The EU and the BRICs

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Overview

One of the strangest groupings to enter the world stage in recent years has been the BRICs – the acronym coined in 2001 by Jim O'Neill, Goldman Sachs chief economist, to describe the world's four largest developing economies – Brazil, Russia, India and China. He suggested that the BRICs were going to shape globalisation in the next 50 years, when he predicted they would come to dominate the world economy. He argued that even then (2001) the global economy could no longer be assessed simply with reference to the large advanced economies. Nor could global policy issues, such as currencies, trade imbalances or climate change, continue to be discussed solely by the G7/G8 – the US, Japan, Germany, the UK, France, Italy, Canada (and Russia).

Initially, the four countries chosen by O'Neill had different reactions to the designation. There was delight in Russia, bafflement in China, cynicism in Brazil and indifference in India. Now, the countries are using the idea to forge tentative links. In May 2008 Russia hosted the first formal BRIC foreign ministers meeting and in June 2009 it hosted a BRIC heads of state summit in Yekaterinburg. A further summit was held in Brazil in summer 2010. As meetings go, these were symbolic, not substantive. Although the four countries discussed how they could better co-ordinate their affairs to gain greater influence – and seek alternatives to the dollar – they did not agree any tangible steps.

The BRICs all agree that the US should not be so dominant in the world economy. The cohesive factor is a common interest in promoting changes in the global landscape. In this respect they will demand greater influence over the IMF in the forthcoming negotiation over voting shares. The BRIC grouping thus creates a space that promotes the relevance of each of its members but it is not a cohesive grouping in major political, security, economic or trade issues.

The EU has strategic partnerships with all BRIC countries and is currently negotiating new, comprehensive agreements with Russia, India and China. It has not so far recognized the BRICs as a group and there is no pressure to do. Brussels does not consider the BRICs capable of acting together on any major global issue. This paper examines the rise of the BRICs, assesses similarities and differences between the BRICs and considers how the EU is likely to react to the BRICs individually and collectively.

The Rise of the BRICs

The rise of the BRICs is linked to their dramatic growth rates in recent years. Their share of world output has doubled in the past decade, from 7.5% to 15%. Their shares of global population (40%) and territory are even higher. China and India are by far the world's two most populous countries, with 1.3bn and 1.2bn inhabitants respectively. Compared with the Asian giants, Brazil, with 193m, and Russia, with 142m, are minnows (the EU has 500m and the US 308m).

China is by far the dominant BRIC in terms of the economy. Its share in world output at purchasing power parity rose from 8 per cent in 1980 to 19 per cent in 2009. China's share of BRIC output is now around 61 per cent – up from 42 per cent in 1990. Neither Brazil nor Russia achieved a significant rise in their share of world GDP over the past two decades. Even India's rise was modest – up from 4 per cent in 1990 to 6 per cent in 2009. The story, then, has been of the rise of the two Asian giants and especially of China. But the 'ICs' would have been far less sexy a term. Yet the notion of the BRICs does capture the reality of a shift in economic power away from the old developed countries, particularly western Europe and Japan, to 'emerging countries'. The recent financial crisis has accelerated this change.

China and India have survived the financial crisis almost unscathed. In 2009, China's economy grew by 8.5 per cent and India's by 6.6 per cent. But Brazil's stagnated and Russia's shrank by 7.9 per cent. For 2010 the figures are likely to be around 9.6 per cent growth in China, 7.7 per cent in India, 5.1 per cent in Brazil and 4.1 per cent in Russia.

Yet can these countries impart dynamism to the world as a whole? The answer would, at first glance, appear to be yes. By 2009, the aggregate GDPs of the BRICs in dollar terms were already 60 per cent of that of the US and 14 per cent of the global figure, with China generating half this total. The BRICs contributed almost 30 per cent to global growth, in dollar terms, between 2000 and 2000, and 45 per cent since the crisis began in 2007. That will, no doubt, intensify over time. Yet nearly all of this growth will occur inside these countries. The net stimulus to demand imparted to the rest of the world depends on a decline in their trade surpluses or rise in their deficits.

China is now the "workshop of the world" – a high-investment, high-growth behemoth, with a powerful competitive position in manufacturing. The country's economy is also far more open than that of India: in 2006, the year before the financial crisis broke, the ratio of merchandise trade to China's gross domestic product was 67 per cent, compared with 32 per cent for India. India is relatively stronger in skill-intensive services: the ratio of trade in services to GDP was 15 per cent, against 7 per cent for China. Brazil has a far more closed economy than either of the Asian giants, with a ratio of merchandise exports to GDP of a mere 22 per cent in 2006 and a ratio of service exports to GDP of 5 per cent. Half of its exports were of food and raw materials. In 2006, manufactures made up less than a fifth of Russia's exports. It is an exporter of fuels and minerals.

How cohesive are the BRICs?

Opening the Yekaterinburg BRICs summit, President Medvedev said that the meeting was now the 'epicentre of world politics'. The centre of gravity of the world may be tilting from the US and Europe to Asia, accelerated by the financial crisis, but the new global order is unlikely to pivot around the BRICs. Two democracies, a democracy with authoritarian leanings and an outright authoritarian state cannot rally around the 'shared values' that such gatherings like to espouse.

India and China are strategic competitors as much as allies. India is nervous of China's military rise and what some in New Delhi regard as Beijing's ambitions to encircle India with a string of strategically placed ports. Russia is a big resource exporter, China an insatiable importer. That could be complementary. Yet Russia watches with alarm as China steals a march on grabbing African resources, and jealously guards its influence in central Asia. Brazil is in less fierce competition with the other three. But it is also on the wrong side of the world.

Yet it would be wrong to be cynical. Other groups, too, are riddled with contradictions and competing objectives. The global financial crisis does provide an opportunity to challenge a world order too long dominated by rich countries often serving their own interests. The BRICs are right to demand a greater say in bodies where Europe is over-represented, such as the UN and IMF. They are right, too, to suggest alternatives to the world's overdependence on dollars.

Differences

It is debatable whether the BRICs have anything more in common than their size and economic potential. The structures of the four economies are very different, with Brazil specialising in agriculture, Russia in commodities, India in services and China in manufacturing. Their experience of the global recession has been equally variable. It is a very diverse grouping. Its unifiying criteria are high economic growth, a certain economic backwardness and large size.

Russia matched China and India with a real annual average growth rate of 7 per cent between 1999 and 2008, but its peculiarities stand out. In economic development, Russia is superior to the other BRICs. Among the BRICs, Russia has by far the highest GDP per capita, in 2008, it was $12,000 in current US dollars, four times that of China. Goldman Sachs forecasts that Russia will be the only BRIC country to approach European per capita income levels by 2050. Russia's higher income level is also evident in superior social indicators. In most regards, Russia is slightly more advanced than Brazil but head and shoulders above China and India. Most impressively, more than two-thirds of Russians of university age are enrolled in university, compared with less than one-fifth of the Chinese. In terms of education, Russia matches the West. The differences with the BRICs in consumption are also great. There are 14 times more cars in stock per capita in Russia than in China, and three times more computers. In many ways, Russia is already converging with the West. In fact, Russia has few common interests with the other BRICs and hardly any with China. They are all critical of the dollar as a reserve currency, but Russia has already about half of its reserves in euros.

The Copenhagen climate conference illustrated how Russia's national interests distances it from the other BRICs. In Copenhagen, BRIC was replaced by BASIC – Brazil, South Africa, India and China, which need more carbon emissions. Russia sat with the Europeans, quietly supporting the Kyoto Protocol, which allows Russia to make a fortune by selling emission rights, since past Soviet carbon emissions will never arise again thanks to the greater efficiency of capitalism. Copenhagen might have shown that Russia's natural place is with the mature Western economies and not among aggressive, much poorer, emerging economies.

Nor is there a single model of economic management that the BRICs espouse and want to propagate. Indeed, there are wide and growing contrasts between, say, the moves towards a social democratic market economy in Brazil, buttressed by fiscal orthodoxy, and the increasingly authoritarian politicised intervention in Russia. In the Doha round of WTO global trade talks, where India and Brazil have been in a core negotiating group, they have battled to put together a comprehensive negotiating position. Brazil's interests as a highly competitive agricultural exporter have clashed with India's wish to protect its small farmers

Yet aside from the long-running debate about giving developing countries more votes in the IMF, it has proved hard to hammer out a substantive set of subjects on which the disparate BRIC countries have the same interests. They have already had to drop the subject of exchange rates. There is a common view in Brazil - as in the US - that China's undervalued currency is in effect stealing export markets from Brazilian companies. The differences in India's and China's approaches to industry and the wider culture gap between the neighbours could hardly be greater. China has a single-minded focus on productivity and economic growth that India may never match, while India has a democratic, civil and legal culture that its autocratic neighbour is unlikely ever to grasp. Business relations between India and China are often rocky. Delhi distrusts Chinese companies for security reasons, particularly in telecoms and ports sectors, while Indian businesses complain that their rivals undercut them on prices.

But it is the tensions between the BRIC countries, which are usually swept under the carpet, that are likely to prevent substantive agreements arising from the summit. Trade disputes have been common among the four. Brazil has had disputes over market access with both Russia and China and its strategy of seeking full liberalisation of agricultural trade in the Doha trade talks has come up against India's insistence on protection for its rice farmers. Indian and China covet Russia's natural resources, particularly its oil and gas. As an old friend of Moscow, New Delhi has had some limited success in accessing Russian energy reserves but China has greater spending power.

Politics, too, separates the BRICs as much as it unites them. India, China and Russia are all in the same neighbourhood and are all nuclear powers while Brazil, not a nuclear power, is on another continent and has almost no trade with Russia and little with India. Meanwhile, much of the highly militarised border between China and India is still disputed and the two sides have fought a number of wars over this territory. China and Russia have fought a couple of border wars as recently as the late 1960s and have struggled for decades to get along.

Chinese academics and policymakers, as well as the general public, believe China has far outstripped the other members of this artificial country bloc. Goldman Sachs reckons that China may well become the world's largest economy before 2030. Collectively, the BRIC economies could well surpass output in the G7 countries which have dominated the management of the global economy – by 2032. The BRICs already have a bigger share of world trade than the US. China, the world's biggest goods exporter last year, has been supplemented by India's software and back-office exports, Russia's oil and gas and the domination of a number of agricultural commodity markets by Brazil's super-competitive farmers.

So as the world emerges from recession, is this a transformational moment when the centre of gravity in the global economy and its governance decisively shifts? Is this a pivot point such as the second world war, where the confident, innovative US muscled aside the weakened, debt-laden economies of Europe and remade the global financial architecture? And, most immediately, are BRIC consumers up to the task of rebalancing the world economy by supplanting their acquisitive American counterparts?

The most likely answer is: not yet. Not only are the BRICs such a disparate group that almost any generalisation is problematic, but China, the dominant member of the quartet, still seems wedded to an economic model dependent on demand elsewhere. The BRICs might almost have been chosen for their disparate abilities rather than their similarities. China's size and openness to trade give it as much economic clout as the rest put together. India, similar in population but poorer and economically more insular, is chiefly notable to investors and trading partners for its software and business services. Brazil, despite a sprinkling of manufacturers, remains one of the world's most efficient agro-exporters; Russia, after feebler attempts to diversify, essentially just sells oil and gas.

The story of their rapid progress is familiar but still dramatic. A decade ago, only one had an investment-grade credit rating; now all do. Only 12 years ago, a Russian debt default and Brazilian currency crisis rocked the world economy; today, they have accumulated vast foreign exchange reserves. The BRICs contributed about half of global growth between 2000 and 2008 – sharply higher than in the previous decade. Yet along with this growth has come an unbalancing of the global economy.

A Chinese growth model based on heavy investment and exports has accompanied vast current-account surpluses across east Asia, matched by a current-account deficit in the US. And despite doing its bit to keep economic growth going during the crisis, it is far from clear that the Middle Kingdom has effected a shift towards consumer demand that a true engine of world growth would achieve. With a great flourish, Beijing announced a $585bn stimulus package in November 2008 and loosened bank credit. But its ability to create self-sustaining growth was suspect. Rather than handing out cash to consumers to get them spending – a move that might also have encouraged imports – a large chunk of the stimulus went into the old favourite, fixed investment.

Despite pockets of profligacy, if anything, China's has become less rather than more of a consumer economy in the past decade. Its overall savings rate grew over the decade. Although much of this rise reflected corporate savings, household savings rose, too, and a greater share of national income went to companies rather than consumers in the first place. The lack of a social safety net is one of the main reasons that Chinese households save: for educational needs, security in case of illness and caring for parents. Changing deep-seated structural factors such as this will not be quick. Nor will it be achieved simply by letting the renminbi rise.

As for the other BRICs, whose trend growth rate is slower than China's, they are unlikely to have a noticeable effect on global demand for some time. Although growth in Brazil and India held up well during the crisis, the former is a relatively mature economy with less scope for rapid growth; the latter an underperformer with a chronic public finance problem and a household savings rate even higher than China's. Meanwhile, Russia, whose economy contracted sharply during the global recession, still depends on oil prices.

Implications for EU Diplomacy

The EU has taken note of the formation of the BRICs and recognized that this is another indication of the changing global balance of power. It should provoke the EU to discuss more intently its global strategic interests and the evolving multipolar system of international affairs. Past experience, however, would suggest that the EU will continue to shy away from in-depth discussion of such sensitive issues that might impinge on core interests of Member States.

As the BRICs have not formed any institution (and the argument above suggests that this would be highly unlikely) the EU will not seek to deal with the BRICs as a grouping. This is unlikely to change in the foreseeable future and hence EU diplomacy will continue to focus on bilateral relations.

The EU is negotiating major new agreements with three of the BRICs – Russia, China and India. A possible agreement with Brazil is currently under consideration by both sides. Each agreement is running into difficulties. With Russia the problems relate to Russia's on-off quest to join the WTO. Without clarity on this issue it is not possible to make progress on the trade front. Energy is another area of dispute with the EU insisting that Russia ratify the Energy Charter that it has already signed. The EU and Russia have also agreed a Partnership for Modernisation but have very different views on what is meant by modernization. For the EU it implies a fundamental reform of the political and economic systems in Russia. For Mr Putin it means enhancing the efficiency of the current system. There are also prospects for enhanced EU-Russia cooperation in foreign and security policy. Chancellor Merkel and President Medvedev agreed in June 2010 that there should be regular consultations and this was subsequently endorsed by the 27 Member States. Merkel insisted that Russia demonstrate its good faith by agreeing to joint actions with regard to the protracted conflict in Transdniestr but as of November 2010 there had been no response from the Russia side.

With China there are disputes on the economic, trade and political fronts. There are differences of opinion on whether China has lived up to its WTO commitments in areas such as intellectual property rights and on whether there is a level playing field for European investors. There are also differences over the language to be used on Taiwan where China wants an explicit reaffirmation of the 'One China' policy. Disputes over human rights are also continuous with the Chinese sharply criticizing the EU for welcoming the award of the 2010 Nobel Peace Prize to Liu Xoaobo, the imprisoned human rights activist. There are no serious security discussions between the EU and China apart from discussions on sanctions against Iran. China does not view the EU as a security actor in Asia.

The negotiations with India have only started recently and have already run into problems on the trade front over issues such as environmental and social standards. New Delhi is also skeptical about the EU's diplomatic and security pretensions. It much prefers dealing with the US that, unlike the EU, has come to terms with India's nuclear status and is engaged in cooperation on nuclear technology. Given India's colonial past it is not surprising that it looks first and foremost to the UK when considering European security issues. Until it changes its approach on the nuclear issue, the EU will continue to struggle to achieve recognition as a security actor in India.

Conclusion

The BRICs are a very loose grouping which enjoy banding together to demonstrate the rise of the emerging powers vis-à-vis the US and Europe. But their many disparities and policy differences mean that there is little prospect of the BRICs developing into a coherent body in terms of political, security or economic issues.

A decade of rapid growth is not enough for the BRICs to seize the baton of global economic leadership from the US and Western Europe. The grouping, or some of them, may have astonished the world with their progress over the past 10 years. But it will require a qualitative improvement as well as more growth to consolidate that shift of power.

The BRICs have not sought formal relations with any outside body and given the above differences it would be a meaningless effort if they did. As for the EU, it has not regarded the BRICs as a grouping with which it can engage in any worthwhile policy issue. This is unlikely to change in the future. EU diplomacy will thus continue to focus on bilateral relations with each BRIC country.

University, and specifically its Department of Politics, History and International Relations and Centre for the Study of International Governance. The other partners are Katholieke Universiteit Leuven, from Belgium, and Maastricht University, from the Netherlands. Each partner is responsible for key events and a research strand. In addition selected experts drawn from EU and Member State institutions and from relevant sections of civil society will be invited to participate in selected network activities.

Nothing in this paper should be construed as representing the views of any EU or national institution, including those represented in the network itself. For further information about the network and its activities, please visit http://dseu.lboro.ac.uk