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From BRICS to BRICS+: Sheer More Members is not a Challenge to G7

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Abstract: The global economic landscape is undergoing a transformative shift, as evidenced by the BRICS nations' increasing dominance. This development raises questions about the emergence of economic and political blocks and their potential leverage. China and India, as the world's most populous nations within the group, are instrumental in driving global economic demand. The expansion of BRICS, with new members possessing vast natural resources, amplifies the group's influence. However, the BRICS face a monetary and financial Achilles heel, especially in the case of China, hindering their ability to act independently. As the BRICS gain geopolitical significance, the G7 responds with infrastructure initiatives and trade agreements, though success hinges on reciprocal concessions. The BRICS thus serve as a wake-up call for the G7, prompting considerations of rejuvenating political and economic links amidst a shifting global landscape.

Keywords: BRICS+; global order; International Trade; strategic resources; Monetary Policy

JEL Classification: F02; F15; F36; F40; F59

1 The Rise of the BRICS+

In his article “The Global Economy’s Shifting Centre of Gravity” (2011), the author Danny Quah argued that the global economy’s focal point had geographically shifted from a position mid-Atlantic in the 1980s to a position situated east of Helsinki and Bucharest by 2008, due to the ongoing ascent of China and the broader East Asian region. Using extrapolation to forecast GDP growth in nearly 700 global locations, the article predicted that the economic center of gravity would effectively position itself between India and China by the year 2050.

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This is mirrored when considering the share of the global gross domestic product (GDP) when measured by purchasing power parity (PPP): In 2020, the BRICS nations surpassed the G7 countries in their share. By 2023, this disparity had widened, with the BRICS collectively commanding 32 % of the world's GDP, outpacing the G7 countries, which held a slightly lower share of 30 % (Statista 2023). At present, the existing five-member group comprises 40 % of the global population. However, with the inclusion of the six new members (Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates), the population share is set to increase to 46 %.

The economic rise of China and the simultaneous retreat of the US from its hegemonic role together with other factors like the increasing interdependence via global supply chains, and an upsurge in autocratization, populism, and regionalization, have led to an indisputable polarization within the global order. The global economy has been more and more shaped by intensified protectionism and weaponized interdependence (Farell and Newman 2019).

While polarization between China and the US dominates current geoeconomic discussions with the EU still struggling to define its role as a player in this new set-up, the question remains whether the world will be witnessing a drifting apart of the global powers in different economic and political blocks consisting of “like-minded”-countries or allies. Is a block building already underway and how and to what extent do these alliances shape up? Are they really new and do they hold any significant and – potentially interesting – geoeconomic leverage?

The BRICS group formed in 2006, comprising Brazil, Russia, India, China, and South Africa, has emerged as such a prominent alliance of emerging market economies in the global arena. With the six countries poised to attain full membership in 2024, the group's influence is set to expand. China and India, in particular, stand as the world's most populous nations, driving domestic consumption and, consequently, determining global economic demand. The burgeoning middle classes within these countries have emerged as critical drivers of global consumption patterns. Rising incomes and urbanization levels have led to rising demand for a wide array of goods and services, ranging from automobiles and electronics to healthcare and leisure activities. Companies around the world are increasingly focusing their strategies to tap into these consumer markets. However, to be successful, each supranational institutional arrangement needs a leading power, a so-called benevolent hegemon being able and willing to compensate members for losses and to enforce rules, in short to produce club goods. For decades, the post-WWII multilateral order has seen the US in this position rooted in its military power, its financial clout as the supplier of a global currency, and its openness to imports. The current account deficit of the US provided the world with a stable supply of liquidity to finance growth in all members of the post-WWII order. This power eroded with two events, the fading self-

interest of the US in protecting the order because of gaining independence from foreign energy supply and the rise of China as a giant becoming too costly for the US to tie the country into the old order.

To answer the question whether the diverse BRICS consortium can garner enough geoeconomic leverage to represent a counterweight to the G7, a closer look into their position in the global economy, i.e. (1) their resource endowment, (2) external trade relations as well as strategic positions in global trade routes and (3) their role in financial markets, is necessary.

2 BRICS-Enlargement Amplifies Resource Endowment

First, each member of the BRICS group possesses a diverse array of natural resources, ranging from minerals and metals to energy reserves and agricultural products. These resources play a pivotal role in global supply chains and contribute significantly to the energy and raw material needs of the world economy. As such, volatility in resource prices occasionally caused by BRICS countries themselves through export restrictions or surges have a direct impact on global economic stability. Furthermore, the resource and energy abundance in these countries allows them to have strategic influence within and beyond their regions. China has e.g. successfully positioned itself as the main exporter of Magnesium and as such exerts price pressure on other potential producers, which led to an almost complete stop of production of Magnesium outside of China (Godart et al. 2023).

While in the group of the original BRICS member countries Russia stands out as the only country with vast reserves of natural gas and oil, the other members are mainly known for the dominance of their agricultural sector (Brazil and India) and/or are endowed with resources such as iron ore, bauxite, and niobium (Brazil), nickel, palladium, and platinum (Russia), coal, iron ore, bauxite, precious metals (India) and platinum, gold, chromium, and manganese (South Africa). China stands out as the world's leading producer of several critical minerals and refractory metals essential for modern industries, such as coal, rare earth elements, antimony, and tungsten, among others.

The picture looks somewhat different in the group of the new member states, where Iran, Saudi Arabia and the United Arab Emirates stand out with their extensive oil and natural gas reserves, making them the world's leading producers and exporters in that sector. Beyond oil and gas, these countries also possess mineral resources, including gold, phosphate, and bauxite (Saudi Arabia), gypsum, limestone, and silica (UAE) and copper, zinc, and iron ore (Iran). Argentina and Ethiopia are

known for their agricultural sector and minerals, while Egypt holds natural gas as well as phosphates, a crucial component for agricultural fertilizers.

In total, the expansion of BRICS is likely to hold implications for energy investment and trade, bringing together significant mineral resource holders and major oil producers, as well as some of the fastest-growing energy consumers. The addition of Argentina strengthens the bloc's lithium supply, with Argentina projected to become the world's second-largest lithium producer by 2027. Saudi Arabia's entry signifies its strategic investments in critical minerals, including lithium, while Iran's inclusion may facilitate investments in its significant copper, zinc, and lithium deposits. The enlarged BRICS, comprising three major oil exporters (Saudi Arabia, UAE, and Iran), could potentially influence energy markets and explore mechanisms to trade commodities outside the reach of G7 financial systems, symbolizing a step toward reducing reliance on the U.S. dollar in international transactions (Baskaran and Cahill 2023).

3 China as the Dominant Player in Trade

Concerning within-group trade, China dominates the majority of trade activities within BRICS. It established significant trade connections with all four other BRICS members, with Brazil and Russia directing their economic focus toward the Asian powerhouse. Notably, the trade volume between India and South Africa surpasses that of India–Russia or Russia–Brazil, demonstrating an interesting dynamic within the group. The new entrants into BRICS, Saudi Arabia and the UAE, are expressing interest particularly in trade relations with India and China going beyond trade in goods and towards trade in business and consumer services.

Since the year 2000, China has consistently held the position of the largest exporter of goods within the BRICS group, and its proportion of exports from the bloc has seen a substantial rise. In 2000, China's share of BRICS exports stood slightly above 50 %; by 2020, this share had surged to 74 %. Among the remaining BRICS countries, Russia has consistently maintained the second-largest share of exports, with South Africa consistently having the smallest share. Notably, India surpassed Brazil in 2009.

Generally, the BRICS countries collectively engage in extensive international trade, contributing significantly to the movement of goods and services across borders. However, Brotto Reigado and Evenett (2023) point towards three key areas where the BRICS countries distinguish themselves from other economies: subsidies, barriers to market access, and export restrictions. Firstly, the BRICS extensively employ subsidies, providing state funds to local companies more frequently than the global average. This poses a significant consideration as not every developing country can replicate the scale of the BRICS' "heavily subsidy-driven" commercial

policy model. Secondly, BRICS countries rely on outright bans to exports to a lesser extent than other countries, preferring more opaque measures like licensing restrictions and export taxes. Simultaneously, they use fewer border barriers to trade, such as increased import tariffs, quotas, and licenses, compared to other countries. Lastly, tax-based export incentives are a distinct feature of BRICS policy. These three economic policy areas are especially important for governments contemplating free trade agreement talks with the BRICS countries.

A classification of the economic position of the BRICS countries in international trade is not possible without also examining their involvement in major infrastructure projects, such as the Belt and Road Initiative (BRI). China strategically links the BRI with other arrangements engagements, including BRICS, the Shanghai Cooperation Organization, ASEAN, the Eurasian Economic Union, and the Regional Comprehensive Partnership (RCEP). Although Brazil and India are not involved in China's BRI, all the new entrants are, and they are all significant trading partners with Beijing. President Xi Jinping emphasizes this connection, highlighting cooperation with institutions like the BRICS New Development Bank to support the BRI. The BRI's "five connectivities" align with BRICS' focus on policy, infrastructure, trade, finance, and people-to-people connections. China aims to replicate the successful docking between the BRI and the Eurasian Economic Union with other BRICS nations. BRICS serves as a key international mechanism for China, pooling influential external forces to facilitate BRI's operation in setting up physical and digital infrastructure. However, full strategic alignment between BRI and BRICS faces challenges due to economic asymmetry, unlevel political playing field, lack of mutual trust, and internal competition among member states. China views BRICS as a tool to hedge against risks facing the BRI, gaining significance as China-US rivalry intensifies and the BRI encounters challenges (Singh 2022). Among the new members, Egypt's strategic location at the crossroads of Africa and the Middle East, along with its control over the Suez Canal makes it an important geostrategic ally.

4 Monetary and Financial Weakness as Achilles Heel

An expanded BRICS order would need a leading economic power to produce financial club goods and the natural candidate would be China. Yet, the country misses two of the three ingredients of a financially benevolent hegemon. Its currency is still far from meeting the requirements of an international currency, especially as a store of value and a medium of exchange. China has still a rudimentary financial market compared to the US. It manipulates its exchange rate and controls capital

exports. Second, it runs a current account surplus with the BRICS group and thus fails to provide global liquidity as a debtor country. The rising use of the Yuan as an invoice currency in bilateral trade between BRICS countries would be an imperfect substitute to a global currency. It would soon bring China into a creditor position with a weakening currency. Such weakening would arise because China would have to support BRICS countries financially and simultaneously would have to stabilize its exchange rate against Western currencies. As the period since August 2015 has shown – when the Yuan faced a crisis and began to depreciate against the dollar – the monetary conditions of China hinder the country from this important role as a genuine provider of liquidity within BRICS. Internal economic problems since the pandemic including rising risks of deflation in China, and the pressure to accept haircuts in financial claims against BRICS countries being loan recipients in the BRI come on top of such weaknesses. Under such premises, China would be disqualified from becoming a lender of last resort for the BRICS countries. It goes without saying that all BRICS currencies widely miss “safe haven” standards with worse conditions in Latin America (see discussions in Argentina on swapping the local currency with the dollar) and Africa compared to Asia.

As a result, all BRICS countries including China still hinge upon the monetary and financial strength of the G7 countries with their freely floating currencies. Financial shocks within G7 would immediately inject a severe contagion effect into the BRICS group as the crisis of 1997 in Southeast Asia and 2008 in the US have amply demonstrated.

In times of such crises, access to the support of the Washington-based World Bank and IMF institutions under the rules of the “Washington Consensus” on the priority of monetary stabilization have proven to be indispensable for BRICS countries and, so far, no substitute from BRICS institutions has emerged on stage.

5 The BRICS as a Wake-Up Call for the G7

For many years the G7 looked upon BRICS as a political *quantité négligeable*. It was the Russian war in Ukraine, the Chinese active support of Russia, and the non-participation of BRICS countries in Western sanctions which sent a wake-up call to the G7. The group primarily prompted by the EU has reacted in two ways: first, by offering own funds for easing existing infrastructure bottlenecks, as e.g. within the framework of the EU Global Gateway Initiative. Second, to aim at concluding bilateral trade agreements with BRICS countries, with Mercosur and India being the outstanding examples. Both reactions shoot at a moving target. Their success is highly dependent on non-reciprocal concessions from the G7 including restructuring of debts of BRICS countries, higher funds for fighting climate change, and opening

agricultural markets. Whether the G7 will be prepared to see the widening and deepening of BRICS cooperation as such a wake-up call for rejuvenating political and economic links to BRICS countries or whether G7 will still simply continue to count on its monetary and financial clout (“our currencies your problem”) is open.

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