

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>, 1 Sept 2017]

Extract 8: Automation threatens jobs

Research has predicted that the proportion of jobs threatened by automation in India is 69%, while it is 77% in China, World Bank President Jim Yong Kim has said, citing data from the multilateral agency.

While the Narendra Modi government has promised to create millions of jobs to absorb thousands of youth coming to the workforce, critics say not enough jobs are being created in the economy. Quick expansion of automation could contribute to a rise in structural unemployment in the labour market and rising inequality, according to the World Development report.

From a technological standpoint, two-thirds of all jobs are susceptible to automation in the developing world but effects are moderated by lower wages and slower technology adoption. Kim called on creating resources for infrastructure to get developing countries to invest in people. "Countries need to increase their investments in people necessary to build a workforce that can be competitive in the economy of the future," said the World Bank president.

[Source: <https://timesofindia.indiatimes.com>, 6 Oct 2016]

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

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

- (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]

- (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]

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

- (c) (i) Using Extract 8 explain how automation could contribute to a rise in structural unemployment in the labour market and rising inequality. [5]

(ii) Using Extract 8 explain the importance to increase investments in people's skills and training to improve productivity in the economy.

Comment on the view that the fall in commodity prices has done significant damage to the economies of Brazil, Russia and South Africa.

(d) Using Extract 9 explain the importance of the government to ensure that the economy is growing at a sustainable rate.

Discuss the view that the government should not intervene in the economy.

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

[Total: 45]