

BRICs & THE GLOBAL TRANSFORMATION

**Considerations on the BRICs Summit
of Think Tanks in Brasília**

Edited by **Li Yang**



社会科学文献出版社
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Preface

The world economy is entering a post-crisis period after the impact of the global financial crisis. The problem for this period is that the variety of factors which brought about the crisis has not yet been effectively addressed. Among them, there are global imbalances and North-South imbalances. The former is characterized by the imbalance between economies on consumption and savings, while the later by the inequalities between developed and developing countries on resources possession and international voice, as well as the manner and outcome of the international financial system. In addition, as the old problems remain unsolved, some new problems have been created by the anti-crisis measures. As long as these questions are not effectively settled, the global economy could hardly access recovery.

In this context, the financial problems have become the serious consideration in pulling the world economy out of its slump. This crisis is actually the general outbreak of all the contradictions accumulated in the over-development of the financial sectors in the previous period. The so-called over-development is that the financial sector has been out of its starting point of servicing the real economy and accessed into a realm of self-expansion. Instead of being solved at the roots, these problems are temporarily concealed in a harmful way. The lack of financial regulation which is exposed by crisis is still seeking radical solutions. The financial factors that caused this crisis have yet to be eliminated, such as the gradually ineffective monetary policies, the governance crisis of financial institutions, unfair international monetary system and increasing gap between the real economy and financial sectors. In addition, the high debt ratio or excessive leverage is to be effectively controlled.

Therefore, in the post-crisis period, it is required by the overall recovery to seriously address the above problems and make the necessary innovation and reform in financial

sectors. For example, the financial regulation should be promoted from the micro-to macro-level in order to prevent relatively radical policies and realize the principles of prudence with a combination of macroeconomic balance and stability. It is a good path to the stable macro economy. However, in a globalized world, it is hard to perform financial innovation and reform without global cooperation and policy coordination; it is similarly difficult to establish an effective, healthy global financial system without the collaboration between nations.

The post-crisis period will be an era in transformation as well. As the major emerging economies, BRICs countries, by throwing influences to the changes of the world structure after the global financial crisis, are attracting more and more attentions. I thus believe that we have large potentials in financial cooperation. We could work closely on the financial supervision and coordinate our positions in the reform of international financial system.

The global financial crisis, which evolved from the U.S. subprime crisis, has shocked the world economy in the once-in-a-century scale and consequence. Despite that the worst part of the financial crisis is behind us, the world economic recovery remains quite slow, and even fragile. BRICs countries confront the common challenges of getting rid of the shadow of the financial crisis and speeding up the process of economic recovery. Based on the actual circumstances, BRICs governments respectively implemented economic stimulus packages, which have proved to be effective, especially in relieving the economic impacts of the crisis to a certain extent. In the past year, Chinese government has taken measures in the following four aspects: first, substantially increasing financial input, including launching a structured tax cut; second, implementing the industrial restructuring and rejuvenation program on a large scale; third, actively encouraging innovation in science and technology; fourth, drastically raising the level of social security. With these measures, China's economy grew by 8.7% in 2009. Being generally optimistic about BRICs countries' economic situation in 2010, the international financial institutions regard them as one of the important factors in steering the world economy out of the crisis. In this regard, broader and deeper post-crisis intra-BRICs cooperation would benefit our own economic resilience and the worldwide recovery. BRICs countries are thus facing a rare historical opportunity for cooperation.

Along with that, BRICs countries also meet with the requirements for expanding and advancing cooperation. The strong complementariness in our endowments and economic structures has formed a sound foundation for collaboration. During the ascending phase of world economic cycle before the crisis, intra-BRICs trade increased rapidly by an average of 73.8% annually, from USD 35.9 billion to USD 168.5 billion between 2003 and 2008, which is over 3 times of the growth of global trade in the corresponding period. Notwithstanding its declining by 15% in 2009 due to the crisis, the trade among our four economies has displayed unique vitality in comparison with that in the world. China

replaced U.S. as Brazil's largest trading partner, while Brazil-India trade kept growing. It reveals that BRICs countries, in spite of certain competition resulted from the similar growth stage, are in the occasion to explore potentiality, adjust structure, reduce frictions and create facilitation in our bilateral trade. However, we should recognize that there's still room for trade cooperation left by our uneven developments. I believe that, in the current circumstance, BRICs countries should seize the opportunity to make further coordination in trade policies, so as to improve international trade environment and create conditions for a complete worldwide recovery.

In the post-crisis period, we will also find the essential and irreplaceable impact of FDI on the world economic recovery, which make it an import field to expand intra-BRICs cooperation. As FDI recipients, BRICs countries have been favored by global investors in recent years. In 2008, FDI draw by the four economies reached USD 265.2 billion, increasing its global share from 10% in 2005 to 16%. The financial crisis has changed the direction of international capital, emerging markets and developing countries have surpassed developed countries in FDI inflows. China attracted a total FDI of USD 90 billion in 2009 and became the second largest recipient, while Russia being the fourth one. In its annual *World Investment Prospects Survey 2009-2011*, UNCTAD points out that BRICs countries tends to be FDI's major destination during the crisis. Nevertheless, we notice that intra-BRICs FDI remains limited and is lagging behind other modes for economic and trade cooperation. In this way, larger mutual investment could make more space for deepening intra-BRICs cooperation. To this end, the four nations can make a difference through improving the domestic investment environment, strengthening their attraction efforts for mutual investment, providing the correspondingly appropriate enabling conditions and etc.

The potential of intra-BRICs cooperation lies as well in the science and technology innovation. In financial crisis, the four countries have been seeking a breakthrough for science and technology innovation. In doing so, they tried to find a positive and effective way for industrial upgrading, economic stimulating, and crisis curbing. Chinese government has a basic observation on the long-term economic development and crisis management. That is to develop new technology and newly emerging industries, such as New Energy, key technology for Sensor Network and The Internet of Things, Micro-Electronics and Photoelectrons, Life Sciences and Earth, Marine and Space Sciences. Any of these industries will bring about great effects in its development, and thus become our essential way out in post-crisis period. As a result, Chinese government sped up the process of 16 major national science and technology projects, which were launched in the *National Mid-Term and Long-Term Science and Technology Development Plan (2006-2020)*, while announcing the 4-trillion-yuan (USD 585 billion) stimulus package. Once success has been achieved, any of these cutting-edge projects would create business opportunities.

Meanwhile, the other three BRICs are striving for breakthrough on the basis of their own strengths. For example, the S&T priority is on nanotechnology and nuclear technology in Russia, on clean energy technology as ethanol and biodiesel in Brazil, and on information industry in India. Thus, there is great potential to strengthen intra-BRICs cooperation with each nation exploiting its particular advantages for mutual benefit and development.

Climate change, which is the major challenge facing human society, offers not only a new project for BRICs think-tank, but also another platform for intra-BRICs cooperation. After the Copenhagen Climate Summit, the low-carbon economy has become a hot concept, and even a real industry in some countries. We stand by the low-carbon economy itself, but firmly against its utilization in restricting economic development of developing countries, for which we should maintain the necessary vigilance. However, leaving the other factors behind, the concept of low-carbon economy, in an economic perspective, provide a new way of thinking for development and technology innovation and an occasion for economic restructuring. In this way, we should boost the green economy, low carbon economy and recycling economy, develop and promote the climate-friendly technologies and foster greater harmony between economy and environment. In this field, Brazil has accumulated a wealthy of experiences and is in the international leading position. Except for coordination in our standpoints on the major issues, BRICs countries should further expand cooperation in energy saving and emission reduction through specific technological exchange on clean energy, forest conservation, energy efficiency and so on.

The global financial crisis brings about not only tough challenge to BRICs countries, but also great potential and opportunity for expanding and deepening our cooperation. Although there's obvious difference in our national situation, we face the common tasks to rehabilitate our economy into the normal track of sustainable development, and to create a pleasant place for living and working for our people. We also have common post-crisis interest, which is to strive for a bigger say for developing countries through the reform in global financial system. All these are the foundation for closer intra-BRICs cooperation and the direction for our endeavor. In advancing our cooperation, we should adhere to the principles of seeking common ground while reserving differences, strengthening unity and cooperation, safeguarding the common interest of developing countries and pursuing the maximization of the interest of developing countries.

In exploring the mechanism for deepening post-crisis cooperation, we, BRICs think-tanks, can play significant roles with our researches and efforts. The first two BRICs think-tank dialogues have demonstrated their advisory functions in selecting cooperation areas. Such dialogue has become an important mechanism for the academic community to discuss in depth bilateral collaboration, to exchange views on major international issues, and to make positive policy proposals to the high-level meetings. I believe that,

in intensifying cooperation of our four countries, think-tanks will shoulder greater responsibilities and missions, which set forth stricter requirements to our colleagues here. To perform better as the platform for Brain Trust, BRICs think-tanks should closer routine academic exchanges and carry out more targeted collaborative research. As one of the important think-tanks in Asia and even the world, Chinese Academy of Social Sciences is willing to strengthen contacts and cooperation with all the relevant institutions from the other three BRICs. We should exchange our research results in order to offer timely and effective suggestions for BRICs summit and the intensified cooperation and sustainable development in our four nations.

Li Yang
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BRICs and the Financial Crisis



Crisis as an Exam for the BRICs

*Vladimir M. Davydov**

The BRICs as an interacting community of the new centers of the world economy and international politics is a historically recent phenomenon. But over the four years it passed a long way from the start of regular political consultations on the level of Ministers of foreign affairs to the start of an annual summit. The process of intensive "quadrilogue" presents a tendency to diversification covering ever more wide range of problems dealing with the national interests of the four group members and the interests of the international community in general.

Meanwhile the analytical and scientific perception of the BRICs phenomenon presents a contradictory picture. On the one hand, it showed capacity of foreseeing (analyses by Goldman Sachs); on the other hand, it frequently lags behind the practice. Recognizing the presence of extraordinary market and industry potential in each of the four countries, some do not see a sufficiently wide basis for coincidence of the national interests; they do not see quite high rates of growth of the commercial and economic relations between the four members, what objectively does create a platform for cooperative interaction. Such interpretations shall be associated with the following two reasons. First, it's the West-centric inertia of the contemporary global development perception. Second, it's the aspiration of certain circles in traditional centers of the global economy and politics to impede the rapprochement of the four countries and to sow the seeds of distrust between them.

* Vladimir M. Davydov, member of the division office of the social sciences of the Russian Academy of Science (RAC), Director of the Institute for the Latin American Researches of the RAC, member of the research council of the Ministry of Foreign Affairs of the Russian Federation.

In academic community the investigation of the BRICs phenomenon till now was mainly individual and country-based passing to the genre of international comparisons. But taking into account the existing practice of interaction between the four members and probable perspective of its enrichment, the researcher's aim is to determine the possibilities of their joint potential realization, interaction effect within the group of four and its aggregate influence on the global development process. From this point of view, it's difficult to overestimate the importance of the present academic forum taking place in parallel with the II BRICs summit that has a chance to become a regular event.

Recognizing the relevance of the above mentioned task we involuntarily refer to the consequences of the present global economic crisis. Economic crisis which is still present brings a new quality to the global range of problems of development and highlights in a new way the role of the BRICs. It's some kind of litmus test and a difficult exam. The prism of the present crisis allows to understanding better the new imperatives of the global development and how the BRICs countries could react to them, what could be their strategy in changing circumstances, logic of joint activity at the world arena.

Peculiarities of the present crisis

Analyzing the present crisis we should be aware of the fact that it has a strongly marked extraordinary nature. It is prominent in the line of cyclic drops of the second half of the XX century (refer to the figure 1,2).

For the first time over the three decades the stronghold of the contemporary capitalism which is the USA economy became epicenter of crisis.

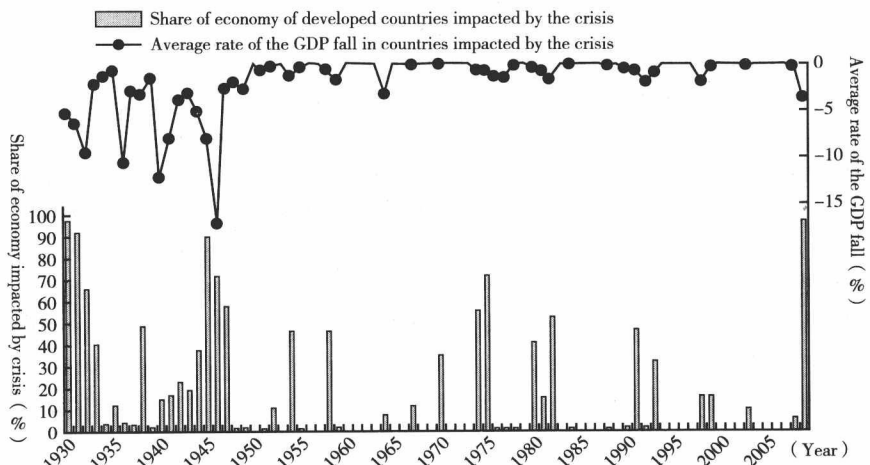


Figure 1 Long-term trend of crisis impacts on development economics

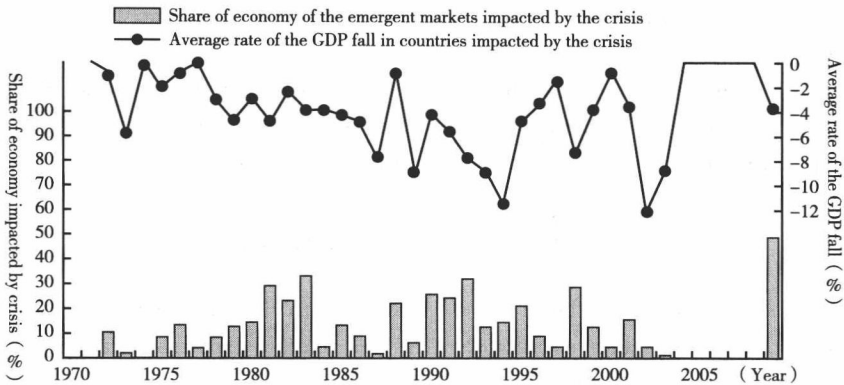


Figure 2 Long-term trend of crisis impacts on emergent markets

The present crisis holds the records in what refers to the depth of recession of the global economy, to the rate of spread and coverage of the national markets of the countries of the world.

The extraordinary nature of the crisis gave enough arguments for those who compare it with the Great Depression of the years 30s of the past century. Nevertheless, comparing parameters of these two crises we are obliged to affirm that the present one doesn't beat the records of the Great Depression in what refers to the depth of recession and its duration (taking into consideration a modest growth since the second half of the 2009). But, apparently, it beats the records in rate of spread and coverage.

The last fact leads us to the effect of globalization that transformed the mechanism of reproduction in the global economy and in national economy systems. Globalization created new risks of break out of the market power in conditions when regulation on the national and international levels was based mainly on the "pre-globalization" standards.

We can affirm that the extraordinary nature of the present crisis consequences is determined exactly by this circumstance. Apparently what is meant here is the first crisis of the globalization era, a crisis that revealed so noticeably the contradictions and risks accumulated with the beginning of the globalization process based on the technological results of the "microelectronic" revolution.

The situation was undoubtedly aggravated by the neoliberal deregulation in pre-crisis period and the state's deviation from the economic and social responsibility.

The existing national and international regulators couldn't control the dramatically accelerating processes of overaccumulation of the financial instruments (first of all derivatives) and effect of overindebtedness in traditional centers of the global economy – masses of households, corporate sector and separate states. The giant sector of the offshore business became even less controllable. This is not surprising that failure in one

link (at the USA mortgage market) along the whole chain of interconnection destabilized the whole globalized system of the international finances, then the international trade and then the real sector, manufacturing in the key branches of the industrial production. That's why we find it difficult to agree with definition of the crisis as just financial one. We believe that what is meant here is global general economic crisis.

Reaction of BRICs countries

How did the economies of the group of four react to this extraordinary crisis? How much effective were the anti-recessionary measures taken in each case? I suppose that in the process of discussion at our academic forum our colleagues from Brazil, Russia, India and China will give their opinions based on direct knowledge of the concrete situations in each of these countries.

My task here is to give a brief preliminary characteristic of the experience of the countries of the group with an aim to compare and come to general conclusions in what refers to the lessons of the crisis, the general imperatives of the economic policy and the forthcoming agenda of interaction in the BRICs format. I'll be grateful to the colleagues for the criticism and correctives in my interpretation.

First of all, I'll mention that in general the BRICs economies bear the misfortunes of the crisis better than an average of the global economy. However the countries of the group showed different level of soundness during the crisis. Let's present some considerations according to the order of letters in the BRICs abbreviation.

So, let's start with Brazil. As it was specified in *The Economist* magazine (London), Brazil was one of the last countries to enter the crisis and was one of the first ones to start recovering from it.^① The growth of the GDP here over the 2009 practically didn't overpass the fatal zero mark staying at the minimal positive value (0.3% by some estimates, or 0.6% by other ones).

Relative soundness of the Brazilian economy after the first shocks of the crisis was ensured, in our opinion, by the least (as compared to the zone of highly developed economies) involvement in speculative financial turnover and high share of the real economy, as well as stability of the credit and banking system and preservation of the national control in its regulation.

Furthermore, an important role was played by an effective use of the pre-crisis period of *fat cows*, firstly, to transmit the external debt in a regulated channel, and then on the basis of accumulation of significant liquidity reserves to enter the category of net creditor. Second, the country managed to eliminate the old defect of the Brazilian economy achieving self-

① "Brazil Takes off," *The Economist* 2010, London, 14-20.11.2009, p.5.

sufficiency in provision with raw hydrocarbons. Third, Brazil considerably advanced in diversification of foreign trade, substantially widening the segment of relations with the most dynamic markets (including those within the BRICs). Finally, considerable results were achieved by the realization of the large-scale social programs that contributed to the reduction of poverty area and therefore to consolidation of domestic market.

Special attention should be paid to realization of the PAC (Plan to accelerate Growth program) for the 2007-2010 period aimed mainly at modernization of infrastructure. Financial resources mobilized for this program (280 million US dollars) allowed significant advancement in modernization of transport, power system management and communications as well as expansion of house building. Thereby significant support to the business activity was ensured and, respectively, the functioning of the internal market was enhanced by the time of the crisis.

A constructive role in recovery from crisis was played by the state banks that still possess high share in the credit and banking system of the country. A share of the state banks in total volume of credit activities increased from 34% (12% of the GDP) in June of 2008 to 41% (18.5% of the GDP) in September 2009^①. The state banks activity stimulated recuperation of the private lending by the end of the last year.

Estimates of the Brazilian GDP growth for the year 2010 fluctuate between 3-5% predicting sustainable recovery of the economy. Foreign and national businesses have already supported that, accumulating direct and portfolio investments in the Brazilian economy.

Naturally, the Brazilian case is far from the ideal situation. The Brazilian economy has quite a lot of obstacles, among them extreme social polarization and preservation of a wide zone of poverty. Enhancement of the investment climate is impeded by the high crime rate. Expenses for research and development (R&D) were increased in the country, but their level is obviously insufficient for adoption of the model of innovation development. To confirm the status of one of the global economy new leaders Brazil will need to widen the accumulation of productive investments that should increase general dynamics of the economic growth.

Reaction to crisis in Russia seems to be less successful, although the Russian economy had considerably higher growth rates and considerable accumulation of foreign exchange reserves during the pre-crisis period. Naturally, in this case the economic growth was favored by the high pricing environment of energy products on the world market, as well as domestic political stability ensured during the last decade.

Drastic recession in the main centers of the global economy was especially harmful for Russia due to the narrow specialization of its export on oil and gas, as well as to the

① CEPAL, Balance Preliminar de las Económicas de América Latina y el Caribe – 2009, Santiago de Chile, 12.12.2009, Brasil, p.1.

fact that minimization of the external public debt was accompanied by excessive increase of the external corporate debt. The last fact could be explained by low availability and expensiveness of the long-term credit money (and vice versa their excess offer at the foreign market), lack of due control of the foreign loans of corporate sector by the national regulators.

Resources accumulated during the pre-crisis period gave opportunity to mobilize large amounts to overcome the liquidity shortage. As the Head of the Russian government V. Putin said, by the spring of the 2009 resources directed for recovery from the crisis equaled to 12% of the GDP. It's important to note that government has chosen to successively support the most vulnerable parts of population. While adjusting the state budget for the years 2009-2010 the main articles of the social expenditures remained in their initial amounts, some of them were increased. That naturally restrained the effect in other areas in short term perspective.

Among the programs launched were partial etatization of distressed assets of the strategically important companies, support of the cities with extremely narrow specialization of economy that allow to prevent catastrophic spread of unemployment. Some measures, although insufficient, for support of the small and medium business (taxes exemptions and enlarged access to credit financing) were also taken in the 2009. The results of the measures taken became notable since the middle of the 2009. Drop in production in some industries was arrested. The unemployment growth stopped by the end of the year; it began to reduce gradually by the beginning of the 2010.

Meanwhile those who criticize the anti-recessionary measures reasonably note that their realization was accompanied by sensible delay and considerable expenses. In the process of "pumping" liquidity in the banking sector, no strict limits were set for special-purpose use of the credit means provided by the government. As result they were used for financial and exchange transactions, and leak of the capital took place. Bureaucratic vertical in anti-recessionary measures implementation was late several months.

Nevertheless, resuming we can affirm today that positive tendencies dominate. Learning lessons from the grave crisis the government of the state adopted a policy aimed at modernization of economy, diversification of exports, successive transition to innovation-based development. It's an absolutely necessary strategic change.

The traditional orientation of the Indian economic policy (founded yet by J. Nehru), directed towards the auto sufficiency of the country, revealed itself in the anti -crisis policies of nowadays. The state support of the banking system was realized rather narrowly, whereupon the volumes of micro credits were widened. The internal consumption was stimulated by the tax regulations. Considerable investments were directed to the infrastructure area. Meanwhile this area (including its transport and energy branches) is still a weak and a vulnerable point of the Indian economy. There are some