The Global Economic Chessboard and the Role of the BRICS: Brazil, Russia, India, China, South Africa

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Global Research, August 27, 2017
Third World Resurgence No. 274 1 June 2013

Theme: Global Economy

This article was first published in November 2013.

The member states of BRICS will be meeting in Xiamen, Fujian Province in early September

Despite its strange origins and some serious challenges confronting it, the bloc of countries that has emerged into the international arena under the acronym BRICS (Brazil, Russia, India, China, South Africa) has the potential for being a positive force in world affairs. Strange things happen in the world. Imagine a grouping of countries spread across the globe, which gets formed only for the simple reason that an analyst for an investment bank decides that these countries have some things in common, including future potential for growth, and then creates an acronym of their names! Bizarre but true.

The original categorisation of the BRIC countries (by Jim O'Neill of Goldman Sachs in an article in 2001) contained only Brazil, Russia, India and China. He described the countries with the most economic potential for growth in the first half of the 21st century, based on features like size of population and therefore potential market; demography (predominantly young populations with likely falling dependency ratios); recent growth rates; and embrace of globalisation. So China was to become the most important global exporter of manufactured goods (which indeed has already occurred); India the most significant exporter of services (which has not occurred as expected, although it remains important); and Russia and Brazil would dominate as exporters of raw materials.

In a process that has since surprised many, this initial statement caught the imagination not only of the global financial community and the mainstream media, but even of policy makers in the countries themselves! Although geographically separated, economically and politically distinct, with different levels of development and with not such strong economic ties at that time, these countries began to see themselves as a group largely because of foreign investor and media perceptions.

The group had its first summit meeting in June 2009 in Yekaterinburg, Russia. In 2010 South Africa was included (at the instigation of China). The enlarged BRICS have since had summit meetings in Brasilia, Brazil, in 2010; Sanya, China, in 2011; New Delhi, India, in 2012; and Durban, South Africa, in 2013. The BRICS now cover 3 billion people, with a total estimated GDP of nearly $14 trillion and around $4 trillion of foreign exchange reserves. Each country is effectively a sub-regional leader. Of course, that does not mean there are no other potential candidates for inclusion. Indeed, several countries are often mentioned as possible members of an enlarged group on the basis of their actual and potential global economic significance: for example, South Korea and Mexico (both OECD members), Indonesia, Turkey, Argentina.

BRICS is one of several new initiatives of different countries in the world to break out of the Northern axis: G12 (G20-G8), IBSA, BASIC (BRICS minus 1) and so on. While the origin of the grouping may be odd, and the countries are indeed remarkably diverse, there are some commonalities that are important. Subsequently, in fact, these countries have since shown significant interest in meeting periodically, working together, and finding some synergies and new ways of cooperation.

So trade between BRICS countries soared after they became recognised as a combination (although of course this is a period when trade between developing and emerging markets in general has grown much faster than aggregate world trade). Investment links have been growing too, mainly through Chinese involvement in different countries and some interest shown by large Indian capital. And more recently there have been other moves that suggest an appetite for newer and further forms of close economic and political interaction and co-ordination. They have recently acted in concert in several international platforms, most recently pledging $75 billion to the International Monetary Fund (conditional on IMF voting reform). Other economic initiatives include agreement to denominate bilateral trade in each other's currencies, and plans for a development bank. There have also been declarations in favour of a shared approach in foreign policy, particularly responses to US and European policies in the Middle East and elsewhere.

In fact there is great potential in these five countries not just combining to address global issues, but perhaps even more significantly, learning from one another. For example, India has much to learn from Brazil and China in the matter of development banking. From the early 1990s, India has set about destroying the potential of its own development banks, in both agriculture and industry – but there is still scope for their renewal and rejuvenation. And the example of Brazil, and in particular the Brazilian Development Bank (BNDES), in entering areas and promoting activities that would not occur purely through the incentives determined by the market, could provide some guidance about how this can occur even in a very open and largely market-driven economy.

Similarly, there are areas in which other BRICS countries could learn from India, while the description of the work of the South African Development Bank illuminated the strategy of creating financial structures and mechanisms to promote the 'green economy' through environmentally desirable activities and technologies. There are also immense possibilities for technology sharing and even co-ordinating technology development, in a world where intellectual property rights still largely controlled by Northern multinational companies have emerged as a major constraint on development. There is also great potential for 'Marshall Plan'-type capital flows from surplus to deficit countries (even those outside the BRICS) to enable them to withstand the impact of global recession – and a BRICS Bank could be a first step in that direction.

Common challenges

But it is not only comparing experiences of the recent past and learning from each other's approaches that may be important. Despite their many differences, the BRICS countries do face some common challenges, and the very urgency of these challenges points to the benefits of cooperation to develop new strategies. At least four such challenges deserve mention, as do some possibilities of combined action to confront them.

The first is the fact of the continuing global crisis and the near-certainty that the Northern economies (the US and Europe in particular) are unlikely to provide much positive stimulus to the global economy. For all the BRICS, these countries still dominate as export destinations and the domino effect of declining Northern markets must be accepted. So clearly, there is a need to diversify exports, a process that has already started but still needs to go a long way. Of course bilateral currency trade would encourage more trading activity between the BRICS, and this is desirable.

But the current state of the global economy suggests the need for greater ambition. In particular, the time is clearly ripe for some sort of ‘Marshall Plan’ for the developing world, and the BRICS countries (particularly China and Russia) are uniquely positioned to take this process forward. This would involve developing mechanisms to finance imports by countries with low incomes and low levels of development, simultaneously delivering markets to other developing countries and more development potential to the recipient countries.

The other challenges are more internal, but surprisingly common across the BRICS. The recent growth process has been substantially associated with increasing income and asset inequality (other than in Brazil, which once again provides some lessons for the others, but where Gini coefficients still remain among the highest in the world). It is now more evident that such inequality is socially and economically dysfunctional, and also that it gives rise to political tensions that can be even more damaging. So there must be measures to address this.

Inadequate productive employment generation has been a central feature of the past growth process, and is clearly linked with the growing inequality. Economic policies within BRICS countries must be concerned with this, and in particular with how to promote more opportunities for decent work.

Another major aspect of inequality has been the inequality in access to basic social services and utilities. The strategies of privatisation and reduced public spending in such areas in all the BRICS countries have not only reduced access for the poor but also created tremendous inequalities. It is increasingly necessary for innovative strategies to promote more universal provision of necessary services and utilities.

Finally, recent growth in all the BRICS countries has been associated with a construction and real estate boom, and it is interesting to note that this boom is also in the process of winding down in all five countries. This creates all sorts of difficulties, in terms of both the employment losses as well as the health of the financial sector, and it is particularly galling given the continued shortage of adequate mass housing. All of these countries will need effective strategies to deal with this challenge, even while they continue to promote affordable and better-quality mass housing, and so surely there are opportunities here for creative policy thinking that can be shared.

South-South relations

What of the relations of the BRICS with other countries of the Global South? Two issues are important here. The first is whether the BRICS or the G20 will ignore or substitute for the views of the G77 or larger bodies of developing countries whose voices are only too rarely heard in international policy discourse. This is a concern, and one that it is important for the BRICS themselves to address directly. The recent attempt by South Africa to include many other African nations as observers or participants in the latest BRICS Summit was in that sense welcome, but the nagging question is whether this was simply a cosmetic attempt at suggesting wider representation than actually existed.

The second issue is whether the BRICS countries' dealings with other countries of the South are following desirable patterns or simply replicating North-South interaction. It used to be believed that economic interaction between developing countries (South-South integration) would necessarily be more beneficial than North-South links. After all, North-South economic interaction mostly reproduced the global division of labour that emerged by the mid-20th century: the developing world specialises in primary commodities and labour-intensive (and therefore lower productivity) manufactured goods, while the North keeps the monopoly of high-value-added production. By contrast, trade and investment links between countries in the Global South were supposed to allow for more diversification because of their more similar stages of development, thus creating more synergies.

However, recent global economic patterns have led many to question these easy generalisations. The emergence of East Asian countries (especially China) as giant manufacturing hubs has been driven to a significant extent by North-South trade and investment. Even the interaction between developing countries has not always been along the predicted lines. Accusations of 'new colonialism' are now more common – especially in the hypocritical North, but also in the South. There are questions about whether groupings like the BRICS will feed into this, especially by controlling their own backyards and other weaker developing countries.

So there are fears that growing trade and investment links of the BRICS with poorer developing countries seek to exploit the natural resource base of these countries, siphoning them off in ways that are ecologically damaging, inherently unequal and of little benefit to the local people. There are concerns that cheaper exports from these semi-industrial countries undermine the competitiveness of local production in the poorer countries, thereby causing further shifts into primary commodity exporting and thereby stunting their development process. China is said to be dumping its products in economies across the world, and using the resulting foreign exchange surpluses to invest in and provide aid to authoritarian regimes that allow access to natural resources. Similarly Indian corporate investors are said to be engaged in large-scale land grabs in countries of North Africa and predatory behaviour elsewhere. Many recent South-South trade and investment agreements (and the resulting processes) have been similar in unfortunate ways to North-South ones, not just in terms of the protection they afford to corporate investors but even in guarding intellectual property rights!

As always, the reality is complex. Primary exporting countries are better off if there is increased competition among imperialists or traders, since that allows for better terms of such exports. Even China's relationship with poorer countries is not based on colonial-style control of political power, but more arm's-length. New manufacturing hubs with increasing import demand have allowed less developed countries indirect access to the developed-world market, while the fast growth of the BRICS has resulted in rapidly growing internal markets from which these countries stand to gain. This provides an important source of demand stimulus even as developed countries are increasingly mired in financial crisis and economic stagnation.

The basic point is that it is not economic interaction per se, but its nature, that has to be considered. Much of recent South-South interaction (including amongst the BRICS) has been corporate-led, which has determined the focus on trade and investment and the encouragement of particular patterns of trade and investment. To the extent that companies everywhere have similar interests (the pursuit of their own profits), it is not surprising that older North-South patterns are replicated.

But surely the focus should be to democratise the interaction itself, to work out the ways in which the patterns of trade and investment flows can be altered to emphasise the creation of decent employment. For this, a change of direction is required both within and outside the BRICS. The potential for positive change exists, but process needs to be more people-oriented, not profit-determined. Ultimately, sustainable economic diversification to higher-value-added and ecologically viable activities remains the key to growth and development not just in the BRICS countries but in other developing countries as well. This period of global flux actually provides a valuable opportunity to encourage and develop new ways of taking such strategies forward through cooperation.

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