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BLOG

BRICS membership – What's not to like?

Today – International economy , Russian economy , Chinese economy

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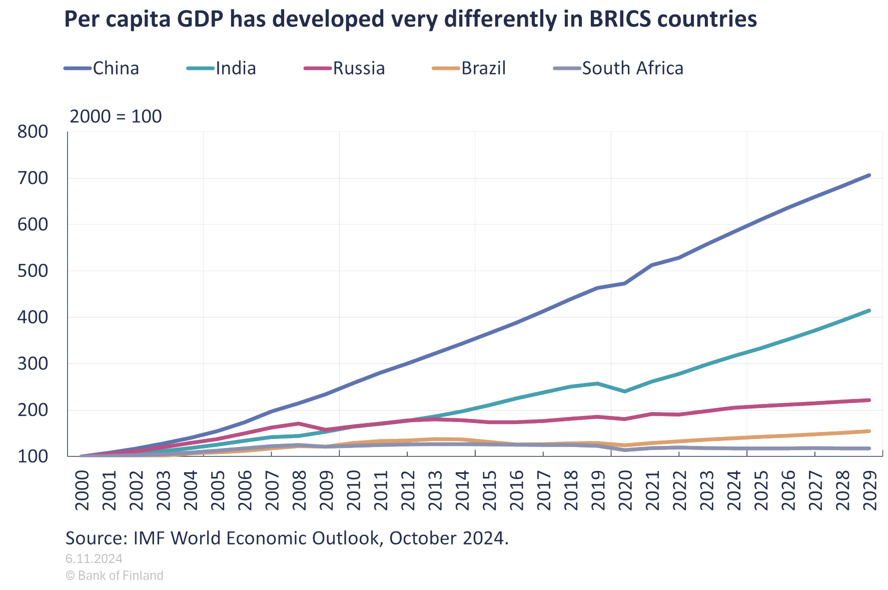
The annual BRICS Summit was held last week in Kazan, the capital city of Russia's Tatarstan region. The original member countries – Brazil, Russia, India and China – held their first get-together under the BRIC banner in 2009. In 2011, South Africa joined the group, and an "S" was added to the group's name – BRICS. This year's Kazan summit included a number of new BRICS inductees, including Egypt, Ethiopia, Iran and the United Arab Emirates (UAE). Turkey's president Recep Erdoğan also attended the event.

The BRICS alliance, which has received considerable global press coverage, is not an official intergovernmental organization in the sense that it has no permanent secretariat or official membership criteria (the G7 also has no permanent secretariat or administrative structures). The BRICS do not constitute a free-trade area, and the economic interests of its members often conflict. Russia, Brazil and South Africa are commodity exporters, while China and India rely heavily on commodity imports. China exports manufactured goods and practices such aggressive subsidy policies that many countries, including Brazil, have been forced to impose countervailing tariffs on goods produced in China.

The origins of the term BRIC are in some ways a homage to the power of the international financial system. Jim O'Neill, a British economist then head of global economic research at Goldman Sachs, introduced the term in 2001 as a marketing acronym for Brazil, Russia, India and China to encapsulate the four largest middle-income countries, which, at that time were seen as having good growth potential that made them desirable investment targets.

The BRICS have all grown over the past two decades, but at considerably different rates. China's per capita GDP has climbed by about six times since 2000 (Figure 1). India has also seen a distinct improvement in its material living standards. Economic growth in Brazil and South Africa has been much less impressive over the same period.

Chart 1.



China overshadows all other BRICS in terms of sheer economic might. According to the IMF's latest World Economic Outlook, Chinese GDP this year will amount to $18.273 trillion (nominal GDP per capita of about $14,000 or $25,000 adjusted for purchasing power). The GDP of the world's largest economy, the US, is $29.168 trillion this year. India, the world's most populous country, will have a GDP this year of just $3.889 trillion. Indeed, China's GDP is greater than the GDP of all other BRICS countries combined. These macroeconomic differences are reflected in foreign trade. China is usually the number one or two most-important BRICS trading partner for most countries. The US and Europe are also China's top export markets.

In 2015, the BRICS established a common financial institution, the New Development Bank (NDB), headquartered in Shanghai. As of end-June 2024, NDB had total assets of $31 billion. As comparison, the total assets of the Nordic Investment Bank, owned by eight smallish countries in Northern Europe, has total assets of $44.5 billion.

Among the proposals discussed by the BRICS is the creation of an international payments system to circumvent the current reliance on Western payments institutions such as SWIFT. Even if such a payments system were established, it is likely that most trading with China would continue to be conducted in yuan and other countries would still have to make the bulk of their payments in US dollars. The biggest advantage of the proposed payment system is that it would be less vulnerable to e.g. US actions, which in itself might be sufficient for some BRICS members if a dramatic worsening of the geopolitical situation were to occur. Otherwise, the idea of building up and maintaining a parallel international payments system is likely to be an expensive boondoggle yielding few redundant benefits.

If the benefits of BRICS membership are amorphous and the economic emphasis is obviously on China, why would other countries bother to join such an organization?

The issue for some BRICS members is clearly international politics. Russia and Iran, for example, have been largely cut off from much of the global economy by their own doings. Interaction with other BRICS is a way to show they are not pariah states. For others, BRICS membership demonstrates dissatisfaction with the current international order and its institutions. Because membership per se costs nothing, it offers a cheap and easy way to lobby for international change. For most countries, however, the big hope is that BRICS will eventually provide concrete economic benefits. If BRICS membership increases the likelihood of Chinese direct investment and better trade relations with China, why not?

Tags

BRICS, China, Russia, foreign trade, payment systems