

# BRICS+ impact

Plaudits and brickbats



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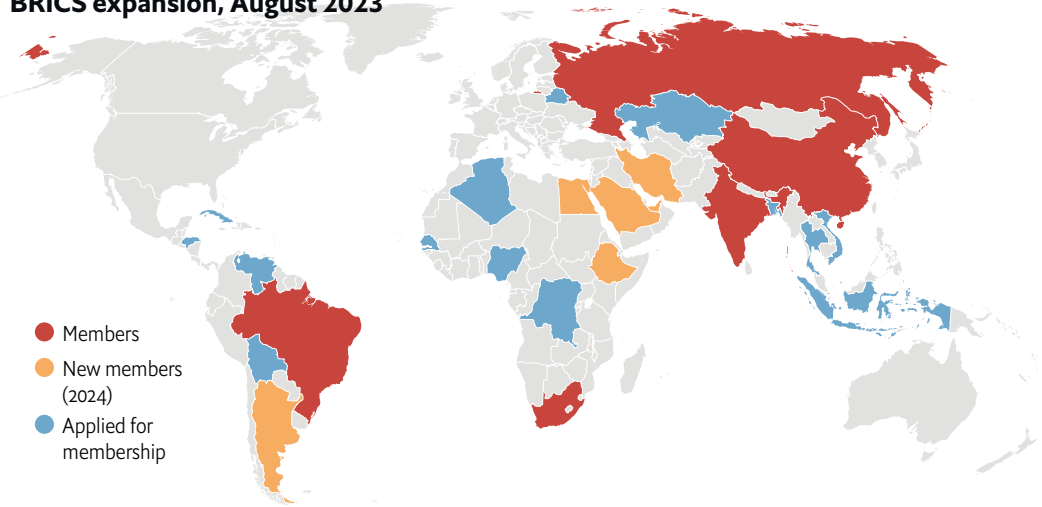
## BRICS+ impact: plaudits and brickbats

- South Africa hosted a productive three-day summit of the BRICS group—Brazil, Russia, India, China and South Africa—at the end of August, which enhanced the standing of the African powerhouse without unsettling key Western partners.
- The biggest policy announcement from the summit was an agreement to invite six new members to the bloc—Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the UAE—with their enrolment set for January 2024.
- An expanded BRICS has impressive numbers in terms of its share of the global economy, international trade and the world's population. However, its collective economic clout will be constrained by internal divisions and the lack of formal institutional structures.
- Concerns that the BRICS summit would adopt an anti-Western stance proved unfounded, and pre-summit talk of de-dollarisation made little headway—although there is clearly potential for settlement of more international transactions between BRICS partners in their local currencies.
- The summit theme—“BRICS and Africa: Partnership for Mutually Accelerated Growth, Sustainable Development and Inclusive Multilateralism”—put the focus on Africa and could help to create new trade, investment and financing opportunities for existing and new BRICS members.

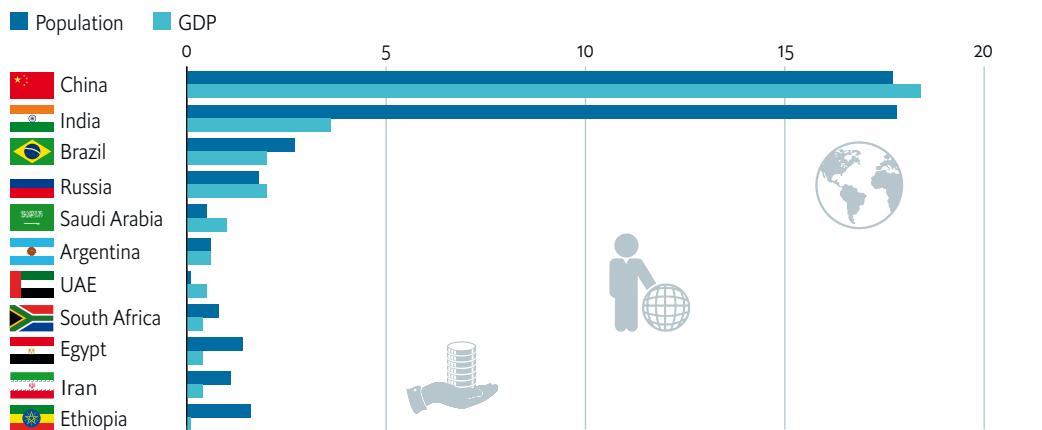
The latest annual summit of the five major emerging economies that make up the so-called BRICS bloc was held in Johannesburg in late August. All national leaders were in attendance except the Russian president, Vladimir Putin, who sent his foreign minister instead, and the five states agreed to a major expansion of the bloc by inviting six new members—Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the UAE—to join in January 2024. With the exception of Argentina, we expect these countries to accept the invitation.

The countries invited to join reflect the desire of individual BRICS members to bring allies into the club. Argentina is a logical inclusion and was Brazil's pick, while Egypt and Ethiopia—Africa's third and second most populous countries respectively—will give the continent a stronger voice and their inclusion was championed by South Africa. Saudi Arabia and the UAE will provide extra financial clout and are key oil producers, which were possibly China's and India's respective choices, and Russia is likely to have been the main advocate for the inclusion of Iran. Pre-summit reports pointed to a larger number of new BRICS applicants—including Indonesia and Bangladesh—but not all confirmed their interest, and details of the selection process are murky. Further expansion seems probable in the future, depending on interim developments.

**BRICS expansion, August 2023**



**BRICS share of global GDP and population, 2023\***



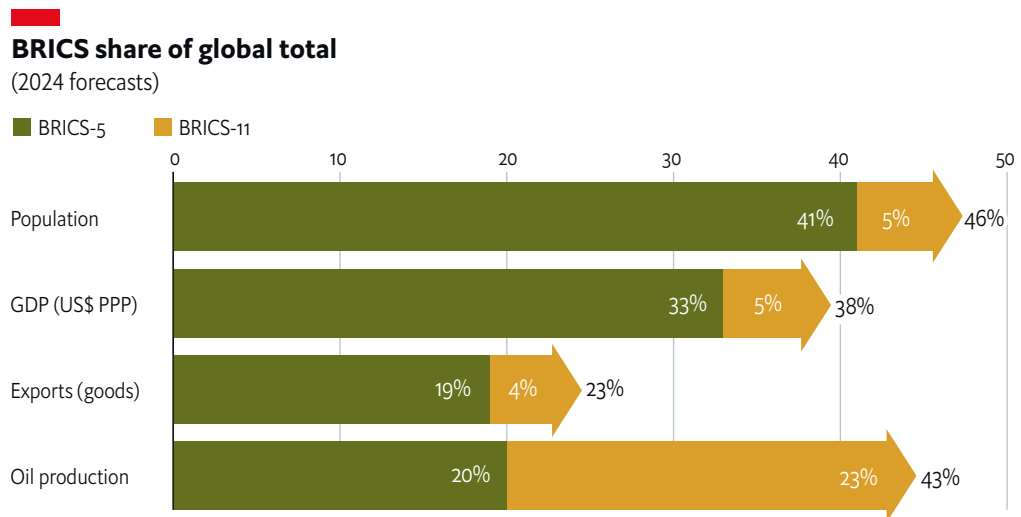
\* EIU forecasts.

	China	India	Brazil	Russia	Saudi Arabia	Argentina	UAE	South Africa	Egypt	Iran	Ethiopia
GDP (US\$ bn)	19,374	3,737	2,081	2,063	1,062	641	499	399	387	368	156
Population (m)	1425.7	1428.6	216.4	144.4	36.9	45.8	9.5	60.4	112.7	89.2	126.5
GDP per head (US\$)	13,589	2,616	9,616	14,287	28,780	13,996	52,526	6,606	3,434	4,126	1,233

Source: EIU.

**Building economic clout**

Expanding the bloc from five to 11 members will create a group of impressive economic size. An 11-member BRICS would take the bloc's share of the world's population from 41% to 46% in 2024, its share of global GDP measured in US dollars adjusted by purchasing power parity (PPP) from 33% to 38% and its share of global goods exports from 20% to 23%. By contrast, the G7—comprising the US, Canada, France, Germany, Italy, Japan and the UK—would still account for just 10% of the world's population, 29% of global GDP measured in PPP-adjusted US dollars and 29% of global goods exports.



Source: EIU.

Crucially, adding new members—and specifically Iran, Saudi Arabia and the UAE—will elevate the BRICS share of global oil production from about 20% to 43% in 2024.

### Tension among partners

China and Russia view the BRICS as a potential counterweight to the dominant position of Western countries, whose leadership is exercised through established global institutions such as the IMF, the World Bank and the UN Security Council. However, an expanded BRICS is unlikely to immediately threaten the existing world order or herald the creation of an anti-Western bloc. Brazil and India are reluctant to swing an anti-Western cudgel, and BRICS members remain split over their response to the Russia-Ukraine war, illustrating the group’s diverse opinions. Long-standing tensions between China and India remain a major fault line, amplified by their rivalry for the leadership of the “Global South”—a new term for developing countries and emerging markets.

The expansion of BRICS will potentially boost its geopolitical influence, provided it can reconcile its internal tensions, but the group will become even more unwieldy. Adding six new countries (some with pre-existing tensions) risks generating more problems than solutions and will make it harder to reach consensus. The inclusion of Iran, a close Russian ally that is similarly subject to US economic sanctions, could be problematic, aggravated by Iran’s poor relations with all three of the new Arab members. Adding to the strains, Egypt and Ethiopia remain at loggerheads over a large Ethiopian dam on the Upper Blue Nile.

### Lack of formal structures

The BRICS will continue to be hampered by a dearth of formal structures, such as a secretariat or an expansive trade deal, which will constrain its direct economic influence. The Shanghai-based New Development Bank (NDB) was established by the five original BRICS members in 2015 and is already ahead on the expansion front—having admitted Bangladesh, Egypt and the UAE—but it remains very small compared with major development finance institutions. Whether the new BRICS members which are not already in the NDB (Argentina, Ethiopia, Iran and Saudi Arabia) will join the bank is



### National stakes in New Development Bank

(US\$ bn unless otherwise indicated)

		Subscribed capital	% of total
	Brazil	10.0	19.0
	Russia	10.0	19.0
	India	10.0	19.0
	China	10.0	19.0
	South Africa	10.0	19.0
	Bangladesh	0.9	1.8
	Egypt	1.2	2.3
	UAE	0.6	1.1

Note. NDB has the initial authorised capital of US\$100bn, which is divided into 1m shares that have a par value of US\$100,000 each. NDB's founding members made an initial subscription of 500,000 shares totalling US\$50bn, which include 100,000 shares corresponding to a paid-in capital of US\$10bn and 400,000 shares corresponding to a callable capital of US\$40bn.

Source: New Development Bank.

uncertain. The lack of institutions underpinning the BRICS makes it hard to take co-ordinated action, such as devising new payment conduits or using different trading currencies.

### De-dollarisation a distant prospect

An expanded BRICS has given fresh momentum to the debate surrounding potential de-dollarisation of the global financial system. China, Russia and Brazil are the main proponents of dislodging the US dollar from its leading role in facilitating international trade and investment, but are making little headway. According to the Bank of International Settlements, the US dollar is involved in almost 90% of foreign-exchange transactions and 85% of transactions in spot, forward and swap markets, and about half of all global trade is reportedly denominated in US dollars.

The direction of travel could well be the emergence of a multipolar world, where the US dollar has dominance in the Americas, the euro in Europe and the Chinese renminbi in Asia. However, this outcome would take decades to materialise, during which time the US dollar will continue to be the world reserve currency. The dominant market share of the US dollar in international financial transactions and the fact that so many people trust and covet its reliability, especially in times of crisis, would take a long time to erode.

A declaration released at the end of the BRICS summit in Johannesburg made no mention of a common BRICS currency and instead focused on bilateral clearing, stressing the importance of “encouraging the use of local currencies in international trade and financial transactions between BRICS as well as between their trading partners”. In addition, the declaration encouraged the “strengthening of correspondent banking networks between the BRICS countries and enabling settlements in local currencies”. The BRICS members will continue to push for modest transactions in local currencies between counterparts.

Energy products hold a special place in the international system, and the expanded BRICS membership will control 40-50% of the world's oil supply. The ambitions of BRICS members to de-dollarise would receive a major boost should Saudi Arabia and the UAE agree to switch to non-dollar

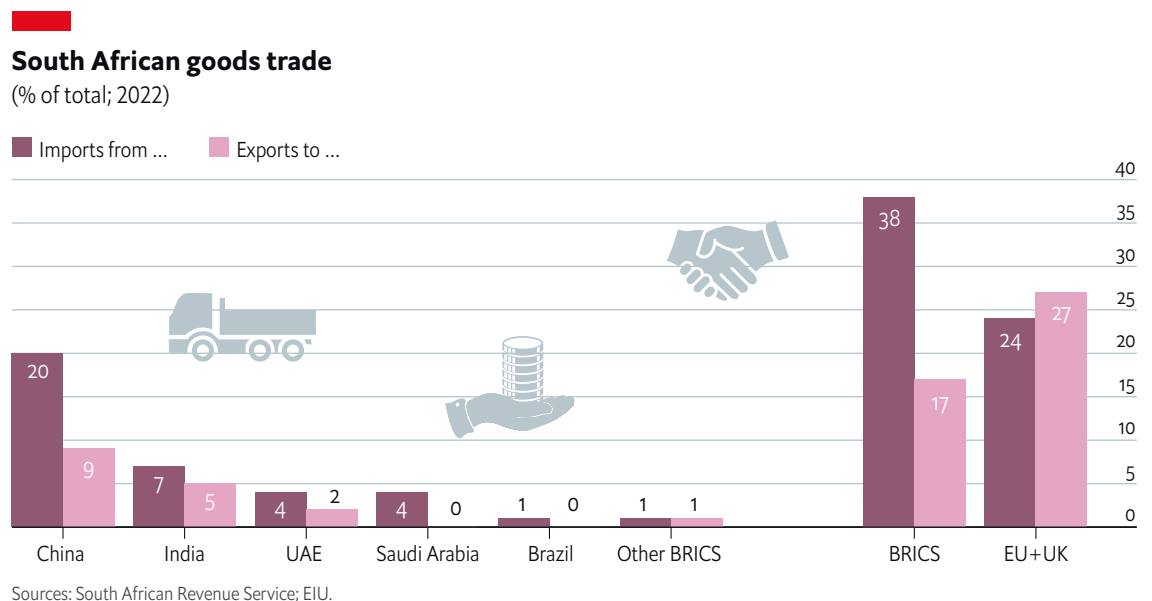
currencies for its oil trade—specifically selling oil to China in renminbi and to India in rupees, which are by far the region’s two largest buyer markets. However, both Saudi Arabia and the UAE have so far resisted pressure to make the switch; they appear reluctant to further destabilise relations with the US, and undermine the security guarantees they receive from the US, or unsettle their own economies, which are closely tied to the petrodollar system, and currency pegs to the greenback. In the case of Iran, there will be no shift as sanctions mean that current buyers of its energy products already pay in non-dollar currencies. China, the largest buyer of Iranian oil, is reportedly paying in renminbi.

**What’s in it for the members?**

**Africa:** The summit theme put the focus on Africa, but the practical impact will be small, especially in economic terms. Adding Ethiopia, where the African Union (AU) is headquartered, and Egypt—which represents both Africa and the Arab world—has symbolic importance, but their bilateral relations are hostile and both face severe economic challenges. BRICS membership is unlikely to generate much extra economic benefit for either country beyond the existing support coming from other multilateral and bilateral agencies. In economic terms, the ongoing construction of the African Continental Free-Trade Area (AfCFTA) is the main priority for most AU members, relegating BRICS to being a sideshow.

One benefit of BRICS membership is the potential for bilateral deals, aided by networking at the annual summits and the preceding BRICS Business Forums. During the recent BRICS summit, for example, China granted funding and equipment worth R567m (US\$30m) to alleviate South Africa’s electricity crisis. In addition, the two countries signed agreements on infrastructure, agriculture and education. South Africa is particularly keen to address its large trade deficit with China—with imports (US\$22.5bn) being almost twice the size of exports (US\$11.6bn) in 2022—by boosting sales of value-added products. However, China is typically cautious about opening its market.

BRICS membership will potentially have some geopolitical benefits, by providing a conduit for African countries, as well as India, to press for reform of the UN Security Council, although China and Russia—permanent veto-wielding members—will be cautious about losing influence if the number of



permanent members rises. Another potential benefit is China's role as a peacemaker, illustrated by a Chinese-brokered reconciliation between Saudi Arabia and Iran in March. China may similarly attempt to reduce tensions between Egypt and Ethiopia. Russia, unlike China, is playing a more disruptive role in Africa, mainly in the Sahel, by deploying the Wagner Group (a private mercenary force), although the death of the Wagner boss, Yevgeny Prigozhin, and some of his fellow commanders in a plane crash in Russia on August 23rd could herald a downturn in the group's fortunes on the continent.

**Middle East:** The expansion of BRICS to include Saudi Arabia and the UAE will support efforts to rebalance their international relations between east and west. For Saudi Arabia and the UAE, the forum could provide another avenue through which to deepen bilateral ties with the world's biggest emerging economies, thereby indirectly supporting inward investment and trade. However, gains will be marginal given the expanded group will lack formal economic structures. Adding the Middle Eastern members means that the group would include three of the world's largest oil producers, but this has no practical import as Saudi Arabia and the UAE will be no more willing to tailor production and export policies to the needs of the BRICS than to those of the West.

BRICS membership is a strategic foreign policy victory for Iran and could in future give the country a greater international voice if the group develops more political coherence. In Iran's eyes BRICS accession demonstrates the failure of Western efforts to make the country an international pariah over its nuclear escalation, support for Russia's war in Ukraine and domestic repression. However, the unwillingness of most BRICS countries to risk breaching strict US trade and financial sanctions on Iran, and the bloc's lack of formal economic structures, will severely limit the economic gains.

**Asia:** In recent years, the BRICS group has remained hostage to differences between its Asian members, China and India. Both these countries seek to wield their clout and emerge as leaders of the developing world, although China far exceeds India's influence in this regard. India's challenge will be to balance its position, given its rising co-operation with Western countries and its invested approach in group like the Quad (an informal diplomatic bloc that, in addition to India, also includes the US, Australia and Japan). It will use its growing economy and robust bilateral relations with most of the newly included countries to ensure its voice within the BRICS group as a leader of emerging economies remains relevant and potent, while trying to ensure the bloc does not become anti-Western.

Beyond geopolitics, we expect some economic benefits of the expansion for its Asian members. The inclusion of Saudi Arabia and the UAE puts major oil producers in the same room as major oil consumers (principally China and India). Although decisions related to petroleum will remain confined to OPEC, the BRICS+ forum may give oil-importing countries a platform to air their views. Attempts to push the Indian rupee as a trading currency within the group will have little success. India's goal will be to ensure that any new additions to the BRICS group are restricted to members with which its bilateral relations are sound—it is likely to be strongly opposed to future membership for Pakistan. It will also emphasise the need for uniform guidelines and complete consensus in future inclusions. As India-China relations will remain strained over the longer term, there is a continuing risk of even a larger group facing policy deadlocks.

**Europe:** Russia will use BRICS to platform its anti-Western geopolitical agenda and will remain a vocal supporter of closer economic and political engagement. In practice, however, the role of Russia will be muted, especially as more members are admitted to the group, leading to a rearrangement of

the weights. The absence of Mr Putin from the summit as a result of the warrant for his arrest by the International Criminal Court (ICC) highlighted the limits of Russia's power projection. Nevertheless, Russia will continue to advocate for increasing de-dollarisation of intra-BRICS trade and will use Saudi Arabia's and the UAE's joining as another avenue for influencing global oil price and supply dynamics outside of OPEC. Explicit support for Russia in its invasion of Ukraine from BRICS members and applicants alike remains highly unlikely. For the rest of Europe, the impact of the BRICS expansion will be limited and will not alter the continent's current foreign policy direction. Belarus and Kazakhstan, which have applied for membership, could potentially be accepted, but other countries in the region, such as Turkey, are unlikely to apply or join and most will remain firmly in the Western camp.

**Latin America:** Brazil's president, Luiz Inácio Lula da Silva, was initially reluctant to facilitate China's drive to expand the BRICS club and (unsuccessfully) tried to condition his agreement on getting China to back Brazil's long-term aspiration to secure a permanent seat on the UN Security Council. Although an expanded BRICS group amplifies the Global South's chorus in geopolitics, Brazil's own voice will be dialled down somewhat by the inclusion of the new members compared with its current position as one of the founding five. Getting to choose another South American country (Lula nominated Argentina) could help to offset this. However, it seems unlikely that Argentina will end up joining after its October legislative and presidential elections.

Argentina's ruling party's presidential candidate, Sergio Massa (who wants to join the BRICS), trails two frontrunners in the polls—Javier Milei, a maverick libertarian, and Patricia Bullrich of the centre-right Juntos por el Cambio. The latter do not want to join on ideological grounds. Mr Milei has said that he will not join a group with "communists" and would seek close ties with the US and Israel, and Ms Bullrich rejects joining because of Iran's inclusion (Argentina has identified Iran as being behind a 1994 terrorist suicide-bombing of a Jewish community building in Buenos Aires that killed 85 people). It seems very unlikely, but we do not rule out a U-turn once they are in power (more possible under Ms Bullrich than under Mr Milei) given that a BRICS ticket would give Argentina's crisis-hit economy access to some desperately needed finance.

The president of Mexico (Latin America's second-largest economy), Andrés Manuel López Obrador, who is in power until November 2024, has said that he does not want to apply for BRICS membership, preferring to cement ties with its North American partners as well as across Latin America. The president's stance is in line with Mexico's long tradition of non-interference in the affairs of other countries, with the BRICS group regarded as being too politically driven (and anti-Western) for Mexico's comfort. This means that the next president is unlikely to seek membership either. Even so, Mexico is open to trading with the world, with dozens of free-trade agreements in place, but economic ties with the US will remain crucial as "nearshoring" advances.

### **What next?**

The addition of new members will give the BRICS group a timely boost, but the bloc faces an array of thorny problems. Key hurdles are China's reduced economic dynamism, the uncertain outcome and duration of the Russia-Ukraine war and entrenched US-China rivalry in the political, economic and military spheres. Another key challenge, especially for African and Latin American markets, is harnessing the benefits of Chinese engagement while avoiding the risk of Chinese domination.

## **BRICS+ IMPACT: PLAUDITS AND BRICKBATS**

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Expansion will bolster the BRICS geopolitical significance—provided the group can reconcile its internal tensions—and its combined economic muscle, but the direct economic impact will be small. The BRICS group is unlikely to become a solid geopolitical and economic construction, regardless of how many bricks are added to the wall.

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