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BRICS Bank: Doing development differently?

By Bunn Nagara

A prospective new financial architecture being set up by the BRICS countries promises to reform and improve development finance for the world.

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Five countries came together at the beginning of April to grab international headlines over how they might, as a group, change the world: Brazil, Russia, India, China and South Africa (Brics).

And they would do so in the most tried-and-tested way imaginable: financially, as a single economic entity. As a bloc Brics may effect change on a global scale, but the grouping would still do so in the traditional way of flexing economic muscle.

The annual Brics summit held during the week in Durban, South Africa, focused on what that muscle can do – challenge the World Bank and the International Monetary Fund in the way development finance is conducted, as well as the Western dominance that has prevailed in both Bretton Woods institutions.

Those institutions were never meant to be that way, of course, as a reading of their founding texts would show. But any initial magnanimity soon gave way to self-interest: US and European dominance of the World Bank and the IMF respectively was to be a Western "consensus" imposed on the world like a global neo-colonial regime.

Interestingly, the original Bric as both a term and a grouping originated not in any of the initial four countries or the developing world, but in the US itself.

None other than Goldman Sachs' Asset Management Chairman Jim O'Neill coined the term in 2001 for those countries he believed would outpace the US in total GDP by 2020.

At the turn of the century Brazil, Russia, India and China were merely regarded by some as emerging economies developing under their own steam.

After O'Neill's coinage they held their first summit in 2009 and invited South Africa to join them a year later, and Brics was born.

Since then, Brics as both concept and entity has had vigorous growth and a vibrant youth. It compares favourably with the IMF and the World Bank, both pushing 70 years and weighed down by limiting conditionalities and outmoded economic ideology.

Both institutions typically adopt a cold, mechanistic approach to development that prioritises market interests over human needs. Their Western bias is also a throwback in a 21st-century world of shared global interests and aspirations, and a world in which Western economies themselves are in trouble.

In contrast, Brics as a bloc of emerging economies serves as a bridge between the developing Third World and the developed First World. It seeks to narrow that yawning chasm by focusing on reviving global growth and ensuring macroeconomic stability.

Those virtues that had once been the preserve of the West have become its elusive goals. The “developed” and the “emerging” (mostly, once “developing”) economies have traded places.

The new global bank that Brics wants to establish is expected to emphasise infrastructure development and trade. The first represents solid investment in development for the future, and the second works as an economic multiplier for further growth.

On paper, Brics countries account for almost half the world’s population and just over a quarter of world trade. But more important than these bare figures is how Brics economies have been driving global growth for years, as acknowledged by the World Bank itself.

The idea for a new global bank arose only last year. So how the measured progress at the Durban summit is perceived depends at least as much on the observer: is the glass half-full or half-empty?

Some of the most difficult decisions, such as financing modes, remain unresolved. Its primary purposes like the operation of funds in project financing and a contingency fund as crisis buffer will take more time to work out.

Pessimists may cite how the absence of agreement on even the quantum of fund contribution from each country bodes ill for Brics. Basing the contribution on economic capacity makes sense, but concerns were expressed over how that would inevitably make a hulking China dominant.

A standard sum of US$10bil (RM31bil) from each country as seed capital was then considered, following a Russian proposal, but the final decision was left until later.

Optimists would say that far from weak indecision, this showed an openness about not wanting any country to dominate, with agreement on equality with a fair and manageable quantum for all.

However, realists may say that in such financial matters China would still eventually dominate. To that, it can be said that dominance by a single country was never a problem before, given the prominent US role and influence in the World Bank and the IMF.

At this point some may say it was precisely because of single-power dominance that had compromised the work of the Bretton Woods institutions. It might then be observed that a new global bank dominated by China would only balance the World Bank (and the IMF), which it would complement rather than replace.

Some observers may see crippling incompatibility in the different political systems within BRICS.

But such diversity need not be an obstacle, particularly when all countries now work within a global capitalist system.

President Vladimir Putin, often cited in Western circles as a modern incarnation of the Soviet bear, even insisted that a new global bank “must work on market principles only.” And “communist” China is not only a major and enthusiastic player in global markets, but – to former British foreign minister David Miliband – has even acted as a saviour of Western capitalism.

What worries fans of the IMF and World Bank is not how a new global bank as competitor will “steal their business,” but how it may force both to be more democratic and more sympathetic to the developing world. Who else but those currently dominating them in Washington and Brussels would object?

Japan as an emerging economy itself decades ago had its chance to forge a new alternative in international finance with the Asian Development Bank, but blew it.

The former coloniser in Asia seeking to make good in its post-war period, with US partnership, soon settled into establishment mode alongside its Bretton Woods equivalents. A new global bank established by BRICS will be a welcome addition to the existing financial institutions.

Its continental and political diversity would also make a slide into betraying its noble purpose more difficult.

Late last year, Brazil suggested that the proposed bank should be modelled on Asean’s Chiang Mai initiative.

This is a time for a sharing of experiences when each can learn from the rest, not of jealous exclusion and unfounded fears of rivalry.

In time, perhaps even the World Bank and the IMF can find it in themselves to accommodate and welcome new financial institutions operating on their “turf”.

At least that would help them return to their initial noble calling.

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