Growth and Sustainability in Brazil, China, India, Indonesia and South Africa

Edited by Luiz de Mello

A Browse_it Edition • Lecture seule •
An OECD Read Only

OECD

An OECD Browse_it Edition • Lecture seule •

Read Only

About OECD Browse_it editions

In a traditional bookshop you can browse the display copies from cover-to-cover, free of charge. Wouldn't it be good to be able to do the same online? Now you can. OECD's Browse_it editions allow you to browse our books, online, from cover-to-cover. But, just as in a real bookshop where you can't take or copy pages from the books on display, we've disabled the print and copy functions in our Browse-it editions - they're read-only. And, just as in a real bookshop, you may choose to buy or borrow from a library some titles you've browsed, so we hope you'll buy or borrow our books when they meet your needs. Tell us what you think about our Browse-it service, write to us at sales@oecd.org.

Buying OECD Publications

You can purchase OECD books and e-books from our Online Bookshop - www.oecd.org/bookshop where, if you purchase printed editions you can download the e-book edition free of charge. Our books are also available from a network of distributors, click the 'Distributors' button on this website: www.oecd.org/publications/distributors to find your nearest OECD publications stockist.

OECD Publications in Libraries

You'll find OECD publications in many institutional libraries around the world, especially at universities and in government libraries. Many subscribe to the OECD's own e-library, SourceOECD. SourceOECD provides online acess to our books, periodicals and statistical databases. If your institutional library does not yet subscribe to SourceOECD, tell your librarian about our free three-month trial offer. For more details about SourceOECD visit http://new.SourceOECD.org or email sourceoecd@oecd.org.OECDhasanetworkofDepositoryLibrariesineachMembercountrywhereallOECDprintedpublicationsareavailableforconsultation-www.oecd.org/deposoitorylibraries for a list.

Growth and Sustainability in Brazil, China, India, Indonesia and South Africa

OECD Browse_it Edition • Read Only • Lecture seule

Edited by Luiz de Mello

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

OECD Browse it Edition • Lecture seule • Read Only

ISBN 978-92-64-09019-4 (print)
ISBN 978-92-64-09020-0 (PDF)

Corrigenda to OECD publications may be found on line at: *www.oecd.org/publishing/corrigenda*.

© OECD 2010

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to *rights@oecd.org*. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at *info@copyright.com*
français d'exploitation du droit de copie (CFC) at *contact@cfcopies.com*.

An OECD Browse_it Edition • Read Only • Lecture seule

Contributors

Eliana Cardoso is Chief Economist for the Asia Region at the World Bank, Washington, D.C., and is currently on leave from the School of Economics of São Paulo, Getúlio Vargas Foundation (EESP-FGV), where she is Professor of Economics.

M. Chatib Basri is Research Associate at the LPEM-FEUI, University of Indonesia, Jakarta.

Johannes Fedderke is Professor at Pennsylvania State University, the University of the Witwatersrand, and Director, Economic Research Southern Africa.Professor, University of Cape Town, Cape Town.

Vladimir Kuhl Teles is Associate Professor of Economics at the School of Economics of São Paulo, Getúlio Vargas Foundation (EESP-FGV).

Rajeev Malhotra is Economic Adviser, currently on a sabbatical leave from the Ministry of Finance, Government of India, and is associated with the Research and Information System for Developing Countries, New Delhi

Sjamsu Rahardja is Economist at the World Bank, Jakarta.

Arvind Virmani is Executive Director at the International Monetary Fund, Washington, D.C., and is a former Chief Economic Adviser, Ministry of Finance, Government of India, New Delhi.

Xiaolu Wang is Deputy Director of the National Economic Research Institute (NERI), China Reform Foundation, Shanghai.

Thanks are due to Anne Legendre, Penny Elghadab and Mee-Lan Frank for statistical and technical assistance.

Barbara Inglis contributed to the editorial work.

An OECD Browse_it Edition • Lecture seule •
Read Only

An OECD Browse_it Edition • Read Only • Lecture seule

Foreword

Sustained growth in Brazil, China, India, Indonesia and South Africa will be critical for the global economy in the coming decades. This volume, based on the proceedings of a conference organised by the Economics Department of the OECD on 24 September 2009, analyses growth performance in these five emerging-market economies and the prospects for sustaining strong growth over the longer term.

Drawing on contributions from distinguished policymakers and scholars, the volume discusses the specific drivers of growth in each of the five countries with which the OECD has had a programme of Enhanced Engagement since May 2007. Although a number of commonalities can be identified, different aspects of the growth process in each individual country are brought to the fore. They include a reduction of external vulnerability in Brazil, the contribution of human and physical capital accumulation to growth in China and Indonesia, initiatives to promote infrastructure and social development in India and financial deepening in South Africa.

While recognising that country-specific policy settings, preferences and needs should be taken into account, the policy considerations highlighted in this volume emphasise a number of common challenges for all five countries, including a need for further structural reform in areas ranging from product market regulations to social policies. Such reforms could help lift productivity growth in a durable manner and ensure that the benefits of strong growth can be shared more equitably. In some cases, policy action would also be necessary to rebalance growth towards domestic sources in countries where net exports have been an important driver of growth.

A better understanding of the experiences of Brazil, China, India, Indonesia and South Africa can enrich the debate on the policy levers that can be used to sustain strong growth in emerging-market economies in the years to come. This volume provides a very valuable contribution in this regard.

Angel Gurría
Secretary-General

An OECD Browse_it Edition • Lecture seule • Read Only

An OECD Browse_it Edition • Read Only • Lecture seule

Table of contents

OECD Browse_it Edition • A Read Only • Lecture seule

Boxes

Tables

OECD Browse_it Edition • Lecture seule • Read Only

Figures

OECD Browse_it Edition • Lecture seule • For Read Only

An OECD Browse_it Edition • Read Only • Lecture seule

Executive summary

This volume focuses on different aspects of the growth process in five major emerging-market economies: Brazil, China, India, Indonesia and South Africa. There are some commonalities in these countries' growth trajectories, including a gradual strengthening of trade and financial linkages with the OECD countries and considerable resilience to the global recession, as well as differences, reflecting economic structure and social preferences.

Brazil's growth experience

Ms. Eliana Cardoso and Mr. Vladimir Kuhl Teles focus on the Brazilian growth experience from the country's discovery in 1500 to the 19th century. Using a methodology to identify structural breaks in Brazil's GDP growth rate between 1900 and 2008, the authors split the country's growth history into four periods, based on regime changes in 1918, 1967 and 1980. A growth accounting methodology is subsequently used to analyse the behaviour of productivity in the post-World War II period. The authors show that high inflation might have been a reason for a decline in productivity between 1980 and the mid-1990s. They also show that changes in the terms of trade have played a significant effect on economic growth and on fluctuations in output. Other factors (such as fiscal stimuli or easy access to foreign finance) also matter for output growth in the short run. From 2004 to 2008, improvements in the terms of trade and a reduction in government indebtedness underpinned economic growth. The authors conclude that the emergence of a new era in the 2000s will depend on continued efforts to consolidate fiscal adjustment.

The main drivers of China's growth

Mr. Gang Fan and Mr. Xiaolu Wang evaluate the main drivers of China's growth over the last 30 years based on a comprehensive econometric growth accounting exercise. They argue that, although China's growth has been predominantly input-driven, productivity gains have contributed to more than 40% of output growth in recent years. The authors

OECD Browse_it Edition • For Read Only • Lecture seule •

identify a number of policy challenges for sustaining high growth in the future, including a need to reduce social disparities and preserve the environment. They conclude that China will be able to sustain high growth through 2020 if further structural reforms are implemented.

India's renewed growth momentum

Mr. Arvind Virmani and Mr. Rajeev Malhotra discuss India's long-term growth prospects. Following structural breaks in GDP growth in 1979-80 and 2003-04, the authors contend that the Indian economy is now on a high-growth path. The chapter identifies the main drivers of strong growth, the components of aggregate demand, the sectoral composition of growth and its spatial distribution across the country's different regions. The authors also discuss India's economic policy management in the wake of the global crisis and conclude that the economy responded well to the fiscal and monetary measures taken in response to the global slowdown and that the pre-crisis growth momentum is set to be regained. However, an uncertain external environment calls for a continued focus on the domestic growth drivers. To sustain high growth over an extended period, the authors argue that it will be vital to pursue reforms to make the economy more competitive and the economic regulatory and oversight systems more efficient and sensitive to new developments, as well as delivering fiscal consolidation.

Indonesia's increased reliance on domestic demand

Mr. M. Chatib Basri and Mr. Sjamsu Rahardja discuss the effects of the global crisis on Indonesia and concluded that the country was affected less severely than regional peers. Although Indonesian exports have been hit hard by the collapse of commodity prices and falling demand for manufacturing products, GDP growth remained surprisingly buoyant during the global slowdown. The authors argue that the strength of domestic demand has been an important driver of growth during the crisis. They conclude that, given Indonesia's reliance on exports for sustaining economic growth, it is important to deepen integration within the domestic economy and to improve the country's trade competitiveness. To this end, the authors argue that Indonesia has to invest massively in both its physical and 'soft' infrastructures to reduce domestic transactions costs.

OECD Browse_it Edition • Read Only • Lecture seule •

South Africa's longer-term policy challenges

Mr. Johannes Fedderke reviews a broad literature on the drivers of growth in South Africa. He recognises that, while growth has recovered since the mid-1990s, a number of constraints continue to restrain the level and sustainability of growth, including uncertainty surrounding physical capital investment, concerns about property rights, distortions in product markets and an excessively rigid labour code. In addition, human capital, credit and R&D activity remain low, and the fiscal space for more aggressive growth-promoting public expenditure has been reduced by an expansion of welfare payments. Policy implications include a need for macroeconomic stability and for addressing economic and social infrastructure bottlenecks, as well as for pro-competition reform in product and labour markets.

An OECD Browse_it Edition • Lecture seule •
Read Only

An OECD Browse_it Edition • Read Only • Lecture seule

Summary of policy discussions

The main points

During policy discussions, all speakers underscored the economic resilience of the five countries during the global crisis. Their comparatively strong performances was attributed to appropriate macroeconomic management (Brazil), the increasing role of domestic demand as a driver of growth (China and Indonesia) and a timely implementation of stimulus measures (China and India). Speakers nevertheless noted the importance of the recovery in the OECD economies and a normalisation of global financial conditions for sustaining strong growth amongst these countries.

The speakers also discussed global "rebalancing" and the merits of increasing reliance on domestic demand as an engine of growth in the Asian countries. Discussions emphasised the main determinants of savings in the five countries and the factors explaining low savings rates in Brazil (and Latin America at large), as opposed to high savings, especially in the corporate sector, in China (and Asia more generally).

The panel discussion emphasised the role of investment and structural reform to sustain productivity growth in the different countries. Discussions also touched upon whether or not the five countries, and the emerging-market economies more generally, could support global growth in the future and the role of investment as a driver of growth.

An in-depth view of each country

The need for maintaining macroeconomic stability - and for building on the achievements of the last 15 years - was stressed in the case of Brazil. Both the speaker (Ms. Eliana Cardoso) and the discussant (Mr. Luiz de Mello) emphasised the importance of a less pro-cyclical policy setting in mitigating the effect of terms-of-trade fluctuations on growth and productivity. Floor discussions focused on the main changes in the country's growth dynamics over the recent past, the factors behind the recovery in

OECD Browse_it Edition • Read Only • Lecture seule

total factor productivity (TFP) growth since the 1990s and progress made in the area of income distribution.

A rebalancing of the engines of growth away from net exports and physical capital accumulation towards domestic consumption was underlined in the case of China. The speaker (Mr. Gang Fan) discussed the determinants of corporate savings, which have been the main factor behind the increase in national savings since the 1990s. The discussant (Mr. Richard Herd) delved into policy options, including in financial and labour markets, for sustaining TFP growth at the level prevailing during the early stages of structural reform. Floor discussions focused on the prospects for further capital account opening and the removal of institutional constraints on factor mobility as options of generating productivity gains.

Discussions on India emphasised the need for raising investment in support of faster growth. The speaker (Mr. Arvind Virmani) talked about the structural reforms implemented in the early 1990s and their effect on growth, noting that there is a "J-curve" relationship between structural reform and growth. He also pointed out the role of investment in the current stage of India's growth process. The discussant (Ambassador Dominic Martin) wondered about the prospects for carrying out ambitious structural reforms in a less supportive global economic environment. Floor discussions focused on the role of agriculture in India's growth process, the impediments to productivity enhancement arising from a rigid labour code, and the determinants of India's outward foreign direct investment.

Discussions on Indonesia stressed the importance of a strong private sector in the growth process. The speaker (Mr. Sjamsu Rahadja) mentioned the efforts that have been placed on removing constraints to entrepreneurship arising from cumbersome product market regulations (including at the sub-national level of government). He emphasised the need for eliminating logistical bottlenecks, especially in transport, in an archipelago nation, such as Indonesia. The discussant (Mr. Kiichiro Fukasaku) highlighted the need for developing infrastructure as a means of enhancing productivity. He also cautioned against too much emphasis on "rebalancing", because excessive reliance on domestic demand may deprive the economy of technologies embodied in imported capital and intermediate inputs. Floor discussions dealt with the role of financial market development in providing alternative sources of finance for investment and on the obstacles to growth arising from decentralisation, particularly through the use of onerous product market regulations by sub-national governments.

The role of financial market development came to the fore during discussions on South Africa. The speaker (Mr. Johannes Fedderke) noted that the country already has a large financial sector, but uncertainty is holding back investment and further financial deepening. Growth is nevertheless becoming increasingly reliant on TFP enhancement, rather than input accumulation. The speaker expressed concern that there may not be enough fiscal space to meet increasing demands for publicly funded social protection and human capital accumulation. The discussant (Mr. Geoff Barnard) wondered about the optimal level of spending on infrastructure development so as to avoid a wasteful allocation of resources. Floor discussions included the role of labour market regulations, which are perceived as restrictive in South Africa, despite a relatively low score in the OECD indicators of restrictiveness in employment protection legislation.

Panel discussions (led by Mr. Andrew Dean and Mr. Val Koromzay) focused on different aspects on the growth process in the five countries. There was broad agreement on the need for greater reliance on domestic sources of growth in the Asian countries (China and Indonesia); on the role of investment, especially in removing logistical impediments to growth (India and Indonesia); on the need to overcome institutional obstacles to productivity enhancement, including in labour, product and financial markets (China, India and Indonesia), and on the benefits of a stable macroeconomic environment for reducing uncertainty, which is detrimental to investment (Brazil and South Africa). The panel chairman (Mr. Val Koromzay) concluded that there was no one single country model, nor was there a single OECD model of growth.

An OECD Browse_it Edition • Read Only • Lecture seule

Discussants and panellists

Geoff Barnard is Head of the Russia-South Africa Desk, OECD Economics Department, Paris.

Andrew Dean is Director, Country Studies, OECD Economics Department, Paris.

Luiz de Mello is Economic Counsellor to the Chief Economist, OECD Economics Department, Paris.

Kiichiro Fukasaku is Head of Division, Regional Desks, OECD Development Centre, Paris.

Richard Herd is Head of the China-India Desk, OECD Economics Department, Paris.

Val Koromzay is former Director, Country Studies, OECD Economics Department, Paris.

Dominic Martin is Ambassador, Head of the Delegation of the United Kingdom to the OECD, Paris.