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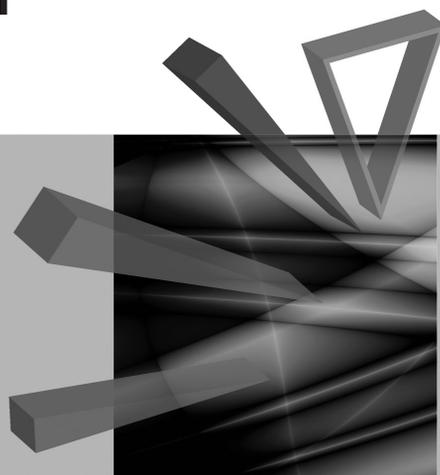
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# **Economical and Political Interrelations in the Asia-Pacific Region**



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## ECONOMIC OUTCOMES OF THE BRICS INITIATIVE

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**Abstract:** The key emerging countries try to find a new platform of cooperation, which will facilitate their further growth. The answer to this need is the BRICS initiative. It is an elite club consisting of Brazil, Russia, India, China, and South Africa. Taking into consideration the character of relations between the member states, we may describe BRICS as a network of independent countries. The paper was devoted to the analysis of real effects of the cooperation among the most important emerging economies. The overall conclusion is that there are some positive changes in economic relations between the countries. However, they mostly concern the issues that may be agreed on the high level. On the other hand, the real life cooperation, for example, between medium size private-owned firms, does not occur to high extent.

**Keywords:** BRICS, emerging economies, international trade, foreign direct investment.

### 1. Introduction

Even the greatest countries need allies to foster their bargaining power in the global arena. It is especially evident when a country has just recently gained its strong international position. China or India perfectly fit these characteristics. Indeed, economic power and fast development of large emerging economies have to be supported by a new form of multilateral cooperation. The answer to that need was the BRICS – an organisation constituted of Brazil, Russian Federation, India, China and, lastly, South Africa.

BRICS is a unique initiative combining large countries located on four continents. The origins of the name of the grouping may be traced to the seminal paper by J. O'Neill, who coined the acronym BRIC.<sup>1</sup> Since 2006 formal meetings of the high level officials from the BRICS countries have taken place and the culmination was the first BRIC Summit in Russia in 2009.<sup>2</sup> It was the beginning of the series of annual meetings of the leaders of the BRIC (and later BRICS) countries.

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<sup>1</sup> J. O'Neill, *Building Better Global Economic BRICs*, Goldman Sachs Global Economics Paper no. 66, 2001.

<sup>2</sup> President of Russia Official Web Portal, *Joint Statement of the BRIC Countries' Leaders*, June 16, 2009, <http://archive.kremlin.ru/eng/text/docs/2009/06/217963.shtml> (retrieved 28.04.2013).

BRICS is described by its members as a loose partnership. Nevertheless, a joint agenda has been prepared and frequently extended by new points. Thirteen broad areas of cooperation span from economic support through energy security and international issues to institutional environment and cultural aspects.<sup>3</sup> Treating these areas literally, BRICS may be perceived as a new form of economic organisation. Like the European Union being a unique form of regional integration, BRICS may become a novel political and economic initiative on the global scale.

The strength of the grouping is underpinned by its diversity. The stark differences between members are still prevalent, although they all represent a group of dynamically growing countries. The disparities are noticeable not only in the absolute values, but importantly in the relative ratios. The diversity is described by the economic and demographic characteristics of the members (Table 1). The countries differ in all key areas and the span is overwhelming. The BRICS consists of countries with small and large population, representing levels of development from low to medium, large net exporters and countries facing persistent trade deficits.

**Table 1.** Main indicators of the BRICS countries (2011)

Indicator Name	Brazil	China	India	Russia	South Africa
GDP (current mUSD)	2,476,652	7,318,499	1,872,840	1,857,770	408,237
GDP growth (annual %)	2.7	9.3	6.3	4.3	3.1
GDP <i>per capita</i> (current USD)	12,594	5,445	1,509	12,995	8,070
Patent applications, residents	n.a.	415,829	8,841	26,495	656
Population, total (in million)	197	1,344	1,241	143	51
Net trade in goods and services (current mUSD)	-8,145	188,321	-103,680	162,233	-2,425

n.a. – not available.

Source: own elaboration based on World Development Indicators provided by the World Bank.

Some authors argue that the differences should limit the scope of cooperation between the BRIC countries.<sup>4</sup> Naturally, the diversity of the partners does not allow for a deeper integration. However, we could also perceive the heterogeneity as a factor boosting the cooperation. More importantly, those differences help to avoid competition or even confrontation, which would be fatal for such initiative. This enables to describe the situation as a complementary relationship that may be exploited by the partner countries.

<sup>3</sup> *The BRICS Report: A Study of Brazil, Russia, India, China, and South Africa with special focus on synergies and complementarities*, Oxford University Press, New Delhi 2012, pp. 170–211.

<sup>4</sup> M.A. Glosny, China and the BRICs: A real (but limited) partnership in a unipolar world, *Polity* 2010, vol. 42, no. 1, pp. 100–129.

The stark conclusion coming from the basic indicators is that China is inevitably the most powerful participant and we could treat the BRICS formation as a catalyst for the further development of the Middle Kingdom. If China boldly articulated its interests, it might be perceived as a direct opposition to the dominance of the United States. Still when China is characterised as a part of a larger organisation it does not seem so assertive. Thanks to this China may also execute some of its goals. One of them is the internationalisation of the renminbi to overcome the dependence on American dollar.

We could also conclude that China is not building its position among BRICS or in the world, but rather regaining the position lost for many decades.<sup>5</sup> This country has potential to grow and play important role in the international system. Taking it all into consideration, we cannot treat BRICS as a form of cooperation bringing equal benefits to all the member states. For example, the quest for natural resources by China and India may also explain why South Africa as the smallest economy was invited to the elite club.

The political tensions among the BRICS countries do not support moving towards the further steps of cooperation. China and India have not fully resolved the issue of a common border. Recent intrusion of tens of Chinese soldiers into the territory of India is an indicator of possible conflicts between the most populous countries in the world.<sup>6</sup>

Some of the BRICS member states have to sacrifice earlier bilateral or trilateral cooperation, for example, India-Brazil-South Africa Dialogue Forum (IBSA). This platform was aimed at improving the position of the three member countries in negotiations with the North, but its role soon was diminished by the rise of the BRICS.<sup>7</sup>

This paper aims at contributing to the literature twofold. First, to the best knowledge of the author the studies on economic results of cooperation within the BRICS framework are scarce and the paper should shed some light on the issue. Second, critical assessment of the BRICS initiative is essential to understand possible implications for the world economy. The rest of the work was devoted to the examination of trade and capital flows between member countries. The empirical reasoning was based on the analyses of source materials published by the member countries and data extracted from databases of international organisations.

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<sup>5</sup> J.Y. Lin, *Demystifying the Chinese Economy*, Cambridge University Press, Cambridge 2012, p. 1.

<sup>6</sup> N.B. Ahuja, Chinese tent 18 km inside Indian area, *Asian Age*, April 26, 2013, <http://www.asian-age.com/india/chinese-tent-18-km-inside-indian-area-875> (retrieved 29.04.2013).

<sup>7</sup> I. Taylor, *Has the BRICS Killed IBSA?*, South African Foreign Policy Initiative, August 16, 2012, <http://www.safpi.org/news/article/2012/ian-taylor-has-brics-killed-ibsa> (retrieved 28.04.2013).

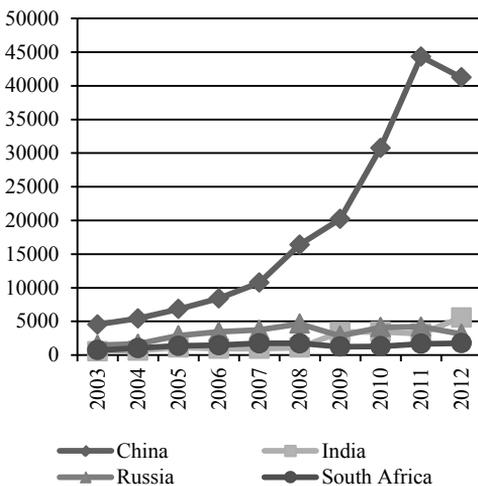
## 2. Evolution of economic cooperation between the BRICS countries

Political declarations frequently lack the substance. Indeed, summits of the most important politicians may not influence the real economy and business opportunities. It is the case when areas of cooperation articulated by prominent officials mismatch those of business people. To illustrate the development in the economic relations among the BRICS countries two universal measures of economic cooperation will be employed: trade and foreign direct investment (FDI). Indeed, these two economic activities were put on the top of the list of cooperation priorities.<sup>8</sup>

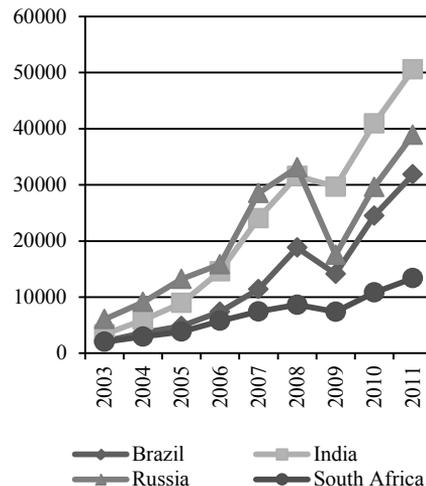
The data on bilateral trade used in this study concern two periods: before the official acknowledgment of the initiative in 2006, and early years after the inception. The value of exports from the BRICS countries to other partners in the grouping has significantly increased in recent years (Figure 1). However, gains are not equally distributed, and China is the leading export partner for the remaining four countries. The advantage of this country is overwhelming. It also confirms the central role of China in this grouping. Nevertheless, the partners of China are also better off in this relationship because they increase their exports to one of the largest markets in world.

Second measure applied in this study depicts shares of particular trade partners in total exports. The values were significantly altered over the analysed period of time in the case of Brazil and South Africa (Figure 2a, f). Again, China played here the key role as it buys vast amounts of Brazilian iron ore and South African minerals.

a) Exports from Brazil

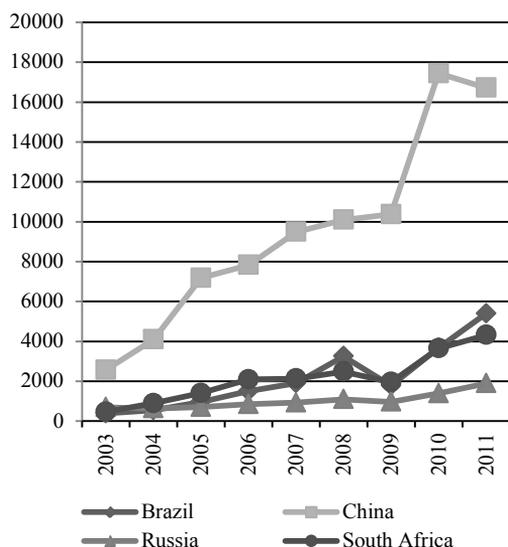


b) Exports from China

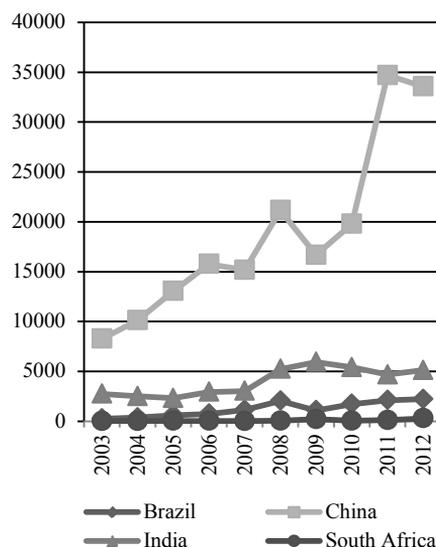


<sup>8</sup> *The BRICS Report...*, p. 170.

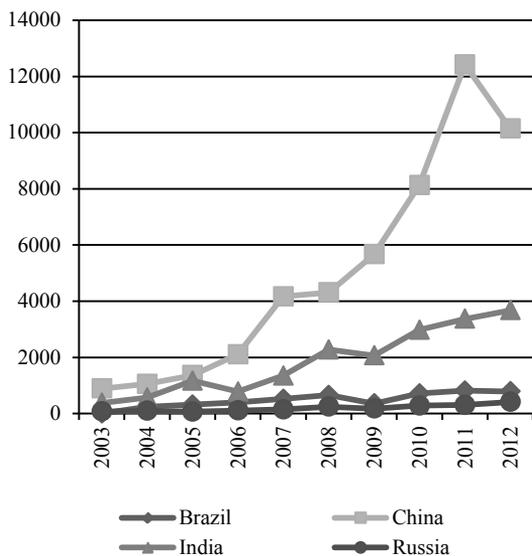
c) Exports from India



d) Exports from Russia



e) Exports from South Africa



Note: In the case of China and India data were available for the period 2003–2011, and for Russia, South Africa and Brazil for 2003–2012.

**Figure 1.** Trade between member countries of the BRICS (in mUSD)

Source: own elaboration based on the Comtrade database by the United Nations.

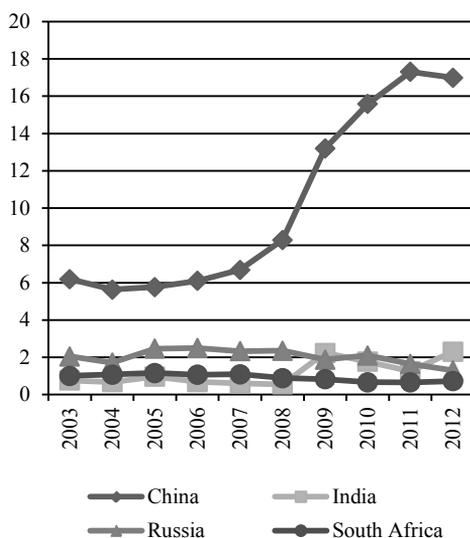
It helped to increase the share of China in the overall exports of these countries from merely 3% for South Africa and 6% for Brazil to 12 and 17%, respectively. Such trends are absent when we observe Russian Federation and India. In both cases the values are stable at around 5% level. Interestingly, the exports from China most dynamically changed in the case of India and Brazil. Indeed, the trade with India as the second most populous country in the world brings new opportunities for firms located in China.

The other indicator of the business development between countries is flows of foreign direct investment. I took into consideration outward FDI from selected economies (Table 2). This may be interpreted as the importance of particular locations for multinational firms from China, Brazil and Russia.

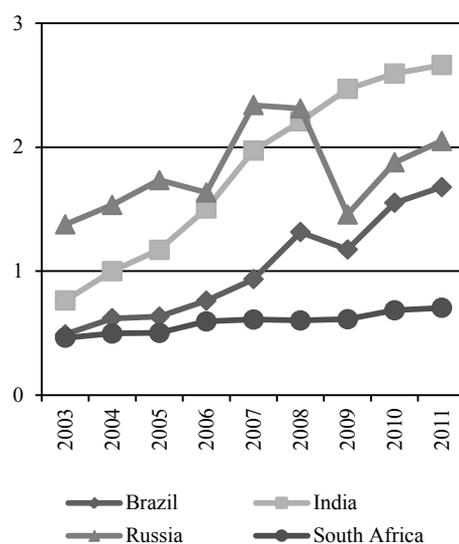
Out of tens of billions of Chinese FDI only a fraction of per cent is directed to India and Brazil. In the case of Chinese investment to South Africa we could notice the one-off rise in year 2008, but then it declined to a negligible level. Similar situation may be observed in the case of Russia. The conclusion drawn from the data concerning FDI flows among BRICS is straightforward. Firms from the analysed countries do not invest in partner countries with high intensity. Hence, the BRICS union has so far failed to improve these flows.

The BRICS initiative has several more areas to develop. One of them is the international financial system. The role of the financial sector goes beyond facilitating flows of capital. It is also a suitable tool for the exertion of national political interests. The link between politics and financial environment is particularly noticeable in the

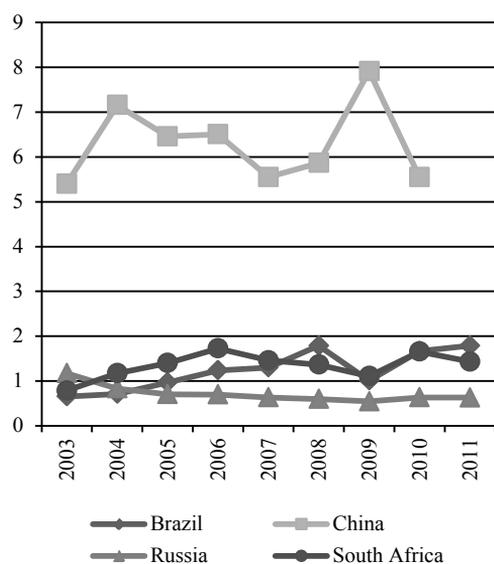
a) Brazil



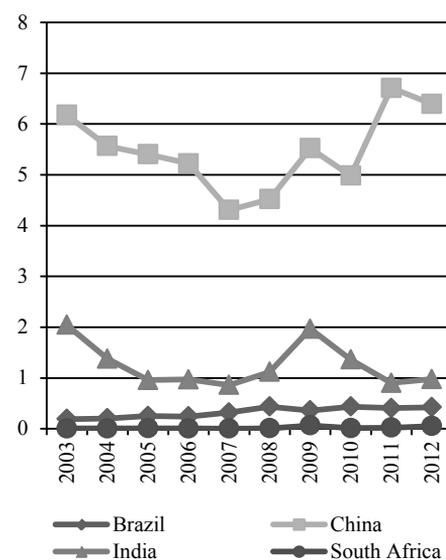
b) China



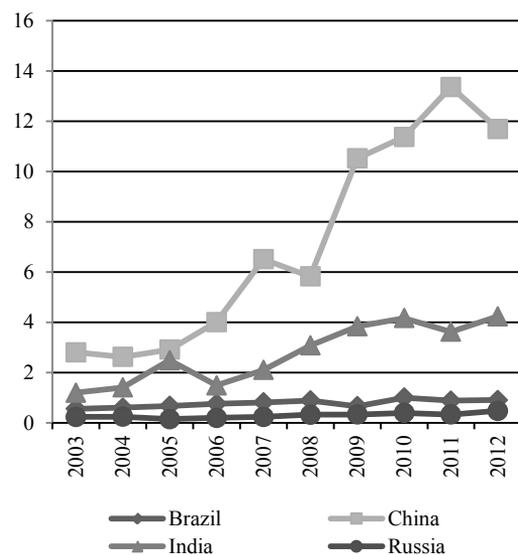
c) India



d) Russia



e) South Africa



Note: In the case of China and India data were available for the period 2003–2011, and for Russia, South Africa and Brazil for 2003–2012.

Figure 2. Shares of trading partners in export of BRICS (in %)

Source: own elaboration based on the Comtrade database by the United Nations.

**Table 2.** Share of selected host countries in total FDI from China, Brazil and Russia (in %)

Source country: China					
Host country	Year				
	2006	2007	2008	2009	2010
India	0.0	0.1	0.2	-	0.1
South Africa	0.2	1.7	8.6	0.1	0.6
Russia	2.6	1.8	0.7	0.6	0.8
Brazil	0.1	0.2	0.0	0.2	0.7
Source country: Brazil					
Host country	Year				
	2007	2008	2009	2010	2011
Russia	0.0	0.0	0.0	0.0	0.2
China	0.1	0.1	0.0	0.0	0.1
South Africa	0.0	0.1	0.0	0.0	0.0
India	0.0	0.0	0.0	0.0	0.0
Source country: Russia					
Host country	Year				
	2007	2008	2009	2010	2011
Brazil	0.0	0.0	0.0	0.0	0.0
China	0.1	0.0	0.1	0.1	0.0
South Africa	0.0	0.0	0.1	0.0	0.0
India	0.0	0.7	0.0	-	0.0

Source: own elaboration based on data of MOFCOM, Central Bank of Brazil, and Central Bank of Russia.

case of currency policy. Again, the only currency of emerging countries that may aspire to the international position is renminbi.<sup>9</sup> The participation in the BRICS grouping may also facilitate the evolution of this currency towards more international recognition. It resulted in the currency agreement between China and Brazil stating that the countries will keep reserves in own currency to exchange it for the partner currency in the case of deeper world crises.<sup>10</sup> Similar agreements were also a subject of discussion between other BRICS members.

<sup>9</sup> A. Klimek, *Currencies of Emerging Countries in the World Economy*, University of Economics in Katowice, Katowice 2012, mimeo.

<sup>10</sup> K. Rapoza, Dollar wary Brazil and China sign currency pact, *Forbes*, June 23, 2012, <http://www.forbes.com/sites/kenrapoza/2012/06/23/dollar-wary-brazil-and-china-sign-currency-pact/> (retrieved 29.04.2013).

The answer to a greater demand for the financial integration of BRICS was an inception of a New Development Bank.<sup>11</sup> The starting capital of the bank is estimated for around USD 50 billion and will be used to finance development and infrastructure projects in developing countries.<sup>12</sup> The bank may be assessed as the answer to the activities of the World Bank which is under great impact from developed countries, especially the United States, which nominate its head.

Additionally, the BRICS leaders agreed to establish a reserve pool of around USD 100 billion aimed at providing liquidity during distressed periods. The reserves should play similar role as those of International Monetary Fund in the world economy.<sup>13</sup> Taking the financial achievements together we could conclude that BRICS is trying to build a framework of an independent international financial system. Very important advantage in conducting this operation is vast exchange reserves of the countries.

### 3. Concluding remarks

The paper presented an important evolution of the international order due to the emergence of a new international grouping – BRICS. The fact that BRICS consists of important global players exhorts to analyse the issue thoroughly.

The overall conclusion is that there are some positive changes in economic relations between the member countries. Trade statistics of the large developing countries evolved significantly in recent years. It may be partially associated with the foundation of the BRICS initiative. Moreover, the development of trade was also highlighted on the agenda of the BRICS meetings. On the other hand, the real life cooperation, for example, between medium size private-owned firms, does not occur to high extent. This limitation is partially explained by the significant diversity and great distances between partner countries.

One of the problems in analysing the real effect of the grouping is its loose character stressed by the leaders of the member countries. It causes some limitation in the scope of cooperation, and most aspects concern the political layer. Moreover, the majority of communication takes place only on the occasion of the annual summits. The lack of real structures may soon lead to the erosion of the common initiative.

The characteristic feature of the BRICS initiative is that it consists of diversified partners, thus the benefits associated with the membership are not equally distributed,

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<sup>11</sup> *Fifth BRICS Summit*, March 26-27, 2013, <http://www.brics5.co.za/> (retrieved 30.04.2013).

<sup>12</sup> M. Tatalović, BRICS countries agree to US\$50 billion development bank, *Asian Scientist*, April 13, 2013, <http://www.asianscientist.com/topnews/brics-countries-agree-us50-billion-development-bank-2013/> (retrieved 28.04.2013).

<sup>13</sup> The Stock Market Watch, *Experts said the reserve pool of the BRIC countries comparable to IMF*, March 28, 2013, <http://www.thestockmarketwatch.co/experts-said-the-reserve-pool-of-the-bric-countries-comparable-to-imf.html> (retrieved 29.04.2013).

but rather display powers of participating countries. Hence, China as the largest economy has the largest impact on the shape and governance of this formation and its presence in the international environment.

Taking it all into consideration we should treat BRICS as a political initiative helping to overcome some macro-scale barriers. The closer cooperation is possible, however differences are still prevalent. The most important success of the BRICS is that they have united new powers in order to articulate their interests in the international order still dominated by the advanced economies.

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## GOSPODARCZE EFEKTY WSPÓLPRACY W RAMACH INICJATYWY BRICS

**Streszczenie:** Największe gospodarki wschodzące poszukują nowej platformy współpracy, która ułatwi dalszy ich rozwój. Odpowiedzią na te potrzeby jest inicjatywa nosząca nazwę BRICS. Akronim ten oznacza elitarny klub składający się z Brazylii, Rosji, Indii, Chin i Re-

publiki Południowej Afryki. Biorąc pod uwagę charakter relacji między państwami członkowskimi, BRICS można określić jako sieć niezależnych gospodarek. Artykuł ten prezentuje wyniki analizy rzeczywistych efektów współpracy między najważniejszymi gospodarkami wschodzącymi. Widoczne są pozytywne zmiany w relacjach gospodarczych między tymi krajami. Jednak rozwój ten dotyczy głównie obszarów, które podlegają uzgodnieniom na najwyższym szczeblu politycznym. Z drugiej strony, nie są zauważalne objawy zwiększonej współpracy na szczeblu przedsiębiorstw. Wynika to z ograniczeń spowodowanych znaczącym zróżnicowaniem i odległościami między krajami partnerskimi.

**Słowa kluczowe:** BRICS, gospodarki wschodzące, handel międzynarodowy, bezpośrednie inwestycje zagraniczne.