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# RSIS COMMENTARIES

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## **A BRICS Development Bank: An Idea Whose Time Has Come?**

By Theresa Robles

### **Synopsis**

*Delay in the governance and quota reform of international financial institutions has driven emerging economies to look for alternative solutions. The proposed BRICS development bank is one such option but considerable differences among the member countries limit its feasibility.*

### **Commentary**

GROWING DISCONTENT among emerging economies and developing countries marked the recently concluded Annual Meeting of the International Monetary Fund (IMF) and the World Bank in Tokyo. The implementation of the 2010 Governance and Quota Reform took the back seat to issues concerning the eurozone debt crisis.

Officials from emerging economies such as Brazil and China voiced their impatience with the pace of change in international financial institutions (IFIs). While calls for improved legitimacy and effectiveness are acknowledged, ongoing economic difficulties in Europe and domestic political priorities in the United States have stalled further action. The delay has fuelled support for the creation of a new development bank, one run by emerging economies and addresses their unique concerns.

### **Genesis**

The BRICS group of emerging economies - composed of Brazil, Russia, India, China, and South Africa - agreed to start discussions on the feasibility of a development bank during their meeting in Delhi in March 2012. The proposed bank would be set up for mobilising resources for infrastructure and sustainable development projects not just in BRICS members but other developing countries as well. The news met with positive feedback from the existing international financial institutions.

Both World Bank chief economist Kaushik Basu and former World Bank president Robert Zoellick expressed their support for a BRICS bank while IMF also welcomed the proposal. Supporters argue that changes in the world economy have created space for a BRICS bank. Emerging economies can help fill the huge investment needs of developing countries and provide funds for a variety of development projects including green technologies, biofuels, large dams, and nuclear power plants, particularly those which do not meet World Bank project requirements.

There is no denying that the BRICS countries have the resources to fund such a bank. Some of the larger emerging economies are already more important sources of finance to other developing countries relative to the more traditional sources of development funds. China's loan commitments to Latin America in 2010 reached US\$37 billion, larger than those of the Inter-American Development Bank, the US Export-Import Bank, and the World Bank combined. The proposed initial capital of \$50 billion for the BRICS bank can be easily raised among the five members.

However, financial resources alone will not determine the success of such an initiative. Assessing the feasibility of the BRICS bank should focus on two dimensions: its role and relevance in relation to existing international financial institutions and its operational viability in light of the considerable differences among the member countries.

### **Complementary or competitive?**

The Delhi Declaration released during the last BRICS summit emphasised that the proposed bank will "supplement the existing efforts of multilateral and regional financial institutions for global growth and development". With its focus on facilitating infrastructure investment among emerging economies and developing countries, the BRICS development bank will complement lending by existing IFIs, particularly as it targets projects concerning poverty alleviation and the like. Beyond lending, the BRICS countries are also considering swap arrangements among local currencies as well as reserve pooling.

While operational details have not yet been fleshed out, the case of the Chiang Mai Initiative Multilateralisation and the recent experience with the European Stability Mechanism suggest that such instruments cannot be fully delinked from the IMF and they will continue to work in parallel with each other.

Will the creation of a BRICS development bank create competition with existing IFIs? Some observers have noted that starting the bank provides emerging economies with a powerful bargaining chip as they can vote with their feet and threaten to walk away from both the World Bank and the IMF if the governance and quota reforms are not implemented as planned. At the moment, the odds of such an outcome seem to be quite low.

The BRICS countries have reiterated that the creation of a new development bank is not meant to subvert the current global financial system. The members are also still deeply entrenched within existing IFIs. Not only have they increased their contributions to the IMF, the BRICS countries are still significant borrowers from the World Bank with new loans in 2011 reaching more than \$7 billion.

### **Problematic concept**

Although there might be room in the global financial system for a BRICS bank, translating the concept into an operational entity is a little more problematic. Aside from impressive economic growth and a desire to play a bigger role in global economic governance, the BRICS group is based on disparate countries with considerable economic and political differences and has been dismissed as "an artificial bloc founded on a Goldman Sachs catchphrase". The feasibility study, which is to be released during next year's summit in South Africa, must look into a long list of potentially contentious operational issues including the location of the bank, leadership, and contribution and decision-making arrangements. To start with, China wants a fixed presidency for itself while India suggested a rotating presidency.

The initiative is a clear sign that the emerging economies are asserting themselves and are being more proactive in setting the agenda for global economic governance. But in the absence of political unity, the BRICS countries are mistaken if they think that economic leadership alone would be enough to make a success of the proposed bank.

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