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THE rapid and successful economic growth of the emerging markets, and especially of the BRICs (Brazil, Russia, India, and China), has caught the attention of the world over the past decade, and certainly warrants a conference such as this. I congratulate the conference organizers for their choice of topics. It is both timely and important.

The BRICs are large countries whose integration into the international economy has been, perhaps, the single most important shift in the world in the past decade or so. But the importance of the shift stems, in part, from its being a symptom of a larger trend: the reduction in the earlier dominance, indeed the virtual monopoly, of the industrial economies since the Second World War.

As such, its importance lies, in part, because of the rise of the BRICs themselves, but also, in part, because of the successful emergence of other countries that were previously part of the developing world—not only the East Asians, but also Chile, Mexico, Turkey, and more.

Moreover, as I shall emphasize later, it was certainly not predictable—or at least any prediction of the rise of the BRICs was not noticed in the mainstream, even as an outside possibility. And there is a lesson in that: there are likely, indeed almost certainly, other countries that may emerge and grow rapidly in the next several decades. Predicting *which* countries they will be is impossible, but certainly Indonesia, Nigeria, Pakistan, and the Philippines are possible candidates. As I shall note later, it was not the earlier, most successful of developing countries that succeeded in changing in ways that permitted rapid growth.

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Because of this, and because most of the BRICs learned from earlier successful emerging markets, I will start with a bit of economic history regarding the world economy after the Second World War. I'll then take a few moments to outline the current status of the four BRICs, and provide a brief contrast between them.

That background provides a basis for an evaluation of the current status of the BRICs and their prospects, to which I then turn. Finally, I shall focus on the key policy issues for the United States and the industrial countries that arise because of the emergence of the BRICs and other previously poor economies.

I. A BRIEF ECONOMIC HISTORY

At the end of the Second World War, the United States emerged as the predominant global economic power. While the United States accounted for only 40 or so percent of world GDP, much of the remaining 60 percent went for basic subsistence in the war-devastated countries and the third world.

To its great credit, the United States used its power to support reconstruction efforts in Western Europe and Japan, and to foster international economic institutions which, it was hoped, would enable an open international economic system to support growth throughout the world. The United States assumed a leadership role in postwar planning, especially with regard to the political and economic institutions designed to prevent a recurrence of the Great Depression, and of conflict between nations. Both through the International Monetary Fund, the World Bank, and the GATT (which became the World Trade Organization), and through its bilateral efforts, Americans supported postwar reconstruction—especially through the Marshall Plan—and foreign aid to assist in fostering rising living standards and economic growth in third world countries.

For Western Europe and Japan, the results of economic reconstruction efforts and the liberalization of trade were almost immediate and remarkable. By the late 1950s, these economies had not only exceeded their prewar levels of output, but they were growing rapidly. Tariff levels on manufactures were already significantly reduced and the European Common Market formed. It is now forgotten that the German *wirtschaftswunder*, or "economic miracle," surprised the world, and that living standards rose rapidly throughout Western Europe, and even more so in Japan, even after prewar levels had been overtaken. For a quarter century, the world economy, led by the industrial countries, grew at a rate unprecedented in human history.

During that time, all became accustomed to thinking of the world economy in three parts: the industrial countries (of which the United States was still preeminent), the developing (earlier called underdeveloped) countries, and the centrally planned economies that had effectively delinked from the rest of the world.

Most of the developing countries were growing in fits and starts, having put in place policies that they hoped would protect them from competition from the industrial countries, as a means of inducing economic development. Although the intent was to accelerate economic growth and raise living standards, the outcome led to stop-start growth under regimes, which resulted in shortages of foreign exchange at an overvalued exchange rate and slowing growth over the course of successive stop-start cycles. At the end of the golden quarter century, it seemed unrealistic to anticipate that developing countries' economic performance would improve. Although their growth rates were above those they had experienced prior to the Second World War, they were generally no faster than those of the industrial countries. Moreover, population growth rates were high—2 or 3 percent, or even more—and per capita income growth was consequently slow.

All of the industrial countries were growing at sustained rates higher than ever in world economic history, with Japan growing at the fastest rate. In the 1950s, economic development textbooks classified countries as developed or underdeveloped (as the term then was), and often noted that Japan was halfway in between. The country experienced growth rates of around 8 to 9 percent from 1959 to the 1970s, by which time there was no doubt as to Japan's status.

But largely unnoticed by industrial countries' businessmen and policy makers, a few relatively small developing countries shifted policies. The first group to do so, and one that attracted great attention subsequently, was the East Asian Tigers (as they were then called)—Hong Kong, Singapore, South Korea, and Taiwan. These four economies became outer-oriented, shedding most of their protection for domestic industries, and shifting to reliance upon what came to be called, export-led growth.

Starting from an incredibly low base, all four economies experienced unheard-of rates of economic growth and poverty reduction. At first, most observers believed these high growth rates to be a short-run, unsustainable phenomenon, but as time passed, and growth persisted, or even accelerated, it came to be recognized that these four were achieving long-lasting results.

It is worth pointing out that South Korea, probably the most successful of the four (although the Taiwanese would argue with that), was one of the poorest countries in Asia, and the world, in the 1950s. The country had followed the same inner-oriented policies as other developing countries and, despite the devastation of the Korean War (and the aftermath of hyperinflation in the late 1940s); annual growth rates did not even average 5 percent, with population growth of over 2 percent. South Korea's per capita income in 1960 was estimated to be about the same as that of Ghana, and below that of a number of Sub-Saharan countries.[1] The

1. It is worth noting that South Korea's per capita income is estimated to have been $25,010 in 2011, contrasted with Ghana's $1,600 estimated per capita income for 2011.

country had the highest rate of inflation in the world, multiple exchange rates, a huge fiscal deficit, and much more. Most observers viewed the prospects for growth of the South Korean economy as dismal—with the U.S. Congress even passing a resolution stating that there was no hope for growth and that there should be foreign aid to support consumption levels only.

Taiwan had also opened up the economy in the mid-1950s, and the two both began growing rapidly after their policy shifts. The move toward an outer-oriented trade strategy in both cases was accompanied and supported by a number of other key policy reforms, including fiscal consolidation with sharply reduced inflation; infrastructure and educational investments; and greatly reduced protection for import-competing producers.

For South Korea and Taiwan, as well as Singapore and Hong Kong, the subsequent period until the second half of the 1990s witnessed an economic transformation that had previously been regarded as unthinkable. Economists in the 1960s thought that 6 to 7 percent was the highest possible sustainable rate of economic growth for a poor developing country, yet all four economies exceeded that range with double-digit growth rates in the first part of the period. To give an idea of the orders of magnitude, South Korea is estimated to have realized an annual 8 percent growth rate of real wages from 1964 to 1995; exports grew at an average annual rate of over 40 percent for several decades (during which world prices were fairly stable), so that they rose from about 3 percent of South Korean GDP in 1960 to around 40 percent by the late 1980s (and was last year the 8th largest exporting nation globally). Domestic savings rose from approximately 0 percent in 1960 to about 37 percent by the late 1980s. And there was much else, including rising educational attainments and a sharp drop in the rate of growth of population. The achievements were similar in the other three Asian Tigers.

As the success of the East Asian Tigers became increasingly evident, policy-makers in other countries began altering their development strategies. Some adopted the sorts of policies undertaken in the Asian Tigers wholeheartedly, while many others at least reduced their trade barriers and moderated other economic policies that were deleterious to growth.

The four East Asian Tigers are now regarded as industrial economies. But for purposes of understanding the BRICs and the shift in the global economy, two other points are crucial. First, that the four East Asian Tigers would be the first to shift toward an open economy, for a successful development strategy was not predicted. Many observers credited India with the greatest chances of success, and regarded Brazil's and the Philippines' prospects as relatively bright. Indeed, the four were each seen to have significant problems: the size of the two city-states, Taiwan's diplomatic isolation, and South Korea's poverty. Hence, my initial statement that one cannot predict which countries will get it right and adopt policies successfully leading to rapid increases in income and reductions in poverty.

The second point is that it was the success of the four East Asian Tigers that induced others to try the same policy mix. Although I shall focus on the growth of the BRICs, it should be noted that a number of other countries, such as Chile, Mexico, and Turkey, have also been successful in accelerating their growth and increasing their participation in the international economy.

The BRICs are the largest of them. China abandoned her policies of economic isolation in the early 1980s; India began her economic reforms in 1991 in response to a crisis. Of course, the fate of the Soviet Union stemmed largely from the failure of central planning, giving yet further impetus to the policy shifts in other countries. Russia's growth has again hinged on policy reforms, although the oil and natural gas sector has been very important. Brazil's emergence was somewhat different, in that there was a period of rapid growth in the 1950s, another one in the late 1960s and early 1970s, with more sustained growth since 2002.

Despite the fact that Chinese exports began rising rapidly after that country's policy reforms, which started in the early 1980s, China's participation in the international economy had been so small that high growth from that small base did not constitute a major shift in the global economic structure until around the turn of the century. India's policy reforms came almost a decade later, so that India, like China, still had a relatively small share of world trade until very recent years. Indeed, Brazil, China, and India together accounted for only 3.29 percent of world exports in 1990, and 5.45 percent in 2000—contrasted with 4.52 percent in 1960 (they had lost share in between). By 2010, the same three accounted for 13.3 percent of world exports (I leave Russia out because there are no data available from the IMF for 1990 and before, and Russia's share was only 2.6 percent in 2010, mostly oil and gas).

Thus, until the last decade, the success of the emerging markets that had adopted more realistic growth strategies was an important phenomenon from the viewpoint of their people's welfare. But this did not constitute a very significant shift in the structure of the global economy.

But the past decade marked a watershed. Not only had the BRICs become important, but other emerging markets—the East Asian Tigers, Mexico, Turkey, Chile, and others—had also altered policies and become more important participants in the international economy. As late as 1970, all developing countries accounted for only 25 percent of world exports; by 2010, their exports were 39 percent of the world total, up from 25.4 percent only ten years earlier—a huge shift!

II. WHERE THE BRICS ARE NOW[2]

At the present time, four of the emerging markets with the largest populations and real GDPs have become important players in the international economy. Per capita incomes of Brazil, Russia, India, and China on latest estimates were respectively $12,850 ($12,500 at PPP), $13,650 ($17,750 at PPP), $1,940 ($4,170 at PPP), and $6,120 ($9,280 at PPP). These compare with an estimate for the U.S. per capita income of $49,340 (and the same at PPP).

These numbers alone testify to the great variation in the situations and relative weight of the BRICs. Total GDPs in 2010 are estimated to have been: Brazil, $2.1 trillion; Russia, $1.5 trillion; India, $1.7 trillion; and China, $5.9 trillion (compared to the U.S. GDP of $14.6 trillion, and $5.5 trillion for Japan). Even including China, the real GDP of the four does not equal that of the United States. Except for China, their GDPs are below those of the larger countries in the European Union (France's GDP is $2.6 trillion).[3]

While it can be argued that at PPP the relative weight of the BRICs is somewhat larger, one can question whether PPP is a relevant measure when estimating economic size relative to the rest of the world. But either way, the notable aspects of the BRIC economies are that

- all of them have grown rapidly;
- their share of world trade has grown very rapidly;
- all started as relatively poor countries, but especially India and China; and
- none has per capita incomes even close to those of the industrial countries.

While the industrial countries have experienced a reduced relative importance, the BRICs still have a long way to go to reach industrial country status. And each has a number of challenges to meet along the away, although they differ among themselves.

Brazil had a much higher per capita income than the other BRICs thirty or forty years ago, and has the second highest per capita income of the four behind Russia. It has also had the slowest growth of the four in recent years, and its relatively more rapid growth only started in about 2005. It would appear to be challenged even to maintain a 4 to 5 percent growth rate in coming years (growth in 2012 is estimated to have been 3.5 percent, and even that resulted in, or was accompanied by, some overheating). In addition, the government has, in recent months, been undertaking policies that would appear detrimental to growth prospects over the long-run. At least as a partial offset, the discovery of oil offshore may lead to a significant windfall in income and significant policy challenges to manage it successfully.

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2. Economist Intelligence Unit, *The World in Figures Countries*, ECONOMIST, 2011.
3. Gross Domestic Product 2010, World Bank, http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf (last visited Jan. 19, 2013).

Russia has the highest per capita income of the group, and experienced fairly high growth until the recent recession. In Russia's case, however, the heavy dependence on natural resources, and especially on gas and oil, leaves the economy challenged to provide economically efficient incentives for the development of non-natural resource activities. Russia's human capital is very good, and with appropriate policies growth could accelerate, but in the short to medium-term, the prices of Russia's major commodity exports will be a significant determinant of economic growth. Russia is also confronted with a demographic challenge: population has fallen in recent years, and it is not clear whether, and how, that can be reversed.

So the two of the BRICs with the highest per capita incomes also face the biggest challenges in maintaining or accelerating economic growth. India, with the lowest per capita income of the group, has grown more rapidly than almost any other sizeable country, except China, in the past decade. Most economists agree that attaining better fiscal balance, developing infrastructure, increasing flexibility in the labor market, and further removing the heavy hand of bureaucracy from economic activity, will be needed to maintain the rate of acceleration of economic growth. In the short-run, prospects for these needed reforms do not appear promising, especially as the government is mired in political challenges that will probably stalemate reform.

India may potentially have a demographic dividend over the next several decades, as her labor force will grow significantly more rapidly than the total population. But to benefit from that, major labor market reforms will be needed. India still has a very large population of very poor people. Despite success to date, the need for rapid growth of a kind that enables improvement in the living standards of the poor is urgent.

China, the largest of the four BRICs by far, had the highest growth rate of the group throughout the last decade. Its track record over the past three decades is impressive because the authorities have been able to find appropriate policy responses to all of the challenges that they have been confronted with, given such rapid change. The leadership appears to accept that growth must slow down somewhat, with a stated target for 2012 of 8.5 percent. If that were achieved, China would continue to be the most rapidly growing BRIC nation. But questions arise as to inflationary pressure, the sustainability of the export drive, environmental sustainability, and more.

Moreover, China has relied on export-led growth for the past three decades. Domestic consumption is around 35 percent of GDP, and there is considerable evidence that there is wasteful government investment as efforts have been made to maintain the growth rate. The Chinese authorities clearly recognize that they must undertake policies that will result in an increase in domestic demand and raise its contribution to growth. Doing so is clearly a priority for them, but also presents a number of challenges. Going forward, China also faces a demographic challenge similar to that in the industrial countries. The legacy of the one-child policy is that new entrants to the labor force are already falling, and there is not a demographic dividend, which India can potentially use to good effect.

Although the BRICs have been very successful to date, each faces a number of challenges going forward. For Russia, the key challenge lies in removing the legacy of the Soviet era, and finding ways to improve the business climate for nontraditional activities. For Brazil, financial liberalization and reducing government intervention will be a key. For India, finding the political will to carry out major reforms in the bureaucracy and the rule of law to accelerate infrastructure development and reform labor market regulations (to enable more rapid employment growth), constitutes a significant challenge. The Chinese are confronted with the need to prevent further overheating of the economy while simultaneously shifting reliance for growth from exporting to domestic demand.

III. IMPLICATIONS FOR THE INTERNATIONAL ECONOMY

The rise of the BRICs and other emerging markets has raised a number of issues for the world economy. Many of them are issues that would have arisen regardless of which country, or group of countries, was growing rapidly and increasing its share of world GDP and trade.

There is nothing that guarantees that the BRICs will continue their rapid growth, and that needs to be kept in mind. All face challenges, and all are still relatively poor when contrasted with middle income countries. Several countries have grown to middle income status, only to experience a slowdown in growth and become stuck in that status. All four BRICs need to alter some of their economic policies if growth is to continue successfully.

For several reasons the industrial countries need to be supportive of growth efforts. On one hand, those reformers seeking to sustain growth rates need support, and sustaining growth rates is certainly in the industrial countries' interests. On the other hand, the BRICs remain poor cousins, and those concerned with poverty alleviation need to recognize that success to date has lifted many out of extreme poverty in India and China, but that there is still a long way to go.

Moreover, the self-perceptions of the BRICs remain that they are weak relative to industrial countries. Ironically, the BRICs have not even recognized the extent to which their influence in international fora has increased. On the other hand, the industrial countries tend to overestimate the extent to which the BRICs have succeeded.

A more realistic assessment by BRICs and industrial countries alike, as to the magnitude of the changes that have taken place, would probably improve understanding on both sides.

From their changed status—and potential future changes—two sets of challenges arise for policy makers in the rest of the world. The first concerns the international organizations and their role and governance. The second focuses on economic policy.

Turning first to international organizations, the intent from the 1940s was that voting shares should be approximately equal to economic weight.[4] But with the rapid growth of the emerging markets, and especially of the BRICs countries, the shifting of voting shares has fallen behind the economic realities despite slow moves in the appropriate direction. Finding means to enable the governance structure of the institutions to more closely reflect that economic reality is a challenge, both because the countries most overrepresented (mostly European) are reluctant to accept reduction in their shares (and seats on the Executive Board), and because finding a formula that will satisfy most parties is exceptionally difficult. It must also be said that the BRICs, and other emerging markets, need to recognize their interest in the system as a whole to a greater extent than they have heretofore—when they regarded themselves as lacking influence and essentially were free riders on global economic growth.

But in addition to governance, the international economic organizations are assuming increased importance in the international economy as the relative weight of the industrial countries (and in particular the G-7) diminishes. It is all too easy for the industrial countries to assume that they can continue to dominate decisions, as they did in earlier times. But in those times, the industrial countries represented a very high share of what mattered in the international economy, as I showed earlier. As more countries develop, reaching consensus among a small group, such as the G-7, will be increasingly unsatisfactory and prove ineffective as a means of addressing global economic problems. When a group such as the G-7 cannot lead, more will have to be done through the IFIs.

A second major implication concerns international trade. As I mentioned earlier, the increased openness of the international trading system was a key factor in the growth of the international economy, but also was crucial in permitting poor countries to alter their economic policies to achieve rapid growth.

Over the past decade, support for the World Trade Organization (WTO) appears to have diminished, and the Doha Round of multilateral trade negotiations has languished. That has happened despite the fact that faster and cheaper modes of transport and communications have opened, increasing possibilities for gains from trade, especially in services. But failure to complete the Doha Round has led to a paralysis of multilateral decision-making on trade issues.

As the BRICs and/or others increase in importance, the need for an effective multilateral decision-making body, such as the WTO, will increase. Yet policy in most industrial countries seems to have turned away from the WTO, whether because of protectionist pressures or because of frustration at the failure to conclude the round. The rise of the BRICs

4. It seems to be forgotten that in the 1940s, at the IMF and the World Bank, the United States and the United Kingdom held more than half the voting power between them. Today the U.S. share is down to 17 percent.

and other emerging markets makes the WTO, like the IMF and World Bank, more important, not less so.

The industrial countries must also recognize the increased importance of the emerging markets. A key and sensitive issue here is the confrontation, or near-confrontation, between the United States and China over the Chinese exchange rate. Both sides agree that there are imbalances that should be corrected. The Chinese solution, not surprisingly, is to say that the United States should save more and spend less. The U.S. solution is, of course, that China should permit its currency to float and encourage increased domestic consumption.

Obviously the solution (unless fortuitously things happen to go right) is for Chinese measures to increase domestic demand, and American measures to increase domestic savings. Indeed, one could even argue that it behooves the industrial country, in this case the United States, to increase its savings rate in its own self-interest, regardless of what happens in the rest of the world. Finger pointing at China is both counterproductive and ineffective; raising U.S. savings would, in any event, be in the U.S. self-interest. Solving that particular problem would go a fair distance to easing the tensions that naturally arise when a rapidly growing economy is increasing its share in the international economy.

With these key issues, and many subsidiary ones, there still remain questions. A first is whether growth will be sustained in the BRICs and other rapidly growing emerging economies. After all, Argentina is thought to have been the richest country in the world, or close to it, in 1900. Its economy faltered after that. Myanmar is estimated to have had the third highest living standards in Asia in the early postwar period, and is now one of the poorest countries.

Even for very successful economies, there is no guarantee that growth will be sustained. Growth always presents challenges that must be, more or less, satisfactorily addressed if growth is to be continued at satisfactory rates. That is true for industrial countries, as well as for emerging markets, and of countries that still have not begun to make rapid progress.

But the BRICs and other emerging markets have done very well so far. And they have overcome challenges that would have resulted in growth-reducing policies in many other countries. It is hoped that they will persist. They are important because of their size; their living standards are important because we, as a people, abhor poverty; and their growth can prove an important boost to the entire international economy.