Brics balance shared interests with rivalries

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When China's Hu Jintao, Russia's Dmitry Medvedev and India's Manmohan Singh meet in Brazil with Luiz Inácio Lula da Silva this week for the second "Bric summit", there will be three things the visiting leaders recognise in their host's economy.

There is Brazil's size. There is inflation – rising in Brazil, China and India, and near double-digits in Russia. And there are their strengthening currencies.

Last year, when the Bric leaders met in Yekaterinburg, there was talk of a need for "fairer global economic order" and the group aired its frustrations at the US dollar's role as the world's reserve currency.

Mr Medvedev has reprised such themes ahead of this summit. On Tuesday, he said Bric countries could share "information about possible speculative attacks" on their currencies.

But, one year on, the suggestion is ironic. Brazil, with arguably the best monetary policy of all the Brics, last year enacted a tax on capital inflows to slow currency appreciation. Russia has suggested it might copy the measure to slow rouble strengthening, although that has also helped curb domestic inflation.

China, meanwhile, is being pressed to allow the renminbi to appreciate. Even India's trade-weighted exchange rate has appreciated by 8 per cent, in real terms, over the past six months. If anything, the Bric countries are suffering from speculative inflows rather than attacks.

That illustrates, again, the definitional problem of the Bric acronym, coined by Goldman Sachs. There is no Bric secretariat, for example, unlike the self-created India-South Africa-Brazil group which also meets this week in Brazil and gathers the developing world's three biggest democracies.

Bric members also more often compete than share common interests. They all want greater representation in bodies such as the International Monetary Fund. But there they may be pushing against an open door.

Indeed, bilateral meetings this week in the region may well prove more fruitful than the Bric summit itself.

India has the lowest Bric profile in Latin America. Trade flows remain modest, although Indian companies have made some important investments in software, Brazilian pharmaceuticals and natural resources.

Russia is a bigger actor, and not just in Venezuelan oil. Argentina, recalling Russia's support at the United Nations for its claim over the Falkland Islands, is backing Russia's bid to join the World Trade Organisation. Mr Medvedev and the Argentine president, Cristina Fernández, will hold talks.

Then there is China. The state-controlled oil company CNOOC has paid $3.1bn (€2.3bn, £2bn) for a 50 per cent stake in Argentina's Bridas Corp, which it describes as a bridgehead into Latin America. After Brazil, Mr Hu goes to Venezuela to sign an oil deal. Most important, Chinese trade has boomed, rising tenfold to $100bn in 2008 from $10bn in 2000. That helped much of Latin America survive the global economic crisis – albeit with important caveats.

Much of the trade was dependent on a small number of commodities. That can leave countries vulnerable – as shown by China's recent import ban on Argentine soya oil and, last year when Chinese steelmakers refused to buy iron ore contracted from Brazil's Vale.

Chinese manufacturers have also displaced higher-cost Latin American manufacturers from traditional US markets, while Latin America's appreciating currencies make it increasingly hard for the region to compete in and with Asia. That may explain why the UN recently forecast growth in Chinese trade with the region will halve over the next ten years.

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