ISSN 1996-7845

International Organisations Research Journal (IORJ) is published by the International Organisations Research Institute (IORI) of the National Research University Higher School of Economics since January 2006. It is published quarterly since 2009. Generally, each issue is dedicated to one theme. The Journal is on the list of reviewed scholarly journals, approved by the Higher Attestation Commission of the Ministry of Education and Science of Russia, for publishing key research findings of PhD and doctoral dissertations. The journal’s main themes are: global governance and international affairs, world economy, international cooperation in education, science and innovation.

The journal’s mission is to disseminate the findings of research on global governance, international cooperation on a wide range of social and economic policies, including in the sphere of education, science and new economics, as well as creating a professional framework for discussion of trends and prognoses in these areas.

International Organisations Research Journal publishes academic and analytical papers by Russian and international authors on activities of international multilateral institutions: G8, G20, BRICS, OECD, the World Bank, IMF, WTO, UN, and alliances including the European Union, Eurasian Economic Union, Shanghai Cooperation Organisation and others.

The journal is aimed at researchers, analysts, practitioners in international affairs and world economics and at a wide audience interested in political issues of international affairs and global development.

The editorial position does not necessarily reflect the authors' views.

Copyrights are owned by authors and editorial office. The reproduction of materials without permission of the editorial office is prohibited. The reference to the materials is obligatory.

Subscription
Subscription index: 20054

Sale
To purchase the International Organisations Research Journal contact specialized bookshop of the Higher School of Economics Publishing House.
1/20, Myasnitskaya, Moscow, Russian Federation
Tel: +7 (495) 621-49-66, 628-29-60

Yaroslav Kuzminov, Scientific Advisor, Rector, HSE, Russian Federation
Marina Larionova, Editor-in-Chief, Director, IORI, HSE, Russian Federation
Olga Perfilieva, Deputy Editor-in-Chief, HSE, Russian Federation

EDITORIAL COUNCIL
Andrew Baker (Queen’s University of Belfast, United Kingdom)
Alexander Sokolov (National Research University Higher School of Economics, Russian Federation)
Andrei Kortunov (Russian International Affairs Council, Russian Federation)
Andrei Yakovlev (National Research University Higher School of Economics, Russian Federation)
Isac Frumin (National Research University Higher School of Economics, Russian Federation)
Jane Knight (University of Toronto, Canada)
John Kirton (University of Toronto, Canada)
Leontid Gokhberg (National Research University Higher School of Economics, Russian Federation)
Lev Lubimov (National Research University Higher School of Economics, Russian Federation)
Lev Yakobson (National Research University Higher School of Economics, Russian Federation)
Peter Hajnal (University of Toronto, Canada)
Robert Wageman (University of Groningen, Netherlands)
Sven Biscop (Egmont — The Royal Institute for International Relations, Belgium)
Tatiana Parkhalina (Institute of Scientific Information for Social Sciences of the Russian Academy of Science, Russian Federation)
Vladimir Shadrikov (National Research University Higher School of Economics, Russian Federation)
Yuri Borko (Institute of Europe of the Russian Academy of Sciences, Russian Federation)

EDITORIAL STAFF
Executive editor — Anna Zaichenko
Pre-Press — Yulia Petrina
Designer — Andrey Pavlov

Address
National Research University Higher School of Economics
20, Myasnitskaya, 101000, Moscow, Russian Federation
Tel: +7(495) 625-17-88
E-mail: iori@hse.ru
Web: http://iorj.hse.ru/
Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (ROSKOMNADZOR)
Reg.No. ПИ № ФС 77 — 59804 or 07.11.2014

Publisher
National Research University Higher School of Economics
500 copies
© International Organisations Research Institute of the National Research University Higher School of Economics, 2015
© Design. Publishing House of the National Research University Higher School of Economics, 2015
Научный руководитель Я.И. Кузьминов
(НИУ ВШЭ, Российская Федерация)

Главный редактор М.В. Ларионова
(НИУ ВШЭ, Российская Федерация)

Заместитель главного редактора О.В. Перфильева
(НИУ ВШЭ, Российская Федерация)

РЕДАКЦИОННЫЙ СОВЕТ
Э. Бейкер (Королевский университет Белфаста, Великобритания)
Св. Бископ (Королевский институт международных отношений «Эгмонт», Бельгия)
Ю.А. Борко (Институт Европы РАН, Российская Федерация)
Р. Ватенар (Университет Гринингена, Нидерланды)
Л.М. Гохберг (НИУ ВШЭ, Российская Федерация)
Дж.Дж. Киртон (Университет Торонто, Канада)
А.В. Кортунов (Российский совет по международным делам, Российская Федерация)
Л.Л. Любимов (НИУ ВШЭ, Российская Федерация)
Дж. Найт (Университет Торонто, Канада)
Т.Г. Нархалина (Институт научной информации по общественным наукам РАН, Российская Федерация)
А.В. Соколов (НИУ ВШЭ, Российская Федерация)
И.Д. Фурмин (НИУ ВШЭ, Российская Федерация)
П. Хайнал (Университет Торонто, Канада)
В.Л. Шадриков (НИУ ВШЭ, Российская Федерация)
Л.И. Якобсон (НИУ ВШЭ, Российская Федерация)
А.А. Яковлев (НИУ ВШЭ, Российская Федерация)

РЕДАКЦИЯ
Выпускающий редактор А.В. Заиченко
Компьютерная верстка Ю.Н. Петрина
Художник А.М. Павлов

Адрес редакции
101000, Москва, Мясницкая, 20
Национальный исследовательский университет «Высшая школа экономики»
Телефон: +7 (495) 625-17-88
E-mail: iori@hse.ru
Web: http://iorj.hse.ru/

Издание зарегистрировано Федеральной службой по надзору в сфере связи, информационных технологий и массовых коммуникаций, регистрационный номер ПИ № ФС 77 — 59804 от 07.11.2014

Учредитель
Национальный исследовательский университет «Высшая школа экономики»

© Институт международных организаций и международного сотрудничества Национального исследовательского университета «Высшая школа экономики», 2015
© Оформление. Издательский дом Национального исследовательского университета «Высшая школа экономики», 2015
Contents

Foreword by the Editors

M. Larionova, L. Scaffardi, V. Federico ................................................................. 7

BRICS Evolving Institutional Identity

J.J. Kirton
Explaining the BRICS Summit’s Solid, Strengthening Success ........................................ 9

A.F. Cooper, A.B. Farooq
Testing the Club Dynamics of the BRICS: The New Development Bank from Conception
to Establishment ............................................................................................................. 32

M. Carducci, A.S. Bruno
The BRICS Countries and Democratic Contagion .......................................................... 45

N. Khmelevskaya
The Real Contours and Targets for the BRICS Monetary Partnership
to Facilitate Trade and Investment .................................................................................. 53

A. Morozkina
The New Development Bank in the Global Financial Architecture .................................... 68

BRICS Contribution to Global Governance: Policy Areas

H. Reisen
Alternative Multilateral Development Banks and Global Financial Governance ................. 81

V. Panova
The BRICS Security Agenda and Prospects for the BRICS Ufa Summit ............................. 90

M. Kahn
Prospects for Cooperation in Science, Technology and Innovation among
the BRICS Members ........................................................................................................ 105

BRICS Members’ Interests and Priorities for Cooperation

E.P. Contipelli, S. Picciau
The Institutional Status of the BRICS and Pragmatic Cooperation: The Case of South America ... 120

M. Rewizorski
Another “Brick” in the Wall? Brazil’s Quest for Relevance in Global Governance ................. 129

H. Niu
Is There a Role for the BRICS in Asian Affairs? .................................................................. 146

T. Deych
BRICS Regional Policy in Africa ......................................................................................... 153

V. Shubin
South Africa in the BRICS: Last But Not Least ................................................................... 171
Содержание

Вступительное слово
М. Ларионова, Л. Скаффарди, В. Федерико ........................................................................................................... 7

Институциональное развитие БРИКС
Дж.Дж. Киртон
Анализ причин успешности саммитов БРИКС .................................................................................................... 9
Э.Ф. Купер, А.Б. Фарук
Апробация клубного механизма взаимодействия БРИКС: Новый банк развития от концепции до становления ............................................................................................................. 32
М. Кардуччи, А.С. Бруно
Страны БРИКС и распространение демократии .......................................................................................... 45
И.Г. Хмельская
Реальные контуры и ориентиры валютного партнерства БРИКС для содействия торговле и инвестициям .................................................................................................................. 53
А.К. Морозкина
Новый банк развития в глобальной финансово-экономической архитектуре ........................................... 68

Вклад БРИКС в глобальное управление: направления политики
Г. Рейзен
Альтернативные многосторонние банки развития и глобальное финансовое управление .................................................. 81
В.В. Панова
Проблемы безопасности и перспективы саммита БРИКС в Уфе ..................................................................... 90
М. Кан
Перспективы сотрудничества стран БРИКС в области науки, технологий и инноваций ....... 105

Интересы и приоритеты сотрудничества стран — членов БРИКС
Э.П. Контипелли, С. Пиччау
Институциональный статус БРИКС и прагматическая модель сотрудничества: на примере стран Южной Америки ........................................................................................................ 120
М. Ревизорский
Еще один «кирпич» в стене? В поисках места Бразилии в системе глобального управления .................................................................................................................. 129
Х. Ню
Играет ли группа БРИКС роль в делах Азии? .......................................................................................... 146
Т.Л. Дейч
Региональная политика БРИКС в Африке .......................................................................................... 153
В.Г. Шубин
ЮАР в БРИКС: последняя по очереди, но не по важности .................................................................. 171
The BRICS group of Brazil, Russia, India, China and South Africa, which was hosted by Russia for its first meeting of BRIC members at Yekaterinburg on 16 June 2009, has evolved into a plurilateral summit institution recognized by both former sceptics and proponents as a major participant in the international system. Ever since, the BRIC has grown institutionally, developed into the BRICS with the inclusion of South Africa, expanded its agenda and the intensity of interaction among its members, and demonstrated its capacity to deliver on a wide range of decisions, the latest examples being the New Development Bank, the BRICS Contingent Reserve Arrangement, the Cooperation Agreement on Innovation and the Memorandum of Understanding on Cooperation among BRICS Export Credit Insurance Agencies.

As the BRICS returns to Russia for its seventh summit, to be held in Ufa on 8–9 July 2015, the leaders will deliberate and make decisions on a vast number of issues across most of major global governance challenges. The BRICS remains committed to inclusive growth, macroeconomic coordination, strengthened financial stability and reform of the international institutions to better reflect the increasing weight of emerging markets and developing countries (EMDCs) in the world economy. In Fortaleza, at their sixth summit, the BRICS leaders pledged to raise economic cooperation to a qualitatively new level, and it may be expected that a strategy for economic partnership will be adopted in Ufa. Given that 2015 marks the transition to the new Sustainable Development Goals proposed by the United Nations to replace the Millennium Development Goals to eradicate poverty while promoting sustainable patterns of consumption and production, as well as protecting and managing the natural resource base of economic and social development, the future of development cooperation will definitely be on the BRICS agenda. Inclusive growth depends both on the countries’ economic progress and equitable social policies. The BRICS countries steadily step up their cooperation on education, health and agriculture, as well as innovation and information and communications technology to enhance opportunities for all. Peace being the cornerstone of development and growth, political and security issues will remain top priorities for BRICS cooperation.

The rapid pace of the institutionalization of the BRICS is likely to continue. The formal track has grown into a constellation of 14 cooperation formats, including meetings among sherpas and sous-sherpas, central bank governors, ministers and deputy ministers, senior officials, contact groups, and working and experts groups. The BRICS Business Forum emerged in 2010, and in 2013 the BRICS Business Council was established as a platform for a regular dialogue between the business communities and the governments of the BRICS countries. Since 2010 the Academic Forum has provided solid research to feed BRICS engagement. It provides a framework for thinkers to develop new ideas and test concepts that may then be taken up by policymakers. It also promotes wider cooperation among BRICS institutions, involving exchange programmes and joint publications. At the fifth academic forum in Durban in 2013, the BRICS Think Tanks Council (BTTC) was established to enhance cooperation in research, knowledge sharing, capacity building and policy advice among think tanks in the BRICS countries. Encouraged by the leaders’ support, the BTTC has been working on a long-term vision to be presented to the leaders in 2015. In 2015 the BRICS dialogue with social partners has been expanded to include the Civil BRICS, which held a forum to bring together together non-governmental organizations from the members states in June 2015. Similarly, the Trade Unions Forum is scheduled for 9 July 2015.
BRICS outreach cooperation is acquiring a regional dimension since the 2013 South African presidency initiated and successfully held the BRICS Leaders-Africa Dialogue Forum. In 2014, the Brazilian presidency hosted a working session in Brasilia between the BRICS leaders and South American leaders. Holding such a dialogue between BRICS leaders and their counterparts in the host country’s region is becoming a systemic component of the BRICS outreach strategy. Russia is expected to invite the leaders of Armenia, Belarus, Kazakhstan and the Kyrgyz Republic, all members of the newly created Eurasian Economic Union (EEU) that came into force on 1 January 2015. With regard to the long-term future, Russia’s BRICS partners may consider establishing free trade zones with the EEU.

This special issue of the International Organisations Research Journal (IORJ) considers the BRICS group in the system of global governance, providing an analysis of the contextual background for the group’s blossoming and consolidation as an international actor and offering insights on specific BRICS policies and political perspectives. The collection starts with an overview of BRICS summity performance, its institutionalization, the club culture and the cooperative principles. The second part looks at on different policy areas on the BRICS agenda, including finance, security and science, technology and innovation. The issue concludes with articles exploring BRICS members’ interests and priorities for cooperation.

The idea of the special issue was inspired by the BRICS transformation into a global summity institution and by the subsequent need for elaborating new and innovative theoretical frames to analyze the BRICS phenomenon in a multidisciplinary and comparative perspective. Many of the articles were first presented and discussed at the conference on “The BRICS Group in the Spotlight,” convened by the University of Parma in Italy in November 2014. The authors and the editors of the collection hope that their reflections presented in the IORJ will contribute to a better understanding of the BRICS in the system of global governance and provide ideas for the forum future agenda.

Dr. Veronica Federico
Department of Legal Sciences, University of Florence, Italy

Dr. Marina Larionova
International Organizations Research Institute, National Research University Higher School of Economics, Russia

Prof. Lucia Scaffardi
Department of Law, University of Parma, Italy
BRICS Evolving Institutional Identity

Explaining the BRICS Summit‘s Solid, Strengthening Success¹

J.J. Kirton

John J. Kirton — Professor, co-director, BRICS Research Group, co-director, G20 Research Group, director, G8 Research Group, Munk School of Global Affairs, University of Toronto; 1 Devonshire Place, Room 209N, Toronto, Ontario M5S 3K7, Canada; E-mail: john.kirton@utoronto.ca

The BRICS has emerged as a solid, increasingly comprehensive, cooperative success, both alone and within the G20, on behalf of all emerging countries, as demonstrated by its summit performance since its start on the margins of the G8’s Hokkaido Summit in 2008 through to its gathering at the G20’s Brisbane Summit in 2014. This success is due primarily to the failure of the other international institutions from the 1944–45 and 1975 generations to give the leading emerging powers an equal, effective place and thus to solve the new, compounding global financial crisis and other challenges arising since 2008. The BRICS is a plurilateral summit institution growing in its level, membership, agenda and interaction intensity, with its summit performance rising substantially across an increasing array of major dimensions of global summit governance. This performance has been driven somewhat by the global financial, economic and food shocks since 2008, but primarily by the failure of the multilateral organizations from the 1940s, the G8-plus process from 2003 to 2009 and the first two G20 summits to give the big emerging powers the equal role, rights, responsibilities and effective influence warranted by their rising relative capability and international openness and needed to solve the new challenges of an intensely interconnected world. It was also due to the increasing institutionalization of the BRICS as a constricted, compact club, where rational incentives to cooperate slowly started to breed personal bonds that enhanced cooperation among the participants themselves.

Key words: BRICS summit, global financial crisis, G8, G20

Introduction

Significance

Among the world’s many plurilateral summit institutions (PSIs) with global relevance and reach, the BRICS grouping of Brazil, Russia, India, China and South Africa stands out in several ways. It arose as a summit on the sidelines of the Group of Eight (G8) summit in 2008, just before the arrival of the first Group of 20 (G20) summit, in which all the BRICS members had an equal place. It was initiated by Russia, which soon hosted the first separate BRICS summit at Yekaterinburg on 16 June 2009, and which had been an established member of the G8 since 1998. The BRICS combined territorially large, centrally located powers from major continents:

¹ The author is grateful for the research assistance of Caroline Bracht, Julia Kulik, Olga Milkina, Maria Marchyshyn and other members of the BRICS Research Group and for the comments from the anonymous referees who reviewed this article.
Russia from Europe, East Asia and Central Asia; China from East Asia; India from South Asia; Brazil from South America; and, upon its admission in 2011, South Africa from Africa. At its outset, the BRICS contained a small set of largely post-colonial countries of a distinctive kind — the economically, demographically and geographically big emerging countries that were growing very fast and rapidly approaching or already in the major power tier. It had a quite comprehensive agenda, unlike the G20 initially focused on finance and economics, and unlike the G8 apparently focused after 2009 on development and security. Its broad agenda highlighted the questions of whether and why the BRICS would provide better global governance than the G8 and G20 and whether it would do so in cooperation or competition with these other global PSIs.

The Debate

Answers to these questions are the subject of an ongoing debate among several competing schools of thought about how and why the BRICS summit arose and performed.

The first school sees a failed BRICS of little relevance to its members or those beyond. Adherents point to its lack of big achievements on central, pressing issues such as reform of the United Nations Security Council (UNSC) and its long struggle to produce only a modestly resourced BRICS development bank by 2014. As causes they point to the lack of common characteristics and interests among its members, notably the differences between democratic India, Brazil and South Africa and the less democratic members, the territorial disputes and military tension between China and India, and the admission of a much smaller South Africa with a power-boosting focus on it neighbouring African region rather than the globe as a whole [O’Neill, 2012].

The second school sees the BRICS experiencing a boom-to-bust decline [Niu Haibin, 2015]. This school emerged in 2013 when the economic growth of China and India began to slow and that of Russia, Brazil and South Africa started suddenly to drop severely. A variant sees the BRICS as merely one of many new groups of emerging powers arising in the same period, with others having more promise due to their more reliable rising power and democratic political systems [Keukeleire and Hooijmaaijers, 2014].

The third school sees a “facade of unity” as the BRICS summit struggles to agree on a reformed international financial order, due to its members’ domestic economic and political challenges and the close ties of some to a much more powerful United States [Jones, 2014, p. 80]. Members’ difficulties in meeting the demands of their middle-income transition mean that the future power of the BRICS is by no means assured. Others highlight its members’ economic disparities, with China so much more powerful than the rest, their different domestic political systems, and rivalries between China and India [Acharya, 2014, pp. 65–65].

The fourth school sees the BRICS as a short-term, single-issue, successful response to the financial crisis that created it [Petropoulos, 2013]. It argues that the BRICS summit arose due to the imbalance in the international economic system exposed by the financial crisis of 2008. The economic size of BRICS members allowed the group to participate successfully in discussions about solutions to the crisis. This showed that their collaboration could improve their global standing. This leverage focused the BRICS agenda, especially at the early summits, on reforming the existing international financial institutions (IFIs) to enhance the influence of emerging economies.

The fifth school sees the BRICS becoming increasingly influential but still far from being a unified geopolitical bloc or alliance [Kulik, 2014]. Its leaders created a currency reserve pool in 2013, were the G20’s most active members, and were reshaping global order with increasing
influence and impact due to their rising relative capabilities. Yet after five summits they “still have a long way to go before they can manage to find the common ground necessary to act as a unified geopolitical alliance” [Li, 2014, p. 14]. Similarly, Steen Fryba Christensen and Raúl Bernal-Meza [2014, p. 44], employing concepts developed by Antonio Gramsci and Robert Cox, conclude that “it is difficult to conceive of the BRICS as a counter-hegemonic ‘alliance’ to the extent that the interests and the differences between its members do not permit one to consider it a force that could generate systemic changes.” A variant of this school sees “interdependent hegemony,” asserting that “the rise of the BRICS has indeed, to a large extent, challenged the many aspects of the existing international order’s functionality, scope, legitimacy and authority … However, it has not yet fundamentally changed the structural power of the existing international system” [Li and Agustín, 2014, p. 69].

The sixth school sees the BRICS as Russia’s counter-hegemonic coalition, created as an assertive, long-term, finance-focused group that is crystallizing as an influential community [Roberts, 2009; Fituni, 2014, pp. 98–107]. Its cohesion and influence are based on its members’ status as regional superpowers and economic growth engines and their consensus on common principles for world order. This school argues that the BRICS was led by a Russia that sought to counter unipolarity in an international system directed by the United States. Russia thus turned the BRICS from an investment strategy and concept about economic cooperation invented by Jim O’Neill in 2001 into a political alliance to change the international balance. When the economic crisis exposed the United States as vulnerable, Russia seized the opportunity to highlight the failures of the U.S.-led international economic system. Russia called for emerging economies to become equals in decision making. By 2008, it had obtained a favourable international position, as it had integrated itself into the international economic system on its own terms. Russia thus reacted to the western sanctions imposed on it due to the Crimea crisis in 2014 by trying to use its connections with China and India to boost trade and foreign investment [Zhong, 2014]. As members of the G20, the BRICS countries also bonded to counter host Australia’s suggestion that Russia might be suspended from the governing troika preparing the Brisbane Summit in November 2014 [Jones, 2014, p. 83].

The seventh school sees the BRICS as a broader developing country coalition seeking to shift the balance of global political influence from the West toward the developing world as a whole [Nikonov, 2014]. It was an expression of the unified political will of several countries to establish a new international institutional balance to correspond to the emerging geopolitical one. As the existing institutional balance was undemocratic and unipolar and failed to offer opportunities for all parties, the BRICS helped developing countries to claim their place. It thus challenged not only the G7/8 but also western dominance as a whole.

The eighth school sees the BRICS as a stand-alone success, due to its own institutional skill [Cooper, 2014; Cooper and Thakur, 2014]. Andrew F. Cooper and Asif Farooq [2013, p. 428] argue that “BRICS members have been successful in amplifying converging interests while avoiding friction from disagreement by downplaying issues on which there is geopolitical divergence and policy competition” and relying on institutional flexibility from a loose, informal style. A variant sees particular BRICS success in the global South, led by its New Development Bank, based on its members’ financial, technical and foreign reserve capabilities [Modi, 2014, pp. 86–87].

The ninth school sees the BRICS as a successful competitor to the G8 and G20. It produced agreements important to its members and the world and succeeded on issues where other international institutions had failed. This school highlights the expansion of the BRICS to embrace South Africa as a member in 2011, the involvement of many African leaders at the Durban Summit in 2013, and the creation of the New Development Bank at the Fortaleza Summit in 2014. As causes, it identifies the members’ growing power, similarity and like-mindedness as
big, emerging, largely post-colonial powers and the failure of the established G7 powers and the international institutions they control to accommodate this power and distinctive common interests in a sufficiently fast and full way.

The tenth school sees the BRICS as a successful cooperator with the G20 and the G8 [Kirton, 2013d; Luckhurst, 2013]. It points to the many priority subjects, principles and actions that the BRICS and all G20 members agree on and the tendency of the BRICS to voice its distinctive dissent in reasonable, restrained, diplomatic terms. It notes the BRICS summit’s regular expression of support for the G20. As causes, it identifies the seriousness of the global problems that all three global PSIs address, their shared agenda, the continuing need of the BRICS for G7 countries’ capabilities and cooperation, the membership of all BRICS members in the G20, and the unique position of Russia — the BRICS founder — as a member of the BRICS, G20 and, until its suspension in 2014, the G8. A variant of this school sees BRICS members diverging on many G20 issues but uniting to secure its agreements on IFI reform and shifting the G20’s focus to development issues [Stuenkel, 2012].

**Puzzles**

All these schools acknowledge the growing international economic and political power and role of the BRICS members, their desire for an enhanced place in global governance and their leadership in regional institutions such as the Shanghai Cooperation Organisation (SCO) and the India-Brazil-South Africa (IBSA) Dialogue Forum. Yet none fully explains why BRICS summity arose before G20 summity did and then became institutionalized as a standalone summit in 2009, after the G20 one had become an ongoing PSI in which all BRICS members and other key emerging countries had an equal place. None offers a comprehensive, evidence-based assessment of the BRICS summit performance, across all of the major dimensions of global governance that such PSIs have, nor does so according to an analytical framework that allows for systematic assessment and results that can be directly compared to those of the similar PSIs of the G8 and G20. Almost none offer explanations based on a well-specified, internally consistent, causal model that is grounded in the major international relations theories of realism, liberal institutionalism and constructivism and that directly connects its causes to the hypothesized and observed effects. Such systematic scholarship is necessary to accurately describe how well the BRICS summits performed and compactly explain why it did so. This article undertakes these tasks of systematic, theory-grounded, model-based description and explanation. It does so using a method of input-output matching, reinforced by a brief process tracing of the critical case of most recent BRICS summit at Fortaleza in 2014.

**Thesis**

This analysis shows that the BRICS summit became a solid, increasingly comprehensive, cooperative success, both alone and within the G20, on behalf of all emerging countries. This was due primarily to the failure of the international institutions from the 1940s and 1975 to give the leading emerging powers an equal role in solving the compounding global financial, food and other challenges and crises erupting since 2008. As the BRICS grew institutionally in its level, membership, agenda, interaction intensity and depth, its summit performance rose to a substantial level across most dimensions of global governance. This rise was driven somewhat by the shocks of the global financial, food and economic crises of 2008–13, but above all by the failure of the multilateral organizations from the 1940s, the expanding G8 from 1975 and the first two G20 summits to give the big emerging powers the equal role, rights, responsibilities and influence that their rising relative capability and increasing international openness war-
ranted and that were needed to solve the new challenges of an intensely interconnected world. It was also due to the increasing institutionalization of the BRICS as a constricted, compact club, where rational incentives to cooperate slowly bred personal bonds among the participants themselves.

The Growth of the BRICS as an International Institution

The BRICs was created conceptually as a class of countries in 2001 by Jim O’Neill of Goldman Sachs [O’Neill, 2001]. Yet its origins go back to the early 1990s in Russia, in the form of a “strategic triangle” of the RIC of Russia, India and China [Fituni, 2014, pp. 98–100; Senokosov, 2012]. It was later fostered by the formation of the SCO led by Russia and China. The BRICS itself first emerged at the ministerial level, as a gathering of the foreign ministers of Brazil, Russia, India and China on the margins of the opening of the United Nations General Assembly (UNGA) in September 2006 [Roberts, 2009; Luckhurst, 2013]. The first meeting of the BRIC leaders took place on the margins of the G8 and Major Economies Meeting on Energy Security and Climate Change (MEM) in Toyako-Hokkaido on 9 July 2008 [Hansen and Sergunin, 2015]. They agreed to hold a “proper” free-standing meeting the following year.

That stand-alone summit took place at Yekaterinburg on 16 June 2009, after the first two, highly successful G20 summits had been held in November 2008 and April 2009 [Kirton, 2013a]. BRICS leaders continued to hold their annual stand-alone summits each spring (see Appendix A). By 2011 they had added a second one each autumn on the margins of the G20 summit. At the second stand-alone summit, South Africa was admitted as a member. It attended the third summit in Sanya for the first time as such and hosted the fifth summit in Durban in 2013.

The BRICS summit quickly acquired a broad and dense array of ministerial and official-level bodies (see Appendix A). Stand-alone ministers’ meetings started for foreign affairs in 2006; finance in 2008; agriculture, trade and health in 2010; education and science, technology and innovation in 2013; and environment in 2015. The peace and security club thus quickly became an economic and social development one.

Dimensions of BRICS Performance

BRICS summit performance generally rose slowly and steadily over its first six summits to reach a solid level. This progress is seen in a systematic assessment of the evidence according to the six dimensions of global governance by which such summits are assessed, as outlined and justified in the model of systemic hub governance developed to account for the performance of the G20 (see Appendix B) [Kirton, 2013a].

**Domestic Political Management**

On the first performance dimension, domestic political management, the BRICS stand-alone summits had a perfect attendance record. The leaders always deemed it important to attend. The same was true for the BRICS summits held on the margins of the G20 and G8. This record was maintained by the decision at the Toronto G20 summit in 2010 not to hold a BRICS meeting because President Lula of Brazil did not attend the twin G20 one. The principle of fully inclusive equality was thus affirmed.

At their stand-alone summits, the BRIC leaders issued an increasing number of compliments to individual members in the summit’s communiqué. Such compliments, 43 in total,
were issued at every summit, starting with two in Yekaterinburg in 2009, rising to a peak of 11 at Sanya in 2011 and 10 at Fortaleza in 2014.

The BRICS also featured in the subsequent national policy addresses of its members. In China, in the report to the 18th Party Congress in the autumn of 2013, when Xi Jinping became the new president, the foreign policy section referred to only four international institutions: the UN, G20, BRICS and the SCO.

The effect of domestic re-election on BRICS summits is difficult to determine. Most leaders attending the early summits (Russia’s Dmitry Medvedev, China’s Hu Jintao, India’s Manmohan Singh and Brazil’s Lula) did not run for re-election. In the case of South Africa’s Jacob Zuma, the newest member, there seems to have been a small positive effect.

**Deliberation**

On the second dimension, deliberation, in its public component measured by the conclusions in the concluding communiqué, performance slowly increased. The first summit produced just under 2,000 words, the second and third between 2,000 and 2,500, the fourth and fifth more than 4,000, with a surge at the sixth to 21,907 words (see Appendix B). It took the G7 summit 13 years to reach a level of over 4,000 words; the BRICS did it by their third summit.

At the first summit in 2009, the leading issue was macroeconomics, occupying 57% of the communiqué, followed by trade and investment at 36%, development at 35%, and the financial crisis at 22%, with considerable overlap (see Appendix C). In 2010 macroeconomics and development again led with more than 41%, IFI reform rose to take the third spot and employment was added. In 2011 macroeconomics and development again led, while food and agriculture at 18% came third and health at 14% fourth, with arms control and proliferation added. In 2012 macroeconomics and development again led. However, in 2013 when South Africa hosted, development soared to a strong first at 60%, and macroeconomics dropped to a distant second at 25%. In 2014 development retained its lead, while IFI reform took second at 19%.

The BRICS summit thus always had development as a priority, and macroeconomics until 2014. Its agenda broadened into the social concerns of food and health. It also expanded into the political-security subjects of non-proliferation with a peak of 9% in 2012 and terrorism with a peak of 9% in 2013.

**Direction Setting**

On the third dimension, the principled and normative direction setting emphasized by constructivist theory, performance has been strong, above all in emphasizing the BRICS institution’s foundational distinctive mission. At the very start of their first joint statement in 2009, the BRIC leaders defined the mission of their new group as discussing “the current situation in global economy and other pressing issues of global development, and also prospects for further strengthening collaboration within the BRIC.” In the first numbered paragraph they declared: “We stress the central role played by the G20 Summits in dealing with the financial crisis.” The statement ended by defining the BRIC’s purpose as “serving common interests of emerging market economies and developing countries, but also to building a harmonious world of lasting peace and common prosperity.”

What rendered this foundational mission distinct from those of other international institutions was “strengthening collaboration within the BRIC,” supporting the G20 summit in the face of financial crisis and, less clearly, supporting the common interests of emerging countries in their economic development.
**Decision Making**

On the fourth dimension, decision making through producing commitments with precision, obligation and future orientation, as highlighted by the legalization variant of liberal-institutionalist theory, performance rose [Abbott, Keohane, Moravcsik et al., 2000]. The BRICS summit started with only 15 commitments in 2009, quickly spiked to 45 in 2010 and remained at about that level through to 2013. It took the G7 summit six years to reach a similar level. In 2014 the BRICS soared to produce 92 commitments.

In 2009, the leading subject was energy with five commitments, well ahead of the ten others with only one each (see Appendix D). In 2010, energy again came first with 11 commitments, followed by development with seven. In 2011, climate change came first with six commitments, followed by macroeconomics and trade with five each. In 2012 trade with nine commitments led by far. In 2013 development led with 13, followed by peace and security with eight. In 2014 decision making broadened even more, as commitments came in turn on international cooperation with 24, macroeconomics with 10 and socioeconomics, crime and corruption, and regional security with nine each. The BRICS was increasingly becoming a full-strength decisional forum, much like the G7/8 had long been. This increasingly comprehensive decisional performance is seen in the addition of the first commitments on financial regulation, macroeconomics, trade, climate change and energy in 2010, and on food and agriculture, health, human rights, accountability, terrorism, regional security and institutionalization in 2011. It is further seen in its surge in peace and security commitments in 2014.

Its 264 cumulative commitments were led by international cooperation with 33 and development with 27. This shows the BRICS is an outward looking, cooperative, development-devoted group.

**Delivery**

On the fifth dimension of delivery, defined as the compliance of its members with its priority commitments in the year following the annual summit, performance is best assessed by an application of the methodology developed for, applied to, and used to assess the G8, G20 and UN summits [Kirton, Kulik, Bracht et al., 2014; Kirton, Kulik and Bracht, 2014; Drezner, 2014, p. 142; Kirton, in press-b]. This method requires extensive, systematic research on the actual behaviour of BRICS members in implementing their priority summit commitments and doing so in a way caused by and consistent with the summit commitments their leaders made. The research based on this methodology has produced the best data base currently available about the compliance performance of the G8, G20 and BRICS summits.

This research shows that BRICS compliance performance has always been in the positive range and usually substantial, with a rising trend (see Appendix E). Compliance with the one assessed commitment from 2009 was +1.00 (100%), and with the three from 2010 +0.27 (63.5%). Compliance with the seven assessed priority commitments from 2011 was +0.54 or 77%, and with the five commitments assessed from 2012 at +0.28 or 64%. For the five assessed commitments from 2013, compliance rose back to +0.48 or 74%. This compliance performance is similar to the G8’s first 37-year average of +0.40 or 70%.

**Development of Global Governance**

On the sixth dimension, the institutionalized development of global governance, performance has been strong. References to institutions inside the BRICS started with two in 2009 but spiked to 32 in 2012 and 26 in 2013 (see Appendix B). There was a similar rise in references to
outside institutions, with a spike from 13 in 2009 to 34 in 2010 (see Appendix F). There was always more attention to outside than to inside institutions, although the gap narrowed over the years. In keeping with its distinctive mission, the BRICS launched its New Development Bank in 2014, just as the G20 had created the Financial Stability Board in 2009 to meet its distinctive mission of promoting financial stability.

The Cadence of BRICS Performance

Taken together, the BRICS summit performance over its first six years suggests a four-stage progression. The first stage of getting started saw a small success, with accomplishments primarily in the public deliberative domain. The second stage, in 2010 and 2011, saw a substantial increase in almost all dimensions, especially in decision making in 2010 and delivery in 2011. The third stage, in 2012 and 2013, saw a further rise to a substantial level, above all in public deliberation. The fourth stage, at the start of its second hosting cycle in Fortaleza in 2014 saw a spike in deliberation, decision making and the development of global governance inside the BRICS, led by the birth of the New Development Bank.

On a comparative basis, this performance fits well with that of the G7 after its first six summits from 1975 to 1980. However, in comparison with the first six G20 summits, the BRICS lags, save only for the leaders’ attendance, where the smaller BRIC had a perfect score [Kirton, in press-a].

Causes of BRICS Performance

The concert equality model of G8 governance and the systemic hub model of G20 governance can explain this particular pattern of BRICS performance rather well, but with the second cause of multilateral organizational failure now replacing the first cause of shock-activated vulnerability as the most salient one in the case of the BRICS [Kirton, 2013d].

Shock-Activated Vulnerability

The first cause is shock-activated vulnerability, notably in finance, food and foreign military interventions. The global financial crisis, emerging in the United States, United Kingdom and Europe in 2007, was a key cause of the first BRIC stand-alone summit at Yekaterinburg in June 2009 and, to a lesser extent, its first sideline summit in the summer of 2008. By 2009 all BRICS members were severely affected by the crisis, which erupted when U.S. investment bank Lehman Brothers collapsed on 15 September 2008 and spread globally and deepened swiftly during the following months. The diminishing strength of the crisis after 2009 coincided with the reduced attention given by the BRIC countries to the financial crisis, and the increasing intensity of their summity and performance focused on other subjects. The second shock salient to the creation of the BRICS was the food crisis of 2008. Its impact is seen in the release at the first BRIC summit of a separate leaders’ statement on food security. However, although most BRIC members were food importers, the impact was limited within their countries, if not on the poorer developing ones beyond. The declining severity of the global food crisis was, however, accompanied by rising attention given to food security in 2011, for this was a chronic condition for the poor.

The third shock came from foreign military interventions led by G8 powers, above all in Libya in 2011. They inspired the BRICS to express opposition to the Libyan intervention in 2011 and more generally to express its devotion to the principle of non-interference, even if these
military interventions were not mounted directly against BRICS members or their close allies abroad.

**Multilateral Organizational Failure**

The second cause, multilateral organizational failure, is more salient. The failure of the UNSC to prevent the expansion of the military intervention launched by the North Atlantic Treaty Organization in Libya, the failure of the International Monetary Fund (IMF) to reform its voice, vote and governance in full on time, and the failure of the World Bank were direct causes of BRICS actions, with the World Bank failure generating the creation of the New Development Bank in 2014. The World Trade Organization’s failure to complete its badly overdue Doha Development Agenda also fuelled BRICS performance on trade.

In similar fashion, the G8 failed at its 2008 summit in Hokkaido and 2009 summit in L’Aquila to give BRIC members a fully equal permanent place. They were again only invited guests at some sessions and at L’Aquila their status was newly diluted by the 40 leaders who attended on the last day. BRICS performance surged at Fortaleza in July 2014, the first BRICS summit held after Russia had been suspended from the G8 summits held earlier that year.

**Predominant, Equalizing Capabilities**

The third cause, the predominant, equalizing capabilities of BRICS members, also mattered. Since its 2009 start, the BRIC increased its global predominance to approach a majority in global gross domestic product in purchasing power parity, growth rates and population [Kirkton, 2013d, a]. However, the combined soft power of the BRICS members remained modest compared to that of the G7 and the other G20 members (see Appendix G).

Moreover, its internal equality and equalization were low. China’s economy was larger than the other four members combined and its growth rate far exceeded that of the other, slowing members in 2013 and 2014. The addition of South Africa as a member in 2011 reduced the equality and equalization of the group. One result of China’s much superior relative capability was its 2014 success in securing the site of the New Development Bank.

**Common Characteristics and Principles**

The fourth cause, common characteristics and principles has some weight. Most BRICS members are big, rapidly emerging economies, with a global foreign policy and relevance. Most had direct experience as colonies under European imperialism. Yet there is a large divide between the democratic members of India, Brazil and South Africa, institutionalized in their IBSA Dialogue Forum since 2013, and Russia and China. China and India had a territorial dispute, just as Russia and Japan did within the G8 club.

**Domestic Political Cohesion**

The fifth cause, domestic political cohesion, is high, and thus helps account for the BRICS increasing and solid success. Each BRICS leader in the first six years was in firm control of his or her domestic legislature, judiciary and central bank and was relatively popular among the domestic public. Continuity was considerable, as India’s Manmohan Singh attended all six summits while each other original member sent two leaders to the summit. The cumulating continuity helps account for the BRICS performance rise, if not the singular spike in performance in 2014.
Constricted Participation in a Club at the Hub

The sixth cause, constricted participation in the club also had a strong effect. With only one member added in its first six years to make it a five-member group, the BRICS was a highly compact club. Meeting twice a year since 2011, it acquired the interaction intensity needed to become an interpersonal club. All members also belonged to the G20, while Russia connected the BRICS to the G8 until 2014, India and South Africa to the Commonwealth, Russia and China to the SCO, and Russia, China and India to the Asia-Europe Meeting.

Critical Case: 2014 Fortaleza

The sixth BRICS summit, held in Fortaleza on 15 July 2014, showed that the BRICS was becoming a more comprehensive, cooperative success on behalf of all emerging and others countries, by acting as an internally equal and even interpersonal club.

In the lead-up to the summit, some of Brazil’s partners felt that the preparatory process was disorganized. The Brazilian presidency was preoccupied with hosting the World Cup, which resulted in a delay in the summit from the normal spring-time scheduling to mid July. Brazil was also preoccupied with its forthcoming elections in October and with the one big make-or-break BRICS summit agenda item — the long discussed and negotiated development bank. This issue was rendered more complex and competitive when South Africa decided to seek the site of the bank, even though it did not expect to win. China’s strong desire to host the bank in Shanghai and its campaign to secure supporters for its bid led China to readily accept several of the proposals of its partners that it had previously refused. Russia’s international isolation due to its invasion and annexation of the Crimean region of Ukraine made it similarly accommodating, in an effort to boost its geopolitical support from its BRICS colleagues. Brazil’s desire to host a successful summit in the lead-up to President Dilma Rousseff’s re-election campaign and to secure an agreement on the bank as the defining achievement of her summit led Brazil to accept large passages of text proposed by its partners for the communiqué, which appeared unaltered in final declaration. These dynamics of equal initiative and easy agreement were most evident in the success of several issue-specific initiatives from South Africa, the least powerful country in the group.

The New Development Bank

The defining achievement of Fortaleza was the long awaited birth of the New Development Bank. It took much time to debate the details, especially regarding the physical home, the first president, the board of directors, and the quota contributions and voting shares. At one moment at the summit it looked like there would be no consensus. But in the end, the leaders themselves realized that if they did not agree, they would lose a historic opportunity and might not have another chance. They produced a result that satisfied them all.

The decision to call the new institution the “New Development Bank” was a compromise rather than a signal of any particular approach or significance about the word “new.” Other names were suggested, including the “BRICS Development Bank” and the “Infrastructure Bank.”

The bank was, in fact, new in several ways. One was the equal sharing of the capital contributions among the five countries, as distinct from the World Bank with its different quota shares and proportional voting rights, with the largest share for the United States. This arrangement
required much negotiation, as China had wanted to contribute more than the other members. However, the majority’s insistence on equality won.

The new BRICS bank was intended to complement the old World Bank and Asian Development Bank rather than substitute for them. The new bank would fill the gaps that the old ones could not cover. This was in the interest of developing countries, such as Indonesia, which had complained about the detailed, intrusive conditionality of the IMF and World Bank, especially in the Asian financial crisis of 1997. The new bank would do things the other banks and IMF were not able or willing to.

The New Development Bank was initially devoted mainly to traditional infrastructure, such as roads and connectivity. However, senior Chinese officials foresaw its projects expanding from hard infrastructure to social development over time. The first task, however, was to develop a strategy about the role of the BRICS in the world, and what it and only it could collectively do.

**UNSC Permanent Membership**

A second issue showing the BRICS’s advance as an equalizing, interpersonal club was reform of the permanent membership of the UNSC. This was a difficult issue arousing a defensive positionalist dynamic from the existing Permanent Five (P5) members of the UNSC, which saw expansion as a dilution of their status, rights and control. It was one of the many major differences among the BRICS countries.

For each summit, the leaders’ personal representatives spend much time drafting the section on this issue of the declaration. India, Brazil and South Africa push hard to have their claims for enhanced membership recognized. In the past, China and Russia, both members of the P5, always refused. At Fortaleza, however, the BRICS members finally put their differences aside and acknowledged the IBSA claim. Thus the declaration read: “China and Russia reiterate the importance they attach to Brazil, India and South Africa’s status and role in international affairs and support their aspiration to play a greater role in the UN.” At the previous two summits, the IBSA members had unsuccessfully pressed for such language, in a stronger form. This time a gentler version of the IBSA initiative got in.

**Sexual and Reproductive Rights**

Another achievement was the commitment on sexual and reproductive rights. The declaration read: “We confirm our strong commitment to address social issues in general and in particular gender inequality, women’s rights and issues facing young people and we reaffirm our determination to ensure sexual and reproductive health and reproductive rights for all.” The passage on sexual and reproductive rights was drafted by South Africa and appeared verbatim from its drafted text. South Africa had made such a proposal for the two previous summits at Durban and Delhi but had been refused, despite its status as Durban host. This was due to Russia’s resistance to anything that might be seen as legitimizing the status and claims of its gay community. Even though this Russian antipathy was particularly prominent in the spring of 2014, the passage sailed swiftly through at Fortaleza.

**Social Security and Education**

Further such achievements arose on social security and education. The first, in the Fortaleza Action Plan, authorized a “Meeting of Ministers or Senior Officials responsible for social
security, on the margins of a multilateral meeting.” This South African initiative and success flowed from the passage on population led by South Africa at the Sanya Summit. Another South African success at Fortaleza was the paragraph that linked education explicitly to the Millennium Development Goals and post-2015 sustainable development goals.

Conclusion

Thus as the BRICS institutional system grew, its summit performance rose to a substantial level, across all six dimensions of performance and across a broadening agenda extending into the political-security sphere. This progression was due primarily not to initial and continuing financial shocks but to the failure of the multilateral organizations from the 1940s to give the big emerging powers the greater role, rights and responsibilities warranted by their rising relative capability. It was also due to the intensifying institutionalization of the BRICS as a constricted, compact club, where rational incentives to cooperate started to breed personal bonds that enhanced cooperation among the participants themselves.

References


## Appendix A: BRICS Meetings

### A-1: Annual Summits (2009–2014)

<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>16 June 2009</td>
<td>Yekaterinburg, Russia</td>
</tr>
<tr>
<td>2</td>
<td>16 April 2010</td>
<td>Brasilia, Brazil</td>
</tr>
<tr>
<td>3</td>
<td>14 April 2011</td>
<td>Sanya, China</td>
</tr>
<tr>
<td>4</td>
<td>29 March 2012</td>
<td>New Delhi, India</td>
</tr>
<tr>
<td>5</td>
<td>25–26 March 2013</td>
<td>Durban, South Africa</td>
</tr>
<tr>
<td>6</td>
<td>15–16 July 2014</td>
<td>Fortaleza, Brazil</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9 July 2008</td>
<td>Hokkaido, Japan (at the G8 plus)</td>
</tr>
<tr>
<td>2</td>
<td>3 November 2011</td>
<td>Cannes, France (at the G20)</td>
</tr>
<tr>
<td>3</td>
<td>18 June 2012</td>
<td>Los Cabos (at the G20)</td>
</tr>
<tr>
<td>4</td>
<td>5 September 2013</td>
<td>St. Petersburg, Russia (at the G20)</td>
</tr>
<tr>
<td>5</td>
<td>15 November 2014</td>
<td>Brisbane, Australia (at the G20)</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Location</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>21 September 2006</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>2</td>
<td>24 September 2007</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>3</td>
<td>16 May 2008</td>
<td>Yekaterinburg, Russia</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>4</td>
<td>26 September 2008</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>5</td>
<td>16 May 2009</td>
<td>Yekaterinburg, Russia</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>6</td>
<td>24 September 2009</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>7</td>
<td>21 September 2010</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>8</td>
<td>23 September 2011</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>9</td>
<td>24 September 2011</td>
<td>Moscow, Russia</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>10</td>
<td>26 September 2012</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>11</td>
<td>26 September 2013</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
<tr>
<td>12</td>
<td>24 March 2014</td>
<td>The Hague, Netherlands</td>
<td>Nuclear Security Summit, G7 meeting</td>
</tr>
<tr>
<td>13</td>
<td>25 September 2014</td>
<td>New York, United States</td>
<td>United Nations General Assembly</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Location</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7 November 2008</td>
<td>São Paulo, Brazil</td>
<td>G20</td>
</tr>
<tr>
<td>2</td>
<td>13 March 2009</td>
<td>Horsham, United Kingdom</td>
<td>G20</td>
</tr>
<tr>
<td>3</td>
<td>4 September 2009</td>
<td>London, United Kingdom</td>
<td>G20</td>
</tr>
<tr>
<td>4</td>
<td>22 September 2011</td>
<td>Washington DC, United States</td>
<td>International Monetary Fund/World Bank meetings</td>
</tr>
<tr>
<td>5</td>
<td>11 October 2012</td>
<td>Tokyo, Japan</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>25 February 2012</td>
<td>Mexico City, Mexico</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>11 October 2013</td>
<td>Washington DC, United States</td>
<td>International Monetary Fund/World Bank meetings</td>
</tr>
<tr>
<td>8</td>
<td>11 April 2014</td>
<td>Washington DC, United States</td>
<td>International Monetary Fund/World Bank meetings</td>
</tr>
<tr>
<td>9</td>
<td>15 July 2014</td>
<td>Fortaleza, Brazil</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>9 September 2014</td>
<td>Cairns, Australia</td>
<td>G20</td>
</tr>
<tr>
<td>11</td>
<td>16 April 2015</td>
<td>Washington DC, United States</td>
<td>International Monetary Fund/World Bank meetings</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>26 March 2010</td>
<td>Moscow, Russia</td>
</tr>
<tr>
<td>2</td>
<td>29 October – 1 November 2011</td>
<td>Chengdu, China</td>
</tr>
<tr>
<td>3</td>
<td>29 October 2013</td>
<td>Pretoria, South Africa</td>
</tr>
<tr>
<td>4</td>
<td>15 March 2015</td>
<td>Brasilia, Brazil</td>
</tr>
</tbody>
</table>

### A-6: Trade and Economy Ministers (2010–2014)

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>April 2010</td>
<td>Rio de Janeiro, Brazil</td>
</tr>
<tr>
<td>2</td>
<td>13 Apr 2011</td>
<td>Sanya, China</td>
</tr>
<tr>
<td>3</td>
<td>14 December 2011</td>
<td>Geneva, Switzerland</td>
</tr>
<tr>
<td>4</td>
<td>28 March 2012</td>
<td>New Delhi, India</td>
</tr>
<tr>
<td>5</td>
<td>19 April 2012</td>
<td>Puerto Vallarta, Mexico</td>
</tr>
<tr>
<td>6</td>
<td>26 March 2013</td>
<td>Durban, South Africa</td>
</tr>
<tr>
<td>7</td>
<td>14 July 2014</td>
<td>Fortaleza, Brazil</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Location</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 May 2010</td>
<td>Geneva, Switzerland</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>11 July 2011</td>
<td>Beijing, China</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>September 2011</td>
<td>New York, United States</td>
<td>United Nations High Level Meeting on Non-communicable Diseases</td>
</tr>
<tr>
<td>4</td>
<td>22 May 2012</td>
<td>Geneva, Switzerland</td>
<td>World Health Assembly</td>
</tr>
<tr>
<td>5</td>
<td>10–11 January 2013</td>
<td>New Delhi, India</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>20 May 2013</td>
<td>Geneva, Switzerland</td>
<td>World Health Assembly</td>
</tr>
<tr>
<td>7</td>
<td>7 November 2013</td>
<td>Cape Town, South Africa</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>20 May 2014</td>
<td>Geneva, Switzerland</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>5 December 2014</td>
<td>Brasilia, Brazil</td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10 February 2013</td>
<td>Cape Town, South Africa</td>
</tr>
<tr>
<td>2</td>
<td>17–18 March 2015</td>
<td>Brasilia, Brazil</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nov 2013</td>
<td>Paris, France</td>
</tr>
<tr>
<td>2</td>
<td>2 March 2015</td>
<td>Brasilia, Brazil</td>
</tr>
</tbody>
</table>

**A-10: Environment Ministers (2015)**

<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>22 April 2015</td>
<td>Moscow, Russia</td>
</tr>
</tbody>
</table>

**Appendix B: BRICS Performance**

<table>
<thead>
<tr>
<th>Summit</th>
<th>Domestic Political Management</th>
<th>Deliberation</th>
<th>Decision Making</th>
<th>Delivery</th>
<th>Development of Global Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Attendance, %</td>
<td>Compliments</td>
<td># words</td>
<td># documents</td>
<td>Compliance</td>
</tr>
<tr>
<td>2009 Yekaterinburg</td>
<td>100</td>
<td>2</td>
<td>1,844</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>2010 Brasilia</td>
<td>100</td>
<td>8</td>
<td>2,436</td>
<td>1</td>
<td>45</td>
</tr>
</tbody>
</table>
BRICS EVOLVING INSTITUTIONAL IDENTITY

<table>
<thead>
<tr>
<th>Summit</th>
<th>Domestic Political Management</th>
<th>Deliberation</th>
<th>Decision Making</th>
<th>Delivery</th>
<th>Development of Global Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Attendance, %</td>
<td>Compliments</td>
<td># words</td>
<td># documents</td>
<td>Compliance</td>
</tr>
<tr>
<td>2011 Sanya</td>
<td>100</td>
<td>11</td>
<td>2,253</td>
<td>1</td>
<td>+0.54</td>
</tr>
<tr>
<td>2012 Delhi</td>
<td>100</td>
<td>7</td>
<td>4,415</td>
<td>2</td>
<td>+0.28</td>
</tr>
<tr>
<td>2013 Durban</td>
<td>100</td>
<td>5</td>
<td>4,789</td>
<td>2</td>
<td>+0.48</td>
</tr>
<tr>
<td>2014 Fortaleza</td>
<td>100</td>
<td>10</td>
<td>21,907</td>
<td>3</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>43</td>
<td>37,644</td>
<td>11</td>
<td>N/A</td>
</tr>
<tr>
<td>Average</td>
<td>100</td>
<td>7.17</td>
<td>6,274</td>
<td>1.8</td>
<td>+0.41</td>
</tr>
</tbody>
</table>

Notes: Only documents issued at a stand-alone summit in the leaders' name are included.
Domestic Political Management refers to participation by BRICS leaders. Compliments are references to members in summit documents.
Deliberation refers to the documents issued in the leaders' name at the summit.
Decision Making refers to number of commitments as identified by the BRICS Research Group.
Delivery scores are measured on a scale from −1 (no compliance) to +1 (full compliance, or fulfilment of goal set out in commitment). Figures are cumulative scores based on compliance reports.
Development of Global Governance: internal refers to the number of references to BRICS institutions in summit documents; external is references to institutions outside the G20.

Appendix C: BRICS Conclusions

<table>
<thead>
<tr>
<th>Issue Area</th>
<th>2009, %</th>
<th>2010, %</th>
<th>2011, %</th>
<th>2012, %</th>
<th>2013, %</th>
<th>2014, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial crisis</td>
<td>21.5</td>
<td>18.1</td>
<td>14.4</td>
<td>12.2</td>
<td>9.3</td>
<td>9.1</td>
</tr>
<tr>
<td>Reform of international financial institutions</td>
<td>12.9</td>
<td>21.1</td>
<td>7.9</td>
<td>12.5</td>
<td>8.3</td>
<td>18.7</td>
</tr>
<tr>
<td>Exchange rates</td>
<td>7.2</td>
<td>5.9</td>
<td>4.4</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Macroeconomics</td>
<td>56.8</td>
<td>43.2</td>
<td>40.5</td>
<td>39.2</td>
<td>25.0</td>
<td>13.9</td>
</tr>
<tr>
<td>Employment</td>
<td>0</td>
<td>6.4</td>
<td>1.2</td>
<td>7.3</td>
<td>9.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Trade and investment</td>
<td>35.7</td>
<td>6.8</td>
<td>11.5</td>
<td>25.5</td>
<td>19.2</td>
<td>11.7</td>
</tr>
<tr>
<td>Development</td>
<td>35.2</td>
<td>40.8</td>
<td>40.2</td>
<td>36.4</td>
<td>60.1</td>
<td>30.9</td>
</tr>
<tr>
<td>Health</td>
<td>6.8</td>
<td>7.3</td>
<td>14.4</td>
<td>16.3</td>
<td>15.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Food and agriculture</td>
<td>6.8</td>
<td>8.9</td>
<td>17.7</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Crime and corruption</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.5</td>
<td>2.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Terrorism</td>
<td>5.6</td>
<td>5.1</td>
<td>4.6</td>
<td>6.4</td>
<td>9.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Non-proliferation (arms control)</td>
<td>0</td>
<td>0</td>
<td>8.8</td>
<td>8.9</td>
<td>2.6</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Note: N/A = not available.
## Appendix D: BRICS Commitments by Issue Area, 2009–2014

<table>
<thead>
<tr>
<th>Issue Area</th>
<th>Total</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>265</td>
<td>15</td>
<td>45</td>
<td>38</td>
<td>32</td>
<td>43</td>
<td>92</td>
</tr>
<tr>
<td>Financial regulations</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reform of international financial institutions</td>
<td>11</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Macroeconomics</td>
<td>22</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Socioeconomic</td>
<td>17</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Development</td>
<td>27</td>
<td>1</td>
<td>7</td>
<td>1</td>
<td>3</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Trade</td>
<td>25</td>
<td>4</td>
<td>5</td>
<td>9</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Labour and employment</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Global Transnational Issues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>19</td>
<td>5</td>
<td>11</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate change</td>
<td>12</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Food and agriculture</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>International cooperation</td>
<td>33</td>
<td></td>
<td>11</td>
<td>1</td>
<td>2</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Information and communication technologies</td>
<td>5</td>
<td>1</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Education</td>
<td>7</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Natural disaster</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human rights</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td><strong>Political Security Issues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good governance</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountability</td>
<td>2</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crime and corruption</td>
<td>11</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-proliferation</td>
<td>3</td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terrorism</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional security</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Political issues</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Peace and security</td>
<td>10</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support for G20</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United nations</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutionalization</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>
### Table E-1: Compliance by Summit (N = 21)

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Issue Area</th>
<th>Text</th>
<th>Average</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 Yekaterinburg, Russia (N = 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009–</td>
<td>food security</td>
<td>“The BRIC countries support the adoption of a wide range of mid- to long-term measures in order to provide for a solution to the issue of food security”</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td></td>
</tr>
<tr>
<td>2009 Summit Average</td>
<td></td>
<td></td>
<td></td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
</tr>
<tr>
<td>2010 Brasilia, Brazil (N = 3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010–15</td>
<td>Development</td>
<td>We reiterate the importance of the UN Millennium Declaration and the need to achieve the Millennium Development Goals (MDGs). We underscore the importance of preventing a potential setback to the efforts of poor countries aimed at achieving MDGs due to the effects of the economic and financial crisis. We should also make sustained efforts to achieve the MDGs by 2015, including through technical co-operation and financial support to poor countries in implementation of development policies and social protection for their populations</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td></td>
</tr>
<tr>
<td>2010–19</td>
<td>Trade</td>
<td>“We commit ourselves and urge all states to resist all forms of trade protectionism”</td>
<td>-1.00</td>
<td>-1.00</td>
<td>-1.00</td>
<td>-1.00</td>
<td>-1.00</td>
<td></td>
</tr>
<tr>
<td>2010–29</td>
<td>Energy</td>
<td>“We will aim to diversify our energy mix by increasing, where appropriate, the contribution of renewable energy sources”</td>
<td>+0.80</td>
<td>+1.00</td>
<td>0.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td></td>
</tr>
<tr>
<td>2010 Summit Average</td>
<td></td>
<td></td>
<td></td>
<td>+0.33</td>
<td>0.33</td>
<td>+0.33</td>
<td>+0.33</td>
<td></td>
</tr>
<tr>
<td>2011 Sanya, China (N = 7)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011–04</td>
<td>Regional security</td>
<td>“We wish to continue our co-operation in the UN Security Council on Libya”</td>
<td>+0.40</td>
<td>0.00</td>
<td>+1.00</td>
<td>-1.00</td>
<td>+1.00</td>
<td>+1.00</td>
</tr>
<tr>
<td>2011–13</td>
<td>Reform of international financial institutions</td>
<td>Recognizing that the international financial crisis has exposed the inadequacies and deficiencies of the existing international monetary and financial system, we support the reform and improvement of the international monetary system, with a broad-based international reserve currency system providing stability and certainty</td>
<td>+0.20</td>
<td>0.00</td>
<td>0.00</td>
<td>+1.00</td>
<td>+1.00</td>
<td>-1.00</td>
</tr>
<tr>
<td>Commitment</td>
<td>Issue Area</td>
<td>Text</td>
<td>Average</td>
<td>Brazil</td>
<td>Russia</td>
<td>India</td>
<td>China</td>
<td>South Africa</td>
</tr>
<tr>
<td>------------</td>
<td>------------</td>
<td>--------------------------------------</td>
<td>---------</td>
<td>--------</td>
<td>--------</td>
<td>-------</td>
<td>-------</td>
<td>-------------</td>
</tr>
<tr>
<td>2011–14</td>
<td>Finance</td>
<td>We support the international community in strengthening cooperation to ensure stability and strong development of physical market by reducing distortion and further regulate financial market</td>
<td>+0.40</td>
<td>+1</td>
<td>0</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2011–17</td>
<td>Climate change</td>
<td>If we support the Cancun Agreements to strengthen dialogue and cooperation in the field of public health, including the fight against HIV</td>
<td>+0.40</td>
<td>+1</td>
<td>0</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2011–28</td>
<td>Development</td>
<td>Reform of international financial institutions</td>
<td>+0.20</td>
<td>0</td>
<td>0</td>
<td>+1</td>
<td>+1</td>
<td>0</td>
</tr>
<tr>
<td>2011–30</td>
<td>Trade</td>
<td>Reform of international financial institutions</td>
<td>+0.20</td>
<td>0</td>
<td>0</td>
<td>+1</td>
<td>+1</td>
<td>0</td>
</tr>
<tr>
<td>2011 Summit Average</td>
<td>Reform of international financial institutions</td>
<td>Reform of international financial institutions</td>
<td>+0.54</td>
<td>+0.58</td>
<td>+0.43</td>
<td>+1</td>
<td>+1</td>
<td>+0.29</td>
</tr>
</tbody>
</table>

2012 New Delhi, India (N = 5)

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Issue Area</th>
<th>Text</th>
<th>Average</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012–3</td>
<td>Reform of international financial institutions</td>
<td>We will work with the international community to ensure that sufficient resources be available to the IMF to finance its increased resources to support capacity building and technical cooperation</td>
<td>+0.40</td>
<td>+1</td>
<td>0</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2012–9</td>
<td>Trade</td>
<td>Reform of international financial institutions</td>
<td>0</td>
<td>0</td>
<td>-1</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2012–23</td>
<td>Climate change</td>
<td>Reform of international financial institutions</td>
<td>0</td>
<td>0</td>
<td>-1</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2012–25</td>
<td>Development</td>
<td>Reform of international financial institutions</td>
<td>+0.40</td>
<td>+1</td>
<td>0</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

[Further details and data for each commitment and issue area would be included here]
<table>
<thead>
<tr>
<th>Commitment</th>
<th>Issue Area</th>
<th>Text</th>
<th>Average</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012–27</td>
<td>Energy</td>
<td>We will expand sourcing of clean and renewable energy, and use of energy efficient and alternative technologies, to meet the increasing demand of our economies and our people, and respond to climate concerns as well</td>
<td>+0.60</td>
<td>0</td>
<td>+1</td>
<td>0</td>
<td>+1</td>
<td>+1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012 Summit Average</td>
<td></td>
<td></td>
<td>+0.28</td>
<td>0</td>
<td>+0.20</td>
<td>+0.40</td>
<td>+0.40</td>
<td>+0.40</td>
</tr>
<tr>
<td>2013 Durban, South Africa (N= 5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013–9</td>
<td>Development</td>
<td>Within the framework of the New Partnership for Africa’s Development (NEPAD), we support African countries in their industrialization process through capacity building</td>
<td>+0.60</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>-1</td>
</tr>
<tr>
<td>2013–14</td>
<td>Macro</td>
<td>We will explore opportunities for cooperating in the field of SMEs and recognise the need for promoting dialogue among the respective Ministries and Agencies in charge of the theme, particularly with a view to promoting their international exchange and cooperation and fostering innovation, research and development</td>
<td>+0.20</td>
<td>0</td>
<td>0</td>
<td>+1</td>
<td>+1</td>
<td>-1</td>
</tr>
<tr>
<td>2013–21</td>
<td>Trade</td>
<td>We reaffirm our support for an open, transparent and rules-based multilateral trading system</td>
<td>+1.00</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
</tr>
<tr>
<td>2013–31</td>
<td>Crime and corruption</td>
<td>We extend support to the efforts aimed at combating illicit traffic in opiates originating in Afghanistan within the framework of the Paris Pact</td>
<td>+0.20</td>
<td>0</td>
<td>+1</td>
<td>0</td>
<td>+1</td>
<td>-1</td>
</tr>
<tr>
<td>2013–36</td>
<td>Terrorism</td>
<td>[We reiterate our strong condemnation of terrorism in all its forms and manifestations and stress that there can be no justification, whatsoever, for any acts of terrorism. We believe that the UN has a central role in coordinating international action against terrorism within the framework of the UN Charter and in accordance with principles and norms of international law.] In this context, we support the implementation of the UN General Assembly Global Counter-Terrorism Strategy and are determined to strengthen cooperation in countering this global threat</td>
<td>+0.40</td>
<td>0</td>
<td>+1</td>
<td>+1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2013 Summit Average</td>
<td></td>
<td></td>
<td>+0.48</td>
<td>+0.40</td>
<td>+0.80</td>
<td>+0.80</td>
<td>+0.80</td>
<td>-0.40</td>
</tr>
<tr>
<td>OVERALL AVERAGE</td>
<td></td>
<td></td>
<td>+0.41</td>
<td>+0.46</td>
<td>+0.49</td>
<td>+0.66</td>
<td>+0.65</td>
<td>+0.06</td>
</tr>
</tbody>
</table>
### Appendix F: References to Institutions in BRICS Declarations

<table>
<thead>
<tr>
<th>Institution</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Documents</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>G20</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>United Nations</td>
<td>6</td>
<td>9</td>
<td>10</td>
<td>15</td>
<td>25</td>
<td>44</td>
</tr>
<tr>
<td>World Trade Organization</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Food and Agriculture Organization</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>World Grains Forum</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>International Monetary Fund</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td>32</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bretton Woods institutions</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>World Bank</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Financial Stability Board</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Global Forum</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>World Expo</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commonwealth</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>World Student Games</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FIFA World Cup</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Olympics</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>African Union</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>New Economic Partnership for Africa’s Development</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Universade</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Youth Olympics</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Arab League</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>International Atomic Energy Association</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>International Framework for Sustainable Development</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>International financial institutions</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Multilateral development banks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Regional development banks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>International Development Association</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Economic Community of West African States</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>New Development Bank</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>161</td>
<td>1</td>
</tr>
<tr>
<td>Organization for the Prohibition of Chemical Weapons</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>G77</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total BRICS Institutions</td>
<td>2</td>
<td>16</td>
<td>12</td>
<td>32</td>
<td>26</td>
<td>58</td>
</tr>
<tr>
<td>Total International Institutions</td>
<td>13</td>
<td>34</td>
<td>28</td>
<td>43</td>
<td>51</td>
<td>253</td>
</tr>
</tbody>
</table>

**Notes:** Listed in order of appearance in cumulative communiqués. The unit of analysis is the sentence.
## Appendix G: International Image of BRICS Countries, May 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Mainly Positive, %</th>
<th>Mainly Negative, %</th>
<th>Net (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany (G7)</td>
<td>59</td>
<td>15</td>
<td>+44 (first)</td>
</tr>
<tr>
<td>Canada (G7)</td>
<td>55 (second)</td>
<td>13 (first)</td>
<td>+42 (second)</td>
</tr>
<tr>
<td>United Kingdom (G7)</td>
<td>55</td>
<td>18</td>
<td>+37 (third)</td>
</tr>
<tr>
<td>Japan (G7)</td>
<td>51</td>
<td>27</td>
<td>+24 (seventh)</td>
</tr>
<tr>
<td>France (G7)</td>
<td>49</td>
<td>21</td>
<td>+28 (fourth)</td>
</tr>
<tr>
<td>European Union</td>
<td>49</td>
<td>21</td>
<td>+28 (fourth)</td>
</tr>
<tr>
<td>Brazil (BRICS)</td>
<td>46</td>
<td>21</td>
<td>+25 (sixth)</td>
</tr>
<tr>
<td>United States (G7)</td>
<td>45</td>
<td>34</td>
<td>+11 (eighth)</td>
</tr>
<tr>
<td>China (BRICS)</td>
<td>42</td>
<td>39</td>
<td>+03</td>
</tr>
<tr>
<td>Korea (G20)</td>
<td>36</td>
<td>31</td>
<td>+05</td>
</tr>
<tr>
<td>South Africa (BRICS)</td>
<td>35</td>
<td>30</td>
<td>+05</td>
</tr>
<tr>
<td>India (BRICS)</td>
<td>34</td>
<td>35</td>
<td>−01</td>
</tr>
<tr>
<td>Russia (BRICS)</td>
<td>30</td>
<td>40</td>
<td>−10</td>
</tr>
<tr>
<td>G7 Average</td>
<td>51</td>
<td>21</td>
<td>30 (1–6th, eighth)</td>
</tr>
<tr>
<td>BRICS Average</td>
<td>37</td>
<td>33</td>
<td>04 (7, 9, 11–13)</td>
</tr>
</tbody>
</table>

Testing the Club Dynamics of the BRICS: The New Development Bank from Conception to Establishment

A.F. Cooper, A.B. Farooq

Andrew F. Cooper — Professor, Department of Political Science and Balsillie School of International Affairs at the University of Waterloo, Director, Centre for the Study on Rapid Global Change at the University of Waterloo; 200 University Avenue West, Waterloo, ON N2L 3G1, Canada; E-mail: acooper@uwaterloo.ca

Asif B. Farooq — Doctoral student, Department of Political Science, University of Toronto, Researcher, Centre for the Study on Rapid Global Change at the University of Waterloo; 100 St. George Street, Toronto, ON M5S 3G3, Canada; E-mail: asif.farooq@mail.utoronto.ca

The article addresses the puzzle of how the BRICS members were able to overcome institutional constraints and establish the New Development Bank (NDB) in a short period after its conception. It argues that the club dynamics among the members help them circumvent internal conflicts due to the embedded mutual common interest in status attribution. The dynamics also create an informal institutional platform for them to manoeuvre through intra-BRICS competitive interests by taking a symbolic stake in the NDB’s development. Club diplomacy downplays contentious issues while elevating and reinforcing issues of common interest. Such an approach is tested, however, when the focus shifts from externalized demands to collective action. Calls for reforming the global system notably through a more equitable distribution of voice and influence in the International Monetary Fund and the World Bank further consolidated the club-like culture among the BRICS members. At the same time, the push for a bold initiative of their own, such as the establishment of a development bank with the promise of massive infrastructure investment targeted at other countries in the global South, demonstrated the symbolic need to move beyond the status quo.

Key words: BRICS, New Development Bank, club dynamics, multilateralism, institutionalism

Introduction

The BRICS countries of Brazil, Russia, India, China and South Africa made a significant progress with the creation of the New Development Bank (NDB) and cemented the group’s institutional link among its members. Since this initiative was first brought to the fore, by India at the 2011 New Delhi Summit, there was scepticism about the capacity of the BRICS members to deliver on the proposal, not only because of broad differences in strategic interests but also due to the lack of institutional capacity to navigate those differences. Yet the BRICS countries were able to translate an ideational concept of how to booster infrastructure development needs into delivery of the NDB at the 2014 Fortaleza Summit in Brazil, with an initial $50 billion fund with each member having an equal stake. Furthermore, the BRICS also agreed to establish a currency reserve agreement, amounting to $100 billion to deal with any future financial crisis.

Still, despite this progress, the BRICS’s ability to overcome the obstacles to establishing the NDB remains a puzzle. First, it is surprising that a group of countries can cooperate in such an important area when their broader interests as regional powers and aspirations as global powers are highly competitive. Indeed, at the geopolitical level, tension between two members —
China and India – had recently escalated due to a sensitive border dispute over which they fought in the early 1960s. More generally, both countries actively balance power in the region by playing off each other’s neighbours. Although the economic incentives for expanding infrastructure investment in India, Brazil and South Africa helps explain why these countries were able to cooperate multilaterally via the BRICS, they provide little insight into how such cooperation is possible in the presence of mutually diverging interests. Furthermore, the normative divide among the BRICS members is also salient enough to raise questions about the degree and sustainability of their cooperation on economic affairs that overlooks their sociopolitical differences.

Second, multilateralism as a mechanism for providing development assistance appears to be less attractive than the greater foreign policy gain that could be achieved through bilateral means. This bias is even more prevalent for emerging donors such as the BRICS members because they are already using their scarce resources in providing development assistance in the form of concessional and non-concessional loans and credits. A strong cluster of members has already made great strides in a short period in reaching out to many countries in the global South. If the NDB eventually starts lending beyond the club of five – still a divisive issue within the BRICS – then foreign policy gains that could have been achieved through bilateral cooperation would be diminished for the individual BRICS countries.

In such circumstances, it is worthwhile to examine from a multilateral perspective how BRICS members have overcome these formidable constraints. What factors helped them deal with the institutional hurdles in establishing the NDB? Using this form of multilateralism in terms of a club model and taking a conceptual and empirical approach, this article argues that club dynamics help explain how the BRICS members circumvented significant barriers to establish the NDB.

Circumventing Barriers through Club Means

According to John Ruggie, “multilateralism” modifies the noun “institution.” Institutions are stable sets of constitutive, regulative and procedural norms and rules, formal and informal that “prescribe behavioural roles, constraint activity, and shape expectations” [Keohane, 1990, p. 732]. Ruggie [1992] argues that multilateralism is a form of institutional behaviour among two or more states on the basis of generalized principles of conduct. States often delegate tasks to a third party agent through modes of multilateralism. Multilateral institutions could be formal or informal self-selective institutions such as the United Nations, the G20, the Association of Southeast Asian Nations, the World Bank, the International Monetary Fund (IMF) and Bank for International Settlements. There are benefits to working through multilateral institutions and delegating tasks to these forums [Keohane, Macedo and Moravcsik, 2009]. However, there are also drawbacks, in what Michael Barnett and Martha Finnemore [1999, p. 719] refer to as dysfunctional pathological institutions such as the United Nations, the G20, the Association of Southeast Asian Nations, the World Bank, the International Monetary Fund (IMF) and Bank for International Settlements. There are benefits to working through multilateral institutions and delegating tasks to these forums [Keohane, Macedo and Moravcsik, 2009]. However, there are also drawbacks, in what Michael Barnett and Martha Finnemore [1999, p. 719] refer to as dysfunctional pathological behaviour embodied in the “irrationality of rationalization, universalism, normalization of deviance, organizational insulation, and cultural contestation.” Taking a principal-agent approach, Daniel Nielson and Michael Tierney [2003] further articulate the state’s potential for loss of control over multilateral institutions when tasks are delegated to them by states.

On the issue of official development assistance (ODA), in terms of a specific functional area, states should have little interest in participating in multilateralism as they are likely to achieve foreign policy gain more through bilateral means. Externally, states gain from bilateral ODA as it can influence recipient country’s policy choices in favour of the donor country [Baldwin, 1985]. Bilateral ODA also helps garner domestic lawmakers’ support as they main-
tain stronger control. Many major donors underperform in their support for development assistance compared to public support, e.g., Canada and Australia, and many are wary of public opinion and thus reduce assistance when support is low during the economic hard times, e.g., the United States [Otter, 2003]. Furthermore, public opinion tends to take a cautious approach on ODA through multilateral institutions in spite of acknowledging its benefit [Milner and Tingley, 2013].

Nevertheless, scholars have studied why states still participate in multilateral institutions despite the drawbacks [Balogh, 1967; Easterly and Pfutze, 2008; Hawkins, Lake, Nielson et al., 2006; Ikenberry, 2001; Koremenos, Lipson and Snidal, 2001; Ruggie, 1993]. Many argue that ODA through multilateral means could be more effective and thus has an advantage over bilateral means. However, this argument misses the conceptual clarity that explains the multilateral institutional initiatives by the emerging countries – notably the BRICS countries – with competing and diverging interests and aspirations. Their differences not only create a “trust deficit” but also challenge any cooperation and coordination that could be sustained in the long term. Economic growth is uneven among the BRICS members [Sharma, 2012]. Despite policy cohesion on some fronts, BRICS members still struggle to operate as a strong coalition [Brütsch and Papa, 2013]. Although the common foreign policy interests among them cannot be underestimated on the issue of sovereignty, the voting patterns of BRICS members in the UN also demonstrates diverging interests in foreign policy [Ferdinand, 2014].

Intra-BRICS friction is evident in members’ regional aspirations too. Economic growth will help them expand their military and economic capabilities, challenging the order and stability of the international system [Brawley, 2007]. But their emerging power status contains embedded competition, which in many ways amplifies the arguments of the realists. As John J. Mearsheimer [1994/95] argues, when states are always vying for relative gains, it is theoretically impossible for them to cooperate. The trust deficit due to national security interests will always discourage states from cooperating for collective benefit for fear of defection, free riding and troublemakers. This lack of trust is also evident in intra-BRICS security cleavages. China’s growing military and diplomatic power is a security threat to India’s regional aspirations. Both countries fought a protracted war over a disputed border. The two-week military standoff in Ladakh in 2014 further aggravated relations. Although India’s own foreign policy approach has achieved substantive gains, its capabilities are yet to match its rising expectation, let alone match China’s diplomatic prowess [Mansingh, 2010]. Huang Yasheng [2011] argues that relations are fraught with more competing issues than their mutually common interests. Brazil, too, is wary of China’s growing reach in South America. Brazil’s entrepreneurial drive has expanded its diplomatic reach well beyond its region while diffusing its power globally, in keeping up with the diplomatic stretch of emerging powers; but its recent sluggish economy has brought scepticism about its capability [Christensen, 2013]. China’s diplomatic prowess and development assistance — what Joshua Kurlantzick [2007] has called China’s “charm offensive” — challenge the interests and aspirations of Brazil, India and South Africa on the African continent. Furthermore, despite growing trade among the BRICS members, the trade deficit has been growing in China’s favour.

These differences highlight that the fact that while post-colonialism would argue that the BRICS countries have ideological and historical similarities, as all except Russia share a history of colonial subjugation, intra-BRICS solidarity based on South–South rhetoric barely manifest the complexity of their mutual relations. Thus, while post-colonial ideological solidarity may help members develop a common cause with “us versus them” world view, as in the division between the North and the South, it explains little the divisions and uneven economic and political power dynamics within the global South. Moreover, BRICS members also have ideo-
logical and institutional differences [Armijo, 2007]. Brazil shares characteristics with the South as much as with its Northern partners [Armijo and Burges, 2009]. India, Brazil and South Africa actively exploit their democratic character for soft power. These countries have formed the IBSA Dialogue Forum, which often publicizes its intra-group cohesion based on “common political identity”; in other words, it has democracy as its linchpin [Vieira and Alden, 2011]. The state of democracy in Russia and the one-party Chinese state are in direct contrast to the rest of the BRICS members.

These differences are viewed by many observers as compromising BRICS’s members ability to cooperate in a multilateral setting and function as a powerful bloc in advancing a new world order. Sceptics have argued that the BRICS is an over-hyped challenge to the existing power and it is nothing but “Brics without mortar” [Stephens, 2011]. While Yana Leksyutina [2014] argues that the consolidation of the BRICS is a means for China to pave the way to the global economic governance, Michael Glosny [2009] contends the BRICS does not challenge the existing international order. Pang Zhongying [2014], however, takes a conservative position on the influence of the BRICS through its establishment of the NDB. He argues that it is premature to affirm whether NDB is a “挑战” (challenge) or provides “替代” (alternative) to the existing global institutions. Ye Yu [2014] and Chen Zhongtian [2014] argue that the BRICS could improve South–South as well as North–South relations as the NDB supplements the IMF and other development banks. Zhu Jiejin [2014] notes that the NDB is the BRICS’s effort for “内发展、外促改革” (“internal development [among BRICS countries] and external reform [in global governance]”). Some also make more nuanced arguments about the ability of the BRICS to challenge the international neoliberal order [Glosny, 2009]. Its inability to represent itself as qualitatively distinct from the hierarchical neoliberal world architecture – although this does reveal a bias within the system – demonstrates the group’s internal weakness as a bloc in seriously challenging the traditional powers [Gray and Murphy, 2013].

Despite the challenging dynamics among the BRICS members, they have been able to institutionalize the BRICS as an informal institution, and have demonstrated real progress in formally institutionalizing the NDB. This process opens up questions about how the group as a multilateral informal institution came into existence at the first place. Scholars have mostly advanced arguments such as those adopted by Barbara Koremenos, Charles Lipson and Duncan Snidal [2001], who take a functionalist approach that states construct institutions that reflect their rational and purposive interests. Glosny [2009] argues that China needs the BRICS less than its other members need China. He provides a functional argument for China’s cooperation: the BRICS helps minimize members’ dependence on the United States, constrain U.S. unilateralism and strengthen South–South solidarity, and the coordination among members provides leverage on international issues. Similarly, Adriana Abdenur [2014, p. 90] writes that, “from a geopolitical point of view, the BRICS helps China to counter US hegemony without direct confrontation.” Russia, given the constraints on its ability to withstand US influence unilaterally and despite having interests that compete with China’s aspiring power, uses China’s rise vis-à-vis western influence to hedge its geopolitical interest in the emergence of the BRICS as an institution [Hancock, 2007; Roberts, 2009]. South Africa’s economic weight, continental peacemaking and peacekeeping efforts, and its soft power through programs such as the New Partnership for Africa’s Development (NEPAD) are bolstered by the political platform it finds in the BRICS. Chris Alden and Maxi Schoeman [2013, p. 115] write that South Africa’s “BRICS membership becomes both proof of its status and an instrument for reinforcing this status.” In addition to geopolitical interests, economic incentives offer a functional explanation for members’ ability to overcome their mutual differences, and are often advanced as an apt explanation for China and India’s cooperation in the BRICS [Rusko and Sasikumar, 2007].
Gregory Chin [2014] takes a similar functionalist approach in explaining why the BRICS members have established the NDB despite mutually diverging interests. The established institutions, especially the World Bank and the Asian Development Bank, have not met the infrastructure development needs of the developing world. The governing structure of these institutions is also not changing, as demanded by BRICS members, to reflect the changing balance of global power. Chin further argues that the G20 has also repetitively failed to follow through on the infrastructure investment needs with any meaningful progress — he calls it the G20’s mock compliance — at its 2011 French and 2012 Mexican summits after the initial interest expressed at the 2010 Seoul Summit. Therefore, he writes, “it should not be surprising that the BRICS governments turned to creating an alternative institutional option to try to mobilize finance for infrastructure in the developing world” [Chin, 2014, p. 370].

Although these functionalist arguments provide informative explanations of why BRICS members cooperate, they fall short of explaining how they cooperate multilaterally in a way that makes it possible not only to respond to mutually common needs but also to overcome mutually diverging interests. The functionalist approach also does not adequately explain why this particular group of countries has been able to cooperate with each other while excluding others. The club model can provide an insightful glimpse into the inner workings of how the BRICS was able to advance the NDB initiative.

**Institutional Constraints to Establishing the NDB**

The establishment of the NDB belies built-in scepticism about the BRICS’s institutional capacity to produce real results. What is even more important is that the NDB represents a formal institutional extension of the BRICS as an informal club. Thus, the NDB serves as and will remain a test of the informal club culture of the BRICS because the establishment and finalization of its working details reflect the political resilience of the BRICS as an informal club. The declaratory statement at the Delhi BRICS statement outlined a “BRICS-led” South-South development bank with an initial fund of $50 billion and a currency reserve agreement of $100 billion to deal with any future financial crisis [BRICS, 2013]. But progress on the operational details was slow. The stakes were raised, severely testing the group’s club culture: if they were to move from concept to delivery, they needed to agree on many sensitive and difficult issues.

Internally, the first major intra-BRICS challenge was to come up with a resolution on the distribution of resources. The BRICS members had ambivalent, if not somewhat diverging, positions on the funding proposal for the bank. Xu Qinghong, section chief of the Banking Supervision Department at the China Banking Regulatory Commission, noted, “There are vast differences between us ... Looking at the history of other multilateral institutions, I think such a feasibility study will take a long time and it may test our patience. Since the Delhi Summit, so far in China there have been a lot of doubts about a proposal” [Krishnan, 2012]. China’s initial caution was also shared by Russia and Brazil, which kept a low profile when the idea of the bank was initially proposed. Indian officials up until the 2013 Durban Summit supported a plan to launch the fund with initial capital of $10 billion, with equal contributions from each BRICS country [Sahu, 2013]. Brazil supported this proposal. However, with the advantage of massive international monetary reserves well beyond $3 trillion, China pushed for an alternative model with contributions based on a country’s financial capacity and an overall capital base of $100 billion, which would allow China to contribute more to the capital base and thus have the advantage over the NDB’s founding members. In contrast, in the context of preferring proportional contributions, Russia resisted setting any specific amount for capitalizing the bank at the Durban Summit. It was wary of obtaining advantages for its own national interest from the
establishment of a new institution. Sergey A. Ryabkov, Russian deputy foreign minister, asserted that the BRICS declaratory statements about the bank were racing ahead of its practicalities [Wild, Galvao and Arkhipov, 2013].

The funding proposal reflects the underlying structural asymmetry in economic capacity among the BRICS members. Whereas a contribution of $10 billion to the NDB was a small measure for China, which has a gross domestic product (GDP) larger than that of the four other BRICS members combined, raising such an amount for South Africa stood out as a serious test. For South Africa, $10 billion comes up to 2.5% of its GDP. It only agreed to the terms because it considered the initiative a priority as a means of financing its own infrastructure projects and those promoted in the broader African continent more generally.

Furthermore, before the 2012 Tokyo meeting of BRICS finance ministers, Xu Qinghong expressed his concern that “non-economic factors” might hinder the bank’s establishment. Indeed, non-economic factors lurked behind the intensive bargaining between China and India. China’s stance often put India on the defensive and heightened the unequal power relationship between the two. There was speculation that China was willing to pay part of the shares of other BRICS members. This scheme could potentially help China take a leading role in safeguarding and advancing its own political agenda. From an Indian perspective, this would exacerbate its difficult working relations with China. India was concerned that China’s leading role might eventually make the bank similar to the international financial institutions (IFIs) in terms of decision making, overshadowing other members’ voting rights and interest [Russia Today, 2014]. It even explored the idea of opening up the bank’s membership to advanced economies, so that they would receive minority stake (between 40% and 45%) and China would not be able to play overarching role with its financial power.

A second contentious issue was related to the location of the headquarters of the bank. China, India and South Africa all wanted to host the institution. Although this issue not a major source of debate at the outset, as the initiative slowly took shape it became amplified. The NDB’s physical location could potentially give symbolic, if not real, advantage to the host country. India maintained the impression that it remained the inspirational force behind the bank. At Durban, Prime Minister Manmohan Singh said that the ideas of instituting a mechanism to recycle surplus savings into investments in devcos, first discussed at New Delhi, had been given a concrete shape [PTI, 2013]. Yet the assumption that the ideational inspiration should translate into physical ownership was not shared. On the one hand, a remark made by Jagannath Panda of the Institute for Defence Studies and Analyses was telling of India–China relations: “India sees the Brics as an economic proposition, while the Chinese see it as more political ... The Chinese are [initially] supporting heavily that the bank should be in South Africa, so they will have clout on that continent. India would still like to have the headquarters in India” [Mance, 2012]. On the other hand, South Africa, in accordance with China’s initial interest, lobbied hard for this distinction, backed up not only on grounds of “in Africa” symbolism but also on the strength of South African financial institutions. China, however, later took the stand that the headquarters should be located in Shanghai, a position that was championed by its key think tanks. The Financial Research Center at Fudan University [2013, p. 65] argued after the New Delhi Summit that “China should strive to become the headquarters of the BRICS bank.”

Such contestation about control spilled over into the discussions on what currency would be used in the bank’s operations. The memorandum of agreement signed at New Delhi opened the way for BRICS members’ development banks to extend loans denominated in their respective currencies. As mentioned above, this process of moving away from the U.S. dollar prompted speculation about Chinese control through the internationalized remimbi, especially as China had an incentive for advocating the use of its own currency to offset currency risks in
development finance. Indian finance ministry officials were reported as expressing the view that the bank’s goal had become a way to “legitimize” the use of Chinese currency overseas [Bagchi, 2012].

The final major bargaining rested on the mode of governance for the bank. Brazil wanted a lean structure like that of the Andean Development Corporation. On the lending provision, BRICS members remain divided on whether the bank will only lend to BRICS members or to non-members as well. China and South Africa want to open up the client base beyond the BRICS members. However, India wants a more concentrated focus and is wary of its own scarce capital being lent to other countries when its own needs are unmet. It has also raised questions about the criteria for loans. Internally, an equally significant line of interrogation surfaced about the role (or non-role) of civil society in the BRICS bank. Long-time critics of the lack of transparency and accountability have expressed concern about whether the BRICS bank would simply be “more of the same” [Oxfam Canada, 2014].

Despite the differences in preference, the BRICS members have shown great progress in finalizing the initial groundwork for the NDB. In Russian president Vladimir Putin’s words: “BRICS Bank will be one of the major multilateral development finance institutions in this world” [Russia Today, 2014]. The informal club culture has allowed the BRICS members to work without any pressure of rigid institutional hurdles such as organizational problems, deadlines, influence from fragmented bureaucratic interest groups and turf fighting as witnessed within formal institutions.

Conceptual Clarity: Testing the Club Dynamics of the BRICS and the NDB

After six consecutive summits, the BRICS has emerged as a multilateral institution that has stable constitutive, regulative and procedural norms. Institutionally, however, it maintains the characteristics of an informal club model. This type of institutional arrangement demonstrates a club model when participation is restricted, members are privileged to act as agenda setters in policy making, exclusive goods are provided to members and the “club acts as the hub that irons out differences and illustrates how … diversity does not entail divergence or conflict” [Tsingou, 2014, p. 232].

The BRICS’s exclusivity is grounded both in the attribution of both internal and external status. Internally, members claim the “emerging power” status. The status attribution comes from peer recognition, which has positive and negative implications. It is positive because it reassures and reinforces the status among the members. At the same time, it can also be negative, because it demonstrates competitive ambition for geopolitical power. The status attribution within the club model also demonstrates how political such status attribution is when exclusivity raises questions about who is in and who is out. In the context of the composition of the BRICS, the critical questions are as follows: Why did South Africa gain membership but not also Nigeria? Why was Brazil included but not Mexico? Why was India added as a second Asian state but not also Indonesia? This selective component brings the politics of inclusion and exclusion to the fore. Thus, the international status of emerging power acts as an excludable good offered by the BRICS club to its members.

Externally, BRICS members transmit an international status beyond the club that is based on the narrative of South-South solidarity and performed through their leadership in representing the developing world. While members call for reform of the IFIs and the UN in the name of enhancing the representation of the global South, it is the BRICS members who are the first and biggest beneficiaries of status attribution institutionally. The gain from voting share reform
either at the IMF or the World Bank will benefit the BRICS members and the giants within that group more than the broader global South. Thus the benefit from external status projection and status seeking is exclusively individual for the BRICS members while it is diffused for the wider global South.

At the same time, the BRICS provide outlet that benefits each member in addition to providing international status [Stuenkel, 2014]. Borrowing the words from Fen O. Hampson and Paul Heinbecker [2011], the BRICS is the “new” form of multilateralism that encompasses a type of power sharing that is not only “burden sharing,” as in taking a leading role on the behalf of the entire Southern community, but also “benefit sharing” in international status through the collective claim of an ascendant leadership role by the club members. The BRICS’s call for IMF reform is a significant case in point. BRICS members have been pushing for quota reform more vigorously since the 2008 global financial crisis. Brazilian finance minister Guido Mantega also called for reforming the IMF’s principles for choosing directors and staff to make the recruiting process more inclusive. The communiqué issued by the BRICS finance ministers in 2011 articulates the rhetorical burden sharing of the global South:

We are concerned with the slow pace of quota and governance reforms in the IMF. The implementation of the 2010 reform is lagging. We must also move ahead with the comprehensive review of the quota formula by January 2013 and the completion of the next review of quotas by January 2014. This is needed to increase the legitimacy and effectiveness of the Fund. We reiterate our support for measures to protect the voice and representation of the IMF’s poorest members [BRICS finance ministers, 2011].

In many cases, however, the symbolic political dimension is more powerful than its members’ ability to translate its demands into tangible gains [Fourcade, 2013]. Although the BRICS has made reform of the IMF a central pillar of its club activities, no tangible sign of success has been achieved, with both the U.S. and European countries dragging their feet.

Since the introduction of the concept of the NDB, media analyses have painted two different pictures. On the one hand, one cluster of analyses hyped the BRICS project as a harbinger of a new world order where emerging powers advance their own agenda through institutional innovation while shunning the existing Bretton Woods institutions [Cohen and Arkhipov, 2013; Saidi, 2014; Pilling, 2014; Press TV, 2013]. On the other hand, another cluster questioned the institutional capacity of the BRICS to establish the NDB [Al Jazeera, 2013; Warner, 2012; Pavgi, 2012; Yardley, 2012]. Takehiko Nakao, president of the Asian Development Bank, pointed to the BRICS’s capacity challenge in establishing the bank: “setting up banking business is not easy as it involves finding new projects, financing them and then monitoring the use of these funds and repayments” [Economic Times, 2013]. This bifurcated perspective challenged the BRICS members to translate the initiative from a declaratory one to one based on practice. With regard to Russia, A. A. Khryseva and E. V. Onikova [2013] argue that although NDB provides economic benefit for BRICS members, its successful development can also act as leverage for the BRICS countries individually in their negotiations vis-à-vis the North. As such, the NDB consolidated its position as the core test of cooperation and coordination among the BRICS members. From this perspective, the institutional stakes were high for the BRICS members to deepen the club culture in resolving mutual differences and finalize the bank. On the eve of the Durban Summit, remarks by South African president Jacob Zuma were telling in pointing to the BRICS’s acceptance of the challenge:

BRICS is not a talk show. It is a serious grouping ... We are able to discuss things and take decisions. If, for example, we talk about the eminent establishment of a development bank, we discussed this a while ago and immediately charged our finance ministers to work on a modality. We are now ready to launch it [quoted in Chand, 2013].
Also, the NDB has become a symbolic challenge of the multilateral capacity of the BRICS for institutional innovation. Indeed, Guo Hongyu and Ren Weiwei [2014] argue that despite the uncertainty surrounding the bank, the BRICS’s efforts are a breakthrough in the absence of the South’s fair representation in international organizations. This is reflected by Indian prime minister Narendra Modi hailing the bank as a new chapter of cooperation for BRICS members [Zee News, 2014]. He noted that the bank and the contingent reserve arrangement demonstrate “our capacity to set up global institutions” [IANS, 2014]. Also, Brazilian president Dilma Rousseff said that “these initiatives show that, despite our diversity, our countries are committed to a solid and productive association” [quoted in AFP, 2014].

The challenge to finalizing the bank also became an extension of the collective capacity of the BRICS members to manage their financial, development and macroeconomic challenges. This is reflected in Putin’s remark on the establishment of the bank:

There will be a very powerful means to prevent new economic difficulties in the world scenario and creating the bank will also establish the basis for huge macroeconomic changes ... [the bank] will allow us to undertake joint plans regarding our development [Lewis and Trevisani, 2014].

It also empowered the BRICS members to send a clear message to the international community that they are well capable of advancing alternative resolution unless the existing IFIs do not make progress in accommodating the demands of emerging powers. Indeed, at the launch of the NDB in Fortaleza, Rousseff declared, “It is a sign of the times, which demand reform of the IMF” [Soto and Boadle, 2014]. She said it proved the doubters were wrong: “even the most sceptical voices do recognise the contribution the Brics bloc of countries has provided in the field of international economics” [Smith, 2013]. As a symbolic status attribution of the emerging power of the BRICS members and their capacity to address their own needs, the NDB signals the West about their political demands. It further symbolizes strengthening cooperation in presence of mutual differences and thus a powerful political incentive for the BRICS members to finalize it. It is no wonder that media analyst Mark Adamonis observed that “ten years ago the creation of such a bank would have been greeted with open derision and laughter in Washington, London, Paris, and other Western capitals. They’re certainly not laughing anymore” [quoted in BRICS Post, 2014]. While many have argued that BRICS is all about symbolism and no substance, after the deepening of the BRICS in the Fortaleza David Pilling [2014] wrote that “it is indeed a minor miracle that five countries whose initials happen to form a catchy acronym have so quickly gone from Brics to a bricks-and-mortar bank.”

**Conclusion**

From this examination, it is the application of the club model that underscores the ability of the BRICS to translate the idea of creating a bank of its own into substantive form. Building a culture that emphasised similarities and played down differences was a precondition to this breakthrough. This was especially so given not only the generalized context of internal differences among BRICS members, but also the specific dynamics of India’s ideational entrepreneurship running up against Chinese interests and aspirations.

Yet, even faced with these constrains, the club culture held up and eased the delivery of the NDB. In terms of structure, there was a cost for India — and, for that matter, for other members with initial reservations. Once they were embedded in a self-selective, small-member club, with all the attributes of the rising big powers, there was a sense of entrapment, as the pressure of delivery for the club — to put mortar onto the BRICS — facilitated agreement, even when the results were asymmetric. Institutional status trumped the detailed results.
Informal agency was a necessary ingredient. All of the countries had an incentive to play up their ability to work together, rather than to point accusatory fingers at one another. The fact that the Fortaleza host, Brazil, did not perceive itself to have the same stakes in the negotiations, buttressed this willingness to accent the positive outcome.

Finally, the complex details involved in setting up the NDB allowed logrolling to be a major factor. The image of China winning in getting the headquarters was counteracted by the distribution of benefits more widely among the BRICS members. And any legacy of defeat for India was mitigated by the particular political circumstances, in which any blame could be directed at the previous government of Singh rather than at the new Modi government.

To highlight the benefits of the club model is not to downplay the internal problems of the BRICS in establishing the NDB. The NDB is a formal institution, in many ways at odds with the informal club culture of the BRICS. In institutional terms, as suggested by the struggle over the location of the headquarters of the NDB, this formality will inevitably bring out different and arguably more intense conflicts about rules of procedure. These sensitivities will in turn be exacerbated by the bank’s actual practices, including the range of recipients.

That being said, the informal club model has provided a good fit for the BRICS. In the initial test case, the BRICS countries were successful in using the club model to navigate friction, with a great deal of flexibility and resilience in building cooperation through a specific, instrumental and highly visible initiative. For a group that has been commonly cast as more concerned about status than results, this is considerable achievement, and creates an image of a new and loose form of multilateralism.

References


The BRICS Countries and Democratic Contagion

M. Carducci, A.S. Bruno

Michele Carducci – Full Professor of Comparative Law, European-American Constitutional Policy Research Centre, University of Salento; Piazza Tancredi 7, 73100 Lecce LE, Salento, Italy; E-mail: michele.carducci@unisalento.it

Anna Silvia Bruno – Associate Professor in Comparative Law, European-American Constitutional Policy Research Centre, University of Salento; Piazza Tancredi 7, 73100 Lecce LE, Salento, Italy; E-mail: bruno.annasilvia@gmail.com

The article assesses whether the interstate dynamics of the BRICS can create the convergence known as “democratic contagion” among political regimes and practices. Such contagion was experienced during the so-called third wave of democratization, mainly as a result of “homogeneity among states and structural conditions for democratic attraction. It thus seems unlikely that the BRICS is able to repeat these dynamics. On the contrary, the only real constitutional homogeneity common to the BRICS countries is the principle of non-interference in the internal affairs of each country; non-interference also means a mutual abstention from any initiative conditional on the transformation of political regimes in consideration of interstate cooperation. The dynamics in the BRICS shows that different political regimes can promote institutionalized forms of interstate cooperation without necessarily resulting in mutual contamination at the constitutional level. The theories of transition and democratic contagion are inadequate for understanding the dynamics of the BRICS: for this reason the BRICS occupies that “grey zone” that the theory of democratic transition has been unable to analyze. Based on the principle of “split in unity,” the BRICS can propose an evolving path toward models of “not–euro-centric dependence” in interstate relations that can overcome the peripheral realism of the role of each state.

Key words: democratic contagion, constitutional standards, constitutional homogeneity, non-interference, BRICS, transition theory

Introduction

Traditional institutions such as the World Bank and the United Nations Security Council (UNSC) no longer reflect the balance of power in the global economy. This is the message from the BRICS grouping of Brazil, Russia, India, China and South Africa to the United States and Europe, encapsulated in the establishment of a development bank capable of competing with the West to finance infrastructure. The BRICS countries have emerged as new actors on the international scene after the failure of the Washington consensus on economic policy suggestions for developing countries. The steady economic growth of the BRICS economies has supported their desire to disengage from an international system characterized by the political logic of the end of World War II. In 2011, in New Delhi, before South Africa had formally joined the group, the four emerging powers prepared for the creation of an institution independent from those created at Bretton Woods. In March 2013, in Durban – now with South Africa – the five countries announced their commitment to create a substitute for the international Monetary Fund.
(IMF) and the World Bank. The communiqué issued at the Durban Summit openly declared that the institutions of the World Bank, IMF and the UNSC are no longer adequate economic and political tools for solving the problems of the global economy.

On 9 September 2014 the UN passed Resolution No. 68/304, which proposes the creation of an international legal framework to regulate the processes of restructuring sovereign debt. This fact allowed the creation of a new global financial structure for any country that needs to restructure its debt. The resolution supports the adoption and development, through inter-governmental dialogue, of a multilateral legal framework for restructuring the debt, in order to increase the efficiency, stability and predictability of the international financial system.

The motion was proposed by Sacha Llorenti Soliz, Bolivia’s ambassador to the UN and chair of the Group of 77 developing countries. It received 124 votes, including the strategic support of China. Just 11 countries opposed and 41 abstained. Countries that did not support the resolution included the United States, the United Kingdom, Israel, Germany, Czech Republic, Australia, Japan and Finland. The abstentions (which included Mexico, France and Italy) could be considered a vote against the U.S., as they would not prevent the initiative from going forward, without taking a strong stance against the existing institutions.

At the end of October, a report about Brazil and the future of the BRICS, produced for the European Parliament, asked whether relations among the BRICS countries could be considered a vector of democratic contagion [Trevad, 2014]. This report underlined three aspects related to this theme:

1. the acceptance of mutual differences, as a condition for the BRICS to operate as an international subject;
2. the marginal role of the BRICS in the “mega trade agreements” promoted by the United States and the European Union for the free movement of goods and common rules of trade and liberalization;
3. the acceptance among the BRICS countries (particularly China, South Africa and Brazil) of the principle of non-interference in international disputes and for international measures to protect human rights and self-determination.

What is the connection between these trends of the BRICS and the phenomenon of democratic contagion? This article seeks a possible reply to this question.

The Theory of Democratic Contagion

Democratic contagion is the spread and convergence of democratic ideas and practices facilitated by factors such as access to tools for communication and information, knowledge of the works and ideas of the classic authors of democracy, increased trade leading to the opening of borders to new people and experiences, and the formalization of international relations including policy transfer and networking [Somaini, 2009].

As highlighted elsewhere, the BRICS operates on a logic of policy transfer and networking, which — in theory — suggests contagion [see Carducci, 2012; Carducci and Bruno, 2012, 2014b, c, a].

However, this hypothesis is not likely true. The heterogeneity of the five BRICS countries requires identifying common denominators on which to build democratic convergences. Not surprisingly, homogeneity and convergence were the conditions of the so-called “third wave” of the global process of democratization [Huntington, 1993].

But do Brazil, Russia, India, China and South Africa share common denominators that could be classified as homogeneous and convergent? What could they be? The population and the geographic extent of each state? The role of economic or military great powers? Or the ex-
istence of external motivations for convergence? Or, finally, the presence of external elements of democratic attraction? None of these hypotheses seems to be common to all the BRICS states.

First of all, the element of democratic attraction is missing. Democratic attraction is generally identified as supranational integration that supports common democratic standards” [de Vergottini, 1998]. This observation applies to supranational processes with a three-dimensional structure, such as Mercosur and Unasur for Brazil, or the African Union for South Africa: participating states coexist not only in a supranational organization of economic and trade integration, but also with a supranational conventional system for the protection of human rights (such as the Inter-American Court of Human Rights for Brazil and the African Court of Human Rights for South Africa). Common standards for protecting human rights and safeguarding democracy within the member states are thus promoted [Carducci, 2014].

The same concepts apply to the population and the geography of the BRICS states. The democratic contagion of the third wave was made possible insofar as the countries involved were geographically and geopolitically similar. Currently, however, of the 11 countries with populations greater than 100 million inhabitants and similar geopolitical positions, just six (United States, Japan, India, Indonesia, Brazil and Mexico) qualify as democracies, according to the international literature, although they are qualitatively different; the remaining countries (Nigeria, Russia, Pakistan) are semi-democracies or autocracies [Somaini, 2009; Grassi, 2008].

The role of the economic or military great power can be attributed to Russia, China and now India, but not to South Africa or Brazil, which fall into the category of middle power [Sandal, 2014]. Among other things, the role of great power can be counterproductive to the objectives of convergence. In fact, it tends to favour strong internal cohesion among the power elite and induces suspicion of democratization as an unavoidable centripetal force that weakens – at least temporarily – the country’s bargaining strength at the international level.

Finally, none of these great powers in the context of the BRICS can assume the role of external spur for democratic contagion, which is a determinant in the third wave of democratization (examples include the United States in post-war Europe or the European Union itself, in comparison with the Eastern European countries). Indeed, the United States has abandoned its pro-democratic strategies toward the BRICS countries and supports a geo-policy of “encirclement.” Recent comparative analysis of the BRICS economies shows that a total liberalization of their trade, even with the United States and Europe, would enhance the productive technical progress of all five BRICS members (but primarily Russia and China) and would actively circulate money in such a way that would alter the overall weight of the U.S. dollar and of the United States itself [Becker, 2014; Carmody, 2013; Lo, 2014].

Therefore, the United States promotes its three international trade agreements (the Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership and the Trade in Services Agreement) aimed at creating an Atlantic and Asian framework that excludes the BRICS members. It is isolating this legal network at the global level and hindering any connections between economic progress and democratization experienced by the rest of the world in coercive or competitive, emulative or learning ways [Buxton, 2014; Simmons, 2008].

Ultimately, homogeneity and convergence, which do not factor as strategic objectives for the United States, would not benefit from such external spurs. But the BRICS countries do not seem able to promote even internal spurs that can support democratic contagion. In fact, even if they can be classified as “macro-territorial spaces,” they do not seem interested in promoting common policies of cohesion to address socio-spatial inequalities and govern differences in the democratic and cooperative management of territories [Logroscino, 2007].
This characteristic is particularly important for democratic contagion for two reasons. First, it follows the analysis of the so-called “new economic geography” [Kanbur and Venable, 2007]. By doing so, it develops the relationship between the dimension of the countries, the indices of inequality and the nature of political regimes. Second, it means that the BRICS, as an international organization, does not want issues of identity and borders to factor in its own geopolitical dimension.

Therefore, the BRICS needs neither homogeneous policies of cohesion within each individual state nor its own cohesiveness as international system. It therefore does not need any common denominators of homogeneity and convergence.

In this external/internal scenario, the institutional innovation experienced by the BRICS countries, as convergent and homogeneous innovation, exclusively serves common strategic and economic interests, regardless of the constitutional adjustments of the political regime, as occurred during the second half of the 20th century [Mazzucato, 2014].

The United States preferred so-called hard regionalism during the post-war period [Roy, 2013]. However, it abandoned it because of the associated effects of homogeneity and democratic convergence experienced in Europe. Not surprisingly, the European process can be recognized for constitutional traditions common to the members of the EU, which were formalized by the Maastricht Treaty. Moreover, the Treaty on the European Union, in the version that followed Amsterdam, established that the union was founded on constitutional principles (article 6), providing for a system of sanctions for states that do not adhere to it (article 7) and considering them a condition of access for countries that wish to be integrated (article 49), as well as the characteristic features of the EU in its foreign policy (article 11) [Atripaldi and Miccù, 2003]. In addition to these provisions, which indicate a convergent homogeneity, the treaty has ensured respect for national identity since its first version, in a similar way to the processes of federalization.

None of this can be read or will be read into the interstate commitments of the BRICS.

Non-interference as Constitutional Homogeneity in the BRICS

Is it possible to conclude that the BRICS countries, in terms of structure and function, have no common homogeneous constitutional elements?

Not really. A common element exists and is reflected in the constitutional texts of these countries or in their practices over time. This element is “non-interference” even with a constitutional nature.

The logic of international cooperation among the BRICS countries is also based on the common standard of mutual abstention from influencing the international relations among them with assessments of the constitutional conditions of each political regime. Unlike the European Union, with its policy of enlargement and neighbourhood conditioned by the retention or acquisition of political criteria (characterized by common democratic inspirations), the BRICS seems interested in promoting a constitutionally neutral global model of interaction.

Moreover, this neutral elaboration of constitutional and democratic ideas exists in Europe as well. In fact, within the dynamics of the European Convention of Human Rights, the common democratic heritage evoked by the preamble, even that heritage was used as a measure of consensus among states on certain limitations of human rights, does not presuppose homogeneity among states, but does presuppose their international parity [Palermo, 2005].

With regard to the BRICS, this neutrality is not new because it concerned and still concerns specifically China and Brazil.

With regard to China, it is sufficient to refer to the so-called Angolan model. China has expanded its sphere of influence in order to secure the support of countries with high produc-
tive potential but with that have low-income and inhomogeneous political regimes. China has a policy of retention of customer loyalty that allows the consolidation of economic relations in the medium and long term. The case of Africa is emblematic, particularly states such as Zambia, the Democratic Republic of Congo, Angola and Sudan. The Chinese presence in Africa is often referred to as soft power to show the flexibility and, at the same time, solidity with which Beijing has permeated those markets, abandoned by or unknown to the great powers, through processes of penetration that exclude the use of armed forces as well as, especially, the conditioning of the internal dynamics of the various political regimes.

Indeed, as the only requirement for bilateral relations, China requires the respect of five principles of peaceful coexistence: no interference in the government of the state and of the territory, prohibition of any declaration of war, non-interference in international affairs, mutual benefit from economic relations, and peaceful coexistence.

The “Angolan model” is based precisely on the principles of “national independence,” “non-intervention,” “defense of peace” and “cooperation among peoples for the progress of humanity” to be elements that assert the “equality of states,” understood not as “uniformity” but as “consistency” of coexistence in the mutual “non-interference” within the international order [Preuss, 2008; Simpson, 2004]. These principles are a condition to allow credit. China has huge monetary resources to be used in Africa, together with the need to acquire raw materials and find a market for its products. But even if Africa is rich in raw materials, it is often devoid of technologies that would enable it to exploit them. This complementarity in needs is the fulcrum of the Sino-African relationship [Thompson, 2005].

This is the same axiology of the dynamics among the BRICS countries, and it is an axiology that a democratic country formalizes in its constitution, as Brazil did with articles 4, 21 and 84. Brazil can open a credit line to Angola, a country with an autocratic political system, and also support its candidacy as non-permanent member of the UNSC.

Brazil’s constitutional provisions are thus used as democratic anti-contagion clauses; as such, they can legitimize the process of inter-state cooperation among the BRICS countries.

In terms of constitutional and political comparisons, the scenario in which the BRICS is involved raises interesting questions. While, in the name of spreading democratic contagion, authoritarianism was considered rendered extinct by the so-called transition theory, given contemporary trends in international cooperation today it is acquiring the same (“authoritarian”) character [Caillé, 2005; Beck, 2009]. The theory of democratic transition had, over the years, increased the tendency to relegate the study of authoritarian systems to areas studies such as Asia, the Arab world and Latin America — by denying a general comparative value to this area of study. But the dividing line drawn between democracy and authoritarianism, as well as the discourse on democratic contagion, prevents the understanding of contemporary political situations.

Conclusion

The dynamics of the BRICS shows that political regimes, different from each other, can promote institutionalized forms of interstate cooperation without necessarily resulting in a mutual contamination at the constitutional level. Moreover, phenomena such as the fragmentation and division of the political space into sectors, typical of the western democracies, certify the expansion of hybrid experiences of acceptance of constitutional standards, even where the democratic contagion is considered as fully well established (as in the EU itself), for example in the situation in Hungary since 2007 [Camau, 2008]. The theories of transition and democratic contagion appear insufficient to understand the implied dynamics of the BRICS.
But the experience of the BRICS can also involve unusual questions about the constitutional comparison. First of all, it could demonstrate the artificiality of such constitutional concepts as homogeneity and democratic contagion, with reference to a network of interstate interactions in today’s globalized world. If unity and consistency are not sufficient to ensure cohesion in integration in the EU itself, why should a legal network like the BRICS be worried about this question? [Strazzari, 2014; Cerruti, 2014].

Second, there is the question of whether democratic indicators developed at international level (such as those created by Freedom House, Polity IV and the Carnegie Endowment for International Peace) are sufficient for defining the quality of an international network such as the BRICS. Indeed, the paradox is that, when considered individually, these countries rank very differently on these indexes in areas such as civil liberties, freedom of expression, the protection of human rights in prisons. In contrast, they are convergent in other areas, such as the empowerment of women’s rights or the enforcement of some public policies. Despite these asymmetries, all of them are open to each other for exchanging information and policies, producing an element of interstate cooperation that is not conditioned by the internal quality of the circulation of information and freedom.

It thus seems possible to conclude that the BRICS occupies a “grey zone” that the theory of democratic transition has not yet been able to explain adequately [Carothers, 2002]. In fact, this theory held that transition and democratic contagion were inseparable elements of contemporary interstate cooperation. Between democratic regimes and regimes that are alternative to democracy there exist some interstate experiences that, while adopting a democratic discourse and sharing some liberal reforms, strengthen forms of power that are not conditioned by democratic contagion or open to transition.

The BRICS is the most significant of these experiences, based on the global promotion of common worldviews and justice through mutual cooperation, but without affecting internal constitutional differences that do not necessarily converge.

From the point of view of a constitutional comparison, the BRICS experience calls for a reflection on abandoning the distinction, as dubious as it is tenacious, between democratic regimes and authoritarian regimes, in order to trace a cross-contamination between these two systems in the search for forms of homogeneity and convergence that could differ from those that support democratic contagion and are useful for interstate models and alternative to those experienced in the Euro-American West.

For this reason, the conclusion of finding homogeneity in the BRICS as an unprecedented cooperative principle seems well suited: “split in unity” and not “united in diversity.” This principle is nothing more than the international translation of the common constitutional identity of non-interference. But what will the future of this logic be in a world where the observance of human rights by each state is no longer a matter of internal rights?

References


The Real Contours and Targets for the BRICS Monetary Partnership to Facilitate Trade and Investment

N. Khmelevskaya

Natalia Khmelevskaya — Associate professor, Moscow State Institute of International Relations of Ministry of Foreign Affairs of Russia; 76 Vernadskogo av., 119454 Moscow, Russian Federation; E-mail: Khmelevskaya@mgimo.ru

This article focuses on the evolution of monetary cooperation among BRICS members of Brazil, Russia, India, China and South Africa and on testing the bilateral trade and exchange rate indicators to target transaction costs as they drive export growth. The discussion starts with the formal arrangements to ensure the settlement of trade among the BRICS members in local currencies. Export similarity index (ESI) analysis of similarities between BRICS member’s export structures reveals that during the period 2009–2013 benefits for the BRICS from shifts in export structure depended first on China’s role in vertical trade integration and second on China as a growing source of demand for the BRICS economies. With regard to exchange rate indicators, the magnitude of the trade response to exchange rate deviations depends on the overall structure of exports. Then any BRICS currency devaluations that anticipate inflation are attributed to exchange rate discrepancies and associated with dumping. Hence their divergent effects on export — Russia’s exports grew largely through mineral fuel, and Brazil has gained from its deepening trade relationships. Therefore transaction costs may be reduced via common trade settlement arrangements and trade facilitation. The article introduces ideas for designing BRICS payment and settlement mechanisms. One suggestion is to build a clearing union on the platform of the pool of BRICS conditional currency reserves similar to the reserve tranche position of the International Monetary Fund. Another suggestion addresses cross-border local currency payment systems with fine-tuning transactions between national clearing systems and banks.

Key words: BRICS interbank mechanism, BRICS Conditional Currency Reserve Pool, export similarity index, real effective exchange rate, clearing payments, currency swap agreement, escrow account, local currency payments and settlements

Since the second BRICS summit, held in Brasilia on 15 April 2010, monetary cooperation within the BRIC grouping of Brazil, Russia, India and China, later joined by South Africa to form the BRICS, has become a unique form of international economic collaboration to steer bilateral trade and investments toward strong and balanced growth. While primarily intended to enhance and deepen economic relations, the BRICS partnership has from the beginning also put emphasis on an ambitious segue into the local currency trade settlement arrangements, separately from informal groupings. The first practical document of that summit — the memorandum of understanding between Vnesheconombank (VEB), the China Development Bank (CDB), the Brazilian Development Bank (BNDES) and the Export–Import Bank of India (Exim Bank) — articulated the novelty of the BRICS’s multilateral economic cooperation and partnership dialogue. Without a sub-national coordination structure, today it comprises

1 At the Brasilia Summit, the BRIC leaders declared their intention to “study feasibilities of monetary cooperation, including local currency trade settlement arrangement among our countries” in order to facilitate trade and investment [BRIC, 2010].
a range of open and flexible cooperation mechanisms that mature from one BRICS summit to another — in addition to the annual summits and the regular BRICS meetings at the G20 summit, there are working groups, ministers meetings, meetings of heads of financial and tax services, and workshops and forums, and so on.  

Since 2010, the BRICS Inter-Bank Cooperation Mechanism and the BRICS Exchanges Alliance have incubated the monetary cooperation among the BRICS countries. The BRICS members gradually set up a specific framework for trade settlement arrangements in order to transform their technical assistance in bilateral projects in the major areas of trade and investment — including in the energy sector between Russia and Brazil, and Brazil and China; in the aircraft industry between China and Brazil; and in the complex equipment manufacturing sector between Russia and China, and between China and South Africa — into an implementation mechanism for economic cooperation [Khmelevskaya, 2012a, p. 145]. The BRICS Exchanges Alliance brought together leading emerging stock markets by cross-listing benchmark equity index derivatives beginning on 30 March 2012. Brazil’s IBOVESPA futures, Russia’s MICEX Index futures, India’s S&P BSE SENSEX Index futures, Hong Kong’s Hang Seng Index futures and Hang Seng China Enterprises Index futures, and South Africa’s FTSE/JSE Top40 futures are today known to investors as BRICSMART products. The BRICS Business Council, the BRICS Bank Forum and the BRICS Business Forum were also introduced in 2012–2013 to respond to the possibly wider scope of the BRICS members’ interests, and to allow proposals from the financial sector to be studied, discussed and transmitted to the decision-making levels. While many developing countries have significantly extended export growth through deepening trade flows, the BRICS Business Council has suggested that governments streamline the approvals procedure for the establishment of branches and subsidiaries of financial institutions from BRICS countries to promote best banking practices in the key areas of BRICS cooperation including infrastructure, manufacturing and finance [BRICS Business Council, 2014, p. 10].

At the time the BRICS group was formed only Russia and China had joint payments and market infrastructure. By December 2010 the number of Chinese companies authorized to make cross-border trade payments in renminbi and rubles had grown to 67,000 from 365. 15 Russian banks opened foreign correspondent accounts in renminbi and 10 Russian banks made payments for transactions in renminbi [Khmelevskaya, 2012a, p. 150]. The China Foreign Exchange Trade System [China Foreign Exchange Trade System, 2010] launched direct trading between the renminbi and the ruble in the interbank foreign exchange market on 22 November 2010, and the Moscow exchange followed less than a month later. Since 26 March 2013 China and Brazil extended exchange payments for transactions in renminbi and reais under their bilateral currency swap agreement valued at 190 billion renminbi or 60 billion real.4

Accelerating bilateral trade among BRICS countries has inevitably pushed the progress of interbank relationships and their instruments; between 2009 and 2012 trade between Russia and China increased by 32% per year, and between Brazil and China, Brazil and India, grew 20% annually.5 The first multilateral Master Agreement on Extending Credit Facility in Local Currency and the BRICS Multilateral Letter of Credit Confirmation Facility Agreement were

---

2 The BRICS Parliamentary Forum, in Moscow on 8 June 2015, and the BRICS Youth Summit in Kazan on 1–7 July 2015 bring the total of dialogue forums to 25.

3 The first agreement on trade and economic relations between Russia and China was signed in 1992 and became the basis for the revised Bilateral Local Currency Settlement Agreement signed on 23 June 2011.

4 See Resolution 4.200 of the Central Bank of Brazil on 26 March 2013. The Brazilian Monetary Council established the limits and conditions of the bilateral currency swap agreement signed on 27 March 2013 between the Central Bank of Brazil and the People’s Bank of China.

signed in New Delhi in 2012. Finally, the BRICS Conditional Currency Reserve Pool and the BRICS New Development Bank (NDB) were launched to turn the limited range of interbank facilities and issues into a full-fledged mechanism of monetary cooperation. The Russian State Duma was the first to ratify the agreements establishing the NDB and the reserve pool, and Vladimir Putin signed them into laws on 9 March and 5 May 2015.

The external shocks that pushed the BRICS to consolidation in 2009 also play a prominent role today in the feasibility of members’ monetary cooperation. In April 2013 the Moscow exchange introduced new contracts for spot and swap renminbi/ruble currency pair trading and partial pre-funding of cash, as well as reduced fees for current and new instruments. In October 2014 Russia and China signed their first bilateral currency swap agreement. In April 2015 South Africa and China agreed to make payments in rand and renminbi under bilateral currency swap valued at 30 billion renminbi. In addition to stimulating business in border regions, joint Chinese and Russian initiatives also address the negative externalities of the non-market nature that are destructive for normal commercial practice and customs.

Most countries turn to these types of currency trade settlement arrangements only in the final stages of economic convergence (European Union); after fine-tuning their banking systems (East Caribbean Currency Union, Trans-European Automated Real-Time Gross Settlement Express Transfer System [TARGET]); within bilateral cross-border local currencies payment systems in the Mercosur such as between Brazil and Argentina, and between Brazil and Uruguay; or in a multilateral clearing scheme such as the Asociación Latinoamericana de Integración (ALADI) Reciprocal Payments and Credits Agreement. In seeking a real monetary partnership, the BRICS will inevitably meet numerous challenges, which will in turn mature the group’s cooperation and steer it toward stable and balanced growth.

Formal Arrangements for Settling Trade among BRICS Members in Local Currencies

To ensure the settlement of trade among BRICS in their local currencies a set of pre-conditions need to be met. Potentially, the choice of currency to be used for international payments depends on the market-driven nominal exchange rate for payments and proportions of bilateral trade for settlements. From the point of microeconomic stability, the current account payments and transfers are part of the money supply aggregate liquidity flows. Therefore, while accumulating, for instance, renminbi or rubles to pay for imports the liquidity may expand, which fuels increased demand for apparently stronger currencies. The freer the exchange rates float, the more market expectations rise associated with the so-called “fear of floating” relevant to all BRICS countries except China. Exporters and importers’ choice of currency for payments depends mainly on the exchange rate margin as they put in all the transaction costs, but also on other factors including how freely a currency can be used and how volatile the exchange rate. Thus, during 2010 to 2013 the Brazilian real, the Indian rupiah and the South African rand were most volatile currencies of the BRICS countries, and at the end of 2014 it was the Russian ruble.

During the appreciation of the Brazilian real in the second half of 2010 the real effective exchange rate (REER) grew to 3.6%, and the volume of payments using the cross-border local currencies payment system between Brazil and Argentina (Sistema de Pagos en Moneda Local [SML]) accelerated 2.3 times – resulting in an accumulated volume to the end of the year 2.7 times larger than for the entire previous period. In May 2010, after three months of synchronous

---

6 See Media Release of the South African Reserve Bank (SARB) on 4 April 2015.
devaluation of the Argentina peso and real, three import transactions from Argentina alone represented a five-fold increase in the volume of payments for the previous three months.7

As per the obligations under Article VIII and further defined under Article XXXI of the Articles of Agreement of the International Monetary Fund (IMF), all the BRICS currencies are freely usable as they are, in fact, widely used to make payments for international transactions and traded in the principal exchange markets. At Clearstream Banking SA and Euroclear Bank SA/NV, payment transactions are performed in rubles at the Deutsche Bank in Moscow, in Brazilian reais through accounts open in Itaú DTVM SA, and in South African rand through Standard Chartered Bank in Johannesburg. Non-cash operations with funds in rubles (equities and corporate bonds) are also available for settlement via Euroclear and Clearstream, which link directly to the Moscow Exchange, Russia’s Central Security Depository and the National Settlement Depository. The legal right to choose the currency of payment for merchandise export or import has, of course, also significantly strengthened the payments framework.

Russian and Chinese residents can select currency and means of payment in accordance with the 1992 agreement between their two governments on trade and economic relations, which was amended in 2010. In 2014 more than 90% of cross-border trade payments between Russia and China were settled in rubles with later conversion into renminbi or dollars. The total turnover of correspondent banking between Russia and China has increased by 20-35% annually [Khmelevskaya, 2012a, pp. 148–49]. Before direct trading between renminbi and ruble, it was a common practice to convert export revenue into other freely usable currencies, predominantly the U.S. dollar and euro. Consequently, the question of which assets will be authorized to allocate money from current accounts arises, and will be vital for national banks and their performance ratios. As most such barriers among the BRICS countries can be attributed to the differences in risk assessments and performance standards, they might need to establish a common rating agency or, at least, harmonize national standards.

To cushion short-term liquidity pressure and to strengthen completely integrated central banks’ cross currency swaps, intergovernmental clearing among the BRICS may draw on the BRICS Conditional Currency Reserve Pool (there were also clearing ruble, clearing renminbi and clearing rupiah until 1999 among Russia, China and India), which is technologically very similar to the IMF’s self-financing mechanism the reserve tranche position.8 The reserve tranche position is a member’s liquid claim on the IMF’s international reserves, equal to the member’s quota minus the IMF’s holdings of the member’s currency. Hence, the reserve asset paid by a member for its quota subscription creates an equal amount of reserve tranche position, and the IMF lends to other members. By the same logic China may require half its contribution to the BRICS Conditional Currency Reserve Pool, Russia, India and Brazil their full contributions, and South Africa a sum twice as large as their contribution. On the other hand, misalignments of the BRICS currencies caused by global financial instability and negative expectations will be lessened, first, by borrowing-to-contribution ratios and, second, by clearing in the currency of the largest contribution (e.g., China’s part is equal to $41 billion).

Since 1965 there has been a high value clearing scheme among 12 Latin American states under the ALADI Reciprocal Payments and Credits Agreement (amended 28 April 2014) using the U.S. dollar for cross-rate quotations. In December 2014 the total volume of payments processed exceeded 8% of intra-regional imports, but the largest decline in its history, more than 40%, was in the second quarter of that same year [ALADI, 2015, p. 5]. During the last decade Argentina and Venezuela have regularly cleared their obligations at the end of the 360 days payment period, thereof, the ALADI is an external financing facility [Khmelevskaya, 2012b, p. 997].

---

8 In terms of borrowing allowances and voting power it is similar to the Chiang Mai Initiative.
For BRICS currencies such a multilateral mechanism may create network externalities in international payments systems. For the exchange rate of the renminbi, which is managed against a basket of currencies of its major trading partners, such a mechanism may be a path to integrate into official foreign exchange reserves [Ma and McCauley, 2010; Mattoo, Mishra and Subramanian, 2012]. Questions arise from this point about the parameters of bilateral merchandise trade among BRICS countries and which of them may be targeted for stronger BRICS monetary partnership to respond to the possibly wider scope of BRICS members’ interests, and, in their turn, be sensitive enough to currency misalignments and shifts in bilateral trade flows.

The Determinants of Bilateral Trade and Exchange Rates in Local Currency Trade Settlement

In the modern paradigm of international economic relations, the scale and magnitude of changes and the challenging environment drive the BRICS to turn the tools of political coordination into a full-fledged mechanism for cooperating in trade and investments. Stemming from the BRICS openness, the shifts in sentiment and the volatility in global financial markets, especially in commodity markets, are now introducing external and balance sheet vulnerabilities. Slower growth in China in 2015–2016 is explained by greater weight on vulnerabilities from the recent rapid credit and investment growth, and in India and Brazil by the weaker external demand offset by the boost to the terms of trade from lower oil prices. The IMF’s projections for weaker growth in Russia and South Africa also reflect the economic impact of sharply lower oil prices and commodity prices [IMF, 2015, p. 2]. Besides, a pickup in industrial and investment activity after policy reforms in the BRICS is expected to be more than offset by an adjustment to lower medium-term growth in the BRICS countries.

In addition, the “Bigger Brazil Plan” focuses on import substitution in 19 sectors of the domestic economy, and offers tax credits and preferential loans for Brazilian exporters of manufactured goods. Between 2011 and 2014 BNDES spent about $322 billion in financing the productive sector [Brazilian Development Bank, 2013]. Russia’s Industry Development Fund, established to finance the State Industry Development and Competitiveness Enhancement Programme, stimulates the modernization of enterprises and provide import substitution, offering five- to seven-year special purpose loans at 5% annual interest rate [Government of the Russian Federation, 2014]. Exim India offers assistance to exporter and importers, including their unions such as the Indian Machine Tool Manufacturer’s Association, and is a premier finance institution for the “Make in India” and the “Skilling India” programmes. Moreover, Exim India offers information and support through its Export Advisory Service Group (EAS).

Trade within the BRICS mirrors the economic discrepancies and structural differences among the five countries themselves through the universal parameter of transaction costs. It could become the engine of their trade and investment insofar as it lessens transaction costs. At 53.5%, more than half of aggregate bilateral exports (more than $296 billion to the end of 2014) come from China. Starting from a high base, China’s volume of trade globally and with its BRICS partners has grown briskly over the past decade.

While the other BRICS members share economic growth and global confidence, their export priorities are reproduced in the bilateral trade flows — since 2012 there has been a marked shift in China’s role as a strategic export destination. China has become the major trade partner for Brazil and South Africa, and the second export market and primary import market for In-
In sum, about one third of Brazilian, Indian and South African trade turnover now arises from economic relationships with China; for Russia it is about 11% (18% of imports and 8% of exports).10

From a geopolitical point of view, such trade proportions among the group of countries with ambitions to coordinate political positions and economic issues is associated both with specific benefits and encumbrances in the form of inter-country trade imbalances [Khmelevskaya, 2015]. Every third foreign trade transaction within the BRICS today is with Chinese partners, which is also a result of China’s trade facilitation (tariff rates, costs of trade procedures and formalities, etc.) and competitive advantage. Like other developing countries to some extent, BRICS countries have extended export growth through improvements of their performance at the intensive margin — the expansion and deepening of export relations [Besedes and Prusia, 2007]. In Brazil 27% of the export growth during the past decade is estimated to come from the extensive margins; the figures for India and China are 22% and 21%, respectively, and only 6% for Russia. Over the same period, Brazil has extensively expanded exports of raw minerals (23.9% growth) and mechanical engineering (13.4%), while India and Russia increased exports of engineering products, and China expanded in almost all the significant BRICS commodity groups [Gnidchenko, 2014, pp. 48–51].

With regard to the trade structure among the BRICS countries, a consensus has recently emerged that the structure of exports or their diversification is crucial for productivity to achieve economic growth, and that the more open economies with lower barriers have experienced higher growth [McMillan and Rodrik, 2011; Dabla-Norris, Ho, Kochhar et al., p. 25]. The BRICS Business Council [2014, p. 34] has identified tariff and non-tariff barriers as one of the three major barriers and bottlenecks to promoting trade, investment and manufacturing ties among the BRICS countries.

Despite progress during the recent decade, currency deviations rather than tariff barriers persisted in many BRICS countries from 2012 to 2014. The Indian rupee has been devaluated to support export-oriented growth and lessen trade deficits. Responding to weaker external demand offset by lower commodity prices, Brazil weakened its currency to make its economy more competitive in the global marketplace — a 15% depreciation between the end of June to the end of 2013. Following the same logic, the Bank of Russia announced a free-floating currency regime in December 2014; with an almost simultaneous drop in world energy prices the ruble depreciated 69% within two months.11 At the same time, Brazil’s trade balance surplus with its BRICS partners has remained remarkably consistent during that period — even in 2014 when there was a deficit in total foreign trade for the first time in 14 years, BRICS trade ran a surplus of $3 billion (or 3.2% of aggregate trade with BRICS countries).

In contrast, although the People’s Bank of China keeps the value of the renminbi higher in relation to the other BRICS currencies, China’s trade deficit is 2.4 times larger than the deficits of the other members together.

To examine the trade structure among BRICS members, the following calculations regarding the Export Similarity Index (ESI) have been used:

\[ S(ab, c) = \left\{ \Sigma i \text{ Minimum} [X_i(ac), X_i(bc)] \right\} \times 100, \]

where \( X_i(ac) \) and \( X_i(bc) \) are industry \( i \)'s export shares in country \( c \) and country \( a \)'s and country \( b \)'s exports to country \( c \), which in this case includes a group of countries, namely the BRICS.

---

The similarity of the BRICS members’ export structures is surprisingly low (by the overall ESI among the five countries at two digits) addressing competitive pressure and meaning that large differences still remain in their export structures. All BRICS members have traditionally competed with each other in ore, slag and ash (group 26 at the two-digit level of the harmonized system), mineral fuel (27) organic chemicals (29), iron and steel (72), and machinery, nuclear reactors, boilers, etc. (84). Brazil competes mostly with South Africa in ore, slag and ash, with export structure continuing to be similar at 40%, and Russia competes with South Africa in mineral fuel — at 20% similarity. At the two-digit level of the harmonized system, South Africa has the highest coefficients (the average overall ESI is 35%, maximum was 60% with Brazil in 2011 (see Figure 1).

Figure 1: BRICS Export Structures in 2010–2013

Notes: Taken from the Export Similarity Index. B = Brazil, R = Russia, I = India, C = China, SA = South Africa.

With the exception of group 26, decreasing export similarity between BRICS countries is found in all the groups enumerated here that could reflect increased complementarity, as well as their low export positions as far as their separate numbers of commodities and goods are concerned. That corresponds with the shares of BRICS countries’ export markets — since 2010 7% of China’s exports stayed within the BRICS, 7–9% of Russia’s exports, 9–12% of India’s, 15–18% of South Africa’s; from 2009 to 2013 the BRICS market received 18–22% of Brazil’s exports.13

Brazil, Russia and China compete with each other and with other countries in machinery, nuclear reactors and boilers (84), as well as in electrical machinery and equipment (85). At the same time the overall ESI still remains low — maximum was 5% between Russia and China in 2010 — that could reflect a shift in technology content, taking into account the countries’ increasing shares of export markets for these goods. Until the end of 2014 Brazil accounted for 40% of electrical machinery exported from the BRICS, Russia for 37% and China for 23%.14 Chinese high-technology exports increased by close to 30 percentage points from the mid 1990s

---

12 Products are listed according to the 2002 Harmonized Commodity Description and Coding System.
to the mid 2000s [IMF, 2011a, p. 18]. Changes in the technology composition of China’s exports confirm its rise in BRICS trade in high-tech products (see Table 1).

Table 1. Trade between China and the BRICS (as of December 2013)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Harmonized System</td>
<td>Harmonized System</td>
<td></td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>12, 26, 27</td>
<td>82</td>
<td>85, 84, 29, 87, 73, 39, 72, 62, 90, 54, 95, 40, 61, 31, 94</td>
</tr>
<tr>
<td>Russia</td>
<td>27, 44</td>
<td>77</td>
<td>85, 84, 64, 87, 62, 39, 95, 61, 73, 94, 50, 42, 29, 40</td>
</tr>
<tr>
<td>India</td>
<td>52, 74, 26, 29, 27, 25, 39, 84, 72, 15</td>
<td>79</td>
<td>85, 84, 29, 99, 31, 73, 39, 90, 72, 87, 71, 89, 28</td>
</tr>
<tr>
<td>South Africa</td>
<td>26, 72, 27</td>
<td>76</td>
<td>85, 84, 64, 61, 62, 73, 39, 94, 87, 72, 29, 95, 40, 90</td>
</tr>
</tbody>
</table>

Notes: Products codes are taken from the 2002 Harmonized Commodity Description and Coding System are according their weight in bilateral export (import).

Although Chinese companies buy mineral fuel (27) from all the other BRICS countries and buy ore, slag and ash (26) from Brazil, India and South Africa, the cumulative volume is still statistically insignificant for China’s total imports. In contrast, about half the machinery, nuclear reactors, boilers (84) and electrical and electronic equipment (85) imported by BRICS countries bilaterally is made in China.

On 18 September 2014 the chairs of Indian Railways and China Railway Corporation signed a memorandum of understanding for a joint pre-feasibility study into constructing a high-speed line. According to the agreement, China Rail Eryuan Engineering Group, a subsidiary of the China Railway Corporation, will also assist Indian Railways with its plans to ramp up passenger train speeds from 130 kilometres/hour to 160 kilometres/hour [Thakur, 2014]. Simultaneously the Brazilian group Camargo Corrêa signed a partnership with China Railway Construction Corporation, providing the potential to attract capital for projects to be auctioned in Brazil. In July 2014, Russian Railways International and the Brazilian engineering company Progen signed a deal to jointly participate in Brazil’s upcoming railroad concessions [Bland, 2014].

Brazil’s exports to China consist mainly of two commodity groups – oil seed, oleagic fruits, grain, seed, fruit, etc. (12) and ore, slag and ash (26), with these groups accounting for more than 72% of exports (see Table 1). Russia’s export of mineral fuel to China has been enlarged from 45% in 2009 to 74% in 2014. India exports predominantly primary products to China; the overall share of four commodities – ore, slag and ash (26), organic chemicals (29), cotton (52), and, copper and copper-based articles (74) – is 58%. Manufactured products from China dominate imports to the BRICS, specifically groups 84, 85 and 99 (see Table 1). Thus the benefits for the BRICS trading partners depend, first, on China’s role in vertical trade integration, which has fuelled China’s rise as a leading exporter and, second, on China as a growing source of demand for BRICS economies.

Given the rising Chinese import content in BRICS exports, aggregate trade data are increasingly affected by the flows of intermediate goods that cross borders several times. For instance, in 2013 India imported about half of its electrical and electronic equipment (85) from
China, of which every third item or chemical originated from China. To some extent, natural silk products, certain toys and sports garments might be originally Chinese made — 97% of the silk imported by India is Chinese silk. Today, however, there are Chinese components in about 60% of the product lines in the Indian import, exceeding 30%.

The competitiveness of countries with a large share of foreign value added in their exports has been eroded by the increasing cost of imported production [Bayoumi, Saito and Turunen, 2013, p. 16]. At the same time, although China has become a growing source of demand for other economies, its demand for investment goods has risen more sharply than its demand for consumer goods, particularly, in exposed to its investment demand economies [International Monetary Fund, 2012, pp. 40–41]. Likewise, the more import components intermediate goods contain the larger exchange rate fluctuations might impact negatively on their export [Bayoumi et al., 2013, p. 16].

However, the 30% appreciation of China’s real exchange rate vis-à-vis the U.S. dollar between 2000 and 2008 was associated with an approximately 4.5–6% increase in the typical developing country’s exports to the United States, with much greater effects for countries in closer competition with China [Mattoo, Mishra and Subramanian, 2012, p. 18]. That may have effects for the BRICS, in so far as depreciation of the renminbi increases their exports of raw materials and intermediate goods to China to be used in the production of China’s exports. From another perspective, if China’s depreciation boosts its own growth, that could increase its demand for all goods and services, which could also lead to greater developing country exports.

Exchange rate discrepancies are defined here as deviations between the real effective exchange rate (REER) and the nominal exchange rate (NER), assuming the REER to be closer to its equilibrium level. Insofar as the effects of exchange rate movements on exports may be significant, one country’s policy can then potentially have substantial implications for the exports of other countries. If exchange rate movements stem from their coordinated policy actions, these findings are relevant to the monetary cooperation arrangements developing among the BRICS countries and to the emerging multilateral system.

For these purposes, the REER for BRICS currencies vis-à-vis each other is defined using the following formula:

$$ REER^* = 100 \times \prod (\frac{S_i}{P_d/P_f})^*, $$

where $w_i$ is $i$’s country share in the BRICS group’s trade turnover, normalized with $i$’s country share in previous year; $P$ is the consumer price index in countries $d$ and $f$; and $S_i$ is the NER. Note: the log version of REER has been used in the calculations.

The ADF test (Dickey–Fuller test) for a unit root claims that the variable is non-stationary as the level of the series is a significant predictor of the next period’s change, and has a negative coefficient due to the differences in prices.

The exchange rate discrepancies among the BRICS countries articulate differences in macroeconomic policy (margins between REER and the nominal effective exchange rate [NEER]), and, hence, price preferences for national producers. The real appreciated after 2000 under an inflation-targeting regime, and has been overvalued against the BRICS currencies in the marketplace. The margin between the REER and NER is significant (see Table 2). Externally driven expectations have fuelled the real’s purchasing power bias toward the inflation process. Basic products surpassed manufactured goods in Brazilian exports [Nassif, Feijó and Araújo, 2013, pp. 22–23]. However, the strong renminbi with its de facto fixed exchange rate has been undervalued vis-à-vis BRICS currencies other than the Brazilian real (see Table 2).
Table 2: Exchange Rates Discrepancies among BRICS Currencies

<table>
<thead>
<tr>
<th></th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REER</td>
<td>0.0121</td>
<td>0.0136</td>
<td>0.0186</td>
<td>0.0156</td>
</tr>
<tr>
<td>BRICS*</td>
<td>0.0167</td>
<td>0.0173</td>
<td>0.0175</td>
<td>0.0171</td>
</tr>
<tr>
<td>NEER</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BRICS*</td>
<td>0.0579</td>
<td>0.0569</td>
<td>0.0629</td>
<td>0.0676</td>
</tr>
<tr>
<td>REER Index**</td>
<td>100</td>
<td>104.6</td>
<td>94.6</td>
<td>90.4</td>
</tr>
<tr>
<td>NER</td>
<td>0.0579</td>
<td>0.0569</td>
<td>0.0629</td>
<td>0.0676</td>
</tr>
<tr>
<td>CPI, %</td>
<td>28</td>
<td>27</td>
<td>31</td>
<td>23</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>REER</td>
<td>2.5563</td>
<td>2.2194</td>
<td>1.3311</td>
<td>1.3416</td>
<td>0.0748</td>
</tr>
<tr>
<td>BRICS*</td>
<td>1.8524</td>
<td>1.7438</td>
<td>1.4094</td>
<td>1.2232</td>
<td>0.1030</td>
</tr>
<tr>
<td>NEER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>BRICS*</td>
<td>17.267</td>
<td>15.727</td>
<td>15.91</td>
<td>14.798</td>
<td>0.6642</td>
</tr>
<tr>
<td>REER Index**</td>
<td>28</td>
<td>27</td>
<td>31</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>NER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17.267</td>
</tr>
<tr>
<td>CPI, %</td>
<td>28</td>
<td>27</td>
<td>31</td>
<td>23</td>
<td>26</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>REER</td>
<td>7.6870</td>
<td>6.5769</td>
<td>9.0456</td>
<td>7.0769</td>
<td>0.2617</td>
</tr>
<tr>
<td>BRICS*</td>
<td>4.0458</td>
<td>4.5692</td>
<td>4.7888</td>
<td>4.6186</td>
<td>0.1901</td>
</tr>
<tr>
<td>NEER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>BRICS*</td>
<td>26.00</td>
<td>27.90</td>
<td>27.39</td>
<td>27.19</td>
<td>1.5057</td>
</tr>
<tr>
<td>REER Index**</td>
<td>26.00</td>
<td>27.90</td>
<td>27.39</td>
<td>27.19</td>
<td>1.5057</td>
</tr>
<tr>
<td>NER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26.00</td>
</tr>
<tr>
<td>CPI, %</td>
<td>37</td>
<td>27</td>
<td>23</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>---------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Notes**     |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |

*Calculated for BRICS currencies via U.S. dollar cross rate (the real effective exchange rate is normalized with the country’s share of total trade), with the direct quotes used here.

** Bank for International Settlements data.

REER = real effective exchange rate, NEER = nominal effective exchange rate, NER = nominal exchange rate, CPI = consumer price index.
The transition to direct trading between the renminbi and the ruble is associated with a wider range of fluctuation of the ruble’s market rate and an increase in the purchasing power of the renminbi. Devaluations of some of the BRICS currencies during 2012–2013 have reduced the gap between purchasing power and market-driven exchange rates. For instance, by the end of 2013 the real was 25 basic points (bp) cheaper vis-à-vis the ruble then in 2010–2011, the rand was 16 bp cheaper than the ruble, and the rupiah was only 1 bp down.15 In this regard, the further market-driven devaluations of BRICS currencies have been ahead of domestic inflation, the wider the gap between purchasing power and exchange rates, which also reflects also the magnitude of the shifts in sentiment and volatility in global markets from which national producers might sporadically benefit (e.g., Brazilian vis-à-vis South African rand in 2013 and Indian vis-à-vis Russian ruble in 2011).

With regard to the exchange rate discrepancies and BRICS expansion, Brazil and Russia have experienced the highest export growth among the BRICS countries (the common average excluding China is 46%). Brazil’s export performance was mainly resilient due to the widening and deepening trade relationships among the BRICS countries – components of the intensive margin. With average annual growth of 18%, Brazil’s exports to China have doubled, and have increased by 1.3 times to Russia and by 1.4 times to India. Brazil has begun exporting butter and other fats and oils derived from milk to Russia, and its exports of vegetable saps and extracts have seen unprecedented growth — increasing from $17 million in 2010 to $3.5 billion during 2014. In 2010 Indian consumers tasted the divine aroma of Brazilian chocolate, and the assortment of cotton and chemical fibres also expanded. At the same time, 80% of Russia’s export growth to its BRICS partners consisted of mineral fuels and oil.16 As has been pointed out, this means that economic shifts could be reproduced onto export structure changes by participating in global supply chains, which in turn help maintain competitiveness. ESI coefficients for Russia move synchronically with REER, which also indicates a low orientation to BRICS markets — their share of Russia’s exports has grown weakly since 2009 at 2%. Hence, the magnitude of the trade response to exchange rate shifts depends on the overall structure of exports.

With respect to the export structure similarity and exchange rate indicators of bilateral trade among the BRICS, estimates have proven that they may serve as determinants of transaction costs as they synchronically catch shifts in trade parameters and exchange rate discrepancies responding to the fundamental trade pattern in which currency appreciation is associated with increasing prices of domestic production factors, and like in China, the export growth and production sharing could help to maintain competitiveness [Mattoo, Mishra and Subramanian, 2012, p. 18]. An examination of the integrated effective exchange rate (IEER), which accounts for changes in the exchange rates of suppliers vis-à-vis the final export market currencies for East Asian economies, has identified that taking Chinese value-added in intermediate inputs into account, the renminbi’s IEER has appreciated less than the standard REER since 2008 [IMF, 2011b, p. 53–54].

Transaction costs may thereby be reduced via common trade settlement arrangements and trade facilitation. During the period of extreme ruble volatility in 2014, the Indian government and the Federation of Indian Export Organizations (FIEO) offered to put in place a rupee-ruble agreement similar to the one in place with Iran [Basu, 2014]. Indian imports from Russia comprise mainly primary goods (crude oil, precious metals and stones, copper and fertilizers, etc.) and exports consist both of high-technology goods — pharmaceuticals, parts for machinery and aircraft, etc. — 38% of total exports to Russia,17 and such commodities as coffee and tea,

iron and steel, and fish. The Indian offer would also revive the escrow account once maintained with the Soviet Union as an alternative to the letter of credit, which banks in both countries can use to accumulate their claims against each other and then settle them in their local currencies [Maurer and Harl, 1992, pp. 5–6]. India and Iran have an agreement that India pays for its crude oil imports in rupees for through the Kolkata-based UCO Bank; previous agreements were with the Europäisch-Iranische Handelsbank in Hamburg and Turkey’s Halkbank. For BRICS members the NDB might serve as an escrow agent, as being multilateral allows it to avoid sanctions.

Given that only the ruble and the renminbi are traded directly, to be a part of BRICS safety net the local currency trade settlement framework must contain a clearing mechanism and a payment network. The BRICS already have an institutional platform for a clearing union in the BRICS Conditional Currency Reserve Pool, but will face challenges in interbank communication networks and standards for settlement bank performance. For instance, the China National Advanced Payment System does not use SWIFT MT202/202COV codes for interbank transfers and its bank identification codes (BIC) differ from the other BRICS members.

For the design of a payment network, the BRICS might consider the example of the bilateral cross-border local currency payment systems between Brazil and Argentina (Sistema de Pagos en Moneda Local, SML) and between Brazil and Uruguay, which are based on national clearing and indicative rates that do not require direct currency trading and are therefore independent of the regulations of the central bank of the partner country [Banco Central do Brasil, 2008]. Given that all the BRICS members incorporate universal real-time gross settlement and operated by their central banks in their national payments and clearing systems, technologically it would be easier to fine-tune their operational procedures and time schedules in order to interconnect for transfers in BRICS currencies, as the SML has done. At the same time, in light of the exchange rate discrepancies among the BRICS, a compensation scheme is also required to support liquidity in a local currency trade settlement framework.

References


The New Development Bank in the Global Financial Architecture

A. Morozkina

Alexandra Morozkina – PhD student, National Research University Higher School of Economics; Head of structural reforms division in Economic Expert Group; Vetoshny per., 5/4, 109012 Moscow, Russian Federation; E-mail: a.k.morozkina@gmail.com

This article addresses the question of whether the New Development Bank (NDB) will promote the role of the BRICS countries of Brazil, Russia, India, China and South Africa in the global financial architecture and foster their development. It begins by comparing the key multilateral development banks (the World Bank, the Asian Development Bank, the African Development Bank and the Inter-American Development Banks, the European Bank for Reconstruction and Development) and the national development banks of the BRICS countries with the newly established institution. The purpose of the NDB is to mobilize resources for infrastructure and sustainable development projects in the member countries. This purpose, as determined by the analysis in this article, partly duplicates the existing institutions. However, the NDB could add to the functions of the existing institutions and become a significant development bank for member countries. The best way to achieve this goal is to implement multilateral projects in the areas listed above. Second, the article examines the current role of the BRICS countries in the global financial architecture and the potential for their increased participation, which has arisen with the establishment of the NDB. The founding countries will jointly determine the volume and direction of the financial aid to the third countries. In contrast to the Bretton Woods institutions, the BRICS countries could change the rules of development aid, in particular, the conditions and systems for monitoring results. The article concludes that the BRICS countries have the potential to change the current system of development finance and therefore to increase the role of the BRICS countries in the global financial architecture.

Key words: BRICS, New Development Bank, development finance, global financial architecture, sustainable development, Bretton Woods institutions

Financial and economic issues have been among key items of the agenda of the BRIC group of Brazil, Russia, India and China, and have remained when South Africa joined to form the BRICS. Since its first meeting, the group has been interested in changing the global financial architecture. That architecture is “a loose set of multilateral agreements and understandings, among a core group of powerful capitalist states, about the rules and norms that govern, and/or should govern, cross-border money and credit transactions of all kinds” [Armijo, 2002, p. 3]. Given the existing system of multilateral financial institutions, the establishment of the New Development Bank (NDB) by the BRICS will have an impact on that global financial architecture.

The BRICS leaders agreed to establish the NDB at the Durban Summit in 2013 [BRICS, 2013]. The agreement establishing the bank itself was signed at Fortaleza Summit [BRICS, 2014]. This undoubtedly important decision shows that the BRICS countries can create a joint product with the potential to change global financial architecture. The question is whether the NDB will deliver any tangible results and facilitate the role of the BRICS in the global financial architecture and the development of the BRICS countries. It was previously thought that the
newly established bank should not compete with existing institutions and cooperation mechanisms, and many existing institutions consider it a competitor [Central Asia Monitor, 2013]. This question is easily resolved, however, by comparing the NDB’s activities as specified in its establishing agreement with the activities of existing institutions and mechanisms. There are identifiable spheres of possible duplication and complementarity.

According to the agreement establishing the NDB, the purpose of the institution is to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development ... It shall also cooperate with international organizations and other financial entities, and provide technical assistance for projects to be supported by the Bank” [BRICS, 2014]. To compare, the purpose of the Asian Development Bank (ADB), similar to that of the African Development Bank (AfDB) and the Inter-American Development Bank (IADB), is to “contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually” [ADB, 1965, art. 1; see also AfDB, 2011; IADB, 1996]. The purpose of European Bank for Reconstruction and Development (EBRD) is to “foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics” [EBRD, 2013, p. 4].

Multilateral financial institutions are an important part of the global financial architecture. They finance development and sustainability and provide technical assistance and advisory services to the member countries. Key multilateral financial institutions are the World Bank, the ADB, the AfDB, the IADB and the EBRD. They finance projects in the energy sector (26.8% of ADB loans, 16% AfDB loans, 21% EBRD loans), in public management (26.2% of World Bank loans), in transport infrastructure and communication (24.5% of ADB loans, 33.2% of AfDB loans, 17.6% of World Bank loans, 20% of EBRD loans, 20.2% of IADB loans), and health care and social security (14.3% of World Bank loans, 14.9% of IADB loans (see Table 1). This corresponds to the national priorities of the BRICS countries, which include the development of the human capital (education, health care and social security), agriculture, infrastructure, public management, environmental and energy efficiency, and innovation. Thus projects in those priority areas could be financed under the current framework. The specific feature and contribution of the NDB could be an opportunity to involve experts and equipment from the BRICS countries, in contrast to projects financed by the International Monetary Fund (IMF) or the World Bank, which usually deploy resources from western countries.

Table 1: Multilateral Development Bank Loan Portfolios by Sector, %, 2013

<table>
<thead>
<tr>
<th></th>
<th>ADB</th>
<th>AfDB</th>
<th>EBRD</th>
<th>IADB</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and natural resources</td>
<td>5.0</td>
<td>12.3</td>
<td>16.0</td>
<td>4.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Education</td>
<td>3.7</td>
<td>5.2</td>
<td>–</td>
<td>5.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Energy</td>
<td>26.8</td>
<td>16.0</td>
<td>21.0</td>
<td>3.8</td>
<td>7.5</td>
</tr>
<tr>
<td>Finance</td>
<td>14.2</td>
<td>8.1</td>
<td>28.0</td>
<td>14.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Health care and social security</td>
<td>2.6</td>
<td>4.2</td>
<td>–</td>
<td>16.4</td>
<td>14.3</td>
</tr>
<tr>
<td>Industry and trade</td>
<td>0.3</td>
<td>0.0</td>
<td>15.0</td>
<td>8.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Public management</td>
<td>5.7</td>
<td>–</td>
<td>–</td>
<td>16.7</td>
<td>26.2</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>24.5</td>
<td>33.2</td>
<td>20.0</td>
<td>20.2</td>
<td>17.6</td>
</tr>
</tbody>
</table>
The BRICS countries are not the only borrowers and members of multilateral development banks. Therefore, there is a question of whether the BRICS countries receive any assistance from these institutions. They are large borrowers from the World Bank. India and China are most active (8.3% and 9% of the World Bank’s loan portfolio in 2013 was allocated to these countries). Brazil is slightly behind (8%); loans to Russia and South Africa amount to significantly lower sums, although they also use this opportunity to fund development projects in priority fields. Loans to Russia and South Africa in 2013 accounted for 1% and 0.9% respectively of the total loan portfolio (see Table 2).

Table 2: World Bank Loan Portfolio by Country, %, 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Argentina</th>
<th>Brazil</th>
<th>China</th>
<th>Colombia</th>
<th>Egypt</th>
<th>India</th>
<th>Indonesia</th>
<th>Kazakhstan</th>
<th>Mexico</th>
<th>Morocco</th>
<th>Peru</th>
<th>Philippines</th>
<th>Poland</th>
<th>Romania</th>
<th>Russia</th>
<th>South Africa</th>
<th>Turkey</th>
<th>Ukraine</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.1</td>
<td>8.0</td>
<td>9.0</td>
<td>5.3</td>
<td>2.3</td>
<td>8.3</td>
<td>7.3</td>
<td>1.9</td>
<td>10.4</td>
<td>2.4</td>
<td>1.3</td>
<td>2.3</td>
<td>4.7</td>
<td>2.4</td>
<td>1.0</td>
<td>0.9</td>
<td>2.3</td>
<td>17.4</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank [2013b]

China and India are also members and the largest borrowers of the Asian Development Bank. Loans to China amount to 26.2% of its loan portfolio in 2013; loans to India were 22.8% (see Table 3). In 2013, the ADB approved 12 projects in China with a total volume of $1.54 billion. Funds were allocated to projects in different sectors such as natural resources and agriculture, energy, transport, and urban and social infrastructure. The ADB thus contributes to the financing and realization of projects in priority sectors in China. These sectors are highlighted in “12th Five-Year Plan for 2011–2015,” which states as priorities economic growth, reorientation of domestic demand, environment protection and clean energy, agriculture, human development, social support, public management [National People’s Congress of the People’s Republic of China, 2011]. The ADB is, in fact, financing projects in energy sector, agriculture and social sphere.

In India, large projects in energy and transport (such as an $800 million project to develop rural roads) account for 67% of the ADB’s loan portfolio in this country. These projects are mostly aimed at solving issues of poverty and inequality, which corresponds to the national priorities set in “12th Five-Year Plan (2012–2017)”: the development of human capabilities, institutions and infrastructure [Planning Commission, 2013]. Energy and transport projects contribute to the third priority.
\textbf{Table 3: Asian Development Bank Loan Portfolio by Country, \%, 2007–2013} \\

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>24.4</td>
<td>23.6</td>
<td>23.1</td>
<td>23.5</td>
<td>24.4</td>
<td>24.9</td>
<td>26.2</td>
</tr>
<tr>
<td>India</td>
<td>16.5</td>
<td>18.0</td>
<td>18.7</td>
<td>20.4</td>
<td>21.1</td>
<td>21.8</td>
<td>22.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>31.2</td>
<td>28.3</td>
<td>24.0</td>
<td>22.5</td>
<td>20.1</td>
<td>18.1</td>
<td>16.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>9.2</td>
<td>12.1</td>
<td>11.3</td>
<td>11.4</td>
<td>11.0</td>
<td>9.9</td>
<td>9.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>11.1</td>
<td>10.9</td>
<td>11.9</td>
<td>10.7</td>
<td>9.9</td>
<td>10.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.6</td>
<td>0.5</td>
<td>2.0</td>
<td>2.2</td>
<td>2.8</td>
<td>3.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.3</td>
<td>1.4</td>
<td>2.9</td>
<td>3.0</td>
<td>2.9</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Other</td>
<td>5.7</td>
<td>5.1</td>
<td>6.0</td>
<td>6.3</td>
<td>7.7</td>
<td>9.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

\textit{Note:} Numbers may not add up to 100\% due to rounding.


South Africa is a large customer of the African Development Bank. Loans to this country amounted to 26.7\% of its portfolio in 2013 (see Table 4). Projects in the financial sector account for about two thirds of total loans and infrastructure projects about one fifth. These two sectors correspond to South Africa’s long-term priorities of the reduction of poverty and inequality set out in its “National Development Plan 2030: Our Future – Make It Work” [National Planning Commission, 2012].

\textbf{Table 4: African Development Bank Loan Portfolio by Region, \%, 2007–2013} \\

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Africa</td>
<td>23.1</td>
<td>26.1</td>
<td>14.1</td>
<td>35.2</td>
<td>44.1</td>
<td>48.9</td>
<td>40.2</td>
</tr>
<tr>
<td>West Africa</td>
<td>9.8</td>
<td>19.3</td>
<td>16.2</td>
<td>16.6</td>
<td>5.9</td>
<td>3.4</td>
<td>13.2</td>
</tr>
<tr>
<td>Southern Africa excluding South Africa</td>
<td>7.4</td>
<td>8.6</td>
<td>22.1</td>
<td>2.7</td>
<td>20.6</td>
<td>1.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Central Africa</td>
<td>16.8</td>
<td>2.4</td>
<td>3.7</td>
<td>7.0</td>
<td>4.2</td>
<td>2.8</td>
<td>2.2</td>
</tr>
<tr>
<td>East Africa</td>
<td>22.5</td>
<td>18.1</td>
<td>6.9</td>
<td>16.8</td>
<td>3.8</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>13.0</td>
<td>6.5</td>
<td>23.2</td>
<td>12.1</td>
<td>14.9</td>
<td>36.5</td>
<td>26.7</td>
</tr>
<tr>
<td>Multinational</td>
<td>7.5</td>
<td>19.0</td>
<td>13.8</td>
<td>9.6</td>
<td>6.5</td>
<td>5.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

\textit{Note:} Numbers may not add up to 100\% due to rounding.


Increase in income per capita and inclusiveness in South Africa is achieved mainly by developing projects in financial sector, such as support for small and medium-sized enterprises (SMEs). Projects in the infrastructure sector (energy, transport, communications, water supply, etc.) directly influence the quality of life.

Russia is among the largest borrowers at the EBRD — it received 21.4\% of the bank’s portfolio in 2013 (see Table 5). EBRD projects are allocated to different sectors of the economy,
including agriculture (a loan to salad producer Belaya Dacha, a share in the Khlebprom confectionary), banking industry (syndicated loan to Rosbank), energy (financing the development of the heating system in the Sakha Republic), private sector (investments in private equity funds operated by Baring Vostok in Russia and members of the Commonwealth of Independent States), transport (loan to the Servisnaya Holdingovaya Kompaniya, which provides information technology services; co-financing the western high-speed diameter of St. Petersburg), science and education (syndicated loan to the Pulkovo technopark), health care (loan to the Geropharm-Bio pharmaceutical company). Some of these projects correspond to Russia’s national priorities on health care, education and agriculture, as announced in 2005 [Putin, 2005]. Some of the measures taken are financed from the federal budget, but could also be financed by development banks, including regional and national banks.

Table 5: European Bank for Reconstruction and Development Loan Portfolio by Region and Country, %, 2007–2013

<table>
<thead>
<tr>
<th>Region</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Asia</td>
<td>11.1</td>
<td>11.3</td>
<td>7.2</td>
<td>10.8</td>
<td>5.2</td>
<td>9.8</td>
<td>6.5</td>
</tr>
<tr>
<td>Central Europe and Baltic countries</td>
<td>9.8</td>
<td>6.4</td>
<td>21.0</td>
<td>16.5</td>
<td>15.3</td>
<td>13.6</td>
<td>18.9</td>
</tr>
<tr>
<td>Eastern Europe and Caucasus</td>
<td>20.1</td>
<td>25.8</td>
<td>18.4</td>
<td>17.4</td>
<td>20.5</td>
<td>16.8</td>
<td>17.8</td>
</tr>
<tr>
<td>Russia</td>
<td>41.1</td>
<td>35.7</td>
<td>30.1</td>
<td>25.6</td>
<td>32.4</td>
<td>28.9</td>
<td>21.4</td>
</tr>
<tr>
<td>South-Eastern Europe</td>
<td>17.9</td>
<td>20.8</td>
<td>21.4</td>
<td>24.2</td>
<td>16.9</td>
<td>17.1</td>
<td>19.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>N/A</td>
<td>N/A</td>
<td>1.9</td>
<td>5.5</td>
<td>9.8</td>
<td>11.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Southern and Eastern Mediterranean</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>2.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


Brazil has been among the largest borrowers from the IADB for a long time. Loans to this country amounted to 19.5% of the bank’s portfolio in 2013 (see Table 6). The largest volume in the last five years was allocated to infrastructure development (transport) and amounted to $5.2 billion. The IADB allocated $3.1 billion to modernizing and reforming public management in Brazil, $2.5 billion to water supply and sanitation, $1.7 billion to financial markets and $1.1 billion to energy. These projects contribute to overcoming the 11 challenges identified by Brazil in the “Multiyear Plan for 2012–2015: Plan More Brazil” [Ministério do Planejamento, 2011]. Among them are national development projects and the eradication of extreme poverty, and cover the areas of science, education, culture, sport, health care, social protection, infrastructure, democracy and social inclusiveness, integrity and national security, and public management.

The BRICS countries thus have opportunities to finance projects in priority fields and they take advantage of those opportunities. At the same time existing institutions have been providing advisory services and financing for development for a long time. They are solvent, credible and efficient, mostly profitable (with the exception of the World Bank, which had a loss in 2012 but at $0.55 billion had a positive average profit from 2007 to 2013), although financial efficiency is not a priority. All of them are financially sound; loans amounts to less than 80% of their liability, which is normal even for the commercial banking sector. A quarter of the total volume of loans is financed from the equity capital, and all have a high AAA credit rating (see Table 7).
Table 6: Inter-American Development Bank Loan Portfolio by Country, %, 2007–2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>25.4</td>
<td>24.6</td>
<td>24.2</td>
<td>23.7</td>
<td>21.8</td>
<td>23.0</td>
<td>19.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>9.0</td>
<td>8.6</td>
<td>11.4</td>
<td>13.5</td>
<td>14.1</td>
<td>15.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Argentina</td>
<td>16.6</td>
<td>15.7</td>
<td>15.6</td>
<td>15.4</td>
<td>15.2</td>
<td>16.1</td>
<td>16.9</td>
</tr>
<tr>
<td>Columbia</td>
<td>9.4</td>
<td>10.5</td>
<td>10.2</td>
<td>9.9</td>
<td>9.8</td>
<td>10.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Ecuador</td>
<td>3.8</td>
<td>3.6</td>
<td>3.4</td>
<td>3.3</td>
<td>3.5</td>
<td>3.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>2.6</td>
<td>2.4</td>
<td>2.7</td>
<td>3.1</td>
<td>3.3</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Guatemala</td>
<td>2.8</td>
<td>2.8</td>
<td>2.9</td>
<td>3.2</td>
<td>3.2</td>
<td>3.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Peru</td>
<td>7.8</td>
<td>7.9</td>
<td>6.5</td>
<td>5.9</td>
<td>5.6</td>
<td>5.9</td>
<td>3.1</td>
</tr>
<tr>
<td>El Salvador</td>
<td>3.0</td>
<td>3.3</td>
<td>3.3</td>
<td>3.0</td>
<td>3.0</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Other</td>
<td>19.6</td>
<td>20.6</td>
<td>19.8</td>
<td>19.0</td>
<td>20.4</td>
<td>17.7</td>
<td>17.5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Numbers may not add up to 100% because of rounding.


Table 7: Financial and Operational Indicators of the Multilateral Development Banks, 2013

<table>
<thead>
<tr>
<th></th>
<th>ADB</th>
<th>AfDB</th>
<th>EBRD</th>
<th>IADB</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$116 billion</td>
<td>$21 billion</td>
<td>$64 billion</td>
<td>$97 billion</td>
<td>$324 billion</td>
</tr>
<tr>
<td>Equity</td>
<td>$17 billion</td>
<td>$6 billion</td>
<td>$19 billion</td>
<td>$24 billion</td>
<td>$39 billion</td>
</tr>
<tr>
<td>Authorized capital</td>
<td>$164 billion</td>
<td>$67 billion</td>
<td>$40 billion</td>
<td>$171 billion</td>
<td>$278 billion</td>
</tr>
<tr>
<td>Issued capital</td>
<td>$163 billion</td>
<td>$65 billion</td>
<td>$39 billion</td>
<td>$129 billion</td>
<td>$223 billion</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>$17.1 billion</td>
<td>$5.0 billion</td>
<td>$8.2 billion</td>
<td>$4.9 billion</td>
<td>$13.4 billion</td>
</tr>
<tr>
<td>Loans</td>
<td>$53 billion</td>
<td>$12 billion</td>
<td>$25 billion</td>
<td>$71 billion</td>
<td>$205 billion</td>
</tr>
<tr>
<td>Borrowings</td>
<td>$62 billion</td>
<td>$13 billion</td>
<td>$41 billion</td>
<td>$67 billion</td>
<td>$22 billion</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>$0.57 billion</td>
<td>$0.07 billion</td>
<td>$1.21 billion</td>
<td>$0.88 billion</td>
<td>$0.22 billion</td>
</tr>
<tr>
<td>Return on total assets</td>
<td>0.49%</td>
<td>0.35%</td>
<td>1.88%</td>
<td>0.91%</td>
<td>0.07%</td>
</tr>
<tr>
<td>Return on equity</td>
<td>3.30%</td>
<td>1.25%</td>
<td>6.20%</td>
<td>3.74%</td>
<td>0.55%</td>
</tr>
<tr>
<td>Equity-to-loans ratio</td>
<td>32%</td>
<td>50%</td>
<td>79%</td>
<td>33%</td>
<td>28%</td>
</tr>
<tr>
<td>Leverage</td>
<td>78%</td>
<td>69%</td>
<td>68%</td>
<td>74%</td>
<td>36%</td>
</tr>
<tr>
<td>Year of establishment</td>
<td>1966</td>
<td>1964</td>
<td>1991</td>
<td>1959</td>
<td>1944</td>
</tr>
<tr>
<td>Rating</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Head Office</td>
<td>Manila, Philippines</td>
<td>Tunis-Belvédère, Tunisia</td>
<td>London, United Kingdom</td>
<td>Washington DC, United States</td>
<td>Washington DC, United States</td>
</tr>
</tbody>
</table>

Sources: Asian Development Bank (ADB) [2013], African Development Bank (AfDB) [2013], European Bank for Reconstruction and Development (EBRD) [2013], Inter-American Development Bank (IADB) [2013], World Bank [2013], and author’s calculations.

Consequently, the purpose of the newly established NDB in mobilizing resources for infrastructure and sustainable development in the BRICS members and other emerging econo-
mies in some way duplicates the work of these existing institutions. The NDB could cooperate with the existing institutions, and therefore gain expertise. Also, it could support independent resource mobilization and allocation, including involving experts and ordering equipment from BRICS countries. The NDB could also provide a platform for the inter-regional exchange of expert opinions and development of multilateral projects among the BRICS countries. A list of such projects is being developed by the BRICS Business Council. Its annual report lists industries in each country that could be encouraged to cooperate [BRICS Business Council, 2014]. These companies are in the infrastructure, finance, energy and green economy, human development and manufacturing sectors.

Providing advisory services and technical assistance is another function of the existing institutions. Brazil, India, China and Russia have their own partnership strategies with the World Bank. These documents are based on national strategies and consultations with the country authorities (including regional ones) and carefully identify challenges not included in the national strategies. India’s current partnership strategy identifies sustainable, inclusive and integrated growth. China’s partnership strategy includes green growth, regional integration and the development of international relations. Brazil’s strategy highlights the second-generation issues of energy efficiency and climate change control. Russia’s strategy includes the modernization and reform of the public management system. Thus, partnership with the World Bank resolves some of the BRICS members’ priority issues. The NDB could complement these existing strategies. It could consult not only countries individually but also in groups on common issues such as the middle-income trap issue, inequality and SME support [Grigoriev and Morozkina, 2012; Unger, 2013; Grigoriev and Morozkina, 2013b, a].

Cooperation among national banks is also a part of the global financial architecture. In 2010, the BRICS members’ national development banks actively cooperated. The development of this cooperation already facilitates the exchange of experience in financing national development projects and making payments in national currencies. At the Sanya Summit in April 2011, the development banks signed the Framework Agreement on Financial Cooperation within the BRICS Inter-Bank Cooperation Mechanism. At the New Delhi Summit in 2012 the national development banks signed the Master Agreement on Extending Credit Facility in Local Currencies and the BRICS Multilateral Letter of Credit Confirmation Facility Agreement. In 2013 in Durban they signed the BRICS Multilateral Cooperation and Co-financing Agreement for Sustainable Development, which applies primarily to projects in energy efficiency and green growth. In 2014 the national development banks signed one more agreement — the Cooperation Agreement on Innovation — and now have the opportunity to finance projects jointly in common fields of interest. The BRICS now has a mechanism for mutual financing and therefore for receiving finance from its partners. Given that the primarily goal of the NDB is to mobilize resources to finance projects in infrastructure and sustainable development, the bank can rely in part on mechanisms that are already in place. For example, the members of the boards of the national development banks could be included in the NDB’s board.

The breakdown of the loan portfolio of the national development banks by sector corresponds to the priorities of the national strategies. India is represented by the Export-Import Bank of India (Exim Bank), whose key sectors are infrastructure, energy and construction. The Bank of Industrial Development, which is a larger development bank, latter supports such sectors as industry and trade, finance. The priority sectors for the China Development Bank (CDB) are energy (including energy efficiency) and municipal services. The Development Bank of South Africa (DBSA) focuses on energy, transport and communication. The Brazilian Development Bank (BNDES) allocates its resources to industry and trade, as well as transport and communications. Russia’s Vnesheconombank (VEB) invests in industry and trade, construction and real estate, and finance (see Table 8).
Table 8: Loan Portfolios of the BRICS Development Banks, by Sector, %, 2013

<table>
<thead>
<tr>
<th>Sector</th>
<th>Exim Bank</th>
<th>CDB</th>
<th>DBSA</th>
<th>BNDES</th>
<th>VEB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and natural resources</td>
<td>17.7</td>
<td>2.8</td>
<td>–</td>
<td>8.9</td>
<td>6.1</td>
</tr>
<tr>
<td>Education, health care and social security</td>
<td>–</td>
<td>0.6</td>
<td>14.4</td>
<td>–</td>
<td>1.1</td>
</tr>
<tr>
<td>Energy</td>
<td>26.7</td>
<td>17.9</td>
<td>31.0</td>
<td>7.9</td>
<td>7.3</td>
</tr>
<tr>
<td>Finance</td>
<td>–</td>
<td>29.1</td>
<td>–</td>
<td>–</td>
<td>18.8</td>
</tr>
<tr>
<td>Industry and trade</td>
<td>–</td>
<td>1.5</td>
<td>–</td>
<td>54.2</td>
<td>28.9</td>
</tr>
<tr>
<td>Construction and real estate</td>
<td>38.9</td>
<td>6.1</td>
<td>4.9</td>
<td>1.2</td>
<td>22.7</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>12.3</td>
<td>27.3</td>
<td>40.9</td>
<td>26.4</td>
<td>12.8</td>
</tr>
<tr>
<td>Water supply and other municipal services</td>
<td>–</td>
<td>14.8</td>
<td>8.8</td>
<td>1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Multisector</td>
<td>4.4</td>
<td>–</td>
<td>0.03</td>
<td>–</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Author’s calculations based on annual reports [see Brazilian Development Bank (BNDES), 2013; China Development Bank (CDB), 2013; Development Bank of South Africa (DBSA), 2013; Export-Import Bank of India (Exim Bank), 2013; Vnesheconombank (VEB), 2013].

The national development banks have a large potential for lending (see Table 9). The largest are the CDB, which loaned in excess of $1 trillion at the end of 2013, and BNDES with loans of $271 billion. These amounts both exceeded the amount loaned by the World Bank. Thus, the NDB should make use of these existing mechanisms of BRICS cooperation for multilateral financing. Moreover, the national development banks are already cooperate in one priority fields of the NDB – sustainable development.

Table 9: Financial and Operational indicators of BRICS National Development Banks, 2013

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Exim Bank</th>
<th>CDB</th>
<th>DBSA</th>
<th>BNDES</th>
<th>VEB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>14</td>
<td>1 334</td>
<td>51</td>
<td>353</td>
<td>90</td>
</tr>
<tr>
<td>Equity</td>
<td>1.4</td>
<td>528</td>
<td>16</td>
<td>29</td>
<td>16</td>
</tr>
<tr>
<td>Authorized capital</td>
<td>1.7</td>
<td>49.71</td>
<td>0.02</td>
<td>17.79</td>
<td>12.60</td>
</tr>
<tr>
<td>Loans</td>
<td>12</td>
<td>1 164</td>
<td>40</td>
<td>271</td>
<td>58</td>
</tr>
<tr>
<td>Borrowings</td>
<td>11</td>
<td>1 242</td>
<td>35</td>
<td>324</td>
<td>74</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>0.06</td>
<td>13.02</td>
<td>–0.78</td>
<td>3.46</td>
<td>0.23</td>
</tr>
<tr>
<td>Return on total assets, %</td>
<td>0.39</td>
<td>0.98</td>
<td>–1.53</td>
<td>0.98</td>
<td>0.26</td>
</tr>
<tr>
<td>Return on equity, %</td>
<td>3.92</td>
<td>14.22</td>
<td>–4.94</td>
<td>12.02</td>
<td>1.47</td>
</tr>
<tr>
<td>Equity-to-loans ratio, %</td>
<td>11.59</td>
<td>7.86</td>
<td>39.20</td>
<td>10.63</td>
<td>26.97</td>
</tr>
<tr>
<td>Leverage, %</td>
<td>89</td>
<td>93</td>
<td>69</td>
<td>92</td>
<td>83</td>
</tr>
<tr>
<td>Year of establishment</td>
<td>1982</td>
<td>1994</td>
<td>1983</td>
<td>1952</td>
<td>1922*</td>
</tr>
<tr>
<td>Rating</td>
<td>BBB-</td>
<td>AA-</td>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB</td>
</tr>
</tbody>
</table>

Note: *Became a development bank in 2007.

Sources: Author’s calculations; Brazilian Development Bank (BNDES) [2013], China Development Bank (CDB) [2013], Development Bank of South Africa (DBSA), [2013], Export-Import Bank of India (Exim Bank), [2013], Vnesheconombank (VEB) [2013].
Thus in the global financial architecture, there are institutions and mechanisms for financing two priority areas of the NDB: infrastructure and sustainable development. However, the newly established bank could add to the existing system and become an important institution for its member countries. Its key advantage is an opportunity to combine the efforts of the BRICS countries in the fields relevant for all five members. This would include urban infrastructure such as water supply, waste processing and the development of smart cities [Rogatnykh, 2013]. Despite the efforts of the existing institutions, infrastructure is relatively underdeveloped in BRICS countries compared to developed countries (see Table 10).

Table 10: Infrastructure Quality Indicators, 2013–2014

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Roads</th>
<th>Rail</th>
<th>Ports</th>
<th>Air Transport</th>
<th>Electricity Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>3.4</td>
<td>2.8</td>
<td>1.8</td>
<td>2.7</td>
<td>3.3</td>
<td>4.8</td>
</tr>
<tr>
<td>China</td>
<td>3.9</td>
<td>3.6</td>
<td>4.8</td>
<td>4.2</td>
<td>4.8</td>
<td>3.2</td>
</tr>
<tr>
<td>India</td>
<td>4.3</td>
<td>4.5</td>
<td>4.7</td>
<td>4.5</td>
<td>4.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Russia</td>
<td>3.8</td>
<td>2.5</td>
<td>4.2</td>
<td>3.9</td>
<td>3.9</td>
<td>4.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.5</td>
<td>4.9</td>
<td>3.4</td>
<td>4.7</td>
<td>6.1</td>
<td>3.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.4</td>
<td>5.3</td>
<td>5.0</td>
<td>5.7</td>
<td>5.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Germany</td>
<td>6.2</td>
<td>6.0</td>
<td>5.7</td>
<td>5.8</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>United States</td>
<td>5.7</td>
<td>5.7</td>
<td>4.9</td>
<td>5.7</td>
<td>5.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Korea</td>
<td>5.6</td>
<td>5.8</td>
<td>5.7</td>
<td>5.5</td>
<td>5.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Japan</td>
<td>6.0</td>
<td>6.0</td>
<td>6.7</td>
<td>5.2</td>
<td>5.4</td>
<td>6.0</td>
</tr>
</tbody>
</table>

*Note:* Scores on a scale of 1 to 7, with 7 being the most desirable outcome.

*Source:* Klaus Schwab [2014].

Sustainable development projects could include the development and implementation of high technology. The cost of research and development in BRICS countries is relatively low compared to developed countries (see Table 11). It could be more efficient for BRICS members to develop technologies jointly, for example in nanotechnology or energy efficiency, than to act independently. They could thus benefit from the NDB here.

The NDB also could perform analytical and advisory functions regarding common BRICS challenges such as the middle-income trap, agriculture in tropical environments and the development of SMEs. All BRICS countries are struggling with issue of domestic inequality, both socially and regionally [Grigoriev and Morozkina, 2013b; see also Silvério, 2012].

As an institution that can integrate, identify and resolve issues relevant to all five BRICS countries, the NDB could complement the existing system of institutions and mechanisms. In this function, it could increase the role of the BRICS in the global financial architecture. At the moment, that role does not correspond to the role of the BRICS in global economy and is expected to increase [Armijo and Roberts, 2014; Preksin, 2013; O’Neill, 2013]. The BRICS members’ role in the in the Bretton Woods institutions could be considered as one indicator. BRICS members’ voting power in these institutions is much less than the that of the developed countries, and often less than the BRICS share in the global economy (see Table 12). The BRICS countries insist on reforming the governance system and quota formula, but such reform make no sense as the reform agreed to in 2010 has not been ratified by all members. That reform would increase share of each BRICS country except South Africa.
Table 11: Key Technology Development Indicators, 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>R&amp;D Expenses, % GDP</th>
<th>Employed in R&amp;D, % Population</th>
<th>High-Tech Exports, % Manufactured Exports</th>
<th>Patent Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>1.1</td>
<td>0.1</td>
<td>11.9</td>
<td>21,800</td>
</tr>
<tr>
<td>China</td>
<td>1.4</td>
<td>0.1</td>
<td>26.7</td>
<td>245,200</td>
</tr>
<tr>
<td>India</td>
<td>0.8</td>
<td>0.0</td>
<td>6.4</td>
<td>28,900</td>
</tr>
<tr>
<td>Russia</td>
<td>1.1</td>
<td>0.4</td>
<td>6.9</td>
<td>39,400</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.9</td>
<td>0.1</td>
<td>5.6</td>
<td>10,800</td>
</tr>
<tr>
<td>Japan</td>
<td>3.4</td>
<td>0.6</td>
<td>18.4</td>
<td>396,300</td>
</tr>
<tr>
<td>Germany</td>
<td>2.5</td>
<td>0.5</td>
<td>14.0</td>
<td>61,000</td>
</tr>
<tr>
<td>Korea</td>
<td>3.2</td>
<td>0.5</td>
<td>30.5</td>
<td>172,500</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.8</td>
<td>0.5</td>
<td>18.9</td>
<td>25,000</td>
</tr>
<tr>
<td>United States</td>
<td>2.7</td>
<td>0.5</td>
<td>27.2</td>
<td>456,200</td>
</tr>
</tbody>
</table>

Note: R&D = research and development; GDP = gross domestic product.
Source: Leonid Grigoriev and Alexandra Morozkina [2013b].

Table 12: Gross Domestic Product and Bretton Woods Quotas, 2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>15.84</td>
<td>4.00</td>
<td>3.81</td>
<td>6.39</td>
<td>6.10</td>
<td>5.43</td>
</tr>
<tr>
<td>India</td>
<td>6.65</td>
<td>2.45</td>
<td>2.34</td>
<td>2.75</td>
<td>2.63</td>
<td>2.90</td>
</tr>
<tr>
<td>Russia</td>
<td>3.43</td>
<td>2.50</td>
<td>2.39</td>
<td>2.71</td>
<td>2.59</td>
<td>2.35</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.96</td>
<td>1.79</td>
<td>1.72</td>
<td>2.32</td>
<td>2.22</td>
<td>1.75</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.65</td>
<td>0.79</td>
<td>0.77</td>
<td>0.64</td>
<td>0.63</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Note: GDP = gross domestic product; PPP = purchasing power parity; IMF = International Monetary Fund.
Source: IMF [2011], IMF [2014], IBRD [2015].

Thus, the BRICS countries cannot influence activities of the Bretton Woods institutions, although this could change after the establishment of the NDB. First, the BRICS countries will determine the volume and direction of financial assistance to countries (the share of the BRICS countries, according to the agreement, should not decrease below 55%), in contrast to other multilateral financial institutions. At the same time, the equal distribution of voting power among the five founding BRICS members (parity could also remain later) means their opinions will be equally taken into account.

Second, the BRICS countries could determine lending conditions, in contrast to the IMF and the World Bank, and even to establish their own system of financing for development. There has been much public debate over the Bretton Woods institutions, including the opinion that they have deepened Asian and European debt crisis by their lending conditions. The BRICS countries have created the possibility of changing the current system of financing development,
providing lending conditions and monitoring results. But the question remains of whether this potential will be realized or the five countries will follow the traditional path.

Thus, the NDB could increase the role of the BRICS countries in the global financial architecture. It will complement the existing system of institutions and mechanisms. It could begin by focusing on the middle-income trap and urban infrastructure development. In the field of financing development, the newly established institution partly duplicates existing institutions and mechanisms, but it could promote the role of the BRICS countries by using resources primarily from the founding countries and considering their interests in the first place. The NDB has the chance to become not only a political initiative but also an instrument for addressing common BRICS issues.

References


BRICS Contribution to Global Governance: Policy Areas

Alternative Multilateral Development Banks and Global Financial Governance

H. Reisen

Helmut Reisen — Professor, German Development Institute, Bonn, Germany; 9, rue de l’Asile, F 78400 Chatou, France; E-mail: hr@shiftingwealth.com

What impact will the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), two multilateral banks created in 2014 outside the established Bretton Woods system, have on multilateral lending shares in the future? Will these new institutions led by China and the BRICS grouping of China, Brazil, India, Russia and South Africa help rebalance multilateral development finance away from Western dominance? The answer depends on three factors. First of all, the pressure for the BRICS to “exit” rises with past, present and expected failure of “voice” reform in the established international financial institutions (IFIs). Second, excess demand for multilateral soft loans and, third, the potential lending capacity by the NDB and AIIB are quantified to assess how much relative business — hence political influence — the existing IFIs might lose to the new competitors. It is estimated that the NDB and the AIIB combined will attract sufficient co-financing to rival the established multilateral development banks (MDBs) in annual lending. This article concludes that infrastructure finance will benefit from the creation of the NDB and the AIIB by tapping the considerable saving potential in China and other BRICS countries. The new institutions should therefore be supported, not discouraged, by western governments and donors as well. As the new MDBs introduce choice for potential borrowers in terms of funding cost and modalities, they are well advised to join these new institutions rapidly for their own benefit. Competition in multilateral development banking may have a negative impact on loan enforcement mechanisms. The IFIs of the existing Bretton Woods system and the new development banks will have to unite by imposing cross-default clauses to safeguard their preferred creditor status.

Key words: Multilateral development lending; Asian Infrastructure Investment Bank; New Development Bank; Bretton Woods; BRICS; China foreign policy

Introduction

With hindsight, 2014 may well be remembered as the year when serious competition was built into multilateral development banking, especially for the World Bank and the Asian Development Bank (ADB). The new BRICS bank, officially called the New Development Bank (to be headquartered in Shanghai), was launched at the sixth summit of the BRICS countries, held in Brazil in July 2014. The bank will have starting capital of $50 billion, with Brazil, Russia, India, China and South Africa initially contributing $10 billion. At the end of October 2014 more than 20 Asian countries (including India and, a month later, Indonesia) signed a memorandum of understanding (MOU) to create the Beijing-based Asian Infrastructure Investment Bank (AIIB) as founding members. The MOU specifies that the AIIB will have $100
billion authorized capital, which China will pay in half. Initial subscribed capital is set at $50 billion. The NDB has been established with a global remit to lend to developing countries. The AIIB is focused on Asia. Both new institutions are intended to concentrate on funding infrastructure projects. (At the APEC summit in November 2014, Chinese president Xi Jinping also announced the creation of a new Silk Road Fund to improve connectivity in Asia, for which China will provide $40 billion of capital funding.)

In a broader setting, the establishment of multilateral development banks (MDBs) outside the established Bretton Woods system can be viewed as China’s shadow global diplomacy that aims at undermining the U.S.-led governance structures established after World War II. China’s foreign policy is working systematically toward a realignment of the international order through establishing parallel structures to a wide range of international institutions [Heilmann et al., 2014]. Is competition building, therefore, to the existing Bretton Woods system and western dominance? The U.S. Treasury tried to oppose the China-led AIIB by lobbying Australia, Indonesia and Korea against joining the new bank and by pointing out that it would fail to meet environmental standards, procurement requirements and other safeguards adopted by the World Bank and the ADB [Perlez, 2014].

Can China and the BRICS countries help rebalance multilateral development finance away from western dominance through the creation of the NDB and the AIIB? First of all, viewed through Hirschman’s [1970] antinomy of “exit” versus “voice,” the cost of exit drops with past, present and expected failure of voice reform in the established international financial institutions (IFIs) [see also Gehlbach, 2006]. Second, excess demand for multilateral soft loans and the potential lending capacity by the NDB and AIIB will define the scope for how much relative business — hence political influence — the existing IFIs might lose to the new competitors. Third, reputation and refinancing cost will determine whether and how fast the newcomers will succeed in building leverage on paid-in capital by tapping global bond markets. Based on these answers, this article concludes that the existing Bretton Woods system is likely to lose market share and preferred creditor status.

Uneven Representation

The recalibration of the world economy — and the shift of the centre of gravity toward East Asia — is still not reflected in the executive councils of the MDBs [OECD 2010; Quah 2011]. The current imbalance of capital shares and voting rights in the existing multilateral banking system to the detriment of emerging market and developing countries (EMDCs) is well documented by Vestergaard and Wade [2014], who also show that the scope and pace of governance reforms have been dismal in the established international financial institutions (IFIs). Moreover, the EMDCs can have little hope that the advanced countries will relinquish their control over the ADB and the World Bank in particular through meaningful voice reform [Vestergaard and Wade, 2013].

The more imbalanced the system is in terms of representation and voice, the higher the pressure to rebalance toward fairer representation by creating institutions parallel to the established multilateral banks. The creation of the AIIB and the NDB corresponds to exit in Hirschman’s antinomy [Hirschman, 1970]. Both exit and voice carry costs. The cost of exit is fragmented multilateralism. The cost of the failure of voice reform in an imbalanced system is the incapacity to influence priorities, principles and procedures in multilateral development lending. As the BRICS countries succeed in organizing shadow institutions to the established Bretton Woods system, the value of the EMDCs’ exit option may make exercising voice in the
established system relatively less attractive, even though it will probably increase the effectiveness of voice. Voice and exit are complements once exit has been organized (by creating new shadow institutions), but are substitutes when seen from the perspective of the initial decision to exercise voice or to organize exit [Gehlbach, 2006, p. 402]. As Hirschman [1970] outlines, a country’s reasons for loyalty to the established system, such as the desire of the United States to safeguard military protection, raise the cost of exit.

The BRICS countries represent 46% of the world’s population, 21.6% of world gross domestic product (GDP) in current dollars and almost 30% in revised 2011 International Comparison Program (ICP) purchasing power parity weights [IMF, 2014]. In contrast to these population and income shares, the five BRICS countries together have just 13–14% of the shares and votes at the World Bank, according to the International Bank for Reconstruction and Development (IBRD) (see Table 1) [World Bank Group Finances, 2015]. The G7 group of advanced countries represents only 15% of the world’s population, and the group’s share of world GDP now corresponds roughly to its voting shares at the IBRD if measured in current dollars (46.2%). However, measured at the revised 2011 ICP purchasing power parity weights, the G7 group now accounts for just 32.8% of world GDP – by that yardstick the G7 members are clearly overrepresented in shares and votes at the World Bank.

Table 1: IBRD Statement of Subscriptions to Capital Stock and Voting Power, Oct 2013

<table>
<thead>
<tr>
<th>Country Group</th>
<th>Capital Stock Shares, %</th>
<th>Voting Power, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRICS</td>
<td>13.87</td>
<td>13.23</td>
</tr>
<tr>
<td>G7</td>
<td>43.71</td>
<td>41.49</td>
</tr>
</tbody>
</table>

Source: Author’s calculation; World Bank Group Finances [2015].

The IMF quota system, which determines each member’s financial contribution and voting power, fails even more blatantly to reflect the reality of a changing world. The BRICS states have only 10.3% of IMF quota. European countries, by contrast, are allocated 27.5% for only 18% of output. To add insult to injury, the IMF presidency is reserved for a European, while that of the World Bank routinely goes to an American. The reforms agreed to in 2010 would have doubled the IMF’s capital to $720 billion and transferred six percentage points of quota to poorer countries. However, international financial reform and the G20 suffered a serious blow in 2014 after the United States Congress refused to ratify this IMF capital increase agreed to four years ago.

By staying overrepresented in the executive boards of the World Bank, IMF and regional development banks, Europe has also been a stumbling block for reforms. Although overrepresented, however, Europe’s voice is weakened by not being united. Meanwhile, the U.S. retains a blocking minority at the IMF, and jointly with allies, an informal block at the other international financial institutions. Advanced economies have reneged on their promise to support greater voice and representation in global governance arrangements for the BRICS countries and other emerging economies. BRICS economies therefore have little incentive to take on greater responsibility as important stakeholders of the global economy and as financiers of global public goods.

Firmly ruled by Japan and the U.S., the Asian Development Bank provides an especially stark case of distorted representation. The ADB members who are also members of the OECD hold 64.6% of total subscribed capital and 58.5% of total voting rights. By contrast, China and
India (the other three BRICS countries are not ADB members) together hold a mere 10.9% of voting rights (see Table 2). Japan and the U.S. are by far the biggest shareholders in the ADB with 15.7% and 15.6%, respectively. China, whose economy in dollar terms surpassed Japan’s in 2010, has just 5.5% of voting rights; India, soon to be Asia’s and the world’s most populous country, holds 5.4%. So far, the ADB has been directed by the Japanese. Policy positions are usually framed within the parameters set by the U.S.-Japan relationship, which has effectively limited higher representation of, and core funding by China and India in particular.

Table 2: ADB Subscribed Capital and Voting Power, end 2013

<table>
<thead>
<tr>
<th>Country Group</th>
<th>Subscribed Capital Shares, %</th>
<th>Voting Power, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRICS (China and India)</td>
<td>12.8</td>
<td>10.9</td>
</tr>
<tr>
<td>G7</td>
<td>45.0</td>
<td>37.8</td>
</tr>
</tbody>
</table>

Source: Author’s calculation; Asian Development Bank [2014].

An immediate consequence of uneven representation is the negative impact on available capital resources (to which China could amply provide) and hence lending capacity. Financial constraints on both the Asian Development Fund (ADF) concessional window for low-income country clients and ordinary capital resources (OCR) for middle-income countries are stretching ADB’s capacity to the limit. If the ADB is to maintain meaningful levels of involvement in poor ADF countries, it has to find creative ways to enhance its financial capacity—or it has to change representation. Although Japan is the largest financial contributor to the ADB, its fiscal resources are limited by rapid ageing, and the country is at risk of declining to the status of a “middling donor” [Sawada, 2014].

Low expectations for the rebalancing of the governance of the established institutions in the foreseeable future have also fostered the establishment of the new parallel banks. Emerging and low-income countries have been inadequately represented in the financial institutions built and dominated by the West, and prospects for better representation in the future are bleak [Vestergaard and Wade, 2013]. Voice reform has made no headway in reaching agreement on criteria for reallocating votes in the future. Due to the “preemptive rights principle,” voting power reform at the World Bank can only be achieved if all member countries agree. It is of course difficult to negotiate substantial voting power realignment when every member country that stands to lose voting power has a veto. This is why the voting power reform was eventually based on a loosely administered “quota framework,” as opposed to a rules-based formula. The BRICS countries were therefore right to conclude that developed countries have no intention of giving up voice and voting power in the established multilateral institutions.

---

1 The ADB has recently presented a new proposal to enhance its financial capacity through a modified management of its capital resources. The proposal entails terminating the heavily subsidised ADF loan operations and combining ADF loans (and part of ADF liquid assets, projected to be $35.3 billion in total) with the OCR balance sheet in January 2017. This would increase OCR equity from a projected $17.9 billion to $53.2 billion. The ADF would henceforth provide only grant assistance, while the ADB would continue concessional lending through its OCR window.

2 The World Bank’s Articles of Agreement stipulate that increases in its capital require a special majority — 75% of votes. At the same time, however, each and every member country has a right to “subscribe to a proportionate share of the increase” whenever a decision is made to increase the Bank’s capital [World Bank sources quoted in Vestergaard and Wade 2013, p. 159].
The Financing Gap for Multilateral Soft Loans

Over the last 20 years, 3.8% of world GDP has been spent on (economic) infrastructure. Annual infrastructure spending has on a downward trend in advanced economies, falling from 3.6% of GDP in 1980 to 2.8% in 2008, but has been rising in emerging market economies over the same period, growing from 3.5% to 5.7%. This growth is driven by particularly high fixed-capital investment in Asia, especially in China [McKinsey, 2010].

Potential future demand for concessional flows from the NDB and the AIIB and their relative lending capacity will determine what share of the business — hence political influence — the existing Bretton Woods institutions and western-led regional development banks might lose to the new competitor banks. Most of that demand arises from infrastructure investment needs, which are not easily quantifiable. Yepes [2008] has estimated infrastructure investment needs in developing countries at an average 6.6% of GDP, with wide differences depending on income levels (see Table 3). The 2014 IMF update of the World Economic Outlook estimated the combined 2013 GDP of emerging and developing countries at 39.2% of the world total, which totalled roughly $74 trillion that year. The group of emerging and developing countries therefore produced a nominal GDP of $29 trillion in 2014. Following Yepes’s [2008] estimates, therefore, their annual infrastructure investment spending needs would be roughly $2 trillion.

Table 3: Current Annual Infrastructure Expenditure Needs (% of GDP)

<table>
<thead>
<tr>
<th>Country Income</th>
<th>Investment</th>
<th>Maintenance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>7.0</td>
<td>5.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Lower middle-income</td>
<td>4.9</td>
<td>3.3</td>
<td>8.2</td>
</tr>
<tr>
<td>Upper middle-income</td>
<td>1.3</td>
<td>1.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Total developing</td>
<td>2.7</td>
<td>4.3</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Source: Yepes [2008].

What do these numbers imply for the current gap in infrastructure financing in developing and emerging countries? The gap can be defined as the difference between investment needs and resources, or the funds needed to maintain economic growth and available funds. If infrastructure investment needs are difficult to estimate, it is even more difficult to estimate the infrastructure financing gaps. It should be kept in mind that such estimates are typically “baseline figures” needed to keep pace with anticipated economic growth, rather than reaching any “social optimum.” The estimates are, of course, highly difficult and uncertain, and subject to qualifications and criticism. Current annual spending on infrastructure in developing and emerging countries has been estimated at $0.8 trillion—$0.9 trillion by Griffith-Jones [2014] who has assembled evidence of the shortage of long-term financing, especially to finance infrastructure, in the developing and emerging countries.

Existing MDBs contribute merely $40 billion—$60 billion while the bulk is being financed from national government budgets ($500 billion—$600 billion) (see Table 4). Various sources have estimated the annual spending on developing-country infrastructure required to finance access to water, electricity, transport and other infrastructure needed to combat poverty, deprivation and climate change at $1.8 trillion—$2.3 trillion [surveyed in Bhattacharia and Romani, 2013]. The resulting financing gap would be around $1.0 trillion—$1.4 trillion. As pointed out by Eichengreen [2014]: “China may not have an infrastructure deficit, but it has something else: large construc-
tion companies that welcome the opportunity to undertake additional projects abroad. Hence the incentives of the BRICS bank’s prospective creditors and borrowers are happily aligned.”

Table 4: Gross Annual Flows by Mainstream Multilateral Development Banks, 2012

<table>
<thead>
<tr>
<th></th>
<th>Concessional</th>
<th>Non-concessional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>1.9</td>
<td>3.5</td>
<td>5.4</td>
</tr>
<tr>
<td>ADB</td>
<td>1.9</td>
<td>6.8</td>
<td>8.7</td>
</tr>
<tr>
<td>IDA-IBRD</td>
<td>10.3</td>
<td>15.1</td>
<td>24.5</td>
</tr>
<tr>
<td>IDB</td>
<td>1.6</td>
<td>6.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>15.6</td>
<td>31.9</td>
<td>47.6</td>
</tr>
</tbody>
</table>

Source: Organisation for Economic Co-operation and Development [2014].

The Potential Lending Capacity of AIIB and NDB

How much of that financing gap are the new institutions likely to satisfy? The NDB will have $100 billion of initial authorised capital and $50 billion of initial subscribed capital, (as well as the Contingent Reserve Arrangement with $100 billion of capital). The AIIB will have $100 billion of initial authorized capital, with subscribed capital also to be around $50 billion. As will be shown, the potential impact on multilateral development lending from these parallel institutions could be very substantial, reaching about the same annual lending level as the established MDBs did in recent years.

The new banks will first begin as development funds; similar to the concessional windows of the established development banks [Reisen and Garroway, 2014] these are usually backed by the members’ tax bases. They are yet to turn into full development banks with a capital window. Usually, these capital windows tap global bond markets thanks to AAA ratings at very low borrowing costs that they can lend (not grant) to borrowers in turn.

Both the NDB and the AIIB, however, are likely to benefit from having good access to funding from the state-owned development banks of the BRICS countries, such as from Brazil’s BNDES (Banco Nacional do Desenvolvimento) and the China Development Bank. These national development banks would provide — in addition to expertise and management skills — a very large potential source of co-financing. Foreign exchange reserves constitute another funding source.

As the NDB and the AIIB will be providing infrastructure lending rather than grants, the return on capital from these investments could be higher than the current returns the BRICS countries are getting from their foreign exchange reserves; a large share of which is currently invested in low-yielding U.S. government bonds. At the end of 2013, the five BRICS countries had accumulated foreign exchange reserves of $5.1 trillion, of which China alone possessed $3.9 trillion. Clearly, China will play a major role in both banks as a key source of capital. It has the financial firepower to close a large part of the infrastructure financing gap — given the right incentives and institutions.

To obtain leverage on paid-in capital beyond national public resources, a good reputation and low refinancing costs will be crucial for the NDB and the AIIB. How much time will it take for them to generate the reputation (knowledge and “certification value”) that the existing IFIs have already acquired? In general, the selection, monitoring and enforcement of loans are fundamental to the reputation of MDBs [Buiter and Fries, 2002]. Whether and to what extent the newcomer banks will be able to attract additional capital from private sources will depend on
the combination of features listed by Chelsky, Morel and Kabir [2013]: a strong financial position; preferred creditor status; technical expertise; prudent risk management policies; credible application of well understood standards in project design, execution, and corporate governance; a long-term perspective; and cross-country experience.

It could be argued that all five BRICS nations suffer from at least one shortcoming that likely leads to higher borrowing costs on international capital markets and hence lending costs that exceed those of the established development banks: inconvertible currencies; closed capital accounts; intransparent and illiquid local financial markets; fragile and unreliable legal systems; and thinly traded currencies that currently are under cyclical depreciation pressure. However, the close relationship to state capital that stands ready to be deployed as leverage makes these points relatively less relevant for the AIIB and the NDB. Moreover, due to superior growth, the income levels of the BRICS nations have recently been converging with the income levels of the richer countries, which is likely to cause structural appreciation pressures (and lower funding costs compared to the advanced countries) due to the Balassa-Samuelson effect, unless sovereign bond spreads outweigh these funding advantages.

Ratings and sovereign bond spreads have been extensively analysed in the empirical literature. Previous work on sovereign ratings had identified per capita income levels and the level of economic development as among the most important ratings determinants, which arguably reflected the positive OECD-country bias built into the Basel I framework for risk weighting of the regulatory bank capital. A study based on recent data (following the Basel II regime that had abandoned the OECD bias) is by Erdem and Varli [2014]. They find that the most relevant factors for sovereign ratings are budget balance/GDP, GDP per capita growth, governance indicators and reserves/GDP for Standard and Poor’s (S&P). Moreover, their model predicts up to 93% of all credit rating levels on a quarterly basis from 2002 to 2011. Applied to China, the implicit guarantor of the AIIB and the NDB, these determinants should translate into competitively low spreads and hence low refinancing costs. In fact, China has a lead over the United States, the implicit guarantor of the World Bank and other MDBs, in terms of GDP growth and reserves/GDP.

Refinancing costs are not driven only by the liability side of the bank’s balance sheet, however. It is equally important to have an asset portfolio that holds creditworthy borrowers and minimizes arrears and default. The IBRD and the International Development Association (IDA) are not very transparent on arrears; a recent source calculated almost $2.1 billion (1.37 billion special drawing rights) of arrears by 2011, the bulk from seven countries [IDA, 2010, table 2]. For the AIIB and the NDB to do better (or at least as well as the IDA), the new banks may be well advised to follow China’s example of imposing project (rather than policy) conditionality, which seems to generate less corruption and waste than the West’s fragmented approach [Saidi and Wolf, 2011]. It would be wise, from the perspective of reputation and refinancing cost, to focus on sustainable infrastructure project financing (rather than broad poverty reduction measures). This is where China and the other BRICS nations command a comparative (and at times, absolute) advantage relative to advanced-country creditors.

To estimate the level of annual loans the two new banks could generate I follow an estimation procedure suggested by Griffith-Jones [2014] for the NDB. Based on the figures for the Latin American development bank Corporación Andina de Fomento (CAF), the two new banks should be able to achieve a credit leverage of 2.4 on their equity capital. Note that the CAF has obtained ratings of only AA- (S&P, Fitch) and Aa3 (Moody’s) and that China has access to deep co-financing funds available from public assets; consequently, the actual leverage ratio for the AIIB may be higher. The authorised equity capital is $50 billion each for the AIIB and the NDB over the next 20 years. The combined annual lending potential totals $24 billion, applying the credit leverage ratio obtained by CAF (2.4) on the total stock of loans ($240 bil-
lion) and assuming an average loan maturity of ten years. This equates to approximately half the current amount provided in loans by the established development banks (as shown in Table 4). Consequently, in the future one third of global multilateral development loans could be issued by providers other than the established multilaterals. The AIIB and the NDB are thus likely to have a discernible impact on global governance.

Outlook

To the extent that it helps cover some of the current infrastructure financing gaps, the establishment of BRICS-led MDBs will be beneficial for global development. Moreover, the new banks organize “voice” for EMDCs and rebalance representation of the non-OECD countries in multilateral development lending. This is likely to speed up voice reform even in the established multilaterals. Competition is building for the existing Bretton Woods system.

So why are the U.S. lobbying against those banks? Perlez [2014] cites a senior Obama administration official: the Treasury Department had concluded that the new bank would fail to meet environmental standards, procurement requirements and other safeguards adopted by the World Bank and the ADB, including protections intended to prevent the forced removal of vulnerable populations from their lands. By contrast, the ADB has become so encumbered with restrictions that it now takes up to seven years on average for a project to go from proposal to approval to completion, the official said.

Another concern, not yet publicly discussed to my knowledge, is that the establishment of alternative source of multilateral funding will weaken the enforcement mechanism of the existing MDBs. They might also lose their preferred creditor status, which ultimately depends on the borrowers’ expectation to obtain further financing from a specific institution. When borrowers are able to switch between MDBs under different regimes (U.S.-led versus China-led), they have less reason to fear sanctions due to defaulting against, say, the US-led Bretton-Woods institutions. Buiter and Fries [2002] had discussed this after the creation of the European Bank for Reconstruction and Development (EBRD): a basic mechanism for fostering compliance with the terms and conditions of MDB loans to the public sector involves the dynamic incentives that arise from the repeated interaction between borrowing governments and the MDBs. The potential for repeated loans, together with the credible threat to cut off future lending when terms and conditions are not met, can be exploited to help ensure borrower compliance.

The incentive mechanism arising from repeated interactions is more effective when borrowers face limited access to alternative sources of financing. Therefore, it must indeed be envisaged that the incentive for borrowing countries to comply with the terms and conditions of, say, IDA loans will diminish as the end of the lending relationship nears and is replaced by loans from the AIIB or the BRICS bank. To be sure, the loss of preferred creditor status is a potential threat for both types of MDBs, established and new. They thus have an incentive to cooperate in defining and implementing mutual cross default clauses in their loan contracts.

References


The BRICS Security Agenda and Prospects for the BRICS Ufa Summit

V. Panova

Victoria Panova – Associate professor, Department of International Relations and Foreign Policy of Russia, Moscow State Institute of International Relations; Chief Strategy Planning Advisor, NCR BRICS; 76 Vernadskogo Prospekt, 119454 Moscow, Russian Federation; E-mail: panova@nkibrics.ru

A rather recent phenomenon, the BRICS continues to provoke heated discussions on the prospects of the group and its sustainability as a community of like-minded actors. While common goals of reforming the international financial and economic architecture do not cause hesitation among observers, the security agenda for the BRICS occupies a grey area of uncertainty. As host of the BRICS in 2015–16, Russia sees as its main priority the transformation of the group from a loose forum into a full-fledged mechanism of economic and political coordination and cooperation. Peace and security issues may be, if not divisive, at least leading to limited to the lowest common denominator. This derives from a variety of factors – geographical and geopolitical positions, diverse political historic traditions, different international political status levels within the current political governance system, close economic and political ties, and complicated forms of cooperation and competition with the established western powers, as well as differences in understanding and promoting their own global ambitions and priorities. This article reviews the evolution of Russia’s approach to the BRICS and its place within Russian foreign policy priorities, with attention given to political security, international law and global governance. Although several problems would receive only minor attention and are relevant to only some participants (such as fighting illegal drugs, maritime security or certain regional conflicts), others must be dealt with at the lowest common denominator (such as reform of the United Nations Security Council or non-proliferation), the BRICS continue to find new areas of possible cooperation and take small but sure steps toward creating a full-fledged mechanism of coordination among the five countries. Additional responsibility is vested in the BRICS, due to the fact that their cooperation and achievements in global political and economic governance reform are looked upon as an alternative way to domination of the advanced economies and a new model of equal and mutually beneficial cooperation by the majority of developing countries.

Key words: BRICS, global governance reform, peace and security agenda, regional crisis management, internet governance, cyber security, counter-terrorism, non-proliferation, sovereignty, multipolarity

Introduction

The BRICS group of Brazil, Russia, India, China and South Africa has become extremely fashionable lately. Russia, in assuming the chair of the summit in Ufa in July 2015, saw considerable surge of expert and political attention to the group’s potential and its future. This fact is further boosted by the ongoing confrontation and divergence in world visions between Russia and the West, where as Russia sees BRICS and other emerging economies as natural allies in reforming the global order to make it more fair and inclusive and aware of interests of all of its players as opposed to the old rule makers. At the same time, the advanced economies of the Golden Billion still view the BRICS with varying degrees of skepticism and caution (depending on the political leaning and geographical location of the analyst, attitudes range from outright sarcasm with the stance of “what is the BRICS” to a moderate understanding of necessity to cooperate with the group but priority given to bilateral contacts with each of the five countries).
Common Goals for the BRICS

It makes no sense to remember once again the origins of the BRICS club, but it is important to take a quick glance at the roots of the conceptual and strategic thinking about this cooperation scheme in Russia in order to understand what role for the BRICS the incoming chair is hoping for.

The acronym, which acquired a life of its own almost as soon as its founding father Jim O’Neill made it public, was not seen as anything more than a group of countries brought together exclusively based on economic terms. Russia’s conceptual formation for diversifying policy away from an exclusively western club, which it strived to belong to during the 1990s, could be found with Yevgeny Primakov’s ideas of Russia-India-China (RIC) triangle and enhanced cooperation with the Latin American countries, spurred by the Heiligendamm-L’Aquila Dialogue Process [see Panova, 2013b, a].

While many interests of the five countries remain at odds, a number of important convergences allow for the further intensification of cooperation and an ongoing search for common approaches.

To start with, all the BRICS countries are not happy with the rules of the existing world order. After the collapse of the Soviet Union and its socialist block, even though the world was not strictly bipolar even before that, the reality that everyone faced was to live in the western-created alternative, which provided for the possible cooptation of outsiders (either from former socialist community or developing countries of different types of government and economic system) on its own terms and in a system that generated primary preferences for the rule makers but not for everyone.

It is true that the primary concerns of all the BRICS countries lay within the domain of the economic and financial architecture, but it is no less true that political and economic governance areas are highly intertwined, which leads to a gradual realization of security issues being genuinely part of the agenda for BRICS deliberations.

Meanwhile, the five countries emphasized the fact that they are not willing for a revolution, but are uniting as a group of reformers for the benefit of the world as a whole. That said, they are unwilling to break the existing system or turn down the rules, which were worked out laboriously during the second half of the 20th century, especially those worked out collectively by all parties. That is why the BRICS countries firmly support international law and the rule of law as opposed to ad hoc actions. All five are so-called “sovereignty hawks,” standing on a platform of sovereignty protection and non-interference in internal affairs as clearly provided in the United Nations Charter. The grouping also allows Russia to use benefits of network diplomacy, with the rule of not crossing any red lines, which stands in stark contrast to the “conditionality requirements typical of most Western institutions” [Roberts, 2009]. The BRICS is also a clear example of a democratic international arrangement, with countries of different types of political systems and governance, economic traditions, and cultural and civilizational attributes cooperate peacefully on an equal basis. This is a counter position to the postulate of only liberal democracies being full-fledged members of the world community and holding the right to a preferential voice in international communications. This view is reflected in the foreign policy concept of the Russian Federation.

The United Nations is seen by the BRICS as a central and only legitimate body of global governance. All five countries share the assumption that only the UN Security Council (UNSC) is mandated with maintaining peace and security, which in turn leads to non-acceptance of unilateral measures taken in circumvention of that legitimate organ. As was rightly noted by Vyacheslav Nikonov [2013], head of the Russian National Committee on BRICS Research
and deputy of the State Duma, “all five countries are interested in increasing to the maximum extent the role of the United Nations, in improving its mechanisms and in responding to global challenges and threats through multilateral diplomacy.”

At the same time, the realization of the unique quality of the UN format pushes the BRICS into consistently trying to reform the organization. Appeals can be found in each BRICS summit declaration, with China and Russia underlining “the importance they attach to Brazil, India and South Africa’s status and role in international affairs” including support for a “greater role in the UN” [BRICS, 2014]. Although observers try to point out that the two permanent members are not in a hurry to fight for a similarly permanent seat for the other three countries, it is clear that the whole concept of BRICS cooperation and its model of gradual change through reform and not revolution does not allow for hasty steps. Even though there is an ever growing realization in Russia that UNSC reform is an immediate necessity and primary consideration should be given to its partners from the emerging countries — first and foremost the BRICS — positions of the other Permanent Five members of the UNSC and lack of consensus among all the UN member-states do not make it a fait accompli.

More common ground for the BRICS, and for most of the other countries — especially those from the developing world — could be found in unequivocal support for multilateral world as opposed to unilateral approach. In fact, this position by its mere existence presents concern for the United States, which is to remain the only superpower and make sure all potential rivals are held back from rising. This position is reflected in different forms throughout the official U.S. National Security doctrines. At the start of this century, marked by George W. Bush becoming president, saw the document claiming the country possessing “unprecedented — and unequalled — strength and influence in the world,” with the “great strength of this nation” to be used “to promote a balance of power that favors freedom” [United States, 2002]. Eight years later, the National Security Strategy adopted in the early years of Barack’s Obama’s administration states that “as we face multiple threats — from nations, nonstate actors, and failed states — we will maintain the military superiority that has secured our country, and underpinned global security, for decades” [United States, 2010].

Official documents aside, this position was probably best described in an in-depth analysis produced by Stratfor Global Intelligence [2014] in 2011 and reprinted again in 2014 [Stratfor Global Intelligence, 2014]. Authors insightfully claim that although the United States is secure with regard to most of the world since it is “simply too geographically hostile to integration to pose significant threats,” two regions could potentially cause concern: South America (or rather the Southern Cone divided among the four countries of Brazil, Argentina, Uruguay and Paraguay) and Eurasia (mostly its northern part consisting of European countries, Russia — or rather the former Soviet Union, and China). Given that the final goal of the United States is to ensure that none of these countries are united, which would present an eventual threat, its policies are directed at keeping those regions “divided among as many different (preferably mutually hostile) powers as possible” [Stratfor Global Intelligence, 2014]. This offers a perfect explanation for why the United States would not see the BRICS as a desirable phenomenon — by its mere existence, the BRICS challenges core principles of U.S. strategy.1

Neither Russia nor any of the other four members of the BRICS is willing to confront the United States, or the North Atlantic Treaty Organization (NATO), or the so-called West. Their only goal within this cooperation scheme is to achieve a fairer world order, to multilateral ap-

1 At present, the Euro-BRICS phenomenon is an insignificant movement with marginal forces in Europe supporting genuine cooperation on a uniting, as opposed to dividing, bilateral platform between European countries and all the BRICS members. If this evolves into a serious process supported by European governments, it would present immediate threat to the Northern American hegemon.
approaches and make their voices heard, and to ensure the overall recognition of the equality of different civilizational and developmental models. Washington is welcome to join those efforts. Unfortunately, a democratic equitable global architecture does not fit the strategic vision of the largest super-power, while the BRICS embrace a vision of a “multipolar and multi-civilizational world that will be based on the force of law rather than the law of force” [Nikonov, 2013].

Russian Foreign Policy and the BRICS

Even though it took a while for Russia to start implementing the concept of its foreign policy, what has started as a lagging Track Two policy track has gradually evolved into the prime high priority process. Russia first explicitly came up with the idea of diversification with Primakov’s idea of the RIC triangle and multi-vector diplomacy in the mid 1990s. In the first half of that decade, Russia withdrew from various regions in the world, as opposed to the Soviet Union global presence, with its foreign policy concentrated in theory and practice on full integration with western countries and western-dominated institutions. With the unfavourable international developments and awakening of Russia, the 1997 Presidential Address to Federal Assembly marked a considerable deviation from the previous path, with the stated aims of diversification of foreign policy options. The most important goals included protecting Russian national interests avoiding confrontation, but based on strengthened stability and cooperation in international relations, as well as the establishment of a system of international relations based on the fact that “our world is multipolar, and there should be no domination of one centre of power,” with the 21st-century world relying “less on military power but rather on the power of law” [Yeltsin, 1997].

The first practical manifestation of Russia’s efforts to foster a multipolar world are found in the series of visits of Russian foreign minister Eugene Primakov to Latin America, which led to a number of agreements on “strategic partnership” with the leading states of the continent [Martunov, 2009].

Further on, the 2000 Concept of the Foreign Policy of the Russia Federation stated that Russia would “seek to achieve a multi-polar system of international relations” that reflect the reality of diverse world with differing interests and based on “mechanisms of collective resolution of key problems, on the priority of law and broad democratization” [Ministry of Foreign Affairs of the Russian Federation, 2000]. The next Foreign Policy Concept, in 2008, further stressed the strengthened economic potential of the “economic potential of the emerging global growth centers, inter alia, as a result of a more equal distribution of development resources due to liberalization of global markets” [Ministry of Foreign Affairs, 2008]. The logical conclusion is that economic power in those countries and regions is bound to lead to bigger political influence with further tendencies to polycentric world order.

Other issues raised in the 2008 concept concern the fact that “traditional cumbersome military and political alliances can no longer provide for counteracting the whole range of modern challenges and threats which are transnational in their nature,” stipulating wider use of “network diplomacy” and flexible forms of multilateralism to protect national interests [Ministry of Foreign Affairs, 2008].

There is an acknowledgement in the official vision of the world development that “for the first time in the contemporary history that global competition is acquiring a civilizational dimension which suggests competition between different value systems and development models

---

2 Such a situation was not only characteristic of Russia’s cooperation with emerging economies. From the very start of Russia’s existence as an independent state, its foreign policy placed cooperation in the post-Soviet space as a high priority, although not much was done in reality.
within the framework of universal democratic and market economy principles” [Ministry of
Foreign Affairs, 2008]. In the same document Russia also scolds the West for its “reaction to
the prospect of loss ... of its monopoly in global processes” including the “continued political
and psychological policy of ‘containing’ Russia. And, according to the document, the “uni-
lateral action strategy leads to destabilization of international situation, provokes tensions and
arms race, exacerbates interstate differences, stirs up ethnic and religious strife, endangers se-
curity of other States and fuels tensions in intercivilizational relations.” Throughout the official
discourse and documents there are also explicit statements about the central role of the UN,
which, along with the multipolarity, sovereignty and the rule of law, are principles unequivo-
cally shared by all the BRICS countries. Much attention is also attributed to the “cultural and
civilizational diversity of the contemporary world.”

As already mentioned, as the BRICS matured, the Russian government began to appreci-
ate the group more. As president in 2006, Vladimir Putin promoted the idea of closer ties with
Brazil, China and India, and it was during the presidency of Dmitry Medvedev that this club
came into being at the leaders’ level. Today the importance attached by the Russian elite to the
BRICS cannot be underestimated.

One article written by the incoming President Putin [2012] read that Russia “would con-
tinue attaching priority to cooperation with the BRICS partners. This unique structure, created
in 2006, most vividly symbolizes transformation from unipolarity to fairer world order.” And
then this view is reinforced by a statement by Russian foreign minister Sergey Lavrov [2012] the
creation of the that BRICS proved to be “one of the most significant geopolitical events since
the beginning of the new century.”

According to its most recent Foreign Policy Concept, Russia attaches great significance
to the “sustainable manageability of global development, which requires collective leadership
by the major states of the world” — representative by geographic and civilizational aspects [Mi-
nistry of Foreign Affairs, 2013]. It is to provide for such sustainability that Russia will continue
to expand cooperation “such formats as the Group of Twenty, BRICS, ... the Shanghai Cooper-
eation Organization, the RIC (Russia, India and China) alongside other organizations and
platforms for dialogue.”

This mechanism is seen as a new model of global relations that overcomes the old barri-
ers that divide East and West and North and South, and thus is bound to transform gradually
into “multilateral strategic partnership embracing far-ranging issues of the global economy and
politics” [Lavrov, 2012]. Russia is also ambitious in terms of the future for the BRICS, believ-
ing the idea of a “bridge” between North and South or it being only active within the scope of
the South would essentially limit its capabilities as an independent actor in the international
arena.

BRICS Coordination on Peace and Security

The initial idea behind the BRICS meetings at leaders’ level grew from the necessity to coordi-
nate the countries’ positions within the G20, in response to the global financial and economic
crisis. Even though the BRICS members never portrayed themselves as a political bloc and
even less so as a security alliance, the purely economic and financial agenda speedily gave way
to a whole range of political and global issues discussed actively by the five countries. Such dis-
cussions and cooperation were taking place both within the BRICS format and in multilateral
platforms of other mechanisms such as the G20 and the UN.

The BRICS as an organization, as opposed to its current state as a forum or mechanism of
informal cooperation among the leaders of five countries, is not very likely to evolve in the short
term. The primary reason for this lies in the fact that the national economic development of each member (with the probably exception of Russia, which bid for high political stakes during the period of economic hardship and uncertainty with regards to further development, partly due to the structural mistakes of the last several decades and partly due to mounting external confrontational pressure) is an absolute priority over political agenda. Nevertheless over the short seven years since the BRICS came out as a full-fledged platform for global governance, political and security issues have gained considerable attention along with traditional economic, financial, but also global, social, humanitarian and cultural issues. Today all most acute issues on the political security agenda are present in BRICS deliberations: the traditional threats of conflict management and prevention, recurrences of unilateralist tendencies over multilateralism and central role of the UN, the substitution of international law by national legislation, to fighting terrorism, countering drug trafficking and transnational crime, maritime security and piracy, as well as the new challenges arising from weaponisation of space, cybercrime and internet governance. This list of issues, which is by no means exhaustive, enjoys varying degrees of support and converging approaches among the BRICS members. A few of the topics are briefly considered here, which does not mean this issues are more important or enjoy wider approval of the five countries than those not discussed in this article.

Global Governance

Two of the BRICS countries are permanent members of the UNSC, while the other three strive for a way to be represented on a permanent basis. Russia’s position for a number of years has been to stress higher efficiency as the primary goal of the UNSC and a more representative character in order to take into account the changed realities of the world, and also to ensure a “prompt response to emerging crises and problems” [Ministry of Foreign Affairs, 2011]. Meanwhile, given the fact that no single model of reform enjoys overwhelming support, Moscow was taking a very cautious stance, suggesting it would be counterproductive to push any idea through, since it would “inevitably polarize the General Assembly.” Instead it would continue its “diligent work on rapprochement of positions without introducing fake deadlines.” Recent developments show that Russia has moved toward a much more sympathetic position towards the new candidates, especially its BRICS partners.

For quite some time, India and Brazil were considered part of a “G4” coalition along with Germany and Japan. With the shifts in political relations and cooperation schemes, there is an increased chance for a different group to become frontrunners in this race — the three countries of the BRICS. The problem that continues to hinder reform is that although there is consensus on the need of reform per se, the goals of the final outcome differ. So far BRICS have not dared to go further than repeat now and again the “need for a comprehensive reform of the UN, including its Security Council” and to reiterate the importance that China and Russia attach to the international status of the other three countries. The drama of the situation though, lies within the realm of limited possibilities of the BRICS. Although there is a growing realization that having all the five countries in the UNSC would be a positive achievement, the joint manifestation of the BRICS can lay the foundation of future reform but cannot accomplish the full construction of the edifice. This is visualized with regard to the deadlock over reforming the International Monetary Fund, which has far fewer opponents than reforming the UNSC.

Global governance reform and approaches showcase differences in the global standing of the five countries. While the ambitions of Brazil, India and South Africa on the global scale are largely limited by status upgrade within the UN, the other issues they are dealing with are mostly limited to regional significance (with the only exception the non-proliferation regime
and India as a non-official nuclear club member). Although it is fair to say that of those three countries South Africa represents the most “regional” state. For South Africa, the BRICS is “an opportunity to project itself as the economic leader on the African continent and to capitalize on its association with a prestigious club of emerging economic powers” as opposed to striving for higher involvement in global governance issues [Wasserman, 2013, p. 110]. One could remember the efforts taken by Brazil and Turkey in 2009 with regard to the negotiations on the Iranian problem and the agreement reached with its government, but eventual failure due to the ultimate rejection by the western powers of this emerging powers initiative. According to one participant in the negotiations, “sanctions were imposed against Iran by the Security Council on the very day the so called Vienna Group submitted its comments on the Tehran Declaration to the IAEA, allowing no time for Iran to reply” [see Amorim, 2010, especially pp. 222–24].

Some experts see the manifestation of Brazil’s global aspirations in the country’s chairing the 2005 Review Conference on Nuclear Non-Proliferation Treaty and efforts to reintroduce the “thirteen steps to disarmament” in 2010 or its efforts in East Timor on peace restoration and development issues [Amorim, 2010; Chun, 2013, p. 50]. Many of Brazil’s foreign policy efforts are directed at managing its regional stance. During its recent BRICS presidency, Brazil introduced Latin American outreach and it could be considered the main driving force behind UNASUR. However, unlike China or Russia, Brazil is not interested in reformulating the political rules of international relations, apart from its inclusion in UNSC with higher status for the newcomers.

According to some experts, India’s foreign policy remains “confused and relatively vague” and although the government is largely “inward-looking,” it realizes the impossibility of economic development without more intense engagement with the world [Chun, 2013, p. 94]. China’s and Russia’s ambitions are stretching to cover problems of global concern. This, in turn, presupposes if not diverging interests among the BRICS members, then a lack of interest of some members in comprehensive discussions of certain issues of global reach or differences in priorities for negotiating the topics to be dealt with.3

The BRICS governments, including Russia’s, acknowledge that it is important to put forward consensual ideas at their meetings. Each knows the others’ “red lines” that are not to be crossed. Even if only one differs in approach to a matter, there is no peer pressure, in order not to weaken the group. This does not mean that the five cannot disagree. The often different interests and incongruous attitudes do not prevent them from agreeing. On the contrary, exploring those divergences — counter to the hopes of many western analysts — lead to deeper understanding and allows to find ever more points of convergence.

The Hot Spots

Despite cooperation within the UN and on UN reform, there is not always full convergence among the five countries. Nevertheless, many observers as well as politicians themselves have acknowledged that the presence of all five countries on the UNSC in 2011 strengthened the dialogue on international peace and security. Peace and stability are seen as cornerstones for prosperous development in a predictable and safe world. The BRICS members do not see one other as a political bloc, less so as a military bloc, but they have gradually embraced an expanded political role. If the very first BRICS summit mentioned only one problem with a political and security flavour — the challenge of terrorism — the second meeting included discussions of the more problematic topic of Haiti, and the 2014 Fortaleza Declaration covers practically all the

---

3 This conclusion is supported by the author’s personal experience in the Track Two diplomacy discussions of experts and academia of the five countries since 2011.
“hot spots” in all regions of the modern world, no matter how distant from any of the BRICS members either geographically or politically.

The club of emerging countries coordinated its position at the onset of the crises in Libya and Syria, and also took a common stance on deferring the vote on the role of the European Union in the UN General Assembly (UNGA) as well as on Cote d’Ivoire and Sudan.

In the case of Libya, the four BRIC countries together with Germany abstained from the vote on UNSC Resolution 1973 on the no-fly zone in 2011. South Africa adjusted its stance with its inclusion into the BRICS club that same year. After the BRICS Sanya Summit in 2011, Medvedev reiterated Russia’s support for the common position on the exclusive use of political and diplomatic means and praised South African president Jacob Zuma for efforts taken as a head of African Union (AU) mission in the conflict.4

With the case of Syria, even with the differences in terms of voting for western-sponsored UNSC resolution on Syria in February 2012 (with Russia and China the only two countries of 15 to oppose it, coming up with a different draft that excluded threats of intervention and ensured the necessity for all political forces to be part of the negotiating process), essentially the position of all BRICS countries remained very much the same. The main point for the BRICS approach to Syria was an all-inclusive process for all political forces to call on all sides to stop the violence, not just President Bashar al-Assad. All the BRICS members strongly believe that process of political settlement should be led by the Syrians themselves, with no foreign intervention allowed. It was in part due to the BRICS’s common position that Putin’s initiative on the internationally supervised elimination of chemical arms in Syria was a success and helped to prevent foreign intervention into the country. Those favouring military options were facing not just the Russian position, but also their own public opinion and firm adherence to diplomatic means by major emerging economies, whose voice could no longer be easily ignored.

The five countries also managed to come up with non-conflictual approach to the Ukrainian crisis, counter to high hopes emanating from their western partners. India was the only BRICS country whose officials did not shy away from explicitly supporting Russia. Cautious and subtle reactions on the part of the rest of the group were understandable. China has problems of its own both in the security domain internally (Xingjiang-Uigur region) and externally (South and East China Seas), which makes it safest to appeal to the necessity of considering historical background before making judgements and while working out solutions, instead of offering explicit support for either side. A clear understanding of such an approach could be traced to the abstention vote taken by all the four countries during the UNGA resolution on Crimea in March 2014. Nevertheless, once again counter to the hopes of the western countries, none of the BRICS members was trying to suggest Russia was an international bête noire or pariah with regards to international politics as a whole or to that specific conflict. The Fortaleza Declaration demonstrated consensus conclusions on the need “for a comprehensive dialogue, the de-escalation of the conflict and restraint from all the actors involved, with a view to finding a peaceful political solution, in full compliance with the UN Charter and universally recognized human rights and fundamental freedoms,” which in fact repeats the main points of Russia’s stance on the Ukrainian crisis [BRICS, 2014].

Terrorism

The fight against terrorism was the first political security topic that was introduced onto the agenda of BRICS deliberations. In fact, it was already present in the very first BRIC summit

---

4 In January 2012, Zuma issued an AU statement claiming that NATO had by far outstretched UNSC Resolution 1973 and should be held accountable for it.
The document issued at Yekaterinburg in 2009: the leaders not only strongly condemned “terrorism in all its forms and manifestations” and stressed absence of any possible justification for such acts, but also called for urgent adoption of the draft Comprehensive Convention against International Terrorism tabled at UNGA [BRIC, 2009b].

The second BRIC summit in Brasilia was aggravated by the fact that the two countries of the bloc suffered from terrorist attacks — Russia (a series of attacks in March 2010 in the Moscow metro stations of Lubyanka and Park Kultury, and two days later in the city of Kizlyar, with more attacks conducted in Dagestan and Ingushetia early April) and India (a series of attacks in February 2010 in Pune, with more tragedies occurring in March and early April in Kashmir). This prompted Brazil and China to “express their sympathy and solidarity with the people and Governments” of the other two countries [BRIC, 2009a].

Interestingly, next year, the BRICS countries (now with South Africa part of the group) introduced a new topic into the paragraph dealing with countering international terrorism. The whole statement remained intact from the previous two years with the only addition of importance of international information security and necessity to counter cybercrime [BRICS, 2011]. All in all, the challenge of terrorism received continuous but rather futile attention on the part of the BRICS. Each year, the leaders have repeated same mantra of condemnation and non-justification for terrorist activities, but lack their own ideas and initiatives to try to solve the problem, leaving it in general to the UN. At the 2014 Fortaleza Summit, apart from once again expressing grave concern, the leaders pointed to Syria as the main problem, given the high incidence of terrorist attacks.

Although terrorism presents varying degrees of danger for the BRICS countries, it is also true that this problem tends to expand. Thus, in 2013 the number of countries where more than 50 people were killed from terrorist attacks hit 24, the highest point since the start of this century, out of the 162 countries measured all around the world [Institute for Economics and Peace, 2014, figure 4, p. 14]. If only recently South Africa and Brazil were seen as the countries with no terrorist attacks (11th and 116th respectively of 156 countries) and were largely probed for having territories where terrorist training activities took place, in 2014 their sad rankings went up [Starchuk, 2014]. Today, according to the Global Terrorism Index, India occupies sixth place on the scale of fatalities, Russia comes next in 11th place, China in 25th place, South Africa in 48th place and, finally, Brazil in 72nd place [Institute for Economics and Peace, 2014, figure 4, p. 8].

It remains true that instability and terrorism present the biggest challenge to the three countries of BRICS, which is why those questions have greater chances of coordination and practical steps in other formats where Russia, India and China are present, such as RIC and the SCO.

Thus, the SCO has the Shanghai convention to combat terrorism, separatism and extremism signed same year as the declaration of organization’s establishment in 2001. Indeed that could be regarded as its founding document, with the task of fighting those evils seen as SCO’s

---

5 The Durban Summit was expressed novel support for the “implementation of the UN General Assembly Global Counter-Terrorism Strategy” [BRICS, 2013].
6 BRICS members see “double standards” in the interpretation of causes for terrorist activities as unfair. China fully condemned the tragic attack against Charlie Hebdo in France, and appealed to western colleagues to avoid hypocrisy and double standards. Thus, the Chinese newspaper Global Times wrote that “condemnations of terror attacks in Russia and China are not as forthcoming from Western countries as opposed to the quick and unified reactions to the attack on Charlie Hebdo in France,” continuing further that “even after China officially determines their terrorist nature, Western mainstream media puts quotation marks when describing these bloody assaults as “terrorist,” saying that it is a claim of the Chinese government” [see BRICS Post, 2015].
primary task. In order to fulfill those tasks, SCO leaders decided to create a permanent body — the Regional Anti-Terrorist Structure — to allow for regular exchange and cooperation among relevant authorities. In 2012 the program of cooperation among SCO members on combat against terrorism, separatism and extremism was adopted for the years 2013—15, envisaging ways to increase the efficiency of such cooperation.

The 2015 SCO summit will be held right after the BRICS Summit in Ufa, and in a way will repeat the 2009 Yekaterinburg experience. The only difference is that India will likely be upgraded from observer status to full-fledged member of the SCO.

While the SCO includes Central Asian states, the RIC format is narrowed to only the biggest countries of Eurasia. The most recent meeting of the RIC foreign ministers proved their intent for closer cooperation in all areas of concern. The stakes are getting higher, with the withdrawal of the United States and its allies from Afghanistan. It is important for national security of the RIC to intensify collaboration, especially after the elections held in the country [TASS, 2015].

The fight against terrorism will be discussed with more efficacy in the SCO and RIC, but nevertheless BRICS should not be discarded at this point. Those five countries are affected by terrorist activities very differently: Russia, India and China find themselves in much more dangerous neighbourhoods. Nevertheless, the years that passed since the start of the new century have demonstrated that terrorism is not confined by borders and countries geographically distant from hot spots are not immune from international terrorism. Globalization does not only bring positive developments, but can inflict damage. This is clearly demonstrated by the general increase in the number and fatalities of terrorism attacks and South Africa and Brazil moving up the Global Terrorism Index. Another factor to take into account is that countries that seek a greater role and higher status in international relations should be ready for bigger responsibility in the world affairs. Fighting global evils is the responsibility that comes along.

Internet Governance and Cyber Security

Internet governance and cyber security bring the newest challenges, which are nevertheless precisely ones where BRICS could find themselves in one of most sustainable and effective discussions in political security domain. Their populations are heavily involved in internet use and those countries perform the highest growth rate of internet use, yet they remain somewhat on the “object” side of global internet governance. Today the BRICS contains 37.73% of internet users collectively [Internet Live Stats, 2014]. These countries also present considerable potential for further geometric growth of internet users. In India, out of a total population approaching 1.3 billion, 19.9% have internet access, compared to the U.S. with 86.75% of internet penetration with four times fewer people. While the other BRICS countries show much higher rates than India (46.03% in China; 59.27% in Russia), their potential remains quite significant. According to Vladimir Orlov [2014, p. 2], the “total contribution of the internet sector to BRICS economies in 2013 topped $500 bln, and yet the forecasts say it will double by 2015. In the nearest future BRICS will represent the most numerous and active part of the ‘digital society’ of XXI century.”

Of all the BRICS countries, Russia and China, joined by Brazil after the Snowden revelations, favour radical reform of current internet governance. Many experts point to the international telecommunications conference held in 2012 in Dubai under the auspices of the International Telecommunications Union (ITU) as a start of a “digital cold war,” although discussions

---

7 Average world internet penetration rate in 2014 amounted to 42.3% [see Internet Live Stats, 2014].
started earlier. At Dubai a coalition of countries (China, Russia, Iran, Gulf states — in all 89 countries) offered and later voted in favour of the renewed register of international telecommunications, which included definition of internet, the notion of sovereignty over internet and informational space, stronger role of the ITU in internet governance over privately held American corporation ICANN. The United States along with other Anglo-Saxon countries and European states (in all 55 countries) voted against the new register and presented those divergences as the fight between freedom and censorship [Demidov, 2013, pp. 77–79]. India and a small number of other countries abstained to avoid having to join any of the coalitions.8

Even though no unified position exists on all aspects of internet governance or approaches to cyber security, the five BRICS countries are definitely concerned with their own information security and cyber security. At their Durban Summit, the leaders reiterated their understanding of “the critical positive role the Internet plays globally in promoting economic, social and cultural development” [BRICS, 2013]. Thus, they clearly stated that “to contribute to and participate in a peaceful, secure, and open cyberspace” there should be secure “use of Information and Communication Technologies (ICTs) through universally accepted norms, standards and practices is of paramount importance.” Two years earlier it was agreed that BRICS would start to realize the project to connect all five countries as well as some other states by transcontinental fibre-optic cables in order to achieve higher internet security and diversify the global network. The idea looked like a welcome and far-reaching step, which made it even more disappointing that with the plans of the internet cable in use in 2015, work has not yet even started, which to some extent undermines belief in the solid foundation of the BRICS.

At the Fortaleza Summit, which did not dwell on the realization of previous commitments, there was an increase in deliberations on internet governance and cyber security. The leaders stressed importance of working out “a universal legally binding instrument” in the field of ICT with the UN having a central role [BRICS, 2014]. They saw as an absolute necessity “to preserve ICTs, particularly the Internet, as an instrument of peace and development and to prevent its use as a weapon.” In order to continue joint efforts in this direction, they agreed to “establish a group of experts of BRICS member States which will elaborate practical proposals concerning major fields of cooperation and coordinate positions in international fora.” Russia also suggested and won support from the other four countries to work out a BRICS agreement on cooperation in the field of internet governance and cyber security. While NETMundial, held in April 2014 in São Paolo was mentioned and its host was commended for the brilliant organization, its final documents were not cited in the Fortaleza Declaration due to disagreement of Russia with a number of its positions [Expert Center of E-Government, 2014]. After all, the BRICS is a consensus-based mechanism, and members do not exert unfriendly pressure on one other.

Nuclear Non-proliferation

The problem of nuclear disarmament has even more layers than UNSC reform, not only revealing divisions between “haves” and “have-nots,” but also revealing the different approaches between “official members of the nuclear club” and “illegal possessors,” those having potential for assured destruction and those with little capacity, etc.

As a signatory to the Non-Proliferation Treaty (NPT), Russia acknowledges the eventual goal of a world free of nuclear weapons, a position actively promoted by Brazil, or South Africa,

8 India could be singled out as the biggest trouble maker and the only country that broke down recent WTO negotiations, which concerned its vital interests much more than the above-mentioned issue, to be able to remain in a comfortable “neutral” position.
which voluntarily refused to possess nuclear weapons after ten years of having nuclear devices in 1989 and joined the NPT as a non-nuclear state in 1991. When it signed the bilateral START III treaty with the United States in 2010, Russia took a step toward that final goal, but further reductions are hampered by the unwillingness of the other “official nuclear club” countries to join in the negotiations while those in the “non-official nuclear club” are believed to have to accede to the NPT as non-nuclear states. Russia would not be willing to demolish its nuclear potential on a unilateral basis, as it still relies on its nuclear arsenal as a potential of containment. This holds even more true during the days of rising confrontation with western countries, when nuclear weapons are seen as a guarantee of sovereignty against possible encroachments.

Since there are more questions than answers in the existing non-proliferation regime, and all BRICS members take different approaches, this issue is covered on the principle of red lines not to be crossed. Russia prefers to concentrate within the group or on a bilateral level on smaller but equally important aspects, leading to the possibility of convergence of interests such as nuclear safety, initiation of talks on the treaty to prohibit the production of fissile materials for nuclear weapons and nuclear explosives at Geneva conference or the joint Russian-Chinese proposal on the treaty on non-weaponization of space [Interfax, 2012]. All BRICS countries cooperated intensively within the UN in order to promote this initiative, and took unified stand on non-use of force toward space objects [Medvedev, 2010].

The Prospects for the BRICS

The BRICS is no longer considered a young phenomenon. Recent statements describe aspects of decay and futility of the summits of these five countries as going through a middle-age crisis. It is right to move away from seeing BRICS as a global governance infant — it is no longer a novice in international affairs not knowing the rules of the game, or not able to influence those in order to claim its legitimate interests. The BRICS has already gone through the first cycle of meetings and has not only successfully survived the adjustment period, but has also managed to deepen interactions considerably on all levels of governmental and non-governmental cooperation, allowing for the creation of a rather solid dialogue matrix.

The BRICS has established itself as a building block, a firm foundation for the changing world architecture. It has achieved a lot over its short life, elevating in political and expert opinion of western advanced economies and its own public from neglect and patronizing irony to reluctant acknowledgement and cautious praise. It also is gradually growing from being a gathering of unhappy states deprived of desired higher status into a body with increasingly common interests and views on a wide range of economic and political issues. There is no need to underestimate divergences and often differing aims that those countries promote on the international agenda, and it is still to be seen if the BRICS will evolve into a solid and integrated cooperation mechanism, but results achieved so far within other multilateral institutions and in the bi- and pentalateral formats, as well as an already developed extensive structure of meetings at the levels of leaders, ministers, officials, experts, business, civil society and youth allow for rather optimistic prognosis for the BRICS as an important or at very least creative factor of world politics.

The minimum role attributed to this Big Five club in the future, in the worst-case scenario of its fameless break-up in the nearest future, would be the one as bulldozer for the lame economic and financial system with only few geriatric powers behind the helm. The five already brought about this “wind of change” to the forefront and that is an irreversible process, although it is still not clear how long, how painful and how disastrous this process would be. Joint and continuous efforts on the part of the BRICS are key to success of the reforms. Several BRICS
institutions have already been born, such as the New Development Bank and the Contingent Reserve Arrangement. The acknowledgement of success and further convergence of BRICS countries and their attractiveness to the other countries in the developing and emerging world is a reaction on the part of the established Golden Billion. Recently provoked international crises and turbulence around some of the BRICS members and attempts to divide them by offering benefits to some members while penalizing unilaterally and thus illegally other members of the club demonstrate that the BRICS bloc is a reality in today’s international architecture. Moreover, it is not only a reality; it is a more attractive alternative for the majority of the world and already presents a real power centre, fast approaching its goal of becoming rule takers as well as rule makers in the existing global edifice. This in turn allows for more hope for the realization of the best-case scenario with genuine coherence and convergence on vital international issues of the five countries eventually serving as a core group, attracting other countries by authority and soft power, and successfully leading to the claimed goal of more fair and democratic world order through evolution and consensus rather than chaos and revolution.

Thus, Russia’s initiative has appeared to have played well, not only for the public good in the world politics and into the hands of emerging and developing countries, but also for facilitating change within Russian mentality, for centuries centred on Europe and then the Euro-Atlantic as the only worthy partner or contender. Opening up the scope for real diversification and making real overtures to the other civilizations, other cultures and other continents will eventually boost economic performance in Russia and might lead to positive internal political dynamics.

The year 2015 is also of utmost importance for Russia due to the dramatic challenges it must face internally in economic and financial areas and externally in the political security field. The BRICS presidency presents an excellent opportunity for Russia to see the support of it partners in times of considerable difficulties, and also to demonstrate itself as a reliable partner and responsible global actor. During the Brazilian presidency, Dilma Rousseff personally put considerable efforts into the BRICS success and progress on most important issues. The announcement of the New Development Bank could be considered her personal success, as well as an undeniable achievement of the Brazilian team working on complicated negotiations and very divergent approaches and interests of the parties in this new endeavour. Russia’s success as a host will be judged by its ability to achieve further institutionalization (deepening and expanding existing the links within the BRICS rather than turning the group into an organization) and tacit approval of other members of the goal of mechanism for full-fledged coordination. In order to achieve that goal, security, international law and global governance reform issues have to be tackled substantively, since this would allow the BRICS to claim one more area of international political domain where it has a voice and where its stand must be taken into account. The BRICS as a serious actor is needed by the majority of developing world in the Golden Billion—dominated international edifice in order to see the light at the end of the tunnel and show the possibility of peaceful change. It thus adds an extra burden on the five countries not just to meet and present a family photo to the world, but to achieve real results — not just once in a while, but with every meeting.

References


Prospects for Cooperation in Science, Technology and Innovation among the BRICS Members

M. Kahn

Michael Kahn – Professor Extraordinaire, Stellenbosch University; Director, Research and Innovation Associates; Private Bag X1, Matieland 7602, Western Cape, South Africa; E-mail: mjkahn@sun.ac.za

The establishment of the New Development Bank by the BRICS group of Brazil, Russia, India, China and South Africa signalled the maturing of the financial relationships among the partners of the “club.” These relationships have acquired a heightened profile through the Cape Town Declaration whereby the BRICS Ministers of Science and Technology committed to cooperation. The declaration raises interesting questions, inter alia the status of intra-BRICS cooperation on science, technology and innovation (STI), the rationale for the choice of the specific fields of cooperation, and the countries’ strengths in these fields. How do these fields align with each country’s domestic strategy for STI? Which bilateral STI agreements are already in place, and what have they delivered? How does the Cape Town Declaration align or compromise the India-Brazil-South Africa (IBSA) process? Will the rising geopolitical tensions (Black Sea, China Sea) limit the scope of STI cooperation? The secondary objective of this article is to demonstrate why South Africa is important to the club. Addressing these questions requires a study of geopolitics, finance, trade and other modes of engagement, STI included. A convenient framework is a macro-level political, economic, social, technological, environmental and legal (PESTEL) analysis, with a more detailed look given to the “T,” for which can be read STI. The analysis of other documents and economic, social and STI indicators, together with bibliometric data provide the empirical basis for the arguments. Together with the identification of national imperatives, this analysis allows the potential of the Cape Town Declaration to be assessed. Not only is South Africa the “Gateway to Africa,” but the country also displays the highest level of intra-BRICS scientific cooperation.

Key words: BRICS; Cape Town Declaration; cooperation in science, technology and innovation; bibliometrics; South Africa; Gateway to Africa

Introduction

A little more than a decade ago Jim O’Neill, former chair of Goldman Sachs Asset Management, famously identified the BRIC grouping of Brazil, Russia, India and China as a significant economic bloc. Over that time, recession notwithstanding, the BRIC countries have grown in economic significance far beyond expectation. Then, in 2011 South Africa, already a member of the G20 and the major voice in Africa, joined the BRIC family, which duly morphed into the BRICS. O’Neill drily observed that South Africa had no place in the BRIC club given its modest size, and that by contrast Indonesia, Mexico or Turkey had stronger claims to join. The recent downturn in the fortunes of Brazil and Russia has since persuaded O’Neill to question the very idea of the BRIC core that in his view might wither down to “IC” alone. This suggests that it is timely to probe deeper into some of the underlying trends that characterize the relationships among the five BRICS countries. That is a narrow economic view.

The primary objective of this paper is therefore to consider a somewhat neglected aspect of these relationships by investigating the rhetoric and reality concerning intra-BRICS cooperation in science, technology and innovation (STI). This arena of engagement has acquired a
heightened profile through the 10 February 2014 Cape Town Declaration whereby the BRICS ministers of science and technology committed to a programme of STI cooperation. The secondary objective of this article is to show why O’Neill is incorrect in his assertion that South Africa does not matter. To provide such rebuttal requires a study of geopolitics, finance, trade and other modes of engagement, STI included.

The Cape Town Declaration acknowledges the lead role of science and technology for long-term development and proposes specific responsibilities for each country. The declaration should have been ratified at the BRICS summit of July 2014 held in Fortaleza, Brazil, but that meeting was dominated by the launch of the New Development Bank (with a capitalization of $100 billion) and Contingent Reserve Allocation (also $100 billion) [Ortiz, 2014]. The Cape Town Declaration was ratified in March 2015 at a meeting of the BRICS science and technology ministers in Brasilia.

Science, by virtue of its claimed universality, displays a veneer of political neutrality, and has a long history before and since the Enlightenment of acting as a channel for dialogue among city-states and nations. Science is an intimate component of soft diplomacy, an art best illustrated by the table tennis tournaments of the 1975 Nixon-Zedong rapprochement, and most recently in the European Union Horizon 2020 call for studies on European cultural and science diplomacy to exploit “the potential of culture and science in the EU’s external relations” [European Commission, 2014].

Technology and technology transfer are quite different, for reasons of competition and security. Business innovation is intimately linked with economic competition and spreads by a variety of mechanisms through linkages among firms. It manifests itself through imitation, reverse engineering (theft by any other name), adaptation, creativity and secrecy. In the security domain, secrecy is paramount and sharing is restricted and prosecutable. It is of more than academic interest to unpack the potential of the Cape Town Declaration, and to separate the rhetoric from the reality.

The stellar economic growth of the BRICS in the first decade of the 21st century has been accompanied by a rapid increase in their contribution to the global stock of knowledge. More precisely, between 2002 and 2007 Brazil, China and India each doubled their respective gross expenditure on research and development (GERD), with their share of global GERD rising from 17% to 24%. Indeed, China’s share of global GERD is now on par with its share of world gross domestic product (GDP), and between 2004 and 2010 China’s share of world scientific publications doubled. This growth gives notice of a major shift in the locus of scientific publishing signified by the new triad of the United States, Europe and Asia, with Asia expected to become the dominant scientific continent in the medium term [Hollanders and Soete, 2010; Meyer and Nascimento, 2014]. As will be shown below, international co-publication has also risen steeply over this period.

International scientific collaboration is part of the new globalization of knowledge, and the Cape Town Declaration seeks to harness this momentum to the benefit of the BRICS. The declaration proposes country specializations as follows: Brazil – climate change and disaster mitigation; Russia – water resources and pollution treatment for Russia; India – geospatial technology and applications; China – new and renewable energy, and energy efficiency; and South Africa – astronomy.

To understand the viability of BRICS cooperation in STI it is necessary to answer a number of questions. What is the present state of STI cooperation among the BRICS members? What is the explanation for the selection of the five fields of interest? Furthermore, do these fields align with country domestic strategies for STI? This allows an assessment of country-to-country interactions: which bilateral STI agreements are already in place, and what have they
delivered? How does the Cape Town Declaration align or compromise the collaboration of the India-Brazil-South Africa (IBSA) Dialogue Forum? Will the rising geopolitical tensions (Black Sea, China Sea) limit the scope of STI cooperation? Underscoring these questions and answers is the role, if not the legitimacy of the smallest of the BRICS members, South Africa.

A convenient organizing framework against which these questions may be assessed is a political, economic, social, technological, environmental and legal (PESTEL) analysis. Space considerations dictate that this focus on the macro level, with a more detailed look given to “technological” factors, or STI. Together with bibliometric data, the analysis of other documents and economic, social and STI indicators will provide the empirical basis. This article is organized into sections as follows. Following the introduction, the next section addresses the political, economic, social, environmental and legal dimensions. The technological features are covered in the next section that examines the state of STI in each of the BRICS countries. This is followed by an analysis of scientific activity using publication counts as a proxy measure. This also allows for an assessment of the level of STI cooperation among the BRICS members. Together with the identification of national imperatives, this analysis allows the potential of the Cape Town Declaration to be assessed. The next section places STI cooperation in the much larger context of geopolitics: the Russia-China energy accord, India’s newly assertive foreign policy, South Africa as the “Gateway to Africa” and Brazil’s role in Africa as commodity exploiter and entrepreneur. The final section returns to O’Neill’s assertions and their rebuttal.

Environmental Scan – PESTEL Analysis

PESTEL analysis, sometimes referred to as PESTLE, is a tool that has evolved to inform strategic management, with first environmental and then legal factors added to the earlier political, economic, social and technological (PEST) analysis. A PESTEL analysis seeks to delineate the macro-environment within which strategic choices are to be made, and is often followed with a detailed strengths, weaknesses, opportunities and threats (SWOT) analysis.

The PESTEL analysis that follows is necessarily a bird’s eye view of a massive terrain of study. It represents but a first pass at analyzing what is a complex and contested landscape. This analysis is grounded in the empirical evidence of Table 1, and commences with the politico-legal factors.

Table 1: PESTEL Indicators (2012 or nearest)
Main fields of publication (Web of Science)

<table>
<thead>
<tr>
<th>Main fields of publication</th>
<th>Clinical medicine, biology, biomedical</th>
<th>Physics, chemistry, engineering</th>
<th>Chemistry, clinical medicine, engineering</th>
<th>Chemistry, Engineering, physics</th>
<th>Clinical medicine, biology, chemistry</th>
</tr>
</thead>
<tbody>
<tr>
<td>USPTO/m</td>
<td>1.3</td>
<td>2.4</td>
<td>1.4</td>
<td>4.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Plant cultivars in force/million</td>
<td>8.6</td>
<td>29.3</td>
<td>n.a.</td>
<td>2.6</td>
<td>48</td>
</tr>
<tr>
<td>Global Innovation Index</td>
<td>67</td>
<td>52</td>
<td>87</td>
<td>46</td>
<td>51</td>
</tr>
<tr>
<td>Gini coefficient</td>
<td>51.9</td>
<td>42.0</td>
<td>36.8</td>
<td>47.3</td>
<td>63.1</td>
</tr>
<tr>
<td>Decile 10/Decile 1</td>
<td>54</td>
<td>7</td>
<td>9</td>
<td>18</td>
<td>43</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>85</td>
<td>55</td>
<td>136</td>
<td>101</td>
<td>121</td>
</tr>
<tr>
<td>Annual CO₂ tonnes/capita</td>
<td>2.15</td>
<td>12.18</td>
<td>1.64</td>
<td>6.18</td>
<td>9.18</td>
</tr>
</tbody>
</table>

Notes: GDP = gross domestic product; GERD = gross expenditure on research and development; USPTO = United States Patent and Trademark Office, CO₂ = carbon dioxide.

All data are for 2012 except for the Global Competitive Index, which draws on 2013–14 data.

The Global Competitiveness Index uses indicators accessed from multiple sources and comprises 12 pillars in three groups: basic requirements (institutions, infrastructure, macroeconomic environment, health and primary education); efficiency enhancers (higher education and training, goods and labour market efficiency, financial market development, market size, technological readiness); and innovation and sophistication (business sophistication and innovation). Values for institutions (1) and financial market development (8) are shown. The various indicators are a mix of quantitative and qualitative.

Sources: CIA Factbook; World Bank; World Economic Forum; Organisation for Economic Cooperation and Development main science and technology indicators; Red de Indicadores de Ciencia y Tecnología; Web of Science; U.S. Patent and Trademark Office; Union of Plant Varieties, INSEAD.

A commonality of the BRICS countries is that they have all experienced significant political ruptures in the last 30 years. They share a history of authoritarian rule, in some cases under direct military control, in others via an overarching ruling elite, and to this day display elements of what Douglass North, John Wallis and Barry Weingast [2009] refer as “mature natural states.” Politically (and legally) speaking the BRICS countries, China excepted, are multi-party “democracies,” but they have not transitioned into fully fledged open access societies. Their relatively low scores on the Global Competitiveness Index (GCI) measurement of institutions attest to this assertion. Significant ruptures were experienced in Brazil, Russia, India and South Africa from 1991 to 1994, partly as a result of the ending of the Cold War, the deepening of globalization and the spread of the Washington Consensus. Following the 1986 move to democracy, Brazil adopted a programme of structural adjustment under the Plano Real in 1994. This brought inflation under control, thereby stabilizing the currency. Privatization of state assets formed part of the programme mix. After the collapse of the Soviet Union, Russia underwent radical economic transformation through the rapid adoption of free market economics and the privatization of state assets. India, under the guidance of Manmohan Singh began to deconstruct the “licence Raj,” but still maintained a strong protectionist stance against foreign penetration. China, following the land and agriculture reforms over 1949 to the 1960s, commenced a second “Long March” in 1978, this one down the capitalist road [Studwell, 2013]. South Africa, maintaining the thrust of the outgoing minority government, accelerated a neoliberal agenda as the country re-entered world markets. To a large extent it maintained the mix of state ownership of the commanding heights, with a vibrant private sector that rapidly spawned new transnational corporations. Having gained political rights, the African majority began a second long walk toward economic freedom.
These ruptures had major internal and external impacts, with the rise of China as the new factory of the world becoming a decisive factor in global trade and finance. The inexorable growth of China’s economic might has moved it to rank second in size after the United States. All things being equal, China will be the largest economy in the world within a decade. This shift from West to East, with India now moving up to rank third manifests the new global order of multipolarity. After the brief period during which the United States was the sole superpower, there are now numerous centres of power: the U.S., the European Union, Japan, Russia, China, India, Brazil and South Africa. Indonesia, Mexico and Turkey stand alongside, waiting their turn to influence regional events. India and China are engaged in a space race, and in common with Japan are also expanding their military, especially their naval capabilities. In this multipolar world new political alliances are being formed, and dormant tensions are igniting. The form that a new equilibrium will take is elusive. Pax Americana is yielding to pax fragile, with some commentators even speaking of Cold War II [Trenin, 2014].

During the period of military rule Brazilian industry deepened and broadened even as its current account deficit worsened. Examples of this diversification were sugar-to-ethanol production, offshore oil extraction, the opening of the highland cerrado to large-scale crop farming, aeronautical engineering and the creation of new overseas markets to be exploited by its construction companies. The worsening financial situation then persuaded the military to relinquish power to civilian control and to allow a democratic process to unfold. Brazil was able to enter the 1990s as a large-scale exporter of agricultural commodities and mineral ores, along with manufactured goods and services. It is noteworthy that Brazil’s Africa-oriented foreign policy dates back to the time of the generals. In fact, when the Marxist MPLA government gained power in Angola in 1975, Brazil was the second country to recognize the new government. Brazil then used this political legitimacy to grow its trading footprint across Lusophone Africa and beyond.

In the 1990s the Russian government transferred many state mining, metal and energy enterprises to private control. Russia opened her economy to western capital and allowed their companies to grow and capture the consumer market. However, Russian companies have lagged behind as innovators so that this foreign dominance has continued [Kuznetsova, 2013]. The Russian economy is painfully dependent on the export of oil, gas and minerals, which together with the sanctions arising from the Ukraine crisis has caused severe financial problems. Russia maintains significant prowess in military and aerospace capability, spending 4% of GDP on defence ($100 billion in purchasing power parity [PPP]), the highest proportion among the BRICS countries. Russia was of course a major actor in Africa during the Cold War, and these prior relationships continue into the present, enabling the new non-state actors of Russia to engage in infrastructure and mineral development in Africa.

India has been slower to embrace the challenges and opportunities of the multipolar world and globalization. India’s politics are complicated by its vast ethnic diversity, vestiges of central planning, ongoing tension with Pakistan and nervousness regarding the intent of China with which it has previously engaged in open warfare. India is belatedly expanding its diplomatic footprint and its navy, with defence expenditure now at 2.5% of GDP ($121 billion of PPP). Its private sector shows considerable ability to manage complex merger and acquisition deals, thereby making Tata, Mittal, Reliance and Infosys global brands. India’s presence in Africa is growing slowly.

China is sui generis — the Communist Party rules; the free market creates prosperity. In Deng Xiaoping’s words, “It doesn’t matter whether a cat is white or black, as long as it catches mice.” Hence state capitalism is embraced in an ever-increasing number of special economic zones. Joe Studwell [2013] argues that political freedoms are only loosely coupled with economic growth in China, so economic growth and outward expansion continue unabated. The
Chinese government made an explicit decision in 2006 to reach out across the globe and it is now the largest source of foreign direct investment (FDI) into its bordering countries, and a major source for Africa.

China was the major promoter of South Africa’s accession to the BRIC club. In return South Africa lends its political and moral standing to China’s positions in international political forums, most recently denying the Dalai Lama a visa to attend a meeting of Nobel Laureates in Cape Town. This support is somewhat unexpected since in 1961 South Africa’s ruling party turned to the Soviet Union for military assistance when it embarked upon armed struggle; China played a much smaller role in the anti-apartheid campaign than did the Soviet Union. Wielding economic might as a major creditor to western consumers, China is now also asserting itself diplomatically and militarily in pursuit of its territorial claims in the South China Sea. This explains its naval expansion, and defence spending of 2% of GDP ($245 billion PPP).

As to the economic domain, the GDP statistics confirm O’Neill’s original conjecture that size counts, with China having overtaken Japan to become the second largest economy after the United States. From an economic viewpoint the BRICS are composed of China plus the rest—the “BRIS.” China’s relations with the BRIS are severely lopsided, with a trade balance very much oriented in China’s favour, as mineral, energy and agricultural commodities flow eastward while manufactured goods and state-funded infrastructure projects ship in the opposite direction. Demand is influenced by the strength of domestic markets and purchasing power as reflected in per capita income. Russia scores low on the indicators most closely associated with free markets, and as Natalia Gorodnikova [2014] argues, it has proven difficult for innovative firms to emerge and prosper in Russia.

South Africa is arguably the major political player on the African continent. At home it is central to the Southern African Customs Union that includes Botswana, Lesotho, Namibia and Swaziland, and dominates the 15 countries in the Southern African Development Community. Further afield the country promoted both the forming of the New Partnership for Africa’s Development (NEPAD), and the transformation of the moribund Organization of African Unity into the African Union, currently chaired by South Africa’s Nkosasana Dlamini-Zuma. South Africa has deployed peacekeeping forces to South Sudan, the Central African Republic and the Democratic Republic of Congo, played a mediating role in the Great Lakes conflict resolution process, and acted as intermediary under the Mandela administration to bring Libya in from the cold. The extreme monopoly capitalism of the 1960–1990 period has since given way to more diverse ownership of equities (in the hands of foreign portfolio managers), and state pension and investment funds. Simultaneously its leading publicly listed companies have expanded across the Limpopo River in a second Great Trek, but this time of commercial brands, rather than cattle farmers. Many of these companies have secondary listings abroad and they derive up to half of their revenues globally.

The cement for the BRICS comes from a shared desire to rebalance global political power relations and institutions in the same way that global market forces have rebalanced economic power. BRICS members’ internal and bilateral issues are another matter entirely, with care taken to refrain from public criticism of one another. For the present Russo-Sino relations are orderly, with a mammoth 30-year gas deal signed in 2014. Sino-India tensions are another matter entirely, with conflict a medium-term possibility, vide the close relationship blossoming between New Delhi and Tokyo. Brazil is quietly asserting its dominance of the South Atlantic, as evidenced in the planned purchase of French submarines and surface vessels, while South Africa tries to act as the African village policeman. Of the five BRICS members, South Africa has the longest continuous experience of business conducted according to “free market” norms and the rule of law (although the country excluded their African majority up to 1994).
At this point it is appropriate to examine the data of the World Economic Forum (WEF) Global Competitiveness Report, whose index draws on a mix of quantitative and subjective indicators, the latter being gathered through the annual Executive Opinion Survey [Schwab, 2014]. Among the BRICS members, the Global Competitiveness Index (GCI) ranks China highest at position 29, and Russia lowest at 64. This ordering is already evident in the institutions pillar for which South Africa is ranked highest in position 41, while Russia stands in position 121. South Africa retains its leading position for Financial Market Development, ranked third worldwide year on year. This gives the country important standing worldwide and particularly in Africa. To do business in Africa the place to start is the financial hub of South Africa. Until 2014 South Africa displayed the largest GDP in Africa, at which point Nigeria announced the results of its rebasing exercise that saw its GDP double and exceed South Africa’s.

With regard to social factors, GCI’s “Basic Requirements” pillars assess administrative capacity, health and primary education. Brazil, India and South Africa do poorly in addressing these basic requirements compared to Russia and China. The WEF measurements may be compared with the United Nations Development Programme’s Human Development Index (HDI), the Gini coefficient and the new indicator \( \frac{dX}{dl} \). HDI is a proxy for human development based on life expectancy, educational attainment and income. It serves as an alternative to GDP per capita for measuring relative socioeconomic progress. South Africa’s HDI slipped badly as a consequence of the HIV/AIDS epidemic that by 2005 had reduced life expectancy by nearly 10 years. With the introduction of large-scale state-sponsored antiretroviral therapies life expectancy had climbed to 61 years by 2012. Russia, with its stronger health and education systems ranks highest in the HDI among the BRICS countries. This average masks the major gender disparity in life expectancy, as females are outliving males by more than 10 years.

South Africa’s Gini coefficient scores of 63.1 is among the highest in the world; at 36.8 India records the lowest Gini among the BRICS, although this places the country above the EU average of 30.6. Both Brazil and South Africa display high Gini coefficients for income, and have adopted extensive social welfare systems to mitigate absolute poverty. If these social benefits were included in the estimates of total household income, the Gini coefficient would be lower, though still unacceptably high.

An alternative measure of inequality is the Palma index that examines income distribution according to decile share [Cobham and Sumner, 2013]. A simplified Palma index may be calculated by comparing the ratio of the income accruing to decile 10 with that of decile 1, termed here the \( \frac{dX}{dl} \) ratio. The simplicity of the ratio arises from the fact that the necessary data is readily available on the CIA Factbook Library. Calculation of \( \frac{dX}{dl} \) suggests that Brazil is less equal than the Gini suggests; conversely it shows that income disparities in Russia and India are relatively modest. As with other measures of inequality, even \( \frac{dX}{dl} \) is a blunt instrument. The income accruing to the top 1% may be the most appropriate measure of income inequality, since this is the domain of billionaires, oligarchs and plutocrats (and media personalities).

It is worth briefly mentioning the environmental aspects of the PESTEL analysis before moving to the longer discussion concerning S&T. The simplest comparable environmental indicator is carbon dioxide emission per capita. Russia, South Africa and China are large consumers of fossil fuels and among the highest carbon dioxide emitters in the world. Thanks to the availability of hydroelectricity, Brazil has a lower carbon footprint. The low emission value of India arises from its relative underdevelopment and low levels of industrialization. Specific mention must be made of toxic smog that pollutes many of China’s large cities, with an estimated reduction of life expectancy by 5.5 years in the case of Beijing [Hook, 2013].
Science, Technology and Innovation

Traditions of western university and academy research go back more than a century in the five BRICS countries. All of the BRICS members experienced relatively late industrial revolutions and were able to benefit from imported technologies. Science was a strong component of the modernization and military agendas of the BRICS, with considerable technological transfers from the then Soviet Union to both China and India.

Today the BRICS countries display unique innovation systems, of different size, complexity and focus, with their own path dependencies [World Bank, 2010]. The Russian and Chinese academies of science teach and conduct research while their universities play smaller roles in research. South Africa’s research councils and universities enjoy similar levels of research expenditure, with the latter solely responsible for awarding degrees. The world-renowned Indian Institutes of Technology and Tata Institute of Technology enrol students through a highly selective process, and stand alongside a massive university system complemented by public research institutions such as the Council of Scientific and Industrial Research (CSIR). Brazil’s Embrapa is a world leader in agricultural research, as is medical research at the Oswaldo Cruz Foundation. The University of Sao Paulo is the academic research leader, standing at the pinnacle of the publicly funded state universities.

The present character and specializations of these innovation systems owe much to their earlier period of authoritarian, if not military rule, during which weapons production was a major consideration. Russia, China and India have nuclear weapons; Brazil foresaw the development of atomic weapons; and South Africa in 1994 uniquely dismantled its atomic arsenal. China, India and Russia have intercontinental ballistic missile and satellite launch capacity, with Russia and China having mastered manned space flight, and India intending to follow in 2016. The India Mars probe has placed her virtually on par with China. Brazilian Embraer has captured a niche in the market for mid-sized commuter aircraft, and the Brazilian Space Agency has launched its own rockets. For many years Brazil and South Africa have designed and built satellites that have been launched by other countries. Brazil and South Africa are cooperating in air-to-air missile technology, and India and Russia extensively share technology. South Africa still competes in light arms and artillery, as well as compact radar systems and military vehicles, based on the programmes developed following the 1977 UN arms embargo.

All have significant industrial capacity and high levels of self-sufficiency other than in the realm of consumer goods (enter China) and advanced technologies (enter the EU, U.S. and Japan). They possess advanced medical, scientific and technical skills and contribute to the global stock of knowledge. The private sector plays differing roles in these innovation systems according to the extent of state enterprise involvement and the residue of central planning. Among the BRICS members, the Global Innovation Index ranks China first in position 46, and India last in position 87.

The BRICS members publish regularly updated STI strategies and have specialized agencies that gather and produce STI indicators. China, Russia and South Africa maintain strong engagement with the Science, Technology and Innovation directorate of the Organisation for Economic Co-operation and Development (OECD). As China’s manufacturing capability has moved toward the technological frontier, its GERD has risen to reach 1.98% with an increasing proportion of this activity occurring in Chinese firms. In parallel, these firms have found it necessary to protect their intellectual property as Chinese brands proliferate globally. For China in particular, future growth is expected to spring from innovation driven development [Xinhua, 2013]. China’s intensity of U.S. patent awards has also grown, and is the highest in the BRICS at 4.0 per million. This is a recent achievement, as is the rise in Chinese-authored articles recorded in the Web of Science database. Brazil, Russia and South Africa have similar publication
BRICS CONTRIBUTION TO GLOBAL GOVERNANCE: POLICY AREAS

intensity while South Africa stands second for U.S. patenting. India lags according to both of these key STI output indicators. The registration of plant cultivars is another important STI output; South Africa’s intensity is nearly double that of Russia, and is far ahead of Brazil and China, reflecting the diversity of its agricultural base and associated exports.

Publication counts (cf. Table 2) must be prefaced with the usual caveats that bibliographic databases are incomplete, are biased toward the English language, and do not cover the social sciences and humanities in sufficient depth. This is particularly important for Brazil, China and Russia, which each have numerous national-language scientific publications not adequately represented in the Web of Science or Scopus until recently. Starting in 2006, the Web of Science moved to correct these biases and Brazil in particular saw a massive increase in the number of its national journals indexed in that database. The other four BRICS members enjoyed varying increases, with South Africa’s coverage tripling. Notwithstanding these caveats, bibliometrics cannot function without using these databases. The BRICS show some similarities in their areas of concentration of scientific publications (cf. Table 1). The three leading fields of China and Russia are identical; Brazil and South Africa specialize in clinical medicine and biology. India is a mix of the two groupings with its emphasis on engineering. Wolfgang Glänzel [2001] suggests a typology according to which China and Russia display the “socialist” model; Brazil and South Africa are “western,” while India is a mix of western and “Japanese.” This typology is not cast in concrete and must change as economic dictates pull science along in new directions. The area of space science is also addressed, accounting for 10% of the totals for Russia and South Africa, and around 5% for Brazil, China and India. These few STI output indicators cannot adequately capture the complexity of the wide range of activities that contribute to and arise from the process of innovation.

It is instructive to compare the different emphases that emerge from the Web of Science and Scopus. Table 2 provides total publication counts and the top three subject area concentrations on Scopus since 1995.

Table 2: Subject Area Specialization on Scopus, total publications post 1995

<table>
<thead>
<tr>
<th>Country</th>
<th>Count, 000s</th>
<th>Count/Population 000,000s</th>
<th>Subject Area 1, 000s</th>
<th>Subject Area 2, 000s</th>
<th>Subject Area 3, 000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>597.2</td>
<td>3.2</td>
<td>Medicine (162,2) I</td>
<td>A/B Science (107,8) II</td>
<td>B/G/M (69,6) III</td>
</tr>
<tr>
<td>Russia</td>
<td>709.9</td>
<td>5.0</td>
<td>P/A (246,6) I</td>
<td>Engineering (121,3) III</td>
<td>Chemistry (118,8) II</td>
</tr>
<tr>
<td>India</td>
<td>1,001.2</td>
<td>0.91</td>
<td>Medicine (192,8) II</td>
<td>Engineering (170,4) III</td>
<td>Chemistry (142,1) I</td>
</tr>
<tr>
<td>China</td>
<td>3,612.3</td>
<td>2.76</td>
<td>Engineering (1500) II</td>
<td>P/A (571) III</td>
<td>Material science (558)</td>
</tr>
<tr>
<td>South Africa</td>
<td>167.6</td>
<td>3.5</td>
<td>Medicine (40,3) I</td>
<td>A/B Science (31,5) II</td>
<td>Social science (21,2)</td>
</tr>
</tbody>
</table>

Notes: P/A = physics/astronomy; A/B = animal/biological; B/G/M = biochemistry/genetics/microbiology. Equivalent ranking on the Web of Science is shown in boldface.

The data shows that the three leading subject areas on Scopus for Brazil, Russia and India are identical, although individual rankings do shift. For China and South Africa important shifts are evident, with the rise of material science and social science to third rank respectively. The emergence of material science in China is less surprising than the leap in rank of social science in South African output, which saw its share of all publications double to 14% in the period 2007–2012 compared to 1995–1999.

This difference in emphasis revealed between the Web of Science and Scopus is not unexpected: the former began with a strong emphasis on English-language publications in the
natural sciences and engineering; the latter was established largely to capitalize on the unhappiness this bias elicited among other disciplines and languages [De Bellis, 2009]. The struggle for dominance of the scientific publication marketplace continues.

Perhaps the most important marker of scientific activity is the lead indicator of GERD to GDP. Both India and South Africa have yet to attain the 1% level; China is now close to 2%. GERD/GDP is an input indicator representing expenditure for research and development (R&D) with its promise of return to come. Close to half of such expenditure is the labour cost of researchers and support staff. The conventional measure of the size of the research stock is the ratio of full-time equivalent researchers to the labour force. Russia has by far the highest, India the lowest. This points to the lack of an obvious correlation between these two indicators. With the exception of Russia, the ratio of full-time equivalent researchers within the labour force is below the European Union average [OECD, 2015].

Unfortunately GERD data disaggregated by the standard science fields are generally not in the public domain. The little that is published is restricted to specific sectors as shown by the homepages of the UNESCO Institute for Statistics or that of the OECD’s Science, Technology and Innovation Directorate.

South Africa is exceptional in publishing such data. These data show that the top three fields by expenditure are engineering and technology (26.5%), health sciences (17.2%), and information and communications technology (ICT) (12.8%), with social sciences ranking fourth at 12.0%. These field expenditures are aggregated across all sectors so it is unsurprising that there is a poor correlation with the intensity of publication outputs that tend to arise mainly from the higher education sector. In higher education one third of expenditure goes toward the social sciences and humanities that gives support to the Scopus finding that the social sciences “matter.”

The next topic for consideration is collaboration, for which a proxy measure is scientific co-publication as revealed by search of the Web of Science or Scopus.

**Co-publication among the BRICS Countries**

As of 2011 both the Web of Science and Scopus show that some 35% of scientific articles involved international partners, a rise of 10% over 15 years [Royal Society, 2011; National Science Board, 2014]. Table 3 presents data on country pair co-publication as captured from the Web of Science.

*Table 3: Article Counts and Co-publication, BRICS 2012*

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>36,111</td>
<td>533 (2.0)</td>
<td>373 (0.8)</td>
<td>623 (0.3)</td>
<td>266 (2.9)</td>
</tr>
<tr>
<td>Russia</td>
<td>533 (1.5)</td>
<td>27,303</td>
<td>393 (0.8)</td>
<td>898 (0.5)</td>
<td>237 (2.6)</td>
</tr>
<tr>
<td>India</td>
<td>373 (1.0)</td>
<td>393 (1.4)</td>
<td>46,348</td>
<td>699 (0.4)</td>
<td>262 (2.8)</td>
</tr>
<tr>
<td>China</td>
<td>623 (1.7)</td>
<td>898 (3.3)</td>
<td>699 (1.5)</td>
<td>183,760</td>
<td>325 (3.5)</td>
</tr>
<tr>
<td>South Africa</td>
<td>266 (0.7)</td>
<td>237 (0.9)</td>
<td>262 (0.6)</td>
<td>325 (0.2)</td>
<td>9,217</td>
</tr>
</tbody>
</table>

*Note:* Bold indicates the total article count. Columns indicate the country-pair co-publication counts; figure in parenthesis is the ratio of this count to article count as a percentage.

*Sources:* Science Citation Index-Extended, Social Science and Humanities Index, and Arts and Humanities Citation Index.
South Africa has the highest intensity of BRICS country-pair collaborations, significantly above the median level of 1.4%. Russia is second; China is last. Barely 4,609 (1.5%) of the 302,739 articles that represent that total scientific production of BRICS members involve a second BRICS country. The reality is that scientific co-publication among the BRICS is low.

Collaboration is a two-way street. The Thomson-Reuters evaluation of Framework Programme 7 outputs suggested that for country-to-country collaboration to be described as “significant” at least 7.5% of a partner’s publications must be concentrated in a field of common interest [Expert Group for the Interim Evaluation of Framework Programme 7, 2010]. By this criterion there is no significant scientific collaboration between any of the BRICS country pairs.

There are, however, much higher levels of co-publication between the BRICS and the United States: Brazil with 5,320 articles or 14.7%; Russia with 3,020 or 11.1%; India with 4,270 or 9.2%; China with 23,829 or 13.0%; and South Africa with 2,250 articles or 24.4%.1 A number of fields of interest to the BRICS exceed the Thomson Reuters 7.5% level of co-publication concentration. This is overwhelmingly unidirectional: it represents a highly significant channel for knowledge acquisition from the BRICS perspective, but less so for the US or EU.

This is the reality of co-publication; the main site of frontier science is the United States, hence co-publication will pull scientists toward that location. The EU is another major node. Co-publication rates with the EU are 13.6% for Brazil; 20% for Russia; 11% for India; 18.6% for China and 25% for South Africa. What Caroline Wagner [2008] termed the “new invisible college of science” has two virtual campuses — the U.S. and the EU. The global community of scientists transacts through the invisible college in spite of, not because of, government policy.

Like its broad economy, South African science is open and international co-publication has risen to nearly 50% of all locally coauthored articles. Its R&D expenditure has seen a decline in engineering and technology while research has risen in the health sciences, particularly in the infectious disease area, and the health sciences are acting as a very strong pull for international collaboration [Kahn, 2011]. It is the most prolific of the BRICS in scientific co-publication, and the impact factor of its publications is higher than that of China or Brazil [ASAccess, 2011].

One notes the success of South African astronomers and astrophysicists in winning the right to host the bulk of the Square Kilometre Array (SKA) radio telescope that will be the largest scientific instrument yet built [SKA Africa, 2012]. The main array of dishes for high and medium frequencies will be constructed in the interior, with other dishes located in eight African countries. Australia will host the complementary low frequency array. Full SKA operations are expected in 2024 [SKA Organisation, 2012]. O’Neill is wrong; South Africa matters.

To the Future

STI bilateral agreements are commonplace among the BRICS, and between them and other science-producing countries. These agreements go back many decades and have fostered joint projects and staff exchanges, but the co-publication data is not exactly encouraging. This statement requires some qualification, since certain collaborative activities, such as space and defence, involve intensive STI exchanges that are usually bound by secrecy requirements that preclude open publication.

What about the 2003 IBSA agreement and the subsequent 2010 STI agreement? In 2013 it was noted that “intra-IBSA trade is a clear indication of the potential and success of IBSA as the initial trade target of US$ 25 billion by 2015 is likely to be overshot given the current intra-IBSA trade figure of US$23 billion. IBSA has also partnered with developing countries, especially

---

1 Russia-Germany co-publication stood at 2,934 articles in the same year.
least-developed countries (LDCs) and post-conflict and reconstruction development (PCRD) countries through the IBSA Facility for Hunger and Poverty Alleviation (IBSA Fund) in development projects that will benefit those countries” [IBSA Dialogue Forum, 2013]. Those responsible for IBSA are thus on record as being satisfied with the “achievement” of the IBSA target, although no counterfactual is available against which the assertion may be tested. Without IBSA the same result would most likely have emerged. The 2010 IBSA STI Agreement seeks to promote the “short-term exchange of scientists, researchers, technical experts and scholars,” trilateral workshops and exchange of information, and the “formulation and implementation of trilateral research and development programs” [Government of the Federative Republic of Brazil, Government of the Republic of India and Government of the Republic of South Africa, 2010]. Each signatory is expected to contribute $1 million annually to facilitate cooperation. To date there is scant evidence of activity, although it may be too soon to tell. Even so the scale of funding may be too low to attract the attention of top researchers.

The considerations above now allow the appropriateness of the five focal areas of the Cape Town Declaration to be assessed, namely:

- Brazil — climate change and disaster mitigation
- Russia — water resources and pollution treatment
- India — geospatial technology and applications
- China — new and renewable energy, and energy efficiency
- South Africa — astronomy.

A first matter is to make sense of the choices. Clues can be found by assessing the STI “grand challenges” that each country has declared (Brazil describes these as strategic areas). A literature scan indicates the following challenges:

Brazil: biotechnology, nanotechnology, energy, ICT, health, biodiversity and the Amazon, climate change, space science, national security [MST, 2007; Brazil, Ministry of Science and Technology, 2007]
- Russia: energy, nuclear, space science, health, strategic information technology [Meissner, Gokhberg and Sokolov, 2013]
- India: sustainable agriculture, health care, energy, transport and infrastructure, environment, inclusion, space STI [McGrath, Horvath, Baruch et al., 2014]
- China: biotechnology, food security, new energy sources and materials, clean energy vehicles, climate change and environment [McGrath, Horvath, Baruch et al., 2014]
- South Africa: biotechnology, renewable energy, climate change, space STI, poverty alleviation [South Africa, Department of Science and Technology, 2008].

A comparison with Table 2 shows direct overlaps for Brazil, India and South Africa, but less overlap for China and Russia.

The focal areas for Brazil, China and South Africa match the already declared grand challenges or strategic areas. So Brazil has a long tradition of research on Amazonian weather systems and their role in climate change. The country is also experienced in the management of large-scale weather-driven disasters. China, faced with severe pollution in its major cities is now the world leader in photovoltaic energy systems, and is working on clean vehicle technologies. Allocating astronomy to South Africa’s aligns with the award of the SKA, and its established work in optical and radio astronomy. China and India are also members of the SKA Organization.

At first sight however there is no clear overlap for Russia or for India. One might speculate that Russia’s problems with the pollution of Lake Baikal and the Aral Sea could equip it to lead research in water pollution. India is strong on software development including in geographic information systems, both of which would equip it to work on geospatial technology.
All at Sea: STI and Geopolitics

The BRICS is a powerful economic, political and science producing bloc. The O’Neill conjecture retains its merit, but contrary to his view, South Africa — the dominant power in Africa — belongs at the main table. The last quarter century saw a shift from the bipolar Cold War to a short period of United States hegemony. A new world disorder is now in the making where various regional superpowers are asserting dormant territorial claims, with uncertain consequences. The Black Sea, South China Sea, Indian Ocean, South Atlantic and Arctic Ocean are all becoming militarized. Old maps are brandished to question boundaries that have blurred with time. John Kenneth Galbraith [1977] might have been optimistic in suggesting that the world was entering an age of uncertainty.

Global science is dealing with its own sea changes. As Hugo Hollanders and Luc Soete [2010] note: “We seem to be on the verge of a structural break in the pattern of knowledge contribution to growth at the level of the global economy. This is also reflected in the arrival on the world scene of large, multinational firms from emerging countries … [that] are increasingly opting for cross-border mergers and acquisitions to secure technological knowledge overnight.” China in particular is poised to become the largest economy and largest producer of scientific publications.

As to intra-BRICS cooperation in science, the publication data attest to this being more rhetoric than reality. The five BRICS countries each engage in much higher levels of cooperation with the centres of science production in the United States and European Union than with one another. Even so, much of this cooperation with the US and EU is unidirectional. South Africa has the highest rate of international co-publication among the five BRICS members.

The Cape Town Declaration on STI was surely based on good intentions, but it has yet to be ratified, and there is no budget on the table. It might well go the same way as the IBSA STI Agreement — good in theory, yet hard to manifest in practice.

The principals of the BRICS Declaration might therefore wish to move beyond rhetoric and factor in the realities of the new invisible college of science. This would require acknowledgement of the central value of the U.S. and EU to global science production as shown in the proliferation of collaboration among the BRICS-U.S.-EU scientific communities. It would make sense for activities in the five proposed focal areas to be open to participants from the U.S., EU and other countries. Including the invisible college will strengthen all participants.

References


BRICS Members’ Interests and Priorities for Cooperation

The Institutional Status of the BRICS and Pragmatic Cooperation: The Case of South America

E.P. Contipelli, S. Picciau

BRICS (Brazil, Russia, India, China and South Africa), a group of emerging powers, is a pragmatic political group in which members are not always in agreement. Internal cooperation in BRICS evolved, becoming more “institutional” with the creation of its financial institutions, the New Development Bank (NDB) and the Contingency Reserve Agreement (CRA), which have led the group to the next stage in its development without changing its essence. The NDB was created to mobilize resources for infrastructure and sustainable development projects in emerging and developing countries, and the CRA to provide liquidity to countries that face balance of payments difficulties and to future economic crises. Many developing countries are keenly observing these financial institutions. A number of South American countries appear particularly interested in these financial institutions, and would like to attract investments and obtain loans from BRICS to develop the infrastructures of their countries, and to build informal relationships with foreign partners, but without the same level of political commitments as those between BRICS members. South American countries see BRICS as an example of pragmatic cooperation that is different to the modus operandi of traditional powers, and its financial institutions as an alternative to the International Monetary Fund and World Bank for financial aid. The relations between BRICS and South America are characterized by a pragmatic approach reflecting the ethos of the group and the necessity for modernization in South America. This article analyzes the particular relationship that BRICS is establishing with South American countries, using its institutional status and pragmatic approach.

Key words: BRICS, pragmatic cooperation, emerging powers, New Development Bank, South America

Introduction

Globalization has led to new forms of cooperation influenced by economics of demand. BRICS (Brazil, Russia, India, China and South Africa) is an example: a heterogeneous group of emerging countries that operate in a pragmatic way to develop common interests through joint actions.

Since 2009 – the time of the first BRICS summit – BRICS has been characterized by an informal structure. In 2011, South Africa joined, giving the group more political power. At
the sixth summit (in 2014), the creation of the NDB and the CRA represented a formalization of the group to satisfy their economic interests and compete with the traditional hegemonic powers.

Many developing countries are keenly observing these financial institutions. South American countries appear particularly interested them and would like to attract investments and obtain loans from BRICS to develop the infrastructures of their countries. The relationship between BRICS and South America is characterized by a pragmatic approach, reflecting the ethos of the group and the necessity for modernization in the South American region. This article analyzes the pragmatic strategy of BRICS and how it develops its relationships with South American countries.

Institutional Models and Pragmatic Cooperation: The Rise of Emerging Powers

As a product of history, the international order is influenced by several factors, from culture to economy, and political and social issues that demand different forms of structures adapted to changing relationships. Therefore, there is a constant evolution in institutional forms to adjust international relations and related organizations to each period of history.

Cox [1981, p. 219] demonstrated the strategic role of institutions for the establishment of a particular global order: “Institutionalization is a mean of stabilizing and perpetuating a particular order. Institutions reflect the power relations prevailing at their point of origin and tend, at least initially, to encourage collective images consistent with these power relations. Eventually, institutions take on their own life; they can become a battleground of opposing tendencies or rival institutions may reflect different tendencies. Institutions are particular amalgams of ideas and material power which in turn influence the development of ideas and material capabilities.”

Modern institutional forms of international organizations, that is with a high level of formalism, started to evolve after World War II, when treaties were signed to establish strict and clear rules to engage a large number of countries in a global system.

Globalization, which started to develop in the 1980s, changed this established order, generating new forms of complex international cooperation. Sometimes, international cooperation touched upon the integrity of the national sovereignty of states, as in the case of regional integration. The most important example is the European Union, which historical factors, such as the fall of the Berlin Wall, strengthened, and which has accelerated and expanded the integration process in Europe as a response to the unilateralism of the United States.

By the end of 20th century, globalization had led to the emergence or re-emergence of new actors in the global economy known as “emerging powers.” These countries are challenging the political and economic hegemony of the Western powers that used to determinate the global order. The rise of the emerging powers has challenged the traditional model of international cooperation with the appearance of informal and flexible multilateralism determined by political and economic pragmatism, as is the case with BRICS. This informal flexibility was reinforced by the economic and financial crisis of 2008 that profoundly affected the U.S. and the European Union, and showed their weakness in the face of rising powers, such as BRICS and others, such as MINT (Mexico, Indonesia, Nigeria, Turkey) and CIVET (Colombia, Indonesia, Vietnam, Egypt, Turkey).

The new global order, or disorder, characterized by the rise of emerging powers, and its current architecture has led to so-called forum shopping, in other words, the presence of multiple centres of international dialogue strategically elected by the actors to support their domestic
agenda [Forman and Segaar, 2006]. The main consequence of this political behaviour is the inefficiency in relation to dealing with global issues such as climate change, natural resources provisions, poverty and social inequalities, peace and military proliferation [Ruland, 2012]. As the United Nations General Assembly [2002] stated, the numerous meetings organized by intergovernmental organisms has increased considerably and it is clear that discussion on global issues is now overcharged with meetings, thus leading to “summit fatigue.”

Despite the affirmation of an ideological pluralism, the diversity and complexity of forum shopping causes instability at the international relations level, impacting negatively on the establishment of global governance that requires more compatibility between national interests, interdependence and solidarity. This form of cooperation makes new relationships possible between diverse countries that have different geographic, social and political stances, but pursue a set of common interests. The demand for international joint actions, especially in the economic field, and the informal models of collaboration, are redistributing global power.\footnote{One of the many examples of the redistribution of global power is the enlargement of the G7 into the G20. While the G7 was formed by a selected group of the richest nations of the world, the G20 now includes the main emerging powers, for example Brazil, Russia (previously admitted to the G8), China, India, South Africa.}

Institutional Status of BRICS

The rise of a new paradigm in the global order, forced by the economic and financial crisis, enables some countries to open spaces for their participation at the international level, for example BRICS, MINT and CIVET, as mentioned above. Banks created these groupings, based on economic indexes and predictions. The groups and their acronyms are familiar and commonly used in international political language, and are adopted by the countries to develop common interests through joint actions.\footnote{In particular, the acronym BRIC was created by the Goldman Sachs Bank economist, Jim O’Neill [2001], to describe the group of emerging countries formed by Brazil, Russia, India and China that would dominate the future of the world economic system and restructure the global order.}

It is clear that BRICS plays a more significant role in the global economy and on world’s political stage than the other groupings of emerging economies.\footnote{A point of interest is the existence of certain hierarchical relationships between these categories. The BRICS group receives greater attention in international discussions because it is formed of countries with considerable political weight, extensive territorial dimensions, and large populations, and is an already-consolidated regional area of influence. For example: in MERCOSUR, Brazil leads South America; in the Euroasiatic Community, Russia has political influence in the ex-Soviet Republics; China has a consolidated zone of economical influence in Southeast Asia and India in South Asia. South Africa continues to expand its influence throughout sub-Saharan Africa. And the MINT and CIVET groupings aspire to a more active position in the international scene and to become protagonists in their respective regions.} According to Goldman Sachs’ report “Dreaming with BRICs: The Path to 2050,” the economies of Brazil, Russia, India and China could, if combined, become larger than those of G6 (Britain, U.S., Germany, Japan, Italy and France) in less than 40 years [Wilson and Purushothaman, 2003].

Since the birth of the BRIC acronym, the leaders of these countries have had the political will to establish cooperation between themselves in order to deal with common interests. During the first BRIC summit, which was held in Yekaterinburg, Russia, on 16 June 2009, the will was consolidated with the signing of a statement of intention to adopt a common plan of action in the traditional international organizations with the objective of sharing power with Western countries, namely the U.S. and the European Union. One year later, during the second summit, in Brasilia on 16 April, the four leaders discussed important themes such as global governance and climate changes. The third summit, in Hainan, China, on 14 April 2011, was marked
by an important event: the admission of the fifth member, South Africa. The acronym changed from BRIC to BRICS, and this summit demonstrated the strength of the group with the extension of its political and economic power to the African continent.

The fourth BRICS summit took place in New Delhi on 29 March 2012, and amplified the main themes discussed in the past summits. It was characterized by a strong criticism of the then current global order and the function of international organizations, such as the World Bank the International Monetary Fund (IMF) and the United Nations Security Council (UNSC), especially in relation to the representation of developing countries. The Chinese leader Hu Jintao stated: “We are committed to stepping up exchange with other countries on global economic governance reforms and increasing representation of developing countries” [Vasudevan, 2012]. This summit was also a pioneering step toward the institution of a BRICS-led development bank which was the main focus of the fifth summit in Durban, South Africa, on 26 and 27 March 2013. The fourth summit was considered as the end of the first circle of meetings to construct BRICS. The discussion centred on procedural issues in relation to the creation of the NDB, in particular accordance on the quantum of start-up capital, the participation of each country, and the objectives of the NDB.

At the sixth summit, held in Fortaleza, Brazil, on 14 to 16 July 2014, arrangements for the NDB were completed and the institution was officially launched. In addition, the CRA gave BRICS the framework for more formal cooperation. At the Brazilian summit the leaders of the BRICS countries met the representatives of UNASUR (Union of Southern Nations) and discussed their many shared interests.

A New Chapter in BRICS Cooperation: The Establishment of the New Development Bank and the Contingency Reserve Agreement

The sixth summit was a new chapter in the relationships between the countries as it elevated the level of cooperation from that of a lobby group to that of a more organized entity able to deliver solutions. The results of this summit established a new path for emerging powers led by BRICS. The reason behind the decision to launch a multilateral development bank is, according to its founders, to contribute to “a more just world order” by following one of the main topics of the BRICS agenda — “growth with social inclusion.”

Certainly, this political choice could be interpreted as the intention of the BRICS countries to boost their influence in the international community, to represent an alternative option to the current Western-dominated institutions and to seek the reform of the international monetary and financial system. As stated in the 2014 Fortaleza Declaration: “We remain disappointed and seriously concerned with the current non-implementation of the 2010 International Monetary Fund reforms, which negatively impacts on the IMF’s legitimacy, credibility and effectiveness” [BRICS, 2014a].

The NDB was created to mobilize resources for infrastructure and sustainable development projects in emerging and developing countries. Another important initiative in the field of finance is the establishment of the CRA to provide liquidity to countries that face difficulties

---

4 The first article of the Agreement of the Development Bank asserts this concept: “The Bank shall mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development” [BRICS, 2014b].
in their balance of payments, and to head off future economic crises. In other words, poor countries have an alternative to IMF and World Bank for financial aid.

Based in Shanghai, the NDB will have an initial capital of $50 billion funded equally by each party. The first president will be from India, the first board chair will be Brazilian and an Africa Regional Centre will be established in South Africa to guarantee a balance of power between the members. In the CRA, China is expected to participate with the biggest contribution, $41 billion, followed by Brazil, India and Russia with $18 billion each, and $5 billion from South Africa.

Based on statements in the constitutive agreement, the NDB is intended to be a powerful instrument for increasing economic cooperation in BRICS. Despite their diversity, participating countries are committed to a solid and productive association to enable a diversification of their investments and enhance their prosperity.

The launch of these financial institutions has caught the attention of governments of developing countries, especially those in South America. South American countries are currently interested in attracting foreign investment to develop their infrastructures and to build more informal relationships with foreign partners, but without the same level political commitment. South American countries see BRICS as an example of pragmatic cooperation that is different to the modus operandi of traditional powers.

BRICS and Its Influence in South America

Despite Brazil playing a particular role as a “leader” in South America because of its geographical proximity to many countries and its engagement in the regional integration, China and Russia are increasing their presence in the region. The South American continent can satisfy their needs, because of its abundance in natural resources and its growing middle-class high purchasing power necessary to sustain their economic development.

It is true that BRICS as a group speaks about South America as a common area of interest as the BRICS-South America Summit organized during the sixth BRICS Summit in Fortaleza indicates. However, in reality, each member pursues its own strategy in the region, and sometimes the strategies conflict with those of other members. Brazil accusing China of dumping low-cost products in its country is an example.

Around the time the BRICS Summit in Fortaleza, the Chinese and Russian leaders, Xi Jinping and Vladimir Putin, visited some strategic partners in Central and South American countries to strengthen their political and economic relationships. South American countries that want to take advantage of this investment model converted themselves into political allies in international affairs, including supporting Russia during the Ukraine crisis.

Because of their proximity to and relationships with the U.S., Chile, Colombia and Peru supported the UN Resolution adopted on 27 March 2015 — Territorial Integrity of Ukraine — that condemned Russia’s action; it was rejected by Venezuela and Bolivia, and Brazil, Argentina, Ecuador, Uruguay, Paraguay, Suriname and Guiana abstained because of their interest in gaining financial advantages from Russia and its economic presence in the region.

---

5 The Contingency Reserve Agreement “is a framework for the provision of support through liquidity and precautionary instruments in response to actual or potential short-term balance of payments pressures” [BRICS, 2014b].

6 One example of this pragmatic formula of cooperation is given by Niall Ferguson, who reported a statement of a Chinese leader concerning China’s foreign policy strategy in Africa: “we will build up roads, and certain facilities for you, but you make sure that we will have access to the commodities and primary resources. As to your domestic politics and human rights you do whatever that you like” [from Global Business, 2010].
China, the second largest economy in the world, plays a central role inside BRICS and also in international politics. The Chinese influence in South America was almost absent until the 1980s. In the 1990s, its influence on the continent slowly increased until it reached a high level of influence under the leadership of Hu Jintao. In 2014, the Chinese leader Xi Jinping paid two official visits to South America, demonstrating the importance of this region for China. Not only are there diplomatic relationships through the multilateral channel of BRICS, but also through bilateral ties, such as the China-CELAC forum (Community of Latin American and Caribbean States) which was launched in Beijing in January 2015. “China will make efforts so that both sides can reap early harvests from the forum and build a new model of South-South cooperation,” said the Chinese foreign minister Wang Yi in a speech during the forum, highlighting Beijing’s growing interests in the backyard of the U.S. Xi Jinping opened the forum announcing an investment of $250 billion in Latin America over the next decade.

In South America, Argentina is specifically developing a stronger relation with Russia. During Putin’s last visit, a cooperation agreement was signed with the President of Argentina, Cristina Fernández de Kirchner, in relation to energy for the construction of two nuclear stations by the Russian company Rosatom. Argentina also wants to attract Russian investments, in particular, the company Gazprom, to explore shale oil and gas fields in the Vaca Muerta region. These economic interests reflect on political affairs. Vladimir Putin considers Argentina as a strategic partner for Russian foreign investments and stressed its importance not only in Latin America, but also at the international level in the framework of G20 and the United Nations.

Chinese interests toward South America are based on a clear strategy. South American countries supply China with natural resources, such as oil (Venezuela), meat (Argentina), soybean (Brazil and Argentina), copper (Chile and Peru), in exchange for loans with low rates of interest. In some cases, these loans are repaid directly with commodities. For example, since 2007, China has granted Venezuela $50 billion of credits, and a significant part of this loan is being repaid with barrels of crude oil and derivatives which Venezuela sends daily to China. This type of cooperation is seen by some analysts as a danger for Latin American economies because they are becoming more and more dependent on the exportation of natural resources [Contipelli and Picciau, 2014].

Argentina is a crucial player in the political game that involves the pragmatism of BRICS in the region. Currently, there is a discussion led by India about the possibility of extending membership in BRICS to Argentina. If this possibility became reality, what would be the new acronym? Would it be BRICSA or BRICAS? Argentina participated as a special guest at the last BRICS summit, invited by Russia, and its increasing cooperation at the bilateral level with China, Russia and India gives the country an opportunity to join the influential group, and to leave behind the 2001 catastrophic financial collapse that led to its decline of its influence in the international arena.

In this context, Argentina seems to feel comfortable with the BRICS approach, as the recent trade agreements signed with China shows. The Convenio Marco de Cooperación en Materia Económica y de Inversiones could affect the intra-MERCOSUR relationships, especially with Brazil. The agreement will help to build infrastructure projects in Argentina; in
particular, two hydroelectric dams are planned for construction in Patagonia with the help of a loan of $4.7 billion from China. Another $2.1 billion loan will be used to build a railroad connecting Argentina’s agricultural areas to its ports, to more efficiently transport grains; China is the largest buyer of Argentinian soybeans.

Many analysts argue that Argentina, by signing this trade agreement with China, is ignoring its historical partnership with Brazil inside MERCOSUR. Argentina is following its own interests and looking to increase its economic relationship with China and to attract foreign investments, especially, by the production of Chinese manufactured-products in Argentina, which will reduce the competitiveness of Brazilian industry in the same sectors [Passos, 2015]. China appears to be unconcerned about its relationship with Brazil, which demonstrates the political philosophy of BRICS in a globalized economy: we are together but each one of us is free.

It is clear that, in addition to its increasing engagement with Russia and the substantial influence of Brazil in the region, China is the uncontested leader of BRICS. South American leaders, conscious of this reality, are developing a foreign policy to strategically flirt with China in order to attract more investments. The Vice President of Argentina, Amado Boudou, stated that “relations between China and Argentina will continue to grow for the benefit for our people ... it is not a simple buyer or trade partner but a strategic partner to work together and have an egalitarian world,” revealing the tendency of South American governments to use populist statements to sustain the new South-South development cooperation and the necessity of financial support from China [Ugarte, 2014].

Expectations about the New Development Bank

One of the main expectations of the South American countries about BRICS is the activities of the NDB in their region. The launch of the NDB is a political strategy of BRICS that fits with the current needs of developing countries’ demands for modernization and need to build national infrastructures.

As mentioned above, BRICS is interested in offering unconditional development loans in exchange for control of South American resources and increasing its political influence in the international order. In short, the NDB is a way to establish strong and lucrative relationships in South America without confronting the U.S. directly. In many discussions, the establishment of NDB has been envisioned as a way to subvert the hegemony of the U.S. dollar in the financial world. However, it is important to consider the fact that the official currency of payment in the NDB, and the CRA, will be the U.S. dollar, as stated in their founding agreement.

Finally, the creation of these financial institutions by BRICS cannot be seen as an attempt at political confrontation with the U.S., for it is not the main point of the strategy of BRICS. The Cold War has ended and the philosophy underlying the behaviour of the political actors in the current international context appears more and more concerned with being pragmatic rather than ideological.

South American countries have already experimented with the creation of a development bank in the region – the Bank of the South (Banco del Sur). The Bank of the South was proposed by the ex-Venezuelan President, Hugo Chavez, and supported by Joseph Stiglitz, both very well known for their criticism of the traditional financial institutions, the IMF and the World Bank. The Bank of the South was created in 2009 with similar objectives to those of the NDB (sustainable social programmes and infrastructure) but ideological purposes have changed in some ways. The institution exists only as promise, not as a reality, because of the
difficulties in establishing a political and a juridical consensus between its partners Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela.

It is too early to predict the benefits of the NDB for South America, and how the relationships between the region and BRICS will develop. Currently, most of the South American leaders see the NDB as an opportunity for national development. The NDB’s next steps will show if the pragmatic functioning of BRICS is able to overcome the impasse that affects the Bank of the South.

Conclusion

BRICS presents a set of coinciding interests, as well as cultural and political diversities, thereby demonstrating the operation of the group: converting its diversity into intra-group cooperation to overcome controversial issues and strengthen common interests, particularly where structural and formal conditions are not required as a substantial element of cooperation. Because of the diversity and contradictions, the existence of BRICS is a triumph for its country members, but the group as a political player on the international scene is still an actor under construction that little by little shapes its own pragmatic strategic profile.

Thus, until the fifth summit, informality was the basis of BRICS cooperation. In the sixth summit, the group drew its political profile with more distinctness, binding its members with some institutional ties with the creation of the NDB and the CRA. The launch of these financial institutions was the occasion to self-formalize the intention to compete strongly with other traditional players in the global system, especially as a possible counterweight to western-led financial institutions.

For South American countries, the presence of a regional power, Brazil, in BRICS, the strong relationships they are currently developing with China, and the creation of the NDB could help an attempt to obtain financial aid to solve their infrastructural problems. Of course, BRICS wants a counterpart from South American governments in exchange for loans: the control of natural resources and the conquest of new markets for their products. In this particular economic and political game, it is possible to perceive the strategy of the BRICS countries: when it comes to pursuing their own interests, member countries leave behind the collectivity of the group, even when their actions are not welcomed by their partners.

This functioning of the BRICS group could be criticized if a parameter of analysis is the functional logic of “homogeneity” and “no controversial” political relations. However, in this case, pragmatism is part of the framework that sustains the existence of the group, and it appears to fit with the Chinese foreign policy model. As the former president Deng Xiaoping said: “It doesn’t matter whether the cat is black or white, as long as it caches mice.”

References


Another “Brick” in the Wall? Brazil’s Quest for Relevance in Global Governance

M. Rewizorski

Marek Rewizorski – Assistant Professor, Institute of History and Political Science, Pomeranian University; ul. Arciszewskiego 22A, 76-200 Słupsk, Poland; E-mail: marcuser@o2.pl

Brazil, Russia, India, China, South Africa (BRICS) and other powerful emerging economies now at the table are gaining strength, which raises a question of whether a more multilateral era of governance is emerging. In other words, has a new multilateralism been launched? The strong economic performance of Brazil, one of the BRICS pillars, since the turn of the century has been overshadowed by China’s and India’s. Yet Brazil was an excellent place to invest during the first decade of the 21st century. Questions remain, however: How does Brazil stack up against the other BRICS members? What is the key to unlocking its growth potential? Do deep infrastructure deficiencies and a relatively slow rate of economic growth compared with the breakneck growth rates in India and China allow Brazil to be in the same category as the other BRICS (especially China and India)? Is Brazil economically mature enough to increase its role in the global governance institutions such as the World Trade Organization, the International Monetary Fund and the G20, or is it merely an economically overestimated regional power with high ambitions? Has Brazil any comparative edge over western and non-western competitors? Is it “politically underestimated”? This article explores these issues first by giving an overview of the development of the BRICS. Second, it points at the simultaneous economic, external expansion of the Brazilian economy and its internal underinvestment in infrastructure, which, instead of leading to a booming economy and unlocking Brazil’s potential, has, de facto, blocked it. Third, it analyzes the quest for power of both Brazil and the BRICS in the global governance institutions. The final section presents the main findings and conclusions.

Key words: BRICS, Brazilian economy, infrastructure, global governance, institutions

Introduction

The last decade saw how the BRICS group of Brazil, Russia, India, China and South Africa have made their mark on the global economic landscape. The acronym “BRIC,” without South Africa, originated in a 2001 Goldman Sachs report [O’Neill, 2001]. When South Africa was invited by China to become the fifth member of the group in 2010, the process of the group’s institutionalization accelerated, and the BRICS began to be perceived as a real and alternative power that the West would soon reckon with. The term gained broader recognition thanks to a 2003 paper titled “Dreaming with BRICs: The Path to 2050” by a group of economics at Gold- man Sachs [Wilson and Purushothaman, 2003]. The thesis of the report was that the BRIC countries may well eclipse many of the richest countries of the world by 2050 and become the four leading global economies. The Goldman Sachs analysts predicted that China and India would become the dominant global suppliers of manufactured goods and services respectively, and Brazil and Russia would become similarly dominant as suppliers of raw materials. Indeed, the BRIC economies have become the engines of global growth, affecting everything from the price of oil and iron to yields on U.S. Treasury bills. According to the report, these four countries had the potential to be among the world’s seven largest economies by 2050, with the Bra-
zilian economy potentially eclipsing Italy’s by 2025, France’s by 2031, and those of the United Kingdom and Germany by 2036. When Goldman Sachs reassessed the BRIC’s progress in 2005, it found that China could be the world’s largest economy by 2050, India third (behind the United States), Brazil fifth (behind Japan), and Russia seventh (after Mexico) [O’Neill, Wilson, Purushothaman et al., 2005]. The growth potential of the BRICS countries was confirmed in 2012, when the Brazil, Russia, India, China and South Africa accounted for 42% of the world’s population, 18% of the world’s production and 15% of the world’s trade, and their contribution to global economic growth exceeded 50% [Cooper and Thakur, 2013, p. 11]. According to some forecasts, in 2040 the BRICS countries will reach the level of the rich G7 countries in terms of production, and by 2025 there will be a change in the order of the largest economies in the world [U.S. National Intelligence Council, 2008, p. 7].

A broad debate concerning all BRICS members was opened when these countries embarked on a course of fundamental reforms during the 1980s and 1990s that transformed their economies and succeeded in boosting growth, largely by stimulating greater private-sector activity. By the late 1970s and early 1980s, the various economic models had either failed after a relative period of success (Brazil, Russia) or the realization had emerged that the models had never worked in the first place (China, India). Economic or political crises acted as crucial catalysts for reform and allowed political leaders to push through important reforms. It was a combination of economic reforms aimed at “more market” and “less state” that helped lift growth. A closer look at Brazil, as one of the members of BRICS, reveals that its transformation since 1995 has been less dramatic, but its strong economic performance since the turn of the century has been overshadowed by China’s and India’s. Yet Brazil was an excellent place to invest in the first decade of the 21st century. The Bovespa stock market index outperformed the other four BRICS stock markets, as Brazil managed to avoid a major sell-off in 2008. There are, however, questions: How does Brazil measure up against the other BRICS? And what is the key to unlocking its growth potential? Do its deep infrastructure deficiencies and relatively slow rate of economic growth compared with the breakneck growth rates in India and China allow for it to be in the same category as the other members of the BRICS (especially China and India)? Is Brazil doing enough to secure its proper standing in the global governance institutions such as the World Trade Organization (WTO), the International Monetary Fund (IMF) and the G20?

The analysis in this article is conducted in the context of the financial crisis, which weakened western control of international societies. Hedley Bull [1984, p. 124], in his old but still relevant analysis, stressed that the economic and political awakening of the most powerful developing countries launched their “revolt against the West” to obtain equality and independence in international society. In that context, can Brazil, pursuing a more active industrial and financial policy, catch up to China and India? Is Brazil economically mature enough to increase its role in the international political economy or is it merely an economically overestimated regional power with high ambitions? Has it any other comparative edge over western and non-western competitors? Is it politically underestimated?

In seeking answers to these questions, this article starts by analyzing the simultaneous economic, external expansion of the Brazilian economy and its internal underinvestment in infrastructure. The next section examines Brazil’s “quest for power” in global governance institutions. Attention is also drawn here to the developments in Brazil’s foreign policy (the case of the European Union–Mercosur negotiations and the interests of Brazil), and its political importance on the global political level. The final section presents the main findings and conclusions. The author uses critical global political economy, focusing on the unevenness of the international system and its consequential structural hierarchies of the distribution of inequalities and injustice in geo-economic and geo-political power [Peterson, 2003, p. 3]. This approach
is particularly useful to explore the boundaries of the state or states in an organized form either as a group or as a more committed organization in its current context, its historical dynamics and the process of social change. It also analyzes these phenomena through empirical evidence and focuses on the interplay of domestic and international agents and structures. Therefore, the analysis here seeks to explain the interrelated variables and the effects of Brazil’s rise, as well as its insertion into global (economic) governance.

An Emerging or Overestimated Economy?

Brazil is the largest country in South America and the fifth largest country in the world in terms of geographical area. It is bounded by the Atlantic Ocean to the east and enjoys a coastline of more than 7,400 kilometres. The country is bordered on the north by Venezuela, Guyana, Suriname and French Guiana, in the northwest by Colombia, on the west by Bolivia and Peru, while Argentina and Paraguay make up the southwest borders. Uruguay borders Brazil to the South. Brazil is the fifth most populous country in the world, being home to more than 190 million [Economy Watch, 2011]. Its economy is still rising, with ambitions to become the world’s fifth largest.

Table 1: Biggest Economies in the World in 2014 (nominal gross domestic product)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Economy</th>
<th>U.S. dollars, millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>16,768.100</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>9,240.270</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>4,919.563</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3,730.261</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>2,806.428</td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
<td>2,678.455</td>
</tr>
<tr>
<td>7</td>
<td>Brazil</td>
<td>2,245.673</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>2,149.485</td>
</tr>
</tbody>
</table>

Source: World Bank [2014b].

Table 1 lists the major world economies, including two members of the BRICS — China and Brazil. Brazil, with a gross domestic product (GDP) of more than $2.245 trillion in 2014, overtook Italy to rank as the world’s seventh-biggest economy [World Bank, 2014a]. Income per capita in Brazil has surpassed that in Mexico. Senior Brazilian officials have expressed good prospects for the future. In 2011 finance minister Guido Mantega, having positioned Brazil in the world economic system, recognized that his country had grown fifth fastest of the G20 countries in recent years, adding that if its GDP were calculated according to purchasing power, it had overtaken Britain and France too [Economist, 2011b]. However, converting currencies by purchasing power, rather than market rates, is useful when comparing living standards in different countries. In these terms Brazil is far from the fifth economy in the world.

In fact, the main risk of negative growth of the Brazilian economy is strong pressure exerted by trade unionists, opposition politicians and even some members of governing coalition. These groups, in opposition to the “overcooling policy” introduced by President Dilma Rousseff, try to discount that Brazil is booming and are demanding a large increase in the minimum
wage. In this context they often refer to the policy of the previous president, Luiz Inácio Lula da Silva, who in the eyes of many Brazilians emerged as *primus inter pares*, as he was born in poverty and, with almost no formal education, worked at a sheet metal plant. On the one hand, during Lula’s eight years in office, minimum wages were boosted by around 60%. On the other hand, as the former president of the metalworkers union, he maintained the sound approach of his predecessor – Fernando Henrique Cardoso – which included a floating exchange rate, budget surpluses (before debt payments), inflation targeting and an independent central bank.1

Initially Rousseff decided to get a grip on government spending. In February 2011, she passed the initial test in the Brazilian Congress, preventing a significant increase of the minimum wage. In fact, it has risen from 510 reais a month to just 545 reais, barely outpacing inflation [Economist, 2011a]. Nonetheless, the next years brought significant increases in the minimum wage despite the criticism of many economists who believed the hikes outpaced the levels of productivity and fuelled inflation. The increases reached 14% in 2012, 9% in 2013 and 6.8% in 2014 to 724 reais ($310) per month [Reuters, 2013]. In February 2015, the minimum wage reached an all-time high of 788 reais [Trading Economics, 2015]. This increase added pressure to Brazil’s fiscal accounts, since the government increased public pensions in tandem with the wage increases. However, increasing government spending did not produce cuts in social programs, such as the Bolsa Família, a cash benefit for 12 million poor families, or in infrastructure spending. Those extra expenditures were essential for Brazil to avoid embarrassment before hosting the World Cup in 2014 and the Olympics in 2016 and, more importantly, to sustain economic growth in the long term.

Brazil upgraded its infrastructure, fastened in 2012, when the government launched a range of initiatives to reduce energy costs, restructure oil royalty payments, strengthen investment in infrastructure through foreign participation and reform the value-added tax. The Brazilian government cooperated with many international institutions including the International Bank for Reconstruction and Development (IBRD). In September 2013, the IBRD financed 82 active projects in Brazil, with a total of $9.1 billion in commitments. Another 23 global environmental projects, including carbon finance, guarantees and recipient-executed projects, were also active, totalling $320 million in grants and guarantees [World Bank, 2014b]. However, the Brazilian infrastructure, described by Bernardo Figueiredo of the country’s Planning and Logistics Agency as an “opportunity to unlock growth,” is still in a poor state [Economist, 2013]. A special report in The Economist described Brazil’s infrastructure as a “road to hell.” The report said that only “1.5% of Brazil’s GDP goes on infrastructure investment from all sources, both public and private. The long-run global average is 3.8%. The McKinsey Global Institute estimates the total value of Brazil’s infrastructure at 16% of GDP. Other big economies average 71%. To catch up, Brazil would have to triple its annual infrastructure spending for the next 20 years” [Economist, 2013]. In this regard, the country is lagging behind such BRICS members as India and China and behind transition economies such as Poland. Infrastructure, which should be helping the booming Brazilian economy and unlock its potential, is de facto blocking it.

---

1 Brazil’s economic transformation began with the Cardoso’s election in October 1994. As minister of finance he had introduced a plan to curb the hyperinflation that for decades had been the single most destructive force in Brazil’s political economy. In June 1994, he introduced the Plan Real, which pegged the Brazilian real to the U.S. dollar. The success of his financial reforms opened the way to his presidency, and he “continued to fight inflation, reduce public sector spending, reform social security and lower taxes” [Bradley, 2008]. After a constitutional amendment in 1998 to allow for a second presidential term, he was re-elected. He successfully steered his country through the financial crisis of 1997–98 through “painful fiscal discipline, draconian interest rates, a 40% devaluation of the currency and a large loan from the IMF.” Unlike its neighbour Argentina, Brazil did not default on its international debt.
Despite domestic challenges concerning economic growth, Brazil’s economy is the largest in South America and the country boasts well-developed agriculture, mining, manufacturing, and service sectors. Since 2003, it has improved its macroeconomic stability, built foreign reserves, reduced debt, kept inflation rates under control and is committed to fiscal responsibilities. The Brazilian economy flourished under Lula’s leadership. International reserves exceeded $200 billion, and unemployment in September 2008 was at its lowest in ten years, with the jobless rate 7.6% compared to 9% in September 2007 [Foreign Affairs, 2009, p. E1]. Brazil’s total workforce, according to 2009 estimates, was 95.2 million [Economy Watch, 2011]. The unemployment rate dropped from 7.4% in 2009 to 5.5% in 2014 [U.S. Central Intelligence Agency (CIA), 2015]. Per capita GDP increased from $10,300 in 2008 to $12,100 in 2013 [CIA, 2013].

Given the crisis Brazil had recently experienced, the decent performance of its economy was possibly due to the contagion effect of the 1998 Asian financial crisis, a collapse in investor confidence and a mass investment withdrawal followed by the devaluation of the real in January 1999 — “stability rather than high growth has been the economic policy priority” [UK House of Commons, 2007]. In the mid 2000s, the target for annual growth was 4%–4.5%; however, the Brazilian economy underperformed, and grew by 2.9% in 2006. Growth successfully rose above 5% in 2007 (5.7%) and 2008 (5.1%), but the slowdown negated the positive trends in GDP growth, levelling it to −0.7% in 2009 (see Table 2).

Table 2: Economic Output in Selected G20 Countries (annual % change, 2007–09)

<table>
<thead>
<tr>
<th>Country/Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2007–09 slowdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>5.7</td>
<td>5.1</td>
<td>−0.7</td>
<td>−6.4</td>
</tr>
<tr>
<td>China</td>
<td>13.0</td>
<td>9.0</td>
<td>8.5</td>
<td>−4.5</td>
</tr>
<tr>
<td>France</td>
<td>2.1</td>
<td>0.7</td>
<td>−2.4</td>
<td>−4.5</td>
</tr>
<tr>
<td>Germany</td>
<td>2.5</td>
<td>1.3</td>
<td>−5.3</td>
<td>−7.8</td>
</tr>
<tr>
<td>India</td>
<td>9.3</td>
<td>7.3</td>
<td>5.4</td>
<td>−3.9</td>
</tr>
<tr>
<td>Italy</td>
<td>1.6</td>
<td>−1.0</td>
<td>−5.1</td>
<td>−6.7</td>
</tr>
<tr>
<td>Japan</td>
<td>2.4</td>
<td>−0.6</td>
<td>−5.4</td>
<td>−7.8</td>
</tr>
<tr>
<td>Russia</td>
<td>8.1</td>
<td>5.6</td>
<td>−7.5</td>
<td>−15.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.0</td>
<td>0.7</td>
<td>−4.4</td>
<td>−7.4</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.1</td>
<td>−2.7</td>
<td>−4.7</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund [2009].

While Brazil’s growth during the initial years of the financial crisis (2007–09) was higher than in Western Europe, it was consistently below the rate of growth in the dominant BRICS economies of China and India, and comparable to that of Russia and South Africa. This trend continued between 2010 and 2013 (see Table 3).

The economic performance of Brazil and the rest of BRICS, as shown in Tables 2 and 3, exceeded those of developed countries. As observed by Geoffrey Garrett [2010, p. 31], “the emerging world, led by Brazil and India, may one day rise to stand with China as the new powers of the 21st century. But India is at least 15 years behind China and major doubts persist regarding its capacity to match China’s infrastructure miracle of recent decades. Brazil has become a major player, but Chinese demand for Brazilian commodities has been the big story. The distinctly Latin American limitations of the Brazilian economy remain.”
Table 3: Economic Output in Selected G20 Countries (annual % change, 2010–13)

<table>
<thead>
<tr>
<th>Country/Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>7.5</td>
<td>2.7</td>
<td>1.0</td>
<td>2.5</td>
</tr>
<tr>
<td>China</td>
<td>10.4</td>
<td>9.3</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>France</td>
<td>2.0</td>
<td>2.1</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Germany</td>
<td>4.1</td>
<td>3.6</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>India</td>
<td>10.3</td>
<td>6.6</td>
<td>4.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Italy</td>
<td>1.7</td>
<td>0.6</td>
<td>–2.3</td>
<td>–1.9</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
<td>–0.5</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Russia</td>
<td>4.5</td>
<td>4.3</td>
<td>3.4</td>
<td>1.3</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.1</td>
<td>3.6</td>
<td>2.5</td>
<td>1.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.9</td>
<td>1.6</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>United States</td>
<td>2.5</td>
<td>1.6</td>
<td>2.3</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Note: Annual percentage growth rate of GDP at market prices based on constant local currency.


Indeed, despite decent economic performance, Brazil’s GDP fluctuates rapidly. Having recorded growth of 7.5%, Brazil achieved the third highest rate of growth after China and India in 2010. However, it slowed down in December of the same year. In 2011, the Brazilian GDP growth halved to 2.7%. The low level of economic growth was attributed, inter alia, to the lack of public investment. In a comparison of total business spending on fixed assets such as factories, machinery, equipment, dwellings and inventories of raw materials, Brazil ranked 115th with an investment of 18.1% of GDP in 2012 [CIA, 2012]. This structural obstacle to economic growth became evident when compared to other emerging economies. Russia (ranked 66th) accounted for an investment rate of 22% of GDP, India (ranked 23rd) at 29.9%, China (ranked third) at 46.1%, South Africa (ranked 104th) at 19.2%. Mexico, Chile and Brazil’s regional archrival Argentina reinvested more than Brazil [CIA, 2012].

This lack of public investment impedes Brazil’s international competitiveness. The country’s share in world trade fell from 2.2% in 1950 to 1% in 2012. In 2013, its shares in world total exports and imports stood relatively low at 1.29% and 1.33% respectively [WTO, 2014]. The country exported mostly agricultural products (37%) and fuel and mining products (24.2%), with 35.1% of the exports in manufactured goods. The main destinations included the European Union (19.7% of total exports), China (19%) and the United States (10.3%). The declining international markets of Brazilian companies was largely caused by firm, ruthless competition from Chinese competition. On the import side, the bulk of goods were manufactures (72.3%). Again the main import partners were the EU (21.2%), China (15.6%) and United States (15.1%) [WTO, 2014]. Poor competitiveness and lack of public investments are linked with regressive trends in labour productivity. According to World Bank between 1980 and 2012 Brazilian GDP per person employed (in constant 1990 PPP$) increased only by 8.45%, while in a given time it increased in China by 821.45%. Better performance recorded also Brazilian neighbours such as Chile and Argentina, who achieved gains by 61.83% and 24% [World Bank, 2014c]. Low labour efficiency is linked to the poor quality of the Brazilian education system, which does not provide the majority of workers with adequate skills for the labour market. According to the 2006
National Household Sample Survey (Pesquisa Nacional por Amostra de Domicílios), which collected data on current and past school attendance for all household members, regardless of age, only one fifth of Brazilians born around 1980 had attended a university or other institution of higher education [Instituto Brasileiro de Geografia e Estatística, 2006].

With regard to the limitations of Brazil’s economy, the most serious challenge is underinvestment in infrastructure. Less than 25% of Brazil’s roads could be considered good, its railways need modernization and investments are necessary in ports, electricity production and transmission. In 2007, Brazil was investing 1%–1.5% of GDP in infrastructure, but it needed to invest 3.2% to prevent further deterioration in structures and services [Wheatley, 2007a]. At less than 3% of GDP, Brazil’s capital investment levels were “well below the commitments being made by more rapidly growing countries in Asia,” namely China and India [Lapper and Wheatley, 2007]. Meanwhile, this country suffers from “Stockholm syndrome, a love for a state that holds the economy hostage” [Economist, 2006b].

Observers have recommended reducing the size of the state, increasing investment, improving education services, ensuring formal independence for the central bank, reducing import tariffs and simplifying the tax system [Economist, 2006a, 2011a]. One report produced by McKinsey suggested the growth rate of the Asian BRICS members and Brazil could be levelled and Brazil’s growth could rise 7% with a long-term commitment to address the size of its informal economy, reduce government consumption, reform the judicial and public services, and develop its infrastructure [Elstrodt, Laboissière and Pietracci, 2007; see also UK House of Commons, 2007].

On 22 January 2007, Lula announced the Growth Acceleration Program (known as the PAC) [Kingstone, 2007]. It included an investment 504 billion reais on infrastructure including roads, ports, electricity generation and housing from 2007 to 2010. The PAC also included tax incentives for investment, with tax cuts targeted at construction, infrastructure and small businesses; simplified business registration procedures; streamlined issuing of environment licenses; limits on the growth of public spending through a cap on the minimum wage [Economist, 2007; see also Kingstone, 2007; Wheatley, 2007b]. The Brazilian economic stimulus package, based on accelerated growth, rested mainly on monetary policies such as rebates and tax deductions amounting to $3.1 billion in 2007, set to increase to $5.05 billion in 2011 [Economy Watch, 2010]. It was intertwined with building up the infrastructure. An investment of $221.4 billion focused on the transport system and energy sector. However, most of the public transport and communication services in Brazil have been privatized, with prices set by regulatory agencies. For example, the National Petroleum Agency determines the price of airfares and oil processing, which lowers Brazil’s competitiveness with India and China.

Given these deficiencies in the Brazilian economy, despite being significantly developed, it cannot be viewed as the same as the Chinese and Indian economies. The Goldman Sachs hypothesis of the dominance of China and India as global suppliers of manufactured goods and services respectively and the dominance of Brazil and Russia as suppliers of raw materials seems valid. Brazil, in some areas, can be treated as an emerging world economic power, but it lacks quality and decelerates in comparison to China and India. Full of capabilities but overstretched, Brazil’s economy seeks to improve its political standing in global governance, using the BRICS as a vehicle to voice its interests.

Brazil, the BRICS and Global Governance

The growing strength of Brazil, Russia, India, China, South Africa and other powerful emerging economies now at the table raises the question of whether the world is facing more multilat-
eral era of governance. In other words, has a new multilateralism been launched? A quick glance may suggest it has. Brazil, participating in the WTO and G20 and pushing for governance reforms and new financing in the IMF, is at the centre of possible changes of the international political order.

The international financial crisis that began in 2007 caused much economic turmoil in various areas, including trade. One question on the minds of trade negotiation specialists is whether this economic slowdown will have a destructive effect on the Doha Round of negotiations that had been slowly moving forward. Brazil’s position was both reactive and proactive, increasingly privileging South-South cooperation [da Conceição-Heldt, 2013, p. 182]. This approach resulted in conflicts between the North and the South. Brazil’s main achievement in the Doha Round has been to require access to the EU and U.S. markets and to reduce agricultural protection, such as tariffs, subsidies and quotas for products in which Brazil is highly competitive [Van Loon, 2015]. On the other hand, Brazil aims to maintain the status quo by rejecting further reductions of tariff rates on industrial products and services in order to protect infant industries in the software and manufacturing sectors [da Conceição-Heldt, 2013, p. 182].

Brazil has focused on agriculture and industry in the Doha negotiations, similar to the other BRICS members. The stance of the BRICS in the WTO (crafted mostly by Brazil, India and South Africa) has been based on a very specific agriculture coalition formed during the Doha Round [Draper, 2012]. The group has declared its support for an open world economy with efficient allocation of resources, the free flow of goods, and fair and orderly competition. Examples of such commitments can be easily found in each of the BRICS summits documents. At the sixth summit, hosted by Brazil at Fortaleza in July 2014, the leaders committed to “support for an open, inclusive, non-discriminatory, transparent and rule-based multilateral trading system, ... the successful conclusion of the Doha Round ... following the positive results of the Ninth Ministerial Conference (MC9), held in Bali, Indonesia, in December 2013” [BRICS, 2014a].

With the appointment of Brazil’s Roberto Azevêdo as director general of the WTO since September 2013, the interests of BRICS members are louder than ever. The success in choosing a first ever candidate from a BRICS country could consolidate the positive perception of the group in the long run, and enhance its position in global affairs and help fulfill the desire of the BRICS countries to see a reform of global economic governance with greater voice and increased representation of emerging countries. With past agricultural coalitions of developing countries, under the leadership of Brazil, and the choice of a WTO director general from this country, Brazil has taken on an increasingly influential global role in both economic and political matters, on a wide range of international issues [Schirm, 2009, p. 197]. On trade, for example, a coalition of developing countries was established at the WTO’s 2003 Cancún ministerial meeting “in order to strengthen the negotiating power of the developing world vis-a-vis the developed countries” [Schirm, 2009, p. 209]. That group opposed U.S.-EU trade initiatives, which resulted in the collapse of the negotiations and a North-South divide on agricultural issues. With regard to trade, Brazil has taken the lead in several multilateral forums. Apart from its position in the G20, Brazil maintains close relations with the Cairns Group and other emerging powers such as India and South Africa in the IBSA (India-Brazil-South Africa) Dialogue Forum. It also signed a currency swap agreement with China in order to smooth Brazil-China trade relations [BBC News, 2013]. Moreover, Azevêdo’s role at the helm of the WTO was subsequently acknowledged by other trade actors following the conclusion of the Bali package at the ninth WTO ministerial meeting in December 2013. As part of the Doha Round, the Trade Facilitation Agreement was the first global agreement reached by the WTO. It established trust among members and the credibility of multilateral trade negotiations. The successful conclu-
sion of the Bali package illustrates Brazil’s inclusive leadership within this organization and its triumph over Mexico in the race to lead the WTO.

With regard to trade at the regional level, Brazil presents itself as a “regional superpower” [da Conceição-Heldt, 2013, p. 183]. It instrumentalizes Mercosur as a vehicle for strengthening its own regional power base. Within Mercosur, Brazil is trying to strengthen its position in the negotiations on non-agricultural market access, defending some of Argentina’s demands, such as more flexibility for cutting customs union tariffs [Ministério da Receita Federal, 2009]. However, the Brazilian position is likely to change after certain measures adopted in industry have been considered protectionist acts by developed countries and China. These measures include new anti-dumping and countervailing procedures, greater control of imports in order to avoid the illegal smuggling of products and additional bureaucratic steps in the import procedures.

China’s policy is an especially serious concern. The growing industrial Chinese imports have caused many worries in Brazilian national industries and there have been numerous requests to analyze possible dumping practices or illegal import measures. The responses that have been considered include applying anti-dumping measures and increasing control over Chinese containers arriving at the main ports. In addition, the so-called “currency war,” a term first coined in 2010 in reaction to U.S. and Chinese monetary policies that led to an alarming appreciation of the real, has added further tension. Since the beginning of 2009, the value of the real has increased by more than 40% against the U.S. dollar. The stronger national currency became a growing concern for national exporters.

Accordingly, the government adopted some regulatory measures. At the national level, in 2009, Brazil introduced a 2% tax on foreign transactions, repeated twice in October 2010, and a 6% tax on collateral issued by foreign investors was imposed [Menkes and Znojek, 2011, p. 413]. Furthermore, the Central Bank of Brasil intervened by buying U.S. dollars. At the G20 summit in Seoul in November 2010, Rousseff pressed her colleagues to compel China and the U.S. to renounce their monetary measures and seek a coordinated approach to international capital flow regulations. This issue of regulations stands as high on the agenda of subsequent BRICS summits. Brazil is trying to balance the odds against China and the U.S. by inviting the IMF to a debate about national capital control. However, China’s economic dominance limits the strength of Brazil’s demands. China has become not only the top foreign investor in Brazil but also its principal trading partner thanks to growing imports of Brazilian primary resources. The currency war and the global predominance of China and U.S. leads to the question of what alternatives are possible for Brazil, as an emerging market and regional power, in order to expand its significance in the global economic environment.

The answer may be hidden within the walls of the “green rooms” where the EU negotiates with Mercosur. Free trade talks between the EU and Mercosur began in 1999 but between 2004 and 2010 were at a standstill. They resumed in 2010 under strong pressure from the Spanish Presidency of the Council of the European Union [Spanish Presidency of the Council of the

---

2 The currency war is de facto waged between China and the United States. China consistently undervalues the renminbi in order to support its exports. This policy has a negative impact on other economies, which lose competitiveness as a result. In the meantime, China’s principal trading partner, the U.S., faces the risk of deflation and is struggling to boost consumption. The U.S. Federal Reserve is forced to restrain its monetary policy, which floods the market with cheap money and leads to lower long-term interest rates for treasury bonds. Unfortunately, stimulation investments in the U.S. have grave consequences for the global economy: lower interest rates encourage investors to look for higher profits abroad, which increases speculation on emerging markets and leads to the depreciation of the dollar, which in turn has adverse effects on the competitiveness of other countries’ exports. As a result, the distress in the financial markets and inclination for protectionist measures increase [see Menkes and Znojek, 2011, p. 412].
European Union, 2010, p. 21]. If the talks succeed, supporters of the association arrangement expect it will not only bring long-term economic benefits to both regions but will also be a viable alternative to the traditionally dominant position of the U.S. and to China’s increasing commercial role in Latin America. However, the process is being undermined by growing fears of the potential negative outcome of bi-regional trade liberalization. Conflicting interests in the field of agriculture remain the main obstacle [Znojek, 2011, p. 464]. Mercosur is not ranked high as a trading partner for the EU (eighth in importance). However, with a 3% share in its external trade and the EU’s share around 20% of trade in this South American bloc, working out an agreement means bringing new opportunities for both parties. A possible EU-Mercosur agreement is a chance for the rapid trading development of Brazil, which generates 75% of Mercosur’s trade with the EU and 2.2% of the total EU trade.

The benefits from any Mercosur-EU free trade agreement recognize both parties. During the Brazil-EU summit in February 2014, Rousseff said that the Europeans seemed very committed to completing the agreement, which was very important for both parties, and seemed very close to completion [Presidency of the Republic of Brazil, 2014]. The most important reason for Brazil’s interest in concluding the agreement may lie between the economic and political realms, as Mercosur countries (with Brazil at the helm) are now high-middle income countries no longer benefitting from the EU’s Generalized System of Preferences, which ran out in January 2014. The free trade agreement offers a way out of this awkward situation.

In the near future, to strengthen its international position Brazil will have to participate actively in the reform of IMF governance, paying special attention to shifting decision-making powers toward emerging and developing economies. The need for IMF reform has been acknowledged by virtually all member states. Indeed, it gained importance after the Asian financial crisis of 1997–98, with the shift in power in the direction of the BRICS. The financial fallout, which affected mostly East Asian economies, also weakened the IMF. Its big fee-paying clients such as Korea, Russia, Brazil and Argentina had deserted it, preferring more expensive loans from elsewhere. The IMF’s income plummeted, leaving the institution with an estimated shortfall of $400 million a year by 2010 and forcing the once-powerful institution to lay off as many as 400 staff (of a total of 2,600). When Dominique Strauss-Kahn assumed the role of managing director in 2007, he immediately announced that the institution’s governance, mandate and financial structure needed overhauling to enhance the institution’s relevance, legitimacy and effectiveness. The U.S. showed strong support for reform, which called for serious reordering of the IMF’s work and governance to reflect the growing weight of dynamic, emerging markets in the global economy. Three main forces have driven the management and members of the IMF toward reform:

- the IMF’s own financial crisis and the need to find new borrowers or a new way to generate income to pay for itself;
- the need win back legitimacy and the confidence of key members after the Asian financial crisis;
- the necessity to adapt to a major power shift exemplified by the transformation of the U.S. from the world’s largest creditor at the time of the IMF’s creation to the world’s largest debtor in 2009, and by the rise of China and other emerging economies [Woods, 2010, p. 53].

Most important, however, seems to be fact that the IMF, between the subsequent waves of the financial crisis, has noticed that three emerging economies — China, India and Brazil — have weathered the storm fairly well. The three were immune from the crisis in the world economy, however. The impact on some sectors, particularly those depending on exports, was devastating in the short run, but their economic recovery was also significantly faster for three reasons.
First, these countries adopted expansionary, countercyclical, macroeconomic policies, which were almost Keynesian and most unusual in the developing world. Deepak Nayyar [2011, p. 23] points to a massive fiscal stimulus in China, a significant expansion in the India’s National Rural Employment Guarantee program, and large increases in salaries for government employees as well as expansionary fiscal and monetary policies introduced in Brazil. Second, the size of the home markets of China, India and Brazil eased their fast economic recovery. The increase in aggregate demand, and thus domestic consumption, drove recovery and sustained growth. Third, their financial sectors, which were less fragile and more regulated than elsewhere, did not absorb scarce resources from stimulus packages in recapitalization or bailouts, so that easier monetary policies meant lending for investment to the real sector in these economies, rather than the creation of any financial asset bubbles [Nayyar, 2011].

It is not surprising, then, that IMF management started to perceive BRICS global ambitions as a chance to carry out financial reforms, aimed at giving the institution an independent source of income. However, everything has its price. Financial reforms were matched with governance reforms, the latter aimed at enhancing the credibility and legitimacy of the institution by giving more voice to emerging and developing countries. The return of power to emerging economies started in April 2008. In 2009, the developing members of the G20 began to crumble the seniority rule of the triad of countries and its auxiliaries. Ngaire Woods [2010, p. 56] has given a clear account of those gains, noting that the largest “winners” from the reforms were Korea, Singapore, Turkey, China, India, Brazil and Mexico, although, from their perspective, the changes were small. The IMF quota shares of China, India, Russia and Brazil increased from 3.996%, 2.442%, 2.494% and 1.783% in 2008 to 6.394%, 2.751%, 2.706% and 2.316% in 2009 respectively [Niu, 2012, p. 5]. These changes were hard won and took endless negotiations among the G7 powers. The emerging economies considered these reforms to be the beginning and demanded more substantial changes to reflect their role as creditors of the world economy. Brazil and other BRICS members noted that Europe was overrepresented in terms of the weighted voting power and the number of representatives on the IMF’s Executive Board, but no country was prepared to surrender its privileged position. After long debates, the ministers of finance and central bank governors met on 23 October 2010 in Gyeongju, Korea, to prepare for the G20 summit in Seoul the following month. They reached an agreement on institutional reform proposal that followed up on the arrangements of the 2009 G20 summits in Pittsburgh and London.3 The proposal included:

- a minimum 6% quota shift to underrepresented countries (while protecting the voting share of the poorest), which shifts the balance in the weighted voting system toward Brazil, China, India and Russia, to be formally accomplished by the IMF-World Bank meetings in October 2012;
- enhanced representation of emerging and developing economies through a comprehensive review of weighted voting by January 2013, and a subsequent review of quotas by January 2014;
- surrender of two European chairs to underrepresented states and possibly a second alternative for all multi-country constituencies;
- an all-elected board, along with the commitment to maintain its 24-seat composition;

3 At the London Summit, G20 members decided to pursue a huge financial program to restore credit, growth and jobs in the world economy. They pledged an additional $1. 1 trillion to institutions including the IMF ($500 billion in new resources available for lending plus $250 billion for new allocations of special drawing rights) and multilateral development banks ($100 billion for emerging markets and developing countries plus $250 billion to support trade finance). These resources would be available through more flexible mechanisms to countries in need [see G20, 2009].
prolongation of the board’s term from two to eight years, after the 14th General Review [Menkes, 2010, p. 379].

Responding to these developments, at the G20 summit in Mexico in June 2012 the BRICS states decided to pledge large amounts to the IMF firewall fund designed to prevent any contagion from the eurozone crisis into the global market. China pledged $43 billion, Brazil and Russia each pledged $10 billion, and South Africa pledged $2 billion [AFP, 2012]. This contribution was considered an investment, anticipating in return some reform of quota shares and voting power in the IMF. However, as of January 2015, the voice and vote reforms had still not been implemented. This concern was expressed during the informal meeting of BRICS leaders at the G20 Brisbane Summit in November 2014, where leaders from emerging countries exchanged views and shared perspectives on the main issues on the G20 agenda, as well as the expected outcomes [BRICS, 2014c]. They explicitly criticized the G20’s efforts to support global demand in the short run, especially by advanced economies, as well as the non-implementation of the 2010 IMF reforms agreed in 2009, and pointed out the negative impact on the IMF’s legitimacy and credibility. Because the United States had not ratified these reforms, they called on the G20 to schedule a discussion of options for the next steps that the IMF committed to present in January 2015 [BRICS, 2014c].

It is the difficulties regarding the reform of the IMF and other international finance institutions that brought about the institutionalization of the BRICS and the development of its financial architecture. At the G20 St. Petersburg Summit in September 2013, the BRICS leaders agreed to create a $100 billion pool of currency reserves in order to ease short-term liquidity pressure and safeguard the stability of emerging economies [Li, 2014, p. 13]. This decision was further developed at the BRICS summit held in Fortaleza. Members of BRICS concluded the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement, with the initial total committed resources of $100 billion, designed as “a self-managed contingent reserve arrangement to forestall short-term balance of payments pressures, provide mutual support and further strengthen financial stability” (China committed $41 billion, Brazil $18 billion, Russia $18 billion, India $18 billion and South Africa $5 billion) [BRICS, 2014d]. At the same meeting, the BRICS leaders concluded the Agreement on the New Development Bank (with initial capital of $100 billion), as a tool for financing infrastructure and sustainable development projects in the BRICS countries and other emerging economies and developing countries [BRICS, 2014b]. The formation of the New Development Bank – if effective – may constitute a big challenge for the important structures of global governance, namely the IMF and the World Bank. This very ambitious initiative goes far beyond the existing forms of capital impact of BRICS states on developing countries.4

The level of turbulence in global governance has grown since the outbreak of the financial crisis in autumn 2008, which is relevant to the quest of Brazil and other emerging markets for relevance in international relations. The crisis–powered winds of change have transformed existing forms of global governance, with the importance of the G20 rising from a “lower class” forum of finance ministers and central bank governors to a “champions league” gathering of heads of state. The G20 – comprising 10 industrialized economies (the G7 members, Australia and the European Union) and 10 emerging markets (Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Saudi Arabia, South Africa and Turkey) — is more geographically and

4 This refers, inter alia, of the Bank of the South, a regional banking institution that could be considered equivalent to a global system of financial aid or development based on the IMF and World Bank. It was established in September 2009 in order to provide financial assistance to South American countries and started with $20 billion. It had to provide coverage for the financial needs of South American countries that had decided to undertake programs of social and economic reform. The founders included Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela [MercoPress, 2009].
BRICS MEMBERS’ INTERESTS AND PRIORITIES FOR COOPERATION

economically diverse than the G7, and its members jointly represent close to 90% of the world’s GDP and 75% of the global population [Gradziuk, 2009, p. 99]. The G20 has smoothly taken over the role of the main body for consultations and decision-making in terms of crisis response and was informally called “global economic governance,” which should be more efficient in regulating trade and investment than the G7, the WTO, the Organisation for Economic Co-operation and Development, and the United Nations Conference on Trade and Development [Gradziuk, 2011, p. 1].

Brazil’s inclusion in the G20 and the BRICS has substantially altered its role in global affairs, as well as the perception of its own role in the world [Schläger, 2007]. Brazil is no longer perceived as a peripheral player but is shifting toward the global centre. The most likely reasons for this shift are its relatively high economic growth between 2003 and 2010 and its unsuccessful campaign for a permanent seat on UN Security Council. That campaign pushed Brazil to enhance its position in new, informal bodies, which alter its power “at the heart of the new global order” [Stuenkel, 2012, p. 6]. The desire to reform international structures, believed to be biased toward the West and unjust, have made Brazil a natural ally of South Africa and India (as in the WTO), which, contrary to China and Russia, had been looking for a place in international institutions.

These differences in experience and interests render it barely possible for the BRICS members to align their positions at G20 summits. Since the G20 leaders began meeting in 2008, it has become clear that the BRICS countries act as individual agenda setters focusing on diverse interests. Brazil supports liberalizing agricultural trade, Russia and India oppose any financial transaction tax, and China defends its monetary policy. Referring specifically to Brazil, Oliver Stuenkel [2012, p. 7] noted that “Brazil cannot be said to have consistently pursued a clear strategy in the G-20. There was no evidence in 2010, for example, that Brazil was aligned with any particular bloc — neither the Group of Seven (G-7) nor the BRICS. This may partially be explained by the fact that Brazil’s foreign policy strategy, its objectives and principles are changing.” Indeed, Brazil’s foreign policy is in flux. It has not always had a clear vision of which strategy to be pursued in global institutions. This emerging power meets emerging challenges, but certainly its political importance on the global stage is not largely disregarded. Brazil is, in fact, a rare phenomenon: having overestimated the economy and serious domestic deficiencies, possessing no significant hard power and depending on multilateral outfits, this country is still on the rise.

Conclusions

The analysis here shows that the recent economic performance of Brazil and the rest of BRICS members surpassed the performance of developed countries. Brazil has become a major player, but the distinctly Latin American limitations of the its economy remained. However, despite shortcomings in various areas, Brazil will continue to play a major role in the global economy. Examples such as the agricultural coalition of developing countries led by Brazil, the choice of a Brazilian director general of the WTO, even the successful trade negotiation at Bali may indicate that Brazil has taken on an increasingly influential global role not only in economic issues but also in political matters.

However, this is only part of the picture. Brazil’s role in global governance has still not crystallized. Its foreign policy strategy, objectives and principles are in flux. The surge in international significance has not been paired with understanding of a role for this giant on the global political scene. While Brazil gradually gains experience and independence and runs self-assured foreign policy, that foreign policy is not always coherent or well crafted. WTO negotiations, a
success story for Brazil, were accompanied by the lack of a consistent strategy in the G20. This incoherence seems to be the weakest link in the Brazilian quest for relevance in global governance. Improving its consistency in G20, increasing the institutionalization of the BRICS, developing its coalition capabilities in the WTO, and being a voice at the IMF should be among the most important objectives of a country that depends on being included in multilateral arrangements as it possesses no significant hard power. This focus on developing South-South cooperation, forging strategic partnerships, and building bridges between developing, emerging and industrialized countries may not only increase Brazil’s influence in global governance institutions, but could also to some degree reverse the current debate in international relations, which has focused on China and India, rather than on Brazil, Russia or South Africa.

For some, the emergence of China and India brings “a real shift in the power balance,” while Russia, South Africa and Brazil “are marginal economies propped up by high commodity prices” and undermined by a lack of long-term investment [Lloyd and Turkeltaub, 2006]. In other words, according to this point of view, India and China are the only real “bricks” in the wall. In fact, the members of the BRICS are very different from each other. According to Michael Kahn [2011], the BRICS forum brings together one of the world’s most prominent agricultural products’ providers (Brazil), the top global gas station (Russia), the back-office king of the international economy (India), the world’s biggest factory (China) and the “jeweller of the world” (South Africa). In the common view, Brazil supplies raw materials to the world and has an expanding population. Russia’s energy reserves are vital to the world’s energy markets. South Africa is reported to be the world’s richest country in terms of mineral reserves. However, the two elite BRICS members of China and India are the most significantly transformed not only concerning “the dynamics of the world economy, but also the balance of power” and are both “poised to be the drivers of a potential new centre of economic gravity, covering the whole of Asia” [City of London, 2006, p. 13].

Brazil’s relatively slow rate of economic growth, compared with the high growth rates in India and China, has led to questions as to whether it has the right to be a member of the same club as China and India. Certainly, these Asian powers are beyond Brazil’s reach in terms of economic power, despite its recent rising growth, falling interest rates, more manageable public debt, and reduced income inequality and poverty. However, Brazil has some advantages: it is the steadiest of the BRICS members, with democracy and no serious disputes with its neighbours. Its slower growth could be explained by being richer and more urbanized than the other members. Brazil is not India or China in terms of economic growth, but geopolitically it is a major player in Latin America, and is treated as such by the World Bank, the IMF, stock exchanges and big investors around the world. Even if Brazil is not meeting the challenge of globalization in a manner comparable to China and India, it should not lose its perspective about its place in the world.

References


Spanish Presidency of the Council of the European Union (2010) The programme for the Spanish presidency of 

postwesternworld.com/2013/02/27/can-the-brics-co-operate-in-the-g-20-a-view-from-brazil/ 
(accessed 28 April 2015).


22 May. Available at: http://www.publications.parliament.uk/pa/cm200607/cmselect/cmtrdind/208/20802.

DC. Available at: http://web.archive.org/web/20140507182558/https://www.cia.gov/library/publications/the-


DC. Available at: https://www.cia.gov/library/publications/the-world-factbook/fields/2129.html (accessed 

National Intelligence Council.

Van Loon A. (2015) From interregionalism to bilateralism: power and interests in EU-Brazil trade cooperation. 
In: M. Rewizorski, ed., The European Union and the BRICS: complex relations in the era of global governance. 
Heidelberg: Springer.

Wheatley J. (2007a) Brazil ‘must lift barriers’ to new infrastructure. Financial Times, 28 February. Available at: 
http://www.ft.com/intl/cms/s/0/d774a61a-c753-11db-8078-000b5df10621.html#axzz3az5wWFXL (accessed 

Wheatley J. (2007b) Measures launched to boost Brazil’s economic growth. Financial Times, 23 January. Available at: 
http://www.ft.com/intl/cms/s/0/367e82-aa86-11db-83b0-0000779e2340.html?siteedition=intl#axzz3az5wWFXL (accessed 


Woods N. (2010) Global governance after the financial crisis: a new multilateralism or the last gasp of the 


World Bank (2014c) GDP per person employed. Available at: http://data.worldbank.org/indicator/SL.GDP.
PCAP.EM.KD (accessed 13 April 2015).


Is There a Role for the BRICS in Asian Affairs?

H. Niu

Haibin Niu — PhD, deputy director, Center for American Studies, assistant director, Institute for International Strategy Studies, Shanghai Institutes for International Studies; 195-15 Tianlin Road, Shanghai 200133, China; E-mail: niuhaibin@siis.org.cn

The BRICS group of Brazil, Russia, India, China and South Africa is an important rising force in the current global governance system. From 2009 the priorities for cooperation among the BRICS countries were on reforming major international financial institutions; in recent years these have been extended to include international security and development issues. At the regional level, BRICS leaders held dialogues with their counterparts in Africa and South America during the two latest BRICS summits. However, the BRICS group has not paid much attention to Asian economic issues or security issues in East Asia. The weak and unbalanced agenda of the BRICS toward Asian affairs is unusual considering the fact that the BRICS includes three prominent Asian members with global ambitions, and the overall importance of Asia to BRICS members. The absence of a strong Asian agenda within the BRICS reflects some of the dimensions of the group and the region itself. First of all, the priority of the BRICS countries is to promote their global status, which makes global issues more attractive for them than regional issues. Second, Asian members of the BRICS are not capable of solving Asian security challenges individually or collectively. Third, unlike Africa and South America, Asia is not a highly integrated region — partially due to competition among major powers including the Asian members of the BRICS. However, considering the region’s rising importance and challenges, the BRICS cannot avoid exploring its influence in shaping Asia’s future. In order to improve their influence in the region against the background of competing regional institutions and the renewed interest of the United States in Asia, BRICS countries need to coordinate their individual approaches to Asia, provide more regional public goods by multilateral means, offer either solutions or ideas for regional security issues and find a more sustainable way to engage with the region.

Key words: BRICS, global governance, Asia, New Development Bank

Introduction

The BRICS grouping of Brazil, Russia, India, China and South Africa was originally known as “BRIC” before South Africa joined in 2011. The BRIC was an investment concept created by Jim O’Neill in 2001 to refer to Brazil, Russia, India and China as major emerging economies [O’Neill, 2001]. From then on, the term was widely used to indicate the shift of international economic power from the advanced economies to the developing economies. Following this logic of treating the BRIC countries as emerging economies, the international community tends to view the role of the BRICS in global governance from an economic perspective. For example, by establishing the Group of Eight Plus Five (G8+5) process, the G8 members explored the potential for economic cooperation on sustainable development issues with five major developing countries, namely China, India, Brazil, Mexico and South Africa. The main objective for upgrading the G20 ministerial meetings to G20 leaders’ summits in 2008 was to deal with the global financial crisis by mobilizing the resources of all the major economies, especially the BRICS countries.
While it is important to assess the impact of the cooperation among BRICS countries from an economic perspective, non-economic factors also have an important impact on the participation of these major emerging economies in global governance. The institutionalization of the G8+5 dialogue process by initiated Germany eventually ended due to lack of support from the G8 after Japan hosted the 2008 summit, even though Italy tried to renew it in 2009. Since the major developing countries all felt unequally treated by the G8 members during the G8+5 dialogue process, the process unexpectedly cultivated cooperative habits and generated the intention of building an equal partnership among the BRICS members. Against the backdrop of the 2008 global financial crisis, the first scheduled BRIC summit was held in 2009, which signified the beginning of the BRICs countries use of their collective economic power to participate in the global economic governance system. South Africa was invited by China to join the summit in 2011, which made the group’s geographic coverage more globally representative.

Even though the BRICS was involved in global economic governance at the group’s initial stage, before its creation most of the BRICS members were well known as regional players rather than as global ones. China’s international role began to be visible through its leadership in helping countries in the region to deal with the 1997–1999 Asian financial crisis. South Africa’s membership in the BRICS was mainly based on its regional influence rather than its global status as an emerging economy. It is easily understand why the BRICS leaders invited other African and South American leaders to dialogue with them at the recent BRICS summits in South Africa and Brazil respectively. Such initiatives to hold dialogues between BRICS leaders and their regional counterparts reflected the intention of the summit host to build a stronger image of regional leadership by highlighting its BRICS membership. However, it was noteworthy that none of the three Asian members did so when they chaired the summits. Given the importance of Asia in today’s international system, it is worth exploring why the BRICS lacks a strong regional agenda for engaging with Asia. It is also meaningful to analyze the potential role of the BRICS in dealing with Asian affairs.

Asian Factors in the BRICS

One prominent feature of the BRICS group is that three members – China, India and Russia – are from Asia, which reflects the region’s dynamic in the current international system. Russia and China are both permanent members of the United Nations Security Council (UNSC), and India is one of the most competitive candidates for a permanent seat. China’s and India’s international roles as rising powers have been widely discussed by international relations scholars in recent decades. The BRICS is thus a useful tool for examining the intentions and policy choices of these rising powers in dealing with regional and global issues. One interesting aspect of the BRICS is that it focuses mainly on international economic governance and the reform of the decision-making structure of the established international financial institutions, including the International Monetary Fund (IMF) and the World Bank, by contributing to the response to the 2008 global financial crisis. Asian economic affairs have not been on the agenda of the BRICS summits because the 2008 financial crisis was mainly centred in developed countries.

Nonetheless, the declarations of the six BRIC(S) summits before 2014 demonstrated some collective concern with Asian security. Since scholars typically focus on East Asia when talking about Asia, it is necessary to clarify that Asia here refers generally to East Asia, West Asia, Central Asia and South Asia. One interesting finding is that most of the Asian issues addressed by the BRICS relate to security issues in the “broader Middle East,” namely West Asia and Central Asia. Since the third BRICS summit hosted by India in 2012, the BRICS countries have expressed their security-related concerns to include Iran’s nuclear project, the post-war...
construction of Iraq and Afghanistan, and the situation in Syria. Since the first summit hosted by Russia in 2009, terrorism has consistently caught the attention of the BRICS summits. The BRICS leaders at their summit in 2010 criticized terror attacks in Russia and India. When they gathered in China, the leaders showed their support for collaboration to provide relief for disasters such as the 2011 earthquake in Japan, which demonstrates that BRICS summits address both traditional and non-traditional security issues.

India, Brazil and South Africa are trying to play a larger role in the UNSC. Their views on global security challenges, including those in Asia, thus provide important input for the rest of the world in deciding whether to support their bids for permanent seats. Under the administration of Luiz Inácio Lula da Silva, Brazil’s influence was extended to Africa and the Middle East, as demonstrated by the increasing numbers of its diplomatic institutions and joint efforts with Turkey to solve the Iran nuclear crisis in 2010. The perspective of Asian powers including China, India and Russia emerges partially when BRICS leaders talk about global issues, not necessarily Asian affairs. Generally speaking, the BRICS has strong Asian power membership but a weak agenda on Asian affairs so far.

Why Is the BRICS Asian Agenda Weak?

First of all, raising their global status is clearly a priority for all the BRICS countries, but they lack a prominent global forum to support this objective, which makes them more interested in dealing with global issues rather than regional ones. As a forum for rising powers in the current international system, the BRICS has the potential to support its members’ aspirations to obtain global status. The differences among the BRICS countries in areas including culture, economic size and structure, political systems, and especially values have often led to questions about the logic and future of the group. However, over the past six years the BRICS has succeeding in building institutions such as the New Development Bank (NDB). The structural factor is the overlooked reason behind BRICS institution building, namely that as rising powers its members share similar interests to raise their international status by enhancing their cooperation.

Both Russia and China are permanent members of the UNSC, but they are not full-fledged powers, especially not in the global economic governance system. The other BRICS members do not have prominent international platforms where they can demonstrate their international ambitions. Although India, Brazil and South Africa are frequently elected to the UNSC, the BRICS is an increasingly important multilateral platform for these rising powers to practise their international role. Against this backdrop, all BRICS members value the high global profile of the group to demonstrate their approach to global issues and safeguard their broadened overseas interests. To date, the common theme of BRICS summits is to promote the reform of the current system of global economic governance, which makes it clear that the members’ objective is to build their influence at the global level rather than at the regional level. A global agenda could help them both raise their international profile and overcome the differences among them. Even the engagement process with regional African and South American leaders begun by the BRICS was mainly to raise their voices in shaping the post-2015 development agenda.

Second, although all BRICS members have interests in Asia, it is hard to build a strong common approach. This is partially due to members’ weak capacity and strong concept of state sovereignty. Brazil’s economic ties with Asia has grown rapidly in the past decade. China has been Brazil’s largest trading partner since 2009. The establishment of the Pacific Alliance is a clear indication that the whole Latin American region is increasingly treating Asia as an important economic partner. Against the backdrop of the Ukraine crisis, Russia is trying to engage
BRICS MEMBERS’ INTERESTS AND PRIORITIES FOR COOPERATION

with more Asian countries beyond China. India’s Prime Minister Narendra Modi is turning the “Look East Policy” into the “Act East Policy” [PTI, 2014]. China has also been adjusting its periphery policy against the background of the rebalancing strategy of the U.S. administration under Barack Obama. To build strong ties with the region, a stable and prosperous Asia is in the interests of all BRICS countries.

Indeed, all BRICS members value Asia’s stability and prosperity, but that does not mean that they have set this as a priority, or have the capacity to achieve that goal. Even the latest academic analysis of China’s approach to the BRICS does not show that it was using the group to shape Asia’s order [Cheng, 2014]. The post-World War II security order in Asia has been dominated firmly by the so-called “hub and spoke” system, namely the system of U.S. bilateral allies. The international order in East Asia is described as one of regional security ties to the United States and economic ties to China [Ikenberry, 2004]. That means that neither China nor India has had enough influence on Asia’s security affairs. The rise of China and India might not only be attractive in economic terms but might also bring some new security arrangements to the region. At the Conference on Interaction and Confidence-Building Measures in Asia (CICA) in 2014 Xi Jinping argued that Asian affairs should be solved by Asians, suggesting that the CICA should be a platform for dialogue on Asian-wide security issues, and that a new framework on regional security cooperation should be built on the CICA. Such a CICA-based regional security framework would be considerably different from a U.S.-dominated hub-and-spoke security framework.

However, given the difficult relationships among China, Korea and Japan and their differing attitudes regarding historical issues, the powerful BRICS members of China and India could not establish a strong regional security framework in the short term. Under Lula’s presidency Brazil’s efforts to solve the Iran nuclear crisis in 2010 failed to get support from the Permanent Five (P5) members of the UNSC. Dilma Rousseff has put most of her energy into economic cooperation and domestic issues rather than into Brazil’s foreign policy agenda. Furthermore, neither Brazil nor South Africa have strong influence outside of their own regions. Controversial territorial issues have also made it difficult to build a high level of strategic trust between China and India. Both countries need time to build trust regarding their coexistence in the Indian Ocean over the next decade.

As well as having weak capacity, the BRICS countries attach a strict concept of state sovereignty in dealing with regional issues, which leads them to adopt either strictly national positions or purely defensive positions [Laidi, 2012]. Their lack of capacity, and the fact that they have not prioritized the issue, has meant that a liberal and strong U.S.-led security order in the region remains influential.

Third, an obvious fact is that Asia lacks such regional integration achievements as the regional institutions of South America and Africa, which have prevented a strong Asian agenda from being established by the BRICS. Brazil and South Africa’s leadership role within their respective regions is stronger than the role played by India and China in Asia. The Association of Southeast Asian Nations (ASEAN), rather than China or India, plays the leading role in Asian regional integration. There is no trend to develop a peaceful regional system of economic integration and an ambitious agenda for political union such as that of the European Union. Both Brazil and South Africa have their competitors for regional leadership but unlike the Asian situation, a common integration agenda is shared by all the countries in South America, and by all the countries in Africa. The 2015 BRICS summit might include dialogue with leaders from Central Asia, which might be repeated when the next summit is held in India in 2017. However, it is difficult to bring most Asian leaders, or a broad Asian agenda similar to the African agenda, to the BRICS summits.
Considering the dominance of the U.S. in maintaining regional security, and the diversified economic dynamics of the region, the Asian BRICS members prefer their own multilateral initiatives to shape regional order. China has initiated some ideas such as “One Belt One Road” and the new Asia Infrastructure Investment Bank (AIIB). India is trying to deepen its involvement in broad Asia-Pacific regional cooperation beyond South Asia. There is a possible trend developing of trilateral cooperation among China, Russia and India to deal with Asian affairs. China and India both signed on as founding members of the AIIB in 2014. Russia and China support India’s acceptance as a member of the Shanghai Cooperation Organization (SCO), which has been increasingly influential in promoting sub-regional economic and security cooperation. At their meeting in February 2015, the foreign ministers of Russia, India and China agreed to establish a trilateral consultation mechanism on Asia-Pacific affairs. This new consensus on coordinating Asian affairs among the three Asian members of BRICS might help the group to develop a stronger Asian agenda.

A Possible Asian Agenda for the BRICS

The BRICS countries have accumulated sizable material wealth, but they still lack enough legitimacy or soft power to achieve great power status. Unilateral behaviour usually decreases an actor’s legitimacy while multilateral actions will increase legitimacy in international relations. As an emerging important forum to provide international public goods and promote reform of the international system, the BRICS faces peer competition from established multilateral institutions. There are many sub-regional or trans-regional institutions and institutions led by great powers including the SCO, the ASEAN Regional Forum, the East Asia Summit, the Asia-Pacific Economic Cooperation (APEC) forum, CICA and the Six-Party Talks on North Korean Nuclear Issues. The weakness of the BRICS is that it lacks legitimacy and concrete areas of involvement in dealing with Asian affairs. The NDB will actively finance the regional infrastructure projects of the Asian countries, although this function overlaps with the newly established AIIB. The NDB’s Contingency Reserve Arrangement, similar to the Chiang Mai Initiative, will mainly serve BRICS members in the near future. The first challenge for the BRICS in building a strong Asian agenda is to find an suitable area for cooperation.

Although most BRICS members do not have a strong or direct influence on Asian security, it is possible for the BRICS to affect the approaches and solutions to issues and institution building by expressing the group’s views. For example, BRICS countries support a peaceful, safe, open and cooperative information space; an inclusive and peaceful Afghanistan run and owned by the Afghan people; a comprehensive and long-term solution to the Iran nuclear issue; a UN-led solution of the conflict between Israel and Palestine; a political solution to Syria’s domestic conflict; and a stable and inclusive Iraq. These views are attractive since they were born in the real situations of these countries and are based on a comprehensive security outlook, which is helpful for maintaining the long-term stability and security of Asia. As influential emerging powers in the post-World War II order, the BRICS countries share a common interest in maintaining the authority of the UN Charter, and building an international security order with fairness and justice. To some extent, support from the BRICS in building a new regional security framework for Asia will add legitimacy to the new framework.

There has been some competition regarding the future regional order in Asia. In his 2015 State of the Union Address, Obama [2015] said that although China wants to write the rules for the world’s fastest-growing region, the U.S. should write those rules. In fact, neither the United States nor China can write the rules for Asia; those rules will be written by all the stakeholders from the region. Compared with the exclusive and non-transparent Trans-Pacific Partnership
(TPP) process, the BRICS might be more interested in supporting an open and future-oriented free trade agreement (FTA) and economic cooperation strategy for the Asia-Pacific region. Russia and China have expressed their support for India to play a larger role within APEC even though it is not a member. TPP’s door is still closed to all the BRICS members. The BRICS countries all share the concern of being isolated in the next-generation economic order by updated economic cooperation agreements such as the TPP and the Transatlantic Trade and Investment Partnership (TTIP). Against this backdrop, BRICS countries especially hope to keep the Asia-Pacific market open and to be involved in the process of reshaping the regional economic rules. It is not an easy job to do, however, because there is still no FTA within the BRICS and the level of members’ internal economic cooperation remains very low. The BRICS needs to improve that internal cooperation before it can lead Asian economic cooperation.

Furthermore, economic cooperation between BRICS countries and Asia also faces the challenge of remaining sustainable. The 2008 financial crisis not only affected the economic growth model of developed countries, but also challenged the economic cooperation model among BRICS countries. Even though their trade relationship includes high-tech goods such as aircraft and satellites, the main model is the exchange of raw materials for manufactured goods. The greatest challenge here is how China can use its high-tech and capital advantage to help the rest of the BRICS members to make economic cooperation more sustainable. None of the other BRICS members are involved in the Asian production chain, which prevents the group from developing a high-level of economic cooperation with Asia. The good news is that the BRICS is aiming to build a closer economic relationship through more sustainable economic partnerships. To deepen their economic ties with Asia, BRICS members need on the one hand to open their domestic markets to Asian capital and goods, and on the other hand to invest more in Asian countries and accelerate the construction of mutual infrastructure. The NDB might be a useful tool for enhancing economic ties by providing more intellectual and capital support. The NDB would do well to prioritize sustainable projects in Asia, in addition to financing infrastructure, to avoid unnecessary competition with AIIB.

The NDB provides an opportunity for these emerging powers, with the exception of Russia, to act as real global players for the first time. China’s previous dominant influence was mainly in East Asia area, before the modern system based on state sovereignty. China’s Asia strategy needs to be updated to reflect today’s regional realities, which include the United States as a strong external power and an equally capable Japan. India is trying to be accepted as a true Asia-wide power. In contrast to the preference of Brazil and South Africa for using regional institutions to solve regional security issues, China and India have preferred bilateral means rather than multilateral ones. In recent history Brazilian and South African influence has also been limited in their regions. Domestic debates about their global role, especially in Asia, are now emerging without a mature international relations theory to support it. Brazil’s concern about Latin America’s turning to Asia and the TPP relates mostly the possible weakening of South American integration [Abdenur, 2015]. Against this historical background and in the current situation, it is necessary to foster more societal connection at the level of intellectuals, students and think tanks to build up a solid and suitable Asian policy for the BRICS. The BRICS Think Tank Council should develop a theme based on the group’s Asian agenda.

Such an Asian agenda would not be an anti-U.S. strategy. The BRICS countries still value the role of the United States in maintaining the region’s stability and prosperity. However, as rising powers and new engines of economic growth for Asia, BRICS countries might encourage more independent regionalism or offer more options for solving regional issues. As rising powers, the Asian members of BRICS hope to play a larger role. Xi made separate special visits to Korea and Mongolia. Modi set its neighbouring countries and Japan as diplomatic priorities.
Russia’s recent engagement with North Korea showed its geopolitical ambitions in Asia. At the trilateral foreign ministers meeting in 2015, China, India and Russia endorsed their support of an open, inclusive, indivisible and transparent security and cooperation architecture in Asia [Foreign Ministers of Russia, India and China, 2015].

Another important aspect is the Asia’s relevance to the enlargement of BRICS membership. There are more emerging economies in Asia than in other regions. It is highly possible for the BRICS to recruit new members from Asia in the near future. The BRICS members regard their cooperation as South-South cooperation, which might open the group’s door only to the region’s developing countries. However, the BRICS should open its door wider to include not only Indonesia but also Korea and Mexico, given their role in promoting international development cooperation. A more diversified membership with successful development experiences will increase the attractiveness of the BRICS in Asia and beyond. In the long run, a stronger NDB also needs financial support from dynamic Asian economies.

References


BRICS Regional Policy in Africa

T. Deych

Tatiana Deych — PhD, Leading Research Fellow, Institute for African Studies Russian Academy of Sciences; 30/1 Spiridonovka St., 123001 Moscow, Russian Federation; E-mail: tdeich@yandex.ru

This article analyzes the policies of the BRICS grouping of Brazil, Russia, India, China and South Africa as a whole and individually in Africa. It also explores their political and economic interests in Africa and the various patterns and strategies of each country’s cooperation with Africa, and estimates the impact of BRICS aid and investment on the African economy and development. The BRICS members have emerged as the new effective actors in the world arena. Their economic weight and political influence are growing. They are focused not only on strengthening their ties within the association, but also on assistance to Africa as a way for emerging powers to change the existing world order. The BRICS is deepening its engagement with African countries, which have had great successes in development in recent years. BRICS members’ attention to Africa is determined by its resource potential and its growing influence in the world economy and contemporary international relations. BRICS countries are large trading partners of Africa, and Africa’s trade with BRICS members is growing faster than with its traditional partners. Africa has become the main destination for BRICS development aid and investment. BRICS members focus particularly on African infrastructure. They use soft power widely in developing humanitarian ties with Africa, particularly in health care and education. The BRICS is also an active participant in peacekeeping and conflict resolution in Africa. The five countries increasingly collaborate in Africa rather compete. The BRICS thus contributes much to African economics, and its presence on the continent has become an important and welcome phenomenon.

Key words: BRICS, Africa, China, Russia, India, Brazil, South Africa, resources, economic growth, development, cooperation, policy, trade, aid, investment, infrastructure, soft power, security, peacekeeping, competition, partnership.

Why Africa? What’s in It for the BRICS?

In the last decade, Africa has become a focus for the BRICS group of Brazil, Russia, India, China and South Africa, becoming the base for implementing its efforts to change the existing world order. Africa is a treasure of natural resources, which particularly interest China, India and Brazil. At the same time, it is a conglomeration of underdeveloped countries in need of assistance. By cooperating with these countries, the BRICS demonstrates its ability and willingness to do things that Africa’s earlier partners could not do. By positioning themselves as the defenders of the interests of developing countries, the five BRICS emerging economies pursue a complex aim: first to satisfy their own need for natural resources and commodity markets, then to promote the sustainable development of African countries. At the same time, they work to improve their image and show what South–South truly cooperation means.

Among recent reasons for the expanding BRICS involvement in Africa is the growing influence of African countries in the global economy and contemporary international relations. The BRICS interest in Africa is dictated, to a large extent, by the economic success of African countries. If, in the 1990s, the growth of Africa’s gross domestic product (GDP) remained at 2.3%, in the 21st century it has already averaged 5%. Six African countries were among the 10
fastest growing economies in the world between 2001 and 2010 [Ernst and Young, 2011]. According to the International Monetary Fund (IMF), of the 22 countries that will expand by at least 7% a year on average between 2014 and 2019 — a rate that enables an economy to double its size in a decade — 14 countries will be in Africa [Marlier, 2014].

Six BRICS summits have now taken place. The theme of the fifth BRICS summit in Durban, South Africa, in March 2013 was “BRICS and Africa: Partnership for Development, Integration and Industrialization” [BRICS, 2013]. Africa was well represented at that summit. South African president Jacob Zuma invited 15 African leaders and eight representatives of regional organizations, including Nkosazana Dlamini-Zuma, chair of the African Union (AU) Commission. The summit resulted in the adoption of solutions that were important for Africa, particularly the agreement on co-financing BRICS infrastructure projects [Shubin, 2013]. The Ethekwini Declaration, issued at Durban, showed that African problems are among the priorities of BRICS policy [BRICS, 2013]. At the sixth BRICS summit in 2014 in Fortaleza, Brazil, the leaders discussed strengthening cooperation with African countries, primarily in the areas of infrastructure and industrialization [BRICS, 2014].

The BRICS action plans, included in the summit declarations, provides aid to Africa in the form of implementing strategies for sustainable development, including food and energy security, new technologies and innovation policy, in addition assisting in building infrastructure, pursuing a joint search for models of political systems and modernizing social structures. They also include issues important for Africa such as the environment, climate change, and crisis and conflict response.

The Growing Trade between the BRICS and Africa

The idea that the BRICS countries are redrawing the economic landscape of the African continent came through in a report published by South Africa’s Standard Bank in 2011 [World Bank, 2011]. They have strengthened their presence in Africa compared with Africa’s traditional partners, such as the United States and the European Union, and their mutual trade is growing. Total BRICS trade with Africa rose from $22 billion in 2000 to $340 billion in 2012 and is projected to reach $500 billion by 2015 [United Nations Economic Commission for Africa (UNECA), 2013]. Africa’s trade with the BRICS grew faster than its trade with any other region in the world. Currently, BRICS members trade more with Africa than they do among themselves [African Development Bank (AfDB), 2013]. India’s and China’s trade with Africa as a proportion of GDP in 2012 was 1.4% and 1.6%, respectively; for Brazil it was 1.2%, Russia 0.3% and South Africa 4% (in 2011) [Sandrey, Fundira, Vink et al., 2013, p. 19].

China has surpassed the United States to become Africa’s largest trading partner. Sino-African trade increased from $11 billion in 2000 to $210.2 billion in 2013 [China Analyst, 2014]. “Today, China accounts for 20% of Africa’s trade ... Africa is China’s fastest-growing export destination and trade partner,” according to Standard Bank [2012]. South Africa’s bilateral trade with China in 2013 increased by 32% over the previous year, according to official data. Two-way trade between these two countries increased from $19.2 billion in 2012 to about $25 billion at the end of 2013 [TBP and Agencies, 2014].

India-Africa overall trade grew from 2005 to 2011 by 32.4%, which is higher than China-Africa trade growth at 27% [Confederation of Indian Industry (CII) and World Trade Organization (WTO), 2013, p. 18]. India-Africa trade amounted to $46 billion in 2010, and rose to $70.3 billion in 2012. At the third Africa–India Trade Ministers Dialogue in 2013, the target for bilateral trade for 2015 was revised to $90 billion from $70 billion, which had been set at the first meeting. The top six African exporters of Nigeria, South Africa, Angola, Egypt, Algeria
and Morocco account for 89% of total African exports by value to India, thanks mainly to the export of oil, ore and gold. In 2011 the top six had a trade surplus above $24.5 billion, and by the end of 2015 their trade surplus could reach $67 billion. However, 40 of the 54 African countries have a negative balance in trade with India [CII and WTO, 2013, pp. 16–17]. As an importer of oil and other natural resources, India has diversified its trading partners beyond its traditional East African partners to include oil-rich Nigeria and resource-rich South Africa. Uranium from Niger, Uganda and Tanzania is also vital to India’s nuclear power industry.

In the past decade, Africa has become one of Brazil’s fastest growing trade partners. Brazilian trade to the continent expanded from $4.3 billion in 2000 to $28.5 billion in 2013 [Muggah, 2015]. North Africa, South Africa and Nigeria account for two thirds of Brazilian exports to Africa. Nigeria accounts for over half of Brazil’s African imports, all of which is crude oil. Lusophone Africa accounts for just 12.6% of exports and 5.5% of imports (mostly Angola). Brazil’s trade deficit with Africa has averaged $2.5 billion per year [George, 2014].

Africa is the main supplier of natural resources for the BRICS countries. Mineral fuels account for 70% of Africa’s exports to China, 80% of exports to India and 85% of exports to Brazil. China, India and Brazil account for one quarter of all African exports (slightly more than 10% in 2005). China is the second export market for Africa after the EU, India is in fourth place, Brazil in sixth. These three countries account for almost 22% of African imports (13% in 2005). African imports from India grows annually by 23.1%, from China — by 25.6%, from Brazil — by 12% [CII and WTO, 2013, p. 19].

Russia lags behind other BRICS countries in trade and economic cooperation with Africa. According to the statistics produced by the Russian Federation, its trade turnover with Africa amounted to $9.6 billion in 2012, while Standard Bank calculated it at $9.4 billion [Korendyaysov, 2014, p. 241; Freemantle and Stevens, 2013]. African exports to Russia account for only 1% of the continent’s exports to the BRICS countries. Russian exports to Africa have recently increased slightly and account 7% of BRICS countries’ exports to the continent. Russia’s main import partners are South Africa (22%), Morocco (19%) and Egypt (13%); its main export partners are Egypt (48%), Morocco (16%) and Tunisia (12%) [Green, 2012]. Russia introduced a preferential trade system for African exporters of traditional export goods to remove import duties and restrictions. After South Africa became a member of the BRICS, its trade with other African countries rose from $21.4 billion in 2011 (South African exports were $13.81 billion and its imports were $6.55 billion) to $24.5 billion in 2012 (export were $14.49 billion, imports were $10.02 billion) [Sandrey, Mpitsa, Vermaak et al., 2013]. The creation of the BRICS-Africa Export-Import Forum in 2012 further promoted bilateral trade.

The BRICS as a Donor in Africa

The BRICS contribution to development financing has increased over the last years. The BRICS has become an important actor in development aid to African countries. China is leader in this area of cooperation. It provides assistance to almost all African states, although the main beneficiaries are the resource-rich countries. The fifth ministerial conference of the Forum on China-Africa Cooperation (FOCAC) in Beijing in 2012 adopted the Beijing Action Plan (2013–2015). It laid out steps that include measures to support regional integration and sustainable development and emphasized the need for cooperation in agriculture and food security. China has pledged to provide African countries loans worth $20 billion — twice as much as that pledged at the 2009 FOCAC meeting [Hu, 2012]. During a visit to Africa in May 2014, Premier Li Keqiang announced the new loans to African countries in the amount of $10 billion [Blanchard, 2014]. On 24 October 2014, President Xi Jinping announced an assistance package
China continues its commitment to preventing the spread of the deadly virus in West Africa [Shan, 2014]. China also cancelled $30 billion in the debts of 35 African countries.

According to the white paper “China-Africa Trade and Economic Co-operation,” between 2010 and 2012 China approved concessional and soft loans to 92 African projects in the amount of at least $11.3 billion ($4.7 billion per year). Most were granted by the Export-Import Bank of China (China Eximbank) [People’s Republic of China, 2013]. Between 2000 and 2011, China carried out 1,673 non-investment projects in infrastructure, transport and energy worth $75.4 billion in 50 African countries [UN Integrated Regional Information Networks, 2013].

India has also increased its development aid to African countries. India approved $4.2 billion in loans, with 36% in agriculture and 23% in energy [Jacob, 2015]. The main beneficiaries between 2005 and 2013 Ethiopia ($1,004.5 million), Sudan ($691.9 million) and Mozambique ($639.4 million) [Mullen, 2014, p. 4]. One completed project is a power plant with the capacity of 120 megawatts (MW) in Zambia, built by Tata Steel. Indian technologies have allowed Uganda to triple its energy supply from 300 MW to 1,000 MW. At the third Africa-India trade ministers meeting in Johannesburg in October 2013, South Africa’s Rob Davis said that: “India is ideally placed to help Africa industrialise ... Africa was now at a point where it needed to industrialise ... to move beyond the extraction and export of commodities to the production of value-added goods” [SA News, 2013].

Under Lula, Africa was among the first recipients of Brazilian aid and remains a significant recipient today. Brazil has cancelled $900 billion in African debts. The Brazilian Agency of Cooperation (Agência Brasileira de Cooperação, ABC) has developed 77 technical cooperation projects, more than half in Africa, with particular attention to the agricultural sector. In 2012, Brazil set up a national programme for farm development that increased family-based agriculture. Brazil takes its experience to the African countries. The success of its agricultural model is due mainly to the vertical integration of the sector, strong support from the state and a high level of mechanization. The Brazilian Agricultural Research Corporation (EMBRAPA), which has 47 research centres and 14 technology transfer centers, provides financial and credit support to farmers. After opening an office in Accra, Ghana, in 2006, it engage in projects in more than 13 African countries. It now has offices in Mali, Mozambique and Senegal; it is helping to develop production of soybeans, sugar cane, corn and cotton in Tanzania; and it has established an agency of agricultural technologies in Ethiopia. EMBRAPA is implementing a cotton-growing project (Cotton-4) in Mali that has been extended to Benin, Burkina Faso and Chad. The goal is to increase the production of cotton in four African countries [Borzova, 2014, p. 285]. It will also be extended to Togo. Students from the Democratic Republic of Congo (DRC), Nigeria and Tanzania are exploring EMBRAPA’s innovative technologies [Juma, 2013]. A recent field of Brazil activity in Africa has been the production of biofuels in Mozambique, Angola and Nigeria.

Russia renders assistance to Africa mainly through international organizations and foundations. Russia has cancelled $20 billion in African debts. From 2009 to 2012 it provided $100 million to least developed countries (LDCs) [RT, 2012]. Since 2005 Russia has been making regular payments to the World Food Programme. Assistance was provided to ensure food security ($244 million) and health care. It has contributed $235 million to the Global Fund to Fight AIDS, Malaria and Tuberculosis as well as $30 million to fund the fight against the Ebola epidemic in West Africa. From 2009 to 2012, Russia has paid $32 million to support education programmes, mainly in African countries. In 2013 it provided 750 scholarships for Africans to study in Russian universities [Vasilyev and Korendyasov, 2014].
Since independence South Africa has positioned itself as a partner of African countries within the framework of South-South cooperation. As president, Thabo Mbeki was one of the initiators of the New Partnership for Africa’s Development (NEPAD). According to Sven Grimm [2013, p. 39], director of the Centre for Chinese Studies at Stellenbosch University, South Africa is a “medium-size” donor. Its advantageous financing facilities include regional organizations, primarily the AU and the Southern Africa Development Community (SADC). South Africa also provides humanitarian assistance to LDCs, including South Sudan, Congo and Rwanda.

In recent years, the African Renaissance and International Cooperation Fund has provided funding of $45–$75 million annually in approximately 20 projects, in particular to support states emerging from conflict situations and to assist the holding of elections (such as in the DRC and Sudan) [Tjonneland, 2013].

BRICS-Africa Investment Cooperation

The BRICS has become a significant investor in Africa. The BRICS countries have strengthened their presence on the continent compared to traditional partners such as the United States and the European Union. In 2010, for example, the BRICS share in inward stocks of foreign direct investment (FDI) reached 14% and FDI inflows to Africa reached 25%. Among the top 20 investors in Africa in 2011, China, India, South Africa were ranked fourth, fifth and 17th in terms of FDI flows; South Africa, China, India and Russia were the fifth, sixth, seventh and 15th largest holders of FDI stock. The BRICS share in the total value of African greenfield projects reached 25% in 2012 compared to 19% in 2003 [UN Conference on Trade and Development (UNCTAD), 2013a, b]. The total investment of BRICS members in Africa represented a quarter of the continent’s total inflows for 2012. FDI stock to other BRICS countries accounted for only 3.2% of Indian outward stock, 2.2% of Chinese outward stock, and 0.3% of Russian and Brazilian outward stock. Chinese investments in South Africa, meanwhile, continued to grow. Between January 2003 and January 2014, there were 38 FDI Chinese projects in South Africa. These projects represent a total capital investment of about $1.24 billion, which is an average $33 million invested per project [TBP and Agencies, 2014].

For some experts, the BRICS engagement in Africa is driven only by the continent’s abundant natural resources. The BRICS countries are significant exploiters of natural resources in many African countries. However, natural resources do not represent the main BRICS investment in Africa. According to UNCTAD [2013a], 75% of the value of BRICS FDI in Africa between 2003 and 2012 was in manufacturing and services. Only 10% of projects and 26% of their value were in the natural resources and agricultural sectors [AfDB, 2013]. BRICS FDI in African projects in the manufacturing and services sectors has positive consequences for job creation and industrial growth.

The biggest investor among the BRICS countries is China. According to its FDI Statistic Bulletin for the year to September 2013, China increased its outbound FDI to a record $87.8 billion, up 17% percent since 2012, in sharp contrast to global foreign investments, which declined by the same amount [Patlansky, 2014]. Chinese outbound direct investment in Africa totalled $25 billion by the end of 2013. Speaking at Africa Investment Summit in Hong Kong in November 2013, Zhao Changhui, China Eximbank’s chief country risk analyst, said that China had pledged to provide $1 trillion in financing to Africa up to 2025 to be invested in infrastructure, industry and agriculture [Kuo, 2013].

Some sources estimate the stock of Indian investment in Africa at over $32 billion [CII and WTO, 2013, p. 18]. At the CII-Exim Bank Conclave on the India-Africa Project Partnership in New Delhi in March 2013, 622 Indian and 893 African representatives from 45 African
countries discussed 477 projects worth $68.37 billion. The nine conclaves from 2005 to 2013 attracted 7,641 delegates, including 3,791 from Africa, with 1,985 projects worth $172 billion discussed [CII and WTO, 2013, p. 52]. The India-Africa Project Partnership promotes the development of small and medium-sized enterprise in Africa.

Brazil’s investments in Africa are concentrated in the mining, construction, agriculture, biodiesel, energy and pharmaceutical industries. They go mainly to Lusophone Africa (Angola and Mozambique) and to oil suppliers (Algeria and Nigeria). Brazil has expanded its business in the ethanol industry in Angola, Ghana and Mozambique [UNCTAD, 2013a].

The direct investments of Russian companies in Africa were estimated for 2012 to be approximately $9 billion. The volume declared for 2013 to 2020 was $17 billion. Russian investment in Africa accounted for 2013 to approximately 4% of its FDI stock ($362 billion) and approximately 3% of all FDI stock in Africa ($560–570 billion) [Korendyasov, 2013, p. 100]. Up to 80% of Russian investment was directed to the exploration and extraction of natural resources.

South Africa is becoming a visible investor in African countries, particularly in the form of public-private partnerships, which involve contracts between public and private sectors. Its projects cover several countries including Burundi, Djibouti, the DRC, Egypt, Kenya, Rwanda, Sudan, Tanzania and Uganda. In 2012 South Africa invested in 75 projects on the continent — more than any other country.

BRICS Companies on African Markets

More than 2,500 Chinese companies are doing business in Africa in finance, energy, manufacturing and telecommunications. Among them are big corporations such as the China Harbour Engineering Corporation (involved in building bridges and ports), Road and Bridge Construction Company Limited (109th among the top 225 corporations in the world), which has engaged in approximately 500 projects in Africa; and the China Railway Construction Corporation, which won some tenders in Africa in 2012 [Deych, 2014, pp. 166–67]. By the end of 2013 the total volume of projects contracted by Chinese companies in Africa included the construction of more than 2,200 kilometres of railways and 3,500 kilometres of roads.

Africa’s natural resources receive special attention from Chinese and Indian companies. China’s leading oil companies are very active in Angola, Nigeria and Sudan. Among them are the China Petroleum and Chemical Corporation (Sinopec), which is in the top 10 Asian oil corporations, the China National Petroleum Corporation (responsible for 66% of China’s oil and gas production and 42% of processing), and the China National Offshore Oil Corporation [Deych, 2014, p. 185]. Despite the frequent accusation that Chinese companies use workers from China instead of hiring locally, according to Chinese sources more than 85% of the employees and staff engaged in Africa by Chinese corporations are African people [APC Communiqué, 2012].

The footprints of Indian private sector and public sector enterprises can be seen in Africa. Major private sector enterprises include Tata, Mahindra and Mahindra, Ranbaxy Laboratories, Fortis, Vedanta, Kirloskar Brothers Limited, Bharti Airtel Communications and NIIT Technologies. In March 2014, the state-owned Oil and Natural Gas Corporation Limited (ONGC Videsh) and Angola’s Sonangol signed an agreement to development oil found in the sea shelf. Indian companies participate in developing coal and gas deposits in Mozambique. Public sector enterprises such as Indian Telephone Industries, Rail India Technical and Economic Services (RITES) and Konkan Railways are also very active in Africa [Verma, 2012]. India willingly uses local staff in its African projects, so its policy is less criticized on the continent.
Large Brazil companies are also active in Africa, particularly in the oil and gas and mining sectors. There are more than 100 Brazil firms in Angola, where 30,000 Brazilians work [Kiala and Ngwenya, 2011]. Vale do Rio Doce (Vale) operates in seven African countries, including a coal project in Mozambique responsible for creating 4,500 jobs. Vale plans to invest in Africa $12 billion over five years, with $8.2 billion going to Mozambique [Kinch, 2012]. The oil giant Petrobras, active in 28 countries, invested $3 billion in Africa between 2009 and 2013. The construction company Odebrecht engages in biofuel production in Angola, Libya, Liberia, Mozambique and Ghana. Its first plant, producing ethanol, was built in Sudan.

Eighteen major Russian companies have 40 projects in Africa, mainly in mining. Rusal, one of the world leading aluminum producers, has operations in Namibia, Guinea, South Africa, Angola and Nigeria. Lukoil has invested in oil exploration in Cote d’Ivoire, Sierra-Leone and Ghana [AfDB, Organisation for Economic Co-operation and Development (OECD), United Nations Development Programme (UNDP) and UNECA, 2011] . The important projects are the development of manganese and vanadium in South Africa by Renova and Evraz; iron in Liberia, Congo and Gabon by Severstal; and diamonds in Angola by ALROSA. Gazprom is developing oil fields in Algeria, Nigeria, Namibia and Equatorial Guinea [Korendyasov, 2013, pp. 100–01].

South African companies play important role in the energy, mining and food sectors in African economies. Sasol, a global player in energy and chemical industries, is active in Mozambique, Botswana, Gabon and Nigeria. Anglo Gold Ashanti, the first South African gold extractor, operates in Ghana, Mali, Namibia and Tanzania [UNEC, 2013, p. 16]. The agribusiness firm Tiger Brands has made acquisitions in Nigeria, buying the biscuit manufacturer Deli Foods Nigeria in 2011 and a 63.5% stake in Dangote Flour Mills in 2012 [Mthembu-Salter, 2013].

Focus on African Infrastructure

Poor infrastructure is a major impediment to faster economic development in Africa. The continent loses two percentage points of GDP growth annually as a result of its infrastructure deficit. According to the World Bank, in 2011 16% roads were paved in sub-Saharan Africa, compared to 26% in Latin America, 65% in East Asia and 79% in member countries of the Organisation for Economic Co-operation and Development (OECD). [Marlier, 2014]. Only one in three Africans had access to electricity, compared to nine in ten people elsewhere in the developing world [Ibid.]. To close this gap, Africa must invest about $93 billion a year in infrastructure within a decade, but in 2011 spent only $45 billion [KPMG, 2011].

The BRICS countries have paid special attention to this problem. They have been more involved in African infrastructure than western countries. The eThekwini Declaration, issued at the fifth BRICS summit, shows that African infrastructure is among the priorities of BRICS foreign policy. The BRICS countries declared: “We will seek to stimulate infrastructure investment on the basis of mutual benefit to support industrial development, job-creation, skills development, food and nutrition security and poverty eradication and sustainable development in Africa” [BRICS, 2013].

In 2012 China became the number-one outside investor in African infrastructure, with $13 billion invested. The next largest investor was the World Bank at about $4 billion [Frimpong, 2014]. China participated in more than 500 infrastructure projects. It followed the principle of raw materials in exchange for infrastructure; its agreements include investing not only in resource extraction but also in railways and roads, dams, power stations and buildings. In 2012 Xu Jintao said about 100 schools, 30 hospitals, 30 anti-malaria clinics and 20 centres for dem-
onstrating agricultural technologies had been built with Chinese aid in Africa [Ighobor, 2013]. The new AU headquarters in Addis Ababa, Ethiopia, is called “China’s gift to Africa” – Beijing has built it free of charge.

China has been awarded a contract for restoring the Benguela railway connecting the copper belt of Zambia and DRC with the Angolan port of Lobito, with a contract to construct the rail system from the interior Nigeria to the coast. Chinese companies are building railways in South Africa and Mozambique and the highway in Kigali, the capital of Rwanda. The visits of Nigeria’s Goodluck Jonathan and Kenya’s Uhuru Kenyatta to China in 2013 resulted in loans for infrastructure development: Kenya received $3.75 billion for the construction of Mombasa-Nairobi-Malabo railway to connect Kenya, Uganda, Rwanda and DRC, a key project in Kenya’s “Vision-2030” national development strategy [Ndonga, 2013]. In 2014, Uganda invited six Chinese companies to compete for up to $8 billion in contracts to expand its railway network and help improve trade routes with four bordering countries [Ojambo, 2014].

The TAZARA railway, connecting the copper belt of Zambia to the Indian Ocean through the territory of Tanzania, built by China in the 1960s, is still called a “project of the century.” Beijing is constantly investing in the repair of this road and intends to combine it and Benguela railway in Angola. This will create an east–west corridor across the continent to accelerate the flow of goods and help African integration.

Brazil’s activity in African infrastructure is also growing. Odebrecht has completed projects in Congo, Botswana, South Africa, Gabon and Djibuti. Africa needs not only roads and bridges, but also human employment, so the company employs local workers for the job. In Liberia, where it is building a railway and where the unemployment rate is 80%, people come for hundreds of kilometres to the site in Monrovia in search of work [Lewis, 2011].

Through its President Infrastructure Initiative, South Africa is engaged in nine big African projects and fully financing two of them. Among them are the terminals in Dar Es-Salam, Tanzania, the port in South Africa’s Durban and a railway in Zimbabwe. According to the development strategy presented by South African government in 2012, Transnet is investing $39.1 billion for seven years to develop South Africa’s port and railway infrastructure. The strategy foresees the growth of transportation volumes from 200 million to 350 million tonnes per year and the creation of 588,000 jobs. South Africa’s Spoornet, with shares of 80% in African railways, is reconstructing the rail line linking Ethiopia and Eritrea. The South African government has allocated $1.5 billion for constructing the railway between South Africa and Swaziland, which will cost $2 billion and will take three years from 2013 to 2016 [Phatkathi, 2012].

The Banking Sector as a Coordinator of Financial and Economic Cooperation

The banking sector plays a significant role in financial and economic cooperation between the BRICS and Africa. First, it involves Chinese financial institutions, which participate actively in aid and investment in African countries. The state-owned China Development Bank (CDB) oversees government equity support for Chinese corporations in commercial activities in Africa. The CDB has overtaken the World Bank and the Asian Development Bank as the largest financial institution providing overseas loans. The CDB launched the China-Africa Development Fund in June 2007 with a $1 billion fund to encourage and support Chinese business operating in Africa. In 2013 Wang Yong, CADF executive vice president, said that in the past six years fund had committed $2.4 billion in 64 projects in more than 30 African countries [Wakaba, 2014]. The China Eximbank has become the world’s largest export credit agency with significant and expanding operations in Africa. Ethiopia’s Mulatu Teshome said that “these institutions are playing a very significant role in Africa’s economic development” [Moody and Chao, 2014].
The India Exim Bank also manages loans and credits to African countries. Asian banks are working closely with the African development banks, including the African Export-Import Bank (Afreximbank), the ECOWAS Bank for Investment and Development, and the East African Development Bank.

In 2009 the Brazilian Development Bank (BNDES) started a line of credit worth $265 million and another one worth $360 million in 2010 for companies willing to conduct business in Africa [IPEA and World Bank, 2012, p. 6]. BNDES disbursed roughly $2.9 billion to underwrite projects in Africa between 2007 and 2014 [Muggah, 2015]. In 2013 it has opened an office in Johannesburg.

Russia’s Vneshtorgbank opened the first bank in Angola to have predominantly foreign ownership, and then moved into Namibia and Cote d’Ivoire. Renaissance Capital owns 25% of the shares in Ecobank, one of the largest banks in Nigeria [UNCTAD, 2013a].

South Africa is also engaged in BRICS banking with Africa. The continent’s five biggest banks are South African, and all of them finance African projects. Standard Bank has an extensive continent-wide footprint and plays an important role in financial assistance to African countries. South Africa also invests in Africa through the Industrial Development Corporation and the Development Bank of South Africa.

The recently created New Development Bank (NDB), with an initial capital of $50 billion, which later will grow to $100 billion, must contribute to expanding investment cooperation for implementing infrastructure projects in Africa. The aim of this bank is to mobilize resources for infrastructure projects and sustainable development in BRICS countries and other emerging economies and developing countries, including in Africa. The bank will have a regional centre in South Africa. The NDB and its reserve currency pool of $100 billion are alternatives to the World Bank and the IMF, where the North countries play the decisive role. In this sense the BRICS is a system for South-South cooperation. The new bank demonstrates the changes that have been taking place in the world over the last decade. As Mark Adomanis [2014] wrote, “Ten years ago the creation of such bank would have been greeted with open derision and laughter in Washington, London, Paris, and other western capitals. They’re certainly not laughing anymore.”

Soft Power as an Important Tool for the BRICS

The BRICS actively pursues its foreign policy goals through the use of soft power. Human resources receive special attention. The long-term goal is to form African elites, oriented on South-South cooperation. BRICS activity embraces such spheres as health care and education. The first meeting of BRIC health ministers in 2011 issued “The Beijing Declaration,” which emphasized cooperation with international healthcare organizations and among BRICS countries for transferring effective technologies and providing developing countries with high-quality medicines [Sidibé, 2011]. The BRICS governments and private enterprises participate in the African healthcare sector, including building hospitals and anti-malaria clinics and training medicine specialists.

At the FOCAC ministerial conference in 2012, Hu Jintao declared that China would shift development assistance for Africa from “hard” infrastructure assistance to “soft” assistance, and would stress education, people-to-people exchange and joint research [Zhang, 2013].

The Chinese telecommunications giant Huawei has signed contracts for $400 million to provide mobile links for Kenya, Zimbabwe and Nigeria. ZTE invested in the modernization of television and telephone networks in several African countries. Companies such as Huawei and ZTE force out western telecommunications companies in some African countries.
development of human resources in Africa, China proposed the African Talents Programme to provide training for 30,000 professionals in various fields [Chinese and African Foreign Ministers, 2013]. In 2012 scholarships for education in Chinese universities were granted to 20,000 Africans. Beijing created 38 Confucius Institutes in Africa, where students learn the Chinese language, history and culture [Li, 2014]. Programmes for scientific exchanges and common research projects are also being developed.

India is engaged in creating a single African system of fibre-optic and electronic communications (the Pan-Africa Network) to provide Indian educational and medical support to participating African countries, remotely via satellite technology. Telecommunications Consultants India Limited is implementing the project on a turnkey basis through a $125 million grant. The project will provide tele-consultations for selected hospitals in Africa with 12 super specialty hospitals in India. Indian medical institutions will also offer separate daily consultations to hospitals in 54 African countries. As of January 2013, more than $30 million of the $125 million has been spent. By 2013, 12 super specialty hospitals were connected to 48 African hospitals where 460 tele-consultations and 2,500 continuing medical education sessions had been conducted. Simultaneously, 47 training centres were connected to five Indian universities, and nearly 10,000 students had signed up for various courses and more than 3,500 tele-education sessions had been conducted.

The Indian Technical and Economic Training Programme is active in Africa. By 2012, $2.8 billion had been spent on the programme since its launch in 1964, with $1 billion used to support training and technical assistance to African countries. The Indian government increased the number of spots reserved for Africa in training programmes from 531 in 2007/08 to 998 in 2010/11 [Mullen, 2014, p. 5].

Over the years, such programmes have been able to create a network of people in Africa associated with India, including politicians, civil and business communities. The number of Indian educational programmes in Africa is growing. Training is conducted in English and the price is lower than for traditional donor training. India provides support to African research centres, including the Institut de Tunis in Tunisia, the Institute of Mathematics and Physical Sciences in Benin, and the School of Science and Technology of Masuku in Gabon. India plans to create more than a hundred scientific, innovation centres and institutions in Africa for human resources development [Usov, 2013, p. 243].

In 2011 Brazil signed 53 bilateral agreements on health care with 22 African countries. With its rich experience in tropical medicine, it has invested in specialized health centres on the continent. With the assistance of the Oswaldo Cruz Foundation, its leading medical research institute, Brazil invested about $23 million to create a factory to produce generic drugs for treating HIV/AIDS in Mozambique, where 10% of the population is infected by the virus. The factory began operating in 2012.

Brazil has provided scholarships for African students to complete their graduate and undergraduate education in Brazilian public institutions. It helped Cape Verde to create its first public higher education institution in 2006 and in 2010 inaugurated the Afro-Brazilian University of Integration, opened to students and professors from African countries. Students from Nigeria, Tanzania and other African countries study innovation in agricultural technologies through EMBRAPA [Juma, 2013].

In 2010 the Russian company Prognoz began to create a unified continental network in Africa for the exchange and dissemination of statistical data. By the end of 2011, it completed the work on the statistics portal of the African Development Bank and created 10 applications for statistical agencies in African countries. It released a software package for Mozambique in 2011 and for Rwanda in 2012. It has signed a contract to create a portal with data for the socio-
economic development of the 19 member states of the Common Market for Eastern and Southern Africa (COMESA). CEO Dmitriy Andrianov stated that “there is a real prospect to ensure the most countries of the continent by such developments” [Afrocom, 2012].

Russia’s voluntary contribution to the Global Fund is $235 million. It has contributed $20 million to the World Bank programme against malaria in Africa and $18 million to support the World Health Organization action against polio [Korendyasov, 2013, pp. 107–08]. In 2014 Russia paid $30 million to the fund to fight the Ebola epidemic in West Africa. Russia is also involved in educating and training professionals. From 2008 to 2012 it allocated $43 million to the World Bank for the implementation of an international programme to improve the quality of basic education, which was initiated by Russia. There are 4,500 Africans studying in Russia’s higher education system, and 8,000 Africans have received their education at Russian universities [UNECA, 2013, pp. 16–18]. In 2013 the Russian government granted 750 scholarships to African students [Vasilyev and Korendyasov, 2014].

The main South African company involved in telecommunications is MTN, which is a mobile telecommunication group with licences in 21 countries across Africa and the Middle East. The insurance firm Sanlam and the media firm Naspers are also active in Africa. South Africa is engaged in challenge of health care in African countries. In 2003 Aspen Pharmacare launched the first antiretroviral drug developed and manufactured in Africa. Now Aspen is one of the leading global players in generic antiretroviral drugs [Maritz, 2014].

The BRICS and Africa’s Security

What brings the BRICS members together is a common interest in creating a just and democratic world order based on a collective approach to resolving international problems and the rule of international law. The BRICS rejects the attempts of one country or a limited number of countries to impose their will on the rest of the world. The five countries’ cooperation in the UN proves that eloquently. More generally, with regard to the Middle East and Africa, the BRICS has declared that the use of force should be avoided. The Fortaleza Declaration issued at the sixth BRICS summit in 2014 states: “We condemn unilateral military interventions and economic sanctions in violation of international law and universally recognized norms of international relations. Bearing this in mind, we emphasize the unique importance of the indivisible nature of security, and that no State should strengthen its security at the expense of the security of others” [BRICS, 2014]. The leaders “expressed the deep concern at the deterioration of the security and the humanitarian situation in West Africa” and commended the efforts of the international community “in addressing instability in Africa through engagement with, and coordination by, the AU and its Peace and Security Council.” They added: “We call upon all parties in these conflicts to cease hostilities, exercise restraint and engage in dialogue to ensure return to peace and stability.”

All BRICS countries are active in UN peacekeeping on the African continent. In April 2015, according to the UN, 8,112 peacekeepers from India, 1,678 from Brazil, 2,135 from South Africa, 2,899 from China and 68 from Russia participated in peacekeeping operations [UN Peacekeeping, 2015a].

China plays a significant role in peacekeeping operations in Africa. At the end of 2012, there were Chinese experts and police personnel assigned to six of the seven UN peacekeeping operations in Africa. China is the highest contributor of peacekeepers among the members of the UN Security Council. The South Sudan crisis pointed China’s emergent peacekeeping role. The team of 331 officers and soldiers made a significant contribution to the conflict-ridden country in 2011. But the UN mission to Mali in 2013 was the first where the Chinese had com-
bat mandate [CCTV Africa, 2014]. When a conflict broke out between government and rebel-
lious groups in South Sudan in May 2014 Beijing sent 850 soldiers [Sapa-AFP, 2014].

India has displayed the capacity to make large contributions to UN peacekeeping activi-
ties in Africa. Its contribution is the third largest in the world and the top BRICS member, with
more than 9,300 peacekeepers deployed in various missions in Africa in 2010 [van Rooyen,
2010]. India and China are engaged in the struggle against piracy on the coast of Somalia. To
counter piracy, a working group has been set up to look into the economics of piracy, and three
ships of the Indian Navy patrol the Gulf, the Arabian Sea and the area near the Seychelles at
any given time [Verma, 2012].

Brazil also participates in UN peacekeeping missions in Africa. As of April 2015, it had
eight observers in the UN mission in the Western Sahara, three peacekeepers in the UN In-
terim Security Force for Abyei, four in the UN Mission in Liberia, 10 in the UN Mission in
South Sudan and six in the UN Operation in Côte d’Ivoire [UN Peacekeeping, 2015b].

Russia is not among the leading actors in UN peacekeeping, although its peacekeepers
take part in all the UN missions in Africa and its role is growing. Russia also takes part in Afri-
can peacekeeping training. The number of African annually trained in Russia has increased to
400.

South Africa ranks third among the BRICS countries in the number of peacekeepers it
provides to UN missions. It also uses its diplomacy and political influence by sponsoring peace
talks and participating in the settlement of conflict situations on the continent.

The BRICS in Africa: Problems and Prospects

Since 2014, the forecasts for the BRICS and its policies in Africa have grown pessimistic. In
their analytical calculations the Goldman Sachs economists predicted if the rate of development
of the BRICS countries does not decline, collectively they could be larger than the six leading
industrial countries combined by 2039 [Walker, 2014]. However, growth in all five countries has
begun to slow, especially in Brazil and Russia. There is now a downturn in the Chinese econ-
omy, which has enjoyed extremely high rates of growth for the last three decades. In 2014 its
economy grew 7.45%, the weakest growth in 24 years. The IMF considers “geopolitical risks,”
and, more precisely, Ukraine and the Middle East, as a major threat to global economic recov-
ery [Ibid.]. Its forecasts have drawn attention to problems holding back the forward movement
of the BRICS such as the role of commodity exports in the Russian and Brazilian economies in
weakening their competitiveness and attractiveness for business.

However, many economists believe that the BRICS can change the situation, noting in
particular that China is seeking a more sustainable model of economic development. India
seems to be causing less anxiety in financial markets and international economic institutions
at the moment. Many investors have welcomed the new government of Narendra Modi, which
took office in May 2014. Jim O’Neill, who coined the acronym BRICS when he was at Gold-
man Sachs, says: “I am more optimistic than I have been for some time about India” [Walker,
2014].

Each BRICS country has its advantages in Africa. China is the largest partner of African
countries in trade, investment and development aid. There are significant financial possibili-
ties for China to participate in many projects in Africa, particularly regarding infrastructure.
Unlike China-Africa cooperation, where state corporations play the leading role, India-Africa
cooperation is mainly at the level of large and medium-size private business. India provides less
financial aid to Africa than China, but is the first among BRICS countries in technologies and
services transfer.
Brazil gives Africa less funding than China and India and instead focuses on technical aid and on the transfer of technologies, services and expertise, particularly in the agricultural sector. Since 2012 Brazil has been carrying out a national programme of farming, and passes on its experience to African countries. The advantages of Brazil’s agricultural model include vertical integration, state support and a high level of mechanization. Brazil also has the advantage of traditional ties with Africa, with more people of African descent than anywhere outside the continent. Brazil focuses is Lusophone Africa, and its relations with these countries are based on a common language. Brazil tries to avoid the mistakes that other BRICS countries have made in Africa. For example, its companies use local staff actively, contributing to solving the problem of unemployment: about 90% of Odebrecht employees in Africa are Africans [Economist, 2012].

Russia’s advantage is its rich experience of cooperation with African countries, accumulated during the Soviet period. Many former Soviet students occupy leadership positions in Africa and fondly remember their years of study in the USSR. Russia can use these ties with Africa in order to improve bilateral relations.

Having become the fifth BRICS member in 2010, South Africa considers its membership an opportunity to raise the international perception of its role as a regional leader of Africa. Its membership in the BRICS has received much criticism. Even O’Neill was dissatisfied with the addition, noting that the South African economy is not comparable with the economies of other members of the group. Its abilities are not generally recognized. In March 2013 Germany’s Bertelsmann Fund stated that South Africa was not a model of sustainable development, because it had not made progress in such important areas as education and social development and it could not put an end to unemployment. It also said that other African economies grow more successfully. However, according to Bheki Lang, South Africa’s ambassador to China, South Africa’s participation in the BRICS is justified because it plays the role of a financial “gateway” to Africa south of the Sahara and has a more powerful economic potential than other African countries [Tang, 2013]. Although South Africa may be inferior to the other BRICS members by economic parameters, its advantages are its rich resources, a strong financial and banking sectors, and experience in initiating and developing modern economic strategies (NEPAD) and regional economic integration (SADC). South Africa is also the sole state on the continent to have global-level high technologies.

Although the BRICS countries declare their willingness to cooperate, they still act as rivals in Africa. India competes with China for access to African markets. Major Chinese investment in African infrastructure and also recently in technology has forced India to seek opportunities to outstrip China, primarily in the areas of new technologies and human capital development. Brazil and India are eager to become permanent members of the UNSC, which also makes them competitors. China, India and Brazil compete with regard to African agriculture, where each is very active. Brazil is trying to counter China and India in Lusophone Africa, which it regards as its sphere of influence.

Nevertheless, there is a broad range of global problems where the interests of the BRICS and Africa coincide, and there are many fields where they can cooperate fruitfully. In spite of the competition for markets and resources in Africa, there are joint initiatives such as the India-Brazil-South Africa Trust Fund (IBSA Trust Fund) managed by the UNDP’s Special Unit for South–South Cooperation. The fund has provided funding from the three countries for projects in several LDCs in Africa, including Burundi, Cape Verde, Sierra Leone and Guinea Bissau. Things may move ahead: in 2015 in Brazil the BRICS ministers of science and technology signed a memorandum of understanding on science, technology and innovation that will provide a strategic framework for cooperation. According to a spokesperson at the Science
and Technology Division of Brazil’s Ministry of Foreign Affairs, the BRICS countries have already identified five priority fields of action regarding scientific cooperation [Ortiz, 2014]. The BRICS Business Council currently works on a number of promising multi-party projects, including some to improve the investment climate. The BRICS offers a new model of infrastructure co-funding, which can help BRICS countries work together in Africa and promote African integration. Russia has prepared a draft strategy of multi-party economic cooperation among the BRICS countries. The key provisions of the strategy are specified in another document prepared by the Russian side — a roadmap of investment cooperation, which incorporates 37 projects in various areas from high technologies to humanitarian matters [Mcilhone, 2014]. According to the “Concept of Russian Federation Participation in BRICS,” Russia wants to see the BRICS as a model of global relations and hopes that BRICS countries will work in Africa jointly [Paniyev, 2013].

The BRICS plays a bridging role between developed and developing countries. At the World Trade Organization it calls for reduced agricultural subsidies by the United States and the European Union, in order to increase the competitiveness of African agricultural products. It provides support for African countries in the negotiations on climate change. The BRICS stands for just democratic international order. The presence of the BRICS in Africa balances the traditional West supremacy on the continent. The BRICS has not only changed traditional trade and investment relations for African states, but has also created big opportunities for African economies: Africa’s growth is greatly influenced by its relationship with the BRICS. Africans appreciate the advantages brought by the aid and cooperation of BRICS members. For many years they adopted a western aid and followed western models of development, but never managed to put an end to underdevelopment. In their view, countries such as China, India, Brazil and Russia, and now South Africa, can bring something new within the scope of cooperation with African countries, can help them to solve some of the challenges of development and can help Africa achieve the Millenium Development Goals.

References


South Africa in the BRICS: Last But Not Least

V. Shubin

Vladimir Shubin – Professor, principal research fellow, Institute for African Studies, Russian Academy of Sciences; PhD (Honoris Causa), University of the Western Cape, South Africa; 30/1, Spiridonovka Street, 123001 Moscow, Russian Federation; E-mail: vlgs@yandex.ru

South Africa joined BRIC group of Brazil, Russian, India and China in 2011, two years after it was established, thus creating the BRICS. This was consonant with the main principles of South Africa’s foreign policy under its first democratic government. It regarded the association as a group of like-minded independent countries to be a political and moral force for changing the world. By admitting a leading African country to the group, the original BRIC members sought to eliminate the geographical divide and include the country that enjoys a high moral authority and plays important role in peacekeeping and mediating conflicts. Through its membership in the BRICS, South Africa wanted to achieve aims at various levels: addressing poverty, inequality and job creation at home; gaining synergic support from BRICS partners for Africa; and increasing support for reforming the international financial institutions and the United Nations. This article analyzes to what extent those plans have been realized during the four years of South Africa’s membership in the BRICS and comes to the conclusion that South Africa is the last but not least member.

Key words: South Africa, BRICS, IBSA, foreign policy, United Nations, New Development Bank, trade, peace and security

The Foundations of Foreign Policy of Democratic South Africa

In 2014, South Africa celebrated 20 years since the end of the apartheid regime and the creation of the democratic state. One distinct feature is a foreign policy drastically different from that of the previous regime. Its key foreign policy priorities were highlighted in Nelson Mandela’s [1993] article in Foreign Affairs: “the interests of the continent of Africa should be reflected in our foreign-policy choices; that economic development depends on growing regional and international economic cooperation in an interdependent world.”

Since 1994, South Africa has pursued closer bilateral ties with other African countries and emphasized the developing world as a whole, that is the countries representing the global South, including those that became BRICS members.

Joining this club of strong non-western countries was in line with South Africa’s foreign policy. It made an important step in this direction in June 2003, with the creation of the India—Brazil—South Africa (IBSA) Dialogue Forum. A prominent member of the South African cabinet said that Pretoria hoped China would join the group, and then, with Chinese encouragement, Russia.1

Nevertheless, in June 2009 when the first scheduled BRIC leaders’ summit took place in Yekaterinburg, no South African leader was there. South Africa was disappointed and, since the meeting took place in Russia, some blamed Moscow. However, only South Africa could be held responsible. The first practical step on the road to forming the BRIC was taken in September

1 Author’s discussion with a member of the South African Cabinet, Pretoria, 26 April 2005.
2006 when, on the initiative of the Russian president, the foreign ministers of Brazil, Russia, India and China met in New York during the United Nations General Assembly. In May 2009 the foreign ministers met outside New York, in Yekaterinburg. South Africa did not take part in these meetings but expressed interest in being part of the emerging group just some weeks before the first BRIC summit.2

Newly elected president Jacob Zuma and Maite Nkoana-Mashabane, his minister of international relations and cooperation, were determined that South Africa be part of the new group. In 2010, Zuma visited all four BRIC members, winning their support for South Africa’s membership. Nkoane-Mashabane, soon after Yekaterinburg Summit, sent an official letter to her counterparts and then, while in Beijing, said, “if you want to build houses, you need more than one BRIC” [Cheng, 2010]. On 23 December 2010 she received a call from her Chinese colleague, who said that South Africa was officially invited to join BRIC and Zuma was to attend its next summit in Sanya, China, in April 2011.

Why Did South Africa Want to Join the BRIC and Why Was It Admitted?

Why was South Africa so eager to join the BRIC and why did its members agree to it, given that it is much smaller in population, territory and gross domestic product (GDP)? Mandisi Mpahlwa, South Africa’s ambassador to Moscow, underlined that “it was never about the size of the economies, populations or landmasses of the BRIC member countries” [Department of International Relations and Cooperation (DIRCO) of the Republic of South Africa, 2011]. He made it clear that for Tshwane (the administrative capital of South Africa) the importance of the BRIC goes beyond economics and that it was viewed as “an association of like-minded countries with a reputation for being independent and committed to reforming global decision-making structures,” a political and moral force for change, that can help to create a better world.

At a “lower,” regional level, South Africa is interested in strengthening cooperation between the other BRICS members and African countries. In Zuma’s [2011] first speech at the Sanya Summit, he spoke about $480 billion needed to invest in Africa’s infrastructure and urged the companies from member states to collaborate with the New Partnership for Africa’s Development (NEPAD).

South Africa is often called the “gateway” to the African continent, and this probably played a role in the country’s admission to the BRICS. Speaking in Parliament in June 2011, Zuma referred to the BRICS membership as strengthening “our position as a gateway to Africa” [Gerrit, 2013, p. 407]. Recently, Rob Davies, minister of trade and industry, called South Africa “a driver of regional integration as well as being a major investor. It is a gateway to the region, though not a gatekeeper” [Joffe, 2015].

Prestige also played a role in South Africa’s desire to join the BRIC. Zuma [2011] said: “We are now co-equal co-architects of a new equitable international system.”

As to the second question of why the BRIC members agreed to accept South Africa, there were a number of reasons. South Africa was not the only country in the (informal) list of candidates, and some of them have bigger economies. For example, at that time the GDP of Indonesia was $847 billion, Mexico’s was $1.155 billion, Turkey’s was $773 billion, Korea’s was $1.116 billion and South Africa’s was just $408 billion [Centre of Humanitarian Technologies, 2014].

Clearly, however, the size of GDP was not the main criterion for inviting South Africa. The desire to have members on every continent, thereby eliminating the geographical divide, was

---

2 Author’s discussion with an official of the Department of International Relations and Cooperation, Pretoria, 31 March 2012.
more important. Nigeria, a rapidly growing competitor to South Africa, overtook South Africa in 2013 with $488 billion GDP [Magnowski, 2014]. Instead, other criteria came into play. South Africa has excellent infrastructure that makes it a gateway to the continent, the importance of which for the global economy has been universally recognized. Also, the political instability and growing terrorist activity in Nigeria also did not play in its favour.

Furthermore, South Africa enjoys a high moral authority on the international scene, having rid itself of apartheid. Also, it plays active role in peacekeeping and mediating during various conflicts, such as its successful facilitation of the political solution to the crisis in Zimbabwe and efforts to stop the war in the Darfur region of Sudan and in South Sudan.

**South Africa’s Goals within the BRICS**

Joining the BRICS was regarded by many in South Africa as a triumph of its foreign policy, but not by everybody, especially in the academic community. There were two other views apart from the supportive mainstream. One was negative (be it overtly or covertly). Mills Soko and Mzukisi Qobo [2011] regarded the prevailing feelings that accompanied South Africa’s admission as “an affront to our national pride.” This view follows Joseph S. Nye, a professor of neoliberalism in international relations and former U.S. assistant secretary of defence and chair of the U.S. National Intelligence Council, who had always been critical of the BRIC. Writing soon after the 2013 Durban Summit, he called it an “apparent success,” but remained “skeptical,” with his attitude clear in the title of his article — “BRICS without mortar” [Nye, 2013].

Narnia Bohler-Muller [2013, p. 368] of South Africa’s Human Science Research Council wrote: “Critics have pointed out inconsistencies in South Africa’s foreign policy engagement and have raised questions about its membership with BRICS that is seen to be compromising South Africa’s commitment to international human rights laws. As trade-offs are made for the sake of economic growth and development.” However, the reality was the opposite: as the only BRICS member to support the notorious UN Security Council (UNSC) Resolution 1973, South Africa facilitated (although of course unintentionally) gross violations of human rights during the North Atlantic Treaty Organization’s aggression in Libya that continue up to the present.

Critics reflected the position of those in South Africa who do not want it to be closer to the “non-western world.” However, all the BRICS members aspire to have good relationships with the West (even relationships are sometimes strained, such as in Russia’s case now), and Tshwane’s membership did not interfere with this vector of its foreign policy. In this regard, the discussion document drafted by the Department of International Relations and Cooperation (DIRCO) states: “South Africa will continue to pursue strategic partnerships with the North ... to mobilise support for Africa’s development” [Gerrit, 2013, p. 413]. Zuma [2015] confirmed this approach in his 2015 State of the Nation Address: “countries of the developed North remain important strategic partners for South Africa through which the country is able to advance its national and foreign policy.”

On the other hand, the criticism of the BRICS continues to be hear from the left or leftist part of the South African political spectrum, where the group is considered “sub-imperialist” [Bond, 2013a, p. 1]. Patrick Bond [2013b, p. 2] of the University of KwaZulu-Natal writes about South African “deputy sheriff” duty within BRICS.

**How South Africa Foreign Policy Works in Relation to the BRICS**

South African academic research on the BRICS is coordinated by the state-funded Human Science Research Council (HSRC). On the eve of the Durban Summit in 2013, the government designated the HSRC the incubator of the South African BRICS Think Tank supported
by DIRCO and the Department of Higher Education and Training. Since South Africa held
the BRICS presidency for 2013/14, its think tank was responsible for the agenda of the BRICS
Think Tanks Council, particularly for coordinating the drafting of a long-term vision and stra-
 tegy for the BRICS. Brazil inherited this role for the Fortaleza Summit in 2014, and South Afri-
 can academics continue to play an active role in it.

In 2013, HSRC incorporated the Africa Institute for South Africa (AISA), which was
instrumental in publishing a mammoth 447-page book, Laying the BRICS of a New Global
Order: From Yekaterinburg 2009 to eThekwini 2013, with contributions by researchers from all
five member states, including five Russian academics [Kornegay and Bohler-Muller, 2013].
Besides AISA and HSRC, a number of other South African think tanks are doing research
on the BRICS, including the South African Institute of International Affairs (SAIIA) and the
Consumer Unity and Trust Society (CUTS) International that, on the eve of the Durban Sum-
The Centre for Conflict Resolution organized a policy advisory group seminar on “South Af-
rica and the BRICS: Progress, Problems, and Prospects” in August 2014 [Centre for Conflict
Resolution, 2014].

Unlike in most other BRICS members, South Africa’s parliament plays a greater role in
foreign policy, in particular its portfolio committees on foreign affairs and on trade and in-
dustry. Both executive and legislative branches in South Africa actively project the BRICS as
essential for the country. In particular, DIRCO and its head Maite Nkoana-Mashabane, the
Ministry of Trade and Industry and its head Rob Davies, as well as other government bodies,
do their best to project the benefits of BRICS membership for South Africa.

For example, at the meeting organized by business associations, Richard Vries, CEO of
Gibb, “described the challenge that construction firms faced in competing with South Africa’s
giant BRIC partners for infrastructure contracts in Africa” [Fabricius, 2013]. He reflected the
views of those who worry that by joining the BRICS and facilitating the entry of the other
four members into Africa, South Africa is creating competition for itself. In response, Nkoana-
Mashabane told business leaders that instead of focusing on the challenges of competing with
the other BRICS members they should seize the opportunity presented by South Africa’s mem-
bership because “the time was past for assessing the virtues of being a member” [Fabricius,
2013]: She said that “I want us to spend more time, not listing challenges, but talking about how
we can get the most out of BRICS” and that business should “not spend so much time talking
about our smallness.”

DIRCO’s [2014b] official statement names the following (rather ambitious) goals:
“South Africa seeks to achieve through BRICS, among other things:
• “At domestic level: addressing poverty, inequality and job creation.
• “At a regional level: gaining tacit support from BRICS partners ... for the promotion
of the African Agenda and to ensure synergy among BRICS partners, as far as feasible,
regarding their engagement with Africa.
• “At an international level: to obtain increased support for the reform of International
Financial Institutions (IFIs), the revival of the Doha Development Agenda, as well as
the reform of the United Nations (UN) including the United Nations Security Council
(UNSC).”

It also expects that the BRICS-Africa cooperation “will support Africa’s efforts to diver-
sify and modernize its economies through infrastructure development, knowledge exchange,
increased access to technology, enhanced capacity-building and investment in human capital”
[DIRCO, 2014b].

3 The author took part in this seminar and this article benefited from the seminar report and delibera-
tions.
To What Extent Have the Hopes of South Africa Been Realized?

During the first four years of its membership, South Africa proved to be an integral part of the BRICS and not a second-class member. It hosted the fifth BRICS summit on 26 and 27 March 2013 in Durban, or eThekwini because the old city had become a part of municipality with a new name.

Unfortunately, this summit was not adequately covered in the Russian media, which concentrated on misunderstandings between the local police and the Russian president’s security detail at the expense of more important issues.4

South Africa’s BRICS experts believe that the summit helped broaden the country’s focus from mainly economic cooperation to development cooperation [Centre for Conflict Resolution, 2014, p. 9]. The five leaders established BRICS Business Council, composed of prominent entrepreneurs from each country and committed support to African infrastructure projects, as proclaimed in the eThekwini Declaration and Action Plan [BRICS, 2013].

In addition, as a supporting event for the fifth summit, a session of the BRICS Business Forum, established in 2010, was held on 26 March 2013 in Durban, and industry leaders from all five business communities took part [BRICS Business Forum, 2013].

Another important decision was the establishment of the BRICS Think Tanks Council, uniting research institutions of the five countries to provide critical analysis and policy advice to BRICS leaders.

The summit’s main theme, suggested by Tshwane, was “BRICS and Africa: Partnership for Development, Integration and Industrialisation.” In addition to discussion on the subject between the leaders of five states, South Africa organized a “retreat,” with the participation of heads of African continental and regional organizations. This demonstrated its claim to be a leading country of the continent, even if not everybody in Africa agrees.

South Africa’s membership in the BRICS offers it an opportunity to deepen and broaden its bilateral engagement with the other four members, even if “South Africa’s private sector — business as well as academia — has maintained a focus on developing external relations with partners in Europe and the United States” [Centre for Conflict Resolution, 2014, p. 16].

India and South Africa have historical ties. Both are former colonies of Britain, which contributed to the emergence of a large Indian diaspora in South Africa that now numbers about 1.3 million people. Mahatma Gandhi began his political career in South Africa, and the Indian National Congress subsequently influenced the creation of the African National Congress (ANC). India has actively supported the ANC and, in 1967, there was the ANC office in New Delhi. The first head of that office was the future South African foreign minister Alfred Nzo.

Contemporary South Africa–India relations are regarded as strategic partnership, established in March 1997. In addition to strong political ties, trade and commerce have grown steadily. Bilateral trade is growing 30% a year. However, Tshwane’s trade imbalance with New Delhi grew in the latter’s favour from about R4 billion in 2011 to R23 billion in 2013 [Centre for Conflict Resolution, 2014, p. 13].

Apart from the BRICS, a new collaborative group is the Indian Ocean Rim Association [2015], previously known as the Indian Ocean Rim Association for Regional Cooperation.

More controversial is the history of South Africa’s relations with China. The ANC established links with the People’s Republic of China in the 1950s; however, in an environment of

4 However, according to Vyacheslav Nikonov it is not right to speak about “our mass media,” because 62% of Russian media outlets belong to non-Russian citizens and therefore are vulnerable to any trends that may be contrary to Russia’s national interests [Barshchevsky, 2012]. That is also true in respect of the coverage of BRICS.
growing Sino-Soviet differences, Beijing, believing the ANC too close to its rival, froze its relations with the organization for two decades. These circumstances delayed the establishment of diplomatic relations with Beijing for a long time. The new ANC-led government inherited close ties with Taiwan and kept them until January 1998. However, China became South Africa’s biggest bilateral commercial partner. Trade turnover has been growing significantly annually, and South Africa accounted for 31% of China’s trade with the African continent in 2013 [Olsen, 2013]. However, South Africa has a high trade deficit with China, which stood at about R39 billion in 2013 [Centre for Conflict Resolution, 2014, p. 13]. South Africa exports mostly primary products to China and imports manufactured goods.

A feature of South African–Sino relations is the number of high-level visits. South Africa’s entry into the BRIC group was discussed and determined during Jacob Zuma’s trip to China in August 2010, when the Beijing Declaration on the Establishment of a Comprehensive Strategic Partnership Between the People’s Republic of China and the Republic of South Africa and a number of other bilateral agreements were signed. The following year, in September 2011, South African deputy president Khalema Motlanthe led a trade delegation to Beijing. During that visit, the China Development Bank and the Development Bank of South Africa signed a $2.5 billion agreement. The two countries also signed a memorandum of understanding on geological exploration and mineral resources [2point6billion.com, 2011]. In July 2012, Zuma led a South African delegation that included Maite Nkoana-Mashabane and Rob Davies, as well as Collins Chabane, minister in the presidency, to the fifth Forum on China-Africa Cooperation (FOCAC) in Beijing [SAPA, 2012].

In December 2014, Zuma went to China with government ministers and 100 South African business representatives. Speaking at Tsinghua University, he emphasized that China helped his country “to belong to the BRICS family” and that South Africa counts “on this formidable friendship, including within the south and BRICS framework, as we deepen our relations and forge ahead with our developmental agenda” [Zuma, 2014a]. He praised the role of China in Africa: “The emergence of China as a power among others gives or offers an opportunity to African countries to be able to free themselves from the shackles that are really colonially designed” [Agence France Presse, 2014].

Frameworks for cooperation between the two countries have recently been established, for example the Bi-national Commission involving seven sector-specific subcommittees (diplomacy, economy and trade, science and technology, education, energy, minerals, and defence), the Interministerial Joint Working Group and the Five- to Ten-Year Framework on Cooperation. During Zuma’s 2014 visit, China declared that it was ready to invest in and work with South Africa in sectors such as infrastructure development, ocean and green economies, science and technology, agriculture, environment, and finance [DIRCO, 2014a].

One of the themes of Zuma’s discussion in Beijing was the BRICS New Development Bank (NDB), and both parties agreed on its establishment and operationalization as soon as possible. Addressing the South Africa-China Business Forum, Zuma said: “South Africa is keen to ensure that the Bank’s African Regional Centre [to be established in South Africa] provides further impetus to the strategic relationship that was forged between the BRICS and African leadership in 2013 in Durban, to enhance economic development for the continent. We will cooperate with China to ensure that the Shanghai Headquarters and the African Regional Centre in South Africa are established as per agreed timelines. We have prioritised the ratification of the agreement establishing the Bank. South Africa has also instituted committees to make the African Regional Centre operational” [SA News, 2014c].

Tourism is an important part of the South African and the importance of China to this sector is growing: the number of tourists from China more than doubled between 2010 and
2013, from 68,000 to 152,000 [South African Tourism, 2012, p. 18; 2014, p. 11]. Four Confucius Institutes had been established in South Africa by 2014 to promote cultural and educational ties between the two countries.

The history of South Africa’s relations with Russia is well known and an analysis of its current stage would require a separate article. South Africa’s accession to BRICS, no doubt, enhanced the relationship. Putin’s participation in the Durban Summit was followed by bilateral talks with Zuma. Although the first meeting was short, just a couple of hours, Putin and Zuma signed the Joint Declaration on the Establishment of a Comprehensive Strategic Partnership that outlined the terms for bilateral cooperation in areas including trade, investment and humanitarian intervention.

In May 2013, Zuma visited Sochi, and in August 2014 he visited Moscow. In September 2014, a bilateral framework agreement on strategic cooperation in the nuclear field was signed by South Africa and Russia.

However, commercial and cultural ties between South Africa and Russia are weak compared to excellent relations in the political sphere. The development of these ties is not helped by a distorted picture of Russia often painted by South African media and some academics. For example, Gerrit Olivier [2013, p. 411], a former diplomatic representative of the “old” Pretoria regime sent to Moscow, regards Russia as a variation “of non-democratic authoritarian regimes.”

Relations between South Africa and Brazil were actively developed in 2003 after Luiz Inácio Lula da Silva came to power. Lula, who was in office from 2003 to 2011, played a key role with South Africa’s Thabo Mbeki in founding the IBSA Dialogue Forum. Brazil is South Africa’s largest trading partner in Latin America; trade is growing, and in 2013 was R21 billion [Centre for Conflict Resolution, 2014, p. 15]. However, relations were marred by a dispute initiated in 2012 by Brasília at the World Trade Organization [(WTO), 2012] following the imposition of anti-dumping duties by South Africa on imports of Brazilian poultry, but fortunately it was resolved within the framework of the WTO.

A number of Brazilian firms maintain offices in South Africa, which serve mainly as headquarters for their operations in other African countries [Centre for Conflict Resolution, 2014, p. 15]. Emerging areas of cooperation between South Africa and Brazil include, for example, nuclear technology and the defence industry. In particular, A-Darter air-to-air missile is being developed by South Africa’s Denel in collaboration with Brazil [Centre for Conflict Resolution, 2014, p. 16].

Lula’s successor, Dilma Rousseff, visited South Africa in November 2011 to take part in the fifth IBSA Summit and then again in March 2013 for the BRICS summit. Zuma participated in the next BRICS summit in July 2014 in Fortaleza.

After the 2013 Durban Summit, South Africa passed the chair to Brazil for the 2014 Fortaleza Summit. South Africa’s presidency shows that the country had “fully implemented” the eThekwini Action Plan [DIRCO, 2014b]. In particular, it hosted several meetings of high-level officials, such as the BRICS national security advisors, and of the ministers responsible for trade, finance, agriculture, education, health, social security, and science, technology and innovation.

Since the creation of the BRICS five years ago, intra-BRICS cooperation has been expanding and it now includes more than 30 issue areas ranging from health and education to science and technology. However, at least for South Africa, the finance and trade agenda remains the most important. Having returned from the summit in Brazil, Zuma hailed the establishment of the NDB as “an everlasting legacy that will change the face of global economics and the face of all the developing world for better” [SA News, 2014a].
Tshwane was satisfied with the decision that the five founding countries equal contribute equally to the bank’s initial subscription of $50 billion. Although it did not succeed in its hopes to host the bank’s headquarters, the first regional office will open in Johannesburg.

South African analysts believe that the NDB has the potential to be an alternative to the World Bank for funding critical infrastructure projects. Trade and industry minister Rob Davies made it clear in his statement on the eve of the Fortaleza Summit: “On the African continent, [the NDB] can certainly play a very important role in funding infrastructure projects across the continent. I think particularly those that link up different countries from the African continent and support regional integration” [SABC, 2014].

Those analysts emphasize that the infrastructure gap (the difference between demand for infrastructure and investment levels) is estimated to be about $35 billion in Africa, and are worried as to whether the NDB will become operational by 2016 as planned, as its initial $50 billion capital base has to be accumulated over seven years, with each BRICS member paying 20% of its contribution ($2 billion) in pre-agreed instalments during this period, while the remaining 80% ($8 billion) is to be callable capital (pledged funds that will be provided if needed) [Centre for Conflict Resolution, 2014, p. 18].

South Africian academia and media are discussing as to what extent the NDB can have a concrete impact on transforming development cooperation by developing “a more concrete alternative strategy to challenge the dominance of the World Bank’s approach” to development issues [Centre for Conflict Resolution, 2014, p. 19]. Greater internal cohesion is needed, as demonstrated by the fact that “five BRICS countries were unable to unite behind a common candidate to fill the top posts at the International Monetary Fund and the World Bank” [Centre for Conflict Resolution, 2014, p. 19].

South Africa supported the creation of the BRICS Contingency Reserve Arrangement (CRA), finalized at Fortaleza. However, the CRA will have only $100 billion in reserves in comparison with the International Monetary Fund’s (IMF) $806 billion in reserves, while BRICS members collectively have about $5.2 trillion in foreign currency reserves [Stuenkel, 2013].

There has been remarkable progress in boosting intra-BRICS trade. According to South Africa’s statistics its total trade with the BRICS countries stood at R380.4 billion in 2013, which is 27.5% higher than the 2012 figure of R298.2 billion. Total trade with India grew substantially from R68.3 billion in 2012 to R80.8 billion in 2013, a growth of 18.3%. China remains South Africa’s largest bilateral trading partner, with total trade expanding from R204.6 billion in 2012 to R270.1 billion in 2013, a growth of 32.01%. Total trade with Russia increased from R5.1 billion in 2012 to R7.5 billion in 2013, a growth of 47.06%, and with Brazil, trade grew from R20.1 billion in 2012 to R21.8 billion in 2013, a growth of 8.46% [SA News, 2014b].

South Africa expects more efficiency from the structures created by the BRICS in these fields. Zuma [2014b] said in his 2014 State of the Nation address “We will continue to deepen economic development, trade, and investment partnerships with the BRICS through the work of the BRICS Contact Group for Economic and Trade Issues.” Before the Fortaleza Summit, the contact group presented the trade ministers with recommendations on increasing value-added exports in intra-BRICS trade. The recommendations were based on a joint study conducted under South Africa’s 2013–2014 chair of the BRICS bloc. The trade ministers [2014] meeting welcomed the study, but “instructed the [contact group] to continue working on its recommendations.”

Another important aspect of South Africa’s BRICS membership is strengthening the group’s stand on peace and security matters. The issue of defence has not been highlighted in the BRICS documents (apart from the meetings of officials responsible for security matters), but its potential importance can not be overestimated and South African researchers appreciate it. Anton Kruger [2011] noted that South Africa needed to increase defence spending to be on
an equal footing with the other BRICS members. Along with South Africa’s commitments on peacekeeping through African Union, he emphasized its unique location “on the 3 essential shipping routes from West to the East.” In his opinion, this fact and the resources of South Africa “will allow BRIC to better compete with the G7 in global issues.”

Currently, the attention of South African analysts is drawn to the UN and the role of BRICS members in it. In 2011, there was a unique situation when Russia and China, the two permanent members of the UNSC, were joined by South Africa, India and Brazil. However, this opportunity to collaborate on issues on the international security agenda and to challenge the dominance of the UNSC by the U.S., France and Britain was missed. The response of the BRICS countries to the crises facing the UNSC in 2011, particularly over Libya, raised serious questions about their ability to craft cohesive foreign policy positions.

It is admitted in South Africa (even informally by the government officials) that South Africa made a mistake voting for UNSC Resolution 1973, authorizing intervention in Libya, just it is admitted in Russia (again mostly informally) that then Dmitry Medvedev made a similar mistake by not using Russia’s veto. Ebrahim I. Ebrahim [2011], South Africa’s deputy minister for international relations and co-operation, stated that “many countries, including South Africa, feel betrayed by Western powers on resolution 1973.”

The way in which Resolution 1973 was implemented and regime change policy of the North Atlantic Treaty Organization (NATO) left the South African government feeling betrayed by the United Kingdom, France and the United States, and this sense of betrayal might prevent South Africa from supporting other UN resolutions proposed by these countries.

There are differences also within the BRICS bloc on the issue of the responsibility to protect (R2P). In particular, although South Africa is prepared to support the concept (it was included, in different words, in the Constitutive Act of the African Union), China and India are strong supporters of the principle of non-intervention and oppose external military interventions. Brazil has proposed the new, very interesting concept of the “responsibility while protecting” (RwP), which South Africa supported [Centre for Conflict Resolution, 2014, p. 3].

Criticism of R2P grew in South Africa after so-called mission creep in Libya in 2011 when NATO abused Resolution 1973 to pursue a regime change agenda against Muammar Qaddafi [Centre for Conflict Resolution, 2014, p. 21]. South Africa, Brazil, China and India opposed the introduction of sanctions on Russia in 2014. This was regarded in South Africa as “an ability to forge cohesion in resistance to Western hostility towards one of their own members” [Centre for Conflict Resolution, 2014, p. 22].

In the Fortaleza Declaration, South Africa with the other BRICS members made clear “the necessity to promote, protect and fulfill human rights in a non-selective, non-politicized and constructive manner, and without double standards” [BRICS, 2014].

South Africa actively participates in peacekeeping operations in Africa. Given the delays in creating the African Stand-by Force, since 2013 South Africa has been involved in the creation of the African Capacity for Immediate Response to Crises (ACIRC) as a temporary solution. During Zuma’s visit to Beijing in 2014, “President Xi Jinping declared that China was prepared to assist the African Union in its peacekeeping missions and was ready to discharge resources to the continent’s peacekeeping mechanisms particularly the African rapid response forces” [DIRCO, 2014a].

South Africa, like other BRICS members, fully understands that it is impossible “to create a better world” (to borrow words from Ambassador Mpalhwa) without reforming “Western-dominated institutions of global governance” even if they “do not necessarily agree on how the architecture of global governance should be reshaped” [Centre for Conflict Resolution, 2014, p. 24]. One broad issue hotly debated in South Africa is whether BRICS members “are status quo powers, or revisionist actors with a transformative vision for an alternative world order,” or
even “a third and far more critical view regards the BRICS countries as a group of ‘sub-imperialist’ collaborators within the Western-dominated system” [Centre for Conflict Resolution, 2014, p. 24].

As mentioned above, BRICS countries were divided on the issue of the election of the IMF and World Bank top officials. In relation to the IMF, in 2011 South Africa opposed the appointment of managing director on the basis of nationality (a French woman succeeded a French man), and in the case of the World Bank, in 2012 South Africa and Brazil unsuccessfully supported Nigeria’s finance minister, Ngozi Okonjo-Iweala, while Russia openly, and China and India more discreetly, backed the winning candidate — the American Jim Yong Kim. There was more cohesion in 2013, when Roberto Azevêdo, Brazil’s ambassador to the World Trade Organization, was elected its director general.

While the creation of the NDB and the CRA were welcome in South Africa, many observers doubt their ability to reduce dependence on the World Bank and the IMF. The fact that the CRA allows member countries to borrow only 30% of their quota (which is just $3 billion in the case of South Africa) and then they must turn to the IMF is particularly criticized [Centre for Conflict Resolution, 2014, p. 25].

Both government and civil society in South Africa are unhappy with the very slow rate of the UN reform, especially that of the Security Council. South Africa seeks a permanent seat, as do India and Brazil, but their plans differ on how to achieve this goal. India and Brazil, along with Germany and Japan, have formed the so-called Group of Four in mutual support of their candidacies, but South Africa is bound by the Ezulwini Consensus, reached by African countries in 2005, and must therefore favour the unrealistic demands by two African permanent members with veto power, although now, along with Nigeria, South Africa prefers dropping the African insistence on the veto [Centre for Conflict Resolution, 2014, p. 26–27].

One more issue widely discussed in South Africa with respect to the BRICS is that of the relationship with IBSA. When South Africa was invited to join the BRIC, Nkoane-Mashabane said: “We believe that the IBSA will get a better balance, and become even stronger, with South Africa now as a member of the BRICS. We remain convinced that South Africa’s diversified foreign policy objectives and interests allow for both groupings (IBSA and BRICS) to co-exist. It is our belief that the mandates of BRICS and IBSA are highly complementary” [DIRCO, 2010].

However, not everybody, both in South Africa and elsewhere, is so sure. There is a tendency to juxtapose the three IBSA members with “common democratic credentials” against “authoritarian” China and Russia. More significantly, the older organization provides “a framework for cooperation among its three members in a range of sectors, from health and education to defence.” However, the expansion of sectoral cooperation among the BRICS members means a certain duplication and increases the chance of IBSA’s demise. Nevertheless, the dominant view in South Africa is still that the BRICS and IBSA do not exist in opposition to each other but are complementary.

When discussing the prospects of BRICS, South African scholars speak about the need for the NDB, “in contrast to the Bretton Woods institutions,” to retain its commitment “to non-conditionality and non-interference in the policymaking space of borrowing countries” [Centre for Conflict Resolution, 2014, p. 33]. Another recommendation is to open up BRICS engagement with non-governmental organizations, beyond the BRICS Think Tanks, to influence western-dominated debates on development, climate change and human rights. In this respect, the Congress of South African Trade Unions (COSATU), the country’s biggest federa-
tion of trade unions, takes an active (and realistic) position on South Africa’s membership in BRICS. It noted: “On the one hand, the rise of BRICS has the potential to tip the balance of forces more towards the South ... However, at the same time, it has facilitated the outwards expansion of multinationals based in those countries. These realities prompt a deeper discussion about our understanding of the architecture of imperialism, particularly in light of South African capital on the African continent” [COSATU, 2012, p. 10]. South Africa hosted the second BRICS Trade Union Forum in Durban in March 2013 [BRICS Trade Union Forum, 2013].

**BRICS Challenges**

It is true that South Africa was a latecomer to the BRICS, but the expression “last but not least” characterizes its role in the bloc. That has been proved not only by a successful hosting of the Durban Summit, but also by activities of South African governmental, academic, business and other organizations.

It would be wrong, however, to anticipate immediate tangible benefits of South Africa’s membership in the BRICS. The development of sectoral cooperation and, in particular, the establishment and operationalization of the BRICS financial institutions takes time and effort. So far, five countries managed to overcome any existing and arising contradictions among themselves and to find a common approach to major political and economic problems. An important side effect of South Africa’s membership is the strengthening of its relations with four prominent countries that lead in their respective regions.

South Africa is actively involved in the preparation of the seventh BRICS Summit hosted by Russia in July 2015, and there are good reasons to expect it will be a valuable contributor to discussions and decision making in Ufa.

**References**


Bond P. (2013b) Subimperialism as lubricant of neoliberalism: South African “deputy sheriff” duty within BRICS. Presentation at the Global Studies conference, University of California Santa Barbara, 23 February. Santa Barbara CA.


BRICS MEMBERS’ INTERESTS AND PRIORITIES FOR COOPERATION


