**Trends in Economic Development, Cooperation, and Trade: BRICS’ Position**

*(Presentation will have Power Point slides.)*

**Abstract:** Where do BRICS stand on the ladder of global economic development? Are they as influential in global geopolitical space? What are the trends in their economic relationship with the US? And what does this all mean for global distribution of economic power?

While BRICS occupy over a quarter of the world’s landmass, comprise 40% of world population and more than a quarter of world GDP, they are a diverse set of countries with very unique political and economic dynamics and do not currently represent an economic block. The intra-BRICS FDI is rather low, although trade is more important. BRICS group invests heavily in the developed countries and little in developing countries as a share of *its* total FDI outflows. However, as a percentage of FDI coming into the developing world, BRICS’ share is more significant, in particular, FDI to Africa. This economic relationship shows all positive signs of further development, especially, given trade agreements between other world’s economic powers (e.g., TTIP and TPP), which may weaken BRICS’ position in other regions.

There is no question that the BRICS group contributes a significant share to global growth. BRICS’ share of GDP in the world’s total rivals with the largest economies of the US and the EU (see graph below).

*Source: International Monetary Fund, World Economic Outlook Database, April 2014*

The size of the BRICS economies and their impressive GDP growth over the last decade have been the primary reasons behind the increase in inward FDI to BRICS.[[1]](#footnote-1)

*Source: UNCTAD, UNCTADstat, http://unctad.org/en/Pages/Statistics.aspx*

More importantly, recently the BRICS group has itself become an investor,[[2]](#footnote-2) with Russia and China in the lead (see graph below).

*Source: UNCTAD, UNCTADstat, http://unctad.org/en/Pages/Statistics.aspx*

It is worth to address the direction of these outflows: investment in Africa has grown to rival that of the US.

**Table 1. Outward FDI Stock from BRICS, by Destination Region, 2011**

|  |  |  |
| --- | --- | --- |
|  | | |
| **Partner Region/Economy** | **Value, Millions** | **Share, %** |
| **World** | $1,130,238 | 100 |
| Developed countries | $470,625 | 41.6 |
| European Union | $385,746 | 34.1 |
| United States | $31,729 | 2.8 |
| Japan | $1,769 | 0.2 |
| Developing countries | $557,055 | 49.3 |
| Africa | $49,165 | 4.3 |
| Latin America and the Caribbean | $175,410 | 15.5 |
| Asia | $331,677 | 29.3 |
| Transition economies | $31,891 | 2.8 |
| **BRICS** | **$28,599** | **2.5** |
| Source: UNCTAD, FDI/TNC database, reproduced from *Global Investment Trends Monitor, Special Edition,* April 2013 | | |

Several observations are evident: while the regional and neighboring investments are extremely important for BRICS, a large share goes to developed countries, in particular, 34.1% to the EU. FDI between BRICS is limited: “the share of FDI outward stock holdings by BRICS countries in other BRICS countries is only around 2.5%, compared to the 10% that BRICS represent in world inward stock.”[[3]](#footnote-3) However, FDI from BRICS to other developing and transition economies (outside their own region and excluding other BRICS) is significant for the host region. For example, 25% of FDI flows and 14% of stock to Africa originate in BRICS.[[4]](#footnote-4)

**Table 2. Estimated FDI Flows and Stock to African Countries, 2010**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | |  |  |
|  | Millions | | Share in total, % | |
| **Home region** | **Flows** | **Stock** | **Flows** | **Stock** |
| **Total World** | **$39,540** | **$308,739** | **100** | **100** |
| Developed countries | $26,730 | $237,841 | 68 | 77 |
| European Union | $16,218 | $155,972 | 41 | 51 |
| North America | $9,281 | $53,412 | 23 | 17 |
| Developing countries | $12,635 | $68,890 | 32 | 22 |
| Asia | $9,332 | $50,007 | 24 | 16 |
| South-East Europe and CIS | $175 | $2,007 | 0 | 1 |
| **BRICS** | **$10,007** | **$42,583** | **25** | **14** |
| Source: UNCTAD, FDI/TNC database, reproduced from *Global Investment Trends Monitor, Special Edition,* April 2013 | | | | |

What about trade patterns? Some of the most important BRICS trading partners in the developed world showed slower growth since the 2008 crisis,[[5]](#footnote-5) which means fewer exports for BRICS and, consequently, less growth, ceteris paribus. This trend, if continues, may push BRICS to explore developing countries markets even more aggressively.[[6]](#footnote-6)

For BRICS, Africa appears to be a natural choice for economic cooperation. While BRICS have emerged as major global players, Africa has demonstrated economic growth potential, abundant natural resources, favorable demographics, and growing consumer power.[[7]](#footnote-7)

For instance, trade volume between China and Africa increased from $10 billion in 2000 to $190 billion in 2012. The partnership with India has promoted the development of small- to medium-scale enterprises on the African continent. Brazil and Russia have been heavily involved in the mining and energy industry in Africa through public-private partnerships.

BRICS’ trade patterns are influenced by a number of international trade agreements, some of which leave BRICS on the side. For example, the US has been advancing a bilateral FTA with the EU (through the high-standard Transatlantic Trade and Investment Partnership or TTIP) is expected to start this year. Another agreement, known as the Trans-Pacific Partnership (TPP), includes Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the US. These two partnerships will likely be significant in shaping the economic climate as its members account for more than half of total global trade and GDP. As result, BRICS may see the benefits from trade agreements within the block and with developing countries’ rise significantly. Certain steps have already been taken. For example, a New Development Bank is planned to offset the influence of the IMF and the World Bank.[[8]](#footnote-8)

Table 3. Major trading partners in BRICS by country

Table 4. Trade between US and BRICS by country

In the end, if BRICS succeed in strengthening their economic relationship with the developing nations, it is likely to be a win-win game in the south-south cooperation.

1. UNCTAD, *Global Investment Trends Monitor, Special Edition, April 2013* [↑](#footnote-ref-1)
2. This may be interpreted as a positive trend in the economic development. However, there could be different reasons for this trend, not all of them signifying the steady increase of standards of living for an average Chinese or Russian citizen. Gini index, where index of 0 represents perfect equality, while an index of 100 implies perfect inequality are for Brazil – 54.7 (2009), China – 42.1 (2009), India – 33.9 (2010), Russia – 40.1 (2009), South Africa – 63.9 (2009), *World Bank*. [↑](#footnote-ref-2)
3. “FDI stock to other BRICS account for only 3.2% of Indian outward stock, 2.2% of Chinese stock, 0.3% of Russian and Brazilian outward stocks,” *UNCTAD,* *Global Investment Trends Monitor, Special Edition, April 2013* [↑](#footnote-ref-3)
4. UNCTAD, *Global Investment Trends Monitor, Special Edition, April 2013* [↑](#footnote-ref-4)
5. Latin America and the Caribbean have also shown slower growth and less appetite for imports, as they are a regional recipient of the sluggish US recovery. [↑](#footnote-ref-5)
6. However, this exploration may have to be on more favorable terms to developing countries, as some raise concerns. For example, Africa supplies raw materials, other products and technology transfer to China, but its economic experience with Europe dictates caution and makes this trade pattern unsustainable on the long run. [↑](#footnote-ref-6)
7. African Development Bank, Blogs, http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/africa-and-the-brics-a-win-win-partnership-12098/. [↑](#footnote-ref-7)
8. Although it is commendable effort, it may not be realistic in the current environment. [↑](#footnote-ref-8)