

Journal of Challenges

2014 Vol.1, No.1, pp.1-8

ISSN(e): 2410-6569

ISSN(p): 2412-3471

© 2014 Conscientia Beam. All Rights Reserved.

IS BRICS A VIABLE SOLUTION FOR RUSSIA IN THE CONTEXT OF THE PRESENT EU'S ECONOMIC SANCTIONS?

Romeo-Victor Ionescu¹

¹Danubius University, Romania Aurel Vlaicu, Galati, Romania

ABSTRACT

The present political and military situation in Ukraine has an important impact on the regional and global economic connections. EU28 and USA imposed sanctions against Russia. The main objective of this paper is to quantify the potential economic changes in the world economic environment by analyzing the most significant global economic actors: EU28, USA, Russia and implicitly BRICS. The analysis in the paper has to components: a post factum analysis, using the latest official data (2013) and an ex antum analysis, which is supported by a forecast until 2020.

The analysis conclusions are supported by pertinent statistic tables and diagrams. It is assisted by the IBM-SPSS software. The main conclusion of the analysis is that Russia is not able to cut the economic connections with EU28 and USA on short and average term. Moreover, BRICS is not a viable solution for Russia at the moment.

Keywords: Economic disparities, Economic growth, Economic clusters, Economic forecasting, Inflation rate, Unemployment rate, Public debt.

Contribution/ Originality

This study is one of very few studies which have investigated the new economic challenge related to the Ukrainian crisis which started this year. The paper is focused on the latest economic problem with global impact. The impact of this crisis and the solutions to solve it are far away of finding, yet.

1. INTRODUCTION

In 2010, BRICS started to activate in its present structure: Brazil, Russia, Indian, China and South Africa ([South Africa Info](#)).

Nowadays, BRICS covers 18% of the world economy, 40% of the world population and 4 trillion USD in combined foreign reserves ([International Monetary Fund, 2013](#)).

It can become a real competitor to the EU and USA economies if its economic, financial and management mechanisms will work perfectly.

The incredible crisis in Ukraine can lead to acceleration in a potential world economic conflict between EU28 and USA on one hand and Russia, as member of BRICS, on the other hand.

Moreover, at the 6th BRICS summit in Brazil (14-16.07.2014), the BRICS New Development Bank and reserve currency pool agreements were signed (<http://rt.com/business/173008-brics-bank-currency-pool/>).

EU28 and USA started to impose sanctions against Russia. These sanctions include assets freeze and entering visa for persons included on special list (EU and USA lists), ban on Russian companies and stopping business relationship with some Russian individuals and organizations (European Commission), (US Department of the Treasury).

In response, Russia has stated that it will orient its foreign trade to other partners, especially from Asia.

This paper realizes an analysis in order to stipulate if BRICS can be an alternative to Russia's foreign trade with EU28 and USA.

2. RESEARCH METHODOLOGY

According to the economics theoretical approach, a real economic analysis of a phenomenon has to be based at least three indicators. The analysis in this paper uses the following indicators: GDP per capita, inflation rate, unemployment rate, government gross debt and net export.

The paper uses the latest official statistic data. The analysis follows three steps. First consists in a comparative analysis between the above indicators in 2013, in order to establish the disparities.

The second step is a cluster analysis made under SPSS19 software, in order to sustain the idea that the three economic entities can be analyzed under three clusters. The paper uses a Two-step cluster analysis, where the categorical variables are the above economic indicators and the distance measure is log-likelihood. The clustering criterion is BIC (Schwarz's Bayesian Criterion).

Finally, the analysis is focused on a forecast of the GDP growth rates till the end of 2020, in order to observe if the socio-economic disparities across these economic entities will increase or not. The dependent variables in this forecast are the GDP growth rates and the independent variable is time. The forecast method is ARIMA. The conclusions of the analysis are supported by pertinent statistical tables and diagrams.

2.1. The Economic Approach

The latest official statistic data for the above three economic entities (EU28, USA and BRICS) are presented in Table 1 (Central Intelligence Agency, 2014).

There are great disparities related to the GDP/capita indicator between EU28, USA, Russia and the other BRICS' members (see Figure 1).

Table-1. Macroeconomic indicators at the end of 2013

Country/ Organization	GDP/ capita (USD)	Inflation rate (%)	Unemployment rate (%)	Public debt (% of GDP)	Exports (bill. USD)	Imports (bill. USD)
Brazil	13623	6.2	5.7	59.2	244.8	241.0
Russia	17708	6.8	5.8	7.9	515.0	341.0
India	3829	9.6	8.8	51.8	313.2	467.5
China	9161	2.6	4.1	22.4	2210.0	1950.0
South Africa	11375	6.3	24.9	45.4	91.1	99.6
USA	52800	1.5	6.2	88.9 (European Commission, 2014)	1575.0	2273.0
EU28	34500	1.5	10.5	71.8	2173.0	2312.0

The extreme difference related to this indicator is between USA and India 13.8:1. For Russia, the same indicator has the following values: 2.98:1 (USA) and 1.95:1 (EU28). According to Figure 1, only Russia and Brazil have relative better economic positions, but far away from USA and EU28. The first intermediate conclusion is that the economic development in Russia and BRICS is not able to support an independent economic evolution without economic exchanges with EU28 and USA.

Moreover, we can go ahead with the analysis and to propose the splitting of the three economic entities into three clusters: USA and EU28, Russia, Brazil and South Africa and finally, India and China. The viability of this assumption is presented in Figure 2. According to this figure, the existence of three clusters represents a good assumption.

The analysis in the paper will maintain the assumption of clustering across the next economic indicators. According to the inflation rate, EU28 and USA achieved better rates, while Russia, Brazil and South Africa face to high inflation rates. The worst situation is in India. All these characteristics support again great disparities between the three economic entities (see Figure 3). According to this figure, the above cluster's structure is maintained up to 85.7% (see Figure 4). The maximum difference is between EU28 (USA) and India 1:6.4. As a result, the hypothesis of cluster structure is supported by the second economic indicator, as well.

The unemployment rates vary across the seven states, from the lowest value of 4.1% in China, to 24.9% in South Africa. It is for the first time when Russia achieved a better position than EU28 and USA. Moreover, there BRICS' members have unemployment rates less than EU28 and USA. On the other hand, the disparities connected to this indicator are still high enough (see Figure 5).

The situation in Figure 5 supports the idea of the three clusters approach, even that these clusters cover only 57.14% from their above "classic" structure (see Figure 6). Moreover, the cluster quality is good.

An interesting analysis is that of the foreign trade. Russia is far away from EU28 and USA as export or import values. Great part of the Russian exports is focused on EU28. On the other hand, the greatest part of the Russian imports come from EU28 and USA and consists of

technical progress incorporated equipment. The Chinese products have not the same quality and technology level as those from EU28 and US, even that China is the greatest actor in the global trade.

Moreover, there are great disparities related the net export indicator across the three economic entities (see Figure 7). According to Figure 7, the huge Chinese imports and exports are connected to the European and American markets. As a result, China is not a solution for the Russian foreign trade on short term. The other BRICS' partners are not able to cover Russia's need of technology and equipment.

2.2. Forecasting Analysis

The economic growth rate's evolution in EU28, USA and Russia is presented in Table 2 (European Commission, 2014).

Table1. 2. GDP growth rate (%)

State/ Organization	2010	2011	2012	2013	2014	2015
EU28	2.0	1.6	-0.4	0.1	1.6	2.0
USA	2.5	1.8	2.8	1.9	2.8	3.2
Russia	4.5	4.3	3.4	1.3	1.0	2.0

The above database allows the economic growth forecasting until the end of the present financial perspective (see Figure 8).

The medium term forecast shows antagonist trends related to EU28, USA and Russia. The average economic growth rates will maintain above 1% in the EU28, while they are higher in USA (between 3.0% and 3.6%). Russia will face to a constant decrease of the economic growth rate during whole forecasting period.

3. CONCLUSIONS

Three of the most important global economic actors are analyzed in this paper. EU28 and USA seem to be able to sustain the economic recovery and to achieve positive development trends.

On the other hand, Russia will face to great economic difficulties on average term. This is the reason for which an economic war between Russia, EU28 and USA will cause more economic losses to Russia.

Moreover, the economic structure and the technical level of the production in other BRICS's member do not allow the replace of the direct Russia-EU28-USA economic fluxes to other.

The global economic connections are too strong and are difficult to change at least on short and medium term.

4. ACKNOWLEDGEMENTS

This research was realized with the support of the Research, Education and Development Association (REDA) Romania.

REFERENCES

- Central Intelligence Agency, 2014. The world factbook. Washington DC. Available from <https://www.cia.gov/library/publications/the-world-factbook/docs/didyouknow.html>.
- European Commission, Statement by president Barroso and president Van Rompuy in the name of the European union on the agreed additional restrictive measures against Russia. Statement/14/244, Brussels. [Accessed 29.07.2014].
- European Commission, 2014. European economic forecast-spring. Brussels: 24. Available from http://ec.europa.eu/economy_finance/eu/forecasts/2014_spring_forecast_en.htm.
- European Commission, 2014. European economic forecast-spring. Brussels: 12-15. Available from http://ec.europa.eu/economy_finance/eu/forecasts/2014_spring_forecast_en.htm.
- <http://rt.com/business/173008-brics-bank-currency-pool/>.
- International Monetary Fund, 2013. World economic outlook. New York. Available from <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>.
- South Africa Info, New era as South Africa joins BRICS. Available from <http://www.southafrica.info/global/brics/brics-080411htm> [Accessed 11.04.2011].
- US Department of the Treasury, Ukraine-related sanctions. Washington D.C. Available from <http://www.treasury.gov/resource-center/sanctions/programs/pages/ukraine.aspx> [Accessed 12.09.2014].

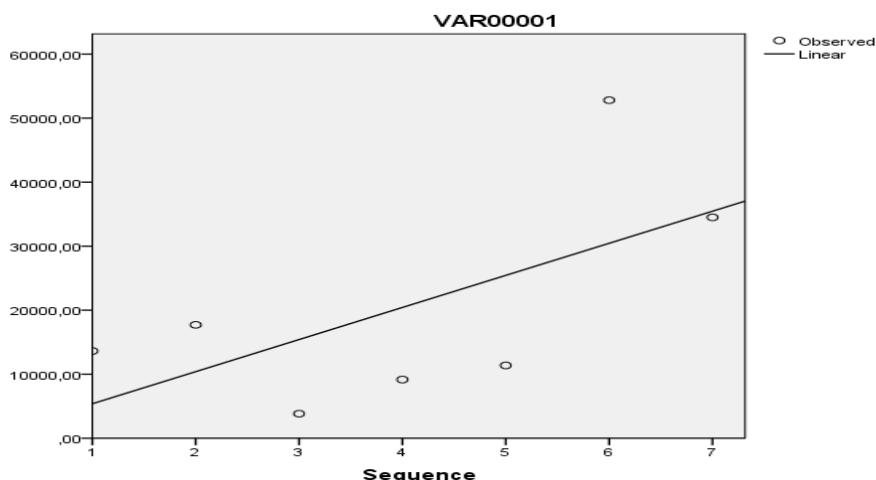


Figure-1. Disparities related to GDP/capita

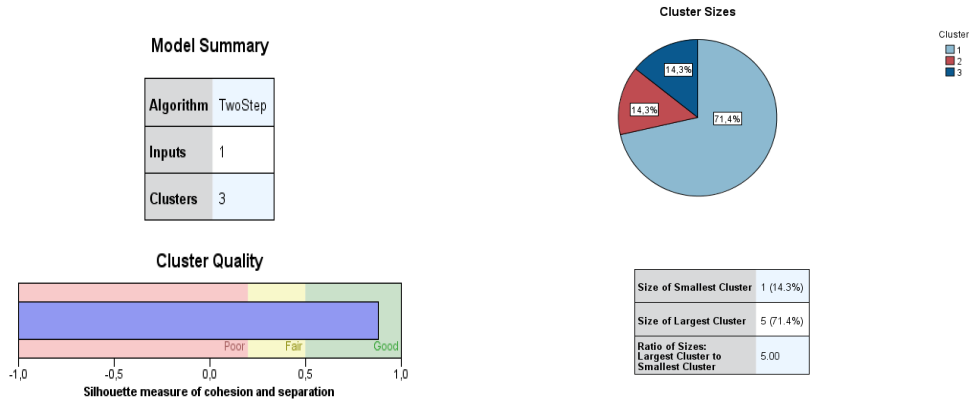


Figure-2. Cluster analysis related to GDP/capita

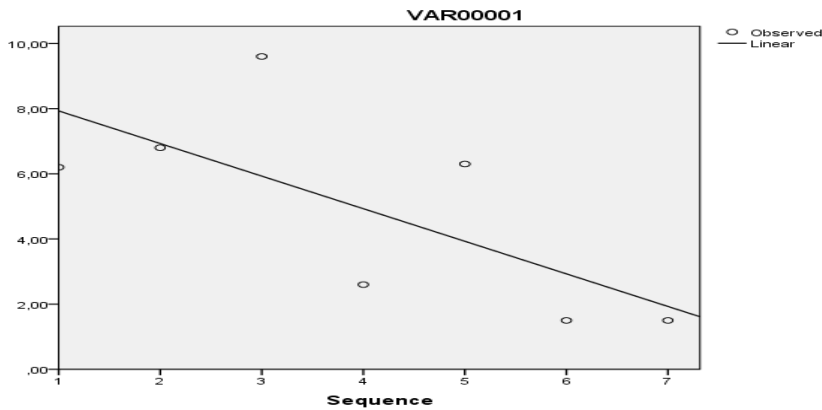


Figure-3. Disparities related to inflation rate

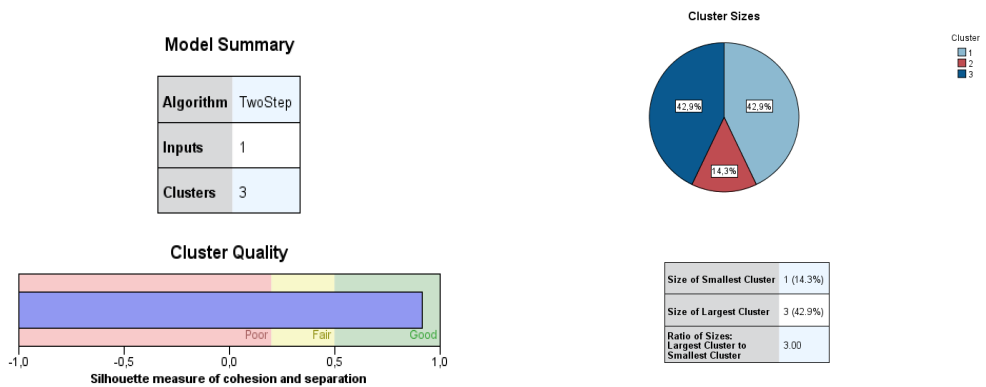


Figure-4. Cluster analysis related to inflation rate

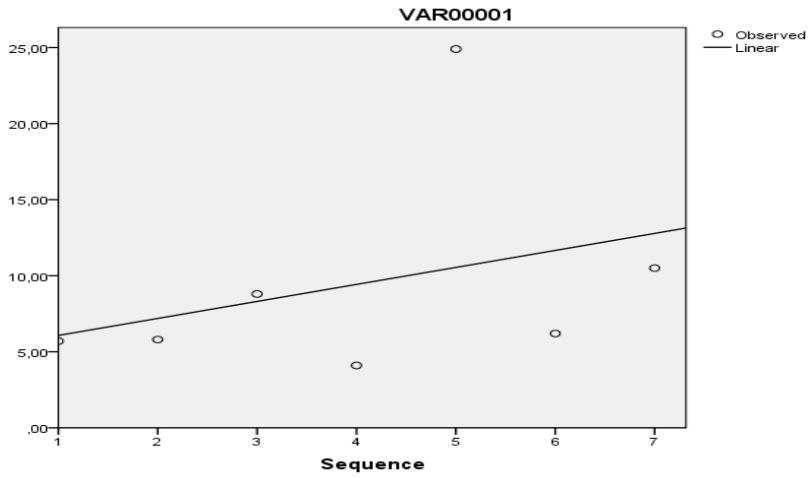


Figure-5. Disparities related to unemployment rate

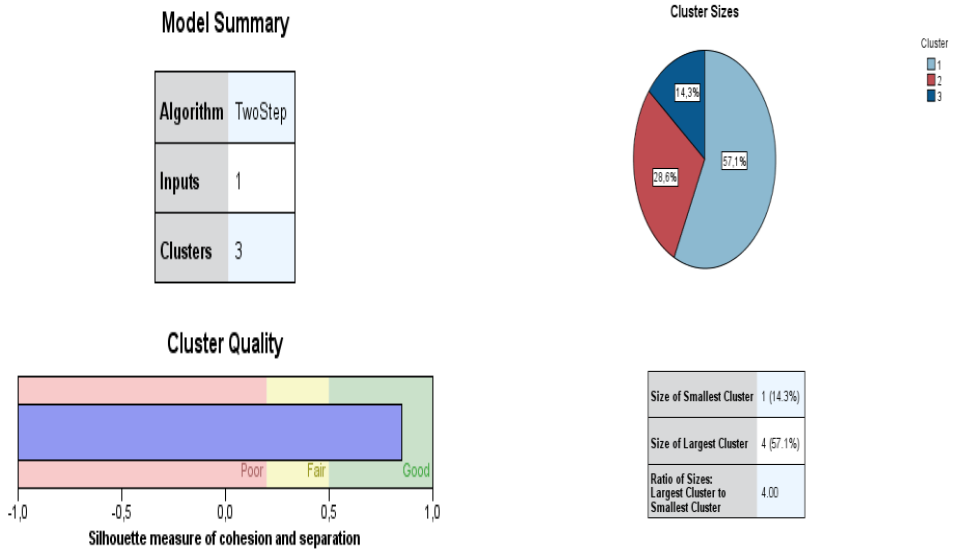


Figure-6. Cluster analysis related to unemployment rate

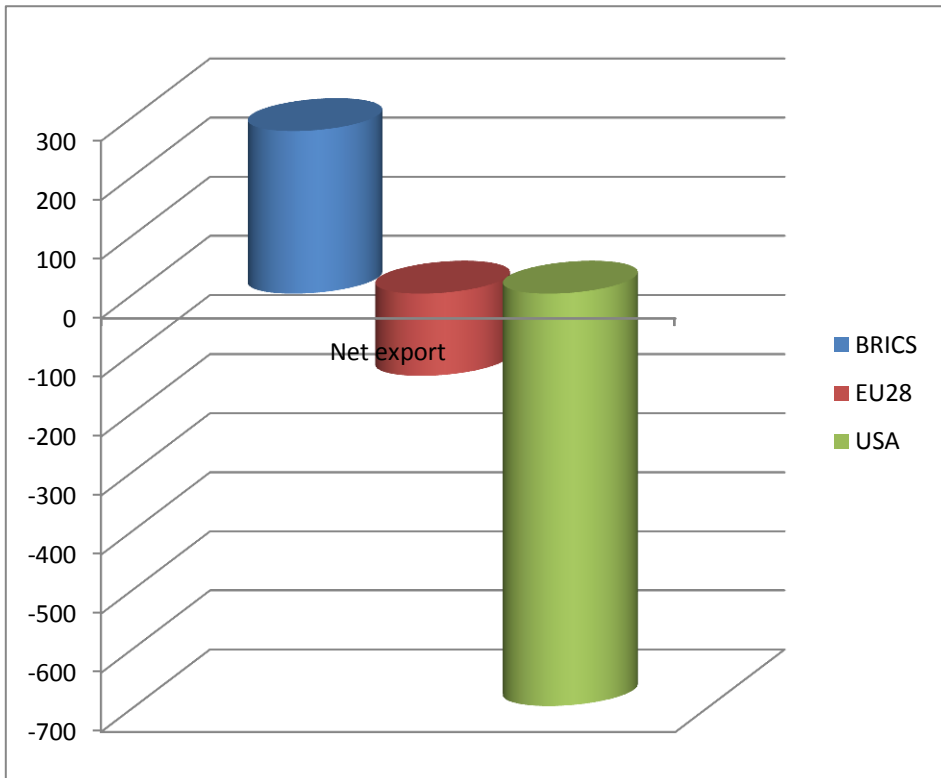


Figure-7. Net export (billion USD)

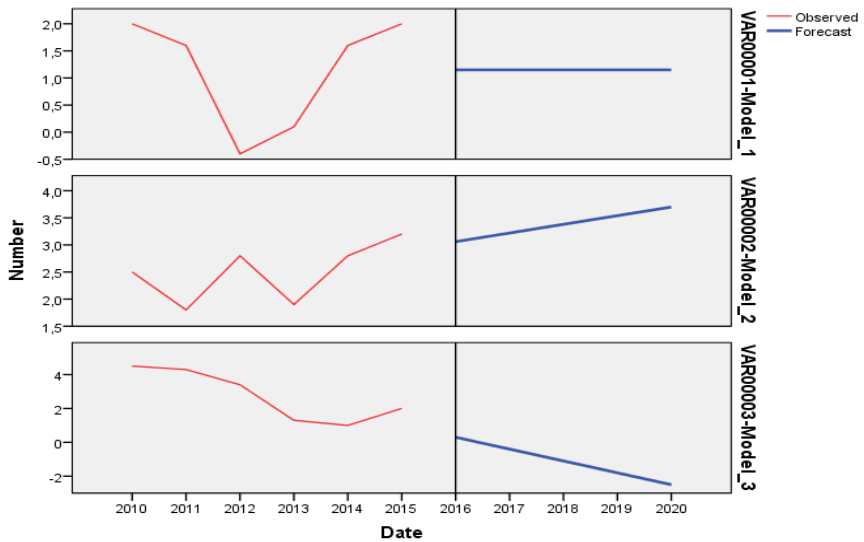


Figure-8. GDP growth rate forecast (%)

Views and opinions expressed in this article are the views and opinions of the author(s), Journal of Challenges shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.