UDC 327

New Kids on the Block: the Rise of the BRIC and the Reconfiguration of Global Economic ties

Martin Müller

Universität St. Gallen, Switzerland
Centre for Governance and Culture in Europe, Varnbüelstr. 19
9000 St. Gallen
PhD, Assistant Professor
E-mail: martin@martin-muller.net

Abstract. This contribution examines the rise of the BRICs (Brazil-Russia-India-China) through the lens of central socio-economic indicators, including the World Bank Worldwide Governance Indicators and the World Values Survey. It charts the shift in economic weight and emerging reconfiguration of economic ties as evidenced in foreign direct investment (FDI) and the emergence of transnational corporations (TNCs) and considers the resulting challenges for intercultural contact at different scale levels through two brief case studies.

Keywords: BRIC; Brazil; Russia; India; China; emerging economies; global economy; foreign direct investment; transnational corporations.

The rise of the BRIC economies

BRIC – the acronym for Brazil-Russia-India-China – has almost drawn as much puns and quips as it has inspired discussions about the shifting weight in the world economy. Hinting at the dominating role of China, David Rothkopf pointed out that '[w]ithout China, the BRICs are just the BRI, a bland, soft cheese that is primarily known for the whine that goes with it' [1]. When South Africa joined the BRIC summit for the first time in 2011, turning BRIC into BRICS, Russian President Medvedev suggested that the new Russian acronym should be БРЮКИ to make it easier to remember for Russians (the letter Ю correspondes to the first letter in the Russian name for South Africa and turns the acronym into the Russian word for trousers). Expressing his disdain for the motley mixture of states it lumped together, Andrew Weiss dubbed the concept the BRIC-à-brac, the French term for a collection of random curiosities [2]. And those who felt that BRIC unduly focused the attention on a few large emerging markets have promoted CEMENT – countries in emerging markets excluded by new terminology.

Yet, despite frequent bon mots and misgivings about the concept, the brainchild of Jim O'Neill, chief economist of the investment bank Goldman Sachs, has made a remarkable career within just ten years [3]. O'Neill's seminal report was based on a projection of real (i.e. inflation-adjusted) GDP growth from 2001 to 2010. On this basis, he predicted that the centre of gravitation in the world economy would move towards emerging economies. No longer would the world's richest economies also be its largest. Ten years later, it appears apposite to assess O'Neill's projections. Have they been far off the mark? Yes, in that they over- or underestimated growth rates, sometimes severely so (see Table 1). China, for example, grew 3.5 percentage points faster than predicted, despite the financial crisis of 2008, whereas the US grew 1.3 percentage points slower. But no, in that the predicted shift of the relative economic weight towards the BRIC countries turned out to be even more marked than O'Neill had predicted. The economic development of the BRICs and the sluggish growth in the established economies more than vindicated O'Neill's initial thesis.

Table 1

Predicted and de-facto GDP growth in the BRIC countries, 2001–2010

	Annual real GDP growth (2001-2010)		
	prediction	de facto	deviation
Brazil	4.0	3.6	–
Russia	4.0	4.9	+
India	5.0	7.5	+
China	7.0	10.5	+
USA	3.0	1.7	–
Euro Area	2.5	2.0	–
UK	2.5	1.4	–
Japan	1.0	0.7	–

Sources: [3] and [4]

If we adjust GDP growth for purchasing power, the BRICs in 2001 had a 17.0% share of world GDP, whereas this stood at 25.0% only ten years later. This increase was largely driven by China, which upped its share in the world economy from 7.6% to 14.3% in this period, whereas Brazil's contribution remained rather constant [4] Figure 1 shows that in terms of total purchasing power, China is drawing close to the US and logged remarkable growth rates over the past 30 years. Brazil and Russia, both rather resource-dependent economies, are on a considerably slower growth path. Russia's shrinkage bottomed out towards the end of the 1990s and it returned to sustained growth in 1999, while Brazil had a somewhat lower overall growth rate.

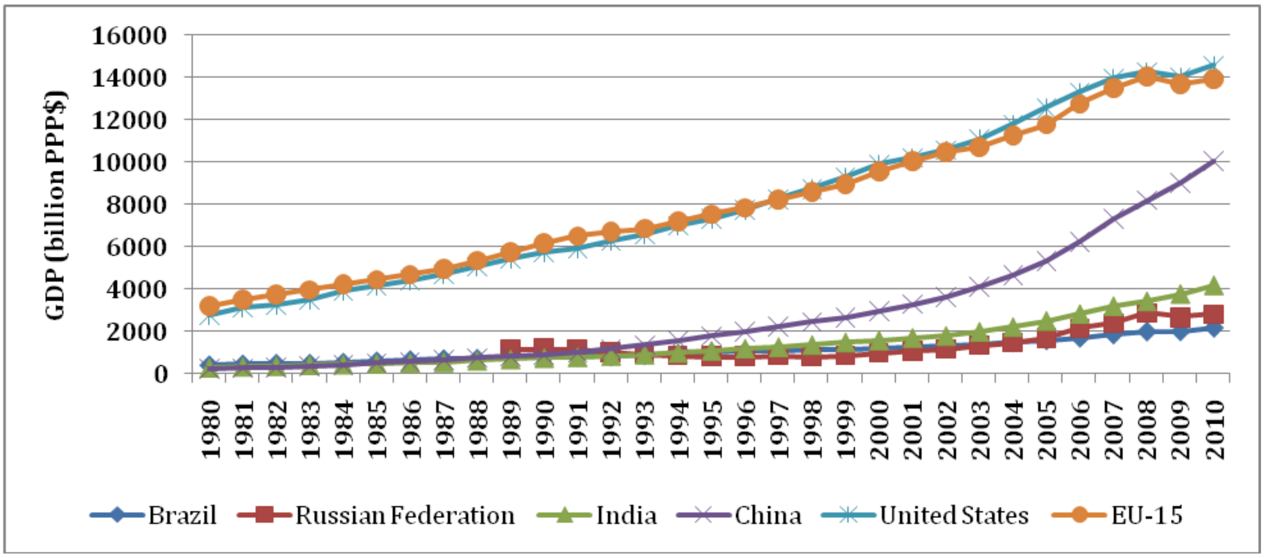

Figure 1: Development of total GDP (PPP$) in the BRICs from 1980 to 2010 as compared to the United States and the EU-15 (Source: [5])

A look at the statistics for GDP per person (Figure 2) reveals that there is still much catching up to do for BRIC countries in terms of individual wealth. GDP per person of the wealthiest BRIC country, Russia, is still only one-fourth of that of the United States. What is more, total economic growth has not always translated into people becoming wealthier. China has done best in converting total growth into individual income increases, whereas Brazil has largely grown due to population growth and not because its population became wealthier.

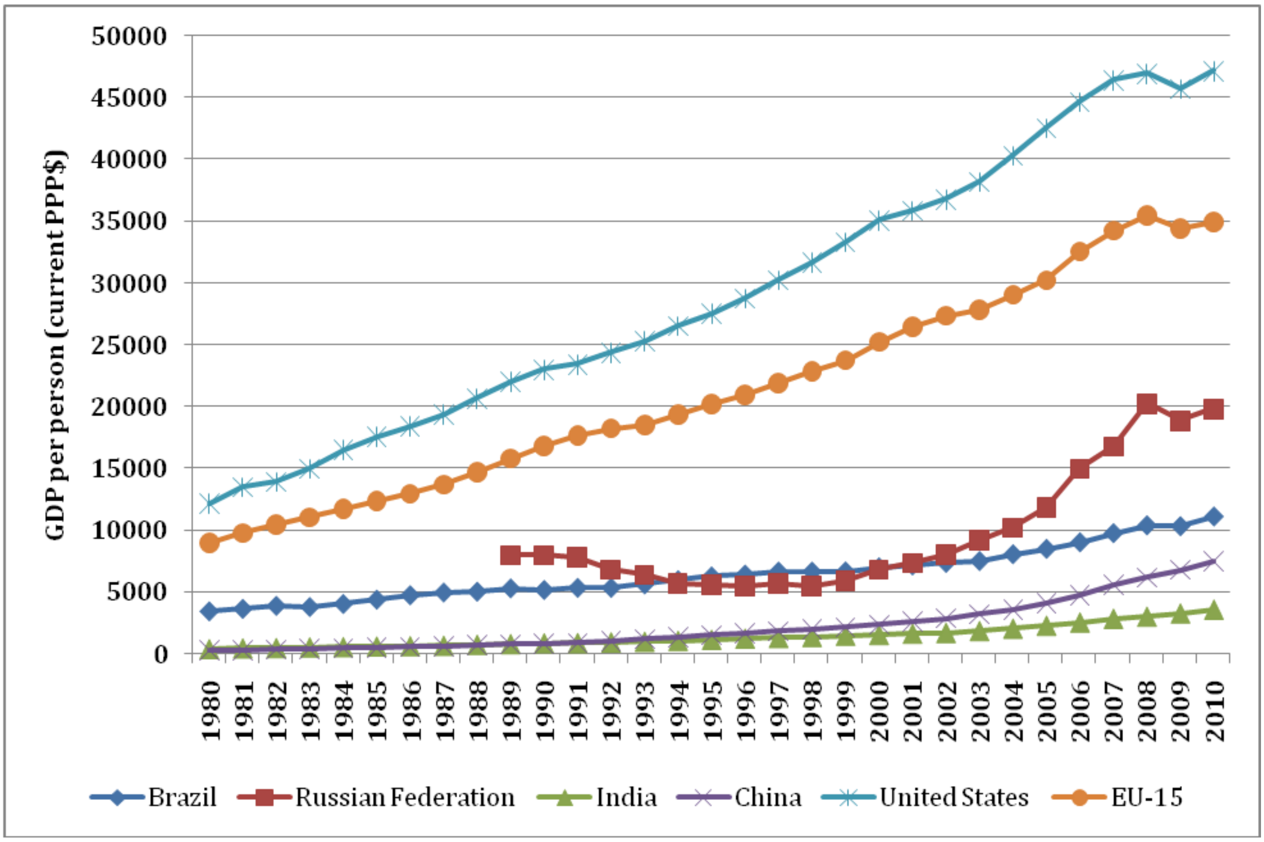

Figure 2: Development of GDP per person (PPP$) in the BRICs from 1980 to 2010 as compared to the United States and the EU-15 (Source: [5])

Extending our purview beyond a narrow focus on the GDP reveals a number of fundamental differences between the BRICs (Table 2). India, for example, is a member of the BRICs by virtue of the size of its economy but still has to grapple with major challenges in the area of human development. Adequate nutrition and basic education are still not the rule in many parts of the country: more than three quarters of its population live below the $2 (PPP) poverty line and more than one third are illiterate. Only 5 out of every 100 people are classified as internet users and most of its population lives in rural areas. For many people in India, the glitzy world of global business that gave birth to the concept of BRIC is a far cry from their daily realities.

Russia, by contrast, stands out because of its dismal performance in governance. Although all BRIC economies are far removed from the liberal ideal, Russia is particularly so. Corruption and graft are wide-spread and legal nihilism undermines the rule of law. In comparison to residents of the other BRIC countries, Russians also score much worse on the other major indicator of human well-being: happiness. According to the World Values Survey, Brazilians are three times more likely to feel very happy than Russians. Indians are also happier than their Russian and Chinese counterparts, underscoring that material wealth is not equal to spiritual well-being. When it comes to androcentrism and nationalism, Russia and India are unexpected sparring partners: both countries have high levels of nationalism, paired with high levels of androcentrism. In Brazil and China, declared androcentrism is much lower. The closest match, again, seems to be on the economic side: what unites citizens of the BRIC states is a strong preference for pursuing economic growth as the primary aim of the country over other aims such as more public participation.

Table 2

Key indicators of the BRIC economies (2009) (Source: [5], unless indicated otherwise)

	Brazil	Russia	India	China
Socio-Economic Indicators				
Population (2009) [million]	193.7	141.9	1,155.3	1,331.5
Population (projection 2030) [6]	240.2	124.1	1,460.7	1,391.5
Population (projection 2050) [6]	260.7	109.2	1,656.6	1,303.7
GDP [trillion current USD]	1.59	1.23	1.38	4.99
GDP per capita [current USD]	8,230	8,684	1,192	3,744
GDP per capita, PPP [current USD]	10,367	18,932	3,296	6,828
Income level	upper middle	upper middle	lower middle	lower middle
External debt stocks [of GNI]	17.9%	31.9%	18.2%	8.7%
Current account balance [of GDP]	– 1.5%	4.0%	– 1.9%	6.0%
Inflation, GDP deflator	5.7%	2.5%	7.5%	– 0.6%
Agriculture [of GDP]	6%	5%	16%	10%
Adult Literacy Rate	90.0%	99.6%	62.8% *(2006)*	94.0%
Poverty headcount ratio at $2 a day, PPP	9.9%	0.1%	75.6%	36.3% *(2005)*
Income share held by highest 10%	42.5%	33.5%	31.1%	31.4% *(2005)*
Life expectancy at birth [years]	72.6	68.9	64.1	73.3
Internet users [per 100]	39.2	42.1	5.3	28.8
Urban population [of total]	86.0%	72.8%	29.8%	44.0%
Military expenditure [of GDP]	1.6%	4.3%	2.7%	2.0%
CO2 emissions [metric tons per capita] *(2007)*	1.94	10.8	1.43	4.95
Ease of Doing Business	124th	116th	135th	78th
World Governance Indicators	[percentiles – higher is better]			
Voice and Accountability	62	23	60	5
Political Stability	54	22	13	30
Government Effectiveness	58	45	54	58
Regulatory Quality	55	35	44	46
Rule of Law	50	24	56	45
Control of Corruption	56	11	47	36
World Values Survey 2005				
Feeling of happiness [“very happy”]	34.1%	11.0%	29.0%	21.2%
Aims of the country for the next ten years?				
Economic growth	59.0%	74.1%	49.5%	45.3%

Strong defence forces	9.3%	12.2%	14.3%	22.7%
People should have a greater say	25.6%	11.4%	13.8%	8.1%
Pride of nationality [“very proud”]	39.3%	45.8%	72.8%	21.3%
Men make better political leaders than women [“agree strongly”]	5.9%	24.2%	21.2%	9.9%

The reconfiguration of global economic ties and its cultural implications

As BRIC economies are becoming more important in the world economy, we can expect a reconfiguration of global economic ties and a growth in intercultural contact. In international business growing investment ties will lead to more contacts, both in negotiations with foreign partners and as expatriates are sent to open new or manage acquired foreign subsidiaries. This relationship works both ways. Savvy investors from established economies enter BRIC countries to do business and take advantage of growing markets. At the same time, companies from BRIC countries increasingly have a size and purchasing power that allows them to expand their interests abroad and invest in other economies [7]. This section will examine in more detail the interpenetration of BRIC and established economies through foreign direct investment (FDI) and transnational corporations and its (inter-)cultural implications.

Foreign direct investment is the most significant channel of creating business ties which lead to long-lasting intercultural contacts. FDI now outstrips trade in its importance for delivering goods and services to foreign markets [8]. While trade presents a mode of economic exchange with rather limited intercultural contact, FDI – whether in the form of mergers and acquisitions (M&A) or greenfield investment – comes with a stronger exposure to cultural difference as companies set up shop in foreign countries. While dealing with cultural differences in a corporate setting already poses a challenge within the familiar confines of North America and Western Europe [9], this situation is exacerbated as BRIC economies enter the field as major players. The case of Brazil’s Vale acquiring Canadian Inco is instructive here (see Text Box 1).

Text Box 1: Cultural conflicts: Brazilian Vale buys Canadian Inco

When Brazilian mining giant Vale bought Canadian Inco for USD 16.7 billion in 2006, the deal came as a surprise to many. Its size marked a milestone for BRIC companies acquiring stakes in established economies and underscored the financial prowess of BRIC corporations. It was Vale’s first major deal abroad and it should soon cause its top management major headaches. In a clash of organizational cultures, Vale’s top-down management style conflicted with a more consensual approach at Inco, resulting in strained relations. A few weeks after the acquisition a meeting between Vale and Inco top management came to an abrupt end with what the *Financial Times* describes as “one of the Brazilians losing his temper [and snapping] ‘How come, if you’re so smart, you didn’t take us over?’ … ‘We’re a culture of ‘why?” says a former Inco executive, referring to the constant exchange of ideas and decentralised decision-making that was encouraged by the former Canadian management. On the other hand, he says, “the Brazilians were: ‘I told you to do this. Now do it.’ … Hinting at the disdain that the Canadians felt towards their new bosses, one of the former Inco employees says that “to run an iron ore business [Vale’s core business] is almost like a high school diploma. Nickel [Inco’s core business] is a PhD.” [10]

In the course of the integration, the majority of Inco's senior management and key engineers were replaced. Vale's unilateral attempt to restructure the bonus system and to switch from a defined-benefit to a defined-contribution benefit pension scheme resulted in a prolonged strike by miners. Culture was at the centre of the heated disputes. One union representative is quoted as saying: “Vale can go and get stuffed. We are sick and tired of foreign capitalists coming in and undermining the Canadian way of life” [11]. “They are not going to change our culture” [12].

Statistical evidence bears out the assumption that mutual investment ties are intensifying. The World Investment Prospects Survey puts the four BRIC states in the top five of the most attractive economies, with the United States being the only other economy making it into this group [13]. In 2009, the BRICs attracted 17.4% of the global FDI inward flows (China 8.5%, Russia 3.5%, India 3.1%, Brazil 2.3%), roughly matching the relative shares in global output and topping the table of FDI inflows to emerging and developing economies. All BRIC countries experienced a dramatic surge in inbound FDI in the middle of the 1990s, with China benefitting most (Figure 3). Towards the end of the 2000s, inbound FDI more or less stabilized at high levels in a range between 2.5% and 5.0% of GDP. By comparison, for the G7 this range was much lower, between 1.0% and 2.5% [13]. Figure 5 shows that China had the largest absolute inward FDI stock, but Brazil had the largest stock relative to the size of its economy.

By contrast, outward FDI from the BRIC countries only started to become significant in the early 2000s and remains at lower relative levels than inbound FDI (Figure 4). The share of BRIC outward FDI in global FDI stood at only about half of the inflows (9.0%) [13]. Russia is the most active BRIC country in this category, whereas China and India are latecomers and have only recently discovered their appetite for investing abroad. Relative outward FDI from the BRICs is drawing closer to that of the G7, which in the past years has fluctuated between 2.0 and 4.0% of GDP [13]. As a result, outward FDI stocks have jumped up sharply (Figure 6). Brazil's stock has increased more than three-fold between 2000 and 2009, China's eight-fold, Russia's twelve-fold and India's thirty-eight-fold, albeit all from very low levels [13].

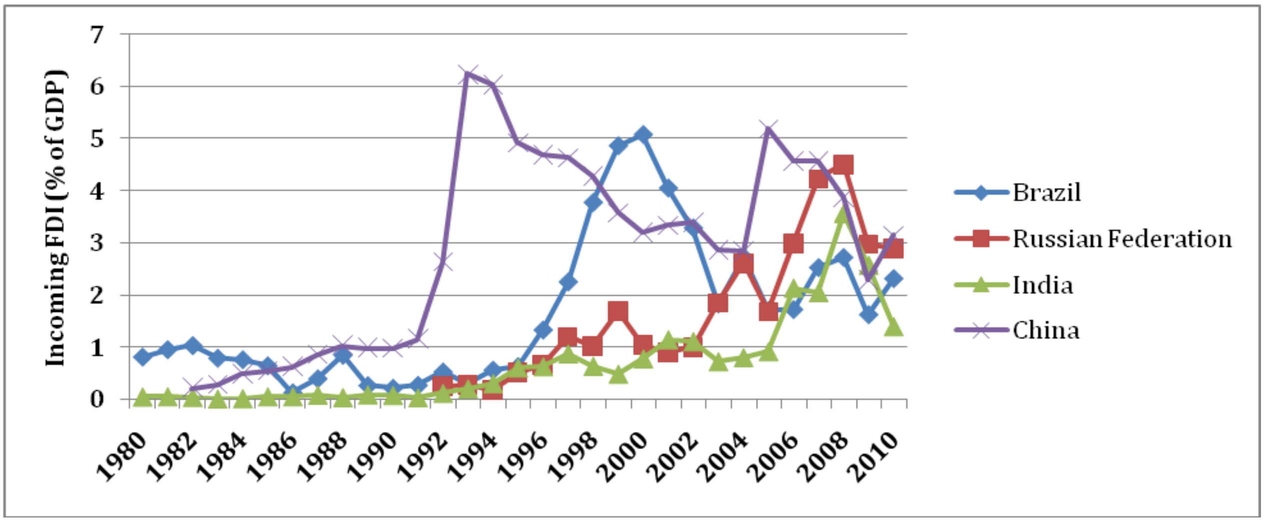

Figure 3: Development of incoming foreign direct investment (% of GDP) in the BRICs from 1980 to 2010 (Source: [13])

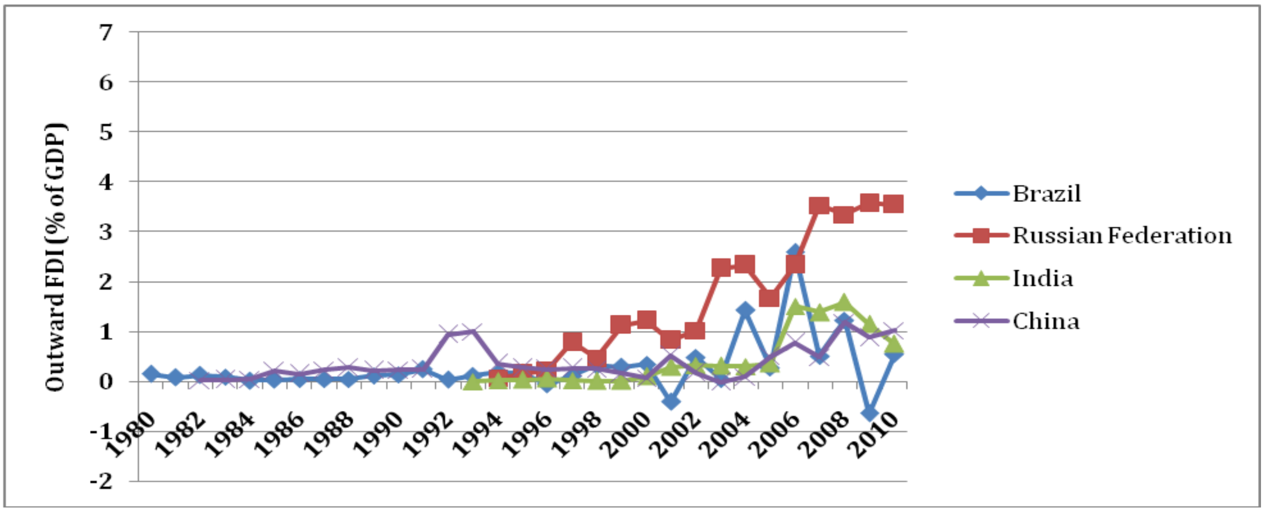

Figure 4: Development of outward foreign direct investment (% of GDP) in the BRICs from 1980 to 2010 (Source: [13])

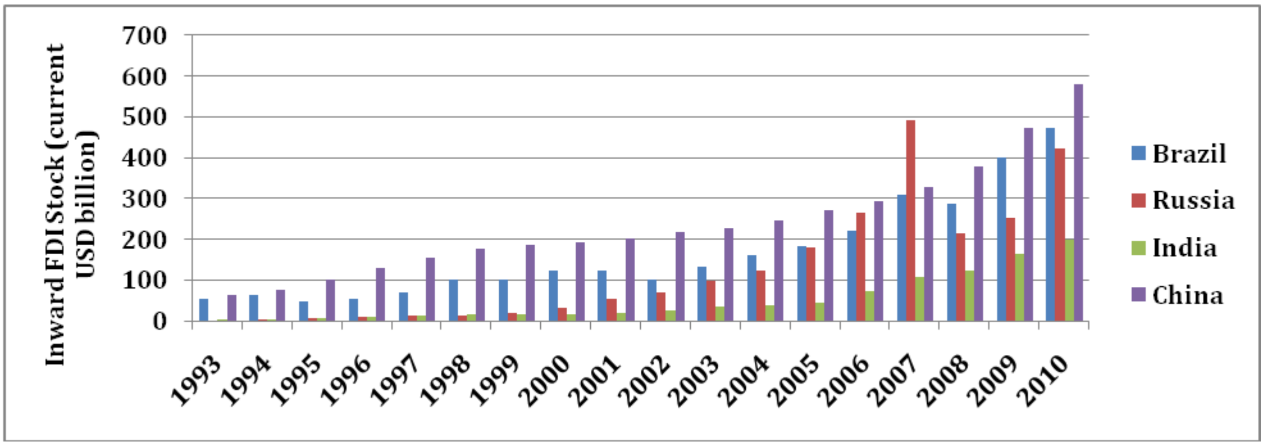

Figure 5: Development of inward FDI stocks (current USD billion) in the BRICs from 1993 to 2010 (Source: [13])

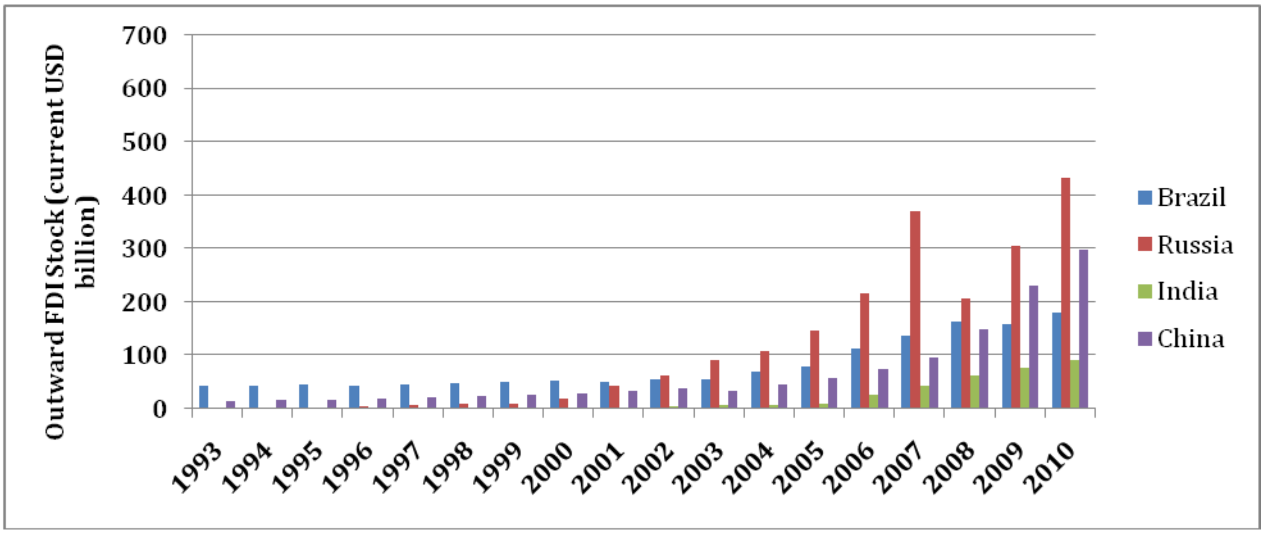

Figure 6: Development of outward FDI stocks (current USD billion) in the BRICs from 1993 to 2010 (Source: [13])

The characteristics of outward FDI vary among the BRIC countries with no clear patterns. For Brazil and Russia the major destinations are established economies, India has a roughly equal balance of established and emerging economies, whereas China predominantly targets developing economies. In Russia, the primary sector dominates as a target of outward FDI, in India the secondary sector and in China and Brazil it is the tertiary sector [14; 15; 16].

Despite the BRICs' quick growth in outward FDI, BRIC transnational corporations (TNCs) still show a low degree of foreign assets, sales and employment when compared to TNCs in established economies. Only two TNCs from BRIC countries are listed among the world's 100 largest TNCs in terms of foreign assets, and both of them are Chinese state-owned companies: The investment company CITIC Group is ranked 48th, just above Swiss Novartis, while China Ocean Shipping, a shipping and logistics company, is ranked 80th, just above Swiss Holcim. Of the largest BRIC TNCs, a vast majority operate in resource-based sectors such as oil and gas, mining and metals (Table 3). Knowledge-based and tertiary sector industries are an exception, with the Russian Sistema as the only tertiary sector company to make it into the top 50 TNCs from developing and emerging economies. A significant proportion of these companies is state-owned or state-controlled, such as all Chinese TNCs in Table 3, Brazilian Petrobras, Russian Gazprom and Indian Oil and Natural Gas Corporation.

Table 3

Ranking of BRIC TNCs among the top 50 non-financial TNCs from developing and emerging economies by foreign assets (2008) (Source: [17])

Rank	Origin	Logo	Corporation	Sector	Foreign Assets [million USD]	Foreign Sales [million USD]	Foreign Staff
2			CITIC Group	Conglomerate	43 750	5 427	18 305
7			China Ocean Shipping	Shipping and Logistics	28 066	18 041	4 581
8			Lukoil	Oil and Gas	21 515	87 637	23 000
9			Vale	Mining	19 635	30 939	4 725
*			Gazprom	Oil and Gas	17 326	58 415	9 000
15			Tata Steel	Metals	16 826	26 426	45 864
16			Petrobras	Oil and Gas	15 075	40 179	6 775
18			Gerdau	Metals	13 658	10 724	22 315
20			Oil and Natural Gas Corporation	Oil and Gas	13 477	4 238	3 291
23			Evraz	Metals and Mining	11 196	12 805	29 480
27			China National Petroleum	Oil and Gas	9 409	4 384	20 489
29			Hindalco Industries	Metals	8 564	11 371	13 447
32			Severstal	Metals	8 066	9 325	12 662
37			China State Construction & Engineering	Construction	7 015	3 619	15 765
40			Tata Motors	Automobile	6 767	9 869	17 998
47			Sinochem	Conglomerate	6 409	34 218	225
50			Sistema	Telecom	5 698	3 983	11 000

* 2007 data from [18]; not listed in [17]

With the rapid growth of outward FDI in the past years, however, BRIC TNCs are likely to make further inroads into the global top 100 TNCs and become more active abroad [19]. Among the largest deals in the recent past have been the 2007 acquisition of the British Corus Group by the Indian Tata Steel for USD 13.5 billion and the 2006 acquisition of Canadian Inco by Vale for USD 16.7 billion (see Text Box 1). But big deals are also closed with other BRIC economies and developing countries: Sinopec's 2010 acquisition of a minority stake in Repsol's Brazilian operations for USD 7.1 billion and India's Bharti Airtel acquisition of Nigeria's Zain Africa for USD 10.7 billion are likely to mark only the beginning of a larger acquisition and investment spree fuelled by strong growth of corporate revenues and profits in the BRIC economies.

Notwithstanding the rapid expansion of TNCs from BRIC economies, inward investment from TNCs headquartered in established economies still dominates the game in BRIC economies. Liberalisations, deregulations and other improvements in the investment climate have driven part of the inward FDI growth in the BRIC economies. With China's accession to the WTO in 2001 and Russia's expected entry for 2012, barriers for FDI are progressively being removed. The EU is the main source of inward FDI for Brazil and Russia with more than half of the capital inflows originating there. The figures for India and China are much lower, which is partly attributable to the significant intra-regional investment flows in Asia, but they still outstrip the inward flows from both the US and Japan [20]. Even though the EU is a major investor, the share of BRIC holdings in the total FDI stocks has only been growing slowly. This can in part be attributed to attractive investment opportunities elsewhere, specifically in Eastern Europe, and the still high dominance of established economies in the FDI market [20].

The sectoral distribution of inward FDI into BRICs is rather uneven. In India and Brazil, the service sector attracts the majority of FDI, whereas it is manufacturing in China and oil and gas in Russia [21; 22; 23]. All BRIC states boast a significant presence of wholly or partly owned foreign subsidiaries. Large recent M&A deals have included Spain's Telefonica buying a USD 10.5 billion stake in Vivo, the largest Brazilian mobile phone operator, and Pepsi acquiring Wimm-Bill-Dann, a Russian dairy and fruit juice company, for USD 3.8 billion.

The emerging shift from 'cosy' M&As within Western Europe and North America, which for the time being are still the home markets of the big deals, to M&As between companies from BRIC and established economies has so far received little attention from scholars. The reconfiguration of global economic ties in what is sometimes called the second wave of globalization underscores the necessity of dealing with challenges associated with firm integration and intercultural communication. The expectations of the new partners are often divergent, not least because they operate in different institutional environments. In addition to issues of organizational culture, geopolitical sensitivities can also intervene, as the case of Rio Tinto and Chinalco demonstrates (Text Box 2). This global reconfiguration calls for an approach that is more sensitive to cultural differences at different scale levels, from the global and institutional to the organizational and individual. For, as in the case of Rio Tinto and Chinalco, companies in BRIC states are embedded into particular institutional environments and geopolitical rationalities that shape their scope of action just as much as the organizational and individual factors that have hitherto drawn the largest share of attention.

Text Box 2: Who is afraid of the yellow man? Opposition to M&A bids from BRIC economies – the case of Rio Tinto and Chinalco

While greenfield investments propose to build new production capacities and create new jobs, M&A bids are often received with some apprehension, because of the potential downsizing of the workforce and shutting down of operations that sometimes comes with the realisation of synergies. In the case of BRIC TNCs bidding for corporate takeovers, there has frequently been fierce opposition nurtured by fears of the culturally alien which has resulted in deals being postponed or shelved altogether [24]. The controversy surrounding the bid by Chinalco, a Chinese mining firm, for an almost USD 20 billion stake in the Anglo-Australian Rio Tinto, one of the world's largest mining companies, in 2009 is an instructive example. The bid was initially welcomed by senior management as providing additional liquidity to refinance existing debts in the midst of the financial crisis. But the Australian government and regulators were very apprehensive of growing Chinese influence in a strategically important sector. This fear was heightened as the Australians considered the state-owned Chinalco a pawn of the Chinese government in the game to secure the supply of iron-ore in what has been a seller's market. Rio Tinto eventually spurned the deal and China retaliated with an arrest of four Rio Tinto staff on charges of bribery and cartel formation, which temporarily soured relationships between Australia and China [25]. In this case, the mix of cultural reservation and geopolitical concerns created an explosive cocktail that brought down the proposed investment.

References:

1. Rothkopf, D. (2009) The BRICs and what the BRICs would be without China... *Foreign Policy*. Available from http://rothkopf.foreignpolicy.com/ (21 October 2011).
2. Weiss, A. (2009) BRIC-à-Brac. *Foreign Policy*. Available from http://www.foreignpolicy.com/articles/2009/06/14/bric_a_brac (21 October 2011).
3. O'Neill, J. (2001) Building better global economic BRICs. *Global Papers 66*. New York: Goldman Sachs
4. IMF World Economic Outlook 2011.
5. World Bank Statistics 2011.
6. US Census Bureau.
7. Jain, S. C. (ed.) (2006) Emerging economies and the transformation of international business: Brazil, Russia, India and China (BRIC). Cheltenham: Elgar.
8. Sauvant, K. (2005) New sources of FDI: the BRICs, The Journal of World Investment and Trade 6: 639-709.
9. Stahl, G. K. and Mendenhall, M. E. (eds.) (2005) Mergers and acquisitions: managing culture and human resources. Palo Alto: Stanford University Press.
10. Simon, B. and Wheatley, J. (2010) Heading in opposite directions, Financial Times, 10 March 2010
11. Wheatley, J. (2010) Vale to bring in workers to break Canada miners strike, *Financial Times*, 15 March 2010
12. Tayti, M. (2010) Inco strike going to Big Apple as workers protest CEO's award, *The Standard*, 11 June 2010
13. UNCTAD FDI Database 2011.
14. Davies, K. (2010) *Outward FDI from China and its policy context*. New York: Vale Columbia Center on Sustainable International Investment.
15. Lima, L. A., and O. de Barros (2009) *The growth of Brazil's direct investment abroad and the challenges that it faces*. New York: Vale Columbia Center on Sustainable International Investment.
16. Panibratov, A., and K. Kalotay (2009) *Russian outward FDI and its policy context*. New York: Vale Columbia Center on Sustainable International Investment.
17. UNCTAD World Investment Report.
18. Skolkovo (2008) *Emerging Russian multinationals: achievements and challenges*. Moscow: Skolkovo.
19. Sauvant, K. (ed.) (2008b) *The rise of transnational corporations from emerging markets: threat or opportunity?* Cheltenham: Edward Elgar.
20. Hunya, G., and R. Stöllinger (2009) *Foreign direct investment flows between the*

EU and the BRICs. Vienna: Vienna Institute for International Economic Studies.

21. Davies, K. (2010) *Inward FDI in China and its policy context*. New York: Vale Columbia Center on Sustainable International Investment.

22. Kuznetsov, A. (2010) *Inward FDI in Russia and its policy context*. New York: Vale Columbia Center on Sustainable International Investment.

23. Satyanand, P. N., and P. Raghavendran (2010) *Inward FDI in India and its policy context*. New York: Vale Columbia Center on Sustainable International Investment.

24. Goldstein, A. (2008) Who's afraid of emerging market TNCs? Or: are developing countries missing something in the globalization debate?, in Sauvant, K. (ed.) *The rise of transnational corporations from emerging markets: threat or opportunity?*. Cheltenham: Edward Elgar, pp. 183-203.

25. Yao, S., Sutherland, D. and Chen, J. (2010) China's outward FDI and resource-seeking strategy: a case study on Chinalco and Rio Tinto, *Asia-Pacific Journal of Accounting & Economics* 17: 313-26.

УДК 327

Новые парни в блоке: рост влияния БРИК и начало изменений в экономических связях

Мартин Мюллер

Университет Санкт-Галлена, Швейцария
Центр управления и культуры в Европе, Фарнбюэльштрассе, 19
9000 Санкт-Галлен
Доктор философии, доцент
E-mail: martin@martin-muller.net

Аннотация. В статье изучается влияние стран БРИК (Бразилия-Россия-Индия-Китай) через призму центральных социо-экономических показателей, включая показатели государственного управления Всемирного банка и пересмотр мировых ценностей, учитывается сдвиг в экономических показателях и начало изменений в экономических связях, о чем свидетельствуют прямые иностранные инвестиции и появление транснациональных корпораций и рассматриваются итоговые проблемы межкультурных контактов на разных уровнях посредством двух кратких предметных исследований.

Ключевые слова: БРИК; Бразилия; Россия; Индия; Китай; растущие экономики; глобальная экономика; прямые иностранные инвестиции; транснациональные корпорации.