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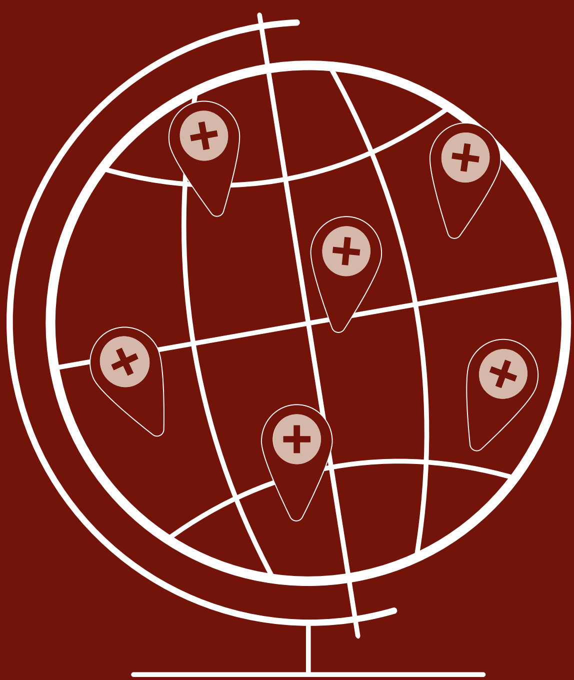

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In January 2024, five politically and economically heterogeneous countries – Saudi Arabia, Iran, Ethiopia, Egypt, and the United Arab Emirates – joined the BRICS. The BRICS+ countries now represent around 45 percent of the world's population and around a third of global GDP. The BRICS were originally founded as an economic alternative to the Western bloc led by the USA and the EU. The idea was to offer the countries of the Global South a counterweight to Western institutions. The current change in the geopolitical and geoeconomic framework has driven the expansion of the BRICS. And it will also play an important role in shaping the international order of tomorrow.

Our authors take a critical look at some key economic and political challenges: What impact will the BRICS enlargement have on the world? What are the strategic implications for the EU and the G7? Will this change the role of multilateral institutions such as the IMF, the World Bank, and the WTO? Will this affect partnerships with the Global South?

They also highlight some new economic opportunities for the BRICS+ members, the Western world, and the Global South, as well as propose joint multilateral strategies and cooperation measures needed to seize these opportunities.

In "Economic Policy and Its Impact," the authors examine the extent to which mentoring programs can improve the school-to-work transition of disadvantaged adolescents in Germany. "Institutions Around the World" analyzes the reasons why moving towards a strong decentralized federal state would be beneficial for the European Union. Finally, in "Big-Data-Based Economic Insights," we offer some new empirical evidence on the effects of EU regional policy.

POLICY DEBATE OF THE HOUR

BRICS Enlargement: What Are the Geoeconomic Implications?

ECONOMIC POLICY AND ITS IMPACT

INSTITUTIONS ACROSS THE WORLD

BIG-DATA-BASED ECONOMIC INSIGHTS

Introduction to the Issue on

BRICS Enlargement: What Are the Geoeconomic Implications?

Chang Woon Nam

Out of the more than 40 countries that have expressed interest in joining the BRICS bloc, the leaders of the five founding members announced in August 2023 that Saudi Arabia, Iran, Ethiopia, Egypt, Argentina, and the United Arab Emirates (UAE) would be admitted in 2024.[1] The consensus-based approach of the BRICS has often hampered its effectiveness, given the sometimes-conflicting strategic goals of individual members and the shifting geopolitical and geoeconomic realities. The factors driving its expansion today will play an important role in shaping the international order tomorrow.

With the addition of these politically and economically heterogenous countries, the BRICS now represent around 45 percent of the planet's population and around a third of global GDP. This primarily economic bloc was originally established as an alternative to the US- and EU-led international order, seeking to provide a counterweight to Western institutions for the countries of the Global South. Enlargement also offers Iran and Russia an alternative route for trade in the face of the sanctions the West has imposed on them. The addition of top oil producers Saudi Arabia and the United Arab Emirates gives the BRICS an economic backbone, while Iran also boasts large oil reserves. Against the backdrop of rising energy demand in India and China, an alternative energy market is being developed within the BRICS.

The decision to expand is often described as a victory for Chinese President Xi Jinping. However, if he intends to make the BRICS members an instrument in his rivalry with the United States, or if he aims to create a group of countries capable of countering the G7 or the network of alliances formed by Western countries, not all BRICS members will probably share his ideas.

More importantly, the enlargement of the BRICS underscores a long-standing demand from the Global South for a fundamental reform of global governance and multilateral systems. What are the geoeconomic implications of the BRICS enlargement for the world? What are the strategic implications for the EU and the G7? How will this affect the role of multilateral institutions such as the IMF, the World Bank, and the WTO? Will this affect the partnerships with the Global South?

This issue of EconPol Forum brings together several articles that address the issues arising from the role of BRICS+ in a new geopolitical era undergoing a rapidly changing global economic order. They not only critically examine the key economic and political challenges ahead, but also highlight some new economic opportunities for the BRICS+ members, the Western world, and the Global South, and put forward joint multilateral strategies and cooperation measures needed to capitalize on these opportunities.

Alicia Garcia Herrero argues that the idea behind the BRICS began as a weak economic concept to acknowledge the growing weight of some major emerging economies, but then evolved into a more political one when it became a reality. In parallel with the greater focus on China, the BRICS' expansion has increased the heterogeneity of the group, with some major oil exporters under the same umbrella as others relying on external financing. In addition, the group has focused on reforming the current international monetary system and institutions in order to strengthen emerging economies, mainly in the Global South.

According to *Mark N. Katz*, the widespread geopolitical fears of the enlarged BRICS being the precursor of an anti-Western security alliance appear to be misplaced, given the members' starkly varying domestic interests and the difference in attitudes towards the West, not to mention some serious tensions among some of them (China vs. India, Iran vs. Saudi Arabia, Egypt vs. Ethiopia). A wiser policy response by Western governments would therefore be to continue and even expand their cooperation with the BRICS governments that are willing to work with the West, offering them political and economic incentives so that they do not completely side with the more implacably anti-Western governments of Russia, Iran, and China.

Pádraig Carmody sees the expansion of the BRICS against the backdrop of ongoing geoeconomic challenges and changes to the international order, as well as the West's competition with China and Russia. He emphasizes that China sees the current difficulties of the liberal international order as a strategic opportunity, prompting it to forge new alliances as its economy stumbles and it encounters some geopolitical setbacks. The expansion of the BRICS also shows that oil remains central to the functioning of the global economy; the addition of new major producers will potentially advance the pursuit of energy security and de-dollarization agendas of some of the BRICS.

The economic weight of the BRICS+ has been driven in particular by the rise of China, with the result that greater internal convergence of the BRICS+

[1] However, the newly elected president of Argentina has recently decided that his country would not join the BRICS.

will require considerable coordination efforts in the coming years. In this context, Günther Maihold proposes that the G7 should lay the foundations for a permanent dialogue with both the BRICS alliance and the individual member states to discuss and negotiate the issues associated with international financial organizations, as well as to foster policy coordination, for example on climate policy. As to the international financial order in particular, it is clear that the West must open up to the interests of the Global South if it wants to avoid conflicts and solve global problems effectively.

In their empirical contribution on India's international trade activity and economic heft, *Isabella Gourevich, Dorothee Hillrichs* and *Camille Semelet* expect that this founding BRICS member – and China's main counterpart in it – could well benefit from the bloc's expansion. Trade with the BRICS countries (including oil) will continue to grow, while trade with the EU and the US will expand from agricultural products and textiles to machinery and chemicals. European and US governments, in turn, will increasingly view India as a "safe" alternative trading partner to reduce their dependence on China. The country's role as a global exporter of modern ICT and business services, such as consulting and legal services, will be strengthened further.

We hope you enjoy this Policy Debate of the Hour!

Alicia Garcia Herrero

Potential Geoeconomic and Geopolitical Consequences of an Expanded BRICS

KEY MESSAGES

- **The idea behind the BRICS began as a pure economic concept to acknowledge the growing weight of some major emerging economies. However, when it became a reality, it has evolved into a highly political – and less economic – concept**
- **The BRICS, which has been expanded recently to BRICS+, has become increasingly China-centric with very little interaction among other BRICS members**
- **The recent addition increases the group's heterogeneity, with some members being major oil exporters and others needing external funding**
- **The group seems increasingly focused on the reform of the international monetary system, which now rests on the Bretton Woods Institutions, to give more power to emerging economies**
- **Given the large heterogeneity among the BRICS+ members and China's increasingly central role, how India may react poses another important risk to the group's future**

The origins of BRICS can be traced back to a 2001 publication by Goldman Sachs economist Jim O'Neill, titled "Building Better Global Economic BRICs." In his report, Brazil, Russia, India, and China were identified as poised to play an increasingly significant role in the global economy. The prediction was that by 2050, these countries would collectively account for 40 percent of the world's economic output (Figure 1A). The reality is that China alone has long accounted for around a quarter of global economic output. In fact, in 2022 – a year when China grew merely 3 percent as a consequence of its zero-Covid policy and a real estate meltdown – the BRICS as a whole contributed over 45 percent to global growth (Figure 1B).

The history of BRIC(S) is that of a political rather than an economic grouping, quite different from the vision posited by O'Neill. In fact, the first meeting of the four countries was on the sidelines of the UN General Assembly, which then developed into a series of high-level interactions between the four countries. One of the most consequential outcomes in terms of the institutionalization of the BRICS occurred in 2009, when Russia hosted the BRICS summit: the establishment of the New Development Bank (NDB) to provide financial assistance to developing countries. In 2010, South Africa joined the group, and the acronym was changed to BRICS. The addition of South Africa expanded the group's geographical reach and its economic clout.

The BRICS grouping lost some traction as China pushed its landmark foreign policy project, the Belt and Road Initiative (BRI), especially since 2015, as the BRI expanded from neighboring countries in six predetermined corridors to a much more global endeavor. An important consequence of China's institutional push for the BRI was the creation of the Asian Infrastructure Investment Bank (AIIB) in January 2016, which features a much larger set of shareholders (109 by now, including some Western nations), a wider scope (from the Pacific to the Mediterranean), and with more deployable capital than the NDB.

By 2019, though, the BRI started to show some cracks, given the number of unfinished or unprofitable infrastructure projects and some countries' reluctance to join or stay – let alone Italy's decision to withdraw, which has just been confirmed.

When the Covid-19 pandemic broke out, China became much more silent, not only on BRI but also on the BRICS and, more generally, on international cooperation. The most relevant example of the prioritization of bilateral relations was the upgrade of China's diplomatic relations with Russia into a strategic cooperation "without limits" during the celebration of the Beijing Winter Olympics, right before Russia's invasion of Ukraine.

During the first months of 2022, while China was engulfed in its ineffective zero-Covid policy fight against the Omicron variant, the country kept a very low profile in international affairs, until Xi Jinping's participation in the Shanghai Cooperation Organization Summit (SCO) before he headed to the G20. The order of Xi's appearance on the international stage after years of isolation should be read as a very important signal of China's foreign policy direction. In fact, tensions with the West remained apparent at the G20 Summit in Bali in November 2022, notwithstanding the Biden-Xi encounter there, the first since Biden took power.

Since then, China's foreign policy has become even more assertive, not only because its strategic partnership with Russia has remained intact despite pressure from the West, but also because

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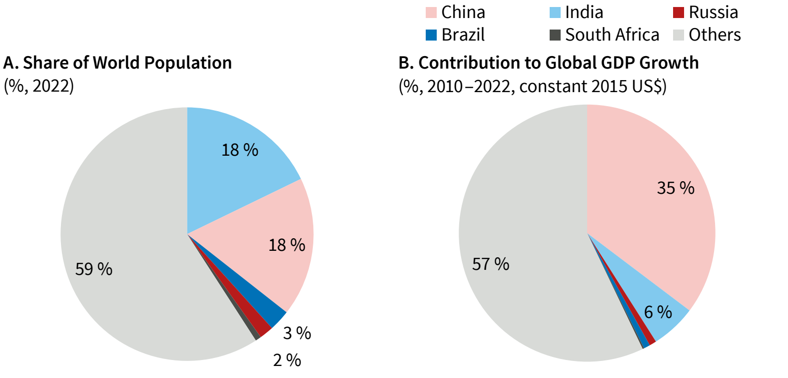
Figure 1

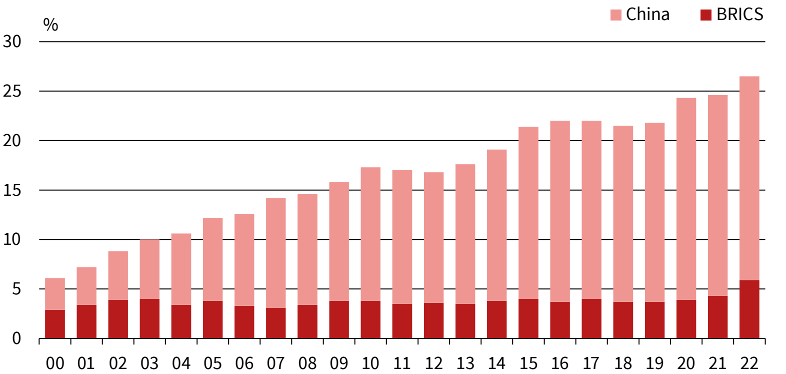
BRICS: Population and Economic Growth



Source: The World Bank. © ifo Institute

Figure 2

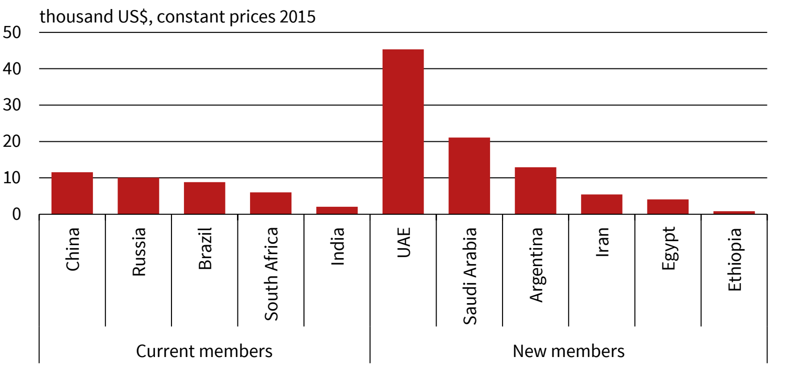
Brazil, Russia, India and South Africa: Share of Imports in Goods with BRICS Members



Source: UNCTAD. © ifo Institute

Figure 3

GDP per Capita



Source: The World Bank. © ifo Institute

of the launch of major global initiatives in the course of a few months, such as the Global Security Initiative (GSI), the Global Development Initiative (GDI), and the Global Civilization Initiative (GCI), which are increasingly present in the United Nations' jargon and resonate as China's alternative to the Western rules-based liberal order.

Together with this busier foreign policy agenda since China fully opened up from Covid-19, the BRI and the BRICS have, once again, come to the forefront of China's foreign policy. Interestingly, their roles so far have been complementary. On the one hand, the BRI continues to shape the agenda for multilateral engagement, launching initiatives such as the Global Artificial Intelligence Governance Initiative (GAIGI) announced at the third Belt and Road Forum last October 18. On the other, BRICS has taken a different role, namely that of an accelerator of geoeconomic convergence. The next section develops this idea further.

WHAT HAD BRICS ACHIEVED BEFORE THE RECENT EXPANSION?

Since the launch of the BRICS in 2009, their trade relations have clearly grown, but in a very unbalanced manner. Firstly, most of the growth in trade was China-centric, with the share of the rest of BRICS remaining quite flat until recently (Figure 2). The recent increase in the relevance of the rest of BRICS is mostly explained by India, which has experienced significant economic growth in the past few years. Another factor is that BRICS members are increasingly intertwined with China, as far as trade is concerned, but very little among themselves. As Table 1 shows, bilateral trade between BRIC members other than China remains extremely low. In other words, BRICS is very much centered on China and, while the rhetoric is that of a consensus-based grouping, the reality is very different, given China's overwhelming weight.

The fact that the BRICS is very much dominated by China economically also implies that members align with China on foreign policy decisions, as evidenced by their rather similar strategies in UN voting. This is not only the case for issues within China's sphere, as can be the case of Xinjiang-related UN resolutions, but also more global ones, as those on Ukraine's invasion and the more recent Israel-Palestine crisis (Table 2). The only exception in the case of Ukraine's resolution in March 2022 was Brazil, who voted in line with the West. However, Brazil's diplomatic stance regarding Ukraine has become much more blurred since then.

FROM BRICS TO BRICS+

China – and in particular, President Xi – has been the leading proponent of expanding BRICS to BRICS+. The main reason for such expansion was to make BRICS more representative of the developing world and give it a stronger voice on the global stage. Against this backdrop, China has also been actively lobbying other countries to join BRICS+, and it has provided financial and other assistance to potential new members. Beyond China, Russia has also been supporting such expansion as a way to further insulate itself from Western pressure.

The decision to expand BRICS was made at the 15th BRICS summit, held in Johannesburg, South Africa, in July 2023. The leaders of the five founding members – Brazil, Russia, India, China, and South Af-

Table 1

Share of Merchandise Trade among BRICS (percent, 2022)

		Trade partner				
		Brazil	Russia	India	China	South Africa
Brazil	Exports		1	2	27	1
	Imports		3	3	23	0
Russia	Exports	1		2	12	0
	Imports	1		1	31	0
India	Exports	2	1		3	2
	Imports	1	4		16	1
China	Exports	2	2	3		1
	Imports	4	4	1		1
South Africa	Exports	1	0	5	15	
	Imports	1	0	7	20	

Source: UNCTAD.

Table 2

UN Resolution Voting Records for BRICS

	Resolution on the Israel-Palestine crisis	Resolution on Xinjiang human rights issue (failed)	Resolution on the Russia-Ukraine conflict
Date	26-Oct-23	6-Oct-22	2-Mar-22
Brazil	Favor	Abstain	Favor
Russia	Favor	NA	Against
India	Abstain	Abstain	Abstain
China	Favor	Against	Abstain
South Africa	Favor	Abstain	Abstain

Source: United Nations.

rica – agreed to welcome six new members into the fold: Egypt, Ethiopia, Iran, Saudi Arabia, the United Arab Emirates (UAE), and Argentina.[1] This decision was the culmination of a long and deliberate process, focused especially on which countries should be invited to join.

It is obvious that the six (five without Argentina) countries joining are quite heterogenous (Figure 3). Some are net creditors (such as Saudi Arabia and the UAE), while others are not only net debtors, but also currently in a very weak financial position (especially Argentina). Half of them are large exporters of fossil fuels (Saudi Arabia, the UAE, and Iran). Ethiopia stands out as one more member from Africa, a continent that has become increasingly important for China's foreign policy as well as India's.

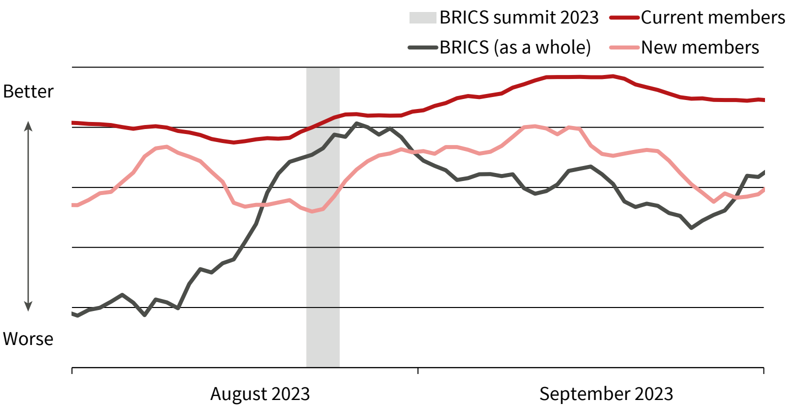
The questions that arise are what the BRICS can achieve with such a heterogeneous group of members, and whether it will be able to maintain its own characteristics and objectives after its expansion, especially considering that it is back to business as usual with the BRI.

The stated goal of the BRICS is to increase economic cooperation among its member states, leading for instance to creditor countries being ready to lend to, or even invest in, debtor countries. However, economic integration has not really improved within the group except for bilateral relations with China – which presumably would have grown even without the BRICS.

All in all, the economic rhetoric notwithstanding, BRICS actions are mostly political. A good example is the heated discussion, prior to the most recent summit in which the BRICS group was expanded into BRICS+, that the BRICS would be adopting a single currency to challenge the US dollar. The goal seems to have been forgotten at the summit, since no deci-

Figure 4

News Sentiment on BRICS and Member Countries



Source: GDELT.

[1] The newly elected president of Argentina, however, has decided that his country will not join the BRICS.

sion was made in this regard and no timeline to accomplish it was mentioned. Instead, other than the expansion of membership, it was political messages that dominated the discussion, such as the reform of the multinational institutions so that they are no longer dominated by the West.

As for the BRICS+ impact on global governance, the group has called for a comprehensive reform, particularly of the International Monetary Fund (IMF) and the World Bank, to make such institutions more representative, accountable, and effective in addressing global challenges. More specifically, their proposals are to (i) revise the quota system, which determines the voting power of member states, to give more weight to developing countries; (ii) review the lending and development policies of the IMF and the World Bank to ensure that they are aligned with the needs and priorities of developing countries; and (iii) strengthen the surveillance and crisis response mechanisms of the IMF to make them more effective in preventing and resolving financial crises. Beyond the quest for reform, BRICS+ has posited its own development bank, the NDB, as an alternative to existing Bretton Woods institutions, possibly together with the BRI's development bank, the AIIB. The NDB aims to increase local currency lending from about 22 percent to 30 percent by 2026, which could help to reduce its dependence on the Western capital markets (Savage and Goh 2023).

As for the United Nations, BRICS – and now presumably also BRICS+ – has consistently advocated for comprehensive reform of the UN, particularly of its Security Council (UNSC), arguing that its current structure, with its five permanent members (P5) holding veto power, does not represent the interests of all member states. Specifically, BRICS+ countries have proposed the expansion of the UNSC to increase the representation of developing countries and the abolition of the veto power and, more generally, the inclusion of developing countries in UN decision-making.

One increasingly important objective of the BRICS is to become the new platform for developing countries to voice their concerns and interests, with the international financial architecture as an area where the members' positions can clearly be aligned.

The recent expansion of membership evidently helps with this objective, which is why many expect new members to join at China's request. It also goes without saying that China is pivotal in such an expansion, as well as regarding the choice of new members. As for the criteria for membership, the current batch of admittees indicates that member countries have to be interested in building an alternative ecosystem to that of the West (Lukyanov 2023).

The actual impact of the BRICS expansion into BRICS+ will depend on several factors, including the grouping's ability to overcome its internal challenges and the response of the West. Still, the mere fact that such expansion has happened in a rather smooth way is a clear sign that the global balance of power is shifting, and that developing countries are playing an increasingly important role in global affairs. The inclusion of the African Union's membership in the G20 is also regarded as symbolic of the West's rethinking the risk of losing developing countries (Carvalho 2023).

WHAT TO EXPECT NEXT AND POLICY IMPLICATIONS

How BRICS will fare over time, as a group, depends on several factors. First and foremost, how China's economic and soft – and possibly hard – power will evolve. There is increasing consensus that China's long-term growth will continue to decelerate structurally, which will reduce the opportunities that the Chinese market has to offer for BRICS members and others. This is particularly the case as China rapidly integrates vertically, with the result that its imports are shrinking and not just decelerating, as is the case for growth. Still, China is already a very large economy that is no longer a net external debtor but a creditor. This gives China room to boost its economic clout in third markets through investments. But even that aspect has become much less relevant over the last four to five years, due to China's own increasing needs for funding.

A second important factor is how BRICS members may perceive China or, better said, how their population's sentiment towards China might evolve. Figure 4 offers our own estimation of the sentiment about China across BRIC members (current and new) using big-data analysis. The deterioration of China's image in these countries is increasingly evident, which creates risks down the road as to the stability of BRICS as a grouping. It seems clear that China's economic clout could play a key role for such sentiment to improve, but this is indeed not guaranteed based on the current signs of structural deceleration.

Finally, the heterogeneity of the BRICS is not only economic but also political. The big elephant in the room is India, which finds itself in an increasingly uncomfortable position in groupings that are dominated by China. Still, the group's diversity in the respective comparative advantages can turn out to be a boon, not only for China, but also for India. This is because India's thirst for energy is increasingly evident, and BRICS has some of the largest producers in its roster: three of the new members plus Russia. Actually, both India and China, as the world's current (and potentially future) largest importers of oil, stand to benefit.

A different question is whether China could use its central power in this grouping to leverage it against the West. As one of the aims behind the planned expansion is to increase trade among the BRICS+ members, such a shift, should it succeed, could also contribute to de-dollarization, which is one of the BRICS+ stated objectives (Ismail 2023).

All in all, the BRICS, which started as a primarily economic initiative to mark the transfer of economic power to the emerging world, has grown into a relevant geopolitical grouping. Still, China's centrality and the great diversity of its members present challenges, but also opportunities. The future of the grouping is uncertain, given its heavy dependence on China's economic future and the deteriorating sentiment towards China among its members. Finally, India's fast growth and increasing geopolitical heft creates additional challenges for the continuation of a China-centric BRICS group.

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Mark N. Katz

The Geopolitical (In)Significance of BRICS Enlargement

KEY MESSAGES

- **The original BRICS grouping of five was not a multilateral security alliance like NATO, and neither does the recent expansion of BRICS resemble the expansion of NATO**
- **The members of the expanded BRICS are divided between those that are largely hostile toward the West in general and the US in particular (Russia, Iran, and China) and those that have differences with the West but also cooperate with it (all the rest)**
- **There are serious tensions between some BRICS+ members that could lead to conflict – or already have. In addition to serious friction between China and India within the earlier five member BRICS, the expanded ten members includes tensions between Iran on the one hand and Saudi Arabia and the UAE on the other, and between Egypt and Ethiopia**
- **Although Moscow and Beijing have been closely cooperating with each other on the basis of their joint opposition to "US hegemony" and the "Western liberal international order," there exists latent tension between them over border issues**
- **The US, the EU, and other Western governments should avoid negative overreactions to BRICS expansion in ways that might encourage the members to overcome their divisions. Instead, Western governments should continue to work with those BRICS+ members willing to cooperate with the West**

At the August 2023 BRICS summit, the existing members (Brazil, Russia, India, China, and South Africa) invited six more countries to join their ranks: Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the united Arab Emirates (UAE). (The newly elected president of Argentina, though, decided that Argentina would not join BRICS after all.) Several other governments have expressed an interest in joining, and it would not be surprising if further rounds of expansion occur. All five previous BRICS members as well as the new ones are non-Western governments that have varying degrees of disagreement with the West (especially with the US and the EU) about policy issues and even basic values. There is concern in the West, then, that the expansion of the BRICS from five to ten members (and possibly more in the future) could pose an increasing security challenge to the West.

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Yet while the potential for this may exist, it is important to understand that the five-member BRICS itself was never a cohesive group, due to serious differences among its members. Further, the expanded BRICS (or BRICS+) has even more such differences, and these are not something that their joining BRICS+ is likely to alleviate. In addition to differences between BRICS members, there is also a divide between those BRICS members which are seriously at odds with the West in general and the US in particular (Russia, China, and Iran), and those that have some differences with the West, but also cooperate with it on numerous common interests (virtually all the others). It is important, then, for the US, the EU, and other Western governments to keep this in mind when considering how to respond to this latest BRICS expansion, and future ones that may well occur.

DIFFERING SECURITY INTERESTS WITHIN BRICS+

The first thing to note about the expanded BRICS is that it is not a multilateral security alliance like NATO. There is no agreement binding BRICS members like Article Five of the North Atlantic Treaty declaring that an attack on one is an attack on all and requiring them to assist one another if attacked. Nor does anything like this appear to be even contemplated by the expanded BRICS members.

There has, though, been some bilateral security cooperation among some of the members. Between 2008 and 2022, Russia sold weapons to each and every country now a member of BRICS+, ranging from a high of over USD 29 billion worth to India and a low of USD 12 million worth to Saudi Arabia (Stockholm International Peace Research Institute 2023). China sold a more modest amount of weaponry during this period to most other BRICS+ members, including USD 423 million worth to Saudi Arabia (SIPRI 2023). Smaller amounts of weaponry were sold by Brazil to India and Saudi Arabia, by South Africa to Egypt and Saudi Arabia, by the UAE to Egypt, and by Iran to Russia (SIPRI 2023). In May 2023, US Ambassador to South Africa Reuben Brigety accused South Africa of providing arms and ammunition to Russia – a charge that the South African government denied (Eligon 2023).

But the newer members of the expanded BRICS as well as Brazil and India have also been substantial buyers of Western weapons. During this same 2008–2022 period, the US alone sold weapons to eight of the BRICS+ governments (Russia, China, and Iran being the notable exceptions), including USD 2,949 million worth to Egypt, USD 4,785 million worth to India, USD 8,948 million worth to the UAE, and USD 20,640 million worth to Saudi Arabia (SIPRI 2023). Nor does it appear that joining the expanded BRICS is going to alter the willingness of these four governments in particular to continue buying from the US and other Western arms exporters – or the willingness of the latter to sell weapons to the former.

Indeed, even though Saudi Arabia and the UAE have both joined BRICS+, both have also been seeking closer defense ties with the US (Bronner 2023; Szuba 2023). Being seen to join an organization with three of the US's greatest adversaries (Russia, China, and Iran) may even be part of a strategy on the part of Saudi Arabia, the UAE, and Egypt in particular to induce the US both to do more for them, stop criticizing them on their human rights records, or hold back on weapons sales if Washington wishes to prevent them increasing even further their cooperation with America's adversaries. Similarly, India's long-standing membership in BRICS has not prevented it from pursuing security cooperation with the US, Japan, and Australia via the loose "Quad" framework (Malhotra 2023).

CRACKS IN THE BRICS

In addition to ongoing instances of defense cooperation between BRICS+ governments on the one hand and the US and other Western governments on the other, there are also instances of serious differences between BRICS+ members that could either result in conflict between them or already have.

One of the most serious of these, predating the formation of the original five-member BRICS, is tension between India and China over their common border, Chinese military and economic support for Pakistan (which also has an ongoing border dispute with India), and Chinese naval deployments in the Indian Ocean. In 1962, China and India fought a brief border war in which Beijing got the better of New Delhi. Tensions have continued and conflict has occasionally occurred, including in December 2022 (Miller and Harris 2022). The publication in August 2023 of a Chinese government map showing territory currently controlled by India – including the entire state of Arunachal Pradesh as being "South Tibet" – indicates the possibility of further, even broader conflict (Rahman 2023). The fact that both China and India (as well as Pakistan) possess nuclear weapons makes this possibility even more ominous (Rajeev and Stephenson 2023).

It is India's disputes with China that have motivated New Delhi to move somewhat away from its traditional non-aligned stance and cooperate with the US, Japan, and Australia – all three of which also have security concerns about China – in the Quad format. India has also been buying more arms from the US and other Western governments. India, though, has also continued its close ties to Russia (which has been the main supplier of weapons to India) despite Russia's increased economic dependence on China since the outset of the Russia-Ukraine war in February 2022 (Menon and Rumer 2022). New Delhi may well fear that if it criticized Moscow over the Ukraine war or stopped buying either arms or petroleum from Russia, then Putin might move even closer to Beijing than he already has and might not be willing or able to try to restrain hostile Chinese behavior toward India. Putin, for his part, has sought to maintain close ties with these two rivals. Indeed, Russia may benefit from their ongoing rivalry, as both have been the largest buyers of Russian weapons despite each being wary about how much Moscow sells to its rival. Further, there really has not been progress toward conflict resolution between China and India. To the extent that there has been some degree of conflict mitigation, this has come about through bilateral Chinese-Indian negotiation and not through outside efforts by their common friend Russia, much less by groupings like the BRICS or the Shanghai Cooperation Organization that they are all members of (Kapoor 2023). It is doubtful that this will change as a result of BRICS expansion.

Instead, the recent expansion of BRICS has meant that the grouping now contains two other instances of persistent interstate tension. One of these is that between Iran on the one hand and Saudi Arabia and the United Arab Emirates on the other. In Yemen, Iran has supported the Houthis, who have taken over most of the north, while Saudi Arabia has mainly supported what remains of the internationally recognized Yemeni government and the UAE has supported southern secessionists (Center for Preventive Action 2023). Riyadh and Abu Dhabi have also accused Tehran of supplying the missiles and drones with which the Houthis have attacked targets inside both Saudi Arabia and the UAE (Nevola 2023). The UAE also has a longstanding dispute with Iran over three islands in the Persian Gulf which the Shah seized right before the United Kingdom withdrew from the Emirates in 1971 (Cafiero 2023). Finally, there has been a rivalry for religious leadership between Sunni Saudi Arabia (where Mecca and Medina, Islam's two holiest cities, are located) and Shi'a Iran ever since the latter's 1979 Islamic revolution (Khan 2020).

Russia set forth a "collective security" proposal for the Persian Gulf, but this did not gain much traction (Kozhanov 2021). More recently, China helped mediate the restoration of diplomatic relations between Riyadh and Tehran. Helping restore diplomatic relations (which the Saudis and Iranians probably could have done without outside help), however, is not the same as resolving conflict between opposing parties (Aboudouh 2023). It is not clear why their joining BRICS should enable that grouping or Russia, China, or any other member to resolve more readily conflict and tension between Saudi Arabia and the

UAE on the one hand and Iran on the other. Indeed, the fact that both Saudi Arabia and the UAE have been seeking a greater security commitment from the US indicates that Riyadh and Abu Dhabi do not see their membership in BRICS+ as leading to a resolution of their differences with Iran.

Another persistent instance of interstate tension that could lead to conflict within the expanded BRICS is that between Egypt and Ethiopia over Nile River water issues – specifically how the impending completion of the Grand Ethiopian Renaissance Dam project will reduce the flow of water to Egypt (and Sudan) via the Nile. Mediation efforts by Russia (among others) in the past have not been successful. China is a backer of the Ethiopian dam project and may not want to constrain Addis Ababa on this for fear of the precedent it would set for its own Mekong River dam projects, which affect water flow to downstream countries in Southeast Asia. And instead of ameliorating the dispute between Cairo and Addis Ababa, talks between them (and Khartoum) actually broke down just a few weeks after the August 2022 BRICS summit announcing that Egypt and Ethiopia would be joining the expanded group (Fenton-Harvey 2023).

Finally, there is one latent conflict between two original BRICS members: Russia and China. Moscow and Beijing agreed to resolve their border disagreement (over which there was fighting in 1969) as part of the process that led to the formation of the Shanghai Cooperation Organization (Reuters 2008). Russian President Putin and Chinese President Xi have also frequently proclaimed how close their relationship is (Davidson 2023). There are signs, though, that their border dispute has not completely ended after all. In the same August 2023 Chinese government map that showed Beijing's claims to territory it disputes with India and other countries, Beijing also laid claim to all of Bolshoi Ussuriysky Island in the Amur River that Russia and China agreed to share in 2008 (Sharma 2023).

Further, other maps have been published in China showing territory Russia previously "stole" from it as well as maps of the Russian Far East using Chinese geographical terms from before Russia gained this territory from China in the mid-19th century (Sohu.com 2019, 2023a and 2023b). Such maps are not official Chinese government claims against Russia, but they would not have been published if Beijing did not permit them to be. Russians must wonder why Beijing did so. It is possible that the longer the war in Ukraine continues and Moscow's economic dependence on Beijing increases, the more likely it is that Beijing may seek a "friendly settlement" of past wrongs that China suffered at the hands of Russia. Their common membership in BRICS would not appear to be an obstacle to this occurring. China, it must be emphasized, has not taken any such step yet. But if Beijing does, Moscow cannot turn to the West for support so long as its war with Ukraine continues.

In addition, the decision by the new conservative president of Argentina, Javier Milei, not to accept the invitation to join BRICS appears to have much to do with his poor relations with Brazil's leftist president, Luiz Inácio Lula da Silva (Starcevic 2023).

So far, then, the BRICS format has not provided a conflict resolution mechanism for interstate tensions between its members. While Western governments might not relish the prospect of further BRICS expansion, there is little reason to think that it will become more proficient at this – especially if the further expanded membership encompasses even more bilateral disputes. Since the recent addition of new members appears to have required unanimous approval of the existing five, further expansion may thus require unanimous approval from eleven governments – a degree of consensus that might not be possible to achieve concerning the admission of certain aspirants. Yet even if it does expand further, the more internally fractious it is likely to become.

POLICY CONCLUSIONS

Despite Western fears that the expanded BRICS is the forerunner of an anti-Western security alliance, the internal divisions within the grouping suggest that this is not something that is likely to emerge. The US, the EU and other Western governments, then, should not overreact to BRICS enlargement. Indeed, doing so risks leading to the counterproductive result of stimulating more cooperation within the expanded BRICS than might occur otherwise.

What Western governments should do instead is continue or even increase their cooperation with those BRICS governments that are willing to cooperate with the West in order to give them an incentive not to side fully with the more implacably anti-Western governments within BRICS (Russia, Iran, and China). There is even a case to be made for Western governments willing and able to do so to continue cooperating even with these most anti-Western BRICS governments in order to give them something to lose in their relations with the West, and hence an incentive to temper their hostility toward it.

One of the main purposes of BRICS is to serve as a forum to express non-Western grievances against the West as well as to articulate visions of world order that its members consider preferable to what they view as the prevailing "Western liberal democratic" one. Instead of ignoring this aspect of the BRICS grouping, Western governments should engage in a dialogue with BRICS governments (either separately or together) in an effort to flesh out what they mean. While criticism of the Western-dominated world order may be popular within BRICS, the Global South, and even within the West itself, visions of what to replace it with usually lack specificity or even set forth an image of a world dominated not by Western great powers but by non-Western ones – something that could (indeed, should) alarm smaller nations within the Global South and even within the expanded BRICS. On the other hand, dialogue between Western governments and the expanded BRICS could identify areas of common interest where there could be fruitful cooperation – at least with those BRICS+ governments willing to cooperate with the West.

Since the expanded BRICS is essentially a G7 for non-Western states, then there should be formal dialogue between the G7 and the BRICS+. However, the expansion of BRICS, as well as the prospect of its further expansion, stands in stark contrast to the closed nature of the G7. The G7, then, should be expanded to include any and all fully democratic governments that wish to join (perhaps being referred to as the G-D – for democracy – or G7+ so that the number after G does not have to keep changing with the addition of new members). The inclusion of such governments in the developing world would help advance the idea that "the West" is an inclusive, and not an exclusive, grouping that developing countries that meet its democratic norms can aspire to join – much as the openness of the EU (and its predecessors) to new members has served to inspire European nations to meet EU norms. Membership of this grouping should even be open to democratic governments that are also members of the expanded BRICS.

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Pádraig Carmody

BRICS' Enlargement: Power Expansion or Contraction in a Changing World Order?

KEY MESSAGES

- **The BRICS' expansion should be seen in the context of an ongoing challenge to the international order in general, and the West's competition with China and Russia in particular**
- **China views the current difficulties of the liberal international order as a moment of "strategic opportunity," prompting it to try to create new alliances to garner support as its economy stumbles and it experiences geopolitical pushback**
- **Given that oil remains central to the functioning of the world economy, the admission of new major producers into the bloc will potentially advance the members' energy security and de-dollarization agendas**
- **Whatever coherence the group had will now be further diluted, making the achievement of consensus more difficult**
- **This may be the first of further rounds of enlargement, depending on how this one plays out**

GLOBAL GEOPOLITICAL COMPETITION

During the Southern Hemisphere's winter of 2023, the BRICS members (Brazil, Russia, India, China, and South Africa) announced the enlargement of the bloc to include six additional members (three from Asia, two from Africa, and one from South America).[1] This enlargement took place in the context of rising geopolitical competition and tension between world powers and blocs, particularly the United States and the European Union ("the West") in relation to China and Russia. How should we read the nature and importance of this event, and what does it portend for future geoeconomic and political relations?

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The world is undergoing a political, economic, social, and environmental transition (Macaes 2021). China has become a superpower, the post-World War II liberal international order is under great strain, trade wars have flared up (Inkster 2020), supply chains are disrupted (Ciccantell et al. 2023), the Russian invasion of Ukraine raises new security concerns, there is an upsurge in conflict in different regions of the world, and global warming continues unabated. Some of these events can be partially tied to relative American decline (de Waal 2023) and its international retraction after its post-invasion experiences in Iraq and Afghanistan.

The Chinese government views this as a period of "strategic opportunity" and argues "it is no longer acceptable that only a few countries dominate world economic development, control economic rules, and enjoy development fruits" (The State Council Information Office of the People's Republic of China 2023). The BRICS's expansion is partly aimed at reversing this situation, or as the Brazilian President put it at the recent summit of the grouping in South Africa, to "organize ourselves" (the Global South) (quoted in Reuters 2023). Perhaps this is somewhat ironic, as China has been one of the world's biggest beneficiaries of the existing international order, at least economically.

In part, the BRICS' expansion can be read as an outcome of both structural changes in the global political economy and shifting power balances, and as a response to events such as the Russian invasion of Ukraine and the Western response to it. US President Biden, mindful of the global struggle he perceives between democracies and autocracies, has established or rebooted new security institutions to bolster alliances, such as the Quad (Quadrilateral Security Dialogue between the US, Japan, Australia, and India) and the AUKUS security pact (Australia, UK, US), which will give Australia access to nuclear-powered submarines. The US has also convened a strategic "trilateral partnership" between itself, Japan, and South Korea, whose leaders will meet yearly.

While President Biden insists such initiatives are not designed to counter or "encircle" China but to strengthen alliances, that would not appear to be how it is being read in Beijing. In a sense these moves are recursive or dialectical. As China has become a superpower or is in the process of moving to "center stage" as President Xi has expressed it (quoted in Sterling 2018), it has begun to assert its interests much more aggressively. It has engaged in acts of economic and physical coercion, in the South China Sea for example, and issued a list of 14 grievances against Australia that it wanted addressed. In fact, the acting Chinese ambassador to

[1] The new members to be admitted in 2024 are Saudi Arabia, Iran, the United Arab Emirates, Egypt, Ethiopia, and Argentina, whose newly elected president has decided not to join the BRICS.

that country said the main issue was that the list should have been longer than fourteen points when the story broke (Hurst 2021). Consequently, we appear to be in a cycle of geopolitical and geoeconomic escalation between the superpowers, where one action generates an "equal" and "opposite" reaction, with international effects. This may be reflective of the so-called Thucydides trap, where an incumbent and rising power ultimately go to war (Allison 2017). The BRICS' expansion should be seen in the context of, and partly as a response to, the expansion and deepening of US alliances, as well as also reflecting "the rise of the South" more generally.

THE NATURE AND MEANING OF BRICS EXPANSION

The BRICS expansion then could be seen in part as an outcome of China seeking to further marshal if not allies, then counterweights to Western dominance in the global political economy – perhaps the main raison d'être of the grouping. The fact that China is able to play a "brokering" role between former foes such as Iran and Saudi Arabia, which enabled them to re-establish diplomatic relations in 2023, speaks to the emerging multipolar world order (Acharya 2017), and China's increasing structural, convening and market power. Both Saudi Arabia and Iran have now been admitted to the BRICS. There have also been other tensions between newly admitted members. For example, it is reported that Saudi Arabia massacred Ethiopian migrants on its borders in 2022 and 2023 (Human Rights Watch 2023).

From one perspective, the BRICS expansion could also be seen as a "natural" outgrowth of China's continued ascent in the international system. China has been the largest economy in the world at purchasing power parity since 2013 and is by far the largest economy in the BRICS grouping, accounting for approximately 60 percent of its total economic output before expansion. Although China has been a major beneficiary of the liberal international order (Taylor 2017; Taylor and Cheng 2022), it is trying to reshape it in ways more favorable to it, perhaps with the ultimate aim of transforming it through its rise into a China-centered one as some have argued (Hobson and Zhang 2022; Zhonghe 2023). This has resulted in tensions with the United States in particular, but in contrast to the previous era of superpower competition, the "New Cold War" is centered on competition around and through networks, rather than territory per se (Schindler et al. 2023). However, while Schindler et al. (2023) focus on competition for centrality in infrastructure, digital, production and finance networks, achieving economic centrality in such networks is dependent on conducive and receptive political conditions in "gatekeeper states," which allow territorial or data access, for example. Hence the growing importance of political networks such as the BRICS+,[2] which help create the "soft" and other forms of power to facilitate this.

By way of illustration, Ethiopia used to be an "anchor state" for the United States in the Horn of Africa, but this is no longer the case (Verhoeven and Woldemariam 2022). In fact, almost immediately after its accession to the BRICS, Ethiopia announced that Russian Lada cars would be produced in the country (Dezan Shira and Associates 2023). Thus, geopolitical engagements may have concrete economic impacts, although recent US alliances are more focused on security to maintain status (war of position) than on economics (war of maneuver),[3] given that the Biden administration has arguably maintained and enhanced an "America First" agenda through home-sourcing initiatives, such as the Inflation Reduction Act.

Another way to read the BRICS' expansion, which is not incompatible with the above, is that China pushed expansion to counteract its faltering economic position, as we may have entered a period of "post-peak" China (Patten 2021). Several indicators point to this, such as that the economy is growing "only" at approximately 5 percent, that there is now 22 percent youth unemployment, and the Chinese President is urging youth to "eat bitterness," as their forebears did (Yuan 2023). This means China is both seeking additional sources of economic growth, which may be facilitated through intra-BRICS(+) deals, and geopolitical support in its contest with the US.

Russia has been particularly keen on promoting de-dollarization of the global economy, particularly given the nature and impacts of the sanctions it and its financial institutions have faced since the Ukraine invasion. China has pioneered currency swap arrangements with dozens of countries around the world and has developed its own government-sponsored cryptocurrency. A new BRICS's currency has been touted but would be difficult to implement in the absence of a joint central bank, unless it was a "trade currency" not used for domestic economic exchange; this remains, for the moment, unlikely. Still, oil is the world's most important (primary) commodity traded (Bradshaw 2014), with an annual value of USD 2 trillion, twice the top ten metal markets combined. Oil is typically priced in US dollars, and as such is foundational to the dollarized nature of the global economy. The admission of Saudi Arabia and the UAE, both major oil producers, and Iran, which has substantial

[2] This is a mode of operation where other countries cooperate in BRICS' initiatives, such as being members of the New Development, of which Egypt was a member prior to its formal admission (Devonshire-Ellis 2023).

[3] I am borrowing this terminology from Gramsci (Gramsci and Buttigieg 1992), who used it to discuss different stages and tactics during class war or struggle between hegemonic and anti-hegemonic social blocs or forces. I am using it somewhat differently, in that the United States seeks to maintain old institutions and selectively create new ones that will bolster its leadership position – a largely conservative stance – whereas China seeks to reform and create new institutions that will facilitate its continued economic, political and military ascent in the international hierarchy. This non-reformist reformist position (Saul and Bond 2014) arguably requires more geopolitical innovation, and the BRICS grouping is an example of that.

oil reserves, could portend a partial de-dollarization of this market. India (a major importer) and the UAE (a major producer) have recently agreed to conduct trade in their own currencies (Aljazeera 2023). The UAE signed a "Common Economic Partnership Agreement" with India in 2022 (Jivrag 2023).

Another possibility would be the increased use of digital or crypto currencies between the BRICS members. China already has a "digital yuan," for example, and, together with the UAE, recently joined a cross-border digital payments pilot with the Bank for International Settlements Innovation Hub, the Hong Kong Monetary Authority and the Bank of Thailand (Bank for International Settlements 2021).

Some have argued that Russia will inevitably be weakened by its Ukraine invasion, as it has become increasingly dependent on China, selling it oil and gas at heavily discounted rates. However, this partly depends on the outcome of the war and whether Western military and economic support for Ukraine holds, should there be a change of administration in Washington.

Some have also argued that the BRICS' expansion makes it inchoate by including countries that may be unlikely to agree with each other or previous members, maintaining that the group is too diverse and diffuse to be able to reach a consensus on issues of common interest. However, all members of the group have an interest in the revision of the existing international order and in accessing the benefits that China, in particular, can potentially share with them such as market access, finance, and others.

POLICY CONCLUSION

How should the Western powers and other aligned countries such as Japan, South Korea, and Singapore respond to the BRICS expansion? What should the BRICS powers themselves prioritize in terms of reform of the international order to make it fairer? In a sense, and to mix metaphors, enhanced geopolitical and economic competition between the "great" powers is like moving chess pieces on the Titanic, given the existential threat and reality of global warming (Macaes 2021; Mora et al. 2013; Wallace-Wells 2019). This would suggest a twin track strategy of strengthening existing institutions that have a remit in this area, such as the United Nations, while also reforming them to make them more representative and inclusive (Farrell and Newman 2023). The Group of 20 (G20) started to meet yearly after 2008, partly in response to the North Atlantic Financial Crisis, but it has not proven to be a particularly effective institution, as it excludes the vast majority of the world's countries (Wade and Vestergaard 2012). The Chinese president chose to skip its most recent meeting in India, perhaps signaling polarization and a decline in relevance, despite it becoming the G21 with the admission of the African Union as a member.

A reduction in dialogue and increase in conflict is counterproductive for all parties involved. While President Xi has said that geopolitical competition is more akin to a marathon than a wrestling match, this ignores its dysfunctional nature. While it may be in the perceived short-term interests of some parties to engage in such a competition, given the global climate and biodiversity challenges humanity faces, it is a distraction from the effective resolution of these more pressing issues. For example, it has been estimated that large swathes of China will become uninhabitable, with a "wet bulb" temperature of over 35 degrees Celsius (Chandler 2018).

The BRICS group already displayed substantial differences and tensions between some members – India and China in particular, which have frequently had border clashes – amongst other issues. The inclusion of other erstwhile enemies such as Iran and Saudi Arabia may further complicate things. However, they may still be able to achieve consensus on their core area of concern – the need to substantially reform or perhaps, over time to transcend, the liberal international order. This gives the group a powerful impetus and may also facilitate further rounds of expansion. More than 40 other countries have expressed interest in joining the group.

Whether this happens or not will depend in part on how the current round of expansion plays out and whether existing tensions can be kept within bounds to allow for greater coordination and cooperation on particular issues. The BRICS may do well to allow the new members to settle in and establish a modus operandi or modus vivendi before contemplating further expansion of the group. Nye (2022) argues that the US should engage China on issues of common interest and compete vigorously in others. This may be logical from a great-power competition perspective, but greater cooperation for humanity's survival with require a change in mindset in China, the BRICS, and the Western powers alike.

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Günther Maihold

Beyond the Status Quo: BRICS+ and the Challenge to the G7

KEY MESSAGES

- **Since the BRICS+'s challenge to the liberal international order has to do more with various particular issues than with an attempt to upend the norms that underpin the global order, the G7 should negotiate these issues in a step-by-step approach with the BRICS+**
- **The G7 should accept the challenge presented by BRICS+ and establish the groundwork for a long-lasting dialogue with both the BRICS bloc and its individual member states**
- **The BRICS+ expansion requires a great deal of openness on the part of the G7 to discuss and negotiate the pending issues of representation in the international financial organizations and the definition of positions regarding climate policy**
- **The G7 countries are being challenged to come up with new, competitive concepts for development finance and cooperation that present a visible difference to China's offers of less conditional financial assistance**
- **With regard to the BRICS+ members' strategy of multi-alignment and forum shopping, the G7 should provide integral responses to the demands presented in order to avoid a situation of diffuse challenges voiced in different international fora**

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BRICS+ is emerging as a new player on the global political stage that is emphatically calling for changes to the international economic order. While a common front of emerging economies and developing countries is showing major assertiveness in international politics, the nature of the BRICS+'s contention regarding the liberal international order (LIO) lies more with various particular issues than with the norms that underpin the global order. Western countries have been criticized for not being able to control crises and wars and contain damage to other countries. Added to this is the accusation that sanctions, and unilateral and protectionist measures, restrict their economic development opportunities. The addressees of these demands are the industrialized countries (G7), which are accused of failing to meet the needs of the Global South, not least because the multilateral financial organizations they control, such as the World Bank and the International Monetary Fund, as well as the World Trade Organization (WTO), are tailored to the interests of the developed nations.

The central question is whether BRICS+ challenges the G7 with a clear alternative to the established LIO, or whether it is rather an argument over representation (Newman and Zala 2018). What is clear is that the regional groupings within the LIO (e.g., East Asia and the Middle East) and the international regimes dealing with international trade, climate change, nuclear weapons, cyberspace, or international public health are being affected by different dynamics of rise, decline, and demise (Maull 2018).

Therefore, policymakers should have a clear vision of the specifics of the challenges to different levels of the international order. With this in mind, the G7 should open a dialogue with the BRICS+ on various policy areas in order to find common ground, bearing in mind that the BRICS+ will act internationally more as a conservative "coalition of sovereign states" to resist perceived encroachments on the norm of sovereignty, rather than questioning the existing order as such.

A NEW ERA OF SOUTH-SOUTH COOPERATION

At first glance, the BRICS expansion appears to serve primarily China's interest in increasing the number of supporters of its own model of world order. But one thing is clear: the existing BRICS members are not subordinating their national interests to China's aspirations to become a great power. The heterogeneity of the BRICS is growing, as are the opportunities for cooperation. The new members bring additional potential for shaping intra-BRICS trade, be it in food markets, energy cooperation – or even additional contributions to the BRICS Development Bank from deep-pocketed Arab members to increase the capital available for investment and loans. This would make the BRICS+ countries and associated partner nations less dependent on conditional loans from the World Bank and the IMF.

BRICS+ will be a key actor in global risk areas, sending a strong signal that cooperation in the Global South will operate on its own terms. This new level of interaction is more about establishing parallel regimes – ranging from complementary to competing ones – that offer additional opportunities for member states and beyond, and less about undermining the principles that underpin the current international order and financial system.

DE-DOLLARIZATION AND A SEPARATE RESERVE CURRENCY

Of particular importance in the summit's final declaration is the interest in decoupling the BRICS economic area from the dollar and establishing its own reserve currency. The dollar is used at present for 84.3 percent of global cross-border trade – compared to only 4.5 percent for the Chinese yuan. The BRICS states are keen to stop using the dollar as a unit of payment and account for intra-BRICS trade. If the BRICS manages to use the "Bric" as its currency for international trade to escape dollar hegemony, it would probably take the form of bilateral agreements. However, intra-BRICS trade is rather low, apart from bilateral trade with China, so the scope of such a decision would be limited, with all BRICS members continuing to use the dollar for a large part of their foreign trade.

From a geopolitical perspective, the pursuit of de-dollarization is linked to the interest in limiting the ability of the US to pursue its security interests with the help of financial sanctions. De-dollarization is in line with the BRICS+ countries' preference for strategic multi-alignment and forum shopping (Molavi 2023), and reflects to some extent a generalized anti-Western sentiment in the defense of sovereignty and territorial integrity.

POLICY CONCLUSION

BRICS+ primary aspiration appears to be gaining recognition and status on the global stage, which should be recognized by the G7. The economic weight of the BRICS+ has been driven primarily by the rise of China, and greater internal BRICS+ convergence will require significant coordination efforts in the coming years. The international financial order is not on the verge of collapse in the face of the BRICS+ enlargement, but it is becoming clear that the West must open up to the interests of the Global South if it wants to avoid crises, overcome conflicts and solve global problems.

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Isabella Gourevich, Dorothee Hillrichs and *Camille Semelet*

India – A Giant in the Making?

KEY MESSAGES

- **India has become a key player in services, and critical in pharma and food security in the Global South**
- **India is setting course to be a manufacturing hub with a mix of targeted subsidies and trade integration**
- **First successes are visible: India now exports more machinery and the quality of its goods is increasing**
- **The EU's share in Indian trade has fallen since the 1990s, while China became its main trade partner**
- **Trade negotiations with the EU began in 2022. Success is a must for both sides but will be difficult to achieve**

The 2024 BRICS enlargement is a step towards the formation of a political and economic bloc set to represent the Global South in a multi-polar world. While widely interpreted as a success for China, its rival India could stand to benefit. A founding member of BRICS, India has long had significant weight in the global economy. With a population above 1.4 billion, it surpassed China in 2023 as the world's most populous country. It ranks 5th in terms of GDP and, with a year-on-year growth rate of 7 percent, India outpaced all its BRICS peers in 2022 – including China. In recent years, however, India moved to center stage for other reasons. As the world grappled with supply chain disruptions during the Covid-19 pandemic, attention turned to India's potential to mitigate the West's overwhelming reliance on China. Tech giants like Apple and Microsoft lead the move for diversification and are starting to expand production in India (Forbes 2023). Against the backdrop of rising geopolitical tensions between Western democracies and India's BRICS peers, Russia and China, new partnerships are being formed. Given the increasingly autocratic composition of BRICS, strengthening ties with India now appears paramount for many Western countries.[1]

In this article, we portray India's integration into the world economy to assess its current role and path forward. We begin our analyses by highlighting sectors in which India is already indispensable. Next, we decompose India's trade flows and shed light on its linkages with the BRICS countries and the EU. We then discuss recent developments in India's industrial and trade policy and point to promising signs in the country's exports.

INDIA'S ROLE IN GLOBAL TRADE

As European and American governments seek to reduce their dependence on China, they are setting their sights on India as a "safe" new alternative. The country has already established itself as a worldwide supplier in a diverse set of industries. In services, India is the 14th biggest exporter worldwide and ranks fourth in information and communication technology (ICT) services, according to OECD data. The global surge in demand for ICT services due to the Covid-19 pandemic boosted Indian services exports by 26 percent between 2019 and 2021,[2] twenty percentage points above the year-on-year average growth rate in the previous decade.

In goods trade, India is a critical supplier of products ranging from primary minerals to luxury goods. Worldwide, the country is one of the leading jewelry and spice exporters. At the same time, more than 40 percent of global exports of iron and non-alloy steel as well as granite originate in India. For many developing countries, India plays a vital role in food security and health.

[1] All data cited in this paragraph are from the World Bank.
[2] Service trade data in OECD-BATIS ends in 2021.

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Table 1

India's Critical Role in Food Security and Health by World Region

	Rice (HS4 1006)			Insecticides, fungicides, herbicides (HS4 3808)			Medicaments (HS4 3004)		
World Region	Import share > 50%	Import share > 75%	Top-5 supplier	Import share > 50%	Import share > 75%	Top-5 supplier	Import share > 50%	Import share > 75%	Top-5 supplier
East Asia & Pacific	2	1	19	0	0	16	2	0	22
Europe & Central Asia	0	0	23	0	0	7	0	0	7
Latin America & Caribbean	0	0	10	0	0	11	3	0	30
Middle East & North Africa	12	6	20	1	0	13	0	0	6
North America	0	0	2	0	0	1	0	0	1
South Asia	5	4	6	2	2	6	4	2	7
Sub-Saharan Africa	19	11	45	0	0	29	18	3	48

Note: The table presents the number of countries from each of the seven World Regions for which India accounts for more than 50 percent or 75 percent of the imports of the three selected product groups. In addition, the third column of each product represents the number of countries for which India is one of the top five suppliers of the given product.
Source: UN Comtrade; authors' calculations.

In August 2023, India gained much negative publicity with a ban on rice exports. While the government defended the measure by citing fear for domestic food security, the ban shone a spotlight on India's role in global food security, as the country supplies 40 percent of global rice exports. Developing countries in Sub-Saharan Africa, the MENA region,[3] and South Asia are especially vulnerable to Indian trade restrictions. As Table 1 shows, India supplies more than 50 percent (75 percent) of the rice imports of 38 (22) countries. Neighboring Bhutan and Nepal purchase almost all their rice, and Sri Lanka more than 90 percent, from India. The main rice-producing areas are in India's north, a region predicted by World Bank climate change experts to experience more severe droughts in the future. Investments in climate change adaptation strategies are therefore not only critical for India, but for many other countries as well.

Next to services and primary goods, India is a key player in the chemicals and related industries. These industries, too, produce goods critical for food security, such as insecticides and herbicides. Moreover, many countries depend on India for pharmaceutical supplies, with 27 countries spending more than 50 percent of their medicament expenses on Indian products. As with rice, most of these countries are in Sub-Saharan Africa: 18 out of 48 countries in the region obtain more than half of imported medicaments for retail sale from India. Ethiopia, another new BRICS member, receives 64 percent of its medicament imports from India, while for Ethiopia's neighbor, Eritrea, India's share lies above 80 percent. The importance of India as a pharmaceutical supplier to the Global South makes intellectual property rights a contentious topic in ongoing trade negotiations between the EU and India. Where European pharma companies point out the importance of strict patent laws to recuperate high up-front investments in R&D, NGOs warn that constraining Indian production of generic medicines would have severe effects for medical care in developing countries.

AT A CROSS-ROADS: TRADE LINKAGES WITH BR(I)CS AND THE EU

Trade with the BRICS nations plays a pivotal role in India's economic landscape. Oil trade in particular ties India to new and old members. Over the past two decades, crude oil consistently ranked as the top imported product, comprising 9 to 14 percent of total imports since 2005. Saudia Arabia and the United Arab Emirates supply around half of India's crude oil imports. In 2022, the import share surged to 20 percent, in parallel with the export share of refined oil, a likely consequence of the Western sanctions imposed against Russia.[4]

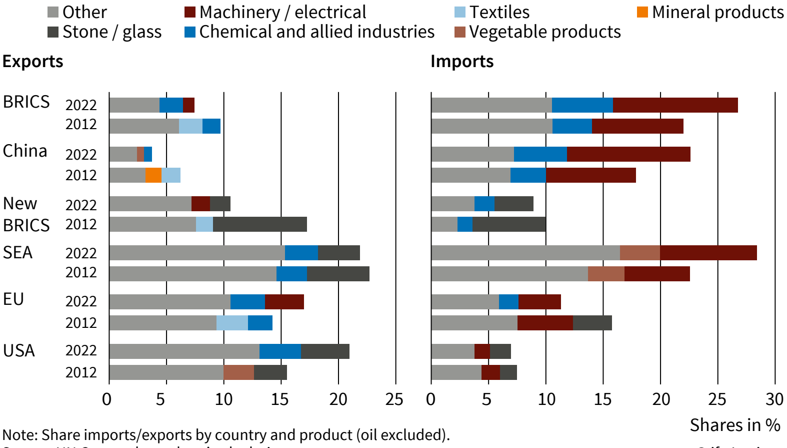
Excluding oil, China and the UAE are India's main partners within the BRICS. In 2022, the BRICS represented over one-fourth of India's total imports (Figure 1). India's imports from China have steadily increased since 2001, reaching almost USD 50 billion in 2022. Exports to China is dominated by machinery, electrical products, and chemicals. Agricultural products account for 30 percent of India's exports to China. While India and the UAE share strong

[3] Middle East and North Africa.

[4] UN Comtrade 2023, authors' calculations.

Figure 1

With China as a Backbone of Indian Trade, India Is Expanding Its Exports of Machinery and Chemical Products to Western Markets



Note: Share imports/exports by country and product (oil excluded).
Source: UN Comtrade; authors' calculations.

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ties, since 2009 both China and the UAE have gradually reduced their imports from India.

Trade with the EU has evolved significantly in the past decade. India expanded its machinery and chemical exports, moving away from simpler agricultural produce and textiles. The EU share in Indian exports dropped from 23 percent in 1995 to 14.4 percent in 2012, and has recovered only slowly, standing at 17 percent in 2022. The evolution of Indian-EU trade in the 2000s reflects the global shift of the textiles value chain towards South and South-East Asia. Textile industry supplies (cotton and yarn) represented over 35 percent of exports to the EU (of which over 30 percent went to Germany) in the 1990s, falling to 13 percent in 2022. The recent recovery of exports to the EU are driven by sales in chemicals, machinery, and electronics to the Netherlands, Belgium, France, and Italy.

The EU lost in importance, too, as a supplier to India. Its share in the Indian import basket plummeted from 29 percent in the 1990s to 12 percent in 2022. Belgium, and Germany, once leading EU exporters of precious stones and machinery to the Indian market, respectively, have decreased their exports by more than half in the span of 20 years.

In contrast to manufacturing, export patterns in services have been more stable. India's exports are dominated by ICT and business services, comprising consulting and legal services. Between 2005 and 2021, the share of ICT in global service exports by India grew from 32 to 36 percent. Business services grew by 16 percent over the same period, making up 41 percent of India's total service exports worldwide.[5] The US is India's most important service destination, accounting for 15 percent of total exports. The UK and China rank second and third, making up approximately 8 percent and 5 percent of India's service exports, respectively. India faces increasing competition from China, where the share of ICT service exports rose from 3 percent in 2005 to 19 percent in 2021.

ALL EYES ON MANUFACTURING: PM MODI'S PLAN FOR A DEVELOPED INDIA 2047

Since Prime Minister Narendra Modi took office in 2014, the government has been working to advance India's manufacturing sector. His government pursues a three-pronged strategy: (1) strong government support for the manufacturing sector, (2) a single domestic market, and (3) greater openness to international trade and foreign direct investment (FDI). It is a balancing act of strengthening the domestic economy with subsidy programs while abiding by WTO rules.

Three Pillars

The "Make in India" campaign, launched in 2014, targeted foreign investment and was accompanied by the introduction of the National Intellectual Property Rights (NIPR) policy in 2016 (WTO 2021). The Atmanirbhar Bharat Abhiyaan campaign followed in 2020 and aims to promote self-reliance. At its core is the Production-Linked Investment Scheme, which seeks to improve the global competitiveness of India's manufacturing sector by subsidizing domestically produced goods.

The creation of a single market within India has been crucial, too. Despite being the world's fifth-largest economy, India's complex local levies and inadequate infrastructure have hindered inter-state trade. The introduction of a nationwide goods and services tax (GST) in 2017 and significant improvements in transport infrastructure have paved the way for a robust Indian single market (The Economist 2022).

In spring 2023, India's government announced its latest international trade strategy. Dispensing with the rhythm of 5-year plans, the new strategy is designed to be adaptive and for the long term. It promotes trade through e-commerce and incentivizes districts to identify local export potential. Small and medium-sized enterprises (SMEs) in particular stand to benefit from this initiative. It also includes special provisions for capital goods imports to help advance India's lagging manufacturing sector and upgrade the quality of its products.

Promising Signs

The government's efforts are bearing fruit. According to World Bank data, FDI inflows increased by a remarkable 44 percent between 2014 and 2019, an essential step towards deeper integration into global value chains (Liu et al. 2021). The increasing significance of machinery and chemicals in its exports and imports indicate India's path forward. What's more, between 2014 and 2022 the composition of India's export basket gradually shifted towards products with

[5] OECD data, author's calculations.

greater potential for quality differentiation (Figure 2), signaling a move towards more complex goods. Moreover, unit values, a proxy for quality of differentiable goods, have risen for many products.

INDIA'S TRADE POLICY

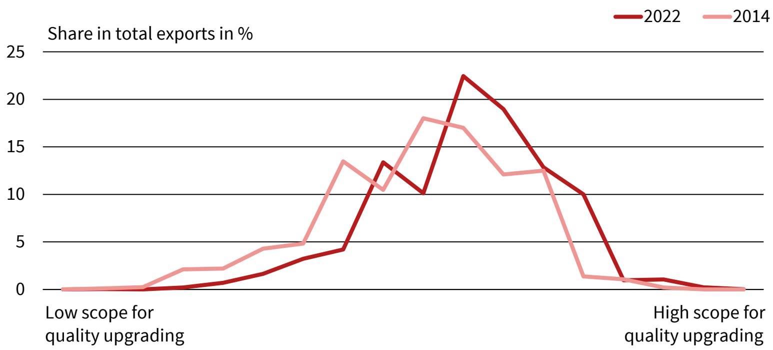
Going forward, India has set its sights on establishing its position in the global economy. While India has been a WTO member since 1995, it has ratified few trade agreements since, keeping comparatively high tariff and non-tariff trade barriers. The trade-weighted average tariff on agricultural products stands at 49 percent, while non-agricultural products typically face import tariffs of about 9 percent (WTO). The average tariffs applied lie substantially below the maximum tariffs India pledged to apply to WTO members (113 percent for agriculture, 36 percent for non-agriculture), making its trade policy unpredictable. Still, the country maintains trade relationships with most countries worldwide. India's export share of GDP began growing continuously with the first trade liberalization period in the mid-1980s, peaked in 2013 at 25 percent, and stood at 21 percent in 2022.[6]

India-EU Trade Negotiations

After a decade of no trade agreements, the Indian government ratified agreements with Mauritius in 2021, and Australia and the UAE in 2022. More negotiations are ongoing. Most importantly, in June 2022 India re-entered negotiations with the EU after the failure of the first round of negotiations between 2007 and 2013. In a move to increase the likelihood of success, what is typically part of a comprehensive agreement was split: the two parties are negotiating three separate deals on trade, investment protection, and geographical indications. Nonetheless, an agreement will not come easy. India, which in 2022 ranked last on the Yale Environmental Performance Index, struggles to meet the ambitious sustainability requirements of the EU Green Deal. The EU laments India's weak labor protection laws, too, and human rights watchdogs criticize India on several counts (Human Rights Watch 2023). India, on the other hand, is concerned about highly subsidized European agricultural products flooding its market and worries that its SMEs in manufacturing may not be ready to compete against European suppliers.

While the two parties are still far apart, pressure is high to conclude the deal successfully. India needs the European suppliers to advance its manufacturing sector, while Europe cannot miss out on the Indian market and professionals in IT and engineering. What's more, if the negotiations fail, the Indian-European geopolitical partnership would lack substance. For India, deeper integration into the world economy

Figure 2
Indian Exports Shift towards Products with Potential for Quality Upgrading



Note: This graph depicts the distribution of Indian export shares across quality ladder lengths. A quality ladder is assigned to each product and represents the vertical differentiation possibility of a product. A higher ladder indicates that the scope for quality differentiation is high for a given product, while the opposite holds for low ladders. Goods with greater scope for quality differentiation are likely to be more complex, higher value-added products.
Source: Khandelwal (2010); UN Comtrade; authors' calculations. © ifo Institute

is necessary if it is to achieve developed-country status by 2047, PM Modi's wish for the country's 100-year anniversary (Modi 2023).

POLICY CONCLUSION

India's ongoing reform efforts signal a positive trajectory towards higher economic development. While the direction of India's reforms is encouraging, the country needs to prove its reliability as a fair player in the global trade game. Climate change adaptation strategies are urgent to ensure continued global food supply, but also to protect the growing manufacturing sector from adverse weather events. As for the EU, trade negotiations with India will reveal once more the environmental and social cost at which geopolitical alliances are forged.

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Sven Resnjanskij, Jens Ruhose, Katharina Wedel, Simon Wiederhold and *Ludger Woessmann*

Mentoring Improves the School-to-work Transition of Disadvantaged Adolescents

A successful transition from school to professional life is pivotal for the future employment prospects of young individuals (Ryan 2001). This transition requires acquiring a professional qualification and promptly securing employment. However, approximately 18 percent of young people in Germany (aged 20–34) fail to obtain a professional degree (Bundesinstitut für Berufsbildung 2023). Those from disadvantaged backgrounds often face particularly challenging transitions, resulting in unemployment, discontinuation of professional training, and unclear career objectives. Attaining a professional qualification is imperative for success in the German labor market: individuals with a completed apprenticeship (or a similar credential) face a mere 3 percent unemployment rate, whereas those without a completed qualification encounter an unemployment rate as high as 20 percent (Bundesagentur für Arbeit 2023).

What strategies can be employed to enhance the labor-market prospects of adolescents from disadvantaged backgrounds? One promising approach is through mentoring programs that pair these adolescents with voluntary mentors, focusing on developing their individual potential and helping them to plan for the future. While the effectiveness of various early childhood support programs is well documented (e. g., Cunha et al. 2006; Almond et al. 2018; Kosse et al. 2020), the literature has paid little attention to interventions targeting the labor-market opportunities of adolescents. In our new study (Resnjanskij et al. 2024), we investigate the impact of mentoring on the labor-market prospects of adolescents.[1]

KEY MESSAGES

- **Mentoring programs can strongly improve the transition from school to work for disadvantaged adolescents**
- **Results from our field experiment indicate that a German mentoring program markedly boosts school achievement, patience, and labor-market orientation of students from highly disadvantaged backgrounds**
- **The effects on math grades and labor-market orientation extend beyond the end of the program**
- **Three years after program start, the mentoring program substantially increases the share of disadvantaged adolescents who start an apprenticeship, a vital step for success in the German labor market**
- **The results show that substituting a lack of family support with other adults can help disadvantaged children in adolescence**

THE MENTORING PROGRAM

We evaluate the effectiveness of one of the largest mentoring programs for disadvantaged adolescents in Germany. The aim of the program "Rock Your Life!" is the successful transition of adolescents from lower secondary school to an apprenticeship or upper secondary school. The program, founded 15 years ago by a group of university students, has since brought together more than 10,000 mentoring pairs at over 50 locations in five countries.

The program predominantly targets adolescents from disadvantaged backgrounds, a group that often receives only limited support from their families. It aims at students in eighth and ninth grades (on average 14 years old) who attend lowest-track secondary schools in disadvantaged neighborhoods. The volunteer mentors are university students who meet with the adolescents regularly (about once every two weeks) over a period of one to two years. They support the adolescents in coping with stressful situations at school or at home and offer them guidance for navigating the labor market.

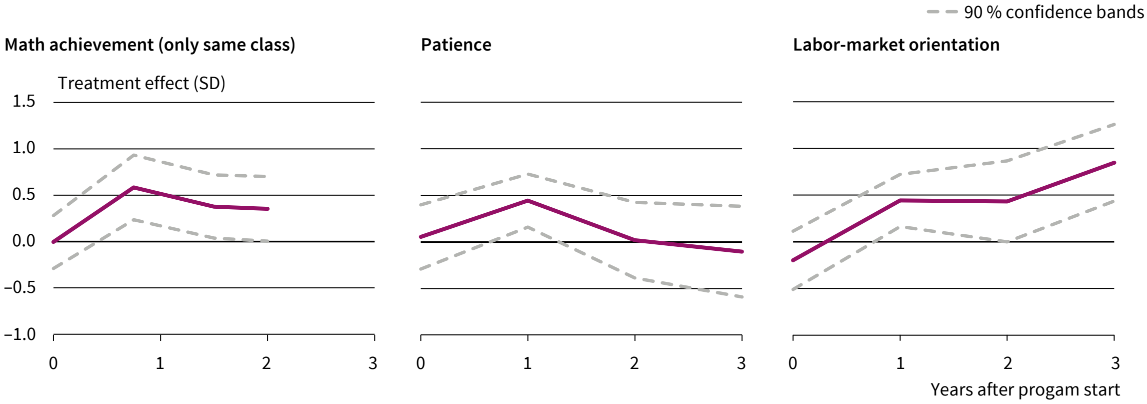
EXPERIMENTAL EVALUATION

To investigate the effectiveness of the mentoring program, we conducted a large-scale field experiment. Our study comprises 308 adolescents in two cohorts at 19 schools in ten German cities. When the number of applicants exceeded the available program slots at a specific location, we used a lottery to determine participation. The randomized allocation into partici-

[1] The underlying research paper, "Can Mentoring Alleviate Family Disadvantage in Adolescence? A Field Experiment to Improve Labor-Market Prospects", is forthcoming in the *Journal of Political Economy*. This summary was first published on VoxEU.org.

Figure 1

Effect of Mentoring on Labor-market Prospects of Low-SES Adolescents



Note: Figure shows the effects of the mentoring program on math achievement, patience, and labor-market orientation of low-SES adolescents over time. All outcome variables are standardized so that effect sizes can be interpreted in standard deviations (SD). Depicted effects are based on a regression with control variables.
Source: Resnjanskij et al. (2024).

pants (treatment group) and non-participants (control group) ensures that the only significant difference between the two groups is their participation in the mentoring program. Consequently, the causal effect of program participation (treatment effect) can be estimated by comparing the two groups (see Resnjanskij et al. 2024 for further information on the study's design).

We surveyed adolescents in four rounds. The first survey was conducted before the start of the mentoring program in the local schools. With substantial efforts in administering the surveys, we successfully re-interviewed 99 percent of the adolescents either at school or via telephone one year after program start. The two-year follow-up survey was conducted partially in school, online, and by telephone, while the three-year follow-up was exclusively online and achieved an 88 percent participation rate.

Our expectation before conducting the study was that the mentoring program would be particularly effective for highly disadvantaged adolescents, due to their severe lack of family support. Using a multidimensional measure that reflects various facets of socio-economic status (SES), we classified adolescents as highly disadvantaged if one of the following conditions applies:

- Lack of educational support: neither parent has a university degree and there are few (less than 25) books at home.
- Lack of economic or time support: single-parent household and few books at home.
- Lack of language or institutional support: first-generation migrant (i. e., born abroad).

Utilizing this SES measure, we divided the sample into two approximately equal groups: highly disadvantaged (low-SES) and less disadvantaged (higher-SES) adolescents.[2] In this column, we focus on the effects of the mentoring program on highly disadvantaged adolescents. There are no positive program effects for adolescents from less disadvantaged backgrounds.

STRONG EFFECTS ON LABOR-MARKET PROSPECTS OF DISADVANTAGED ADOLESCENTS

We start by looking at the effect of the mentoring program on three outcome measures that are highly predictive of adolescents' future labor-market opportunities: their math grades as a cognitive component, their future orientation as a non-cognitive component, and their labor-market orientation as a motivational component (see Resnjanskij et al. 2024 for details). One year after program start, when the participants are still in school, the math grades of the highly disadvantaged adolescents improve considerably due to

[2] The results are qualitatively similar if we measure SES based solely on books at home, parents' educational background, or first-generation migration status.

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participating in the mentoring program (Figure 1). The treatment effect on math achievement is 0.58 standard deviations (corresponding to an improvement by 0.80 grade steps on the German scaling system). There are also positive short-run effects of program participation on adolescents' future orientation (patience) and their labor-market orientation, both of which increase by 0.44 standard deviations. When we combine the three components into one index of overall labor-market prospects, the one-year treatment effect amounts to 0.64 standard deviations.[3]

The positive effect on math grades persists until the end of lower secondary school, still amounting to 0.35 standard deviations or 0.48 grade steps (Figure 1). In contrast, the effect on patience dissipates after the first year. The positive effect on labor-market orientation not only persists but also intensifies over time, reaching 0.85 standard deviations three years after program start.

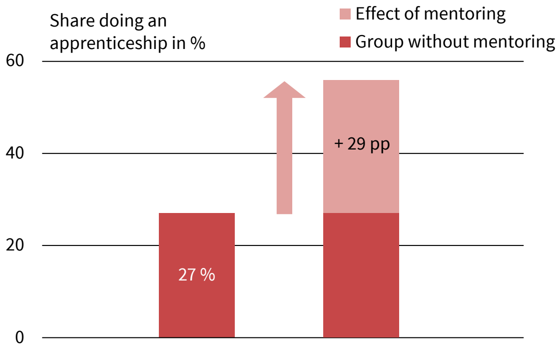
APPRENTICESHIP PARTICIPATION INCREASES BY 29 PERCENTAGE POINTS

Three years after program start, a majority (56 percent) of the adolescents, now between 16 and 19 years old, are still in school. However, a substantial portion of adolescents has already entered the labor market at this point. For them, and particularly for the highly disadvantaged in lowest-track schools, securing an apprenticeship is a critical measure of labor-market success and a primary objective of the mentoring program.[4] While the complete transition of all participants into the labor market will unfold over several years, the initial shift from school to work, which is already observable, offers early insights into their labor-market trajectories.

Our results show that the mentoring program significantly increases the share of highly disadvantaged adolescents commencing an apprenticeship. Three years after program start, there is a notable increase of 29 percentage points in apprenticeship participation among treated adolescents. This corresponds to more than a doubling of the share observed in the control group (Figure 2).

Adolescents not engaged in an apprenticeship either continue to attend school (often in a preparatory system with unclear effectiveness), pursue other work-related activities, or are unemployed.[5] Our findings indicate that the treatment effect on apprenticeship participation primarily stems

Figure 2
Mentoring Helps Disadvantaged Adolescents to Start an Apprenticeship



Note: Figure shows the share of low-SES adolescents who have started an apprenticeship three years after program start. Left bar: adolescents without mentoring (control group); right bar: adolescents with mentoring (treatment group). The depicted effect of the mentoring program is based on a regression with control variables.
Source: Authors' depiction based on Resnjanskij et al. (2024). © ifo Institute

from reductions in continued school attendance (by 21 percentage points) and unemployment (by 12 percentage points), but not in other work-related activities (increase of 3 percentage points).

The adolescents' improved school performance and labor-market orientation, discussed above, likely are primary factors contributing to the increased apprenticeship participation. Another potential explanation is the development of more realistic career expectations, especially regarding the likelihood of successfully completing a university degree. In the control group, as many as 63 percent of highly disadvantaged adolescents think they are able to complete a university degree, which contrasts sharply with the actual 10 percent completion rate in this group – which reduces even further to just 2 percent for those with a lower-track school education (own calculations based on PIAAC data (see Resnjanskij et al. 2024). Participation in the mentoring program reduces the self-assessed likelihood of university completion by 13 percentage points, suggesting more accurate expectations.[6] This result may indicate that the mentors, who are university students themselves, provide mean-

[3] The program effect for the full sample, including higher-SES adolescents, is marginally significant at 0.15 standard deviations, but the point estimate in the higher-SES sample is negative and statistically not significantly different from zero.
[4] An apprenticeship is the most promising career path for most students from low-track schools, especially for those with a non-academic family background. It offers considerable returns on the labor market (e. g., Fersterer et al. 2008; Piopiunik et al. 2017).
[5] This category also comprises other non-school or non-work-related activities.

[6] At the same time, the mentoring program does not significantly affect the self-assessed probability of completing an apprenticeship or the expected earning returns of completing a university degree or an apprenticeship.

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ingful advice about the requirements for successful university graduation.

Program participants' more realistic expectations regarding career opportunities do not diminish their satisfaction with the current situation. In fact, treated adolescents view their current career path as more desirable, showing a 31 percentage-point increase in satisfaction with their current situation compared to the control group. Furthermore, they are also more inclined to maintain their current situation without seeking change, with a treatment effect of 22 percentage points.

However, it is important to consider whether these pronounced effects on satisfaction might be indicative of less ambitious career goals or a lack of awareness about potentially better outcomes achievable through continued education. To address these potential concerns, we predict the expected earnings based on either the adolescents' actual apprenticeship occupation or their desired occupation.[7] Low-SES adolescents who participated in the mentoring program can expect to earn EUR 3,066 per month if they continue to work in their current apprenticeship occupation, compared to only EUR 2,746 in the control group. This gap narrows only slightly when considering desired occupations (EUR 3,406 compared to EUR 3,184). Thus, mentoring does not lead to diminished career ambitions; rather, treated adolescents aspire to higher-paying jobs. Additionally, the occupations they seek are less susceptible to automation (e. g., Autor 2022), with an automation probability of 37 percent in the treatment group compared to 43 percent in the control group. Overall, these findings suggest that the mentoring program effectively facilitates a smoother transition into the labor market for low-SES adolescents.

POLICY CONCLUSION

We show that mentoring programs can successfully improve the future employment opportunities of highly disadvantaged adolescents. Improvements in math performance and labor-market orientation extend beyond the duration of the program. We also observe positive program effects on early realizations of the labor-market transition, particularly on the share of adolescents who start an apprenticeship. Mentoring therefore appears to be a viable option for increasing the prospects of highly disadvantaged individuals – not only in childhood, but also in adolescence. In contrast, the program has no positive impact on adolescents from more advantaged backgrounds, who apparently do not lack parental support that would need to be compensated.

A key policy implication is the necessity of targeting mentoring programs specifically at highly disadvantaged adolescents to optimize their effectiveness. Cost-benefit calculations suggest that such targeted initiatives are remarkably cost-effective: rough calculations indicate a benefit-cost ratio of 18:1 for a program focused on highly disadvantaged adolescents. Moreover, considerations regarding scalability hint at the extensive potential reach of such mentoring programs.

[7] Using register data from the Federal Employment Agency, we calculate the median earnings that adolescents can expect if they were to work in their chosen or desired occupation.

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Vesa Kanniainen

Why Moving towards a Strong Decentralized Federal State Would Be Beneficial for the European Union

KEY MESSAGES

- **Russia's attack on Ukraine has revealed the need to reassess Europe's security**
- **Currently, the European Union is a politically fragmented and divided union of member states, economically underperforming, with a defense capability that is insufficient without the support of the USA**
- **The European Union should develop towards a stronger decentralized federation, but by restoring the principle of subsidiarity**
- **When it comes to sharing political power, the Swiss model is more suitable for the European Union than the US model**

The final leader of Soviet Union, in office from 1985 to the country's dissolution in 1991, was Mikhail Gorbachev. From 1985 to 1994, Dr. Mauno Koivisto acted as the president of the Republic of Finland and closely observed the events in Russia. He had studied the Russian language and was deeply familiar with Russian history. In his book *The Russian Idea* from 2001, he summed up the long history of Russia as the need to acquire more land but also to unite the Slavs. At one time the motive for this was defensive: throughout history, Russia has been attacked by its enemies using the European plateau. More recently, the motive has been imperialistic. In the east and north, the sea became the border. China had been humiliated and large territories taken from it. The Bolsheviks recaptured the nations which broke away from Moscow's power. The Soviet Union under Stalin subjugated a large part of the peoples of Eastern Europe.

After a short experiment in democracy, it was Vladimir Putin's turn. All democratic institutions had already developed in Russia: the Duma, parties, non-governmental organizations, the judiciary, the central bank. However, the country ended up leaning towards autocracy. According to Mikhail Šiškin's 2019 book *Frieden oder Krieg: Russland und der Westen – Eine Annäherung*, the only means for the country's leadership to maintain control is war. Russia, Russkiy mir, is wider than its borders.

Putin's criticism of the unipolar world at the Munich Security Conference in 2007 startled Western leaders. During Putin's time, there has been enough money for military expenditures. The Russian threat is real. A military confrontation between the West and Russia cannot be ruled out. Hybrid influence takes on new forms. Europe has now been warned. The Madman theory suggests that the enemy can be influenced by threats. In the case of Russia, this even means threats to resort to tactical nuclear weapons.

Militarily, Russia cannot compete with the West. The defense expenditures of the four largest European NATO countries alone in 2022 were USD 208 billion, while Russia's defense budget was USD 88 billion (adjusted for purchasing power, USD 192 billion) – see IISS (2022). The population of the European Union is 450 million, Russia's is 143 million. The European Union's gross national product of USD 17.11 trillion dwarfs Russia's USD 1.78 trillion (USD 3.89 trillion adjusted for purchasing power). Still, no power can actually threaten Russia militarily, since it has nearly 6,000 nuclear warheads, of which 1,500 are operational. Only in tactical nuclear weapons does Russia have superiority, with an estimated total of between 1,000 and 2,000 against the US's 230 tactical nuclear weapons, 100 of which are deployed in Europe (CRS 2022).

But while there is no need for a sphere of influence, the trauma of lost superpower status lives on in Russia. Russia, therefore, has a plan for Europe.

At the 2014 meeting in Wales, NATO returned to the primacy of national security. Nevertheless, it remains highly uneven. More than half of the NATO countries have been free riders in their defense budgets since the end of the Cold War, and the situation is improving only slowly (Dorn et al. 2023). The abolition of conscription has rendered the armed forces of some member countries unreliable. In places like Germany, for instance, up to a third of the aircraft fleet has been inoperable. The European Union is economically underperforming and militarily dependent on the USA. Only slightly more than 5 percent of the US arms budget directly serves Europe. In addition, the West has production problems, especially as regards ammunition, on a sufficiently large scale.

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EUROPE SHOULD RESPOND BY PROGRESSING INTO A STRONG FEDERAL STATE

The lack of unity within the European Union can be explained by American economist Mancur Olson's theory of collectives (Olson 1971). Selfish national interests always win over the interests of the collective when member states make their own benefit-cost assessments.

Russian leader Vladimir Putin is waiting for the 2024 US presidential election, hoping that Donald Trump wins. Should the United States not honor its commitment to defend Europe during a crisis in the future, NATO would fall apart. There are particular concerns about the security of the Baltic states. Only a sufficiently strong Western Europe can resist the idea of Putin's Russia.

It is therefore worth considering the development of the EU towards a defense-capable, strong-consensus federation instead of a fragmented union of nation states plagued by persistent disagreements.

THE POLITICAL ARCHITECTURE OF THE EUROPEAN UNION IS FLAWED

The European Union is a union of independent states. The original purpose was to implement the division of power between the institutions of the Union and the national states in the spirit of the so-called subsidiarity principle. Accordingly, the decision-making power of the European Union would concentrate on general political decisions concerning all member states, while the nation-states would retain the right to decide in those matters where there is no need for supranational unity.

Economic research has successfully identified those activities that would naturally belong to supranational decision-making power. It is a matter of transnational public goods, i.e., genuinely common issues. Among them, however, national security has been delegated to NATO. Others include the control of external borders, development of the internal market, competition legislation, energy and environmental issues, principles of standardization, human rights legislation, etc. The remaining areas of decision-making are left to the member states.

The cost to the UK caused by Brexit (weak economic growth, stagnant investment) suggests not only that Brexit was a mistake, but also that the European Union as a project makes a lot of sense. Still, the European Union, weakened by the financial crisis and then the euro crisis, is an economic underperformer and the market's faith in it is weak. Both the EU's rate of investment and economic growth lag behind the United States'.

Moreover, when the current European Union was being built, a thorough economic analysis played practically no role in political decision-making. Such an analysis, by Alesina and Spolaore (2003), posits that the need to share the costs points to the advantages of a broad federal union: the more member states, the lower the production cost of the public good for each. However, the large heterogeneity of the member states, current or potential, in terms of history, culture, level of development, and so on, favors a less tightly knit union.

There are about 30 federal states in the world. In this context, I will discuss the two extremes, which at the same time represent the most interesting alternatives: Switzerland and the United States.

THE SWISS MODEL

The Swiss are satisfied with their federalist model of sharing power, created in 1848. The exercise of power (legislation, law enforcement, justice) is differentiated among the national government, regional cantons, and municipalities. Each canton has its own constitution, parliament, government and courts, and a fifth of the municipalities have their own parliament, especially the cities. From the point of view of the European Union's setup, Switzerland's clear principle of subsidiarity is an essential feature: the central government is only responsible for the tasks for which the cantons cannot take responsibility or which require uniform regulation across the country. Cantons and municipalities decide on their own issues: schools, hospitals, taxation, and police.

Another significant feature is built into Switzerland's parliamentary exercise of power: the principle of consensus. In the spirit of parliamentarism, the government consists of 7 ministers, who are elected by the parliament and belong to one of the largest parties. In the spirit of the distribution of power, the outcome desired by the majority is not automatically the one that prevails, since an effort is made to take into account the opinion of those in the minority and include it in the outcome. This sounds like a suitable solution for Europe, where the strong nation states of Germany and France have fought three major wars in a hundred years but can now be expected, together with many others in Europe, to remain stable for a very long time. Consensus decision-making will therefore have its place. Indeed, it has already been part of decision-making within the European Union, although Germany and France have tended to dominate. Consensus would therefore be a continuation of the current form of government and it would maintain stability and the separation of powers. This does not preclude, however, that in the federative model certain issues ought to be decided by a majority.

THE US MODEL

An alternative to the consensus model is the US federal model. Its political system is built on three levels. The highest is the federal level, followed by the state level, and then the local level. The federal state is made up of 50 basically independent republics and a few special districts. Already at the time of the Civil War, the position of the North was that it was not possible to secede from the federal state. Subsequently, no state has had such an incentive. Membership in a federal state results in cost savings.

The federal political system was defined in the constitution drawn up in 1787. Executive power was given to the president, legislative power to a bicameral Congress, and judicial power to independent courts. James Madison, one of the founding fathers of the United States, proposed the idea that the larger the territory, the easier it is to implement republicanism, since with so many different interest groups in the vast country, no single one could dominate the others.

In the United States, executive power is vested in the president, who gathers around him advisors from various fields. They form the Executive Branch. Since the United States is not a parliamentary system, this part of the government does not need to enjoy the support of Congress. The president's trust is enough. When power bodies monitor each other's actions, this has often created tensions and even power struggles between different actors. A particularly common power struggle has been between Congress and the president. This is neither a favorable feature nor suitable for the European Union.

The United States Constitution is the oldest constitution written as a single law that is still in force. In the European Union, treaties play a role akin to that of a constitution, and renewing or altering them can be challenging. For its part, the UK does not have a written constitution, showing that it is possible to operate without one.

Notions of states' rights and federal control have been an important political issue in the United States from the beginning. When the Constitution was drafted in 1787, many states that became independent as a result of the revolution and the War of Independence feared the supremacy of the federal government at the expense of their own right to self-determination. In a federative European Union, the same suspicion would undoubtedly arise. Many states in the United States did not want to join the federation without guarantees of protection for them and their citizens against the federal government. It is mainly because of this that the first ten amendments to the constitution were made. The political system of most states has its own republican and democratic constitution and judiciary. Most of the states have a congress as a parliament and the executive power is entrusted to the governor and the government that is assembled by the governor.

Subsidiarity is implemented in US federalism by dividing power between the federal government and the states, with the former having been given only certain limited powers such as defense policy, foreign policy, trade and limited tax collection. The states are, at least in principle, sovereign independent states, having all powers except those voluntarily surrendered to the federal government.

POLICY CONCLUSION: WHAT KIND OF EUROPEAN UNION DO WE WANT?

Few politicians dare to think aloud about federal models for the European Union. Even as a concept, the federal state is problematic. The perception of an unwieldy organization arises when the goal is a light consensus federation, where the Commission's power is limited and the member states have more power to run their own affairs. In the European Parliament elections, each state still has its own electoral district. Some member states are divided into several constituencies. There is no need for EU-wide elections at the parliamentary level, nor EU-wide parties.

The European Parliament is a legislative body. A parliamentary relationship ought to be built between Parliament and the Commission, which would limit the Commission's power. The Commission ought to enjoy the confidence of the Parliament, as in Switzerland. This would avoid the US problem: the persistent struggle for power between the president and Congress. The problem of establishing consensus in the current EU has been deadlocked decision-making, pointing to the need for a qualified majority system for decisions. While unanimous decisions are needed in the spirit of consensus, they should be limited to general broad lines. The possibility of national extortion, lately much in evidence, must be eliminated, and for this the Swiss consensus model offers a viable alternative. Decisions could be made by simple majority or, in special cases, with 2/3 or 5/6 majorities.

As an executive body, the Commission must focus on common matters that are public goods: foreign policy, security, competition policy and the like. Given that the EU's 27 member states will eventually grow if and when the six new applicants are admitted, the principle should be established that member states do not always have to have their own commissioner. Large member states could have a commissioner throughout, medium-sized ones every second term, and small ones every third term.

In parliamentarism, there is no need for the European Council to be given a share of power. Abolishing the European Council would certainly increase the power of the Commission, but it would have the advantage of directing its responsibility to the right issues.

The EU could have a president, who should have only a ceremonial role.

The EU of the future, in this form, would not take the form of a heavily centralized community.

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New Evidence on the Effects of EU Regional Policy*

EU Cohesion Policy constitutes an important item in the EU budget. For the Multiannual Financial Framework 2021–2027, EUR 392 billion is reserved for the promotion of economic and social cohesion among the regions of the European Union. However, previous literature has not reached an agreement on the effectiveness of EU cohesion policy in promoting economic development. A key problem for identification is that the effects of EU regional policy can only be analyzed at the level of NUTS-2 and NUTS-3 regions due to a lack of more precise spatial information. However, as funding is targeted at regions with low economic performance, it is often difficult to distinguish the direct effects of regional policy from other local growth trends.

In Bachtrögler-Unger et al. (2023), we develop a novel approach to estimating the effect of EU cohesion policy on economic activity: we combine a new project database that contains detailed information on the distribution of EU funds spent in local administrative units (LAUs), i.e., the municipalities and communes of the European Union, with remote sensing data. Many EU member states lack information on GDP or other (comparable) measures of economic activity at the municipal level. Guided by the hypothesis that increased economic growth is accompanied by changes in spatial-structural parameters, we overcome this data limitation by using changes in aggregated municipality-level total nighttime light emissions to proxy the development of local economic activity.

KEY MESSAGES

- **We present a novel approach to assess the effect of EU cohesion policy on economic activity**
- **Project-level data on EU funding is combined with nighttime light emissions data**
- **Higher EU funding is associated with increased economic activity at the municipal level**
- **Remote sensing data can provide an effective way to model local economic development in Europe**
- **Improved access to data on EU-funded projects would enhance transparency of EU regional funding**

We estimate the effect of EU regional funds on economic activity for the municipalities located in the NUTS-2 regions adjacent to the border between the Czech Republic, Germany, and Poland for the programming period 2007–2013. The EU regional policy provides targeted support to NUTS-2 regions with lower economic performance. However, there are no specific rules for the distribution of funds within a NUTS-2 region. Our granular approach therefore makes it possible to break the mechanical link between economic performance and funding levels, which has often complicated the interpretation of previous studies.

Our approach can be illustrated with the help of the following case study. Figure 1 shows the town of Myszków in Poland. There, a bypass was built with EU funds from 2014 onwards. Figures 1 a) and b) show

* This contribution is a short version of Bachtrögler-Unger et al. (2023).

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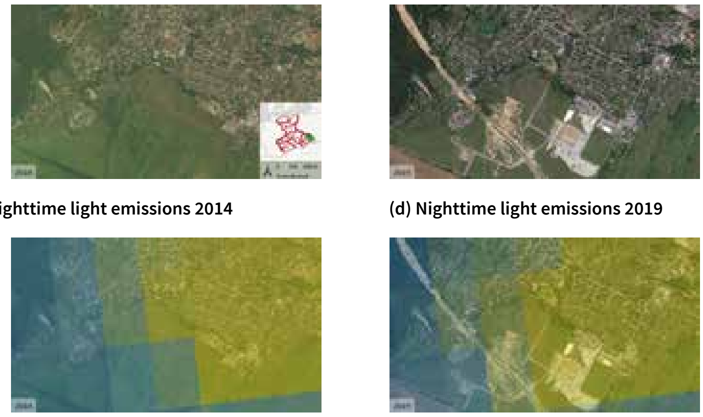
Figure 1

EU-Funded Construction of a Bypass in Myszków, Poland



(a) View of Myszków 2014

(b) View of Myszków 2019

(c) Nighttime light emissions 2014

(d) Nighttime light emissions 2019

Note: The photographs show the town of Myszków, Poland, before and after the construction of a local bypass. The photographs were taken in 2014 and 2019, respectively. As a result of the improved infrastructure, a commercial area is developing next to the newly built bypass, which can be seen in the southern part of the 2019 image. In addition, figures c) and d) show the average annual nighttime light emissions. Blue colours indicate low nighttime light emissions, yellow colours indicate high nighttime light emissions. An increase in nighttime light emissions can be seen in the area of the newly developed industrial estate, while emissions in the rest of the city remain relatively stable. Map data © 2021 CNES/Airbus, Google.

the town before and after the construction of the bypass to the west of the town, in 2014 and 2019. As a direct result of the new road, an industrial estate was built along the bypass, with the first businesses settling there already in 2019. In this detailed view, it is clear to see how this project has triggered a landscape change associated with economic development. This development can also be seen in the change in nighttime light emissions. Comparing Figures 1 c) and d), the local development can be directly and clearly linked to the changes in the satellite data. The creation of commercial areas in the south led to an increase in nighttime light emissions, while emissions in the city remained relatively stable.

Sample Region. We collect data for the NUTS-2 regions adjacent to the border between the Czech Republic, Germany, and Poland. Thus, the sample region comprises less-developed NUTS-2 regions (all Polish and Czech regions, and some regions in Germany, such as Chemnitz and Mecklenburg-Vorpommern) and regions with a relatively high GDP per capita compared to the EU average (in Bavaria, Germany). Furthermore, the sample region consists of both urban centers (such as Wrocław, Poland, or Dresden, Germany) and rural areas, which allows us to exploit rich variation in EU funding within and across NUTS-2 regions. Figure 2 depicts the sample region. The investigated region comprises 17 NUTS-2 regions and 102 NUTS-3 regions, and consists of 6,555 municipalities.

Data on EU Funding. As the policy variable of interest, we explore EU support provided via the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). Projects co-financed by the European Social Fund (ESF) are not considered in the baseline results, as information on the exact location of a large share of final beneficiaries (often individuals) is not available. In addition, ESF projects, such as training or labor market measures, are expected to be less visible from space than, for example, infrastructure projects co-financed by the CF or ERDF. We retrieve project-level data on ERDF and CF support from lists of beneficiaries provided by the managing authorities, as well as for INTERREG projects (in cross-border, transnational, and interregional co-operation programs, part of ERDF) from the KEEP database. We enrich this data set with geographic information on the location of each project.

Remote Sensing Data and Economic Activity. At the municipality level, no GDP data or other comparable information on economic development is available in our sample region. Therefore, we use nighttime light emissions as a proxy for changes in local economic activity. Nighttime light emissions have been associated with urban and regional economic development in previous studies (Zhu et al. 2017; Wu and Wang 2019). They provide meaningful features for quantifying human-made local environmental change and are available as consistent time series for the whole sample region. Moreover, there is unrestricted and free data access under an open data license. We use data from the "Defense Meteorological Satellite Program Operational Linescan System" (DMSP-OLS), which is the only sensor that provides uninterrupted coverage of global nighttime light imagery for the period 2007–2013. The

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DMSP data encodes each pixel of 30-arc-seconds resolution with digital numbers (DN), which measure annual brightness on a relative scale ranging from 0 to 63. Our main analysis focuses on the growth in total nighttime light emissions, i.e., the sum of digital numbers, per municipality.

SPATIAL DISTRIBUTION OF EU REGIONAL FUNDS

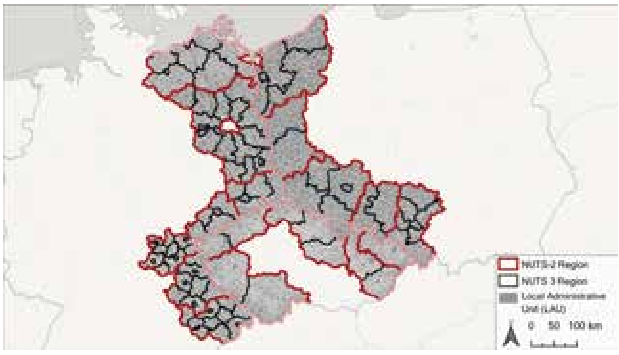
The dataset of co-funded projects generated for this paper allows for localizing ERDF and CF funding at the municipality level. To the best of our knowledge, we are the first to document and analyze the distribution of regional funds at such a fine geographical level of aggregation for more than one country. Moreover, our dataset allows us to differentiate between thematic categories, and to document which municipalities in our sample region invested how much of EU funding in which area. Figure 3 maps the intensity of EU funding received in the 2007–2013 programming period in terms of the number of projects and the sum of committed EU funding per municipality in current prices. As Panel (b) of Figure 3 shows, there is a large dispersion of funding amounts between and within countries. One factor is that Germany receives no funding from the Cohesion Fund and, by definition, less from the ERDF due to the level of development of its NUTS-2 regions in the sample.

REGIONAL FUNDS AND ECONOMIC PERFORMANCE

To analyze the effects of EU cohesion policy on growth, one would ideally like to allocate funds randomly across municipalities or regions, so that the funding effect is independent of any other factors accounting for growth-rate differentials. In reality, most of the funds are instead explicitly targeted at economically less-developed NUTS-2 regions. The main strength of our research design is the ability to observe variation in EU funding within NUTS-2 and NUTS-3 regions. This allows us to break the mechanical endogeneity of funding and economic growth (proxied by growth in nighttime light emissions) by including fixed effects at the level of NUTS-3 regions. In all our analyses, we compare whether municipalities within a given NUTS-3 region that received comparatively more funding experienced stronger growth.

However, even within a given NUTS-3 region, it is likely that the EU funding amount committed to a municipality depends on observable and unobservable local characteristics, such as the presence of innovative actors who develop projects and successfully apply for funding. As shown in our paper, funding is more likely to flow into municipalities with high initial nighttime light emissions, and also varies with population size and land cover. To account for these factors as well as for a potential convergence effect (municipalities with a higher level of initial nighttime light emissions grow at slower rates), we control for the initial nighttime light emissions in 2007, the share of urban area, the share of cropland, and log population, all at the municipality level. Our results should

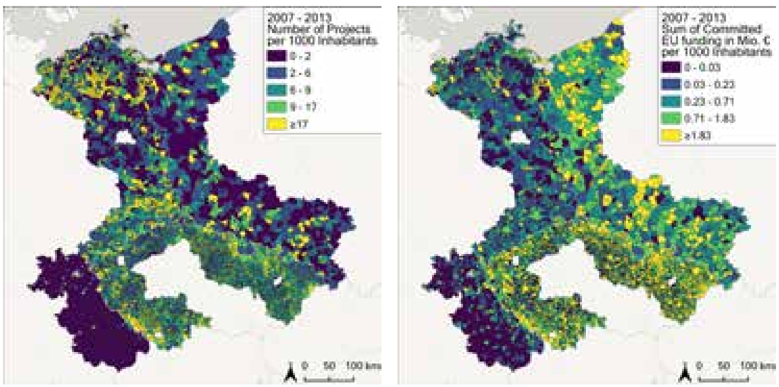
Figure 2
Overview of the Sample Region



Note: This figure shows NUTS-2 and NUTS-3 regions as well as Local Administrative Units in the border region between the Czech Republic, Germany and Poland. The sample region comprises the municipalities located in the NUTS-2 regions adjacent to the border, which is why the NUTS-2 region of Berlin (corresponding to one NUTS-3 region and one LAU) is not included. We exclude 16 uninhabited military training grounds with own municipal status in Germany and the Czech Republic.
Source: Bachtrögler-Unger et al. (2023).

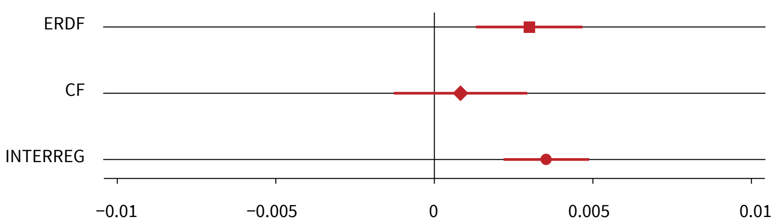
Figure 3
Number of Projects and Sum of Committed Funding

(a) Number of projects **(b) Sum of committed funding**



Note: This figure shows heat maps of the number of projects Panel (a) and the sum of committed funding Panel (b) for all municipalities in the sample for the years 2007-2013. The sample region comprises the municipalities located in the NUTS-2 regions adjacent to the border, which is why the NUTS-2 region of Berlin (corresponding to one NUTS-3 region and one LAU) is not included. 16 LAUs without population are excluded, e.g., military areas or areas without local authority. The colors represent quintiles of the distribution of the respective variable.
Source: Bachtrögler-Unger et al. (2023).

Figure 4
Funding Effect by Type of Fund



Note: This figure shows for the municipalities under investigation the coefficient estimate and the corresponding 95 % confidence interval of a regression of the growth in log night light emission in the period 2007–2013 on the total funding amount received, separately by type of fund. While we cannot reject that the effect of ERDF and INTERREG funding is the same (p = 0.559), the effect sizes of both ERDF and INTERREG are significantly larger than the effect size of CF funding (p = 0.013, p = 0.001).
Source: Bachtrögler-Unger et al. (2023).

be interpreted as correlations. In this sense, our results answer the question of whether municipalities that received more funding grew more strongly – and not necessarily to what extent the funding induced them to grow more strongly. The regression results presented in Bachtrögler-Unger et al. (2023) show that receiving a higher amount of EU funding is associated with increased economic activity at the municipal level. For the average municipality within our sample region, which receives annual funding worth EUR 625,500, we find that total nighttime light emissions increase by 0.05 percent.

Heterogeneity by Type of Fund. Furthermore, we compare the funding effect by the type of fund, keeping in mind that the German municipalities do not receive CF funding by design. Figure 4 shows that funding effects are significant for projects co-funded by the ERDF. The funding effect of INTERREG projects (co-funded by the ERDF) is similar to that of ERDF projects. For the CF, we do not find a significant funding effect. This result holds when excluding Germany as a non-CF beneficiary to avoid a potential sample selection bias, and when distinguishing between predominantly rural and other NUTS-3 regions. The effect of ERDF funding remains positive and statistically significant in all specifications.

IMPLICATIONS AND POLICY CONCLUSIONS

We have presented results from a pilot study (Bachtrögler-Unger et al. 2023) that combines official data on projects co-funded by the ERDF and the CF in the programming period 2007–2013, with remote sensing data on night light emission and land cover to assess the effect of EU funding on economic growth at the municipal level, where regional GDP data are not available. Our approach can also be applied in other contexts, for example to study the impact of investment projects funded by Next Generation EU. However, for an evidence-based evaluation of EU regional policy, it is essential to provide researchers with more comprehensive data on EU-funded projects. The microdata used here at the project level was compiled as part of this project for the pilot region under consideration and geolocalized at the level of municipalities. An EU-wide funding database standardized in this way and covering several funding periods would make it possible to extend the approach developed in this study to all EU member states and to regularly evaluate the effects of EU regional policy. Improved access to data would thus also contribute to greater transparency of EU regional funding.

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Sep 12

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June 19

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