BRICS Relationship with other developing economies: Building partnerships in third countries?

Jodie Keane, Research Fellow
Zhenbo Hou, Research Officer

International Economic Development Group, ODI, London

Workshop

Foreign and Commonwealth Office (FCO), London

11th December 2013
Overview

• What we are referring to:
  – **Access to Resources**: Trade, Investment, Influencing Regulatory F/W’s: Standards
  – **Partnerships**: Aid? Cooperation – new forms of engagement?

• **Brief discussion of trends**
  – BRIC trading patterns: reinforcing existing patterns?

• **New trading patterns?**
  – GPNs/GVCs etc.

• **New forms of engagement/partnerships**
  – Reflection on UK/EU partnerships and ways forward
  – BRICs partnerships: Trade, Investment and Aid

• **BRICs perceptions**
• **Examples of new partnerships**, e.g. BRIC Dev Bank, China in Africa: SEZs etc.
Recent Trends

• The transformation of global trade patterns has been driven by two interrelated processes:

1. increasing fragmentation of trade and productive structures across countries as the economic globalisation process has gathered pace; and
2. increasing coordination and consolidation of particular nodes of production and marketing structures.

• Global investment patterns have changed as structures of trade have evolved and as new actors have emerged.

  – For example, the rapidly expanding Asian economies have seized the opportunities created by this phase of globalisation and type of trade.
  – As a result, they have subsequently emerged as key investment players.
  – ...With business models and forms of engagement.
Trading Patterns with BRICs, or more specifically China-Africa

• Reinforcing existing trading patterns?
  – The commodity story: reversing terms of trade
  – China manufactures – Asian Drivers / African Commodities
  – Concerns regarding the extent to which shifts in the structure of global demand had resulted in changes in the terms of trade for manufactured goods and primary commodities (Kaplinsky, 2007; Kaplinsky, 2010).
  – The GFC...

• GVCs are not new, but recognition by mainstream is
  – What is new: increased trade in intermediates and coordination by MNEs, degree of fragmentation of production
  – Least developed and low income countries are either ‘locked-in’ at bottom of GVCs or ‘locked-out’ (Banga, 2013)
Better Understanding New Trading Patterns

- WTO/OECD Trade in VA database
  - Helped to debunk concerns regarding China’s export surplus
  - The 5 BRICS states – Brazil, Russia, India, China and South Africa are included
  - South Africa = only SSA country in database
  - Measures trade in intermediate goods: modern sector exports

- What’s missing
  - Commodities
  - Link between Value Data and Governance of GVCs
  - Is an increase in value added = upgrading in a GVC?
Share in Global Value Added (2009)

- ROW 8%
- China 9%
- Germany 9%
- United States 9%
- France 4%
- Italy 3%
- United Kingdom 4%
- Japan 4%
- BRIS 5%
- NICs1 8%
- NICs2 3%
- Rest of OECD Countries 34%

Source: Banga (2013) use of OECD/WTO database
Investment Policy Landscape is Changing

- Key policy changes:
  - Governments are increasingly renewing their interest in regulating investment.
  - State regulation is becoming visible across strategic industries.

- E.g. agriculture sector entry barriers or reinforced screening procedures for foreign investors have recently been introduced

- State involvement has been strengthened in extractive industries including through such measures as nationalization, expropriation, divestment requirements or increases in taxes and royalties.

- Promote state control over strategic natural resources and allow governments to benefit from rising global commodity prices (UNCTAD, 2012).
How is the UK/EU Adapting?

- We know that BRICS will shape trading patterns in the future
  - How is our policy adapting?
  - How are we developing new partnerships?

- The EC’s most recent communication on trade and development recognises that the landscape of trade and investment has changed dramatically in recent years
  - Proposed major reforms to its trade and development instruments

- Reform of Trade and Aid instruments
  - Issues around differentiation
  - Policy coherence
Reform of GSP non-reciprocal preferential regime: focus on those countries most in need - LDCs

- Graduation
- Measures to influence unfair trading practices
- Some changes in RoO: is this enough?

- Changing EU-ACP trade relations: hard choices to make
  - End of Cotonou Partnership Agreement in 2007;
  - How to integrate countries within GVC, GPNs

- Contrast UK/EU approach with BRICs and their partnerships
  - Giveth (Aid) and Taketh (Trade)?
  - V’s... More coordinated approaches?
  - Scope for collaboration and complementarities?
Reform of GSP

• Reforming the system and graduating MICs, other product graduation (see Stevens et al., 2011)
  – Focusing on those countries most in need (defined as LDCs)? Intended to put pressure on countries to sign up to FTAs: those ready?

• Other rules
  – Conditions for withdrawal from the scheme related to unfair trading practices. EU’s Global Europe and Raw Materials Initiative explicitly lists measures that may affect the supply of raw materials.
  – Lack of definition of “unfair practices” leaves uncertainty... Blanket restriction on the use of export restrictions.
  – GSP+: special arrangement for sustainable development and good governance; shift in the burden of proof: beneficiary must prove compliance.
RoO Reform

- Key in relation to engaging with emerging production networks
  - Tariff margins reduced given prolix of FTAs

- EU policy reform, particularly for LDCs
  - Relaxation of product specific rules
  - Cumulation

- Still not as liberal as other regimes, e.g. US/AGOA
  - But the EU has followed the lead of the US regarding the single transformation requirement T&C.
  - Could have moved sooner, could still go further... How incentivise LICs/LDC inclusion in GPNs emerging (e.g. India, China)
  - New opportunities? EU-US TTIP?

- Context of EU-ACP Changing Relations
- LDCs, Non-LDCs: face hard choices in developing new partnerships with the EU...
Country Example 1

- During the final years of the Multifiber Agreement the US imposed strict import quotas on Chinese apparel while it gave African apparel duty- and quota-free access. The combination of these policies led to a rapid but ephemeral rise of African exports.
- Incentives were enough to spur a new trade route (Rotunno, Vézina and Wang, 2012).
  - Lesotho operations were fairly minimal, but...
    - created employment,
    - the industry that was created has partly survived the end of the MFA by exporting to South Africa
      - Evidence suggests different type of relational GVC governance: different reasons for South African investment
- The EU has since followed the lead of AGOA (single transformation rule R&C) - could have done so earlier
• Solomon Islands an LDC: who will help with assisting engaging with more dynamic forms of trade?
  – critical juncture in terms of its trade policy development, with difficult choices and trade-offs to make in relation to the on-going negotiations
    • managing the expectations of its regional as well as extra-regional trading partners.

• Major concern maintaining linkages since the end of the Cotonou Partnership Agreement (CPA)... To enter into Economic Partnership Agreement or not?

• Focuses on issue of RoO: Major differences between EU’s Everything but Arms regime compared to that made available under an EPA (reciprocal free trade agreement)
Learning from UK/EU Partnerships?

- **Reform of Trade Instruments**: GSP, GSP+, LDCs, On-Going EU-ACP Changing Relations
- **Reform of Aid Instruments**: Issue of differentiation
- **Contradictions**:
  - Countries could be graduated out of GSP Preferential regime, but still qualify for aid, e.g. Botswana, Namibia (UMICs, not yet signed and ratified an EPA)
  - Aid for Trade: MICs receiving proportionately more than LICs
- **Development of new partnerships**: Work in progress?
  - Investment policy framework is globally highly fragmented
  - Access to resources – how to best influence regulatory F/Ws for development?
  - Partnership approach so far (EPAs) = divisive
UK/EU Partnerships with BRICS

- **Brazil**: EU negotiations with Mercosur ongoing, relaunched in 2010

- **Russia**: Partnership and Cooperation Agreement, renewal negs halted in 2010

- **India**: EU-India FTA negs ongoing

- **China**: EU-China investment... trade?

- **South Africa**: Trade, Development and Co-operation Agreement concluded with the EU in 1999; other SADC members signed Interim EPA; Negs ongoing for SADC comprehensive EPA
• **Direct linkages with developing countries**
  – Trade, FDI
  – Examples of China’s overseas special economic zones

• **Indirect linkages with developing countries**
  – Through active participation global governance
  – Establishment of new institutions such as the BRICS development bank
Both the BRICS and the EU import very little from LICs

Source: UN COMTRADE 2013
Slightly more is imported from LMICs

Source: UN COMTRADE 2013
LICs are much more important export markets for the BRICS than for the EU.

Source: UN COMTRADE 2013
LMICs are more important export markets for the BRICS than for the EU

Source: UN COMTRADE 2013
Things to note on a country level

- For China, more than **50%** of imports from SSA come from Sudan and Angola;

- For Brazil, more than **70%** of imports from SSA come from Nigeria alone;

- For India, more than **75%** of imports from SSA come from Angola and Benin;

Source: Cirera, X. (2013)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>22.67</td>
<td>36.43</td>
<td>24.94</td>
<td>17.03</td>
<td>7.51</td>
<td>18.37</td>
<td>10.90</td>
<td>6.72</td>
<td>9.03</td>
</tr>
<tr>
<td>UK</td>
<td>15.23</td>
<td>2.36</td>
<td>7.88</td>
<td>7.06</td>
<td>8.39</td>
<td>13.14</td>
<td>10.26</td>
<td>13.94</td>
<td>16.25</td>
</tr>
<tr>
<td>France</td>
<td>12.44</td>
<td>13.23</td>
<td>7.19</td>
<td>8.57</td>
<td>3.00</td>
<td>4.68</td>
<td>10.95</td>
<td>9.52</td>
<td>1.49</td>
</tr>
<tr>
<td>India</td>
<td>0.38</td>
<td>11.2</td>
<td>1.08</td>
<td>19.58</td>
<td>1.07</td>
<td>6.83</td>
<td>6.65</td>
<td>6.97</td>
<td>15.47</td>
</tr>
<tr>
<td>China</td>
<td>6.75</td>
<td>1.18</td>
<td>1.14</td>
<td>7.16</td>
<td>9.80</td>
<td>12.52</td>
<td>6.10</td>
<td>10.17</td>
<td>2.15</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.10</td>
<td>0.02</td>
<td>3.93</td>
<td>0.01</td>
<td>4.07</td>
<td>1.27</td>
<td>1.50</td>
<td>1.23</td>
<td>2.45</td>
</tr>
<tr>
<td>Russia</td>
<td>0.16</td>
<td>1.08</td>
<td>0.24</td>
<td>2.85</td>
<td>1.34</td>
<td>0.54</td>
<td>2.00</td>
<td>3.87</td>
<td>1.00</td>
</tr>
<tr>
<td>SA</td>
<td>4.82</td>
<td>4.99</td>
<td>0.65</td>
<td>3.01</td>
<td>5.22</td>
<td>1.61</td>
<td>12.68</td>
<td>6.14</td>
<td>6.92</td>
</tr>
<tr>
<td>BRICS</td>
<td>17.21</td>
<td>18.47</td>
<td>7.04</td>
<td>32.61</td>
<td>21.5</td>
<td>22.77</td>
<td>28.93</td>
<td>28.38</td>
<td>27.99</td>
</tr>
</tbody>
</table>

Source: Cirera, X. (2013)
In SSA where does annual FDI flow come from?

FDI shares in SSA (%)

Source: Cirera, X. (2013)
### Chinese overseas special economic zones

<table>
<thead>
<tr>
<th>Africa</th>
<th>Asia</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>Cambodia</td>
<td>Russia</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Indonesia</td>
<td>(Ussuriyisk,</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Pakistan</td>
<td>St Petersburg)</td>
</tr>
<tr>
<td>Nigeria (Lekki and Ogun)</td>
<td>South Korea</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vietnam (Haiphong and Tien Giang)</td>
<td></td>
</tr>
</tbody>
</table>

- An internationalisation of the developmental state?
- Brautigam and Tang (2012)
• **Indirect linkages with developing countries**
  – Through active participation global governance;
  – Establishment of new institutions;
  – Implications of domestic economic agendas;
Different BRICS approaches towards global governance

- Russia – not interested in global governance unless it is security focused?
- South Africa – a legitimate leader of Africa?
- Brazil – a bridge between new and old powers?
- India – multiple identities?
- China – reform-minded but not revolutionary?
- But also.......
- US – declining hegemon?
- EU – consensus builder/broker?
Are BRICS more active in global governance

- Leadership in international organisation
  - UNIDO, WTO, IFC, WB, WB Chief Econ, IMF, IMF Chief Econ, FAO, UNCTAD, UNEP, UNFCCC;
Nine organisations and eleven posts

Percentage of heads from each country group

- Developing (excl BRICS): a
- Developed: b
- BRICS: c
Other signs of increased interest?

**Illustrative examples**

- Finance: BRICS development bank
- Climate: BASIC agreeing to make a ‘contribution’ rather than ‘commitment’.
- Trade: more constructive role than in 2008 (e.g. India and China supporting the G33 on food security proposal in the WTO)
- Chinese officials making public statements on GPGs
New institutions - A BRICS Development Bank?

• 100 billion USD contingency reserve arrangement (CRA) - a reserve pool to buffer the BRICS from temporary reserve liquidity shortages with individual contributions as follows: China 41 billion, India, Brazil and Russia 18 billion each and 5 billion from SA.

• It is also expected that each member state will contribute a start-up fund, as much as 50 billion USD, to the future BRICS development bank to finance infrastructure investment.
Potential challenges for the BRICS development bank

- Where is the bank going to be located? Johannesburg?
- Who is going to be in charge of the bank?
- What is the ownership of the bank going to look like?
- How different is the BRICS development bank going to be from Chinese or the Brazilian development banks?
- What differentiates the BRICS development bank from the World Bank?
Conclusion

- BRICS are developing direct as well as indirect linkages with developing countries
  - **Direct linkages**: important trade and investment (FDI) partners for developing countries (LICs and LMICs);
  - **Indirect linkages**: more active participation in global governance and establishment of new institutions;
Final thoughts

• Further questions remain on how the domestic reform and development agenda in the BRICS economies would impact their relations with developing countries
  – E.g. China’s latest third plenum reform agenda
    • End of the ‘one child policy’ – increasing labour to offset offshoring of industries?
    • Abolishing household registration system – new wave of urbanisation means even more demand for natural resources?

• Regional security concerns and power balances need to be considered too
  – Air defence identification zone over Diaoyu/Senkaku island
ODI is the UK’s leading independent think tank on international development and humanitarian issues. We aim to inspire and inform policy and practice to reduce poverty by locking together high-quality applied research and practical policy advice.

The views presented here are those of the speaker, and do not necessarily represent the views of ODI or our partners.
Examples of foreign aid principles

<table>
<thead>
<tr>
<th>OECD DAC</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Country ownership of development strategies</td>
<td>Unremittingly helping recipient countries build up their self-development capacity</td>
</tr>
<tr>
<td>2 Donor alignment to country strategies and their delivery systems</td>
<td>Imposing no political conditions</td>
</tr>
<tr>
<td>3 Harmonisation of processes and assessment across donors</td>
<td>Adhering to equality, mutual benefit and common development</td>
</tr>
<tr>
<td>4 Management for development results (by everyone)</td>
<td>Remaining realistic while striving for the best</td>
</tr>
<tr>
<td>5 Mutual accountability (of donors and their partners)</td>
<td>Keeping pace with the times and paying attention to reform and innovation</td>
</tr>
</tbody>
</table>