POLITICAL ECONOMY OF THE BRICs:

COOPERATION AND COMPETITION

by

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ABSTRACT

This study examines the rapidly growing large emerging powers Brazil, Russia, India and China (BRICs) and a secondary set of emerging economies with relatively weaker but still promising potential to create a notable impact in the global economy (near-BRICs). The primary concern of this thesis is to determine whether the BRICs can be treated as a monolithic grouping and to seek incentives for cooperation and competition within the group. The subject matter of this thesis is located at the crossroads of three literatures: regionalism, international cooperation, and power/hegemony. This broad literature contributes to our understanding of the coherence of the BRIC and the near-BRIC as cross-regional groupings, the likelihood of cooperation and competition among these states and the shift of power taking place in the global economy with the rise of these emerging powers. In this research, I present the economic development patterns of the BRICs, survey bilateral economic relations within them and analyze the repercussions of the three summits they have organized after the outbreak of the global financial crisis on international economic agenda. Finally, the analysis extends to the near-BRICs; attempting at a typology of these emerging economies and critically examine their prospects for international cooperation.

Keywords: BRICs, emerging powers, international cooperation, near-BRICs, global economic governance, international financial institutions

ÖZET

Bu çalışma hızla büyüyen gelişmekte olan ülkeler Brezilya, Rusya, Hindistan ve Çin (BRIC'ler) ve görece daha küçük ancak küresel ekonomide önemli bir etki yaratma potansiyeli vaat eden ikincil bir grup ülkeleri (BRIC benzeri) ele almaktadır. Bu tezin öncelikli amacı BRIC'lerin bütünsel bir grup olarak ele alınıp alınamayacağını saptamak ve grup içinde işbirliği ve rekabete yönelik teşvikleri araştırmaktır. Tezin konusu üç farklı literatürün araştırma alanı kapsamında incelenmektedir: bölgecilik, uluslararası işbirliği ve güç/hegemonya. Bu geniş literatür BRIC ve BRIC benzeri ülkeleri bölgeler üstü gruplar olarak incelemeye imkan tanımakla beraber bu ülkeler arasındaki olası işbirliği ve rekabeti, ve bu yükselen güçlerin küresel ekonomide yarattığı güç kaymasını anlamaya yardımcı olmaktadır. Bu çalışmada BRIC'lerin ekonomik gelişme şekilleri ve kendi aralarındaki ikili ekonomik ilişkiler gözden geçirilmekte, ardından küresel finansal kriz sonrası düzenledikleri üç zirvenin uluslararası ekonomik gündeme etkileri incelenmektedir. Son olarak BRIC benzeri ekonomileri ele alan bu tez, bir tipolojik değerlendirmeyle birlikte bu ülkelerin ileriye dönük olası işbirliğine eleştirel bir bakış sunmaktadır.

Anahtar sözcükler: BRIC'ler, yükselen güçler, uluslararası işbirliği, BRIC-benzerleri, küresel ekonomik yönetim, uluslararası mali kuruluşlar

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CHAPTER 1

INTRODUCTION

Since the 1970s world economy has been going through a substantial change under the rubric of globalization. The last quarter of the twentieth century saw a rapid growth in the scale of cross-border trade of goods and services, flow of international capital and an unprecedented spread of knowledge and technology along with it. Interdependence in the global economy has increased further through a rising trend of regional and multilateral agreements. In the meantime, developing countries also managed to keep pace with the changing nature of the international economy.

Although there is a large set of developing countries which significantly adapted to economic globalization in the recent decades, four of them demand particular attention due to their distinctive magnitude and outstanding potential in global economy and politics. Brazil, Russia, India and China, commonly known as the BRICs, are today the largest developing economies maintaining a remarkable growth performance for an extensive period of time. Since the early 1990s, the BRICs have become more open and better integrated into the global economy. Given their huge population and economic size, significant economic growth and rising openness, the BRICs have substantially increased their share of world GDP and volume of trade. Consequently, in the past few years the BRICs have become the most dynamic elements of the world economy (Subacchi, 2008).

The first objective of this thesis is to examine the BRICs as an analytical category. Common features of these emerging powers could point to possible incentives for cooperation inside the group. Likewise, certain features of these giant economies, their interrelations and positions in the global economy might bring about issues of contestation and counteract the basis for cooperation. In this research I believe a regionalist perspective will be helpful to determine whether BRIC can be treated as a monolithic group or not.

There are several features that make the BRICs uniquely important actors in the global economy. While consistent economic growth is surely a key factor, more is needed to be able to consider an emerging market in this heavy-weight category. Clearly, demographic profile is a crucial determinant in such a categorization. It is highly unlikely for a country without a high population to become a global power, even if it sustains outstanding growth performance for a long period of time (O'Neill et al., 2005).

The boundaries of the BRIC, however, are not carved in stone. Differences do exist within the group in terms of their power, economic weight, level of integration into the global economy, and historical backgrounds. (Hurrell, 2006). The BRICs also fundamentally differ in their governance systems as Brazil and India have democratic regimes while Russia and China are ruled by authoritarian governments. There have been many attempts to either extend or contract the BRIC due to its inherent heterogeneity, yet these particular countries are singled out from the rest with the range of economic, military and political power they possess and their potential to change the international order, regionally or globally (Hurrell, 2006). This study questions whether the BRIC will be able to act as a monolithic group to form a common agenda concerning the global economy despite their lack of a homogenous structure.

At this point, I evaluate the BRIC economies in a systematic fashion, in order to locate commonalities and differences between the BRICs, as well as their interrelations employing theories of regionalism. Obviously, the BRICs are geographically too diverse to form a regional bloc from a traditional perspective. However, a more sophisticated definition of regionalism suggests that a region is a set of countries that incorporate commonality, interaction and hence the possibility of cooperation. Globalization so far has shown that even though you cannot choose your neighbors, you can still make allies from all over the world, as long as you share similar objectives and incentives. Accordingly, a regional bloc is a group of states which pursue and promote common goals in one or more issue areas, rather than a bunch of neighboring states (Fawcett, 2005). Thus, I will inquire the BRIC countries in light of these distinguishing features of a region to determine whether the BRICs can form a uniform bloc without necessarily having territorial proximity.

Since the 1990s, there has been a growing interest in regionalism among developing countries. The resurgence of regionalism goes hand in hand with globalization for a number of possible reasons. Regionalism could either be seen as a strategy states have adopted to reassert their political power in reaction to globalization; or as a platform to create alternative norms and practices to replace dominant forms of neoliberal economic governance. A major reason why regionalism gained popularity among developing countries over the recent years is that regional agreements are seen critical to increase bargaining power and political capacity (Hurrell, 2005). As the BRICs frequently remark their demands for reform in the global governance, it is reasonable to expect them to engage in collective action toward this end, resembling that of a regional bloc.

Cooperation among nations occurs when a group of actors share similar objectives and each actor expects gains or rewards (Milner, 1992). Therefore, a common agenda would be adopted only if the BRICs would achieve better than acting individually (Aldrighi, 2009). The BRIC countries have given signals of future cooperation by organizing three summits in the wake of the global economic crisis. The crisis environment has certainly cut in favor of emerging powers to increase their voice on the governance of the global economy and politics (Aldrighi, 2009). This brings forward the question whether the BRICs will act collectively to challenge the US-dominated order, as they become more powerful and the United States continues its relative decline. Of course, this question involves too many variables to have a simple answer. The possibility of intra-BRIC cooperation, potential reservation of the BRICs to involve in a direct confrontation with the United States or the risk of blindly pursued national interests rather than the logic of collective action are only some of the factors to think about before reaching to a solid conclusion (Glosny, 2010; Nayyar, 2008).

In general terms, a predisposition for cooperation within the BRIC countries is evident. However, it takes more than that to establish a firm partnership between these countries. In the first official BRIC meeting, the Chinese President Hu Jintao voiced the necessity for strengthening the economic cooperation among the BRICs. Hu listed resources, markets, labor, science and technology as respective advantages that the BRIC countries possess (Ministry of Foreign Affairs of the PRC, 2009). Yet, the BRICs tend to specialize in different sectors. While Brazil is competitive in production of commodities as well as having a vibrant and diversified industrial sector, Russia has a largely resource-based economy which relies on vast oil and gas resources although there have been efforts toward diversification; India follows a service sector-led growth path mainly comprised of IT-services, and Chinese economy is still based on exports of manufactured goods. The distinct nature of sectoral activity in each BRIC might complicate the establishment of common grounds for economic cooperation of BRICs on a global scale. On the other hand, this diversity might also reduce non-cooperation since market competition would not constitute a primary obstacle among the BRICs.

Assuming that BRICs lean towards more cooperative action in the future, by what means and under which conditions will the BRICs cooperate still remains as a critical question to discuss. Will the BRIC cooperation be established under existing norms, principles, rules and procedures of the international institutional framework, or should certain reforms take place in the working of international institutions, being primarily the IMF, World Bank and WTO before the BRICs and possibly other developing countries will be able to cooperate? To put it differently, whose rules will prevail in the global economy where the BRICs and a group of other BRIC-like emerging powers vis-à-vis the developed world? Indeed, the G20 proved to be more than a mere blocking coalition by pursuing a proactive agenda against the measures proposed by the US and EU (Narlikar and Tussie, 2004). Based on these signs of developing country cooperation, this research will explore further possibilities of incentives for joint action among developing economies apart from the BRICs.

As the BRIC continue to gain prominence in global economy and politics, their tendency to cooperate with each other shows a parallel increase. The idea of BRIC, originated by Jim O'Neill of Goldman Sachs, has earned a tangible character with the BRIC summits held in the last couple of years. The Yekaterinburg Summit in 2009 and the Brasilia Summit in 2010 together transformed the BRICs from an abstract notion into a more formal political grouping (Glosny, 2010). In these consecutive summits, the BRIC leaders underlined the importance of deepening relations within the group in order to tackle the effects of global financial crisis and create equal grounds in the context of international financial institutions (Xinhua, 2010). They have also called for reform in the governance structure of Bretton Woods institutions so as to correct the skewed nature of voting power in favor of developing countries. The leaders repeatedly announced that the current distribution of votes no more reflects the rising real economic weights and therefore should be readjusted.

The raising collective voice of the BRICs should be evaluated with respect to the relative decline of the US unipolar moment. The once inarguable power of the United States over global multilateral economic institutions now experiences a decline, whereas developing countries are more integrated and active in the global economy (Clegg, 2009). Although new emerging powers have enhanced their capacity for action, this potential still has not very much translated into a larger influence in the global governance (Subacchi, 2008). The current alignment of power in the international financial institutions (IFIs) is still far from fully reflecting the shift of power toward emerging economies. In the three summits the BRICs have organized, the country leaders voiced their complaints about the current distribution of votes in the IFIs and called for reform in the governance structure of Bretton Woods institutions so as to correct the skewed nature of voting power in favor of developing countries.

Going back to the regionalist perspective, three possibilities can be considered so as to theoretically relate regionalism with global governance. First, regionalism can be seen as a means of reproducing global governance at the regional scale. Second, regional arrangements can be used in favor of producing alternative norms, ideas and practices as a resistance to globalization. A third view suggest that regional governance plays a complementary role in global governance, in other words, filling the gaps in global governance where necessary (Nesadurai, 2005). Thus, a regionalist perspective can be useful to investigate the nature of incentives that the BRICs have as a political grouping with regard to the future of global governance.

The global economy is moving towards a multipolar order as industrialized economies are increasingly challenged by new powers emerging among developing countries, previously known as the South. The rise of the BRICs and several BRIC-like economies that have the capacity and willingness to influence institutions have rendered the US market-based system questionable, which was almost unchallenged until a few years ago (Subacchi, 2008). In contrast with the old center-periphery pattern, today many developing countries have become more integrated in the global supply chain, managing to build up substantial amounts of foreign exchange reserves thanks to their continuous trade surpluses. A large portion of these excess reserves held by emerging markets are channeled to finance the current account deficit of industrialized countries, mainly the United States, which promotes the once dependent countries from marginalized entities to main economic actors as a part of an interdependent global economic pattern.

Apart from the BRICs, this research also deals with emerging economies other than the BRICs that demonstrate significant potential to become important regional and/or global players, yet they lack economic and demographic size to forge an impact on the world economy comparable to that of the BRICs –which will be referred as near-BRIC economies. In this research, I examine the potential of near-BRICs to take the BRICs as both examples of successful emerging market economies and possible strategic partners to achieve a higher profile in the world economy and international decision-making process through South-South cooperation.

It became evident in the past decade that the world is moving towards a multipolar order as the US gradually loses its long-established hegemonic power to a rapidly rising China, and other emerging powers, mostly in Asia (Layne, . The EU, and to a lesser extent the rest of the BRICs appear as other poles that could influence a wide range of countries both in their regions and on a global scale. Leaving aside the BRICs, there are several economies with promising growth performance that are considerably big on economic and demographic terms, giving them the potential to collectively rise as an emerging power bloc in the new global order.

As mentioned above, even though several other developing economies can reach BRIC-level rates of growth, their modest population and economic size in comparison to the BRICs prevent them to individually become key players in the global economy and politics. However, the near-BRICs can still create the means to gain a meaningful weight in global balance of power by cooperating within themselves, and possibly with their BRIC counterparts. However, before proceeding to assess the potential for cooperation within this secondary group of developing countries, it is better to sketch the baseline for the selection of countries that belong to this group; to see whether the set of emerging countries have prospects for cooperation.

Near-BRIC economies stand out with large and young population, relatively stable and diversified economies, and somewhat working financial systems. This new wave of emerging players has increased their openness to trade in the last few years and also have become attractive spots for foreign investment. Geopolitical location and middle power status are also important factors to characterize near-BRICs.

In retrospect, developing countries have gone through attempts to form South-South coalitions during the 1960s and 1970s without being able to yield significant results, due to the lack of resources, post-colonialist restructuring, weak institutions and inadequate communication facilities between those countries (Carpenter, 2009). The problems of the past that obstructed effective coalitions between developing countries are mostly overcome. Today near-BRICs have large markets gradually integrated into the global economy over the past decades, both through regional and multilateral arrangements. Taking into account the growing economic and political strength of BRICs and near-BRICs, it is reasonable to expect emerging powers to use their rising influence to form new partnerships to replace 'the power-based, dismissive and neocolonial attitudes' that have so far shaped the North-South relations in the institutions of global governance (Scott, 2010).

The thesis unfolds as follows: The following chapter provides an overview of three different literatures: regionalism, power/hegemony and international cooperation, to analyze whether the two sets of emerging countries form coherent groupings, to determine the prospects for cooperation and competition among the BRICs and near-BRICs, and finally examine the decline of the US hegemony and the shift of power in the global economy from developed countries to emerging powers, respectively.

Chapter three presents an outlook on the BRIC countries, giving a brief history of economic development of each BRIC, and locating them in the contemporary context of global economy. This section is important to give the reader an idea about the patterns of development the BRICs have followed thus far, and to answer the question whether individual BRIC experiences suggest anything similar to a 'BRIC model of development'.

The fourth chapter initially examines intra-BRIC bilateral economic relations, and then continues with underscoring incentives for collective action and possible reasons that might create discord within the group. This chapter offers an analysis of intra-BRIC cooperation and competition with respect to their influence in global governance. The three recently held BRIC summits are surveyed so as to determine collective incentives that the BRICs have towards global economy and politics. The importance of these events lies in the fact that the idea of BRIC was for the first time recognized and materialized collectively by the country leaders through these summits, therefore interpreting them correctly is crucial to draw conclusions about the future of the BRICs as well as other emerging powers in an evolving multipolar global order. The last section touches upon the near-BRICs, beginning with a sketch of the distinguishing attributes of this secondary group of emerging powers. The fifth chapter includes concluding remarks.

CHAPTER 2

REGIONALISM, INTERNATIONAL COOPERATION, POWER AND HEGEMONY

2.1 Introduction

The subject matter of this thesis is located at the crossroads of three literatures: power/hegemony, international cooperation and regionalism; for a number of reasons. First, this research aims to analyze the BRICs as an analytical set, and see whether it is viable to lump these economies with diverse political, social and economic backgrounds into the same group. To this end, determining the availability of common incentives for and potential obstacles to cooperation is necessary. The literature review on international cooperation will provide an essential framework to seek the possibility of cooperation among the BRICs. In parallel with this strand of the literature I also employ different theories of regionalism to determine the extent to which the BRICs, despite their geographical diversity, demonstrate features of a regional bloc.

The second goal of this research is to examine the rise of emerging powers in the face of traditional industrial powers of the West. Without neglecting the fact that regionalist tendencies are on the rise among developing countries in the past few decades, this study examines the potential of a secondary group of developing economies to take the BRICs as both examples of a successful emerging market economy and possible strategic partners to forge a higher profile in the world economy and international decision-making process through South-South cooperation. Laying out the theoretical groundwork on regionalism and international cooperation enables such an analysis.

Lastly, we should note that the surging power of developing countries goes hand in hand with a declining hegemonic power of the US, which also necessitates a closer look at the literature on power and hegemony. The increasingly multipolar nature of international order signifies the change taking place in power relations between the North and the South; therefore, such a literature review of power and hegemony will certainly facilitate our analysis on the shift of power in the global economy.

2.2 Regionalism in Comparative Perspective

Today, international cooperation is increasingly practiced in form of regional arrangements. States increasingly prefer to act on a regional level because "global causes can have very different effects in different regions, e.g., a financial collapse leading to disintegration and conflict in some regions and to increased cooperation in others" (Buzan and Wæver, 2003). Thus, a review of the regionalism literature from historical and theoretical perspectives will be helpful to figure out potential responses of emerging powers to global challenges and might also help us evaluate the viability of cross-regional emerging country groupings.

The last decade of the twentieth century marks a critical juncture in the post-war exponential growth of regional trade arrangements. This suddenly heightened interest in regionalism did not incarnate in the same way in different regions of the world. Regional projects are formed by a set of internal and external dynamics and thus unique for each region. This section aims to address the questions of what governments expect from regional integration, how their political and economic systems are affected by regional arrangements, how they manage globalization under a regional framework, and how has regionalism evolved historically and theoretically.

The BRICs have been growingly integrated into the global economy, particularly since the 1990s, when the new regionalist formations were on the rise throughout the world. Whether the BRICs maintained regional integration tendencies in parallel to globalization process is a central question that this section will address in the literature. This theoretical review also aims to determine if geographical proximity constitutes a central feature in the establishment of a region, or other factors such as interdependence and the existence of common goals are more important in making a region.

2.2.1 Preliminary Definitions: Region, Regionalization, and Regionalism

Before we start any discussion on regionalism it is necessary to clarify the distinctive definitions of 'region', 'regionalism' and 'regionalization'. These concepts are sometimes used interchangeably which can lead to misconceptions about the extent of regional arrangement and the role of actors involved in regional processes. A region can simply be defined as a political and/or economic project shared by a group of countries (Hettne, 1999). Many attempts were made to define a region, yet there is hardly any consensus on its meaning.

It is often the geographical dimension that creates this ambiguity in definition. While it is tempting to say that a region is "a group of countries located in the same geographically specified area" (Mansfield and Milner, 1999), delineating the exact boundaries of geographical proximity is a source of controversy among observers. Solely relying on a geographical definition would not be of much help because it hardly reveals any commonality, interaction or a possibility of cooperation (Fawcett, 2004). A third definition made by Nye (1968) combines the previous two in the following definition: "an international region can be defined broadly as a limited number of states linked by a geographical relationship and by a degree of mutual interdependence."

One thing that scholars mostly agree upon is that there are no 'natural regions' (Ravenhill, 2008). The lack of a clear definition gave way to a bifurcated solution: a cluster of countries that happen to be a member of a regional organization constitute a 'formal region', whereas it takes a process of regionalization from below which makes up a 'real region' (Hettne, 1999). This brings us to the definition of regionalization, which is clearly a key concept to understand the meaning of a region.

Regionalization, different from regionalism, is an *autonomous* process of rising interdependence within a given area that leads to higher levels of social and economic interaction (Hurrell, 1995). Quite similar to globalization, regionalization refers to a concentration of economic activities, only within a smaller geographical domain. Regionalization does not necessarily require the presence of formal regional groups, organizations or actors. However, it may give rise to their formation, as well as follow them as a result (Fawcett, 2004).

Regionalism denotes a political and economic process aimed at enhanced cooperation between a group of countries. The theory of international regimes provides good insight into the working mechanism of regionalism: "principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area" (Fawcett, 2004, Krasner, 1982). Ideally, a regional project promotes economic, political and security cooperation and provide solutions to regional problems (Fawcett, 2004). But regionalism can take many forms, depending on the depth of integration and closeness of ties among regional partners. It could range from a highly formal institutional framework such as in the EU example, to a much looser structure based on regular meetings (Hurrell, 1995).

2.2.2 Regionalism in Historical Perspective

Historically, the character of regional developments has changed substantially in the post-1945 period. For around thirty years following the war, regionalism remained shallow in the shadow of an ongoing Cold War context. Against the background of the Cold War, together with the rapid decolonization of the Third World, 1960s and 1970s were marked by the establishment of various regional organizations among less developed countries. Most of them were formed in order to mitigate their dependency on developed country imports (Mansfield and Milner, 1999). In this 'old regionalism' period states were reluctant to open their markets to trade and foreign investment, especially in the South, given widely implemented import substitution policies. Those regional agreements were either created by or somewhat dependent to the superpowers, and limited to the reduction or elimination of trade barriers (Hettne, 1999; Mittelman, 1999; Burfisher, Robinson and Thierfelder 2003). Starting from the 1970s, together with the breakdown of many regional arrangements among less developed countries and the slowdown in the European integration, leading to the Euro-pessimism, there was a considerable loss of faith in regionalism as a solution to problems that interdependence brings (Ravenhill, 2008; Hettne, 1999).

The number of new regional remained low until the end of the Cold War. Following the collapse of the bipolar order, regional arrangements started to gain pace. It was partly because the bipolar alignments of the past were no more effective, and to some extent to changing attitude of the United States toward trade blocs (Shiff and Winters, 2003). As import substitution policies fell from grace after the 1980s, developing countries gradually turned to regionalism as a tool for development (Shiff and Winters, 2003). It was widely recognized that for an effective integration many other types of barriers to free trade than tariffs and quotas should be removed. Therefore, unlike old regionalism, new regional structures often involved 'deep' integration, meaning that they were more than mere reduction or elimination of trade barriers, focused on policy harmonization in multiple issues (Ethier, 1998a; Hettne, 2003).

2.2.3 Regionalism: A Response to Globalization?

Globalization and growing economic interdependence attached to it have boosted the salience of international investment flows for both developed and particularly developing countries, thereby credibility and certainty of economic policies for states have become more important than ever before (Fernandez and Portes, 1998). Regionalism, besides being an effective bargaining tool for governments, also adds credibility to domestic economic reforms, making economies more attractive to foreign investors (Ravenhill, 2008, Rodrik, 1989). This aspect of regional agreements especially works in the benefit of LDCs that pursue regional policies with developed countries, which is commonly observed in the new regionalist projects such as Mexico's NAFTA membership and the accession of post-Soviet states into the European Union.

The impact of globalization in the new regionalism is indisputable, but the interaction between the two is rather complex. Globalization can counteract regionalism in a number of ways, as well as stimulate it in other aspects. To start with, growing economic interdependence and the parallel upsurge in the number of global issues increasingly require global solutions to problems, instead of regional ones (Hurrell, 1995). On the other hand, so far it is difficult to claim that the world has managed to efficiently tackle global issues through a truly global governance (Farrell, 2005). Frequent failures in the WTO ministerial meetings in recent years illustrated the adversities of global solutions, which have made states to look for other forms of cooperation at the regional level (Ravenhill, 2008; Farrell, 2005).

The management of globalization requires forms of governance that transcends the national level, but it is not clear yet whether the governing dimension should be a regional or a global one. From this arises Bhagwati's (1991) famous question: Is regionalism a stepping stone or a stumbling block on the path toward globalization? One explanation is to see the new regionalism as a Polanyite 'second movement', a counter-process of 'deglobalization', which attempts to curb the globalization process by nation-states (Hettne, 1999). Another way is to see the whole process that leads to globalism as a non-linear movement and accordingly consider regionalism as an outcome of counter-processes that creates this non-linearity (Hettne, 1999). A third way would be to acknowledge that some issues are regional and require a regional approach and some are global and ought to be addressed on a global level (Foque and Steenbergen, 2005). Although, growing interdependence among states and non-state actors constantly blurs the distinction between the regional and the global, the terms and scope of regional action can adapt to the needs of regional actors.

The old bipolar arena was replaced by an increasingly multipolar one, in which new developing powers found space to cooperate both within themselves and with core industrial states. In comparison to old regionalism, this time regional organizations were formed not by superpower consent, but through a more voluntary process from states and also other new actors within the region (Hettne, 1999). Governments often willingly chose regional integration to pursue a group of stated and implicit objectives. Nevertheless, not all regional projects follow a strictly defined 'ideal' model of regionalism. Even though the European experience is often hailed as a yardstick of regional success, there is actually a bigger variety of regional groupings around the world (Farrell, 2004). The rapid integration of emerging markets into the global economy in the recent past renders the question why states become part of regional arrangements important within the scope of this thesis. In order to decide whether regionalism is a response or a challenge to globalization, one should make clear what motives make governments participate in regional projects and what accounts for the recent growth in regionalism (Ravenhill, 2008).

2.2.4 Political and Economic Motives behind Regionalism

Countries involve into regional arrangements for a number of reasons, including issues of trade, investment, increased market access, deeper integration, economic development, security and democratization (Shiff and Winters, 2003). First of all, regionalism makes available a secure access to larger markets, promoting efficient production through economies of scale. For the same reason, it can be argued that regionalism facilitates multilateral trade liberalization (Ethier, 1998b). Also, regional cooperation enhances bargaining power of states, especially weaker ones, if regional partners are able to act as a single voice in multilateral talks (Ravenhill, 2008, Fernandez, 1998). Regionalism, and international institutions politically reinforce states in the global arena, therefore it is logical to expect relatively weaker states to participate in the creation and maintenance of regional institutions (Hurrell, 2005).

Similarly, a regional group with large democratic countries also constitutes an important external anchor for promoting democracy in less developed members, especially if strict 'club rules' exist in favor of democracy and human rights (Schiff and Winters, 2003). Mexico in NAFTA and post-communist countries in the EU present a good example for the democratizing impact of regionalism on member states. However, there are also other cases of regional integration in which democracy do not constitute a central tenet. For instance, the Association of Southeast Asian Nations (ASEAN) institutionalized the principle of non-interference with the internal affairs of one another, which kept its members away from external pressures towards democratization (Acharya, 2003). The existence of a democratic environment may reinforce regionalism, but as the Southeast Asian example illustrates that "regionalism is not the exclusive preserve of democracies" (Fawcett, 2004).

Regional institutions also help weaker states to constrain regional hegemonic powers through institutional bonds. Institutionalized regionalism has been frequently used so as to mitigate the disruptive potential of the regional hegemon; more illustratively "tying down the Gulliver in as many ways as possible, however thin the individual institutional threads may be (Hurrell, 2005). Ironically, in the presence of robust regional institutions and rules, relatively weaker members tend to pursue a strategy of bandwagoning, in the hope of receiving material benefits, or "being on the winning side" (Roy, 2005; Hurrell, 1995). Such behavior might be viable for both weaker states and the region as a whole as it is often the hegemon which promote regional peace and security while no other country is able or willing to do so

(Fawcett, 2005). Although not a blatant example, the existence of China within the BRICs to some extent creates such a power imbalance. BRIC countries are aware of the massive Chinese power, and the power inequality among the BRICs might lead Brazil, Russia and India attempt to constrain and control China with institutional bonds in the incoming years.

An alternative strategy that weaker states take is to balance the dominant regional power by aligning with another state that fears the same adversary. Though not necessarily in an institutional context, we can observe both types of strategies in the behavior of Southeast Asian countries against the rising regional power China demonstrates. While most Southeast Asian states bandwagon with China to value trading opportunities from the huge Chinese market, they also maintain a low-intensity balancing with the United States to avoid a potential Chinese threat (Roy, 2005).

It is too early to observe how the nascent phenomenon of new regionalism will affect the world order and the way nation-states manage globalization and growing interdependence it has brought. The relative inefficiency of multilateral governance encouraged the rise of plurilateral arrangements, a more exclusive form of multilateralism, delineated by the dynamics of regionalization. So far, the new regionalism seems to address the gap of governance that is required by globalization and interdependence it has brought. However, we have yet to see the world-wide economic and political impacts of regionalism and how emerging regional structures transform or adapt to the world order in the future.

2.3 Incentive Structures and International Cooperation

Most of the core literature on international cooperation starts with a reminder of the anarchical nature of the world order. Inter-state relations take place under no central authority such as a world government; therefore world politics is often characterized by anarchy. The absence of a common international authority to a certain extent inhibits cooperation, even though in situations that collaboration would better off all parties involved. Under no pressure of a hierarchical authority, or centralized enforcement mechanism, governments may find it tempting to defer their promises and impede cooperation (Oye, 1986). Nevertheless, despite the likelihood of defection, cheating and free riding under international anarchy, governments can still be willing and able to work together and mutually commit themselves to common objectives. Then the ultimate question becomes the following: How do states cooperate under the anarchical context of the world politics, and why do they cooperate?

The BRICs are four countries coming from quite distinct backgrounds with points of divergence in their economic and political systems. Seeking the availability of common incentives for the BRICs to cooperate necessitates a clear understanding of how international cooperation takes place in a world where no higher body enforces states to cooperate with each other. Therefore, this section will address the fundamental principles and concepts of the literature on international cooperation and lay the ground for an analysis of BRIC cooperation.

2.3.1 Preliminary Definitions: Absolute Gains, Relative Gains and Reciprocity

Cooperation, as defined by Keohane (1984) and echoed by many others, "occurs when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination." It should be distinguished from harmony, which is a total accord of interests among parties involved. Cooperation requires a mixture of conflicting and complementary interests (Axelrod and Keohane, 1985). While harmony is an apolitical process that necessitates neither communication between actors nor exercise of influence, cooperation is a highly political course of action that requires alteration of policies and patterns of behavior. Therefore cooperation should not be regarded as an absence of conflict, but a situation that involves potential of conflict and achieved through efforts to tackle conflict (Keohane, 1984). Conflict without cooperation is perfectly possible, but there is no cooperation without conflict (Zartman and Touval, 2010).

In conflicts, actors pursue objectives aimed at reducing potential gains of others and obstruct their want-satisfaction chain. Although cooperation is thought to be the opposite of conflict, there are in fact other alternatives to cooperation such as unilateral behavior, in which actors ignore the effects of their actions on others; and also inactivity. Thus, what distinguishes cooperation from its alternatives is that it includes "goal-directed behavior that entails mutual policy adjustments so that all sides end up better off than they would otherwise be" (Milner, 1992). From this definition we can infer that cooperation is concerned with self-interest of actors and mutual gains and rewards.

BRIC is often criticized for being as a heterogeneous group with points of divergence over many issues ranging from political systems to their views on multipolar world order. For this reason, critiques tend to dismiss the BRIC as a coherent political group with a future. Looking from the perspective of the abovementioned theorists, it is possible to see that collective action among the BRICs is not necessarily precluded by divergences they possess. Therefore it is crucial that the BRICs and the near-BRICs, two sets of emerging countries with arguably distinct interests and priorities on international political and economic issues find avenues where they can altogether reap rewards pursuing their national interests.

2.3.1.1 Absolute and Relative Gains

While scholars are widely in agreement on the definition of cooperation, there are different approaches to gains resulted from cooperation. Absolute gains and relative gains constitute the main division between realist and institutionalist views on gains from cooperation. Neoliberal institutionalists contend that states tend to maximize their absolute gains without paying attention to what others have gained, whereas realists assume that international anarchy necessitates states to concern not only about what they have gained, but "how well they fare compared to other states" at the end of the day (Snidal, 1991). In addition, realist authors argue although absolute gains do matter, cooperation is difficult since even though all sides can make absolute gains, no state wants to achieve less absolute gains than other partners (Grieco, 1990). Under international anarchy absolute gain but relative loss today can end up with absolute loss tomorrow (Powell, 1991).

2.3.1.2 The Principle of Reciprocity

It is widely argued that the likelihood of cooperation is strongest when states pursue a strategy of reciprocity (Axelrod, 1984; Keohane, 1986). Reciprocity in simple terms denotes "the ability of actors to distinguish reliably between cooperation and defection by others and to respond in kind" (Oye, 1986). The concept of reciprocity can be identified by its two central components: *contingency* and *equivalence*. Contingency refers to the mutuality of a reciprocal relationship. A's actions are contingent upon what B has done, be it rewards or punishments. Reciprocity implies conditional behavior that relies on returning benefits, favors as well as ill-behavior in kind (Keohane, 1986). Contingency is also a central element of game theory for actors behave in response to each other's behavior –cooperate if the other cooperates and defect if the other does so.

The second dimension of reciprocity is equivalence. However, a reciprocal relationship does not imply a strict equivalence of benefits but a rough one, like two friends returning favors to each other. Although it is quite difficult to determine the metrics of rough equivalence for each case, Blau's example could work as a rule of thumb: if a person throws a dinner party, he expects his guests to return this favor in the future, though he cannot bargain with them about the details of this future dinner. Yet he "expects them not simply to ask him for a quick lunch if he has given a formal dinner for them" (Blau, 1974). An exception to this perception of equivalence can be made by relations among unequals. Understandably, in patron-client relationships equivalent exchange is hardly possible. In these cases, reciprocity is achieved through "mutually valued but noncomparable goods and services" (Keohane, 1986). In international politics, the complexity of rough equivalence principle once again manifests itself. What is more, reciprocal relationships in world politics are by and large affected by power relations. That is, powerful and weaker actors face different opportunity costs, and the rough equivalence among actors is subject to international structure of power (Keohane, 1986). This is particularly important for international cooperation in a platform like the G20, where power inequality is evident on a wide range among developed economies, the BRICs and the near-BRICs.

The principle of reciprocity can be further clarified by laying out its two main types: *specific* and *diffuse* reciprocity. Specific reciprocity refers to "situations in which specified partners exchange items of equivalent value in a strictly delimited sequence" (Keohane, 1986). Specific reciprocity resembles a Tit-for-Tat strategy in a Prisoner's Dilemma (PD) game. Axelrod (1984) defines Tit-for-Tat as the strategy in which an actor cooperates in the first round of a game and then for the upcoming rounds, does what the other did in the previous round. In a single PD, where there will be no future interaction between the actors, players often choose defection as their best strategy since unreciprocated cooperation is the worst outcome in a PD game, while the opposite provides the highest gains to the defector. But in case the possibility that these two actors might meet in the future exists, players tend to take into account the moves of the other player as well, and determine its future actions equivalently (Axelrod, 1984).

Diffuse reciprocity, on the other hand, is the type that fits better into a societal framework rather than anarchical international arena where governments often seek specific reciprocity since that way they are able to receive direct rewards for their action in terms of equivalent benefits. Diffuse reciprocity can only work given a "widespread sense of obligation"; that is, actors behave well or contribute to a common good not in the anticipation of future rewards but "in the interests of continuing satisfactory overall results for the group of which one is a part, as a whole" (Keohane, 1984).

2.3.2 Payoff Structure of Games and Perceptions of Actors

Different types of games have different payoff structures. The payoff structure of a game affects the likelihood of international cooperation (Jervis, 1978; Axelrod and

Keohane, 1985; Oye, 1986). The payoffs play a key role in the realization of mutual cooperation among states, and it is also true that the likelihood of cooperation and conflict changes as the number of games played and players involved are altered.

Before moving on to strategies to change the payoff structures, the question of how states form their preferences should be examined. Payoff structures often depend on exogenous events; yet states' perceptions of their national interests do matter a great deal. Understanding how states perceive their interests and shape their preferences helps us determine the potential of mutual interests among states (Axelrod and Keohane, 1985). Actors build their perceptions of self-interest on their values and their expectations of the possible outcomes that follow their particular actions (Keohane, 1984). With specific regard to economic preferences, economic ideology, macroeconomic circumstances and a group of similar factors affect shaping the assessment of national interests (Oye, 1986). Preferences can also be deduced from the structure of the international system (Jervis, 1988). For example Ruggie (1982) contends that international economic regimes "play a mediating role, by providing a permissive environment for the emergence of certain kinds of transactions." This argument implies that the diffusion in liberal economic ideas and institutional backing of international regimes increased states' incentives toward mutual economic cooperation and reduced the temptation of mutual defection, as well as reduced the perceived benefits of asymmetric defection relative to asymmetric cooperation (Oye, 1986). Regimes can certainly affect expectations and to some extent values as well (Keohane, 1984).

In the game theory models, preferences of actors are rather simplified and explicitly known, but this is not always the case in international relations. In real world politics, actors tend not to declare their preferences openly and completely;

therefore it is difficult to know whether a situation fits into the PD structure. To remedy this ambiguity, what we can do is to infer the actors' preferences from their behavior. However, this will create another source of uncertainty because "most behavior is ambiguous; even more so are the underlying intentions" (Jervis, 1988). Dealing with behaviors of others is therefore far from being an objective pursuit. Statesmen typically assume that their intentions are clearly understood and perceived harmless by other states, which is in fact just the opposite of reality. States tend to "overestimate the hostility of others and will often see as defection actions that a disinterested observer would record as at least partly cooperative" (Jervis, 1988). This misperception of interests between parties may disrupt potential cooperation among states.

As mentioned at the outset of this chapter, the basic problem of mutual cooperation arises from the fact that states pursue their own self-interest in a world without a centralized decision-making body. The gist of the problem is delineated in the simple PD scheme; actors concerned with their self-interests will choose their dominant choice and end up with mutual defection, which is a less than optimal outcome for both parties. This is not surprising since players are not allowed to communicate with each other. If they were able to communicate, they could forge an agreement and reap the highest possible amount of mutual gains through cooperation.

2.3.3 Iterated Games

In single-play games, this is not possible. When a game is played only once, egoist players are tempted to follow their myopic self-interests for immediate gains from unilateral defection and avoid immediate losses from unrequited cooperation (Oye, 1986). However if a game is played multiple times, the players can communicate with each other by only observing the sequence of their own behavior (Axelrod, 1984). Defection is less likely to be a dominant strategy in case of iterated games because the potential loss of future gains surpasses immediate gains of today from sequeling (Oye, 1986). The amount of gains from possible future interactions can facilitate cooperation today. But how important is future for today? To find an answer, a discount parameter is introduced to measure the weight of future moves as a fraction of today's payoffs. If the magnitude of the next move is large enough to make the future important, players take it into account and make their strategies accordingly (Axelrod, 1984). This particular notion is called "the shadow of the future" and is a key concept in promoting cooperation without the presence of a central authority. A higher shadow of the future means a better chance of cooperation between actors (Goldstein, 1995).

If the BRICs in fact offer a symbiotic relationship as a group, meaning that the natural resource and raw material production of Russia and Brazil in abundance complements China and India by supplying increasingly needed items to continue the industrial growth of the latter two; both subgroups will then be more inclined to cooperate since all BRICs will be better off in the equation. Depending on the size of their potential future loss if they dismiss cooperation today, the BRICs will evaluate the possibility of collective action for the future.

2.3.4 Number of Players

Another factor that is worth considering about the likelihood of cooperation between states is the number of players in the game. So far we have assumed that games take place between two actors, which is not necessarily the case in real world politics. N-person games are often more complex than the former. This is firstly because as the number of players increase, it will be much more difficult to define and realize common interests. Likewise, it will take a lot more to anticipate others' behavior as well as measure the value of future gains (Oye, 1986). Another problem with large number of actors is the difficulty of identification and punishment of defectors. Even though defectors are identified, partners will tend to avoid enforcing the rules, which will lead to the "sanctioning problem" (Axelrod and Keohane, 1985). Sanctioning problems could either arise from the inability or unwillingness of actors to retaliate on their partners. Such problems as sanctioning and monitoring uncooperative behavior can be mitigated by creation of regimes, institutions and norms. Not only they generate lower transaction and information costs, but provide collective enforcement mechanisms that discourage autonomous defection and render punishment possible for the violators of norms (Oye, 1986).

At the same time, a large number of players has certain advantages for cooperators as well. First, it helps partners better position themselves by providing more opportunities for exchanges and side payments. Second, the large number of actors can itself work to alleviate the handicaps caused by large numbers if they break down into groups among themselves. Lastly, higher number of actors secures them from losses through a better opportunity to form coalitions (Milner, 1992). In practice, the surging number of actors involved in the management of global challenges today will likely change the common patterns on which international cooperation is based (Severino and Ray, 2010).

2.4 Theories on Power and Hegemony

The global economy is undergoing a substantial wave of change as economic dynamism flows toward a constellation of developing countries. These new contenders in the game are often called ‘emerging powers’ for their surging influence in global economy vis-à-vis traditional industrial powers. The waning hegemonic power of the United States and diminishing material influence of developed countries by and large, relative to the emerging powers requires a closer look into the power relations in the global economy. Additionally, the counter-hegemonic discourse of the BRICs and some other key emerging powers is in contradiction with hegemonic intentions they maintain within their regions, for particularly China even on a larger scale. Thus, a theoretical groundwork on an empirical analysis of hegemony in the new global economic order will follow the literature review on power.

2.4.1 Power in International Relations

This section begins with addressing three approaches to power relations: the traditional approach based on material power, control over actors approach, and one that concerns control over events and outcomes. These three approaches will pave the way for a better grasp of the key concepts of related to power, such as hard/soft power, potential/actual power and interdependence. Within these cluster of concepts particular emphasis will be put on “soft power” as an essential liberal modification to the realist thought.

First, the traditional realist school measures power by concrete factors such as size of military force, economic strength, technological capabilities, geopolitical location, possession of raw materials, population etc. According to this approach, states are considered as ‘capability containers’, therefore power measurement hinges on performance in different categories of material capabilities (Treverton and Jones, 2005). However, there are several drawbacks attached to this approach. First of all, having potential power and being able to realize it are two separate things and the latter does not always follow the former. Second, there is no clear measure of what types of resources to consider as elements of power, as different conflicts would require different combinations of resources. Third, this method largely ignores the role of non-state actors, let alone the ever-increasing complexity of interdependence, coalitions and collective action among states (Hart, 1976).

The second approach to power concerns the control over actors. Dahl's classical definition of power refers to this type of relationship in general terms. Power over actors can be exercised by both coercive and non-coercive means. Coerce is a more direct way that hinges on a systematic usage of inducements and threats (Nye, 1990b). The latter form of power is detached from military force or economic weight, initially labeled as 'non-power influence' (Knorr, 1975). The rapid change in the world economy and politics starting from the 1970s has brought an unprecedented degree of interdependence between states, as well as introduced new powerful non-state actors, most notably transnational companies. The increasing complexity of international politics required states to develop instruments other than brute force such as communications, organizational and institutional skills (Nye, 1990a). Therefore, Nye took the concept of non-power influence one step further and coined the term 'soft power', which will be explained below in detail.

The last approach focuses on control over events and outcomes. Power over actors is considered only secondary to the ability to control outcomes (Hart, 1976). There are intermediate links between actors and events and between events and outcomes, usually accompanied by a certain degree of interdependence between actors (Coleman, 1973). If an actor wants to achieve a certain outcome, it is logical to initially focus on controlling events rather than the outcome itself. Focusing on those links step by step provides a more general approach to power, facilitates its measurement, as well as takes interdependence and collective action into the picture (Hart, 1976). Although a powerful country like the US has substantial leverage over particular countries, it has a weaker influence over the system as a whole, which demonstrates the importance of the distinction between power over actors and power over outcomes (Nye, 1990a).

Although traditional means of hard power are still used, the extent of their usage is much more restricted and less frequent than earlier eras. The use of force has become more costly for reasons such as risks of nuclear warfare, potential adverse effects on economic objectives, or protests over human costs of force (Keohane and Nye, 1989: 246). Today, power is less identified with military might and conquest, while geography, population and raw materials are not as vital elements that define a state's international power as before. The possession of extensive resources surely contributes to a state's power, but the essence of power lies not in resources but in the ability to change the behavior of states (Nye, 1990a). Coercion is a way to do it. However, it is increasingly inadequate to explain power relations in a globalized world; therefore soft power resources such as culture, values, ideology and institutions emerge as important elements in dealing with multilateral issues that require international cooperation.

2.4.1.1 Soft Power

In international politics, power of a country is often associated with tangible resources such as population, gross domestic product, territorial size, natural resources, military forces etc. (Hart, 1976; Nye, 1990a). Neorealist scholars stress the importance of material capabilities of a nation as means of influencing others, particularly economic and military capacities. States can use hard power in order to get other states act in line with its preferences; that is, the ability of A to get B to do what B would otherwise not do through threats and rewards (Keohane and Nye, 1998). Hard power allows the more powerful actor to attain acquiescence through coercion (Ikenberry and Kupchan, 1990). Common sense would suggest that means of hard power give a better idea about a state's ability to influence others than intangible power resources.

However, an actor can use its non-material attributes to influence, persuade and attract as a method to reach the intended outcomes, to get others *want* what it wants, without necessarily resorting to hard power. The ability to manipulate preferences of others through intangible resources such as culture, ideology and institutions is termed as soft power (Nye, 1990a). The United States in the post-war era provide a good example for soft power usage, when it took the lead in the reconstruction of the world order. Along with the IMF and the World Bank, the Bretton Woods Conference also laid the foundations of the International Trade Organization (ITO), which never came into existence due to the veto of the US senate, although 53 of the 56 countries signed for its establishment. No other country wanted to be a part of the organization without the US presence (Narlikar, 2005). Although the US never coerced other states to back down, they eventually complied with the preferences of their powerful counterpart.

Soft power is a consent-based means of power which relies on ideas, values and institutions to attract other actors, quite similar to Gramsci's theorization of hegemony through coercion and consent, which suggests that hegemony of a social group over masses rely on a delicate balance between the use of political and economic force and formation of a cultural consensus among masses. Both concepts "make reference to a set of general principles, ideas, values and institutions shared by, consented or regarded as legitimate by different groups, but at the same time are resources of power, influence and control over one group by the other" (Zahran and Ramos, 2010).

There is an intricate relationship between these two sources of power. It is sometimes difficult to suggest where the boundaries of the hard and soft power meet (Li, 2009). For instance during the Washington Consensus period we observe the ability of the US to influence other countries in the embodiment of the IMF and the World Bank through practice of both hard power (e.g. political and economic conditionality) and soft power (i.e. promotion of neoliberal ideology). In real life, effective strategies generally include a blend of hard and soft power.[1] States tend to "[temper] the use of hard weaponry with the "soft power" of persuasion and cultural attraction" (Nye, 2008).

It would still be naïve to disregard the significance of hard power resources. For a state to exert influence over others without having any significant material resources such as military power, economic strength etc. is hardly possible. Nevertheless, it is equally flawed to regard material capabilities as the absolute indicator of power. It is not only the control over resources that matters, but the ability to convert it into control over actors or events (Hart, 1976).

[1] Nye, J. (July 3, 2008). http://www.hks.harvard.edu/news-

2.4.1.2 Potential and Actual Power

Strong states can fail to translate their potential power into actual power (Baldwin, 1980). History repeatedly witnessed that in the real world things do not always work out as one might have assumed or calculated. For example, the United States and the Soviet Union, the two superpowers of the Cold-War period, both have unpleasant memories that prove the existence of a gap between power available and part of it that is actually utilized in Vietnam and Afghanistan, respectively. Both states had incommensurable amount of military and economic power, but still lost the conflicts against their weak adversaries. This inconsistency is coined as the 'paradox of unrealized power' and we can address two possible explanations for the failure of converting potential power into actual power. The first explanation is that a state may have power but lack the will or skill to use it, like having a great poker hand but playing it poorly. Alternatively, it might be the predictive technique which determines a state is powerful or not that is flawed in the first place. There could be several variations in the scope, weight and domain of power and one should not expect a country to be powerful in every single case. For instance, Brazil's being an environmental super-power would not render Brazil any more powerful in a possible nuclear conflict. In other words, the player might have "a great bridge hand but happened to be playing poker" (Baldwin, 1979).

The shift of economic power in the global economy toward the emerging powers such as the BRICs is evident in their rising share of output, trade and investment flows in the world economy, as well as surging number of emerging multinationals investing in developed and developing countries. However, until recently their share of representation in global economic governance which we can call as actual power did not match their rising economic clout. Therefore the BRIC collective action for a better representation and a greater voice for emerging powers can be considered as an effort to narrow the gap between the potential and actual power of themselves and the emerging countries in general.

Another dimension to consider about power relations in international politics is the increasingly growing interdependence among states since 1970. The costs of doing business have plummeted thanks to improvements in communications and transportation, which encouraged the integration of once isolated markets into a growing global interdependence (Gilpin, 1987). Leaving aside lengthy theoretical debates over its definition, interdependence can be simply defined "in terms of the extent to which events occurring in any given part or within any given component unit of a world system affect (either physically or perpetually) events taking place in each of the other parts or component units of the world system" (Young, 1969). [2] Interdependence is a state of mutual dependence between states that which involves reciprocal *costly* effects. Of course, this should not mean that interdependence only includes negative effects, but the concept by definition implies costs, otherwise it is rather interconnectedness that defines such a relation (Keohane and Nye, 1989).

The literature on interdependence dwells on two dimensions of interdependence: sensitivity and vulnerability, which defines the nature of interdependence between two countries. Sensitivity interdependence refers to initial response of a state and immediate costs that it incurs after a change takes place in the rest of the world. Sensitivity refers to routine changes taking place within an established set of rules and policies, such as transmission of unemployment or inflation through movements of international capital (Gasiorowski, 1986).

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[2] For an analysis of the theoretical debates, see Rosecrence and Stein (1973), Baldwin (1980), Kroll (1993).

Vulnerability, on the other hand, is all the remaining costs of an external event after states undertake needed policies (Baldwin, 1979; Keohane and Nye, 1989). These costs mostly occur as a result of substantial changes in rules or policies (Gasiorowski, 1986).

Interdependence is not always a game played on equal grounds. Variations in the two dimensions of interdependence stated above can create difference among states in their degrees of interdependence. While a highly interdependent country experiences external events deeply, an isolated (though not a very realistic possibility anymore) and/or an autarkic one is not affected as much. In a bilateral relationship, one partner can be much more affected by the events triggered in the other partner than vice versa. Hence, dependence can be thought as an extreme form of asymmetrical interdependence (Haas, 1975; Caporaso, 1978). This argument is taken further by thinking of asymmetrical interdependencies as sources of power among states; dependence and political power are often inversely correlated because a less dependent country in a relationship is not as exposed to the costly effects of a change as its partners (Keohane and Nye, 1989: 11).

For instance, the degree of interdependence of the BRICs and the near-BRICs with the rest of the world, in particular with developed partners such as in cases of Mexico and Turkey might have adverse effects on the economy, which is demonstrated clearly during the recent global economic crisis. Mexico has become the worst performing economy largely due to its close economic and trading ties with its NAFTA partner the United States.

2.4.1.3 Distribution and Diffusion of Power

Power in world economy and politics has been experiencing a transition perhaps more rapidly than any other period in history. Power among nations is increasingly distributed among a larger variety of global actors. The neorealist perspective interprets the distribution of material powers as the central feature of the international system, and hardly acknowledges the vast array of changes in international economy and politics, mostly associated with globalization, as sources of power to replace the preponderance of hard power in the international system. (Hurrell, 2006).

However, neoliberal era has witnessed the introduction of new elements in the world economy, largely being non-governmental actors that became contenders for power along with nation-states. Another line of thought underlines the importance of institutions and new forms of governance to deal with the complexity of ever expanding networks of transnational relations, emerging dilemmas of collective action, and highlights evolving state interests in this new international system (Hurrell, 2006). A second dimension of power transition is called 'diffusion of power'. It captures the new patterns and global actors that globalization has brought, which Nye (2010) describes it as following: "…capabilities that were once restricted are now available to everyone. And what that means is not that the age of the state is over; the state still matters, but the stage is crowded. The state is not alone. There are many many actors… so we are seeing a great change in terms of the diffusion of power".

The diffusion of power will fundamentally alter the patterns that traditionally characterized power relations. The recent surge in the number of non-state actors such as multinational companies (MNCs) and non-governmental organizations (NGOs) not only challenged existing power relations, but changed the geography of power which had been based on a singular territorial basis since the eighteenth century. Instead, “we are seeing a world with an increasingly complex spatiality of power, as localities, global city-regions, regions and trading blocs connect or network with one another to challenge the primary state-based territorial divisions” (Agnew, 2005). Therefore, the shift of power in the world economy does not just take place in a single dimension, but in many.

Having introduced the concept of power, and how it is increasingly distributed and diffused among new actors, it is also necessary to touch upon the literature on hegemonic power to set the groundwork for an analysis of the contemporary global economy in a new world order with emerging power contenders from the South and an arguably declining hegemony of the West.

2.4.2 Hegemonic Stability Theory

The liberal international economic order has become the rule for quite some time now. Much ink has been spilt over the political correlates of a stable world market, particularly following the hegemonic decline of the US in the early 1970s (Gowa, 1989). In the end, the hegemonic stability theory (HST) is considered by many as a valid explanation for the stability in the world economy.

Charles Kindleberger suggests that it was the absence of a world leader that lied behind the Great Depression (Kindleberger, 1973). The idea was later developed that international order can be created by a single dominant power, and the maintenance of order rests on the presence of a hegemonic power (Keohane, 1984).

HST's basic claim is that hegemonic power is needed to create and sustain a liberal international economic order. The hegemon is able to do so through providing a free market for imports, maintaining a flow of investment capital, policing a relatively stable system of exchange rates, ensuring the coordination of macroeconomic policies and acting as lender of last resort (Kindleberger, 1973; Ruggie, 1982). The hegemon performs these tasks through a certain form of asymmetrical cooperation, providing its partners with leadership in return for deference (Keohane, 1984). Nevertheless, for a successful international order to emerge there has to be a certain degree of concurrence among the major powers; since the hegemon cannot compel but encourage other powerful states to follow (Gilpin, 1987: 73).

The theory, however, does not assert that an international economy is unable to exist without hegemony; rather it refers to the particular type of international free trade regime (Gilpin, 1987: 73). According to HST, unless a single powerful state willingly comes forward to bear the costs of establishing an international economic regime, economic nationalism will eventually prevail among states. In this sense, a stable open market economy is often considered as a public good. Public goods (collective goods) are "[those] which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good" (Samuelson, 1954). By definition an individual, which is the hegemon in our case, cannot exclude others in the group from the benefits of that amount of public good that he provides for himself (Olson, 1965: 28).[3] Street lights or sidewalks are good examples; no private actor will want to provide them simply because there is no way of earning profits –the free rider

[3] Some scholars contend that free trade can be an excludable good. For a discussion about free trade as a public good; see Conybeare (1984), Stein (1984), and Gowa (1989).

problem. The same reason accounts for why states hesitate to open up their economies and practice freer trade unless they are sure that others will follow. Therefore, here the burden of responsibility largely falls on the hegemon to provide the collective good of a stable liberal international economy.

The theory of hegemonic stability originally assumes the hegemon as a 'benevolent despot' (approvingly), for its chief task to provide institutional public goods to maintain free trade regime (Snidal, 1985). In order to provide the collective good, hegemonic powers tend to construct international regimes to facilitate the working of the international economic order and maintain stability in the world economy. It is the central duty of the hegemon to prevent cheating and free riding, and ensure that other states comply with the rules of the liberal economy by suppressing tendencies toward economic nationalism (Gilpin, 1987: 75). Establishing an international regime is costly, however mutually beneficial for the hegemon and its partners if works efficiently. Regimes can facilitate international agreement, improve the quality and quantity of information available to actors and also reduce overall transaction costs (Keohane, 1982). A rational hegemonic power is expected to make a cost-benefit calculation before it establishes an international regime or an agreement. Political entrepreneurship develops only if there is a potential social gain to be derived from the establishment of an international arrangement and the hegemon expects to gain more from the regime than it invests organizing it (Keohane, 1982).

Hegemonies reflect the interests of dominant economies, but at the same time they somewhat establish economic and political structures that provide opportunities for growth and expansion of other economies (Gilpin, 1987). In fact, a stable international environment and regime of free trade can be so supportive for other economies that it leads to a diffusion of growth and result with the ultimate decline of the hegemon (Grunberg, 1990). Such changes contribute to the transformation of the balance of power in international politics. Changes in the distribution of military and economic power, coupled with the altering interests of economic actors eventually weaken the hegemonic structure. Actors "who would benefit from changes attempt to reform the old structure or create a new one by altering the trading, monetary, and other aspects of the international economy and of its governing rules" (Gilpin, 1987: 93).

The BRICs in many aspects can fit in this picture. Even though the BRICs have had quite distinct experiences in their integration to the international economic system, it was the international free trade regime created and maintained by the United states in the post-war era which has provided the BRICs and other emerging powers with a suitable environment to take off. Today the BRICs have become increasingly vocal on behalf of the emerging powers altogether so as to gain more representation in the global economy and they have become more proactive in giving shape to global economic governance. Therefore, if the US hegemonic power will experience a decline anytime soon as a number of observers would agree (References), it is likely that a cluster of BRIC and possible near-BRIC countries will seek collaboration to reform the international regime in line with their own preferences, as long as they find common incentives for cooperation.

Although HST suggests that hegemonic decline leads to global instability and collapse of the regime, empirical evidence does not indicate a compelling connection between the decline of hegemony and depart from the free trade regime. In contrast to the general perception, there was no significant return toward protectionism among European nations in the last quarter of the nineteenth century, regardless of

British hegemonic decline (Stein, 1984). Analogously, the decline of American hegemony did not lead to a slowdown in the global free trade regime; in fact, the number of regional and global trade arrangements multiplied in the past few decades. HST's claim that without a world leader, principles, norms, rules and decision-making is hard to maintain is valid, since no single country will be willing to provide the collective goods in the absence of a hegemon (Krasner, 1982). The surge of open market economy in the absence of hegemony lies can be explained by collaboration among states. Smaller states that are deprived of free riding collective goods, once granted by the hegemon, will seek to maintain their own interests in the continuity of international order through collaboration (Stein, 1982; Krasner, 1982).

2.5 Conclusion

This chapter is designed to provide a map of major approaches and introduce a set of preliminary definitions in three distinct yet interconnected subjects. To start with, studies in power are mainly divided into two major schools. The neorealist approach focuses on the material sources of power –that is military and economic capabilities of states; and neglects any effect of non-material notions such as ideas, norms and institutions as a source of power. In response to the neorealist analysis, Nye introduced soft power which captures the power relations more realistically in a world where hard power is largely avoided compared to the past. Additionally, the neoliberal school better captures the increasing complexity of interdependence among states as well as non-state actors.

The hegemonic power of the United States seems to have passed its zenith. In the past, the presence of a hegemon used to facilitate the management of conflict and cooperation; but today, a more even distribution of power among states together with the decline of the American hegemony requires the collaboration of several states. Multilateral governance is difficult, and it is even harder to attain without a central global decision-making body (Spero and Hart, 2003). For this reason, it is crucial to understand how states can promote collective action among themselves.

The literature on international cooperation is exactly built upon this question –achieving cooperation without the presence of a central authority. Approaching this problem, many studies mainly employ the hypothesis absolute gains, relative gains and reciprocity. The bulk of the literature use game theory to systematically determine whether cooperation is likely and how it could be improved. Through the use of game theory, different strategies to approach international cooperation have been developed such as iterated games, changing payoff structures, increasing the number of players etc. As a whole, international cooperation literature presents ways to promote collaboration and to minimize causes of noncooperation.

On the other hand, there have been questions about the practicability of globally cooperative solutions, especially after failures in multilateral trade negotiations and rising discontent among small states that have relatively weak bargaining power in international institutions. Such concerns have rendered regionalism as a viable alternative for multilateral cooperation. There has been a great deal of attention on how globalization and regionalism are related to each other. The question whether regionalism is a mere reproduction of global governance on a regional scale, or it is rather a resistance to globalization, or a complementary phenomenon to globalization is discussed through the literature. There is a variety of motives and expectations that states consider before becoming a member of a regional arrangement. Just as there are different reasons to engage in a regional structure, there is a diverse spectrum of regionalisms around the world. On the whole, debates on comparative regionalism provide a guiding framework for the purpose of this study on emerging country cooperation.

CHAPTER 3

ECONOMIC DEVELOPMENT AND GLOBAL POSITION OF THE BRICs: COUNTRY PROFILES OF BRAZIL, RUSSIA, INDIA AND CHINA

3.1 Introduction: A Brief Outlook to the BRIC Economies

This chapter sheds light on the development paths of BRIC countries and locates them in the contemporary global economy. To this end, the following sections dwell on main indicators of economic performance and integration of the BRICs to world economy, as well as the sectoral orientation of each BRIC that contributed to its economic growth, and how even the benefits of growth are distributed among their population.

It is well known that the BRIC economies have strengthened their global economic clout in the recent decades through greater integration into the global economy. Not surprisingly, the economic development of each BRIC has not been strictly uniform. While the BRICs have been subject to similar external and internal forces during the process of their economic integration, and shared similar experiences in their path to economic development, each had its unique features. In order to determine whether the four largest fast growing economies share enough in common to refer to an economic development model this chapter will analyze economic development of each BRIC respectively.

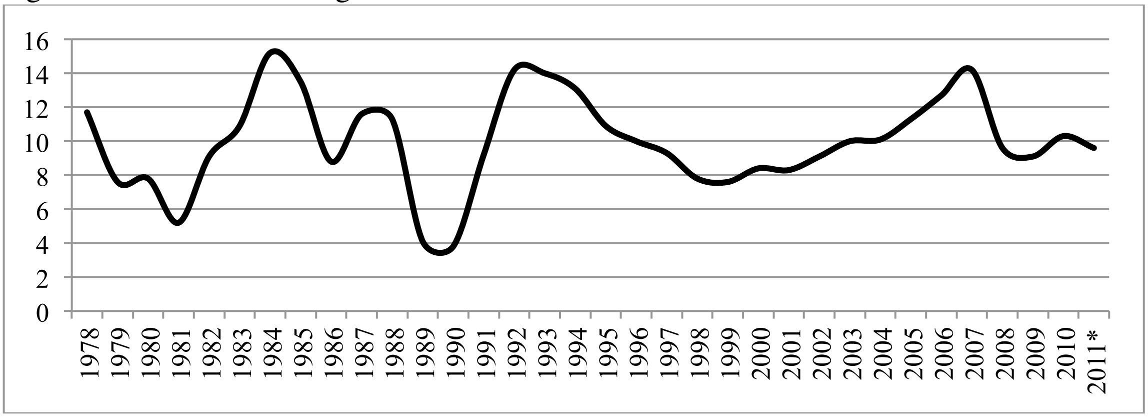
The first part of each country profile includes general background information and introduces critical issues regarding the economy being examined. The second part of each section includes a historical account of economic development of the BRICs respectively. Data on economic growth, sectoral composition of GDP, trade and investment openness, and income inequality are provided to help identify the unique development path each country. In the third part, the main focus will be on contemporary issues facing the BRICs and the role they play in the global economy.

3.2 China: the Global Heavyweight

As being the second largest economy in the world after the US and by far the largest among the BRICs, China is popularly considered as the essential element and the driving force of BRIC. Over the last three decades, the Chinese economy has experienced a spectacular growth performance with an average annual GDP growth rate of almost 10 percent. China consistently climbed to the upper ranks in economic magnitude, surpassing the economy of France in 2005, Germany in 2007 and Japan in 2010. Figure 1 demonstrates the relatively stable path of growth China has followed in the last three decades compared to the other BRICs. In the period between the Asian financial crisis in 1998 and the global economic crisis in 2008, China had seen its growth performance surging each year, which contributed to a great extent to its image as the largest growing developing country and an emerging economic superpower.

The long-term rapid economic growth also led to a considerable increase in life standards and correspondingly helped hundreds of millions of people to escape poverty. People living in extreme poverty (under $1.25/day PPP) in China declined

Figure 1. Annual Percentage GDP Growth of China 1978-2011



Source: World Bank, IMF

from 84 to 60.2 percent between 1981 and 1990; then experienced a dramatic fall in the following years, diminishing to 15.9 percent in 2005, lifting more than 550 million people out of extreme poverty (World Bank, 2010; Clark, 2010).

However, while the percentage of the poor declined in China, economic inequality was on the rise. Particularly in the past two decades, Gini coefficient indicates a considerable increase in economic inequality within Chinese society, which suggests that benefits of growth were distributed unevenly. Table 1 shows that distribution of income is subject to disparity among rural/urban and inland/coastland populations as the economy continued to grow rapidly in the last twenty years.

China owes its impressive growth largely to the manufacturing-led export strategy, and eventually became the world leader in exports by the year 2010. Once a country excessively reliant on agricultural production, China has given priority to its manufacturing industry which in time replaced the role of the primary sector. As Table 2 demonstrates, there is notable decrease in the share of agriculture in total output even in the previous decade, which gave way to larger industrial and services sectors.

Table 1. Inequality Indices of China 1975-2000

	1975	*1980*	*1985*	*1990*	*1995*	*2000*
Gini (%)	29.5	28.2	25.8	30.1	33.0	37.2
Rural-Urban	11.2	9.9	6.6	9.5	11.5	13.9
Inland-Coastal	0.5	0.5	0.5	1.0	2.3	3.8

Source: Kanbur and Zhang (2004)

Table 2. Value Added by Sector in China (% of GDP)

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Agriculture	14.39	13.74	12.80	13.39	12.12	11.11	10.77	10.73	10.35
Industry	45.15	44.79	45.97	46.23	47.37	47.95	47.34	47.45	46.30
Services	40.46	41.47	41.23	40.38	40.51	40.94	41.89	41.82	43.36

Source: World Bank

Thanks to its ever-growing manufacturing exports, China managed to build a tremendous amount of foreign exchange reserves and has assumed the title of the largest creditor nation of the world. It is fair to say that China's mighty creditor position both enhances its autonomy significantly and also provides additional power in international arena (Chin and Helleiner, 2008). China proved to be an economic powerhouse in the recent global financial crisis, as it contributed to global recovery more than any other country in the world.

When Mao died in 1976, China was suffering from the damage that the Great Leap Forward and later on the Cultural Revolution had brought, both socially and economically. Agricultural output stagnated, the already inefficient industrial production further shrank, and higher education was severely restricted which blocked the possibility of any significant technological progression. These adversities combined with China's isolation from the rest of the world exacerbated the stagnation and inefficiency, putting Chinese economy in a miserable position (Brandt and Rawski, 2008). In 1978, the economy of China was slightly larger than that of the Netherlands and almost one-seventh of the Japanese. Then, what has happened in the time being that started a long-term growth trend and transformed China into a global economic power? The answer lies in the economic reform process initiated at the end of 1978, aiming at a gradual transition from a command economy toward a market economy. In order to understand the economy of China today, it is therefore necessary to go through the reform process and at least provide some basic information about the opening up of the Chinese economy.

3.2.1 A Historical Account of Chinese Economic Reforms

Following Mao's death in 1976, Deng Xiaoping took office and immediately began to take measures to generate economic development. The goal of reforms was to improve economic performance and modernize the Chinese economy, which later turned into a gradual transformation of the planned economy into a market-based socialist one; and it was assumed that if the process of economic development becomes successful the transition will follow by itself (Rawski, 1995; Hu, 2005; Naughton, 2007). Although there were intentions to change the existing system, a clear roadmap of reforms was lacking. The initial reforms were launched "without a blueprint", focusing on economic growth, employing a trial and error approach. Put differently reforms were considered as "crossing the river by groping stones" (Zhu and Lin, 2005; Naughton, 2007).

The first wave of reforms in the late 1970s and early 1980s was made in the most exigent areas of agriculture and industry. The Town and Village Enterprises (TVEs) were re-introduced in a modernized and market-oriented fashion. TVEs are local community government-owned public enterprises which allowed peasants to place their surplus crops on the market and paved the way for trade with the outside

Table 3. China Trade and Investment Share in GDP 1980-2009

	1975	*1980*	*1985*	*1990*	*1995*	*2000*	*2005*	*2007*	*2009*
Trade-to-GDP (%)	9.16	21.66	22.50	29.16	38.81	44.24	68.63	68.03	49.07
Net FDI Inflows (% of GDP)	-	-	0.54	0.98	4.92	3.20	3.51	3.96	1.57
Net FDI Outflows (% of GDP)	-	-	0.21	0.23	0.27	0.08	0.50	0.49	0.88

Source: World Bank

world. In the early period of reforms, TVEs were quasi-private structures functioned as a transitional arrangement toward the market-oriented economy in the absence of private property rights institutions (Breslin, 2007; Kung and Lin, 2007). As market economy gained prevalence in the late-1990s, TVEs began to lose their competitive position in the economy and some of them were later privatized.

Meanwhile, the reformers also began to take action to tackle productivity and efficiency problems in state-owned enterprises (SOEs). By 1978, almost three-fourths of industrial production was done by SOEs, in line with the centrally planned level of output (Morrison, 2009). In the pre-reform period, factors such as the absence of competition and profit incentives, tax disadvantages, and social responsibilities of the state sector undermined efficiency in the SOEs (Perotti, Sun and Zou, 1999). After successive reforms launched in the 1980s and 1990s, state firms became allowed to exceed their production quotas, the pressure of states on managers in decision-making was relaxed; many of the small-sized SOEs were transferred to private ownership and eventually a western-model corporate system was adopted in the mid-1990s.

An important dimension of reforms which somewhat encompasses the previous two has been generated to open the economy to the outside world. Table 3 indicates that the share of trade in has made radical progression in the thirty years following the reforms, rising from less than 10 percent in 1975 to more than two-thirds before the global financial crisis in 2008. This ratio fell during the economic crisis, mainly because demand for Chinese exports from developed markets declined mainly due to a fall in consumer demand in advanced economies.

During the initial phase of the reform process, China legalized the establishment of joint ventures with foreign firms. Soon after, a number of Special Economic Zones (SEZs) were founded to attract foreign investment by lax administrative environment and favorable tax structures to foreign investors. In doing so, the government aimed to gain access to foreign technology and management techniques as well as expose certain domestic sectors to international competition in order to increase their efficiency (Morrison, 2009). Until the early 1990s, FDI inflows to China were still moderate despite the reforms. However, since then FDI to China has been on the rise, only with temporary slowdowns during the Asian Financial Crisis in the late-1990s and the recent global financial crisis (See Table 3). Today, China holds the title for receiving the highest amount of FDI inflows in the world and expected to remain so in the coming years (UNCTAD, 2010).

3.2.2 China in the Global Economy

Within the past three decades China has experienced a gradual shift from autarky and isolation to integration to the global economy. Perhaps the biggest leap throughout this process has been China's WTO entry. After a series of negotiations for 15 years China gained accession to the WTO in 2001, a few years after it significantly eased tariff rates. The entry to WTO accelerated substantially the pace of China's integration to the global economy. Between 2002 and 2008, China had its merchandise exports quintupled and imports quadrupled (WTO, 2010). By joining the WTO, the primary aim of China was to better protect its trade interests and become actively involved in the decision-making process of the multilateral trading regime. At the same time, China's WTO accession is crucial to create a positive international perception of its global rise and is likely to contribute to a more smooth and peaceful shift of power in the global economy (Gu, Humphrey and Wessner, 2007).

The exports of China have increased faster than imports, which accounts for an enormous trade surplus as China became the largest exporter country in the world. As a result of this, and to some extent of the precautionary ethos that the 1997 Asian financial crisis had created, China has built a huge amount of foreign exchange reserves. Foreign exchange reserves consistently surged from a mere $1.6 billion in 1978 to $212 billion in 2001 and $2.4 trillion in 2010, which is by far the largest in the world today (State Administration of Foreign Exchange, 2011). The accumulation of huge US dollar reserves raised concerns and complaints, particularly in the United States, because of the common view that China deliberately keeps the value of dollar high vis-à-vis the renminbi in order to stimulate the amount of its exports.

A large portion of Chinese foreign exchange reserves is in form of US Treasury securities. While China finances the US debt, it bears the ultimate risk of value loss of the government bonds that it holds. There arises a dilemma for the Chinese government: If the People's Bank of China decides to diversify its reserve holdings and dispose a part of its US assets, this will depreciate the dollar and eventually hurt China. If not, China will continue to bear the risk of a potential reduction in the value of dollar (Pan and Junbo, 2008). What is more, "a wholesale flight from the dollar, if it drove up interest rates and forced the US into a rapid tightening of consumers' belts, would also hurt one of the principle buyers of Asia's exports" (Beattie, 2003).

China has benefited from its tremendous growth rate for the last thirty years, and became the engine of global economic growth in the post-crisis economic downturn. However, recently observers began to discuss again if the economy is under the risk of overheating, due to ever-increasing aggregate demand in the market that came with long periods of rapid economic growth. Quarterly inflation numbers since early 2010 signal growing inflation, which might erode gains from growth.

The global economic crisis demonstrated clearly that export-led growth strategy make an economy vulnerable to demand shocks in trade partners. Due to a decline in consumer demand in the advanced economies China saw its exports dwindle, and a corresponding decline in its rate of growth during the crisis. In order to sustain growth in the long run, China should give up its growth strategy based on massive exports and promote the building of an internal market. China currently underconsumes for its level of wealth, but the share of consumption to GDP is expected to increase from 36 percent today up to 50 percent by 2025 (Woetzel et al., 2009). If China can shift its supply towards domestic demand, the economy will be less prone to possible adverse effects from the global economy, facilitating a more robust economic growth.

3.3 India: the Transformation of a Giant

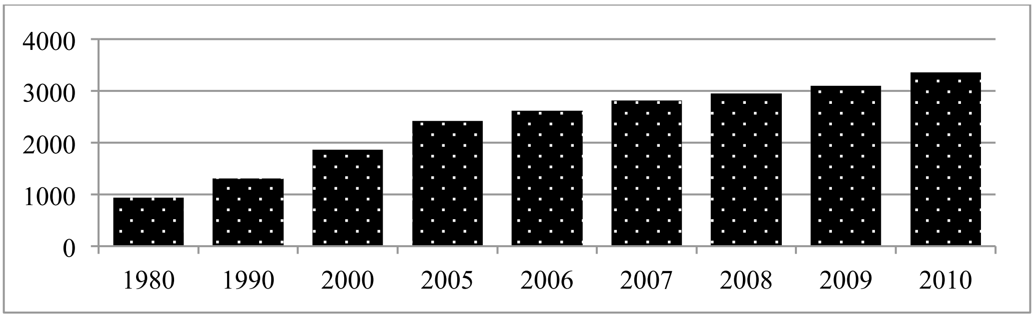
India is another BRIC economy with a huge population along with China, which enabled them to become global economic powers despite low levels of income compared to industrial economies (Bensidoun *et al.*, 2008). India falls among lower middle income countries with a per capita income of $2930 in PPP terms (World Bank, 2010). Currently the Indian economy is roughly the same size as Russia, being the tenth largest economy in the world.

However, poverty and human development indicators do not go parallel with its growing economy. As of 2005, 41.6% of the people in India live below the poverty line (PPP $1.25 a day), corresponding to one-third of the world's poor according to World Bank estimates (2005). Similarly, in terms of human development India falls significantly behind of its BRIC counterparts. In 2010, India is ranked 119th in the world compared to Russia 65th, Brazil 73th and China 89th (UNDP, 2010). Although the improvement of its human development and poverty reduction in India is noteworthy, the question whether these indicators they kept pace with economic growth is rather contentious.[4] A comparative look at Figure 2 and 3 above would suggest that human development has grown much slower than GDP per capita in the last three decades.

GDP growth in India has been driven by the services sector, particularly after the early-1990s. Interestingly, while many developing countries have undergone structural shifts from agricultural to manufacturing-based economy over the past few decades; the Indian experience is quite unique in the sense that the decline of the agricultural sector was balanced with a surge in the share of knowledge-based tertiary sector, rather than manufacturing (Banga, 2005). While the share of the primary, industrial and services sectors were 38, 24, and 38 percent in 1980, they were distributed as 33, 27, and 41 percent in 1990; and 24, 27, 49 percent in 2000 respectively (Gordon and Gupta, 2003). Today, the share of services sector has

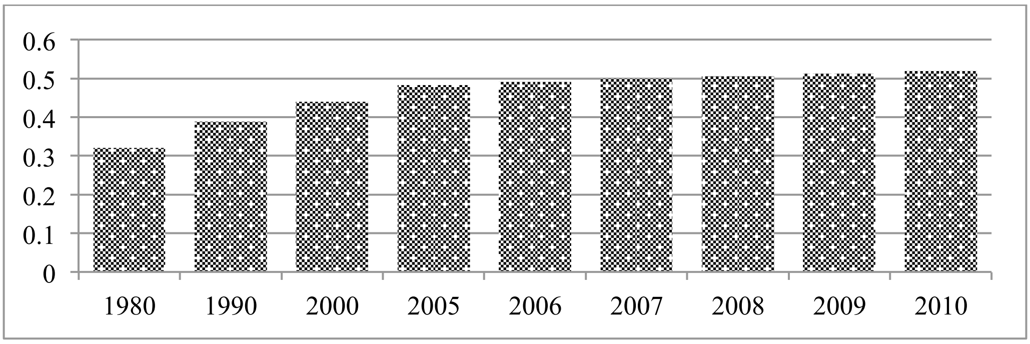
[4] For debates on the possibility of a relationship between economic growth and poverty reduction in India, see Nagaraj (2000), and Datt and Ravallion (2002).

Figure 2.GDP Per Capita in India 1980-2010 (PPP 2008 US Dollars)



Source: World Bank

Figure 3.Human Development Index of India 1980-2010



Source: United Nations Development Program

increased to 55%, far ahead of the 17% share of agricultural sector and 27% of the industrial share. As seen on Table 4, there is a considerable shift away from agricultural sector in the past ten years, which is mainly transferred to the services sector. "If India can turn into a fast-growth economy, it will be the first developing nation that used its brainpower, not natural resources or the raw muscle of factory labor as the catalyst" (Kripalani and Engardio, 2003).

The development path that India took so far remained distinct from the export-led growth strategy that many East-Asian countries followed, in that India moved to the phase of services-led growth before 'maturing' at the manufacturing sector (Purushothaman, 2004). After the 1980s, export of services has been a central source of growth in the Indian economy. More than 60% of GDP growth from 1993 to 2007 was generated through the boom in services. Within services,

Table 4. Value Added by Sector in India (% of GDP)

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Agriculture	23.20	20.87	20.97	19.03	18.82	18.29	18.26	17.59	17.76
Industry	25.34	26.46	26.24	27.93	28.14	28.85	29.04	28.22	26.97
Services	51.46	52.66	52.79	53.05	53.04	52.86	52.70	54.20	55.27

Source: World Bank

Table 5. India Trade and Investment Share in GDP 1980-2009

	1980	*1985*	*1990*	*1995*	*2000*	*2005*	*2007*	*2009*
Trade-to-GDP (%)	15.56	13.05	15.68	23.13	27.38	41.32	44.90	43.61
Net FDI Inflows (% of GDP)	0.04	0.05	0.07	0.60	0.78	0.91	2.02	2.51
Net FDI Outflows (% of GDP)	0.00	0.00	0.00	0.03	0.11	0.36	1.39	1.08

Source: World Bank

information and communication technologies (ICT) form a key component of export items. In 2009 ICT exports constituted more than half of India's exports in services, which were drastically higher than any other country in the world (World Bank, 2010b). Although IT sector is a very important export item and a key source of economic growth, considering that in 2006-07 period almost 80% of business outsourcing was done by the USA and UK companies alone, it creates a potential source of dependence and vulnerability for the Indian economy (Ghosh and Chandrasekhar, 2009).

India is becoming increasingly integrated with the rest of the world in the past twenty years in terms of trade and FDI flows, which is illustrated in Table 5. Indian share of trade to GDP has made a tremendous progression during its period of high economic growth, from early-2000s onwards. India is also turning into an attractive investment destination for foreign investors. In 2009, inward FDI to India constituted a 2.5 percent share in GDP whereas the share of Indian FDI to overseas was slightly higher than 1 percent, which can be regarded as a respectable surge for a country that was engaged in little or no investment activities with the rest of the world twenty years ago.

Demographically, India has a large young population and is expected to stay so in the foreseeable future. At the same time, fertility rate in India has been in decline for at least three decades, lowering dependency ratio and raising number of female workers, which means relatively more people will fall into the labor force (Basu, 2007). As the population consists of less dependent and more working members, saving rate is generally expected to increase, contributing to investment and eventually to economic growth. The demographic dividend is commonly referred to as a driving force behind exemplary economic growth cases of such as Japan in the 1950s, South Korea in the 1970s, China in the 1980s and Ireland in the 1990s. If India can seize the demographic opportunity, it might be an important contributor to its future growth, if employed properly.

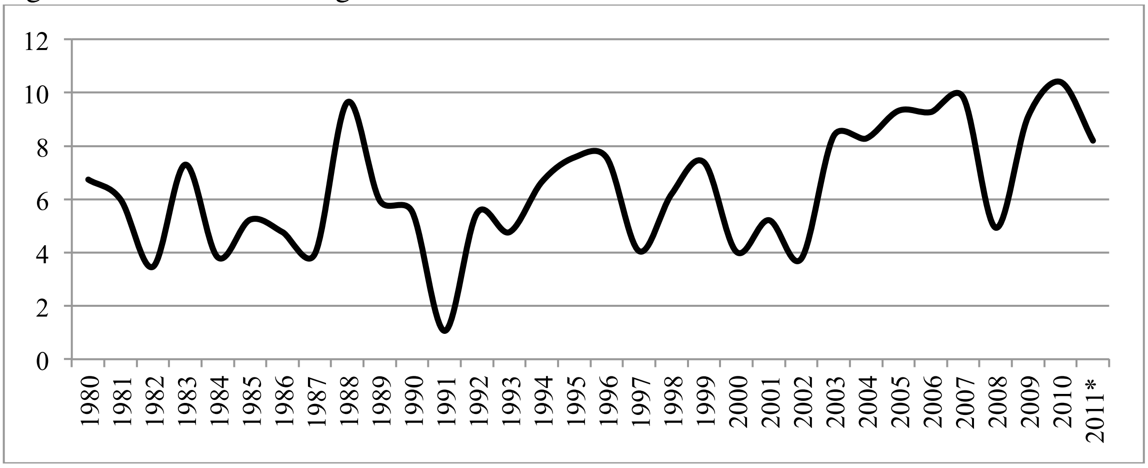
3.3.1 Indian Economy against Chronic Stagnancy

India in the pre-1980s period, before a series of policy changes were undertaken, had had largely a centrally-planned economy, with emphasis on the public sector involvement in production and a heavy control of the private sector. As a newly independent country with abundant labor but little capital, Indian policymakers stressed rapid industrialization backed by import substitution policies. However, output growth performance over the three decades following the independence in 1947 was at a disappointing average of 3.5 percent, which is popularly termed as "Hindu rate of growth." Considering population growth was around 2 percent, the economy was clearly suffering from stagnation. In short, development strategy in this period did not work well (Srinivasan and Tendulkar, 2003: 8).

The early 1980s is noted by many as the beginning of a policy shift in the Indian economy (Rodrik and Subramanian, 2005; Kohli, 2006; Panagariya, 2004). During the 1980s, Indian policymakers were able to create quite a respectable surge in economic growth, averaging almost six percent a year. In a nutshell, reforms of the 1980s covered import liberalization, tax incentives, better access to credit and foreign exchange for exporters, and relaxation of industrial controls (Kopchar et al. 2007, Panagariya, 2004). The main characteristic of the reforms in the 1980s was the 'attitudinal shift' of the national government in favor of private business (Rodrik and Subramanian, 2004). Improved internal and external borrowing opportunities encouraged fiscal expansionism, which was particularly important in connection with the acceleration of growth in the 1980s.

However, economic growth in this period is often argued to be volatile and unsustainable. Although it is tempting to think that liberalizing reforms paid back in terms of growth, it is arguable whether the increase in growth during the 1980s was actually a result of the reform process. A closer look at the growth data on Figure 4 would reveal that it is in fact it is the 1987/88-1990/91 period that averaged 7.6 percent which hiked up the overall average. Therefore, it is more likely that rising domestic public expenditures in the latter half of the decade stimulated demand and helped the economy grow (Panagariya, 2005: 187). Yet, eventually the resulting accumulation of external debt damaged the economy and led to a balance of payment crisis in June 1991.

Figure 4. Annual Percentage GDP Growth of India 1980-2011



Source: World Bank, IMF

Following the crisis, the government initiated another series of liberalizing reforms that further reduced the role of the state in the economy. Briefly stated, the 1991 reforms included the downsizing of public sector monopolies, liberalization of inward FDI and portfolio investment, liberalization of trade, financial sector and investment in services sector (Kopchar *et al.*, 2006). It is possible to consider the post-1991 crisis reforms as a continuation of the pro-business sentiment emerged in the previous decade. As Rodrik and Subramanian (2005) argue, "[i]gniting growth and sustaining it are distinct challenges, requiring different sets of policies and approaches." Accordingly, we may take 1991 reforms as a complementary package to fix the fragile and volatile nature of the growth experience initiated in the 1980s. Overall, an extensive range of economic reforms served to mitigate the impact of the economic crisis and accelerate growth (Panagariya 2005: 33).

3.3.2 Current Issues in the Indian Economy

In 1991, the Indian economy was "so sclerotic, so unappealing to foreign investors, that it had almost run out of foreign currency" (Friedman, 2006). In the aftermath of the crisis faced in the early 1990s, then India's finance minister Manmohan Singh have taken crucial steps to open up the economy to foreign investment and strengthen market competition. Particularly in the last few years, India has made a quantum leap in attracting foreign direct investment. In 2008 annual inward FDI flows into India were $40.4bn, more than ten times of the average annual FDI inflows made between 1995 and 2005. Outward FDI from the country fared even better, increasing 18 times in the same period (UNCTAD, 2010).

Today, thanks to its low-cost skilled labor largely in the IT and telecommunication sectors; India is a top-notch host for global outsourcing of services. In this sense, Indian economy draws a rather atypical picture among export-led economies of Asia. Indian Institutes of Technology (IITs) established as part of Nehru's higher education policy in the 1950s made possible the creation of a large pool of skilled engineers, which has been the driving force behind the rise of Indian IT sector. The Indian educated elite contributes to the country's growth to a great extent.

There are, however, several issues that India should resolve in its path of development. Poverty is one. Despite the booming economy, there are more poor people in eight Indian states than in the 26 poorest African countries combined (Alkire and Santos, 2010). The benefits of growth are distributed unevenly among regions, which is a major reason for long-lasting economic growth not being able to pull more people out of poverty in India. Table 6 documents the rise in rural and urban inequality in India measured in Gini coefficient. Although income inequality tended to fall in the ten years between 1983-1993, but the picture was soon to be reversed in the following decade.

Table 6. Rural and Urban Inequality Trends in India (Gini Coefficients)

	Rural	*Urban*	*All Areas*
1983	0.319	0.367	0.337
1993-94	0.298	0.357	0.347
2004-05	0.320	0.389	0.376

Source: Sarkar (2010)

Poor infrastructure is another chronic problem. Among its BRIC peers, China hosted the Olympic Games in 2008, Brazil will host the FIFA World Cup in 2014 and the Summer Olympics in 2016, and Russia was awarded with the right to host Winter Olympics in 2014 and FIFA World Cup in 2018, all highly prestigious events attracting worldwide attention; whereas the closest India could get so far is the organization of Commonwealth Games in 2010 –which has been subject to many criticisms for organizational inefficiencies. One thing that India's disability of pulling off such big events reveals is its infrastructural inadequacy.

More importantly, improvement of infrastructure is critical for attracting fixed investment into the economy. More than six percent of sales value is lost in India due to power outages, whereas the same indicator for China, Russia, and Brazil is within the 1-2 percent range (O'Neill and Poddar, 2008). A better infrastructural system will hike up foreign direct investment inflows and possibly contribute to development of poorer regions as well. Indian government has addressed itself to this task by allocating a huge sum of $1 trillion to infrastructural projects in the ten years from 2007 to 2017. [5]

Being at an earlier stage of development compared to other BRICs, India has fundamental problems to deal with. Currently, the economic development of India is

[5] "How fast can they go", *The Economist*, November 22, 2010. <http://www.economist.com/node/17493351> Accessed July 5, 2011.

Table 7. Brazil Trade and Investment Share in GDP 1980-2009

	1980	*1985*	*1990*	*1995*	*2000*	*2005*	*2007*	*2009*
Trade-to-GDP	20.36	19.34	15.16	16.03	21.72	26.65	25.21	22.30
Net FDI Inflows (% of GDP)	0.81	0.65	0.21	0.63	5.08	1.71	2.53	1.63
Net FDI Outflows (% of GDP)	0.16	0.04	0.14	0.18	0.35	0.29	0.52	-0.63

Source: World Bank

far lower than it potentially can achieve. In order to reach its potential, besides the challenges stated above, India should improve governance, liberalize financial markets and deal with its massive fiscal deficit (O'Neill and Poddar, 2008).

3.4 Brazil: a Well Deserved 'B' in the BRIC?

Brazil is the second largest BRIC in economic size after China. Once a country whose BRIC title taken by many with a grain of salt, now Brazil seems to prove itself in the global arena as a leading emerging country both in economic and political spheres.[6] Its economy has recently outgrown that of Italy's, becoming the seventh largest in the world. The former President Luiz Ignacio Lula da Silva managed to raise the meager 2.3 percent annual growth rate of the Cardoso era to a 4 percent average (The Economist, 2009). Within the past decade, Brazil has opened up its economy slightly more compared to the past, only to turn back to its lower levels of openness when the global economic crisis stoke in 2008. Table 7 presents data on the share of trade and investment flows in Brazil, which points to a decline in economic ties with overseas during the crisis. The Brazilian economy has always been relatively isolated, and openness indicators of Brazil suggest that Brazil still remains a closed economy compared to the other BRICs, and many other emerging markets

[6] "Brazil Takes Off", *The Economist*, November 2009

which have gone through substantive periods of trade and investment liberalization during the 1980s and 1990s.

Brazil's rise in the past decade can be partially associated with the ascendance of other large emerging market economies. For instance, China has continuously improved its trade relations in the previous decade in parallel with the rapid growth of its economy and finally replaced the US as the primary trade partner of Brazil in 2009. China's insatiable demand for primary products such as iron ore, crude oil and soy beans has been a key engine of the export growth in Brazil (Rouquie, 2008: 99).

Along with sharing many features of a large emerging market with the rest of the BRICs, Brazil also stands apart from its counterparts in certain ways. First, unlike China and Russia it is a democracy. Second, its internal politics and relations with close neighbors are more conflict-free than India. Thirdly, unlike Russia, where having connections with senior state officials is crucial for doing business, it is an investment-friendly state for foreign investors. Finally, unlike the other three, Brazil historically and culturally resembles a Western power and continues to strengthen its ties with the United States and the European Union (Sotero and Armijo, 2007).

Brazil's substantial oil and natural gas discoveries in the past few years can transform the country to a huge oil exporter in the near future. More than half of Brazil's current oil reserves have been discovered within the last decade, and it is rapidly growing (Duffy, 2007). Besides, Brazil is the largest producer of ethanol fuel in the world, a biofuel which further strengthens Brazil's position as an energy giant on a global scale (Roett, 2010). Rising oil prices in the last few years triggered an increased interest in biofuels, and Brazil would certainly be the first country to reap its benefits.

3.4.1 The Long Winded Story of the Economic Development of Brazil

State has traditionally been a central actor in the Brazilian economy. Since 1930s, until the wave of privatization that came largely in 1990s, state enterprises continued to dominate key sectors such as iron, steel, petrochemicals, banking, and telecommunications. In 1974, 74 percent of the combined assets of the 100 largest firms in Brazil belonged to state enterprises, whereas the same figure for the 5113 largest firms was 37 percent (Amann and Baer, 2005). State intervention on such a grand scale, combined with relative isolation from the world economy has long been a topic of discussion in Brazil. The historical performance of the Brazilian economy is so volatile that it is difficult to reach a conclusion whether strong presence of the state in the economy is beneficial for development or more of an obstacle before a potentially more efficient involvement of the private sector.

It is possible to trace back the foundations of state industrialization in Brazil to 1930s. The revolution of 1930 brought down the agrarian elite from their heavy economic influence, and the following decade had seen the first seeds of state-led industrial development in Brazil under President Vargas. The government actively supported the transformation from an agrarian society to a more industrial one. After 1930, federal and state governments have created a variety of institutes, agencies and commissions “as the state came to play a bigger and more complex role in economic planning, coordination and regulation” (Bethell, 2008: 57). The agrarian economy of Brazil based on export of primary products started to being gradually replaced by a fledgling domestic industry focused on import substitution.

Table 8. Value Added by Sector in Brazil (% of GDP)

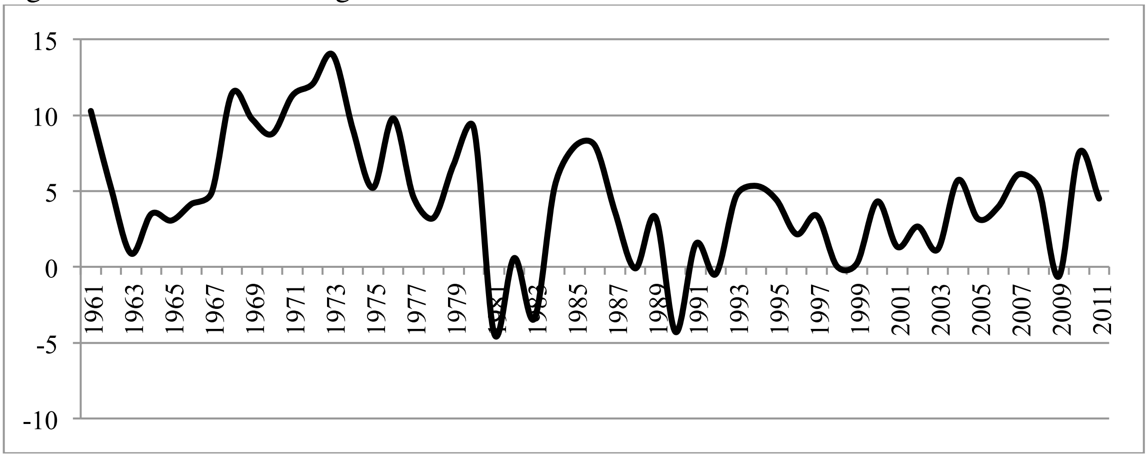
	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Agriculture	5.97	6.62	7.39	6.91	5.71	5.47	5.56	5.90	6.08
Industry	26.92	27.05	27.85	30.11	29.27	28.78	27.81	27.91	25.42
Services	67.10	66.33	64.77	62.97	65.02	65.75	66.63	66.19	68.50

Source: World Bank

In the years following the World War II, excessive reliance on primary goods exports continued to be a major concern. As Brazil's currency was overvalued and consistently its terms of trade on export goods worsened, it became obvious that long-term prospects for the agrarian-based economy were deemed to falter (Roett, 2010: 45). Accordingly, successive governments in the post-1945 era gave pace to import-substitution industrialization policies. Before long, these ISI policies began to bear fruit. The average real growth rate from 1947 to 1952 was 6 percent, whereas it averaged 7.8 percent in the 1956-61 period (Roett, 2010: 48).

The Brazilian economy stumbled in the early 1960s, following a domestic political crisis. This temporary period of stagnation led critics to question the efficacy of import substitution industrialization once its initial dynamism faded away (Baer, 2001: 72). However, not long after the military coup in 1964, several macroeconomic measures in tax and financial spheres were undertaken to curb inflation, stabilize the economy and modernize capital markets. The strict reform program implemented by the military regime paid off, and the economy experienced an unprecedented economic uptrend from 1968 to 1974. During this 7-year boom period, the growth rate of Brazilian economy topped a 'miraculous' 11 percent on average. The primary driver of this economic expansion was the industrial sector, which had grown 12.6 percent yearly (Baer, 2001: 75).

Figure 5. Annual Percentage GDP Growth of Brazil



Source: World Bank, IMF

Along with the substantial surge in growth rate, sectoral distribution of GDP has also shifted from agriculture toward industrial and services sectors. Different from from China and India, Brazil has experienced this sectoral transformation in the earlier stages of its economic development. As Table 7 demonstrates, the Brazilian economy today is dominated by services sector and to a lesser extent industrial sector and within the last decade, there has not been a notable change in the sectoral composition of Brazilian economy. External trade has grown faster than output. On the other hand, imports rose much more rapidly than exports and naturally led to an increase in trade deficit, which was later financed through increased inflows of foreign capital.

While the Brazilian economy took off through extensive public investments and to some extent investments of foreign multinationals, domestic private sector had been largely neglected. Baer (2001: 82) reports that almost two-thirds of total capital formation in 1969 consisted of public investments and investment activities in government enterprises. Coupled with the huge impact of the 1973 oil crisis, stagflationary pressures in the economy forced policymakers to reconsider the post-1964 economic orthodoxy. From 1973 to 1980, external debt increased from

US$14.9 billion to US$ 55.8 billion, while inflation rose from 29.6 percent to 92.1 percent in the meantime (Marquetti, Filho and Lautert, 2010). The government "found it increasingly difficult to live within those rules as it was subjected to market pressures beyond its control." (Baer, 2001: 85).

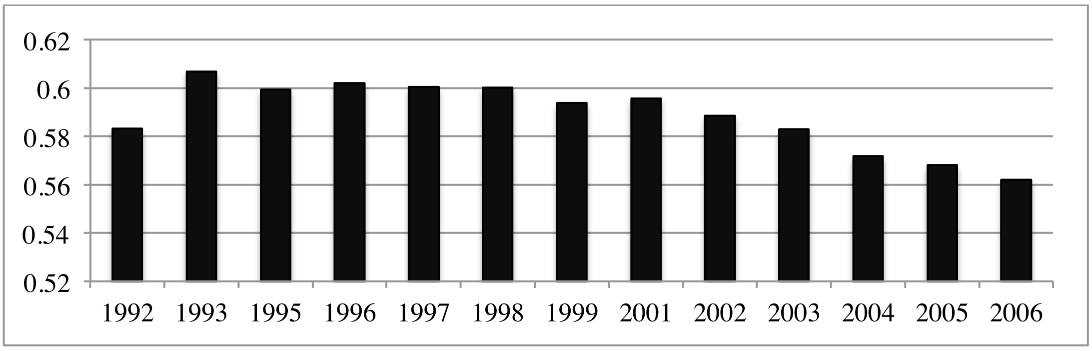
Economic performance of Brazil after 1980 is in contrast with the promising picture of the preceding decades. While GDP growth from 1940 to 1980 averaged 7 percent (Bacha and Bonelli, 2004), in the 1980s and 1990s the economy experienced extended periods of little or no growth, together with hyperinflation. In fact, as Figure 5 demonstrates, Brazilian economy has been through frequent ups and downs since early 1960s, except for the period of extraordinary growth from late-1960s to mid 1970s.

The central role of state in the economy began to dwindle in the early 1980s due to large cuts in public expenditures, thereby investments. It is possible to see the time span between 1980 until the mid-1990s as a period in between import substitution and neoliberal economic models. Abreu aptly summarizes the economy of the period as the following:

> The period between 1980 and 1994 should be seen as a transitional period following a severe balance of payments and debt crisis in the beginning of the 1980s. This resulted in a deep financial crisis and affecting all levels of public finance in Brazil. With high inflation being chronic and accelerating there were repeated attempts to stabilize first using orthodox, then more heterodox policies. But the fiscal element was always insufficiently developed and a long sequence of attempts would fail… The final years of the transitional period culminated in the Real Plan which was successful in taming inflation and in its first two years had raised hopes that the growth path has been rediscovered. (Abreu, 2005).

The Real Plan forms a major turning point in the economic history of Brazil for finally putting an end to the chronic inflation problem. Annual inflation rate in June

Figure 6. Gini Coefficient on Per Capita Household Income in Brazil 1992-2006



Source: Neri (2008)

1994, a month before the plan was implemented, was around 5000 percent, whereas it was as low as 1.65 percent in December 1998. In the plan, attached to the introduction of the new currency *real*, there was a massive effort toward opening up the economy with a new exchange rate policy and large trade liberalization. While the Real Plan is found successful by many in taming inflation, some critics contend that it might have frustrated the growth potential of the economy, because the economy have been made too dependent on and vulnerable to foreign capital (Ferrari-Filho and De Paula, 2003). In the first years of the post-Real Plan period economic growth faltered, but in the 2000s the economy recovered with robust growth under Lula presidency.

However, the boons of economic development were not necessarily distributed evenly among the population. Income inequality in the past fifteen years is in a marginal decline, yet it is far from narrowing the gap between the rich and the poor significantly. As seen in Figure 6, Gini coefficient is in a slightly declining trend in recent years. Compared to other emerging market economies, particularly in comparison to other BRICs, income inequality in Brazil is still extremely high and remains an important problem that future governments will have to deal with.

3.4.2 Brazil: Rising Again

Brazil in the 1990s had an economy highly vulnerable to external crises. During the Asian financial crisis, Brazil was among the economies hit hardest by the economic turmoil with speculative capital outflows, rising interest rates and public debt, and a subsequent slowdown of economic growth. Yet today, Brazil has proved its resilience to the global financial crisis by getting affected late and being among the first countries to recover.

Perhaps twenty years earlier, only a handful of observers would have expected Brazil to have robust economy and rise on the global stage so rapidly. Already a natural leader in the region, Brazil also strengthened its presence among developing countries as well as became increasingly vocal in global issues, particularly regarding governance in international financial institutions. Since Brazil does not face serious external military threats, the amount of military expenditures as a percent of GDP is lower than its BRIC counterparts. Brazil is the only BRIC without nuclear weapons. Its presence in international politics largely relies on the usage of soft power.

During the Cardoso Era between 1992 and 2002, Brazil resorted to a Gramscian consensual type of leadership that works through discussion and inclusion (Burges, 2006). Regionally, Brazil played a prominent role in the creation of MERCOSUR in 1994, and became an active participant in conflict mediation in the region, including the resolution of a territorial dispute between Ecuador and Peru in 1995, prevention of a coup in Paraguay in 1996 and a coup attempt against President Hugo Chavez of Venezuela in 2002 (Sotero and Armijo, 2007).

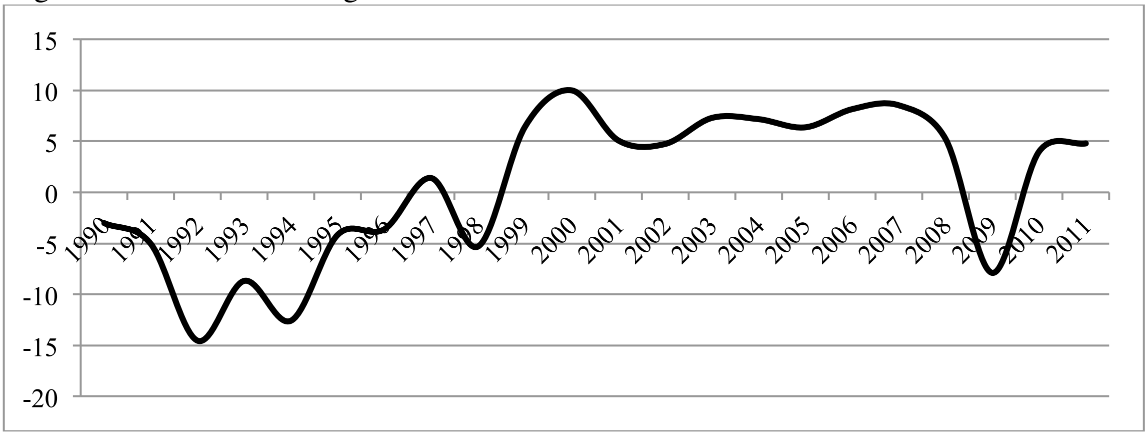
On the other hand, Brazil's growing material capabilities over the recent decades have also been effective in following a more hands-on foreign policy outside the continent, particularly toward other developing countries (Spektor, 2009). Brazil has been the driving power behind India-Brazil-South Africa Dialogue forum (IBSA), which revives the spirit of South-South Cooperation from back in the 1970s. IBSA, together with China and Argentina, prompted many other developing states before the Cancun Ministerial Conference of the WTO, to stand against neoliberal policies posited by industrial economies. Brazil's BRIC membership further solidifies its developing country stance in issues of international trade and global governance.

3.5 Russia: the Energy-Rich BRIC

Not long ago, Russia has been able to recover from the tumult of the transition period it experienced after the collapse of the Soviet Union and started to grow rapidly. As of 2010, Russia has become the eleventh largest economy by nominal GDP and sixth on per capita basis. Gold and currency reserves have increased from $12.7 billion in 1999 to $303.86 billion in 2007 (Shevstova, 2005).

In early-2000s, Russian economy finally began to show signs of recovery from its painful transition and the subsequent economic crisis in 1998. Figure 7 lays out the growth data of Russia in the post-Soviet period, which demonstrating the dramatic fall after the collapse of the Soviet Union, and damaged further by the economic crisis due to declining commodity prices. After seeing the bottom once again in the 1998 crisis, the Russian economy entered a boom period which would last ten years until the next big crisis hit Russia in 2008.

Figure 7. Annual Percentage GDP Growth of Russia



Source: World Bank, IMF

However, the economic success of in the Putin era has been largely attributed to rising oil prices and the corresponding rise in the resource wealth of Russia. The natural resource factor should be taken into serious consideration in order understand the rise of Russia properly. What has been the impact of natural resources in Russian economic growth, and what is the role of mineral wealth in the long term growth prospects for the Russian economy? Although the relationship between oil prices and economic growth seems straightforward, empirical findings suggest that the correlation between GDP growth and oil prices has weakened over the recent years (Beck, Kamps and Mileva, 2007).

This apparent de-coupling between the two might suggest an increase in the sectoral diversification of the economy, but it might as well point to a surge in imports due to the real appreciation of ruble that slackens growth rate. While the latter scenario does not offer an optimistic future for long-term economic growth, it is possible to argue that diversification of the economy has been well-understood by Russian policy-makers as an essential issue for long-term sustainable development. The former President Vladimir Putin repeatedly addressed the need to diversify the Russian economy, and took several measures to do so during his presidency, including the implementation of national projects to be implemented towards creating a knowledge-based economy (Ericson, 2009).

From 2000 to 2007, exports more than tripled from around $100 billion to over $350 billion (Jaffrelot, 2008: 133), of which oil and natural gas resources constituted a respectable portion. Russia is a rentier state by all means and having aware of this fact, the government is taking measures to render itself resilient from any potential resource curse (Barnard, 2008: 132). In line with this concern and a vision towards sustainable growth, Russian policymakers established the Stabilization Fund to invest oil revenues in securities abroad to be used when oil price falls severely. However, this will not be enough. Russia "must find its own niche, as China and India have done" and accordingly decide which sectors should be developed (Favarel-Garrigues, 2008: 133).

3.5.1 Post-Soviet Economic Transformation of Russia

From 1928 to the collapse of the Soviet Union in 1991, the economy had been managed through successive five-year plans, under complete state control over economic activity. Until the late 1950s, the Soviet economy had experience rapid economic development; and as an economic superpower second only to the United States, it was considered fairly possible that the Soviet Union could overtake the latter soon. However, in the following decades the growth performance of the Soviet Union constantly declined and the ability of Soviet system to generate sustained economic growth had been put under question (Ofer, 1987).

In the late 1980s, the Soviet leader Mikhael Gorbachev undertook a series of economic and political reforms known as *perestroika* (restructuring) to break the downward trend. Political reforms included efforts toward democratization and on

Table 9. Russian Economic Development, 1992-95 (Annual Real Change in %)

	1992	1993	1994	1995
GDP	-19	-12	-15	-4
Industrial Production	-18	-16	-21	-3
Investment	-40	-15	-25	-13

Source: Hedlund and Sundstrom (1996)

the economic sphere, a bunch of reforms such as permission of certain forms of private ownership, liberalization to foreign trade activities, and allowing of a limited form of joint ventures with foreign investors. The reforms did not prevent the eventual collapse of the Soviet Union; in fact, they arguably hastened the breakdown of the communist regime.

Following the collapse of the Soviet Union, the economy of Russia had deeply suffered the consequences of the transition period into a market economy. Table 9 illustrates that from 1992 to 1995, key indicators of economic development all shrank dramatically. In this period the economy overall contracted by over 40 percent, which refers to a serious destruction "considering that we are dealing with a country at peace and not having suffered any major natural disasters" (Hedlund and Sundstörm, 1996). Major decline in the level of investment during this period largely explains the overall decline in economic activity. At this point, it is tempting to ask why the post-Soviet Russia had to suffer from a deep recession while normally one would expect the opposite as introduction to market economy typically improve efficiency and therefore enhance economic performance. David Lipton and Jeffrey Sachs, then two economic advisors of the Russian government in the post-Soviet restructuring, blame the legacy of the command economy for the disastrous outcome and admit that the process of stabilization and transformation would be "daunting" (Lipton and Sachs, 1992).

The transition model offered by neoliberal strategists proposed a complete and immediate replacement of the command economy system with a free market economy through necessary reforms, also known as shock therapy. Starting with Poland in 1990, the shock therapy strategy was implemented in numerous newly-independent post-Soviet states. By many shock therapy advocates, a gradual approach was considered politically and economically unfeasible, for a number of reasons. Large bureaucratic opposition to reforms was one. There was a huge opposition by the bureaucracy against market reforms; therefore postponement was not really an option (Aslund, 1995: 186). A second argument was that the transition economies were so damaged that they could not have managed to endure an extended period of reforms (Thomas and Wang, 1997). In addition, the shock therapy model necessitates reforms to be implemented simultaneously for the "mutually supportive and interactive character of economic relationships"; therefore, "fragmented changes would have been ineffective" (Marangos, 2003). As a final note, the very logic of shock therapy is that transition to a market economy is painful no matter what; thus it is better to overcome pain quickly (Hedlund and Sundström, 1996).

Those in favor of a gradual approach to economic reforms often put forward the successful Chinese transition experience and contend that a similar policy could have been followed in the post-Soviet republics. Sachs and others (1994) deny that gradual reform is necessarily superior to shock therapy, arguing that prior to reform China was a peasant agricultural society with rapid growth and robust monetary policy, whereas by the time the Soviet Union collapsed, both Russia and rest of

former Soviet states were urban and industrialized, with deep structural problems and weak monetary management. Today, industrial and services sectors dominate the Russian economy; in which natural resource extraction and refining takes up a major

Table 10. Value Added by Sector in Russia (% of GDP)

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Agriculture	6.59	6.30	6.26	5.62	4.97	4.52	4.41	4.40	4.70
Industry	35.70	32.77	32.57	36.33	38.08	37.23	36.44	35.91	32.81
Services	57.71	60.94	61.17	58.05	56.96	58.25	59.15	59.70	62.49

Source: World Bank

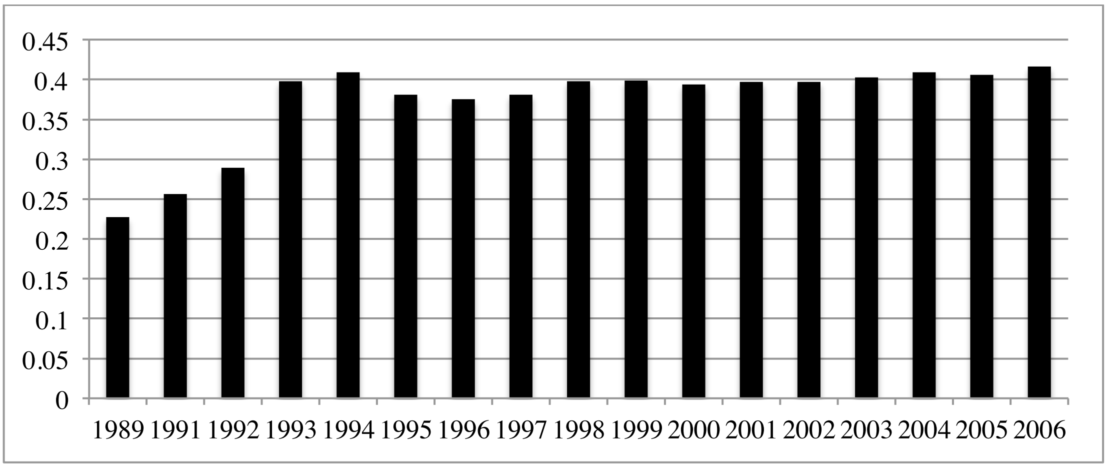
share, whereas agricultural production represents around a mere 5 percent (see Table 10).

The implementation of a series of reforms shook the fledgling market economy in Russia. Privatization took place in a rush, vastly enriching a handful of oligarchs close to the government cadres. Inflation rate hit four-digit figures in March 1992, and remained at astronomical rates until 1996. Excessively high rates of inflation lasting an extended period of time naturally caused short-sightedness in economic decision-making, which most importantly obstructed investment. The level of productive investment in 1994 was almost half of its 1992 level, which was already much lower compared to 1991 (Hedlund and Sundström, 1996).

From an economic inequality perspective, distribution of income in Russia worsened drastically in the immediate aftermath of the Soviet collapse. Figure 8 shows that in shorter than five years during its transition, Gini coefficient for Russia increased from 0.23, which is a very low level of inequality comparable to Scandinavian welfare states in today’s standards, increased to 0.40 and tended to remain close to that level in the following years.

Although the economy had achieved a certain degree of stabilization in the second half of the 1990s, poor fiscal management combined with a monetary policy that aimed at maintaining the value of ruble stable through external borrowing had

Figure 8. Income Inequality In Russia (Gini Coefficient) 1989-2006



Source: Rosstat (1994, 2002, 2007, 2008), quoted in Yemtsov (2008)

rendered the economy vulnerable to a currency crisis. The 1998 macroeconomic crisis resulted with a total financial collapse, fall in industrial output, default on domestic and foreign debt and a large devaluation of the ruble.

The relatively stable political environment and institutional reforms made under the new president Vladimir Putin were conducive to the establishment of a robust economy. During his first years, Putin had taken a decisive stance on implementing the needed economic reforms. Reforms included reduced income and profit taxes, eased restrictions on registration and licensing for small and medium-sized enterprises, and privatization of agricultural land (Aslund, 2008). The renationalization that Putin initiated later in his term in office, however, frequently aroused controversies about corruption.

In the aftermath of the 1998 crisis, Russia was fortunate to find prices of oil and other mineral exports rising again, which contributed significantly to its rapid

recovery. In 2000, share of trade in gross domestic product almost doubled in percentage points compared to 1990. Unlike China and India, Russian trade-to-GDP

Table 11. Russia Trade and Investment Share in GDP 1990-2009

	1990	*1995*	*2000*	*2005*	*2007*	*2009*
Trade-to-GDP (%)	36.11	55.18	68.09	56.71	51.71	48.10
Net FDI Inflows (% of GDP)	-	0.52	1.05	1.69	4.24	2.98
Net FDI Outflows (% of GDP)	-	0.27	0.08	0.50	3.53	0.88

Source: World Bank

values do not pursue a linear upward trend. Instead, Table 11 illustrates that the Russian economy had become more open following the collapse of the Soviet Union, trade openness peaked in around ten years and began to decline. Regarding foreign direct investment flows, it is possible to speak about a general rise in both inward and outward investment, until the global financial crisis hit the Russian economy.

This promising growth trend was temporarily interrupted by the global financial crisis of 2008, which raised concerns about dependence on natural resources and lack of diversification in the economy. It was the first serious recession Russia has gone through since the economic breakdown of 1998. Russia "plunged deeper than nearly any other major economy in the world as measured by indicators of total output, industrial production, or stock market values" (Gaddy and Ickes, 2010). The sharp fall of oil prices in the summer of 2008, squared with the capital flight hit the economy very hard. Consequently, the stock market fell by 80 percent from May to October 2008 and the economy contracted by 7.9 percent in 2009.

Oil prices are on the rise since they hit the bottom in the end of 2008, yet post-crisis growth of the Russian economy has still been moderate. The economy grew 4 percent in 2010, and the projected rate for 2011 is not much higher than the previous year (IMF, 2011). While the post-crisis economic performance so far does not seem to match the impressive 1998-2007 record, an important thing to note is that economic slowdown regardless of the rising crude oil prices might indicate a decline in the oil dependence of the Russian economy.

3.5.2 Russia in the Global Economy

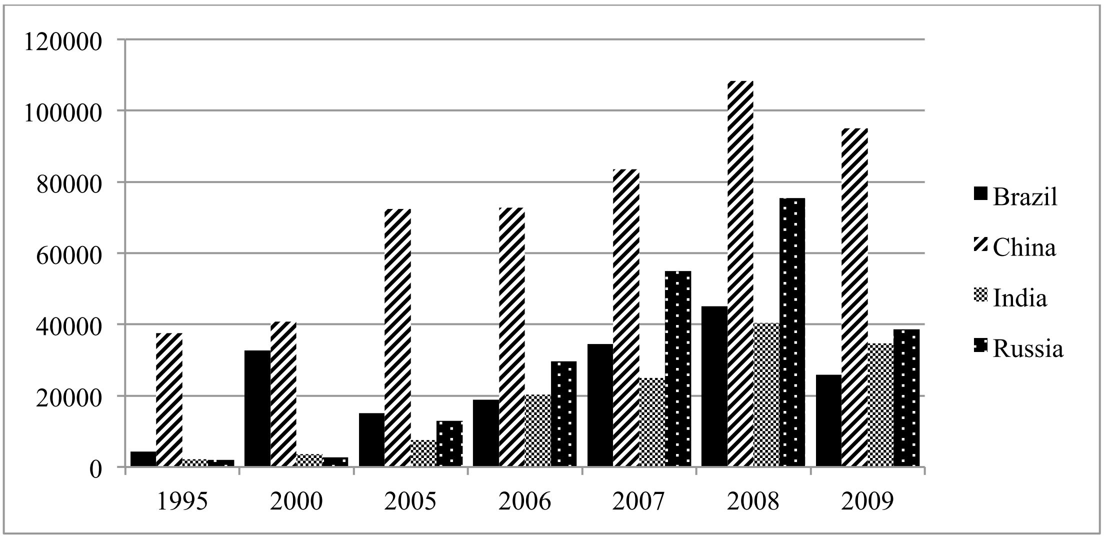
Despite the recent setback due to the global financial crisis, Russia today has a much stronger economy resilient to shocks and crises compared to how it was fifteen years ago. In terms of per capita income, Russia is the wealthiest of the BRICs and each year its level of income is converging closer to the developed country average.

After the abysmal experience of the 1990s transition period, Russia today enjoys becoming a major emerging power in global affairs again. In its external policymaking, Russia draws a more proactive profile in parallel with its recent economic success. Along with the other BRICs, Russia is a keen supporter of the shift toward a multipolar order in favor of emerging countries, and sees this as an opportunity to reestablish its power on a global scale. Apart from BRIC, Russia is a member of key regional arrangements such as Shanghai Cooperation Organization (SCO), ASEAN Regional Forum and the Asia-Pacific Economic Cooperation (APEC). The growing economy of Russia together with its membership in these organizations and improving strategic relations with the emerging world signals that Russia is on its way to become a key power in the future multipolar global order.

3.6 Conclusion

The BRICs have undergone a comprehensive change in their economic systems, starting with Chinese market reforms in the late 1970s. What followed was the fall of the Soviet Union a decade later, leaving Russia in economic turmoil. The

Figure 9. Annual FDI Inflows to the BRICs (in million dollars)



Source: UNCTAD (2010)

introduction of market system through radical reforms known as shock therapy was deleterious for the economy in the first years. Unlike the gradual reforms implemented in China, market transformation in Russia has been painful and costly.

Meanwhile, India and Brazil were going through a series of economic problems. India in the 1980s began giving signals of a new liberal, pro-business economic understanding, at the same time struggling with domestic and external debt payments, which brought a major economic crisis in 1991. A reform package has been implemented in the Indian economy to liberalize trade and investment, and to open up the traditionally isolated Indian market. Lastly, Brazil has undergone a long-lasting period of macroeconomic instability for over ten years during the 1980s and 1990s, accompanied by chronic hyperinflation, rising public debt and meager economic growth. Economic reforms introduced by the Real Plan finally moderated the pressures in the economy and accelerated the global integration of Brazilian economy.

In light of the development patterns the BRICs have followed, what they loosely share is that they all owe their economic growth to a successful integration into the global economy through liberalization of trade and investment flows. However, under this broad framework, each BRIC has customized its own means to economic growth and integration to global economy. For instance, in 1980 India accounted for a 0.4 percent of total world exports, while China's share was 0.7. In 2006, India's share rose to 1.1 percent, whereas the Chinese have become an export giant with 8.7 percent share (Lemoine, 2008: 146).[7] The stark contrast between the two fastest growing BRICs can give an idea about the varying paths the BRICs have taken in their early developmental stage.

In brief, China has focused on bulk merchandise exports through large investments in manufacturing sector; Brazil has relied on the exports of primary products as well as made use of its well-diversified industrial production; India has reaped the benefits of its army of low-cost skilled labor largely in the IT and telecommunication sectors, becoming a giant host for global outsourcing of services; and finally in Russia, oil and natural resource earnings were the primary source of economic growth.

The economic development of BRICs took place focusing on different sectors and at a different pace for each country, but the role of state in economic success was evident in all BRICs. The state has been closely linked with the guidance of economic planning, managing the opening up of different sectors in line with domestic economic priorities (Garg, 2011). The state's role in finishing major investment deals in BRICS also fundamentally differs from the Western capitalist

[7] Although Chinese integration to the global economy started a little more than a decade earlier than India, the gap between their shares of exports is large enough to indicate the foreign trade orientation of each country.

states, which is manifest in the remarks of Sergio Gabrielli, the CEO of Brazilian state-owned energy company Petrobras, during investment talks with China: “The U.S. has a problem. There isn't someone in the U.S. government that we can sit down with and have the kinds of discussions we're having with the Chinese” (Lyons, 2009).

Besides being emerging powers in the global economy, the very feature that the BRICs share in common is their large population, huge landmass and expanding internal markets. After extended years of rapid economic growth, rising incomes led millions of people join the middle class (China and India more relevant than Russia and Brazil here, as the latter two already have a relatively high per capita income). Today middle class population in China is huge: 157 million, making it the largest after the United States, by only a very small portion (12%) of its population –leaving much space for an increase in the coming years (OECD, 2010). In other words, hundreds of millions of people out there that will sooner or later join the middle class, if China (and other BRICs) continues to grow at this rate, or even less, which is more likely in the later stages of its economic development.

The growing number of people ready to consume more and more each day offers a huge market for companies from all over the world. For instance, China and India was the top two major markets for Nokia in 2010, Russia and Brazil being fourth and sixth respectively (NOKIA, 2010). This phenomenon also provides a key opportunity for potential investors, which has been well-taken by many over the recent years. According to the UNCTAD World Investment Prospects survey, all of the four BRICs consistently rank among the top five destinations for FDI over the last few years (UNCTAD, 2010).

It is the sheer size of their economies that put the BRICs in a unique place in a global economy abundant with a range of states growing at comparable rates but smaller in size. This is, of course, not to say that the BRICs all followed a uniform pattern of development. It would not be much realistic to select the largest set of four developing countries from different regions with various cultural, historical and economic backgrounds, and expect them to form a naturally monolithic group. However, it is important to note the basic features they have in common largely explain in the first place the reason why they have come together as a group; and more importantly, might lead to a convergence of their economic development in later stages of their development.

CHAPTER 4

COMPETITION AND COOPERATION AMONG THE BRICs

AND IMPLICATIONS FOR THE NEAR-BRICS

4.1 Introduction

The BRIC is often referred to as a symbiotic group within itself for its mutually reinforcing strategic objectives. The increasing demand of rapidly growing economies of China and India for energy resources and raw materials strengthen their ties with the energy giants Russia and Brazil, which apparently makes a good deal for both sub-groups. The expanding domestic markets of India and China and their huge economic potential that comes with it renders these countries eager for natural resources. The argument goes that this demand will consequently benefit the resource-rich BRICs in their own development path if they manage to use their resource earnings wisely. This pattern partially reflects the complementary nature of the group, though it remains a simplified account of the reality.

The growth of bilateral trade among the BRICs during the last decade is outstanding. Intra-BRIC trade has grown much faster than BRIC trade with the rest of the world, without the existence of institutional regional arrangements. Even more interestingly, on state level bilateral trade between individual BRICs tend to improve much stronger than their trade with regional partners. The rapid convergence of

BRIC economies toward each other and the rising interdependence among them take place similar to regionalization process, only without geographical proximity.

This chapter first addresses the political economy of bilateral relations among the BRICs, with emphasis on bilateral trade and investment ties in order to clarify the nature of intra-BRIC economic relations and see whether there is any tendency toward a regional-like economic convergence within the group. Such an analysis will shed light on the possibility of further political and economic cooperation within the BRICs, as well as determining whether they represent a monolithic bloc, or have the capacity and incentives to become one in the future.

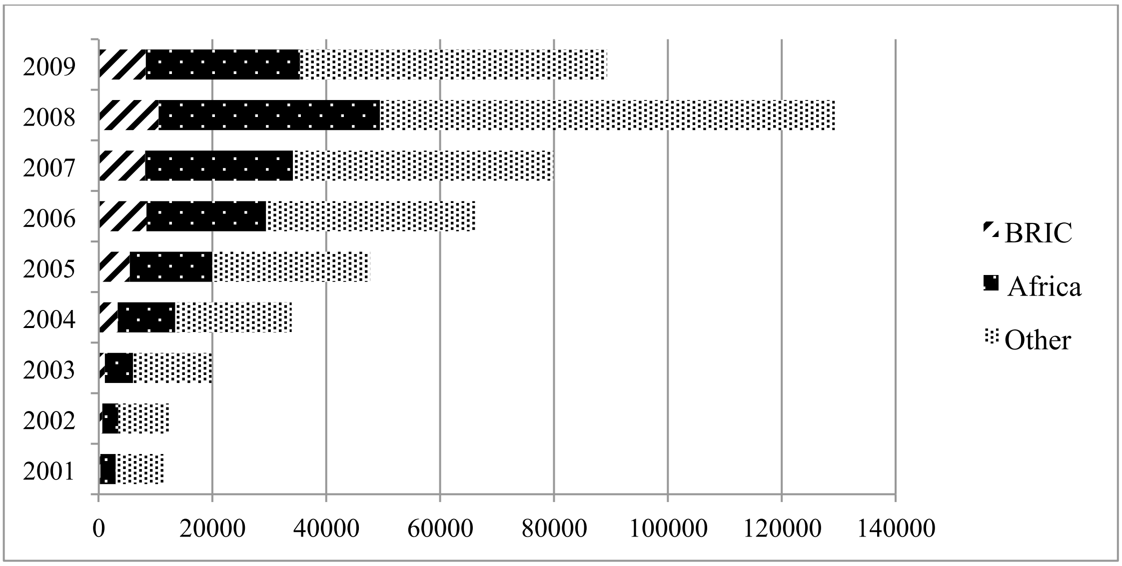
The following three sections examine the potential for cooperation and competition within the BRICs, with particular reference to three summits they have organized in the aftermath of the global economic crisis. Lastly, this chapter includes a discussion on the near-BRICs concerning the implications of the BRIC phenomenon on this secondary group of emerging powers in terms of international cooperation and economic performance.

4.2 Political Economy of Intra-BRIC Relations

China-India

Economic and cultural relations between India and China are historically deep rooted. Geopolitical conflict has traditionally shaped relations between China and India (Garver, 2001: 5). Sino-Indian relationship was a conflictual one in the past century, which even resulted in a border war in 1962. Today being the two largest developing countries with together around 40 percent of the world population,

Figure 10. Chinese and Indian Crude Oil Imports 2001-2009



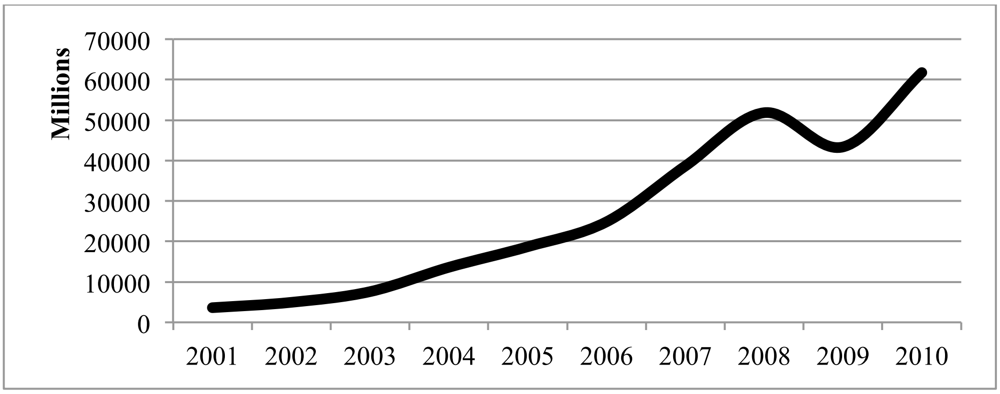
Source: ITC Calculations based on COMTRADE Statistics

bilateral relations between the two countries are of central importance. Indian Prime Minister Singh, at a meeting with the Chinese Premier Jiabao confirms this claim: "India and China can together change the world order" (Lancaster, 2005).

Aside from the BRIC, bilateral relations between the two giants also serve to complement each other's strategic needs to foster economic development. India has long term advantages such as its dominantly young population, political flexibility and better diplomatic relationships with the West, while China has an enriching and growing middle-income population providing a massive domestic market for inward foreign investment (Coral, 2005).

Another important dynamic to consider is the sectoral orientation of both economies. A cooperative combination of the hardware industry of China with the world renowned software industry of India through trade and investment can lead to global leadership of these countries in the informational technology industry (Prestowit, 2005). This may seem as a remote possibility, yet calls for technological

Figure 11.Total Commodity Trade between China and India



Source: ITC calculations based on COMTRADE Statistics. [8]

cooperation were made by the Chinese Premier Wen himself, and it is fairly possible and up to the will of both parties to incarnate this project.

Whether such a large scale cooperation will become anything more than lip service is hard to predict, but a brief look at the recent history of bilateral trade between China and India will show that there has been a solid improvement in bilateral economic relations between them. Trade between China and India was a mere $270 million in 1990. From 2000 to 2005, total bilateral trade rose from $2 billion to $11.3 billion (Government of India Department of Commerce, 2006). Main export goods from India to China consist of primary products, more than half being raw materials for industrial production. In return, around half of Indian imports include manufactured equipment and machinery.

In their 2005 meeting, the state leaders set a goal of $30bn in total trade for the year 2010, which was already exceeded by 2007 (Whalley and Shekhar, 2010). Trade between the two countries has doubled the previous expectations by surpassing $60bn in 2010. The volume of trade between India and China might seem relatively

[8] 2010 data is based on the partner reported data (mirror data).

feeble, considering the magnitude of their economies. Nevertheless, the spectacular improvement in the last decade indicates that India and China are on the way for a stronger economic partnership. The opening of Tibet border trade between two countries in 2006, after 44 years, is also a crucial sign of progress in bilateral trade relations. As demonstrated in Graph X, there is noticeable acceleration in bilateral trade following the border arrangements. From 2002 to 2006, bilateral trade between the two BRICs grew at a phenomenal rate of 50 percent per year on average, and considering that the export profile of the two countries is complementary in nature, it is realistic to expect bilateral trade will grow despite the temporary setback during the global economic crisis (Singh, 2009).

China-Russia

The historical interactions of China with Russia have been less than amicable, but noticeable improvement in bilateral relations took place in the past two decades. In the aftermath of the Cold War, the easing of strained political environment in northeast Asia led to developing relations between China and Russia, which paved the way toward bilateral economic cooperation, especially in the energy sector. Since the establishment of diplomatic relations between China and Russian Federation, bilateral relationship has been constantly upgraded. From 1991 to 1996, Sino-Russian relations were characterized as “good-neighborly and mutually beneficial” in 1992; as “constructive partnership in September 1994; and as “strategic partnership of coordination” in April 1996 (Yishan, 2000). In 2001, they signed a “treaty of good-neighborliness and friendly cooperation” to enhance relations between the two countries “to a completely new level”.[9] The 4380-kilometer Sino-Russian border had been a source of tension and conflict between the two states for a very long time until it was settled completely with a border agreement in October 2004, which was a substantial step toward healthier bilateral political relations. Today, both states cooperate actively to preclude illegal Chinese migration to Russia through the northeastern border (Lo, 2008).

Russia and China share an ideal of becoming a superpower; however, following their ambitions they look through different lenses. Russia is aspired to revive its major global power status from the Soviet past. Therefore Russia is committed to remain a member of the BRIC club, which “gives it legitimacy and guarantees its continued status as a major power in the multipolar world that it hopes for” (Favarel-Garrigues, 2008: 129). China, on the other hand, is increasingly becoming a more confident and assertive global player in parallel with is unstoppable rise, and can be fairly said that it is now in a position to consider Russia as its junior partner, rather than a superpower peer. What primarily brings them together is their benefit from the global context in which the United States shows signs of decline and its authority comes under question (Lo, 2008).

China and Russia have worked together to take a step toward this shared view of a multipolar world and initiated the Shanghai Cooperation Organization (SCO) in 2001, together with their regional partners Kazakhstan, Kyrgyzstan, and Tajikistan. Soon after, the two states signed a Treaty of Friendship, which underlined cooperation in various areas including “economy and trade, military know-how, science and technology, energy resources, transport, nuclear energy, finance,

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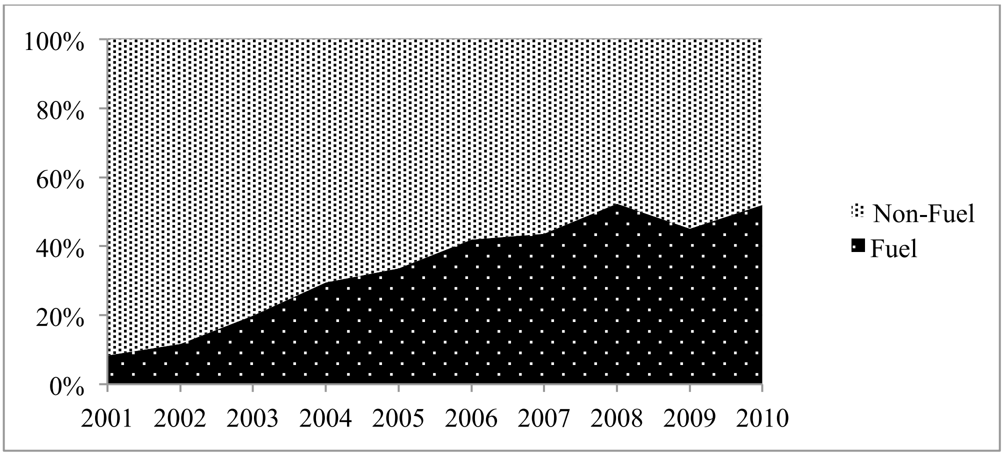
[9] Treaty of Good Neigborliness and Friendly Cooperation Between the People’s Republic of China and the Russian Federation, July 24, 2001. Accessed June 26. <http://www.fmprc.gov.cn/eng/wjdt/2649/t15771.htm>

Figure 12. Share of Russian Fuel Exports to China in Total Exports 2001-2010



Source: ITC calculations based on COMTRADE Statistics.

aerospace and aviation, information technology and other areas of common interest."[10] In the treaty, they particularly and explicitly emphasized cooperation in world financial institutions, economic organizations and the United Nations (Security Council in specific). Sino-Russian bilateral relations made further progress after their border disputes were finally resolved in 2004. Through the SCO, China and Russia began to conduct large-scale joint military exercises, and China has also become the largest customer of the Russian military technology (Khanna, 2008: 73).

Notwithstanding the promising progress in their bilateral relations, overall trade between China and Russia is not anywhere near the trade between China and the West (most notably the US and Germany). Bilateral trade and investment between China and Russia hardly matches the size of their economies. China is a major import partner to Russia, only second to the EU, but Russian exports to China is meager. China imports 75 percent of its oil resources, Russia's main export good along with the natural gas, from non-Russian suppliers (mainly from Persian Gulf

[10] Art. 16, Treaty of Good-Neighborliness and Friendly Cooperation between the People's Republic of China and the Russian Federation, June 24, 2001. Accessed 20 June 2011. <http://www.fmprc.gov.cn/eng/wjdt/2649/t15771.htm>

and Africa), which could give an idea about the weakness of trade relations between the two BRICs. In 2007, total Russian imports from China stood at $24bn, while US-based retailer Wal-Mart alone imported $27bn from China in the same year (Scott, 2007).

Although economic ties between the two have been rather weak, they will not necessarily remain so. China needs cooperation with Russia for commodities that it cannot securely obtain, such as raw materials (both oil and non-oil), or weapons. Similarly, Russia would benefit from such cooperation which will serve to the development of its Far Eastern region. There have been concrete steps taken toward bilateral energy cooperation. In 2009, China have agreed to obtain oil from Russia from 2011 to 2030 in return for $25bn of loans to Russian state oil company Rosneft and national oil pipeline giant OSO Transneft.

In sum, what brings China and Russia together is their common support for a multipolar world order and critique of the United States unipolarity, if not toward identical objectives. Recently, Beijing and Moscow have agreed to conduct their cross-border trading in their own currencies, rather than the US dollar which shows the common goal of reducing the US supremacy in international economic affairs, as well as their intention to improve bilateral economic relations.

China-Brazil

The importance of China for the Brazilian economy is indisputable. Between 2001 and 2010, Brazil saw its exports multiply more than 15 times and imports almost 20 times vis-à-vis China. In 2010, China was the largest customer of Brazilian exports, 50 percent higher than Brazil's second export partner United States. Around 85 percent of the goods China imported consisted of soybeans, mineral oil and other raw materials, up from 68 percent in 2000. In this respect, the nature of Sino-Brazilian trade resembles China's complementary economic relations with Russia. Brazil benefits greatly from the recent rise in the Chinese demand for natural resources, and with its relatively high per-capita income, it provides a bountiful market for Chinese export goods.

China was the largest foreign direct investor in Brazil in 2010, topping $17 billion (Pomfret, 2010). The Chinese investment boom include construction of a $5 billion steel plant by Wuhan Iron and Steel company, and a $3 billion stake in a Statoil offshore oilfield on the Brazilian coast. China seeks for alternative resources to sustain its domestic growth, which reinforces Brazil's position as an attractive spot for Chinese investment.

Both population and industrial growth of China is expected to continue in the medium to long term, so is its demand for Brazilian products will likely to remain within the foreseeable future. Considering that Brazil still has a massive potential in industrial production, raw material extraction (particularly oil) and agriculture, it will continue to welcome funds coming from the reserve-rich China. Economic cooperation on this basis will enable Brazil to realize its growth potential through wide range of investment possibilities, and at the same time provide invaluable resources for the Chinese to sustain their economic development.

India-Russia

India and Russia have been in close contact for many decades, owing to intimate relations between the two countries during the Cold War Era. In the post-Soviet period, bilateral relations have diverged from ideological basis to a more pragmatic one. In 2000, the countries strengthened their long-lasting ties by signing of the

Declaration on Strategic Partnership. In the following years under Putin presidency, Indo-Russian relations resurrected from the relative stagnancy of the Yeltsin era.

Despite the traditionally close ties between the two states, neither of Russia and India is a major trade partner of the other. In 2010, the volume of trade between India and Russia was slightly higher than one-tenth of trade between India and China.[11] Russian share in India's total trade has declined from 9% in 1991 to around 1% in 2007 (Raman, 2008). As a remedy to this, the two states established a forum on trade and investments to improve bilateral trade performance in 2006. They set a target of $10bn for bilateral trade for 2010 and established a joint study group to discuss how to reach this goal. Eventually, actual numbers fell short of the original target, partly due to the global economic crisis, but the partners remained committed to the improvement of economic ties and they now plan to boost total trade to $20 billion in 2015.

Arms sales constitute a significant amount of bilateral trade between the two states, partly because of the Cold War. From 2006 to 2010 India, currently the largest importer of weapons in the world, received 9 percent of total international arms transfers, in which Russian deliveries accounted for 82 percent (SIPRI, 2011). Relations between the two giants concerning military trade have experienced a decline after an unsuccessful billion-dollar aircraft carrier deal, and a number of similar problems with other arms contracts over the recent years. Nevertheless, Russia continues to be a major exporter of weapons and a diversification of suppliers for India will not take place in the short run, if any.

[11] Department of Commerce, Government of India. <http://commerce.nic.in/eidb/default.asp> Accessed on June 21, 2011.

Both countries experienced a significant upswing in investment inflows during the last decade. FDI inflows into both countries come predominantly from Western Europe. Many large-scale FDI flows have taken place between India and Russia in recent years, but overall investment between them remains weak. Lastly, both countries conduct extensive trade with China; neither of them receives a sizeable share of Chinese outward investment.

India-Brazil

Relations between India and Brazil have constituted a building block for multilateral cooperation among developing economies in the era of globalization. Particularly after the election of Lula as the President, Brazil sought to improve relations with other developing countries. In June 2003, together with South Africa, they led the IBSA initiative to discuss issues concerning global governance as well as trilateral cooperation among themselves to promote economic and social development.[12] The IBSA group soon gave birth to a larger bloc of developing countries, led by Brazil and India, in the WTO Ministerial Conference in Cancun in September 2003, and caused the failure of negotiations.

The importance of this trilateral partnership of India, Brazil and their newly-BRIC partner South Africa lies in its "reflection of broader transformations across the developing world in the wake of globalization" (Alden and Vieira, 2005). As much as the Brazilian "quest for leadership" voiced the dissatisfaction of the developing world in general (Hurrell and Narlikar, 2006), recent multilateral efforts have also found their parallel in bilateral diplomatic relations of Brazil and India. Singh's visit to Brazil in 2006 was the first visit by an Indian Prime Minister after 38

[12] Brasilia Declaration. http://ibsa.nic.in/brasil_declaration.htm. Accessed June 22, 2011.

years.[13] Several other bilateral talks on the level of heads of state and ministers followed in the upcoming years. India signed a preferential trade agreement with MERCOSUR in 2004, which became effective the next year.

In 2010, India's trade with MERCOSUR was \$9.3bn, of which \$8.2bn with Brazil alone.[14] Currently, bilateral trade between the two countries is hardly on par with their improving political relations and growing economies. The volume of trade between the two partners was only 2.1% of the total trade of Brazil, and 1.5% of that of India.

Most countries that are ranking above Brazil as India's major import partners are predominantly oil-rich states.[15] The insatiable demand of India for energy fuels combined with the rising trend of oil prices might urge India to look for alternative resources in the near future. Brazil, as the largest producer of ethanol might then take a greater role in the energy supply of India necessary to sustain its development.

Economic interests of India in Latin America are largely confined to Brazil; without neglecting the size factor, and currently it is far from fulfilling expectations of better economic cooperation between the two BRICs. The composition of trade between India and Brazil does not follow consistent patterns; determined instead by more opportunistic deals such as responding to shortages, or one-time big business transactions (King and Carro-Fernandez, 2010). Further improvement in trade is needed to achieve a steady and strong partnership.

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[13] Kumar, Rajeev. "Bilateral Relations: Brazil and India". <http://www.indiaconsulate.org.br/arquivos/Bilateral%20Relations.pdf.>Accessed on June 22, 2011.
[14] International Trade Centre Database
[15] To name a few, United Arab Emirates (6,5%), Saudi Arabia (5.8%), Iran (3.9%), Kuwait (2.8%), Qatar(1,6%), Oman (1,2%). Share of Indian imports in parantheses. Source: European Commission Trade.

Data confirm that both Brazil and India increasingly attract investment from overseas, despite their late and tumultuous integration into the world economy. According to an UNCTAD (2010) survey, both countries are ranked among the top-five most popular investment destinations in the world, along with the other BRICs. However, the two countries seem not to invest in each other as much. India and Brazil are among top-ranked economies in terms of acquisitions of developing country firms, larger than that of China in 2007-2008 (Athukorala, 2009). Considering the upsurge in their FDI flows and increased level of interstate contact, India and Brazil are likely to create stronger avenues for further economic cooperation in the future.

Russia-Brazil

During an official visit to Russia in May 2008, then President of Brazil Lula stated that "[f]rom 2002 to 2008, trade between Russia and Brazil grew five times. But that is not enough. We need to make a quantitative leap... and define new areas for partnership in areas like energy, infrastructure and space exploration" (Reuters, 2010). Lula's hope for improved economic ties is not groundless. As of 2010, Brazil is the only major trading partner of Russia outside of its geographical reach, with the exception of the United States. Although there had been a temporary decline in bilateral trade during the global economic crisis, trading relations between the two states are in a swift recovery and expected to surpass the pre-crisis numbers in 2011.

Brasilia and Moscow have maintained a close relationship on a strategic basis as well, thanks to Brazil's new-found oil reserves and flourishing defense industry. Brazil seeks to transfer technological knowledge from its BRIC counterpart through new partnerships in these fields, which Brazilian Foreign Minister Celso Amorim also underscored in his words: “Brazil will not buy military equipment without a technology transfer, because the purchase is part of a political plan of national industrial and technological development” (Daly, 2008). The two BRICs have made a series of partnership agreements over the recent years, notably on military and aerospace technologies. In 2005, Russia and Brazil agreed to launch the first Brazilian astronaut to the International Space Station via Russian-built Soyuz spacecraft in 2006.

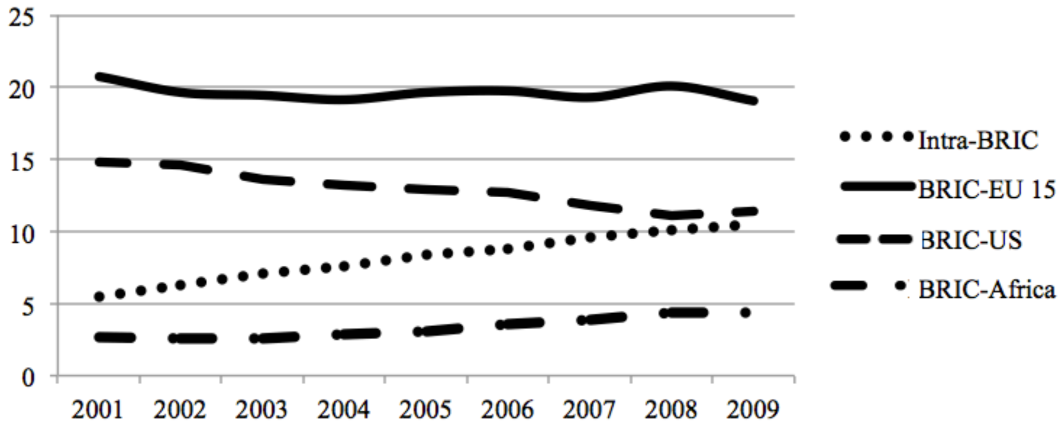
Brazil also obtains equipment for natural gas extraction from Russia (Khanna, 2008: 155). Russian energy giant Gazprom will soon open a representative office in Brazil to “[reinforce stance] on the Latin American continent and contribute to the gas-fired power sector in the region”. [16] Russian state and business groups closely eye investment prospects in Brazil and Latin America in general and investment issues are frequently brought up on state-level bilateral talks. To this end, the two partners arranged the mutual abolition of visa requirements for short-term visits in 2008, aimed to strengthen connections as well as enhance business climate between each other. [17]

4.3 BRIC Prospects for Cooperation

The BRICs, as many critiques frequently point out, have a number of characteristics that distinguish each from the others. The most fundamental differences they possess include diverse political systems, economic structures, the degree of material capabilities and economic openness (Glosny, 2009; Armijo, 2007). Armijo (2007) holds that “[e]xamined from the perspective of domestic politics or economic structure, it would seem more sensible to group Brazil with Argentina, Chile,

[16] Press interview with Director General of Gazprom export Alexander Medvedev, April 26, 2011. http://www.gazprom.com/press/reports/main-profit/ . Accessed June 23, 2011.
[17] The visa agreement became effective in June 2010.

Figure 13.Percentage Share of BRIC Merchandise Trade in Total BRIC Trade



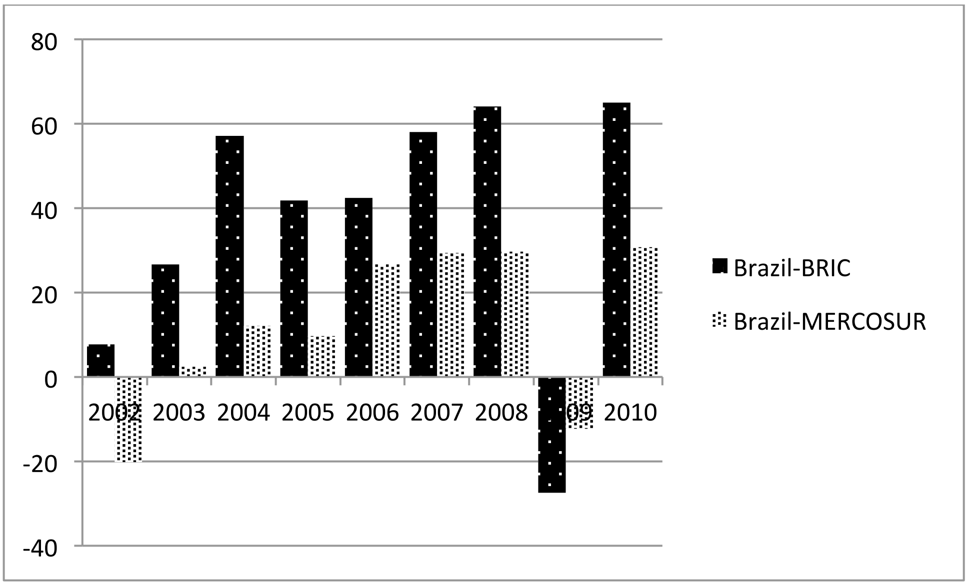
Source: ITC Calculations based on COMTRADE Statistics. Author calculations.

Colombia, or Venezuela; India with Pakistan and Bangladesh." However, boiling down regional cooperation to sole geographical proximity and similarity of internal structures falls short of explaining complex transnational ties and growing interdependence between states in the era of globalization; therefore the weight of other factors such as increased bargaining power in international politics or access to larger markets should be taken into consideration in determining the coherence of multilateral groupings.

The pressing question here is whether the BRICs can be transformed into a regional-like structure in the future, despite their lack of geographical commonality. Although the collective past of BRIC is nascent, the improvement in the economic relations among them is still significant. For instance, Brazil's trade with its BRIC partners has multiplied 12.5 times during the 2001-2010 period, while its trade with MERCOSUR increased only threefold during the same years.[18] It is possible to

[18] ITC calculations based on COMTRADE Statistics. Author's calculations.

Figure 14. Annual Percentage Growth of Brazilian Imports from MERCOSUR and BRIC



Source: International Trade Centre, author's calculations.

observe a similar trend in the BRIC as a whole. Recently, the share of intra-BRIC trade in total external trade of the group members increased from 5.5 percent to 10.5 percent in less than ten years. [19]

There is great potential for further economic cooperation considering that the BRICs include two leading energy consumers (China and India) and two of the top energy suppliers (Russia and Brazil); and the level of intra-BRIC energy transaction is far below what it can potentially be. China and Russia have started the operation of a new pipeline in January 2011, a \$25bn project which is planned to deliver 15 million tons of crude oil from 2011 to 2030. [20]

Perhaps more importantly, with this huge project, the two states began to conduct oil trade in their national currencies rather than dollars –a development that

[19] Figures date from 2001 to 2009.

[20] Beibei, Huang. "Sino-Russian Oil Pipeline Starts Trial Operation", *People's Daily Online*, November 2, 2010. http://english.peopledaily.com.cn/90001/90778/90860/7185002.html . Accessed July 3, 2011.

will likely hurt the role of dollar as a petro-currency, and as a reserve currency. [21] The Sino-Russian agreement on trading in national currencies is part of a larger effort of the BRICs to replace the US dollar with their own currencies in intra-BRIC transactions and loans.

In the last BRICS (including South Africa for the first time) summit in 2011, the state leaders have voiced their joint discontent about the current composition of reserve currencies and called for a just adjustment that would reflect the increasing weight of emerging economies. Modifying special drawing rights (SDR) in favor of emerging market currencies would deeply damage the US international economic clout:

> Were the yuan and possibly the ruble to be included, the BRICs say, then the SDR could ultimately replace the dollar. That would be anathema to Washington, formally ending America's global hegemony and forcing it to address its massive overseas debts. It was a message the BRICs wanted to emphasise in Hainan, just in time for this weekend's spring meetings of the World Bank and the IMF in Washington (Halligan, 2011).

But at the same time, the BRICs would not prefer an immediate loss of dollar's value since they hold extensive amounts of US government securities.

The aspiration of BRICs to become major global powers is not new, but their appearance as a collective voice of power contenders is a phenomenon of the recent past. The arguably coincidental rise of these four developing countries (and the emerging powers in general) with improving monetary and economic relations among themselves in last decade certainly played a role in their coming together as a formal political grouping in June 2009. Also, the global financial crisis that exposed

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[21] Halligan, Liam. "The BRIC countries' Hainan Summit could maket he G20 redundant", *The Telegraph*, April 16, 2011. http://www.telegraph.co.uk/finance/comment/liamhalligan/8455956/The-BRIC-countries-Hainan-summit-could-make-the-G20-redundant.html. Accessed July 4, 2011.

the vulnerability of advanced capitalist economies and the international financial institutions led by them acted as a *catalyst* for the inception of the BRIC grouping. [22]

What BRICs share in common is basically their awareness of the potential power they possess, and their desire to reform global governance so as to reflect this shift in the balance of power in global economy. As the gap between potential and actual power of emerging countries narrows down, an equivalent increase in their capability to reform international agenda should take place, which is at the heart of the BRICs' collective effort in the past few years.

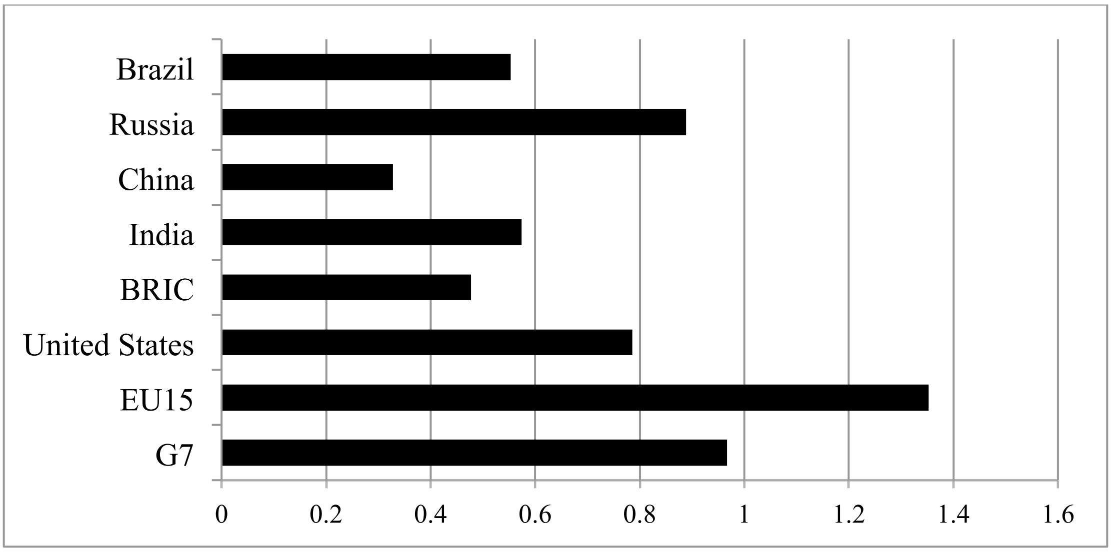
4.4 BRIC in the New World Order: An Analysis of BRIC Summits

It is fascinating to witness how ideas can shape reality. BRIC, once an idea posited by an investment bank economist is able to gather the leaders of four giant countries representing almost three billion people within less than ten years. The term BRIC has been our lives for a decade now, and in the meantime it has drawn wide attention among business and finance circles, researchers and from international media as well. The BRIC countries finally came together to crown this surging popularity by organizing a summit in 2009 to discuss "the current situation in global economy and other pressing issues of global development, and also prospects for further strengthening within the BRIC."[23] The BRIC countries have arranged two other summits, the last one including South Africa as well.

The first BRIC meeting taking place soon after the outbreak of global financial crisis is hardly a coincidence. Developed economies were at the heart of the crisis this time, prominently the United States; and the damage they incurred signaled

[22] I would like to thank to Dr. Ali Burak Güven for suggesting the right word.
[23] Joint Statement of the BRIC Countries' Leaders, June 16, 2009. <http://archive.kremlin.ru/eng/text/docs/2009/06/217963.shtml>. Accessed June 10, 2011.

Figure 15. Representation of BRIC and Developed Economies in the IMF



Source: IMF (2010)[24]

their inherent vulnerability to defects of the financial system, in which they have an immense control through their voting shares in international financial institutions (IFIs). From the very beginning, the BRICs frequently stated that the IFIs do not adequately reflect the new global economy that is being shaped and therefore need to be reformed:

> We are committed to advance the reform of international financial institutions, so as to reflect changes in the global economy. The emerging and developing economies must have greater voice and representation in international financial institutions, whose heads and executives should be appointed through an open, transparent, and merit-based selection process. We also believe that there is a strong need for a stable, predictable and more diversified international monetary system (BRIC Summit, 2009). [25]

The emphasis that the BRICs put on the need for a better representation of emerging countries in global governance is not unfounded. The European Union countries produce 24% of the global output, but their voting share in the IMF is 32 percent. Whereas, Brazil, Russia, India, China and South Africa together account for 21% of

[24] The numbers above reflect the ratio of voting share to share of world GDP (weighted 50% nominal and 50% PPP). A similar table can be found in the article "Light-Weight BRICS", *The Economist,* June 6, 2011.

[25] For similar statements, see the declarations of BRIC(S) leaders made after 2010 and 2011 Summits.

world GDP while their share of votes in the IMF is only 11 percent.[26] The US hegemony and the international institutions it has created more than sixty years ago today fall short of satisfying the demands of rising powers in the global economy.

Similar demands have been made by the BRICs for the diversification of membership in the United Nations Security Council (UNSC). The BRICS jointly uttered their stance for a more efficient and representative UNSC in 2011 Sanya Summit:

> …we reaffirm the need for a comprehensive reform of the UN, including its Security Council, with a view to making it more effective, efficient and representative, so that it can deal with today's global challenges more successfully. China and Russia reiterate the importance they attach to the status of India, Brazil and South Africa in international affairs, and understand and support their aspiration to play a greater role in the UN (BRIC Summit, 2011).

Although China and Russia declared their support the membership of Brazil and India in the UN Security Council, China refrains from giving India permanent membership due to long-unsettled border issues and China's reflex to avoid a regional rival, which might cause friction within the BRIC in time.

Nevertheless, the persistence of the BRIC meetings so far has contributed to strengthening of dialogue within the group. More importantly, the idea of BRIC was incarnated by these summits in the first place. It is still essential that we ask whether BRIC is any more meaningful than being a discussion forum of random developing countries. In other words, does BRIC form a coherent, concrete supra-regional set?

A primary feature of the BRICs that allows us to lump them together is their potential and aspiration to create a change in the world order. After the fall of the Berlin Wall and the collapse of the Soviet Union, then U.S. President George H. W. Bush declared that a "New World Order" had emerged. In the following years, the

[26] Light-weight BRICS, *The Economist*, June 6th, 2011, Accessed on 10 June 2011.

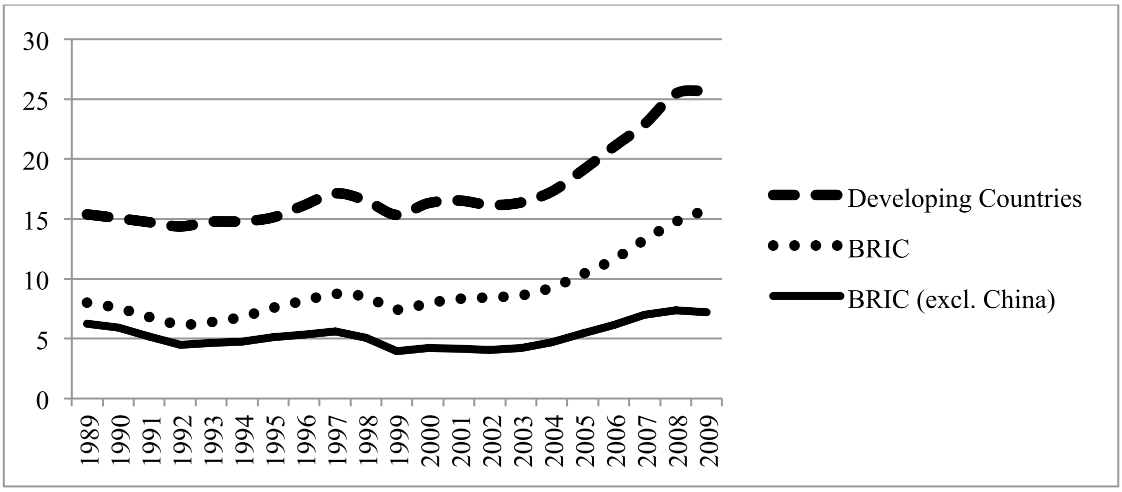
US had been involved in a series of conflicts in various regions of the world. From the collapse of the Berlin Wall in 1989 to the invasion of Iraq in 2003, the United States carried out ten large-scale military interventions, enjoying being the sole superpower as a 'world policeman' (Hiro, 2011). It was as early as the 1997, before the idea of BRIC came to existence, when China and Russia explicitly stated their consensus on the establishment of a multipolar world order, which was clearly at odds with the sole superpower status of the United States.[27]

Although the US still has by far the most powerful military force in the world, the validity and utility of hard power (military power in particular) in international affairs has been in decline for some time now, primarily because it is increasingly costly for belligerent parties. Khanna (2010) argues that today "military power and political influence does not necessarily go together, and too much of the former can even undermine the latter". In this respect, the US has been losing ground in its superpower influence and prestige around the world. US military operations in Afghanistan and Iraq only reinforce that claim. BRICs, on the other hand, emphasize their function as a soft power: "We share the principle that the use of force should be avoided" (BRICS Summit, 2011). "We reiterate our support for political and diplomatic efforts to peacefully resolve disputes in international relations" (BRIC Summit, 2009).

On the economic sphere, long-running problems such as large budget deficits, as well as persistent current account deficits and low saving rate has afflicted the American economy. As of April 2010, US Treasury securities held by China alone reached $900 billion. Most emerging economies, on the other hand, recovered from

[27] See the joint statement of Jiang Zemin and Boris Yeltsin on the "Multi-polarization of the World and Establishment of a New International Order," April, 1997.

Figure 16. Percentage Share of BRIC and Developing Countries in World Output



Source: World Development Indicators (2010). Author's own calculations.

the crisis with much more robust economies and many of them (most notably China and the BRIC for that matter) have increased their share in world output. Today the BRICs alone account for nearly 20 percent of global output and continue growing rapidly.

BRIC countries agree that the Bretton Woods system in its current form and the G7 group of industrialized states do not adequately capture and represent the dynamic and growing economies of the developing world. For a more evenly representative governance of global economy, BRIC calls for a larger importance attached on G-20 countries:

> We stress the central role played by the G-20 in combating the crisis through unprecedented levels of coordinated action. We welcome the fact that the G-20 was confirmed as the premier forum for international economic coordination and cooperation of all its member states. Compared to previous arrangements, the G-20 is broader, more inclusive, diverse, representative and effective. We call upon all its member states to undertake further efforts to implement jointly the decisions adopted at the three G-20 Summits (BRIC Summit, 2010).

Particularly in the 2009 and 2010 summits, BRIC accentuate the necessity of strengthening international cooperation and the role of G-20 meetings in achieving collective action to tackle the global financial crisis. It is possible to argue that the global downturn created a window of opportunity for the BRICs to come out of their shell and become not only key global players, but those that have power to shape global economy.

The United States, the post-war hegemon has built an international free-trade regime and managed to sustain it over the following decades. Yet, the legitimacy of the IFIs began to come under question in the 1990s, particularly after a sequence of financial crises occurred in emerging markets, undermining the credibility and effectiveness of structural reforms (Buira, 2005; Sohn, 2005). [28] Furthermore, IMF and World Bank which champion high standards of legitimacy, representation and accountability of governments under the rubric of 'good governance', they have been increasingly criticized for not fully complying with these standards themselves in the first place (Woods, 2000). What BRICs demand for reform in the global financial and economic architecture refer to is this gap of governance:

> We will strive to achieve an ambitious conclusion to the ongoing and long overdue reforms of the Bretton Woods institutions. The IMF and the World Bank urgently need to address their legitimacy deficits" (BRIC Summit, 2010). "…global economic governance should be strengthened, democracy in international relations should be promoted, and the voice of emerging and developing countries in international affairs should be enhanced (BRIC Summit, 2011).

Note that the challenge to the existing regime came from the largest quad of countries that are not located at the center, the BRIC, as currently there is no single state that could assume hegemonic leadership anytime soon. The current state of

[28] For example, Mexican Peso Crisis in 1994, and the Asian Financial Crisis in 1997.

affairs in the global economy confirms the hypothesis that the stability that the hegemon maintains and economic and political structures it establishes may allow other economies to flourish; and when the balance of power shift towards the latter it may eventually lead to the decline of the hegemon (Gilpin, 1987; Grunberg, 1990). In the next phase, if no single state is willing or able to step up to become a hegemon, states may choose to collaborate to maintain their own interests through the stability of international order, which seems to explain the BRIC's struggle in recent years.

As mentioned above, in order to diffuse power further towards the rest of major developing economies, BRIC express their will to assign more responsibilities to the G-20 economies:

> We support the Group of Twenty (G20) in playing a bigger role in global economic governance as the premier forum for international economic cooperation… We support the ongoing efforts of G20 members to stabilize international financial markets, achieve strong, sustainable and balanced growth and support the growth and development of the global economy (BRICS Summit, 2011).

The legitimacy and representativeness of the G-20 for global governance is above that of any other existing global organization today, as member countries together represent around 90 percent of the world GDP, as well as four fifths of world trade and two thirds of world population. BRICs' call for greater role to G-20 in global economy have found its response in the G-20 Pittsburgh Summit in November 2009 as the G-20 leaders officially designated the G-20 to be the premier forum for international cooperation.

However, what BRICs have in mind about increased representation of the G-20 and more broadly the future of global governance does not necessarily match what might possibly come about. Beeson and Bell (2009) draw a dichotomous framework that captures well the potential nature of power diffusion within the G-20. Accordingly, international coordination can be achieved in two ways. The first one is hegemonic incorporation, which allows the continuation of the US and G7 dominance in global governance while emerging powers are considered as key players *within the existing order*, and encouraged to adopt and support the neoliberal market system as the way it has been set up.

Secondly, collectivist cooperation provides the non-G7 members of the G-20 with a genuinely new role and increased voice in global governance by diverging from the dominant patterns of global economy drawn by the US-led hegemony. Considering that the main reason why the BRICs repeatedly call for an improved role of the G-20 in global economic affairs is that they perceive the G-20 as a "broader, more inclusive, diverse, representative and effective" forum, the latter form of international collaboration better reflects the multipolar global order envisioned by the BRICs (BRIC Summit, 2010).

4.5 Potential for Competition and Discord within the BRIC

Notwithstanding the abovementioned grounds for cooperation, differences exist within the group and certain issues that might create competition among partners and/or grow problematic in the future. Most BRICs (Brazil being the exception) share a common history that has not necessarily been friendly and cooperative. There is still a public tendency in Russia and India to see rapidly growing China as a threat to their national interests. Demographic imbalance in the Russia-China border leads many Russians to think that the massive Chinese population poses a threat to Russian control over Siberia, although both states underline their cooperative efforts to prevent any illegal migration through the border (MacFarlane, 2006; Lo, 2008).[29] Similarly, despite growing interdependence and collaboration between India and China, and increased enthusiasm of political leaders towards cooperation lately, public perceptions of the two countries about each other has not yet improved at a similar pace (Holslag, 2009).

On a regional basis, the BRICs all enjoy hegemonic power in their respective regions in varying degrees: Brazil in Latin America, Russia in ex-Soviet bloc of Central Asia and ex-Soviet bloc, China in East Asia and Southeast Asia (excluding Japan), and India in South Asia (Garg, 2011). As they grow more powerful, there might also be a risk of conflicting interests in extending their spheres of influence outside of their current boundaries.

To start with, Central Asian states located in the backyard of China and Russia carry a huge importance for both BRICs with major oil and gas reserves. Russia desires to maintain its traditional hegemony over former Soviet Republics in Central Asia. Likewise, China considers Central Asia as a major supplier of its future energy needs and also a lucrative market for exports. Both willing to put the United States out of action in the region through the Shanghai Cooperation Organization (SCO), Moscow and Beijing might have an internal rivalry to consolidate their presence in Central Asia (Rumer, 2006).

By the same token, it is possible that China and India might experience competition and conflict of interests in gaining political and economic influence in Southeast Asia as they both aspire to great power status (Hong, 2007). So far, the main power that challenged China in the region has been the United States. But since

[29] China's northeast population is 110 million, whereas that of Russian Far East is only 6.6 million (Lo, 2008).

the 1990s, India is also strengthening its presence in the region. ASEAN states rend to promote a stronger India in the region to counterweight the Chinese power (Lakshminarayan, 2010). The Chinese clout in the region is currently unmatched, yet a stronger India might become a regional contender in the future.

Another potential source of competition among the BRICs lies in their heightening interests in Africa. In 2011, the formal inclusion of South Africa –the largest economy in the continent (still small in BRIC terms in many respects) in the club symbolized the heightened importance of Africa for the group. BRICs' vested interests in Africa can be largely attributed to rich mineral and oil resources in the continent, vital to fuel growth particularly in China and India. Besides, many African countries are now growing rapidly, becoming a promising venue for commercial purposes of large emerging powers. BRIC countries led by China already demonstrated their mounting interest in Africa by extensive trade and investment ties, backed by aid and infrastructure development policies in the region, which is likely to continue in the future. Standard Bank (2010) estimates suggest that the current $150bn BRIC trade with the region will increase to $530bn as soon as 2015, and $60bn of BRIC FDI stock in Africa will exceed $150bn by 2015. Obviously, Africa is a large growing continent attractive to political and economic interests of the BRICs altogether. Therefore, it is natural to expect competition within the BRIC due to their overlapping spheres of interest in the region (Garg, 2011).

On a broader level, UNSC membership remains a cleavage within the BRICs. Only China and Russia are currently permanent members of the UNSC, whereas India and Brazil have been striving to earn a permanent seat for years. Russia and China expressed their support for India and Brazil in their recent meetings to play a greater role in the United Nations, but the addition of new permanent members will lead to a relative decline in their power in the Security Council, which they should not necessarily welcome (The Economist, 2011). China had been particularly lukewarm to Indian accession to the Security Council until very recently. Permanent membership in UNSC is essential for improving cooperation among the BRICs, and also as a sign of commitment to reform for more representative global governance.

Before concluding, a final note should be made on the heterogeneous types of regimes among BRICs, criticized by many as a major obstacle before the formation of a political grouping among these states. So far the democratic/authoritarian divide were effectively contained by the BRIC countries along with other heterogeneous features of the group. It is ironic that China and Russia lack democratic structures at home but still side with India and Brazil in addressing the problem of democratic deficit in international institutions. This is important to illustrate that the BRIC leave aside diversities within the group and maintain its focus on issues of global economic and political governance.

The BRICs strike deep into the heart of issues spanning the global economy, and univocally seek change in institutions of global governance to reflect the emerging multipolar order. However, the approach of each BRIC toward the new world order might vary in the future once their cooperative efforts bear fruit and a new world order is established. Thus far, they have articulated a collective voice in order to modify global governance and tip the balance in favor of emerging countries to create a multipolar world; yet, once they become major global powers (assuming each of them successfully achieves so), it is debatable whether they will continue to cooperate unless they share common a vision and similar interests on regional and global issues.

4.6 Implications of the Rise of the BRICs for Second-Tier Emerging Powers

4.6.1 The Near-BRICs

The BRIC acronym proposed by Jim O'Neill of Goldman Sachs served to designate the ascendance of the developing world. The BRIC, once an abstract notion, was soon transformed into a political grouping by their state leaders and became increasingly vocal in global affairs. The BRIC concept attracted well-deserved attention to the growing role of the largest emerging powers in the global economy. However, one should keep in mind that there are other emerging markets which resembles the BRICs in terms of their potential impact the global economy, only on a smaller scale.

There have been several attempts to categorize this secondary set of emerging powers (hereafter referred to as the near-BRICs), made largely by financial circles towards investment purposes. In 2005, Goldman Sachs introduced the Next Eleven (N-11) countries as countries "that could potentially have a BRIC-like impact in rivaling the G-7" (Wilson and Stupnyska, 2007). These countries include Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam. N-11 clearly has a great deal of diversity in terms of economic and demographic size, level of income, developmental stage, economic openness, political structures, and foreign relations. What holds these countries together is their relative size and promising potential of growth that is capable of creating notable impact in the global economy.

VISTA[30] (Vietnam, Indonesia, South Africa, Turkey and Argentina) and CIVETS[31] (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa) were

[30] Created by the BRIC Economics Research Institute of Japan.

two other groups of emerging countries promoted as new lucrative investment destinations with large market size and growing economies. Others have offered new acronyms simply by extending the BRIC: BRICSAM (BRIC plus South Africa, the ASEAN-4, and Mexico), BRICT (BRIC plus Turkey), BRICI (BRIC plus Indonesia), BRICM (BRIC plus Mexico) and so forth.

In late 2010, the Spanish bank BBVA (Banco Bilbao Vizcaya Argentaria) created another group: the EAGLEs (Emerging and Growth-Leading Economies), which distinguishes from the other selections in several ways. First of all, quite differently from the rest, it was designed as a dynamic group –the number and collection of economies is subject to change. The group members are selected with regard to their incremental absolute GDP growth. Each member is expected to exceed the average 10-year GDP increase of G-7 countries (excluding the United States), and the composition of the group is subject to change. Currently, there are ten such countries to become the engines of world growth in this decade: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Egypt, Taiwan, and Turkey (BBVA, 2011).

Despite marginal exceptions such as Taiwan or Bangladesh, it is evident that there are certain emerging economies favored by a majority of observes as the successors of the BRICs group (e.g. Indonesia, Turkey, and Mexico). However, the criteria used for each grouping stated above tend to highlight different attributes of emerging powers. N-11 selection is based on large population and growth projections, CIVETS group focuses on young populations in those countries and emphasizes their dynamic economies, BRICSAM resembles the N-11 in its focus on population size and average growth rate, while VISTA acronym seems to be no more

[31] Created by HSBC and Economist Intelligence Unit.

than a group formed to attract investment in relatively ricky emerging markets carrying high returns.

Among developing countries, BRICs are naturally discernible for their huge territorial and economic size, if not all for population or GDP growth.[32] However, classification of the rest of developing countries is not as straightforward. As opposed to the BRICs, all of which individually possess a degree of political and economic clout enough to convince many that they will make a significant impact in the global economy if they continue to grow sustainably; the rest of emerging countries are larger in number, more diverse by many means, but limited in size to create a 'BRIC-like' effect in the global economy.

Since the inception of the BRICs, their rise has been evaluated vis-à-vis the advanced economies, mainly the G6. The main reason why the BRIC term has become so popular is that it was real; meaning that –regardless of being a coherent and harmonious group- it captured and symbolized the cliché but true shift of power in the global economy from advanced to emerging economies, and the G6 comparison served to present this argument plainly. In this sense, the BBVA technique in assessing the new emerging powers of the future by surveying their contribution to the global wealth relative to the advanced G6 economies is an appropriate method to determine near-BRIC economies.

This simple practice captures economic size and medium term growth at the same time, as well as the relative performance of emerging markets with respect to advanced economies. Although medium-to-long-term contribution to global growth

[32] Certain developing countries have larger populations than Brazil and Russia (the population of Indonesia larger than Brazil's; and the population of Indonesia, Bangladesh, Pakistan, and Nigeria is larger than that of Russia). There are many emerging market economies that exceeds the long-term growth rates of BRICs (particularly that of Russia and Brazil).

is a robust indicator future for global economic weight, a possible drawback of this selection is that it might lead to include countries like Taiwan and to some extent South Korea, which can be more suitably termed as advanced economies, rather than emerging markets.

The classification of near-BRICs varies depending on how they are defined, relative weights given on country selection criteria (e.g. economic size, growth rate, population, investment flows etc.), and future projections of respective indicators. Yet, as a rule of thumb, near-BRICs could be considered as emerging powers outside the BRICs with largest absolute GDP growth –which reflects a combination of their economic size and growth rate. Accordingly, the BBVA list more or less includes all the leading emerging countries that might experience a BRIC-like upsurge in the years ahead.

4.6.2 Implications of the BRIC Rise for the near-BRICs

The diffusion of economic power among countries historically referred to as periphery and semi-periphery in the past few years is noteworthy (Subacchi, 2008). There is a corresponding surge in attention on these countries particularly by investment circles, frequently expressed by the formation new groups of countries celebrated as the rising emerging powers, new centers of global investment and the next BRICs. During the few years preceding the global economic crisis, the emerging market mania has reached its peak. The MSCI Emerging Markets index rose almost by 45% in the first nine months of 2007, just a while before the outbreak of the global financial burst (India Knowledge, 2007).

The global economic crisis showed that the rise of the most BRICs and near-BRICs was not a mere product of global boom period resulted by credit expansion,

Table 12. Complementary and competitive impacts of BRIC growth in near-BRICs

Complementary impacts	Competitive impacts
▪ Low-cost BRIC exports can provide cheap goods to near-BRICs. ▪ The BRICs can invest in near-BRICs and other emerging markets.	▪ Large-scale BRIC producers might put local petty producers in near-BRICs out of the market. ▪ Relocation of production might take place from firms in advanced economies to the BRICs rather than near-BRICs, for they provide larger domestic market and low-cost production and services.
▪ The BRICs can provide cheap inputs for near-BRIC manufacturing exports. ▪ For commodity-rich states, industrial growth of BRICs (primarily China and India) offer a great source of demand for commodities and natural resources.	▪ Larger BRIC presence in industrialized country markets can limit manufacturing exports from near-BRICs to these economies.

Adapted from Nayyar (2008).

as many of them proved resilient and became the main drivers of global recovery during the economic setback. Emerging countries led global growth by a massive 80% share, up from an average of 45% within the 2000-2006 period, in which the BRICs accounted for 45 and 24 percent respectively (O'Neill and Stupnytska, 2009). The growth of BRIC economies comprised a large portion of total growth in emerging countries, and they have become the main source of global growth.

Considering the importance it bears for the future of global economy, what the rapid expansion of BRICs implies for the future of near-BRICs, and emerging economies in general is worth discussing. Both the BRICs and near-BRIC countries have become progressively more integrated into the global economy through openness policies pursued in the post-1980 period, which in time created a certain degree of interdependence between states. Therefore, whether near-BRICs can reap the rewards of global integration somewhat depends on possible direct and indirect impacts of the rise of BRIC economies, China in particular, which might pose an obstacle to their industrial development by creating a competitive environment as well as have complementary to their economic performance. China offers large and growing internal markets for especially commodity exporter emerging countries; however, its massive production of labor-intensive manufactured goods sweeps the world markets and might cause a "race to the bottom" in developing country industries (Kaplinsky and Messner, 2007). [33]

Complementary and competitive impacts of BRIC expansion on near-BRICs and other emerging countries can be felt through direct or indirect channels. In terms of trade and investment, the influence of the BRICs in developing as well as advanced economies has been surging for more than ten years. In this respect, the rise of BRICs could have both positive and negative effects on near-BRICs. The BRIC's economic impact will likely be related to production costs, investment inflows and outflows, and market access for exports (See Table 12).

Finally, notice that collective efforts of the BRICs toward more representative and inclusive global governance probably did more in the advantage of emerging countries as a whole than for themselves. Many states that can be considered as near-BRICs enjoyed greater representation in global governance both through the recognition of G20 as the main forum to discuss global issues replacing the G8, and increased voting and quota shares in the international financial institutions. Agarwal

[33] Between 1985 and 2000, China's share of manufacturing exports in developing countries increased from 7.6 to 24 percent (IDS, 2006).

(2010) underlines the essence of recent developments in global governance for developing countries, even though they may pursue different objectives:

> …developing countries have been trying for many years to get greater voice in international economic governance…They finally now have a seat at the table, where discussions are going to take place about major international economic issues, so this is a tremendous achievement for them. They may not be always clear what they expect to get out of being there; and obviously different countries have different interests… so it is not that the developing countries are going to be united, but at least they have a place at the table.

Thus, although greater representative power in global platforms for near-BRICs and other emerging countries made possible by the efforts of the BRICs might not lead to an outright cooperation among developing states, it offers an opportunity to contribute to global agenda-setting and presents a platform for possible future cooperation.

4.6.3 Near-BRIC Prospects for Cooperation

The steps taken by the BRIC states benefited many near-BRICs in terms of international recognition and representative power. The possibility of international coalition building within the near-BRICs similar to the BRIC initiative, however, remains an important question to discuss. First of all, any possible coalition group formed within near-BRIC economies would be a looser one compared to the BRICs. Near-BRICs come from very different backgrounds in terms of level of income and development, regional ties, economic and political priorities and relations with advanced economies. One may argue that the BRIC states possess similar divergences, which is partially correct; but what distinguishes the BRICs from a possible coalition of near-BRICs is that they have built enough clout in the international system to shape global economy and politics; on which they have centered the basis of their cooperative efforts.

Table 13. Exports of Mexico and Turkey to Major Developed Partners 2002-2009

Share of Total Exports	2002	2003	2004	2005	2006	2007	2008	2009
Mexico to the US	85.8	87.7	88.6	85.8	84.9	82.2	80.3	80.7
Turkey to the EU	56.6	58.0	57.9	56.4	56.1	56.3	47.9	45.9

Sources: International Trade Centre, Eurostat

Unlike the BRICs, countries like Mexico, Turkey and Indonesia are more regionally-oriented states. Issues regarding global governance, which has been a major point of convergence of BRIC interests, do not necessarily constitute a primary element in their international agenda. In particular, regional foci of Mexico and Turkey imply an asymmetrical interdependence relation with developed partners, which stand as another challenge to their inclusion into coalitions with other developing states.

Turkey is linked to the European Union by a Customs Union agreement signed in 1995. In 2007, the EU accounted for 56.3% of exports from Turkey and 40.8% of imports to Turkey as well as being Turkey's foremost investor with €12.3bn FDI inflows in 2007. The Eurozone is going through numerous macroeconomic problems, and Turkey's bid to join the EU seems to be out of track in the past few years, but economic interdependence between Turkey and the EU continues to be a strong one regardless.

In a similar fashion, economic development of Mexico came to be increasingly dependent on its relations with NAFTA. For instance, Mexican economy has been the most damaged one in Latin America after the global financial crisis, largely as a result of its close ties with its regional partner the United States (Zepeda, Wise and Gallagher, 2009). The decline in the US consumer demand during the crisis had a direct impact on the economy of Mexico, as the US share in Mexican exports has been on average over 80% for the last ten years.[34] In 2009, the share of FDI from the United States in total FDI inflows into Mexico was 46%, down from 51% in the previous year. In brief, strong partnership of near-BRICs such as Turkey and Mexico with advanced economies might preclude their support to a BRIC-like challenge.

The most noticeable development in international cooperation among developing countries lately has been the formation of the G-20 developing country coalition group in the WTO Ministerial negotiations at Cancun in 2003. India, Brazil and their recent BRICS partner South Africa planted the seeds of this initiative by forming IBSA in the same year, which later gave rise to the foundation of the G-20. The establishment of G-20 improved the bargaining power of many emerging and developing nations in multilateral trade talks against agricultural subsidies in industrial countries. Looking through the perspective of North-South relations, G-20 alliance can be considered as a power contender to the US and the EU primacy in the WTO.

However, their stance during the WTO meetings in Geneva in 2004 and Hong Kong in 2005, the two years following the ministerial conference at Cancun, was more moderate. This softening of tone was associated with the 'promotion' of developing country leaders Brazil and India to the G5 preparatory group in 2004 before the Geneva Summit, along with the US, the EU and Australia (Schirm, 2006). India and Brazil's change of stance after the G-20's failure to enforce their demands to the industrialized countries raise suspicion about the stability of a similar developing country coalition and its likelihood of success.

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[34] ITC Calculations based on COMTRADE statistics.

4.7 Conclusion

An analysis of bilateral relations between BRICs points to a surge in economic and diplomatic activity within the group in recent years. The volume of trade and investment taking place within some BRIC members is still far from what it potentially can be. Nonetheless, in comparison to how intra-BRIC economic relations were a decade ago the picture is certainly promising. BRIC does not imply institutional arrangements for trade and investment as in a typical regional group. There is, however, a notable increase in economic affairs within the group, which might point to an activity similar to what one can denote as regionalization.

The strengthening of bilateral ties within the BRICs has found its political parallel in the BRIC club established following the global financial crisis. Many critics consider the group as a distinct one in several ways. Nonetheless, these large emerging powers managed to collaborate on major issues concerning global economic governance and were able to achieve tangible results in terms of more representation for emerging economies in global economic agenda-setting.

CHAPTER 5

CONCLUSION

The BRICs stand out among developing countries with their unmatched combination of economic, geographical and demographic sizes. Strong economic growth in these economies made the BRIC experience unique, which also created the possibility of the group to surpass the most advanced economies of today in a foreseeable future. The latter has brought Brazil, Russia, India and China under spotlight in the past decade and the BRIC concept certainly helped these emerging economies capture world-wide attention. The state leaders of BRICs embraced the opportunity of this increasing popularity and the favorable global context, and turned BRIC into a discussion platform.

The literatures on regionalism, international cooperation and power/hegemony are conducive to examining the viability of the BRIC as a political group, outlining their ability to cooperate and potential for discord, and understanding the BRIC phenomenon in context of the shift of power taking place in the world economy in recent years. Theories on new regionalism point to a convergence of interests and expectations as well as strengthening of economic and commercial ties among regional members in a global context, without necessarily seeking geographical proximity between member states. International cooperation literature is complementary to regionalism in determining how commonalities and differences among the BRICs might affect the future of their political grouping. Lastly, previous studies on power and hegemony offer valuable insights about the power dynamics that operate both within the BRICs, and more broadly on a global scale.

Concentration of trade and investment activities within the BRIC countries goes hand in hand, but at a greater pace, with their integration to the global economy. BRIC has thus far depicted a contrasting picture to what is called by Jagdish Bhagwati as “regionalism as a stumbling block on the path toward globalization”, since the BRICs (all sizeable regional players in their respective regions) seem to strengthen economic ties among each other by a process similar to regionalization. It is important to note that intra-BRIC economic relations are developing much faster than their relations with the rest of the world, including their regional partners. If this trend is to continue, and the BRICs maintain growing economies, they might decide to take the BRIC grouping one step further by building an institutional structure similar to a regional group.

The BRICs officially came together following the global financial crisis, which leads the question whether the global crisis environment acted as a catalyst for the large emerging powers to step up in global economic governance. The relative decline of the Western hegemony led by the United States during the global economic downturn coinciding with the appearance of the largest emerging powers as a political grouping should hardly be treated as a fluke. Growing clout of the BRICs in global economy and trade, improving economic and diplomatic relations within themselves in the past decade together with the window of opportunity that the crisis has opened has become the primary factors that led to the official formation of the BRIC grouping in 2009.

Critiques claim that BRIC as a political group is not a meaningful one pointing out the distinct political and economic structures of its members and different standpoints they take in most issues of global governance. The BRICs, of course, possess a number of attributes that they diverge from each other, particularly regarding political systems and economic orientation of these states. The conflictual nature of bilateral relations between some BRICs, partly on issues inherited from history and partly on current problems, is also considered by some as counterproductive to BRIC cooperation. The view that magnifies the elements of divergence within the group posits that BRICs should collaborate more with regional partners or other countries in their regions, for that matter. Cooperation among states taking place in a more limited regional setting, as homogenous as it might be in terms of the relevant features mentioned above, is bound to disregard other sources of cooperation related to potential power, rising interdependence and shared incentives regarding global governance.

An analysis of bilateral relations within the BRICs and their collective relations in the summits they have organized since 2009 demonstrate that BRICs tend to suppress issues that might potentially impede their relations, or at least maintain a mild attitude even in issues that had been a matter of discord, such as the UN Security Council membership of India and Brazil. BRICs, instead, focus more on issues in which international cooperation would benefit all simultaneously. Divergence of position on various issues among the BRICs does not necessarily obstruct collective action, just as convergence of international position does not always lead to international cooperation (De Oliviera and Onuki, 2010). They have found common grounds on issues on which they can put collective effort, and seem to get along so far over issues such as reforming the IFIs and the establishment of a multipolar world order. Although BRICs have maintained their partnership and been able to gain weight in global governance during past few years of economic downturn, these countries more powerful, likelihood of conflict between them might eventually increase over building presence in their immediate regions as well as in other parts of the world –most notably in Africa, where BRICs show a mounting interest in recent years.

The shared ideal of a multipolar world is particularly instrumental in laying the foundation for BRIC cooperation. Objectives and motives of each BRIC concerning the new world order do not necessarily overlap, yet in their meetings they have addressed the need for a better representation of emerging powers in the global economic governance and render international political and economic institutions more democratic and inclusive. Members have frequently emphasized that G8, the dominant power in global economic policy-making, should give way to a more inclusive group G20 which includes the growing economic powerhouses of the emerging world. A stronger G20 will lead to a more evenly distributed power among major economies, mitigating the disproportionate influence of the traditional powers in global economy.

The official designation of the G20 as the chief platform for international economic cooperation, replacing the G8 in September 2009 had a two-fold impact on the BRICs and near-BRICs. First, as stated above, the majority of BRICs and near-BRICs have finally gained a seat at the table where issues of global economic governance are discussed along with developed economies. Secondly, only a few months before the G20 Summit, the BRICs collectively called for an improved role for the G20 in dealing with the global financial crisis, which is understandable considering that many emerging country members of the G20 has survived the crisis relatively unscathed compared to their developed counterparts. The promotion of the G20 to assume a greater role in global economy was one of the main demands posed by the BRICs in their first declaration in 2009. Therefore, the following G20 decision in line with the BRIC demands stated a while ago shows the capability of BRICs to set the international agenda.

This research also touches upon the possible implications the BRICs rise could offer for the near-BRICs. The near-BRICs are a cluster of countries that in many aspects too broad to fit into a single group. There have been many attempts for classification of these secondary set of emerging powers, yet they do not necessarily overlap due to differences in matters of definition and methodology. By and large, near-BRICs come from the group traditionally known as 'the South'. However, the likelihood of any possible coalition within them or with the BRICs altogether follow the traditional South-South cooperation line, being explicitly against the Western dominance is slim, as the new emerging powers enjoy strong economic and political ties with developed economies on both regional and global scales. The G20 seems to become the primary stage for potential near-BRIC cooperation, since the forum contains almost every emerging country that could be labeled as a near-BRIC and it has become the foremost platform to discuss global economic issues.

To some extent, the rising influence of BRICs in global governance also benefited the near-BRICs. Having struggled alongside other developing countries for a greater voice in global governance, many near-BRICs have seen an increase in their international policy-making capability thanks to collective BRIC efforts. For now, the possibility of near-BRICs forming a BRIC-like coalition seems rather remote for their very diverse backgrounds and lack of common incentives. But this picture might change in the future contingent to improvements in relations among emerging powers, and proximity of their objectives regarding global governance.

The grounds on which the BRICs have built international cooperation reflect the very feature that they share in common: large and growing economic and demographic size capable of creating an impact in global economy and politics. It might not be possible to identify a 'BRIC type of development' since each BRIC has tailored a distinct path particular to its own characteristics and needs, but one way or another, they were all able to integrate to the global economy successfully. Leaving aside issues that might potentially generate competition and discordance among the group members, the BRICs have strived to achieve greater voice for both themselves and other emerging countries in global economic governance, to reflect the shift of power taking place in the global economy from advanced to developing economies.

The global stagnation that caused a relative decline in advanced economies and facilitated the formation of BRIC is not over yet. The United States is struggling with outstanding government debt and rising unemployment, and recently saw a decline in its credit rating. Similarly, Eurozone economies are undergoing severe fiscal problems, and sovereign debt problem in the euro area is growing. During this period of global economic slowdown, the BRICs have been able to unite and take decisions regarding the international agenda with relative ease, focusing largely on the most pressing issues facing the global economy and addressing the need for reform in global governance. Whether the BRICs will continue to cooperate once the Western economies fully recover from the economic turmoil and the global economy enters into an expansionary phase is an important question to consider and invites further research.

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