



BRICS
INDIA: 2016

BUILDING RESPONSIVE, INCLUSIVE & COLLECTIVE SOLUTIONS

**'Making Growth Inclusive in BRICS Countries: Issues, Challenges
and Policies'**

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1. Introduction

1.1 Brazil, Russia, India, China and South Africa, the BRICS countries, symbolise the growing economic power of some of the most important emerging economies of the world. All of them have grown rapidly during the recent period, particularly since the beginning of the 21st century – their share in world’s GDP has increased from around 8.2% in 2000 to around 22.5% in 2015. This growth led to considerable improvements in the lives of their people as well as contributing to the world’s economic growth and prosperity. Although the growth rates have somewhat slackened in the recent years, it is a transitory phenomenon and is widely believed that the potentials of growth of these countries are yet to be realised and that they will start growing reasonably well in due course.

1.2 While the rapid growth has led to overall prosperity in all the BRICS countries, like in many other countries of world including developed ones, the proceeds of growth have been uneven and disparate, albeit with varying degree. It is often said that the growth has not been inclusive to the extent it was intended to be. The inclusive growth in general, apart from a rapid rise in per capita income, should lead to decline in poverty and reduction in inequality, expansion of productive employment and sustained improvement in human development such as education, health and nutrition. Ensuring basic social protection is an important instrument for having an inclusive growth. The five BRICS countries are at various stages of economic development and have considerable differences in institutions and social structures and development experiences shaped by local contexts. Nevertheless, there are some common development challenges that all these countries are facing and they have committed themselves to the goal of achieving a just and inclusive society. This note examines the nature of growth in the BRICS countries and challenges which they face in achieving a more inclusionary growth process. It also briefly delineates the broad contours of a sustained growth through an inclusionary process.

2. Poverty and Inequality

2.1 The accelerated growth has been accompanied by significant decline in levels of poverty in the BRICS countries. The poverty levels in countries like Russia were already

historically very low. It has also been lower in Brazil as well compared to other countries. As can be seen from Figure 1, China and India which had very high incidence of poverty during 1990s have witnessed massive decline in the levels of poverty, particularly in the former. Notwithstanding the differences in the measurement of poverty, undoubtedly the growth process has contributed to the reduction in poverty, although at varying speed, in the BRICS countries.

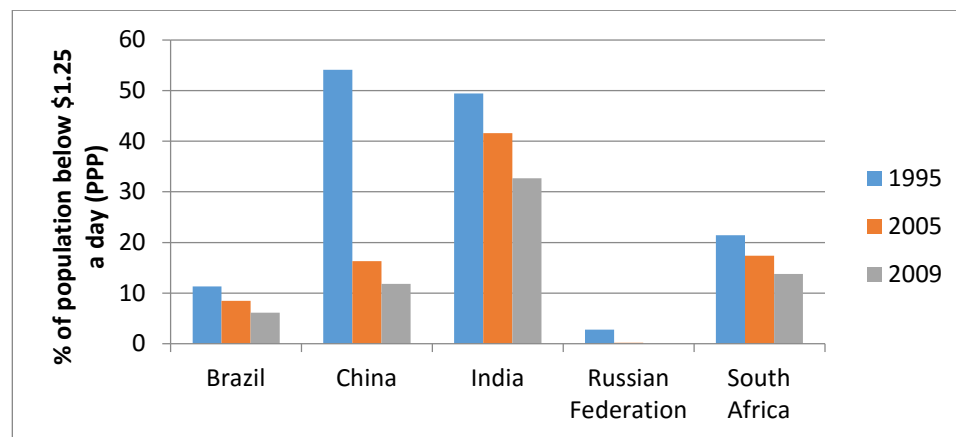


Figure 1: Percentage of Population below 1.25\$ a day

Source: World Development Indicators

2.2 There is no clear pattern of inequality among BRICS countries. In some countries inequality has not shown a decline, or rather has somewhat increased, whereas in some it has witnessed decline. While income inequality in Brazil has steadily declined since 2000s, both China and India have not been able to reduce it. In Brazil, those in the bottom 50 percent of the population increased their share in total income by 15% between 2002 and 2009. South Africa's income inequality has fallen in 2009, although earlier it showed increase. It should also be noted that levels of inequality vary considerably among these countries as reflected in Figure 2. Despite a decline, the levels in South Africa and Brazil have been high. On the other hand, the levels in China and India remain lower although they have not witnessed a decline.

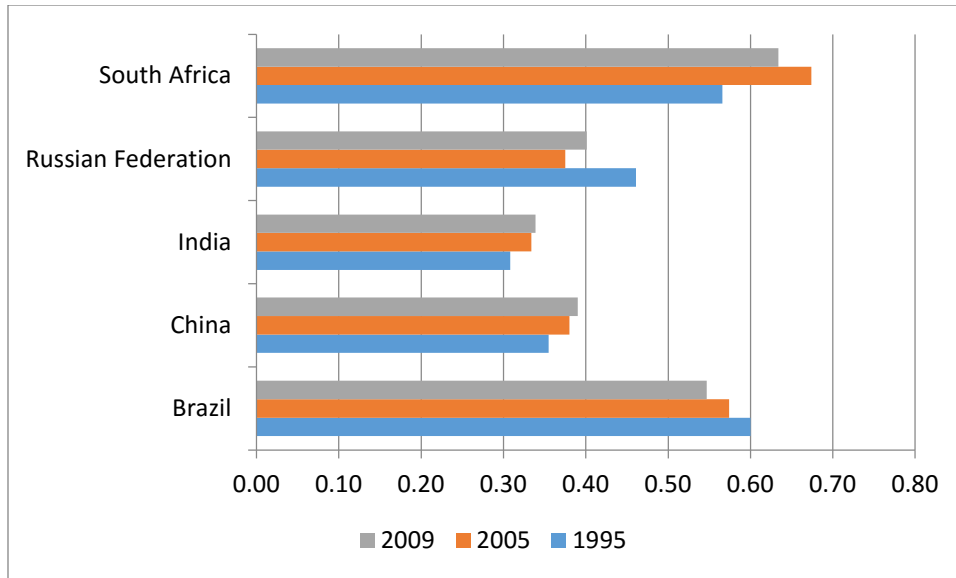


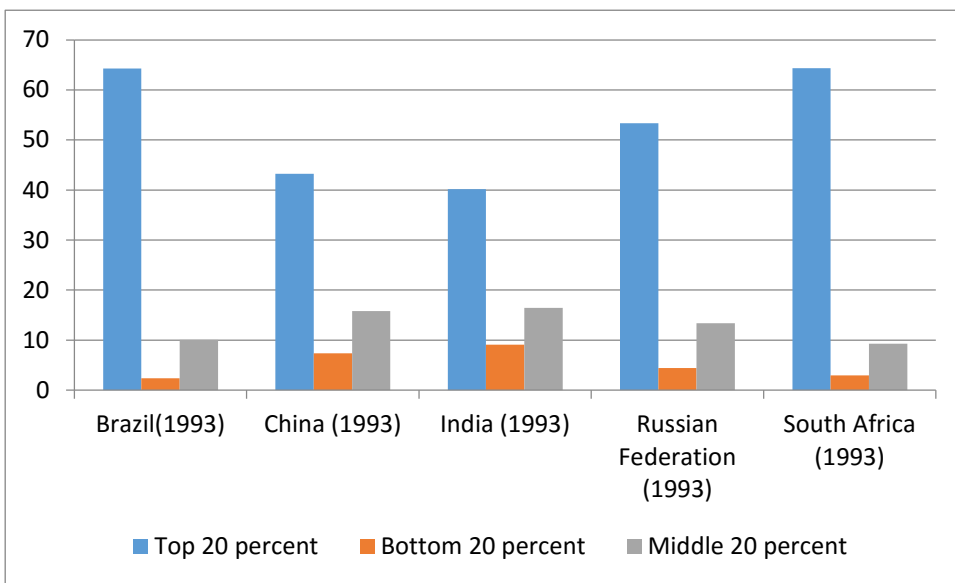
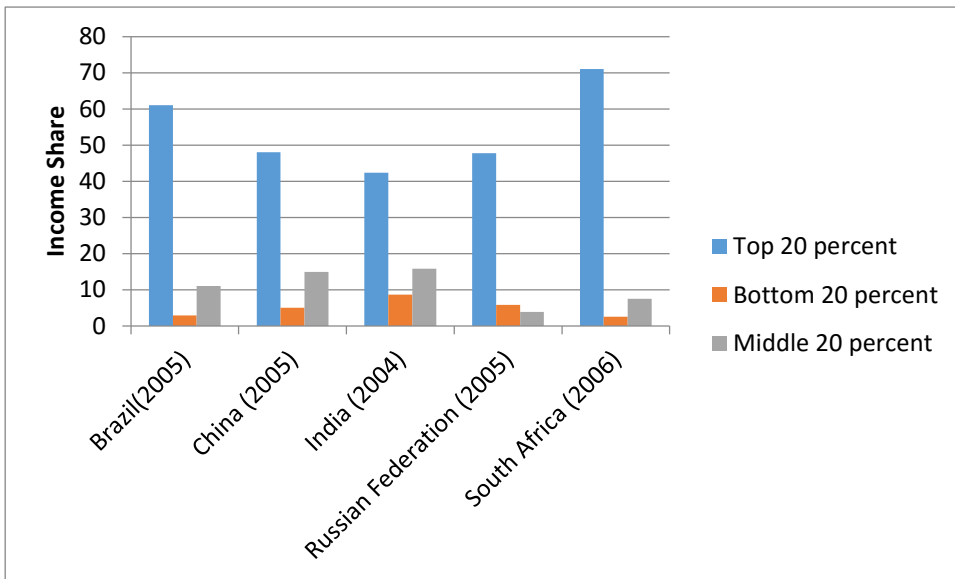
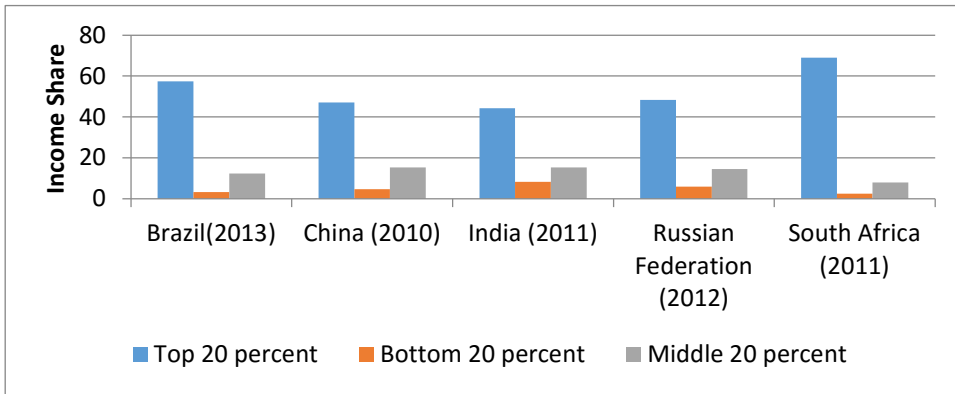
Figure2: Gini Index for BRICS countries

Source: World Development Indicators

2.3 It is necessary to see how the benefits of growth have reached across different income groups. As can be seen from Figure 3, Brazil marks a significant decline in inequality with increase in middle and lower income groups' share in total income, although the share of upper income group still remains high. This resulted in considerable poverty reduction. Further between 1995 and 2013, income share of the bottom and middle 20 percent of the population actually helped in reducing income inequality and poverty in Brazil. In China, India, the Russian Federation and South Africa, increases in real household income were unevenly distributed with the upper and middle income groups gaining more than the bottom population.

2.4 In spite of their concerted efforts, inequality still persists in BRICS countries, with the exception of Brazil. All of them have shown concerns and have taken active measures in this regard. It also needs to be noted that in recent years most of these countries have experienced considerable increase in wages and hopefully it will contribute to reducing inequality in the labour market in near future. The Brazilian experience of enhancing minimum wages, expansion in domestic demand, and improving skills and training and reforming labour market institutions offer some insights for most of the other countries

Figure 3: Household income by quintile



Source: World development indicators

3. Employment Growth

3.1 The creation of quality employment is one of the most important routes through which proceeds of growth reach to various strata of society. It impacts pace of reductions in poverty as well as inequality. For an inclusive growth, it is important that jobs created should not increase the divide between haves and have-nots.

3.2 The labour markets of BRICS countries have witnessed significant positive changes, especially during the 21st Century, relating to unemployment and stable growth of labour force. The unemployment rates are considerably low, ranging between 4-6%, except in the case of South Africa (The BRICS Post, 2014). However, the levels of unemployment of the youth are high, particularly in South Africa. BRICS countries have, in general, generated more jobs than the rest of the world. There was, however, a slowdown in employment generation among all BRICS countries between 2005 and 2015. Another major concern is the overall gender gap in access to employment which is rather high in countries like India.

3.3 There are significant gaps in labour productivity, although this has narrowed in recent years (Figure 4). Russia and South Africa have the highest labour productivity levels among these countries. China and India have witnessed significant increase in labour productivity in the wake high economic growth. In India the high share of agriculture in employment but low share in GDP is one of the principal reasons of low labour productivity. It can also be seen that in countries other than India and China, there is slowdown in the growth of labour productivity.

3.4 The rising labour productivity has helped in the reduction of poverty and raising the levels of living of workers in the BRICS countries. But labour markets are segmented across gender, race and location (rural/urban). All countries are making concerted efforts to reduce the segmentation, but more efforts need to be done in this direction.

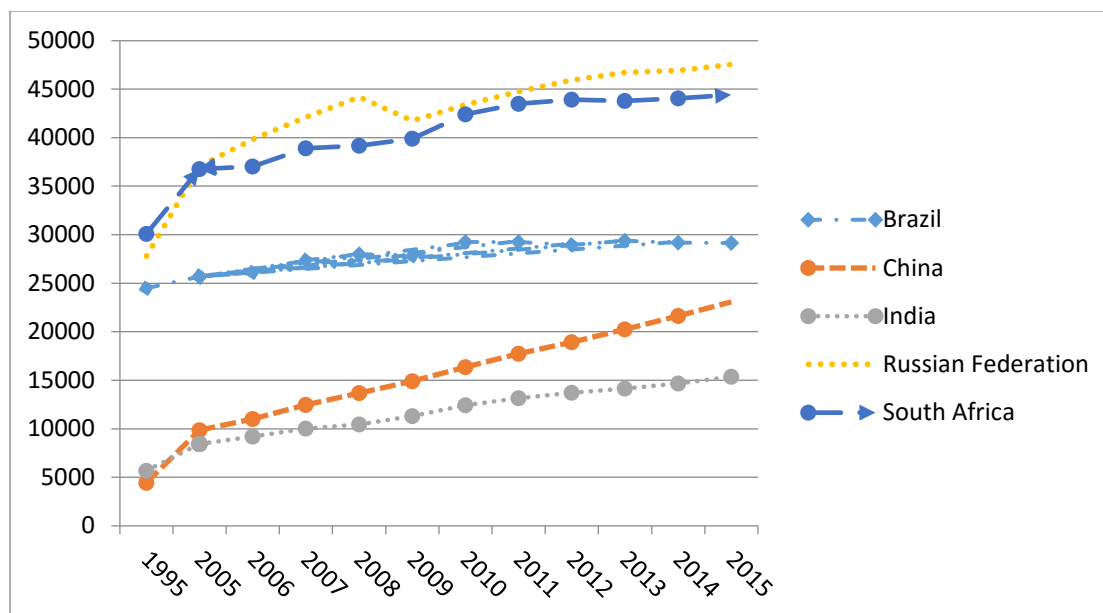


Figure 4: GDP per person employed (constant 2011 PPP\$)

Source: ILO Stat

4. Informality and Efforts Towards Formalisation

4.1 The division around formal-informal labour markets is one of the most important forms of segmentation. While access to informal employment contributes to increased income in poor households, evidence suggests that it is also closely associated with increasing inequality, including in BRICS countries, where a large number of workers are employed in informal jobs. Informal employment often disproportionately affects disadvantaged and impoverished groups who lack formal education and skills training. Working women, in particular, are more likely to take informal employment and earn substantially less.

4.2 Informal employment is most prevalent in India, in a variety of sectors more so in form of street vendors and home-based and sub-contracted workers as well as other forms of self-employment. In China, informal employment is concentrated among rural migrants and workers retrenched by the erstwhile state and collective enterprises, largely in construction, small workshops, domestic work and self-employment. In Brazil, it is based largely in low-skilled intensive sectors such as agriculture, construction, hotels and restaurants, domestic service and wholesale and retail trade. It is seen that share of salaried workers are highest in Russia followed by China. India has only 18 percent of the salaried workers among the BRICS countries. On the other hand the share of self employed workers is the highest in India followed by Brazil and South Africa (Figures 5 and 6).

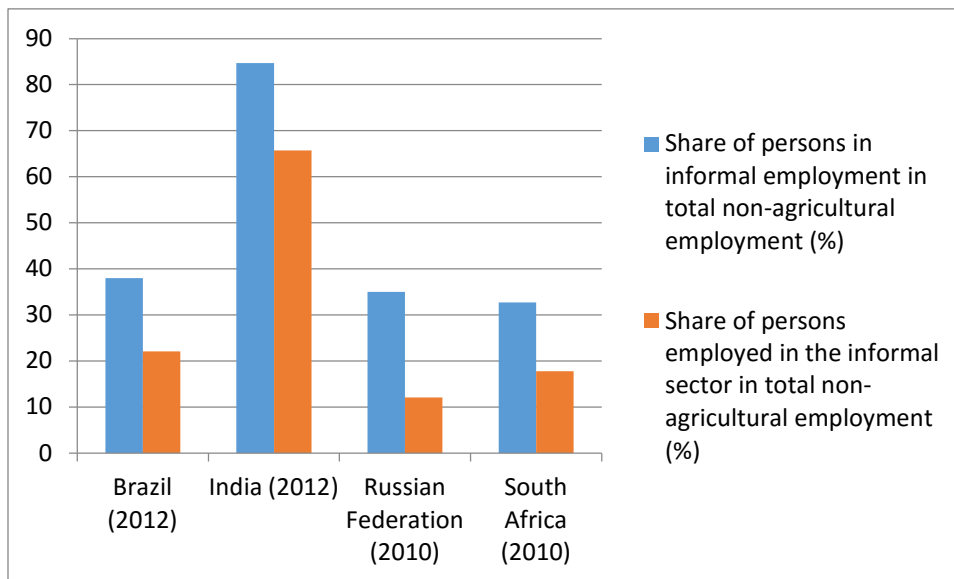


Figure 5: Informality in BRICS labour market.

Source: ILO Stat

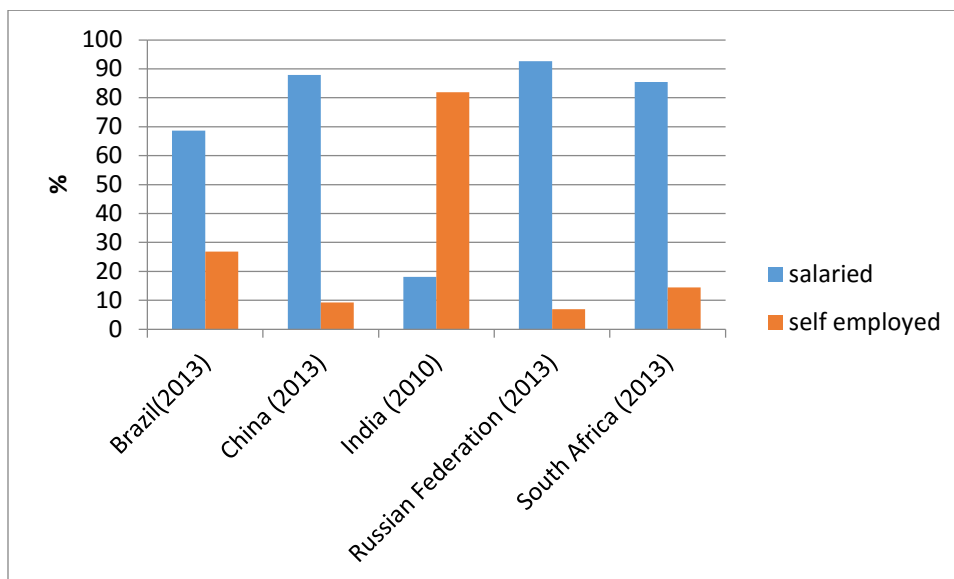


Figure 6: Share of salaried workers and self employed workers in BRICS

Source: ILO Stat

4.3 With increasing outsourcing and technological change, informal employment has also risen in the formal sector in several countries. All the countries have taken various measures to reduce this segmentation. Brazil has been very successful in this respect where informal employment declined and formal employment increased after 2000. Among various factors, the policies relating to minimum wages, strengthening the skills and training system and reforming the labour market institutions played very important role. Reforms in the taxation system of small enterprises and their registration were also important. These policies were accompanied by appropriate macro economic and trade policies which contributed to expansion in domestic demand and hence growth of the economy.

5. Education and Skills Training

5.1 Human capital development, particularly education and skill training are not only important due to their links to economic growth but also because of their role in promoting inclusion and reducing informality in the labour market. BRICS countries have put education and skills at the centre of their development strategies. All BRICS have enshrined the right to education in their constitutions, and adopted ambitious strategies to realize this right.

5.2 Primary school attainment rates have increased across BRICS countries but secondary and tertiary enrolments remain low (Ivins, 2013). Different population groups gain disproportionately from increased enrolment based on particular socio-spatial factors including class, gender, location and other identities. Other factors such as access to infrastructure affect poorer groups in the effective realisation of educational opportunities. Another concern is the imbalance between tertiary and secondary education. In countries like India, expenditure on tertiary education is relatively higher compared to secondary education. Obviously, secondary education needs to be given more attention than what it has hitherto received.

5.3 Substantial section of the illiterate youth and adults do not have access to quality education and skill development programmes. Particularly in Brazil, India and South Africa, a small fraction of secondary school students are benefitted by technical and vocational education and training institutions (Francois, 2014). The deprivation of the youth belonging to poorer classes weakens their employment prospects, especially in sectors which are productive and offer higher salaries. This also affects labour markets by way of mismatch of skills with adverse consequences for growth and

employment. It is very important for countries like India and South Africa to emphasise these aspects more on these policies so as to take full advantage of the demographic transition.

6. Health

6.1 The high economic growth has enabled the BRICS countries to devote more resources to improve the health conditions of their citizens, although, the expenditures remain relatively lower in some countries. There have been significant improvements in health outcomes as reflected by critical indicators such as infant mortality rates and life expectancy (Table 1). China, India and South Africa had very high infant mortality rates which were significantly reduced during last one and a half decades since 2000s.

6.2 Despite improvements, health inequalities remain high in and between BRICS countries. In India and South Africa, infant mortality levels are still high. The persistent prevalence of malnutrition impacts productivity and education outcomes. A health reform launched in China, committing a record funding, aims to make ambitious improvements, including making health insurance universal. Similarly, Brazil has drastically improved health care by reducing inequalities in access. Through health programmes since the especially the Unified Health System (SUS) Brazil has targeted towards a universal coverage. Brazil now spends much more of its resources for health care which amounts to about 9% of its GDP. Russia, among all the BRICS, spends the most on public health care and has made significant progress in reducing child and infant mortality since 2000. Still the incidence of non-communicable diseases (NCDs) continues to be a concern.

6.3 South Africa has faced burden of infectious diseases and high rates of HIV/AIDS. The government has taken effective steps to expand access to HIV prevention, treatment and care, including through a sizable, state-funded anti-retro viral program. The country now spends relatively high amount per capita on health care. In its attempts to revamp primary healthcare, the government has also expanded health care by introducing a national health insurance scheme. In India, the expenditure has been low, but there is significant increase in recent years. The government is proactively working to provide a minimum universal health care. Policies are being firmed up currently in this regard.

6.4 Thus, the BRICS countries have made considerable progress in improving health and nutritional conditions of their citizens. Although inequalities in health and nutritional outcomes remain high in some countries, it is hoped that with the introduction of effective measures adopted in recent years, the situation will considerably improve in near future.

Table 1: Health Status in BRICS

	2000		2014	
	Life expectancy	IMR	Life expectancy	IMR
Brazil	70.04	28.1	74.4	14.3
China	71.73	30.02	75.58	10.6
India	62.63	66.4	67.66	40.9
Russian Federation	65.34	19.7	70.36	8.9
South Africa	55.83	54.03	56.73	35.3

Source: World Development indicators

7. Social Protection

7.1 Access to basic social protection is key for ensuring inclusive growth. Except Russia and Brazil, the public expenditure on social protection in the other three countries remain low, particularly in China and India (Table 2). The social protection system in most of the BRICS countries reflects the existing dualism in the labour market. While formal sector workers are well covered by social protection, majority of informal workers are largely unprotected.

Table 2: Public expenditure on social protection

	Year	Brazil	China	India	Russian Federation	South Africa
Total public social protection expenditure and health expenditure (% of GDP)	2012	21.29	6.83	2.39	15.97	9.79
Public health care (% of GDP)	2012	5.79	1.27	0.96	3.96	4.74
Public social protection (excluding health care) (% of GDP)	2012	15.5	5.56	1.42	12.01	5.05

Source: World Social protection Report 2014/15

7.2 This poses a very important challenge of devising an effective mechanism of social protection in these countries. However, it is encouraging to mention that all the countries have recognised this deficiency and there have been steps and policies to expand and strengthen social protection system to cover informal workers. There have been several innovations in this regard. A good example of what can be done to provide social protection for those engaged in the informal sector is demonstrated by the

adoption of the Unorganized Workers Social Security Bill in India in 2008. Under this Act, provision was made to bring 340 million people under the cover of pension, basic health, life and disability insurance, as well as group accident insurance. The Mahatma Gandhi National Rural Employment Guarantee Programme was a milestone in India to provide livelihood security to the vast number of rural workers. Similarly, as rights-based approach to social security, South Africa, launched an ambitious universal health insurance programme. It also makes a large cash transfers targeted to identified children and older people which have been rather effective.

7.3 China too has made considerable progress in the expansion of social security coverage. The coverage rate for health insurance rose from around one-fourth of the population in 2005 to around 95% of the population in 2010. The pension system has been considerably expanded and now the migrant workers have been greatly benefited including by changes in the legal provisions relating to contract labour. The Russian Federation is tackling the challenges of improving the adequacy and sustainability of social security schemes, by several reforms in its pension system. Brazil's conditional cash transfer programme (Bolsa Familia) has been appreciated widely in promoting access to health, education and social assistance. It has considerably stimulated school attendance and contributed to improved health outcomes.

7.4 As a whole, the importance of social protection for ensuring inclusive growth has been well recognised by the governments of BRICS countries. There is move towards universalising some critical aspects of social protection. The experiences of these countries are quite rich and each of them have good lessons to offer to the developing countries in general.

8. Strategies and Policies

8.1 All the BRICS countries are working pro-actively to have sustained and inclusive growth. But considering the nature of globalization and fast moving technological changes, inclusion remains a global challenge and BRICS countries are not exception to this. Some of the important strategies and policies for an inclusive growth path include:

- **Accelerating growth:** Accelerating growth and institutional reforms for a broad-based pro-poor growth are very important. The existing institutions put a lot of barriers before the poor. Reforms in labour, capital and product markets while taking care of interests of the poor should be systematically undertaken. While it is important to attract foreign direct investment (FDI) to boost growth, expansion of domestic market is equally important. The national development policies

need to be integrated with macro-economic and development policies which expand productive employment.

- **Diversification of the economy:** Some BRICS countries are heavily dependent on primary commodities and in some there is large concentration of workers in agriculture (India for example). They should encourage industrialization which will add more value to manufactured products for both domestic and foreign markets . China has done well in this regard and now India's initiative of 'Make in India' is expected to boost manufacturing in the country and sanitation.
- **Access to education and health:** Universal access to social services such as education and health, particularly to the poor is very important. This needs to be accompanied by creation of good physical infrastructure such as adequate power supply and provision of clean drinking water.
- **Providing productive employment and making labour markets inclusive:** Strengthening skills and vocational training, and improving the quality of education are very important to narrow the skills gap. Secondary education has increasingly become the minimum requirement for entry into formal sector wage employment. Minimum wage policy can also improve the bargaining power of the workers. Collective agreements on wages can be used to set minimum standards and to set wages above an existing floor, helping to increase wages in line with productivity. The reforms in the labour institutions (collective bargaining system, labour inspection regime, etc.) are also critical for removing the barriers faced by the rural and urban poor.
- **Equity promoting policies:** Although all the countries have taken effective steps to promote equity, there still exists disparity across location, gender and occupational groups. The growth process alone cannot take care of these disparities and active policies are needed to bridge the gap. Affirmative action is an important instrument but it should be combined with other policies encompassing macro-economic, labour market, education and health, etc.
- **Universal access to basic social protection:** It has been well recognised that social protection plays a very important role in promoting not only equity and reducing poverty and vulnerability, but also contributes to the sustainability of the growth process. The BRICS countries have now the resources to provide a minimum level of social protection which cater to the basic needs of all. Along with expansion, there have been several innovations to social protection in these countries and they can learn a lot from each other's experiences. The direction of change in social protection systems should be towards increasing the coverage of cash transfers, making them universal and portable so as to facilitate mobility. But it is important to note that although a

minimum floor of social protection is required, it is not a substitute for public provision of key services viz. health, education and other amenities.

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