India and the BRICS

BRICS Summit 2012

GATEWAY HOUSE
INDIAN COUNCIL ON GLOBAL RELATIONS
भारतीय वैश्विक संबंध परिषद्

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T: +91 22 22023371 E: info@gatewayhouse.in W: www.gatewayhouse.in

Gateway House: Indian Council on Global Relations is a foreign policy think tank in Mumbai, India, established to engage India's leading corporations and individuals in debate and scholarship on India's foreign policy and the nation's role in global affairs. Gateway House is independent, non-partisan and membership-based.

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Contents

Introduction

Over the last decade, countries known under the emerging markets acronym of BRICS, have begun to seriously define their common interests and values. Brazil, Russia, India, China and South Africa have held three summits so far – in Russia, Brazil and China. On March 29, they will meet again, this time in New Delhi, with the goal of addressing the global economic condition, reforming financial and regulatory institutions and improving cooperation with each other on a host of international issues from starting a BRICS development bank to interchanging high tech skills. While these issues directly impact them, they also affect much of the developing world.

Though different in size and resources, the BRICS nations as a group are massive: they account for 45% of the world population, 25% of global GDP and 50% of recent global growth. Together, they have the potential to create a future model for others.

As an independent market-focused Indian think tank, Gateway House has been deeply invested in the future of India and its BRICS counterparts. What is the best way to develop affordable housing for large population nations? What is the best way to secure long term, manageable energy supplies? Can healthcare be delivered more efficiently, en masse, and to remote regions? How much sustained growth is required to making one of these large nations succeed? How can the inflation-growth trade-off be managed? Is there a better way to produce and deliver food than with only large scale enterprise? Can the BRICS be lenders of best resort for each other? How to best take advantage of the globalization of technology?

The summaries of research papers in this booklet begin to offer some answers. In "India-Brazil: Pioneers of a new development agenda," researcher Estefanía Marchán examines the possibilities for India to bring affordable housing technology to Brazil, while Brazil offers its experience with programmes to develop profitable small farms and deliver cash payments with modern networks to the poor. Marchan then looks at how the lessons from India-Brazil cooperation might be passed on with good results to Africa.

In "India-Russia: Taking each other seriously," Russia Studies research fellow Katherine Foshko looks at why a once-healthy India-Russia relationship has gone into quietude and suggests that a tech revival should be advanced. "Information technology in particular is an area where India should capitalize on the plethora of educated and talented Russian professionals and Russia can benefit from the size as well as the expertise of the Indian labor pool," she writes.

Similarly, K. N. Vaidyanathan, the former executive director of India's Securities and Exchange Board and senior Geo-economics Fellow, makes a case that India's careful, deliberate approach to permitting financial derivatives on its exchanges protected it from the ravages of the 2008 global crash. It has created a model for BRICS and other developing countries, which are seeking to grow while insulating their financial markets from global shocks.

Renu Modi, an professor at the University of Mumbai who directed its African Studies Center, points out that while South Africa might have been inducted into the BRIC's club as a "gift", its greater as a gateway to the 1-billion-person African continent.

There are also cautionary notes. The two largest nations, Indian and China, are both experiencing slower growth, but their outcomes couldn't be more different, write Gateway House executive director Manjeet Kripalani and adviser Bob Dowling. China is engineering a slowdown to encourage a consumer economy but India is heading for a dangerous stall that must be reversed. Meanwhile, researcher Samir N. Kapadia explains that while China is a friendly banker to BRICS, its lending comes with strings attached.

We hope you enjoy the original thinking these ideas add to the formal BRICS agenda.

Manjeet Kripalani
Executive Director
Gateway House: Indian Council on Global Relations
Mumbai
March 2012

India-Brazil: Pioneers of a new development agenda

~ Estefanía Marchán

Expectations are high for the fourth summit of Brazil, Russia, India, China and South Africa, to be held in New Delhi on March 29th. With economic crisis ablaze in the Eurozone and signs of another global recession, anticipation is mounting for how the leaders of the so-called BRICS will address the world economic slowdown and how far they will push to reform the institutions of global governance.

Yet with the spotlight on the economy, a promising and tangible development agenda could be overlooked. At every summit, members have renewed their pledge to strengthen cooperation on social protection, public health, food security and agriculture. But little has been achieved so far. For India – home to one third of the world's poor – these efforts should be a priority.

The potential benefits of cooperation are especially clear in the case of Brazil. India and Brazil have declared inclusive development an imperative and have engineered creative solutions to meet their developmental challenges. But both also face many obstacles to equitable development – some of which can be overcome through mutual learning and targeted bilateral investment.

India and Brazil have declared inclusive development an imperative and have engineered creative solutions to meet their developmental challenges. But both also face many obstacles to equitable development – some of which can be overcome through mutual learning and targeted bilateral investment. .

Brazil's Zero Hunger strategy, for instance, has been successful at reducing poverty, inequality and hunger by developing profitable small farms and delivering cash to poor families through innovative payment systems. As the debate rages in India about how best to reduce poverty, curb growing inequality and boost agricultural production, Brazil's experience can help.

Brazil's social schemes are among the world's best targeted and they're transparent. They have demonstrated how to streamline the delivery of services across all levels of government. By collaborating with Brazil, India can improve the reach and efficiency of its own, notoriously leaky schemes, including the Public Distribution System, whose losses are estimated to be around 44% a year.

There are of course vast differences between the two countries. India's poor are twice Brazil's entire population, for example. But that shouldn't stop India from borrowing some good ideas. It's not necessary for India to indiscriminately adopt cash transfers or other Brazilian schemes to benefit from knowledge sharing. India can leverage its private sector skills to scale up programs.

In turn, Brazil can benefit from India's innovators, who are finding novel ways to provide the country's low-income population greater access to products, services and employment that enhance living standards. India has produced the world's cheapest car, electronic tablets that cost $50, large, successful retailers that link thousands of rural workers to modern urban markets, and family-sized apartments in cities that sell for $4,200. In the affordable housing sector the long-term opportunities for partnerships with Indian entrepreneurs are particularly significant. Brazilian officials predict a deficit of 23 million homes for low-income families in the next 20 years.

In healthcare, the benefits of an India-Brazil collaboration are already evident. Faced with common diseases and limited resources, India and Brazil have used each other, challenging the international intellectual property regime to combat HIV/AIDS. In 2007, for example, Brazil broke a patent on an antiretroviral drug produced by Merck Pharmaceutical in the wake of rising drug costs. Indian firms were the only producers of the generic version of the drug, and Hyderabad-based Aurobindo ultimately provided Brazil with the active ingredient to produce it. It was estimated that this would save Brazil $237 million through 2012.

Brazil has taken advantage of their joint campaign for greater access to life-saving medicine and seen an extraordinary decline in HIV/AIDS. Recognizing such synergies, India and Brazil have invested $1 million each in joint research on common diseases through the Indo-Brazil Science Council. This alliance can and should be strengthened.

Healthcare, poverty alleviation and market-driven social innovation are just a few areas where cooperation between these powers can produce broad social benefits. A formal partnership is needed between Brazil's Ministry of Social Development and Fight Against Hunger and India's Central Planning Commission to institutionalize knowledge sharing and technical cooperation on social protection programs. Chambers of commerce, including FICCI and the India-Brazil Chamber of Commerce, can drive private sector collaboration, connecting Indian and Brazilian entrepreneurs.

At a time when both countries are beginning to use foreign aid as a diplomatic tool, it is tempting to regard them as competitors. But these countries should instead recognize each other as strategic partners and pioneers of a new development agenda – one that pragmatically addresses the needs of developing nations. India and Brazil's strategies for inclusive development are complementary and together hold great value.

Foreign aid provided by BRICS countries has more than doubled since 2005, and the surge is intimately tied to their efforts at reforming global governance. Since the end of World War II, global governance has been a Western-led enterprise. The rules that govern aid and influence the development of other nations have been made by the victors of the war and have evolved to rest within a small group of powerful countries – which now face a self-made crisis. With the rise of these new powers, partnerships that once seemed weak are gaining traction. Prime Minister Manmohan Singh should take advantage of his position as host of the upcoming summit to drive a new development agenda.

Estefanía Marchán is the head of Latin America Studies at Gateway House: Indian Council on Global Relations, Mumbai.

India-Russia: Taking each other seriously

~ *Katherine Foshko*

In December, Indian Prime Minister Manmohan Singh went to Moscow for the 2011 India-Russia summit. It was the 12th such high-level meeting since the accession of Russian Prime Minister (formerly President) Vladimir Putin to power in 2000.

Putin has enjoyed steady visibility and popularity for his role in India - he is credited for reviving ties that had flagged in the 1990s. In geopolitical terms, the two countries are strategic allies whose wider goals—the pursuit of a multipolar world, especially in Eurasia, stability in Afghanistan—align, or at least do not clash, with one another. Russia supports India's gaining full membership in the Shanghai Cooperation Organization while India has displayed none of the suspicion of Western countries at Putin's recent proposal regarding the formation of a "Eurasian Union." The relationship's progress has recently been marked by two events: Russia's completion of two nuclear reactors at the Kudankulam plant in Tamil Nadu—amidst protests from the local population—and the reciprocal easing of the visa regime for Indian and Russian businessmen to address their woefully underperforming bilateral trade and investment regime.

Now, in the midst of the global economic slowdown, is the time for the two countries to use their history of cooperation and political goodwill to address their respective economic needs and market gaps by boosting joint innovation.

But are meetings enough to lift the Indo-Russia relationship from the benign neglect of the past? An unprecedented 30 Memoranda of Understandings (MOUs) were signed between the two countries at the summit in 2010, but many, such as the MOU "envisag[ing] joint production of modern oncological medicine in the Russian Federation and/or purchase of raw materials" have been too vague to lead to tangible results. The government-to-government exchanges that worked so well in years past are lately proving counterproductive or downright obstructionist, resulting in significant misunderstandings. For instance, even the stalwart Indo-Russian defense cooperation suffered a hiccup in the last year when India bypassed Russian MiG-35s for an $11 billion defense procurement deal with the EU. Russia—India's major arms supplier since the 1960s—subsequently reneged on its pre-planned war games with India in late May.

Soon after Putin's September announcement of his presidential ambitions, a response in the Russia & India Report, a supplement of the official Russian government newspaper Rossiyskaya gazeta, claimed that Russia had a diversification plan of its own: "... the power balance in the Russia-India-China equation may shift, especially in light of Vladimir Putin's visit to China and resulting agreements on broadening of Russian-Chinese economic cooperation from traditional industries to high technology industries and signing $7 billion deals."[1] This is more than an idle threat: China's bilateral trade with Russia far exceeds India's at $42.4 billion and saw 25% growth in 2009-10. That makes China Russia's biggest trade partner – and it imports a large amount of Russian defense materiel. At Putin's visit to China in October 2011, the two north Asian neighbors signed varied agreements on energy and hydropower, and also created a mutual investment fund dependent on contributions from private donors. Immediate results came in the form of sixteen economic and trade cooperation deals across a broad swath of sectors including new machinery, electronics, and agriculture.

Directly responsible for this result were the delegations of leading businessmen from China and Russia brought to the state meeting and given the opportunity to interact with each other.[2] Meanwhile, because of the lack of effective introductory mechanisms, Indo-Russian private cooperation is limited to small-scale trade and investment fora, none of them tied to state visits. India clearly needs to learn from the vigor and urgency present in the Russia-China relationship and, above all, from its focus on private sector engagement.

The relationship can take a step in that direction. Modernisation of its own economy is at the top of the Russian leadership's agenda, and will extend to its bilateral ties as well. This is the time for India to really push for sophisticated, high-technology cooperation with its old friend and strategic partner. The best opportunities in the bilateral relationship which promise immediate results are those that incubate Russian science and hi-tech concepts by using India's technological eco-system and infrastructure for joint projects. Information technology in particular is an area where India should capitalise on the plethora of educated and talented Russian professionals and Russia can benefit from the size as well as expertise of the Indian labor pool. For India, the size and scope of the teams and trials involved will not only promote innovation but also provide employment and encourage market growth in new technologies.

There are already some joint hi-tech projects in the pipeline. One such is a venture with the Skolkovo Innovation Center, a planned hi-tech business area just outside of Moscow and the emblem of the Russian government's focus on innovation. An MoU between Tata Sons and Skolkovo Foundation involving joint research and development in communication and IT was signed in 2010. Yet its realisation, as that of the Skolkovo Center which has been under construction since 2009 and is yet incomplete, remains distant. Nanotechnology, as well as another pioneering science, biotechnology, has also been on the agenda since the 2010 summit given that the costs of commercialising and piloting nano -and bio- solutions are higher in Russia than in India. Clearly, a few MoUs on cooperation won't make the cut; what's needed is a more wide-ranging and systematic plan where the government can provide initial support and later allow the private sector to take over.

India and Russia can launch such initiatives as government-funded study trips for representatives of innovative IT businesses to visit their counterparts in India or Russia and, even more crucially, create the first-ever Indo-Russian IT forum. Private initiatives, e.g. co-sponsored by organisations like NASSCOM in the two countries, can add to the one existing joint IT center by encouraging the formation of joint ventures between IT organisations and scientists. This can create venture funds for collaborative Russian-Indian projects which would benefit from Indian relationships in the outsourcing industry and Russian relationships in higher-end computer science research in third countries. For instance, Russian specialists have experience in the automatisation of embedded systems programs, which they can coordinate with Indian IT professionals. Together the two can excel in such joint projects that involve scientific programming, to be used, among others, in space exploration - an area which India is trying to rapidly develop.

Now, in the midst of the global economic slowdown, is the time for the two countries to use their history of cooperation and political goodwill to address their respective economic needs and market gaps by boosting joint innovation. Only then will India's most important—yet disconcertingly dormant—geopolitical partnership receive a much-needed lift.

Dr. Katherine Foshko is the Russia Studies Fellow at Gateway House: Indian Council on Global Relations, Mumbai.

India: Financial Regulatory Exporter

~ K. N. Vaidyanathan

Europe is in a financial daze. Greece is under severe pressure. Even German banks, normally the most stable, are reeling under losses of billions of dollars. Now voters in the US, fed up with joblessness and a deeper recession, are camped out in Wall Street, protesting and demanding reform of politics and finance. The West, once viewed as the dominant nation- and institution-builder, especially by emerging markets and the under-developed world, is unable to follow its own prescriptions for growth and free-markets. Far from it: its economies carry systemic market risks and misplaced incentives which impact societies. They are hardly models for the world to follow.

Then what is?

Try India. India has long exported its 'soft' strengths. A thousand years ago, the Chettiars from South India travelled to South East Asia and helped establish banking and money-lending systems in these countries. The overlay of colonialism dissolved many of those systems. But in the last five years, India has once again begun building the financial and regulatory systems of other nations. Since 2006, Mumbai's Multi-Commodities Exchange (MCX) has set up exchanges in Singapore, Bahrain, Mauritius, Botswana and Dubai. The National Stock Exchange (NSE) has set up the surveillance system for the Colombo Stock Exchange and runs the certification program in derivatives in both Colombo and Mauritius. The two national depositories, NSDL and CDSL, have agreements to share best practices with their counterparts in the US, Japan, Russia, Taiwan, Korea, Malaysia and Euroclear.

This is one area where India leads China. Sure, in many emerging nations, China has taken the lead, readily helping them turn their back on the Western model of development by building their hard infrastructure and extractive industries. But now those same countries – many affected in some form by the wave of recent democracy movements – are looking with urgency at building 'soft' infrastructure like markets and regulatory and institutional frameworks. And they are turning their gaze upon India, a similarly developing nation with long experience of capital markets, democratic values and independent regulatory institutions built around affordable and robust structures. More relevant, India's conservative and 'inclusive' financial regulatory system has insulated it from the global financial crisis, making it a compelling case study especially for emerging markets.

> *Many countries are looking with urgency at building 'soft' infrastructure like markets and regulatory and institutional frameworks. And they are turning their gaze upon India*

India's financial export model is based on a system at home that has developed affordably and robustly, though cautiously, with Indian government and regulators working to ensure this emerging market does not run ahead of itself. Derivative products were introduced only after extensive consultations between the regulator Securities and Exchange Board of India (SEBI) and central banker Reserve Bank of India (RBI), exchanges, market participants and industry experts. Today, India has a thriving derivatives market in index and single stocks, currencies and interest rate futures. The T+2 settlement system, supported by a daily margin regime that requires even institutional investors to comply, helped Indian stock markets avoid defaults and systemic collapses through the global financial crisis of 2008. The National Stock Exchange and the Bombay Stock Exchange (BSE) currently rank amongst the top five exchanges in the world in terms of trading volumes: From 500,000 trades a year in 1994-95, volumes have grown to over 2.1 billion trades in 2010-11. India was the first country to glide ahead in retail investor protection – it abolished entry loads on mutual funds back in 2009, way ahead of the UK's plans to do so in 2012.

India's adaptable and affordable systems are replicable for similar emerging markets around the world – and there are a swelling number of them, especially in Africa and the Middle East, which are looking beyond the once unassailable western systems. The financial evolution of these emerging markets is important: they are the global GDP contributors of the future.

For now, their systems are infant, and not independent. In Africa, for instance, currently more than 25 countries – up from 10 in 1990 - have stock exchanges, but only 11 have an independent market regulator. In Zimbabwe, Rwanda, Namibia, Mozambique, Ghana, Cameroon and Botswana, the stock exchanges double up as regulator - but are evaluating separation. In the Middle East, which has 14 stock exchanges – up from six just 20 years ago - countries like Lebanon and Kuwait are in the process of establishing independent market regulators. Eight of these markets have been created only in the last 15 years and are trying to evolve into major players by attracting both resident and foreign investors.

These markets share commonalities but are a stark contrast to the rest of the world. They are resource-rich, corrupt and war-torn; income and wealth distribution are skewed. Their experience with risk-taking has been limited to life, not money. In their saving and investing habits, they focus more on 'return of principal' than 'return on principal' i.e. their ability to take the risk of loss of principal is low.

Central banks often play the regulator's role across all financial markets. The State is mostly the co-promoter of enterprises along with fledgling private sector entrepreneurs; it is also the dominant player in these economies and, most often, the provider of first and last resort to its people. In short, these countries are not internally ready or geared to adopt the more sophisticated western model of capital markets as 'pass through' structures based on caveat emptor where all risk is borne by the investor.

Migration to capitalism and free markets, therefore, needs to be carefully planned with a long term perspective – calibrated to manage the downside risk of instability, while implementing plans to create a vibrant financial market. Because many of these countries are poor, the process has to be inclusive with a focus on the less privileged and more vulnerable. The regulatory framework has to strike a balance between market development and investor protection.

Indian regulators understand this. They remain conscious of the larger role that financial markets have to play and the influence it has over the economy. This alignment protects India from the excesses witnessed by other markets. In the $2.5 billion scam of IT outsourcer Satyam, the Indian government and regulators came together to find a new buyer and protected the interests of stakeholders – investors, customers and employees. This approach to problem-solving, in stark contrast to the all-round loss caused by Enron, will find resonance in emerging markets.

Of course, Indian markets have some distance to travel in improving quality and frequency of corporate disclosures (it needs quarterly financial statements including cash flows), strengthening checks on promoters protecting majority shareholders and migrating to international accounting standards. And India needs to overcome a larger problem: If the Western institutions can be charged with 'regulatory capture' by dominant market participants resulting in excesses, their Indian counterparts are considered corrupt and prone to compromising their independence to government influence.

The challenge is to institutionalize islands of excellence and integrity through technology, transparency and stability in policy formulations. India's globally-respected IT industry has already shown it can achieve these goals. New Delhi now must seriously tackle these issues soonest, or risk losing a new, stellar export: affordable, reliable, robust financial regulation for the emerging markets – and perhaps for the battered financial markets of the West.

K. N. Vaidyanathan is the former Executive Director, Securities and Exchange Board of India. He is also a Member of the Finance Board at IIM, Ahmedabad and is Gateway House's Senior (Adjunct) Fellow for Geo-economics.

Why is South Africa a BRIC?

~ *Alisha Pinto*

South Africa is set to participate in the 4th BRICS summit in New Delhi, its 2nd since its membership last year. What does this mean for newest member of this grouping? Alisha Pinto, Researcher at Gateway House, interviewed Renu Modi, Senior Lecturer at the Department of African Studies, Mumbai University, on South Africa and its role in the BRICS.

In 2010, South Africa officially became a member of BRICS. Compared with the other BRICS countries, South Africa's size, population, and economy are quite small. Do you think that Nigeria would be more representative of sub-Saharan Africa? What value does South Africa add to BRICS?

BRICS is not decisively about a politico-economic grouping of comparable economic-demographic stature, though that is certainly one of the determining factors in deciding the membership. South Africa's entry into the BRICs on December24, 2010 was a Christmas gift to itself. Even though it has a much smaller population and economy as compared to Nigeria, other factors worked in its favour – its vast natural resources such as gold, diamonds and platinum, its excellent infrastructure, its established corporate footprints, a culture of innovation, easy access to finance for business, a stable macro and micro financial climate, an advanced banking system, and functioning regulatory frameworks.

South Africa is already the voice of the continent at various international forums. It is poised to serve as a base as well as a gateway for investment from the BRICS countries to the vast market of a billion Africans.

But Nigeria has a place too: If we take into account the fluid nature of international politics and constellations like BRICS or Nigeria's 'Vision 20: 2020', (a development goal designed in 2010 to take the country to the league of the top 20 economies of the world by 2020), we might have 'BRINCS,' and Nigeria might step in to be the western gateway to the continent!

To what extent does South Africa actually represent the better developed parts of sub-Saharan Africa?

Africa, the second largest and the most populous continent after Asia, has 54 nations with diverse history and growth trajectories. South Africa is different from the other BRICS member states; it has a unique history and a different economic trajectory. It does not literally 'represent' the other African countries but it does share the concerns of other states of sub-Saharan Africa about democracy, countering violence, dealing with issues of law and order, economic inequality, social and cultural diverse populace, poverty and unemployment.

China pushed for South Africa to join BRICS in December 2010. In October 2011, South Africa denied the Dalai Lama a visa to attend the birthday celebrations of fellow Nobel Laureate, Desmond Tutu. Was that a trade-off?

Though unsaid, the China factor is clearly evident in South Africa's entry into the BRICS. China is definitely the most dominant constituent of the BRICS. It has massive financial stakes in South Africa, mainly in banking, infrastructure, mining, transport and renewable energy. For example, the Industrial Commercial Bank of China (ICBC) has a massive investment of 237.6 billion rupees ($4.7 billion), a 20% stake, in South Africa's Standard Bank.

China is South Africas largest trading partner with a surplus in favour of China and the infusion of the Chinese yuan has kept South Africa afloat during the economic recession. You can see why China has a place of importance in South Africa's foreign policy.

The Dalai Lama last visited South Africa in 1996, a decade and a half ago, to meet Nelson Mandela. The denial of a visa to the Dalai Lama to attend Desmond Tutu's 80th birthday celebrations was not the first time he was denied a visa. In 2009, he was refused a visa on the pretext that his visit would distract from the 2010 World Cup preparations. The Dalai Lama is a vocal critic of China's denial of the right to self-determination and of human rights to the Tibetans. The recent visa denial was criticized locally; COSATU, the Coalition of South African Trade Unions, termed this decision an "exchange of morality for yuans."

This definitely shows that South Africa prioritizes its economic relations with China and supports the 'one China' stance that rejects political independence of Tibet. The Zuma administration is more explicit about preserving South Africa's enhanced engagement with China, while in the Mbeki period, the China factor was more understated.

South Africa is a part of the BASIC group comprising emerging countries opposed to Western pressure to undertake legal emission obligations. Given that South Africa is a polluter similar to mining countries like Australia and Canada, will it be able to maintain its position with the BRICS at the climate change negotiations?

There is an unstated link between the debates on climate change and energy security of a country. South Africa is Africa's foremost polluter and reportedly its mining sector, mainly coal, contributes about 40% of the total greenhouse gas emissions on the continent. South Africa's excessive use of coal for power generation and production of petrol by leading public sector companies questioned its position as a genuine broker at the December 2011, UNFCCC climate change meeting.

As a part of the BASIC countries, South Africa stood firm on the issue that developed countries should bear the burden of climate change, lead the emission cuts and provide funds to the proposed Green Climate Fund and technology to developing countries for better adaptation and mitigation of climate change. All countries, including South Africa, have been talking about the use of renewable sources of energy such as solar, wind and water power but this has not been put into practice. For a genuine commitment to the issue, there has to be an acceptance of the principle of Common but Differentiated Responsibility (CBDR) and a strong and legally binding compliance procedure in future climate change negotiations.

Where does South Africa stand in the Doha Rounds of the WTO negotiations? Has it been supporting the emerging economies at the past meetings?

At the recent Davos meeting in January 2012, South Africa stood alongside Brazil, India and China to issue a common declaration and reaffirmation that Doha Development Rounds must be based on the principle of "reciprocity" requiring proportional commitments between developing and developed countries. At the core of the agreements would be the interest of poor people that can be read as the 'national interests' in their respective home contexts. So certainly, South Africa supports the stance of the developing countries.

At the Doha negotiations, South Africa and other emerging markets of the global South are by and large on common grounds. However, they do differ in negotiations on issues of market access and the need to protect their domestic agricultural and industrial sector. Here they use defensive strategies against each other, as exemplified by Brazil and South Africa, which guard against any 'injury' caused to their 'sensitive products' these countries use import prices and quantity triggers to protect the livelihoods at home. Brazil challenged the imposition of high tariffs on its poultry exports, amounting to 70 percent of South Africa's poultry imports. Brazil disagreed with the South African allegation that it was dumping.

From which BRIC countries does South Africa receive a majority of its foreign investments and what are the sectors that receive high levels of such investment?

Of the BRIC countries, China is the top investor in South Africa and the sectors that receive high levels of investments are the banking sector, mining sector (focusing on chrome), and electronic goods assembly. Overall, South Africa ranks second in China's mining investment in Africa, behind the Democratic Republic of Congo (six projects). China has expressed its desire to diversify its investments into sectors such as information technology, biotechnology, human resources and other industry services.

Renu Modi is a senior Lecturer and former Director of the Centre for African Studies, University of Mumbai.

India-Brazil: An African collaboration

~ *Estefanía Marchán*

Plenty of buzz surrounds BRIC (Brazil, Russia, India, China) investment in Africa. Rightly so: they are spurring the region's integration into the global economy as never before. Much has been heard about China's infrastructure-building in Africa and its competitive edge in the race for natural resources. But what are the two democracies within the grouping contributing to the Continent?

Unable to compete with China's hefty contributions, India and Brazil see agriculture – on which two-thirds of Africa depends for its livelihood – as their comparative advantage. Both countries have had their own agricultural India: Revolutions and are among the world's top food producers. After South America, Africa possesses the largest share of uncultivated cropland in the world – a land ready for transformation. Here, India and Brazil are providing important input in the form of affordable services and badly-needed technical expertise. Together, their venture into Africa's agriculture sector can reignite a primary engine for growth and prove vital to the region's food security.

By joining forces to bolster Africa's food security, India and Brazil have the chance to break ground on a tangible South-South agenda that could have a far-reaching impact on a matter of urgent global concern.

Individually, India and Brazil have leveraged their strengths in affordable low-tech and scientific research to boost Africa's agricultural productivity. India provides what it calls Triple A – adaptable, appropriate and affordable – technologies and Brazil has launched research and food security initiatives throughout Africa. The Indian government's increasing lines of credit – up to US$5 billion now – are driving investment, such as a US$15 million loan to develop commercial agriculture in Sierra Leone. Through Embrapa, its pioneering research institute, Brazil shares with several African countries the skills that transformed its own dry savannah into one of South America's most fertile regions.

Combined, it seems to be just what Africa needs. In Senegal, says Renu Modi, professor of Africa Studies at the University of Mumbai, low-cost irrigation pumps provided by the Indian firm Kirloskar Brothers have boosted rice production and allowed the largely agricultural nation to meet twice as much of its domestic demand. Simultaneously, Embrapa has partnered with Senegal, investing in technical training and experimenting with rice varieties.

This kind of interlocking investment by India and Brazil could be the new investment model for Africa.

Their investments could not have come at a better time. Agricultural productivity in Africa has been declining just as traditional sources of aid have shrunk. According to Robert Paarlber, professor at Harvard Kennedy School, the share of World Bank loans that went to agricultural development in Africa fell from 30% to 8% between 1978-2006, and U.S. agricultural assistance shifted away from capacity-building to food aid. By 2006, the U.S. was spending twice as much providing free food to the region as it was on helping Africans feed themselves. Such aid has done little to encourage Africa's development or to mitigate widespread malnutrition. The Food and Agriculture Organization reports that 30% of Africans remain malnourished. The global economic slowdown will surely impact food aid.

India and Brazil can fill the investment void. To maximize the impact, what is needed is a formalized India-Brazil Partnership for Africa's food security. Memorandums of Understanding can be explored jointly with the Comprehensive African Agriculture Development Programme, the African-led programme for improving food security and agriculture, or regional bodies like the Southern African Development Community, for cooperation appropriate to specific economic or agricultural climates. This will enhance India-Brazil relations without hindering their individual efforts in Africa. While Brazil's topography and climate more closely resemble Africa's, India's agricultural ecosystem has many lessons to offer. The average Indian farm is smaller than its Brazilian counterpart (1.3 ha versus 68 ha), and the sector employs more people in India than it does in Brazil. India's expertise in small farm mechanization and its experience of empowering women through microfinance and cooperative enterprises is highly relevant to Africa as it develops its industry. African institutions will benefit from hosting Indian and Brazilian scientists as well as private and social sector leaders to share their know-how.

Institutional and people-to-people interactions also present an opportunity for India and Brazil to build mutual confidence at a time when their bilateral and global interactions are increasing. International organizations, USAID and others already collaborate in Brazilian-led agricultural projects throughout Africa. The Indian Council of Agricultural Research or the forthcoming Indian Agency for Partnership in Development can step in.

If the partnership works, then India and Brazil can extend knowledge-sharing on agriculture and food-security programmes to other developing countries. The India-Brazil-South Africa trilateral forum, IBSA, can serve as a springboard for greater cooperation.

India and Brazil's increasing engagement in Africa is a clear sign that both countries are embracing their new roles as global diplomats. For now, collaboration in Africa's agriculture is not a priority for either country, but should be seriously considered. Policymakers and academics have historically called this type of collaboration 'South-South cooperation,' a term meant to distinguish the mutually beneficial interactions developing nations can have with one another versus the often unfavorable relationships they have with Western powers. South-South cooperation has long been a popular catchphrase within the Indian and Brazilian diplomatic lexicon, but is only now, with the emergence of these countries as economic powers, that the expression is beginning to carry any real promise. By joining forces to bolster Africa's food security, India and Brazil have the chance to break ground on a tangible South-South agenda that could have a far-reaching impact on a matter of urgent global concern.

Estefanía Marchán is the head of Latin America Studies at Gateway House: Indian Council on Global Relations, Mumbai.

China and India: Slowing growth vs Stalling growth

~ Manjeet Kripalani and Bob Dowling

At first glance, it's bad. Superstar China's growth target is lowered to 7.5% for the year, down from 8% previously, but shockingly lower than the blistering 10% average growth China racked up over the last two decades.

Across the water, India is slowing to 6%, well below the mandatory 7% needed just to create jobs in the formal and informal economy for over 20 million new workers each year. This must be bad news for India, China and the world.
But the two situations couldn't be more different. India's slowdown is the result of lack of economic reform, derelict infrastructure, archaic laws and asphyxiating graft. Slowing to 6% is indeed a dire outcome for India. The country's baby boomers are now bulging over 50% of the population. And they need livelihoods.

China's lower growth is a managed target, set expressly by the Beijing leadership to cool the economy from rising inflation, deflate a real estate bubble and most importantly direct growth to China's home economy rather than primarily drive growth through exports. In other words, after three decades of automatic, on-time development as a producer for the world, China is taking a breather because it can afford a slowdown. It's also politically convential.

A political backlash is growing against China in the United States and Europe for taking the West's jobs. Politicians brand China as a jobs vulture. It's a little late to blame China but it pays politically. In response, China is unfurling a banner that says "Rebalancing" of its home economy. That may reduce protectionist calls from the U.S. and take the pressure off China to revalue the yuan, now about 6.3 to the dollar. The rebalancing mantra also recognizes that China's largest markets, Europe and the U.S., may be on the slow growth track for some years ahead.

Internally, China is accepting slower growth for its own interest. China now has to position itself to move from the factory that it is, to the service and value-added China that its leadership set as the goal in its last two five-year plans. So far, however, that transformation has not taken place. China has not shown an ability to reorient its economy in a value-added, new direction.

> *The India-China slow-growth story isn't about trading places. For China, it is a strategy. For India, it is stalling out. All this suggests the time for India to act is now.*

The new policy recognizes the end of an era. For the last 30 years, China has been leveraging its "population dividend" - the economic principle that allowed it to transform millions of villagers into cheap workers for its export factories. While China can still produce willing workers from its Western states by building new highways and power plants, most economists believe its cheap-labor-days are over.

But that may be just as well. China will have fewer jobs to fill than the 10 million it needed to create annually in the past. The average age of a Chinese worker is 37 and it is expected that some 50 million employees will start leaving the work force in five years, gradually turning China into the world's largest aging society. China will need to increase social welfare spending and keep raising the minimum wage, which will put more money in the pockets of Chinese consumers. The benefit from this should be a bigger consumer market.

Contrast that with India, where the average worker's age is 23 and some 600 million are under 30. India inherits the population dividend but benefits only if it can create useful jobs for its new young workers. To do that it needs to ramp up growth in the 8% to 9% range. That is doable, argues Delhi economist Surjit Bhalla, who thinks India can cruise along at 9% while still keeping inflation in check. Inflation in January was 5.99%, but the long-term rate has averaged nearly 8%, a huge burden when it hits basic fuel and food for the poor.

So the India-China slow-growth story isn't about trading places. For China, it is a strategy. For India, it is stalling out. All this suggests the time for India to act is now. India has no capacity to become a factory export machine; nor does it necessarily have to. Its domestic economy is so large and underserved, there's plenty to go around at home alone. Just 15% of India is manufacturing; and as a democracy it has a mandate to try and spread social and economic uplift for all its people.

But the old adage about China having to peddle its bicycle at 8% or fall off isn't relevant to China anymore. Instead, that is the growth analogy for India. India can't afford to slack off, nor can it afford massive government spending to keep the bike upright. India has to clear the acres of regulatory brush and tax traps out of its path. China with $3.2 trillion of cash reserves on its books can take a break, sit back like a fat cat banker and watch the show.

Bob Dowling is an Editorial Advisor to Gateway House: Indian Council on Global Relations, and Manjeet Kripalani is Executive Director of Gateway House.

Beware of cheap lending from China

~ *Samir N. Kapadia*

Everyone's taking Beijing's money, but at what cost?

With over $3.2 trillion in foreign currency reserves, China has a lot to invest. In addition to spending across asset classes, offering attractive loans has been a growing part of China's economic strategy. China's fellow BRIC partners, Russia, Brazil, and India have benefited from this largesse. As emerging market economies, all three countries desperately require the cash to break ground on massive infrastructure projects. BRIC nations, along with South Africa, are reveiwing a plan to receive renminbi loans from the China Development Bank. Before they meet in New Delhi on March 29. In that light, its important to remember that China's loans come with strings attached.

India has much to consider. Recently, China made news by lending money to Anil Ambani's Reliance Communications, for the second time. The Reserve Bank of India last month approved a refinancing of foreign currency convertible bonds worth $1.18 billion dollars by a consortium of Chinese banks for the prominent Indian industrialist. It was the largest refinancing of its kind for an Indian company. The seven-year loan was offered at a 5% interest rate. In 2011, Ambani also needed cash - $1.9 billion - to help finance his 3G telecommunications infrastructure for Reliance Communications. Recorded as the largest financing in the history of India's telecom sector, the loan was underwritten by the China Development Bank. Reliance said the average projected interest cost savings on the loan are valued at $100 million a year.

As part of the $1.9 billion loan agreement, Reliance would import a part of its telecommunications equipment from Chinese vendors, namely Huawei Technologies. Huawei, a quasi-government company partially owned by the People's Liberation Army, has since invested $200 million in another Indian telecommunications company, Unitech Wireless, a major competitor of Ambani's Reliance. The loan opened the door for China to enter one India's largest markets, which is key since the Indian government had been working to keep Chinese companies out.

While India's mega-companies are only experiencing the beginning of Beijing's accommodating bank policy, Brazil and Russia seem to have grown accustomed to taking Chinese money with conditions.

As the banker to the emerging world, China has the ability to use cheap loans as leverage. But what China concedes on financing, it can recover on the supply agreement.

In 2009, Russian oil and pipeline giants, Rosneft and Transeft, took a combined loan of $25 billion from the China Development Bank. The loan was needed to finance a massive project that would supply China 15 million tons of oil a year, or 300,000 barrels a day, over 20 years. With $10 billion, Transneft was able to finish constructing Russia's first pipeline to Asia, linking the Federation to China and the Pacific. With the remaining $15 billion, Rosneft launched its Vankor field in eastern Siberia, the largest find brought into production in Russia in the last 25 years. Today, Rosneft is paying about 4% in interest, based on a margin of 3.25% over a six month averaged LIBOR rate. With LIBOR at historic lows, the terms of the loan agreement remain attractive for Russian companies.

The pipeline was completed on January 1, 2011, but the cost per barrel has been under dispute between the two countries. Last month, Rosneft approved changes in the existing agreement that permitted a $1.50/barrel discount on crude shipments offered to China National Petroleum Corp, the beneficiary of the supply contract. The Russians will absorb a discount of $3 billion in aggregate revenue over the course of 20 years, or $450,000 a day. The initial capital investment thus served as a bargaining chip for the Chinese in the boardroom.

Brazil is headed down the same path. In 2009, Brazilian oil giant, Petrobras accepted a $10 billion dollar loan from the China Development Bank over 10 years. The financing also tacked on an export agreement calling for 150,000 barrels of oil supply a day for the first year, followed by 200,000 barrels of oil supply a day for the remaining nine. The terms of the loan were also attractive for the Brazilians. Petrobras' then CEO, Jose Segrio Gabrielli, stated that the loan's interest rate, at less than 6.5%, offered better terms than anything the company had seen before. By offering the oil as collateral as opposed to being a part of a securitization structure, Petrobras makes the loan payments primarily from its oil sales. One question is whether Petrobras will be asked to discount the oil price as Russia did for China. By priming the pump with financing, China has demonstrated how it can lock up supply in a straight procurement contact, avoiding the commitment of an equity stake that it used in other Brazilian energy deals.

In 2010, the Brazilian iron ore giant Vale signed a $1.23 billion loan agreement to construct 12 'Chinamax' shipping vessels, each with a 400,000-ton carrying capacity for iron ore. Vale had the ships manufactured in China to create some goodwill, thinking the Chinese would then allow the Brazilian company to ship large quantities of iron ore to Chinese ports in its own vessels. But the plan backfired. On her maiden voyage in June last year, Vale's first Chinamax vessel was barred from anchoring at the Dalian port. Facing a backlash from domestic shipping companies, the Chinese government banned Vale's ships from any port of entry in China. After months of dispute, particularly from China's state-owned shipping company COSCO, Beijing allowed the ships to unload ore.

If there's a lesson here, it may be not to expect the Chinese to make concessions on the deals that they make with BRICS partners. When China finances a pipeline, it may demand a lower price on the oil delivered. If you use Chinese yards to build your ships, it may ban your ships.

China's use of power through state-owned companies like COSCO is exactly what India has to watch out for. India has to be especially careful with loan repayment plans that rely on assumed business with China. That interdependency can put companies and their shareholders at risk. India has to also beware of seeking loans at the last minute. Reliance tied up refinancing on its bonds just six weeks before the redemption date. With distressed Kingfisher Air looking for money, will China become the bailout bank for strapped Indian corporates.

All countries practice sharp bargaining. As the banker to the emerging world, China has the ability to use cheap loans as leverage. But what China concedes on financing, it can recover on the supply agreement. This quid pro quo then becomes more of an implicit guarantee for favorable supply terms and access to markets. Because of these tacit obligations, India needs to look behind the veil. Brazil, burned by its experience, is now stacking up the bricks against China with policies to forestall further influence.

Brazil's rude awakening has made it more protectionist. To curb damage to domestic manufacturers, the government raised taxes by 30% on all cars with a high proportion of foreign-made parts. Brazil has also put restrictions on foreign land ownership and in the case of Petrobras, made it the sole operator of oil fields where licenses haven't yet been auctioned. Petrobras' Refining Director Paulo Roberto Costa said the regulation "represents a strong position of the state to keep this wealth," insuring Brazil – remains - the prime custodian of its energy resources. Brazilian steps are all seen as ways for the nation to protect itself from Chinese influence in industries such as manufacturing, agriculture, and oil.

In a two-year window of 2009-2010, China has expended some $50 billion in Brazil through loans and investments, up from $83 million the year earlier. While the rate of Chinese investment has been significantly higher in Brazil, the Brazilian government's new 'BRICS-laying' policy may be what Russia and India should be considering as they tap China's ever-flowing river of money.

Samir N. Kapadia is a Geoeconomics researcher at Gateway House: Indian Council on Global Relations, based out of Mumbai, India.

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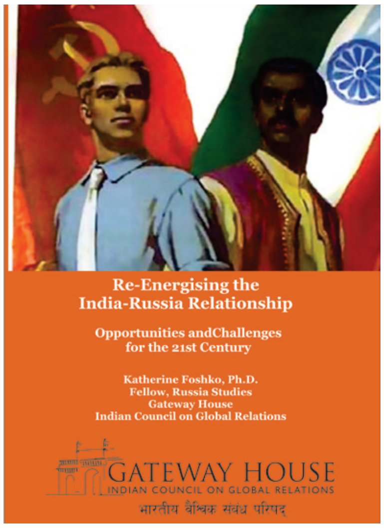

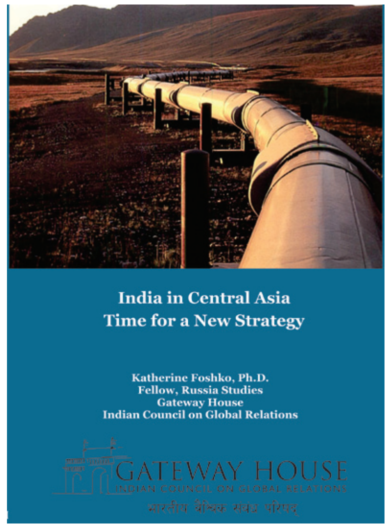

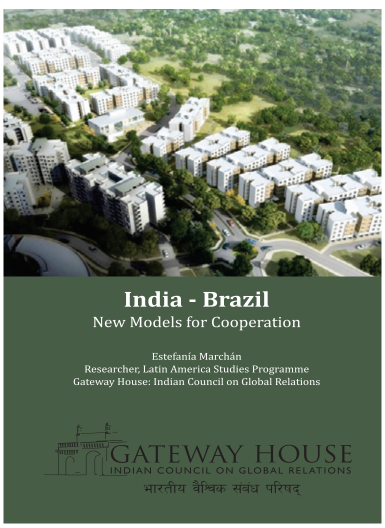

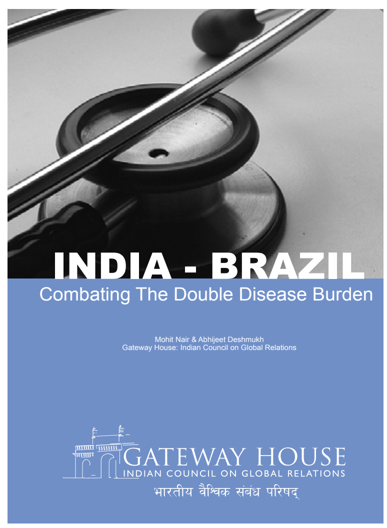

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