Global Perspective from the Investment Advisory Group

A message to BRICS from the U.S.

-“BRICS it on”-

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Executive summary

We agree with Jim O’Neill, the economist who coined the term BRIC (Brazil, Russia, India, China – South Africa was added later), “***the BRICS never achieved anything since they started meeting 15 years ago, and the so-called common currency idea for trading is “ridiculous”.***

Contrary to popular belief, the BRICS is not an organization to change the world order. The group **has achieved little of substance** in its 15-year history, with its annual summits delivering the same messages that: 1) the developed world needs to change and 2) the U.S. dollar’s (USD) global dominance should end.

Furthermore, its declaration document provides evidence that the group’s primary interest is **favorable funding** from institutions such as the International Monetary Fund (IMF), or **climate-change related grants**. The only substantive step at the recent 15th Summit was expanding the BRICS to six other nations. And expectations for next year’s 16th Summit in Russia are low.

In short, we have a message from the U.S. to the BRICS countries, “**BRICS it on**”.

What happened

The BRICS nations, Brazil, Russia, India, China, and South Africa met for the 15th BRICS summit in Sandton, South Africa.

- The BRICS were represented by three presidents, a prime minister, and Foreign Minister Sergei Lavrov represented Russia as President Vladimir Putin did not attend.
- As in other summits, many other nations attended the Summit as non-member counties.
- Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates have been invited to join the bloc with a January 1, 2024, effective date.

This year’s theme was "BRICS and Africa: Partnership for Mutually Accelerated Growth, Sustainable Development, and Inclusive Multilateralism“. According to the joint declaration, the Summit’s goal was “strengthening the framework of mutually beneficial BRICS cooperation under the three pillars of political and security, economic and financial, and cultural and people-to-people cooperation".

Member countries reiterated the importance of human rights and highlighted their respect for democracy and fundamental freedom. They also reaffirmed the importance of the G20's dominant role as the premier multilateral forum in the field of international economic and financial cooperation.

Member countries supported a comprehensive reform of the United Nations (UN), including its Security Council to increase representation of developing countries. Food security, fair and market oriented agricultural systems also were promoted during the summit.

Surprisingly, member countries showed continued support for the IMF if the Fund's quotas are adjusted in favor of emerging and developing countries. Contrary to the headline media coverage, there were no discussions for the creation of a common currency.

Our take

USD dominance remains unchallenged

Recent media coverage highlighted how this economic bloc could eventually dethrone the USD as the global trading currency. **We remain skeptical** and agree with Jim O'Neill, the economist who coined the BRICS acronym in 2001, that the BRICS have not achieved anything since they started meeting 15 years ago, and the so-called common currency idea for trading is "ridiculous".

While there are near-term challenges to the USD's dominance, there is **no viable replacement as the primary currency** for trading and storing reserves. Countries are free to trade in any currency, or even barter. An oil-rich country can send barrels of oil to a banana-rich country to get a container full of bananas. The question is, what happens if one country sells more goods or services, leaving extra savings or reserves? Where are those savings stored? Currently, the **USD is the reserve currency of choice** as there is no alternative offering the same liquidity, sophisticated financial products, and stable legal framework.

- According to the triennial Central Bank Survey conducted by the Bank for International Settlements, the USD is bought or sold in about 88% of global foreign exchange transactions, and the USD's share has remained stable over the past 20 years.
- For foreign debt issuance, the USD is the preferred currency and has gained market share since the global financial crisis in 2008. The share of USD bond issues by non-US sovereign and corporate entities is 64%, while the Chinese renminbi's share is only at 2%.
- According to the Federal Reserve Bank of Chicago, nearly **80 percent of $100 bills**—and more than 60 percent of all U.S. bills—are **held overseas**, up from roughly 30 percent in 1980.

Double standard statement

Article six of the Johannesburg II Declaration statement at the end of the 15th BRICS Summit included the excerpt: *"We reiterate the need for all countries to cooperate in promoting and protecting human rights and fundamental freedoms under the principles of equality and mutual respect"*. Given Russia's and China's track record on human rights and fundamental freedoms, the **hollow statement exemplifies the facile purpose of the group.**

Where's Putin?

Russia's President Vladimir Putin did not attend the 15th BRICS summit. Instead, Sergei Lavrov, the Foreign Minister, represented Russia. While Putin was likely preoccupied with the war and Yevgeny Prigozhin, he would need to attend the 16th summit next year in Kazan, Russia. With the Ukrainian conflict likely to be ongoing by then, some leaders may find reasons to not attend that meeting in person.

BRICS is pro-IMF, why?

Any institution that could provide cheap funding is good for the BRICS. They recommended an adjustment to member quotas in favor of emerging economies so that they can get more cheap funding or fewer restrictions.

BRICS is pro-climate change, why?

The climate is mentioned 25 times in the declaration document, likely to benefit from climate-related funds – preferably grants or concessions. Here is another excerpt from the declaration *"We further urge developed countries to honor their commitments, including of mobilizing the USD 100bn per annum by 2020 and through 2025 to support climate action in developing countries. This will require enhanced financial support from developed countries that is additional, grant-based and/or concessional, timely delivered, and adequate to take forward adaptation."* In short, they want timely delivered **grants from developed economies**, preferably now with no strings attached.

BRICS Payment Task Force

There was a noteworthy section on a BRICS Payment Task Force (BPTF) to work on a broader payment system to facilitate cross border trade, bypassing the global financial messaging system known as SWIFT. This could be the early beginnings of a viable alternative that uses local currencies. The issue here is trust and legal framework. The USD is widely accepted but local currencies in emerging economies lack the liquidity and sophistication of the USD.

What about the new members?

Except for Saudi Arabia, the other new members are not critical players in global geopolitics. As a counterbalance, Iran, Saudi Arabia's old rival, will also join the bloc. Highly indebted and currency-stricken economies like Argentina or Egypt would probably join any club if it offers some financial benefits eventually.

What happened to Xi?

At the Summit, China's President Xi Jinping missed a highly anticipated speech without providing a reason. In China, local news outlets posted articles as if he had made a speech at the Summit. His decision not to speak against the "hegemonic" West at this venue suggests that even he thinks that this platform does not deserve his full attention and energy.

Bottom line: "BRICS it on"

Other than expanding the membership to six new states, the 15th BRICS Summit was uneventful and failed to reshape the world order. Some news headlines suggested that the expansion indicated that the hegemony of the USD is about to end. This is far from the truth. As we mentioned in our earlier notes, the source of USD's and the U.S. economy's dominance is not because the USD is a reserve currency. The long-term strength of the U.S. economy is due to the three "I" factors—**Institutions, Innovation, and Inclusion**. As long as the U.S. preserves its **institutions** and provides an unparalleled legal framework that allows cutting-edge **innovation**, the USD will likely remain the dominant currency. While not perfect, but much better than many other societies – the U.S. embraces "**Inclusion**" as its source of strength and will remain the beacon of hope for many and the leader of the free world.

In recent years, our portfolios have benefitted from our recommendation to significantly underweight emerging markets. We continue to recommend keeping emerging markets underexposed where BICS (Russia has been removed from the indices since the invasion of Ukraine) constitutes greater than 50% of emerging market indices.

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