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DOES ETHIOPIA BENEFIT FROM JOINING THE BRICS? Global Trends and Local Perceptions

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ACRONYMS AND ABBREVIATIONS

Acronym	Meaning
BRICS	Brazil, Russia, India, China, South Africa
EEA	Ethiopian Economics Association
FDI	Foreign Direct Investment
GAI	Goal Achievement Index
GDP	Gross Domestic Product
GERD	Grand Ethiopian Renaissance Dam
HIC	High Income Country
IFIs	International Financial Institutions
IMF	International Monetary Fund
LDCs	Least Developed Countries
NBE	National Bank of Ethiopia
NDB	New Development Bank
NIEO	New International Economic Order
UNCTAD	United Nations Conference on Trade and Development
WBG	World Bank Group
WDI	World Development Indicators
WEF	World Economic Forum

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EXECUTIVE SUMMARY

Regulation of international trade and cross-border exchange of goods, services, and capital requires an international economic order established with a set of prescribed rules, norms, and procedures. The New International Economic Order (NIEO) is an economic movement after the second world war with the aim of reforming the governance of international financial institutions, redistributing wealth between developing and developed nations, ensuring economic sovereignty of developing nations, and enhancing south-south collaboration.

However, the objectives of the NIEO are not fulfilled and have become one of the global debatable issues. The failure of the NIEO is believed to be the principal reason for the formation of new economic blocs that could realize the development objectives of nations. The BRICS⁴ is one of such economic blocs with new ambitions.

The BRICS formed in 2010, invited six more countries to join the bloc. These are Ethiopia, Egypt, Saudi Arabia, Iran, United Arab Emirates, and Argentina. Ethiopia is the focus of this study. Its primary purpose is to investigate the benefits Ethiopia is likely to get from joining the BRICS and the costs it is likely to incur.

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Primary perception data were collected from expert survey of 233 economists (EEA members) and used to investigate their views on Ethiopia's decision to join the BRICS. The expert survey covers potential costs, benefits, and threats. Since financial sectors are the principal actors in the global economy in general and the BRICS in particular, the perception survey also covered to what extent respondents trust these institutions in achieving their goals and their aspirations.

The failure of the NIEO to realize its four global objectives has been evidenced. The two IFIs (WBG and IMF) were not reformed and developing nations were not able to get equitable access to development finance. Governance of these financial institutions is controlled by a few member states. The governance problem in both the WBG and the IMF is nearly similar. Top five and top 20 countries,

⁴ An acronym for Brazil, Russia, India, China and South Africa)

respectively, control 37 and 69.3 percent of the voting power (capital stock) in the WBG. On the other hand, other 162 member states have only 30 percent of the total voting power (average of 0.19 each).

The two international financial institutions, namely WBG and IMF, were not reformed and developing nations were not able to get equitable voice and access to development finance. Governance of these financial institutions is controlled by a few member states. The top five and top 20 countries, respectively, control 37 and 69.3 percent of the voting power (capital stock) in the WBG. The other 162 member states have only 30 percent of the total voting power (average of 0.19 each).

The objective of the NIEO to redistribute wealth between developing and developed nations was not realized as verified by the following indicators.

- Income and output gaps between the two groups were rather increasing;
- Export gaps were increasing and LDCs could not benefit from international trade;
- The gap in external balance of goods and services was increasing; and
- There is no improvement or significant change in Foreign Direct Investment (FDI) inflows and outflows.

The BRICS bank was established in 2014 and has set a 3-year deadline (by 2026) to de-dollarization, that is, to switch away from the USD. The majority of the survey participants support Ethiopia's decision to join the BRICS and concur with de-dollarization initiatives of the New Development Bank (NDB). However, they have a longer time horizon of 10+ years for the BRICS group to be able to abandon the USD and replace it with local currencies.

It is perceived that economic benefits will outweigh other benefits of joining the BRICS. Likewise, political costs will outweigh other costs. Nearly half of the experts perceive that Ethiopia will incur economic costs as well. Vast majority say that Ethiopia will face several adverse measures from the western powers. These include refusal or reduction of new loans and grants, financial disbursement problems, and pressure for devaluation of local currency. Substantial political measures and pressure on FDI are also expected from the western powers.

From financial institutions perspectives, the National Bank of Ethiopia's (NBE) ability to achieve its predefined goals and objectives is perceived to be low. Consequently, the experts have very low institutional trust and confidence in the NBE to be an active player within the BRICS group and therefore needs to reform and strengthen its capacity to the level comparable to financial institutions in the

member states of the BRICS. The NBE is expected to undertake reform measures related to development of financial markets and the banking system in Ethiopia.

The failure to realize the global objectives of the NIEO has driven developing nations and emerging economies to look for alternative economic blocs suitable for realizing their development objectives. Formation of the BRICS is the first of its kind initiated to play this role in the international economic system. However, the expansion of the BRICS membership is suffocated with and overwhelmed by diverse perceptions. There are several issues which require further investigation of the tangible benefits, costs, and requirements for Ethiopia to benefit from the BRICS.

The following concluding remarks are drawn from the study.

1. Flawed implementation of the NIEO calls for the need to identify and join relevant economic blocs and exploit development opportunities arising from such alternatives. If the WBG and the IMF are not committed to undertake significant reforms, nations with common agenda should cooperate and establish new economic blocs and enhance their development endeavors. In this regard, the formation of BRICS is perceived to be right.
2. Ethiopia should rigorously investigate the multidimensional effects and risks of joining the BRICS even after the January 2024 deadline.
3. At least in short run, Ethiopia should work with both the BRICS and the western IFIs mainly because:
 - Trading with local currencies with member states of the BRICS takes time for identification of and collaboration with new trading partners.
 - The use of local currency for Ethiopia is less likely and aggravates the existing forex constraint.
4. Due to its weak financial and banking system, Ethiopia should make substantial reform measures and create vibrant banking system and financial markets comparable to that of member states in the BRICS.

1. INTRODUCTION

After the end of colonialism in the 1960s, the world economy faced several challenges constraining sustainable and inclusive development. Though nations had realized their political independence, economic colonialism still remains to be the problem to the sovereignty of developing countries. They are not able to formulate and implement independent and relevant economic policies, benefit from international trade, get equitable access to development finance, and ensure technological advancement for inclusive and sustainable development.

The New International Economic Order (NIEO) is an economic movement after the second world war with the general aim of empowering developing countries through economic growth. It was proposed with the primary objectives of bringing reform in the governance of the world economy and enabling the integration of the decolonized nations. The NIEO is a set of proposals advocated by developing countries to end economic colonialism and dependency through a new interdependent global economy (Laszlo et al. 1978). It was established to achieve objectives of

- a. reforming the International Financial Institutions (IFIs) and ensure social justice among the trading countries of the world;
- b. redistribution of wealth between developed and developing nations;
- c. enhanced economic sovereignty; and
- d. Enhanced south-south collaboration.

The NIEO criticized the then political and economic systems due to the fact that developed countries were benefiting at the cost of developing countries, suggesting the need for a new system that benefits the latter more than the former. However, literature indicates that the NIEO is hypothetical and unorganized movement where clear division and disagreements among its members is evident (Fesseha, 2017). Developing countries failed to form unity, to demonstrate their commitment to meeting the objectives of NIEO, and unable to compete in the world market.

The NIEO is one of the debatable global issues arising from the controversy its success and failure. The need for revision of the NIEO or to develop another global order is widely suggested. Some of the reasons include the following (Chang, 2020; WEF, 2023):

- The commitment by developed nations for the NIEO has gradually faded;

- There is no longer systematic competition between the capitalist and the socialist blocs;
- There is a need for increasing interactions among developing economies themselves;
- There are difficulties of implementing some proposals in the NIEO and loss of confidence by LDCs in the global economic systems;
- The share of developed nations in the global economy is decreasing thereby affecting structure of the world economy;
- There are emerging factors in favor of developing countries (including the rise of China and climate change);
- Many economies are facing contractionary trends due to pandemics and other global shocks; and
- The lack of power of the South in world politics, and disparities within the South have created divergent interests among member states of the NIEO.

A new economic order, other than NIEO, may emerge from the slowly disintegrating neoliberal international economic order that came into being in the 1980s and 1990s (Chang, 2020). The neoliberal order has been fading and is being reshaped. The decline of the multilateral international trading system, the global financial crisis in 2008, climate change, the rise of China and the Covid-19 pandemic are making the emergence of a new order more likely.

The BRICS (Brazil, Russia, India, China, and South Africa) was formed in 2010 to be an alternative to World Bank and IMF to challenge the supremacy of the USD, and to provide self-owned and self-managed organizations to develop economic plans in its member nations. The New Development Bank (NDB) of the BRICS, established in 2014, is a multilateral development bank with the purpose of mobilizing resources for infrastructure and sustainable development projects in emerging markets and developing countries.

Unlike the WBG and the IMF where decision is dictated by the voting power of a few member states, in the BRICS bank all members have equal power to decide and therefore may be considered as the “bank of equals”. In August 2023, the BRICS invited six more countries to join the bloc. As of January 2024, Ethiopia, Egypt, Iran, Saudi Arabia, United Arab Emirates, and Argentina were expected join the bloc raising the number of member states to 11. However, Argentina has announced that it will not join the BRICS bloc for the fact that it has pledged to pursue closer ties with pursue a foreign policy that aligns with western countries, moving away from

the previous administration's efforts to build ties with other developing countries (BBC, 29 December 2023; Al Jazeera, 29 December 2023).

The BRICS aims to achieve regional development, to act as a bridge between developed and developing countries, contribute to development of humanity, establish a more equitable and fairer world, boost intra-BRICS trade in local currencies, promote the technological information exchange among the member states; and to enhance inclusive economic growth.

BRICS has expressed its desire to abandon the USD by 2026. There are high chances that the BRICS with 10 nations will minimize paying in the greenback to strengthen their local currencies (Dsouza, 2023). If BRICS cuts ties with the USD, however, the domestic economies of these countries are expected to face the risk of losing investors' confidence. Investors may not have confidence in the stability of "BRICS currency".

On the other hand, since the USD has proven to be a stable and reliable currency, its abandonment might lead to foreign investors refraining from investing in BRICS markets. This development could lead to a dry in foreign cash flow making their native economies face severe challenges. The USD is the most widely used currency and ending reliance on the greenback could prove BRICS costly. In addition, BRICS countries will also have limited access to the dollar markets. Generally, BRICS countries could suffer losses if they completely abandon the USD for global trade. It could potentially affect their trade balances, investment flows, and the overall economic stability of their respective countries.

Ethiopia's participation in the BRICS is expected to generate financial and technical assistance from the NDB including soft loans without the more stringent conditions typically imposed by the IMF (Bonesh, 2023). However, there are diverse views on the reasons behind, and the costs and benefits arising from joining the BRICS. This study examines the global trends in the NIEO and the likely benefits of Ethiopia from joining the BRICS. The specific objectives are to:

1. Examine the global trends, realization of the objectives of the NIEO, and the driving forces for new global economic order;
2. Identify the expected costs and benefits and the economic and political consequences of Ethiopia joining the BRICS;
3. Evaluate the institutional value of the IFIs (WBG, IMF, BRICS/NDB) and the National Bank of Ethiopia (NBE) in the context of operating within BRICS;
4. Measure the perceived achievement of goals predefined by the financial institutions;

5. Allow experts of economics to contribute to the BRICS policy dialogue in Ethiopia; and
6. Raise public awareness on the benefits and costs of Ethiopia joining the BRICS.

2. DATA AND METHODS

Primary data on the views of economists and world development indicators were widely utilized to investigate the global dynamics in the NIEO and the perception of experts on Ethiopia joining the BRICS.

2.1. Datasets

Primary data was collected using online expert survey questionnaires sent to EEA members. The expert survey questionnaire was supported by background information on organization, objectives, and governance of the WBG, IMF, NDB, and NBE. Responses were received from 233 EEA members (Table 1 & Table 2). Outputs of the perception survey were expected to provide helpful insights on the potential costs, benefits, threats, institutional trust, and aspirations where policy makers should focus and undertake further investigation of the issues and generate more reliable scientific evidence for policy making and implementation in Ethiopia.

Table 1: Distribution of experts by membership status and gender.

Membership status	Frequency by gender		
	Male	Female	Both
Full member	171	17	188
Associate members	21	3	24
Student member	7	3	10
Sub-total	199	23	222
Institutional member	6		6
Unspecified	5		5
Total			233

The expert survey is different from sample survey for the fact that sampling frame and sample representation are not required in expert surveys. The views of an expert or a few experts are considered adequate and relevant to conclude about the subject matter under investigation and the population from which they are selected. Experts are assumed to be essentially knowledgeable about the subject matter in which they are specialized. The experts were allowed to reflect on the issues they are

more acquainted with and to skip issues they are less knowledgeable about. More number of experts are surveyed to capture the technical difference in their views. Unskilled or nonprofessional difference is not expected among the experts.

Table 2: Distribution of experts by education, age and experience

Educational level	Frequency	Age (years)	Experience (years)
First degree	18	30.7	12.2
Second degree	138	39.8	15.1
Third degree	64	44.0	19.1
Other	9	42.8	16.7
Unspecified	4		4
Total	233	40.3	16.0

Secondary data on World Development Indicators (WDI) and governance indicators of the IFIs were utilized to investigate the achievement of the objectives of the NIEO. The performance of the NIEO over the last 22 years (2001-2022) was measured by seven variables defined in Table 3 (WBG, 2023).

Table 3: Definition of variables measuring performance of the NIEO

Indicators	Measurement	Definition
Confidence index	4-point rating scale (%)	Level of confidence in institutions rated as 1 (not at all) to 4 (a great deal)
Governance	Voting power	The distribution of voting rights by member states of the IFIs determined by the number of capital stocks held by the member (in contrast to the democratic norm in political elections in which one person receives one vote)
GDP per capita (log)	Constant 2017 international dollar (int.\$)	The sum of gross value added by all resident producers in the economy plus any product taxes (less subsidies) not included in the valuation of output, divided by mid-year population (log-normalized)
Trade	% of GDP	The sum of exports and imports of goods and services (as % of GDP)
Export	% of GDP	The value of all goods and other market services provided to the rest of the world (as % of GDP)

Indicators	Measurement	Definition
External balance	% of GDP	External balance on goods and services equals exports of goods and services minus imports of goods and services (expressed as % of GDP)
FDI net inflows	% of GDP	The value of net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor (expressed as % of GDP)
FDI net outflows	% of GDP	The value of direct investment made by the residents of the reporting economy to external economies net of receipts from the repatriation of capital and repayment of loans (expressed as % of GDP)

2.2. Methods of Data Analysis

Data was analyzed using correlations, two-way scatter plots, percentage of responses, and indices. Institutional trust was estimated using a 4-point linear rating scale of respondents' confidence on the financial institutions.

Goal Achievement Index (GAI) was estimated to measure the achievement of institutional goals of financial institutions. The institutional goals are expected to be interdependent where the performance of one affect that of the other. Accordingly, investigation of the achievement of the WBG, IMF, NDB and the NBE help identify the extent of their interdependence in the global financial market.

To measure the interdependence of these financial institutions, an overall goal achievement index was estimated from their specific goals and objectives. The perceived goal achievement index (GAI) was aggregated as a geometric mean of specific goals/objectives as follows:

$$GAI_i = \ln(g_1 * g_{2,i} * ... * g_{n,i})^{\frac{1}{n}}$$

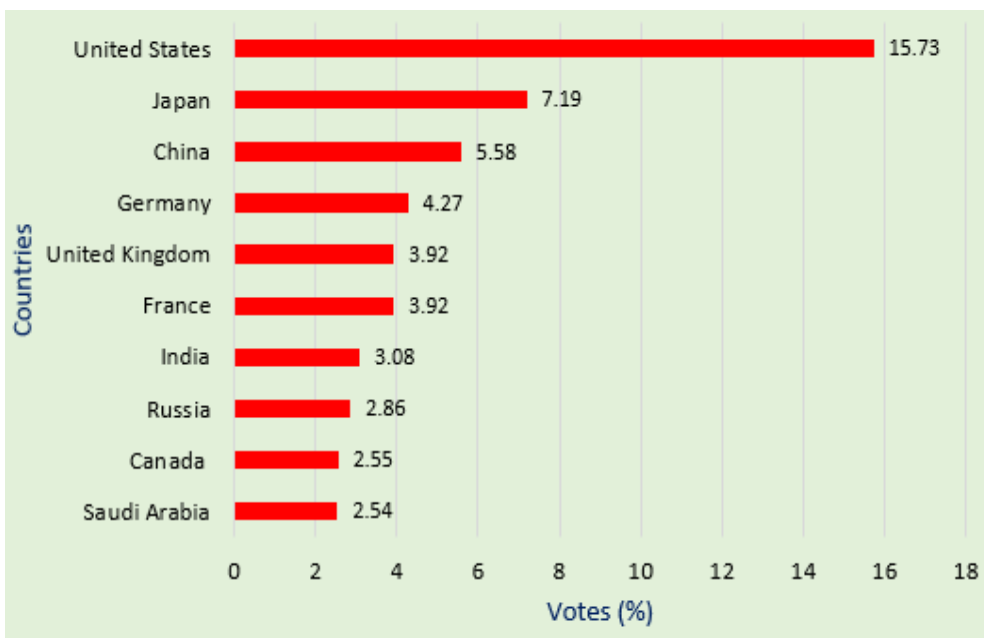
where GAI_i is the goal achievement index for respondent i ; \ln is the natural logarithm; $g_{1,i}$ to $g_{n,i}$ are the perceived goal achievement index for goals 1 to n by respondent i ; and n is the number of specific goals of an institution under investigation.

3. TRENDS IN THE NEW INTERNATIONAL ECONOMIC ORDER

The gaps experienced and observed in developed and developing nations have verified the flawed achievement of the objectives of the NIEO. This is demonstrated by world development indicators analyzed and reported below.

3.1. Governance Gaps

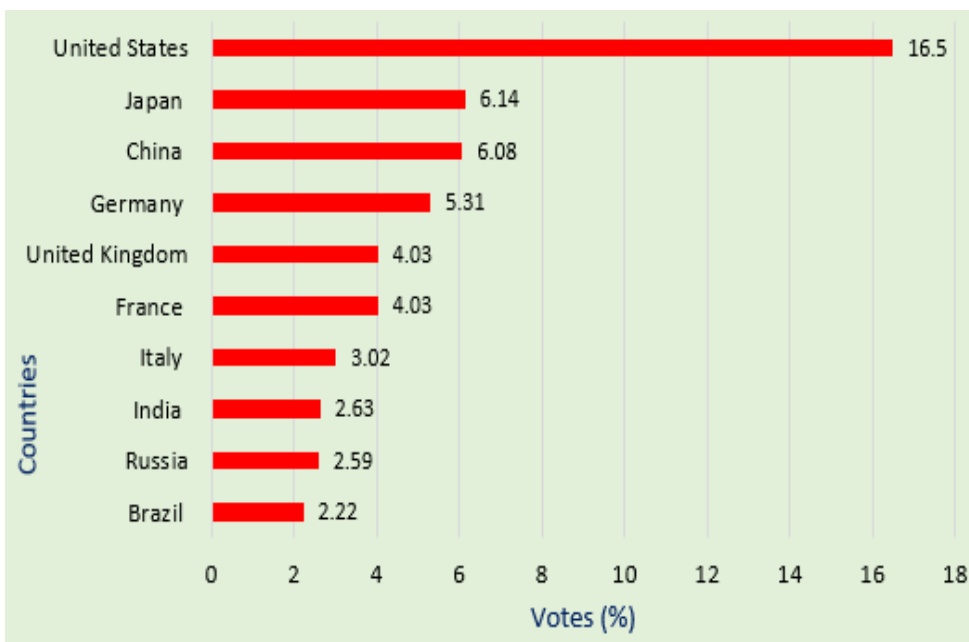
One of the primary objectives of the NIEO is reforming the IFIs and improve the governance and decision-making process to better represent the interests of developing countries by giving them a greater voice. However, the decision-making power at the WBG and the IMF is in the hands of a few member states. In the WBG, out of 189 countries, the top five have 37 percent and the top 10 countries have 52 percent of the total votes. The top 20 countries take the share of 69.3 percent (Figure 1). Around 162 developing countries have a total vote of only 30% in the bank. Countries with higher votes have the power to decide. The plan to empower LDCs in NIEO was not realized.



Source: Estimation results from data in the WBG (2023).

Figure 1: Top 10 countries with high voting power in the WBG (2023)

The distribution of voting power at the IMF is similarly skewed. The lion's share of votes is distributed to similar set of countries in the IMF as well (Figure 2). The top five countries take the share of 38.1 percent. The top 10 countries have a share of 52.6% (over half of the total votes). The top 20 countries control two-third (68.7%) of the share. The rest 170 countries (89.5% of the members with below 1% vote) have a total voting power of 31.3 percent (an average of 0.18% vote each). They are members to just to accept decisions made by a few powerful members of the Fund. The relative distribution of voting power of all the 190 member states of the IMF clearly verifies that LDCs have no considerable participation in the governance and decision-making process. The IMF is not reformed to address the primary objectives of the NIEO.



Source: Estimation results from data in the IMF (2023).

Figure 2: Top 10 countries with high voting power in the IMF (2023)

The governance and decision-making in both the WBG and the IMF are determined by their share of capital stock. The objective of reforming the IFIs to improve the governance and decision-making process was not realized. Though four of the founders of BRICS (Brazil, Russia, India, and China) are still among the top 10 at the WBG, the governance problem in the WBG and the IMF have driven them to establish an alternative IFI governed by equal voting power. In 2001, the BRICS and the NDB was formed as an alternative to the World Bank and IMF to challenge the supremacy of the USD and to provide self-owned and self-managed organization for carrying out development plans in its member nations.

The New Development Bank (NDB) is a multilateral development bank established by BRICS with the purpose of mobilizing resources for infrastructure and sustainable development projects in emerging markets and developing countries. It has been given \$50 billion in initial capital. The NDB works on an equal-share voting basis, with each of the five signatories contributing \$10 billion. Every member of the BRICS bank (NDB) has one vote and no member would have any veto power. Unlike the WBG and the IMF where decision is dictated by the voting power of a few member states, the BRICS bank may be considered as the bank of equals where all members have equal power to decide.

Out of the top 10 ultimate investors in the BRICS member states, seven of them are from Europe and North America (USA, UK, Germany, Netherlands, France, Switzerland, Spain) (UN, 2023). These countries are also dominant in the WBG and the IMF. Their benefits are substantially overlapping implying that development in the BRICS member states is dominated by investments from the western nations. Any changes may affect both groups (BRICS and the western powers).

3.2. Output and Income Gaps

Redistribution of wealth between developed and developing nations is one of the primary objectives of the NIEO. However, evidence shows that the wealth redistribution between the rich and the poor is not realized as stipulated in the NIEO. The GDP per capita of high-income countries (HIC) and the least developed countries (LDCs) over the two decades shows that the wealth gap between them was rather increasing (Figure 3). The gap in GDP per capital between the HIC and the LDCs⁵ is increasing suggesting that the NIEO is not able to realize its objective of wealth redistribution.

⁵ The United Nations defines LDCs as countries that have low levels of income and face severe structural impediments to sustainable development.

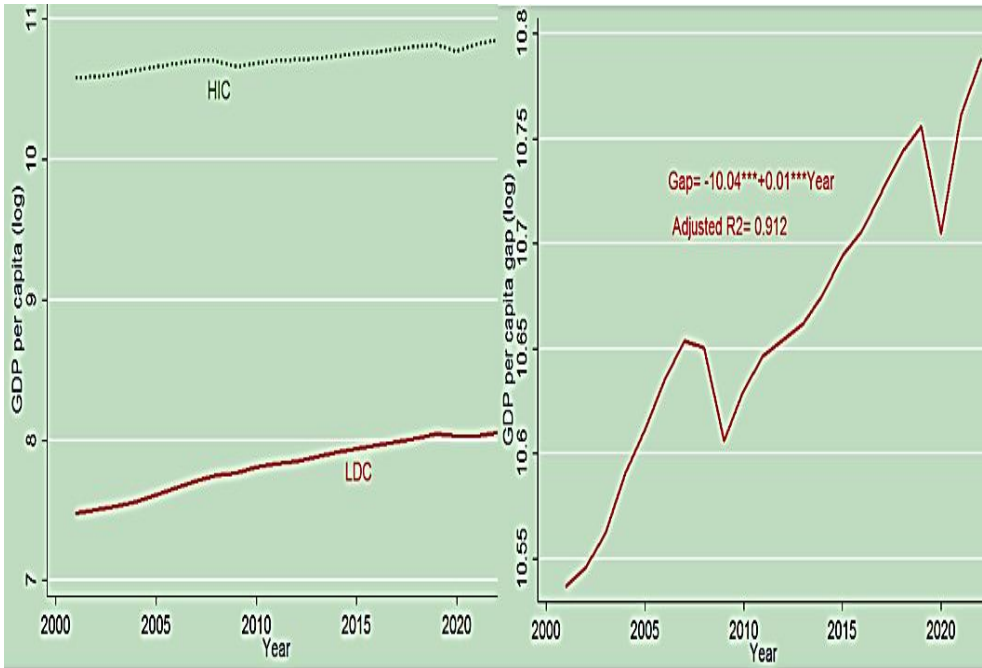


Figure 3: GDP per capita gap between HIC and LDCs

3.3. Trade and Export Gaps

The NIEO aims to enhance economic sovereignty of developing nations by reducing their dependence on developed countries through trade between them. However, the trend in the last two decades clearly shows the increasing and widening trade gap between HIC and LDCs (left and right panel of Figure 4). Under the NIEO, LDCs are not able to equitably benefit from international trade.

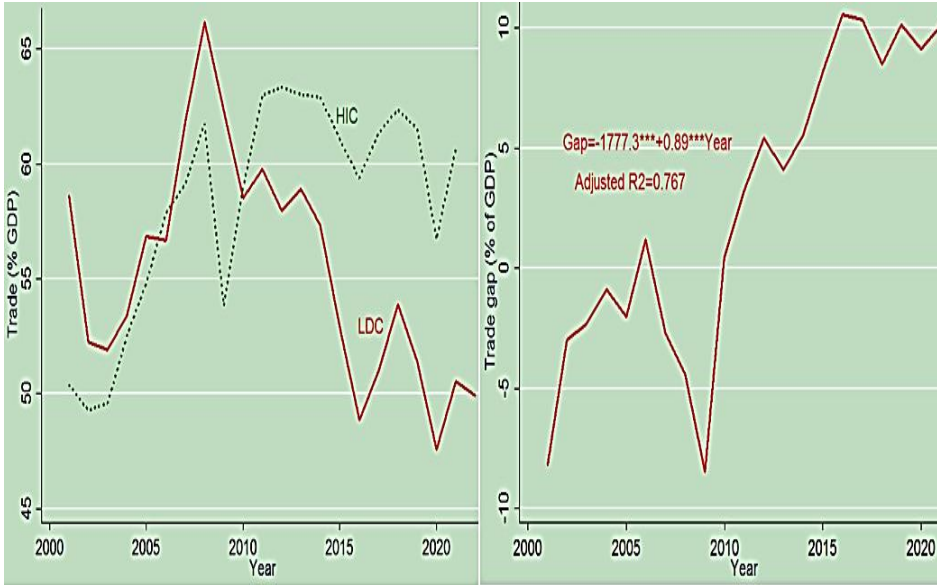


Figure 4: Trade gap between HIC and LDCs

Like the overall trade gap presented above, export by HIC and LDCs has similar patterns over the last 22 years. As shown in Figure 5, the export gap between HIC and LDCs is widening as well as increasing (left and right panel of Figure 5). The NIEO has failed to enhance trade and investment in LDCs.

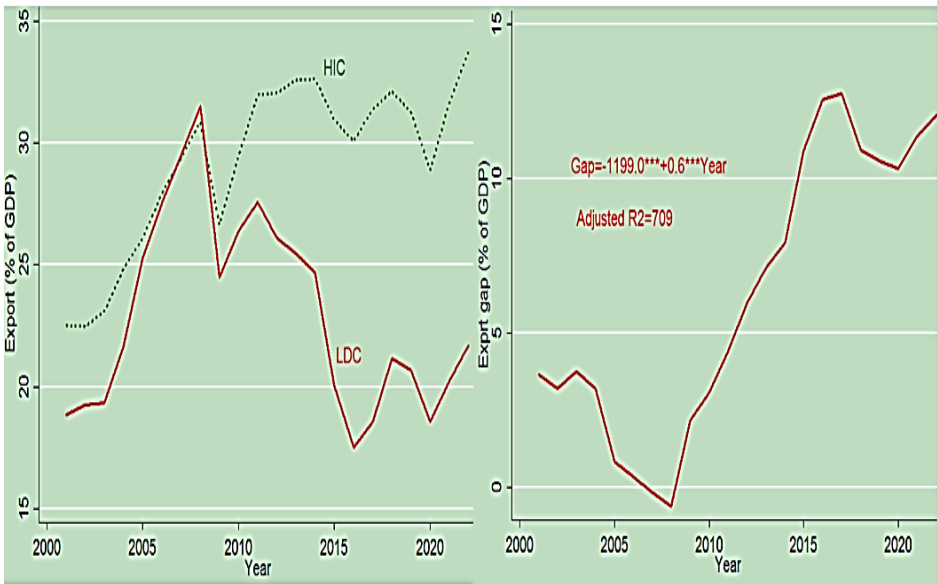


Figure 5: Export gap between HIC and LDC

The external balance on goods and services (% of GDP) between HIC and LDCs was widening over the last 22 years (Figure 6). Moreover, the HIC have higher and positive external balance whereas LDCs have experienced negative external balance. The gap between HIC and LDCs has been aggravated.

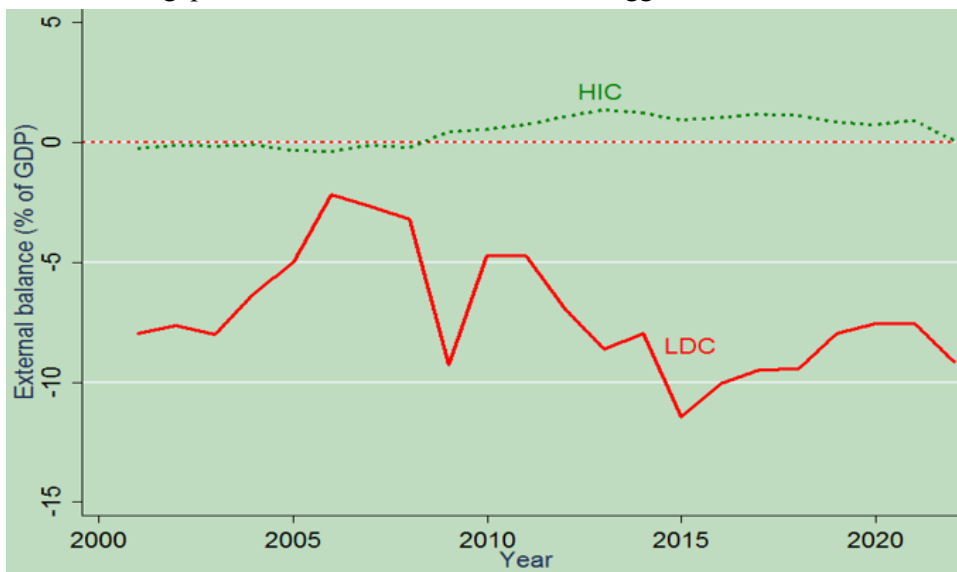


Figure 6: Dynamics of external balance between HIC and LDCs

3.4. FDI Flows

The inflow and outflow of net foreign direct investment (FDI) in LDCs did not show significant improvement over the last two decades (Figure 7). Inflow of FDI in HIC and LDCs is substantially fluctuating with negligible positive effect on redistribution of wealth between developed and underdeveloped nations around the world.

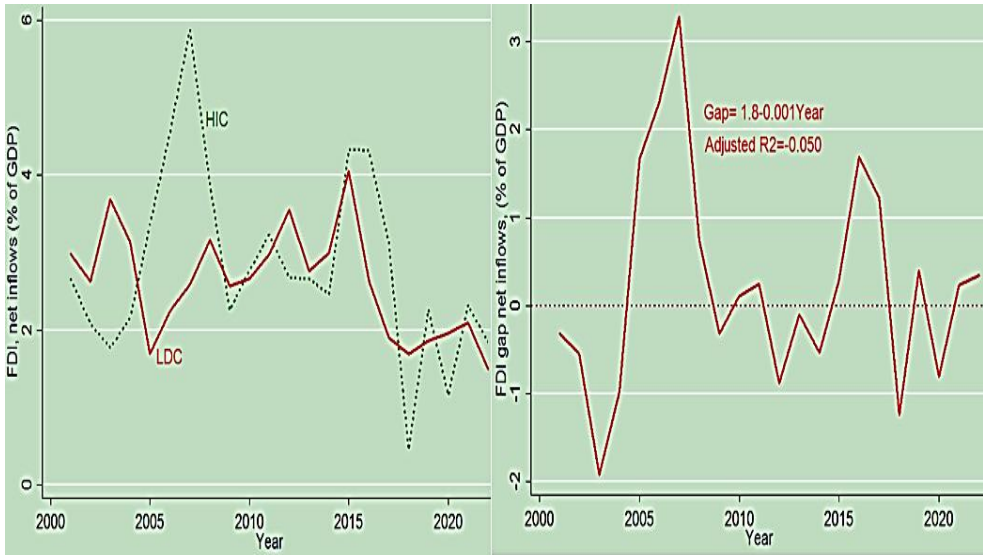


Figure 7: FDI inflow gap between HIC and LDCs

Over the last 22 years, the outflow of FDI in LDCs is significantly lower than the outflow in HIC (Figure 8). There is substantial gap in FDI outflow between HIC and LDCs with increasing gap in recent years. High income countries are not able to enhance FDI in LDCs and ensure growth and development under the framework of the NIEO.

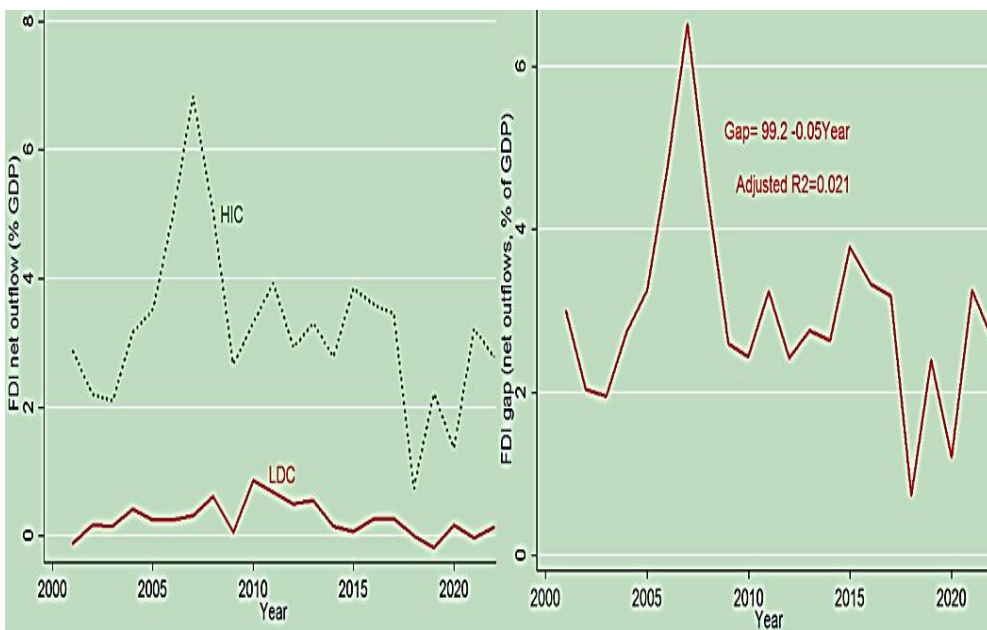


Figure 8: FDI outflow gap between HIC and LDCs

The global failure to realize the four objectives of the NIEO over the last two decades clearly verifies the urgent need to reform the western IFIs and/or the formation of alternative economic blocks around the world. Reforming the western IFIs and the formation of new blocs are expected to address previous limitations of the WBG and the IMF associated with governance, wealth redistribution, economic sovereignty, and south-south collaboration.

4. PERCEPTIONS ON BRICS

The views of EEA members on the reasons behind joining the BRICS, the expected costs and benefits, and the consequences and the associated risks arising from joining the BRICS are investigated and reported hereunder.

4.1. Why BRICS for Ethiopia?

There is no common understanding on the reasons why Ethiopia had applied to join the BRICS. Experts perceive that economic and political sanctions, its emerging economy, geopolitics, deteriorating relation with the western powers in recent times, and external intervention are the top five reasons that had driven Ethiopia to apply and join the BRICS (Figure 9). Very small minority (2.6%) of the experts also have expressed other reasons including diverting attention from the internal political problem the regime is failing to handle, international trade and a move towards a multipolar world, alternative source of finance and expecting power shift from West to East, trade integration and facilitation of common currency among member states, and diversification of economic partnership.

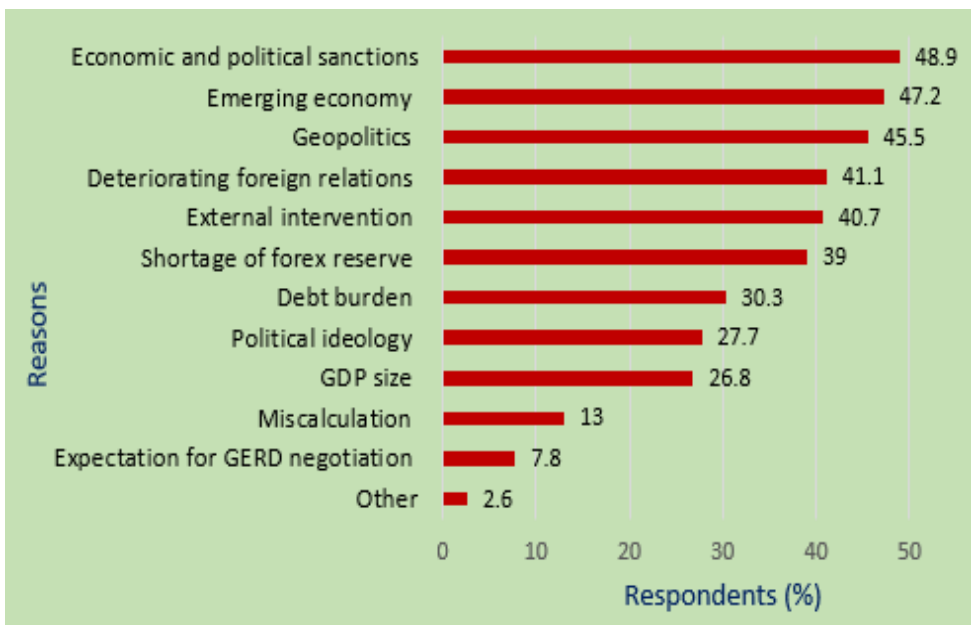


Figure 9: Reasons for Ethiopia to apply and join the BRICS

Common agenda, such as inclusive development, equity, trade partnership, the desire to use local currency for international trade, and technological information exchange among member states are important for the performance and sustainability of economic blocs.

The experts suggest that presence of common agenda among member states of the BRICS is higher than member states of the WBG and IMF (Table 4). To be specific, 60.3 percent of the experts perceive that member states of the WBG have no or fewer common agenda whereas 52.3 percent perceive that the BRICS member states have more common agenda.

Table 4: Availability of common agenda among the IFIs

Common agenda	Respondents (%)		
	WBG	IMF	BRICS Bank
No common agenda	20.8	20.1	10.9
Fewer common agenda	39.45	39.3	26.4
More common agenda	18.5	18.7	30.9
Very common agenda	13.9	13.7	21.4

4.2. Benefits and Costs

De-dollarization, a process of moving away from reliance on the USD as the chief reserve currency, is one of the instruments BRICS intends to assert its global position and create opportunities for member states to trade and to conduct other financial transactions with their local currencies (Bromberg & Miller, 2023). The BRICS bank has revealed a 3-year de-dollarization initiative to switch away from the USD. Joining the BRICS is also expected to help mobilize additional source of development finance for new and emerging economies like Ethiopia.

There is no clear understanding on whether the NDB will be able to realize its de-dollarization initiative. However, majority of the respondents (68.6%) concur with de-dollarization initiatives of the NDB. About 61.0 percent also perceive the BRICS will abandon the US dollar. The timeline for de-dollarization varies between five and 15+ year as shown in Table 5.

Table 5: Perception on the BRICS and de-dollarization

Variables	Respondents (%)
BRICS/NDB as a source of finance	68.6
Ability of BRICS to abandon dollar	60.8
Period to abandon dollar	
Within 5 years	23.1
Within 10 years	53.2
Within 15 years	66.7
Over 15 years	17.9

Economists (45.9%) say that the selection criteria to join the BRICS is not clear. However, great majority (73.8%) support Ethiopia’s decision to apply and join the BRICS. Respondents expect that economic benefits (69.7%) and political costs (66.8%) outweigh other costs and benefits of joining the BRICS (Figure 10). Moreover, nearly half of the respondents (47%) perceive that Ethiopia will incur economic costs.

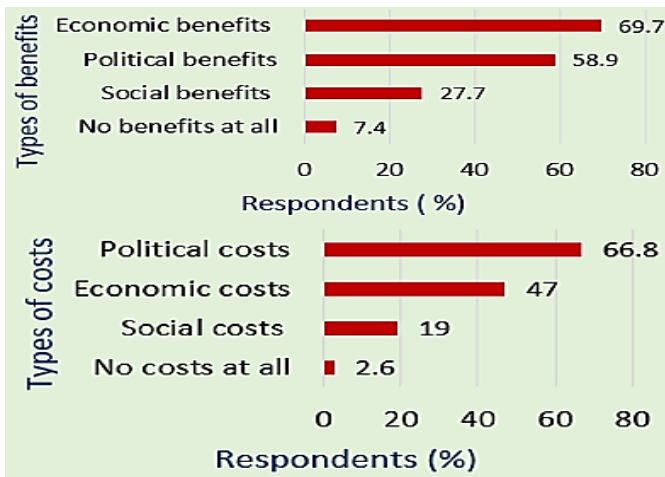


Figure 10: Perceived benefits and costs of joining the BRICS

Overall, the majority (50.9%) expect that Ethiopia will gain net benefits due to its decision to join the BRICS (Figure 11). The rest (49.1%) perceive that either costs outweigh benefits or difficult to understand and calculate it (18.8%).

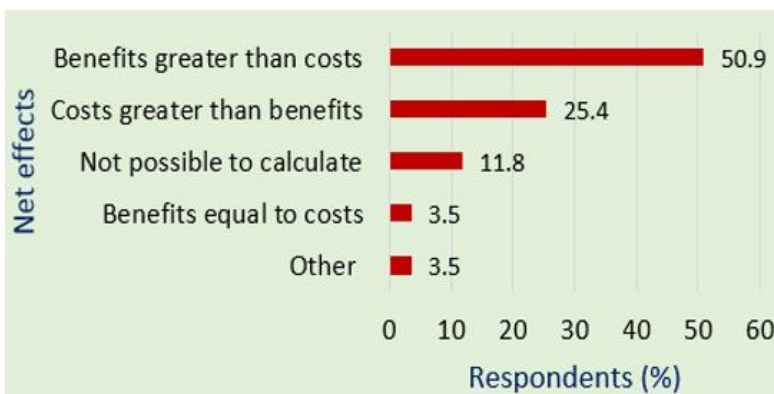


Figure 11: Perceived net benefits and costs of joining the BRICS

4.3. Consequences of Joining the BRICS

Following its entry into BRICS, 73.4 percent of respondents perceive that Ethiopia will face several adverse measures from the western powers. This includes refusal or reduction of new loans and grants (55.6%), financial disbursement problems (42.7%), and pressure from the WBG and the IMF for devaluation of its local currency (39.7%) (Table 6). Substantial political measures and pressure on FDI (37.5%) are also expected from the western powers.

Table 6: Expected adverse measures against Ethiopia

Expected adverse measures	Respondents (%)
Refusal and/or reduction of new loans and grants	55.6
Financial disbursement problems of ongoing projects	42.7
Pressure for devaluation of local currency	39.7
Political measures affecting the government	37.5
Pressure on FDI	37.5
Increased aid/loan conditionality	27.6

The EEA member economists perceive that BRICS will face several challenges. The top three challenges are influence from the WBG and IMF, conflicts of political interest among BRICS members, and limited financial capacity of the BRICS to support emerging economies like Ethiopia (Figure 12).

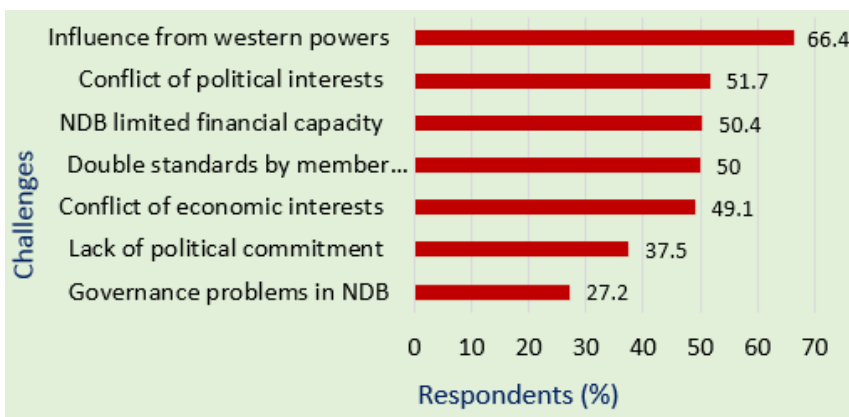


Figure 12: Expected challenges adversely affecting achievement of BRICS goals

4.4. Banking System

A financial system is a set of institutions (such as banks, insurance companies, and stock exchanges) that permit the exchange of funds. A well-functioning financial system is expected to have complete markets with effective financial intermediaries and financial instruments allowing investors to move money from the present to the future, borrowers to easily obtain capital, and hedgers to offset risks. Development of financial markets in Ethiopia requires a good banking system comparable to member states of the BRICS.

The institutional trust and people's confidence in the IFIs is related to their performance and sustainability. Experts' confidence in the IFIs (WBG, IMF and the BRICS bank) is estimated to be higher than the NBE (Figure 13). More specifically, 64.5 percent of the experts expressed high confidence in the BRICS bank followed by the WBG and the IMF (58.2%), and the NBE (57.1%).

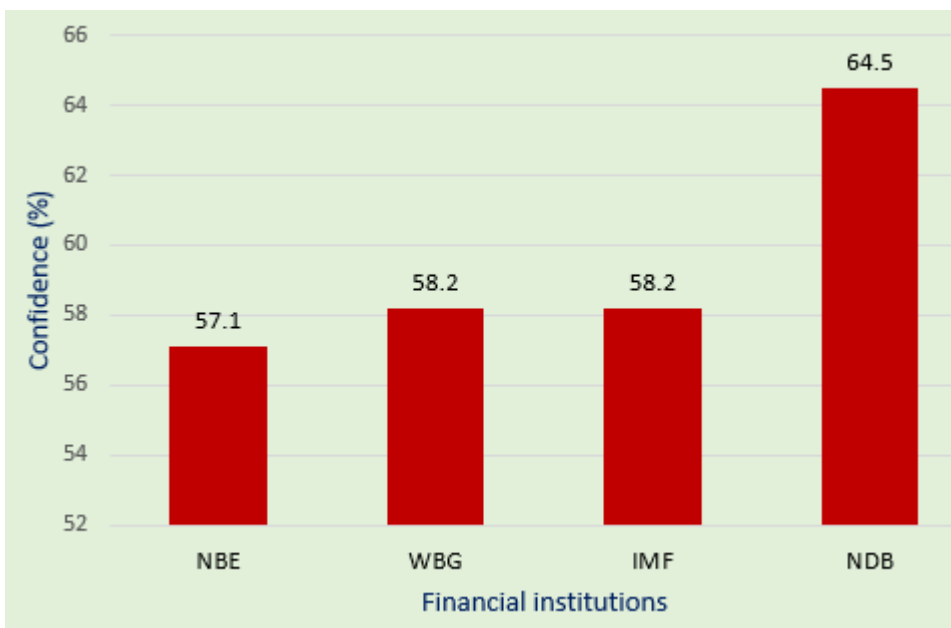


Figure 13: State of institutional trust on the financial institutions

The level of achievement of predefined goals and objectives of the international financial institutions and the NBE were perceived to be generally low. The goal achievement index (GAI) shows the BRICS is less likely to realize its goals (Figure 14). The GAI for the BRICS is low (29.9%), whereas that for the WBG (45.0%) and the IMF (46.8%) are relatively better. Following the BRICS, the NBE is the second bottom financial institution with the lowest GAI (43.2%) and social trust to realize its institutional goals.

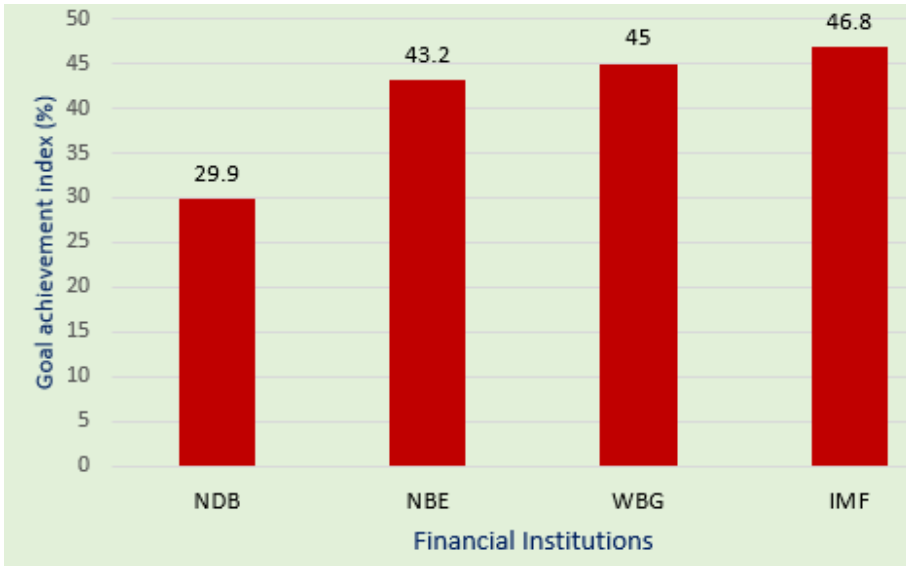


Figure 14: Perceived goal achievement by financial institutions

The results strongly verify that Ethiopia is expected to reform its financial system and strengthen its capacity to the level comparable to member states of the BRICS. Ensuring the legal and actual independence of the NBE is the other priority required to reform the banking sector and to benefit from the expected opportunities in the BRICS.

4.5. Interdependence of Financial Institutions

Financial institutions with more common agenda, overlapping or related objectives, and governance system are perceived to be strongly interdependent in their goal achievements. As shown in Figure 15, the link between goal achievements of the WBG and the IMF verifies that they are strongly interdependent institutions with 79 percent strong linear association in the achievement of their institutional goals.

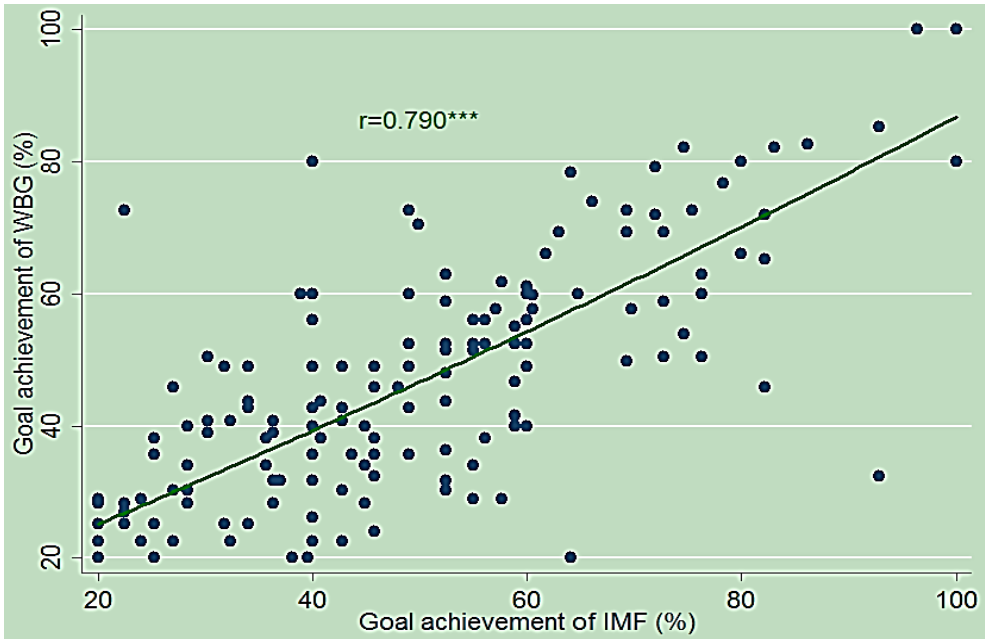


Figure 15: Goal achievement by WBG and IMF are strongly interdependent

Similarly, the link between goal achievements of the WBG and the BRICs was analyzed and found to have nonlinear, relatively lower positive association ($r=0.211$) (Figure 16). The link between achievement of institutional goals by the WBG and the BRICS is not strong and direct mainly because they have few common agenda, different objectives, and governance system.

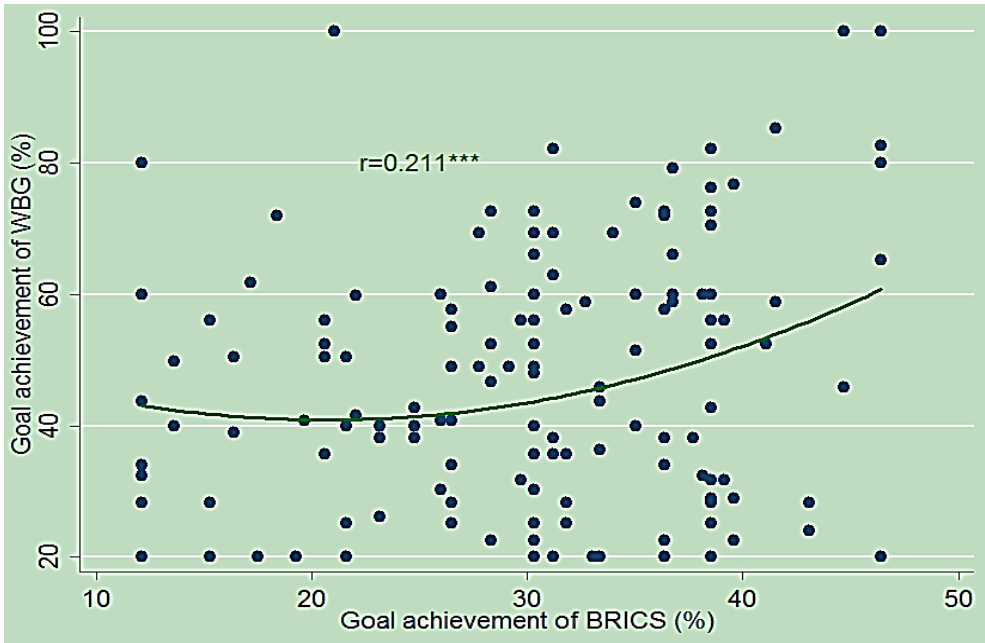


Figure 16: Goal achievements by WBG and BRICS have weak association

The interdependence between the BRICS and the NBE was also investigated by the association between their goal achievements measured by the GAI (Figure 17). The achievement of goals by the NBE is exponentially associated with that of the BRICS implying that the NBE (and Ethiopia) will benefit from the BRICS to realize its institutional and national objectives.

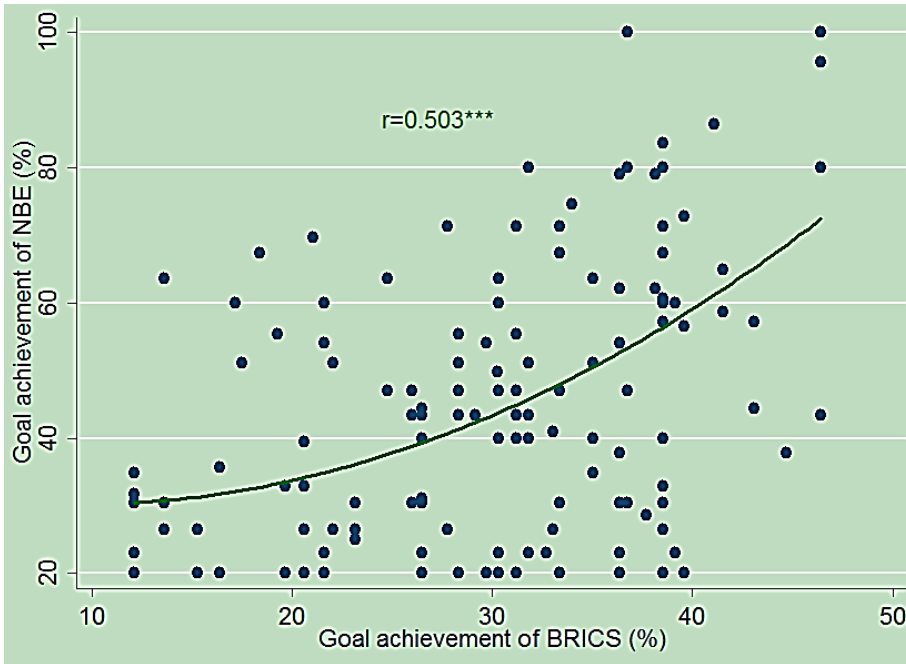


Figure 17: Goal achievements by NBE and BRICS are exponentially linked

The evidence also shows that the NBE is directly dependent on the WBG to achieve its objectives (Figure 18). The NBE is less likely to realize its institutional goals without its existing partners (WBG and IMF). At least in short run, the NBE is expected to work with the existing two IFIs while strengthening its link with the new bloc (BRICS).

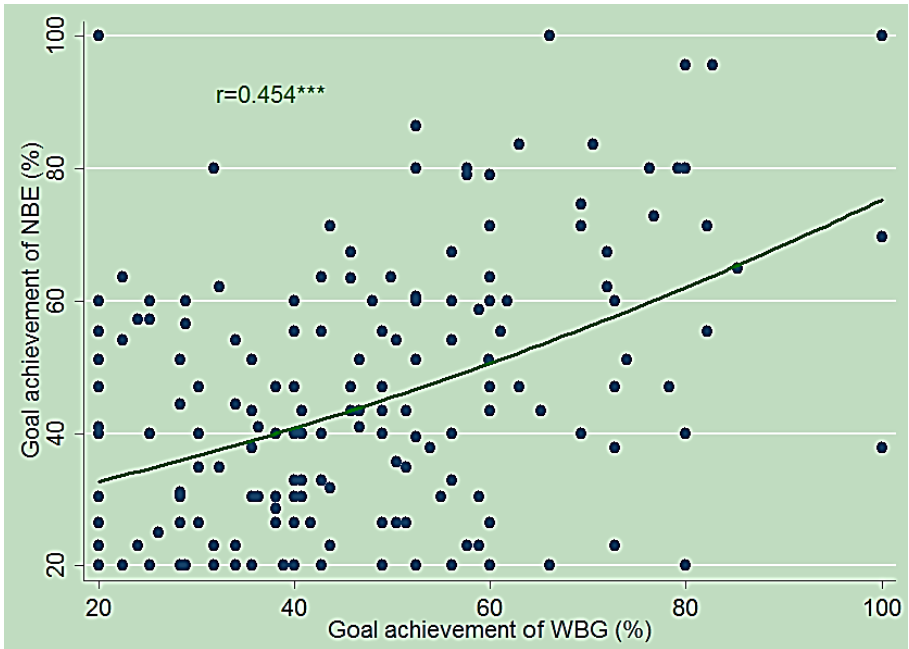


Figure 18: Goal achievements by NBE and WBG are positively associated

5. CONCLUDING REMARKS

The NIEO was intended to reform the IFIs, redistribute wealth between developed and developing nations, and to enhance economic sovereignty and south-south collaboration. However, evidence shows that the primary objectives of the NIEO were not realized over the last two decades. Wealth and governance gaps between developed and developing nations were rather widening. Their gaps in output and income was substantially widening. Gaps in GDP shares of trade, export, and external balance between developed and developing nations significantly increased over the period.

The global failure to realize the objectives of the NIEO is believed to have led developing nations and emerging economies to look for alternative financial institutions and economic blocs suitable for realizing their overriding development objectives. Formation of the BRICS is the first of its kind initiated to play this role in the international economic system. The expansion of the BRICS membership is suffocated with and overwhelmed by diverse perceptions about the costs and benefits of countries joining the bloc. Though there is substantial overlap of positive expectations by joining countries, they are also expected to face several threats related to trade, investment, aid, development assistance, and foreign exchange.

Ethiopia, as an upcoming member of the BRICS, is perceived to have joined the bloc mainly driven by political and economic challenges the regime is currently facing. There are several issues which require further investigation of the tangible benefits, costs, and requirements/preparedness. The following recommendations are drawn from the findings.

1. Flawed implementation of the NIEO calls the need to identify and join new alternative economic blocs. If the WBG and the IMF are not committed to undertake significant reforms, nations with common agenda are more likely to identify and establish new economic blocs and ensure realization of their development objectives.
2. Ethiopia should conduct rigorous investigation of the economic, political, and overall effects and risks of joining the BRICS and make final decisions on how to proceed with the BRICS and the western powers.
3. Given its current state of domestic and global economic and political challenges and international relations, Ethiopia should work with both the BRICS and the western IFIs at least in shortrun.

- a. Trading with local currencies among member states of the BRICS requires new trading partners. It also takes time to identify and collaborate with new trading partners.
 - b. Ethiopia is suffering from serious forex constraint. Acceptance of its local currency (ETB) by member states in the bloc is also less likely. Ethiopia is not in a position to benefit from international trade with local currencies for the fact that trading with local currencies aggravates the existing forex constraint and constrains trade with other partners using the USD.
4. Due to its poor achievement of predefined objectives, the NBE is given low institutional trust and value. Ethiopia is required to take relevant reform and policy measures and create vibrant banking system and financial markets comparable to that of member states in the BRICS.

Acknowledgements

The Ethiopian Economics Association (EEA) has over 5,500 members around the world. The patriation of EEA members in research, training, policy forums, workshops, conferences, and other activities plays a pivotal role in realizing our strategic objectives. Engagement of EEA members in research activities makes our findings dynamic, contemporary, pertinent, inclusive, and overarching. In the expert survey used for this study, 233 economists have participated and shared their views on Ethiopia's decision to join the BRICS. The EEA is grateful to their active participation in realizing its strategic objectives. The EEA plans and expects more participation of its members in subsequent expert surveys to generate independent, reliable, and relevant scientific evidence suitable for informing and shaping policy making and implementation in Ethiopia and beyond.

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Annex

Annex 1: Level of perceived goal achievement by financial institutions

Objectives/Goals of Financial Institutions	GAI (%)
World Bank Group (WBG)	45.0
1. Eliminate (remove) poverty in underdeveloped countries by giving financial support	46.4
2. Enhance shared prosperity by raising the incomes of poor groups	46.4
3. Encourage underdeveloped countries to conduct international trade	48.2
4. Maintain global peace by avoiding internal conflicts within member nations	41.2
5. Safeguard the environment and natural habitat by providing the necessary support	47.8
6. Provide long-run capital to maintain the balance of payment and reduce the debt crisis in emerging nations	45.7
International Monetary Fund (IMF)	46.8
1. International monetary cooperation	49.5
2. Ensure stability in foreign exchange rates	44.7
3. Eliminate exchange control	49.0
4. Promote international trade	49.6
5. Promote investment of capital in backward and underdeveloped countries	46.4
6. Eliminate or reduce the disequilibrium in the balance of payments	43.9
BRICS (NDB)	29.9
1. Achieve regional development	57.0
2. Contribute extensively to development of humanity	54.4
3. Establish a more equitable and fairer world	59.8
4. Boost intra BRICS trade in their local currencies	64.3
5. Promote the technological information exchange among the member states	63.0
6. Enhance inclusive economic growth	62.7
National Bank of Ethiopia (NBE)	43.2
1. Maintain price and exchange rate stability	42.8
2. Maintain adequate international reserves	41.9
3. Improve the soundness of the financial system	46.4
4. Play a decisive role in economic research and policy advice to the Government	44.1
5. Create efficient payment system	46.3

Source: Estimation from survey data

Annex 2: Expert survey questionnaire

General Instructions

The Ethiopian Economics Association (EEA) has planned to assess the perception of its members on Ethiopia's entry into BRICS with the study titled '**Does Ethiopia Benefit from Joining the BRICS?**'. The assessment will utilize the online expert survey data to be collected from its members around the world. Because your responses are expected to be informed, you may read and get additional information from the Background Information annexed to this questionnaire. The expert survey is estimated to take a maximum of 15 minutes. The EEA would like to kindly request your consent to fill this questionnaire and submit the filled online form within **five days**.

Q1. Please provide the following basic information about yourself

Name (optional) _____

Sex (choose): Male=1, Female = 0

Age (years) _____

Educational level (choose): 1= First degree, 2= Second degree, 3=Third degree, 4=Other

Work experience (years) _____

Membership status=Full, 2=Associate, 3=Student, 4=Institutional, 5=Honor, 6=Other

Q2. Are you aware of Ethiopia joining the BRICS?

-99 = Do not know

1 = Yes

0 = No

Q3. If your response to Q2 is **Yes**, what is your major source of information about Ethiopia joining the BRICS? (multiple responses possible)

1 = Electronic media (please specify) _____

2 = Press (please specify)

3 = Social media (please specify)

4 = People

5 = Other (please specify) _____

Q4. Do you support Ethiopia to join the BRICS?

-99 = Do not know

1 =Yes

0 = No

Q5. Are you aware of the criteria used to admit the six countries as new members of the BRICS?

-99= Do not know

1= Yes

0=No

Q6. What benefits do you expect Ethiopia to gain from joining the BRICS (multiple responses possible)?

-99 = Do not know

1 = No benefit at all

2= More economic benefits

3 = More political benefits

4 = More social benefits

5 = Other benefits (specify) _____

Q7. What costs do you expect Ethiopia to incur by joining the BRICS (multiple responses possible)?

-99 = Do not know

1 = No cost at all

2 = More economic costs

3= More political costs

4 = More social costs

5 = Other costs (specify) _____

Q8. In your opinion, would benefits of joining BRICS be greater or less than the costs?

99 = Do not know

1 = Benefits would be greater than costs

2 = Costs would be greater than benefits

3 = Benefits would be equal to costs

4 = It is not possible to calculate

5 = Other (specify) _____

Q9. Which of the following are the reasons for Ethiopia to apply and join the BRICS (multiple responses possible)?

-99= Do not know

1 = It is an emerging economy (with rapid GDP growth, growing per capita income, increasing market liquidity, and an established financial system infrastructure)

2 = Its expectation to benefit more because it has the lowest GDP among the members

- 3 = Its political ideology linked to the BRICS
- 4 = Its geopolitics attracting the BRICS
- 5 = Its deteriorating relations with the western powers
- 6 = Its huge debt burden
- 7 = Its serious shortage of foreign reserve
- 8 = Economic and political sanctions from the western powers
- 9 = External intervention of the western powers in domestic affairs
- 10 = Miscalculation of the costs and benefits of joining the BRICS
- 11 = Expectation that BRICS may facilitate negotiation with Egypt over the GERD
- 12= Other (specify) _____

Q10. Do you think joining the BRICS' New Development Bank will help Ethiopia mobilize development finance?

- 99 = Do not know
- 1 = Yes
- 0 = No

Q11. Do you expect any adverse measures or risks by the WBG and IMF against Ethiopia in response to its decision to join the BRICS and the New Development Bank (NDB)?

- 99 = Do not know
- 1 = Yes
- 0=No

Q11.1. If your response to **Q11** is **Yes**, which measures do you expect the WBG and IMF will take against Ethiopia (multiple responses possible)?

- 99 = Do not know
- 1 = Political measures adversely affecting the government
- 2 = Put pressure for devaluation of local currency
- 3 = Refusal and/or reduction of new loans and grants
- 4 = Problems of financial disbursement of ongoing projects (cancellation/ suspension of existing projects)
- 5 = Put pressure on foreign direct investment (FDI)
- 6 = Increased aid/loan conditionality
- 7 = Other measures (specify) _____

Q12. Do you expect the BRICS be able or want to abandon the US dollar?

- 99 = Do not know
- 1 = Yes
- 0 = No

Q12.1. If your response to Q12 is Yes, within how many years will it abandon the US dollar?

- 99=Don't know
- 1 = Within the next 5 years
- 2 = 6 to 10 years
- 3 = 11 to 15 years
- 4 = Over 15 years

Q13. Common agenda (such as inclusive development, equity, trade partnership, use of local currency for international trade, and technological information exchange) among member states is important for the performance and sustainability of the economic bloc. Please evaluate the common economic and political agenda of member states of these financial institutions and fill your response (numeric rating) in the following table.

Responses	WBG	IMF	BRICS Bank
Do not know = -99			
Have no common agenda = 1			
Have fewer common agenda = 2			
Have more common agenda = 3			
Have very common agenda = 4			

Q14. In your opinion, which challenges would adversely affect the achievement of BRICS' goals/ objectives (multiple responses possible)?

- 99 = Do not know
- 1= Conflict of economic interests among member states
- 2 = Conflict of political interests among member states
- 3 = Limited financial capacity of the BRICS's bank
- 4 = Lack of political commitment from member states
- 5 = Governance problems in the BRICS's bank
- 6 = Double standards by member states with the BRICS and the western powers
- 7= Influence from western financial institutions and governments
- 8= Other (specify) _____

Q15. The institutional value and people's confidence on the international financial institutions (IFIs) are expected to affect the performance and sustainability of the BRICS bank. Citizens' confidence on their government and institutions are also very important to exploit development opportunities arising from such economic blocs.

How confident you are in the national and international financial institutions? Please rate your confidence and the values of these institutions in the following table.

Level of Confidence	International			National (Ethiopia)			
	WBG	IMF	BRICS (NDB)	National Bank	Government (Executive)	Parliament (Legislative)	Judiciary system
Do not know = -99							
Not at all = 1							
Not very much = 2							
Quite a lot = 3							
A great deal = 4							

Q16. To what extent are the international financial institutions (WBG, IMF, BRICS) and the National Bank of Ethiopia (NBE) are able to achieve their goals/ objectives? Rank your evaluation using numeric rates as indicated in the table below.

Objectives/Goals of Financial Institutions	Achievement of Goals (-99= Do not know; 1= Very low; 2= Low; 3= Moderate; 4= High; 5= Very high)
World Bank Group (WBG)	
1. Eliminate (remove) poverty in underdeveloped countries by giving financial support	
2. Enhance shared prosperity by raising the incomes of poor groups	
3. Encourage underdeveloped countries to conduct international trade	
4. Maintain global peace by avoiding internal conflicts within member nations	
5. Safeguard the environment and natural habitat by providing the necessary support	
6. Provide long-run capital to maintain the balance of payment and reduce the debt crisis in emerging nations	
International Monetary Fund (IMF)	
1. International monetary cooperation	

Objectives/Goals of Financial Institutions	Achievement of Goals (-99= Do not know; 1= Very low; 2= Low; 3= Moderate; 4= High; 5= Very high)
2. Ensure stability in foreign exchange rates	
3. Eliminate exchange control	
4. Promote international trade	
5. Promote investment of capital in backward and underdeveloped countries	
6. Eliminate or reduce the disequilibrium in the balance of payments	
BRICS (NDB)	
1. Achieve regional development	
2. Contribute extensively to development of humanity	
3. Establish a more equitable and fairer world	
4. Boost intra BRICS trade in their local currencies	
5. Promote the technological information exchange among the member states	
6. Enhance inclusive economic growth	
National Bank of Ethiopia (NBE)	
1. Maintain price and exchange rate stability	
2. Maintain adequate international reserves	
3. Improve the soundness of the financial system	
4. Play a decisive role in economic research and policy advice to the Government	
5. Create efficient payment system	