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Implications of India's Recent Expansion on Developing Countries

S K Mohanty

RIS-DP # 138

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Rise of BICS and the World Economy

Implications of India's Recent Expansion on Developing Countries

S.K. Mohanty*

Abstract: The rise of emerging countries has caused a profound impact on the balance of economic powers in the global economy. With the upsurge of the emerging economies, global disparity between countries has not only been reduced but many of these fast rising economies are also likely to surpass the gross domestic product (GDP) of some of the most affluent economies of the North in the next couple of years. Many studies have envisaged that the emerging BICS countries (Brazil, India, China, and South Africa) can overtake the economic accomplishments achieved by many industrialized countries. The present study empirically examined some of these broad assertions, and found that the rise of the emerging countries would reduce the development gap between developed and developing countries and also enormously sustain development efforts of developing countries by providing greater market access. India, with a distinct development strategy, has the potential to influence economic activities of many countries in Asia as well as the world economy in the future.

1. Introduction

In recent years, attention has been focused on how large and fast-growing countries are becoming instrumental in making profound and momentous shifts in the global economy. This phenomenon has gradually shifted the balance of global economic power and altered the landscape of interdependence between developing countries. Asian dynamism dominated the early part of the 21st century, but such economic drive has gradually spread over other continents. Revelation of startling results of Wilson and Purushothaman (2003) has reaffirmed the fact that large emerging countries

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have strong potential (O'Neill et al. 2005) to surpass the GDP level of large developed economies such as the US, Germany, Japan, etc. in less than 30 years from now, provided that they move on a desired path of economic development. Some of the large and emerging countries like Brazil-India-China-South Africa (BICS), which emerged as great trading nations at some point of time in history (Maddison, 2003), have acquired strength in recent years to regain their past glory and also influence global governance by setting up a just world order (RIS, 2007). China is likely to reach closer to the US as the second largest economy by 2016 followed by India, the third largest by 2032, and Brazil the fourth largest by 2049. South Africa will take some more time to emerge as a large economy in the world in the due course of time. A cluster of another set of countries, the Next-11,[1] located in different parts of the world, is in the process of 'catching up' with the BICS economies. Expansion of these economies has a profound influence on the long-term growth prospects of other developing and least developed countries (LDCs). Since BICS countries are better endowed with technology, foreign direct investment (FDI), foreign aid, and large domestic markets, they are in a position to offer more to the development endeavour of developing countries than developed countries.

The rapid growth of BICS offers great opportunities to other developing countries. To reach the present level, these large countries have: (a) significantly liberalized their trade regimes in a consistent manner, and (b) strongly recognized the 'interdependent' nature of economic relationships between developing countries as the key factor for their economic resurgence. Future growth of the emerging countries is closely associated with the growth performance of other developing countries. Sustainability of growth in other developing economies has been the vital consideration for emerging economies and they have been engaging themselves with these economies for effective cooperation in key sectors. In this regard, developing countries are consciously looking towards addressing the issues of underdevelopment within the shortest possible period with effective partnership with BICS countries. In order to progress in that direction, growth dynamism needs to be infused in these economies in a more strategic manner. Moreover, productivity-inducing factors are to be pressed for action to supplement the domestic endowments in other developing countries.

Some of the BICS economies have been successful in transfusing growth impulses in a sizable number of economies by invigorating economic activities through trade channels. This has been the case because of the self-propelled economic liberalization which is unilateral in nature. The large emerging countries are also committed to their ongoing domestic economic liberalization, which is irreversible in nature. With the continuation of the current strategy, they are likely to provide market access to others in order to support their export sector. Vigorous engagement of emerging countries in import activities has led to improvements in the terms of trade of other developing countries. This has been a new experience for other developing countries. The contributions of India and China have been substantial in this regard. With the entry of these countries in the global market for imports, a 'commodity boom' has been experienced in primary products, which has helped to reverse the deteriorating trend of terms of trade. This has considerably ameliorated the position[2] of developing countries and LDCs in the new millennium. However, to examine the sustainability of present trade relationships of BICS with other developing countries and LDCs, further analysis is required.

In what follows, Section 2 presents the broad macroeconomic fundamentals on BICS countries. Section 3 discusses their trade relations with major trade destinations of the world. The complementarities of BICS countries with other developing countries and LDCs are examined in Section 4. The last section concludes the paper.

2. Economic Strength of the BICS Economy

During the last two decades, the world economy has been passing through a phase of radical change, and the most noticeable change has been the phenomenal growth of the BICS economies. Taking into account the vast potential existing in these countries, steady growth of these counties as an offshoot of their inner strength, has enabled them to surpass the level of development of most Western countries within a very short period. As perceived by many, China and India have the potential to become the leaders in manufactured goods and services (Srinivasan, 2006), Brazil in agricultural products, minerals, and transport equipments (da Motta, 2004), and South Africa in fuel and natural resources. Together, they can lead the world in supplying an array of products, ranging from raw materials to cheaper and mass-produced manufactured products. Evidence indicates that during the last two decades, these countries have achieved sustained, rapid economic progress, and if they follow a similar growth trajectory for the next few decades from now, the world economy would be more prosperous and equitable in the distribution of wealth.

Table 1: Size of the BICS economy in relation to the EU and NAFTA in 2004

(*billion US$*)

Macroeconomic Variable	BICS	EU16	EU25	NAFTA
GDP (constant 2000 US$)	3102	8480	8876	12173
Per cent to World Total	(9.0)	(24.5)	(25.7)	(35.2)
Exports of goods and services (constant 2000 US$)	885	3183	3367	1549
Per cent to World Total	(10.43)	(37.52)	(39.69)	(18.26)
Imports of goods and services (constant 2000 US$)	782	3147	3364	2051
Per cent to World Total	(9.07	(36.49)	(39.00)	(23.78)
Gross domestic savings (cur. Billion)	1132	2559	2679	1821
Per cent to World Total	(13.30)	(30.07)	(31.48)	(21.4)
Foreign direct investment, net (BoP, Billion US$)	64	-	-	-
Total reserves minus gold (cur. Billion US$)	807	281	348	174
Per cent to World Total	(24.07)	(8.38)	(10.37)	(5.20)
Total reserves (includes gold, cur. Billion US$)	822	449	518	289
Per cent to World Total	(22.13	(12.08	(13.92	(7.78

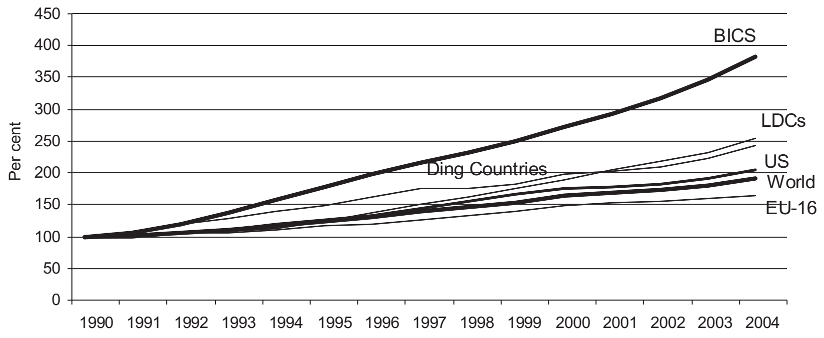
Note: EU—European Union; NAFTA—North American Free Trade Agreement.
Source**:** *World Development Indicators 2006* CD, World Bank

Despite achieving major strides in their economic accomplishments during the last few years, the combined size of the BICS economy remains much smaller than the overall GDP of the European Union (EU) and the North American Free Trade Agreement (NAFTA). As shown in Table 1, the combined size of the BICS economy accounted for only 9 per cent of

the world total as against EU's share of 25.7 per cent and NAFTA's share of 35 per cent in 2004 (World Bank, 2006). Wilson and Purushothaman (2003) calibrated the path of economic progress of each of these countries between 2000 and 2050, and examined the manner in which these countries are likely to surpass the major economies during the next three decades. In addition, several studies have predicted that the growth process may be even faster if domestic constraints in individual BICS countries can be addressed effectively. In fact many of the emerging countries have surpassed targets prematurely. For example, Wilson and Purushothaman (2003) predicted that India would become a US$ trillion economy by 2014, but India had already achieved that target by May 2007. Similar is the case in many other economies. If this pattern of growth persists in other BICS economies, then the targets set by various institutions, including Goldman and Sachs, may be achieved much earlier than the stipulated time period. Many macroeconomic indicators show that performance of BICS economies may be comparable with those of NAFTA and the EU. In terms of savings rate, international reserves, etc., large emerging economies have achieved remarkable progress as compared to major economic power-houses like the EU and NAFTA.

The 'catching up' process is expected to be swift in the case of BICS, as envisaged by some studies. The manner in which BICS countries have progressed since the 1990s is presented in Figure 1. We have explored the possibility that in case all the major country groupings start from a common base, what could be the level of divergence in their performance over a period of one and a half decades? In this exercise, we have indexed real GDP of major countries/groupings, taking 1990 as the base index 100. Figure 1 shows that economies of the EU and the US have followed an expansionary path which is similar to that of the world economy. Developing countries have shown better performance than the overall performance of the world economy. The rate of growth of real GDP of these economies slowed down during the early phase of the new millennium, but picked up again with the revival of the global economy. The economic expansion of LDCs has been steady and consistent since the mid-1990s; and their GDP growth trajectory has overshadowed the performance of other major groupings of the world. However, the GDP growth trajectory of BICS has shown a significantly different and forward looking trend over the time period. According to a study (O'Neill et al. 2005), contribution of these countries[3] accounted for 28 per cent of global growth in dollar terms and 55 per cent in purchasing power parity (PPP) terms between 2000 and 2005. Since 2000, these economies picked up strongly as compared with their earlier performance in the 1990s. More importantly, expansion of these countries has supported the overall economic performance of other developing countries through their strong trade linkages. The large emerging countries have a strong potential to improve their overall performances and also boost the growth prospects of other developing countries.

Figure 1: Expanding BICS Economy

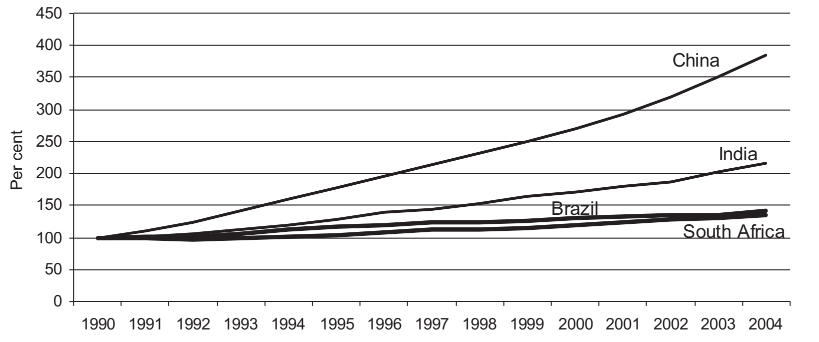


Source: *World Development Indicators 2006* CD, World Bank

Although BICS represents the group of emerging countries in the global economy, growth performance differs significantly across the group during the last one and a half decades. Strong growth performance of the group has been driven mostly by China, followed by India (Huang and Khanna, 2003). Brazil and South Africa are yet to join the club of high performing emerging countries as they are lagging far behind Chindia. Schlager (2007) has outlined the development strategy of Brazil in the medium term, and has shown that it is slowly picking up towards the middle of the present decade. South Africa also has a similar strategy to catch up with the high growth path. However, the convergence of growth among the BICS countries would eventually influence the trading environment of the global economy.

Other developing countries are likely to benefit from the convergence of growth of emerging countries at a higher level of growth than before.

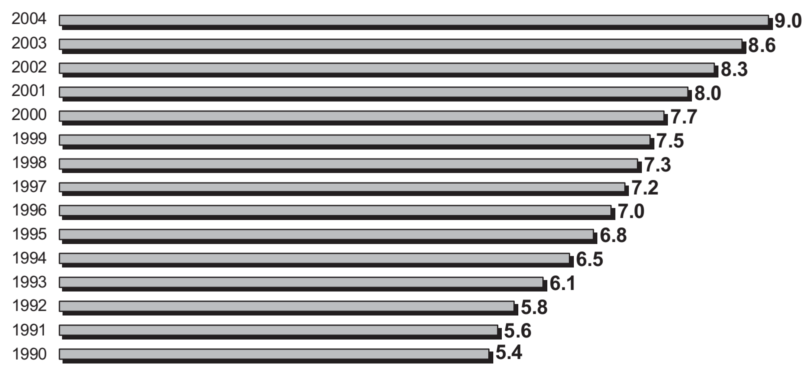
Figure 2: BICS-Variations in the Speed of Economic Expansion



Source: *World Development Indicators 2006* CD, World Bank.

The BICS countries have emerged from a very low base. Moreover, the size of their economies was too small as compared with the global economy. A shift in their development paradigm from Import Substitution Industrialization (ISI) to Export-led Strategy (ELS) enabled them to integrate themselves with the world economy. In 1990, the combined size of the BICS's real GDP was 5.4 per cent of the global economy, but the share of the group increased significantly to touch 9.0 per cent of the economy in 2004 on account of sustained high growth performance of the core countries. In addition, some of the low profile sectors in the economy became active in the due course of time, and contributed to the performance of individual economies, and also the overall performance of the group. For example, India's growth performance is mostly propelled by trade in services (Rodric and Subermanian 2004; World Bank 2006; Gordan and Gupta 2003 and Murgai, Pritchett, and Wes 2006). However, in 2006-07, the overall growth rate of the country peaked at 9.4 per cent with the spectacular growth of the manufacturing sector at 15.1 per cent, and this has marked the beginning of a new chapter in the economic history of India (see Barry, Collins, and Virmani 2006). If some of the highly productive sectors start unfolding in due course, and begin to contribute significantly, the overall expansion of the BICS economy would become robust in the medium term.

Figure 3: Rise in the Share of BICS Countries in the World GDP



Source: *World Development Indicators 2006* CD, World Bank.

The macroeconomic fundamentals of the BICS countries have gradually become robust over a period of time. Liberal trade policies of these economies have enabled the developed countries and LDCs to share the growth impulses through accessing markets of these economies. The sustainability the of trade relationship between other developing countries and BICS, over time, remains to be seen, and more so to maintain the current phase of high growth performance of other developing countries.

3. Trade Complementarities with Developing Countries

The surge of BICS economies during the last two decades was spurred by industrialization and external sector growth. These economies embarked on sustained reforms following economic hardships faced by them, individually, at different points of time in the past. With deeper levels of economic liberalization, industrial sectors were thrown open to competition with domestic as well as foreign firms. The large-scale production and export of manufactured goods have led to the efficiency-enhancing restructuring of industries in these economies. As the growth performance of these economies picked up, the average per capita income and consumption in

the domestic economy, particularly by the middle income group increased significantly. With the surge in the demand in both export and domestic markets, industries at home have gradually streamlined their import requirements. Most of these countries have also integrated themselves gradually with the international production chain and are slowly moving up the value chain (Sutton, 2005). With improvements in technical conditions in production and growing requirements for industrial intermediates to sustain the large production facilities, these economies have restructured their sources of imports and exports over a period of time. The general pattern of trade indicates that the large production powerhouses of these countries do not intend to dump their exports in developing countries and LDCs so as to sustain their export growth. On the contrary, these emerging countries have provided larger market access to other developing countries to draw more welfare gains from the new trade relationships.

In general, BICS economies have used developed countries' market for their export destination, whereas their dependence on other developing countries has gone up for their import requirements. However, there has been a considerable degree of divergence among the BICS economies in this regard. Between 1986-95 and 1996-2005, the global share of BICS exports, going to developed economies, rose from 50.6 per cent to 53.8 per cent, following the bolstering of export growth in the latter decade (Table 2). During the same period, the export share of BICS to developing countries declined from 48.0 per cent during 1986–95 to 45.6 per cent during 1996–2005, despite a rise in the decadal growth rate of exports.

Table 2: Trade of BICS Countries with Major Destinations of the World

(*per cent*)

	India				BICS*			
Destinations	**Share**		**Growth**		**Share**		**Growth**	
	1986-1995	1996-2005	1986-1995	1996-2005	1986-1995	1996-2005	1986-1995	1996-2005
Exports								
World	100.0	100.0	11.8	13.0	100.0	100.0	15.5	16.5

Table 2: Continued

Table 2: Continued

Industrial Countries	59.1	49.7	13.2	10.9	50.6	53.8	15.8	16.2
Developing Countries	38.4	49.0	13.6	16.4	48.0	45.6	16.4	18.1
Africa	2.7	5.0	39.0	15.9	2.0	2.4	17.6	19.7
Asia	16.9	24.8	24.9	16.5	31.7	29.3	20.2	16.4
Europe	9.1	3.6	21.9	8.9	4.4	3.7	5.0	22.8
Middle East	8.9	13.4	17.0	20.0	4.1	4.3	8.8	19.6
Western Hemisphere	0.8	2.2	45.0	22.3	5.8	5.9	19.2	16.6
Imports								
World	100.0	100.0	10.9	15.7	100.0	100.0	12.9	15.5
Industrial Countries	55.1	40.3	7.9	13.3	55.2	45.7	11.4	11.4
Developing Countries	42.7	43.2	14.6	16.5	42.9	47.5	15.4	17.8
Africa	4.1	5.3	19.2	14.2	1.8	3.2	13.5	25.0
Asia	11.5	20.3	17.9	23.5	23.6	30.9	20.5	19.1
Europe	5.6	2.6	24.1	16.5	5.0	3.3	7.8	15.4
Middle East	19.5	11.0	16.2	11.7	6.8	4.8	11.5	17.1
Western Hemisphere	2.0	1.7	16.7	18.1	5.7	5.3	16.4	12.8

Note**:** Developing countries column do not add up to 100 since transitional economies are excluded;

*BICS in this case does not cover South Africa because of lack of data reporting on trade in DOTS (since 1986).

Source: Estimated from *Direction of Trade Statistics*, IMF (May, 2007, CD ROM).

It is important to note that the average decadal growth rates of Indian exports to developing countries have increased from 13.6 per cent during 1986–95 to 16.4 per cent during 1996–2005, whereas similar rates for developed countries have declined from 13.2 per cent to 10.9 per cent during the corresponding periods. India's strong growth potentials and trade linkages with other developing countries are also observed by other studies (Poddar 2004; Poddar and Yi 2007; and Purushothaman. 2004). The BICS economies have maintained a higher export rate with developing countries as compared with developed countries during both the decades; the broad trends in export growth rates have been similar to those of India.

BICS economies have shown their increased import dependence on developing countries by switching their sources of imports from developed to developing countries (Table 2). Between the periods 1986–95 and

1996–2005, the share of BICS's imports from developed countries declined from 55.2 per cent to 45.7 per cent, whereas it increased from 42.9 per cent to 47.5 per cent with developing countries. India's import with these broad trade destinations is similar to that of BICS. The structure of Chinese imports from developing countries is, however, different from those of other countries in the BICS. China has augmented its drive to import more in the form of raw materials from other developing countries to support its industrialization process. Other BICS countries have provided market access to other developing countries in industrial intermediates. This is very evident in the case of India. Between 1986–95 and 1996–2005, India's import share with developed counties declined sharply from 55.1 per cent to 40.3 per cent, whereas the import share with developing countries increased from 42.7 per cent to 43.2 per cent during the same periods. The average decadal import growth rates of India to developing countries have been significantly higher than those of developed countries. This trend has been a key issue between the BICS economies and other developing countries in reshaping the economic prospects of the latter.

The trade of BICS economies is heavily concentrated in the Asian region, though Brazil and South Africa are located in other continents. A substantial part of BICS trade, earmarked for developing countries, is directed towards developing Asia. During 1996-2005, exports of BICS to developing Asia were 29.3 per cent from the total of 45.6 per cent of exports targeted towards developing countries. Similarly, developing Asia shared 65 per cent of the total of BICS countries' imports which were meant for developing countries during the same period.

Developing Asia continued to be the most attractive source of imports for BICS, and its share increased from 42.9 per cent during 1986–95 to 47.5 per cent during 1996–2005. The recent trend indicates that Brazil and South Africa have been focusing on the Asian Market too for their trade (RIS, 2007). Similarly, India's imports from developing Asia witnessed a near two-fold increase between the periods 1986–95 and 1996–2005. The share of BICS imports has also increased from other developing regions such as Africa and the Middle East. With persistent trade liberalization in BICS countries, along with outward trade orientation strategy, they have gradually reached out to other continents besides their own for trade. This has been a key factor in their increasing presence in other major destinations.

A sharp increase in the trade of BICS countries in Asia and other major trade destinations is partly because of their strong association with Asian countries, in addition to their sustained trade liberalization under multilateral and regional agreements. Regionalism is becoming attractive for economic ties between Asian countries with large emerging countries. A number of new regional trading arrangements have been established, including regional and bilateral trading arrangements. In Asia, China and India have established their strong economic ties with their Asian counterparts (UNESCAP, 2007), and this has led to the emergence of several regional trade agreements (RTAs) and bilateral trade agreements (BTAs), for example, Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC); India–Singapore Comprehensive Economic Cooperation (CEC); India–Thailand CEC; India–Sri Lanka CEC; India–Association of South East Asian Nations (ASEAN) Free Trade Agreement (FTA); China–ASEAN FTA; China–Japan FTA; China–Singapore FTA to complement pre-existing agreements (for example, ASEAN, South Asian Association for Regional Cooperation or SAARC, and the Bangkok Agreement). These developments have contributed to increased trade with other regional economies (Mohanty 2005). There are strong initiatives to form an Asian Economic Community, which would further consolidate the economic strength of China and India (Kumar 2004). Brazil has emerged as a strong player in Latin America, and conscious efforts are being made to integrate the regional countries under Free Trade Area of Americas (FTAAs). Similarly, South Africa has undertaken several initiatives for the consolidation of regional economies through regional processes. India-Brazil-South Africa have initiated the IBSA process to strengthen their economic cooperation initiative (RIS, 2008) and also other countries in their respective regions (that is, (Southern African Customs Union) SACU-India—(Mercado Comun del Cono Sur) Mercosur, for details see Mohanty and De, 2007)

The trade pattern highlights that BICS economies have not used the markets of developing countries as their dumping ground for exports. On the contrary, BICS countries have provided market access to other

developing countries and LDCs. The rate of expansion of imports by BICS from developing countries has remained strong and significant during the last two decades. Sustainability of this trend is the key issue in the long-term relationship between them.

The large size of the BICS countries and their rapid growth over a sustained period of time has provided a substantial market access to other developing economies. The natural endowments, structure of industries, and preference of people in these countries are significantly different. For this reason, the structure of trade across BICS countries and India is different.

Table 3: Market Access in India and BICS Countries in 2004

(*per cent*)

Sec.	Description	Imports of India				Imports of BICS			
		D/ed	D/ing	LDCs	Trans	D/ed	D/ing	LDCs	Trans
I	Live Animals and Animal Products	0.04	0.04	0.63	0.01	0.69	0.46	0.37	3.43
II	Vegetable Products	0.57	1.54	29.46	0.42	0.83	3.03	4.54	0.37
III	Animal or Vegetable Fats & Oils	0.03	6.25	0.88	0.00	0.20	1.66	0.14	0.00
IV	Prepared Foodstuff, Beverages, etc.	0.30	1.25	2.15	0.01	0.52	0.88	0.62	0.17
V	Mineral Products	4.64	10.57	5.08	8.75	4.64	16.22	75.93	25.14
VI	Products of Chemicals	7.84	12.95	15.44	22.52	10.31	8.75	2.08	17.19
VII	Plastics & Articles thereof	2.35	3.29	2.73	3.11	4.34	6.73	0.59	2.65
VIII	Raw Hides & Skins, Leather, etc.	0.33	0.36	1.13	0.24	0.65	0.86	0.50	0.43
IX	Wood & Articles of Wood	0.19	1.28	15.37	0.04	0.32	0.81	4.75	6.24
X	Pulp of Wood or of other Fibres	2.02	1.70	0.36	5.28	2.10	1.67	0.05	3.10
XI	Textile & Textile Articles	1.16	3.79	10.61	1.33	2.69	4.22	6.04	2.02
XII	Footwear, Headgear, and Umbrella	0.04	0.11	0.10	0.01	0.06	0.24	0.01	0.02
XIII	Articles of Stone, Plaster, Cement	0.54	0.69	0.15	0.41	0.82	0.56	0.03	0.19
XIV	Natural or Cultured pearls, Jewellery	42.74	13.93	1.91	4.30	6.45	1.54	0.46	0.69
XV	Base Metals & Articles of Base Metal	6.23	6.81	10.90	39.81	8.35	7.06	3.28	25.66

Table 3: Continued

Table 3: Continued

XVI	Machinery & Mechanical Appliances	21.23	26.31	0.42	8.13	40.72	35.05	0.17	8.30
XVII	Vehicles, Aircraft, and Vessels	4.93	5.37	2.34	4.44	7.98	2.78	0.35	3.25
XVIII	Optical, Photograph, & Cinematography	3.20	2.20	0.02	0.52	5.97	6.76	0.04	0.38
XIX	Arms and Ammunition	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
XX	Miscellaneous Manufactured Articles	0.21	0.62	0.06	0.03	0.52	0.39	0.02	0.23
XXI	Works of Art Collectors' Pieces	1.39	0.95	0.24	0.65	1.84	0.34	0.03	0.55

***Source*:** Estimated from PCTAS-2000/2004 CD Rom, UNCTAD, ITC, World Bank and WTO, Geneva.
***Note*:** D/ed-developed countries; D/ing–developing countries; LDCs least developed countries; Trans- transitional countries; NES – not elsewhere classified. The country grouping is formed on the basis of UN statistical division.

Considering the product-classification and the type of exporting economy, the imports of BICS and India are presented in Table 3. The share of imports sourced from LDCs by these BICS countries is much lower than the other three broad country-groups (developed, developing, and transitional economies), and it is sectorally concentrated. Imports of BICS countries from LDCs largely revolve around sectors such as wood products, textiles, vegetable products, and base metals; but the largest import comes from the mineral sector (in 2004). More than three-fourth of BICS's imports from LDCs are sourced from the mineral sector.

India's imports from LDCs are more diversified than BICS countries in 2004. Imports of India from LDCs cover sectors such as chemicals, vegetable products, wood products, textiles, minerals, and base metals. Mineral import from LDCs has been one of the least priority sectors of India. Nearly 30 per cent of India's imports from LDCs constitute vegetable products, and other important import sectors are chemicals and wood products.

In contrast, developed countries, developing countries, and transitional countries have a strong presence in several sectors in India and other BICS countries. As industrialization has been accorded priority in the development agenda, BICS countries undertake substantial imports of machinery and mechanical products from both developed and developing countries

simultaneously. While some of the significant imports of BICS from developed countries include chemicals, gems and jewellery, base metals and transport products, similar imports from developing countries cover sectors like minerals, chemicals, plastics, base metals, and cinematography. Major imports of BICS from transitional economies include minerals, chemicals, and base metals, and these three sectors constitute nearly two-thirds of total imports from these economies. As a major player in Asia, China imports significant quantities of semi-manufactured intermediate products from its East Asian neighbours (see Lall and Albaladejo 2003). India's import pattern from developed, developing, and transitional economies is similar to that of BICS countries.

The nature of trade with LDCs is debated in the literature, when they compete with developing and transitional economies to gain market access in BICS. One apprehension is that as LDCs have core competence in selected sectors, and other groups of countries have competitiveness in diversified sectors, LDCs may stand to lose market access in BICS. However, empirical findings suggest that the sectors important to developing countries are not the same for LDCs and, therefore, developing countries are not competing with LDCs in the same sectors for gaining market access in BICS countries.

Another debate revolves around the sustainability of the current level of interdependence between BICS, developing countries, and LDCs in the long run. The current trend suggests that deepening of trade liberalization in BICS countries is irreversible as shown in vision documents of BICS countries[4]. With the current pace of liberalization, if the growth performance of these large emerging countries continues, there is a greater possibility of opening up of large markets in diversified sectors. As imports are important for exports, expansion of these emerging economies would provide large market access to developing countries and LDCs in numerous sectors. The future import again depends upon the nature of import requirements in the BICS countries.

4. Is Market Access of Developing Countries to BICS Sustainable?

Exports of BICS countries are largely dependent on imports. Asian

Table 4: Import pattern of India and BICS in the end-use products, 2000-04

End-use code	Description	India Growth (per cent)			India Share (per cent)*			BICS Growth (per cent)			BICS Share (per cent)*		
		D/ing	LDCs	Trans	D/ing	LDCs	Trans	D/ing	LDCs	Trans	D/ing	LDCs	Trans
0	Foods, feeds, and beverages	18.10	14.22	-3.02	8.52	16.45	0.38	19.70	15.04	16.71	5.72	4.02	3.84
00	Agricultural	17.85	14.30	-3.20	8.39	22.67	0.38	20.40	16.12	16.34	5.20	3.67	0.38
01	Non-agricultural products	44.84	10.94	11.68	0.13	0.53	0.01	13.65	5.88	16.75	0.52	0.34	3.46
1	Industrial supplies and materials	27.37	19.18	34.41	44.71	67.80	82.22	20.49	26.11	26.45	45.64	94.08	82.13
10	Fuels and lubricants	45.47	16.06	106.70	8.09	1.45	6.96	25.70	26.41	79.17	13.13	73.12	21.50
11	Paper and paper base stocks	7.32	5.86	9.01	1.50	6.42	4.41	4.79	8.74	10.99	1.57	2.10	3.67
12	Agricultural products, textile supplies, and chemicals	17.70	16.13	29.94	18.32	34.20	23.19	15.45	27.73	21.64	17.83	9.77	20.36
13	Selected building materials, excl. metals	35.68	22.10	54.00	1.25	9.47	0.07	12.04	11.18	32.51	0.99	2.72	5.51
14	Unfinished metals associated with durable goods	49.22	62.04	36.79	12.09	9.80	40.07	34.64	56.14	14.66	8.69	4.88	26.99
15	Finished metals associated with durable goods	38.25	6.36	40.50	1.44	1.90	2.74	18.18	16.16	59.08	1.56	0.68	2.38
16	Non-metallic products associated with durable goods	11.61	27.50	36.01	2.02	4.58	4.78	17.55	17.99	33.04	1.86	0.82	1.72
2	Capital goods, except automotive	31.00	4.11	30.55	29.87	3.27	12.31	28.60	-1.00	39.21	40.08	0.59	9.91
20	Electric generating and electric equipment	23.19	15.51	3.09	2.69	0.28	0.90	16.85	15.76	42.25	4.32	0.11	1.79
21	Non-electrical machinery	22.54	0.09	33.64	18.32	0.66	10.39	30.72	-12.10	34.24	33.58	0.18	5.95
22	Transportation equipment and spacecraft, excl. auto	79.73	4.30	53.84	8.86	2.33	1.02	26.92	4.18	55.65	2.18	0.31	2.17
3	Capital goods, excl. non-automotive	33.91	18.92	59.77	0.94	0.03	0.78	16.89	-3.69	15.53	1.68	0.04	1.14
30	Automotive vehicles, parts, and engines	33.91	18.92	59.77	0.94	0.03	0.78	16.89	-3.69	15.53	1.68	0.04	1.14
4	Consumer goods	31.07	-2.89	7.06	14.40	5.32	3.54	16.55	1.01	16.52	6.26	1.21	1.96
40	Non-durables, manufactured--excl. rugs	21.81	-8.17	0.26	1.85	3.16	1.87	11.44	-4.86	2.33	1.76	0.68	0.80
41	Durables, manufactured--excl. automotive	25.07	12.61	8.68	4.53	0.37	1.04	16.17	1.27	31.47	3.60	0.09	0.91
42	Consumer durables and non-durables mnfs.	38.38	8.21	59.58	8.02	1.78	0.63	34.32	15.87	68.91	0.91	0.44	0.25
5	Other Goods	53.71	363.62	-46.04	0.62	0.14	0.11	11.23	225.36	7.98	0.27	0.03	0.46
50	Imports, N.E.S.	53.71	363.62	-46.04	0.62	0.14	0.11	11.23	225.36	7.98	0.27	0.03	0.46

Note: D/ing--developing countries; LDCs- least developed countries; Trans-transitional countries; NES—not elsewhere classified. The country grouping is formed on the basis of UN statistical division; *Share figures for 2004.

Source: Estimated from PCTAS-2000/2004, UNCTAD, ITC, World Bank and WTO, Geneva.

counterparts from this group have almost no restriction on the two-way flow of trade with the rest of the world. Despite India facing adverse balance of trade with the rest of the world over a long period of time, it has continued to liberalize its import regime, and opted for competition in the domestic economy. China has also pursued a liberal import policy to make its domestic sector competitive to foster exports. According to the Organization for Economic Cooperation and Development (OECD) forecast, the global share of Chinese exports is likely to increase from the current level of 6 per cent in 2005 to 10 per cent by 2015 (OECD 2005). India is also consolidating its external sector, despite witnessing periodic macroeconomic imbalances in the past. India's exports have reached close to US$ 120 billion in 2006–07 and are expected to reach US$ 200 billion by 2009–10 (Mohanty and Arockiasamy, 2008). Brazil and South Africa have also set high export targets for themselves.

Like exports, most of these countries also resort to high imports. In the context of Chindia, it is argued that import has been a major factor in maintaining high growth in exports (Mohanty and Chaturvedi, 2006). However, it is important to assess the structure of imports in order to examine the sustainability of imports from developing countries and LDCs in the long run. Experiences of countries indicate that if large imports are mostly concentrated in consumer goods, the import boom of the country may be closely linked to domestic expansion of the economy, whereas rise of imports based on industrial intermediates, depends largely upon the export performance of the economy. Therefore, the import dependence of BICS on LDCs and developing countries is primarily an empirical question, which needs to be examined. In assessing this, we have used Trade Analysis System on PC (PC-TAS), ITC/UNCTAD/WTO (ITC et al., 2005) bilateral data at the six-digit HS level, and concorded them with five-digit, end-use product classification.

The empirical findings reveal that the structure of imports of BICS differs significantly across product groupings as shown in Table 4. As far as LDCs are concerned, the BICS countries have provided significant market access to them, and their imports are mostly concentrated on industrial supplies and materials. These countries mostly import fuels and lubricants from LDCs; and their other vital imports from LDCs include agricultural, textile, and chemical intermediates. Their imports from the least developed countries in the product segments of industrial supplies and materials increased at more than 26 per cent per annum which is much higher than those of developing countries.

The pattern of imports by India from LDCs is different from that of BICS. The structure of India's imports is more diverse than BICS, and it covers important product groups such as industrial supplies and materials, consumer goods, and non-automotive capital goods. However, the bulk of imports from LDCs have been of industrial intermediates, often subsequently processed for export to third country markets. However, import growth with respect to LDCs has been very robust in industrial supplies and materials than other product groups such as consumer goods and non-automotive capital goods during 2000-04.

India's imports from LDCs are mostly concentrated in industrial supplies and materials, and within this sector, imports are spread over several sub-sectors such as agro-raw materials for textiles and chemicals, unfinished metals associated with durable goods, building materials, paper base stocks, etc. Imports of fuels and lubricants form a small segment of India's imports from LDCs, unlike many countries in BICS. India's imports of consumer goods from these countries mostly comprise non-durable manufactured products, excluding rugs. In most of these segments of industrial intermediates, the growth rates of imports from LDCs were very rapid during the period 2000-04.

Imports of BICS from developing countries have been more diversified than from LDCs. These countries are largely dependent on developing countries for industrial intermediates and non-automotive capital goods, and also to some extent on consumer goods and automotive capital goods. Among specific sub-sectors, BICS countries' largest single most import sector has been non-electrical machineries. The pattern of India's imports from developing countries has been similar to that of BICS.

As noted earlier, industrial intermediate and capital goods constitute a sizable share in the total imports of BICS countries from developing countries

and LDCs. As these inputs are critical for the exports of these countries, dependence on such imports is likely to be sustained in the long run. These economies are expanding fast and their demand for imports is rising steadily, therefore, developing countries and LDCs are likely to benefit from increasing opportunities from trade, particularly in the wake of 'price boom in primary commodities'. As far as BICS are concerned, specific imports of these countries from developing countries, LDCs, and transitional countries are different in many ways; and there is hardly any possibility of clash of interests between developing countries and LDCs in terms of gaining market access in industrial supplies, materials, and other broad product groups.

5. Conclusions

The BICS economies witnessed significant growth in real GDP compared to many economic groupings of the world during the 1990s. As seen from various macroeconomic indicators, the combined performance of BICS is better than that of the EU and the US economies. Since the beginning of the 1990s, the combined size of the BICS economy has been growing faster than most of the broad regional groupings of the world including the US, the EU, developed and developing economies, etc. However the speed of economic growth differs significantly among the economies of BICS. Among the four nations, the growth trajectory of real GDP is spectacular for China followed by India and the other two economies in the group. Because of strong growth impulses emanating from these dynamic economies, the combined share of the group in the world output has almost doubled between 1990 and 2004.

These economies have gradually evolved their strategies to focus on exports to developed countries and imports from developing countries. It is amply clear that these emerging countries have not evolved any strategy to use developing markets as their export backyard for dumping. The rates of expansion of exports and imports of developing countries/LDCs to BICS have been robust during the last decade. As Asia is growing fast, the trade focus of the BICS has been 'Asia centric'. Traditionally, India's exports are mostly concentrated in Asia, but they have been slowly diversifying into other continents during the last decade. With the expansion of the global economy since 2003, this process will be accelerated further in the coming years.

There is considerable scope for developing countries and LDCs to benefit from the continual process of trade expansion in BICS countries. The emerging BICS countries have trade interest in specific sectors in developing countries as well as in LDCS; therefore, there is very little competition between them to gain market access in the BICS economies. While the import interest of BICS is focused on a limited number of sectors in LDCs, it is rather more diverse and widely spread in several sectors in other developing and transitional countries.

There are specific opportunities in BICS countries with regard to least developed economies. The LDCs are producers of a few industrial intermediate inputs, which are commonly used by these countries to meet their increasing domestic and exports demand. Very often, supply barriers and lack of quality in exportable items have constrained the export prospects of LDCs in various potential markets. The BICS countries are making serious efforts to assist LDCs to overcome these impediments through development assistance and FDI. Several companies from BICS are also slowly moving into these economies and associating themselves with local entrepreneurs in the production process by imparting skills and transfer of technology. If this trend continues further, there is significant scope for LDCs and other developing countries to improve their export performance in BICS economies in the coming years.

Endnotes

1. The second-tier emerging countries as envisaged by Goldman Sachs are 'N-11' countries. For details about their expected economic performances by 2050, see O'Neill et al. (2005).
2. In an empirical study, Mohanty and Tadas (1988) have examined that terms of trade deterioration has been the single most important reason for debt crisis in the 1980s. With stabilized and corrected commodity prices, developing countries and LDCs could have trade surplus, and could have averted the 'debt crisis'.
3. O'Neill et al. (2005) have analysed the growth prospects of BRICs whereas we are referring to BICS. In this case, the substitution is made between South Africa and the Russian Federation. By making such an alteration in the structure of the large emerging country grouping, the overall influence of the group (BICS or BRICs) on global economy is not likely to be altered significantly.
4. India: Vision 2020, www.planningcommission.nic.in/reports/genrep/bkpap2020/vii_bg2020.pdf Vision 2020 Latin America Report, www.v2020la.org/english/pdf/news/VISION_2020_LATIN_AMERICA_Report%20January_July_2005.pdf A National Strategic Vision for South Africa, http://www.anc.org.za/ancdocs/history/mbeki/1995/sp951127.html

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