

# BRICS: Prospects and Challenges

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## **Background**

In 2001, Jim O'Neill, chief economist of the American bank, Goldman Sachs, in a report "Building Better Global Economic BRIC" first coined the phrase 'BRIC' which stands for Brazil, Russia, India and China---the four of then fastest-growing emerging economies of the world. 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 replace the European 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 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 April 2011 (third BRIC summit), South Africa joined this forum and 'BRICS' was formed.

The five countries together account for 43 percent of the world's population, 46 percent of the global labour force, 30 percent of the earth's landmass and 25 percent of the world's share of global gross domestic product (GDP). The BRICS countries, apart from complementing their respective economies in terms of resource exchange, are also the major resource suppliers to the industrialized world. 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 was a major step towards an alternative global economic landscape. The formation of the BRICS was rooted in the long-term common economic interests of the member nations, which include reforming global financial and economic architecture, strengthening the principles and standards of international law and supporting the complementarities of many sectors of their economies.

## **Objectives**

The canvas of the BRICS agenda is very broad. Though it began with regular and intensive

consultations on the global economic slowdown of 2008-09, the agenda incorporated other concerns such as climate change and sustainable development, food and energy security, the global trading order, Millennium Development Goals (MDGs), reforms in international economic and financial institutions and international and regional political developments.

### **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.

The first BRIC summit took place in Yekaterinburg, Russia in 2009. The second summit was held in Brasilia, Brazil in 2010. It is 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 work 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. 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 key decision taken in this summit was to help African countries in their industrialization process by stimulating foreign direct investment, knowledge exchange, capacity-building and trade diversification. The major thrust was on stimulating infrastructure investment to support industrial development, job-creation, skills development, food and nutrition security, poverty eradication and sustainable development in Africa.

BRICS leaders reiterated to work together for attaining the Millennium Development Goals (MDGs) by 2015 and also emphasized that post 2015 development agenda should build on

the MDG framework, retaining the main focus on poverty eradication and human development. However, there are fears that growing trade and investment links of the BRICS with poorer developing countries seek to exploit the natural resource base of these countries, siphoning them off in ways that are ecologically damaging, inherently unequal and of little benefit to the local people.

The discussion on establishing a dedicated BRICS bank was continued in the fifth BRICS summit, but there is doubt on whether BRICS will actually be able to give concrete shape to this idea. As far as investment and business is concerned, there is not much in common between these countries and some of the fundamental questions like location of the secretariat, the subscription amount, control and ownership and lending practices are yet to be settled. BRICS nations aimed to inject an initial \$50 billion into the 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 Africa and four times as big as Russia or Indian economy, there is a possibility that the bank would be dominated by China.

### **India's position in BRICS**

India is widely considered 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 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). 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 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.

## **India's role in BRICS**

The 6<sup>th</sup> BRICS summit, which is going to take place in Fortaleza, Brazil in 2014 (likely to be held in July, this year); will continue with the existing agenda of reform of the international financial system and creation of a development bank. The group is also likely to move beyond economic cooperation and expand the range of their discussions. The current economic situation of India is gloomy with the economy growing at less than 5% per annum. In view of the same, the magnitude of India's financial contribution to the proposed development bank is largely uncertain. Rather, India can derive larger gains for itself (from this forum), by raising the issues of poverty, inequality, social infrastructure, agriculture and food security. Coordination and cooperation among the BRICS countries on their pressing issues could help India significantly in addressing some of these challenges. <sup>i</sup>

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