



## BRICS Looks at Funding Pool, Money Exchanges

**B**razil, Russia, India, China and South Africa (BRICS) countries are considering setting up a foreign-exchange reserve pool and a currency-swap arrangement as financial problems threaten to spread across the global economy. Leaders of the five-member group – BRICS – is “willing to make a contribution” to increase the International Monetary Fund’s (IMF) ability to rescue troubled economies.

Chinese President Hu Jintao joined his counterparts from other BRICS nations in the Mexican resort city Los Cabos ahead of the start of the G20 Summit. According to the Chinese Foreign Ministry, the leaders discussed the currency swap and foreign-exchange reserve pool ideas and tasked their finance ministers and central bank chiefs to implement them, according to China’s Foreign Ministry.

Swap arrangements, which allow nations’ central banks to lend to each other money to keep markets liquid, and the pooling of foreign-exchange reserves are contingency measures aimed at containing crises such as the one roiling the eurozone, analysts said.

Zhang Yuyan, Director, Institute of World Economics and Politics affiliated with the Chinese Academy of Social Sciences, said the new mechanisms established by the emerging markets themselves, who “know their current conditions and demands much better”.

Amid the global economic slowdown, the pooling of foreign-exchange reserves will help BRICS countries to fight the lack of market liquidity, beef up their immunity to financial crises and boost global confidence, Zhang said. Contributions to this “virtual” bailout fund, as Brazil’s

Finance Minister Guido Mantega put it, would be tied to the size of each BRICS member’s currency reserves, he said.

The five leaders also discussed BRICS’ participation in replenishing the IMF’s lending capital. Hu said the G20 should encourage and support the eurozone countries’ adoption of fiscal controls and spending cuts as efforts to improve confidence in world markets. The leaders also urged the IMF to carry out promised reforms of its quota and governance systems.

Mexico, which was hosting the G20 Summit will use the meeting to press the world’s largest economies to increase IMF resources and build fund’s capacity to intervene in the European debt crisis.

A boost in IMF funding makes sense and gives emerging economies such as China a greater role, according to Yukon Huang, Senior Associate, Carnegie Endowment for International Peace and a former World Bank Country Director for China.

“Support for a larger IMF role solves several problems. Any solution involving the IMF represents a more collective and coordinated approach and is thus less politically driven and more sustainable since it implies that the right policy actions have been agreed on,” said Huang.

“And if the increased liquidity is not enough, then proposals such as a currency swap and pooling of reserves provide other options. These measures were supported by China as well as affected countries during the Asian financial crisis 15 years ago to provide assurance that additional resources could be available if needed,” he said.

The BRICS now boast about 42 percent of the world’s population and more than a quarter of its land. According to IMF estimates, the five had a combined nominal gross domestic product of US\$13.6tn in 2011, about 19.5 percent of the global total.

Since 2010, more than 50 percent of global growth has come from the BRICS, and it has become an important force in easing the international financial and economic crisis, driving regional and global economic growth.



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## Scope to Improve Intra-BRICS Trade

The continuing economic slowdown in European Union, Japan and the US emphasises the role of BRICS as a new global growth engine, an alternative export market, and a key sourcing hub. The economic might of BRICS can be gauged from the fact that it accounted for 42.3 percent of global population, 18.2 percent (25.7 percent on PPP basis) of global GDP, 17.8 percent of FDI and 16.3 percent of global trade in 2010.



However, despite the existence of the huge trade (and investment) potential on account of similar consumer preferences, comparable per capita income, and often complementarities of resource endowment, the intra-regional trade among BRICS nations is not even 10 percent of their total trade.

Expansion of India-Mercosur PTA into a comprehensive economic pact covering trade in goods, services and investment, as well as India-South Africa Customs Union trade agreement, will help increasing India's trade with Brazil and South Africa. Russia's entry into the WTO fold will open up the huge markets of Russian customs union for businesses. (BL, 03.04.12)

### Brazil-Indian Trade to Expand by 2015

In search of expansion for economic and trade relations, the governments of Brazil and India have adopted a strategic partnership encompassing health, education, science and technology, defence, agriculture, social and environmental programmes. Brazilian President Dilma Rousseff said that the goal is to increase the negotiated amount of US\$9.12bn in 2011, to US\$15bn by 2015.

The President said that Brazil and India are going through a new phase of development. She stated that Brazil considers India a key and essential partner for the future and recalled that in Brazil, the effort is to improve the quality of public healthcare, which also depends on the distribution of medicines.

According to Dilma, the partnership goes further, even to the sale of aircrafts equipped with radars, from Brazil to India. (www.brasil.gov.br, 03.04.12)

### Russia Launches Futures on BRICS

The MICEX-RTS began trading futures on benchmark equity indexes for Brazil, India, China and South Africa, after the four BRICS Exchanges Alliance members started trading the contracts in March 2012.

The launch of futures on BRICS benchmark equity indices followed the creation of the BRICS Exchanges Alliance on October 12, 2011. The first stage of the BRICS Exchange's cooperation is cross-listing of benchmark equity index derivatives on all the participating trading floors.

As a result, all MICEX-RTS clients have been given access to financial instruments such as the futures contract on the BOVESPA Index; futures contract on the Sensex Index; futures contract on the Hang Seng Index and futures contract on the FTSE/JSE Top40 Index.

(http://rt.com, 06.06.12)

### China to Import Rice from India

China shrugged off India's successful launch of an intercontinental missile by reiterating cooperation with its neighbour to the west. True to its word, the world's biggest producer of rice is now set to import the pride of Indian agriculture: long-grain or *basmati* rice.

The Indian Association of Rice Exporters now hopes the long-anticipated foray into the Chinese market will bring new business opportunities and raise the international profile of Indian agricultural products.

China has been concerned about the use of pesticides in fields and sanitation standards in mills in India. Alongside importing the aromatic variety, China has also lifted a ban on non-*basmati* rice. *Basmati* rice is currently traded at US\$1100 per tonne. (FT, 24.04.12)

### China-Brazil in Currency Swap Deal

China and Brazil have agreed a currency-swap arrangement that enables each country to access up to US\$30bn as part of efforts to build a financial buffer to help guard against a freeze up in global markets.

Each country will be able to tap the other's central bank for funds to help bolster reserves in the event of a crisis, according to newswire reports, which cited Brazilian Finance Minister Guido Mantega. Mantega said the fund could be useful in the event of a major liquidity event, noting that global trade foundered in 2008 when the global banking system froze.

The agreement was viewed as connected to a 10-year accord designed to promote two-way investment and trade. The swap agreement was also seen as the first step to a wider pact that could also draw in the other BRICS nations of Russia, India and South Africa to participate in the pooling of liquidity.

(http://articles.marketwatch.com, 22.06.12)

### Towards BRICS Development Bank

There are strong indications that the proposed BRICS Development Bank will be established in South Africa before 2013. South Africa's Minister of International Relations and Cooperation Maite Nkoana-Mashabane said that the economic group, BRICS, is keenly watching the possibility that the BRICS Development Bank will be established in 2012.

The proposed financial establishment will serve as an alternative to the IMF while helping its member countries pool resources for infrastructure development and lend among themselves during difficult financial times. It will be funded and managed by the BRICS and other developing countries.

South Africa also stands the chance to double her trade with Brazil, Russia, India, and China to US\$500bn by 2015, if barriers to trade and investment within the bloc were addressed. (www.ventures-africa.com, 27.06.12)

### Brazil, Russia Gang Up On Goldman Sachs

Brazil and Russia's two biggest investment banks have joined forces in an agreement to compete for business in the Americas, gunning for the bulge bracket banks like Goldman Sachs that have dominated the capital markets biz in the region for decades.

The cooperation agreement comes just a few months after VTB Capital opened their US headquarters in New York. Russia's largest investment bank also has the core of its capital markets business operating out of London. But after setting up shop in New York, the Russians behind VTB are clearly looking to expand into the US and into emerging Latin America.

They found a good partner in BTG, which some have said stands for Better Than Goldman. The strategic partnership will both VTB and BTG to expand and establish a long-term presence in Russia, the Commonwealth of Independent States and Latin America. They are officially stepping on the turf of the US and ailing European multinational banking firms.

([www.forbes.com](http://www.forbes.com), 22.06.12)

### Russia-China Create Investment Fund

Russia and China have announced the setting up of a US\$4bn investment fund aimed to boost joint trade and cooperation. The agreement was in China in the presence of Russian Premier Vladimir Putin and Chinese Prime Minister Wen Jiabao during the Russia-China Trade-Investment Forum.

Russian Direct Investment Fund will contribute US\$1bn to the joint fund and US\$1bn will come from China Investment Corporation (CIC). The other US\$2bn is expected to come from other investors in the next two years.

The fund would invest in private businesses and non-public companies across China and Russia, not focusing only on cross-border transactions. However, about 30 percent will be invested in Chinese companies, while at least 70 percent of the investment would go to Russian companies.

(<http://rt.com/business>, 28.04.12)

### India-Brazil to Boost Tourism

India and Brazil are planning a number of ways to strengthen cooperation in various sectors of tourism. The visiting Tourism Minister of Brazil Gastao Vieira who

called on Union Tourism Minister Subodh Kant Sahai said that Brazil is keen to exchange experience in destination management and promotion with India. He said Brazil would also like to share with India its best practices in the area of Rural and Eco-tourism.

Both countries have agreed to explore the possibilities of promoting joint venture investment in the field of hotel industry and tourism infrastructure. Sahai said that as hotels and tourism sector has been opened for FDI up to 100 percent on automatic route, Brazilian investment in tourism infrastructure in India could be the major investment in tourism.

([www.southafrica.info](http://www.southafrica.info), 02.05.12)

### India to Invest in Africa's Infrastructure

South African President Jacob Zuma, in talks with visiting Indian President Pratibha Devisingh Patil extended an invitation to the Asian nation to invest in South Africa's massive, state-led infrastructure drive.

Zuma noted the fact that relations between the two countries dated back many years, that South Africa and India also shared a history of struggle against colonial oppression and racism, as well as "deep social, economic and cultural ties".

Patil said relations between South African and India had taken on a robust and dynamic character, adding that strong institutional frameworks for co-operation in the economic, political and technological fields were in place.

Zuma said the two presidents had looked at ways in which "we can further translate our historical ties into meaningful socio-economic development cooperation".

([www.southafrica.info](http://www.southafrica.info), 02.05.12)

### China Strengthens Links with Latin America

During his trip through South America, in the end of June 2012, the Prime Minister of China, Wen Jiabao, proposed the creation of a US\$5bn fund for cooperation in infrastructure projects in Latin America and the Caribbean.

The Prime Minister further announced that the China Development Bank would open a US\$10bn credit programme to support construction and infrastructure in the region. The offer is another signal of the increasing presence of Chinese investments in Latin America.

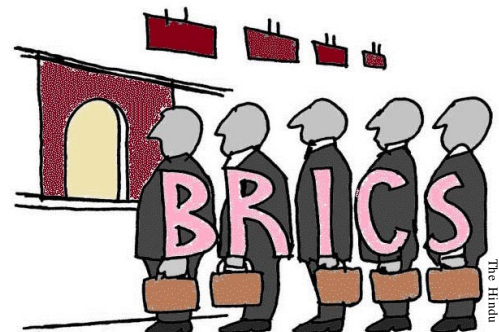
(*O Estado de São Paulo*, 26.06.12)

## BRICS to Contribute to IMF Resources

The BRICS economies will increase their contribution to the IMF. The move comes as the IMF has been looking to boost its finances to help prevent any future financial crisis. The BRICS nations have also asked for a greater say at the fund.

These new contributions are being made in anticipation that all the reforms agreed upon in 2010 will be fully implemented in a timely manner, including a comprehensive reform of voting power and reform of quota shares. The nations added that they expect their contributions would be used only after the existing resources had been "substantially utilised".

China will contribute US\$43bn and two other BRICS members, India and Russia would enhance their contribution by US\$10bn each.



(*ET*, 19.06.12)



### The Exchange Rate Observatory

The Centre for Global Trade and Investment of FGV is currently engaged in the research on 'Exchange Rate Observatory' which shall estimate, through the main existing methodologies found in the literature, the level of misalignments between major currencies, having as prime target the G-20 countries. Based on these estimates, the Observatory shall analyse the impacts of misalignments on the economic variables and study the impacts of such misalignments on the main macroeconomic and sector indicators, as well as on the international trade policy instruments, using simulations through computable general equilibrium models.

### Towards Green Economy: Perspectives, Benefits, Concerns

Eco-Accord in partnership with EECCA Network on Trade and Sustainable Development, Volgograd-Ecopress, European Eco-Foprum, Rainbow/Youth for Environment and Sustainable Development organised a session on 'Towards Green Economy: Perspectives, Benefits, Concerns' at the United Nations Conference on Sustainable Development Rio+20 on June 17, 2012.

Different stakeholders shared their opinion on progress on the way to sustainable development in Russia during last 20 years and discussed various issues.



### BRICS Studies Centre in Fudan University

SCCWTO has recently set up a BRICS Studies Centre in Fudan University, Shanghai. The aim for the Centre is to provide pragmatic analysis and proposal to improve BRICS' level of cooperation and prosperity. The Centre has recently begun analysis of following issues: prospects for trade development between BRICS over the next 5-10 years; mutually beneficial trade agreements between BRICS; present system of collaboration between BRICS and its efficiency; and developing Chinese programmes and enterprises that play a role on the international BRICS scene. Sun Zhenyu, former Ambassador of China to the WTO and Professor Gong BaiHua, Associate President, SCCWTO, China attended the founding ceremony of the Centre.

### Rising Powers, South-South Cooperation and Africa

The Fourth High Level Forum on Aid Effectiveness held in Busan, South Korea on November 29 to December 01, 2011 aimed to bring emerging powers into the fold of aid effectiveness. Busan's most significant outcome was the agreement to establish a new, inclusive and representative Global Partnership for Effective Development Cooperation and the phasing out of the Working Party on Aid Effectiveness. While this development is promising, Africa in particular must use this opportunity to make a significant contribution to the crafting of new codes and principles around development co-operation that can act as building blocks for a new, inclusive, international development architecture that also incorporates South-South cooperation (SSC). This policy brief, written by Elizabeth Sidiropoulos, National Director, SAIIA focuses on SSC and makes a number of recommendations to African countries.



### Forthcoming Event



### BRICS Trade, Investment and Finance Cooperation



CUTS International and Observer Research Foundation (ORF) jointly will be organising a half-day seminar on 'BRICS Trade, Investment and Finance Cooperation' in New Delhi, on July 17, 2012. The objective of the seminar would be to seek answers for some of the technical questions related to such recent developments on trade, investment and finance in order to provide policy inputs for BRICS members around operational frameworks.

Speakers of the session will include Sunjoy Joshi, Director, ORF; Pradeep S Mehta, Secretary General, CUTS International; Dinesh Bhatia, Joint Secretary (MER), Ministry of External Affairs; Zhotan Khuma, Director, Ministry of Commerce; Usha Titus, Director, Ministry of Finance; Bandi Ram Prasad, Financial Technologies Knowledge Management Co. Ltd, Financial Technologies Group (MCX). G K Pillai, former Commerce and Home Secretary and Chair, RKM Fellowship, ORF & Distinguished Fellow, CUTS International will chair the session.

### Sources

BL: The Hindu Business Line; ET: The Economic Times; FT: Financial Times