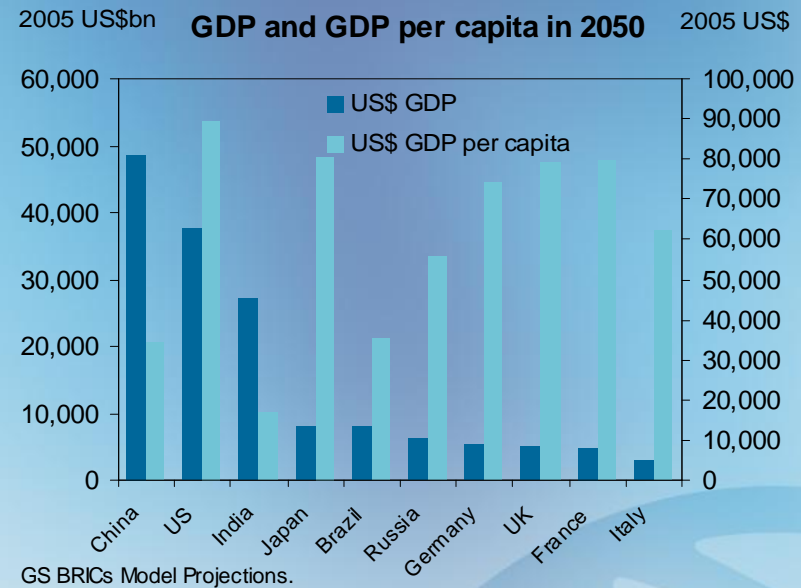
* - year end inflation



Long term outlook: The rise of the BRICs



The Largest Economies Will Not Be the Richest



Conclusions (1)

- n 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.
- n Risks related to global economic imbalances will continue to weight on the outlook for BRIC countries and especially Brazil.
- n 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.
- n Presidential election in October 2006 (in Brazil) and in March 2008 (in Russia) may add uncertainty to the outlook for these countries.



Conclusions (2)

- n 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.
- n 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.



Conclusion (3)

- n The main comparative advantages of Russia are related to macroeconomic stability and rich natural resources
- n 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.
- n 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.

