

Global Influence of the BRIC Countries

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Abstract

The BRIC acronym was created in 2001 from the initial letters of Brazil, Russia, India and China by the Goldman Sachs experts. At that time it referred to four countries, in April 2011 the four were joined by South Africa. Since the statistical indicators for the year 2011 have not been published for all the BRICS countries yet, this paper presents data for the year 2010 and therefore without South Africa. These countries have a high economic potential and are becoming important world economic players. In the first decade of the 21st century all these countries were growing economically faster than the world economy and it is assumed that they will have overtaken the EU by the year 2020 and they will have dominated the world economy by 2030. The BRIC occupy 26% of the world's land coverage, have 2.86 billion inhabitants altogether (45% of the world's population), 1.43 billion of them belong to the economically active population, which represents 44% of the global labor force.

Key words: The BRIC countries, economy, market, global influence, mutual cooperation.

Brazil, Russia, India and China have a high developing potential and they represent a huge market. And it is exactly the market – a trade outlet, and a purchasing power that all the countries of the world are looking for. And no global company dares to ignore new consumers. At the same time, the BRIC countries offer entrepreneurs low operating costs, attractive profit margins and an opportunity to do long-lasting business. Therefore entrepreneurs relocate their production exactly to these countries, although they are economically different.

The global influence of the BRIC countries has come through for a long time. However, in 2010 their influence was the most significant. According to the data of the World Bank (World Bank 2011) the BRICs' share of the global GDP was 18.48 trillion USD (nearly 20%), while China accounted for one tenth. The highest per capita GDP value of these countries was reached by Russia (15 900 USD), then by Brazil (10 900 USD), China (7 400 USD), and the lowest one by India (3 400 USD). However, it is necessary to realize, that both China and India have the highest number of inhabitants in the world – more than one billion (1.33 billion and 1.18 billion respectively), so their GDP per capita will be lower than in the case of Russia and Brazil.

Considering the next economic indicator – foreign exchange and gold reserves, these countries had a total of 3.68 trillion USD which according to the International Monetary Fund (2011) corresponds to 40% of the world reserves. The order of the BRIC countries in the world ranking was then as follows: 1st - China (2.6 trillion USD), 3rd - Russia (483.1 billion

USD), 6th - Brazil (290.9 billion USD), and 7th - India (284.1 billion USD). Table 1 and Graphs 1 to 4 summarize selected economic indicators of the BRIC countries and the most developed countries in the world: the USA, the EU and Japan (their ranking is written in the brackets).

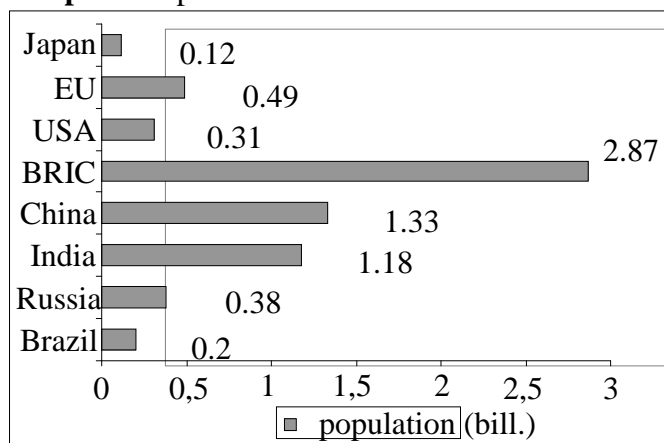
As for the national GDP the BRIC reached lower values than the USA, the EU and Japan, but as a whole they had a higher GDP (56.52 trillion USD) than the USA, the EU and Japan together. The BRIC countries lagged behind in the GDP per capita, they reached an average of "only" 9,400 USD/capita, while the total average of the USA, the EU and Japan was over 38,000 USD/capita. However, their GDP real growth rate is noteworthy. All the BRIC countries had a higher real growth rate (3.8 %-10.3 %) than the most developed economies – the USA, EU and Japan (1.8 %-3.0 %). A similar development marked the capital assets share of GDP, when the BRIC reached from 18.5 % of GDP (Brazil) to 47.7% (China), while Japan had 20.3%, the EU 18.6% and the USA 12.8%.

Table 1: Selected indicators of the BRIC countries, the USA, the EU and Japan

Country indicator	GDP at PPP* (billion USD)	GDP per Capita (USD)	GDP Real Growth Rate (%)	Labor Force (million)
Brazil	2.19 (8.)	10.900 (104.)	7.5 (18.)	103.6 (6.)
Russia	2.22 (7.)	15.900 (71.)	3.8 (94.)	75.5 (7.)
India	4.04 (5.)	3.400 (163.)	8.3 (12.)	478.3 (2.)
China	9.87 (3.)	7.400 (125.)	10.3 (7.)	780.0 (1.)
BRIC	18.32	Ø 9 400	Ø 7.4	1 437.4
USA	14.72 (2.)	47.400 (10.)	2.7 (138.)	154.9 (4.)
EU	14.91 (1.)	32.900 (41.)	1.8 (154.)	225.3 (3.)
Japan	4.33 (4.)	34.200 (38.)	3.0 (131.)	65.7 (9.)

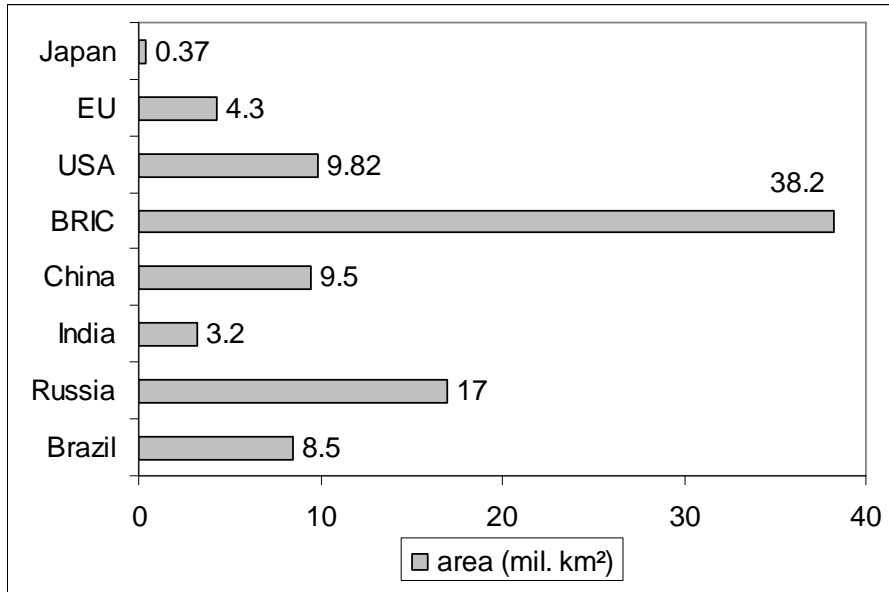
The source: CIA WORLD FACTBOOK (2010); GDP at PPP* - Gross Domestic Product at Purchasing Power Parity

Graph 1: Population size in the BRIC and the USA, the EU and Japan



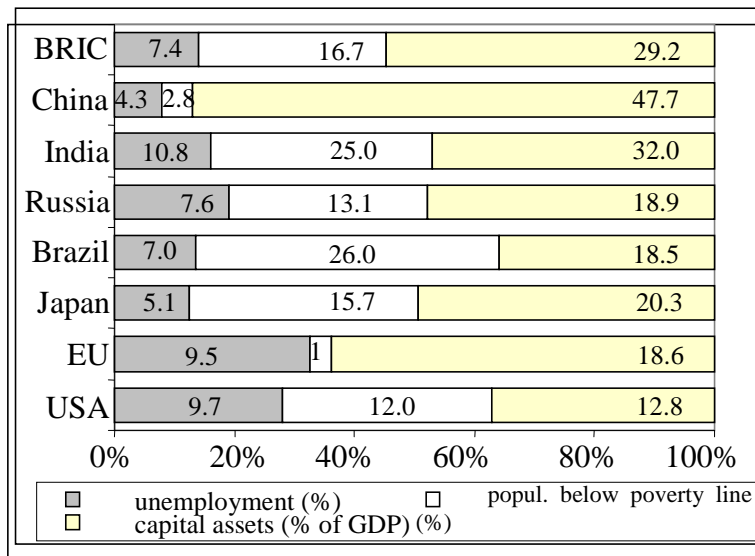
Source: CIA WORLD FACTBOOK (2010)

Graph 2: Surface area of the BRIC and the USA, the EU and Japan



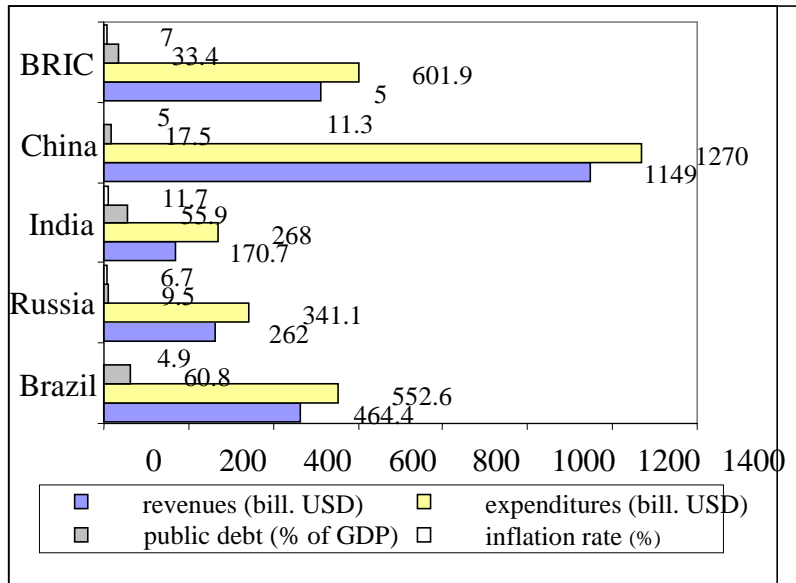
Source: CIA WORLD FACTBOOK (2010)

Graph 3: Proportion of unemployment, population below the poverty line and capital assets



Source: CIA WORLD FACTBOOK (2010)

Graph 4: Proportion of revenues, expenditures, public debt



Source: CIA WORLD FACTBOOK (2010)

Mutual cooperation

All the BRIC countries cooperate closely in several areas, which have, or in the future will have a global character and influence, and thus they will strengthen their position in the world. It is, for example, the opportunity to negotiate mutual agreements on trade in national currencies. This will enable them to shift their mutual cooperation to a new, qualitatively higher level. In a sense, the BRIC will become independent from the world's major economic centers (mainly the USA) and thus can partially avoid collisions, which occur in the global economy, especially, the impact of the financial and economic crisis on the economy of the country.

In the recent past the threat came from the USA, since in 2009 the Federal Reserve System authorized an increase in money supply of 600 bill. USD. These however, were not secured by assets, so there was a rapid influx of dollars into developing countries (through investments) and the domestic currencies became more expensive. This situation had also an impact on the exchange rates, since different bubbles can develop. The countries, of course, are beginning to protect themselves against such speculative investment capital, adopt measures to prevent the influx of dollars, and prefer investments from other countries.

Nowadays, even the BRIC countries operate globally, strengthening their position in the world even more. An example of such geopolitical and geoeconomic strategies is the effort to stabilize the international financial system and they want to create an international reserve currency system, which would ensure stability and security. Their representatives see the solution in the abandonment of the dollar and its replacement by a local or national currency. The new international reserve currency system would, according to the BRIC countries, guarantee stability and security, which the American dollar is no longer able to guarantee in the present monetary system. The BRIC countries will try to use broader, so-called Special Drawing Rights (SDR) in the international system. Nowadays, the SDR are composed of the American dollar, the euro, the Japanese yen and the British sterling⁹⁹.

⁹⁹ Special Drawing Rights (SDR) have served since 1969 as a single monetary and accounting unit used by the International Monetary Fund. Originally the SDR unit was bound to gold (0,888671 g of pure gold which corresponded to the U.S. dollar parity of that time). Since 1974 a standard basket of currencies method for the SDR valuation has been used. First it was composed of the basket of 16 world currencies, differently weighted, since the year 1981 it was a basket of 5 currencies: USD 42%, DEM 19%, JPY 13%, FRF 13% a GBP 13%. The

The MERCOSUR countries (Brazil, Argentina, Uruguay, Paraguay and Venezuela) are gradually cleansing their markets of the dollar in favor of national currencies. The rouble, actually, has already obtained the status of the regional exchange currency in the area of Russia and the Post-Soviet States. The competition between the Chinese yuan and the American dollar is well known. Strategically, China wants – directly or indirectly – to dedollarize the global financial structure and to make the yuan the reserve currency. If it succeeded, international markets would also trade in yuans. And China, as well as the BRIC countries, could strengthen their position in the global economy in this way.

Information sharing about possible speculative attacks on the hard-currency, fund and raw-materials markets is another important tool for the BRIC. However, the BRIC countries do not want to, and even cannot, exist separately, they understand that they are a part of the world economy and they want to hold a dialogue and share the information with other countries, or blocks as well (G7, G20, the EU, APEC, the UN and so on).

Nowadays, the BRIC countries are creating a common information database to analyze the condition of their food security, since the issue of production, consumption, and supplies of food has become global. They are also negotiating about exchanging agricultural technologies, because the provision of sufficient food to their inhabitants will become a key concern in the future.

The BRIC cooperate actively with the UN – they became co-authors of the UN General Assembly resolutions on the prevention of any types of weapons deployment in outer space. At the last BRIC summit (April 2011) on the island of Hainan the members passed a joint declaration on mutual dialogue and cooperation in the area of politics, business and economic relations and mutual cooperation in the sphere of science, healthcare and ecology.

The BRIC face the same tasks connected with economic development, technological modernization and the social system development. These priorities open further space for cooperation whereby these countries can reach their objectives faster.

Another example of their common effort in the framework of cooperation with the United Nations is the fact that Brazil, as well as India, are interested in becoming permanent members of the UN Security Council, which is supported by both Russia and China. Russia and China are permanent members of the UNSC with a veto power, and they have confirmed that they "attach the importance to the status of India, Brazil and South Africa in international affairs" and they "understand and support their aspiration to play a greater role in the UN" (Medvedev 2011).

The BRIC members agree on the need to reform the UN Security Council to make it more representative and effective. The Brazilian President Dilma Rousseff said: "The reform of the United Nations and its Security Council is essential. It is just impossible that we should still remain attached to institutional arrangements that were built in the post-war period." (Rousseff 2011). The South African President Jacob Zuma also called for the reform of the United Nations Security Council to give developing nations a greater say in urgent issues.

The BRIC

There is an interesting situation regarding individual BRIC countries. Because of the extent of the paper we have focused only on certain economic, political and social particularities. Brazil and Russia dominate more in the supplies of raw materials, China and India are becoming manufacturers of products.

Brazil as the only BRIC country achieved during the crisis (in 2009) the lowest slump of shares – a loss of 15%. Nevertheless it is not a country without risks: it has had a higher

content of the basket is reviewed every 5 years. In the years 2006-2010 the SDR basket-composition was as follows: USD 44%, EUR 34%, JPY 11% and GBP 11%.

inflation rate (6.5%) than developed countries for a long time. The Brazilian currency – the Brazilian real (BRL) predominantly strengthens, but during the financial crisis it usually weakens rapidly which means a loss in the most unsuitable time for foreign investors.

Despite these facts the companies such as for example Taiwan Foxconn decided to expand in the Brazilian market because on the one hand the labor price in China is increasing, on the other hand the subsidiary localization in Brazil will lead to the geographical diversification and mainly to the penetration of the Latin American market. The production directly in Brazil has brought its inhabitants a decrease of the unemployment rate since new job positions have been created. Advantageous customs regimes have simplified trading. If Brazil managed to capitalize on human potential it could become a global player with a even greater influence.

The business relations with China are intense but also tense. Brazil supplies the Chinese industry with a great number of raw materials and China then floods the Brazilian market with its cheap products. Thus it limits the success of Brazilian products to the Brazilian market. The economic boom of Brazil and the rapidly growing exports are in a large measure pushed by Chinese consumption. China, for example, imports tens of millions of tons of iron ore, soy beans and other commodities. Brazil also has serious social problems such as crime and poverty. From the political point of view it should avoid left-wing populism.

Due to its domestic economic and political development Russia overcame the consequences of the global economic crisis. At that time the shares slumped by 28% but nowadays the country is moving towards recovery. It spends a great amount of finances on research, energy industry (nuclear energy and alternative energy sources), as well as on the development of new technologies within high-tech industries, which will become a "workhorse" of its economy in the future.

Russia has a huge advantage of the great quantity of crude oil reserves (the 8th place in the world) and natural gas reserves (the 1st place in the world). These raw materials have already been playing a key role in the revenues to the state budget and in the future, when the raw materials reserves will be depleted by other countries, Russia will become the major and the most important exporter of these materials (Slobodníková 2010).

The problems with which Russia struggled in the year 2010 were associated with a 41% drop in investment flows. This situation reflects the less favorable investment climate because of a low quality of the state and local administration, corruption, economic crime, and big administrative, technical, and information obstacles. If we compared the overall economic situation in the BRIC countries, the situation in Russia is better than in Brazil, but worse than in China and India. In the future, Russia will face the changes in both the ethnic and religious structures of its inhabitants – a natural decrease (extinction) of the state-building nation on the one hand and an increase of the number of Muslim and Chinese inhabitants.

India also experienced the shares slump (-26%) due to the impacts of the economic crises. However, the position of India is being consolidated also because of considerable strengthening of the increasing domestic demand. Moreover India is not as dependent on the prices of raw materials as Brazil and Russia. As for the attractiveness of investing on the stock exchange India was ranked second among the BRIC countries, right after China (Halligan 2011).

At the beginning of 2011, India was elected the chairman of the UN Counter-Terrorism Committee and has the status of a non-permanent member. This is also the area, where the global influence of India can be expressed.

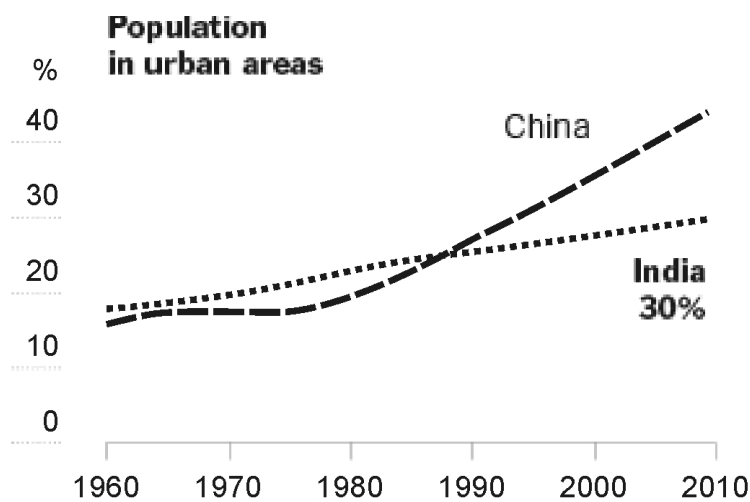
The graphs 5-7 show comparisons between India and China concerning the proportion of services in GDP (India has a higher one), the proportion of population in urban areas (India has a 30% share) and a proportion of population under 15 years of age (31%).

Graph 5: Much of India's growth has been driven by industries that do not require good roads to move goods. In contrast, manufactured exports have played a larger role in China's rise



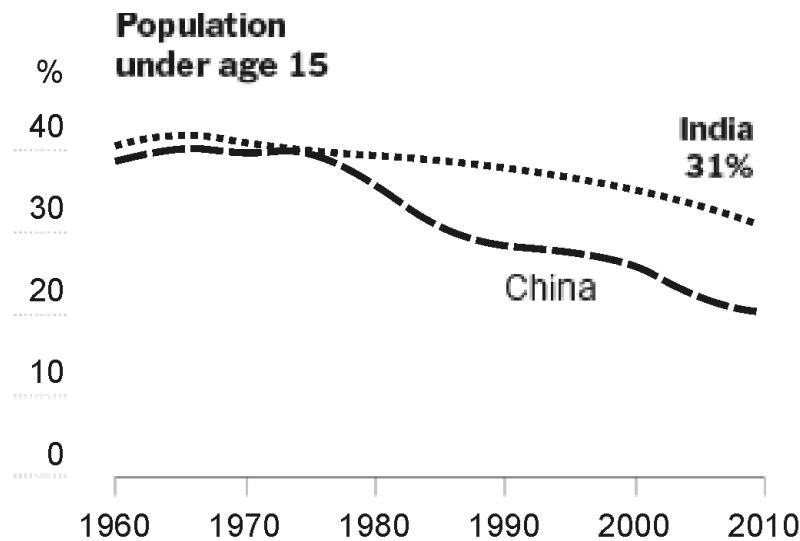
Source: <http://www.nytimes.com/interactive/2011/06/08/world/asia/india-china-graphic.html?ref=india>

Graph 6: China has urbanized more quickly than India, in part because manufacturing companies tend to require more workers than services



Source: <http://www.nytimes.com/interactive/2011/06/08/world/asia/india-china-graphic.html?ref=india>

Graph 7: India's population is younger than China's. More young workers may make rapid growth easier for India in the future.



Source: <http://www.nytimes.com/interactive/2011/06/08/world/asia/india-china-raphic.html?ref=india>

There are significant social, political and religious differences among India's inhabitants (a fading-away tradition of the caste system) leading to numerous unrests and conflicts. The instability of the country requires considerable expenditures for the internal security, but also for the external defense due to the potential conflict with Muslim Pakistan.

There are big regional differences in India, a considerable unemployment rate (10.8 %), only 27% women's employment, lower investment rate (25% of GDP), inflexible legislation, problems with potable water, pollution, an insufficiently developed social infrastructure and other problems.

The positive aspects of contemporary India include the high number of young people in the labor force, an increase of the number of highly qualified people, universal usage of English, increasing investments in science, technology and education, relatively low labor costs creating the significant scope for the outsourcing, a developing middle class stimulating domestic demand, etc.

China dominates over the other BRIC countries in the sphere of production and consumption. One example is the production of aluminum, copper, cars, clothes and other products. In the recent decade the total car production in China has increased nine times (to 18 million pieces), that is more than the production of 16 eurozone members, or than the production of the USA and Japan together. In the year 2010 a record of 77.6 million cars were produced in the world, a quarter of them in China. This country offers the things which the investors look for the most: a huge market with new customers, lower operating costs, attractive profit margins and opportunities to do long-lasting business. The growing purchasing power of inhabitants will be one of the main driving forces of rising demand.

Based on the previous development in retail selling of food there are presumptions, that in the year 2015 China will surpass the USA and the sales high will exceed 1 trillion EUR. As the most populous country, China attracts investors and in this respect is only second to the USA. Foreign investors also do not avoid investing in Brazil, India and Russia, where they can see a long-term appreciation of their finances.

However, the Chinese economy flourishes mainly thanks to huge state investments and exports. But despite this fact China still remains the most interesting country for investors, since it has an advantage in regulating the inflow of the speculative capital to the country, in

contrast with Brazil. However, China's economy is overheating and the government tries to reduce the increasing inflation to 4%.

There are also big regional differences and income differentiation highlights the poverty problem. For example, in 2010, about 200 million Chinese people (15% of inhabitants) lived on one dollar a day.

Conclusion

The economic potential of the BRIC countries remains above-average and their market situation in the mid-term and obviously, in the long-term is expected to improve. This will further deepen the global influence of the BRIC countries. However, it is possible that for a long time these countries will not play a role of the axis around which the global economy and politics will rotate. The economic dynamics of the BRIC countries can seem impressive, but as for their standard of living these countries still lag behind the developed economies. Smaller areas of prosperity sharply contrast with areas of poverty. It will probably take decades before these countries solve their most critical and pressing social and economic problems, such as poverty, criminality or unemployment.

A decade of rapid growth (2000-2010) is not sufficient for the BRIC countries to pick up the baton from the present global economic leaders – the USA and the Western Europe. The BRIC countries may surprise the world with their development within ten years provided there will be a quality improvement and further economic growth. Moreover, there are other countries in the world with fast growing economies. They are referred to as the MIKT countries - Mexico, Indonesia, South Korea and Turkey. These countries may become competitors of the BRIC.

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