



## Much ado about little news: BRIC money for the IMF?

**F**astidious observers of global economic policy might have noticed that on the sidelines of the G20 Summit in Los Cabos on June 19, 2012 the leaders of the Brazil, Russia, India, China and South Africa (BRICS) countries held one of their periodic consultations.

It should not come as a surprise that given the focus on the debt crisis in the euro zone, the discussion should turn to the possibility of BRICS increasing their financial contribution to the International Monetary Fund (IMF). In agreeing to enhance their contributions to the IMF, BRICS cautioned that these additional resources could be called upon only after all existing resources are substantially utilised.

BRICS held the view that this would promote adequate burden sharing among IMF creditors. These new contributions are being made in anticipation that all reforms about the distribution of voting power in the IMF agreed upon in 2010 will be fully implemented in a timely manner.

BRICS were not the only countries to announce contributions to the Fund in the recent G20 summit: Mexico said that it would pledge US\$10bn and many other countries volunteered smaller sums; among them Colombia, South Africa, Indonesia, Malaysia, the Philippines and New Zealand. China, for its part, said it would provide US\$43bn. This came as good news for those convinced that an internationally mandated firewall would help pacify fears spreading across bond markets. Yet the pledges of support were less significant than those who are trying to orchestrate an orderly response to Europe's self-created troubles had expected.

The new creditors have been pushing to bring China, Korea, Russia and the other creditors into the heart of the multilateral system, while the countries that have traditionally controlled the IMF ceded some voting shares and representation in 2008 and again in 2010. But even when that happens, the advanced economies will still hold 55 percent of the IMF's voting power, with EU countries retaining 29 percent.

As witnessed in the European turmoil, there is little common ground on which creditor and debtor countries can agree. The creditors, as always, want an international monetary system that ensures that they will be repaid with interest in real terms, whatever the numéraire. Regardless of what they may say publicly, debtors would not mind some deterioration in the real value of their debts.

Against that backdrop, the current situation is tense. The past decade has seen an unprecedented change in global financial forces: emerging economies have shifted from being debtors to becoming the dominant creditors in the world economy, and former creditor countries such as the US and Britain are now the leading debtors. The global financial crisis accelerated this trend.

The international monetary system cannot remain dominated by these 'new' debtor countries. Given the inherent inflationary bias in this situation, the new creditors will eventually have to impose their conditions if they are to continue to provide financing. This will be more far-reaching than simply raising their representation on the boards of the IMF and the World Bank.

As financial and economic power continues to migrate East and South, the new creditors will increasingly come to see that reforming existing institutions or creating new ones free from the dominance of debtor countries is in their best joint interest. Without accorded a much more dominant role to the new creditors, their efforts to help re-capitalise Western finance are likely to be less forthcoming.



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## BRICS Should Use Trade Remedy Tools 'Prudently'

"BRICS countries should use trade remedy tools in a prudent and normative manner", Vice-Minister of Commerce Wang Chao said at a seminar held on September 12, 2012. The event drew trade remedy institutions from China, Brazil, Russia and South Africa.

Wang said that trade remedy investigators of BRICS nations strengthen policy coordination, and that they treat trade issues rationally and objectively. Dialogue and consultation between governments and industries are preferred in addressing trade issues.

The seminar is the first time that the BRICS group discussed trade remedy issues, which consist of anti-dumping, anti-subsidy and safeguard measures. In the first half of the year, China was hit by 40 trade remedy investigations from 18 countries and regions. In 2011, China's trade with Brazil, India, Russia and South Africa hit US\$282.8bn, accounting for 7.7 of the country's total trade. (CD, 12.09.12)



### Brazil Trade Surplus Falls Less

Brazil's trade surplus narrowed less than analysts expected in August 2012 after slower economic growth reduced imports. Exports exceed imports by US\$3.23bn, compared with US\$3.89bn a year earlier. The figure compares with a median forecast of US\$3bn in a Bloomberg survey of 22 analysts. Exports fell 14.4 percent to US\$22.4bn, while imports slid 14 percent to US\$19.2bn.

Global economic weakness has reduced exports even as policy makers implement measures aimed at helping manufacturers. Industrial output fell 2.5 percent in the second quarter on Europe's debt crisis and an economic slowdown in China, Brazil's largest trading partner. The administration of President Dilma Rousseff has taken steps that have weakened the real more than any major currency in 2012 in efforts to make local industry more competitive. (BN, 03.09.12)

### India-Russia Trade to Hit US\$20bn

Russian-Indian trade and economic relations are dynamically developing. In 2011, the bilateral trade increased to US\$9bn. If these growth rates are maintained, Russia-India shall soon reach US\$20bn and complete the tasks they have received from their governments.

According to the press service of the Russian Ministry of Industry and Trade, the representatives of the Ministry and their Indian colleagues discussed strengthening of cooperation in the ore mining, civil aviation and chemical industry, as well as perspectives for mutual cooperation in the modernisation of Russian and Indian industrial enterprises.

Both sides reiterated their mutual interest towards joint implementation of the Indian national metallurgy development programme until 2020. (Indrus, 04.09.12)

### Global Slowdown hits India-China Trade

China bilateral trade reflected a downward trend in the first half of 2012 due to the global economic scenario. But in the long run, the two countries have ample opportunities to step up trade and investment, especially in sectors such as construction, IT, pharma and energy.

During the first half of 2012, the bilateral trade volume was US\$32.4bn, down by three percent. While the investment from China to India was US\$15mn, down by 37 percent, the project contract volume was less than US\$2bn, down as much as 83 percent.

By June 2012, Chinese companies have signed projects in India worth US\$57.6bn and completed turnover of US\$29.8bn. (BL, 27.07.12)

### New Era of Friendship of China, Russia

During Russian President Vladimir Putin's visit to China in June 2012, the two nations agreed to promote cultural exchanges between their young people. As a major part of his five-day visit to Russia in April, Vice-Premier Li Keqiang visited Moscow State University, where he made an impromptu 30-minute speech.

Li announced that the Chinese government will sponsor 300 students from Moscow State University to study and travel in China. In 2007, China and Russia agreed to set up a bilateral cultural cooperative committee, and 12 rounds of meetings have been held.

Chinese statistics show that about 13,000 Russian students are studying in China and around 20,000 Chinese students are in Russia. China has set up 21 Confucius Institutes in Russia, and there are 10 Russian centres opening in China. (CD, 25.08.12)

### Steady Growth in SA Trade with BRICS

Bilateral trade between South Africa and its BRICS partners grew substantially in 2011. Minister of Trade and Industry Rob Davies said bilateral trade between South Africa and China in 2011 grew by 32 percent, with India by 25 and with Brazil by 20 percent. Bilateral trade between South Africa and Russia in 2011 also recovered, after a decline of 44 percent in 2010. The recovery in bilateral trade between South Africa and its BRICS partners, follows on increases in trade in 2010, after declining in 2008 and 2009 during the global economic crisis.

Among BRICS members, South African exports to China grew the most, at 46 percent, while exports to India grew by 20 percent, to Brazil by 14 and by seven percent to Russia respectively. (www.allafrica.com, 29.08.12)

### Brazil Foreign Investment High

Brazil's foreign direct investment (FDI) in July reached the highest level since December 2010 and may exceed the central bank's US\$50bn projections in 2012 as investors bet economic growth will accelerate.

FDI in July rose to US\$8.4bn from US\$5.8bn in June. Economists expected FDI of US\$7bn, according to the median estimate from 18 analysts surveyed by Bloomberg. Foreign investment in 2012 to date is US\$38.1bn and is on target to cover the projected US\$56bn current account deficit in 2012.

Since August 2011, President Dilma Rousseff's administration has cut the benchmark Selic rate to record lows, encouraged lending and reduced taxes to shield Brazil from Europe's debt crisis and China's economic slowdown. (BW, 23.08.12)

### Is Russia Top Pick in Emerging Market Stocks?

Sound corporate earnings, cheap valuations and Russia's entry into the WTO make the country's equity market stand out among its emerging-market peers. Russian stocks, for example, are the cheapest among the equity markets of the BRIC countries.

Brazil, India and China trade at about 11, 15 and 9 times forward earnings respectively, while Russian shares trade at just 4 times. Russ Koesterich, Global Chief Investment Strategist for BlackRockShares said that those types of valuations are indicative of markets like Pakistan. Actually it is cheaper.

He added that while there is no lack of issues surrounding Russia, it is very hard to argue that those are not already reflected in the price. Russia's entry into the WTO strengthens the long-term case for Russian equities. (CNBC, 22.08.12)

### India Invites Chinese Companies to Invest

India invited China to invest in its new flagship manufacturing zones as part of a push to broaden commercial links and cut a ballooning trade deficit with its Asian neighbour.

India's trade deficit with China, a longstanding economic irritant between the emerging market giants, soared 42 percent to nearly US\$40bn in 2011, while

total bilateral trade climbed 27 percent to US\$75bn.

Indian Trade Minister Anand Sharma said that "We have invited China to participate in and support the establishment of one or more of the National Investment and Manufacturing Zones".

The zones are being set up under India's National Manufacturing Policy which aims to boost manufacturing as a percentage of gross domestic product to 25 percent from 16 percent in the next decade. The policy is part of India's struggle to provide jobs to its growing army of young people. (www.google.com, 27.08.12)

### Investment in China Slows

FDI into China fell for the third consecutive month in August as global economic woes continued to weigh heavily. The FDI in the country drew in August 2012 dropped 1.43 percent from a year earlier to US\$8.33bn, the Ministry of Commerce said.

Figures released indicate capital outflows from the mainland have accelerated, possibly because of expectations the RMB will depreciate as economic growth decelerates.

Growth in the Chinese economy slowed to a three-year low of 7.6 percent in the June quarter and the consensus among economists and business people is that the pace of expansion is weakening in the current quarter. (LTN, 20.09.12)

### South Africa keen to have Indian Investments

South Africa and India are set to reach a target of trade worth US\$15bn by 2014 and South Africa is keen about Indian investment in the country, its Deputy Minister for Trade and Industry Elizabeth Thabethe said.

India is one of South Africa's top ten export countries and it is among the top five import countries for South Africa. The two countries cooperate bilaterally in a number of areas at forums such as the South Africa-India CEOs' Forum, while multi-laterally there is cooperation in the IBSA Business Forum and the BRICS Business Forum, which provide for direct business-to-business interaction and allow for collective consensus building on global policy areas. (TRALAC, 23.08.12)

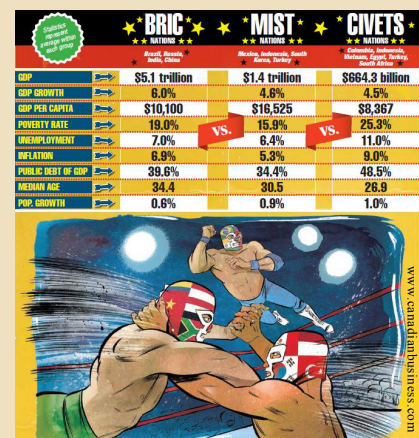
## Are MIST Countries becoming the New BRICS?

For many investors, Mexico, Indonesia, South Korea and Turkey (MIST) have taken over from the BRICS becoming the four biggest emerging markets, and growing faster than their major rivals.

BRICS inventor Jim O'Neil from Goldman Sachs proposed the new term MIST term for Mexico, Indonesia, South Korea and Turkey, which are the four biggest markets in the Goldman Sachs N-11 Equity Fund.

The Fund was launched in February, 2011 to invest in what O'Neil considers the next big 11 emerging markets, and has climbed 12 percent in 2012, compared with a 1.5 percent growth of Goldman Sachs's fund for BRIC.

Though the MIST nations outperformed the BRICS in pace of growth, its economic output still cannot approach the BRICS. Total GDP for the MIST nations was US\$3.9tn in 2011, compared to US\$13.5tn of BRIC economies and US\$7.3tn for China alone. (http://rt.com, 07.08.12)





### Brazil

#### The BRICS at the WTO

##### **Compared Trade Policies of Brazil, Russia, India, China and South Africa**

The book is the result of a research for IPEA (Institute for Applied Economic Research), aiming the comparison of each of the BRICS International Trade Policies, including: tariffs; agriculture; technical barriers and sanitary and phytosanitary barriers; trade defense; services; intellectual property; investments; government procurement; new issues; and the participation at the WTO dispute settlement body and the Doha Round. The book will be published in December 2013.

### Russia

#### APEC Ministerial Meeting on Environment

The Meeting of Ministers Responsible for Environment was held in Khabarovsk on July 16-18, 2012 as part of Russia's Asia-Pacific Economic Cooperation (APEC) chairmanship. As the outcome of 2012 Meeting of Ministers Responsible for Environment Statement was adopted. This Statement points out that the APEC economies focus on environmental protection and have a special position on how they need to contribute to the development of existing projects and establishment of new projects for improving the environment in the Asia-Pacific Region.



### India

#### The Multilateral Trading System in the 21st Century: Interaction between Trade and Competition Policy

CUTS International organised a session at the WTO Public Forum 2012 "Is Multilateralism in Crisis?" on the issue of the interface between trade and competition policy and the case for a multilateral rule in Geneva Switzerland, on September 14, 2012. Ambassador Tim Yeend, Australia; Ambassador Yoichi Otabe, Japan; Carlos Braga, Director, Evian Group; Eduardo Perez Motta, Chair, International Competition Network; Robert Anderson, Counsellor, WTO and others were present as panellists.

Pradeep S Mehta, Secretary General, CUTS said that UNCTAD and the WTO should jointly host a multilateral forum on competition law & policy, in particular to deal with distortions in the primary commodities trade, which impact food security among other deleterious effects. Such a joint initiative would help having both developed and developing countries on board.

### China

#### Re-Energising Multilateralism: An Asia-Pacific Perspective

Shanghai WTO Affairs Consultation Centre organised a session entitled, 'Re-Energising Multilateralism: An Asia-Pacific Perspective' during the WTO Public Forum in Geneva, Switzerland, on September 26, 2012. This session examined dynamics, mechanisms, practices and effects of Asia-Pacific regional economic integration in recent years and identified the experiences gained and lessons learned.



### South Africa

The South African Institute of International Affairs (SAIIA) hosted two workshops on the BRICS in May and August 2012 respectively. Following the scoping workshop held in May 2012, the commissioned papers were presented in August 2012, each of them focused on South Africa in the BRICS and what this actually means for South Africa's participation in global economic governance, especially the G20, and its African agenda.

A sub-theme that was explored is the importance of South Africa's regional/continental role to its BRICs partners in relation to the substantive input South Africa can make to reforming global economic governance.

### Sources

BL: The Hindu Business Line; BW: Business Week; CD: China Daily; CNBC: Consumer News and Business Channel; LTN: Live Trading News; TRALAC: Trade Law Centre for Southern Africa; VE: Valor Economico

© CUTS International 2012. CUTS International, D-217, Bhaskar Marg, Bani Park, Jaipur 302016, India. Ph: +91.141.2282821, Fax: +91.141.2282485, E-mail: cuts@cuts.org, Website: www.cuts-international.org