Review Article
Volume 13:11, 2022

Business and Economics Journal

ISSN: 2151-6219 Open Access

Centre Periphery Relationship: An Analysis About BRICS in Two Last Decades

Jorge Italo de Lima*

Department of Textile and Fiber Engineering, Indian Institute of Technology Delhi, New Delhi, India

Abstract

The major goal of this study is to look at the profile and potential implications of capital flows into BRICS nations Brazil, Russia, India, China, and South Africa from 2010 to 2021, using Ral Prebisch's viewpoint on the centre periphery system. The technique utilised is hypothetical deductive, and the methodological procedure entails bibliographic research from articles, books, and scientific works on the subjective, in addition to the descriptive method and data analysis. In this way, it aimed to comprehend the concept of the centre-periphery system, which was first proposed in the 1950's, as well as its characteristics; an overview macroeconomic panorama of countries from the BRICS is presented, followed by data from the international monetary fund, and finally, data from the world bank, analysis the capital flow profile transacted among the BRICS countries, above all from the financial account from balance of payments. It was verified that the peripheral countries have large speculative capital flows, short-term, compared to direct long-term investments. In addition, it was possible to determine the economic policy of these countries and their financial assets. Analyse the capital flow profile among the BRICS nations, particularly from the perspective of the financial account and the balance of payments. It was confirmed that the periphery nations had a high level of short-term speculative capital flows relative to direct long-term investments. It was also able to establish these countries' economic policies as well as their financial assets.

Keywords: BRICS • Centre periphery • External vulnerability • Financial flow • Economic growth

Introduction

The idea that there are fundamental differences between economies, not only in financial terms, but in various aspects, has long been a topic discussed throughout economic history. A great example is the author who developed the notion of the 'centre periphery system', emphasising the historical differences in technical progress between central and peripheral economies confronting, therefore, the international division of labour at the time. For the author, the countries of the centre have the capacity to drive (or contract) the world economy due to their peculiar characteristics, while the peripheral countries have a subordinate policy, given that they do not possess such capacity. His main conclusions point out that the economic measures adopted in central countries could not be adopted with unanimity to all other groups of countries, due to the different relations between countries of the centre and periphery. Although his work dates back to the late 1950's, the relations and, above all, the differences between central and peripheral economies remain.

The original notion of the centre periphery system can be extended to the analysis of financial fragilities inherent to peripheral countries, that is, emerging countries with developing economies. In this sense, international crises become a trigger for the discussion of capital flows to take place. The subprime crisis in the United States in 2007, which preceded the global crisis in 2008, shows the signs of these fragilities and the negative impact of capital flows with loose regulation, which accentuate the negative effects derived from the crisis [1].

It is highlighted in recent years the strong global presence of the group of countries called by the acronym BRICS, as potential emerging economies. The term BRICS was formulated by Jim O'Neil, chief economist of Goldman Sachs, in a 2001 study entitled "Building Better Global Economic BRICs". The countries were chosen to belong, at the time, to the four largest emerging economies that had the economic potential to surpass the great world powers within 50 years, represented by Brazil, Russia, India and China. In 2006, the countries started a dialogue among themselves that resulted, in 2009, in the first BRIC summit. South Africa was incorporated into the group in 2013, then forming the "S" of BRICS [2].

Given the relevance of these economies, the problem of this research consists in analysing the profile of financial flows that entered the BRICS countries in the period from 2010 to 2021,

***Address for Correspondence:** Jorge Italo de Lima, Department of Textile and Fiber Engineering, Indian Institute of Technology Delhi, New Delhi, India, Tel: 84994120365; E-mail: jorge_italo_@outlook.com*

Received: 20 June, 2022, Manuscript No. BEJ-22- 67118; **Editor assigned:** 23 June, 2022, PreQC No. BEJ-22-67118 (PQ); **Reviewed:** 01 July, 2022, QC No. BEJ-22-67118; **Revised:** 22 August, 2022, Manuscript No. BEJ-22- 67118 (R); **Published:** 30 August, 2022, DOI: 10.37421/2151-6219.2022.13.410

identifying characteristics and correlations (or not) with economic cycles, in order to observe whether peripheral countries have greater financial fragility in the face of international crises that prevent them from leaving this condition, unlike central economies. In this sense, the hypothesis adopted in this paper is that peripheral countries have a greater financial fragility, given the large participation of short-term speculative capital that enters these economies, thus corroborating the different functioning of core and periphery countries [3].

Therefore, the general objective of this study is to analyse the profile of financial flows transacted in the BRICS economies, in order to verify whether there is a bias towards shorter-term or longer-term in the dynamics of flows, based on the analysis of the sub-accounts of the financial account of the balance of payments. Furthermore, as specific objectives, this work seeks to present the theory of Raul Prebisch (1959) on the centre periphery system and relate it to the financial liberalisation approach. Furthermore, the general macroeconomic data of the BRICS countries in the period 2010 to 2020 will be analysed in order to relate (or not) the profile of financial flows with the macroeconomic moment of each country [4].

Thus, the approach methodology of this work is the hypothetical-deductive, since the research starts from a problem, then a hypothesis is formulated and, through deductive inference, the prediction of the occurrence of the phenomena covered by the hypothesis is tested. In turn, the methods of procedure are primarily the bibliographical, which seeks to explain a problem from theoretical references, knowing and analysing the existing scientific contributions on a particular subject, in addition to the descriptive and statistical, which allow to obtain, from complex sets, simpler representations [5].

Therefore, this article has three sections, in addition to this brief introduction and the final considerations. The first section presents the theoretical review of the centre periphery system and its extension to the analysis of financial liberalisation. The second section presents the macroeconomic panorama of the BRICS countries, with the aim of analysing the scenario of these economies in the period from 2010 to 2021. Finally, the last section seeks to analyse the profile of the financial flows directed to these economies, as well as their direction in relation to the period of the economic cycle experienced by the countries in question [6].

Literature Review

Centre periphery system and financial liberalisation

The European region had approximately 400 years of mercantilist period, in which the first economic thinkers like David Hume and Adam Smith appeared, until the beginning of the industrial revolution, which is a milestone from the point of view of the history of capitalism, which remains until today. In this historical process, the development of labour relations, urbanised society, currency control, technological advancement, consolidation of the consumer market among other factors that are of utmost importance to understand the economic dynamics were, therefore, developed by a region that was the cradle of this productive mode. In this sense, the economic theories developed at the time are geared to a reality limited to this geographical area, since they observe the problems that were emerging and being found throughout its history and culture, and delimited by them from a practical point of view [7].

McCloskey criticises that when delimiting rules in economics, he who establishes it imputes that he has knowledge in all current and future economic perimeter, delimiting the development of dialogue, segregating it to a single scientific methodology. The author highlights that it is not every conversation that allows an advance in science, but that Latin American structuralism is an example of advance. Unlike the central countries considered to be developed, Latin American structuralism emerged under the aegis of the Economic Commission for Latin America and the Caribbean (ECLAC). Notes that Latin American structuralism is part of a broad school of thought that presents unity of thought, not only because of methodological convergence, but also because of the existence of some of the founding ideas of the basic conception formulated by Raúl Prebisch [8].

Ferrer exposes that, for Prebisch, the dominant theories have grown old like an old map, making a task of revision necessary. His concept 'centre-periphery' dialogues with the social and economic specificities of advanced countries (centre) in relation to developing countries (periphery, what today is more commonly called 'emerging'). In this sense, Prebish questions the role of the state in promoting development and why the measures formulated in central countries do not apply to peripheral countries. For him, the constructions of economic thinking and in turn solutions to problems that had been carried out in Europe, Britain or the United States, are not isolated and part of a linear process. In fact, they are cyclical processes, given the commercial connections and technological dependencies that stem from them, to cite just two examples. The reality assisted in central countries is, therefore, different from the peripheral reality, so that there is no point in employing a single policy to all countries.

Prebisch debates about the assumption of distribution of technical progress, since since the end of the 19th century, primary products have been losing value and deteriorating in relation to the prices of manufactured products in the centre. The author reports that the condition of central or peripheral economies is a result of the historical process through which technical progress has spread. In this way, the structures of the production chains are different in the centres and in the peripheries, besides also having different functions in the world economic system [9].

His theory maintains a focus related to commercial transactions, since Latin America, as a peripheral bloc, had an unbalanced balance of payments due to the low coefficient of imports from the United States. It also highlights the limitation to industrialization in the region. That is, primary goods suffer deterioration in the terms of trade in relation to industrial goods. The deterioration in the terms of trade means that if export volumes remained stable, the capacity to purchase goods and services from abroad, that is, the capacity to import, would decline over time [10].

The 'core periphery system' theory, in elucidating the economic differences between core and periphery countries, although focused on terms of trade analysis, can be extended to several other studies that investigate the distinct economic dynamics between them. From this perspective, the debate around speculative capital flows becomes very relevant. The peripheral countries, or also called emerging countries, have difficulty in borrowing in local currency and generally seek international capital for the promotion of national policies, for example. Not only that, there is a trend towards dollarization of peripheral economies [11]. In this regard, for, the tendency to dollarization is an additional characteristic of emerging economies, making them more unstable and vulnerable to financial and monetary crises. This lower financial solidity leads the creditor to seek higher return on risk, that is, higher interest rates. As points out, in an environment characterised by the predominance of organised and liquid financial markets, the business logic becomes subordinate, while the speculative one becomes dominant [12].

The solution for Prebisch, regarding the terms of trade analysis, a priori establishes the import substitution and a control mechanism that avoids or diminishes the unbalance of the balance of payments through an unfavourable exchange rate, discouraging imports. That is, a type of capital flow control. Although the elaboration of the centre-periphery system dates back to the end of the 1950's, the relations between central and peripheral economies are observed today and can be understood by specifically analysing financial relations. The condition of uncertainty to which economic decisions are subjected translates into fragilities in the peripheral countries, as they have to rely on what called financial innovations. These innovations refer to the production of new financial services or new ways of producing already existing financial services, in order to be more competitive with competing services [13].

In this case, the basic interest rate in peripheral countries tends to be higher than in central countries under conditions of free movement of capital, given the greater associated risk. At this point, it is important to emphasise that the fragility of these financial innovations derives from the systemic fragility created by them [14]. It is evident that the economic openings of peripheral economies will also absorb more stable capital flows, such as those destined to direct investments. The 'core periphery system' theory, in elucidating the economic differences between core and periphery countries, although focused on terms of trade analysis, can be extended to several other studies that investigate the distinct economic dynamics between them. From this perspective, the debate around speculative capital flows becomes very relevant. The peripheral countries, or also called emerging countries, have difficulty in borrowing in local currency and generally seek international capital for the promotion of national policies, for example. Not only that, there is a trend towards dollarization of peripheral economies [15].

In this regard, for, the tendency to dollarization is an additional characteristic of emerging economies, making them more unstable and vulnerable to financial and monetary crises. This lower financial solidity leads the creditor to seek higher return on risk, that is, higher interest rates. As points out, in an environment characterised by the predominance of organised and liquid financial markets, the business logic becomes subordinate, while the speculative one becomes dominant [16].

The solution for Prebisch, regarding the terms of trade analysis, a priori establishes the import substitution and a control mechanism that avoids or diminishes the unbalance of the balance of payments through an unfavourable exchange rate, discouraging imports. That is, a type of capital flow control. Although the elaboration of the centre periphery system dates back to the end of the 1950's, the relations between central and peripheral economies are observed today and can be understood by specifically analysing financial relations.

The condition of uncertainty to which economic decisions are subjected translates into fragilities in the peripheral countries, as they have to rely on what called financial innovations. These innovations refer to the production of new financial services or new ways of producing already existing financial services, in order to be more competitive with competing services [17]. In this case, the basic interest rate in peripheral countries tends to be higher than in central countries under conditions of free movement of capital, given the greater associated risk. At this point, it is important to emphasise that the fragility of these financial innovations derives from the systemic fragility created by them [18].

It is evident that the economic openings of peripheral economies will also absorb more stable capital flows, such as those destined to direct investments.

The economic outlook for the brics countries from 2010 to 2021

This section presents the general macroeconomic panorama of the BRICS countries Brazil, Russia, India, China and South Africa based on indicators such as Gross Domestic Product (GDP), investment rate, inflation rate, interest rate and current account balance, thus enabling a comparison between them. The period of analysis will follow from 2010 to 2021, being chosen mainly for interpreting a characteristic economic cycle, in which the world economy recovers from the post 2008 global crisis, but, at the end of the period, suffers the consequences, also economic, of the global health crisis caused by SARS-CoV-2. The data analysed in this chapter were obtained from the world economic outlook database, October 2021 version, and international financial statistics, which in turn makes up the database of the world economic outlook report. All values are deflated, having the base year 2015, according to the methodological notes of the organ in question. It is also worth highlighting some particularities that were determined in order to provide consistency and reliability to the analyses. Data were collected from the end of the period of each year, as a closure of the period. In the case of China, data from Hong Kong were considered, since it demonstrates to have greater relevance, since it is a prominent financial economic centre in the country and in the world.

Gross Domestic Product (GDP) growth rate at constant prices

The GDP growth rate expresses the percentile of variation of the total product of a region in relation to the previous year, thus determining its growth or decrease. The GDP is one of the most relevant indicators used in macroeconomics having as main objective to measure the economic activity. In general, this period begins after the subprime crisis, in which measures to stimulate the economy were observed in several countries to avoid an acute collapse in their economies, making them more dynamic.

It is possible to see that the group began the decade with positive growth rates, and in 2014 there was the beginning of a decoupling between Brazil, Russia and South Africa in relation to China and India. Pedrosa and Correa draw attention to the fact that in the second half of 2014, the price of oil barrels began a downward trend, starting from US$144 in July of that year, reaching the lowest point in early 2016 at a cost of US$27 per barrel. In this sense, the decline in the GDP growth rate of Brazil and Russia is clear, since they are producers of this commodity. Whereas China and India did not suffer with this issue and showed positive and relatively significant growth rates in these years of volatile oil barrel prices.

The year 2019 stands out, which marks the decline in the growth rate of all countries and culminates with the lowest variation in 2020. This trend is initiated by the SARS-CoV-2 pandemic, which forced several governments to take extreme measures to combat the health crisis, and therefore reflects a moment of retraction in the growth rate of the BRICS countries in the most recent period.

Investment rate: The investment rate of an economy is an indicator that refers to the share of investment in total production. In Keynesian theory, investment is the variable that promotes the growth and development of an economy, since it acts directly on employment and income generation, increasing aggregate demand. In this sense, the analysis of the investment rate of the BRICS countries is of utmost relevance to draw parallels with other variables, including economic growth. In agreement with Keynesian theory, it is expected that the countries that have a relatively higher investment rate within the bloc are the ones that present a higher growth rate of their product. In the same way that China and India presented the highest GDP growth rate, these countries present the highest investment rates of the BRICS in relation to the others. The results of the literature point out that in the same way that we notice a relationship between the investment rate and the GDP growth rate, there is an (inverse) relationship between the investment rate and the real interest rate in the economy. In this sense, the following table shows the behaviour of this variable [19,20].

Interest rate: The interest rate corresponds to the premium paid when giving up the liquidity of money [21]. In other words, it remunerates the agent that uses money the most liquid asset of a capitalist economy in a less liquid asset such as public debt or other financial assets. In addition, as already mentioned, its level can mitigate or expand the uncertainties surrounding a medium or long-term investment, since it constitutes a reference in relation to other rates of return offered in the market.

Country	Brazil	Russia	India	China	South africa
2021	8.30%	6.69%	-	0.98%	4.61%
2020	3.21%	3.38%	6.62%	2.42%	3.21%
2019	3.73%	4.47%	3.72%	2.90%	4.12%
2018	3.66%	2.88%	3.95%	2.07%	4.52%
2017	3.45%	3.68%	3.33%	1.59%	5.18%
2016	8.74%	7.04%	4.95%	2.00%	6.57%
2015	9.03%	15.53%	4.91%	1.44%	4.54%
2014	6.33%	7.82%	6.65%	1.92%	6.13%
2013	6.20%	6.75%	11.06%	2.62%	5.78%
2012	5.40%	5.07%	9.31%	2.62%	5.72%
2011	6.64%	8.44%	8.86%	5.55%	5.00%
2010	5.04%	6.85%	11.99%	3.18%	4.09%

Table 1. Interest rates of the BRICS countries.

It is possible to observe, through the data in Table 1, that Brazil and Russia are the countries with the highest interest rate in relation to the others. Russia reached, in this period, 17% p.a. in 2014, while Brazil reached its peak, 14.25% p.a., in the following year. India and South Africa were two countries that maintained relatively stable interest rates within the levels of the beginning of the decade, with the exception of the last two years, when the world drastically reduced productive capacity. Another highlight is China, which presents the lowest interest rates of the group, remaining below 2% p.a. for most of the period. This factor helps to substantiate the positive Chinese growth rate. It is worth highlighting the tendency for the group's interest rate to decrease in relation to the beginning of the decade.

Inflation rate: Inflation expresses the generalised increase in the average price of products and services in a certain time interval. Whatever its origin, the consequences are similar: loss of purchasing power and increased uncertainty, which reduces financial investments and discourages long-term investments. In another perspective, a negative inflation rate (deflation) is not desirable either. A generalised fall in prices discourages agents to consume waiting for the price to fall, while traders would have a lower revenue than the amount paid for the stock, decreasing their income and consumption. In this sense, it is the central bank's role to keep inflation rates low and stable in order to bring predictability to agents and, as a result, economic stability. Brazil and Russia had difficulties in terms of controlling inflation in 2014 and 2015, years that culminated in the oil crisis. China is an outstanding country since it kept inflation under control and below 5% throughout the period, combined with a significant growth rate.

Current account balance: The current transactions balance constitutes the result (balance) of the four items of a country's current account: trade balance, services balance, income balance and current unilateral transfers [22]. Running a deficit in current transactions weakens a country's national accounts as it contributes to a negative balance of payments, making it necessary to resort to financing and other strategies. On the other hand, a positive current transactions balance contributes to the opposite, a positive balance of payments, which places the country in a condition of international creditor.

It is verified that, at the beginning of the decade, Brazil, India and South Africa started with a deficit, while Russia and China had a surplus in the current account. With the exception of China, in the passage from 2010 to 2021, there was a tendency for the balance in current transactions to fall, related to the decrease in the basic interest rate verified in Table 1.

It is clear that China and Russia incurred a surplus in the entire period, showing a financing capacity superior to the others, despite Russia having large inflationary oscillations that reflected in the balance of payments. On the other hand, China presents itself as a country that moves in front of the others, since it presents high investment rates, low inflation, low interest rates and maintains a surplus in the balance of current transactions.

In summary, it was possible to verify, based on this macroeconomic panorama of the BRICS countries, that this period analysed contemplates a typical economic cycle, with growth expansion at the beginning, followed by economic retraction, especially in 2020. In addition, it is possible to analyse that, among the countries of the group, there is greater similarity in economic terms between Brazil, India, Russia and South Africa, with China currently presenting data closer to a central economy.

Capital flow analysis of the brics countries

This section seeks to present data from the second level of opening of the financial account of the balance of payments of the BRICS countries, in order to examine the profile of financial flows destined for these economies from the disaggregation into assets and liabilities. The Central Bank of Brazil (BACEN) explains that the criteria of assets and liabilities is adopted by the BPM6 and, according to it, for example, the direct investment relationship be it a Brazilian parent company or a Brazilian subsidiary are the credits granted by a company resident in Brazil to another company resident abroad and then recorded in the direct investment assets account. On the other hand, foreign companies that grant credits to companies resident in Brazil are compiled in the direct investment liabilities account, that is, foreign direct investment in Brazil.

In addition to the Direct Investment account, the financial sub-accounts include portfolio investments (or portfolio), which records transactions involving debt or equity securities between countries, except those included in direct investments and reserve assets; financial derivatives, which record and comprise financial instruments and pension funds; and other investments, which is a residual account that records other investments that were not included in the previous items [23].

Among these sub-accounts, authors like point out that the flows that enter as portfolio investment, derivatives and other investments have a shorter term profile when compared with direct investment, which has a more productive and lasting bias to the country. In this sense, the data of the sub-accounts of the financial account of the balance of payments of the BRICS countries will be presented below, in their assets and liabilities, in order to analyse the profile of the flows that enter each country [24].

Brazil: Brazil had an industrialization model by means of subsidiaries that expanded from their countries of origin. Multinational companies seeking to preserve the domestic market of the countries in which they set up, which normally occurs in peripheral countries [25]. Brazilian direct investments are clearly discrepant in terms of financial volume. There is a larger volume entering the country than being invested abroad, which reflects the terms in which the Brazilian industrialization was carried out, as exposed by [26]. Such investments are intended for production and have the quality of being long-term investments.

Portfolio investments stand out diametrically opposed to direct investments in terms of their short-term profile which followed a clear trend of following the Brazilian basic interest rate. In the years 2011 to 2014, when a relatively high interest rate was observed, compared to the other countries in the group, there was an increase in capital inflows into the country through this item, which reached an amount of approximately US$ 133 billion. However, with the oil crisis and the political instability that the country suffered, it is possible to note a sharp drop in these flows in the following years until 2016, highlighting the ease with which such flows leave the country at any reversal of expectations. It is interesting to note that the country adopted, in the same years, record interest rates throughout the period, with a maximum of 14.25% p.a. in 2015.

Regarding the other items, which also have a short-term profile when compared to direct investment, derivatives maintained a mirror reflection between assets and liabilities throughout the period, while the other investments item, until 2014, showed a lot of volatility, with variations reaching approximately 31 billion dollars in liabilities and approximately 27 billion dollars in assets. A correlated movement can be mentioned, when it is noted that after 2017, financial volumes are increasingly less expressive in the financial account, the same period in which the country's interest rate begins to fall from 7% p.a. to 2% p.a. in 2020.

Finally, regarding the analysis of investment profiles and volume traded in the Brazilian case, the total volume in liabilities (investments coming from abroad) for the entire period is approximately 1.268 trillion dollars, of which nearly 757 billion dollars are direct investments, corresponding to 59,76% of the amount. On the other hand, short-term profile investments have moved approximately 510 billion dollars, which corresponds to 40.24% of the amount. These figures objectively demonstrate the importance that short-term investments have for the Brazilian financial account and the problems they can cause, since they enter and leave the country very easily [25].

Russia: Russia has an attractive industrial park in terms of the risk return ratio in the oil, gas, steel and metallurgy segments [26]. This condition, which exposes the risks of these sectors, qualifies the country for the entry of greater financial flows directed at direct investment, since investors face less uncertainty. Therefore, there is an environment that stimulates investment with a long-term profile.

Still, in the years of oil crisis, despite what is stated by there is a drastic decrease in Russian direct investments of approximately 62 billion dollars from 2013 to 2015, the year of greatest crisis in the sector. These years are also marked by recording the highest interest rates in the country, reaching 17% p.a. in 2014, in addition to a burning of international reserves. The other investments with a short-term profile have a significant participation in financial volume. Unlike Brazil, where most of the resources are concentrated in the portfolio investment item, Russia shows a higher volume in financial derivatives and other investments [27].

Mikhaylov presented, through Ernest and Young (EY), a research in partnership with the American Chamber of Commerce in Russia (AmCham) that shows that American investors, who own assets in Russia, consider the Russian market to be strategic, given its prominence in the global economic dynamics. In terms of financial volume, Russia has international reserves (SDR) that play the role of providing security to its investors. BNE presents data showing that Russian international reserves played an important role in reducing the impacts of the 2008 global crisis, the 2014 crisis and the sanctions that occurred in the country, given the annexation of crimea to its territory in 2015.

As such, the country has international prominence and most short-term investments in its liabilities with the financial volume of approximately 581.5 billion dollars which represents 64.86% of the total liabilities of the financial account - against 315 billion dollars (35.15%) in long-term investments, approximately.

India: India started its commercial opening in 1991 in a modest and cautious way with a large state participation in public enterprises. The banking, oil and gas, mining and electricity sectors have high state participation, reaching 70%. Furthermore, public companies are responsible for 76% of fixed capital and 67% of industrial production [28]. Therefore, it is expected that the Indian direct investments suffer little volatility.

In fact, Indian direct investments suffer little variation over the entire period. Not only this, there is an upward trend in direct investment from 2012 onwards. In part, it is explained by the state participation and facilities that foreign investors find when seeking to invest in the country, but especially the jumps in 2019 and 2020, where the Indian pharmaceutical industry was the main responsible for adding investments [29].

As for short-term capital inflows, it can be seen that this ease in investing in the country is also translated into financial fragility when observing that portfolio investments have high volatility presented throughout the period. In turn, financial derivatives have a correlation between assets and liabilities that presents at the end of the period a balance of approximately US$ 9 billion in liabilities higher than assets. That is, in spite of the account being representative in financial volume, it is not very expressive in final balance throughout the period.

China–Hong Kong: The Chinese case is sui generis within the group. Hong Kong has an autonomous monetary policy through the Hong Kong Monetary Authority (HKMA) and has a prominent global position as a financial centre, and therefore data availability is ample compared to the mainland. It is important to note that the island, in the 1970’s, was part of the Asian Tiger group (composed of South Korea, Taiwan, Hong Kong and Singapore). Such groups presented an open trade policy that promoted industrialisation and export oriented trade. Despite the differences between them, Hong Kong maintained a neoliberal policy that promoted free trade [30]. That said, one expects to find an environment in which there are Chinese subsidiaries that receive investment and promote long-term productive direct investment and, also, an intense flow of portfolio capital volume given the island's prominent position as a financial centre.

We point out the relevance that the island has for being, by far, the largest financial flow among the countries belonging to the BRICS throughout the period. However, there is still a positive balance of flows in direct investment liabilities, in the period, of approximately US$ 213 billion. That is, the region attracts more long-term capital compared to investments in subsidiaries in other regions. As for short-term capital flows except financial derivatives, which despite having a balance with financial volume of approximately US$ 84 billion, corresponds to only 3.10% of the entire financial volume transacted, therefore with little impact compared to the other sub-accounts present expressive volatility, especially in 2015 and 2019.

Finally, there is room to reinforce the large volume of capital that circulated in Hong Kong, in the period analysed, in the order of approximately 2,728 trillion dollars. Approximately 1,078 trillion dollars in long-term investments, corresponding to 39.52% of the total amount transacted and approximately 1,651 trillion dollars in short-term investments, which corresponds to 60.48% of the amount.

South Africa: South Africa, besides representing the largest economy in the African continent, also has great influence in the Southern African Development Community (SADC). Briefly, the country has promoted an increase in investments in Sub-Saharan Africa, which has made it one of the main realizers of direct investments in the region and has put it in the spotlight. In relation to its industrial park and sectorisation of industry, mining and manufacturing are the ones that have prominence since 1992 with shares that reach 95% of the country's exports to the region. In this sense, South Africa should present an expressive volume of short-term capital inflows and a certain degree of long-term capital that translates, in part, the growth of its relatively stable GDP. Nevertheless, the financial volume transacted tends to be smaller compared to the other countries belonging to BRICS. It is clear to observe that the financial volume is relatively smaller than the other groups when considering the scale of the graph. Direct investments liabilities present a correlation with the GDP growth analysed in this period, which is natural and expected [31].

In spite of the existence of long-term investments, the financial derivatives present in the whole period negative and volatile values, which confirms its short-term profile. Although this account presents a financial turnover of approximately 221.5 billion dollars (liabilities), its balance is only approximately 4.3 billion dollars, which represents less than 1% of the total financial turnover in the period. This scenario highlights the other short-term investments in the country that seek investment from abroad. Despite the oscillations inherent to the volatile profile of these operations, the headings portfolio investments and other investments gain relevance in the country, as they present positive balances between assets and liabilities.

Discussion

The main objective of this study was to analyse the profile of capital flows entering the BRICS countries in the period 2010-2021, based on the perspective of the system periphery centre system formulated by Grinin, Tausch and Korotayev. We started from the understanding of how the system centre periphery emerges as a criticism to the theories of development imported mainly from Europe, and related such an approach to the notion of problems related to financial liberalisation.

With regard to the financial liberalisation of peripheral economies, it was argued that its characteristics translate into uncertainties, which in turn, are combated with financial innovations, allied to a higher basic interest rate compared to central countries, to attract a greater flow of foreign capital to their countries and thus promote their respective developments [32]. Associates that the financial needs of these economies stimulate economic agents to use financial innovations to preserve their monetary assets against the risk to which they are exposed. The author is emphatic about the financial instability, since the inflow of short-term capital may be greater than the financing need which comes from the issuance of public debt and not necessarily derived from production.

Subsequently, the economic panorama of the countries belonging to BRICS was presented with the main indicators. This panorama was able to identify the different realities that are presented in the countries of the group, highlighting China, which presented a macroeconomic scenario exemplary of a core country: high growth rate, low inflation, investment level above 40%, with interest rates below 3% throughout the analysed period. This shows that the country has self-financing capacity, financial solidity and economic dynamism, something totally opposite to the dynamics of the other countries of the group, typically peripheral.

In addition to this economic panorama, the financial account of the balance of payments was analysed, observing the capital flows that enter the group's countries. It was noted that, in general, all of them have a high level of financial volume transacted with a short term profile, inherent to the conditions that globalisation imposes, starting with financial liberalisation. This conclusion corroborates, therefore, that there is not an economic cycle for each country, but a single global economic cycle, as pointed out by Grinin, Tausch and Korotayev [33].

Far from having exhausted all the exposed points, the capital flow analysis has shown that, in case of an imminent or deflagrated crisis, or even a simple reversal of expectations, all the emerging countries present short-term capital volatility. Although there are particular cases, such as Russia, which plays a prominent role in geopolitics, by attracting investments to its territory as a strategic market, the economy is not shielded from the uncertainties arising from the events that marked the political and commercial instability in the region.

Conclusion

Based on these analyses, it is possible to understand that, in fact, emerging economies, or peripheral countries/economies, tend to attract more short-term, speculative capital, represented by the headings portfolio investment, financial derivatives and other investments, than more productive, long-term capital, represented by the heading direct investment. In this way, these countries end up losing, in relation to the central countries, their autonomy to carry out economic policy.

References

1. Adewale AR. Import substitution industrialisation and economic growth–Evidence from the group of BRICS countries. *Future Bus J* 3 (2017): 138-158.
2. Ansar A, Flyvbjerg B, Budzier A and Lunn D, et al. Does infrastructure investment lead to economic growth or economic fragility? Evidence from China. *Oxf Rev Econ Policy* 32 (2016): 360-390.
3. Bannister MGJ, Turunen MJ and Gardberg M. Dollarization and financial development. International Monetary Fund. Washington, DC. (2018):39
4. Besada H, Winters K and Tok E. South Africa in the BRICS: Opportunities, challenges and prospects. *Afr Insight* 42 (2013): 1-15.
5. Bjork T. Interest rate theory. Springer, Berlin, Heidelberg, Germany.(1997): 53-122.
6. Budanov, I. A. Economic conditions for the long-term development of metallurgy in Russia. *Stud Russ Econ Dev* 22 (2011): 494-506.
7. Carlsson R, Otto A and Hall JW. The role of infrastructure in macroeconomic growth theories. *Civ Eng Environ Syst* 30 (2013): 263-273.
8. Chakraborty S and Otsu K. Business cycle accounting of the BRIC economies. *J Macroecon* 13 (2013): 381-413.
9. Chatterjee S, Sakoulis G and Turnovsky SJ. Unilateral capital transfers, public investment, and economic growth. *Eur Econ Rev* 47 (2003): 1077-1103.
10. Chi-Leung L and Hoi-Kin T. Adversity and resistance: neoliberal social services and social work in Hong Kong. *Crit Radic Soc Work* 1 (2013): 267-271.
11. Di Filippo A. Latin American structuralism and economic theory. Cepal Review, Latin America, (2009).
12. Ferrer A. Raul Prebisch y el dilema del desarrollo en el mundo global. Digital Repository Economic Commission for Latin America and the Caribbean, Revista cepal, (2010).
13. Floto EA. El sistema centro-periferia y el intercambio desigual. Digital Repository Economic Commission for Latin America and the Caribbean, Revista de la Cepal. (1989).
14. Garcia A and de Sa MB. Brazil: Development strategies and peripheral conditions. 2nd Edition, In The Essential Guide to Critical Development Studies Routledge publisher. Brazil, (2021): 147-154.
15. Grinin L, Tausch A and Korotayev A. Economic cycles, crises, and the global periphery. Springer Cham, Switzerland, (2016): 265.
16. Khatun R. Relation between trade in financial services and economic growth in BRICS economies: Cointegration and causality approach. *Glob Bus Rev* 17 (2016): 214-225.
17. Keynes JM and Waeger F. General theory of employment, interest and money. Berlin: Duncker and Humblot. Germany, (1936): 1-12.
18. Lima KRDS. O Banco Mundial e a educacao superior brasileira na primeira decada do novo seculo. *Revista Katalysis* 14 (2011): 86-94.
19. Marten R, McIntyre D, Travassos C and Shishkin S, et al. An assessment of progress towards universal health coverage in Brazil, Russia, India, China, and South Africa (BRICS). *Lancet* 384 (2014): 2164-2171.
20. McCloskey, D. N.. The loss function has been mislaid: The rhetoric of significance tests. *Am Econ Rev* 75 (1985): 201-205.
21. Mikhaylov A. Oil and gas budget revenues in Russia after crisis in 2015. *Int J Energy Econ Policy* 9 (2019): 375-380.
22. Minsky HP. The evolution of financial institutions and the performance of the economy. *J Econ Issues* 20 (1986): 345-353.
23. Mengesha LG and Holmes MJ. Does dollarization alleviate or aggravate exchange rate volatility? *J Econ Dev* 38 (2013): 99.
24. Prebisch R. The economic development of Latin America and its principal problems., United Nations Department of Economic Affairs, Economic Bulletin for Latin America, (1962): 59.

25. Rogerson C and Rogerson J. Business development and local economic development in South Africa: Addressing the disconnect. *Acta Acad* 44 (2012): 41-69.

26. Ryan SG. Accounting in and for the subprime crisis. *Account Rev* 83 (2008): 1605-1638.

27. Sanders A. The subprime crisis and its role in the financial crisis. *J Hous Econ* 17 (2008): 254-261.

28. Serrano F and Summa R. Aggregate demand and the slowdown of Brazilian economic growth in 2011-2014. *Nova Economia* 25 (2015): 803-833

29. Syriopoulos T, Makram B and Boubaker A. Stock market volatility spillovers and portfolio hedging: BRICS and the financial crisis. *Int Rev Financ Anal* 39 (2015): 7-18.

30. Tastan S and Aric KH. Sustainability of current account deficits in BRICS countries. *J Bus Econ Finance* 5 (2016): 165-170.

31. Tiwari AK, Mutascu MI, Albulescu CT and Kyophilavong P, et al. Frequency domain causality analysis of stock market and economic activity in India. *Int Rev Econ Finance* 39 (2015): 224-238.

32. Umar M, Sun G and Shahzad K. Bank regulatory capital and liquidity creation: evidence from BRICS countries. Int J Emerg Mark 13 (2018): 218-230.

33. Vollmer F. Personality Psychology and the Hypothetical-Deductive Model of Explanation. In Annals of Theoretical Psychology, Springer, Boston, MA, Suffolk. (1986): 157-197.

How to cite this article: de Lima, Jorge Italo. "Centre Periphery Relationship: An Analysis About BRICS in Two Last Decades." *Bus Econ J* 13 (2022): 410.