

The emergence of bric economies and its implications



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The word BRIC was coined by Jim O'Neill, Head of Global Economics. He introduced the acronym BRIC in his paper 'Building Better Economics'. BRIC means four countries namely Brazil, Russia, India and China. The population of BRIC Economies make up 25% of population when compared to that of world's population. BRIC's dream is that these countries together could overtake the combined GDP of the G6 by 2040. Indian economy is projected to be bigger than Japan by 2032 and China is projected to overtake USA by 2041. The Annual increase in US dollar spending could be double that of G6 by 2025 and could be four times bigger by 2050. These countries also accounts for 20% of global GDP

BRIC has played a key role in restoring the global governance from the global economic crisis. Indian Prime Minister Mr. Manmohan Singh in BRIC summit which held last year in Brazil said "A genuine reform of the Security Council by expansion in its permanent membership as well as non-permanent membership and improvement in its working methods is essential to make the UN reflective of contemporary realities." (Manmohan Singh, 2010). He also mentioned that BRIC countries play the fundamental role in shaping a sustainable, leading and pace for global economic growth.

Sustainable growth is reckoned upon capital flows, investment in infrastructure, suitable macroeconomic adjustments and self-satisfaction in financial reforms. The success depends upon bonding upon the scientific and technological resources. The BRIC nations can be exemplar to other countries by pushing up collaborative development, preparation, manufacturing renewable technologies and dispersion of clean energy.

Jim deliberately means that these four countries are a part of the modern world economy.

BRIC Economies

Like the past 6 decades, world is expected to experience the dramatic change in next 4 decades, by which BRIC Economies will be dominating the global economies in 2050. Decision has arrived by applying the demographic predictions, by using capital accumulations model and productivity increases and by mapping out the Capital movements and Currency Movements in the BRIC Economies.

The speed of BRIC's emergence has been faster and bigger than it is expected to be. Jim in his paper ' Building better global economics' BRIC's has indicated that the GDP of the BRIC countries will be 10% higher than that of Global GDP by 2010. But the BRIC countries have achieved 16% US dollar GDP when compared with the world GDP, which was expected to be achieved in the year 2015. " Since then, these countries' equity markets have seen a remarkable increase in their value: Brazil has risen by 369%, India by 499%, Russia by 630%, and China by 201%, using the A-share market, or by a stunning 817% based on the HSCEI" (Goldman & Sachs, Web)

The rise in US dollar GDP will be due to high exchange rates from BRIC economies. It is also expected for a 300% increase in the next 4 decades. " China's currency could double in value in ten years' time if growth continued and the exchange rate was allowed to float freely". [Ref: Dreaming With Bric: The Path To 2050]

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It is also expected a sharp inclination in working-age population in the BRIC economies rather than the developed economies. It will be steeper especially in China and Russia than in India and Brazil.

The following part of the essay describes briefly about BRIC nations

Brazil

In Brazil, GDP growth rate averages 3.6% till 2050. It is forecasted to overtake the Canada, Italy, Spain by 2030, France by 2031, UK and Germany by 2036, which makes the country as the eighth largest economy in the world. If the Commercial potential of oil reserves is sustained, the country will be able to promote its growth prospects as one of the leading exporters in the world. The main progress of development are characterised by skewed growing patterns in the past.

Brazil's demography is advantageous when looking into future. The static mortality rate has led to increase of median age of population which will help them to manage against their declining birth rate. Until 2020, working age of the people is expected to be positive territory when compared against the growing population. This will help them to manage them against their expansion of retired population.

The country also has the benefit of huge natural resource potency, maintaining perfect equilibrium in its political environment and youth labour work-force but palliating by series of structural restraints admitting sharp wealth and income inequalities, difficulty in logistics, deficient in political effectiveness, poor education system and high financial burdens. Exchange rates have risen because the productivity has developed in recent years by <https://assignbuster.com/the-emergence-of-bric-economies-and-its-implications/>

the use of advanced technology in the manufacturing sector, which has also increased the imports of machineries.

Brazil has shown significantly lower growth than the projected rates among the other BRIC countries. It needs to take much emphasis on unlocking its sustainability in higher growth. Measures has also taken to improve primary and secondary education, infrastructure facilities, Simplifying the complex tax systems and reducing the corruptions which will result in firm growth in the productivity for a long term. “ Economist Intelligence Unit’s long-term growth forecast anticipates significantly more rapid average annual GDP growth over the next 22 years (3. 7%) than over the past 25 (2. 3%).” In addition, policy meliorations have formed a basis for sustainment and liberal economy.

The Brazilian economy has seen crunch after the US economic crisis. This crisis is expected to prolong than it is forecasted. This crisis will have a moderate effect over Brazil unlike the previous crisis provided outstanding consolidation of macroeconomic stability has been reduced.

“ Improvements in infrastructure, trade expansion, a broader presence of multinational business and some reduction in the debt-service burden will mitigate the slowing in growth of the labour force and help to sustain labour productivity growth at over 3% throughout the outlook period.” By contrast, the possible significant commercial potential of huge reserves of deep-water oil, recently discovered, represent a major upside risk to our long term forecast

(Brazil – Long Term Outlook)

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Russia

Russia after breaking up with Soviet Union has shifted towards market based and globally integrated economy from a globally isolated and centrally planned economy. Russia is a country which is blessed with its natural resources, high oil prices across the globe has led the country boosting its economy. As well as it was one of the worst effected country in the recent recession because of which the oil prices dropped down and the Russian banks were dried up.

The country has relatively moderate growth rate of 3.7% GDP per head amongst the developed countries. In 2009, GDP per head at PPP was 32% of average income level against US. With these assumptions, the country has managed to attain a growth of 3.7% in GDP per head in a year. Political, Macroeconomic stabilisation and information and Communications technology (ICT) has seen a remarkable development which has helped the business environments. (Russia Long term Outlook)

Russia has been the market leader in exports of energy, it occupies the number one position in export of gas, number two in exports of oil next to Saudi Arabia and third largest exporter of steel and aluminium. Revenues obtained from this sector results for 20% of GDP. Russia is the only country among BRIC's to have energy resources. The cost of long term expenditures has been 18 % of GDP in the last eight years and the government has been laying out money without the expectation of profit. And the labour productivity has grown by 6% per year, which has decreased the part time labour and increased the opportunities for full-time employment. The

Russian government has declared to adorn over \$1trn over the next ten years in roads, rail, ports, pipelines and other infrastructure projects.

Despite the growth, there are certain issued to be addressed by Russian government like increase in ageing population and declining in working population which will further result in high expenses towards retirement benefits. “ The crucial difference between the annual average rates of growth of the total and working-age populations is set to deteriorate to -0.5% in 2011-20.(Russia - Long Term Outlook)”. According to research by R&D sector and educational system, the technological resources are projected to be no longer sufficient for the future. The access to sea has been difficult which may affect the transportation costs about two to three times of international standards. According to 2010 corruption perception index list, Russia’s score was 2. 1 which means highly corrupted. Weak Institution and unfavourable demographic profile and corruption may restrict the growth of the economy in a longer perspective.

In contrast to natural resource dependant countries and Russia has the ability by broadening its economy looking into different areas and investing in Infrastructure will aid them to maintain financial track record.

India

India is one of the fastest growing economies today and is expected to continue growing strongly over at least the next decade. The Population of India is the second largest among the world next to China. Increasing population was seen as one major issue previously, but later this was seen as a big asset towards the growth of country. With a population growth rate

of 1.344% India is also expected to overtake China by 2034. Demography is in favour towards the growth as India is one of the youngest country in the ageing world. It is also projected to have about 100 million working population by the end of 2020.

According to a report published Goldman Sachs, "As a rapidly emerging market, it is not surprising that India has adopted an amalgam of "what has worked in the past" when it comes to training-combining both Western and traditionally Indian approaches." (Focus on India)

India's GDP in term of PPP (Purchasing power parity) is 5th largest in world. GDP on expenditure was 10% in the last decade which dropped down because of the economic meltdown. It is expected to increase from 7.7% (2010/2011) to 8% in 2011/2012 because of the rapid enlargement in private sector and investment. India was expected to overtake the G6 countries by 2030 initially, but the growth has been enormous than what it was expected to be. Now India is expected to overtake G6 countries by 2025 and overtake US economy by 2045.

The advantage of English speaking population has helped them establish firm position in IT sector. India government is trying to cut down the deficit to 5.5% of GDP from 6.8% over last year. GDP of PPP is \$4.046 trillion. GDP for agriculture sector constitutes for 16.1% with 52% of workforce, manufacturing sector constitutes for 28.6% with 14% of workforce and service sector constitutes for 55.3% with 34% of workforce.

The condition which affects the growth of the country is improper governance where Indian government should ensure right delivery by <https://assignbuster.com/the-emergence-of-bric-economies-and-its-implications/>

enhancing its infrastructure facilities. Inflation was 12% in the last year, by 2010 it is expected to decelerate in 2011 where reserve bank of India has tightened the monetary policies. Poverty is still high in India in 2007, 25% of the population was below poverty line. Corruption is another serious issue according to Corruption perception index in 2010 India's score was 3.3 which is pretty high. As well as environmental quality, limited job openings and the rotten education system are the issues which may hinder the economic growth of the nation. Failure in enhancing these issues may result in disaster towards the growth. Enhancing these issues results in strong long term and amazing economic growth.

China:

China masters the prediction of Goldman & Sachs because of its size, rapid growth and urbanisation. China has shifted its economic pattern from a centrally planned one to market based economy. Currently, China is world's largest exporter. It exports commodities like electrical and machineries, apparels, textiles, iron and steel, optical and medical equipment. Major partners in Exports are USA, Hong Kong and Japan. China has the largest number of population in the world. The population growth rate is estimated to be 0.439% in 2011.

China's GDP in terms of PPP is the 3rd largest in the world. 46.8% of GDP is contributed from the manufacturing sector, 43.6% is contributed from service sector and agriculture contributes for 9.6%. In 2010 there was about 819.5 million of working population which was one of the highest in population, out of which majority of the population was from agriculture sector. China will have a different picture among other countries in 2030
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when compared with today. By 2030, China will be no more a low income country about US \$ 37, 000 GDP is projected. But GDP per head is expected to be less than rich countries. GDP per head is expected to be less than 30% among the world's richest countries in 2030.

Despite the recent past economic meltdown has affected exports from china, but china managed to recover quickly through which they were managed to attain 10% growth in 2010 since many countries rely upon china. Also China is under the process of internationalising their currency to increase the trade within Asia and Non- Asia countries namely Argentina and Belarus to make Yuan as one of the major currency in the business market.

Currently China faces issues like inflation in 2010 it crossed the target of 3%. The agricultural land is in wane at the moment. The Chinese government is trying to bring energy production facilities concentrating on nuclear and alternative energy developments. Corruption in China is a serious problem which blocks towards economic growth. According to Transparency International, Corruption perception index for China is 3. 5 in 2010.

Demography which was considered as another aspect for growth can be an issue since the number of ageing population is projected to increase rapidly by 2030 which makes question about the number of working populations. Also, China has recently adopted one child policy which will reduce their birth rate.