



BRICS: Can a marriage of convenience last?

Katarína Králiková

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Abstract The BRICS grouping (Brazil, Russia, India, China and South Africa) was born of a desire to create an alternative to the Western-dominated financial institutions and to secure for these countries a greater role in global affairs. This partnership is based on mutual interests and necessity rather than on shared values and ideals. High levels of social inequality, pervasive corruption, and challenges in education and the environment are common to all five countries. The New Development Bank, together with better coordination of joint action by the BRICS, has the potential to significantly reduce the scale of these problems and contribute to the long-term sustainability of these economies.

Keywords BRICS · Sustainability · Influence · Challenges · Differences · Commonalities

Introduction

Since the creation of the BRICS grouping, a lot has been written about the emerging economies and the threat they pose to the traditional world order. Some analysts have been enthusiastic about the BRICS countries' future geopolitical significance. However, others have been more sceptical about their long-term sustainability. While fearing the unknown, at the same time, they have underestimated their possible influence; emphasised their historical, political and cultural differences; criticised their inability to tackle their problems; and

K. Králiková (✉)
930 Arcadia Street, Pretoria 0083, South Africa
e-mail: katarina.kralikova@mzv.sk



doubted their ability to implement the agreed commitments. Who is right? Do the BRICS pose a challenge to the EU's future?

How it all started

The former chief economist at Goldman Sachs, Jim O'Neill, was the man who brought the BRICs together. It was almost 13 years ago that he coined the term in his publication *Building Better Global Economic BRICs* (O'Neill 2001). In late 2010, South Africa joined the group, adding an 'S' to the acronym. With a vision of improving the global economic situation and reforming financial institutions, the leaders of Brazil, Russia, India and China held their first formal meeting in Russia's Yekaterinburg in June 2009 (BRICS 2009). The following three BRICS summits went rather unnoticed. It seemed as if BRICS was little more than a sexy acronym of the time, a loose grouping of five countries and just another talking shop.

The New Development Bank

The real game changer was the fifth summit, which was held in Durban in South Africa in 2013, at which the agreement on establishing the New Development Bank was signed (BRICS 2013). Last July in Brazilian Fortaleza, the leaders finally agreed on the bank's necessary contours, including its seat in Shanghai, and also decided to create a new monetary fund which will provide a safety net in case of short-term global liquidity pressures. The bank will have a starting capital of \$50 billion, increasing to \$100 billion over time. Despite big differences in the countries' population sizes and economic weights, each of the five BRICS countries will contribute an equal \$10 billion share to the bank's \$50 billion capital base (BRICS 2014). With the aim of allocating resources among the BRICS members to support their infrastructural development, the bank is supposed to launch its first projects in early 2016. Additionally, the bank plans to support infrastructural projects outside the BRICS, mainly in Africa; therefore, a regional centre will be set up in Johannesburg. In this way all the BRICS countries can buy more influence in a rising Africa and gain a share in its potentially prosperous economies. The creation of the New Development Bank reflects the frustration of the BRICS, and China in particular, with not getting what they want—comprehensive reform of the international financial institutions to ensure a greater role for them.

The EU has to learn how to live with these new trends in the development architecture. While the International Monetary Fund will continue to provide short-term balance of payments financing, the BRICS bank will be similar to the European Investment Bank (EIB) in terms of funding long-term investments in infrastructure. If the two choose the path of cooperation and complementarity rather than of pure competition, the BRICS bank could benefit from the experience and expertise of the EIB (Griffith-Jones 2014). Moreover, since the

scale of lending of the BRICS bank needs to be large, given the major needs identified, the co-financing of projects together with the EIB could contribute to a much more meaningful impact on sustainable development.

What divides them?

The BRICS are not a homogenous bloc. They do not share borders, history, culture or values. Their political structures are built on different ideologies, with India, Brazil and South Africa being role models for other striving democracies in their neighbourhoods, while Russia's and China's political systems contain many undemocratic features. The silence of the BRICS on the Russian annexation of Crimea and their embrace of Russia is disturbing, especially from the three democracies in the group. The BRICS are also divided on the matter of UN Security Council reform. Some territorial disputes, for example between India and China, occasionally weaken the bloc's ability to act.

In economic terms, their GDP structures are very different, with Brazil specialising in agriculture, South Africa and Russia in commodities, India in services, and China in manufacturing. Moreover, China is known for its low tariffs for manufactured products; India is protectionist when it comes to goods; and South Africa, while relentlessly enforcing its black economic empowerment and local content, is becoming increasingly protectionist, too. When it comes to GDP per capita, Russia and Brazil are champions compared with the other members, while India has a very long way to go before catching up with the others. The BRICS countries' GDP growth rates are also very different, with China's standing at 7.7 % in 2013 and Russia's at 1.3 % (OECD 2014a). The World Bank's 2013 *Doing Business* index shows¹ that it is significantly easier to do business in South Africa than in the other BRICS (World Bank 2013b).

In this regard, the BRICS group's aspiration to become an important geopolitical player, on the whole, looks quite unrealistic. Other global players, including the EU, still have to deal with each of the BRICS individually on a bilateral basis.

What binds them?

The BRICS are large countries. They make up 42 % of the world's population and 28 % of the global economy (at purchasing power parity), but they have only 11 % of the votes in the International Monetary Fund (*The Economist* 2014). This uneven distribution of votes and unequal role in the Western-dominated institutions is what binds them. In order to defend their interests, the BRICS have

¹ Economies are ranked on their ease of doing business, from 1 to 189. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2013 (World Bank 2013a).



occasionally teamed up to pursue an issue-driven agenda. Over time they have created an institutional setup which allows them to respond in a more coordinated fashion. However, as long as the BRICS remain unable to respond effectively to their common problems, a path of positive development is unsustainable for them.

Social inequality and social unrest

Social inequality is a serious problem in the BRICS. With a Gini coefficient of 0.63, South Africa is one of the most unequal societies in the world. It is followed by Brazil (0.55), then China (0.47), Russia (0.40) and India (0.38). The coefficient ranges between 0 (which equals perfect equality) and 1 (complete inequality), with 0.40 being the critical threshold for potential unrest (World Bank 2012). Inequality is not only on the rise in all BRICS members except for Brazil, but in most of the OECD countries, where the average Gini coefficient stands at 0.32 (OECD 2014b). Social inequality hinders progress. It stands behind the high levels of crime, contributes to disinvestment tendencies and sparks social unrest. Let us take South Africa as an example. It is one of the most schizophrenic societies in the world. It is home to many beautiful mansions, which are built just a stone's throw away from township shacks without access to electricity and drinking water. Service delivery protests are part of the daily routine in South Africa. Strikes in the mining sector, which have spread to other sectors of South Africa's economy, have not stopped since the violent protests in Marikana in 2012, in which more than 60 mine workers died.

Education and youth unemployment

Although only South Africa has pervasive rates of unemployment, close to 40 %, the other BRICS countries, with the exception of China, are grappling with major skills mismatches. In contrast to the high private-sector job vacancy rates in all BRICS countries, there is high youth unemployment. For example, more than 50 % of young South Africans and more than 15 % of young Brazilians and Russians were unemployed in 2013 (Reisen 2013).

Improvements are necessary, especially in public schooling, vocational training, and in offering more targeted and practical secondary and tertiary education. However, one size does not fit all. Each BRICS member has a different problem with its education system. While the primary and secondary schools in Russia equip pupils with wide general knowledge, the universities do not properly prepare them for the jobs market. Rather, they provide one-sided education based on rote-learning that suppresses any critical thinking. On the other hand, the problem in South Africa is quite the opposite. The majority of South Africa's universities are of a good quality. However, the problem occurs at the primary school level. Many public primary schools lack basic teaching

materials and fail to equip pupils with basic knowledge and skills. Failure at the primary school level often determines one's general failure in life.

There are several examples of education reform in the EU which could—taking into account regional differences—offer some inspiration for how to reform the education systems in the BRICS. At the same time, greater cooperation between, for example, start-ups from the EU and the BRICS, could contribute to a more regular exchange of innovative ideas, and so help to reduce youth unemployment all round.

Crime and corruption

Despite its decline in recent years, crime remains high in the BRICS. It should come as no surprise that South Africa is at the top of the list. Countries with high levels of income inequality have much higher murder rates than more equal societies. According to the United Nations Office on Drugs and Crime (2013), South Africa has the highest rate of homicide in the BRICS and one of the highest rates globally, followed by Brazil, Russia, India and China.

Crime in the BRICS exists in various forms, with corruption being one of the most common in all five of them. According to Transparency International (2013), all five countries have scores below 50, which indicates that they have serious problems with corruption. Russia, for example, is among the 20 countries in the world with the highest perceived levels of corruption, while South Africa and Brazil—which are joint 72nd out of 177 countries—are considered the most transparent countries in the BRICS (Transparency International 2013). However, South Africa was recently put under the spotlight when it was discovered that it had secretly signed a framework agreement with Russia for the Russian company Rosatom to build eight nuclear reactors in South Africa. The agreement prompted allegations that the government was dodging procurement rules. Although anti-corruption efforts in Brazil and India hold some promise, there is still a long way to go. Chinese expert on governance Minxin Pei (2007) also argues that failure to contain widespread corruption is among the most serious of the threats to China's future economic and political stability. Corruption undermines the credibility of the country and legitimacy of its institutions, worsens the business environment, supports economic inequality, undermines the environment, and fuels social unrest. Greater transparency would not only help to lower corruption levels in the BRICS but would also be welcomed by the EU given the continued growth of investment by the BRICS in the EU.

Environment

Although the main theme of the 6th BRICS Summit was 'Inclusive growth and sustainable solutions', little was said about the environmental challenges faced by the BRICS countries. The current growth model for the BRICS is based on the



extraction of natural resources and carbon-intensive economies, accelerated by China's huge demand for minerals, fossil fuels and agricultural products. Instead of industrialisation and the sophistication of production in the BRICS, one can talk about the reprimarisation of their exports. The BRICS, together with many countries in Africa, have become suppliers of natural resources to China. Their combined carbon emissions account for 36 % of global emissions.

According to the South African Council for Geoscience, the world's most polluted air is, surprisingly, not found in China but in South Africa, about 100 kilometres east of Johannesburg, in the coal-mining town of Emalahleni (Centre for the Study of Governance Innovation 2013). However, the other BRICS countries are not much better off. Two Russian cities Dzerzhinsk and Norilsk are among the top 10 most polluted cities in the world. Brazil's major and medium-sized metropolitan areas also face increasing environmental problems, mainly due to water pollution. According to Chen et al. (2013), 1.2 million people die in China every year from diseases caused by pollution. At the same time, 23 % of deaths among children in India are caused by polluted air, contaminated water and other environmental factors (World Bank 2013a). Environmental issues are high on the European agenda. For example, the EU is very much involved in its role as a mediator in preparing for the Conference of the Parties on Climate Change to be held in Paris in 2015, but the conference's success largely depends on the work of the BRICS members. It is not yet clear whether they will act as a bloc.

Conclusion

A lot has been written about the great future prospects of the BRICS. However, the BRICS are faced with problems that are a ticking bomb. The economic growth in these countries has been established on the basis of low-cost labour, abundant mineral resources and few technological innovations, with little or no investment in human, social or natural capital. Coupled with problems such as social inequality, unemployment, corruption and environmental concerns, this kind of growth is unsustainable. Hence the EU should not overestimate the challenge the BRICS pose today, in the same way that it should not underestimate their underlying problems. Despite the negative discourse of the BRICS against Europe, in which the latter is described as a dying continent, they probably need Europe more than they realise. Not only is the EU the BRICS group's main trading partner, but it has also been trying for many years to help the BRICS resolve their problems. However, it often employs only traditional methods of development and technical assistance. Instead, the EU should engage with the BRICS in a more creative and innovative way, which would create an equal partnership of mutual benefit, fit for the twenty-first century. Such a partnership could contribute to the upgrade of domestic production; the improvement of research, development and innovation; and better information sharing in the global knowledge networks and markets. Combined with

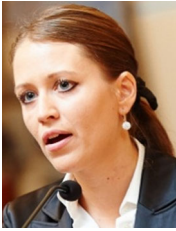
cooperation between the New Development Bank and the EIB, the BRICS countries' development model has the potential to become more inclusive and sustainable. In a globalised world of growing interdependence, it is important that the EU engages more actively with the BRICS within the limits set by the EU's fundamental values.

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Katarina Králiková is a diplomat in South Africa and a research associate at the Wilfried Martens Centre for European Studies.