

# **AN UNCERTAIN FUTURE OR THE END OF THE ROAD FOR BRICS?**

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**Abstract:** The international financial and monetary crisis has blocked the financial flows of emerging economies (and not only), resulting in a significant restraint of their economic activity. Moreover, the positions of these states have changed; thus, if during the latest 10-12 years, economists considered that emerging countries such as Brazil, Russia, India, China and then South Africa (2011) were the future driving force of the world economy, nowadays more and more people speak of Mexico, Indonesia, Nigeria, Turkey, Colombia, Vietnam, Egypt, Peru and the Philippines. “MINT”, “CIVETS” or “CIPP” are the acronyms assigned to such countries in the analyses of economists and specialists. The hereby paper is an evaluation of the current position of BRICS countries within emerging economies.

**JEL classification: F02, F15, G14**

**Key words: emerging economy, economic order, integration, efficiency, economic convergence, BRICS, MINT, CIVETS, CIPP.**

## **1. INTRODUCTION**

Considering the risks predicted by the representatives of the various international financial and money institutions regarding financial markets, investors no longer consider safe the markets of emerging countries such as Argentina, Brazil, India or China. Thus, if Jim O’Neill, in his 2001 *“Building Better Global Economic BRICs”*, invented the acronym BRIC and outlined the power of emerging countries such as Brazil, Russia, India, China and thereafter, in 2011, South Africa, resulting in BRICS, attention is currently focused on other groups of emerging economies, such as “CIVETS” (an acronym first used by Robert Ward at the end of 2009 for the following emerging countries: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), “MIKT/MIST” (an acronym coined by Jim O’Neill in 2011 for Mexico, Indonesia, South Korea and Turkey), “MINT” (first used by the American financial service and brokerage company Fidelity and adopted by Jim O’Neill, to include Mexico, Indonesia, Nigeria and Turkey) or “CIPP” (Colombia, Indonesia, Peru and the Philippines – analysed by the economists at the Coface Country Risk Conference of France, January 2014).

The decrease of financial flows within BRICS was caused by the exhaustion of the available capital of developed countries; at the same time, the reduction in expenses and consumption within such countries also resulted in decreased exports from emerging states. During 2012-2013, BRICS had the lowest economic growth of the latest years, the main indicators showing a negative trend.

## 2. OBJECTIVES

Given the negative transformations of world economy and the risks anticipated by specialists regarding financial investments on emerging markets, an overview of the status of emerging economies in the world economy, particularly of BRICS, is our major focus.

The hereby paper aims at answering the following questions:

1. Are BRICS still a fearsome foil on the international market?
2. If BRICS countries no longer are the future driving force of the world economy, who can replace them?
3. Which are the similarities between BRICS and the potential new emerging “powers”?
4. Which criteria are used for assessing the “power” of such new emerging states?

## 3. METHODOLOGY

With a view to achieving the proposed goals, the methodological approach aimed at presenting the various opinions and interpretations of specialists in the country and abroad, as well as drawing pertinent conclusions pursuant to the analysis of statistical data.

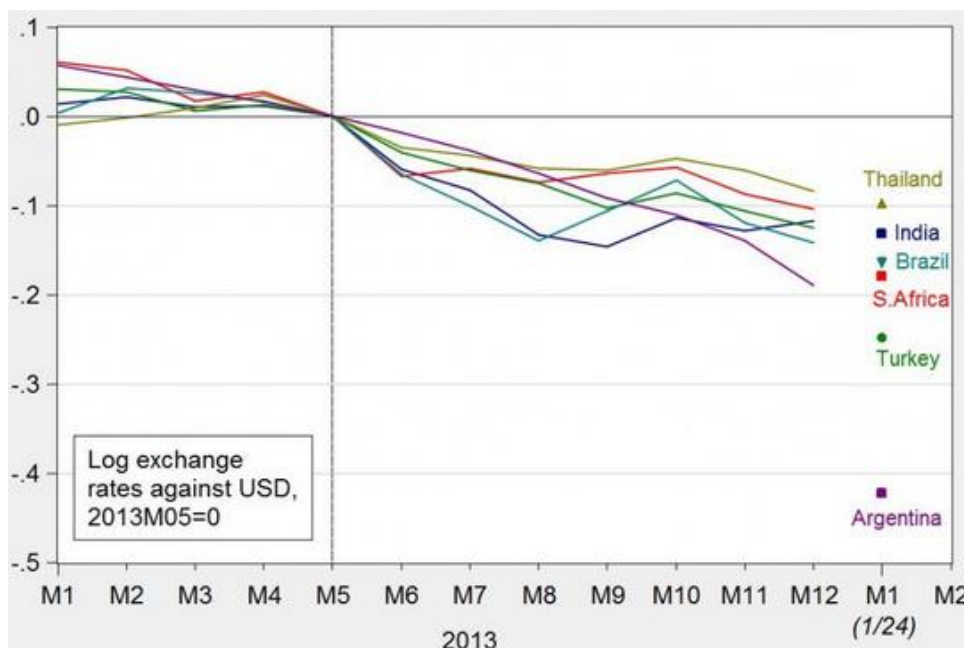
A content analysis was envisaged, in order to outline economic phenomena, understand underlying causes, describe current situations and even extrapolate results to situations similar to the current status. The advantages of this quality-based research are the following: - fundamentally facilitating a better comprehension of the issues at stake; - favouring a perspectivised approach of the research; - outlining other valuable aspects, interdependent with the analysed topic, thereby increasing the complexity of the issues.

## 4. ANALYSES

As it was mentioned in the first part of our paper, investors no longer think that the financial market of BRICS countries are secure. The experts at the Coface Conference of January 2014 argue that BRICS will show a decrease in their economic growth across the year, compared to the average of the last decade, slightly exceeding 2%, mostly due to a cyclic decrease and inflation, but also for considerations related to low domestic production, compared to the total consumption, infrastructure or even political reasons.

This year’s elections of South Africa, Brazil, India and Turkey will result in an increased vulnerability of exchange rates, with a significant depreciation of emerging currencies, even of the Turkish lira. According “*World Economic Outlook (WEO) Update - Is the Tide Rising?*” (p.3), “when there are constraints on exchange rate adjustment —because of balance sheet mismatches and other financial fragilities, or large pass-through to inflation because of monetary policy frameworks that lack transparency or consistency in their implementation— policymakers might need to consider a combination of tightening macroeconomic policies and stronger regulatory and supervisory policy efforts.”

In the following, we shall present the evolution of the main currencies of emerging countries from January 2013 to January 2014, compared to American dollar:



Source: St. Louis Fed FRED, Pacific Exchange Services, and Financial Times apud CHINN, MENZIE DAVID, *Interpreting Recent Emerging Market Currency Movements*, 26 January 2014 (available online at <http://econbrowser.com/>)

**Figure no. 1: Log exchange rates against USD for India, South Africa, Turkey, Brazil , Thailand and Argentina**

The first group of countries seeing as a latent candidate of the “new wave” of emerging powers was CIVETS. As previously stated, this acronym was coined by Robert Ward (Editorial Director at the Economist Intelligence Unit – EIU) at the end of 2009 in order to designate Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. However, the term became notorious in 2010, with the speech of Michael Geoghegan (Chief Executive of HSBC Holdings pls) within the Hong Kong Chamber of Commerce, where it was show that the global economy is undergoing a new phase. This time, Geoghegan compared the six emerging countries to a “civet” and argued that they were favourable to investments and business, as they had a dynamic and diverse economy, as well as a young and ever-growing population. Hence, these countries are deemed to be the “new BRICS”, given the conditions they provide, as Asia and Latin America are more and more visible in the international map economy.

According to the data provided by the Economist Intelligence Unit, CIVETS emerging countries will have an economic growth of almost five percent per year in the two following decades, compared to 1.8 percent for G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America).

The following table includes the main economic data of CIVETS countries:

**Tabel no.1: GDP, exports and population of CIVETS**

Member	2013 est. GDP (PPP) Billion \$USD	2013 est. GDP per capita (PPP) \$USD	2013 est. Exports Billion \$USD	Population 2013 est.
Colombia	526.5	11,100	58.7	45,745,783
Indonesia	1,285.0	5,200	178.9	251,160,124
Vietnam	358.9	4,000	128.9	92,477,857
Egypt	551.4	6,600	24.81	85,294,388
Turkey	1,167.0	15,300	167.6	80,694,485
South Africa	595.7	11,500	91.05	48,601,098

*Source: Data processed by the author based on information provided by the Central Intelligence Agency, The World Factbook (www.cia.gov), accessed on 13.02.2014*

Coface specialists argue that investments may currently be oriented to four emerging countries, i.e. Colombia, Indonesia, Peru and the Philippines (CIPP). In order to analyse the risk of a country, the company uses a classification structured by seven levels, ranging from A1 (low risk) to A2, A3, A4, B, C and D (high risk). In the following, we shall present the country risk of the four emerging countries supported by Coface and the evaluation of their business environment:

**Tabel no.2: Country risk and business climate assessment of CIPP**

	Colombia	Indonesia	Peru	Philippines
Country risk assessment	A4	A4	A4	A4
Business climate assessment	A4	C	B	B

*Source: www.coface.com*

The strengths of *Colombia* include institutional stability, significant touristic potential, remarkable and ever-growing population, the banking system, whereas its weaknesses refer to structural unemployment, social inequity, scarce qualified workforce, corruption, etc. A dynamic growth of Colombia is predicted for 2014, of 4.5 points, with investments of almost 25% of the gross domestic product. The strengths of *Indonesia* include a solid banking system, touristic potential, high competitiveness considering cheap workforce, whereas its weaknesses refer to high unemployment, social inequity, significant corruption and low investment. The relatively closed economy of this country was useful in the context of the international financial crisis, so that the state was not very affected by external problems. The economic growth for this year is predicted to be consistent, especially due to easy access to bank loans and the significant consumption of population. *Peru* also is considered a state with significant economic and touristic potential, with low public debt, as well as a functional and transparent banking system. Risks mainly refer to the significant presence of cocaine manufacturers, regional gaps, faulty infrastructure, etc. The analyses by Coface show that, generally, the economic growth of Peru is due to the significant consumption (more than 60% of the gross domestic product) and investment (30%). *The Philippines* have a flourishing economy due to exports of

electronic appliances, as well as remittances by expats, allowing households to have a consumption of about 70% of the gross domestic product. Weaknesses are related to low investments in infrastructure and regional gaps, affecting the country’s business performance.

The acronyms MIKT/MIST (2011) and MINT (2013-2014) were recently proposed by Jim O’Neill. A common feature of MINT countries refers to numerous population and young workforce, which represent significant advantages when a country intends to prosper in a quick manner. Of course, their geographical position cannot be neglected: Mexico is adjacent to the USA and Canada, Turkey is close to Euro-area states and Indonesia lies next to China. Nigeria may succeed due to its impressive natural resources. All these countries are included in the Next Eleven (N-11) group analysed by O’Neil and Goldman Sachs and are deemed to have the required potential for becoming the biggest economies of the world. MIKT represent  $\frac{3}{4}$  of the gross domestic product of the N-11 group. There has to be said that some economists think that Turkey is a developed or recently industrialised country, not an emerging country. As the business data for Indonesia and Turkey were presented above, we shall detail in the following the aspects regarding Mexico, South Korea and Nigeria:

**Tabel no.3: GDP, exports and population of Mexico, South Korea and Nigeria**

Country	2013 est. GDP(PPP) Billion \$USD	2013 est. GDP per capita (PPP) \$USD	2012 Exports Billion \$USD	Population 2013 est.
Mexico	1,845	15,607	370.9	118,337,000
Nigeria	478.5	2,827	95.68	174,507,539
South Korea	1,666	33,155	552.6	50,004,441

*Source: Data processed by the author based on information provided by the Central Intelligence Agency, The World Factbook (www.cia.gov), accessed on 13.02.2014*

Mexico is striving for achieving proper infrastructure, with the middle class playing a more and more important part in the country’s economy. Nigeria is foreseen to become one of the topmost twenty economies in the world in the following six years, as it is already the third African country in terms of GDP (PPP). As for South Korea, there are some voices saying that it is a “new BRICS” in itself, considering its recent economic growth. At the same time, numbers support these ideas, for instance, South Korea has surpassed Canada, Spain and almost Italy in terms of GDP. It is foreseen to surpass the United States, along with G7 economies, in the following three-four decades. The Turkish economy was the third in the world in terms of growth in 2012, exceeding China. Its growth was mostly due to constructions and related industries.

## 5. CONCLUSIONS

On balance, we consider that BRICS countries are currently undergoing a deceleration of financial and economic activity (which may only be caused by a cyclical decrease), resulting in the investors’ focus on another emerging and growing

markets. However, it is our opinion that the international role of BRICS does not stop here, as they represent 20% of the world's gross domestic product, and the summit of South Africa witnessed the decision to create their own development bank, with a view to financially supporting infrastructure project.

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