Is the Emerging World Still Emerging?

Two decades on, the BRICs promise lingers

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WITHOUT COVID-19, GDP growth in the past decade would have been about 3.6 percent—just below the 3.7 percent experienced in 2000–09. Not bad given all the challenges, and contrary to the mood of pre-pandemic times. Indeed, each decade has witnessed stronger economic growth than the 1980s and 1990s, each about 3.3 percent. Hundreds of millions of people have been taken out of absolute poverty as a result, in part because of the growth miracle led by the so-called emerging markets, of which my beloved BRICs were front and center.

The year 2021 marks the 20th anniversary of my coining the acronym "BRICs" to summarize the likely rising economic relevance of Brazil, Russia, India, and China and the implications of their rise for global governance. As the world looks to the remainder of 2021 and beyond, what can we expect from emerging markets?

BRICs revisited

My primary goal in my first paper, "The World Needs Better Economic BRICs," was to make a case for changing the framework for global economic governance, not necessarily the inevitable future growth of these countries.

In subsequent papers I laid out what the world *could* look like, in the highly unlikely event that the countries we studied reached their potential. We defined this potential using the standard methodology for macroeconomics, in which real economic growth is determined by two variables: the size of a nation's workforce and the economy's productivity. Because of their population size, the associated size of their workforce, and the scope for productivity catch-up, it was quite easy to show that the potential growth rates of BRICs were higher than those of most advanced economies. What our analysis was *not* meant to show was that all these countries would persistently grow at their potential. That frankly is not realistic, and not what we intended as our message.

In this context, the second decade of this century has been quite a contrast to the first decade, which for all four countries turned out even better than in the scenarios I outlined in 2001. While India has notably disappointed in recent years, it is broadly developing along the path we envisioned. For both Brazil and Russia, however, 2010–20 economic performance was very disappointing, which has occasionally led me to joke that perhaps I should have called the "BRICs" the "ICs." Brazil and Russia have both suffered from the well-known commodity curse and, as evidence suggests, are far too dependent on the world commodity cycle for their own sustainable development. Each of these countries has considerable differences, but they both need to diversify their economies away from commodities and grow the role of the private sector.

In contrast, the ongoing strength of the Chinese economy suggests that it is fully achieving its potential. China's GDP, in excess of $14 trillion (as of 2019), is more than twice that of the other BRICs in aggregate. The sheer scale of China means that the BRIC economies combined are now larger than that of the European Union and are approaching the size of the United States.

Back to the future

Although China's real GDP growth rate will slow beginning in 2021, given its increasing demographic challenge, that will not stop it from overtaking the United States as the world's biggest economy. For the world to grow faster in aggregate, countries with favorable demographics must boost their productivity.

It will be very hard for the world to get to a real GDP growth rate of 4 percent; even the 3.7 percent of the past two decades could be challenging. Four factors will determine whether we get the growth we need: productivity in developed economies; how quickly China's growth trend slows; the success of India; and, crucially, whether the other highly populated emerging market economies emerge. Can the likes of Indonesia, Mexico, Nigeria, Vietnam, and others get close to their long-term potential? If they do, then real GDP growth for the world could have a better chance of emulating that of the past decade.

Obviously, an immediate strong post–COVID-19 recovery almost exclusively depends on developing and distributing vaccines and treatments to eradicate this pandemic. In my judgment, the multiplier benefits of the required \$20–\$30 billion from donors are such that it would represent the biggest no-brainer economic stimulus any generation has had the chance to agree to, dwarfing the potential benefits of 2008–09.

The IMF must play an active role in encouraging this stimulus and—in addition to its newfound focus on climate change—must enter the arena of health systems and integrate analysis of health spending in its surveillance work. Aligning with finance ministers to support the Access to COVID-19 Tools (ACT) Accelerator—a collaboration between leading global health organizations—is a small beginning, but it needs to be bigger.

Having led the UK government's independent Review on Antimicrobial Resistance (AMR), I know there are other health threats out there equal to COVID-19. AMR could cause as many as 10 million deaths annually by 2050 and, as a result, a cumulative \$100 trillion in lost economic opportunity. Some observers find such numbers hard to believe, but as a result of the pandemic, we now know such things are unfortunately a reality. Trying to strengthen the links between economics, finance, and health should be at the center of our emerging ideas.

Bolder and smarter

In the aftermath of COVID-19, emerging market economies, especially the larger ones, must adopt smart fiscal policies—policies that prioritize public investment. We need a different basis for assessing the real economic framework and circumstances of fiscal policy. To be specific, the time has come to truly distinguish between government investment spending and consumption spending; the former is likely to have a positive multiplier effect and should not be treated from an accounting perspective the same as government expenditures on consumption. Tackling climate change and future health threats requires such investments. Emerging market economies' achievement of their growth potential depends on such investment, which is arguably more important for economic growth than financial conditions.

A framework for smarter fiscal policy will almost definitely require stronger domestic financial systems. Continued dependence on a monetary system based on the US dollar makes this difficult. Despite the relatively smooth but ongoing slow relative decline of the share of the US economy in the world, the dollar-based monetary system remains as dominant, broadly speaking, as it was when I started my financial career in 1982. This means that the world must ride the cyclical roller-coaster of the Federal Reserve's monetary policy, its consequence for the United States, and the global financial conditions that follow. As the Fed tightens, by and large, financial conditions for emerging markets tighten—often chaotically. As the Fed eases, the reverse happens.

There is a way out, and one day, this change will take place. The monetary system needs to evolve to be more reflective of the changing dynamics of the world, and until it does, emerging market nations' ability to reach their growth potential will remain challenging, albeit perhaps not quite as challenging as other domestic initiatives such as health and education systems.

Many emerging market nations need to be bolder and smarter about these issues, and the IMF of course will be there to help them. FD

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