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Competition Policy Review Panel
Research Paper Summary

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Title: Implications of the BRIC Economies for Canadian Trade and Investment

Subjects Addressed:

- CDIA
- BRIC economies/emerging markets
- Globalization

The Growing Importance of the BRIC Economies:

Projections indicate that by the middle of this century India and China will have two of the largest economies in the world and that combined with Japan this will shift the global centre of economic gravity from North American and Western Europe to Asia. GNI and per capita incomes have been converging among the BRIC countries and their better than average performance has begun to narrow the gaps between them and developed economies; estimates suggest that by 2075 living standards will be proximate to those of developed countries. The middle class in the combined BRIC economies will soon exceed the total population of the United States and approach the total population of the EU. The BRIC economies are increasingly integrated into regional supply chains and are the predominant links between these regional groupings to form global supply chains.

Major Features of the BRIC Economies:

Current explanations of BRIC development draw on historical factors for the trajectory of their development but a recurrent feature is the need to move labour from low-productivity primary sector occupations (i.e. agriculture) to higher-productivity secondary sector jobs (i.e. manufacturing). Research indicates that all of the BRIC economies feature large and interventionist governmental sectors, which necessitates the cultivation of many relationships with officials at all levels to smoothly transact business.

Research also shows that the BRIC countries struggle with innovation due to shortages of human capital, limited access to the latest technology, and limited access to capital. Often these disadvantages are overcome through the creation of informal business networks – when these networks coalesce they can form powerful barriers to market entry, and one that is virtually immune from competition law because they are built on social relationships rather than contractual ones. These networks are facilitated by the large share of the economy occupied by the informal sector (ranging between a high of 46% of GNI in Russia, to a low of 13% in China).

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Statistics also reveal that many of the regional economies in BRIC countries are comparable to other developing/transition national economies and this has often been neglected when considering the BRIC as a whole.

Canada and the BRIC Economies:

Research reveals that Canadian participation in the BRIC economies is marginal; in most cases Canada accounts for less than 2% of imports or exports for BRIC countries and BRIC countries likewise are of limited importance to our trade – also representing less than 2% of total Canadian exports and imports. China is an outlier supplying 9% of our imports. Economic growth in the BRIC countries is expected to continue to support high prices for Canadian commodities, and to produce lower consumer prices through competitive imports; the macro-economic effects of these influences will be ambiguous as they tend to offset each other.

The findings indicate that exports from the BRIC countries are already competing in terms of both price and quality for market share in the traditional destinations of Canadian exports. However, this is counterbalanced by the aforementioned skill and technology shortages in the BRIC economies that provide a new potential area of high-value exports for Canadian firms. It is estimated that in the coming decades China and India will be major sources of outbound FDI, and that all the BRIC countries will use their outbound FDI to secure market access and other economic benefits that will directly challenge current Canadian privileges in our major markets.

Recommendations:

The research suggests that for Canadian business to succeed in the BRIC economies it must pursue full engagement in their markets by: direct investment in existing enterprises and green-field projects, developing joint-ventures and/or strategic partnerships with others already in the market, and entering regional and global supply chains anchored in the BRIC economies. Research also suggests that government can facilitate this full engagement by securing trade and other commercial agreements with the BRIC countries, providing more on-the-ground and proactive support to companies entering the BRIC economies, and expanding and accelerating technical assistance programs to BRIC countries (particularly in areas of: competition law, corporate governance, and intellectual property). As a general policy Canadian governments can assist business becoming more attractive to the international economy, and the international economy being more lucrative for business, by supporting the commercialization of Canadian inventions and innovations.