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**BRICS Organization: Comparison of the
Countries' Economies and
Geopolitical Influence. Potential Development**

Master thesis

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Annotation

Master thesis „BRICS Organization: Comparison of the Countries' Economies and Geopolitical Influence. Potential Development“ describes the cooperation of Brazil, Russia, India, Russia and South Africa within BRICS international group. The countries show remarkable economic growth rates over the past years. This group of countries is believed to undergo the process of structural transformations and reach the level of world leading economies in a short time.

This Master thesis evaluates BRICS countries from the perspective of political cooperation within the framework of the organization, assesses current economic and social performance of the member countries. The aim of this research is to indicate the main reasons for BRICS countries to unify into this international organization and to suggest the potential development of BRICS group.

Keywords

BRICS, developing countries, regionalism, patterns of development, flying geese.

Declaration

1. I declare that presented work was processed independently by my own using mentioned sources and literature.
2. I agree that this Master thesis would be available to the public and for purposes of research and studies.

in Prague on

Anna Voronkova

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INITIAL PROJECT FOR THIS MASTER THESIS

The BRICS Countries- Brazil, Russia, India, China and South Africa are gaining lots of attention at the scene of International Relations and Economics. Their incorporation into the organization became a highly-debated and controversial topic recently. The reason for that is mainly their progressive economic performance and high growth rates. According to some predictions, BRICS countries can become major economical and political players in the future. On the other hand, other sources say, that these countries are too different (from the point of economical, political and social development) and they will not succeed in establishing of advantageous mutual relations.

In my Master thesis I would like to look separately at each countries' economical development and potential. To determine what kind of relations do the countries currently have with each other. Which schemes are predicted for the development of BRICS Organization and which member has a greatest potential for the future growth. In addition, i would like to focus my Master Thesis on historical aspects of the group and to describe how important the BRICS are for the current global economic and political environment.

As for methodology, I would like to use qualitative method to collecting and evaluating of the information. The aim is to compare current economic and political performance of BRICS countries and indicate whether the rapid economic growth is the unifying element of the group, whether there are some other indicators shared by its' members. As for the indicators to compare, I have chosen GDP, Foreign Direct Investments and Foreign Exchange Reserves.

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- 1.2. Aspects and presumptions of emergence.
- 1.3. Reasons why the BRICS are leaders in emerging World.

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- 2.2. Russia: (...)
- 2.3. India: (...)
- 2.4. China: (...)
- 2.5. South Africa: (...)

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- 3.2. Position of individual countries in today's World Economy (a) and International relations (b)
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Introduction

Brazil, Russia, India, China and South Africa, all together forming the so-called BRICS group, have drawn significant attention on the scene of the global economy as well as international relations in the recent decades. Showing remarkable economic growth rates over the past years, this group of countries thus far classified as “emerging economies” are perceived to have undergone a process of structural transformations now reaching the level of world-leading economies in a short time. This ongoing process may also lead to a shift within the global economy away from currently developed world communities, such as the G7, towards the developing countries. As a result, the existing global poles of political influence may be challenged.

In the 21st century, the world has faced numerous problems connected with its unipolarity established by the United States of America (USA). The Bretton-Woods system¹ made the US dollar an international reserve currency due to its light linkage to the price of gold². Therefore, the US dollar unifies the world in terms of international trade serving as a global unit measure of wealth. In this context and within the framework of the changing global environment, the idea of an alternate pole of political and economic influence has arisen.

The emerging markets of the BRICS countries play a significant role in today’s global economy and business. The BRICS countries taken together have accounted for over 40% of the world’s population, one third of its landmass and nearly a quarter of global GDP. The BRICS collaboration represents a concept, by which goods, capital, enterprises and people can freely move. These new actors are emerging on the global stage, adapting the experience from leading contemporary giants. The growing interdependence of global markets requires the creation of new policies and straightening of relation boundaries. Due to the liberal policies set in place by the BRICS members, the global trade and capital inflows have been noticeably stimulated. The Asian region in particular has gained the role of a large investor and price setter on the global financial and goods markets. Although the BRICS show impressive economic performance, these countries

¹ Bretton Woods - “A landmark system for monetary and exchange rate management established in 1944. The Bretton Woods Agreement was developed at the United Nations Monetary and Financial Conference held in Bretton Woods, New Hampshire, from July 1 to July 22, 1944.” Source: <http://www.investopedia.com/terms/b/brettonwoodsagreement.asp> Quoted on 12.06.2014.

² J. Boughton, K. Lateef. “Fifty Years After Bretton Woods: The Future of the IMF and the World Bank International Monetary Fund”. World Bank Group, Washington, 1995. (p. 215) ISBN 1-55775-487-X. Available on: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2005/11/02/000160016_20051102170800/Rendered/PDF/34022.pdf

still experience a wide range of difficulties, such as high unemployment rates, limited access to education or issues in the healthcare system, all of which represent significant obstacles on the path to rapid economic growth. Indeed, the standards of living in these five countries remain very low in contrast to Western standards. In addition, the BRICS countries differ distinctly with regard to social development, economic performance, historical background and current political aims – therefore the establishment of advantageous mutual relations may not succeed.

1. BRICS background

1.1 Origin of BRICS concept

The concept of BRIC³ was introduced in the year 2001 by Jim O'Neill, then chairman of Goldman Sachs, one of the biggest investment management companies in the world. According to one of the earliest reports⁴ (2001) on emerging and dynamically growing economies by Goldman Sachs - Brazil, Russia, India and China were suggested to merge into that special “economic union”. The presented research took into account the total land area of BRIC members, population, potential of the consumer markets as well as influence within their respective regions. *“Over the next 50 years, Brazil, Russia, India and China - the BRICs economies - could become a much larger force in the world economy. Using the latest demographic projections and a model of capital accumulation and productivity growth, we map out GDP growth, income per capita and currency movements in the BRICs economies until 2050.”*

In the year 2003 Goldman Sachs experts predicted that within next five decades the center of global economic gravity would move towards BRIC countries. *“The relative importance of the BRICs as an engine of new demand growth and spending power may shift more dramatically and quickly than many expect. Higher growth in these economies could offset the impact of graying populations and slower growth in today’s advanced economies”*⁵.

On the whole, it was predicted that the weight of BRIC GDP would grow significantly (led by China) and their total economic performance would reach and exceed the level of G7 countries’ economic performance (cf. Table 1). Using PPP and prices at the end of 2000 as a measure the research showed that BRIC’s share of world GDP was set to rise in future decades and that the countries were expected to take their place among the top world economic players. This statement has also triggered debate regarding the subsequent shift in global economic impact, engendering

³ The letter «S» standing for the South Africa was annexed to BRIC in December 2010, after South Africa became a group member. Source: <http://www.brics5.co.za/about-brics/> Quoted on: 24.09.2014

⁴ Goldman Sachs, Global Economics Website, Paper No. 66 by Jim O'Neill issued on 30th of November, 2001. Available on: <http://www.goldmansachs.com/our-thinking/archive/pdfs/build-better-brics.pdf> Quoted on 23.09.2014

⁵ Goldman Sachs, Global Economics Website, Paper No. 99 by Dominic Wilson issued on 1st of October, 2003. Available on: <http://www.goldmansachs.com/korea/ideas/brics/99-dreaming.pdf> Quoted on 23.09.2014

⁶ Goldman Sachs, Global Economics Website, Paper No. 99 by Dominic Wilson issued on 1st of October, 2003. (p.2) Available on: <http://www.goldmansachs.com/korea/ideas/brics/99-dreaming.pdf> Quoted on 23.09.2014

changes in global political influence.

Table No. 1. BRIC - move up USD denominated GDP rankings⁷. Estimations of Goldman Sachs experts.

Table 1: BRICs Move Up USD-denominated GDP Rankings

	1980	2000	2010	2050*
1	United States	United States	United States	China
2	Japan	Japan	China	United States
3	Germany	Germany	Japan	India
4	France	United Kingdom	Germany	Brazil
5	United Kingdom	France	France	Russia
6	Italy	China	United Kingdom	Japan
7	Canada	Italy	Brazil	Mexico
8	Mexico	Canada	Italy	Indonesia
9	Spain	Mexico	Canada	United Kingdom
10	Argentina	Brazil	India	France
11	China	Spain	Russia	Germany
12	India	Korea	Spain	Nigeria
13	Netherlands	India	Australia	Turkey
14	Australia	Australia	Mexico	Egypt
15	Saudi Arabia	Netherlands	Korea	Canada
16	Brazil	Argentina	Netherlands	Italy
17	Sweden	Turkey	Turkey	Pakistan
18	Belgium	Russia	Indonesia	Iran
19	Switzerland	Switzerland	Switzerland	Philippines
20	Indonesia	Sweden	Poland	Spain

*projections; Source: GS Global ECS Research

An Earlier Goldman Sachs research from 2001 pointed out the following: “ ... for three of the four countries (China, India and Russia), their economies are more than three times bigger when using a PPP weighting rather than current GDP. Indeed on a PPP basis, China is the 2nd largest economy in the world, India the 4th largest and all four are bigger than Canada. These estimates raise important issues about the transmission of global monetary, fiscal and other economic policies, as well as the need for general international economic and political co-operation (which events since September 11th have highlighted) on a truly global basis. Representation at global economic policy meetings might need to be significantly changed.⁸

⁷ Source: GS global ECS research form December, 2001. Available on: <http://blogs.univ-poitiers.fr/o-bouba-olga/files/2012/11/Goldman-Sachs-Global-Economics-Paper-208.pdf>

⁸ Goldman Sachs, Global Economics Website, Paper No. 66 by Jim O'Neill issued on 30th of November, 2001. Available on: <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf>

1.2 Emerging markets

Over the past 50 years, dramatic and continuous changes can be observed in the international environment: the break down of the socialist system, internationally changing economic structures, persisting security concerns, and in particular, the economic growth of developing countries. These changes are reflected in the adjustments in the balance of power among the world's major economic actors. Developing countries have also caused significant changes in the macroeconomic sphere. Gradually they became important players in the global economy which came along with changes in political orientations, social policies and institutions.

The term “emerging market economies” refers to rapidly growing economies that offer investment opportunities for companies and high-income countries. *“First, they [the emerging markets] are regional economic powerhouses with large populations, large resource bases and large markets. Their economic success will spur development in the countries around them; but if they experience an economic crisis, they can bring their neighbors down with them. Second, they are transitional societies that are undertaking domestic economic and political reforms. They adopt open-door policies to replace their traditional state interventionist policies that failed to produce sustainable economic growth. Third, they are the world's fastest growing economies, contributing to a great deal of the world's explosive growth of trade”* ⁹.

Emerging economies can also be characterized by a high poverty rate, a large pool of highly skilled, but relatively cheap labour force, the struggle for global market access by eliminating trading barriers and an ongoing industrialization process (i.e. secondary- and tertiary-sector development). BRICS countries are considered to be emerging economies, with each country on a different developmental level.

The growing influence of emerging economies has generated the new political and economic phenomenon of global regionalization. Regionalism tends to design new cooperating societies between states and regions which comes along with a need for reviewed policies and institutions.

⁹ CHUAN, L. *What Are Emerging Markets?*. The University of Iowa Center for International Finance and Development. Available on: <http://www.mrshultz.com/webpages/emergingmarkets.shtml>

“First, a major driver of regionalism in economic and security affairs has been shifts in the structure of the international system requiring states to adapt to the changing global and regional balances of power. (...) Cooperation [between states] has been a means of increasing security and welfare, but also influence and bargaining power.^{10”}.

Over the course of the past three decades the theories about structural transformation and growth patterns in developing countries have become hotly debated. These theories attempt to propose the most effective strategy and approaches for achieving sustainable economic growth and efficient structural change in emerging economies.

1.3 India - Brazil - South Africa Dialogue Forum

There is a smaller regional association which exists within BRICS. The India - Brazil - South Africa Dialogue Forum (IBSA) was established in 2003 and coordinates geographically the South-South cooperation among these three multiethnic and multicultural democracies.

“Its creation recognized the necessity of a process of dialogue among developing nations and countries of the South to counter their marginalization. The principles, norms and values underpinning the IBSA Dialogue Forum are participatory democracy, respect for human rights, the Rule of Law and the strengthening of multilateralism”¹¹.

Moreover, the organization enforces healthcare and social programs in developing countries. IBSA holds annual summits and donates US\$ 1million yearly in support of its projects¹². The cooperation between Brazil and South Africa in a framework of South-South foreign policy has been ongoing since the taking of office of the Brazilians favored president Lula da Silva. Nevertheless, the collaboration between Brazil and India can be considered as a new vector of bilateral relations. The dialogue between Brazil and India is mainly focused on security insurance of marine communication in the southern hemisphere in the context of obtaining membership status on

¹⁰ L. Fawcett “Regionalism in World Politics: Past and Present” Nomos, Baden-Baden, 2008. p. 11.

¹¹ Source: IBSA dialogue forum. Available on: <http://www.ibsa-trilateral.org/> Quoted on 13.12.2014

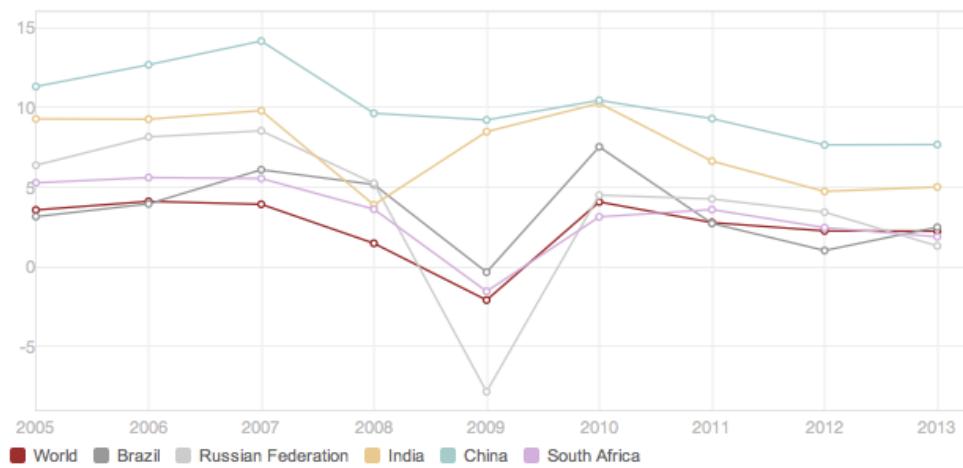
¹² Source: IBSA dialogue forum. Available on: <http://www.ibsa-trilateral.org/> Quoted on 13.12.2014

the UN Security Council. Bilateral relations between India and South Africa remain limited especially due to tariff barriers on South African agricultural products.¹³

1.4 Global financial crisis

The global financial crisis of 2008-2009 has proven the comparative strength and resilience of BRICS economies. Undoubtedly, the financial crisis hit the emerging economies severely in addition to the developed countries. However, the recovery after the crisis in BRICS countries occurred much faster than in the rest of the developing world. The global economic shock after the financial crisis encouraged the idea of an alternative to the existing world order. During that period BRICS used different ways of macroeconomic management and succeeded to perform with significant results. As it is shown in Chart 2¹⁴, the crisis did not slow down the dynamics of the Chinese and Indian economies in terms of GDP annual growth. Brazil and South Africa suffered a short stunting, but very soon got back on the growth path. Russia was the only BRICS country that experienced a strong decline during the crisis with a relatively quick subsequent recovery. The demand in emerging markets has helped the affected economies in making the first steps towards recovery.

Chart No. 2 GDP annual growth (%) in BRICS and total worlds performance in context of global financial crisis and further recovery.



Source: World Bank data. Available on: <http://data.worldbank.org>

¹³ Source: Global Economic Governance work-paper “The India-Brazil-South Africa Forum, A Decade On: Mismatched Partners or the Rise of the South?”, University of Oxford, November 2013. Available on: http://www.globaleconomicgovernance.org/sites/geg/files/Soule-Kohndou%20GEG%20Working%20Paper%202013_88.pdf Quoted on 13.12.2014

¹⁴ Source: World Bank data. Available on: <http://data.worldbank.org> Quoted on 05.06.2014.

2. Methodology

The methodology and theoretical background of the present research are based on studies by recognized economists and analysts - such as J. O'Neil, J. Lin and R. Baldwin - who are concerned with problematics regarding BRICS. Informative and statistical database for the present research has been formed on the basis of materials posted by the UN, World Bank, IMF, WTO, Goldman Sachs, and other presented sources. The research focuses on the time interval from BRICS group formal emergence in the year 2009 until 2012 - since then additional economic surveys have become available. However, I will select only particular years in order to depict the changes occurred. I also use the year 1990 as a baseline to show the development rate of BRICS countries.

The research is performed using systematic analysis allowing the interaction processes between BRICS countries to be considered in detail. Systematic analysis is routinely used by large market subjects for the purpose of strategic planning; in particular by such subjects concerned with development planning as well as the generation of administrative influences designed to keep the subject on an established path of development¹⁵. As research tools, the following methods are employed: scientific induction and deduction, economic and statistical analysis, comparison, tabular and graphic techniques of fact presentation.

2.1 *Aim of the study*

This Master thesis evaluates BRICS countries from the perspective of political cooperation within the framework of BRICS organization, assesses current economic and social performance of the member countries. The aim of this research is to indicate the main reasons for BRICS countries to unify into this international organization and to suggest the potential development of BRICS group.

¹⁵ I.N. Drogobytskij "Systematic analysis in economy", Finances and statistics, Moscow, 2009. p. 14. ISBN 978-5-279-03242-6.

2. 2 Working hypotheses:

1. In the next decade, the BRICS group will experience significant growth in influence on both the global economic and political scene;
2. Brazil, Russia, India, China and South Africa are heterogeneous with respect to their political, social and economic development. On one hand, they have many reasons to cooperate; on the other hand, their internal arrangements and development policies are quite different. These countries will not be able to cooperate due to the conflicts of interests.
3. By the means of a process of “catching up”, BRICS cooperation will support the sustainable and rapid economic growth of group members. China will become a “leading dragon¹⁶” for the BRICS economies.
4. The BRICS group will develop into an economic union with its own financial mechanism in order to confront the influence of the US dollar and global American economic influence in general.

2.3 Theoretical background

In this chapter I will analyze the chosen developmental theories, that characterize main principles and try to explain process of structural changes in developing countries, such BRICS Group. In my Master thesis I operate with terms such as “leading country/economy” that defines the countries “*whose economies operate nearest to the technical frontier¹⁷*” and “follower country/economy”, which stands for developing countries, that “*have a lower level of labour productivity (or GDP per capita)¹⁸*”.

For my research I also use the existing historical data analysis and patterns of World’s development dynamics described by modern macroeconomic historians, such as A. Maddison as follows: “*I assume (for the period of 2003-2030- author’s comment) faster advance ..., with accelerated growth of per capita income. ... I expect the most dynamic performance to come from*

¹⁶ This metaphor refers to the studies of J. Lin described in part 2.4.4 of this research

¹⁷ Maddison, Angus. “Contours of the World Economy 1-2030 AD : Essays in Macro-Economic History”. (p.304). Oxford University Press UK (2007).

¹⁸ ibid.

Asian economies, particularly China and India, with the Asian share of world GDP rising to 53 per cent, and that of western Europe, the US, and other western offshoots falling to 33 per cent. The average Asian income level would still be only a third of that in western Europe, so there would be reason to expect the 2003-30 changes in world economic structure to continue in the same direction thereafter”.

Economic development itself is a long process, where the industries and technologies are permanently updated. The Industrial Revolution, happened in England in 18th century, was the crucial event in the history of Global development. Thanks to scientific discoveries and technological innovations, the agrarian economies have turned into the industrial societies. In these conditions the Western economies were able to increase their incomes in significantly short terms (see Attachment No. 2). The next wave of structural changes prompted by industrialization - the engine of economic growth took place in Japan, but this time the transformation process has happened much more rapidly. According to the specialists in the area of Developmental Economy, low-income countries “*may accelerate structural change and income growth by facilitating the development of new industries which reflect their latent comparative advantage, and take advantage of new opportunity from the rising of a multi-polar growth world*¹⁹”.

¹⁹ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, p. 4. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

2.3.1 The core principles: “The Theory of Flying Geese Pattern of Development²⁰” by K. Akamatsu.

Scientific thinking is always composed of theory and practice. Theory itself may depend on numerous variables, such as experimental results, reflections, evaluations or empirical observations. While working on his theory, Kaname Akamatsu was inspired by Hegel’s “Lectures of the philosophy of world history”, which emphasizes the rational natural historical progress and the human spirit’s adjustment to the new order, its consciousness of freedom; he also stresses the general existence of reason: “*That world history is governed by an ultimate design, that it is a rational process - whose rationality is not that of a particular subject, but a divine and absolute reason- this is a proposition whose truth we must assume; its proof lies in the study of world history itself, which is the image and enactment of reason*²¹”. Based on these thoughts, Akamatsu aimed to describe the global change in economic system and, of course, there was no intention of creating a uniform theory, applicable to any group of countries in any period of history. There are various factors that may influence historical, economic or political development. Therefore, Akamatsu connected Hegelian philosophy on inevitable collective freedom achievement in a long-run scenario with a perspective on the material world. “*The FG [“flying geese”] model intends to explain the catching-up process of industrialization in latecomer economies, which consists of: (i) a basic pattern, i.e., a single industry grows tracing out the three successive curves of import, production, and export; and (ii) a variant pattern in which industries are diversified and upgraded from consumer goods to capital goods and/or from simple to more sophisticated products*²². ”

The global economy experienced significant transformations after World War II. Japan was one of the first countries, that managed to use efficiently the fruits of Western thought and technology in order to recover and become one of the world’s leading economies within a relatively short amount of time.

²⁰ K. Akamatsu.(1962): A historical pattern of economic growth in developing countries. Journal of Developing Economies. ISBN: 978-0-8213-8785-6

²¹ Hegel, Georg Wilhelm Friedrich (1975). “Lectures of the philosophy of world history: Introduction”. (p.28). Translated by Johannes Hoffmeister. New York: Cambridge University Press. ISBN 0 521 20566 2.

²² K. Kojima, “The “flying geese” model of Asian economic development: origin, theoretical extensions, and regional policy implications”, The Journal of Asian Development, 2011 (p. 376). Available on:<http://ejournal.narotama.ac.id/files/model%20asia.pdf>

As a core theory for this thesis I have chosen «The Theory of Flying Geese patterns of Development » by K. Akamatsu who studied Japanese industrial patterns in the 1930's and 40's. His theory predicts and describes an «economic miracle» which occurred in Japan after World War II. It refers to the situation in which technologically less advanced countries adopted technologies and industries of the more advanced. According to this theory, developing countries follow the guiding leader as is the case with flying geese. After some time, the closest «follower» tends to overtake the leading position. This theory captures the process of development in Japan after the World War II. The curious fact however, is that the theory was proposed by a Japanese scientist in 1930's and essentially predicted upcoming events. In my opinion, this model might be fully applicable for the contemporary BRICS group development scenario. In this context, the regionalism concept mentioned in Chapter 1.2 can be established: *“Those states which can call upon strong regional alliances, internal peace and a strong and independent civil society seem best placed to benefit from globalization²³. ”*

2.3.2 Stages of economic cooperation and development according to K. Akamatsu²⁴

According to the theory, the starting point for the cooperation is economic communication, continued by industrial development. Developing countries are following the guiding leader like flying geese. After some time, the «follower» tends to overtake the leading position.

The separate stages of economic cooperation and development between the emerging economies according to K. Akamatsu are as follows:

²³ International Commission on Intervention and State Sovereignty: “The Responsibility to Protect”. C2001-980327-3. Ottawa, 2001. p. 7. Available on: <http://responsibilitytoprotect.org/ICISS%20Report.pdf>

²⁴ The whole chapter is composed based on the scientific work of K. Akamatsu.(1962): A historical pattern of economic growth in developing countries. Journal of Developing Economies

1. Importing Stage²⁵

The developed country starts to gradually export certain useful or modern and interesting goods to the other markets. At this stage, international communication begins bringing about stagnation for the domestic market, evidenced by a hike in unemployment. Moreover, at this stage, the developed country is usually stronger politically and militarily, which strengthens its position.

2. Local market adaptation Stage

At this stage, the local market starts an industrial production and adaptation to the new preferences and market conditions. Furthermore, this process is always accelerated by the following conditions, existing in the local developmental environment:

- a) cheaper labor market/lower wages (in conjunction with higher rates of unemployment, mentioned in Stage 1);
- b) cheaper manufacturing/raw materials, available locally;
- c) situated closer to the local markets, enabling cheaper transportation;
- d) finally, space for development together with willing/necessity to absorb industrial culture;

In situations where stability is returned to the country and the state of general autonomy is reached, economic development might be triggered. Naturally, the change in economic structure requires investments. If for Japan at the end of 19th century the local capital was sufficient, most of developing counties²⁶ at that stage, however, were supported by foreign investments. During this stage, the political structure undergoes reorganization where national capital is involved. This is an economically expedient position, where together with a process of «borrowing industries and technologies», the country also develops internally.

3. Internal capital accumulation Stage

The internal market is already formed, supported by a reformed political apparatus. Local production is in a very competitive position²⁷ towards the imported goods. In order to protect the local market and maintain a certain level of national autonomy, the government imposes restrictions on imported goods. At this stage, the import levels into the country tend to decrease,

²⁵ Names of the stages are made up by myself in order to make the features structure more clear.

²⁶ Talking about investments as a mandatory part for any colonial policy historically. Ex.: colonies in Africa or India etc.

²⁷ The competitive position is reflected mostly by the price of the product, but not always by the quality.

with the exception of know-how and machinery (or what are nowadays termed “situation technologies”).

4. Final exporting Stage.

The "follower" country itself becomes an exporter. Capital level rises and the country develops its own industry, consequently surpassing the “developed” one. This process stimulates the capital accumulation in the country: local products are exported; therefore imported goods are more available which attracts more capital inflow into the country.

2.3.3 *The interpretation by A. Gerschenkron: “Latecomer Effect²⁸”.*

Continuing K. Akamatsu’s line of thought, the “Latecomer Effect” theory was formulated in the 1950’s by the Russian historian and economist A. Gerschenkron. The main concept of this theory is summarized as follows: “*The central notion is the positive role of relative economic backwardness in inducing systematic substitution for supposed prerequisites for industrial growth. State intervention could, and did, compensate for the inadequate supplies of capital, skilled labor, entrepreneurship and technological capacity encountered in follower countries seeking to modernize*”²⁹.

Based on Gerschenkron’s reasoning, properly “tailored” world experience of economic growth should be applied to developing countries. Then, the industrialization process can be perceived as a pattern. Given a target country’s economic backwardness level, it is possible to choose certain “institutional tools” in order to significantly accelerate the development and innovation process. This assumption was repeated half a century later by L. Fawcett in her regionalism studies: “*Regional institutions are useful vehicles for coping with a security predicament and for alleviating state weakness in a competitive international environment*”³⁰.

Gerschenkron claims the advantage of a “latecomer” is the phenomenon of “*growth with late industrialization*”³¹ – a complex set of measures stimulated by the government. It aims to utilize all

²⁸ A. Gerschenkron, “Economic Backwardness in Historical Perspective”. Harvard University Press, 1962. ISBN: 978-0-674-22600-5

²⁹ A. Fishlow, “Alexander Gerschenkron: A Latecomer Who Emerged Victorious”, MIT Press, Cambridge, 2003, (p. 3) ISBN: 0-415-30168-8.

³⁰ L. Fawcett “Regionalism in World Politics: Past and Present” Nomos, Baden-Baden, 2008. (p. 11). ISBN 0 19 828067 3.

³¹A. Gerschenkron, “Economic Backwardness in Historical Perspective”. Harvard University Press, 1962. ISBN: 978-0-674-22600-5

of the resources from more advanced countries and obtain knowledge in return for providing services, such as low-cost manufacturing. According to A. Gershenkron, in order to succeed in this process, the government's intervention is inevitable. At the first stage, it has to compensate for insufficient capital supplies, support emerging of skilled labour, develop entrepreneurship and stimulate innovations.

This theory can be seen historically in the following examples. Japan needed around 40 years to recover after World War II, adopting the industrial technologies from the U.S. Japan's development was also sped up by large U.S. investments and dynamic policies of development. The "Asian Tigers": Hong Kong, Singapore, South Korea and Taiwan, being "latecomers" in the Asian region (after Japan had established a "well-trodden" path of development) needed just 20 years to succeed in catching-up in becoming highly development economies - and centers of contemporary global business.

2.3.4 *The modern application of Flying geese theory: "From Flying geese to leading dragons" by J.Y. Lin*³².

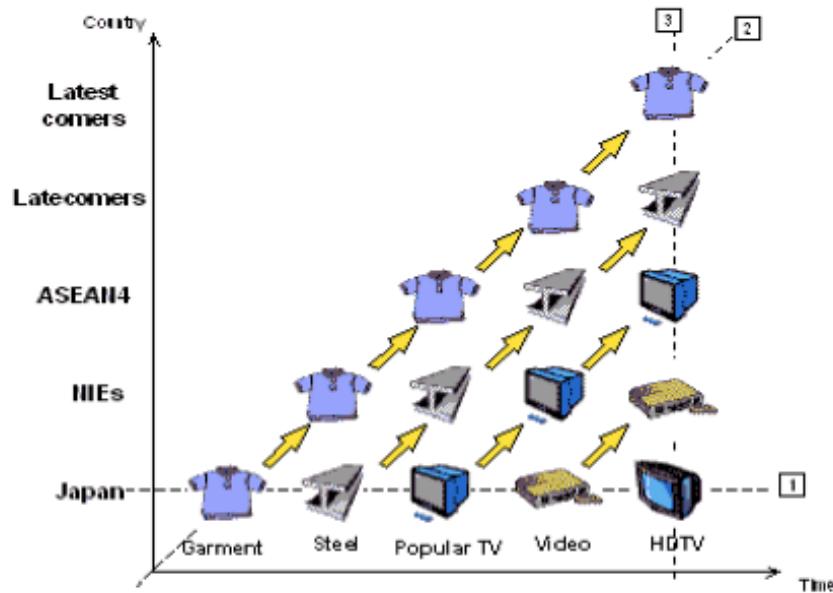
As a core theory for my research I use one of the most recent theories by Justin Lin the former Chief Economist of World Bank. The theory is based on K. Akamatsu's "Flying geese" theory , discussed earlier in this chapter and scientific work of S. Kuznets "Economic Growth of Nations: Total Output and Production Structure" (1971). J. Lin focuses on role of China as a "Leading Dragon" for the other low and middle-income countries, such as India or Brazil. J.Lin applies these "classic studies" searching after the "*new growth poles in the World*"³³. He describes the process, where China has graduated from low-skilled level of production. The successful strategy is suggested to be transferred to the other "follower" economies. The author's vision regarding the structural transformation happened in East Asia are illustrated on Figure No. 3 below.

Figure No. 3. The image of structural transformation in East Asia³⁴.

³² Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

³³ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, (p. 4). Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

³⁴ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, (p. 9). Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf



Source: Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture.

J.Lin claims, that in order to experience structural changes, reduce poverty and achieve prosperity, low-income countries must apply the right strategy and use the opportunities that come together with the industrialization and technological growth. However, these changes are not only of an economic nature, social institutions have to be reorganized and beliefs should be reviewed.³⁵ J. Lin identifies the following sequential order³⁶ in the catching-up process of industrialization for latecomer countries:

1. Intra-industry dimension: the development of a single industry product within a developing country;
2. Inter-industry dimension: “[...] *the sequential appearance and development of industries in a particular developing country, with industries being diversified and upgraded from consumer goods to capital goods and/or from simple to more sophisticated products*³⁷”;
3. International division of labour dimension: relocation process of industries from advanced to developing countries during the catching-up process.

³⁵ S. Kuznets, “Economic Growth of Nations: Total Output and production Structure”, Harvard University Press, 1971. ISBN: 978-0-674-22780-4

³⁶ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, p. 10. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

³⁷ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, p. 10. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

Further, according to J. Lin, the characteristics³⁸ for subsequent economic growth are as follows:

1. An increase in the proportion of the national income derived for manufacturing activities and from secondary industry in general;
2. The rising trend in the proportion of working population engaged in manufacturing;
3. An associated increase in the per capita income of the population;

The main statement by J. Lin is: "*All developing countries - regardless of their size, location or natural resources- can achieve an annual growth rate of 8% or more for decades and successfully embark on the path of prosperity, provided by their comparative position and tap into the potential of latecomer advantages and engage into activities that will dynamically transform their economic structure*"³⁹".

The "follower country" always has to overcome a few stages of development, including a political, economic and (to a certain extent) social restructuring. With the knowledge available, the economical backwardness can be turned into an advantage. This process of fair-trade, in which the developing country receives the latest tailored knowledge for the price of low-cost manufacturing and services proves invaluable, and I consider it to be the future engine for development worldwide. Furthermore, this process is beneficial to both the leader and the follower - because outsourcing is an economically reasonable solution for them. The "follower country" adapts technologies, political and economic models and patterns of social behavior as well up until the moment when it becomes an advanced (if not the leading) country itself. In the current thesis, I apply the "following geese" developmental patterns to the cooperation between BRICS countries. Moreover, regionalism studies suggest the resembling qualities for regional unions within a changing global environment: "*Aside from promoting economic, political and security cooperation and community, it [regionalism] can consolidate state building and democratization, check heavy-handed behavior by strong states and global institutions, generate and lock in norms and values, increase transparency, and make states and international institutions more accountable.*"⁴⁰"

³⁸ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, p. 7. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

³⁹ Lin.J. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, p. 40. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

⁴⁰ M. Farrell, "Global Politics of Regionalism: Theory and Practice", London, 2005. (p. 21). ISBN 0 7453 2263 8.

2.4 *Research methods*

Based on the theoretic approaches presented, I will use the following methods in order to confirm or negate the working hypothesis defined above:

First, I will analyze five BRICS countries in terms of their major economic indicators, political and social background in order to get a better overview about the global position of this group. The comparison of economic growth dynamics with the developed countries is to be provided;

Second, I will perform a comparative analysis of BRICS group in terms of intra-BRICS trade and trading with the rest of the world using different economic growth indicators to observe potential development dynamics of BRICS-internal and global trading relations. Further, I will present and analyze trading profiles of each BRICS country separately, to define volumes of trade among BRICS members, at the same time presenting their major global import and export partners;

Third, in order to define the nature of economic cooperation among BRICS, I will compare intra-BRICS trading relations analyzing geographical and commodity structure of exports and imports of goods;

Forth, I will attempt to assess the potential for development of new industries and latest technologies among the BRICS countries. I will look into the development of China separately and try to evaluate patterns of its development and cooperation with the other BRICS members.

3. BRICS countries analysis

This chapter attempts to provide comprehensive characteristics of the countries surveyed in order to allow for the analysis of the current situation and, in particular, the assessment of the motivation for becoming a BRICS group member. The main facts about the countries are provided in the Table 4⁴¹.

Table 4: The main figures on BRICS countries.

	BRAZIL	RUSSIA	INDIA	CHINA	SOUTH AFRICA
Government type	Federal Presidential Constitutional Republic	Federal Semi-Presidential Constitutional Republic	Federal Parliamentary Constitutional Republic	Single Party Socialist State	Unitary Constitutional Parliamentary Republic
Territory (square kilometers)	8,514,877	17,098,242	3,287,263	9,596,960	1,219,090
Population (thousands)	200,362	143,500	1,252,140	1,357,380	52,982
Population growth rate (% annual)	0,9%	0,2%	1,2%	0,5%	1,3%
HDI	0,744	0,788	0,586	0,719	0,658
GNI per capita, PPP (international \$)	14,282	22,615	5,178	11,467	11,856
Unemployment (% of labour force)	5,9%	5,6%	3,6%	4,6%	24,9%
National poverty lines (% of population)	8,9%	11%	21,9	-	45,5 (in 2011)
Urban population (% of total)	85%	74%	32%	54%	64%

Source: World Bank data, 2013; CIA, World Fact Book, 2013; United Nations Development Program. Human Development reports, 2013.

⁴¹ Source: World Bank data, 2013; CIA, World Fact Book, 2013; United Nations Development Program. Human Development reports, 2013. Available on: <http://data.worldbank.org/indicator> ; <https://www.cia.gov/library/publications/the-world-factbook/> ; <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components> Quoted on 29.08.2014.

3.1 Human Development Index

Table 4 uses the Human Development Index (HDI). This measure assesses long-term progress in a given country and evaluates the country's development based on average achievements and key dimensions of human development, such as health, life expectancy, education, inequality, environment and living standards⁴² measured by per capita gross national income (GNI)⁴³. GNI is an important unit of measurement for the assessment of emerging markets as it indicates the dynamics of domestic economy and local demand in terms of final goods produced and services provided. Evaluation of HDI is important for this thesis since it provides the ability to compare BRICS countries in terms of their social background and quality of life. The growth rates of HDI are one of the indicators for structural change and transformation towards versatile development. In the following section, I will compare the HDI of BRICS countries and investigate its growth patterns.

The HDI of Brazil is high, positioning the country at a rank of 79 out of 187 countries and territories⁴⁴. Between 1990 and 2013, Brazil's HDI value increased from 0,612 to 0,744 which corresponds to an average annual increase of about 0,95%⁴⁵.

The Russian Federation's HDI is 0,788 belonging to high category ones. It is the highest human development index among BRICS putting Russia at 55 out of 187 countries and territories. Between 1990 and 2012, its HDI value increased from 0,73 to 0,788, a total increase of 8% or average annual increase of about 0,3%⁴⁶, this does however represent the slowest growth in

⁴² Source: United Nations Development Program. Human Development reports, 2013. Available on: <http://hdr.undp.org/en/content/human-development-index-hdi> Quoted on 29.08.2014.

⁴³ Source: World Bank data, 2013.GNI per capita based on purchasing power parity (PPP). PPP GNI is gross national income (GNI) converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GNI as a U.S. dollar has in the United States. GNI is the sum of value added by all resident producers plus any product taxes not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in constant 2011 international dollars. Available on: <http://data.worldbank.org/indicator/NY.GNP.PCAP.PPKD> Quoted on 29.08.2014.

⁴⁴ Source: United Nations Development Program. Human Development index and its components, 2013. Available on: <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components> Quoted on 29.08.2014.

⁴⁵ Source: United Nations Development Program. Human Development reports, 2013. Available on: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/BRA.pdf Quoted on 29.08.2014.

⁴⁶ Source: United Nations Development Program. Human Development reports, 2013. Available on: <http://hdr.undp.org/sites/default/files/Country-Profiles/RUS.pdf> Quoted on 29.08.2014.

comparison with its partner countries. Nevertheless, Russia has the highest GNI rate, which suggests the high sufficiency level of Russian domestic market development for internal demand.

India has the lowest HDI index among BRICS countries ranked 135th in the world, being a medium human development country. During one decade, from 1990 to 2013 India has experienced a slight growth in HDI –from 0,431 to 0,586 – constituting a growth rate of 1,41%⁴⁷. India also performs the lowest in terms of GNI rates, which suggests a comparatively low level of Indian domestic economy dynamics.

China's HDI value in 2013 was 0,719, which is considered to be a high human development country positioning it at 91st in the world. In 1990, China's HDI value was 0,423, therefore the index was increasing annually at approximately 1,62%⁴⁸. China shows the highest HDI annual growth rate among BRICS countries, followed by India, which signalizes the fast development of these countries.

South Africa is the smallest BRICS member and the most dynamic developing country on the African continent. It is in the medium human development category placed at 118 out of 187 countries and territories. Between 1990 and 2013, South Africa's HDI value increased from 0,619 to 0,658 with an average annual growth of about 0,44 %⁴⁹. Along with Russia, this annual growth is the second slowest in the BRICS group.

⁴⁷ Source: United Nations Development Program. Human Development reports, 2013. Available on:http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/IND.pdf Quoted on 29.08.2014.

⁴⁸ Source: United Nations Development Program. Human Development reports, 2013. Available on:http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/CHN.pdf Quoted on 29.08.2014.

⁴⁹ Source: United Nations Development Program. Human Development reports, 2013. Available on:http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/ZAF.pdf Quoted on 29.08.2014.

3.2 Brazil

The Federative Republic of Brazil is the largest country in South America and 5th largest country in the world in terms of both territory and population⁵⁰. Brazil belongs to the dynamically developing countries with a GDP of US\$ trillion 2.245 ranking 5th in the global rating of the World Bank.⁵¹ The sectoral distribution of GDP is 5.5% for agriculture, 26.4% for industry and 68.1% for services⁵². Brazil holds the 7th largest sum of foreign reserves in the world. Its top three destinations for merchandise exports in the year 2013 were China, the United States and Argentina, accounting for respectively 17.8%, 10.5% and 8.1% of total exports. The same were also the top three partners for merchandise imports, accounting for respectively 15.1%, 15.0% and 7.2% of total imports⁵³. Brasil is a member of WTO, UNASUR and participates actively in WHO.

Throughout the 20th century the Brazilian economy was developing with a gradually straightening governmental sector under the conditions of various authoritarian regimes. Today, Brazil is a vibrant democracy under the presidency of Dilma Rouseff; globalization and the strong desire for integration into the world economy has defined new challenges - primarily the necessity of attracting FDI, which resulted in large-scale privatization. The government has played a key role in the development and functioning of the Brazilian market - its policies are intended to support the specific sectors as well as the economy on the whole. The contemporary trends in Brazilian economic development, taking place under the conditions of gradual globalization, have pushed the traditionally prominent sphere of industrial development to the sidelines in favor of more modern and high-tech technologies. Today, Brazil is one of the growing South American giants with a dynamically developing domestic market-attractive for foreign investments. It can be characterized

⁵⁰ Source: World Bank data. Population 2013. Available on: <http://databank.worldbank.org/data/download/POP.pdf> Quoted on 14.12.2014.

⁵¹ Source: World Bank data. Gross Domestic product 2013. Available on: <http://databank.worldbank.org/data/download/GDP.pdf> Quoted on 14.12.2014.

⁵² Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 29.06.2014.

⁵³ Source: UN Comtrade and UN ServiceTrade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 15.12.2014

as a rather closed country with the orientation on the domestic market - this is why, “...it [Brazil] remained relatively stable even during economic crises”⁵⁴.

The country is rich in raw materials, it has a substantial and well-developed agriculture in addition to a relatively advanced industrial and service sector. Besides iron and steel, Brazil exports large amounts of such products as coffee, sugar and soya beans or aircraft and motor vehicles. Top companies, representing Brazilian industries worldwide are Embraer (an aerospace conglomerate) and Aracruz Celulose (the world’s leading supplier of pulp). Brazilian Petrobras is a significant oil producer that applies modern technologies for deep water oil production. Currently, Brazil also holds the unique position of being the second largest biodiesel and ethanol producer. Over the last decade, Brazil has experienced a commodity boom and as a result of the capital inflows economic growth was restored and the national currency straightened. In 2003, the IMF provided a large loan to Brazil, since this time the economic situation in the country has remained markedly stable. “...the most important factors to explain the current growth pattern [of Brazil] are 1) economic stability; 2) expansion of social protection and social services; and 3) institutional reforms that guaranteed this economic stability and expansion of social protection and social services”⁵⁵.

On the other hand, together with numerous political and economic achievements such as its own nuclear and space program, Brazil still faces high poverty and inflation rates alongside a low level of education per capita. Additionally, among BRICS group members, Brazil has shown relatively slow growth rates (cf. Chart 8). The country does however play an important role for the BRICS group, mainly in terms of agricultural, raw material supplies and commodities, especially for China and India, where the growing middle class shows a continuously increase in demand⁵⁶. Moreover, Brazil operates a unique sector of biofuel and hydropower production, which is extremely important in the face of the increasingly significant issue of climate change.

⁵⁴ R. Dornbusch, “Keys to Prosperity: Free Markets, Sound Money, and a Bit of Luck”, The MIT Press 2003. (p. 342-343). ISBN: 978 0 26204181 2

⁵⁵ M. Vandenbortele, K. Bird.: “Building blocks for equitable growth: lessons from the BRICS”, p. 17. ODI, Working Paper 365, January 2013. Available on: <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8196.pdf> Quoted on 03.09.2014

⁵⁶ Source: MIC Forum, Worldbank.org. Available on: <http://www.worldbank.org/content/dam/Worldbank/document/MIC-Forum-Rise-of-the-Middle-Class-SM13.pdf> Quoted on 16.12.2014

3.3 Russia

The Russian Federation is the world's largest country in terms of land territory and ranks 9th in population accounting for 2% of world population⁵⁷. Russia also holds 9th place in global GDP 2013 ranking with US\$ trillion 2.096⁵⁸ with a sectoral balance of 4.2% for agriculture, 37.5% for industry and 58.3% for services⁵⁹. It is at 6th place among the largest holders of foreign exchange reserves⁶⁰. It is important to notice that mineral fuels were the largest commodity group for exports in 2013 for Russia, representing 90.6% of exports⁶¹. The top three destinations for merchandise exports were the Netherlands and China, accounting for 13.2% and 6.8% of total exports, respectively. The top three partners for merchandise imports were China, Germany and Ukraine, accounting respectively for 16.3%, 12.1% and 5.7% of total imports⁶². Russia is a member of WTO, the UN Security Council, APEC and G20. Russia was a member of G8 (now G7) from 1997 until March 2014 when it was excluded due to the Crimea Crisis.

Russia has a unique position in BRICS group - the other four countries are developing countries in different stages of their economic, political or social transformation, whereas Russia, being a successor of the Soviet Union, has gained a status of a non-Western political and economic power. As for the governmental system, Russia is a federal semi-presidential constitutional republic represented by its current president, Vladimir Putin. From the beginning of the 90's, after the breakdown of the Soviet Union, Russia has experienced a chaotic process of transformation followed by high level of corruption, inflation and a partial collapse of its social system. Until today, Russia has maintained extensive protective policies in Eurasia, its traditional sphere of influence. Despite the difficulties that Russia faced during the 90's, its economic stability was recovered within a remarkably short amount of time and its annual indicators grew year over year.

⁵⁷ Source: World Bank data. Population 2013. Available on: <http://databank.worldbank.org/data/download/POP.pdf> Quoted on 14.12.2014.

⁵⁸ Source: World Bank data. Gross Domestic product 2013. Available on: <http://databank.worldbank.org/data/download/GDP.pdf> Quoted on 14.12.2014.

⁵⁹ Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 29.06.2014.

⁶⁰ Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 29.06.2014.

⁶¹ Source: UN Comtrade and UN ServiceTrade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 15.12.2014

⁶² Source: UN Comtrade and UN ServiceTrade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 15.12.2014

In contrast with its BRICS partners, the Russian economy suffered a significant drop during the global financial crisis in 2009, followed however by a quick recovery (cf. Chart 2). Another economic recession began in December 2014 again in the context of the Crimea Crisis. To the end of the year, the annual growth inflation rose up to 9%⁶³. This time the default being caused by the combination of sanctions imposed on Russia by its Western partners and a decline of oil prices.

Russia is one of the largest global suppliers of energy reserves. Energy producing products are the major driver of its economy, therefore its economy depends heavily on prices for these goods. In terms of the most exported products, oil and gas are followed by steel and aluminium.⁶⁴ Russia is the largest telecommunication market in Europe⁶⁵ and has a dynamic industrial sector. The country has extensive territories, with infrastructure in many regions requiring modernization. For this reason, Russia needs to develop and modify its technologies and engineering sector.

In contrast with other BRICS members, historically and culturally Russia is closer to Europe. Geopolitically, it is to a greater extent North than South. The majority of the population in Russia belongs to the middle class⁶⁶ and suffers from a negative population growth ratio. Russia maintains friendly relations with the other BRICS partners. For instance, a significant natural gas deal was signed between Russia and China in March 2014, where China has pledged its import of natural gas for the next thirty years allowing for Russia to limit its dependence on European consumers⁶⁷. Today, Russia still faces many difficulties, first of all it must overcome such problems as corruption, budget deficits, as well as increase its capital for non-energy sectors.

⁶³ Source: OECD data. Available on: <http://data.oecd.org/price/inflation-cpi.htm> Quoted on 16.12.2014

⁶⁴ Source: UN Comtrade and UN Service Trade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 15.12.2014

⁶⁵ Source: <http://www.budde.com.au/Research/Russia-Key-Statistics-and-Telecommunications-Market.html> Quoted on 16.12.2014

⁶⁶ Source: MIC Forum, Worldbank.org. Available on: <http://www.worldbank.org/content/dam/Worldbank/document/MIC-Forum-Rise-of-the-Middle-Class-SM13.pdf> Quoted on 16.12.2014

⁶⁷ Source: <http://thediplomat.com/2014/05/are-china-and-russia-moving-toward-a-formal-alliance/> Quoted on 16.12.2014.

3.4 India

India is one of the largest growing economies in the world. The combination of dense population—one sixth of the world's populace⁶⁸—and vibrant parliamentary democracy makes the country very prospective for quick catch-up and further sustainable development. Currently, India is the 10th largest economy in the world in terms of GDP⁶⁹. In sectoral division it consists of 16.9% agriculture, 17% industry and 66.1% services⁷⁰. The top three destinations for merchandise exports in 2013 were the United States, the United Arab Emirates and China, accounting for 12.1%, 11.5% and 5.2% of total exports, respectively, with petroleum oils as the most exported commodity⁷¹. Mineral fuels, machinery and transport equipment were the most imported products. The top partners for merchandise imports were China, the United Arab Emirates and Saudi Arabia, accounting for, respectively, 11.4%, 7.5% and 6.9% of total imports⁷². India is a member of WTO, G20, SCO and has sought membership in UN Security Council for a prolonged period.

The Indian economy is largely oriented towards the domestic market. Since the beginning of the 90's India has moved fast towards its economic success achieved with the help of supportive governmental policies, such as reduced direct tax rates, highly supported private sector enterprises⁷³. Foreign investments are limited by the government. Nevertheless, in its foreign policies India is very active in establishing friendly partner relationships. It is important to emphasize that the relationships between India and China have proven difficult. There remain historically unresolved issues, such as the Sino-Indian Tibet or Kashmir conflict, as well as modern geopolitical issues in Asia and Indian Ocean induced by the fast and relatively simultaneous

⁶⁸ Source: World Bank data. Population 2013. Available on: <http://databank.worldbank.org/data/download/POP.pdf> Quoted on 24.08.2014.

⁶⁹ Source: World Bank data. Gross Domestic product 2013. Available on: <http://databank.worldbank.org/data/download/GDP.pdf> Quoted on 24.08.2014.

⁷⁰ Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 24.08.2014.

⁷¹ Source: UN Comtrade and UN ServiceTrade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 24.08.2014

⁷² Source: UN Comtrade and UN ServiceTrade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 24.08.2014

⁷³ Source: OECD Economic Surveys, India 2014. Available on: <http://www.oecd.org/eco/surveys/India-2014-Overview.pdf> Quoted on 24.08.2014

economic rise of these two regional giants. Regardless of the past, India aims to maintain good relations with China - one of its major trading partners. Moreover, India and China are among the largest energy consumers in the world, whereas Russia and Brazil are the major providers of energy. In the context of the BRICS group, energy security issues is one of the key points for mutual dialogue.

The major problems that India faces are corruption, lack of infrastructure and poverty. It has the 3rd highest number of HIV infected people in the world⁷⁴. One quarter of its population lives on less than \$ 1.25 per day⁷⁵. However, due to extensive governmental programmes launched in the 90's aimed at reducing poverty, the poverty rates has declined from 49.5% in 1995 to 24.7% in 2011⁷⁶. GDP per capita has tripled since the beginning of the century⁷⁷, caused chiefly by the country's large and skilled services sector. Major advantages of the Indian market so far have been a low-cost, and highly skilled English-speaking labour sector. India is a country providing major IT and IT-enabling services, constituting 33% of overall exported services⁷⁸. Such international companies as IBM, Dell, Microsoft or Accenture have development offices in India. Furthermore, India has strong automotive, pharmaceutical and biotechnological industries. The growth of India is undeniable, however on its way to obtaining the status of a great economic power, the fight remains against poverty, to improve its population's literacy and its involvement in the process of production and consumption. A proper middle class has still to be formed.

⁷⁴ Source: <http://www.indexmundi.com/g/r.aspx?v=35> Quoted on: 24.08.2014

⁷⁵ Source: World Bank data. Poverty. Available on: <http://povertydata.worldbank.org/poverty/country/IND> Quoted on 24.08.2014

⁷⁶ Source: World Bank data. Poverty. Available on: <http://povertydata.worldbank.org/poverty/country/IND> Quoted on 24.08.2014

⁷⁷ Source: World Bank data. Economy & Growth. Available on: <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG?page=2> Quoted on 24.08.2014

⁷⁸ Source: UN Comtrade and UN ServiceTrade. Available on: <http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2013> Quoted on 24.08.2014

3.5 China

The People's Republic of China today represents a new global economic superpower. Being the most populous country in the world (almost 20% of global population)⁷⁹, China is the second largest economy (after the United States) in terms of GDP⁸⁰ and occupies the second largest land area - after Russia. The political form in China is a single-party socialist state represented by its president, Xi Jinping. This political model, characterized by a large share of governmental interventions into the country's economy, considerably contrasts with the more or less liberal social and economic organization of the other BRICS countries. Its sectoral division, 9.7% of GDP is accounted for by agriculture, 45.3% by industry and 45% by services⁸¹. China is the top exporter of the world and in 2013. Its value of export was 1.4 times the value of exports of the USA, the second largest exporter. Until the year 2013, the largest export commodity was "automatic data processing machines, nuclear reactors and electrical machinery, together accounting for 42.8% of all exports. The top three destinations for merchandise exports were the United States, China, Hong Kong SAR and Japan, accounting for respectively 17.0%, 15.9% and 7.3% of total exports⁸². Over the same period of time, the largest import commodities were petroleum and oils obtained from minerals and crude. The top three partners for merchandise imports were Japan, the Republic of Korea and China (re-imports), accounting for respectively 9.7%, 9.3% and 7.7% of total imports⁸³. China is a member of many multilateral organizations, including the UN Security Council, WTO, G20, APEC, SCO and a partner of such regional organizations as ASEAN or the Asia-Pacific Economic Cooperation Forum.

⁷⁹ Source: World Bank data. Population 2013. Available on: <http://databank.worldbank.org/data/download/POP.pdf> Quoted on 29.08.2014.

⁸⁰ Source: World Bank data. Gross Domestic product 2013. Available on: <http://databank.worldbank.org/data/download/GDP.pdf> Quoted on 29.08.2014.

⁸¹ Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 29.06.2014.

⁸² Source: UN Comtrade and UN ServiceTrade. Available on: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> Quoted in 29.08.2014.

⁸³ Source: UN Comtrade and UN ServiceTrade. Available on: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> Quoted in 29.08.2014.

During the past three decades, China has shown an incredibly rapid economic growth and expansion of influence throughout the whole Asian region. Such a process inspires and accelerates the development of other emerging economies. The Chinese journey for success began in the late 70's in Beijing. At that time, the country was devastated in the wake of the Cultural Revolution. After the introduction of new economic reforms of "socialism with Chinese characteristics" in 1978, China experienced a rapid economic growth, resulting in an average annual GDP per capita growth of 9.7%⁸⁴ per year (cf. Attachment 5) as well as a significant reduction in poverty. The poverty rate declined from 60.7% in the 90's to 6.3% today⁸⁵. The share of the population employed in the agricultural sector meanwhile has declined from 71% in 1978 to 34% in 2013⁸⁶. Cheap labour forced the engagement of the populace into many new production sectors. Indeed, since the beginning of 90's more than 150 million people have moved from rural areas to the cities in order to work in the industrial sector⁸⁷. Due to its export-driven economy, over the last three decades the Chinese government has managed to collect large amounts of foreign currency reserves, which was subsequently invested into infrastructure, industries and the development of new technologies. The strong trading ties established by China in the process have made it an influential partner for many countries in the world. Despite this fact, China itself remains a developing country. The reason for this is the significant number of issues facing the largest part of its population: income inequities alongside a wide range of social and demographic issues, such as the "one-child policy", aging population or human rights violations.

The most significant milestone on the way of the Chinese economic development was its access to the WTO in the year 2001. This helped China strengthen its position in the dialogue with other major global players, primarily the USA and the EU.

Over the past decade the technologies and managing processes were significantly improved, which helped to create new jobs and expand machinery export. This growth is especially evident in Guangdong and Shanghai - regions dominated mostly by foreign- invested and private companies.

⁸⁴ Source: UN Comtrade and UN ServiceTrade. Available on: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> Quoted in 29.08.2014.

⁸⁵ Source: World Bank data. Poverty, build on poverty gap of 1,25\$ a day. Available on: <http://povertydata.worldbank.org/poverty/country/CHN> Quoted on 29.08.2014

⁸⁶ Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 29.08.2014.

⁸⁷ F. Wang, "China's Population Destiny: The Looming Crisis". Article on Brookings web. September, 2010. <http://www.brookings.edu/research/articles/2010/09/china-population-wang> Quoted on 29.08.2014

One of the most important developmental directions for China is the service sector as it holds the prospect of more stable growth than the present model: it is less vulnerable against the global economic instability and at the same time stimulates domestic demand. Furthermore, development in this sector increases wages and governmental investments in health care⁸⁸. Recently, Chinese export-oriented economy has switched to the domestic market.

As stated above, the foremost economic and business sources⁸⁹ predict China to become the single greatest global economic power by the year 2050. Accordingly, China is laying the groundwork for this by moving towards enabling such a transformation. Despite the country's numerous disputes with the other BRICS members, such as competition between local and cheaper Chinese products in the Brazilian market, the co-called "Chinese threat" regarding Chinese migration to Russia, territory issues with India and the current straightening of India's marine fleet, China tries to maintain mutually beneficial bilateral relations. Being a member of BRICS, China creates a favorable background for the expansion of its current foreign policies. BRICS countries are authoritative enough to promote their interests, much as China does. In the aftermath of the Sanya Summit Declaration⁹⁰, China can be said to be encouraging its BRICS partners to support the reform of the international financial system and to take measures to improve the efficiency of international financial controls. In addition, China is the largest energy consumer, and it therefore tries to protect its interests and to ensure its access to the world's energy resources.

⁸⁸ Deutsche Bank Research. «Structural changes in China», February 16, 2011. (p.5). Available on: https://www.dws-investments.com/EN/docs/research/structural_change_China.pdf Quoted on 29.08.2014

⁸⁹ Goldman Sachs, IMF, World Bank. <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf>, http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf Quoted on 23.09.2014

⁹⁰ Sanya Declaration. Available on: <http://www.brics.utoronto.ca/docs/110414-leaders.html> Quoted on 10.10.2014.

3.6 South Africa

The Republic of South Africa is the smallest and the most recent BRICS member. Based on mutual consent, it received an official invitation from BRIC members in December 2010⁹¹. The third BRICS summit in Sanya, China was already attended by the president of South Africa Jacob Zuma. South Africa is the largest economy on the African continent with a GDP amounting to US\$ 350.630 billion, holding 33rd place in world GDP ranking⁹²; at the same time, it is the smallest country within BRICS. In terms of population, it is 25th largest country in the world and 5th largest in Africa⁹³. The sectoral balance in percentages of overall GDP is 2.6% for agriculture, 29% for industries and 68.4% for services⁹⁴. Further, South Africa is a leading service exporter among African countries⁹⁵. Travel accounts for the largest share of service exports in the country, totaling US\$ 10 billion. Until 2013, the largest export commodity was platinum. The top destinations for merchandise exports were China and the United States, accounting for respectively 12.6 and 8.3 percent of total exports⁹⁶. Petroleum and oils were the largest import commodity making up 21.5% of imported goods. Transportation accounted for the largest share of imported services with 34.2%. The top three partners for merchandise imports were China, Germany and the United States, accounting for 14.7, 10.4 and 7.2 percent of total imports, respectively⁹⁷. South Africa is a member of the WTO, IBSA, AU; it is the only African country represented in the G20 and it holds the leading position in the SADC. It claims for the permanent membership of the UN Security Council as a representative from the African continent.

⁹¹ Source: <http://www.brics5.co.za/about-brics/> Quoted on: 10.10.2014

⁹² Source: World Bank data. Gross Domestic product 2013. Available on: <http://databank.worldbank.org/data/download/GDP.pdf> Quoted on 10.10.2014.

⁹³ Source: World Bank data. Population 2013. Available on: <http://databank.worldbank.org/data/download/POP.pdf> Quoted on 10.10.2014.

⁹⁴ Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> Quoted on 10.10.2014.

⁹⁵ Source: WTO India-Africa: South-South. Trade and Investment for Development. WTO 2013. Available on: http://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/india_africa_report.pdf Quoted on 10.10.2014

⁹⁶ Source: UN Comtrade and UN ServiceTrade. Available on: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> Quoted in 10.10.2014.

⁹⁷ Source: UN Comtrade and UN ServiceTrade. Available on: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> Quoted in 10.10.2014.

In 1994, South Africa managed to overcome the Apartheid regime, thus putting an end to international isolation. After these events, the country launched its way towards democracy, catching up with the rest of the world with its sustainable economic growth. Today South Africa enjoys a multiparty constitutional, three-tier (local, provincial, national) democracy with an independent judiciary and a free press⁹⁸. The foreign policy is largely focussed on job creation in the domestic market. It also aims at straightening and expanding trading partnerships, by actively seeking investments. Due to its relatively successful performance on the continent, South Africa is a getaway for other African countries , having 10% of the world's oil reserves, 40% of its gold ore and 95% of platinum⁹⁹. The commodity and services market in the country developed quickly, it has actively expanded its infrastructure and the middle class (consisting largely in black population) continues to grow¹⁰⁰. The country is rich in mineral reserves offering highly sophisticated mining-related professional services, contributing significantly to the BRICS resource pool¹⁰¹. However, South Africa still faces many internal problems. First of all, the country has the highest number of HIV-infected people in the world¹⁰². The rates of economic growth remain low, lack of funding in social institutions and infrastructure and electricity shortages are tangible. People face growing income inequity and high poverty rates such as 9,4% in 2011¹⁰³. Almost 30% of the labour force in South Africa are unemployed, this number is several times higher than in other BRICS member countries: 5.9% in Brazil, 5.6% in Russia, 4.6% in China and only 3.6% in India¹⁰⁴.

Sub-Saharan Africa is the fastest developing region with annual economic growth ranging between 9% and 5% during the last decade¹⁰⁵. With South African membership, BRICS has expanded its geopolitical and trading coverage area to a fourth continent. Moreover, the country is

⁹⁸Source: <http://www.brics5.co.za/quick-information-2/#government> Quoted on: 10.10.2014

⁹⁹ Source: <http://www.brics5.co.za/quick-information-2/#government> Quoted on: 10.10.2014

¹⁰⁰ Source: United Nations, Africa Renewal. Available on: <http://www.un.org/africarenewal/magazine/december-2013/toast-south-africas-black-middle-class> Quoted on 10.10.2014

¹⁰¹ Source: <http://www.brics5.co.za/quick-information-2/#government> Quoted on: 10.10.2014

¹⁰² Source: <http://www.indexmundi.com/g/r.aspx?v=35> Quoted on: 10.10.2014

¹⁰³ Source: World Bank data. Poverty, build on poverty gap of 1,25\$ a day. Available on: <http://povertydata.worldbank.org/poverty/country/ZAF> Quoted on 10.10.2014

¹⁰⁴ Source: World Bank data. Unemployment. Available on: <http://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS/countries/1W-BR-RU-IN-CN-ZA?display=graph> Quoted on: 10.10.2014

¹⁰⁵ Source: Global Finance, IMF, World Economic Outlook Database, 2013. Available on: <https://www.gfmag.com/global-data/economic-data/economic-data-worlds-gdp-growth-by-region> Quoted on: 22.12.2014

the major intra-African investor¹⁰⁶. As mentioned above, China is the major trading partner for South Africa. It is also very active in the South African financial sphere owning 20% of the Standard Bank, the largest bank in Africa¹⁰⁷. India is increasingly developing its trading and investment relations in the context of South-South cooperation. For instance, gold and coal, a major export commodity of South Africa to India, has more than tripled between 2005 and 2011¹⁰⁸. On the contrary, South Africa is a large investor in the Indian economy with US\$ 112 million in the year 2012¹⁰⁹. Despite all its challenges and budgetary constraints, South Africa continues to work hard on its international prestige - in 2012, during the G20 summit, it granted the IMF a US\$ 2 billion loan to confirm their place among successfully developing countries, such as in the BRICS group.

¹⁰⁶ Source: Ernst & Young attractiveness survey, Executing growth, 2014. Available on: [http://www.ey.com/Publication/vwLUAssets/EY-attractiveness-africa-2014/\\$FILE/EY-attractiveness-africa-2014.pdf](http://www.ey.com/Publication/vwLUAssets/EY-attractiveness-africa-2014/$FILE/EY-attractiveness-africa-2014.pdf) Quoted on 22.12.2014

¹⁰⁷ Source: <http://www.economist.com/news/finance-and-economics/21595496-biggest-banks-china-and-africa-team-up-again-limited-partnership> Quoted on 10.10.2014

¹⁰⁸ Source: WTO India-Africa: South-South. Trade and Investment for Development. WTO 2013. Available on: http://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/india_africa_report.pdf Quoted on 10.10.2014

¹⁰⁹ Source: WTO India-Africa: South-South. Trade and Investment for Development. WTO 2013. Available on: http://www.wto.org/english/tratop_e/devel_e/a4t_e/global_review13prog_e/india_africa_report.pdf Quoted on 10.10.2014

4. BRICS economies analysis

BRICS group as a whole have made a great economic breakthrough during the last two decades. This fact has gain lots of attention, at least because the group member countries belong to the top seven geographically largest countries in the world. As it is shown in the Table No. 3, BRICS countries occupy more then 25% of worlds land area, unites around 40% of worlds population and its share in global GDP grows annually.

Each of BRICS countries has some competitive advantages and large potential for development. This Group of countries is highly engaged in agriculture and rich in raw materials, furthermore its IT services outsourcing and related products manufacturing potential is highly promising. There is a high potential, that BRICS countries can support each other very well in different areas: China and India prevail in services and manufacturing; Brazil and Russia are rich in raw materials together with large agricultural lands and food supplies, as well as gas and oil. South Africa also disposes of large rare materials reserves;

Gradually, BRICS economies are maximizing their importance as an international economic players in terms of GDP and PPP growth, demographic indicators, international trade, FDI inflows and outflows. At the same time, the economic development is accompanied with the internal social or living conditions improvement. In this chapter I will compare and analyze BRICS countries according to the selected indicators.

4.1 Gross Domestic Product

Gross Domestic Product (GDP)¹¹⁰ is often regarded as the major indicator of economic growth. With regards that BRICS disposes over 40% of world population, growth of GDP rates may encourage increase of demand. All five countries have experienced the significant positive economic changes during the period from 1990 to 2013. As it is shown in the Table No. 5, GDP has increased several times, whereas China made a greatest leap. GDP per capita¹¹¹ has also grew significantly, which may indicate that life standards in BRICS countries were improved in some ways.

Table No. 5. Difference of BRICS GDP and PPP in 1990 and 2013¹¹².

Year	GDP, US\$ billion		GDP per capita (PPP), current US\$		GDP based on PPP share of world total (%)	
	1990	2013	1990	2013	1990	2013
Brazil	465,004	2,245,673	5,263	12,340	3,316	2,802
Russia	516,814	2,096,777	3,485	18,670	3,941	2,988
India	327,274	1,876,797	0,883	4,060	3,212	5,668
China	390,279	9,240,270	0,796	10,011	3,839	14,738
South Africa	111,998	350,630	5,458	11,750	0.848	0.693

Source: World Bank data, 2013; Economywatch, 2013.

Table No. 6 displays the share of BRICS and G7 countries in world's total GDP over the two decades. It indicates, that BRICS showed slow economic progress in 90s contributing some 6% to worlds turnover. Nevertheless they experienced rapid economic growth in first decade of 21st century, when their collective GDP had almost reach 1/4 of worlds share. As for G7 economic performance, Table No. 6 shows the sustainable economic dominance in world GDP share over 90s

¹¹⁰ The definition used - GDP: “.. is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.” Source: World Bank.

¹¹¹ The definition used - GDP per capita: “...is gross domestic product divided by midyear population.” Source: World Bank.

¹¹² Source: World Bank data, 2013. Available on: <http://data.worldbank.org/indicator>; Economywatch, 2013. Available on http://www.economywatch.com/economic-statistics/economic-indicators/GDP_Per_Capita_PPP_US_Dollars/1990/ Quoted on 23.09.2013.

and visible decline in recent years, where the share of worlds most developed countries decreased by approximately 20%.

Table No.6 : Nominal GDP for BRICS and G7 in countries in selected years¹¹³.

BRICS countries, US\$ billion				G7 countries, US\$ billion			
YEAR	1990	2000	2013 ⓘ	YEAR	1990	2000	2013 ⓘ
ECONOMY	↑↓	↑↓	↑↓	Click to drag ↴	↑↓	↑↓	↑↓
Brazil	402 137	644 729	2 250 370	Canada	592 028	739 451	1 819 563
China	404 494	1 192 836	9 318 901	France	1 246 571	1 328 943	2 740 566
India	326 796	467 788	1 924 452	Germany	1 714 447	1 886 400	3 629 850
Russian Federation	—	259 446	2 144 146	Italy	1 138 150	1 104 009	2 070 461
South Africa	112 014	132 878	352 475	Japan	3 103 698	4 731 199	4 932 312
World	22 603 849	32 857 937	74 600 701	United Kingdom	1 019 349	1 493 559	2 533 429
GDP percentage in world share	4%	8%	22%	United States	6 011 887	10 358 908	16 911 086
				World	22 603 849	32 857 937	74 600 701
GDP percentage in world share	69%	67%	47%				

Source: UNCTAD secretariat calculations, based on UN DESA Statistics Division, National Accounts Main Aggregates Database, 2013.

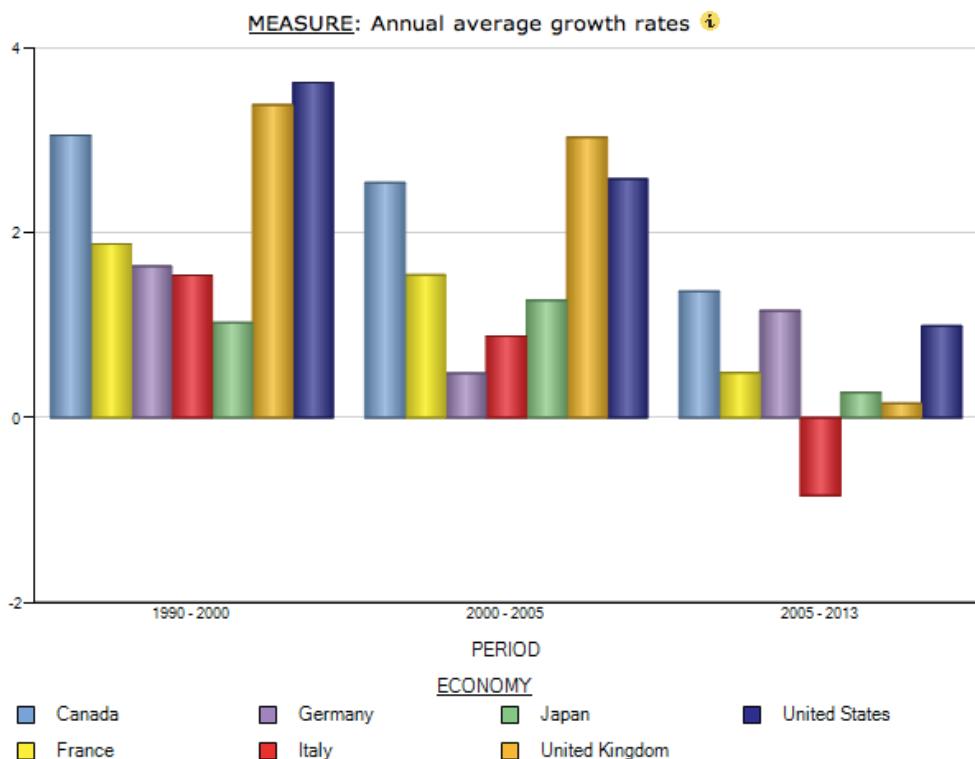
The illustrated process was forecasted by Goldman Sachs experts in 2001 and was one of the reasons for BRIC concept creation. In the year 2050, BRIC is expected to reach 40% share of global GDP¹¹⁴. The researchers emphasize a high potential of emerging markets in general (see Attachment No. 3)

Charts No. 7 and No. 8 compare real GDP annual growth rates for G7 developed countries and BRICS group for the period 1990-2013.

¹¹³ This table presents nominal GDP in current prices by expenditure approach for individual country and geographical region. Source: UNCTAD secretariat calculations, based on UN DESA Statistics Division, National Accounts Main Aggregates Database. Available on: <http://unctadstat.unctad.org> Quoted on 9.12.2014. Percentage rough calculations are performed by author based on statistical data presented.

¹¹⁴ Source: GS global ECS research form December, 2011. Available on: <http://blogs.univ-poitiers.fr/o-bouba-olga/files/2012/11/Goldman-Sachs-Global-Economics-Paper-208.pdf>

Chart No.7 : Real GDP growth rates for G7 countries¹¹⁵.

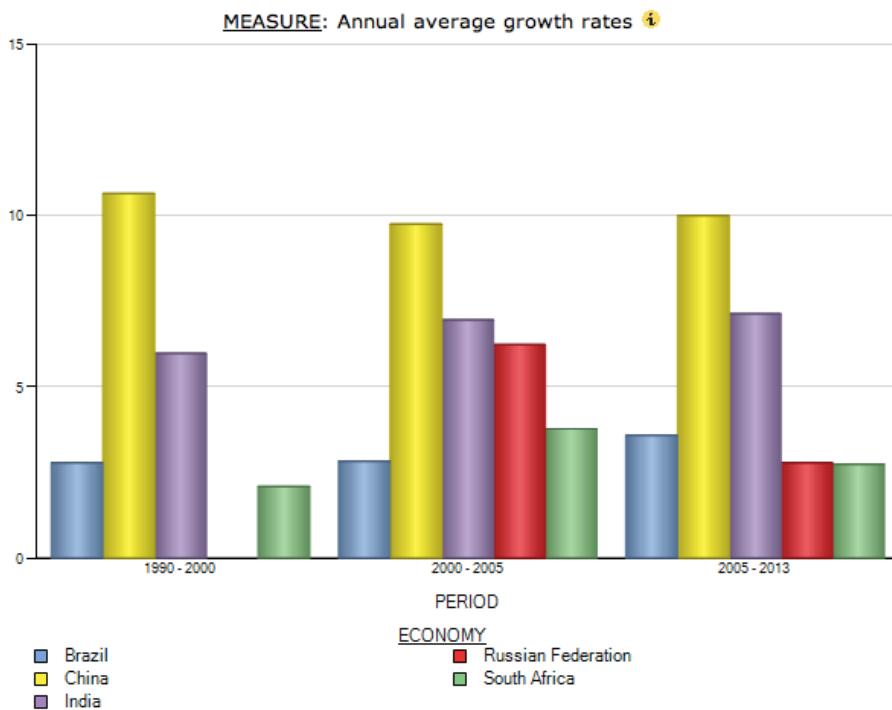


Source: UN DESA Statistics Division, National Accounts Main Aggregates Database, 2013.

Chart No. 7 presents the economy growth volumes of G7 developed countries in two decades. The growth rates are varying between 0,5% and 3,5% until the year 2005. During the last decade, due to the unstable economic situation and its consequences, the dramatic decline in common real GDP growth is indicated, with Italy having negative indicators.

¹¹⁵ This table contains annual average growth rates of real total GDP, total by individual country and geographical region. Source: UN DESA Statistics Division, National Accounts Main Aggregates Database. Available on: <http://unctadstat.unctad.org> Quoted on 8.12.2014.

Chart No. 8 : Real GDP growth rates for BRICS countries¹¹⁶.



Source: UN DESA Statistics Division, National Accounts Main Aggregates Database, 2013

Chart No. 8 indicates the significant growth of BRICS countries GDP in comparison with developed countries of G7 group. Chart No. 8 shows, that the leading economy here is China, where the average annual real GDP growth was the highest in 90's and within the last decade stably presents around 10% on the average. India presents high growth indicators, as well as all five countries perform sustainable and rapid growth. Russia seems to be an economy with the most unstable growth rates among the group members, which is caused by the highest "vulnerability" during the global economic crisis in 2009. Annex No. 6 presents the detailed overview of annual GDP growth for each country separately.

¹¹⁶ This table contains annual average growth rates of real total GDP, total by individual country and geographical region. Source: UN DESA Statistics Division, National Accounts Main Aggregates Database. Quoted on 8.12.2014. Available on: <http://unctadstat.unctad.org>

4.2 Foreign Direct Investments

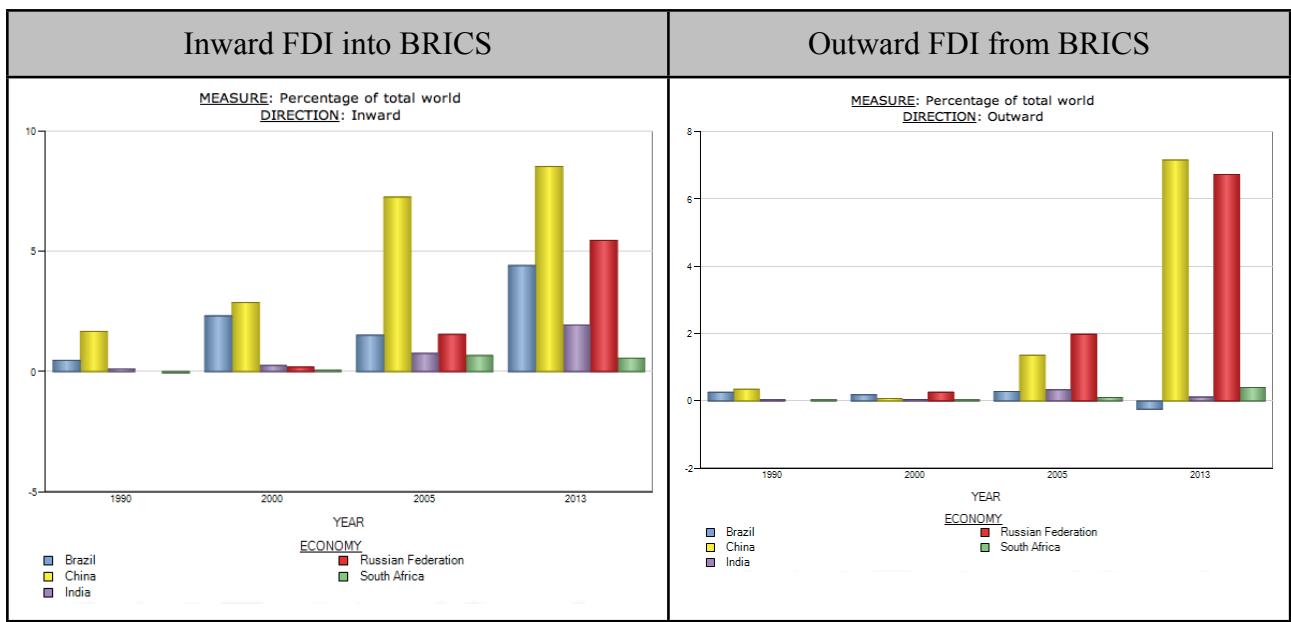
In following analysis I work with the concept of the Foreign Direct Investment (FDI). “*FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise) of an enterprise resident in a different economy*¹¹⁷”¹¹⁷. FDI inflows constitute a stable part of annual capital formation for each country. According to many analysts, FDI nowadays are one of the key development factors for many dynamic countries such as BRICS group: “... *FDI leads to the introduction of new industries and products in the host-country economy and to an increase in knowledge about demand and world markets and how the host country can find the place in a worldwide allocation of intermediate steps in global production. Finally, inward direct investment is associated with faster economic growth, both through productivity effects and through the introduction of new products*”¹¹⁸¹¹⁸. The economic interconnection during the last two decades made BRICS countries the object for intensive capital inflows. The number of investing counties together with FDI are growing gradually, which reflects high economic potential as well as hopes and trust assigned.

Chart No. 9 shows the FDI inflow and outflow within selected periods from 1990 to 2013. The beginning of 21st century, together with its economic reform policies and political outcomes have boosted inward investments inflows, which allowed the BRICS countries to increase considerably its investments into other economies, but primarily into each other.

¹¹⁷ Source: UNCTAD, Division on Investment and Enterprise. Available on: <http://unctadstat.unctad.org>

¹¹⁸ R. Baldwin, A. Winters “Challenges to globalization: analyzing the economics”. Chicago University of Chicago Press, 2004. ISBN: 9780226036151 (p. 10).

Chart No. 9: Inward/outward FDI from/to BRICS in 1990, 2000, 2005 and 2013.¹¹⁹



Source: UNCTAD, Division on Investment and Enterprise, 2013.

The high jump of FDI inflows into BRICS are indicated since the beginning of 21st century until present time, when FDI were directed mainly to China - increased by 3 times and currently present some 8% of FDI world share; Russia - within one decade FDI grew from 0,5 % to 6% of FDI world share; and Brazil - slight FDI decrease is indicated at the beginning of BRICS functioning, however, by far FDI has doubled and presents some 4% of FDI world share. FDI into India and South Africa were also slightly increased. As per outward investments, China and Russia account the lion share of it. Within past few years South Africa have also intensified its FDI.

Further, it is necessary to indicate which countries were allocating their FDI into BRICS most actively, and in which directions BRICS group allocated their investments. It is important to analyze these investment flows because this process determines the major interest of particular country in designated market.

¹¹⁹ This table contains information on FDI inflows and outflows by individual country FDI world shares. Source: UNCTAD, Division on Investment and Enterprise. <http://unctadstat.unctad.org> Quoted on 14.03.2014

Table No. 10: Top three destinations for outward FDI from BRICS and inward FDI into BRICS for the end of 2012 (% of total FDI)¹²⁰.

	Inward FDI into BRICS (%)			Outward FDI into BRICS (%)		
	1st	2nd	3rd	1st	2nd	3rd
Brazil	Netherlands, 27%	USA, 16%	Spain, 11%	Austria, 28%	Cayman Isl., 16%	Virgin Isl., 10%
Russia	Cyprus, 30%	Netherlands, 12%	Bermuda, 10%	Cyprus, 37%	Netherlands, 16%	Bermuda, 11%
India	Mauritius, 26%	UK, 16%	USA, 15%	Singapore, 27%	Mauritius, 14%	Netherlands, 14%
China	Hong Kong, 46%	Virgin Isl., 15%	Japan, 6%	-	-	-
S. Africa	UK, 45%	Netherlands, 19%	USA, 7%	China, 18%	UK, 13%	Mauritius, 10%

Source: International Monetary Fund, Combined Direct Investments Survey, 2013.

Based on presented facts, the investments flows into BRICS manly come from developed economies, whereas the outward FDI are largely directed to offshore financial centers, and at the lower range, again into developed countries. South Africa presents the major intra-BRICS investment stock directed to China. Therefore, FDI flows within BRICS remain very limited.

4.3 Foreign exchange reserves

Foreign exchange reserves or FX reserves are “*reserves of foreign exchange and gold compares the dollar value for the stock of all financial assets that are available to the central monetary authority for use in meeting a country's balance of payments needs as of the end-date of the period specified¹²¹*”’. The monetary institutions, holders of FX reserves, may use it to fight with inflation of their own currency. As it is shown in Table No. 11 below, BRICS countries dispose of large foreign currency reserves with China being worlds dominant holder and Russia (6th), Brazil (8th) and India (11th) being at the top 11 holders to the end of the year 2013¹²². The accumulation of international reserves can serve not only as an instrument to fight another global economic crisis, it also increases the share in global trade under GDP growth conditions.

¹²⁰ Source: International Monetary Fund, Combined Direct Investments Survey. Available on: <http://cdis.imf.org/> Quoted on 10.12.2014.

¹²¹ Source: Central Intelligence Agency. The World Factbook 2013. Available on: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> Quoted on 10.12.2014.

¹²² Source: Central Intelligence Agency. The World Factbook 2013. Data esteemed on 31th December 2013. Available on: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> Quoted on 10.12.2014.

Foreign exchange reserves and gold are another important indicator of BRICS significance to the world economy and its financial power. Based on data published by the CIA World Factbook, indicated in Table No. 11, most of BRICS countries (excluding South Africa) are placed at the leading positions in amount of FX reserves in hold, accounting roughly 40% of world's total. In this regards, China is a world leading country which several times surpasses Japan, the second largest FX reserves holder. For the contrast, the FX reserves of developed countries are indicated.

Table No. 11: BRICS Foreign exchange reserves incl. gold in current US \$¹²³.

Country	Rank in the World	FX reserves, US \$
Brazil	8	\$ 358,816,426,347
Russia	6	\$ 509,692,081,493
India	11	\$ 298,092,483,487
China	1	\$ 3,880,368,275,099
South Africa	42	\$ 49,708,176,471
European Union	3	\$ 863,800,000,000
Japan	2	\$ 1,266,851,419,539
United States	19	\$ 448,508,967,142

Source: World Bank Data. Total reserves including gold in current US\$, 2013.

Emerging economies performed a significant GDP growth and gain a weight in global economy. As Table No. 11 shows, BRICS holds vast foreign exchange assets which can be invested into the development of emerging markets. In addition, due to the fact that BRICS countries have relatively low and stable public debt level¹²⁴, the investment banks are more likely to offer their funds, which once again proves a strong the position of BRICS from the macroeconomic perspective.

¹²³ Source: World Bank Data. Total reserves including gold in current US\$. Available on: <http://data.worldbank.org/indicator/FIRES.TOTL.CD/countries?display=default>; Central Intelligence Agency. The World Factbook 2013. Data esteemed on 31th December 2013. Available on: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> Quoted on 10.12.2014. Quoted on 10.12.2014.

¹²⁴ IMF, Data and Statistics. Report for selected countries and subjects. Available on www.imf.org/Your WEO Report

4.4 Trade

BRICS countries are gaining influence in the field of international affairs, especially by means of international trade. Moreover, since the beginning of 21st century each BRICS country have joined World Trade Organization, which have introduced a homogeneous rule-based system, brought trade liberalization and had a positive impact on industries, goods and services delivered by the countries. The International Competition Conferences are held annually¹²⁵ among BRICS representatives to assure the effective competitiveness and appropriate legislation.

Based on WTO trade profiles¹²⁶, in the year 2013 BRICS countries accounted for more than 27% of worlds total exports and 28% of import covering merchandising trade and commercial services. As it is reflected in the Table No. 12 below, China is a worlds leading exporter and second largest imported of merchandised goods and it has the largest capital (in US\$) turnover. India and Russia are also in the top 20 list of worlds largest exporters and importers with the highest annual percentage change, which concurrently indicates their status of developing countries. According to its annual percentage rate Brazil also shows the dynamic growth from year to year, however its low capital turnover testifies certain interim isolation. In comparison with the other group members, South Africa has relatively low performance, however it is one of the highest in Sub-Saharan region¹²⁷.

¹²⁵ Source: www.brics5.co.za/about-brics

¹²⁶ Source: WTO statistics 2013, available on <http://stat.wto.org/Home/WSDBHome.aspx?Language=E>

¹²⁷ Source: World Bank data, Economy & Growth in Sub-Saharan Africa. Available on: <http://data.worldbank.org/topic/economy-and-growth> Quoted on 2.5.2014

Table No. 12: BRICS trading profile 2013¹²⁸.

	Merchandise Trade								Commercial Services Trade								
	Import				Export				Import				Export				
	1.	2.	3.	4.	1.	2.	3.	4.	1.	2.	3.	4.	1.	2.	3.	4.	
Brazil	22	17	1,25	223,4	22	11	1,32	242,5	17	19	1,87	77,7	29	14	0,87	38,1	
Russia	17	15	1,8	335,4	6	12	2,88	529,2	14	16	2,5	104	22	16	1,33	58,2	
India	11	19	2,63	488,5	19	17	1,61	296,8	7	15	3,08	128,1	6	16	3,32	145,6	
China	2	16	9,7	1.949,99 2	1	15	11,1	2.209,007	18	19		6,7	280, 1	8	14	4,3	190,4
South Africa	32	11	0,68	127,1	41	-	0,57	99,9	43	5	0,41	17,1	54	4	0,34	14,7	
1. Rank in the World (incl. EU)			2. Annual change 2005-2013 (%)				3. Share in World total (%)				4. Total in US million \$						

Source: WTO Statistic Database 2013, Trading Profiles

The Table No. 12 reflects that BRICS countries (with the exception of South Africa) have intensified their merchandise trading and commercial service relations with the rest of the world. That fact indicates a continuously growing importance of trade and straightening of BRICS position at the global market.

“The cross-border flows of goods, investment, services, know-how and people associated with international production networks – call it “supply chain trade” for short – has transformed the world.”¹²⁹ Indeed, economic relations, based on dynamics of international trade defines to the large extent the cooperation patterns between the countries. This is why in this chapter I will attempt to draw up and analyze the intra-BRICS trading profile and its proportion in a view of overall trading with the rest of the world. After that I will concentrate on sectoral analysis, separately mentioning the diverse goods complexes, such as capital, consumer, intermediate goods and raw materials. That will provide my studies with the better understanding of the nature of trading relation within BRICS group - is it a case of interdependence, mutual assistance or compromise.

¹²⁸ Source: WTO Statistic Database 2013, Trading Profiles. Available on:<http://stat.wto.org/CountryProfile/WSDBCountryPFRReporter.aspx?Language=E> Quoted on 2.5.2014

¹²⁹ R. Baldwin, Graduate Institute, Geneva. East Asia Forum. Available on: <http://www.eastasiaforum.org/2013/02/24/the-wto-and-global-supply-chains/> Quoted on 10.12.2014.

4.5 WTO and Doha Round

BRICS countries are important WTO members. As it is shown in the Table No.12, together they account roughly 15% of worlds merchandise exports and 17% of import. In August 2012 Russia has entered World Trade Organization (WTO) which has determined the full partnership of BRICS as a group with the Organization. China is also a young WTO member, joined the Organization in 2001. At the same time Doha Development Agenda, so called Doha Round, was launched. It presents the latest round of trade negotiations among the WTO members that aims to reform the international trading system through the introduction of lower trade barriers and revised trade rules. The membership enables BRICS to promote its interests redirecting Organization's focus towards the developing economies and fight against protectionism in WTO¹³⁰. Contrariwise, WTO brings into BRICS its enforcement mechanisms, institutions and coherent trading policies.

It is necessary to emphasize, that each BRICS country is very specific in field of trade and has different priorities for their international trading policies. At the international market they compete against each other - BRICS countries are often involved into litigation processes. For instance, the large numbers of complains from Brazil are directed against China. Indeed, without appropriate regulations China is able to flood Brazilian and other developing markets with is relatively cheap goods as well as to supersede brazilian goods from the international markets; Brazil also finds Indian steel and software products as a treat for their market; Russia compete with Brazilian agricultural exports¹³¹.

China was focused on international trade during the last three decades. One of the reasons for China to enter WTO was to protect its export at the international market. The socialist principles of planned economy had to be synchronized with the market economy model. This economic institutionalization has also stabilized relations with trading partners. While China and Russia are focused on international trade intensification, India, Brazil and South Africa are more concentrated on domestic market. India and South Africa have

¹³⁰ Source: World Trade Organization. Available on: http://www.wto.org/english/tratop_e/dda_e/dda_e.htm Quoted on 11.06.2014

¹³¹ B. Martynov. "BRICS: Dawn of a new era, or business as usual?", Routledge, 2011. (p.74) Available on:<http://www.pircenter.org/media/content/files/12/13832378420.pdf> Quoted on 10.06.2014.

opened their economies for international trade relatively recently, since 1990¹³². South Africa is an active participant of Doha Round negotiations. The country is presented in WTO through its membership in such Southern coalition as NAMA-11 and Africa Group. South Africa calls for help with access to the market, support for developing economies and trading policies revision¹³³.

Activities of BRICS countries within WTO are determined by their priorities in international trade. Cooperation among the countries is characterized by competition in many areas and economic tension. Therefore, BRICS will have to hold many negotiation to agree on mutually beneficial policies.

4.6 *Intra-BRICS trade overview*

The tables below are based on World Bank and its World Integrated Trade Solutions data¹³⁴. They intend to describe and analyze BRICS trading relations within the group and with the rest of the world. Left part of the table presents intra-BRICS trading relations - percentage of total exports of the given country to other group members; further, for the better understanding of the trading relations nature among BRICS the major trading category (a) and main product sector (b) are presented. Exports volume is expressed in percentages from overall exports (a) and in percents from the main product sector (b). Right part of the tables defines top four markets¹³⁵ for BRICS and their major exporters.

¹³² V. Thorstensen, I. Oloviera, BRICS in the World Trade Organization: Comparative Trade Policies. IPEA, 2014. (p.20-21). Available on: <http://blogs.uct.ac.za/index.php> Quoted on 12.12.2014

¹³³ The BRICS report, New Delhi, 2012. Oxford University press, 2012. (p.156) ISBN 0 19 808538 9.

¹³⁴ Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 24.6.2014. Available on: <http://wits.worldbank.org/>

¹³⁵ The share of total merchandise trade export accounted for by the partner in a given year. Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 26.6.2014. Available on: <http://wits.worldbank.org/>

As indicates Table No. 13, the major trading partner for Brazil is China. It exports there perform almost 50% of all raw materials and minerals extracted in the country. Further, sectoral analysis¹³⁶ shows, that vegetables and animals are also exported. The second most important trading partner for Brazil is USA. In comparison with large export volumes with Argentina - Brazilian regional partner and other developed countries, Brazil has relatively modest share in intra-BRICS trading exporting there mainly raw materials, fuels to India, food products to Russia, capital goods and transportation to South Africa.

Table No. 13: Brazil, trade profile¹³⁷.

Export to BRICS (%)			Top intra-BRICS exports by product category (a) and sector (b) (%)		Top import and export partners			
Brazil	Russia	1,2%	Raw materials	68%	Top exporters (%)		Top markets (%)	
			Animal	59%	China	15,5%	China	19%
	India	1,3%	Raw materials	61%		USA	15,1%	USA
			Fuels	50%				10,2%
	China	19%	Raw materials	84%	Argentina	6,8%	Argentina	8,1%
			Vegetable	38%				
	South Africa	0,7%	Capital goods	34%	Germany	6,3%	Netherlands	7,1%
			Transportation	22%				

Source: World Bank data, World Integrated Trade Solutions 2014.

¹³⁶ Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 25.6.2014. Available on: <http://wits.worldbank.org/>

¹³⁷ Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 24.6.2014. Available on: <http://wits.worldbank.org/>

Russian Federation, being a very specific member of BRICS group, is not attached to the same extent to trading relations with other member countries. According to World Bank data showed at the Table No.14, the main destination for export from Russia are Netherlands, however, China is still the major trading partner with respect to exports of Russian fuels and raw materials there and imports of such capital goods as machinery and electronic devices. Further, Russian products are directed largely to G7 members. Brazil, India and South Africa are mostly supplied by fuels, raw materials and intermediate goods, mainly chemicals.

Table No. 14: Russia, trade profile¹³⁸.

Export to BRICS (%)			Top intra-BRICS exports by product category and sector (%)		Top exporters and import markets			
Russia	Brazil	0,3%	Intermediate goods	86,4%	Top exporters (%)		Top markets (%)	
					Netherlands	13,1%	China	16,8%
	India	1,3%	Chemicals	78,4%	Unspecified	12,7%	Germany	12%
			Miscellaneous	64,2%				
	China	16,8%	Capital goods	22,2%	China	6,7%	USA	5,3%
			Fuels	70,6%				
	South Africa	0,05%	Raw materials	70%	Italy	5,5%	Ukraine	5%
			Raw materials	43,5%				
			Vegetables	43,5%				

Source: World Bank data, World Integrated Trade Solutions 2014.

¹³⁸ Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 24.6.2014. Available on: <http://wits.worldbank.org/>

Table No.15 indicates that the major trading partner for India with regards to imported goods is China and Middle East countries. The largest amounts of goods from India are directed to United States, United Arab Emirates and China, which together with Hong Kong SAR accounts more than 8% of exports from India. India exports raw materials and intermediate goods such as textile and clothing to China. Brazil receives fuels and chemicals, Russia also procures consumer goods such as chemicals or vegetables in India. However, the overall volumes of intra-BRICS trading for India do not reach the level of ten percent. In comparison with other BRICS members, significant amounts of goods, presented largely by fuels and transportation, are exported to South Africa.

Table No. 15: India, trading profile¹³⁹.

Export partner share to BRICS (%)			Top intra-BRICS exports by product category and sector (%)		Top exporters and import markets			
					Top exporters (%)		Top markets (%)	
India	Brazil	1,8%	Consumer goods	60,4%	China	11%	USA	12,4%
			Fuels	49,2%				
	Russia	0,7%	Consumer goods	47,8%	Saudi Arabia	7,8%	UAE	10%
			Chemicals	30,6%				
	China	4,8%	Intermediate goods	49,3%	UAE	7%	China	4,8%
			Textiles, clothing	30,9%				
	South Africa	1,7%	Consumer goods	70,9%	Switzerland	5,2%	Hong Kong	4%
			Fuels	34,8%				

Source: World Bank data, World Integrated Trade Solutions 2014.

¹³⁹ Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 24.6.2014. Available on: <http://wits.worldbank.org/>

The giant economy of China is a top exporter for other BRICS members, as well as for the many countries of the world. China's main trading partner and long-term consumer of Chinese goods is USA, which procures massive amounts of machinery, electronics and textile goods from there. Further, China is active in trading with G7 countries. The other top markets for China are situated in East Asia where China is leading supplier for consumer goods, machinery and electronics. Based in Table No.16 below, China provides Brazil, Russia, India and South Africa with capital and consumer goods, once again largely represented by relatively cheap machinery and electronics or textiles and clothing. Russia is at the 8th position of top destinations for Chinese export, and India is at 10th¹⁴⁰.

Table No. 16: China, trading profile¹⁴¹.

Export partner share to BRICS (%)			Top intra-BRICS exports by product category and sector (%)		Top exporters and import markets			
					Top exporters (%)		Top markets (%)	
China	Brazil	1,6%	Capital goods	43,8%	Korea Rep.	11%	Hong Kong	17,4%
			Machinery and electronics	41,4%				
	Russia	2,2%	Consumer goods	51,4%	Japan	7,8%	USA	16,7%
			Capital goods	30,4%				
	India	2,1%	Machinery and electronics	42,1%	China	7%	Japan	6,8%
			Capital goods	42%				
	South Africa	0,7%	Consumer goods	47,1%	Other, Asian region	5,2%	Korea Rep.	4,1%
			Machinery and electronics	32,3%				

Source: World Bank data, World Integrated Trade Solutions 2014.

As China is unambiguous top exporter to BRICS, it is important to look deeper at the import consistence from the group members to China: imports from Brazil has 2,7% ,10th place, share of total merchandise trade with raw materials and minerals; South Africa is at the 12th place with 2,4% of total import share mainly delivering miscellaneous goods to China; Russia follows at 13th place importing 2% of goods to China, lead by fuels and raw materials; India has the lowest volume of

¹⁴⁰ Source: World Bank data, World Integrated Trade Solutions 2014. Available on: <http://wits.worldbank.org/> Quoted on 26.6.2014

¹⁴¹ Source: World Bank data, World Integrated Trade Solutions 2014. Available on: <http://wits.worldbank.org/> Quoted on 26.6.2014

imports to China with 0,8% of overall import share and represented mainly with raw materials, textiles and clothes goods¹⁴². Based on the finding above it is difficult to consider BRICS countries as key trading partners for China. China operates actively at the various markets in various regions of different development level.

Based on Table No. 17, China is the key trading partner for South Africa, where minerals, fuels and rare metals are exported. Sub-Saccharin and Eastern Asian markets are also very important for South Africa in terms of exporting goods. India and Brazil (to a lesser extent) also purchase metals, minerals, fuels and chemicals. The small percentage of goods exported from South Africa to Russia are represented mostly by raw materials and vegetables.

Table No. 17: South Africa, trading profile¹⁴³.

Export partner share to BRICS (%)			Top intra-BRICS exports by product category and sector (%)		Top exporters and import markets			
					Top exporters (%)		Top markets (%)	
South Africa	Brazil	0,6%	Intermediate goods	69,5%	China	15,4%	China	12,6%
			Chemicals	29,3%				
	Russia	0,4%	Raw materials	49%	Germany	10,3%	Unspecified	7,5%
			Vegetables	38,5%				
	India	3,1%	Raw materials	76,5%	Saudi Arabia	7,7%	USA	7,2%
			Fuels	53,4%				
	China	12,6%	Raw materials	79,2%	USA	6,3%	Japan	5,8%
			Minerals	66,6%				

Source: World Bank data, World Integrated Trade Solutions 2014.

¹⁴² Source: World Bank data, World Integrated Trade Solutions 2014. Available on: <http://wits.worldbank.org/> Quoted on 28.6.2014

¹⁴³ Source: World Bank data, World Integrated Trade Solutions 2014. Quoted on 24.6.2014. Available on: <http://wits.worldbank.org/>

The data indicated above provide an overview of intra-BRICS trading relations and, to a certain extent, describe trading ties with the major partners for BRICS members. China is the major trading partner for Brazil, Russia, India and South Africa, where the shares of export varies between some 19% and 5%. These countries are exporting primarily raw materials to China, India in particular exports textile and clothing, whereas its exports of metals and minerals to China is slightly smaller. China exports goods - mainly machinery, electrics and textile - to the rest of BRICS members in relatively equal proportions with the regards to the size of each other economy. India is a second largest partner for the other countries within intra-BRICS cooperation. Russia has the smallest shares of trading with the other BRICS members.

4.6.1 Sectoral analysis

For better understanding of trading patterns within BRICS group it is important to look at economic sectors for each country separately. This research provides sectoral analysis for BRICS countries (see Attachment No. 4) divided on sectors of agriculture, industries and services. The analysis presents GDP share, share of employment, composition, exports and imports for each sector. This overview provides an idea whether the trade between the countries is complementary and on which sector the particular country is focused the most.

The Attachment No. 4 shows that Brazil, Russia and South Africa are predominantly raw material suppliers, while India and China are dependent on raw materials import. On the other hand, India and China are exporting and importing intensively the goods of industrial sector, employing relatively low shares of labor force for that; both are advanced in consumer goods exports as well. All five countries are active in trade with goods, but show significant deficit in services.

Due to its richness in natural resources Brazil is one of the key suppliers of raw materials, such as steel, tin or iron ore. It is also the most active BRICS country in exporting various agricultural goods, even though this sector performs only 5,5% of countries GDP where the relatively small employment of labour force. Industries, such as machinery, textile or chemicals do not employ the substantial part of labour force, but industrial goods are exported and imported very

intensively. The highest share of GDP and employed labour comes from the services sector, although the highest share of it is imported.

Russia confirms its status of key energy producer and raw materials exporter. Industries, that largely consist of mining and extractive industries, oil production, gas, and coal contributed over 1/4 of overall GDP. However, the largest part of GDP consists of income from services sector employing 2/3 of workforce; above that, 1/4 of services sector is imported. Capital goods, such as machinery, equipment of vehicles are largely imported, performing over 1/3 of overall imported goods. Despite of large lands, the agriculture in Russia contributes the least to the overall countries' GDP and workforce employment.

India is a leading country among BRICS in exported services. It is caused by the international services outsourcing trend (mostly in IT area) to educated, english-speaking and low-cost Indian labour. Agricultural sector remains very important in India. Large part of population lives in rural areas, therefore almost half of the workforce is employed in agriculture. However it contributes only with roughly 1/4 to countries' GDP. Export and import of industries are both rather extensive; crude oil is the largest constituent of import to India, on the other hand it widely exports precious stones, chemicals, textiles and leather.

Being an economic giant, Chinese export and import is largely dependent on international trade. The labour is equally divided between 3 sectors, where industries and services contribute almost half of the countries' GDP each. The most export and import activities are performed within the industrial sector. The major surplus is derived from consumer goods exports. Capital goods, such as electrical and other machinery, its components or special equipment were the other solid subject for exports and imports in equal proportion. It is noticeable, that China is highly dependent on raw materials import, which are necessary for the production of the most exported consumer and capital goods.

The size of South African economy is the smallest among the members of BRICS group, however it is still an important trading partner and one of the most dynamic economy in Sub-Saharan Africa. Services sector contributes to the GDP the most and employes almost 2/3 of working population. The country exports actively intermediate goods and capital goods, whereas

the imports of same goods remains insignificant. Raw materials, which are exported primarily to China and India¹⁴⁴, make a considerable part of countries' profit.

4.7 Catch-up process and transfer of industries

During the last decades technological progress and international financial liberalization have facilitated an easier interaction and lowered transaction costs, which stimulated an economic growth significantly. According to the theory, that my Master thesis works with: "*In addition to the beneficial effects to the global economy through trade and financial flows, most importantly the dynamic growth of the new poles will provide golden opportunities for industrialization in lower income countries*"¹⁴⁵", therefore the access to technologies and know-how are the key factors for the structural changes. Another author pointing out, that "*International sourcing and the spatial division of sub-stage production processes accelerated the transfer of technology and facilitated developing countries' participation into global production sharing networks. Particularly, the current economic integration is no longer restricted to OECD countries, but also involves large emerging global players like the BRICs*"¹⁴⁶.

Figure No. 18 below reflects the share of manufactured products in world exports by technology¹⁴⁷. At the Figure we can follow the growth of high and medium technology industries started from mid-70's and a decline trend in resource-based and low-technologies products. With the intensification of technology-based exports the recipient country becomes a subject for international investments. This process accumulates improvements in sphere of infrastructure, education and social security.

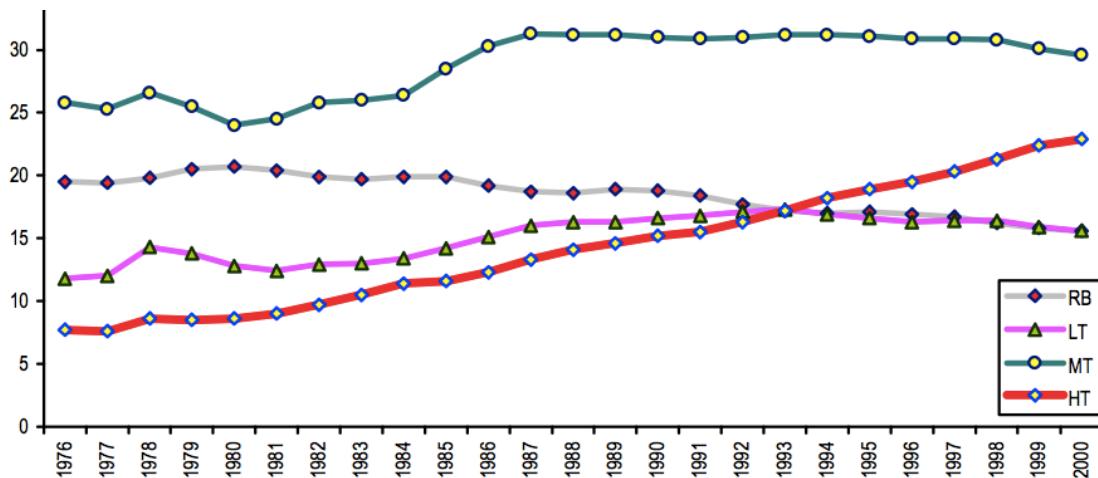
¹⁴⁴ World Bank, WITS data. Source: <http://wits.worldbank.org/CountryProfile/Country/ZAF/Year/2012/TradeFlow/Export/Partner/All/Product/WTO-SoP1> Quoted on 29.06.2014.

¹⁴⁵ Lin.J. «From Flying Geese to Leading Dragon, New Opportunities and Strategies for Structural Transformation in developing countries». WIDER Lecture, Maputo, Mozambique, 2011, p. 28. http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf

¹⁴⁶ L. Chen, "The BRICS in the global value chains: an empirical note." Cuadernos de Economía, 31(57) No. Especial, (p. 225), published on May, 2012.

¹⁴⁷ United Nations Conference on Trade and development, "Technology for Development Series", New York and Geneva 2003. (p. 15.) "HT"- hight technology industry (mainly IT and electronics); "MT"- medium technology industry; "LT"- low technology industry; "RB"- recourse based industry; Available on: http://unctad.org/en/Docs/iteipc20032_en.pdf Quoted on 4.12.2014.

Figure No. 18. Share of manufactured products in world exports by technology, 1976-2000.



United Nations Conference on Trade and development, "Technology for Development Series", 2011.

According to J. Lin and "From flying geese to leading dragons" theory presented in theoretical part of this research, the moving power of growth for developing economy is an upgrade of technology structure through technology-intensive activities. Under conditions where the new technology is imported to the developing country Research and Development¹⁴⁸ (R&D) is very important: "*Formal R&D assumes increasing significance with industrial maturity, even in developing countries that have not reached the "frontiers" of innovation. As more complex technologies are imported and deployed, R&D is vital in order to absorb their underlying principles. ... A growing base of R&D capabilities also permits better and faster diffusion within the economy of new technologies, lowers the cost of technology transfer, and captures more of the spillover benefits created by the operation of foreign firms.*"¹⁴⁹ Further, we can follow the third and final stage of catching-up process described by J. Lin - the changing nature of exported goods and relocation process of industries across countries - from advanced to developing.

¹⁴⁸ Expenditures for research and development are current and capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge, including knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development. Source: World Bank data. Available on: <http://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS/countries/1W-BR-RU-IN-CN-ZA?page=1&display=default> Quoted on 15.12.2014.

¹⁴⁹ United Nations Conference on Trade and development, "Technology for Development Series", New York and Geneva 2003. (p. 21). Available on: http://unctad.org/en/Docs/iteipe20032_en.pdf Quoted on 14.12.2014.

Table No. 19¹⁵⁰ shows the dynamics of BRICS investments into R&D and volumes of high technologies exports¹⁵¹ for each country. The table indicates, that during the last decade China has doubled its investments into domestic R&D, at the same time its export volumes for high technology products has increased almost twice. Further, Attachment No. 5 shows, that Chinese high technology exports are 1/3 higher than worlds average; Brazil and Russia show slight growth in R&D expenditures and negative pattern in high technology exports; India and South Africa are stable during the time interval.

Table No. 19: R&D expenditures and high technology export in BRICS, 2000 - 2012.

Year	R&D expenditures (% of GDP)			High technology exports (% of manufactured exports)		
	2000	2005	2012	2000	2005	2012
Brazil	1,02	0,97	1,21	19	13	10
Russia	1,05	1,07	1,12	16	8	8
India	0,74	0,81	0,81	6	6	7
China	0,90	1,32	1,98	19	31	26
South Africa	-	0,90	0,76	7	7	6

Source: World Bank data.

4.7.1 Manufactured goods specialization, skill level

Chart No. 20¹⁵² presents manufactured goods specialization index focused at the technology-intensive skill level applied for manufactures production. Such specialization index is used to measure the degree of specialization in the production/consumption of goods through trade. It is calculated for each production level group. It compares the net flow of goods (exports minus imports) to the total flow of goods (exports plus imports). This is also known as normalized trade balance by product and it is suitable to make comparison across countries and product groups by

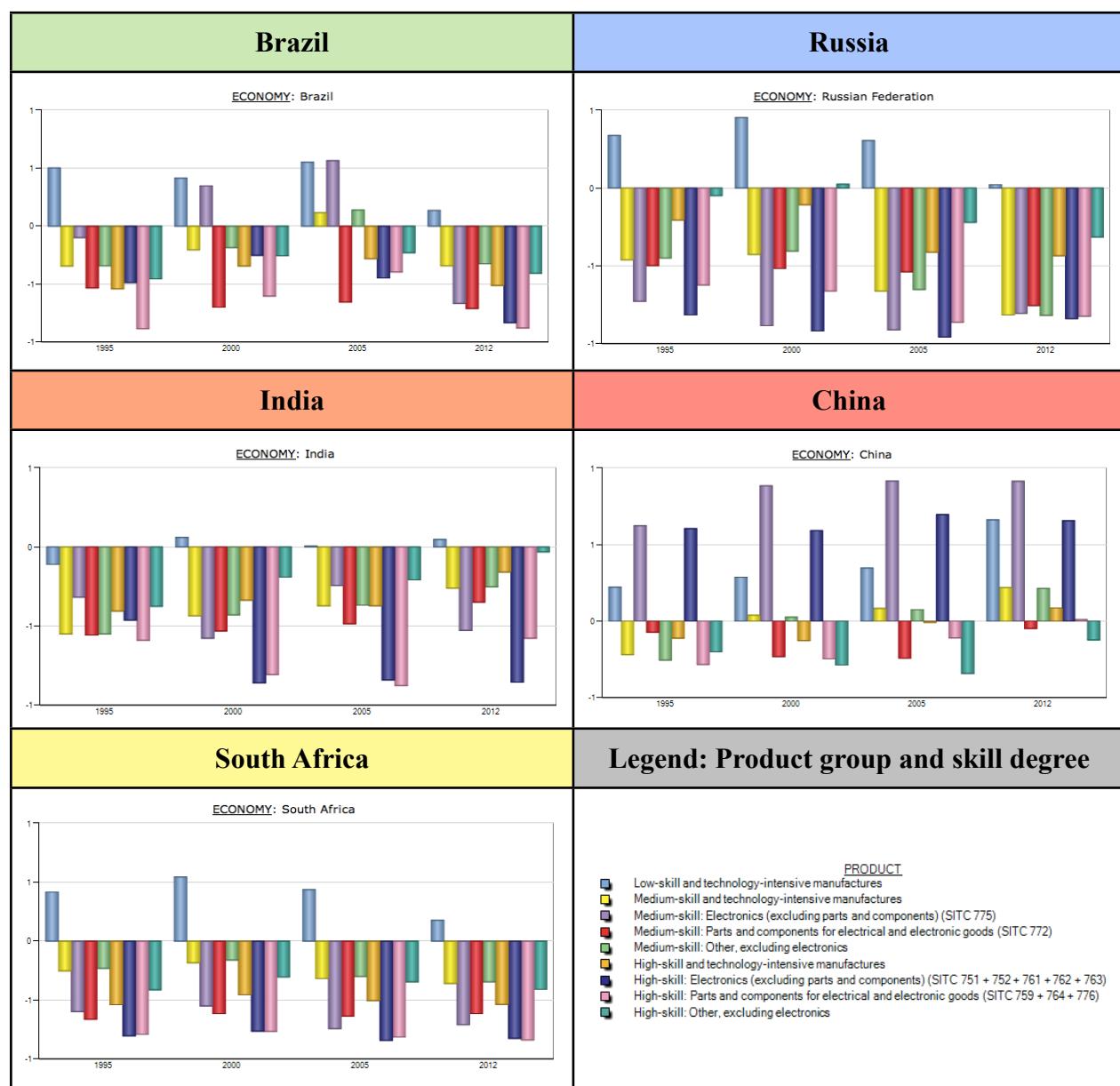
¹⁵⁰ Source: World Bank data. Available on: <http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS/countries> Quoted on 15.12.2014.

¹⁵¹ High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery. Source: <http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS/countries/IW-BR-RU-IN-CN-ZA?page=2&display=default> Quoted on 15.12.2014.

¹⁵² Source: UNCTAD calculations, based on UNCTAD, UNCTADstat Merchandise Trade Matrix. Available on: <http://unctadstat.unctad.org/wds/TableViewer/chartView.aspx> Quoted on 04.12.2014

removing the bias due to size of economy. The range of values is between -1 and 1, the positive value indicates that an economy has net exports (hence it specializes on the production of that specific product) and negative values means that an economy imports more than it exports (net consumption). Moreover, the research shows, that since the year 2000 China, as the only BRICS member, starts to implement production of new technologies moving to the level of high-skill technology intensive manufacturers¹⁵³.

Chart No. 20: Manufactured goods specialization index by degree of production skill level, 1995 - 2013.



Source: UNCTAD calculations, based on UNCTAD, UNCTADstat Merchandise Trade Matrix, 2013.

¹⁵³ Source: UNCTAD calculations, based on UNCTAD, UNCTADstat Merchandise Trade Matrix. Available on: <http://unctadstat.unctad.org/wds/TableViewer/chartView.aspx> Quoted on 04.12.2014

Chart No.20 shows, that from the perspective of technology-intensive skill level for manufactures production all five BRICS countries are rather net consumers, importing more sophisticated manufactures then they produce. Such performance is anticipated from emerging markets at that stage of development. The common feature is a clear prevalence of low-skill and technology intensive manufactures exports. China, and at lesser extent Brazil, tend to increase the skill-level: it shows the major specialization on medium and high skill electronics production since mid-nineties already. Further, since the year 2000, higher production levels of other medium-skill products (excluding electronics) can be followed. It is reflected, that Chinese economy starts to catch-up and produce more sophisticated products of middle and high-skill level such as parts and components for electronics manufactures. That fact suggests that during the past decade production facilities in China were modernized and new manufacturing technologies applied.

Market demand accelerates innovation process. That is where the principle of catch-up process lies: assembly and part production for medium and high-skill products provide a space for dynamic export activities which comes along with creation of more professional work places and wages increase. This process will also attract investors. The improves will require higher automatization and purchase of new technologies. At that stage low-skill production can be transferred to the “follower geese”.

5. BRICS summits and its outputs

It is important to look separately at the history of BRICS Summits, because the outputs of these meetings reflect the most preferred targets of the Group and determine the direction of its development. Historically, the first BRIC head of states meeting was held in July 2008 at the Hokkaido, Japanese island. It was agreed, that within the summits framework the key political issues, such as democratization and human rights, non-proliferation of nuclear weapons, regional conflicts, terrorism, drug trafficking and piracy will be the discussed. Countries representative have also agreed on further coordination of the areas of the prime interest, such as contemporary economic problems, technological cooperation, environment protection, healthcare improvement, financial and food supply issues.

5.1 *Ekaterinburg, Russia 2009*

The issues discussed during the Summit were referred largely to the problems of global food security, the strategies of overcoming the effects of the global economic crisis, the global financial and economic architecture, international trade, mutual investment, the modern paradigm of economic development, the threat of global terrorism, cooperation in science and education.

The Summit results were summarized in the “Joint Statement of the BRIC Countries Leaders” and “Joint Statement on Global Food Security”. The first document have summarized the main discussed points. The second paper focused on food security issues. Apparently, the attention to food security problems was originated from Brazil, as this country is the large supplier of agricultural products to the world market and, therefore, the issues of standardization and food safety were the most relevant for Brazil. The participants exchanged experience about bio-fuel technology. Since the Statements signed were the first political documents issued by BRIC, they reflected member countries common approaches to a wide range of key issues in world politics and economics. Therefore, these documents can be regarded as an ideological platform of BRIC as a new actor on the international stage.

5.2 *Brasilia, Brazil 2010*

The main issues discussed at the second BRIC Summit of the BRIC countries, have become the global financial crisis consequences overcoming, the creation of a new financial order, the preparation for Big Twenty meeting , as well as issues of international trade, agriculture, climate change and fight against poverty and terrorism. Several agreements were signed during the Summit. As a result of signing of “Memorandum on Cooperation Among Development Banks of BRIC countries”¹⁵⁴, the interbank cooperation mechanism aimed to support export relations between the Group members. The document emphasizes the importance of international trade under the condition of WTO participation in the process. The countries have signed a number of bilateral agreements, whereas Russia have launched negotiations with Embraer¹⁵⁵ on the possibility of joint development and production of aircraft for the regional transportation and related products.

5.3 *Sanya, China 2011*

During this summit the official inclusion of South African Republic was announced and the Countries president Jacob Zuma has joined Summit¹⁵⁶. In course of meeting, the five presidents touched on various aspects of mutual cooperation: BRICS countries once again emphasized the necessity of WTO membership for Russian Federation, need of comprehensive reform of the United Nations, including its Security Council. The interest of cooperation on environmental, agriculture and scientific development programs was reaffirmed. Issue of the peaceful settlement in Libya was also risen. The countries leaders have emphasized the prominent performance of developing countries during and after the global financial crisis.

¹⁵⁴ Available on: <http://www.itamaraty.gov.br/temas-mais-informacoes/saiba-mais-bric/documentos-emitidos-por-altas-autoridades/memorando-on-cooperation-among-development-banks-of-bric-countries/view>

¹⁵⁵ Brazilian aerospace corporation.

¹⁵⁶ Source: <http://www.brics5.co.za/about-brics/> Quoted on: 12.12.2014

The main directions in world politics were determined and the action plan for the coming year was set. One of the most important summit outcomes were discussions regarding the global monetary reform and reform of financial institutions. Based on that the countries leaders have signed an agreement on financial cooperation in the framework of inter-BRICS relations including an agreement on economic cooperation with the use of national currencies¹⁵⁷. The agreement suggested to exclude credit issuance and payments in US dollars in a framework of intra-BRICS cooperation. This step meant to straighten BRICS national currencies and limit the influence US dollar in context of BRICS economic cooperation.

5.4 *Delhi, India 2012*

BRICS countries leaders focused their attention on global economy problems, the settlement of the situation in Syria and Iran, as well as on anti-crisis policies. The last issue encouraged the parties to discuss methods of BRICS led South-South Development Bank creation and mechanisms of convergence for intra-BRICS stock markets. The development of credit facilities in national currencies was also on the agenda. The financial ministers of each country were instructed to study the feasibility and viability of Development Bank creation initiative. Further, South African expressed its estimation from joining the group - incentives for development, support for infrastructure projects and institutional reforms.

Delhi Declaration and Delhi Action signed at the summit expressed the concern about the situation in eurozone in connection with market instability after the crisis. Master Agreement on Extending Credit Facility in Local Currency and the Multilateral Letter of Credit Confirmation Facility Agreement were signed between export-import banks of each country. This agreement facilitates payments in BRICS national currencies among the countries. IMF was called for better representation of developing countries and quota reforms. UN, World Bank and IMF were requested for institutional reforms¹⁵⁸.

¹⁵⁷ Paragraph No. 16 of Sanya Declaration. Available on: <http://www.brics.utoronto.ca/docs/110414-leaders.html> Quoted on 12.12.2014.

¹⁵⁸ Available on: <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html> Quoted on 12.12.2014.

5.5 Durban, South Africa 2013

South Africa is the latest annexed BRICS member. The central discussion framework of the summit became the topic of “BRICS and Africa: Partnership for Development, Integration and Industrialisation” with eThekwini Declaration and eThekwini Action Plan as an outcome. The declaration presents an evaluation of current global political and economic situation. The common approaches of BRICS countries to the multilateral cooperation are reflected. The agreements on cooperation in field of “green economy”, on co-financing of infrastructural projects in Africa and Statement by BRICS Leaders on the Establishment of the BRICS-Led Development Bank were signed¹⁵⁹. For the purpose of economic engagement deepening, specifically enhancement of intra-BRICS trade focused on improvement of value added component, the establishment of BRICS Business Council was announced.

5.6 Fortaleza, Brazil 2014

5th BRICS summit has discussed a wide range of international and issues and intra-BRICS cooperation policies, such as environmental and anti-corruption cooperations or population related topics. However, the major outcome of the summit was an announcement of New Development Bank (NDB) establishment with initial authorized capital of US\$100 billion and initial subscribe capital of US\$50 billion, equally shared among founding members. Furthermore, there was signed a Treaty for the establishment of the BRICS Contingent Reserve Arrangement (CRA) with an initial size of US\$ 100 billion¹⁶⁰. If necessary, NDA is able to provide a financial assistance to any of BRICS member having balance payments difficulties. According to experts: “*The development of large and effective BRICS institutions, like the BRICS bank and the Contingent Reserve Arrangement, can provide a valuable platform for the BRICS advancing reforms in the international financial and development architecture that favor developing and emerging countries in general*”¹⁶¹.

¹⁵⁹ Available on: <http://www.brics.utoronto.ca/docs/index.html> Quoted on 12.12.2014.

¹⁶⁰ Source: <http://www.brics.utoronto.ca/docs/140715-treaty.html> Quoted on 18.09.2014

¹⁶¹ Source: United Nations Conference on Trade No. 215. “A BRICS Development bank: dream coming true?”. Issued on March 2014. Available on: http://unctad.org/en/PublicationsLibrary/osgdp20141_en.pdf Quoted on 20.09.2014.

The other signed document was the Memorandum of Understanding on Cooperation among BRICS Export Credit and Guarantees Agencies that mened to improve the support environment for increasing trade opportunities among the countries.

Based on outcomes of the summits it is evident, that BRICS countries have many common interests in field of international security, global economic processes, environmental and climate issues. BRICS countries are equally interested in international law improvement, which allows to solve the issues taking into account actual interests of world community - and first of all BRICS countries - under conditions of changing global balance of power. All five countries have many specific and complex social problems. Therefore, they are trying to create favorable external conditions to resolve them.

5.7 *Major cooperation line*

Based on the summary of BRICS Summits, the global monetary system challenging is one of the most preferred cooperation areas of the Group. First formal BRIC summits took place under the conditions of global economic crisis, which have called into the question the effectivity of the existing global economic regulation. On the ground of the crisis the anti-globalization movement has expanded. The process have reached the critical point when even the former IMF Managing Director, D. Strauss-Kahn, has called for the “Washington Consensus”¹⁶² for reforms: “*The task before us is to rebuild the foundations of stability, to make them stand the test of time, and to make the next phase of globalization work for all. This rebuilding has three core areas—a new approach to economic policies, a new approach to social cohesion, and a new approach to cooperation and multilateralism.*”¹⁶³ The situation have culminated with the global protest movement “Occupy Wall Street” in September 2011, that above all was calling for the structural changes in world economic system. In parallel, the Eurozone crisis was rising rapidly. All this facts caused growing distrust to the existing global financial system and the financial and economic policies of the developed countries. Therefore, an alternative to the global economic order and global regulation is sought for, and BRICS thinking might be an option. First of all, each member country has its own, different path of development and of economic system - the stability of it was proven during the global economic crisis.

¹⁶² Definition available on: <http://www.cid.harvard.edu/cidtrade/issues/washington.html> Quoted on 18.09.2014

¹⁶³ D. Strauss-Kahn, International Monetary Fund. Global Challenges, Global Solutions, George Washington University, Washington, April 4, 2011 Available on: <http://www.imf.org/external/np/speeches/2011/040411.htm> Quoted on 18.09.2014

6. China as a “Leading Dragon”

Undoubtedly, China is a «Leading Dragon» of BRICS Group. The rapid economic growth and expansion of influence throughout the whole Asian region inspires and accelerates the other BRICS economies development. The countries are believed to «catch-up» Chinese growth-strategies and technologies. FDI from China are also very important. In this chapter I will focus on China's gains, it's current position of a «Leading Dragon» in Asian region, its' goals and obstructions.

6.1 Chinese growth background

Yet, back in 1990s China has been considered to be a low-income country. In 2 decades China became one of the World's largest and leading economies, that left behind Japan and currently overgrowing the size of U.S. economy. Globalization and seeking for better competitiveness and cheaper labor made high-income countries move their manufacturing production into middle- or low-income ones. For that reason, during the previous decade (2000-2009) the Global economic weight was removed from G7 economies to developing countries with China at the leading position, while 30 years ago China's GDP was lower than of Mozambique or Ethiopia's one (GDP per capita \$195)¹⁶⁴.

Chinese journey to success have begun in 1978 in Beijing. At that time the country was knocked down by the consequences of Cultural Revolution. Since the introduction of new economic reforms in 1978, China is experiencing a rapid economic growth, measured in GDP: an average annual growth rate for the period 1978¹⁶⁵-2009 is 9,7%¹⁶⁶ per year! Another significant fact is that in the year 1978, 71% of Chinese working population was active in agricultural sector. Further, in 2004 percentage of them first dropped below the mark of 50% and today it contributes to GDP roughly only with 12%¹⁶⁷.

¹⁶⁴ Source: J. Lin, «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf Quoted on: 23.09.2014

¹⁶⁵ Beginning of economic reforms in China

¹⁶⁶ Source: Statistic data of China. Available on: <http://www.chinability.com/GDP.htm> Quoted on: 23.09.2014

¹⁶⁷ Source: Financial Group: Finanacial and Strategic Review, Quarterly 4/2011. p.17. Available on: http://www.efgfp.com/downloads/EFGFP_Quarterly4_2011_en.pdf Quoted on: 23.09.2014

Interest of high-income countries in Chinese big and cheap labor caused a significant growth of wage rates. Within a period of 3 decades the nature of Chinese export have transformed from simple-labor goods into more sophisticated products, such as machinery, transportation or telecommunication. China's trade volume is exceptionally large by international standards. According to the WTO data, China today is the biggest exporter and the second biggest importer of merchandised goods in the World¹⁶⁸. In the year 2013 China's GDP amounted for US\$ 9.240.270 million and US\$ 16.157.704 million in PPP¹⁶⁹. The last numbers are almost equal to the PPP in United States, where it accounted US\$ 16.800.000 million in 2013¹⁷⁰. China's consumption of energy has more than doubled from the year 2002 and exceeded the consumption of US¹⁷¹.

The growth and economic successes in China are also conditioned by large natural deposits of different rare earth metals, necessary for modern global production. These exotic chemical elements are used for many high-tech products, such as smart-phones or batteries for electric cars. However, because of the large demand for these materials, Chinese government has imposed the strict export regulations on it.

The country is not only important for its commodities market, but also because of its constantly growing middle class¹⁷². However, such a rapid economic growth is not always beneficial for the Global economy. As it is shown in «Financial and Strategic Review» research: *«Due to the overheated economy, real estate prices in the metropolitan areas have risen to the point that many observers are already talking about a bubble. In addition, inflation is above the 4% rate targeted by the government. Because of these factors, the People's Bank of China switched over to a tighter monetary policy in 2011 and increased interest rates multiple times¹⁷³».*

Chinese economy is strongly characterized by processing industries and the country needs constant supplies of metals, used in this sector. This is why Chinese government invests and provides funding opportunities for the emerging low/middle-income countries (such as South Africa

¹⁶⁸ Source: WTO survey, September 2014. Available on: <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN> Quoted on: 23.09.2014

¹⁶⁹ ibid.

¹⁷⁰ ibid.

¹⁷¹ Source: BP Statistical review of World energy, 2014. Available on: <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf> Quoted on: 23.09.2014

¹⁷² Source: MIC Forum, Worldbank.org. Available on: <http://www.worldbank.org/content/dam/Worldbank/document/MIC-Forum-Rise-of-the-Middle-Class-SM13.pdf> Quoted on: 24.09.2014

¹⁷³ Source: Financial Group: Financial and Strategic Review, Quarterly 4/2011. p.15. Available on: http://www.efgfp.com/downloads/EFGFP_Quarterly4_2011_en.pdf Quoted on: 24.09.2014

or Brazil). Most of these countries are producers of agricultural or natural resource commodities. Thanks to its current income level, China is also a country of a big interest for foreign financial flows and trade. Moreover, graduating from low-skilled manufacturing jobs on the higher industrial and technological level, China is expected to free up nearly 100 million labor-intensive manufacturing jobs, which will create the work-places in other low-income countries. This phenomenon is expected to come together with new industries and technologies that will accelerate the process of growth significantly¹⁷⁴. This is a basis of the “catch-up” developmental strategy.

6.2 Critics of Chinese development

Dynamic growth in China naturally causes some fears and broad debates. Below are few controversial issues that are criticized the most are designated:

- China, an uprising “Leading Dragon”, is according to it’s constitution, an people’s democratic dictatorship under the leadership of the Communist Party of China. China’s FDI abroad are growing increasingly, but at the same time it may cause tensions in some political questions. China’s business model differs from the other countries approaches. Economic decision-making is in a large scale influenced by the government: most of the managers for the state-owned enterprises are appointed by Chinese Politburo.
- The research in field of Chinas economic miracle nature showed, that GDP growth has been dominated by investment growth. However, China’s growth model has the lowest share of private consumption to GDP in the region and the lowest rate of employment growth relative to GDP growth¹⁷⁵.
- One of the major problems of China is pollution. Since the year 2009 Chinese emissions have increased of 10,4% and exceeded the US emission rates¹⁷⁶. This question is one of the upcoming global challenges.
- One child policy can harm Chinas competitive advantage and cause the population aging. The correlation between young male and female will be very unbalanced as well.

¹⁷⁴J. Lin. «From Flying Geese to Leading Dragon», WIDER lecture, May, 2011, p. 4. Available on: http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/WIDER_Lecture-Justin_Lin-05-03-11.pdf Quoted on: 24.09.2014

¹⁷⁵ C. Walter, “Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise”, J. Walter&Sons, 2011. p. 8-14. ISBN: 9780470825860

¹⁷⁶ Source: Deutsche Bank Research. Available on: http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD00000000000196788/Environmental+sector+China%3A+From+major+building+site+to+growth+market.pdf Quoted on: 24.09.2014

- Other internal problems of China: resource exhaustion, corruption, high inflation rates, poverty in rural areas, low domestic demand etc.

6.3 Offered policies for China's further development

China's goals in its foreign policy indicates the need of profound cooperation with another emerging markets, such of BRICS. These goals defined by J. Gavas¹⁷⁷ as follows:

- securing oil and raw material supplies;
- establishing more and more private companies involved in infrastructure construction;
- providing incentives for establishing a diaspora;
- signing bilateral trade agreements and an assertive development cooperation strategy;
- military cooperation policy;

One of the most important directions for Chinese government is a service-sector, because it holds up the prospect of more stable growth, than a present model. Service sector is less vulnerable against the global economic instability and at the same time stimulates domestic demand. The upgrading of the renminbi, higher minimum wages and government investments in health care will also contribute to the process¹⁷⁸.

In order to maintain its growth, China needs to enter or develop new industries, adapt new technologies, promote education and make structural institutional changes within the society. Under these conditions Chinese low-skilled labour will be gaining more qualifications and gradually transform into more sophisticated level. Low-skilled manufacturing production will be transferred to the other low-income countries labour market, such as the one in Africa or India.

The former president of People Republic of China Hu Jintao have introduced Chinese strategy in these terms: «*The strategy involves promoting both technological shift in Chinese economy and the building of a domestic market, partly through social policies. In the first place, the aim is to impose an economic slowdown to bring an end to overheating, and to terminate a strategy based exclusively on exports and the waste of natural resources*¹⁷⁹».

¹⁷⁷ J. Gabas, Emerging Countries and International Cooperation. The Emerging States: The Wellspring of a New World Order. London: Hurst & Company, 2008. 335 p. ISBN 978-1-85065-971-6

¹⁷⁸ Source: Deutsche Bank Research. «Structural changes in China», February 16, 2011. p.5. Available on: https://www.dws-investments.com/EN/docs/research/structural_change_China.pdf Quoted on: 24.09.2014

¹⁷⁹ J. Gabas, Emerging Countries and International Cooperation. The Emerging States: The Wellspring of a New World Order. London: Hurst & Company, 2008. 335 p. ISBN 978-1-85065-971-6

6.4 Cooperation in BRICS format

Looking back at the presented theories by K. Akamatsu, A. Gershenkron and J. Lin we could see the certain patterns, that were (and are) common for all mentioned developing countries: the economic leader, whether it wants or not, always passes «the baton» to the other developing economy. Such an advanced country, with its developed industries, modern technologies and improved life standards, moves the low-skilled labour production to the other, cheaper region. To maintain the quality of production, the leader country brings in its' technologies and industries, builds the necessary infrastructure. It gives the «follower country» an impulse and wide range of opportunities for dynamic development.

BRICS is a case. China, being both, a huge country with great needs and an uprising leader of new Eastern pole of global economy, provides the growth opportunities to the other developing countries. In BRICS format it is necessary to point out following cooperation:

- China-Brazil: China invests largely into infrastructure, because Brazil is one of the main providers of raw materials and specific food items (soya beans, pork). Brazil exports commodity products and imports primary goods from China¹⁸⁰. On the other hand, the competition from China's manufacturing sector has led Brazil to establish barriers to protect its own manufacturing industry¹⁸¹;
- China-Russia: China imports from Russia raw materials and energy products, such as oil and natural gas supplies¹⁸². The closest cooperation with China is in the area of telecommunications¹⁸³. Deriving a benefit from being a neighboring country, China “expands” into Russian territories building needed infrastructure (lack of it is one of the biggest Russian problems) in difficult environmental conditions;
- China-India: China is interested in wide cheap Indian labour pool, therefore it investments in large scale into infrastructure. Since the prices for the labour force in China are rising, it moves the lower-skilled industries and technologies to India. India is considered to be the main China's

¹⁸⁰ Source: OECD Economic Survey: Brazil 2011. Available on: http://www.bollettinoadapt.it/old/files/document/14797oecd_10_2011_2.pdf Quoted on: 23.09.2014

¹⁸¹ Source: Americas Society. Available on: <http://www.as-coa.org/articles/summary-brazil-china-economic-and-political-relations> Quoted on 23.09.2014

¹⁸² Goldman Sachs Global ESC Research. Paper #99. Available on: <http://www2.goldmansachs.com/our-thinking/brics/brics-reports-pdfs/brics-dream.pdf> Quoted on: 23.09.2014

¹⁸³ Goldman Sachs Global Economics, «BRICs Monthly» July, 22, 2011. Available on: <http://www2.goldmansachs.com/our-thinking/brics/brics-reports-pdfs/progress-on-building-the-brics.pdf> Quoted on: 23.09.2014

«follower» in described «catching-up» process. Furthermore, India becomes an important player in pharmaceutical industry.

- China-South Africa: the interest is mainly in raw materials and oil. Moreover, South Africa is the largest regional source of both cross-border M&A and greenfield transactions¹⁸⁴. Exporter of commodities and low-technology items. Large FDI from China into infrastructure and creation of employment opportunities.

China is a «locomotive» for the BRICS countries. It will deepen the mutual cooperation because these countries dispose of wide range of resources and have large domestic markets. The country builds its attitude towards the cooperation with its developing partners from its own, “tailored” developing scenario that emphasizes that “... *the future will be shaped by rapid growth, industrialization, urbanization, marketization, and an acceleration of internationalization,*”¹⁸⁵ in a context in which “*economic globalization is becoming even more profound, technological progress is taking on even more diverse forms, and the movement of factors of production and relocation of sectors is accelerating.*”¹⁸⁶ China will most likely stimulate the development of other BRCIS countries by the large investments into their economy and infrastructure. However, the follower countries would have to apply right strategies and use the opportunities given by more developed «leading country» that come together with the industrialization and technological upgrade. On the other hand, the growth of BRICS economies comes along with considerably higher inflation rates, mainly due to higher food prices. This is why Chinese, Indian and Brazilian Central Banks have recently started the tightening of their monetary policies.

¹⁸⁴ World Bank Book 2011. «Multipolarity: The new global economy.» p.85. Available on: http://siteresources.worldbank.org/BRAZILEXTN/Resources/Global_Development_Horizons_2011.pdf Quoted on: 23.09.2014

¹⁸⁵ Source: Sections 1 and 2 of the “Suggestions.” Chinese Communist Party, Central Committee on Setting the 11th Five Year Plan for National Economic and Social Development, October, 2005. Available on: http://media.hoover.org/sites/default/files/documents/clm16_bn.pdf Quoted on: 23.09.2014

¹⁸⁶ ibid

7. Potential development of BRICS group

Creation of BRICS as an informal international association of developing countries was in a large part a response on misbalance of global politics and economics at the beginning of twenty first century. This association has reflected the objective tendencies of global development and pointed out the existing system of international relations has to be reviewed. It has straightened the role of emerging economies at the international stage and the trend of global interdependence. Growing economic power of the group members, their rich natural resources and human potential have become a basis for BRICS rise. Political and economic significance of BRICS is also supported by an active involvement of the member countries in the authoritative international organizations, such as UN, WTO or IMF as well as into leading informal unions - G7, G20 or APEC and other regional organizations. This creates objective possibilities for cooperation in favor of new polycentric world order establishment, for influence on decision making process in wide range of structures - from global to regional ones.

According to this research outcomes, the key strategic factors contributing to the convergence of BRICS members are:

- All BRICS members are interested in current international financial and economic architecture reform. The current arrangement does not count with the growing economic weight of emerging economies and developing countries;
- BRICS members are willing to cooperate closely in wide range of similar challenges and problems resolving. These challenges are given by the need of extensive modernizations of economic and social structure in each country;
- The acceleration of economic modernization to be reached by using the complementary nature of the partner-BRICS economies, their increasing integration into global economic system and common interest in innovation and development of their economies;
- BRICS members are willing to fight against the global threats and emerging challenges, such as distribution of weapons of mass destruction, international terrorism and organized crime, drug trafficking, international piracy, etc.;

During the past two decades in BRICS countries made a great transformation from cheap and low-quality producers into the manufacturers of middle and high-skill manufacturers, producing mobile phones, semiconductors, softwares and transportation. However, BRICS are still lagging behind developing countries in terms of benefiting from increased productivity. In my opinion, BRICS are going to surpass western countries economically, but it will not happen fast. Undoubtedly, BRICS countries are the major source of global economic growth today and they will remain so in the future. Together they will take a dominant position in the global economy in the same way as Europe and USA did it once. But before that they still have to overcome many internal challenges, overcome large-scaled modernizations and to adjust to the internationally acceptable standards.

Conclusion

The first working hypothesis of his thesis has been that in *the next decade, the BRICS group will experience significant growth and influence on both, the global economic and political scene*. Based on the research presented, it is clear that this hypothesis is ambiguous, it is necessary to divide the issue into its political and economic dimensions.

From an economic perspective, the BRICS group has achieved tremendous growth rates during the past two decades and has enormous economic potential: While in the year 2000, just before BRIC concept was created, the aggregate GDP of the five countries accounted for only 8% of the world share, by the year 2013 it already accounted for 22%¹⁸⁷ (cf. Table 6). The countries also exhibit an increasing activity in terms of purchasing power. The group currently holds over 42% of global currency reserves¹⁸⁸—a very important factor for global economic stabilization. Indeed, these facts and numbers demonstrate that BRICS countries carry significant weight in the international economy. However, there are many obstacles on the way towards economic success and the journey is far from over. Viewed from a different perspective, BRICS countries show significant heterogeneity in terms of per capita income - Russian citizens have the highest income of almost US \$ 19 thousands per year, whereas Indians have some US\$ 4 thousands per year. The yearly income in China, Brazil and South Africa varies in the range from US\$ 10 to US\$12,5 thousands per year¹⁸⁹ (cf. Table 5). The growth dynamics and its patterns in each country also differs to a large extent. It is necessary to point out that over the past two decades, the BRICS countries have shown impressive annual growth rates varying from 6% to 14% in China—the growth leader of the group; ranging from 8% to 2% in Brazil; remaining in the range from 5% to 10% in Russia, growing gradually from 4% to 10% in India and increasing from 2% to 6% in South Africa¹⁹⁰ (cf. Annex 6).

187 Source: UNCTAD secretariat calculations, based on UN DESA Statistics Division, National Accounts Main Aggregates Database. Available on: <http://unctadstat.unctad.org> Quoted on 9.12.2014.

188 Source: World Bank Data. Total reserves including gold in current US\$. Available on: http://data.worldbank.org/indicator/FIRES_TOTL_CD/countries?display=default; Central Intelligence Agency. The World Factbook 2013. Data esteemed on 31th December 2013. Available on: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> Quoted on 27.12.2014.

189 Source: Economy watch, based on IMF data, 2013. Available on: http://www.economywatch.com/economic-statistics/economic-indicators/GDP_Per_Capita_PPP_US_Dollars/2013/ Quoted on 27.12.2014.

190 Source: Trading Economics, Instituto Brasileiro de Geografia e Estatistica, Russian Federal State Statistics Service, Indian Ministry of Statistics and Programme implementation, National Statistics of China, Statistics South Africa. Available on: <http://www.tradingeconomics.com> Quoted on 29.08.2014.

Today, the economic growth of the BRICS countries has slowed down. Growth rates have declined after the global financial crisis. Although it is true that BRICS countries (with the exception of Russia) were among the least affected by the crisis and achieved a relatively fast recovery, their growth rates decreased¹⁹¹ (cf. Chart 2). The BRICS countries have not managed to regain their pre-2009 economic growth rates. In contrast with their amplitude growth during the past years, the countries have more recently exhibited a declining trend. In the year 2013, the annual growth performance was 2.2% in Brazil, 2% in Russia, 4.8% in India, 7.3% in China and 1.8% in South Africa¹⁹². Moreover, due to the current conflict with Ukraine, Russia is experiencing a new circle of economic crisis and political confrontation – primarily with the Western world.

In terms of political influence, the BRICS countries are large and important regional and global players. All together they cover roughly 25% of Earth's surface and account for 40% of world population which, in turn, forms a large and relatively cheap labor force creating a vast consumer demand. This explains the intention to have a stronger presence in the sphere of international relations, in order to take their place among the current global policymakers. BRICS members thus far have exerted regional influence within the framework of IBSA.

Based on the facts presented above, it can be concluded that due to its population, vast territory and large and growing economy, the BRICS group is an influential player on the international scene. However, the economic growth of the countries is not sustainable and it has even declined since the financial crisis in 2009. Undoubtedly, the BRICS countries have a large share in global economic growth today and to a certain extent they will continue growing in the future. However, in order to ensure sustainable growth, BRICS will still have to overcome many internal challenges, such as large-scaled modernizations as well as adjust to internationally accepted standards.

The second working hypothesis of this Master thesis was: *Brazil, Russia, India, China and South Africa are very different in terms of their political, social and economic development. On the one hand, they have many reasons to cooperate; on the other hand their internal arrangements and*

191 Source: World Bank data. Available on: <http://data.worldbank.org> Quoted on 05.06.2014.

192 Source: Trading Economics, Instituto Brasileiro de Geografia e Estatística, Russian Federal State Statistics Service, Indian Ministry of Statistics and Programme Implementation, National Statistics of China, Statistics South Africa. Available on: <http://www.tradingeconomics.com> Quoted in 29.08.2014.

development policies are markedly different. The countries will most likely not be able to cooperate on a deep level due to their conflicts of interest. In addition, Russia does not fit into BRICS format.

BRICS is a heterogenous group, covering countries of different geopolitical, cultural and economic backgrounds. There is no single unifying commonality between them all, as opposed to for example the EU. The political structures in the five countries also differ to a large extent. Brazil and India are vibrant democracies of western type. Russian democracy is relatively young: it has yet to shed the remnants of the past. China on the other hand is a single party communist state. South Africa is a democracy dominated by a social democratic party. Economic structures also differ: Brazil and Russia are the main energy producers, whereas China and India are its major consumers. The South Africa depends on its mineral reserves. China and India build on the input of their low-priced labor pool and resources. China, India and South Africa face a wide range of severe social problems such as poverty, unemployment, human rights violations, corruption, healthcare shortcomings, ecologic problems, and regional underdevelopment. To a lesser extent, Brazil and Russia also suffer from the above mentioned issues. Relatively high rates of poverty, unemployment and corruption are typical for all five BRICS countries.

Each BRICS country has its specific motivations for membership. From the perspective of international prestige, Brazil and India are seeking for improvement of their international status and transformation from regional giant to a global actor. The two countries seek to gain the status of a permanent UN Security Council member and to ensure the security of marine communication in the southern hemisphere. BRICS for Russia is a tool for realizing the idea of multipolarity as well as being a good argument for diplomacy in direction of the West. Russia gains more stability for its positioning on the global stage. China is the most self-sufficient group member which is very careful with new commitments. This communist state has experienced a fast economic rise and it currently faces the need to adjust its existing political regime to better fit its dynamic economic environment. Therefore, through BRICS cooperation, China seeks to create a more favorable external environment for its course towards "openness and reform", China's emergence as a modern country with a developed economy and high standard of living. Its BRICS partners are interesting for China as an influential group for lobbying processes and in terms of possible reforms to the global financial system. South Africa is seeking for strong partners (mainly in a South-South direction) to follow on its recently embarked path towards structural transformation.

Trade is one of the most decisive factors in BRICS cooperation. This paper presented a comprehensive trade research. The research suggests that China—as the world's top exporter of and second world's importer of merchandised goods¹⁹³—is interested in the development of economic cooperation, first and foremost with the Asia - Pacific region and the USA¹⁹⁴ (cf. Table 16). Brazil benefits the most from trade with China and USA – more than 30% of its exports and imports are directed to or from these countries¹⁹⁵(cf. Table 14). While Russia is focused on its trading relations with EU countries, China is nevertheless the major market for Russia's raw materials—making up nearly 17% of its overall imports¹⁹⁶ (cf. Table 14). India is among the top ten world exporters and importers of commercial services and a significant importer of merchandised goods¹⁹⁷ (see Table 12). Based on the composition of its major trading partners, India is primarily interested in the development of economic relations with Southern Asia and the USA, which is its major market (cf. Table 14). China is also a major market for South African imports and exports. Other important markets for South Africa are in the Asia - Pacific region and the USA (cf. Table 14).

It is also important to look at BRICS cooperation from the perspective of foreign affairs. As previous passages indicate, China is the new global economic power and one of the major trading partners for other BRICS members. However, not everyone benefits from relations with that country. Despite the fact that China provided large investments into Brazilian infrastructure¹⁹⁸, the Brazilian government is concerned about cheap Chinese commodities intruding in their market, thereby undercutting their competitiveness with domestic products¹⁹⁹. Russia shows some migration issues with China, although the recently signed agreement on long-term gas supplies and infrastructure investments between the two countries appears to ensure better bilateral relations²⁰⁰.

193 Source: WTO Statistic Database 2013, Trading Profiles. Available on: <http://stat.wto.org/CountryProfile/WSDBCountryPFReporter.aspx?Language=E> Quoted on 2.5.2014

194 Source: World Bank data, World Integrated Trade Solutions 2014. Available on: <http://wits.worldbank.org/> Quoted on 26.6.2014

195 Source: World Bank data, World Integrated Trade Solutions 2014. Available on: <http://wits.worldbank.org/> Quoted on 26.6.2014

196 Source: World Bank data, World Integrated Trade Solutions 2014. Available on: <http://wits.worldbank.org/> Quoted on 26.6.2014

197 Source: WTO Statistic Database 2013, Trading Profiles. Available on:<http://stat.wto.org/CountryProfile/WSDBCountryPFReporter.aspx?Language=E> Quoted on 2.5.2014

198 Source: China-Brazil Business Council. “Chinese Investments in Brazil from 2007-2012: A review of recent trends.” June, 2013. Available on: http://www.cebc.org.br/sites/default/files/pesquisa_investimentos_chineses_2007-2012_-ingles_1.pdf Quoted on 03.09.2014

199 Source: Americas Society. Available on: <http://www.as-coa.org/articles/summary-brazil-china-economic-and-political-relations> Quoted on 23.09.2014

200 Source: Bloomberg. “Russia, China Add to \$400 Billion Gas Deal With Accord”. November, 2014. Available on: <http://www.bloomberg.com/news/2014-11-10/russia-china-add-to-400-billion-gas-deal-with-accord.html> Quoted on 27.12.2014

The relations between India and China are the most controversial within the BRICS group. The countries have historically unsolved issues, such as the Kashmir conflict or the Sino-Indian conflict in Tibet. There also remain more modern geopolitical issues in Asia and the Indian Ocean caused by the fast and relatively simultaneous economic rise of these two regional giants. Regardless of the past, India tries to maintain good connections with China—the major market for its own exports. In addition to its extensive trading relations, South Africa also receives large investments from China. At the same time, however, the purchase of 20% of Africa's largest bank—the Standard Bank—has made South Africa more cautious regarding further Chinese investments²⁰¹. Brazil, India and South Africa cooperate successfully in a smaller, IBSA-format, fighting for human rights, enforcing healthcare and social programs in developing countries.

One of the compatibility issues is a byproduct of economies of the size of BRICS member countries and is evident when looking at South Africa—a country with an average economy size. Nevertheless, the different “starting points” of BRICS countries does not preclude complementarity among them: such a complementarity can be manifested in the desire to overcome existing social, economic and technological shortcomings through more intensive commodity exchanges, cooperation in sphere of innovations and mutual humanitarian assistance. In this context, much depends on the political will of the countries’ leaders to cooperate, as well as on domestic and international public support such a unique project. BRICS—as rising economic giants—are the most dynamic economies in the world, consequently growing interdependence between them is to be expected.

The third working hypothesis suggested that *by means of the catching-up process, BRICS cooperation will support sustainable and rapid economic growth of the BRICS members. China will become a “leading dragon” for the BRICS economies.*

201 Source: <http://www.economist.com/news/finance-and-economics/21595496-biggest-banks-china-and-africa-team-up-again-limited-partnership> Quoted on 10.10.2014

The process of globalization and international financial liberalization have facilitated the interaction between producers and consumers. This process has lowered transaction costs and significantly stimulated economic growth. The catch-up theory by J. Lin primarily suggests that: "... most importantly the dynamic growth of the new poles will provide golden opportunities for industrialization in lower income countries". International sourcing and division of sub-stage production processes accelerate the transfer of technology and facilitate developing countries' participation in global production-sharing networks. BRICS countries have the advantage of being latecomers, which gives them an opportunity to adopt already elaborated "tailored" strategies of structural transformation, innovation and enhancement of standards of living.

The catch-up process and development in BRICS can be observed on the basis of per capita GDP and HDI index growth, (cf. Section 3.1), which reflects the population's improved living standards. Inward and Outward Foreign Direct Investments (FDI) are additionally important growth factors. From the perspective of FDI, increased interest in the BRICS members since 2000 can be observed. FDI into China, Russia and Brazil increased by 8%, 6% and 4% of world share, respectively. The investments were directed from developed countries and major trading partners, with an exception of China, where almost half of inward investments were made by Hong Kong SAR. As per FDI directed from BRICS countries, over the period from 2005 to 2013, China and Russia were the most active investors increasing their outward FDI from some 0.2% in 2000 to over 7% of world share in 2012. However, these investments were directed to "tax haven" zones, such as the Cayman Islands or Cyprus. (cf. Chart 9, and Tables 10 and 13-17).

The growth of the research and development (R&D) sphere is another important factor for the catch-up process. During the last decade, China has doubled its investments into domestic R&D, at the same time its export volumes for high technology products have increased by one third. So far, Russia and Brazil have also slightly increased their investments into R&D since the year 2000, while on the hand export volumes of high-tech products decreased. The progress of India and South Africa in this area remains at the same level as in 2000. (cf. Table 19).

Since the end of the twentieth century, BRICS countries—led by China and India—are maintaining their continuous growth significantly ahead of the US and G7 countries' growth rates (cf. Charts 7 and 8). This growth was largely due to their cheap low-skilled labor pool. The high-income countries, attracted by a cheap labor force, were gaining the comparative advantage by low-skilled technologies and know-how outsourcing to the developing countries. This paper has presented the evaluation of the technology-intensive skill level growth in BRICS countries (cf. Chart 20). Based on the presented research outcomes it can be concluded that the BRICS members are rather net consumers, importing more sophisticated manufactures than they produce. The common feature is a clear prevalence of low-skill and technology intensive manufactures exports. China, and to a lesser extent Brazil, tend to increase the skill-level: it shows the major specialization on medium and high skill electronics production already starting in the mid-90's. Moreover, the research shows that since the year 2000, China is the only BRICS member that has started to implement production of new technologies moving to the level of high-volume, high-skill technology manufacturers. Russia, India and South Africa show a declining trend in this respect.

Each BRICS member experiences the catch-up process in their own way. Brazil caught-up in aircraft and motor vehicles production. The competitiveness of these state-owned industries remains strictly protected by the government. In addition, Brazil develops unique sectors, such as bio-fuel production. Russia, in the author's opinion, does not fit the catch-up terminology. It has its own developmental trajectories which are above all focused on domestic industries. India, thanks to its educated English-speaking and cheap labor force enjoys long-term demand for its services, mostly in area of IT. The country also has a dynamically developing pharmacological sphere, which is largely invested into by US, French and increasingly Chinese companies. As presented above, China so far has performed catch-up process on the largest scale. With the continuous growth of the indicator presented China has, in pursuit of its comparative advantage, established a good chance of becoming a “Leading Dragon” for low-income countries, e.g. as it has shown by directing large investments into Brazilian and South African infrastructure. The level of production portfolio in China is changing, and wages and demand are growing. Similar to both Russia and Brazil, South Africa is a natural-resources oriented economy. The country engaged in low-skill production processes and has a dynamically growing machinery industry. Yet, the country is still preparing for its catch-up by first aiming to solve numerous internal issues.

The facts presented above indicate that during the past decade, BRICS countries have undergone a process of fast growth. To some extent China, Brazil and Russia have shown investment capacities, improvement of technologies and skill-level in the area of manufacturing. This can be considered as a successful start on the road to development; at the same time, the countries have just begun their journey and this performance is still not sufficient in order to support sustainable growth among BRICS members. China has shown the most impressive performance among the group members. In my opinion, it may possibly become the “leading dragon” for South Africa, India and Brazil—if their political and economic issues are resolved. Russia might benefit from trading in natural resources or some shared industries, but with its higher income levels this will not involve transfer of technologies.

The last hypothesis of this thesis was that the *BRICS group will transform into an economic union with its own financial mechanism in order to confront the influence of the US dollar as well as global American economic influence in general.*

Today, the BRICS group does not have a precise format: It exists more as an international club of developing countries. It is not supported by a single unifying institution. Despite the fact that trade volumes between the member states are growing rapidly, a single free trade agreement has yet to be signed between the countries. The reason for this could be fear of losing competitiveness, mainly against cheap Chinese commodities.

Beyond the simple economic growth concept as suggested by Goldman Sachs, the idea of BRICS was that of the formation of an alternative model for global governance. One of the most pressing issues for BRICS members has been the enforcement of reforms of the global financial system. The target of this reform would be to push US dollar from the perspective of a single accounting unit of wealth in the world. This could possibly lead to a division of the global market into several currency areas, where the US dollar, guaranteed mainly by the military power of USA, would lose its status as a major global currency, becoming but regional one. The US dollar would no longer be the hegemony factor in a unipolar world.

Driven by this goal, the countries have agreed on the establishment of a BRICS Development Bank, with quota increases for the emerging markets in international financial institutions, in addition to the formation of a currency reserve pool and ensuring the conversion of intra-BRICS transactions into national currencies²⁰². During the G20 summit in Washington, BRICS countries presented their intention to reform the Bretton Woods institutions. As an outcome, Washington summit participants have decided to increase participation of developing countries in the Financial Stability Forum (FSF)²⁰³.

Indeed, emerging powers are calling for more influence at the international level and seek to protect their increasingly expanding global interests. BRICS countries increasingly contribute to international public goods, global GDP and IMF financial resources. To achieve their goal, they will have to cooperate on a large scale with international and Western-led institutions, such as the UN, IMF and WTO. Therefore, in the author's opinion, mutual benefit can be achieved through the advancement of policies and process of norm adoption. In this context, much depends on the political will of the countries' leaders to cooperate, as well as on domestic and international public support for this unique project. The BRICS countries are the most dynamic economies in the world—the rising giants—therefore, increasing interdependence between them is to be expected.

202 Source: United Nations Conference on Trade No. 215. "A BRICS Development bank: dream coming true?". Issued on March 2014. Available on: http://unctad.org/en/PublicationsLibrary/osgdp20141_en.pdf Quoted on 20.09.2014.

203 Donelly, S. "Institutional Change at the Top: From the Financial Stability Forum to the Financial Stability Board". Available on: http://www.utwente.nl/bms/pa/staff/donnelly/ch11_donnelly.pdf Quoted on 20.09.2014

LIST OF ABBREVIATIONS

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AU	African Union
CRA	Contingent Reserve Arrangement
EU	European Union
IBSA	India - Brazil - South Africa Dialogue Forum
IT	Information Technologies
G7	Group of seven
G20	Group of twenty
HIV	Human Immunodeficiency Virus
HDI	Human Development Index
IMF	International Monetary Fund
FDI	Foreign Direct Investments
FSF	Financial Stability Forum
GDP	Gross Domestic Product
NDB	New Development Bank
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
R&D	Research and Development
SADC	Southern African Development Community
SCO	Shanghai Cooperation Organization
UN	United Nations
UNASUR	Union of South American Nations
USA	United States of America
WHO	World Health Organization
WTO	World Trade Organization

List of attachments

Attachment No. 1: Goldman Sachs initial research. Size of GDP for the twenty leading economies of the world based on both PPP and current prices at the end of 2000 (Table).

Attachment No. 1.1: Highlights the comparison with BRIC emerging economies in both PPP and current prices of 2000 (Table).

Attachment No. 2. Per Capita GDP by World Region 1820 - 2003 (Graph).

Attachment No. 3: Global growth illustration with estimation for future development. (Chart).

Attachment No. 4: BRICS, sectoral analysis for 2013. (Table).

Attachment No. 5: R&D expenditures and high technology export in BRICS, 2005 - 2012. (Chart)

Attachments

Attachment No. 1: Goldman Sachs initial research. Size of GDP for the twenty leading economies of the world based on both PPP and current prices at the end of 2000 (Table).

Source: Goldman Sachs, Global Economics Website, Paper No. 66 by Jim O'Neill issued on 30th of November, 2001. Available on: <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf>

	GDP (PPP Weights ¹); 2000 US\$bn	Share of World Total (%) (1)	GDP (Current Prices); 2000 US\$bn	Share of World Total (%) (2)	Difference in Share (1-2)	Population (mns)	GDP Per Capita (current prices)
United States	9,963	23.98	9,963	33.13	-9.15	281.42	35,401
China	5,230	12.59	1,080	3.59	9.00	1,266.80	852
Japan	3,319	7.99	4,760	15.83	-7.84	126.87	37,515
India	2,104	5.06	474	1.58	3.49	1,002.14	473
Germany	2,082	5.01	1,878	6.25	-1.23	82.02	22,898
France	1,458	3.51	1,289	4.29	-0.78	58.89	21,890
UK	1,425	3.43	1,417	4.71	-1.28	59.50	23,810
Italy	1,404	3.38	1,077	3.58	-0.20	57.53	18,719
Brazil	1,214	2.92	588	1.96	0.97	167.72	3,507
Russia	1,120	2.70	247	0.82	1.88	145.49	1,696
Canada	903	2.17	699	2.33	-0.15	30.75	22,747
Mexico	890	2.14	574	1.91	0.23	97.36	5,901
Spain	797	1.92	560	1.86	0.05	39.47	14,190
Korea	770	1.85	457	1.52	0.33	47.27	9,678
Indonesia	696	1.68	154	0.51	1.16	210.49	730
Australia	523	1.26	382	1.27	-0.01	19.16	19,933
Taiwan	477	1.15	310	1.03	0.12	22.32	13,899
Turkey	437	1.05	203	0.67	0.38	67.38	3,007
Thailand	430	1.04	122	0.41	0.63	62.32	1,956
Netherlands	416	1.00	370	1.23	-0.23	15.86	23,334
World	41,552	100	30,073	100	-	6,073.00	4,952
of which: G7	20,555	49	21,082	70	-20	692.66	30,437
Euroland	7,231	17	6,027	20	-3	304.07	19,820

¹ US used as benchmark for computing GDP in PPP terms

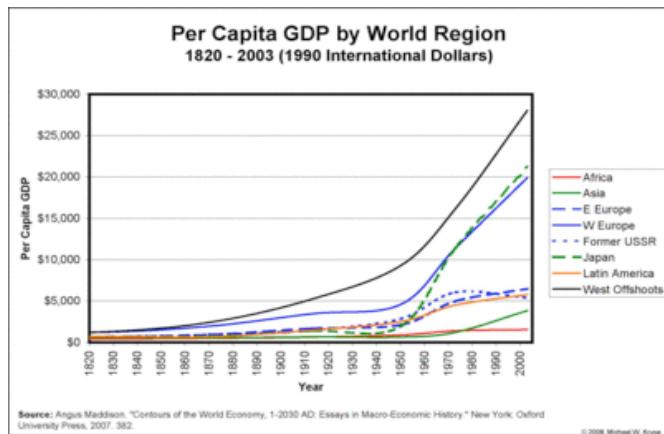
Attachment No. 1.1: Highlights the comparison with BRIC emerging economies in both PPP and current prices of 2000 (Table).

Source: ibid.

	PPP Weight (1)	Current GDP Weight (2)	Ratio (1/2)
China	12.59	3.59	3.51
India	5.06	1.58	3.20
Brazil	2.92	1.96	1.49
Russia	2.70	0.82	3.29
Total	23.27	7.95	

Attachment No. 2. Per Capita GDP by World Region 1820 - 2003 (Graph).

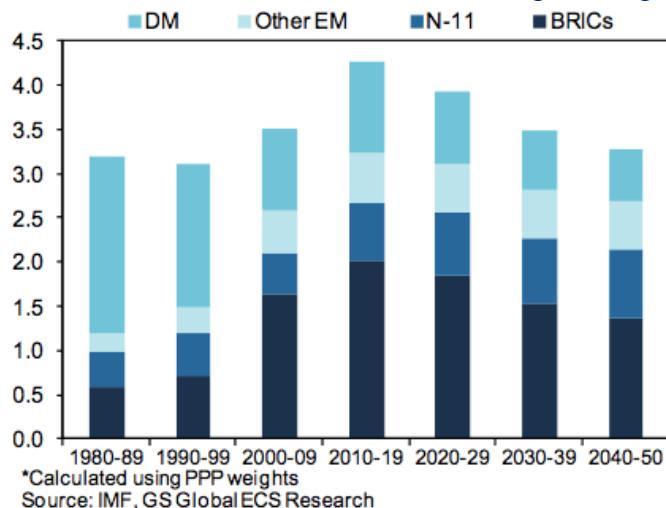
Source: Maddison, Angus. "Contours of the World Economy 1-2030 AD : Essays in Macro-Economic History". (p.304). Oxford University Press UK (2007).



Attachment No. 3: Global growth illustration with estimation for future development. (Chart)

Abbreviations: DM - developed markets; Other EM - other emerging markets; N-11 - next 11 emerging economies. (Chart)

Source: GS global ECS research form December, 2011. Available on: <http://blogs.univ-poitiers.fr/obouba-olga/files/2012/11/Goldman-Sachs-Global-Economics-Paper-208.pdf>



Attachment No. 4: BRICS, sectoral analysis for 2013. (Table)

Definitions: Intermediate goods - “... is a good or service that is used in the eventual production of a final good, or finished product. These goods are sold by industries to one another for the purpose of resale or producing other goods”²⁰⁴; Consumer goods - “Products that are purchased for consumption by the average consumer. Alternatively called final goods, consumer goods are the end result of production and manufacturing and are what a consumer will see on the store shelf”²⁰⁵; Capital goods - “Any tangible assets that an organization uses to produce goods or services such as office buildings, equipment and machinery. Consumer goods are the end result of this production process”²⁰⁶.

Source: CIA, World Factbook. Available on: <https://www.cia.gov/library/publications/the-world-factbook/> ; World Bank database, WITS, Available on: <http://wits.worldbank.org/> Quoted on 29.06.2014.

Brazil			Russia		
	Share of GDP (%)	5,5		Share of GDP (%)	4,2
Agriculture	Share of employment (%)	15,7	Agriculture	Share of employment (%)	9,7
	Exports (%)	32,2		Exports (%)	5,5
	Imports (%)	4,6		Imports (%)	12,9
	Share of GDP (%)	26,4		Share of GDP (%)	37,5
Industries	Share of employment (%)	13,3	Industries	Share of employment (%)	27,8
	Exports (%)	52,7		Exports (%)	82,3
	Imports (%)	68,3		Imports (%)	59,3
	Share of GDP (%)	68,1		Share of GDP (%)	58,3
Services	Share of employment (%)	71	Services	Share of employment (%)	62,5
	Exports (%)	15,3		Exports (%)	12,2
	Imports (%)	26,9		Imports (%)	27,7
	Exports (%)	43,5		Exports (%)	41,2
Raw materials	Imports (%)	11		Imports (%)	5,7
	Exports (%)	26,2	Intermediate goods	Exports (%)	16,9
Intermediate goods	Imports (%)	26,9		Imports (%)	7,1

²⁰⁴ Source: <http://www.investopedia.com/terms/i/intermediate-good.asp> Quoted on 30.06.2014.

²⁰⁵ Source: <http://www.investopedia.com/terms/i/intermediate-good.asp> Quoted on 30.06.2014.

²⁰⁶ Source: <http://www.investopedia.com/terms/i/intermediate-good.asp> Quoted on 30.06.2014.

Consumer goods	Exports (%)	13,1
	Imports (%)	27,6
Capital goods	Exports (%)	14,2
	Imports (%)	33,8
India		
Agriculture	Share of GDP (%)	16,9
	Share of employment (%)	49
	Exports (%)	6,1
	Imports (%)	4,3
Industries	Share of GDP (%)	17
	Share of employment (%)	20
	Exports (%)	59,8
	Imports (%)	73,7
Services	Share of GDP (%)	66,1
	Share of employment (%)	31
	Exports (%)	34
	Imports (%)	21,8
Raw materials	Exports (%)	10,9
	Imports (%)	41,5
Intermediate goods	Exports (%)	29,2
	Imports (%)	30
Consumer goods	Exports (%)	47
	Imports (%)	9,6
Capital goods	Exports (%)	11,6
	Imports (%)	15,8

Consumer goods	Exports (%)	35,8
	Imports (%)	10,3
Capital goods	Exports (%)	3,3
	Imports (%)	3,5
China		
Agriculture	Share of GDP (%)	9,7
	Share of employment (%)	34,8
	Exports (%)	3
	Imports (%)	6,6
Industries	Share of GDP (%)	45,3
	Share of employment (%)	29,5
	Exports (%)	87,2
	Imports (%)	79,8
Services	Share of GDP (%)	45
	Share of employment (%)	35,7
	Exports (%)	9,7
	Imports (%)	13,7
Raw materials	Exports (%)	1,7
	Imports (%)	28,6
Intermediate goods	Exports (%)	15,8
	Imports (%)	18,7
Consumer goods	Exports (%)	35,7
	Imports (%)	11,3
Capital goods	Exports (%)	45
	Imports (%)	37,2

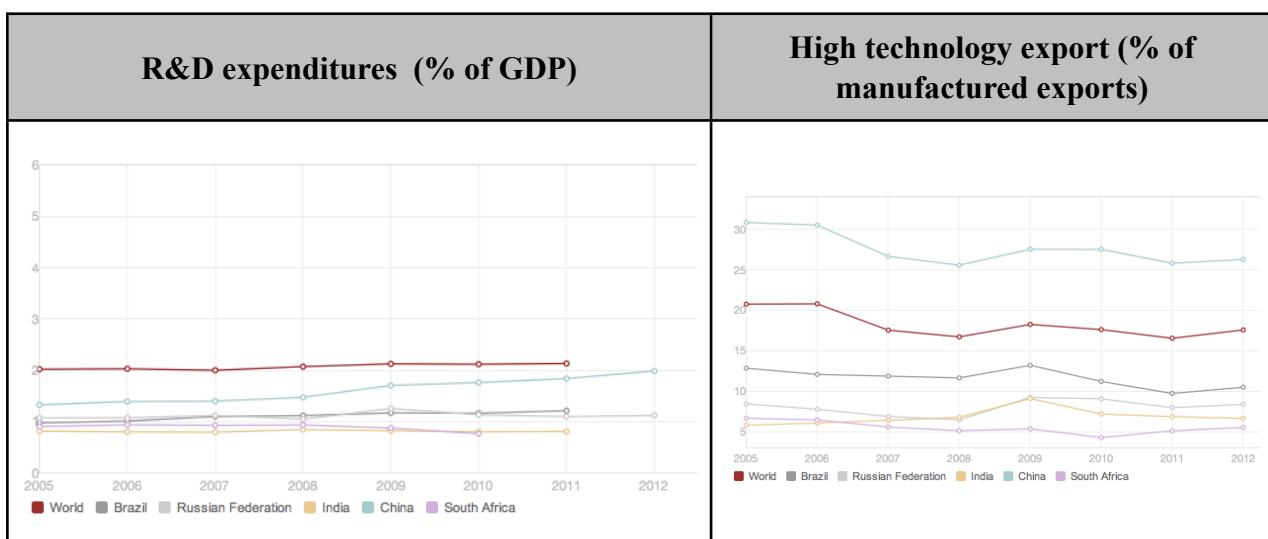
Agriculture	Share of GDP (%)	2,6
	Share of employment (%)	9
	Exports (%)	10,1
	Imports (%)	6
	Share of GDP (%)	29
	Share of employment (%)	26

Industries	Exports (%)	71,6
	Imports (%)	75,1
Services	Share of GDP (%)	68,4
	Share of employment (%)	65
	Exports (%)	18,2
	Imports (%)	18,8
Raw materials	Exports (%)	31,2
	Imports (%)	0,4
Intermediate goods	Exports (%)	39,7
	Imports (%)	2,7
Consumer goods	Exports (%)	14,2
	Imports (%)	14,4
Capital goods	Exports (%)	14,6
	Imports (%)	2,8

Attachment No. 5: R&D expenditures and high technology export in BRICS, 2005 - 2012.

(Chart)

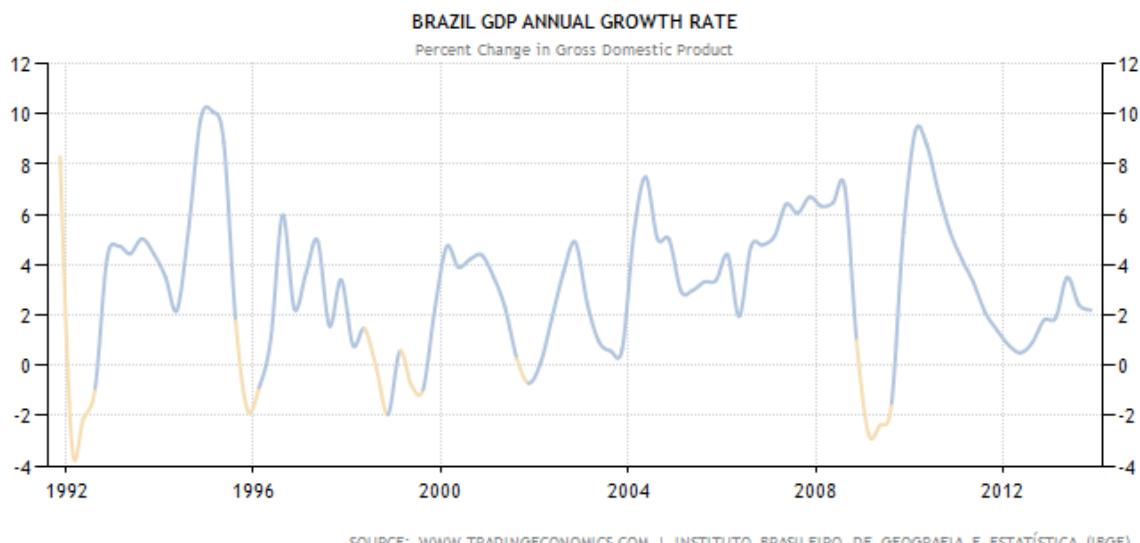
Source: World Bank data. Available on: <http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS/countries/1W-BR-RU-IN-CN-ZA?display=graph> Quoted in 15.12.2014.



Attachment No. 6: BRICS countries, GDP annual growth rates based on gross domestic product in the period of 1990 - 2013*. (Chart)

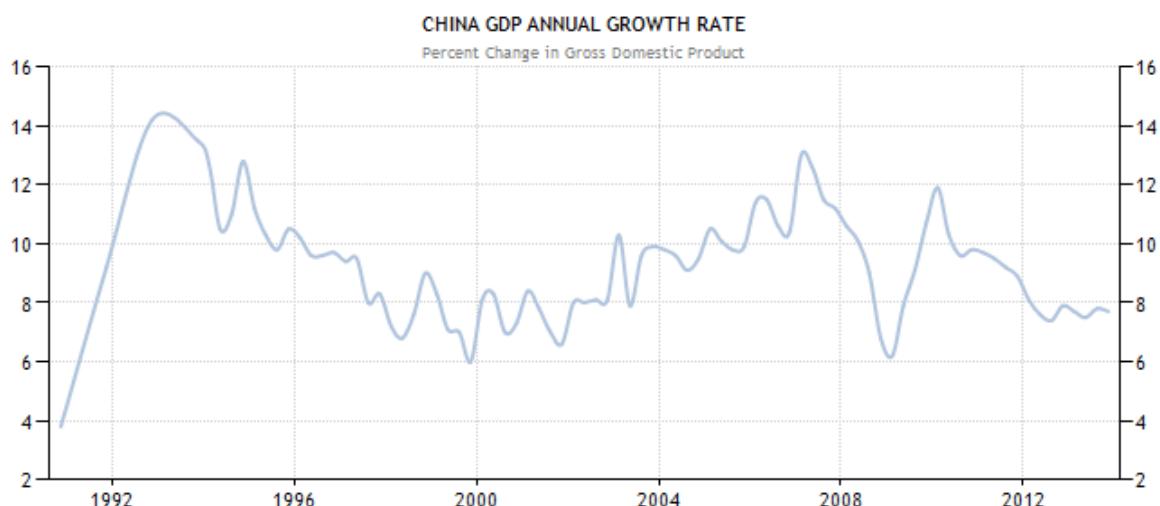
Source: Trading Economics, Instituto Brasileiro de Geografia e Estatística, Russian Federal State Statistics Service, Indian Ministry of Statistics and Programme implementation, National Statistics of China, Statistics South Africa. Available on: <http://www.tradingeconomics.com/> Quoted in 29.08.2014.

* Data for Russia are available since 1996; Data for South Africa are available since 1992.





SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSPI)



SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA



SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA