Advances in Economics and Business Management (AEBM)
p-ISSN: 2394-1545; e-ISSN: 2394-1553; Volume 4, Issue 2; January-March, 2017, pp. 119-122

http://www.krishisanskriti.org/Publication.html

Analyzing Export Diversification Patterns of BRICS Economies

Shikha Sharma

Amity University Jaipur

Abstract—*The global financial crisis, with epicenter in United States, had a cascading affect on major economies of the world. The export led economies witnessed sharp fall in export performance strongly influencing the growth rate of the countries. World export demand dwindled and the developing countries realized that Export specialization increases resource efficiency and competitiveness of the economy but at the same time increases export dependency on limited commodity and markets. The paper evaluates how Export diversification broadens the product composition and markets and diversifies risk that a country faces due to volatility in the international market. The paper analyses exports diversification patterns of BRIC economies suggests how to policy support for export export diversification will benefit BRIC economies.*

Keywords*: Export Specialization, BRIC, Export diversification.*

1. INTRODUCTION

The global financial crisis, with epicenter in United States, had a cascading affect on major economies of the world. The export led economies witnessed sharp fall in export performance strongly influencing the growth rate of the countries. World export demand dwindled and major economies suffered economic slowdown. The policy makers realized that to boost growth rate of the economy export diversification can be one of the alternative.

As the nations with the most dynamic economic development on the planet, BRICS nations (Brazil, Russia, India, China and South Africa) confronted an incredible test during the phases of international volatility. BRICS are emerging nations with strong growth and development, but these nations face challenges including: influence of unsustainable monetary developments in the world economy , declining export demand and political instability. Brainard and Cooper (1968). As they state, ‘‘diversification’’ has become a commonplace goal of economic policy in less developed ountries. Besedes and Prusa (2006) show that differentiated goods are more likely to survive (i.e., to be traded longer) in the United States market than homogeneous goods.

2. RESEARCH METHODOLOGY

The study has been based on secondary data which is collected from WITS ,World Bank and UN comtrade and at 2 digit level of product. The Secondary Data is Time series data which has been analyzed from 1988 to 2014. HH Market Concentration Index values have been taken from WITS and World Bank to compare Export Diversification pattern of BRICS Economies.

HERFINDAHL-HIRSCHMAN MARKET CONCENTRATION INDEX Description: This indicator is a measure of the dispersion of trade value across an exporter’s partners. A county with a preponderance of trade value concentrated in a very few markets will have an index value close to 1. Thus, it is an indicator of the exporter’s dependency on its trading partners and the danger it could face should its partners increase trade barriers. Measured over time, a fall in the index may be an indication of diversification in the exporter’s trading partnerships.

The user has the option of selecting product clusters, which will return the index calculated only for that specified subset of countries. Note that if a country exports to only a single market, then the indicator returns no value.

$$\frac{\sum_{j=1}^{n_i}\left(\frac{x_{ij}}{X_i}\right)^2 - \frac{1}{n_i}}{1-\frac{1}{n_i}}$$

Mathematical Definition: X is the total value of exports from reporter i, x is the value of exports from country i to destination market j, and n is the number of partner markets to which country i exports. Range of Values: 0 to 1.

A higher index indicates that exports are concentrated in fewer markets, whereas a country trading equally with all partners will have an index close to 0.

Limitations: A low index may not be a true indicator of a broad partner base if the number of partners is low: it simply implies that it trades with each of them equally.

As it is by treaty, by barter, and by purchase, that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour.

(Adam Smith, The Wealth of Nations, 1776).

Without continual growth and progress, such words as improvement, achievement, and success have no meaning.

(Benjamin Franklin, 1706–1790)

sure. (Obviously it is unrealistic for all countries to have positive net fares since one or a larger number of countries must import more than they send out if the others trade more than they import.)

3. EXPORT DIVERSIFICATION

Trade diversification is differently characterized as the adjustment in the organization of a nation's current fare item blend or fare destination (Ali, Alwang and Siegel, 1991), or as the spread of creation over numerous segments (Berthelemy and Chauvin, 2000). For some creating nations, and as a feature of a fare drove development system, send out expansion is considered as the movement from conventional to non-customary fares. Export diversification is important for developing economies due their reliance on few commodities for exports,wider range of product portfolio for exports protects country in the event of international crises .The purpose of diversification is spread of production over multiple sectors and moving from traditional exports to non - traditional ones as developing countries grow. In the exchange writing, trade diversification can take a few measurements and can be dissected at various levels. There are two surely understood types of fare broadening: flat and vertical. Even diversification happens inside of the same division (essential, optional or tertiary), and involves alteration in the nation's fare blend by including new items existing fare wicker container inside of the same segment, with the plan to relieve unfriendly financial (to counter worldwide value flimsiness or decrease) and political dangers.

Vertical diversification into preparing of local made merchandise involves a movement from the essential to the auxiliary or tertiary area. It involves inventing further uses for existing items by method for expanded worth included exercises, for example, handling, promoting or different administrations. Vertical broadening can extend market open doors for crude material and upgrade development and solidness since handled products for the most part have more noteworthy value strength than crude items.

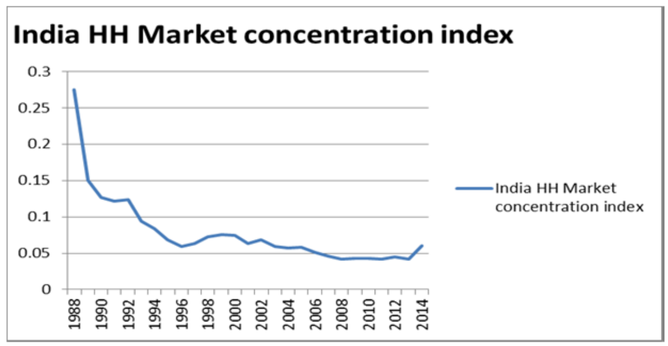
The issue of export diversification reached at the forefront for the interest of all the economies after the Second World War. In the period before the First World War, the working of universal exchange was enlivened by established and neoclassical financial hypothesis. Exchange relations were along these lines in view of the specialization, boundary facilitated commerce and near favorable circumstances of the nations required in global exchange.

4. WHY THE BRICS ARE IMPORTANT:

The BRICS are both the quickest developing and biggest developing markets economies. They represent very nearly three billion individuals, or simply under portion of the aggregate populace of the world. Lately, the BRICS have likewise added to the larger part of world GDP development.

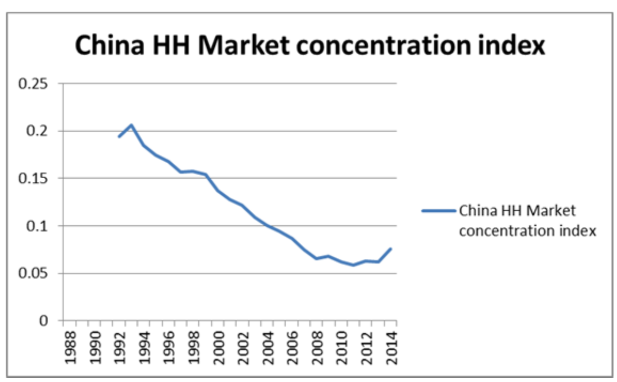
As per different financial experts projections, it is just a short time before China turns into the greatest economy on the planet - at some point somewhere around 2030 and 2050 appears the agreement. Truth be told, Goldman Sachs trust that by 2050 these will be the most critical economies, consigning the US to fifth spot. By 2020, the greater part of the BRICS ought to be in the main 10 biggest economies of the world. The undisputed heavyweight, however, will be China, additionally the biggest the loan boss on the planet.

5. HH MARKET CONCENTRATION INDEX OF BRICS ECONOMY

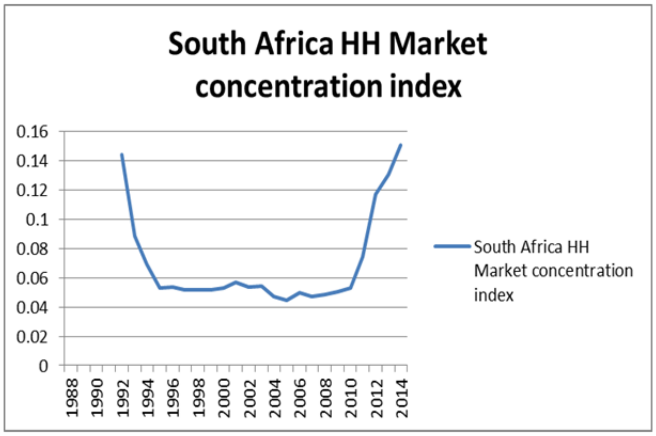


The above graph specifically defines the export diversification or specialization during the period of 1988 to 2014. We can see that before liberalization which came up in the year 1991 in the year 1988 export of goods were done in specialized manner but after 1991-1992 when LPG came into force and policies were liberalized India easily Started diversifying their export of goods. As we can see from the year 1994 till 2014 India marked a remarkable change in their export of goods and have diversified on a greater extent.

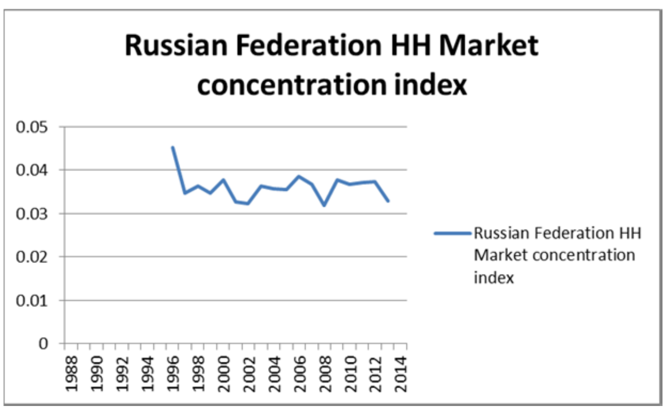
To stop international volatility or business cycle crisis India gone for diversify their exports.



As we can see in the above figure that China was solely a technology based country which focused on exporting goods in a specialized field for limited products which is clearly seen from the year 1990-1992 after that in the year 1994 till 2008 they were concentrating on mainly technology and export of limited products but after 2008 till 2014 china marked a drastic change and started diversifying and started exporting all the goods available.

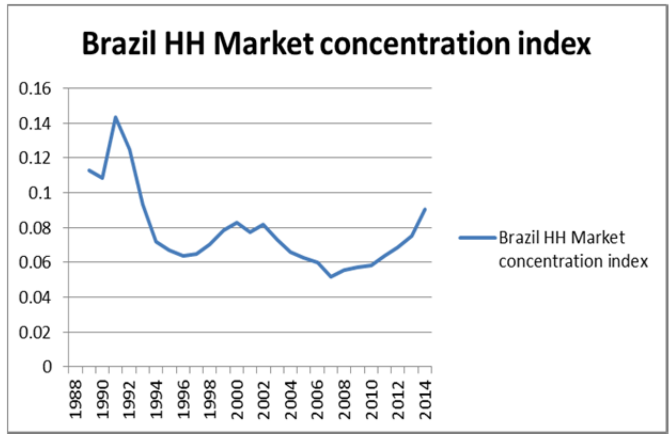


In the year 1991 the export of goods were specialized of limited goods till 1994 and then after that there was a time from 1994 to 2010 when the export of goods were diversified and export was done on a wide scale dealing with all the goods not limited one. But after 2010 onwards as per the records of WTO says they are focusing on specialization.



Russia is the only country in BRICS who focused on Diversification from 1993-1994 till now Political and economic changes in the 1990s.

Brazil is emerging market in today's time like India and China. In the year1988 they started export of goods in specialized manner dealing with limited products till 1994 but afterwards it was seen that there was a great fluctuation in export of goods as goods were not totally specialized and not totally diversified till 2007 but after that till 2014 it was seen that they went back on to dealing with export of some limited goods only and therefore are not diversified.



Brazil has an export oriented economy, reliant on the shipments of crude material (46 percent of aggregate fares) and produced products (38 percent). The nation sends out fundamentally: soybeans and related soy items (15 percent of aggregate fares); transport gear and parts (10 percent), oil and oil items (9 percent), meat (8 percent), iron mineral (7 percent), synthetic items (7 percent) and metal items (7 percent). Fundamental fares accomplices are: China (19 percent of aggregate fares), the United States (13 percent), Argentina (7 percent), the Netherlands (5 percent), Germany and Japan (3 percent each).

The issue of export diversification reached at the forefront for the interest of all the economies after the Second World War. In the period before the First World War, the working of universal exchange was enlivened by established and neoclassical financial hypothesis. Exchange relations were along these lines in view of the specialization, boundary facilitated commerce and near favorable circumstances of the nations required in global exchange. Since the 1950s, regarding the breakdown of the frontier framework, the topic of whether creating nations ought to build the assortment of their fare wicker bin or not started to be handled (Samen, 2010).

6. CONCLUSION

The BRICS are both the quickest developing and biggest developing markets economies. They represent very nearly three billion individuals, or simply under portion of the aggregate populace of the world. Lately, the BRICS have likewise added to the larger part of world GDP development.

The study concludes that trade diversification is highly beneficial for BRICS economies. The study reveals that international volatility and crises are inescapable component of Individual economies. Thus trade diversification will help economies in mitigating risk . The destination Markets of BRICS economies have grown significantly with an exception of South Africa.

Brazil, Russia, India and China are the regions with the highest export dependency; it has the lowest degree of export concentration. In other words, the portfolio of exports from Brazil, Russia, India and China appears to be much more diversified relative to other regions .

The FTP also supports the export diversification patterns.

A country will export what it manufactures and exports contribute significantly to growth of GDP. Thus what countries export and where it exports can influence the current state of economy.

By 2020, the greater part of the BRICS ought to be in the main 10 biggest economies of the world. The undisputed heavyweight, however, will be China, additionally the biggest the loan boss on the planet.

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