

## CHAPTER II

### BRIC AS THE POTENTIAL NEW ECONOMIC POWER IN THE WORLD

This chapter explains the economic development of each BRIC members and its effort of becoming the members of BRIC. This chapter also contains the information about the development of BRIC as a new economic power including the profile of BRIC, the initiative of establishment of BRIC, and the effort of BRIC in becoming new economic power in the world.

#### A. **Profile of BRIC members**

##### 1. **Brazil**

Brazil is located in American Continent; Brazil occupies a large area along the eastern coast of South America and includes much of the continent's interior.<sup>17</sup> Brazil underwent rapid urban growth; by 2005, 81%<sup>18</sup> of the total population was living in urban areas. This growth aids economic development but also creates serious social, security, environmental, and political problems for major cities. The latest president of Brazil is Luiz Inacio Lula da Silva, and his vice president is Jose Alencar Gomes da Silva. President Lula was re-elected on October 29<sup>th</sup> 2006 in a second round victory with over 60% of the

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<sup>17</sup> "Land and Resources". *Encarta*. MSN. Retrieved December 16<sup>th</sup> 2010; available from: [http://encarta.msn.com/encyclopedia\\_761554342/Brazil.html#s1](http://encarta.msn.com/encyclopedia_761554342/Brazil.html#s1).

<sup>18</sup> Ibid.

vote,<sup>19</sup> over Geraldo Alckmin of the PSDB (Brazilian Social Democracy Party).

**a. Economic development of Brazil**

Brazil's economic development is characterized by large and well developed agricultural, mining, manufacturing, and service sectors. Brazil's economy outweighs that of all other South American countries, and Brazil is expanding its presence in world markets. From 1840s to the late of 1880s Brazil's economic development did not show a significant result. After its independence Brazil experienced extreme difficulty. Exports remained low, and the domestic economy was depressed. The only segment that expanded was the subsistence economy. Resources (land, slaves, and transport animals) made idle by the decline of the export economy were absorbed into mostly self-consumption activities.

The stagnant conditions kept running until the late 19<sup>th</sup> century. Brazil entered the 1990s with much less confidence of its economic future than it once had. The economic stagnation and uncertainty of the 1980s had exacted a high toll, and per capita income in 1990 was no higher than it was in 1980. Inflation, at monthly rates, was over 30 percent, unprecedented even by Brazilian standards. It is reasonable therefore to ask what has been learned from the experience of the 1980s

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<sup>19</sup> "Leftist Lula wins Brazil election" *BBC News*. Accessed December 18<sup>th</sup> 2010; available from: <http://news.bbc.co.uk/2/hi/americas/2367025.stm>.

and what are the prospects for an economic future brighter than the recent past.

By the early 1990s, Brazil was on the path to becoming more open to trade than it had been for several decades. Despite the loss of Brazilian access to world capital markets in the early 1980s, external capital was beginning to return to Brazil by the early 1990s. In contrast to the massive capital flows of the 1970s, much of which financed public borrowing, capital flows in the 1990s focused more on the private sector.

In 1994, the Real Plan was implemented, and the annual inflation rate dropped from more than 5,000% to 20% in 1996 and eventually in the range of 5%.<sup>20</sup> The successful Real Plan was based on three pillars:

- Monetary reform
- Further opening of the economy
- Privatization of several state-owned companies in the steel, power, banking, mining, and telecommunication segments, raising around U.S.\$100 billion.<sup>21</sup>

Since then, Brazil has steadily improved its macroeconomic stability, building up foreign reserves, reducing its debt profile by shifting its debt burden toward real denominated and domestically held

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<sup>20</sup> *Brazil, history, geography, government, and culture* (infoplease.com: 2000); available from <http://www.infoplease.com/ipa/A0107357.html>.

<sup>21</sup> "Economy of Brazil". Central Intelligence Agency. 2008 (Retrieved on December 17<sup>th</sup> 2010); available from <https://www.cia.gov/library/publications/the-world-factbook/geos/br.html>

instruments, adhering to an inflation target, and committing to fiscal responsibility. In 2008, Brazil became a net external creditor and two ratings agencies awarded investment grade status to its debt. After record growth in 2007 and 2008, the onset of the global financial crisis hit Brazil in September 2008.<sup>22</sup>

Brazil experienced two quarters of recession, as global demand for Brazil's commodity based exports dwindled and external credit dried up. However, Brazil was one of the first emerging markets to begin a recovery. Consumer and investor confidence revived and GDP growth returned to positive in the second quarter, 2009. The Central Bank expects growth of 5% for 2010.<sup>23</sup>

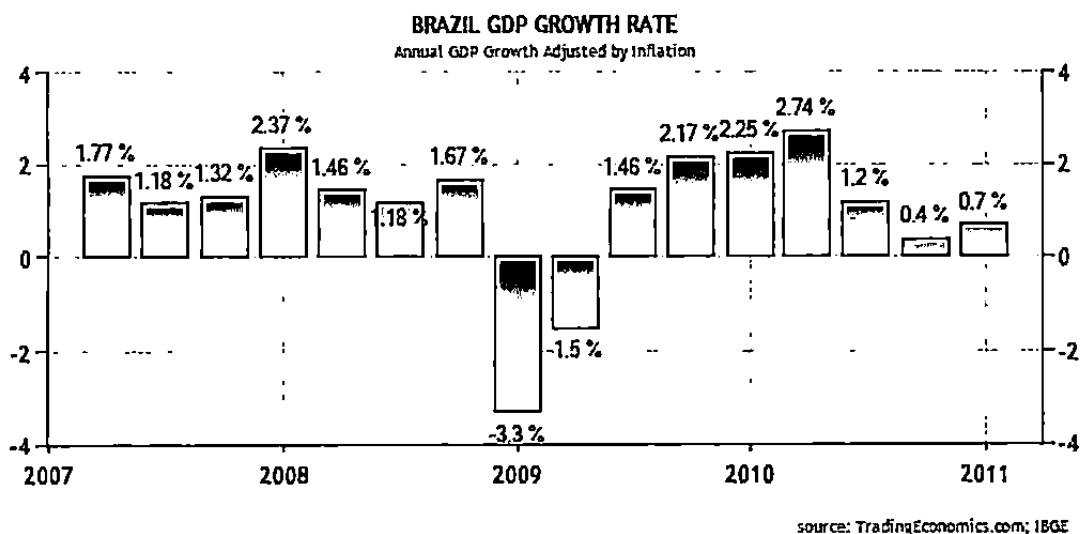
President Lula and his economic team implemented prudent fiscal and monetary policies which have been credited with helping shield Brazil from the worst of the global financial crisis of 2008 and 2009. Brazil's economy did not escape the crisis unscathed. After posting growth rates of 5.7% in 2007 and 5.1% in 2008, Brazil's GDP dropped 0.2% in 2009.<sup>24</sup>

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<sup>22</sup> Ibid.

<sup>23</sup> Phillips, Tom "The country of the future finally arrives". *The Guardian* .London May 10<sup>th</sup> 2008.

<sup>24</sup> Trading Economics, RTT News *Brazil GDP growth rate* (Trading Economics, 2010); available from <http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=BRI>



Several steps were taken by the government to minimize the impact of the crisis, including injecting more than U.S. \$100 billion of additional liquidity into the economy, providing tax cuts to manufacturers and consumers, and reducing Central Bank interest rates.<sup>25</sup> Brazil emerged from the global financial crisis in 2009 and economic growth is estimated to reach 7.1% in 2010. A more sustainable growth level, in the range of 4.5%, is predicted for 2011.<sup>26</sup>

Significant challenges still remain in the Brazilian economy. The total tax burden is high, income distribution remains skewed, and the private business community complains of burdensome regulation.

<sup>25</sup> Fraga, Arminio "Monetary Policy During the Transition to a Floating Exchange Rate: Brazil's Recent Experience". International Monetary Fund. (Retrieved on December 18<sup>th</sup> 2010); available from <http://www.imf.org/external/pubs/ft/fandd/2000/03/fraga.htm>.

<sup>26</sup> Fraga, Arminio "Monetary Policy During the Transition to a Floating Exchange Rate: Brazil's Recent Experience". International Monetary Fund. (Retrieved on December 18<sup>th</sup> 2010); available from <http://www.imf.org/external/pubs/ft/fandd/2000/03/fraga.htm>.

Annual interest rates for consumers (on credit cards, for example) can be as high as 150%.<sup>27</sup>

**b. Brazil's efforts to be BRIC member**

Becoming the member of BRIC is not so simple and easy. For Brazil to return to the kind of economic growth that many of its people once regarded as their birthright, a number of changes must occur. The government of Brazil takes some actions in order to make others believe that its economic growth is getting higher and shows a significant good result. These are the actions taken by the government.

First, the public-sector deficit reduced substantially. This can be done in a number of ways without imposing heavy costs on Brazilian society. Privatization of economically inefficient state enterprises is one way, and in the first half of the 1990s some progress was made in this area. The complex system of tax and credit subsidies that was developed in preceding decades offers many opportunities for efficiency-improving reform, which would also contribute substantially to reduction of the fiscal deficit.

Second, Brazil's recent moves toward becoming a more open economy offer the prospect of increasing economic efficiency and ensuring that new resources flow into activities in which Brazil has a strong international competitive position. Decades of protectionism in a

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<sup>27</sup> *Economic Quarterly*. (Institute of Applied Economic Research. March 1<sup>st</sup> 2007). pp. 171.

number of key sectors have imposed high costs on Brazilian consumers. Greater openness to world markets, either through regional trade initiatives or through unilateral reductions in trade restrictions, will make a noticeable contribution to Brazilian economic welfare.

Finally, Brazil becomes an economically prosperous country because it can seriously address the enormous inequities in income distribution. Serious efforts to help Brazil's least privileged focus on the provision of basic services and, above all, on education. Without substantial efforts to address the income distribution problem, the strains on the political system that have their economic counterpart in fiscal disequilibrium may make the country much harder to govern and may reduce the prospects for a successful and sustainable price stabilization.

## **2. Russia**

Russia is the largest country in the world; its total area is 17,075,400 square kilometers (6,592,800 sq mi). There are 23 UNESCO World Heritage Sites in Russia, 40 UNESCO biosphere reserves,<sup>28</sup> 40 national parks and 101 nature reserve. Russia has a wide natural resource base, including major deposits of timber, petroleum, natural gas, coal, ores and other mineral resources.

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<sup>28</sup> "Russian Federation". The World Network of Biosphere Reserves UNESCO (Retrieved on December 19<sup>th</sup> 2010): available from <http://www.unesco.org/mab/BRs/EurBRlist.shtml>

### **a. Economic development of Russia**

The Russian economy underwent tremendous stress in the 1990s as it moved from a centrally planned economy to a free market system. The GDP of Russia production growth for 2009 was -7.9% and -11, respectively a sharp contrast to the pre-crisis performance of 8.1% and 6.3% in 2007.<sup>29</sup> However, analysts project Russia's GDP growth to exceed 5% in 2010, driven mainly by consumption and inventory restocking, followed by 3.5% growth in 2011.<sup>30</sup>

Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short-term borrowing to finance budget deficits led to a serious financial crisis in 1998. Lower prices for Russia's major export earners (oil and minerals) and a loss of investor confidence due to the Asian financial crisis exacerbated financial problems. The result was a rapid and steep decline (60%)<sup>31</sup> in the value of the ruble, flight of foreign investment, delayed payments on sovereign and private debts, a breakdown of commercial transactions through the banking system, and the threat of runaway inflation.

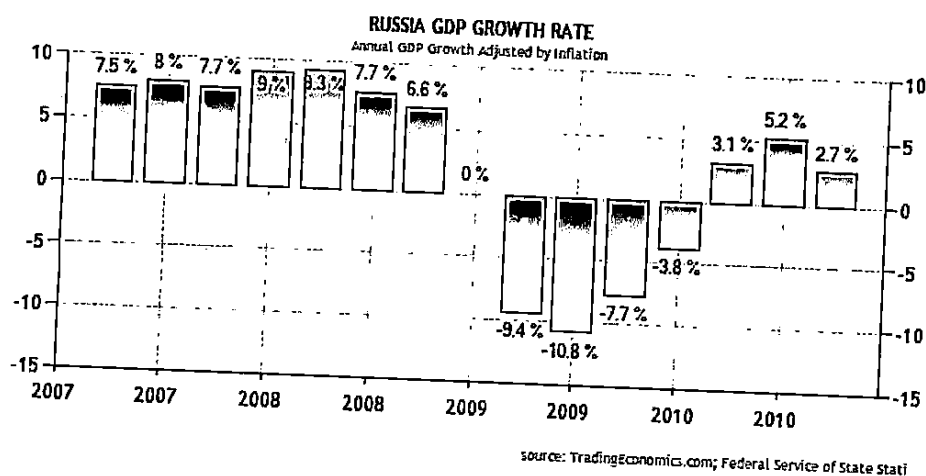
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<sup>29</sup> The World Factbook. "CIA". Central Intelligence Agency. (retrieved on December 19<sup>th</sup> 2010); available from <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>.

<sup>30</sup> "Russia Is Getting Wealthier". *The Moscow Times*. Retrieved on December 19<sup>th</sup> 2010.

<sup>31</sup> Trading Economics, RTT News *Russia GDP growth rate* (Trading Economics, 2010); available from <http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=RU>





The Russian economy bounced back quickly from the 1998 crisis and enjoyed over nine years of sustained growth averaging about 7% due to a devalued ruble, implementation of key economic reforms (tax, banking, labor and land codes), tight fiscal policy, and favorable commodities prices. Household consumption and fixed capital investments both grew by about 10% per year during this period and replaced net exports as the main drivers of demand. Inflation and exchange rates stabilized due to a prudent fiscal policy (Russia ran a budget surplus from 2001-2008).<sup>32</sup>

Foreign exchange reserves grew to almost \$600 billion by mid-2008, the third-largest in the world, of which more than \$200 billion were classified as stabilization funds designed to shelter the budget from commodity price shocks.<sup>33</sup> The balance of payments experienced twin

<sup>32</sup> "Russia fixed asset investment to reach \$370 bln by 2010—Kudrin". *RIA Novosti* (retrieved on December 19<sup>th</sup> 2010); available from <http://en.rian.ru/business/20070921/80301609.html>.

<sup>33</sup> "International Reserves of the Russian Federation in 2008". *The Central Bank of the Russian Federation*. Retrieved on December 19<sup>th</sup> 2010.

commodity price shocks.<sup>33</sup> The balance of payments experienced twin surpluses until mid-2008 in the current and capital accounts, which accounted for the phenomenal growth of reserves. As of July 1, 2006, the ruble became convertible for both current and capital transactions.

The global economic crisis hit Russia hard, starting with heavy capital flight in September 2008, which caused a crisis in its stock market. As the global financial crisis gathered steam in the fall of 2008, the accompanying steep fall in global demand, commodity prices, and tightening of credit served to almost grind Russia's economic growth to a halt in the fourth quarter of 2008, to 1.1% down from 9.5% during the same period in 2007.<sup>34</sup>

The Central Bank of Russia responded by pumping liquidity into Russian banks, which helped avert a banking crisis. At the same time, the government attempted a managed devaluation, which successfully avoided a run on the ruble and bank deposits but at the cost of a steep decline in foreign exchange reserves to \$387 billion by mid-February 2009.<sup>35</sup> By late 2009, however, the Russian economy had begun a modest recovery, bolstered by government anti-crisis policies, the global rebound,

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<sup>33</sup> "International Reserves of the Russian Federation in 2008". *The Central Bank of the Russian Federation*. Retrieved on December 19<sup>th</sup> 2010.

<sup>34</sup> "Russians weigh an enigma with Putin's protégé". *MSNBC* (Retrieved on December 19<sup>th</sup> 2010); available from <http://www.msnbc.msn.com/id/24443419/>.

<sup>35</sup> "International Reserves of the Russian Federation in 2008". *The Central Bank of the Russian Federation* (retrieved on December 19<sup>th</sup> 2010); available from [http://www.cbr.ru/Eng/statistics/credit\\_statistics/print.asp?file=inter\\_res\\_08\\_e.htm](http://www.cbr.ru/Eng/statistics/credit_statistics/print.asp?file=inter_res_08_e.htm)

and the nearly 50%<sup>36</sup> rise in oil prices over the course of the year. Russia put renewed emphasis on promoting innovation.

**b. Russia's efforts to be BRIC member**

Russia joins in G8 as the latest member. The participation and influence of Russia in G8 does not have a useful contribution for its own economy nor the world economy. That is why Russia joins BRIC in order to make its contribution to the world economy useful. Some of efforts by the Russian government to join in BRIC are by the following:

First, overcoming the impact of the global crisis, Russia at the same time follows the path of comprehensive renovation. Russia's key task is to achieve sustainable economic growth and an increase in the income of citizens based on a diversified economy, technological modernization and innovative development. Russia increasingly invests in further space exploration, energy efficiency, development of nuclear and alternative energy, information, telecommunications and new medical technologies, and development of drugs. Russia attaches great importance to the processing of mineral resources this country is rich in, as well as to agricultural production growth. Russia convinced that its BRIC partnership will find these Russian achievements useful.

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<sup>36</sup> "International Reserves of the Russian Federation in 2008". *The Central Bank of the Russian Federation* (retrieved on December 19<sup>th</sup> 2010); available from [http://www.cbr.ru/Eng/statistics/credit\\_statistics/print.asp?file=inter\\_res\\_08\\_e.htm](http://www.cbr.ru/Eng/statistics/credit_statistics/print.asp?file=inter_res_08_e.htm)

Second, Russia as the only state that is a member of both the G8 and the BRIC. It would find itself in a uniquely advantageous position of coordinator and mediator between Western and non-Western centers of a multipolar world. Russia has been following with interest and appreciation the dynamic development of other alliance members. A combination of BRIC countries' relative competitive advantages is mutually beneficial in many areas, and offers unique opportunities to boost cooperation.

Finally, the experience of other emerging economies indicates that this will promote competition, which will drive change and boost the demand for innovation. In time this will help to diversify the economy, but there are also real possibilities of going up the value chain in resource-based sectors, a potential comparative advantage of resource rich Russia.

### **3. India**

India lies to the north of the equator between 8°4' and 37°6' north latitude and 68°7' and 97°25' east longitude.<sup>37</sup> It is the seventh-largest country in the world. The latest President is Pratibha Devisingh PATIL (since 25 July 2007); Vice President Mohammad Hamid ANSARI (since 11 August 2007).

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<sup>37</sup> Research, Reference and Training Division, Publications Division, *India Yearbook 2007*.

The Prime minister is Manmohan SINGH (since 22 May 2004). India is the most populous democracy in the world.<sup>38</sup>

**a. Economic development of India**

According to the International Monetary Fund, India's nominal GDP stood at US\$1.3 trillion, which makes it the eleventh-largest economy in the world,<sup>39</sup> corresponding to a per capita income of US\$1,000. If purchasing power parity (PPP) is taken into account, India's economy is the fourth largest in the world at US\$3.6 trillion. The country ranks 142<sup>th</sup> in nominal GDP per capita and 127<sup>th</sup> in GDP per capita at PPP.<sup>40</sup> With an average annual GDP growth rate of 5.8% for the past two decades, India is one of the fastest growing economies in the world.<sup>41</sup>

India is developing into an open market economy, yet traces of its past autarkic policies remain. Economic liberalization, including reduced controls on foreign trade and investment, began in the early 1990s and has served to accelerate the country's growth, which has averaged more than 7% per year since 1997.<sup>42</sup> India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services.

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<sup>38</sup> CIA, "South Asia:India" (retrieved on December 20<sup>th</sup> 2010); available from <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html?countryName=India&countryCode=in&regionCode=sas&rank=5#in>.

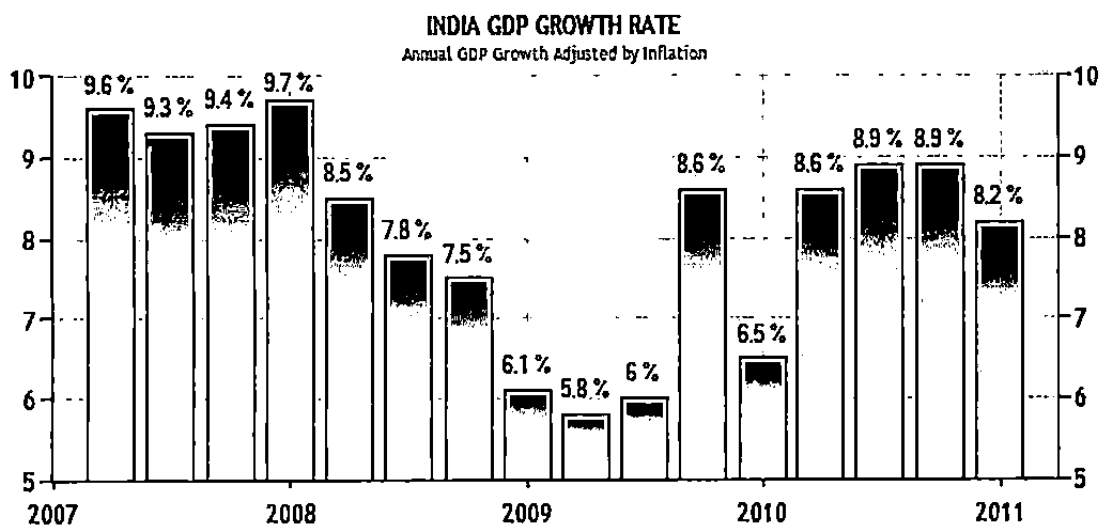
<sup>39</sup> *ibid.*

<sup>40</sup> The Secretariat of the Convention of on Wetlands, *The List of Wetlands of International Importance*. 4 June 2007. P. 18.

<sup>41</sup> *ibid.*

<sup>42</sup> Gargan, Edward A. "India Stumbles in Rush to a Free Market Economy". New York Times. August 15<sup>th</sup> 1992.

Slightly more than half of the work force is in agriculture, but services are the major source of economic growth, accounting for more than half of India's output, with only one-third of its labor force. India has capitalized on its large educated English-speaking population to become a major exporter of information technology services and software workers. An industrial slowdown early in 2008, followed by the global financial crisis, led annual GDP growth to slow to 6.5% in 2009, still the second highest growth in the world among major economies.<sup>43</sup>



source: TradingEconomics.com; India Central Statistical Orga

India escaped the brunt of the global financial crisis because of cautious banking policies and a relatively low dependence on exports for growth. Domestic demand, driven by purchases of consumer durables and automobiles, has re-emerged as a key driver of growth, as exports have fallen since the global crisis started. India's fiscal deficit increased

<sup>43</sup> Trading Economics, RTT News *India GDP growth rate* (Trading Economics MOSPI, 2010); available from <http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=INR>

substantially in 2008 due to fuel and fertilizer subsidies, a debt waiver program for farmers, a job guarantee program for rural workers, and stimulus expenditures.

Nevertheless, shares of GDP has increased the pace of privatization of government-owned companies, partly to offset the deficit. India's long term challenges include widespread poverty, inadequate physical and social infrastructure, limited employment opportunities, and insufficient access to basic and higher education. Over the long-term, a growing population and changing demographics will only exacerbate social, economic, and environmental problems.

**b. India's efforts to be BRIC member**

Since its independence India had experienced many economic transitions; recently India becomes one of many countries that the fast economic development growth becomes popular. One case that causes India's popularity is by joining BRIC; by joining this group India is known as the developing country that almost becomes the developed country. India's government has several steps in joining BRIC.

First, it establishes corporate governance and economic development intrinsically and particularly. As the world economy struggles for equilibrium while volatile markets and trade dynamics lead to job and investment stresses. Before the global recession, the scale and distribution of wealth had increased dramatically in India.

Liberalization of the economy in 1991 and the move toward globalization sparked the growth of a strong investor culture.

Next, the governance problems posed by the dominant shareholders in these three categories of companies are slightly different, and governance troubles connected to the predominant form of family ownership historically have run the gamut of issues from unprofessional management to direct abuse of minority shareholder rights via related party transactions on nonmarket terms.

To change that condition India's government take some efforts firstly, the promoters' shareholding is spread across several friends and relatives as well as corporate entities; this often makes it difficult to establish the total effective holding of a group. The actual ownership within these companies is far from completely transparent, with widespread pyramiding, crossholding, and the use of nonpublic trusts and private companies for owning shares in group companies. Secondly, the aggregate holding of all these entities taken together is typically well below a majority stake. In many cases, the promoter may not even be the largest single shareholder. What makes the promoters the dominant shareholders is the fact that a large proportion of the shareholding is with state-owned financial institutions that historically have played a passive role and so the promoters are



effectively dominant shareholders and are able to get legislative approval for their actions.

#### **4. China**

China's form of government is a communist state known as a People's Republic. Chief of state is President under the era HU Jintao (since 15 March 2003) and the Vice President XI Jinping (since 15 March 2008).<sup>44</sup> Political power has become much less personal and more institutionally based than it was during the first forty years of the PRC. Privatization of housing and increasing freedom to make choices about education and employment severely weakened the work unit system that was once the basic cell of Communist Party control over society. China's complex political, ethnic and ideological mosaic, much less uniform beneath the surface than in the idealized story of the Propaganda Department of the Central Committee of the Communist Party of China, resist simple categorization.<sup>45</sup>

##### **a. Economic development of China**

China's economy during the past 30 years has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Reforms started in the late 1970s with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization,

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<sup>44</sup> "Government of China". Central Intelligence Agency. 2008 (Retrieved on December 17<sup>th</sup> 2010); available from <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

<sup>45</sup> Boum, Aomar *Journal of Political Ecology: Case Studies in History and Society*. 1999.

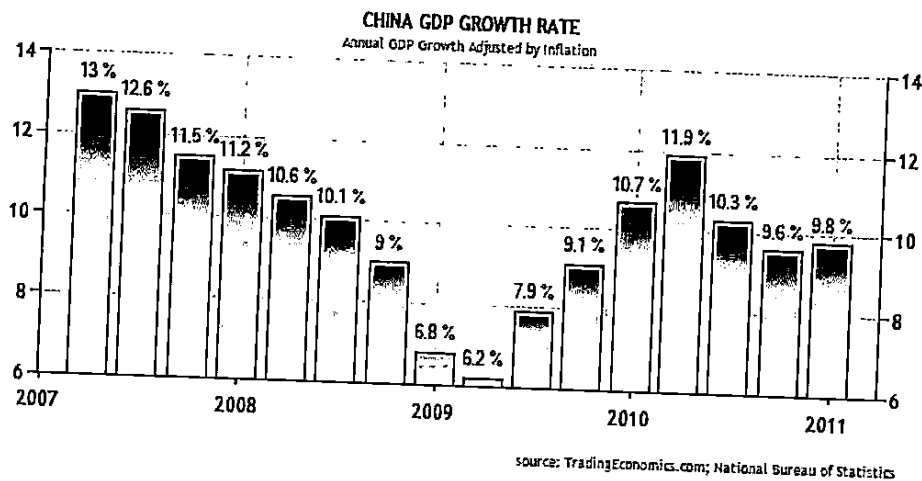
increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment. Annual inflows of foreign direct investment rose to nearly \$108 billion in 2008.<sup>46</sup> China has generally implemented reforms in a gradualist or piecemeal fashion.

In recent years, China has re-invigorated its support for leading state-owned enterprises in sectors it considers important to "economic security," explicitly looking to foster globally competitive national champions. After keeping its currency tightly linked to the US dollar for years, China in July 2005 revalued its currency by 2.1% against the US dollar and moved to an exchange rate system that references a basket of currencies.<sup>47</sup> Cumulative appreciation of the renminbi against the US dollar since the end of the dollar peg was more than 20% by late 2008, but the exchange rate has remained virtually pegged since the onset of the global financial crisis.<sup>48</sup>

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<sup>46</sup> Ji, Zhaojin. *A History of Modern Shanghai Banking: The Rise and Decline of China's Finance Capitalism*. 2003.

<sup>47</sup> "The Real Great Leap Forward. The Economist. Sept 30, 2004". *Economist.com*. September 30<sup>th</sup>



The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2009 stood as the second-largest economy in the world after the US, although in per capita terms the country is still lower middle-income.<sup>49</sup> The Chinese government faces numerous economic development challenges, including:

- (i) reducing its high domestic savings rate and correspondingly low domestic demand through increased corporate transfers and a strengthened social safety net.
- (ii) sustaining adequate job growth for tens of millions of migrants and new entrants to the work force.
- (iii) reducing corruption and other economic crimes.

<sup>49</sup> Naughton, Barry. *The Chinese Economy: Transitions and Growth*. 2007.

(iv) containing environmental damage and social strife related to the economy's rapid transformation.

China continues to lose arable land because of erosion and economic development. The Chinese government seeks to add energy production capacity from sources other than coal and oil, and is focusing on nuclear and other alternative energy development. In 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports for GDP growth in the future.<sup>50</sup>

#### **b. China's effort to be BRIC member**

The reforms raised economic efficiency by introducing profit incentives to rural collective enterprises (which are owned by local government but are guided by market principles), family farms, small private businesses, and foreign investors and traders. They also freed many enterprises from constant intervention by state authorities. As a result, between 1978 and 1992, the output of state-owned enterprises declined from 56 percent of national output to 40 percent,<sup>51</sup> while the share of collective enterprises rose from 42 to 50 percent and that of private

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<sup>50</sup> "China revises 2007 GDP growth rate to 13%". *Xinhuanet*. January 15<sup>th</sup> 2009; available from [http://news.xinhuanet.com/english/2009-01/15/content\\_10661955.htm](http://news.xinhuanet.com/english/2009-01/15/content_10661955.htm).

<sup>51</sup> "Economy of China". Central Intelligence Agency. 2008 (Retrieved on December 17<sup>th</sup> 2010); available from <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

businesses and joint ventures rose from 2 to 10 percent.<sup>52</sup> The profit incentives appear to have had a further positive effect in the private capital market, as factory owners and small producers eager to increase profits (they could keep more of them) devoted more and more of their firms' own revenues to improving business performance.

China's recent productivity performance is remarkable. By comparison, productivity growth, China's rate of almost 4 percent simply puts it in a class by itself. In one final area, price reform, the Chinese have proceeded cautiously, granting a fair amount of autonomy to producers of consumer goods and agricultural products but much less to other sectors. Several bouts of inflation have buffeted the Chinese economy in the past two decades, deterring the government from implementing full-scale price liberalization. High rates of growth also raise inflationary worries. Inflation may pose the single greatest threat to Chinese growth, though thus far it has been largely contained.

Regarding other input data, a study was made of the potential for a differential bias that might overstate the post-reform growth relative to the pre-reform period. This problem might arise because centrally planned economies are prone to the over reporting of output and the underestimating of prices. As it happens, although enterprise managers have traditionally tended to over report output in an effort to meet

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<sup>52</sup> "Economy of China". Central Intelligence Agency. 2008 (Retrieved on December 17<sup>th</sup> 2010); available from <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

production targets set by the government, the incentives to do so have probably declined in the reform era as managers have faced less strict state control.

**B. Profile of BRIC and its effort to be new economic power.**

**1. The initiative of the establishment of BRIC**

The name of BRIC was taken from the initial of each country that joins BRIC that are **Brazil Russia India and China**. In November 2001, Goldman Sachs bundled Brazil, Russia, India, and China together into an emerging market basket in deference to the four countries' size and economic potential.

The Goldman Sachs Group, Inc. is a global investment banking and securities firm which engages in investment banking, securities, investment management, and other financial services primarily with institutional clients. Goldman Sachs was founded in 1869 and is headquartered at 200 West Street in the Lower Manhattan area of New York City, with additional offices in major international financial centers. The firm provides mergers and acquisitions advice, underwriting services, asset management, and prime brokerage to its clients, which include corporations, governments and individuals. The firm also engages in proprietary trading and private equity deals, and is a primary dealer in the United States Treasury security market.

Here is what Goldman Sachs had to say in its original report<sup>53</sup> (defended in the paper *Dreaming with BRICs: The Path to 2050*) "Dreaming with BRICs: The Path to 2050," published in 2003:

- China's economy will surpass Germany in the next few years, Japan by 2015, and the United States by 2041.
- India's growth rate will be the highest not China's and it will overtake Japan (today the world's second-largest economy) by 2032.
- BRICs' currencies could appreciate by 300% over the next 50 years, providing a big tailwind for investors in BRIC assets.
- Taken together, the BRICs could be larger than the United States and the developed economies of Europe within 40 years.
- By 2025, BRICs will bring another 200 million people with incomes above \$15,000 into the world's economy. That's equal to the combined populations of Germany, France and the United Kingdom.

Since BRIC was published BRIC already held the conference that was attended only by the head of the government from each BRIC country. First conference was held in Yekaterinburg, Russia on June 16<sup>th</sup> 2009. It was attended by President of Brazil Luiz Inácio Lula da Silva, President of Russia Dmitry Medvedev, Prime Minister of India Manmohan Singh, and President of PRC Hu Jintao. The second conference of BRIC was held on April 15<sup>th</sup> 2010 at capital city

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<sup>53</sup> "Goldman Sachs | Ideas". *Gs.com* (retrieved on December 20<sup>th</sup> 2010); available from <http://www.gs.com/insight/research/reports/99.pdf>

of Brazil, Brasilia. Both of the conference BRIC put their stand point on some global cases, such as:

- The reformation position and voting share in International Monetary fund (IMF).
- The diversification of international monetary system, it should not only focus for US dollar as the international currency.
- Emphasizing United Nations (UN) to play the important role in multilateral diplomacy.
- Give important role for Brazil and India in UN in order to make these countries become the permanent members of Security Council in UN.

The investment bank predicted that the four countries economies would comprise more than 10% of the global output by the end of the decade; they have already reached 15%.

## **2. The efforts of BRIC to be new economic power**

Over the next 50 years, Brazil's, Russia's, India's and China's (BRIC) economy could become a much larger force in the world economy. Using the latest demographic projections and a model of capital accumulation and productivity growth, the GDP growth, income per capita and currency movements in the BRICs economies until 2050. BRIC countries and they are now stabilizing the global economy as consumption in these leading emerging market economies



One of BRIC efforts for monetary case is in IMF. Recently, IMF is in bad situation. Three of the countries which are Brazil, Russia, and China voluntarily give help for IMF in supporting the financial problem in IMF. They buy IMF obligation approximately 70 billion US dollar. The fund comes from china as much as 50 billion US dollars; the rest is from Brazil and Russia.<sup>54</sup>

By that kind of approached, BRIC wants to press IMF to reconstruct the IMF structure fairly. Because the members of BRIC only have small numbers of voting share, china has 3,7%, Russia 2,7%, Brazil 1,4%, and India 1,9%,<sup>55</sup> by that kind of action BRIC countries want to increase their influence to the decision making process in IMF. From the case above we can also assume that BRIC countries really want to get the international attention toward them in order to show to international society that they are worthy becoming new economic power.

Actually, BRIC countries proposed that they will change the global financial system such as the global currency standard that is dominated by the US dollars. Secondly, they want to change the domination of United States, Japan, and European Countries and also the domination of G8 in the global economic decision making process. Thirdly, the special drawing right of IMF depends on US dollars, Euro, Yen, and Poundsterling must be changed. The initiative of BRIC is influences obviously are for the development of international economy.

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<sup>54</sup> "BRIC Bahas Alternatif Dollar AS", *Kompas.com*, 17<sup>th</sup> June 2009 (retrieved on 16<sup>th</sup> March 2011); available from

<http://bisniskeuangan.kompas.com/read/2009/06/17/06392529/BRIC.Bahas.Alternatif.Dollar.AS>.

<sup>55</sup> Antara News.2009. "BRIC, Kelompok Penekan Tata Ekonomi Dunia Baru." (Retrieved on April 30<sup>th</sup> 2010); available from: <http://www.antaranews.com/view/?i=1245744200&c=APT&cs=PIIM>

BRIC also becomes the future drivers of global demand. It is shown from the change in the structure of consumption in the BRIC which gradually transforms the type of products that the BRIC imports, with the import share of low value-added goods falling. The import share of agricultural products has already fallen across the board from 1995 to 2007, as BRIC consumers slowly increased their imports of higher-value-added goods, such as cars and office & telecommunication equipment.

The rising exchange rates could contribute a significant amount to the rise in US dollar GDP in the BRIC. About 1/3 of the increase in US dollar GDP from the BRIC over the period may come from rising currencies, with the other 2/3 from faster growth.<sup>56</sup>

As they begin the recovery phase quickly, each country returns to trend growth and closing its output gaps is likely to be an important factor in the market. According to Goldman Sachs, the four countries have gradually started political cooperation, in an effort to influence UN decisions, or to press the US through unwritten political agreements.

Another effort of BRIC in becoming new economic power is by encouraging the United Nations (UN) to play the important role in multilateral diplomacy, and also giving important role to Brazil and India in UN, in order to make these countries the permanent members of Security Council in UN. On this part, BRIC really wants to wider their power and influence the international

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<sup>56</sup> Global Economics Paper No. 99: *Dreaming with BRICs: The Path to 2050*

institutions in order to make its regime exist and show to the world that its members are worthy as the new economic powers in the world.

The country profiles of BRIC members described above and the effort of BRIC member in becoming new economic power, show that BRIC really wants to get the international society attention on them and it also wants to reduce the domination of G8 members in any kind of decision making process in international institutions especially in IMF and World Bank. The changing of structure within those institutions will make BRIC members easier to put their interest and get the higher voting share in IMF and World Bank