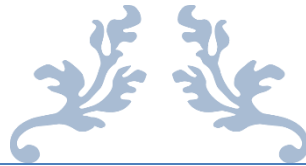


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THE RISE OF THE BRICS CHALLENGES AND PERSPECTIVES

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The relevance of the research topic

In the last 20 years, the changes in the scope of the global economy have gained a dizzying speed so that literature and the public opinion felt the need to define them, to study them and understand them by naming them in a nutshell – globalization. Globalization is a phenomenon with much older roots and of a far too much complexity which, although it's not the subject of this research work will be attained to some extent.

The concept of globalization has gained great importance being often brought to the forefront whenever it comes providing explanations about the economic, political and social phenomes considered to be exceptional. Therefore the term also gained a significant emotional force. The term has different meanings corresponding to different authors in literature. However, globalization creates great contradictions. The impact of globalization has been, and still is, the subject of considerable debate, to the extent that produces both winners as well as losers, not only in the individual countries but also between different actors on the international scene of the world economy. Some see the globalization a process with benefic effects to the world economy, while others regard it with hostility, fearing that it erodes the sovereignty of nation states and causes an uneven growth between nations, threatening standards of living.

In the context of current economic crisis which has hit the developed world arises the need to study the overall process that marks the global economy, namely the slide of the world's economic and political gravity center from developed economies to emerging economies, especially the BRICS – Brazil, Russia, India, China and South Africa.

Approaching the research theme entitled "The rise of the BRICS economies – Challenges and Perspectives" follows the dynamics of the phenomenon occurring within the global power centers and the accelerated pace of change currently taking place in the global economy. We live in a world of interdependence which makes the overall development process of growth and economic development, as well as the humankind evolution in general to impose an unprecedented growth to the economies considered to be originated from the second division of economic development. New visions are required, new reconsiderations regarding the conduct of global economic relations. The **BRICS** acronym is not only a popular expression used by economists in the sphere of trade and international relations, it is a reality and exists as a transcontinental actor of foreign policy, and developed countries can no longer deny or ignore it's global influence.

The rise of emerging economies in the last 20 years, keeps the headline of numerous studies, extensive analysis of economists who seek to document, explain and predict the trajectories of the countries with the breathtaking developments in developing economies. Global economic growth and important steps taken by the world's economies to uniform it was, undoubtedly, a consequence of globalization. Today the access to information is ubiquitous, the localization does not raise costs, but instead it's guided by decreasing production costs and large financial capital moves at a breakneck speed due to the development of the international financial system.

The BRICS economies – Brazil, Russia, India, China and South Africa – represent the flagship of the emerging economies, and in the last 20 years they have enjoyed all the advantages and disadvantages of globalization, impressing with accelerated growth rates in a short period of time and as well as their development. Hence the need to study the patterns of economic development of these countries, which were the premises, the causes that led to the growth mechanisms used, the factors that influenced it and the effects they produced on their populations, because those who should reap the benefits of economic growth are those that contribute to the economic processes in one way or another – the *individuals*.

BRICS are major countries of the planet. When we use the word *great*, we mean both land area, population, the natural resources they own, and civilizations once great that influenced human history in the most profound aspects of it. China has been on the top economic hierarchy of the world - Chinese "agricultural revolution" and high productivity surpassed the West until the eighteenth century and largely contributed to the further rise of the West. The millennial civilization of India and its natural wealth have supported the emergence of the British Empire who founded the world's financial-economic system as we know it today. Russia, a country spread out on two continents manages the vital natural resources, "the blood of the planet", thereby having a heavy word to say in the world economy and beyond. Russia has contributed and still does to the military history of the world, not only through participation in the two World Wars essential, but also to the race arms during the Cold War. Brazil is considered to be the "lungs of the planet", incorporating the largest pool of biodiversity in the world and South Africa, a country geographically unique with rare natural and mineral resources, wrote a sad chapter in world's history and carries with it the burden of *apartheid*.

The BRICS economies differ one from another and therefore have models of different development, sharing only the outstanding growth rates in recent years, local abundance and desire to have an increasing influence in the international arena. The Global Trends 2030: Alternative Worlds Report published by the National Intelligence Council in 2012, brings to the forefront the idea that the emancipation of individuals and diffusion of power between state and from states to informal networks will have a dramatic impact, reversing the greatly historical growth of the West since 1750 towards Asia and restoring the weight in the global economy, ushering in a new era of "democratization" at international and domestic level (National Intelligence Council, 2012).

The report makes predictions about how the world will look in 2030 and identifies it as greatly changed from that of today. The report's findings do not come as an absolute novelty, the world today is much changed from that of 20 years ago – the rise of the Internet and communications have made the world a smaller place, Information Era bringing major changes on all aspects of life. The factors of novelty that the publication is highlighting are emancipating the individual and the diffusion of power between states without a dominant power, but with multiple centers of power. Perhaps more important are the mega-trends that the authors lay down for the next two decades: the demographic patterns, especially the aging population and the increasing demand for resources could lead to a shift of the genuine paradigm.

"The phenomenon of BRICS", through the eyes of these mega-trends undeniably contributes to the challenges of the coming decades, being in the spotlight shifting process of world's economy center of gravity, benefiting from the boom offered by the globalization's vehicles from countries that belong to the West, Western or "Global North" to the Orient, East or "Global South". The mechanisms underlying this process are complex, although their economic growth rests on several pillars essential for any economy: resources, cheap labor, domestic and especially foreign investment in key areas and the desire to have a greater international voice.

The general purpose and research objectives

Purpose: The paper aims to identify which are the key factors that contributed to the emergence of the BRICS economies as opposed to the economies from developing world and

those form the advanced one, as well as what distinguishes the BRICS from the main followers, but also from the developed economies of the West.

Main objective: conducting a comprehensive study that reflects the main components of economic growth in the BRICS countries in the past 20 years and provide elements for building projections on economic developments in the next 10 years.

Secondary objectives:

O1. Conducting a study for the evaluation of main economic indicators in the last 20 years in the BRICS countries comparing them to the developed countries and other emerging countries.

O2. Analyzing the competitive advantages of the BRICS countries by economic sectors.

O3. Identifying the main disadvantages which they have to be overcome from the developed countries and the challenges, the requirements that must be met under the current global financial and economic competition.

Research hypothesis

In this study we advocate the hypothesis that the BRICS economies shall come near the developed economies (USA, Japan and Western Europe) by 2030 but the current level of growth rates will be extremely difficult to maintain in the context of the global financial crisis, as well as mitigating the major social and political disadvantages, which separates them from the living standards of the advanced Western economies.

The methodological approach

In pursuing the predetermined objectives and in order to achieve the aims pursued, this scientific approach will be based on both *qualitative* and *quantitative* analysis. Given the complexity of the relationships between these five countries, capturing the BRICS economies ascent involves a multidimensional approach. Thus, in terms of methodological enterprise the investigation of the literature is conducted from an interdisciplinary perspective (economics, political science, European studies) with emphasis on the economic research side.

Any scientific research is based on a specific methodology that involves, besides defining the hypothesis and research directions, identifying the type of approach and methods of

carrying out research. In conducting this research we adopted a *quantitative* and *qualitative* approach, the two complementing each other. In this regard it will reduce the errors due to lack of current statistical data (quantitative analysis) validating them through qualitative analysis. Conversely, using quantitative analysis of objective observation of macroeconomic indicators will be able to remove the subjectivity characteristic of the qualitative analysis.

In this context, through the research methods used in this research include: the fundamental scientific research (in order to provide the theoretical basis of ideas and arguments proposed for research), *qualitative* and *quantitative analysis*, *deductive method* (moving from the general to the particular), *incomplete induction* (in this case it starts to individual cases of particular and through some analysis done on these cases draw general conclusions on all cases similar), *comparative analysis*, *correlation method* and the *econometric model* (model designed to shed trends, influences or dependencies normal, medium and significant macroeconomic indicators to be analyzed). In the proposed research, econometric model will be used to highlight the strong economic interdependence relationships between the BRICS economies.

The selection and formulation of the research problem met the need to explain and understand the tremendous economic rise of states in BRICS grouping, sustained continuous growth that recommends them as redoubtable opponents of the West. BRICS countries have benefited for several decades of cheap labor, high productivity, massive investments in infrastructure and education, and a strong desire to catch up with developed countries.

Therefore, in order to make projections for the next 10 years, we try to find the answer to some research questions:

- What are the main characteristics of an emerging economy?
- What are the main competitive advantages of the BRICS?
- What are the major components that differentiate them from the developed countries of the West?
- What was the route of the BRICS economic growth in the past two decades?
- How did the BRICS countries coped with the economic crisis that began in 2008 and what are the most important economic targets for 2030?
- What factors loomed the shift of the economic and political center of gravity from developed countries towards the emerging economies, especially the "big four" (Brazil, Russia, India and China)?

The expected outcomes are primarily to provide responses to the question of empirical research and secondly proposing solutions to the working hypothesis of the research. The research aims to study the main factors that influenced the growth of the BRICS in conjunction with essential disadvantages that differentiate them from the countries of "first world" as Parag Khanna names the countries of the West in his work entitled "Second World. Empires and Influence in the new global order", published in 2008. No trace of doubt, the BRICS – Brazil, Russia, India, China and South Africa, the newest member of the club – are large and have a heavy word to say. In terms of population, territory and economy, its dimensions are impressive and stand out from other countries. Together they represent 40% of the world population, 25% of the land area and about 20% of global GDP. Already they control 43% of world currency reserves, a percentage that is growing. Also, the 2008 financial crisis did not started in the emerging countries, on the contrary the BRICS countries came to the aid of United States, Europe and Japan when they encountered problems due to excessive spending, the imprudent and too much trust in production, which made them dependent to an economy based on consumption that exploded. After a short period, with a V-type economic cycle, the growth of the BRICS countries helped the global economy emerge from recession.

Goldman Sachs projections and other economic and financial consulting companies predict that the China will overtake the US in terms of gross domestic product by 2030. Moreover, Goldman Sachs economists expect the BRICS countries to reach the level the most developed economies in the world by 2030 and by mid-century will double the G-7 countries. At the same time, there is no guarantee that the BRICS countries can maintain their current level of growth rates. Moreover, the spread of democracy and free markets in some BRICS countries are lagging behind. Legitimacy in these countries often depends on economic success, while policy development remains at an early stage. BRICS may seem stable today, but no one knows what the future holds. Therefore we consider useful a research approach in this regard.

The impact of BRICS countries is and will continue to be important. They will face major issues, Brazil is struggling with high rates of crime and political scandals, in Russia admiration for oligarchs slowly develops into envy and hatred, India is a democratic country where politics is often overwhelmed by corruption and an extremely low standard of living among its population, considered to be unimaginable for any citizen of Europe, China is still an undemocratic state that imposes many restrictions on his young generations under an

increasingly globalized world and South Africa does not have the population or economic potential the other four states have.

The structure of the thesis

This paper is focusing on the analysis of the processes underlying the world's economy reform in the last 20 years and its centers of power. As well this work is aiming to better understand the relationship between them, focusing on the rise of emerging economies, out of which the BRICS countries stand out. The paper is divided into four chapters as follows:

*Chapter I – entitled *Reforming Global Economy and its Centers of Power** aims to bring to the forefront overall strategic trends in the world's economy in the sphere of international trade, trends in the factors of production and key drivers of globalization that have contributed to changes in the world economy in the last 20 years, namely the multinational corporations. Also, the first part of the chapter debates the concept polarity with definition and analysis of its forms – unipolarity, bipolarity, multipolarity. We are unable to recall the economic multipolarity without bringing into discussion the concept of economic multilateralism, which is characterizing the sphere of international economic relations after the Cold War. A second part of the first chapter proposes an analysis of new poles of competitiveness in the global economy. These poles are constituted after the reform process of world's economy and its transformation over the last 20 years. These new poles of competitiveness were formed in a relatively short period of time benefiting from the advantages of accelerated globalization with multinationals corporations as its propagation vehicles and its main fuel the flows of foreign direct capital from developed countries to developing countries. They have allowed the appearance in an early stage of the emerging markets, which turned into emerging market economies and then the emerging powers become true competitiveness poles of the world economy. The Theory of Center-Periphery explains the phenomenon by which certain developing countries were able to catalyze the convergence process and move the center of gravity of the world economy from West to East, from "Global North" to the "Global South", from developed economies to developing economies. Another important point reached in this chapter refers to the relationship between these poles of economic competitiveness and major power centers. A separate issue is the recognition by major powers of emerging powers and the relations established between them.

Chapter II – entitled *A Blueprint of the BRICS Economies* contains a detailed study of the BRICS economies taken as a single entity. The chapter does not only carries out a chronology of the BRICS economic evolution, but more than that, is trying to highlight what is different in the economic development of each individual country and what is common between them. What links the BRICS economies together are the results, but each of them has unique characteristics and relies on growth factors that sometimes clash, but the heterogeneity of the group requires an individual analysis.

Chapter III – entitled *The BRICS Economies - Models of Growth among Emerging Countries* is divided on two coordinates. The first part, *The Rise of Asia: Beyond the miracle* aims, firstly, to bring up the outstanding ascent of East Asia and South-East Asia and the *newly industrialized economies* (NIE) which we perceive as a model that was the basis for the emulation of the BRICS countries. The fact that three of the five BRICS are on the Asian continent in close proximity to the NIE, namely Russia, China and India can lead us easily into thinking about the close economic relations between them, which can be considered a starting point in the argument that the economic growth of the BRICS relied on the growth model of East and South-East Asia (Japan, South Korea, Hong Kong, Singapore). The second part of the chapter is a comparative analysis of the BRICS seen from two perspectives – the first one according the competitive advantages they pose, and the second one focusing on the determinants of economic growth with emphasis on Foreign Direct Investment as vectors for the rise of emerging market economies. The latter brings into question the performance of BRICS economies in terms of economic growth indicators considered by the literature as important for BRICS countries, and the effects of economic growth on individuals, the environment and the global economy as a whole.

Chapter IV - entitled *East vs. West – 2030 Skyline: Opportunities for BRICS*, constitutes a prospective analysis towards the BRICS grouping is heading on medium and long term. The chapter discusses the performances of the BRICS economies before and during the recovery at the height of the recent financial crisis cumbersome. Questioning the growth pattern of the BRICS compared to that of advanced countries, the BRICS relationships with other centers of power and, last but not least, BRICS prospects of cooperation in the near future.

As a last resort, the results throughout the doctoral research are summarized and construed in the conclusions section. The paper ends with a rich list of references constituting a

literature mostly foreign, although authors of Romanian origin are cited that have contributed to the literature enrichment related to the research field.

Research results

This paper is an analysis *in extenso* upon the states that are part from mid-2009 in the original group known as BRIC with the first summit held in Yekaterinburg, Russia and from 2011 known as BRICS – with South Africa being invited to join the official meetings. The term "BRICS" is an acronym composed of the initials of the states in its composition: **B**razil, **R**ussia, **I**ndia, **C**hina and **S**outh Africa and has been submitted to the public for the first time in 2001 by Jim O'Neill chief economist at the Goldman Sachs financial institution. Through a series of articles published by the research division of financial group recorded, O'Neill explained and predicted the phenomenal rise of the countries within the BRICS group. Subsequently, the leaders of the countries at issue were drawn to the impressive marketing around the concept and they decided to turn it into reality. BRICS countries are large and of particular importance in today's economy and their phenomenal rise of in the last 20 years has drawn praise and criticism. Also, the concept passionate the minds of the researchers, who are competing to study its effects over the world economy and the environment and make predictions on future economic growth in the medium and long term.

It is difficult to deal with the BRICS group as a whole because states in the group composition itself are heterogeneous therefore is difficult to establish a clear parameter of what is BRICS. Hardly one can say that the group is an organization. The member states in its composition have indeed a common agenda that holds annual summits, provides joint declarations, have partnerships and close economic cooperation, although they also have bilateral cooperation ties with world powers (the US, Japan, European Union) but not common policies, nor are proposing a different approach than the economic one. We could say that BRICS is more than a group but less than an organization, not counting that the very group composition is open to enlargement. At the most recent summit from 2014 which was held in Fortaleza, Brazil, guest of honor was Argentina, but also the emerging country group woos the group such as Mexico, Indonesia and Turkey.

Leaders of the Group prefer to call BRICS a "platform for economic cooperation" and the recently established Development Bank of BRICS (New Development Bank - NDB) and the

reserve arrangement for contingencies (Contingent Reserve Arrangement - CRA) prove that BRICS is indeed an economic tool used by members involved to strengthen the economic position built in recent years. The two new institutions BRICS countries should provide developing alternatives to the World Bank and International Monetary Fund, institutions in which the United States has significant influence.

The stated goal at the beginning of this scientific approach was to identify the key factors that have contributed to the emergence of the BRICS economies. Like most emerging economies, the key factors that led to their rise in the last two decades consist of a spectacular growth, strong foreign direct investment and in constant evolution, but also an increase in their global political influence in the context accentuated by globalization in recent years. What sets them apart, however, is the size of their own economies and macroeconomic reform policies made by their governments in conjunction with the opening and market liberalization.

No trace of doubt, the BRICS – Brazil, Russia, India, China and South Africa, the newest member of the club – are large and have a strong say in global economic architecture. In terms of population, territory and economy, their dimensions are impressive and stand out from any other emerging countries. Together they represent 40% of the world population, 25% of the land area and about 20% of global GDP. Nowadays they control 43% of world currency reserves, a percentage that is growing. Also, the 2008 financial crisis has not started from emerging countries on the contrary even BRICS countries came to the aid of the United States, Europe and Japan when they encountered problems due to excessive spending, the imprudent and trust too much in production, they were dependent on an economy based on consumption that exploded.

Meanwhile, the global financial crisis of recent years has highlighted the strength of the emerging economies. The latter seem to be the real winners of the crisis, although growth rates are lower in comparison to the years before the official onset of the global depression. The economic crisis has highlighted the weaknesses of advanced economies on the one hand and showed the potential of emerging economies on the other.

The **main objective** of this work was to conduct a comprehensive survey in order to capture the main components of economic growth in the BRICS countries in the past 20 years and provide components to build projections for economic developments for the next 10 years. The main components of growth were highlighted by analyzing the characteristics of BRICS economies. They demonstrate patterns of growth that have certain similarities, but many

differences that make economic development models proposed by each economy in part to be unique. The main catalyst for the BRICS economies is the spectacular economic growth in recent years. Regarding the differences, the economic rise of Brazil owes its investment in biotechnological research that have stimulated production and national economic stabilization plan (The Plan Real) that kept the country's currency stable. Russia has an overwhelming advantage as the first producer of oil and natural gas of the planet. India is a country of contrasts with a young and educated population that makes it the first outsourcing destination in the world. China is the "workshop of the world", a country as big as a continent with enormous productivity supported by investments in special economic regions where GDP grew at a dizzying level with impressive growth rates. South Africa is a country with a unique geographical position that has scarce natural resources and an economy open to international trade, factors that have made it a preferred destination for investors.

The secondary objectives initially set subscribe to the primary objective and were achieved throughout the scientific approach.

O1. A study to assess the main economic indicators in the last 20 years the BRICS countries compared to developed countries and other emerging countries.

O1 secondary objective was achieved through both fundamental research performed and by quantitative analysis presented in *Chapter III*, section 2.3. *Foreign Direct Investment - Rise Vectors of the BRICS Economies*. Macro-economic indicators proposed for analysis, namely flows of foreign direct investment (inflows), population, GDP per capita, exchange rate, human capital and trade openness (total imports and exports) reveals growth based on enhanced trade and capital flows. This is in accordance with the analysis and the studies in the scientific literature, BRICS economies growth is explained largely by economic liberalization and opening markets, and increasing foreign capital inflows.

O2. Competitive advantages analysis by sector on each of the BRICS countries.

O2 secondary objective was reached by the analysis presented in *Chapter III*, section 2.1. *Competitive advantages of the BRICS* where an analysis of competitive advantages in each of the BRICS countries is presented. Starting from the model of Porter this work proposes a thorough analysis of the main competitive advantages each BRICS country basis.

O3. Identifying of the main handicaps that BRICS have overcome in relation with the developed countries and the challenges, requirements that must be met under the current global financial and economic competition.

O3 secondary objective was achieved through a qualitative analysis of the main handicaps of the BRICS countries in front of the advanced economies of the world (United States, Euro Area and Japan). They are represented by the way in which the emerging economies will be able to translate economic growth into growth indicators of living standards of their citizens and to increase their global influence. Managing growth is the real challenge of the next years for the BRICS. Reforming the global economy is an irreversible process, but rather a continuous transformation and transfer of power between the various actors on the international scene.

The initial hypothesis of the thesis, according to which the BRICS economies will draw near to the developed economies (USA, Japan, and Western Europe) by 2030 in conjunction with the current level of growth rates and mitigating the main social and political drawbacks, which separates the living standards in the advanced Western economies is not valid. Although the center of the world's economy is shifting from developed countries towards the emerging ones, that have benefited from massive inflows of foreign direct investment in the last two decades and spectacular economic growth rates timeframe prescribed by economists Goldman Sachs, the institution that patented the acronym, in order to reduce in the gap with the developed countries more decisive steps are required to be taken by the BRICS governments. These steps ahead present a challenge the BRICS in the coming years, namely: to maintain the rates of positive growth and the high level of flows of foreign direct investment, to reduce social and economic inequalities, safeguard the regional spheres of influence and if possible to expanding them and growing of the living standards of their populations, diversifying economic sectors, harnessing the competitive advantages gained and not least to ensure sustainable economic growth that does not endanger the environment.

From year to year, from region to region new countries claim to enroll in the club of emerging economies. In these countries like Mexico, Indonesia, Malaysia, Vietnam, Argentina, Turkey developments and sustained economic growth have been taking place. BRICS countries

are still the flagship of the emerging economies and the BRICS acronym came to be synonymous with the concept of emerging economy.

Economic growth comes against the backdrop of competitive advantage held by the countries concerned and the full exploitation of resources. The increase in nominal terms of the main macroeconomic indicators is phenomenal, but in real terms, per capita or those of purchasing power parity they no longer meet the same sign that growth is uniform in terms of society as a whole. Corruption is notoriously high in India, where large accumulations of capital are only in the hands of elites, as well as in Russia or Brazil.

The growth models of the BRICS are not new to the global economy, the rise of Asia stands as proof that the mechanisms at the base of economic growth are available to any nation, and when we are dealing with countries that have natural resources, human and financial growth it is staggering what happened in the last 20 years especially in the countries of the BRICS group. The econometric model presented complements the basic research carried on studying literature, documents and official reports. The results of the analysis panel shows a strong link between the level of foreign direct investment flows and the gross domestic product as a measure of economic growth in the BRICS countries during 1992-2012 timeline. Real economic growth of an economy is not only reflected by the GDP, but also by numerous other macro-economic and social indicators. The results of the econometric analysis must be interpreted as providing a practical approach and a different perspective than the purely theoretical influence on foreign direct investment in emerging economies.

The **challenges** of the economic rise of the BRICS countries are closely linked to the effects of economic growth over the global economy influencing overall but especially the ones over the environment. Given the wide land area of the BRICS (almost a quarter of the planet) the exploitation of natural resources underpinning economic growth is damaging the planet in an irreversible manner. The challenges for the coming years are, undoubtedly, to increase economic sustainability and optimal resource management, but also standardizing the general welfare.

Regarding the **perspectives** of the BRICS, Goldman Sachs projections and other economic research institutes predict that China will overtake the US in terms of Nominal GDP by 2030. Moreover, China is the "steam-liner" of the group and the only economy truly able to compete with the world's advanced economies. The BRICS will approach the level of the most developed economies by 2030 and by mid-century will reach a level double as the G-7 countries.

At the same time, there is no guarantee that the BRICS can maintain their current level of growth rates.

Moreover, the spread of democracy and free markets in some BRICS countries are lagging behind. Legitimacy in these countries often depends on economic success, while policy development remains at an early stage. BRICS may seem stable now, but nobody knows what the future holds. They are facing and will face a long period with major problems: Brazil are struggling with high rates of crime and political scandals in Russia admiration for oligarchs slowly develops into envy and hatred, India is a democratic country where politics is often overwhelmed by corruption bursting with important demographic and very low living standards, China is still an undemocratic state that imposes numerous restrictions to his young generations in terms of globalization, and South Africa does not have the population or economic potential of the other four states.