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BRICS+ and contested global leadership in an era of great power competition

Implications for investment management

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Divisive bilateral disputes between BRICS+ members and the fearsome rhetoric of nationalist politics do not mean its leaders will not find a way to cooperate to achieve their common objectives. The BRICS+ countries have more than enough incentive to extend mutual cooperation in their overriding imperative to reform the existing international system, sideline the West, gain a firmer hold on international institutions and build up a strong base for strategic autonomy. This underlines the importance of understanding their motivations for forming and developing the coalition, with a view to discerning how its rise affects the investment universe.

Executive Summary

Our approach to investing over the last three decades has relied on assumptions about three key dynamics that have underpinned the global order in the post-Cold War era: unfettered free trade, globalisation, and world peace being assured under the Western-led international system. These dynamics have been synonymous with the free movement of goods, capital, people and information, and the absence of systemic conflict between rival powers.

All these three premises can no longer be taken for granted and are now in fact being challenged at a time of profound change in the global geopolitical and economic order.

This is the context in which the BRICS+ coalition has emerged. In an increasingly polarised world, BRICS+ is developing as a counterweight to the G7 by giving agency and influence to countries in the Global South that are dissatisfied with the existing international system. Moreover, the coalition is gaining momentum as an entity by organising its collective resources and markets to challenge and disrupt the Western-led international system.

The rise of BRICS+ is therefore grounds to pause and reflect on the asset management practice, particularly as our analysis suggests this evolving coalition of nations and the increasingly fractured world order will have profound effects on the way we approach investing, and the way we categorise asset classes.

We are accustomed to dividing assets into those from 'developed' and 'emerging' markets. Developed markets are widely seen as enjoying high liquidity, low political risk, high GDP per capita, advanced technologies and exports from a variety of sectors. Emerging markets are usually seen as offering high potential growth but lower liquidity and a narrower scope of investment opportunities, while carrying greater political risk and potential volatility.

However, today's increasingly fractured world is marked by growing barriers to trade, the increased segmentation of markets and a changing set of growth drivers. This calls for rethinking how investment opportunities are sourced in a world that is becoming increasingly thematically driven, and where the themes are no longer the exclusive privilege of either 'developed' or 'emerging' markets.

In this new reality, investment opportunities are bound to revolve around the **key determinants of future growth: technology, energy supply, commodities/resources and productivity advantages**. While these drivers have always been important, their nature is changing. Growth in technology is increasingly chip- and AI-related, energy supply spans fossil fuels, various green energy sources and nuclear power, and commodities/resources include the highly prized rare earths and minerals needed to support technology and the green transition. Productivity advantages are now primarily driven by AI advancements and robotics. This means the mix of the growth drivers and their importance in growth dynamics are changing.

As the drivers of growth change, the economic pecking order of countries and their industries is being reshuffled. This requires that we think thematically about a country's exposures to the drivers of future growth. Some G7 and BRICS+ members have compelling advantages in these areas, including natural resource endowments that set them apart from other countries. China, with its strong grip on the production of the critical minerals and rare earths needed for the green transition, possesses many advantages. BRICS+ levers of potential global influence also extend to maritime trade routes, energy resources and military capabilities. At the same time, not all developed markets will be able to hold on to the sources of growth that got them where they are today.

The result is a competition between economic powers – concurrent with the rise of the BRICS+ coalition – to harness the commodities and resources that will be core ingredients for economic growth in the years to come. President Trump's renewed interest in acquiring Greenland can be understood

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in this context. The rich natural resource endowment of BRICS+ puts the alliance in a good position to harness these future sources of growth, which will be highly prized in a fragmented world marked by divided economic clusters. Similarly, control of trade routes will carry extra weight in a polarised world, explaining the Trump administration's keen interest in the Panama Canal – one of the few major maritime trade chokepoints that BRICS+ countries – and China in particular – do not have a strong grip on yet.

If the coalition manages to effectively leverage the full array of tools and influence at its disposal, the gains in growth that the alliance has already helped some of its members achieve could spill over to a wider group of developing nations, accentuating the associated pivot away from Western-centric trade patterns.

BRICS+ has tried to develop institutional structures to support the coalition's development. These include the New Development Bank (NDB) – the multilateralist development bank established by the BRICS states to support infrastructure building and development in the member states – as well as payments systems that bypass existing, primarily US dollar-based, settlement processes. These have allowed coalition members to evade crippling sanctions imposed by the United States and European Union on some of its members.

> The upshot of shifting economic dynamics is a need to fundamentally rethink how we approach investing and how we define and categorise assets in asset classes.

What BRICS+ lacks, and which will prove to be ultimately an impediment in its growth, is its own reference currency. We view the development of such an alternative to the dominant Western currencies (USD, EUR, GBP, CHF, JPY) to be at least a decade away. In the meantime, Western efforts to counter the rise of BRICS+ have centred on tariffs. These, however, have resulted in a substitution effect, by which BRICS+ countries have started trading much more among themselves than previously.

INVESTMENT IMPLICATIONS

The upshot of the above shifting economic dynamics is a need to fundamentally rethink how we approach investing and how we define and categorise assets in asset classes. The increasing polarisation and fragmentation of the world economic order implies higher volatility and lower liquidity going forward. This may also result in higher inflation as the competing poles try to build capabilities independently of each other, likely replicating the same processes and expertise within both alliances. This fragmentation may raise the cost of capital in the two blocs and potentially reduce its availability. It is not difficult to imagine that going forward, capital may circulate primarily within each bloc rather than freely across the globe.

With the drivers of growth becoming more and more thematic and divisions between the poles growing, the need for companies to go public may decrease as they seek to protect their intellectual property. With public and private companies each offering access to different segments of the market, a multi-asset approach to investing across public and private markets may be more conducive to effectively capturing growth opportunities than each one of them considered separately.

All these developments suggest that to effectively harvest investment opportunities investors need to be more thematic and active in their investment process, rather than passive. This is changing the playbook of investing as we know it.

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1. Introduction

Almost everything that has informed our approach to investing in the last three decades has been based on assumptions about the validity of three dynamics in the post-Cold War global economy: unfettered free trade, globalisation, and world peace being assured under the Western-led international system. These dynamics have been synonymous with the free movement of goods, capital, people and information, and the absence of systemic conflict between rival powers.

They have also underpinned the world order for the past 30 years, providing the political stability and economic framework for an explosion of the wealth and asset management industries, whose practices evolved under these three premises.

We now see that free trade, globalisation and peace can no longer be taken for granted.

However, during the post-Cold War era, countries have experienced a learning process about the status quo. Some have grown to feel inadequately represented by what they view as a unipolar, US-dominated international system, while others have determined that they can gain an advantage by deviating from it.

We now see that free trade, globalisation and peace can no longer be taken for granted. In fact, all three premises are being challenged, as the world goes through a period of fundamental change in the geopolitical and economic order.

This is the context in which the BRICS+ coalition has emerged. The alliance, initially just an acronym, has passed the concept and 'minimum viability' stages and is gaining momentum as an entity by organising its collective resources and markets to challenge and disrupt the Western-led international system.

The rise of BRICS+ is therefore grounds to pause and reflect on the asset management process, particularly as our analysis suggests the coalition and the evolving geopolitical fragmentation will have profound effects on the way we approach investing and categorise securities into asset classes.

As an initial categorisation, it is customary to think of our investment universe in terms of 'developed' and 'emerging' markets. Developed markets are widely seen as enjoying high liquidity, low political risk, high GDP per capita, advanced technologies and exports from a variety of sectors. Emerging markets are usually seen as offering high potential growth but lower liquidity and a narrower scope of investment opportunities, while carrying greater political risk and potential volatility.

However, today's increasingly fractured world is marked by growing barriers to trade, the increased segmentation of markets, and an evolving set of growth drivers that are not unique to either of the two groups of markets. This warrants a rethinking of how we approach portfolio construction, define asset classes and parse investment opportunities.

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In particular, investment opportunities are likely to continue to revolve around the key determinants of future growth: technology, energy supply, commodities/resources and productivity advantages. While these drivers have always been important, their nature and intensity are changing. Growth in technology is predominately semiconductor- and AI-driven, while energy encompasses not only fossil fuels but also increasingly green and nuclear energy in much larger quantities than previously needed due to the electricity-intensity of the new technologies that drive growth. Commodities and other resources now also include highly sought after rare earths and minerals. Productivity advantages now take the form of increased use of AI and robotics. The result is a mix of growth drivers with different intensities and composition than before.

Some G7 and BRICS+ members have compelling advantages in these areas, including natural resource endowments that distinguish them from other countries. China, with its strong grip on the production of the critical minerals and rare earths needed for the green transition, suddenly presents many advantages. BRICS+ levers of potential global influence also extend to maritime trade routes, energy resources and military capabilities. At the same time, not all developed markets may be able to hold on to the sources of growth that got them where they are today. A widely talked about example is Europe.

The BRICS+ coalition has already proven useful to its members in its infancy, allowing Russia to protect its economy from Western sanctions by exporting natural resources to BRICS+ peers and bypassing Western sanctions, and China to mitigate the effects of tariffs by increasing trade within the alliance. In addition, the New Development Bank (NDB) – the multilateralist development bank established by the BRICS states – is supporting newer members in developing and expanding their infrastructure and economies.

The regime change in the global geopolitical and economic landscape suggests that BRICS+ economies are likely to gain further momentum given that the current drivers of growth favour the coalition and are less concentrated in the Western-led world. The result is an investment opportunity set that is more thematic and less represented by traditional asset-class classifications or the bifurcation between developed and emerging markets.

This paper aims to explain these evolutions and their implications for wealth and asset management in the years to come.

Our analysis is broken down as follows.

- Section 2 looks at the history of the BRICS+ coalition, its formation and evolution into what we believe has the potential to be a 'system disruptor' of the Western-led geopolitical order.
- Section 3 places BRICS+ in a broader context, looking at why international coalitions form and the experience of other alliances, as well as the respective motivations of BRICS+ members for joining the alliance.
- Section 4 discusses the New Development Bank – the most important institution established by the BRICS states – and the role it plays for its members.
- Section 5 examines the coalition's strengths and weaknesses, and how they can affect or threaten the global geoeconomic balance of powers.
- Section 6 looks at Western strategies used to stunt the development of BRICS+, as well as the implications of these efforts.
- Section 7 discusses the investment implications of the expanding BRICS+ coalition. In particular, we identify implications of parsing the investment universe, sourcing investment opportunities and constructing portfolios, as well as the effects those are likely to have on liquidity, volatility and diversification.
- Section 8 concludes with some final thoughts.

2. BRICS: the evolution as an alternative to the West

The BRICS+ coalition exhibits some important key metrics that will affect its growth potential, as TABLE 1 shows.

The BRICS+ economies are projected to grow by about 3.8% on average over the next five years, significantly outpacing the 1.74% estimated for the G7 and EU combined (which we refer to as G7/EU in this paper). GDP per capita in BRICS+ countries is 13% that of the G7/EU average, with their population being almost four times that of the G7/EU and much younger, with an elderly dependency ratio of 14.72% compared to the G7/EU's 32.85%. It also remains behind in urbanisation. These disparities highlight the potential for consumption growth and increased trade between BRICS+ countries in the coming years.

TABLE 1[1]
Economic and demographic comparison of BRICS+ and G7/EU

	BRICS+	G7/EU
Population (bn)	3.90	1.03
Gross exports of goods in 2023, total (USD bn)	5,135	11,199
Gross imports of goods in 2023, total (USD bn)	4,381	12,140
Gross imports of goods in 2023, intra (USD bn)	1,168	7,429
GDP per capita	7,431	55,902
Average GDP growth (projection for next 5 years)	3.83%	1.74%
Average GDP growth (last 5 years)	5.10%	3.75%
Elderly dependency ratio in 2023 (ratio of 65+ to 15-64 population)	14.72%	32.85%
Elderly dependency ratio in 2060 (ratio of 65+ to 15-64 population)	38.26%	50.37%
Elderly dependency ratio in 2080 (ratio of 65+ to 15-64 population)	50.01%	54.31%
Life expectancy at birth (years)	74.27	81.26
Urbanisation (percentage of population living in urban areas)	53.94%	81.06%
Trade openness (sum of imports and exports of goods and services as pct of GDP)	42.45%	57.72%

Sources: WPP, Comtrade, IMF, World Bank, UNCTAD

1 Forecasts or projections are not reliable indicators or guarantees of future results, therefore there can be no assurance that these results will be achieved.

2.1. BACKGROUND TO THE BRICS+ COALITION AND ITS LEVERS OF INFLUENCE

The acronym 'BRIC' was initially coined in 2001 to refer to Brazil, Russia, India and China in a paper[2] arguing that they would reshape the global economy and that the G7 should be adjusted to incorporate representatives from the burgeoning nations (O'Neill, 2001).

Thereafter, shifting international relations fed political and ideological pressures that eventually defeated the economic rationale for including the bloc in the Western-led governance.

BRICS leaders came to see their group as the emerging countries' counterweight to the Group of Seven (G7) economic powers by offering agency and influence to countries in the Global South dissatisfied with the existing international system, which they perceived to be Western-led.

In 2005, Russia and China reconciled differences by resolving a long-standing territorial dispute and further solidified their partnership when the BRIC foreign ministers met at the United Nations (UN) the following year.

The global financial crisis of 2008 shook Western complacency. The G20 hastily convened in October to coordinate emergency global responses[3]. Viewed by some pundits as signalling the start of a 'peaceful transfer of power' by the West, this was reinforced by the spectacle of G7 countries scrambling for financial bailouts from international sources – including China (Held, 2010, p. 204).

On the heels of these developments, the first BRIC summit was held in Yekaterinburg, Russia, in 2009. The four countries used the summit to form the BRIC coalition with the goal of being a problem-solving, consensus-based group, similar in spirit to the G7 but focused on the interests and needs of the developing world and its major actors. After the summit, media attention cast a spotlight on the group and its aspirations to power.

Behind the scenes, BRICS leaders came to see their group as the emerging countries' counterweight to the Group of Seven (G7) economic powers by offering agency and influence to countries in the Global South dissatisfied with the existing international system, which they perceived to be Western-led.

This self-characterisation was reflected in the coalition's expansion in 2010 to add South Africa, Africa's only member of the G20, giving the coalition a stronger

2 By Jim O'Neill in 2001, then managing director at Goldman Sachs, in his paper *Building Better Global Economic BRICs*.

3 At the time the G20 comprised the G7, the BRIC states, Argentina, Australia, Indonesia, Mexico, South Africa, Saudi Arabia, South Korea, Turkey and the EU. The G20 was later expanded to include the African Union and ASEAN.

geopolitical flavour. Egypt, Ethiopia, Iran and the United Arab Emirates then joined in 2024, and Indonesia in 2025. While Argentina declined an invitation to join, Saudi Arabia is still considering membership. In October 2024, an additional 13 countries were invited to participate as partner countries: Algeria, Belarus, Bolivia, Cuba, Indonesia, Kazakhstan, Malaysia, Nigeria, Thailand, Turkey, Uganda, Uzbekistan and Vietnam.

Together, the BRICS+ member nations represent almost half the world's population. Their economies are projected to grow faster than those of the G7 and EU over the next five years, and they have younger populations. The coalition hosts two of the world's largest economies (China and India), two major energy producers (Russia and Brazil) and maintains close ties and collaboration with Saudi Arabia – the world's second largest oil producer in the world after the United States and a potential future member. It counts among its members regional leaders in Latin America, sub-Saharan Africa, the Middle East, North Africa and Southeast Asia.

While BRICS may not have set out with the intention of becoming a counterweight to the G7, it certainly came to be perceived as such and function as one over time (Rewizorski, 2016). The bloc has since grown into an informal, multilateral international coalition with the resources and geopolitical influence to potentially shift power from the Western-led world order to the Global South. And some are willing and eager to take the stage.

The impetus to the rise of BRICS+ is the collective growth of its members' economies and their common frustration that the Western-led international order – embedded in institutions such as the United Nations (UN), the International Monetary Fund (IMF) and the World Bank – does not adequately represent or serve their interests.

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Often referred to by scholars as the 'Liberal International Order', this system was founded after World War II and installed by the Anglo-American wartime allies. It drew on 'liberal' ideas on the positive effects of adopting capitalism and free trade for national development, while integrating systemic management to ensure overall stability. It also drew inspiration from enlightenment-era thinkers on human rights and equitable representation through democracy as enshrined in the UN Charter (1945) and the Universal Declaration of Human Rights (1948). In this paper, we refer to this order as the 'Western-led international system'.

The New Development Bank (NDB) – the multilateralist development bank established by the BRICS states – is the coalition's principal institution for offering a nascent vision of an alternative to the existing Western-led international system. The other main assets of BRICS+ are younger demographics than the G7 and EU countries, significant economic levers, military clout and major geopolitical influence, including over supply chains.

Individually, some BRICS+ countries are particularly well-positioned to profit from an evolving global economy in which technological leadership and access to key raw materials are becoming the leading drivers of growth and will have corresponding implications for investing.

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Collectively, the BRICS+ alliance is already showing that it can help turbo charge the growth prospects of some of its members. We discuss the expansion of intra-BRICS+ trade and the 'Middle East to Asia pivot' in Section 6. If the coalition manages to effectively leverage the full array of tools and influence at its disposal, these gains could spill over to the wider group too.

On the downside, the BRICS+ coalition lacks its own currency and unified capital markets. Several attempts in that direction have been hindered by the coalition's direct or indirect reliance on the US dollar. We will elaborate on this in Section 5.

The distinction between BRICS and the West was hardened when the United States formally designated Russia and China as 'strategic competitors' in its 2017 National Security Strategy, followed by the EU later declaring the two countries as 'systemic rivals'.[4] Moreover, the growing anti-Western sentiment at the core of the coalition was definitively underlined in 2021 when China and Russia announced a 'partnership without limits'. This essentially led to the BRICS countries in general not opposing Russia's invasion of Ukraine in February 2022.

BRICS nations were then put in direct opposition to the G7 when the West imposed sanctions against Russia and the coalition countries were willing to help Moscow

4 https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf

dodge them. Furthermore, the US decision to freeze Russian foreign exchange reserves following Moscow's invasion of Ukraine strengthened the resolve of BRICS nations to form alternative institutions and international transaction settlement mechanisms that could help them bypass the use of the US dollar and its weaponisation when their countries oppose the will of US foreign policy. BRICS' determination was further solidified when the EU and the UK froze or confiscated Russian assets. China then perceived the way the G7 had been treating Russia as its own 'potential future' if Beijing were to directly oppose the US or broader G7 interests.

Beyond the punitive measures that the G7 took against Russia, the war in Ukraine on the heels of the Covid-19 pandemic led to soaring energy prices, food supply-chain disruptions and spillover effects that exacerbated Global South countries' direct conflict with Western interests.

These developments effectively eclipsed the economic case for including BRICS in Western-led global governance structures, given that Russia's and China's interests lie in subverting that same order. Moreover, the difficulties of existing Western-led international institutions in coping with a cascade of economic challenges and security issues further spurred on the coalition to bind together in order to mitigate any negative knock-on effects on its economies and the restrictions faced by some of them (e.g., China) to access G7 markets.

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2.2. BRICS+ AS A 'SYSTEM DISRUPTOR'

During the G7 Summit held in the United Kingdom in June 2021, the Chinese embassy issued a telling statement:

> "The days when global decisions were dictated by a small group of countries are long gone. We always believe that countries, big or small, strong or weak, poor or rich, are equals, and that world affairs should be handled through consultation by all countries"
>
> (BBC, 2021).

For its proponents, including a large portion of the Global South, BRICS+ serves as an alternative – and a welcome one at that – to decades of world affairs being dominated by the US, the G7 and NATO.

For Western critics, BRICS+ is an emerging parallel structure that seeks to displace existing, democratically anchored multilateral norms and institutions with more authoritarian ones under the leadership of China and Russia. They point to everything from the efforts by BRICS+ to reduce its dependency on the US by de-dollarising its trading activities, to its resistance to enforcing Western-led sanctions against violators of international law, and the group promoting ethnic nationalism framed as 'traditional values' over inclusivity in its domestic affairs.

We argue that a pragmatic way to view the BRICS+ coalition going forward is as a 'system disruptor', a diplomatic challenger to Western values and institutional hegemony, as well as a potentially formidable economic challenger to the G7's global economic dominance. As such, it can reshape the growth and investment opportunity engines of the global economy and necessitate a drastic rethinking of the prevailing investment approach. We discuss our thoughts on the investment implications of these geopolitical and economic developments in Section 7.

2.3. TENSIONS BETWEEN BRICS+ COUNTRIES

The BRICS+ coalition is not without its internal tensions. These often lead pundits to dismiss the coalition as unsustainable and ephemeral. Most notably, the tensions are focused between the authoritarian core and the democracies within the coalition. The projected gap in the ideological unity of the coalition raises doubts as to whether it represents primarily a regional development champion, a leader of the Global South, or a potent de-dollarisation force and economic disruptor to the West.

It is only natural that an international group based on aspirations to wield global influence is characterised by strong competition among members, at least in its early stages. Even after the historic reconciliation between China and Russia and the important role China has played in helping Russia prosecute the war in Ukraine by providing and financing economic cooperation, diplomatic backing and military support, there are still serious points of contention involving Chinese claims on its borders and the easternmost territories of the Russian state.

Russia has clearly become the junior partner in its relationship with China as Moscow's power and prestige have continued to wane since the fall of the Soviet Union, and again since 2022. So far this has yet to spark further conflicts. Serious policy disagreements are likely to be forestalled by the commitment of the countries' leaders to joint diplomatic cooperation, deepening integration of their economies and even through joint military exercises.

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On a different front, China's disputes with India are profound and, up until recently, the source of heightening tensions between the two countries. The unresolved territorial disputes in the Himalayan mountains, dating back to the 1962 border war, were reignited in 2020 by Beijing's efforts to extend its control by building infrastructure and deploying troops in the region.

Chinese diplomacy has made inroads into the India-dependent Nepal and Bhutan while China's close bilateral relationship with India's rival, Pakistan, remains a key sticking point as well. In addition to the land-based conflict, there are maritime disagreements over the surge in Chinese warships in the Indian Ocean and what are sometimes characterised as China's 'string of pearls' – the network of ports and dual-use infrastructure running from Myanmar in the east to Djibouti on the Horn of Africa. Indeed, Indian analysts coined the phrase ‘debt trap diplomacy’ to describe what they saw the Chinese were doing in lending for port construction to the Sri Lankan government and then acquiring this same strategic asset from Colombo.

Suspicions run deeper still, with India continuing to close off Chinese foreign direct investment (FDI) from entering its domestic economy, including the vital infrastructure and tech sectors, to avoid the kind of entanglement that Western governments have experienced with China. A Sino-Indian agreement to withdraw their troops from their mutual border and reduce tensions was brokered through Russian mediation. However, remaining differences of outlook between the two rivals remain evident as India envisions a multipolar Asia whereas China promotes a multipolar world where it is the clear Asian hegemon (Mukherji & Sood, 2024).

Bringing the new cohort of member states into BRICS in August 2023 introduced a whole set of regional controversies that would potentially have an impact on the group’s functioning. For instance, the reconciliation of Iran and Saudi Arabia, for which Beijing took much of the credit, served as the precursor to their invitation to join BRICS in 2024. Nevertheless, the underlying conflict between revolutionary Shia rule in Iran, with its support for regional destabilisers such as Hezbollah and the Houthis, and conservative Sunnis in charge of Saudi Arabia, the keeper of the holy site of Mecca and ally to the embattled Yemen government, remains intensely rooted and the subject of periodic local clashes around the Middle East.

These tensions between BRICS+ nations amount to fault lines the West could strategically use to try to fracture, or at least weaken, the coalition. However, that may be harder than it might sound. Just because BRICS+ members have territorial or ideological differences does not preclude them from enduring as a coalition. A comparison of BRICS+ with other intergovernmental coalitions shows it is not uncommon for these alliances to experience teething problems in their infancy but for them to nonetheless prevail thanks to the common goals and focus of their leaders.

3. The international relations theory behind the formation of coalitions

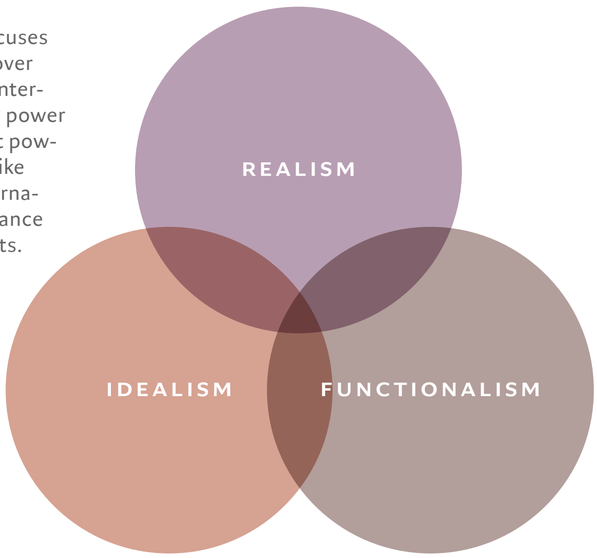
The motivations behind forming international coalitions such as BRICS+ vary and may even diverge between members. They need not necessarily all join for the same reason. Such coalitions are drawn and bound together by common interests, or values. So long as they share a common denominator and work towards a collective purpose, international coalitions can overcome their differences in pursuit of a greater goal, or goals, as the experience of the EU has proven. Focusing on a common goal may result in the formation of what initially, or superficially, appear to be unlikely alliances that deepen over time as trust between members grows and their goals evolve.

International relations theory provides a classification of the foreign policy approaches countries take and the motivations that lead them to form intergovernmental coalitions. This classification includes three broad drivers of coalitions, which may overlap as FIGURE 1 illustrates.

FIGURE 1
Approaches to international relations

REALISM
Realism in international relations focuses on the pursuit of national interests over principles or values, viewing global interactions as a competitive struggle for power and positioning. States often project power by imposing rules across sectors like trade, finance, or security, using international institutions to enforce compliance and maintain their dominant interests.

IDEALISM
Idealism in international relations emphasises that moral and ethical principles, rather than self-interest or power, should guide interactions between countries, advocating for cooperation to achieve peace, justice, human rights, and poverty reduction.



FUNCTIONALISM
Functionalism uses the coalition to solve a problem or set of problems. An example of this approach is the G7, formed to coordinate policies in response to the oil shock. Though more idealist by design, such alliances may mature to become more realist in nature.

3.1 POST-WWII EVOLUTION OF INTERNATIONAL RELATIONS

Much of the post-WWII period was defined by the building of international institutions, such as the UN, aimed at promoting peace and prosperity through Western-led economic policies and ideals. While the earlier part of the post-war period was also characterised by the competition for power and influence between the two superpowers of the time – the United States and the Soviet Union – the end of the Cold War in 1989 changed the narrative. The collapse of the Soviet Union and its command economy brought about an unprecedented global systemic transformation. Rather than two superpowers contesting for dominance of the international system, there is now just one single hegemon – the United States.

3.1.1. The new era of the realist approach

With the US as *primus inter paras* ('first among equals') in the UN system, states sought to respond to US power in three ways, all anchored in the realist approach to international relations:

- *Balancing*: This involves states using coalition-building strategies to bring together like-minded states that are concerned about the pursuit of power by the dominant hegemon, whether over a specific issue that affects their interests or more generally. These coalitions make it more likely that these states will be able to achieve collective aims that they might not otherwise if operating alone.
- *Hedging*: This arises as a reaction to the rise of competition between states as other great powers emerge within the international system, rather than a response to larger systemic conditions posed by unipolarity (Korolev, 2016). In this case, states seek to tactically align their foreign policies to one of the great powers without severing ties with the other great power (sometimes also called 'soft balancing'). In the current setting, classic hedging strategies can be seen in Southeast Asia, where states are anxious to pursue close economic ties with China while still relying on the US security alliances to offset concerns about Beijing's expansion in the region.
- *Bandwagoning*: This is a choice to align directly with the dominant power and its interests. Here, the smaller state expects it will be better able to secure its own interests by aligning its own foreign policy directly with that of the superpower.

3.2. MOTIVATIONS OF COUNTRIES FOR JOINING BRICS+

In the case of BRICS+, the motivations for states to join the coalition vary and can be multiple. They tend to fall in the category of realism, with some countries pursuing balancing and hedging strategies to align with China and Russia while also keeping ties with the US. Broadly speaking, economic or security interests and the quest for international influence are, to varying degrees, the goals of both the original and new members of the coalition.

China's motivation to maintain, strengthen and expand the BRICS+ coalition is twofold: 1) to mitigate the negative effects on its economy from the market entry barriers it faces in the US and EU by developing its penetration of the BRICS+ markets and the broader Global South; and 2) to hedge against the eventuality of facing a similar fate to Russia should it have a future dispute with the US (most likely around Taiwan) that may result in the West freezing or confiscating its assets. The efforts to develop alternative payment systems that bypass those of the US dollar can be understood in that context.

China and Russia form the dominant core of the BRICS+ alliance, thanks to their combined economic and military strength and their status as permanent members of the UN Security Council. Their objectives, however, are not the same.

> In the case of BRICS+, the motivations for states to join the coalition vary and can be multiple. Broadly speaking, economic or security interests and the quest for international influence are, to varying degrees, the goals of both the original and new members of the coalition.

China's initial motivation in establishing the coalition was mostly about building support among key emerging and developing states in the G20. Over time, its motivations have changed as a result of its intensifying competition with the US and the broader geopolitical developments. Currently, China's motivation to maintain, strengthen and expand the BRICS+ coalition is twofold: 1) to mitigate the negative effects on its economy from the market entry barriers it faces in the US and EU by developing its penetration of the BRICS+ markets and the broader Global South; and 2) to hedge against the eventuality of facing a similar fate to Russia should it have a future dispute with the US (most likely around Taiwan) that may result in the West freezing or confiscating its assets. The efforts to develop alternative payment systems that bypass those of the US dollar can be understood in that context.

For its part, Russia's motivation for being part of the BRICS+ coalition is its need to find new markets for its energy exports, assert its influence in a multipolar world, challenge Western dominance and counter Western sanctions. In this regard, BRICS+ and the markets that the coalition provides, along with some of the payment systems it has developed, have largely enabled Russia to circumvent sanctions.

3.3 EVOLUTION OF THE G7 AND THE EU – A COMPARISON WITH BRICS+

BRICS+ bears more than a passing resemblance to the G7 in terms of its evolution over time, its annual leadership summit and its focus on developing shared positions on global issues. Moreover, BRICS+ leaders portray their group as the emerging countries' counterweight to the G7. An examination of the G7 sheds light on the trajectory that BRICS+ is following and the international significance it hopes to achieve.

The G7 is the leading informal intergovernmental group representing the top industrialised economies of the West. It was formed in 1975 in response to the oil shock and subsequent economic crisis. Within a few years it had its current membership of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. The G7 is widely seen as an informal site for strategic initiatives and group coordination on major global issues, as well as providing G7 leaders and ministers

Deep divisions and fierce competition are not necessarily a barrier to building cooperation. Barely a decade after the destruction of World War II, European economic cooperation required overcoming the open wounds of ongoing disputes over territory, retribution and reparations. These were addressed by visionary Western European leaders through a laser-like focus on sectors of common concern where the imperatives of cooperation overrode local objections. Called 'functionalism', these confidence-building initiatives had spillover effects in other sectors and paved the way for the gradual alignment of interests towards closer cooperation.

opportunities to exchange views. There is no permanent secretariat, and coordination is carried out by member states' foreign ministries on a rotating basis. The G7 hosts typically invite key emerging and developing economies to meet on the sidelines of summits, as well as development bodies such as the World Bank, the Organisation for Economic Cooperation and Development (OECD) and regional development banks.

By way of comparison, BRICS+ is also an informal intergovernmental organisation composed of ten full members with prospective members such as Saudi Arabia taking the laddered steps to full membership. Others, such as Turkey, act as observers to the summit process. It has a formal intergovernmental institution linked to it – the NDB – incorporated as a regional development bank since 2014 with overlapping membership with BRICS+ countries (except Iran, Ethiopia and Indonesia) though Bangladesh is part of the NDB but not BRICS+. Like the G7, BRICS+ has evolved over time into a leadership summit that provides a platform for informal discussion and coordination on global issues. Through its summit declarations, BRICS+ offers support for members' foreign policy positions, such as Russia's invasion of Ukraine, while promoting policies such as de-dollarisation that are taken up by the NDB. Since 2024, it has tried to strengthen its public profile as a leader of the Global South.

BRICS+ advocates a more transparent and collective decision-making process in the institutions it aims to build. It does not aim to intervene in the political systems of the member states or force compliance on topics outside the scope of collaboration.

Lastly, deep divisions and fierce competition are not necessarily a barrier to building cooperation. Scholarship of the EU points out that initial economic cooperation in the 1950s, barely a decade after the destruction of World War II and Nazi occupation of a large swathe of Northern France and the Benelux countries, required overcoming the open wounds of the recent past, characterised as ongoing disputes over territory, retribution and reparations. These were addressed by visionary Western European leaders through a laser-like focus on sectors of common concern where the imperatives of cooperation overrode local objections (e.g. consolidating coal and steel production to meet economies of scale). Called 'functionalism', these confidence-building initiatives had spillover effects in other sectors – including among national politics and societies – and paved the way for the gradual alignment of interests towards closer cooperation. But it still took more than three decades, between 1957 to 1993, for the European Economic Community to be recast as the European Union through treaty agreements.

While BRICS+ does not share these ambitions, the comparison shows that divisive bilateral disputes between BRICS+ members and the fearsome rhetoric of nationalist politics do not mean its leaders will not find a way to cooperate to achieve their common objectives. The BRICS+ countries have more than enough incentive to extend mutual cooperation in their overriding imperative to reform

TABLE 2

A comparison of BRICS+ and the Belt and Road Initiative (BRI)

	GENERAL ISSUES WITH THE BRI	HOST COUNTRY PERCEPTIONS	BRICS+ AS A SOLUTION TO MITIGATE FRICTIONS
Economic impact	• **Debt trap diplomacy:** Concerns over unsustainable debt burdens due to large-scale infrastructure loans, often criticised as "debt traps" • **Overreliance on Chinese contractors:** Infrastructure projects are heavily implemented by Chinese firms, limiting local capacity-building and job creation	• Many countries, especially in Africa and South Asia, perceive BRI loans as economically risky • Host nations often express dissatisfaction with limited local involvement in project execution and lack of technology transfer	• BRICS+ emphasises multilateral cooperation, allowing for shared investments and governance among members • Encourages knowledge-sharing and collaborative development projects, ensuring broader ownership and benefits
Geopolitical tensions	• **Perceived as a geopolitical tool:** Critics argue that the BRI serves China's strategic interests, such as securing critical trade routes (e.g., the Indian Ocean) and political influence • **Regional imbalances:** Countries such as India criticise the BRI for impinging on their sovereignty (e.g., China-Pakistan Economic Corridor)	• Host countries recognise the strategic motivations behind the BRI, leading to mixed reactions: smaller nations welcome investments, while regional powers such as India resist initiatives perceived as encroachments on sovereignty	• BRICS+ projects China as part of a collective leadership rather than a dominant actor • Provides smaller nations with a platform to voice concerns and balance power dynamics, fostering trust and multilateral decision-making
Social & environmental	• **Environmental degradation:** Infrastructure projects often lead to deforestation, habitat loss, and increased carbon emissions • **Social displacement:** Large-scale projects displace communities without adequate compensation mechanisms	• Host countries with strong civil societies (e.g., Malaysia) have paused or cancelled projects due to environmental or social concerns • Negative public sentiment against the BRI in regions where displacement and ecological harm are significant	• BRICS+ has the potential to integrate environmental and social goals through initiatives such as the NDB's focus on green financing • Encourages members to establish shared environmental standards for projects
Transparency & governance	• **Lack of transparency:** Deals and agreements are often opaque, leading to corruption concerns • **Governance issues:** Host nations face challenges negotiating favourable terms, often accepting agreements skewed toward Chinese interests	• Governments and civil society groups in host countries criticise the BRI for fostering corruption and prioritising Chinese interests over fair partnerships	• BRICS+ promotes transparency through collective decision-making processes and multilateral governance structures • Encourages member countries to negotiate collectively, reducing asymmetric dependencies on any single power
Economic sustainability	• **Project viability concerns:** Some infrastructure projects under the BRI lack long-term economic sustainability (e.g., underutilised ports or highways)	• Host countries with limited fiscal resources question the utility of costly infrastructure projects that fail to generate expected economic returns (e.g., Sri Lanka's Hambantota port)	• BRICS+ focuses on smaller, diversified economic partnerships that balance infrastructure projects with broader development goals • Facilitates investments in diverse sectors such as technology, education and healthcare
Cultural & political	• **Cultural friction:** Perceived cultural insensitivity and lack of local engagement alienate host communities • **Authoritarian bias:** BRI's alignment with autocratic regimes creates global image challenges	• Democratic nations are vigilant of the BRI's association with authoritarian regimes, questioning China's intent and values • Local communities often feel excluded from the benefits and decision-making processes of projects	• BRICS+ includes democracies such as India, South Africa and Brazil, helping counter the narrative of authoritarian alignment • One focus is also on cultural exchange and inclusivity, creating broader acceptance and legitimacy in host nations
Strategic shift	• **US and EU backlash:** Growing pushback from Western countries, such as sanctions and counter-initiatives (e.g., the EU's Global Gateway) • **Increased scrutiny:** The BRI faces criticism as China's dominant role raises questions about fair competition and market access	• Host countries are increasingly cautious about aligning solely with China, given geopolitical risks and economic overdependence • Western pressure amplifies hesitation among middle-income and strategically-located nations	• BRICS+ diversifies leadership by involving other regional powers (India, Brazil), reducing dependence on any one country • Leverages political alliances to neutralise Western pushback while presenting a balanced and cooperative alternative

the existing international system, sideline the West, gain a firmer hold on international institutions and build up a strong base for strategic autonomy. This underlines the importance of understanding their motivations for forming and developing the coalition, with a view to discerning how its rise affects the investment universe.

3.4 BRICS+ VS THE BELT AND ROAD INITIATIVE

In the case of China, the BRICS+ coalition offers a means to mitigate frictions caused by its Belt and Road Initiative (BRI), the global infrastructure strategy pursued by Beijing. The BRI has proven controversial, raising concerns in host countries about unsustainable debt burdens accrued from large-scale infrastructure projects. Critics also view the BRI as an opaque, geopolitical tool used by China to promote its strategic interests, such as securing critical trade routes, while some host countries have paused or cancelled projects due to environmental or social concerns. These issues have combined to pose barriers to the BRI's acceptance.

BRICS+, by contrast, advocates a more transparent and collective decision-making process in the institutions it aims to build, such as the NDB. It does not aim to intervene in the political systems of the member states or force compliance on topics outside the scope of collaboration. With large democracies among its members, BRICS+ appears less authoritarian than the China-led BRI. By positioning itself as a multilateral platform, BRICS+ offers a more inclusive, diplomatic alternative to the BRI. Its collective approach and focus on smaller, diversified economic partnerships that balance infrastructure projects with development goals strengthen its global legitimacy and increase the coalition's appeal among developing nations.

TABLE 2 (p.25) provides an overview of how BRICS+ differs from the BRI in mitigating the frictions between states caused by the BRI.

Brazil, an original member and a key BRICS democracy, views the coalition as a means to support and defend the interests of the Global South. It is not focused on stopping the West from projecting its power, as Russia is, but rather views the coalition as ushering in 'benign multipolarity' that will help it maintain balanced relations between the West and the Global South, while acting as a bridge between BRICS+ and Africa.

New members have different motivations for joining. Egypt wants to enhance its regional influence. Ethiopia wants to accelerate its economic expansion. Iran wants to counterbalance Western influence and reduce its international isolation. And the UAE wants to diversify its economy beyond oil and to access BRICS+ markets.

TABLE 3

The differing allure of BRICS+ for its members and prospects

● Original Members ● New Members ● Invited Member

COUNTRY	OBJECTIVES	ECONOMIC GOALS	GEOPOLITICAL GOALS	CHALLENGES	STRATEGIC IMPORTANCE
China	Maintain leadership in BRICS, reduce dependency on USD, increase renminbi usage	Expand trade within BRICS, promote CIPS as an alternative to SWIFT	Counterbalance US influence, support anti-Western BRICS members	Limited adoption of renminbi, regional disputes in South China Sea, scepticism from ASEAN	Dominant economic power in BRICS, key trading partner
Russia	Counter Western sanctions, assert influence in a multipolar world	Find new markets for energy exports, strengthen economic ties within BRICS	Position the coalition as a leader of the "Global South", challenge Western dominance	Economic dependence on China, international isolation, geopolitical tensions	Key energy supplier, strong military ties with BRICS members
India	Balance influence of China and Russia, act as a bridge to Western powers	Secure stable energy imports, promote rupee in regional trade	Counter China's influence in Indo-Pacific, assert leadership in Global South	Border disputes with China, trade policy disagreements, currency policy differences	Major emerging economy, strategic location in Indo-Pacific
Brazil	Champion interests of the Global South, enhance voice in global institutions	Deepen trade ties within BRICS, leverage NDB for infrastructure funding	Maintain balanced relations with Western and BRICS nations, promote multipolarity	Trade imbalance with China, economic dependency on commodity exports	Largest economy in South America, advocate for Global South
South Africa	Strengthen economic ties with BRICS, position the coalition as a bridge between BRICS and Africa	Attract investment, boost trade with BRICS members	Promote multipolar world order, increase African representation in global affairs	Trade imbalance, internal political dynamics, ensuring tangible economic benefits	Gateway to Africa, key player in African diplomacy
Egypt	Broaden diplomatic avenues, enhance regional influence	Mitigate financial difficulties, attract investment for infrastructure	Manage regional conflicts, reduce reliance on Western powers	Regional tensions (e.g., Nile water dispute with Ethiopia), economic challenges	Strategic location controlling Suez Canal, largest Arab nation
Ethiopia	Accelerate economic expansion, strengthen ties with BRICS members	Attract investment, secure financing for infrastructure projects	Advocate for new global economic order, increase African representation	Regional conflicts (e.g., Nile dam dispute with Egypt), high inflation, substantial national debt	Strategic location near Red Sea, host of African Union headquarters
Indonesia	Strengthen ties with BRICS+ members (China and India are its major trading partners)	Seek investments for big infrastructure projects	Strengthen its importance on the world stage and maintain good relations with China and the US	Historical tradition of neutrality might become difficult to maintain due to BRICS+ membership	Largest nickel exporter, large coal and palm oil exports, most populous ASEAN country (4th in the world), location along the Strait of Malacca
Iran	Counterbalance Western influence, reduce international isolation	Attract investment, diversify economy, strengthen energy sector	Strengthen military ties with BRICS members, manage regional rivalries	Western sanctions, regional tensions (e.g., with Saudi Arabia), influence in regional conflicts	Key regional power, significant energy resources
UAE	Diversify economy beyond oil, access BRICS markets	Benefit from de-dollarisation, attract investment, modernise infrastructure	Balance relations with Western nations and BRICS, manage regional conflicts	Economic dependency on Western markets, regional instability (e.g., Yemen conflict)	Financial capacity, strategic location in Middle East
Saudi Arabia	Diversify economy, reduce reliance on oil, enhance regional influence	Open new trade avenues, attract investment, support Vision 2030 agenda	Strengthen geopolitical position, manage regional rivalries (e.g., Iran), assert leadership in Arab world	Dependency on US, regional tensions, balancing traditional alliances with new BRICS relationships	Leading oil exporter, key player in Middle East, Vision 2030 modernisation plan

Sources: Braveboy-Wagner (2024), Cooper & Cannon (2024), EPRS (2024), Megre & Ribiero (2024), Papa & Verma (2021), Ross (2023), Verma & Papa (2021)

FIGURE 2

A classification of BRICS+ members and prospects by objectives

UNIFIED GOALS					
ECONOMIC DIVERSIFICATION			ANTI-WESTERN STRATEGY		
Trade expansion	Development funding	Infrastructure financing	USD alternatives	Geopolitical counterbalance	Sanction navigation
BRICS+ members					
Brazil	Egypt	Ethiopia	China	Iran	Russia
India	Indonesia	S.Africa			
UAE					
Prospective BRICS+ members					
Armenia	Azerbaijan	Bahrain	Belarus	Cuba	Nicaragua
Bangladesh	Bolivia	Congo, Rep.	Turkmenistan		
Kazakhstan	Kyrgyzstan	Laos			
Malaysia	Mauritania	Mexico			
Mongolia	Saudi Arabia	Sri Lanka			
Tajikistan	Thailand	Turkey			
Uzbekistan	Vietnam				

Source: Pictet Research Institute

Invited member state Saudi Arabia is firmly in the process of diversifying beyond oil, and views BRICS+ as a conduit for strengthening its geopolitical position and managing regional rivalries.

A detailed overview of the individual objectives of each BRICS+ member can be found in TABLE 3 (p.27) Broadly, the unified goals of this loose alliance of emerging economies aiming to increase their influence in the global order can be summarised as follows:

- Develop an alternative to Western dominance of international institutions
- Foster deeper trade ties between members and reduce reliance on the US dollar
- Engage in development projects and act as a leader of the Global South

FIGURE 2 underscores the diversity of BRICS+ members' goals and agendas, which shape the bloc's cohesion and dynamics. The diversity of interests expands further with prospective members from vastly different regions and economic conditions. Countries such as Turkey and Saudi Arabia could bring their own geopolitical concerns that do not always align with existing members' goals. Smaller economies, such as Laos and Mongolia, could primarily seek financial and developmental support rather than pursuing broader geopolitical aims.

Despite this wide array of interests and objectives among BRICS+ members, the dominant core members – China and Russia – have thus far held the coalition together by skilfully managing the other BRICS+ members and shaping the accompanying narrative of an inevitable transfer of power by a West seemingly in decline. In doing so, they shape the outlook and policies of the alliance, as well as much of the Global South.

3.5 CRITERIA FOR JOINING BRICS+

China and Russia called for closer cooperation in their 'Comprehensive Strategic Partnership for a New Era', launched jointly by the countries' two leaders in 2019 (Xinhuanet, 2019). Pushing to project the coalition's power, the two powers persistently called on expanding BRICS after 2018 in order to better realise the group's potential.

From 2018 onward, BRICS engaged with those countries it had identified as prospective applicants for future inclusion in the coalition. However, while Russia and China were out front in promoting the idea of enlarging BRICS, concerns remained among the BRICS democracies as to how expansion would affect their own interests (Sen, 2024).

The absence of formal criteria for membership created unease among the BRICS democracies, as it raised concerns about maintaining ideological balances and protecting their individual strategic interests. As Indian Foreign Minister Subrahmanyam Jaishankar observed:

> "We obviously believe that there are supposed to be some criteria and standards for (BRICS) membership… There must be some measurements, a 'yardstick' by which we can judge potential applicants"
>
> (ANTARA NEWS, 2023)

As host of the 2023 BRICS summit, the South African government put forward a list of criteria for membership that included convergence with BRICS ideals, commitment to comprehensive UN reform (including the Security Council) and a willingness not to impose non-UN Security Council sanctions (BRICS Information Centre, 2023). Given that every BRICS summit declaration since 2014 expressed a preference for Brazil, India and South Africa to "play a greater role in the UN" due to their "status and role in international affairs", it is no surprise that this sentiment eventually translated into support for these three countries to become permanent members of the UN Security Council.[5]

Reflecting this, Indian and South African sources indicated that an agreement was struck during the 2023 membership expansion process that any new member brought into the group would be obliged to support India, Brazil and South Africa's claims for a permanent seat on the UN Security Council as part of a criteria for joining (Sen, 2024). Potential members were put through a graduated status from 'interested country', 'prospective member state', 'invited member state', 'BRICS partner'[6] and finally 'BRICS member state' (BRICS Information Centre, 2023).

5 However, BRICS expansion might have brought a measure of tension and disagreement around this issue. Although rumoured that the invitation to join BRICS was predicated on support for the candidacy of Brazil, India and South Africa as permanent members of the UNSC in a reformed Council, it has been reported since that Egypt and Ethiopia do not support the candidacies of these countries, perceiving of themselves as 'also legitimate aspirants' (Sen, 2024).

6 The category of 'BRICS Partner' was created under the Russian chairing of the Kazan Summit in October 2024.

4. The role of the New Development Bank

The New Development Bank (NDB) is the most significant institution formed by the group to date and has brought its most significant set of policy outputs. The NDB's purpose is to mobilise "resources for infrastructure and sustainable development projects in emerging markets and developing countries (EMDCs)" (New Development Bank, 2025). As such, it may serve as a vehicle for reinforcing the geopolitical fragmentation that is evolving across the world and which we expect to have profound effects on the way we approach investing. The NDB's capital base and governance is structured as an equal partnership: USD 50 billion from each of the founding members (USD 10 billion paid in shares and USD 40 billion in callable shares), all of it equally shared between them.

The NDB's purpose is to mobilise "resources for infrastructure and sustainable development projects in emerging markets and developing countries." As such, it may serve as a vehicle for reinforcing the geopolitical fragmentation that is evolving across the world.

Members were initially designated as the only recipients of loans while non-members must have the approval of the NDB's Board of Directors to engage in borrowing (New Development Bank, 2016). International organisations were added to the list of officially recognised recipients in 2019. In line with the ethos of 'South-South cooperation', the NDB works with the national standards of its borrower countries rather than imposing criteria on borrowers. Co-financing with other multilateral development banks is increasingly a feature of NDB practice and helps to promote peer recognition for the bank.

A gradual approach has characterised the NDB's evolution over the last decade, demonstrating caution as the bank refines its aims and scales its ambitions accordingly. Proposed by India at the fourth BRICS summit in New Delhi and formally approved at the sixth BRICS summit in Fortaleza two years later, the NDB was not launched and capitalised until 2016. For its next move, the NDB began opening regional branch offices starting with the Africa Regional Centre in Johannesburg in 2017, the Americas Regional Centre in São Paulo in 2018, the Eurasian Regional Centre in Moscow in 2021 and the India

Regional Office in Gujarat in 2022. Building on those foundations, and distinct from BRICS membership (often confused by the media as being one and the same), Bangladesh, Egypt, the UAE and Uruguay (full approval still pending) joined the NDB in 2022.[7]

One of the key sectors for the NDB is 'green finance', where it aims to become a global leader. BRICS and China are vocal champions of the UN's Sustainable Development Goals (SDGs) and point to the tepid support given by Western governments in meeting these international targets. A cynical view of the push for 'green finance' can be motivated by the industrial superiority of China in producing electric vehicles, solar panels and other products linked to decarbonisation, including producing most of the critical minerals and rare earths needed for the green transition.

7 Interestingly, India, Brazil and South Africa had already formed a group, IBSA, back in 2003 as part of their bid to be selected as permanent members in a reformed UN Security Council. They went on to create a development vehicle – the IBSA Fund hosted by the UNDP – to support small grant projects across the Global South. Alden and Le Pere (2024) observe that the IBSA legacy factors into the BRICS development agenda. "The attention on developmental finance as one of the two main foci for intra-BRICS international cooperation (the other being hard currency reserve pooling, that led to the BRICS "Contingent Reserve Arrangement") reflects the influence of the IBSA nations within the BRICS grouping, representing a line of continuity between the IBSA Fund and the NDB" (Alden & Le Pere, 2024).

5. Strengths and weaknesses of BRICS+

Understanding the strengths and weaknesses of BRICS+ helps us assess the trajectory of the global geoeconomic order and, therefore, the impact those developments may have on the practice of portfolio management.

5.1. STRENGTHS

BRICS+ countries have multiple levers of potential global influence at their disposal. They range from commodities and energy resources to maritime trade routes and military capabilities. However, these sources of strength within the coalition have yet to be mobilised collectively to exert influence over the West (although China has selectively used them). How extensively they will be used in the future, if the political need arises, remains to be seen.

5.1.1. Commodities and the green transition

Supplies of vital mineral resources such as rare earths, where China holds upwards of 60% of all known sources and processes 90% of them, are an obvious area where China and BRICS+ can exercise their global advantage. In fact, they have already done so to some extent. For example, a few years ago China withheld exports to Japan and the US, and more recently Beijing banned sales of technology on processing rare earths (Baskaran, 2024).

China recognised the importance of rare earths decades ago and began building up its production capabilities, leaving others dependent on Chinese supply.

The strength of BRICS+ in the production of rare earths – led by China and South Africa – puts the coalition in a pivotal position in the global green transition as these raw materials are crucial in the manufacture of components for clean technologies including wind turbines, electric cars and scooters. This leaves the EU, in particular, in an awkward position as it tries to meet climate targets without jeopardising its geopolitical autonomy while fostering its economic competitiveness.

China recognised the importance of rare earths decades ago and began building up its production capabilities, leaving others dependent on Chinese supply. This reality may eventually lead the West to become reluctant to fully embrace and adopt green energy sources that rely on such inputs. In the case of the EU, a preferable option may seem to be the construction of small nuclear power plants that can be operated safely without a carbon footprint. The US, on the other hand, especially under the current Trump administration, is bound to rely increasingly on fossil fuels of which it is more than self-sufficient, allowing it also to export.

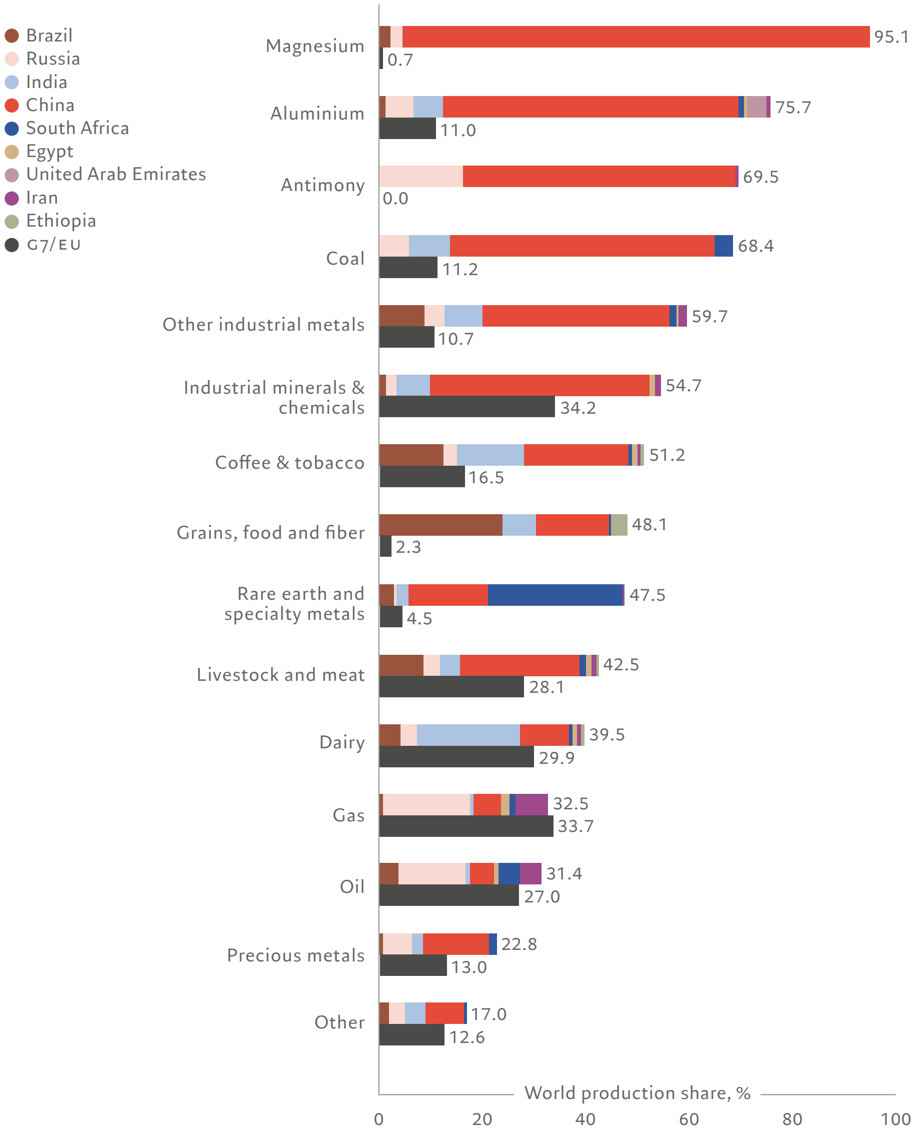
FIGURE 3 compares the share of world production in various commodity groups by BRICS+ countries and the G7/EU (including Switzerland and Norway) from 2018 to 2022. Segmented bars show the contributions from the individual BRICS+ nations and the G7/EU. BRICS+ is in a very strong position in commodities, led by China's dominant role in production. For example, China produces close to 95% of the world's magnesium, which is crucial for making lightweight aluminium alloys used in cars and packaging. It also leads the world in the production of industrial metals including aluminium and antimony, which is used in automotive parts. Antimony is also crucial to the military-industrial supply chain and is used in the manufacture of ammunition, including armour-piercing bullets, as well as in other equipment such as night vision goggles.

While G7/EU countries export more than BRICS+, the BRICS+ coalition has enough of a foothold in high-value markets to increase its footprint. These high-value markets encompass complex products in critical categories, such as semiconductors, integrated circuits, chemicals and heavy machinery, with China being the driving force behind them.

Underlining the leverage afforded to Beijing by its grip on the production of rare earths, China has announced a ban on exports to the US of items related to antimony, gallium, germanium and super-hard materials that have potential military applications (Reuters, 2024). The ban was in response to Washington's crackdown on China's chip sector and highlighted the capacity of BRICS+ to retaliate against trade tariffs with measures that can hit key sectors in the West. Gallium is used in the electronics industry to produce heat-resistant semiconductor wafers, while germanium is used in fibre-optic cables and is essential in the defence and renewable energy sectors.

FIGURE 3[8]

BRICS+ share vs. G7/EU share in commodity groups
(based on total production 2018–2022)



Sources: Food and Agriculture Organisation, International Energy Agency, British Geological Survey, US Geological Survey

8 Starting from Figure 3, Indonesia is not included in the BRICS+ coalition because the analysis was conducted prior to its inclusion in BRICS+.

With demand for ammunition increasing due to wars and heightened geopolitical tensions, China's squeezing of the antimony supply creates a pressure point in BRICS+ relations with the West. More broadly, the increasing dominance of BRICS+ in global commodity production challenges the traditional dominance of G7/EU countries and could shift global trade dynamics and geopolitical power. The BRICS+ countries' sizeable overall share of commodities production – including in the livestock, meat and dairy sectors – puts the coalition in good shape for sourcing energy, food and the raw materials needed for key strategic industries. This adds up to a position of economic resilience for BRICS+, which may even give it a comparative advantage over the G7/EU. We look at the investment implications of the shifting importance of natural resources in the face of geopolitical tensions between the West-led coalition and the Global South in Section 7.

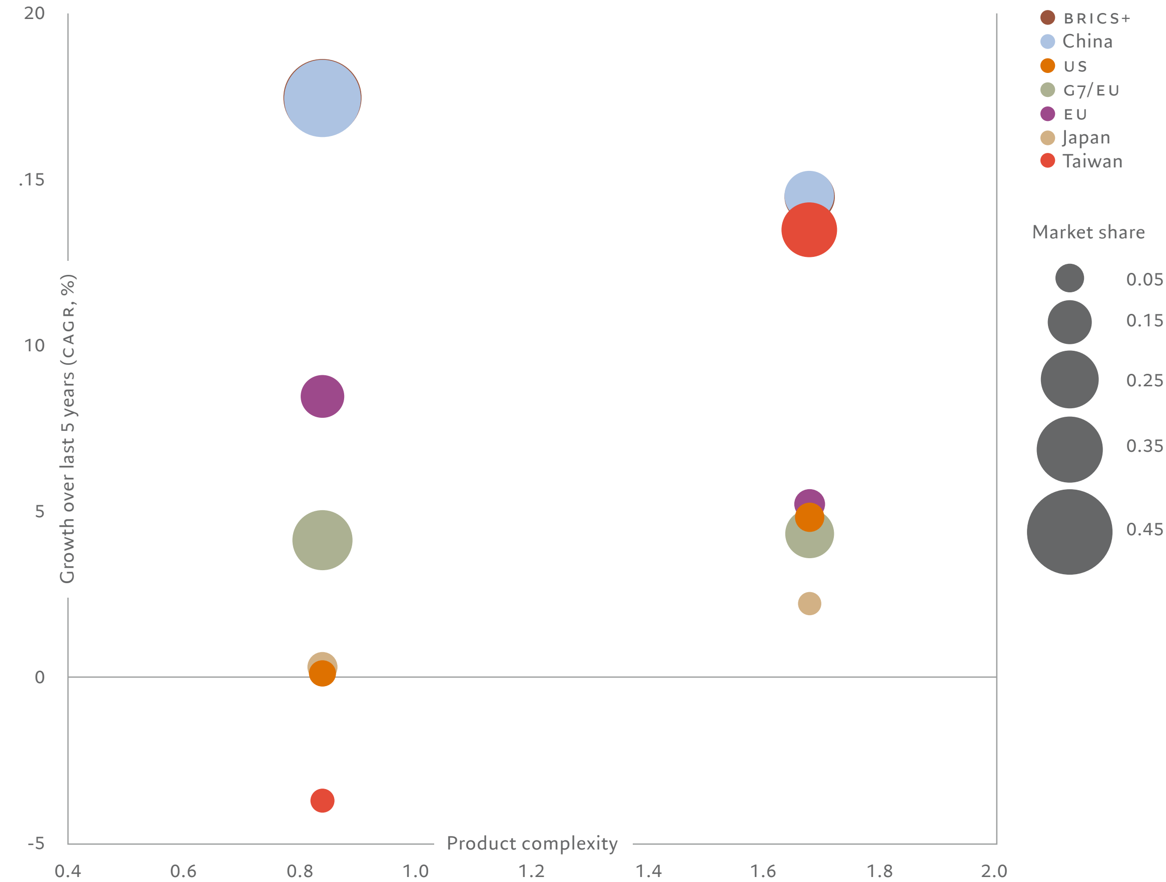
Although BRICS+ countries typically export less complex products than G7/EU countries, their overall export growth is higher than that of the G7/EU. The rising complexity of BRICS+ exports, particularly in electronics and machinery, suggests a shift towards higher-value-added production.

5.1.2 The growth drivers of BRICS+

While G7/EU countries export more than BRICS+, the BRICS+ coalition has enough of a foothold in high-value markets to increase its footprint. These high-value markets encompass complex products in critical categories, such as semiconductors, integrated circuits, chemicals and heavy machinery, with China being the driving force behind them. The export growth of these products between 2017 and 2022 was much stronger for BRICS+ countries than the G7/EU, as seen in FIGURE 4 (electronic integrated circuits on the left and semiconductors on the right). This figure sheds light on the concept of product complexity, which is a measure that ranks the diversity and sophistication of the productive know-how necessary to produce a product (Harvard's Growth Lab, 2024).

For example, Taiwan is still the export leader in integrated circuits but China's export growth in that category has surpassed Taiwan's lately. Although BRICS+ countries typically export less complex products than G7/EU countries, their overall export growth is higher than that of the G7/EU. The rising complexity of BRICS+ exports, particularly in electronics and machinery, suggests a shift towards higher-value-added production, which could enhance economic resilience and global competitiveness.

FIGURE 4
Semiconductors (*left*) and electronic integrated circuits (*right*) exports: product complexity, growth and market share (2022)



Sources: The Growth Lab at Harvard University, Pictet Research Institute

These observations are derived from FIGURE 5 (p.38) which depicts the product complexity, export growth and export volumes for BRICS+ and G7/EU per broad product category.

5.1.3. BRICS+ military capabilities

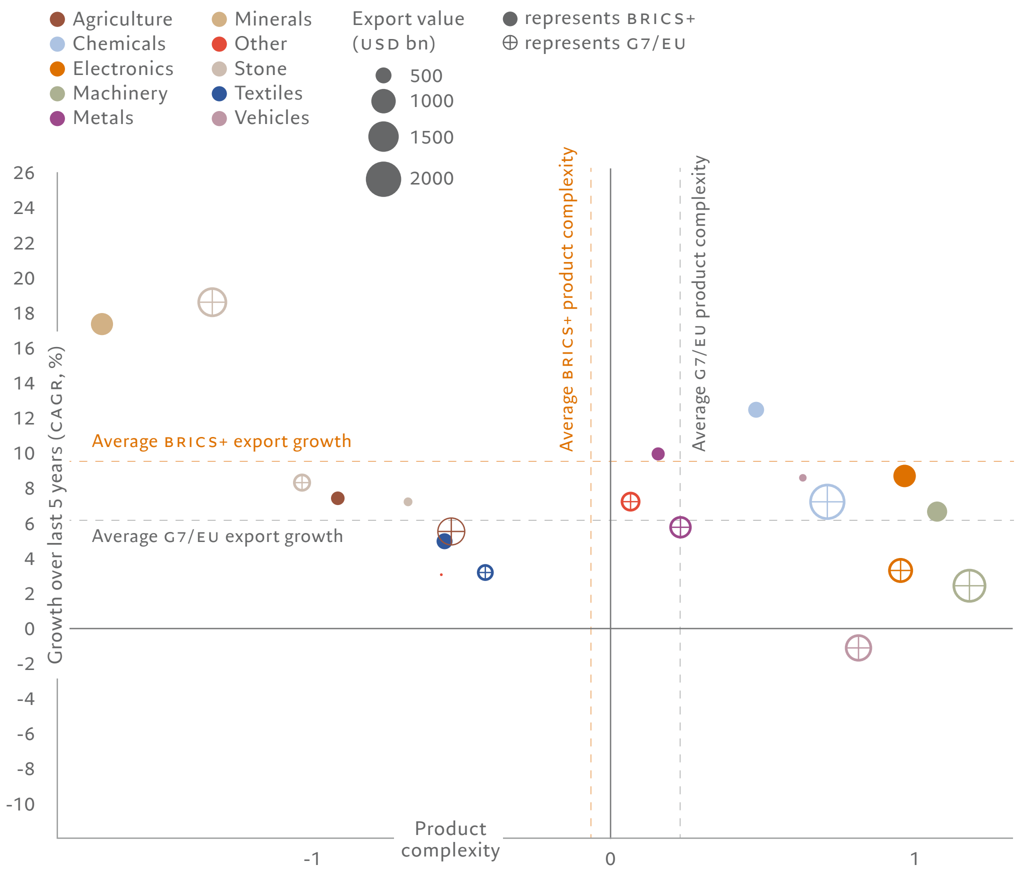
The combined forces of China and Russia are formidable, and joint exercises as well as collaboration to resupply Russia in the Ukraine war demonstrate a willingness to cooperate. Beijing's growing commitment to expand its nuclear weapons from 200 in 2020 (on par with the UK and France) to 500 in 2024 offers another possible source of influence, especially if the intimidation tactics employed by Russia in the Ukraine war against NATO intervention are utilised by the two top nuclear powers in BRICS+ (Robertson, 2024).

BRICS+ has a comparative advantage over the G7/EU when it comes to active personnel, available manpower and land forces. By contrast, the US defence complex, leading the G7/EU military capabilities, excels in air superiority, higher defence spending and power projection underpinned by technological advancements and rapid-response strategies. FIGURE 6 summarises the relative military capabilities of BRICS+ and the G7/EU across six major categories: manpower, land forces, air forces, naval forces, logistics and infrastructure, and financial resources.

In terms of deploying its resources, the US-led West is so far better set up for larger-scale conflicts than the BRICS nations, although recent Chinese air force and submarine military advancements may be closing this gap. Nevertheless, a proliferation of smaller-scale, geographically-scattered conflicts, coupled with grey-zones hybrid warfare, would not play to the comparative advantage of the US. Strategically, it could therefore play to the advantage of BRICS+ to create, facilitate or tolerate multiple hotspots around the world. Through the proliferation of conflicts (already under way in Ukraine and the Middle East), BRICS+ could, in principle, disperse the attention and resources of the West, although this is not within their declared intentions at this stage.

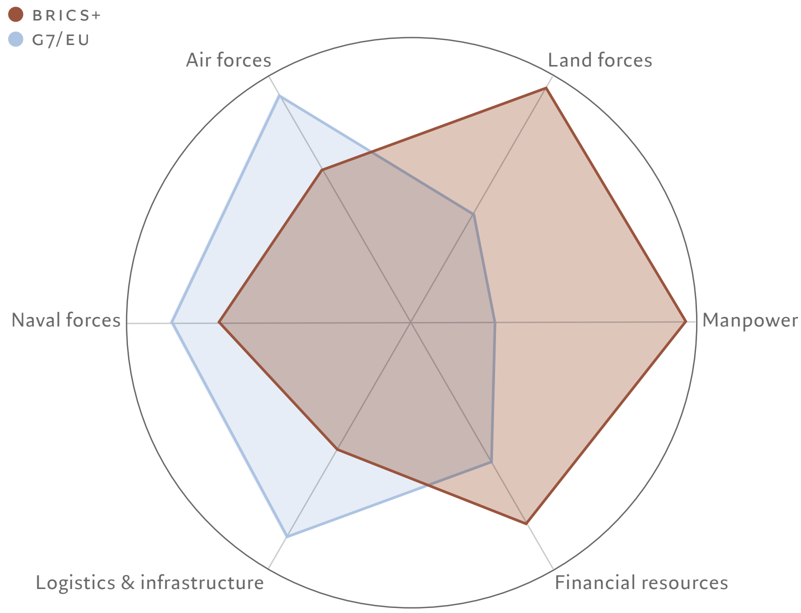
Beyond the geostrategic chessboard, the military picture is further complicated by the dynamics of the relationships between the rival G7/EU and BRICS+ blocs,

FIGURE 5
Export complexity per broad category for BRICS + and G7/EU (2022)



Sources: The Growth Lab at Harvard University, Pictet Research Institute

FIGURE 6
Target diagram: military categories (BRICS+ vs. G7/EU)



Sources: Global Firepower, Pictet Research Institute

particularly given frosty bilateral relations between some of the key constituents in the respective blocs, amounting effectively to a Cold War 2.0. The US and China agreed in 2023 to restore some military-to-military communications, which had been severed by Beijing after then-House of Representatives Speaker Nancy Pelosi visited self-ruled Taiwan in August 2022. This partial rapprochement mitigated some risk. However, unlike the previous Cold War between the United States and the Soviet Union, an overall deterioration in relations – particularly between Washington and Moscow – in recent years means diplomatic backchannelling and an understood code of behaviour between the key players are less apparent this time around. This creates instability and raises the risk of accidents.

What is more, today's Cold War 2.0 between BRICS+ and the West is not ideology-driven. It is not geared to prove that one political system is superior to the other. Rather, it is driven by economic competition, centred around a race for assuming, in the case of China, or maintaining, in the case of the US, leadership in the development and control of cutting-edge technology and innovation. In the context of this competition, BRICS+ members are largely unencumbered by concerns about human rights or each other's internal affairs and are focused on their common goals, as discussed earlier, making it easier for them to find common ground on security issues.

Moreover, unlike the nuclear standoff in Cold War 1.0, the world now lives under the spectre of hybrid warfare, with cyberattacks, assaults on infrastructure and trade

While we do not argue that there will be an expanded military conflict between the West-led coalition and BRICS+ beyond the hotspots that are already present today, it is important to note that the military capabilities of the coalition are substantial, especially in sustaining multiple smaller regional conflicts that go against the military advantages of the West. As such, BRICS+ possesses a significant geopolitical lever.

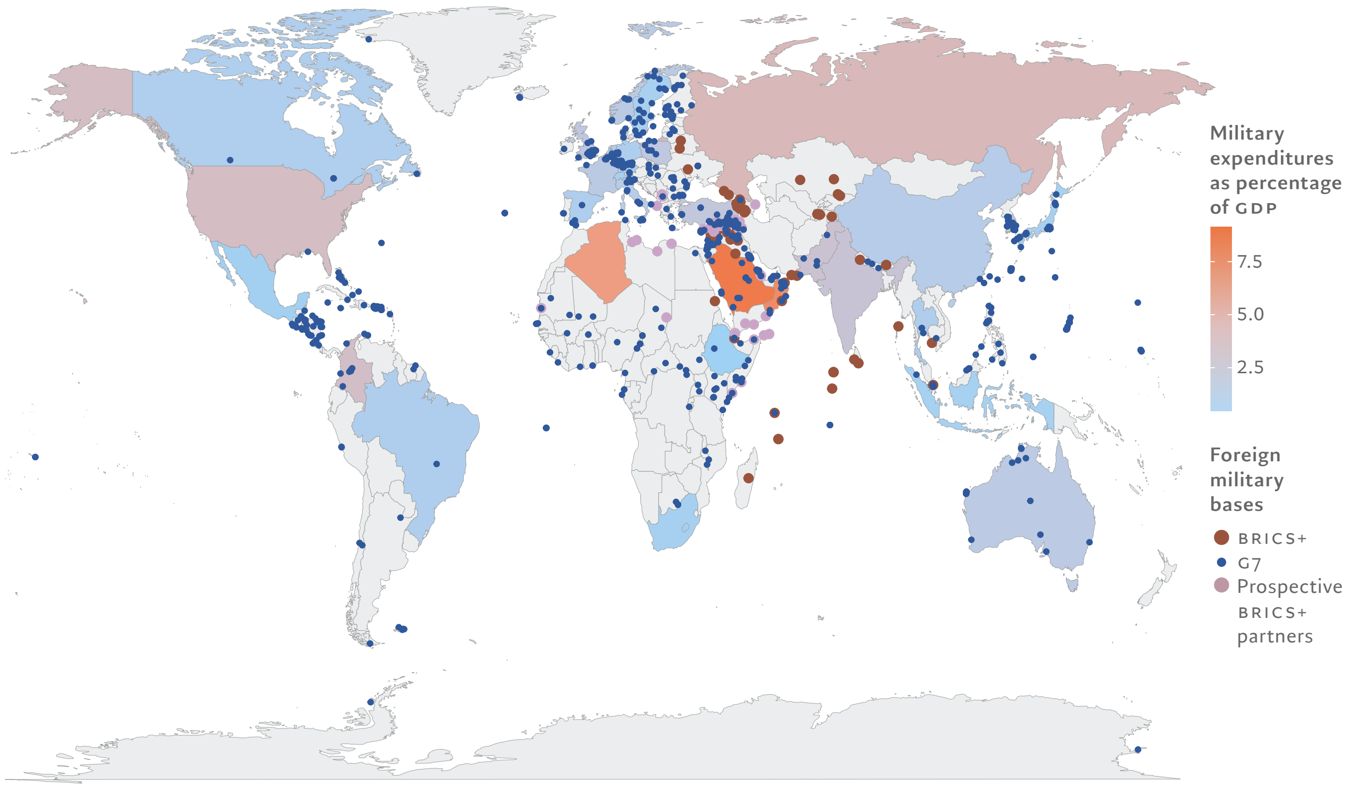
routes, and the risk of bioweapons being deployed posing real and constant threats. This military context, marked by proxy wars fought in a systemic conflict between rival powers, changes the calculus for the way risks are assessed and foreign conflicts dealt with, and it requires different thinking about how to prosecute wars going forward.

While we do not argue that there will be an expanded military conflict between the West-led coalition and BRICS+ beyond the hotspots that are already present today, it is important to note that the military capabilities of the coalition are substantial, especially in sustaining multiple smaller regional conflicts that go against the military advantages of the West. As such, BRICS+ possesses a significant geopolitical lever that it may choose to utilise if future geostrategic developments warrant it.

5.1.4. Trading routes

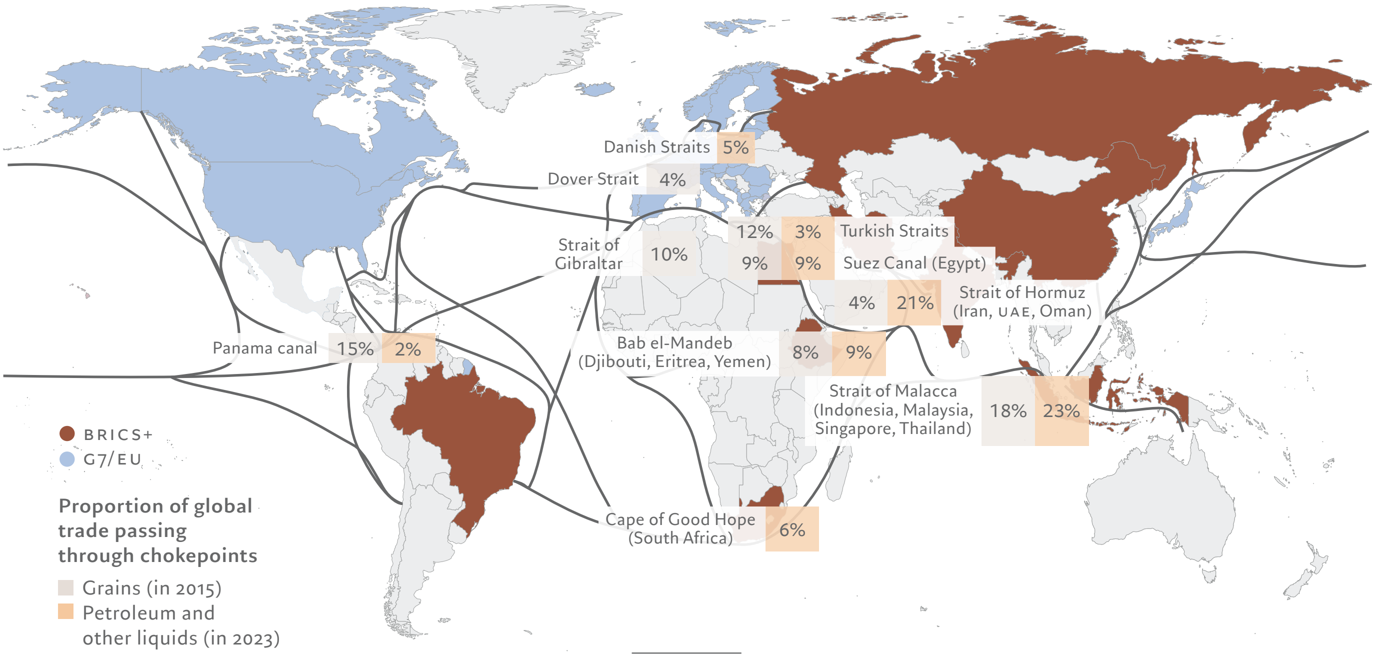
A related consideration is the concentration of military bases that BRICS+ has in the Indian Ocean, the subcontinent and the central Asian region – essentially along the old Silk Road network of Eurasian trade routes. This presence effectively cuts the world in two, with the G7 dominant on either side of the corridor designated by these BRICS+ bases, as depicted in FIGURE 7.

FIGURE 7
Military expenditures as percentage of GDP (2020) and foreign military bases



Sources: World Bank, World BEYOND War

FIGURE 8
Major maritime trading routes for oil and food, and associated chokepoints



Sources: Chatham House, U.S. Energy Information Administration

The wide and expanding geographic reach of BRICS+ countries gives them access to key points along trading routes (see FIGURE 8) and potential leverage over the West (or others).[9] Member nations and partners span the globe and effectively control, or have authority over, many of the major maritime chokepoints: the Suez Canal, the Strait of Malacca, the Strait of Hormuz, the Cape of Good Hope, the Turkish Straights and Bab-el-Mandeb (also called the 'Gate of Grief'). Should the geopolitical need arise, they could elect to deny certain nations access to vital trade routes.

Iran has already frustrated the smooth passage of ships in the Strait of Hormuz. In the event of a conflict, these chokepoints could enable BRICS+ to frustrate, delay or limit the ability of Western powers to supply equipment to theatres of war. And they could certainly disrupt supply chains. Again, whether the level of coordination among BRICS+ members needed to achieve and exercise such control is possible remains to be seen but the risks of such developments should not be outright dismissed.

5.1.4. Demographics

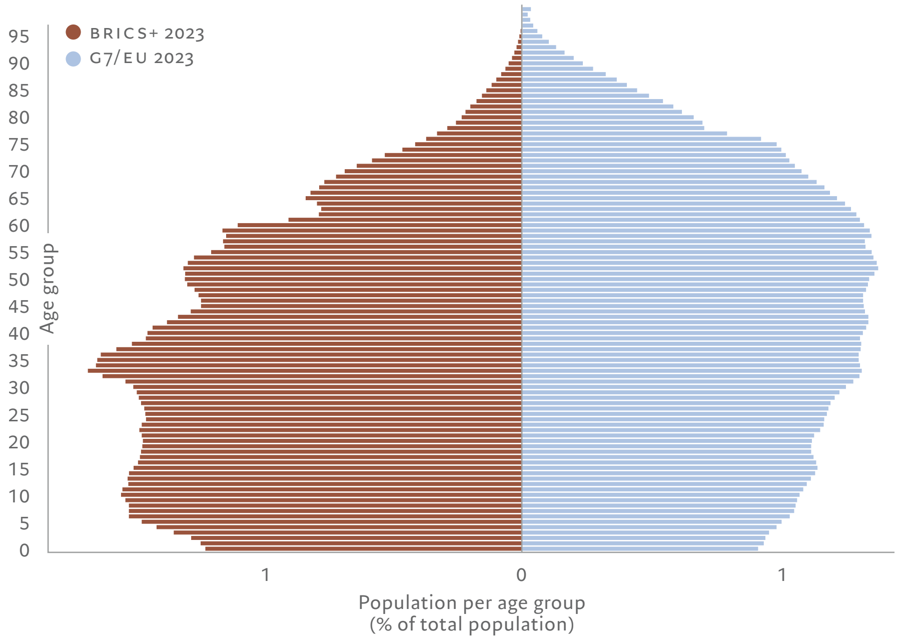
BRICS+ demographics are a source of relative economic vitality giving the bloc a comparative advantage over the G7/EU – for now. Like the developed world, China and Russia are on track to face demographic challenges from their elderly population. On the other hand, the populations of India and Africa continue to grow. FIGURE 9 shows the trend of the age pyramids of

9 The Trump administration has recently proposed measures to counter China's maritime dominance, including imposing fees on Chinese ships (US Trade Representative (USTR), February 21, 2025). The effectiveness of these proposals is to be seen as most of the maritime chokepoints are controlled by BRICS+ members, which may be reluctant to cooperate with US directives without other incentives. These proposals, however, are indicative of the sudden realisation in Washington of the far-reaching influence China can exert on global trade and supply chains.

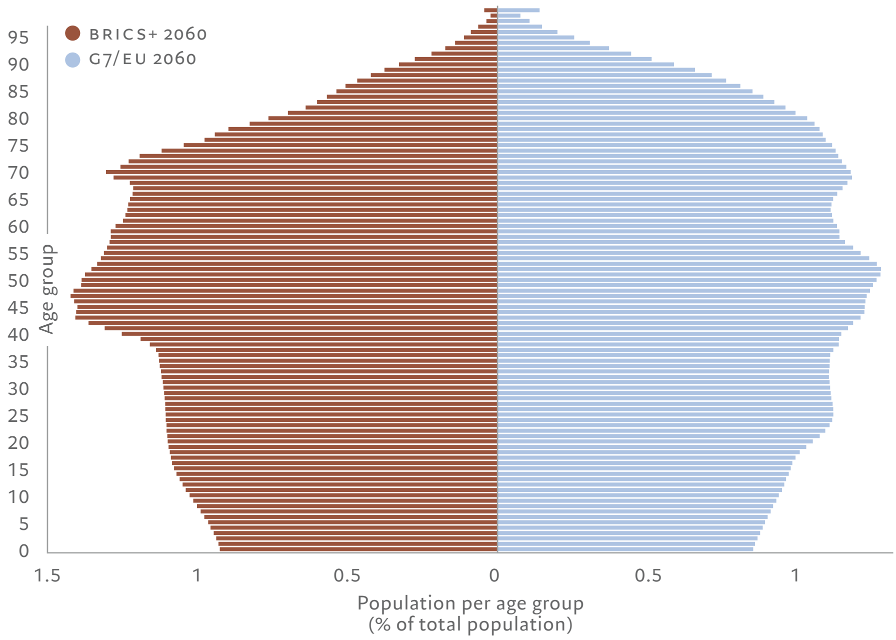
FIGURE 9[10]

Demographic comparison between G7/EU and BRICS+

Age pyramids of BRICS+ and G7/EU 2023



Age pyramids of BRICS+ and G7/EU 2060



Sources: UN World Population Prospects, Pictet Research Institute

BRICS+ and the G7/EU between 2023 and 2060 (forecasted). It suggests that the BRICS+ coalition has a good 30 years to capitalise on its comparative population advantage before its demographics are close to those of the developed world.

In the meantime, apart from a growing population, BRICS+ will also have the benefit of rapidly evolving technologies to help it in due course. The ratio of the population over the age 65 to the working-age population

10 Forecasts or projections are not reliable indicators or guarantees of future outcomes, therefore there can be no assurance that these figures will materialise.

TABLE 4
Annualised volume of major currencies in global transactions (USD trn)

CURRENCY	2013	IN%	2016	IN%	2019	IN%	2022	IN%
USD	1,172.30	43.5	1,118.38	43.8	1,467.66	44.2	1,672.98	44.2
EUR	450.07	16.7	400.93	15.7	536.54	16.1	577.70	15.3
JPY	310.21	11.5	276.19	10.8	279.34	8.4	315.82	8.3
GBP	159.01	5.9	163.55	6.4	212.61	6.4	243.97	6.4
CNY	30.24	1.1	50.90	2.0	71.83	2.2	132.61	3.5
AUD	116.42	4.3	87.70	3.4	112.52	3.4	120.60	3.2
CAD	61.48	2.3	65.52	2.6	83.68	2.5	117.38	3.1
CHF	69.30	2.6	61.24	2.4	82.41	2.5	98.20	2.6
Other	324.07	12.0	329.11	12.9	477.54	14.4	503.77	13.3

Sources: BIS Triennial Reports 2013, 2016, 2019, 2022

between 15-64 (called the elderly dependency ratio) was 14.72% in BRICS+ countries in 2023, compared to 32.85% in the G7/EU. In 2060 the respective ratios are projected to grow to 38.26% (BRICS+) and 50.37% (G7/EU) before reaching 50.01% (BRICS+) and 54.31% (G7/EU) in 2080. While BRICS+ now has a much younger demographic structure than the G7/EU, it will age faster than the G7/EU, as seen by comparing both panels of FIGURE 9 (p.43).

5.2. WEAKNESSES

Section 2 highlighted the cohesiveness issues within the BRICS+ group, which are ongoing despite efforts to overcome them. Even if these issues become less prominent over time, the coalition will still have a major weakness in freeing itself from the US-led Western coalition: its lack of a common reference currency and its inability to create one in the foreseeable future.

5.2.1. Building the BRICS+ financial architecture

The biggest weakness of the BRICS+ coalition is the absence of its own, independent euro-style currency. Without a common financial system and a well-developed capital markets structure, BRICS+ attempts at setting up parallel economic and financial systems are hindered by the coalition's reliance, directly or indirectly, on the US dollar.

TABLE 4 summarises the annualised foreign exchange trading volumes for major currencies and their shares of total trading from 2013 to 2022, based on data from the Bank for International Settlements (BIS) Triennial Report.

The US dollar comfortably remains the world's most-used currency, enjoying a stable share of around 44% in foreign exchange market volumes. This underscores its role as the primary global reserve and trade currency, ahead of the euro and Japanese yen. A slight increase in the Chinese renminbi's share of market volume from 1.1% in 2013 to 3.5% in 2022 reflects China's increasing role in global trade, its efforts to internationalise the renminbi and increased trade with BRICS+ countries. But the increase is too small and done in fact at the expense of the euro and yen – not the USD – to pose any direct threat to the US dollar's dominance.

5.2.2. Efforts to move away from the US dollar payment system

In recent years, BRICS+ has embarked on numerous currency and payment system projects, most of them with competing and overlapping purposes. They all follow slightly different approaches with none of them amounting to de-dollarisation as of yet. The underlying issue with all of these efforts is that they do not circumvent the use of the US dollar. What they do allow though is for BRICS+ countries to circumvent the US dollar clearing system. As such, they provide an effective means of dodging Western sanctions against BRICS+ members.

BRICS+ has embarked on numerous currency and payment system projects. The underlying issue with all of these efforts is that they do not circumvent the use of the US dollar. What they do allow though is for BRICS+ countries to circumvent the US dollar clearing system. As such, they provide an effective means of dodging Western sanctions against BRICS+ members.

The use of stablecoins is one way BRICS+, and especially Russia, has sought to bypass the US dollar. These are cryptocurrencies[11] whose prices are determined by price peg mechanisms using a basket of currencies or other assets such as gold or other commodities. The idea is to create a stable asset that is not subject to large fluctuations, hence its name.

TABLE 5 (p.46) shows stablecoins ranked by market capitalisation as of 31 December 2024, their peg (mostly US dollar) and their transaction volume in 2024. It also shows each stablecoin's volume as a percentage of total US dollar transactions based on 2022 BIS data. Tether dominates the stablecoin market with an annualised volume of USD 18,264.2 bn, accounting for 1.092% of total US dollar volume. Like eight of the other nine stablecoins in

11 For information and illustration purposes only. This page may contain information about cryptocurrencies, but does not set out any direct or implied recommendation whatsoever (either general or personalised). Investment in cryptocurrency is considered to be a very high risk investment with extreme volatility.

TABLE 5
Volume of top 10 stablecoins as of 2024

RANK BY MARKETCAP	ASSET	PEGGED TO:	VOLUME 2024 (USD)	AS % OF USD VOLUME
1	Tether	USD	18,264.2 bn	1.092
2	USDC	USD	3,081.5 bn	0.184
3	Sky Dollar	USD	544.3 m	0.000
4	Ethena USDe	USD	22.3 bn	0.001
5	Dai	USD	43.1 bn	0.003
6	Ethena	USD	66.8 bn	0.004
7	First Digital USD	USD	2,138.5 bn	0.128
8	USDD	USD	735.2 m	0.000
9	Tether Gold	Gold	2.1 bn	0.000
10	TrueUSD	USD	16.8 bn	0.001
		Total	**23,636.6 bn**	**1.413**

Source: Messari

the top 10, Tether is pegged to the US dollar (the other to gold). The need to hold US dollars in reserve to defend the peg of nine of these cryptocurrencies does not help BRICS+ de-dollarise.

For BRICS+ to de-dollarise, China, the economic engine at the heart of the coalition, will need to open its capital markets and make the institutional changes needed to render the renminbi a more broadly traded and free-floating convertible currency unincumbered by the capital controls it is now subject to. Until then, the coalition will focus its efforts primarily on bypassing the US dollar clearing system, which also allows it to circumvent any sanctions imposed on its members. This may be sufficient for now.

BRICS Pay is another payment innovation from the coalition. This is a blockchain-based payment system designed for direct transactions among BRICS nations. It is focused on enabling local currency transactions and fostering economic independence. Together with the use of stablecoins, BRICS Pay has the potential to foster economic independence, promote trade within and beyond BRICS+ and challenge the dominance of Western financial systems. However, its success hugely depends on overcoming operational, geopolitical and regulatory challenges – and, fundamentally, its dollar dependency. Russia's stablecoin initiative complements BRICS Pay in creating alternative financial systems that reduce dollar reliance.

TABLE 6 provides an overview of these two payment systems.

The Cross-Border Interbank Payment System (CIPS) is a financial market infrastructure launched by China in 2015. Its primary purpose is to clear and settle cross-border renminbi transactions. CIPS functions similarly to other settlement systems by matching orders for renminbi between participants (clearing function) and effectuating payments (settlement function). It is modelled on the US dollar's Clearing House Interbank Payment System (CHIPS) and facilitates renminbi transactions globally, bypassing the traditional reliance on intermediary offshore clearing centres (CIPS, n.d.).

CIPS and SWIFT serve different purposes but can complement each other. While SWIFT is a global messaging system for financial transactions, CIPS is a settlement system specifically designed for renminbi transactions (Cipriani *et al.*, 2023). Both use the ISO20022 messaging standard to ensure compatibility. However, CIPS aims to enhance the autonomy of China's financial system and reduce dependency on SWIFT for renminbi transactions. SWIFT facilitates global communication for all currencies, while CIPS focuses exclusively on the renminbi and aims to strengthen China's financial sovereignty (Eichengreen, 2022).

TABLE 6[12]

Overview of Russian stablecoin and BRICS Pay

	RUSSIAN STABLECOIN	BRICS PAY
Purpose	• Facilitates international trade using stablecoins backed by fiat currencies such as the rouble or renminbi • Geared towards global trade partners, not limited to BRICS	• A blockchain-based payment system designed for direct transactions among BRICS nations • Focused on enabling local currency transactions and fostering economic independence
Technology	• Utilises blockchain and Distributed Ledger Technology (DLT) for transparency, security and efficiency • Integrates stablecoins as a medium of exchange	• Utilises blockchain and DLT for transparency, security and efficiency • Uses national currencies and potentially Central Bank Digital Currencies (CBDC)
Complementary roles	• Could be integrated into BRICS Pay to facilitate broader adoption and support transactions beyond the BRICS bloc	• Provides the overarching infrastructure for seamless cross-border transactions within BRICS economies
Regulatory framework	• Russia has legalised the use of cryptocurrencies for international trade (effective September 2024), paving the way for the adoption of stablecoins	• The regulatory insights from Russia's stablecoin could inform BRICS Pay's governance model, enhancing its robustness
Potential integration	• May serve as a testing ground for BRICS Pay's technological and regulatory advancements	• Could benefit from the integration of Russia's stablecoin for enhanced functionality and broader reach

Sources: BIS CPMI (2023), Cointelegraph (2024), Intellinews (2024), Ledger Insights (2024), Lowy Institute (2024)

12 For information and illustration purposes only. This page may contain information about cryptocurrencies, but does not set out any direct or implied recommendation whatsoever (either general or personalised). Investment in cryptocurrency is considered to be a very high risk investment with extreme volatility.

Technically, CIPS could operate independently of SWIFT because it has adopted international standards such as ISO20022. However, its practical independence is constrained by the integration of SWIFT in global financial operations. Most transactions processed through CIPS still rely on SWIFT messaging, and full detachment would require greater adoption of CIPS-specific standards by global financial institutions (Murphy, 2022).

To achieve full independence from SWIFT, CIPS would need to:

- Expand its network of direct foreign participants to reduce reliance on intermediaries
- Encourage global financial institutions to use CIPS-specific messaging standards instead of SWIFT. So far, the CIPS payment volume is about 0.3% of the size of SWIFT (Cipriani *et al.*, 2023)
- Lift or ease China's capital controls, allowing freer movement of onshore and offshore renminbi
- Strengthen the global appeal of the renminbi as a reserve currency, making it more competitive internationally

Project mBridge is an initiative that started off as Project Inthanon-Lion Rock and a collaboration between the Bank of Thailand and the Hong Kong Monetary Authority. Later, the BIS and the central banks of China and the UAE joined the initiative, and it was renamed project mBridge. In June 2024, Saudi Arabia joined the initiative as it had reached the Minimum Viable Product stage. The official goals of the initiative are the following (BIS Innovation Hub, 2023):

- Tackle key pain points of cross-border payments (high costs, settlement risk and low speed)
- Advance cross-border settlement in central bank money
- Support the use of local currencies in cross-border transactions
- Create opportunities for new and innovative payment products and services

Besides the above-listed founding members, mBridge also comprises observing members, including the IMF, the ECB and the World Bank.

In October 2024, the BIS decided to withdraw from the project, the official reason being that mBridge "has been so successful that we can declare that we have graduated out" of the project (The Economist, 2024). However, the current geopolitical tensions indicate that the mBridge initiative could potentially be diverted from its original goals, as a way for BRICS+ countries (particularly Russia) to create a BRICS bridge system to avoid international sanctions. Many observers noticed the timing of the BIS' withdrawal from mBridge only one week after the BRICS+ summit in Kazan. By withdrawing, the BIS cannot veto which countries can access the platform. An important Western concern is that the technology and know-how that the BIS has invested into mBridge are now in China's hands, and this could be a catalyst to create a BRICS bridge platform.

The idea of creating a BRICS+ currency based on a basket of BRICS+ currencies independent of the dollar or other major reference currencies is also unlikely in the near future. We estimate the risk of a BRICS currency able to challenge the US dollar to be about a decade away, or longer.

While BRICS+ has yet to de-dollarise, its experiments with stablecoins, BRICS Pay, CIPS and Project mBridge demonstrate its resolve to create alternative payments means and circumvent existing international payment systems (and sanctions), highlighting the coalition's step-by-step and multi-pronged approach to advancing its de-dollarisation cause. Typical of the Chinese approach to new strategic initiatives, the coalition backs multiple projects to see which one would ultimately gain traction, all the while distracting attention from any particular one, flying under the radar of mainstream Western observation and slowly eroding the existing international order.

5.3. IMPLICATIONS OF DE-DOLLARISATION

As mentioned earlier, while the worldwide use of renminbi has increased as of late, the currency still only accounts for 3.5% of global transactions. Increasing its uptake will require China to open up its capital markets and lift any capital controls. But that is unlikely to happen in the foreseeable future given China's economic slowdown in recent years, the fall in consumer and business confidence and the mounting concerns over the health of the property market.

In particular, the residential real estate sector in China is currently experiencing a significant downturn, with prices falling by 25% or more over time on a cumulative basis.[13] At the same time, inventory levels have risen to two to three times their normal levels. Despite the central government's efforts to support the economy and loosen monetary policy, these measures have not been enough to solve the problems in the property sector. To effectively

13 Based on information provided by local China developers. A similar level of price decline is also mentioned in a related CNBC article and attributed to an analyst at Nomura. (https://www.cnbc.com/2024/05/21/chinas-sweeping-measures-to-prop-up-the-property-sector-will-need-time.html)

address these issues, the government may need to implement a bailout for the sector. This could involve lending money to local governments, which are already heavily indebted, so they can buy back developed properties and undeveloped land they previously sold to developers. Alternatively, the central government or the People's Bank of China (PBOC) might need to provide direct support. However, such interventions could create a moral hazard, a situation that governments generally try to avoid.

At the time of writing, the Chinese central government does not seem inclined to veer in that direction. Expecting to resolve the problem through higher economic growth also seems improbable in the near term, given the geopolitical tensions the country faces and its confrontation with the US.

Regardless of the approach it takes to deal with the issue, it is unlikely to resolve it and restore confidence in the Chinese economy and its fiscal state in the next 10 years or so. Similarly, the other BRICS+ countries have their own structural and institutional issues that will take time to address, making their currencies unsuitable to be used extensively as reference currencies, even by other BRICS+ members, without immediate convertibility to the dollar or another hard currency.

Therefore, the idea of creating a BRICS+ currency based on a basket of BRICS+ currencies independent of the dollar or other major reference currencies is also unlikely in the near future. We estimate the risk of a BRICS+ currency able to challenge the US dollar to be about a decade away, or longer. This time framework is of course highly dependent on the relative economic policy initiatives and growth prospects of the US and China/BRICS+ in the coming years and as such, it needs to be periodically reevaluated.

The discussions above underline the difficulty that BRICS+ faces and will continue to face in disentangling itself from its dependency on the US dollar. As a result, it will have to continue supporting it reluctantly while it tries to weaponise other levers in its arsenal, such as the strengths of the coalition identified earlier in Section 5.1.

In the meantime, the various efforts and initiatives of BRICS+ discussed above have enabled it to effectively bypass the US-controlled clearing system and the US-led sanctions imposed on some of its members. For now, that may be good enough for at least some of its members.

6. Western efforts to slow BRICS+ expansion – and their consequences

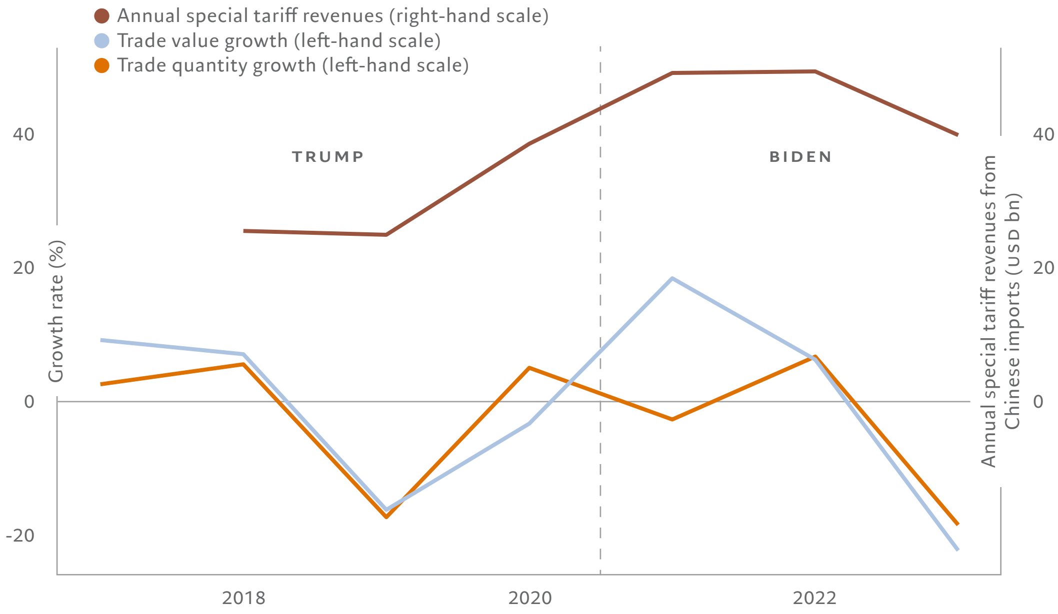
The rapid economic ascent of China and the expanding BRICS+ coalition have prompted the West to adopt measures such as tariffs, sanctions and Foreign Direct Investments (FDI) restrictions to limit their growth and geopolitical influence. However, the tools in the West's arsenal remain limited and focused on a few traditional approaches.

6.1. TARIFFS

Tariffs and sanctions have been the instruments of choice of the G7 and the EU in seeking to control the rise of BRICS. While sanctions have been imposed in response to Russia's invasion of Ukraine, tariffs have been used as a tool aimed at defending domestic markets and corporations from BRICS+ imports and thwarting the development of rival companies and technologies.

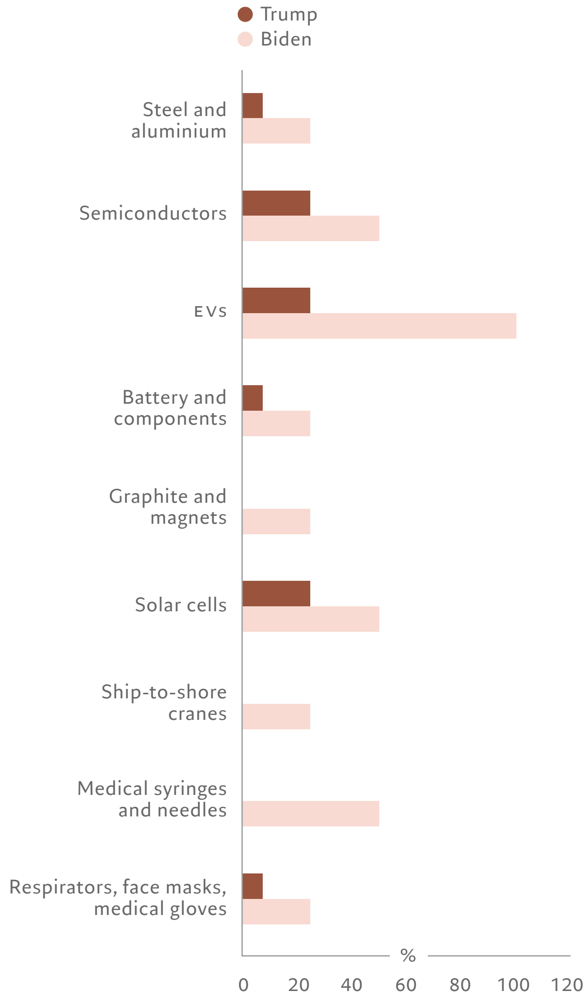
FIGURE 10 illustrates the impact of the 2018 trade war on US imports from China, showing a significant drop in trade growth in 2019 that affected both quantity and value, with a sharp decrease in both in 2023. Despite fluctuating trade volumes, the special tariffs have

FIGURE 10
US imports from China, growth of trade value (USD) and trade quantity (kg)



Sources: Tax Foundation, COMTRADE, Pictet Research Institute

FIGURE 11
Special tariffs on imports from China of critical goods by Trump and Biden administrations



Source: Tax Foundation

consistently generated USD 26 to USD 49 billion annually for the US government, with the Biden administration continuing and increasing these tariffs.

Following US President Trump's trade war with China between 2018 and 2019, his successor Joe Biden doubled down on tariffs by raising them on a series of product categories in May 2024. These categories represent USD 18 billion of goods and the increase represents around USD 3.6 billion in tax revenues. FIGURE 11 illustrates the nominal special tariff rates on specific product categories during the two administrations.

After winning his second presidential election, then-President-elect Trump went further still and threatened to slap 100% tariffs on BRICS+ countries unless their governments agreed not to create a new currency to rival the US dollar (Williams, 2024).

By imposing tariffs, the US tries to choke growth among rival Chinese companies and potentially cause defaults in the industries hit hardest unless China increases domestic consumption, a policy expected to erode its global competitiveness by raising its cost of production. Cultivating and expanding its trade relations with BRICS+, China is aiming to mitigate the barriers it faces in Western markets and find new customers for the overcapacity it has built up in certain sectors, such as, for example, electric vehicles and solar panels. While Western tariffs can stunt economic growth in China in the short term, they may not be able to reverse its medium- to long-term economic trajectory, as the country continues to invest in technology, productivity enhancements and automation.

> Tariffs and sanctions have been the instruments of choice of the G7 and the EU in seeking to control the rise of BRICS.

The US tactics with tariffs remind us of OPEC's efforts to undercut the shale industry in its early stages by drastically increasing production and lowering prices, often at the expense of OPEC-members' own budget balance. While this strategy yielded some results in the short term and led to some weaker players exiting, it did not succeed at stopping it from expanding. Technological advancements in the shale industry led to lower extraction prices, rendering it eventually highly viable and competitive. The same may prove true in the case of tariffs on China as the country continues to invest in innovation, technology and automation.

6.1.1. Import substitution among BRICS+

While tariffs reduce BRICS+ access to Western markets, they have also emboldened the coalition's resolve to increase trade among its members at the expense of imports from the West. This effectively boosts growth for BRICS+ at the expense of G7/EU, as exports from the latter to BRICS+ are in decline, thereby eroding growth of Western economies.

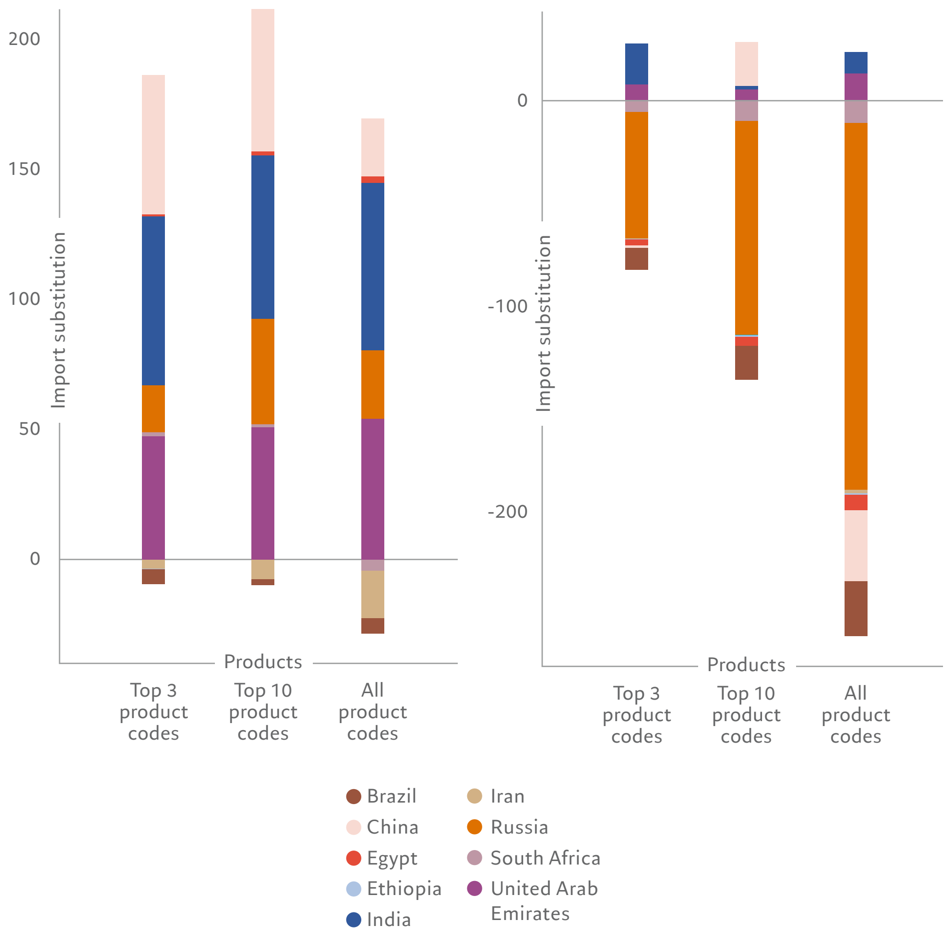
FIGURE 12 (p.54) (left panel) shows that over the last decade BRICS+ countries have altered their imports in such a way that they now import much more from other BRICS+ countries than before, correcting for GDP growth. This is the case mainly for China, India, Russia and the UAE. Proportionally, this shift is very strong for the UAE and Russia, less so for China. This 'import substitution' essentially occurs in the top three types of products (in terms of total trade): mineral fuels, electronic equipment and heavy machinery. The right panel of FIGURE 12 depicts the import substitution of BRICS+ imports from the G7/EU over the same time. The negative changes are mainly due to Russia, resulting from Western sanctions.

FIGURE 13 shows the import substitution for BRICS+ imports from either the G7/EU or BRICS+, for the 10 largest product categories in terms of total BRICS+ trade value. As expected, we see the largest substitutions among the three largest trade categories, namely mineral oils, electrical equipment and heavy machinery. But to the detriment of the G7/EU automobile industry, it seems as though BRICS+ countries also substitute

FIGURE 12
Import substitution analysis for BRICS+ countries by importing country
(in 2023, USD bn)

The top 10 product codes in terms of BRICS+ imports for 2023, listed in decreasing order, are: mineral oils and fuels, electrical equipment and semiconductors, heavy machinery, precious metals and diamonds, ores, soybeans and grains, vehicles, organic chemicals, plastics, and iron and steel.

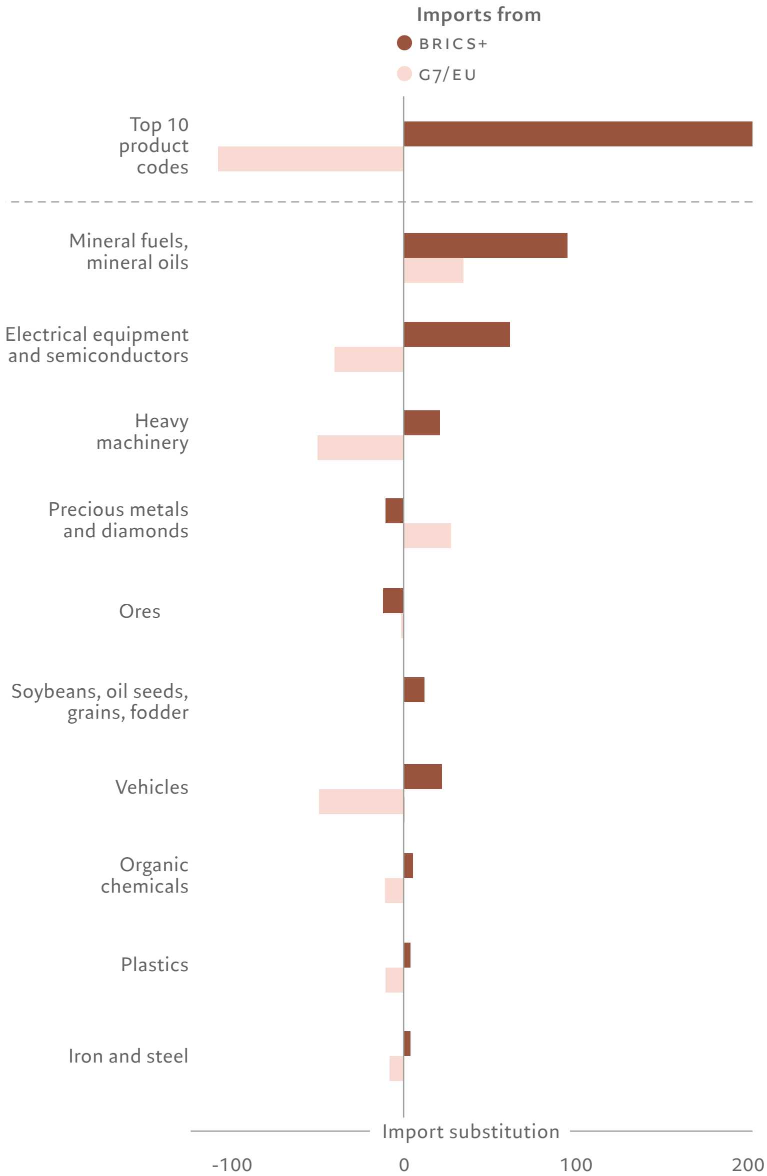
The left-hand panel shows the import substitution of BRICS+ imports from BRICS+ by importing country, while the right-hand panel shows the import substitution of BRICS+ imports from the G7/EU by importing country.



Sources: COMTRADE, Pictet Research Institute

FIGURE 13
Import substitution analysis for BRICS+ countries by product
(in 2023, USD bn)

The ten categories listed here are the largest in terms of BRICS+ imports in 2023, arranged in decreasing order of import value.

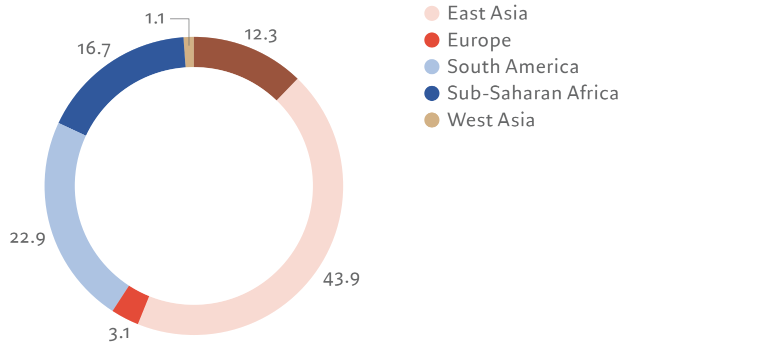


Sources: COMTRADE, Pictet Research Institute

vehicles previously imported from the G7/EU with BRICS+ vehicles – a trend likely driven by China's dominance in electric vehicles and green energy resources.

The expanded trade among BRICS+ members strengthens their ability to exert leverage over the G7/EU, reducing over time the critical importance of the West for their economies and future growth. An example of the strategic 'pivot' of BRICS+ away from the G7/EU economies is the so-called 'Middle East to Asia pivot'.

FIGURE 14
Regional distribution of China's BRI engagement: foreign direct investments
(H1 2023, in %)



Source: Green Finance & Development Center

Both regions are increasingly entwined in one another's growth, as witnessed by growing deal-making and investment between key Gulf and Asian powers in 2024.

The above findings suggest that, while tariffs may stymie trade and economic growth opportunities in the short term for the countries on which they are levied (in this case BRICS+ countries and particularly China), in the medium term they may drive trade away from the levying counties (G7/EU) when substitution options are available. Tariffs would only be durably effective when the levying country or region has an absolute monopoly. In the past, that was true for the oil sector, but it is no longer the case. When it comes to BRICS+, tariffs have been enhancing the economic cohesion of the coalition and fostering anti-West sentiment in the Global South.

An alternative Western approach could be to engage with BRICS+ by reforming existing international institutions and offering members of the coalition development opportunities. This 'soft power' approach would not only speak to the core common goals of the coalition but could also allow the G7/EU to work on opening up the fault line between the more authoritarian core of BRICS+ and its democracies. By courting those BRICS+ members that tend to use the coalition as a vehicle for enhancing their own influence, the G7/EU can effectively try to 'divide and conquer' the alliance.

6.2. RESTRICTING CHINESE FDI AND ACQUISITIONS

Another way the G7 and the EU have tried to impede China's expansion and ability to threaten G7/EU industries is through US and European restrictions on Chinese FDI and acquisitions in their respective markets.

While FIGURE 14 shows China has mainly focused on FDI and acquisitions in developing countries, it has made some important acquisitions in Europe as well. For example, Chinese companies have been active in pursuing acquisitions of suppliers of critical components to the automotive sector and other industries in Europe, effectively influencing the supply chains of these industries while at the same time gaining access to key technologies. One such example is the Chinese company Midea's 2016 purchase of Germany's Kuka – one of the most technologically advanced makers of industrial robots. As a result of the perceived efforts by China to penetrate and influence markets and producers in Western economies, the US agency charged with reviewing and blocking Chinese (and other foreign) investments, the CIFIUS, deemed China a risk to national security. The closure of US and other G7/EU markets to China strengthened the case for BRICS+ to expand their cooperation, and deepen their economic ties, while putting their political differences behind them.

6.3. SCRUTINISING THE ROLE OF HONG KONG AS A FINANCIAL CENTRE FOR BRICS+

Hong Kong is the most developed financial centre within the BRICS+, facilitating the bulk of the BRICS+ financial transactions. As a result, it has captured the attention of the US Congress. On 25 November 2024, the Select Committee on the Chinese Communist Party of the US Congress issued a press release regarding a letter to Treasury Secretary Janet Yellen (The Select Committee on the CCP, 2024). The letter expressed the Committee's concerns regarding Hong Kong's trade with China, describing its "increasing role as a financial hub for money laundering, sanctions evasion and other illicit financial activities." The lawmakers described Hong Kong as a "critical player in the deepening authoritarian axis of the People's Republic of China (PRC), Iran, Russia and North Korea." The Hong Kong government dismissed the allegations as "grossly unfounded" (Hong Kong Business, 2024).

7. Investment implications

The previous sections provide an understanding of the far-reaching advantages that the BRICS+ coalition possesses and its strategy of expanding its influence and impact on global production, commodities/resources, supply chains, trade and military capabilities. Unless the fault lines within the bloc deepen, leading eventually to its fracture, the probability of it yielding significant influence in the global geopolitical and economic developments is highly likely, aiding China to eventually become the leading economy and power in the world.

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Against this likelihood, we need to evaluate the strategic responses of a G7/EU alliance that faces its own fault lines and existential crisis. As we transition out of a state of globalisation, free trade and peace towards a new global order, the economic and diplomatic choices of all participants in the geoeconomic chessboard will determine the path that will be eventually followed towards a new global arrangement. In the meantime, the implications for asset management and the way we construct portfolios are profound and cannot be ignored.

As mentioned earlier, investment opportunities will continue to revolve around the key determinants of future growth: technology, energy supply, commodities/resources and productivity advantages with demographics also significantly influencing the consumption and growth patterns of each country.

In this changing world, not all emerging markets will have the technologies and/or raw materials that constitute core ingredients for economic growth. At the same time, not all developed markets will be able to hold on to the sources of growth that got them where they are today. The upshot of these shifting economic dynamics is that, for all practical purposes, the classification of markets into 'developed' and 'emerging' is less useful or relevant than it once was. Investing will need be more thematic around the core drivers of growth and harvested through **multi-asset portfolios** invested **across public**

and private markets. The latter market becomes particularly relevant as the nature of technology and growth opportunities become more conducive to private markets, with new companies able to attract private capital and prefer to stay private in order to shield their intellectual property and growth path from excessive information transparency.

The increased polarisation, competition and segmentation under way between BRICS+ and G7/EU imply that **capital may become more localised** within each pole, **raising its cost** and potentially reducing its availability. This in turn implies higher interest rates and higher term premia priced into the term structure of interest rates. In addition, the risk and cost sharing of the globalisation era is becoming, to some extent, a thing of the past, forcing both sides as well as individual countries within each coalition to build similar capabilities across a spectrum of industries, leading to **higher inflation** in both alliances.

Such developments may also raise the spectrum of **political risk** in the various markets. More importantly, political risk may no longer be a concern only in 'emerging markets' but also in the traditionally viewed 'developed' markets. The rules of the game are currently being rethought and re-written, raising the level of regulatory uncertainty globally.

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A more diverse investment universe also has implications for portfolios. During the era of unfettered globalisation, correlations between markets rose and diversification was harder to achieve. In today's more fragmented world, the drivers of growth manifest themselves somewhat differently in different regions and therefore correlations should be lower and diversification opportunities greater – although at times at the expense of higher (geo) political risk.

Less globalisation and more restricted flow of capital imply lower **liquidity** in the markets. The effect may be further intensified by the bigger role that private markets will continue to play.

The above conditions also suggest that **volatility** will bound to be higher and continue to be interspersed by volatility spikes as the search for a new geoeconomic equilibrium is underway. A less globalised and more polarised world will have less risk-sharing and a lower capacity to absorb supply chain shocks, or other disruptions. With higher volatility, the risk exposure of portfolios may need to be reduced going forward, thereby reducing the overall **leverage** that needs to be employed.

Navigating this complex economic and investment environment will require a more dynamic approach to investing, simply by virtue of the fact that the world and global economic and geopolitical order are undergoing a regime change with a yet not fully known new endpoint. It follows that the passive investment approach of the past decades, founded on the prevailing steady state of the post-Cold War era, is no longer suitable in an evolving market and economic landscape. What's more, in a thematically driven world in transition, relationships within and between coalitions are bound to be changing and evolving. Investment portfolios will need to stay dynamic, be risk managed accordingly, and effectively respond to the changing investment and risk/return opportunities presented by the developing geopolitical and macro environment.

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BRICS+ has already shown it can help turbo charge the growth prospects of some of its members. If the coalition manages to effectively leverage the full array of tools and influence at its disposal, these gains could spill over to a wider group of developing nations. Our ability to navigate this changing market environment will require us to carefully understand and analyse the geopolitical and economic developments. Our portfolio management approach will need to adapt accordingly.

8. Concluding thoughts

It is widely accepted that we are undergoing a period of profound and tectonic change in the global geopolitical and economic order at a time of one of the biggest technological revolutions in human history, coinciding with important demographic changes. BRICS+ is both a manifestation and result of these changes, not the cause.

The rise of the coalition coincides with competition between economic powers to harness the commodities and resources that will be core ingredients for economic growth in the years to come. President Trump's renewed interest to acquire Greenland can be understood in this context. The rich natural resource endowment of BRICS+ puts the alliance in a good position to harness these future sources of growth, which will be highly prized in a fragmented world marked by divided economic clusters. Similarly, control of trade routes will carry extra weight in a polarised world, explaining the keen interest of the Trump administration over the Panama Canal – one of the few major maritime trade chokepoints not under the control of the BRICS+ coalition.

BRICS+ has already shown it can help turbo charge the growth prospects of some of its members. If the coalition manages to effectively leverage the full array of tools and influence at its disposal, these gains could spill over to a wider group of developing nations. Our ability to navigate this changing market environment will require us to carefully understand and analyse the geopolitical and economic developments. We live in a geopolitics- and macro-driven market environment. These drivers are likely to dominate market action for many years to come, creating thematic opportunities and altering the risk calculus. Our portfolio management approach will need to adapt accordingly.

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