

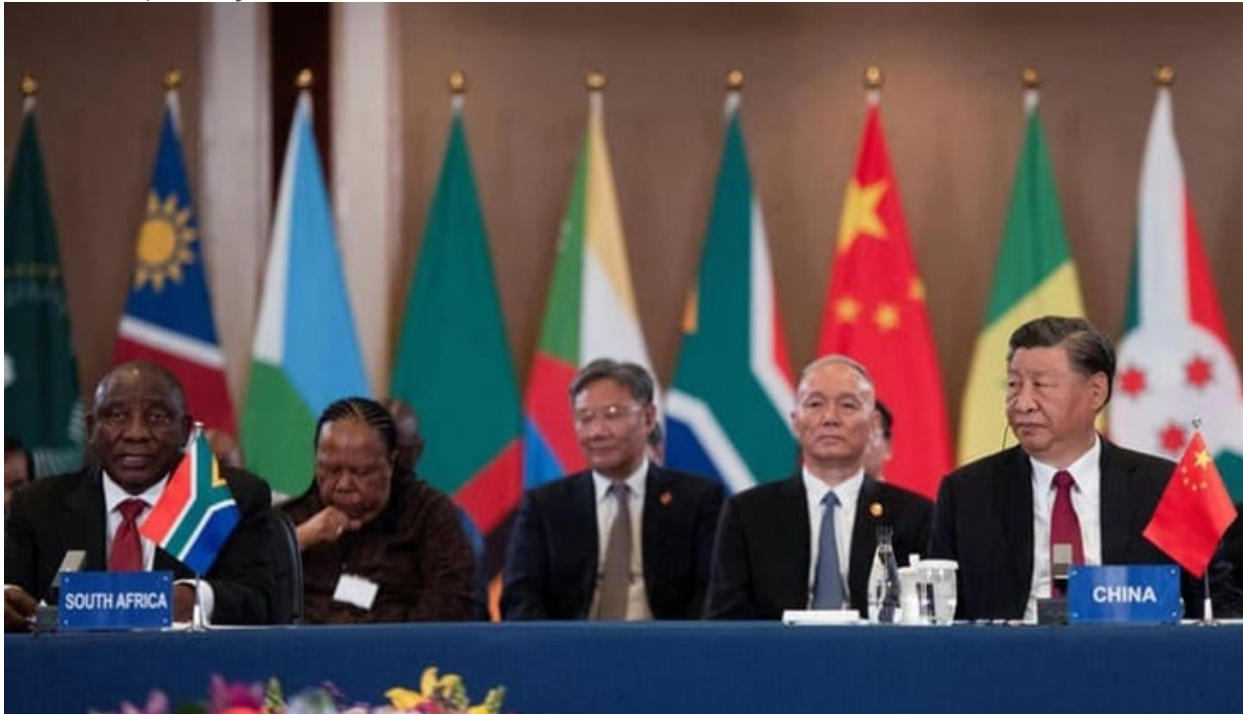
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PAX AMERICANA?

BRICS expansion shows Global South seeking to remake the world's financial system

By David Whitehouse

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President of China Xi Jinping and South African President Cyril Ramaphosa attend the China-Africa Leaders' Roundtable Dialogue on the last day of the BRICS Summit, in Johannesburg, South Africa, August 24, 2023. REUTERS/Alet Pretorius

The bloc's new members including Egypt and Ethiopia need a counterweight to a world financial order which has ignored them for too long, experts argue.

The expansion of the BRICS group of emerging markets to include five new members shows that existing global financial architecture is inadequate to meet the needs of the world's fastest-growing economies, experts say.

Ethiopia, Egypt, Saudi Arabia, the United Arab Emirates and Iran joined the BRICS group – which until now comprised of Brazil, Russia, India, China and South Africa – on 1 January. The new members mean that **BRICS now accounts for about 41% of the world's population and 35% of global GDP.**

The accessions show that the Global South is moving away from a global trading system based mainly on the US dollar, says Elizabeth Rossiello, CEO of AZA Finance. She argues that use of the dollar means that **African countries have lacked the ability to trade between themselves** in local currencies. An

enlarged BRICS makes it “inevitable that members will be more represented in global investing and global trading”.

AZA Finance provides foreign exchange, treasury and payments services to corporate clients. The company, founded in Kenya in 2013, extended its operations to include Brazil in mid-2023 and to Egypt at the end of last year.

“It’s vital that these fast-growing markets are attended to by lenders,” Rossiello says, arguing that multilateral institutions such as the World Bank haven’t been consistent enough in their attention to the Global South. “Multilateral organisations should be multilateral.”

She says infrastructure investment in Africa is being led by China, Russia, India and Turkey, rather than by the West. Over 40 countries expressed interest in joining BRICS before the new member invitations were made. And for Rossiello, “if 40 markets are asking you for a competitor to the existing institutions, that tells you something”.

‘Slowbalisation’

But not everyone is convinced that BRICS will make a real economic impact. Adam Slater of Oxford Economics argues that its expansion is unlikely to herald a fragmentation of the world trading system. His research shows that the new members account for only about 3% of world trade, and the 23% trade share of the expanded group has been flat for the past decade.

Slater sees no grounds for believing that BRICS or global trade is likely to grow fast. He predicts ‘slowbalisation’ over the long term, with world goods trade expanding at around the same pace as GDP. That’s in contrast with most of the post-war period, when goods trade growth outpaced world GDP, he writes.

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Harry Broadman, a former White House economist and World Bank official, says he’s “sceptical” about the value to any Global South country of joining the bloc, as opposed to other forms of alliance. “The world is replete with greatly economically heterogeneous groupings of states, whether from the Global North or South, that have demonstrated this point for years,” he says. “BRICS may serve a symbolic or political purpose but that’s about it.”

The expansion of BRICS is an insurance policy prompted by **policy choices made by the US**, says Steve Hanke, professor of applied economics at Johns Hopkins University in the US. BRICS, he says, has become a “counterweight to Pax Americana” and the alliances and international institutions that the US controls.

The need for a counterweight has arisen because the US and its allies have increasingly used **economic sanctions** to “hobble those nations and individuals who they deem to be ‘enemies’”, Hanke says. “These sanctions have disrupted trade and finance and resulted in the expansion of the scope and scale of BRICS. To the extent that this expansion promotes commerce, it is desirable.”

Argentina, which was invited to join along with the other new entrants, said in December it wasn’t taking up the offer. Hanke, who advised Argentina’s President Carlos Menem from 1989 to 1999, says the decision is “ill advised” but doesn’t expect it to derail the bloc’s momentum.

He says “many countries want to hedge and acquire insurance against sanctions and other provocative protectionist measures that might be imposed” by the US and its allies, and BRICS gives them a mechanism to do so.