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# VI BRICS Summit

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New Development Bank  
Forum with Research Fellows



BRICS Policy Center Centro de Estudos e Pesquisas - BRICS

## About the BRICS Policy Center

The BRICS Policy Center is dedicated to the study of the BRICS countries (Brazil, Russia, India, China and South Africa) and other middle powers, and is administered by the Institute of International Relations at PUC-Rio (IRI), in collaboration with the Instituto Pereira Passos (IPP).

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## BPC Team

GENERAL SUPERVISOR

Paulo Esteves

ADMINISTRATIVE COORDINATOR

Lia Frota e Lopes

ADMINISTRATIVE ASSISTANT

Bruna Risieri

DESIGN AND PUBLICATION

Thalyta Gomes Ferraz

Vinicius Kede

BRICS Policy Center/Centro de Estudos e Pesquisas BRICS  
Rua Dona Mariana, 63 - Botafogo - Rio de Janeiro/RJ  
Telefone: (21) 2535-0447 / CEP/ZIP CODE: 22280-020  
[www.bricspolicycenter.org](http://www.bricspolicycenter.org) / [bpc@bricspolicycenter.org](mailto:bpc@bricspolicycenter.org)



# New Development Bank Forum with Research Fellows

## Introduction<sup>1</sup>

In July 15 2014, the BRICS countries, in their Sixth BRICS Summit in the city of Fortaleza, Brazil, decided to create two economic institutions. The New Development Bank (“BRICS Bank”), with initial capital of 50-billion dollars, with its headquarters in the Chinese city of Shanghai. The BRICS also created a 100-billion dollars Contingent Reserve Arrangement to tackle financial crises.

Political concessions were made, in order for the five countries (Brazil, Russia, India, China and South Africa) to reach agreement on the creation of new institutions. Such concessions included not only the institutional design of new institutions, but as well ongoing conflicts in the Middle East and Ukraine. Faced with “persistent political instability and conflict in various global hotspots and non-conventional emerging threats”, BRICS adopted a cautious posture. In the Final Declaration of the Fortaleza Summit, humanitarian issues and multilateral solutions for conflicts were emphasized, apart from reiterating previous items from previous Summit Declarations (such as the need to reform the United Nations Security Council).

The new robust institutions place focus on redirecting the world’s economic architecture, against the backdrop of political cautiousness. The Contingent Reserve Arrangement is the outcome of BRICS’ responses to the 2008 crisis, after which they stood as leading lights of world’s economic growth. The creation of a “BRICS Bank” is a direct response to the reluctance of developed countries in reforming IMF and the World Bank after 2008. Concessions were made for BRICS in terms of voting shares in IMF and investment criteria in the World Bank. In terms of decision-making power, such concessions were clearly below the expectations of BRICS countries, now representing 25% of the world’s GDP, 42% of the world’s population and an expressive contributions for so-called “new middle classes” in world economy.

The creation of two institutions simultaneously turns into reality many demands made vocal since 2008. It signals that BRICS have matured politically as a group, and now have legitimacy for bolder steps (the Final Declaration mentions the beginning of a “new cycle” of BRICS activities). With enhanced political capacity, BRICS no longer needed to wait for the Bretton Woods institutions to reform. At the same time, the institutional design of the new BRICS institutions raises doubts about their future effects.

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<sup>1</sup> This introduction was written by Carlos Frederico Gama, PhD degree International Relations and professor of the Instituto de Relações Internacionais / PUC-Rio.

The Final Declaration of the Fortaleza Summit brings to surface relevant questions that will be emphasized in the forum organized by the BRICS Policy Center with its fellows from BRICS countries.

Among them, we highlight three questions:

1) What is the importance of the BRICS Bank mean to each BRICS country (Russia, India, China, and South Africa)?;

Aparajita Biswas: At the 4th BRICS leaders summit, the forming of a joint development bank – the BRICS Development Bank – was formally proposed. The establishment of a new international financial order has become a significant concern for the BRICS, and the BRICS Development Bank is a strong signal with regards to their attempt to change a Western dominated international financial and monetary systems.

The creation of the Contingency Reserve Arrangement (CRA) is of greater significance, due to its ability to assist the BRICS member states to escape the conditionalities and/or sanctions of the IMF

#### Brazil

The Brazilian Development Bank has already superseded the World Bank in its development funding and in terms of gross lending, with branches in South Africa, the UK and Uruguay. However, the World Bank and the IMF continue to dominate the Bank for International Settlement. The NDB has the potential to break the established dominance of the World Bank and IMF in financial affairs across the continent, which could strengthen the Brazilian Development Bank in its individual capacity.

In spite of Brazilian opposition to headquartering in Shanghai, the absence of a traditional geo-political rivalry with any of the other member nations places Brazil in a relatively more comfortable position regarding the Shanghai headquarters for the Bank.

#### Russia

After experiencing a series of economic blows this year as a result of its policies in Ukraine, Russia will look to benefit from the establishment of the BRICS Bank. Not only will the Bank provide Russia with an access to funding, it could also be an effective financier for infrastructure projects. Further, Russian finance directed through the NDB would receive less Western scrutiny.

Certain analysts have however raised questions regarding Russia's role in the institution and further created doubt regarding Russia's requirement for these new financial institutions, arguing that Russia's accumulated foreign reserves and hydrocarbon revenue would serve to insulate Russia from Western pressures.

#### India

The establishment of BRICS Bank presents great opportunity at one end, and significant challenges on the other. The major challenge for India is geo-political in nature and not financial, with regards to its traditional cross-border rivalry with the Chinese. China's economic dominance within the grouping has been articulated as a significant cause for concern by India, and a lesser degree by Brazil and China,

resulting the rewarding of presidency to India, with a rotating chair which will go to China after serving in India, Brazil, Russia and South Africa. Further, rules and regulations have been placed to considerably limit China's dominance within the Bank.

The absence of a strong and widespread Indian financial network across the African continent has proved extremely detrimental to prospective Indian investment directed towards the continent, both public and private. The NDB provides an opportunity for India to strengthen its footprint across the continent. Further an important point to note is that the BRICS Bank proposal has been actively advocated in previous years by not only the Chinese, but the Indians have been strong advocates for the initiative. Further, some analysts have argued that it is in China's best interest to be a team player

### China

With the BRICS Bank to headquarter in Shanghai, it is clear that this initiative is of great significance to China. In addition to China's dominance within the grouping, China also have the largest share in the CRA, more than double that of Brazil, Russia and India. In spite of regulatory mechanisms to maintain the institution as a development bank with equal stakes for founding members, China will look to consolidate its position within the grouping.

Further, with the EXIM Bank having surpassed the World Bank with regards to foreign lending and international financing, China is looking to escalate the role of the BRICS in international finance, offering developing countries an alternative to the traditional financial giants of the international financial and monetary system.

### South Africa

South Africa finds itself very delicately positioned between the status of Africa's primary lender and a major international recipient. Amid heavy scrutiny about South Africa's role in the BRICS bank, Jacob Zuma has clearly highlighted that the benefits of participating in the new development bank "by far outweighs the cost of establishing the bank itself". Further, negative publicity and branding towards the World Bank and the IMF has strengthened the image of the BRICS Bank across the continent.

For South Africa, the bank would complement existing sources of financing to cater for the ever-increasing development needs in areas of energy, rail and road, and other economic infrastructure.

Haibin Niu: The headquarters of the Bank will be the first one of influential international organizations in China. However, the importance of the NDB for China goes beyond the headquarters. The establishment of NDB makes it clear that BRICS countries can have substantial cooperation and deliver visible public goods to international community.

Lucy Corkin: For China, the BRICS Bank is an initiative that can be used as an example of multi-lateral South-South co-operation. Long accused of preferring unilateral and bilateral initiatives, China can continue with agenda that challenges the status quo as represented by the Bretton Woods institutions, secure in the knowledge that as the multi-lateral nature of the initiative forestalls China being singled out for criticism by the developed North. For South Africa, the BRICS Bank is an opportunity to showcase one of this country's most competitive advantages – banking and financial system expertise. South African will also look to direct BRICS Bank funds to Africa-based based projects. For both India and Russia, the bank

is an opportunity to challenge Bretton Woods institutions and the perceived monopoly of international finance held by the US and Western Europe.

Victoria Panova: I don't see much of this Bank bringing to Russia, at least with its direct functions of financing infrastructure projects. There was never strong message on the issue coming from the Russian finance ministry or other officials on the idea. Meanwhile analytical capacity, if set to offer alternative independent view of the world economy, could be interesting and have added value.

Zhou Zhiwei: The establishment of the BRICS Bank has a great significant to the BRICS' cooperation, it is an important result of the first circle's coordination of BRICS countries in recent years, and it also means that the BRICS group determines a concrete project/field to strengthen their cooperative force in near future. In fact, it has different meaning to each BRICS country. Comparatively, China has greater advantage over other BRICS member-countries on capital and infrastructure experience, so the BRICS Bank means a good opportunity for Chinese investments, in particular for Chinese infrastructure investments, to achieve a wider dimension in the principal emerging markets, owing to that the BRICS Bank aims to principally the infrastructure and sustainable development projects in the South World. Besides, the BRICS Bank provides an important and more effective platform for China to achieve a mutual benefit and win-win approximation with other developing countries, especially in the investment field, in other word, through the multilateral BRICS Bank, Chinese investments will be more welcomed and accepted by the developing world.

## 2) What does the BRICS Bank mean for international politics?;

Aparajita Biswas: The BRICS bank will look to rival the US- and European-led World Bank, which have dictated international development through the control of the international financial systems, since the Second World War. The BRICS bank is positioned as a financial institution that will provide developing countries with alternative source of development funding, promising to make lending processes for developing countries faster, simpler and cheaper.

The developing world desperately needs reliable and cheaper long-term development finance, without restrictive World Bank and IMF conditions. The BRICS bank could also be a vital source of finance for infrastructure that the developing world so desperately needs. But it could also provide finance to expand nations manufacturing sectors – so crucial in the creation of jobs and the elimination of poverty.

The mere presence of a BRICS bank that does not adhere to the structural adjustment philosophy of the World Bank and IMF heavily challenges the US dominance within the international system, and the institutionalization of the BRICS bank signals towards a new phase in international relations.

Haibin Niu: The NDB shows that emerging powers can provide alternatives to current international institutions. It will put more constructive pressures on existing institutions to quicken their reform to accommodate the resources of major emerging economies.

Lucy Corkin: The BRICS Bank is a further indication of the growing multi-polarity of the international system as new nodes of political and economic power (represented by the BRICS countries) begin to shape the international system's landscape. In addition, it underlines the weakening of the upper hand long held by the US and Europe in the realm of international finance and its control.

Victoria Panova: BRICS Bank is a new phenomenon in the international politics - it is not created on the regional basis, so presents global aspirations which means if not rival to WB, but an institution that could be of complementary nature and could show to the world that new emerging players are there to stay and ready to responsibly contribute to the global public goods. In the long, run this could mean gradual shift of a number of projects from the WB to BDB - when BRICS Bank actually starts functioning with much smaller capital it will still have advantage of better political capital and higher reputation among the developing countries as opposed to the Western-dominated institutions, that to a great extent discredited themselves, especially during the Washington consensus times.

Zhou Zhiwei: The BRICS Bank is an arrangement of the group in economic area, but it also has an important political significant, even, to some extent, it has more political meanings. In fact, the institution reflects the BRICS cooperation is going from a mere cooperative desire to some pragmatic and concrete cooperation, the reason, leading to such progress, lies in their dissatisfaction to the current international decision-making of the global economic governance system, and also their determination to reform the out-dated Bretton Woods System, which is increasingly lack of legitimacy and representativeness. Undoubtedly, the reform including the international political dimension. In this sense, the BRICS's action will also improve the agenda of the international political governance reform. Furthermore, with the cooperation more concreted, it shows that the BRICS is becoming an important power, as a group, in the international issues, it's impossible that some important international issues should be resolved without the BRICS's participation. However, the BRICS is facing any dilemma on dealing with such issues or dispute relating to its member-country, for example, the crisis Ukraine, China's tensions with its neighbors on the territorial disputes, etc.

### 3) How does the BRICS Bank affect the future of the BRICS group?

Aparajita Biswas: The establishment of the BRICS bank is a significant step in the growth of the BRICS grouping. This has resulted in the institutionalization of the grouping in the international system, the first major landmark in its transformation from a forum for economic dialogue to a major force in international politics. The BRICS bank further strengthens the individual capacities of the member nation states as well, especially in the sectors of development assistance, infrastructure development and capacity building. In its capacity as a grouping, the BRICS bank adds financial weight to BRICS initiatives, providing the grouping with a currency reserve to carry out its vision for the future. This also strengthens the groupings capacity at other international and multilateral forums.

Haibin Niu: The creation of NDB will give more reason for a closer BRICS cooperation in future.

Lucy Corkin: The Bank is a concrete institution that has been established between the countries, elevated the strategic BRICS partnership beyond "Talks about talks".

Victoria Panova: For BRICS the final launch of the announced Bank means a lot - primarily not on the practical level, but strategically shows that BRICS are here for real, they deliver on their promises, and even when the project is extremely difficult to agree upon with very different interests involved they are still able to come to common ground. This means fundamental reasons behind existence of this grouping exist and ensures BRICS to continue its ascent in their struggle for better and fairer world for themselves and for all.

Zhou Zhiwei: Firstly, The BRICS Bank is a good thing for the BRICS group to deal with their economic difficulties, to achieve a stable and sustainable economic growth, and also reduce their external vulnerability. Meanwhile, the BRICS Bank's investment in non-member developing countries will enhance the BRICS' approximation with other developing countries, thereby reduce, in short term, the pressure of increasing its member-countries, which is helpful for the BRICS group improve its internal cooperation mechanisms.





**BRICS Policy Center** Centro de Estudos e Pesquisas - BRICS

Rua Dona Mariana, 63 - Botafogo - Rio de Janeiro/RJ  
Telefone: (21) 2535-0447 / CEP/ZIP CODE: 22280-020  
[www.bricspolicycenter.org](http://www.bricspolicycenter.org) / [bpc@bricspolicycenter.org](mailto:bpc@bricspolicycenter.org)

