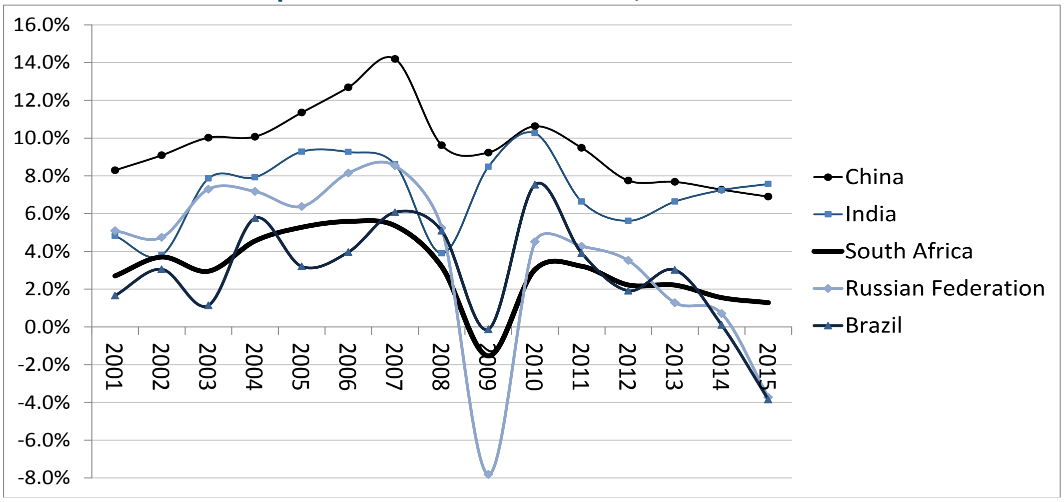
Growth in the BRICS

Divergent developments in the BRICS in the past five years illustrate the extraordinary impact of the slowdown in Chinese growth on middle-income economies. They also show how this kind of sharply slower growth can play out in greater political contestation and uncertainty.

As the following chart shows, the BRICS economies followed divergent trajectories following the 2008/2009 global financial crisis. We can identify three phases: the recovery from the downturn in 2009/2010; the tail end of the commodity boom from 2010 to 2013; and the relatively sharp slowdown in the past two years.

In response to the 2008/2009 downturn, China, Russia and Brazil undertook major fiscal and infrastructure stimulus initiatives, leading to a rapid recovery in 2010. In contrast, South Africa's stimulus was relatively small, with a correspondingly limited recovery. As Graph 20 shows, GDP growth in Brazil reached 7,5% in 2010, and 4,5% in Russia, while it was just 3,0% in South Africa. The Chinese data may exaggerate the level of growth, but the trend appears reasonably reliable. Concerns have also been raised in recent years about the Indian statistics.

Graph 20: Growth in the BRICS, 2001 to 2015

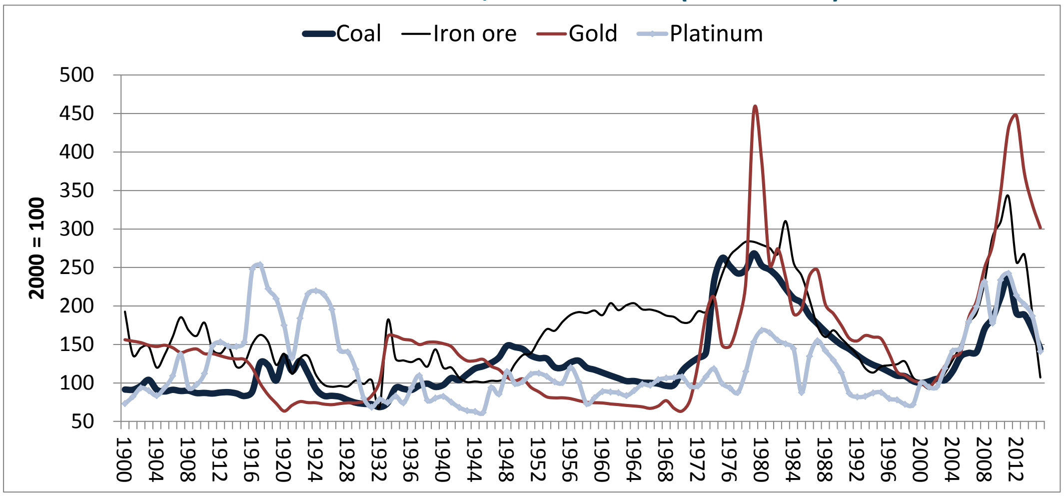


Source: World Bank. World Development Indicators. Electronic database. Downloaded from www.worldbank.org in September 2016.

The Chinese stimulus package mainly took the form of investment in infrastructure and housing, financed largely by provincial debt. In some provinces, investment reached half of the economy. As a rule, if investment exceeds 30% of the GDP, it will likely lead to high levels of inefficiency. The construction boom in China boosted real and speculative demand for metals and energy, which proved a windfall for the extractive economies in the BRICS – that is, Brazil, Russia and South Africa.

As Graph 21 shows, the resulting metals price boom was only matched 30 years earlier in real terms, around 1980. The high prices fuelled overinvestment especially in iron ore production in Brazil, Australia and to a lesser extent South Africa, and in energy worldwide, including in Russia.

Graph 21: Indices of prices for main South African commodity exports in constant U.S. dollars, 1900 to 2015 (2000 = 100)



Source: Calculated from David S. Jacks. Chartbook for "From Boom to Bust: A Typology of Real Commodity Prices in the Long Run." National Bureau of Economic Research Working Paper 18874. Downloaded from http://www.sfu.ca/~djacks/data/boombust/index.html in August 2016

The investment-intensive growth path in China proved unsustainable in recent years. The result was a significant slowdown in Chinese growth and crashing metals prices. While South African GDP growth slowed to under 1,5% in 2015, both the Brazilian and Russian economies shrank by almost 4%.

India remained somewhat immune to these developments. On the one hand, it is not dependent on metals exports and has weaker trade ties with China. On the other, its large domestic market makes it less vulnerable to global trends. That said, concerns have been raised about the extent to which growth has been driven by asset bubbles and financial speculation.

Declining growth rates have been associated with significant political uncertainty in Brazil and Russia as well as in South Africa. In Brazil, the elected President was recently impeached, while Russia has seen increasingly authoritarian tendencies and is currently engaged in two wars.