# Emerging Powers: Global Trade Force in a Multipolar System

**Dina Jaccob**

Department of Euro-Mediterranean Studies, Faculty of Economics and Political Science, Cairo University

**ABSTRACT**

The BRICS members are considered as the new building block of the global economy. The rapidly emergent powers of BRICS are often deemed to be in the course of changing the political and economic map of the twenty first century. The BRICS members are experiencing a unique set of circumstances in their socio-economic and political evolution. The debates that dominate the discourse within each of the BRICS members at present, whether on traditional security or non-traditional security, are linked to the challenges that confront the global community. This offers an interesting opportunity and a matrix with multiple possibilities to cooperate, share and work together. Growth and diversity coexist in the BRICS as a whole. While all members in the BRICS enjoyed higher growth for a large part of the last decade, each country is also known for distinctiveness. Russia is a commodity-driven economy, China is a powerhouse of exports, India is a domestic demand-driven economy, Brazil has much developed economic structure and South Africa represents the fast-growing region of Africa. Growth is the common glue that makes this community a powerful and prominent force in the global economy. All the five countries in the BRICS members play an important role in G-20 shaping global economic policy and financial stability. As a result, this paper aims to analyse the global economy, the area in which the emerging economies have been most challenging existing institutions. In addition to, their impact on the global security. BRICS are considered as a new engine for global growth. The paper analyses their contribution in reforming the international financial system in addition to their role in the international political system and its stability.

**Keywords:** Emerging Powers, BRICS, Global Economy, International Political System, Global Security
**JEL classification:** C32, F36, F42, G15.

## INTRODUCTION

The emergence of BRICS has helped to change the economic landscape in the global economy by opening new economic spaces for developing countries. In the next few decades BRICS is likely to replace the present G-7. BRICS is a group of five fast-developing countries; Brazil, Russia, China, India, and South Africa.

When Goldman Sachs first published its report on BRIC members, the countries were thought to have the best economic prospects for future growth and consuming power, outpacing the G-7. These conclusions encompassed a wide range of economic data where BRIC members were likely to close the gap and perhaps overtake the G-7 by 2050. Summarizing the findings from the Goldman Sachs report (Bell 2011): (1) Economic size: in less than 40 years, the BRIC economies, when aggregated, could be larger than the G-7 in U.S. dollar terms. China overtook Germany, Japan and will overtake the U.S. by 2039. (2) Economic growth: according to Goldman Sach's projections, India has the potential to show the fastest economic growth over the next 30 to 50 years, likely brought about by an increase in population and improvements in basic infrastructure including energy. (3) Incomes and demographics: while incomes are likely to increase, individuals from the BRICS are likely to remain somewhat poorer on average than are individuals in the G-7 by 2050. Russia may be able to catch up to the poorer of the G-7 by 2050 in terms of income per capita. Within the next 20 years, China's per capita income could be roughly what Korea's is at present, about $30,000, while only the U.S. reaches a per capita income level of $80,000. (4) Global demand: By 2025 the annual increase in U.S. dollar spending from BRIC members could be two times that of the G-7 and potentially four times higher by 2050. (5) Currency movements: BRICS' real exchange rates could appreciate by up to 300 per cent over the next 40 years. China's currency could double in value within 10 years' time if growth rates continued uninterrupted and the exchange rate were allowed to freely float.

Many emerging economies has expanding productive skills set that has significant production capabilities especially in the context of rapid innovation and technological advancements. Despite the relatively low literacy and educational attainment rates in China, India and Brazil, combined BRICs do have a large and growing pool of well-educated individuals that would boost their workforce in the next decade. It is noted that BRICS, through improvements in education, investments in research and development and international collaboration is moving in the right direction to become leaders in innovation. This in itself also has the potential to attract further foreign direct investment (FDI) and boost growth in these economies.

BRICS members have been credited with nearly 50 per cent of the world's economic growth. Their share is expected to increase further, as members' growth rates surpass the average annual growth rate of the world economy. BRICS growth rates are predicted to remain relatively high. The growth patterns of BRICS are becoming more interdependent as China is responsible for falling prices in many labour-intensive products while India's growth has placed upward pressure on petroleum prices. Moreover, it is noted that China's rise to prominence has created additional benefits for developing countries by increasing demand and prices for their commodities, particularly in raw materials and energy.

This paper is organised as follows; section 2 analyses the role of BRICS in the regional context while section 3 examines the BRICS global influence. Section 4 scrutinize the role of BRICS-G20 in reforming the international financial system in the aftermath of the global financial crisis. Finally, section 5 concludes the importance of BRICS as a new emerging power in the international political and economic arena.

## BRICS IN THE REGIONAL CONTEXT

The creation and development of the BRICS has to be seen within the broader context of a growing number of emerging regional powers and contacts between these powers, including through a multitude of partially overlapping and complementary multilateral frameworks in the Southern hemisphere, in particular in the Asia-Pacific where Western countries are mostly not represented (Keukeleire and Bruyninckx 2011). The BRICS phenomenon mirrors a general shift in the international balance of power, with the centre of gravity moving from the Euro-Atlantic to the Asia-Pacific area and from the North and West to the South and East – the emergence of the G-20 being yet another indication of this wider process.

Firstly, increasing dialogue and cooperation in several variations on the BRICS format:
- RIC: trilateral meetings with Russia, India and China, the 10th trilateral meeting of the Foreign Ministers of Russia, India and China was held on 2010.
- IBSA: the trilateral IBSA initiative, which was formally launched in 2003 with India, Brazil and South Africa.
- BASIC: the BASIC-format with Brazil, South Africa, India and China was launched in November 2009 with a Joint Strategy for the UN Framework Convention Climate Change (UNFCCC) in Copenhagen where they eventually side-lined the EU and negotiated a deal with the U.S. Since then, frequent ministerial meetings have taken place on these issues.
- Bilateral relations: a large and increasing number of bilateral meetings are organized on various political, diplomatic and bureaucratic levels between the BRICS members (particularly Russia-China, Russia-India, India-China and Brazil-Russia).

These variations on the BRICS-theme are not surprising in view of the differences and divergences, which exist between the five BRICS members. These various formats can be seen as a sign of weakness of the BRICS formula, but can also be perceived as a sign of flexibility that allows the BRICS members to choose the format, which best fits their purposes and to avoid divergences leading to inertia. The various formats seem to reinforce each other; statements issued in the context of one format often include references to the other formats.

Secondly, Russia, China and India have been promoting the multilateralisation of their dialogues and trialogues and the inclusion of other countries in the region, with several international forums emerging in which particularly Russia, China and/ or India play a role. These include:
- The Shanghai Cooperation Organization (SCO), including Russia, China, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan, with India, Pakistan, Iran and Mongolia as observers.
- The South Asian Association for Regional Cooperation (SAARC), including Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Nine countries, including China, the EU and the U.S. possess observer status.
- The ASEAN+3 process (including the ASEAN countries plus China, Japan and Korea).
- The East Asia Summit, including China, India, together with other Asian countries as well as Australia and New Zealand.

Thirdly, the major geo-economic and geo-political shift from the previously predominant transatlantic area to the rising Asia-Pacific area is also reflected in the APEC that brings together 21 states in the Asia-Pacific region, including major powers such as China, the U.S. and Russia and emerging or mid-sized powers in Asia (including ASEAN countries plus Japan and Korea), the American continent (Canada, Mexico, Peru and Chile), as well as Australia and New Zealand, accounting together for approximately 40% of the world's population, 44% of world trade and 54% of world GDP. Most importantly, it provides a link between the increasingly important Asian continent and the still largest global political, economic and military power (U.S.).

All these international forums have one feature in common. It is a world where the EU is absent, where Europe is considered far away, and in most cases also as irrelevant, with the exception of the WTO, the G-20 and some other multilateral forums where 'Brussels' and the European approaches have to be dealt with and, if necessary, countered or blocked. In this sense, in view of the differences between the BRICS members, it is not in itself a problem that the EU has not developed a 'BRICS policy' and has focused on bilateral policies towards each of these countries separately. However, it is more problematic that the EU has no policy to deal with the generally changing balance of power in the 21st century, a phenomenon in which the rise of the BRICs has to be situated.

Interestingly, Europeans often dismiss these new forums for dialogue, coordination and cooperation as not really significant in view of the lack of legally binding commitments in these settings. However, it may be more adequate to recognize that BRICS members and the other Asian or Southern countries have made the choice for multilateralism too, just like the EU, but that it is a choice for multilateralism based on fundamentally different principles with regard to both contents and approach.

This description points to a clear prioritisation of economic growth and development, which can be linked to the reluctance of BRICS members to let economic development be restricted by concerns in other policy domains that the Europeans consider important, such as environment, social protection or human rights. It points to a preference for a pure intergovernmental approach, with decision-making by consensus, absence of treaty obligations and voluntary commitments, which is opposed to the European preference for legally binding commitments and powerful international organisations/regimes. It reflects strong determination to protect national sovereignty, a principle also shared by the EU's main partner, the U.S.

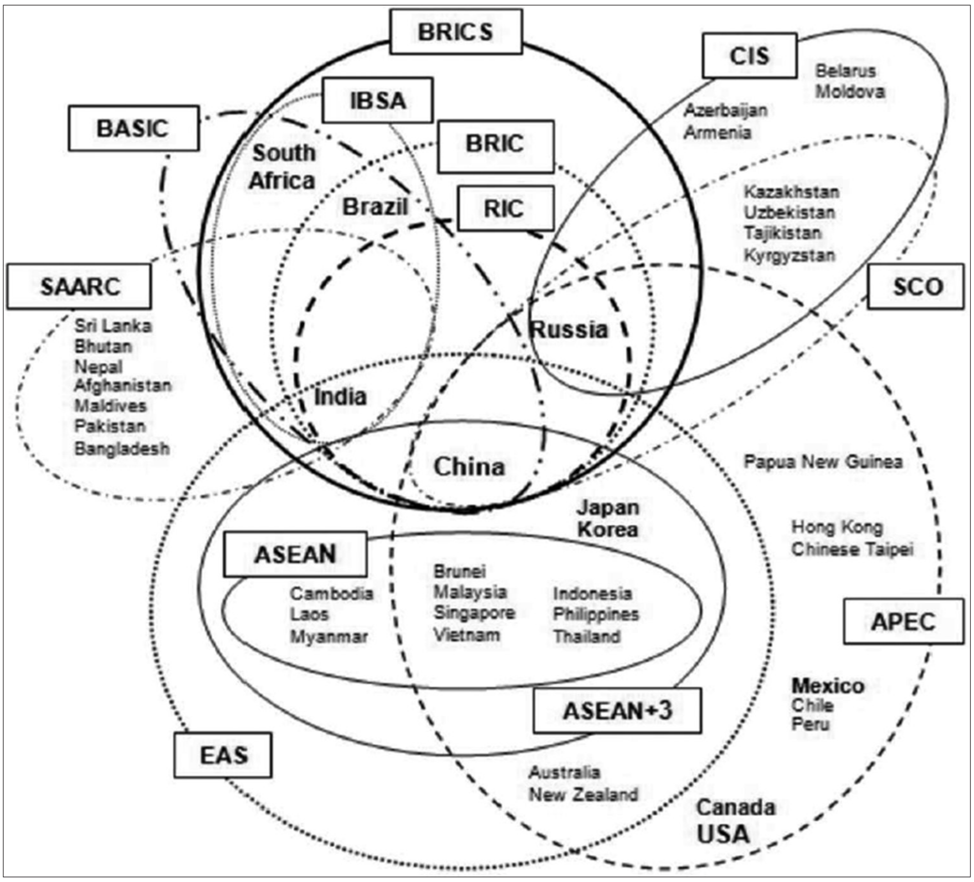
In other words, whereas the EU had hoped that its model of 'effective multilateralism', based on legally binding commitments and treaties, would gradually become the global standard, with the interaction between the EU and UN becoming an increasingly important point of reference (European Council 2003; Laatikainen and Smith 2006; Wouters, et al. 2008). In fact, EU perceives itself increasingly marginalised with regard to the way the international scene is structured. The EU was regularly blinded by the references to effective multilateralism in its partnerships and other agreements with the individual BRICS members, leading to the false impression that these were all 'Partnerships for effective multilateralism' (Grevi and de Vasconcelos 2008).

Figure 1 shows an overview of the various partially overlapping and complementary emerging constellations of power and multilateral frameworks in the southern part of the world, Asia and the Pacific. It reflects an increasingly dense set of formal and informal networks and personal and professional contacts between a growing number of ministers, diplomats, senior as well as specialized civil servants and agencies which are responsible for a continuously widening set of policy issues and which meet each other more and more in various forums in addition to their bilateral contacts.

Interestingly, neither the BRICS nor any of the other variations or multilateral frameworks can be considered as really coherent, powerful and influential as such. Nor does this increasing number of meetings lead to real 'hard decisions'. However, these rather diffuse overlapping sets of bilateralisms, trilateralism and multilateralism do increasingly have an impact on the outcome of international negotiations, because they inform and impact upon the national positions of the various participating countries as well as upon UN negotiations and various specialized international negotiation processes.

The clearest and for the Europeans most painful example of this emerging and increasingly important set of partially overlapping multilateral forums was the marginalization of the EU in the Climate Conference in Copenhagen in December 2009. The Copenhagen Accord was essentially brokered by the BASIC countries and Australia, thereby successfully representing and defending the 'Southern' position in the climate change debate, with the U.S. managing to break into the deal and the EU being largely side-lined. In the final stage of the conference, these countries formulated the accord outside of the formal negotiations dynamic, with the fundamental option (not to accept binding commitments) being taken, not in Copenhagen itself, but at the preceding APEC meeting in Singapore in November 2009. It illustrates that the BRICS and other emerging powers' interpretation of and choice for multilateralism was in fact a 'choice for multilateralism', and they were effective in using the various multilateral frameworks to impact upon the final result in the way they prefer (Keukeleire and Bruyninckx).

The EU is the world's leading exporter of goods. In 2007, extra-EU exports amounted to €1200 billion, about 17% of total world exports, not including intra-EU dispatches. With imports of €1370 billion (18.1% of the world total, not including




| | |
|---|---|
| BASIC: | Brazil, South Africa, India, China |
| BRICS: | Brazil, Russia, India, China, South Africa |
| BRIC: | Brazil, Russia, India, China |
| RIC: | Russia, India, China |
| IBSA: | India, Brazil, South Africa |
| SAARC: | South Asian Association for Regional Cooperation |
| ASEAN: | Association of South East Asian Nations |
| ASEAN+3: | Association of South East Asian Nations + Japan, Korea, China |
| EAS: | East Asia Summit |
| APEC: | Asia-Pacific Economic Cooperation SCO: Shanghai Cooperation Organization |
| CIS: | Commonwealth of Independent States Countries in bold are considered by the EU as 'Strategic Partners' |

**Figure 1:** The BRICS multilateral frameworks
**Source:** Keukeleire and Bruyninckx (2011)

intra-EU dispatches), the EU is also the second largest importer, only closely behind the U.S. whose imports totalled €1500 billion in 2007 about 18.5%. The rapid growth of Chinese exports over the past two decades has made China advance to rank two in the global list of world exporters of about 11.8% of total, overtaking both the U.S. and Japan. In terms of imports, China is still behind the EU and the U.S. but ahead of Japan.

Various growth rates in exports and imports over the last two decades have caused a significant reallocation of market shares between countries of these two country groupings, mainly from the Triad to the BRIC. Figure 2 shows that the export market shares of the Triad have all significantly decreased over the period 1995 to 2007. In the case of the EU, the share in global exports decreased from 19% in 1995 to 17% in 2007 with the strongest decline in the period 1995-2000. In fact, the EU global export market shares seem to have stabilized since then and even show a slight increase between 2000 and 2007. The loss in export market shares over the last two decades is more pronounced in the case of the U.S. and Japan. Market shares declined to 11.3% in the case of the U.S., down more than 4% compared to 1995. Japan recorded a loss of 5% of its share in global exports, leaving it with a market share of 7% in 2007. Comparing the losses in market shares of the Triad countries, the EU was relatively successful in defending its market share.

Figure 3 shows that the import market shares of the Triad have all significantly decreased over the period 1995 to 2007. In the case of the EU, the share in global imports slightly decreased from 19% in 1995 to 18% in 2007 which is the highest decline. The loss in import market shares over the last two decades is more pronounced in the case of the U.S. and Japan. Market shares declined to 19.4% in the case of the U.S., down more than 5% compared to 1995. Japan recorded a loss of 3.5% of its share in global imports, leaving it with a market share of 5.5% in 2007. Comparing the losses in market shares of the Triad countries, the EU was relatively successful in defending its market share.

The EU's leading role in international trade also survives when bilateral relations between the Triad and the BRIC are regarded. The comparison of shares in total imports of the BRICs reveals that the EU has the highest market shares among the Triad countries, with the notable exception of China as highlighted in Figure 4. In China, Japan accounts for roughly 15% of imports, compared to 12.8% of the EU and 8% of the U.S. In Russia, the EU had an impressive import market share of 44% in 2007, up from 40% in the year 2000, and far ahead of the U.S. and Japan. Interestingly, the EU also occupies a higher market share in Brazilian imports than then U.S., with the differential in market share increasing from less than 3% in 2000 to approximately 6.5% in 2007. Both the EU and the United States experienced a decline of their market share in Brazilian imports over the 2000-2007 period which is in line with the general tendency in the BRICs. Notable exceptions are the rise of the EU's import market share in Russia and the stabilization of the U.S. share in the India's import market.

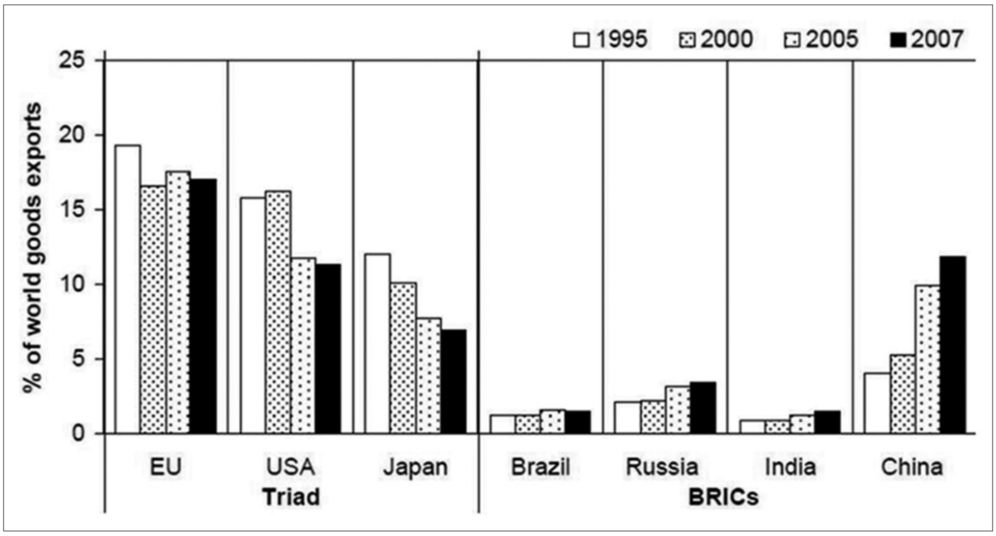



**Figure 2:** BRICS and TRIAD share in goods exports
**Source:** IMF (2016)

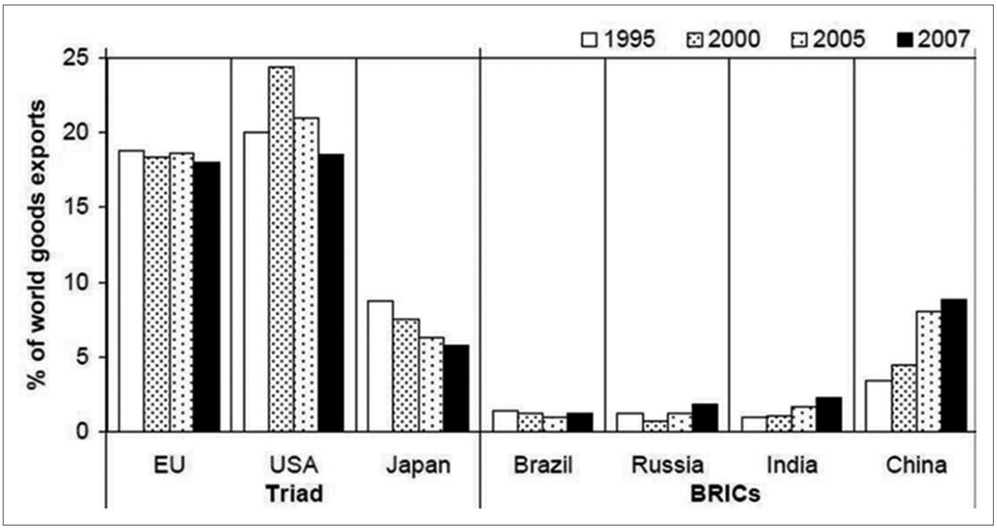



**Figure 3:** BRICS and TRIAD share in goods imports
**Source:** IMF (2016)

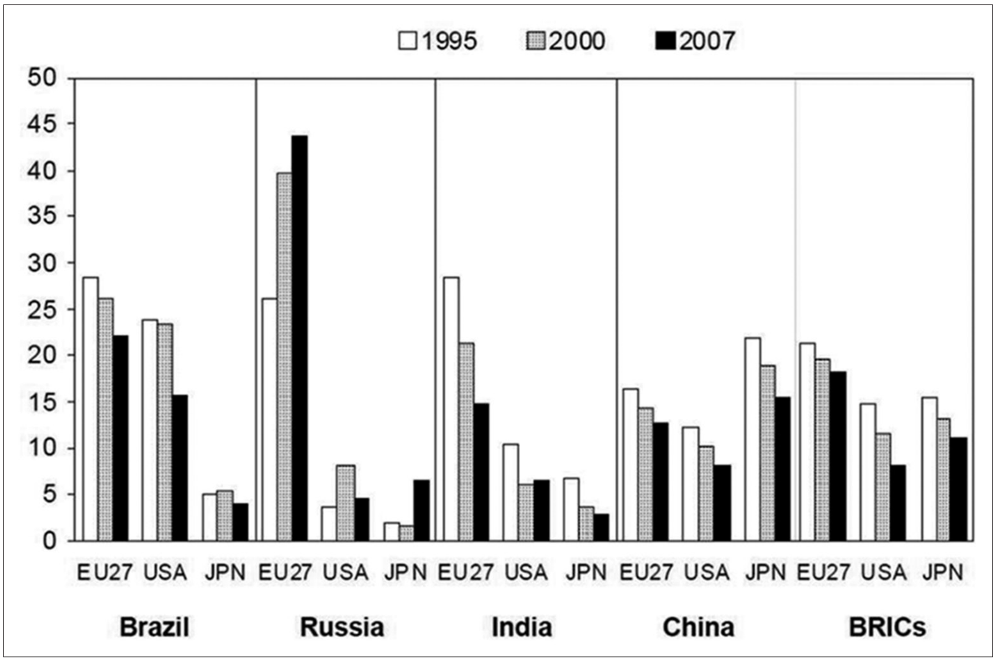



**Figure 4:** Shares of the Triad in BRIC imports, % (1995-2007)
**Source:** UN Comtrade (2013)

It appears that the EU companies make intensive use of the trade channel to serve the markets of the BRICs and are also rather successful compared to the U.S. and Japan, which are less favourable positioned in most of the BRICs in terms of import market shares.

Despite falling market shares in the BRIC, their importance as trading partners for the Triad countries is on the rise, the result of much faster export and import growth rates of these countries. On the export side Russia, has become the main export partner of the EU among the BRIC, absorbing 7.1% of extra-EU exports, slightly ahead even of China of 5.8%. For the U.S. and Japan, in contrast, Russia is less significant as an export market. For them, China is the major export destination among the BRIC. All Triad countries have in common that their shares of both exports destined for and imports from China have creased between 2000 and 2007, with a higher share occupied in imports, surpassing 20% in the case of Japanese imports in 2007. In the EU and U.S., imports from China have exploded, rising by 8.8% and 8.3% to reach 16.4% and 16.9% of total imports respectively in 2007. On the export side, the increase of the relative importance of China as a trading partner is muss less pronounced, reaching approximately 5.8% of total EU as well as total U.S. exports. For the EU and the U.S., a by-product of these developments is the increasing trade deficit, especially with China. In 2007, the bilateral trade with China and Russia contributed 84% to the total trade deficit of the EU, up from 56% in the year 2000.

There are several factors contributing to China's strong export performance. One of the factors is that the Triad countries provided China with the necessary capital goods, technology and knowhow to diversify and upgrade domestic industrial and export capacities. An indication for this is the very high share of capital goods in China's imports from the Triad countries, especially from the EU. The same is also true for Chinese imports from the United States (although less so for imports from Japan). A distinctive feature of Chinese trade is the high share of parts and components (P&C), particularly on the import side. The trade in P&C constitutes a deep form of economic integration because it entails the geographic separation of the production process of goods. In contrast, this form of trade integration is much less developed in Russia and also India (Fertö and Soos 2008). The split-up of the trade according to broad economic categories, which reflect different stages of production, also shows that China's and India's trade is characterised by a very low share of imports of consumption goods. Consumption goods only account for 4.4% of China's and 4.6% of India's aggregate goods imports. Compared to these very low shares, both China and India import relatively more consumption goods from the EU (10.7% and 6% respectively). In contrast, consumption goods are the major category in Russian imports accounting for 36% of total imports in trade with the world and only slightly less in bilateral trade with the EU.

## BRICS GLOBAL INFLUENCE

The creation of a global economic alternative is clearly the key factor of optimism around the BRICS. In an article penned ahead of the 2012 BRICS Summit, Jim O'Neill suggests that while their collective GDP is close to $13 billion and that within the next three years their combined size will become bigger than the U.S., thereby increasing their influence in the global economy and governance of international financial institutions. Similarly, the BRICS Research Group suggests that by 2030, the cumulative GDP of BRICS members will exceed that of the G-7 countries, which will in turn increase their influence on the global stage.

Key stakeholders perceive the basis of the BRICS rooted in the long term common economic interests of the member states, which include reforming outdated global financial and economic architecture, strengthening the principles and standards of international law and supporting the complementarity of many sectors of their economies. Indeed, there is a shared view among several commentators that the BRICS partnership has diversified the growth of the world economy and become a driving force for the democratisation of international economic relations (Yan 2011).

The BASIC group (Brazil, South Africa, India and China) is yet another formation which was initiated in 2009, just ahead of the UN Climate Summit in Copenhagen. The group worked together for a short period to focus attention on the outcomes of the Copenhagen Summit, including arguing for the endorsement of the Copenhagen Accord as a legally binding treaty. Failing this, the group has directed its energies on calling for a legally binding agreement on climate change, faulting the U.S. for slowing down the pace of an agreement on this issue. Also, it has focused on the need for greater financial assistance to developing countries and the ‘historical responsibility’ of developed countries to provide greater support and resources for climate change mitigation and adaptation efforts.

The coming together of BRICS is rooted in the outcomes of the global financial crisis – and the aspiration of the member countries to have a stronger voice in the management of international financial systems. Researchers point out that this convening has provided the member countries with a stronger peer connect, particularly since their interests were not always convergent with the positions of smaller developing countries in the broader G-77 group. Furthermore, BRICS members are able to access at least 10 key regional bodies including the Commonwealth of Independent States (CIS), the Collective Security Treaty Organization (CSTO), Eurasian Economic Community (EurAsEc), the Shanghai Cooperation Organization (SCO), the Asia-Pacific Economic Cooperation (APEC) forum, the Union of South American Nations (UNASUR) and Mercosur, the African Union (AU), the South African Development Community (SADC) and the South Asian Association for Regional Cooperation (SAARC). If used effectively, their coming together allows them a strategic advantage across a range of global forums including the UN Security Council, the G-77 and the Non-Aligned Movement.

It’s the BRICS moment in global geopolitics. Not everyone will agree, with sceptics cavilling about the slowing rate of growth in most BRICS economies. But the BRICS has transcended economics to morph into a powerful grouping driven by an overarching ambition to reconfigure the world order and remap the semantics and grammar of global politics. Therefore, the 5th BRICS summit in Durban set to hog the limelight, giving the developed world jitters about strategic intentions of this club of emerging economies.

The political significance of the BRICS lies in their potential to undermine the traditional stronghold of the G-7 countries on global affairs. Nitin Desai, former Under Secretary General of the UN for instance points out that the global order that has prevailed since the Second World War has been organised around the interests of the U.S., Western Europe and later Japan. Although other developing countries came into their own in this period, the forums in which non-Western countries have been able to exercise influence, such as within the UN, were rendered ineffective in matters of global economic interdependence and decision making power, which was vested instead with institutions that have been dominated by Western powers, including the IMF and the World Bank. The BRICS grouping is essentially a challenge to this system (Desai 2012).

Yet, there is also danger of the self-professed goal of systemic reform being short-changed by short term benefits. In the context of the G-20 for instance, speculation is rife as to whether the BRICS will eventually be, through the extension of decision-making privileges, simply be co-opted into compliance by the G-7 countries, or will be able to create a serious shift in power if they are also able to persuade other members, such as Indonesia, Mexico, South Korea, Argentina and Turkey, to work more closely with their interests and positions.

In level terms, the results of these projections are as striking as when it is presented them around a decade ago. The BRICS economies are projected to make up four of the five largest economies in the world by 2050 when measured in U.S. Dollar terms, joined only by the U.S. in second place. China was already in second place in 2010, but Brazil is projected to move from seventh place in 2010 to fourth place in 2050, Russia from eleventh to fifth place and India from tenth place to third place. On these revised projections, it would expect the Chinese economy to surpass the U.S. in 2026, and the BRICS together to surpass the U.S. in 2015 and the G-7 in 2032.

This trajectory implies a continuation of the shift in the share of global activity towards the BRICS and the emerging markets (EM) universe that began in earnest a little more than 10 years ago. The BRICS economies accounted for about 10% of global GDP (PPP-weighted) in the 1980s and 1990s. This has risen to around 25% of global activity by 2010, and by 2050 we project this share to nearly double to about 40%. From this perspective, the projections imply that the Great Transformation in terms of GDP levels is more than halfway done (Wilson et al. 2012).

Figure 5 shows that the share of BRICs in global output will increase from 9% of the global PPP-adjusted GDP in 1980 to about 40% of the global PPP-adjusted GDP in 2050 while the share of developed countries in global output will decrease from 68% of the global PPP-adjusted GDP in 1980 to about 26% of the global PPP-adjusted GDP in 2050. The share of other emerging economies in global output will increase slightly from 12% of the global PPP-adjusted GDP in 1980 to about 13% of the global PPP-adjusted GDP in 2050.

Figure 6 shows that Brazil has the 16th rank of the world GDP in 1980 and improved to be the 10th, 7th, and 4th in 2000, 2010, and 2050 respectively. Russia was not in the top 20 of the world GDP in 1980 and improved to be the 18th, 11th, and 5th in 2000, 2010, and 2050 respectively. India has the 12th rank of the world GDP in 1980 and improved to be the 13th, 10th, and 3rd in 2000, 2010, and 2050 respectively. China has the 11th rank of the world GDP in 1980 and improved to be the 6th, 2nd, and 1st in 2000, 2010, and 2050 respectively. South Africa has never been on the top 20 of world GDP for the period 1980-2050.

Figure 7 shows that BRICS have potential global future growth compared with other emerging markets and developed countries. The peak decade for BRICS future growth is 2010-2019 where the growth rate reaches 2.2% compared with 0.6% and 1% of other emerging markets and developed countries respectively.

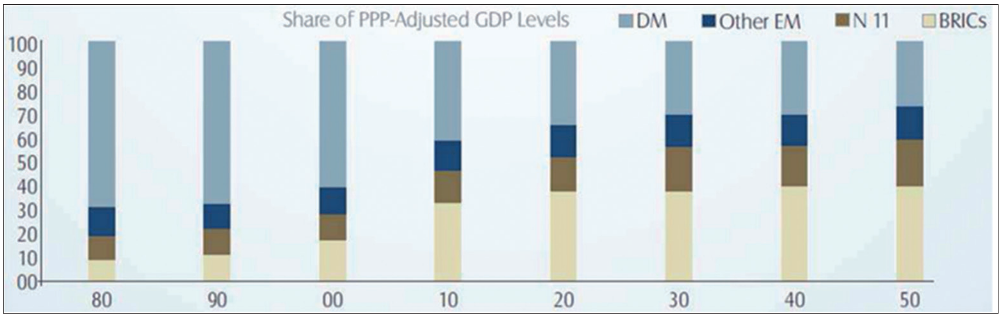



**Figure 5:** BRICS Share in the in Global GDP, % (1980:2050)
**Source:** IMF, GS Global ECS Research (2016)

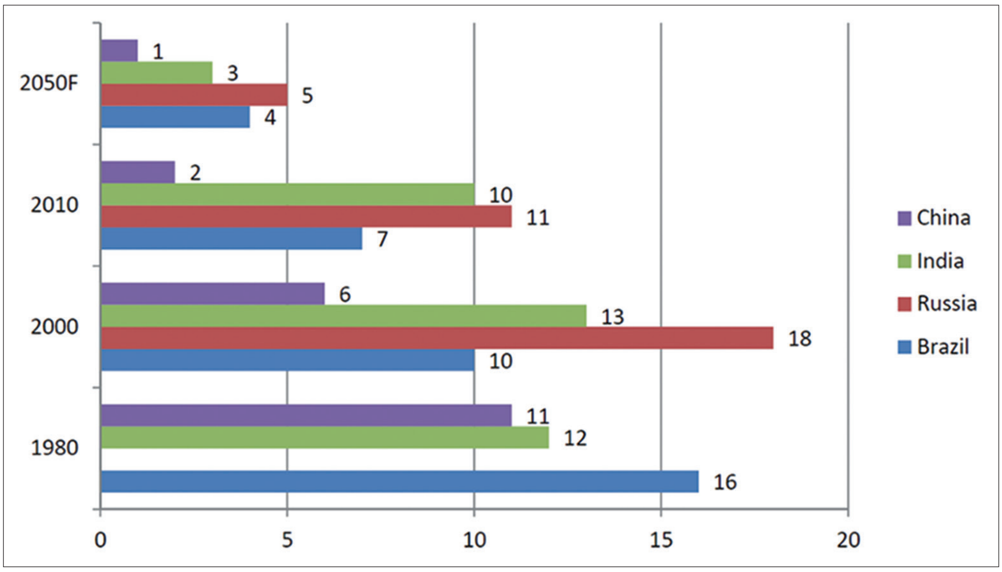



**Figure 6:** BRICS GDP ranking (1980:2050)
**Source:** World Economic Outlook (2016)

Figure 8 shows that China has the highest average growth rate of 13% in 1980-1980 followed by India and Brazil of 6.0% and 3.6% respectively. India has high potential growth rate to reach an average of 6% in 2040-2050 followed by Brazil, China, and Russia of 3.9%, 3.8%, and 2% respectively.

## BRICS-G20 FINANCIAL SYSTEM REFORM

The global financial crisis (GFC) of 2008 was the outcome of the process, widely known as Subprime mortgage which involved financial institutions providing credit to borrowers who do not meet prime underwriting guidelines. Subprime borrowers have a heightened perceived risk of default, such as those who have a history of loan delinquency or default, those with a recorded bankruptcy, or those with limited debt experience. However, subprime mortgages were not created for low income borrowers who had little or no money to put down, as commonly believed. Subprime mortgages were actually intended to be temporary loans to borrowers who expected to sell the property early or increase their income soon after purchase. Many property investors, also used subprime loans to finance their investment homes. Their expectations that the property prices would increase remained as dream when home bubble burst. Most of borrowers who could not manage their obligation decided to default and securitized instruments from U.S. depreciated gradually.

It is worth noting, in this context, to compare the experience of Japan where economic bubble burst and economy was in recession in 1990s after the boom time of 1980s it took more than 10 years to recover the situation. Japanese stagnant economy after bubble bust was caused by domestic home price; however, it did not influence foreign countries seriously because other countries were not relying on income from Japan. This is the remarkable differences between bubble burst in Japan and the U.S.

Most of all advanced countries have undergone through the volatile situation as a result of economic depression 2008-09. Needless to say, those emerging countries which had been growing rapidly year by year could not avoid the evils of worldwide recession. A lot of U.S. investors withdrew huge amount of money from BRICs stock market, which made the shrinkage of stock market index in each of BRICs country. It was particularly obvious in Russia and Brazil, which would give Russia and Brazil suffering in the near future.

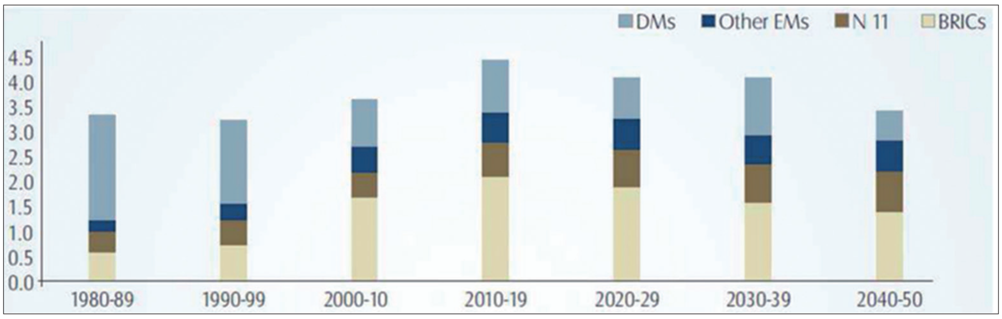



**Figure 7:** BRICS potential for future growth, % (1980:2050)
**Source:** IMF, GS Global ECS Research (2013)

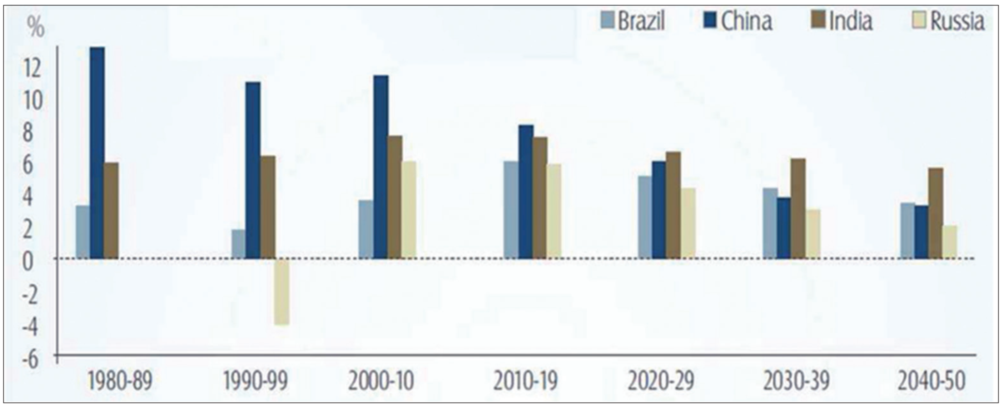



**Figure 8:** BRICS growth rate, % (1980:2050)
**Source:** World Economic Outlook (2013)

The evolution of the G-20 is a telling story about the complexity of world economy at present and the rising influence of emerging economies in its management. The G-20 summit is the first international platform whose structure reflects the distribution of economic powers nowadays. The countries around the table account for about 85 per cent of global GDP (Zoellick 2011). It was established at the level of finance ministers to solve the problems of emerging economies against the background of the Asian financial crisis in 1999. G-20 meetings were promoted to a summit level, not the least with the help of China and Brazil, mainly to solve the problem of the developed economies caused by the global financial crises of 2008. The G-20 summit was created not only to solve the problem of developed economies with the help of emerging economies, but also to maintain the stability in global economy by universally managing the highly risky financial instruments.

Both the G-20 and institutions like IMF are working hard to prevent the international economic system from collapsing, and all major economies are supporting them in this effort. However, there is intense competition among major economies within the G-20 and other relevant institutions about special interests and influence. The U.S. and the major powers share a compelling interest to protect the global system from collapse but within that system have every incentive to compete for political and economic gain (Jones 2011).

When the first BRIC summit took place during the 2008 financial crisis, it focused on how to understand the crisis and how to work together within the G-20 to reform the international financial institutions. The main achievements of the G-20 included a \$1.1 trillion global recovery plan and increased IMF resources. BRICS members in particular contributed to both achievements. China launched an impressive domestic stimulus plan, as was Brazil, which turned from a decade- long debtor into a key contributor to the IMF. In exchange, the IMF Governing Board agreed on a transfer of IMF voting shares to emerging economies. In addition, other governance efforts, such as the G-20's initiatives on a financial stability board, financial regulatory policies, mutual assessment mechanisms and the development agenda are highly relevant to emerging economies' future and concerns.

Beyond the BRICS Summit Declaration on agenda items that also feature on the G-20 agenda, there has not been a discernible effort to create a BRICS power bloc within the G-20 to champion issues of common interest to BRICS members. Indeed, BRICS members are not always in agreement on positions in the G-20, and only converge in broad terms despite the many agenda items in which they should ideally have an interest, including the development agenda and reform of international institutions. In June 2012, the BRICS leaders met on the side-lines of the G-20 summit, which could hopefully be a first step towards institutionalising the BRICS power bloc within the G-20. Besides those occasions in which a member country is hosting a G-20 summit, a lack of cohesive identity within the G-20 prevents the BRICS from actively setting the agenda. This defeats the agenda on the reform of global governance. Although the G-20 has established itself firmly as the primary institution for discussing global economic affairs, the BRICS lethargy still enables the G-7 to set the agenda. Bradlow postulates (Bradlow 2010).

While the G-7 accepted the G-20's pre-eminence in economic matters, they have not surrendered their control over the global economic agenda, which is dominated by the regulatory and governance issues of most interest to them. The shifting balance of power merely means that the rising powers in the G-20 can participate in the discussions on these agenda items and can influence their prioritization.

BRICS members have augmented their legitimacy due to their increased integration into the world economic system. All of them are major economies in their region and influential members in the WTO. The newly obtained WTO membership might improve Russia's economic lot as Russia's financial power is relatively small compared with its BRICS peers and its political leverage is largely based on the influence of Russia n energy sector on consumers in EU and Asia. China and Brazil are the main beneficiaries of quota reform of IMF in 2008. Brazil, China, Russia and India are the major bonds buyer of the total quota increase of IMF in 2009 reform. Emerging powers China, India, Russia and Brazil will see their quota shares increase from 3.996%, 2.442%, 2.494%, and 1.783% in 2008 to 6.394%, 2.751%, 2.706% and 2.316% respectively. The structure of the Board of Directors will be adjusted to minimize the privileges of European countries by reducing the number of their directors by two, and having all directors elected rather than appointed.

Under the current international monetary system, BRICS members feel it necessary to accumulate huge foreign reserves in order to avoid financial risks. Therefore, BRICS want to reform the world currency system, by promoting an alternative to the U.S. Dollar or by promoting the status of Special Drawing Rights. From the perspective of BRICS members, there are some aspects that need to be reformed: (1) The diversification in international reserve currencies should be accelerated, aiming at establishing an accountable international currency system. (2) Disequilibrium in the balance of payments on a global scale is of serious concern. Since the late 1990s, the current account surplus in emerging markets has been increasing, while the current account deficit in the U.S. as an investment destination for emerging markets has been increasing. (3) The decision-making mechanism in IMF is dominated by a few actors, such as the U.S. and E.U. The mechanisms for selecting senior managers in IMF are not transparent, and the standard criteria are based on nationality rather than purely on expertise. (4) The available funding resources of IMF are limited and an increasing contribution from emerging economies in exchange for voting share reform approach is needed. (5) The IMF needs to enhance its function of regulating and supervising of international financial markets to avoid systemic risks.

In the three Summits held across 2010 to 2012, there has been an overwhelming emphasis on the reform of international financial institutions and the need for a more stable and diversified monetary system. These demands represent a broader call for a multi-polar and fair international order in the aftermath of the global financial and currency crises. The Joint Statement issued at the Brasilia Summit in 2010 for instance outlines the specific changes sought by the BRICS members including voting power reforms in the World Bank, quota reforms in the IMF and support to Russia's bid for accession to the WTO. The Joint Statement also commits to study feasibilities of monetary cooperation, including local currency trade settlement arrangements between member countries, and is backed by the adoption of a memorandum of cooperation between development banks of the BRIC members at the summit. In the same year, the G-20 endorsed the call made by BRICS members to review and increase quotas in favour of emerging economies and under- represented countries. This was followed by the approval of a package of reforms in voting shares and quotas by the IMF's governing board in December 2010.

In 2011, the BRICS Sanya Summit focused on establishing institutional mechanisms for collaborative work across the BRICS Finance Ministers through mutual information systems and training objectives. Politically, the meeting was noticed for the reinforced call for reforms in international financial institutions, including a push to open lead positions in the IMF and World Bank to candidates outside the U.S. and OECD bloc and further discussion on Special Drawing Rights within the international monetary system.

BRICS members stand at an important point of challenge. While the last two decades have galloped these countries to a position of prominence in global economics, a new set of constraints began to arise in the background of global economic slowdown. Some critics tend to club BRICS as yet another grouping that failed to overtake the US despite great promise in the initial period, citing instances of Europe (1960s), Japan (1970s and 1980s), the Asian Tigers (1990s), etc. More worrying is the fact that the slowdown of BRICS, which is contributing to nearly half the global economic expansion, may reduce the scope for speedy recovery of the world economy.

Growth of the BRICS members, which was on rapid ascent since 1990s, faced constraints following the global economic and financial crisis that began in 2008. With economic slowdown and financial markets setback in the US and Europe, exports from BRICS to developed markets and investments into their respective economies declined adversely, impacting the growth prospects. Though initially it appeared that BRICS might have overcome the impact of the global economic crisis, the deceleration is gaining momentum in the last couple of years, which has become a cause of worry for the economic policy in these countries. The real GDP of BRICS, which was over 8 per cent in 2010 declined to 6.5 per cent in 2011 and is further fall to 4.87 per cent in 2012 and expected to reach 4.7 per cent in 2013.

The growth prospects of individual countries in the BRICS members are raising worries. Brazil that had a real GDP growth of 7.6 per cent in 2010 fell to 2.7 per cent in 2011 with the weakness continued in 2012 and the estimates for 2013 is pegged at 2.5 per cent. Russia's growth in 2012 is 2% and is expected to stay stable at around 2 per cent. From an annual growth rate of 7.4 per cent during 2000-2010, India's growth is expected to slide to the fringes of 5 per cent in 2013. From an average growth of 10 per cent for the last 25 years, China's economic growth is expected to slip to levels of 6.5 per cent, a trend that is forecast to prevail for a few more years. Inflation emerged as a major issue as well. Currencies of the BRICS members, with the exception of China, have experienced varied levels of volatility following the onset of the global economic crisis. The stock market value of BRICS is at a three-year low. Top global companies from the BRICS members suffered erosion in market values, leading to sizeable slippage in their respective global rankings.

These developments provide ample scope for the policy makers in the BRICS governments to come up with proactive policies that reinvigorate their domestic economic climate as also establish stronger linkages with other emerging markets. Groupings based on economic growth and prospects such as Next Eleven and Frontier Markets are gaining greater significance. It is important for BRICS to forge stronger relationships with these economies to expand domestic markets to revive growth. This will also help the BRICS members to reduce to some extent excessive dependence on developed markets for exports.

In this context, the agenda for development cooperation among the BRICS members could also include the following:

a. The BRICS members are characterized by a strong middle class with potential for higher savings. Increasing reliance on market-related instruments such as stocks and other structured products, which suffered badly after the financial crisis, has dampened the spirit of investors. It is important to bring investors back to the financial markets. In this context, a need exists for designing more safer and long term investments that could be easily understood and managed by retail investors. This would be essential for capital formation and investment.

b. Small and medium enterprises are predominant in the BRICS members, and most of them are dependent on bank financing or other form of resources. It is important to develop specialized capital markets to solely cater to the needs and requirements of small and medium enterprises.
c. Opportunities for cross-border listing and trading are abundant among the BRICS members. A limited effort of listing index futures began, which needs to be further strengthened to extend to listings and trading of companies with global operations and business.
d. Scope for designing special financial instruments with sovereign guarantees could be explored to develop diversification of investments among individual investors and companies in the BRICS members.
e. Given the prowess BRICS has in technology, joint endeavours could be evolved for its effective use in promoting financial inclusion.
f. The proposed BRICS Development Bank could move towards generating consensus of creating institutional mechanism to provide infrastructure financing, so vital for the growth to continue and sustain in these countries.
g. A special task force may be created within the BRICS secretariat to engage with other fast-growing nations in the 'N11' and 'Frontier Markets' to cooperate and collaborate on growth-inducing policies that would be mutually beneficial and productive.
h. Greater exchange of information, knowledge, skills and expertise may be evolved in areas of the financial sector, information technology, process management, financial education and investor literacy, which could help these countries in capacity building vital for growth to sustain.
i. In view of the growing importance of the BRICS members, it might be useful to bring out an annual review of the BRICS economy and finance that will address to various issues of growth and development pertinent to the countries in the grouping.

## CONCLUSION

The BRICS members do not represent a political coalition currently capable of playing a leading geopolitical role on the global stage. Each country seeks its sovereignty, Brazil's foreign policy priority is to consolidate its economic gains at the national level by building international influence and partners, and the BRICS members represent an important opportunity to realize that vision. The group was unable to take a concerted stand on the new head of the IMF, but sees an opportunity for BRICS to have a more influential, if not major, global role in the future. It was noticed that China wants to remain a partner within BRICS, not lead it. By way of perspective, China's trade with the rest of BRICS combined was smaller than its bilateral trade with the U.S. or Japan. In add to the absence of shared values between all members' limits the potential for BRICS, the pull toward expanding BRICS to new members would dilute what cohesiveness it does possess. It is argued that while the symbolism of its inclusion in BRICS is important for South Africa, its national interests are better served by pursuing greater regional cooperation, as well as with existing groups with greater shared geographic interests and political values, such as IBSA.

Challenges to growth are not uncommon for countries and grouping. What matters is the response mechanism and collaborative approach in overcoming the pressures. The BRICS members has not only pursued higher growth for a longer term but also realized the importance of cooperation among themselves. BRICS forums of various nature and significance are an important indicator of growing reliance on cooperative endeavours to scale up and sustain growth. The important task ahead of the BRICS members is to prove that growth can be long-lasting so as to make its presence in the global economics and finance a real force to reckon with.

One of the driving forces behind transforming a Goldman Sachs paper's analytical tool into an emerging global coalition was a shared frustration among its members with the U.S. led global economic architecture. But the fact is that BRICS lacks the ability and willingness to mount a challenge to that system, its members do want greater influence in how that system is governed, at present and in the future. Wei recommended that "the U.S. should take it easy, even we are not confident about the future of BRICS!" Instead, he suggested that the U.S. should be prepared to engage with BRICS, and in fact noted that he sees an improvement in the U.S. willingness to listen to other countries, a greater willingness than he sees from the EU (Dresen 2011).

The lack of an effective BRICS or emerging power lobby group within the G-20 makes the position of the G-7 more entrenched. There exists a loose consultation mechanism among the developing countries as a whole, including non-BRICS members, in which countries meet not to consolidate positions but rather to share ideas and consult on issues. In summary, the BRICS has had a few wins in the G-20, but this has been together with other emerging economies, and there is no exclusivity to their achievements.

The U.S. and EU should transfer some rights to the emerging powers in exchange for a greater contribution of financial resources to IMF. With the increasing diffusion of global power, any reform of international institutions would be impossible without positive cooperation between both established and emerging members.

## REFERENCES

B. Jones, Beyond Blocs: The West, Rising Powers and Interest-based International Cooperation, *Policy Analysis Brief*, October 2011, The Stanley Foundation.

BRICS Research Group, March 2012.

D. Wilson, K. Trivedi, S. Carlson and J. Ursúa, The BRICsS 10 Years On: Halfway Through The Great Transformation. *Goldman Sachs Global Economics, Commodities and Strategy Research*, Global Economics Paper No. 208.

D. Bradlow, Reforming Global Economic Governance: A Strategy for Middle Powers in the G20, A Paper Prepared for the Workshop on '*Going Global: Australia, Brazil, Indonesia, Korea and South Africa in International Affairs*', Jakarta, Indonesia, 25–26 May 2010.

D. Wilson and R. Purushothaman, Dreaming with BRICs: The Path to 2050, *Global Economics Paper*, 99, Goldman Sachs, New York, 2003.

E. Kokotsis, *Advancing accountability in BRICS governance*, BRICS New Delhi Summit, 2012.

European Council 2003; Laatikainen and Smith 2006; Wouters, et al. 2008

G. Grevi and A. de Vasconcelos (eds.), Partnership for effective multilateralism: EU relations with Brazil, China, India and Russia, Paris: *EU Institute for Security Studies*, 2008.

H. Bell, Status of the BRICS: An Analysis of Growth Factors, *International Research Journal of Finance and Economics*, 69: pp.19-25, 2011.

http://www.bloomberg.com/news/2012-06-24/brics-biggest-currency-depreciation-since-1998-to-worsen.html

http://www.gfmag.com/archives/147-february-2012/11604-special-report-brics.html#axzz27VbP0CMR

I. Fertö and K. Soos, Intra-Industry Trade Between the Old EU and the NMS Before Enlargement. In Grinberg et al., 2008, pp. 95-118.

J. Cassiolato and B. Lundvall, *The BRICs-project – first draft of position paper*, 2006 Available at: http://globelics.org/downloads/Other/BRICS+position+paper+051115.pdf. Accessed on 10 April 2016.

J. Dresen, BRICS: Shaping the New Global Architecture, *Kennan Institute*, June 2011.

L. John, Engaging BRICS Challenges and Opportunities for Civil Society. *Oxfam India Working Papers Series*, September 2012.

M. Titarenk, *Potential to boost performance as an engine of global growth*, BRICS New Delhi Summit, 2012.

N. Azahaf and D. Schraad-Tischler, Governance Capacities in the BRICS, Sustainable Governance Indicators. Bertelsmann Stiftung, 2012.

N. Desai, *What Interests do the BRICS members share?* BRICS New Delhi Summit, 2012.

Nitin Desai (2012), 'What Interests do the BRICS countries share?', BRICS New Delhi Summit.

O. Da Silva, R. Drumond and F. De Almeida, "Similarity and income content at the international trade: The case of BRICS during the period 2000/09," IAMO Forum 2011: Will the "BRICs Decade" Continue? – Prospects for Trade and Growth 17, Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO), 2011.

R. Zoellick, Five Myths about the G-20, *The Washington Post*, October 28, 2011.

S. Keukeleire and H. Bruyninckx, The European Union, the BRICs and the emerging new world order. In: Hill, C. & Smith, M. Eds., *International Relations and the European Union*, 2nd Edition, 2011, pp.380-403, Oxford University Press, pp.397-401.

S. Keukeleire and H. Bruyninckx, The European Union, the BRICs and the emerging new world order. In: Hill, C. & Smith, M. Eds., *International Relations and the European Union*, 2nd Edition, 2011, pp.380-403, Oxford University Press, pp. 399-400.

S. Singh and M. Dube, BRICS and the World Order: A Beginners' *Guide. Foreign Policy*, April 2011.

Speech by Minister Maite Nkoana-Mashabane on "BRICS within the Global Socio-Political and Economic Context" Gallagher Estate, Midrand, 25 June 2012.

The Economist, *The trillion-dollar club*, The Economist, 15 April, 2012.

The U.S. President George Bush in May 2008 remarked that increased consumption patterns of the middle class in India and China were a contributor to fluctuations in global food prices. The statement triggered a global outpouring of criticism and outrage.

Z. Yan, *BRICS works for shared prosperity*, The Hindu, 13 April, 2011.