

Norway and the BRICS (III): Trade, Investments and Opportunities

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Summary

The term BRICS denotes Brazil, Russia, India, China and South-Africa. These are large countries and regional superpowers. This short note has discussed some aspects of the BRICS countries economic development in recent years as well as their economic relations with Norway. This policy brief is an excerpt from a somewhat more extended note on economic development in the BRICS countries and their importance for Norway. That note as well as some methodological discussions is available at [\(insert webpage here\)](#)

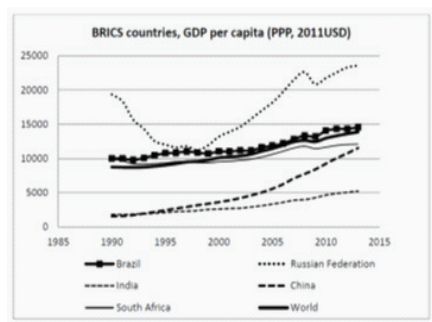
Introduction

The BRICS acronym could indicate that these countries share common characteristics that distinguish them from other countries. This is only partly true. The five countries are highly diverse with different cultures, economies, political characteristics, history and relations with other countries. But the five countries are large and they are very large among their neighbors.

Major indicators for the BRICS countries – a comparison

Figure 1 describes developments in GDP per capita in the BRICS countries (in constant PPP adjusted international currency) together with similar figures for the world economy. The graph documents that the BRICS countries are highly diverse. Russia is the richest among these countries with Brazil ranking second and South Africa third. India is the poorest. Three of the BRICS have an income per capita in line with the world's average (Brazil, South-Africa and China). Growth rates, however, are higher (to a considerable degree) for China and for India. Russia's dramatic recession during her transition from centrally planned to a market economy is clearly visible in the figure. It is evident that Russia has had high but varying growth rates thereafter. Visible in the figure is the fact that the BRICS countries (with the exception of Russia) had quite good performance also during the 2008 financial crisis.

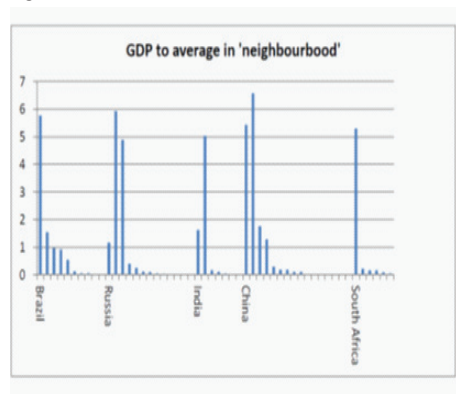
Figure 1



Source: World Development Indicators.

The BRICS countries have in common that they are regionally very large. Figure 2 indicates the BRICS's countries economic size relative to their neighbors (measured as total GDP relative to the average of their neighbors (including themselves)). This graph demonstrates that the BRICS countries are regional superpowers. The graph shows that all the BRICS countries are the largest, the second largest or the third largest among the countries they share borders with.

Figure 2



Source: World Development Indicators.

The BRICS countries differ markedly in their integration with the world economy. During the last two decades, world trade has increased and the sum of exports and imports in the total world economy has increased from about 40 per cent to about 60 per cent.¹ The BRICS countries perform very differently also in this respect. This is demonstrated in figure 3.

Figure 3

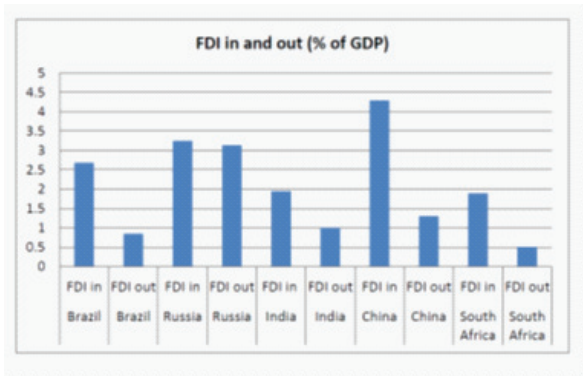


Source: World Development Indicators.

Being large and emerging markets, the BRICS countries are often considered as important markets. Important markets are also targets for foreign investment. Foreign Direct Investments (FDI) denotes investments where foreign firms either establish production in the host country or acquire controlling stakes in established production. The BRICS countries receive increasing amounts of FDI from other countries. Their outward international investments are much lower, however. Figure 4 illustrates inward and outward FDI flows for the BRICS countries for the 2005-2013 period (unweighted averages over the period). That graph reveals that the BRICS countries are net receivers of FDI. FDI inflows to these economies are larger than FDI outflows.

2

Figure 4



Source: World Development Indicators.

1 It is common to measure countries' openness with the sum of export and imports relative to GDP. This is misleading for two reasons, however. First, generally, with this indicator, small countries tend to be more open than large countries (if there were no countries openness would be zero). Second, exports and imports are goods' values. GDP is the increase in goods value due to production processes (value added). Therefore, sometimes, a country can have larger trade than their GDP. As seen, this was the case for Russia during the early 1990s.

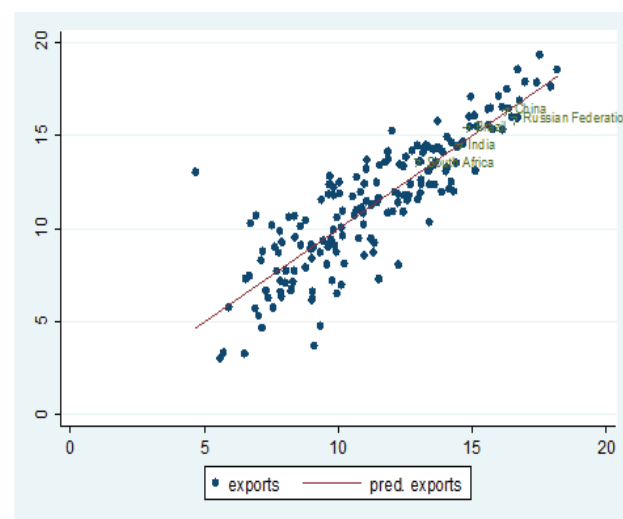
The largest recipients of FDI among the BRICS countries are China, Brazil and Russia. FDI to India and South Africa are modest in comparison. Note that for Russia, outward FDI is considerable. Capital flight from Russia has been a challenge for Russian economic development.

Norway's economic relationships with the BRICS countries

Bilateral international trade is recognized to be well described by the gravity model. That model predicts that trade between two countries depend positively on the two countries' total size (GDP) and negatively on the distance between them. The gravity model is frequently used in empirical and applied studies of international trade. In figures 5 and 6 Norwegian exports and imports with most trading partners are graphed (along the vertical axis) against the predictions from a simple gravity regression (along the horizontal axis). The numbers in the graphs are the logarithm of observed trade (in 1000 NOK) and the logarithm of predicted trade (in 1000 NOK).²

Three conclusions are easily read off from the graphs. The first is that the gravity model seems to fit the data quite well. The observed trade values are quite close to the predicted trade (the line in the graphs). The second conclusion is that the gravity model for Norwegian exports fits the data better than the one for imports. For exports, observed values are closer to the diagonal line than for imports. The third observation is that none of the BRICS countries are outliers. They are all close to the lines representing predicted trade, both with respect to Norwegian imports and Norwegian exports.

Figure 5. Observed versus predicted exports from Norway, all trading partners and the BRICS

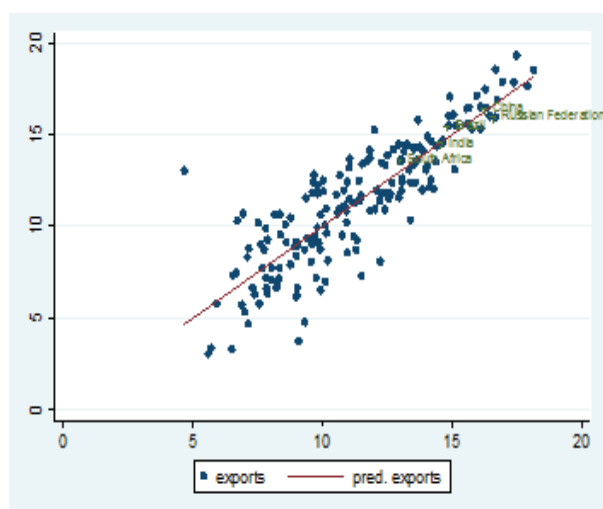


Source: World Economic Indicators.

For imports, the BRICS countries, with the exception of Russia, are above (although to a small extent) the regression lines. For exports, all the BRICS countries are very close to the regression lines.

2 Since the numbers are logarithms of 1000 NOK, they imply large numbers. Also deviations from predicted values are therefore large.

Figure 6. Observed versus predicted imports to Norway, all trading partners and the BRICS



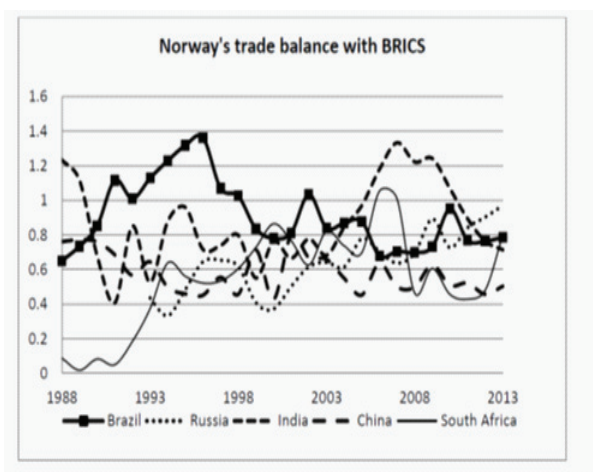
Source: World Economic Indicators.

Norway's trade with the BRICS countries is therefore very much in line with the predictions from the gravity model. In sum: Norway's trade with these countries is as expected and very typical given the BRICS's economic sizes and their geographic localizations.

More disaggregated data indicate that Norway runs trade surpluses with India and trade deficits with the other BRICS countries. Norway's relative trade balance with the BRICS countries are graphed in figure 7. The figures are constructed so that balanced trade corresponds to one; trade surplus to a number larger than one and deficits corresponds to a number below one.³

From the figure, it is clear that Norway's trade balance with BRICS countries differ. Norway had trade surplus vis-a-vis Brazil in the 1990s and with India in the mid 2000s. With the other BRICS countries Norway has trade deficits (with the exception of South Africa in 2006 and 2007).

Figure 7



Source: Statistics Norway

What are the main goods in Norway's trade with the BRICS countries? In table 1, imports and exports in 2013 in main commodity groups with the entire world and with the BRICS countries are listed.

Table 1 Imports from and exports to BRICS, (1000 NOK, 2013)

	Food	Beverages	Raw materials	Oil/energy	Animal and veg. oil	Chem. prod.	Manu. goods	Mach-inery/vehicle	Fin. goods	Other
Imports										
World	35280	6607	30353	38904	5136	50482	76336	204241	79256	1172
Brazil	3151	0	4232	0	0	67	180	88	52	4
India	200	0	42	286	1	155	784	234	1101	0
China	771	0	171	2	3	1088	5407	23067	17846	1
Russia	340	2	663	3336	933	823	2854	71	70	0
South Africa	344	39	1009	0	0	5	367	230	9	0
Exports										
World	64283	559	14665	61188	1619	41506	67031	80127	23409	1316
Brazil	861	1	147	729	4	727	366	1920	271	0
India	2	0	252	95	2	342	465	256	141	0
China	2457	7	1033	200	35	4002	2728	4576	1211	0
Russia	6808	5	90	6	4	303	399	787	167	2
South Africa	153	0	0	367	4	53	55	479	223	0

Source: Statistics Norway

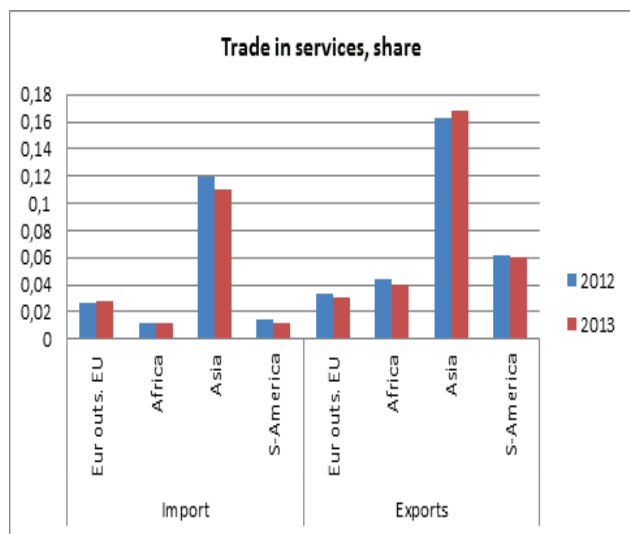
The largest commodity groups in Norwegian imports from the world are machinery and vehicles, manufactured goods and chemical products. Imports from the BRICS countries partly reflect the general imports pattern, but there are also differences. The largest commodity groups in imports from the individual BRICS countries are raw materials (Brazil), finished goods (India), machinery (China), energy (Russia) and raw materials (South Africa). Imports of energy from Russia are mainly electricity.

Norwegian exports are dominated by oil. But oil is not the most important commodity group in Norwegian exports to any of the BRICS countries. The largest commodity groups in Norwegian exports to the individual BRICS countries are machinery and vehicles (Brazil), manufactured goods (India), chemical products (India), food (mainly fish) (Russia) and machinery and vehicles (South Africa).

The above trade data are for trade in goods. Services are becoming more important in the world economy. Statistics Norway publishes quarterly data on trade in services. These data are far more aggregated as compared to data for trade in goods. Norway's trade in services is roughly balanced (both exports and imports are somewhat lower than 200 billion NOK each year). The data on trade in services are not provided on a per country basis. Figure 8 graphs imports and exports of services to four sub groups of countries (Europe outside EU, Africa, Asia and South-America) as shares of total imports and exports in 2012 and 2013.

³ The formulae for the numbers is $2 \times \text{exports} / (\text{exports} + \text{imports})$.

Figure 8. Trade in services



Source: Statistics Norway

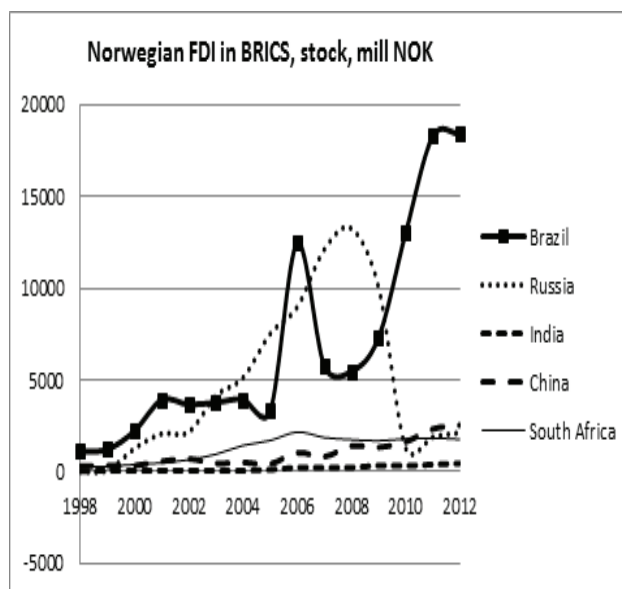
The figure does not provide evidence on the BRICS countries as such. But the regional data indicate that Asia is an important trading partner for Norwegian imports and exports of services. Service trade with Asia constitutes about 15 per cent of total Norwegian trade in services. The other subgroups are far smaller. Note also that Norway runs trade surpluses with the four groups of countries. Export shares exceed import shares for all of them. Since service trade is almost balanced, larger export shares vis-a-vis import shares imply trade surpluses.

4

Norwegian FDI to the BRICS countries is limited (to less than 2.5 per cent of total Norwegian outward FDI stocks). In figure 9, the distribution across the BRICS are graphed. It is clear from figure 9 that Norwegian investments in the BRICS coun-

tries differ. Norwegian FDI stocks were largest in Russia and Brazil, but they are very volatile for Russia. Investments in India, China and South-Africa are limited.

Figure 9



Source: Statistics Norway

The above numbers are from Statistics Norway. Statistics Norway does not provide data for inward FDI disaggregated at investing country. We therefore do not have information on inward FDI from the BRICS countries to Norway.



Norwegian Institute of International Affairs

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