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## How Powerful are the BRICS? Lessons from the Fortaleza Summit

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Since the creation of the acronym in 2001, the BRICS countries have met six times at high level summits. Brazil, Russia, India, China and South Africa (the later only since 2010) are (re)emerging powers predisposed towards multipolar governance of the international order. Their recent meeting on July 15, in Fortaleza, Brazil, highlights their shared desire to further such political objectives under the umbrella of this diplomatic initiative. This condition has become increasingly salient since the 2012 New Delhi summit. Yet, despite gestures designed to expand the areas of cooperation, deepening trade relations has been the core focus of the BRICS countries. The creation at Fortaleza of a BRICS Development Bank and of a common foreign currency reserve is a step towards new global economic governance modalities distinct from Euro-American institutions such as the International Monetary Fund (IMF) or the World Bank. The first financial instrument aims to avoid conditionality in loans that often dictate unwanted internal structural reforms. In the view of the Russian Finance minister, loans which necessitate such transformations are an intolerable form of political interference.<sup>1</sup> The second instrument aims to protect the BRICS from changes in American monetary policy that risk disrupting their economies by provoking capital withdrawals. Its ability to do this has yet to be proven.<sup>2</sup> These initia-

tives may constitute alternatives to the prevailing financial order, but they raise doubts about the degree of genuine cohesion among these countries. On the one hand, the main contributor will be China; while, on the other hand, the expected gains appear to vary from one country to another.

Taking this state-of-play into consideration and the renewed promises of the BRICS multilateral forum, we aim to explore the following issue: what might the BRICS really achieve, as a group? We argue that the rhetoric of achieving new global governance has to be considered in the context of a distinction between political and economic governance. In order to understand the feasibility of these countries' common quest for a new role, it is essential to analyze what traits they share and what they do not. We explore, therefore, the core features of the BRICS members and of their relations with each other.

Except South Africa, all of the BRICS members are gigantic countries in many regards. Nonetheless, they fail to be classified as rich countries because their Gross Domestic Product (GDP) per capita is inferior to the United States, Japan and Europe. Collectively, they have generated 30% of the world's growth since 2001. They currently represent 18% of global GDP; 40% of the world's population; 15% of global trade, and 40% of foreign currency reserves. Synergies are grounded in access to the natural and agricultural resources of Russia, Brazil and South Africa, and Chinese capacity to deliver low price consumption goods to the middle classes of the other

1 Marie Charrel, "Les BRICS ont lancé leur banque de développement" (*Le Monde*, 16 July 2014).

2 *Ibidem*.



countries.<sup>3</sup> Confident of their growing economic weight, the BRICS aim to enhance their political role not only in institutions such as the IMF but also at the United Nations (UN) Security Council.

They claim, for instance, that voting in the IMF should be reweighted proportionally, and countries such as Brazil or India should be entitled to a seat at the UN Security Council. The BRICS countries are in fact “light-weight” when it comes to vote-share with 11% of the votes in the IMF, contrasting with the 32% allocated to the European countries, which collectively with the US, then account for nearly 50% of the votes.<sup>4</sup> The BRICS nations expressed directly their dissatisfaction with this imbalance in 2011: “We call for a quick achievement of the targets for the reform of the International Monetary Fund agreed to at previous G20 Summits and reiterate that the governing structure of the international financial institutions should reflect the changes in the world economy, increasing the voice and representation of emerging economies and developing countries”.<sup>5</sup> The rationale for their request is proportional representation based on economic weight. That same year, the BRICS nations also abstained in votes on military strikes against Libya, which were approved by the UN.

With the BRICS accounting for almost half of the world’s population, these aspirations to rebalance international politics and create a more multipolar equilibrium puts them at odds with the Western liberal values that currently shape the global rules of the game. In this context, the G20 multilateral forum is particularly relevant for the BRICS: “we reaffirm that the G20’s founding spirit of bringing together the major economies on an equal footing to catalyze action is fundamental and therefore agree to put our collective political will behind our economic and financial agenda, and the reform and more effective working of relevant international institutions”.<sup>6</sup> To this end, 19 member states plus the EU have gathered, since 2008, for the purpose of economic cooperation and collective decision-making.

However, the intra-BRICS dynamics need to be addressed to assess the prospects for their intent to reform global governance. The BRICS that share a direct border have more potential for—even overt—conflict among themselves. That is the case for Russia-China and of India-China relations. As far as the Sino-Russian relationship is concerned, both BRICS members took a growing interest in Central Asia during the 21<sup>st</sup> cen-

tury, potentially to the detriment of Russian engagement there. Arguably Chinese and Russian paths have diverged since 1979 when Beijing initiated its economic overture and Moscow invaded Afghanistan. A decade before Russia’s opening, China’s evolution has been more dynamic and advanced.<sup>7</sup> A 2001 bilateral treaty between the two nations, sealing mutual friendship and cooperation, already included a willingness to address the new global strategic equilibrium. Nevertheless, this goal is hampered by the relative growth in Chinese power compared to Russia, and increased competition in their common neighborhood. Energy relations in Central Asia have highlighted both a change in the power balance, according to which China accepted a privileged Russian interest there, and a boost in Chinese investments.<sup>8</sup>

Until 2005, China was the primary purchaser of Russian armaments, when it was substituted by India, which is also the biggest importer of arms in the world.<sup>9</sup> For its part, Beijing has become autonomous from the second largest exporter, namely Moscow.<sup>10</sup> In terms of nuclear armaments, Russia’s power is contracting in contrast with that of China and India (and Pakistan).<sup>11</sup> Globally, Indo-Russian relations are intensifying, as demonstrated by a 24% growth in trade during 2012<sup>12</sup> and by Russian support for the entry of New Delhi into the Shanghai Cooperation Organization (SCO).

Considering Indo-Chinese historical tensions, namely their disputed border, Russian actions might be seen as unwanted from Beijing’s perspective. The Chinese president’s visit to India last September is illustrative of the importance of the regional balance of power between these two BRICS. The visit was overshadowed by clashes of troops in the disputed Ladakh border region (Indian-administered Kashmir and Chinese-administered Aksai Chin). The clashes undermined Xi Jinping’s rhetoric concerning China’s peaceful intentions and trade deals. As Tiezzi underlines, “How Beijing can balance its ideal of a “peaceful rise” with achieving the territorial aspects of the “China dream” will ultimately determine how far China-India cooperation can go”.<sup>13</sup>

3 “La montée en puissance du groupe des BRICS (Brésil, Russie, Inde, Chine, Afrique du Sud)” (*La Documentation Française*, 2012).

4 “Light-Weight BRICS” (*The Economist Online*, 6 June 2011).

5 “Sanya Declaration” (*BRICS Leaders Meeting*, 14 April 2011).

6 “Building Our Common Future: Renewed Collective Action for the Benefit of All” (G20 Cannes Summit Final Declaration, 4 November 2011) p. 19.

7 Raquel Vaz-Pinto, “A geopolítica russa: o desafio da gestão energética” [35<sup>a</sup> Edição dos Colóquios de Relações Internacionais da Universidade do Minho. Braga: 28 de Maio 2014].

8 Thomas Stephen Eder, “China-Russia Relations in Central Asia. Energy Policy, Beijing’s New Assertiveness and 21st Century Geopolitics” (*Springer VS*, 2009).

9 *Sipri Yearbook 2013: Armaments, Disarmament and International Security* (SIPRI, 2013).

10 “Numéro deux mondial de l’armement, la Russie a augmenté ses parts de marché” (*Les Echos*, 17 March 2014).

11 *Sipri Yearbook 2013: Armaments, Disarmament and International Security* (SIPRI, 2013).

12 Dadan Upadhyay, “India, Russia to negotiate on CECA with Customs Union” (*Russia & India Report*, 3 April 2013).

13 Shannon Tiezzi, “Can India and China Overcome Their Border Dispute?” (*The Diplomat*, 19 September 2014).



Since the New Delhi summit of 2012, the BRICS members have focused on boosting intra-BRICS trade and the expansion of the areas of cooperation. A lot has still to be done, for instance, to improve the BRICS coordination in multilateral forums such as the WTO. Trade between BRICS members is also very uneven. China has an enormous share of trade with Moscow, New Delhi and Brasília, with roughly 80%, and with Pretoria, 70%. It means that China is the main trading destination of the other BRICS. In contrast, Russia and South Africa have almost no bilateral trading relations. The other shares are very low, with only India and South Africa surpassing mutual shares of 10%. The trade by destination between China and the other BRICS is the unique that present a balanced distribution: 30% towards Brazil, 28% to Russia, 26% to India, and 16% to South Africa.<sup>14</sup>

An overview at the BRICS's profile also highlights contrasting features as emerging economies. During the 2000s, all the BRICS saw their GDP per capita rise; Russia took the lead, closely followed by Brazil, both demonstrating values above the world average. China and India remained below the world average. The experience of South Africa was different, with a relatively small increase and well below the world average. However, the growth rate in Russia has been well below the Chinese and Indian ones, with about 4% in 2011, as in Brazil. While Russia has recorded inflation rates

higher than the other BRICS, Moscow registered the second best performance in terms of unemployment and poverty rates. Literacy rates and human development indexes also demonstrate significant differences between the BRICS (Russia has the highest values). Public debt represented 12% of Russian GDP in 2011, much lower than its counterparts, but it was also the only with negative population growth. In terms of trade balance, Russia and China are clearly above the others, with Beijing having the best position, although its record has declined since 2008. Brazil and South Africa have nearly achieved a positive trade balance, while India has a negative balance.<sup>15</sup> A sectorial analysis also highlights significant differences that might evolve into complementary interactions, or on the contrary, establish structural heterogeneity in the group. For China, the industrial sector is crucial for its GDP, whereas agriculture is of primary importance for India. For Brazil and South Africa, services constitute the biggest share of their GDP. However, in terms of exports, South Africa relies heavily on the mining sector, whereas Brazil relies on the industrial and agricultural sectors. For Russia, although services generate most of the GDP, the energy sector far exceeds its exports earnings. Finally, for China, the manufacturing sector is responsible for above 80% of its foreign trade.<sup>16</sup>

The BRICS are, therefore, countries that are powerful individually but not yet able to command significant influence as a group. The declared aspiration to become "regime makers" instead

The declared aspiration to become "regime makers" instead of "regime takers" in global affairs is still confronted by two major issues that point to the group's heterogeneity. The first issue is related to political coordination and the second to intra-trade dynamics. Some BRICS have conflicting relations that put a serious brake on political convergence among themselves. However, their main aspiration remains to reform institutions such as the IMF and the WTO, or to boost forums such as the G20, whereas intra-BRICS trade remains low with limited prospects for improvement.

<sup>14</sup> Data was retrieved from Sajal Mathur and Meghna Dasgupta, "BRICS: Trade Policies, Institutions and Areas of Deepening Cooperation" (*Centre for WTO Studies*, March 2013), pp 8-9.

<sup>15</sup> *Ibidem*.

<sup>16</sup> *Ibidem*.



of “regime takers” in global affairs is still confronted by two major issues that point to the group’s heterogeneity. The first issue is related to political coordination and the second to intra-trade dynamics. On the one hand, some BRICS have conflicting relations that put a serious brake on political convergence among themselves. This is particularly evident in the case of Sino-Russian relations and Sino-Indian relations. On the other hand, their main aspiration remains to reform institutions such as the IMF and the WTO, or to boost forums such as the G20, whereas intra-BRICS trade remains low with limited prospects for improvement. In fact, although the BRICS collectively account for a large share of global trade, this is mainly due to the rise of China in world trade since the 1990s, and this is not reflected in trade among the BRICS themselves. At a time when even EU member states are not trading much with each other and the WTO forecasts for 2014 are gloomy, the BRICS face a real challenge that will not be easy to achieve. Globally, China is the only one to grow its trade in 2014, while Russia, India and Brazil face worsening situations.<sup>17</sup> Changing the shape of global governance still requires serious political engagement and work towards enhancing the synergies of the group.

<sup>17</sup> Shawn Donnan, “Five reasons why the picture is looking gloomy for global trade...” (*Financial Times online*, 24 September 2014).

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