

BRICS Gains Currency in Brazil*

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The [6th Summit](#) of the BRICS nations would be remembered as a watershed event in global economic governance because it marks the first time that emerging economies stepped out of the shadows of the big powers to establish two financial institutions, the New Development Bank ([NDB](#)) and the Contingent Reserve Arrangement ([CRA](#)). These institutions should be seen as counterparts of the Bretton Woods institutions—the World Bank and the International Monetary Fund ([IMF](#))—not competitors, as some Western observers have likened them to. Another significant outcome of the Summit, one which was not as well highlighted as the establishment of the NDB and CRA, was the BRICS Multilateral Cooperation Agreement on Innovation ([MCAI](#)) within the BRICS Interbank Cooperation Mechanism, an arrangement between the development banks (India's Exim Bank and its counterparts) that was formalised in 2010. The MCAI aims at supporting projects that foster investments in technological innovation, especially in infrastructure and sustainable energy, as well as innovation in industry, services and agribusiness. Further, it also seeks to expand cooperation between the development banks in the member countries for increasing trade of goods and services as well as intra-BRICS investments. Through the establishment of the NDB and CRA, and the MCAI, the BRICS have made a strong statement about their role in the management of the global economy.

That the BRICS were intent on playing an important part in altering the contours of global economic governance became clear in the aftermath of the recent economic downturn. One of the most important issues raised by the BRICS was the need to reform the Bretton Woods institutions to their reduce legitimacy deficits. An important first step, according to the BRICS, was to alter the governance structures of these institutions by increasing the voting shares of emerging market countries in keeping with their larger presence in the global economy.

The impact of the pressures brought by the BRICS nations—China and India, in particular—was immediately felt. In 2010, the IMF took a major decision to overhaul of the Fund's [quotas](#) and governance structure, which was seen as a historic step towards strengthening the Fund's legitimacy and effectiveness. The IMF Board also endorsed proposals that called for a more representative, all-elected Executive Board. These changes were expected to be in place by 2012, but the unwillingness of the US Congress to endorse the proposed changes have effectively blocked any move towards the reform of the governance structure of the IMF. Currently, the US has 17.67% of the vote share and is in a position to veto any major decision of the IMF, which requires a supermajority of 85%.

The proposed reform in the management of the IMF would have shifted more than 6% of quota shares to dynamic emerging market and developing countries, and more than 6% from the over-represented to under-represented countries, while protecting the quota shares and voting power of the poorest members. As a result of these changes, China voting share was expected to increase from 2.928% in 2008 to 6.071%, while India's share would have increased from 1.916% to 2.629%. Importantly, the share of the US would have declined to 16.498%, thus preventing it from vetoing any major decision.

The steps taken by the BRICS to establish their own financial institutions in the face of the US intransigence that prevents democratisation of the IMF could have a far-reaching impact on global economic governance. Members of the grouping should, therefore, be cognisant of the significance of this process of change that they have triggered on the global stage, while deliberating on the further details of the institutions.

At least the initial signs have been very encouraging, for the NDB is being established on the principles of shared ownership and responsibility. As regards ownership, the members of the group have agreed that they will have equal stake in the NDB. Each country will contribute equally to initial subscribed capital of \$50 billion. The authorised capital of the BRICS Bank would be \$100 billion. The membership of the Bank would be open to members of the United Nations, who will be able to subscribe to the shares of the Bank. However, the BRICS members' share in the total paid up capital of the Bank (also their voting share) cannot be less 55%, thus ensuring that the founding members retain control over the NDB at all times.

The BRICS countries have also ensured that all the partners will have a stake in the functioning of the NDB. It would be headquartered in Shanghai, and here it must be said that India would have gained a lot if it was headquartered in New Delhi instead. South Africa will be the home of the NDB's Africa Regional Center while the management of the new institution has also been shared between India, Russia and Brazil. However, India would get a significant opportunity to guide the functioning of the bank in its formative years, since it would be appointing the first President of the NDB. Russia and Brazil will be appointing the first Chair of the Board of Governors and the Board of Directors.

The NDB would provide funding for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries. The founding members have appropriately pointed out that the Bank would complement the operations of existing multilateral and regional financial institutions.

At present, all the members of the group are engaged in development partnership projects in several parts of the world and, in several countries, more than one BRICS member is present. Whether the Bank provides the basis for the BRICS countries to undertake joint projects in partner countries, is something that would be watched with some interest.

The CRA is a very timely initiative by the BRICS to devise their own "banker of last resort". IMF was the only agency that provided this facility, until ASEAN+3 (ASEAN together with Japan, China and the Republic of Korea) formed the Chiang Mai Initiative Multilateralism ([CMIM](#)) in 2010. CMIM began with commitment funds of \$120 billion, which was increased to \$240 billion in 2012. The stabilisation-fund of the BRICS looks similar to CMIM in terms its initial size. It would have an initial pool of \$100 billion, with China contributing \$41 billion. India, Brazil and Russia are having equal contribution of \$18 billion, and South Africa contributing the remaining \$5 billion. As regards accessing the resources, South Africa can draw twice its contribution, while China can draw one-half of its \$41 billion contribution. India, Brazil and Russia can draw an amount equivalent to their share.

Having put themselves under the limelight, the BRICS would now have to develop the operational principles for the NDB, in particular. In the past, the BRICS members have been critical of the operations of the donor community, especially the members of the Development Assistance Committee of the Organization of Economic Cooperation and Development, for the donor-driven agenda they have followed. India has always insisted that the financial support that it provides to other developing countries has its basis in development partnership rather than development assistance, the latter being driven by the asymmetrical donor-recipient relationship. As the first President of the NDB, India is favourably placed to have the development partnership philosophy written into the statute of the new institution. This will help in positioning the NDB as a credible financial institution in which the recipient countries can repose their trust.

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