

India Increasing Presence among BRICS by Sustaining High GDP Growth

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On October 15 and 16, the eighth BRICS Summit took place in the southern Indian city of Goa. Originally, U.S. investment bank Goldman Sachs referred to the four representative fast-growing emerging countries of Brazil, Russia, India and China as “BRICs,” consisting of their initial letters in the early 2000s, leading the public to become familiar with the abbreviation. Russia sponsored the first summit of the four countries in 2009. Since their summit in China in 2011, South Africa has joined them, leading the BRIC Summit to be renamed as the BRICS Summit.

The five BRICS countries account for about half the global population, about 30% of global GDP and about 40% of global primary energy consumption. Backed by their past high growth, the BRICS group has increased its presence as the representative of emerging and developing countries in place of the Organization for Economic Cooperation and Development and the Group of Seven that had been in a central position in the world. Their eighth summit was hosted by Indian Prime Minister Narendra Modi.

However, the environment surrounding the BRICS group has greatly changed. China has transformed into a “New Normal” economy after continuing explosive double-digit growth in the 2000s, facing downside risks for the future. After sustaining high growth backed by the resources boom and high crude oil prices, Russia and Brazil are suffering from oversupply and weak prices in international resources and energy markets. In addition, Russia is plagued with Western economic sanctions and Brazil with a political scandal. Hit by weak resources prices and drought, South Africa faces severe economic conditions, including its economic growth’s slip below 2% and the unemployment rate above 25% in 2015. According to the latest World Economic Outlook released by the International Monetary Fund in October 2016, China’s economic growth is expected to fall to 6.5% in 2016 and 6.2% in 2017. The Russian economy is forecast to contract 0.8% in 2016 before growing 1.1% in 2017. Brazil is also predicted to post an economic contraction of 3.3% before a 0.5% expansion in 2017. Both Russia and Brazil are expected to fly very low. South Africa’s economic growth is forecast to slip below 1% both in 2016 and 2017.

Among the BRICS countries, however, India is expected to record a high annual growth rate of 7.6% stably between 2015 and 2017. India has originally been less dependent on exports than the

other BRICS countries, affected little by global economic deceleration. In addition, it has benefitted from crude oil price plunges. Behind the high growth, personal consumption has remained firm thanks to deregulation and the “digital economy” development under the leadership of Prime Minister Modi. India is also expected to continuously expand population, replacing China as the most populated country in the world in 2022. India has thus sustained brisk economic growth in contrast to the other BRICS countries, increasing its presence rapidly in the world and among the BRICS countries.

In this sense, Prime Minister Modi’s leadership at the latest BRICS Summit attracted attention particularly. As the world pays attention to the robust Indian growth and grows interested in benefitting from the growth, the other BRICS countries may be interested in deepening cooperative and economic relations with India.

Under such situation, Russia’s efforts to enhance economic relations with India attracted attention at the summit. In response to a Russia-India summit coinciding with the BRICS Summit, the two countries announced as many as 18 agreements including those in defense and energy areas. Particularly, their economic cooperation agreements included numerous large-scale investment deals. For example, a consortium led by Russian state-run oil company Rosneft has agreed to acquire a 98% equity stake in Indian private oil refiner Essar Oil and the Vadinar oil refinery and port for \$12.9 billion. This is the biggest ever overseas asset acquisition by a Russian firm and the biggest foreign acquisition of an Indian company.

The two countries also announced that a three-company Indian consortium including state-run Oil India Limited will purchase a 23.9% interest in the Vankor Oil Field in Russia’s eastern Siberia from Rosneft. The 23.9% interest is combined with Indian oil company ONGC’s aggregate interest into 49.9%. Indian companies will thus own the high stake of 49.9% in the key oil field in eastern Siberia, with the remainder being maintained by Rosneft. Although China has so far driven global oil demand growth, the conventional wisdom at present is that India will become a new driver from 2020 and beyond. Russia apparently aims to benefit from Indian economic growth by enhancing its involvement and cooperation with the expanding Indian market, while India seeks to secure stable oil supply by strengthening relations with Russia in view of heavy dependence on Middle Eastern crude oil.

Energy cooperation deals also include many nuclear projects. For the Koodankulam nuclear power station in Tamil Nadu, southern India, where the first and second reactors have been being constructed with cooperation from Russia (state-run nuclear company Rosatom), the two countries announced that they will launch the construction of the third and fourth reactors and sign a general framework agreement on the fifth and sixth reactors within this year as agreed between their leaders.

Stable energy supply is growing more important for India continuing high economic growth. It is significant for India to enhance relations with Russia as a key energy supplier. For Russia in severe economic conditions, the enhancement of economic relations with India is an important initiative with new economic vitalization potential. We may have to pay attention to moves to enhance or rebuild economic, political and energy relations with India increasing its presence in the BRICS group.

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