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The BRICS Development Bank: A Partner for the Post-2015 Agenda?

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Introduction

In the fall of 2013, the leaders of Brazil, Russia, India, China, and South Africa (BRICS) endowed a development bank with an initial USD 50 billion.[1] This bank is designed to meet the financing needs of emerging and developing nations, within and outside the five BRICS states, especially as related to infrastructure projects such as roads, port facilities, and reliable power and rail services.[2] Together with a foreign exchange reserve pool of USD 100 billion and a virtual secretariat for better coordination of global affairs, the bank forms a capital structure that aims to reduce the reliance of BRICS countries on Western financial institutions.

These are the first concrete steps toward institutionalizing the BRICS forum, which has until now been mainly informal. As such, they merit critical reflection, especially by policymakers involved in planning the post-2015 development agenda. This policy brief explains why this bloc of emerging markets established a development bank and discusses how the envisaged institution may affect global governance. It also introduces recommendations for policymakers who work on the post-2015 agenda and seek to craft a tailored response to the proposed BRICS measures.

Why a BRICS Development Bank?

A BRICS development bank is not the only one of its kind. China, for example, has one of its own, which raises the question of why Chinese leaders also contribute to the BRICS institution. The answer lies in the fact that China views the bank as a vehicle to exert more influence as part of this group of states than on its own. A reasonable inference is, therefore, that the BRICS states will seek to jointly influence reform votes and quotas in the International Monetary Fund (IMF). Moreover, they will try—as a group—to recalibrate the world economy toward the BRICS nations, considering the paucity of representation in the present global financial architecture. Additionally, the BRICS countries will most probably not limit their influence to enhanced economic cooperation. They will undoubtedly use this first move toward institutionalization of the hitherto rather informal grouping to ensure the political clout that is necessary to change the Bretton Woods institutions and achieve more power-sharing from Western countries.

Possible Effects on Global Governance

By adding yet another development bank to the existing pool of the World Bank and fifteen other banks, global development finance becomes increasingly complex. On the one hand, establishing such a bank might be a disservice to an already overly multifarious system. On the other hand, the BRICS plans might lead to innovation. For example, in project lending operations, despite the inevitable quest for more influence in the international political arena that drives such international economic engagements.[3] The plans might also inspire similar activities by other coalitions, such as Mexico, Indonesia, South Korea, and Turkey (MIST). Such new lending operations would shift the center of gravity further away from existing global governance institutions such as the World Bank and IMF and toward newer institutions steered by coalitions of states. Accordingly, the policymakers who work on the post-2015 agenda might have to welcome the BRICS plans given that they must ensure that the economic growth of BRICS countries does not come at the expense of low- and middle-income countries (LMICs).

Admittedly, important details of the BRICS agreement to establish a development bank and the Contingency Reserve Arrangement (CRA) remain works in progress. This will certainly delay future planning.[4] The current economic progress of BRICS countries also casts doubt on their actual capacity to drive global economics. However, it is also true that the BRICS nations will remain important players in the foreseeable future given that they currently represent roughly 40 percent of the world population and jointly produce 25 percent of global GDP. If and when those powerful emerging economies do manage to put their ambitious new plans into action, it will certainly influence the future of global development economics.

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Key Questions

The proposed BRICS measures have doubtlessly ruffled the feathers of many stakeholders of economic governance. The following three essential questions remain unanswered:

1. Who is in charge of transnational economic governance?

The track record of global governance is unsatisfactory and its governing system is inadequate for the twenty-first century. Too many global problems require innovative solutions and remain unresolved. The proposal for a BRICS development bank should therefore not be summarily dismissed. Such an institution would have the potential to become one of the "new models and approaches toward more equitable development and inclusive global growth by emphasizing complementarities and building on [BRICS] respective economic strengths."[5] Yet how would such complementarity work in practice?

The BRICS Summit Declaration does not provide any additional related information. The absence of a more practical explanation is notable and points to the many risks of institutional proliferation, such as inefficiencies, occupational overlap, and turf battles. Clearly, both World Bank and IMF leaders and future stewards of a BRICS development bank need to engage in regular exchange of best practices to avoid such situations. Although such exchanges are important, the question remains of how World Bank and IMF leaders will relate to the stewards of the proposed BRICS development bank. Considering the push—whether directly or indirectly—for reform of votes and quotas, proper collaboration risks being rocky at the start at least.

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2. Who will benefit from greater actor plurality?

Until the bank is operational, it is hard to estimate whether its effects on LMICs will largely be positive or negative, and its clients should be the judges of its value added. The risk at the outset is that LMICs will suffer the same unintended consequences of which the West now stands accused, notably, an increased volatility of capital flows, currencies, and commodity prices.[6] Borrowers from other states may have good reason to claim that their rise of economies has come at their expense already. Additionally, at least two BRICS countries will encounter challenges related to inclusive growth in LMICs in their immediate regions. South Africa might not be able to ensure that development money will be spent on its northern neighbors, given its lack of economic clout with respect to that of the other BRICS countries. Relatedly, China might run into difficulties if it has to demonstrate that the BRICS institution fills a gap that its own or the many other development banks are currently unable or unwilling to fill.[7]

3. What rules should govern the process?

At the moment, the commitment of BRICS members to "an open, transparent and rules-based multilateral ... system" remains largely symbolic.[8] It will be interesting to learn which strings a BRICS development bank might attach to its actual loans to LMICs as it claims to promote more equitable development and inclusive global growth. The BRICS Summit Declaration rightly deplores that developing countries face challenges of infrastructure development.

In addition to "insufficient long-term financing and foreign direct-investment,"[9] these challenges are also often attributable to poor governance and corruption. Loans without requirements on good governance and corruption control might therefore be problematic in themselves. Here too, the stewards of a BRICS development bank might consequently end up in the same role they often accuse the World Bank and IMF of playing.

Therefore, policymakers, particularly those involved in the post-2015 agenda, should make a real effort to follow Lan Xue's advice for the global community: the "rise of the different" should not inspire the West to "take efforts to contain that transition," but rather to "accept diversity and show empathy with the growing pains experienced by rising countries" that "instead of making trouble to the global order" can help rebuild the global system in "constructive, equitable, and cooperative ways."[10]

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Conclusion

In view of the challenges that lie ahead for the post-2015 agenda, it is encouraging to see some of the BRICS countries taking a leadership role in providing global public goods such as poverty reduction. Engagement with the thinkers behind the BRICS development bank can further economic growth that is pro-poor and conforms with the rule of law.

The BRICS countries have a definite stake in poverty reduction because they too face increased poverty and a widening gap between rich and poor. A submission to the BRICS Academic Forum 2013 reads, "Representing 43 per cent of the global population, BRICS nations must shoulder the dual responsibility of ensuring the inclusiveness of economic policies and financing development internationally." Infrastructure remains the primary growth constraint in most emerging and poor countries. BRICS input in sustainable development is therefore vital.[11] Together, global partners can muster the required political leadership and develop innovative practical suggestions to enrich the post-2015 agenda and bring to life the spirit of global partnerships while serving their respective national interests. In this way, the BRICS countries might play a constructive, measurable role in global governance that serves both their domestic constituency and their interests abroad.

Currently, a growing formalization of "informal" clubs of like-minded nations and the increasing power of non-state actors challenge the traditional mode of global governance. Demand is widespread for greater inclusivity and earnest debates about power and burden sharing, which the BRICS plans also demonstrate. For the same reason, the post-2015 agenda requires the new partnership the panel called for.[12] Poverty reduction will remain a shared and truly global responsibility, which requires an important role for the BRICS.

This analysis indicates that now is not the time for the established powers of the West to stand idly by. Whether a BRICS development bank will enable or constrain effective global economic governance will be decided, in part, by the West's response to such initiatives. Hence, we come to the following recommendations for policymakers, particularly those involved in the post-2015 agenda.

Policy Recommendations

- The plans for the BRICS development bank were carefully and thoughtfully prepared.[13] Policymakers of Western countries must now strengthen existing networks to ensure constructive and continuous dialogue with leading thinkers of BRICS nations and engage in regular exchange of best practices to avoid the downsides of institutional proliferation and to promote the rule of law.

- The economic power of the BRICS countries must not be detrimental to other important informal forums such as MIST. Western policymakers must closely work together with other groupings that emphasize democratic governance, transparency, and accountability, such as IBSA (India, Brazil, and South Africa) or BASIC (Brazil, South Africa, India, and China).

Endnotes

1 | Originally BRIC, South Africa then joined the group and was the convener of its fifth summit, "BRICS and Africa: Partnership for Development, Integration and Industrialization." See Dominic Wilson and Roopa Purushothaman, "Dreaming with BRICs: The Path to 2050," *Global Economics Paper* no. 99 (New York: Goldman Sachs, October 2003), www.gs.com/insight/research/reports/99.pdf. See also "The World Needs Better Economic BRICs," *Global Economics Paper* no. 66 (New York: Goldman Sachs, 2001), www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf.

2 | BRICS leaders reiterate their concern about the implementation of the 2010 IMF Quota and Governance Reform as well as the next general quota review by January 2014 as agreed upon at the G20 Seoul Summit.

3 | World Bank, "Affiliates," July 17, 2013, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20040612~menuPK:8336267~pagePK:51123644~piPK:329829~theSitePK:29708,00.html.

4 | L. Polgreen, "Group of Emerging Nations Plans to Form Development Bank," *New York Times*, March 26, 2013.

5 | AfricaSan 2008, "The eThekwini-Declaration and AfricaSan Action Plan," 11th African Union Summit, section 2, p. 1, www.wsp.org/sites/wsp.org/files/publications/eThekwiniAfricaSan.pdf.

6 | eThekwini-Declaration, section 7, p. 4.

7 | World Bank, "Affiliates."

8 | eThekwini-Declaration, section 15, p. 5.

9 | eThekwini-Declaration, section 9, p. 3.

10 | Lan Xue, "The Shifting Global Order: A Dangerous Transition or an Era of Opportunity?" *Governance* 25, no. 4 (October 2012): 535–38, http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0491.2012.01619.x/abstract.

11 | United Nations, "A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development" (New York: United Nations Publications, 2013), www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf.

12 | Ibid.

13 | Samir Saran, Ashok Kumar Singh, and Vivian Sharan, "A Long-Term Vision for BRICS" (New Delhi: Observer Research Foundation, 2013), http://orfonline.org/cms/export/orfonline/modules/report/attachments/bricsvision_1376295709857.pdf.

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