
The Impact of the Third BRICS Summit

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I. First BRICS summit with five participants

1. BRICs vs BRICS

The third BRICS summit was held on 14 April 2011 in Sanya on Hainan Island, China. The term BRICs (with a small 's') was coined by Jim O'Neill of Goldman Sachs in 2001 from the initial letters of Brazil, Russia, India and China followed by an 's' to form the plural. O'Neill coined the term to indicate the similarities between the four countries (e.g., in terms of population, GDP and trade). The term BRICS (with a large 'S'), on the other hand, came into use later (namely, after the emerging economies began to attract growing interest in the wake of the financial crisis of 2008) to denote the above four countries plus South Africa, the only African member of the G20.

The first BRICs summit was held on 16 June 2009 in Yekaterinburg, Russia. It was hosted by Russia's president, Dmitry Medvedev, and attended by Brazil's president, Luiz Inacio Lula da Silva, India's prime minister, Manmohan Singh, and China's president, Hu Jintao. The second BRICs summit was held on 15 April 2010 in Brasilia, Brazil. It was hosted by Brazil's president, Luiz Inacio Lula da Silva, and attended by Russia's president, Dmitry Medvedev, India's prime minister, Manmohan Singh, and China's president, Hu Jintao.

2. Reason for China's choice of Hainan as summit venue

The third BRICS summit was held on the Chinese island of Hainan (the "Hawaii of the Orient"). It was hosted by China's president, Hu Jintao, and attended by Brazil's president, Dilma Rousseff, Russia's president, Dmitry Medvedev, India's prime minister, Manmohan Singh, and South Africa's president, Jacob Zuma. South Africa agreed to attend after being approached by the Chinese government in December 2010.

As it happens, Hainan is the venue each April for the annual conference of the Boao Forum for Asia (BFA), modeled after the World Economic Forum in Davos¹. The conference is attended by heads of state and government, leading government

¹ The BFA has held a conference every year since 2002. The April 2010 conference saw the election of former Japanese prime minister Yasuo Fukuda as the BFA's new chairman.

officials, and leading businesspersons from around the world as well as China and has attracted growing interest. We can only assume that China, as the host country of the third BRICS summit, hoped to raise its profile and, ultimately, boost its soft power, by holding the summit just before the start of the BFA's annual conference and on the same island.

II. Outcome of third BRICS summit

Following the summit, a joint communiqué ("Sanya Declaration") was issued, consisting of 32 statements of agreement on political, diplomatic, security, economic, social and cultural matters together with a three-part action plan. Of particular interest to us are the following statements on capital markets and Japan's recent earthquake.

1. Reform of the IMF

Statement 15 calls for "a quick achievement of the targets for the reform of the International Monetary Fund agreed to at previous G20 Summits" and reiterates that "the governing structure of the international financial institutions should reflect the changes in the world economy, increasing the voice and representation of emerging economies and developing countries."

2. Reform of the international monetary system

Statement 16 recognizes that "the international financial crisis has exposed the inadequacies and deficiencies of the existing international monetary and financial system" and supports the reform and improvement of the international monetary system, with a broad-based international reserve currency system providing stability and certainty. It also welcomes the current discussion about the role of the SDR in the existing international monetary system.

Furthermore, it calls for more attention to the risks of massive cross-border capital flows and for further international financial regulatory oversight and reform, strengthening policy coordination and financial regulation and supervision cooperation.

3. Financial cooperation

Statement 13 commits the BRICS to increased cooperation in economic, finance and trade matters. In addition, Statement 11 of Part I of the action plan commits the BRICS to strengthening financial cooperation among their development banks. As a matter of fact, on 13 April (the day before the summit) China's Ministry of Commerce hosted the first BRICS Economic and Trade Ministers' Meeting while China

Development Bank hosted the BRICS Interbank Cooperation Mechanism Annual Meeting and Financial Forum.

Furthermore, on the same day as the actual summit (14 April), China Development Bank, the Brazilian Development Bank (BNDES), Russia's Bank for Development and Foreign Economic Affairs (Vnesheconombank), the Export-Import Bank of India, and the Development Bank of Southern Africa signed an Agreement on Financial Cooperation within the BRICS Cooperation Mechanism with the aim of achieving the following. First, the five countries plan to gradually increase mutual credit lines denominated in national currencies and to settle transactions in national currencies in order to promote mutual trade and investment². Second, they plan to cooperate in investing and lending for projects in key areas such as natural resources, technology, carbon reduction, and environmental conservation. Third, they plan to increase cooperation in financial markets, including stock market listings and bond issues. Fourth, they plan to increase the exchange of information by their banks about economics, the financial situation, and project finance.

It is also perhaps worth mentioning that, in Statement 5 of Part I of the Declaration's action plan, the BRICS agree that their ministers of finance and central bank governors will meet under the G20 framework and during the annual meetings of the World Bank and International Monetary Fund.

4. Japan's earthquake

In Statement 30 of the Declaration the BRICS extend their "deepest condolences to the people of Japan with the great loss of life following the disasters that struck the country" and commit themselves to continue their "practical support to Japan in overcoming consequences of these catastrophes."

With regard to nuclear energy, Statement 19 says that it "will continue to be an important element in future energy mix of BRICS countries" and that "the development of safe nuclear energy for peaceful purposes should proceed under conditions of strict observance of relevant safety standards and requirements concerning design, construction and operation of nuclear power plants." Furthermore, in Statement 18 the BRICS express their support for the development and use of renewable energy resources, while in Statement 17 they express their concern about rising and volatile prices for commodities, especially food and energy.

² China Development Bank's outstanding loans to BRICS members total just over \$38.0 billion, according to the address by Chen Yuan, the Bank's chairman, to the BRICS Interbank Cooperation Mechanism Annual Meeting and Financial Forum on 13 April this year.

III. BRICS growing presence and outlook

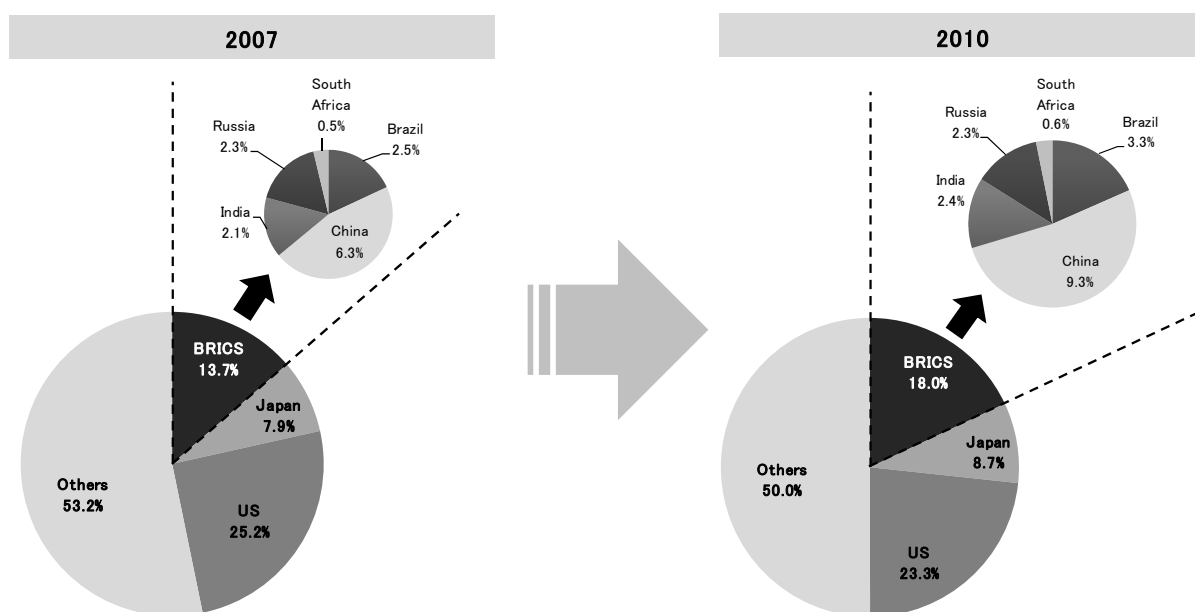
We now consider how the BRICS have become a growing force in the past few years.

First, their share of global GDP grew from 13.7% in 2007, before the financial crisis, to 18.0% in 2010 (Figure 1). In particular, China, which made headlines in 2010 when its GDP overtook that of Japan, saw its share rise from 6.3% in 2007 to 9.3% in 2010.

Second, their share of global trade grew from 12.6% in 2007 to 15.8% in 2010 (Figure 2). In particular, China exported \$1,202 billion worth of goods in 2009, overtaking Germany (with \$1,126 billion) to become the world's largest exporter for the first time. The following year, China exported more goods than ever before (\$1,577.9 billion) to become the world's largest exporter for the second year in succession.

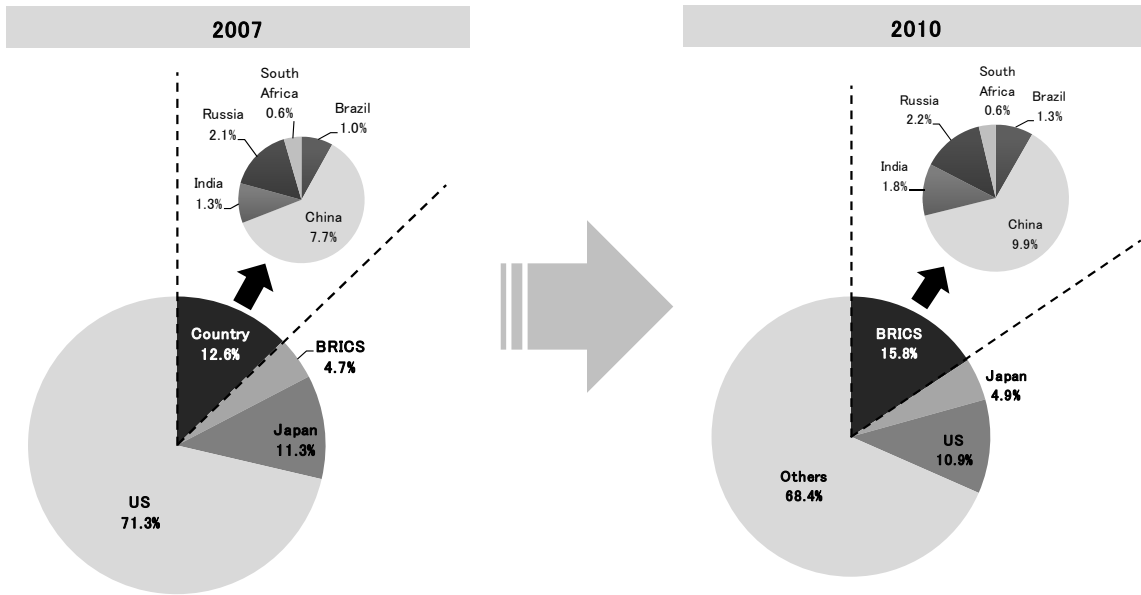
Third, the BRICS' share of global foreign exchange reserves grew from 37.2% in 2007 to 42.7% in 2010 (Figure 3). In particular, after overtaking Japan as the world's largest holder of foreign exchange reserves in February 2006, China became the first country to have foreign exchange reserves of more than \$3 trillion when its foreign exchange reserves reached \$3,044.7 billion at end-March 2011.

Figure 1: BRICS' share of global GDP



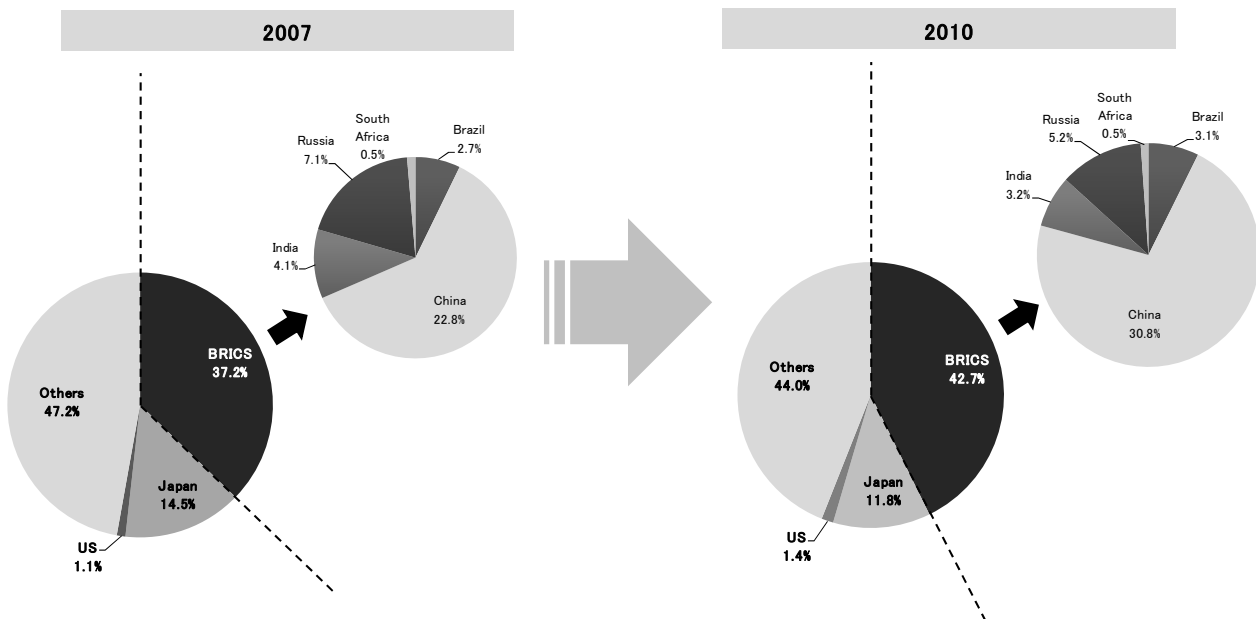
Source: Nomura Institute of Capital Markets Research, based on IMF data

Figure 2: BRICS' share of global trade



Source: Nomura Institute of Capital Markets Research, based on WTO data

Figure 3: BRICS' share of global foreign exchange reserves



Source: Nomura Institute of Capital Markets Research, based on IMF data

The BRICS' and, especially, China's growing share of global foreign exchange reserves has given the emerging economies an increasing say in how the IMF and the international monetary system are reformed but also an increasing responsibility to help correct global imbalances. We therefore think the Chinese government is likely to continue to adopt a more flexible stance on exchange rates, the internationalization of the renminbi, and the diversification of its foreign exchange reserves. At the same time, these developments create new opportunities for financial market participants around the world to raise and invest capital.

In Chinese, the word for "BRICS" is *jinzhuan guojia*. *Zhuan* means "brick" or "bricks," so the term literally means "financial brick(s)." However, the BRICS are no longer just "bricks." Statement 9 of Part I of the Declaration's action plan provides for the establishment of a network of BRICS' think tanks, a move that will increase the group's soft power.

India is due to host the fourth BRICS summit in 2012. We expect the BRICS to have an increasing say in international affairs and to continue to be a focus of international attention.