China in the BRICs: Pursuing Closer Cooperation, Not Hegemony

LYE Liang Fook and ZHANG Yang*

The world economic crisis has thrust the emerging economies of Brazil, Russia, India and China into the international limelight. A deeper look at the economic figures reveals much imbalance among them, especially between China and the other three. The BRICs also face intractable challenges on the political front that hobble its effectiveness as a close-knit group. The potential for the BRICs to exert increasing influence is contingent on them working within the existing world order to effect changes from within.

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unscathed and seemed to offer the brightest sparks when the global economy was in its doldrums. This has led some analysts to regard them as the new growth engine of the world.

In a sign of their rising political significance, the BRIC leaders have met regularly since the crisis struck. They met for their first BRIC summit in Yekaterinburg (Russia) in June 2009. Their second summit was held in Brasilia (Brazil) in April 2010 where they called for a multi-polar, equitable and democratic world order and reaffirmed the central role of G-20 (of which they are members) in combating the crisis. To sustain the momentum, Beijing has offered to host the third summit in 2011.

In terms of size and economic potential, the BRICs are also making their presence felt. The Economic Intelligence Unit EIU has forecasted these four economics to grow robustly at a respective 5.5%, 4.5%, 7.7% and 9.7% in 2010. Goldman Sachs Chief Economist Jim O’Neill, who coined the BRIC term in 2001, predicted confidently in June 2009 that the global crisis has meant that China and other emerging markets will overtake the developed economies even more quickly. He added that “we now conceive of China challenging the US for the number one slot by 2027” and the combined GDP of the BRICs “being potentially bigger than that of the G7 within the next 20 years”.

The rise in the relative economic clout of the BRICs is beyond doubt. What is less certain is whether they can build on this new found status to cooperate for mutual benefit. They have very little in common economically. China’s economy is bigger than the other three combined. The bulk of the group’s trade is also more with non-BRIC countries than among themselves. In particular, China’s dependence on intra-BRIC trade constitutes only six percent of its world trade. The nature of their economies is also different. China and Russia have more open economies, with exports accounting for around a third of their GDP. India and Brazil are more closed, with exports less than a fifth of GDP.

A more serious obstacle to their cohesiveness lies in their strategic rivalries and different aspirations. Among the four, the rivalries between China and Russia, and between China and India are most pronounced. Little strategic interests unite China and Brazil except for the mutual benefits derived from bilateral trade and investment.

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also would not allow this to happen although it is open to China assuming greater responsibilities on the world stage. In contrast, Russia seems most eager for the BRICs to become a more assertive political grouping.

The differences among the BRICs prevent them from becoming a closely-knit grouping. Despite these constraints, the BRICs can exert some influence if they can get their act together especially on the economic and financial fronts. Their views may be increasingly taken on board by bigger groupings like the G8 (which excludes China, Brazil and India) and more importantly the G-20.

**Background to the BRICs**

The term BRIC was coined by Goldman Sachs Chief Economist Jim O’Neill in 2001 to describe the growing power of emerging market economies. In 2003, the BRIC term gained greater currency following a Goldman Sachs assessment report (supervised by Jim) titled “Dreaming with BRICs: The Path to 2050” that predicted what the world would look like by 2050. More specifically, the report predicted that by 2039, the combined economies of the BRICs would overtake the G6, namely, the US, Japan, UK, Germany, France and Italy. In a more recent study published in December 2009, however, Goldman Sachs revised its projections upwards by asserting that the BRICs could become as big as G7 by 2032, seven years earlier than originally predicted.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>SNAPSHOT OF THE BRICS</th>
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<tr>
<td></td>
<td>Population*</td>
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<tr>
<td></td>
<td>mn</td>
</tr>
<tr>
<td>Brazil</td>
<td>194</td>
</tr>
<tr>
<td>Russia</td>
<td>141</td>
</tr>
<tr>
<td>India</td>
<td>1,198</td>
</tr>
<tr>
<td>China</td>
<td>1,346</td>
</tr>
<tr>
<td>BRICs</td>
<td>2,879</td>
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<tr>
<td>World</td>
<td>6,829</td>
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</tbody>
</table>

Sources: Population Division, Department of Economic and Social Affairs, United Nations; United Nations Demographic Yearbook 2006 (released in August 2008); World Economic Outlook Database, IMF, April 2010.

Note: Surface area, expressed in square kilometres, refers to the total surface area, comprising land area and inland waters (i.e. major rivers and lakes) and excluding the polar areas as well as uninhabited islands.

** The five-year average growth of GDP is calculated using data from 2005 to 2009.
* Denotes figures for 2009.
In quantitative terms, the BRICs have great potential. Their combined population accounted for over 42% of the world’s total in 2009. They also account for over 28% of the world’s total surface area (Table 1).

The BRICs have also enjoyed robust economic growth since the BRIC term was first used. Russia and Brazil had performed well until the crisis, with an average GDP growth rate of 7.1% and 4.2% respectively from 2003 to 2008. The rate was 10.8% for China and 8.7% for India. See Figure 1.

Due to rapid economic growth in recent years, the BRICs together accounted for over 15% of the world’s total GDP in 2009, double the figure of 7.4% a decade ago in 1999. During this period, each of the BRIC countries witnessed an increase in its share of the world GDP measured in market exchange rate. In contrast, six of the G7 nations (except for Canada) experienced a drop in their share of the world GDP (Figure 2). Most notably, China’s share of the world’s GDP in 2009 surged past most of the G7 nations to the third spot at 8.5%, just behind Japan’s share of 8.7% and the US’ share of 24.6%.

Along with this staggering rise in their global economic importance, the BRICs have also in the past few years transformed themselves from an abstract notion into a more formal political grouping, with their leaders meeting at regular summits and issuing joint communiqués. See Table 2 for details.

The onset of the world economic crisis provided the impetus for the BRICs to step up their cooperation. Besides the regular Foreign Ministers’ Meeting, the BRIC finance ministers met for the first time in Sao Paolo (Brazil) in November 2008 where they recognised the “significant resilience” of the BRIC countries to the world economic crisis and urged further vigilance and coordinated action to deal with the crisis.
Elevating their relationship further, the BRIC leaders met for the first time in Yekaterinburg (Russia) in June 2009 and called for reform of the international financial institutions, a UN reform and a more democratic and just multi-polar world order. They met again in Brasilia (Brazil) in April 2010 and are scheduled to meet in Beijing in 2011. The BRIC countries have also expanded their interactions to include ministers, senior officials and representatives from various sectoral bodies such as agriculture, central banks, supreme courts, statistical bureaus, cooperatives, business and even think-tanks.

**China’s Economic Profile in the BRICs**

As a grouping, the economic strength of the BRICs is impressive. As mentioned earlier, their combined GDP was over 15% of the world’s total in 2009, double the 7.4% figure in 1999. This gain in global economic stature is all the more significant due to the declining share of G7 in world’s total GDP. The relative importance of the BRICs and G7 on the global economic landscape has been changing at a dramatic pace (Figure 3). In 2010, China has overtaken Japan as the world’s second largest economy. Meanwhile, Brazil has overtaken Canada, and India as well as Russia is believed to do so soon. Collectively, the BRICs’ share of the global economy is expected to reach 20% in 2013.

However, a deeper look at the economic data of the BRICs reveals much imbalance among them, especially between China and the other three. In other words, China overshadows and will continue to overshadow the other BRICs. For one, the Chinese economy is larger than the three others combined (Figure 4). In 2009, the size of China’s economy measured in real GDP at 2005 prices reached US$3,425 billion,
## TABLE 2 SELECTED KEY MEETINGS OF THE BRICS

<table>
<thead>
<tr>
<th>Date</th>
<th>Venue</th>
<th>Meeting Details/Topics</th>
<th>Remarks</th>
</tr>
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<tbody>
<tr>
<td>Sep 2006</td>
<td>New York</td>
<td>-</td>
<td>BRIC Foreign Ministers’ Meeting on the margins of the 61st session of United Nations General Assembly (UNGA)</td>
</tr>
<tr>
<td>24 Sep 2007</td>
<td>New York</td>
<td>Agreed to closer interaction of representatives of BRIC in international organisations to coordinate stance on specific issues of interest</td>
<td>BRIC Foreign Ministers’ Meeting on the margins of the 62nd session of UNGA</td>
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<tr>
<td></td>
<td></td>
<td>BRIC Foreign Ministers to meet yearly (parallel to the opening of the UNGA)</td>
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<tr>
<td>10-11 Mar 2008</td>
<td>Rio De Janeiro, Brazil</td>
<td>Prepare for the BRIC Foreign Ministers’ Meeting in May 2008</td>
<td>Meeting of the vice foreign ministers of BRIC</td>
</tr>
<tr>
<td>16 May 08</td>
<td>Yekaterinburg, Russia</td>
<td>Called for more democratic international system, UN reform, cooperation in counter-terrorism, energy security and climate change</td>
<td>First stand-alone meeting of BRIC foreign ministers</td>
</tr>
<tr>
<td>9 Jul 2008</td>
<td>Hokkaido, Japan</td>
<td>At Russia’s initiative, the BRIC leaders agreed to a full scale BRIC Summit</td>
<td>They met at the sidelines of the G8 Summit in Hokkaido.</td>
</tr>
<tr>
<td>25 Sep 2008</td>
<td>New York</td>
<td>Discussed climate change, financial sector cooperation, Millennium Development Goals (MDGs), South-South cooperation, energy and food security</td>
<td>BRIC Foreign Ministers’ Meeting on the margins of the 63rd session of UNGA</td>
</tr>
<tr>
<td>7 Nov 2008</td>
<td>Sao Paulo, Brazil</td>
<td>The BRIC finance ministers noted the “significant resilience” of their economies to the current crisis. They also called for reform of the multilateral institutions to reflect the structural changes to the world economy and the increasingly central role that emerging markets play.</td>
<td>First Meeting of BRIC Finance Ministers. They subsequently met again in London on 13 March 2009.</td>
</tr>
<tr>
<td>26 Nov 08</td>
<td>Rio De Janeiro, Brazil</td>
<td>Russian President Dmitry Medvedev and his Brazilian counterpart Luiz Inacio Lula da Silva called for the First BRIC Summit in Russia in 2009</td>
<td>The Russian President was in Brazil for a bilateral visit.</td>
</tr>
<tr>
<td>14 Jun 2009</td>
<td>Yekaterinburg, Russia</td>
<td>Called for reform of international financial institutions, upholding of the multilateral trading system, commitment to multilateral diplomacy and UN reform.</td>
<td>First BRIC Summit meeting of the leaders</td>
</tr>
<tr>
<td>24 Sep 2009</td>
<td>New York</td>
<td>Sought to coordinate common approaches to topical problems of world development, food and energy security, overcoming the consequences of the global economic crisis and fighting climate change.</td>
<td>BRIC Foreign Ministers’ Meeting on the margins of the 64th session of UNGA</td>
</tr>
<tr>
<td>15 Apr 2010</td>
<td>Brasilia, Brazil</td>
<td>Called for reform of international institutions</td>
<td>Second BRIC Summit</td>
</tr>
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Source: Compiled by authors
whereas the figures for the other three stood at US$1,017 billion for Brazil, US$1,088 billion for India and US$886 billion for Russia. China’s GDP is more than double that of each of the other three.

Apart from GDP, China also tops the BRICs in terms of its growth momentum. Indeed, China has outperformed the other three by a wide margin over the last decade.
From 1999 to 2009, real GDP growth averaged 9.6% in China, seven percent in India, 5.5% in Russia and three percent in Brazil. This trend is likely to continue given China’s high savings rate, rapid pace of urbanisation and strong investment in infrastructure.

China also leads the other BRICs in terms of contribution to global commodity trade, as depicted in Figure 5. Collectively, BRICs’ share of global trade has continued to rise sharply with China at the forefront. This share stood at 26% in 2009, more than double that of its 2007 level. Of this, China itself accounted for three-fourths of the BRICs’ share.

In terms of dependence on intra-trade within the BRIC, China needs the BRICs much less than the other three countries do. While 16.4% of Brazil’s trade in 2009 was with the other three members, the figure for China was merely 6.1% (Figure 6). As a matter of fact, China overtook the US in April 2009 as Brazil’s largest trading partner. Moreover, along the sidelines of the Second BRIC Summit this April, China and Brazil concluded further deals on trade and investments particularly on energy cooperation. Trade ties between these two BRIC members are set to strengthen further.

In terms of trade openness, China is the most highly integrated economy with the rest of the world among the BRICs, with a trade-to-GDP ratio as high as 58% in 2008 (Figure 7). In fact, China’s rapid economic growth has been mainly attributed to the reform and open-up policy implemented since 1978, and particularly on its export orientation. In comparison, for Russia and India, total trade accounted for 44% and 41% of their GDP respectively in 2008. This ratio remained much lower for Brazil at around 22%.

Collectively, the BRICs own nearly half of global foreign exchange reserves, the bulk of which is held by China (Figure 8). Partly, this has provided justification for the
BRICs to call for reform of the existing international financial architecture. In fact, Beijing and Sao Paolo announced plans in May 2009 to settle bilateral trade in *renminbi* and *reals*, bypassing the use of the US dollar. A similar arrangement was announced in July 2009 by Beijing and Moscow to expand use of the *renminbi* and *ruble* in their trade.

*Source: United Nations Commodity Trade Statistics Database  
*Trade with other BRICs as a share of total trade (exports + imports)*

*FIGURE 6  BRICS’ INTRA-TRADE*  

*FIGURE 7  CHINA THE MOST OPEN BRIC ECONOMY*  

*Source: World Economic Outlook Database, April 2010; United Nations Commodity Trade Statistics Database*
However, as none of those currencies are freely convertible, any trade settlement plans are unlikely to generate immediate and significant impact on the global financial system.

The world economic crisis has speeded up the realignment of the global economy. Within the BRIC markets, Brazil, India and China have weathered the global economic crisis remarkably well; the two countries resume their growth trends and close their output gap faster than many of their developed country counterparts, thus emerging stronger than before (Figure 9). In fact, China has been one of the first economies to rebound from the economic downturn. In contrast, Russia has been more hard hit although it is now on the rebound.

**BRIC Is No Bloc**

The effectiveness of the BRICs can be examined from two angles. The first is whether the BRICs can get their act together on the economic and financial fronts. There appears to be some success. For instance, the BRICs have been vocal in advocating a greater voice and representation for emerging and developing countries in international financial institutions. This call was partly answered in April 2010 when the Development Committee of the World Bank and IMF Boards of Governors endorsed an increase in voting power for developing countries, from 44.06% to 47.19% for the International Bank for Reconstruction and Development (IBRD) of the World Bank.

In this voting power realignment in the IBRD, China is the biggest beneficiary which saw its percentage share increased from 2.77% to 4.42%. This is followed by Brazil (from 2.06% to 2.24%) and India (from 2.77% to 2.91%). Russia’s voting power...
remained unchanged at 2.77%. To be sure, the realignment was to a large extent due to the recognition by the World Bank and IMF of the need to stay relevant by reflecting current realities and less due to the lobbying efforts of the BRICs.

The BRICs have also consistently called for the creation of a more stable, predictable and diversified international monetary system, to be read as seeking other arrangements to gradually reduce dependence on the US dollar. While they generally agree on this broad thrust, they appear divided on how hard to push on this issue. For example, in the lead up to the G-20 London Summit in April 2009, there were calls from individual BRIC countries for an international reserve currency to replace the greenback.

In particular, Russia had suggested in March 2009 to create a supra-national reserve currency that will be issued by international financial institutions. China appeared supportive of such a call as Zhou Xiaochuan, Governor of the People’s Bank of China, had in the same month called for the creation of a “super-sovereign reserve currency” to replace the greenback. Yet, in the joint statement issued after the First BRIC Summit in June 2009, there was no specific mention of a reserve currency, indicating differences among the countries on this issue and the reality that there remains no viable alternative to the US dollar at present. Despite these constraints, the BRIC countries are exploring local currency trade settlement arrangements among themselves to facilitate trade and investment.

On the political front, the BRICs seem to face the most intractable of challenges. Foremost among them are their strategic rivalries and different aspirations. Among the four, the strategic rivalries between China and Russia and between China and India are the most evident. China, Russia and India consider themselves “big” countries with
In terms of political aspirations, China does not want to dominate the BRIC nor does it want the BRIC to develop into a body that challenges or even upsets the existing world order with the US at the helm. This is in line with China’s preoccupation with its domestic agenda and creating a favourable external environment for its economic growth.

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On its part, China is also wary of Russia. The two countries also have disagreements over arms sales and energy security issues. Most notably, although the two countries are members of the Shanghai Cooperation Organisation (SCO), they hold different views over where the SCO should be heading. For instance, Russia generally prefers security cooperation to be the SCO’s primary focus, whereas China attaches priority to economic cooperation. Furthermore, Moscow’s recognition of Abkhazia and South Ossetia’s secession from Georgia in 2008 had rattled the other SCO members. China was concerned that Moscow’s actions would set an unhealthy precedent for secessionists elements in Xinjiang and Tibet.

As for Sino-Indo relations, India’s humiliating defeat at the hands of China in the 1962 war has left an indelible scar on the Indian psyche. On top of this, there are other bilateral issues that hobble the relationship such as unresolved border disputes (over Kashmir and Arunachal Pradesh), the Tibet issue, China’s support of Pakistan and China’s building of ports in countries nearby to India.

Although the two countries are trying to expand common grounds such as over trade and investment, the undercurrents of suspicion remain palpable. India appears more wary of China’s intentions than the other way round. Little strategic interests unite China and Brazil except for the mutual benefits derived from bilateral trade and investment.

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Future of the BRICs

From an academic term coined in 2001, the BRICs have to some extent succeeded in raising their profile and becoming a more formal grouping. This has been possible due primarily to shifts in the global strategic and economic landscape, hastened by the recent world economic crisis.

On their part, the BRICs have been quick to recognise these shifts and taken proactive measures to try to get their act together. They have elevated their engagement from the ministerial to the leaders’ level. They have also progressed from convening at the sidelines of UN meetings to stand-alone meetings. They have even expanded their interactions beyond the political and economic sectors.

Other major world players, such as the US and EU, are also keen to engage the BRICs and to rope them into the decision–making process at the international level. Hence, the formal decision at the Pittsburg Summit in 2009 that designated the G-20 (where the BRICs are members) as the premier forum for international economic cooperation. The BRICs have met separately and issued joint statements prior to previous G-20 meetings to attempt to speak with one voice especially on economic and financial issues. They are likely to continue this practice.

If they can sustain this momentum, the BRICs may come to exert increasing influence and gradually shape the existing economic and financial order more in line with their interests. However, its effectiveness would be contingent on their willingness to work together within the existing world order to effect changes from within. The US in particular, and to some extent the EU, would also be keeping a close watch to ensure that the BRICs add value to the current order and not evolve into a body directed against them.

The BRICs can more accurately be described as a loose grouping of fiercely independent and nationalistic countries with regional if not world ambitions. Given their individual size and potential, each of them has the option of going it alone if things do not work out as a group. Most of them have historical baggages with one other and are divided by their strategic rivalries and differences. These challenges will constrain the BRICs from becoming a closely knit and influential political grouping.