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THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 41 (494), 23 April 2013 © PISM

BRICS and Global Economic Governance: The Case of the BRICS' New Development Bank

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The meeting of G20 finance ministers and central bank governors last week highlighted the importance of improved reflection of the growing weight of emerging markets in the international financial architecture. This will please the BRICS countries, which have confirmed their intention to create a development bank. However, last month's Durban summit showed that China, Russia, India, Brazil and South Africa are struggling to agree on the basic principles of the bank's functioning. For the European Union, the fallout from the creation of the bank would broadly depend on what profile it is ultimately assigned, but the failure of the project is unlikely to benefit the EU.

The rebalancing of global economic governance has been high on the agenda at international meetings recently. When finance ministers and central bank governors of the G20 countries met in Washington, D.C., last week, they committed themselves to improving the position of emerging markets at the International Monetary Fund (IMF). At their summit in New Delhi in March 2012, the BRICS countries (Brazil, Russia, India, China and South Africa) announced their intention to set up a New Development Bank (NDB), in order to improve their autonomy and influence in global economic governance. This was confirmed at the conclusion of this year's Durban summit, where it was decided that the NDB would have $50 billion in seed capital and would have the express goal of funding sustainable development projects and infrastructure in emerging economies.

A Tool for Improving Autonomy. A key motivation for creating a development bank for BRICS is increasing its members' global financial autonomy, by reducing their dependence on the Bretton Woods institutions—the World Bank and the IMF. The BRICS countries consider that their influence in these institutions (an aggregate 11.4% of votes at the World Bank and 11% at the IMF) is not commensurate with their weight in global GDP (15% in 2012).

The NDB would free the BRICS from dependence on development assistance from the allegedly Western-dominated World Bank. With total control of the decision-making process at their own development bank, the BRICS would be able to prioritise their main development concerns, such as infrastructure. The relatively large capital base agreed for the NDB would help ensure this autonomy from World Bank development priorities: the NDB's planned $50 billion capital base is high compared to the European Bank for Reconstruction and Development's $26 billion, the Asian Development Bank's $21 billion, and the Inter-American Development Bank's $11.4 billion, though lower than the Africa Development Bank's $100 billion and the International Bank for Reconstruction and Development's (the World Bank's lending body) $190 billion.

With regard to autonomy from the IMF, the idea is that the NDB, together with a $100 billion Contingent Reserve Arrangement, would reduce the BRICS' dependence on the Fund's conditional loans, which have strict fiscal and economic prescriptions. These are appearing increasingly unattractive. Loans with softer conditions provided by BRICS would reduce dependence on the IMF, providing an alternative source of funding in the event of short-term liquidity problems.

A Tool for Increasing Influence. As well as increasing the BRICS' autonomy from existing multilateral institutions, the bank could increase the BRICS' international influence. If the conditionality of NDB loans requires less painful and unpopular economic prescriptions than those of the IMF, it is likely that emerging economies would increasingly turn to this alternative source of funding. This would be exacerbated by the fact the NBD's priorities are likely to more closely resemble those of other developing countries (e.g., infrastructure). Hence, such an institution could increase the influence of the BRICS countries in international economic governance, to the detriment of the IMF and World Bank.

The BRICS countries could also use their bank as a tool for increasing influence in regions of interest. They have already voiced an intention to eventually open up membership of the bank to other countries, including Turkey and Mexico. In terms of economic influence, the bank could prove particularly useful to BRICS as a tool to legitimise investments that are not always welcomed by the countries they target: Chinese investments in Africa would seem less objectionable to local governments and populations if they were done through a South-South development bank. BRICS countries may also wish to exert political influence by granting loans or assistance. This could be a particularly useful tool for Russia vis-à-vis countries in what it considers its traditional sphere of influence.

Chances of Success. After they declared their intention to establish the NDB last year, BRICS representatives met twice to discuss the project ahead of the Durban summit. Nevertheless, the South African summit did not produce much more than a reiteration of the statements made in New Delhi. The failure to take concrete steps in forming the bank is a result of the hurdles the BRICS leaders encountered during negotiations. The biggest issue is funding. Agreement has yet to be reached about the size of the individual contributions to the bank's $50 billion in seed capital: an equal share ($10 billion), amounts to just 0.12% of China's GDP, but is a much heftier 2.5% of South Africa's GDP. Other disagreements include the bank's location, structure, and types of projects it will undertake.

The task of resolving these problems will be made more difficult by the barriers to cooperation between the BRICS countries. They exhibit significant differences—democratic and non-democratic, commodity exporters and importers, rising economic forces and former superpowers—which can lead to divergent interests.[1] Moreover, in some cases, there are outright conflicts of interest between the BRICS, for example, in Central Asia where Russia and China compete for influence. This has prevented the BRICS countries from cooperating in the past (they failed to nominate a common candidate for the top jobs at the IMF, World Bank, or Word Trade Organisation). The biggest stumbling block, however, is China's economic heft. This is likely to create tensions among the BRICS' members as the strength of Chinese influence begins to mirror U.S. dominance in the IMF. It may also cause China to judge whether it could accomplish more with a national institution such as the China Development Bank.

At the closing of the Durban summit, the BRICS leaders tasked their finance ministers and central bank governors with continuing to work on the NDB ahead of their next meeting in September 2013. Given the difficulties faced by the bank's potential architects, it is vital that an agreement is reached soon. But the lack of any tangible progress during the South African summit suggests that unless a huge amount of political will is found the NDB project is likely to stall.

Consequences for the EU and Poland. The consequences for the EU of the successful creation of the NDB will depend on the precise shape the bank takes, but some preliminary conclusions can be made. On the one hand, the creation of a BRICS development bank could jeopardise the EU's regional influence if the NDB opens up membership to Turkey, or if Russia uses it to regain its sway over former Soviet republics. This would be harmful to EU relations with Turkey and to the Eastern Partnership Programme, which is a key Polish initiative. On the other hand, the improvement of infrastructure in emerging markets financed by an institution that does not require any European funding could be a win-win situation for EU Member States that are increasingly looking to boost their trade relationships with fast-growing developing countries. Upgraded infrastructure in emerging economies in Africa and Southeast Asia could improve investment conditions for European companies and ease the flow of goods and services for trade.

Moreover, the collapse of the NDB project would not necessarily work in the EU's favour. Faced with the collapse of their own instrument for rebalancing global economic governance, the BRICS countries would be likely return to their attempt to reform existing multilateral institutions, to the detriment of advanced economies such as the EU Member States. Already, they have had some success in this venture: in 2010, reforms were approved for a 6% shift in quota shares to put the BRIC states (BRICS minus South Africa) among the top 10 IMF shareholders, reducing the importance of advanced economies, including the EU, with whom Poland's interests are aligned. Although once the 2010 reform is implemented, Poland's voting share in the IMF will go up from 0.7% to 0.84%, further reform benefitting emerging market economies could jeopardise this gain.

[1] B. Znojek, "From BRIC to BRICS: Developments in the Cooperation of Emerging Market Economies", *Bulletin PISM*, no. 41 (259), 27 April 2011, http://www.pism.pl/index/?id=6a0724f1d3e80fd5f761cacb7efe8593.