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BRICS – Making Haste (Too) Slowly?

The leaders of the BRICS countries – Brazil, Russia, India, China and South Africa – issued a long communique at the conclusion of their eighth summit in Goa, India, on 16 October 2016. The communique disappoints because despite its forbidding length, or possibly because of that, it is long on platitudes and affirmations and short on specifics and concrete decisions. One cannot but get the impression that the BRICS leaders had perforce to stay with generalities because they would not find common ground were they to drill down to translating aspirations to action plans.

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BRICS – Euphoric Origins

First, some context. BRICS is an accidental grouping of countries catalysed by an acronym coined by Jim O'Neill, the chief economist at the time of Goldman Sachs, in a 2001 paper entitled “Building Better Global Economic BRICs”², recognizing the rapid growth of these countries, their increasing integration into the global economy and the

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² The original grouping comprised only Brazil, Russia, India and China, with ‘s’ denoting a plural noun. South Africa came into the group in 2010 because of its growing significance in the global economy making the ‘s’ into a capital ‘S’.

tantalizing prospect of their convergence with advanced economies in the not-too-distant future. The acronym gained currency and caught the world's imagination as it came to be seen as a symbol of the apparent shift in the global economic power towards the developing world – away from the countries belonging to the G-7 industrialised group and the Organization for Economic Cooperation and Development (OECD).

As per an official publication, 'The BRICS Report'³, together the BRICS countries account for more than 40 percent of the global population, nearly 30 percent of the land mass, and 25 percent of world GDP measured in PPP (Purchasing Power Parity) terms. In terms of GDP at PPP for the year 2010, four of the BRICS countries rank in the top 10 in the world, with China standing 2nd, India 4th, Russia 6th and Brazil 8th.⁴

The euphoria about the convergence of emerging markets with advanced economies in terms of living standards dissipated over the last ten years owing to the slow recovery of the advanced economies from the global financial crisis, subdued global growth, decelerating world trade, declining commodity prices and the growing threat of protectionism in advanced countries. The BRICS countries themselves are facing economic and political headwinds even as their diverging and often conflicting political interests are constraining the space and opportunities for cooperation.

BRICS – Weaknesses and Threats

Brazil, Latin America's largest economy, has been severely hit by the slump in global prices of oil, soy and other commodities. The economy is shrinking, with the output forecasts to contract by three percent this year on top of an equally dismal performance last year; inflation is hovering around 10 percent, and unemployment remains at a decade-high level. The bruising political battle over the impeachment of the former president Dilma Rouseff has added to Brazil's economic woes. The new president has instituted some reforms which are beginning to yield results – the currency - real - has begun to strengthen – but it is doubtful if he will be able to carry through tough reforms in the face of political opposition and public unrest.

³ 'The BRICS Report' – A study of Brazil, Russia, India, China and South Africa with special focus on synergies and complementarities, Oxford University Press, 2012.

⁴ South Africa stands at No. 26 in this ranking.

Like Brazil, Russia too had to weather the slump in oil price. Russia's economy contracted by 3.7 percent last year before stabilizing as energy prices rebounded. Given the prospect of oil prices remaining low for an extended period, Russia's prospects for a quick economic recovery are unpromising. Meanwhile Russia is heavily involved in the Middle East conflicts which is reviving cold-war tensions, an issue that has been centre-stage in the ongoing US presidential campaign. Russia is obviously eager to mobilize support for its stance in the Middle East and is becoming uncomfortable with what it sees as India's tilt to the US. Its recent joint military exercises with Pakistan, despite India's reservations, are possibly a signal of its resentment of India's shift away from Russia. Russia is also cozying up to China as evidenced by its open support for the latter when an arbitration panel in The Hague ruled against Chinese claims to disputed territories in the South China Sea.

India, with a growth rate of 7.5 percent plus, stands in sharp contrast to its BRICS colleagues all of which are beset by slowing or even shrinking economies. India *benefits* from low oil prices which are hurting the other BRICS countries. Notwithstanding its impressive growth performance, it should be noted that India is the poorest country in the BRICS as measured by per capita income, and it has both the opportunities and compulsion to catch up. India will need to significantly increase the exports of its goods and services if it has to maintain, let alone accelerate, its pace of growth. India looks to BRICS as a platform to enhance its export effort. On the political and security front, India has vowed to isolate Pakistan internationally in retaliation for a series of attacks on India by what it claims are state-sponsored terrorist outfits of Pakistan. India will look to use BRICS as a part of this strategy, but it will run into resistance from China and even perhaps Russia.

Given its economic heft and growing international stature, China occupies a pivotal role in BRICS. It is in fact doubtful if the BRICS grouping would have looked as magical as it did even in its heyday in the absence of China. The Chinese economy is slowing, this year, clocking its slowest pace in the last 25 years. But China remains the second largest economy in the world, a position that is not under any threat despite the slowing economy. China's high profile growth engine – its exports – are losing steam because of the subdued growth in the advanced economies and the growing protectionist threats. China will obviously look for increased trade opportunities with the other BRICS countries. China will also like to garner BRICS' support for its ambitious 'one belt, one road' initiative.

South Africa, the smallest economy in the BRICS group, is mired in a myriad of problems as evidenced by one key indicator – unemployment at a daunting 27 percent. Moreover, the recent eruption of differences between the country's president and the finance minister, who is very highly regarded in international circles, is sure to cast a shadow on South Africa as a favourable destination for foreign trade and investment.

It is not surprising therefore that the Goa summit of BRICS coming as it did amidst stalling economic prospects and growing political tensions resulted in a lacklustre communique which failed to go beyond motherhood statements and lofty aspirations.

Communique – Ten Takeaways

Here are ten takeaways from the summit communique.

Fighting Terror

India had only limited success in getting BRICS' support for its effort to isolate Pakistan internationally for its state-sponsored terrorist attacks on India. The communique, clothed in strong language, asked all countries to prevent "terrorist actions" from their territories and called for expeditious adoption of an India-backed global convention by the UN to fight the menace effectively. It is significant that it mentioned UN-proscribed ISIS but fell short of explicitly mentioning Pakistan-based terrorist outfits such as JEM which too have been sanctioned by the UN.

India's NSG Bid

India also failed to enlist BRICS' support for its membership of the Nuclear Suppliers Group, an elite group of countries which controls trade in nuclear technology and fissile material. The communique recognized the importance of nuclear energy to India's efforts to combat climate change but did not explicitly endorse its membership of the NSG, possibly because of China's reluctance.

Increasing Trade

This is an area of common interest to all BRICS – for China to offset the declining trade with advanced countries, for Russia, Brazil and South Africa to offset declining commodity prices and for India as an anchor for its proposed manufacturing revolution. Given that intra-BRICS trade is less than five percent of the total trade of all the BRICS members, there is enormous scope as well. It is disappointing therefore that the communique does not mention any specific quantifiable target apart from referring to a separate discussion of trade ministers.

Outreach with BIMSTEC

The Goa Declaration calls for greater BRICS-BIMSTEC trade and investment. This is significant as BIMSTEC comprising seven countries (five from South Asia – India, Nepal, Bangladesh, Bhutan and Sri Lanka and two from Southeast Asia – Thailand and Myanmar) is a region growing at 6.5 percent on the average and holds out promise of an expanding consumer base and therefore an attractive trade and investment opportunity, especially for India and China.

New Development Bank

The communique noted with appreciation the approval of the first set of loans by the New Development Bank (NDB), particularly in the renewable energy projects in BRICS countries. It also expressed satisfaction with NDB's issuance of the first set of green bonds in RMB. Curiously, while the communique exhorted the established development banks (such as the World Bank and Asian Development Bank) to bridge the gap in infrastructure funding, it didn't reiterate the special role of the Asian Infrastructure Investment Bank (AIIB) and NDB in this regard, and nor did it say how these two institutions, ostensibly set up in reaction to the business models of traditional development banks, would distinguish their lending from that of the latter.

Contingent Reserve Arrangement

The communique noted that the operationalisation of BRICS Contingent Reserve Arrangements (CRA) has strengthened the global financial safety net. This is also a statement short on specifics. Given that no regional financing arrangement, including the much-acclaimed Chang Mai Initiative, has been able to break free of the International Monetary Fund (IMF) safety-net, it would have been instructive if the communique had elaborated on how exactly this CRA would be an effective safety-net.

Spill-over Impact of Advanced Economy Policy Actions

The communique noted that the spill-over effects of certain policy measures in some systemically-important advanced economies can have adverse impact on growth prospects of emerging economies. The unconventional monetary policies of advanced economies such as ‘quantitative easing’ have had a large negative impact on emerging economies by way of volatile currency movements and asset prices, threatening their competitiveness as well a financial stability. Given that this has been such a high-profile issue in the meetings of the Group of Twenty (G20) established and emerging economies, and the IMF, the bland statement in the BRICS communique is unlikely to buttress the point of view of emerging economies.

Inclusion of RMB in the SDR Basket

The communique welcomed the inclusion of the Chinese currency renminbi RMB in the Special Drawing Rights (SDR) currency-basket in October 2016. It is interesting that the statement on this issue is so cryptic with nothing said about the world’s need for an alternate reserve-currency in addition to the US dollar or indeed whether the RMB can position itself as such.

BRICS Rating Agency

The communique indicated the possibility of setting up an independent BRICS Rating Agency based on market-oriented principles, in order to further strengthen the global governance architecture. This is a development that needs to be watched. Is this idea of a new rating agency a reaction to the perception that the current global rating agencies are

biased against emerging economies? If so, how will it be different and how will it maintain its credibility?

MSME Sector

As regards the micro, small, and medium enterprises (MSME) sector, the BRICS trade ministers, while acknowledging the role of MSMEs in employment generation and export-led growth, agreed on a framework to promote cooperation among MSMEs in crucial areas of trade and investment. The joint statement following the meeting of BRICS Trade Ministers held in New Delhi shortly before the summit added that such cooperation could be in the form of information exchange on rules and regulations governing MSMEs; participation of MSME stakeholders in BRICS events; and interface among the major chambers of commerce and industry of the MSMEs. How actively these ideas will be operationalized remains an open question.

BRICS – Shun Breadth, Go For Depth

As a group, BRICS has serendipitous origins. The five countries represent a heterogeneous grouping but have come together on a single criterion – albeit a powerful one – that they are all growing rapidly, and together they hold out the promise of challenging the Western dominance in global economy and finance. Even ten years ago, when their economies were much stronger and their politics less conflicting, the BRICS countries failed to capitalize on their growing influence to find common ground on global issues. Now when their economies are stalling and when their political equations are shifting and even conflicting, they have expanded the canvas of cooperation to encompass a host of political, strategic and security issues where finding a common denominator is not only improbable but almost impossible. Moving along in this direction will fritter away scarce energies and mind-space with the risk of the entire BRICS platform degenerating into a talk shop and a photo-op. BRICS will be well-advised to shun breadth in favour of depth – limit their cooperation to the economic sphere and focus on concrete, realistic goals.

That is the only way BRICS will stay useful, relevant and deliver on its initial promise.

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