Indian Foreign Affairs Journal Vol. 7, No. 2, April–June 2012, 195-205

The BRICS New Delhi Summit: The Way Forward

Rup Narayan Das*

New Delhi hosted the fourth summit of BRICS (comprising Brazil, Russia, India, China and South Africa) on 28-29 March 2012. Its theme was "BRICS Partnership for Global Stability, Security and Prosperity". Representing their countries were President Dilma Rouseff (Brazil), President Hu Jintao (China), President Dmitry Medvedev (Russia) and President Jacob Zuma (South Africa) and the host, Indian Prime Minister Manmohan Singh. The BRICS countries together constitute 25.9 per cent of the world's geographic area; 43 per cent of the global population; 18 per cent of global trade; and 25 per cent of global GDP in terms of purchasing power parity (PPP). They hold 40 per cent of the world's currency reserves, mostly in US dollars. The US think-tank Hudson Institute's Center for Global Prosperity, citing a World Bank report, has recently claimed that the proportion of people living in extreme poverty has declined from 52 per cent in 1961 to 22 per cent in 2008 thanks to the strong economic growth in the emerging markets of India, Brazil and China. This means that the Millennium Development Goal (MDG) of cutting extreme poverty by half by 2015 has already been met.[1]

The group as a political entity acquired resonance and its acronym after the prediction of investment banker Jim O'Neill of Goldman Sachs in 2001 that the emerging economies of these countries would propel the trajectory of world growth and development. Later in 2003 the predictions were fine-tuned and packaged in the much-touted Goldman Sachs report authored by Jim O'Neill, Roopa Purushothaman and Dominic Wilson. The report forecast that by 2039 the combined GDP of Brazil, Russia, India and China would exceed that of the US, Britain, France, Germany, Italy and Japan combined (the G-6). In 2050 China's GDP would be $44.5 trillion and India's $28 trillion. China would be the world's largest economy, and India the third-largest. In absolute GDP, by 2015 China would forge ahead of Japan. (Far

***The Author** is Senior Fellow at the Institute for Defence Studies and Analyses (IDSA), New Delhi.

ahead of this forecast, China surpassed Japan and became the world's second-largest economy in 2010.) The Goldman Sachs report further said that the share of the four nations (Brazil, Russia, India and China) in the world growth rate would double from 20 per cent in 2003 to 40 per cent in 2050. In oil consumption, India's share could nearly double and gradually converge on China's by 2025. China and India together would then account for almost one-third of the global oil demand.

President Barack Obama in a speech in New Hampshire in March this year echoed the forecast made in the BRICS report when he said:

> In five years, the number of cars on the roads in China more than tripled. Nearly 10 million cars were added in China alone in 2010 - 10 million cars just in one country in one year. So that's using up a lot of oil. Those numbers are only going to get bigger over time. As places like China and India get wealthier, they're going to want to fill them up like we do, and that's going to drive up demand.[2]

The Goldman Sachs report underscored the tectonic shift from the Atlantic to Asia-Pacific. BRIC was formalized with the first meeting of the Foreign Ministers of Brazil, Russia, India and China in New York on the margins of the UN General Assembly meeting in September 2006. The first BRIC summit was held in Yekaterinburg (Russia) in June 2009, the second in Brasilia (Brazil) in April 2010 and the third in Sanya (China) in April 2011.

Goldman Sachs' prognosis has been superseded by several other projections in recent times. In 2011 the World Bank in its report Global Development Horizon 2011 noted that six countries - Brazil, China, India, Indonesia, South Korea and Russia - will account for almost half of the world's economic growth by the next fifteen years. This will not only ensure that the centres of economic growth are spread across the world, that no currency will dominate the global economy, and the Chinese Renminbi will assume a greater role. The report added, "China and India are likely to be the main flag bearers among emerging market growth poles in the years ahead."[3]

The World in 2050 report, brought by HSBC this year, forecasts that India will be the world's third-largest economy by 2050, while China will be at the top, surpassing the US. Emerging economies such as India, Brazil, China, Russia, South Africa, etc. will be the engines of growth for the world economy. "By 2050, the emerging world will have increased five-fold and will be larger than the developed world … 19 of the top 30 economies by GDP will be countries that we currently describe as 'emerging' ". Also, India's growth rate would overcome that of China in the coming years. "It will come as no surprise to see that China is near the top of the growth table. But as the income per capita rises and the one-child policy leads to a demographic headwind, India's growth rate will soon overtake that of China beyond 2030." The emerging world will contribute twice as much as the developed world to global growth over this period, the report added.[4]

The fourth BRICS summit, however, was held in the backdrop of a bleak world economic scenario. There is apprehension that the process of global economic recovery that began after the financial crisis of 2008 is stalling and the sovereign debt crisis in Eurozone may persist for a while. The International Monetary Fund (IMF) in its January 2012 update of the World Economic Outlook predicts that the global economy is expected to grow by 3.3 per cent in 2012 compared to 3.8 per cent in 2011. GDP growth in the advanced economies declined to 1.6 per cent in 2011 compared to 3.2 per cent in 2010; it is expected to be 1.2 per cent in 2012. Growth in emerging economies slowed to 6.2 per cent in 2011 compared to 7.3 per cent in 2010 and is projected to be 5.4 per cent in 2012. According to the *Economic Survey 2011-12* of the Government of India, the US economy seems to have revived somewhat and is projected to maintain its growth rate at 1.8 per cent for 2010. Even so, economic growth in the US remains sluggish. The Eurozone is expected to contract by 0.5 per cent in 2012.

While addressing the UN General Assembly in September 2011 Prime Minister Manmohan Singh, alluding to the negative effects of globalization said: "Till a few years ago, the world had taken for granted the benefits of globalization and global interdependence. Today we are called upon to cope with the negative dimensions of those very phenomena…. We should not allow global economic slowdown to become a trigger for building walls around ourselves through protectionism or erecting barriers to movement of people, services and capital." He said that "effective ways and means must be deployed to promote coordination of macroeconomic policies of major economies" and made a plea for the reform of governance systems of international financial institutions (IFIs) with speed and efficiency because, he said, the efficiency of the World Bank and IMF was being questioned.[5]

The Sanya Declaration[6] of BRICS had called for quick achievement of the targets for reform of the IMF agreed at the G-20 summits and reiterated that the governing structure of IFIs should reflect the changes in the world economy, increasing the voice and representation of emerging economies and developing countries. The BRICS economies have been urging for strengthening the regulatory frameworks of IFIs and for allowing them a greater say in their governance. It has been argued that "although recent reports have indicated that the executive board of IMF has informally agreed to a restructuring of the organization's voting rights, giving the emerging economies a better chance to influence its decisions, BRICS would have to ensure through collective action that this change is formalised."[7] The IMF in November 2010 agreed to wide-ranging governance reforms to reflect the increasing importance of emerging market countries. Those changes, it is hoped, will see all four of the BRICS among the top ten shareholders of the IMF.

The Delhi Declaration,[8] issued at the end of the BRICS summit, echoed these concerns. Emphasizing that the global economy is not only integrated but also mutually interdependent, it said:

> While the BRICS recovered relatively quickly from the global crisis, growth prospects worldwide have again got dampened by market instability especially in the euro zone. The build-up of sovereign debt and concern over the medium- to long-term fiscal adjustment in advanced countries are creating an uncertain environment for global growth. Further excessive liquidity from the aggressive policy actions taken by the central banks to stabilize their domestic economies has been spilling over into emerging market economies, fostering excessive volatility in capital flows and commodity prices.

The Delhi Declaration therefore urged the international community "to ensure international policy coordination to maintain macroeconomic stability conducive to the healthy recovery of the global economy". Thus the BRICS has emerged as a pressure group to exert influence on the advanced economies to coordinate their domestic economies so as to stimulate growth and create jobs. As a corollary, BRICS is also critical of the protectionist policies of the advanced economies, which is not conducive to global financial recovery.

The Delhi Declaration, while recognizing the importance of the global financial architecture in maintaining the stability and integrity of the global monetary and financial system, called for a more representative international financial architecture, with an increase in the voice and representation of developing countries. It bemoaned the slow pace of quota and governance reforms in the IMF and emphasized the urgent need to implement, as agreed, the Governance and Quota Reform before the 2012 IMF/World Bank Annual Meeting. It also urged a comprehensive review of the quota formula to better reflect economic weights and enhance the voice and representation of emerging markets and developing countries by January 2013, followed by completion of the next general quota review by January 2014. The Delhi Declaration stressed that the ongoing effort to increase the lending capacity of the IMF will be successful only if there is confidence that the entire membership of the institution is truly committed to implement the 2010 Reform faithfully.

The leadership of the IMF and the World Bank has, by tradition, been held by Europeans and Americans in rotation under what is called a "gentleman's agreement".[9] Taking note of the ensuing vacancy in the World Bank President's post – the incumbent head, Robert Zoellick, would demit office in June 2012 – the Delhi Declaration reiterated that the heads of these IFIs be selected through an open and merit-based process. Now that Jim Yong Kim has been selected as President of the World Bank, the BRICS member countries should extend support to him, but lobby hard in a concerted manner to secure the interest and rights of the member countries and the interest of the developing countries at large. Reform of these IFIs has been long overdue and reforms, even if slow and incremental, should be pursued. India's Finance Minister Pranab Mukherjee has been putting up a tough position in this regard. As there is no dearth of deserving and qualified candidates from the BRICS countries, the legitimate interests of these countries should be protected for filling up important positions and for securing effective and substantive voting rights in these IFIs.

A concrete and substantive achievement of the recent BRICS summit was the conclusion of the Master Agreement on Extending Credit Facility in Local Currency under BRICS Inter Cooperation Mechanism and the Multilateral Letter of Credit Confirmation Facility Agreement between their EXIM/ Development Banks. The two agreements are intended to reduce the demand for fully convertible currencies for intra-BRICS trade transactions, and thereby help reduce transaction costs and boost intra-BRICS trade. The move to trade in local currencies is also perceived as challenging the supremacy of the US Dollar as the world's reserve currency. According to Dilma Rousseff, President of Brazil, intra-BRICS trade rose from $27 billion in 2002 to $212 billion in 2010.[10] In 2012 it may reach $250 billion and is projected to rise to $500 billion by 2015.

The New Delhi summit considered setting up a new Development Bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development. At the G-20 summit held in Seoul in November 2011, Prime Minister Manmohan Singh had pointed out that multilateral development banks have an important role to play in recycling of global savings. He said, "Recycling surplus savings into investment in developing countries will not only address the immediate demand imbalance, it would also help to address developmental imbalance. In other words, we should leverage imbalance of one kind to redress the imbalance of other kinds." Supporting the idea, the Brazilian Trade Minister Fernando Pimentel said in Brasilia on 24 March that major emerging market economies would look closer at creating a joint development bank to coordinate their financial power as the world economy was faltering.[11] China said that setting up a BRICS investment bank could make funding of infrastructure and development much easier for BRICS countries. India's Exim Bank has already signed an agreement with its BRICS counterparts to start a multilateral initiative that could lead to the formation of the BRICS bank.[12]

There is a perception, however, that the proposed bank may be dominated by China because of its economic prowess. According to Shyam Saran, a former Foreign Secretary to the Government of India, "With China's carefully calibrated steps to raise the profile and role of its currency in the Asia-Pacific region, based on the massive size of its reserve, there is little doubt that the arrangements being put in place would be dominated by China."[13] Proponents of the bank, who worked on the subject under the aegis of BRICS Academic Forum, disagree:

> This is unlikely. Such a bank will not require too much paid-up capital (relative to average size of respective sovereign reserve).… Such doubts could further be allayed with the institution of a rotating Presidency of, say, a two-year term that could initially be restricted to the BRICS countries alone…. If a multilateral BRICS bank is instituted, its functions would not supplant the role of existing multilateral instruments that support development, but rather supplement them. And this supplementary instrument is needed as multilateral banks such as the World Bank, ADB, etc. have not been growing significantly in terms of the total amount of loans disbursed.[14]

It is worthwhile to recall in this context that while the earlier initiative by Japan in the wake of the Asian economic crisis in 1997 to start an Asian Monetary Fund in line with the IMF was stymied by the US and the IMF, this time around Robert Zoellick during his visit to India supported the idea of the BRICS Bank. He said that the BRICS Bank might help India attract capital while helping China to internationalize the Renminbi.[15] Zoellick's support is significant for two reasons. First, it reflects the growing clout of the emerging market economies. Zoellick also wanted to enlist the support of both China and India for President Obama's nominee Jim Yong Kim, a South Korea-born American, for the post of World Bank President.

As far as China's moves to internationalize the Renminbi are concerned, it may be noted that at the G-20 Finance Ministers' meeting in March 2011 it was decided that the Yuan should be included in the basket of currencies that the IMF uses to fix the value of its special drawing rights (SDRs). This is despite the fact that unlike other currencies in the basket – the US Dollar, the British Pound, the Euro and the Japanese Yen – the Yuan is not a freely convertible currency.[16] The Sanya Declaration of 2011 had also supported the need for reform of the international monetary system, with a broad-based international reserve currency system providing stability and certainty. The Declaration welcomed the discussion about the role of SDRs in the existing international monetary system, including the composition of SDR's basket of currencies.

To have more clarity on the issue of BRICS Bank and to fine-tune the concept, the leaders of the BRICS have asked their Finance Ministers to examine its feasibility and viability. They have set up a joint working group for further study and report back to them by the next summit.

The New Delhi summit also articulated the common position of the BRICS countries on tricky international issues such as Iran, Syria, Afghanistan, reform of the United Nations including the Security Council, etc. With regard to sanctions on Iran, the majority of the member countries by and large are on the same page. India for example is of the view that any international effort to impose sanctions on Iran should have the UN's mandate. The Delhi Declaration said, "The situation concerning Iran cannot be allowed to escalate into conflict, the disastrous consequences of which will be in no one's interest." It recognized Iran's right to peaceful uses of nuclear energy with its international obligations.

As regards Syria, the BRICS position has been that the use of force should be avoided and that the independence, sovereignty, unity and territorial integrity of each nation should be respected. Both Russia and China, two important members of BRICS, had vetoed UN resolutions in October 2011 and in February this year for regime change in Syria. Voting in favour of the resolution, India said it supported the Arab League for a peaceful resolution of the Syrian crisis through a Syrian-led inclusive political process and that the leadership of that country is a matter for its citizens to decide. India's position was vindicated recently when the UN Security Council, including Russia and China, adopted a Presidential Statement that backed the proposal of the Special Envoy to Syria, Kofi Annan, to end the ongoing violence in that country. China said the statement "reflects the united voice of the Council" and "is a positive step towards a political solution for Syria." Li Baodong, China's

Permanent Representative to the UN, further said that China supported Annan's mediation efforts and hoped that the Syrian government would actively support and cooperate with him.[17] The non-binding statement, backed by fifteen Security Council members including India, called for the Syrian government and the opposition party to immediately implement the six-point peace plan outlined by Annan. The plan envisages a cease-fire, inclusive political talks, and a daily two-hour humanitarian halt to fighting. Annan's proposal bridged the gap between India's position with that of Russia and China. The Delhi Declaration said:

> Our Objective is to facilitate a Syrian-led inclusive political process and we welcome the joint efforts of the United Nations and the Arab League to this end. We encourage the Syrian government and all sections of the Syrian society to demonstrate the political will to initiate such a process, which alone can create a new environment for peace.

With regard to Afghanistan, the Declaration supported the global community's commitment enunciated at the Bonn International Conference in December 2011 to remain engaged over the transformation decade, 2015-2024. It reiterated the earlier position of BRICS with regard to reform of the United Nations and expansion of the Security Council. This seems to have prompted Prime Minister Manmohan Singh to say, "While some progress has been made in international financial institutions, there is lack of movement on the political side. BRICS should speak with one voice on important issues such as the reform of the UN Security Council."

Prime Minister Manmohan Singh in his address at the Plenary Session of the summit stressed five points, which merit mention. Alluding to the need for creating around 8 to 10 million jobs every year to absorb the bourgeoning youth bulge in India, he drew attention to similar experiences in the other member countries. The second common concern was water and food security. Thirdly, referring to the Eurozone crisis, he said that as members of the G-20, the BRICS countries together must ensure that appropriate solutions are found to help Europe itself and to ensure policy coordination that can revive global growth. It can hardly be overemphasized that in an interdependent and integrated word economy, no region is immune to contagion in any other part of the world. Fourthly, he stressed on resurrecting the stalled Doha Round of multilateral talks to rejuvenate the world economy. Finally, he said, to revive global demand and growth, special efforts needed to be made to explore intra-BRICS complementarities and through infrastructure development. The Delhi Summit also envisaged a follow-up action plan, which includes meetings of BRICS Foreign Ministers on the sidelines of the UN General Assembly and meetings of Finance Ministers and Central Bank Governors on the sidelines of G-20 meetings and meetings of the World Bank and IMF, etc.

Pursuant to these decisions, Finance Ministers of the BRICS countries met in New York on the sidelines of the IMF meeting on 19 April 2012. The meeting was convened in particular to garner additional resources to the tune of $400 billion to build a "global firewall" to respond to any spread of financial contagion to other regions of the world. "We expect our firewall to be strengthened. It is not only like the additional resources are needed for the euro zone only. There are crisis bystanders that may need help", said IMF Managing Director Christine Lagarde.[18] The BRICS group, as mentioned earlier, is lobbying hard for an early conclusion of quota and governance reforms. A news report quoted a senior official in the Indian delegation saying on condition of anonymity, "Though they say it is a global firewall, we will know who needs it most." India's Finance Minister Pranab Mukherjee said, "We will make our announcement (of commitment to the IMF) after talking to the Prime Minister in course of time. We decided in the course of the BRICS meeting that some of our BRICS members would take time. So it was decided that let's not announce right now."[19]

India had earlier decided to increase its share in the IMF, so that all the BRICS countries would be among the ten-largest quota holders. India's quota share in the IMF would increase from 2.44 per cent to 2.75 per cent after completion of the quota reforms. In absolute terms, India's quota would increase from SDR5821.5 million to SDR13,114.4 million.

The New Delhi BRICS summit also provided yet another platform to Prime Minister Manmohan Singh to share and exchange notes on bilateral issues with the other BRICS leaders on the margins of the meeting. His meeting with President Hu Jintao was watched with avid interest by observers. It was, however, the conscious decision of New Delhi not to steal the thunder away from the summit to the bilateral meetings on the sidelines. Speaking on the sidelines, the two countries marked the beginning of the "Year of China-India Cooperation".

The international media showed a great deal of interest in the summit and its outcome. However, their reportage displayed a degree of cynicism, describing it as a motley crew and a disparate group without any cohesive force. The Financial Times of London, for example, wrote that the existing dominating powers should cede some of their influence and power and that was the one thing they had in common.[20] An editorial in an Indian newspaper said, "In the last couple of years, the BRICS summit has not quite moved forward from a mere photo opportunity."[21]

The success of BRICS depends on political convergence and genuine goodwill, and not rhetoric or pious platitudes. China being the larger and a more powerful country should show a spirit of accommodation and sensitivity for the success of BRICS. At a time when China is trying hard to project its image of "peaceful rise", BRICS provides it with the right platform. The basic postulates of BRICS, with its emphasis on engaging multilateral bodies like the United Nations, the Security Council, G-20, the World Bank, the IMF, etc. should help China to integrate itself with the world community as a responsible stakeholder. BRICS and its various institutional mechanisms with periodic meetings provide an excellent forum for knowledge sharing and sharing of best practices available amongst themselves. It offers tremendous potential for South-South cooperation.

Notes

1 http://www.goldmansachs.com/our-thinking/brics/brics-reports-pdfs/brics-dream.pdf

2 http://articles.economictimes.indiatimes.com/2012-03-02/news/31117139_1_biggest-reason-oil-oil-prices-china-and-india

3 http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22910761~menu PK:538203~pagePK:64165401~piPK:64165026~theSitePK:476883~isCURL:Y,00.html

4 http://www.research.hsbc.com/midas/Res/RDV?p=pdf&key=ej73gSSJVj&n=282364.PDF

5 http://mea.gov.in/mystart.php?id=501018311&flg=1

6 http://news.xinhuanet.com/english2010/china/2011-04/14/c_13829453.htm

7 http://www.livemint.com/2012/03/12210216/The-next-step-for-BRICS.html

8 http://mea.gov.in/mystart.php?id=190019162

9 Elliot, Larry. "The Great IMF and World Bank Stitch Up", http://www.thehindu.com/opinion/op-ed/article3223580.ece

10 http://articles.timesofindia.indiatimes.com/2012-03-29/edit-page/31250213_1_brics-brazil-countries

11 http://www.asianage.com/taxonomy/term/2171%2B21472%2B31079%2B29854

12 See details of the interview with Exim Bank chief T.C.A. Ranganathan, http://articles.economictimes.indiatimes.com/2012-04-23/news/31386923_1_chinese-banks-exim-bank-cmd-indian-projects

13 http://www.business-standard.com/india/news/shyam-saran-chinaasian-monetary-

union/443228/

[14] Saran, Samir and Vivan Saran. "Banking on BRICS to deliver", http://www.thehindu.com/opinion/lead/article3248200.ece?homepage=true

[15] http://www.chinadaily.com.cn/china/2012-03/30/content_14946963.htm

[16] http://www.business-standard.com/india/news/shyam-saran-chinaasian-monetary-union/443228/

[17] http://www.chinadaily.com.cn/world/2012-03/22/content_14884671.htm

[18] Mishra, Asit Ranjan. "IMF Looks for its 'Washington Moment' ", http://www.livemint.com/2012/04/19225550/IMF-looks-for-its-8216Washi.html

[19] http://sevensisterspost.com/?p=6824#

[20] http://www.cfr.org/diplomacy/does-brics-group-matter/p27802

[21] "BRICS and Mortar", http://m.indianexpress.com/news/brics-and-mortar/929628/

✶ ✶ ✶