BRICS's New Institutions and Their Impact on International Political Economy

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VICTORIA V. PANOVA, SEP 27 2014

At their last Summit in Fortaleza, leaders of the BRICS decided to create two important international institutions – the New Development Fund and the Contingency Reserve Arrangements. While there are continued debates on the issue of international economic and political architecture, it makes sense, without overestimating their potential, to look at the objective weight of such institutions.

BRICS Initiatives: Coming Out of the Blue?

If we look into the history of how the idea was born within the BRICS, it will become clear why the five countries managed to agree to a practical implementation so quickly to counter expectations of a long-protracted and meaningless talk-shop. The first assumption for the creation of those institutions is the understanding that, for all the countries that constitute the BRICS (Russia, to a lesser extent), infrastructure development remains the most vital task to foster the pace of slower economic development they have started to experience. Second, a very important point is the fact that, among the BRICS, China is probably the most obvious large-scale recipient, but it is also a donor of funding for infrastructure projects. That said, too much Chinese investment in countries like India could be seen negatively. There is always room for negative perception of Chinese overtaking other country's economy, which in turn hampers investments from their full scale. Such fears of Chinese domination could be diffused with multilateral instruments like the NDB. And last, but not the least, the BRICS's main aim is the formation of a new (or rather, reform of the old) world order based on a new paradigm of fairness, inclusiveness, and diversity. Thus, new institutions, created specifically by them, are an ultimate expression of the "Big Five's" strive for reform.

After the idea of the new Bank, at the G20 Summit in Los Cabos in June 2012, the BRICS also floated the idea of a contingency reserve pool. It should be noted here that this is not the first time a group of countries created alternatives to the IMF currency reserves[1], although it is the first time that such initiative acquired global character with its members representing different regions of the globe.

The Breakthrough

While the idea was first expressed three years ago during the Indian presidency, it came onto the stage very fast when conditions became ripe for the Bank and reserve pool to materialize. Even experts within the BRICS initially believed that this would need, at best, twice as long for a political decision to be made. A plethora of factors made it happen earlier than many believed possible even within the BRICS. Those factors include international and internal peculiarities of the moment.

First of all, any club works in a way so that the host has the biggest weight and would determine the agenda of deliberations of the leaders. This year, Brazil and Dilma Rousseff personally had to ensure that the BRICS Summit would not to be just another decent, but unremarkable, meeting. She put all the efforts for Fortaleza to signal ground-breaking decisions that would counter all the arguments of BRICS' "well-wishers" that divergences between the five members would continue haunting the group's efficiency. The other reason for Brazilian activism was the upcoming general elections in October. To that end, Dilma Rousseff had to demonstrate real achievements in her government's foreign policy direction. Commentaries of some experts on the necessity to offset the effect of Brazilian loss at the World Cup seem a little overstretched. First of all, those two events have different target audiences, and also, the Summit is not a one-off event, but is prepared carefully over time. Thus, it was Brazilian negotiators' search for compromise that brought success around.

In addition to that, one should not forget that Russia – initially going along with the idea, as opposed to really living through it or taking much interested in it – in the situation of tightening sanctions and continued deterioration of relations with the West, found this as a welcome opportunity to demonstrate other plausible options to international cooperation, as opposed to bending down to the pressure from its opponents. For India and South Africa (as well as Brazil), this has clear developmental and commercial benefits. While for China, newly born institutes are another instance to demonstrate peaceful leadership and soft rise in compliance with the Chinese dream.

Internationally, the current situation, while extremely difficult as it is, helped those countries set aside differing approaches. Earlier, there were mentioned initial reasons for the idea of the Bank and the CRA to be born. BRICS countries working together within a number of international institutions, including the G20, are aiming at the reform of the unfair and stumbling international system. While the decisions for the quota reform were approved by the G20 in Seoul in 2010, with significant push coming from the BRICS joint position, in reality, nothing has changed.

Previously, the common position of the BRICS allowed augmentation of a total share of emerging and developing countries in the World Bank from 43.97% to 47.19%; in the IMF, from 39.5% to 42.29%. Four of the BRICS countries (excluding South Africa) came to be within the top ten of IMF shareholders, while total voting power of BRICS grouping, in case the reform is finalized, would rise from around 11% to 14.68%.

It is almost the end of 2014 (the next quota revision was planned for the start of 2014) and the biggest shareholder with de facto veto power – the USA – still holds back the agreed reform. While the BRICS continue to work within the IMF to achieve the desired outcome of the reform,[2] at the same time, they launched a process of weakening their own and other developing countries' dependence on the old Bretton-Woods institutions. According to the Russian Sherpa in BRICS, S.Ryabkov, the creation of the NDB and CRA is "a way to respond to current situation, or rather to form certain instruments" that would allow these countries not to experience difficulties they are going through in their interactions with the IMF and IBRD and "manage tasks of financial stabilization and financing structurally significant projects".[3]

Moving from Dreams to Reality – What Is There for the World?

While it will take some time for the NDB and CRA to start functioning, they are no longer futile ideas, but the fact in stone. This is bound to set gradual change of the failing economic and financial system in motion. At the same time, it is worth citing Russian Sherpa S.Ryabkov once again, echoing that the BRICS countries' "leadership, reminds that none of the five countries see this as an attempt to counter pose those institutions to what's been formed over decades and is functioning in many countries", thus not seeing any competition in either of the institutions.[4]

Besides, it is true that existing funding is not covering all the needs of the global South. According to the World Bank, the infrastructure gap in low and middle-income countries is estimated around 1 trillion USD, and is bound to grow along with their development.[5]

Indeed, the New Development Bank, with the paid capital of 10 billion USD, distributed capital of 50 billion USD, and total allowed capital of up to 100 billion USD,[6] is not presenting visible competition to already established institutions, primarily the World Bank. At the same time, it is also true that success stories of efficiently used, not-wasted resources come from emerging economies – the ones that would be reoriented to using NDB resources, as opposed to conditional and Western-dominated IBRD. A drop in the ocean with carefully calibrated achievements has the potential to grow into a river flow.

Another important factor for international political economy does not concern financing and development directly. The Fortaleza agreement on the Bank proved the five countries are able to agree over existing and rather important differences; what is no less important, China, as the most powerful economy of the group, used its leverages to a moderate degree, which shows stark contrast to the often practiced mode of the strongest country in other groupings to hijack the process with all-out domination. This, in turn, ensures a stable path with all parties equally interested in the success of the institution. While China managed to secure Shanghai as the headquarters for the NDB, the country competing for that honor – India – got its representative as the first head of the Bank for the upcoming six years. Each of the other BRICS got their share of influence and interests taken into account. Russia's representative will be the Chair of the Board of Governors, the Brazilian representative will be Chair of the Board of Directors, while the South Africans got the first regional office base on their soil.

Another important aspect, which led to lowest common denominator, is the capital sharing and voting procedure. There is no single country dominating the Bank as each BRICS is to have equal share, while at the same time they will not able to block the decisions of the group, as the majority vote (4 out of 5) will be enough for decision making. While the fact that among the main principles for the BRICS cooperation is the idea of not crossing each other's red lines, it is highly unlikely that the random four would want to dictate the fifth member on issues of extreme importance to that fifth partner. Thus, the BRICS Bank, in a way, presents a new model of international cooperation.

Contingency Reserve Arrangements, with total capital of 100 billion USD, in turn are aimed at providing an instrument of currency stability in the five countries when such dangers arise. In this instance, China has the biggest share of 41 billion USD, and South Africa, the smallest share of 5 billion USD, while the other three contribute up to 18 billion USD. The pool remains virtual until the situation demands otherwise, and is expected to start functioning in 2015. It might not seem logical for the countries unhappy with the dollar as the global reserve currency to establish another instrument reliant on USD. At the same time, it represents the BRICS as rational actors aiming at a long-term evolutionary (and preferably not too painful) process. The CRA is about possibilities in imperfect conditions. No one is forgetting the long-term goal of diversifying the reserve currency mix (and both BRICS framework and bilateral swap agreements move the process to lower reliance on dollar and forthcoming diversification).

Conclusion

The practical implementation of the idea and the achievements of the new institutions are yet to be seen. What is important right now, and what presents the breakthrough, is the fact that, in the realm of very different interests, approaches, close trade, economic and other ties with the US and EU – and even at some instances of pressure from certain countries – all the BRICS demonstrated ability to band together and pursue long-term interests aimed at eventual comprehensive systemic reforms of the global order. Two hundred billion USD is indeed too small of a sum to talk of a threat or even competition to the established Western-dominated institutions. As argued earlier, in this regard there is only a complementarity of efforts of the five countries to the global cooperation schemes. Where the challenge lies for the Golden Billion is in the form and method of decision-taking and suggested new model of cooperation, which does not tolerate dictatorship or pressure, and is founded on mutual respect and support.

Notes

[1] For example, the Andean (later Latin American) Reserve Fund with 8 member countries and total capital of 2.3 bln USD, and the Arab Monetary Fund with 22 countries and total capital of 2.7 bln USD – both created in 1976. Another instance is the multilateral swap arrangement of Chiang Mai initiative for ASEAN and China, Japan, and South Korea, with total capital of 240 bln USD, launched in 2010. Similar ideas were discussed in other regions of the world – Africa, the European Union, Islamic states, etc.

[2] Here the author means internal negotiations and prospective possibility by BRICS countries to block new financing within New Arrangements to Borrow if no action is taken by the US Congress with regards to the state of quota reform.

[3] Interview of the deputy Minister of foreign affairs of Russi S.A.Ryabkov, published in *International Life* magazine (Interview zamestitelia inostrannykh del Rossii S.A.Ryabkova, opublikovannoe v avgustovskom nomere zhurnala "Mezhdunarodnaya Zhizn", 28.08.2014.

[4] Interview of the deputy Minister of foreign affairs of Russi S.A.Ryabkov, published in *International Life* magazine (Interview zamestitelia inostrannykh del Rossii S.A.Ryabkova, opublikovannoe v avgustovskom nomere zhurnala "Mezhdunarodnaya Zhizn", 28.08.2014.

[5] The World Bank. Infrastructure. Overview.

[6] BRICS's share in the total capital should not go below 55% when new members join.

About the author:

Victoria V. Panova is an Associate Professor in the Department of IR and FP at the MGIMO, University MFA Russia. She holds a PhD in history of IR. Since 2003, she is Regional Director for Russia of the G8 Research Group based at the University of Toronto (Canada); since 2010, she directs the MGIMO-UT Fund. She is a member of the National Working Group of the Civil G8 project (2005-2007); she is part of the Common European Security project initiated by High Commissioner J.Solana in 2009. She is currently a member of the Scientific Council/Chief Advisor on Strategy Planning for the NCR BRICS, a member of the working group for Civil 20/8, co-chair for the Civil BRICS, and a permanent member of the Jury for the Youth 8, 20, BRICS. Dr. Panova publishes in a variety of national and international journals. She is a Visiting fellow at University of Cambridge (2007), London School of Economics and Political Sciences (2008-2010), and BRICS Policy Center (2012). Dr. Panova is also an alumna of the Asian Forum on Global Governance organized by ORF (India) and Bucerius School/Zeit Stiftung (Germany).