# The Future of the BRICS

**by Antonia Colibasanu -** August 21, 2023

On Aug. 22-24, members of the BRICS grouping will hold a summit in Johannesburg. They're expected to discuss two key issues: enlargement and the possibility of adopting a common currency. Both issues are critical to the future of this partnership of five large developing nations: Brazil, Russia, India, China and South Africa. Discussion of these two issues in particular is meant to validate the group as an international force, though little progress has been made so far on either front. Views on the grouping's future trajectory differ according to one's perspective. Some believe it will play a growing role in international affairs as the West declines, while others see it as largely irrelevant given the lack of convergence on key political and economic concerns among its members.

To understand how the grouping could develop in the future, we need to first understand how it got here. In 2001, former chief economist at Goldman Sachs Jim O'Neill first coined the term "BRICs," which at the time did not include South Africa, to describe growing markets that he predicted would eventually surpass the West. At the time, the countries didn't see a need to form a formal bloc to promote cooperation among them. It was only in 2009 that Russia hosted the first BRIC summit and **declared** that the 2008 global financial crisis was proof that the world's top emerging economies needed to collaborate to prevent the West from controlling the destiny of the global economy and their own development. It's important to note that 2008 was also the year that Russia invaded Georgia, announced its dissociation from the Western values system, and began trying to restore power over former Soviet states while cultivating allies in Asia and beyond. From Russia's perspective, the BRICs became an anti-Western political platform that it wanted to support.

Amid the global economic downturn, China, too, saw a need to decrease its dependence on Western markets and, in particular, on the U.S. dollar. It saw the BRICs as a venue through which it could diversify its trade portfolio. Brazil and India, meanwhile, saw an opportunity to influence global politics and promote their own perspectives on the global stage. Each member, especially China and Russia, saw Africa as the key continent through which it could diversify away from the West. Thus, they invited South Africa to join the grouping in 2010.

As time went on, China's focus increasingly became monetary policy. In 2015, China supported the creation of the BRICS' two economic institutions, the Contingent Reserve Arrangement and the New Development Bank, which were meant to be alternatives to the International Monetary Fund and the

  

World Bank. China is the main source of funds for the CRA and holds 40 percent of its voting rights. Also in 2015, it **launched** its own yuan-based interbank messaging and settlement system, called the Cross-Border Interbank Payment System, to reduce use of the dollar in its economy and promote the yuan as an international currency.

The focus on de-dollarization grew in 2022 as increased commerce between Russia and China, combined with Russia's financing of a parallel trading system, led to **growth** in the share of the yuan in the Russian financial market. Sanctioned by the West, Russia pivoted to China, adopting the yuan as one of its primary currencies for international reserves, overseas trade and even some personal banking services. At the same time, Russia needed to expand its influence abroad to gain access to alternate trade routes. While China is the economic leader of the grouping, Russia is its political leader. It's therefore only natural that the BRICS discuss the potential for establishing a common currency and expansion now, more than a year after the global economic war started following Russia's invasion of Ukraine and the West's imposition of sanctions on Moscow.

It's important to note, however, that decreased use of the dollar over the past year was a result not of Russia choosing to use the yuan over the dollar but of U.S. measures to make the dollar less available to the Russian market. De-dollarization, as a policy rather than a reaction to Western sanctions, could be achieved only if the BRICS adopt a common currency – something similar to the euro, which was launched in 1999 by participating European Union members. However, introducing a new currency doesn't just require issuing bank notes and declaring them ready for use. It requires genuine economic convergence among participating nations through a common market – which will be prohibitively difficult for the BRICS to establish considering the deep divergences among their economies. They lack a common economic structure and governance system. They don't even occupy the same continent, let lone share borders. Developing an efficient common market would require building new infrastructure, including security and insurance systems to protect trading routes, which is nearly impossible for the BRICS because none of its members are global naval powers.

More fundamentally, sharing a currency also requires participants to have a high degree of trust in one another so that they can set the rules for the currency's issuer – an institution that they jointly coordinate (like the European Central Bank). Users of the dollar and the euro trust that the issuers of these currencies will print enough bills to guarantee payment and ensure access and convertibility. This level of trust isn't apparent among the BRICS, and it is unclear how a common currency would be issued.

  

It is clear, however, that BRICS countries would not agree to adopt an existing currency of one of their fellow members. Though India has reportedly used the Chinese yuan in trading with Russia, only some oil refiners have been willing to make payments this way so far. The yuan is not freely convertible on the global foreign exchange market, making its availability a subject of Beijing's policies. Russia's central bank currently has to ask Beijing for permission to make any large transactions in yuan – which India's central bank is unlikely to do any time soon. Ongoing disputes between Beijing and New Delhi on a number of issues will make coordination on anything very difficult.

Since "yuanization" isn't a possibility for the BRICS, adopting a new currency seems to be the only way members can supplant the dollar. Though the possibility has been widely discussed in the media, there's no indication of any progress being made. Several key questions remain unanswered. What would it take for India and China to work together so closely that they would integrate their economies? What would it take for Russia, Brazil and South Africa to integrate with them? What economic interests do they share? And given that none of the BRICS countries have convertible currencies, how would a financial institution create a BRICS coin and guarantee its availability to international businesses and individuals?

Thus, even Russia, which has been the biggest BRICS advocate, **says** creating a unified currency is a long-term goal. But even this seems like wishful thinking. It's unlikely that BRICS members can resolve their differences and build enough trust to issue a single currency. In fact, they don't appear to share anything more than a distrust of the West – and even on this, they aren't completely unified.

Membership expansion is another issue on which the grouping is looking for consensus. Members have **discussed** the possibility of a BRICS+ since 2017, and China **raised** the issue last year while hosting the BRICS summit. **According to one South African official**, 23 countries have officially requested to join the BRICS, while 40 have informally expressed interest in membership. This may seem like an impressive amount of potential members, but formal accession is complicated because there's no official process for joining, except by invitation by all member states, as happened with South Africa in 2010.

With a war raging in Ukraine, enlargement now seems more urgent. With Western countries no longer willing to do business with Russia, Moscow has looked to expand its influence in countries that have remained neutral on the war, including through the BRICS, which was meant to serve as a platform through which members could exert influence internationally from the beginning. Neutral countries have reaped the rewards of lobbying efforts from both sides, making statements about the need for calm while also using this as an opportunity to advance their strategic positions.

In Moscow's lobbying push, its fellow BRICS members were a natural place to start. In addition to increasing trade with China, Russia improved ties with Brazil, which it saw as a potential new market for its fertilizers and oil products. Trade between the two countries **increased** by at least 7 percent in 2022, facilitated in part by China, which **transported** goods between both nations, mostly by rail.

Over the past five years, trade between Brazil and China has also increased. Brazil took advantage of China's trade tensions with the United States by boosting exports, especially of food products, to its BRICS partner. Still, it remains heavily dependent on the U.S., which is a major market for Brazil's high value-added goods. It's also the top foreign buyer for Brazil's **mining sector**, which accounts for 50 percent of the country's overall exports and about 3 percent of the total labor force.

Meanwhile, Russia also found a key alternate market (and route) for its oil in India. India has purchased discounted Russian oil for its own domestic use while also becoming a sort of conduit for Russian energy exports to reach Western markets despite sanctions. Moscow's plans to invest in port infrastructure in India as part of the North-South Transport Corridor could help in this regard.

But no matter how much Russia works to develop their economic ties, India, like Brazil, is still reliant on the United States as its top trade partner, as well as its main strategic ally. New Delhi is a member of the Quad security grouping – which includes the U.S., Japan and Australia. From a security perspective, then, India's relationship with Russia can only go so far. It needs the U.S. (and the West more broadly) to secure shipping lanes in the Indian Ocean, on which its economy depends.

Moreover, the BRICS countries' support for enlargement is divided. For instance, while all five countries agreed to discuss Argentina's potential membership, Brazil reportedly opposes discussing any further expansion. Like India, Brazil wants to maintain close ties with the U.S., while seeking to improve its ties with Europe. It uses the BRICS to voice its stance on global affairs, but it fundamentally follows a non-alignment strategy, while focusing on its top imperative: to integrate its own northern and southern regions and achieve socio-economic stability.

Courted by the U.S., China and Russia, Brazil, India and others in the Global South see an opportunity to improve their posture globally. However, their chronic domestic instability limits their capacity to capitalize on current opportunities, which are themselves rapidly shifting. Moreover, even if the BRICS are pursuing coordination more actively now than in the past, most meaningful interactions among BRICS members and with potential new members are taking place at a bilateral level. With their relationships limited by economic, political and security concerns, the possibility of expanding membership, just like the possibility of establishing a common currency, seems distant at this time.

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