BRICS In The New World Energy Order: Hedging In Oil Geopolitics

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President Biden's visit to Saudi Arabia during his trip to the Middle East last week has little to show for it.[1] Shortly after the Biden visit, the Kingdom made it clear that it would not act unilaterally outside of the OPEC+ group which includes Russia and allied smaller producers.[2] Saudi Arabia and its OPEC allies would continue to value the cohesion of the group, the views of Russia and the needs of global market stability in its production decisions.

Biden's trip was cast by Republican leaders as "begging for oil"[3] from the Saudis amidst high gasoline prices, the worst inflation in four decades at home and abysmal popularity polls for the president. That this happened while his administration wages a regulatory war on its own homegrown world-leading oil and gas industry is seen as particularly egregious.[4] Following the optics of last week's meeting, one of President Biden's critics found his attempt to "reset" relations with Saudi Arabia an "unequivocal display of a deeply weakened United States led by its exceedingly enfeebled president".

These opinions might be dismissed as partisan politics but it is notable that news of Saudi Arabia's interest in membership of the BRICS group came out in advance of President Biden's visit. And while President Biden was having his meeting with the kingdom's de facto ruler Crown Prince Mohammed Bin Salman in Jeddah, BRICS International Forum president Purnima Anand reported on the same day that three more countries — which included Egypt and Turkey along with Saudi Arabia — could join the BRICS group «very soon». This followed earlier announcements that Iran and Argentina had formally applied for membership with Chinese support.[5] The accession of new countries was discussed by Russia, India and China at the 14th BRICS summit held (virtually) last month.[6]

BRICS vs. G7

The acronym BRIC was coined by Goldman Sachs economist Jim O'Neill in 2001 to give an analytical lens to investors for a group of rapidly growing emerging markets (Brazil, Russia, India and China).[7] He believed that the BRICs would come to increasingly challenge the economic dominance of the developed economies of the G7. The first formal summit of the group was held in 2009, with South Africa joining in 2010 to constitute BRICS. The group accounts for 40% of the world's population and just over a quarter of global GDP. To put this in context, the G7 countries with a far smaller population base constitute just over 30% of global GDP on purchasing power parity.

The BRICS have been catapulted into a position of being the only constellation of forces that challenges the global economic dominance of the G7 developed countries bloc. This might seem a far-fetched notion especially since the organization includes both China and India which have had simmering border tensions boiling over into active lethal engagements over the past several decades. India is also a member of the Quad, along with US, Japan and Australia, motivated to contain Chinese influence in the Indo-Pacific. And now both Iran and Saudi Arabia — not the most amicable of neighbours and embroiled in proxy wars in Yemen and elsewhere — are potential BRICS members.

Intra-BRICS trade has not been of particular significance since its founding. But as the global energy order gets cleaved into two blocs – those supporting the Western sanctions on Russia and those that don't – intra-BRICS trade has suddenly gained a strategic role in oil geopolitics that is unprecedented. Western-sanctioned Russian crude oil exports, offered at discounted prices, has been re-directed to China, India and (less importantly) Brazil, as well as a range of mid-sized importers such as Egypt, Saudi Arabia, UAE and others. With elevated global energy prices, this has allowed Russia now to boast a current account surplus which more than tripled in the first quarter over the same period last year[8] and a rouble which traded at 7-year highs and has become the world›s best-performing currency this year.[9]

By June, India had imported five times the amount of all the Russian crude it bought in the whole of 2021 while China overtook Germany as the single largest importer of Russian crude oil.[10] Brazil relies heavily on Russian oil and fertilizer exports, and its foreign minister recently said that his country wanted to buy "as much diesel" as possible from Russia.[11] Saudi Arabia more than doubled Russian fuel oil imports in the second quarter to meet summer peak demand for power generation and free up the kingdom's own crude for export.[12] China, India, Brazil and Saudi Arabia share a compelling interest with all developing countries to access fuels, food and fertilizers – of which Russia is a major global exporter – at lowest prices.

BRICS As A Geopolitical Hedge

Most countries in Asia, Africa, Middle East and Latin America outside of the narrow "Western alliance" have not taken part in isolating Russia in support of NATO's agenda which to date seems to be to fight the proxy war with Russia to the last Ukrainian. China, for instance, is likely to perceive the war not merely as the West's attempt to "bleed Russia" but something as more directly consequential to its own national interests. NATO's "new strategic concept" document, released at its summit in Madrid last month, states that China's "stated ambitions and coercive policies challenge our interests, security and values" and warns of "the deepening strategic partnership between the People's Republic of China and the Russian Federation and their mutually reinforcing attempts to undercut the rules-based international order run counter to our values and interests."[13]

The "rules-based international order" espoused by NATO and its allies meant an all-out economic war on Russia.[14] This included the expropriation of half of the Russian Central Bank's foreign exchange reserves held offshore, blocked access to the SWIFT international payments system and bans (or announced plans to phase in bans, since immediate bans are impossible for the EU) on Russian energy exports. President Putin responded with the "roubles for gas" scheme for "non-friendly" countries (i.e. those participating in the sanctions), making clear that the scheme was the prototype to apply to all its major commodity exports.[15]

It is no surprise that both Moscow and Beijing are working on the creation of an international reserve currency and an integrated inter-bank payments system based on a basket of BRICS currencies to counter Western sanctions. For countries outside the US-led alliance, BRICs membership could serve as a hedge to the threat of secondary sanctions by the G7 or NATO.

China's invitation last month to thirteen countries including Indonesia, Kazakhstan, Nigeria, Senegal, Thailand and the UAE to apply for BRICS membership no doubt has this motivation between the lines. In his speech to BRICS forum invitees, President Xi Jinping gave a critique of the US-led sanctions regime for building "a small yard with high fences".[16] He reflected the posture of developing countries which seeks continued access to fossil fuels – especially at discounted prices — for resuscitating economic growth as they emerge out of the covid lockdowns.

A Dent on Dollar Hegemony?

An enlarged BRICS group may or may not include oil and gas heavyweights Iran and Saudi Arabia. But if intra-BRICS commodity trade were to be settled in a commodity-linked basket of currencies among members as well as willing non-members, it would constitute an effective end to the petrodollar, a key pillar of the G7-led global financial system. The tensions within an enlarged BRICS forum hosting members embroiled in regional rivalries may be outweighed by the common interests of countries outside of the Western alliance seeking to ensure their access to food, fuel and fertilizer imports on the best terms possible.

President Putin in his notable speech to the St. Petersburg International Economic Forum last month warned that "it is a mistake to suggest that one can wait out the times of turbulent change and that things will return to normal; that everything will be as it was. It will not."[17] For many developing countries critically dependent on imports of the 3Fs – fuels, food and fertilizers — membership of the BRICS group may well turn out to be the best geopolitical hedge in a world forever changed by the US-led financial sanctions on Russia.

(A version of this paper was first published in Forbes)

Footnotes

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