Short Term Policy Brief 57

BRICS: A Cohesive Grouping?

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Background Briefing: BRICS: A cohesive grouping?

Executive Summary

From improbable beginnings as a financial concept coined by investment bank Goldman Sachs, the BRICS – Brazil, Russia, India and China – have formed a loose organisation to push for a greater role for themselves and the developing world in the global financial and political order. Since 2009, the world’s four leading emerging economies have met annually for formal leaders’ summits to ‘create conditions for a more just world order,’ in the words of Russian President Dmitri Medvedev at the inaugural summit.

While the BRICs (which, since 2011, have adopted South Africa into the grouping) all aspire to a greater say in Western-controlled international economic and financial institutions, a lack of coherence among them has so far stopped the group from taking their demands very far. This paper will analyse the extent to which coherence among the group is achieved by considering the summit statements from all the BRICS leaders’ meetings. It will also examine whether the BRICS have a joint stance on the EU, and discuss China’s specific stake in and attitude towards BRICS. It argues that although the BRICS have achieved very little in real terms because of their differences, it has successively drawn attention to their cause in a worthy exercise of ‘political marketing’.

Main points:

- From 2009 to 2012, the BRIC grouping has used its summits to consistently lobby for greater influence and more decision-making powers for developing countries at international institutions such as the International Monetary Fund (IMF). Despite the convergence of common interest, the summits have been largely symbolic, not substantive.

- The BRICS have succeeded, to some degree, in jointly pushing for IMF voting reform and diversifying the international currency system. They have also cooperated to take steps toward boosting intra-BRICS trade and building their own development bank.

- They have been much less successful in their political agenda, achieving no results in the stated aim of reforming the United Nations. They have, however, banded together to declare a broad joint position on Syria and Iran. Yet fundamental disparities and mutual distrust, especially regarding China, stand in the way of more meaningful accord.

- The BRICS summits have been reticent about Europe, although member nations have sought to put together a joint position on the eurozone crisis elsewhere. They have pledged funds but demand quicker IMF reform in return.

- China considers the BRICS one of several platforms where it could challenge the current world order, but is sceptical of its long-term potential.

- Despite many weaknesses, BRICS have shown considerable cohesion in pushing for the changes they want and drawing attention to their cause. For now the EU should maintain strong strategic relations with each of the BRICS. Engagement at the bilateral level remains key going forward.
Introduction
The term BRIC – an acronym for Brazil, Russia, India and China - was coined in 2001 by a Goldman Sachs economist to describe the four leading emerging economies expected to surpass today’s largest economies by 2050. Together, the four nations account for more than 40% of the global population, and about a fifth of world GDP in 2011 - a jump from 16% in 2000. They are also among the ten largest accumulators of foreign exchange reserves. According to revised projections following the global financial crisis, Goldman Sachs forecast that the combined GDP of the BRICs may exceed that of the G7 countries by 2027, much sooner than initially believed.

Yet aside from large populations, increasingly influential economies, and a consensus on the need to change the power distribution in the world order, the BRIC nations have very little else in common. Fundamental disparities in their domestic political institutions, economic structure and challenges, and foreign policy priorities make cooperation a challenge, and the nations are further divided by numerous, barely concealed political and economic tensions and rivalries.

Despite such vast differences, the group began political dialogue in 2006 and met for its inaugural leaders’ summit in 2009 on Russia’s initiative. It has since met annually to coordinate their positions on international finance and politics. In 2011 China invited South Africa to join the group as a full member and the group thus became referred to as ‘BRICS’. Although South Africa was supposed to represent the interests of Africa, not just itself, at the grouping, the expansion provoked much scepticism among observers who questioned why it was chosen among many other potential candidates with higher GDPs.

That the original BRICs came together at all owes much to the financial crisis, the challenges it poses, and the way it sharply highlighted the growing prominence of emerging economies. Brazil, Russia, India and China all emerged relatively unscathed compared to the battered U.S. and western Europe; their common interest is to enhance their political clout on the back of their economic influence and check global reliance on the United States. Indeed, so far the most significant and consistent aspect of the BRICS agenda has been calls to reform the international financial system to give more decision-making power to developing countries. In Chinese President Hu Jintao’s words, cooperation among the BRICs represents a ‘new model’ of global economic cooperation that aims to create ‘fair, just, inclusive’
international financial systems. To this end, the group has proposed a number of plans in their summit statements, which will be set out in more detail below. The joint statements also put forth the group’s stated desire to reform the UN as well as its views on international security and assorted other issues, although these have been much less coherent and too cautious to have real meaning.

The BRIC summits
Since their inaugural summit in Yekaterinburg, Russia, in 2009, BRIC leaders have met for annual, formal summits in Brazil, China and India. The most recent leaders’ summit was held in New Delhi in March 2012. Taken together, the joint statements resulting from these meetings consistently uphold the theme of calling for a more representative, less U.S.-centric world order. The detail of how this could be implemented, however, is where coherence falls apart.

International economics and finance
Reform of the global financial system takes up the bulk of substantial proposals that the BRICs agreed on in their summit statements. Such proposals have been accompanied at every summit by consistent declarations from BRICs leaders blaming the West for lax financial regulation and venting joint frustration at the slow pace of reforms at the IMF. But the BRICs have also coordinated specific demands and hashed out tangible goals. Foremost among these is the call for the World Bank and the IMF to adjust their quota systems to give more voting weight to developing countries, a reform agreed in 2010 by the G20. BRIC members, most notably Brazil, have repeatedly threatened to withhold additional BRICS funds requested by the IMF unless they gain a bigger say at the organisation. Meanwhile, the BRIC summits have also repeatedly urged a more democratic process for electing the heads of international financial institutions, traditionally roles dominated by the West. Despite these demands, the BRICs failed to join together to back a candidate from the developing world to replace outgoing World Bank president Robert Zoellick in 2012.

A second and consistently repeated focus of the BRICs summits has been a call to move toward use of global reserve currencies other than the U.S. dollar. Russia’s Medvedev
declared at the 2009 summit that ‘there can be no successful global currency system if the financial instruments that are used are denominated in only one currency.’ One of the most successfully developed proposals emerging from the past two summits was the agreement by all BRICS national banks to extend credit facilities in local currencies while conducting trade. Such measures are meant to reduce, over time, the groups’ reliance on the dollar. In 2011’s summit declaration the group also encouraged the IMF to expand its use of Special Drawing Rights (SDRs), a synthetic currency to transfer funds between member governments, although in the following year mention of SDRs was dropped.

Finally and perhaps most significantly, in their most recent summit the BRICS nations took further steps to formalise their grouping when stating that they would study the creation of their own development bank, funded and managed by BRICS and other developing countries, as an alternative to the US-dominated World Bank. While this was a breakthrough, no details about the shares of each country’s voting rights or investment have yet emerged, and it is far from clear when – or whether – such a development bank may come into being.

**Global governance and international politics**

Since their first communiqué in 2009, BRIC leaders have proposed to reform the UN to make the body more effective, but this is one of the areas where the BRICS have had the least cohesion. On paper, all the joint statements called for making the UN - including the Security Council – ‘more effective, efficient, and representative’. They also repeatedly declare the important role of India and Brazil (as well as South Africa after it joined in 2011) in international affairs, saying the BRICS ‘understand and support’ their aspirations to have a greater say at the UN. However, so far none of them has put forward any details or proposals for how this goal may be achieved. It is clear that neither China nor Russia, both of which have permanent seats at the Security Council, are keen to extend their exclusive veto rights to any of the other BRICS.

In the past two years BRICS joint statements have widened their agenda to include political and security issues including the Arab Spring, Syria and Iran, reflecting the group’s ambition to be seen as a politically coherent bloc. However, apparent coherence on paper often masks underlying disagreements. On Syria, for example, the 2012 joint declaration stated
that BRICS leaders wanted a peaceful solution that respects Syria’s sovereignty and supported a ‘Syrian-led inclusive political process’, despite India, Brazil and South Africa earlier supporting a UN resolution calling for Syrian President Basar al-Assad to resign that China and Russia had vetoed. On Iran, the BRICS managed to jointly support its right to civilian nuclear energy and challenged the West’s policy on Iran, stressing that dialogue was the only way to resolve the issue – a rebuff of any military plans by the West to curb Tehran’s suspected nuclear activities.

BRICS declarations also include an array of other topics including the condemnation of international terrorism, concerns about food and energy security, climate change, urbanisation, and African development. However, these statements were more often than not overly broad and offered no concrete proposals. As such, they cannot be upheld as examples of meaningful convergence of views among the BRICS nations.

**BRICS and the EU**

The BRICS nations clearly consider Europe over-represented at the IMF, and have diverged from Washington and Brussel’s strategy on Iran. But at the same time, each of the nations individually has important trade links with the EU, and all have a stake in ensuring the European sovereign debt crisis stays contained. Since 2011 BRICS have met outside their regular annual summits to attempt to put together a coherent stance toward the eurozone crisis. While these discussions captured the media’s attention with prospects of so-called ‘BRIC-aid’, they largely fell flat because of significant divisions among the nations. In late-2011 Brazil initially signalled that the BRICS would lead an intervention to help the EU get out of the crisis, but a few weeks later it became clear that this was more rhetoric than reality following vocal opposition from China, Russia and India.

Both Beijing and Moscow told the media that Europe must present a clear strategy for rescuing its debt-ridden economies and find a solution for Greece before they would commit to increasing their eurozone bond holdings. China, which has individually been buying eurozone debt and has been vocal about helping Europe, signaled further that it wanted to be rewarded with official European recognition of China as a market economy. When the quartet met again in November 2011, ahead of the G20 summit in Cannes, India, Russia and
Brazil appeared distinctly reluctant to contribute to the Europe rescue fund, indicating instead that they would give assistance through the IMF - but only in return for reforms at the institution. The BRICS’ 2012 summit declaration further disappointed when it failed to include any joint proposals for Europe; instead, it blamed market instability there for causing uncertainty in global economic growth and merely urged ‘advanced economies to adopt responsible macroeconomic and financial policies.’

**Factors for limited cohesion**

Many analysts see little potential for the BRICS to achieve a more coherent position or become a formal political grouping because of a long list of intra-BRICS political and economic disparities. India, Brazil and South African are vibrant democracies, Russia a declared democracy with strong authoritarian leanings, while China is an authoritarian power. As mentioned above, a joint vision about Security Council reforms is improbable given the permanent status of both Russia and China, as opposed to the longstanding aspirations of India and Brazil to gain a seat. In economics, too, bloc members hardly see eye to eye. Though all are dubbed ‘engines of growth’, China’s dramatic growth rate is head and shoulders above the more modest development in the other BRICS; indeed, India’s slowing growth rate in the past year has drawn alarm from investors, while South Africa’s economic power is nowhere near that of any of the original quartet. Disparate economic structure also means the BRICS have competing priorities; for example, Russia is a huge exporter of energy, while China and India are the reverse. Further, intra-BRICS criticism of China’s currency policy, especially from Brazil and India, has so far been swept under the carpet because of the scale of trade between the countries, but such disputes cannot be ignored for good. Finally, the group is rife with mutual geopolitical suspicion such as longstanding distrust between India and China over territorial claims and each country’s relations with Pakistan.

Even the broad principles that the BRICS agree on in their communiqués are problematic on closer inspection. In most cases, such divergences of interest result from the fact that China is simply too powerful for the rest of the bloc. While all are critical of the dollar as a reserve currency and advocate a power shift from the U.S., China has by far the most vested interest on the issue; it has been cautious about proposals to encourage the use of SDRs as an international currency both because of its huge holdings in U.S. dollars and bonds, and also
because it considers the yuan the best contender to replace the dollar. Meanwhile, on the reform of IMF voting structure, any gains India may take home from the changes would benefit China even more, and India does not necessarily want to see reform that would increase the Chinese vote so dramatically. Finally, the agreed proposal to set up a BRICS development bank will face huge roadblocks not least because of intra-BRICS suspicion that China will take an overly dominant role and gain most out of the proposal.

**China’s stake and attitude**

As the dominant economic power among the BRICS nations, China has an ambivalent attitude toward the group. In general, Chinese observers believe the grouping has considerable potential, but are sceptical that it could overcome its many internal divisions to become a more formalised grouping in the long run. For Beijing, the BRICS is not the most important multilateral vehicle for global change, and it isn’t the main focus of its multilateral activities. The G20 is, for now, the more prominent grouping by far. Still, there are benefits for Beijing. BRICS summits provide a forum for interaction with states that China has not always had good relations with. They also allow China to posture as a leading member of a group that, in Ambassador Zhang Yan’s words, is ‘the guardian of the interests of developing countries,’ reassuring other developing nations, including India and Russia, that it is on their side.

The main benefit for China of participation in the BRICS process is that it provides a forum for Beijing to express dissatisfaction with the current global order and challenge it – or, as one official scholar insisted, not to overthrow the system, but to reform it by redistributing power within it to make it more representative. Like other organisations that China actively participates in, it is not a pre-existing grouping of countries established by ‘the West’ based on liberal principles. Crucially, it is a forum that doesn’t leave China as a lone voice of dissatisfaction but as part of a broader grouping that includes democratic states that are often seen more as allies of the West than enemies. This is thought to give greater legitimacy to calls for change than just acting alone, which risks raising the spectre of a ‘China Threat’ to the western liberal world order.
While they might not be aired within BRICS summits, bilateral tensions and rivalries between China and India as well as Russia, and to a less degree Brazil, persist. Interviews with academics in Beijing who specialise on China’s role in the global order in May 2012 revealed a largely sceptical view of the long-term future of BRICS given the various tensions among the member states. Beyond acting as a platform for the articulation of a common dissatisfaction and the discussion of issues of mutual interest, there is more that divides than unites among the BRICS. This view was echoed in a number of foreign embassies in Beijing, who saw BRICS as symbolic of a shift in global power, but a shift that sees the individual member states - rather than the BRICS collectively - as the key loci of power.

Chinese participation in the BRICS process should be viewed as part of a broader strategy of forming functional alliances with groupings that are not dominated by the West or overtly liberal ideas – blocs such as the Shanghai Cooperation Organisation, but also less formalised forms of cooperation like the Forum on China-Africa Cooperation. In the process, China’s leaders seek to not only push for change, but also to promote an idea of China as a global actor and a great power that behaves differently from the way previous great powers interacted with the developing world.

**EU Policy Recommendations**

The BRICS’ vocal criticisms of the developed Western economies reflect their growing confidence and ascendency in the world. But although they are united by a shared frustration about Western economic leadership at international organisations, especially amid the global economic downturn, the countries have not articulated any further shared vision or actionable objectives. Nonetheless, the EU should not dismiss the influence of the BRICS outright. Despite its many weaknesses, the grouping has shown considerable cohesion in pushing for the reforms they want – most powerfully by threatening to withhold much-needed funds – and as such, have succeeded in a kind of international political marketing for the member nations. It is too early to tell how the group may evolve and the EU should monitor its activities closely. For now, maintaining strong strategic relations with each of the BRICS at a bilateral level remains key.