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Research Global

The new BRICS+ is not a love marriage

- **BRICS, the group of developing nations, announced on Thursday they would welcome six new members starting next year; Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and United Arab Emirates.**
- **The new group represents 1/3 of global GDP and close to half of the world population. Although it embodies a serious counter force for the US-led western bloc, internal rifts are more than likely to weaken its influence.**

A brief history of BRICS

BRICS is an informal group of countries that convenes on an annual basis, each country taking up a one-year rotating chairmanship of the group. The bloc's founding members are Brazil, Russia, India and China. The first BRIC summit was held in Russia in 2009, and one year later, South Africa joined and the group became known as BRICS. In the past, the group has discussed politics, as well as trade and development. The group also has a jointly owned development bank valued at USD 100bn (the New Development Bank, NDB).

Not everyone is invited, and not everyone wants to join

This year's BRICS summit, 15th in order, was held in South Africa. The summit received particular interest, as South Africa who is a member of the ICC that has issued an international arrest warrant on Putin, would have been obliged to arrest Putin if he attended. For that reason, Putin joined this year's summit remote.

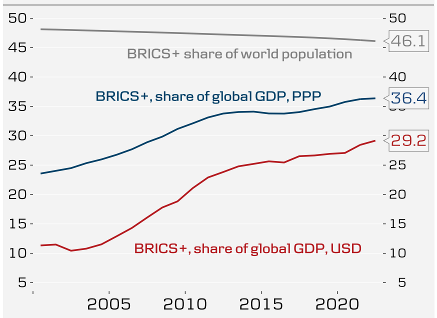
Another area of interest was the group's potential expansion. Over 40 countries had expressed their interest in joining the forum. Eventually, the group agreed to welcome six new members – Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and United Arab Emirates – starting Jan-2024. Indonesia, whose economy is larger than that of any of the new members now joining, declined the offer, but *is still mulling* whether to join or not.

A group with diverging future paths?

No doubt, the new BRICS+ with six additional member has the right parameters to become an economic superpower. It represents 1/3 of global GDP and close to half of the world population. Yet, its members face very diverging economic prospects. In all countries but Egypt, the average annual economic growth projected for 2023-2028 is expected to slow down compared to 2000-2010 period. Growth already decelerated in 2010s compared to early 2000s across the board, but even comparing to that period (and excluding years distorted by the pandemic), growth is set to be weaker in most economies going forward.

China, unsurprisingly, was the fastest-growing BRICS+ economy for a long time, but looking forward, growth is set to slow down markedly. It remains by far the largest economy in the new bloc, but Ethiopia and India, with their average expected growth rates above 6% are expected to catch up. Strikingly, in five out of 11 countries, average annual growth is projected at 3% or lower in the next 5 years, which is very modest in EM context.

The new BRICS+ represents 1/3 of global GDP and close to half of the world population



Source: IMF WEO, Macrobond Financial

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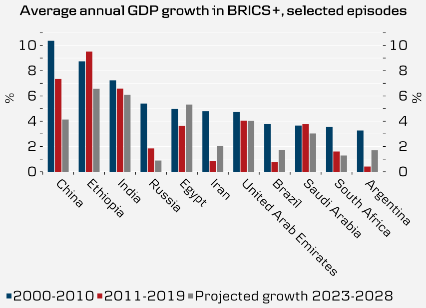
Also from a layperson perspective, the BRICS+ is not a group of thriving economies only. Real GDP per capita (PPP-adjusted) has increased significantly in China, Ethiopia and in the past decade, while citizens in the UAE, Saudi Arabia and Egypt have seen more modest gains. In Iran, Argentina, and Brazil people are now worse off compared to 10 years ago.

The new group is likely to have diverging economic interests, particularly as the new group hosts several oil-producing countries. These countries have clear incentives to object investments into green transition, something that would (or at least should) be in the interest of all non-oil-producing EMs. Geoeconomic interests are also likely to diverge, with Russia being an international pariah state, and Iran and China already facing sanctions, while others likely want to continue engagement with the West and avoid any risk of sanctions.

Already, as part of a plan to reduce reliance on dollar, the NDB has announced they will start issuing debt in BRICS currencies. Contrast to the traditional approach by multilaterals such as the IMF or World Bank, the NDB loans do not come with conditionality, which makes them attractive to borrowers. However, exposure to Russian assets has already posed problems for the bank (reflected in rating downgrades), and all in all, the BRICS+ has a long way to go to develop a financial infrastructure that could challenge the existing one.

GDP growth is slowing down across BRICS+

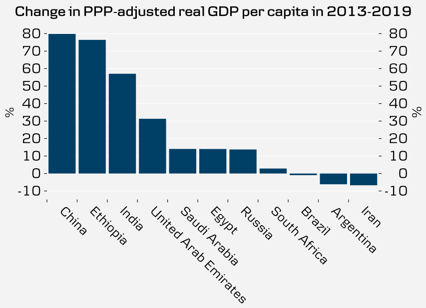


Source: IMF WEO, Macrobond Financial

Will the new BRICS+ turn into a fight club?

The new BRICS+ is a diverse group also in terms of their political agendas. Many countries have a difficult history with each other, and on a loose political forum, too large divisions risk eroding the group's influence. Anti-western attitude is something that most members share, but even on that one, the level of resentment varies greatly. Most members view the bloc as a way to organise the voice of the Global South to have more sway over multilateral institutions while Russia, China and Iran would prefer an active push back against the West.

Great divergence in the development of living standards



Source: IMF WEO, Macrobond Financial

To some extent, BRICS has learned to live with internal divisions. India and China are long-term rivals, and while China's relations with the US are inflamed, India remains a US ally. Despite these differences, the two countries have historically fitted in the same table. Expansion into BRICS+ now allows more US allies join the club. Egypt and Argentina are major non-NATO allies, a designation given by the US to countries that have strategic working relationships with the US.

Saudi Arabia and the UAE, the two most populous countries and largest economies in the GCC, have always been rivals and they have recently disputed on OPEC production cuts. Yet on the most important matters, they have often opted on the same side. Iran, who is also part of OPEC, recently restored diplomatic relations with Saudi Arabia. That leaves Egypt the only Arab nation without embassy in Tehran. Diplomatic relations were severed between the two back in 1980, after the Iranian revolution.

Egypt and Ethiopia, the African newcomers, also have a historically problematic relationship. In 2021, Egypt even threatened Ethiopia with a war over their Great Ethiopian Renaissance Dam project, which jeopardises water security in Egypt. Recently, however, the countries' relations have improved. Argentina, in many ways, seems like the odd one out, but apparently, Brazil advocated hard to include a fellow Latin American country.

Based on economic and political priorities, the new BRICS+ is definitely not a love marriage. It is an organised one to serve one purpose – to challenge what it sees as western-dominated world order. There, it also needs to strike a balance, as it needs to avoid distancing the more moderate members. Indonesia's abstention from joining should be read as a warning signal. As long as internal rifts do not cripple the bloc, it will act as a growing counter force to the West. Yet, it has a long journey to go to become a credible challenger. There, the bloc's success also depends on how well and how long the western unity holds.

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