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# Building BRICS without straw

Benefits of cooperation are immense for BRICS & for the global economy, but the challenges en route are daunting

**B**RICS was an acronym for Brazil, Russia, India and China, later expanded to include South Africa. It was originally invented by Goldman Sachs, an investment bank, some years ago, to underscore the investment possibilities in four big, fast-growing emerging markets whose share in the global economy was expected to increase sharply over the next few decades. Following the recent global economic and financial turmoil, with major developed economies likely to grow slowly for an extended period, the share of BRICS in the global economy is expected to grow even faster than originally projected. Already, these countries account for over 25% of the world's land area and GDP at purchasing power parity, and over 40% of population.

It is important to bear in mind that BRICS did not originate through an endogenously driven geopolitical impulse. Despite being large economies, and consequently members of the exclusive G20 club, there are major strategic and structural differences between BRICS which prevent them from acting effectively as a bloc, unlike the G7, for instance. Strategic and structural differences are so stark that it is difficult to say what exactly such disparate economies have in common.

While they are spread over three continents, the strategic relationships between China and India, and China and Russia, are complicated by the fact that they are neighbours, with competing geopolitical interests. Is Russia a developing economy? China stands out amongst the BRICS as being overly dependent on external demand for growth, while India runs a large current account deficit. China and India are commodity consumers, while Brazil, Russia and South Africa are commodity exporters. China's undervalued currency hurts other BRICS, while India's relatively high agricultural tariffs are an issue with Brazil, a competing agricultural power.

Chinese and Indian trend growth far exceeds those of other BRICS, as a result of which the Asian BRICS are pulling away from the others. Since foreign savings can play only a marginal role in in-

creasing investment in large economies, this growth differential is largely explained by higher savings in China and India. India imports foreign savings in addition, while China exports domestic savings. Low savings and investment in Brazil, Russia and South Africa are more akin to the slower growing advanced economies or low income countries. Russia even manages to export capital despite low saving rates.

BRICS nevertheless have a certain congruence of international political and economic purpose in that they represent the aspirations of previously disempowered nations seeking to grow and protect their development space. While cooperation in some forums like the WTO and the UN Security Council has proved difficult, they have cooperated on climate change within the UNFCCC, and in the reform of institutions of global economic governance, such as the Bretton Woods institutions and the Financial Stability Board, through the G20. Growing intra-BRICS trade and investment activity is leading to growing business and academic cooperation in civil society.

To be effective, an economic and geopolitical grouping must be credibly balanced to establish trust. In the G7, Europe is a counter to the US; in the G20, the US, China and Germany (representing Europe) are more or less on equal footing. In sharp contrast, China is the thousand pound gorilla in the BRICS club, accounting for about half of their GDP. It is self-evident that competing interests would need to be harmonised for BRICS to act in a coordinated and effective manner, and that China would need to play a leading role. There is, however, a perception that much of the recent gains by BRICS within the G20 have been cornered by China, with increasing talk of a G2. It has also gained the most from the



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quota shift in the Bretton Woods institutions, and has strategic leverage independent of other BRICS in multilateral forums through which it can always cut a deal on its own strength.

The economic and geopolitical frictions within BRICS are apparent in developing a harmonised perspective on two recent high profile initiatives, namely setting up a new development bank, and pooling reserves for a BRICS financial safety net. These BRICS initiatives would redirect the global savings glut, much of which emanates from the BRICS itself, amongst them to rebalance global demand and help stabilise a teetering global economy.

Such redirecting has traditionally been the role of the Bretton Wood twins, the World Bank and the IMF. However, neither their governance structure nor their resources have adjusted to the tectonic shifts in the global economy occasioned by the rise of BRICS, making them irrelevant for the big emerging markets. The collective financial safety net (foreign currency reserves) of BRICS exceeds that of even the augmented IMF by a factor of 4, while the long stagnant resources of the World Bank are now too puny for their developmental needs.

While there is congruence of purpose amongst BRICS for these initiatives, economic and geopolitical differences diverge sharply. India, which took the initiative for a BRICS led new development bank, needs large resources to bridge its domestic infrastructure deficit. Brazil, on the other hand, is more likely to see the bank play a supporting role for trade and investment overseas. Unlike India, which has relied on financial markets, China and Brazil have successfully used financial repression to leverage large amounts of savings at low cost and channel them into infrastructure through state directed investment vehicles. From

a Chinese perspective, the bank is better used as a secure channel for its risky investments in resource rich developing countries, particularly in Africa. While South Africa has large internal developmental needs of its own, its geopolitical objectives coincide with those of China as it seeks to enhance its sphere of influence in its backyard.

While Brazil took the initiative for bilateral swaps and reserve pooling amongst BRICS, it is in the economic interests of all BRICS to shelter behind China's huge stock of foreign currency reserves on account of the volatility inherent in capital flows to developing countries. For China it makes eminent sense to use the BRICS forum to counter the exorbitant privilege of the US dollar, of which it has been its most articulate critic in recent times.

Divergent economic interests of BRICS can be harmonised through negotiated mandates for these new institutions. Accommodating the gorilla in a harmonised governance structure would be much more challenging. The gorilla could, of course, be cut to size, but because it brings vast resources to the table, an equitable governance structure would come at the cost of size. These new institutions would then suffer the same infirmities of the existing Bretton Woods. There are ways of getting around this by associating key developed countries on an equal footing. This would also improve the credit rating of the new institution.

The challenges of being optimistic about the recent cooperative initiatives of BRICS are matched only by the undeniable benefits such economic cooperation would bring. In a post-crisis world buffeted by financial instability and weak growth in major advanced economies, BRICS have a historic opportunity to enhance their position in global institutions of governance, and to be a stabilising force through demand rebalancing to weather global economic and financial turbulence. The benefits of cooperation are therefore immense for BRICS as well as for the global economy, but the challenges en route are daunting.

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Views are personal*