

ECONOMIC REALITIES AND PROSPECTS OF BRICS AND G7

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Abstract: *In the context of the trends changing the balance of forces in the global economy, this paper mainly highlights the economic, political and strategic influences that the emerging countries, members of the BRICS group, undertake worldwide. The current economic crisis has imposed the enlargement of the debate framework focused on the global issues on the way of transition from the meetings of group G-7 of great industrial powers to the much wider group of G-20, to which the emerging countries also belong. There are also some estimates of the global economic environment for the following decades presented through the deductive analysis. It is expected that this context is highly influenced by the impact of the current crisis on the readjustment of the global spheres of influence. The rise of the emerging states, the change of their share in the global economy generates changes and influences the international decision-making framework. Practically, they are now major players on the stage of the new global order which the U.S. are forced to take into account, although they remain a world superpower.*

Keywords: *emerging countries/powers, BRICS, G-7, balance of power*

JEL Classification: F01; F43

1. Introduction: From BRIC to BRICS

The BRIC acronym, made up of the initials of the member countries (Brazil, Russia, India, China), seems to have been established by Jim O'Neill, expert of the Research Division of Goldman Sachs Group since 2001 to draw attention to the earning opportunities it offers, which the company called emerging markets. In his view, the BRIC group could rival with the G7 group (U.S.A., Japan, Germany, France, Britain, Italy, Canada) by the pace of economic growth, population size and economic potential.

The political dialogue between the BRIC nations began in 2006 in New York by the foreign ministers' meeting and it continued through the summits organised since 2008 in Yekaterinburg, Russia, attended by the leaders of the four countries.

During 2009 – 2011, BRIC, the alliance of the most powerful emerging economies on the planet was regarded with caution, because the interests of these countries in the international arena are often different and sometimes even contradictory. An example in point could be China's monetary policy, of undervaluation of the exchange rate of the domestic currency (Yuan), which generates costs for the other countries' economies, including Brazil, India and Russia. [Conjunctura Economiei Mondiale, 2011: pp.135]

In 2011, the Chinese President officially invited the President of South Africa to attend the third BRIC summit, held in the most southern Chinese city, Sanya, Hainan Province, a moment in which the BRICS group was formed [Conjunctura Economiei Mondiale, 2011: pp.135]. Although neither a political or economic organisation nor a group recognised as G7 or G20, BRICS has turned into a symbol of slow but steady decay of the world governed by the U.S., becoming a guarantee of global multipolarity. At present, the BRICS countries have ambitious targets aimed at the economic growth and the strengthening of their position in the global hierarchy. They want to create their own system of national currencies loans and payments. It seems that the governments of these countries have taken the first step towards reducing the dependence on the two global reserve currencies – the U.S. dollar and the euro. Also at the summit in 2012, the BRICS countries have decided to create a new development bank, as an alternative to the World Bank, to be called – South-SouthBank or BRICS Bank. [PublikaTV]

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The vision of the emerging states on the notion of world order and sovereignty does not always coincide with the vision of the Western powers, even if they, in their early economic stage were the supporters of protectionism [The Telegraph, 2012] at a much larger scale than the emerging countries are doing today. But now, the emerging powers can no longer be ignored in addressing the problems that the humanity as a whole faces: increased poverty, population growth, nuclear proliferation or global warming.

2. An overview of the potential of the BRICS and G7 countries

The world economy has known a continuous process of change and transformation. Each step taken by humankind in world economic development had winners and losers [Dindire, 2012, pp. 16-32]. Humankind has been under constant change on the way from bipolarism to multipolarism. Currently, another stage of changes is writing its history, generating consequences in the world states configuration space. The financial crisis started in 2007 opened the corridor of the emerging states that, after 2008, contributed significantly to the global economic recovery. Although in the past they suffered from the colonial policies practiced by the Western powers, currently the economic and social achievements of the emerging countries belonging to the BRICS group are obvious, especially due to the demographic potential and the annual growth rate of the GDP.

Table no. 1
G-7 group (2012-estimated)

Member states	Population (million)	GDP (PPP) (\$ billion)	GDP growth 2010	GDP growth 2011
USA	313	15,660	3.0 %	3.2 %
Japan	127	4,617	4.0 %	1.6 %
Germany	82	3,194	3.6 %	1.5 %
Great Britain	62	2,323	1.4 %	1.1 %
France	65	2,253	1.4 %	1.7 %
Italy	61	1,834	1.3 %	0.6 %
Canada	34	1,446	3.2 %	2.5 %
Total	744	31,327	2.55%	1.74 %
BRICS group (2012-estimated)				
Member states	Population (million)	GDP (PPP) (\$ billion)	GDP growth 2010	GDP growth 2011
Brazil	204	2,362	7.5 %	3.8 %
Russia	142	2,509	4.0 %	4.3 %
India	1.189	4,735	10.1 %	7.8 %
China	1.336	12,380	10.3 %	9.2 %
RAS	49	578	2.8 %	5.2 %
Total	2.920	22,564	6.94 %	6.06 %

Source: *Global Development Horizons. Multipolarity: The New Global Economy*, World Bank, Washington, 2011, (<http://www.worldbank.org>) and *The World Factbook*, (Accessed on 22 February 2013), (<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>).

The emerging countries group includes, besides the BRICS countries and other countries with demographic potential and economic growth (between 4% and 7%). It seems that these outline their position, forming groups, as is the case of the MIST countries (Mexico, Indonesia, South Korea and Tunisia), which faced the consequences of the global crisis. If we take into account the contribution of the emerging countries together with those of the developing countries to the global economic growth since 2009, when there

was the greatest post-war contraction, it appears that the recovery after this year was made possible due to the contribution of this group. According to the World Bank this development is presented in the table below.

Table no. 2. The contribution of the two groups of countries to the global economic growth

	2009	2010	2011	2012 (estimated)
World economic growth	-0.7 %	5.1 %	4.0 %	4.0 %
Developed countries	-3.7 %	3.1 %	1.6 %	1.9 %
Emerging and developing countries	2.8 %	7.3 %	6.4 %	6.1 %

Source: *Global Development Horizons. Multipolarity: The New Global Economy*, World Bank, (<http://search.worldbank.org/data?qterm=emerging%20economies&language=EN>)

The predominance of the emerging countries in the demographic balance of the world, their significant contribution to overall economic growth, anticipates a new world order in which the emerging powers through a certain degree of political coordination, influence the world's governance. The world economy will grow three times over the next 40 years and the emerging countries will outgrow many developed countries among the most important economies in the world.

The British bank HSBC through Global Research following the study – The world in 2050, conducted in January 2012 on 100 countries, identified the new global configuration:

- China will overtake the U.S. and will be the largest economy in the world;
- India will occupy the third position;
- Great Britain and Germany will fight for the first position in the EU;
- Great Britain will have the largest population in Europe (72 million) and will be followed by Germany (71 million);
- Japan will be on the fourth position and it will have a 40% smaller population;
- Brazil and Mexico will surpass developed countries like France and Canada.

Table no. 3. Top 10 countries according to the size of the GDP (GDP estimated at PPP)

No.	GDP (estimated) 2012	\$ billion	No.	GDP 2050	\$ billion
1.	USA	15,660	1.	China	25,334
2.	China	12,380	2.	USA	22,270
3.	India	4,735	3.	India	8,165
4.	Japan	4,617	4.	Japan	6,429
5.	Germany	3,194	5.	Germany	3,714
6.	Russia	2,509	6.	Great Britain	3,576
7.	Brazil	2,362	7.	Brazil	2,960
8.	Great Britain	2,323	8.	Mexico	2,810
9.	France	2,253	9.	France	2,750
10.	Italy	1,834	10.	Canada	2,287
11.	Mexico	1,758			
12.	South Chorea	1,622			
13.	Canada	1,446			

Source: For 2012: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>; For 2050: http://www.hsbc.com.mx/1/PA_esf-ca-app-content/content/home/empresas/archivos/world_2050.pdf

The average world economic growth will be around 3%, being a percent higher than the average growth recorded over the last ten years. According to the report, the world economy will launch itself in a mega-boom in the coming decades; the growth being supported by the U.S. economy and by the Chinese one, which will distance themselves from the other countries. But although China will overtake the U.S., Americans will continue to be three times richer than the Chinese. The standard of living in the emerging countries will still remain lower than in the developed countries.

Table no. 4. The situation of the foreign exchange and gold reserves at 31 December 2011 (Estimated values)

G-7 \$ billion		BRICS \$ billion	
Japan	1,296	China	3,213
Germany	239	Russia	499
France	172	Brazil	352
Italy	173	India	299
Great Britain	95	South Africa	49
United States	148		
Canada	66		
Total	2,189	Total	4,412

*Source: CIA-The World Factbook, (Accessed on 21 February 2013).
(<https://www.cia.gov/library/publications/the-world-factbook/index.html>)*

The emerging countries have gone relatively simply through the financial and economic crisis which began in 2007 and now they can deal with the crisis due to the sovereign debts of the Western countries because they have significant resources for lending to domestic and international investments.

China, the second economic and commercial power in the world, has also become a world-class financial power due to the huge foreign exchange reserve, which substantially alters the balance of the global lending capacity. Japan's foreign exchange reserve, the largest in the world, until recently, amounts to 40.3% of that of China and the G7 countries' foreign exchange reserve means 68% of China's reserve and 49.6% of the BRICS group's.

The much lower level of the foreign exchange reserves held by the Western powers from G7 in relation to those held by the BRICS group countries, without taking into account the reserves held by other emerging powers, is evidence of the major changes taking place globally in terms of financial reports. While the industrial powers, constrained by the pressure of the sovereign debts crisis are no longer a reliable crediting source for the distressed countries, China along with the other countries of the BRICS group use their important foreign exchange reserves to invest in the EU, Africa and South America. Moreover, the involvement of BRICS in international lending is obvious, especially after the G20 Summit in Los Cabos (Mexico, 2012), when they announced that they may provide the IMF with considerable amounts necessary to stimulate economic growth. But, as nothing is free, BRICS states demanded that their votes in the IMF's decisions weigh more, based on their financial strength and on the fact that the U.S., the main funder of IMF, is no longer on the position of global economic leader.

3. Perspectives of BRICS and G7

The current crisis, although it had a general character, a number of countries have faced the shock much better than others, contributing substantially to the dynamics of the global economy. These countries, known as emerging powers, managed, by the policies initiated, to achieve spectacular growth rates.

The policies initiated by the BRICS group can also influence other countries, which would make the group become an important factor in the decision making process of the participants in the G20 meetings and therefore reduce the influence in world politics of G7 group, which would create serious problems in the foreign policy of the U.S. According to McKinsey Global Institute, the BRICS countries are listed in the top seven countries that will have the highest economic growth until 2025 [Dobbs R. et al, 2011]. The emerging power will be maintained at a level of growth of 5.1% - 6.2%, while the developed states as a whole, will be at a level of 1.3% -1.9%. Japan will record a growth of only 1.7% and the U.S. will reach a level of 1.5%. In case these differences of economic growth are maintained, the trend studies show that in 2019 these countries will catch up with the group of developed countries and as a result the hierarchy of economic powers will change around 2030-2032, the first position being held by China, followed in descending order by the U.S., India, Brazil, Germany and Japan. [IBRD and The World Bank, 2011] Basically, the developing nations will support the global economic growth in the coming decades, led by China and India [Stiglitz E.J., 2010: pp. 76-85]. The rapid growth of the consumer markets from the large emerging economies, coupled with the rapid growth of the middle class, will provide new opportunities for the Western companies.

Rebalancing the global geopolitical relations on the path of building a new power pole that states its readiness to contribute to improving the management of international affairs has currently become a reality accepted by the Western powers. The moment of acknowledging the need to include the representatives of the emerging countries in seeking solutions to the problems that humanity is facing in the 21st century was the formation of the G20 decision-making group, to discuss the critical issues of global governance. The new structure better meets the current needs than the G7 group. Although the practice of the G7 meetings continues, the centre of gravity of the debates on the state of the world has shifted to G20, especially after 2008. Currently, the participants in the G20 debates represent 90% of the global GDP, two thirds of the world population and 80% of world trade. [Tămaş S., 2011: pp. 3-11]

In fact, the Western powers stricken by periodic crises have changed their attitude and have agreed to address the issue of global business leadership in dialogue with emerging powers [Brzezinski Z., 2010: pp.102-104]. In turn, the emerging countries have managed, by the policies adopted, to become accountable, next to the Western powers in addressing the problems the world economy is facing currently.

4. Conclusions

In the context of the financial crisis which has deeply marked the world, the BRICS states do not seem to be badly off at all. The share of BRICS in the global economy is substantial: 43% of the world population; 25% of global GDP; 18% of world trade; it attracts 53% of the foreign capital and participates with 45% to the world economic growth [Cuts International].

Beyond the opportunities opened and the existing undeniable potential by the fact that BRICS involves almost all continents, the countries in this group will also have to face, undoubtedly, many challenges because they have a common agenda only up to one point. In practice, India and China are both competitors and strategic allies, but India does not really trust the fact that the other country has a large army. Russia is a major energy exporter, while China imports a lot. Russia scrutinises how China's influence in Africa increases every day. Brazil, however, is not in such close competition with the other countries and it is located in an area not too comfortable.

In a metaphorical sense we can say that each BRICS country exercises its influence globally in areas which put forward the national potential: China has taken on the role of

global banker, Russia that of fuel station, India that of world office, Brazil that of resource provider and South Africa that of gateway to the African continent. [Financiarul.ro]

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