

BRICS - Potential and Future in an Emerging New World Economy

Based on an interview with Tashreeq Truebody, Radio 786, South Africa

By [Peter Koenig](#)

Theme: [Global Economy](#)

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1. Global Economy and BRICS

Peter Koenig: Let's put the BRICS in perspective: The BRICS are of course Brazil, Russia, India, China and South Africa. Together they make up for almost 50% of the world population and close to one third of the world's economic output, or GDP.

This alone would make them fully independent from the western economy, from the western, what I call, fraudulent dollar-based monetary system. And it will happen – it will happen sooner than the world believes. However, with the current political structure of the BRICS, the relative lack of political and economic coherence, save for Russia and China, this for the moment is just theory.



Jim O'Neill (Source: [Wikimedia Commons](#))

If you allow me, let's backtrack a bit in history, to where the term BRIC came from, and who coined it. At the beginning, South Africa was not yet member of the association. In 2001, shortly after the 9/11, in 2001, the chief economist of Goldman Sachs, Jim O'Neill, invented the term BRIC – as he was forecasting that these emerging economies, spread throughout the world, Brazil, Russia, India and China – would overtake the so-called western economy by 2041. The forecast was later revised several times, all the way to 2032 – and now, there is, I believe no formal forecast, but it could easily happen by 2025, or earlier, especially with the new Oil-for-yuan and gold exchange market soon to be opened in Shanghai. Many

predict this to be the end of the petro-dollar, and the end of the dollar hegemony.

Then strangely and formidably the four BRIC countries realized their potential and took things in their own hands. That's how dynamics work – often totally unpredictably. For sure, Goldman Sachs and their Chief economist had no clue that this would create the western monetary and economic system's most daunting adversary.

The first BRIC summit was held in Russia in June 2009. That was the formal conference to create the BRICS.

By 2011, the five countries, Brazil, Russia, India and China – plus South Africa were the five fastest growing emerging markets, and in April 2013, South Africa was added to the BRIC group – to make it formally the BRICS.

This just as a little historic introduction – to show that the impetus for the BRIC(S) came actually from a most unlikely western source – Goldman Sachs.

In the meantime, the BRICS are struggling with another reality. For the BRICS to be an effective alternative to the western economy, or the western monetary system, they need a unified political vision, as well as a coherent and unified economic development approach, one that distances itself from the western dollar-euro based system. Unfortunately, today this is not so. But that doesn't mean it will not happen. Personally, I believe it will. It may just take longer than the majority of the world may have liked.

Both Brazil and India are totally in the hands of Wall Street, the World Bank and the IMF. In the case of India, you will recall last fall's deadly monetary fiasco, when PM Narendra Modi decided to cancel more than 80% of the currencies circulating cash currency, and as an interim step to replace it with other bills and eventually digitalize the Indian economy.

It is not known how many poor Indians perished, those with no access to bank accounts, those who have no alternative means to pay for food. Uncountable small businesses failed – an important impact on the Indian economy. More, much more inhuman was the impact on the poor average Indians. But – Modi followed the dictate of the west, of Wall Street and the IMF – with a program to test digitalization in a large emerging economy, implemented by USAID. – How much trust does India under Modi as a BRICS member deserve?

And Brazil under neoliberal Temer, who is under accusation of corruption; he has literally handed his country's economy to the sharks of Wall Street, the IMF and the WB. So, when Temer and Modi stood there holding hands with the other three BRICS members in **Xiamen, China on 4th and 5th September** – it looked to me like a club that was united only by name.

Yet, the theme of this 9th BRICS Conference was **“BRICS: Stronger Partnership for a Brighter Future”**. – I truly hope this objective will be achieved. And it very well may – over time. It is important to approach such an event in a positive and forward-looking spirit.

Perhaps it was along the same philosophy, that ahead of the September summit in **Xiamen**, President Putin said something crucial, but highly political and highly diplomatic: *“It is important that our group's activities are based on the principles of equality, respect for one another's opinions and consensus. Within BRICS, nothing is ever forced on anyone. When the approaches of its members do not coincide, we work patiently and carefully to coordinate them. This open and trust-based atmosphere is conducive to the successful*

implementation of our tasks.”

2. Understanding Industrialization / development and the Brics Bank

PK: Let's start with the BRICS development bank, now called New Development Bank (NDB). It emerged as an idea from the Durban BRICS summit in March 2013 and was formally created in 2014, and signed as a Treaty in July 2015.



Source: ndt.int

Under the Agreement the BRICS Development Bank, as it was first called – now the NDB, they set up a “reserve currency pool” of US\$ 100 billion. Each of the five-member countries was to allocate an equal share of the US\$ 50 billion start-up capital, to be expanded later to the US\$ 100 billion.

Contributions per country were, Brazil, \$18 billion, Russia \$18 billion, India \$18 billion, China \$41 billion and South Africa \$5 billion. The problem is that the initial capital and the Contingency Reserve Arrangement (CRA) of US\$ 100 billion was set up in US dollars.

How can they break loose from the western dollar-based monetary system, if their contribution is dollar based?

Also, South Africa and Brazil are heavily indebted – in US dollars. South Africa's current debt is today above 50% (US\$ 153 billion) of GDP which stands just below 300 billion.

To comply with their contribution to the dollar-denominated CRA, Brazil and SA may have to borrow from where? – Wall Street, or the IMF, as the CRA is a dollar reserve fund. This puts these countries even more into a dollar bondage, in the hands of the FED and the Bretton Woods Organizations – instead of freeing them from this predicament.

As a parenthesis, South Africa's interest on foreign debt of \$153 billion was about US\$ 5 billion (2016). Foreign debt is almost 52% of SA's GDP of close to US\$ 300 billion. The US\$ 5 billion debt payments are higher than the country's spending on tertiary education (about R60 billion / US\$ 4.6 billion equivalent). This is also a good reason to detach from a debt-based monetary system – and, as originally was planned by the BRICS – migrate towards a BRICS own monetary and international payment system – similar to the one already introduced to the world by China – the Chinese International Payment System (CIPS).

On **Industrialization** – the NDB will certainly help boost industrialization within each of the BRICS countries, but also among the BRICS countries – and even outside the BRICS nations, as trade will increase.

At present the NDB has approved seven investment projects in the BRICS countries, worth around \$1.5 billion. This year, the NDB is to approve a second package of investment projects worth \$2.5 to \$3 billion in total.

Although it is not clear what precisely these projects entail, the original idea for the NDB was to support infrastructure and energy projects within the BRICS countries. There is a big need for infrastructure and independent energy production. Of course, infrastructure and energy development, means also industrialization and trade.

3. Economic diversification

PK: A solid BRICS cooperation, as well as an own development bank, will most likely attract – and through the NDB leverage – new investments. This was one of the goals discussed during the Xiamen summit. The amount of which is difficult to predict, but Indian PM Modi has talked about an expected 40% increase over the next few years. But even if India or any BRICS country receives foreign investments, it will be difficult to discern which investments are directly related to the new BRICS strength, as so fervently expressed in Xiamen.

More important is the diversification of investments, as well as the related trade. There are currently several countries on a – what shall I call it – “wait list” – to become members of the BRICS. For example, South Korea and Mexico (both are OECD members), Indonesia, Turkey, Argentina, have been mentioned.

Trade between emerging and developing markets has already been increasing more rapidly than “globalized average trade” for which WTO imposes the rules. I could imagine that trade – and, thus, diversification – between BRICS countries, or better even, an enlarged BRICS block, could really boom. It would be a sort of ‘globalization’ with most trade barriers removed, of a peace-oriented economy, one that strives for the well-being of the people, rather than an elite – and of course, an economy that does not work for the war industry, as does the western dollar-based economy.

For that reason, it will be important that the BRICS detach themselves from the western dollar-based economy and eventually have their own currency. At the *Xiamen summit*, this was discussed in some ways.

The five members have agreed to “*promote and develop BRICS Local Currency Bond Markets and jointly establish a **BRICS Local Currency Bond Fund**, as a means of contribution to the capital sustainability of financing in BRICS countries, boosting the development of BRICS domestic and regional bond markets.*”

This comes pretty close to what the Euro was before it became Fiat money, i.e. it was the European Currency Unit (ECU) that then converted into the virtual Euro, before in January 2002, the Euro became paper and dollar like Fiat money.

By now we know that the US drove this European currency effort – establishing the euro as the foster child of the US dollar – totally unsustainable as a unitary currency of a group of countries that have no common political interests and goals, that have no common Constitution. Their only common denominator is NATO, their permanent drive for war. It was clear from the beginning that such a project will be doomed to fail.

Hopefully – and I trust, the BRICS will learn a lesson from this failed exercise, and only with a strong bond that includes political, economic and defense long-term goals, a common

currency can flourish.

In Xiamen, the BRICS also established the Strategy for *“BRICS Economic Partnership and initiatives related to its priority areas such as trade and investment, manufacturing and minerals processing, infrastructure connectivity, financial integration, science, technology and innovation, and Information and Communication Technology (ICT) cooperation, among others.”* All this for sustainable, balanced and inclusive global growth.



Xi addresses Dialogue of Emerging Market and Developing Countries (Source: [BRICS 2017](#))

This Strategy already is indicative for a different development and monetary approach than was the one that laid the cornerstone for the European Union.

4. Trade between BRICS and the dollar

PK: This will be interesting to see emerging. In the medium term, I see a full integration between the countries of the Shanghai Cooperation Organization (SCO) and the BRICS. Several countries are already today members of both associations; for example, Russia and China, recently also India joined the SCO. The SCO also comprises most of central Asia, the former Soviet Republics, and also new Iran and Pakistan. The SCO has already a common long-term objective, in economic development, political vision, as well as defense strategy.

During the recent Eastern Economic Forum (EEF) in Vladivostok, President Putin and President Xi announced cementing of the fusion between the Eurasian Economic Union (EUAU) and the new ‘Silk Road’, also called “One Belt One Road” (OBOR), or for short “OBI” – the One Belt Initiative.

Since OBI is largely driven by SCO, i.e. by China, this also means that the countries of the Eurasian Economic Union are part of SCO. Imagine, the economic power of the entire group SCO, EAEU and BRICS.... Western supremacy will be a thing of the past.

This means worldwide trading – but without the dollar hegemony, without an economic and monetary systems that allows Washington to impose “sanctions” – outrageous and illegal punishments on countries that refuse to follow their dictate. Its high time that this high crime stops. And that we reinstate international law – which today is completely ‘bought’ by Washington.

Today it is clear to most progressive and forward-looking economists that the future is the east; the west has practically committed suicide with its constant wars for greed and dominance and disrespect for the very peoples that foot the western empire’s war bills.

5. BRICS Development Bank and World Bank

PK: Yes, the original idea was – and I hope still is – that the BRICS New Development Bank will be able to compete with the WB and the IMF. In other words, by applying non-neoliberal economic policies and with loans that do not impose austerity – which, as we know, is devastating for economic development – but will promote peoples’ based development – aiming at a more just income and wealth distribution.

This is not yet the case.

As mentioned before, the problem is that the BRICS bank's initial capital and the Contingency Reserve Arrangement (CRA) of US\$ 100 billion was set up in US dollars.

Also, as said before, South Africa and Brazil are heavily indebted – in US dollars, an existing bondage that is difficult to break. But not impossible!

The same is true for the Chinese Asian Infrastructure and Investment Bank (AIIB), whose capital of currently also US\$ 100 billion is also dollar denominated, and of which about US\$ 18 billion is paid in.

It is very likely that the NDB and the AIIB will work together in the future – and jointly break the stranglehold of the WB and the IMF.

In order to do so, they both need to totally break loose from the dollar economy – which is about to happen, perhaps soon, with the enactment of the Chinese Petrol exchange in Shanghai, where trading will NOT be in US dollars but in gold-convertible Yuan.

A possible solution is an SCO-BRICS currency basket, similar to the IMF's Special Drawing Rights (SDR) basket which currently consist of 5 currencies – the US-dollar, British Pound, Euro, Yen and since October 2016 also the Chinese Yuan. This may start out as a virtual currency for external trade, while each country preserves her own monetary system.

It looks like a brighter future is ahead.

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