

Kamin, Katrin; Langhammer, Rolf J.

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BRICS+: a Wake-Up Call for the G7?

BRICS+: ¿una llamada de atención para el G7?

Katrin Kamin

Kiel Institute for the World Economy

Rolf J. Langhammer

Kiel Institute for the World Economy

Abstract

The paper explores whether the changing dynamics of the BRICS potentially influence the formation of economic and political blocs and investigates whether BRICS+ can serve as a geoeconomic counterweight to the G7. Evaluating the impact of resource endowment, trade relations, political regimes, and financial market roles of BRICS+ members on the global economic and political landscapes, the article discusses the geopolitical importance of BRICS+ and the G7 responses. We conclude that the BRICS+ serve as a wake-up call for the G7, urging a reassessment of political and economic ties in the face of a changing global scenario.

Key words: BRICS, trade, financial markets, resources, geopolitics, G7.

JEL classification: F1, F3, F5

Resumen

El artículo explora si la dinámica cambiante de los BRICS influye potencialmente en la formación de bloques económicos y políticos e investiga si los BRICS+ pueden servir de contrapeso geoeconómico al G7. Evaluando el impacto de la dotación de recursos, las relaciones comerciales, los regímenes políticos y el papel de los mercados financieros de los miembros del BRICS+ en el panorama económico y político mundial, el artículo analiza la importancia geopolítica de los BRICS y las respuestas del G7. Concluimos que los BRICS sirven de llamada de atención para el G7, instando a una reevaluación de los lazos políticos y económicos ante un escenario mundial cambiante.

Palabras clave: BRICS, comercio, mercados financieros, recursos, geopolítica, G7.

1. Introduction

In 2020, the BRICS (Brazil, Russia, India, China and South Africa) nations surpassed the G7 countries in the proportion of the global gross domestic product (GDP) as assessed through purchasing power parity (PPP). By 2023, this disparity had expanded, with the BRICS collectively controlling 32 percent of the world's

GDP, surpassing the G7 countries, which held a slightly lower share of 30 percent (Statista Research Department, 2024). The existing five-member group currently represents 40 % of the global population. However, the population share is expected to rise to 46 % with the inclusion of five new members: Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates (UAE).

The rise of China's economy and the US's withdrawal from its hegemonic role, along with factors such as increased interdependence through global supply chains and a surge in regionalization, have contributed to a significant polarization within the global order. The global economy is increasingly affected by heightened protectionism and the weaponization of interdependence (Farrell & Newman, 2019).

The emergence of the trade war between China and the US is an illustrative case of this weaponization, which signals a new era of systemic conflict between democracies and autocracies. Despite optimistic expectations for a "Long Peace" following the collapse of the Soviet Union (Pinker, 2012) and the belief in political system convergence through globalization (Pisani-Ferry, 2021), recent events, such as China's economic and geopolitical ascent and Russia's 2022 attack on Ukraine, highlight that while economic openness can foster positive international relations, it also introduces new dependencies and vulnerabilities. These vulnerabilities are being increasingly exploited to achieve foreign and geopolitical objectives, indicating a noticeable shift towards the politicization of foreign economic policy. This shift is evident in the increased use of trade barriers and sanctions (Görg & Kamin, 2021). Discussions surrounding geoeconomics often focus on the growing polarization between China and the US. Additionally, the EU is grappling to define its role in this evolving landscape. This raises the question of whether the world is heading towards a divergence of global powers into distinct economic and political blocs composed of "like-minded" countries or allies. Is the formation of such blocs already in progress, and to what extent do these alliances take shape, representing new and potentially impactful geoeconomic leverage?

One notable example of such an alliance is the BRICS group, established in 2006, which comprises Brazil, Russia, India, China and South Africa. As the group is set to deepen its ties in 2024, its influence is expected to expand. China and India, as the world's most populous nations, play pivotal roles in shaping global economic demand. The burgeoning middle classes within these countries act as crucial drivers of global consumption patterns, leading companies worldwide to strategically target these consumer markets.

For a supranational institutional arrangement to succeed, a leading power, a benevolent hegemon, is essential. This power must be capable and willing to compensate members for losses, enforce rules and produce club goods. For decades, the US occupied this position in the post-WWII multilateral order, rooted in its military power, global currency status and openness to imports. However, the US's diminishing self-interest in protecting the existing order,

driven by increased energy independence and the rise of China, has eroded this hegemonic role. To evaluate whether the BRICS consortium can serve as a counterweight to the G7, it is essential to examine their position in the global economy and political sphere. This includes analyzing their resource endowment, external trade relations, strategic positions in global trade routes, the polity of the BRICS+¹ Member States, and their roles in financial markets. This article will explore the aforementioned aspects, specifically in relation to the increasing competition between democratic and autocratic systems and the resulting impact on foreign economic policy.

2. Resource Endowment of the BRICS+

Each member of the BRICS group has a diverse range of natural resources, including minerals, metals, energy reserves (Table 1 for overview of the share of fuel in each country's exports) and agricultural products. These resources play a crucial role in global supply chains and significantly contribute to the energy and raw material needs of the world economy. Therefore, fluctuations in resource prices, which may be caused by BRICS countries themselves through export restrictions or surges, directly impact global economic stability. Furthermore, the ample resources and energy available in these nations provide them with significant strategic influence both within and beyond their respective regions. For instance, China has established itself as the leading exporter of magnesium, thereby exerting price pressure on other potential producers and effectively bringing magnesium production outside of China to a halt (Godart *et al.*, 2023).

Among the original BRICS member countries, Russia is notable for being the sole possessor of extensive reserves of natural gas and oil. Other countries are primarily known for their agricultural sector, such as Brazil and India, or for possessing valuable resources like iron ore, bauxite and niobium (Brazil); nickel, palladium and platinum (Russia); coal, iron ore, bauxite and precious metals (India); and platinum, gold, chromium and manganese (South Africa). China is the world's leading producer of critical minerals and refractory metals, including coal, rare earth elements, antimony and tungsten, which are crucial for modern industries.

The group's dynamic shifts, following the inclusion of new Member States, highlight Iran, Saudi Arabia, and the United Arab Emirates as standout players in the global oil and natural gas sector due to their extensive reserves. In addition to oil and gas, these countries also possess mineral resources such as gold, phosphate and bauxite (Saudi Arabia); gypsum, limestone and silica (UAE); and copper, zinc and iron ore (Iran). Ethiopia is known for its agricultural sector and mineral resources, while Egypt possesses natural gas and phosphates, which are vital components for agricultural fertilizers.

¹ BRICS and Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates.

TABLE 1
OVERVIEW OF ECONOMIC AND POLITY INDICATORS FOR EXISTING
(BLUE) AND NEW (GREEN) BRICS MEMBERS

	GDP	GDP growth	Population	Trade	Fuel exports	Electoral Democracy
	(current US\$, millions) ¹	(annual %) ²	total (in thousands) ³	(% of GDP) ⁴	(% of exports) ⁵	Index ⁶
	2022	2022	2022	2022	2022	2023
Brazil	1,920,095.78	2.9	215,313.50	39	17	0.78
Russian	2,240,422.43	-2.1	144,236.93	44	43	0.19
India	3,416,645.83	7.2	1,417,173.17	49	22	0.38
China	17,963,171.48	3	1,412,175.00	38	2	0.07
South Africa	405,270.85	1.9	59,893.89	65	14	—
Egypt	476,747.72	6.6	110,990.10	37	37	0.19
Ethiopia	126,783.47	5.3	123,379.92	27	0	0.28
Iran	413,493.21	3.8	88,550.57	52	48	0.16
Saudi Arabia	1,108,571.52	8.7	36,408.82	64	77	0.01
UAE	507,063.97	7.9	9,441.13	167 (2020)	73	0.1
World	100,879,560.83	3.1	7.95 (trillion)	63	13	0.49

NOTES:

- ¹ World Bank national accounts data and OECD National Accounts data files. World Bank (b)
- ² World Bank national accounts data and OECD National Accounts data files. World Bank (c)
- ³ (1) United Nations Population Division. World Population Prospects: 2022 Revision. (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics Report (various years), (5) U.S. Census Bureau: International Database and (6) Secretariat of the Pacific Community: Statistics and Demography Programme. World Bank (d)
- ⁴ World Bank national accounts data and OECD National Accounts data files. World Bank (e)
- ⁵ World Bank staff estimates through the WITS platform from the COMTRADE database maintained by the United Nations Statistics Division. World Bank (a)
- ⁶ Varieties of Democracy Index, 2024

SOURCE: World Bank,OECD and V-DEM

The expansion of the BRICS group is expected to have implications for energy investment and trade, bringing together significant mineral-resource holders and major oil producers, along with some of the fastest-growing energy consumers. The inclusion of Saudi Arabia indicates strategic investments in critical minerals such as lithium, while Iran’s entry may facilitate investments in its substantial copper, zinc, and lithium deposits. The enlarged BRICS, with three major oil exporters (Saudi Arabia, UAE and Iran), could potentially influence energy markets and explore mechanisms to trade commodities outside the G7 financial systems. This marks a stride towards reducing reliance on the US dollar in international transactions (Baskaran & Cahill 2023).

3. External trade relations and strategic positions in global trade routes

In terms of intra-group trade, China dominates the majority of trade activities within BRICS, runs a trade balance surplus with the other founding members and has established significant connections with all four other members. Brazil and Russia, in particular, direct their economic focus towards China. It is interesting to note that the trade volume between India and South Africa surpasses that of India-Russia or Russia-Brazil, highlighting a unique dynamic within the group. The recent additions to BRICS, Saudi Arabia and the UAE, have expressed a keen interest in trade relations with India and China, extending beyond goods to include business and consumer services.

Since 2000, China has been the largest exporter of goods within BRICS, with its share of exports from the bloc rising substantially from slightly above 50 percent in 2000 to 74 percent in 2020. Russia consistently maintains the second-largest share of exports, while South Africa consistently has the smallest share. It is worth noting that India surpassed Brazil in 2009.

The BRICS countries engage in extensive international trade. However, Brotto and Evenett (2023) identify three key areas where they distinguish themselves: subsidies, barriers to market access and export restrictions. The BRICS nations use subsidies extensively, surpassing the global average. This presents challenges for other developing countries to emulate. They also prefer more opaque measures such as licensing restrictions and export taxes to outright bans on exports. Additionally, they use fewer border barriers to trade compared to other developing countries and emerging markets. Tax-based export incentives are a distinctive feature of BRICS policy, making these areas crucial considerations for countries contemplating free trade agreements with them.

An analysis of the economic position of BRICS countries in international trade would be incomplete without considering their involvement in major infrastructure projects, such as the Belt and Road Initiative (BRI). China strategically links the BRI with engagements like BRICS, the Shanghai Cooperation Organization, ASEAN, the Eurasian Economic Union and the Regional Comprehensive Economic Partnership (RCEP). Although Brazil and India are not part of China's BRI, all the new entrants are significant trading partners with Beijing. President Xi Jinping emphasizes this connection, highlighting cooperation with institutions such as the BRICS New Development Bank to support the BRI. The BRI's "five connectivities" align with BRICS' focus on policy, infrastructure, trade, finance, and people-to-people connections. China aims to replicate the successful docking between the Belt and Road Initiative and the Eurasian Economic Union with other BRICS nations. However, challenges such as economic asymmetry, an uneven political playing field, lack of mutual trust and internal competition among Member States pose obstacles to full strategic alignment. BRICS is viewed by China as a tool to mitigate risks facing the BRI, gaining significance amid intensifying China-US rivalry and BRI challenges. Egypt's strategic location at the crossroads of Africa

and the Middle East, along with its control over the Suez Canal, makes it a crucial geostrategically among the new members. Iran's proximity to the strait of Hormus enjoys a similar geostrategic advantage.

4. The polity of the BRICS+ members and why it matters

The global increase in autocratic regimes and the percentage of the population living under such rule has been apparent since 1900. The third wave of autocratization began around 1990 and persists to this day (Huntington, 1993; Lührmann & Lindberg, 2019). Since the end of the Cold War, there has been a steady increase in the proportion of electoral autocracies and electoral democracies. These forms of governance are more susceptible to political instability due to their often concentrated power, which can act as drivers for further processes of autocratization (Hegre, 2014; Boese *et al.*, 2021).

The Bertelsmann Stiftung and the Varieties of Democracy Institute (V-Dem) have both observed this global shift towards more autocracies in recent years. In 2019, V-Dem identified the ongoing third wave of autocratization. In 2022, the Bertelsmann Stiftung reported that there are now more autocracies than democracies worldwide, marking the first time since 2004. This trend of autocratization holds economic significance due to several factors. Autocracies, with the notable exception of China, typically exhibit lower economic growth (Knutsen, 2012). This is often attributed to autocratic leaders prioritising self-preservation and personal enrichment over the well-being of the general population (Knutsen, 2020). In autocracies, power is concentrated in one person or a small group, often leading to exploitation of the system for personal gain.

In contrast, democracies generally experience higher average economic growth (Acemoglu *et al.*, 2019). They allocate more resources to the welfare State, education and health, thereby strengthening the most vulnerable in society (Murshed *et al.*, 2022). Furthermore, political institutions in democracies play a crucial role in limiting the concentration of political power, which in turn promotes welfare. The rule of law also guarantees a secure investment environment, which fosters economic growth (Acemoglu & Robinson, 2012). Additionally, democracies are often viewed as more peaceful, supporting the “democratic peace” theory, which suggests fewer wars between democratic nations (Hegre, 2014). In summary, democracy is currently considered the governance form with the greatest potential to empower marginalized groups and peacefully resolve conflicts. This underscores the concern over the trend of autocratization (Boese, 2021).

As outlined by the Regimes of the World Schema (RoW), there are four distinct types of autocracies and democracies: closed autocracies, electoral autocracies, electoral democracies and liberal democracies (Lührmann *et al.*, 2018). Closed autocracies are characterized by uncontrolled power held by an individual or group. Electoral autocracies involve elections that appear democratic but lack fairness and

freedom. Electoral democracies are marked by fair and free elections but without a fully developed separation of powers. Liberal democracies are where democratic institutions are most effectively implemented, and minorities are best protected.

Considering the BRICS+ members within the RoW classification, it shows that the group only contains two electoral democracies (Brazil and South Africa) and consists mainly of autocratic countries, namely five electoral autocracies (Russia, India, Egypt, Iran and Ethiopia) and three closed autocracies (China, United Arab Emirates and Saudi Arabia) (Coppedge *et al.*, 2022). Put differently, all new joining members of BRICS+ are autocracies. Table 1 additionally refers to the Electoral Democracy Index (Coppedge *et al.*, 2024), which ranges from 0 (low) to high (1), and were all existing and new members, except for Brazil and India, display an extremely low ranking.

As autocratic governments have more room for erratic behavior, this has implications for international (economic) relations, specifically when it comes to dependencies on resources or intermediates imported from these countries. Democratic States, including European Union (EU) countries, are highly reliant on resources and intermediate products from autocratically governed countries, as highlighted by the current conflict with Russia (Grimm *et al.*, 2022).

Data from Global Trade Alert confirms that autocratic governments are more likely to impose trade restrictions than liberal democracies, indicating a general increase in trade restrictions. This highlights why additional autocratization can strain existing trade relations and alter the proportion of trade with autocratic governments.

5. BRICS role in financial markets

For an expanded BRICS order to function effectively, it would require a leading economic power capable of providing essential public goods such as stability, rule enforcement and burden sharing. In the post-war era of the global trading order, the United States assumed the role of a benevolent hegemon, actively and preparedly fulfilling this role. Similarly, in the history of the Organization of the Petroleum Exporting Countries (OPEC) cartel, a comparable influential power, referred to as the swing player, emerged in the form of Saudi Arabia. It accommodated those with high time preference rates who sought to quickly capture oil windfall rent (*e.g.* Nigeria) and those with low time preference rates who aimed to extend their oil supply for a stable revenue stream over a longer period (*e.g.* Kuwait). The nation successfully balanced the competing interests of oil-producing countries. In addition, the United States' control of the predominant global currency, the dollar, played an equally dominant role in the financial sphere. In an expanded BRICS with increasingly diverse partners, China could be seen as a potential candidate for playing the roles of both a benevolent leader and a mediator. As the economic powerhouse within the group and the largest lender through initiatives like the BRI, China has been actively involved in establishing BRICS-based institutions for

development financing, such as the New Development Bank, as alternatives to the Bretton Woods Institutions.

To fulfil the role of a benevolent hegemon, China should be open to absorbing the goods supply of its partners without imposing barriers, prioritizing partners as sourcing markets over treating them primarily as export markets. However, post-pandemic, China appears to be moving in the opposite direction. It is shifting towards import substitution, encouraging trading partners to manufacture in China for the domestic market rather than exporting to China. Furthermore, due to the depreciation of the yuan, Chinese companies are incentivized to export in order to make up for the slow domestic demand following the end of zero-COVID policies.

However, if this strategy persists, it may result in an increase in the Chinese current account surplus instead of reducing it. Additionally, it could lead to BRICS partners becoming debtors to China rather than creditors, adding to their existing indebtedness from BRI projects. The Chinese current account surplus has increased from 0.7 percent of GDP in 2019 to 2.2 percent in 2022, as reported by the International Monetary Fund (IMF) World Economic Outlook in October 2023. In contrast, while the United States has consistently run deficits, it has also been a debtor in bond markets, ensuring the global supply of sufficient liquidity when needed. China, on the other hand, faces challenges in matching the US due to its lack of an open, deep, trusted and consistently liquid capital market. The US Treasury securities have satisfied the demands of both official and private investors for decades, and there is no equivalent in China. China is not inclined to follow the US approach because then it would have to remove capital account restrictions, free the exchange rate, expose the heavily regulated capital market to foreign competition, and ultimately relinquish control over the formation and allocation of Chinese capital to anonymous international financial markets. The Chinese government finds such a loss of control unacceptable.

Therefore, China is missing two of the three crucial elements of a global currency: acting as a store of value and a medium of exchange. China's financial market is still strongly underdeveloped compared to that of the United States and is characterized by exchange rate manipulation and capital export control. Although China runs a current account surplus with the BRICS group, the increasing use of the yuan as an invoice currency in bilateral trade among BRICS nations is an imperfect replacement for the dollar as a global currency. The effectiveness of the yuan is hindered by its lack of ease of trade compared to the dollar. Strengthening the yuan's role as an invoice currency within BRICS could potentially place China in a creditor position, due to the weakening of its currency. This weakening would result from China's obligation to support BRICS countries, including Russia, during financial stress while simultaneously stabilizing its exchange rate against Western currencies. If China expands its currency supply within BRICS, it will need to bolster its reserves in Western currencies to maintain a stable exchange rate. This goes against the objectives of a common BRICS currency initiative. Since August 2015, when the yuan faced a crisis and started depreciating against the dollar, it has become clear that China's monetary conditions present a significant obstacle to its

ability to act as a genuine provider of liquidity within BRICS. The country is currently facing economic challenges due to the disruptions following the zero-COVID strategy, including increased risks of deflation, bursting real estate markets, rising domestic debts, and pressure to accept financial claim haircuts from BRICS countries, especially those receiving loans through the Belt and Road Initiative. These factors, along with existing weaknesses in State-owned enterprises and banks, make it inappropriate for China to act as a lender of last resort for BRICS nations.

Under these conditions, none of the BRICS currencies meet the “safe haven” standards required to withstand significant shifts in monetary policies in Western countries. An example of this vulnerability was demonstrated in May 2013 when the Fed chair, Ben Bernanke, discussed reducing the Fed’s bond-buying program, resulting in a sudden and massive capital outflow from BRICS countries. Latin American BRICS partners, who have traditionally had open capital markets, a dollarized economy, and a history of failed exchange rate stabilization programs, would be more significantly affected than their Asian counterparts. This could amplify divergences among BRICS partners.

The role of the dollar as a store of value and reserve currency is still of overarching importance for BRICS countries. This highlights the monetary and financial dependencies of BRICS countries on the G7-dominated financial system. At present, none of the BRICS nations have the capacity to reduce these dependencies. Consequently, all BRICS countries, including China, remain dependent on the monetary and financial stability of the G7 countries. The G7 is characterized by its freely floating currencies and deep financial markets. Any financial shocks within the G7 would swiftly propagate a severe contagion effect into the BRICS group. This was exemplified by the financial turbulences in the United States in 2008 and 2013.

During crises, the support provided by the World Bank and IMF, based in Washington, and operating under the principles of the “Washington Consensus,” has proven indispensable for BRICS countries. To date, no substitute from BRICS institutions has emerged to play a comparable role.

6. Concluding remarks: Challenges for further geopolitical analyses

For many years, the G7 considered BRICS as a political *quantité négligeable*. However, the Russian war in Ukraine, active Chinese support for Russia, and BRICS countries’ non-participation in Western sanctions served as a wake-up call for the G7. In response, primarily driven by the EU, the G7 has taken two main actions. Firstly, it has offered its own funds to alleviate existing infrastructure bottlenecks, exemplified by initiatives such as the EU Global Gateway Initiative. The G7 aims to establish bilateral trade agreements with BRICS countries, with Mercosur and India being noteworthy examples.

Success in these agreements is contingent on non-reciprocal concessions from G7 members, which may involve restructuring debts of BRICS countries, increased

funding for climate change initiatives, investment facilitation and trade facilitation, and the opening of agricultural markets. G7 member have taken first steps to become more active in this second sphere, with clear differences between the three sub-elements. Raising funds has proven to be politically less controversial than opening agricultural markets or restructuring debts. Resistance against the latter has been driven by the concern that G7 funds for debt restructuring would be used by the recipients to service debts against China.

The debt issue leads us to a number of open issues which are relevant for geopolitical analyses of BRICS+'s development in future.

The first issue is whether BRICS can cure their longstanding weakness of dependence on G7 currencies, and the world financial markets dominated by these currencies, in particular but not only the dollar. Such dependence is still the strongest in the third function of money, the store of value, while in the first function, mode of payment or invoicing, BRICS countries could somewhat decouple from G7 currencies due to using their own currencies of the yuan more frequently. So far, the combination of a strong dollar and weak commodity prices could trigger rapid outflows of funds from BRICS+ countries and manifested the so-called "original sin" syndrome, that is the mismatch between maturities of short-term foreign currency-denominated loans and long-term investment earning returns in local currency. Future research should explore the options of pooling reserves, stronger financial safety nets among BRICS+ central banks, and the issue of common governments bonds guaranteed by the BRICS+.

Second, the digital divide between G7 countries which command technological knowhow in digital information technology (IT) infrastructure including artificial intelligence and the BRICS+ which are widely net importers of such knowhow is rising. This divide promotes innovation in new products in G7 while BRICS+ are confined to be process innovators in traditional industries. Should G7 control the algorithms of AI and their global distribution, BRICS+ would be significantly curtailed to achieve level playing field with G7. Research could concentrate on proposing a common institutional order between G7 and BRICS+ on generating and distributing AI technology, for instance in primary commodities and genetic resources where BRICS+ are leading suppliers.

Third, aging G7 countries simultaneously need and fear migrants from BRICS+ countries while the latter are concerned about a brain drain. Geopolitical analyses could explore ways to address and overcome such dichotomy, for instance by relieving migration from the "once and for all" stigma and instead concentrate more on migration as a way to provide services in G7 countries through temporary movement of natural persons (so-called mode 4 supply of services in the World Trade Organization [WTO] terminology)

Fourth, BRICS+ citizens and G7 citizens have different time preferences, the former usually being higher than the latter because of disparities in income and demography. This is particularly relevant in the climate change debate and the issue to protecting the natural capital stock where G7 should be prepared to

adhere to the “victims pay principle” (vpp) much more than it did so far. Sticking to this principle would mean that G7 pays for the non-use of valuable natural resource in BRICS+ countries and thus the opportunity costs incurred by the BRICS+. Of course, the implementation of the vpp rests with verification and control over the idleness of the resources and thus require active collaboration to the two sides.

The discussion of the four open issues has one prerequisite in common. G7 would have to surrender its current political clout exemplified by the traditional US position controlling the leading currency with the “our currency, your problem” approach. While geopolitical tensions between G7 and BRICS+ have built up walls, prudential geopolitical analyses can help to tear these walls down.

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