

# BRICS: PROSPECTS AND CHALLENGES

A NOTE ON THE EVOLUTION OF BRICS, ITS POLICY AGENDA AND CIVIL SOCIETY VIEWS ON THIS FORUM.

## BACKGROUND:

In 2001, Jim O'Neill of the American bank Goldman Sachs had first coined the phrase 'BRIC', in a report 'Building Better Global Economic BRICs', referring to Brazil, Russia, India and China - four of the fastest-growing emerging economies at the time. Looking at the features like size of population, demographic dividend and rate of globalization, Goldman Sachs (GS) forecasted that these four countries had the growth potential to surpass the European Union economy in terms of market size. GS also predicted that China, India, Brazil and Russia would become the first, third, fifth and sixth largest economies in the world respectively by 2050. However, 'BRIC' as an international forum was formalized with the first meeting of the foreign ministers of Brazil, Russia, India and China in New York on the margins of the UN General Assembly in September 2006. Later, in the third BRIC summit in April 2011, South Africa joined this forum and 'BRICS' was formed.

These five countries together account for 43 percent of the world's population, 46 percent of the global labour force and 25 percent of the world gross domestic product. The BRICS countries are also among the major resource suppliers to the industrialized world. With their rapid economic growth, these countries are said to be leading a shift in global economic power away from the developed economies of Europe and the US.

However, these countries have very little cultural or political similarity, and their levels of development differ widely. Given that there were no significant prior economic ties among these countries, the creation of BRICS has been viewed as a major step towards an alternative global economic landscape.

## OBJECTIVES OF BRICS:

The formation of BRICS was rooted in the long-term common economic interests of the member countries, which include reforming the global financial and economic architecture, strengthening the principles and standards of international law and supporting the complementarities in many sectors of their economies.

The canvas of the BRICS agenda is quite broad. Though it began with regular and intensive consultations on the global economic slowdown of 2008-2009, the agenda has gradually incorporated other concerns such as climate change and sustainable development, food and energy security, health, the global trading order, Millennium Development Goals (MDGs), reforms in international economic and financial institutions, and international and regional political developments.

## BRICS AND INEQUALITY:

The growth process in BRICS countries in the recent decades has witnessed increasing income and asset inequality within the countries (except in Brazil, where it has shown a decline); the benefit of economic growth has been concentrated among households at high income level. Between early 1990s and late 2000s, in China, India, Russia and South Africa, increase in real household income was concentrated in the top 20 percent of the households.<sup>1</sup>

Along with income inequality, gaps in access to essential services like health and education have aggravated the inequalities of opportunities for different sections of the population. These socio-economic disparities have a spatial difference and are closely intertwined with other key drivers of inequality, namely class, caste and gender. While most of the BRICS countries (with the exception of India) have succeeded in reducing the inequality of access to basic services in education and health, vast differences between the quality of services available to different sections of the population pose major challenges in all these countries.

Such inequality is socially and economically paralyzing and gives rise to political tensions that can be even more damaging; so there must be measures to address this.<sup>2</sup> However, the attention towards addressing shared challenges for reducing socio-economic inequalities is missing in the BRICS agenda. In this context, some of the civil society groups are emphasizing the need for BRICS countries to provide the global political leadership required to address these challenges.

## BRICS SUMMITS:

BRICS has been operational as a forum only since 2009 and has become a topic of growing interest in development circles only in the past year or two. Regular meetings of foreign ministers and finance ministers are a feature of the BRICS calendar. In addition, over the years, a number of mechanisms have been developed for deepening intra-BRICS cooperation e.g. meetings of the ministers of trade, finance, agriculture, health, science and technology etc. of the member nations. However, unlike in the G20 processes, the BRICS processes have not yet provided any institutionalized space for civil society engagement.

The first BRIC summit took place in Yekaterinburg, Russia in 2009. The second summit was held in Brasilia, Brazil in 2010. It was in the third BRICS summit in Sanya, China, in 2011, where the forum demanded for reform of international financial institutions and focused on establishing institutional mechanisms for collaborative efforts across BRICS through exchange of information and technology. The summit also highlighted issues like agriculture and food security. The fourth summit was held in New Delhi in 2012, where the BRICS countries decided to explore the idea of forming a multi-lateral development bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies.

<sup>1</sup> Ivins, Courtney (2013), 'Inequality Matters' - BRICS Inequalities Factsheet, BRICS Policy Centre, Brazil ([www.oxfam.org/.../brics-inequality-fact-sheet-oxfam-03-14-2013\\_0.pdf](http://www.oxfam.org/.../brics-inequality-fact-sheet-oxfam-03-14-2013_0.pdf))

<sup>2</sup> Ghosh, Jayati (2013), 'The Global Economic Chessboard and the Role of the BRICS: Brazil, Russia, India, China, South Africa', Global Research, November 10 (<http://www.globalresearch.ca/the-global-economic-chessboard-and-the-role-of-the-brics-brazil-russia-india-china-south-africa/5357502>)

Before, the fifth BRICS summit, the Heads of the Revenue Authorities of the member countries met in New Delhi on 17<sup>th</sup> and 18<sup>th</sup> January 2013 and held discussions on several areas of tax policy issues, namely - international taxation, transfer pricing, prevention of cross-border tax evasion and avoidance, exchange of information, sharing of best practices in tax system administration and resolution of disputes. In fact, the communique issued after the meeting stated that the BRICS countries would extend the cooperation on the issues of tax policy and tax administration.<sup>3</sup>

The fifth summit was held in Durban, South Africa in March 2013; the theme of the summit was "BRICS and Africa: Partnership for Development, Integration and Industrialization". The major thrust in this summit was on helping African countries in their industrialization process by stimulating foreign direct investment, knowledge exchange, capacity-building and trade diversification. However, there are also fears that growing trade and investment links of the BRICS with poorer African countries could be meant for exploiting the natural resource base of these countries, siphoning them off in ways that are ecologically damaging, inherently unequal and of little benefit to the local people.

The discussion on establishing a dedicated BRICS Bank was continued in the fifth BRICS summit; but doubts are still being expressed on whether the forum would actually be able to give concrete shape to this idea. As far as investment and business of the proposed Bank is concerned, the countries are not on the same page yet; also, some of the fundamental questions like location of its secretariat, the subscription amount, control and ownership, and lending practices are yet to be settled. BRICS nations aimed to inject an initial USD 50 billion into this new development bank, but there was disagreement over whether each should contribute equally or if contributions should vary corresponding to the size of their economies. However, given that the Chinese economy is about 20 times the size of South African economy and four times as big as Russian or Indian economy, there is a possibility that the Bank would be dominated by China.

### INDIA'S POSITION IN BRICS:

India is widely viewed as a strong emerging economy given its population characteristics, strength of democracy, large domestic market, technological acumen and investment potential. However, the country's economic potential should not be the sole parameter for its comparison with the other members of BRICS. Though India shares certain common features with the other BRICS nations, it is actually an exception in this group as pointed out by Dreze and Sen (2013).<sup>4</sup> India's per capita GDP (adjusted for Purchasing Power Parity) is less than half of China, one third of Brazil and one fourth of Russia (Dreze and Sen, 2013). Every country in this set has achieved universal or near universal adult literacy rate; the only exception is India.

Similarly, proportion of fully immunized children is lowest in India as compared to the other four countries. Though poverty and inequality are cross-cutting issues across BRICS countries, India is the poorest, with high inequality, low productive employment and a large informal labour market.

<sup>3</sup> Press Information Bureau – Press Release, Ministry of Finance, Govt. of India, 18<sup>th</sup> January 2013 (<http://pib.nic.in/newsite/PrintRelease.aspx?relid=91684>)

<sup>4</sup> Dreze, Jean and Amartya Sen (2013), 'An Uncertain Glory - India and its Contradictions', Penguin India

The sixth BRICS summit, which is going to be held in Fortaleza, Brazil in July 2014, is likely to continue with the existing agenda of reform of the international financial system and creation of the proposed development bank. However, the forum is also expected to move beyond economic cooperation and expand the range of their discussions. The current economic situation of India is not quite encouraging, with the economy growing at less than 5 percent per annum. In view of this, the magnitude of India's financial contribution to the proposed development bank is largely uncertain. Rather, India can try to push the BRICS countries towards providing the required global political leadership and financial commitment to address challenges relating to poverty, inequality, social infrastructure, agriculture and food security etc.

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