



The new development bank will be conducive to inter-BRICS cooperation and the steady growth and development of the world economy. It will open up more opportunities for achieving mutual benefit and win-win results amongst BRICS nations.

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The concept of a BRICS development bank, *prima facie*, looks a good idea. An agreement amongst BRICS nations to establish a new development bank can be hailed as a boon to the five emerging economies as well as the global economy. The top five emerging economies which account for around 43 per cent of the world's population and contribute 25 per cent of world GDP are putting together a bank which helps not just these nations but others too. The bank's main objective would be disbursing funds to core sector projects within the five-nation grouping and other emerging economies.

The bank would help strengthen economic cooperation amongst the BRICS nations and provide for additional and niche financing. The bank would provide developing countries with financing support and policy consultation in areas of infrastructure investment, trade facilitation and poverty reduction. The BRICS bank would help stabilize the financial market by funding infrastructure construction in developing nations and smoothing possible capital market fluctuations.

The new development bank will be conducive to inter-BRICS cooperation and the steady growth and development of the world economy. It will open up more opportunities for achieving mutual benefit and win-win results amongst BRICS nations (Brazil, Russia, India, China and South Africa), and these opportunities will outweigh the challenges brought by diverging interests. As emerging forces on the global economic arena, the BRICS nations have enjoyed increasing

shares in the world's combined GDP and trade volume, and they have started to play a more important role in improving global governance.

Need for the BRICS Bank and Key Objectives

Multilateral bodies such as World Bank, IMF, and ADB, etc., have helped create a "liberal order" for the world, promoting free markets and democratic governance in the way they provide economic assistance or agree on rules for commerce. Most of all that order has spread the very notion of a global system based on values and not just national interests.

Currently, countries gain access to international capital through loans from the World Bank and International Monetary Fund (IMF). Both institutions, which provide loans to fund major infrastructure projects or stabilize economies that are in trouble, are based in Washington, D.C. The creation of a BRICS development bank could offer countries a way to negotiate for various loans much more directly. BRICS partners appear to regard the bank as an alternative to the World Bank and the IMF, suggesting they would want to invest in each other and possibly other emerging countries' infrastructure projects much more directly.

The BRICS bank is seen as a way of challenging the rules set by existing institutions like the World Bank, countering Europe's economic crisis and addressing the \$4.5tn in infrastructure spending the BRICS are estimated to need over the next five years. The stated goal of the new BRICS development bank is to provide its members with a way to pool money for investment in targeted infrastructure projects

amongst themselves. But the project also aims to support increased commerce between the BRICS and other emerging economies. Along with the creation of development bank, creation of a \$100bn Contingent Reserve Agreement (CRA) to pool reserves was also proposed, with China contributing \$41bn, Brazil, India and Russia \$18bn each and South Africa shelling out \$5bn.

The need for establishment of a new bank hints that the funds provided by the multilateral development banks (MDBs), mainly World Bank and IMF, have fallen short of the investment needs of these countries. The BRICS countries want a new financing institution for several reasons. Firstly, the investment needs of these countries are massive. All the multilateral development banks (MDBs) taken together are able to finance only about 5 per cent of these needs. A new development bank would primarily serve the needs of BRICS countries, especially for countries that badly need a large investment in infrastructure, such as India. Generally speaking, all of the BRICS need to improve their infrastructure. Therefore, a development bank could provide resources in addition to those given by the central government. Secondly, the processes and requirements of the MDBs are too slow, cumbersome and restrictive.

There are governance problems, reforms of the IMF and the World Bank have been considerably delayed because of governance issues. The BRICS countries require a more responsive and agile institution to help them with their evolving needs. Thirdly, the BRICS countries lack adequate voice in the MDBs. With their growing political stature and economic strengths, they

need an institution in which they have the ability to influence the vision and direction.

The idea of a BRICS Bank addresses most of these concerns. It also helps in rebalancing global financial flows. These countries have large reserves and high saving rates, although these ironically coexist with huge investment needs. Predominantly these reserves are invested in western countries. Using these resources domestically could improve the welfare of their people and strengthen the fundamental conditions for sustainable economic growth. The establishment of a BRICS Bank opens up exciting opportunities with substantial financing coming from the BRICS Bank and the other MDBs playing complementary role. Knowing each other's urgent needs, the BRICS countries could deliver mutual assistance in a more equal and effective way via the bank, as well as enhance the group's standing in the global financial system.

There are also political incentives behind this new development bank. The World Bank has been dominated by the West for more than half century. A BRICS development bank represents the growing influence of developing countries. It could provide a platform for BRICS to promote international financial system reform. Furthermore, a BRICS development bank could serve as a vehicle of concrete cooperation. A new common development bank by the BRICS could become meaningful point of cooperation and help the world focus on improved global financial governance.

The setting up of the bank would be an important step which can address gaps and challenges in critical

sectors. The public and private sectors in these countries could be expected to seize opportunities and evolve collaboration at the level of group, bilateral as well as third country collaborations. The bank's very existence would play to the idea of a free market of ideas, or a competition based on merit. And it will likely be run in a democratic way. The success of the new bank will depend on how the BRICS governments lay the foundation on key issues of concern like capital, membership and governance.

Challenges Ahead of BRICS

The "club" of BRICS nations – Brazil, Russia, India, China, and South Africa – was started only four years ago. Although a BRICS development bank could play a critical role in global development, many risks and challenges lie ahead. The BRICS countries have certain dissimilarities which could come in the way of policy making. Three of the five nations are at different levels of growth rate.

Further, unemployment levels are much higher for South Africa and India, which compels governments to play a more active role in social programmes. Inflation appears to be fairly high in 4 of the 5 nations, with India topping at 7.5 per cent (average FY13). Differential inflation will provide an advantage to the country with high inflation as it can use other currencies to procure cheaper goods. Interest rates are again high in three of the group countries and low in China and Brazil, which will make it attractive for the others to borrow from these markets and currencies. The BRICS countries also differ in development levels and foreign trade and investment influences, and face diverse domestic and international problems. These factors may lead to different goals and demands.

Before the BRICS countries can agree to the establishment of a development bank, the countries must decide how the bank will be governed. In addition to the technical issues, there are some sensitive issues such as where to set up headquarters and how to choose a president and high ranking officials of the bank and the currency of transactions. BRICS, after all, have many differences in political and economic systems and in the international geopolitical status. It was the international financial crisis and the instability in international markets that put them into similarly difficult situations, and they tried to avoid the damage of external shocks by cooperating.

Although their cooperation is increasing recently, there is competition amongst the BRICS and they have different views on many issues. It will take time to build political and economic trust amongst the BRICS. So a new development bank would have to overcome many difficult challenges before it could play an important role as mentioned above.

Growing economic strength has given BRICS more confidence to take responsibility in providing global development finance and working for global stability and governance. All five countries are willing to enhance their internal trade and investment to create a wider base for further cooperation.

China vs. BRIS countries

The Indian finance ministry has been given the responsibility to work out a road map for the proposed BRICS bank. Experts from the Finance Ministry and the RBI will be jointly drawing a rough road map, which could be informally discussed

at an interim summit at St. Petersburg in Russia in September 2013 and later fleshed out before a full BRICS summit at Brazil in 2014.

Also, in the next summit, BRICS countries need to reach a consensus on the capital composition, governance structure, location, the person heading the proposed organization amongst others. Shareholding pattern would be amongst the important decisions since that would decide the voting pattern.

China, which has the largest forex reserves of over \$3.2tn, would be expected to pitch for control of the bank by offering a bigger initial contribution. However, the capital contribution and voting rights should be based on the principle of equity so as to ensure that the BRICS bank should not duplicate asymmetries of the Bretton Woods institutions. This would also ensure that no country has the power to influence who is given loans. Another important aspect would be the currency involved. Much of both the trade and investment is expected to be led by China. In fact, China, which is continuing to power itself to becoming the largest economy in the world, would be pushing for usage of Yuan in the lending as well as trading activities. However, it is only fair to use the dollar or Euro in any of the transactions before the BRICS committee decides on a universal currency to use.

Following the consensus on the various aspects required, the BRICS Bank could be seen as a potential game-changer in the BRICS' larger project of remapping the global financial governance architecture and in spurring infrastructure building in the developing world.

The BRICS strategists are also working on new initiatives to scale up intra-BRICS trade to \$500bn by 2015.

Way ahead

BRICS was born in the crucible of the global financial crisis during 2009 in the Russian city of Yekaterinburg and had remained focused on economic issues for the first three years. The BRICS group, comprising five emerging economies, has facilitated multilateral cooperation in the world. After four years of development, BRICS has transformed itself from a political idea into a tangible symbol of a multi-polar world. The BRICS countries, especially India, Russia and China, look at this grouping as a platform that provides a counter-narrative to the West-dictated agendas and approach on regional and international issues.

The main mission of BRICS is to find a counterbalance for the structures controlled by the traditional centres of the world economic and political power. In other words, the historical destination of BRICS needs to re-establish a balance in the world system. The ability of BRICS to fulfil this is determined by several factors. The first is their increasing potential power. The second is their readiness to find a "common denominator" in the full range of their national interests. The third is their ability to establish multilateral and bilateral cooperation within the five-member format. Finally, to establish and transmit the mutual interests and positions to the influential international structures and provide the decision-making that will take into account the role of developing centres in the world system. 