

# BRIC - GLOBAL GOVERNANCE REDEFINITION

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## **Abstract:**

*Brazil, Russia, India and China, emerging markets with the fastest growth rate in the world, form the "BRIC" group that encompass over 25% of the world's land coverage and 40% of the world's population.*

*The current economic crisis has proven to be a true test of maturity for the four states. While most developed countries face debt crisis, reviewing its position against economic liberalism, emerging countries are becoming more concerned to accelerate the development process aimed at reducing the gap that separates them from the developed world.*

**Key words:** *emerging markets, Russia reforms, China funding, India reforms*

**JEL classification:** *F02*

## **1. Introduction**

The collapse of the financial system in the United States of America in 2008 generated

an economic downturn that hit both the developed countries, and the developing economies, diminishing significantly the global economic growth. Even so, the emerging states have been more competent in the fight against the economic downturn, some of them continuing to increase almost in the same pace.

Brazil, Russia, India and China, the emergent states with the fastest economic growth rate in the world, makes the „BRIC Group”, that represents 40% of the world population and 25% of the planet area.

Goldman Sachs, the financial group that used the BRIC acronym for the first time, states that the four countries have registered the most significant economic progresses of all emergent markets, since 2002 and up to now. Moreover, their economies seem to complement jointly, making a uniform group. Therefore, China, that most important exporter of consumer goods, is backed up by the services from India's IT field, by Russia's dominance on the natural gas market and the competitive goods of Brazilian farmers.

The current economic downturn has proved to be a real test of maturity for the four states. While most developed countries are facing the crisis of debts, changing their position in relation to the economic liberalism, the emergent states are increasingly concerned to accelerate the development process dedicated to reduce the gap from the developed world.

## **2. Brazil, on the way to the top**

Considered to be a major window of opportunities, opened to the foreign market, Brazil is the biggest country in Latin America, covering 43.7% of the area of this continent and the fifth country in the world, as regards the area.

For almost a decade, Brazil has seemed not to be like the other four states in the BRIC, group its economy not keeping the pace with the economy of China, Russia or with that of India. Nevertheless, Brazil's economy has developed slowly but surely, at present

becoming of the BRIC group. Being already a world power as regards the natural resources it has and its agricultural potential, it has lately benefited by the advantages of a steady national currency.

At present, Brazil is trying to reach the first five economies of the world. Although it did not encounter the fabulous economic growth rates of China, it has developed more quickly than Russia and, apart India, it is not affected as a result of the ethnic conflicts or fights at the border. The country has now 191 million inhabitants and has a stable domestic market, exporting cars and planes, iron ore, oil, sugar, coffee, soy and beef. Here banks are strong and stable, and during the current financial crisis few of them encountered difficulties. The State became creditor of the IMF in 2009, and the reserves of over 200 billion US\$ as well as the national currency – the real – helps Brazil to keep stable. The foreign experts foresee a decade of prosperity and economic growth for the South-American state.

For the first time in its history, in 2009 this country committed itself to lend the International Monetary Fund with about US\$ 10 billion, shifting from the position of debtor (in 2002 it received the highest loan ever provided by the IMF, totalling US\$ 30.4 billion) to that of creditor.

At present, the economy of Brazil has two supporting poles: The National Development Bank (BNDES) and the Energy group Petrobras, mostly held by the state. BNDES has been the bank that financed the Brazilian version of the Marshall Plan, successfully managing the privatization of several state companies. Today, it provides counseling for fusions and corporation acquisitions, lends the companies experiencing difficulties and finances the strategic investments of the government. The multinational company Petrobras is planning to invest US\$ 174 billion in the next four years in extraction platforms and exploitation equipment of the huge oil reserves on Brazil's Coast<sup>1</sup>.

**Table no. 1**

**Development of macroeconomic indicators in Brazil**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011 (prev.)</b>
<b>GDP (actual pace, in %)</b>	5.7	5.1	-0.2	7.5	4.1
<b>Inflation rate (%)</b>	3.6	5.7	4.9	5.0	4.6
<b>Deficit of current payment balance (% of GDP)</b>	0.1	-1.8	-1.5	-2.6	-3.0
<b>Unemployment rate (% of active population)</b>	-	-	8.1	7.2	7.5

*Source: FMI – „World Economic Outlook”, Oct. 2010, pg. 80*

From the data provided by the IMF, it can be noticed that, after a GDP growth rate by 5.7% in 2007, the economic expansion of Brazil continued in 2008 as well, despite the turmoil on the global financial and credit markets. Thus, on the whole year 2008, the economic growth rate was 5.1%, a slight decrease compared to the previous year. In the IMF report in 2010 – „World Economic Outlook”, it is mentioned that the

<sup>1</sup> <http://www.zf.ro/business-international>

driving force of rising in this period of time was the domestic market. For 2011, the IMF experts foresee a slowdown of the economic growth of the Brazilian economy, as the entire BRIC group, in the favour of the new wave of emerging economies (Mexico, Indonesia and Turkey).

Inflation increased in 2008, compared to the previous period, on the back of rising the prices of food and energy but also following the rise of domestic demand. All this reflected an inflation rate (measured by the harmonized index of consumption prices) of 5.7% in 2008. For the coming years the IMF has provided a lower inflation rate: 4.9% in 2009, 5.0% in 2010 and 4.6% in 2011.

As regards, the current account deficit, we mention that, for the first time since 2002, Brazil has registered the first current account deficit in 2008, on the back of profit repatriation by the foreign companies. For 2009-2011, the IMF estimates a depreciation of real and keeping the deficit current account balance.

### **3. Reforms in the structure of the Russian Federation's economy – chance of a sustained economic growth**

As regards economic issues, the Russian Federation (the largest country in the world and the sixth as population), is a paradox at the beginning of millenium: one of the countries with significant natural resources, with a high and skilled population, with exceptional achievements in fields of science (including conquest of cosmic space), important military power of the world, is for the time being following some states such as France or Italy as regards the economic development. However, the structural reforms under way focused on the country's economic modernization will represent the opportunity of a sustained economic growth.

After almost two decades from the collapse of the Soviet Union, in 1991, Russia is trying to build a strong economy, remove corruption and sustain its economic growth. Strongly affected by the Asian crisis, the economy recovered starting in 1999, in 1999-2005, the rise of GDP being approximately 6.5%. However, the current world economic crisis showed that Russia is still a vulnerable country in relation to external factors, as well as falling in oil price and restricting lending.

The upward development of global demand of raw materials, cutting of oil prices, increasing unemployment, as well as forecasts related to decrease of production and the consumption index in the developed countries, have driven the Russian state to adopt measures against the crisis. Therefore, in 2008, the state provided finance totalling \$ 86 billion to the banks and companies in order to avoid the problems related to liquidities, to which financial aids for the small and medium sized enterprises added. In September 2009, the Russian government decided to supplement the financial aid provided to the banks, with another US\$40 billion.

In 2006-2008, Russia experienced a high economic growth: 7.7% in 2006, 8.1% in 2007, and 5.6% in 2008.

**Table no. 2**

**Development of the main macroeconomic indicators of the Russian Federation in 2007-2012 (actual rates, in %)**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>GDP</b>	8.1	5.6	-7.9	3.5	3.8	4.0
<b>Export volume</b>	6.3	0.6	-4.7	5.1	4.9	4.5
<b>Import volume</b>	26.6	15.2	-30.4	11.6	7.7	6.9
<b>Unemployment rate</b>	5.7	7.0	7.3	8.2	7.9	7.7
<b>Inflation rate</b>	9.0	14.1	11.7	7.5	6.5	6.0

*Source: „European Economic Forecast – Autumn 2010”, pg. 178*

According to the Report of the European Commission in 2010 „European Economic Forecast”, Russia was in 2008 in the tenth year of economic growth (in 1999 – 2008 the average rate of economic growth was 6.9%). But, in 2009, Russia registered a massive economic decline that, in the opinion of the European Commission’s specialists, was the result of a double shock felt by this country’s economy: deterioration of own banking system and strong reduction of export volume, on the back of falling the oil price.

Considering the negative impact of the drought wave in the summer of 2010 over the agricultural sector in this country, the European Commission’s analysis predicted an economic growth rate for that year of only 3.5%, for the coming years, that should reach 3.8% and 4%, respectively. Starting with 15 August 2010, the government of this country imposed a temporary restriction on the cereal export, following the devastating effects of drought, the measure leading to a marked rise of wheat prices on the foreign market. At the same time, the government decided to provide some grants totalling 10 billion rubles (US\$ 335 million) and other 25 billion as loans to the agricultural sector<sup>2</sup>.

Speaking about the recovery of own economy, the premier Vladimir Putin stated that, at least for the time being, the growth has not got a steady character, it relied heavily on the recover of exports. Also, the premier considers that government should change its priorities of action. Therefore, in his opinion, first and foremost should be the achievement of objectives provided in the Long Term Development Strategy, respectively: creation of a new industrial potential and formation of an innovative economy. From his point of view, the measures against the crisis should be coordinated with the structure reform. In this connection, the chief of the Russian government stated that, „the actions concerning stimulation of domestic demand will be very important, in order to ensure sustaining of some branches such as: car industry and building industry”<sup>3</sup>. In the coming years the government will provide attention to the measures of creating new jobs, in 2009, the unemployment rate will be 11.7% of active population, and in 2010, 8.2%. According to the estimation of the European Commission’s experts, the unemployment rate will be kept below 8% in 2011-2012.

#### **4. India in front of the future: rise hidden by poverty**

Like Russia and China, India has some advantages from the geopolitical view: a wide territory (the seventh state in the world) and a numerous population (over 1 billion inhabitants, second place in the world, after China).

It is not surprising that in the developed countries there is an increasing interest for understanding the mechanisms that contribute to India’s development or that specialty literature has many analyses dedicate to this country. The points of view are obviously, various, but there is an element on which most authors agree, namely that India is contradictory, enigmatic and very difficult to define.

In this country there are so many obvious contradictions. Thus, India is a nuclear power since 1998, but in India live 40% of all poorly fed children in the world. Here there is an interesting combination between a flourishing retail economy and a marked polarization of society. India is in front of some of the newest technologies and research, but at the same time, a real religious mosaic can be found here, generating interethnic conflicts. Without any doubt India’s success in the IT field transformed the country. But, at present this sector provides only one million jobs, in a country where

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<sup>2</sup> <http://www.mediafax.ro/economic>

<sup>3</sup> <http://www.inforusia.ro>

labour rises to almost half a billion. Only 7% of active labour has a legal job and pays taxes. The remainder works in what Indians call the „unorganized sector”<sup>4</sup>.

Population in the developed countries already feels India’s impact, as its jobs are „exported” to India. The American transnational firms use India for various IT services, as the Indian specialists accept small salaries and, moreover, they prove to be very ambitious.

The moment when the start of India’s growth was given was in 1991, when the state decided to open economy to foreign investors. Apart Russia, where the model of economic growth was based on exports of energetic resources, in India, economic growth was especially due to the development of the tertiary sector, that contributes to 50% of this country’s GDP. The development of this sector resulted in a major increase of GDP. Between 1991 and 2004, India’s economy increased on average by 6% per year. In 2005 and 2006 the rise accelerated to over eight percentages, and in 2007 it reached to 9.4%. The report since October 2010 of the International Monetary Fund showed that in 2009, India experienced an economic growth rate of 5.7%, but in 2010, the estimated value is 9.7%, the rise being mainly due to the growth of domestic consumption<sup>5</sup>.

**Table no. 3**

**Development of macroeconomic indicators in India (%)**

	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>GDP</b>	5.7	9.7	8.4
<b>Inflation rate</b>	10.9	13.2	6.7
<b>Current payment balance deficit</b>	-2.9	-3.1	-3.1

*Source: IMF, WEO, Oct. 2010*

In 2009, the Indian government supplemented with US\$ four billion of public costs for the recovery of economy affected by the global financial crisis. Also, the officials decided to reduce the VAT by 4%, in case of several categories of goods, in order to support the domestic consumption, the most important factor of economic growth in India. In 2009, the public costs mainly focused on infrastructure, small and medium sized enterprises and on export stimulation.

**5. New role of China: financier of world economy**

In 2010, China became the third decision factor within the IMF, its new role of global financier, recognized by both international organizations and major powers in the world economy, being sustained by the huge currency reserve accumulated by the internal policies provided by the government at Beijing.

China had the last word at the summit of the „G20” organization in February 2011, held at Paris. Here, the leaders of the Member States gathered to set a package of indicators to evaluate the financial unbalances that could trigger a new world economic crisis. Thus, introduction of some indicators such as the level of currency reserves of a state and the exchange rate faced China’s opposition. Thus, the factors that will be considered to measure the financial unbalances worldwide are: private public debt of a state, budget deficits, interests to bank deposits, trade surplus and flows of foreign investments.

<sup>4</sup> John Farndon – India, ascent of a new world superpower, Editura Litera Internațional, Bucharest, 2008, pag. 110

<sup>5</sup> IMF, World Economic Outlook, pag 63

Last year, China became the second world economic power, before Japan, and in 2009, it became the first world exporter of goods, before Germany. Its policy of maintaining the yuan at a low exchange rate, often criticised by the USA, France and the world financial bodies, but by the efficient policy in the field of investments, this country experienced impressive economic growth rates, challenging the current economic crisis (13% in 2007; 9% in 2009; 10.5% in 2010)<sup>6</sup>.

**Table no. 4**

**Development of main macroeconomic indicators of China (%)**

	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>GDP</b>	9.1	10.5	9.6
<b>Inflation rate</b>	-0.7	3.5	2.7
<b>Current account deficit</b>	6.0	4.7	5.1
<b>Unemployment rate</b>	4.3	4.1	4.0

*Source: IMF, World Economic Outlook, Oct. 2010, pg. 64*

However, the economic crisis produced some modifications in the economy of this state. Although in the first half of 2009, the economy registered a budget surplus consolidated to over US\$ 170 billion, the increase of income from taxes slowed significantly following the impact of world crisis of credits on economy. Under these circumstances, a wide program of tax stimulation has been adopted. Among the adopted measures we can mention: stimulation of real estate market, including by reduction of down payment at purchasing buildings, lower purchase money mortgage, reduction of tax on real estate transactions.

At the end of 2009, China's currency reserves, the highest in the world, amounted to US\$ 2399 billion, and for 2010 they reach around US\$ 2850 billion (on the increase by nearly US\$ 300 billion compared to 2008)<sup>7</sup>.

At present, China finances the vulnerable states in the European Union, such as: Greece, Portugal and Spain. If some European officials consider capital an opportunity to improve the fragile economies, other sustain that Chinese investments are alarming, preparing the ground to some takeovers of some European strategic fields.

In the past years, China has played a major role for export dependent countries in South-East Asia, as an outlet for goods and raw materials but also as a source of investments. At the same time, all ASEAN countries represents the fourth trade partner of China, after USA, EU and Japan.

The expansion of Asian giant continues in Africa, too. In the coming three years, China will provide Africa loans totalling US\$ 10 billion, according to commitments undertaken by the Chinese government on the occasion of the China - Africa Summit held on November 2009.

Previously, China sold the African states especially munition, but now the African continent is a significant trade partner of this country. At present, the Chinese capitals are invested in roads and railways, harbour terminals and petrochemical installations. China has 900 projects in Africa, where 800 Chinese companies operate. Moreover, the Chinese government provides 5000 scholarships to African students

<sup>6</sup> WEO, 2009, 2010

<sup>7</sup> [http://economie.hotnews.ro/stiri-finante\\_banci](http://economie.hotnews.ro/stiri-finante_banci)

every year. Also, over 4700 products from the low developed countries in Africa are free of customs duties in China.

## **6. Conclusions**

Of course, the United States of America will remain the most powerful nation economically and militarily. This superpower keeps important resources in economy, technology and in military field. Thanks to this strong position, this country aims, within the „G20” meetings, to enhance its opportunity to reshape the world to-come, to promote new global importance structures. In their turn, the emergent nations, especially China, India, Brazil, Russia, to the extent they will strengthen their global influence, will have enhanced opportunities to progress economically, politically and socially. Moreover, a new wave of emergent economies is in process of affirmation. There are also studies that prove that in few years China’s economy will experience the crisis, triggered by speculative lending. The effects of such a process would be similar to those of subprime mortgage loans in the USA. However, regardless the future economic evolutions, we should better adapt ourselves to a multiway world that is in a permanent change, wherein cooperation between new and old powers, between small and big, rich and poor states, should be the basis of redefining the global governing.

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