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India, BRICS and the World Economy

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BRICS, an association of five nations, had a tentative start, as 'BRIC' (South Africa was yet to be inducted), on the margins of the 61st session of the UN General Assembly in New York, in September 2006. The foreign ministers of four countries, Brazil, Russia, India and China, met briefly to explore ways to cooperate politically. The proposal for the meeting came from President Vladimir Putin of the Russian Federation at a meeting of the leaders of Russia, India and China on the margins of a G-8 Outreach Summit in St. Petersburg, in July 2006.

What brought these countries together? Why only these four?

The answer to these questions lies, oddly enough, in a report prepared by one of the world's leading investment companies, Goldman Sachs, in 2001. Its British chief economist, Jim O'Neill – who authored its Global Economics Paper No. 66 – captioned it "Building Better Global Economic BRICs". The report predicted that the four emerging economies would become the world's largest over the next 50 years. This, in itself, did not require much prescience. By then, China was already one of the leading destinations of foreign investment, and its growth rate was faster than that of most countries. Russia had recovered from the collapse of the Soviet Union, and was growing at a healthy pace. India and Brazil too were also growing faster than the advanced economies.

O'Neill's paper made the following points:[1]

- In 2001 and 2002, real GDP growth in large emerging economies will exceed that of G-7.
- At the end of 2000, GDP in US$ on a PPP basis in Brazil, Russia, India

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and China (BRIC) was about 23.3 per cent of world GDP. On a current GDP basis, BRIC share of world GDP is 8 per cent.

- Using current GDP, China's GDP is bigger than that of Italy.
- Over the next 10 years, the weight of the BRIC countries, and especially China, in world GDP will grow, raising important issues about the global economic impact of fiscal and monetary policy in the BRIC countries.
- In line with these prospects, world policymaking forums should be reorganised and, in particular, the G-7 should be adjusted to incorporate BRIC representatives.

O'Neill's report was remarkable for its recommendation that these four countries should be included in the apex consultative process on the global economy which, till then, was confined to the G-7: the USA, Canada, the UK, France, Germany, Italy and Japan. This informal group met regularly, and once a year at the summit level, to discuss the global economic situation and coordinate financial policies to deal with it. O'Neill realised that this exclusive club had become outdated. The BRIC countries were already major players in the global economy, and needed to be accommodated at the high table.

The G-7

The highest body in the current international financial system is the informal consultative group is the Group of Seven, or G-7. It was formed in 1975, with the heads of 6 countries (Canada joined a year later) meeting "to provide a venue for the non-communist powers to address pressing economic concerns, which at the time included inflation and a recession sparked by the OPEC oil embargo."[2]

The formation of the G-7 was an admission by the USA that it could no longer run the global economy on its own. The Vietnam War and the oil price hike had taken their toll. Four years earlier, President Nixon had to take the US dollar off gold standard. Besides, Western Europe and Japan had, by now, recovered from the ravages of the Second World War, and were looking to play a more active role in the world economy.

In 1998, the Russian Federation was invited by President Clinton to join the group. This was a political move to bring the new country into the western fold. The finance ministries of the G-7 did not initially agree that Russia, which was a relatively small economy with a large public debt, was qualified to be a member. Nevertheless 'G8' came into being in 1998, till Russia was suspended in 2014 on the issue of Crimea. G-7 leaders used the forum to impose sanctions on Russia for its annexation of Crimea.

However, Jim O'Neill's sound advice to include BRIC countries in the high echelons of the global financial system went unheeded. The BRIC countries too did not grasp the significance of holding consultations among themselves on the global economy. Their meeting in New York in 2006 was at the level of Foreign, and not Finance, Ministers and, the main item on the menu, was political cooperation. They did not feel the need to make a coordinated effort to seek the reform of the G-7's hold on the global economy.

The Financial Crisis of 2008

Then, the financial crisis broke out in the USA in late 2007. It shook the foundations of the market-based economic model that had been promoted by it and other advanced economies since the 1990s. The crisis gave critics the confidence to call for change in the international financial architecture and question the blind faith in the abilities of the market. The time had come for the outliers to speak up.

The leaders of the global economy found themselves beset with problems they could not handle alone. The BRIC countries, on the other hand, were relatively unaffected. They realised the urgency of coordination to protect themselves. BRIC Finance Ministers thus met in November 2008 in Sao Paulo. Their joint communiqué noted that "the crisis revealed the weakness in risk management, regulation and supervision in the financial sectors of some advanced economies".[3] They called for "reform of multilateral institutions in order that they reflect the structural changes in the world economy and increasingly central role that emerging markets play".[4] They agreed to work together.

In the same month, during the visit of President Medvedev to Brazil, President Luiz Inacio Lula da Silva announced the holding of a summit meeting of the four countries at a joint press conference in Rio de Janeiro. President Lula said, "We, the developing countries, should not allow the crisis to harm our development. We must, jointly with India, China and Russia, help the world get out of the crisis."[5] President Medvedev added, "The financial crisis, which we haven't started and we are not to blame for, affected the global economic situation and we are forced to react."[6]

The International Financial Architecture

The economic crisis exposed the limitations in the running of the global economy by the advanced economies and the development model created by them. In fact, the very structure of the international financial architecture came under fire.

This international financial architecture had been created by the Bretton Woods Conference in 1944. It rested on three pillars, of which two were set up then, and the third added later.

- **The International Monetary Fund**: to regulate exchange rates. Based in Washington, its Managing Director is always a European, and the weighted voting gives the United States a veto on all major decisions. The combined vote share of BRICS in the IMF is 11 per cent, even though their share of global GDP is 22 per cent in nominal terms and 32 per cent in PPP terms.
- **The International Bank for Reconstruction and Development**: commonly known as the World Bank. It helped rebuild countries ravaged by World War II and now funds projects all over the world. Also based in Washington, its President is always an American. The collective vote share of BRICS in the World Bank is 14 per cent.
- **The World Trade Organization**: Bretton Woods Conference had decided on the International Trade Organization to regulate world trade; but after the adoption of its charter in Cuba, it was abandoned because the US Congress refused to ratify it. Instead, the Western countries went ahead with their own trading bloc, the General Agreement on Tariffs and Trade (GATT) in 1947, with 23 members. GATT was based in Geneva. In 1994, it was replaced by the World Trade Organization after protracted negotiations.

Washington Consensus

The collapse of communism in Eastern Europe in the late 1980s and early 1990s discredited socialism. The triumphant Western countries now insisted on imposing a package of financial reforms on any country seeking financial assistance. This model had been developed in Washington in the 1980s, and came to be referred to, often derisively, as the Washington Consensus. The term was coined by a British economist, John Williamson, of the Institute for International Economics in Washington, in 1989. He summarised it very accurately in the following 10 points:

- Fiscal policy discipline, with the avoidance of large fiscal deficits relative to GDP.
- Redirection of public spending from subsidies ("especially indiscriminate subsidies") towards broad-based provision of key pro-growth, and pro-poor services, like primary education, primary health care and infrastructure investment;
- Tax reform, broadening the tax base, and the adoption of moderate marginal tax rates.
- Interest rates that are market determined and positive (but moderate) in real terms.
- Competitive exchange rates.
- Trade liberalization: the liberalization of imports, with particular emphasis on the elimination of quantitative restrictions (licensing, etc) by low and relatively uniform tariffs.
- Liberalization of inward foreign direct investment.
- Privatization of state enterprises;
- Deregulation: the abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and the prudential oversight of financial institutions;
- Legal security for property rights.[7]

These became the recipe that the IMF and the World Bank prescribed for countries borrowing from them.

BRICS

As Washington Consensus came under severe challenge in the wake of the financial crisis, the BRIC countries began to demand that the advanced economies accommodate them in the in the international economic decision-making processes. They made solemn affirmations of their resolve to stay together. The first BRIC summit in June 2009 was hosted by Russia at Yekaterinburg. Its leaders described it as a necessary reaction to the global financial crisis, and emphasised the need to diversify the international monetary system and reduce reliance on the dollar as a global reserve currency. The main demand of BRIC countries was well articulated in Para 4 of the joint statement adopted there:

We are convinced that a reformed financial and economic architecture should be based, *inter alia,* on the following principles:

- democratic and transparent decision making and implementation process at the international financial organizations,
- solid legal basis,
- compatibility of activities of effective national regulatory institutions and international standard-setting bodies,
- strengthening of risk management and supervisory practices.[8]

However, they soon expanded their goal to cooperating with each other in creating their own institutions; initially these were in the financial sector, but soon came to include other fields as well. South Africa in the meantime was invited to join this grouping and BRIC became BRICS in 2010. At the New Delhi summit in 2012, the group called for increasing their quotas, and voting rights in the International Monetary Fund. Moreover, leaders at the summit began discussion on the need for establishing a BRICS-led development bank.

The issues under discussion also moved beyond global finance. Iran's nuclear program and the importance of energy and food security were discussed. The length of the summit declarations is itself an indicator of the growing confidence and ambition of the association. The declaration at Yekaterinburg had just 16 paragraphs. At the sixth summit in Fortaleza it ran into 72 paragraphs, and had a two-page annexure.

At the fifth summit in South Africa in 2013, the group agreed to set up a BRICS Business Council, with five entrepreneurs from each country. Agreements on establishing a development bank and a currency reserve pool were signed at the sixth summit at Fortaleza in Brazil 2014:

New Development Bank

The New Development Bank will have a capital of US$ 100 billion, starting initially with US$ 50 billion. Each member will contribute US$ 10 billion. Other countries can join the Bank, but the share of the BRICS countries cannot be allowed to fall below 55 percent. The Bank will be based in Shanghai. Its first President will be from India, the first Chair of the Board of Directors from Brazil, and the first Chair of the Board of Governors from Russia. South Africa will host the Bank's first regional centre for Africa. The Bank is expected to become operational by 2016.

Contingent Reserve Arrangement

This will be a currency reserve pool, like the IMF, to meet the balance of payment problems of member countries. It will have an initial reserve of US$100 billion. China will contribute US$ 41 billion; India, Russia and Brazil US$ 18 billion each; and South Africa US$ 5 billion.

Thus, within six years of its commencement, BRICS had finalised the setting up of institutions parallel to the World Bank and the IMF. It continued to call for institutional reforms to give emerging economies a bigger role in the global financial system. However, it was ready to go ahead, and set up its own institutions if its call went unheeded. During this period, the BRICS countries had also increased their share of global GDP in PPP terms to 32 per cent, bringing them almost on par with the G-7, who are at 34 per cent. In nominal terms too, BRICS have increased their share to 22 per cent, as against the 45 per cent of the G-7.

At the second summit in Brazil in 2010, President Jacob Zuma of South Africa was invited to attend. Later in the year, South Africa was invited to join. The group had moved beyond its original conception and acquired its own global character. The continent of Africa had been missing from this group. South Africa was willing and eminently qualified to join. It completed the representation of all continents in the group.

Cooperation in BRICS runs on two tracks. The first is consultations on various international issues. This is chiefly at the summit level, but also at the level of ministers and diplomats. The second track is promoting engagement among BRICS countries in business, academics and other areas. Having come together because of the financial crisis in the advanced economies, the initial area of consultations in BRICS was, inevitably, international finance. Reform of the Bretton Woods institutions and the international financial architecture was their main concern. However, as consultations progressed, other topical issues also came under discussion: these included international terrorism, climate change, food and energy security, trade protectionism and negotiations in the World Trade Organization.

National security is another area that has been brought into the ambit of cooperation in BRICS. National Security Advisers have been meeting to develop common strategies of money laundering, the financing of terrorism, illegal migration and corruption. Other areas where cooperation is being promoted by BRICS countries are: agriculture, health, science and technology, and education.

BRICS and the G-20

Meanwhile, the advanced economies had done some fire fighting on their own: both to deal with the crisis and to dampen the demand for reform. They elevated an informal consultative group formed a few years earlier to summit level, and invited their leaders to cooperate in dealing with the crisis. The Group of 20 had been formed as an informal process by the G-7 finance ministers in 1999 to hold consultations with some of the leading countries on global economic issues and governance. The first meeting had been held in Berlin in December 1999. The G-20 comprised the G-7, the five who later formed BRICS, and 8 other countries: Turkey, Saudi Arabia, Australia, Mexico, Indonesia, Argentina and South Korea. (The European Union is the 20th member, even though four EU members are also in the group). Three countries in the top 20 economies by GDP (PPP) were not included: Spain, Iran and Nigeria; two countries not in the top 20 were: Argentina and South Africa.

G-20 leaders first met in November 2008 in Washington. President Obama called it the "premier forum for global economic coordination".[9] The G-20 was useful in ensuring a coordinated effort by governments to pump liquidity into the market to keep it from sliding into recession, and avoid trade protectionism and currency wars.

However, the G-7 members retained their exclusive club, and used the G-20 as a sounding board for their decisions. Nevertheless, BRICS saw the utility of supporting this group in dealing with the continuing financial slowdown. In the Fortaleza Declaration in 2014, BRICS affirmed that the G-20 remains "a critical factor for strengthening the prospects for a vigorous and sustainable recovery worldwide".[10]

India's Contribution

The proposal to set up a New Development Bank came from India at the New Delhi summit. India also initiated the idea of bringing together think tanks and business publications from BRICS to promote thinking on economic linkages and developmental challenges within and outside BRICS. This suggestion took shape in the Academic Forum and the Think Tanks Council.

India is the only member of BRICS that goes back to the non-aligned movement, in the framework of which it has waged a relentless struggle for democratization of the global order, be it in the areas of security, finance, information, nuclear or trade. India adapted rapidly to the global changes after the Cold War; but it continued to speak up on the inequities of the international system. The continuity of this long experience has been invaluable for BRICS, which has now taken up the mantle of that struggle, initially in the international financial architecture, and then in various other areas.

Russia's Role

Other members have also contributed ideas for institution building in BRICS. It was Brazil, for example, that initially mooted the idea of a currency reserve arrangement. One must also acknowledge the pioneering role of Russia in the formation of BRICS. It will host the next summit in Ufa on 8–9 July 2015. The goals it has set for this summit are:

- To strengthen international peace and security. To promote BRICS interests on the international arena.
- To facilitate multilateral financial cooperation and reform of the international financial system.
- To enhance trade and economic cooperation within BRICS.
- To expand social cooperation of the BRICS countries.
- To deepen humanitarian cooperation in the format of BRICS.[11]

Russia has been particularly keen on regular consultations among BRICS countries at the diplomatic level to discuss international issues, and develop common positions on them.

New Members

The issue of new members joining BRICS has been the subject of speculation in international circles since South Africa joined it. In fact, South Africa's admission itself led to some wry comments. Jim O'Neill expressed doubt over the merit of its inclusion. He felt that South Korea, with its high growth, fitted the bill better.[12] This view overlooks the fact that South Korea is already a member of the West-led Organization for Economic Cooperation and Development (OECD). *The Economist* suggested that South Africa, and not Nigeria, was included because it kept the acronym BRIC intact.[13]

Evaluation of BRICS

BRICS has evolved well beyond the original conception of both the inventor of the acronym as well as of its own members. At the New Delhi summit, Jim O'Neill (who had been invited) acknowledged this when he said, "It is more than ten years now since I had the good luck of dreaming up the odd acronym BRIC … By the end of 2011, the BRIC economic story has been much more powerful than I had proposed in 2001."[14]

The Brazilian professor and author Oliver Stuenkel not only agrees but also supports this progression as essential:

> As the BRICS seek to advance in their attempts to strengthen cooperation and jointly influence global affairs, they would be well-advised to forget Jim O'Neill. While acknowledging the British economist's key role in the conception of the BRIC is important, policy makers in Brasilia, New Delhi, Moscow, Beijing and Pretoria are now moving on, and beginning to develop ideas that are far removed from anything O'Neill even had in mind when he coined the term.[15]

Some critics dismiss the viability of BRICS by pointing to the poor foreign trade among them. Only China emerges as a leading trade partner for the other four. It is the largest for all four, while the others figure low on the list. None of the others figures in the top ten trading partners of India, Russia or Brazil. For South Africa, India is the fifth largest trading partner. For China, Brazil and Russia are the 9th and 10th trading partners, respectively.

However, this criticism misses the point that BRICS is not a regional trade association seeking to set up a free trade area. It is a consultative forum to put pressure on the prevailing system for reform. The lack of progress in this is encouraging the association to move towards creating its own institutions for protecting itself from financial crises, and promoting alternatives for development. The setting up of the Currency Reserve Arrangement and the New Development Bank has to be seen in this perspective. The former will cushion members from balance of payments problems without having to go to the IMF and suffer its onerous conditionalities. The latter will help finance projects, particularly infrastructure projects, in developing countries which the World Bank no longer does on environmental and social safeguard considerations. The BRICS countries are willing to share their experience, expertise and relative prosperity with other developing countries.

Besides, BRICS offers a platform for alternative views on a host of global issues for which there is no other avenue left. These are views that question the prevailing orthodoxy of market fundamentalism. An instance of this can be found in the Fortaleza Declaration (Para 23) in which the role played by state owned companies in the economy is lauded. In this age of globalization, such companies are the favourite target of economic reformers.

The success of BRICS will lie in its ability not only to offer alternative models of growth but also the financial institutions to fund it. BRICS is strengthening global multipolarity, as it well should; but it is important that it does not take it back to the bi-polar world of the Cold War. A confrontational BRICS would be dominated by China, the pre-eminent power in the association today. This would be detrimental to the global economy, and impossible for India to accept – both because of their bilateral disputes and because of its deep attachment to non-alignment. Fortunately, there is no reason for such apprehension. Each of the BRICS members has close economic ties with the West, and wishes to promote cooperation with it. BRICS must continue to repose its trust in a cooperative approach, both with the West and the rest. It must also endeavour to compete with, rather than replace, the existing multilateral institutions.

China's economy towering over the other BRICS members as well as its parallel moves to play a super power in its own right do lend a degree of credibility to the speculation that it may prefer to go it alone. Its vigorous promotion of its Asian Infrastructure Investment Bank – which also has a capital of US$ 100 billion and 57 Prospective Founding Members, including some from the West – is cited as indication of its diminishing enthusiasm for the New Development Bank.[16] This, of course, remains to be seen. Both banks can co-exist successfully as can China's national ambitions with its multilateral fraternising. The slowdown in its growth rate and its close identification with developing countries are adequate arguments for it not to abandon BRICS.

BRICS is a compact cross-regional group that espouses the cause of other developing countries. It should endeavour to gain their trust through its development orientation and activities. In multilateral bodies, countries meet regularly in regional groups to coordinate their positions. This may not yield common positions; but it helps them understand issues and each other's position as well as refine their own national positions. BRICS offers a platform for cross-fertilization of such views in a small and informal setting. Western countries do this very effectively in what is known as the Group B. This group consists of the countries of West Europe and North America, as well as Australia, New Zealand and Japan. On the other hand, the groups of the other countries have been debilitated due to their large size or internal dissension. The Group of 77, formed in 1964, now has 134 developing countries as members; but it is too large and diverse to be effective. In 1989, India had pioneered the cross-regional Group of 15 developing countries. It now has 17 members, but is languishing for various reasons. BRICS, on the other hand, is going from strength to strength. It can be criticised, but not ignored.

There is a tendency to dismiss BRICS as nothing more than a catchphrase that will fade away soon. This view ignores the key force that holds its members together. They are all major economies, with the ambition to play a commensurate role in global financial institutions and also share resentment of the existing order.

There is no dearth of other catchy acronyms dreamt up by investment banks; but these have remained smart marketing techniques for their products. Here are some:

- **CIVETS:** Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa [*Economist Intelligence Unit*].
- **CARBS:** Canada, Australia, Russia, Brazil and South Africa [*Citigroup*].
- **MINT:** Mexico, Indonesia, Nigeria and Turkey [*Fidelity Investments*].
- **Next Eleven (N-11):** Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam [*Jim O'Neill*].

The progress made by BRICS has not gone down well in the financial centres of the West. The British journalist, Philip Bowring, did not hide his feelings in his assessment of the Hainan summit in China in 2011. He wrote in the *New York Times*, "The truth is that the interests of 'emerging forces' are far more comprehensively represented by their members in the Group of 20 than by the BRICS. This was a summit meeting the emerging world does not need."[17]

It must be recognised, though, that BRICS has run into a brick wall in its efforts to reform the IMF. The reform of quotas agreed to in 2010 in the 14th General Review of Quotas remains unimplemented due non-ratification by the USA. The prospects of this happening are not bright. BRICS have called for a new quota formula in case the earlier one is not implemented. The deadline set for this at the Fortaleza summit was January of 2015.

The diversity within BRICS must be recognised, but without any peremptory judgement on its impact or effectiveness. The disparity in size is all too evident. China towers above the rest. Its GDP (PPP) is over 10 times that of South Africa. Moreover, political systems are divergent as are the views on a host of international issues. There are serious political differences and some unresolved disputes among them. However, this diversity enables the group to accommodate the complexity of the developing world, and expound views that have resonance across the continents. Regular exchanges and cooperation will help in mitigating bilateral issues.

The diversity in BRICS is even more pronounced in the UN system. Two of its members, Russia and China, are permanent members of the Security Council, and both are unenthusiastic about any change. The other three are ardent aspirants for permanent membership of the Security Council, and are campaigning vigorously for it. The association steers clear of this in its declarations, and confines itself to economic issues where all five are outliers and share a common zeal for reform. This lack of cooperation was also evident in their voting in the UNSC in 2011, the only year when all four were on the Council. BRICS did not vote as a block. In the Human Rights Council too, the BRICS countries hold regular consultations, but vote individually.

BRICS is not an organised coalition seeking to create its own international order. It lacks adequate homogeneity and shared ideology for that. It is a pressure group of countries which want to be included in the decision-making forums of the international financial system. They feel that they have earned their place, and their credentials must be recognised. The slowdown in the growth rate in all BRICS countries, except India, has prompted many western experts to predict its demise. This appears to be an expression of desire rather than the result of objective analysis.

The future shape of BRICS will depend on how the high priests of the present order react to their legitimate demands. What began as a prescient tip of a farsighted investment banker may either result in the reorganization of the existing system or lead to the setting up of a rival structure.

The world would be better off in both eventualities

Notes

[1] Jim O'Neill, "Building Better Global Economic BRICs", Global Economics Paper No. 66, Goldman Sachs, 30 November 2001.

[2] Zachary Laub, Council on Foreign Relations, Washington, 9 May 2014.

[3] Para 3, Joint Communiqué, First Meeting of BRIC Finance Ministers, Sao Paulo, 7 November 2008.

[4] Ibid, Para 7.

[5] Reuters, Rio de Janeiro, 26 November 2008.

[6] Ibid.

[7] John Williamson, "What Washington Means by Policy Reform", in *Latin America Readjustment: How Much has Happened*, Institute for International Economics, Washington, 1989.

[8] Yekaterinburg BRICS Summit Joint Statement, 2009.

[9] Quoted by Ishaan Tharoor in "Why the G-8 should never meet again", *Time*, 27 May 2011.

[10] Fortaleza Declaration and Action Plan, 2014. Para 9.

[11] *www.en.brics2015.ru.*

[12] Bloomberg Business, 29 December 2010.

[13] *Economist*, 29 May 2013.

[14] Quoted by Lysa John in "Engaging BRICS: Challenges and Opportunities for Civil Society", Oxfam India Working Paper Series XII, September 2012, p. 1.

[15] Oliver Stuenkel, "BRICS and the Global Order".

[16] www.aiibank.org/yatouhang04.html.

[17] *NYT*, 20 April 2011.

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