



# IPRIS Viewpoints

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## Coming to Terms with the BRICS Bank

SEAN GOFORTH

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The 6<sup>th</sup> annual BRICS summit, held in the Brazilian city of Fortaleza from July 15-17, went beyond diplomatic pronouncements about the end of the Western world order. On the first day of the summit, Brazil, Russia, India, China and South Africa announced the New Development Bank (NDB). The BRICS bank, as it has already become known, will be capitalized at US\$50 billion, which will finance infrastructure and industrialization projects. Also, there will be a US\$100 billion Contingent Reserve Arrangement (CRA), from which members can borrow in order to halt any balance of payments crises. By design, the NDB will function as an alternative to the World Bank, while the CRA will be “a kind of mini-IMF”, as Russian Finance Minister Anton Siluanov put it.<sup>1</sup>

As if a CRA loan could be arranged at the snap of a finger, rumor quickly surfaced that Argentina stood first in line for a bailout.<sup>2</sup> Brazilian President Dilma Rousseff sought to quell those hopes by noting that “we just set up this institution”, but then she went on to say that the BRICS would “examine” any request from Argentina. Instead, it will be at least two years before the bank becomes a reality. Approval from each country’s parliament will be nec-

essary to bring the NDB and CRA to life, a process that will prove especially challenging in Brazil and India, the BRICS two full-fledged democracies. Questions such as the NDB’s headquarters, for instance, are likely to impede parliamentary action in one country or another. If sluggish economic growth continues across the BRICS, the process will probably experience further delays.

Still, countries outside the BRICS were quick to applaud. Venezuelan President Nicolás Maduro said the bank plan would “change the political and economic world order”.<sup>3</sup> “The NDB could be a much needed source of financing to developing countries for infrastructure, industrialization and productive development that many nations, such as those in the Caribbean Community (Caricom), are now denied”, noted the *Trinidad Express*: “Except for Haiti, Caricom countries ... have been ‘graduated’ from access to concessional financing by the World Bank”.<sup>4</sup>

However, exuberance should be tempered, as the new BRICS bank will likely develop along one of two pathways. As of this writing, World Bank President Jim Yong Kim is wrapping up a three-day visit to India. After one meeting with India’s new Prime Minister, Narendra Modi, Kim dis-

1 Charles Kenny, “BRICS Summit: A Show of Economic Might Is Nothing to Fear” (*Bloomberg Businessweek*, 21 July 2014).

2 “Maduro: BRICS Summit Will Change the World Order” (*The Morning Star*, 16 July 2014).

3 “Maduro: BRICS Summit Will Change the World Order” (*The Morning Star*, 16 July 2014).

4 Ronald Sanders, “New Bank of BRICS: What’s In It for the Small” (*The Trinidad Express*, 21 July 2014).



missed questions that the BRICS bank would be a rival to the World Bank, declaring, “the only competition we have is with poverty.”<sup>5</sup> In fact, the World Bank chief has already offered technical advisors to help bring the BRICS bank to life. Should that come to pass, it is not hard to imagine the BRICS bank functioning as more of an adjunct, rather than an alternative, to the World Bank.

Yet, even if the NDB ultimately takes on the hue of the World Bank, this would probably be a positive development. The core mission of the World Bank – “a world without poverty” – is a good one, and in the process of emulation the NDB may inspire the World Bank to loosen up some of the stiffer protocols it now insists on, not to mention ending the narrow-mindedness that sometimes prevails at Washington-based organizations.

Second, as Dingding Chen noted in *the Diplomat*, the BRICS bank could be a “demonstrat[ion] of China’s global leadership”.<sup>6</sup> Beijing will contribute the lion’s share of start-up funding for the bank and credit reserve – US\$41 of the US\$100 billion, with Brazil, India and Russia kicking in US\$18 billion a piece and South Africa US\$5 billion. So if funding means influence, the NDB may be little more than an institutional cover for China’s rising power in world affairs. China already has a long history of doling

out developmental aid in Africa and Latin America, but the benefits of Chinese-financed roads and the like have consistently served Chinese demand for natural resources. The impact on recipient countries is more open to debate. Many countries are dangerously dependent on Chinese demand for their commodities, and to date Beijing has expressed no interest in a remedy. A NDB dominated by China might exacerbate such imbalances, reinforcing dependence on commodities rather than encouraging manufactures, and supporting decisive government over democratic government, across parts of Africa and Latin America.

In sum, there is less reason for excitement about the BRICS bank than meets the eye. Certainly the NDB and CRA are concrete proposals that have the potential to consolidate the BRICS prominence on the world stage. But carving out a future for the BRICS bank will be hard. Vesting the bank with more technical skill is likely to produce a mini-World Bank and mini-IMF. The bigger worry though is the twin institutions could be a shell for the assertion of Chinese power.

5 Aditya Kalra and Rajesh Khumar Singh, “World Bank Chief Welcomes New BRICS Development Bank” (*Reuters*, 23 July 2014).

6 Dingding Chen, “Three Reasons the BRICS’ New Development Bank Matters” (*The Diplomat*, 23 July 2014).

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