Background Paper for the BRICS Business Forum Meeting

26, March, 2013

Executive Summary

- The political leaders of BRICS countries are meeting at the 5th BRICS Summit at Durban, South Africa on 26-27 March 2013. The BRICS Business Forum has been institutionalized and has become an integral part of the annual BRICS Summit. The 4th BRICS Business Forum meeting will take place on 26th March 2013 at Durban. Greater economic engagement is a cornerstone of relations amongst countries and it is only natural to expect that as the economic weight of the BRICS countries in the world increases their own commercial engagements would get strengthened.

- In 2011, the BRICS economies accounted for almost 27 per cent of the global gross domestic product in purchasing power parity terms and 20 per cent of global gross domestic product in nominal terms.

- The engagement of the BRICS countries with rest of the world in terms of trade flows has also increased over a period of time. Data shows that merchandise imports from the world into the BRICS countries has gone up from US$ 2.2 trillion in 2010 to US$ 2.8 trillion in 2011. Likewise, the global merchandise exports of the BRICS countries have gone up from US$ 2.5 trillion in 2010 to US$ 3 trillion in 2011.

- The BRICS countries have been a major destination for global FDI inflows. Data shows that FDI flows to BRICS economies from the world increased from US$ 232 billion in 2010 to US$ 280 billion in 2011, which is almost 18 per cent of total global FDI flows. Further, the BRICS countries have also emerged over time as an important source of FDI. In 2011, outward FDI flows from the BRICS countries was to the tune of US$ 145 billion.

- Further, with the combined foreign exchange reserves of member countries estimated at US$ 4.3 trillion, BRICS accounts for approximately 40 per cent of global reserves.

- In 2011, most of the BRICS economies witnessed a GDP growth that was either close to or much higher than the world average. The same trend was repeated in 2012 and as per IMF's projections, all BRICS nations, except South Africa, will once again better or match the global average growth rate in 2013.

- Each of the countries that make up the BRICS grouping has tremendous strength. Brazil has huge strengths in commodities and is an agricultural power house. China has emerged as a manufacturing superpower and the leading exporter of merchandise goods. South Africa is home to huge mineral reserves. Indian economy has enormous strengths in the service sector and is fast emerging as knowledge led economy. Russia holds one of the largest reserves of oil and gas in the world. With such diverse areas of strength, each country can support the other and take part in each other's respective growth and development programs.

- There are several areas where fruitful opportunities for cooperation exist amongst the BRICS countries. Some of these areas include – Agriculture, Infrastructure, Healthcare and Pharmaceuticals, Energy, Mining and Financial Services.

- *Agriculture* - There are several challenges in the agriculture sector for BRICS countries. Improving market efficiency and controlling price volatility of agricultural produce poses a major threat and is a key issue. Rising input costs and diversion of agricultural land also pose problems for

sustained agricultural production. The BRICS members are also witnessing a changing pattern in agriculture, food production and supply chains. One of the recent changes is seen in the demand for cash crops which is progressively replacing or competing with cereal and grain production. There is scope and need for increased cooperation among the BRICS to promote food security by raising agricultural productivity and output, promoting investments in the food supply chain; and developing a social safety net through conditional income transfer programmes for the poorest.

- *Infrastructure* - Development of infrastructure is a common agenda for all the BRICS countries. The infrastructure deficit faced by these economies is a constraining factor in sustaining high growth rates in the long run. The infrastructure requirements in the BRICS countries are huge and each nation has set an ambitious target for investments in infrastructure.

- Investment in infrastructure in India during the 12th five-year plan is estimated to be US$ 1 trillion. South Africa has also laid out an ambitious plan for development of infrastructure. Even in China, development of infrastructure takes top slot in government's agenda of economic development and is one of the initiatives enshrined in their regular five-year plans. Brazil faces immense infrastructure bottlenecks in the transportation of raw materials and finished goods like the poor quality of ports, railways and roads. Russia also suffers from the lack of proper transportation systems. Hence, private sector companies from this sector can join hands with the government and explore opportunities to meet these infrastructure gaps.

- *Healthcare and Pharmaceuticals* - The BRICS countries are home to around 43 per cent of the global population and the countries face several challenges like inequitable access to health services and medicines, rising health costs, infectious diseases such as HIV and tuberculosis (TB) as well as increasing rates of non-communicable diseases. Pharma companies should from the BRICS countries can work together and enhance exportability of medicines and medical products especially vaccines and medicines for HIV / AIDS, TB and malaria.

- *Energy* - On the global energy map, BRICS economies like Brazil and Russia figure prominently as energy producers while India, China and South Africa do so as energy consumers. Accelerating growth and sustainable development, along with energy security, is amongst the most important challenges facing the world today. The BRICS countries are of critical importance to both supply and demand fundamentals of energy markets globally.

- In Brazil there is a move towards replacing non-renewables by renewable sources of energy with particular focus on wind power. Likewise in South Africa, we see focus on renewable energy and the government there is focused on developing both wind and solar energy segments. China, followed by India, also has ambitious programs for renewable energy and at the same time can offer high quality wind and solar power equipments. Companies from these segments must therefore look at partnering with each other. Further, as the use of bio-fuels is on the rise amongst the BRICS nations, exchange of knowledge on policies and technologies related to bio-fuels should be an important component of their cooperation.

- *Mining* - The mineral base within the BRICS countries is being actively developed over the past few years. In some of the BRICS nations there are vast unexplored natural resources. The BRICS play a dominant role in the global mining industry in terms of reserves, production and consumption. The mining industry in the BRICS countries displayed a healthy growth over the period of last five years and the trend is expected to continue. The complementarities in resources

can help to address mineral deficits of the BRICS nations through mutually beneficial trade and economic relations. Joint bilateral and multilateral programmes can be established to explore and develop mineral resources in the BRICS nations.

- *Financial Markets Development* - The financial markets in BRICS are at different stages of development. There is considerable scope for the BRICS to learn from each other by exchanging experts and country experiences. A greater emphasis, however, has to be placed on a BRICS-wide corporate bond market, which still lacks depth and liquidity in some BRICS countries and has been the missing link in mobilizing resources for long term investment.