

BRICS. THE CURRENT STATE AND THE PERSPECTIVES IN THE CHANGING WORLD

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B **R** **I** **C** **S**

Members of BRICS. What is common?

- Although officially there are no specific criteria of membership, in fact, there is one criterion. It means that the country has full sovereignty, which includes two components: The first one is the capability to conduct independent policy, that means that the country non-involved in any alliances, which impose certain restrictions; on the other hand, it is a sufficient economic potential in order to implement independent policy.

■ - BRAZIL

■ - RUSSIA

■ - INDIA

■ - CHINA

■ - SOUTH AFRICA

BRICS COUNTRIES ARE...

42%

OF THE WORLD'S POPULATION

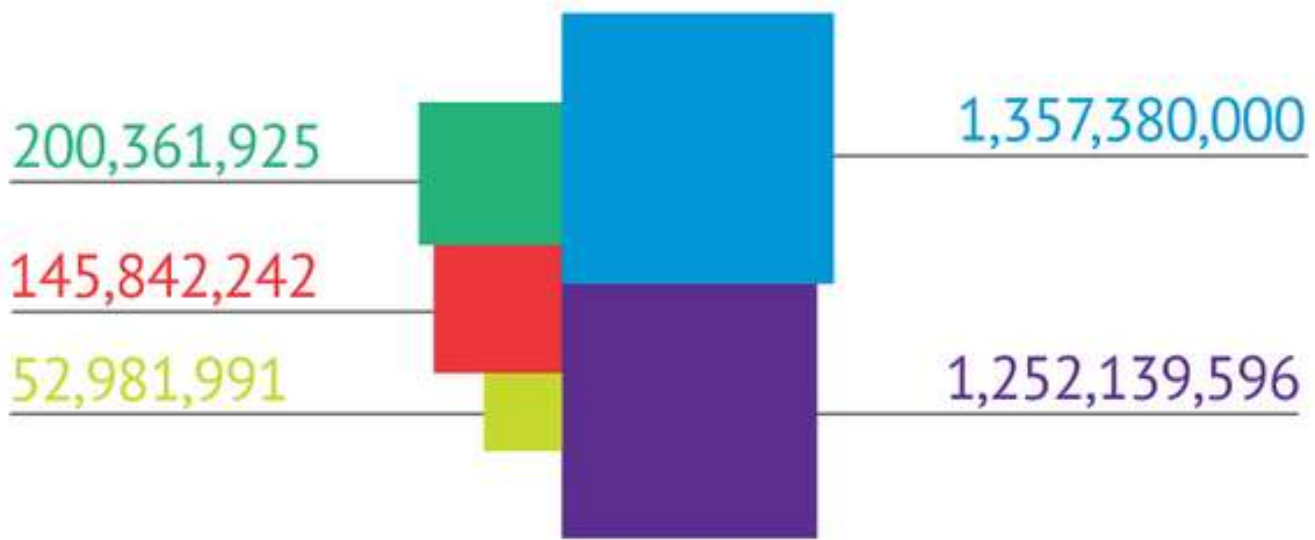
26%

OF THE WORLD'S LAND TERRITORY

27%

OF THE WORLD'S GDP

POPULATION



GLOBAL TRENDS

- “Most emerging powers already want a greater say and, along with many Europeans, dispute the notion of any one power having the right to be a hegemon”.*
- *«The transfer of **global wealth and economic power** now under way—roughly from West to East—is without precedent in modern history».*
 - *By 2025, the international system will be a **global multipolar one**».* “There will not be any hegemonic power. **Power will shift to networks and coalitions in a multipolar world**”.
 - *“Historically, emerging multipolar systems have been more unstable than bipolar or unipolar ones... The next 20 years of transition to a new system are fraught with risks. Strategic rivalries are most likely to revolve around trade, investments, and technological innovation and acquisition”.*

Global Trends 2025: A Transformed World. – USA, National Intelligence Council, November 2008. (Global Trends 2030: AlternActive Worlds. USA, National Intelligence Council, November 2012.

Share of different country groupings in world GDP, forecast

	Developed countries	Developing countries	The world
GDP on the base of PPP in prices of 2000			
2000	54,6	45,4	100
2025	41,4	58,6	100
2050	32,9	67,1	100

The main problem is that developed countries are not interested to cede the power.

Intentions of BRICS

- The BRICS wants the world order to reflect the today's realities and recognize the role of new powers and the shift of global power.
- Countries of BRICS want to be agenda-setters and not rule followers.
- BRICS wants the global order to be evolutionary changed.

There is a big gap between reality and intentions. The BRICS bloc is still at a stage in which implementation is complicated by different priorities and interests of its members

FIRST RESULTS

As a result of the proposed reforms, quotas in IMF should be reallocated among the countries, which then will determine the amount of financial participation and the number of votes, respectively. Collectively, the BRICS countries' share should increase by 3.46 percentage points – up to 14.18%.

	Quota Shares		Voting shares	
	Current situation	2010 reform	Current situation	2010 reform.
China	3,99	6,39	3,803	6,068
India	2,44	2,75	2,34	2,63
Russia	2,49	2,71	2,39	2,59
Brazil	1,78	2,32	1,71	2,22
South Africa	0,78	0,64	0,77	0,63

On the way of establishing alternative financial architecture to assert greater control over national economic destinies and future geopolitical developments

- The new development bank**
- Asian Infrastructure Investment Bank**
- The Contingent Reserve Arrangement (CRA) Treaty**
- A mechanism for enabling trade and extending credit in local currencies.**

Many emerging markets and all low-income countries require a major step increase in infrastructure investment

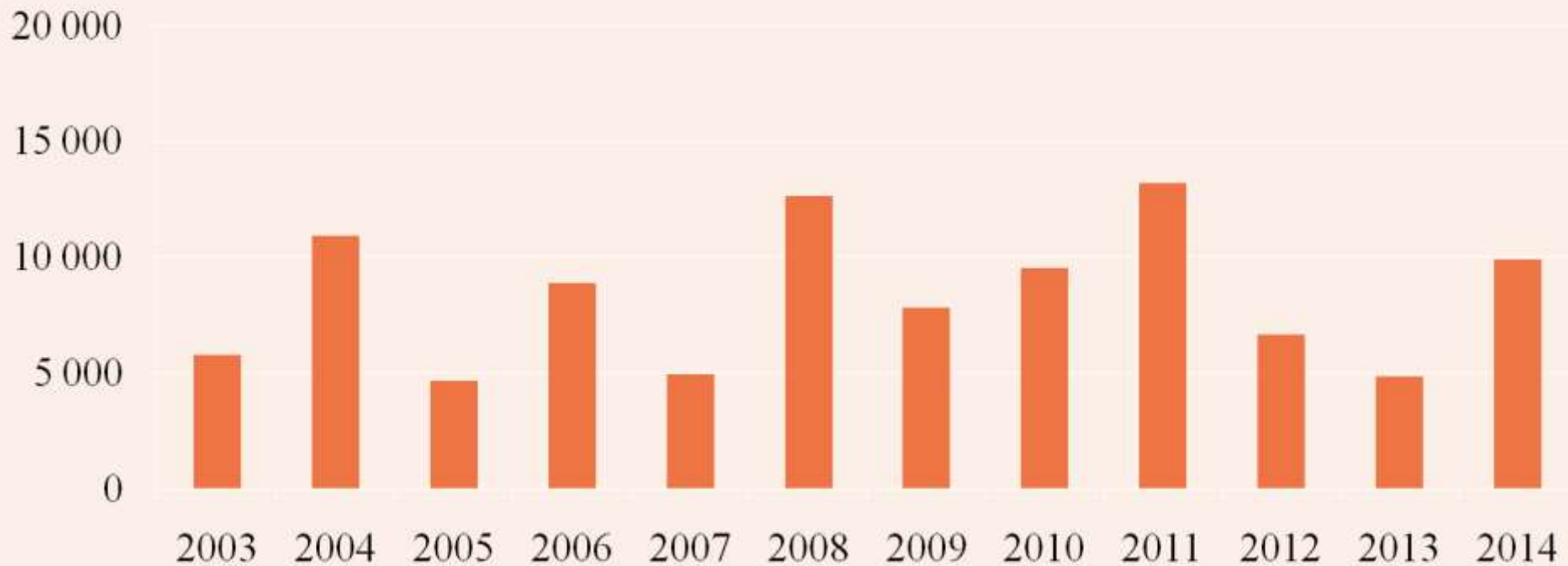
Driver	Description
Growth	<ul style="list-style-type: none"> • Emerging and developing countries (EMDCs) have high growth potential (~5-7% in non-OECD compared to 2% in OECD between 2010 and 2030) • Evidence shows that lack of infrastructure is a significant constraint to economic growth
Structural change	<ul style="list-style-type: none"> • An increasing percentage of growth in EMDCs is coming from industry and services, requiring substantial new infrastructure • With 2 billion people moving to urban centers in the coming three decades, there is a rapidly growing need to expand and upgrade urban infrastructure
Inclusion	<ul style="list-style-type: none"> • Infrastructure investment required to meet crucial development, inclusion and environmental goals • Several middle-income countries and most low-income countries have large existing infrastructure deficits (1.4 billion without access to electricity, 0.9 billion are without access to safe drinking water and 2.6 billion without access to basic sanitation)
Sustainability and resilience	<ul style="list-style-type: none"> • Ensuring the environmental sustainability and climate resilience of our economies requires new infrastructure and related networks.

PROBLEMS

The “BRICS-Dependency” in trade is relatively small (Brazil is the most ‘dependent’)

Exports by BRICS (US\$ billion)					
Exports by Russia	Brazil	China	India	South Africa	Advanced Economies
2000	0.6	5.2	1.1	0.0	60.1
2013	2.0	35.6	7.0	0.3	314.0
Exports by India	Brazil	China	Russia	South Africa	Advanced Economies
2000	0.3	0.8	0.9	0.3	27.4
2013	5.4	14.5	2.2	5.3	138.7
Exports by China	Brazil	India	Russia	South Africa	Advanced Economies
2000	1.2	1.6	2.2	1.0	208.3
2013	36.2	48.4	49.6	16.8	1480.2
Exports by Brazil	China	India	Russia	South Africa	Advanced Economies
2000	1.1	0.4	0.4	0.3	34.6
2013	46.0	3.1	3.0	1.8	98.5
Exports by South Africa	China	India	Russia	Brazil	Advanced Economies
2000	0.3	0.4	0.0	0.2	15.7
2013	11.8	3.0	0.4	0.7	40.4

Intra-BRICS FDI volume: 2003-2014 (US\$ million)



The bilateral direct investment flows are not stable and reveal a significant distance from potential productive complementarity; Bilateral investments are predominantly “resource seeking”

There is clearly unequal intensity in intra-group FDI

Intra-BRICS balance of FDI flows: 2003-2014 (US\$ million)

	Brazil	China	India	Russia	South Africa
FDI received from other BRICS	21 703	27 729	19 177	22 613	8 640
FDI in other BRICS	3 266	52 428	23 685	10 794	9 690
Balance	-18 437	24 699	4 508	-11 820	1 050

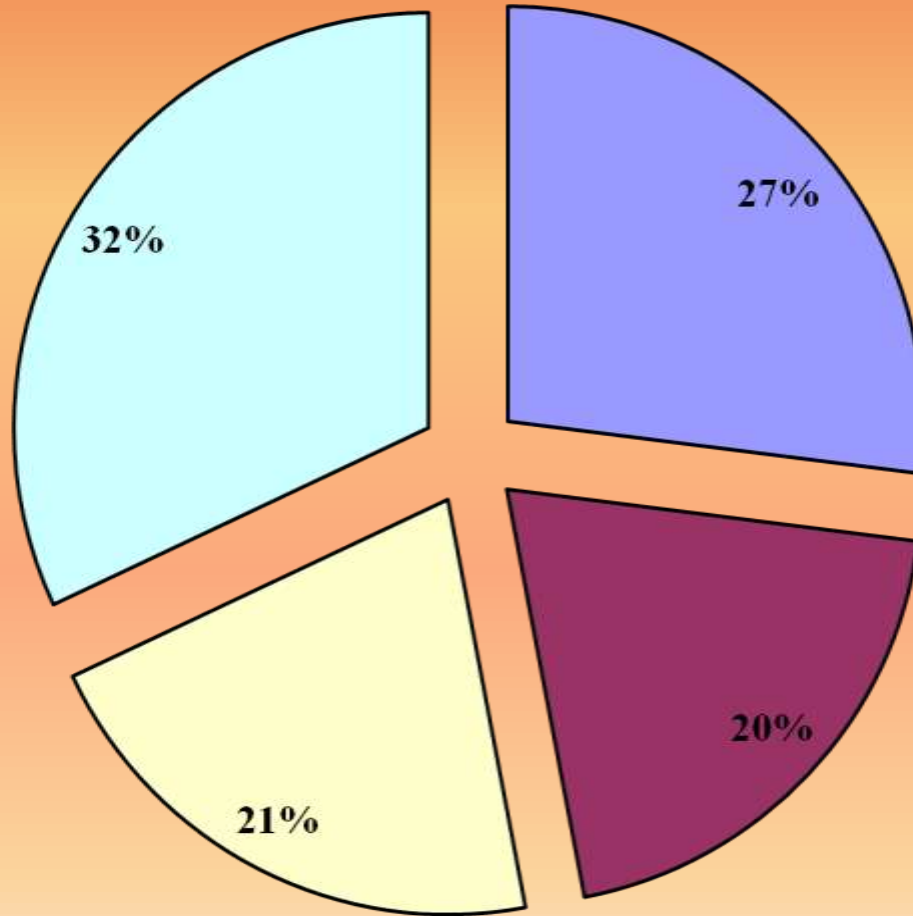
Brazil and Russia are major "FDI importers" from other BRICS, while China is the biggest "FDI exporter" to BRICS

FDI from BRICS in each country's total FDI inflow remains small

FDI received by BRICS: 2003-2014 (US\$ million)

	Brazil	China	India	Russia	S. Africa
FDI received from other BRICS	21.703	27.729	19.177	22.613	8.640
FDI received from The rest of the World	357.590	1.217.141	454.147	309.925	67.830
BRICS, % in all FDI	6,1%	2,3%	4,2%	7,3%	12,7%

Distribution of responsibility for Crisis - era hits to BRICS Commercial interests



■ Rest of the World

■ G7 plus Australia

■ Rest of G20

■ BRICS

*It is necessary for BRICS countries
not only to build up mutual trust, but
also to increase economic
connectivity*

GDP growth rate (change the preceding year, %)

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Brazil	4,4	3,1	4,0	6,0	5,0	-0,2	7,6	3,9	1,8	2,7	0,1
Russia	10,0	6,4	8,2	8,5	5,2	-7,8	4,5	4,3	3,4	1,3	0,6
India	7,6	13,9	16,3	16,1	12,9	15,1	20,2	15,7	13,1	13,6	11,5
China	8,4	11,3	12,7	14,2	9,6	9,2	10,6	9,5	7,7	7,7	7,4
South Africa	4,2	5,3	5,6	5,4	3,2	-1,5	3,0	3,2	2,2	2,2	1,5

Only India is expected to maintain its rate of economic growth this year and next. GDP growth rate, %

	2013	2014	2015	2016
	Actual	Actual	Latest IMF forecast	Latest IMF forecast
Brazil	2,7	0,1	-1,0	1,0
China	7,8	7,4	6,8	6,3
India	6,9	7,2	7,5	7,5
Russia	1,3	0,6	-3,8	-1,0
South Africa	2,2	1,5	2,0	2,1

What China's slowdown means for BRICS

- China's deceleration is a major reason for the sell-off of global commodities, from iron ore to coal, over the past two years. It's understandable as China has become crucial for global trade over the past two decades. In 2000, China accounted for just 3 percent of the global goods trade. By 2014, that number had jumped to 10 percent. China became the world's lead trading nation in 2013. China by itself accounted for about 17 percent of the world's overall GDP in 2014, but its demand for imports has already fallen 14.6 percent over the first seven months of 2015.
- China consumes roughly 47% of the world's base metals, up from 13% in 2000. Metal prices are now roughly 44% below their 2011 peak. The decline in consumption of steel in China, which accounts for over 57% of world consumption of iron ore, would hit **Brazil** badly as rough estimates suggest that every 1% increase in Chinese steel consumption translates into a 0.4% increase in the quantity of iron ore exported by Brazil. It is likely the slowdown in China will hurt iron ore exports from Brazil.

What China's slowdown means for BRICS

- China's downturn comes at a very difficult moment for Russia, which supplies a healthy percentage of China's imported oil. According to latest figures from the Energy Information Administration (EIA), Russia supplies 15 percent of imported oil in China. Oil prices have plummeted from over US\$100 a barrel in summer last year to about US\$45 -50 in a year. Falling demand from China makes near-term recovery unlikely and could pull prices down even further. With lifted sanctions on Iran, Saudi Arabia now faces a revitalized, oil-producing heavyweight regional rival. Russia must worry over the long-term impact of Western sanctions. For the past 20 years, these governments could count on Beijing's unquenchable thirst for oil. That's now in doubt.
- China is Russia's single largest trade partner, accounting for \$30.6 billion of imports and exports in the first half of the year. That figure represents a 28.7 per cent fall from a year earlier, according to Russian customs data. The bilateral trade may go down further.

What China's slowdown means for BRICS

- China is **South Africa's** largest trading partner since 2009. China is the second largest consumer of diamonds and also of gold and platinum. The slowdown will depress consumer sentiments which will result in lower sales of jewellery, affecting South Africa, a major exporter of diamonds, gold and platinum. This will impact the South African Rand which has depreciated significantly in 2015.
- **India's** exports to China have already shown a decline of 20% in 2014-15, and the decline may further increase in 2015-16 due to the economic slowdown, and devaluation of the Yuan making imports costlier. The same is true for Brazil.

Chinese investments to Russia and India

- China accounted for 6.1 percent of all foreign direct investment (FDI) in Russia in 2014 according to data from the Central Bank of Russia, a number that has risen as Russia has been isolated from Western capital markets and investors. In the heady days of early May, there was even talk of increasing official Chinese investment by 150 percent over the next 5 years. However, this goal now seems optimistic given the uncertain future of China's own markets. Chinese investment in Russia fell 25 percent in the first half of 2015.
- The slowdown of China coupled with increasing manufacturing cost provides great opportunity to India to attract FDI as it has huge consumer base. However the focus on infrastructure, ease of doing business and predictability in taxation would be a key to attract FDI.

- It is worth remembering our Chinese colleagues suggesting a metaphor for the BRICS as five fingers of one hand. This hand is stretching out to the whole world for partnership and cooperation, but if rejected, could well gather into a fist to drive forward necessary reforms.