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Journal of Policy Modeling 36S (2014) S111–S131

Journal of Policy Modeling

www.elsevier.com/locate/jpm

Testing the relationships between globalization, regionalization and the regional hubness of the BRICs

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Received 31 March 2013; received in revised form 24 September 2013
Available online 31 October 2013

Abstract

The BRIC economies are expected to further increase their share and importance in the world economy. Whereas their growth strategies and their integration in the world production system has been widely analyzed from different angles, it seems that there has been less attention paid to how integration in the global economy (and openness) is related to integration in the regional economy. Firstly, we will therefore propose a series of indicators to better assess the interdependence between the BRIC economies and the economies of their respective 'regions', be it institutionalized or de facto regions. Secondly, we will present a series of statistical tests to evaluate the relationship between globalization and regionalization. This should further clarify the implications of a scenario of sustained growth and globalization in the BRICs for the patterns and levels of production and trade in their regions of influence. Among the findings of this article, model estimations suggest that the relative globalization of the BRICs is related to more global sourcing by the BRICs, enhanced regional competitiveness of the BRICs, and more asymmetry and trade dependence from the perspective of the regional trade partners.

Keywords: BRICS; Globalization; Regionalization; Hubness

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http://dx.doi.org/10.1016/j.jpolmod.2013.10.011

1. Introduction

The 'BRICs' has been an increasingly popular concept in both the public media and academia.[1] The countries of this group of emerging markets share as common characteristics large populations, less developed but fast growing economies and governments willing to embrace global markets. Quantum changes are predicted in global economic power, with the BRIC countries gaining increasing importance and eventually becoming four of the six largest economies in the world by 2050 (Wilson & Purushothaman, 2003). Moreover, buoyed by their rising economic power, the BRIC states will keep expanding their diplomatic influence and playing more important roles in the international arena both regionally and globally.

The BRICs phenomenon mirrors a general shift in the international balance of power, with the centre of gravity moving from the North to the South. The implications of the rise of the BRICs are certainly large for the world economy, even if the reality might sensibly differ from the projections conducted by the analysts at Goldman Sachs (O'Neill, 2007). Whether the forecasts will be met depends on how the BRICs improve their growth-supportive policy settings, such as macroeconomic stability, strong and stable political institutions, openness to trade and foreign direct investment (FDI), and higher levels of education.

In reality, the BRIC countries grew much faster than that was projected by the Goldman Sachs economists. The combined GDP of the four BRIC states increased from around 3 trillion USD in 2001 to 10 trillion USD in 2010. Although they were not immune to the 2007–2009 global economic crises, the four BRIC states are among those who first moved out of the shadows of crises and resumed high GDP growth. Compared to advanced economies that were trapped in recession and are still stagnating or on the way of slow recovery, the BRICs have shown their potential to become the main force driving the global economy in the future.

It is widely accepted that the world today has become increasingly interconnected as the result of economic, technological, political, sociological and cultural forces that keep globalizing the world system (Baldwin, 2006). Trade and investment liberalization has made it possible for the BRICs to achieve rapid growth via integrating the domestic economy into the world market. Following the official approval of Russia's membership of the WTO on 16 December 2011, all four BRIC states have become full members of the WTO.

The BRIC countries are highly connected to the world in terms of international trade, capital flows, and market interdependence. The BRICs share as a destination for global FDI has been growing substantially in the past decade. FDI inflows have accounted for more than 10% of their annual fixed capital formation. For Russia, in 2009 and 2010, not less than one fifth of the fixed capital formation was sourced from FDI. The combined annual inward FDI flows to the BRICs in 2010 have almost tripled the flows in 2000. According to UNCTAD statistics, the BRICs attracted more than 1.5 trillion USD or about 12% of world FDI flows during the period from 2000 to 2010 (UNCTAD, 2011). At the end of 2010, the stock of FDI in the BRICs was valued at about 1.7 trillion USD, almost one-quarter of that of the G7. Meanwhile, the BRICs outward FDI also picked up sharply to reach more than 4% of the world as more and more companies expand their global presence. In 2010, more than one-tenth of the world total outward FDI flows originated in the BRICs.

[1] The 'BRICs' is an acronym for the four biggest and most dynamic emerging economies – Brazil, Russia, India and China. These four countries held their first summit in 2009. At the end of 2010, South Africa was officially invited to join the group (henceforth called 'BRICS') and attended the third summit in 2011. In this article, we will focus on the four original members, however.