



TERNewsletter

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BRICS Trade & Economics Research Network (BRICS-TERN) has been established as a platform of non-governmental groups from Brazil, Russia, India, China and South Africa to assist the on-going cooperation between and among the BRICS countries with network-based policy research and advocacy on contemporary developmental issues

www.cuts-international.org/BRICS-TERN



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Goodbye Dollar?

BRICS Set to Enhance Trade in National Currencies

In March 2012, Brazil, Russia, India, China and South Africa (BRICS) signed two agreements to provide lines of credit to their business communities; and decided to examine the possibility of setting up a development bank along the lines of a multilateral lending agency. In accordance with the agreements they have gradually started shifting towards the use of their national currencies with negotiations currently taking place between the member-countries to allow more trade and investment in various sectors in their economies in local currencies.

There are three benefits to enhancing trade in national currencies: firstly the return of BRICS to the use of national currencies in their trade and investments has the obvious advantage that business people will not have to hedge against two different currencies. If one currency is cut out, transaction costs are lower and mutual trade becomes more competitive.

Secondly, the move by the BRICS to trade in each other's currency will further pluralise the limited number of trading currencies and lessen the use of dollar. Today the total trade between the BRICS countries is valued at US\$6.14tn (about 17 per cent of the world's total trade).

Thirdly, global trade is currently dominated by the dollar, which often results in the volatility of a particular currency in the currency market in the developing countries, causing huge economic and trade losses. The BRICS' transition to trade in national currencies will protect them from adverse fluctuations of the local currencies in the member-countries of the group. Therefore, faced with the uncertain prospects of currency volatility, BRICS countries are actively working out mechanisms between them to carry out mutual trade in their national currencies.

This process of returning to national currencies in trade within BRICS is being led by China, Russia and India. India and Russia have set up a Joint Working Group (JWG) to work out an "appropriate mechanism" for rupee-ruble trade. The JWG, with representatives from the central banks, export-import banks, commercial banks and governments of both the countries, have conducted a number of sessions since last October on this mechanism.

Up until the collapse of the Soviet Union, Indo-Russian trade was based on rupee-ruble transactions. With two-way trade valued to the tune of US\$5bn in 1991, India was the biggest trade partner of the former Soviet Union. The Indo-Russian initiative is important in view of the BRICS countries' effort to avoid dollar-denominated trade. In December 2014 in New Delhi, Russian President Vladimir Putin said that the question of a transition to national currencies was very relevant, especially in view of the start of deliveries of liquefied natural gas from Russia to India in 2017.

In March 2014 Brazil signed a deal with China to trade in its own currency to protect it from dollar fluctuations. Likewise South Africa, too, has been trying to enter into bilateral agreements with other member-countries of the group as a step towards replacing the dollar as the main unit of mutual trade and investments.

According to some experts however, given that member-countries have not yet been able to develop a concrete mechanism for its implementation within a definite time-frame, the BRICS' transition to the use of national currencies in mutual trade and investment will be very slow. The delay in working out and implementing the mechanism on the ground may prove to be disadvantageous for the emerging economies, especially in view of the looming recession over the world economy.

– Abridged from an article that appeared in <http://in.rbth.com>, on February 28, 2015

BRICS Bank to be Operational in 2016

Business leaders of the BRICS nations are expecting the New Development Bank which is aimed at boosting infrastructure, logistics, connectivity and trade ties among the member countries, to be operational by August 2016. "We strongly believe that the Bank should be operational as soon as possible or within 18 months latest," BRICS Business Council Interim Chairman of India Tulsi Tanti stated.

In addition to the New Development Bank, the meeting also discussed proposals related to favourable business environments; trade in local currencies; business travel, trade facilitation; logistic and connectivity; technical standards; and investment ties.

It was also decided that importance needs to be placed on the energy sector based on the principles of affordable, sustainable energy for all: low carbon economy, jobs generation and attaining energy security in the BRICS region. The Business Council aims to give impetus to trade, business, information exchange and collaborations.

(DNA, 19.02.15)



Trade Flows between China, ASEAN and India

As the cost of manufacturing in China continues to rise, the search for ever-more competitive products becomes increasingly important. While the situation in China has an upside – the creation of a 600 million strong middle class consumer base by 2020 – the reality is that a combination of rising wages, welfare and operational costs is encouraging the Asian supply chain to move.

These locations have served both the global consumer and foreign manufacturers in China for well over the past two decades. However, China wages have been rising by an average of 15 per cent per annum for the past six years, and those profit margins are fast being eroded.

This is in fact a state-driven policy – the Chinese government wishes to move China further up the added value supply chain and to create a more consumer-based, rather than export-based, economy.

(CB, 04.02.15)

China's Xinjiang-Russia Trade Grew

Trade between China's restive far-western Xinjiang and Russia grew more than threefold in 2014 amid a slowdown in the region's foreign trade due to falling commodity prices, China's official customs statistics body said.

The China-Russia slowdown in overall trade volume is mostly a result of shrinking imports, which saw a 20.9-per cent drop to US\$4.19bn in 2014, China's statistics body said. Exports rose 5.5 per cent year on year to US\$23.48bn. Falling commodities prices are fueling the decline as crude oil and minerals account for the majority of Xinjiang's imports.

Meanwhile, China's Foreign Minister has, in December, pledged support to Russia as it faces an economic downturn due to sanctions and a drop in oil prices. Boosting trade in yuan is a solution proposed by Beijing.

"Russia has the capability and the wisdom to overcome the existing hardship in the economic situation," Foreign Minister Wang Yi said. (BP, 14.02.15)

Trade between Russia-China to Rise

Trade volume between Russia and China is expected to reach US\$100bn in 2015, Chinese Foreign Minister Wang Yi said. "We will do our best so that the bilateral trade reaches our goal of US\$100bn, we will sign an agreement on cooperation in the area of the Silk Route's Economic Belt," Wang Yi said when responding to RIA Novosti's question.

Wang Yi highlighted China's readiness to sign an agreement on Russian gas supplies via the western route, and to start construction on the eastern route pipeline. He also said that China is ready to cooperate with Russia in a wide range of issues, including in the area of high speed railways construction.

"We will develop and deepen our cooperation in the financial and banking areas, in the area of nuclear energy, oilfields," Wang Yi said. He added that relations between the two countries are not affected by global tensions, not aimed against third countries, and can be described as stable and trusting.

(SI, 08.03.15)

EEU to Set up Free Trade Zone

China may establish a free trade zone with the Eurasian Economic Union (EEU) in the future. It would make trade with Russia, Belarus, Kazakhstan, Armenia, and soon Kyrgyzstan, tariff-free. The EEU includes Russia, Armenia, Belarus and Kazakhstan and was officially launched on January 01, 2015.

China and Russia expect trade between the two neighbours to reach US\$200bn by 2020. More than 80 percent of trade is natural resources like oil, iron, timber, machinery and equipment. The population of the Union is about 177 million people, and its GDP is expected to reach US\$3tn in 2015.

A watershed in 2014 was the signing of a US\$400bn gas deal, as well as starting work on the 'Power of Siberia' pipeline, which will deliver 3 trillion cubic meters of gas to China over 30 years.

(<http://rt.com>, 09.02.15)

India-S Africa Economic Power Centres

South Africa and India are set to become global economic power centres and the two countries should do more business with each other to create more jobs. "The emerging economies have become the new centres of economic growth," said Deputy Minister of Trade and Industry Mzwandile Masina at the 6th India Investment and Trade Initiative (ITI).

Masina said India is a key trading partner and added that he was pleased to see that investment between the two countries was growing, though the level was still very low given the size of the Indian market.

The seminar, which was attended by more than 200 business people from India and South Africa, is part of the Department of Trade and Industry's export and investment promotion strategy to focus on India as a high growth export market and foreign direct investment source. *(BS, 24.02.15)*

Indian PM Narendra Modi to Visit China

Indian Prime Minister Narendra Modi will visit China in May, Indian Foreign Minister, Sushma Swaraj has announced during a three-day visit to Beijing. The announcement comes after US President Barack Obama's landmark visit to India. India and the US share an interest in curbing China's growing regional influence.

During Obama's landmark visit he and Modi signed the "Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region" pledging to work together to keep freedom of navigation, maritime security and air space safe, especially in the South China Sea.

Although Modi is widely seen as taking a more assertive line on China, analysts opine that he will be careful not to alienate China, whose investments India needs to boost its economy. Despite the continuing tensions, trade between India and China has risen to almost US\$70bn a year, although India's trade deficit with China has climbed to more than US\$40bn from US\$1bn in 2001-2002. *(BBC, 02.02.15)*

China-Russia Set to Finalise Gas Deal

China and Russia will seal an agreement in 2015 on piped gas from Western Siberia. China's foreign minister said a deal that will continue Russia's economic shift towards Asia and away from Western Europe. Russia's split with the west over Ukraine has pushed it closer to China, which is eager to develop overland energy supply lines that reduce its dependence on vulnerable sea lanes.

During a visit to Beijing in November, Russian president Vladimir Putin reached a preliminary agreement for Gazprom, the Kremlin-controlled energy group, to supply China's state oil company CNPC with 30bn cubic metres of gas per year from the Altai region of western Siberia. However, most of the details are still to be worked out.

Rising investment in Central Asia, Southeast Asia, South Asia and Africa would allow China to export its surplus capacity in steel, rail and other industries, an overhang that is increasingly weighing on its domestic economy. *(FT, 08.03.15)*

Brazil-India Electoral Delegation Meet

A four-member delegation led by Justice Dias Toffoli, President of the Brazilian Supreme Electoral Court visited the Election Commission of India. The other members of the delegation were Carlos Duarte, Ambassador of Brazil to India, Tarcisio Costa, International Advisor and Paulo Camara, Special Advisor in the Supreme Electoral Authority of Brazil.

Shri Brahma referred to the close relations between India and Brazil, and the leading place enjoyed by Brazil in the electoral management fraternity, particularly in Latin America.

He mentioned that Brazil and India were members of a select group of about six countries which were using electronic voting machines.

Justice Dias Toffoli was impressed by the National Voters Service Portal developed by Election Commission of India. He also praised the election management skills of the Election Commission of India, which had successfully conducted so many elections in the world's largest democracy. *(http://nvonews.com, 20.02.15)*

South Africa to Participate in Indian Investment

South African Trade and Industry Deputy Minister, Mzwandile Masina led a 25-member business delegation to the Sixth Annual India Investment and Trade Initiative (ITI) in India.

The ITI formed part of the Department of Trade and Industry (DTI) export and investment promotion strategy to focus on India as a high growth export market and foreign direct investment (FDI) source.

"Beyond bilateral relations, South Africa and India remain committed partners and are determined to strengthen South-South Cooperation in the context of India, Brazil and South Africa (IBSA) and BRICS. These forums are an undertaking by countries with shared interests in a multilateral system to address political, social and economic matters," said Masina.

India ranks among the top 10 investing countries in South Africa. Between January 2009 and June 2014, a total of 44 FDI projects from India were recorded.

(http://allafrica.com, 19.02.15)



Brazil

The CGTI – Centre on Global Trade and Investment from FGV is also currently engaged in the following research: A study on the regulatory impacts of TiSA on international trade in services, especially amongst BRICS countries and other emerging economies; and the drafting of a paper on the international regulation of foreign investments, its challenges and perspectives for Brazil and other BRICS and emerging economies.



Russia

CEFR is has been working on research concerning impacts of these "meta"-agreements on Russia and the countries of the Belarus-Kazakhstan-Russia Customs Union. In a paper by Andrey Malokostov and Natalia



Turdyeva, authors report the results of the changing landscape of international trade on Kazakhstan and Belarus. The CU's reaction to the external shock of the TTIP and TPP could be important in shaping Russia's position on the issue of trade

integration of third countries. The results of the model used in the paper also suggest that Russia would not gain unless the Eurasian Customs Union joins the trade liberalisation process. What should be the basis for the new trade liberalization effort – should it be WTO or other multilateral negotiations platforms?

India

CUTS recently concluded its project entitled, 'Critical Dimensions of Indian Investments in Africa'. The results reflect the nuanced representations of different communities towards the various companies around which they reside. The final study incorporates the findings from each of the country partner reports and will be released in 2015. Surendar Singh and Chenai Mukumba also recently published an article entitled 'India's Experience with Multilateral Financial Institutions' based on CUTS participation at the event *Development Banks of the Developing World: Regional Roles, Governance, and Sustainability* organised by South African Institute of International Affairs (SAIIA) in December 2014.



China

At the 4th BRICS Trade and Economic Research Network, Dazhong Cheng shared his views on 'GVCs and China: Firm level Evidence.' He explained that ownership structure and trading modes have an effect on the destination

and product mix choices of Chinese industrial exporters. In particular, foreign firms' exports and processing trade tend to be destination-specific and more specialised in product, and therefore the relevant firms are more likely to maintain a particular link within a specific GVC. He remarked that increased understanding of the relative importance of different types of firms and different trade modes in Chinese export growth might be useful for re-examining and improving Chinese macro-level foreign trade policies and strategies.

South Africa

The Economic Diplomacy Programme at the SAIIA has been conducting research on a broader set of issues relating to the NDB and DFIs generally. They have put together a collection of papers representing the collaboration of SAIIA with a number of international partners in the BRICS countries, and in other parts of the developed world. The papers provide a broad overview of the role of regional finance, detailed analysis of the impact of the BRICS NDB on each of the individual BRICS countries' national and regional development banks, and discussion of issues pertinent to the NDB such as the BRICS Contingent Reserve Arrangement (CRA). These papers are available at:

<http://www.saiia.org.za/news/brics-insights-papers-brics-and-development-finance-institutions>



Sources

DNA: Daily News and Analysis; CB: China Briefing; BBC: British Broadcasting Corporation; BP: BRICS Post; SI: Sputnik International; FT: Financial Times; BS: Business Standard; WoC: Women of China

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