

The BRICS' Economic Institutions and International Politics

Written by Fabiano Mielniczuk

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At the VI BRICS Summit, held in the Brazilian city of Fortaleza in July 2014, Brazil, Russia, China, India, and South Africa formally announced the creation of a New Development Bank (NDB) and a Contingent Reserve Arrangement (CRA). The official documents portrayed both initiatives as complements to the existing financial and economic institutions. However, in the short term, they will promote more autonomy for the developing countries in relation to the International Monetary Fund (IMF) and the World Bank and, in the long term, they might represent the coming into reality of a new set of principles that will guide economic relations among nations in the 21st century. In this short essay, I intend to locate the creation of both institutions on the BRICS broader historic narrative, as well as to explore their implications for international politics.

The BRICS has a strange career in international politics. The acronym first appeared as a catchy word made up by Goldman Sachs economist Jim O'Neill to indicate the safest places among developing countries where economic agents could put their money without risks. After a couple of years and an intense agenda of meetings at the sidelines of the United Nations General Assembly, the diplomatic efforts of Brazil, Russia, China, and India succeeded and BRICS became a political reality. In 2009, the group held its first Summit in the Russian city of Yekaterinburg. By that time, the effects of the economic crisis had created an unprecedented imbalance in the distribution of economic outcomes among nations, and the importance of BRICS' share of the world's GDP empowered the group to demand the restructuring of the international economic institutions. The rationale was simple: the economic architecture put in place after WWII was obsolete because institutions like the IMF and the World Bank conferred a disproportionate amount of decision-making power to the United States and Europe. It was time, according to the BRICS, to restructure them by enhancing the participation of developing countries through the increase of their shares in the quota system of both institutions.

Needless to say that Americans and Europeans failed to do their part. Although the Board of Governors of the IMF approved changes in this direction in 2010, the American Congress and many Parliaments in Europe did not vote for their ratification. Understandably, American politicians were reluctant to allow an increase in the decision-making power of developing countries after years of dictating the terms of economic and political reforms around the world. On the European side, giving up its lingering power in times of crisis did not appear to be a good option. Both attitudes, however, are buttressed by a common view that the BRICS initiative is short-lived due to internal inconsistencies. Diplomats, politicians, and scholars that share this view assume that because India, Brazil, and South Africa are democracies, they would soon take a path apart from China and Russia, depicted as authoritarian regimes. Many also argue that the disproportionate importance of China's economy in the group sooner or later would create a Chinese-dominated BRICS, or result in China's disengagement. For others, the real dividing line is the membership status at the United Nations Security Council; as permanent members, Russia and China have the incentives to promote the status quo, while the middle powers aspire to permanent membership. Brazil, India, and South Africa are committed to a broader reformist agenda for international institutions. As I suggested elsewhere (Mielniczuk, 2013), all these critiques are based on a misunderstanding of the BRICS phenomenon because what bring these countries together is a sense of complementarity of two different sets of discursive practices, one based on development and the other on multipolarity. Be that as it may, the fact is that the failure in implementing the agreements to reform the international financial institutions prompted a reaction on the part of the BRICS that

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resulted in the creation of the NDB and the CRA.

In principle, the NDB's structure addresses the anomalies denounced by the BRICS members in its counterpart, the World Bank. The initial subscribed capital is distributed equally amongst the founders that total US\$50 billion. The voting power equals the subscribed shares of US\$10 billion per country; hence the quota system is based on the equality of its members. Moreover, there is also a great concern with representativeness. As Chen (2014) poses it, "although Shanghai has been chosen as the headquarters of the new bank, the first president will be Indian, the first chairman of the board of governors will be Russian, the first chairman of the board of directors will be Brazilian, and the first regional center of the bank will be in South Africa." The line of credit aims to promote projects of infrastructure and sustainable development within the BRICS and other emerging economies. As for the CRA, like the IMF, it is aimed at helping the countries to cope with short-term balance of payments pressures. Its initial committed resources amounts to US\$100 billion, distributed as follows: China, US\$48 billion; Brazil, Russia, and India, US\$18 billion; and South Africa, US\$5 billion. Although China has contributed the largest sum of money, the decision-making process of the Council of the CRA Governors is based on consensus. At the Standing Committee level, in some matters the lack of consensus should be resolved by weighted voting, but even in these cases there is a 5% equality clause per participant intended to tame Chinese power. When compared to the IMF, the difference in the CRA decision-making process could not be any clearer.

When one focuses on their internal structures, both institutions are innovative in the sense that they do not reproduce the logic according to which "the most powerful has the right to rule." China, then, cannot be considered the hegemonic power in the BRICS economic institutions, like IR scholars commonly refer to America in the post-war period. There are both structural and ideational causes for this. By the time the Bretton Woods institutions came into existence, the United States had an uncontested economic and military superiority in relation to its war-devastated European allies, which turned to America as the ultimate guarantor of their endurance. This imbalance in the distribution of power created the conditions for America to project its institutions and interests abroad, and a certain kind of "embedded" liberalism emerged (Ruggie, 1982). The ideological constraints of the Cold War soon obliterated any criticism and legitimized the leading role of the hegemonic power. In 2014, the structure of power in the international system is far less concentrated and much more volatile. The demise of the Soviet Union, the mismanagement of international affairs by America's unilateralism, the rising of regional conflicts, and the global economic crisis created a sense of disorder that obscured an important trend of the late 1990s: states that were either marginalized or not fully incorporated into the Bretton Woods institutions succeeded in opting for autonomous (non-liberal American) paths of development. This reinforced the multipolar character of the international system. Regardless of China's huge economy and the other inclined emerging economies, alternative routes for development exist. China is not alone in the world.

There is also an ideational reason why the most powerful state does not have the right to rule at the BRICS economic institutions. The normative connection between multipolarity and development is based on a call for the democratization of the global governance. The commitment with this democratic platform demands from these countries what some constructivists call the "logical coherence of norms" (Finnemore, 1996). There is no conceivable manner through which BRICS could reproduce the same features it criticizes in the IMF and the World Bank, since opposing these features is the essence of what forms BRICS identity. In practice, this discursive formation delimitates the realm of what is authorized to be said and done and, as a result, affects reality as much as the amount of capital BRICS economic institutions hold. In this sense, most narratives that caution against the dominance of China over its partners are so entrenched in the post-war American-led liberal order that they miss this important point: the world today is multipolar, both in terms of power and ideas.

This is crucial to understand how the BRICS economic institutions might change international politics. The multipolar nature of power and ideas in the current international order was decisive in shaping the NDB and CRA democratic structure of governance. As a consequence, it is unlikely that the BRICS would impose conditionalities on borrowing countries. As it is well known, when borrowing from the IMF and the World Bank, States need to implement the principles considered necessary to achieve a "sound economic environment," i.e. cutting public expenses, making room for private businesses through privatization, so on and so forth. What is frequently neglected is that these demands are much broader than technical assurances on the likelihood of a country to pay its debt. They are, in fact,

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means to promote the liberal order of the post-war. Though BRICS economic institutions will require certain guarantees to lend money, it will remain limited to the technical dimension. Because of its diversity, BRICS will not be able to deliver a uniform political view on the world order beyond the already mentioned multipolarity-development nexus. All in all, the money for developing countries will come with no strings attached.

Many believe that this new reality endangers what has been achieved so far. After all, political conditionalities were also used to promote a broader liberal agenda, including the protection of human rights, environmental preservation, and democracy. Once there are no strings attached, lines of credit from the BRICS economic institutions could be used to buttress the popularity of dictators, to sponsor environmental degradation, among others. That is a necessary debate, but the emphasis should fall less on the chances of the BRICS institutions doing “wrongs” and more on why Bretton Woods institutions did not do enough “rights.” If the post war liberal order was inherently good, why do these new BRICS economic institutions emerge? Whatever are the answers to this question, it seems that the NDB and the CRA signal a new reality in international politics, one that corresponds to these unique multipolar moment of power and ideas. This new order is still in the making. As a matter of fact, it is in its very beginning.

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