"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 7, No. 2, pp. 41–45
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

BRICS' CURRENT ECONOMIC SITUATION: AN ADAPTIVE PHASE?

Iulia Monica OEHLER-ŞINCAI

Institute for World Economy, Romanian Academy, Bucharest, E-mail: monica.oehler@iem.ro, oehler.sincai@gmail.com

Abstract *The main objective of the present paper is to evaluate the determinants of the actual economic situation in the BRICS countries and the major drivers of their economic growth in the long run. On account of the global uncertainties and since the economies worldwide are unlikely to come back to growth rates similar to those preceding the crisis, the BRICS countries have to adapt at these new realities. In spite of many differences as regards their assets, these economies have multiple common characteristics. Besides, some recent initiatives, such as setting up the Asian Infrastructure Investment Bank (AIIB) and the BRICS Bank and reactivation of the Silk Road, attest the determination of these countries to reshape the global economic architecture according to their own needs.*

Key words:
BRICS, economic growth, crisis, slowdown, recession

JEL Codes:
E21, E22, E23, E24, F21, F24, F44

1. Introduction

China's rise and the deepening integration of the emerging countries, especially the BRICS group (Brazil, Russia, India, China and South Africa) into the global economy have been two of the most noticeable shifts at global level after the 1990s. However, the aftermath of the financial and economic crisis apex underscored many vulnerabilities, imbalances, uncertainties and risks, pointing out that economies worldwide are unlikely to come back to growth rates similar to those preceding the crisis and also that there is an urgent need for change, both internally and in the architecture of the institutions governing the world economy (Oehler-Șincai, 2014).

The Chinese authorities have already pushed the national growth model towards a new path, dubbed the "New Normal". This corresponds to the "Great Rebalancing" of the Chinese economy, due to internal constraints, and also to the new realities in the global economy (Oehler-Şincai, 2015a). Taking into account the interdependencies between the BRICS countries and also between them and the other global actors and their specific strengths and weaknesses, we can assert that each of the BRICS countries is characterized by a "New Normal".

In the present paper we emphasize the main determinants of the actual economic situation in the BRICS countries and their major drivers of economic growth in the long run. Cooperation in the BRICS framework is one of them, as underlined by some recent initiatives, including setting up the Asian Infrastructure Investment Bank (AIIB) and the BRICS Bank and reactivation of the Silk Road. Our research, structured in three main parts, followed by the main conclusions, is based on argumentation and longitudinal and transversal comparative analyses supported by the literature, statistics, economic phenomena and processes.

2. Main determinants of the BRICS' actual economic situation

Since 2013, the economic slowdown in the BRICS countries has drawn scholars' attention, not only due to its scale, but also for the reason that this evolution was not anticipated (IMF, 2013, p. 41) and it had a direct impact on the global economy. In 2008, this group of countries accounted for two-thirds of the world GDP growth, in 2011 for half of it, and since 2012 less and less (The Economist, 2013).

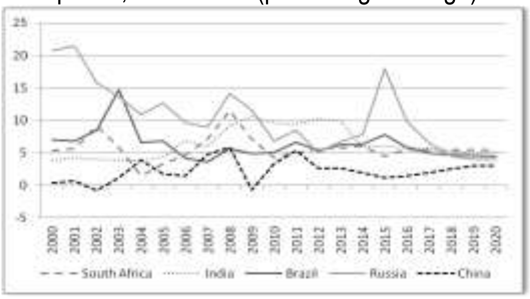
Although this actual phase of *economic slowdown in India, China, South Africa and Brazil* and the *Russian imminent recession* are not as severe as the previous ones (Figure 1), the general trend of slowing-down seems to be a long term one. In the first four mentioned countries, the actual situation is of dual nature: *cyclical and structural* (IMF, 2013, pp. 41-44).

Besides, during 2011-2013, *potential growth* began to fall in all the BRICS countries,[i] due to factors such as: waning of the effects of the national stimulus packages, diminishing of the global demand of goods and services and decreasing commodity prices, the latest determinant affecting Russia, Brazil and South Africa (IMF, 2013, p. 43), but supporting the Chinese and Indian economies. As a matter of fact, although growth is slowing, inflation is not decreasing at the same pace (Figure 2), suggesting that the potential growth has been falling (IMF, 2013, p. 42).

Figure 1. BRICS – Gross domestic product, constant prices, 1980-2020 (percentage change)

Notes: (1) Estimations for 2014 and projections for 2015-2020. (2) Data referring to Russia are available since 1993.
Source: Own representation, based on IMF (2015)

Figure 2. BRICS – Inflation rate, average consumer prices, 2000-2020 (percentage change)



Notes: (1) Estimations for 2014 and projections for 2015-2020.
Source: Own representation, based on IMF (2015)

As regards *Russia*, the context is even more complex, as to the cyclical and structural factors has been added a specific one since March 2014: the Ukrainian crisis and the subsequent Western sanctions against Russia. According to the World Bank (2015), the decrease of oil prices during 2014, associated with the structural weakness of the Russian economy attributable to its excessive dependence on energy exports, the economic sanctions, depreciation of the Ruble, erosion of business and consumer confidence and the implicit rise of costs of external borrowing will lead to the contraction of the Russian economy. The IMF baseline scenario emphasizes a real GDP decrease of 3.8% in 2015 and a further decline of 1.1% in 2016, followed by a gradual recovery.

Recent analyses underscore the strained situation in the Eurozone as a result of the Greek debt crisis and an imminent rise in US interest rates (Asian Development Bank, 2015), with direct repercussions in the BRICS countries, by means of trade and capital flows. The geopolitical tensions in the Middle East and the possibility of a sudden reversal of energy prices are expected to affect all the BRICS countries, with the exception of Russia. Moreover, Brazil, Russia, India and South Africa have strong economic ties with China through the trade channel (Oehler-Şincai, 2014), consequently, any decrease of the demand from China will directly affect these countries.

Concerning the *structural weaknesses*, these are various, including here failures as regards the business climate (IBRD, the World Bank, 2014), human development (UNDP, 2015) and participation at global innovation (Cornell University/INSEAD/WIPO, 2014). Among the BRICS countries, experts tend to bring mainly to the forefront the cases of China and Russia. The economic situation of Russia worsened as a result of the Ukrainian crisis and the Western sanctions. In China, we can remark the limits of the extensive growth, due to extreme dependence on foreign technologies, manufacturing and external markets, excess capacity and diminishing returns, distortioned prices, inefficient allocation of resources, regional imbalances and disparities among income levels (Oehler-Şincai, 2015a). In Russia, one can observe the inadequate physical infrastructure, excessive dependence on commodities and a weak business climate (IMF, 2013, p. 44). Besides, in the medium term, China will end up benefiting from the demographic dividend,[ii] and also in Russia growth will continue to be constrained by negative demographics (IMF, 2013, p. 44).

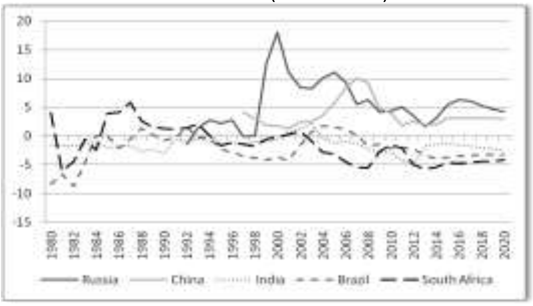
3. Assessing the economic fragility of the BRICS countries

In 2013, India, Brazil and South Africa were included by Morgan Stanley experts in the category of "fragile five" emerging economies, together with Indonesia and Turkey, due in part to their large current account deficits (Oehler-Şincai, 2014 and Figure 3). According to the same analysts, Brazil faces at present "the perfect storm", due to China's economic slowdown, internal problems (including the Petrobras corruption scandal) and higher interest rates in the US (Forbes, 2015). India is not any more on the list of "fragile five" – mainly due to the diminishing of its twin deficits – and its place was taken by Mexico.

India, Brazil and South Africa are running fiscal deficits as well (Figure 4), nevertheless these have a diminishing trend. Fiscal deficits recorded by Russia and China are very low.

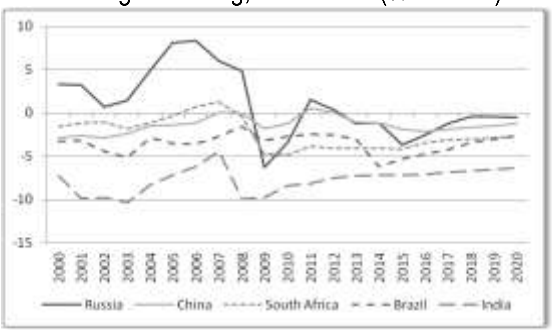
Figure 5 stresses the increase of Brazil's general government gross debt as a percentage of GDP, in parallel with the decrease of India's debt. These levels are at present circa 20 percentage points larger than those of South Africa and China, but the difference will diminish in the medium term, as China and South Africa's public debts as a percentage of GDP are increasing. Russia's general government gross debt, in spite of its increase, will remain inferior to 20% of GDP.

Figure 3. BRICS – Current account balance, 1980-2020 (% of GDP)



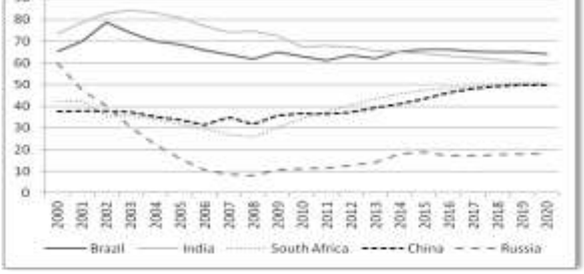
Notes: (1) Estimations for 2014 and projections for 2015-2020. (2) Data referring Russia are available since 1992 and those for China since 1997.
Source: Own representation, based on IMF (2015)

Figure 4. BRICS – General government net lending/borrowing, 2000-2020 (% of GDP)



Note: Estimations for 2014 and projections for 2015-2020.
Source: Own representation, based on IMF (2015)

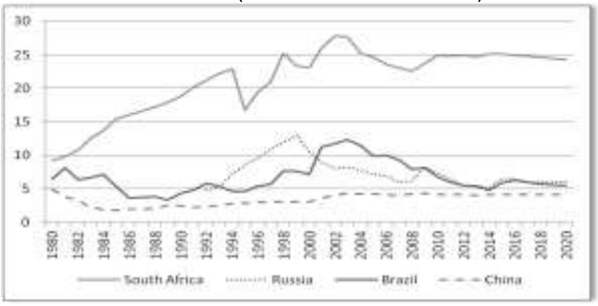
Figure 5. General government gross debt, 2000-2020 (% of GDP)



Note: Estimations for 2014 and projections for 2015-2020.
Source: Own representation, based on IMF (2015)

In *South Africa*, after more than 20 years of freedom and democracy, the unemployment rate still remains at the 25% level (Figure 6). Among the main determinants of such a high rate there are: failure of land reform (associated with large imbalances in land ownership), the mining industry crisis and significant supply bottlenecks.

Figure 6. Unemployment rate, yearly averages, 1980-2020 (% of total labour force)



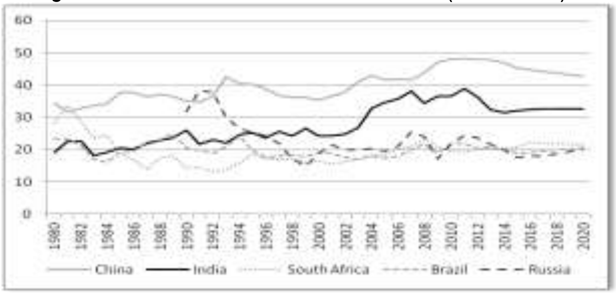
Notes: (1) Estimations for 2014 and projections for 2015-2020. (2) Data regarding unemployment rate in India are not available and those referring to Russia are available since 1992.
Source: Own representation, based on IMF (2015)

As a conclusion, among the BRICS countries, Brazil and South Africa remain the most vulnerable at internal and external shocks. As regards India, its GDP growth rate will outpace China in 2015 (Figure 1) and if the new government implements the promised reforms on time, this country has the chance to benefit from its demographic dividend, low energy prices and combine its growth engines with those of China and thrive (The Economist, 2015). Remittances flows to India and China will continue to play a major role for these economies (The World Bank, 2014). Concerning Russia, due to cyclical and structural factors as well as owing to the Ukrainian crisis and the subsequent Western sanctions, its economy is expected to slip into recession in 2015. Anyway, its fundamentals remain solid. As compared to the other four BRICS countries, China appears to have the strongest fundamentals.

4. Comments regarding the growth engines of the BRICS economies

Consumption, investment and trade are the dominant growth engines of the BRICS economies, but their mix varies and will continue to change in the years to come. Taking the case of China, at present, the contribution of the internal consumption at the economic growth is around 51%, surpassing already the governmental target. At the same time, investments shares in GDP are decreasing (Figure 7) and these are reoriented towards new sectors, such as strategic industries, services and agriculture modernization (Oehler-Şincai, 2015a). Consumption is influenced by the evolution of the middle class and its behaviour, demographics and also by the pace of urbanization.

Figure 7. Total investment, 1980-2020 (% of GDP)



Notes: (1) Estimations for 2014 and projections for 2015-2020. (2) Data referring to Russia are available since 1990.
Source: Own representation, based on IMF (2015)

Taking into consideration the actual situation at global and national levels, the complementarities of the BRICS economies and the shifting of economic power from the developed countries towards the emerging economies, this is the most opportune time for these countries to forge closer links (Oehler-Şincai, 2014).

The BRICS countries have already grasped this opportunity. This is demonstrated by three recent initiatives: setting up two new banks – the Asian Infrastructure Investment Bank (AIIB) which has already 57 founding members and the New Development Bank (BRICS Bank) – and the reactivation of the Silk Road by China (the so-called "One belt, one road" philosophy). On the one hand, these initiatives are related to the BRICS' determination to lay the foundations of a new economic world order. On the other hand, they are directly related to China's leadership and needs. The second economy worldwide in terms of nominal GDP is still the "Factory of the World", but it intends to become a global leader in science and technology until 2050. On its path towards the position of global innovator and high-technology producer, alongside the sharp increase of wages and competition, China will resort more and more to the delocalization of its production capacities in the neighbouring countries, where the production costs are lower (Oehler-Şincai, 2015b). As this process requires an adequate infrastructure not only for the production but also for the merchandise transport to consumers, China needs to finance infrastructure development in Asia.

5. Conclusions

The global economy is unlikely to return to growth rates similar to those preceding the crisis. Besides, the BRICS' actual economic situation is characterized by an evident slowdown in the long run. Regarding Russia, the context is even more complex, as to the cyclical and structural factors has been added a specific one since March 2014, namely the Ukrainian crisis and the subsequent Western sanctions against Russia.

Our analysis emphasizes that, among the BRICS countries, Brazil and South Africa remain the most vulnerable at internal and external shocks. Russia's fundamentals are still solid, due to the positive current account balance, insignificant fiscal deficit and low government debt. India, with a GDP growth rate estimated to outpace that of China in 2015, has the chance to benefit from its demographic dividend and low energy prices and combine its growth engines with those of China and thrive, but with the condition that the new government implements the promised reforms on time. As compared to the other four BRICS countries, China appears to have the strongest fundamentals.

Consumption, investment and trade are the dominant growth engines of the BRICS economies nevertheless their mix varies and will continue to change in the years to come. Gradually, consumption has become the most significant of them and it is largely influenced by the evolution of the middle class and its behaviour, demographics and also by the rapid pace of urbanization.

Considering the actual situation at global and national levels, the complementarities of the BRICS economies and the shifting of economic power from the developed countries towards the emerging economies, now is the right moment for these countries to forge closer links.

References

Asian Development Bank, *Asian Development Outlook 2015, Financing Asia's Future Growth,* Philippines, 2015

Cornell University/INSEAD/WIPO, *The Global Innovation Index 2014: The Human Factor in Innovation*, Geneva, Switzerland, 2015

The Economist, *India's economy, A chance to fly*, February 21, 2015.

Forbes, *The 'Fragile Five' Are Back And Brazil Leads The Pack*, March 11, 2015

International Bank for Reconstruction and Development (IBRD) / The World Bank, *Doing Business 2015 – Going Beyond Efficiency*, 12th edition, Washington D.C., 2014

International Monetary Fund (IMF), *World Economic Outlook 2015*, database available on-line at: http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx, 2015

IMF, *World Economic Outlook, Transitions and Tensions*, October, 2013

Oehler-Șincai, I. M., *The "New Normal" of the Chinese Economy from the Standpoint of Investments*, Journal of Global Economics, Volume 7, No. 1, 2015a, pp. 177-200

Oehler-Șincai, I. M., *„Noua Normalitate" a economiei Chineze și rațiunea constituirii Băncii*

Volume 7, No. 2, pp. 41–45, © 2015 Pro Universitaria

Asiatice pentru Investiţii în Infrastructură, forthcoming, Tribuna Economică, 2015b.

Oehler-Șincai, I. M., *Standpoints Regarding the BRICS Construction,* paper prepared for the international conference ESPERA, Institute for World Economy, 13-14 November, Bucharest, 2014

UNDP, *Human Development Report 2015 – Rethinking Work for Human Development*, New York, February, 2015

The World Bank, *Russia Economic Report 33: The Dawn of a New Economic Era?*, April 1, 2015

The World Bank, *Migration and Development Brief, No. 22, Migration and Remittances Team*, Developing Prospects Group, April 11, 2014.

[i] According to IMF (2013), the reduction is about ¼ to ½ percentage point for South Africa, Russia and Brazil and between 1 to 1½ percentage points for China and India

[ii] Meaning that the working age population is larger than the dependent population