Why BRICS is no Longer a Saleable Idea?

In 2003, Goldman Sachs came out with its report on four BRICS economies (Brazil, Russia, India and China). It forecast that they would drive global growth for the next half century, indeed that their combined gross domestic product (GDP) would exceed that of the G6 (the six largest economies of the time, led by the US) in less than 40 years. Key aspects of what Goldman forecast in 2003 have materialised over the first decade since its release.

The four BRICS economies were very different in key respects; but all of them were relatively large and populous countries with large geographies. A key forecast had been that BRICS taken together would equal half the GDP of the G6 by 2025. That forecast was virtually reached in double-quick time. By 2014, the combined BRICS GDP, at US$16.6tn, was 49.1 per cent of the G6 total of US$33.8tn. In 2003 the ratio had been just 15 per cent. Further, the forecast for India had been that its GDP would become bigger than Italy’s (the smallest of the G6) in 2015. That too is about to happen. The International Monetary Fund’s (IMF) last forecast for 2015 put India’s GDP at US$2.18tn, ahead of Italy’s US$1.82tn. In 2003, Italy had been two-and-a-half times India’s size.

What of China? The BRICS report had forecast that Chinese GDP would match that of the US by 2040, helped along by currency appreciation. There was a time when this seemed far too modest an assessment, and that China would draw level with the US very much sooner. But with the Yuan losing its strength, the economy slowing down and serious structural issues confronting its economy, China is unlikely to be able to challenge American economic might for a while yet. If China sustains five per cent annual growth henceforth, it will take about a decade to get to the current size of the US economy; by then, the US economy would likely have grown a further one-third in size. So it is still feasible that China will match US GDP by 2040, as Goldman had forecast.

What the 2003 report failed to anticipate was the relative performance of the different BRICS economies. China has been unexpectedly stellar in its performance. Brazil and Russia seemed to outdo India till very recently, but have fallen off the map in 2015 because of the commodity cycle swinging sharply down. Russia’s GDP (according to IMF) will have shrunk to US$1.24tn in 2015, down sharply from US$2.08tn in 2013, while Brazil’s GDP will have shrunk to US$1.8tn from US$2.39tn in 2013. With the unique circumstances that caused the commodities boom unlikely to be replicated, neither country can hope to climb the heights again very quickly. India in contrast has stayed on course and is better placed for the future.

The critical point is that two of the four BRICS members are not likely to be among the largest contributors to world growth in the foreseeable future. The other two, China and India, are now the largest and third largest contributors to global economic growth. So the BRICS line-up has yielded to a shaky China-India story, with new question marks over China even as India remains a “B+” performer. Which other countries might join these two on their wobbly way up the charts? There are no obvious answers.
India to Avoid Divisions among BRICS

India should shed its 'long-standing bias against China' and avoid divisions among the five-member BRICS bloc specially in the backdrop of US attempts to rewrite international rules.

India should focus on how to improve solidarity within BRICS, especially to overcome its long-standing bias against China due to historical reasons. India believes that China should reflect on why it is always misunderstood by its neighbouring countries. But India also needs reflection.

Currently, divisions in monetary policy are particularly sharp among major economies. After the Federal Reserve Board raised interest rates, emerging economies including BRICS are seeing capital outflows. Meanwhile, geopolitical competition in the Middle East and Europe, as well as rising terrorism threats, is influencing the world economy, to which BRICS is not immune.

SA Companies to Boost Exports to Brazil

The South African Department of Trade and Industry (DTI) began its three-day Investment and Trade Initiative (ITI) in Porto Alegre and São Paulo, Brazil, where a delegation of South African business people travelled in a bid to increase exports of value-added products to that market.

Trade and Industry Minister Rob Davies said South African companies have made significant inroads into the Brazilian market. Davies said South African companies with a strategic and long-term perspective of the Brazilian market have been able to 'penetrate and unlock' long-term and sustainable exports.

The programme of the ITI would include trade and investment seminar, business-to-business meetings and sector-specific business site visits to companies in São Paulo and Porto Alegre.

Davies said “The ITI will focus on showcasing South Africa’s diverse range of capabilities to produce world class products and services in the targeted sectors which include agro-processing, industrial chemicals and automotive components.”

Vale Stock Tumbled as Brazilian Real Slips

The Ibovespa fell for the first time in seven days as a disappointing trade report out of China, Brazil’s top trading partner, sent Vale SA’s shares tumbling.

Vale, a miner of iron ore, contributed the most to the index’s drop after a report showed that China’s imports declined for the 16th straight month and exports slumped by the most in almost six years. Commodities account for about a fifth of the Ibovespa index’s weighting.

Brazilian stocks had surged 18 per cent as traders bet that President Dilma Rousseff was getting closer to being impeached, which could usher in a change in government that many investors say is the only way to shift attention from a sweeping corruption scandal back to the economy and a budget deficit.

Indian-Russian Navy Extends Cooperation

"The Indian Navy have displayed a keen interest in cooperating with us both in the sphere of surface and submarine fleet, starting from issues of purchasing ready-made equipment and localisation of its production in India,” Alexander Potapov, Deputy Industry and Trade Minister, Russia said on the sidelines of the Defexpo India 2016 exhibition. He did not specify the equipment in question.

The Defexpo India 2016 international exhibition was held in Quitol in the state of Goa in India on March 28-31, 2016. During the exhibition, the Russian arms exporter Rosoboronexport hold talks with Indian partners to discuss joint projects for the Indian Armed Forces’ further upgrade.

Potapov also said that during the exhibition he also intended to meet Indian Defence Minister Manohar Parrikar and his deputy who is in charge of industrial production and the ‘Make in India’ concept.
China Invests US$2bn in Russia

Chinese firms have invested more than US$1.9bn in Russia’s Far East development projects. More than 31 agreements with a range of companies worth US$2.6bn have been signed by the Russian Far East Development Corporation. Investment from Beijing accounts for 75 per cent of all the funding.

The Chinese money will be used in a wide range of projects, particularly in building an oil refinery and a logistics centre, as well as the construction of a cement factory and a plant for reclaiming ferrous scrap metal.

The Russian Far East Development Corporation has already received over 109 applications for investment of US$6.4bn in local projects. So far it has approved 60 applications for ventures worth US$3.8bn.

India to Develop Relations with Russia

The conference entitled ‘Russia – a window for entering the global market. India welcomes the world’ was held at the Moscow Chamber of Commerce and Industry (MCCI) on March 16, 2016. The participants of this conference were introduced to the ‘Make in India’ programme, aimed at encouraging new investments to come into that country.

Representatives of Indian private and state companies discussed with Russian businessmen various opportunities for the realisation of joint projects. Suren Vardanyan, Vice President of MCCI said that relations between the MCCI and India are developing rapidly. The MCCI has established the Commission for Cooperation with Partners in India, whose members include both Russian and Indian companies.

He noted that the Business Council for Cooperation with India of the RF Chamber of Commerce and Industry is working on providing practical assistance during the realisation of joint projects, including in the field of finance, lending, and development of logistics chains.

YES Bank Inked MoU with IBCC

India’s fifth largest private sector Bank, YES Bank signed a strategic Memorandum of Understanding (MoU) on March 11, 2016 with India Brazil Chamber of Commerce (IBCC) to enable significant cooperation in terms of knowledge partnerships, project consultancy, B2B opportunities, skill and technology initiatives.

As per the announcement of YES Bank, the MoU signing comes in the run up to the 8th Annual BRICS Summit to be held in New Delhi in 2016. The core sectors covered in the MoU will be Sports, Media and Entertainment with special focus on IT, Infrastructure, Broadcast and Innovative solutions driven business opportunities.

YES Bank and IBCC will jointlyendeavour to explore exchange of best practices in Sports goods Manufacturing, CSR in sports, SM&E talent management. Moreover, IBCC will also recommend YES Bank as the preferred bank to Brazilian companies looking to do business in India.

China’s Economic Slowdown not to Impact Africa

China’s investment in Africa will not diminish because of its economic slowdown, but will grow in importance as Beijing seeks to tap a greater share of the continent’s resources as well as its growing consumer markets.

“The relationship is so important that the slowdown will not affect China’s plans to invest US$60bn into African development projects”, said Li Yifan, Chinese Ambassador to Ethiopia.

“While the Chinese economy is shifting gears, all those major industries that have powered the explosion of Chinese infrastructure over the past 30 years have to find a place (to invest),” Li said.

In 2015 at a summit in South Africa, Chinese President Xi Jinping announced a multi-billion dollar development initiative that would boost agriculture, build roads, ports and railways and cancel some debt. In addition to economic benefits, China is also seeking naval bases in the Horn of Africa, a move that’s worrying the US and other western governments.

The National Treasury announced the official establishment of the New Development Bank (NDB) headquarters in Shanghai, China, which marks the completion of legal procedures that will now allow the bank to begin its operations.

The Bank will focus on lending money to developing countries to help finance infrastructure projects. Economists consider the NDB a viable and necessary alternative to the World Bank and the IMF, one that will bring the focus back to developing the BRICS member nations as well as emerging nations on their respective continents.

To achieve this, the bank will support public and private projects through loans, guarantees, equity participation and other financial instruments. This primary focus will complement BRICS’ existing efforts of multilateral and regional financial institutions for global growth and development.

The NDB will also co-operate with international organisations and other financial entities, and provide technical assistance for projects to be supported by the bank.

BRICS Development Bank Opens for Business

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Brazil
Since January 2016, The Centre for Global Trade and Investment Studies (CGTI-FGV) has investigated the relationship between the NDB and the IMF, especially to verify concurrent competences and new views on development issues taken by the NDB. CGTI-FGV has studied NDB’s composition, competence as well as the terms of the BRICS Contingent Reserve Arrangement.
It has also investigated the impacts of mega-regionals on BRICS countries and has advanced the analysis regarding the trade partners that the BRICS countries should, individually or as group, invest in for negotiating a preferential trade agreement. The preliminary analysis appears to show that Trans Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) would have a negative impact on BRICS countries’ economies but the results require a more thorough investigation.

Russia
The Centre for Economic and Financial Research’s (CEFIR) recognises that the global decrease in oil prices presents a significant challenge to the Russian economy. CEFIR’s recent study by Kuznetsova, Volchkova and Turdyeva on the ‘export opportunities for the countries of the EAEU’ (forthcoming), argues that economic integration between Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan (together, the Eurasian Economic Union, EAEU), could help expanding their export baskets.
The focus of the research is on the integration aspect of possible non-oil exports, which over time can become a comparative advantage of the EAEU as the group of countries. The list of goods so defined includes mechanical engineering, metals, textiles etc. An increase in their contribution to the trade flows in the future can contribute to improving the overall structure of export trade of the EAEU.

India
CUTS International recently published a Briefing Paper entitled, ‘BRICS New Development Bank and Civil Society Imperatives’. The paper authored by Chenai Mukumba, provides an overview of the newly established BRICS bank and gives broad recommendations on how the NDB may address issues related to increased civil society engagement in its operations.
It argues that the involvement of civil society groups is crucial if one wishes to comprehend the local-level social, economic and environmental impacts of the infrastructural investments that the NDB proposes to finance. The paper recommends that the NDB have a dedicated unit to undertake or commission the impact analyses of infrastructure and sustainable development projects that the NDB will fund.

South Africa
The South African Institute of International Affairs (SAIIA) hosted a public briefing on the BRICS New Development Bank on March 18, 2016. The briefing sought to address some of the pertinent issues surrounding the NDB, about how the bank will fit into the development finance landscape in Africa; to what extent will the bank complement and help to leverage additional funding for Africa’s vast and ambitious development plans; and how the bank will introduce an alternative development narrative compared to Western-dominated development finance institutions, especially in the African context.
SAIIA along with Oxfam hosted a Roundtable on March 02, 2016, focussing on the sustainable development approach that the NDB should look at. Till date, the BRICS as an entity have not articulated a common position on sustainable development. The results and findings of the study were presented at the Roundtable.

Sources
AT: Asia Times; BS: Business Standard; BL: The Hindu Business Line; ET: Economic Times

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