



LONG RUN UPDATE

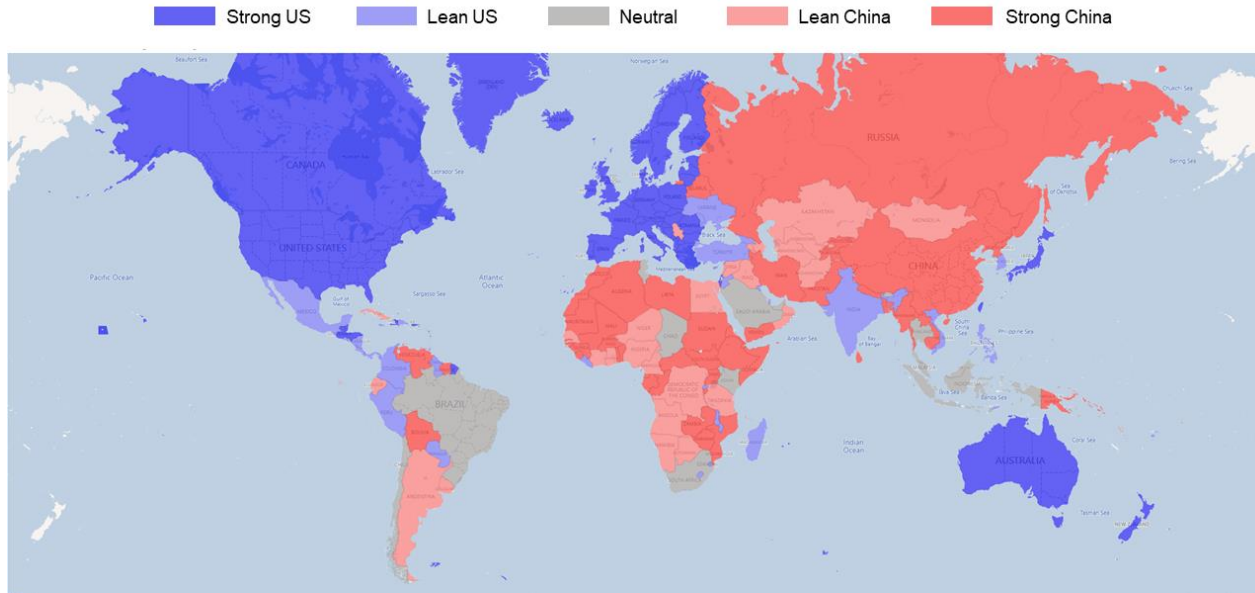
Ambition collides with reality at the BRICS summit

- **China's push to develop the BRICS bloc into a geo-political counterweight to the G7 is likely to be thwarted by the competing interests and priorities of other member states. Nonetheless, positioning ahead of this week's BRICS summit will provide some insight into how other nations are aligning in a world of US-China fracturing. The most notable development over the past year has been how Saudi Arabia has edged closer to the China-bloc.**
- The BRICS Summit, which gets underway in South Africa on Wednesday, will no doubt produce a long list of policy initiatives and areas for future collaboration. We will wrap these up on our [Emerging Markets service](#) once the Summit concludes. However, the framing of international summits is often more telling than the policies that they promise to deliver. The BRICS Summit is no exception.
- This week's event has been billed as a push by China to create a stronger rival to the G7. To that end, more than 60 heads of state and government have been invited to Johannesburg. Pre-Summit briefing has suggested that several new countries could be invited to join the bloc, although the identity of new members – and the terms on which they might join – have not been revealed. (South Africa was added to the original group of four in 2010.)
- This reinforces a key point we have made in our work on US-China fracturing (or geo-economic fragmentation to the IMF's language): namely that China will increasingly push to create a geo-political counterweight to the West. **What's more, in doing so, it will attempt to place Chinese institutions (or multilateral institutions based in China) at its centre.** It has been suggested that new members may have to join the New Development Bank, the Shanghai-based multilateral lender. China is also likely to continue its push to settle more inter-bloc trade in renminbi in an effort to rival the dollar as the world's major currency.
- However, such hopes are likely to collide with economic and political realities. The geo-political priorities of member states are extremely disparate. **While Russia will tend to align with China on most issues, others are more wary of unsettling the US and Europe.** Although [South Africa](#) has tilted towards China and Russia, its Foreign Minister has already said that it would be "extremely wrong" to view BRICS expansion as "Anti-Western".
- **Meanwhile, the relationship between the two most economically important members of the BRICS – China and India – is far more complicated and acrimonious than is often portrayed.** For all the hand-wringing about whether the US will ban Chinese apps, it is worth bearing in mind that India has already banned several, including TikTok. Both countries share a disputed border, where skirmishes are frequent and the risks of a military "accident" are high. And in several important respects, India could be the beneficiary of US-China fracturing. [Apple](#), for example, is doing more and more of its production in India.
- In our work on fracturing, [we mapped](#) the world based on economic and political ties to the US and China. This placed India in the "leans US" camp. (See Chart. A fully interactive dashboard on fracturing, together with underlying data, will soon be available to clients of CE Advance.) The fractious relationship between India and China is a key reason why building a strong and cohesive counter-weight to the G7 with a clear identity set of policy priorities will be difficult.
- That is not to say that the BRICS group will not continue to pursue common goals or expand its reach. New members are likely to join the group. **The most significant geo-political development in the twelve months since we began our work on fracturing has been that Saudi Arabia has tilted less towards the US. Reflecting this, we have moved it from "leans US" to "unaligned" in our fracturing map.**



- However, even here it is easy to overstate the geo-economic implications. Scale matters. China-Saudi shipments account for less than 0.5% of world trade. Trade between the current BRICS nations accounts for just 2% of world trade. The **renminbi** is unlikely to seriously challenge the dollar on the world stage – and the idea of a **BRICS currency** is an even bigger fantasy.

Chart 1: CE Global Fracturing Map



Sources: Capital Economics, Microsoft Bing



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