

## BRICS: INTERNAL FACTORS OF GLOBAL COMPETITIVENESS

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*The BRICS nations (Brazil, Russia, India, China and South Africa) actively joined in process of transformation of institutes of global financial market's management, having created New Development Bank. This institute according to most of analysts can be considered as potential competitor of the World Bank and as one of elements of so-called system of "parallel institutes", which as required can become replacement American-centered system of international financial institutions.*

*Progress of newly created New Development Bank in- much will depend on that economic power which will characterize BRICS economies. And a key condition of long-term stable economic growth is availability of global advantages of the BRICS countries. This article is devoted to the analysis of changes BRICS global competitiveness factors.*

**Keywords:** BRICS, global competitiveness, World Economic Forum, finance globalization, stock exchanges' market size, China, India, Brazil, Russia, South Africa

### BRICS in the Global Economy

The BRICS nations (Brazil, Russia, India, China and South Africa) represent real economic power at the present stage of world economy development. 26,7% of the world's territory, 41,8% of the population of Earth, more than 21% of world GDP, 8% of global economic resources and 45% of all labor power of the planet, 17,3% of international trade, 12,7% of the global market of services, 20,5% of global flows of foreign direct investments, 45% of world agricultural production is the share of the BRICS (Strategy, 2015). And dynamics of these indicators' growth is very high since 1990 (Tab. 1).

In last ten years contribution of the BRICS nations to growth of world economy exceeded 50% (Zhou, 2015). It is one of the largest international organizations which members provide their presence directly at several strategic regions of the world. The experts (Toloraya, 2016) often note the territorial dissociation of BRICS members as restriction for large-scale interaction. But in the context of finance globalization it shouldn't be considered as a serious obstacle. On the contrary such territorial arrangement allows to influence practically all significant regions of world economy. Each country has considerable weight in



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the region. Russia - in the former Soviet Union and in the Euroasian systems, China – first of all, in Asia, but actively extends the influence almost everywhere, Brazil – the leader of South America, and South Africa – the African leader.

Table 1 - BRICS in the Global Economy, 1991-2015, share of world total  
(Source: Prasad, 2014)

	1991-1994	2000-2004	2005-2009	2015
Population	44,7	43,6	42,8	41,8
GDP	5,8	8,5	13,1	21,6
Exports	4,2	7,9	12,4	20,1
Imports	4	7	10,5	18,8

One more undoubted benefit of this international organization is that the key factors which are the cornerstone of each BRICS' member development don't match, but at the same time profitably supplement each other. Russia possesses huge energy resources and rather developed technologies. At the same time India and China having high potentials of processing industry need energy carriers from Russia and raw materials from Brazil and South Africa.

BRICS nations also have a potential of mutually supplementing economic growth, deepening of interaction and integration that finds expression in the stable growth of trade turnover between them. At the same time the structure of BRICS export is characterized by availability of a number of industries to cooperate with each other and without any direct competition (BRICS trade policies, 2015). In 2000 trade between four countries (Brazil, India, Russia and China initially formed group of 4 countries and only in 2011 South Africa officially joined them) didn't exceed 5% of all amount of their cumulative foreign trade. But in 2000-2007 most rapid development of foreign trade of five countries was observed, and the export growth in BRICS constituted 653,5%. In 2007-2014 BRICS' members' rates of export development considerably decreased, however the surplus of export to BRICS' countries for the last five years more than by 1,6 times exceeded a surplus of cumulative export of this organization's members. At the same time, if in 1995 the share of the countries — BRICS' partners constituted only 3,9% in a total amount of consolidated participants' export then in 2014 it already reached 8,6%.

According to the United Nations Data from 1995 to 2014 the amount of BRICS nations' mutual trade increased more than by 20 times: from \$13 billion in 1995 to \$297 billion in 2014 (Sharova, 2016). At the same time trade growth rates in consolidation since 2000 has considerably increased and exceeded the growth rates of an aggregate foreign trade turnover of BRICS' members. Anti-sanctions, which were imposed by Russia against some developed countries as the answer to their sanctions became an additional factor of mutual trade between BRICS nations growth (Measures for implementation, 2015). Russia imposed a food import ban (that led to huge losses of the European farmers), it stimulated the growth of food products' deliveries from BRICS nations. So, in 2014 commodity import from BRICS countries increased for 27,7% - from \$2,9 billion to \$ 3,7 billion.

The global role of BRICS isn't exhausted only by economy – consolidation has ambitions to contribute global safety. But their realizing will be difficult in case of internal contradictions' growth. In spite of the fact that the main objective of BRICS organization is

members' economic development, it can't be solved without ensuring the international, regional and national security.

### **Modern Factors of BRICS Global Competitiveness**

The method of Global Competitiveness Index calculation, used by World Economic Forum, is based on assessment of three subindexes disaggregated through a large number of indicators.

China – the leader in the level of global competitiveness among BRICS – reached the advanced estimates on the following indicators: «Primary education enrollment rate» – 1<sup>st</sup> place and «HIV prevalence» - 1<sup>st</sup> place (indicator components «Health and primary education»), «inflation» – 1<sup>st</sup> place and «Available airline seat kilometers» - 2<sup>nd</sup> place (indicator components «Macroeconomic environment») and three indicators of «Market size» («Domestic market size», «Foreign market size», «Gross domestic product based on purchasing-power-parity (PPP)») - 1<sup>st</sup> places).

China took very low places on the following indicators: «Total tax rate»- 131<sup>st</sup> places, «Number of procedures to start a business» - 122<sup>th</sup> places and «Time to start a business» - 121<sup>st</sup> places (indicator components «Goods market efficiency»).

The leader in global competitiveness' growth in 2016 – India – shows more modest results on constituting subindexes. Most good results are on the following indicators: «Market size» -«Domestic market size» and «Gross domestic product based on purchasing-power-parity (PPP) » - 3<sup>rd</sup> place, «Foreign market size» - 4<sup>th</sup> place. India has low places on an indicators similar to China: «Number of procedures to start a business» - 132<sup>nd</sup> place and «Total tax rate» - 123<sup>rd</sup> place (indicator components «Goods market efficiency»), and also «Mobile-broadband subscriptions» - 127<sup>th</sup> place (indicator components «Technological readiness»). India's competitiveness has improved across the board, in particular in goods market efficiency, business sophistication, and innovation. Significant increase in rating was shown by the following indicators: public institutions improving, opening the economy to foreign investors and international trade, and increasing transparency in the financial system.

Russia has rather high rating on the following indicators: «Domestic market size» and «Gross domestic product based on purchasing-power-parity (PPP) » - 6<sup>th</sup> place, «Foreign market size» - 5<sup>th</sup> place. The most important problems of Russia are «inflation» - 132<sup>nd</sup> place; «Prevalence of foreign ownership» - 126<sup>th</sup> place, «Business impact of rules on Foreign Direct Investments» - 124<sup>th</sup> place, «quality of roads» – 123<sup>rd</sup> place. According to Aganbegyan A. (2014) «Russia is a unique country which has no normal highways».

South Africa is a leader on a number of indicators such as: «Strength of auditing and reporting standards» - 1<sup>st</sup> place and «Protection of minority shareholders' interests» - 1<sup>st</sup> place; «Financing through local equity market» - 1<sup>st</sup> place, «Financial services meeting business needs» - 2<sup>nd</sup> place, «Soundness of banks» - 2<sup>nd</sup> place, «Regulation of securities exchanges» - 3<sup>rd</sup> place. But at the same time there are some indicators with the lowest level: «Tuberculosis incidence cases» - 137<sup>th</sup> place, «HIV prevalence » - 135<sup>th</sup> place.

Brazil takes rather high places on three indicators: «Business impact of malaria» - 5<sup>th</sup> place, «Domestic market size» and «Gross domestic product based on purchasing-power-parity (PPP) » - 7<sup>th</sup> places. According to the rating of two indicators Brazil occupied the last 138<sup>th</sup> place among all analyzed countries: «Public trust in politicians», «Effect of taxation on incentives to invest» (Tab. 2).

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Table 2 - BRICS Global Competitiveness factors (the place among 138 states, included into Global Competitiveness Report 2016-2017 is in brackets)

(Source: Global Competitiveness Report 2016-2017)

The components of Global Competitiveness Index	BRICS countries				
	1 <sup>st</sup> place among BRICS	2 <sup>nd</sup> place among BRICS	3 <sup>rd</sup> place among BRICS	4 <sup>th</sup> place among BRICS	5 <sup>th</sup> place among BRICS
Subindex «Basic requirement»	China (30)	Russia (59)	India (63)	S. Africa (84)	Brazil (103)
Institutions	S. Africa (40)	India (42)	China (45)	Russia (88)	Brazil (120)
Infrastructure	Russia (35)	China (42)	S. Africa (64)	India (68)	Brazil (72)
Macroeconomic environment	China (8)	India (75)	S. Africa (79)	Russia (91)	Brazil (75)
Health and primary education	China (41)	Russia (62)	India (85)	Brazil (99)	S. Africa (123)
Subindex «Efficiency enhancer»	China (30)	S. Africa (35)	Russia (38)	India (46)	Brazil (61)
Higher education and training	Russia (32)	China (54)	S. Africa (77)	India (81)	Brazil (84)
Goods market efficiency	S. Africa (28)	China (56)	India (60)	Russia (87)	S. Africa (128)
Labor market efficiency	China (39)	Russia (49)	India (84)	S. Africa (97)	Brazil (117)
Financial market development	S. Africa (11)	India (38)	China (56)	Brazil (93)	Russia (108)
Technological readiness	S. Africa (49)	Brazil (59)	Russia (62)	China (74)	India (110)
Market size	China (1)	India (3)	Russia (6)	Brazil (8)	S. Africa (30)
Subindex «Innovation and sophistication factors»	China (29)	India (30)	S. Africa (31)	Russia (66)	Brazil (72)
Business sophistication	S. Africa (30)	China (34)	India (35)	Brazil (63)	Russia (72)
Innovation	India (29)	China (30)	S. Africa (35)	Russia (56)	Brazil (100)

As a key allowance of BRICS global competitiveness growth it is necessary to consider increasing of deliveries of some kinds of services to the world market on which they have very strong competitive advantages. These are, in particular, information and communication services from India, transport, tourist and construction services from China, tourist and financial services from South Africa, transport, construction, energy services from Russia, retail trade and other business services from Brazil.

China, India and Russia are included into ten largest exporters of the world on several types of service. For example, in 2014 China took the 5<sup>th</sup> place in the world among exporters of transport services and communication services, the 3<sup>rd</sup> place among providers of tourist services (without Macau and Hong Kong which also appear in the top ten), the 4<sup>th</sup> place in provision of computer and information services, and the 3<sup>rd</sup> place in construction.

India last year became the 2<sup>nd</sup> largest provider of computer and information services in the world, the 5<sup>th</sup> supplier of telecommunication services, the 7<sup>th</sup> exporter of financial and insurance services.

Russia in 2014 took the 9<sup>th</sup> place among the leading exporters of transport services, the 7<sup>th</sup> place among providers of computer and telecommunication services and the 5<sup>th</sup> place among suppliers of construction services (International Trade Statistics, 2015).

Table 3 - Three of the most problematic factors for doing business in BRICS  
(Data source: Global Competitiveness Report 2016-2017)

	China	India	Russia	Brazil	South Africa
1 <sup>st</sup> place	access to financing	tax regulations	inflation	tax rates	inefficient government bureaucracy
2 <sup>nd</sup> place	policy instability	corruption	tax rates	corruption	Restrictive labor regulations
3 <sup>rd</sup> place	inefficient government bureaucracy	tax rates	corruption	tax regulations	Inadequately educated workforce

Being based on the provided data it is possible to allocate the following spheres of comparative advantages of BRICS nations (Chanda, 2013):

- Brazil: financial services, other business services and state services;
- Russia: transport services, communication services, services in the sphere of culture, construction services;
- India: computer and information services;
- China: construction, transport and tourist services;
- South Africa: tourist services, insurance services, communication services, financial services, state services.

The most powerful advantages of:

- India has in the sphere of computer and information services,
- China and Russia have in the sphere of construction services,
- South Africa has in the sphere of tourism,
- Brazil has in the sphere of state services.

On the basis of companies' heads survey, carried-out by World Economic Forum annually, it is possible to define a number of most problematic factors for doing business, typical for BRICS countries: "tax rates", "corruption" and "foreign currency regulation" (Tab. 3). For four BRICS countries the most problematic factors for doing business are "access to financing", "policy instability" and "inefficient government bureaucracy". As Tab. 3 shows that BRICS countries have similar problems, which limit realization of their competitive advantages.

### **BRICS perspectives and alternatives**

Analyzing dynamics of macroeconomic indicators and political factors of BRICS development a number of experts regularly express doubts in viability and real prospects of this block (Degaut, 2015). Speaking about interaction in the political sphere it should be noted that really the BRICS states - participants have different strategic partners. The Republic of South Africa and India are strongly influenced by the USA and the United

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Kingdom, and are not always ready to support a line of Russia and China, which relations with the western block are more intense.

In the economic sphere BRICS countries experience a number of difficulties in the last two years. South Africa and Brazil considerably reduced activity in BRICS because of internal political crises. Expansion of India interaction with the USA led to chilling of the relations with China recently. The anti-Russian sanctions imposed by a number of developed countries limited access to the global finance market that promoted recession of Russian economy. In the financial sphere fact that declared Goldman Sachs liquidation of the fund for BRICS investments in November, 2015 is one more argument of lack growth's prospects. As the reason to close Goldman Sachs fund was specified that according to the forecast of experts in BRICS "doesn't expect growth of assets in the near future". But, it is represented that this fact only testifies lack of rapid growth's prospects of financial assets in short and medium-term prospects, but doesn't cross out still excellent prospects of BRICS group in any way.

According to the British "Financial Times" prolonged recession in the Russian and Brazilian economies doesn't allow to talk about BRICS block as a main driver of growth in emerging markets any more. And as an alternative BRICS new group of the countries – TIKKS (Taiwan, India, China, South Korea, and South Africa) was offered. But at the same time it is necessary to consider that all members of BRICS block are large regional powers which have a huge potential for cooperation. And presence of technologically strong industries such as South Korea and Taiwan doesn't compensate those unique potential opportunities which Russia and Brazil have.

Today BRICS existence is an objective reality with more than 20 formats of cooperation in very different areas. This interaction began from science and technology, agricultural industry, health care, international information security, and finishing with large projects in the financial sphere in the form of formation of New Development Bank BRICS and Exchange alliance. The last provides cross listing more than 7 thousand companies of the BRICS countries with total capitalization about 8 trillion US dollars (Kheifets, 2015).

The BRICS members stage joint military exercises at the bilateral level. China and Russia coordinate the line items in counteraction to expansion of an antiballistic missile system of the USA in Eastern Europe and on the Korean peninsula. Within BRICS at the multilateral level the problems of food security were solved and efforts on fight against spread of diseases were made. All of these actions designed to lift BRICS to the level of an important element of global administration system in the 21<sup>st</sup> century.

The measures taken for cooperation institutionalization within BRICS also led to the fact that a number of international economic organizations began to allocate BRICS as separate transregional interstate block.

At the same time membership in BRICS isn't an obstacle for countries participation in other associations. On the contrary, due to participation in BRICS the countries can sign agreements with the whole integration groups (for example, ASEAN, MERCOSUR, EAEU – Eurasian Economic Union). In particular, since 2003 the IBSA format within which India, Brazil and South Africa interact functions. Also the active discussion about a possibility of BRICS expansion (BRICET (BRIC + Eastern Europe and Turkey), by BRICKET (BRIC + Eastern Europe, Turkey and Korea), BRIMC (BRIC + Mexico)) are discussed.

BRICS countries are united by priorities to expand own participation in global management, to increase own status in the international system. Even now some members of

block experience economic difficulties, they have enormous market potential and freedom of action for conceived implementation (Lian, 2015). According to the creator BRICS Jim O'Neill "BRICS countries shall become construction blocks of freshly renovated global financial and managerial systems". And it is valid the BRICS countries deepen interaction, develop the huge capacity of the block and mechanisms of cooperation at the present stage. It means that BRICS countries still have excellent prospects. And it shall become a guarantee of stable functioning of the multipolar world and rising of their global competitiveness.

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