Economic Development and Competitiveness: A Comparison among BRICS

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Introduction

BRICS brings together five growing economies namely Brazil, Russian Federation, India, China and South Africa that comprises 43 per cent of world population with 30 per cent contribution to world GDP and 17 per cent share in world trade (UNCTAD, 2017). BRICS economies exhibit a number of common features as well as significant differences. For example, Brazil is a domestically oriented service sector based economy; Russian economy is largely dependent on export of energy and natural resources; the Indian economy is predominantly service sector-led; China's economic development is based on manufacturing exports and foreign investment while South African economy is essentially natural resource based. With an increase in share in global GDP from 8 per cent in 2001 to 22.4 per cent in 2017, the BRICS is performing well in the recent past. In its recent summit in 2018, three important issues are discussed, viz. proposing a development paradigm, creating financial mechanisms and resolving political differences. Between 2001 and 2015, BRICS contribution to global exports and imports increased from 8 per cent to 18 per cent and 7 per cent to 15 per cent, respectively, despite two small setbacks following the global financial crisis in 2008 and the drop in commodity prices in 2014[1]. China, contributing on an average 60 per cent to exports and 53 per cent to imports of BRICS during 2001 to 2016, has been consistently the largest contributor to the BRICS trade. The establishment of the New Development Bank (NDB), a multilateral development bank for financing infrastructure projects in member nations and other emerging and developing countries has been a major development. The Bank's lending portfolio has increased to 23 projects aggregating US$ 5.7 billion, implying the accelerating momentum behind NDB and the strong demand for sustainable infrastructure financing[2].

The article tries to present a brief account of

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[1]BRICS 15 Year Review, http://www.brics2018.org.za/documents-0

[2]https://www.ndb.int/press_release/new-development-bank-concludes-successful-participation-at-brics-summit-2018-in-johannesburg-south-africa/

the recent trend and experiences of the BRICS economies in terms of economic growth and development, competitiveness in terms of attracting foreign investment, trading activities, liberalization status, ease of doing business etc.

Economic Growth and HDI

China and India remarkably maintained a steady GDP growth over the years, well above other BRICS economies. During the period from 2005 to 2017, both the countries have more than doubled their shares in world GDP while it remained either stagnant or marginally improved for other nations in BRICS bloc (Table 1). Global GDP growth rates remained sluggish in 2015 due to persistently low commodity prices, declining trade flows, rising volatility in exchange rates and capital flows and stagnant inflation. While economic growth moved in negative territory for Brazil and Russia along with slow growth for South Africa, China and India were able to keep their growth momentum intact. The above 8 per cent growth rate in 2015 made India the fastest growing country among G20 nations (OECD, 2017). In 2017, while global economy was in the process of fragile recovery, China registered a strong growth of around 7 per cent making it the fastest growing nation among the major economies followed by India.

As United Nations Development Programme (UNDP) puts it, human development is all about "building human capabilities…for everyone." Economic development is about economic well-being as well as the standard of living[3]. Human Development Index (HDI) is the most widely accepted measure to assess how a country is performing in terms of economic development. It is based on three

Table 1: Trend in Economic Growth for BRICS

	GDP (US$ billion)				Share in World GDP (%)				GDP Growth (annual %)			
	2005	**2010**	**2015**	**2017**	**2005**	**2010**	**2015**	**2017**	**2005**	**2010**	**2015**	**2017**
India	3238	5312	8025	9449	5	8	11	12	9.28	10.26	8.15	6.62
China	6639	12485	19814	23301	14	19	26	29	11.39	10.63	6.9	6.9
Brazil	2047	2803	3225	3241	4	4	4	4	3.19	7.54	-3.55	0.97
Russia	1697	2928	3622	3817	4	4	5	5	6.37	4.54	-2.8	1.54
South Africa	468	600	728	765	1	1	1	1	5.27	3.04	1.28	1.32

Source: World Bank

[3]Economic development is a much broader concept than economic growth. Economists opine that while economic growth or GDP growth is a pre-condition of economic development, it may not automatically lead to the latter.

basic dimensions, viz. the ability to lead a long and healthy life (measured by life expectancy at birth), the ability to acquire knowledge (measured as an weighted average of mean years of schooling and expected years of schooling) and the ability to achieve a decent standard of living (measured by gross national income per capita). Notably HDI is rising across all the regions over time, on an average (UNDP, 2018). Nonetheless, the extent of progress vary widely across countries. While South Asia witnessed the most significant improvement in its HDI from 1990 to 2017, OECD countries recorded a much slower progress during the same period.

Considering the grave importance of inequality, poverty and gender on development aspect, UNDP came up with a series of indexes apart from HDI that take into account these dimensions through Multidimensional Poverty Index[4] (MPI), Inequality adjusted Human Development Index[5] (IHDI), Gender Inequality Index[6] (GII) in 2010 and Gender Development Index[7] (GDI) in 2014.

The Human Development Report 2016 placed India in 131st place in a list of 189 countries, in the "medium" human development category. However, in 2017 India has moved up one notch further from 2016. There is a continuous and steady increase in HDI value for Indian economy from the 1990s, backed by robust social development programmes undertaken by the Government and UNDP appreciates this as an indicator of "remarkable achievement in lifting millions of people out of poverty". Between 1990 and 2017, India's life expectancy at birth increased by nearly 11 years; the expected years of schooling has increased by 4.7 years and mean years of schooling by 3.4 years while India's GNI per capita increased substantially at the rate of 266.6 per cent (UNDP, 2018) [Table 2].

However, on account of inequality adjusted HDI (IHDI) India does not fare well compared to her South Asian neighbours. In 2017, 26.8 per cent of India's HDI value is lost due to inequalities while the average loss is 26.1 per cent for South Asia (UNDP, 2018).

[4]MPI takes into account three dimensions and ten indicators. Each dimension as well as each indicator within a particular dimension is equally weighted. Three dimensions are Education, Health and Standard of Living. While indicators under Education are Years of Schooling and School Attendance Ratio, Child Mortality and Nutrition are indicators under Health dimension and Standard of Living is captured by Electricity, Sanitation, War, Flood, Cooking Fuel and Assets.

[5]IHDI is HDI discounted for inequality in each of the dimension of HDI namely health, education and standard of living and gives a composite statistic to measure HDI.

[6]GII measures gender disparity and quantify the loss of achievement in a country due to gender inequality. It uses three dimensions to capture gender inequality viz reproductive health, empowerment and labor market participation.

[7]The GDI measures gender gaps in human development achievements by accounting for disparities between women and men in three basic dimensions of human development—health, knowledge and living standards using the same component indicators as in the HDI.

Table 2: Trend in HDI for India

	Life Expectancy at Birth (Years)	Expected Years of Schooling	Mean Years of Schooling	GNI Per Capita (2011 PPP)	HDI Value	Rank	Out of Countries
1990	57.9	7.6	3	1733	0.427	121	160
1995	60.4	8.2	3.5	2015	0.460	118	166
2000	62.6	8.3	4.4	2470	0.493	124	173
2005	64.6	9.7	4.8	3157	0.535	128	177
2010	66.6	10.8	5.4	4357	0.519	119	179
2015	68.3	12	6.3	5691	0.627	131	188
2016	68.6	12.3	6.4	6026	0.636	129	189
2017	68.8	12.3	6.4	6353	0.640	130	189

Source: UNDP Human Development Report, Various Issues

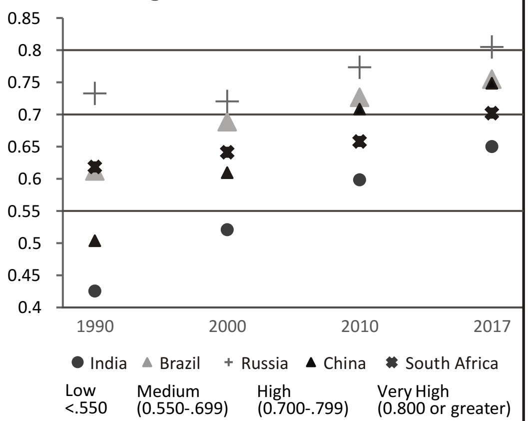
This reconfirms that inequality remains a grave challenge for Indian economy despite a number of Central and State initiatives towards more equality. Regional disparities are also significantly high for India. While all India average Gross State Domestic Product (GSDP) per capita stood at ₹100 billion in 2015, Goa with the highest GSDP per capita at ₹330 billion had almost ten times higher GSDP than Uttar Pradesh with the lowest GSDP at ₹35 billion. The Gini Coefficient[8], a widely used measure of income inequality, is estimated reasonably low at 0.36 for the year 2017 but there are arguments that this low value can largely be attributed to flawed accounting techniques (World Bank, 2018). The highest 1 per cent income earners in India held 55 per cent of total wealth in 2016 which is much higher than developed countries like Japan (18 per cent of total wealth), Korea (30 per cent), Singapore (31 per cent), China (42 per cent) and Brazil (49 per cent)[9]. Although the HDI value of 0.640 for India in 2017 is higher than South Asian average of 0.638, it is still below the average HDI value for medium group countries (0.645). Further, India's HDI significantly lags behind indexes of other BRICS nations (Figure 1).

Measures such as MPI, published by Oxford Poverty and Human Development Initiatives, reflect even gloomier picture for India. 41.3 per cent and 4 per cent people in India and

[8] It measures inequality by income distribution, assumes value between 0 and 1, 0 implying perfect equality and 1 perfect inequality

[9] *"An Economy for the 99 per cent"*, Oxfam Study, 2017

Figure 1: HDI in BRICS



Source: UNDP, Various Reports including Statistical Update, 2018

China respectively are considered as poor[10]. This stark difference in the level of poverty between India and China, the two nations often compared and considered the closest competitors in terms of GDP growth rates, provides much scope to ponder over the social and developmental issues in the two countries. Similarly if we look at GII and GDI figures, India remains way behind other large Asian economies and comparable only with South Asian economies like Bangladesh and Pakistan.

Brazil's HDI value for 2017 was 0.759 (UNDP, 2018) [Figure 1], marginally higher than the average (0.757) of high human development category and the average of countries in Latin America and the Caribbean (0.758). Russian Federation's HDI value for 2017 stood at 0.816, which put the country in the very high human development category, securing rank of 49. Its HDI value was lower than very high human development group's average (0.894), but it remained higher than each of the regional average including Europe and Central Asia (0.771) (UNDP, 2018). If we look at China, the HDI value for 2017 was 0.752, positioning it in high human development category with a rank of 86. This value was lower than the average HDI value for high human development category, but well above the average for East Asia and the Pacific (0.733). China's HDI values show a steady and upward rising trend since 1990 over the years. Among the BRICS economies, only South Africa falls in the medium human development category along with India. However, with HDI value of 0.699 and rank of 113 in 2017, it was still well ahead of India. Its HDI score was higher than the medium category's average of 0.645 and much higher than the average of sub-Saharan Africa at 0.537.

In last thirty years, China's considerable improvement in HDI was majorly driven by an astonishing increase in its GNI per capita (Table 3). India also has shown impressive improvement in HDI during the same period which can be attributed again to significant improvement in GNI per capita and life expectancy at birth.

The inequality adjusted HDI was consistently the highest for Russia among BRICS nations (Table 4). While Russia, China and Brazil

[10] For India the latest reference year is 2011-12, for China it is 2013-14.

Table 3: Change in HDI Value and Its Indicators from 1990 to 2017

Country	Life Expectancy at Birth (Years, in absolute terms)	Mean Years of Schooling (Years, in absolute terms)	Expected Years of Schooling (Years, in absolute terms)	GNI Per Capita (in Percentage)	Average Annual HDI Growth (in Percentage)
India	11	3.4	4.7	266.6	1.51
China	7.1	3.0	5.0	898.7	1.51
Brazil	10.4	4	3.2	28.6	0.81
Russia	3.2	2.8	2.7	17.2	0.40
South Africa	1.3	3.6	1.9	27	0.46

Source: UNDP, Various Reports

Table 4: Other Human Development Indicators in BRICS

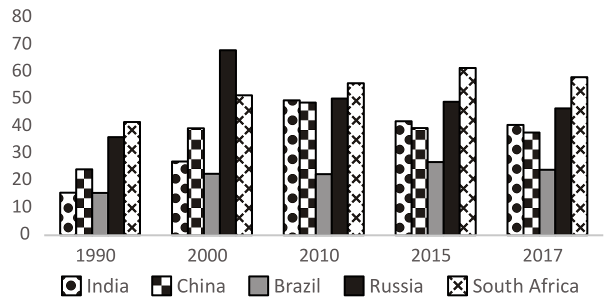
	IHDI		GII		GDI		MPI	
	2012	2017	2012	2017	2012	2017	2012	2017
India	0.424	0.468	0.567	0.524	0.979	0.841	0.283	0.121
China	0.56	0.643	0.117	0.152	0.961	0.955	0.056	0.017
Brazil	0.536	0.578	0.446	0.407	0.987	0.992	0.011	0.016
Russia	0.7	0.738	0.294	0.257	0.983	1.019	0.005	0.005
South Africa	0.441	0.467	0.412	0.389	1.005	0.984	0.057	0.023

Source: UNDP and Oxford Poverty and Human Development Initiative, Various Issues

have shown an improvement in their IHDI ranking during last five years, for India and South Africa, it moved downwards. The GII values were significantly lower for China with an impressive ranking for last five years. Notably all the BRICS countries except China have shown an improvement in their GII values in 2017 compared to 2012. India's performance on gender equality was worrisome. The GII values continue to remain much higher for India than other BRICS nations. On GDI front, though India's performance were comparable with Brazil and Russia and higher than China in 2012, it has declined sharply in 2017. The poverty level in Russia was historically low; it was also low for Brazil. China and India have witnessed massive decline in their poverty rates from '90s. However, India has the highest value of MPI amongst BRICS which was way above its peer nations. The MPI for all countries declined over the years barring Brazil which posted a marginal rise in its MPI.

Trade Openness

Figure 2: Trade Volume as % of GDP in BRICS Nations



Source: World Bank

Trade Openness is an important parameter to gauge competitiveness and external integration of an economy and all the BRICS countries have initiated trade liberalization measures mostly during the late 80s and 90s, although the process of liberalization varies widely across these countries. In terms of the measure of trade openness, viz. total volume of trade as percentage of GDP, the BRICS nations reveal some interesting phenomena.

It is often argued that the growth of BRICS economies are majorly trade-led. All the countries have increased trade penetration over the years with a remarkable increase in trade-GDP ratio. For India, it has increased from 15 per cent in 1990 to a hovering 40 per cent in 2017 (Figure 2). Brazil remained the most closed economy amongst the BRICS nations having lowest share of trade to GDP over the years. On the other hand, South Africa remained the most open economy in terms of trade parameters with the highest share of trade to GDP amongst all BRICS consistently except for the year 2000.

Brazil started its trade liberalization process from the late 1980s and made a clear switch from import substitution policies. Reduction in tariff and non-tariff barriers especially quantitative import restriction played an important role in increasing productivity and drawing foreign capital. Brazil's unilateral liberalization was followed by a number of regional and bilateral trade agreements like MERCOSSUR[11] in 1991 and proposed trade agreements like FTAA[12] in 1994.

Russian Federation was characterized with rigid protectionism and state-owned monopoly on foreign trade. After the fall of Soviet Union in 1991, the newly formed Russia clearly switched from protectionism to liberalization. It is a part of a number of bi-lateral and multi-lateral trade agreements like FTA of Commonwealth of Independent States (CIS)[13].

Till the first half of 1990s, China's export and

[11] A regional customs union with a common external tariff between Brazil, Argentina, Paraguay, Uruguay and Venezuela.

[12] Free Trade Area of Americas (FTAA) was a proposed trade bloc between USA and other Latin American countries with abolished or reduced trade barriers.

[13] Russia, Belarus, Ukraine, Moldova, Tajikistan, Armenia, Kazakhstan, Uzbekistan and Kyrgyzstan form Commonwealth of Independent States.

import policies were directly controlled by the State in a fixed exchange rate regime with too little scope for market mechanisms. Only in the latter half of '90s, China relaxed its tariff structure, removed import licensing mechanism and simultaneously adopted flexible exchange rate regime. China's accession in WTO in 2001 further integrated the economy to the rest of the world.

During the 1980s, South Africa shifted away from its import substitution policies due to decline in its growth and heavy dependence on gold reserves. In 1994, South Africa shifted from export promotion to greater openness through tariff reduction. Further, it made significant reductions in Most Favoured Nations' tariff rates during the same period and also pursued various new bilateral free trade agreements.

Prior to the liberalization measures taken in 1991 in India and formation of WTO in 1995, India remained largely isolated from world trade since independence. Decades of pursuit of import substitution, almost hostile attitude towards foreign trade and technology and overprotective policies towards domestic producers led to inefficiency impairing economic growth. The twin shocks of huge current account deficit and trade imbalance in a way pushed Indian policy makers to embrace liberalization and open economy policies. A number of trade reforms was also undertaken in tandem. Liberalization policies of 1991 brought some major overhaul in Indian trade and tariff structure. Average and weighted tariffs declined from 81.9 and 49.5 per cent in 1990 to 57.4 and 27.8 per cent in 1991, respectively (UNCTAD, 2017). The reduction in average and peak tariff happened in a phased manner. The simple average tariff declined from a very high of 80.85 per cent in 1990 to as low as 8.91 per cent in 2016, while the weighted average tariff recorded a steady decline from 56.36 per cent to 6.35 per cent. The peak tariff rate declined drastically from 520 per cent in 1990 to 233 per cent in 2002 and further to 150 per cent by 2016 (World Bank, 2017).

Nonetheless, the expansion in trade volume experienced by India post liberalization was substantially lower than China and other BRICS economies and its share in global trade is much lower compared to other Asian giants. However, it is important to note that India remained much resilient during the global downturn in trade in 2015, backed mostly by the steep decline in trade in East Asia. The contraction was largely attributed to decline in commodity prices especially in price of oil, leading to reduced real income in the commodity producing countries, China's diminished growth and gradual shift away from industrial production leading to weak import demand. While trade volume contracted for most of the developed and developing countries including Japan, Brazil, Russia, Singapore, and South Africa, the decline was less steep for Indian economy.

Trade Openness is related to tariff structure to a large extent as a relatively closed economy is expected to have stringent tariff measures and vice versa. The tariff agreements are significantly high for India and China compared to other peers in BRICS nations, reflecting the importance of import liberalization policies in their trade liberalization measures. Nonetheless, the maximum rate for tariff is exceptionally high for China compared to other BRICS nations (Table 5). Brazil which had the lowest share of trade to GDP ratio amongst the BRICS nations, had the highest level of average rate of tariff, both simple as well as weighted. However, India had the lowest share of duty free tariff line amongst BRICS closely followed by Brazil, while South Africa, which was the most open economy in terms of trade openness, had the highest share.

Financial Liberalization

Most of the developing countries including the BRICS have opted for financial liberalization by relaxing credit control, liberalizing interest rates and banking sector and have gone for openness of capital (Table 6).

Since the beginning of 1990s, Brazil implemented various financial sector reforms. From 1990 to 1999, Brazil had a crawling peg exchange rate regime. The currency crisis of 1999 led it to move towards floating exchange rate and inflation targeting. Financial liberalization policies included reduction and later elimination of both the minimum average maturity for external loans and the financial transaction tax on capital inflows, the elimination of restriction on investment in security markets by foreign investors and simplified procedures for capital remittances to other countries.

After the 1998 crisis, Russia has adopted administered floating exchange rate under the context of partial capital account convertibility. Controls on capital flows were introduced after 1998 crisis to help protect the Russian currency from speculative capital outflows and also to protect still weak banking sector. However, exchange controls were liberalized in a phased manner and since June 2005, Russian residents could open foreign exchange accounts with authorized banks without any restriction. In July 2006, Russian Government announced the gradual introduction of Ruble convertibility by eliminating all

Table 5: Tariff Structure in BRICS Nations, 2016

	Number of Tariff Agreement	Max Rate	Simple Average (%)	Weighted Average (%)	Duty Free Tariff Lines Share (%)
India	23	150	8.91	6.35	15.02
China	24	3000	7.88	3.54	25.51
Brazil	6	55	13.56	8.01	16.37
Russia	7	100	5.34	3.62	30.72
South Africa	5	315	6.48	4.51	67.52

Source: WITS, World Bank

Table 6: Exchange Rate Regime and Capital Controls of BRICS Countries, as of 2017

Country	Exchange Rate Regime	Current Account Convertibility	Capital Account Convertibility
India	Managed Float	High	Partial, with many restrictions
China	Pegged Exchange Rate	High	Partial, with many restrictions
Brazil	Dirty Float	High	High
Russia	Managed Float	High	Partial, with some restrictions
South Africa	Free Float	High	High

Source: "Financial Development and Economic Growth in BRICS and G-7 Countries", 2015 & "Financial Liberalization, Exchange Rate Regime and Economic Performance of BRICS Countries", 2008

restrictions on non-resident transactions in domestic securities.

After the external debt crisis faced by India in 1991, capital account has been gradually liberalized and the exchange rate regime changed from pegged to managed floating one. This was followed by the acceptance of full convertibility of current account in August 1994. The approach to capital account liberalization in India has been cautious; the economy has opened up for portfolio equity investment and geared up policies to attract FDI.

As a part of the economic reforms of 1990, China abolished its multiple exchange rates and adopted a managed floating exchange rate mechanism. In practice, however, Chinese currency Yuan or Renminbi was fixed to the US Dollar since 1995. In 1996, China liberalized its current account while the capital account remained partially convertible till date. The experiences of India and China also show that capital controls helped to protect these economies from destabilizing effects of capital outflows.

The end of apartheid in 1994 ushered in South Africa's reintegration into the global economy which included financial liberalization as well. South Africa experienced a harmonized liberalization of capital accounts, banking sector and interest rates during the second half of 1990s. Several relaxation mechanisms of exchange controls were also initiated simultaneously as a part of financial liberalization.

Role of Foreign Direct Investment

For many transition and developing countries, including BRICS, Foreign Direct Investment (FDI) has become one of the largest sources of external assistance, many times surpassing official development assistance[14]. In 2016-17, more than 40 per cent of US$ 1.75 trillion of global FDI was directed towards the developing world (Global Investment Competitiveness Report, 2017-18). Governments of the BRICS economies are counting on FDI attracting policies in order to bring in much needed capital in infrastructure, industry, education, health or tourism. However, the overall benefits of FDI extend well beyond getting capital. FDI is considered to be a much more stable source of investment than FII because of its long-run nature of investment[15]. Trade openness and liberalization policies are considered as critical parameters to attract FDI inflow in a country.

In recent years, the BRICS economies performed exceptionally well as recipients of global FDI. The World Investment Report 2018 suggests that although USA retained its position as the largest destination of FDI, all the BRICS economies barring South Africa, emerged in the list of top 20 global FDI destinations. Table 7 presents the major source countries of FDI and the sectorwise distribution of FDI in the BRICS counties for 2016-17.

Brazil was the fourth largest FDI destination in the world in 2017 (UNCTAD, 2017). Most of the inward FDI at the beginning of the 1990s occurred via mergers and acquisitions due to privatizations and was not focused towards industrial production. However, in the second half of the 1990s, the inflow of FDI steeply increased with a redirected focus towards industrial activity. Most of the FDI in Brazil comes from European countries. In 2016, the Netherlands was the largest investor followed by USA, Spain and Luxembourg. Service sector, especially commercial and financial services, real estate, management activities and IT services attracts majority of the FDI.

Russia was the eleventh largest FDI destination in the world in 2017 (UNCTAD, 2017). One of the most untapped area is its efficiency-seeking FDI. Natural resources including crude oil, technological capabilities along with human skills and upgraded infrastructure make Russia an ideal destination for foreign investment. However, the country needs to upgrade its foreign investment promotion policies to achieve the full potential. At present, mining and quarrying comprises almost 70 per cent of foreign investment followed by manufacturing, financial and insurance activities and wholesale and retail trading.

[14]It measures the international aid flow in a developing country.

[15]FDI influences growth by raising total factor productivity and, more generally, the efficiency of resources in the host country (OECD, 2002). A preponderance of studies show that FDI triggers technology transfers, assists human capital formation, contributes to international trade integration, helps create more competitive business environment and enhances enterprise development (Dixit, 2012; Danakol et al., 2013). It has been found in many studies that FDI plays a critical role in enhancing productivity in ancillary industries (Arnold et al., 2011).

Table 7: The Largest FDI Source Countries and Largest FDI Attracting Sectors in BRICS, 2016 (in percentage share)

India			
Country -wise		Sector -wise	
Mauritus	33	Services	18
Singapore	19	Telecommunications	8
Japan	7	Construction	8
UK	7	Trading	5
Netherlands	6	Automobiles	5
China			
Country -wise		Sector -wise	
Hong-Kong	75	Manufacturing	25
Singapore	3.7	Real Estate	12.9
Taiwan	3.6	Leasing and Business Services	12.9
South Korea	2.8	Wholesale and Retail Trade	9
Japan	2.5	IT Services	16
Brazil			
Country -wise		Sector -wise	
The Netherlands	25	Commercial Services	17
USA	19	Financial Services	10
Spain	11	Real Estate	10
Luxembourg	7	Management Activities	5
France	5	IT Services	5
Russia			
Country -wise		Sector -wise	
Singapore	49	Mining and quarrying	68
Bahamas	18	Manufacturing	15
Bermuda	7	Financial and Insurance Activities	10
France	6	Wholesale and Retail	5
Austria	3	Commercial Services	1
South Africa			
Country -wise		Sector -wise	
UK	38.4	Financial Services	42.1
The Netherlands	21.4	Manufacturing	20.8
USA	6.8	Mining	20.5
Germany	5	Transport & Storage	10.4
China	4.2	Trade & Catering Accomodation	10.4

Source: Dept. of Industrial Policy and Promotion, Central Bank of Brazil, Central Bank of Russia, National Bureau of Statistics, China and Santandertrade.com
Note: For China, the values are of the year 2017

Singapore was the largest source of FDI in Russia followed by smaller countries like Bahamas and Bermuda.

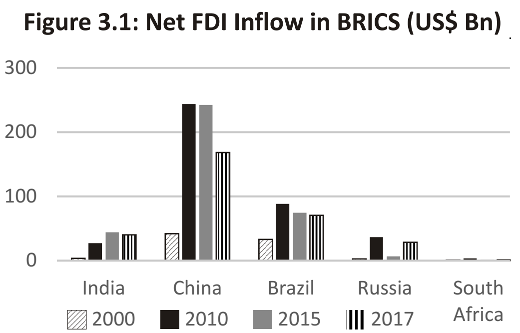
Chinese FDI is manufacturing sector driven. Being the second largest FDI destination in the world after USA (UNCTAD, 2017), China's major sectors that attract FDI are essentially manufacturing followed by real estate, leasing and business services, wholesale and retail trade and IT services. Notably, three-fourth of FDI in China comes from Hong Kong, while the rest are coming mainly from Singapore, Taiwan, South Korea and Japan.

South Africa remained a laggard amongst the BRICS in terms of FDI inflow due to its political uncertainty and underperforming commodity market. While UK was the largest FDI source country for South Africa, financial services' share was the highest followed by sectors like manufacturing, mining, transport and trade.

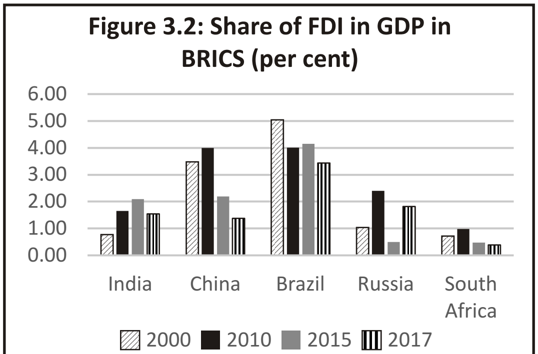
India, backed by robust GDP growth, stable macroeconomic variables and attractive FDI policies, was the tenth largest FDI destination in the world in 2017, with an improvement by one notch compared to 2016 (UNCTAD, 2017). After liberalization, FDI of up to 100 per cent is allowed in sectors like e-commerce, railway infrastructure, defense, airports, construction development including township, housing, built-up infrastructure and real estate broking services, industrial parks, among others.

However, as per UNCTAD's World

Investment Report 2018, FDI in India declined from US$ 44 billion in 2016 to US$ 40 billion in 2017. The sectors which attracted the highest FDIs are services sector and telecommunications (DIPP, 2017-18) with Mauritius, Singapore and Japan being the top three sources of FDI during the same period.



Source: World Bank



Source: World Bank

While China boasts of the largest volume of FDI, it is Brazil whose FDI to GDP share remained the highest over the years amongst all BRICS countries (Figures 3.1 and 3.2). South Africa's FDI share in GDP again remained the lowest. Notably, compared to 2015, the absolute value of FDI as well as FDI to GDP ratio has declined for all the BRICS countries barring Russia in 2017, following the declining volume of global FDI inflow due to sluggish growth on global front. However, Russia saw a significant spurt in its FDI inflows backed by strong recovery in GDP and robust export performance.

Competitiveness and Governance

Policy makers in developing or emerging countries are concerned about national competitiveness and governance as these are important factors of attracting foreign investments. The very notion of competitiveness varies according to the different levels of analysis, viz. firm, industry or country and different economists again hold different views about the competitiveness of a country (Petrylė, 2016). The classical and neo-classical economists thought competitiveness of a nation to be its power to gain from international trade. However, this competitiveness is now understood to be quite complex being driven by many variables. Hickman (1992) mentioned that international competitiveness possess many dimensions and it may be defined as *the ability to sustain, in a global economy, an acceptable growth in the real standard of living of the population with an acceptably fair distribution, while efficiently providing employment for substantially all who can and wish to work and doing so without reducing the growth potential in the standards of living of future generations.*

Zlatkovic (2016) on the basis of a correlation test between the competitiveness indicators that construct Global Competitiveness Index (GCI) and FDI stocks per capita observed that FDI stocks per capita was significantly correlated to the indicators viz. infrastructure, health and primary education, higher education and training, technological readiness and innovation[16].

Fair governance is again another buzzword worldwide in recent times as sustainable development of a nation is largely dependent on it. Mengistu and Adhikary (2011) explored the impact of the indicators of good governance on FDI inflows for 15 Asian economies over the period 1996–2007. They concluded that a nation which has the capability to enhance its governance milieu in general is expected to attract more FDI. Alemu (2015) attempted to explore whether good governance infrastructure influences the "ease of doing business" for a sample of African countries during 2005 to 2012 and found that government efficacy, political stability, rule of law, regulatory quality and absence of corruption are strong determining factors for creating a favourable business atmosphere.

Therefore, in this article, widely accepted global competitiveness and governance indicators are discussed for BRICS.

Ease of Doing Business

India has jumped 23 notches to the 77th place in the World Bank's 'ease of doing business' ranking in 2018. It has attained the topmost rank among countries in South Asia for the first time, and it is third among BRICS. Covering 190 economies across the world Doing Business Report 2019 has highlighted that both India and China – two of the world's biggest economies are among the 10 economies displaying the most improvement. Notably, for several years the government of these two countries are said to have undertaken serious reform agendas aiming at improving the business regulatory environment. The BRICS economies have introduced 23 reforms in total during 2018 to ensure that doing business is easier with getting electricity being the most common area of improvement (Table 8). Majority of these economies have also focused on making it easier to start a business and to trade across borders . From the perspective of reforms that make it easier to get electricity, modernization of network, expansion of network capacity, introduction of software programmes or mobile applications, cheaper connections are some steps undertaken. Steps taken for making it easier to start a business include reduction of fees for incorporation; introduction of online systems for registration, licensing and employment notifications; integration of multiple application forms to a general one and introduction of a congenial taxation regime. From the point of view of simplifying trading

[16]However, Petrylė (2016) found a weak or no relationship between the GCI and the GDP growth of countries and claimed that the GCI is incapable of predicting the GDP growth rates in future of a country.

across borders the countries have focused on reduction in time and cost related to export and import activities.

The ranks of the BRICS economies on the 10 broad subindices considered in Doing Business 2019 report are presented in Table 8. Brazil, which secured 109th rank in the Ease of Doing Business, has not displayed an impressive performance on most of the subindices. None of the subindices displayed a rank within top 25. However, the country has recorded the largest score improvement in Latin America and the Caribbean during 2017-18. Russian Federation and China being 31st and 46th on the ease of doing business index have performed well on most of the dimensions. Russian Federation has secured the first position among BRICS on the overall ease of doing business ranking and has secured ranks within top 25 for the subindices viz. getting electricity, registering property, getting credit and enforcing contracts. China did exceptionally well from the point of view of getting electricity and enforcing contracts with ranks within top 25.

While India has performed exceptionally well from the point of view of protection of minority investors, getting credit and getting electricity, it has displayed a gloomy picture in terms of starting business, registering

Table 8: Performance (Ranks) of BRICS in Doing Business in 2018

Economies	Ease of Doing Business	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Brazil	**109**	**✔140**	**175**	**✔40**	**✘ 137**	**✔99**	**48**	**184**	**✔106**	**48**	**77**
Russian Federation	**31**	**32**	**✔48**	**✔12**	**12**	**22**	**57**	**✔53**	**✔99**	**18**	**55**
India	**77**	**✔137**	**✔52**	**✔24**	**166**	**✔22**	**7**	**✔121**	**✔80**	**163**	**108**
China	**46**	**✔28**	**✔121**	**✔14**	**✔27**	**73**	**✔64**	**✔114**	**✔65**	**6**	**61**
South Africa	**82**	**✔134**	**96**	**✔109**	**106**	**73**	**23**	**46**	**143**	**115**	**66**

Source: World Bank Doing Business 2019 Report

Note: ✔ symbolizes reform making it easier to do business;

✔ symbolizes change making it more difficult to do business property, payment of taxes, contracts enforcement and insolvency resolution. South Africa did not display any impressive scenario on several subindices. It is below India on the overall ease of doing ranking, at 82. It is within top 25 occupying a rank of 23 in terms of protection of minority investors. Though it is difficult to establish the optimal level of business regulation without an in-depth research, higher ranking indicates superior and simpler regulatory framework for the business community to prosper.

In Doing Business 2015 report the number of economies considered were 189. When compared to the current year's report Doing Business Report 2015 depicted a number of diversions. South Africa secured the first position among the BRICS in the overall ease of doing business index in 2014 and India lagged far behind. It has been a remarkable turnaround for India and China during 2018 in terms of their ranking among all economies considered. Russia has improved further since 2014 to occupy the 1st rank among the BRICS in 2018, while South Africa's status has deteriorated much over these years. The improvement in ranking status for the nations demonstrate the fact that the nations have taken steps to improve their regulatory framework in terms of simplicity and transparency to ensure effectiveness of business activities while protecting public interests at the same time.

Global Competitiveness Index (GCI)

The index put forth by the World Economic Forum comprises of 98 indicators at present organized into 12 pillars signifying the degree and complexity of the drivers of productivity and the competitiveness ecosystem which are again grouped under 3 broad categories viz. basic requirements, efficiency enhancers and innovation and sophistication factors. Table 9 presents a glimpse of the ranking status of the BRICS economies pertaining to each pillar to portray how these economies have transformed from 2013-14 to 2017-18[17]. It is observed that ranks obtained by Brazil on most of the pillars have surprisingly deteriorated over these years and the overall GCI ranking has therefore fallen from 56 in 2013-14 to 80 in 2017-18. Russian Federation displayed notable improvements on 11 out of 12 pillars with significant improvement in terms of institutions, goods market efficiency, business sophistication and innovation. GCI ranking has improved from 64 to 38. India has advanced well in terms of 9 pillars viz. institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, business sophistication and innovation with significant progress in terms of institutions, macroeconomic environment and goods market efficiency. India has occupied the 3rd rank among all economies considered in the

[17]The number of economies considered in the index has been 148 in 2013-14 and 137 in 2017- 18.

Table 9: Assessment of Competitiveness of BRICS in Terms of Their Ranks during 2013-14 and 2017-18

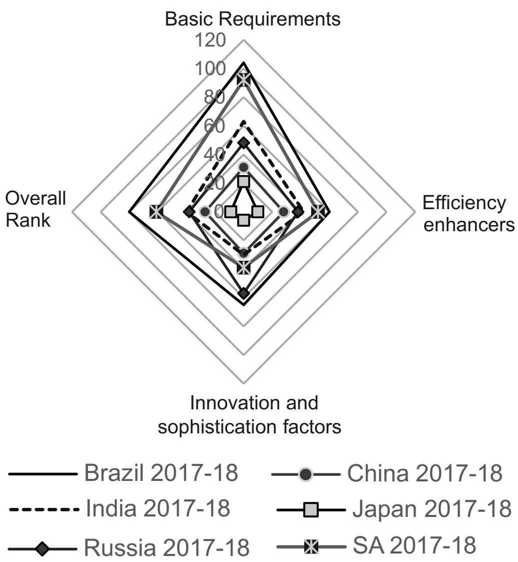
	Brazil		China		India		Russian Federation		South Africa	
Pillars of Competitiveness	**2017-2018**	**2013-2014**	**2017-2018**	**2013-2014**	**2017-2018**	**2013-2014**	**2017-2018**	**2013-2014**	**2017-2018**	**2013-2014**
Institutions	109	80	41	47	39	72	83	121	76	41
Infrastructure	73	71	46	48	66	85	35	45	61	66
Macroeconomic environment	124	75	17	10	80	110	53	19	82	95
Health & primary education	96	89	40	40	91	102	54	71	121	135
Higher education and training	79	72	47	70	75	91	32	47	85	89
Goods market efficiency	122	123	46	61	56	85	80	126	54	28
Labor market efficiency	114	92	38	34	75	99	60	72	93	116
Financial market development	92	50	48	54	42	19	107	121	44	3
Technological readiness	55	55	73	85	107	98	57	59	54	62
Market size	10	9	1	2	3	3	6	7	30	25
Business sophistication	56	39	33	45	39	42	71	107	37	35
Innovation	85	55	28	32	29	41	49	78	39	39
Global Competitiveness Index Ranking	**80**	**56**	**27**	**29**	**40**	**60**	**38**	**64**	**61**	**53**

Source: The Global Competitiveness Index Historical Dataset 2007-2017, World Economic Forum

index in market size during both the years considered. In financial market development the nation has deteriorated by several notches. Though the country has improved over these years on several parameters, special emphasis is needed on improving its competitiveness from the point of view of macroeconomic environment, health, education and labor market efficiency and technological readiness. GCI ranking improved from 60 during 2013-14 to 40 during 2017-18. China's GCI status has been the best among the BRICS as it occupied the rank of 29th in 2013-14 among all economies considered in the index which further improved to the 27th position in 2017-18. The nation has developed further on 9 drivers of productivity viz. institutions, infrastructure, higher education, goods market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. China occupied the 1st rank in 2017-18 in terms of the market size. South Africa improved on 6 pillars and its overall ranking in GCI dropped from 53 in 2013-14 to 61 during 2017-18.

In Figure 4, the ranks of BRICS in 2017-18 with respect to three broad categories viz. basic requirements, efficiency enhancers and innovation and sophistication factors are presented. China as an emerging country has performed the best among BRICS and hence the quadrilateral formed using China's ranks on the three broad categories and in the overall GCI is closest to the quadrilateral formed by the indicators pertaining to Japan. China is followed by Russia, India, South Africa which move further respectively with the farthest being Brazil. In terms of innovation and sophistication however China and India may be held at par.

Figure 4: GCI Ranks of BRICS 2017-18



Source: World Economic Forum Global Competitiveness Index Dataset

Governance

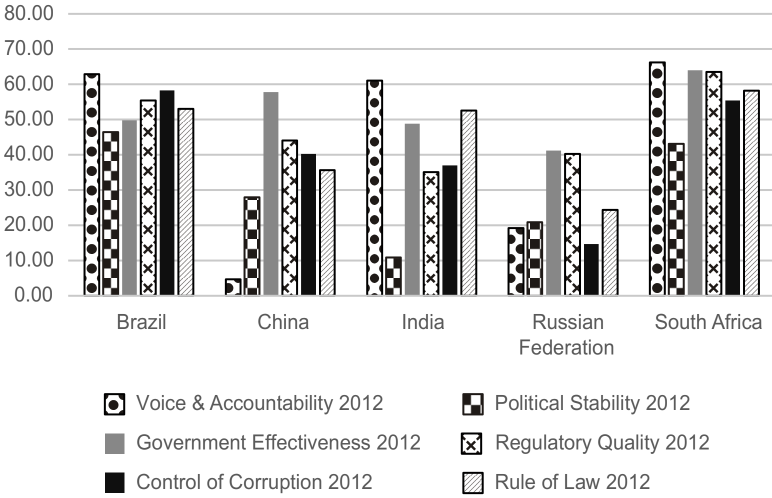
The Worldwide Governance Indicators (WGI)[18] are a dataset that summarizes the views of citizens, entrepreneurs and experts in the public, private and NGO sectors on quality of governance for more than 200 countries and territories across the world. The change in the governance performance of the BRICS from 2012 to 2017 has been explored here on the basis of percentile ranks pertaining to six indicators included in the dataset viz. *voice and accountability, political stability and absence of violence, government effectiveness, rule of law, regulatory quality, and control of corruption*.

In terms of *voice and accountability,* i.e. the degree to which a nation's citizens possess freedom of expression and association and free media, South Africa occupied the topmost rank among the BRICS nations during 2012 and 2017 followed by Brazil, India, Russian Federation and China. While Russia continued to score exceptionally low, China portrayed even weaker governance performance on this parameter (Figures 5 & 6).

In terms of *political stability,* India continued to be at the bottom of the ranking pillar among the five nations during these years. The governance performance of Brazil and South Africa on this indicator deteriorated over these years in terms of the percentile rank while China and India improved their ranking status

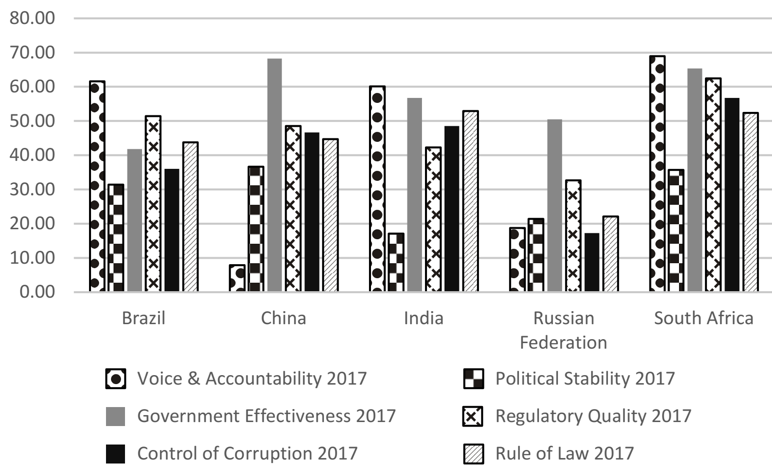
[18]http://info.worldbank.org/governance/wgi/index.aspx#home

Figure 5: Performance (percentile ranks) of BRICS in Governance during 2012



Source: The Worldwide Governance Indicators, World Bank

Figure 6: Performance (percentile ranks) of BRICS in Governance during 2017



Source: The Worldwide Governance Indicators, World Bank

to some extent. Russia's improvement has been negligible. In 2017 China occupied the highest rank among these five economies with a close second being South Africa. However, the rankings of all these five nations during these years have not been imposing at all.

With respect to *government effectiveness* in terms of quality of public services as well as civil services, the quality of policy formulation and execution along with government's commitment to such policies, China occupied the topmost rank in 2017 among the five countries followed by South Africa, India, Russian Federation and Brazil. Percentile ranks of all BRICS economies except Brazil have improved to some extent over the period from 2012 to 2017.

If one takes *regulatory quality*, on the basis of the capability of the government to frame and implement policies that assist in promoting the private sector, while China and India have improved over these years, the ranks of the other three have stumbled. The best performer in this governance indicator in 2017 is South Africa with 62.50 percentile rank while the weakest among the five is Russian Federation with rank of 32.69.

Control of Corruption is very important as corruption in any country may have far reaching implications for the economic development of a nation as a whole through injudicious usage of the available resources. India though does not still demonstrate an imposing grade in this regard, its rank has however improved to some extent from 2012 to 2017. In order to tackle corruption, apart from the existing decrees[19] the more recent efforts like the Prevention of Money Laundering Act, 2002, the Lokpal and Lokayuktas Act 2013, Whistle Blowers Protection Act 2014, certain provisions of Companies Act 2013 and demonetization of high value currency have all been aimed at combating corruption. The Indian government has also sought international cooperation in G-20 meetings on destroying offshore tax havens. Again in this indicator, Russian Federation continues to be at the bottom among the BRICS with very weak performance in both the years. South Africa occupied the top position in 2017. Brazil, which displayed the best performance among the five nations in 2012 has lost its position to a large extent during 2017.

With respect to *rule of law,* i.e. the extent to which agents abide by the rules of society, while India is at the best position among BRICS in 2017 followed by South Africa, a close second, Russian Federation occupied the lowest rank in percentile terms. However, none of these ranks are impressive enough when all economies across the world considered in the WGI dataset are taken in to account. The percentile ranks for Brazil, Russia and South Africa have even dropped from 2012 to 2017. China has however displayed some progress in this indicator during the period.

It should be noted that the BRICS nations could not even manage to achieve 70 in terms of percentile rank on any of the dimensions in any of these two years.

Conclusion

It is observed that the momentum of growth, human development and other indicators of competitiveness have been uneven and disparate in BRICS economies as these economies are at various stages of development and have considerable differences in socio-economic conditions which are designed by local contexts. Nevertheless, there are some common goals of more openness and competitiveness adopted by all the BRICS member countries. The BRICS economies have shown remarkable progress in terms of global integration through their liberalization process, outreaching external policies and FDI

[19] For example, the Indian Penal Code, 1860, Prevention of Corruption Act, 1988, the Benami Transactions (Prohibition) Act, 1988.

attracting measures. All these five economies have made marked progress on human development goals, though at varied degees, which are bound to complement the common economic agenda of higher growth. It is no denying the fact that Brazil, Russia, India, China and South Africa are becoming more and more important in the global economic scenario and are considered as having the potential to form a powerful economic alliance. Thus, exploration of the factors the improvement in which assist in their advancement is crucial for policy makers, analysts, business practitioners and the researchers.

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