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BRICS vs. Fragile Five

BRICS Nations

BRICS acronym is given to **5 major emerging economies** of the world - **Brazil, Russia, India, China** and **South Africa**, which was formerly known as **BRIC** (excluding South Africa). In **2010**, South Africa is added to the group.

These **5 major emerging** economies have the following characteristics in common -

- developing countries, or newly industrialized countries
- large and fast-growing economies
- have significant influence on their regional and global affairs

Some statistics (as of 2014)

- Combined GDP - **USD 16.039 trillion** (approx. **20 %** of combined GDP of world)
- Population - approx **3 billion** (**41.4 %** of world population)
- Combined Forex reserve - **USD 4 trillion**
- Land area - more than **1/4**th of world land

BRICS summit

Since **2010**, BRICS summit is being held annually. **Russia** will host **7th BRICS summit** in **July, 2015**. **6th BRICS summit** was held in **Brazil** in **2014**.

New Development Bank BRICS (NDB BRICS)

In **2014 BRICS summit**, member countries came together to form a **multilateral development bank** as an **alternative** to **World Bank** and **IMF** (which are US-dominated).

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Each **member** country will have **single vote** and there will be **no Veto power*** for the members (In contrast, **World Bank** assigns votes based on **capital share**, meaning voting power is proportional to capital!).

Some points regarding **NDB BRICS** (will start **lending** in **2016**) **-**

- Initial Capital - **USD 100 billion** (China USD 41 billion, Brazil + Russia + India = 3 x USD 18 billion = USD 54 billion, South Africa USD 5 billion)
- Reserve Currency Pool - **USD 100 billion** (apart from the initial capital)

- **Headquarter** - **Shanghai, China**
- **Regional Center** - **Johannesburg, South Africa**
- First President - from **India**
- First Chairman of the **Board of Directors** - from **Brazil**
- First Chairman of the **Board of Governors** - from **Russia**

*(Note that each **member** country got something!)*

Fragile Five

In contrast to the **5 major emerging countries (BRICS**), Mr. **Jim O'Neil**, a research analyst from **Morgan Stanley**, has coined the term **'Fragile Five'**. As the name suggests, these are **5 developing countries**, which are much **dependent** on **foreign investment** (into their economies) to finance their **growth** ambitions.

The **Fragile Five** economies are -

- **Turkey**
- **Brazil**
- **India**
- **South Africa**
- **Indonesia**

Latest situation of Fragile Five (as of March 2015)

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Morgan Stanley had identified the **5** major emerging markets with the most **vulnerable currencies.**

- **India - inflation** halved since the end of 2013; **Current-Account Deficit (CAD)** shrunk; **investor** friendly policies of PM **Shri NarendraModi**; Governor **Shri R.Rajan** won a **legal mandate** for **RBI** to target **inflation**; Rupee **1 % gained** versus **Dollar** this year, etc.
- **Indonesia** - scrapping **gasoline subsidies** by new President **JokoWidodo**; target to cut **budget deficit** to **1.9 %** of **GDP**

According to Morgan Stanley economists, **India** has completed **85 %** of the necessary adjustment, whereas **Indonesia** has completed **65 %**.
Other countries - **Turkey 10 %**, **Brazil 15 %** and **South Africa** barely anything of recommended reforms.

(*It seems **Fragile Five** came down to **Fragile Three!***)

***Veto power** - It gives power to **stop** changes, or not to adopt them. For an example, in **UN Security Council (UNSC)**, **permanent member** countries have **veto power**, meaning if any of them wants to stop any **resolution**, they can use their **veto** power.