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BRICS Summit: A Gathering of Strange (But Strong) Bedfellows

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The BRICS - Brazil, Russia, India, China and now…South Africa. Leaders of these countries are meeting in a south China resort town to discuss world affairs and trade.

Thursday's BRICS Summit will likely focus on what the big emerging markets can do about high commodity prices, finalized by the usual joint statement on global governance signed by the nations' leaders. It'll be their third meeting. With each passing year, the ad-hoc group gets stronger economically and politically in world affairs.

It's a motley crew, indeed, that's going to meet Thursday in the south China resort city of Sanya. Brazil, Russia, India, China — and newcomer South Africa — are as diverse economically as they are culturally. They are not natural allies, with Russia and China facing ongoing border disputes, and China and India facing the same. Brazil, geographically, is on the other side of the world and is clearly the more Western of the group. South Africa was added this year, and what's not to notice about how different they are from their BRIC peers? Smaller, a long history of apartheid, and continental Africa's only seriously developed economy.

"Their meeting is for networking. As for what weight it holds, it is largely symbolic," says Usha C.V. Haley, a chaired professor of international business at Auckland's Massey University and a research associate at the Economic Policy Institute in Washington, D.C.

"These are strange bedfellows," she says. "In Brazil and India, they are worried that growing Chinese imports are going to usurp their manufacturing base. Russia complains that China undervalues its oil prices. They hold their friends tightly, and their enemies tighter," says Haley.

China has always been the agenda setter at the summit. The same occurred April 15, 2010 in Brazil, when government leaders said that discussion over the country's policy to revalue the yuan were off limits. China has been doing what it said it would do three years ago or so, appreciate the yuan gradually.

And, of course, Brazil and India have the same fears of China as global low cost manufacturer as the US. In India, each village has their own little gods of protection and people tend to have god idols in their homes the way a Brazilian might have a statue of Jesus with open arms, like the Christ the Redeemer statue in Rio, decorating their book shelves. In India, one of those gods is the Hindu god Ganesha. Today, those little idols are made in China where they used to be made in small villages.

No doubt, China is more often the focus of attention. In fact, Brazil walked away with around $1.5 billion in bilateral trade accords during pre-summit meetings on Tuesday, while China announced around $600 million investments possible in Brazil. Half of that was in agribusiness, in the soy farming town of Barreiras in Bahia state.

For Brazil and Russia, China is like a great natural resource vacuum.

"Negotiations will be dominated by commodities and that talk will be led mainly by China," says Vladimir Pantyushin, Chief Economist at Barclays Capital in Moscow. "I think in today's environment the currency issue is secondary to the BRIC agenda even though they are all caught in a weak dollar market that is boosting their current account deficits. China and Russia are very much focused on advancing their domestic agendas. "

So are Brazil and India. A growing middle class and inflation pressures are top priorities.

Last year's joint statement produced calls for changes in the UN Security Council. Brazil wants a seat on it. No word on where that is going to this day. It also called for stability of the dollar and euro, both being major reserve currencies in the BRICs. It warned that it would slowly move away from dollar-based trade. That is happening, but slowly. A volatile dollar becomes costly for foreign countries who are forced to use expensive hedging strategies to keep from losing profits on traded goods

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ABOUT ME

I covered Brazil pre-Lula and post-Lula and spent the last five years covering all aspects of the country for Dow Jones, Wall Street Journal and Barron's. Meanwhile, for an undetermined amount of time, and with a little help from my friends, I will be parachuting into Russia, India and China. (I figure if Anderson Cooper can parachute, I can parachute.)
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and services. They also jointly acknowledged climate change as a "growing threat" and energy security in the signed April 2010 statement.

The term BRIC was defined by Goldman Sachs economist Jim O'Neill way back in 2001 in a report called "Building Better Global Economic BRICs." It was about the important role the large emerging markets played in the global economy.

The International Monetary Fund expects the BRIC nations, not counting South Africa, to account for 21.6% of world GDP by 2015. It is around 14% currently. The US portion of the world economy is expected to fall from around 25% to 22% in 2015. In terms of global trade, the BRICs currently account for around 12.4% of global exports, rising to 20.1% in 2015. The US share is seen relatively flat at 9.6%. For imports, the BRIC countries will likely account for 18% of that market, up from around 11% today. The US accounted for 14% of world imports between 2004 and 2009 and that is going to decline to 12% by 2015 as the rest of the emerging markets get richer and buy more goods, including goods and services from the US.

The BRIC countries are becoming large investors and trading partners of the so-called frontier markets, especially in Africa. With expected sluggish growth in industrial countries in the short run, external demand for frontier country exports is expected to be driven increasingly by growth in the BRICS, according to the IMF. These poorer nations are becoming more dependent on the growth of BRIC economies than they are on the growth of the US and European economies. In contrast with many industrial countries that are facing large fiscal constraints and consequent challenges to meet their foreign aid commitments, Brazil, Russia, India and China are in a strong position to continue increasing their type of development financing, thus becoming a new America and a new Europe to poor countries.

> "We call upon the international community to make all the necessary efforts to fight poverty, social exclusion and inequality bearing in mind the special needs of developing countries, especially less developed countries, small islands and Africa.... We have agreed upon steps to promote dialogue and cooperation among our countries in an incremental, proactive, pragmatic, open and transparent way," — From the Joint Statement/BRIC Summit, April 15, 2010, Brasilia, Brazil.

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