Introduction

by

Raed Safadi and Ralph Lattimore

> *"What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war."* Henry George

The developing world has taken off. The number of people living in high growth economies or in countries with per capita incomes at OECD levels has increased fourfold over the last 30 years – from 1 billion to 4 billion, Growth Commission (2008). It is a remarkable result both in terms of global economic growth and the distribution of income. The dispersion in economic activity means that some of the most important economies in the world are not members of the OECD, a further reason for the OECD to expand its membership and to help ensure that multilateral programmes continue to be embedded in the global economy.

For these reasons the OECD Trade and Agriculture Directorate has focused over the last two years on trade and development policies in Brazil, Russia, India, Indonesia, China and South Africa (BRIICS) – six of the largest non-OECD economies at the forefront of this dispersed global economic activity. This book is a summary of part of that work. The analytical work reported here is selective: it focuses on key elements of the trade performance of the BRIICS economies in relation to the rest of the world and it focuses on trade and behind-the-border policies impacting on that performance. Accordingly this work is intended to complement comprehensive economy and sectoral reviews of the BRIICS countries produced by other directorates of the OECD, the WTO, the World Bank and other organisations.

At the time this volume was being finalised the world economy was entering a period of financial market turmoil and a general economic downturn of a magnitude not experienced in the OECD area since the early 1980s (OECD, 2008). While the consequences of the crisis are not yet fully known, data and projections available at the beginning of 2009 suggest that the BRIICS countries were also affected, notably by more difficult international credit conditions and weaker demand from the OECD countries. Yet, the slowdown in growth among the BRIICS was generally from higher initial rates and, so far, of less severity than in the OECD area, perhaps as a result of the growing resilience of these emerging economies. Lessons about supervision of financial markets will undoubtedly have to be drawn by both the OECD and BRIICS countries in the aftermath of the crisis. Complementary measures across a range of economic policy areas may be required. This book focuses on structural policies, particularly trade and trade–related policies, and delivers insights with respect to one set of complementary policy approaches. That is, the analyses underscore the importance of resisting protectionist pressures (Chapter 4, for instance) and the benefits of promoting market openness. Taking a long-term perspective drawing on the experience of recent decades, the conclusions make clear that the BRIICS countries have the potential to exploit further market opening. Resisting protectionism and timely pursuit of appropriate policy reforms may result in these economies emerging from the present crisis with strengthened trade positions and more robust performance than would have otherwise been the case.

The book is targeted at an informed but non-specialised audience. Technical material is kept to a minimum and usually assigned to referenced sources. Where technical material is included, it is accompanied by more intuitive descriptions.

Section 1 of the book is comprised of a set of thematic chapters that compare and contrast trade performance and policy across the BRIICS and their place in the economic world. The world's traders are increasingly interdependent by virtue of the myriad of supply chains that now criss-cross the globe building on organisational and other technical advances in recent decades. These developments have important implications for the way we think about global trade issues and the place of particular countries in that network. In important senses the global network must be viewed as a whole rather than as a list of competing countries.

Chapter 1 deals with the changing architecture of world merchandise trade as a way of opening discussion on the need to embed emerging economies in the multilateral family in a wide variety of ways that include but are not limited to WTO membership. Global trade relative to world GDP has grown from 39% in 1992 to 52% in 2005. At the same time, the share of world trade of OECD countries has gone down from 73% in 1992 to 64% in 2005.

Globalisation involves parallel and sometimes opposing flows of goods, FDI, technological spillovers and other factors. Accordingly, it doesn't just matter who one trades with but who one's trading partners trade with – club membership is important not just bilateral partners. For this reason, patterns of world trade are described in chapter 1 in terms of network indices rather than in more traditional trade share terms.

Chapter 2 provides more standard trade performance results for BRIICS and OECD countries obtained from a gravity-type model. In one sense the results are not surprising – the trade performance of the BRIICS has been very good relative to other countries. However, part of this newspaper headline view is because some BRIICS like China and India are extremely large and fast growing economies. When economic size of trading partners and a number of country and country-pair factors are taken into account, Indonesia, Russia and South Africa are much more prominent in terms of trade performance.

Regional income data and the new economic geography literature are timely reminders that there are economic and technological forces at play that tend to cause divergences in incomes within countries, on the one hand, and between countries that host `world cities' and countries that don't, on the other. These agglomeration forces are the focus of the analysis in Chapter 3 on the new economic geography and its implications for the BRIICS.

The next chapter switches attention more strongly towards the policy dimension. Chapter 4 comprises a broad overview of the current state of the political economy of trade and behind-the-border policy in the BRIICS economies within a global context. This discussion is couched in terms of global trade policy developments (and outlook) in the light of the changes in performance discussed in the first three chapters. The analysis focuses on the trade liberalisation challenges facing the world in the years ahead. Market based reforms offer very large continuing gains and for the BRIICS economies this boils down to microeconomic, structural and institutional reforms – as it does for OECD countries. There are very few examples of countries where reform has been institutionalised as a permanent feature of national policy making and with the onset of global economic crisis there is a threat of mounting protectionism.

Chapter 4 also raises serious concerns about the proliferation of preferential trade agreements (PTAs). This sentiment is reiterated by Bhagwati (2008) who voices concern that preferential trade agreements perhaps represent the most serious threat to trade multilateralism. The PTA theme is taken up in Chapter 5 where the gains and losses arising from PTAs involving the BRIICS are estimated. The authors conclude that each of the BRIICS economies would gain a great deal more from multilateral free trade than they would from extensive PTAs – even PTAs with the large trading blocs like the EU, US and Japan. Importantly, these results tend to exaggerate the benefits of PTAs because the empirical analysis does not account for likely losses from the 'Spaghetti Bowl' of non-standard rules and other agreements associated with the fragmented PTA negotiation practices. The relative gains from PTA arrangements are also compared to unilateral free trade gains for the BRIICS. Not surprisingly, unilateral trade policy liberalisation turns out to be far more valuable for these economies than PTAs and almost as valuable as multilateral free trade.

Section 2 of the book consists of six country chapters – for each of the BRIICS economies. Again, these chapters are summaries of longer discussions that focused on key development and trade issues in each of these countries over the last two years. Naturally, the issues differ between countries and there has been no attempt to standardise the approaches. Brazil is one of only 13 countries (stars) that have produced more than 7% real economic growth for at least 25 years[1], Growth Commission (2008). Unfortunately, it was not possible to sustain this spectacular growth spurt after the 1970s but Brazil has mapped out a policy platform in recent years that it hopes will enable it to regain rapid growth status, and with greater equity. This potential and the key geopolitical role the nation plays in Latin America, puts it in the BRIICS grouping.

Russia is the largest economy in the world that is not a member of the WTO. It has been involved in protracted 'start-stop' negotiations that show little sign of concluding at the time of writing. In addition to discussion of trade policy developments and Russia's WTO accession this country chapter provides a 'theoretical' justification for the application of optimal tariff theory on Russian energy exports which contrasts with political economy arguments against the usefulness of the approach in Chapter 4.

India has finally broken free of the 'licence Raj' shackle and is growing very rapidly in a rather unconventional manner – based largely on services growth and services exports in the least regulated segments of the sector. Despite the impressive trade liberalization record over recent years, India is the least open economy amongst the BRIICS states in trade terms and that likely contributes to the weak performance of the manufacturing sector. India faces daunting poverty issues exacerbated by policies that may inhibit development of employment opportunities, including for low-skilled labour.

Indonesia is the second member of the BRIICS grouping that has been a star growth performer. Like Brazil it achieved this status some years ago and its recent progress was interrupted by changes in its political architecture and the Asian economic crisis in the late 1990s. Indonesia is well placed to benefit from the resumption in Asian growth but it has adjustments to make like many other countries as a result of continuous changes in the dynamics of globalisation. External competitiveness remains a constraint on Indonesian development, as it does for Brazil, India, Russia and South Africa.

China is the most recent country to average continuous 7% growth for a quarter century. It has used open trading as a key ingredient in its successful policy mix. China has been notable for its market oriented approach to enterprise selection. As a result, China achieved 'takeoff' by encouraging the expansion of labour-intensive operations – enterprises that were in accord with its relative factor endowments. In this, China avoided mistakes made in earlier decades by Brazil, India and Indonesia (and many other countries) associated with the promotion of capital intensive enterprises in labour abundant economies. As a result, the Chinese miracle appears to be much more sustainable in simultaneously addressing poverty and economic efficiency issues.

South Africa has reintegrated into the global trade network in the mid 1990s as spectacularly as China and India (Chapter 1). However, it is currently experiencing difficulties in building a fast economic growth base and parts of the trade sector have not been able to keep up with developments in world markets. It has resource allocation and equity issues to deal with and a set of trade and behind-the-border policies that are not serving the economy well, in either respect.

1 The others being Botswana, China, Chinese Taipei, Hong Kong, China, Indonesia, Japan, Malaysia, Malta, Oman, Singapore, South Korea and Thailand.

So we have here in the BRIICS group, one ongoing star growth performer (China), two earlier star growth performers who would like to rejoin the ranks (Brazil and Indonesia) and three aspirants. Only one of those aspirants is currently on track to join the 'group of thirteen' within the next decade or two. All five non-star performers require significant further reforms before such growth performance can be expected.

The BRIICS and other emerging economies may find it very useful to increasingly exchange ideas on economic strategies with OECD countries in the future. There is certainly now a wealth of data and analysis to use as a starting point – as the chapters of this book attest.

References

Bhagwati, J. (2008), Termites in the Trading System. Oxford: Oxford University Press.

Growth Commission (2008), The Growth Report: Strategies for Sustained Growth and Inclusive Development, Washington D.C.: The World Bank.

OECD (2008), Economic Outlook, Issue No. 84, OECD, Paris.

From:

Globalisation and Emerging Economies

Brazil, Russia, India, Indonesia, China and South Africa

Access the complete publication at:

https://doi.org/10.1787/9789264044814-en

Please cite this chapter as:

Safadi, Raed and Ralph Lattimore (2009), “Introduction”, in OECD, *Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264044814-2-en