Baillie Gifford™

Emerging Markets

Monthly insights

February 2024

'All in all, just another BRIC in the wall.' Roger Waters

We've recently been asked by a few clients whether the recent expansion of the BRICS group is significant. Probably the first point to note is that BRICS was originally a marketing term coined by Jim O'Neill at Goldman Sachs. Our focus at Baillie Gifford is on investing in individual Emerging Markets companies. Moreover, even the BRICS group is a heterogeneous subset within an already diverse set of Emerging Market countries. However, for the purposes of the question, it is probably helpful to evaluate the BRICS expansion along two parameters: from an economic perspective, the expansion probably does have some impact; from a political perspective, perhaps less so due to divergent policy aims within the bloc.

The BRICS' expansion became effective at the beginning of this year with Saudi Arabia, Iran, the United Arab Emirates (UAE), Egypt and Ethiopia joining existing members Brazil, Russia, India, China, and South Africa. These additions mark the bloc's first expansion in 13 years, and according to the 2023 summit chair South Africa, other countries such as Algeria, Bolivia, Indonesia, Cuba, Democratic Republic of Congo, Gabon and Kazakhstan have also expressed interest in joining the group.

Economically, BRICS is dominated by China, whose GDP is approximately $18 trillion. By comparison, India's is $3.4 trillion, Russia's $2.2 trillion, and Brazil's $1.9 trillion, with only Saudi Arabia ($ 1.9 trillion) of comparable size amongst the new entrants. Nonetheless, the enlarged BRICS looks like a powerful combination, representing approximately 46% of the global population and 29% of global GDP. Most notably, the bloc now represents roughly 42% of global oil production (notably Saudi Arabia, Russia, Iran and the UAE) and 35% of global oil consumption (predominantly China and India). Post Russia's invasion of Ukraine and the resulting Western sanctions, both China and India have been importing Russian oil and gas and paying for it in renminbi and rupee, leading to some de-dollarization of the oil price and, perhaps more broadly, of trade within the bloc. Plenty in the Global South are already buying capital goods from China in renminbi (with loans from Chinese banks) and commodities from Russia in their local currencies.

Around 45% of Emerging Market exports are now going to other Emerging Markets. This figure was 25% at the turn of the millennium. Trade relations between China and the West have been volatile in recent years and have soured more recently: Donald Trump's pre-election talk of 60% tariffs on Chinese goods is just the latest headline. In 2023, FDI into China had fallen by around 80% compared with 2022. As barriers are put in place and the West tries to remove/reduce China from supply chains, trade will tend to find other routes; this should benefit the BRICS and Global South more generally with more trade transacted in local currencies.

However, de-dollarization will not happen overnight; according to the Bank for International Settlements, the US$ remains the most traded currency, accounting for almost 90% of all foreign exchange transactions. In addition, the dollar accounts for 60% of global foreign exchange reserves, whereas by comparison, the Chinese renminbi accounts for about 3%. Despite US sanctions on Russia, the US$ remains largely free from capital controls, while the same cannot be said of the renminbi, the ruble, the rupee and the rand. In short, while the BRICS will likely increase their use of local currencies for bilateral trade, the imminent demise of the US dollar is probably overstated.

The BRICS bloc is endeavouring to establish itself as a balancing force against the G7 and the broader G20. Yet, aside from this ambition and a shared scepticism towards the established transnational institutions (IMF, World Bank), there's minimal common ground among the BRIC nations regarding their foreign policies. The selection of new members mirrors the individual aspirations of BRICS countries to incorporate supportive partners into their ranks. Brazilian leader Lula da Silva actively advocated for the inclusion of neighbouring Argentina, though the newly elected Javier Milei declined the offer. The incorporation of oil producers like Saudi Arabia and the UAE indicates their intent to collaborate with Russia in exerting some level of influence over oil pricing. Russia and Iran, united by their collective opposition to sanctions and resulting international isolation, have seen their economic and military (Shahed drones) ties deepening in the wake of Russia's invasion of Ukraine.

China holds significant economic and military influence over the bloc, causing concern for India, which views itself as a competitor to China in both economic and strategic spheres. The Himalayan border conflicts persist, and India participates in the Quad, a strategic coalition with the US, Japan, and Australia, aimed at opposing China's influence. Despite recent attempts at reconciliation, Saudi Arabia and Iran maintain a tense relationship, having engaged in indirect conflict in Yemen. In Latin America, Argentina has declined Brazil's invitation to join BRICS, while the Monroe Doctrine casts a long shadow on external involvement in the region. Disagreements also exist among newer members; a notable example is the tension between Egypt and Ethiopia over the Grand Ethiopian Renaissance Dam.

The future of the expanded BRICS is uncertain. The economic impact, initially within the oil sector, could be significant. The size of the economies involved and the linkages between them could have a considerable effect, most notably in terms of re-routed trade flows and a slow process of de-dollarization. However, politically, BRICS remains a heterogeneous group, some with conflicting geopolitical goals. As it expands, the likelihood of a consensus becomes increasingly unlikely, especially as there is no formal group bureaucracy to coordinate policy. As a result, for the foreseeable future, politically BRICS looks to be limited to more of a voice for the Global South and a stalking horse for the G20 rather than the start of a new world order.

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