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THE BRICS: AMBITION AND LIMITS

> We Europeans are the civilized ones, and for us the Chinese are the barbarians. This is what civilization has done to barbarism.
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> *Victor Hugo*

Victor Hugo's indignation at the burning of the Summer Palace by Lord Elgin, son of the one who removed the friezes from the Parthenon in Athens (!), was fully justified as it was a stupid humiliation inflicted on the Chinese and an error, too often reproduced by Europeans in their former colonies. It is still paid today with a resentment shared by Southern countries, and the meeting of the BRICS is one of the platforms for this expression and to nourish another dialogue of civilizations.

– Originally, in the early 2000s, BRIC was a simple acronym coined by a Goldman Sachs economist to distinguish four countries – Brazil, Russia, India, China – likely to show higher growth rates than Western countries. It was about identifying an investment theme.

– Then, an organization was born in 2003, a fifth country, South Africa, was admitted, and over the years, a rhetoric was developed to break free from the multilateral institutions established by the West in 1945, to seek an alternative to the dominance of the US dollars, to avoid borrowers having to submit to the IMF's liberal doctrine.

– Since 1 January 2024, the entire BRICS has welcomed five new members and represents 35% of the world's GDP and 42% of the world's population.

– How to understand this ensemble? It is a space for dialogue between civilizations, with Modi's India exalting Hinduism, Xi's China allowing a neo-Confucianism to develop under the control of the Communist Party, and Putin's Russia boasting the superiority of Russian civilization. But one cannot stop at this juxtaposition of nationalisms because the only point of agreement is opposition to the liberal values of the West.

– Moreover, like the Silk Roads or the Shanghai Cooperation Organization, the BRICS organization, as we will see below, primarily serves Chinese ambition and faces obvious limits in terms of trade, finance, monetary and political aspects.

Chinese ambition

Undoubtedly, dialogue within the BRICS is hindered by China's dominance, with a GDP five times higher than that of India and ten times higher than that of Russia. China represents 70% of the BRICS GDP, it is the main export market for around 40 countries, and intends to exert influence on them.

Chinese aspirations

China condemns the colonial remnants of Western powers but practices a not-so-different imperialism. The enlargement of the BRICS primarily serves Chinese interests: Egypt is the headquarters of the Arab League and the gateway to the Suez Canal, a key artery for Chinese trade to Europe; Ethiopia, with 120 million inhabitants, the second most populous country in Africa, is the headquarters of the African Union, a continent coveted by China for its wealth of raw materials; Saudi Arabia, Iran, and the UAE are significant suppliers of hydrocarbons to China.

Beyond the more or less shared desire to find an alternative to the Western model, many countries are wary of China and have understood that through enlargement, it seeks to find growth outlets, secure food and essential raw materials.

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Chinese selfishness

China displays its desire to break Western dominance over the multilateral system but, for example, opposes granting its partners, India and Brazil, permanent membership status on the UN Security Council.

China intends to continue enlargement to rally states against the West, but other members, Brazil and India, are opposed and want to play the most advantageous card on each issue, economic, military... sometimes with the West, sometimes with Russia, sometimes with China.

China is dominant, but its structural growth is slowing, its ability to lend to other countries is undermined by the numerous setbacks of the Silk Roads, its international political image is tarnished by the ideological hardening observed in recent years, and India intends, more and more each day, to make its voice heard.

The commercial limitations of BRICS enlargement

The expanded BRICS countries achieve $6.2 trillion in exports, less than the G7 and its $7 trillion in exports. But that's not the important part. While China is an important partner for each of the BRICS members, trade between the other countries is low and more significant with the West.

India, for example, exports only $25 billion worth of goods to China and Russia combined, compared to around $230 billion to OECD countries.

In recent years, there has been growth in trade between certain BRICS countries: for example, Brazil's exports to China and Russia have increased by nearly 50% to reach around $120 billion, while exports to the United States are much more stable at around $40 billion. At the same time, India has greatly increased its purchases of Russian oil to take advantage of discounted prices, but India, wary of China, is developing its exports more towards the United States.

Within the South, African imports from China and Russia have increased nearly fifteenfold since 2002, compared to less than fourfold from the United States. African exports to China and Russia have similarly increased significantly, while those to the United States remain fairly stable. However, this remains limited. African exports to the Sino-Russian duo amount to around $60 billion, far from the approximately $220 billion to OECD countries. Mexico doesn't even sell $20 billion worth of goods to the combined China-Russia, compared to $600 billion to OECD countries.

Amid increasing US protectionism, the ambition of BRICS members is to promote South-South trade, but trade between these countries is modest, and integration is limited.

Aiding in the food security of BRICS member countries is an ambition as the members only meet half of their needs. In the group, there are some major producers, Russia, Brazil, and, secondarily, South Africa, but in Egypt and Ethiopia, food security remains a distant goal; Saudi Arabia, a country with a high population growth rate, and Iran face water resource problems; India and China must import for their subsistence.

Financial limitations in offering an alternative to the IMF

BRICS members want to dismantle the multilateral organizations created in the aftermath of the Second World War under the auspices of the West, notably the IMF and the World Bank.

The NDB, New Development Bank, created in 2015 with a capital of $50 billion and the only common institution of the BRICS, aims to offer an alternative to the IMF to facilitate development and avoid the conditionality of loans practiced by the IMF.

However, since its creation, the NDB has only made $33 billion in loans, while the World Bank has lent $78 billion, and only a fifth of the NDB's loans have been in local currencies, with nearly 70% of these loans made in US dollars.

In summary, the New Development Bank is a mediocre alternative to multilateral institutions.

Financially, the heterogeneity among BRICS members is striking. Ethiopia is in default, Egypt is on the brink of bankruptcy, Iran is very impoverished, while Saudi Arabia and the UAE are among the creditor countries and have by far the two highest GDPs per capita in the group.

Monetary limitations and the inability to offer an alternative to the $:

The exclusive dominance of the US dollars in the international monetary system dates back to 1945, to the Bretton Woods agreement.

In 1974, OPEC had wanted to break free from the US dollars and favour Special Drawing Rights (SDRs) for oil payments, but it failed.

Members of the BRICS, impressed by the US blocking half of Russia's foreign exchange reserves, amounting to $350 billion, want to escape the extraterritoriality of US rules to sanction operations conducted in US dollars, but this may remain a mere statement.

To date, the currencies of the five BRICS countries finance no more than 5% of international trade, and none of these countries is capable of offering a financial market depth, liquidity, and stability comparable to that of the US dollars.

China settles more than 40% of its transactions in Yuan, but 60% of its overseas assets remain denominated in US dollars. Consequently, even if Saudis accept to be paid in Yuan for their oil, and Brazilians settle their imports from China in Yuan, none wants to keep reserves in Yuan. As long as the Yuan is not convertible, it will only represent 1 to 2% of international trade.

Meanwhile, although the United States represents less than 15% of international trade, the US dollars still accounts for 40% of debt issuance, 59% of commercial transactions, and nearly 90% of currency exchange worldwide.

The adoption of the Yuan as an international transaction currency seems a distant horizon, certainly not desired by India. Furthermore, the establishment of a common currency, an equivalent of the Euro by such different economies, does not seem credible.

Therefore, the monetary system will not evolve soon, and in the meantime, the United States will be able to continue financing its deficits with international savings.

Political Limits

The whole is heterogeneous and the effective enlargement as of 1 January 2024 has exacerbated these oppositions.

At the recent BRICS summit, there were 77 invited countries, including around 20 candidate countries (Indonesia, Nigeria, Venezuela, etc.), but nothing concrete emerged.

What do the wealthy Saudi Arabia and impoverished Ethiopia have in common? Or the Chinese or Russian authoritarianism and Brazilian democracy? Or India and China, opposed in the heights of the Himalayas? Or Saudi Arabia and Iran? Or the vastness of Russia and the smallness of the Emirates?

Certainly, BRICS members have a principle of not interfering in internal affairs, especially regarding human rights, among others. They have not condemned the invasion of Ukraine nor voted for sanctions against Russia. But let's be realistic. If Europe, a union of culturally and economically close countries, struggles to forge consensus 67 years after its creation, what convergence of interests can be expected from such different countries as the BRICS members? What convergence of interests between India, close to the Western camp, and China, desiring to establish a new world order? What to think of an organization where one of the leading countries, India, sees China, who is another member, as the main threat?

Conclusion

"The more they flatter you, the less you can trust them." This statement by Mao to Ho Chi Minh deserves to be reversed. If China flatters its BRICS partners and fuels their resentment against the West, it is to better establish its dominance over the group. In fact, at the end of this Letter, we can draw 5 conclusions:

– BRICS are not the dominant entity: expanded to include five new members, BRICS represent 35% of the world GDP, but the G7 remains predominant with 43%, or $43 trillion.

Among BRICS, it is appropriate to mention fragmentation, to underline the opportunism of states, the now transactional approach. Modi is an example: one day he buys oil from Russia, the next he shows closeness to the United States or buys weapons from France.

Reforming global governance will take time, implementing an alternative to the US dollars will take even longer because these countries have a weak capacity to reach agreements.

– BRICS are unable to act because, in this heterogeneous group of 10 members, the rule of unanimity prevails. Since the creation of BRICS, the only achievement of the group is the NDB, New Development Bank, and the amount of its loans is modest.

The G20, a mixed forum of developed and emerging countries representing 80% of the world GDP, remains better suited to addressing major international issues.

The West has nothing to fear from BRICS competition but must not ignore the message conveyed by the organization. Biden understood this well when he announced his intention to reform the IMF and the World Bank, two institutions dominated since their creation in 1945 by Western countries. Similarly, the Europe- Middle East-India corridor project presented at the G20 is a response to the Silk Roads. Also, the PGII, Partnership for Global Infrastructure and Investment, presented at the G7, has promised $600 billion to finance infrastructure and offer emerging countries an alternative to the Silk Roads. Finally, the international system is evolving, as the African Union has become a member of the G20.

– BRICS are hardly a growth pole: since 2013, the average annual GDP growth has not exceeded 1% for 3 of its members, Russia, Brazil, and South Africa. Egypt and Ethiopia are not taking off; Iran is becoming impoverished; growth has slowed significantly in China in recent years. Therefore, only India, or even Saudi Arabia, remains as growth poles, and thus, the fragmentation has increased.

– BRICS are lagging behind in the energy transition: they are responsible for 22 billion tons of greenhouse gas emissions compared to 9 billion tons for the G7. At this level, the common concerns of the planet, such as climate change, should prevail over ideological quarrels.

– BRICS have very little influence on the international stock market: compared to the United States, which represents 60% of global market capitalization, they offer the best attractiveness for technological values seeking listing and the best liquidity for investments; none of the BRICS is likely to offer an alternative, at most diversification for investors. The listing of many Chinese companies in the United States, despite political tensions between the two countries, is a good indicator.