

Dr. Lu Junxiu, Dr. Zou Lixing, China Development Bank, May 22, 2015

BRICS New Development Bank is an Important Supplement to the International Financial System

[Abstract]: This article analyses the main contradictions deeply rooted in the global economic integration. It points out that the BRICS New Development Bank is gives new momentum to the solution of the deeply rooted contradictions in the globalization process and to balanced global economic growth. It also proposes the three main tasks in the development of BRICS New Development Bank: (1) to define the functions of the BRICS New Development Bank properly; (2) to focus on developing innovative mechanisms; (3) to proactively explore the monetary mechanism of the BRICS New Development Bank.

[Keywords]: International financial institution; BRICS New Development Bank; monetary mechanism; globalization.

On July 15, 2014, the Sixth BRICS Summit - Fortaleza Declaration and Action Plan officially announced to establish the New Development Bank (known as the BRICS Bank). The establishment of the BRICS Bank is a big event in today's international community, ushering in a new stage in the cooperation of BRICS countries. It reflects the development of complex contradictions in the globalization process and plays an important role in promoting balanced global economic development.

I. The 21st century is a century of deepened globalization.

As we enter the 21st century, globalization deepens, mankind interacts with the nature, and economic, political and cultural interactions bloom to the full in the human society. Yet in the meantime, we are caught in a web of conflicts. For example, global warming, the shortage of resources, population growth and other issues are becoming more prominent; and some new conflicts, in particular, arose out of the trend of global integration and intensified after the financial crisis in 2007.

1). Conflict between market integration and political pluralism. As we enter the new century, the global market integration has sped up. The economic ties between different countries and regions have grown closer and the internal consistency of the global economy has increased. However, national conservatism and regional conservatism are also on the rise. The discrepancies between different groups in historical traditions, political systems, and religious are becoming more prominent.

2). Conflict between economic integration and cultural diversity. As the economic globalization deepens, historical and cultural integration around the world is picking up pace, and cultural traditions and customs of various nations and regions begin to rebound strongly. As a result, cultural differences, disputes in mindsets, and conflicts in behaviors are becoming palpable, pushing the battle between globalization and anti-globalization to a deeper level.

3). Conflict between information integration and ideological diversity. In-depth R&D and industrialization in the IT sector, especially the development and application of big data, has not only launched a technological revolution in

the IT sector, but also had extensive influence on other sectors, giving rise to new production and management models that are digital, smart, networked, and global. IT development has swept across the world, ushering mankind into a more open and more integrated world with its massive power. In the information age, information spreads faster and faster and nothing stays in the dark for long. Information becomes shared resource. At the same time, people are likely to be overwhelmed by numerous information fragments, unorganized news reports, explosive issues, and odd ideas. Information explosion, combined with diverse ideologies formed over our long history, has caused the conflict between information integration and ideological diversity to become conspicuous.

4). Conflict between a global network and the safety of privacy. The Internet has got the whole world connected and become the indispensable resource that corporate entities, as well as individuals, rely on for survival. However, the confidentiality of personal information is threatened. Information sharing and confidentiality is a pair of contradictory concepts. No one would like to go against the Internet, yet no one wants their personal information to be shared, either. Under such circumstances, how to protect privacy without hampering the smooth information sharing and exchange on the Internet has become an issue of great concern.

5). Conflict between global resource allocation and differentiated consumption needs. With the help of the Internet and the Internet of Things, a unified global resource allocation system has come into existence, expanding

the scale of production. At the same time, the markets are becoming more and more segmentized and consumption needs differentiated, which forms another conflict.

6). Conflict between the standardization of services and traditional local features. In the globalization process, conformance to international standards and norms are welcomed and required worldwide. However, traditional local features add unique colours to people's lives and are valued more and more in various countries and regions. How to promote international standards and norms while maintaining good local traditions and features is also an issue of concern.

7). Conflict between social equality and the income gap. Influenced by high and new technologies, the world is getting smaller and flatter and our call for social equality is growing stronger. However, the reality is that the wealth gap is widening across the world, with the gap between developed and developing countries, between urban and rural areas, and between the rich and the poor all expanding. How to achieve fairness and equality in the globalization process, and narrow the gap between the rich and the poor is an issue to be considered seriously.^[1]

8). Conflict between global integration and diversity in governance. As the globalization process deepens, the world is turning into an organic whole socially, economically, and politically. However, different in historical backgrounds and social conditions have made the disputes between the East and the West, the South and the North, as well as developing and developed

countries more conspicuous. The world pattern has seen great changes, the geopolitical power game intensifies, and disturbance and disorders are severe in the international strategic situation. These have all given rise to the complexity and uncertainties of global governance, but the world, though witnessing increased interdependence interconnectivity, is in lack of global governance, which is quite an issue.

Figure 1 gives a summary of the major conflicts we are facing now in an era of globalization. They come naturally with our social and economic development, are the results of globalization and should be dealt with properly globalization progresses.^[2]



Figure 1: Eight conflicts in the new stage of globalization

II. Infrastructure development helps resolve international conflicts.

To address complex conflicts, one should approach from multiple angles and infrastructure development is one of them. It helps promote the north-south

balance in development and resolve economic, social, and political conflicts. Infrastructure development plays such a role mainly in the following two aspects.

1). The global demand for infrastructure financing is huge. According to estimates released by the World Bank and the Asian Development Bank (ADB), the gap between the demand for infrastructure investment and the funds available is around USD 1.5 trillion annually. In the Asia-Pacific region, for example, an estimated USD 8.22 trillion (in 2008 US dollar), will be needed for infrastructure development in the 32 developing members of ADB during 2010-2020, or USD 800 billion per year, about 68% of which will be used for new construction projects, and 32% for the maintenance or replacement of existing facilities. The demand for infrastructure development in Asia is expected to account for 6.5% of its GDP during 2010-2020, about 49% for energy infrastructure, 35% for transportation infrastructure, 13% for ICT infrastructure; and 3% for water and environmental sanitation infrastructure. How to meet the demand of USD 800 billion per year is a great challenge facing the Asia-Pacific region. Asian economies are diverse and each has made tremendous efforts to cope with the global financial crisis. A large quantity of high-quality national and regional infrastructure will be needed to support the continuous growth of productivity and competitiveness, the reduction of trade and logistics costs, the expansion and deepening of product networks and the transition extensive to intensive economies.

2). Financing for infrastructure development creates conditions for

global governance reform. How to attract investment? How to transform infrastructure development plans into projects that can be funded by banks? How to engage investors from different countries and regions in good coordination and cooperation? To answer these questions, we need to make great efforts in the global governance reform or regional cooperation. In other words, we need to establish appropriate mechanisms and frameworks in the Asia-Pacific region to screen, select and arrange projects in different priority levels, and use innovative financial instruments in a flexible way, and establish and improve regional financial markets. We should also make appropriate efforts on the front of policy and regulatory support.

For example, in terms of infrastructure development, the information available to private and public sectors remains seriously asymmetric. To solve this problem, public-private cooperation is an option. Government authorities and the private sector may cooperate to provide public goods and services or to construct infrastructure projects. They may enter into a concession agreement and sign contracts to define the rights and obligations and ensure the success of the cooperation, so that the parties can eventually reach a more favourable outcome than as expected from acting alone.

Take the issue of bonds denominated in the Asian Infrastructure Currency Unit (AICU) as another example. The implementation of an infrastructure project, from the very beginning to the very end, is often a lengthy process that exposes borrowers and lenders to substantial exchange rate risks. The establishment of the Asian Infrastructure Currency Unit (AICU) is a way to

address this. AICU, consisting of the currencies of major Asian and non-Asian advanced economies, is created for the relative stability of Asian currencies. It is an accounting unit and device for use in valuing infrastructure investment and repayment obligations.

As our understanding, The Asian Infrastructure Investment Bank (AIIB) just like the BRICS Bank, is also a new financial institution as a supplement to the World Bank and the Asian Development Bank, both of which have comparative advantages but neither of which is the solution to infrastructure financing in Asia. Thus, it seems feasible to create a special new institution to fund infrastructure projects. Asian countries generally see a high savings rate and have ample reserves. However, since there are limited approaches available, most of such funds are loaned to developed countries. The Asian Infrastructure Investment Bank (AIIB) is expected to direct these funds to regional and other infrastructure development projects. Thus, infrastructure financing will undoubtedly help improve global governance.

III. The BRICS Bank lends new momentum to balanced global economic development

All conflicts deeply rooted in the globalization process are fundamentally related to finance and both their causes and solutions can be found in finance. The World Bank, International Monetary Fund and other international financial institutions, established after the World War II, with the US and other developed countries in the dominance, have played an important

role in the post-war recovery and development of the global economy and will continue to make their contribution. However, it is proved by the existing deep-rooted conflicts that there are defects in the existing international financial system and that reforms, new forces, and supplements are needed. The BRICS Bank reflects the needs and trend of the times. It is the solution to the deeply rooted conflicts in the globalization process and lends new momentum to balanced global economic growth. It shows some important new features.

1). It manifests a new paradigm of south-south cooperation. First of all, the Bank is the result of democratic cooperation: Each founding country makes equal initial capital contribution to it; the headquarters is set in Shanghai; the first president will be recommended by India, the inaugural chairman of the board of governors by Russia, and the inaugural chairman of the board of directors by Brazil. Such institutional arrangements render all five BRICS countries equal, allowing no one to seize all benefits alone. Contributions to the contingency reserve fund of the Bank are based on the economic conditions of each country, which also reflects the principle of equality. Secondly, it is also a substantial cooperation. The Bank is a new platform for financial cooperation that propels BRICS countries to consolidate and realize their cooperation plans and expand the scope of cooperation from trade to more economic and financial fields. Thirdly, it is an in-depth cooperation. Such a platform for financial cooperation helps BRICS countries to build closer ties and have better communications.

2). It is a new supplement to the existing international financial system.

Unlike the World Bank, IMF and other international financial institutions, the BRICS New Development Bank places more emphasis on loans and investment in developing countries to support their infrastructure building and its contingency reserve arrangements are mainly aimed to help member states cope with short-term liquidity pressures and strengthen the global financial safety net. The BRICS New Development Bank share similar pursuits and ideology, serve similar customers, and holds similar regional goals with sub-regional development banks such as the Asian Development Bank (ADB), the African Development Bank, and the Inter-American Development Bank (IDB), which lays the foundation for cooperation. However, the Bank differs from sub-regional development banks in that, as an intercontinental bank, it allocates resources across different continents for a better resource allocation structure and better connectivity. Therefore, it supplements what the sub-regional development banks do on the macroeconomic level, forming a complementary relationship. Such complementarity is reflected not only in the common cooperation principles and spirit, but also in the efforts made by the members of the Bank to promote regional development and cooperation on all fronts. The establishment of the Bank is also a key step made by BRICS countries to mitigate their severe lack of voice in the international financial system (see Table 1).

Table 1: Voting rights in the IMF

	Voting rights, %		Voting rights, %
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U.S.	16.75	Chi na	3.81
Japa n	6.23	Bra zil	2.61
Ger many	5.81	Indi a	2.81
Fran ce	4.29	Rus sia	2.39
Total	33.08	Tota l	11.62

3). It is a new driving force towards the Millennium Development Goals. The Bank, to some extent, creates a separate investment and financing channel for new economies, offering relatively independent economic supports with a relatively independent organizational structure. Despite the limited initial fund in its capacity, it represents a huge step made by new economies towards a reasonable global economic structure and showcases the positive role of the BRICS countries in global economic governance reforms. In today's world, the potential for economic growth shrinks, investment falls, and trade protectionism is prevalent. BRICS countries are thus faced with new challenges. In particular as the US winds down its quantitative easing policy, some emerging economies see serious problems such as capital flight, currency devaluation and economic slowdown. The BRICS New Development Bank helps the BRICS countries

build their own financial safety net, reduce dependence on developed economies and the impact of the adjustment of international monetary policies, and promote stable, sustained and healthy economic development. The Bank will also serve as an important bridge between the North and the South, and between developed and developing countries, pushing the world towards a better balance and universal benefits by strengthening dialogue and cooperation.

IV. Promote the development of the Bank in a practical manner

1). Define the functions of the Bank properly. In the next decade, the newly established Bank will have three main tasks:

(1) Consultancy and planning. It shall study the BRICS countries and the global development strategy and analyse the macroeconomic situations so as to prepare long-term investment and financing plans for the BRICS countries. It shall also organize personnel exchange and training programs to enhance the soft power and promote the healthy, sustainable and balanced development of the BRICS countries.

(2) Loans and investment. It shall establish an effective financing mechanism to support and speed up infrastructure development in the BRICS countries and other developing countries so as to improve their conditions for economic and social development; raise funds for the development of agriculture and small businesses, as well as for environment protection, help the BRICS countries and other developing countries build their capacity to maintain food security and support the development of SMEs and environmental

protection; raise funds for the human resource development, increase basic health and education services and improve the basic skills and employability of poor people; raise funds for reform efforts, help the BRICS countries and other developing countries build their governance capacity and establish a political environment and market mechanisms that promote long-term stable development.

(3) Security and risk control. It shall help the BRICS countries and other developing countries turn natural resources into the driving force for development by providing security and guidance, help these countries build their productivity, enhance production levels, and improve working conditions; it shall give priority to more urgent projects via collaboration with other international institutions in terms of lending and guaranteeing so as to promote sustained and balanced international trade growth; it shall cope with financial market instability and maintain financial security and economic security by establishing a risk warning and prevention mechanism.

The basic function of the Bank is to provide fund and pool wisdom to support infrastructure construction and sustainable economic and social development in developing countries, which should be implemented unswervingly. However, we should also be aware that, in the long run, as concepts, purposes and means of construction and development change, the functions of the Bank may also shift. In this regard, the Bank can learn from the World Bank. In the late 1940s, the World Bank was focused on the reconstruction of Europe. From the 1950s to the early 1960s, the focus of the

World Bank shifted to solving economic problems of less developed countries, setting support for the GDP growth in low-income countries as its top priority. Now, the priority of the World Bank has extended to income distribution, poverty mitigation, environment protection, cultural development, etc. The means of development have also changed and the focus is shifted accordingly from capital accumulation, foreign exchange, and large industrial projects such as transportation and power plant construction to small agribusiness, reproduction and the provision of social services in urban and rural areas. This shift reflects economic and social changes and development. It may also be the case for the BRICS New Development Bank and we should have the strategic awareness and practical plans.

2). Proactively explore the BRICS monetary mechanism. The Bank shall learn from the IMF's experience regarding the Special Drawing Rights and establish its own monetary mechanism through which it can perform its functions. There are options: (a) a basket of currencies composed of the currencies of the five BRICS counties; (b) a basket of currencies composed of the currencies of the five BRICS counties and some other developing countries; and (c) create a new basket by adding BRICS currencies (including RMB) to the basket used for IMF's Special Drawing Rights. To implement the reform in a progressive way, a double-track system may be adopted at the beginning. Specifically, the Bank may continue to use the US dollar to perform its functions while establishing a BRICS currency swap mechanism and speeding up the creation of the BRICS currency at the same time. In the early stage, the

first option is more appropriate. A basket of the currencies of the five BRICS countries can be created by giving quotas commensurate to the economic scale of each country, and then it can be used by the Bank to perform its functions in various financial activities and daily operations. No matter which option is adopted, the BRICS currency will be a positive supplement to the existing international monetary system.

In addition to a basket of currencies, the Bank shall also establish a unit of account, a clearing system and a reserve system, which can be deemed as a new part of the international clearing system. The Bank can also consider establishing its own clearing system when conditions are ripe.

The BRICS monetary system differs fundamentally from the Special Drawing Rights of the IMF. The Special Drawing Rights are rights distributed by the IMF to its member states to use currencies. The BRICS monetary system is not a right or power, but a system through which the Bank perform its functions. It is a cooperation framework to promote the use of the currencies of the BRICS counties.

3). Create innovative operational mechanisms for the Bank. Mechanisms are more important than institutions. The vitality of the Bank lies in the innovation in mechanisms. (1) Innovative in the fundraising mechanism. China's experience shows that the problem of developing countries is not the lack of funds but the lack of a fundraising mechanism or a mechanism that transform various resources into funds. [3] We shall find ways to establish an effective fundraising mechanism to transform the advantage of the BRICS

countries and other developing countries in resources into an advantage in funds. (2) Innovation in bank governance. The Bank shall combine advanced theories and technologies with the actual situations in the BRICS countries and design proper governance institutions that balance equity and efficiency and act as a bridge between the market and the government. (3) Innovation in operational mechanisms. The Bank shall adhere to the principles of strategic mutual trust, policy support, professional management, business models, risk sharing, and common development. The BRICS countries shall develop policies and provide legal support on the basis of strategic mutual trust; pool financial resources to support inter-regional infrastructure construction and the development of fundamental sectors; give full play to professional and technical personnel to build a reasonable business operational model, set up a risk control system and mechanism, so as to ensure smooth operation of the Bank and the healthy and fast development of the BRICS countries and other developing countries, and contribute to global good governance and balanced development.[4]

V. China Development Bank is willing to share experiences

As China steps into the economic "new normal", the strategic value of development finance has grown. Under the new normal, China maintains its economic growth rate within the reasonable range and its economic fundamentals is still positive. However, there are also many bottlenecks and weak points in its economic and social development. China's economy is still faced with huge mid- and long-term financing pressure and the strategic value

of development finance in economic and social development remains the same. It is now more urgent for China Development Bank (CDB) to play its role in maintaining steady growth, especially under the present pressure for an economic downturn. Development finance is facing a series of new missions, new requirements, and new opportunities. CDB should take the initiative to understand, adapt to, and serve the new normal, bearing in mind its mission of serving the national development strategies through a market-oriented approach. It should focus on serving national development strategies, meet national development needs in innovative ways, and improve its functions and build its capacity to promote national development strategies and provide better support for national priorities.

By the end of 2014, the total assets of CDB exceeded RMB 10 trillion, with a net profit of RMB 88.4 billion and an NPL ratio of 0.63%. By 2014, CDB had maintained its NPL ratio below 1% for 39 consecutive years and its asset quality remained at a leading level in the industry. As a national financial institution, CDB targets its loans mainly at infrastructure development projects and shantytown renovation projects. As of the first quarter of 2015, loans in such projects totaled RMB 5.9213 trillion, accounting for 58% of its total credit assets. Table 2 shows the changes of CDB’s lending to the top eight sectors.

Table 2: Outstanding Loan Balance of CDB: Breakdown by Industry

Sector	Dec, 2013	Sha re	Dec , 2014	Sha re
Electric power	7505	15.	772	15.3

		91%	4	4%
Public highways	1238	26.	138	27.5
	2	25%	78	7%
Railway	5411	11.	621	12.3
		47%	1	4%
Petrochemical	4773	10.	524	10.4
		12%	3	2%
Coal	1050	2.2	107	2.14
		3%	6	%
Postal & telecommunications	899	1.9	798	1.59
		1%		%
Agriculture & related industries	1910	4.0	238	4.74
		5%	6	%
Public infrastructure	1324	28.	130	25.8
	8	08%	21	7%

Unit: RMB100 million (USD1 = RMB6.1422)

In the coming period, CDB will still have heavy workload in infrastructure financing in order to continue the support for a number of major infrastructure projects of strategic importance. These include 446 major projects in seven categories, 139 key projects for the revitalization of Northeast China, major railway construction projects, 172 major water conservancy projects and "2+62" new urbanization pilot projects. CDB will optimize its credit structure to better serve the economic structure adjustment and provide financial support to

China's "One Belt and One Road" initiative, the Beijing-Tianjin-Hebei integration, the development of the Yangtze River Economic Belt, and coordinated regional development. CDB will also support the innovation-driven development strategy and step up its efforts to support advanced equipment, information networks, integrated circuits and other major innovation projects. It will also continue to serve China's ecological development projects and grant green loans to support recycling economy, air pollution treatment prevention, power generation with new energy, wastewater treatment, and the environment-friendly technologies that help with energy conservation and emission reduction.

In early April 2015, the State Council approved CDB's reform plan, clearly positioning CDB as a development-oriented financial institution and requiring it to seek differentiated development and improved risk control. This is an important opportunity for CDB to deepen its reform and promote development. Standing firmly on China's national conditions, CDB draws on international experience and its own conditions, made concrete efforts to promote development finance, broke bottlenecks by building the market, and served national strategies with mid- and long-term financial services. Remarkable accomplishments have been made, winning wide recognition for the society.

But, China Development Bank still have a lot of pace to improve, for example, the company governance, the risk control and international business etc. CDB is willing to learn from the BRICS Bank and other international financial institutions and share its own experience and technologies, in a bid to

contribute to the development of the BRICS Bank and the sustainable growth of global economy.

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