



The Evolution of BRICS New Development Bank

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CHAPTER 1

Introduction

The advancement of the Emerging Economies and the fast progress of the Developing Nations have increased the demands for financing of the infrastructure facilities across the globe. The present Multilateral Financing Institutions like the World Bank, the IMF and the ADB could not meet such increasing demands with the limited resources at their disposal. Moreover most of the nations seeking the loan facilities do not qualify for the loans because of strictness of the conditionalities of these financing Institutions.

In case of World Bank the U. S. has the maximum capital contribution and as such it has been enjoying the right to elect its President and also it enjoys the right to exercise the Veto Power on important decisions and reforms. Similarly, in respect of the IMF the European Nations have the maximum control of its affairs because of its maximum contribution to the capital of the IMF as well as due to quota system as a result of which they enjoy the right to elect the Managing Director and the CEO of this Multilateral Financing Institution from among the European Nations.

Under the situation stated above and because of monopoly control of the affairs of the Multilateral Financing Institutions by U. S. and the European Nations and also because of sudden transformation of China from its state control economy to a gradually developing market oriented economy in the post 1978 period and thereby achieving spectacular development in all economic sectors with per capital income quadrupled in last 15 years, the emerging nation like Brazil, Russia, India, China and South Africa were thinking for a long time to have a separate Institution of their own to provide finance for their expanding demands for infra-structure facilities. This long standing idea materialized in reality finally in the year 2009 with the combination of Brazil, Russia, India and China in an Association titled BRIC which later on assumed the name as BRICS with the joining of South Africa in late 2010.

Title of the Association as 'BRICS' and its Distinct Characteristics from other Regional Associations

- 1) The name of the Association has assumed the first letter of the member countries to be known as 'BRICS'.

The peculiar characteristics of the Association are that it is distinct from other Regional Associations of nations

like SAARC, ASEAN and European Union which comprise of adjoining countries of close neighborhood having similar culture and history while BRICS, Association is composed of 5 countries of different continents like South America, Europe, Asia and Africa.

- 2) The comprising countries vary in size, population and GDP as well as in history and culture and with different systems of govt. but they have one common goal to work together with their combined natural and financial resources to attain economic development through infrastructure facilities across the world.

CHAPTER 2

Objects of the BRICS Development Bank

- 1) The main object of the Development Bank is to provide additional source of funds to meet the gap of Infrastructure needs of the developing world particularly the BRICS nation as well as the developing countries across the globe. As per ADB report published in 2010 the region Asia Pacific requires \$ 8 tr. (app.) to be invested during the period 2010-2020 in the infrastructure facilities like road, bridges, communication, ports, deep seaports, terminals etc. for the period to continue its economic development.
- 2) In a survey carried out by the BRICS nations it was revealed that there is a gap of \$ 1 trillion (app.) annually in respect of investment in infrastructure environment and sustainable development programs of the developing nations of the world. This lack in the resources would definitely constrain the future

growth of the developing nations and if the deficit continues any further it would not be possible to get access to basic necessities like electricity and clean water to a great population of the world.

- 3) It was also revealed by a summary report of ESCAP for Asia and the Pacific in 2010 that if \$ 800 billion (app.) could have been allocated annually to Asia and the Pacific area, the deficit in the infrastructure of the region, could have been covered.

In this connection it has been suggested that had there been a Infrastructure Fund with 5% of \$ 5 tr. Reserve belonging to the Economies of this region, it could generate more profits than it is now earning from the U.S. and other markets and that could provide resources to meet the gap of infrastructure requirements of the region. The Western countries and the U.S. have regrettably forgotten to take into account the fact that the BRICS economies still generate growth twice as fast as the developed countries. In view of this economic scenario, China the leading sponsor of the Association has taken the decision to establish the BRICS Bank. In the long-run if China decides to withdraw its reserve of \$ 1.25 tr. (app.) from U.S. Treasury that may affect adversely the global economic order.

- 4) BRICS Association and the Development Bank have actually been formed to bring together the leaders of the disparate countries like Brazil, Russia, India, China and South Africa to a global alliance of Emerging Economies although they have little in common except their common aims and objects to

“ SOME ECONOMISTS FEEL THAT IT IS A RIGHT DECISION TO SET UP THE INFRASTRUCTURE BANK BY THE BRICS NATIONS TO MEET THE HUGE DEMANDS FOR FUNDS FOR INFRASTRUCTURE FACILITIES OF THE BRICS NATIONS AND OTHER DEVELOPING COUNTRIES AND ALSO TO BREAK THE MONOPOLY OF U. S. AND OTHER WESTERN POWERS IN THE CONTROL OF THE AFFAIRS OF THE BRETTON WOODS INSTITUTIONS. ”

develop infrastructure facilities of the globe through their co-operation inter-se in enhancing trade, investment, energy exploration and to work in close co-operation to transform their individual comparative advantages into international competitive advantages to influence the future political and economic structure of the world.

CHAPTER 3

The Background of the Formation of the BRICS New Development Bank

- 1) The decision to establish the Development Bank by the BRICS nations was the first step towards the re-shaping of International Financial System which had so long been dominated by U.S. and other Western Powers. Despite repaid growth of the BRICS nations in the economic sphere their representation was not properly evaluated in the current international Institutions like the World Bank, the IMF and the ADB etc. That's why the BRICS nations felt the necessity to go for a separate institution for financing the Infrastructure facility of the Emerging Nations and the Developing countries across the Globe.
- 2) There were complaints by BRICS nations about the highhandedness and influence of U.S. and other Western Powers in the management of the affairs of the World Bank, the IMF & ADB etc. and they used to protest against the domination by U.S. in the affairs of the World Bank and also against their veto powers on the decision to policy

matters and the reforms in the structures and Rules and regulations. They also protested against the right of U. S. in the election of the President of the World Bank always. They were critical of the behavior of the European Nations in the management of the affairs of the IMF and the way they elect the Managing Director of the IMF consistently from among the Europeans.

- 3) Despite BRICS Nations contributing approximately 25% to the Global GDP and accounting for more than 20% of the global economic activities their voting right was restricted only to 11% all together with barely 4% of China which is not very far from that of Italy which is hardly 1/5th of the size of economy of China. The GDP of Italy is only \$ 2 tr. against the GDP of \$ 11 tr. (app.) of China. The recently developed economy of China and India and other BRICS nations and their rise as the great economic powers of the globe have rendered the IMF voting rights not just unfair and illegitimate but also ridiculous as it carries disproportionately low ratio of voting power in the IMF affairs. It is worth mentioning that as per recent statistics China contributes \$ 11.212 tr. to the Global GDP of \$ 74.55 tr. but its voting power is determined on the basis of 5% considering its contribution to the world GDP. As a result the BRICS nations carry a low amount of voting rights in the matters of the Multilateral Financial Institutions.
- 4) There are complaints that the Western Developed Countries exert their influence in

sanctioning loans to the developing nations of Asia, Africa and Latin America and most often they interfere in the domestic affairs of the loan receiving countries. In the course of sanctions of loans to the developing countries the big powers create pressure to secure re-structuring of their economy and reforms of their national financial institutions. All these tactical policies in the long-run affect adversely the domestic policies of the concerned loan receiving countries and create social unrest and political disorder there.

- 5) Some economists feel that it is a right decision to set up the Infrastructure Bank by the BRICS nations to meet the huge demands for funds for infrastructure facilities of the BRICS nations and other developing countries and also to break the monopoly of U. S. and other Western Powers in the control of the affairs of the Bretton Woods Institutions. As such this new development bank will help broad-base the funding needs of the developing nations across the globe and would be able to stop the undue intervention of the Bretton Woods Institutions in the internal matters of the borrowing nations of the developing world.

CHAPTER 4

Economic Strength of the BRICS Nations

Before arriving at the decision to form the New Development Bank, the BRICS nations have evaluated their geographical position and political and economic strength which reflects the position as under:

Country	Area	Population	GDP Nominal	Per capita GDP
Brazil	3,287,597 Sq. mile	198.3 million	\$ 2.240 Tr.	\$ 11,300
Russia	6,592,735 Sq. mile	143.0 million	\$ 2.118 Tr.	\$ 14,818
India	1,269,338 Sq. mile	1189.0 million	\$ 2.308 Tr.	\$ 1,925
China	3,705,386 Sq. mile	1337.0 million	\$11.212 Tr.	\$ 8,386
South Africa	47,008 Sq. mile	53.0 million	\$ 0.350 Tr.	\$ 6,618
	14,902,064 Sq. mile	2920.3 million	\$18.228 Tr.	

The position noted above indicates that the BRICS nations are the Emerging Forces in the Global Economic arena and represent approximately 40% of the world population covering almost 30% of the land mass of the earth. It also represents 18% of the global trade of approximately \$ 18.8 tr. The countries of BRICS also account for \$ 18.228 Tr. GDP against the global GDP of \$ 74.55 Tr.

As per recently published statistics of the IMF, China is going to occupy the top position with its GDP of \$ 17.63 tr. (PPP Basis) against that of U. S. with \$ 17.41 tr. (PPP Basis). This spectacular rise of China demonstrates its position as a Super Power very soon. In the same way other BRICS countries are also making fast progress in all their economic sectors.

CHAPTER 5

Capital Structure of the BRICS New Development Bank

- 1) In the 6th summit meeting of the BRICS members they have decided to form the New Development Bank with an initial Authorized Capital of \$ 100 billion and a paid up capital of \$ 50 billion to be provided by the members equally at the rate of \$ 10 billion each.
- 2) In addition to the paid up capital the Bank will have a Reserve Pool of another \$ 100

billion under the Contingent Reserve Arrangement (CRA) to meet the sudden requirement of fund in the emergency situation to meet the deficit of balance of payments of developing nations. The fund for CRA will be contributed by China with \$ 41 billion, by Russia, India and Brazil at the rate of \$ 18 billion each and the rest of \$ 5 billion by South Africa.

- 3) The CRA will function through two main instruments like:
 - a) A liquidity instrument for providing funds in response to balance of payments problems of the poor nations; and
 - b) A precautionary instrument for permitting access to funds ahead of anticipated balance of payments problems of the needy nations.
- 4) The process of CRA working group will be conducive to

enhance the confidence among the BRICS nations to the effect that China will contribute the biggest share to the CRA Fund but not exceeding 50% of the Total contribution to the Fund. The CRA would be the first attempt to broad-base such an agreement of a Global level among the Emerging Five Economies forming the BRICS.

- 5) It is to be mentioned here that the World Bank and the IMF could not earn the confidence of the poor countries of Asia and Africa in the matter that the funds of these Multilateral financial Institutions did not reach the intended targets and that they could not ensure the equitable distribution of wealth among the citizens although it helped economic growth of these nations but with poor economic development of the individuals in respect of their education and other basic necessities like health care,





sanitation etc. leading to an improvement of standard of living.

- 6) The BRICS Development Bank will allow new members to join the Bank but the holding of the existing five founding members shall not be less than 55% of the total capital and the Non-founding members shall hold each @ 7% of the increased capital at the maximum.
- 7) None of the Founding member countries of BRICS can increase its share holding beyond the Initial holding of \$ 10 billion without all the other 4 members agreeing to such an increase.
- 8) The paid up capital of the Bank will be used in lending for the infrastructure projects upto \$ 34 billion annually. In addition, the Reserve Currency Pool is meant for providing necessary support through liquidity and precautionary instruments in response to actual or potential short term balance of payments pressures.

CHAPTER 6

Potential Hindrances In the Formation & Functioning of the BRICS New Development Bank

- 1) In the initial stage of the establishment of the BRICS New Development Bank there remained some doubts on its success because of the unfavorable attitude of global economic over lords towards this bank as they thought that the New Development Bank will act as rival to the existing multilateral lenders namely the World Bank, the IMF and the ADB. Where, the big powers hold the controlling shares. Due to this attitude and the incurring wrath of U. S. and the Western Economic Powers it was thought that the BRICS Bank would not have an undisturbed and smooth sailing but this apprehension is fast removing with the approach of the opening of operation day of the bank by early April of 2016 and due to the far sightedness of the leaders of the BRICS nations.
- 2) As the globe is divided into 2 blocs representing economically strong nations under the leadership of U. S.

and other Western Powers and the other bloc represented by comparatively weaker nations of Asia, African and Latin America, there remains the possibility of conflicting situation centering the new Development Bank under the leadership of China and hence there remained probable hesitations & confusions for developing nations whether to be faithful to the strong western bloc or to be faithful to the emerging economic powers like China, India and others.

- 3) The divergent state policy of the 5 nations represents different political system of the nations, such as China being a one party socialist state, Russia a highly centralized country and Brazil, India, South Africa being somewhat democratic but suffering from significant corruption and ethnic strife and communal intolerances. These distinct characteristics of the member nations have influences on their economic management and state affairs and it is to be seen how these factors affect the operation of the New Development Bank in due course.

CHAPTER 7

China's Economic Development and its World Leadership May Expedite Globalization of the BRICS Development Bank.

- 1) The change of economic policy of China in 1978 transforming its state owned economy into a gradual market-oriented economy has brought a tremendous progress of the country in all the sectors. The reform of this

economic state policy leading to opening of all the economic sectors for investment of the foreigners has resulted in the competition in all the fields of activities giving rise in the increase of efficiency of workers which quadrupled. Their earnings in the post 1978 period compared to the pre-reform period. While the pre-1978 annual growth of China was hardly 6% its post reform growth rate was on average 9% and in some sectors the growth rate was 13% and more. This trend of growth rate has resulted in the increase of per-capita income by 4 times in the post-reform period. The growth rate of China has exceeded the growth rate of other Asian Tigers like the Hongkong, Singapore, South Korea, Taiwan etc. which averaged 7-8% over the last 2 decades.

- 2) This spectacular change in the growth rate of China and the establishment of the BRICS Development Bank are the two events which stride towards making the 21st century a world century with its benefits to all the regions through improvement of infrastructure facilities across the globe. As a result of this potential change in the economic scenario of the globe, the world economic order is going to shift from one region to another of which mostly to Asian countries. This potential change will ensure the equitable development of all the regions of the world.
- 3) China's foreign co-operation opportunities are expanding very quickly with the change of its state policy. Chinas' support for Multilateral trading system devoting themselves to Doha Round Negotiations

which advocates the Asia-Pacific free-trade zone, promotes negotiations on regional co-operation and comprehensive economic partnership. China also advocates the establishment of Asia-infrastructure Investment Bank to boost economic development and financial co-operation in an all round manner. It also works as an active promoter of globalization and regional integration that would foster the economic connectivity and a new type of internationalization will grow in the Asia-Pacific region with the establishment of the silk-Road fund and the Asian Infrastructure Investment Bank under the sponsorship of China. "China is the largest trading nation in the world and it plays a vital role in the International trade and has increasingly engaged in trade organizations and treaties in the recent years. China has become a member of the WTO in the year 2001. China has free trade agreements with several nations including China-Australia Free-Trade agreement, China-South Korea free-trade agreement and China-Switzerland free Trade and China-Pakistan Free Trade Area. As China's economic importance has grown so has attention focused to the sectors of infrastructure and health of the economy."

- 4) Besides, the revival of the old Traditional Silk Road of Economic Belt with its glorious history of 600 years both in sea-way and road net work between the nations of Asia and Europe, will help in the globalization process of BRICS Development Bank. It is worth mentioning here that even

before the thinking of establishment of BRICS Development Bank; China had started investment in different countries of the world. China had shown deep interest in acquiring the assets of the depressed areas of U.S.A. like Detroit, Michigan etc. at lower than the market price and pushing investment therein in addition to acquisition of some big real estate's all over the U.S.A.

CHAPTER 8

The Success of the BRICS Development Bank

- 1) The New Development Bank is expected to go into operation by early April of 2016. Its success will largely depend on several aspects like development of institutional frame work, financial arrangement, membership tackling the internal politics of the member nations and finally addressing the differences on various issues among the members of the BRICS. If these aspects could be handled property that will help them to influence and change the global economic system in the long run.
- 2) For the betterment of the global economy, the two sets of the Financial Institutions both old set like the World Bank, IMF and the ADB etc. and the newer ones like the BRICS Development Bank and the Asian Infrastructures Investment Bank under the Sponsorship of China should function as complementary to each other and the latter ones should follow the former ones as their ideals. The former ones have in their credit the glorious history of several decades with

the strong footing of capital and experience in operations.

3) BRICS Bank is expected to take some logical and realistic steps to assist the development efforts and to achieve poverty alleviation goals of developing nations rather than imposing some restrictions on loans for infrastructure development in these countries. It will definitely act as counterproductive if the BRICS Bank adopts any special agenda other than the main objects on the basis of political consideration rather than economic viability of the projects concerned.

4) The new Development Bank of BRICS should provide fund as supplementary support to the funds provided by the World Bank, IMF etc. and should not act as competitor of the old multilateral financiers. It is believed by many that setting up of BRICS Bank will help ease financial inadequacy in the field of infrastructure of BRICS nations and this will contribute to a greater negotiation capacity of BRICS

nations to International financial system.

5) In the context of the vast expansion of the infrastructure projects across the globe, it is not possible to serve all the nations properly from the available resources of the existing Multilateral Financial Institutions. The gap or deficit in the resources of the existing financial lenders will have to be met by BRICS Development Bank and so there remains ample scope of operation of the New Development Bank particularly in the untapped infrastructure sectors of the developing nations across the globe.

6) The BRICS Bank will have a bright future in view of the vast market in the member countries representing approximately 40% of the world population of about 725 Cr. These countries have abundant natural resources, vast consumption potential which is supporting the fast growing economies of the member countries. These countries are lacking in the

infrastructure facilities which hinder the distribution of the available resources properly for which the BRICS Bank is there to support the establishment of the Infrastructure facilities and to cater to the deficit of investment in the related projects like roads, communication, ports, sea ports, deep sea ports, terminals, railway, bridges etc.

7) Finally, the imminent launching of the BRICS Bank by early 2016 is a concerted step for re-shaping the western dominated financial system and to introduce a new economic order in the current world. As such the members of the BRICS Association and the personnel, behind the management of the affairs of the BRICS Development Bank should step cautiously and should maintain a cordial and harmonious relationship with all the nations of the globe.

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