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Promoting Trade and Investment in the BRICS via Central Bank Digital Currencies

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The rapid growth of the Brazil-Russia-India-China-South Africa (BRICS) alliance over the years has spearheaded a new engine for global economic growth. The BRICS economies share several common characteristics, most important of which are their countries' size, human capital potential, macro-economic stability, institutions, and openness to trade.

The main objective for the BRICS formation was to encourage commercial, political, and cultural cooperation amongst the BRICS member countries in contrast to the long-standing bias of Western countries in the context of global affairs. On formation, the BRICS accounted for 19.9% of the world Gross Domestic Product (GDP) in nominal terms and 26.8% of the world GDP in Purchasing Power Parity (PPP) terms.

The BRICS has been very successful in attracting foreign direct investment (FDIs). The manufacturing sector is responsible for high FDI inflows in China, while the bulk of inward FDIs in Brazil, Russia and South Africa are focused on the exploitation of natural resources. In India, by contrast, FDIs primarily flow to the service sector. Financial, real estate and business services tops the list.

Trade between the BRICS alliance is highly complementary. Brazil, Russia, and South Africa are strong in the commodity and natural resources sectors with exports destined for China and India. With the use of cheap labour readily available in China and India, China dominates the manufacturing sector while India is a net exporter of generic pharmaceuticals, textiles, software engineering and business process outsourcing. Intra-BRICS trade was US$230 billion in 2011, and the BRICS countries set themselves a target of BRICS US$500 billion of trade by 2015. The United Nations Conference on Trade and Development (UNCTAD) reported in 2014 that in 2012 the BRICS countries' trade growth with Africa had outpaced global trade and trade with the rest of the world.

Integration in global value chains (GVCs) has beneficial effects on job creation, strengthening of business linkages and technology and skills transfer. The contribution of the BRICS to global value chain increased from 3% in 1971 to 17% in 2008. The total foreign value added in gross exports for individual the BRICS countries was 33% for China, India 24%, South Africa 21%, Brazil 11%, and Russia 7%. Value addition from services was low in all the BRICS; their total value-added exports were 33%, of which 8% was sourced from other countries.

As noted by UNIDO in 2012, the BRICS was positioned for success by virtue of industrial policies connoted on internationalisation, capability development, export promotion and FDI attraction. Countries that had previously adopted the industrial policy to enhance their imminent comparative advantage, foreign investment and technology transfer had seen substantial growth in their economies. In the presence of natural resources, finances and consumers, the BRICS needs cutting edge technology in the form of innovative models to impart further momentum on manufacturing and growth. Given the increase in trade relations amongst the BRICS alliance, there is a need to develop an index to monitor trade relations amongst the BRICS countries.