



Letter n°86

The BRICS, reality or utopia?

"Much ado about nothing" Shakespeare.

The recent BRICS summit (Brazil, Russia, India, China, South Africa) in Johannesburg received more international media attention than the G7 or even the G20, which was recently deserted by Xi. However, upon reflection, doesn't the eponymous title from Shakespeare's play at the beginning of this Letter 86 sum up the essence of this group? The theme of resentment and revenge carried by the BRICS is not new, and one can question its achievements:

The precedents:

In 1905, the Japanese crushed the Russians at the Battle of Mukden, and the event was celebrated in Iran, Egypt, the Ottoman Empire...with the idea that the white people were no longer invincible. Sun Yat Sen, the future president of the Republic of China, rejoiced. Gandhi, at the time in South Africa, did the same. And this victory accelerated the evolution of the minds of some of the elites in the colonized countries.

The essence and limitations of the BRICS:

The organization, founded in 2003, has the collective desire to break free from Western imperialism, and the elites of these countries, educated in the best American universities, openly criticize the West.

In the early 2010s, the five BRICS members represented less than 10% of the global GDP; today, it's 24%, and in the future, the eleven members will account for more than 30% of the global GDP. However, the G20 represents 80% of the global GDP, and such a forum, comprising both developed and emerging countries, is probably better suited for managing major international issues.

As of now, the population of the BRICS countries is 3.2 billion, or 42% of the world's population. But the group is heterogeneous, and the effective expansion on 1 January, 2024, will accentuate these differences. What do wealthy Saudi Arabia and impoverished Ethiopia have in common? What links authoritarian China or Russia with democratic Brazil? What unites India and China when they are at odds in the heights of the Himalayas? What connects Saudi Arabia and Iran, or the vastness of Russia with the smallness of the Emirates...

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

Undoubtedly, the success of some of these countries fosters confidence in them and the reaffirmation of their identity and values. Modi in India extols Hinduism, and the Chinese Communist Party allows neo-Confucianism to develop under its control. For many of these leaders, the ambition is to demonstrate the superiority of the authoritarian model over liberal democracies.

Let us be realistic. If Europe, a union of culturally and economically similar countries, still struggles to forge consensus 66 years after its creation, what kind of convergence and cooperation can we expect from countries as different as the BRICS members? What common interests can there be between India, close to the Western camp, and China, eager to establish a new world order? What should we make of an organization where one of the leading countries, India, considers another member, China, as its main threat?

Undoubtedly, dialogue within the BRICS is hindered by China's dominance, with a GDP five times larger than that of India and ten times larger than that of Russia. China is the primary export destination for around forty countries and intends to exert influence on them.

For an objective analysis of the BRICS, their ambitions, potential, and limitations, we will examine seven aspects of this cooperation: political, ideological, economic, trade, agricultural, monetary, and stock market. Emphasis will be placed on the monetary ambition, as it could have implications for currency markets and interest rates.

From a political point of view, divisions.

Have divisions increased with the expansion?

As diverse as they are in their regimes, the BRICS members share the fact that they did not condemn the invasion of Ukraine and did not vote for sanctions against Russia. Their principle is not to interfere in internal affairs, including the respect for human rights and other such matters.

The expansion to six new members makes sense because Egypt is the headquarters of the Arab League and the location of the Suez Canal, a key artery for trade. Ethiopia, with its 120 million inhabitants, is the second most populous country in Africa and the headquarters of the African Union. Argentina, a country close to Brazil, has the potential to be a significant producer of shale gas. Saudi Arabia, Iran, and the Emirates are important suppliers of hydrocarbons, especially to China.

One cannot ignore China's pressures to achieve this expansion to include countries friendly to China, as India was initially reluctant to support this enlargement.

The Chinese agenda:

China, the dominant player in this organization, aims to impose its authoritarian model and increase its influence through its Belt and Road Initiative. However, behind this enticing term, all countries, after about a decade of often unfortunate experiences, have understood China's predatory intentions.

The construction of roads or railways by Chinese companies, with Chinese capital and Chinese workers, is not driven by philanthropy but rather by a desire to access the raw materials of producer countries. The resulting over-indebtedness often leads to asset seizures. For example, China was able to take control of the Hambantota port in Sri Lanka and is now considering establishing a military base there.

China criticizes the colonial remnants of Western powers but ultimately practices a form of imperialism that is not so different.

China publicly states its intention to break Western dominance over the multilateral system but does not intend to help its partners, India and Brazil, gain permanent membership in the UN Security Council.

Of the six countries that China has recently admitted, only one, Argentina, holds free elections, and all of them, except perhaps the Emirates, which are close to India, are important clients for China: Saudi Arabia is China's

main oil supplier, Ethiopia is a significant market for China in Africa, and Egypt and Iran are cherished partners.

From an ideological point of view, disagreements.

These countries define themselves by their opposition to the West, play the card of resentment, and aim to dismantle multilateral organizations created in the aftermath of World War II under the aegis of the West, notably the IMF and the World Bank.

The idea is to implement an alternative model to facilitate development and avoid the loan conditionality practiced by the IMF.

Beyond this stance, it is difficult to see common actions taking shape. Unanimity of votes as a rule for BRICS operations appears to be incompatible with the political and economic heterogeneity of these states.

China wishes to continue expansion to unite states against the West, while other members, such as Brazil and India, are opposed and want to play the most advantageous card on each issue—whether economic, military, etc.—sometimes aligning with the West, sometimes with Russia, and sometimes with China.

From an economic point of view, fracturing.

Since 2013, the average annual GDP growth has not exceeded 1% for three of its members: Russia, Brazil, and South Africa. It has been strong in China and India. Therefore, the fracturing has increased. China now represents 70% of the BRICS' GDP, compared to less than 50% originally.

With the addition of six new members, the expanded BRICS will represent 35% of the global GDP, but the G7 will remain predominant with 43%, or \$43 trillion, and the G20 even more so with 80% of the global GDP.

The expanded BRICS will account for 50% of the world's population but, more importantly, will be responsible for 22 billion tons of greenhouse gas emissions, compared to 9 billion tons for the G7.

From a trade point of view, fragmentation.

The expanded BRICS will achieve \$6.2 trillion in exports but will still be smaller than the G7 with its \$7 trillion in exports.

In an era of increasing protectionism in the United States, the ambition of BRICS members is to promote South-South trade, but the trade between these countries is modest, leading to limited integration.

The World Trade Organization (WTO) fears the fragmentation of the global economy as it witnesses the rise of state subsidies in priority sectors, relocations, the development of trade between "friendly countries," and sanctions against enemy countries — negative trends in the face of growing global issues such as climate change.

Americans are buying more from Mexico and Vietnam and less from China, but these countries are trading more with China, and Chinese companies have invested heavily in them. In other words, the ties between Americans and Chinese are less strained than expected.

From an agricultural point of view, the ambitions.

The agricultural issue is significant because many emerging countries are affected by food inflation, as food often represents more than 50% of household budgets.

Helping ensure food security for BRICS member countries is an ambition because these members only meet half of their food needs.

Within the expanded group, there are some major producers like Russia, Brazil, and, to a lesser extent, South Africa. However, there are also representatives from Africa, such as Egypt and Ethiopia, where food security remains a distant goal. Saudi Arabia, a country with rapid population growth, and Iran, facing water resource challenges, are also part of the group. The two demographic giants of the planet, India and China, must import food for their sustenance.

From a monetary point of view.

The weight of history:

The exclusive dominance of the \$ in the international monetary system dates back to 1945, with the Bretton Woods agreements, and it was perpetuated in 1971, despite the official end of the dollar's convertibility into gold and the relative decline in the US economy's share of the global GDP from 30% to 25% since the oil shock.

In 1974, OPEC had sought to break free from the \$ and favour Special Drawing Rights (SDRs) for oil payments, but it failed to do so.

Aspiring to offer an alternative to the \$:

BRICS members are rebelling against the use of US extraterritoriality rules to sanction transactions carried out in dollars. Many states, not wanting to be exposed to monetary sanctions, such as the US blocking half of Russia's foreign exchange reserves, which amounts to \$350 billion, are seeking an alternative, but this may remain an empty promise.

It's one thing for the Saudis to agree to be paid in Yuan for their oil or for Argentina and Brazil to settle their imports from China in Yuan, but agreeing to hold non-convertible Yuan reserves seems hardly feasible.

The United States now represents less than 15% of international trade, but the \$ still accounts for 40% of debt issuances, 59% of trade, and nearly 90% of global foreign exchange operations.

The Yuan, the most widely used currency among these member countries, is not convertible and accounts for only 1 to 2% of international trade, far behind the \$.

In fact, the increase in the use of the Yuan primarily comes from China, which now settles over 40% of its transactions in Yuan. However, even though its holdings of US Treasury bonds have fallen from a peak of \$1.3 trillion in 2011 to \$830 billion, 60% of its foreign assets are still denominated in \$.

Politically, it's hard to envision India accepting the Yuan, and technically, the implementation of a common currency, an equivalent of the Euro, among such diverse economies doesn't seem credible.

At best, similar to India paying for Russian oil in rupees, one can think of the promotion of trade in local currencies. However, to date, the currencies of the five BRICS countries account for no more than 5% of international trade, and none of these countries is capable of offering a financial market with the depth, liquidity, and stability comparable to that of the \$.

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

The NDB, New Development Bank:

Established in 2015 with a capital of \$50 billion, the NDB is the only common institution among the BRICS countries. It is supposed to provide an alternative to the IMF and includes members such as Egypt, Bangladesh, the Emirates, and around fifteen candidates.

Led by Dilma Rousseff, its aim is to provide loans for infrastructure and sustainable development not in \$ but in local currencies and without reform conditions.

But three weaknesses stand out:

- Firstly, this bank is rated AA with a negative outlook because Russia holds 19% of the capital, and it had to halt all operations with Russia due to fears of sanctions.
- Secondly, since its inception, the NDB has only disbursed \$33 billion in loans, while the World Bank has lent \$78 billion.
- Finally, if the goal is to move away from the \$, it has not been achieved because nearly 70% of these loans have been conducted in \$, with only one-fifth of the NDB's loans being in local currencies.

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

From a stock market perspective.

Compared to the United States, which still accounts for over 40% of global market capitalization and offers the best attractiveness for technology companies seeking listings and the highest liquidity for investments, none of the BRICS countries are likely to provide an alternative. At most, they can offer diversification options for investors. The listing of many Chinese companies in the United States, despite political tensions between the two countries, is a good indicator of this.

Conclusion: what do the BRICS represent?

"The art of saying naught with many words...and what you listen to is only noise" Molière in The Misanthrope.

We started with Shakespeare, let us conclude this Letter with Molière. There's again an echo here of the lack of concrete action, the absence of action from the BRICS, and many doubts about their ability to act unanimously in a group expanded to include six new members.

- ***The BRICS as a political bloc?***

The BRICS may appear as a bloc of emerging countries against the West, as a confrontation desired by Putin and Xi, but this image is far from reality.

Beyond the more or less shared desire to find an alternative to the Western model, many countries are wary of China. The differences and the divergences between the eleven BRICS member countries mean an inability to agree on unanimous decisions.

It is more appropriate to talk about fragmentation, highlighting the opportunism of states and the now transactional approach of middle powers. Modi is an example when one day he buys oil and weapons from Russia, and the next day he shows closeness to the United States or France.

From a political perspective, Western countries must strive to demonstrate to the BRICS members and the 152 developing countries that are members of the UN the imperialistic nature of China's approach:

Faced with difficulties in its domestic market and growing obstacles in its exports to Western countries, China seeks to find sources of growth and secure the food and raw materials essential for its development.

Furthermore, in its quest to dominate multilateral institutions, China seeks to control as many UN organizations as possible and not only encourages the BRICS but also the Shanghai Cooperation Organization (SCO), which has 9 members, including 4 nuclear powers: India, China, Pakistan, and Russia.

- ***The BRICS as an ideological bloc?***

The West has nothing to fear from competition with the BRICS, but it should not ignore the message conveyed by this organization. Biden has understood this well when he announced his intention to reform the IMF and the World Bank, two institutions dominated by Western countries and their ideology since their creation in 1945.

From an ideological perspective, the so-called universal values like freedom of expression and opinion, and electoral freedom, which are rejected by China, are not empty words and do not constitute disguised imperialism.

- ***The BRICS as an economic bloc?***

Since the creation of the BRICS, the only achievement of the group is the NDB, the New Development Bank, and the amount of its developments is modest.

From an economic perspective, common global concerns, such as climate change, should take precedence over ideological disputes.

- ***The BRICS as a trading bloc?***

The answer is negative because trade between these countries is often low.

The project for the India-Middle East-Europe corridor presented at the G20 is a response to the Belt and Road Initiative (BRI). The Partnership for Global Infrastructure and Investment (PGII) presented at the G7 has also pledged \$600 billion to finance infrastructure and provide emerging countries with an alternative to the BRI.

Reforming international governance will take time, and implementing an alternative to the dollar will take even longer because the ability of these countries to reach a consensus is weak.

In summary, the BRICS is neither a political bloc, nor an ideological bloc, nor an economic bloc, nor a trade bloc.

Geneva, 15 September 2023

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