



UNLOCKING INDIA'S POTENTIAL: BRICS AND INDIA PARTNERSHIP



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ABSTRACT

Brazil, Russia, India, China and South Africa – the five leading emerging powers straddling the continents of Asia, Africa and Latin America – are steadily and incrementally rewriting the rules of global engagement and pooling in their collective economic and diplomatic weight to recast the international landscape. BRICS are the bricks of an emerging new world order. Similar to other ascendant powers such as China and Brazil but unlike smaller powers, India must not only cope with a transformed international system and project the country's global aspirations, but also ensure that its emergence as a rising power responds to its domestic dilemmas and constraints. India's actions and aspirations on the global stage have changed dramatically toward greater activism and leveraging of its newfound economic strengths. Yet, despite powerful pressures and opportunities nudging India toward a greater role in the global system, India must also attend to crucial capacity building to mobilize its potential and aspirations. The path toward a major power role and status needs to be paved with more than good intentions and be accompanied by political will and institutional flexibilities that can transform India's traditional emphasis on autonomy and self-reliance and new ambitions into real power that is sustainable at the global level and yields crucial benefits for India's diverse population. In this context the present paper focuses on India's role in improving performance of BRICS.

KEYWORDS: BRICS, Population, Development Banks, Urbanization, Climate Change, Summit.

INTRODUCTION

Jim O'Neill coined the acronym BRIC (Brazil, Russia, India, China) countries in 2001 and his firm Goldman Sachs put forth a report that argued that based on their economic potential they could become the world's most dominant economies by 2050. At the end of 2010, GDP in US\$ on a PPP basis in Brazil, Russia, India and China (BRIC) was about 23.3% of world GDP. With the addition of South Africa to the group in 2011 they now represent 40% of the world's population and 25% of the world's GDP. This remarkable growth in slightly more than

2010 supports the Goldman Sachs projections and reinforces the O'Neill idea that these countries continue to be poised for their predicted long-term growth. As a grouping, BRIC was first convened in September 2006 with a meeting of Foreign Ministers of four countries in New York on the sidelines of UN General Assembly. Following a consensus amongst the BRIC Leaders, South Africa was invited to join the grouping at the 3rd Summit in Sanya, China in April 2011. BRICS as a group has demonstrated the shared will and capacity to engage with each other as



well as with the world community in seeking sustainable solutions to contemporary regional and global challenges and promote global stability and well-being.

Together the five BRICS countries account for about 40% of the world's population, a quarter of the world's land area and a combined GDP (PPP) of US \$ 24 trillion (2013 figures). The value of intra-BRICS trade was US \$ 310 billion in 2012. BRICS countries have set a target to increase intra-BRICS trade to US \$ 500 billion by 2015. BRICS Development Banks have signed a number of enabling MOUs/Agreements to promote intra-BRICS trade and investment.

Since its institutionalization in 2006, BRICS has evolved a number of mechanisms for consultation, coordination and cooperation. These include Summits, meetings of Foreign Ministers, Finance Ministers and Central Bank Governors, Agriculture Ministers, Health Ministers, Science & Technology Ministers, Education Ministers and National Security Advisers. A number of other cooperation mechanisms, including Academic Forum, Think Tanks Council, Business Forum, Business Council, Contact Group on Trade and Investment Issues [CGETI], BRICS Mayors and Friendship cities (Mumbai represents India), Urbanization Forum, meetings of Competition Authorities and National Statistical Authorities have also been established within BRICS in order to further deepen, expand and consolidate cooperation among the five member countries. All these cooperation mechanisms meet regularly. BRICS countries also consult each other on the margins of other multilateral meetings as and when required. In addition to cooperating with each other in mutually agreed areas, BRICS countries exchange views and consult each other on contemporary regional and global issues including reform of global governance – both political and economic, trade, finance, cooperation against terrorism and against transnational organized crime, climate change, post-2015 development agenda, etc.

So far BRICS has had 6 Annual Summits, one stand alone meeting of Foreign Ministers in Yekaterinburg, Russia in May 2008, regular meetings of Foreign Ministers on the margins of the UN General Assembly in New York and several other Ministerial meetings. Born in the aftermath of the global financial crisis, the first summit of the leaders of BRIC countries was held in the Russian city of Yekaterinburg in June 2009. Since then, another four summits have been held: Brasilia hosted the 2nd BRICS summit in 2010, followed by Sanya in China in 2011, New Delhi in 2012 and Durban in 2013. A new cycle of BRICS summits is begun as Brazil hosted the 6th summit in the

picturesque beach city of Fortaleza July 14-16. Fittingly, the sixth summit themed "Inclusive Growth: Sustainable Solutions".

Each BRICS Summit has been an important milestone on the BRICS time-line in its own way; the Second BRIC Summit hosted by Brazil in April 2010 put greater economic content on the agenda through new cooperation mechanisms such as BRICS Business Forum, Financial Forum bringing together Development Banks [EXIM Bank from India] of member countries, and institutionalization of BRICS Trade Ministers meeting. The 4th Summit hosted by India in March 2012 was important as it proposed the creation of the New Development Bank and placed the subject on the BRICS Agenda. The 5th Summit in Durban in March 2013 proposed a BRICS Contingent Reserve Arrangement. The 6th BRICS Summit hosted by Brazil on 15-16 July 2014 assumed importance as, among other things, it witnessed finality of major initiatives relating to the New Development Bank and Contingent Reserve Arrangement.

BRICS : THE POWER OF 5

In the scrambled alphabet of global geopolitics, the acronym BRICS has a special character and weight as the five countries comprise 20 per cent of global GDP amounting to \$24 trillion at PPP, 40 per cent of the world's population and 1/4th of the world's landmass. The BRICS is a unique grouping in so far as it's not a geography-bound grouping like the EU or the ASEAN; or a commodity-based club, like the OPEC, or a security-based alliance such as the NATO. What provides mortar to cement the grouping is the joint strategic will of BRICS countries to reconfigure the world order and engage the world in search of inclusive growth and sustainable solutions, which form the master-theme of the sixth summit in Fortaleza.

Sceptics have tended to snigger and dismiss the grouping as another glorified talk shop and gloom-and-doom peddlers never tire of pointing out the declining curve of most BRICS economies. But that's a distorted picture. True, the growth has declined in some countries, but most BRICS economies are still growing at a reasonable rate when wide swathes of the developing world are still stuck in deep stagnation. The reform of global governance institutions remains the driving force of the BRICS, which consists of two permanent members of the UNSC (China and Russia) and three aspiring members (India, South Africa and Brazil) for the prized seat. And one can expect the BRICS leaders to make a renewed collective pitch for building the critical mass required to step up the long-overdue reforms and expansion of the UN Security Council.

The motive for BRICS countries to form partnership derives from their shared quest for economic and social development and for access to new markets. Co-operation serves not only the common interest of BRICS countries, but also global economy at large.

BANKING ON BRICS: NEW DEVELOPMENT BANK

India has been a proactive player in shaping the BRICS agenda since the idea germinated over a decade ago and the summit process started in 2009. India's prime minister has represented the country at all the five summits held so far. The 6th summit will see the fruition of an idea which was floated by India in 2012 – the visionary project of a multilateral bank of the developing world, managed and driven by the BRICS, and in sync with the burgeoning needs of the developing world for infrastructure finance and sustainable development. The last two summits in New Delhi and Durban has now paved the stage for a formal launch of the BRICS Bank at the Fortaleza summit July 15-16. The broad architecture of the bank is almost complete, and once it starts lending around 2012, it is poised to be a game-changer in not only remapping rules of multilateral financing, which have been set by the Bretton Woods system, but also in spurring the restructuring of the global financial governance architecture that remains heavily tilted in favour of the West and the Washington consensus. While the modalities of the Bank are being firmed up, there is a broad consensus that equity should be the cardinal principle governing capitalization, which entails all BRICS countries having equal shares of US\$ 10 billion each. The bank is, therefore, expected to have an initial subscribed capital of US\$ 50 billion. The authorized capital is likely to be \$ 100 billion. The other key facets of the bank, including the nomenclature, the headquarters and the presidency of the bank, remain to be decided and the picture will only be clear at the Fortaleza summit.

The bank is scheduled to start lending in 2016 and be open to membership by other countries, but the capital share of the BRICS cannot drop below 55 percent. China, holder of the world's largest foreign exchange reserves, will contribute the bulk of the contingency currency pool, or \$41 billion. Brazil, India and Russia will chip in \$18 billion each and South Africa \$5 billion. If a need arises, China will be eligible to ask for half of its contribution, South Africa for double and the remaining countries the amount they put in.

STRATEGIC CALCULUS

Over the last few years, the grouping has acquired a pronounced strategic character, with the five countries

forging joint positions on burning global issues of the day, ranging from the Iran nuclear issue and the unfolding humanitarian catastrophe in Syria to the increasing anarchy in Mali and West Africa. In this context, the annual meeting of national security advisers of BRICS countries has proved to be a useful platform for formulating common positions on a wide array of security challenges and global issues. The areas, among other things, which have been identified for intra-BRICS cooperation, include counter-terrorism, maritime security and cyber security. At the Fortaleza summit, the festering sectarian divide in Iraq, the febrile situation in Syria and the crisis in Ukraine are among important issues that will demand diplomatic attention of the leaders.

Besides economic and strategic dimensions of the grouping, the BRICS has also developed an elaborate framework of multi-layered interactions encompassing more than 20 areas that directly or indirectly impact the lives of over 3 billion people living in BRICS countries. Intra-BRICS cooperation has steadily expanded to include education, health, disaster management, urbanization, science and technology and forging innovation partnerships. The BRICS ministers and officials dealing with these areas meet regularly to keep the BRICS edifice humming with new ideas and initiatives.

INDIA IN BRICS

Its election year in India and every other economic aspect now seems linked up to it. The final budget 2014-15 is pending and so are many economic decisions. With the change in the ruling party at the Center, people in India and abroad are anxiously waiting to see what direction the country will take. India was supposed to be a "Breakout Nation" with an extraordinary growth rate in the not so distant past. The country stood up to and survived the financial crisis of 2008 with merit because of its robust banking and financial fundamentals and processes. BRIC and later BRICS were words that became synonymous with high growth and potential. India saw multinationals knocking to enter the space available in every sector of industry. Sensing a windfall for their energy industry the United States and India concluded a Nuclear Treaty, which paved the way for relaxation of the sanctions imposed after the Pokhran blast in 1974 and for potential collaboration in power plants to meet India's power needs. WalMart was poised to enter the country and it promised a retail revolution. That this collaboration failed is another story. On everybody's lips was the excited expression that India would be a super power by 2020.

A leading banker commented not so long back that it would do the country no harm if Multinationals in Retail do not enter India in a hurry. To drive home the fact of how important it is for the country to think of reality and its problems, the same banker said that about 30,000 MW of much needed power is held up because of delayed projects. We cannot escape from the fact that unless India's infrastructure reaches world standards, both in terms of reaches and quality, we cannot hope to be a super power.

To state reality again, BRICS is virtually history now. India is now part of what is called *The Fragile Five*, a term coined by a little known research analyst at Morgan Stanley. Keeping India company in this dubious group are Turkey, Brazil, South Africa and Indonesia. This term was coined to describe economies that are too dependent on foreign investment for their growth. Waiting to join the Fragile Five are three more countries, namely Hungary, Poland and Chile. These countries have a negative Balance of Payments situation and are not attractive for foreign investment because of rising labour costs and salaries. Collectively they form *The Exposed Eight*.

To overcome such deficiencies India has become the member of BRICS group. Following is the role of India in BRICS

1. India shares close economic and cultural ties with her BRICS partners. India attaches high importance to engagement with BRICS as a platform for coordination, consultation and cooperation on current issues. India's engagement with BRICS countries may be seen in the context of our pro-active and broad-based international engagement to contribute towards building a peaceful and prosperous world.
2. India's trade with BRICS partners is about US\$ 95 billion [2013-14 data from the Ministry of Commerce & Industry of India]. India's strengths lie in labour, services, generic pharmaceuticals, and information technology. There are significant synergies with other BRICS partners which may be tapped to further strengthen intra-BRICS linkages in these areas.
2. As mentioned above, India's notable contribution to BRICS is proposal of the New Development Bank which was put on the BRICS agenda at the 4th Summit hosted by India in New Delhi in March 2012. Subsequently, India hosted the first Negotiation Meeting for taking this initiative forward in August 2012. After several rounds of negotiations and Finance Ministers' meetings,

the Agreement for setting up the Bank has been signed at the 6th Summit in Brazil in July 2014. The Bank will be headquartered in Shanghai, with a regional office in South Africa. The first President of the Bank will be from India.

3. Other Indian initiatives include a BRICS Report focusing on synergies and complementarities between the BRICS economies and highlighting their role as growth drivers of the world economy. This Report was released by the Leaders at the Delhi Summit in March 2012.
4. India also added the Urbanization Forum to BRICS cooperation mechanisms to bring greater focus on intra-BRICS cooperation to learn from each other's experience in tackling challenges of rapid urbanization faced by all BRICS members.
5. India institutionalized the practice of holding BRICS Academic Forum meetings as preparatory meetings feeding into the Summit agenda by hosting the first such meeting in New Delhi in May 2009 before the first BRIC Summit held in Yekaterinburg, Russia in June 2009.
6. At the 6th BRICS Summit in Brazil in July 2014, India has proposed important initiatives in order to strengthen intra-BRICS cooperation. These initiatives relate to online education, an affordable health care platform, a virtual BRICS university, BRICS language schools, cooperation in small and medium enterprises, tourism, youth exchanges, a Young Scientists Forum and disaster management. India will continue to work closely with BRICS partners to take these initiatives forward as well as for overall strengthening and deepening of BRICS cooperation.

At the sixth summit, the leaders of the BRICS countries will be looking to review of substantive achievements in the last few years as well as to map the road ahead to reinvigorate the grouping and cement its status as a powerful voice and a counterpoint to the West-dictated narrative on global affairs. India's Prime Minister Narendra Modi attended his first BRICS summit and his first visit outside South Asia that will not only provide him an opportunity to enrich the BRICS agenda, but to also meet the leaders of BRICS countries as well as the leaders of many South American countries invited to the summit for bilateral talks.

The sixth summit is also expected to see a formal announcement of a contingency reserve fund (CRA) of \$100 billion, which will act as a bulwark for the five emerging

economies by providing them with a fall-back option to deal with short-term volatility in their capital flows. According to an understanding firmed up at the meeting of the leaders of BRICS countries on the sidelines of the G20 summit in St. Petersburg in September 2013, China will contribute \$41 billion, while Brazil, Russia and India will chip in with \$18 billion each. South Africa, the smallest economy in the grouping, will commit \$5 billion to the CRF.

CONSUMPTION: THE GROWTH MANTRA FOR BRICS AND THE WORLD

A decade has gone by since the arrival of BRICS, despite hiccups in the economic performance, and growing number of skeptical notions, BRICS has proven a success. Other emerging countries such as Argentina, Indonesia, Turkey, South Africa and even Vietnam offer better prospects, but BRICS collectively is here to stay as a dominant economic force in the world. Looking ahead next 3650 days as to how the BRICs and their relationships with the rest of the world will change, it is highly likely that many of the trends we have already seen to continue and become even more pronounced. BRICs, as an aggregate, will overtake the US by 2018.

In terms of size, Brazil's economy will be larger than Italy's by 2020; India and Russia will individually be larger than Spain, Canada or Italy. In the coming decade, the more striking story will be the rise of the new BRICs middle class. In the last decade alone, the number of people with incomes greater than \$6,000 and less than \$30,000 has grown by hundreds of millions, and this number is set to rise even further in the next 10 years. These trends imply acceleration in demand potential that will affect the types of products the BRICs import

- the import share of low value added goods is likely to fall and imports of high value added goods, such as cars, office equipment and technology, will rise.

As the US, Europe and Japan face a slow and difficult recovery; final demand will need to rise in the rest of the world to sustain global growth in the future. The world can relook to the BRICs to increase their contribution to global domestic demand through higher consumption. BRICs today accounts for almost half of world's consumption. Within BRICS, country specific indicators are slightly different are these countries are on different economic trajectories. For example in China consumer products, food and beverages have contributed the most, compared with other components, such as materials and equipment.

China stands number one in terms of total cars sold. India, on the other hand, has seen high demand in

car ownership. This is on the back of high inflation and raw material costs that haunted the industry in 2011. In Brazil, retail sales have recovered substantially, thanks to government tax breaks, monetary and fiscal policy stimulus, and the resumption of credit lending to households. On the other hand, Russian consumers tightened belts in 2011 when it came to retail consumption.

The resilience of BRICS' consumption is supported by rising middle class and gradual but steady rise in per capita income leading to higher spending power. Secondly, as the numbers of affluent people in BRICs continue to grow, a gradual shift in high value purchase segment is on the rise. The rise in consumption is more apparent as the penetration of different goods in the BRICS economies, with the exception of Russia, is currently low, suggesting there is more room for growth.

FUTURE OF BRICS

In a report written in May 2010, Goldman Sachs highlighted the key economic strength of BRICs countries collectively which underlines the fact that BRICs countries do not have sizable economic powers today and shall act as key growth drivers for many decades to come.

- ✧ It is now possible that China could become as big as the US by 2027 - in less than 18 years.
- ✧ The BRICs could become as big as the G7 by 2032, about seven years earlier than we originally believed possible.
- ✧ Between 2000 and 2008, the BRICs contributed almost 30% to global growth in US Dollar terms, compared with around 16% in the previous decade.
- ✧ Since the start of the financial crisis in 2007, some 45% of global growth has come from the BRICs, up from 24% in the first six years of the decade.
- ✧ Long-term projections suggest that the BRICs could account for almost 50% of global equity markets by 2050.
- ✧ BRICs economies will likely account for more than 70% of global car sales growth in the next decade, with China expected to account for almost 42% of this increase.

CONCLUSION

For some years reforms and greater openness have increased the global economic significance of the BRICs countries. These countries still have strong growth potential, especially in view of their large, young populations. The key challenge faced by the BRICs countries will be to maintain robust and sustainable growth in order to reduce the gap in living standards to the mature market economies.

However, it is hardly realistic to believe in a smooth extended catching-up process without major fluctuations. In the course of time the BRICs countries will have to face some major challenges and history tells us that not all countries are equally successful at tackling these challenges. The challenge they all face includes ensuring sustainability at a high growth rate, reducing the rural/urban income gap and maintaining macroeconomic stability.

Reforms of the financial sector in order to better handle rising capital flows and mobilize domestic savings into productive investments will also be important. The BRICs countries share a number of common characteristics, but there are also important differences. Brazil will face the major challenge of opening up its economy and creating a larger domestic savings pool to finance investments. In Russia, the challenge is to reduce the economy's dependence on oil and to fight corruption, while in India the key challenges are greater openness, better education and improved infrastructure.

In China, ongoing reforms of state-owned enterprises and banks will take high priority. The BRICs are likely to maintain their comparative advantages in the long term. This will help to ensure relatively high growth rates and thus increasing share of these economies in the world market. But the sustainability of high growth will depend on the several crucial factors: sound and stable macroeconomic and development policies; development of strong and capable institutions (including political); human development (improved healthcare and education); increasing degree of openness.

To conclude India's services-led growth strategy, a departure from Asia's traditional manufacturing-led model for growth, is benefiting from both domestic and global demand. Globally competitive firms are emerging

from the country's historically protected private sector, and broad-based reform is fostering infrastructure development and greater openness. India lags the other BRICs in levels of openness, basic education and infrastructure, meaning that it has work to do to make the BRICS projections a reality. If the country can strengthen these conditions, India may well realize its potential.

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