

So now it's the BRICS+.. But what does it all really mean?

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The BRICS (Brazil, Russia, India, China and South Africa) 15th summit in Johannesburg, which President Putin attended by video link, decided to expand by allowing 6 new members to join in January 2024- Argentina, Egypt, Iran, Saudi Arabia, Ethiopia and the UAE. More could be allowed in with a dozen other countries apparently having put their candidacy forward. We haven't seen their agreed criteria on how to judge who is allowed to join and what the process for further expansion will be but apparently there is agreement on the process. But what is the point?

It is worth remembering that 3 of the original BRICS, India, China and South Africa had all distanced themselves from publicly condemning Russia's war in Ukraine(i). But one of the public complaints of the BRICS in their summit was that the prevailing world order was too Western focused and ignoring the needs of developing countries. And yet given that all the original BRICS and a number the new entrants already form part of the G20 group of countries, or are invited to attend these meetings, you wonder what the economic rationale for this extra group might be(ii). In fact India, one of the original BRICS, is running the Presidency of the G20 this year, a term due to end in November 2023.

Well politics obviously played a major part as the rift between the West and the less developed East and South has been widening. But the economics also mattered. Trade wars accentuated under Trump have more recently been reinforced with restrictions in trade and investment flows between Western nations and China. There has been a series of escalating sanctions against Russia, including a partial exclusion of the country from the SWIFT international payment system from which one of the new entrants, Iran, is also blocked. There have also been restrictions on Russian oil exports and the freezing of foreign exchange reserves held outside the country and other assets held by oligarchs close to Putin abroad.

Add to this the recent OPEC+ oil production cuts which have involved two of the original BRICS and we can see how all these have worked as a unifying force. There is also resentment that with much of foreign debt denominated in dollars, changes in the currency's values as interest rates are lifted have caused numerous problems for heavily indebted developing countries, such as Argentina, one of the new entrants to the club, now under IMF supervision.

The question nevertheless, apart from the strong optics, is whether much will be achieved given the disparate group that the BRICS + now represent. As it is, when the former Goldman Sachs economist Jim(now Lord) O'Neil first coined the phrase on 2001 of those non-G7 but expected to be fast growing countries of the future, South Africa was not amongst them(iii). The 'S' was just the plural to BRIC, nor indicating an extra country. And even before the expansion taking place next year, the difference in wealth between the original countries was very stark. Per capita GDP in China is miles higher than Russia's, India's and Brazil's and even further apart from South Africa's. With the addition of Saudi Arabia, whose per capita GDP is almost twice that of China and more than three times that of Brazil, the gap widens further(iv) even though as individual countries those with large populations end up high up in terms of total GDP.

Then there is the disparity in natural resources, in the relative size of their manufacturing and service sectors, their productivity and competitiveness, the extent of inequality, their international creditworthiness and the level of political transparency and stability.

Homogeneous therefore they are not, and they could be pulling in all sorts of different directions as the larger group- maybe getting larger over time, moves forward. But if main aim is to end the

dominance of the US dollar on which some 80% of international trade is denominated, and develop alternative payment systems more sympathetic to their needs, the fact that combined the larger group will be representing some 46% of the world's population and now with Saudi Arabia some 50% of world output, may provide a way forward. Payment in each other's currency for imports and exports is already practiced for example between India and Russia though if extended across the group this would require reserves in multiple local currencies and in dollars to be held which is costly. Africa has also been using a new Pan-African direct payment system(v) and alternatives to SWIFT already exist such as the CIPS system in China which allows cross-border payment system in its local currency and the internal SPFS system in Russia(vi) .

But if the aim is to develop an alternative international payments and reserve currency to the dollar though will take longer to materialize, if ever. The Euro has been trying for ages and has still got stuck to around 20% across all the areas of international currency use(vii). The renminbi still only accounts for some 2% of all cross border currency transactions according to the IMF(viii).For the moment the dollar supremacy though declining, remains unchallenged accounting for some 60% of central banks' foreign exchange reserve six. It is relatively stable, issued by a country with little chance of default despite a recent downgrade by Fitch(x), and in plentiful supply. But watch this space..

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vi <https://www.reuters.com/world/africa/south-africa-is-actively-non-aligned-ukraine-war-says-government-2023-05-13/> ii <https://www.dfat.gov.au/trade/organisations/g20#:~:text=The%20members%20of%20the%20G20,States%2C%20and%20the%20European%20Union.> iii The BRICS countries: where next and what impact on the global economy? – Economics Observatory

iv <https://ceoworld.biz/2023/08/06/richest-countries-in-the-world-by-gdp-per-capita-in-2023/#:~:text=Monaco%20has%20the%20highest%20GDP,%24133%2C590%20and%20Bermuda%20at%20%24114%2C090.> v Can BRICS dethrone the US dollar? It'll be an uphill climb, experts say | Business and Economy | Al Jazeera vi <https://www.tribuneindia.com/news/nation/west-cuts-russia-off-swift-india-explores-alternatives-373641> vii [https://www.ecb.europa.eu/pub/ire/html/ecb.ire202306~d334007ede.en.html#:~:text=At%20current%20exchange%20rates%2C%20it,monetary%20system%20\(Chart%202\).](https://www.ecb.europa.eu/pub/ire/html/ecb.ire202306~d334007ede.en.html#:~:text=At%20current%20exchange%20rates%2C%20it,monetary%20system%20(Chart%202).)

viii <https://www.imf.org/en/Publications/WP/Issues/2023/03/31/Renminbi-Usage-in-Cross-Border-Payments-Regional-Patterns-and-the-Role-of-Swaps-Lines-and-531684#:~:text=IMF%20Working%20Papers&text=Summary%3A,of%20total%20cross%2Dborder%20transactions.> ix <https://ctmfile.com/story/the-us-dollars-dominance-in-global-trade-and-finance-is-steadily-declining> x <https://edition.cnn.com/2023/08/01/business/fitch-downgrade-us-debt/index.html#:~:text=Fitch%20downgrades%20US%20debt%20on%20debt%20ceiling%20drama%20and%20governance%20worries&text=Fitch%20R>