

## Setting the sights on BRICS

Recently, the Malaysian government has shown a strong interest in joining BRICS. This week, Prime Minister Anwar Ibrahim announced that Malaysia will soon formally request to become a member of the BRICS bloc. These statements coincided with Chinese Premier Li Qiang's three-day visit to Malaysia, which began on June 18. The visit also marks the 50th anniversary of the establishment of diplomatic relations between Malaysia and China on May 31, 1974, during the tenure of Malaysia's second Prime Minister, Tun Abdul Razak Hussein.

Malaysia's decision to seek BRICS membership is a strategic move in response to the unipolar dominance of a single economic superpower since the fall of Communism in 1989. This dominance has often led to one-sided policymaking on the global stage, particularly in areas like trade, investment, security, and climate change. Joining BRICS is also a pragmatic step given the bloc's substantial economic size and growth potential, supported by its large population. Membership could provide Malaysia with greater market access and enhance currency diversification in trade settlements.

At the BRICS summit held from August 22-24, 2023, Brazil's President proposed the adoption of a common currency among BRICS members to mitigate their exposure to fluctuations in the US dollar. While this idea holds promise, its practical implementation remains uncertain due to the economic and political diversity of the member nations. Regardless of the outcome, BRICS continues to solidify its prominence on the global stage.



# The origins of BRICS

The term **BRIC** was originally coined to represent Brazil, Russia, India, and China. It was introduced by Jim O'Neill, then Managing Director and Head of Global Economic Research at Goldman Sachs, in his report titled "Building Better Global Economic BRICS" on November 30, 2001. This period was marked by significant global economic challenges, including the bursting of the technology sector bubble earlier in 2001 and the terrorist attacks on September 11, 2001, at the World Trade Center in the US. Just months later, on December 11, 2001, China joined the World Trade Organization (WTO), a move that dramatically boosted its economic growth from about 4 trillion international dollars (in PPP terms) in 2001 to 8.9 trillion by 2007.

In 2010, South Africa joined the bloc, transforming the acronym to **BRICS**. The group further expanded on January 1, 2024, by admitting four new members: Egypt, Ethiopia, Iran, and the United Arab Emirates (UAE).

In his paper, Jim O'Neill highlighted the importance of measuring the size of economies using Purchasing Power Parity (PPP). By this metric, China would emerge as the world's second-largest economy after the US. This raises critical questions about global policy transmission, as shifts in monetary, fiscal, and other economic policies in major economies can significantly impact other countries. O'Neill also emphasized the need for greater economic and political cooperation, particularly in the wake of the September 11 terrorist attacks. His arguments suggest a call for more effective collaboration in policymaking, ensuring processes that are fair, transparent, and efficient.



## Building Better Global Economic BRICs

- In 2001 and 2002, real GDP growth in large emerging market economies will exceed that of the G7.
- At end-2000, GDP in US\$ on a PPP basis in Brazil, Russia, India and China (BRIC) was about 23.3% of world GDP. On a current GDP basis, BRIC share of world GDP is 8%.
- Using current GDP, China's GDP is bigger than that of Italy.
- Over the next 10 years, the weight of the BRICs and especially China in world GDP will grow, raising important issues about the global economic impact of fiscal and monetary policy in the BRICs.
- In line with these prospects, world policymaking forums should be re-organised and in particular, the G7 should be adjusted to incorporate BRIC representatives.

Many thanks to David Blake, Paulo Leme, Binit Patel, Stephen Potter, David Walton and others in the Economics Department for their helpful suggestions.

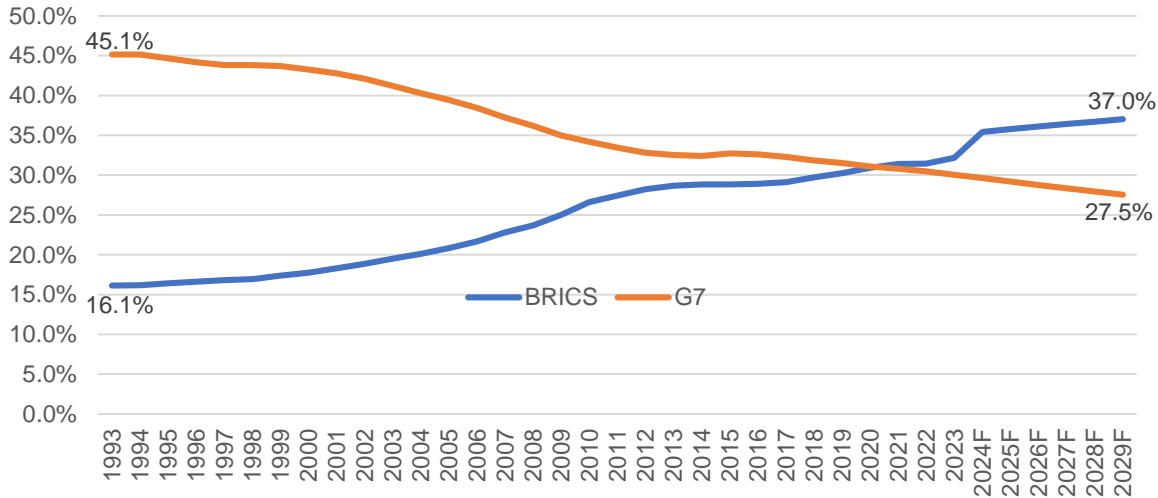
**Jim O'Neill**  
30th November 2001

Important disclosures appear at the end of this document.

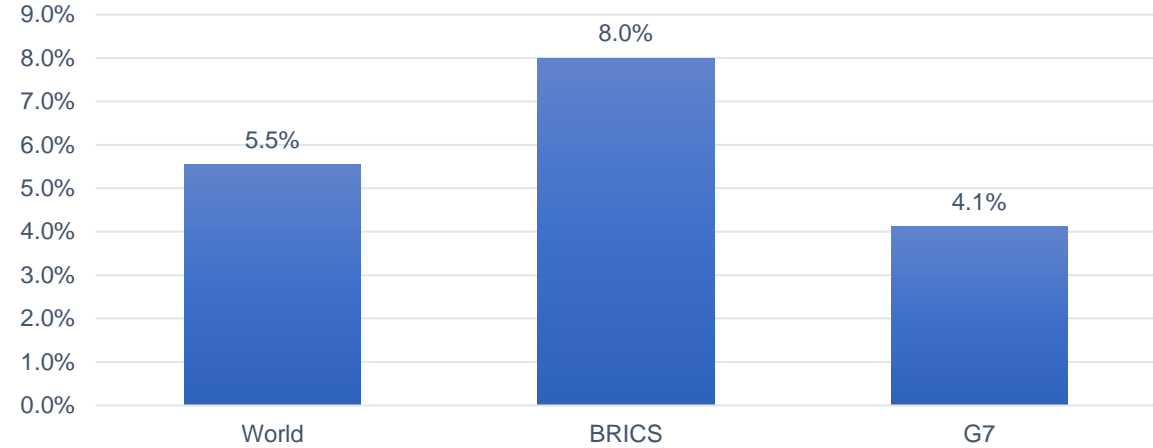
Source: Goldman Sachs

# BRICS has effectively outpaced G7 economic size

Share of world's GDP on PPP basis



GDP growth on PPP basis (30-year CAGR: 1993 -2023)



Sources: IMF & BMMB's Chief Economist estimates

As BRICS membership has expanded, so has its share of the global economy. In 1993, the GDP of the G7 nations (Canada, France, Germany, Italy, Japan, the UK & the US), measured in terms of Purchasing Power Parity (PPP), accounted for 45.1% of the global total, significantly outpacing the BRIC countries' (before South Africa joined in 2010) share of 16.1%. By 2021, however, BRICS had overtaken the G7, with their share rising to 31.4%, compared to the G7's 30.8%. Over the past 30 years, the BRICS economies have grown at a remarkable 8.0% Compound Annual Growth Rate (CAGR), far outpacing the G7's 4.1%.

While robust economic growth does not always equate to equitable income and wealth distribution, it is crucial for sustaining economic momentum and job creation. Achieving quality growth involves refining policies in education, industry, and security, and requires enhanced coordination and implementation among neighboring countries. This aligns well with BRICS' vision if the global framework emphasizes a fairer playing field and the promotion of peace.

"The information provided in this article is for general informational purposes only. While we strive to provide accurate and up-to-date information, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability, or availability of the information contained herein. Any reliance you place on such information is therefore strictly at your own risk. In no event will we be liable for any loss or damage arising from the use of this article or the information presented within."

Dr Mohd Afzanizam Abdul Rashid  
Chief Economist

21 JUNE 2024

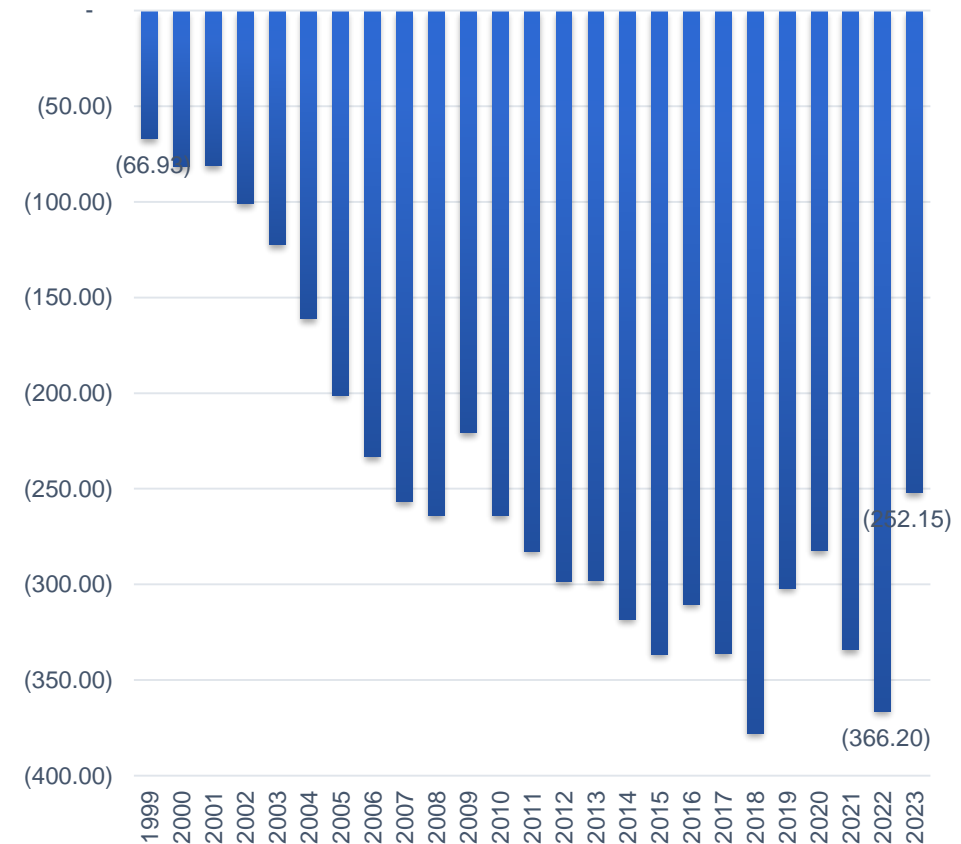
# Deglobalisation will likely continue

The geopolitical landscape has been particularly volatile since Russia's invasion of Ukraine in February 2022 and the Hamas-Israel conflict that ignited on October 7, 2023. Meanwhile, the trade war between the US and China has persisted despite Donald Trump's loss in the 2020 US Presidential election. Protectionist policies are increasingly prevalent, suggesting that deglobalization is becoming a deeper trend in the global economy.

The escalation of tariff and non-tariff measures between the US and China has failed to achieve its intended goal of reducing the US trade deficit with China. In 2023, the US trade deficit with China was \$252.2 billion, a significant increase from \$66.9 billion in 1999, before China joined the WTO in 2001. This underscores that tariffs and economic sanctions alone are not entirely effective in addressing trade imbalances.

For example, in response to trade restrictions, China's tech giant Huawei developed its own operating system, HarmonyOS, which has been powering its 5G smartphones since August last year. TechInsights, a technology consultants, projects that Huawei will recover in 2024, with HarmonyOS gaining some market share from iOS and Android, though the latter two will continue to dominate. This situation illustrates that protectionist policies are likely to persist, regardless of their effectiveness. One certainty is that they disrupt global supply chains.

**Trade deficits between the US and China in USD billion**



Source: CEIC

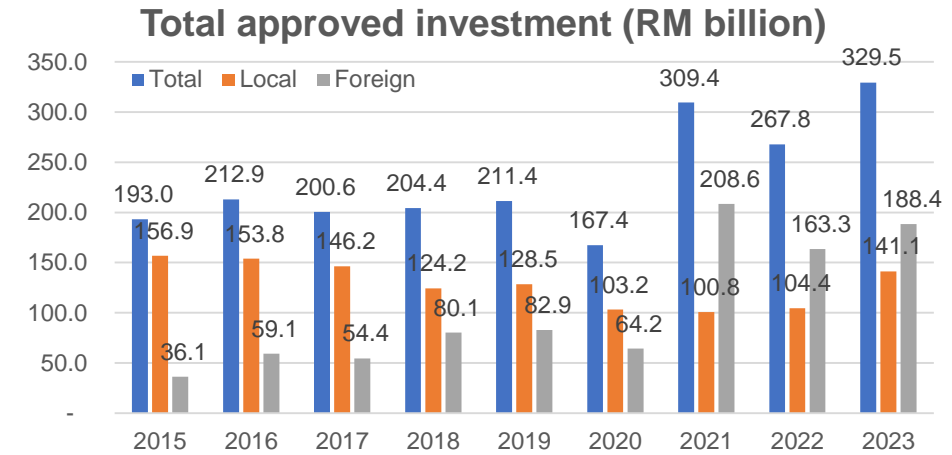
"The information provided in this article is for general informational purposes only. While we strive to provide accurate and up-to-date information, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability, or availability of the information contained herein. Any reliance you place on such information is therefore strictly at your own risk. In no event will we be liable for any loss or damage arising from the use of this article or the information presented within."

# What can we expect?

While protectionist policies are expected to persist, businesses are likely to seek more favorable investment destinations outside of areas affected by conflict. In this regard, approved investments in Malaysia increased significantly last year to RM329.5 billion, up from RM267.8 billion in 2022, with foreign investment playing an increasingly prominent role over the past three years. Hence, Malaysia seems to be in a sweet spot.

The origin of investments was diverse, with Singapore leading at RM43.7 billion, followed by the Netherlands (RM35.5 billion), the US (RM21.5 billion), the Cayman Islands (RM17.5 billion), and China (RM14.5 billion). This diversity highlights Malaysia's investor-friendly environment, which has consistently attracted foreign capital to the country.

Factors such as a pro-business government, robust infrastructure, availability of talent, a sound regulatory framework, commitment to sustainability, and a strong banking system are key attractions for foreign investors. However, we anticipate challenges ahead, particularly with the upcoming US Presidential election in November, where former President Trump is perceived to have a strong chance of returning to office. Given this uncertainty, Malaysia's decision to join BRICS could be viewed as a strategic move, aligning with the expected growth in the eastern region. If managed effectively, this could act as a catalyst for further economic reforms, emphasizing capacity building, transparency, and fairness.



**Approved investment in RM billion**

Year	Primary	Manufacturing	Services
2015	3.8	74.7	114.5
2016	8.2	58.5	146.2
2017	12.4	63.7	124.5
2018	10.9	87.4	106.1
2019	7.0	82.7	121.6
2020	6.1	91.3	70.0
2021	17.3	195.1	97.0
2022	26.4	84.3	157.1
2023	9.1	152.0	168.4

Sources: MIDA & CEIC