Little covered in the West, the 8th BRICS summit is a strong opportunity for its members


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Leaders from the five BRICS countries met in Goa, India on October 15 and 16. Little covered in the West, the summit was big news in the BRICS countries themselves, most of all in the host country. India’s prime minister Narendra Modi took advantage of the BRICS podium to label neighboring Pakistan the “mother ship of terrorism,” sparking international outrage and creating an awkward moment for China’s president Xi Jinping. China is a major backer of infrastructure projects in Pakistan, a historic enemy of India.

India’s Modi is not the only one of the BRICS leaders facing serious challenges. Brazil’s president Michel Temer faces a severe recession and a nationwide corruption crisis that drove his predecessor from office earlier this year. Russia’s president Vladimir Putin is managing a war in Syria for which he faces American allegations of war crimes. And South Africa’s Jacob Zuma faces new corruption allegations that may finally end his walking-dead presidency.

In a summit dedicated to “building responsible, inclusive and collective solutions” perhaps the best news to emerge was that Russia would be helping India modernize its transportation and urban infrastructures. India’s cities are in desperate need of the kinds of services that Russians and others living in developed countries take for granted. Russia’s defense cooperation with India usually grabs the headlines, but civil cooperation of the kind that emerged from Goa will have a much deeper long-term impact for both countries.

Russia and India are, respectively, the richest and the poorest of the BRICS economies. They also have relatively isolated economies: unlike China, they are not deeply integrated into cross-border production networks. This makes cooperation between Russia and India particularly beneficial for both sides. Russia possesses economic expertise that is underutilized in international trade, while India has massive development needs that are not being met by international investors. China, Brazil, and South Africa rely heavily on Western expertise to meet their development needs. India hosts few international companies outside its service sector and is in desperate need of industrial and infrastructural advice.

India is the only one of the five BRICS countries that is currently experiencing robust economic growth. But this is more a sign of poverty than a sign of health: India’s output per person is less than one-third of South Africa’s – and one-sixth of Russia’s. That makes India one of the great potential growth stories of the next quarter-century. With so little Western investment going to India, Russia has the opportunity to benefit enormously from India’s economic rise to middle-income status. Brazil and South Africa are too small and too far away to offer real opportunities for Russian investment. China is so closely integrated into Western production networks that it doesn’t really need Russian expertise. But India is a different story.

The economic growth of all five BRICS countries was truly impressive in the first years of the new millennium. But viewing the BRICS economies individually and over a longer time frame yields different insights. First, Brazil and South Africa haven’t done very well at all over the long term. They’ve been bouncing up and down between 20 and 40 percent of US levels of GDP per capita for as long as such data have existed, at least since the 1960s. South Africa’s economy declined
dramatically throughout the late Apartheid era and only began to recover several years after its
transition to full democracy in 1994. It’s post-Apartheid investment boom lasted little more than a
decade.

Second, Russia’s own dramatic growth in the first decade of the new century can be seen as
primarily a bounce back from Russia’s equally dramatic decline in the last decade of the old century.
There is no doubt that Russia’s transition from communism to capitalism was accompanied by
massive economic dislocation. Whether or not the “shock therapy” of the early 1990s was a
necessary or appropriate policy for Russia can be and has been debated, but there can be little
doubt that Russia’s high rate of economic growth after 1999 is due at least in part to a return to
Russia’s previously established levels of output. Between 1992 and 1998 Russia’s labor force
participation rate fell from 70 percent to 61 percent, suggesting a sharp drop in capacity utilization.
Since 1998 it has returned to 69 percent, the highest in the BRICS and much higher than in the
United States.

Third, India and China are the only two of the five BRICS countries that have experienced consistent
growth spanning the last quarter century. Both started their current trajectories following major
reforms that opened their economies to the outside world. The Communist Party of China officially
heralded the beginning of the reform era in its historic December 22, 1978 communique, in which it
exhorted the Chinese people to “advance courageously to make a fundamental change in the
backward state of our country.” The rest is history. India, by contrast, had a much less extreme break
with the past following a 1991 foreign exchange crisis. In the 1990s India liberalized its currency,
dismantled its system of import licensing, and eliminated many government monopolies, especially
monopolies for the sale of imported goods. There was also widespread industrial deregulation.

The five BRICS countries are growing to similar levels of GDP per capita even as they remain very
different in economic structure. For example, Brazil has a very large service sector (71 percent of
GDP, similar to European levels) while China’s economy is built around massive levels of investment
(44 percent of GDP, among the highest in the world). Brazil has very high levels of government debt
(65 percent of GDP) while Russia has very low levels (18 percent). India and South Africa still have
very large agricultural sectors (both 18 percent of GDP) while Brazil and Russia no longer do (6
percent and 4 percent). Brazil is a major agricultural exporter even though agriculture accounts for a
relatively small portion of Brazil’s total economy. Brazil, India, and South Africa routinely run large
trade deficits; China and Russia run large surpluses.

Russia’s economy is particularly distinctive: it is the only one of the BRICS countries that is a major
energy exporter. Oil and gas account for more than two-thirds of Russia’s exports and as much as a
quarter of the entire Russian economy. The 2014 collapse in oil prices cost the Russian economy
dearly – or one might just as well argue that the ninefold increase in oil prices between 1999 and
2011 benefitted the Russian economy mightily. Russia would do well to diversify away from a
dependence on energy exports. Luckily for Russia, the Ruble devaluation of 2014-2015 put it in a
good position to do just that. A low Ruble encourages domestic manufacturing and import
substitution. The more Russia is able to take advantage of this window of opportunity, the better
positioned the Russian economy will be when energy prices eventually return to higher levels.

But a low exchange rate provides only a temporary boost to a country’s economy. To ensure long-
term economic growth, Russia must build partnerships in which it is the senior partner. Russia
should be selling its expertise, not just its energy. India is poor enough to need Russia’s help,
growing fast enough to draw in significant Russian investment, and big enough to make a difference
for Russia. There is nothing wrong with selling energy and weapons to India, but in the long run Russia will benefit much more from deep civil partnerships than from high-level strategic deals.

Russia missed out on China, the first great growth story of the twenty-first century. It should do everything possible to be part of the second great growth story: India.