Reform of the International Financial System and the future of the BRICS born Institutions

Oliver Stuenkel

oliver.stuenkel@fgv.br

Brazilian delegation

The analysis focuses on the creation of the BRICS Development Bank and the BRICS Contingency Reserve Agreement (CRA) and asks whether the episode implies a significant process of institutionalization, or if it is little more than "empty symbolism", as Eichengreen argues.[1]

Background: The 2012 Summit in Delhi

After the successful inclusion of South Africa in 2011, the BRICS grouping continued to slowly institutionalize and expand intra-BRICS cooperation. As Manmohan Singh pointed after South Africa's inclusion, "the agenda of BRICS has gone beyond the purely economic to include issues such as international terrorism, climate change and food and energy security."[2]

Yet to most observers, the grouping remained an oddity, a grouping "in search of common positions", as a commentator pointed out prior to the 4th BRICS Summit in New Delhi.[3] *"The real significance" of the next summit, Khadija Patel*

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[1] Barry Eichengreen. "Banking on the BRICS" Project Syndicate, August 13, 2014, accessed August 20, 2014, https://www.project-syndicate.org/commentary/barry-eichengreen-is-bullish-on-the-group-s-new-development-bank--but-not-on-its-contingent-reserve-arrangement

[2] "Transcript of Prime Minister's Interview with Russian journalists," Indian Ministry of External Affairs, last modified December 15, 2011, http://mea.gov.in/outoging-visit-detail.htm?16754/Transcript+of+Prime+Ministers+Interview+with+Russian+journalists.

[3] Priya Esselborn, "BRICS suchen gemeinsame Positionen," *DW*, March 28, 2012, accessed July 7, 2014, http://www.dw.de/brics-suchen-gemeinsame-positionen/a-15843332.

wrote prior to the summit, "will be (...) the ability of BRICS members to agree on something concrete together."[4]

At the time, Saran and Sharan argued that "the BRICS nations do have a historic opportunity — post the global financial crisis and the recent upheavals in various parts of the world — to create or rebuild a new sustainable and relevant multilateral platform, one that seeks to serve the interests of the emerging world as well as manage the great shift from the west to the east." What the BRICS needed to develop, they argued, was a "non-western vision" of global affairs:[5]

> *Why (...) should BRICS depend on sluggish multilateral channels such as the World Trade Organisation (WTO), or try to imbibe didactic, non-pragmatic western perspectives on issues purely of common interest? It is amusing to be offered solutions to poverty and inequality, bottom of the pyramid health models, low cost housing options, education delivery, energy and water provision, et al by the wise men from organisations and institutions of the Atlantic countries. When was the last time they experienced poverty of this scale, had energy deficiency at this level and suffered from health challenges that are as enormous? The responses to the challenges faced by the developing world reside in solutions that have been fashioned organically.*[6]

Saran and Sharan cite development assistance as a field where the BRICS should disassociate themselves from established institutions such as the

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[4] Khadua Patel, "Africa: Reporter's Notebook - All Systems Go for Brics Summit in SA," *allAfrica,* October 10, 2012, accessed July 7, 2014, http://allafrica.com/stories/201210100709.html.

[5] Samir Saran and Vivan Sharan, "Giving BRICS a non-western vision," *The Hindu,* February 14, 2012, accessed July 7, 2014, http://www.thehindu.com/opinion/op-ed/article2889838.ece.

[6] Ibid.

World Bank and create their own platforms – an argument that gained more support as President Obama appointed yet another US-American to head the World Bank, breaking an old promise to engage emerging powers. In short, the authors propose an OECD-like organization made up of the BRICS:

> *BRICS could systematically create frameworks offering policy and development options for the emerging and developing world and assume the role of a veritable policy think tank for such nations, very similar to the role played by the Organisation for Economic Co-operation and Development (OECD) in the 20th-century world. Thus BRICS must create its own research and policy secretariat (for want of a better term) for addressing specific issues such as trade and market reforms, urbanisation challenges, regional crises responses, universal healthcare, food security and sustainable development (many of these issues are being discussed this year at the BRICS Academic Forum in March).* [7]

During the 4th BRICS Summit in New Delhi in 2012, leaders for the first time declared they would study the viability of a BRICS Development Bank, which at the time was seen as a significant step towards institutionalizing the BRICS grouping. The number of issues debated at the summit increased yet again, ranging from geopolitics and the crisis in Syria to the economic crisis and domestic challenges such as education and health care.[8]

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[7] Ibid.
[8] "Fourth BRICS Summit - Delhi Declaration."

In addition to the yearly summits, numerous working groups and regular ministry-level meetings in areas such as defense, health, education, finance, trade, agriculture, science and technology were established after 2011, creating an unprecedented degree of interaction – more than fifty official meetings – between the BRICS countries. Furthermore, BRICS Competition Authorities, Summit Sherpas, Central Bank heads, urbanization experts, think thank representatives and business people began to convene regularly.

The BRICS thus established a system Joseph Nye calls "transgovernamentalism", which implies that groups make contact with similar groups in other countries and departments of state to forge links with their counterparts in other states.[9]

And yet, the *Times of India* wrote that the summit's final declaration "failed to go beyond motherhood statements and give the bloc a meaningful push."[10] In the same way, the New York Times wrote that the BRICS members "struggled to find the common ground necessary to act as a unified geopolitical alliance."[11]

Assessing the dynamics at the summit, the *Times of India*'s Indrani Bagchi wrote that

> *(...) underneath the camaraderie (...), serious differences exist. On the economic front, it would be a tussle between India and China, while Russia is pushing the political agenda, particularly on Iran and Syria, where BRICS supported the Russian viewpoint. India and Brazil pushed through their joint pitch for reform of the UN Security Council, which China has not been enthusiastic about, although Russia supports it. While the BRICS joint statement blamed the Eurozone crisis for the state of the global economy,*

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[9] Ian Bache, Stephen George and Simon Bulmer, *Politics in the European Union* (Oxford: Oxford Unievrsity Press, 2011), 9.

[10] Bagchi, "BRICS summit."

[11] Yardley, "For Group of 5 Nations, Acronym Is Easy, but Common Ground Is Hard."

Indian officials saw this as a way of deflecting criticism of China manipulating its own currency, which also leads to a lot of distortions.[12]

However, despite this criticism, the BRICS grouping served as an important vehicle and channel to strengthen the so-called "South-South dialogue". By slowly institutionalizing the grouping, BRICS countries assumed ownership of the concept and transformed it into something much more political than Jim O'Neill had intended it to be. Yet despite the frequency of encounters on multiple levels of government, the BRICS still did not constitute an international organization, even though it was, by then, often referred to as a 'club'. It does not possess a physical secretariat or staff or any charter. More importantly, its leaders' summits and ministerial meetings produced declarations and agreements, but no binding decisions that limit its participants' behavior. Still, considering how recent these diplomatic activities are, the scope of issues debated and the large number of actors involved on multiple levels of government was notable.[13]

To promote trade in local currencies, the BRICS signed two agreements to provide lines of credit to the business community and decided to examine the possibility of setting up a development bank. "The agreements signed today by development banks of BRICS countries will boost trade by offering credit in our local currency," Prime Minister Manmohan Singh stated after the meeting.[14]

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[12] Bagchi, "BRICS summit."

[13] "Brics summit of emerging nations to explore bank plan," *BBC,* March 29, 2012 accessed July 8, 2014, http://www.bbc.com/news/world-asia-17545347.

[14] Sreeja VN, "BRICS 2012: Nations Sign Pacts To Promote Trade In Local Currency, Refuse To Follow US Sanctions On Iran," *International Business Times,* March 29, 2012, accessed July 7, 2014, http://www.ibtimes.com/brics-2012-nations-sign-pacts-promote-trade-local-currency-refuse-follow-us-sanctions-iran-431562.

Similar to previous summits, the 4th BRICS Summit received scant attention in the West, where it was described, as *The Guardian*'s Simon Tisdall put it, as "a photo-op and talking shop."[15] Yet, he argued,

> *this neglect, or disdain, may also reflect the fact that the Brics, representing almost half the world's population and about one-fifth of global economic output, pose an unwelcome challenge to the established world order as defined by the US-dominated UN security council, the IMF and the World Bank*.[16]

At the end of the summit, the BRICS bloc issued a warning to the West and Israel against possible military action over Iran's controversial nuclear program. According to the grouping's final declaration, the only way to resolve crises in Syria and Iran would be through dialogue as the BRICS summit came to a close in New Delhi. The bloc's declaration warned of "disastrous consequences" if the Iran conflict were allowed to escalate.[17] It also backed UN efforts to resolve the Syrian crisis through "peaceful means."[18]

From New Delhi to Durban

The Fifth BRICS Summit was hosted by South Africa on 27 March 2013 under the overarching theme "BRICS and Africa: Partnership for Development, Integration and Industrialization'. South Africa assumed the Chair of the BRICS grouping from India at the Durban Summit. The Summit was preceded by a number of pre

[15] Simon Tisdall, "Can the Brics create a new world order?" *The Guardian,* March 29, 2012, accessed July 8, 2014, http://www.theguardian.com/commentisfree/2012/mar/29/brics-new-world-order.
[16] Ibid.
[17] "BRICS Summit: Delhi Declaration," *Council on Foreign Relations*, March 29, 2012 accessed July 8, 2014, http://www.cfr.org/brazil/brics-summit-delhi-declaration/p27805.
[18] Oliver Stuenkel, "BRICS nations warn against a possible Iran strike," *Post-Western World,* March 30, 2012, accessed 2014, http://www.postwesternworld.com/2012/03/30/brics-nations-warn-against-a-possible-iran-strike/.

- Summit events: meeting of BRICS Academic Forum in Durban on 10 – 13 March 2013; BRICS Financial Forum on 25 March 2013; meeting of BRICS Trade Ministers and BRICS Business Forum on 26 March 2013. A meeting of BRICS Finance Ministers, though not a regular pre-Summit meeting, was also hosted by South Africa on 26 March 2013.

Like previous summits, the 5th BRICS Summit in Durban – the first on African soil – was met with widespread skepticism in the international media. Opinion articles in *The Atlantic* and *The Telegraph* argued that the idea of the BRICS "had run its course" and that it was "time to invent a new acronym".[19] Yet while these analyses focused on growth rates alone – Jim O'Neill's initial criterium for inventing the group—they failed to recognize that the BRICS grouping had long turned into a political project. After all, if market size and growth rates were all that mattered, the BRIC grouping would have invited Indonesia, and not South Africa in late 2010. Giving the BRICS advice about its membership structure, an Indian diplomat argued at the time, was "like telling NATO that it should exclude Bulgaria because the country is too far away from the North Atlantic."[20]

More than any previous summit, the summit underlined that the BRICS were serious in their endeavor to slowly but surely reform global order to better reflect the global shift of power away from Europe and the United States towards the emerging world.

As in all previous summits, the BRICS countries underlined their interest in reforming global governance structures:

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[19] Graham Allison, "China Doesn't Belong in the BRICS," *The Atlantic,* March 26, 2013, accessed July 8, 2014, http://www.theatlantic.com/china/archive/2013/03/china-doesnt-belong-in-the-brics/274363/.
[20] Conversation with an Indian diplomat, New Delhi, 2013

We call for the reform of International Financial Institutions to make them more representative and to reflect the growing weight of BRICS and other developing countries. We remain concerned with the slow pace of the reform of the IMF. We see an urgent need to implement, as agreed, the 2010 International Monetary Fund (IMF) Governance and Quota Reform. We urge all members to take all necessary steps to achieve an agreement on the quota formula and complete the next general quota review by January 2014.[21]

Back to Brazil

Initially set to take place in March 2014, the 6th BRICS Summit took place in mid-July. China's President Xi Jinping had scheduled a bilateral visit in Brasília during the end of the World Cup, and China signaled that Xi would be unwilling to travel to Brazil twice in the same year. The timing of the summit was largely seen as problematic due to the World Cup final only days earlier, and was widely criticized by non-government organizations which sought to prepare parallel events. By 2014, the BRICS Summits had also turned into a point of reference for civil society in the Global South to interact and coordinate joint action. In this sense, the BRICS idea has been a success: Although incipient, intra-BRICS ties on civil society level have increased markedly since the government leaders decided to develop a more institutionalized format six years ago. Summits in Brazil, India and South Africa are particularly important because they allow freer, more spontaneous interaction between

[21] Ibid.

academics, policy makers and NGO representatives. Summits in China, on the other hand, tend to be staged in difficult-to-access venues and even the track II events between academics and the banquets in China tend to provide little space for frank debates.

The decision to postpone the summit had an important consequence: Rather than outgoing Manmohan Singh, who had participated in all the summits since 2009, India's new Prime Minister Narendra Modi participated, allowing the meeting's debates to look ahead with greater confidence. It was one of the newly elected leader's first international trips, and served as a litmus test of India's continued commitment to the grouping.

The 6th BRICS Summit thus was a resounding success. No previous summit generated greater interest in the global media. While major Western newspapers had consistently neglected the yearly gatherings in the past, leading global voices such as *The Economist* and *The Financial Times* both reported on the meeting.[22] Despite the summit's distant location, civil society had a strong presence and organized a fascinating array of events on the sidelines of the summit, involving academics, activists and NGOs that work on human rights and environmental issues.

Furthermore, the meeting achieved its main goal, and five years after its first presidential summit in 2009, the BRICS grouping has now gained an institutional dimension. The creation of the BRICS Development Bank and the Contingency

[22] The Economist. An Acronym with Capital. July 17, 2014. http://www.economist.com/news/finance-and-economics/21607851-setting-up-rivals-imf-and-world-bank-easier-running-them-acronym. Robin Harding, Joseph Leahy and Lucy Hornby. Taking a stand. Financial Times, July 16, 2014 http://www.ft.com/intl/cms/s/0/875d6570-0cc6-11e4-bf1e-00144feabdc0.html#axzz37xAfTvM5

Reserve Agreement (CRA) had been discussed for several years, and yet it still came as a surprise to most Western analysts who consistently argued that the BRICS countries were too different from each other to ever agree on much.

Finally, the large quantity of issues mentioned in the Fortaleza Declaration, along with the so-called Action Plan is notable. Parts of the document were roundly criticized. Alan Alexandroff, a Canadian scholar, wrote of the grouping's "almost breathtaking chutzpah" when condemning unilateral action, arguing that "no State should strengthen its security at the expense of the security of others", yet not mentioning Russia's annexation of Crimea.[23] It may not have been a coincidence that the US administration announced a new round of economic sanctions against Russia while President Putin was still in Brazil. The BRICS are no anti-American grouping, but they profoundly differ with the West when it comes to dealing with Russia.

The BRICS Development Bank (DBD) and the Contingency Reserve Agreement (CRA): A litmus test for the grouping

The above analysis shows that the BRICS grouping took significant steps towards institutionalization during the 4th, 5th and 6th BRICS Summits in New Delhi, Durban and Fortaleza, respectively.[24] Over these three encounters BRICS leaders first discussed and then decided to set up a BRICS Development Bank (BDB) and

23 Alan Alexandroff. „The BRICS start a Second Cycle" Blog Rising BRICSAM. July 16th 2014 http://blog.risingbricsam.com/?p=2233

24 Lydia Polgreen, "Group of Emerging Nations Plans to Form Development Bank," *The New York Times*, March 26, 2013, accessed June 12, 2013, http://www.nytimes.com/2013/03/27/world/africa/brics-to-form-development-bank.html?_r=1&.

a Contingency Reserve Arrangement (CRA), both of which will establish unprecedented government-to-government ties between the five member states. While the BRICS grouping had been until 2014 largely marked by its lack of binding rules, a joint development bank and a Contingency Reserve Arrangement can be interpreted as the initial stage of institutionalized financial cooperation. In addition, it will require the BRICS countries to develop rules and norms that guide both initiatives' actions. For example, how will loans be tied to a monitoring and surveillance mechanism and policy conditionalities? What will they look like? According to which paradigms will they be developed, if not following a World Bank-inspired logic? The BRICS' policy rhetoric leaves little doubt that they are keen to bring upon change to a global system that no longer reflects today's distribution of power. Do the BRICS aspire to do more than simply occupy positions of power and leave the system otherwise unchanged?

As Radhika Desai argued after the 5th BRICS Summit in Durban in 2013,

> *The Brics countries do have a mortar that binds them: their common experience, and rejection, of the neoliberal development model of the past several decades and the western-dominated IMF and the World Bank that still advocate it.(…) They have long called for the reform of the IMF and the World Bank only to meet with resistance. Rather than waiting, they have decided to act.*[25]

Yet what do the BRICS seek to replace the neoliberal development model with, and what role should institutions like the BRICS Development Bank and agreements like the BRICS Contingency Reserve Arrangement play in a world envisioned by the BRICS? For many thinkers in the Global South, the creation of

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[25] Radhika Desai, "The Brics are building a challenge to western economic supremacy," *The Guardian*, April 2, 2013, accessed June 12, 2013, http://www.guardian.co.uk/commentisfree/2013/apr/02/brics-challenge-western-supremacy.

both institutions – BDB and CRA - represents a "significant move by emerging economies to break away from the traditional donor-recipient model advocated by Western nations for more than six decades."[26] Likewise, Pravin Gordhan, South Africa's Finance Minister, argued that "we should see the Brics bank as part of a new paradigm to share resources and (…) achieve a win-win outcome.[27] But what exactly does that mean in practice?

This article argues that the establishment of more institutionalized structures, such as the BRICS Development Bank and the Contingency Reserve Arrangement (CRA), will force the BRICS to articulate with much greater clarity their fundamental views on how to achieve financial stability, economic development and assure a sound future of the global financial and economic system. As Narlikar argues, the creation of these institutions "could be the first step towards more proactive agenda-setting by the Brics", and a chance for the BRICS to go beyond a reactive stance and engage more assertively.[28] It will also force the BRICS to decide how much they seek to challenge the status-quo.

The question of whether the BRICS will establish new paradigms in international development and finance relates to a wider issue of if and how South-South cooperation – a category to which the BRICS Development Bank belongs - qualitatively differs from North-South cooperation. Many analyses of South-South cooperation are based on the implicit and somewhat vague assumption that South-South cooperation would be less exploitative than North-South

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[26] Rasna Warah, "Africa rises as BRICS countries set up a different development aid model," *Daily Nation*, April 28, 2013, accessed June 12, 2013, http://www.nation.co.ke/oped/Opinion/-/440808/1760878/-/k2cwt4z/-/index.html.

[27] David Smith, "Brics eye infrastructure funding through new development bank," *The Guardian*, March 28, 2013, accessed July 7, 2014, http://www.guardian.co.uk/global-development/2013/mar/28/brics-countries-infrastructure-spending-development-bank.

[28] Henry Mance, "Global shift: A bank of and for the Brics is in the air," *Financial Times,* Septermber 23, 2012, accessed June 12, 2013, http://www.ft.com/intl/cms/s/0/63400496-024f-11e2-8cf8-00144feabdc0.html#axzz2TV0h9qg4.

cooperation; and, the belief that economic interactions between states of the South would be more responsive to the development needs of the South. The idea of South-South cooperation evokes a positive image of solidarity between developing countries through the exchange of resources, technology, and knowledge. According to that narrative, South-South cooperation aims to discover and exploit the principle of 'complementarity' in production, consumption, trade, investment, and technological and development cooperation. These processes may in turn generate forward and backward linkages, which eventually may produce positive synergies across Southern economies.[29] As a consequence, there is strong enthusiasm for the BRICS Bank, particularly among African policy makers who hope the bank will engage there.

However, this narrative is not entirely uncontested. For example, critics of the assumption that South-South cooperation and the rise of the BRICS are always beneficial for all those involved have pointed to what they call the BRICS' "Scramble for Africa", indicating that South-South cooperation is increasingly similar to economic interaction between the North and the South as emerging powers such as Brazil, India and China are transforming themselves into major poles of the global economy, and as disparities within the Global South increase.[30] As Bond writes, like the Africa Conference in Berlin in 1884–85, the 5th BRICS summit that took place in March 2013 in Durban – during with the

[29] "Conference Report of Southern Providers South-South Cooperation: Issues and Emerging Challenges," RIS*,* last modified April, 2013, http://ris.org.in/publications/reportsbooks/662.
[30] Paul Ladd, "Between a rock and a hard place," in "Poverty in Focus - South-South Cooperation: The Same Old Game or a New Paradigm?," *International Policy Centre for Inclusive Growth* 20 (2010): 5, accessed July 8, 2014, http://www.ipc-undp.org/pub/IPCPovertyInFocus20.pdf.

BRICS decided to create their own development bank - sought to "carve up Africa", unburdened by 'Western' concerns about democracy and human rights.[31]

This debate is not new. Prior to the 2nd BRIC Summit in Brasília in 2010, Rathin Roy, head of IPC-IG, a joint project between UNDP and the Brazilian government to promote South-South Cooperation, asked:

> *Will the rise of the emerging economies portend just a broadening of the "great game", the only result being a little more elbow room for developing countries in their engagement with the G-20 economies? Or will the global South seize this opportunity to forge a new and more inclusive paradigm that secures faster and more sustainable development for all citizens?(…) Can we look forward to exciting paradigm shifts in the discourses on global trade, aid, development cooperation and the rhetoric of best practice? Will emergent regional and global plurilateral groupings afford new avenues for effective development cooperation?*[32]

In order to address these questions, this analysis will analyze both the BRICS Development Bank (BDB) and the Contingency Reserve Arrangement (CRA) to show whether they do in fact represent a paradigm change.

The BRICS Development Bank

[31] Kevin Gray and Craig N. Murphy, "Introduction: rising powers and the future of global governance," *Third World Quarterly* 34, no. 2 (2013): accessed July 10, 2014, doi:10.1080/01436597.2013.775778.
[32] Rathin Roy, introduction to "South-South Cooperation: The Same Old Game or a New Paradigm?" *International Policy Centre for Inclusive Growth* 20 (2012): accessed July 10, 2014, http://www.ipc-undp.org/pub/IPCPovertyInFocus20.pdf.

In 2011, during the 3rd BRICS Summit in Sanya, a study group was put together comprising representatives of the BRICS respective development banks with the goal of discussing ways to strengthen cooperation amongst themselves.[33]

During the 4th BRICS Summit in New Delhi in 2012, the Framework Agreement on Financial Cooperation within the BRICS Interbank Cooperation Mechanism was signed by member countries' development banks with the goal of facilitating further consolidation of trade and investment ties. Equally importantly, leaders agreed to study the possibility of a joint development bank. In the following 12 months, a group of policy makers from each country's Ministries of Finance and Foreign Affairs convened regularly and wrote a viability report, which was presented a year later, during the 5th BRICS Summit. There, the BRICS decided to move ahead and begin the process of setting up the institution:

> *Following the report from our Finance Ministers, we are satisfied that the establishment of a New Development Bank is feasible and viable. We have agreed to establish the New Development Bank.*[34]

The new institution would be aimed at "mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries". This will make the BRICS bank the first large multilateral lender to emerge since the European Bank for Reconstruction and Development in 1991. In addition, the BRICS' respective national development banks signed the 'BRICS Multilateral Cooperation and Co-financing Agreement

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[33] "BNDES signs agreement with BRICS development Banks," *BNDS,* April 14, 2011, accessed June 12, 2013, http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Noticias/2011/20110414_BNDES_BRICS.html.
[34] "BRICS and Africa: Partnership for Development, Integration and Industrialisation, eThekwini Declaration," (paper presented at Fifth BRICS Summit, Durban, March 27, 2013), art.9.

for Sustainable Development' which seeks to strengthen coordination and the exchange of information between the development institutions in the five countries.[35] However, few details were revealed regarding how much each country would pay: "The initial contribution to the bank should be substantial and sufficient for the bank to be effective in financing infrastructure" the 2013 eThekwini Declaration reads.[36] Finally, at the 2014 Fortaleza Summit, the final declaration declared that

> *The Bank shall have an initial authorized capital of US$ 100 billion. The initial subscribed capital shall be of US$ 50 billion, equally shared among founding members. The first chair of the Board of Governors shall be from Russia. The first chair of the Board of Directors shall be from Brazil. The first President of the Bank shall be from India. The headquarters of the Bank shall be located in Shanghai. The New Development Bank Africa Regional Center shall be established in South Africa concurrently with the headquarters. We direct our Finance Ministers to work out the modalities for its operationalization.*[37]

Towards institutionalization

This development was highly significant, for it was the first step towards institutionalizing the BRICS grouping, fundamentally altering its characteristics of a non-binding, informal consultation group.

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[35] Eduardo de Proft Cardoso, "BNDES and other development banks in the BRICS sign cooperation agreements," XING, last modified April 25, 2013, http://www.xing.com/net/brasilienpv/finanzierung-finance-767971/bndes-and-other-development-banks-in-the-brics-sign-cooperation-agreements-44033015/44033015/#44033015.

[36] "BRICS and Africa: Partnership for Development, Integration and Industrialisation, eThekwini Declaration," art. 9.

[37] 2014 BRICS Fortaleza Declaration; http://brics6.itamaraty.gov.br/media2/press-releases/214-sixth-brics-summit-fortaleza-declaration

Interestingly enough, the initial intellectual impetus for the BRICS Development Bank came from the Global North. Over the past years, Nicholas Stern, Joseph Stiglitz, Amar Bhattacharya, and Mattia Romani have campaigned globally for a new bank - and it was largely based on their proposals that the Indian government chose to promote the issue within the BRICS framework in 2012, the year of the 4th BRICS Summit in Delhi. At the heart of their argument was the fact that currently many developing countries currently have large foreign exchange reserves and the question is whether these reserves can be beneficially pooled so that more of the savings can be invested rather than hoarded.

As the four economists point out,

> *A new development bank is clearly needed. The infrastructure requirements in emerging-market economies and low-income countries are huge — 1.4-billion people still have no reliable electricity, 900-million lack access to clean water and 2.6 bn do not have adequate sanitation. About 2 bn people will move to cities in the next 25 years. Policy makers must ensure the investments are environmentally sustainable. To meet these and the other challenges, infrastructure spending will have to rise from about $800 billion to at least $2-trillion a year in the coming decades or it will be impossible to achieve long-term poverty reduction and inclusive growth.*[38]

Many emerging markets and low-income countries require a major step increase in infrastructure investment to alleviate growth constraints, respond to

[38] Oliver Stuenkel, "China Development Bank: A model for the BRICS," *Post-Western World,* May 21, 2013, accessed June 12, 2013, http://www.postwesternworld.com/2013/05/21/china-development-bank-a-model-for-the-brics-bank/.

urbanization pressures and meet their crucial development, inclusion and environmental goals.[39] In 2009, the World Bank estimated that Africa needs to invest 93 billion US-dollars in infrastructure every year to meeting national development targets.[40] The scale of infrastructure necessary to foster growth, overcome poverty and promote environmental and climate responsibility in emerging and developing countries, which are rapidly urbanizing, requires around $1trillion a year, in investment over the coming decades.[41] In April 2012, shortly after the 4th BRICS Leaders' Summit, where the Bank was first proposed, Romani, Stern and Stiglitz argued that such a new institution was "an idea whose time has come for a world in which emerging market and developing countries are becoming the drivers of growth and the drivers of savings."[42]

One institution studied carefully by the committee was the Latin American Development Bank (CAF), an 18-nation institution which funds more Latin American infrastructure than the World Bank and the Inter-American Development Bank combined. One particularly important detail about CAF is that, unlike the rest of the multilateral lenders in Latin America, it is the only one financed almost entirely by the same countries to which it lends.[43] With the amendment of CAF's Articles of Agreement, other Latin American and Caribbean nations have been incorporated as members with the same rights as the founding nations.

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[39] Amar Bhattacharya, Mattia Romani and Nicholas Stern, "Infrastructure for development: meeting the Challenge," *Centre for Climate Change Economics and Policy* (2012), accessed July 8, 2014, http://www.cccep.ac.uk/Publications/Policy/docs/PP-infrastructure-for-development-meeting-the-challenge.pdf.

[40] Vivien Foster and Cecilia Briceño-Garmendia, "Africa's Infrastructure: A Time for Transformation," The World Bank, November 12, 2009, accessed July 8, 2014, http://siteresources.worldbank.org/INTAFRICA/Resources/aicd_overview_english_no-embargo.pdf.

[41] Stuenkel, "China Development Bank."

[42] Mattia Romani et al., "Brics bank is a fine idea whose time has come," *Financial Times*, April 5, 2012, accessed July 8, 2014, http://www.ft.com/intl/cms/s/0/1770f242-7d88-11e1-81a5-00144feab49a.html.

[43] 97% of CAF's assets are provided by the 16 Latin American and Caribbean countries that make up its membership, with the remainder from Spain and Portugal.

However, some questions about the bank remain, such as:

Will the bank be controlled by emerging powers alone or will established powers be allowed to have a minority stake? While most expect part of the money to be raised in the international financial market, it seems currently unlikely that the BRICS countries want industrialized countries to become stakeholders before the Bank has not fully established its guiding principles. Rather, South African diplomats have argued that other developing countries would eventually be invited to join the bank.[44]

Will the bank invest only within BRICS countries? India is said to prefer to former, as it requires massive infrastructure investment, and it would be far more comfortable taking loans from a BRICS Development Bank than a Chinese-controlled bank.

How will the Bank obtain a triple A credit rating? Here, the example of CAF may be instructive: CAF is at times described as a "model of efficiency", which is one of the reasons that has enabled it to attain an investment grade credit rating – despite being composed of members that are not investment grade. 14 private banks among its members have increased its market discipline.[45]

It also remains unclear what kind of projects the BRICS Bank will invest in. Early discussions suggest that the focus of the BRICS Bank's investments will be in infrastructure and energy. Mwase and Yang argue that the concentration of BRIC financing in infrastructure could have large positive growth effects by addressing

[44] Mark Tran, "Brics bank raises critical development questions, says OECD," *The Guardian*, April 9, 2013, accessed June 12, 2013, http://www.guardian.co.uk/global-development/2013/apr/09/brics-bank-critical-questions-oecd.
[45] Benedict Mander, "Multinational lending: Mutual aid works for Latin America," *Financial Times*, September 23, 2012, accessed July 8, 2014, http://www.ft.com/intl/cms/s/0/05e0b6e0-017f-11e2-83bb-00144feabdc0.html.

infrastructure deficits in very poor countries, raising productivity by reducing business costs for tradables and nontradables sectors alike, and supporting expansion in trade and investment.[46] Yet critics point out that this would be a return to the infrastructure-focused aid that traditional donors abandoned when they shifted towards social sector spending.

In addition, some are concerned about the impact on debt sustainability, subsidized export credits received by some BRIC firms and labor practices.[47] As Dani Rodrik writes,

(…) it is disappointing that (the BRICS) have chosen to focus on infrastructure finance as their first major area of collaboration. This approach represents a 1950's view of economic development, which has long been superseded by a more variegated perspective that recognizes a multiplicity of constraints – everything from poor governance to market failures – of varying importance in different countries.[48]

BRICS vs. Washington Consensus?

What did the Washington Consensus look like in practice? And how have the BRICs appropriated, adopted, adapted, or abandoned specific aspects of this transnational policy paradigm? What does this mean for the future of global economic order?

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[46] Nkunde Mwase and Yongzheng Yang, "BRICs' Philosophies for Development Financing and Their Implications for LICs," *IMF Working Paper* 74, no. 12 (2012): 3.
[47] Ibid., 21.
[48] Dani Rodrik, "What the World Needs from the BRICS," *Social Europe Journal*, April 11, 2013, accessed July 8, 2014, http://www.social-europe.eu/2013/04/what-the-world-needs-from-the-brics/. Rodrik is not the only critic of the BRICS Bank's approach. See, for example: Jens F. Laurson and George Pieler, "A 'BRICs' Bank? No Thanks, The IMF And World Bank Are Bad Enough," *Forbes,* April 22, 2013, accessed June 12, 2013, http://www.forbes.com/sites/laursonpieler/2013/04/22/a-brics-bank-no-thanks-the-imf-and-world-bank-are-bad-enough/.

The BRICS, Cornel Ban and Mark Blyth argue, "went through their impressive growth spurts in an international context dominated by neoliberal economic ideas and narratives about the dos and don'ts of development, they nevertheless reclaimed the role of the state in development far beyond the limits of the Washington Consensus framework."[49]

Over the past decade, the BRICS' relationship with the Washington Consensus ocurred in an international political and economic environment largely deprived of the Bretton Woods' main tool of this transnational policy paradigm: international policy conditionality. While several BRICS have vivid memories of being subjected to policy conditionalities, their recent rise has been marked by their capacity to evade such rules and act independently - and a lot of domestic political pressure to do things differently.

The result, Ban and Blyth make clear, was a proliferation of institutional and ideational hybrids that bore the imprint of distinctive 'edits' of the original Washington Consensus to make them compatible with the domestic context. Yet they righty conclude that none of these modifications amount to a "countermodel" or an attempt to undermine global economic order.

India and Brazil, for example, institutionalized a hybrid form of economic governance that lies between the Washington Consensus policy paradigm and domestic institutional imperatives. While China exhibits several forms of state intervention in the economy that give Chinese capitalism a distinctly non-Washington Consensus flavor, these local adaptations do not necessarily amount

[49] Cornel Ban and Mark Blyth, "The BRICs and the Washington Consensus: An introduction," *Review of International Political Economy* 20, no. 2 (2013): 241-255.

to the antithesis of, nor an alternative to, the Washington Consensus. It makes therefore little sense to speak of a coherent Beijing Consensus that can challenge the notions embodied in the Washington Consensus. This is particularly important for policy makers across the developing world who seek to copy the Chinese model in the hope of discarding the Washington Consensus entirely. Rather than rejecting the Washington Consensus, the BRICS seem to have transformed it.

Towards new lending paradigms?

Will the bank develop lending paradigms that differ from those created by the World Bank and other established banks? Some say that the bank will avoid the conditionalities the World Bank attaches to its loans. And indeed, there is a consensus among the BRICS that conditionality undermines the principle of sovereignty.

This could lead Western observers to accuse the BRICS Development Bank of providing "rogue loans" and undermine the West's attempts to promote good governance in the developing world.[50]

Interestingly enough, the BRICS Bank may also be considered a failure if it simply replicates the characteristics of the major development finance institutions. Rhetoric about the new paradigms of South-South cooperation has generated

[50] Oliver Stuenkel, "In Durban, BRICS seek stronger ties with Africa," *The BRICS Post,* March 27, 2013, accessed July 8, 2014, http://thebricspost.com/in-durban-brics-seek-stronger-ties-with-africa.

expectations that emerging powers of the South have a meaningful contribution to make in the global debate about development.

As diplomats of the five BRICS countries have argued during interviews, the BRICS Development Bank will most likely follow a set of norms and rules that have guided the BRICS countries' individual development strategies.[51] Among them is the focus on mutual benefits without the attachments of policy conditionalities in governance, economic policy or institutional reform. All BRICS stress the importance of 'national sovereignty' and development partners' responsibility for their own long-term development.

Considering that the World Bank already provides conditionality-free loans in many instances, the BRICS Bank is therefore unlikely to develop fundamentally new paradigms that could undermine existing banks such as the World Bank. In fact, Jim Yong Kim, the World Bank president, welcomed the prospect of a BRICS bank to help meet infrastructure needs in middle-income countries.[52]

The case of aid

BRICs' philosophies for development financing today may offer a reliable indicator as to how a BRICS Bank would operate. Their approaches can be said to differ from those of traditional donors (OECD-DAC members) in three significant ways.

First, BRICS engagement is founded on the idea of mutual benefits. Second, they tend to offer noncash financing without any policy conditionalities. In addition,

[51] Interview with diplomats from the BRICS countries, Brasília, Delhi, Beijing, Moscow, Pretoria, 2012-2014.
[52] Tran, "Brics bank."

many BRICS countries' strategy is to design financial assistance (aid) to facilitate and complement foreign direct investment. This includes 'tied aid', a practice established donors increasingly seek to avoid.[53] BRIC financing often complements Foreign Direct Investment (FDI) and comes as part of a complex "package", involving multi-year financing including grants, loans, and lines of credit with various participants.[54] This makes it hard to distinguish between aid and FDI projects. As Mwase and Yang write, China, and at times India, evaluate assistance projecting using cost competitiveness and completion tie as parameters of success – radically differing from traditional donors who spend much more time on feasibility studies, consultations processes with stakeholders, and environmental safeguards. Finally, the BRICS tend to focus on microsustainability of individual projects while traditional donors care more about long-run debt sustainability.[55]

In this respect, the new institution would indeed fundamentally differ from established norms. Regarding aid, the BRICS have shown reluctance in engaging in major multilateral efforts that can constrain their freedom of maneuver in terms of aid policy. They have refrained from strongly endorsing any specific development humanitarian principles that are standard policy for DAC donors or allowing their discourse on humanitarianism or development to be shaped by strong connections with other donors.

An interesting exception to this trend has been Brazil's embrace of the Good Humanitarian Donorship Initiative (GHD), a group of (mostly Western) countries

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[53] Noshua Watson et al., "What next for the BRICS bank?" *Institute of Development Studies* 3 (2013): 1-4.
[54] Mwase and Yang, "BRICs' Philosophies for Development Financing and Their Implications for LICs," 3
[55] Ibid.

that has agreed to a set of broad principles to encourage donor accountability and aid effectiveness in humanitarian action. When asked about this apparent paradox, Brazilian decision makers point out that there is nothing in these principles that contradicts the broad ideas they defend about what humanitarianism should be all about. In private, however, some of them dismissed Brazilian membership as irrelevant, because there are no enforcement mechanisms and the guidelines are vague enough for their own views to fit in comfortably within the framework. According to them, there is no cost to being a member of GHD, but some legitimacy benefits.

The Bank as a bargaining chip?

In addition to the aspects mentioned above, the discussion about the BRICS Bank may have been partly launched as a threat and bargaining chip to accelerate the reform process of the World Bank and the IMF according to the BRICS' wishes.

The usefulness of this bargaining strategy, however, is highly doubtful. The IMF Board of Governors approved IMF quota reforms that provided emerging powers with a greater say in 2010. The IMF hailed these steps as "historic" and pointed out that they represented "a major realignment in the ranking of quota shares that better reflects global economic realities, and a strengthening in the Fund's legitimacy and effectiveness."[56] Yet the 2010 reforms are subject to approval by national governments, including a deeply partisan U.S. Congress. The IMF previously had intended to make the 2010 reform package effective by October

[56] Specifically, the reforms double the IMF's quota to $720 billion, it shifts six percentage points of total quota to developing countries. China will become the third largest quota-holder at the Fund (second only to the US and Japan), and Brazil, Russia, and India all become top-ten quota-holders as well. Under the reform, U.S. voting power will decrease slightly but it would still maintain its veto. In addition, in reforming the Fund's Articles of Agreement, the change moves two of the 24 IMF directorships from European to developing countries

2012, but the legislatures of the United States have not ratified the 14th General Review of Quotas package. Prior to the US elections, the Obama administration had decided to put off asking Congress to approve the reform to avoid unnecessary controversy. As soon as U.S. Congress approves the reform, it will come into effect, yet it seems far from clear when approval will occur. Particularly Republicans are skeptical whether to support the move, which would include extra US sources to the Fund. The creation of a BRICS Bank is unlikely to affect these dynamics.

The BRICS Contingency Reserve Arrangement

While discussions around the 5th BRICS Summit in Durban were dominated by the creation of the BRICS Development Bank, another important decision was overlooked by many: The leaders of the BRICS decided to create a U$ 100 billion Contingency Reserve Arrangement (CRA) to tackle any possible financial crisis in the emerging economies. Unlike the BRICS Bank, the idea of the CRA is relatively recent and was first discussed between BRICS leaders during a meeting on the sidelines of the G20 in Los Cabos in June 2012.[57] The BRICS Finance Ministers and Central Bankers then began to study the creation of the CRA.[58] In the 5th BRICS Summit Declaration, leaders state that the BRICS finance ministers and central bankers

> *have concluded that the establishment of a self-managed contingent reserve arrangement would have a positive precautionary effect, help*

[57] "Statement by BRICS Leaders on the establishment of the BRICS-LED Development Bank, (paper presented at Fifth BRICS Summit, eThekwini, March 27, 2013).

[58] "Achievements lauded as BRICS Summit ends," *The BRICS Post*, March 27, 2013, accessed June 12, 2013, http://thebricspost.com/achievements-lauded-as-brics-summit-ends/#.UZbisEq-gqd.

> *BRICS countries forestall short-term liquidity pressures, provide mutual support and further strengthen financial stability. It would also contribute to strengthening the global financial safety net and complement existing international arrangements as an additional line of defence. We are of the view that the establishment of the CRA with an initial size of 100 billion U.S. dollars is feasible and desirable subject to internal legal frameworks and appropriate safeguards. We direct our Finance Ministers and Central Bank Governors to continue working towards its establishment.*[59]

Unlike the Development Bank, the contingency fund requires far fewer political negotiations, and it can be expected to start operating sooner. The countries are likely to need a year to pass the relevant legislation, but policy makers believe that they will be able to reach a final agreement when BRICS gather in Fortaleza (Brazil) to allow the bank to start operating in 2015 or 2016.

The set-up of the CRA reserve pool is easier because it needs to physical structure to operate. Reserves will not be physically collected in a common fund but will instead be held by national central banks and earmarked for that purpose. Only in moments of crisis in one of the member countries' economies will the contingency fund begin to operate, acting as a cushion or back-up. Considering the increasing frequency and magnitude of global financial crises over the past decades, the addition of another fund that major countries can rapidly mobilize in times of crisis is bound to provide investor confidence.

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[59] ""BRICS and Africa: Partnership for Development, Integration and Industrialisation, eThekwini Declaration," art. 10.

China will contribute a share of 41 billion US-dollars, followed by Brazil, Russia and India with 18 billion US-dollars each, and South Africa with 5 billion.[60] Worries about an unequal distribution of power within the arrangement are unfounded because unlike in the proposed BRICS Development Bank, where voting rights are established on the basis of the financial contribution of each country, the vote of China, Brazil, India or Russia will be enough to authorize the disbursement of funds, making South Africa the only actor that does not exert full control over the fund.

For several observers, the creation of a $100 billion contingency relief arrangement is a bid to sow the seeds of an alternate financial structure for developing countries, arguing that it could present a direct challenge to the IMF. After the 5th Summit, the Indian media hailed the created of the CRA as "a major win for India's campaign to reform global financial architecture."

Yet such an interpretation is largely unfounded - for now. This is mainly so because $100 billion fund is relatively small by global standards. The BRICS countries control almost $5tn in international reserves, and if they were to contribute 16% of their reserves to a contingency fund the resulting CRA would total $800 billion against $780 billion in resources at the IMF. Of course, a CRA of 100 billion could be the stepping stone of something far larger, which could then truly undermine today's global financial order.

Replicating the Chiang Mai Initiative?

[60] "Achievements lauded as BRICS Summit ends."

However, arrangements similar to the BRICS CRA already exist and have not undermined the IMF. According to Brazil's Finance Minister Guido Mantega, the BRICS' CRA will be modeled on the Chiang Mai Initiative (CMI)[61], an agreement signed in May 2000 between the Association of Southeastern Asian Nations (ASEAN) countries as well as China, Japan and South Korea.[62] The aim of the initiative is to strengthen the region's capacity to protect itself against risks in the global economy.[63] It is intended to provide a supply of emergency liquidity to member countries facing currency crises[64]—and avoid the need to depend on the IMF, which is seen as having abused its power in its emergency loans during the Asian financial crisis of 1997–98.[65] The CMIM does give its more weighty economies more voting power, but no veto (such as the US has at the World Bank) and it is designed to benefit smaller economies.[66] The crisis is often referred to in the region as "the IMF crisis."[67] ASEAN+3 finance ministers reviewed the CMI in 2004–05 and launched the "stage two," doubling the nominal size of the swaps. After establishing a headquarters in Singapore in 2009, the CMI was renamed the Chiang Mai Initiative Multilateralization (CMIM). By multilateralization, the member countries mean collectivization on a regional basis, the creation of formal reserve pooling arrangements, a weighted voting

[61] Ibid.

[62] The ASEAN members are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The group of China, Japan and South Korea, along with the 10 members of the ASEAN, is known as 'ASEAN+3'. In September 1997 already, at the start of the last global financial crisis, the Japanese Ministry of Finance proposed the creation of an Asian Monetary Fund. Although this particular proposal was rejected, the idea of a common regional fund on which East Asian governments might draw in times of financial turmoil survived. In: C. Randall Henning, "The future of the Chiang Mai Initiative: An Asian Monetary Fund?," *Peterson Institute for International Economics*, February, 2009, accessed June 12, 2013, http://jfedcmi.piie.com/publications/pb/pb09-5.pdf.

[63] The Chiang Mai Initiative (CMI) has two components: (i) an expanded ASEAN Swap Arrangement encompassing the ten ASEAN countries; and (ii) a network of Bilateral Swap Arrangements and repurchase arrangements basically encompassing the thirteen ASEAN+3 countries. These two aspects make is by far the most advanced component of East Asian financial regionalism.

[64] Yung Chul Park and Yunjong Wang, "The Chiang Mai Initiative and beyond," *The World Economy* 28, no. 1 (2005): 91-101, 91.

[65] Mark Landler, "Healthy Countries to Receive I.M.F. Loans," *The NewYork Times*, October 29, 2008, accessed June 12, 2013, http://www.nytimes.com/2008/10/30/business/worldbusiness/30global.html.

[66] Desai, "The Brics are building a challenge to western economic supremacy."

[67] Robert Wade, "The Art of Power Maintenance: How Western States Keep the Lead in Global Organizations," *Challenge* 56, no. 1 (2013): 5–39.

system for disbursement of funds, and enhancement of surveillance capabilities. Today, it provides its members access to $240 billion of emergency liquidity to shield the region from global financial shocks. While participating states had considered pooling reserves into a single account that could be held, managed, and disbursed by a secretariat, as is the case with the IMF, it was decided to earmark reserves for a common fund and instead retain them in the accounts of national central banks and finance ministries.[68]

However, proof that the CMIM is not a threat to the IMF is the rule that a country under the CMIM umbrella could only access a small proportion of its line of emergency credit without being forced to enter into negotiations with the IMF for a standby agreement. Only 30% of a member's quota is accessible without an IMF program. For the remaining 70% the member state must agree to an IMF program, including the much-loathed policy prescriptions. This linkage to the IMF was criticized by some early on, such as Malaysia, which advocated for complete independence of the CMI from the IMF.[69] Also, the CMIM is designed as a US-dollar liquidity support arrangement, thus excluding local currency swaps.[70]

Some depicted CMIM as a major step toward the creation of an Asian monetary fund (AMF) that would be fully autonomous from the IMF.[71] Yet because severance of the IMF linkage would have required the creation of a regional surveillance mechanism, participating members decided that the swap

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[68] Henning, "The future of the Chiang Mai Initiative."
[69] Park and Wang, "The Chiangmai Initiative," 94
[70] Mashiro Kawai, "From the Chiang Mai Initiative to an Asian Monetary Fund," in "The Future Global Reserve System-an Asian Perspective," Asian Development Bank Institute, accessed June 12, 2013, http://aric.adb.org/grs/report.php?p=Kawai%205.
[71] William W. Grimes, "The Asian Monetary Fund Reborn?: Implications of Chiang Mai Initiative Multilateralization," Asia Policy, no. 11 (2011): 79-104, accessed June 12, 2013, http://muse.jhu.edu/login?auth=0&type=summary&url=/journals/asia_policy/v011/11.grimes.html.

arrangements should remain complementary to the IMF facilities. At the time, Japan in particular pushed for the IMF linkage to lend credibility to the new initiative. Malaysia, however, only agreed to the linkage under the condition of setting up a study group that would assess ways to eventually remove the IMF linkage. Meaningful steps in this direction have not been taken since then. This is largely attributed to a lack of trust amongst participant countries.[72] The CMIM is thus a 'parallel line of defense' to IMF financing.

The BRICS' CRA also includes an IMF linkage. Only 30% of a member's quota is accessible without an IMF program. For the remaining 70% the member state must agree to an IMF program, including the its policy prescriptions. In this sense the BRICS CRA is far from a counterweight to current IMF-led order. Quite to the contrary, it too will be nested within the current system. As a consequence, Barry Eichengreen writes

> *So much, then, for the CRA as an alternative to the IMF. And, if inclusion of that provision was not revealing enough, then there is the fact that the BRICS' commitments to the CRA are expressed in US dollars. The NDB makes sense for the BRICS, and it has a future. But the CRA is empty symbolism, and that is how it will be remembered.*[73]

Despite such criticism, the creation of the BRICS CRA mechanism – made up of swap arrangements to maintain liquidity when credit in the financial sector suddenly tightens – is a sifnicant step. Unlike the BRICS bank the

[72] Park, "The Chiangmai Initiative," 91.

[73] Barry Eichengreen. Banking on the BRICS. Project Syndicate, August 13, 2014. https://www.project-syndicate.org/commentary/barry-eichengreen-is-bullish-on-the-group-s-new-development-bank--but-not-on-its-contingent-reserve-arrangement#77Zy7Wl1ah9mUtqy.99

amounts are not constrained by an equal share requirement. This makes the CRA potentially more vital than the Bank, even though it is too early to assess its long-term implications.

Beyond conditionality?

Conditionality – i.e., giving financial assistance contingent on the implementation of specific economic and political policies – is one of the key elements of the IMF's Articles of Agreement, which points out that the recommended policies should avoid "measures destructive of national or international prosperity". Conditionalities assure that resources are made temporarily available "under adequate safeguards". Due to threat of moral hazard, loan repayments would be at risk without conditions. Therefore, according to the IMF, such rules are crucial to secure the revolving character of the Fund's resources, because they increase the likelihood of repayment.[74] The BRICS, several of whom have been recent recipients of aid, have long criticized the application of conditionalities for a series of reasons. Not only do they undermine democracy and self-determination, but they are also a tool for the strong to dominate the weak, considering that politically weak countries often receive more stringent adjustment obligations. In addition, the BRICS allege that the IMF often prescribes the wrong dosage of austerity due to a lack of expertise and knowledge of the affected economies.[75]

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[74] Axel Dreher, "IMF Conditionality: Theory and Evidence," *Public Choice* 141 (2009): 233.
[75] Ibid., 235

Supporters of conditionalities argue that it would be wrong to wholly depict policy conditionalities as a forced treatment for an unwilling patient. As Vreedland points out, recipient governments may in fact prefer some degree of conditionality in order to increase their domestic bargaining power against factions that oppose reform. The IMF-imposed sanctions are thus welcomed, and the institution is used as a 'scapegoat' in the domestic debate to push through necessary measures.[76]

While it may be true in some instances, the argument that the IMF imposes conditionalities to maintain its own financial health is flawed. Dreher points out that the assumption that conditionality increases the likelihood of repayment has very little supporting evidence. Governments, he shows, almost always repay loans eventually, irrespective of whether they implement the recommended policies or not. More worryingly, accepting an IMF loan and its policy prescriptions fails to put a country on the 'right track': the probability of future IMF programs is thus not decreasing, but increasing with current IMF programs.[77]

When Asian countries discussed the CMI's links to the IMF, they were fully cognizant of the painful experience of the 1997-1998 crisis, and there was a strong consensus that such a scenario should not be repeated. Stronger still was the perception among the creditors (mainly Japan and China) that they needed to

[76] James R. Vreeland, "The IMF: lender of last resort or scapegoat," *Leitner Program* no. 3 (1999), in: Dreher, "IMF Conditionality," 236.
[77] Dreher, "IMF Conditionality," 251

attach conditions that the region was not capable of agreeing on.[78] In the same way, the BRICS countries turned out to be either unwilling or incapable of agreeing on a new set of rules.

Masahiro Kawai argues that if the participating countries were to delink the CMIM from the IMF, they would have to take the following steps:

- Clarify rules for activating lending, including the possibility of providing precautionary (or precrisis) lending and eschewing policy conditionality in the event of externally- or herd behavior-driven financial turbulence or crises;
- Establish a joint forum for finance ministers and central bank governors to intensify policy dialogue among them;
- Make the newly established ASEAN+3 Macroeconomic Research Office (AMRO) a strong professional secretariat, with the required analytical expertise and policy experience, to enable it to support regional economic surveillance through the ERPD, activate the CMIM, and formulate conditionality independently of the IMF;
- Enlarge the size of the CMIM facility so that a sufficient amount of liquidity is provided to member countries in need; and
- Move beyond the simple "information sharing" stage to a more rigorous "peer review and peer pressure" stage, and eventually to a "due diligence" stage, to improve the quality of economic surveillance.[79]

[78] Henning, "The future of the Chiang Mai Initiative."
[79] Kawai, "Asian Monetary Fund."

If the BRICS were at some point willing to delink the Contingency Reserve Arrangement with the IMF, they would see themselves forced to discuss setting up a similar process. So far, they have only established a joint forum for finance ministers and central bank governors to intensify policy dialogue amongst themselves.

Towards new paradigms?

While the CRA does not force the BRICS to develop a new set of rules and norms, they will have to develop rules and norms which will serve as orienting principles to the BRICS Development Bank. This will require them to articulate their fundamental views regarding economic development and financial cooperation.

In the case of the BRICS Development Bank, the BRICS have begun to implicitly establish these rules as a by-product of their growing role as donors. As shown above, China and the other BRICS countries are keen to avoid policy conditionalities in the context of their loans, as this is regarded as undue interference in other countries' internal affairs. If the BRICS' individual strategies as financers of infrastructure loans is any guide – and there is reason to believe that this is so – then the BRICS Bank will operate without many of the policy conditionalities that mark the way the World Bank operates. This could thus pose a challenge to the paradigms that guide today's established financial institutions.

To what extent their behavior may turn into a consolidated and coherent paradigm that challenges the current Western consensus depends on whether the BRICS are in fact able to scale their efforts to levels that make the BRICS Bank comparable to the World Bank. This, in turn, not only depends on their future economic growth, but also on the group's willingness to find a common denominator and jointly push for such an alternative paradigm.

This seems far from clear. Brazil, India, Russia and China provide far more money to the IMF and the World Bank than to the BRICS Development Bank and the CRA. Russia, for example, is applying for OECD membership, which will see it adhere to many Western-dominated standards, particularly regarding aid projects. Provided that it is granted greater space within the World Bank and the IMF, Brazil may feel more comfortable engaging in existing institutions than supporting new institutions. India, for its part, may feel reluctant to support a BRICS Bank that seems to be dominated by China. South Africa's policy makers may also feel growing domestic pressure to avoid an institutional tie-up with China, especially when African public opinion turns against China's growing presence. Finally, all the BRICS' desire to set up a new institution may decrease as they gain growing space and responsibility within the World Bank and the IMF. Democratizing the Bretton Woods institutions still seems to be the established powers' best bet to preserve today's global financial and economic order.

Finally, the move towards institutionalization needs to be understood in the context of a growing "BRICS backlash". Beginning in 2011, many observers began to argue that the BRICS hype was overblown, pointing out that growth rates in the so-called emerging world were far lower than predicted by Jim O'Neill a decade earlier. Except for China, none of the BRICS grew faster than 6%, and in 2013 the

United States grew almost as fast as Brazil. Commentators across the spectrum argued that the BRICS era was over.[80] Many argued that it was now time to look at the MINTs (Mexico, Indonesia, Nigeria and Turkey).[81] Indeed, all BRICS countries have been more affected by the global financial crisis than expected. Economic management of governments in New Delhi, Pretoria and Brasília has been disappointing. As Eduardo Gomez writes, "The past two decades have been all about the BRICS: a group of five countries (Brazil, Russia, India, China, and South Africa) that soared to economic superstardom and gradually won geopolitical influence. But now, with their economies slowing down, those days seem to be over."[82]

And yet, compared to the original BRICs projections made a decade ago, emerging countries were still doing well (what is often forgotten is that in 2003, India grew by only 3.8%. In 2002 gew by Brazil by only 1.1%). As *The Economist* pointed out at the time, Goldman Sachs expected the combined GDP of the four economies to amount to about $8.7 trillion in 2013. Reality was far rosier: Even including the recent years of lower growth, the combined GDP will amount to over $15 trillion. Brazil, Russia, India and China have grown faster than Jim O'Neill ever expected.[83]

As Peter Hall wrote out, the BRICS were undoubtedly facing growing pains, but they were not as severe as many critics put it these days. For the most part, balance sheets of the BRICS economies, although not as robust as in the pre-crisis period,

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[80] Stephens, "A story of Brics without mortar."
[81] "The Mint countries: Next economic giants?" *BBC,* January 6, 2014, accessed July 8, 2014, http://www.bbc.co.uk/news/magazine-25548060.
[82] Eduardo J. Gómez, "Smart Development: How Colombia, Mexico, and Singapore Beat the BRICS," *Smart Affairs,* February 5, 2014, accessed July 10, 2014, http://www.foreignaffairs.com/articles/140713/eduardo-j-gomez/smart-development.
[83] "The backlash against the BRICs backlash," *The Economist,* December 20, 2013, accessed July 8, 2014, http://www.economist.com/blogs/freeexchange/2013/12/brics.

remained healthy. In particular, both China and Russia had ample policy room to ward off a sharp slowdown.[84]

Yet low economic growth in the Global South could not do away the historic advances emerging powers have made, especially during the past decade, which has seen an unprecedented degree of emancipation of the Global South – including the African continent. The lull in the emerging world did not alter long-term predictions that China will overtake the U.S. American economy. Despite current problems, India was set to become a major pillar of the world economy in the course of this century. The world economy will not return to the distribution of power of the late 20th century.

As Zachary Karabell argues,

Sentiment may have shifted dramatically in the past few months, but there is a substantial difference between that and structural collapse and crisis. Yes, emerging world economies are seeing slowing growth relative to the heightened rates of recent years, and yes, the shift to domestic demand-driven economic activity is not easy. But that is not the same as re-writing the script of the past decade and turning the achievements of many of these countries into a mirage.

When it comes time to write the story of the first years of the 21st century, the global narrative will not only be the struggles of the United States to adjust to a world of diffuse power, or the rise of China and the decline of Europe. It will be the way that substantial portions of the planet emerged from agrarian poverty into the early

[84] Peter Hall, "Are the BRICS' Economies Slowing Permanently?" *Huffington Post,* September, 18, 2013, accessed July 8, 2014, http://www.huffingtonpost.ca/peter-hall/birc-economies_b_3949741.html.

stages of urban affluence. It will be the way the Internet and the mobile revolution anchored by the rise of China began to reshape the vast regions of sub-Saharan Africa; how India's middle classes started to redefine that country, and how millions in Latin America sloughed off decades of authoritarian incompetence and began to blossom. Never in human history have more people become more affluent more quickly than in the opening years of the 21st century.[85]

[85] Zachary Karabell, "Our imperial disdain for the emerging world," *Reuters,* August 23, 2013, accessed July 8, 2014, http://blogs.reuters.com/edgy-optimist/2013/08/23/our-imperial-disdain-for-the-emerging-world/.