

## **Do the BRICS make a bloc?**

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**T**he short answer to this question is: No, actually. But the BRICS (Brazil, Russia, India, China and South Africa) have achieved such impact in the global media that one might think so. A deeper consideration of this notion is therefore warranted.

The initial branding of the acronym by Goldman Sachs for the purpose of marketing investment vehicles has been taken up enthusiastically by the governments forming a joint pressure group to achieve more power in international affairs. Their political branding is also clear: as an alternative leadership group to the old West, and a form of protest against the old hegemony of the US and the disproportionate ranking of Europe in multilateral organisations. But this hardly means that other global players, notably the EU and the US, should treat the BRICS as a bloc in substantive international relations.

Having now admitted South Africa to their company, the BRICS evidently seek to further enhance their brand image and their claims to represent the world outside the old West. The addition of South Africa makes for more coherence with the IBSA group (India, Brazil, and the South Africa Dialogue Forum), which is a less conspicuous group branding themselves as the 'vibrant democracies' of all three continents - Africa, Asia and Latin America - of the developing world, and thus marking an initial differentiation with the BRICS. Of the two groups, IBSA, as the more functionally advanced, is clearly working for the cause of South-South cooperation.

These questions can be tested by looking at how the BRICS and IBSA have attempted to organise themselves, by considering basic indicators of their structural commonalities or divergences of interests, their most recent summit declarations and the positions they have adopted on substantive issues.

Both groups have been making energetic efforts to institutionalise themselves. The BRICS have announced, but not yet really implemented, an extensive bureaucratisation of their activities, underpinning annual summit meetings with an Action Plan of ministerial or senior official meetings for foreign affairs, finance, trade, health, agriculture, competition policy, and security, and with forums for business, securities exchanges, urbanisation, infrastructure and cities. IBSA also has its annual summits spaced between (rather than next to) the BRICS'

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summits, and its bureaucratic processes and cooperation programmes are more operational than those announced by the BRICS.

But what do these groups really have in common? Table 1, below, offers a menu of six demographic, political and economic criteria. Table 2 adds data on their voting power in the Executive Board of the IMF, alongside GDP data.

Together the BRICS have weight, for sure. In 2011 their economies amounted to \$13.2 trillion in GDP; close to that of the US (\$15.1 trillion) and the EU (\$17.6 trillion) or the eurozone (\$13.1 trillion). In a few years time they will be bigger still. The IBSA added up to considerably less (\$4.6 trillion), and China alone: \$7,298 billion.

Our six indicators concern population size, GDP per capita rank, structural economic facts (commodity or manufacturing, external creditor or debtor, current account surplus of deficit, exchange rate regime), and political factors (democracy or not, permanent membership of the UN Security Council or not).

The striking fact to emerge is that whereas the IBSA countries have a lot in common, in the case of the BRICS this is much less the case. In fact, looking at the six indicators in Table 1, there is not one where all the BRICS are on the same page. They might all be considered large in terms of population size if South Africa is honoured with the task of representing all of Africa, which informally seems to be the case. None of the BRICS is in the top rank of GDP per capita, but Russia is hardly a developing country. The IBSA, on the other hand, are all developing countries, all are democracies, all have current account deficits and net debtor positions, all have floating exchange rates, and all are without permanent seats on the UN Security Council, as opposed to both China and Russia in all these respects (except that only China has a controlled exchange rate).

The significance of these simple facts becomes apparent when one examines the recent summit declarations of the BRICS and IBSA. At their fourth summit in Delhi on 29 March 2012, the BRICS adopted a long Declaration and an Action Plan.<sup>1</sup> Like many declarations to emerge from summits of the G20, G8, the EU and other multilateral events including IBSA, there is much in the BRICS' language that belongs to the 'motherhood and apple pie' category, i.e. aspirational statements that all can agree to but which have little operational significance. So much for the BRICS' objectives of "peace, security and development in a multi-polar, inter-dependent and increasingly complex globalising world" ... "on the basis of universally recognised norms of international law and multilateral decision-making" (although this multilateral aspect sits ambiguously alongside their championing of multi-polarity).

At their fifth summit in Pretoria on 18 October 2011, the IBSA Declaration bears comparison with that of the BRICS.<sup>2</sup> Whether a merit or not, the IBSA Declaration is twice as long as that of the BRICS, also containing much from the 'motherhood and apple pie' school. The most striking difference is found in the statement of IBSA's objectives, as "three large pluralistic, multi-cultural and multi-racial societies", with "a shared vision ... that democracy and development are mutually reinforcing and key to sustainable peace and stability". Their leaders are willing "to share, if requested, the democratic and inclusive development model of their societies with countries in transition to democracy" - an offer the EU will heartily encourage.

<sup>1</sup> Fifth BRICS Summit, Delhi Declaration, 20 March 2012 (<http://www.mea.gov.in/mystart.php?id=190019162>).

<sup>2</sup> Fifth IBSA Summit - Tshwane Declaration, 18 October 2011 (<http://netindian.in/news/2011/10/18/00016616/fifth-ibsa-summit-tshwane-declaration>).

The first more operational argument in the BRICS Delhi Declaration concerns the global macroeconomic situation, with justifiable satisfaction over their own countries' relatively rapid recovery from the global crisis, contrasting with the risks to the global economy now posed by the eurozone crisis. The BRICS admonish the "advanced economies to adopt responsible macroeconomic and financial policies". Yes indeed - as a general proposition. But then the BRICS move the argument on with much more specific and dubious propositions, criticising the "excessive liquidity from the aggressive policy actions taken by central banks" (presumably they have in mind the quantitative easing of the Fed and Bank of England, and the long-term repo operation (LTRO) of the European Central Bank, although they do not say so directly). The complaint is that these actions spill over into the emerging market economies with excessive volatility of capital flows and commodity prices.

While there are issues here of real concern, the basic argument of the BRICS loses plausibility, and fails to ask where the global economy would be without these huge macro-financial recovery operations. The answer would surely be a global depression and financial disruption of cataclysmic proportions, rendering the concerns they expressed about capital flows and commodity prices a secondary matter. So the BRICS have not really worked out a valid common line here. Brazil has been leading the charge about unwelcome capital inflows, with adverse consequences for its industrial competitiveness through exchange rate appreciation. But the position of the BRICS is disingenuous, since it entirely evades the core global issue of Chinese super-competitiveness and the distortions to the global economy that result from its controlled exchange rate. One can understand why the BRICS could not agree to address these issues, but that hardly solves the problem. IBSA countries have a common interest in Chinese exchange rate appreciation, as does the EU.

The BRICS go on to lament the slow pace of quota and governance reforms at the IMF and World Bank, while welcoming "the candidatures from the developing world for the position of President of the World Bank" (of course this is the text dating from mid-March). Their argument about the slow pace of quota reform can be objectively justified, as the data in Table 2 show. GDP weight may not be the only economic criterion, and weight in world trade and finance are relevant too. Yet the extent to which the EU is overweight is substantial, and uniquely so amongst the advanced economies since the weight of the US is not obviously out of line. There is a second apparent distortion if GDP weights are the criterion: many small developing countries seem to be overweight too, as illustrated by the voting power of the constituency of which South Africa is a member, alongside 21 smaller other African countries. However the complaint of the big BRICS is now heightened by the financial contributions of countries outside the EU to the recent doubling (by \$430 billion) in IMF resources that are intended as a firewall against the eurozone crisis. The new major financial powers claim to have a say over the conditions for the use of this money, and doubly so since the US and Canada have contributed nothing.

As regards the World Bank's election of its new president, the developing world produced two serious candidates, from Nigeria and Colombia, and as the selection process advanced the Colombian desisted in favour of the Nigerian, as a token of developing world solidarity. At one stage Russia said that it reserved its position in the interest of arriving at a common BRICS position. The African continent voted *en bloc* for the Nigerian candidate, and Brazil added its support. But then China, India and Russia voted for the Asian-born American candidate. So the BRICS were divided, and their majority voted for the American contender. Why was that? Was it that the Asians could not accept an African president? Or was it that they did not want to embarrass Obama? Even if the voting power of the West assured election of the American candidate, the BRICS failed to seize the opportunity to make an impressive political statement together, and IBSA also failed to achieve unity.

Turning to trade policy, the BRICS join company with the G20 and the EU in expressing hopes for “the successful conclusion of the Doha Round”, while showing a willingness to explore outcomes in specific areas. However, more pointedly they criticise the “plurilateral initiatives that go against the fundamental principles of transparency, inclusiveness and multilateralism”. This is not made more explicit but would seem to refer to the 2011 Singapore Anti-Counterfeit Trade Agreement (ACTA), signed by the EU, the US and other advanced market economies, and ongoing negotiations on a service agreement by 16 countries. But their complaint invites the response that BRICS itself is a plurilateral initiative. Within the BRICS it is striking that China and Russia have experienced the same level of major surpluses on current account over the last seven years (6.6% of GDP on annual average), whereas the three IBSA countries are all deficit economies that import capital.

On climate change, the BRICS quite reasonably congratulate South Africa on the successful outcome of the Durban Conference in December 2011, and confirm their commitment to contributing to the global effort under the auspices of the UNFCCC, while retaining their clear markers about developed countries accepting special responsibilities and not capping development.

Like so many other summit declarations, the BRICS go through the standard current list of security concerns, with advocacy of peaceful outcomes for the Arab-Israeli conflict, Syria, Iran, Afghanistan, etc., but without substantial positions of note. On Syria, however, both China and Russia initially adopted blocking positions in response to draft resolutions put to the UN Security Council, which was seen as Russia protecting Assad. This position became diplomatically unsustainable, however, and eventually these two countries joined a UNSC consensus in support of the Annan Plan. The BRICS are struggling with the tensions between the doctrines of ‘non-interference’ and ‘responsibility to protect’ (R2P). Brazil is currently taking an initiative in the UN under the heading: “Responsibility while protecting” to try to refine R2P and ensure the adequate implementation of such actions following the Libyan case.<sup>3</sup> This could become an example of norm-building that both IBSA and the EU might work towards together.

#### The BRICS

reaffirm the need for comprehensive reform of the UN, including its Security Council ... and China and Russia reiterate the importance they attach to the status of Brazil, India and South Africa in international affairs and support their aspiration to play a greater role in the UN.

However the reader will note that China and Russia could not declare explicit support for the concrete demands of the three IBSA states for permanent membership of the Security Council. China presumably remains reticent towards India’s claims. Unsurprisingly, the IBSA explicitly advance their own claims for permanent Security Council membership.

There are two fields, trade and development finance, where the BRICS are preparing or discussing concrete action. Trade ministers have reached a Master Agreement on Extending Credit Facility in Local Currency, which is diplomatic language for extending the use of the renminbi in their mutual trade, since the other currencies are unlikely to get far in international finance. A new development bank for infrastructure and sustainable development projects is being considered, with finance ministers tasked to explore its feasibility and report back to the next summit, to be hosted by South Africa in 2013.

The collective financial fire power of the BRICS is of course huge, but the weight of China predominates. The idea is that such a bank should fund projects not only in the BRICS but also in other emerging and developing countries. This BRIC development bank idea poses

<sup>3</sup> See (<http://www.un.int/brazil/speech/Concept-Paper-%20RwP.pdf>).

the strategic question, for China in particular, of how it is going to deploy its economic and financial power in the world, and more precisely in the balance between backing up the global multilateral institutions versus developing institutions in which it will be the major actor. The next BRICS summit is due to be more informative on this point when it reports on the 'feasibility' of the BRICS development bank.

In conclusion, the overall scorecard of BRICS and IBSA performance thus far looks like this:

- Impressive declarations to develop the apparatus of both BRICS and IBSA cooperation across a comprehensive range of sectors, with the evident objective of achieving synergies in their collective influence in world affairs, but with uncertain implementation so far;
- Clear emphasis on democratic political values by IBSA, compared to the silence of the BRICS on this account;
- Easy adoption by both BRICS and IBSA of language criticising the behaviour of the 'advanced' countries, and general espousal of the causes of emerging and developing countries; and of support for conventional aspirational positions on topical foreign and security issues;
- Stumbling by the BRICS over several major international issues that are concrete operationally (disingenuous criticisms of Western macro-financial policies, failure of solidarity over the World Bank presidency and UN Security Council membership, divisions over security policy norms in the case of Syria), reflecting fault lines in their ranks; better coherence of the IBSA; and
- Opening of consideration of one potentially very important initiative (BRICS development bank), which will be a test case revealing how China intends to deploy its formidable financial strength in international affairs.

The open question is how far the BRICS and/or IBSA will strengthen their activity in operational terms, or discover increasing divergences when trying to move beyond declarations. There are many cross-cutting alliances or alignments of different BRICSs and IBSAs with each other and with various parts of the West, including on major economic, financial and trade policies, and on issues of foreign policy norms that link to matters of domestic political values.

The EU has natural political affinities with the IBSA, but they have not translated so far into any special political relationship, and this is a question for the future. The IBSA have a plausible future as a de facto leadership group of democratically-oriented developing countries. However, the IBSA for their part will not want to break with the huge economic and financial clout of China, which may become the glue holding the BRICS together, notwithstanding their many divergences.

It is going to take time for these various cross-cutting positions to shape up. There is a complex process of diplomatic exploration and testing now underway. The EU can do this through its comprehensive set of so-called Strategic Partnerships with each of the BRICS bilaterally. It would be premature to regard either the BRICS or the IBSA as a bloc. However the BRICS are likely to be united in their complaint about under-representation in multilateral organisations as long as it remains unresolved. If these demands are not met,



one can expect that ideas such as the BRICS development bank to advance as alternatives. Indeed the mere discussion of the idea can be seen as a negotiating gambit over power in the global multilateral institutions. This is a strategic reality that confronts EU member states that wish to conserve their overrepresented national positions in the global institutions. The case for consolidated EU seats in the major multilateral institutions, with a lower aggregate voting weight compared to the present, has an obvious logic. What begins to become clearer is how in practice the conservative denial of this logic by EU member states will work against the EU's declared interest in vibrant multilateralism.

This is just one more instance of where some real European leadership is now needed. The BRICS and IBSA may not be blocs, but they do pose concrete strategic issues for the EU.

*Table 1. Basic economic and political indicators for the BRICS*

|                        | <b>China</b> | <b>Russia</b> | <b>India</b> | <b>Brazil</b> | <b>South Africa</b> |
|------------------------|--------------|---------------|--------------|---------------|---------------------|
| Population size        | Huge         | Large         | Huge         | Large         | Medium              |
| GDP p.c. rank          | 92           | 53            | 129          | 75            | 78                  |
| Net external creditor  | Massive +    | Large +       | Large -      | Small -       | Small -             |
| Current account, % GDP | +6.6         | +6.6          | -1.9         | -1.0          | -4.6                |
| Commodity exporter     | Minor        | Predominant   | Minor        | Major         | Major               |
| Exchange rate regime   | Controlled   | Float         | Float        | Float         | Float               |
| UNSC permanent member  | Yes          | Yes           | No           | No            | No                  |
| IBSA/democratic        | No           | No            | Yes          | Yes           | Yes                 |

Current account = Data for 2005 to 2011, annual average.

IBSA = India, Brazil and South Africa Dialogue Forum.

Table 2. Voting power in the IMF after 2010 reform

|                    | Position in the Executive Board | % vote of the constituency inside the EB | Components of the constituency            | GDP, 2011 Billion \$                  |
|--------------------|---------------------------------|--|---|---------------------------------------|
| Brazil             | Leader of constituency          | 2.8                                      | 9 South/Central American/Caribbean states | Constituency 3,000 (Brazil 2,482)     |
| Russia             | Single membership               | 2.3                                      | -   | 1,850                                 |
| India              | Leader of constituency          | 2.8                                      | 4 South Asian states                      | Constituency 1,849 (India 1,676)      |
| China              | Single membership               | 3.8                                      | -   | 7,298                                 |
| South Africa       | Member of constituency          | 3.2                                      | 21 African states                         | Constituency 1,009 (South Africa 408) |
| <b>Total BRICS</b> |                                 | <b>15</b>                                |   | 13,157                                |
| United States      | Single membership               | 16                                       |   | 15,094                                |
| EU (Eurozone)      | Single members & constituencies | 30 (21)                                  |   | 17,577 (13,115)                       |
| Japan              | Single membership               | 6  |   | 5,869                                 |
| Other G20          | Constituencies                  | 12                                       |   | 8,135                                 |
| Other              | Constituencies                  | 21                                       |   | 9,827                                 |
| <b>World</b>       |                                 | <b>100</b>                               |   | 69,659                                |

Note: the leaders of the Executive Board's constituencies cast a single consolidated vote on behalf of all members.

Sources for GDP data: World Economic Outlook, IMF.