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MOLIYA-IQTISOD FAKULTETI

“MOLIYA” KAFEDRASI

ABDUG‘ANIEV ULUG‘BEK ABDUHOFIZOVICH

**«BRIC: AFFECTS OF GLOBAL CRISIS AND POST CRISIS
MANAGEMENT»**

5230600 -“Moliya”- ta‘lim yo‘nalishi bo‘yicha bakalavr darajasini olish uchun
yozilgan

BITIRUV MALAKAVIY ISHI

«HIMOYAGA RUXSAT ETILDI»

«Moliya» kafedrası mudiri

_____ i.f.n., dots. O.Komolov

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Ilmiy rahbar: _____ k.o‘q.Hamraev B.

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INTRODUCTION

The topic of my diploma work is so-called BRICS: affect of Global Crisis and Post Crisis management. It consists of an introduction, three chapters and a conclusion. I explained BRICS organization, its formation and development, role in today's financial crisis and management, influence and actions in this work. In order to describe facts and my ideas I used materials, statistic information, drafts and charts from scientific books and magazines, web resources of international organizations and other related sources.

Culmination of this topic is that nowadays BRICS has its peculiar status throughout the world. This status is enhanced and strengthened when member states of the organization preclude global financial crisis together with much more minimal risky and hazardous effects on their financial and economic stability. These member countries are planning to implement unique and vital measures like establishing BRICS development bank, trading on national currencies, setting up energy unions and others. These projects are extremely important at current economic situation that they operate and function independently without the support and influence of western developed countries and their policies.

The acronym BRICS stands for Brazil, Russia, India, and China. The term was coined by the Chief Economist of Goldman Sachs, in 2001, in a paper titled 'Building Better Global Economic BRICS', which looked at the growth prospects of the four largest emerging economies that are culturally and geographically disparate. The main finding was that the BRICS would play an increasingly important role in the global economy. The projections were revised in later publications, as the BRICS economies fared better than expected.

This study expands the original terms of reference to include South Africa because of its growing significance in the global economy. The new acronym is, therefore,

BRICS and it symbolizes the collective economic power of Brazil, Russia, India, China, and South Africa. Together the BRICS account for more than 40 per cent of the global population, nearly 30 per cent of the land mass, and a share in world GDP (in PPP terms) that increased from 16 per cent in 2000 to nearly 25 per cent in 2010 and is expected to rise significantly in the near future.

It is clearly fact that this topic has been one of the most controversial issues over the decades in the modern world. Today, BRICS and its countries have its peculiar status throughout the world and it plays a vital role than ever before. Leading economists and researchers in financial sphere are conducting research over the current crisis and its solutions. Some of them are offering their own recommendations and propositions. However, since these suggestions are not working well enough, countries need more practical and results-oriented measures in this field.

Having formed and emerged recently, BRICS countries are showing stable and dynamic economic growths. This organization has been playing an important role in all over the world. Its undoubtedly fact that today, main economic development belongs to this group. It is widely perceived that over the next few decades the growth generated by the largest developing countries, particularly the BRICS, could become a much more significant force in the world economy.

Among the BRICS, India and Brazil are relatively more domestic demand driven economies. As a group, they witnessed faster economic recovery from the 2008 financial crisis than advanced and other emerging market economies (EMEs). Although they have strong external linkages, they have nonetheless undergone significant rebalancing of their economies towards their domestic sectors in the post-crisis period. According to an estimate by Goldman Sachs, the four original BRIC countries are expected to represent 47 per cent of global GDP by 2050, which would dramatically change the list of the world's 10 largest economies. An

important change that we may expect over the medium to long term is that the top 10 countries in terms of GDP may be different from the top 10 countries in terms of per capita GDP.

The inherent strength of the BRICS emanates from strong domestic demand-based economies in the case of India and Brazil and the significant outward linkages of China and Russia. South Africa benefits from its large resource base and proximity to untapped growth potential of the African continent.

Among the BRICS, China, followed by India, are the fastest-growing economies in the current decade. Between 1978 and 2009, the Chinese economy grew at an average annual rate of 9.9 percent, which is much higher than the world average for the period. The growth performance of Russia and Brazil also improved significantly after the financial crises of the 1990s.

The salient features of the BRICS economies are their large geographical dimensions and size of population. It is widely perceived that all the BRICS markets have great potential for establishing the most establishing of forces, that is, a prosperous middle class. This middle-income group in each country is growing at varying rates but the future direction is clear, that is, the middle class will both broaden and deepen, providing a solid base for the growth and development of the economies.

This is also perhaps the most opportune time for forging closer links, given that the world economy is in a state of flux and a rebalancing is taking place towards the emerging economies. Their pivotal role in the global recovery has already catapulted the BRICS into the leadership role, which needs further cementing through greater interface among economies.

CHAPTER I. THE EMERGENCE AND DEVELOPMENT OF BRICS

1.1. BRICS and its countries

The world is changing in fundamental ways, a primary aspect of which is an aggressive movement away from a world where power is concentrated among the few towards a reality in which it is distributed to the many.

In terms of the balance of power among the nations, few developments rival the new distribution of power than BRIC, which is an acronym for the nations of **Brazil, Russia, India and China**. At the time these countries were not considered a political alliance nor were they formed into a formal trade association, but since then a strong political and economic relationship has emerged among BRIC nations, making it a growing political force as well as a symbol for an entire host of emerging nations.

The acronym "BRICs" was initially formulated in 2001 by economist Jim O'Neill, of Goldman Sachs, in a report on growth prospects for the economies of Brazil, Russia, India and China – which together represented a significant share of the world's production and population.

Table 1

BRICs in 2000¹

Country	GDP ^a (PPP); ^b 2000 \$ bn	Share of world total (%)	GDP (current prices); 2000 \$ bn	Share of world total (%)	Difference in share (PPP- current)	Population (mn)	GDP per capita (current price)
Brazil	1,214	2.92	588	1.96	0.97	167.72	3,507
Russia	1,120	2.7	247	0.82	1.88	145.49	1,696
India	2,104	5.06	474	1.58	3.49	1,002.14	473
China	5,230	12.59	1,080	3.59	9.00	1,266.80	852

^a GDP represents gross domestic product.
^b PPP represents purchasing power parity.

¹ Goldman Sachs, Building Better Global Economic BRICs, Global Economics, 66, 2001

Taking into account the challenges faced by these countries, especially in areas relating to economic and political instability, the predictions presumed that the structural reform processes launched by these countries would be sustained and that the BRIC countries would maintain policies and develop institutions that supported growth. The papers, however, did not scope out the possibility that the term coined would be formalized at some point in time.

For the next few years after the term was coined (2001–06), the idea of an institutionalized BRICs was floated, but there was no specific move to formalize the group. The BRIC countries' gaining strength from their economic reform processes, buoyed by newly emerging confidence, reached a few milestones during 2001–08. Some of the most important milestones achieved during this period include China joining the World Trade Organization (WTO) (2001) and opening up a process of modernization of its industries and services (2001); Brazil kick-starting a period of unprecedented economic prosperity (2003); China overtaking Germany as the third-largest economy (2007); and Brazil joining China and the Persian Gulf states by becoming a global creditor for the first time, as well as introducing a sovereign wealth fund to invest excess capital (2008).

In 2006, the four countries initiated a regular informal diplomatic coordination, with annual meetings of Foreign Ministers at the margins of the General Debate of the UN General Assembly (UNGA). This successful interaction led to the decision that the dialogue was to be carried out at the level of Heads of State and Government in annual Summits. As of the First Summit, held in Yekaterinburg on 16 June in 2009, the depth and scope of the dialogue among the Members of BRICs – which became BRICS in 2011 with the inclusion of South Africa – was further enhanced. More than an acronym that identified countries emerging in the international economic order, BRICS became a new and promising political-diplomatic entity, far beyond the original concept tailored for the financial markets.

After the Yekaterinburg Summit, five annual Summits were held (Brasilia, 2010; Sanya, 2011; New Delhi, 2012; Durban, 2013; and Fortaleza, 2014). The leaders of the member countries have been holding at least one annual meeting. In Durban last year, the first cycle of Summits was completed, each member country having hosted a meeting of leaders. In this period, BRICS has evolved in an incremental manner, in areas of consensus amongst its members, strengthening its two main pillars: (i) coordination in multilateral fora, with a focus on economic and political governance; and (ii) cooperation between members.

Regarding the first pillar, the efforts towards reforming the structures of global governance, especially in the economic and financial fields – Financial G-20, International Monetary Fund, World Bank – receive a special emphasis, as well the reform of political institutions, such as the United Nations.

Intra-BRICS cooperation has also been gaining density: a broad agenda has been developed, comprising areas such as finance, agriculture, economy and trade, combating transnational crime, science and technology, health, education, corporate and academic dialogue and security, among others.

In that context, the financial sector receives a special focus as a new front of cooperation. At its 6th Summit, the BRICS established the New Development Bank, aimed at financing infrastructure and sustainable development projects in the BRICS and other developing countries. The new institution will count initially with a subscribed capital of US\$ 50 billion.

Likewise, the BRICS also concluded the agreement that creates the Contingent Reserves Arrangement (CRA), a fund with an initial sum of US\$ 100 billion, which the BRICS countries will be able to use to forestall short-term liquidity pressures. One of the objectives of the CRA is to contribute to international financial stability, by providing an additional line of defense to the BRICS.

The establishment of the Bank and the CRA conveyed a strong message on the willingness of BRICS members to deepen and consolidate their partnership in the economic-financial area.

The Fortaleza Summit launched a new cycle for the BRICS. Brazil will follow up on the initiative, aiming at incrementally increasing existing cooperation. The meeting's particular focus on social inclusion and sustainable development gave visibility to policies implemented by member countries, and to the contribution of the BRICS' economic growth to poverty reduction. The theme "inclusive growth, sustainable solutions" is not only in line with the member countries' social policies, but also highlights the need to tackle challenges in the social, economic and environmental fields, and creates new opportunities for the BRICS in different areas, including the negotiations on the post-2015 development agenda.

For Brazil, BRICS has a special significance: it comprises four of the country's strategic partners, all of which have a strong regional leadership and growing participation in the global economy. Brazil is now in charge of the group's presidency, and will lead the implementation of the Plan of Action to be approved on the occasion. In view of BRICS' informal nature, the role of Secretariat is played by its pro tempore presidency. BRICS is cautiously and incrementally being consolidated, gradually moving forward the institution-building process.

In the aftermath of the Yekaterinburg summit, the BRIC nations announced the need for a new global reserve currency, which would have to be "diversified, stable and predictable". Although the statement that was released did not directly criticize the perceived "dominance" of the US dollar – something that Russia had criticized in the past – it did spark a fall in the value of the dollar against other major currencies.

In 2010, South Africa began efforts to join the BRIC grouping, and the process for its formal admission began in August of that year. South Africa officially became a member nation on 24 December 2010, after being formally invited by the BRIC countries to join the group. The group was renamed BRICS – with the "S" standing for South Africa – to reflect the group's expanded membership. In April 2011, the President of South Africa, Jacob Zuma, attended the 2011 BRICS summit in Sanya, China, as a full member. The BRICS Forum, an independent international organization encouraging commercial, political and cultural cooperation between the BRICS nations, was formed in 2011. In June 2012, the BRICS nations pledged \$75 billion to boost the lending power of the International Monetary Fund (IMF). However, this loan was conditional on IMF voting reforms. In late March 2013, during the fifth BRICS summit in Durban, South Africa, the member countries agreed to create a global financial institution which they intended to rival the western-dominated IMF and World Bank. After the summit, the BRICS stated that they planned to finalize the arrangements for this New Development Bank by 2014. However, disputes relating to burden sharing and location have slowed down the agreements.

Table 2

BRICS summits²

Summit	Participants	Date	Host country	Host leader	Location
1st	BRIC	June 16, 2009	Russia	Dmitry Medvedev	Yekaterinburg
2nd	BRIC	April 16, 2010	Brazil	Luiz Inácio Lula da Silva	Brasília
3rd	BRICS	April 14, 2011	China	Hu Jintao	Sanya
4th	BRICS	March 29, 2012	India	Manmohan Singh	New Delhi
5th	BRICS	March 26–27, 2013	South Africa	Jacob Zuma	Durban
6th	BRICS	2014	Brazil	Dilma Rousseff	TBA

² "Africa: Reporter's Notebook – All Systems Go for Brics Summit in SA". AllAfrica.com. 10 October 2012. Retrieved 26 April 2015.

At the BRICS leaders meeting in St. Petersburg in September 2013, China committed \$41 billion towards the pool; Brazil, India and Russia \$18 billion each; and South Africa \$5 billion. China, holder of the world's largest foreign exchange reserves and who is to contribute the bulk of the currency pool, wants a greater managing role, said one BRICS official. China also wants to be the location of the reserve. "Brazil and India want the initial capital to be shared equally. We know that China wants more," said a Brazilian official. "However, we are still negotiating, there are no tensions arising yet."³ On 11 October 2013, Russia's Finance Minister Anton Siluanov said that a decision on creating a \$100 billion fund designated to steady currency markets would be taken in early 2014. The Brazilian finance minister, Guido Mantega stated that the fund would be created by March 2014. However, by April 2014, the currency reserve pool and development bank had yet to be set up, and the date was rescheduled to 2015. One driver for the BRICS development bank is that the existing institutions primarily benefit extra-BRICS corporations, and the political significance is notable because it allows BRICS member states "to promote their interests abroad... and can highlight the strengthening positions of countries whose opinion is frequently ignored by their developed American and European colleagues."

In March 2014, at a meeting on the margins of the Nuclear Security Summit in The Hague, the BRICS Foreign Ministers issued a communique that "noted with concern, the recent media statement on the forthcoming G20 Summit to be held in Brisbane in November 2014. The custodianship of the G20 belongs to all Member States equally and no one Member State can unilaterally determine its nature and character." In light of the tensions surrounding the 2014 Crimean crisis, the Ministers remarked that "The escalation of hostile language, sanctions and counter-sanctions, and force does not contribute to a sustainable and peaceful solution, according to international law, including the principles and purposes of

³ IMF, UNCTAD & World Bank, adapted from The BRICS Report 2015. India: Oxford University Press, 2015.

the United Nations Charter." This was in response to the statement of Australian Foreign Minister Julie Bishop, who had said earlier that Putin might be barred from attending the G20 Summit in Brisbane.

In July 2014, the Governor of the Russian Central Bank, Elvira Nabiullina, claimed that the "BRICS partners the establishment of a system of multilateral swaps that will allow to transfer resources to one or another country, if needed" in an article which concluded that "If the current trend continues, soon the dollar will be abandoned by most of the significant global economies and it will be kicked out of the global trade finance."

Over the weekend of 13 July 2014 when the final game of the World Cup was held, and in advance of the BRICS Fortaleza summit, Putin met his homologue Dilma Rouseff to discuss the BRICS development bank, and sign some other bilateral accords on air defense, gas and education. Rouseff said that the BRICS countries "are among the largest in the world and cannot content themselves in the middle of the 21st century with any kind of dependency." The Fortaleza summit was followed by a BRICS meeting with the UNASUR presidents in Brasilia, where the development bank and the monetary fund were introduced.⁴ The development bank will have capital of US\$50 billion with each country contributing US\$10 billion, while the monetary fund will have US\$100 billion at its disposal.

On 15 July, the first day of the BRICS 6th summit in Fortaleza, Brazil, the group of emerging economies signed the long-anticipated document to create the US\$100 billion New Development Bank (formerly known as the "BRICS Development Bank") and a reserve currency pool worth over another US\$100 billion. Documents on cooperation between BRICS export credit agencies and an agreement of cooperation on innovation were also inked.

⁴ <http://news.yahoo.com/brics-launch-bank-tighten-latin-america-ties>

At the end of October 2014, Brazil trimmed down its US government holdings to US\$261.7 billion; India, US\$77.5 billion; China, US\$1.25 trillion; South Africa, US\$10.3 billion.

In March 2015, Morgan Stanley stated that India and Indonesia have escaped from 'fragile five', although US maybe increase the interest rate. Previously, in August 2013 Morgan Stanley stated that both countries above together with Brazil, Turkey and South Africa as fragile five due to its vulnerable currencies. But after it, India and Indonesia have reformed its economy with completion 85 percent of necessary adjustments and 65 percent respectively, while Brazil with 15 percent, Turkey with 10 percent and South Africa can be said as nil.

Table 3

Global integration and evolution of BRICS economies⁵










<i>Indicators</i>	<i>Year</i>	<i>BRICS economies</i>				
		<i>Brazil</i>	<i>Russia</i>	<i>India</i>	<i>China</i>	<i>South Africa</i>
Trade openness	1990	6.9	–	6.9	17.4	24.3
	2010	11.2	30.3	21.7	29.5	27.9
Current account balance (% of GDP)	1990	0.8	–	–1.2	1.3	1.4
	2010	–2.3	4.9	–3.2	5.2	–2.8
Forex reserves (% of GDP)	1990	1.5	0	0.5	7.6	0.9
	2010	13.7	30.4	18	48.8	10.7
External debt (\$ bn)	1990	119.7	–	85.7	55.3	23.3
	2009	276.9	381.3	237.7	428.4	42.1
Debt service ratio	1990	22.5	4.4	34.9	11.7	–
	2009	23.4	17.7	5.9	2.9	9.3

⁵ IMF, UNCTAD & World Bank, adapted from The BRICS Report 2012. India: Oxford University Press, 2012.

The emerging power and increasingly international relevance of these nations is difficult to deny. China and India are forecast to become the world's dominant suppliers of manufactured goods and services, while Brazil and Russia will become similarly dominant as suppliers of raw materials. China is already known as the world's manufacturing giant of consumer goods for rich western countries. China's manufactured goods include information technology, aerospace, biotechnology and electronics, whilst India is globally renowned for its supply of IT services and pharmaceuticals. Large western companies outsourced backroom operations to Indian corporations in attempts to reduce operational costs. Brazil is rich in soy and iron ore, whilst Russia possesses surplus oil and natural gas. A spokesman for Russia's foreign ministry said: "*BRIC unites the major economic growth centres with more than half the world's population, the role of which (BRIC) in international affairs will grow.*" In a globalized world where the size and power of the marketplace governs the flow of resources, consider the table of "global giants:" shown below.

There is a fundamental shift in the psyche and political consciousness of these emerging nations, and they are being emboldened in their posture toward developed countries. One such expression of this is the Shanghai Cooperation Organization or (SCO). SCO is an intergovernmental organization founded in 2001 by the leaders of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. The focus of this organization centers on cooperation in Security, Economic and Cultural sectors. India has been encouraged by the organization to move from observer status to full time member. On the other hand, the US requested participation in the SCO in 2005 as an observer and their application for membership was rejected. In 2006 a senior Japanese official said, "*The SCO is becoming a rival block to the US alliance. It does not share our values. We are watching it very closely.*"

Painting BRICs by numbers⁶

Lists 	 Brazil 	 Russia 	 India 	 China 
Countries by total area	5th	1st	7th	3rd / 4th (disputed)
Countries by population	5th	9th	2nd	1st
Countries by GDP (nominal)	10th	11th	12th	3rd
Countries by GDP (PPP)	9th	7th	4th	2nd
Countries by exports	21st	11th	23rd	2nd
Countries by imports	27th	17th	16th	3rd
Countries by current account balance	29th	5th	154th	1st
Countries by received FDI	16th	12th	29th	5th
Countries by foreign exchange reserves	7th	3rd	4th	1st
Countries by external debt	25th	20th	29th	22nd
Countries by public debt	47th	117th	29th	98th
Countries by electricity consumption	10th	3rd	7th	2nd
Countries by number of mobile phones	5th	4th	2nd	1st
Countries by number of internet users	5th	11th	4th	1st

The BRIC nations face real challenges also, not the least of which is how they will be affected by the present economic crisis. China's exports dropped 2.2% in 2008 in the run-up to the credit crunch, and there are also international concerns over Chinese support for political and economic repression in some African countries. They will have to carefully manage their growing influence in a world which is still defined to a degree by the U.S. military, and they face a delicate balancing act between the liberal economic policies which have fueled their growth, and an undemocratic political system strained by a growing middle class who are becoming more aware and empowered. Indian culture is under assault from the corrosive effects of globalization, and they have a massive number of poor and underdeveloped portions of their population. Russia is the only one of the BRIC countries whose demographic trends mitigate against development, and they will have to very carefully manage their relationship with the EU and NATO while relying primarily upon their vast quantities of natural resources for leverage.

⁶ <http://scottwebsterministries.org/article/the-emergence-of-bric>.






In the past few decades, some large economies such as Brazil, Russia, India, China, and South Africa (BRICS) have acquired a vital role in the world economy as producers of goods and services, receivers of capital, and as potential consumer markets. The BRICS economies have been identified as some of the fastest growing countries and the engines of the global recovery process, which underscores the changed role of these economies. Even in the G-20 countries' forum, BRICS are playing a formidable role in shaping macroeconomic policy after the recent financial crisis. At present, these five countries encompass over 40 per cent of the world's population and account for nearly 25 per cent of total global GDP in terms of PPP. If one compares the GDP in PPP terms, four economies figure among the top ten, with China, India, Russia, Brazil, and South Africa in 2nd, 4th, 6th, 8th, and 26th places, respectively. In terms of contribution to growth of PPP-adjusted global GDP of the world, these five economies accounted for 55 per cent during 2000–8, and their contribution is expected to rise in the coming years.

The BRICS comprise a huge land share of the world (Table 4) and, as a result, own vast natural resources. China, which has a land area of about 9.6 million sq. km, is the third-largest country in land size, after only Russia and Canada. Russia accounts for around 20 per cent of the world's oil and gas reserves, while China has about 12 per cent of the world's mineral resources. In terms of agricultural land, Russia has 121.5 million hectares of arable land. Brazil covers 47 per cent of South America and is the fifth-largest country in the world (8.5 million sq km), surpassed only by Russia, Canada, China, and the United States of America.

Each of the BRICS countries has multiple and different attributes and thus each has a huge potential to develop. Brazil is extremely rich in resources such as coffee, soybeans, sugar cane, iron ore, and crude oil, with around 60 million hectares of arable land (just 7 per cent of its land area) but with an agricultural area of 31.2 per cent of the total land area. Russia is noted for its massive deposits of oil,

Table 4

Economic data is sourced from the International Monetary Fund, current as of April 2015, and is given in US dollars⁷

Country	Population	GDP (PPP)	GDP (nominal)	GDP Growth (2014)	Foreign Exchange Reserves (2015)	HFCE (2013)	Government spending	Exports	Imports	GDP per capita (PPP)	Literacy rate	Life expectancy (years, avg.)	HDI
 Brazil	203,046,886	\$3.25 tr	\$1.90 tr	▼0.3%	\$362,744 bn	\$1,401,620 bn	\$846.6 bn	\$396.0 bn	\$278.8 bn	\$15,941	95.5%	73.94	.744 (high)
 Russia	146,378,000	\$3.45 tr	\$1.17 tr	▼0.5%	\$358,500 bn	\$1,089,144 bn	\$414.0 bn	\$542.5 bn	\$358.1 bn	\$24,067	99.9%	67.98	.778 (high)
 India	1,210,193,422	\$7.99 tr	\$2.30 tr	▲7.3%	\$352,131 bn	\$1,106,702 bn	\$616.0 bn	\$462.21 bn	\$500.3 bn	\$6,266	74.0%	66.41	.586 (medium)
 China	1,354,040,000	\$18.97 tr	\$11.21 tr	▼7.4%	\$3,899,285 bn	\$3,320,652 bn	\$2,031.0 bn	\$2,021.0 bn	\$1,780.0 bn	\$13,801	95.1% ^[43]	75.33	.719 (high)
 South Africa	51,770,560	\$725.004 bn	\$323.809 bn	▼1.4%	\$47,190 bn	\$221,990 bn	\$95.27 bn	\$101.2 bn	\$106.8 bn	\$13,215	93% ^[44]	56.92	.658 (medium)

⁷ BRICS : joint statistical publication : 2014 ; Brazil, Russia, India, China, South Africa /IBGE. - Rio de Janeiro : 2014

natural gas, and minerals. India is a strong service provider with a rising manufacturing base, while China is seen as the manufacturing work-shop of the world with a highly skilled workforce and relatively low wage costs. South Africa is the 26th largest economy in the world, with a GDP of US\$ 357 billion. It is a medium-sized country with a total land area of slightly more than 1.2 million sq. km and around 12 per cent arable land area. It is the world's largest producer of platinum and chromium and holds the world's largest known reserves of manganese, platinum group metals, chromium, vanadium, and aluminosilicates. South Africa generates 45 per cent of Africa's electricity and the South African power supplier provides the 4th cheapest electricity in the world.

It is widely perceived that over the next few decades the growth generated by the largest developing countries, particularly the BRICS, could become a much more significant force in the world economy. Among the BRICS, India and Brazil are relatively more domestic demand-driven economies. As a group, they witnessed faster economic recovery from the 2008 financial crisis than advanced and other emerging market economies (EMEs). Although they have strong external linkages, they have nonetheless undergone significant rebalancing of their economies towards their domestic sectors in the post-crisis period. According to an estimate by Goldman Sachs, the four original BRIC countries are expected to represent 47 per cent of global GDP by 2050, which would dramatically change the list of the world's 10 largest economies. An important change that we may expect over the medium to long term is that the top 10 countries in terms of GDP may be different from the top 10 countries in terms of per capita GDP.

The inherent strength of the BRICS emanates from strong domestic demand-based economies in the case of India and Brazil and the significant outward linkages of China and Russia. South Africa benefits from its large resource base and proximity to untapped growth potential of the African continent.

Among the BRICS, China, followed by India, are the fastest-growing economies in the current decade. Between 1978 and 2009, the Chinese economy grew at an average annual rate of 9.9 percent, which is much higher than the world average for the period. The growth performance of Russia and Brazil also improved significantly after the financial crises of the 1990s⁸.

The sustained economic reforms and improved macroeconomic fundamentals along with a buoyant macroeconomic environment contributed to the improved growth performance of the BRICS in the current decade.

The strong growth performance of the BRICS is attributed to strong macroeconomic fundamentals, as reflected by the high savings and investment rates, even though Brazil and South Africa still have room to increase these rates. South Africa's investment ratio has increased strongly over the past decade as government and public corporations have stepped up infrastructure investment, but overall investment is constrained by low savings.

Among the BRICS, China has the highest saving and investment rates followed by India. High savings have also helped reduce the contribution of net exports to GDP in the case of China and India. As a result, high investment-led growth was largely financed by domestic savings.

The salient features of the BRICS economies are their large geo-graphical dimensions and size of population. It is widely perceived that all the BRICS markets have great potential for establishing the most stabilizing of forces, that is, a prosperous middle class. This middle-income group in each country is growing at varying rates but the future direction is clear, that is, the middle class will both broaden and deepen, providing a solid base for the growth and development of the economies.

⁸ "India sees BRICS development bank agreed by 2014 summit". Reuters. 19 April 2013. Retrieved 10 July 2013.

1.2. BRICS mission and goals

Linkages between Agriculture, Industry, and Services Sectors, The output structures in the BRICS economies have changed significantly when compared to previous decades. The declining share of agriculture in their respective GDPs has been a common trend over the years. While there has been considerable stability in agricultural growth in Brazil and Russia during 2000–5 compared to earlier decades, agricultural performance in India and China has shown greater volatility. However, Russia has experienced a decline in share of agriculture from 7.6 per cent in 1995 to 4.9 per cent in 2008, while Brazil's share remained relatively stable between 1995 and 2008. Agri-business plays a central role in Brazil's economic development, engaging 35 per cent of its workforce and contributing to almost 42 per cent of its export dollars.

Brazilian agriculture has undergone dramatic changes in the past few decades. From a net importer of food grains until the 1970s, Brazil has emerged as the major net exporter of food products. A similar trend is witnessed in the case of India, where the Green Revolution and developments in biotechnology helped the country become self-reliant in food production. With increasing global demand for food and scarcity of arable land in the world, agronomic conditions will enable Brazil to continue its growth and become a larger supplier of agricultural commodities to nations around the world. In China, especially since 1991 with the introduction of the socialist market economy system, many changes in urban areas were ushered in. The share of primary industry rapidly went down, while that of the secondary and tertiary industries increased. In Russia, there are measures to implement the National Project in agro-industrial complex. Among the BRICS, South Africa has the smallest share of agriculture in GDP, at around 3 per cent and its services sector accounts for more than 60 per cent of the total GDP.

In terms of the World Economic Forum ranking on global competitiveness, China ranks 27 (out of 139 countries) in 2010–11, while the rest of the BRICS economies are placed at 51 (India), 54 (South Africa), 58 (Brazil), and 63 (Russia), respectively. The better rank of China can be attributed to its large market size (2), macro-economic environment (4), and innovation (26). The ranks of various indicators of competitiveness suggest that the BRICS have strong and deep markets, the secondary and tertiary industries increased. In Russia, there are measures to implement the National Project in agro-industrial complex. Among the BRICS, South Africa has the smallest share of agriculture in GDP, at around 3 per cent and its services sector accounts for more than 60 per cent of the total GDP (Table 5).

Though these economies are better placed demographically than advanced countries, a decline in the working age population is expected to take place at a faster pace in some of the BRICS countries. At present, the population in the age group of 0 to 14 years is the highest in India (32.1 per cent), followed by Brazil (27.9 per cent), China (21.4 per cent), and Russia (15.3 per cent). It is expected that the average age of the population in India will decline, before it begins to rise

Table 5

Growth Rate of Gross Domestic Product⁹

	(per cent)							
	1991–2002	2002	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7	8	9
BRICS								
Brazil	2.6	2.7	3.2	4.0	6.1	5.2	-0.6	7.5P
Russia	–	4.7	6.4	8.2	8.5	5.2	-7.8	4.0P
India	5.7	4.6	9.2	9.8	9.4	7.3	5.7	10.4
China	10.3	9.1	10.4	11.6	13.0	9.6	8.7	10.3
South Africa	2.1	3.7	5.3	5.6	5.8	3.7	-1.7	2.8
Advanced Economies								
Euro Area	2.8	1.7	2.7	3	2.8	0.5	-3.2	3.0
USA	2.1	0.9	1.7	3	2.8	0.6	-4.1	1.7
USA	3.5	1.8	3.1	2.7	2.1	0.4	-2.4	2.8
World	3.2	2.9	4.5	5.1	5.2	3.0	-0.6	5.0

⁹ http://unctad.org/en/PublicationsLibrary/osgdp20141_en.pdf

after 25 years. According to projections by the United Nations, the median age in India will cross 30 only by 2025 and will remain at around 35 until 2040. In 2020, the average Indian will be only 29 years old, compared with the average age of 37 years in China and the US, 45 years in Western Europe and 48 years in Japan.

Table 6

Gross Domestic Investment and Savings¹⁰

		(per cent to GDP)							
Country		2005	2007	2009	2010	2011	2012	2013	2014
1		2	3	4	5	6	7	8	9
Brazil	Investment	20.2	18	18.3	16.8	18.3	20.7	16.5	19.3
	Saving	21.4	16.5	16.5	19.7	18.8	18.4	16.1	17.0
Russia	Investment	–	25.4	18.7	21.4	24.1	26.2	22.7	19.8
	Saving	–	28.8	38.7	34.1	33.2	34.9	33	24.7
India	Investment	24.2	26.6	24.2	36	37.6	35.6	34.5	37.9
	Saving	22.7	25.4	23.2	32.9	33.5	30.2	29.8	34.7
China	Investment	36.1	41.9	35.1	43.6	41.7	42.5	44.8	48.8
	Saving	39.6	44.1	37.5	51.3	50.5	50.2	54.2	54.0
South Africa	Investment	–	18.2	15.9	19.7	21.3	22.0	19.4	21.7
	Saving	19.1	16.5	15.8	14.4	14.1	14.9	15.4	20.0

As projected, China’s population would peak at around 1.5 billion in the beginning of 2030s and decline slowly afterwards. According to government estimates, the population of India is expected to increase from 1,029 million to 1,400 million during the period 2001–26, which is an increase of 36 per cent in 25 years at the rate of 1.2 per cent annually.

According to 2010 data, India has an urbanization rate of less than 30 per cent, and China’s a little more than 40 per cent, while Russia’s and Brazil’s rates are 73 and 85 per cent, respectively.

¹⁰ Source: <http://blogs.worldbank.org/developmenttalk/capital-flows-to-developing-countries-bric>

Table 7**Rank on Global Competitiveness Index (GCI), 2013-14¹¹**

Country	Global Competitive Index	Infrastructure	Macroeconomic Environment	Higher Education and Training	Market Size	Business Sophistication	Innovation
1	2	3	4	5	6	7	8
Brazil	58	62	111	58	10	31	42
Russia	63	47	79	50	8	101	57
India	51	86	73	85	4	44	39
China	27	50	4	60	2	41	26
South Africa	54	63	43	75	25	38	44

In the case of South Africa, about 61.7 per cent of the population lives in urban areas. Judging from these data, it is evident that China and India still have much room for urbanization, which will become an engine for their future growth. South Africa's fertility rate has declined over the past decade due to rapid urbanization and the high prevalence of HIV/AIDS.

The BRICS economies have to work together to improve living conditions for their populations and the quality of social services. Various social sector indicators suggest that there is a large scope for improvement in all the BRICS economies (Table 8). Among the BRICS, the Russian Federation ranks highest (71st out of 169 countries) in terms of the Human Development Index (HDI, 2010), while South Africa (129th) and India (134th) are ranked the lowest.

South Africa has fairly high adult literacy rates (per cent of population 15 years and older) for both males (88.9 per cent) and females (87.2 per cent) (HDI, average for 1999–2007). Better quality healthcare provision has reduced infant mortality in Brazil (from 47 per 1,000 live births in 1990 to 22.5 in 2009), contributing to an improvement in the well-being of the Brazilian population, which is somewhat witnessed in Russia as well.

¹¹ Source: Global Competitiveness Report 2013–14, World Economic Forum

Table 8**Social Sector Indicators, 2007¹²**

	Brazil	Russia	India	China	SA
1	2	3	4	5	6
Human Development Index (HDI, 2007)					
HDI Rank	75	71	134	92	129
Adult Literacy (per cent of 15 yrs and above during 1999–2007)					
Male	89.8	99.7	76.9	96.5	88.9
Female	90.2	99.4	54.5	90	87.2
Child-related Indicators					
Gross Enrolment Ratio (2007)	87.2	81.9	68.7	61.0	76.8
Children under Age 0–5 yrs (during 2000–6)	6	3	46	7	12
Population below Income					
National Poverty Line	21.5	19.6	28.6	2.8	–
Population not Using Improved Water Supply (2006)	9	3	11	12	7
Life Expectancy (yrs)					
Male	68.6	59.9	62.0	71.3	53.2
Female	75.9	72.9	64.9	74.7	49.8
Inequality Measures					
Richest 10 per cent to Poorest 10 per cent	40.6	11	8.6	13.2	35.1
Gini Index	55.0	37.5	36.8	41.5	57.8

Furthermore, the linking of the Muslim world to BRICS and the integration into it of such key Muslim countries as Iran, Syria, Malaysia and Turkey; Synchronization of international politics decision-making within BRICS; Efforts to include an overhaul of global organizations, for example, to recognize to UN Security Council so as to ensure that the world's civilizations are represented in it on a permanent basis; The establishment of a BRICS common market and economic coordination zone; The creation of a BRICS shared security framework; The BRICS group is rapidly consolidating and becoming a force to reckon with in global governance. The March 2012 BRICS Summit in India also completed the hosting cycle of the original BRIC members and, with South Africa hosting the

¹² Source: United Nations Development Programme, Human Development Report, 2013.

next BRICS summit in 2013, the hosting cycle will be complete for the entire group. If anything, this milestone is an indication of the group's staying power.

The 2012 BRICS summit, which was held under the theme of 'BRICS Partnership for Global Stability, Security and Prosperity', emphasized co-operation among BRICS countries on various economic and development issues, including trade and investment, food security, sustainable development and energy, health, terrorism, science, development, and technology and innovation, in addition to the global financial and economic management agenda. This was in acknowledgement of common development issues and concerns faced by BRICS countries, and signifies a concerted effort towards a co-operative approach to development in the BRICS countries and regions.

1.3. Summary

The BRIC acronym, which stands for Brazil, Russia, India and China, originated in a Goldman Sachs paper – Building Better Global Economic BRICs– as part of an economic modeling exercise to forecast global economic trends over the next half-century. The main finding was that the BRIC countries collectively would play an increasingly important role in the global economy. Another paper by Goldman Sachs in 2003 – Dreaming with BRICs: The Path to 2050– concretized the earlier findings. It predicted that over the next 50 years, the BRIC economies could become a major force in the world economy, and that by 2050 the only industrialized/developed economies among the six-largest global economies would be the US and Japan in US dollar terms.

The emerging dynamics over the last decade tend to support the predictions. Starting with a share of a little over 10% in world gross domestic product (GDP) and less than 4% in world trade in 1990, BRICS (with the recent inclusion of South Africa to the forum) now constitutes about 25% of world GDP and 15% of world trade. The increase in GDP implies that the economic size of BRICS in terms of its

share in world GDP has expanded by 150% in the past two decades. In addition, all the BRICS countries are now members of major international and multilateral institutions, such as the World Trade Organization, the UN, the Group of 20 (G-20) and the UN Framework Convention on Climate Change, and are very active participants therein.

There are various other indicators, such as trends in inflows and outflows of foreign direct investment, trade openness, current account balance, forex reserves and economically active labor forces, that could make BRICS a formidable force to reckon with in future. One example of the group's importance to the world economy was reflected by the collective pledge of the BRICS countries to contribute a huge \$75 billion at the 2012 G-20 Summit in Los Cabos, Mexico, towards preventing the contagion of the Euro zone crisis into the global market.

CHAPTER II. BRICS: IMPORTANCE IN THE WORLD AND ITS EFFECTS ON GLOBAL ISSUES

2.1. What the BRICS GDP, trade and investment mean to the world economy

The recent global financial crisis that engulfed almost all economies marked a painful adjustment at the macro level coupled with micro-level distortions and incentives created by past policy actions. This included excessive leverage combined with inadequate regulation, lack of appropriate financial supervision, flawed credit ratings, and failure to appropriately identify the build-up of risks associated with financial innovations. The low interest rate regime, which was the result of an accommodative monetary policy, led to debt levels acquiring unsustainable proportions. The global savings glut combined with aggressive marketing by housing finance institutions and under-pricing of risks fuelled the build-up of sub-prime mortgages.

Thus, a number of micro- and macro-economic factors have been listed in the literature as the proximate causes of the crisis—the role of easy money, financial innovations, and regulatory loopholes¹³.

The intensification of the financial crisis in September 2008 caused an abrupt increase in uncertainty and led to a downward reassessment of wealth and income prospects. These developments, in turn, prompted households to postpone spending on most durables, even though falling commodity prices helped boost real disposable income.

¹³ FICCI (Federation of Indian Chambers of Commerce), 'Skills Development: Sector Profile', http://www.ficci.com/sector/74/Project_docs/SectorProfile.pdf.

This drop in demand and dearth of credit set off an unprecedented collapse of real economic activity, sending a feedback loop to the stressed financial sector. As a result, average growth in 2008 slowed by almost similar magnitudes in advanced and emerging economies, with some differentiation because of country-specific circumstances.

Global trade linkages and financial integration led to the rapid trans-mission of shocks from the US and Europe to the rest of the world. The impact of the crisis was felt in almost all the economies of the world to varying degrees. The crisis spread to the BRICS through all four channels—trade, finance, commodity, and confidence channels. The slump in export demand and tighter trade credit caused a deceleration in aggregate demand. The reversal of capital flows led to equity market losses and currency depreciations, resulting in lower external credit flows.

During the initial phase of the crisis, the financial shock was transmitted to the real economy, primarily through the equity price channel and, in a more differentiated fashion, through the credit channel. The shock to international confidence had an immediate and sharp effect on capital flows to emerging markets, as investors reassessed risks and global capital flows collapsed. In addition to poor confidence and wealth effects, the fall in equity prices led to a rise the cost of capital and dampened investment confidence. In terms of real linkages, the collapse in demand from advanced economies was transmitted through the integrated supply chain to developing economies, with dramatic effects on trade in these countries.

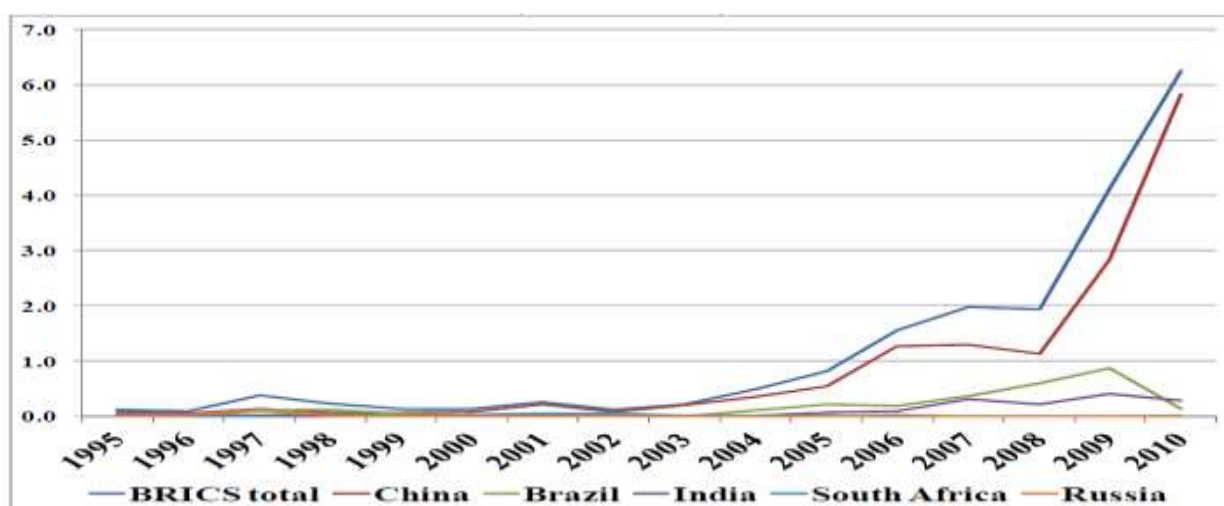
As could be seen, linkages of BRICS with developing countries in general and LICs in particular have intensified over the last decade through various forms of cooperation and support. The question is now, as to what extent this liaison has helped developing countries to make progress in economic and general terms. In the following, this subject is going to be analyzed in respect of economic growth and debt sustainability, two key drivers of economic stability and future development.

By and large, there are remarkable spillovers and positive impacts through BRICS' engagement, especially regarding trade. Trade, FDI and development financing have not only contributed to LICs' economic development but also lessened the effects of the recent financial crisis on LICs. However, many LICs still rely too much on exports of primary commodities and are in need of diversification and improved technologies for their industries.

The World Bank's Global Development Finance lists the BRICS in its statistical data bank as developing debtor countries and – except for South Africa – they can all be found in the TOP 5 borrowers¹⁴. With an external total debt stock of USD 1,615.7 billion in 2010, the BRICS together “accounted for almost 40 % of the end 2010 external debt stock owed by all developing countries” (GDF 2012: 2).

Figure 1

Total loan disbursements from BRICS to SSA 1995 – 2010 (USD billion)¹⁵



¹⁴ China accounts for 13.5 % of total debt stocks of all developing countries, the Russian Federation for 9.4 %, Brazil 8.5 % and India 7.1 % (while South Africa only accounts for 1,1 %). If not otherwise stated these and all other debt related data in this chapter are drawn from the World Bank Global Development Finance at www.databank.worldbank.org.

¹⁵http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/11/05/000333037_20131105144946/Rendered/PDF/823960BRI0Find00Box379863B00PUBLIC0.pdf.

However, especially China, but also other BRICS have incurred enormous amounts of international reserves over recent years. Except for Brazil (83.2 % of external debt stock) and South Africa (97.0 %) this amount surpasses the external debt stock, and in the case of China even more than five times (531.2 %). Also related to GNI, none of the BRICS is severely indebted with the indicators ranging from 9.3 % (China) to 26.9 % (Russian Federation).

Although BRICS play an increasingly important role as providers of development finance, financial flows are generally (still) much smaller than OECD countries' financing, however, it tends to be less concessional. Debt creating flows from BRICS to SSA, for instance, have risen dramatically: Total loan disbursements from BRICS to SSA grew by an average of 60 % annually over the period 2000-10, reaching over USD 6 billion in 2010.

However, so far there are very few examples of BRICS financing creating debt sustainability problems. In the case of Bhutan, for instance, partly loan financed investment in hydropower projects (by India) is seen as unproblematic as the prospective rate of return is seen as increasing repayment capacities (IMF 2009). In Mozambique, where two non-concessional loans were signed with China and Brazil for infrastructure projects, amounts are fairly small but still raise some concerns that this form of financing needs to be used more productively than in the past (IMF 2011f). A case in point is certainly Zimbabwe, currently classified as being in debt distress, where the government agreed upon non-concessional loans with China amounting to USD 566 million (IMF 2011g). However, Zimbabwe has not yet received debt relief under the respective frameworks (the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative), and it is likely that China will take its share if conditions are met for debt relief in the future.

Over the years BRICS has emerged as a very important group in terms of many economic and demographic parameters. BRICS now constitutes the fastest-growing and largest emerging-markets economies. They account for almost three billion people, or just under half of the world's total population. Their increasing share in GDP, FDI, and trends in economically active population might have a huge impact in shaping future economic and political world dynamics.

There are a number of projections indicating that it is only a matter of time before China becomes the biggest economy in the world. The general consensus is that this is likely to occur between 2030 and 2050. The Goldman Sachs paper clearly indicates that by 2050 the BRICS countries will become the world's most important economies, replacing the US as the biggest economy.

If the present trend in growth of GDP, FDI inflows–outflows and the increasing importance of these countries in reshaping international trade relations continues, the prediction made by Goldman Sachs and other economists could be realized. Possibly as early as 2020, all of the BRICS could be trending towards the top 10-largest economies in the world.

The growing importance of BRICS can be understood from what many economic thinkers believe about the recent European crisis: growth in BRICS countries is far more critical for global economic health than the fate of Greece, as BRICS gains could easily counterbalance losses from Europe's crisis. Data indicates that China creates an economy equivalent to Greece every 11-and-a-half weeks. Further, China's GDP totalled \$7.26 trillion in 2011 and is set to surpass the world's largest economy, the US, by 2016, according to a forecast by the IMF. In 2011 the combined dollar GDP of the four BRIC countries (minus South Africa) increased by 2.1 trillion dollars. This is equivalent to creating an economy the size of Italy every 15 months, making the group the most important in the world economy.

In all likelihood, if the present trend continues, the BRICS countries will become an increasingly significant group in the coming years. Their emergence might require the establishment of a new world economic and political order, and might lead to enhanced engagement with other groups such as the Organization for Economic Co-operation and Development (OECD) for advancing mutually beneficial discussions. This will also be needed for improving economic environments and to ensure a global level playing field for business.

Because of their economic importance, the BRICS countries could be the main focus of the OECD. This could be achieved, economists believe, by working together, and carving out the future economic order. At the sectoral level, it is being argued that whereas China will dominate in manufactured goods, India will control services, and Russia and Brazil raw material supplies. South Africa, on the other hand, could emerge as a very important mineral supplier within and outside BRICS – a study by the US-based Citigroup bank recognizes South Africa as the world’s richest country in terms of its mineral reserves, worth an estimated \$2.5 trillion. South Africa is already the world’s largest producer of platinum, chrome, vanadium and manganese, the third-largest gold miner, and offers highly sophisticated mining-related professional services.

Table 9

GDP in BRICS countries 2012/13¹⁶

	2012 \$ (bln)	2013 \$ (bln)	Growth \$ (bln)	%	% of Total GDP
China	8229.49	9240.27	1010.78	12.28	58.44
Brazil	2248.78	2245.673	-3.107	-0.13	14.20
Russia	2017.47	2096.777	79.307	3.93	13.26
India	1858.744	1876.797	18.053	0.97	11.87
South Africa	382.337	350.63	-31.707	-8.29	2.21
	14736.821	15810.147	1073.326	7.28	100

¹⁶ <http://www.reinisfischer.com/gdp-brics-countries-2013>

Over the years BRICS has emerged as a very important group in terms of many economic and demographic parameters. BRICS now constitutes the fastest-growing and largest emerging-markets economies. They account for almost three billion people, or just under half of the world's total population. Their increasing share in GDP, FDI, and trends in economically active population might have a huge impact in shaping future economic and political world dynamics.

There are a number of projections indicating that it is only a matter of time before China becomes the biggest economy in the world. The general consensus is that this is likely to occur between 2030 and 2050. The Goldman Sachs paper clearly indicates that by 2050 the BRICS countries will become the world's most important economies, replacing the US as the biggest economy. If the present trend in growth of GDP, FDI inflows–outflows and the increasing importance of these countries in reshaping international trade relations continues, the prediction made by Goldman Sachs and other economists could be realized. Possibly as early as 2020, all of the BRICS could be trending towards the top 10-largest economies.

The growing importance of BRICS can be understood from what many economic thinkers believe about the recent European crisis: growth in BRICS countries is far more critical for global economic health than the fate of Greece, as BRICS gains could easily counterbalance losses from Europe's crisis.¹⁷ Data indicates that China creates an economy equivalent to Greece every 11-and-a-half weeks. Further, China's GDP totaled \$7.26 trillion in 2011 and is set to surpass the world's largest economy, the US, by 2016, according to a forecast by the IMF¹⁸.

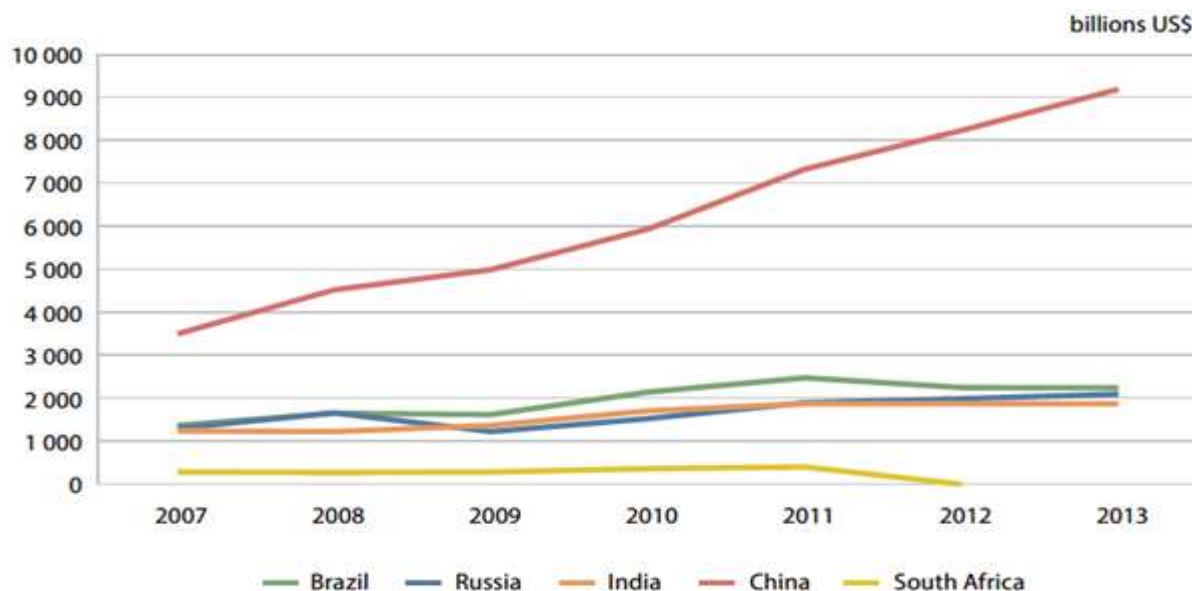
In 2011 the combined dollar GDP of the four BRIC countries (minus South Africa) increased by 2.1 trillion dollars. This is equivalent to creating an economy the size of Italy every 15 months, making the group the most important in the world economy.

¹⁷ Jim O'Neill from Goldman Sachs: RT, 'Global economy needs BRICS, Greece 'dispensable'', 23 May 2012, <http://rt.com/business/news/china-brics-greece-growth-949>.

¹⁸ IMF, World Economic Outlook 2011. Washington, DC: IMF, 2011.

Figure 2

Gross Domestic Product - GDP - 2007-2013¹⁹



In all likelihood, if the present trend continues, the BRICS countries will become an increasingly significant group in the coming years. Their emergence might require the establishment of a new world economic and political order, and might lead to enhanced engagement with other groups such as the Organization for Economic Cooperation and Development (OECD) for advancing mutually beneficial discussions. This will also be needed for improving economic environments and to ensure a global level playing field for business.

Because of their economic importance, the BRICS countries could be the main focus of the OECD. This could be achieved, economists believe, by working together, and carving out the future economic order. At the sectoral level, it is being argued that whereas China will dominate in manufactured goods, India will control services, and Russia and Brazil raw material supplies. South Africa, on the other hand, could emerge as a very important mineral supplier within and outside

¹⁹ Source: Summary Table of Chapter 4, BRICS Joint Statistical Publication 2014

BRICS – a study by the US-based Citigroup bank recognizes South Africa as the world’s richest country in terms of its mineral reserves, worth an estimated \$2.5 trillion. South Africa is already the world’s largest producer of platinum, chrome, vanadium and manganese, the third-largest gold miner, and offers highly sophisticated mining-related professional services.

The fast-growing middle class in the BRICS countries has encouraged the expansion of trade among the BRICS countries, facilitating the radical transformation of global trade where significant trade volumes are bypassing the Western markets. Trade among developing countries generally is increasing at a fast pace. Among the BRICS in particular it has grown significantly, with China as the driver of this trade. Nevertheless, beyond the bilateral relationships with China, trade and investment linkages among the BRICS countries are fragile and disjointed. The BRICS summit meetings have reiterated the importance of increased intra-BRICS trade and investment to facilitate growth and development of the BRICS economies as well as the world economy. The history of trade co-

operation among all the BRICS countries is relatively weak and, given the nature of their bilateral relations, improving on this state of affairs will be a tall order. Despite a fast growth rate in intra-BRIC trade, this has been mostly in the form of Russia, Brazil and South Africa supplying commodities to China and India, more so to China than India, while China is major exporter of manufactures to all the other BRICS.

2.2. BRICS share of global trade

Global integration of most of the emerging market economies, in general, and the BRICS in particular, gained momentum in the 1990s, mainly on account of the structural adjustments adopted by these economies. The financial sector developments in these economies enhanced trade and capital flows along with

increased technology transfers and mobility of labor. Increased global integration is highly visible in terms of the openness of the BRICS economies through higher share in global trade and other financial flows, which enhanced the growth potentials of these economies.

Integration changed the course of development of the BRICS economies through active management of their external liabilities and assets across segments. This resulted in minimizing external sector vulnerabilities, which helped the BRICS economies withstand the recent global financial crisis and its aftershocks. 1990s, mainly on account of the structural adjustments adopted by these economies. The financial sector developments in these economies enhanced trade and capital flows along with increased technology transfers and mobility of labor.

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Table 11

BRICS Share of Global Trade²⁰

	(per cent)						
	2000	2005	2008	2010	2011	2012	2013
BRICS	3.6	6.0	7.0	11.2	13.6	13.7	15.0
Brazil	0.8	0.8	0.8	1.0	1.1	1.1	1.2
Russia	–	1.5	1.4	2.1	2.6	2.2	2.3
India	0.5	0.6	0.7	1.2	1.5	1.6	1.8
China	1.6	2.6	3.5	6.4	7.9	8.3	9.2
South Africa	0.6	0.5	0.5	0.5	0.5	0.5	0.5

²⁰ The Bricks Report, First Edition YMCA Library Building, 1 Jai Singh Road, New Delhi 110 001, India, 2014

Integration changed the course of development of the BRICS economies through active management of their external liabilities and assets across segments. This resulted in minimizing external sector vulnerabilities, which helped the BRICS economies withstand the recent global financial crisis and its aftershocks.

BRICS exports, all the BRICS economies maintained persistent trends of rising share of exports in GDP, reflecting the structural transitions witnessed by these economies in exploring avenues for exports based on comparative advantage and supported by productivity gains (Table 12).

The composition of BRICS exports changed drastically over the past two decades due to structural changes across the sectors of these economies during the period. Though the BRICS are still known for exports of natural resources, these economies moved from being exporters of primary products to exporters of manufactured products. Likewise, their export destinations have undergone dramatic changes in response to globalization and liberalization which, in turn, helped the BRICS increase their share in global trade (Table 13).

Table 12

BRICS Exports of Goods and Services²¹

Country	(per cent of GDP)						
	2000	2005	2008	2010	2011	2012	2013
Brazil	6.9	6.8	10.1	15.1	13.8	11.3	11.2
Russia	–	29.8	44.3	35.2	31.5	28.2	30.3
India	6.9	10.2	12.3	18.8	23.7	20.1	21.7
China	17.4	23.1	23.3	37.1	34.9	26.7	29.5
South Africa	24.3	22.8	27.8	27.4	35.9	27.7	27.9

²¹ BRICS : joint statistical publication : 2014 ; Brazil, Russia, India, China, South Africa /IBGE. - Rio de Janeiro : 2014

It is apparently obvious from the table Russia and china the most dominant countries among the BRICS over the 13 years.

Table 13

BRICS Share in World Exports²²

	2000	2005	2008	2010	2011	2012	2013
BRICS	3.9	6.5	7.5	12.2	14.8	15.1	16.3
Brazil	0.9	0.9	0.9	1.1	1.2	1.2	1.3
Russia	–	1.6	1.6	2.3	2.9	2.4	2.6
India	0.5	0.6	0.7	0.9	1.2	1.3	1.4
China	1.8	2.9	3.9	7.3	8.9	9.6	10.4
South Africa	0.7	0.6	0.5	0.5	0.5	0.5	0.6

Despite the fact that all the BRICS economies having significant human capital endowments, the difference in their resource endowments are reflected in their export baskets. For instance, manufactures account for 93.6 per cent of total merchandise exports from China in contrast to 66.0 and 51.8 per cent from India and South Africa, respectively while it is 38.0 per cent of Brazilian exports and 21.1 per cent of Russian exports. Russia’s export basket is dominated by fuel and mining exports (nearly 70 per cent), while agriculture products, fuel, and mining products account for nearly 60 per cent of exports from Brazil. South Africa’s emergence has coincided with the rise of other emerging markets in Africa. The demand for South Africa’s manufactured commodities (nearly 51.8 per cent) have boosted the countries exports and, subsequently, economic growth.

²² United Nations Conference on Trade and Development, <http://unctad.org/en/PublicationsLibrary/osgdp20141>

Table 14**BRICS Exports Profile, 2014²³**

Country	Merchandise Exports (US\$ billion)	Share in World Total Exports	Share by Commodity			Share by Destination				
			Agricultural Products	Fuels and Mining Products	Manufactures	7	8	9	10	11
1	2	3	4	5	6	7	8	9	10	11
Brazil	153.0	1.2	37.7	21.3	38.0	EU (22.3)	China (13.2)	US (10.3)	Argentina (8.4)	Japan (2.8)
Russia*	303.4	2.5	6.9	69.0	21.1	EU (52.7)	Belarus (5.5)	China (5.5)	Turkey (5.4)	Ukraine (4.6)
India	164.9	1.3	10.2	20.6	66.0	EU (20.5)	UAE (14.4)	US (10.8)	China (5.9)	Hong Kong SAR, China (4.0)
China	1,201.6	9.6	3.4	2.9	93.6	EU (19.7)	US (18.4)	Hong Kong SAR, China (13.8)	Japan (8.1)	Rep. Korea (4.5)
South Africa	61.7	0.5	10.7	34.8	51.8	EU (26.5)	China (10.5)	US (9.0)	Japan (7.6)	Switzerland (4.2)

Structural developments across sectors in BRICS economies during the past two decades are more visible in technological developments, which may also be responsible for the changes in the composition and destination of BRICS exports. This is revealed by the share of high-technology goods in the export baskets, which have registered an increasing trend (Table 15).

Table 15**High-technology Exports (per cent of Manufacturing Exports)²⁴**

Country	2000	2005	2008	2010	2011	2012	2013
1	2	3	4	5	6	7	8
Brazil	7.1	4.8	18.6	12.8	11.9	12.0	13.9
China	–	–	17.2	8.1	6.9	6.5	9.3
India	2.4	4.3	4.8	4.7	5.3	5.7	8.6
Russia	–	10.5	18.6	30.6	29.7	28.7	31.0
South Africa	–	5.7	7.0	6.6	5.7	5.2	5.6

²³ Source of statistics: The Bricks Report, First Edition YMCA Library Building, 1 Jai Singh Road, New Delhi 110 001, India, 2014

²⁴ Source: <http://blogs.worldbank.org/developmenttalk/capital-flows-to-developing-countries-bric-where-the-action>

Increased technology-intensive investments and a higher supply of human resources propelled growth in the services sector, which, in turn, led to higher productivity in the BRICS economies. Among the exports of invisibles, the share of services exhibited significant improvement in almost all the BRICS economies (Table 16). It is clear that China the most developed and popular country with high technology in the world. However, the most high number high technologies exported from the Russia among the five well developed countries (BRICS).

BRICS imports, as fast-growing economies, the import demand from these economies now plays a catalytic role in the global growth process. The overview of BRICS diversification in the composition of exports from primary to manufactured products, mostly in the form of value additions, requires large imports. As the accentuation of foreign trade relations of BRICS varies from that of the EU there are a number of challenges for EU trade policies. For instance, China sets different priorities with regard to human rights and governance issues in their trade relations.

Table 16

BRICS Share of World Exports of Services²⁵

	(per cent)						
	2000	2005	2008	2010	2011	2012	2013
BRICS	2.1	3.8	4.7	7.0	8.8	8.7	9.8
Brazil	0.5	0.5	0.6	0.6	0.8	0.8	0.9
Russia	–	0.9	0.6	1.0	1.3	1.2	1.2
India	0.6	0.6	1.1	2.0	2.7	2.6	3.1
China	0.7	1.6	2.0	2.9	3.7	3.7	4.2
South Africa	0.4	0.4	0.3	0.4	0.3	0.3	0.4

²⁵ Source: United Nations Conference on Trade and Development, <http://unctad.org/en/PublicationsLibrary/osgdp20141>

This can have implications for EU efforts to establish Economic Partnership Agreements (EPA) or Free Trade Agreements as well as the efforts to interact with regional blocs, as partner countries have more trade options. Brazil, on the other hand, complies more with EU-development concerns of human rights and democracy, and therefore can be a valuable partner of the EU to help addressing these aspects in Latin America. Overall, EU trade policies need to consider more strongly the increasing relevance of BRICS as global actors. In order to find solutions to this dilemma, the EU should be constructive in appreciating the increasing influence of BRICS in their trade relations with development countries and emphasize common ideas and goals in respective argue. The major chunk of BRICS economies' import basket consists of capital goods, indicating the process of large-scale industrialization in these economies which is also reflected in their changed composition of commodity exports.

Table 17

Imports of Goods and Services²⁶

Country	(per cent of GDP)						
	2000	2005	2008	2010	2011	2012	2013
1	2	3	4	5	6	7	8
Brazil	5.6	8.2	11.0	10.8	13.0	10.6	11.4
Russia	–	26.7	23.7	21.7	22.3	20.9	22.1
India	8.5	11.5	13.9	22.1	30.5	25.0	26.4
China	13.7	20.2	20.3	30.6	26.5	21.7	24.9
South Africa	18.6	22.8	25.3	28.9	38.3	29.4	24.9
BRICS: Share in World Imports							
BRICS	3.3	6.1	6.2	10.0	12.5	13.3	14.8
Brazil	0.6	1.0	0.9	0.7	1.1	1.1	1.3
Russia	–	1.3	0.7	1.3	2.0	1.7	1.8
India	0.7	0.7	0.8	1.3	2.0	2.0	2.1
China	1.5	2.5	3.4	6.1	6.9	8.0	9.1
South Africa	0.5	0.6	0.5	0.6	0.6	0.6	0.5

²⁶ Source: United Nations Conference on Trade and Development, <http://unctad.org/en/PublicationsLibrary/osgdp20141>

The BRICS' imports of services have also grown, reflecting the increasingly broad-based nature of growth achieved by these economies over the past decades. As in the case of demand for commodity imports, large-scale industrialization and the increased emphasis on exports encouraged a high demand for services. Besides, the improved living standards of the middle class of these economies have driven the import demand of services to a greater extent. Despite a significant rise in the share of exports among intra-BRICS economies, there is scope for increased trade among these countries, which underlines the need to increase the South-to-South trade matrix.

Table 18

BRICS Share of World Imports of Services²⁷

	2000	2005	2008	2010	2011	2012	2013
BRICS	2.5	6.0	6.1	8.4	10.5	11.0	12.5
Brazil	0.9	1.1	1.1	1.0	1.3	1.4	1.8
Russia	–	1.6	1.1	1.6	2.0	1.9	2.0
India	0.7	0.8	1.2	1.9	2.4	2.5	3.1
China	0.5	2.0	2.3	3.4	4.3	4.8	5.1
South Africa	0.4	0.5	0.4	0.5	0.5	0.4	0.5

India and China are some of the largest consumers in the world, particularly of oil and other raw materials, while Russia, Brazil, and South Africa are some of the largest suppliers of metal, oil, and other natural resources. Hence, there is a need to identify further economic linkages among these countries through trade and investment promotion channels. Remittance flows to developing countries reached US\$ 316 billion in 2009, which is a decline of 6 per cent from the US\$ 336 billion recorded in 2008, reflecting the effect of the global financial crisis on remittances.

²⁷ Source: The Bricks Report, First Edition YMCA Library Building, 1 Jai Singh Road, New Delhi 110 001, India, 2014

The contribution of private transfers in the BRICS also varies widely among member countries. India and China remain as the top two recipients of global remittances in 2009, with US\$ 49 billion and US\$ 48 billion, respectively. For India, with an increasing current account deficit, remittances play a cushioning role. Russia tops the list of emerging market economies in terms of money transfer outflows; calculated on the basis of balance of payments data, the value of remittances from Russia in 2009 stood at US\$ 19 billion, or 7 per cent of the world's total remittances. Unlike other private capital flows, remittances maintained a consistent increasing trend at least in the cases of India and China, while it showed a declining trend in Russia and Brazil (Table 19).

Table 19

BRICS Share in Global Remittance Inflows²⁸

	2000	2005	2008	2010	2011	2012	Remittances to GDP Ratio (per cent)
Brazil	0.8	3.3	1.2	1.3	1.1	1.1	0.3
Russia	0.0	2.5	1.0	1.1	1.2	1.4	0.4
India	3.5	6.1	9.8	8.1	9.7	11.3	3.9
China	0.3	0.9	4.0	8.8	10.1	10.9	1.0
South Africa	0.2	0.1	0.3	0.2	0.2	0.2	0.3

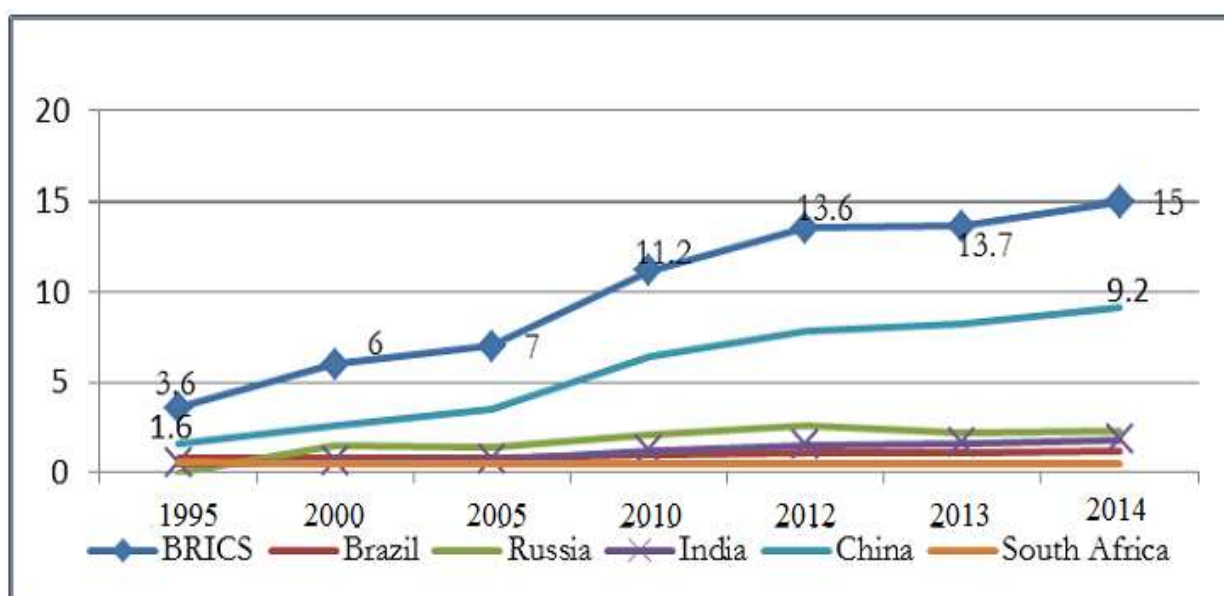
There has been a marked increase in the magnitude of net private capital flows into the BRICS economies. Global as well as emerging domestic factors contributed to an increase in capital inflows. Global factors include excess liquidity and a low interest rate regime followed in the industrialized countries along with an improvement in the risk perception towards EMEs and the urge for higher yields.

²⁸ <http://blogs.worldbank.org/developmenttalk/bric-spillovers-helped-low-income-countries-withstand-crisis>

This encouraged the shifting of the direction of global capital flows in favor of EMEs, complicating macroeconomic management in some cases. As in the case of their share in world GDP, the BRICS share in world trade has also improved significantly over the last two decades, from 3.6% to over 15%. The primary contribution to this in terms of value has come from China, whose share has increased from less than 2% to over 9%.

Figure 5

Trend in BRICS share in global trade (%), 1995–2014²⁹



This is, however, not to argue that other BRICS countries have not contributed. Their shares have also increased, with Brazil's share rising from 0.8% to 1.2%; Russia's from 1.5% to 2.3%; and India's from 0.5% to 1.8%. South Africa is the only country in the group whose share in world trade has remained constant over the last two decades.

Trade appears to have played a significant role in boosting the economic growth prospects of these countries. There is evidence to suggest that trade liberalization

²⁹ Source: UNCTAD, adapted from The BRICS Report 2015. India: Oxford University Press, 2015.

has been seen and used as a tool for promoting economic growth and facilitating development in all the BRICS countries.

BRICS countries have become more open, reflected by indicators such as trends in trade openness, 6 current account balance and forex reserves, among others. In most of these parameters, BRICS countries have performed reasonably well, as reflected by the rising GDP and forex reserves, increasing share in global trade, and trade openness augurs well for the group as a whole.

Table20

Global integration and evolution of BRICS economies³⁰

<i>Indicators</i>	<i>Year</i>	<i>BRICS economies</i>				
		<i>Brazil</i>	<i>Russia</i>	<i>India</i>	<i>China</i>	<i>South Africa</i>
Trade openness	1995	6.9	–	6.9	17.4	24.3
	2014	11.2	30.3	21.7	29.5	27.9
Current account balance (% of GDP)	1995	0.8	–	–1.2	1.3	1.4
	2014	–2.3	4.9	–3.2	5.2	–2.8
Forex reserves (% of GDP)	1995	1.5	0	0.5	7.6	0.9
	2014	13.7	30.4	18	48.8	10.7
External debt (\$ bn)	1995	119.7	–	85.7	55.3	23.3
	2014	276.9	381.3	237.7	428.4	42.1
Debt service ratio	1995	22.5	4.4	34.9	11.7	–
	2014	23.4	17.7	5.9	2.9	9.3

³⁰ Source: IMF, UNCTAD & World Bank, adapted from The BRICS Report 2015. India: Oxford University Press, 2015.

They have bolstered the BRICS economic and political status at the global level and have helped BRICS countries to play a bigger role, as evidenced in the aftermath of the global crisis periods.

However, much still needs to be done in all five BRICS countries. According to the World Bank's annual report, Doing Business 2012, 8Brazil was ranked 126th and Russia 120th out of 183 countries in the Ease of Doing Business. India was ranked the lowest in the group, at 132nd, although when compared with 2011 its position is up by seven places on the list. Two countries that appeared to be doing relatively better are South Africa and China (with 35th and 91st positions respectively).

The report also shows that since last year Russia has climbed up by three positions. This improvement in the country's rating has resulted from a number of reforms implemented in Russia. These include reducing the cost of electricity by revising connection tariffs; eliminating the requirement to obtain cadastral passports on land plots; making it easier to file a commercial case by introducing an electronic case filing system; and making trading across borders easier by reducing the number of documents needed for each export and import transaction, and lowering the associated cost.

2.3. Summary

The BRICS financial institutions will necessarily have to create a different kind of economic and political consensus among the developing societies, transcending past ideological categories. This will be the biggest challenge for the BRICS financial institutions.

The BRICS bank, like the World Bank, is expected to fund much needed physical and social infrastructure in the BRICS countries. The contingency reserve

arrangement will act like the IMF, which provides temporary bail-out funds to economies facing capital flight and currency crisis.

Of course, the IMF also follows a political agenda, such as showing excess generosity to Russia in the early 1990s when it broke away from Communist Soviet Union. BRICS contingency reserve is not expected to display such overt biases.

The BRICS bank could, at a later stage, invite other emerging economies also to become shareholders and widen the ambit of its operations to much of the developing world. South Africa already wants the benefit of a BRICS bank to reach other African countries. Similarly Latin American nations like Mexico and a few others also want to be part of the BRICS story.

In short, BRICS has fired the imagination of the people in a way no other global grouping has in recent times. Though western commentators pooh-poohed the idea of BRICS bank and contingency reserve as a pie in the sky, they are all surprised at the speed with which these institutions have been launched. It appears that expert observers have not been able to grasp the spirit of the times.

The main criticism levelled by sceptics is that the BRICS nations are too disparate to be able to come together in any meaningful way. Actually what makes BRICS really meaningful is the presence of China and India, the two most populous nations in the world, who will really decide the nature and trajectory of world growth in the next 30 to 40 years. This is so logical as to not require even a debate. So if China and India are critical to how the world economy shapes up in the coming decades, it stands to reason that BRICS could play a role in driving a consensus around issues like climate change, nature of future consumption, world trade and use of appropriate technology etc.

This will become even more potent when other developing countries rally around BRICS whose nations are already playing a key role as a pressure group on the sidelines of the World Trade Organization and climate change negotiations.

A top Prime Minister's Office official told me some time ago that the BRICS bank has particular relevance for economic cooperation between India and China. He argued that the Indian establishment was still hesitant to directly deal with China because of the legacy of past suspicion and bitterness between the two nations.

However, such business interaction can be pushed through financial institutions like the BRICS bank. For instance, if there is a temporary attack on the Indian currency, it can now take the help of the reserve fund in which China has 40 per cent contribution. In normal circumstances, the Indian establishment may feel constrained to directly seek help from China. A more robust engagement between India and China could occur via these new platforms.

Also, even as the BRICS financial institutions eventually expand their catchment area to other developing economies, they will at the core serve as a conduit of meaningful interaction between India and China. This is a less appreciated aspect of BRICS. So critics who talk about the disparate nature of BRICS countries fail to see how it brings India and China much closer, which by itself can have a profound impact on South-South cooperation.

One of the big benefits that flowed to Indian industry from the BRICS deliberation was after the New Delhi summit where it was decided that BRICS economies can do trade in their local currencies instead of dollars. After that the Indian government allowed domestic infrastructure companies to borrow yuan-denominated loans from Chinese banks to pay for massive import of power equipment from China.

At least 25 per cent of our power generation capacity over the next decade is based on Chinese equipment import. This means roughly \$30 billion (about Rs 180,000 crore) of power equipment could be imported from China. The BRICS bank could also offer cheaper loans for such power projects in BRICS countries.

Borrowing from BRICS bank will help India avoid other kinds of politics emanating from the West. For instance, the United States is clearly discouraging the World Bank from lending to coal-based power projects in the populous developing world.

India will be dependent on coal-based power for 50 per cent of its electricity consumption over the next few decades. China's position is similar to that of India's. So the BRICS bank can chart a course different from that of the World Bank in this respect.

Overall, the BRICS institutions will necessarily adopt alternative ways of doing things based on their own cultural and socio economic needs.

CHAPTER III. GLOBAL FINANCIAL CRISIS AND BRICS

3.1. BRICS and its measures in financial crisis

The recent global financial crisis that engulfed almost all economies marked a painful adjustment at the macro level coupled with micro-level distortions and incentives created by past policy actions. This included excessive leverage combined with inadequate regulation, lack of appropriate financial supervision, flawed credit ratings, and failure to appropriately identify the build-up of risks associated with financial innovations. The low interest rate regime, which was the result of an accommodative monetary policy, led to debt levels acquiring unsustainable proportions. The global savings glut combined with aggressive marketing by housing finance institutions and under-pricing of risks fuelled the build-up of sub-prime mortgages. Thus, a number of micro- and macro-economic factors have been listed in the literature as the proximate causes of the crisis—the role of easy money, financial innovations, and regulatory loopholes.

The intensification of the financial crisis in September 2008 caused an abrupt increase in uncertainty and led to a downward reassessment of wealth and income prospects. These developments, in turn, prompted households to postpone spending on most durables, even though falling commodity prices helped boost real disposable income. This drop in demand and dearth of credit set off an unprecedented collapse of real economic activity, sending a feedback loop to the stressed financial sector. As a result, average growth in 2008 slowed by almost similar magnitudes in advanced and emerging economies, with some differentiation because of country-specific circumstances.

Global trade linkages and financial integration led to the rapid trans-mission of shocks from the US and Europe to the rest of the world. The impact of the crisis was felt in almost all the economies of the world to varying degrees. The crisis

spread to the BRICS through all four channels—trade, finance, commodity, and confidence channels. The slump in export demand and tighter trade credit caused a deceleration in aggregate demand. The reversal of capital flows led to equity market losses and currency depreciations, resulting in lower external credit flows. During the initial phase of the crisis, the financial shock was transmitted to the real economy, primarily through the equity price channel and, in a more differentiated fashion, through the credit channel. The shock to international confidence had an immediate and sharp effect on capital flows to emerging markets, as investors reassessed risks and global capital flows collapsed. In addition to poor confidence and wealth effects, the fall in equity prices led to a rise in impact of the financial crisis on BRICS the cost of capital and dampened investment confidence.

In terms of real linkages, the collapse in demand from advanced economies was transmitted through the integrated supply chain to developing economies, with dramatic effects on trade in these countries.

Among the BRICS, the global financial crisis erupted after the collapse of the US-based investment bank Lehman Brothers in September 2008. The banking sectors of the BRICS economies performed relatively well. In Brazil, the local currency and stock market saw huge fluctuations as foreign investment dwindled, demand for commodity exports dried up, and external credit decreased. The external shock did interrupt the accelerated growth path by prompting a slight fall of 0.6 per cent in GDP in 2009. In terms of foreign trade, Brazilian exports reached US\$ 160.6 billion in 2007, about 11.8 per cent of GDP and 1.18 per cent of world exports. In 2009, total Brazilian foreign trade registered a figure of US\$ 281 billion in its flow, a reduction of 24.3 per cent relative to 2008 when US\$ 371 billion was traded. This drop was the direct result of the global financial crisis, which led to a reduction in the international prices of mineral and agricultural commodities and in the overall external demand for goods and services.

In the midst of the crisis, the financial markets in Russia froze due to a rise in risk aversion and significant correction of equity markets since 2007. Sovereign credit default swap (CDS) spreads also jumped by several hundred basis points. The sudden change in exchange rate expectations triggered by the collapse of oil prices in September 2008 led Russian banks and firms to seek to hedge their foreign currency exposures, exacerbating pressures on the rouble. Early in the crisis, the banking system was put under additional stress by deposit out-flows and some bank failures. Several mid-sized banks (Kit Finance, Svyaz Bank, Globex Bank, and Sobinbank).

The fact that a well-developed financial sector is necessary to act as the intermediary between entrepreneurs/investors and savers can hardly be overstated. An efficient financial sector reduces the cost and risk of producing and trading goods and services and, thus, makes an important contribution to raising the standards of living. The recent crisis, however, showed that the financial sector had apparently assumed a quasi-autonomous existence without close connection with the financing requirements of the real economy. The financial industry, indeed, grew oversized in the preceding years as reflected in rapid credit creation, asset price bubbles and high levels of indebtedness, particularly in advanced financial systems. The disproportionate growth in the global financial sector was largely due to the aggressive search for yield, engendered by easy liquidity in the global system that triggered a wave of financial innovations. Complex financial products were created by structuring and hedging, originating and distributing, all under the belief that real value could be created by sheer financial engineering. As mentioned earlier, there were hardly any signs of growing capital formation due to the growing and increasingly complex financial sector.

In short, as a result of the excess liquidity that permeated the global economy, particularly in the US but also in other countries, there was excessive ‘financialization’. The financial sector grew more rapidly than other goods and

services sectors. In a way, that made the growth of finance an end in itself and not a means to meet human needs such as food, fuel, health, and education. Given that the bursting of the oversized financial sector has a devastating impact on the real sector, it becomes important (i) to examine the optimal size of the financial sector relative to growth and development needs and (ii) to make financial sector innovations more meaningful to cater to the needs of the real sector.

The impact of the crisis on the external demand of EMEs has been clearly visible since the last quarter of 2008. In the first instance, the downturn in the US, Europe, and subsequently in Japan was manifested in a sharp contraction in exports from those EMEs that had become the largest exporters to the industrial world. Subsequently, exports of raw and intermediate goods from relatively smaller EMEs to larger EMEs declined. In some commodity-exporting countries, particularly Russia, exports fell by more than 40 per cent in the first quarter of 2009. Since prices fell sharply as world growth slowed, they led to declining incomes in EMEs which, in turn, tended to reduce demand and growth. In view of the adverse impact of the crisis on domestic growth, EMEs may need to review their undue dependence on external demand and attempt to generate demand within their economies. A reasonably balanced macroeconomic management strategy appears to have enabled the BRICS economies to minimize the spill-over effects of the external shocks to a great extent. Emerging market economies, still in the process of developing their financial systems, can take up this opportunity to learn from the crisis and develop a robust financial sector with a sound systemic oversight framework. The experience of the recent crisis demonstrates that the financial system in most emerging Asian countries was relatively resilient to global shocks as reforms, which had been put in place after the East Asian crisis, fostered transparency and governance, and strengthened regulation and supervision. The crisis lessons do not call for overregulation as this could restrain growth impulses. A judicious approach while formulating financial liberalization measures, however, proved to be extremely effective as reflected in the strengthening of

banks by public recapitalization in some advanced economies. Alternatively, regulators and supervisors should work on proper regulation of the so-called ‘innovations’ that allowed the build-up of risks within the financial sector to be disguised; monitoring and establishing limits to tame the overexposure of domestic banks to toxic assets globally; adequately regulating and supervising the real estate market, in order to avoid the excessive artificial growth of financial investors in real estate; regulating the activities of systemically important non-bank financial institutions as well as submitting all systemically important financial institutions to intensified supervisory procedures; and speaking out against hasty and potentially risky attempts to liberalize the capital account of the balance of payments. Thus, countries should self-insure against future crises by putting in place, as best as they can, robust economic and financial policy frameworks that help minimize their vulnerabilities.

It has been observed that banks that rely heavily on wholesale funding are naturally more vulnerable to any shock to market liquidity. When loans are larger than deposits, banks may resort to funding from foreign parents or domestic and international wholesale markets to finance the gap. Likewise, there is anecdotal evidence that the presence of foreign banks was associated with currency mismatches. This indicates that emerging markets, while encouraging the entry of foreign banks, should simultaneously strictly regulate their local lending practices. The resilience of EMEs to external shocks is unlikely to be fully guaranteed given the increasing trade and financial integration with advanced markets. Therefore, it becomes important, albeit challenging, for emerging and developing countries to gradually put in place an effective social safety net system which not only helps as an automatic stabilizer but also attenuates the need for undertaking sudden large-scale discretionary fiscal policy measures that lead to long-term fiscal sustainability concerns. An improvement in both the social safety net system and financial markets may foster the development of domestic demand contributing to

enhanced market strength. An improvement in the social security system and the financial markets may also decrease private savings in the long run.

The global economic crisis which originated in the financial sector inflicted significant output loss, impaired the balance sheets of households and corporations and caused an overall fall in economic activity. The crisis also exposed the structural weaknesses of the financial and real sectors. The BRICS economies recovered swiftly with the support of domestic demand. Still, the recovery is yet to be made compatible with the fiscal consolidation process. Besides the current recovery process, there are specific lessons for BRICS economies from the recent crisis. These lessons include (i) recognizing the invalidation of the decoupling hypothesis, (ii) allowing domestic demand to serve as a durable source of growth, (iii) instituting financial sector reforms, (iv) monitoring speculative capital flows, (v) recognizing the creation of fiscal policy space on a sustainable basis as a central feature of their reform agenda, and (vi) focusing on infrastructure development and employment generation.

Major showcase areas for Brazil include agricultural research, which has transformed the country into a major exporter; the use of bio-fuel for road transport, and the emergence of Embraer as a high-technology aircraft manufacturer. In the social sphere, Conditional Cash Transfers that target poverty and the success of the anti-AIDS policy provide useful lessons. A regulatory framework that helped Brazil withstand the shock of the global crisis and the issuance of 3 domestic currency-denominated international bonds, which transfer currency risk to investors, are other successful practices that have been highlighted. Russia's major achievements include reforms during 1999–2009 that promoted economic growth, lowered inflation, and led to a dramatic fall in the number of people living below the poverty line. Specific achievements include setting up of the Oil Stabilization Fund that was successful during the crisis, budgetary reforms

through the devolution of decision-making powers, and the introduction of a flat personal income tax rate of 13 per cent that ensured improvement in compliance.

The main showcase institution for India is private entrepreneurship which has been instrumental in achieving 8–9 per cent annual growth of the economy in recent years. Private initiative has been responsible for the excellence achieved in the information technology sector and the innovative streak that has led to improvisation and production of low-cost goods for the Indian mass market.

Besides, the calibrated approach to capital account convertibility and the External Commercial Borrowing Policy have helped insulate the economy against surges and reversals of debt flows and maintained the external debt at sustainable levels. The Right to Information Act is increasing transparency and accountability of government operations and the Mahatma Gandhi National Rural Employment Guarantee Scheme is a major step towards making growth inclusive.

The best practices and institutions of China are those that have helped ensure progress in terms of economic growth, enhancing its national strength and improving the living standards of its people as well as the success in making the historic transition from a highly centralized planned economy to a robust socialist market economy and from a closed and semi-closed country to a country that is open best practices 105 to the outside world. Specific areas are FDI attraction and utilization, and infrastructure financing, among others.

The Chinese globalization model has also been different, in that foreign direct investment was encouraged. The sub-national governments (cities/provinces) have been successful in attracting foreign investment by providing improved infrastructure and a favorable regulatory environment. China also has experience in financial macro-management. The reform and development of China's banking industry and financial market played a key role in promoting rapid and sustainable economic growth.

South Africa has a long record of responsible macroeconomic management, which has helped to promote the development of a deep and liquid bond market and reduced external vulnerability. South Africa has strong institutions and a highly developed, well-regulated banking sector that escaped the worst effects of the financial crisis. With the most developed industrial and financial capabilities on the African continent, South Africa's role in the integration of policies, markets, finance, and infrastructure is vital to Africa's economic development and realization of the continent's potential as a growth pole in the global economy. Outwardly oriented South African companies are among the largest sources of FDI in Africa and the country's development financing institutions are playing an increasing role in the funding of regional infrastructure investment.

Brazilian agriculture has undergone dramatic changes in the past few decades. From a net importer of food grains, Brazil has emerged as a major exporter of food products. This change has been possible due to major technological breakthroughs and the extension of cultivation to previously uncultivable land. More important, the change has not happened at the expense of the Amazon rainforest, as is sometimes believed, but through the extension of cultivation to a region called the Cerrado, which is 1,000 km south of the Amazon forest and was earlier regarded as having limited cultivation potential.

The FAO estimate for the total potential cultivable land of Brazil is over 400 million hectares. Thus far only 59.5 million is being used, with most of the new land in the Cerrado. The success of agriculture has also raised expectations that Brazil may be able to meet the growing global food demand–supply gap resulting from growth in population and per capita income.

Much of the credit for agricultural transformation in Brazil goes to Embrapa, which is the abbreviation for Empresa Brasileira de Pesquisa Agropecuária or the Brazilian Agricultural Research Corporation. The organization was set up by the

national government in April 1973 to develop agricultural technologies through research and innovation. The decision was prompted by a period of rapid population growth and a large increase in per capita income, which created the risk that the country might not be able to meet its growing domestic demand for food. The organization has since developed more than 9,000 technologies for Brazilian agriculture, reduced production costs, and increased the supply of food while conserving natural resources and the environment.

Among its major achievements, Embrapa is largely responsible for expanding the agricultural frontier into a region called the Cerrado, which was previously considered uncultivable. The Cerrado occupies about 23 per cent of the Brazilian territory and has acidic soil with low levels of nitrogen and phosphorous. To overcome this limitation, Embrapa developed, inter alia, acidity correction technologies by pouring industrial quantities of lime (pulverized limestone or chalk), encouraged the expansion of Brazil's beef herd and adapted soybeans (a temperate climate crop) for the tropical climate. Today, the Cerrado accounts for 70 per cent of Brazil's farm output. The region also accounts for 60 per cent of the country's production of soybeans. This was followed by the development of a new variety of grass, which is a crossbreed with an African grass called brachiaria. The new variety produced 20–25 tonnes of grass feed per hectare, many times the native Cerradograss output. This helped turn parts of the Cerrado into pastures, making possible the enormous expansion of Brazil's cattle herd.

In addition, Embrapa was successful in turning soybean into a tropical crop. Soybean is a temperate climate crop native to north-eastern Asia (Japan, the Koreas, and north-east China) and is sensitive to temperature changes. All other large soybean producers (notably America and Argentina) have temperate climates. Earlier, Brazil was growing soybean in its temperate southern states. However, with cross-breeding, Embrapa began growing soybean in a tropical climate, on the rolling plains of Mato Grosso state, and in the Cerrado.

More recently, Brazil has been importing genetically modified soy seeds and is now the world's second-largest user of genetically modified seeds after the United States. Embrapa has won approval for its first genetically modified seeds. Embrapa has also pioneered 'no-till' agriculture, where the soil is not ploughed nor the crop harvested at ground level. Instead, the crop is cut high on the stalk and the remains of the plant are left to rot into organic material. Next year's crop is then planted directly into the material, retaining more nutrients in the soil. In 1990, Brazilian farmers used no-till farming for 2.6 per cent of their grain output, which has now risen to over 50 per cent.

Embrapa has a budget of over US\$ 1.0 billion per year and employs almost 9,000 people. It is organized as a large network, comprising 41 decentralized centres in all regions of the country. It has signed 68 technical co-operation agreements with 46 countries and 89 foreign institutions, particularly in the area of agricultural research, and has ongoing multilateral agreements with 20 international organizations, involving research partnerships and technology transfers. The institution has established partnerships with laboratories in the United States and Europe (France, England, and Netherlands) for research in advanced technology. In the sphere of technology transfer to developing countries, achievements include the opening of the Embrapa's technology transfer projects in Africa (Ghana), South America (Venezuela), and Central America and the Caribbean (Panama), which has allowed wider dissemination of innovations and technologies developed by Embrapa.

Brazil has a track record of running the most successful bio-fuel programme in the world. The main objective of the Proálcool Programme, which was launched by the Brazilian government in the mid-1970s, was import substitution. The idea was to reduce imports of petroleum products by using ethanol in transport vehicles. Government subsidy was extensively provided for this purpose.

The BRICS group is rapidly consolidating and becoming a force to reckon with in global governance. The March 2012 BRICS Summit in India also completed the hosting cycle of the original BRIC members and, with South Africa hosting the next BRICS summit in 2013, the hosting cycle will be complete for the entire group. If anything, this milestone is an indication of the group's staying power. The 2012 BRICS summit, which was held under the theme of 'BRICS Partnership for Global Stability, Security and Prosperity', emphasized co-operation among BRICS countries on various economic and development issues, including trade and investment, food security, sustainable development and energy, health, terrorism, science, development, and technology and innovation, in addition to the global financial and economic management agenda. This was in acknowledgement of common development issues and concerns faced by BRICS countries, and signifies a concerted effort towards a co-operative approach to development in the BRICS countries and regions.

The fast-growing middle class in the BRICS countries has encouraged the expansion of trade among the BRICS countries, facilitating the radical transformation of global trade where significant trade volumes are bypassing the Western markets.

Trade among developing countries generally is increasing at a fast pace. Among the BRICS in particular it has grown significantly, with China as the driver of this trade.

Nevertheless, beyond the bilateral relationships with China, trade and investment linkages among the BRICS countries are fragile and disjointed. The BRICS summit meetings have reiterated the importance of increased intra-BRICS trade and investment to facilitate growth and development of the BRICS economies as well as the world economy. The history of trade co-operation among all the BRICS countries is relatively weak and, given the nature of their bilateral relations,

improving on this state of affairs will be a tall order. Despite a fast growth rate in intra-BRIC trade, this has been mostly in the form of Russia, Brazil and South Africa supplying commodities to China and India, more so to China than India, while China is major exporter of manufactures to all the other BRICS.

The BRICS countries also have different economic growth strategies that determine their economic policies. China's economy is driven by its exports of manufactures and central role in the global value chains; but its domestic consumption is still very limited, which creates a current account surplus for China. There is China's currency manipulation, where the pegging of the renminbi to the US dollar gives China an unfair trade advantage by making its exports cheaper. This practice has been criticized openly only by Brazil.

The currency issue is and will continue to be a source of tension in the BRICS unless it is dealt with effectively. The above-mentioned factors have helped turn China into a net creditor on the international market. Nonetheless, there is a growing challenge to China's role and position within the BRICS trade equation and its economic relationship with the rest of the world. The cost of production in China is increasing due to the rising cost of production inputs such as energy and land; increasing skilled labor shortages; and the rising wage cost and lack of adequate infrastructure to link production bases to consumption bases. Given these dynamics, China is working on changing its economic model to a consumption-led one, which would have significant impacts on the BRICS partners.

Russia's economy is also export oriented, based on its energy resources. Russia acknowledges that this economic trajectory is unsustainable in the long run and is looking to diversify its export basket and to venture into manufacturing. Russia's recent accession to the WTO is expected to boost inward trade and investment, but, given the state capitalism dynamics in the country, the future trade policy trajectory is not yet entirely clear.

India's economy, on the other hand, is driven by strong capital imports and, because of its flexible exchange rate policy, it is plagued by current account deficits. Brazil and South Africa are also experiencing current account deficits.

Brazil's imports are aimed at boosting domestic demand while, in the case of South Africa, the deficits are also caused by its regional integration obligations which result in neighbouring countries investing their current account surpluses in South Africa. Brazil's biggest exports are in agriculture and, although the country is consequently keen to see further market opening for processed agricultural exports, particularly under the Doha Round, Brazil is still keen on its industrialization to promote manufacturing.

Brazil's huge domestic market and steady economic growth also work to ensure that the country remains an attractive investment destination. Despite these factors, currency appreciation remains a growth hurdle for Brazil and, consequently, the country is outspoken on currency manipulation issues, as discussed in the case of China.

The global economic crisis which originated in the financial sector inflicted significant output loss, impaired the balance sheets of households and corporations and caused an overall fall in economic activity. The crisis also exposed the structural weaknesses of the financial and real sectors. The BRICS economies recovered swiftly with the support of domestic demand. Still, the recovery is yet to be made compatible with the fiscal consolidation process. Besides the current recovery process, there are specific lessons for BRICS economies from the recent crisis. These lessons include (i) recognizing the invalidation of the decoupling hypothesis, (ii) allowing domestic demand to serve as a durable source of growth, (iii) instituting financial sector reforms, (iv) monitoring speculative capital flows, (v) recognizing the creation of fiscal policy space on a sustainable basis as a

central feature of their reform agenda, and (vi) focusing on infrastructure development and employment generation.

In their well-researched book, *This Time is Different: Eight Centuries of Financial Folly*, Kenneth Rogoff and Carmen M. Reinhart show how over a period of 800 years all financial crises can be traced to the same fundamental causes. Each time, experts have chimed that ‘this time is different’, claiming that the old rules do not apply and the new situation is dissimilar to the previous one. The crisis then came as a serious blow to the credibility of central banks and the reputation of central bankers. The challenge for central banks, as indeed for all policymakers, is to learn lessons from the crisis and incorporate them in their policies.

3.2. The impact of financial crisis on BRICS and policy response

Prior to the financial crisis, the global economy was going through a change. The erstwhile engine of global growth, the USA, was weakening and the new growth poles were emerging. BRIC was one of emerging growth poles that caught the imagination of the world. With a very large pool of physical and human resources and rapidly increasing share in global GDP growth, this group of heterogeneous economies were showing a great potential to replace US as an engine of global economic growth. This possibility was further vindicated during the financial crisis when BRICs managed to grow at a decent rate. Though, like other economies, this group also suffered from the indirect impact of financial crisis, the severity of impact felt in this block was much lesser as compared to many developed and developing economies. The downturn was shallow and recovery was relatively quick and strong. Against this backdrop, this paper attempts an in-depth analysis of the impact of global financial crisis on BRICs and examines its potential role in rebalancing of global growth. Broadly, the paper has been divided into seven sections. After providing a brief over view of BRICs economies in section two, section 3 deals with the impact of the crisis on BRICs. Section 4 discusses the

monetary and fiscal policy response to the crisis, while section five provides a critical assessment of recovery and issues related to exit policy. Finally, before summarizing paper in section seven, section six makes few observations regarding the global imbalances and consumption pattern in BRICs.

In order to understand why BRIC constitutes an important block in the geopolitics of our times it is important that we put into perspective what BRIC means for the world economy at large. Brazil, Russia, India and China together constitute roughly 25% of the total land coverage on the planet and are home to 40% of the world population. More than one fifth of the world GDP originates from these four countries and this is only set to increase in the coming years. In fact what captured the world's imagination regarding BRIC was not what it was but the sheer potential it had in the coming decades. It is now widely believed that China will surpass US as the largest economy of the world by 2030; BRIC would become as big as the G7 by 2032 and India will become the second largest economy after China by the halfway mark of this century (Goldman Sachs, 2007).

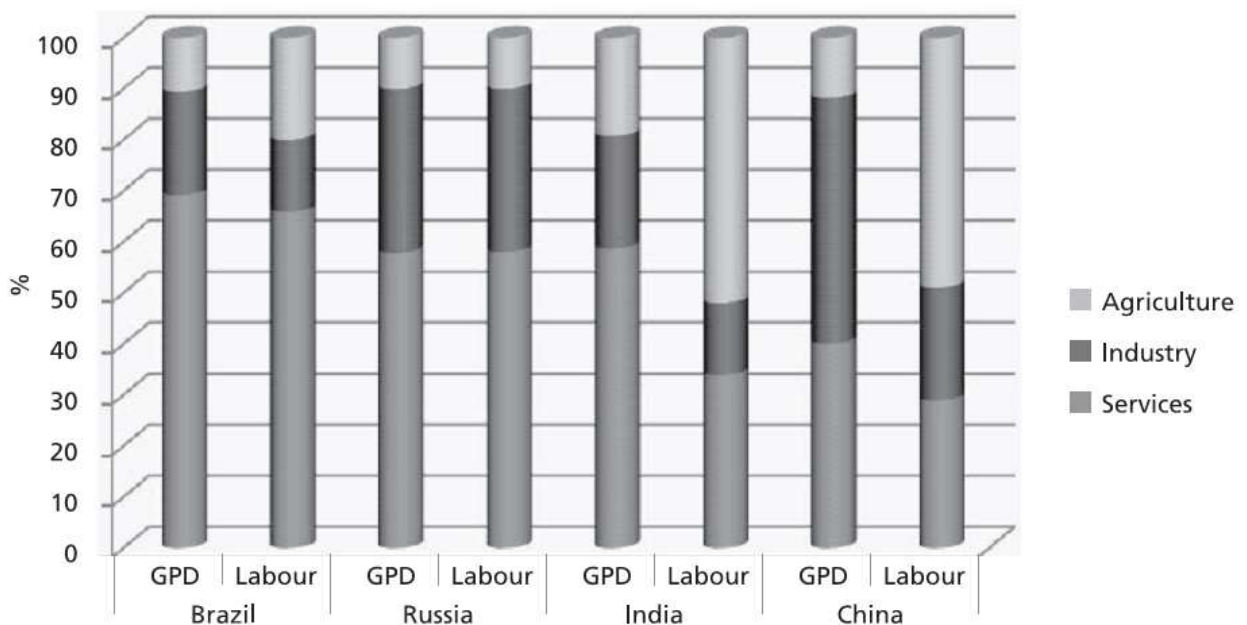
The recent financial crisis clearly demonstrated how resilient these economies were to external shocks. It is estimated that BRIC contributed 30% of the global GDP growth between 2000 and 2008 but its contribution to global growth since 2007 was roughly 45%. Furthermore while much of BRIC has returned to the trend growth rate, advanced economies are just beginning to pull themselves out of the recession. It is expected that the former will close the output gap, which has been the result of the crisis at least two years before the latter will.

In spite of the rather stellar performance of BRIC vis-a-vis the crisis it is important to note that structurally the four economies are quite different from each other. While agriculture contributes roughly 18% (Figure 1) to India's GDP, it employs around 52% of labor; service sector on the other hand contributes bulk of the country's GDP (53.4%). Agricultural productivity in China, very much like India,

is low as indicated from its low contribution to GDP and the large share of labor dependent on it. The distinguishing feature in the Chinese case is that the lion's share of its GDP comes from the manufacturing sector (48.1%) while it employs only 22%. Brazil and Russia structurally are very different from India and China especially if one takes into account the role of agriculture in the economy.

Figure 6

Sector composition of GDP and labor³¹



Services play an important role in both these economies. Industry led by an overt dependence on oil production, makes industry crucial for Russia.

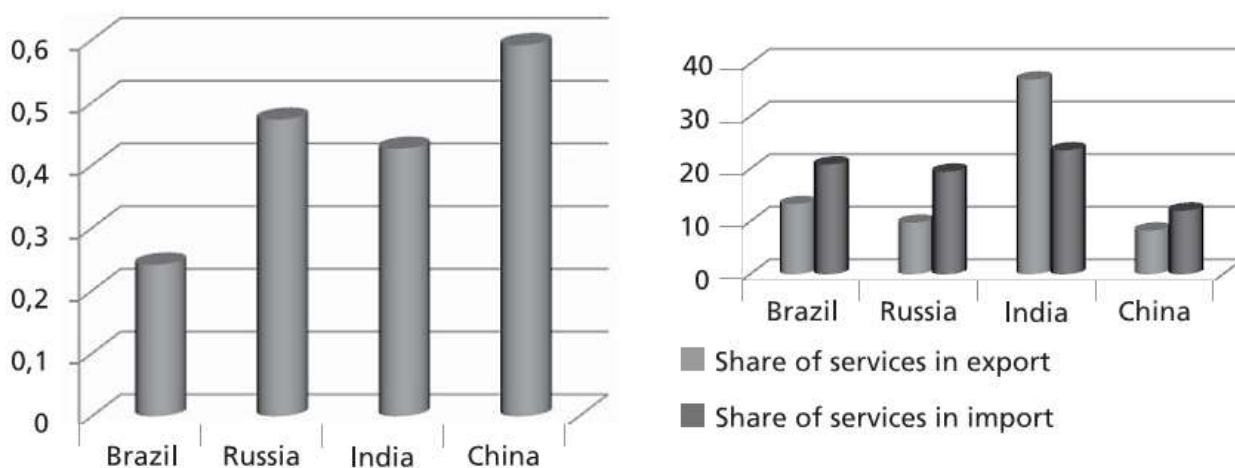
Figure 7 gives a clear picture of how important trade is in the respective economies and how important a role services play in their trade. While China's trade is almost 60% of its GDP, that for Brazil is low at 20%. Furthermore India is the only country among the four which is a net exporter of services and the significance of

³¹ Source: IMF, UNCTAD & World Bank, adapted from The BRICS Report 2015. India: Oxford University Press, 2015.

services for Indian trade is evident from the fact that 35% of her export constitutes of services. China’s focus on manufacturing is clear from Figure 2B where we note only 8.3% of China’s total export arises from export of services.

Figure 7

Trade GDP ratio (2008), Share of services in trade (2008)³²



On umpteen occasions it has been argued that the impact of the financial crisis on a transition economy is often severe if there is a high degree of financial integration with the global economy. We take the ratio of total FII flow i.e. the sum of inflow and outflow to GDP as a measure of financial openness. The total portfolio transaction as a percentage of GDP varies widely across the four economies with the corresponding Figure for Brazil being 33%.

From the above discussion it is clear that Brazil, Russia, India and China the four economies under consideration are a very heterogeneous block with fundamental structural differences within the economies. Thus the causes and consequences and remedies for the impact of the crisis on the four economies will widely differ. This

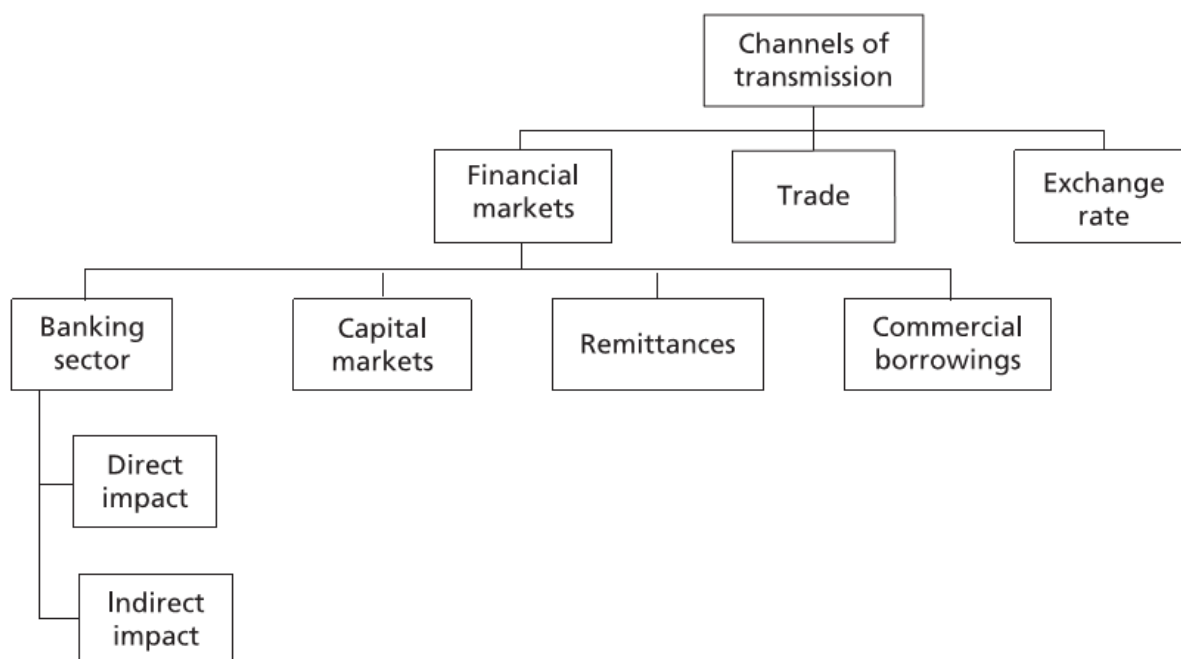
³² Source: International Financial Statistics (IFS) and UNCTAD Handbook of Statistics, New York, NY 1001,2014

indicates that so far as panaceas are concerned a one-size-fits-all policy is best avoided.

Two things are clear from the above discussion. First, the extent of structural heterogeneity within the economies was very high prior to the crisis. Second, the level of integration with the global economy was high for these countries especially in terms of trade and internal capital flow but these measures too varied across countries. The above facts imply that it was impossible for these economies to remain decoupled from the turbulence felt in rest of the world.

Figure 8

Transmission mechanism³³



We shall analyse in detail each aspect. It is important to note at this point that direct impact on the banking sector refers to the impact caused by a bank’s holding of toxic foreign assets. However a bank may also be affected when credit

³³ The Bricks Report, First Edition YMCA Library Building, 1 Jai Singh Road, New Delhi 110 001, India, 2014

expansion in an economy is hurt or short term interest rate rises or if the general level of expectation about the future in the economy is low. Such an impact is may be thought of as an indirect effect.

Banks and Non-bank Financial intermediaries faced limited impact due to the crisis. On one hand the exposure of these institutions to the complex financial instruments were limited creating an automatic buffer; on the other hand domestic deposits and liquidity was abundant giving a cushion to the banking sector, something which was hardly observed in the advanced economies. Sometimes it was the central banks which took proactive steps to increase countercyclical capital provisioning requirements. This was particularly true for Reserve Bank of India whose countercyclical initiatives under the leadership of YV Reddy prevented the firms from being exposed to the subprime crisis (Vashisth; Kumar, 2009).

Financial soundness may be measured by direct exposure which is measured in terms of the amount of foreign assets (toxic or otherwise) owned by the domestic banks or in terms of the share of domestic banks' assets owned by foreign firms. Figure 5 below illustrates the latter. This share was highest for Brazil (25%) and Russia (12%) indicating that any shock in the global economy would more promptly impact them than it would in India and China whose corresponding shares are much less. In India only ICICI Bank was partly exposed to the crisis but a strong balance sheet and timely government intervention helped it tide over the problems (Vashisth; Kumar 2009). Thus level of financial exposure in the case of Brazil and Russia far exceeded that of India and China by all measures.

There was however a decline in the financial soundness indicators, though not uniformly across the board, as evident from Table 1 which compares the 2005 values with the latest. The Capital Adequacy Ratio, which indicates how much cushion a bank has against potentially toxic assets, has risen across the board but mostly under statutory conditions. Other indicators like Return on Assets and

Return on Equity have fallen except for India and China. Non-performing Liquidity Ratio has increased considerably for Brazil and particularly so for Russia. It has however decreased for India from 4.4% to 2.4% and for China from 8.6% to 1.2% indicating the overall financial health of Indian and Chinese financial sector is perhaps better than that of Brazil and Russia. A part of this reason can be traced to the proactive role of RBI in regulating. Reserve Bank of India was one of the few central banks in the world which introduced countercyclical capital provisioning requirements by increasing the provisioning requirements of the commercial banks lending to the real estate sector. This measure, it is widely believed, played a crucial role in India to prevent a potential real estate price bubble. It is also true that the Indian financial sector is far less developed than its Brazilian and Russian counterpart. Thus it is amply clear from the above discussion that the impact of the crisis on the banking sector has been varied among the BRIC. While India and China were hardly affected, the financial soundness indicators worsened, on some occasions severely for Brazil and Russia³⁴.

The BRIC economies were cruising along well until the financial crisis hit the world economy. As is clear from Figure 9 the growth rate ranged from a moderate 6 per cent to a high 11 per cent. From 2008 Q3 onwards the impact of the crisis was felt by each economy in a distinct way. While on hand China and India weathered the crisis pretty well with growth rates remaining above the 5 per cent mark throughout and peaking up sharply subsequently from 2009 Q4, on the other hand quarterly GDP growth rate for Brazil and Russia in particular plummeted. In fact for three subsequent quarters beginning from 2008 Q4 the GDP growth rate hovered around -10 per cent. The same for Brazil was in red until 2009 Q4 when it showed the first signs of recovery. When we analyzed the structural differences in the four economies, we noted that the degree of financial integration (as distinct from real sector integration) differed widely in the four economies. While Brazil

³⁴ Source: Authors. Data based on: Center for Global Development 2011; Brazilian Government and UNDP 2010: 22, 50, 72, 86; Government of India 2009: 15f., 60; UNDP 2011; Republic of South Africa and UNDP 2010: 52, 58,

and Russia was highly integrated, India and China was not. No wonder then that the latter was not hit as hard as the former. Greater financial integration for Brazil and Russia meant that the numerous transmission channels which were at work more readily affected them than it did the rest.

Figure 9

Year-on-Year quarterly GDP growth, comparing BRICs with the world³⁵

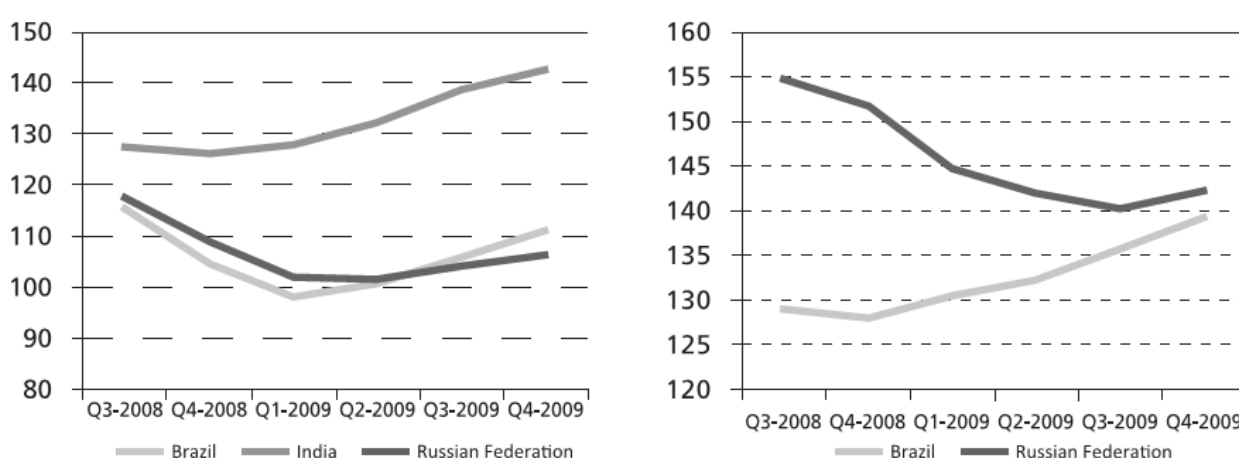


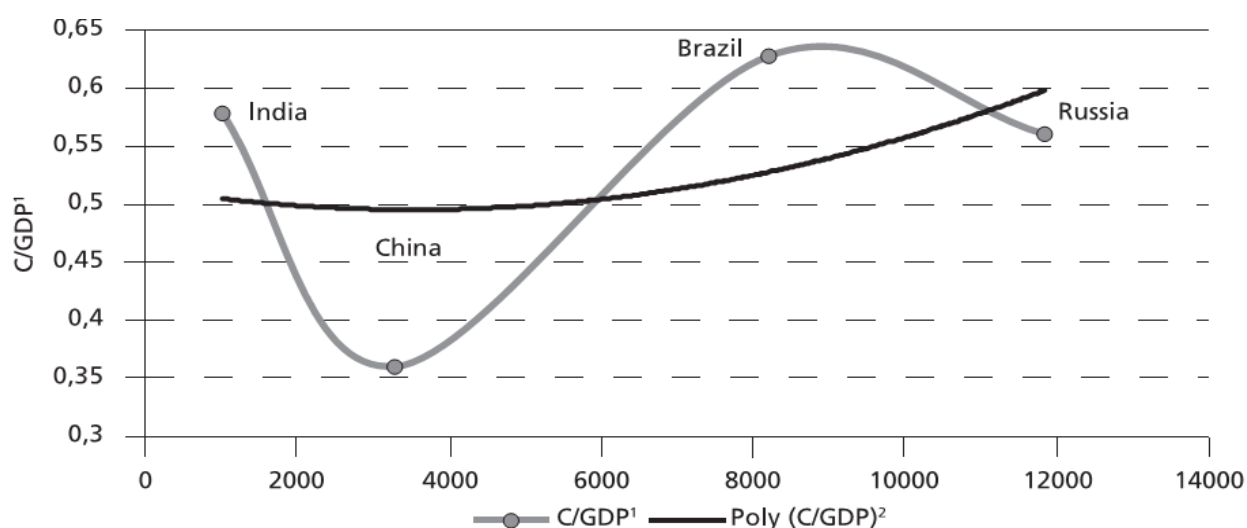
Figure 9 compares the quarterly growth rates of the BRIC economies with that of the Emerging Economies, Advanced Economies and the world. Q4 2008 and Q1 2009 was the period when the economies were hardest hit and advanced economies grew at around -8 per cent for the two quarters. The trough is clearly evident for the world economy and the emerging market economies as well, however the BRIC economies as a whole have clearly escaped the magnitude of recession experienced by the others. Whatever little dip we see in the growth rates are because of the effect on Brazil and Russia. This comparative picture illustrates the resilience of the BRIC economies in the face of an acute global economic meltdown.

³⁵ Source: BRICS : joint statistical publication : 2014 ; Brazil, Russia, India, China, South Africa /IBGE. - Rio de Janeiro : 2014

The overarching objective of the monetary response had been to inject credit into the system and thus spur aggregate demand and growth. The Bank Rate of People’s Bank of China reduced from 4.14% to 2.79% in December 2008 and has stayed at that for quite some time now. Reserve Bank of India slashed reverse repo rate from 6% to 3.25%, repo rate from 8% to 4.75%, CRR and SLR too were reduced from 9% to 5% and 25% to 24% respectively in the immediate aftermath of the crisis. Russia drastically reduced its required reserve ratio from 7% in September 2008 to 0.5% in November 2008 to pump liquidity into the economy. The SELIC Policy rate in Brazil was brought down to a historic low of 8.75%. It is important to note at this point that Brazil and Latin American economies in general, have an inherent tendency to overheat resulting in inflationary trends. Inflation targeting has always been an important objective for the central bank and a high interest rate regime has been maintained in Brazil. Though over the years the equilibrium interest rate has been declining, this extent decline has been unprecedented. We shall evaluate the impact of the above mentioned monetary policy interventions on credit in the section below.

Figure 10

Consumption – GDP ratio in BRICs³⁶



³⁶ Source: The Bricks Report, First Edition YMCA Library Building, 1 Jai Singh Road, New Delhi 110 001, India, 2014

Economic theory suggests that at low levels of income, people consume more and save less. This is driven by the fact that only when a bare minimum level of subsistence consumption is met, one intends to address issues like inter temporal consumption and thus saving. As income rises, consumption levels fall relative to income and finally when income exceeds a threshold level, the consumption to income ratio rises again. The economic rationale of the third stage lies in that when at higher levels of income the basic necessities of living are taken care of and there exists a well knit social safety net individuals tend to consume higher end products leading to a rise in the consumption income ratio.

The above theorization is empirically validated as well. The relation between per capita GDP and Consumption GDP ratio has been found to be a U shape. Low PCI countries tend to have a higher C/GDP and this is set to decrease initially and finally increase again where high per capita income countries consume more relative to their income. Figure 16 suggests this relationship holds true for BRIC as well. While Brazil and Russia lies on the right of the trough of the U, India lies on the left and China at the bottom of the U. Thus for China the consumption-GDP ratio is all set to increase while India has not even begun to traverse the cycle. Evident thus is the fact that consumption China is set to increase in the coming days. For India the consumption level in itself is set to rise, however India's GDP is set to increase at an even higher rate. Thus the Consumption GDP ratio will initially decline and then rise again. A vexing question still remains. Why has the consumption relative to income not risen to the same extent as income itself? Milton Friedman's permanent income hypothesis professes that transitory or short term changes in income does not change the level of consumption, what changes the consumption level is the long term income expectations. It is possible that the consumers in the emerging market economies perceive the increases in income as transitory; once this rise gets a seal of permanence, the consumption levels are going to rise. On an aggregate thus a rise in consumption-GDP ratio follows a rise in income level but with a lag. Possibly this is the phenomenon we are observing in

emerging markets in general and BRIC in particular. One must note though that Brazil to some extent and Russia in particular does not share the consumption characteristics of India and China and the consumption potential in the former is much less than that in the latter.

Rebalancing in the world economy, *inter alia* implies shift in the consumption from advanced economies to the emerging market economies. This *ipso facto* means a reduction in savings in the emerging economies and a corresponding increase in saving in the west. Our analysis shows that this transition from high-saving low-consumption to moderate-saving high-consumption phenomenon is feasible in the transition economies and BRIC can play an important part in it.

3.3. Summary

In line with the global experience, BRICs also suffered from the financial crisis that gripped the global economy toward the end of 2008. However, the severity of the impact was not uniform across all these economies. With a higher level of financial integration, Brazil and Russia suffered the most while India and China experienced only a moderate slow down in their GDP growth. Depending on the fiscal space all BRIC economies announced fiscal stimulus to abort the contagion of financial crisis. The biggest fiscal stimulus was announced by China followed by Russia, India and Brazil. Apart from size, the fiscal responses of these economies also differ in nature. While Brazil and Russia went for tax rebate to shore up the private demand, India and China opted for direct public spending on infrastructure development. Interestingly Brazil took this opportunity to extend its widely hailed and highly successful Bolsa Program and raised the minimum wage by 12 percent. The monetary policy response was rather simple and uniform. All economies reduced interest, with Russia going for most the liberal monetary policy regime.

The liberal monetary policy along with fiscal expansion helped BRICs to recover sooner rather than later. The recovery was first observed in India and China during the first quarter of 2009 when these economies witnessed a turnaround in their GDP growth. Brazil also embarked on the path of recovery in the fourth quarter of 2009 followed by Russia in the first quarter of 2010.

However, in case of Brazil and Russia, the economic recovery is still fragile and hence government should continue with expansionary policies. In the long run it is imperative that the global economy is rebalanced and BRIC has to play an important role in ensuring that the rebalancing takes place.

CONCLUSION

All aforementioned urges to draw a conclusion that in the era of globalization the role of BRICS plays a significant role in all the sphere of economy, even though it is still an enigmatic clandestine for some scientists, a large number of economists strongly support the idea of statement that BRICS holds the main share of whole world economy.

In general, BRICS do not constitute a homogeneous alliance. Their economic and political position in respect of international development politics and policies should not be underestimated by EU-institutions. BRICS are part of emerging economies that are going to or are already changing the setting of traditional development aid.

Today the BRICS dialogue forum is a reflection of the network multi-vector diplomacy; it is a real step on the way of formation of a multi polar world. Brazil, Russia, India, China and South Africa possess great stock of resources; they have huge potential and a desire to change world order.

The coordinated policy on a number of the basic questions that represent the vital interests of each separate country of the group allows the BRICS-members to act as a "united front" and to achieve their purposes. However, BRICS is not an institutionally structured organization, so it is quite possible that the cooperation between the countries can only last for a short period of time, moreover, a split in the priorities of the countries is already visible. The main question is whether the BRICS-members can overcome their internal contradictions and become a real power in the international arena.

The BRICS is at a significant moment of consolidation. The group demonstrated at the Declaration of New Delhi that it can reach broader and significant consensus.

Extending beyond the original concept, the BRICS is today an exciting and promising mechanism not only for intra-group cooperation, but also to promote real change in global governance. From the Brazilian point of view, it is necessary to stress that Brazil does not have confrontational intentions as it can be seen in its international action open to engagement, in its efforts to strengthen multilateralism and cooperation with third countries and in its constructive activities in the framework of G-20.

While some countries economy are getting worse from time to time this organization's position is consolidating day by day in the international collaboration. So, what is the main clandestine of the BRICS. As a matter of fact, GDP and its manufacturing system works more than enough than any other countries, besides that the unification could be the reason of development.

BRICS has its unique opportunity to influence on international global economy, so in my point of view BRICS and its countries ought to try to support those undeveloped countries and its people, they should try to change their complex situation to the better side.

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