

Overview of the seminar “BRICS Enlargement: Causes, Consequences and Prospects”

On September 25, 2023, the School of World Economy and the Centre for Comprehensive European and International Studies (CCEIS) of the HSE University hosted a seminar titled “BRICS Enlargement: Causes, Consequences and Prospects” as part of the expert discussion of the monthly monitoring “GlobBaro HSE Monitor.” Russia’s leading experts on BRICS presented and commented on the topic. The participants discussed the current situation and development potential of the alliance, as well as the impact of the BRICS and the enlarged BRICS on the global economy and politics.

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The moderator of the seminar, **Ksenia Bondarenko**, noted the high relevance of the topic of the forthcoming BRICS expansion. According to the expert, the key criterion that guided the current members of the association in selecting candidates was probably the presence of a significant amount of resources: the UAE, Iran and Saudi Arabia are the world’s oil exporters, Argentina is the world’s second largest producer of rare earth metals, and Egypt controls trade routes from Asia to Europe (including through the Suez Canal). Bondarenko also noted that the invitation of Ethiopia to join the association, at first glance, seems to be out of this logic, but in fact the country has unique characteristics: (1) a high proportion of young population and (2) de facto lack of a colonial past (the latter is unique for Africa). The moderator encouraged colleagues to share their views on whether there were other reasons to attract these countries to BRICS and emphasized two key aspects of the discussion: (1) all candidate countries face a number of challenges—poverty, inflation, and domestic political instability, especially for Argentina, which could potentially refuse to join BRICS as a result of the 2023 elections (which had not yet taken place at the time of the seminar); (2) the issue of introducing a common currency and increasing the economic clout of the BRICS member countries.

Leonid Grigoryev, professor and academic supervisor of the School of World Economy, noted in his speech the political factor as the main criterion for selecting candidate countries. According to the professor, such countries as Argentina, Ethiopia and Iran were invited to join BRICS solely because the countries sympathizing with them are already members. However, this approach does not strengthen the alliance politically because it lacks a centralized administrative apparatus to coordinate internal work. Individual national units, while quite effective, cannot meet the challenge facing all members of the alliance—the problem of poverty, which has been caused by factors that are “not readily curable.” As an example, Grigoryev cited the distribution of property in Russia in the 1990s and the fact that the social divide that emerged during this formative period of the Russian Federation has not been bridged to this day.

The key problem of the BRICS countries is low social mobility, the expert believes. Grigoryev cited South Africa, India and Brazil as an example. The former is characterized by the income disparity that has persisted since the beginning of the century: 10% of the population accounts for 52% of income. As of 2020, about 95% of farms are not supplied with piped water, which shuts down any discussion of a quick solution to economic inequality. The situation is exacerbated by an influx of migrants who are “cutting their place in the sun,” including at the cost of local lives. This is so common that South Africa has a legal provision for failed murder. As for India, private renting of means of production to illiterate people is common. The landlord receives a marginal income and moves up the social ladder, while the tenant is deprived of this opportunity and remains in the same stratum. But there is a problem with social mechanisms in the upper strata of the population as well: Grigoryev cited data obtained from studies of the social structure of India 10-15 years ago that of children whose parents belong to the top 5% of the population, only 7-10% receive a decent grammar school education. Thus, the social elevator does not work in the upper strata, while in the lower strata there is a paradoxical struggle for a lower social status that entitles one to get into the quotas of municipal administrations. The absence of social elevators is also observed in Brazil. Residents of Brazilian favelas (i.e. slums) have no chance to improve their social status. Despite the fact that the poorest neighborhoods are connected to the Internet and have hospitals and schools, the residents have no legal sources of income—the entire economy of the slums is controlled by gangster groups. Thus, according to Grigoryev, the problem of Brazilian favelas remains eternal for the country’s leadership. The professor cited the example of two Brazilian loans from the World Bank at the beginning of the 21st century. Funds from the first one were allocated to establish a network of urban electric trains to improve traffic in Rio de Janeiro, where the foreign loan procedure helped control costs. The second, however, was an unprecedented loan to purchase textbooks for school children in the northeast of the country. The authorities expected that the extra money would be used to improve the quality of education, while the public funds would go to maintain a staff of teachers. Unfortunately for Brazilians, the country’s population was actively increasing while the economy was slowing down—as a result, the level of education remained the same. By analogy, the problem of population stratification is also relevant for Saudi Arabia, Ethiopia and Iran, Grigoryev said.

The professor also emphasized a feature of BRICS that few people pay attention to. BRICS is an association of importers and exporters. The main commodity for BRICS is oil, as countries such as India and China are dependent on fossil fuels, and now its supply will be internal to the alliance.

The floor was then passed to **Andrey Mikhaylishin**, Head of the BRICS Payments & Fintech Task Force of the Financial Services Working Group of the BRICS Business Council, a partner in the creation of the BRICS Pay international payment system. The expert agreed with the statement that BRICS is primarily a political alliance of countries torn by social contradictions. Mikhaylishin also noted that the members of the alliance are not connected geographically, historically, and culturally, which makes it difficult to build a strong structure based on BRICS. At the same time, the consolidation of opinions of the alliance members is very important for decision-making, as any initiative is

adopted by consensus. Mikhaylishin cited the position of former Brazilian President Jair Bolsonaro, who blocked ideas related to the development of cross-border settlement systems within BRICS, as an example of poor coordination between the countries. The reason for such actions was the satisfaction of Brazilian officials with the SWIFT system and the fact that all settlements are controlled by the United States. Mikhaylishin also added that in Argentina, both presidential candidates held pro-American positions. The expert suggested that this may result in Argentina refusing to join BRICS in 2024.¹ However, Mikhaylishin believes that it is more profitable for Argentina to become a member of the group and block initiatives it does not like, as BRICS remains more of a political alliance without the prestige of a strong global association. This is hinted at by the low media interest from Western countries in the upcoming expansion of the group, especially compared to the extensive coverage of the visit of North Korean leader Kim Jong-un to Russia.

Further, Mikhaylishin returned to the discussion on the development of cross-border settlements, describing his experience in developing systems analogous to SWIFT. According to the expert, the working groups of the BRICS member countries have two wings: (1) political, which is headed by the Ministries of Foreign Affairs, and (2) business, which in Russia is headed by the Chamber of Commerce and Industry. The first wing is responsible for political decisions and coordinating the work of federal executive bodies, while the second wing is responsible for economic ties and the implementation of joint business projects. It is the preponderance in favor of politics that prevents BRICS from developing, the expert believes. Mikhaylishin recalled the initiative to issue a domestic analog of the IMF Special Drawing Rights (SDR), a mutually convertible reserve payment instrument based on a basket of real currencies. The idea was not pursued due to the issue of distribution of shares of national currencies: the rule of calculation for the IMF SDR from the share in cross-border turnover for the BRICS countries led to the overweighting of the Chinese yuan, and the adoption of a new formula required the agreement and approval of all member countries. However, work towards the creation of a single currency continues: a number of solutions are being discussed, including direct pegging of the unit of payment to gold and indirectly, through a number of goods with a high correlation to the precious metal. According to the expert, Russia expects to make progress on this issue during its BRICS presidency, especially since the state has a successful pre-pandemic experience of establishing ties with Indian and Chinese payment systems. This fact speaks in favor of the fact that it is possible to find solutions in BRICS within the framework of bilateral agreements. In conclusion of his speech, the expert agreed with the assumption about the predominant role of resources in BRICS policy. Mikhaylishin believes that one of the goals of the association is to establish joint control over a huge amount of resources and exert pressure on Western countries through this channel.

The seminar moderator **Ksenia Bondarenko** asked the experts to clarify the situation with bilateral currency payments using the example of the high volume of accumulated rupees in Russia. Active oil exports to India have led to the fact that Russian

¹ In November 2023, an opponent of Argentina's entry into BRICS, extreme right-wing politician Javier Milei, won the presidential election.

banks have accumulated a lot of Indian currency, which does not have high liquidity. **Mikhaylishin** agreed that the problem with accumulated rupees in Russia creates a number of challenges for the national economy, and also spoke about a similar situation with the Egyptian pound: counterparties from Russia are ready to supply more goods in response to high demand from Egyptian companies, but the expansion of trade relations is hindered by the low liquidity of the Egyptian currency. The expert is sure that such situations cannot be solved bilaterally, but there are other ways to overcome currency barriers, for example, the introduction of a universally recognized common unit of settlement similar to the transferable ruble or the establishment of country trade chains leading to a multilateral clearing of payments. Mikhaylishin spoke about the work on closing the Russia-India-UAE triad: The Russian Federation has well-established financial flows with the UAE, and the latter has large trade ties with India. If the initiative comes to fruition, it will be possible to speak of a precedent of economic interests prevailing over political ones, the expert believes.

Alexandra Morozkina, Deputy Dean of the Faculty of World Economy and International Affairs at the HSE University, agreed with her colleagues' arguments, but questioned the assumption that the BRICS expansion would aggravate the situation with the consolidation of the group. Morozkina reminded that BRICS was created as a discussion platform for countries wishing to actively participate in global politics. In addition, representatives of the BRICS countries could promote national interests, consider the prerequisites for certain initiatives and develop common solutions that would be continued in various international initiatives. A successful example of the result of such practice is the establishment of the BRICS New Development Bank (NDB), which was carried out in the context of a common need to create such a structure. Therefore, the expert is confident that increasing the number of votes in the organization is a step in a positive direction for the development of BRICS. In Morozkina's opinion, the group should invite all countries with an active agenda to join its ranks without using selection criteria to broaden the political discourse, and to conduct economic initiatives thereafter.

The expert also touched upon the currency issue, specifying that today we are talking about creating a unit of account, not a common BRICS currency. At the same time, BRICS has already made progress towards increasing settlements in national currencies. First, the NDB's strategy to increase loans in national currencies to 30% remains relevant. The weakness of the implementation of this policy is that the expansion of the share of national currencies is mainly at the expense of the yuan. There is also a mechanism of interbank cooperation, primarily of commercial banks, with a focus on increasing their involvement in international settlements to increase transactions in national currencies and circumvent secondary sanctions. Among the projects, the project of the Sovereign Bond Fund in national currencies, agreed in 2017, was also mentioned. **Andrey Mikhaylishin** added that his working group held successful preliminary talks with representatives of the NDB on the use of the bank as a settlement center for national currencies. The expert noted that the NDB supported projects in Russia, but has now suspended its financing.

The International Bank for Reconstruction and Development (IBRD) is in a difficult situation, as the loans it has invested are not yet generating income, while it is already

necessary to service debts in dollars and euros. Moreover, Western countries prohibit the IBRD from cooperating with Russia under the threat of secondary sanctions. Another international financial institution, the Eurasian Development Bank (EDB), is also facing problems due to the sanctions regime against Russia. Kazakhstan, one of the EDB's largest shareholders, blocked all of the bank's projects related to cross-border settlements in national currencies of the EAEU countries, which went against the bank's long-term strategy to expand settlements in national currencies. However, according to Mikhaylishin, Russia has ways to overcome settlement restrictions, such as international factoring mechanisms, counter flows and even the use of cash currency and bills of exchange. Nevertheless, the seminar participants noted that it is too early to say that business has fully established cross-border payment processes through "workarounds," and the government should make significant efforts to change the situation. Next, the issue of Iran's similar problem in obtaining BRICS financing was raised, as the country is also under pressure from the sanctions regime. Mikhaylishin mentioned that Iran has been in this situation for about 40 years and companies from Iran have achieved great success in terms of cross-border settlement mechanisms.

Natalia Vukovic, Associate Professor at the Faculty of World Economy and International Affairs, raised the issue of a BRICS University, which could, among other things, engage in research in the field of financial issues, which are the most important for the association. The current BRICS Network University, due to the specific interests of such partners as South Africa and India, focuses on agriculture and medicine, and has not yet focused on other issues due to limited funding. This observation led to a discussion among experts about the importance of Russia's future BRICS chairmanship in 2024, during which the country will have the initiative to develop discourse in the financial sphere, including through the Direct Investment Fund.

The experts also discussed the interests of individual BRICS countries and the BRICS as a whole, including the further expansion of the number of member countries of the alliance. It was suggested that, on the one hand, the main beneficiary of the increase in the number of BRICS member countries is China, which, firstly, being dependent on resource imports, mitigates the risks of restrictions on the supply of any commodities, and secondly, being a significant global exporter, finds new and/or expands existing markets. At the same time, China's dominant role can be questioned for the following reasons: (1) the possibility for third countries within the BRICS to initiate discussions on a number of issues, (2) the existence of a consensual decision-making procedure and a number of formal restrictions—for example, equal shares of the countries' contributions to the New Development Bank. At the same time, the essence of the alliance remains purely political, since the BRICS alliance did not establish official socio-economic criteria for selecting new members of the alliance. This circumstance, on the one hand, expanded opportunities for attracting new countries to the alliance, but on the other hand, gave BRICS members the right to subjectively decide which country to accept.

Ksenia Bondarenko further suggested that the admission of resource-rich countries as BRICS members and the sale of these resources on commodity exchanges within the alliance, together with similar approaches of the member countries to global politics and economy, could lead to the end of the petrodollar era, as resources could be

purchased not for US dollars, but for another currency. Other participants noted that such a development is extremely likely, if it is not already happening now. The digital economy today provides the ability to calculate and measure demand for any good, which makes it possible to measure the value of a product through utilitarian goods (a kind of digital barter) rather than through any unit of account.

The final discussion of the seminar was aimed at discussing the effectiveness of BRICS as an international association. Mikhaylishin noted that the BRICS differs from other associations and formats in that it is a “discussion platform.” While the SCO and NATO remain rather military-political blocs, the BRICS retains its original nature as a springboard for global initiatives, where, apart from politics, joint economic projects, personal contacts and cultural ties are important. Experts noted that the group in practice fulfills its function as an alliance, for example, Russia’s BRICS partners did not support Australia’s initiative to exclude Russia from the G20. Among the advantages of BRICS were also mentioned the establishment of horizontal contacts and a deeper understanding of the processes taking place in other countries.

The seminar concluded with **Leonid Grigoryev’s** discussion on the cultural component of the BRICS countries. According to the professor, fruitful joint work is impossible without common cultural codes and overcoming language and academic barriers. To solve the problem, it is necessary to bypass bureaucratic frameworks and create a common academic and cultural space for the young generation of the countries to establish an international dialogue.

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