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BRICS Under Strain: Internal Economic Challenges in a Rising Coalition

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ABSTRACT

This article explores the economic fault lines that limit BRICS' potential for collective action as an alternative to Western-dominated economic governance, given its collective share of the global economy. It examines seven interrelated fault lines: the income and structural inequities, trade imbalances and Chinese dominance, the stagnation and structural constraints of de-dollarization, the limited mandate and role of the New Development Bank and the largely moribund Contingent Reserve Arrangement (CRA), differences in fiscal and monetary policy, sanctions-induced disruptions, especially near Russia and the further coordination challenges posed by the recent expansion of BRICS. The article applies a neo-functionalist approach to show that functional spillover in BRICS is limited, sporadic and often counterbalanced by spillback, as sovereignty and competition trump the institutionalization of BRICS. The analysis suggests that it depends on the potential of BRICS to transform the global economic order hinging on overcoming structural asymmetries through institutional innovation and reform.



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Introduction

The BRICS grouping initially Brazil, Russia, India, China, and South Africa, recently joined by Egypt, Ethiopia, Iran, Indonesia, Saudi Arabia and the United Arab Emirates (UAE) is at the forefront of current debates on economic global governance and the emergence of a polycentric world beyond the Western core. In terms of purchasing power, BRICS' aggregate GDP now exceeds that of the G7 and their aggregate growth and increasing share of global trade herald a tectonic shift in the geography of economic activity. Trade within the BRICS has grown multi-fold over the past 20 years, backed by strengthening commercial ties, fast-growing integration between the South-South and institutionalized mechanisms of co-operation, such as the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) (BRICS News, 2025).

Behind these very impressive features is a more vulnerable underpinning. BRICS' economic geography is characterized by glaring disparities in per capita income, economic structures, technological infrastructure and macroeconomic performance. China and India have solidified their roles as high-growth engines with considerable manufacturing and services sector capacities while Brazil, Russia, South Africa and some of the new members are faced with recurring crises, commodity specialization, infrastructure constraints and high levels of inequality. Such diversity makes it challenging to define policy agendas (Kumar & Shahwani, 2025).

Meanwhile, the group's signature initiatives especially de-dollarization and the search for financial alternatives have only partially succeeded. The growth of local-currency trade settlement, experimentation with cross-border payment systems and the NDB's expansion of lending show that the BRICS powers are willing to wean themselves from Western-dominated financial institutions but the US dollar remains a dominant force in BRICS trade, finance and reserves. The CRA has been largely dormant and a BRICS currency is unlikely to be viable due to varying inflationary pressures, monetary policies and political stances (BRICS News, 2025). This article places these trends in the context of a neo-functional analysis, examining whether functional integration in finance and trade is

creating the type of spillover effects that might lead to a greater integration or whether BRICS is rather a loose forum for selective cooperation among a diverse group of powers.

Neo-Functionalism in BRICS Economic Integration

The neo-functional theoretical perspective formulated by Ernst B. Haas and applied to the BRICS context in this study, offers a valuable analytical tool, though it has its own limitations. Neo-functionalism argues that the economic integration that takes place in one sector generates the incentive for other sectors to follow, via the intermediate mechanism of spillover (functional, political and cultivated) leading to more and deeper integration among the participating states. The NDB and CRA, in the context of the BRICS group, is an example of what neo-functionalists would predict in the financial sector to produce pressures for additional integration of these mechanisms into trade, monetary policy and investments (Kumar & Shahwani, 2025). The evidence of BRICS shows that the process of cooperation is more of a "selective functional" and that in the context of the BRICS group, the members have deliberately avoided the adoption of commitments that they would consider to be conflicting with the national sovereignty of their economies, as well as with the need to establish binding institutional regulations (Jensen, 2013).

Internal Economic Challenges of BRICS

1. Economic Asymmetry and Divergent Growth Trajectories

The Problem of Income Divergence

The deep economic inequality between the BRICS economies in terms of size, growth and income remains one of the biggest economic challenges facing the bloc. The underlying assumption behind the creation of BRIC as put forth by Goldman Sachs economist Jim O'Neill in 2001 was that the large emerging economies were following a path of rapid convergence towards the income levels of developed economies and would lead the world through economic transition. Yet, there are contradictions regarding this premise of convergence and shows a pattern of increasing income divergence among the countries (BRICS

News, 2025).

Ncwadi's 2025 research in the *International Journal of Economics and Financial Issues*, using panel data and random-effects methods, explores income growth in the BRICS region from 1991 to 2022. Instead of narrowing the income gap between the BRICS economies, higher-income BRICS economies (particularly China and India) have consistently outpaced the rest in terms of growth rates. There is divergence and growing income disparities, which is highlighting the importance of structural adjustments, investment in innovation and improved intra-BRICS cooperation. This income disparity is not just a theoretical construct but it has practical implications for the group's capacity to adopt coordinated economic policies, create joint financial mechanisms and speak with a common voice in global economic dialogues (Ncwadi, 2025).

While China and India have achieved impressive growth through government policies and liberal economic reforms, Brazil, Russia and South Africa continue to struggle with issues such as political instability and over-reliance on natural resources. Thus without addressing structural inequalities, improving intra-BRICS trade and institutional coordination, BRICS will continue to be a symbolic alliance with limited economic impact.

Structural Heterogeneity across Member Economies

BRICS economies have a diverse economic structure. China's, the world's second-largest economy in nominal terms, is manufacturing, technology and export-oriented, whereas India's economy is dominated by services and has a fast-growing working-age population (Popa, 2024). Russia's economy is still largely reliant on energy exports (oil and gas revenues constitute the bulk of the Russian government's revenues), making it highly sensitive to global commodity prices and geopolitical tensions. Brazil, despite being an agricultural powerhouse and having industrial capacity, has faced frequent economic recession, fiscal irresponsibility and political instability (Chaudhuri, 2025). South Africa, the smallest of the original BRICS economies, faces the worst combination of infrastructure failure - most prominently in its electricity sector -

unemployment (over 30%) and income inequality (Freddy, 2019).

South Africa's per capita GDP is still below the 2007 level and investment has collapsed to 14.5% of GDP, well below the levels needed to repair infrastructure and kick-start growth. The state-owned electricity utility Eskom has been plagued by under-investment, governance issues and tariff mispricing, making electricity a critical weakness rather than an engine for growth (Chaudhuri, 2025). Likewise, Brazil has faced considerable economic recession, with its growth pattern characterized by cyclical booms and busts (based on commodity prices, fiscal excess and political corruption). (Freddy, 2019).

These structural differences mean that BRICS' economic priorities and policy preferences are often at odds. China and India focus on high-tech industrial restructuring and export diversification, i.e. Russia on overcoming the impact of sanctions and energy price shocks, Brazil on fiscal and institutional reform and South Africa on existential energy and jobs crises. The difference in inflation and unemployment rates between member states indicates the diversity of their respective economies and BRICS potential to emerge as the global economic power is limited by its dependence on international trade and different economic policies (Popa, 2024).

2. Trade Imbalances and the Structural Dominance of China

Asymmetric Complementarity in Intra-BRICS Trade

The growth of intra-BRICS trade, touted as a major success of the grouping, masks an asymmetry that mirrors centre-periphery models of economic development. An analysis of bilateral trade between China and BRICS+ members from 2013 to 2023 presented in a 2025 study by the BRICS Policy Center at PUC-Rio reveals asymmetric complementarity in South-South trade. China consistently runs surpluses with most BRICS+ members, exporting value-added manufactured products and importing primary products such as agricultural and mineral products. While other BRICS+ members like Brazil, Russia and South Africa run surpluses with China, they continue to export low value-added primary commodities. While there has been talk

of South-South cooperation, BRICS+ countries' trade patterns remain supportive of China's industrial power (BRICS Policy Center, 2025).

China is involved in 88.9% of intra-BRICS trade. China's intra-BRICS trade statistics have grown from \$59.7 billion to \$471.5 billion between 2005 and 2022, far exceeding its counterparts. India's trade volume, while increasing, was a distant second at \$179.3 billion, followed by Brazil (\$180.4 billion), Russia (\$169.6 billion) and South Africa (\$60.4 billion). This trade pattern around China is reminiscent of core-periphery relations in dependency theory within the ostensibly egalitarian confines of BRICS (Kuzmina, 2024).

UNCTAD's Assessment of Persistent Structural Challenges

In March 2016, the United Nations Conference on Trade and Development (UNCTAD) released a report on intra-BRICS trade over the past 20 years, confirming both the impressive growth and the remaining structural challenges. The report reveals that out of the ten BRICS members, seven - Brazil, Egypt, Ethiopia, Indonesia, Russia, South Africa and the United Arab Emirates are heavily dependent on primary products for more than 60 percent of their exports to other BRICS members. This pattern is not new over the last two decades, suggesting the persistent challenges of structural transformation and export diversification for some BRICS members. China and India are the top intra-BRICS manufacturing exporters, showing the successful case studies of industrialization in BRICS but also magnifying the developmental gap (UNCTAD, 2026).

GDP plays an important role in intra-BRICS trade whereas distance and exchange rate volatility have a negative effect. There is disparity in intra-trade integration patterns among the BRICS countries, particularly China and India, thus intra-BRICS trade strategies and policies need to be aligned with enhancing the level of development, competitiveness and investment climate in the region. These insights indicate that intra-BRICS trade integration has yet to deliver equalization effects as predicted by advocates of South-South relations and reveals the difficulties in converting quantitative trade growth into qualitative structural development (Davydov et al., 2023).

3. The De-Dollarization Agenda and Its Persistent Obstacles

Rationale and Ambitions

De-dollarization of international trade and finance has been an aspiration of the BRICS alliance since its inception. The motivations have several dimensions i.e. to protect themselves against the threat of Western economic sanctions, to reduce the vulnerability to uncertainty and instability caused by US monetary policy, to achieve economic sovereignty and to break away from a US-dominated, unipolar monetary system (Hani & Badawi, 2025). The BRICS Cross-Border Payment Initiative (BCBPI) put forward at the Kazan summit in October 2024 is the latest initiative in this regard, seeking to facilitate members' ability to trade in their local currencies and to establish an alternative interbank messaging system to supplement SWIFT (Prokhorov, 2025). In 2024, domestic currency use for intra-BRICS trade is estimated at 65% - up from previous years (Saleh, 2025).

Structural Barriers to De-Dollarization

Aggarwal's research at The Fletcher School, Tufts University points to systemic and market barriers to the broader usage of BRICS national currencies in trade including inherent issues with the Contingent Reserve Arrangement (CRA) namely the IMF linkage and limited size which are symptomatic of a lack of trust between BRICS member states. There is a disconnection between Russia's stated de-dollarization ambitions and on-ground achievements, pointing to several market barriers such as liquidity of non-dollar currency pairs, hedging costs and the financial sector's lack of infrastructure and development (Aggarwal, 2021).

The use of the dollar in global trade and finance is self-reinforcing, which maintains its dominance and makes it harder to replace. While the new" BRICS members include economies with a combined GDP greater than that of the US, de-dollarization efforts will still face major headwinds, in part because of the relatively higher costs and inefficiencies of using many non-dollar currencies in cross-border trade and finance. Moreover, increasing and high debt burdens in new BRICS countries (Egypt, Ethiopia and Argentina) make it harder to overcome dollar

shortages while the sharp increase in interest rates in advanced economies has led to a flight of capital from emerging markets to advanced economies and to an appreciation of the dollar, relative to emerging market currencies (Greene, 2023).

Similarly, Mohamed and Habib's 2025 report on "Navigating the Shift: De-Dollarization, BRICS Strategies, and the Evolving Global Financial Architecture" finds that While BRICS efforts to de-dollarize reflect the economic vulnerabilities, geopolitical challenges and technological advances, the path is fraught due to the dollar's dominant status, BRICS internal disparities, and technological hurdles. The trend is a smooth transition towards a multipolar monetary system rather than a sudden dollar collapse (Hani & Badawi, 2025).

The Common Currency Question

The idea of a common BRICS currency sometimes referred to as the R-5 for the Real, Ruble, Rupee, Renminbi, and Rand has generated much interest but is fraught with insurmountable challenges. Comparisons with the creation of the Euro are instructive here, as Duckenfield argues in 2015 in the US Army War College's War Room: because the BRICS economies lack a similar shared intent, phase of development and economic similarity, political coherence, and structural balance among members, their economic and interests in a common currency are ultimately misaligned. The problem is that the root of the BRICS frustration with the dollar is the loss of domestic autonomy over economic policy but the creation of a BRICS currency involves a surrender of autonomy, with members in political conflict over preferred interest rates, inflation rates and exchange rate systems (Duckenfield, 2025).

The issues are intensified by diverse inflation rates, varying degrees of budgetary discipline and differing economic policy agendas. Without a mechanism to rectify these differences, implementing a single currency could result in economic imbalances with certain countries reaping benefits while others suffer. The economic difference may put pressure on the political unity crucial for the effective functioning of the currency union, ultimately jeopardizing its stability and long-term viability (Gift, 2024). As such, the 2023 Johannesburg summit statement

did not mention a common currency but rather pointed to bilateral clearing and the development of correspondent banking networks - a second best alternative that reflects the practical realities for the coalition (Poenisch, 2023).

4. Limitations of the New Development Bank and the Contingent Reserve Arrangement

The NDB: Achievements and Operational Constraints

The New Development Bank (NDB), agreed upon in 2014 and launched in 2015 is one of BRICS's major institutional successes. In the first year of its operation, the NDB has disbursed \$39 billion towards sustainable infrastructure projects in clean energy, transport, water supply and sanitation, digital infrastructure and environmental conservation benefiting various members with 120 projects approved (TV BRICS, 2025). This has helped build 2,400 megawatts of new clean energy capacity, reduce 14.7 million tons of CO₂ emissions per year, builds 40,400 kilometres of roads and 35,000 housing units (BRICS, 2025).

However, the NDB faces a number of ongoing challenges that limit its impact and capacity. First, while the NDB was initially tasked with providing local currency lending - a key difference from Bretton Woods institutions - most of the NDB's loans to date in its first five years of operation have been dollar-denominated, limiting its ability to support de-dollarization and the financing of projects in local currencies. This practice is due to the practical reality of the dominance of the US dollar in global capital markets and the NDB's need to issue bonds backed by its own credit rating in deep and liquid markets (Kocabay, 2024).

Second, the NDB's capitalization and loan volumes are still limited in comparison to other multilateral development banks (Sithole & Hlongwane, 2024). The NDB's initial authorized and paid-in capital of \$100 billion and then \$2.5 billion in 2016 (increases to \$35 billion in 2024) falls short of addressing the estimated \$1 trillion annual infrastructure funding gap in developing nations (BRICS News, 2025). There is lack of a guiding principle for equal allocation of resources among shareholders as a possible restraint on bank growth and efficacy (New Development Bank, 2016).

Third, the NDB does not offer the BRICS the structural power they need to change the global governance status quo. The NDB lacks material goods and positional goods to create new norms and principles in global governance and the small number of shareholders in the NDB makes it difficult for the BRICS to increase the number of shareholders in the NDB and thus reduces the influence of the bank in global governance. To sum up, the NDB gives the BRICS a passive exit-voice pressure and in actuality, the NDB lends more credibility to the current global governance framework by using western market mechanisms (Sithole & Hlongwane, 2024).

Finally, member state political instability and conflict is a persistent problem. China-India tensions have constrained the bank's priorities for lending, political and economic crises have enveloped South Africa and Brazil and Western sanctions on Russia make it difficult for the NDB to lend to Russian infrastructure projects without jeopardizing its reputation in global capital markets (Modak, 2021). And potential US sanctions on China or Chinese financial institutions may also make it difficult for the NDB to issue bonds in Western markets (Kocabay, 2024).

The Contingent Reserve Arrangement: A Frozen Mechanism

The Contingent Reserve Arrangement (CRA) set up in 2014 with a committed amount of \$100 billion (China \$41 billion, Brazil, Russia and India \$18 billion each, South Africa \$5 billion) was to provide liquidity support and prevent short-term balance of payments difficulties amongst BRICS. But the CRA has been criticized as being ineffective and inactive since its establishment (Cattaneo, Biziwick & Fryer, 2015). The former Vice President of the NDB (2015-2017), Paulo Nogueira Batista, characterized the CRA as being "frozen by our five central banks" and that it "remains small, it only has five members, and its work is hampered by numerous restrictions and safeguards. The surveillance unit we foresaw has not been established and no balance of payments support operations have been carried out, only test runs". (Batista, 2023).

The major weakness in the design of the CRA is the IMF-linkage provision, only 30% of the maximum drawing right available to a member

requesting a credit is de-linked from the International Monetary Fund while access to the remaining 70% of the drawing right is subject to an IMF program. The provision greatly undermines the CRA's ability to be a stand-alone alternative to the IMF lending scheme - the very purpose for which it has been established. For South Africa, the \$10 billion (of which only \$3 billion is unlinked to IMF) in drawing rights may not be adequate to deal with any sizable balance of payments crisis. The South African Institute of International Affairs' (SAIIA) report on the CRA notes that size and IMF linking (along with the lack of a rapid response facility) seems to be the main factors that limit the CRA's effectiveness, warning that the CRA's design resembles the Chiang Mai Initiative (CMI) in ASEAN which was ineffective during the 2008 global financial crisis (Cattaneo, Biziwick & Fryer, 2015).

The weaknesses of the CRA are symptomatic of a larger problem facing BRICS, the inability to create independent financial safety nets that can enjoy the credibility and confidence of member states and the international market in the absence of a central monetary authority, harmonized surveillance procedures or fiscal disciplines for member countries. This means in periods of balance of payments crises, BRICS members have continued to rely on the IMF for support rather than the CRA, thereby not disrupting the prevailing international financial system.

5. Fiscal and Monetary Policy Divergence

Macroeconomic Policy Heterogeneity

Fiscal and monetary policies of BRICS countries are quite different, reflecting variations in economic structures, inflation rate, exchange rate policies and institutional arrangements. While monetary policy shocks in BRICS countries are associated with lower real economic activity and higher liquidity and shocks in government spending have a strong Keynesian impact, the transmission of policy shocks and the accommodative relationship between fiscal and monetary policy differ significantly across the bloc. This has important consequences for the coordination of macroeconomic policy in the group (Jawadi, Mallick & Sousa, 2016).

China, which has a managed exchange rate and tight capital controls has a distinct monetary

policy regime to India which has a relatively flexible exchange rate regime and inflation targeting (Azahaf & Schraad-Tischler, 2012). The Western sanctions on Russia have caused a radical shift in Russian monetary policy, with a need for structural de-globalization of finance and an acceleration of ruble-based trade settlements (Popa, 2024). Brazil has been a juxtaposition of expansionary fiscal measures and adjustment policies while the South African Reserve Bank has adopted an inflation-targeting policy framework in the face of stagnant growth and unemployment (Chaudhuri, 2025).

There will be future integration in monetary policies. At the same time, foreign reserves (including China's large reserves) do not stabilize inflation or exchange rate fluctuations, contradicting traditional views on the stabilizing role of foreign reserves. Instead, capital outflows and integration contribute to inflation stability, implying a strategic shift from reserve accumulation to coordinated capital flow management and institutional development in order to achieve long-term integration. Thus, structural divergences persist and while there can be a gradual convergence of policies this is nevertheless dependent on ongoing institutional development, which is not guaranteed (Kılıç, 2025).

Inflation and Exchange Rate Disparities

The differences in inflation rates and exchange rate regimes in the BRICS in particular present a major challenge to monetary coordination. The economic diversity of the BRICS with India's booming population contrasting Russia's declining population, China's manufacturing led economy verses the Gulf countries' oil industry and Brazil's agricultural sector means that there is no economic unity within the BRICS to coordinate monetary policy. The lack of a centralized central bank raises important monetary policy questions and the proposed use of gold (40%) to back the BRICS unit payment system disregards historical lessons about the flaws of commodity-backed money.

The challenge is that the preferred outcomes for individual BRICS members' monetary policy vary according to their economic structure and the stage of the economic cycle. While China may favor a depreciated currency for export

competitiveness, India may favor inflation targeting, Russia may need policies to counter sanctions induced capital flight, Brazil may need to control inflation in a period of fiscal expansion and South Africa needs loose monetary policy to combat the unemployment rate. A unified monetary policy will put each member at odds with others over their favored interest rate, inflation and exchange rate policies (Duckenfield, 2025).

6. Economic Impact of Sanctions and Geopolitical Disruption

Western Sanctions on Russia and Their Reverberations

The comprehensive Western sanctions on Russia after the 2014 annexation of Crimea and even more so the 2022 invasion of Ukraine represent one of the most major economic shocks for the BRICS nations. Economic sanctions on Russia led to a % drop in Russia's export values to sanctioning countries and Russian sanctions led to a 25.92% drop in Russia's import values from sanctioning countries. The sanctions heavily impact the RF's export of oil products with a decline of (approximately) 36.56% in export value (Nguyen & Do, 2021).

But Russia's economy has shown some resilience in adapting to a shift in focus towards the BRICS and other non-western nations. Russia diversified its economic partnerships away from Europe, towards Asia and BRICS. Hydrocarbon exports, such as oil and gas, were also re-orientated towards China and India, with the Power of Siberia pipeline being a major infrastructure project. The collective response of BRICS nations in not participating in Western sanctions, and even escalating their trade with Russia, has underscored the bloc's economic unity while it has created tensions with Western powers and impacted the economic strategies of other BRICS nations attempting to balance their trade with Western powers on one hand and non-Western powers on the other (Mudassir & Nasar, 2025).

Although sanctions led to initial economic decline and financial instability, Russia's economy metamorphosed over time through targeted fiscal measures, import substitution and trade reorientation with non-Western countries. But in the long run sanctions have resulted in slower

economic growth, reduced foreign investment and technological stagnation that have posed structural barriers to the BRICS coalition's economic solidarity (Popa, 2024).

The sanctions-induced shift in Russian trade has also led to a further entrenchment of China as Russia's key economic partner, further making the economic relationship within BRICS bilateral between China and Russia. This is a cause for concern for other BRICS members that the coalition is being used to advance the geopolitical agendas of two of its members' which become a factor of coalition instability (Hadebe, 2026).

Implications for BRICS Financial Integration

The sanctions regime has impacted BRICS financial integration. The NDB halted new investment in Russia after the 2022 Ukraine invasion, showing how its developmental priorities can be trumped by geopolitical factors. More generally, China's deliberate efforts to maintain Western Economic Relations (even while supporting Russia with creative financial schemes) shows an awareness of its ongoing dependence on the US dollar system. Chinese banks' swift retreats from Russia after US secondary sanctions threats highlight the limits of BRICS financial cooperation. This two-pronged approach by China undermines the bloc's financial autonomy aspirations and highlights that even China, the bloc's economic powerhouse is not fully committed to its financial alternatives (Modak, 2021).

The sanctions also highlight a weakness of the BRICS financial project, the lack of a resilient payment and clearing system that can function effectively outside of the Western-dominated SWIFT system. The BRICS Pay system and planned BRICS Bridge system, which use blockchain-based, decentralized settlement systems, seek to overcome this but are plagued by different interest demands of different member states and lagging development of blockchain technology. As of early 2026, the BRICS cross-border payment system is still under development and has yet to be fully deployed (D'Souza, 2025).

7. Economic Challenges of BRICS Expansion

Opportunities and Complexities of a Larger Coalition

The addition of Egypt, Ethiopia, Iran, Indonesia, Saudi Arabia and the United Arab Emirates to BRICS from January 2024 is a new opportunity as well as a new economic challenge. The inclusion signifies a transformative moment for the group and the world but also pose the challenges of possible division and rivalry that come with the addition of economies with very different structures, incomes and priorities for development (Kaushik, Mahipal & Patel, 2024).

The expansion to include prominent Middle Eastern oil exporters - Saudi Arabia, the UAE and Iran brings critical energy security considerations to the bloc but also further sources of contention and competition. Oil exports are the main feature of the Arab members' exports which are complementary to the energy imports of existing BRICS, especially China and India. But the strategic priorities of oil exporters and importers do not always converge, especially in areas like energy prices, production levels and speed of transition to renewable energy (Wu, 2025).

The new members display the same structural weaknesses as the old, they mostly export primary goods, with little diversification into higher value added manufactured goods. Egypt and Ethiopia in particular have significant macroeconomic vulnerabilities such as dollar shortages, high inflation and high debt (UNCTAD, 2026). Dollar shortages at times in 2023 in Egypt and Ethiopia were so severe that the unofficial exchange rates were reportedly almost double the official ones. These macroeconomic challenges pose challenges for the bloc's ability to undertake coordinated economic initiatives and the readiness of new members to engage in BRICS financial initiatives (Greene, 2023).

Coordination Costs and Institutional Strain

While BRICS expansion boosts the bloc's global representation and economic capacity, it also leads to further disparity, with strategic interests rooted in energy or regional security concerns that may not always align with the group's broader objectives. Increasing the membership with varying governance structures, fiscal policies and trade regimes adds complexity to the informal institutional framework of BRICS. Lacking a secretariat, codified rules and regulations or a constitution, the bloc's governance is based on rotating chairmanships and summit diplomacy,

which while flexible have not been able to accommodate the wide range of economic differences within the bloc's expanded membership (Khan & Hayat, 2024).

There are a number of potential problems with the expansion, including the potential for the coalition's cohesion to weaken as new members pursue initiatives that may not align with the original aim of the coalition to foster economic cooperation and reform global governance. There is a need for the bloc to strengthen internal coordination, conflict management and resource allocation procedures to prevent it from becoming a talking shop" with little discernible impact on global economic affairs (Benamor, 2023).

It also poses challenges for the NDB and CRA. The inclusion of the new BRICS members in the group raises issues of capital and voting shares, and priorities for lending. The NDB's relatively exclusive shareholder base - which was designed to allow for an equal distribution of shares between the five member nations - may need to be completely re-evaluated for the NDB to be able to accommodate a much larger membership base with a more diverse set of interests and priorities (Sithole & Hlongwane, 2024).

8. The Digital Divide and Technological Disparities

Uneven Technological Development

In a world where digital readiness and technological innovation are critical for economic progress and competitiveness, the BRICS initiative is marked by uneven digital readiness, internet connectivity and innovation. There are significant differences in intellectual property regulations, data policies and innovation policies across BRICS countries, hampering smooth cooperation. There is a need for synchronized juridical frameworks to resolve issues relating to digital divide, cyber security and geopolitical implications (Haryono, 2024).

Currently exist due to different government approaches and policies and priority areas of state regulation to strengthen the position of developing countries and achieve digital equalization in the global economy (Lavrikova et al., 2024). Morozkina's research on regional digitalisation in BRICS also reveals deep within and between country digital inequality in access to the internet

and digital literacy with the expansion of new technologies at the national level is accompanied by the lagging behind of least developed areas and higher inequality in access to technologies (Morozkina, 2020).

China is ahead in digital infrastructure and innovation in BRICS and has the greatest proportion of patents and high-tech exports in the group. India has come a long way in developing a digital economy with initiatives such as the Unified Payments Interface (UPI) and its digital public infrastructure. But Brazil, Russia, South Africa and the new members especially Ethiopia and Egypt are lagging behind in digital readiness, resulting in a digital two-track reality for the bloc, precluding cooperation on digital economic initiatives and the sharing of technology (Han, 2024).

Implications for Economic Cooperation

The digital divide affects the BRICS' economic agenda. Cross-border payment systems like BRICS Pay require the digital infrastructure, financial systems and cyber security protocols to be compatible and interoperable among members, which is not the case (Prokhorov, 2025). The absence of mutual recognition of standards and clear rules for the regulation of financial services also muddies efforts to optimize cross-border payments and settlements. Until these technological differences are resolved, the bloc's desire for interlinked digital payments and financial systems will only remain a hope (Savic, 2025).

9. Income Inequality and Socioeconomic Fragility

Intra-State Inequality across the Bloc

In addition to inter-state economic inequalities, each BRICS member state is marked by income inequality that hampers their domestic economic policy and blocks their outward-looking economic diplomacy (Jeeja & Mahija, 2025). The world's highest Gini coefficient in South Africa (63) and in Brazil (around 52) highlights the high degree of income inequality in these countries (Galan, 2026). There is a strong and direct link between the informal economy and income inequality in BRICS countries, a 1% increase in the informal economy results in a 3.24% increase in the Gini coefficient, with India and Russia being the

frontrunners in this link (Kum, 2024).

This is significant for BRICS economic co-operation. Sharp domestic inequality restricts domestic demand, the government's capacity to finance infrastructure and social services, and stokes political instability all of which limit the ability of member states to sustain international economic co-operation. The prevalence of large informal economies in BRICS countries also hampers efforts towards fiscal co-ordination, tax harmonization and regulatory harmonization.

Foreign Direct Investment Patterns

Patterns of FDI within the BRICS bloc again demonstrate inequitable economic benefits. Economic integration within BRICS by way of FDI is very asymmetric due to the preponderance of Chinese investments in other BRICS countries. There is a diverse set of Chinese capital internationalization strategies (such as state-owned traditional industries, large domestic-market-oriented firms and high-tech/techno-industries) that combine to form an asymmetrical productive integration within BRICS. This results in a distribution of the gains from FDI-led integration that are skewed in favor of China as the provider of FDI while other countries risk a greater dependence on China's capital, technology and market (De Conti & Diegues, 2022).

FDI spillovers in BRICS are both time-dependent and asymmetric across member states, with China and South Africa being the net transmitters of macro-financial shocks and Brazil and Russia being the net receivers. FDI is found to be particularly responsive to inflation and monetary policy shocks within the bloc, with a greater responsiveness in times of global economic shocks (Mutemeri et al., 2025).

10. Energy Security and Climate Finance Divergence

Divergent Energy Profiles and Priorities

The issue of energy security is a potential source of both cooperation and conflict in BRICS. Russia, Brazil and the newly-appointed Saudi Arabia and UAE are significant energy exporters whereas China and India are the world's largest and third-largest energy consumers, respectively, with high levels of energy imports (Tao & Xi, 2023). This complementarity holds the potential

for preferential energy supply agreements but it also creates a potential for price, production and energy transition clashes over the pace and scale of renewable energy adoption (Wu, 2025).

Although energy strategies of BRICS countries are complementary, opening up opportunities for enhanced intra-BRICS energy cooperation and the potential for more intra-BRICS energy cooperation is complicated by differences in geopolitical risk profiles and priorities for the pace and direction of energy transition (Energy Research Cooperation Platform, 2023). China has a huge investment in renewable energy and electric vehicle production and is well on the way to becoming a leading green technology producer. India is investing in renewable energy but relies on coal to generate electricity. Russia's fossil fuel-centered economy presents a paradox with the climate transition plans that the rest of the BRICS - especially Brazil and South Africa - have adopted with the net-zero pledge (Sack, 2025).

Climate Finance Gaps

While global climate finance amounted to \$1.46 trillion in 2022, the figure needs to reach \$7.4 trillion per year to achieve the Paris Agreement targets. The situation is further complicated for BRICS members, as debt levels rise, economic stability is wavered and development support is diminished. BRICS nations representing almost half of the world's population and 28% of the world's GDP, are already big players in climate finance through their domestic investments, bilateral support and contributions to multilateral development banks but that unprecedented threats to global solidarity and the multilateral climate regime make it crucially important for BRICS to enhance climate finance mechanisms in order for it to deliver on its promise (UNCTAD, 2025).

The NDB has been focusing more of its investments on clean energy and sustainable development but still has limited capacity compared to the challenges. The financing challenge is especially pressing for those BRICS economies with hard-to-abate fossil fuel industries where the costs of decarbonization are beyond domestic budgets and which need to explore innovative financial mechanisms (such as debt restructuring in exchange for climate action, green bonds, carbon pricing and mobilizing of sovereign wealth funds) that have not yet been

pursued seriously at the coalition level (Sack, 2025).

Conclusion

The arguments put forward in this article stress that the BRICS biggest impediments are not Western opposition but the coalitions own economic divisions. Sharp disparities in income, productivity, technological sophistication and macroeconomic stability result in policy differences which undermine attempts at collective economic coordination. China's structural economic strength in trade, investment and technology, exacerbates core-periphery relations within BRICS, with fears that South-South initiatives may entrench rather than redress inequalities.

The bloc's institutional innovations, the NDB, CRA and initial moves towards cross-border payment mechanisms have secured significant symbolic and material victories but have limited ambition and influence. The NDB's relatively small capital base, continued dollarization of lending and lack of norm-setting authority as well as the CRAs inactivity and IMF-tying demonstrate the challenges of building credible alternatives to existing Bretton Woods institutions. De-dollarization initiatives have increased the use of national currencies in intra-BRICS trade but highly illiquid currency pairs, hedging costs and financial infrastructure

inequalities constrains more radical monetary tactics.

From a neo-functionalist perspective, BRICS is only partially and tenuously spillover. Functional integration has not led to supranational integration, rather, there are moments of spillback whenever state sovereignty, sanctions vulnerability and great-power rivalries particularly between China and India clash with collective projects. Growth has exacerbated this by admitting new members with severe debt problems, concentrated export baskets and differing energy and climate policies thus increasing transaction costs in an informal and consensus-driven environment.

For BRICS to develop beyond the realm of rhetoric, it will have to tackle three challenges. First, it needs to address internal distributional and technological disparities through more balanced trade and FDI, and climate and finance practices. Second, it needs to reframe the charter, capitalization and governance of its institutions (such as the NDB and CRA) from rhetorical to operational autonomy. Third, it must build robust, compatible payment and regulatory frameworks to facilitate de-dollarisation without impinging on members' sovereignty. The outcomes of these reforms will decide how effectively BRICS can reshape the global economy, versus how effective it will be as an influential group of diverse powers.

Conflict of Interest

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