The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

‘BRICS’ Is About Geopolitics, Not Economics

BRICS no longer makes much financial sense. But the idea is more politically relevant than ever.

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October 29, 2019



10th BRICS summit in South Africa. **kremlin.ru**

BRICS, one of the most powerful concepts to emerge in political economy this century, makes little sense today, S&P Global Ratings said in an emailed note last week. But even if that’s true for economic analysis, the acronym coined by Goldman Sachs analyst Jim O’Neill has predicted the current geopolitical reality, which isn’t served well by 20th century institutions.

The acronym stands for Brazil, Russia, India, China and South Africa, the latter a late addition that wasn’t in O’Neill’s original 2001 paper or its 2003 sequel (which used “BRICs,” as a plural). Both reports predicted that the first four of the non-Western economies eventually would account for a much bigger share of global economic output, overtaking large European

economies, and told investors they'd be wrong to miss the opportunity to get involved in this global shift.

The idea often has been dismissed as a marketing tool, a way to put a flashy label on something no one could have missed, namely the growth of the big emerging economies. Those who see it that way could feel vindicated by the S&P note's suggestion that "the diverging long-term economic trajectory of the five countries weakens the analytical value of viewing the BRICS as a coherent economic grouping."

But, like many other serendipitous ideas, O'Neill's has been transformed by the way the world has changed since the early 2000s. It doesn't really matter that the BRICS aren't growing at the same pace. They're still all playing major roles in reshaping the world.

As the S&P note correctly points out, putting the five countries in the same basket economically is increasingly questionable. India and China have consistently exceeded the rating firm's growth predictions since the turn of the century. Russia and South Africa have failed to meet them since about 2005, Brazil since 2010. Of course, the five nations have greatly increased their combined economic heft since the turn of the century — but only thanks to China and India. Brazil, Russia and South Africa's shares of global output have actually shrunk since 2000.

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As the five countries' economic models and policies have diverged, so did the paths of their credit ratings. China's went up four rungs on the S&P ladder to A+, while the others never got that high: Russia and India are five steps below today, and South Africa and Brazil seven and eight below, respectively.

This divergence suggests that O'Neill made a mistake in betting on the future champions. He could have gone with Indonesia and Vietnam instead of Brazil and Russia (acronym VICI, "I conquered" in Latin) and then someone could have added Nigeria (VINCI, as in, you know, Leonardo da Vinci) — and it would have made more sense in terms of growth trajectories, while the combined share of global output would have remained the same at 32.6%.

That, however, wouldn't have captured the geopolitical reality as well as the BRICS concept does. Responding to criticism of his brainchild, O'Neill has pointed out that his 2001 paper was meant to question the adequacy of the contemporary global economic governance system. Indeed, he suggested clearing the European spots in the G-7 for some of the emerging powers; Germany, France and Italy could share one seat as euro area members. The resulting group, O'Neill argued, would better reflect the changing economic setup.

That, of course, never happened. But emerging economies did gain more power when it comes to global government. The G-20 is arguably a more effective body today than the G-7. At any rate, far-reaching changes in global tax regimes are being discussed in the larger forum, while the G-7 lately has been unable to agree on much at all.

The BRICS countries, meanwhile, have turned out to be a valuable support group for each

other. Their leaders hold a summit every year (next month, they're scheduled to meet in Brazil). Devoid of access to the top jobs in international financial organizations and development institutions, which still nearly always go to Westerners, they've set up the New Development Bank to finance infrastructure projects in the developing world. Voting rights in it aren't weighted by the size of the countries' economies. Four years after starting operations, it has a $10.2 billion loan book; that's relatively small, but the NDB is one of the word's biggest multilateral development banks by paid-in capital.

If one considers O'Neill's original idea a marketing device, it appears to have worked better on BRICS leaders than on international investors, who have long since noticed the differences in growth patterns. Not coincidentally, four of these leaders are the world's top authoritarians, the people most eager for an alternative to the global dominance of the U.S.: Xi Jinping, Vladimir Putin, Jair Bolsonaro and Narendra Modi. Are they impressed by an acronym an analyst thought up 18 years ago or are they drawn together by something stronger than that?

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Economic power, of course, is hugely important in international relations, but it's not the only reason countries are powerful. Russia's military strength and risk appetite make it a global player despite a moribund economy that's stifled by authoritarian rule. Brazil and South Africa are leading regional powers no matter how they mismanage their economic affairs. That's why the S&P note mentions BRICS' "political salience" even as it puts in doubt the concept's value to a credit analyst.

These nations — as well as other populous and often economically dynamic countries in Africa and Asia — are still, like in 2001, outsiders in the global financial system. That is still run by the U.S. and Europe, to a greater degree than their shrinking share of global output would appear to warrant.

In that sense, O'Neill's old idea is still highly relevant. If he failed to predict exactly which countries would outperform on growth, he had the right idea about developing nations' quest for a bigger role in global decision-making. That quest continues, regardless of which letters can be added to the original acronym, and which taken out of it, based purely on economic growth.

This piece was first published by Bloomberg.

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