

Chapter 48

Trade and Economic Integration in BRICS: Towards Multi-Polarity

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ABSTRACT

This chapter examines the existing pattern in the area of trade and economic integration among the BRICS countries which was tended to be neglected and to which there have been few original or significant contributions until now. The research results indicate the presence of the long-run sustainable equilibrium relationship between Foreign Direct Investment (FDI), trade and economic growth. It is thus important that policymakers have to remove obstacles to FDI inflows and improve the respective absorptive capacity of national economies in order to maximize positive growth effects. This study also discusses how China performed well through attracting FDI inflows and maintained trade balance.

INTRODUCTION

The balance of economic power from the West (which dominated during the last four-five centuries) has been dramatically shifting to the East since 2007 when major capitalist developed countries including the USA faced economic recession. As an emerging regional block, BRICS (Brazil, Russia, India, China, and South Africa) plays a significant role through acquiring technological capacity, internalizing capability to exploit resources, and developing infrastructure. The gap between demand and supply is reducing through improving production capacity and distribution networks with the principles of collective self-reliance at the South-South level. BRICS countries have increased their trade, financial and technical cooperation and established distinct ways and means of economic cooperation, especially through south-south cooperation with three continents, namely Africa, Latin America, and Asia. BRICS countries are striving for more economic and political influence, thereby challenging western-dominating “global economic order”, which has maintained currency supremacy of US dollar and Euro through international financial agencies like the World Bank and the International Monetary Fund (IMF) since the Second World War.

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Russia hosted the seventh BRICS summit on July 9–10, 2015, in Ufa, the capital of the Republic of Bashkortostan, gathering the heads of state of the five countries.

Expanding investment cooperation and exploring a strategy for multilateral economic cooperation were the centerpieces of Russia's 2015 agenda in the framework of BRICS. At the 2014 Fortaleza summit, BRICS countries decided to establish the New Development Bank (NDB) and the Contingency Reserve Agreement (CRA). The CRA is especially relevant for addressing the shrinking foreign reserves of Russia.

BRICS has an enormous potential of consumer market, large middle-class, abundant supply of natural resources, well-developed financial parameters, good communication and networks, sound legal system, and modern infrastructure supporting an efficient distribution of goods and services among member states and other developing countries (Vijayakumar, Sridharan, & Chandra Sekhara Rao, 2010).

In terms of combined GDP, BRICS economies put together are already larger than the USA and the European Union (Naude, Szirmai, & Lavopa, 2013). BRICS economies are stable with high growth rates, economic potential and demographic development, and intensified economic cooperation linkages with other developing countries not only with regard to trade and financial flows but also as emerging donors. Europe and the USA were drivers of economic and trade growth in the 19th and 20th centuries, respectively (Sajal, 2013).

BRICS encompasses over 25% of the world's land coverage with 43% of the world's population; holds a combined GDP (PPP) of \$24,000 billion (which increased more than three times in the last fifteen years). Over the past ten years, BRICS countries increased their share of global gross domestic product from 18% to 28%. BRICS' share in global exports is also expected to grow from 12.4% to 20.1% in 2014. BRICS countries hold \$3.93 trillion of foreign reserves, which is over one-third of the global reserves. The overall BRICS focus of development cooperation lies on regional integration and technical assistance with various regional groups in Latin America, Association of Southeast Asian Nations (ASEAN), Asia-Pacific region in Asia, and in African countries. From a purely demographic point of view, India and China have the highest economic prospects due to their huge population and sufficient capital accumulation, which favor and support the BRICS agendas.

However, trade and the current foreign direct investments (FDI) inflow into BRICS are extremely complex. They are subjects to various factors related to the competitive environment. This study intends to examine the patterns of trade, economic growth, as well as the major determinant factors of FDI inflow-outflow. Currently, domestic investment ratios are around 40% and 30% of GDP in China and India, respectively. Investment ratios of Brazil, Russia, and South Africa account to 20-23% of GDP.

The central premise of this study is to investigate FDI and trade both between BRICS countries and internationally, and to assess their combined impact on economic growth within BRICS. There are several studies contributing to the economic literature on the subject. The existing literature includes a number of surveys, case studies, and some empirical studies, which formulate cross-sectional analysis and discover a set of explanatory variables that determine FDI, trade and growth of BRICS. However, some earlier studies investigated the relationship between FDI, trade, and economic growth for transition economies and developing economies as well as for groups like ASEAN and the European Union. Nevertheless, the available research literature pertaining to BRICS countries is still limited. In this context, author's study intends to examine the role of FDI flows and trade in BRICS's economic growth by employing long recent data. Author hopes, that this actual study will contribute largely to the literature on incoming FDI, trade and economic growth in BRICS, and can be extended to other countries as well.

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