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THE BRICS

INTRODUCTION

In the current global political and economic situation, the role of emerging countries has been the focus of growing academic interest. The unfolding of the financial crisis in the late 2000s, which put into question the leadership role of the United States (US) and the European Union (EU) for political advances and as engines of economic growth, aroused interest in emerging countries, who succeeded in getting out of the crisis and becoming important drivers of global growth.

At the beginning of the past decade, Brazil, Russia, India and China, with large domestic markets and growing economies, stood out from the rest. A phonetically suitable acronym – BRIC – was then created with their initials as a promotional element of a portfolio with risky investments. Because of the stability of their political framework and their continued economic growth, already in the mid-2000s, an opportunity surfaced to explore the possibility of joint action between these countries in major international forums of global governance. The original idea was to create a politically cohesive group as a counterbalance to the major international players – the US and the EU.

THE BEGINNING

The original BRIC acronym representing Brazil, Russia, India and China originates from a 2001 paper titled **“Building Better Global Economic BRICs”** which analysed the emergence of these economies as powerhouses. In this paper by Goldman Sachs², the economist Jim O’Neil coined the collective description of these economies as BRICs. The study had forecasted that these economies would be among the six largest economies by 2050.

In 2003, Goldman Sachs published a follow up paper **“Dreaming with BRICs: The Path to 2050”**, which predicted that by 2040, GDP for BRICs’ economies collectively would be larger than the Group of Six (G6)³ in terms of United States (US\$) dollars. By 2025, it is predicted that BRICs economies will account for over half the size of the G6. Figure 1 below shows the projection that the largest economies in 2050 would be led by China, at US\$44.4 billion, followed by the US, India, Japan, Brazil and Russia.

SOUTH AFRICAS ENTRY

- South Africa joined the important bloc of emerging economies in December 2010, in line with the country’s foreign policy to strengthen South-South relations.
- South Africa hosted the fifth BRICS Summit from 26 to 27 March 2013 at the Durban International Convention Centre (ICC). This completed the first cycle of BRICS summits.
- The country participated for the first time in the third BRICS Leaders’ Summit from 14 to 15 April 2011 in Beijing, China. Read more about South Africa's participation.

___ **President Jacob Zuma** attended the fourth BRICS Summit on **29 March 2012** in New Delhi, India. The theme of the Summit is “BRICS Partnership for Global Stability, Security and Prosperity”.

- South Africa’s inclusion into the BRIC group followed a request by the country to join the group and also numerous state visits by the South African President to these countries during 2010. The country was invited to join the group for numerous reasons, including it having the largest economy in Sub-Saharan Africa (SSA) and the fact that it accounts for about a third of the region’s GDP.⁴
- According to the Gateway House⁵, other factors that worked in the country’s favour include, **“vast natural resources such as gold, diamonds and platinum, excellent infrastructure, established corporate footprints, a culture of innovation, easy access to finance for business, a stable macro and micro financial climate, an advanced banking system and functioning regulatory frameworks”**.
- The country is also viewed to have an influence on the rest of the continent. It does not literally “represent” other African countries but it shares similar concerns of other SSA states **like income inequality, poverty and unemployment**. Its inclusion would offer BRIC members improved access to a very large consumer base in the African continent and also mineral resources, including oil and platinum.
- According to Global Sherpa, **South Africa is also the most developed country in SSA and serves as a gateway to Africa**.
- China, which is regarded as the most dominant constituent of the BRICS, in particular perceives South Africa as an attractive country because of the large number of consumers, many of whom are relatively wealthy. The country also has **the largest energy production capacity and it is also the largest producer of precious metals, such as gold and platinum**.
- Both these features are attractive to Chinese investment and trade interests. China has massive financial stakes in the country, mainly in banking, infrastructure, mining, transport and renewable energy.
- According to the Gateway House, the Industrial Commercial Bank of China (ICBC) has a 20 percent stake (US\$4.7 billion) in one of South Africa’s largest banks, Standard Bank.

BENEFITS OF SOUTH AFRICA BEING IN BRICS

- 1) The country can attract increased FDI from BRICS members, as well as allow domestic companies to invest mainly in those countries.
- 2) With the abundant natural resources in South Africa and the rest of Africa, this creates an opportunity for trade with BRICS countries to meet their resource appetite.
- 3) The country is well-positioned to benefit from joining BRICS as it will receive greater global exposure. South Africa’s membership in BRICS offers huge potential for the country to boost its competitiveness via cooperation in investment and trade.
- 4) Increased FDI would stimulate economic growth, thereby enabling the country to address some of its persistent problems of high unemployment and poverty.

RISKS OF SOUTH AFRICA BEING IN BRICS

- 1) The country has the smallest GDP and population, which could threaten its competitiveness. South Africa’s economic growth has been lagging behind that of other members. This could constrain its ability to exploit opportunities that may be made available by joining BRICS.
- 2) Economic stakeholders take care of self-interest first. South Africa must know exactly the kind of trade relations it wants and set clear policies to avoid exploitation.
- 3) Malpractices by some of the member countries, such as China in terms of labour practises, should be avoided in the country.
- 4) Increased competition from competitive imports (China has already infiltrated the domestic textile industry).
- 5) Ownership of Africa’s natural resources being shifted to other BRICS members.

Financial Structure

- Currently, there are two components that make up the financial architecture of BRICS, namely, the NEW Development Bank (NDB) and the Contingent Reserve Arrangement (CRA). Both of these components were signed into treaty in 2014 and became active in 2015.
- New Development Bank
- The New Development Bank (NDB), formerly referred to as the BRICS Development Bank, is a multilateral development.
- The bank's primary focus of lending will be infrastructure project with authorized lending of up to \$34 billion annually.
- South Africa will be the African Headquarters of the Bank named the "New Development Bank Africa Regional Centre".
- The bank will have starting capital of \$50 billion, with capital increased to \$100 billion over time.
- Brazil, Russia, India, China and South Africa will initially contribute \$10 billion each to bring the total to \$50 billion BRICS CRA
- The BRICS Contingent Reserve Arrangement (CRA) is a framework for providing protection against global pressure.
- The legal basis is formed by the Treaty for the Establishment of BRICS Contingent Reserve Arrangement, signed at Fortaleza, Brazil on 15 July 2014. It entered into ratification by all BRICS states, announced at the 7th BRICS summit in July 2015.

TRANSLATING ECONOMIC GROWTH INTO BETTER HEALTH WITH WHO

BRICS face several common health challenges:

Burdens from communicable and noncommunicable diseases,

- Inequitable access to health services,
- Growing health-care costs,
- Substantial private spending on health care, and
- Large private health sectors.
- Over the last two decades, BRICS have undertaken health-system reforms that have been designed
- To improve equity in service use,
- Quality and financial protection, with the ultimate goal of achieving universal health coverage.

These health reforms represent an important attempt to translate the growing wealth of BRICS into better health.

BRICS have adopted different paths to universal health coverage and they began travelling along those paths at different points in time:

- ❖ Brazil and the Russian Federation embarked on this process over two decades ago.
- ❖ China and India are relatively new entrants, having started their reforms in the last decade.
- ❖ South Africa has only recently begun the reform process.

BRICS AND THE WTO

For the five BRICS members, international trade has represented different priorities in their growth models.

- For China, for three decades international trade has been a central element of the economic policy based on capitalism with a strong state presence. China prioritised the export of goods via state and foreign enterprises, and liberalised its imports. Only at the beginning of 2011 did China signal that it intended to focus economic growth on its domestic market.
- For India, Brazil and South Africa (IBSA) the priority was the development of the domestic market, via the expansion of demand and controlling inflation, with international trade being less important. India and South Africa kept their economies closed and only since 1990 have they begun to open their activities, giving greater weight to international trade. India gave priority to service exports. However, even today there is a high level of protection, especially in the area of agriculture.
- Brazil opted for a model of internal development, but since the late 1980s, the country has opened its economy. More recently, it has transformed its agricultural sector into a major exporter.
- For Russia, which is transitioning from a planned economy to a market economy, trade came to represent the fastest way to reduce dependence on activities related to energy products, such as oil and gas: hence its interest in joining the WTO, as it aims to diversify its international trade and to boost its economy.

SECTOR ANALYSIS

The BRICS are clearly a heterogeneous group. This is apparent when we decompose output, employment and trade.

- Brazil is active in the agriculture sector. While its agriculture sector accounted for over 30% of total exports, it employed only 17% of the workforce and contributed 6% of the GDP in 2010.
 - The domestic economy is dominated by the services sector which accounts for over two thirds of the country's GDP and more than 60% of employment.
 - Trade in services, however, does not match the GDP and employment numbers with services amounting to around 15% of total exports and 27% of total imports. In comparison, the industrial sector accounted for over 50% of total exports and nearly 70% of total imports.
- The industrial sector's contribution to GDP was 27% and the sector employed over 20% of the workforce.
- The energy sector is a major driver of the Russian economy. Industry, which includes mining, manufacturing, energy production and construction, accounted for over 80% of Russia's export earnings and nearly 60% of its total imports in 2010.

- The sector employed more than a quarter of the workforce and contributed 37% of the GDP. Services are the main contributor to GDP and the largest employer in Russia having a share of about 60%. However, its share of total exports was only 12% though that of imports was 27%.
- Agriculture has a relatively small share (less than 5%) of GDP and employs 10% of the workforce. Its share in total exports and imports is also marginal (about 5% and 13% respectively).
- The agriculture sector continues to be the mainstay in rural India, employing over half the workforce. Its contribution to GDP, however, is declining and the sector accounted for just 19% of the GDP in 2010

Economic contribution of BRICS

In economic terms, the contribution of the BRICS has been rising. From a cumulative share of around 7 percent of global output in 1995, their share rose to a little over 18 percent of global GDP in 2010 in nominal terms¹¹ (and over 20 percent of global GDP in PPP terms)¹².

- 1) Inward FDI flows to these economies have risen from around \$80 billion in 2000 to around \$220 billion in 2010, indicating their growing importance as destinations for global capital and as production bases¹³. Growth in outward FDI from these countries has been even more striking, rising from a little over \$7 billion in 2000 to over \$30 billion in 2005 and to \$146 billion in 2010, growing more rapidly than global FDI flows over this period.
- 2) Likewise, reflecting their growing competitiveness and integration with world markets, exports and imports of goods and services by the BRICS have more than trebled between 2000 and 2010, more rapidly than global trade flows over this period.
- 3) Between 2000 and 2010, their exports of goods and services have grown from \$555 billion to \$2.8 trillion while their imports of goods and services have increased from \$475 billion to \$2.3 trillion¹⁵.
- 4) Although all the BRICS countries have increased their economic contribution to the global economy, these trends have been dominated by China, often exactly mirroring trends in China's economic performance.
- 5) China alone accounted for half of the combined GDP of all the BRICS countries in 2009. Its share in world GDP more than doubled from 3.6 percent to 7.2 percent between 2000 and 2009.
- 6) In contrast, India experienced lower though still a significant increase in its contributions to global output, from 1.5 percent to 2.3 percent over the 2000 to 2009 period.
- 7) In contrast, South Africa's and Brazil's share in global output remained virtually the same while Russia's share in global output rose marginally from 1.4 percent to 1.7 percent during this period.¹⁶ Similarly, China's share in global exports and imports of goods and services as well

as inward FDI flows increased several-fold between 2000 and 2010, while the increase in the contribution of the other BRICS to global trade flows was much less striking. China alone accounted for over half of all trade and FDI flows for the BRICS economies.

NEED FOR BRICS

- Jim O'Neill's point has been that the world is changing. The leading role of the Group of Seven (G7) and, more broadly, of the Organisation for Economic Cooperation and Development (OECD) is no longer undisputed. Most multi-lateral institutions were designed in the era when the West dominated the world. The US and Europe are over-represented in the IMF and the World Bank. Together with Japan, they control most regional development banks as well.
- This imbalance has been especially clear during the recent global financial crisis when the need for participation by non-G7 countries became evident. This resulted in reviving the Group of 20 (G20) and proposals to redistribute voting rights in international financial institutions. But change has been slow and Western countries continue to control the international financial institutions.
- This is why BRICS summits are so important. These meetings provide a unique forum where non-OECD leaders can discuss global challenges and co-ordinate their actions within and outside global institutions. The small size of the club and the absence of OECD partners helps in shaping the discussions at the summit.

ACHIEVEMENTS

Even though BRICS are now playing a far more important role in the global economy, they have not yet managed to get their act together. Even on key issues like selecting a successor to Dominique Strauss-Kahn at the IMF, BRICS countries were not able to put forward a credible alternative to the conventional approach that IMF should be run by a Western European. Nor have they been able to speak with one voice about the most important global economic and financial challenges – co-ordination of monetary and fiscal policies, macroprudential regulation, development aid etc.

THE UNITY

BRICS countries are very different — both in terms of their resources and in terms of their values and goals. The only thing they all have in common is, well, membership of BRICS. Brazil and India are democratic, China and Russia are not. Brazil and Russia export hydrocarbons, China and India are net importers. China and Russia are permanent members of the UN Security Council – the others are not. Structure of financial systems, levels of income, education, inequality, health challenges also differ substantially within BRICS. This is why it is very hard to speak with a unified voice and to co-ordinate action. The fact that BRICS have not really established anything tangible yet should not be a disappointment.

Analysis of past BRICS Summits -

- 1) First - Russia, 2009 - Improve the global economic situation, reform financial institutions and announced that there is need for a new "Global Reserve Currency".
- 2) Second - Brazil, 2010 - Development banks from each country signed a Memorandum of Cooperation to help each other out (EXIM Bank from India)
- 3) Third - China, 2011 - Pitched for UNSC Reforms. Discussed other ongoing issues. South Africa becomes a Member.
- 4) Fourth - India, 2012 - Idea for a New Development Bank was mooted by India. Other foreign policy issues were discussed. (About fate of Afghanistan etc.)
- 5) Fifth - South Africa, 2013 - Proclamation for a New Development Bank, creation of a Contingent Reserve Arrangement, setting up of a BRICS Business Council and the establishment of a BRICS Think Tank Council. This was called the eThekweni Declaration.
- 6) Sixth - Brazil, 2014 - \$100 billion seed fund for the NDB and CRA.

Importance in India's context

- 1) India is a very ambitious country. It has high aspirations to become a global super power. This is the first step.
 - 2) Through G4 (Brazil, Germany, India and Japan) and through BRICS it can ask strongly for UNSC reforms to make India as a Permanent Member. By supporting each other, all these countries can be benefited.
 - 3) India-China strategic ties even though India and China have issues regarding borders.
 - 4) Through BRICS, the countries can have multilateral relations in their local currencies. Thus, weakening the "US Dollar". This helps all of them directly as the ForEx is not depleted and their own currencies are strengthened.
 - 5) They promote South-South cooperation and North-South dialogue. (South represents developing countries and North represents Developed)
 - 6) Help each other out in fulfilling UN Millennium Development Goals (MDGs).
 - 7) Together they can force reforms in IMF and World Bank. Thanks to BRICS, the current President of WTO is a Brazilian.
 - 8) BRICS Banks will help in infrastructure development of all countries unlike IMF or World Bank. The Bretton Woods Institutions(IMF, IBRD etc) need large amounts of gold as collateral on top of structural economic reforms. Sometimes the poor countries cannot afford such costly loans.
 - 9) The sheer clout and hegemony expressed by these countries will show a strong voice in international relations and foreign policy issues.
 - 10) BRICS will be a great platform for India where its voice will be heard by all countries.
- So, BRICS will help India a lot to become a regional superpower and then slowly a World Superpower.

BRICS Cooperation

- The BRICS is considered by its members a platform for dialogue and cooperation not only in economic, financial, and development spheres, but also in the political domain. An analysis of some central issues shows points of diplomatic and political convergence and divergence. The main concern seems to be whether, despite their different development strategies, foreign policy priorities, negotiation styles, and repertoires, they will be able to coordinate their actions and interests to formulate and implement a concerted strategy regarding their relations with the leading industrialized states.
- The BRICS members have indeed shown a convergence of interests in a number of important issues. They have worked as a group to foster reforms in the existing multilateral financial institutions and the global financial architecture to make them more representative; they have reaffirmed their joint support for an open, transparent, and rules-based multilateral trading system; they have issued repeated warnings over the potential for capital inflows from developed nations to destabilize emerging economies; they tend to resist “interventionist foreign policy doctrines such as the Responsibility to Protect (R2P) emanating from the West, particularly from the United States, and display conservative attitudes on the prerogatives of sovereignty and they opposed the U.S. war in Iraq and have expressed their concerns about the international preeminence of the United States, as well as about the U.S. use of military power around the world.
- They also have tried to increase coordination and strengthen cooperation on issues of common interest. During the BRICS Leaders Meeting in Sanya, China, in April 2011, which focused mainly on the governing structure of multilateral financial institutions, they formulated an “Action Plan,” laying the foundations of the BRICS cooperation, which identified 14 programs that should be enhanced, four new areas of cooperation, and five new proposals to explore.¹⁶ As a whole, the initiatives of the “Action Plan” should be seen more as a diplomatic statement of intent than a detailed strategic plan. It reflected a broad consensus that member countries had to work more closely if they were to further deepen multilateral cooperation.
- The New Delhi summit in 2012 concentrated on how to further develop and operationalize those ideas. Perhaps the most noteworthy result emerging out of this meeting was the idea of establishing a development bank that might enhance economic ties between them and smaller developing nations, though no further details were provided.
- At the 5th BRICS Summit, held in Durban, South Africa, in 2013, member countries announced the establishment of a new development bank (NDB), whose main task would be to mobilize resources from BRICS nations for infrastructure and sustainable development projects in developing countries. They also proposed to set up a US\$100 billion currency stabilization fund to serve as a form of insurance against volatility in international markets.
- The 6th BRICS Summit in Fortaleza, Brazil, in July 2014, was marked solely by the signing of an agreement to set up the NDB bank and the signing of a protocol setting up an

additional capital reserve of US\$100 billion, known as Contingent Reserve Arrangement (CRA), which is intended to work as a multilateral currency swap among BRICS central banks and to forestall short-term liquidity pressures, providing additional liquidity protection to members during balance of payments problems. The NDB, designed to have an initial capital of US\$50 billion, allocated in equal parts by the five founding countries, each possessing equal voting power, is expected to begin operating in 2016, after approval of the agreements by the respective parliaments of each country.

These initiatives are clear attempts to exhibit some degree of coordination in order to show that they are also able to set up the agenda for global economic governance and that they deserve, as a group, to have greater voice on global issues.

However, BRICS actions have rarely gone beyond the issuing of joint press statements, and certainly the exercise of global leadership demands behaviour and concrete actions that go much beyond merely pointing out failures in the international system.

Despite effusive mutual praises on the group's apparent achievements, their relations could hardly be described as harmonious. Brütsch and Papa contend that "well-choreographed encounters, handpicked initiatives, or lofty plans signify that diverse and potentially antagonistic states are either willing or able to translate their combined economic prowess into collective geopolitical clout."

The Conclusion

Individually, the BRICS have become relevant actors in the international arena and cannot be ignored any longer. Their attempt to boost economic and political cooperation in the South-South axis is laudable and necessary, as it represents a strategy of diversification of partners in a context of crisis.

Furthermore, the group has adopted and advocated some bold and important measures to foster multilateral cooperation and to reform the global governance architecture. These measures, however, are limited in their depth, scope, and acceptance, which reflect the group's lack of cohesion, resources, priorities, economic models, foreign policy interests, and, consequently, their incapacity to shape their own international agenda.

While the group may be able to build consensus on softer reformist issues, it has become increasingly clear that the possibilities of a BRICS concerted action toward the making of a new international order have become less and less compatible with reality.

It certainly does not mean that analysts and policymakers should disregard the BRICS potential as a political partnership or its usefulness as a diplomatic tool, since its members combine considerable assets. It also does not mean that the association is doomed to be only a bargaining coalition.

However, the BRICS should not be portrayed as the center of a future political community that heralds a true shift in global power from a U.S.-centered basis to a world with multiple emerging centers of power. It is more adequate to understand the BRICS as a "relatively successful 'international regime' operating in a specifically designated field, rather than the harbinger of a profoundly novel global order"

- Even adopting a more limited perspective, centered on bringing gradual improvements to the global political economy, its alignment prospects depend largely on four factors.
 - 1) First, the political willingness of those countries' leaders to make the association a priority.
 - 2) Second, the ability of those leaders to overcome and reconcile diverging interests and ambitions between countries with different resources, strategic cultures, and diplomatic practices.

- 3) Third, their ability to withstand the political and economic costs of countering U.S. power and
- 4) Finally, the adoption of concrete measures to deepen cooperation and effectively develop strategic intragroup relationships.

Without this combined set of variables, the BRICS may be doomed to be only another good idea that did not work out as it was expected.

THANK YOU