

What is BRICS?



Numsa Fact Sheet 1

On 26-27 March, the South African government will host the 5th Brazil-Russia-India-China-South Africa (BRICS) Summit in Durban. This will be the third summit that South Africa attends after the country joined the political and economic organisation late in 2010. Formed in 2008, BRICS is an alliance aimed at developing common approaches amongst member countries to world political and socio-economic challenges and developments. BRICS leaders describe the organisation “as a major platform for dialogue and cooperation” in economic, financial and development fields.

Taking place under the theme; *BRICS and Africa: Partnership for Development, Integration and Industrialisation*; the summit will see representatives of the African Union (AU) as well as leaders of continental trade blocs such as East African Community (EAC), Common Market for Eastern and Central Africa (Comesa) and Southern African Development Community (SADC) taking part in the event in Durban. Although not confirmed, it is reported that 16 African heads of states will also be at the gathering. If this happens, this will be the first time that non-BRICS leaders participate in a BRICS summit.

High on the agenda of the Durban summit is a launch of a BRICS development bank. At the last summit held in India’s city of New Delhi, the five Heads of States directed their Finance Ministers to examine the feasibility and viability and possibility of setting up a new Development Bank. This bank will mobilise resources for infrastructure projects in BRICS and other developing economies. According to the declaration adopted in New Delhi the envisaged

bank will “supplement the existing efforts of multilateral and regional financial institutions for global growth and development”. On the sidelines of the 2012 G20 in Mexico, BRICS leaders agreed to explore the setting up of a foreign exchange reserve pool and a currency swap arrangement. The foreign exchange reserve pool will be used in case where member countries are faced with foreign currency shortages while currency swap arrangement will be an agreement to mitigate against currency volatile through agreeing to fix the currencies of the five countries.

Also to be established in Durban is a BRICS Business Council that is made up five business representatives from each BRICS member country. The council has its objective, promotion of business-to-business cooperation as well as the provision of advice and technical support for multinational business projects. In a joint statement, the BRICS Business Forum called on the respective governments to deepen trade and investment between the five countries. A target of US\$500 billion of intra-BRICS trade by 2015 has been set; a whopping doubling of the present level of trade between the five countries. The Forum identified agriculture, energy, infrastructure, mining beneficiation and healthcare as areas of potential investment.

A briefing note on the BRICS Summit that the South African government prepared for local business argues that based in one of the leading investors in Africa among developing countries, local companies can take advantage of their location and partner with BRICS corporates to explore commercial opportunities in the rest of continent. Cited as examples of partnership approach is the US\$1,2 billion Brazilian

company Vale's agreement with South Africa's Rainbow Minerals to build a copper mine in Zambia and India's Tata Power's joint venture with South Africa's Exxaro Resources to develop and operate power-generation projects in Southern Africa.

The note also highlights South Africa's position as an "investment gateway" into the African continent and points to what it considers as business opportunities such as:

- ongoing attempts to establish a 26-country and US\$1-trillion African Tripartite Free Trade Area (T-FTA) for East, Southern and Central Africa within three years. This development is seen as putting the region on the same footing as other BRICS countries; with a market size of 600-million people.
- the adoption at the Southern African Development Community (SADC) Summit held in Mozambique in August 2012 of a 2012-2027 SADC Regional Infrastructure Master Plan (RIMP) that involves US\$500 billion cross-border projects development of regional power, transport, water, communications, tourism and metrology infrastructure. Implementation of the plan will be aligned with the establishment of a regional development bank with an initial capitalisation of between US\$600 million and US\$1 billion.

Origins of BRICS

Although formally taking shape at meetings of foreign ministers in May and September 2008, the idea of BRICS (Brazil-Russia-India-China) has its origins in a 2003 research report that the United States (US) investment company Goldman Sachs published that predicted that in less than 40-years, the Gross National Product (GNP) of the four countries will catch with good and services that US, Japan, Germany, Britain, France, and Italy's companies and citizens produce collectively. With a catchy title: *Dreaming with BRICS: The Path to 2050*; the economists that authored the report concluded that Brazil, Russia, India and China's economies would be engines of growth with;

- China's economy surpassing that of Germany in few years;

- China's economy overtaking that of Japan by 2015, and the US by 2041;
- India's growth rate being the highest and it will overtake Japan by 2032; and
- BRICS' currencies appreciating by 300% over the next 50 years, providing benefits for investors in BRIC assets.

Since the publication of the report, the financial press and financial analysts ran with the concept of BRICS, referring to Brazil, Russia, India and China as an entity. By the time the four countries constituted themselves as a bloc on the pages of the financial press and in the analysis of investment managers, something called BRICS was in existence.

While BRICS as a concept was gaining currency among financial reporters and analysts, there was another development that is vital for understanding where BRICS comes from. In the meantime, faced with criticism that the G8 (France, Germany, Italy, UK, Canada, US, Japan and Russia) was unrepresentative, chair of the 2005 G8 summit, UK Prime Minister Tony Blair invited five key developing countries (Brazil, China, India, Mexico and South Africa) to the group's meeting. Formed in 1973 for better coordination of economic policies and in the wake of the collapse of the Bretton Woods system of fixed international exchange rates and as a response to the 1973 oil crisis, the G8 felt that it was important to have a structured dialogue with leaders of influential countries in the South. The decision to regularize and formalize the relationship was taken at a G8 summit held in 2007 at a German seaside resort called Heiligendamm. Known as the Heiligendamm Process, the G8 and G5 dialogue had the support of the German Chancellor Angela Merkel who referring to the G5 declared that; "We cannot get by, or shape globalisation in a humane way, without each other". The then French President Nicolas Sarkozy even proposed that China, Mexico, Brazil, South Africa and India become members of G8.

An avid supporter of the reincorporation of the G5 into a new world governance structure and system was the then Canadian Prime Minister Paul Martin. Reflecting on the debates on the reform of global governance structure Martin had this to say in his autobiography *Hell or High Water: My Life In and Out of Politics*;

Either the world will reform its institutions, including the G8, to embrace these new economic giants, or they will go ahead and establish their own institutions...” (p.358)

So when the BRICs foreign ministers met in September 2008 for the first time on the sidelines of the UN General Assembly, there was an emerging consensus among the leaders of the most powerful countries in the world on a structured relationship with the emerging and leading countries in the developing world. The Heiligendamm Process had laid the basis for this convergence. It is therefore not surprising that among the issues that BRICs foreign ministers agreed to collaborate on in their first meeting was “cooperation within the Heiligendamm Process”. The “Heiligendamm Process” smoothed the way to the launch of G20 leaders’ summit in November 2008.

BRICS and the G20:

Although formed in 1999 as the coming together of Finance Ministers and Central Bank Governors, the G20 as a political entity plays a significant role in world affairs today. The G20 economies (the EU and Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, Britain and the US) account for 90% of global output, 80% of world trade and two-thirds of the world’s population. It is no wonder that in the midst of the global capitalist economic crisis the G20 was upgraded in November 2008 from a Finance Ministers and Reserve Bank Governors-only forum into a platform of heads of states.

From its formation, BRICS sees itself as working within the ambit of the G20. At its first summit held in June 2009 in Russia’s city of Yekaterinburg, BRICS leaders acknowledged the central role played by the G20 Summits in responding through cooperation and policy coordination to the financial crisis. The leadership of BRICS called on “all states and relevant international bodies to act vigorously to implement the decisions adopted at the G20 Summit in London on April 2, 2009”. Each BRICS summit thereafter has lauded the G20 “as the premier forum for international economic coordination and cooperation of all its member states”. In the second summit held in Brasilia in

April 2011, BRICS leaders declared that “compared to previous arrangements the G20 is broader, more inclusive, diverse, representative and effective. We call upon all its member states to undertake further efforts to implement jointly the decisions adopted at the three G20 Summits”.

BRICS’ campaign to have bodies like the World Bank and International Monetary Fund (IMF) transformed is being channeled through the G20. In their call for voting power reform within the World Bank and quota reform within the IMF, in their 2010 Brasilia declaration BRICS leaders tied their campaign to G20 processes. They said that World Bank reforms need “to be fulfilled in the upcoming Spring Meetings, and expect the quota reform of the IMF to be concluded by the G-20 Summit in November this year”. According to its architects BRICS and its cooperation “is inclusive and non-confrontational”. As proof of this “non-confrontational approach” and “under the principle of fair burden-sharing of the International Bank for Reconstruction and Development and of the International Finance Corporation”, at the G20 summit in Mexico BRICS countries made huge contributions to the IMF with China offering \$43bn; Brazil, Russia and \$10bn each; while South Africa pledged \$2bn. In a meeting on the eve of the November 2011 G20 Summit in Cannes in France, BRICS countries promised financial support to bail out European countries although only through the IMF. At the summit the G20 agreed in 2012 to boost IMF funding to be used if the crisis in Europe continues.

BRICS’ vision of the world

BRICS leaders believe that the world is undergoing fundamental and complex changes characterised by intense economic globalisation, increasing interdependence and a shift from a unipolar to a multipolar world. The leaders also believe that recent events have shattered the belief in self-regulating nature of financial markets.

The “multipolarity” that BRICS is founded on requires changes in how the world is governed both economically and politically. More important for BRIC leaders is the creation of space for voices of emerging and developing countries in international affairs. Developing countries should be fully respected and

necessary policy space for these countries should be guaranteed. BRICS believes that an important role in contributing to world peace, security and stability, boosting global economic growth, enhancing multilateralism and promoting greater democracy in international relations. This role must be played jointly with the developed world. BRICS expresses a strong commitment to multilateral diplomacy with the UN playing the central role in dealing with global challenges and threats. “The international community should join hands to strengthen cooperation for common development”, says one of the declarations of the BRICS summits. As part of this, BRICS calls for;

- comprehensive reform of the United Nations (UN), including its Security Council,
- a reformed and more stable financial architecture that will ensure that the global economy is susceptible to crises,
- strengthening of cooperation in relation to regulation and supervision of financial markets
- reform of the international financial regulatory system
- improvement of national regulations reform of the international monetary system.

According to BRICS, for emerging market economies and developing countries to play an even larger and active role as engines of economic growth the multilateral, open and rule-based multilateral trading system trading system; embodied in the World Trade Organisation (WTO) must be maintained. This is vital for providing an open, stable, equitable and non-discriminatory environment for international trade. BRICS countries are committed to resist all forms of trade protectionism and to fight disguised restrictions on trade. “We recognise the important role played by international trade and foreign direct investments in the world economic recovery. We call upon all parties to work together to improve the international trade and investment environment”, says a BRICS statement. BRICS believes in “responsible macroeconomic and financial policies”, to avoid creating excessive

global liquidity and undertake structural reforms to lift growth that create jobs.

How BRICS works?

Unlike bodies such as the African Union (AU) that are formed on the basis of constitutive act, BRICS is not bound by a treaty and has no legal obligations and instruments. It works on the basis of commonly agreed positions. The emphasis is on moral and political persuasion.

BRICS as an entity works at two levels:

- Heads of States who hold annual summits
- Ministerials that bring ministers of the same departments together.

There have been four Heads of States summits thus far:

- June 16 2009: Yekaterinburg in Russia
- April 15 2010: Brasília in Brazil
- April 14 2011: Sanya, Hainan in China
- March 29 2012: New Delhi in India

These are some of the Ministerials that have been constituted in the last four years:

- Ministers of Agriculture and Agrarian Development;
- Ministers of Finance and Governors of Central Banks;
- Representatives for Security Issues;
- Trade Ministers
- Health Ministers

A number of other BRICS meetings have been held such as:

- Exchange Programme for Magistrates and Judges
- Meetings of Development Banks
- Meeting of the Heads of the National Statistical Institutions;
- Conference of Competition Authorities
- Meeting of Cooperatives
- Business Forums
- Conference of Think Tanks.