

SBI Research

How BRICS+6 Triumphs Good Global Economics

29-August-2023

- ❑ BRICS formation finds its origin in the “Building Better Economies BRICs” in 2001
- ❑ The formalization of group happened in 2009 in Russia calling for more democratic and multipolar world based on rule, mutual respect, cooperation and coordination in the backdrop of 2008 global financial crisis
- ❑ South Africa was included in BRIC in 2010 as it accounted for a third of regions GDP
- ❑ The main objectives of BRICS is rooted in long-term common interest of members which includes – reforming global financial architecture, strengthening international law, inclusive growth, supporting complementarities in BRICS countries, regional trade and South-South Cooperation
- ❑ Bilateral relations among BRICS are conducted mainly on the basis of non-interference, equality, and mutual benefit
- ❑ Since the formation of the group, the New Development Bank, the BRICS Contingent Reserve Arrangement, the BRICS payment system, and the BRICS basket reserve currency has been instituted to support its objectives

We have no lasting friends, no lasting enemies, only lasting interests...

Winston Churchill

- ❑ BRICS+6 flips the old adage, bringing the collaborative synergy of the a/rising economies centerstage, offering a credible alternative to the hegemony of the hitherto chosen few in global affairs, trade, currency and energy security domains...With technology fast diminishing barriers and new avenues of supply chain and human capital collaboration on the rise, its time had probably COME!
- ❑ After close to three decades of unbridled globalization, multi polarization is the new identity with friend-shoring and near shoring uncomfortably co-existing with the rise of a fiercely protectionist regime across DMs (incentivizing home sourcing through subsidies or working on restrictive policy measures) and the extended BRIC+6 needs to be seen from this angle, an apt reply by the Global South along economical and strategic terms to leverage the innate strengths

.....A Game Changer almost certainly as terms of trade get rewritten.....

- ❑ India's sweeping acceptance across eco-political spheres globally, its vibrant democratic stature, its success in dynamically steering the G20 Presidentship, the success of Digital Public Goods at population scale, the innovation led tech prowess of its skilled workforce.... ingrains a distinct advantage over both China and Russia as the undisputed intellectual leader of the block
- ❑ China with dwindling exports as also imports losing sheen, cracks in property markets (Evergrande has lost ~99% of Mcap after trades were resumed after a 17-month hiatus, while debt woes of Country Garden, China's largest developer by sales volume, look like spilling to wider economy), soaring unemployment rate (believed to be more than double of officially published rates in excess of 21% as youths prefer 'lying flat'), waning consumption demand warning from gig platforms market leader Meituan are considerably weighing on the economy and sentiments in general
- ❑ The other significant partner of the BRICS, Russia is militarily and politically mothballed by the US/EU even as the long war in Ukraine shows no signs of a decisive tilt to either side. It has weathered the crisis through negotiations with the energy and food starved Europe till now... but the longevity of the tactics seems uncertain
- ❑ **We have endeavored to deconstruct the dynamics of the co-operation of the extended block along multiple avenues, examining the synergy from trade, investments, labor force, currency, payment/settlement chiefly, and believe a game changer is in the offing.....**

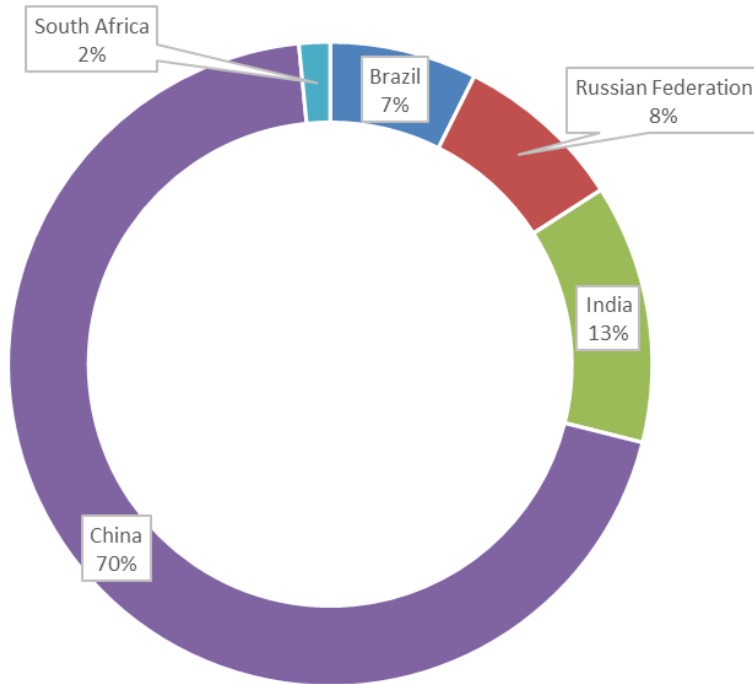
- ❑ The term BRIC (Brazil, Russia, India, and China) was first coined in 2001 in the context of an exercise to forecast global economy trends over the next half century
- ❑ BRIC as a forum was formalized with the meeting of Foreign Ministers of the four countries on the margins of the UN General Assembly in New York in September 2006
- ❑ Following a consensus amongst the BRIC leaders, South Africa was invited to join the forum on 24 December 2010 and BRICS was formed
- ❑ Now more than a decade later the leaders of the BRICS nations decided to admit Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates as the new members of the grouping. The new members will become part of BRICS with effect from January 1, 2024
- ❑ **The formation of BRICS was rooted in the long-term common economic interests of the member countries, which include reforming the global financial and economic architecture, strengthening the principles and standards of international law and supporting the complementarities in many sectors of their economies**

Key Features of BRICS+6

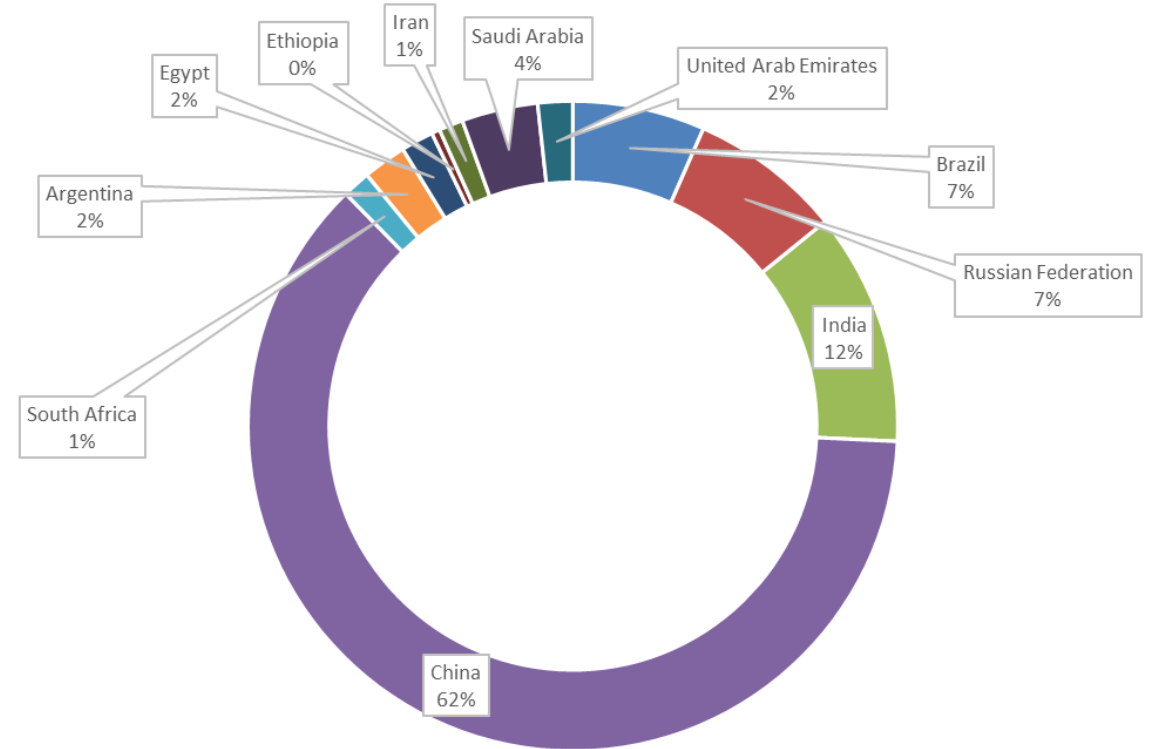
- ❑ BRICS countries has 40% share of world population and accounted for one-fourth of global GDP
- ❑ With BRICS+6, GDP share increases to 30% of global GDP
- ❑ The major impact will be on share of global oil production increasing to 40% with BRICS+6 as against current share of 18%

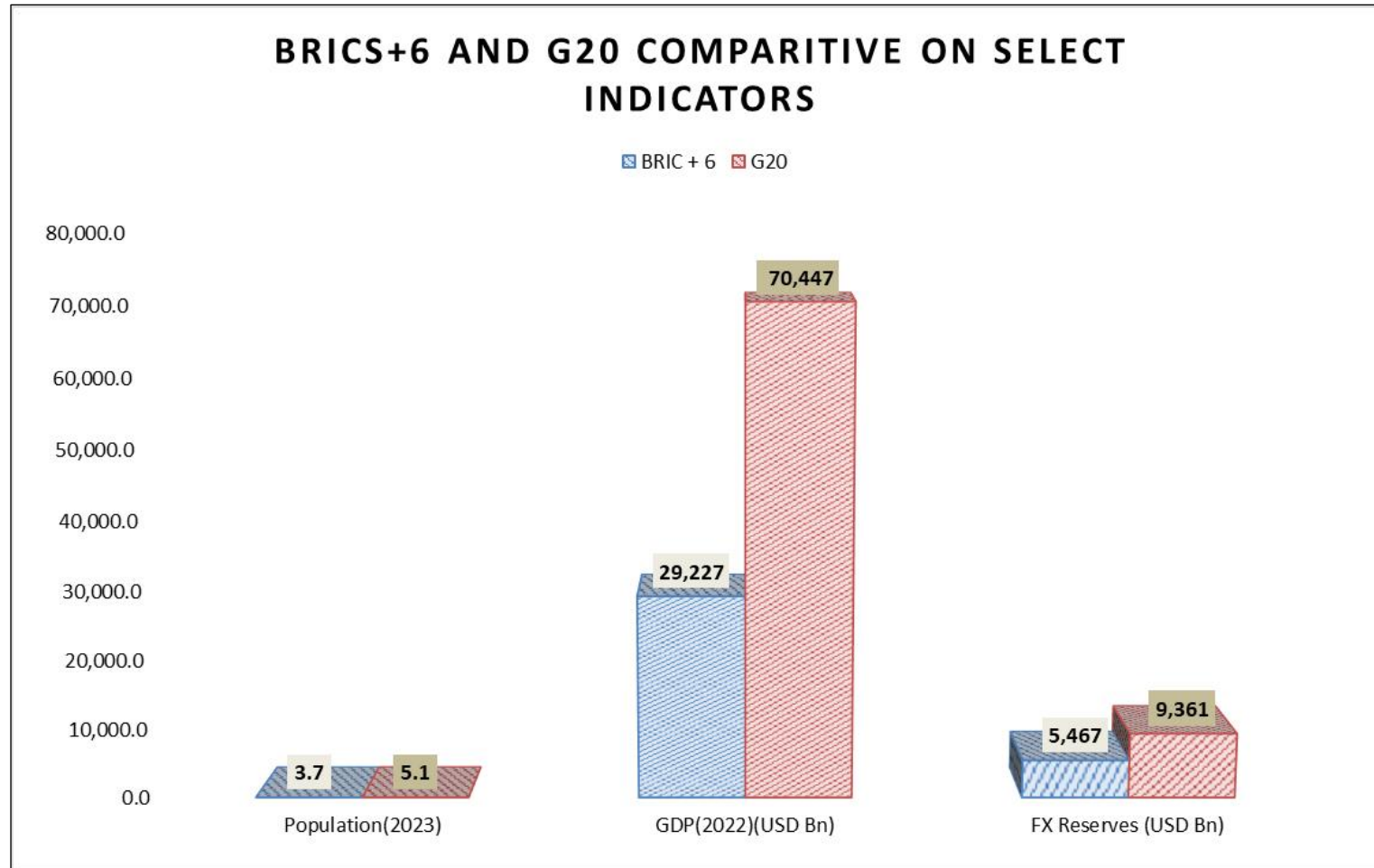
	BRICS	BRICS+6
Share in World Population	40%	46%
Share in Global GDP	26%	29%
Share in Global Merchandise Trade	20%	25%
Share in Global Services Trade	12%	15%
Share in Global Oil Production	20%	43%
Share in Global FX Reserves	39%	45%

Composition of BRICS GDP 2022



Composition of BRICS+6 GDP 2022





Oil Math - Share of Oil Production / Consumption						
Country(ies)	Share of Oil Production		Share of Oil Consumption		Deficit/Surplus	
	Thousand Barrels per day	Share of Global (%)	Thousand Barrels per day	Share of Global (%)	Thousand Barrels per day	Share (%)
BRICS	19,157	20.40%	26,075	26.80%	-6,918	-6.40%
New 6	21,297	22.80%	8,342	8.70%	12,955	14.10%
BRICS +6	40,454	43.10%	34,417	35.50%	6,037	7.60%
Rest of World	53,394	56.90%	62,892	64.50%		

Source: SBI Research; 2022 figures from the Energy Institute Statistical Review of World Energy

- ❑ BRICS expansion alters the intra-bloc energy dynamics
- ❑ Bloc now dominant share both consumption and production of oil
- ❑ BRICS+ 6 is good position to explore use of BRICS payment system for energy payments

India could have significant trade opportunities in several commodities (57% share in export basket) with a better Revealed Comparative Advantage post BRICS expansion.....

- While revealed comparative advantage is going to increase with the inclusion of six new members in some of the commodities, it may decline in case of some of the other commodities

Commodity	BRICS	BRICS+6
Fuel	1.40	2.67
Chemical	0.72	0.79
Animals	1.34	1.65
Food Products	1.04	1.50
Textiles	1.10	1.28
Plastic & Rubber	0.59	0.89

- The bilateral total trade between India and the 6 new countries has increased in case of Egypt, Saudi Arabia and the UAE in the last 10 years
- While India's export increased to Argentina, Egypt and Saudi Arabia, its imports rose in case of Ethiopia, Saudi Arabia and the UAE

Trade dynamics with 6 new countries in the last 10 years						
Country	Exports		Imports		Total Trade	
	FY23 (\$mn)	Change (No. of times 2013 level)	FY23 (\$mn)	Change (No. of times 2013 level)	FY23 (\$mn)	Change (No. of times 2013 level)
Ethiopia	586	0.78	57	1.48	643	0.82
Argentina	960	1.78	1952	0.76	2912	0.94
Egypt	4109	1.42	3929	3.28	8039	1.96
Saudi Arabia	10728	1.10	42035	1.24	52763	1.21
UAE	31609	0.87	53232	1.36	84840	1.12
Iran	1659	0.50	672	0.06	2331	0.16
Total of 6 countries	49651	0.93	101877	1.15	151528	1.07

Source: Ministry of Commerce, SBI Research

- Revealed Comparative Advantage indicates that there is a scope for further increasing the bilateral trade between India and the 6 new countries
- India can increase its imports of animals from Argentina; wood, food products and plastic/rubber from Egypt and hides & skins from Ethiopia. Meanwhile, other countries can increase import of animals, hides and skins, metals, chemicals and consumer goods from India in which India shows revealed comparative advantage

Revealed Comparative Advantage												
Country	Animal	Wood	Textiles and Clothing	Hides and Skins	Food Products	Plastic or Rubber	Metals	Mach and Elec	Transportation	Consumer goods	Chemicals	Fuels
Argentina	5.64	0.46	0.16	1.69	5.66	0.35	0.40	0.06	0.76	0.45	0.64	0.47
Egypt, Arab Rep.	0.51	0.85	2.48	0.40	1.46	1.18	0.81	0.22	0.05	1.24	1.10	2.53
Ethiopia(excludes Eritrea)	1.36	0.01	3.06	2.74	0.28	0.04	0.01	0.44	0.18	0.70	0.04	0.00
India	1.40	0.40	2.51	2.10	0.73	0.81	1.54	0.43	0.59	1.34	1.83	0.80
Iran, Islamic Rep.	0.24	0.06	0.12	0.12	0.09	0.99	0.78	0.01	0.01	0.17	0.49	5.74
Saudi Arabia	0.33	0.17	0.07	0.06	0.19	2.34	0.37	0.02	0.01	0.40	0.80	7.88
United Arab Emirates	0.30	0.35	0.17	0.11	0.47	0.89	1.25	0.16	0.26	0.85	0.31	4.93

Source: SBI Research, WITS

India's opportunities in Exports												
Country	Animal	Wood	Textiles and Clothing	Hides and Skins	Food Products	Plastic or Rubber	Metals	Mach and Elec	Transportation	Consumer goods	Chemicals	Fuels
Argentina			✓	✓		✓	✓	✓		✓	✓	✓
Egypt, Arab Rep.	✓		✓	✓			✓	✓	✓	✓	✓	
Ethiopia(excludes Eritrea)	✓	✓			✓	✓	✓		✓	✓	✓	✓
Iran, Islamic Rep.	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	
Saudi Arabia	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	
United Arab Emirates	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	

Source: SBI Research

Chief exports to & imports from Argentina	
Exports	Imports
Chemicals	Animal & vegetable Fat
Vehicles and transport equipment	Gems and precious stones
Petroleum & crude products	Residue from industries
Machinery and instruments	Cereals
Iron & steel	Wood

Chief exports to & imports from Iran	
Export	Import
Cereals	Chemicals
Organic Chemicals	Petroleum & crude products
Coffee, tea	fruits and nuts
Sugar & confectionery	Salt, sulphur
Fruits and nuts	Plastic

Chief exports to & imports from Saudi Arabia	
Export	Import
Petroleum & crude	Petroleum & crude
Cereals	Fertilisers
Organic Chemicals	Organic chemicals
Vehicles	Plastic
Electrical machinery	Aircraft, spacecraft
Machinery and mechanical instruments	Inorganic chemicals

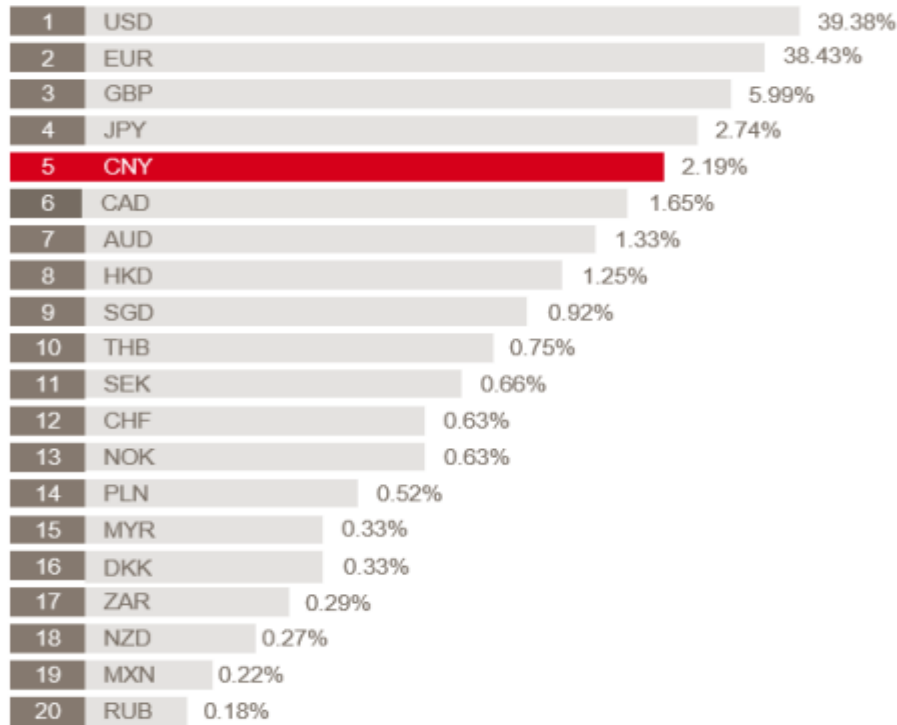
Chief exports to & imports from Ethiopia	
Exports	Imports
Pharmaceuticals	Oil seeds and fruits
Vehicles	Vegetables
Machinery and mechanical instruments	Residue from industries
Textile	Gems and precious stones
Electrical machinery	Vegetable Textile Fibres & Yarn

Chief exports to & imports from Egypt	
Export	Import
Petroleum & crude	Petroleum & crude
Meat	Inorganic Chemicals
Organic Chemicals	Salt, Sulphur
Machinery & mechanical equipments	Fertilisers
Iron & steel	Ships, boats

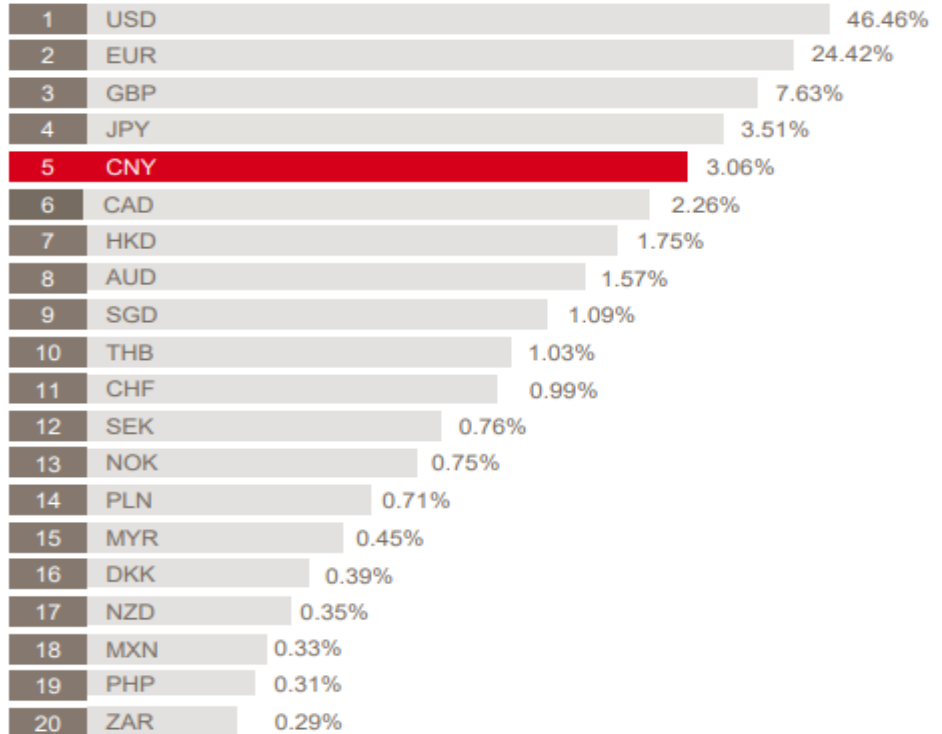
Chief exports to & imports from UAE	
Export	Import
Petroleum & crude	Petroleum & crude
Gems & precious stones	Gems & precious stones
Electrical machinery	Aircraft, spacecraft
Machinery and mechanical instruments	Plastic
Iron & steel	Iron & Steel

Global payment currency share (SWIFT Renminbi Tracker, Based on value)

July 2021



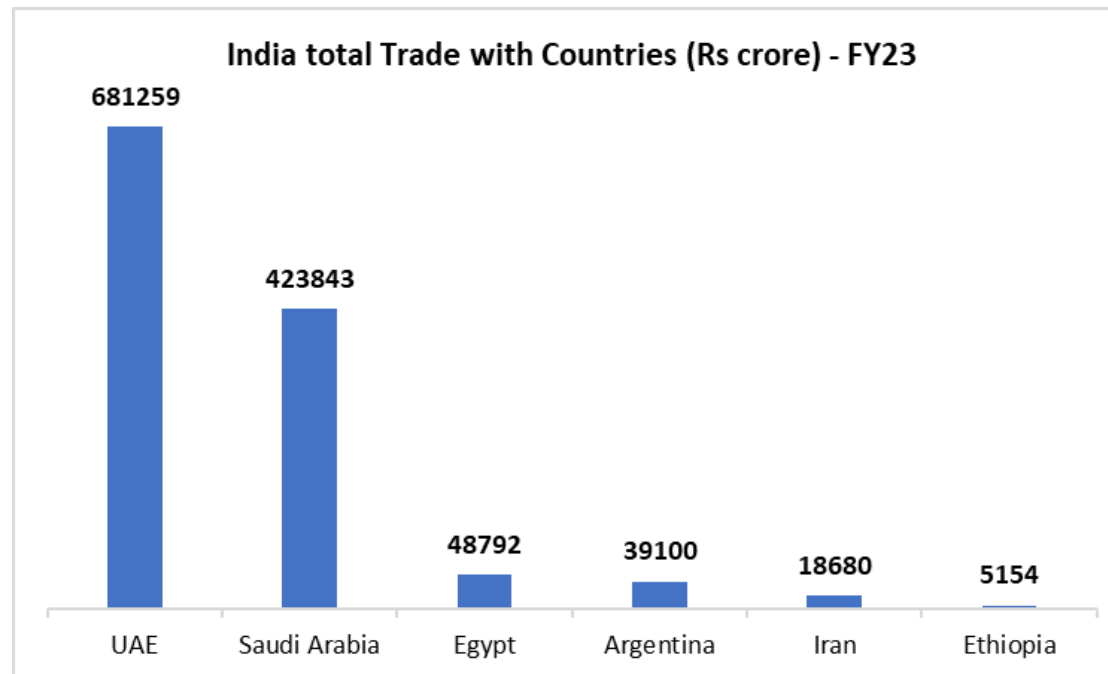
July 2023



The three dominant currencies' share has considerably come down in the last two years, led by fall of Euro. Given the say of member nations in the bilateral trade, we estimate payments and settlements should gain huge traction among the member nations as de-dollarization is a writing on the wall...With RBI taking multiple measures to promote internationalization of Rupee, the extended block augurs quite well for enhanced rupee payment and settlement amidst jurisdictions of the block.

- ❑ NDB is a multilateral development bank established by BRICS countries to mobilise resources for infrastructure and sustainable development projects. The membership is open to members of the United Nations
- ❑ NDB was created in 2014, with an Authorized Capital of USD 100 billion with initial subscribed capital of US\$ 50bn and paid-in capital of US\$ 10bn, places NDB amongst the largest MDBs globally. NDB headquartered in Shanghai, (China) with a regional office in Johannesburg,(South Africa)
- ❑ In 2021, the NDB began its membership expansion, and welcomed three new members: Bangladesh, United Arab Emirates, and Egypt
- ❑ NDB Board of Directors approved over 90 projects in all member countries for a total amount exceeding US\$ 30bn. The share of investment ass: Brazil 18%, Russia 14%, India 24%, China 25%, SA 18%
- ❑ Historically, multilateral development banks raise funds in currencies like the US dollar or the euro. With the objective of safeguarding against the volatility in currency markets and to stay away from the dependence on Western markets but the total loans indicate **65% in USD and 8% in Euro. So, NDB can make local currency funding available to all member nations**
- ❑ NDB needs to support projects that help reduce inequalities and that contribute to improving the living standards of the large communities of poor and excluded people that still exist in the countries of the Global South

- ❑ RBI has recently permitted 20 banks operating in the country to open 92 Special Rupee Vostro Accounts (SRVAs) of partner banks from 22 countries as part of efforts to promote bilateral trade in local currencies
- ❑ There are plethora of benefits of trade in rupee with the prominent ones are lowering of transaction costs, a greater degree of price transparency, quick settlement time, promoting international trade, reduction in hedging expenses, reduced cost of holding foreign reserve by the RBI and, most importantly, price discovery and internationalisation of the rupee
- ❑ Our analysis shows that trade in rupee would be more favourable with trade partners such as Russia, Saudi Arabia, Egypt and the UAE, where India is a large importer and potential exists for Indian exports as well



- ❑ BRICS countries need greater connectivity and more inter-grouping trade to get ahead. Countries must focus on resolving their trade issues
- ❑ Strong partnership among BRICS nations on innovation and digital economy can spur growth, promote transparency and support the sustainable development goals.
- ❑ Need for India and China to increase cooperation on issues like river water (Brahmaputra) data sharing, entry of Indian pharmaceutical companies in China, etc.
- ❑ India must continue to work with other BRICS countries to reach an understanding with China on the issue of cross-border terrorism
- ❑ Climate governance is an area where BRICS members have a lot of potential to contribute
- ❑ Finally, the establishment of NDB is good for developing countries in need of financing. The World Bank and the IMF, particularly the latter, tend to attach often conditions to the funding they provide. The IMF does not ask for collateral when it lends money to troubled countries; instead it prescribes economic policies that the country must follow. The question about whether the NDB will also want to have a say in a country's policies in exchange for funding is still open and very topical, given that the clients of the bank will be poor countries, where the risk of being unable to repay the loan is inherent



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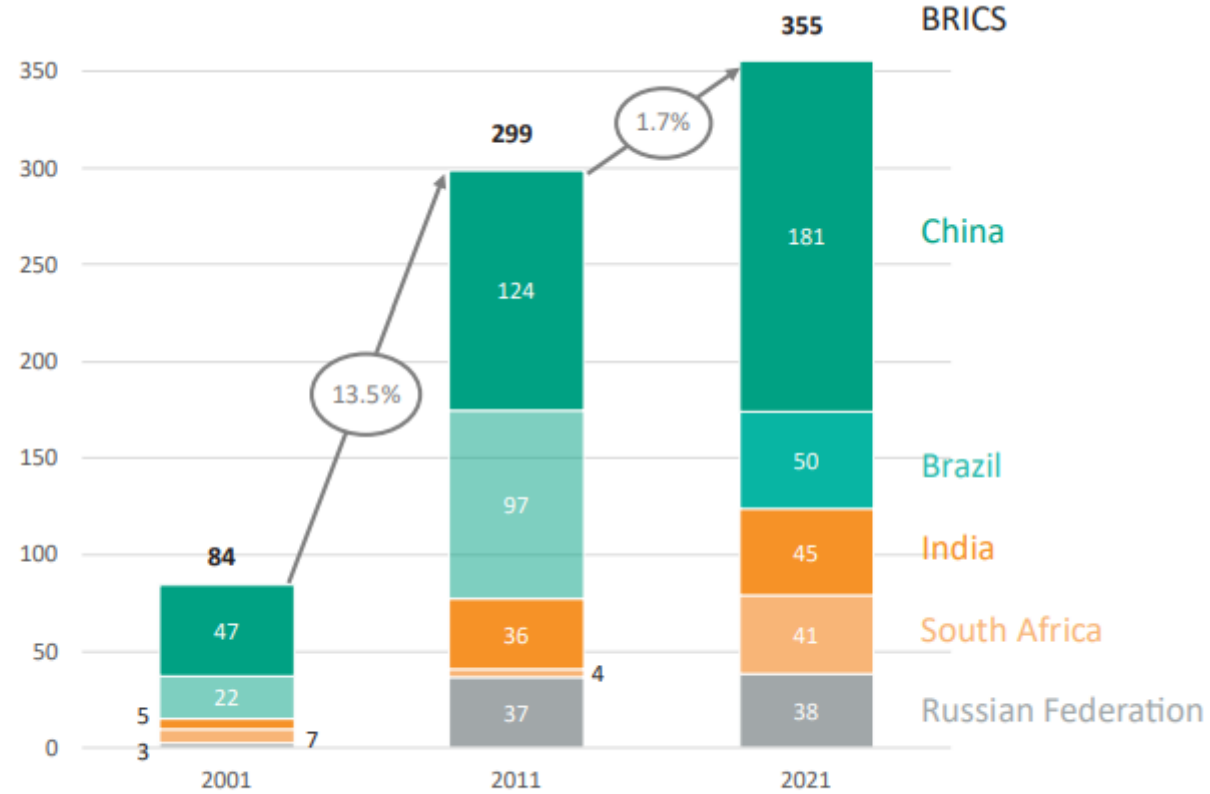
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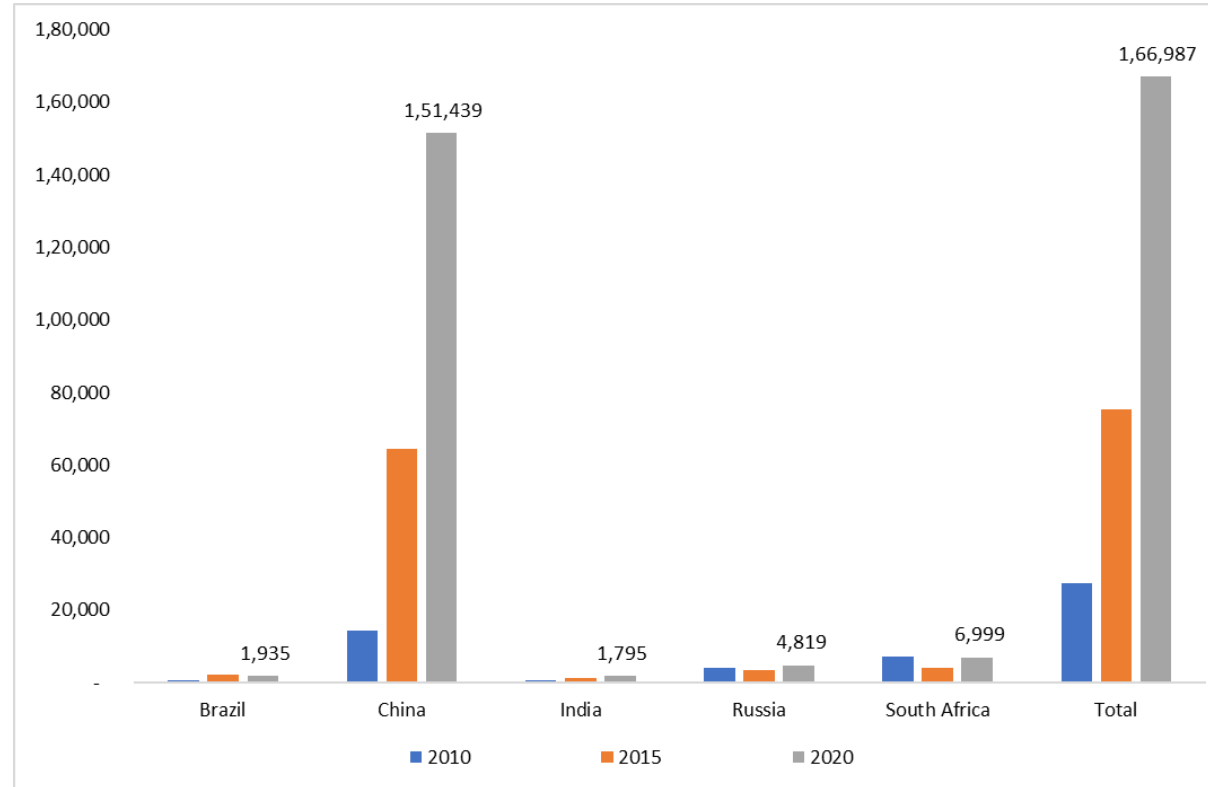
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Annexures



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

- Foreign investment has played an important role in the growth of BRICS economies since 2001, with annual FDI inflows to the bloc more than quadrupling from 2001 to 2021 and contributing significantly to gross fixed capital formation



- ❑ Intra-BRICS investment grew steadily since the 2010s, both in absolute and relative terms
- ❑ According to UNCTAD data, total inward FDI stock between BRICS countries increased from \$27 billion in 2010 to \$167 billion in 2020 representing a share of 1.3% and 4.7% percent of their total FDI stock as a group respectively
- ❑ Growth was mainly driven by China, which was by far the largest investor and recipient in intra-BRICS investment

- ❑ Inter-regional labour movement is not significant factor in BRICS. Bloc recognize the importance of promoting the mobility of skilled workers in the space of the BRICS countries
- ❑ The main focus of BRICS in labour markets is Promoting Social Security Agreements amongst BRICS Nations, Formalization of labour markets, Participation of women in labour force and Gig and platform workers – Role in labour market
- ❑ The unemployment rate in BRICS countries declined to 4.8 per cent in 2022 and is projected to decrease further to 4.7 per cent in 2023
- ❑ The gender gap in the labour force participation rate stood at 27.7 percentage points in 2022, almost unchanged from 27.8 percentage points in 2021 and 27.6 percentage points in 2020
- ❑ The youth unemployment rate declined to 18.8% in 2022, down from 22.4% in 2020