

Ep. 183 - A bigger BRICS

Table of Contents

Presenters..... 3
Presentation..... 4

Presenters

Kristen Hallam

Langelihle Malimela

Presentation

Operator

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Kristen Hallam

South Africa hosted this year's Heads of State Summit for the BRICS countries, which include Brazil, Russia, India and Mainland China, along with South Africa. The main outcome was the admission of Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates as members from January 2024. And there's an indication of future expansion as well.

I'm Kristen Hallam, content strategist at S&P Global Market Intelligence and your host for this episode of The Economics & Country Risk podcast. With me to discuss the outcomes of the recent BRICS Summit is Lange Malimela, Head of Country Risk for Sub-Saharan Africa at S&P Global Market Intelligence. Welcome back to the podcast, Lange.

Langelihle Malimela

Thank you very much.

Kristen Hallam

Lange, what is the reasoning behind admitting new member states to the BRICS alliance?

Langelihle Malimela

Well, I think, Kristen, current members all have a shared objective, driven by various interest of growing the group into a platform that can bring a more multilateral international system, which objective starts with diluting Western influence. So this means pursuing cross-national secured coordination, developing financing and the like. So these are envisioned to be mechanisms that work in parallel with existing Western dominated institutions such as the G7 and the International Monetary Fund.

The 6 new members will be admitted as of January next year, as you've said. And if you look, for example, at the inclusion of Iran, Saudi Arabia and the United Arab Emirates, that represents a substantial increase in BRICS' presence in global hydrocarbon producing states. Saudi Arabia and the UAE will also enhance BRICS' access to financial resources quite significantly. And you are likely to see a deepening of their economic and security engagement with Mainland China. But this reported establishment of an alternative multilateral development finance regime gains much more traction when you consider those particular additions.

Kristen Hallam

Now according to the report on the summit, which you co-authored, further expansion of the BRICS alliance is likely beyond what we've just seen. What makes membership so desirable for countries? Why are countries knocking on the door to get in?

Langelihle Malimela

Indeed. So aside from the expansion that we saw at the recent summit, all indications are that more additions to the group will be considered next year. There are significant economic differences amongst those countries that have expressed an

interest in joining. And so the drivers diverge and reports vary on this, but we believe more than 20 countries have in one way or another expressed an interest in joining BRICS and add various levels of applying or engaging with the existing BRICS members.

Perhaps one characteristic that they do share is that they would all welcome opportunities for increased bilateral trade in local currencies and reducing wider dependence on the U.S. dollar, for example. And we know that this has emerged as a key theme with all of the current members in strong support.

Kristen Hallam

Now I did want to ask you about de-dollarization because, as you said, just now, the group did discuss it, but there were no specific measures announced out of the summit. Why is there so much interest in de-dollarization and trading in local currencies?

Langelihle Malimela

Well, there was a lot of enthusiasm at the event from President Putin of Russia on de-dollarization, especially during his opening address, which he delivered remotely, having not attended the event in person. From Russia's side, this has to do with getting around sanctions, obviously, and being able to continue to trade, and this is in the context of the ongoing Russia-Ukraine conflict.

More generally, the ability for countries to use their own currencies obviously extends their influence and would foster economic and security relations and grant, at least in theory, more autonomy within the international system. And again, for some of the bigger economies within the group as it exists now, this is a very significant incentive.

Kristen Hallam

Why is it so difficult to move toward de-dollarization?

Langelihle Malimela

We think it comes down to the fact that there isn't really a currency out there that can challenge the U.S. dollar and moving away from it. Even in the incremental steps that are being discussed is complex and difficult to implement among other currencies, even from large economies within the group as it exists now. There are not really sufficiently robust financial systems behind them, which is an obstacle to them becoming major reserve currencies, and this then feeds into a kind of reluctance on the part of other economies to be able to rely on these currencies as a means of trade.

Kristen Hallam

I suspect with all the interest in it, it's an issue that will be going away. So it will be an interesting one to watch going forward, for sure.

Langelihle Malimela

Definitely.

Kristen Hallam

This next question, I think, will be close to your heart since you live in South Africa and have witnessed, I'm sure, the electricity shortage there. South Africa was seeking some help from its fellow BRICS countries to mitigate that shortage. What assistance did South Africa get?

Langelihle Malimela

Yes, indeed. So South Africa signed multiple deals with power companies from Mainland China, and this was at the start of the summit during what was an official state visit by President Xi Jinping with South African President, Cyril Ramaphosa. And these agreements are intended to upgrade South Africa's power transmission infrastructure. That includes technology transfers to the state-owned power utility Eskom. And there is focus also on reducing emissions from coal power plants, so in coal technology, in essence, which South Africa's current energy minister is a big advocate of.

But this will allow for South Africa to rehabilitate and continue using some of the coal-fired power plants that were planned for retirement in the near future. But also Mainland China's assistance in upgrading South Africa's nuclear power plants and the supply of emerging emergency power equipment, that will help alleviate the impact of power outages on critical infrastructure in the short term as well as on hospitals and the like.

South Africa is desperate, and I think it's fair to say for affordable access to diesel as well, which can help keep its open cycle gas turbines, in particular, going. Those open cycle gas turbines are currently the most reliable source of power, especially at crucial times, at peak times. And the amount of money spent on diesel for these gas turbines is eye watering. There's enormous amounts of money, which Eskom is spending on them and Eskom itself being hugely in debt.

So Russia, for example, potentially provides some solutions in this regard, especially given some of the existing embargoes that it faces in terms of exports of refined fuel. Add to that, the ability then to pay potentially in rands, of course, for that fuel, that would significantly alleviate the issues that the South African government is facing in relation to this matter. But from a logistics point of view, our understanding is that it's not quite so straightforward in terms of getting access to that, hopefully, more affordable diesel than gas for South Africa, but we understand that discussions are ongoing in this regard.

Kristen Hallam

Some really strong words there, desperate, eye watering. Getting a strong image there of what it must be like.

Langelihle Malimela

Yes, indeed. The electricity crisis has improved somewhat in recent times. Well, let's say that the winter that South Africa has now starting to come out of was not as severe as expected. And that's because of the maintenance that took place during the warmer months earlier in the year. But nevertheless, this is an important issue, especially with the elections coming up at the end of the first quarter in 2024.

Kristen Hallam

Yes. We have quite a few elections going on next year. So there's going to be a lot to watch on the political front, and I definitely have that one on my list.

Langelihle Malimela

Absolutely.

Kristen Hallam

One thing that we've talked about on this podcast before is how more and more businesses are becoming interested in geopolitics and they can no longer afford to stand on the geopolitical sidelines. What are businesses most concerned about or curious about following the BRICS Summit?

Langelihle Malimela

The currency issue is important. To some extent, it's something that is being engaged with a lot of enthusiasm as I've alluded to, from the political front, whereas if we're listening to central banks and finance ministers and CEOs of banks, this is a hugely complex issue and something that's unlikely to be resolved in the short term. But by its nature, it's something that nobody can ignore and certainly businesses that are operating in these markets can hardly ignore.

So this is important, especially to the extent that more trade can and we are seeing start to happen gradually in local currencies, and perhaps any other measures that the group will start to implement that are intended to lower trade barriers amongst themselves. We think that with expansion, the likes of the BRICS Bank and the Asian Infrastructure Investment Bank will create a growing, albeit smaller network of credit flows alongside existing multilateral development finance channels.

And this will be to the benefit of businesses in some of these emerging markets. And so that is an important issue as well. We cannot get around the broader issues perhaps having to do with sanctions and trade embargoes, which are of interest, especially to multinational corporations that would want to steer clear of any of those kinds of restrictions and getting on the wrong side of governments.

Kristen Hallam

Thanks for going through that. Looking forward, what signposts are you watching out for over, say, the next year or so, maybe between now and the next summit on the BRICS front?

Langelihle Malimela

So we think that in Africa's case, for example, the position of the U.S. in response to these discussions and decisions is important. There is a lot of interest, Russian, Chinese, U.S. on developments on the continent. We've spoken about access to new markets, access to natural resources. And there is a lot of focus from the U.S. on developments on the continent.

There was some concern earlier in the year that the U.S. would impose sanctions on South Africa, for example, given its purported neutral stance on the Russia-Ukraine conflict, but there is an AGOA Summit, which is the African Growth and Opportunity Act Summit in November this year, and this is being hosted in South Africa. There has been some pushback even to the hosting of that conference in South Africa by some members of the U.S. Senate and U.S. Congress, given some of the developments I've referred to earlier in the year and some concern about South Africa's position within the context of the Russia-Ukraine conflict.

And so these geopolitical factors are important and that AGOA Summit will be an important yardstick of where the U.S. stands not only in terms of South Africa, but in terms of its engagement with the African continent and some of these lower income countries in the region as well. The African Growth and Opportunity Act after renewal of 2025, it gives preferential access to a range of African countries to U.S. markets, including South Africa. And this will be discussed, the mechanisms around it will be discussed. And that will be a moment to assess the U.S. response to the growing influence of groups such as BRICS, amongst the emerging markets in general, but also on the African continent. That summit is one.

I would also say that we will be watching for discussions around the expansion of the BRICS itself. We've seen the admission of 6 new members and have suggested that there are more countries that are wanting to join. And we think that those discussions around who gets to join will likely become more difficult as the existing members are likely perhaps start to disagree amongst themselves as to who should become eligible, how and why. And so those kinds of discussions will be important reading into the broader geopolitical shifts that we're talking about going forward.

Kristen Hallam

At the heart ticket.

Langelihle Malimela

Exactly, yes.

Kristen Hallam

Reminds me of the NATO podcast episode we did earlier this year. And speaking of previous episodes, you mentioned resources there. So I just wanted to flag for listeners that last week's episode, I talked about critical minerals in Sub-Saharan Africa. It's a great episode, so check it out if you haven't. And now I just want to thank you Lange for sharing your insights with us today. And thanks to you, our listeners, for joining us. Please let us know what topics you want us to cover by interacting with us on the S&P Global Market Intelligence social media handles, and join us next week when we'll have something special for you ahead of Climate Week.

Operator

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