BRICS and the EU: An Oxymoron ?

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I want to thank the BMW Stiftung Herbert Quandt for inviting me to participate in the 13th Munich Economic Summit and to introduce the panel on **BRICS for Europe to Build On** as part of the theme of this year's summit namely **Free Trade and Prosperity: Home Free?** It is a privilege to address a group of high ranking politicians, scholars, business leaders, editors of influential media.

Introduction

- Introducers of each panel, as economists were asked, set “a substrate of hard facts” to underpin the discussion that follows.
- Four specific questions have been posed for the panel, given the beliefs that despite recent downturn, BRICS outpace the developed economies in growth and dynamism and current and future trading opportunities with BRICS on the traditional basis of comparative advantage and specialization that are beneficial to all trading partners are again believed to be large.

Table 1

	Population (2012)	GDP at PPP Rates 2012		GDP Growth§		
I BRICS	(in millions)	($ billion)	Per Capita	2000-12	2012-13	2013-14
Brazil	198.7	2291	11530	3.7	2.2	2.4
Russia	143.5	3272.9	22800	4.8	3.4*	1.3*
India	1236.7	4730	3820	7.7	4.8	6.2
China	1350.7	12205.8	9040	10.6	7.7	7.7
South Africa	52.3	563.3	10780	3.6	1.9	2.7
Total BRICS	2981.9	23063	7734			
II European Union (27)	500.3	14155.5	28294	1.2^{α}	-0.4	0.1
III World	7043.9	85986.8	12207	2.7	2.4	3.2
	Per cent	Per cent				
Share of BRICS$^{\beta}$	43.7	28.6				
Share of EU (27)$^{\mu}$	7.1	16.5				

§ Data for GDP Growth Rates of BRICS countries and World was taken from World Development Indicators Report, 2014. GDP Growth Rates for EU (27) taken from Eurostat. (http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115)

* Data for 2012-13 and 2013-14 for Russia was taken from IMF's World Economic Outlook, 2014

α GDP Growth Rate Data for EU(27) is from 2002-2012 and NOT 2000-2012

β Share of BRICS was taken from World Bank's International Comparison Program (http://web.worldbank.org/external/default/main?pagePK=60002244&theSitePK=270065&contentMDK=23562337&noSURL=Y&piPK=62002388)

μ Share of EU (27) was calculated using the figures in the table.

Table 2

Economy	Merchandise Trade (2014)				Commercial Services Trade (2014)	
	World Merchandise Exports (share)		World Merchandise Imports (share)		World Commercial Services Exports (share)	World Commercial Services Imports (share)
	Largest Trading Partner (share)	Next Largest Trading Partner (share)	Largest Trading Partner (share)	Next Largest Trading Partner (share)		
Brazil	EU-27 (20.2)	China (17.0)	EU-27 (21.4)	China (15.3)	0.87	1.87
Russia	EU-27 (46.8)	China (6.8)	EU-27 (41.9)	China (16.4)	1.33	2.5
India	EU-27 (16.8)	United States (12.8)	EU-27 (11.1)	China (11.1)	3.32	3.08
China	United States (17.2)	EU-27 (16.3)	EU-27 (11.7)	Japan (9.8)	4.35	6.73
South Africa	EU-27 (20.0)	China (11.7)	EU-27 (28.7)	China (14.4)	0.34	0.41
European Union (27)	United States (17.3)	China (8.5)	China (16.2)	Russia (11.9)	25.03	20.21

Source: World Trade Organization Statistics Database, March, 2014, http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E

The Questions

- First, what can Europe do to enhance trade with BRICS ?
- Second, what can BRICS do to enhance trade with EU?
- Third, what are the most likely synergies ?
- Fourth, which are the next BRICS countries?

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- Less than 15 years ago, James O'Neill, Chief Economist of Goldman Sachs noticed that the GDP of Brazil, Russia, India and China were growing faster than the global average and coined the acronym BRIC. South Africa was added to make it BRICS in 2008 and projected that they would dominate the world in 2050.
- For the "a substrate of hard facts" on the current situation, see Tables 1 and 2. I will be drawing on them as needed.
- As Fraser Cameron (2011) notes except Russia the other BRICS did not embrace the O'Neill's acronym and grouping until 2008, and then not only they embraced with great enthusiasm but also held five summit meetings deemed the 'first cycle' in keeping with five members of BRICS, with the sixth and the first of the 'second cycle' to be held in Brazil later this year.

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- Does this mean there is compelling economic, political and social logic for BRICS to act as an influential group in the world arena and the rest of the world including EU to treat them as such a group?
- Other than normal economic interactions and particularly in trade an d investment, are there any significant 'strategic' components to EU-BRICS relationship and vice versa?
- The answer is far from clear. For example, Table 1 clearly shows that there is considerable diversity among BRICS in their population, GDP and GDP per capita at PPP exchange rates, the composition of GDP and so on.
- In our discussion we could go into the question whether this diversity is a strength much as the composition of assets in an appropriately diversified portfolio in the ability of BRICS to take greater risks than otherwise in the international arena or is it a weakness constraining the ability to formulate as well as credibly implement coordinated strategic responses?

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- Some view the diversity as a weakness since the BRICS economies are diverse not only in economic structure but also in cultures, institutional arrangements.
- China has an authoritarian single party regime in power, with its current leader having consolidated his power. Russia is more authoritarian that democratic.
- Brazil is a democracy with an authoritarian past, India is a democracy which tried authoritarianism briefly under Mrs. Indira Gandhi. Opinion and exit polls point to the Indian electorate choosing the party with an authoritarian leader. The problem with South Africa's democracy are many. Corruption is endemic in all BRICS.
- Should EU as a champion of democracy be at least cautious in dealing with BRICS an influential geopolitical group?
- However, as Table 2 shows the EU happens to be the largest single destination of exports for all BRICS with the notable exception of China. For both China and EU, the US is the largest single export destination. However, except for China, for all other BRICS and the EU China is the second largest export destination while for China EU is the second largest export destination.

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- As for imports, for all BRICS, EU is the largest source, and China is the second largest. For China Japan is the second largest source of imports and for EU Russia is the second largest source. While none of the BRICS except China is among EU's first or second largest trading partner, China figures as the second largest single trading partner for EU.
- Thus, from a trade perspective it can be argued that first China among BRICS should be treated differently and second EU should keep in mind that keeping its markets open for imports from BRICS as a group is important. Before returning to the trade issues in answering the first two questions, let me spend a few minutes on what BRICS themselves view as their objectives and role in the international arena.
- The declaration and action plan of the fifth summit of the BRICS at Durban, South Africa on March 27-28, 2013, lays out some of the major objectives of BRICS leaders. In addition, Cameron (2011), D-GEP (2011), Hunya and Stöllinger (2009) and Zerby (2013) also discuss them. I will draw on all the above.
- At the fifth summit the BRICS leaders held open discussions and agreed to establish: (i) a New Development Bank and indicated that the initial capital contribution to the bank should be substantial and sufficient for the bank to be effective in financing infrastructure;(ii) a contingent reserve arrangement (CRA) with an initial size of US$100 billion.

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- Established the BRICS Think Tanks Council and the BRICS Business Council. The BRICS Think Tanks Council will link respective Think Tanks into a network to develop policy options such as the evaluation and future long-term strategy for BRICS. The BRICS Business Council will bring together business associations from each of the BRICS countries and manage engagement between the business communities on an on-going basis.
- Concluded two Agreements under auspices of the BRICS Interbank Cooperation Mechanism. The BRICS Multilateral Infrastructure Co-Financing Agreement for Africa paves the way for the establishment of co-financing arrangements for infrastructure projects across the African continent. The BRICS Multilateral Cooperation and Co-Financing Agreement for Sustainable Development ... to explore the establishment of bilateral agreements aimed at establishing cooperation and co-financing arrangements, specifically around sustainable development and green economy elements.
- The leaders expressed well known concerns of BRICS and other groups such as emerging markets for reforms of International Financial Institutions, particularly redistribution of IMF quotas, permanent membership of the UN Security Council, sustainable development, food and nutrition security, poverty eradication, Millennium Development Goals and so on in the declaration.

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- BRICS leaders viewed the institutions such as IMF, World Bank, WTO as creations of Western Powers in which they, in particular, the US are dominant. They would like the United Nations and related institutions such as UNCTAD to play a greater role. Interestingly, presumably because of their being members of G-20 , they did not view it as being dominated by the West, although the membership of G-20 was determined by G-7 and has not changed since its creation out of G-22 in 2008!
- There are some deep issues in extending the concepts of equity, fairness, voice, exit and others that are well defined and understood when applied to groups of individuals to organizations such as the UN, World Bank, IMF, ILO, G20 etc. whose members are nation states usually represented (though not always) by the regimes that happen to be in power in those states.
- In the UN, membership is open to all states that subscribe to its charter. The nature of its governance systems, such as democratic, a monarchic, one-party authoritarianism is not a relevant consideration. In the EU-BRICS context, because not all BRICS are democracies, implicit in EU dealing with BRICS as a geo-political group whether EU would have to trade-off its concern for promoting democracy is an important question.

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- In any case, the EU is negotiating or considering trade and economic partnership agreements euphemistically called free trade agreements with BRICS.
- With weak bargaining power, BRICS , may find it difficult to resist attempts by the stronger negotiating partner in such negotiations to extract concessions regarding Intellectual Property and Labour Standards going beyond TRIPS, ILO convention and other multilateral agreements.
- EU's Negotiations to conclude "Free Trade Agreements" with individual BRICS are best viewed as part of the unfortunate growth of Preferential Trade Agreements since the conclusion of Uruguay Round while the Doha Round of multilateral trade negotiations started in 2001 are still to be concluded. Incidentally G 20 conspicuously failed to deliver on their repeated promises by to conclude Doha before 2011!
- I will not attempt to predict either likely contents of PTA of EU or any of the BRICS let alone when it will be concluded. However, given the patterns of EU- BRICS merchandise trade in Table 2 (unfortunately the WTO database does not provide comparable data for services trade), answers could be given to first two questions posed to this panel.

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- First, since EU happens to be the single largest export market for China (and the second largest export market for China), by keeping its markets open to imports from BRICS, EU can enhance its trade with BRICS.
- However, China is the world's manufacturing hub, Russia is an energy exporter, nearly two-thirds of India's GDP is in services not all of which are internationally tradable, though from the perspective of employment, and poverty, the agricultural sector is crucial.
- In other words, the comparative advantage of each BRIC is in different sectors calling for an across the board market opening by EU. Also despite several bouts of reforms, the Common Agricultural Policy of Europe continues to distort world agricultural trade.
- Since EU is the largest source of imports for all BRICS each of the BRICS could reduce barriers to imports from BRICS to enhance its trade with EU.

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- Hunya and Stöllinger (2009) point out globally EU is the most important foreign direct investor (FDI). It is among the main investors in each of the BRICS and the dominant investor in Brazil and Russia, though not in China and India. Clearly, for the BRICS attracting FDI in general and the associated advanced technology of FDI from EU are important.
- However, from the perspective of EU, the intellectual property regimes and also the labour standards of BRICS as host countries could be a deterrent. Whether in the Free Trade negotiations with the BRICS, EU will be able to extract concessions from BRICS in these two areas remains to be seen.
- Besides FDI, the EU also is a major foreign institutional investor (FII). Both for FDI and FII, the domestic regulatory regimes in BRICS matter. On the other hand, the regime with respect to inflows of labour into EU from some of the BRICS is important.

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- The most important synergy between BRICS and EU is likely to be from the technological spill-over from FDI from EU into BRICS.
- The last question as to which are likely to be the next BRICS countries, is not easy to answer since given the diversity of BRICS almost any country in the world is likely to have some commonality with a BRIC. That said, Indonesia is most likely to be the next BRIC.

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