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The BRICs

The trillion-dollar club

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Brazil, Russia, India and China matter individually. But does it make sense to treat the BRICs—or any other combination of emerging powers—as a block?



IN ANY global gathering, the American president is usually seen, at a minimum, as *primus inter pares*: the one who can make or break the final bargain and select his favoured interlocutors. So in Copenhagen last December, as negotiations for a new climate-change treaty were entering their final hours, a hastily convened meeting between Barack Obama and China's prime minister, Wen Jiabao, looked as if it would be the critical moment when a deal might be struck. But when the president turned up, he found not only Mr Wen but the heads of government of Brazil, South Africa and India. This was unexpected. The Americans even thought the Indians had already left the summit. What was conceived as a bilateral talk turned instead into a negotiation with an emerging-market block. As an additional sign that things were changing in the world, the president got a finger-wagging from one of Mr Wen's hangers-on. But at least Mr Obama was in the room; Europeans were shut out while the emerging powers and America put the final touches to their deal.

This week the same developing countries are meeting again, in Brasília. On April 15th Brazil, India and South Africa—rising powers that are also democracies—put their heads together. The next day South Africa will drop out and Russia and China will join the party, to create a meeting of the so-called BRICs.

subscribe today, which produced almost nothing concrete, appeared to be a one-off event and could be ignored. But

the foursome is starting to establish a record. BRIC foreign ministers have met annually since 2006. Finance ministers and central bank heads meet frequently. This week, in addition to the leaders' summit, there are gatherings in Brazil of BRIC commercial banks, BRIC development banks, and even BRIC think-tanks.

The term itself was coined by Jim O'Neill of Goldman Sachs, a Wall Street bank, and is sometimes written off as just a gimmick aimed at tempting punters. But is it now the case that life, in a serious way, is imitating investment analysis? Are the BRICs developing a momentum of their own? If so, what difference might that make to the rest of the world?

Life imitates Goldman Sachs

The BRICs matter because of their economic weight. They are the four largest economies outside the OECD (Organisation for Economic Co-operation and Development, the rich man's club). They are the only developing economies with annual GDPs of over \$1 trillion (Indonesia's is only half that). With the exception of Russia, they sustained better growth than most during the great recession and, but for them, world output would have fallen by even more than it did. China also became, by a fraction, the world's largest exporter. Meanwhile, the BRICs are also increasing their trade with one another: Chinese-Indian trade has soared and is likely to reach \$60 billion this year. China has also become the largest market for the fast-industrialising countries of East Asia. Less happily, China has become the largest spewer-forth of carbon dioxide, emitting 6.5 billion tonnes of CO₂ in 2008, or 22% of the world's total. Russia is third and India fourth on this particular roll of shame.

The most striking sign of the BRICs' significance to the world economy, though, is probably their share of foreign-exchange reserves. All four are among the ten largest accumulators of reserves, accounting for 40% of the world's total. China is easily the largest, with a staggering \$2.4 trillion, enough to buy two-thirds of all the NASDAQ-quoted companies. It is the world's second-largest net creditor after Japan (the net credit position takes account of equities as well as debt). Russia's foreign-exchange reserves were virtually zero when it began market reform in 1992; now they stand at \$420 billion. If the BRICs were to set aside one-sixth of their reserves, they could create a fund the size of the IMF.

Foreign assets provided cushions against the great recession and helped turn the BRICs into financial powers as well as economic ones. Even as most Western countries struggle to rein in record budget deficits and soaring debts, the BRICs' public-debt levels are mostly modest and stable (India is a partial exception). Most investment banks offer BRIC funds. The world's top two banks are Chinese.

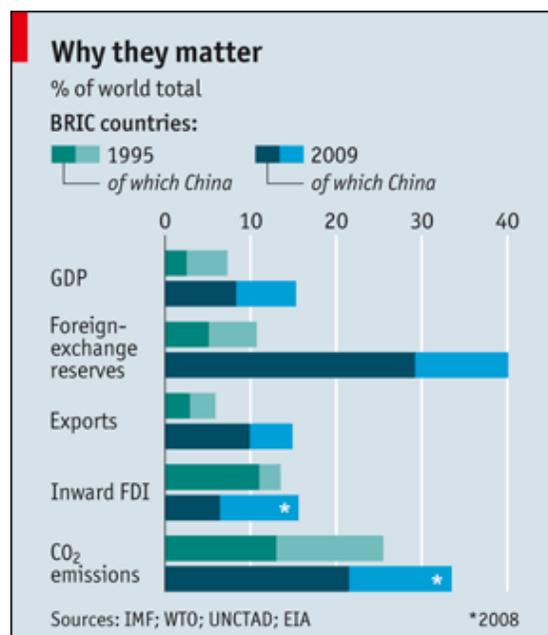
This macro performance is being translated into different sorts of influence. Perhaps the most important is an intangible one: that of reputation. In some respects, the BRICs share a distinctive view of the world. They have large domestic markets with substantial numbers of poor people, so growth and anti-poverty programmes are higher up their list of concerns than in Western countries (this is even true in Russia, though to a lesser extent). They are trying to diversify their economies. They are innovating (though Russia is much better at producing guns than civilian goods) and challenging received notions about globalisation (see our [special report](#)). All have become far more entwined with the world economy. But the BRICs have opened up without the full market liberalisation championed by the "Washington consensus". In the aftermath of the great recession, this mongrel position commands respect in other developing countries, which want to know how the BRICs did it. "The BRICs aren't exactly an alternative to the Washington consensus," says Mathias Spektor of the Getúlio Vargas foundation in Brazil, "but they provide other models to emulate and are effective at expressing something distinctive in economic affairs."

An acronym in search of a role

Wealth may produce market power and even soft power. But it does not necessarily generate geopolitical heft. Rich Japan and Germany deliberately adopted a "big Switzerland" policy of hiding their light under a bushel for decades. Even now, they throw their weight about reluctantly.

But there are several reasons for thinking that the BRICs might be different. Germany and Japan had a golf-sized American security umbrella for shelter. But international institutions are now in flux. Robert [subscribe today](#) America's under-secretary of state for economic affairs, compares the 2010s to the late 1940s: "The [and receive...](#) period was so different from the pre-war one that it needed new institutions. The turn of the 21st

century is similar, especially after the financial crisis." He argues that "you can't go back to having the system run by a few rich economies. Our big challenge is to work out how large emerging economies integral to the financial and trading system take some responsibility for maintaining it."



One reason the BRICs matter is that the world's most important country thinks they do, and is willing to rope them into decision-making. America's means of doing this is the G20. It pushed for the group's expansion to include the BRICs and declared the club the chief forum for dealing with international economic issues. The BRICs and the original group of seven rich countries (G7) form natural blocks within the G20. So far, the clearest expression of a coherent BRIC agenda—for reform of the international financial system and more domestic stimulus programmes—came on the eve of a G20 meeting in 2008.

A second reason why the BRICs matter is that all four giants have reasons for creating a new club of their own. China's leaders know their time has come. They want to enhance their own influence and reduce America's. But at the same time their leaders hew to Deng Xiaoping's dictum that "China should adopt a low profile and never take the lead."

The BRICs, which the Chinese calls *jinzhuan siguo*, or four golden brick nations, are a way to square that circle. By teaming up with others (which are anyway attractive as raw-materials suppliers), China can hide its national demands behind a multilateral façade. And a meeting of the BRICs looks slightly more like a collection of equals than do most gatherings involving China (though China's economy is still larger than those of the other three combined). China sees climate-change diplomacy as a way of boosting its soft power, and as part of its bilateral relationship with America (its stubborn behaviour in Copenhagen notwithstanding). But it does not want to break with the rest of the developing world on climate issues. Co-ordination with other "emerging" polluters helps it to succeed on all these fronts.

This balancing act applies to the other BRICs. All want to soften the impact of China's rise. The BRIC forum is an alternative to what they all (perhaps even China itself) regard as a nightmare: a G2 of America and China. They all also want, in the words of Brazil's foreign minister, "to increase, if only at the margin, the degree of multipolarity in the world".

India has been profoundly disappointed by traditional multilateral diplomacy. Years of pushing for a permanent seat on the UN Security Council have got it nowhere. The BRICs can hardly be worse. President Luiz Inácio Lula da Silva has been trying to expand Brazil's diplomatic influence beyond Latin America. The BRICs help him fulfil these geopolitical ambitions. (Whether Lula's successors will share his taste for the world stage is an open question: at the moment, both likely successors seem more concerned about domestic
subscribe today for... Russia, association with some of the most dynamic economies in the world may perhaps
and receive... the attention away from its own decline. More important for Russia, as for all the others, the BRICs

are a way of telling America that the largest developing countries have their own options and that not all roads lead to Washington.

Because of this, some members of America's Congress look on the BRICs with trepidation. The main focus of their concern is China's currency. But there are other reasons why the BRICs might damage the global economic system, rather than buttress it. They might, for example, undermine the role of the IMF and World Bank, abandon attempts to expand free trade or even just ride roughshod over aid conditions in poor countries. But Mr Hormats thinks they will not. "They understand," he argues, "that the openness and smooth functioning of the system is vital to them and so far there has been very little evidence that they want to change it dramatically." When world output was plummeting last year, the BRICs' economic stimulus programmes did a lot to stabilise it. And on the question of reforming the international financial institutions, America and the BRICs find themselves on the same side.

Without straw

A more compelling reason for doubting the BRICs' chances of changing anything fundamental is that they are not capable of it. They lack coherence. They compete as much among themselves as they do with America or Europe—and hence the BRICs as a club seem unlikely to match the force of their individual ambitions.

Two are authoritarian; two are noisy democracies. Three are nuclear powers. Brazil is not, though it had a nuclear-weapons programme which it abandoned in the 1980s; in 2009 the vice-president said he personally thought Brazil should build its own bomb and the country plans a nuclear-powered submarine to patrol offshore oilfields. Two have permanent seats on the UN Security Council; two (to their immense frustration) do not.

When Mr O'Neill first coined his term, people wondered why Brazil was in the group but not Mexico. Now Russia looks like the odd man out. Its population is falling. Its fertility rate is catastrophically low, at around 1.35, compared with 1.8-2.8 for the others (the fertility rate measures the number of children an average woman can expect to have during her lifetime). The working-age populations of India, China and Brazil will all rise between now and 2030 (enormously in India and Brazil, marginally in China). Russia's working-age population will fall by 17m. In general, uncertainty about who belongs in the group casts doubt on its coherence. Should South Africa join? Mexico? Indonesia? If they did, what would happen to the group?

A more important obstacle to coherence is strategic rivalry. True, BRIC countries co-operate on a bilateral basis. There have been joint military exercises between Russia and China, Russia and India, and China and India in recent years. Russia and China also have a mutual-security body, called the Shanghai Co-operation Organisation, which includes Central Asian countries. The big problem, though, is India's rivalry with China.

China and India fought a war in 1962. China has taken control of a slice of Kashmir which India says was ceded illegally by Pakistan. China also disputes India's title to the state of Arunachal Pradesh. In 2009 it tried to stop the Asian Development Bank from lending money to India because the loans would have financed a flood-control project there. India has been trying to limit the numbers of skilled Chinese workers. Some Indians fear that China wants to strangle their country with a "string of pearls": the imagined necklace consists of Pakistan, India's longtime rival; Nepal, where China backs the Maoist opposition; and Sri Lanka, where it is financing the country's big post-civil-war reconstruction projects.

The BRICs have also stepped up competition between one another in third countries. Although the flow of aid and investment from rich countries to poor has been faltering, China promised \$10 billion of cheap credit to Africa in 2009-12 and Brazil has invested \$10 billion in the continent since 2003. The BRICs have also dramatically increased their purchases of exports from poor countries. Rather as America and the Soviet Union vied for influence through economic and military aid, the BRICs do now (though their competition is less fierce than the cold-war version).

Even where BRIC countries agree in general, they often disagree in detail. Climate change is a good example. The emerging giants all argue that Western industrialised nations should take the largest share of the burden of cutting greenhouse-gas emissions. They criticise absolute emission caps for developing countries and argue for limits based on population or intensity of use. They all want to keep questions of trade and climate change separate, opposing things like carbon duties.

However, for the purposes of climate change, the BRICs are actually BASICs (Brazil, South Africa, India, China): Russia is an industrialised country under the Kyoto accords, with obligations the others do not have. Even on a specific matter such as forestry, their records differ. Brazil is the world's biggest deforester, albeit one committed to slowing the pace; China is the world's biggest afforester (now planting 4m hectares of forest a year)—though some complain that its trading partners' trees are being felled to stoke its economic growth.

Lastly, the BRICs differ economically. Obviously, their incomes range widely, from Russia's \$15,000 per head per year to India's \$3,000 (these are IMF figures using purchasing-power parities). Brazil and India define themselves as non-aligned developing economies. Russia does not. China sometimes does, and sometimes thinks of itself as *sui generis*. China and Russia have more open economies, with exports accounting for around a third of GDP. India and Brazil are more closed, with exports less than a fifth of GDP. Perhaps most important, China and Russia are both running huge current-account surpluses; Brazil and India, small current-account deficits. That reflects fundamentally different approaches to economic management. China is suppressing domestic demand and encouraging jobs in export industries. India and Brazil look askance at this form of mercantilism and suffer from China's resulting currency undervaluation.

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The BRICs' divisions do not paralyse the group. The countries got together to propose reforming the IMF, for instance. But they do limit the block's effectiveness. There is no sign of military co-operation within the organisation, and nothing much on trade. As Mr Spektor puts it, the BRICs merely have to be something, not do anything.

Paradoxically, this makes it easier for the group to flourish since co-operation within the BRICs is in essence free: no one need sacrifice anything, so, however tiny the potential gains, they are worth pursuing. Emerging giants are able to criticise the management of the world economy without having to do anything about it (for example, deploring the failure to complete the Doha round of world trade talks without offering to break the logjam). As Agata Antkiewicz of the Centre for International Governance Innovation puts it, "even though the BRICs group has always been incoherent, the tag seems to have permeated the public domain and become synonymous with change, emerging markets and growth." But this could end if ever BRIC membership required trade-offs.

Meanwhile, the BRICs face rivals. East Asian countries are cobbling together something that might one day become a coherent emerging-market group. In January a free-trade agreement linking China and the Association of South-East Asian Nations (ASEAN) came into force. In March ASEAN nations, China, Japan and South Korea set up a pool of foreign-exchange reserves giving them a small element of monetary-policy co-ordination. Such a group leaves out Brazil, Russia and India. But Fred Bergsten of the Peterson Institute for International Economics, a think-tank in Washington, DC, reckons the West ought to be thinking about how to respond to this regional group, rather than the global club of BRICs.

Eswar Prasad of Cornell University points out that as an organisation (as opposed to a clever acronym), the BRICs are a product of the great recession. They are noticed because of the recessionary debate about rebalancing the world economy. As that debate evolves, so will ideas about the BRICs. But that is no reason for writing them off. There have also been endless numbers of Gs: starting in the 1960s with a G10, then G5, G6, G7, G8—and now G20.

The BRICs cannot claim legal, historical or geographical coherence, in the way the European Union can. They are not facing a common security threat, as NATO originally did. But events in Copenhagen, messy as they were, are surely proof that new and improbable combinations of large, emerging countries can play a role on the world stage. The BRICs' begetter, Mr O'Neill, does not regret his creation: his "overriding conclusion is that [they] are a good mechanism for pressing rich countries to change their role in managing the global economy more radically."

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