Valdai Discussion Club Report

Global Inequality: Will the BRICS Countries Succeed in 'Steering' the Global Economy

Maria Apanovich, Ndivhuho Tshikovhi, Nirmala Dorasamy

valdaiclub.com
#valdaiclub

December 2023

The views and opinions expressed in this report
are those of the authors and do not represent the views
of the Valdai Discussion Club, unless explicitly stated
otherwise.

ISBN 978-5-907318-98-4

16/1 Tsvetnoy Boulevard St., Moscow, Russia, 127051

About the Authors

Maria Apanovich

Ph.D., Associate Professor, MGIMO University, Russia

Ndivhuho Tshikovhi

Ph.D., Research Fellow, Faculty of Management Studies, Durban University of Technology, South Africa

Nirmala Dorasamy

Ph.D., Professor, Department of Public Management and Economics, Durban University of Technology, South Africa

Contents

4 BRICS matter for the future of global inequality

8 Brazil Economic Outlook

10 Russia Economic Outlook

11 India Economic Outlook

13 China Economic Outlook

15 South Africa Economic Outlook

16 Johannesburg Declaration 2023:
The importance of the new BRICS plus member states

17 Iran Economic Outlook

18 United Arab Emirates Economic Outlook

21 Saudi Arabia Economic Outlook

23 Egypt Economic Outlook

24 Ethiopia Economic Outlook

26 Argentina Economic Outlook

28 Conclusion

The BRICS countries (Brazil, Russia, India, China and South Africa) are important in the context of addressing global inequality. Together, they occupy a huge proportion of the Earth's population and geographical space. Therefore, "inequality" and "equality" within the BRICS have global significance. The nature of economic growth in the BRICS countries has a significant impact on changes in inequality in other countries, both developed and developing. These nations are also important because they are committed to combating inequality between countries, they share a desire to promote what Russian Foreign Minister Sergei Lavrov has called "a new polycentric system of international relations".[1] They are also important because their efforts to address domestic inequalities are becoming an increasingly important source of innovation and development as a beacon of hope and change. In a quest to understand different dimensions of inequality within BRICS nations, we took a glimpse into their political economic architecture.

In recent years, the BRICS countries have reduced inequality between countries, driving economic growth through trade and investment in poorer regions of the world. In 2012, they collectively invested more than $6 billion in Africa compared to $3.7 billion for the US.[2] They have had an impact on inequality in poor countries, stimulating industrialization as well as commodity production, creating jobs for many poor people while providing national elites with new opportunities for accumulation. They have helped rebalance world trade, making South-South flows much more important in the composition of world trade. This effect is likely to continue despite the slowdown that some BRICS countries are now experiencing. Geopolitical shifts partly reflect changes in the global economy. In recent years, the BRICS nations have gained more leverage to assert their interests, which sometimes coincide with those of the global South as a whole. This analysis seeks to characterize the BRICS and their growing influence as an actor in global politics in light of the anti-equality agenda.

Each member of the group largely wields its influence individually, but their cooperation in global financial negotiations is growing, and they are building new collective institutions that can enable them to advance a common global development agenda. BRICS efforts to combat the inequalities of today's international financial system

---

[1] Лавров: становление полицентричного мира займёт десятилетия // ТАСС. 25.02.2019. URL: https://tass.ru/politika/6154307

[2] ActionAid annual report 2014 // ActionAid. 30.06.2015. URL: https://actionaid.org/publications/2015/annual-report-2014

include the creation of the BRICS New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), as well as the China-led Asian Infrastructure Investment Bank (AIIB). The organization's summit in South Africa in 2023 resulted in BRICS plus, with six new member states from January 2024.

Understanding the income inequality-economic growth nexus is important since reducing income disparity while achieving higher economic growth is the key component for any state's economic development. BRICS was formed in 2010 as an international grouping to foster joint economic and social-cultural projects. To date, the bloc has achieved more and gained more attention globally. To justify this statement, one needs to analyse the modern economic development of the member states.

BRICS matter for the future of global inequality

In general, theories of political economy and social discontent predict that income inequality will hinder economic progress, whereas the savings rate theory shows that it will promote it. On the other hand, the credit-market imperfection theory foresees that income inequality will impact economic growth in both good and negative ways. Persson and Tabellini[3] contend, using a political economy (median-voter) model, that in a society where income redistribution is crucial, political choices lead to economic policies taxing investment and growth-promoting activities.

A second hypothesis about the connection between income inequality and economic growth is based on flaws in the loan market. This

[3] Persson T., Tabellini G. Is Inequality Harmful for Growth // *American Economic Review*, *84*(3), 1994. Pp. 600–621.

BRICS MEMBERS

Members

1 Brazil, 2 Russia, 3 India, 4 China, 5 South Africa

Members since 2024

6 Argentina, 7 Egypt, 8 Iran, 9 UAE, 10 Saudi Arabia, 11 Ethiopia

Share in global GDP (2023) %

Brazil **2** Russia **2** India **3.6** China **18.4** South Africa **0.4** Argentina **0.6** Egypt **0.4** Iran **0.4** UAE **0.5** Saudi Arabia **1** Ethiopia **0.1**

Total BRICS **29.4**

Share in the world population (2023), %

Brazil **2.7** Russia **1.8** India **17.8** China **17.7** South Africa **0.8** Argentina **0.6** Egypt **1.4** Iran **1.1** UAE **0.1** Saudi Arabia **0.5** Ethiopia **1.6**

46.1

Share in global oil production (2022), %

Brazil **3.3** Russia **11.9** India **0.8** China **4.4** South Africa **0** Argentina **0.8** Egypt **0.7** Iran **4.1** UAE **4.3** Saudi Arabia **12.9** Ethiopia **0**

43.2

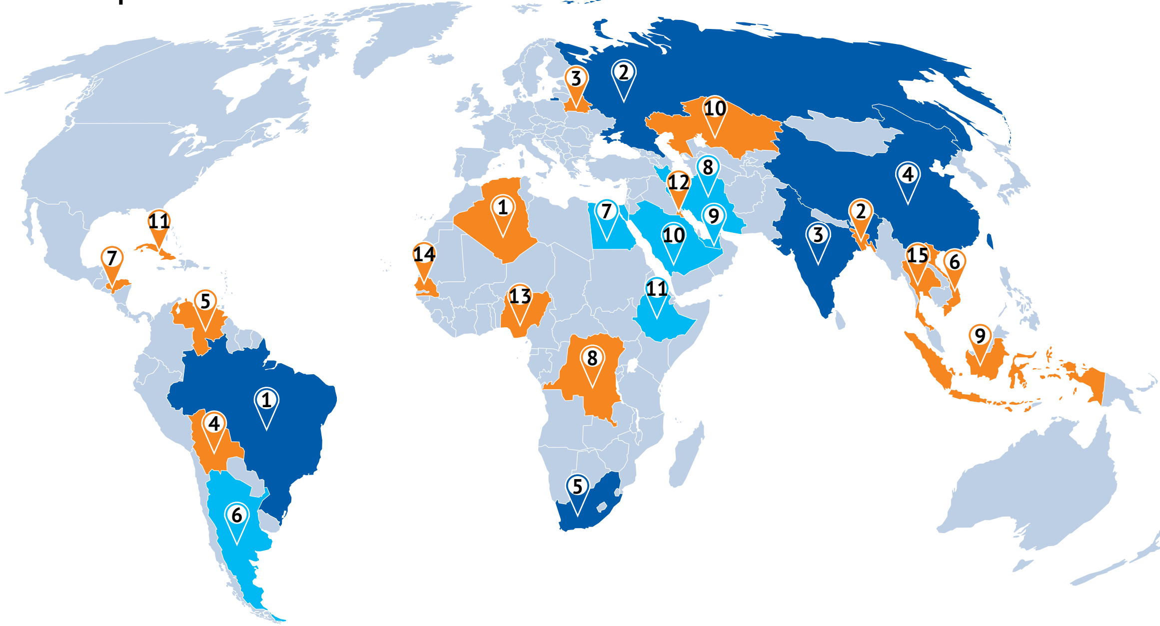
Share in world exports (2022), %

Brazil **1.3** Russia **2.1** India **1.8** China **14.4** South Africa **0.5** Argentina **0.4** Egypt **0.2** Iran **0.3** UAE **2.4** Saudi Arabia **1.6** Ethiopia **0.02**

25.02

Applied for membership

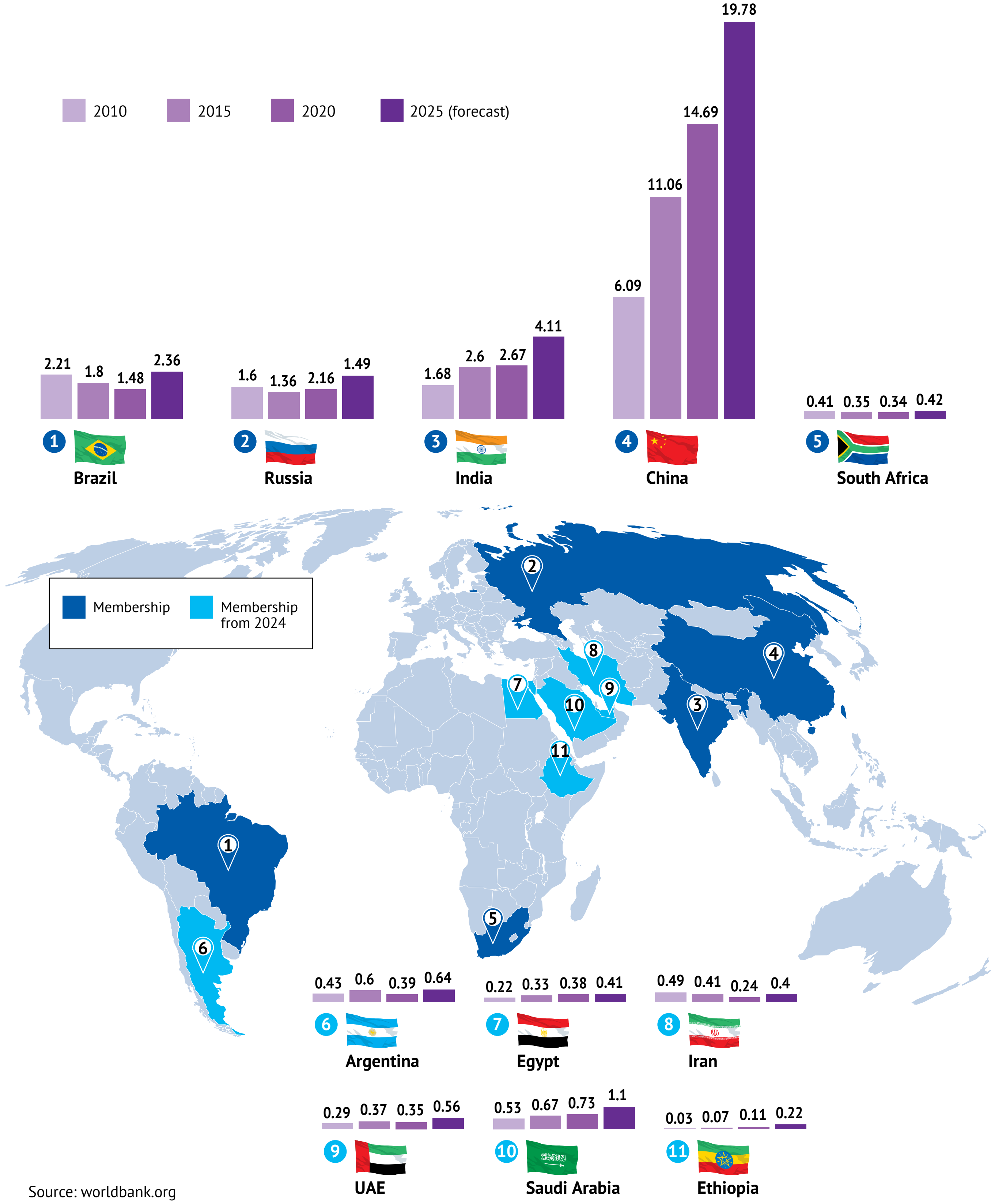
1 Algeria
2 Bangladesh
3 Belarus
4 Bolivia
5 Venezuela
6 Vietnam



7 Honduras, 8 DR Congo, 9 Indonesia, 10 Kazakhstan, 11 Cuba, 12 Kuwait, 13 Nigeria, 14 Senegal, 15 Thailand

Sources: IMF, World Population Review, EI Statistical Review of World Energy, WTO

GDP OF THE BRICS MEMBER COUNTRIES, $ TRILLION



Source: worldbank.org

theory[4] highlighted the connection between credit restrictions, income and wealth distribution, and investments in physical and human capital. According to the credit-market imperfection theory, when access to credit is restricted, an individual's ability to take advantage of investment opportunities depends on their assets and income, and poorer households are more likely to avoid investing in human capital, which has a relatively high rate of return. In this situation, efforts to redistribute income from the wealthy to the poor without introducing distortions boost investment volume and productivity. This suggests that lowering income disparity at the beginning of a transition to a steady state results in a higher rate of economic growth.[5]

However, an opposing force emerges if investments demand a high start-up cost. Human and material capital investment boosts the economy once it reaches a particular level. "Divided We Stand", a 2011 OECD[6] study on global inequalities, identified four driving forces of inequality that are common to emerging economies:

1. Labour force inequalities (formal-informal);
2. Spatial divides (rural-urban);
3. Gaps in education *and*
4. Barriers to employment and career advancement for women.

These are intertwined with other key factors that shape how inequalities are reproduced and experienced in BRICS countries, namely gender and ethnic disparities, healthcare and environmental inequalities, unequal labour market conditions and distribution of, and access to, public social expenditure.

---

[4] Ezcurra R. Is income inequality harmful for regional growth? Evidence from the European Union // *Urban Studies*, *44*(10), 2007. Pp. 1953–1971.; Piketty T. The dynamics of the wealth distribution and the interest rate with credit rationing // *The Review of Economic Studies*, *64*(2), 1997. Pp. 173–189.

[5] Barro R. J. Inequality and Growth in a Panel of Countries // *Journal of economic growth*, *5*, 2000. Pp. 5–32.

[6] Organisation for Economic Co-operation and Development. (2011). *Divided we stand: Why inequality keeps rising* (pp. 17–17). Paris: OECD publishing.

While evidence suggests that informal employment – jobs not subject to state regulation – helps poor households increase their income, it also appears to be closely linked to rising inequality in the BRICS nations, where large labour pools are frequently unwittingly subjected to wage penalties, job instability, and restrictions on their socio-economic mobility. The effects of informal work frequently fall disproportionately on marginalized and underprivileged populations that lack formal education and skill-building opportunities.

Brazil Economic Outlook

Despite having a favourable demographic, structural limitations in Brazil during the previous ten years have led to a meagre average GDP growth (0.6 percent). Due to a complicated tax system, a difficult business environment that discourages entrepreneurship, a slow and uneven accumulation of human capital, ineffective sector-level state intervention policies, low savings, and compressed public investment to accommodate higher current spending and rising pension obligations, productivity growth is still weak.

Real GDP increased by 2.9 percent in 2022, mostly due to household consumption, which increased by 4.3 percent throughout the year. With better working conditions for women, young people, and Afro-Brazilians, the labour market recovery continued as unemployment fell to 7.9 percent in December 2022 – the lowest figure since 2015 – and the labour force recovered. In January 2023, Brazil's unemployment rate rose to 8.4 percent, breaking a run of eleven straight margin declines. This is 0.5 percentage points higher than levels in December 2022 but still 2.8 percentage points lower than in January 2022. Additionally, the labour force participation rate fell below pre-pandemic levels (63.3 percent) in January 2023, when it was 61.9 percent (down from 62.3 percent in January 2022).

Brazil has struggled with inflation for a long time; after reaching a peak of 12.1 percent in April 2022, a large cycle of monetary tightening raised the policy rate to 13.75 percent in December 2022. The economic rebound, stronger revenues (8.2 percent of real growth), and advantageous trade conditions contributed to the continuation of fiscal consolidation in 2022. Brazil’s primary surplus thus increased by 2.9% from 2018 to 2021, while state debt decreased from 78.3 percent of GDP in 2018 to 72.9 percent in 2021 due to the economic recession 2020.

Real GDP growth is anticipated to drop to 0.8 percent in 2023 as a result of monetary tightening, persistently high inflation, and weak global demand. All three of these things will probably have a negative impact on investment, exports, and private consumption.

Increasing federal social payments continues to be essential for lowering poverty rates and providing income support to the most vulnerable groups in society. The poverty rate, which is based on the US$6.85/day, PPP, was reduced from 28.4 percent in 2021 to 24.3 percent in 2022 as a result of these payments. A reform of the Bolsa Famlia programme, with a significant consolidation effort and an additional benefit of R$150 per kid (ages 0–5) in all recipient households, is anticipated to help reduce the poverty rate to 23.9 percent in 2023. As the economy grows stronger, there may be further cuts, but they will remain erratic without greater investments in human capital from the less fortunate.

Due to recent increases in emissions from deforestation, Brazil is no longer on track to meet its Nationally Determined Contribution (NDC) targets: reduce greenhouse gas emissions by 37 percent by 2025 and 43 percent by 2030 compared to 2005 levels. Brazil has not yet developed a long-term integrated national strategy to achieve its greenhouse gas goals. Recent infrastructure reforms and the federal government's renewed attention to the climate agenda offer good opportunities for Brazil's green recovery and help millions of Brazilians escape poverty.

Russia Economic Outlook

In 2022, real GDP fell by 2.1 percent, primarily as a result of the impact of sanctions. Additionally, the projection states that in 2023 there will likely be a decrease, though it will be less pronounced than initially anticipated due to the robust fiscal reaction and the sharp rise in oil prices that helped enhance fiscal revenues. Real incomes have decreased, and imports have fallen precipitously. Due to the sanctions and lessening of the budgetary expansion, the slump will last till 2023. Following that, the economy is anticipated to stabilize. However, due to Russia's loss of access to important productivity sources, medium- to long-term growth is predicted to be relatively low.

The sanctions have a significant impact, though they are not as harsh right away as initially anticipated. The government's robust fiscal reaction (3 percent of GDP), capital controls, monetary tightening, prompt action to contain banking sector risks, as well as significant FX inflows fuelled by the spike in global commodities prices, all helped to lessen the initial shock. Russia is now more vulnerable if fossil fuel prices and/or volumes decline as the global economy slows, according to the combination of smaller accessible international reserves (as half of Russia's US$630 billion in international reserves were frozen due to sanctions), the suspension of its fiscal rule, and the reduction in domestic nonoil/gas revenues. Moreover, the sanctions have led to a dramatic drop in total imports, restricting access to new technologies and equipment, and external financing, and thereby dampening medium- to long-term growth prospects.

The second quarter of 2023 saw a substantial gain in Russia's gross domestic product of 4.9% year over year, rebounding from the first quarter's 1.8% decline and in line with the preliminary projection. Notably, it is the first GDP growth for Russia since the first quarter of 2022, when sanctions were imposed. The Central Bank of Russia views the expansion as a sign of recovery from the effects of Western sanctions on domestic demand and foreign trade, which supports the case for raising interest rates. Agriculture, forestry, hunting, and fishing (4%), manufacturing (10.6%), building (11.7%), wholesale and retail (11%), hotels and restaurants (15.2%), and information and communication (3.5%), are among the sectors that contribute to GDP growth. On the other hand, the economy contracted for health and social services (−3.2%) and water supply, sewerage, and wastewater disposal (−1.7%).

India Economic Outlook

India is one of the fastest growing economies in the world and is poised to continue on this path with the ambition of achieving upper middle-income country status by 2047, the 100th anniversary of the independence of India. It is also committed to ensuring its continued growth trajectory is aligned to meet the challenges of climate change and in line with its target of achieving net zero emissions by 2070. Over the past two decades, growth has also helped India significantly reduce extreme poverty. From 2011 to 2019, the country is estimated to have halved the proportion of its population living in extreme poverty – below $2.15/person/day. However, poverty reduction has slowed in recent years, especially during the COVID-19 pandemic, but has since levelled off in 2021–2022.

Some challenges still exist. Consumption inequality persists, with a Gini index of around 35 over the past two decades. Malnutrition in children remains high, with 35.5 percent of children under five years old suffering from stunting, increasing to 67 percent in children aged 6 to 59 months. Overall employment indicators have improved since 2020, but concerns remain about the quality of jobs created and real wage growth, as well as the low participation of women in the workforce dynamic. At the same time, gaps in economic participation will need to be closed, especially by bringing more women into the labour market.

After real GDP contracted in FY20/21 due to the COVID-19 pandemic, growth recovered strongly in FY21/22, supported by accommodative fiscal and monetary policies and widespread vaccination coverage. As a result, in 2022, India became one of the world's fastest-growing economies despite significant global environmental challenges – including further disruption to supply lines following rising geopolitical tensions, synchronized tightening of global monetary policies and inflation pressures.

In FY22/23, India's real GDP grew by about 6.9 percent. Growth is supported by strong domestic demand, strong investment activity supported by the government's infrastructure investment push and vibrant private consumption, especially among those with higher income. The composition of domestic demand has also changed, with public consumption lower due to fiscal consolidation.

However, signs of a slowdown have emerged since the third quarter of FY22/23, even as overall growth momentum remains strong. Ongoing headwinds – rising borrowing costs, tighter financial conditions and persistent inflationary pressures – are expected to weigh on India's growth in the 2023/24 financial year. Real GDP growth is expected to moderate at 6.3 percent in FY23/24, compared with 6.9 percent estimated for FY22/23.

China Economic Outlook

Since China began opening up and reforming its economy in 1978, GDP growth has averaged more than 9 percent per year, and more than 800 million people have escaped poverty. Significant improvements were also recorded in access to health, education and other services during the same period. China is now an upper-middle-income country. Although China has eliminated extreme poverty, many people remain vulnerable, with incomes below the threshold commonly used to define poverty in middle-income countries. China's robust growth, based on low-cost investment, manufacturing and exports, has largely reached its limits and led to economic, social and environmental imbalances. Reducing this imbalance requires changing the economy's structure from manufacturing to high-value-added services, investment to consumption, and high to low carbon intensity. In recent years, growth has slowed due to structural constraints, including falling labour force growth, falling returns on investment, and slowing productivity growth.[7]

The challenge is finding new growth drivers while addressing the social and environmental legacies of China's past development journey. With its size, China occupies a central position in many regional and global development issues. Although not the largest cumulative source of emissions in history, China today accounts for 27 percent of annual global carbon dioxide emissions and one-third of global greenhouse gas emissions – with average emissions per capita now exceeding the European

[7] Global economic perspective forecast? // World Bank. 2023. URL: https://www.worldbank.org/en/publication/global-economic-prospects

Union level, although slightly below the OECD average and much lower than the US level – and the country's air and water pollution affects affect other countries. Global environmental problems cannot be solved without China's participation. China's growing economy is also an important source of global demand. Economic rebalancing will create new opportunities for exporters of manufactured goods, although it may reduce demand for raw materials in the medium term. China is exerting increasing influence over other developing economies through trade, investment and ideas. Many of China's complex development challenges are also relevant to other countries, including the transition to a new growth model, a rapidly aging population, building a cost-effective health system and promoting low-carbon energy pathways.

After China's rapid reopening from the COVID-19 outbreak in late 2022, GDP growth is expected to recover to 5.1 percent in 2023, up from 3 percent in 2022. Growth will be driven by recovering demand, especially in the services sector. Investment is expected to remain strong, supported by slower but sustained growth in infrastructure and manufacturing and a gradual stabilization of real estate investment. Net exports are expected to weigh on growth due to slowing external demand combined with a slight pick-up in import growth due to rising domestic demand.

To support the ongoing recovery, fiscal policy is expected to remain expansionary, albeit less than in 2022. Monetary policy will likely be relatively accommodative, and fiscal easing policies in the real estate sector have been maintained in 2023. In the medium term, the Chinese economy faces a structural recession. Potential growth is trending downward, reflecting unfavourable demographics, low productivity growth and increasing constraints on a debt- and investment-led growth model. Structural reforms are needed to restart the transition towards more balanced and quality growth.

South Africa Economic Outlook

Power shortages have hampered South Africa’s growth for years. Scheduled power outages (load shedding) began in 2007 and have increased exponentially, reaching nearly 9 hours daily by 2022. These severe power shortages have disrupted the operations economy and increased businesses’ operating costs, many of which rely on expensive diesel generators. It also affects other infrastructure such as water, IT and service delivery (health and education). Even as new reforms and investments are considered, load shedding is expected to continue for at least another two years. Low structural growth and the COVID-19 pandemic have exacerbated socio-economic challenges.

South Africa has regained pre-pandemic GDP but has not regained employment levels. At the end of the second quarter of 2023, there will still be about 74,000 fewer jobs than at the end of 2019, with women and young people still disproportionately affected. Inequality remains among the highest in the world and the estimated poverty rate of 62.6 percent in 2022 based on poverty lines for upper-middle-income countries is just below the peak of the pandemic. These trends have led to growing societal demands for government support, which could jeopardize the sustainability of public finances if they are met.

The global environment remains favourable, but increasingly severe domestic restrictions have caused GDP growth to slow to 1.9 percent in 2022 from 4.7 percent in 2021. Mining output decreased while manufacturing production stagnated due to load shedding and increasing traffic congestion. The main growth drivers are the service sectors (finance, transport and personal services) and domestic trade.

The job market remains weak. The employment rate increased slightly to 39.4 percent at the end of 2022 and 40.1 percent in the second quarter of 2023, following the pandemic low of 35.9 percent in September 2021. In this context, the COVID-19 Social Assistance Grant, introduced in May 2020, has been extended for another year until March 2024. Economic challenges and socio-economic problems are further exacerbated by disproportionate increases in fuel and food (bread and cereal) prices, which have affected people experiencing poverty. Inflation averaged 6.9 percent in 2022 but rose 8.2 percent for the poorest 20 percent of the income distribution.

Structural challenges and weak growth have undermined progress in poverty reduction, especially in light of the COVID-19 pandemic. Progress on household welfare was severely hampered by rising unemployment, which reached an unprecedented 35.3 percent in the fourth quarter of 2021. By the second quarter of 2023, the unemployment rate had decreased slightly to 32.6 percent, still higher than the current level. The unemployment rate is highest among young people aged 15 to 24, about 61 percent. Other structural challenges have also grown, especially transport and logistics, which have deteriorated due to state-owned Transnet's mismanagement, theft and sabotage, limiting South Africa's ability to export.

Johannesburg Declaration 2023: The importance of the new BRICS plus member states

In its 15th BRICS Summit at Johannesburg, South Africa, the BRICS has invited Iran, the United Arab Emirates, Saudi Arabia, Egypt, Ethiopia, and Argentina to join the group. Their official active membership will begin in January 2024. BRICS currently represents around 40 percent of the world’s population and more than a quarter of the world’s GDP. With the new members, it will represent almost half the world’s population and include three of the world’s biggest oil producers, Saudi Arabia, the UAE and Iran.

Iran Economic Outlook

Iran’s economy continued to grow moderately. Real gross domestic product (GDP) grew by 3.8 percent in 2022/23, driven by expansions in services and manufacturing. Despite sanctions, the oil sector expanded, aided by the tighter global oil markets. Favourable weather conditions helped the agriculture sector to grow marginally after the contractions in previous years. On the expenditure side, private consumption was the main driver of GDP growth. Government consumption contracted to contain the budget deficit following a sharp expansionary policy in 2021/22. Meanwhile, exports and imports increased, and strong investment in machinery drove investments up, while construction investment marginally improved. However, the economy continues to face growth constraints notably related to economic sanctions, restricted access to external markets and the latest technology, and much needed foreign investment.[8]

Despite sizeable government interventions to sustain the economy, in the first year of the pandemic (2021/22), approximately 1 million jobs were lost, and labour force participation contracted by three percentage points. Iranian women were the most affected: two out of three jobs lost

[8] Iran Economic Monitor, Spring/Summer 2023: Moderate Growth amid Economic Uncertainty – With a Special Focus: The Gendered Impact of the COVID-19 Crisis on the Labor Market in Iran // World Bank. 2023. URL: http://hdl.handle.net/10986/40243

between 2019/20 and 2020/21 were previously held by women.[9] The gendered impact of the crisis contributed to widening Iranian women's disadvantage in the labour market. Most importantly, female labour force participation gains slowly accumulated since 2011 vanished.

Consistent with what is observed in other countries, the crisis affected women with young children the most. The combined effect of school closures and unequal intra-household allocation of care responsibilities, associated with prevailing gender norms, pushed Iranian women with children out of the labour force. Whether or not these trends will be reversed as the management of the COVID-19 pandemic is normalized and the economy recovers from the crisis remains an important policy question.[10]

Ongoing economic sanctions, declining global demand, and energy and water shortages shape Iran's economic outlook. Real GDP growth is predicted to moderate to an annual average of 2.1 percent from 2023/24 to 2025/26, lower than in other major oil exporters due to the impact of sanctions on both oil and non-oil sectors. Oil GDP is expected to grow slowly, partly because of weaker global demand. Non-oil GDP growth is projected to remain below potential due to a lack of investment in recent years.[11]

United Arab Emirates Economic Outlook

UAE's economy is expected to slow down after the expansion of 2022, driven primarily by OPEC+ production cuts and the global economic downturn. Despite easing oil prices and production levels, twin balance

---

[9] Izadi A., Tayebnia S. H., Bazrafshan, J. Investigating Factors Affecting the Sustainable Livelihood of Rural Households: A Case Study of Agricultural Section of Rostaq Rural District in Khalilabad County // *Village and Space Sustainable Development*, *4*(1), 2023. Pp: 84–100.

[10] Ferro C., Rosenberg P., Salama D. POLITICAL RISK REPORT. 2023.

[11] Iran at glance // International Monetary Fund. URL: https://www.imf.org/en/Countries/IRN

surpluses are anticipated during 2023 and continue in the medium term. Tight monetary policy and cooling economic activity will subdue inflation. The UAE maintains its role as the regional centre for trade, finance, and travel, bolstered by advances in economic diversification and reduced hydrocarbon dependency. However, intensifying regional competition, particularly from Saudi Arabia and Qatar, poses a challenge as these nations adopt strategies akin to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030.

Key risks to UAE growth include global uncertainty and geopolitical developments, tighter financial conditions, and OPEC+ quota disagreements. Enhanced UAE reform efforts offer upside risks to medium-term growth, but delays or digressions in structural reforms could weaken long-term growth and employment.[12]

The UAE's economy grew by 6.6 percent in 2022 driven by increased oil production and strong performance of the non-oil sectors, especially construction and tourism. Effective management of the COVID-19 crisis, coupled with supportive fiscal measures and pro-business and social reforms, have helped strengthen economic development. During the first half of 2023, economic growth decelerated, driven primarily by developments in the oil sector as OPEC+ continued to cut oil production quotas; concurrently, the non-oil sector maintained robust growth supported by loose fiscal policy. Business sentiment continues to be positive in 2023, confirming strong non-oil performance. According to the most recent available ILO estimates, the labour force participation rate was expected to reach 82.7 percent in 2023, slightly above its 2019 level. Employment rebounded in 2022 to pre-pandemic levels and was expected to continue to increase in 2023. The employment-to-population ratio in 2023 is estimated at 80.4 percent among men and 52.5 percent among women.[13]

[12] Global economic perspective forecast? // World Bank. 2023. URL: https://www.worldbank.org/en/publication/global-economic-prospects

[13] Dabbous A., Barakat K. A., Kraus S. The impact of digitalization on entrepreneurial activity and sustainable competitiveness: A panel data analysis // *Technology in Society*, *73*, 2023 (102224).

The unemployment rate was projected to be 2.7 percent for 2023, a decrease from the height of the pandemic but still not back to 2019 rates. Unemployment rates remain substantially higher among young adults ages 15–24 than among adults ages 25 and over. The gap is especially wide among women, with projected rates of 18.6 percent and 5.5 percent, respectively, for 2023.

Economic activity is anticipated to slow down in 2023 to 3.4 percent due to weaker global activity, stagnant oil output, and tighter financial conditions. Following tighter OPEC+ production quotas, oil GDP growth is projected at 0.7 percent in 2023 but is expected to recover strongly in 2024 as production quotas are relaxed. On the other hand, the non-oil output is forecast to support economic activity in 2023, growing at 4.5 percent, with a strong performance in tourism, real estate, construction, transportation, and manufacturing and a surge in capital expenditure. The introduction of mandatory unemployment benefits in 2023 should further bolster private consumption and support overall domestic demand.

Tight monetary policy, a strong US dollar, and a slowdown in economic activity will keep inflation rates subdued – hovering around 3.3 percent in 2023 and decreasing to 2.2 percent in 2024. Robust oil revenues, supported by the strong performance of non-oil sectors, will maintain the fiscal balance surplus at 5.2 percent of GDP in 2023.

The UAE's economic outlook remains positive, supported by domestic activity. The IMF expects non-hydrocarbon growth to be around 4 percent in 2023 and to accelerate over the medium term with the implementation of ongoing reforms. Inflationary pressures are projected to moderate gradually, including from the impact of tightening financial conditions. Further development of domestic capital markets, including through the federal government issuance of local currency debt, will also support growth. Nevertheless, the outlook is subject to significant external uncertainties including the impact of global economic and financial headwinds, geopolitical developments, and the recently announced OPEC+ production cuts.[14]

Saudi Arabia Economic Outlook

According to the World Economic Outlook (WEO) report issued in April 2023, the IMF's projections indicate a 3.1 percent growth in the Saudi economy for 2023, a 0.5 percent higher than expected in the previous report, and a 3.1 percent growth for 2024. Furthermore, the World Bank's projections were close to the IMF's, indicating growth rates of 3.7 percent and 2.3 percent for 2023 and 2024, respectively. According to the IMF's estimates, inflation in Saudi Arabia is projected to rise by 2.8 percent and 2.3 percent in 2023 and 2024, respectively. Following the strong performance in 2022, the economy is expected to report a contraction in 2023 fuelled by OPEC+ consecutive decisions of oil production cuts to support price stability. Lower oil receipts due to contracting oil production levels and subdued prices will place the fiscal balance in deficit and narrow the current account surplus. Inflation remains muted.[15]

The government estimates that 2023 spending will increase by 32 percent, 13 percent above budgeted levels. Spending will be broadly flat in 2024 before trending higher again in 2025–2026. These numbers

---

[14] IMF report 2023// International Monetary Fund. URL: https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023

[15] Global economic perspective forecast? // World Bank 2023. URL: https://www.worldbank.org/en/publication/global-economic-prospects

are well more than previous medium-term projections in the 2023 budget that envisioned annual surpluses – 2025 spending will be 15 percent higher than planned. This policy recalibration reflects a decision to use the Kingdom's fiscal space more to support strong non-oil economic growth and press ahead with economic and social priorities under the Vision 2030 strategic development plan. Oil production cuts are dragging down overall real GDP growth, but real non-oil GDP, excluding government spending, rose by 5.7 percent.

Despite overture to Western investors, Saudi Arabia might attract new investments from BRICS members since it formally joined the economic bloc. Downside risks and uncertainties to the outlook are numerous. These include downward pressures on oil prices. Furthermore, downward revisions in China's growth prospects will have an adverse impact on Saudi Arabia's main export market.

The continued loose fiscal spending and the significant reduction in oil receipts during 2023 are expected to flip the fiscal balance into a deficit of 1.5 percent of GDP. Aramco's distribution of performance-linked dividends starting Q3–2023 for six quarters should improve the fiscal position in the medium term – supported by the recovery in oil production levels. As budgetary financing needs grow, the debt-to-GDP ratio is expected to rise to 24.8 percent in 2023 before moderating to 23.8 percent in the medium term. The off-budget capital spending by PIF will continue to remain substantial. Despite the anticipated fall in oil export receipts in 2023, exports will continue to surpass imports. As a result, the current account surplus is expected to continue, yet narrow significantly from last year, to reach 5.6 percent of GDP in 2023.[16]

[16] Saudi Arabia financial stability report 2023 // Saudi Central Bank. URL: https://www.sama.gov.sa/en-US/EconomicReports/Financial%20Stability%20Report/Financial%20Stability%20Report%202023.pdf

Egypt Economic Outlook

The Egyptian economy is facing a cost-of-living crisis and balance of payments adjustments. Economic growth slowed in 2022 and is projected to recover gradually. Consumption will remain weak for some time due to high inflation despite fiscal support. In the face of tight financial conditions and uncertainty, business investment will remain subdued while public investment is scaled back. Egypt remains particularly vulnerable to abrupt changes in capital flows and currency fluctuations. Egypt has been hit particularly hard by rising food prices in international markets, given its reliance on food imports. Inflation has surged since early 2022. Food prices initially drove it but have spread since, pushed up by substantial currency depreciation. Both headline and core inflation have reached record highs, with the costs of soaring food prices being borne disproportionately by poor people. Nonetheless, consumption has been sustained by a series of fiscal support packages. Notwithstanding the slowdown in economic activity, the unemployment rate (according to the ILO definition) has barely changed over the past year, while the share of informal jobs remains important.

In 2021/22, real GDP growth increased to an estimated 6.6 percent, driven by gas extractives, communications, agriculture, and construction. Nevertheless, manufacturing performed below its potential. On the demand side, growth was driven by household consumption and investment. The fiscal deficit fell from 6.9 percent of GDP in 2020/21 to an estimated 5.8 percent in 2021/22, with a primary surplus of 1.2 percent of GDP. Total spending increased but was compensated by a 15 percent rise in value-added tax revenue and a 40 percent jump in receipts from property taxes over the previous fiscal year.[17]

[17] Global economic perspective forecast? // World Bank. 2023.URL: https://www.worldbank.org/en/publication/global-economic-prospects

Public debt fell modestly, from 92.0 percent of GDP in 2020/21 to 89.6 percent in 2021/22, because of a lower budget deficit. Inflation increased from 4.5 percent in 2020/21 to 8.5 percent in 2021/22, led mostly by rising international food and energy prices and the depreciation of the Egyptian pound against the US dollar by 16 percent in May 2022. The current account deficit narrowed to 3.5 percent of GDP in 2021/22 from 4.4 percent in 2020/21 thanks to tourism revenue rising to $10.7 billion from $4.9 billion. The banking system remained profitable and well-capitalized, and the nonperforming loan ratio was limited to 3.2 percent in June 2022. Subsidies and social protection programs have reduced the impact of high food and energy prices on vulnerable households. The poverty rate was 29.7 percent in 2020. Unemployment remained stable at 7.2 percent in June 2022.

The outlook remains clouded by uncertainty related to the global economic context. Growth is projected to slow to 4.4 percent in 2022/23. The fiscal deficit is projected to widen slightly, to 6.0 percent of GDP in 2022/23, and inflation to increase to 20.0 percent due to high food and non-food prices and the devaluation of the Egyptian pound against the US dollar. The current account deficit is expected to remain at 3.5 percent of GDP in 2022/23 and improve to 2.4 percent in 2023/24 thanks to higher tourism revenue and oil exports.[18]

Ethiopia Economic Outlook

In the past three years, the Ethiopian economy has faced multiple shocks of differing natures: the COVID-19 pandemic, internal conflicts and the northern Ethiopia war, drought. The government has lowered its growth projections to 6.6 percent from the original projection of 8.7 percent for

[18] African Economic Outlook 2023 // African Development Bank. URL: https://www.afdb.org/en/knowledge/publications/african-economic-outlook

FY2022. The complexity of managing the shocks has made policy choices challenging. Several parts of the country have also been hit by the worst drought in forty years, affecting human lives, livestock, and agriculture. Nevertheless, in the past three years, the economy has shown some resilience and recorded a positive growth rate.

In sub-Saharan Africa, average growth was also positive at 4.5 percent in 2021. Due to the conflict, significant damage was faced in agriculture. In the Amhara region, the regional government reported an estimated damage of more than Birr 100 billion. Under normal times, the Amhara region contributes more than 30 percent of the total crop production of the country. The increased fertilizer cost is another main challenge for the sector's performance.

Real GDP growth fell to 5.3 percent in 2022 from 5.6 percent in 2021 but remained above East Africa's average (4.7 percent in 2021 and 4.4 percent in 2022). Supply-side growth drivers were industry and services, and demand-side drivers were private consumption and investment. Inflation rose to 34 percent in 2022 from 26.6 percent in 2021. Both growth and inflation were adversely impacted by internal conflict and drought. The fiscal deficit widened to 4.2 percent of GDP in 2022 from 2.8 percent in 2021 due to higher defence spending and weak revenue performance (AfDB, 2023). GDP is projected to grow 5.8 percent in 2023 and 6.2 percent in 2024, driven by industry, private consumption, and investment. The peace dividend, rebounding tourism, and the prospect of liberalizing more sectors are expected to boost growth. Following the peace dividend, inflation is projected to decline to 28.1 percent in 2023 and 20.1 percent in 2024.[19]

The fiscal deficit is projected to grow to 3.1 percent in 2023 and 2.5 percent in 2024 due to the expected increase in government

[19] Global economic perspective forecast? // World Bank. 2023.URL: https://www.worldbank.org/en/publication/global-economic-prospects

revenue driven by domestic resource mobilization improvements, fiscal consolidation strategy implementation, and donor inflow resumption. The current account deficit is expected to narrow to 3.7 percent of GDP during 2023–24 as merchandise and service exports and foreign direct investment rise and imports of capital inputs continue to decline.

Argentina Economic Outlook

Speaking of Argentina, one should note that members of *La Libertad Avanza* alliance, including president-elect Javier Milei, have repeatedly voiced their negative attitude to the prospect of Argentina joining BRICS. On November 30, 2023, economist Diana Mondino, who became foreign minister in Milei's cabinet, said that the country would not join BRICS on Milei's watch.[20] According to her, "BRICS are more related to a political alignment than to any advantages for trade between countries." However, a couple of days before there were statements that Argentina might become a "little active" member[21] of the group, whatever that could mean. Although the issue of Argentina joining BRICS is in limbo, we consider it necessary to give an overview of the country's economic outlook.

Following an economic slowdown at the end of 2022, GDP is expected to contract by 1.6 percent in 2023 and recover by 1.1 percent in 2024. The labour market has improved, but the coming recession is expected to bring a drop in employment. Exports suffer from a severe crop drought in 2023 but will recover in 2024. Inflation surpassed 100

[20] Diana Mondino says Argentina will not join BRICS under Milei government // Buenos Aires Times, 30.11.2023. URL: https://www.batimes.com.ar/news/argentina/diana-mondino-confirms-argentina-will-not-join-brics.phtml

[21] Javier Milei analiza permitir el ingreso de la Argentina a los BRICS pero como miembro poco activo // TN, 27.11.2023. URL: https://tn.com.ar/politica/2023/11/25/javier-milei-permitiria-el-ingreso-de-la-argentina-a-los-brics-pero-con-una-posicion-moderada/

percent and will remain high in the short term despite a slightly less expansionary fiscal stance. Tight capital controls and policy uncertainty ahead of the October 2023 elections held back investment and consumption in 2023. Public spending rightly fell during 2023 as energy subsidies are scaled back, and compliance with fiscal targets requires further spending restraint. A continued reduction in transfers from the central bank to the treasury should reduce inflationary pressures in the medium term, narrow the gap between the official and the parallel exchange rates and lower the risk of a sudden devaluation. Stabilizing the macroeconomic situation and lowering inflation will reduce high poverty and address mounting social pressures.

Despite robust domestic demand during S1:2023, real GDP is projected to contract by 2.5 percent this year because of the larger-than-anticipated impact of the drought and tighter macroeconomic policies during the remainder of the year.

Argentina is facing the challenge of rising inflation and high interest rates, which are likely to decrease household disposable incomes and hinder private consumption. Moreover, the country's economic activity may be limited due to high debt levels, strict import regulations, and low foreign reserves, as the Argentine peso is expected to depreciate significantly. As a result, the growth of Argentina's real GDP in 2023 remained stagnant compared to the robust 5.1 percent growth achieved in 2022. Argentina is categorized as a high-risk nation and ranks 114th out of 153 nations in the Global Data Country Risk Index.[22] The country's risk score is higher in macroeconomic risks, demographic and social structure, and environmental risk when compared to the average of Latin American nations.[23]

[22] Global Risk Report Quarterly Update – Q2 2023 // GlobalData. URL: https://www.globaldata.com/store/report/global-economic-risk-quarterly-analysis/

[23] Global Data Country Risk Index 2022 Global economic perspective forecast? World Bank 2023. URL: https://www.worldbank.org/en/publication/global-economic-prospects

Conclusion

The closer cooperation amongst BRICS economies and the addition of new members will have a number of implications for the BRICS economies and the global economy as well. All the countries in the BRICS new members offer several strategic assets to the BRICS group. Countries like Argentina, Egypt, and the UAE offer vast amounts of natural resources, such as freshwater, rare earths, oil, gas, farming land, and fisheries, amongst other natural resources. These new members comprise several other political and economic associations, such as OPEC, the Arab Trade Zone, MERCOSUR, the Gulf Cooperation Council, the African Continental Free Trade Area, and ASEAN. These memberships will enhance the economic presence and penetration of current BRICS countries in several new markets and increase their global role.

With geopolitical tensions rising and multilateral institutions unable to manage the global flux, platforms such as BRICS will continue to garner global attention. Given the growing interest in the grouping, the expansion process is likely to accelerate further in the coming years. Thus, BRICS will continue to carry out its crucial role of "steering" the global economy in the coming years and ensuring that tensions between West and East are mollified rather than magnified.

ValdaiClubEng

valdai_club

Международный
дискуссионный
клуб «Валдай»

admin@valdaiclub.com

Council on Foreign and Defense Policy

RIAC
Russian International
Affairs Council

MGIMO
UNIVERSITY

HIGHER SCHOOL OF ECONOMICS
NATIONAL RESEARCH
UNIVERSITY