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TRADE FOR INDUSTRIAL DEVELOPMENT: LEVERAGING THE POTENTIAL OF BRICS FOR DEVELOPING COUNTRIES

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Abstract

With the recent expansion of the BRICS to include Egypt, Ethiopia, Indonesia, Iran, the United Arab Emirates, and possibly Saudi Arabia[1] along with Brazil, Russia, India, China and South Africa, the organization is becoming an important platform for cooperation between emerging markets. The group has been further bolstered by the addition of nine countries, namely Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Uganda and Uzbekistan, as its official "partner countries". As of end-2023, BRICS already represents a population of almost four billion people and a combined economy of over USD 28.5 trillion, or 27 per cent of the world's economy, and is expected to grow rapidly. Against the backdrop of an increasingly influential BRICS, probably with even more members in a few years' time, this policy brief examines what the BRICS bloc has achieved, how it has shifted global trade, and how its work improves economic growth in countries. Lastly, and in line with UNIDO's mandate to promote sustainable industrialization, this brief will explore how developing countries can better benefit from their BRICS membership and relations.

Key Messages

1. The creation of BRICS has delivered rapid growth in intra-bloc trade and investment inflows over the last two decades.

2. BRICS' promise of mutual trade has grown proportionally faster, yet this does not appear to have elevated member countries' economic structure.

3. Increased South-South and Triangular Cooperation should enable developing countries to add more value to their economy by better integrating into BRICS-centric value chains.

The premise and promise of BRICS

Heightened interest in BRICS in recent years stems from the bloc's continual growth and burgeoning potential to reshape global economic dynamics, particularly in South-South trade and new development paradigms. From the first official summit in 2009 with its founding countries Brazil, Russia, India and China (and South Africa joining later in 2010), BRICS has amplified the voices of members in the multilateral fora to collectively address global issues such as investment facilitation, climate change, poverty and reforms in international organisations. This is despite the heterogeneity of its members in terms of political systems and traditional trade relations.

Foremost, the benefits of the bloc are economic and include the intensification of trade amongst members, and investment from the outside world for which barriers are being reduced and agreements established. Economic cooperation is also aided by the structure of the economies of the first five BRICS members with their complementary endowments, such as China's manufacturing expertise, India's skilled labour cost advantages, Russia's specialization in research, military and chemicals, South Africa's wealth of resources and Brazil's agricultural resources.

Notably, BRICS was not designed as a trade bloc or economic union like the European Union and the Association of Southeast Asian Nations. Hence, bloc-wide free trade agreements or harmonization of product standards are absent amongst members. With growing economic weight and partly aligned political outlooks among the members, BRICS countries can enhance trade relations, drive industrial development and foster economic growth in the bloc and the wider developing world, via a holistic and collaborative approach.

Outside of trade, there are also other strategic advantages for the BRICS. For example, the use of local currencies for trade among BRICS members reduces dependence on the United States dollar. Another advantage for the BRICS countries is that they can lower their dependence on markets outside the group and organize their industries across intra-group value chains. This has become more prominent since the outbreak of COVID-19 when supply chains got disrupted and industries started adopting friendshoring or nearshoring strategies. Further, BRICS benefits as a trade block from the joint sourcing of precious and original resources and materials from developing countries.

In 2014, the five BRICS members founded a development financial institution - the New Development Bank (NDB) with an initial endowment of USD 100 billion. NDB aims to fund the infrastructure gap in BRICS countries and other associated developing economies while promoting economic growth.

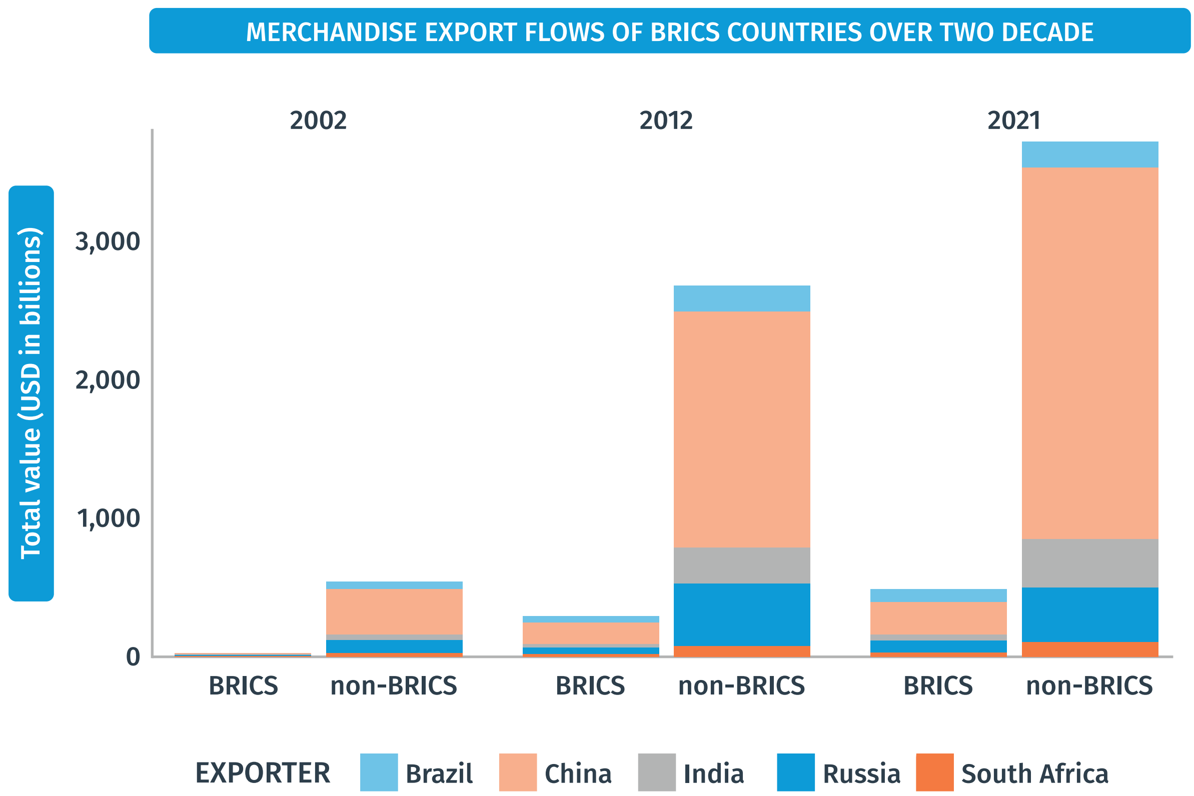
Finally, BRICS is known as an "emerging donor," offering an alternative model to traditional partnerships and Western development cooperation by applying the principle of non-interference in state affairs. South-South and Triangular partnerships between BRICS and developing countries shall make investments and transfer of knowledge and technology easy, efficient and less costly.

Closer integration, limitations and beyond

Despite the absence of formal trade agreements, BRICS has increased intra-group trade and reduced dependence on traditional markets, allowing member countries to tap into each other's sizeable markets[2].

From 2002 to 2021, the total global trade of all BRICS countries grew more than sevenfold, rising from USD 572 billion to more than USD 4.2 trillion. In 2021, trade among BRICS nations comprised 13 per cent of their total trade. During this period, growth in intra-BRICS trade was notably faster compared to the non-BRICS countries collectively. This suggests that BRICS made progress towards forming its own network of complementary supply chains and diversifying its trading relationships,[3] which presents an attractive alternative cooperation for developing countries to advance their global value chain.

Figure 1 Export flows in BRICS countries grew quickly from a low base



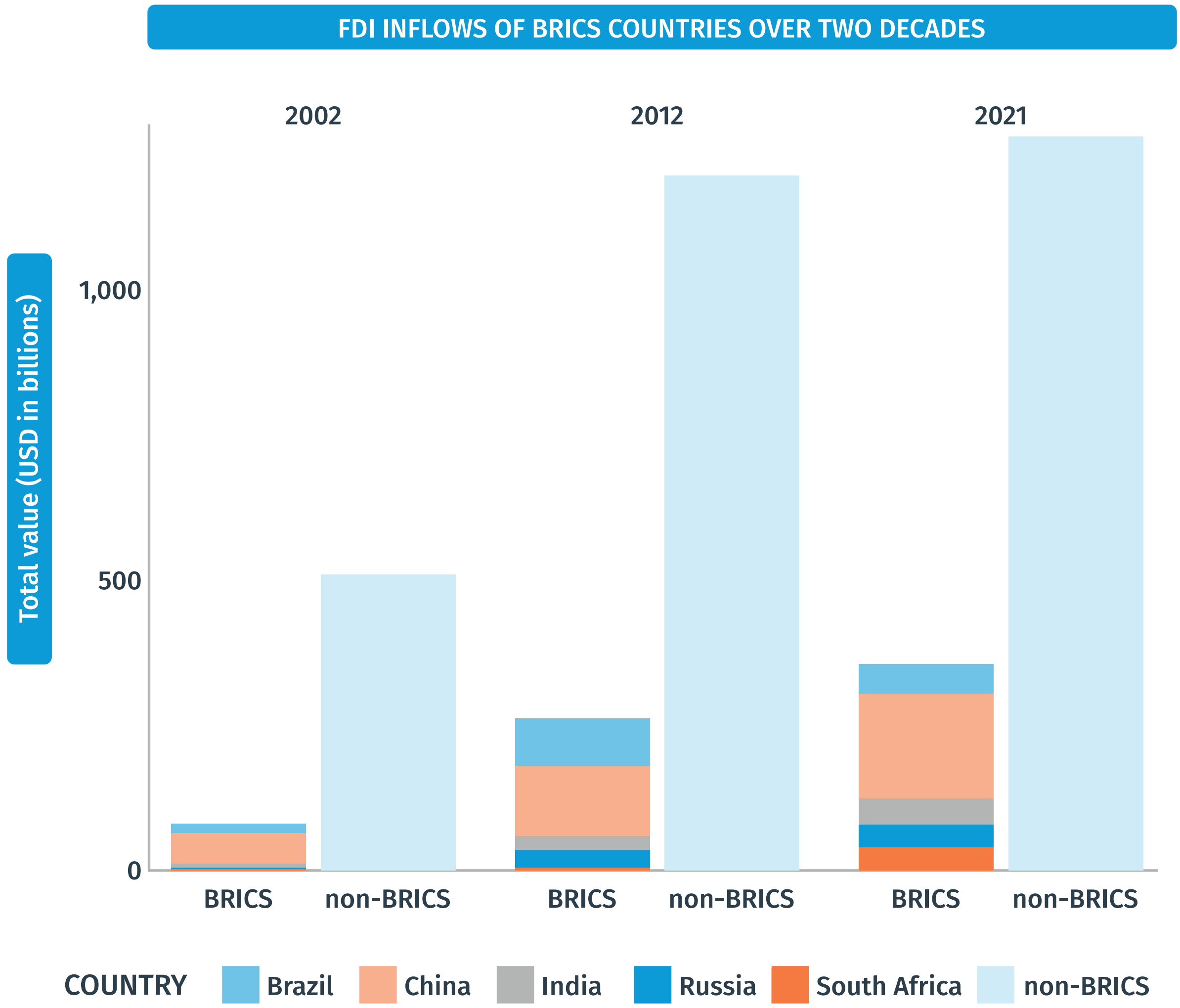
Note: BRICS countries refer to Brazil, China, India, the Russian Federation and South Africa.

Source: Authors' calculations based on trade data in the BACI datasets from the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)

Between 2002 and 2021, the bloc's investment footprint saw global foreign direct investment (FDI) inflows rise from 13.6 per cent to 22 per cent (Figure 2), reaching a total of USD 355 billion.[4] Meanwhile, their share of global FDI outflows demonstrating the foreign expansion of domestic enterprises rose from two per cent to 15 per cent, reaching a total of USD 281 billion during the same period.

It is important to note that not all BRICS members are equal contributors to the dynamic growth in trade and FDI, as China accounts for a lion's share of increases in metrics (Figures 1 and 2). This imbalance, has not necessarily translated into any single-country dominance, although the sometimes divergent political stances among the founding five, at times, results in lack of consensus on more ambitious and effective cooperation. This could become a more significant issue as BRICS continues to accept more developing countries as members and partner countries following its recent expansion in 2024-25. Therefore, the bloc's further successes would likely require building on its ongoing commitment to formalizing and operationalizing the relevant institutional structure, especially multilateral coordination mechanisms.[5]

Figure 2 BRICS FDI inflows (USD in billion) increased more than four times in last two decades - a much faster rate compared to global growth during the same period



Note: FDI inflows comprise capital provided by a foreign direct investor to a foreign affiliate, or capital received by a foreign direct investor from a foreign affiliate (https://www.unctad.org).

Source: The authors' calculations are based on FdiFlowsStock, UNCTAD.

The unfulfilled potential of BRICS for developing countries

The bloc seems to have paid off for the BRICS members themselves thus far. But what's in it for other developing countries? The rapid growth of intra-BRICS trade and the quadrupling of their share in global FDI flows should present opportunities for structural change and technology spillovers in developing economies.

For developing countries, this group of substantial and growing markets holds considerable promise for economic progress and advancement. In exchange for granting access to their resources, developing countries can receive support for infrastructure development and industrial capacity through investments from government and firms in BRICS countries. They can also benefit from technology transfer, skills development and integration into BRICS-based value chains.

China, in particular, has grown more assertive in providing foreign aid through bilateral and multilateral channels. Conservative estimations suggest that in 2022, China's official development assistance was between five to eight billion dollars,[6] accounting for less than four per cent of the USD 210 billion official development assistance reported by OECD's Development Assistance Committee (which does not include data from China).[7] It should be noted that much of China's support for development includes direct investments in infrastructure. For example, China's engagement in the Belts and Roads Initiative, launched in 2013, targets countries in the Global South. By 2023, the initiative reached one trillion and included USD 634 billion in construction contracts and USD 419 billion in non-financial investments.[8]

While developing countries have mostly welcomed a greater pool of resources for their development via the NDB and BRICS members states, the underlying principles of BRICS vastly scaled-up activities have been regarded with scepticism by some concerning its development outcomes.[9,10] Additionally, the relatively short history of the NDB raises concerns that it has not developed the necessary knowledge and institutionalization of robust mechanisms to address the various developmental challenges faced by countries in the Global South.[11]

On a more fundamental economic level, what does the emergence of BRICS as a market and source of imports mean for developing countries, especially in terms of potentially forging a new kind of trading relation which promotes economic development and homegrown industrialization?

For developing countries, the rise of BRICS provides an alternative and sizable market with more options, and helps countries to diversify their trading relations and reduce dependence on traditional markets. Over the last decade, as BRICS' share of the world's economic activities has grown, so has its trade with other developing countries.

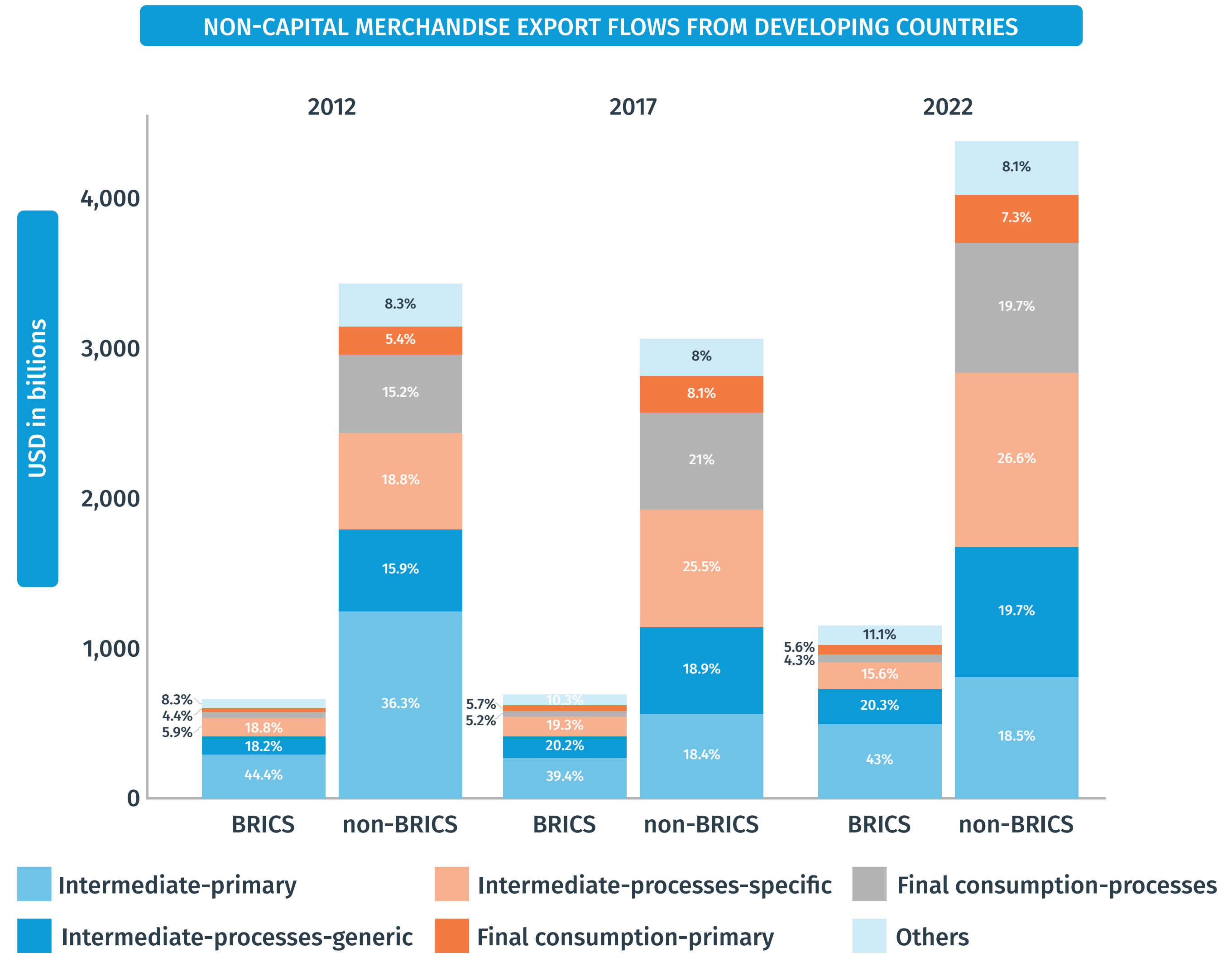
In terms of non-capital goods, developing countries collectively exported 70 per cent more to BRICS countries in 2022 compared to a decade prior, and imported almost 85 per cent more from BRICS countries in 2022 compared to 2012. This growth in trade with BRICS is much bigger than the trade growth between developing countries and countries outside of BRICS during the same period.

The resilience of developing countries' trade with BRICS weathered well during the pandemic in contrast to the significant decline in their exports to non-BRICS countries. Even when trading with other countries, developing countries - many of whom are primarily exporters of commodities, have benefited from the rising commodity prices which could be attributed to the growing demands of BRICS countries. However, on the big question of whether trade with BRICS has shifted to a higher share of value-added products compared to traditional trade relations; the answer so far seems to be that the situation remains unchanged (Figure 3).

One may expect a higher share of exports in processed goods from developing countries to BRICS. However, from 2012 to 2022, the export and import trends between developing countries and BRICS has remained remarkably static, even amid robust growth in trade. Further, the share of exported processed goods is higher in non-BRICS compared to BRICS countries. For BRICS, importing goods of a less-processed character with lower value added is still the priority.

It is encouraging that developing countries' exports of intermediate processed goods increased over the years. The relatively minor changes in the overall trade patterns of developing countries, in terms of their aspiration to move up the ladder of the global value chain, has not undergone an unambiguous, structural shift towards increased sophistication. This may deviate from the expectations that some developing countries may have held that BRICS trade would offer distinctly more benefits compared to traditional economic partners.

Figure 3 Developing countries' composition of exports to BRICS countries did not change much over time and is characterized by a lower degree of processing than exports to non-BRICS countries.



Note: BRICS countries refer to Brazil, China, India, the Russian Federation and South Africa. Developing countries are all countries excluding those classified as advanced economies by the IMF (https://www.imf.org).

Source: The author's calculations are based on trade data in the BACI datasets from the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII).

Moving forward with the Global South

BRICS trade could end up reinforcing existing comparative advantages to the detriment of developing countries. To counter this risk, BRICS may enhance their capacity in structuring economic interaction aimed at uplifting members and non-members. Recommendations include:

1. More space for cooperation is needed so that developing countries could strengthen their participation in the BRICS-oriented global value chains in ways that align with their unique comparative advantages.

2. BRICS can focus on further developing their financial instrument of investing in developing countries, such as through the NDB, which can act as a credible actor that can develop more tailored programmes and optimize the efficiency of aid to developing countries. This will gradually increase their confidence in the value of cooperation with BRICS.

3. The BRICS countries may upgrade their development cooperation model to one that takes due account of the legitimate aspirations of developing countries to upgrade their industries and add value to their products. Raw material exports from developing countries are still too costly compared to the value of exporting semi-processed and processed goods. This would imply more investment in knowledge and technology transfer, and adequate representation of local firms according to agreements on localized production and processing in developing countries. Lastly, financial engagement needs to be closely aligned with the principles of sustainable investment,[12] and the application of appropriate social and environmental safeguards.

4. Knowledge and technology exchange between BRICS and developing countries can be promoted through South-South and Triangular Cooperation models, and in particular cases of cooperation via technology centres that facilitate research and design, technology adaptation, information sharing, training and the publication of best practices and guidelines.[13] The UNIDO BRICS Centre for Industrial Competencies, endorsed at the recent BRICS Industry Ministers Meeting in Russia, is a promising initiative in this regard.

5. Developing countries should leverage their bargaining power to secure ambitious cooperation agreements that promote sustainable industrial growth and economic diversification.

Endnotes

1. Saudi Arabia's status as an official BRICS member remains uncertain, as it has yet to confirm news of its entry into the bloc following the initial announcement in January 2024.

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6. Kitano, N., Miyabayashi, Y. (2023). China's foreign aid as a proxy of ODA: preliminary estimate 2001-2022.

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11. Waisbich, L.T., Borges, C. (2020). The BRICS' New Development Bank at the Crossroads: Challenges for Building Development Cooperation in the Twenty-First Century. *International Development Assistance and the BRICS: Governing China in the 21st Century*, 149-187.

12. See note. 1

13. Sajjad, A. et al. (2018). The Implementation of Sustainable Development goals in "BRICS" Countries. Sustainability 10(7).