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Institutionalizing BRICS: The New Development Bank and its Implications

Introduction

The establishment of the BRICS New Development Bank, first mooted by India, and formalized during the recent summit held in Fortaleza, Brazil held this July 14, 2014, marks the culmination of several agendas that BRICS set for itself at its inception. Chief amongst these was economic cooperation, as each country felt disadvantaged by the existing structures of international trade and finance. A similar approach at the G20 have yielded dividends: recent figures show that effective trade and common positions within the G20 have led BRICS trade, for example, to increase substantially. Today it stands at 230 billion dollars.

This sense of comprehensive economic cooperation has been clearly visible since the first Joint Statement of the BRIC country leaders at the first summit held in Yekaterinburg in 2009 and has been repeated at every summit since. The Joint Statement said:

“We are committed to advance the reform of international financial institutions, so as to reflect changes in the global economy. The emerging and developing economies must have a greater voice and representation in international financial institutions.” (1)

Key Points

1. The establishment of the BRICS bank is a major step towards the institutionalization of an economic agenda for BRICS.
2. The Bank will be headquartered in Beijing, have an Indian CEO in rotation with the other countries and South Africa will have a Regional Office in Johannesburg.
3. The key feature of the bank will be its effort to promote finance for the infrastructure development of each country.
4. The BRICS bank may not necessarily be a stepping stone to further security and strategic institutionalization since perceptions at this level remain distinct, especially with regard to the expansion of the Security Council.
5. Within BRICS countries, the BRICS Bank is seen as a positive first step to restructure international financial structures.

Like the idea of BRICS countries coming together in a group, the idea of further institutionalizing the cooperative agenda amongst BRICS countries has also been pushed by Russia. Russian delegates at pre BRICS summit and think tank meetings have raised this issue during every summit (2). While the economic agenda has now been institutionalized, the idea mooted by Russian scholars, that a permanent secretariat be set up, has not yet moved forward. Each government has also pledged support for greater academic and youth exchanges. Brazil has taken the lead here by institutionalizing a BRICS Policy Research Institute in Rio de Janeiro which welcomes researchers from BRICS countries.

An Economic Powerhouse

BRICS as a combined economic unit makes up 20 percent of global output and its share according to Forbes has risen four fold in the recent decade. Although, like the world economy, BRICS economies are slowing from an average of 7 percent to 4.8 percent they still represent strong fundamentals (3). The BRICS New Development Bank makes its intentions clear as far as the global economic architecture is concerned. BRICS countries are willing to come together to provide collective humanitarian assistance and fund infrastructural development in each other's countries. They have also offered to help other countries from the developing world. This is an important step forward for the BRICS countries to really emerge as the lead countries amongst the emerging economies. Apart from the Bank, BRICS has also managed to institutionalize multilateral high level exchanges at sectoral levels.

China is certainly the largest economy in this combination, making up 75% of the GDP. It will also host the Bank's headquarters in Shanghai, naturally making Chinese staff and infrastructure for the Bank important. While all countries have agreed to equally share an initial capital of fifty billion and voting rights are one country one vote, China will be the largest funder of the CRA or contingent reserve arrangement that is being set up to help countries overcome any short term liquidity crisis. China will contribute USD 41 billion to this fund, with Brazil and India contributing USD 18 billion each and South Africa coming in with USD 5 billion, testifying to the relative strength of these economies (4).

Each country has been given something, India the first rotating Presidency, followed by Brazil, and South Africa has won the first regional headquarters. It is at the economic levels that real traction and common interests can be identified. Thus Russia's massive oil reserves can help augment the needs of China and India, both oil dependent countries. India can leverage its IT and service sector, Brazil its agriculture, and other resources and South Africa its minerals.

However, the issue of the trade imbalances of other countries with China and the nature of its trade with South Africa, Brazil, India and even Russia, seen as largely resource delivering bases for China's own enormous needs and large markets for its cheap merchandise, needs to be tweaked. These can certainly emerge as issues and the onus will lie on China to ensure that it allows more room for a balanced trade with its BRICS partners. Questions have also been asked about who benefits the most from the setting up of a

BRICS Bank. China is certainly a net gainer, becoming the anchor of a Bank that can have the potential to challenge the IMF and World Bank, and more importantly for China, the Japanese funded Asian Development Bank. Some have also argued that China will also gain by hiding its investments in Latin America and Africa through the BRICS Bank rather than being targeted for its huge investments in African and Latin American resource industries. This issue came to the fore as President Xi Jinping continued to sign deals for oil exploration with Venezuela after the BRICS summit in Fortaleza. Whether the BRICS bank will spear-head lending in Yuan, leading to the final convertability of the Yuan, are also questions that may appear in the future.

Strategic and Security Cooperation

At the security and strategic levels, several extraneous issues weigh in, making mutual accord more complicated. One of the more important issues remains each individual country's bilateral ties with the rest of the world. Here, Russia and China as permanent members of the Security Council and the nuclear five, have a definite edge over what were originally the IBSA three, India, Brazil and South Africa. At the geo-political and internal political economy level, these three have more common interests together than with China and Russia. Russia, especially after the Ukraine crisis, is isolated and facing sanctions from the EU and finds the BRICS summit providing President Putin an alternative economic and international forum. Here the complexity of each country's bilateral and world ties will have an impact on the

overall maneuverability and flexibility of BRICS as a whole.

China's position on reforms within the UN Security Council, where the IBSA three are arguing for membership, its ambiguity on India's engagement with the international nuclear regime, all cast doubts in India's mind over how far India can work together within a strategic framework with China. Again, India's relationship with Japan, especially since both are partners in seeking reform of the Security Council and Japan's huge ODA investment in India's infrastructure development are also issues that may not win it kudos from China. Within the UN, for example, while voting on a Security Council resolution, the IBSA block voted together more often than Russia and China (4). Thus, the IBSA three will have to walk a careful balance between the growing disagreements between Russia and the USA over Ukraine and between China and the USA where the South China Sea is concerned.

Although the leaders of the respective countries have denied any such intent, often the impression given out, largely by the think tanks and media of Russia and China, is of BRICS challenging Western hegemony, in many ways an old Cold War ideological construct. While China and Russia certainly challenge the West, and do so also within the UN Security Council, the IBSA three do not always share their perspective. At the domestic political economy level too, the IBSA block share much more in common, including their democratic political system. They are still in need of investment and technological exchanges with the West and may not want to be seen as a rigid economic block. India is trying to reignite its own personal relationship

with the US and would also be wary of being hemmed into an all out anti-West posture. This can, in turn, detract from the attempt of BRICS countries to find alternative solutions to international problems. Bilateral issues and domestic politics within democratic countries can also create set-backs for any convergence on strategic issues. This is especially true for India and China as we have witnessed in the past where both Indian and Chinese media indulged in damaging rhetoric.

Perception of BRICS as a Group

While the economic rationale behind this grouping is commented on by most scholars, others such as Pape have pointed out the 'soft balancing power' of BRICS countries, that is designed to counter the unilateralism exhibited by the US after the collapse of the Soviet Union. According to Pape, it is the asymmetry of international relations that has forced middle power countries to come together (5). Andrew Hurrell, echoes this perspective and points out that soft balancing does form a very important element of the policies of Russia, India, Brazil and China. Although not speaking specifically of emerging economies, but what he calls 'revisionist states' he says:

"Recognition and respect have been equally central to the demands of revisionist states. ...They have come more often from those states or peoples with the capacity and political organization to demand a revision of the established order and of its dominant norms in ways that reflected their own interests, concerns and values. Thus, a central theme of 20th century international history was the struggle of revisionist states for gleichberechtigung involving the redistribution

of regional spheres of influence and the drive for equality of status within international institutions both formal and informal" (6).

Analysts in the US point out that the rise of BRICS is going to push for a redistribution of power within the international system and argue that the US will have to follow the progress of BRICS countries as a group seriously. The US is concerned both with maintaining the status quo and with trying to work within an obviously changing international order as BRICS countries start working jointly on a set of agenda based issues (7).

The role of China and its intentions has naturally generated the maximum interest. It is the largest economy and the largest trading partner of most countries in the world. It is also seen as the only real challenge to US supremacy. For international scholars, BRICS more than the SCO is China's vehicle for the legitimacy of its international status. For several China scholars, China's attitude to genuine multipolarity and or polycentric power is ambiguous at best. Alistair Ian Johnston, for example, studies whether participation in multilateral diplomatic institutions has helped reshape Chinese attitudes and approaches or whether China is engaged only at the level of tactical learning about how to manipulate regional institutions and not in altering or redefining fundamental interests. His extensive historical study of Chinese statecraft has the following to say:

"The perceived lessons of thousands of years of Chinese statecraft teach that multi-polarity is both unstable and morally illegitimate in a system that includes Chinese civilization – the natural and inevitable state of which is to exist

as the moral and political hub of the world” (8).

Views from within BRICS

While BRICS has been a largely state-led initiative, with annual heads of state meetings, at the academic and public media level the rise of India and China and Brazil has been theorized as a shift in power, and displacement of the center away from the West towards Asia and Latin America. Scholars in Brazil, where the Dependency theory of Immanuel Wallerstein and Andre Gunder Frank still holds a lot of traction, use both economic and political economy arguments to validate this inevitable shift of power. The rise of the periphery after five hundred years of capture by the Western metropolis (9). BRICS as a group has also had a major positive development in terms of encouraging mutual research. Each country now has scholars looking at common issues of climate change, social inequality, common problems of urbanization and in identifying common international issues such as more say in the economic decision-making institutions of the world. In Brazil, I found work being done on Amartya Sen and comparisons between India and China. Sen’s advocacy of ethics in development, for example is seen as an alternative model of development (10). There is also a new pride and confidence in that Brazil has been chosen as the country that will provide the engine of growth in Latin America. An association with BRICS allows it to emerge as the gate-way to Latin America and central to emerging power discourse in a multi polar, multilateral world order. The same feeling exists amongst policy makers and thinkers in South Africa, who point to the

advantages that South Africa offers as a gateway to the African continent. Although there has been criticism of the extent to which the role of South Africa as the leader of Africa will be perceived, the regional headquartering of the BRICS Bank in Johannesburg, has added credibility to the BRICS grouping. China already has a strong presence in Africa and India is not far behind with investments (11).

India and China also use the discourse of the ‘Rise of Asia’ and offset it against their joint experience and histories as ancient civilizations, colonized spaces reclaiming once again their rightful place in the world. Having a shared colonial experience and a shared past, both countries have used the forum to emphasise their cultural commonalities and minimize differences. Intellectuals in both countries emphasize the virtues of multilateralism against unilateralism and some even place it higher than bilateralism. As Juan Deyang says, “Multilateral Diplomacy is more rewarding in finding and formulating solutions to global challenges which are transnational in nature” (12). Indian intellectuals like Prem Shankar Jha echoes this praise for BRICS when, while commenting on the Delhi Summit, he says:

“Today BRICS has become far more than an acronym. The Delhi declaration contains not only the most comprehensive criticism of the failures of the West that has been voiced by any group of countries since the end of the Cold War, but also the outlines on an alternative blue print for managing an interdependent world” (13).

The BRICS forum has emerged as an annual forum where Indian and Chinese Heads of State can meet for quiet bilateral talks.

Working together in multilateral forums is seen as an important means of overcoming contentious bilateral issues to cooperate on other issues. This also helps put in place the right atmospherics amongst the two neighbours. At the public media level, there is increased interest in the BRICS countries and more national media space is being devoted to the BRICS summits. Thus, overall it can be argued that BRICS is definitely emerging as an important grouping of countries and has the potential to further strengthen its engagements.

Conclusion

The setting up of the BRICS funded New Development Bank this year has proved that a process that began tentatively, has today garnered synergy and moved forward enough to concretize the idea of a BRICS Bank. The continued support provided for the idea of a BRICS group of countries from within these countries, and the special role being played by each country in keeping the momentum going,

ensures that BRICS as a group of countries is here to stay.

While the demand for a more equitable economic architecture and institutions remains the first point on this common agenda, we are today seeing a process of growing institutionalization taking place. Gains in trade and common bargaining on trade issues will definitely begin to happen. To what extent this group succeeds in evolving a common international agenda is something that remains to be seen. There is a confidence and sense both of entitlement and right that one witnesses when intellectuals in BRICS countries speak of how they envisage the world today and how they envisage a new post Cold War world order. In the final analysis, BRICS is a grouping of emerging economies who seek to provide an alternative agenda for handling this complex interdependent world. Their coming together also ensures that no one country can emerge as a unilateral power in the twenty first century.

Endnotes

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