# Are the BRICS Broken?*

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Since the late 2012, the BRICS countries (Brazil, Russia, India, China and South Africa) have, to various extent, encountered economic slowdowns, falling exports and increasing pressure pertaining to social stability. A number of Western observers do not regard the prospects of those countries favorably. They believe the BRICS are broken and that the BRICS party is over.[1] Though such observation appears to be arbitrary and simplistic, it is imperative to think hard about the predicaments facing the BRICS countries and necessary adjustments they should take to offset them. The current economic slowdown contagion across the BRICS countries is a reality, and such a reality is sounding alarms and urging them to deepen their own reforms as well as accelerate the institutionalization of the group. It is a pressing task for China to push forward cooperation with the other BRICS nations. Beijing needs to find solutions to curb the geopolitical competition in bilateral ties with India and Russia, adopt a low-profile strategy in the collective leadership in the BRICS, and enhance the reputation of the BRICS as a global public goods provider rather than a shortsighted club.

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## I. Challenges the BRICS Encountered in Development

In recent years, the growth rates of the BRICS countries have been slowing down, which have been caused by both cyclical and structural factors. China's GDP growth rate was only 7.7% in 2013, the record low in the past 14 years. It is expected to keep slowing down in 2014 and the years ahead. According to the Ministry of Economic Development, Russia's economic growth tailed off to around 2.4% in 2013, though most Russian economists estimate it to be below 2%. With the rapid expansion of consumption credit, Russian borrowers will have to pay more interest. India's economic growth rate is 5% in the year, a decade low, and India's rupee has depreciated over 12%. The ratio of public debt to GDP is over 60% in India. Brazil's growth rate fell to 2.5%, and the proportion of the manufacturing industry in GDP decreased to about half as compared to the level in 1980s, with serious credit bubble problem. Due to the effect of a fall in the price of gold, large current account deficits and other factors, South Africa's economic growth rate in 2013 was less than 2% and the rand slumped against the dollar and was regarded as one of the weakest currencies in emerging economies.

In the past decade, generally speaking, the BRICS countries have had impressive achievements in economic development. However, their business environment was still far from being satisfactory and their sustainable development was contingent upon enhancing their respective competitiveness. In the World Bank's 2013 Doing Business rankings, China ranked the 91st, Russia the 112th, Brazil the 130th, and India, the 132nd, respectively. By contrast, Rwanda, Oman, Colombia and Kazakhstan were all among the top 60.[2] As Sebastian Mallaby, a senior fellow at Council on Foreign Relations of the United States, noted acidly, "the ROCKs could teach the BRICS how to regain momentum".[3]

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In addition, the BRICS countries are also faced with challenges from "the rise of the rest". As Ruchir Sharma argued, the winners in the past decade may not win in the coming decade. Many have observed that the international investors are shifting their interests away from the

BRICS countries. Mexico, Indonesia, Turkey, Nigeria among other 11 countries that are performing well economically are regarded as the “NEXT 11”. According to the forecast made by Goldman Sachs, the NEXT 11’s total economic output in 2050 will be equivalent to two times of European one. Former Goldman Sachs chief economist Jim O’Neill, who invented the “BRIC countries” concept, coined the “MINT 4” concept to characterize Mexico, Indonesia, Nigeria and Turkey. Now these countries are becoming attractive for investors.

Before the 2014 Davos world economic forum, a survey of international investors conducted by the PWC and the Bloomberg News showed, 33% of the respondents did not support investment in Brazil, 29% do not support investment in China, 27% do not support investment in Russia, and 25% do not support investment in India.[4]

In the meantime, the United States of America is recovering from the financial crisis and several developed countries have the potential to again re-emerge at the forefront of the world economy. Currently, many developed countries show signs of recovery in the manufacturing sector for the first time since 2008. In December 2013, the Bloomberg news surveyed 89 world-renowned economists and most agreed that by 2015 America economy was expected to grow at a rate of 3%, and during the same period BRIC countries’ average rate of GDP growth would be 5.9%, with that of China dropping to 7.2%. In the United States, the unemployment rate has fallen to 7% from a peak of 10% four years ago. Moreover, it is experiencing an energy revolution which could lead America to overtake Russia as the world’s largest producer of oil and natural gas. Such energy self-sufficiency is driving a revival of the US manufacturing industry. Since 2013, nearly billions of dollars have flowed back to the American stock market.[5]

In July 2013, the International Monetary Fund (IMF) turned down its global growth forecast, predicting the average growth rate of developing countries at 5%, lower than the annual average growth of 6.6% in the past decade. As the world’s biggest hedge fund Bridgewater Associates predicted, the United States, Japan and other developed economies contributed 60% of global

GDP growth in 2013 (about $2.4 trillion). In February 2014, Japan's central bank governor Haruhiko Kuroda said, a world in which emerging economies contribute overwhelmingly to global economic growth has ceased to exist. IMF Managing Director Christine Lagarde echoed that the developed countries would once again play the "engine" role in the global economy.

As Angel Gurría, secretary-general of the Organization for Economic Co-operation and Development (OECD), said, in the period of economic downturn, developing countries have to bear greater punishment than the developed countries, because the former further rely on economic growth to ease social tensions. Against the backdrop of economic slowdown, there have appeared extensive protests in Brazil over public spending cuts. The country's inflation rate in recent years has remained around 6%, higher than the 4.5% target rate set by the Central Bank of Brazil. The approval rate of the incumbent Rousseff administration dropped to 30% from 57% in 2012, casting a shadow on its re-election in 2014.

Against this background, disharmony and friction among the BRICS countries are also turning apparent. In the words of Joseph Nye, politically, China, India, and Russia are vying with one another for power in Asia.[6] From an economic point of view, Brazil's industrial sector is impacted by Chinese cheap manufactured goods, and India, Brazil and South Africa are concerned about the influence on their own economies by the undervalued Chinese currency. Those countries may also be vigilant against excessive influence of China in the BRICS group.

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## II. The Prospects for the BRICS: Still Positive

Of course, not all people remain bearish towards the future prospects of BRICS countries and their international grouping. Jim O'Neal has is still opposed to bringing South Africa into the BRIC club, and he insists that the total GDP of BRIC countries in 2015 will be more than America's, and in 2035 will exceed the G7's, and that in 2050 they will account for 40% of the world total GDP. He points out that, in spite of the BRICS countries' slowed GDP growth rate, their total value of growth still reaches about 3 trillion dollars. In his observation, Chinese decision-makers who have come to be aware of the problems pertaining to an aging population and the income gap between rich and poor, intentionally reduce the growth rate in order to transform the Chinese economy, because, as he believes, China no longer needs two digit growth. India's economic downturn results from the lack of deregulation and other structural reforms. The problem in Brazil is that the substantial growth in exports of natural resources led to its currency Real's over-appreciation, which in turn limits the export of its industrial products, a case of the typical "Dutch disease".

Even if the BRICS countries are facing various development challenges, their influence on the global political and economic order still cannot be underestimated as a whole. At present, the BRICS contribute 25.7% of world GDP and 42% of global population, and their volume of trade accounts for 17% of global total. The foreign investment they attract accounts for more than 18% of the global total; their foreign exchange reserves make up for 40%; and the value of American treasury bonds they hold accounts for 30% of total foreign holdings. The BRICS consumption markets are worth more than $4 trillion, equivalent to that of the Eurozone. According to Goldman Sachs' forecast, in 2030 the world middle-class population will grow to 360 million, about 85% of which will be living in the BRICS and the "Next 11".[7]

In addition, the favorable factors that drove the emerging economies' faster growth in the past few decades are still there, and they include relatively low labor costs, continuously rising productivity, world trade liberalization, and global free flow of information and capital. American economist Eswar Prasad points out in his book about emerging markets that, since the 1960s, the scale of most prominent emerging economies, including China, India and Brazil, grew by 600%, while the industrial countries rose by 300%. Gideon Rachman, a renowned columnist with the *Financial Times,* proposes that "the rise of non-Western economies is a deeply rooted historic shift that can survive any number of economic and political shocks."[8]

It is an undeniable that the BRICS countries are facing a number of challenges. But, it is also true that they are also seeking to strengthen their long-term developments and accelerate the institutionalization of the BRICS. In addition to China's ongoing deepening comprehensive reforms, India, Brazil, Russia and South Africa are also in the process of formulating and implementing new rounds of economic transition that can help boost the resilience of their economies. For example, the Indian government has launched a National Manufacturing Policy and established national investment and manufacturing special zones in order to loosen the central and state governments' regulatory measures and encourage higher growth in the manufacturing sector. In order to overcome the "Infrastruggles" — private enterprises often encounter obstacles for infrastructure development, the "infrastructure fund II" was set up in September 2013 to further promote public-private sector partnership.

With regard to institutionalized cooperation among the BRICS nations, a steady enhancement has been observed since the first BRIC foreign ministers' meeting in 2006. At present, there are more than 20 cooperative mechanisms in a wide range of fields like agriculture, information security, medical care, science and technology, and think-tank exchanges. The BRICS stock exchanges formed an alliance whose market value is worth $8 trillion, with more than 8,000 companies cross-listed. In July 2014, the leaders of the BRICS countries announced an agreement to establish a BRICS development bank and a "Contingent Reserve Arrangement" (CPA). It is an important symbol of deepened strategic cooperation between emerging countries in global politics. The CPA would be especially instrumental in countering the negative effects resulting from irregular monetary policies taken by the developed economies.

The BRICS countries continue to promote the reform of the International Monetary Fund, in a bid to gain an additional 6% of the voting rights for themselves and another 6% for other developing countries that are underrepresented in the IMF. The

BRICS countries also are making efforts to establish more Customs Facilitation Measures, and are striving to set up multilateral trade arrangements among the BRICS countries within the WTO and other global trade mechanisms. In March 2013, the central banks of China and Brazil signed a bilateral currency swap agreement covering a RMB190 billion / Brazil Real 60 billion exchange valid for three years, which was the first currency swap agreement between China and other BRICS countries. Currently, China has signed bilateral investment agreements with India, Russia and South Africa, and established joint committees on economic and trade affairs or strategic and economic dialogue mechanisms with other four BRICS countries. This indicates that policy coordination among the BRICS members has turn more and more in-depth and practical.

It is worth noting that the BRICS countries' coordination and cooperation in global political and security affairs has been enhanced in recent years. It is the goal of Russian President Putin to transform the BRICS into a comprehensive strategic cooperation mechanism, so that it can work out solutions to global political issues of significance. Russia's practice to increase input in the BRICS organization is identical with its overall foreign policy. Russia's 2013 Concept of the Foreign Policy paper states that Russia attaches great importance to ensuring the sustainable management of global development, which requires collective leadership by the major countries of the world, including the BRICS members which should be represented in geographical and civilizational terms. In September 2013, the BRICS leaders in St. Petersburg delivered a joint statement for the first time on the question of Syria, which is thought to mark further intra-BRICS coordination on international security hotspots. Early 2013 the national security advisors of BRICS countries held their first meeting. Additionally, the foreign ministers of BRICS countries more frequently coordinated their standings regarding issues such as Israeli-Palestinian peace talks and cyber security on the occasions of UN conferences and other multilateral international activities.

## III. Tasks Ahead

Looking to the future, if the BRICS countries want to retain their development momentum, they must concentrate on improving competitiveness and resilience, and advance the BRICS organizational mechanism with a clearer vision and with more creativity. As the Global Competitiveness Report (2013-2014) released by the World Economic Forum in September 2013 highlights, only through forward-looking reform and investments aimed at enhancing productivity and competitiveness can emerging economies be sustainable.

In the past decade, the BRIC countries have been able to achieve rapid economic growth due mainly to the following reasons. First, the starting point of their development was generally low, so they can, in the short term, exploit the late-comer advantage compared to the developed countries. Second, they enjoyed low labor costs and high domestic savings rate among other structural favorable factors. Third, the developed economies in North America and Europe had in high debt, which not only brought strong import demand but also outsourced production to the emerging economies. And fourth, it is the inflow of foreign capital and loose domestic monetary policy that have reduced borrowing costs for enterprises in emerging economies.

While the BRICS countries achieved easily high economic growth in the past ten-plus years, they have to pay the price of delaying structural reforms, which led to the accumulation of various risks and deep-rooted problems eroding the long-term economic health. Arvind Subramanian, senior fellow at Peterson Institute for International Economics, pointed out that a favorable external environment undoubtedly helps the BRICS countries achieve growth, but its long-term effect is equivocal since most emerging market countries lack well-organized economic system, "During

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booms, they squander revenues, allow export sectors to become uncompetitive, postpone reforms and succumb to corruption and weak governance — all of which undermine long-run performance".[9]

Robert Zoellick, former president of the World Bank, believed that emerging market countries began to submerge in recent years and the main reason is that they "lost sight of the need to keep up reforms that boost productivity and innovation in the private sector". Zoellik pointed out that, in the wake of the financial crisis, "They need to focus on the fundamental factors that determine economic growth and not just on short-term fiscal and monetary stimulus".[10]

Overall, the development challenges facing the BRICS countries are mainly in the following aspects. First, there exist imbalances to different levels in the economic structures of those countries. They are especially too dependent on exports to boost insufficient domestic consumption demand. Second, they lack mature market systems and suffer from overemphasis on factor inputs. Compared to the developed countries, the enterprises in the BRICS countries are less competitive and innovative. Their financial systems are relatively fragile and government intervention in economic activities is pervasive. The reform of state-owned enterprises has been slow, which eventually hinders the productivity and innovation of the private sector. Third, labor costs in the BRICS are rising. In Russia and China, the working-age population is set to decline. The underdevelopment of vocational education results in a growing gap between the labor skills and the requirements of the knowledge economy. Fourth, in those countries, the inequality between rich and poor is still big given the absence of well-developed social security nets. Their internal development is very imbalanced and there are still a large number of populations trapped in poverty. The average Gini coefficient of the BRICS countries ranges from 0.37 to 0.57. And fifth, the efficiency of resource utilization is relatively low and all of the BRICS countries face environmental challenges as well as serious resource constraints in the process of urbanization.[11]

Currently, given the end of the commodity super cycle, and the US gradually withdrawing from "quantitative easing," emerging economies have to find ways to maintain the stability of their financial systems, prevent large-scale capital outflows, keep the exchange rate controllable, and prevent imported inflation.[12] In addition, ensuring the sustainability of public finances is also a big problem. India's governmental debt is close to a dangerous level, and public finances in Brazil, Russia and South Africa are deteriorating due to commodity price decreases and reduced exports. The BRICS basically have no pricing power though they are big commodity importers/exporters in the world. In the face of economic depression and trade protectionism in Europe and North America, it is difficult for the BRICS to maintain export growth

From a broader global perspective, the BRICS countries also face challenges stemming from the reshaping of international trade and investment rules. By pushing for the Trans-Pacific Partnership agreement (TPP), the Trans-Atlantic Trade and Investment Partnership agreement (TTIP) and the Trade in Services Agreement (TISA), the US seeks to revitalize the alliance between industrial and high-income countries in geo-economics terms. These new high-standard trade agreements with cross-border adjustment effects may pose more complicated challenges to emerging powers.

Given that such internal and external challenges are increasingly intertwined and the external environment appears more risky and uncertain, the BRICS countries must go together with greater courage and efforts to promote their own reforms, expand mutual cooperation, continuously enhance the development resilience of emerging economies, and jointly safeguard the long-term interests of developing world.

In terms of the long-term development strategies of the BRICS countries, there are many similarities, such as upgrading the manufacturing industry, expanding the service sector, improving infrastructure construction, as well as promoting tax reform and reforming state-owned enterprise, with an aim to boost the private sector and increase the openness of their economies. From a social policy perspective, the BRICS countries generally emphasize education and training, human capital investments and enhancement of ordinary people's living standards.

The reform direction that those countries have in common forms the bedrock for the expansion of cooperation between the BRICS countries. They may further share development experiences, bring their respective advantages into play and deepening pragmatic cooperation. With economic and trade complementarities between the BRICS countries, they should seek to craft the "world factory" (China), "world raw material base" (Brazil), "world gas station" (Russia) and "world office" (India) more deeply integrated so that to make the best use of the advantages in their industries, natural resources and markets.

At the same time, it is a global trend that cooperation between developing countries, characterized as South-South cooperation, continues to be strengthened, and the BRICS countries must also seize the momentum. As the 2013 World Trade Report notes, "South–South" trade between developing economies accounted for 24% of the world trade volume in 2011, up from 8% in 1990. According to the survey by the United Nations Conference on Trade and Development (UNCTAD), in the recent decade, the BRICS countries' proportion of the world total foreign investments rose from 1% to 9%, while developing countries have absorbed more than 42% of the BRICS countries' total foreign investments. In 2011, the intra-BRICS trade volume expanded by 28% to $230 billion, and the China-Russia trade volume amounted to $90 billion. In the same year, South Africa's investments in China accounted for 20% of its total outbound foreign investments. The mutual investments among the BRICS countries were worth $260 billion in 2013, compared to $29 billion in 2003, and such growth is expected to continue in future.[13]

The BRICS countries should always plan their cooperation from the angle of escalating the position of developing countries as a whole and achieving common prosperity. In accordance with *The Global Trends 2030* released by US National Intelligence Council, by 2060 the demand from developing countries on food, water and energy will double, and the middle class expansion, imbalanced urbanization, as well as long-simmering religious and ethnic conflicts pose a myriad of new challenges for the governance of the developing world.[14] It becomes more pressing for developing countries to seek a viable and robust path of national development.

In this case, the BRICS should be more proactive in responding to their own development challenges and global ones that are closely related with them. As Dani Rodrik, a professor with Harvard University, has written, "The BRICS countries are home to around half of the world's population and the bulk of unexploited economic potential. If the international community fails to confront its most serious challenges — from the need for a sound global economic architecture to addressing climate change — they are the ones that will pay the highest price.... They have to develop their vision of a new global economy, beyond complaints about its asymmetric power structure." Rodrik also spoke eloquently about the potential of the BRICS countries becoming new global value champions, "Their own development experience makes countries like China, India, and Brazil resistant to market fundamentalism and natural advocates for institutional diversity and pragmatic experimentation. They can build on this experience to articulate a new global narrative that emphasizes the real economy over finance, policy diversity over harmonization, national policy space over external constraints, and social inclusion over technocratic elitism."[15]

## Conclusion

The report to the 18th CPC National Congress in 2012, the BRICS was listed as one of the four major multilateral international organizations along with the UN, the Shanghai Cooperation Organization and the G20 in the section specially devoted the China's foreign policy to which prominent attention and policy input shall be devoted. The development of the BRICS countries and institutional build-up of the BRICS organization are exerting increasingly significant influence on China's overall plan of foreign policies. The BRICS are playing a more and more important role in China's efforts to develop an open economy and expand economic cooperation with other countries. In 2012, the trade volume between China and other BRICS countries accounted for 7.8% of China's total foreign trade volume. In the same period, China witnessed a 31.8% growth in its trade with South Africa and 11.2% growth in its trade with Russia. Its non-financial outward investment in the other four BRICS countries mounted to nearly $20 billion in the same year. Moreover, BRICS nations share profound and extensive common interests in the reform of the global economic governance. It is necessary for China to always depend on the group of developing countries and emerging markets represented by the BRICS in the process of getting increasingly involved in and even influencing the global economic governance affairs. Furthermore, BRICS countries are taking on a greater role of coordinating positions and promoting dialogues in addressing regional and international hotspot issues like the Syrian crisis. Beijing needs to consider how to “get creatively involved” in important issues by using BRICS as an essential platform and lever.

Although the relatively smooth development has been witnessed in China’s relations with the other four BRICS nations, it cannot afford to ignore or underestimate the relevant challenges. On the one hand, China is at a similar development stage as the other four BRICS countries, and this leads consequently to competition with them in certain sectors. As a consumer of bulk commodities, it is inevitable that China has conflicts of interests with exporters like Russia and Brazil. Under the WTO framework, around 70% of trade-related complaints against China in recent years have come from developing countries, including India and Brazil. On the other, China’s “superior” strength among the BRICS nations may cause suspicion of and vigilance against its dominance in this cooperation mechanism. In 2012, China’s GDP aggregates exceeded the total of the other four BRICS countries, and its total volume of imports and total volume of exports were 2.5 times and 2.6 times the total of the other four countries. China is now the largest trade partner of Russia, Brazil and South Africa and the second largest of India, and its volume of trade with the four countries accounts for 85% of the total volume of trade among the BRICS countries. In terms of political system, cultural tradition and social values, there are also apparent differences between China and the other four. In particular, there is still an unsolved territorial dispute between China and India, and it is still necessary for China, India and Brazil to coordinate their Africa policies, so as to avoid unnecessary competition.[16]

As such, China should play a guiding instead of a dominant role in the development of organizations of the BRICS and promote collaboration among these countries in a low-key and prudent manner. Improving global economic governance remains a strategic pillar for the steady development of BRICS countries. For China, it is necessary to come forth with initiatives of cooperation by proceeding from its own needs and advantages of development, focusing on infrastructure construction, cooperation in the financial and manufacturing sectors, promoting facilitation in trade, investment and people-to-people exchange, etc. in light of the shifting international economic landscape of FTA negotiations, major changes in the pattern of energy production and supply as well as sustaining technology and industry innovations.

Indeed, inclusive and sustainable development is the common objective of the BRICS countries, and it is a basic consensus that forming an anti-West bloc is in no way conducive to achieving this goal. China should strive to serve as a bridge to bring the developed world and the developing world closer.

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