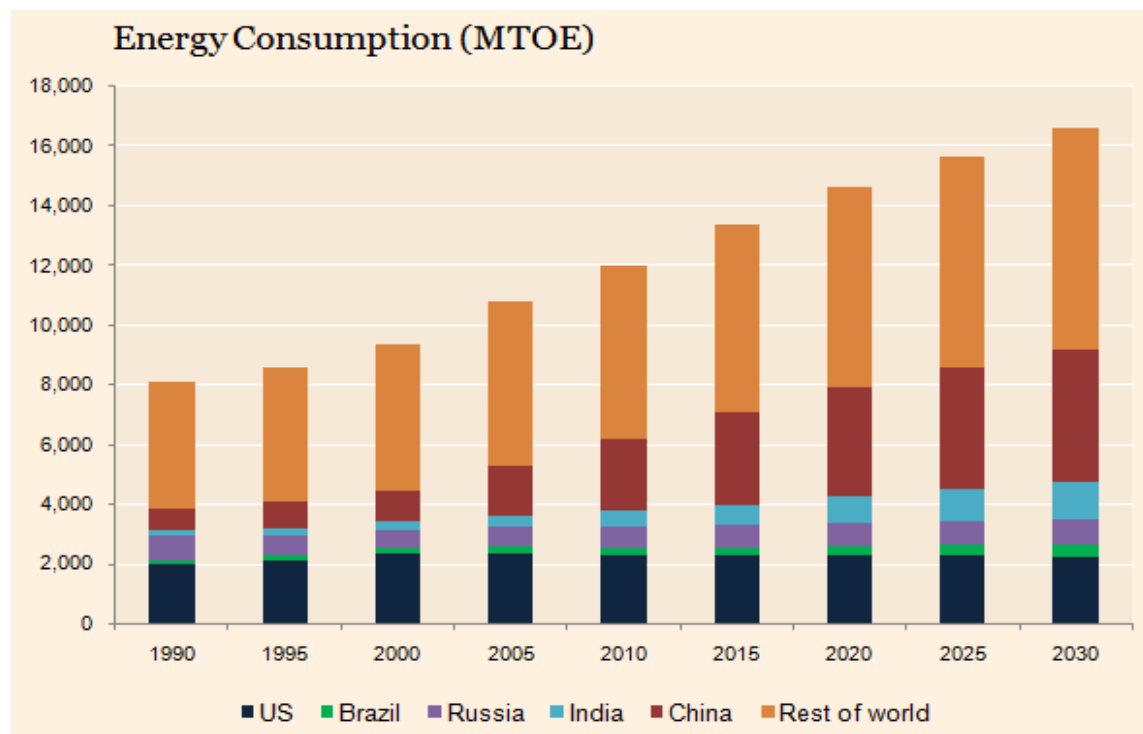


## The BRICS Summit: Roadmap for Growth

The leaders of Brazil, Russia, India, China, and South Africa—collectively known as the Brics—met at the end of March in Durban, South Africa to discuss the creation of their own development bank. The goal of this bank would be to provide funding for large-scale infrastructure development aimed at opening up more trade between the nations themselves as well as other developing nations. Brics leaders hope this development bank will be a viable alternative to organizations like the IMF and the World Bank. Although the details of the summit themselves have, in many ways, been left to be hammered out later, this development marks a refreshing display of cooperation between large economies. Most importantly, it indicates an expectation for increases in trade and the large-scale, multilateral infrastructure projects that will accompany such increases.

The Brics forum isn't some children's play-date. Combined, the Brics nations represent 43% of the world's population and 17% of its trade.<sup>1</sup> They're predicted to make up 60% of the world's growth between now and 2014, and by 2020 their combined economies, excluding South Africa, are on course to overtake that of the United States.<sup>2</sup> Energy use in the Brics, especially China, is expected to continue to rise rapidly—a key indicator of economic performance. The IEA expects this year that emerging countries will for the first time consume more oil than developed economies; by 2030, BP expects Brics nations to consume 42% of the world's energy: see charts.<sup>3</sup>

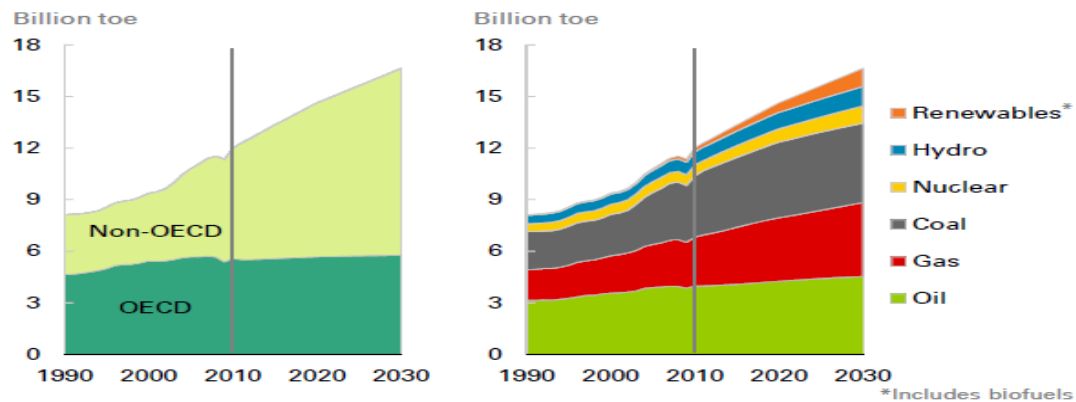


<sup>1</sup> <http://www.guardian.co.uk/global-development/2013/apr/09/brics-bank-critical-questions-oecd>

<sup>2</sup> <http://www.ft.lk/2013/04/04/proposed-brics-development-bank-and-global-game-changer-potential/>

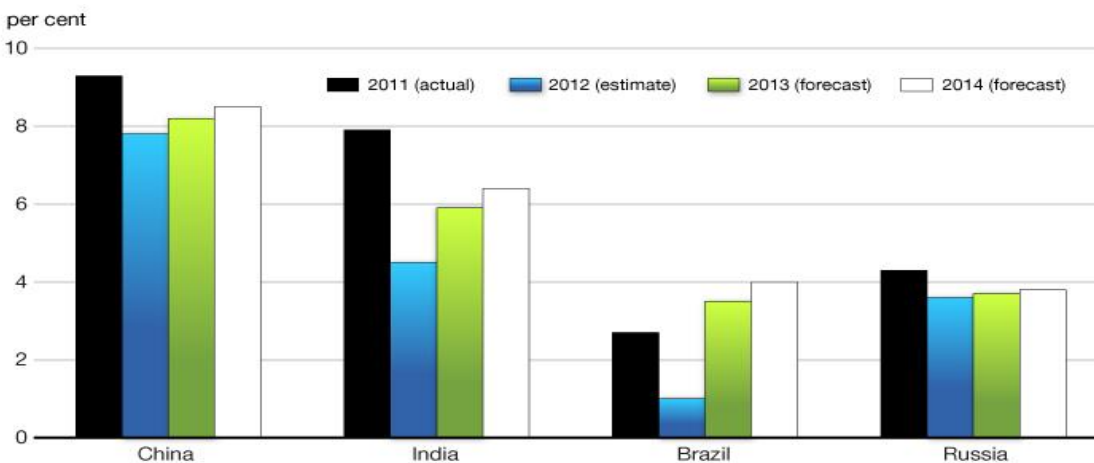
<sup>3</sup> <http://blogs.ft.com/beyond-brics/2013/04/05/iea-charts-point-to-bric-led-future/#axzz2Q2b1M4kt>

## Energy consumption by region and fuel



What this points to—and what the recent Durban forum underlines—is the growing strength and, equally important, the growing awareness of the strength of the Brics economies. They're here, they're not going anywhere, and they're willing to work together. At the meeting, the Brics' finance ministers emphasized the importance of continued international resistance to protectionist policies, and pointed to international trade as one of the main engines of world economic growth.<sup>4</sup>

Prior to the summit, Brics members had proposed contributing \$50 billion in total for the development bank to begin with. That number has been scaled back and the amount of initial funding not yet been determined. However, the nations have agreed, in principal at least, that the development bank would fund infrastructure projects worth a whopping \$4.5 trillion<sup>5</sup>. Yes, that's trillion. No Brics nation is facing the potential of financial calamity, which means they have time on their side, unlike their European counterparts. All of the nations are forecast growth in the foreseeable future, which can allow them the confidence to make strong investments: see chart<sup>6</sup>.



<sup>4</sup> <http://www.tralac.org/2013/04/03/the-fifth-brics-summit-and-an-emerging-brics-trade-agenda/>

<sup>5</sup> <http://www.guardian.co.uk/global-development/2013/apr/09/brics-bank-critical-questions-oecd>

<sup>6</sup> IMF, *World Economic Outlook Update*, January 2013

What's further interesting is the recent inclusion of South Africa into the Brics acronym, fitting conveniently in the 's' slot. Not only was South Africa admitted to the forum, the recent meeting was held in Durban. Why South Africa, you may ask? Its economy and its role in geopolitics are certainly dwarfed by that of the other members; from a layman's perspective, it may seem like a younger brother has been allowed to tag along with the big kids for a change.

It turns out that those big kids need South Africa because South Africa may be the key to unlocking East African resources. South Africa boasts the most stable economy in sub-Saharan Africa as well as the best infrastructure, and is a solid home base from which to further expand infrastructure and trade. China above all needs access to the region's resources in order to feed its hungry manufacturing sector. Durban is the region's premier port, and the choice of Durban as opposed other viable South African cities as the venue of this conference underscores the pivotal importance of the port, and ports in general, to Brics nations.

The ports of Mombasa, Kenya and Dar es Salaam, Tanzania currently serve large swathes of East African trade, and a proposed mega-highway stretching from Cape Town all the way to Cairo would help to open the hinterlands of the region to further development. The highway would allow greater access to African resources, boosting both regional and international trade. This highway already exists to a certain extent, but has many weak links which currently prevent it from being a real, viable transport route. The Brics are looking to change that.

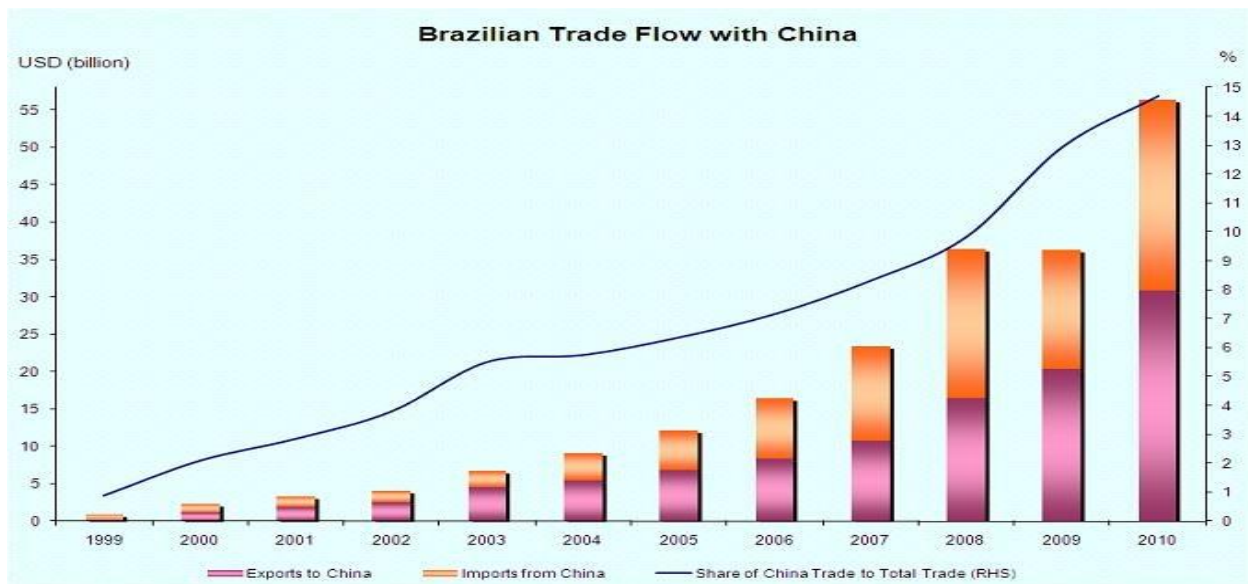
China has already funded numerous infrastructure projects in East Africa, including a massive superhighway linking Nairobi, Kenya to the industrial town of Thika—a 31 mile road that in some places (eat your heart out, L.A.) is 16 lanes across<sup>7</sup>. China is not messing around. They need goods from Africa and they're willing to spend to get them. They've invested in oil and minerals all over the sub-Saharan region. There is, of course, a long way to go in revamping East African infrastructure. A man who would move mountains must begin with small stones, and infrastructure in Africa in general is certainly a mountain to be moved; under this proverbial mountain, however, there could be a big pot of gold waiting to be claimed.

Africa is not the only venue for change. Brazil and China have recently struck a deal that will allow them to trade \$30 billion worth of goods in their local currencies instead of in dollars or euros, as was previously done. This signals goodwill between the nations and provides a kernel from which to further generate bilateral trade. The timing is well-placed; they've struck it now likely in anticipation of the expansion of the Panama Canal in 2015, which will double the trade capacity of the Canal itself—from its current 5% of world trade to a possible 10% of world trade—and allow for many more goods to flow between the two nations. The previous decade was witness to a huge increase in the amount of trade between the two countries, and their continued cooperation as well as the impact of major infrastructure projects will set the stage for bilateral trade to only increase further—see chart.<sup>8</sup>

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<sup>7</sup> <http://www.npr.org/2011/06/21/137185048/will-kenyan-superhighway-also-benefit-china>

<sup>8</sup> <http://seekingalpha.com/article/265302-brazil-s-trade-with-china-soars>



The whole point of this summit, and the creation of the investment bank that will likely result from it, is to pave a way forward, literally and figuratively, to move more goods. To move more goods, there will be a necessity for huge infrastructure projects to boost the trading capacities of nations' roads, railroads and ports. This will be exactly the purpose of the yet-to-be-created bank. The Brics nations rightly see themselves as ever-larger players economically and geopolitically, and are working to assert their power. They've laid the foundation for a new and very powerful trading bloc, and although many of the details of the bank and its specific goals still need to be ironed out, it's reassuring to know that they're not making any rash decisions.