INTRODUCTION

CANADA AND THE BRIC STATES

The BRIC states, or the BRICs, referring to Brazil, Russia, India and China, were first identified as a group in a 2003 Goldman Sachs publication anticipating the character of the global economy in 2050. (Wilson and Purushothaman) Analysts at the Centre for International Governance Innovation at the University of Waterloo refer to the BRISCAM states, adding Mexico, South Africa and the states of the Association of South East Asian Nations (ASEAN) to the original quartet. (Whalley and Antkiewicz 2005: 137-149) Does the grouping have any inherent logic? Some of participants at the "Canada and the BRIC States" conference, held at Carleton University March 28-29, 2006, argued that it did not – that Brazil, in particular, was not an obvious member of the group. Others suggested that Russia, with its weak economic growth and relatively less success in attracting foreign direct investment (FDI) may be the odd country out in a group of "breakout industrializing countries". Still, the appellation BRICs has stuck, at least in terms of identifying key new players in an evolving global system. However they are grouped, individually and collectively these are significant global actors to which Canada must pay attention and about which Canadians must know more. This thematic issue of *Canadian Foreign Policy* on the BRIC states, with papers from the conference mentioned above, is intended to contribute to our knowledge and to the debate on Canadian policy positions on issues of importance to Canada and to these states. The topics chosen, beyond the always-important one of trade, address priority subjects for Canada: energy security, the environment, and fragile states.

What first captures the attention of analysts are the size and populations of the BRIC states. Russia, China, Brazil and India rank first, third, fifth and seventh respectively in terms of size of countries worldwide. In terms of population the lineup is: China and India first and second, Brazil fifth, and Russia eighth. Collectively, the BRICs account for close to 45 percent of the world's population. Going beyond geography and demography is the speed of economic growth, particularly in China and India, and the potential for continuing development and growing global economic clout. All BRIC states have deregulated their economies to varying extents, and have adopted at least some of the principles of capitalism. China has become the dominant global supplier of a range of manufactured goods, as well as, increasingly, components and intermediate goods that constitute a critical part of global supply chains. (Evans 2005:153) China now stands as the world's third largest trader. (Lardy 2007) India, too, is increasing its manufacturing output.[1]

Moreover, companies located in BRIC states are becoming dominant players in the global market share for their products: China's Lennovo purchased IBM's PC business in 2006 and, as discussed below, China is investing heavily in natural resources around the world. Indian companies in steel, information technology, pharmaceuticals among others, have been purchasing firms in Europe and North America (The Economist 2006: 69-70). Two Brazilian firms[2] and Russia's Gazprom are cited as major players in the sectors in which they operate. (*Foreign Policy* 2007: 44) If the BRICs continue to grow at their current pace, by 2025 together

1. The two Asian BRIC states also recognize the potential of growing economic relations between them. In a visit by President Hu Jintao of China to India in November 2006, the two countries agreed on a ten-point strategy to strengthen economic relations and ease mistrust. (Rai 2006)

2. Aracruz Celulose (market pulp for paper products) and Embraer (regional jet aircraft).

their economies could be at least half the size of those of the G6,[3] and by 2040 larger than the G6 in US dollar terms. (Wilson and Purushothaman 2003:4) However, these states are not just producers, their populations are also consumers and potential consumers: as income levels rise, so will the consumption of a range of raw material, agricultural and consumer goods. Production and consumption have major consequences, as some of the articles in this special issue of *Canadian Foreign Policy* note, for the environment.

The predictions of growth may not materialize. Domestic political problems, and/or regional or global economic ones, might dampen the speed of growth and strain the political stability and state capacity that underpin it. Whatever the pace of economic growth among the BRICs, there is the potential to increase Canadian trade with, and investment in, these economies. As Tables 1 and 2 illustrate, Canadian trade with the BRIC economies remains very small as a percent of total Canadian exports and imports. Only with China has trade risen notably, and this more dramatically in terms of Chinese exports to Canada than Canadian exports to China – the growing interest of China in Canadian commodities notwithstanding. China has become Canada's fourth largest export market and the second most important source of Canadian imports after the United States.[4]

Table 1: Canada's Exports to the BRICs as a Percentage of Total Canadian Exports

Country	1997	2001	2002	2003	2004	2005
Brazil	0.57	0.24	0.19	0.23	0.23	0.25
Russia	0.13	0.07	0.06	0.09	0.10	0.13
India	0.16	0.17	0.17	0.20	0.21	0.25
China	0.81	1.06	1.04	1.26	1.62	1.62
Percentages calculated from Trade Data Online						

Table 2: Canada's Imports from the BRICs as a Percentage of Total Canadian Imports

Country	1997	2001	2002	2003	2004	2005
Brazil	0.48	0.45	0.55	0.59	0.66	0.83
Russia	0.23	0.11	0.11	0.24	0.39	0.45
India	0.27	0.34	0.38	0.42	0.44	0.47
China	2.32	3.71	4.59	5.53	6.77	7.75
Percentages calculated from Trade Data Online						

Up to 2006, Canadian investment in the BRIC economies has been limited and stands as a very small percentage of total FDI in these economies. Canadian FDI in India and China is growing, but slowly. One reason is the greater ease of investing in known markets – the United States and parts of Europe; a second is distance and the lack of familiarity with these markets. A third,

3. The United States, Japan, Britain, France, Germany and Italy. As a benchmark, in 2003 the total value of the BRICs' economies was 15 percent (in US dollars) of those of the G6.

4. For three months in the latter half of 2006 China surpassed Canada as the most important source of imports into the United States. (Thorpe 2006: FP1) From time to time there are articles in Canadian papers noting, often with concern, that, in the near future, China is likely to replace Canada permanently as the most important source of US imports.

in the case of India, as Surupa Gupta notes, is the tension between India and Canada that followed India's test of a nuclear weapon in 1998. Canada-India relations have improved in the last year or so, with visits by federal and some provincial politicians (Premier McGuinty of Ontario, for example) and, after a slow start, the Harper government is paying more attention to the economic opportunities with China. Minister of International Trade, David Emerson, led a delegation of Canadian business leaders to China in January 2007 and signed two agreements with China, one on cooperation on trade gateways and corridors, and a second to promote collaborative research and development between Canadian private and public sector researchers. (Canada websites) Overall though, Canada has been slow to develop strategies to expand its trade with the BRIC economies, most particularly with the two fastest growing, China and India.[5] Canada has no foreign investment protection and promotion agreements (FIPAs) with any of the BRIC states, although Canada and China held negotiations over a possible FIPA in 2005. Because of the interest in increasing Canadian FDI in the BRIC states, and concerns about investor protection, the first set of articles in this special issue of *Canadian Foreign Policy* examines the FDI policies of India, China, and Russia, including some analysis of the recent history of FDI in these economies.

In her article on FDI in India, Surupa Gupta highlights the recent attractiveness of India to investors, and government efforts to encourage inflows of FDI by reducing barriers to the entry of capital, among them sector restrictions and tax reforms. Anxious to attract FDI in knowledge-intensive sectors, the national government has reformed India's intellectual property laws and strengthened investor protection. Both national and state governments recognize the importance of further liberalization, but domestic politics (a coalition government at the national level, for example) impose constraints on the speed with which liberalization will proceed.

Kevin Zhang analyzes how, in a fifteen-year period, China has become the second largest global recipient of FDI, and the role government policy has played in making China such an attractive investment location. Although other BRIC states have potentially large domestic markets, and there is a considerable Indian diaspora with the economic wherewithal to invest in India, Zhang argues that it is the market size, strong central government, and the readiness of large numbers of overseas Chinese to invest in China's economic development that make China's situation unique. Zhang cautions that success, thus far, in luring FDI does not necessarily mean success indefinitely: China will have to learn to bargain with multinational enterprises to ensure that future investment remains compatible with national develop goals and includes technology transfer to strengthen indigenous industrial capacity.

In contrast to the successes of China and India in attracting FDI is the case of Russia, which has done very poorly in the race for foreign capital. Vladimir Popov investigates why, despite its considerable natural resources and economic liberalization, Russia has done so badly in attracting foreign capital. Popov argues that government inefficiency, and the inability of the state to enforce its laws and regulations, frightens away many potential investors. Moreover, weak state capacity reduces the domestic benefits that should flow from FDI. Popov's analysis, and that of King and Treskow on Russia's oil sector, reinforce each other and demonstrate the challenges of getting state policy right, and the costs of weak states and corruption.

A second set of articles addresses energy security and supply and state energy policy, a topic intimately connected to economic growth on the one hand and to Canadian trade, FDI in the BRIC states and in Canada, and attention to alternative energy sources on the other. Of the four

5. See Dobson (2006) for an argument that Canada should move quickly to deepen its bilateral relationship with India, and should consider negotiating a bilateral free trade agreement with India.

BRIC states, Brazil, Annette Hester and Jean Paul Prates argue, is in the best position to satisfy its energy needs. Brazil derives its energy from a variety of largely domestic sources (natural gas from Bolivia is the exception). Hester and Prates analyze the evolution of the energy exploration and production activities of Petrobas, Brazil's national oil company, suggesting that perhaps the most important lesson of Brazil's energy policy is the pragmatic way in which the Brazilian government has used Petrobras to meet national energy objectives.

For Russia, energy considerations revolve around current ownership and management of the country's oil and gas resources, rather than the limitations of the domestic supply and the resultant search for secure energy supplies abroad. King and Treskow's article details how control of Russia's oil resources fell into the hands of a small number of integrated business groups – new energy entrepreneurs with close connections to the country's political leadership. The authors argue that the privatization of Russia's oil sector weakened state's financial and monitoring ability as well as the long-term productive capacity of the sector, since firm owners have limited knowledge of the complexities of the industry and lack the incentives to make the capital investment necessary to ensure future production.

Two of the BRIC states, China and India, face insufficient domestic sources of energy to meet current, let alone future, needs. For both, the generation of energy cannot be separated from environmental concerns, e.g., carbon emissions and air quality, on the one hand, and alternative energy sources on the other. V.S. Arunachalam and his co-authors review India's long-time energy policy, which stressed energy security based on domestic sources, and then examine future energy options structured around domestic generation capacity as well as imports.

In his analysis of China's rapidly growing energy requirements, Wenran Jiang highlights the country's inefficient use of energy and current and future sources of domestic energy supply. He also reviews government understanding of the country's energy requirements and the environmental impact of energy production and consumption. Jiang then outlines China's global search for new energy sources, illustrated by China's recent courting of countries in Africa and Latin America, with, to the consternation of some western nations, little attention to the internal and foreign policies, and human rights records, of some of these states. The final section of Wenran Jiang's paper demonstrates the growth in Canada's energy-related exports to China and analyzes the economics and politics of closer Canada-China energy connections.

The discussion of the domestic and global environmental impact of China's energy consumption reinforces the analysis of Jiahua Pan and his co-authors who highlight the tension between economic growth and environmental sustainability. The authors outline the vastness of China's environmental challenges, among them, water consumption, quality and shortages, and the inability of the country to meet the targets for water and air quality set out in the country's 10th Five-Year Plan (2001-2005). Pan *et al* suggest that the targets set in the 11th Five-Year Plan (2006-2010) are over-ambitious and unlikely to be met, an argument acknowledged in January 2007 in a study by the Chinese Academy of Social Sciences.[6]

The importance of the BRIC states clearly goes well beyond their economic potential and the active participation of three of them – Brazil, China and India – in the G20 grouping that

6. York (2007a: A18) The Modernization Report, which contains research and opinions of experts and scholars in the Chinese Academy of Science, the Ministry of Science and Technology and elite universities, indicates that china ranked 100th in a list of 118 developing and developed countries in terms of "ecological modernization", the same ranking it received in 2004. (Globe and Mail 2007: A11) China's response to the February 2007 report of the International Panel on Climate Change has been ambivalent. Sources suggest that China tried to weaken the final wording of the IPCC document. Chinese officials deflect attention from their country's environmental challenges by arguing that the developed market economies have the major responsibility for addressing the problems of the global commons. (York 2007b: A11)

was active in the Doha Round negotiations of the World Trade Organization.[7] Each of these states is an increasingly significant player in regional and global diplomatic and security terms. Brazil, as José Augusto Guilhon Alburquerque argues, aspires to a leadership role in the western hemisphere, counterpoising itself to the United States. Russia has used its oil and gas exports, or the threat of the severe reduction of these, as a tool to extend its economic influence over its European and Central Asian neighbours. China is demonstrating its growing global clout in a number of ways: its participation with the United States, Japan, South Korea, and Russia in negotiations with North Korea over the latter's nuclear weapons, its forays into Africa in search of new supplies of oil, and its stated intentions to expand its naval capacity. Interestingly, despite its longstanding policy of non-interference in the internal affairs of other states, as outlined in this issue by Gu Guoliang, in early February, 2007, China urged Sudan to accept the joint UN-African peacekeeping mission for Darfur. (*National Post* 2007: A14)

Economic relations with the BRIC states cannot easily be separated from other priorities, as the differences between Canada and China, and between some in the Canadian corporate community and their government, over human rights demonstrate. Greater economic engagement translates into greater media attention to, and general awareness of, the domestic and foreign policies of all states. How should Canada engage the BRIC states on issues of concern, human rights among them, without jeopardizing our core relationships with the United States, most importantly, but also future relations with these states?

The divergence on human rights with China has been noted, as has the cooling of relations between Canada and India over the latter's nuclear weapons test. Canada-Brazil relations have had their challenges in recent years: the two countries do not hold the same perspective on the Free Trade Area of the Americas and there have been serious bilateral differences over the support of domestic aircraft producers, Bombardier and Embraer respectively, as well as over exports of Brazilian beef to Canada.[8] Russia and Canada have in common their considerable petroleum resources and vast expanses that border the Arctic, but there are disagreements between them over Canadian allegations of Russian abuses of human rights in secessionist areas, such as Chechnya, Canadian support for the participation of former Soviet client states in central and eastern Europe in NATO and the European Union, and Canada's Arctic sovereignty. (Burudu and Popa 2005: 185-202)

How do we assist the BRIC states in addressing problems of the global commons, most notably the environment and fragile states? The spillovers from both affect Canada. Readers will find articles examining the policies of three of the BRICs with respect to fragile states and one on China's environmental policies.

The topic of fragile states generated debate around terminology before substantive discussion on the issues raised by the subject began. Gu Guoliang argued that the terms "fragile" or "failing" states are western constructs which imply political judgements with which China is not comfortable: China prefers to categorize countries by their level of development or location, and to focus on the urgency of economic development and improvement in the quality of life of people, rather than on the threat of terrorism, governance capacity, and the regime choices of individual states. From China's perspective, the territorial integrity and sovereignty of all states must be respected. Moreover, the UN should assume the leading role in promoting peace and development, and states of the north have a responsibility to assist those in the south develop.

7. Russia is the last of the BRIC states to join the WTO, doing so in late 2006.

8. For a recent review of Canada-Brazil relations see Hester (2005: 203-221).

Brazil recognizes the challenges that fragile states present, and has supported UN intervention in Haiti. However, this is the exception, not the rule. As José Augusto Guilhon Alburquerque argues, Brazil's approach to fragile states, including Haiti, is shaped by domestic political imperatives and the country's broader international priorities, which include a strong Brazilian interest in a permanent seat on the UN Security Council. President Lula's left to centre-left coalition requires the negotiation of foreign policy positions, and fragile states are not a priority. Even more significant are Brazil's efforts to position itself as a leadership alternative in the hemisphere; this has led Brazil to oppose the US-led initiatives such as Free Trade Area of the Americas, or the US predisposition to intervene to protect democracy.

Russia's general lack of concern for fragile states stems from what Pavel Baev terms as "… the still painful trauma of the collapse of the USSR", the loss of superpower status, and the reality, as other contributors to this issue of *Canadian Foreign Policy* have noted, of Russia's own lack of state capacity. With the end of the Soviet Union came disengagement from former Soviet client states in Africa and Latin America. The Russian public is not moved, as western audiences are, by news of humanitarian disasters. Russia's attitude to the fragile states on its own borders has been mixed, generally abstaining from intervention, but on occasion intervening when it determined its essential interests (in oil or gas) were in play. Russia may be part of the G8, Baev notes, but it does not share the concerns of other members with respect to the threats posed by fragile states.

Beyond familiarizing ourselves with the policy stances of the BRIC states on issues of priority for Canada, should we also be considering how each of the BRIC states sees us and where Canada stands on their scale of relationship priorities? Diplomatic resources are always in short supply: what does each of the BRIC states stand to gain or lose based on a greater or lesser investment in developing a relationship with Canada? Who should take the first steps, how, and alone or in consort with others?

The topics addressed by the articles in this special issue of *Canadian Foreign Policy* are as compelling, if not more so, one year after the conference at which they were presented. Many of the issues most critical to Canada in the first decades of the 21st Century, and to which Canadian foreign policy will have to respond, will be influenced by the policy choices and activities of the BRIC states. This special issue is one way that *CFP* can inform Canadians and contribute to the policy debate as Canadian policy in a range of relevant areas is formulated.

I am indebted to many wonderful people, first for the successful conference, and now this special issue of *CFP* on Canada and the BRIC states, and I am delighted to acknowledge their contribution. First, friends of longstanding at the Department of Foreign Affairs and International Trade who assisted in the development of the conference program and the identification of panel topics – Evan Potter, David Mulroney, David Malone, and Ben Rowswell. Second, Graeme Hamilton and his colleagues in the Domestic Outreach Division at DFAIT, which provided funding for the conference and this special issue. Third, the contributors from the BRIC states and from Canada who participated in the conference, reworked, and in the cases of Wenrang Jiang and Annette Hester and Jean Paul Prates, wrote papers for this issue, and whose insights continue to be exciting. Fourth, Drew Fagan, now Assistant Deputy Minister Strategic Policy and Planning at DFAIT who set the tone for the conference with his opening

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