# CSQ – Economic Indicators, Economic Performance and Standard of Living

# Question 2: The tale of BRICS

**Table 4: Rates of growth of GDP, annual percentages, by year**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Countries/ Year** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Brazil** | 1.9 | 3.0 | 0.5 | -3.5 | -3.4 |
| **Russia** | 3.7 | 1.8 | 0.7 | -2.8 | -0.2 |
| **India** | 5.5 | 6.4 | 7.4 | 8.1 | 7.1 |
| **China** | 7.9 | 7.8 | 7.2 | 6.9 | 6.7 |
| **South Africa** | 2.2 | 2.5 | 1.8 | 1.2 | 0.5 |

[Source: World Bank]

# Table 5: Human Development Index, by year

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Countries/ Year** | **2012** | **2013** | **2014** | **2015** |
| **Brazil** | 0.734 | 0.747 | 0.754 | 0.754 |
| **Russia** | 0.799 | 0.803 | 0.805 | 0.804 |
| **India** | 0.599 | 0.607 | 0.615 | 0.624 |
| **China** | 0.713 | 0.723 | 0.734 | 0.738 |
| **South Africa** | 0.652 | 0.660 | 0.665 | 0.666 |

[Source: United Nations]

# Extract 7: The Mixed Fortunes of BRICS

The story of the BRICS begins with Goldman Sachs chief economist Jim O’Neill, who wrote a paper in 2001 arguing that these were the emerging superstars most likely to dominate the 21st century globalized economy. Taken together, these five countries cover 40 percent of the world’s population and more than 25 percent of the world’s land.

Roughly speaking, the BRICS can be broken into two groups—those that took advantage of globalization’s march to integrate themselves into global supply chains (primarily China and India) and those that took advantage of globalization to sell their abundant natural resources (primarily Brazil, Russia and South Africa).

For India, instead of focusing on manufacturing, it went the services route instead. Today, services account for roughly 61 percent of its GDP, with a particular emphasis on IT—at $108 billion, India is one of the world’s leading IT services exporters. And the rise of India’s middle class resembles that of China’s; Indians went from 1 percent of the global middle class in 1990 to 8 percent in 2015, with another 380 million Indians expected to join by 2030.

The picture is decidedly mixed, meanwhile, with the other BRICS countries, who rose mainly on the back of their vast natural wealth. Brazil sells commodities like soybeans, iron ore, and crude oil on global markets. South Africa also used its natural wealth—in this case rare gems and metals like gold, diamonds and platinum—to help get its economy on track following apartheid. In 1990, the country exported $27 billion worth of goods; by 2011, that number had increased nearly five- fold. And then there’s Russia, which spent the 1990s rebuilding itself from the rubble of the Soviet Union. Thankfully, the country is blessed with abundant energy sources—crude oil, natural gas, metals and minerals—that helped it find its footing. But the fall in commodity prices in 2015 to 2016 has done significant damage in all three countries.

It would be easy to label India and China as the clear winners among the BRICS, but it’s not that simple. Yes, India and China have the fastest growth rates of any major economies in the world, and citizens of these countries remain optimistic about the future. But nearly 50 percent of Indians remain vulnerable to a slide back into poverty, and China’s economy has slowed as higher wages make manufacturing more expensive. Both countries are especially vulnerable to technological changes that bring automation into the workplace on a larger scale.

[Source: [http://time.com,](http://time.com/) 1 Sept 2017]

# Extract 9: Brazil's recession worst on record

The economy contracted by 3.6% in 2016, meaning it is now 8% smaller than it was in December 2014. The country has been hard hit by the fall in commodity prices and an internal political crisis that has undermined investor confidence. The situation has been made worse by the high debt levels. The two-year slump has seen the number of unemployed rise by 76% to 12.9 million, a rate of 12.6%.

Brazil was once one of the fastest-growing economies in the world, the 'B' in the BRICS group of nations regarded by many investors as having the world's best growth potential. Its key exports - including oil, soy and metals, were in hot demand. But as growth in the biggest element of that grouping, China, began to slow, so did demand for commodities and their prices.

But there are some signs that this recession may be soon over. Brazil's monthly inflation rates suggest prices in the economy are stabilizing, and interest rates are falling at a faster pace than expected. This could fuel consumption and investment and speed up the country's recovery. Also there could be tailwinds from the global economy, with prices of commodities on the rise again and possible growth coming from the US. But much of Brazil's recovery still depend on whether government reforms in public spending are successful.

[Source: BBC.com, 7 March 2017]

# Extract 10: The strive for sustainable development in India

With a population rapidly approaching that of China crammed into just one third of the area, India suffers from resource scarcity on a level unlike any other nation. So while it nominally faces many of the same challenges as other BRIC nations – water scarcity, dirty energy supplies, human rights issues – India’s population density makes its situation exponentially more difficult.

A World Bank study in 2014 found that environmental degradation like air pollution, water pollution, deforestation and natural disasters cost India $80bn per year, or nearly 6% of its economic activity. Of that total, 52% is attributable to air pollution. If you thought China’s smog was bad, Delhi’s air pollution levels can be twice as high, with even less government action to show for it. India’s air pollution is not only far worse than any of the other BRICs, it is so intense that it is reducing plants’ ability to photosynthesize sunlight, cutting crop yields in half.

While pollution is a broad problem across India, poverty and general lack of access to basic human needs is more of a first order problem, and one that draws the lion’s share of attention from government, businesses and people. In 2012, just 36% of India’s population had access to improved sanitation, leading the nation’s minister of rural development to call India “the world’s capital for open defecations”.

As a result, much of the sustainable development discussion in India has focused on inclusion and bringing the population into the 21st century. In 2014, Prime Minister Narendra Modi launched the Clean India Mission, a five-year effort to eliminate open defecation, provide access to improved sanitation, and clean up the River Ganges, among other targets. Corporations have joined up with the Clean India Mission, committing to invest in education for girls and adopting communities for cleanup, among others. During the UN climate talks in Lima, Peru, last fall, Modi announced a massive solar commitment: 100 gigawatts of solar capacity by 2022, creating as many as 1m jobs and giving rural Indians access to cheap, clean energy and greater economic opportunity as a result.

[Source: The Guardian, 4 May 2015]

# Questions

1. Using Table 4, compare the growth performance of China and India with that of Brazil and Russia. [2]
2. With reference to Extract 7,
   1. Extract 7 states that “the fall in commodity prices of recent years has done significant damage in all three countries.”

Explain how this has impacted the macroeconomic objectives of Brazil, Russia and South Africa. [4]

* 1. To what extent does the data in Table 4 support the suggestion that the fall in commodity prices in 2015 to 2016 has done significant damage in Brazil, Russia and South Africa? Justify your answer. [3]
  2. Using a diagram, explain how ‘China’s economy has slowed as higher wages make manufacturing more expensive.’ [4]

1. Extract 9 highlights the factors contributing to Brazil’s recession.

Evaluate how the above factors would undermine Brazil from achieving its macroeconomic aims [5]

1. “Data on GDP growth rates are no longer relevant in measuring the well-being of its citizens.” Discuss this view. [12]

[Total: 30]

**Suggested Answer**

**(a), , Using Table 4, compare the growth performance of China and India with that of Brazil and Russia., [2]**

China and India have positive GDP growth rate throughout the entire period, while Brazil and Russia experienced negative growth from 2015- 2016.China and India also have higher growth rates throughout the entire period.

**(b) With reference to Extract 7**

**(i), Extract 7 states that “the fall in commodity prices of recent years has done significant damage in all three countries.”**

Explain how this has impacted the macroeconomic objectives of Brazil, Russia and South Africa. **[4]**

Brazil, Russia and South Africa are commodity exporters. As such, when the prices of commodities fell, the total export revenue will be affected. Since the demand for commodities is likely to be price inelastic due to the lack of close substitutes, the fall in price leads to a less than proportionate increase in quantity demanded. Hence, total export revenue falls. This leads to a fall in net exports and aggregate demand, ceteris paribus. Real GDP falls and economic growth suffers.

Furthermore, the fall in output also means that firms’ demand for labour falls, leading to higher unemployment. This undermines the aims of the three countries to maintain low unemployment to prevent the need to spend

**(ii) To what extent does the data in Table 4 support the suggestion that the fall in commodity prices in 2015 to 2016 has done significant damage in Brazil, Russia and South Africa? Justify your answer., [3]**

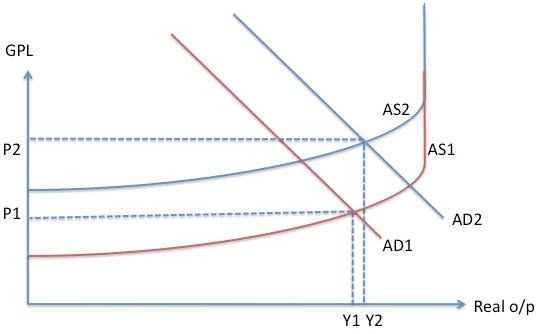
The data in Table 4 supports the suggestion that a fall in commodity prices would have a significant damage on the 3 countries’ economic growth. This is seen in the data for Brazil and Russia that they are suffering from negative growth rates in 2015 and 2016 when commodity prices fell. South Africa also suffered a fall in GDP growth rates from 2015 to 2016 when commodity prices fell in the same period.

However, the data might not fully support the suggestion as South Africa was still able to maintain a positive growth rate throughout the entire period despite the fall in commodity prices, indicating that it might not have experienced significant damage unlike that of Brazil and Russia.,

**(iii), Using a diagram, explain how ‘China’s economy has slowed as higher wages make manufacturing more expensive.’, [4]**

Higher wages will lead to a rise in cost of production (COP). This leads to an upwards shift in Aggregate Supply (AS) from AS1 to AS2, leading to a rise in General Price Level (GPL) from P1 to P2.,

, ,



However, Table 4 shows that China’s economy is still growing, as such, this indicates that the Aggregate Demand (AD) must be rising at a faster rate. Thus, real GDP still increases, but the fall in AS slows down the rate of growth.,

1. **Extract 9 highlights the factors contributing to Brazil’s recession.**

Evaluate how the above factors would undermine Brazil from achieving its macroeconomic aims [5]

**(f) Data on GDP growth rates are no longer relevant in measuring the well- being of its citizens.” Discuss this view., [12]**

GDP growth rates measure the percentage change in value of final output produced within the geographical boundary of the country, regardless of factor ownership before depreciation in a year and after excluding the effects of inflation. While it is a useful data in assessing the change in material aspect of standard of living, it is limited in assessing the changes in the non-material aspect. Thus, it is important for countries to complement the use of GDP growth rate data with other data such as HDI so as to have a holistic view in assessing the overall well-being of its citizens.

When GDP growth rates are positive, it implies that a country’s real GDP has increased. The increase in real GDP means higher production of goods and services, which means more goods and services are available for consumption in the country. Furthermore, if the population growth is slower than real GDP growth, it would mean that real GDP per capita has increased. With higher real income per person, purchasing power increases. Each person can purchase more goods and services. Hence, material SOL will increase, indicating an improvement in the well-being of citizens.

However, GDP growth rates are limited in measuring the non-material aspect of SOL. Since positive GDP growth rates imply higher levels of production, it could mean that air quality could have worsened due to the increase in emissions arising from production of goods and services. Thus, while the citizens could enjoy higher purchasing power and greater quantity of goods and services available, the worsening of air quality could lead to poorer health and higher healthcare costs. Hence, data on GDP growth rates are limited in measuring the non-material aspect of SOL for its citizens. Data on air quality or pollution (e.g. Pollution Standard Index) should be complemented with the use of data on GDP growth rates. This is evident in the case of India as even though it achieves outstanding GDP growth rates as shown in Table 1, it was at the expense of the environment and quality of life.

Furthermore, GDP growth rates are limited in measuring the material aspect of SOL of its citizens as the data fails to take into account of factor incomes earned by residents overseas and non-residents in the domestic economy. Factor income includes wages, interest, profits and rent earned in this country by foreign residents and remitted abroad as well as incomes earned by domestic residents coming from abroad. As FDIs residing in the economy will remit part of their incomes back to the parent company in their home country, it would mean that these incomes are not passed down to the residents of the economy through wages or bonuses. Furthermore, residents residing abroad would remit incomes back to the home country. This would mean higher incomes for domestic households, enabling them to enjoy higher material SOL. As data on factor income is important in measuring the well-being of the citizens in the country, data on GDP growth rates is limited in representing the well-being of the citizens.

Due to the limitations of data on GDP growth rates, countries might want to consider using Human Development Index (HDI) as a better indicator in measuring the well-being of its citizens. The HDI is a composite statistic of life expectancy, education and real GNI per capita, which are used to rank countries into four tiers of human development. Together, it accounts for both the material and non-material aspects of welfare as thus is a better representation of the well-being of the citizens in the country. However, there are limitations of HDI data as it only looks at one indicator for each aspect of economic, social and demographic aspects which does not provide a complete representation of well-being of the citizens in a country. Furthermore, as the calculation of HDI requires the use of multiple data sources to formulate, accuracy of data sources is often questionable, and it often take a very long time for HDI data to be made available.

In conclusion, while data on GDP growth rates has its limitations in measuring the well-being of its citizens, it is an indicator that is accessible and easily available. Thus, data on GDP growth rates are only relevant in measuring the well-being of its citizens when complemented with other data such as PSI, factor income from abroad, literacy rates and life expectancy as it would give a more holistic picture on both the material and non-materials aspect of SOL of its citizens.,