

Reports

The BRICS Grouping: A Brick by Brick Development

Brahma Chellaney*



BRICS represents the first important non-Western global initiative in the post-Cold War world. It brings together five major emerging powers located in different parts of the world — Brazil, Russia, India, China, and South Africa, with the first letter in their names making up the acronym BRICS. In fact, the BRICS grouping can be called the R-5, after the names of its members' currencies — the real, ruble, rupee, renminbi, and rand.

Yet, despite the forward movement achieved at its recent New Delhi summit, BRICS remains a concept in search of a common identity and institutionalised cooperation. Brazil, Russia, India, China, and South Africa are still searching for a common ground that can help turn their initiative into a weighty geopolitical grouping. The risk is that without clearly defined objectives and an agreed plan of action, BRICS will be weighed down by internal contradictions, as symbolised by its members' starkly varying political systems, economies, and national ambitions.

The disparate nature of the group's membership — bringing together the world's largest autocracy and democracy, as well as commodity-exporting and resource-hungry economies — has prompted cynics to dismiss BRICS as an acronymic ingenuity without substance. To its protagonists, however, BRICS is a product of the ongoing global power shifts, and has the potential to evolve into a major instrument in shaping the architecture of global governance. As a unified grouping, BRICS could play midwife at a time the qualitative reordering of power symbolises the birth-pangs of a new international order.

On burning international geopolitical issues like Iran and Syria, BRICS actually stands out as the voice of moderation and caution, seeking to provide the balance to the interventionist impulse of Western powers. The BRICS leaders, in their joint declaration in New Delhi, cautioned that, "The situation concerning Iran cannot be allowed to escalate into conflict, the disastrous consequences of which will be in no one's interest. Iran has a crucial role to play for the peaceful development and prosperity of a region of high political and economic relevance, and we look to it to play its part as a responsible member of the global community. We are concerned about the situation that is emerging around Iran's nuclear issue."

But as the recent United Nations human-rights resolution on war crimes in Sri Lanka showed, the BRICS grouping is badly split on other issues. The group's main economic giant, China, is also the political outlier that rejects the very concept of national elections and is ever ready to advance its commercial and strategic interests by coming to the succor of a fellow human rights-abusing state.

Economically, however, BRICS is likely to remain the most-important source of global growth. The BRICS grouping, after all, represent more than a quarter of the Earth's landmass, over 43 percent of its population, almost 25 percent of world GDP, and nearly half of all foreign-exchange and gold reserves. In a spectacular reversal of fortunes, the developing economies, with their large foreign-currency holdings, now finance the mounting deficits of the wealthy economies, whose accumulation of sovereign debt and other concerns are fostering an uncertain environment for global economic growth.

In this light, BRICS, with its members' collective weight, can exercise significant global financial clout if it gets its act together. After all, the BRICS economies recovered relatively quickly from the 2007-08 global financial crisis, and continue to increase their share in world trade and output. By contrast, the continuing euro-zone crisis has created market volatility and dampened international growth prospects. Excessive liquidity resulting from central banks' aggressive interventions to stabilise domestic economies in the wealthy countries has spilled over into emerging market economies, creating serious instability in capital flows and commodity prices.

In the period since the Russia-India-China (RIC) initiative enlarged in 2008 to include Brazil and take the name of BRIC — a term coined by a Goldman Sachs economist in 2001 — the group has remained a loose, informal bloc. Last year's expansion of BRIC into BRICS with South Africa's addition has only accentuated the challenge to establish

an institutional structure and a common plan of action, even as this enlargement threatens to make irrelevant yet another initiative — IBSA (India, Brazil, and South Africa), which was designed to bring the developing world's three leading democracies on the same platform.

New Delhi Joint Declaration

The discussions in the New Delhi summit — held under the overarching theme, “BRICS Partnership for Global Stability, Security, and Prosperity” — led to agreement to intensify trade and investment flows among the group's member-states. To enhance intra-BRICS trade, the five countries have concluded an accord on extending credit facility in their own currencies. They also agreed to exchange technology and best practices on renewable energy and energy efficiency.

In their joint declaration in New Delhi, the BRICS leaders called for building macroeconomic stability to help facilitate a healthy recovery of the world economy. Indian Prime Minister Manmohan Singh even said that, “As members of the G-20, we must together ensure that appropriate solutions are found to help Europe help itself and to ensure policy coordination that can revive global growth.”

The leaders demanded that the wealthy states adopt “responsible” macroeconomic and financial policies, avoid creating excessive global liquidity, and undertake structural reforms. They expressed concern over the risks faced by the emerging economies over the large and volatile cross-border capital flows. And to contain the excessive volatility in commodity prices, they sought improved regulation of the derivatives market for commodities in order to prevent destabilizing impacts on food and energy supplies.

The BRICS leaders also acknowledged the resource constraints that some of their economies are now beginning to face. China and India, for example, are confronting water shortages, an energy crunch, and the flattening of crop-yield growth, spurring concerns over their food situation in the coming years. Although China and India currently are self-sufficient in food, the international food markets are not large enough to meet major new import demands from Asia.

In their restricted session, the BRICS leaders discussed the ongoing turmoil in parts of the Arab world. Their joint declaration said: “We must avoid political disruptions that create volatilities in global energy markets and affect trade flows.”

However, they failed to reach agreement on one important issue — the establishment of a common development bank. Their joint declaration merely said: “We have considered the possibility of setting up a new Development Bank for mobilising resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, and to supplement the existing efforts of multilateral and regional financial institutions for global growth and development. We direct our finance ministers to examine the feasibility and viability of such an initiative, set up a joint working group for further study, and report back to us by the next summit.”

China has been widely blamed for the lack of agreement on setting up the common development bank. It has insisted on controlling the proposed bank — something India and Russia, in particular, have been loath to accept.

Dealing with the Intra-BRICS Challenges

For Brazil, South Africa, Russia, and India, BRICS serves as a forum to underscore their rising economic clout and showcase their emergence as global players. But for China, which needs no recognition as a rising world power, BRICS offers tangible — not just symbolic — benefits. China indeed has cast a lengthening shadow over the grouping.

At a time when China is under pressure for continuing to manipulate the value of the renminbi in order to artificially reduce the price of its goods and services abroad, the BRICS framework offers it a platform to expand its currency's international role. As part of its quest to build the renminbi into an international currency, a cash-rich China is to extend renminbi loans to the other members of BRICS.

Lending and trading in renminbi will further boost China's international status and clout. China's undervalued currency and hidden export subsidies, however, have been systematically undermining manufacturing in other BRICS states, especially India and Brazil.

BRICS proponents still hope the group can serve as a catalyst for international institutional reforms. The global institutional structure has remained virtually static since the mid-20th century despite the rise of non-Western economic powers, and even the G-20's formation was an improvisation designed to defer genuine reforms.

Yet, on international institutional reforms, China is hardly on the same page as the other BRICS members. It is a revisionist power concerning the global financial architecture, seeking an overhaul of the Bretton Woods system. But it is a status quo power with respect to the United Nations system, and unwaveringly opposes expansion of the Security Council's permanent membership. It wishes to remain Asia's sole country with a permanent seat — a position that illuminates its effort to regionally confine India.

BRICS can become a pressure group in international relations only if its members are able to agree on a common action-plan. The BRICS states, for example, are generally united in their frustration with — but not in their proposed response to — the dollar's status as the world's reserve currency. Indeed, the most important bilateral relationship each BRICS country has is with the United States.

At the New Delhi summit, the group called for "a more representative international financial architecture, with an increase in the voice and representation of developing countries and the establishment and improvement of a just international monetary system that can serve the interests of all countries and support the development of emerging and developing economies." The group also complained about the "slow pace of quota and governance reforms" in the International Monetary Fund and demanded a comprehensive review by next January of the quota formula in order to better reflect economic weights and enhance the representation of the emerging economies.

The BRICS states, furthermore, want the World Bank's governance structure to reflect the current economic and political realities. They seek a shift in the World Bank's role from being an institution that essentially mediates North-South cooperation to becoming an institution that promotes equal partnership with all countries so as to "overcome an outdated donor-recipient dichotomy."

Yet, the BRICS economies have thus far been unable to develop a unified position on the specific changes they desire in the global financial architecture, or the IMF's quota and governance system, or even the World Bank's structure. In fact, they welcomed the two candidates from the developing world vying, along with U.S. nominee Jim Yong Kim, to become the next president of the World Bank. But they couldn't agree on which of the two developing-world candidates to support — Nigerian Finance Minister Ngozi Okonjo-Iweala or Colombia's Jose Antonio Ocampo, who earlier served as the head of his country's ministries of finance and agriculture and as chief of its central bank.

The BRICS states need to build common positions so that they represent a unified voice in international forums, ranging from the World Trade Organization and the Doha Round to the international climate-change negotiations. Later this year, two of the BRICS members, Brazil and India, will respectively host the United Nations Conference on Sustainable Development (Rio+20) and the Conference of Parties to the Convention on Biological Diversity. The next G-20 summit, to be held in Mexico, is also approaching.

As long as BRICS is unable to present itself as a unified bloc seeking to push specific changes in the present ailing international order, it will continue to be seen by the old powers as embodying an aspiration rather than a threat.

Despite the steps agreed upon at the New Delhi summit, it is uncertain whether BRICS will evolve into a cohesive grouping with defined goals and institutional mechanisms to help pluralise the global order or remain an initiative with a catchy acronym that does little more than annually bring together its leaders for more discussions.

If it is able to develop brick by brick, BRICS could find itself on the evolutionary path treaded by the now-supplanted G-7, which also began as a discussion platform before advancing to joint coordination and action among its members on key international issues.

**Brahma Chellaney is presently a Bosch Public Policy Fellow with The Transatlantic Academy in Washington, DC; a Professor of Strategic Studies at the independent Center for Policy Research in New Delhi; a Fellow of the Norwegian Nobel Institute in Oslo; a trustee of the National Book Trust of India; and an affiliate with the International Centre for the Study of Radicalization at King's College London.*

Copyright © 2012 Al Jazeera Centre for Studies, All rights reserved.