

EMERGING COUNTER-STRATEGY TO BRICS

Introduction

This paper will concentrate on some problematic aspects of BRICS cooperation. It will focus on India, Brazil and South Africa, with some commentary on Mozambique as a destination for BRICS investment. Despite various problems in China and Russia, I note that each is doing better than many foreigners might have expected. For example, China has now succeeded in generating the majority of its growth from consumption, as opposed to investment, in line with its objectives. Russia restarted economic growth in 2016, only two years after sanctions were imposed, and is diversifying its economy quite quickly. Such growth will probably accelerate now that inflation has fallen to 4.5 per cent by mid-March 2017, if this leads to a fall in the central bank rate of interest. The cooperation between Russia and China including the coordination of the policy of the Eurasian Economic Union (EAEU) with One Belt, One Road (OBOR) suggests that prospects for more rapid growth are good.

In my view there remains the issue that roughly 40 per cent of foreign exchange holdings in Russia and China are in Euros, and given the growing difficulties of this currency that is a worry for the future. The German Chancellor Angela Merkel has stated publicly that the Euro might fail, and has attempted to place the blame for this on the European Central Bank. Perhaps in response to this, there have been recent large movements of funds totalling roughly 80 billion Euros from Spain and Italy to Germany. This seems to indicate that financiers in those two countries fear for the future of the Euro but expect that Germany will continue to be solvent even if the Euro collapses. Even that view could be optimistic, given the problems of Deutsche Bank and some other banks in Germany. In the face of such uncertainty, both Russia and China are wisely increasing their holdings of gold, and direct economic cooperation between the two countries should yield real growth that is mutually beneficial. Nevertheless, it may be advisable for both countries to increase domestic gold

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mining more rapidly, and to sell Euros as quickly as is compatible with market stability. This would still be advisable in the context of an expected series of small increases in the rate of interest in the USA in 2017, a change that will attract foreign funds to the USA.

Despite such fruitful cooperation between Russia and China, BRICS as a group faces some serious problems, some of which are owing to poor policy making and to inherent structural weaknesses in their economies. However, such sources of weakness have been exacerbated by external interventions. These interventions are beginning to look like the results of a conscious strategy to further weaken and undermine BRICS as an effective group that intends to have a new approach to fostering mutually beneficial economic links.

Indian Demonetization and Genetically Modified Crops

The most alarming of these problems is the Indian government's decision in October 2016 to ban the circulation of bank notes of large denomination. Originally the Indian government claimed that this measure was to combat crime, since such notes could be used to store and launder the proceeds of criminal activities. Even if this were the real motive, the very short public notice given was bound to create serious problems for an economy where 85 per cent of transactions take place in cash, without recourse to the banking system. This was bound to hurt the poorest sectors of an economy whose population is still mostly dependent on small scale agriculture. The result was the creation of hunger and hardship, with people either queuing for days to exchange their large notes for ones of smaller denominations, or (if they could afford it) hiring people to queue for them. Wealthier people with credit cards were more or less unaffected by this ban. Indeed they could charge other people for the use of their bank accounts.

The immediate operational problem is that the resulting shortage of cash has paralysed markets, especially rural ones, and this has meant that small businesses could not pay their employees, since the huge demand for small denomination notes meant that an acute shortage of such notes rapidly arose. This financial paralysis of rural markets should not be considered on its own, since the effect of using genetically modified (GM) crops is also to create a demand for cash to be able to buy new seeds every year from large multinational corporations. This issue will be discussed further below.

Subsequently, it emerged that this ban on large bank notes was not really designed to combat criminal cash hoarding and money laundering, but rather to force even the poor to open bank accounts as part of a move to a 'cashless society'. That is, the ban on large denomination bank notes was part of a strategy to force the Indian economy to move on to the use of contactless electronic payment cards, which would have meant that all future transactions would have to use the banking system. This attempt to force such a change upon huge numbers of poor, often illiterate people is bound to create long lasting problems. Even if people in rural areas have been successfully trained in opening a bank account, and can access their account through smart phones, there is still the issue of their ability to handle their finances in this way. They could easily find themselves becoming unsustainably indebted. The sheer numbers of people involved means that this on its own could create enough bad debts to induce a financial crisis. Yet this is not understood by most Indian citizens, and recent state-level election results have shown continued support for the ruling BJP. This suggests that most people still accept the claims about 'demonetization' being an anti-crime measure.

The implication of all this is that if the banking system itself faces a credit crisis, and automatic teller machines (ATMs) and contactless payment machines stopped working, then the resulting cash and credit shortage would render even the wealthier sectors of society unable to function economically. To put it bluntly, a 'cashless society' would not be immune to financial instability, and in any case would subject the whole population to control by the banking system: a form of financial servitude. In this context, it should not be forgotten how in 2008 Western governments were stampeded into bailing out huge banks with unsustainable debts because the cash machines (ATMs) were in danger of being closed down within hours. A 'cashless society' would be even more vulnerable to this kind of pressure, whether accidental or deliberately engineered. Yet this policy is being advocated on an international basis on the grounds of 'consumer convenience'. Sweden has already gone some distance towards full implementation of this approach, and is mistakenly proud to be a leader in developing the 'cashless society'.

Some weeks after the initial shock of Indian 'demonetization' it became clear that this new policy had been planned in secret for some time within the Ministry of Finance and that the change of policy had been supported by USAID, some large US corporations and at least one well-known American

‘philanthropic’ foundation. At the time the Indian Minister of Finance was someone who had experience in major international finance institutions and had kept a house in the USA. Not long after serious political protests over the shortage of cash began, he resigned from his Ministerial post and returned to the USA.

The economic disruption caused by the ‘demonetization’ policy (from which mainly American companies and banks will benefit) should be analysed in conjunction with the impact of the deployment of GM crops in India. This GM approach has been compared by its advocates to the alleged benefits of the ‘Green Revolution’ that took place decades ago. Yet even that increase in agricultural productivity per hectare had serious negative impacts on Indian agriculture. The need for cash that the dependence on commercial fertilisers created during the ‘Green Revolution’ resulted in a lot of the poorest small-scale farmers going out of business. The result was an increase in productivity per hectare, but with a lot of land being left uncultivated and the poor crowding into urban slums.

Advocates of the use of GM crops openly compare its supposed benefits to those of this earlier ‘Green Revolution’ while ignoring the negative aspects. Indeed under the Obama administration, the US State Department supported the ‘Alliance for a Green Revolution in Africa’ (AGRA) which openly advocated the use of GM crops and was supported by at least one of the same ‘philanthropic’ foundations that also supported the ‘cashless society’ in India. This was the Bill and Melinda Gates Foundation which according to informed sources including an American NGO called ‘AGRA Watch’ also has shares in Monsanto.

Biologists and ecologists have been collecting evidence on the effects of GM crops for years now, and on a global basis it can be said that the evidence is conclusive. The claim that yields per hectare increase with GM crops is misleading. Even if the seeds commercially available from the GM companies are bought by farmers every year, yields decline quite rapidly. In addition, the weed killer chemicals and the GM crops themselves can have adverse health effects. The GM crop seeds are dispersed during natural pollination by insects and travel for quite long distances by both insects and wind. As a consequence, nearby farms can then be taken to court by GM companies for using their seeds without a legal contract, even though those farmers did not realise that their crops had been contaminated and did not want that to happen. For this reason,

it is to be hoped that Russia has good bio-security measures in place at the border with Ukraine, since that is a country that also cultivates GM crops on large tracts of land.

The use of commercial seeds leads to the loss of the benefits of seed exchanges and improvements among farmers operating in the same ecological conditions. Thus the medium-term results are a decline in agricultural productivity combined with price pressures forcing many farmers out of business. Even in the USA itself, many farmers are abandoning GM crops because of these adverse effects.

Attempts to draw attention to such negative consequences of adopting GM crops have been countered by de facto censorship in the western media, combined with ongoing advocacy by GM companies and the media of the alleged benefits of adopting a 'scientific approach' to farming as a way of solving food shortages. Yet it is acknowledged that the world does not face overall shortages of food production: shortages are a problem of market distribution. These distributional problems can be mitigated by the use of state-owned agricultural marketing boards that can store crops and minimise price fluctuations. In addition, seed quality can be maintained and improved by voluntary donations to seed banks, which were often state-owned in many developing countries.

Helping to mitigate market price variability is especially important in economies affected by climate fluctuations related to the ENSO (El Niño Southern Oscillation) phenomenon in the Pacific and Indian oceans. ENSO events can cause serious agricultural disruption including famines in China, India and the whole of eastern Africa. It is known that ENSO events have been occurring for at least 250,000 years. In the 1880s a single ENSO event caused about 11 million deaths in India and about 13 million deaths in China. Yet the World Bank and IMF have been advising governments to close down agricultural marketing boards wherever an indebted country is subject to Structural Adjustment Programmes. This simply means that a country facing food insecurity has to import food rather than taking food from its own warehouses that used to be maintained by its agricultural marketing boards. One country that has been able to mitigate such problems by a policy of agriculture-based development has been Ethiopia. Those which have not been able to do so have been much more vulnerable: for example, Zimbabwe was a food exporting country during the Southern African famines of the 1980s and

early 1990s but is now dependent on food imports, despite improvements in food production caused by land reforms.

The main reason that the World Bank and IMF have abolished such marketing boards that supported national food sovereignty is because of a longstanding US policy of creating an export market for US agriculture, a policy that also gives political influence to the USA in relation to countries receiving food aid. Canada has been the second largest food exporting country after the USA and has always supported US policy in this area. Russia has recently been able to challenge the world agricultural dominance of the USA and Canada by rapidly increasing its own agricultural exports. In 2016 the US Department of Agriculture acknowledged that Russia had overtaken the USA and Canada as the world's largest exporter of grain. In effect, this places Russia back in the dominant global position that it held in 1913, and constitutes a direct challenge to an important aspect of the Western ideology of the unipolar world.

Russia has been able to do this as a result of 70 years of patient plant breeding by conventional methods, and is competing on the open market without having recourse to policies that undermine the home market of other countries by means of economic debt and policy diktats resulting from Structural Adjustment Programmes. In such circumstances, the Western advocacy of GM crops can be expected to take on renewed vigour, because GM crops are a technology that ties farmers into the commercial circuits of the GM companies, thereby enabling them to retain market share more easily through extending credit to farmers to help them buy GM seeds and associated inputs.

The position of GM companies has been strengthened by the fact that the World Bank and IMF have also encouraged the privatisation of seed banks. These seed banks are then taken over by agribusinesses which proceed to legally register their genetic content as private intellectual property. The result is that decades or even centuries of mutually beneficial informal seed exchanges to improve crop varieties suddenly ends, thereby shutting out farmers from the fruits of their own knowledge and farming practice. Whatever the legality of such private appropriation of genetic wealth, it has been metaphorically described as 'genetic theft'. Many of these seeds are doubtless stored in the famous seed bank on Spitzbergen Island in the Svalbard archipelago in the Arctic. Fortunately Russia has established its own independent seed bank in the Arctic.

Such practices of appropriating common genetic goods for private purposes have been described by Professor Carol Thompson in her analyses of ‘philanthrocapitalism’. Thompson has drawn attention to the international role of ‘philanthropic’ foundations, especially in the USA, in using their special low tax or tax-free status to amass resources that are used to conduct research and engage in lobbying of governments to influence policy in specific directions that suit the foundations’ political agendas. In my view such agendas usually support the ‘exceptional’ status of the USA either politically or economically.

So the combination of ‘demonetization’ and GM crops can be seen as a two-pronged attack on Indian economic autonomy, and hence indirectly as a counter-strategy to BRICS. In the case of both policies, we find that they have been supported by the US government, by large US corporations and by US foundations. This coordination of resources and organisations cannot be seen as anything other than a conscious strategy, in my opinion. It should be noticed that Brazil and South Africa already cultivate GM crops and that in the case of South Africa it was hoped that this would facilitate the persuasion of the European Union (EU) to accept GM crops. In addition, this use of GM crops already gives the USA leverage in these two BRICS member countries and this could conceivably be used to lobby for a ‘cashless society’. Furthermore, the parliamentary ‘soft coup’ in Brazil in 2016 and the upcoming Presidential election in South Africa could provide further opportunities for weakening BRICS.

Brazil and South Africa: Weaknesses in South-South Cooperation

While both Brazil and South Africa have comparatively large industrial sectors and have demonstrated a capacity for developing advanced technology, they nevertheless rely quite heavily on minerals and (especially in the case of Brazil) on agriculture. Accordingly, they are export-oriented economies that are vulnerable to fluctuations in the world demand for their products. Recently this has meant that the change in emphasis in China with respect to how it achieves its own economic growth has had an impact on both countries. China is changing from growth dependent on exports of manufactured goods and on investment in infrastructure to growth driven by internal consumer demand. In addition, the fall in the price of oil has hit Brazil hard and one can see from the recent reactivation of fracking wells in the USA that whenever the price of oil rises above a certain level such producers re-enter the market and stabilise or reduce the oil price. So Brazil cannot hope for strong growth from its offshore

oil wells in the near future. South Africa has known for years that China intended to change the profile of its economic growth and yet it has done little to change the structure of its own economy in anticipation of this reduction in Chinese demand for its mineral exports.

In principle, these structural problems could have been alleviated by a stronger emphasis on diversifying these two economies, but this has been difficult owing to a failure to do more to utilise revenues for productive investment in new sectors. Such investment has often come from abroad and has included the GM crops discussed above. In addition, both countries diverted spending on to World Cup football tournaments (and the Olympics in the case of Brazil). Since such tournaments are known to have negative effects on economic growth, these decisions were at best a triumph of hope over experience.

With regard to South-South cooperation, it is worth examining the example of Mozambique to evaluate how well this has worked. In the early post-Apartheid period up to the change from the Reconstruction and Development Programme (RDP) to the more neoliberal GEAR programme, South Africa pursued a policy of ‘development corridors’ in its relation with other southern African countries, including a proposal for the redevelopment of the Benguela Railway in Angola. This approach has certain similarities to China’s Silk Road (OBOR) strategy. However, by the time of the change from the RDP to GEAR, only the Maputo Corridor in southern Mozambique had been successfully brought to the stage where it could be implemented. This involved South African government guarantees for private sector loans to finance a new highway from the South African border to the capital city of Maputo, investment in bauxite mines in South Africa near the Mozambican border, and the use of hydroelectric power for a new aluminium smelter plant just outside Maputo. This plant, called MOZAL, was constructed in two phases, each costing over \$1 billion, and aluminium is exported through the port of Maputo. Afterwards South African investment tended to be wholly private and decided upon by individual companies, often in the retail sector.

The ‘development corridor’ approach was also evident in the pattern of Brazilian investment in Mozambique, and this was poorly implemented. This resulted in a broad failure of these investments and the sale of at least part of them to foreign, especially Japanese, companies. Consequently, the track record so far of South-South investment has not been too good for these two BRICS members.

Conclusion

The twin policies of ‘demonetization’ and the use of GM crops in India suggest that, perhaps without fully realising the implications, India’s economic autonomy has been compromised, primarily to the benefit of US corporations and foundations. This seems likely to give the latter increased influence over future Indian economic policy making. In my view this looks like a deliberate strategy to weaken the coherence of future BRICS decision-making, and thereby to undermine the prospects for an alternative mutually supportive form of international economic development and growth.

The recent experience of South-South cooperation by both South Africa and Brazil in Mozambique suggests that it can easily be cut short by economic recession, but more importantly that it has been conducted without adequate oversight, regulation and taxation by the host government. The result is that the potential benefits of such inward investment for the Mozambican economy have largely evaporated, and Mozambican public finances have remained much weaker than they should have been.

Russia and China will continue to develop in a fairly coherent, mutually beneficial way, but the difficulties in the other three BRICS member states, which are partly caused by external forces, have resulted in great difficulties in implementing a coherent international economic strategy.