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BRICS: Prospects for a Better Economic Horizon

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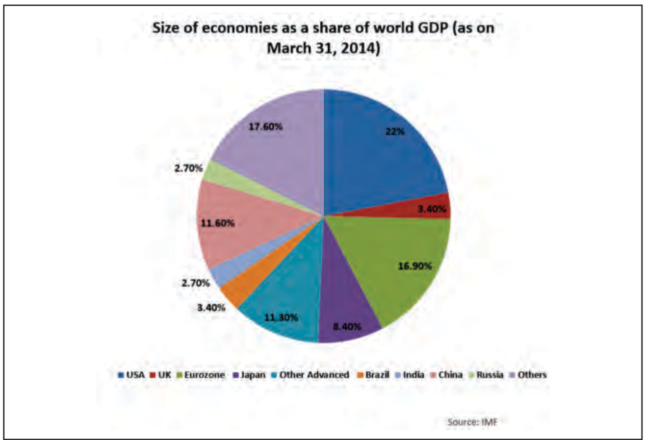
ABSTRACT The world of BRICS is expanding. Despite setbacks, this association of Brazil, Russia, India, China and South Africa—all of them important, emerging-market economies—remains relevant as it continues to comprise a big share of the world's population, its resources, and global trade. This paper describes the rise of BRICS and their growing mutual interest in cementing their economic and political ties. It argues that while problems remain in promoting cohesion among the member countries and their economic slowdown has reduced their relative importance, BRICS' potential is still unfulfilled.

INTRODUCTION

Potentially among the most powerful associations in the world, BRICS comprises Brazil, Russia, India, China and South Africa. These nations comprise 46 percent of the world's population; their combined GDP is US$16 trillion. They are all categorised as 'emerging market economies' with huge advantages in natural resources and productive demographics.

Figure 1



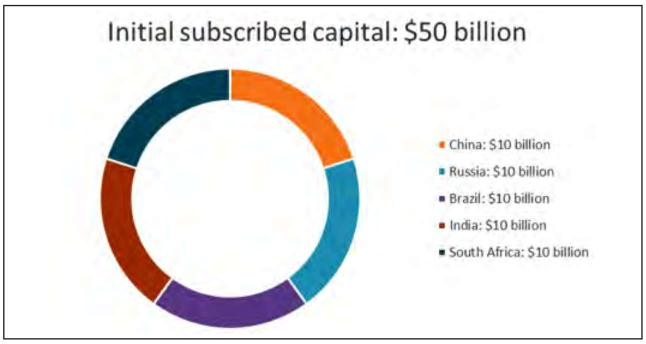
BRICS stands for a multipolar world because the five member nations have between them nearly half the world in terms of population. They have growing financial clout and they stand together in effecting changes in the global financial order. In 2014, the BRICS nations announced the establishment of the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), which has the potential to threaten the position of the US dollar in global trade by offering an alternative multilateral financial institution. The announcement was made against the backdrop of the failure of implementation of the 2010 International Monetary Fund (IMF) reforms.[1]

It is seen as a move on the part of the BRICS member nations to exert their dominance in a world where they have an increasing share of global GDP and are relatively independent of the United States and its allies, as well as financial institutions that have long been viewed by analysts as West-dominated.

The NDB's pronounced vision is for the mobilisation of resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies. The initial authorised capital of the Bank is $100 billion, with $50 billion being the initial subscribed capital equally shared among the founding members. The aim is to increase cooperation amongst BRICS member nations and to supplement the efforts of multilateral and regional financial institutions and achieve strong, sustainable and balanced growth.[3]

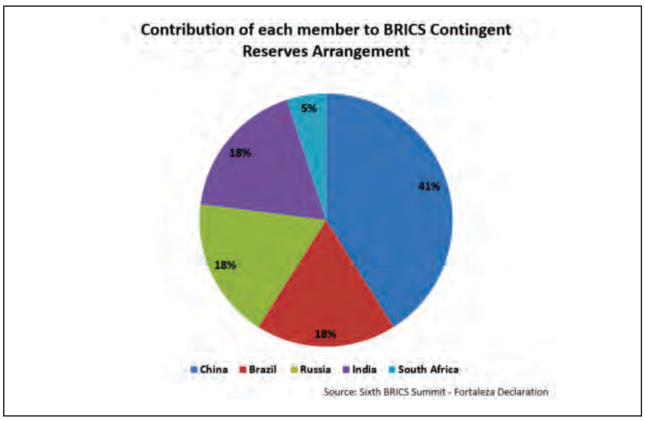
THE NEW DEVELOPMENT BANK

Figure 2



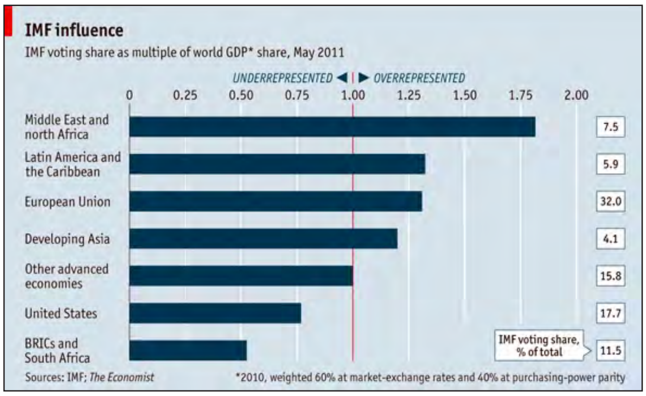
The BRICS Contingent Reserve Arrangement (CRA) will be established with an initial size of $100 billion. The Agreement is a framework for the provision of liquidity through currency swaps in response to actual or potential short-term Balance of Payments pressures.[4] The bulk of the investment will be undertaken by China with a contribution of $41 billion, followed by Russia, Brazil and India contributing $18 billion each, and South Africa giving $5 billion. As stated by Russian President Vladimir Putin, "This mechanism creates the foundation for effective protection of our national economies from a crisis in financial markets."

Figure 3



The NDB will be a democratic setup and each country will have equal voting rights, unlike the IMF where Emerging Market countries have disproportionately smaller voting rights.

Figure 4



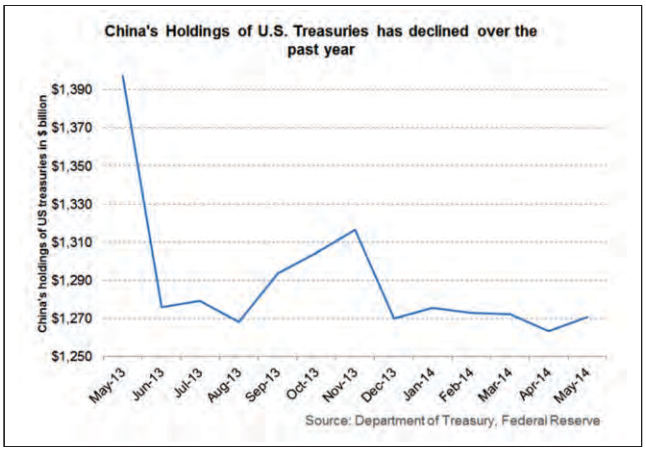
THE IMF AND THE DOLLAR'S SUPREMACY

The current quota system[5] unjustly rests enormous powers with developed nations, casting doubt on the legitimacy and relevance of the IMF in today's world. The IMF reforms sought to shift six percentage points of total quota to developing countries. Through this, BRICS member nations would have gained a significant increase in their voting share at the IMF. China would have become the third largest quota holder, positioned behind the US and Japan, while India, Brazil and Russia would have been amongst the top 10 quota holders. The US Senate, however, refused to give its nod to IMF reforms to assign the Emerging Market countries like India, China and Russia with a greater share of voting rights. This has spurred the BRICS member nations to push more aggressively for setting up the NDB and CRA.

Further, the dollar cannot be the only reserve currency when China is highly important in world trade and investment. As the US is currently the world's largest trading nation, carrying out trade in dollars substantially increases operational costs due to the need for hedging. It also increases payment risks along with fines and penalties when trading with countries which have been slapped by the US with economic sanctions.

Since the global financial crisis of 2009, China has pushed for the inclusion of the Chinese renminbi or Yuan to the Special Drawing Rights (SDR) of the IMF.[6] The initial rejection of the Yuan's inclusion in the SDR basket in 2010 had been a major blow to the Chinese government, prompting it to be more aggressive in working towards the establishment of the CRA as a counter-balance to the SDR.

Figure 5



In December 2015 the IMF announced that it had finally made the decision to admit the Yuan into the SDR basket beginning in September 2016.[7] The move is seen by analysts as both an economic and a political decision. The IMF is now acknowledging the Yuan's growing importance in trade and investment especially between China and Russia, China and Latin America, China and Africa, and China and ASEAN. The IMF is also sending out the message that it considers the Yuan to be safe, reliable and 'freely usable.' In admitting the Yuan, the IMF is recognising the fading influence of the Euro in the international monetary system and at the same time crediting China with its ongoing monetary and financial reforms. As IMF's Managing Director, Christine Lagarde said upon the announcement of Yuan's inclusion: "The continuation and deepening of these efforts will bring about a more robust international monetary and financial system which in turn will support the growth and stability of China and the global economy."

And although the dollar will remain the dominant global currency, the Yuan has also now gained more clout. Developing countries will find more choices about their banking transactions as the NDB is expected to assume importance.

The push for its currency's inclusion in the SDR basket has not been the only one in China's recent efforts to assert its clout. In recent years, China has also been selling part of its holdings of US Treasury bonds. During its recent (August 2015) stock market crisis, China sold $100 billion worth of Treasuries in the market.

Moreover, BRICS members have decided to trade and invest in each other's currencies. The dominance of the US dollar is expected to be severely undermined when trade among the BRICS members expands further. Total intra-BRICS trade is projected to amount to $6.14 trillion for the year 2015. In particular, India's trade with the other BRICS nations has been expanding, as shown in Table 1.

India and Russia have established a Joint Working Group to develop a mechanism for rupee-ruble trade and an effective regulatory environment for trade settlements. The group consists of

Table 1

Product	India's export to BRICS			BRICS Import from the world			India's export to the world		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
All products	28323	28010	30690	2375456	2459152	2610822	301483	289565	336611
India's Top Ten Products with High RCAs (2013)	4113	5260	6552	51017	56295	61175	76640	77602	82497
Cotton	2921	3725	4933	16570	19834	18362	7796	8569	11294
Lac, gums, resins, vegetable saps and extracts	196	424	353	448	517	545	2271	6548	3066
Manmade filaments	226	269	328	6194	6070	6068	2645	2261	2681
Cereals	113	194	247	5949	8912	9920	5371	8729	11592
Coffee, tea, mate and spices	219	226	207	1730	1829	1812	2972	2694	2885
Pearls, precious stones, metals, coins	200	182	203	16730	15486	20664	50016	43090	44158
Other made textile articles, sets, worn clothing	91	90	103	1783	2142	2204	3850	3973	4713
Vegetable textile fibres, paper yarn, woven fabric	65	64	81	858	718	789	379	326	327
Carpets and other textile floor coverings	49	50	60	503	582	617	1280	1351	1716
Vegetable plaiting materials, vegetable products	33	35	35	251	204	193	61	62	65

Source: Discussion paper, Intra-BRICS trade & Its Implications for India, CUTS International. (RCA stands for Revealed Competitive Advantage) representatives from the central banks, export-import banks, commercial banks and governments of both the countries. Transaction in rupee-ruble is projected to gain significance in 2017 when Russia starts delivering liquefied natural gas to India.

In early May 2014 Russian and Chinese leaders met in Moscow and signed 40 inter-governmental agreements, among them a $24.4-billion Yuan–Ruble currency swap, to be facilitated by the CRA, which stands among the first concrete steps taken by BRICS countries to eliminate the dollar from international trade. The two countries also signed a $400-billion natural gas deal, a bilateral agreement that falls outside the BRICS framework. Also explored during the same meeting is a $300-billion high-speed railway project connecting Beijing and Moscow.

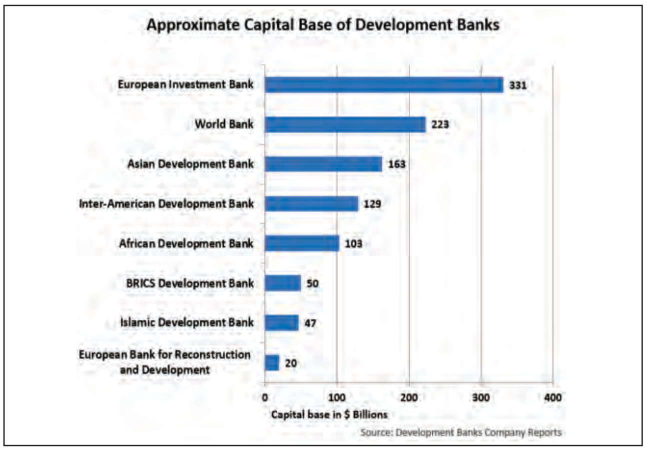
According to the provisions of the gas agreement, Russia will export 38 billion cubic meters of gas to China over the next 30 years for $400 billion. For the first time in the history of the two nations' bilateral trade, the transactions will be made not in US dollars but in Russian rubles and Chinese Yuan. With China set to become a global economic powerhouse, Russia expects to gain from having it as a partner in their joint alternative-to-dollar initiative. China's motivation seems purely economic, as it attempts to internationalise its currency throughout Asia and Latin America and, by doing so, challenging the hegemony of not only the dollar but the IMF, as well.

CHINA: THE INVESTOR WITH DEEP POCKETS

China, through the NDB and the proposed Asian Infrastructure Investment Bank (AIIB), will help bridge the infrastructure funding gap in Asia. In 2010, the Asian Development Bank (ADB) estimated the region's investment needs, from present to 2020, at $8 trillion. Currently, the ADB—with its capital base of $160 billion and the World Bank with $223 billion—do not have the capacity to finance Asia's infrastructure needs. Both the NBD and AIIB will thus play crucial roles in infrastructure development in Asia, whilst China increases its political and regional influence in the region.

China is increasingly becoming an important development partner for low-income countries in Asia, Latin America, Africa and South Asia. In March 2014, for example, it signed a huge economic exchange agreement with Brazil, which is among its long-standing trade partners in Latin America. Brazil exported 5.4 million tonnes of oil to China from January to May 2011, accounting for 35 percent of Brazil's total oil export in that period. In 2014, Sino-Brazilian trade reached $86.67 billion, making China the largest trading partner for Brazil. These ties are projected to strengthen, with China's announcement of a $10-billion line of credit for Brazil during Premier Li Keqiang's visit in May 2015.

Figure 6



Venezuela is another country in Latin America with which China is engaging in dollar-less energy trade. Since 2007 Venezuela has borrowed $50 billion from China,[8] and it is servicing these loans by exporting to China a huge proportion of its crude oil, of which it has the world's largest reserves. Around 60 percent of Venezuela's oil reserves are being exported to Beijing annually to pay off its debts. In July 2014, Venezuela and China signed a deal that included a $4-billion credit line in lieu of crude and other products.

With Argentina, meanwhile, China has agreed to an $11-billion currency swap, providing much needed funds for the government of President Cristina Kirchner. Argentina has been locked out of international capital markets since defaulting on its debts in 2001.[9]

Overall, President Xi Jinping announced $250 billion in investments in South America, including $10 billion for 3,300 miles (5,280 km) of high-speed railway from Acu near Rio de Janeiro to the Peruvian coast over the Amazon and through the Andes.

Even with Africa, China is showing growing influence. As early as in 2009 China has already surpassed the US as Africa's largest trading partner. Investments in the continent have also continued on an upward trend, exceeding $40 billion in 2012.[10] The primary focus of China's investments is energy, mining, construction and manufacturing. Investment has expanded over the years to cover a wide range of activities, from restaurants to food processing. Most infrastructure funding is undertaken as dollar-less trade. Investment is provided on the basis of a loan, which is repaid by shipping natural resources to China.[11]

China, therefore, is undoubtedly a rising star of the global economy, much like India. Two other BRICS members, Russia and Brazil, meanwhile, are also important; both have huge natural resource reserves, and Russia is a developed country, to begin with. South Africa, for its part, is a most attractive investment destination in that region, being rich in resources.

Overall, the five BRICS nations have experienced high growth rates, possess economic potential and a huge youth population with a strong demographic dividend. They possess substantial influence as an economic bloc.

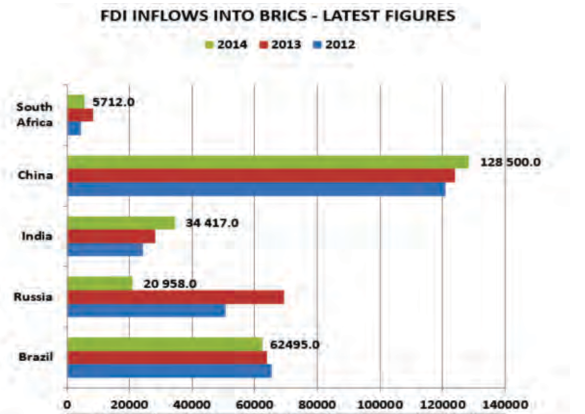
BRICS IN WORLD TRADE AND INVESTMENT

In recent years, other BRICS members have also expanded their involvement in Africa. Their share in FDI and trade volume of the African continent has surged rapidly. India and Africa are close investment partners and India has promoted the development of small- and medium-scale enterprises in the continent. Brazil and Russia have also been heavily involved in mining and energy industries in Arica through public private partnerships. BRICS are now Africa's largest trading partner, with trade volume expected to reach $500 billion by 2015, 60 percent of which is from China. In all, the BRICS countries have invested 25 percent of the total Greenfield projects of Africa. South Africa has the highest share in FDI stock in Africa; moreover, its investments are widespread.[12]

A significant share of BRICS' outward stock of investment is in developed countries, with the bulk going to EU. These investments are largely driven by market-seeking motives and cross-border M&A purchases in developed countries, amounting to $105 billion in the period 2010-12.

Intra-regional FDI is also very important for BRICS, with neighbouring countries accounting for 70 percent of outward stock in the case of China and 40 percent in the case of Brazil (as of 2011).These investments are mostly in regionally integrated production networks or regional value chains.

Figure 7



	Brazil	Russia	India	China	South Africa
2014	62495	20 958.0	34 417.0	128 500.0	5712
2013	63 996.0	69 219.0	28199	123911	8300
2012	65272	50588	24196	121080	4559

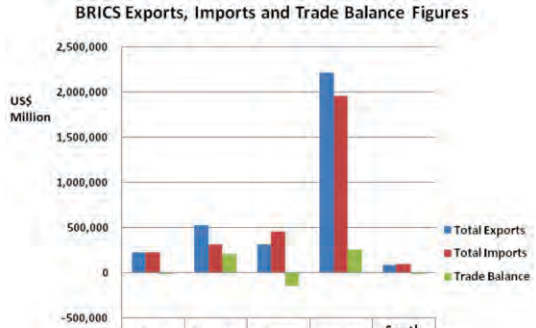
US$ Million

Source : UNCTAD, World Investment Report 2015

But, surprisingly enough, FDI among BRICS themselves is relatively limited: and FDI stock to other BRICS account for only 3.2 percent of Indian outward stock and 2.2 percent of Chinese and 0.3 percent of Russian and Brazilian outward stocks. The share of FDI outward stock holdings by BRICS in other BRICS countries is only around 2.5 percent as compared to the 10 percent that BRICS have in world inward stock of capital investment.

Recent trends show increased interest in investments bilaterally between Russia and China, and between India and China, as discussed in earlier sections and the following ones, too.[13]

Figure 8



	Brazil	Russia	India	China	South Africa
Total Exports	225,098	527,266	317,545	2,209,0	90,612
Total Imports	229,060	314,945	459,369	1,949,9	99,893
Trade Balance	-3,962	212,321	-141,82	259,015	-9,281

US$ Million

Source : UN Comtrade (2014) for Goods data

All the BRICS members have been attracting Foreign Direct Investments (FDI) and have become important players in world trade.

BRICS trade data are impressive and show their rising share of world trade.

INDIA-CHINA RELATIONS

In May 2015, during Indian Prime Minister Narendra Modi's trip to China, the two countries signed a total 22 MOUs that entail $24 billion in investments, joint ventures and finance. India has $70.6 billion worth of trade with China. India's trade deficit with China was $37.8 billion in 2014.[14]

Cultural ties between the two countries have also been strengthened by Prime Minister Modi's visit. He visited Buddhist temples in China and made a pledge to explore joint ventures in Buddhist studies. While there is an unresolved border dispute between the two, efforts are being made to find a solution to the conflict.

Everywhere in the world, lack of employment is an issue facing the youth of productive age; it is no different for BRICS. As China aims to increase connectivity with its 'One Belt One Road' (OBOR) project in South Asia, it is expected that more job opportunities will open up in the region.

Table 2

Year	Bilateral Trade		Trade Balance
	Actual	Growth	
1998	1602		-602
1999	1751	9.3	-729
2000	2207	26	-691
2001	2725	23.5	-893
2002	4323	58.6	-883
2003	6448	49.2	-1028
2004	10251	59	-1895
2005	16399	60	-3453
2006	23723	44.7	-790
2007	34887	47.1	-14497
2008	39940	14.5	-20612
2009	38995	-2.4	-18685
2010	58852	50.9	-23814
2011	74412	26.4	-36186
2012	68843	-7.5	-39125

Source: India-China Bilateral Trade Relationship, Reserve Bank of India

EXPLORING CURRENCY UNION

Trading in local currencies by BRICS member nations was the first initiative towards establishing a currency union. The next step would have to be a common currency, about which discussion was started at the 2014 BRICS conference. The common currency has been proposed as an alternative to the dollar and the euro and will be backed by real assets and resources.[15] No progress has since been made, however.

As for the NDB, K.V. Kamath, an Indian banker of repute, has been appointed as first governor. The bank has been started within one year of its conception. Russia has already invited Greece to join the NDB as it struggles with debt payments and negotiations with IMF and Eurozone creditors.

BRICS countries have undertaken several other measures to extend their political and economic influence. The idea of establishing a BRICS rating agency has been floated and will be discussed in future BRICS meetings. It aims to undertake credit rating of developing countries, keeping in mind the political and commercial risks, as well as the possibility of generating positive externalities from infrastructure and sustainable projects.

Further, Russian President Vladimir Putin has proposed the formation of an energy alliance. “We propose the establishment of the Energy Association of BRICS,” he said. “Under this 'umbrella', a Fuel Reserve Bank and BRICS Energy Policy Institute could be set up”.[16]

China's AIIB has already been successful in drawing many members from the OECD countries. China has the money to lend and others will benefit from easier terms of lending. The World Bank and IMF have dominated global finance in the post-World War II years. They have favoured certain developing countries like the Philippines and Angola and their leaders disproportionately in the past, which proved disastrous.

The Bretton Woods twins have laid down conditionalities on borrower countries which have led to hardships for their populations. They have insisted on opening up trade and imposed fiscal prudence and austerity measures on borrowers. It is time the developing world carries out its own programmes on its own terms and sets its own priorities. The Bretton Wood twins also created power elites in the countries to which they lent money for development, which includes India.

However, there is expected resistance from India, South Africa and Brazil to embracing the AIIB fully at the cost of forsaking the IMF-World Bank. The three nations fall within the purview of the World Bank-

IMF conditionalities due to heavy borrowings in the past. India has, however, paid back its IMF loan taken in 1991. Further, the implementation and adoption of policies spearheaded by China has been slow and India has not fully endorsed OBOR. These are some of the impediments standing in the way of complete coherence within the BRICS.

FREE TRADE AGREEMENTS

The last few years have seen a shift away from multilateral organisations in the realm of trade relations. The Trans-Pacific Partnership (TPP), in particular, has gained significant momentum in the past year, emerging as the largest trade bloc in the Asia-Pacific region. It is only set to grow larger with the inclusion of the European Union through the Transatlantic Trade and Investment Partnership (TTIP). These Preferential Trade Agreements (PTAs) threaten the position of the WTO as well as the economic relevance of emerging global economies.

The BRICS member nations have been kept out of both the TPP and TTIP, viewed by many as an attempt by the US to neutralise the growing influence of BRICS as a whole and its individual member nations. They have the liberty to reduce tariffs further to compete with PTA tariffs. TTP and TTIP are also following closed-door negotiations. However, even as multilateral trade negotiations in the past have been dominated by western powers, recently, bilateral and plurilateral negotiations have assumed greater importance. These are spearheaded by the US and will involve not just trade but various other policy regulatory mechanisms that may bring the member countries into a bloc outside multilateralism. It will affect countries that are outside these trade blocs.[17]

It is thus imperative for BRICS nations to assume a more united front in terms of trade, investment and geopolitical issues to protect and defend their national agendas and regional significance.

BRICS countries have been contemplating a free trade zone. Already, intra-BRICS trade expansion between 2002 and 2012 has been phenomenal at 922 percent.

BRICS nations are also contemplating an alternative payment system though it is not likely to replace an existing global payment system like SWIFT (Society for Worldwide Interbank Financial Telecommunication) that provides a network enabling financial institutions worldwide to send and receive information about financial transactions in a secure, standardised and reliable environment.

At the recent Ufa summit of BRICS held in Russia, there was further progress towards solidarity of purpose among the BRICS countries. They stressed the importance of intensifying cooperation of industrial production capabilities, establishing industrial parks and clusters, technology parks and engineering centres, with a view to developing and introducing cutting-edge technologies providing training for engineering and technical personnel and managers. They also agreed on developing agricultural cooperation and promoting connectivity as well as investment in infrastructure.

Improving cultural links by developing horizontal ties between cultural institutions of BRICS nations was ratified in Ufa. Allowing multiple entry business visas for all BRICS members for longer periods is being explored.

Last but not the least, BRICS countries also want to cooperate in the health sector and progress towards universal and equitable access to healthcare, ensuring affordable, good quality service delivery. They also agreed to promote long-term and balanced demographic development.

At present, both Brazil and Russia are experiencing recession due to the fall in international commodity prices. China is also going through a tough time trying to rebalance its economy and resuscitate domestic demand. Only India is growing at a healthy rate of 7.5 percent. The future of BRICS, however, remains bright and potentially powerful.

It is a long road ahead towards a new world order but BRICS is the only grouping which can help in establishing a multipolar world, which could be instrumental in directing global money flows towards development, and away from the current ruling financial system.

(*With assistance from Mridul Mohan, research intern, ORF.*)

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