

Challenges and Opportunities in the Emergence of the BRICS

Amar Bhattacharya

G-24 Secretariat

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Overview

1. Structural transformation in the global economy
2. Impact and legacy of the crisis
3. Role and Impact of China and the BRICS
4. Implications for global governance

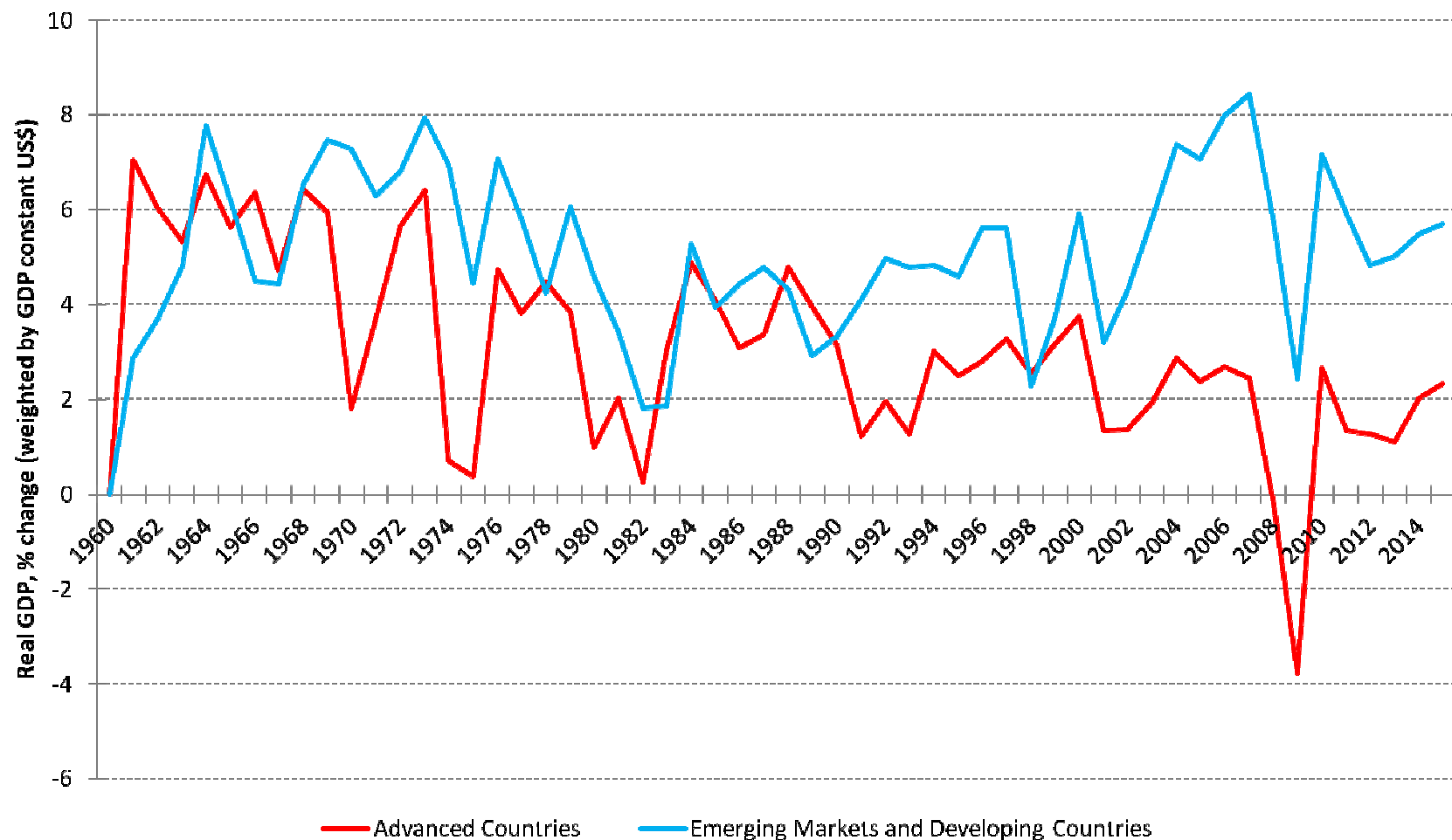
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Structural Transformation

- ❑ World Economy at a point of structural transformation in the relationship and position between developed and developing countries
- ❑ Change has been highlighted and accentuated by the crisis but had started well before
- ❑ For almost 60 years developing country growth tracked that of developed countries and with depreciating countries led to growing divergence
- ❑ During the past decade there has been a structural decoupling even though there are strong cyclical links

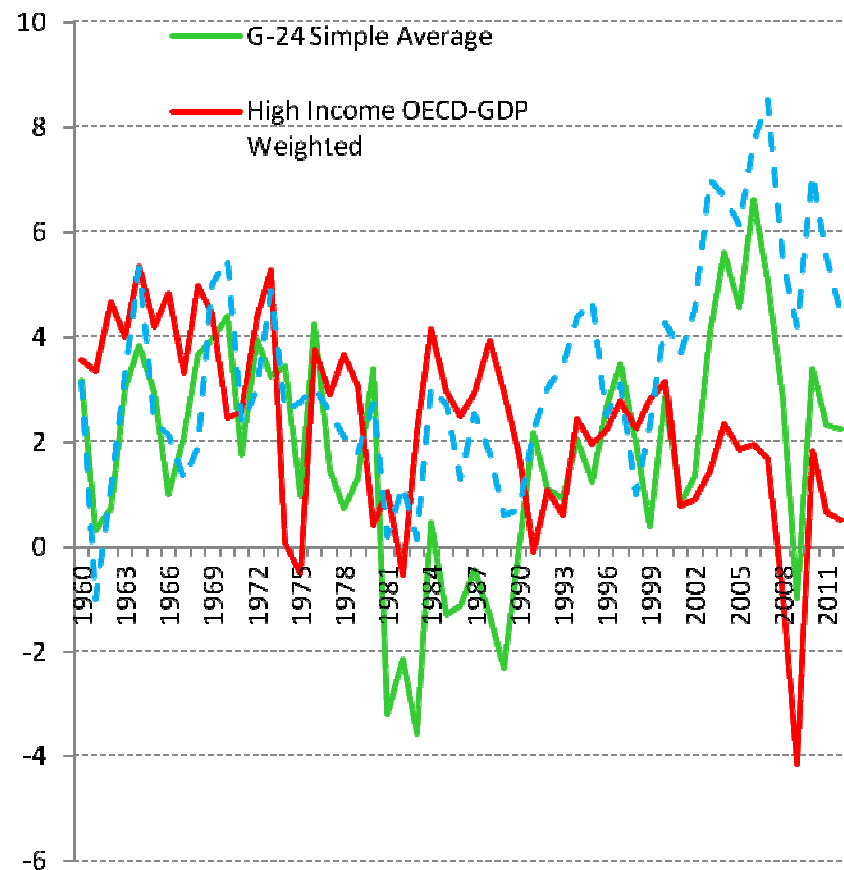
Growth in EMDCs has Outpaced AEs since the mid-1990s



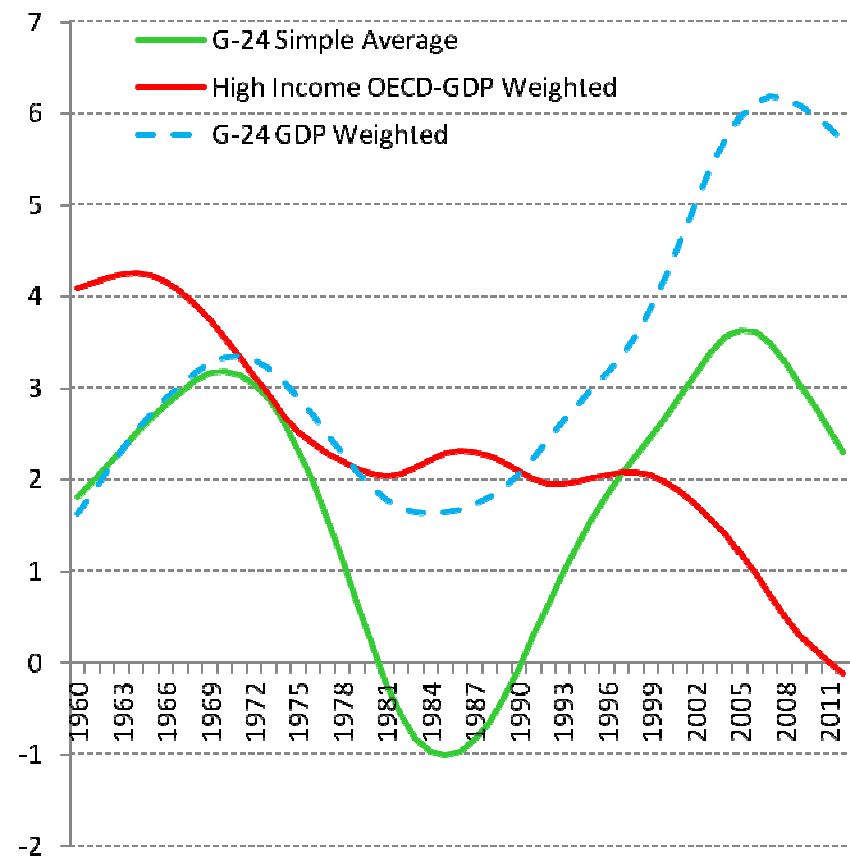
Source: G-24 calculations based on data from World Economic Outlook, IMF and World Development Indicators, World Bank

Structural Decoupling but Strong Cyclical Links

Per-Capita GDP Growth 1960-2012



Per-Capita GDP Growth Trend 1960-2012
(Hodrick-Prescott Filter)



Source: Canuto (2013), World Bank Poverty Reduction and Economic Management Department

The Global Rank of Economies Has Shifted Markedly in the Last Four Decades

GDP (PPP), \$Billions

Rank	1980		1990		2000		2015	
1	United States	2788	United States	5801	United States	9951	United States	18012
2	Japan	997	Japan	2370	Japan	3256	China	16647
3	Germany	762	Germany	1447	China	3015	India	5930
4	France	537	France	1027	Germany	2144	Japan	5095
5	Italy	509	Italy	976	India	1571	Germany	3497
6	United Kingdom	450	United Kingdom	922	France	1532	Russia	2957
7	Brazil	446	China	910	United Kingdom	1486	Brazil	2780
8	Mexico	337	Brazil	786	Italy	1404	United Kingdom	2572
9	India	286	India	745	Brazil	1234	France	2438
10	Canada	280	Mexico	612	Russia	1121	Mexico	2055
11	Spain	272	Canada	558	Mexico	1065	Italy	1943
12	China	248	Spain	551	Canada	911	Korea	1897
13	Netherlands	150	Korea	336	Spain	900	Canada	1676
14	Poland	150	Australia	306	Korea	776	Indonesia	1549
15	Australia	146	Turkey	291	Australia	525	Spain	1499

Source: WEO Database, IMF

Contributions to World Growth

(percent)

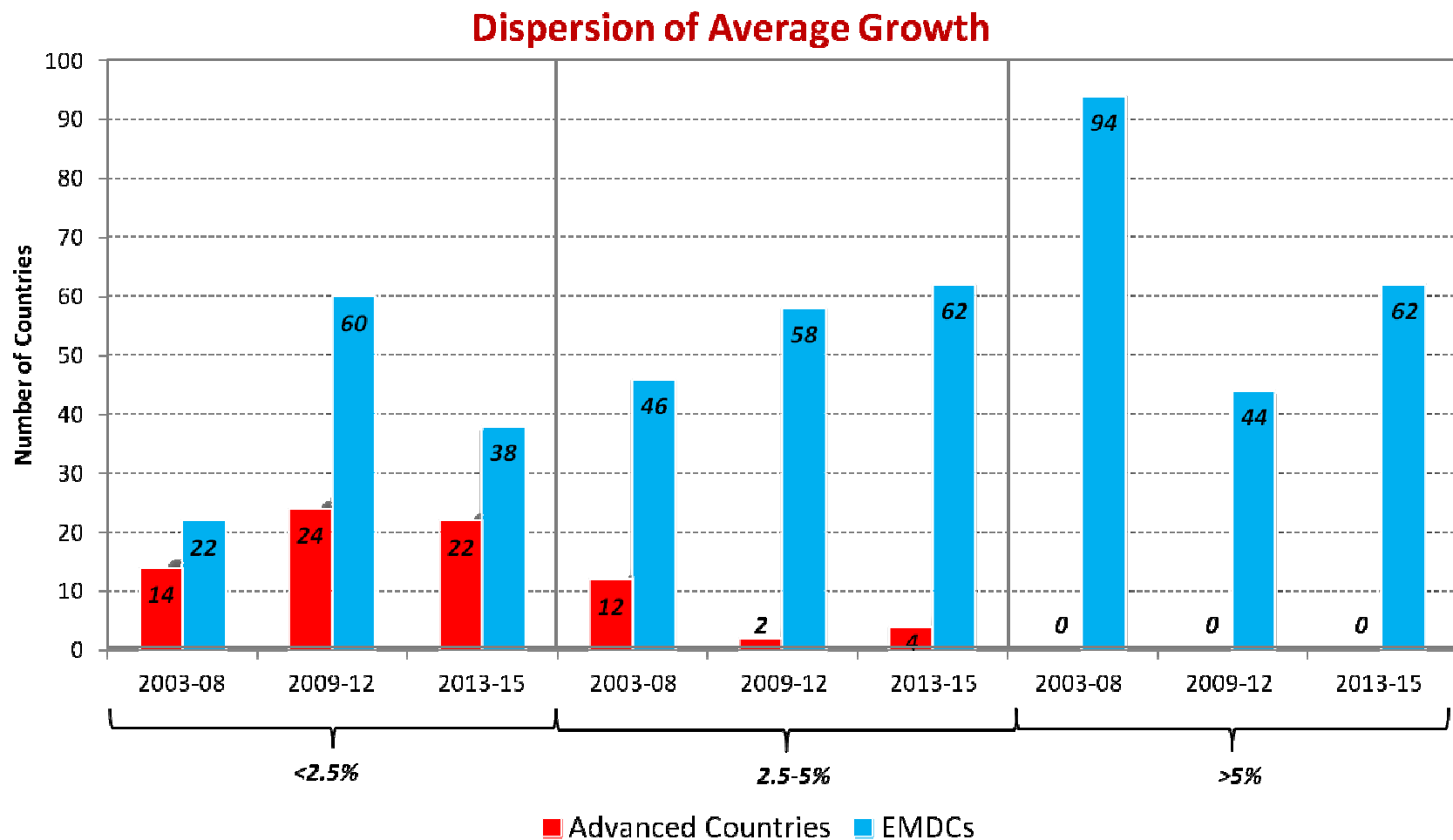
	1981 to 1991	1991 to 2001	2001 to 2011	1981 to 2011
United States	21.2	26.3	9.6	17.0
Euro Area+ UK	20.6	17.3	6.4	12.6
Japan	11.4	2.4	1.0	3.7
China	8.7	17.9	29.6	21.6
India	4.4	6.5	10.1	7.8
Rest of World	33.8	29.7	43.4	37.3

Source: A. Virmani calculations based on data from World Economic Outlook, IMF (September 2011)

Structural Transformation

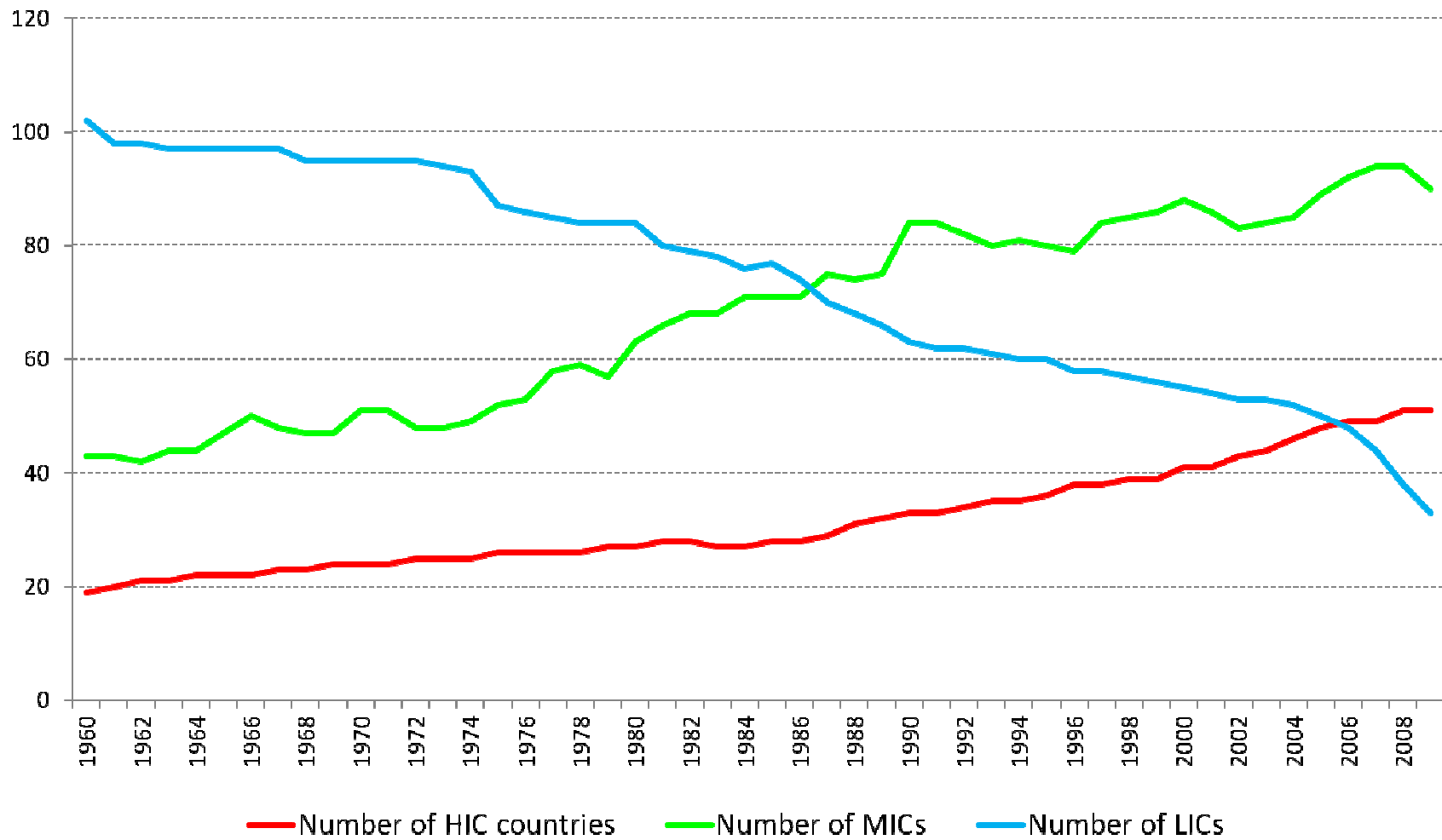
- ❑ Not a story of China and India or of a few emerging markets and developing countries
- ❑ Prior to crisis, 94 EMDCs recorded growth in excess of 5 percent per annum and 90 percent of EMDCs grew faster than the average of AEs
- ❑ Trend will be continued; although average growth of both AEs and EMDCs is lower than before the crisis, differential will be sustained
- ❑ Particularly striking that low income countries and SSA are part of this trend
- ❑ Underpinning this impressive growth has been a virtuous cycle of rising savings and investment, growing trade and macroeconomic resilience

Increasing Number of EMDCs are on Path to Convergence

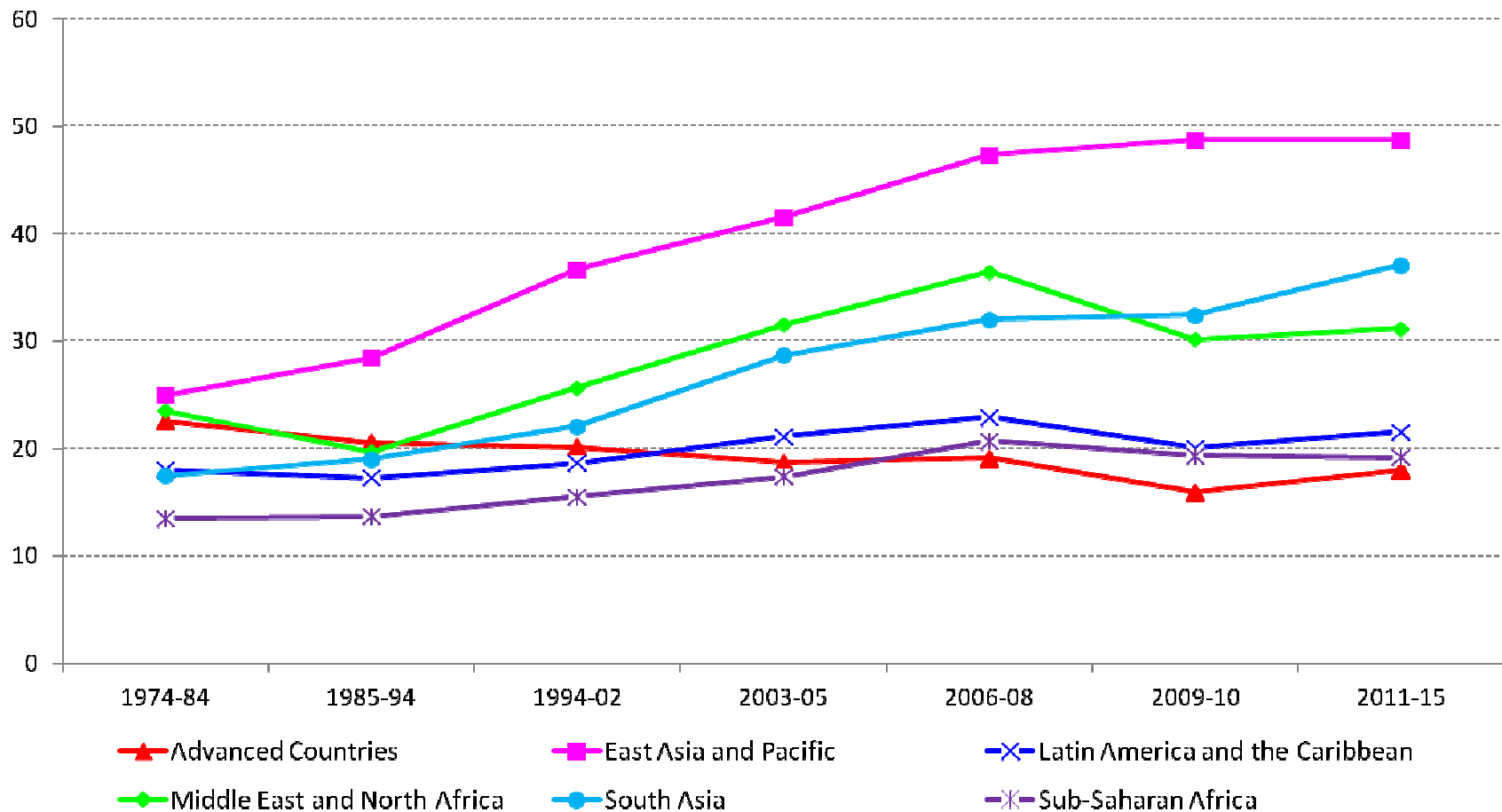


Source: G-24 calculations based on data from the July 2013 World Economic Outlook Update, IMF.

Income Groups are Gradually Converging



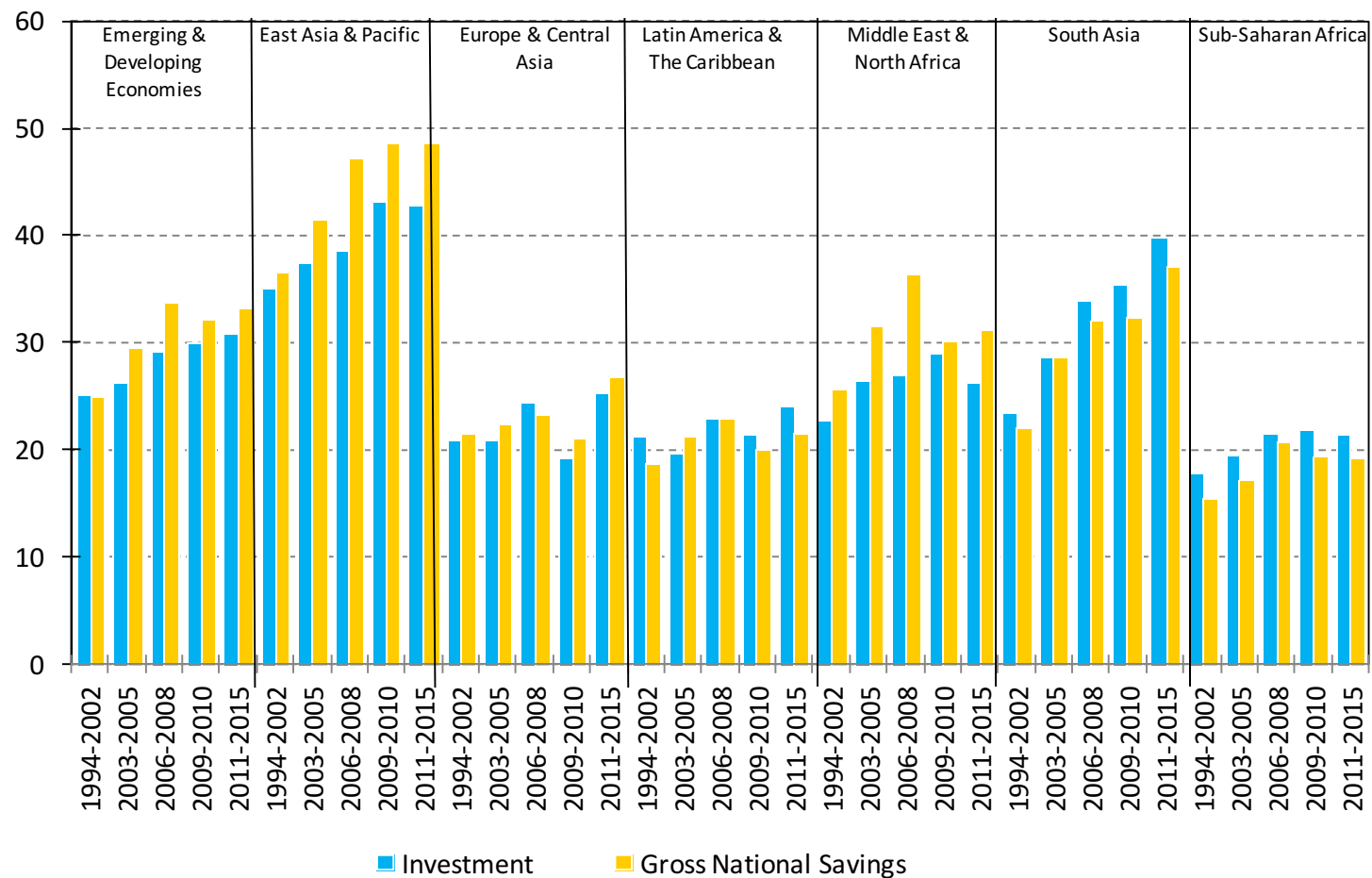
Long-term Savings in EMDCs Have Been on a Rising Trend



Source: G-24 calculations based on Loayza et al. (2000) World Economic Outlook, IMF and World Development Indicators, World Bank databases

Investment and Savings Trends in Developing Countries, 1994-2015

(Percent)



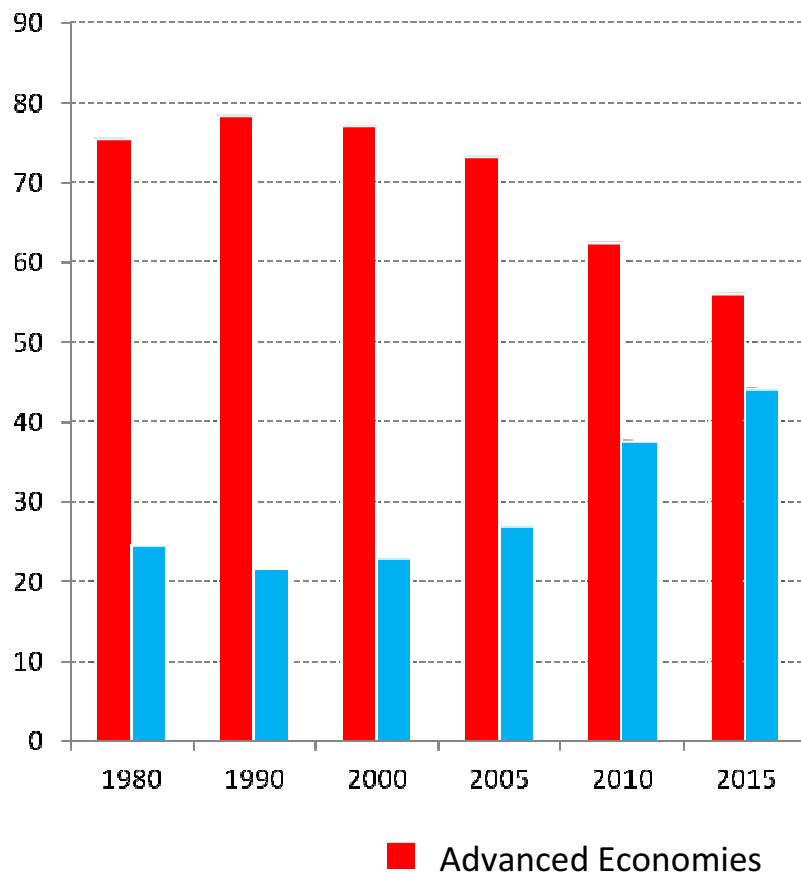
Source: G-24 calculations based on data from World Economic Outlook Database, IMF

Structural Transformation

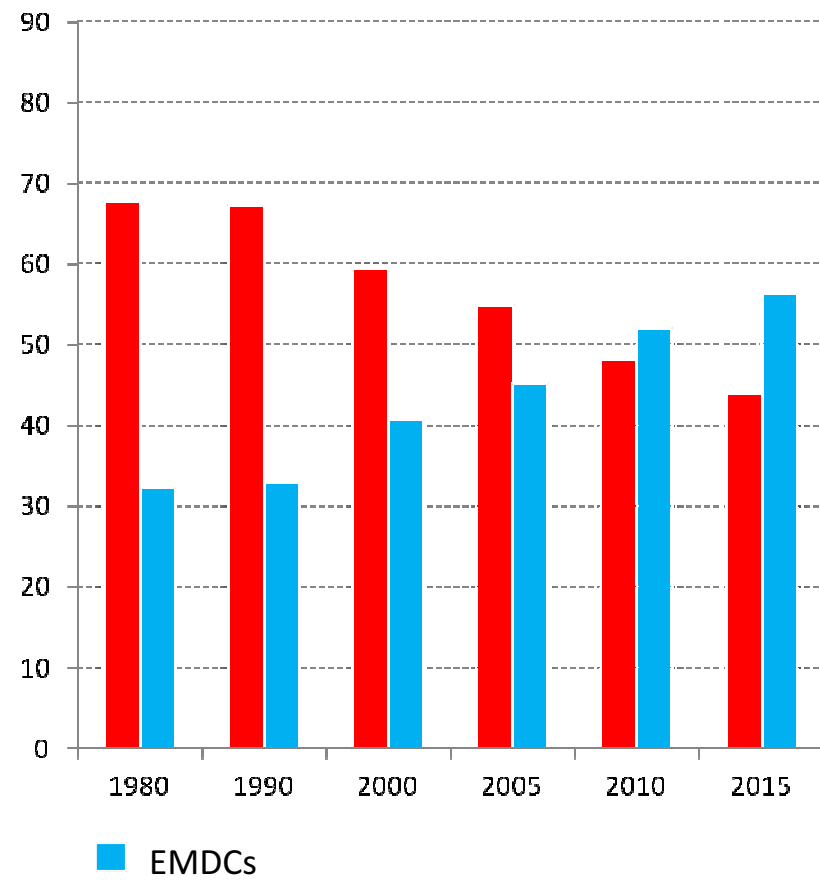
- ❑ Sustained growth differential between AEs and EMDCs leading to a profound change in the global economic landscape with the share of EMDCs in the global economy measured in PPP terms greater than that of AEs
- ❑ Similar trend between the G7 and the BRICS reflecting a new rebalancing of power
- ❑ Convergence between GDP at market prices and GDP PPP in contrast to the pre-2000 an important element of the new story of convergence

EMDCs Account for Increasingly Large Shares of Global GDP

Share of GDP (Market Prices)



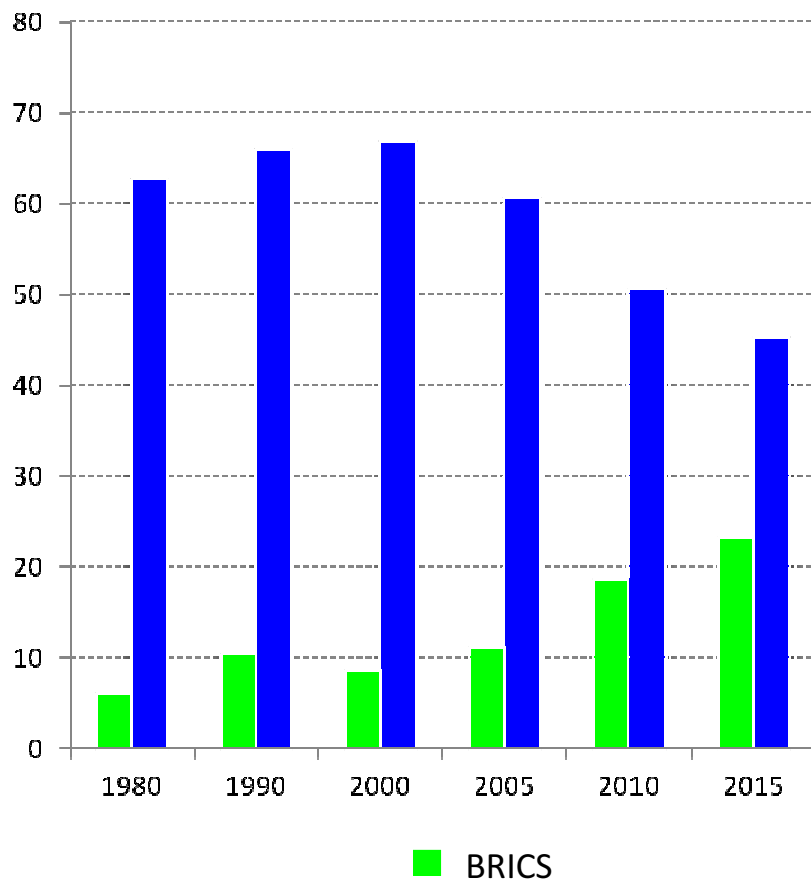
Share of GDP (PPP)



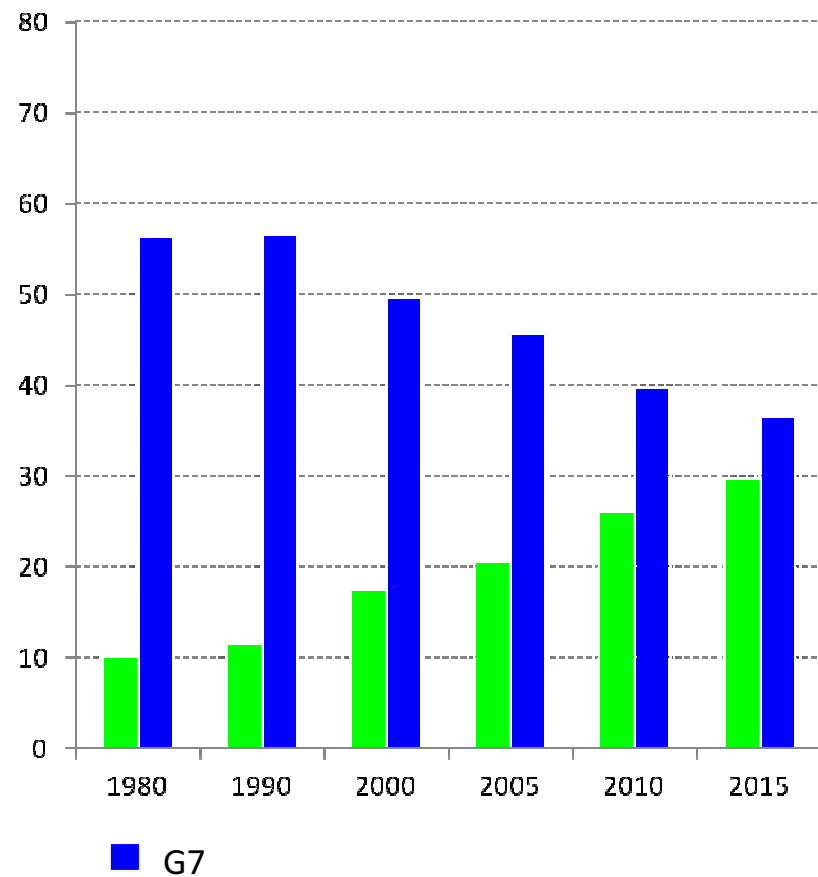
Source: G-24 calculations based on data from July 2013 World Economic Outlook Update, IMF

BRICS will replace the G7 in weight in Global Economy

Share of GDP (Market Prices)



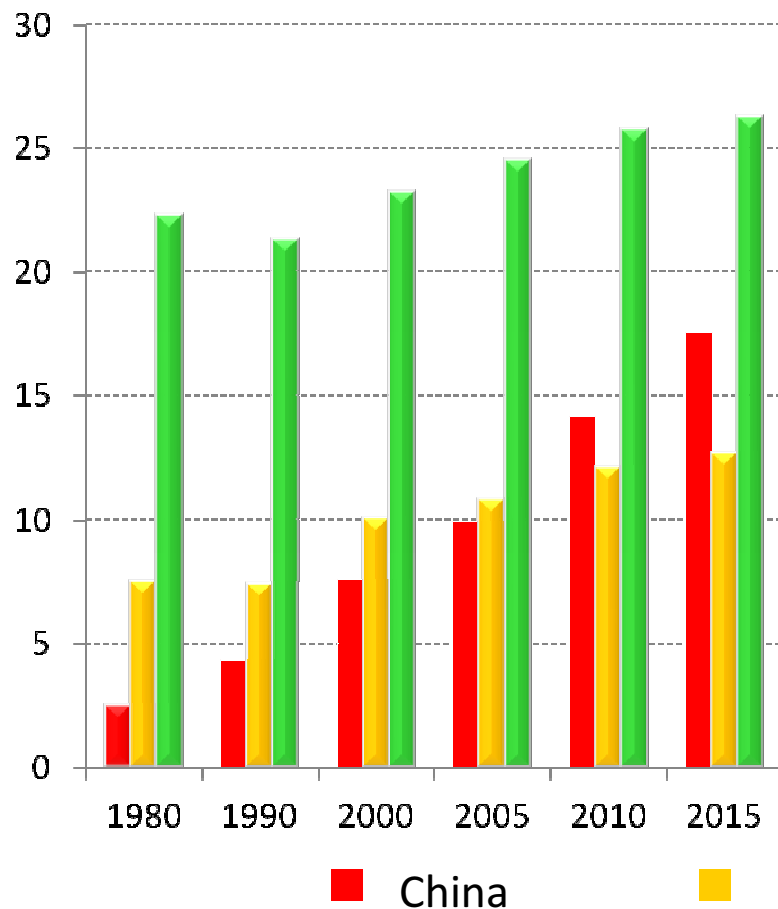
Share of GDP (PPP)



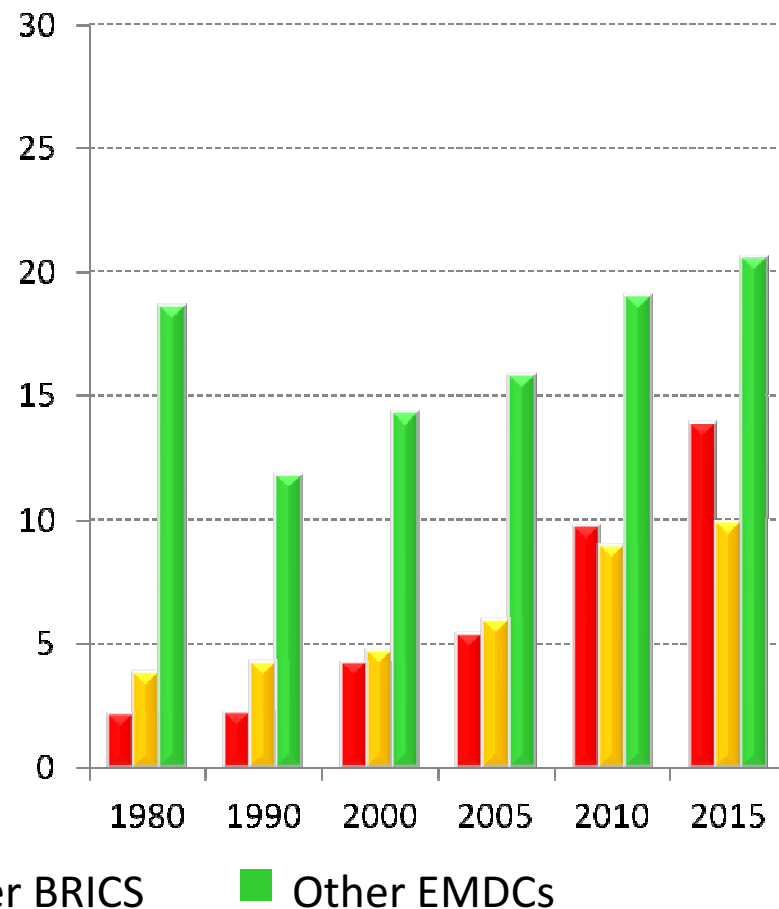
Source: G-24 calculations based on data from July 2013 World Economic Outlook Update, IMF

China has been at the forefront of the Structural Transformation

Share of GDP (Market Prices)



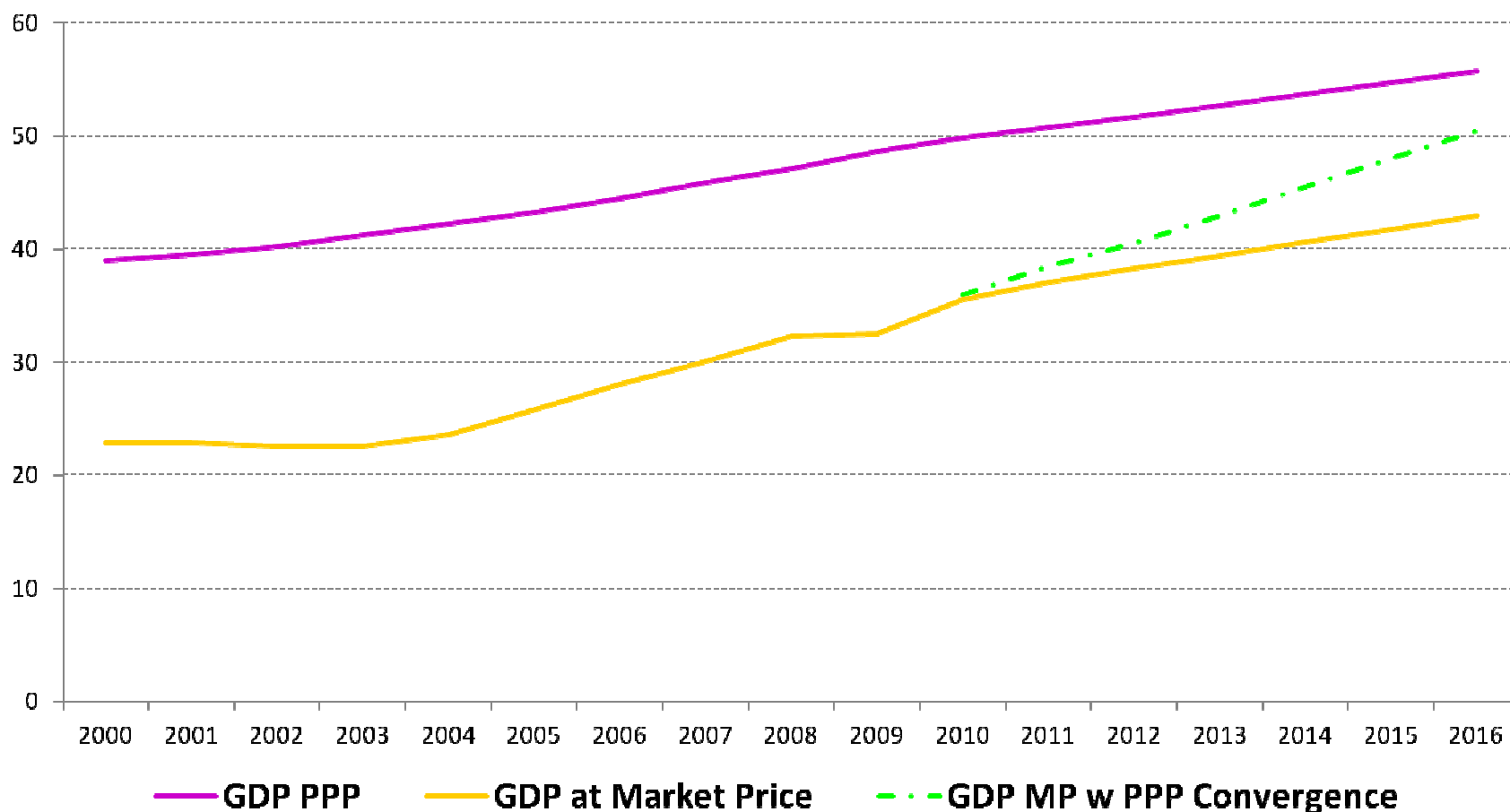
Share of GDP (PPP)



Source: G-24 calculations based on data from July 2013 World Economic Outlook Update, IMF

Growing Convergence Between GDP at Market Prices and GDP PPP

(Share of EMDCs in Global GDP)



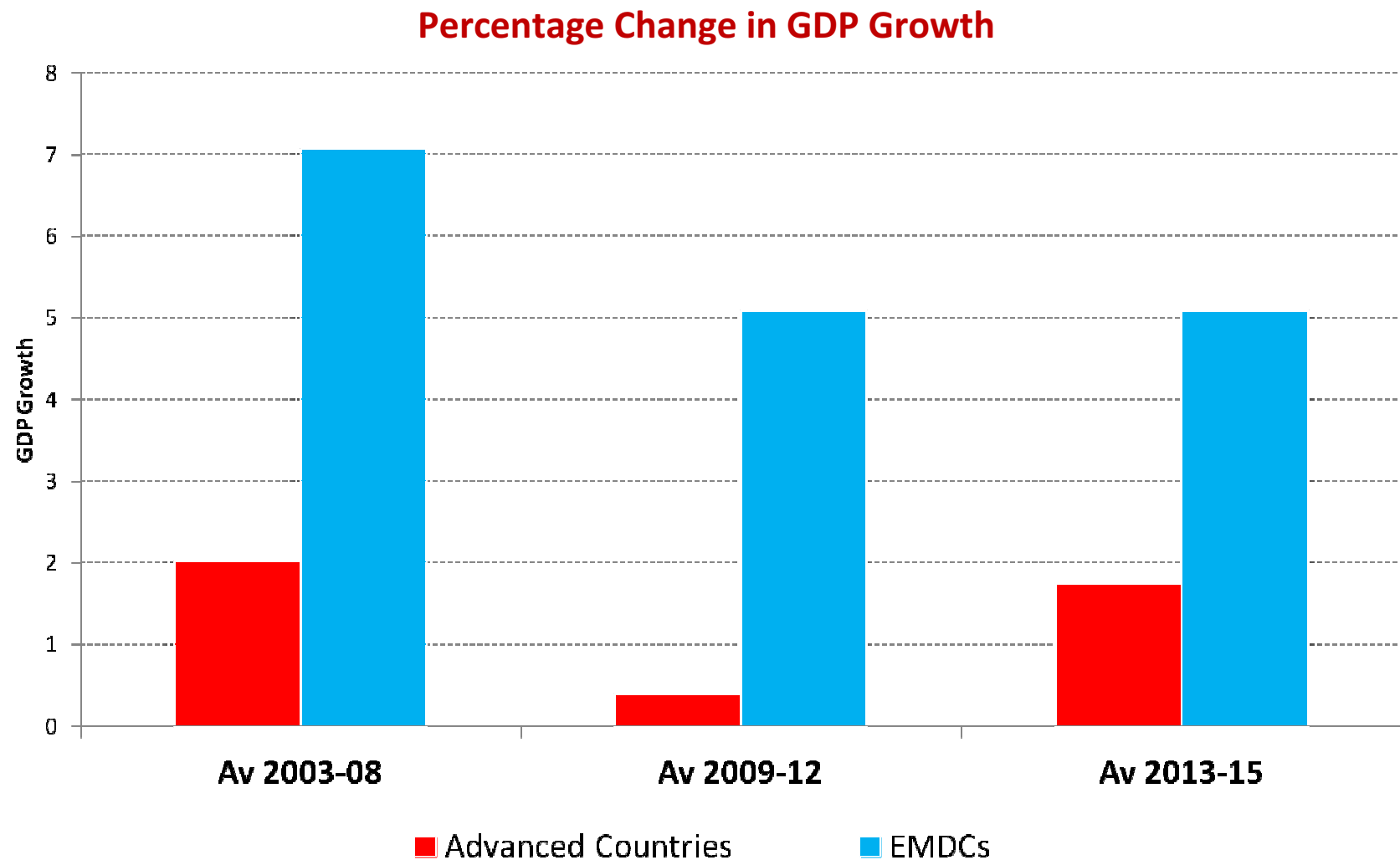
Source: World Economic Outlook, IMF



Overview

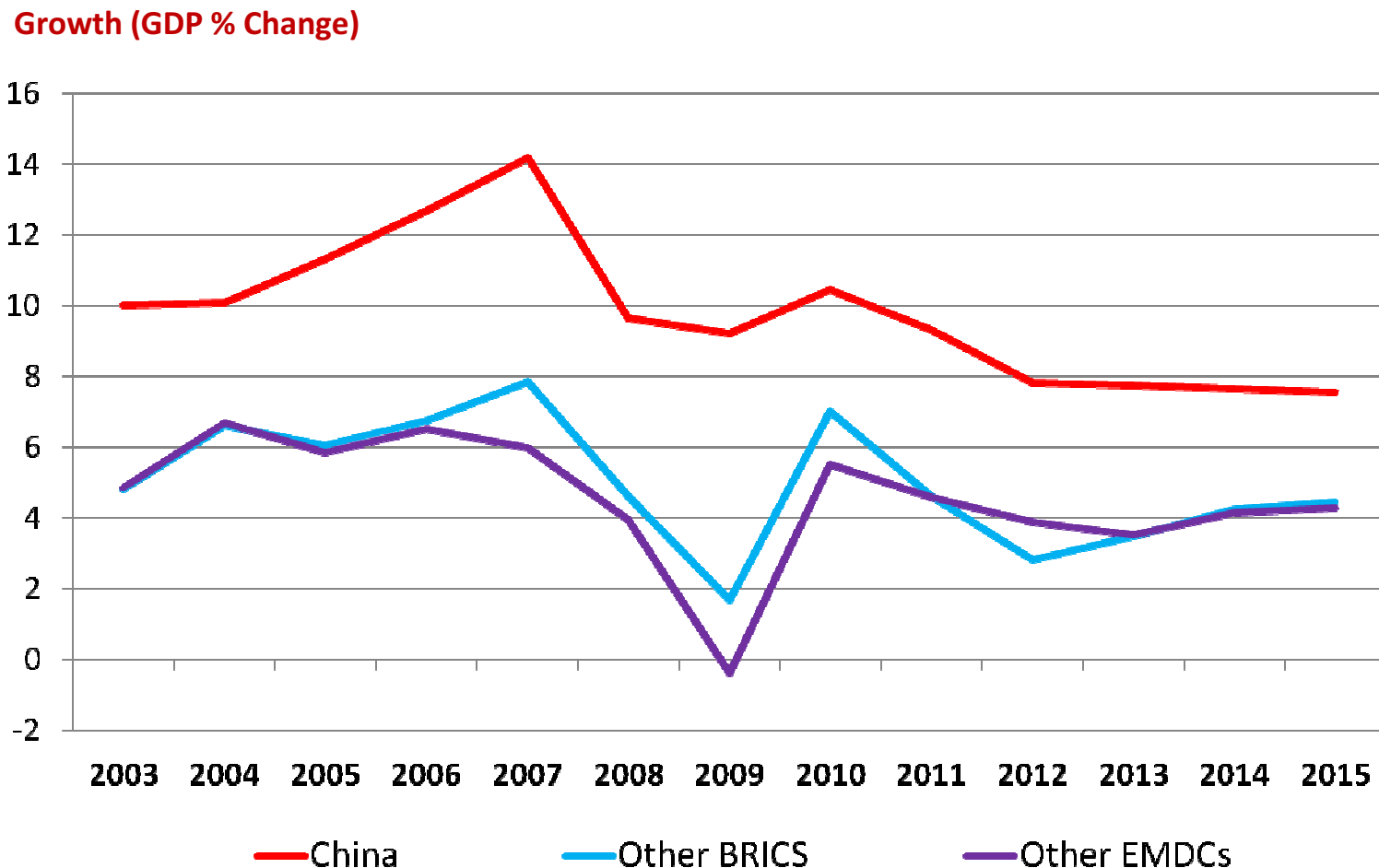
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EMDCs Withstood the Crisis Better than AEs



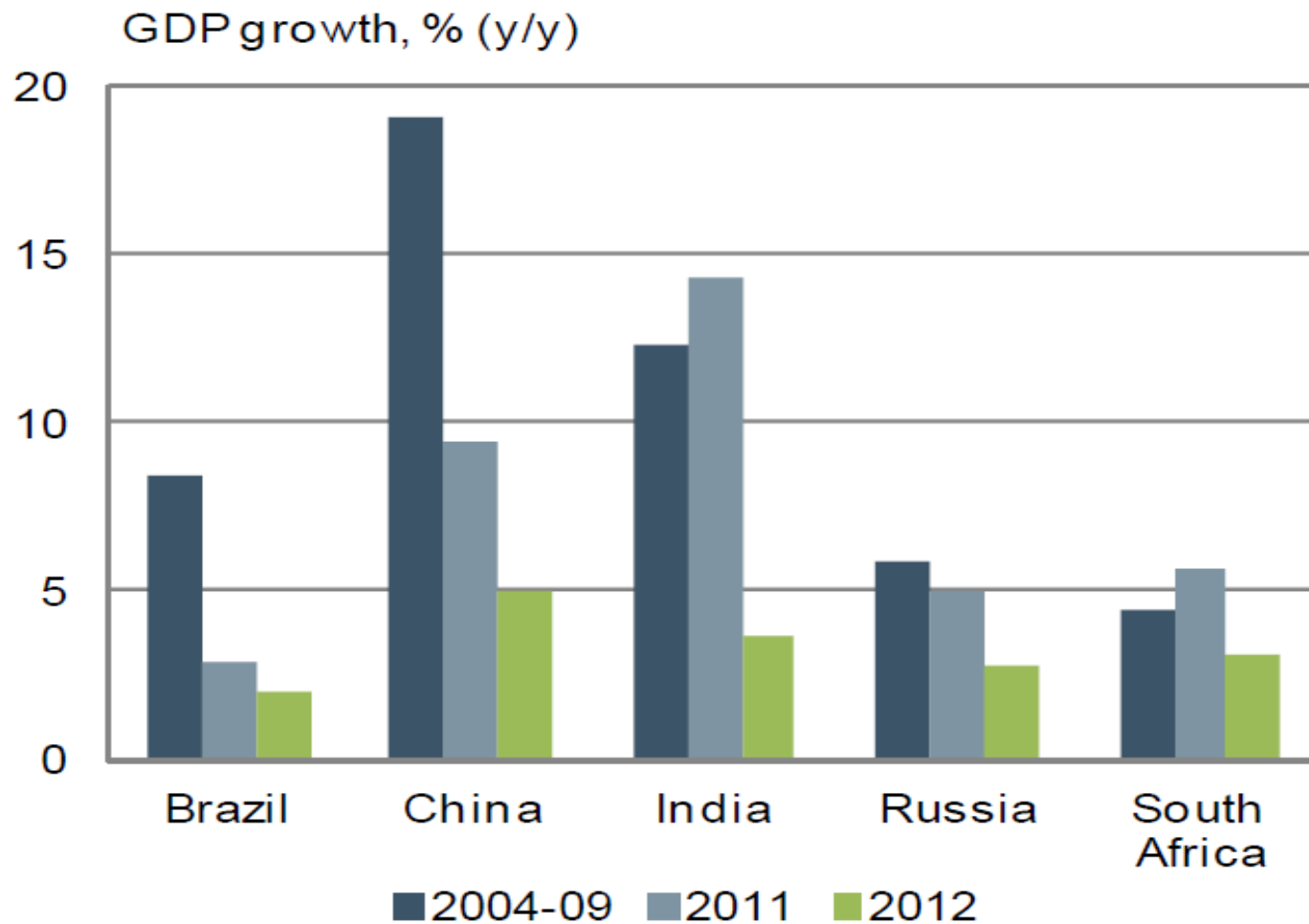
Source: World Economic Outlook Update, July 2013, IMF

But They Have Not Escaped The Global Slowdown In Growth



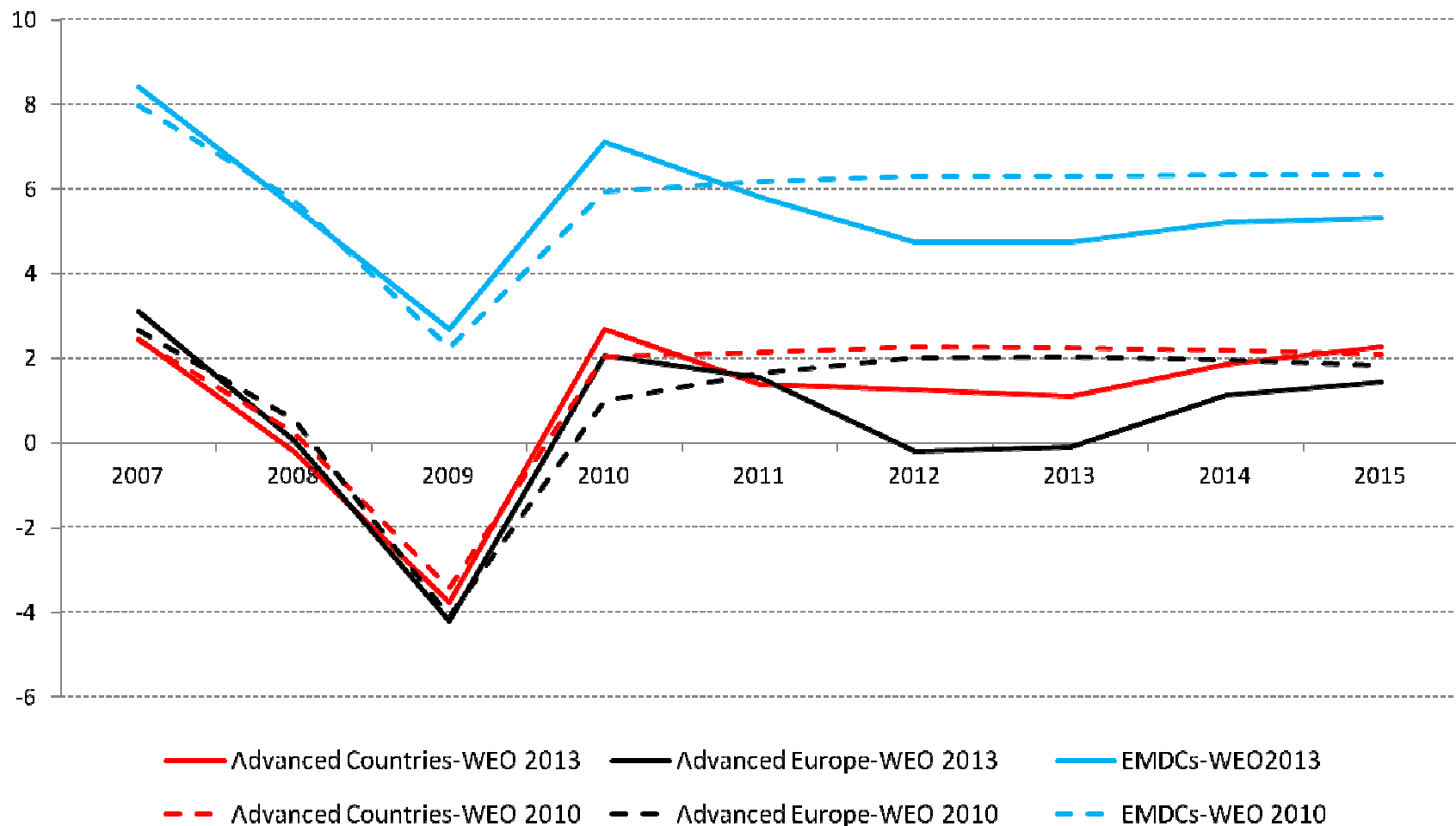
Source: G-24 Calculations based on World Economic Outlook Update July 2013.

The BRICS Have Been Uniformly Affected



Source: Standard Bank (2013), IMF, Bloomberg

The Crisis Has Been Deeper and more Prolonged than Anticipated



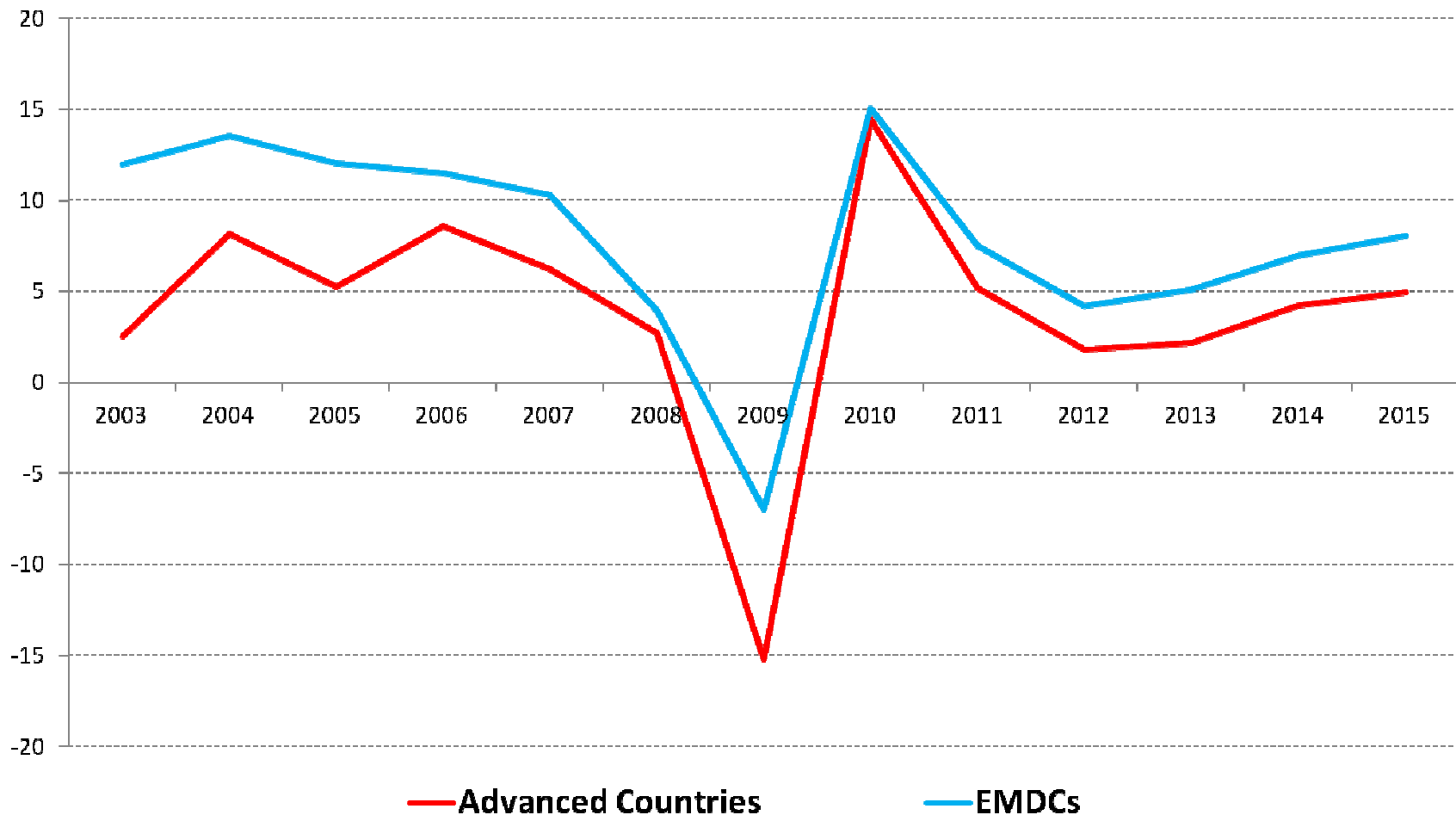
Source: World Economic Outlook, July 2013 Update, IMF

Crisis had a significant impact on EMDCs

- ❑ The crisis had a large and immediate impact through trade channel but recovery faster and more sustained in EMDCs
- ❑ Financial flows were also affected because of euro crisis and euro-area deleveraging
- ❑ Long-term commodity prices have continued to increase with high food prices still a cause of concern; trends have had large differential impacts across countries
- ❑ Overall growth rates in EMDCs have withstood the crisis better than AEs because of improved resilience and use of counter cyclical policies
- ❑ However EMDCs have experience the effects of the global growth slowdown, especially in recent years
- ❑ Reduced fiscal space has increased vulnerability to future shocks and constrains needed long-term investments

Exports Have Recovered But Growing at a More Moderate Pace

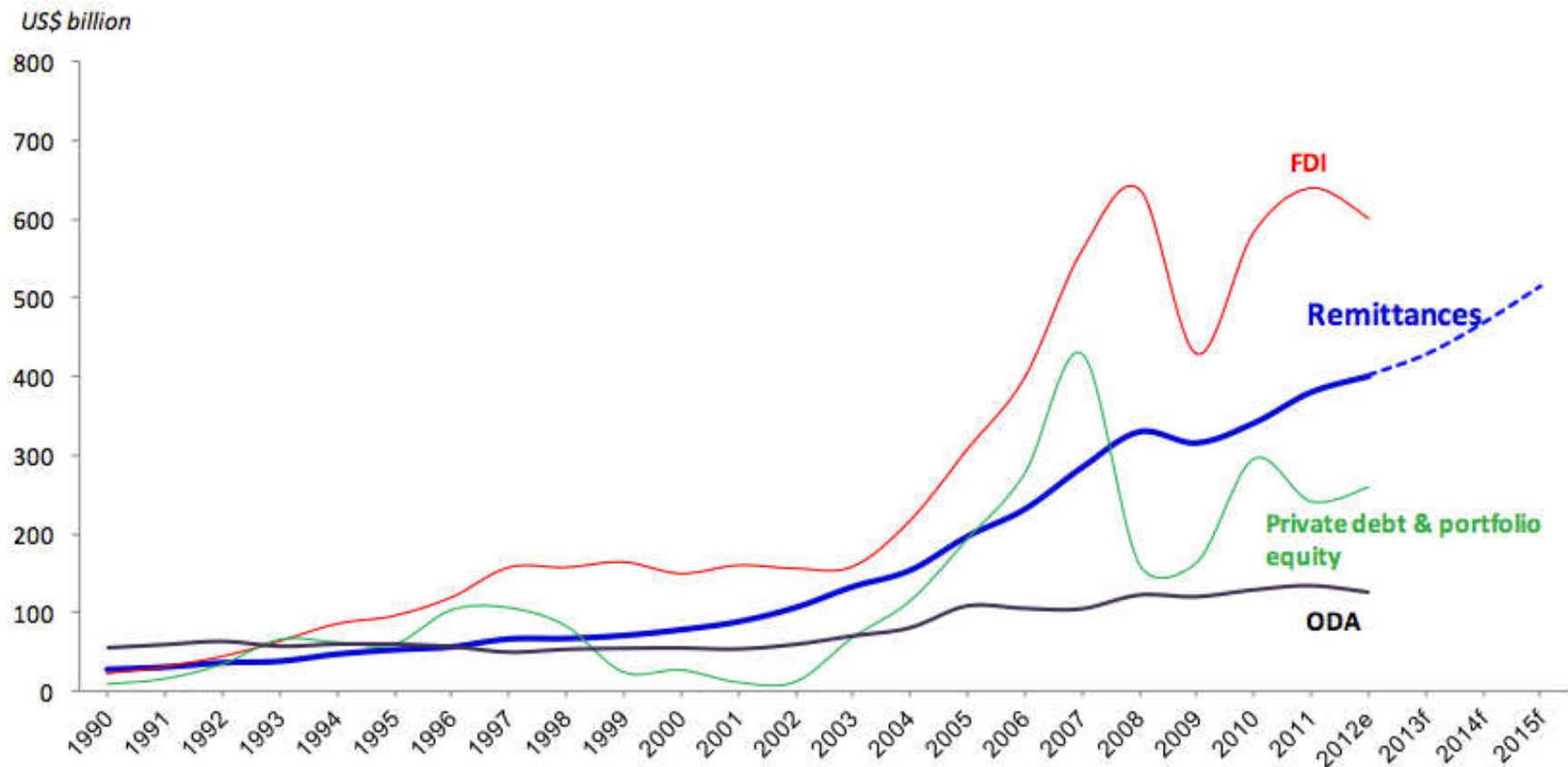
(Volume of Merchandise Exports, Percent change)



Source: World Economic Outlook, April 2013 Database, IMF

Financial Flows Have Also Been Affected, But Differentially

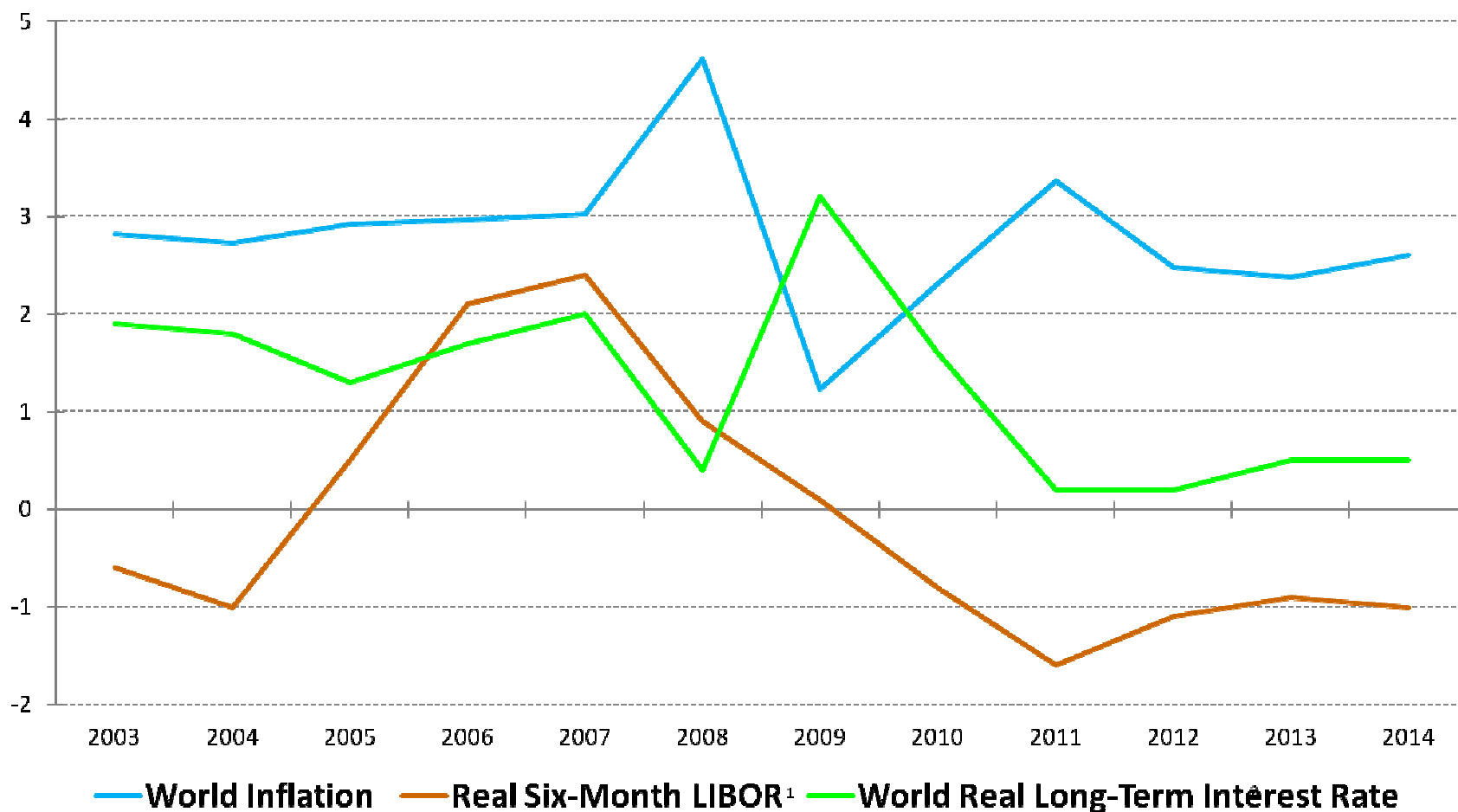
Remittances and Other Resource Flows to Developing Countries



Source: World Bank, Migration and Development Brief, April 19, 2013 (based on data from WDI and World Bank Global Development Prospects Group)



Financing Conditions Remain Favorable



¹London interbank offered rate on U.S. dollar deposits minus percent change in U.S. GDP deflator.

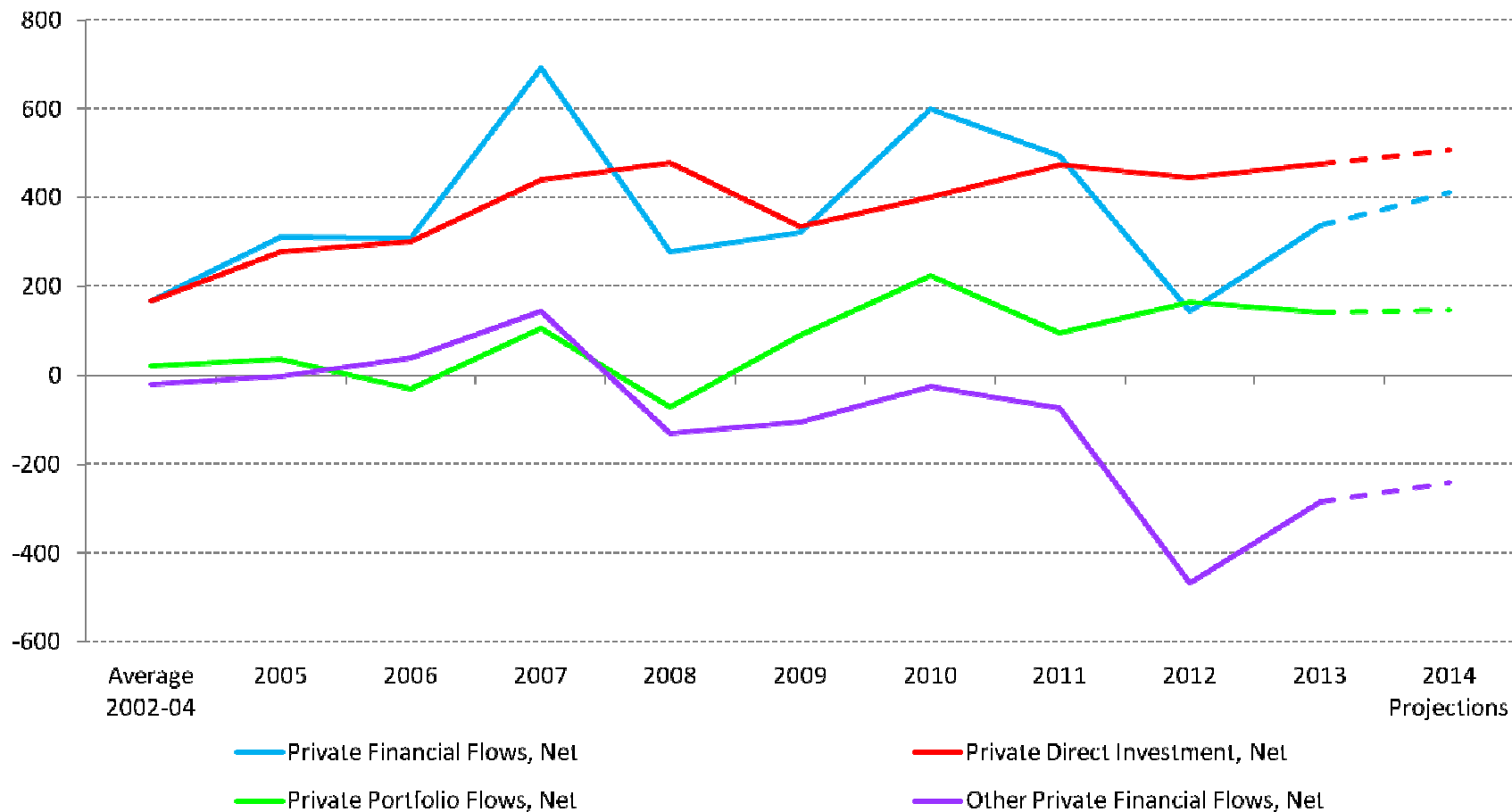
²GDP-weighted average of 10-year (or nearest maturity) government bond rates for Canada, France, Germany, Italy, Japan, United Kingdom, and United States

Source: WEO April 2013 and previous reports



But Subject to Considerable Volatility

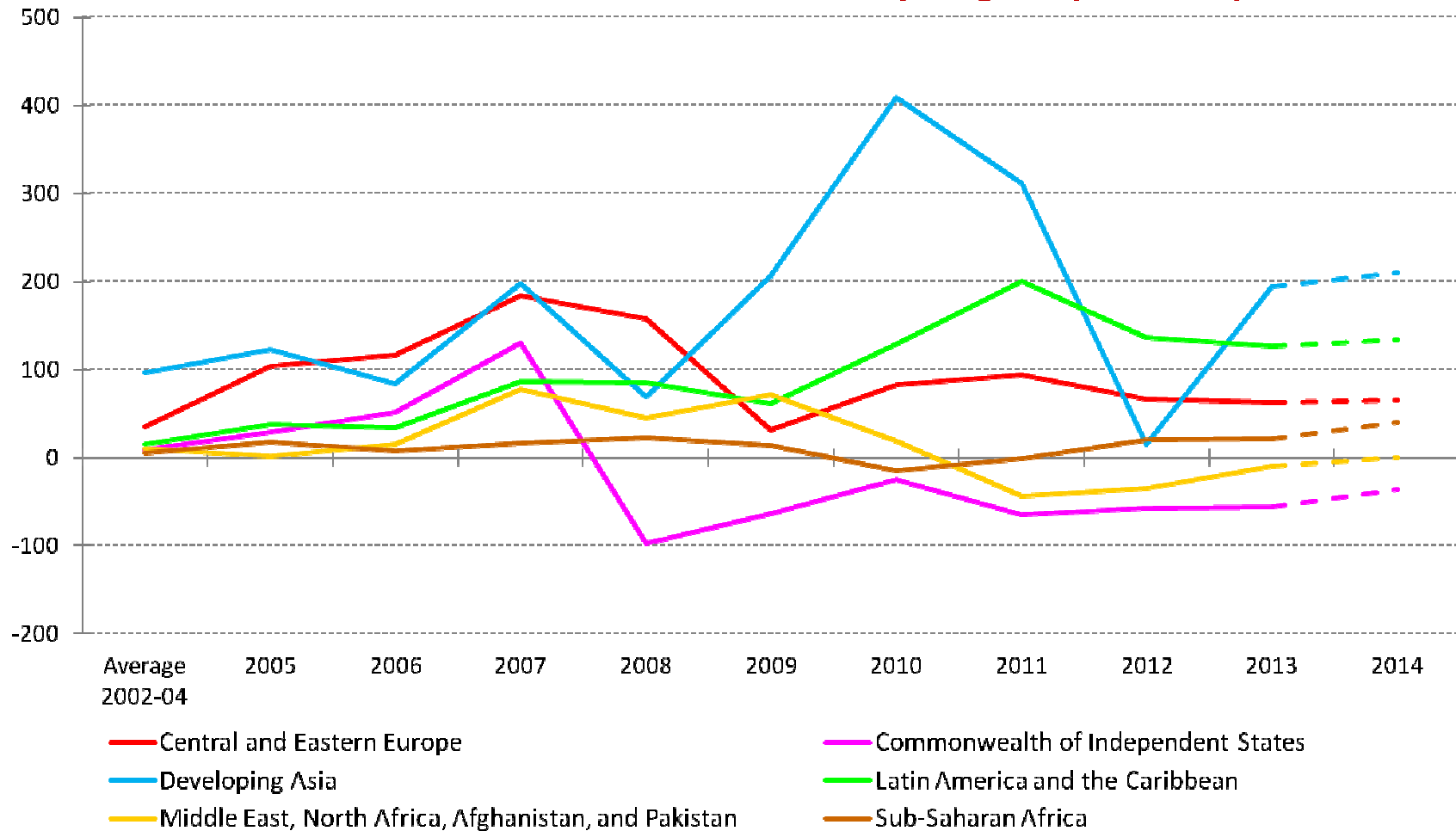
EMDC Private Net Financial Flows by Components (USD Bil.)



Source: World Economic Outlook, April 2013 Report, IMF

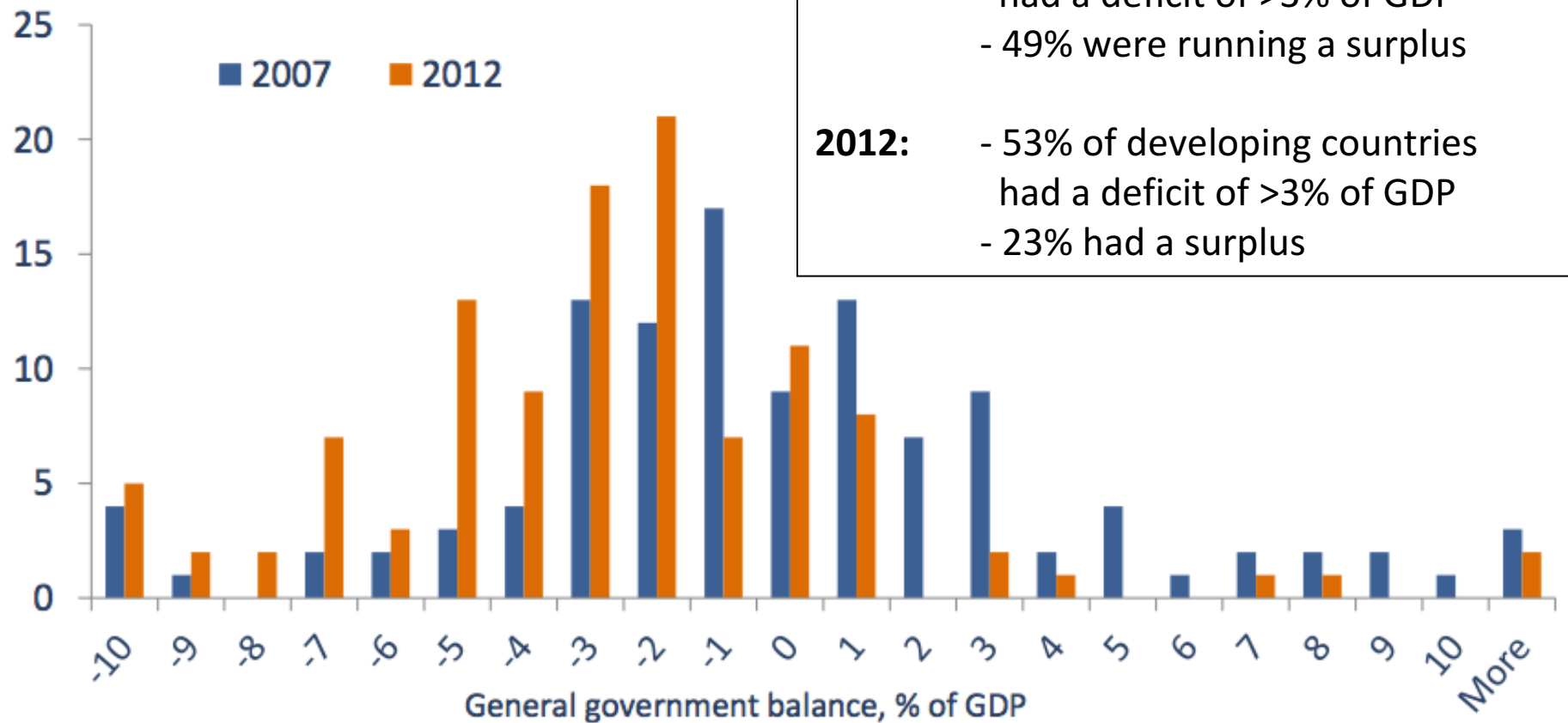
And Variation Across Regions

EMDC Private Net Financial Flows by Region (USD Bil.)



Reduced Fiscal Space in EMDCs Increases their Vulnerability to Future Shocks

Number of developing economies



2007:

- 25% of developing countries had a deficit of >3% of GDP
- 49% were running a surplus

2012:

- 53% of developing countries had a deficit of >3% of GDP
- 23% had a surplus

EMDCs face a less favorable and more uncertain global environment

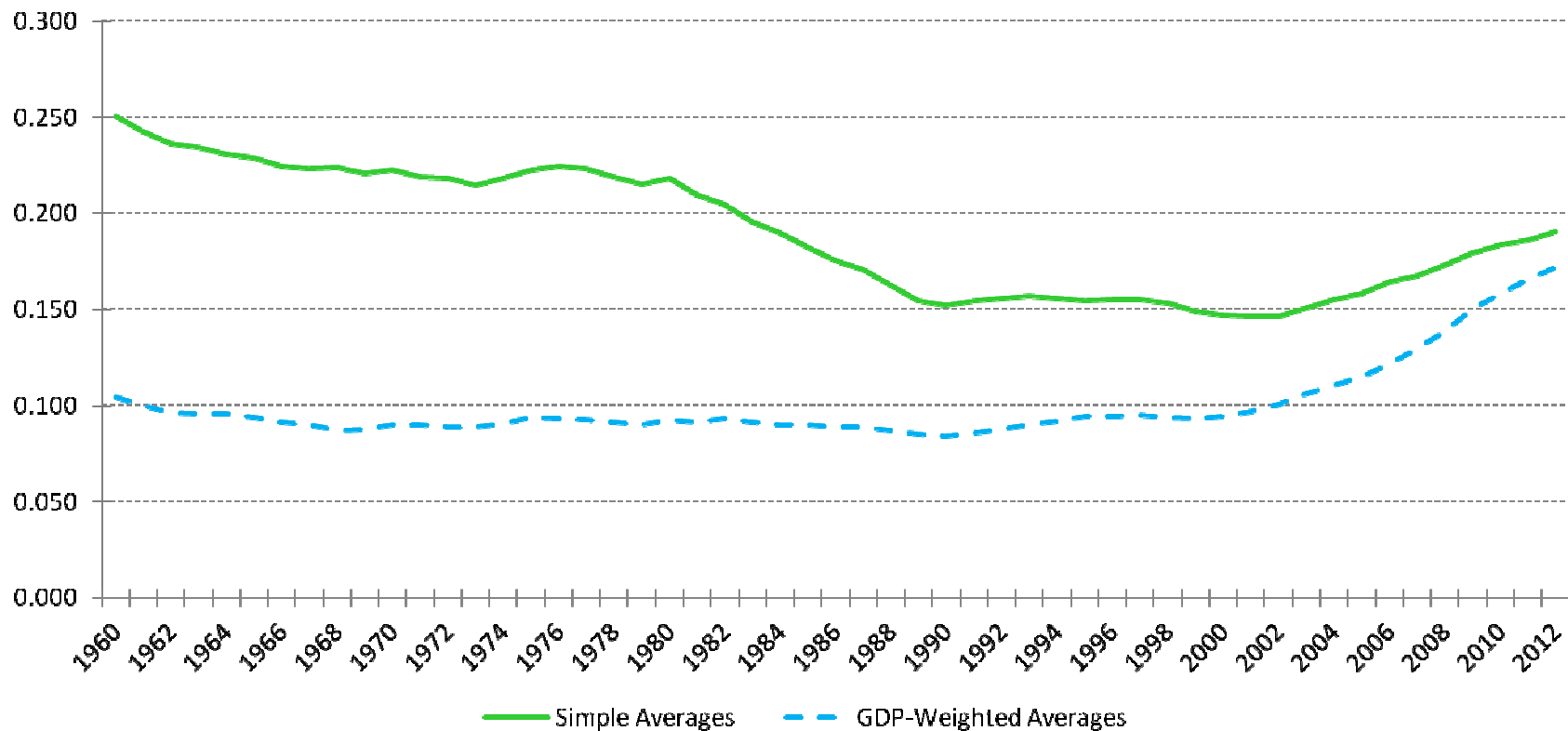
- ❑ Two Immediate challenges:
 - Potential instability arising from the exit from unconventional monetary policies
 - Overall lower aggregate demand with continued weak growth in advanced economies, together with decelerating growth in major EMDCs
- ❑ Other factors are also likely to adversely affect medium-term prospects
 - Trajectory of commodity prices
 - Higher global interest rates and capital flow volatility,
 - Uncertain prospects for growth in world trade
 - Further downward pressures on employment and wage recovery

Prospects for Sustained Growth Beyond Crisis

- ❑ Differential growth prospects between AEs and EMDCs expected to be sustained
- ❑ But significant heterogeneity across regions and countries
- ❑ EMDCs are still a long way from the global productivity frontier with significant potential for catch-up gains
- ❑ Potential output growth has been downgraded in many leading EMDCs because of country specific structural factors

EMDCs are a Still Long Way from the Productivity Frontier

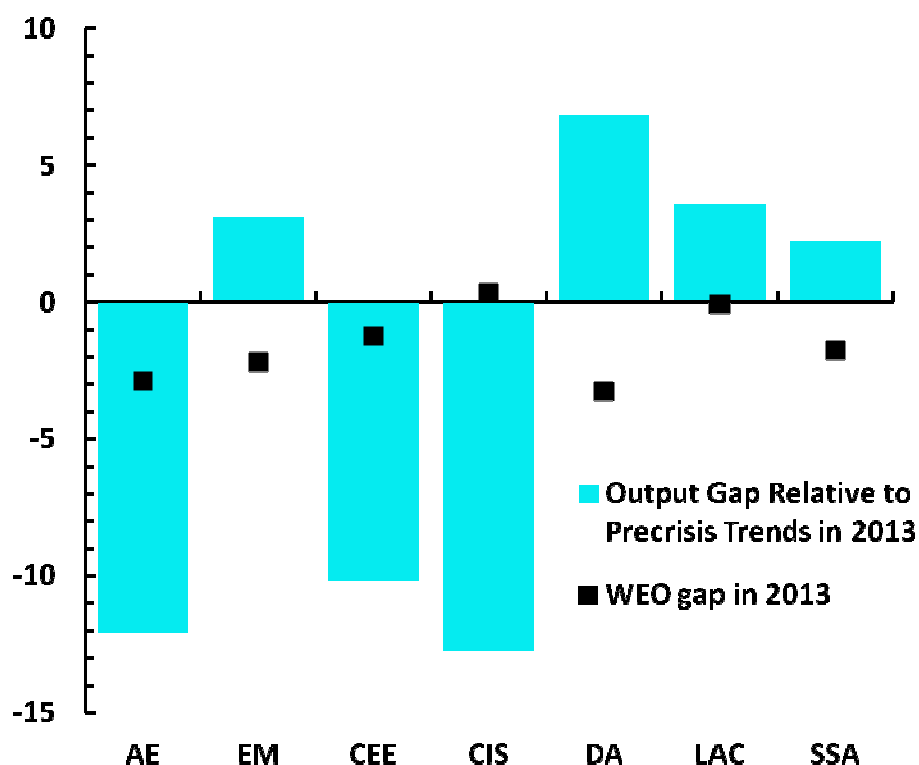
Ratio of G-24 to High Income OECD Per- Capita GDP
(1960 - 2012; PPP GDP)



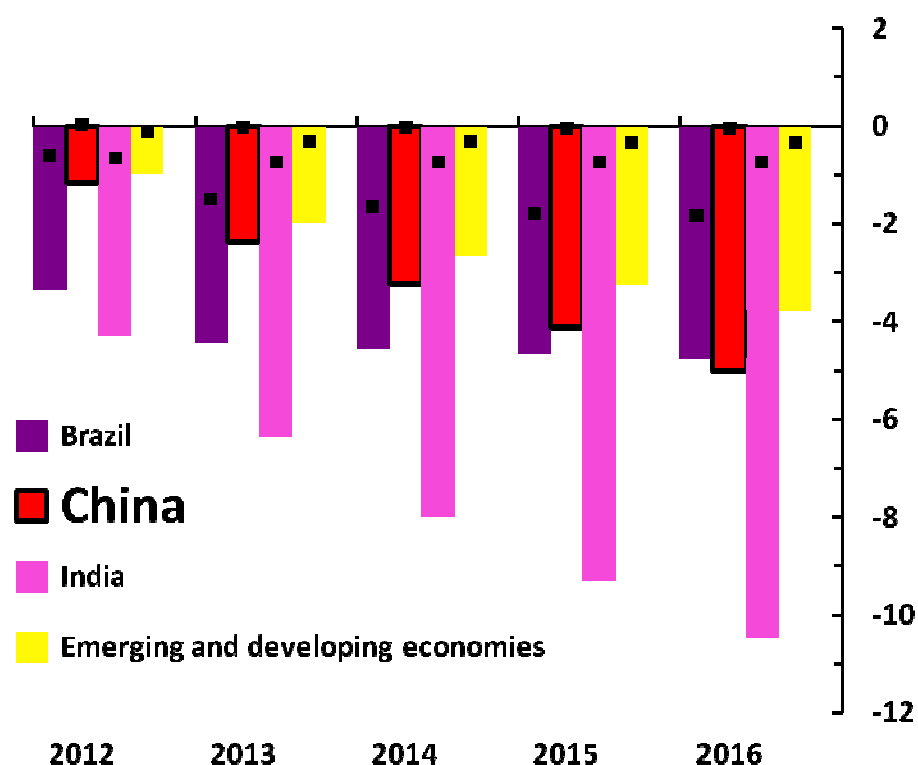
Source: Canuto (2013), World Bank Poverty Reduction and Economic Management Department

Prospects for Potential Output Growth in Some EMDCS, including China, Have Been Downgraded

Output Relative to Precrisis Trends in WEO Estimates in 2013
(percent of precrisis trend GDP)



Reductions in Medium-Term Output
(percent; relative to the September 2011 WEO)

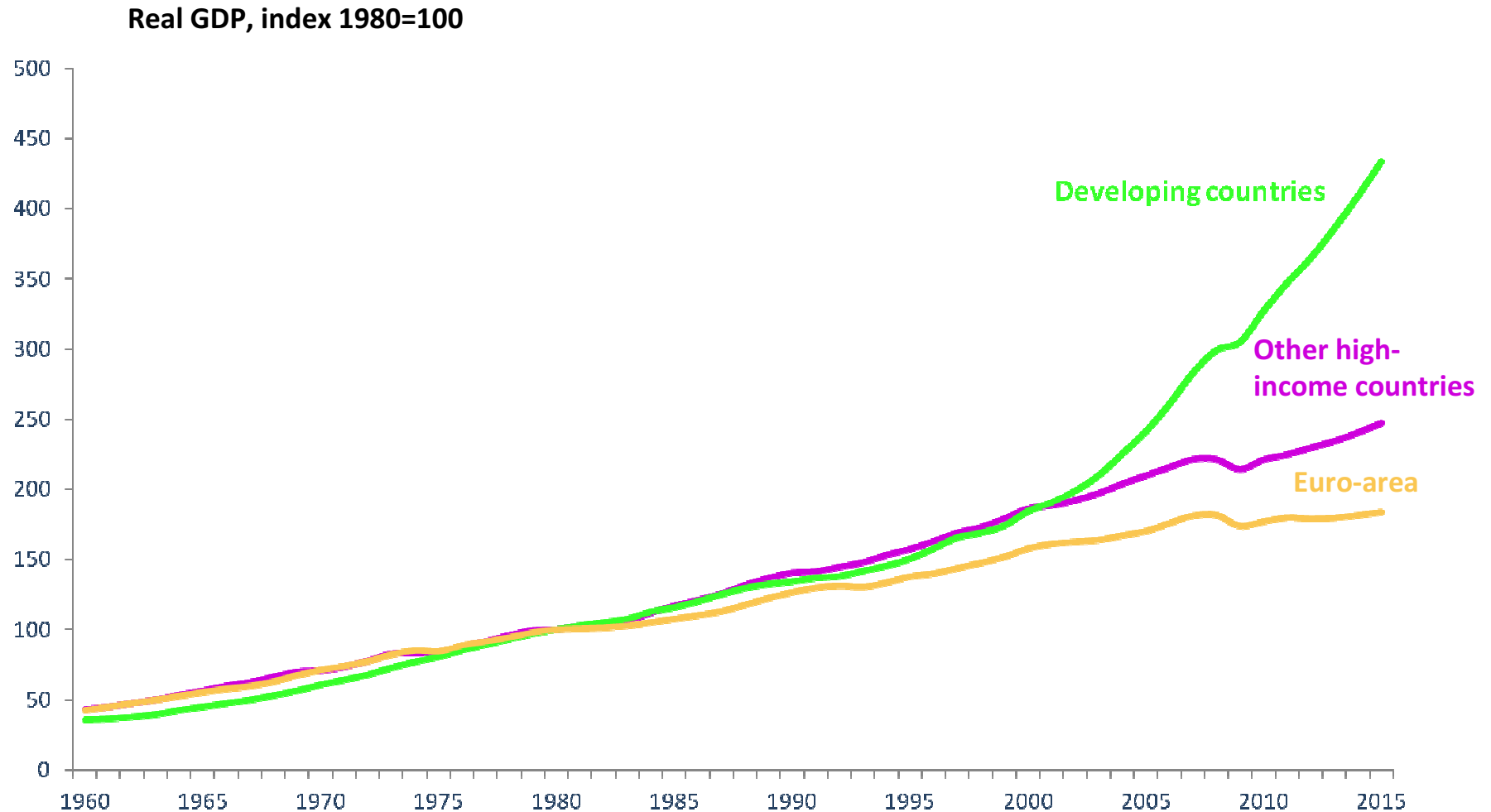


Source: Helbling (2013), based on World Economic Outlook and IMF staff estimates.

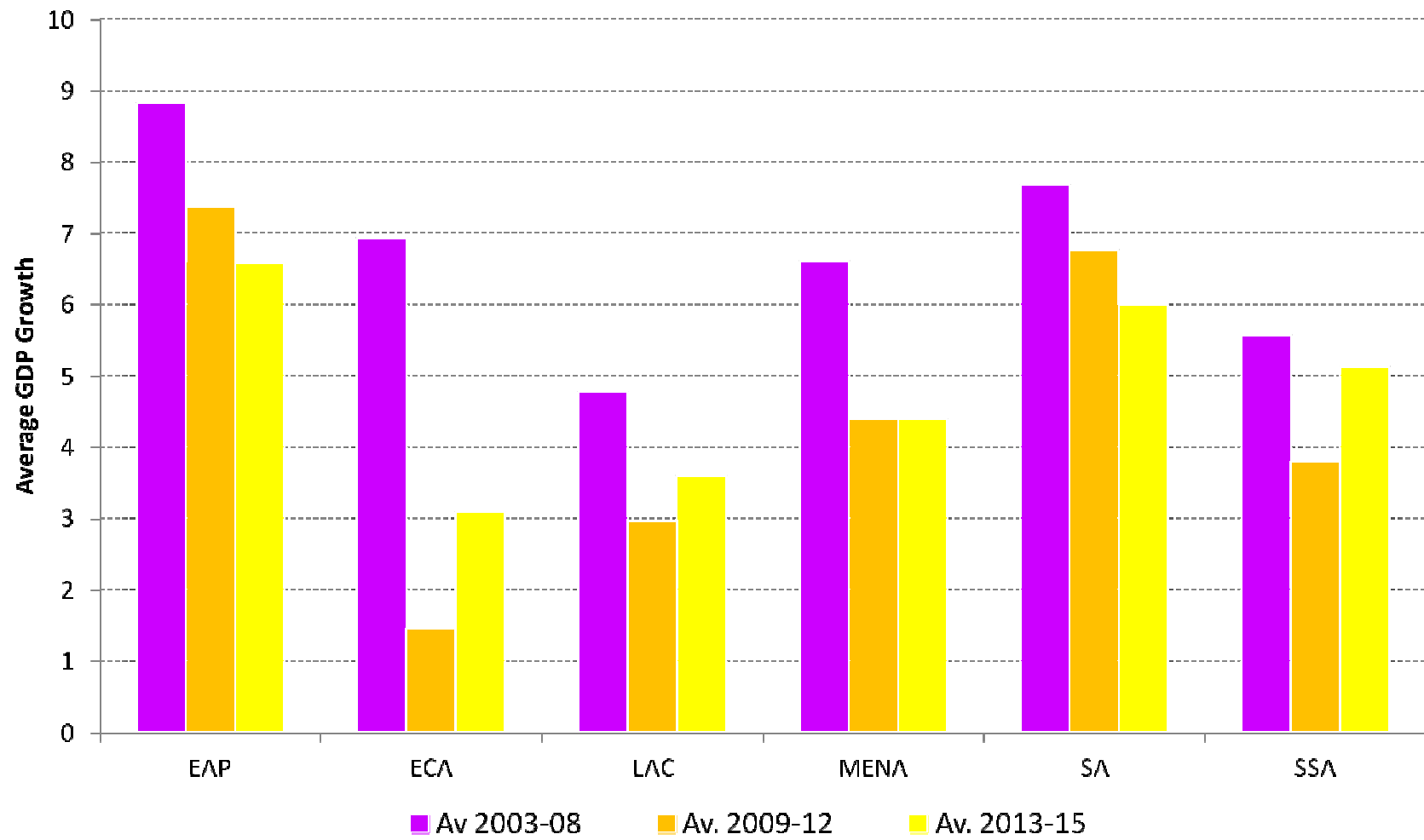
Note: AE= advanced economies; EM = emerging market and developing economies; CEE = central and eastern Europe; CIS = Commonwealth of Independent States; DA = developing Asia; LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa



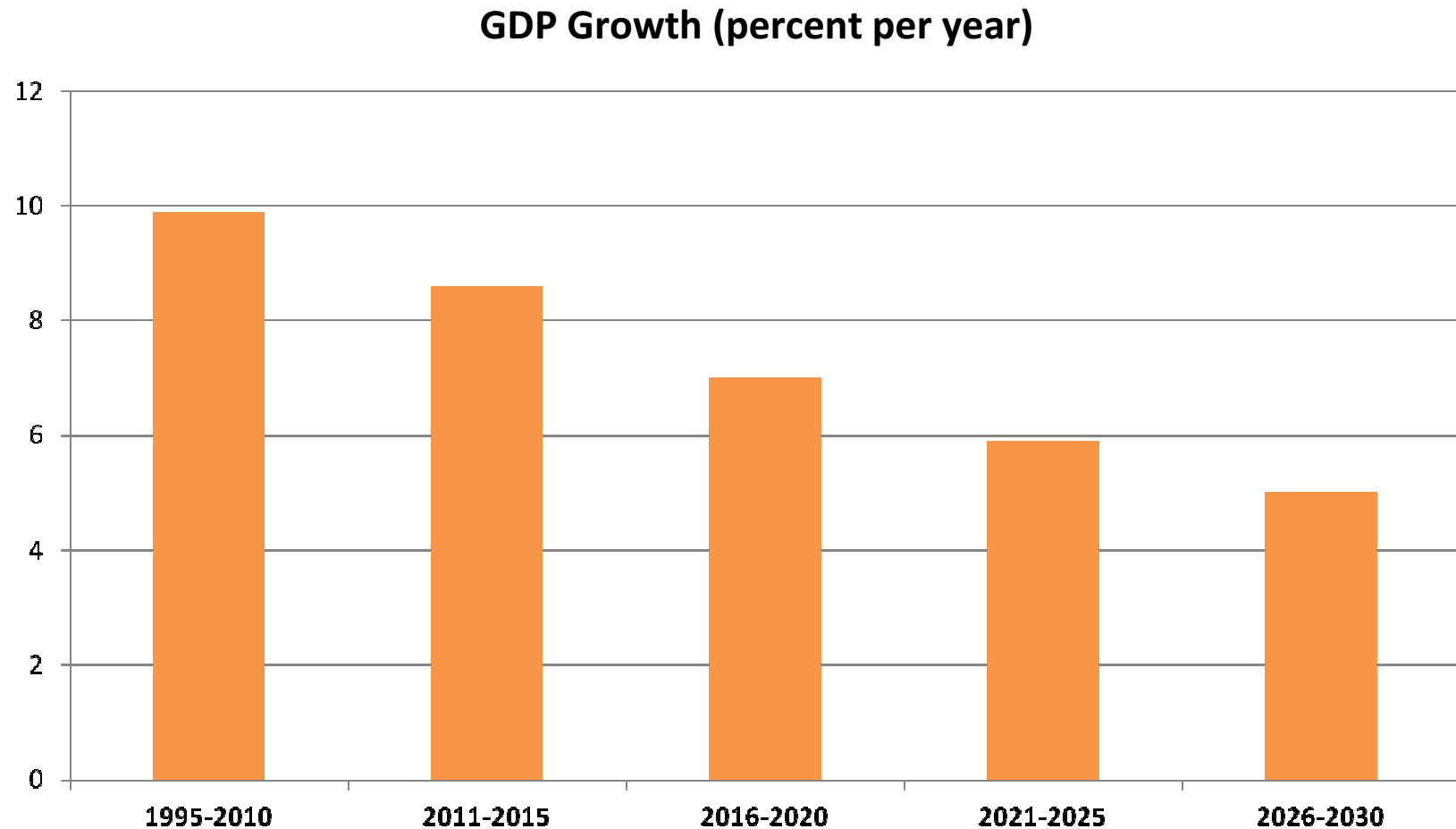
Differential Growth Prospects between EMDCs and AEs are Forecast



Amongst EMDCs, there is also Heterogeneity Across Regions



While China's growth is expected to slow, it is projected to remain strong in the years ahead



Source: The World Bank & Development Research Center of the State Council, PRC (2013), *China 2030*, based on NBSC and DRC data

Major Challenges to Sustained and Sustainable Growth

- ❑ Infrastructure development and financing
- ❑ The jobs crisis and prospects for long-term employment creation
- ❑ Growing income inequality with lagging countries and growing inequality in both AEs and EMDCs
- ❑ Sustainability including climate impact and resilience also a source of enormous concern

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China and BRICS in the Global Economy

- ☐ Trade
- ☐ Supply Chains and Competitiveness
- ☐ Commodity Markets
- ☐ Foreign Investment
- ☐ Financing
- ☐ Climate Change

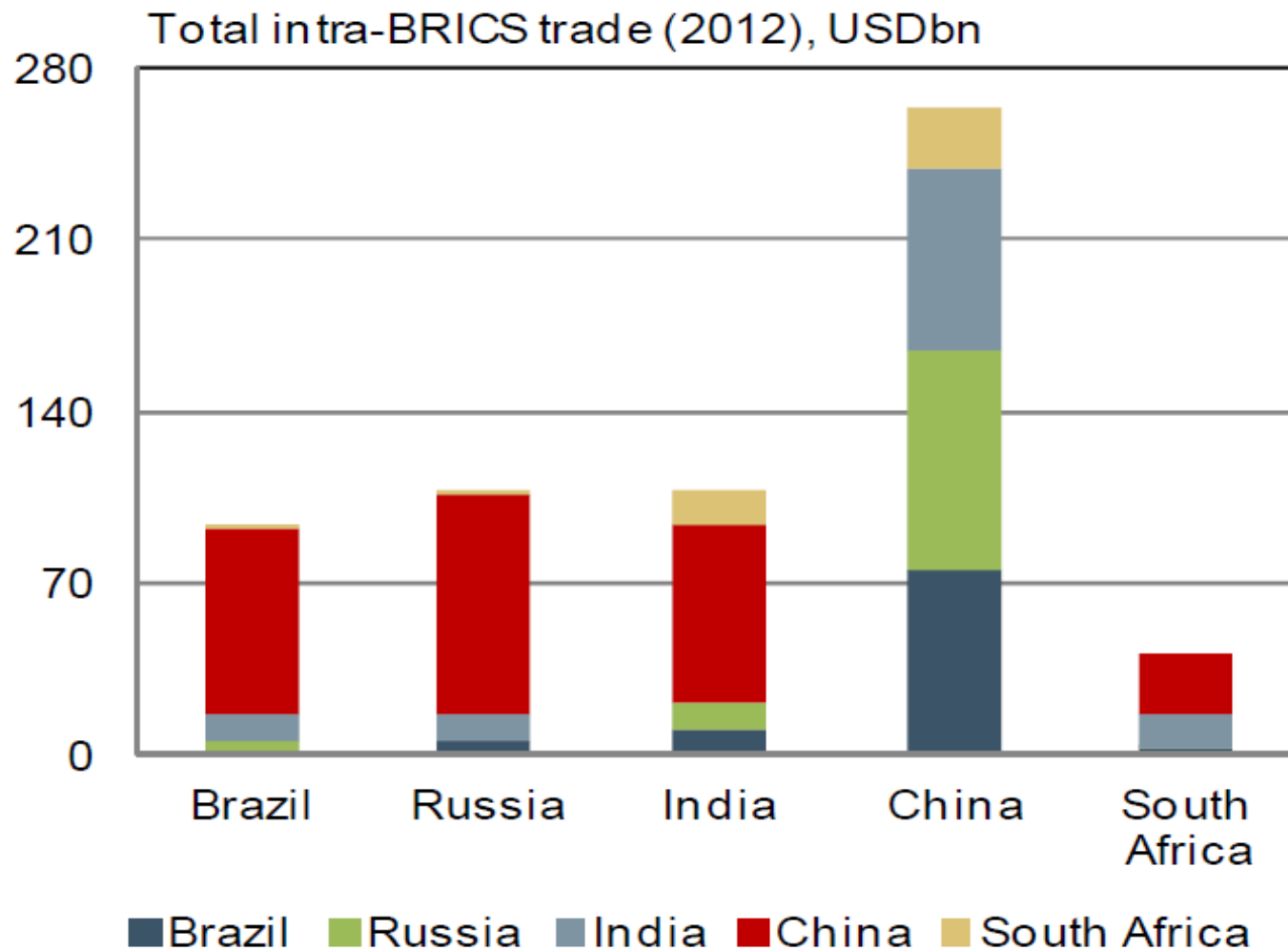
China and BRICS in the Global Economy

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BRICS Trade Has Been Relatively Resilient, Anchored by China

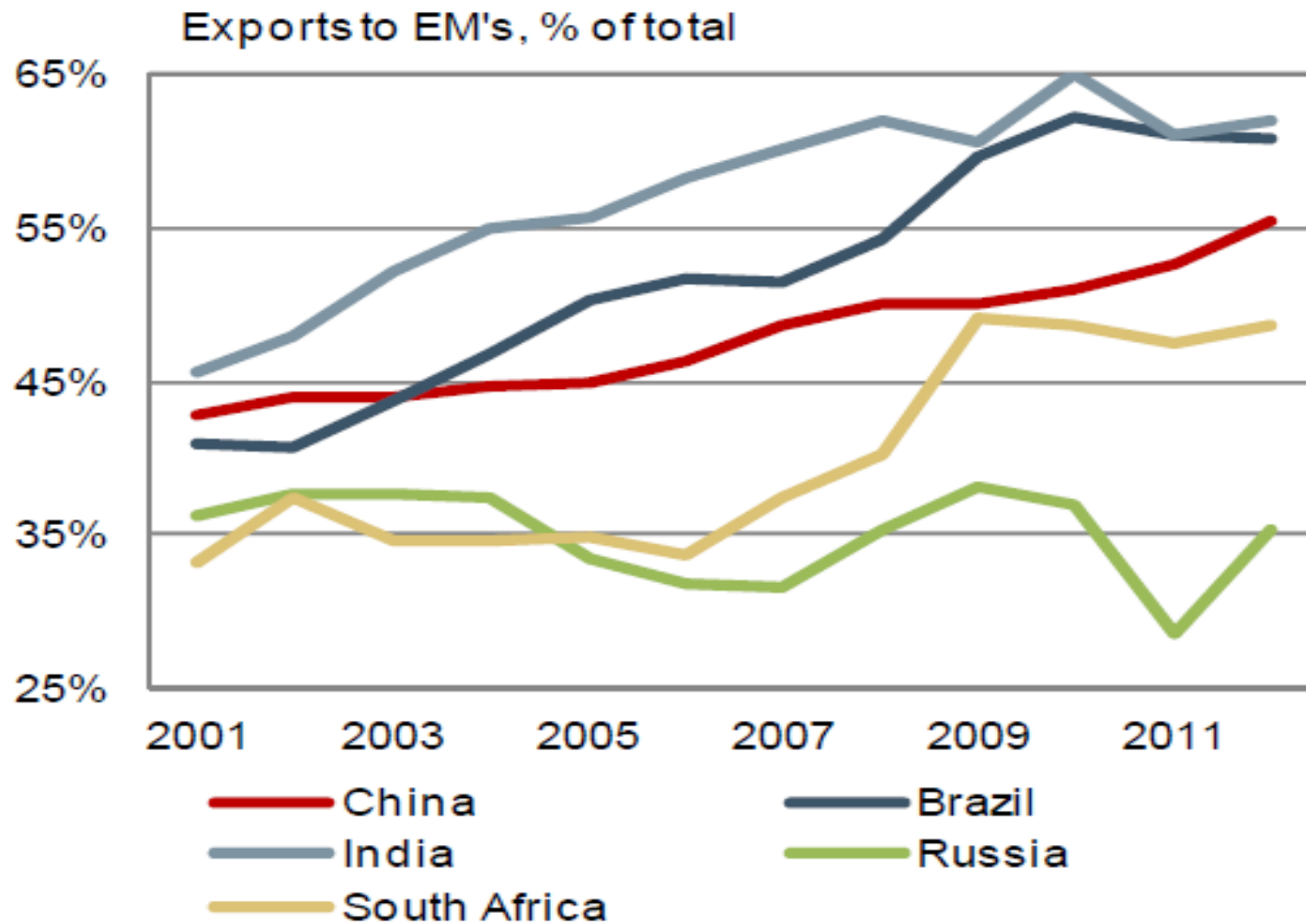
- The BRICS share of global trade has risen from 10% in 2000, to almost 16% in 2012
 - i. China accounts for a large proportion of this
- Trade amongst BRICS has grown since the crisis, attenuating the reductions in AE demand
- Over 55% of China's trade is now with emerging markets
- BRICS trade with Africa reached USD340bn in 2012, representing a more than ten-fold increase over the course of a decade

China has Led Robust Intra-BRICS Trade

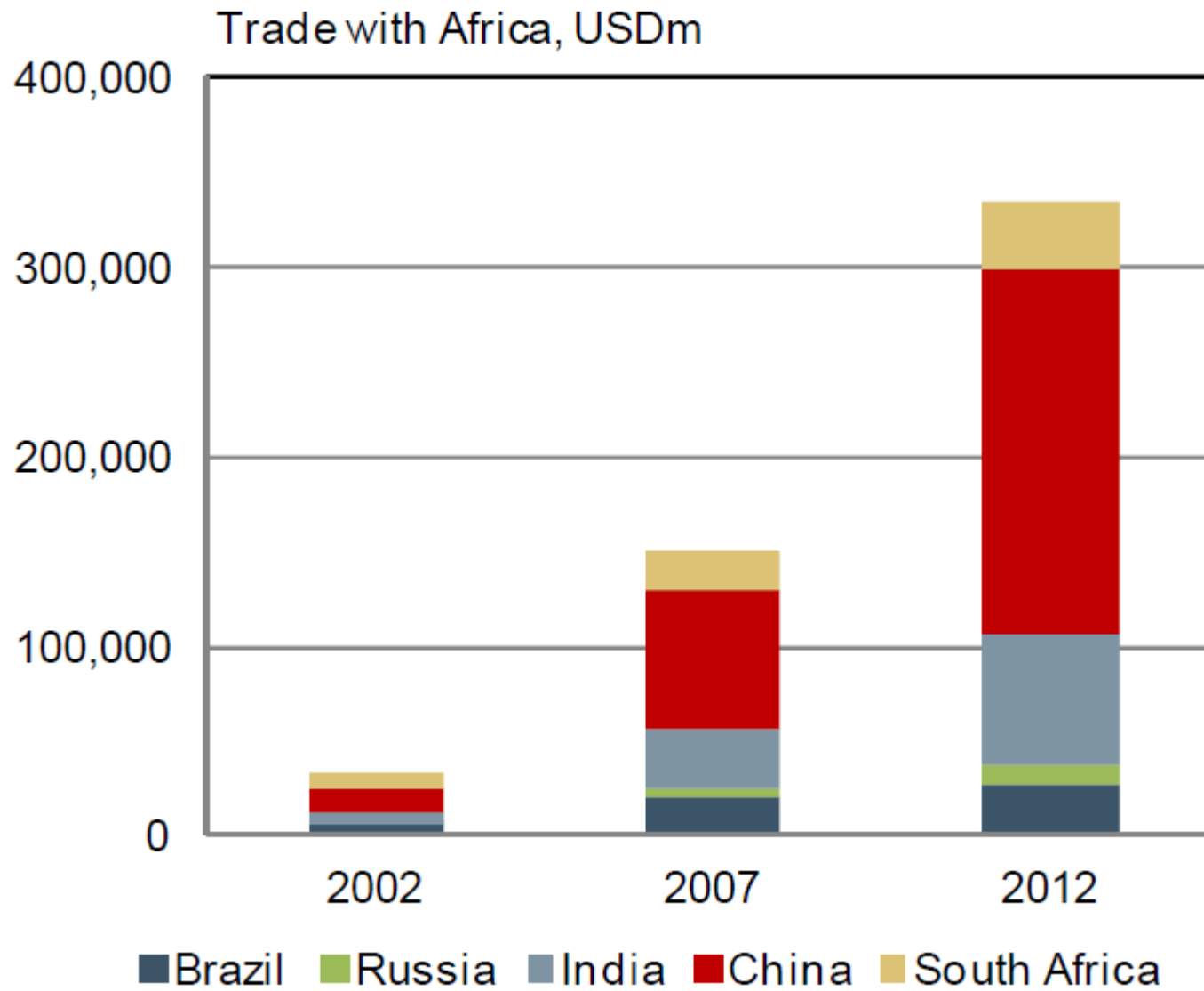


BRICS Trade with Other EMDCs

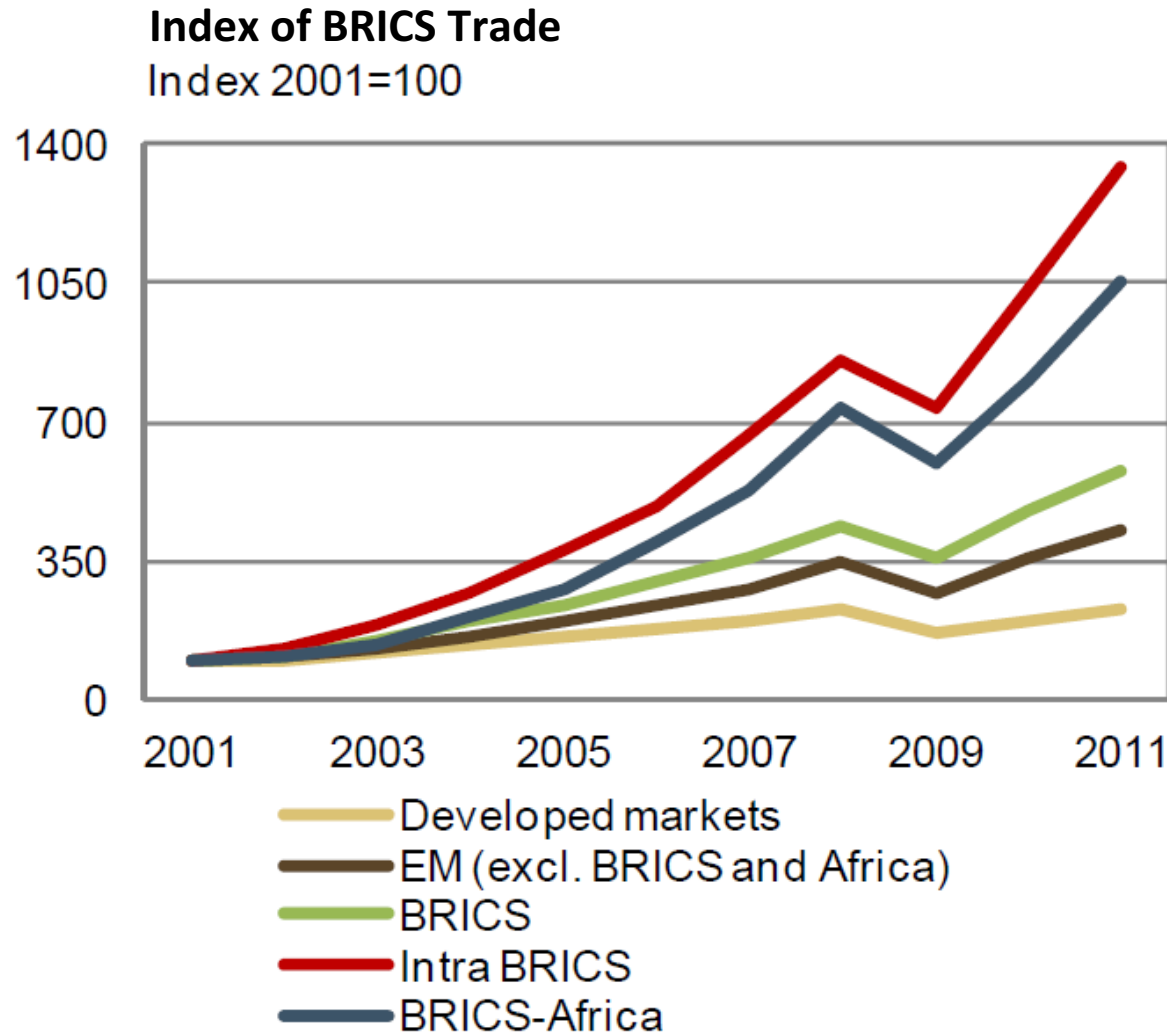
Steadily Grown



With an Increasing Focus on Africa



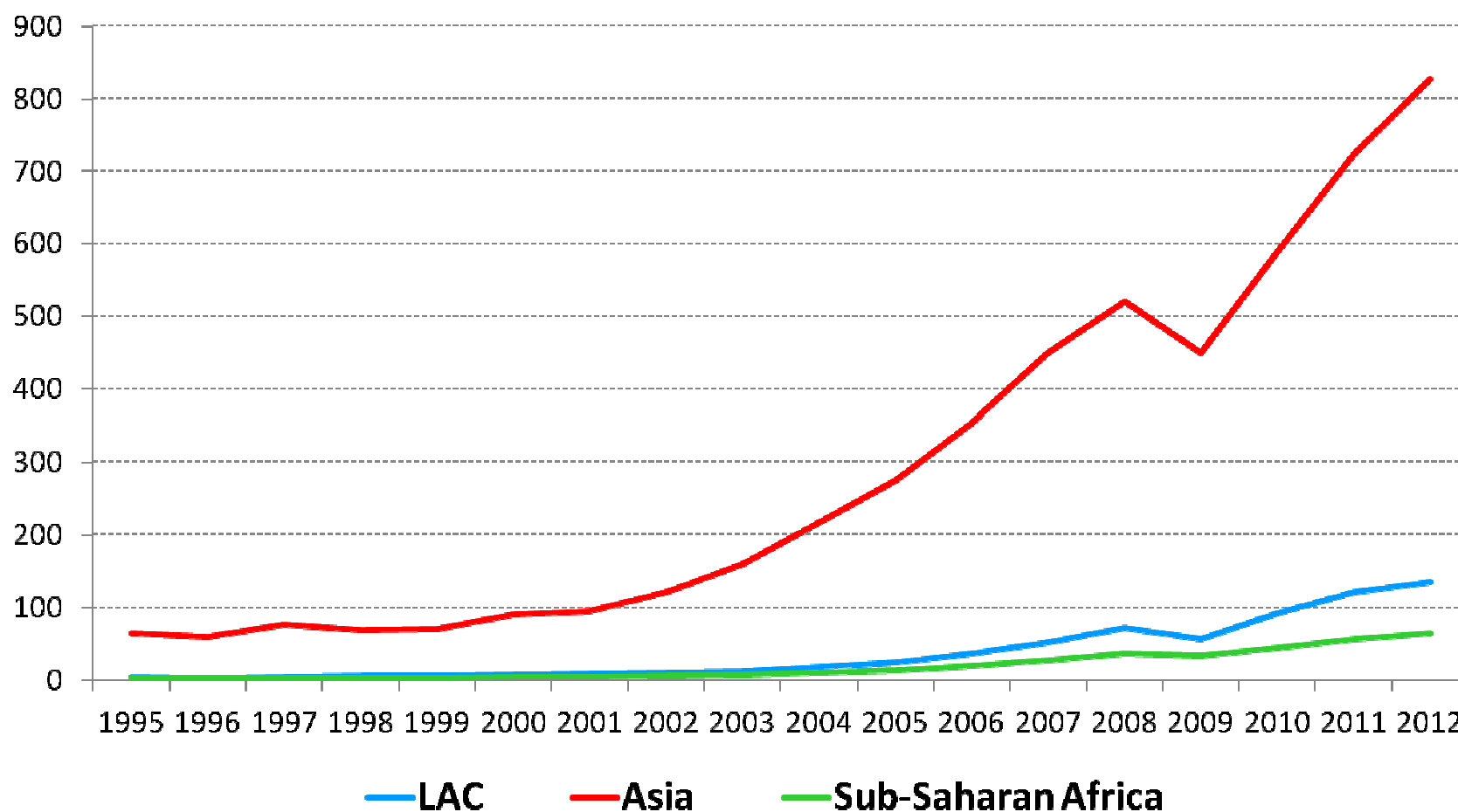
The Shifting Focus Pre-Dates the Crisis, But Accelerated in its Aftermath



Source: Standard Bank (2013), based on ITC, local sources, Standard Bank Research

China's Export Growth is Strongest in Asia, Though is Increasing in Latin America and Africa

China's Exports of Merchandise, 1995-2012 (USD Bil)

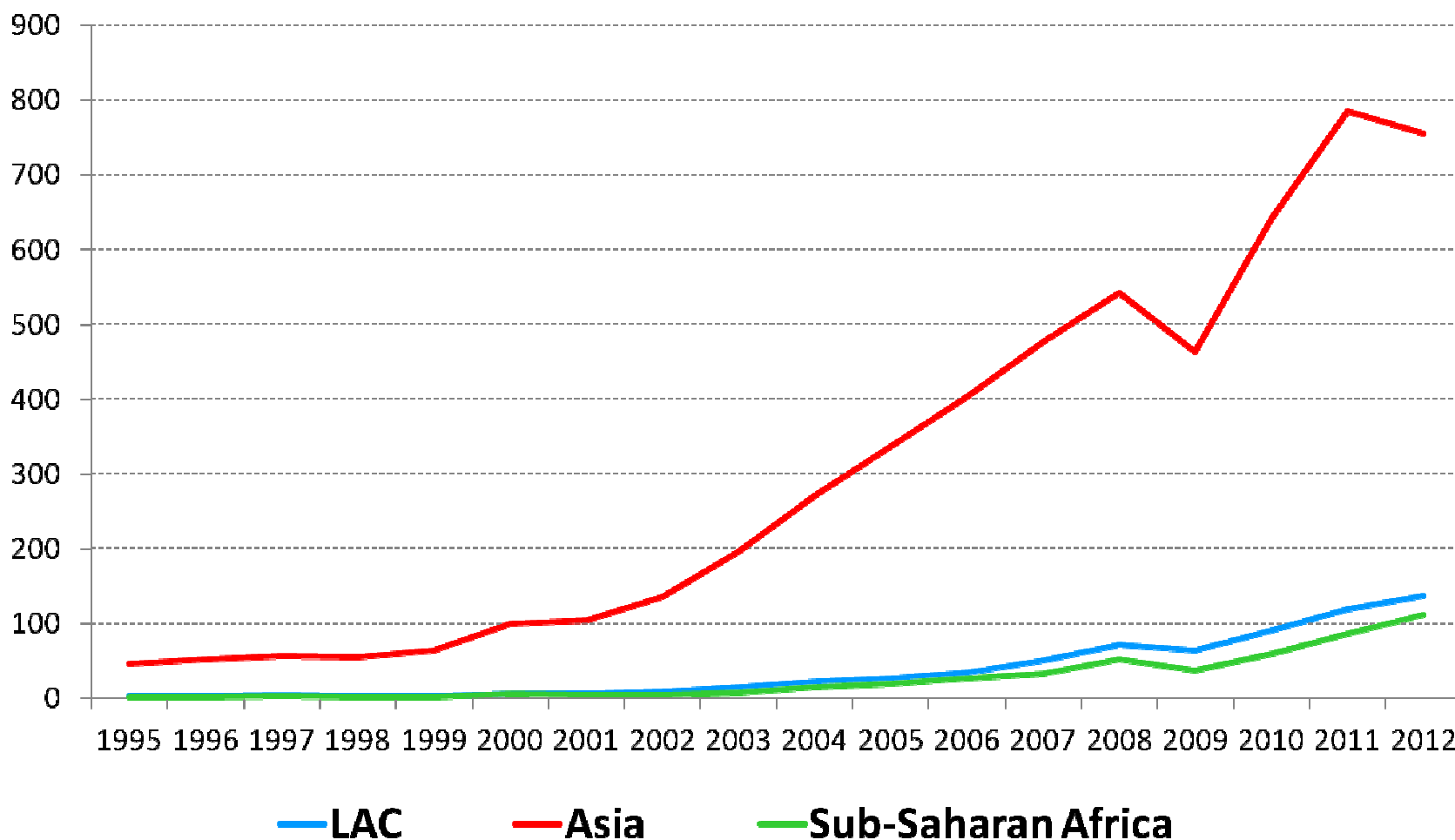


Source: UNCTADstat



With a Similar Trend in Imports

China's Imports of Merchandise, 1995-2012 (USD Bil)



Challenges and Opportunities for China and the BRICS

- ☐ Trade
- ☐ **Supply Chains and Competitiveness**
- ☐ Commodity Markets
- ☐ Foreign Investment
- ☐ Financing
- ☐ Climate Change

China Has Become the Center of the Global Supply Chain

- China has emerged as a major, systemically important trading hub – based not only on the size of trade but the number of significant trading partners
 - i. It is the world's biggest exporter, with a huge trade surplus in manufactured goods
 - ii. It is the world's second largest trading partner (behind the US)
 - iii. Trade is 57% of GDP - almost triple the ratio of the United States

China Has Become the Center of the Global Supply Chain

- Several factors contributed to China's strong position in the global supply chain over the past two decades:
 - i. Strong FDI inflows with externalities for technology, management and market access
 - ii. Undervalued exchange rate
 - iii. Surplus of cheap labor
 - iv. Rapidly growing global 'middle class' and demand for Chinese goods
 - v. Strong investment in infrastructure development



Ongoing Chinese Dominance Has Implications for New Entrants

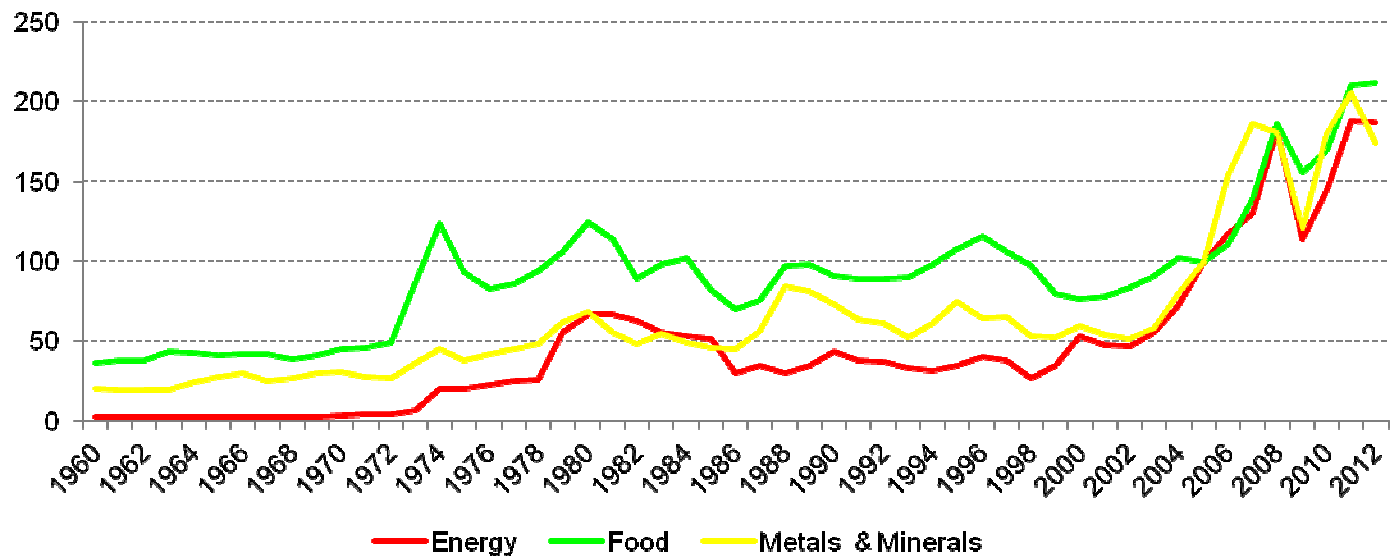
- The extent of China's competitiveness has made entry into the global market difficult for lower-income countries
 - i. This has inhibited industrialization progress in many developing countries
- But it's role in the supply chain is gradually shifting away from labor-intensive and low-tech products (eg food, beverages and textiles) to capital-intensive and high-tech products (eg metal products, machinery and electrical equipment)
- As this process of adaptation continues, and as the cost of labor rises, there may be scope for other EMDCs to enter the supply chain in those products and industries in which China's competitiveness is diminishing

Challenges and Opportunities for China and the BRICS

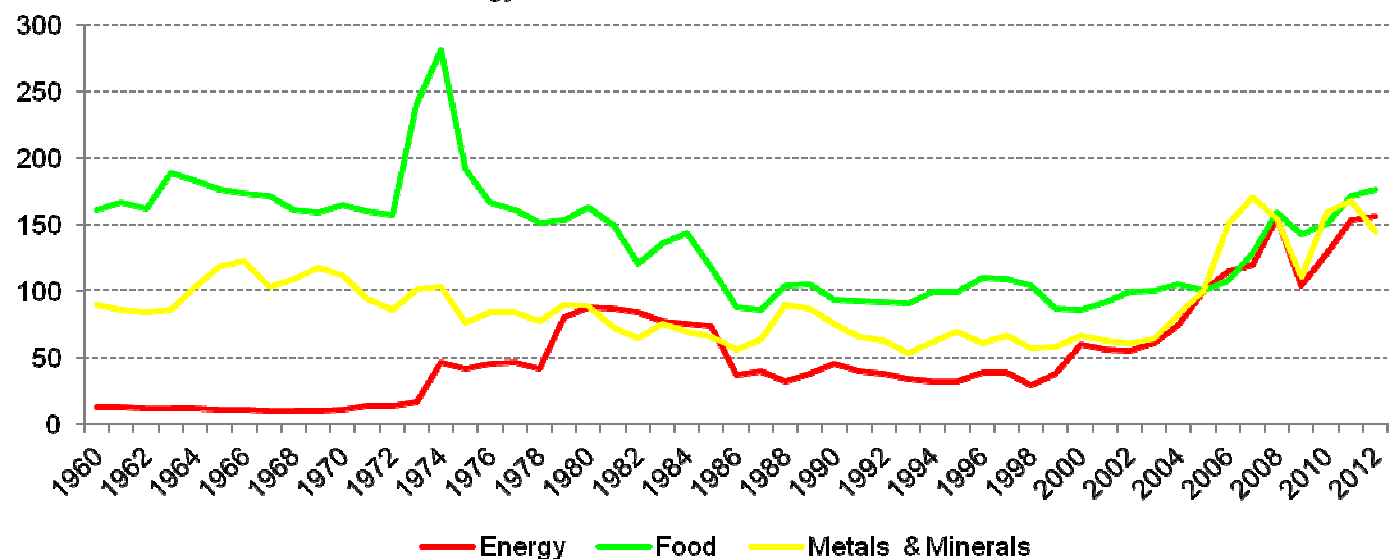
- ☐ Trade
- ☐ Supply Chains and Competitiveness
- ☐ **Commodity Markets**
- ☐ Foreign Investment
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Long-term Commodity Prices Have Increased Since the 1960s, Reaching an All-time High in 2011...

**Nominal
commodity prices**



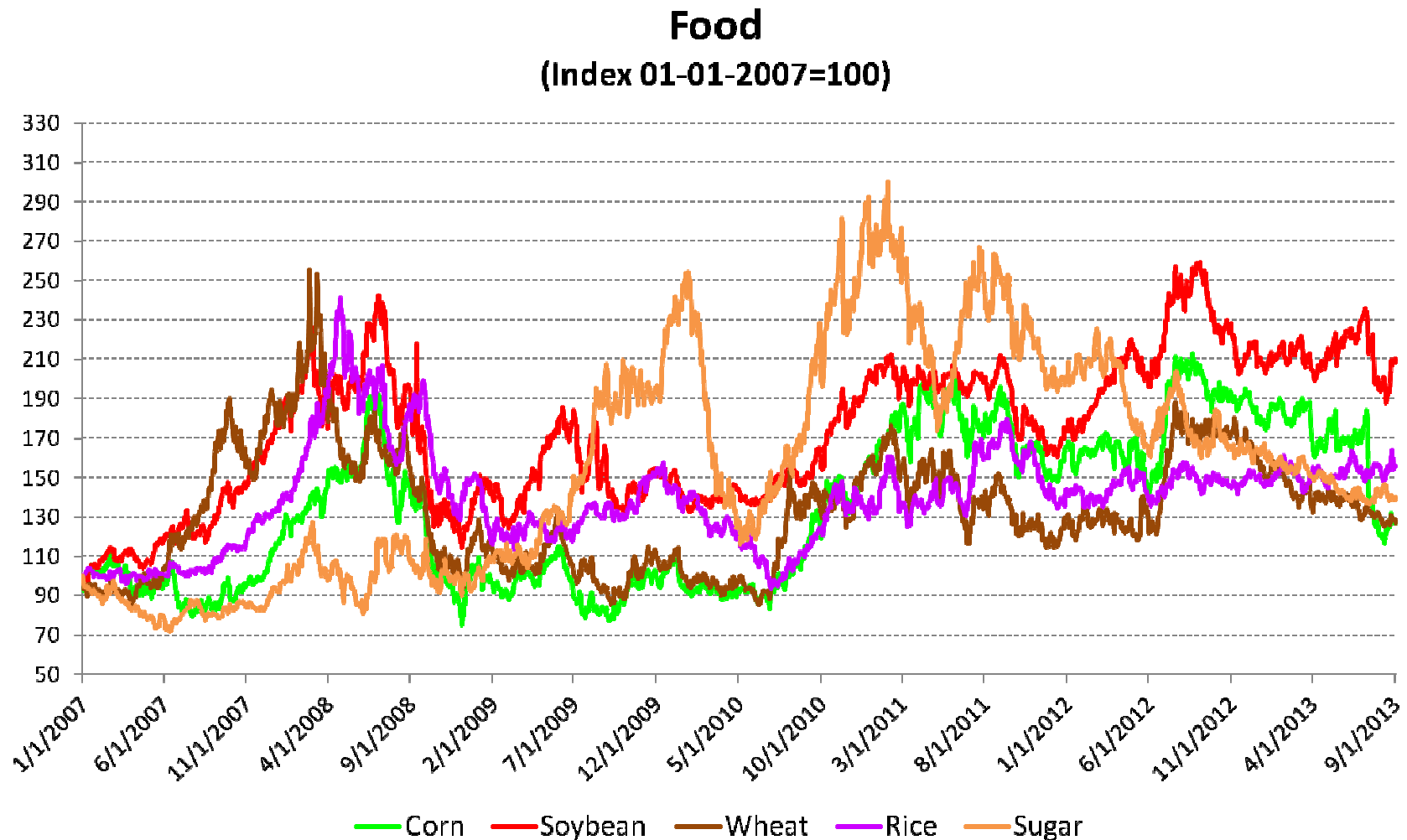
**Real
commodity prices**



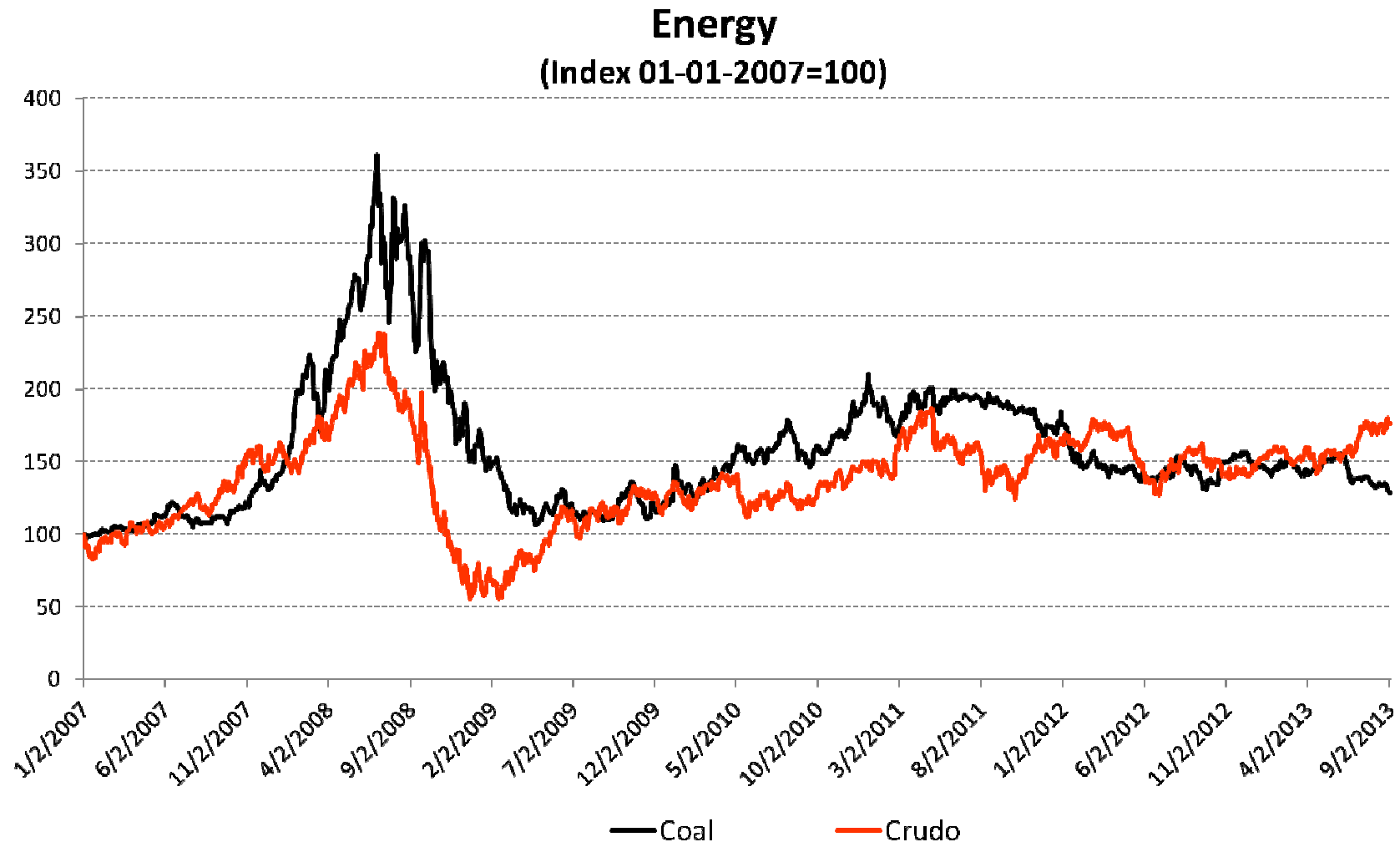
Source: World Bank, PINK data.
NOTE: Annual price indices, 2005=100



Though short- and long-term price trends vary across commodities



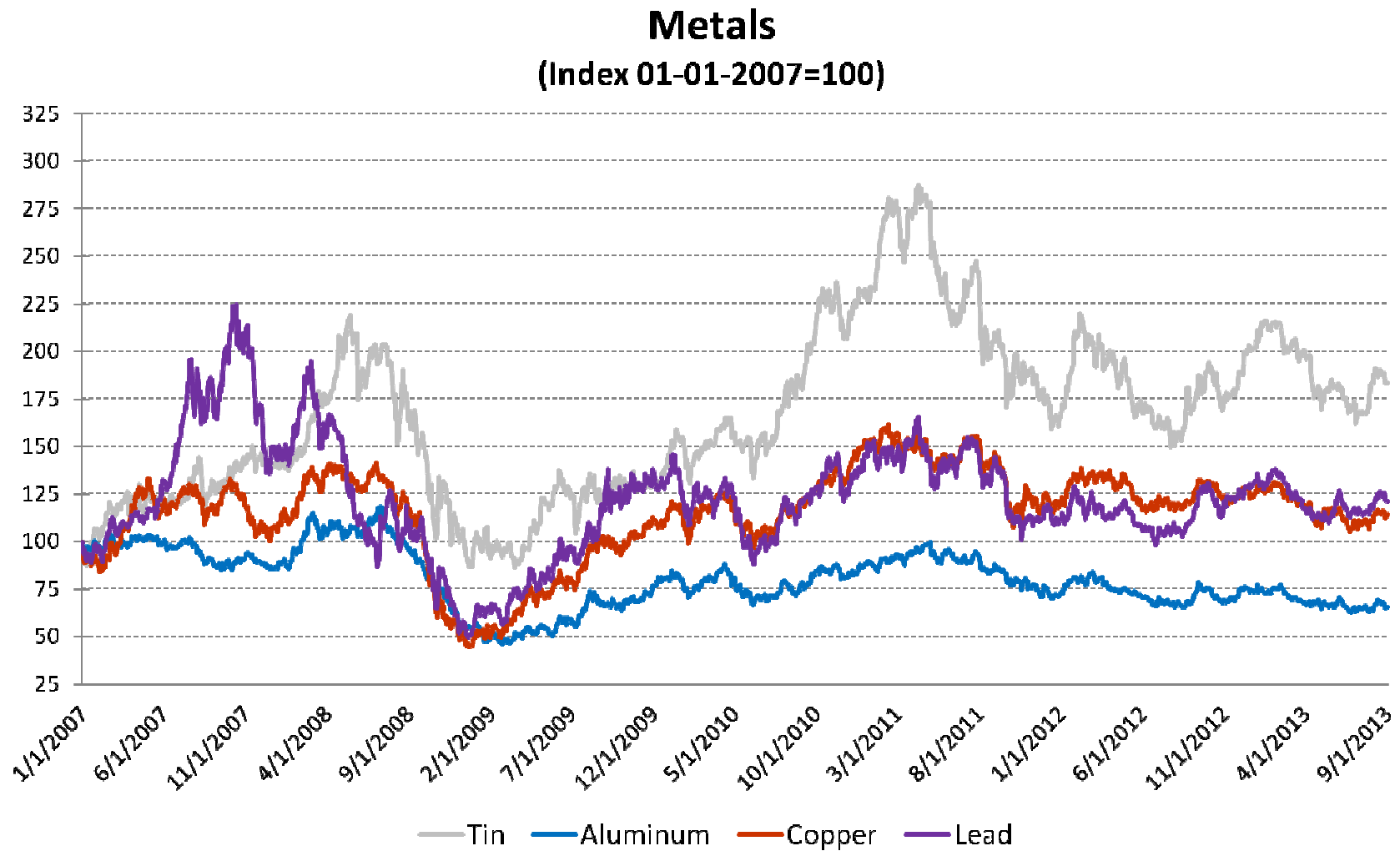
Though short- and long-term price trends vary across commodities



Source: Bloomberg



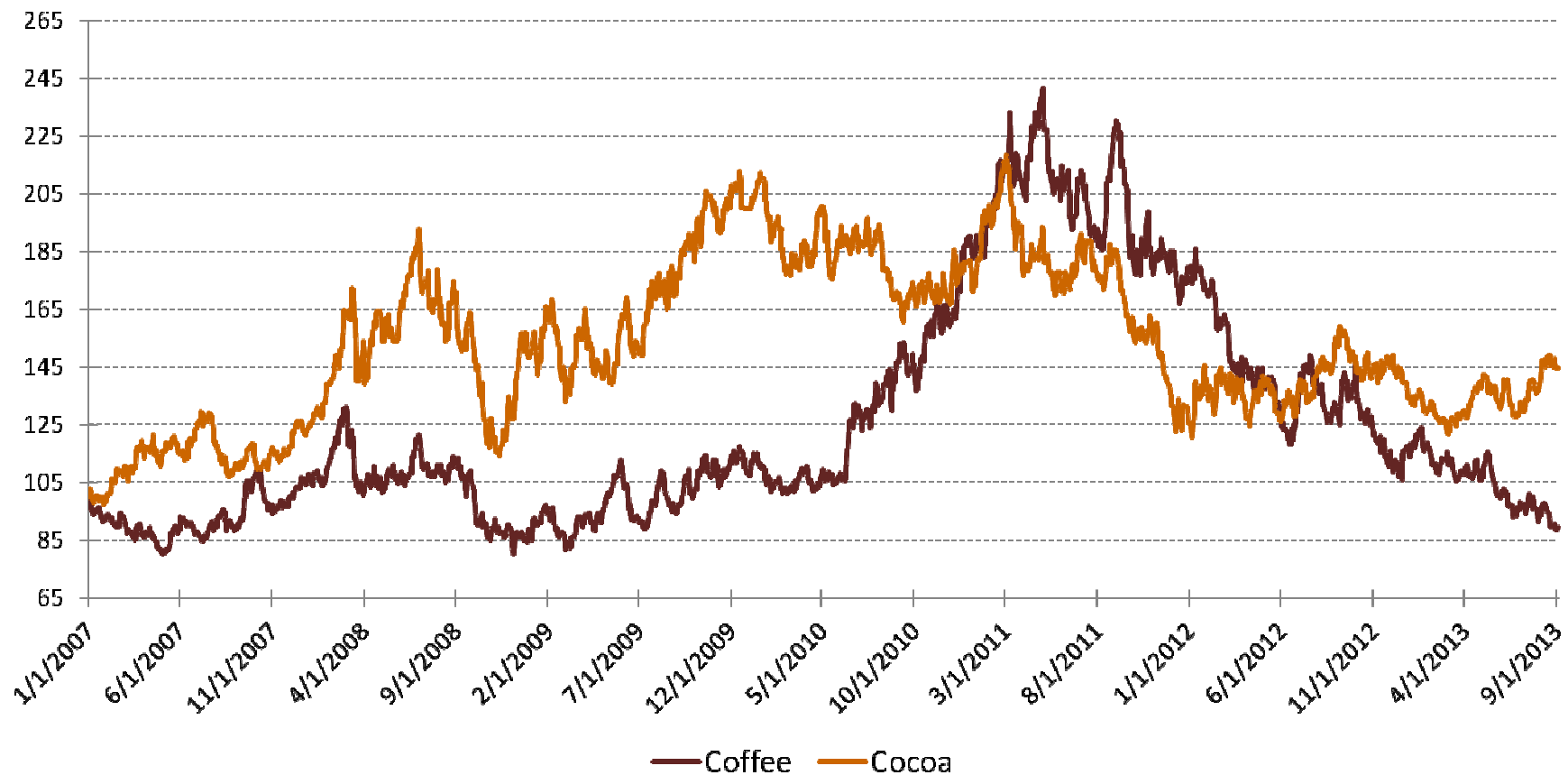
Though short- and long-term price trends vary across commodities



Source: Bloomberg

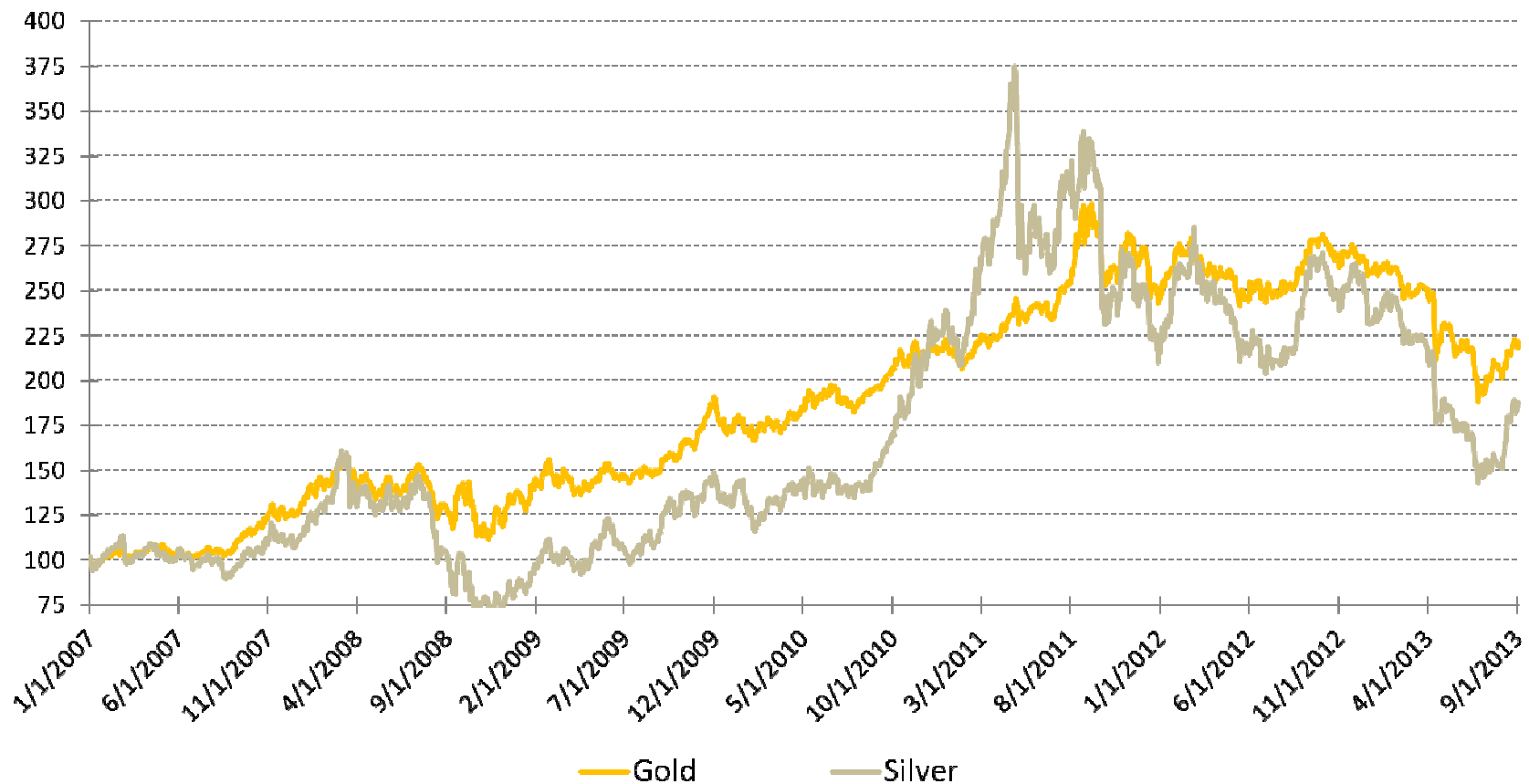
Though short- and long-term price trends vary across commodities

Beverages
(Index 01-01-2007=100)



Though short- and long-term price trends vary across commodities

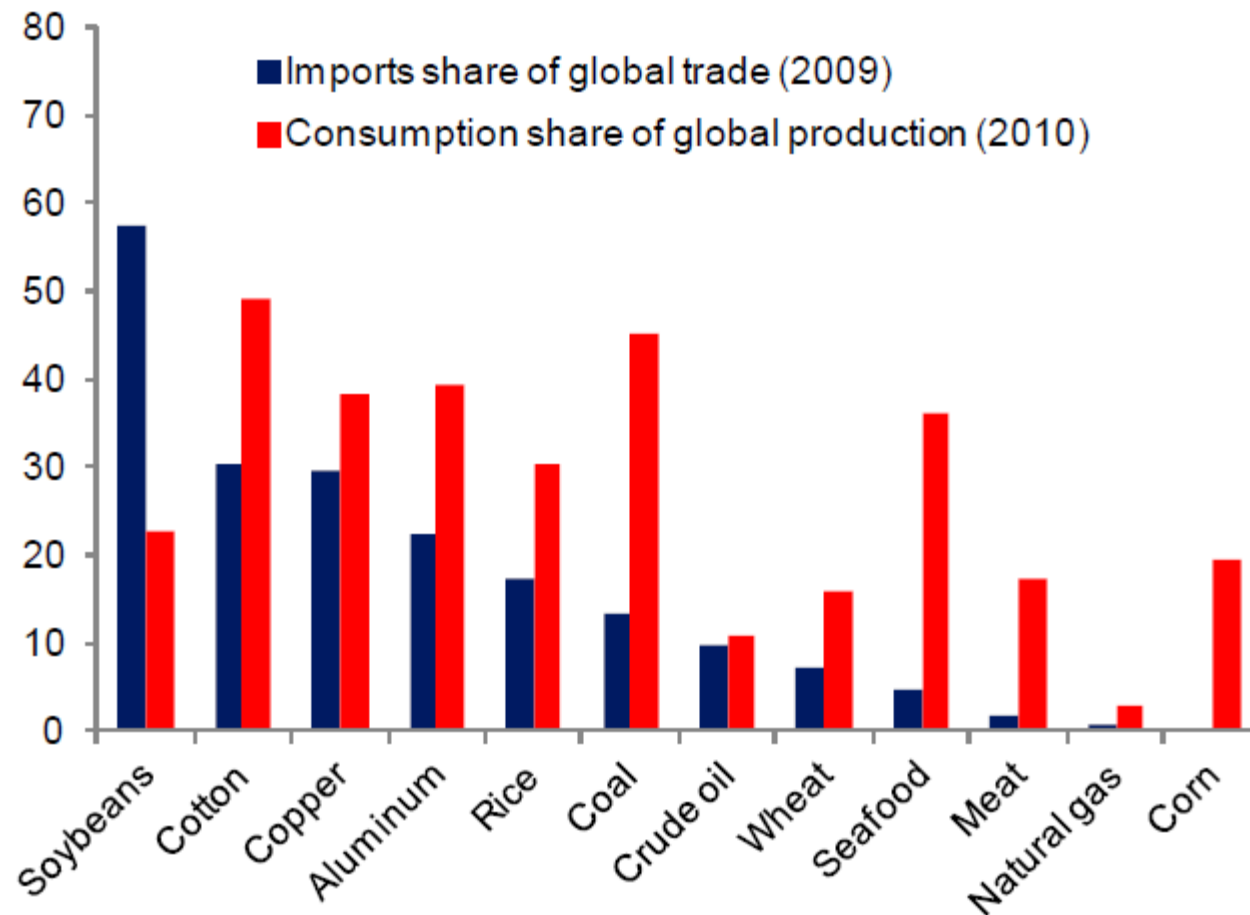
Precious Metals
(Index 01-01-2007=100)



Source: Bloomberg



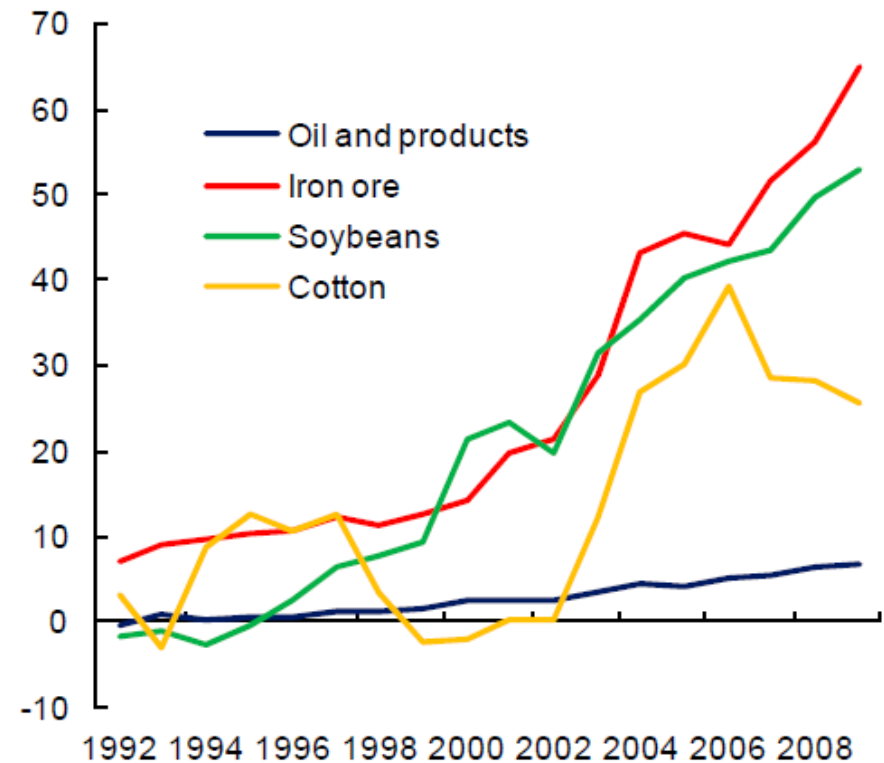
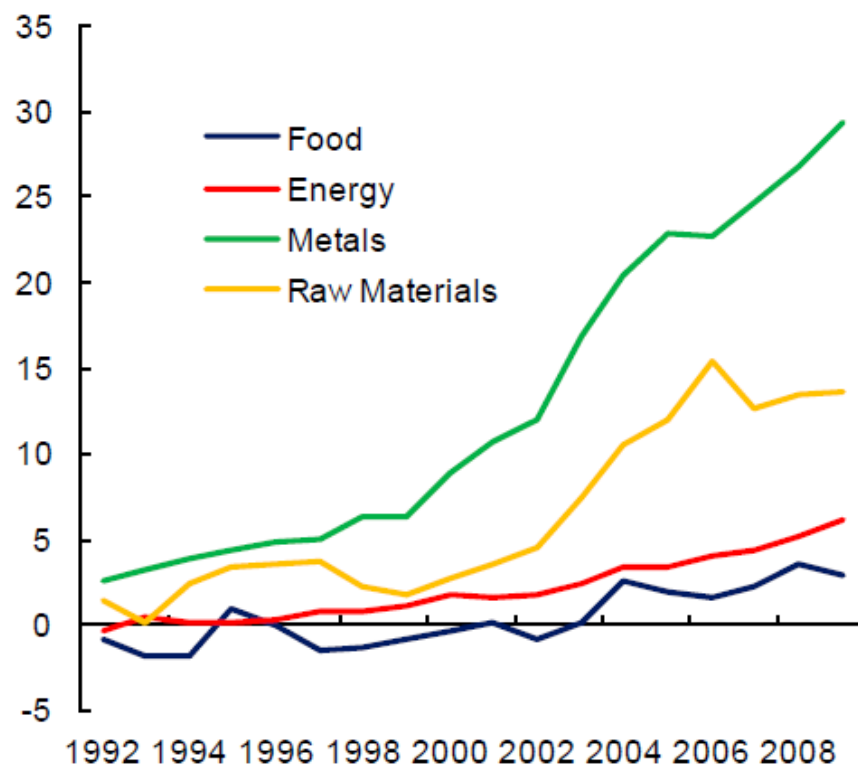
China's Share of Global Commodity Markets is Significant



Source: IMF (2012), based on United States Department of Agriculture, United Nations COMTRADE database, World Metal Bulletin Statistics, and author's calculations

China's Increasing Commodity Import Share Has Implications For Global Commodity Access

China's share of global commodity imports
(net imports as a percent of world total)



Source: IMF (2012), based on United Nations COMTRADE database,

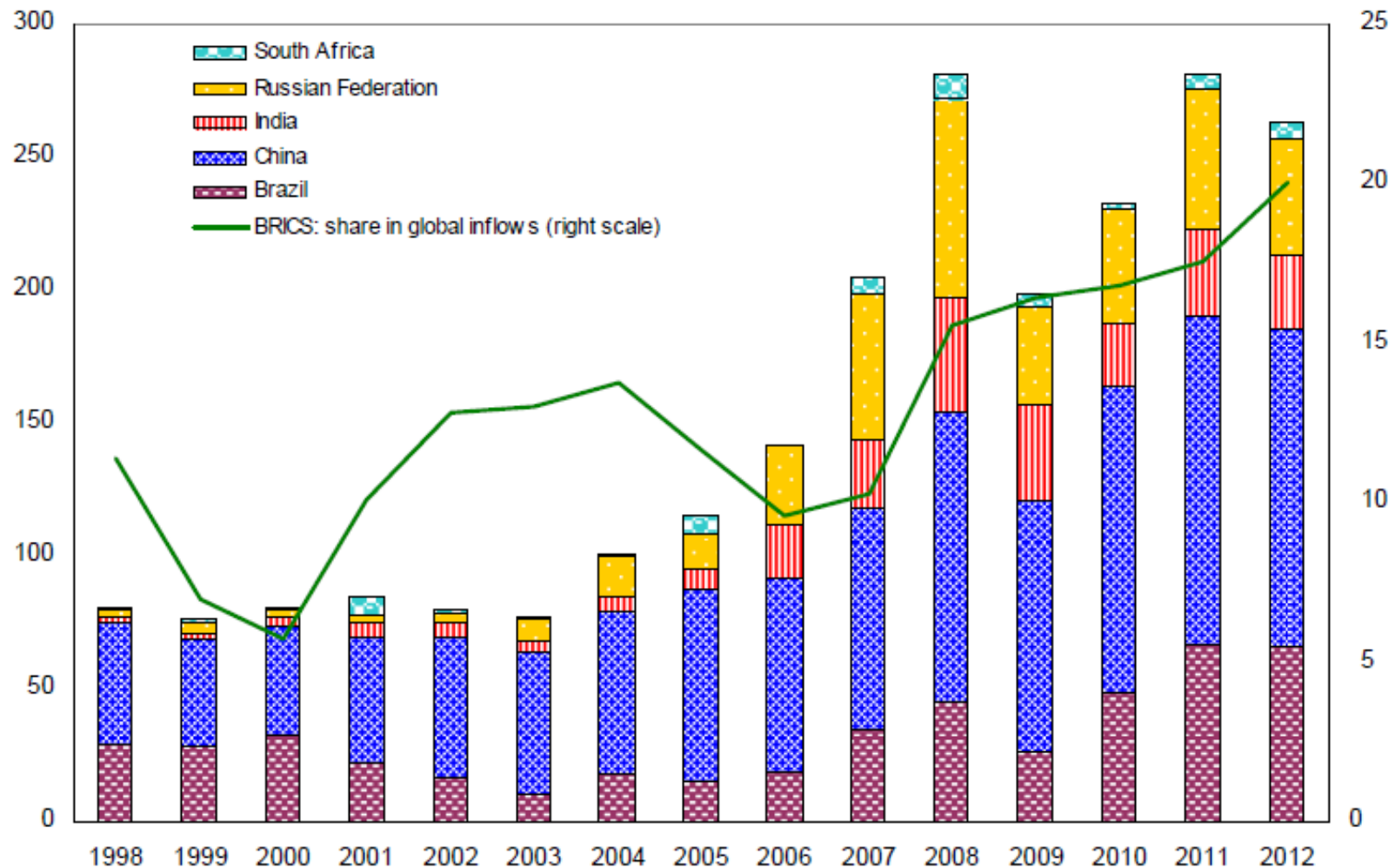


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BRICS have emerged as major FDI recipients

BRICS FDI Inflows (USD Bil) and Share of Total Inflows (percent)

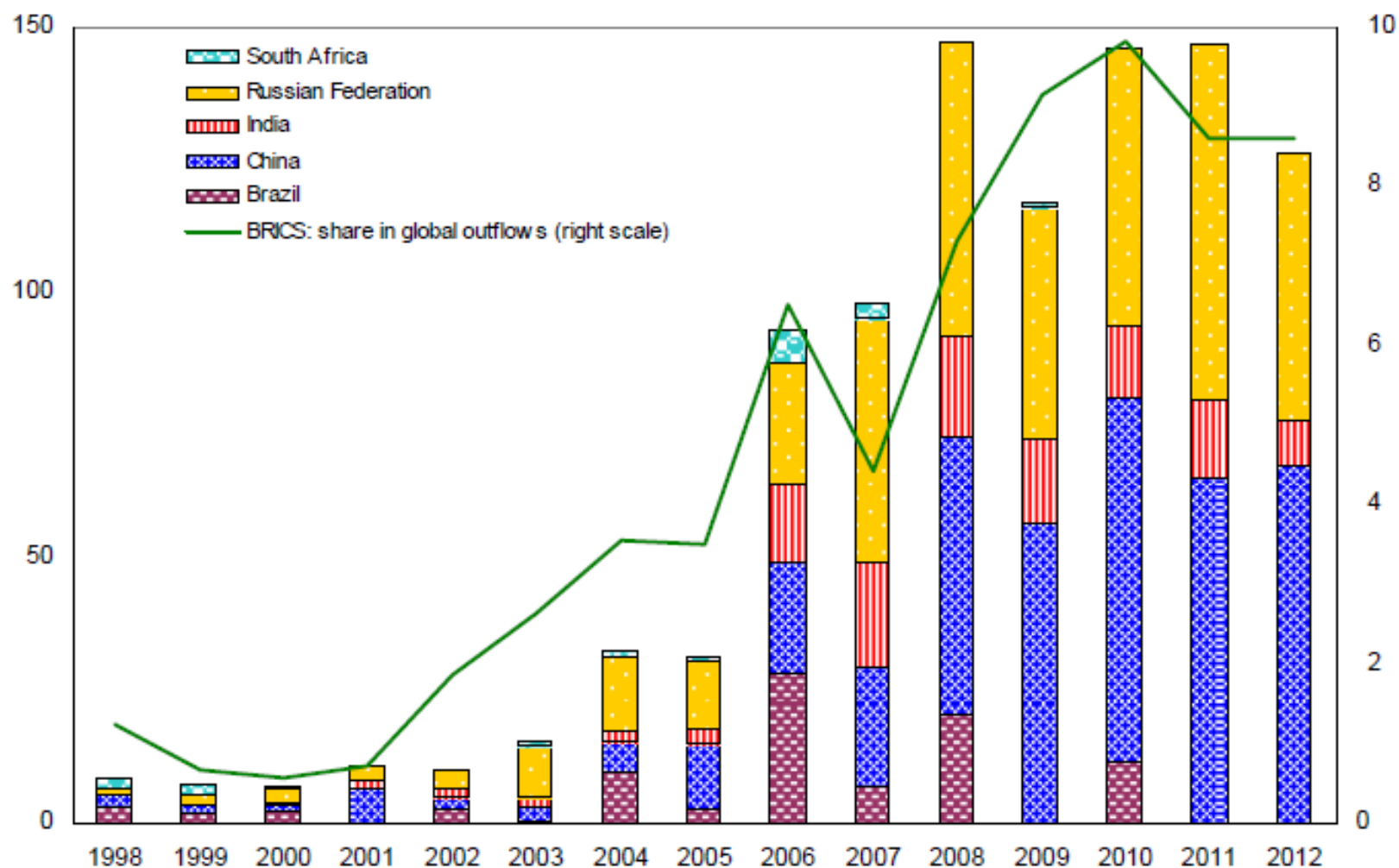


Source: UNCTAD (2013), based on UNCTAD FDI/TNC database



And major outflow investors

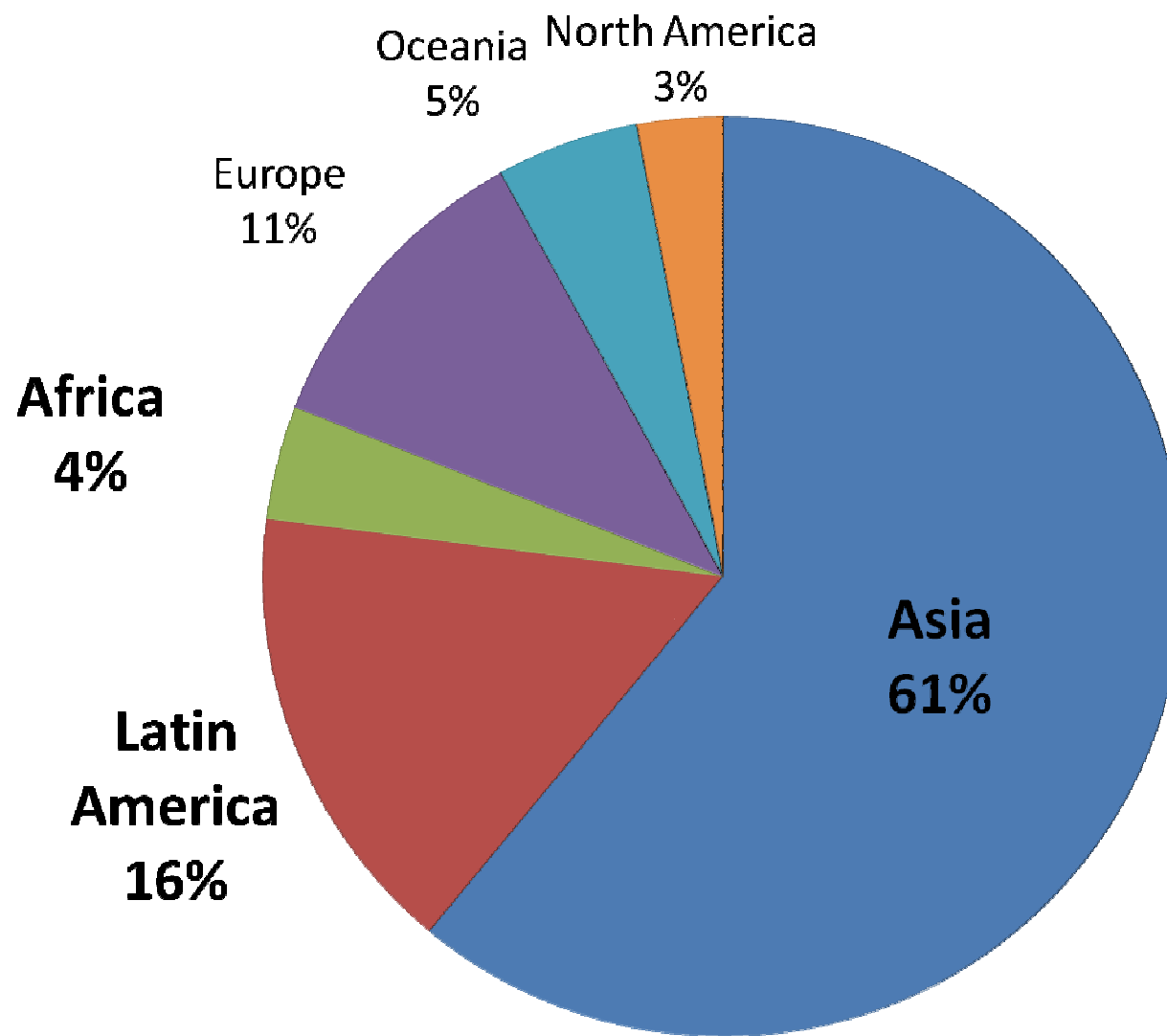
BRICS FDI Outflows (USD Bil) and Share of Total Outflows (percent)



Source: UNCTAD (2013), based on UNCTAD FDI/TNC database



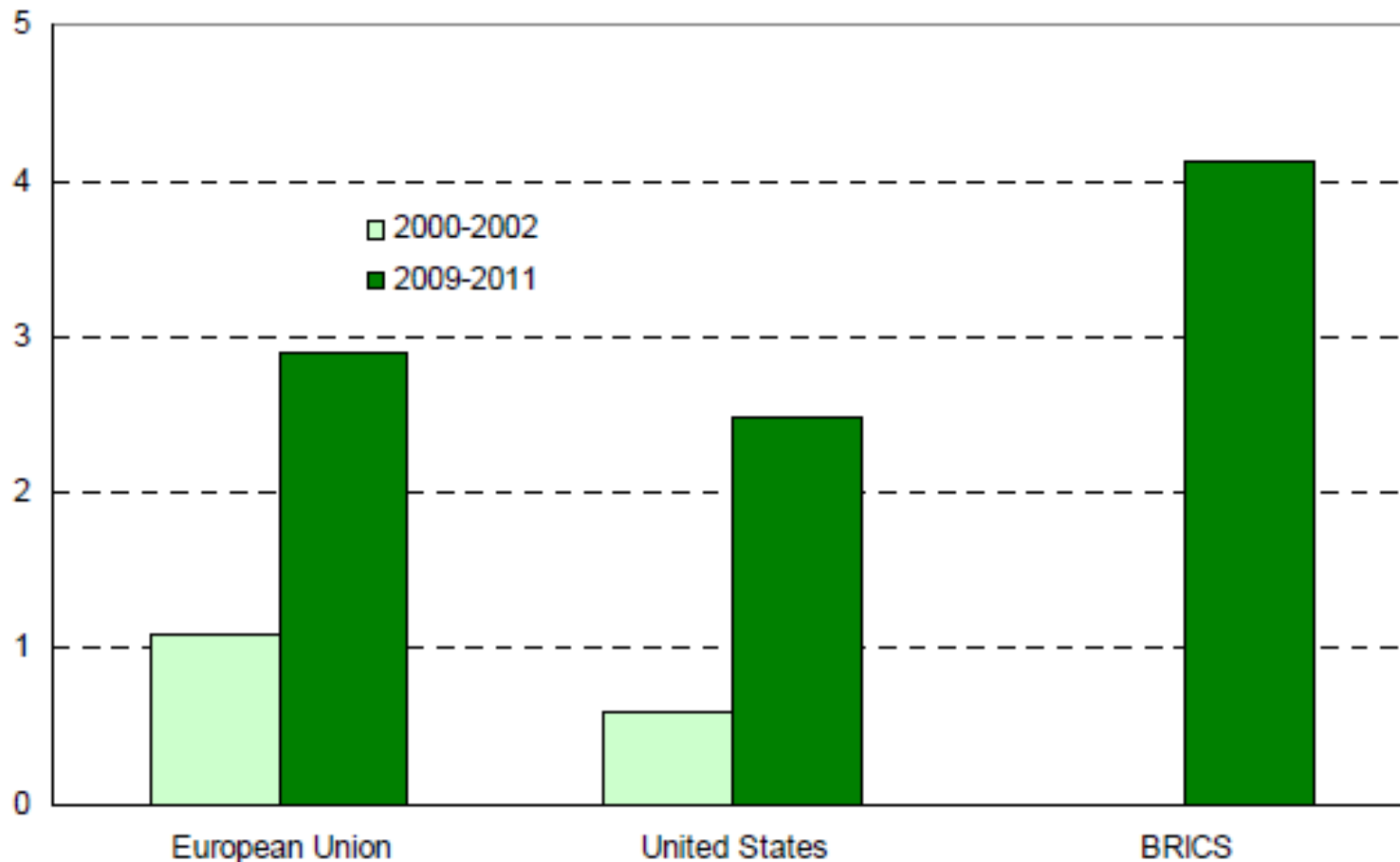
Recipients of BRICS Outflows



Source: Zhou & Yao (2013), based on Statistical Bulletin of the PRC's Foreign Direct Investment (2012) by MOFCOM

BRICS FDI Outflows to Africa have Significantly Increased

Share of Africa in Outflows of EU, US and BRICS, 2000-2002 vs 2009-2012
(percent)

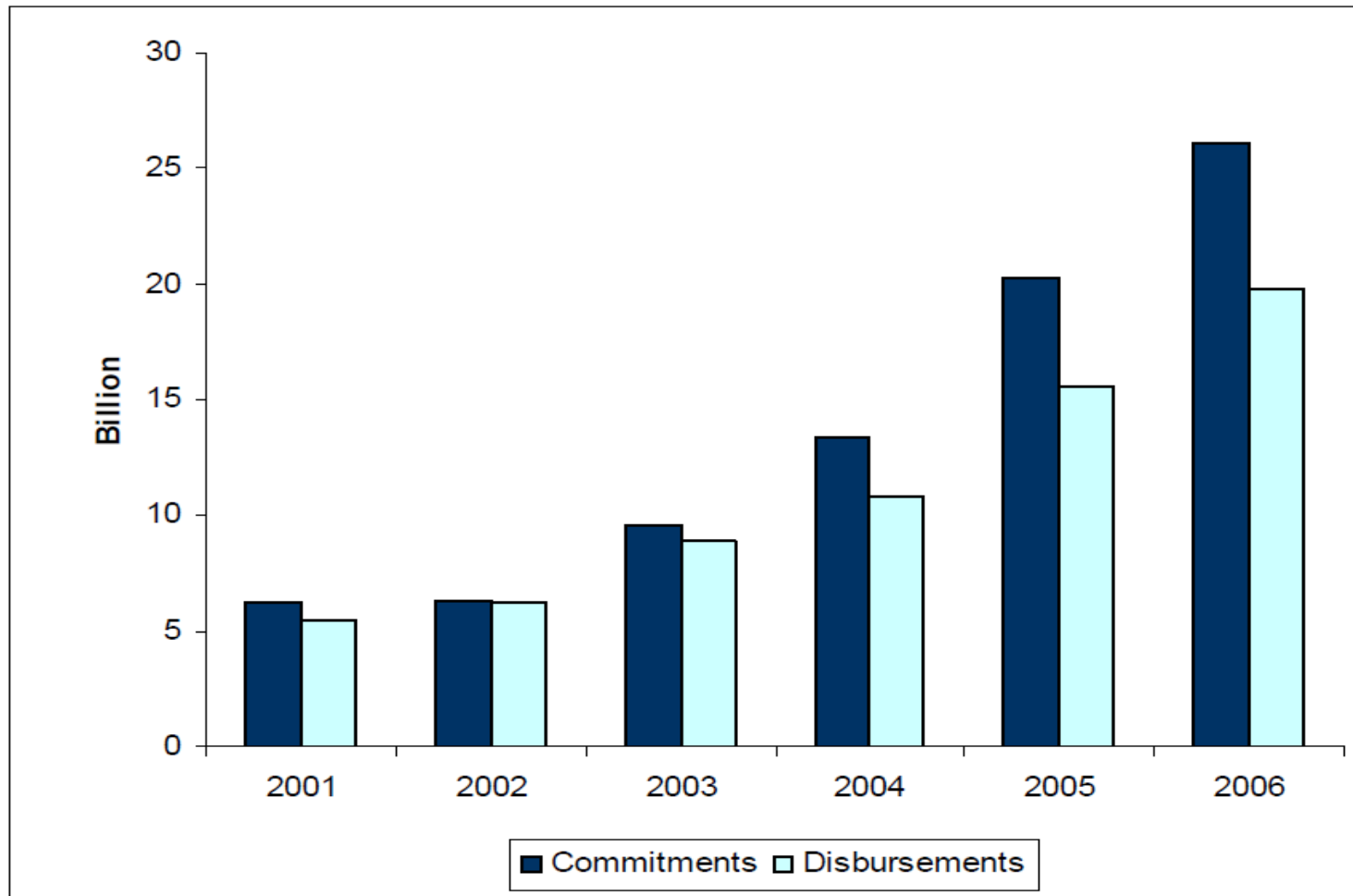


Challenges and Opportunities for China and the BRICS

- ☐ Trade
- ☐ Supply Chains and Competitiveness
- ☐ Commodity Markets
- ☐ Foreign Investment
- ☐ **Financing**
- ☐ Climate Change

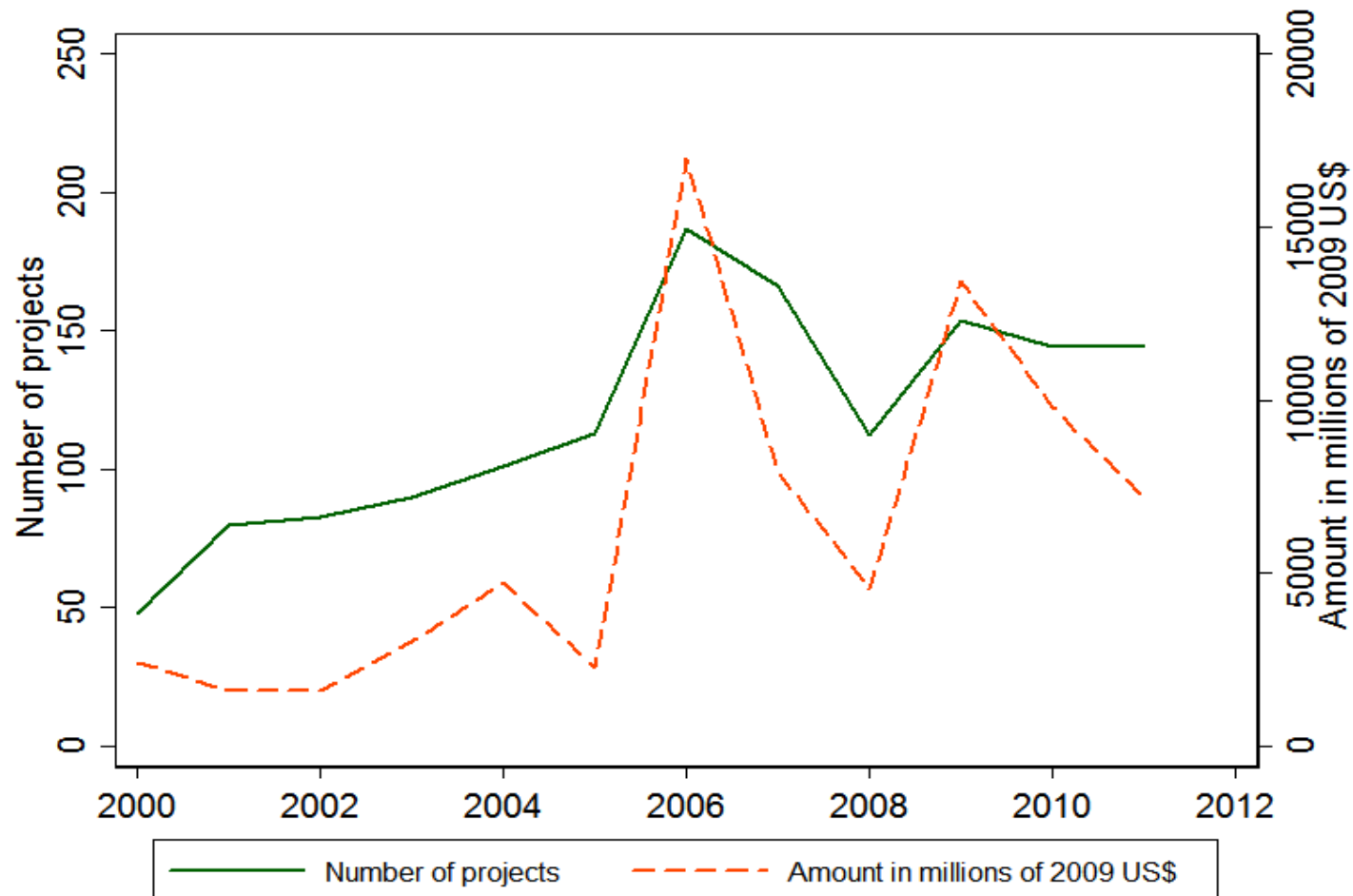
Chinese Financing to Africa has Increased in Volume

Commitments and Disbursement by China Ex-Im Bank, 2001-06 (Billion USD)



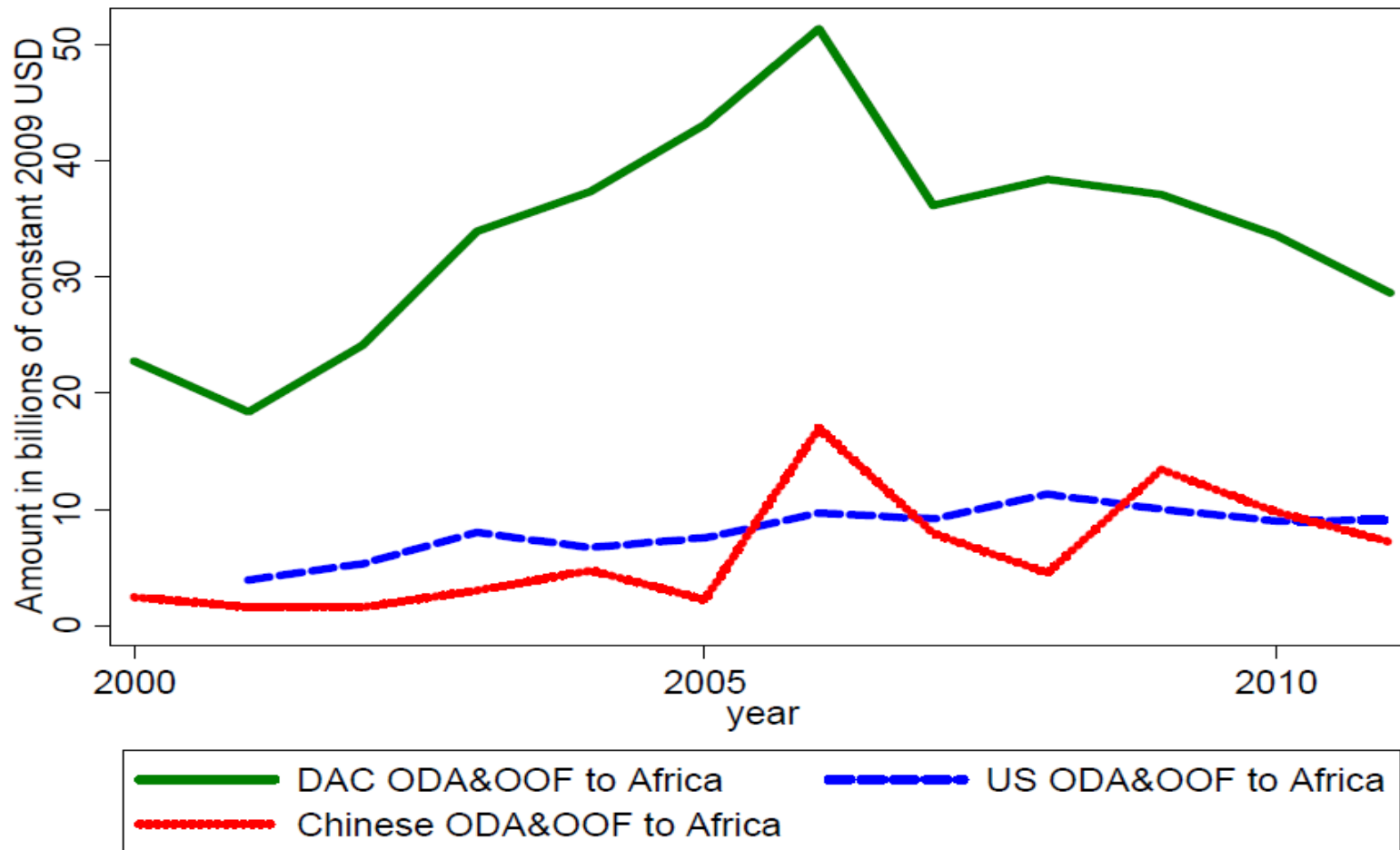
Chinese Aid Flow to Africa has Increased in Volume

Chinese Official Finance Report Over Time (USD mil, no. of project)



...And in Significance

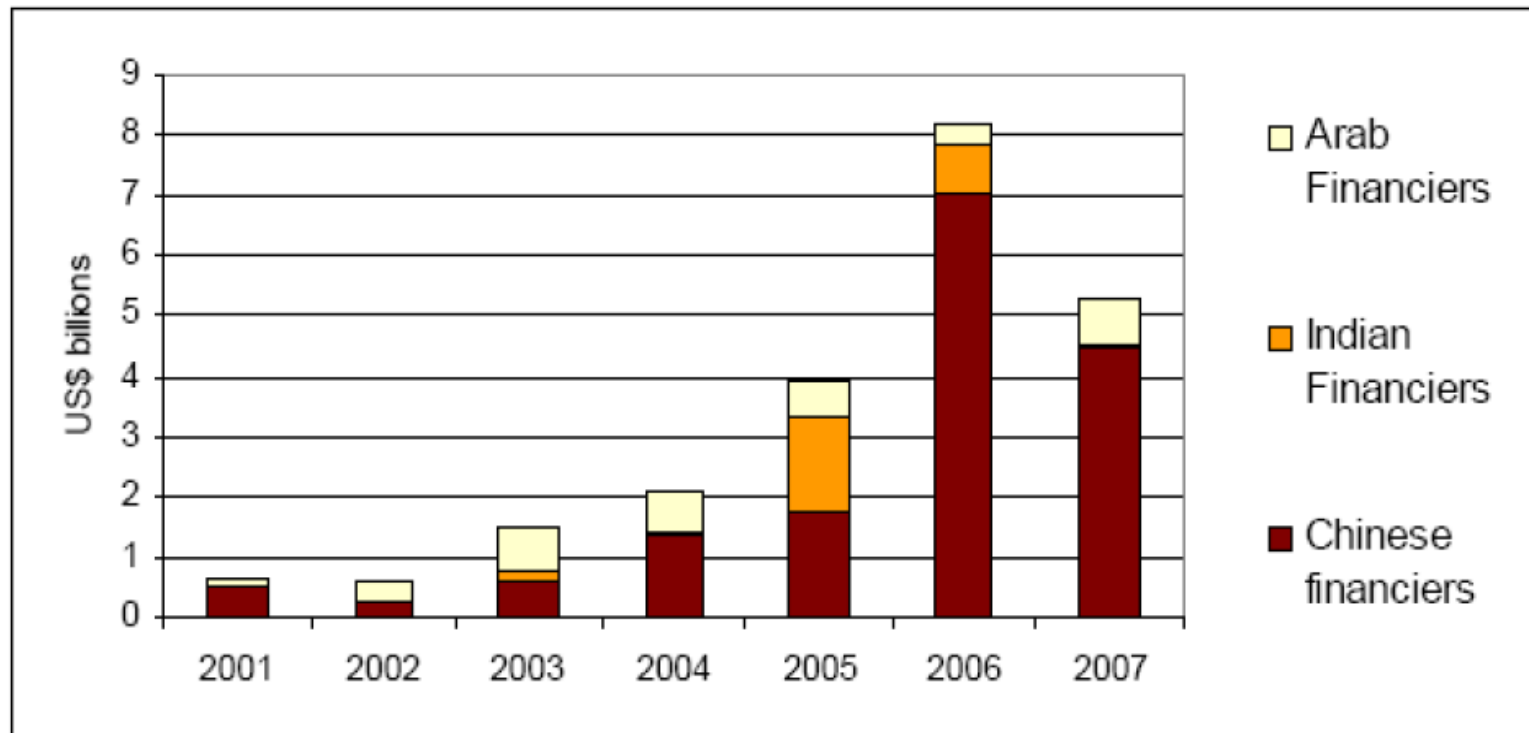
Chinese, OECD-DAC, and US Official Flows over time, 2000-2011



Source: CGD (2013), based on AidData's Chinese Official Finance to Africa Dataset, Version 1.0; OECD DAC Credit Reporting System

The Impact is Particularly Striking in Infrastructure Investment

Non-OECD Infrastructure Finance in Sub-Saharan Africa, 2001-07



Source: FINANCING DEVELOPMENT IN AFRICA: THE GROWING ROLE OF NON-DAC DEVELOPMENT PARTNERS, G-24 Secretariat, 2008, based on Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa by Vivien Foster et al. using World Bank-PPIAF Chinese Projects Database, 2007.



The New Development Bank Proposed by the BRICS has Tremendous Potential Value Added

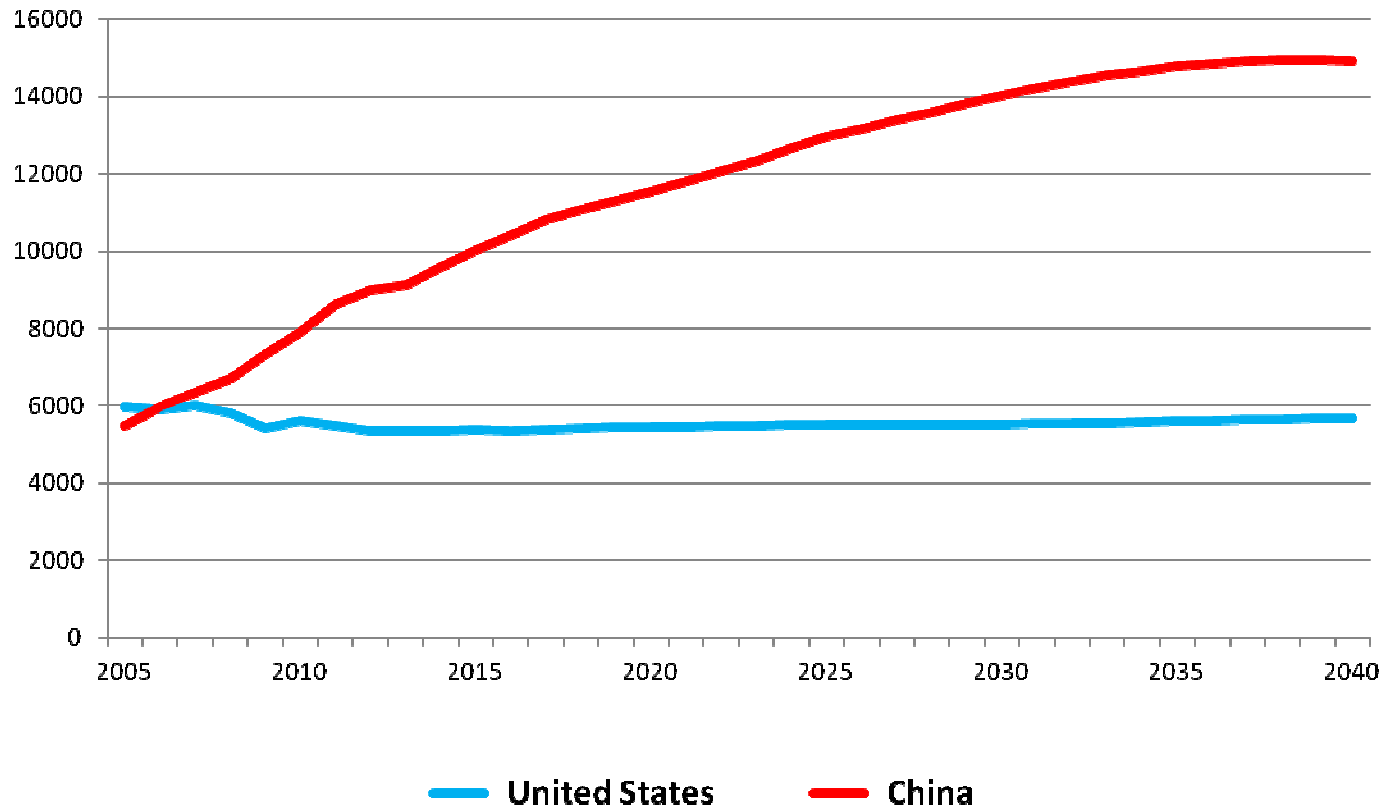
- It will assist EMDCs in meeting infrastructure investment need and achieving development goals through South-South cooperation
 - i. A new development bank anchored in EMDCs can help fill the gaps in infrastructure investment through direct lending and catalyzing private and other sources of finance. In doing so, it can make a critical contribution to strengthening the development financing architecture
 - ii. The new bank can also facilitate the transition to new poles of global growth and demand, contribute to rebalancing of global savings and investments, and channel excess liquidity to productive use.
 - iii. Given the shortfall of assistance from developed to developing countries, this bank can provide essential help to EMDCs as they undertake smarter and more sustainable growth and poverty reduction
- A new institution will also enable EMDCs to have a strong stake in governance, as warranted by their growing global economic position

Challenges and Opportunities for China and the BRICS

- ☐ Trade
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- ☐ **Climate Change**

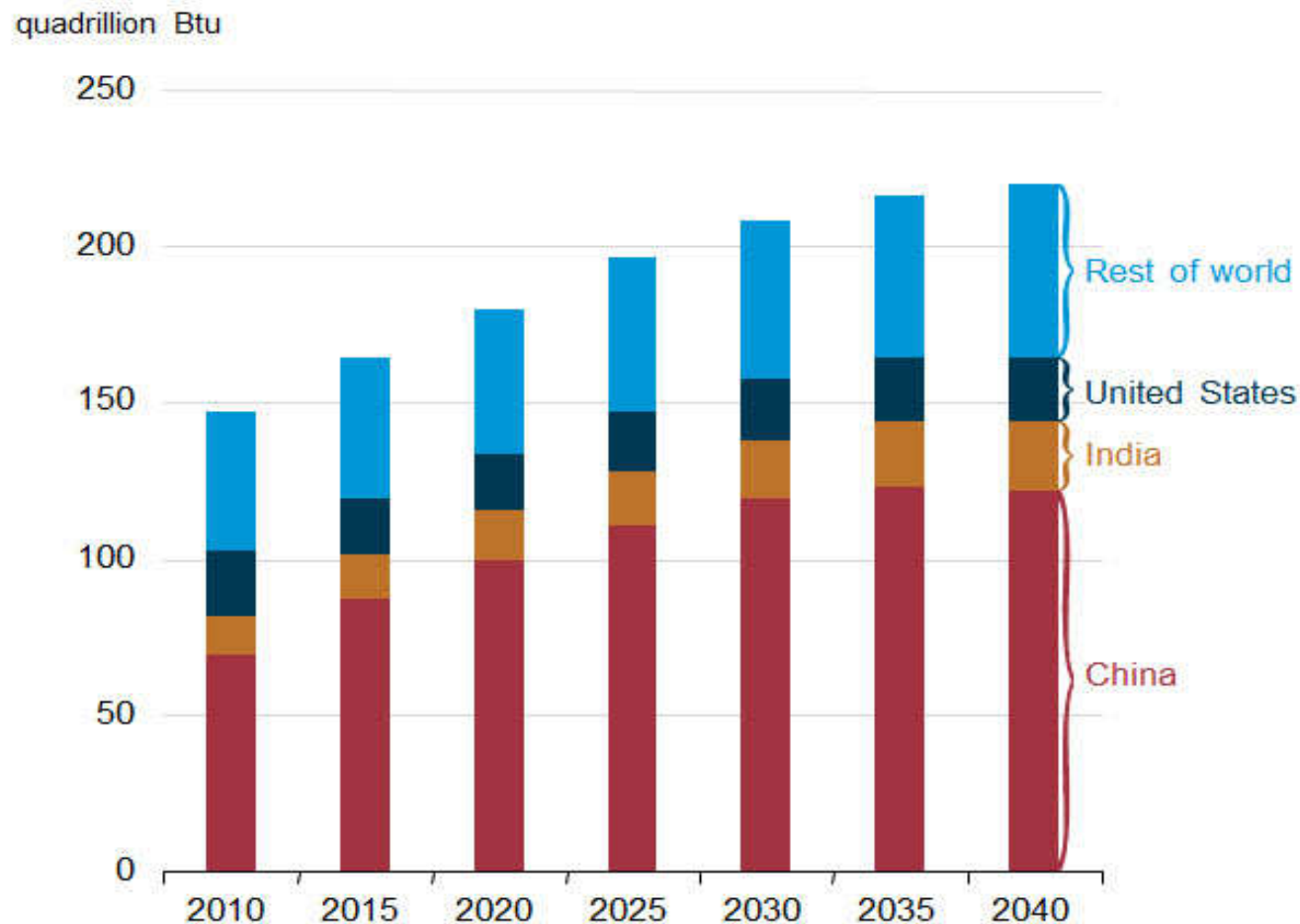
China Contributes to About 1/3 of the World's Total Greenhouse Gas Emissions, and is Responsible for almost 2/3 of emissions growth

World carbon dioxide emissions, US vs. China (millions of metric tons)



China Consumes More Coal Than the Rest of the World Combined

World coal consumption by country grouping, 2010-2040



Source: US IEA, 2013

However, China Is Taking Extraordinary Steps To Reduce Emissions

- China announced recently that both the Government and private companies will spend \$275bn over the next five years to reduce emissions
 - i. Reducing carbon intensity** (emissions per unit of GDP)
 - ❖ China's carbon intensity has fallen by about 20% in the past five years, and the government is aiming to cut it by 40-45% by 2020, (compared with 2005).
 - ❖ Much of the improvement will come energy efficiency in state-owned enterprises
 - ii. Investing in renewables**
 - ❖ Chinese investment in renewables was around \$67bn in 2012
 - ❖ The government aims to get 20% of energy from renewables by 2020 (though coal will remain important)
 - iii. Exploring carbon pricing and trading schemes**

Overview

1. Structural transformation in the global economy
2. Impact and legacy of the crisis
3. Role and Impact of China and the BRICS
4. **Implications for global governance**

Implications for Global Governance

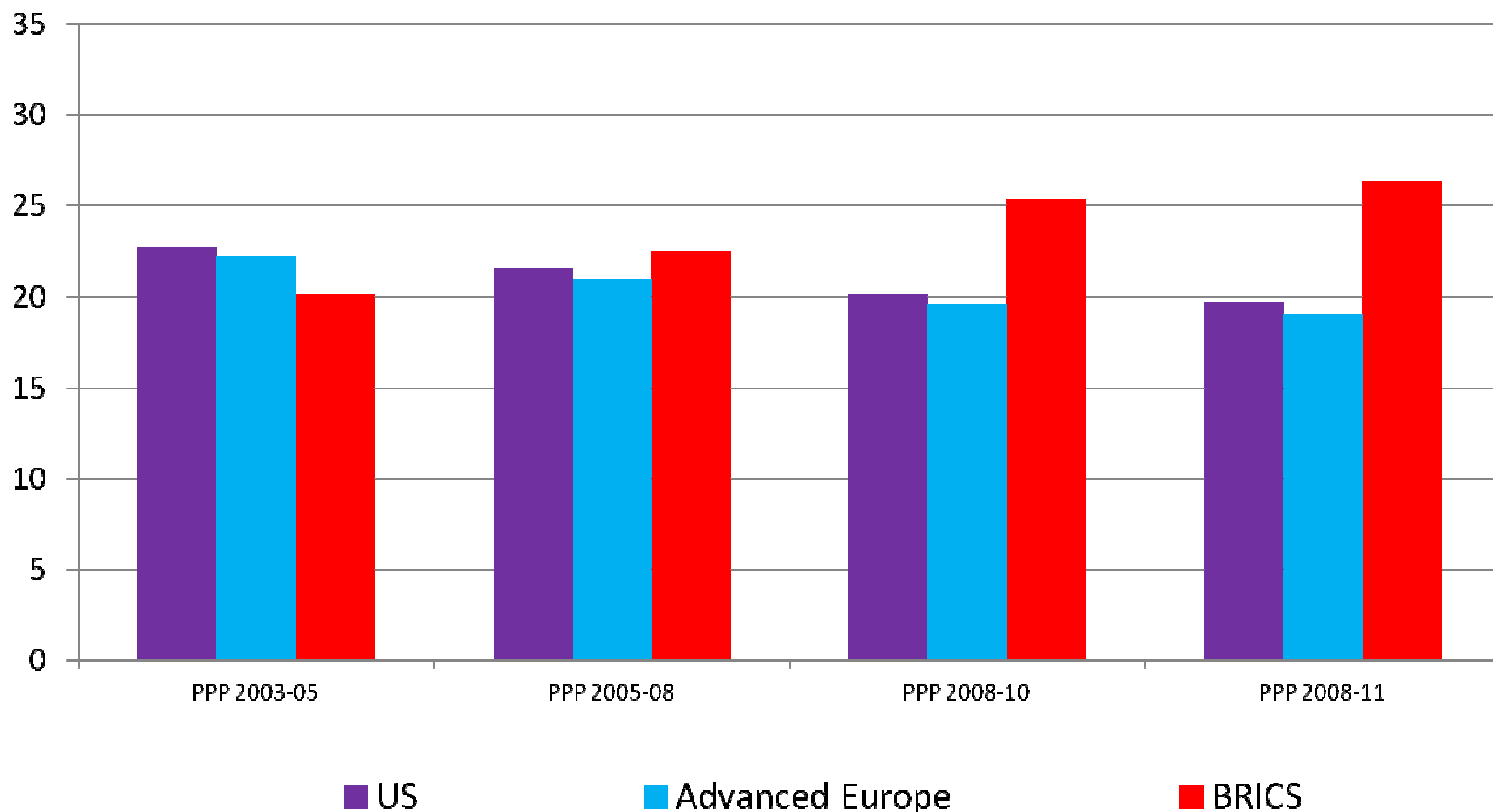
- Growing interconnectedness poses new challenges in global coordination and governance arrangements
- Recent waves of financial crises has underscored importance of coordination in the economic and financial sphere but also the inherent challenges of such coordination
- The new wave of global challenges coincides with major shifts in relative positions and the role of old and new powers

Implications for Global Governance

- The weight of the emerging powers in the global economy is not being reflected in the governance and decision-making of the IFIs
- Moreover the governance of the IFIs continues to suffer from a large democratic deficit with non-BRICS EMDCs including the poor having very modest voting power in these institutions

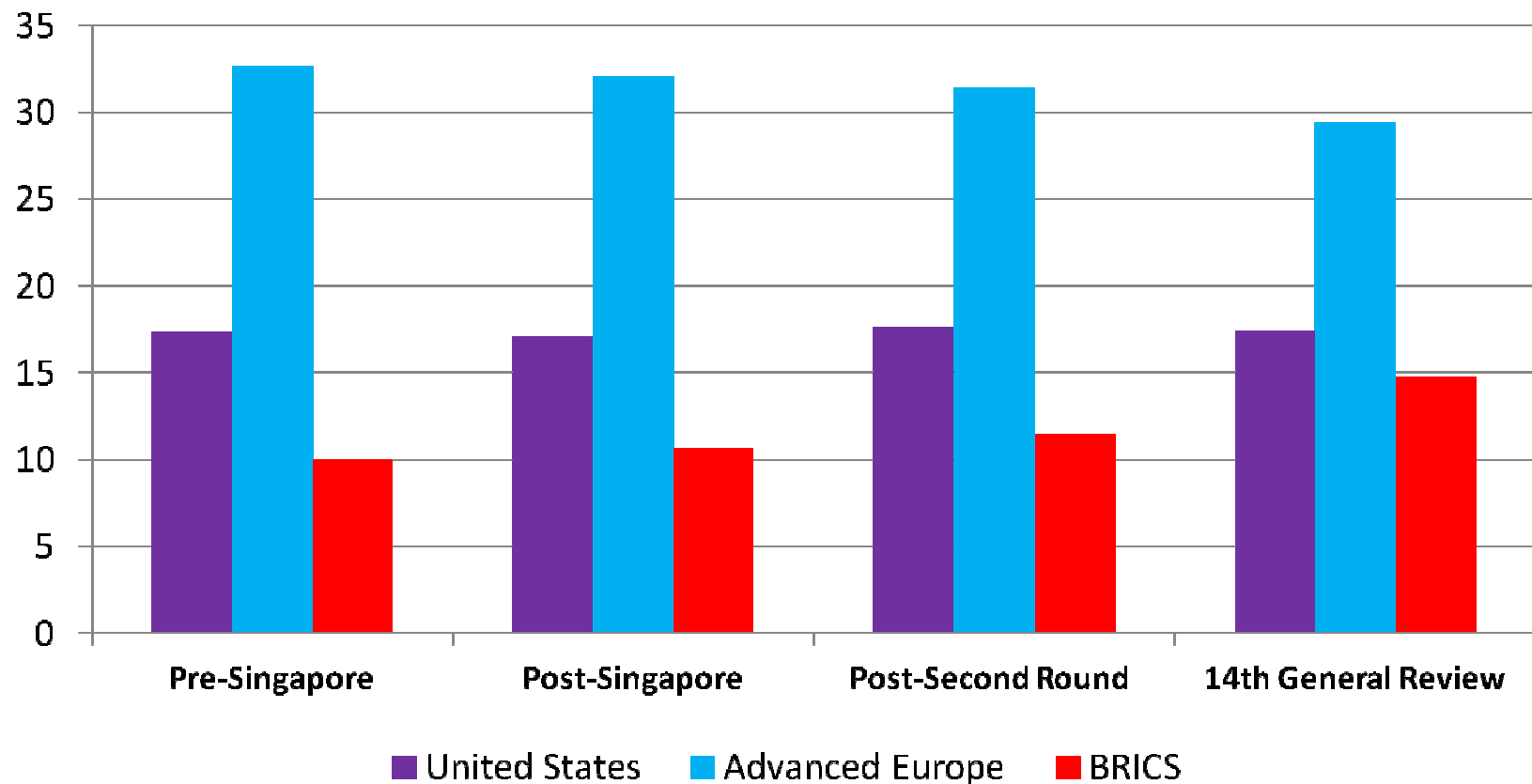
The Role of China and the BRICS in the Global Economy has Been Growing

GDP PPP share (percent)



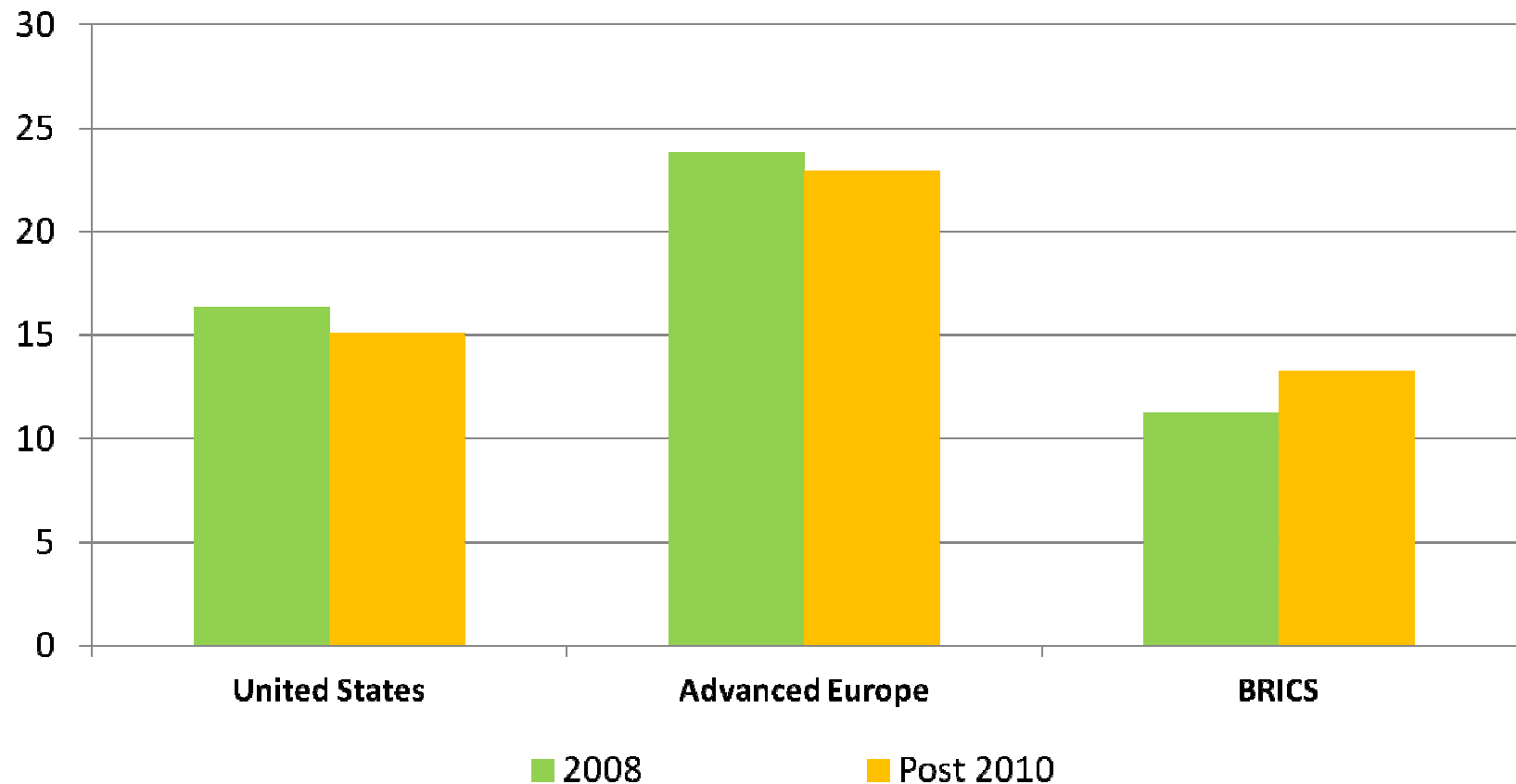
But This Has Not Been Reflected In the Balance of Power in IMF Governance

IMF Quota Shares (percent)



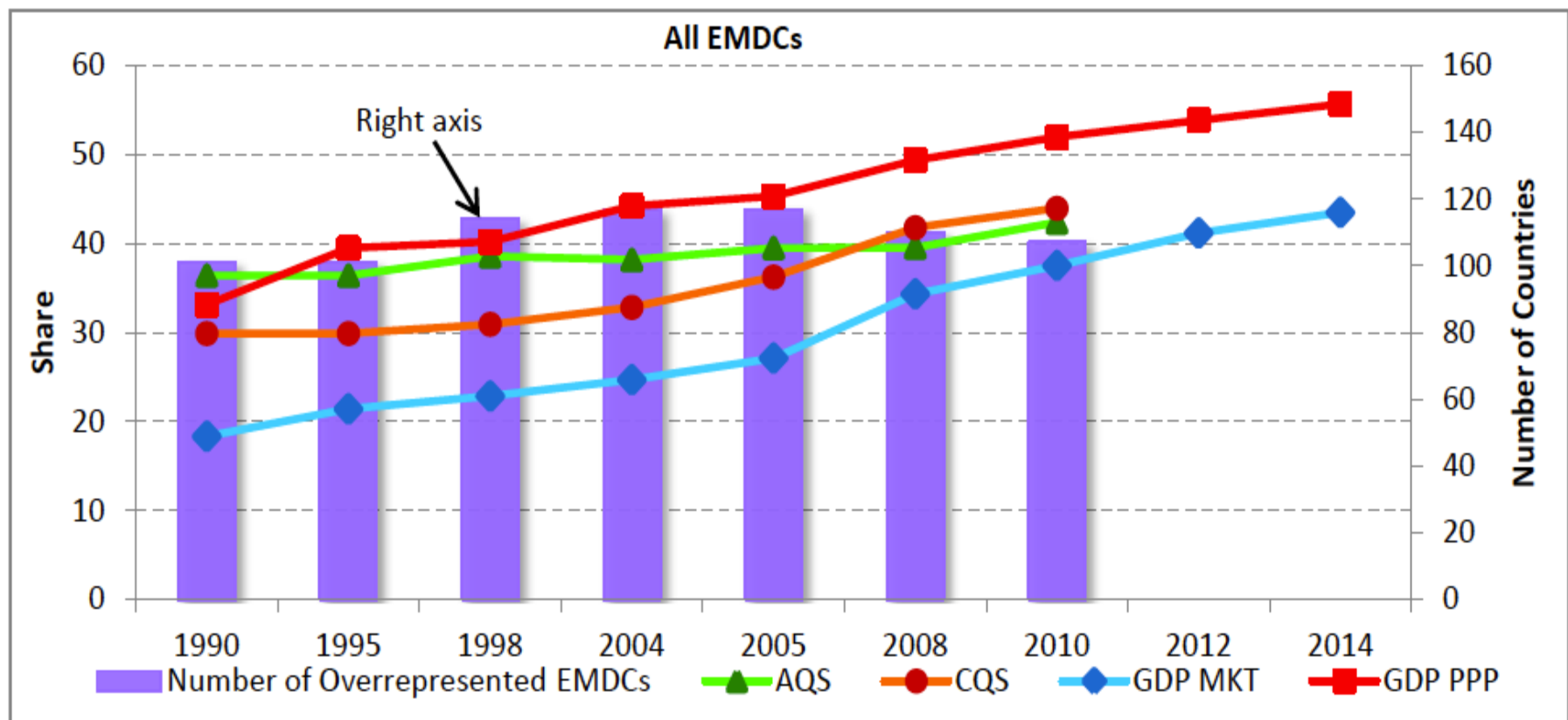
Nor Reflected in World Bank Governance

World Bank Voting Shares (percent)



Balance of Power in IFI Governance does not reflect changing economic realities and suffers from a democratic deficit

Evolution in Actual and Calculated IMF Quotas Relative to Weight in Global Economy



Source: G24 calculations based on IMF data

Thank you