

## Globalisation and Emerging Economies

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### Introduction

The number of people living in high growth economies or in countries with per capita incomes at OECD levels has increased fourfold over the last 30 years – from 1 billion to 4 billion, according to the Growth Commission. The rapid integration into world markets by six of the largest non-OECD economies (Brazil, Russia, India, Indonesia, China and South Africa, together known as the BRIICS) was an important component of globalisation during the past two decades. Economic incentives across world markets, and in the BRIICS in particular, have been aligned more closely with countries' and businesses' genuine strengths. Entrepreneurs gained from access to larger potential markets for their products and consumers gained from access to a wider variety of less expensive products.

The mutually beneficial economic relationships between the OECD and the BRIICS and other countries now need further nurturing, perhaps more so than at any other time since World War II. While there has been significant trade liberalisation, major trade and behind-the-border policy challenges persist and hinder growth. Unfinished business includes reform of regulations that unduly impede trade in merchandise and services. Such reform is technically and administratively difficult, and will take time to implement.

More immediately, some observers have prematurely attributed the current economic crisis to a failure of markets and free trade. This notion has led to an anti-market backlash and calls for protectionism. However, history teaches us that times of crisis are also times of opportunities. Efforts to resist protectionism and pursue timely and appropriate policy reforms may help the BRIICS, and the world economy, to emerge from the crisis with stronger trade positions and more robust performance than would otherwise have been possible.

This *Policy Brief* highlights key findings from the OECD publication *Globalisation and Emerging Economies*, providing insights into the trade performance and structural policies, particularly trade and trade-related policies, in the BRIICS. ■

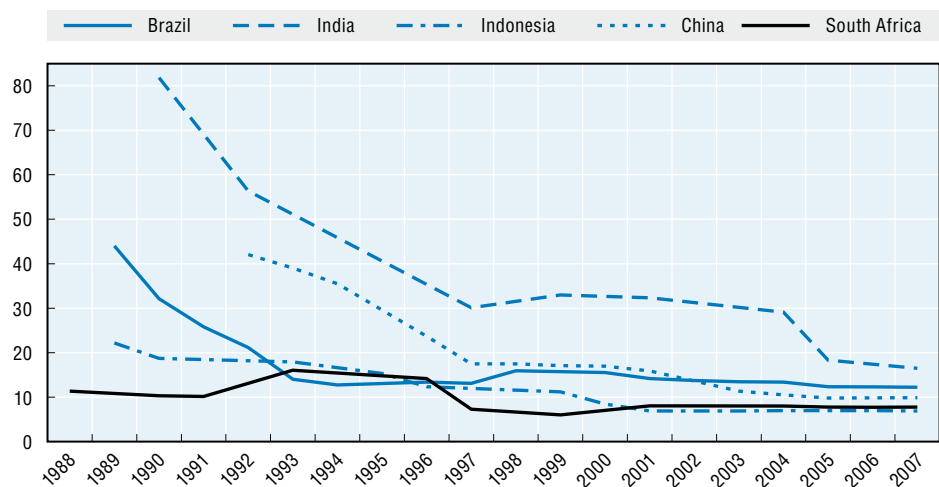
**How open are these economies?**

In recent decades, all of the BRIICS have opened their economies significantly and improved their connectedness to world trade networks. The substantial reduction of trade barriers at the border can be seen, for example, in the decline of the average applied tariffs on non-agricultural products, though the pace varied across these countries (Figure 1). Dispersion of tariffs also fell, contributing to a further reduction in economic distortion.

Brazil started off with high walls of protection as part of import-substituting policies that lasted for half a century. These were reduced significantly in the late 1980s and mid-1990s. Tariffs in Indonesia and South Africa were generally lower than those in other BRIICS during this period, but these countries also moved to reduce their tariffs considerably in the mid- to late-1990s as a result of unilateral liberalisation efforts and commitments agreed at the Uruguay Round of trade talks. China entered the 1990s with relatively high import tariffs, although certain specially designated economic zones already enjoyed a more liberal regime dating from the late 1970s; but these were more than halved in the early 1990s and then reduced further with China's accession to the WTO in 2001. India had the highest tariffs among the BRIICS in the late 1980s, but implemented ambitious tariff cuts in the 1990s and 2000s – greater than those in the OECD area during the Uruguay Round of trade negotiations. OECD analysis of trade and growth patterns in the BRIICS indicates that those countries and sectors that have opened the most enjoyed the largest growth spurts.

Openness and trade performance are harder to assess in the area of services. Nevertheless, a range of indicators suggests that several BRIICS have capitalised on opportunities offered by world services markets, though liberalisation in this area has been arguably more selective and the effects

**Figure 1.**  
**AVERAGE APPLIED IMPORT TARIFFS ON NON-AGRICULTURAL PRODUCTS**



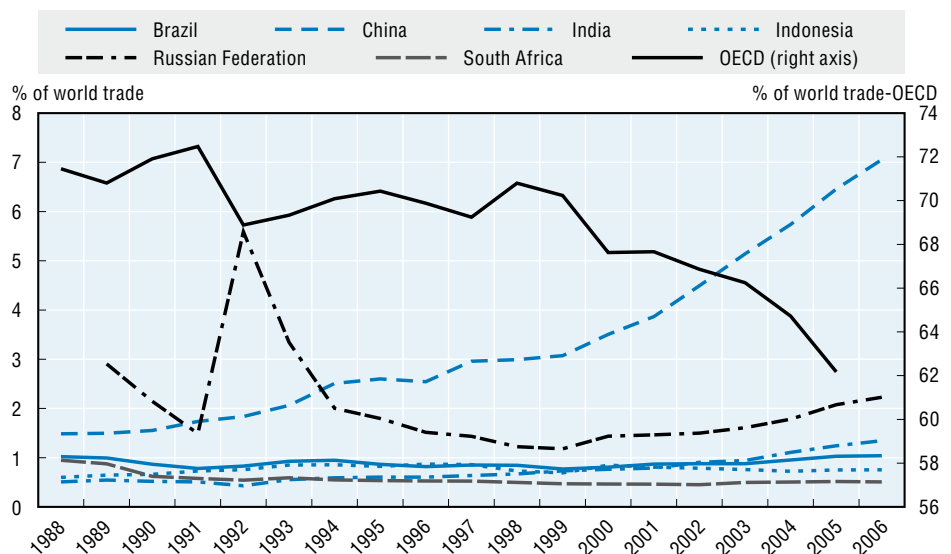
Source: UN TRAINS (2008).

are more varied. For example, openness to foreign direct investment in manufacturing sectors has played an important role in China’s trade and growth, while trade in insurance and financial services has been relatively restricted. The situation has been improving gradually over recent years with the implementation of China’s WTO accession commitments. India’s recent impressive growth relied appreciably on the emergence of efficient international service providers, especially in the IT sector, but this sector was relatively young and thus unregulated. Trade and output in more regulated services sectors did not grow as fast. In Russia, there is a large potential for gains from services trade, particularly if it eventually accedes to the WTO and implements the associated commitments. Brazil has revealed a comparative advantage in services relative to China and Russia, but its services sector is not as specialised as India’s and it lags behind the average world performance. Indonesia’s services exports are on the rise, but the share of services in that country’s exports is falling despite pockets of strong revealed comparative advantage in sectors such as communications and construction. ■

**How significant is their trade performance?**

Overall, the BRIICS have become more integrated with world intermediate inputs, final goods and services markets, as underscored by their growing shares in world trade (Figure 2), trade-to-GDP ratios and shares of exported value added. There are similar developments across a wide range of other countries around the world. If global and third-country influences are separated from factors specific to each of the BRIICS, such as trade or domestic reforms, it becomes clear that over the last two decades the BRIICS have been expanding their exports much faster than the leading developed countries. This distinguishes them from OECD and many other countries. While China’s strong performance is in line with public

**Figure 2.**  
**OECD AND BRIICS: SHARE IN WORLD EXPORTS OF GOODS AND SERVICES**



Source: WDI (2009).

perceptions, countries like India, South Africa, Indonesia and Russia have been performing equally well or better.

The BRIICS have also grown in importance in world trade. Certain measures of trade connectedness suggest that China, India, and Russia are at same level of importance as the highest income OECD countries. Brazil and South Africa are close behind, while Indonesia remains on the periphery. More generally, the analysis suggests that globalisation has not led to the polarisation and marginalisation of less well-connected countries. On the contrary, the world trade network has become more multilateral. This means that some BRIICS economies could play increasingly valuable roles in international trade organisations like the WTO. ■

### Can this performance continue?

While closer integration with world markets over the last two decades served the BRIICS well, several challenges remain. Although each economy differs in the specifics of its situation, certain challenges are shared across all the BRIICS, as well as with OECD countries.

Generally, progress in opening markets has been achieved mostly through reductions in applied-border measures, or so-called “first-generation” reforms. These reforms are easier to implement than “second-generation” reforms that tackle cumbersome domestic, but trade-related, regulations. This is the case in Brazil, where domestic regulatory barriers are now a much bigger obstacle to trade and foreign direct investment than classic border barriers. India reduced its border measures dramatically, but it struggles with a set of regulations and product and labour market policies that prevent the realisation of economies of scale and improvements in productivity. Labour market rigidities and regulatory differences across Indian states hinder inter-state and inter-sector mobility of resources and thus impede trade. China, too, has reduced its border barriers on manufacturing trade, but behind-the-border barriers remain and grow in importance. Regulatory barriers on internal trade prevent the mobility of resources within China. In fact, “second-generation” reforms, including those on services regulation, regulation of food-safety and technical standards, intellectual-property protection, public procurement, customs administration and competition rules have been identified as a key challenge in all the BRIICS countries.

Brazil, Indonesia and South Africa all should revive trade reforms that have stalled. In Brazil, there was virtually no trade liberalisation in the years since tariff reductions were introduced in the late 1980s and mid-1990s. In Indonesia, the trade liberalisation measures associated with the IMF rescue package that followed the Asian Financial Crisis in 1997-98 have not been reversed, but there has been creeping protectionism in agriculture, textiles and steel, mainly through non-tariff barriers. In South Africa, trade protection began to decline in the early 1990s and the process was reinforced by strong Uruguay Round commitments and by a burst of unilateral and regional liberalisation. However, external liberalisation has stalled since the late 1990s and scepticism about liberalisation has set in. ■

**What next:  
Protectionism  
or further  
liberalisation?**

The world economy has entered a period of financial turmoil and a general downturn of a magnitude not experienced in the OECD area for decades. While the consequences of the crisis are not yet fully known, data and projections available at the beginning of 2009 suggest that the BRIICS were also affected, notably by more difficult international credit conditions and weaker demand from OECD countries. At times, the crisis has been blamed on a failure of markets and free trade; as a result, anti-market sentiment and calls for protectionist policies are growing.

Indeed, calls for higher tariffs and more restrictive behind-the-border regulations have intensified. Litigation in the WTO has been on the rise. It is clear that OECD and BRIICS countries will have to absorb and apply lessons learned about the supervision of financial and other markets in the aftermath of the crisis. Complementary measures across a range of economic policies may be required.

But protectionism is not a policy option that makes economic sense, as the experiences of the BRIICS clearly show. Instead, the immediate and paramount lesson is to resist protectionism and to pursue appropriate policy reforms. These include reducing remaining tariff barriers; implementing trade-related regulatory reforms; opening up service sectors; and lowering undue safety, technical and harmonisation standards. Such reforms would likely strengthen the BRIICS economies to the extent that they could emerge from the crisis with improved trade positions and more robust performance than would otherwise have been possible.

Further liberalisation can proceed on a unilateral, regional or multilateral basis. In the past, the BRIICS have relied mostly on unilateral liberalisation to open their economies to the world (see Box 1). But unilateral

**Box 1.  
HOW DID THE BRIICS  
LIBERALISE THEIR TRADE?**

	Unilateral liberalisation	Multilateral liberalisation	Regional/bilateral liberalisation	Role of donors/policy conditionality
<b>Brazil</b>	Strong during 1988/89 to 1994. Little thereafter	Weak. But very active in WTO	Weak. Very active with trade-light preferential trade agreements	Weak
<b>India</b>	Incremental since 1991	Weak. But very active in WTO	Same as above	Weak, except IMF package 1991
<b>China</b>	Strong (1990s)	Very strong WTO commitments. Active in WTO, but low-key in DDA	Same as above	Weak
<b>Indonesia</b>	Strong (mid 1980s-early 1990s)	Weak. Defensive in DDA	Weak. Mainly ASEAN FTAs. Relatively trade-light PTAs	Mixed. Japanese aid in 1980s, IMF package 1998
<b>South Africa</b>	Rand crisis 1996. Little thereafter	Strong Uruguay Round commitments. Defensive in DDA since Cancun	Weak. Very active with PTAs. Trade-light preferential trade agreements	Weak
<b>Russian Federation</b>	Stops and starts in 1990s. Weak since 2003/4. Some reform reversal	Not yet acceded to WTO	Trade-light preferential trade agreements in CIS	IMF packages in 1990s

Note: DDA = the World Trade Organisation's Doha Development Agenda.

Source: Razeen Sally in Chapter 4 of *Globalisation and Emerging Economies*, OECD (2008).

liberalisation has stalled or slowed down; and Russia has experienced partial reform reversal. In some BRIICS, trade negotiations have become more effective than unilateral measures because they are reciprocal and broad based and have provided a framework of multilateral trade rules for unilateral reforms. Nevertheless, in practice, GATT/WTO commitments have contributed little to liberalisation in the BRIICS, except in South Africa and China. As is true of many OECD countries, the BRIICS have been engaging in preferential trading agreements, but there is some concern that these accords are driven more by foreign policy than commercial strategy. These arrangements may create complications for business and for the development of multilateral rules, and it is unclear whether they are likely to spur regional or global integration.

Estimates of the gains arising from different approaches to liberalisation involving the BRIICS suggest that each of the BRIICS economies would gain a great deal more from multilateral free trade than they would from extensive preferential trade agreements, even agreements with large trading blocs like the EU, US and Japan. These estimates tend to exaggerate the benefits of preferential trade agreements, because the empirical analysis does not account for likely losses from the complex mix of non-standard rules and other agreements associated with the fragmented negotiation process. Unilateral trade policy liberalisation turns out to be far more valuable for the BRIICS economies than preferential trade agreements, and almost as valuable as multilateral free trade. ■

### Is there a shared agenda with OECD countries?

Despite the still stark differences in their levels of economic and institutional development, the BRIICS and OECD countries share an interest in co-operation. Commercial policy is one area that would benefit greatly from co-operation.

The OECD and the BRIICS also share a similar set of policy challenges. While there has been impressive first-generation trade liberalisation, albeit much later in the BRIICS, significant behind-the-border liberalisation challenges remain. Compared to the first generation reforms, there is little consensus on how to implement these more difficult reforms and thus great scope for discussion and exchange of experiences. Also, the individual BRIICS countries and some members of the OECD face similar strategic decisions on how to pursue a multi-track trade policy, particularly given the difficulty of implementing further reforms.

The economic re-emergence of the BRIICS means that some of the most important economies in the world are not members of the OECD, a further reason for the OECD to work with important non-members to help ensure that multilateral programmes continue to play a central role in the global economy. The OECD's Accession and Enhanced Engagement initiatives are a good starting point. ■

### **For further information**

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**For further reading**

OECD (2008), **Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa**, ISBN 978-92-64-04480-7, € 60, 454 pages.

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