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BRICS, banking on development

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Author: Keshav Kelkar, UBC

The creation of the BRICS New Development Bank (NDB) to finance infrastructure and sustainable development projects in emerging economies is a landmark achievement. Developing nations have lost faith in the current system with its strict conditions on development finance and its inability to insulate countries from financial shocks. International observers have however expressed mixed views about the creation of the bank and what it represents for the nascent multilateral BRICS bloc of Brazil, Russia, India, China and South Africa.

Some observers [1] remarked that the NDB represents a timely response to the failure of the existing Bretton-Woods institutions to adequately represent the needs of emerging economies. Others, however, are sceptical of the NDB's capacity to address these issues, noting that existing rifts between BRICS nations could undermine the initiative.

Despite these naysayers, the creation of the NDB is a positive step for the BRICS nations and developing countries in general. While it is not yet clear whether the NDB will pose a direct challenge to the global financial status quo, its creation presents a number of opportunities for the developing nations.

First, the creation of the NDB will strengthen [2] the voice of developing economies in shaping the future direction of global development finance. The Bretton-Woods institutions, such as the World Bank and IMF, have long dominated the development agenda. These institutions have crafted development strategies and presented them as the only viable model for generating economic growth. The power of the World Bank lies not so much in its deep pockets as in the enormous research [3] and communication capacities it deploys to set the global development agenda. The 2008 global financial crisis revealed that these institutions are ill-suited to address [4] the political-economic realities of the twenty-first century. However, it is the unwillingness to reform these institutions that has incensed developing countries.

Developing countries feel that their place at the decision-making table is not proportionate to their growing economic influence. For example, although the BRICS comprise over one-fifth of the global economy, together they only wield about 11 per cent [5] of the votes at the IMF. But reforms have been met with reluctance, and even resistance, by Western nations.

Western nations are concerned that giving a greater voice to developing nations would diminish their own influence or, in some cases, require developed countries to make financial commitments that cannot be upheld in a post-2008 setting. As Raj M. Desai and James Raymond Vreeland argue [6], 'these developments show the political tightrope on which countries must walk when it comes to global development finance: while low- and middle-income countries have legitimate claims about their exclusion from the governance of the Bretton-Woods institutions, richer countries cannot cede too much influence over these institutions to developing nations and still justify large contributions — in particular, to the World Bank's International Development Association every three years, and to the IMF as part of quota reforms — to their restless voters, especially during difficult economic times'. The NDB represents an attempt by developing countries to level the playing field in a system [7] that has failed to keep pace with their economic growth.

Second, the NDB can fill the existing gap in infrastructure financing [8]. The 2008 global financial crisis has diminished the lending capabilities of Western institutions. The World Bank's lending has reduced to half [9] of what it was before the global financial crisis. Private lending for infrastructure has also shrunk to one-third of its pre-crisis level. This comes at a time when many developing countries require financing for infrastructure projects in order to tackle the challenges of population growth, rapid urbanisation and environmental degradation. Infrastructure spending in developing countries will need to increase from its current level of approximately US$0.8-0.9 trillion per year to approximately US$1.8-2.3 trillion [10] per year by 2020.

Investment in infrastructure is necessary to improve economic conditions in developing nations. Building roads or railways immediately boosts output [11] and jobs, and helps to spur future growth — provided the money is spent wisely. Better transport helps farmers move their produce to cities and manufacturers to export their goods overseas. Countries with lower transport costs tend to be more open to foreign trade and so enjoy faster growth. Clean water and sanitation also increase labour productivity. While the NDB will have an initial subscribed capital of $50 billion [12], it has the potential over time to serve as an alternative source for financing important development projects. It may also act as a catalyst for private sector investment, thereby overcoming many of the deficiencies in the current system.

Lastly, while the NDB does not yet pose a direct challenge to its existing Bretton-Woods counterparts, its creation will generate competition among global financial institutions. The creation of the NDB [13] comes at a time when developing countries no longer have faith in the current system and are seeking to promote and safeguard their economic interests. To that end, establishing regional monetary funds can be more effective [14] than the current system when it comes to representation, coordination and crisis management.

The entry of the NDB into development finance comes at a critical juncture when the financing needs of developing nations are rapidly outgrowing the capacity and willingness of traditional funding agencies.

Keshav Kelkar is a research fellow at the Institute of Asian Research, University of British Columbia.

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[1] Some observers:
http://www.financialexpress.com/news/brics-summit-india-likely-to-get-presidency-of-brics-bank-china-to-bag-hq/1270149

[2] will strengthen: **http://unctad.org/en/PublicationsLibrary/osgdp20141_en.pdf**

[3] research: **http://allafrica.com/stories/201407231215.html?page=2**

[4] ill-suited to address: **http://wwww.caei.com.ar/sites/default/files/19_3.pdf**

[5] 11 per cent: **http://www.imf.org/external/np/sec/memdir/members.aspx**

[6] Raj M. Desai and James Raymond Vreeland argue:
http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/07/17/what-the-new-bank-of-brics-is-all-about/

[7] level the playing field in a system:
http://www.eastasiaforum.org/2011/05/22/brics-and-the-international-economic-order-an-idea-whose-time-has-come/

[8] gap in infrastructure financing:
http://www.eastasiaforum.org/2014/07/31/brics-lay-a-foundation-but-will-there-be-concrete-action/

[9] reduced to half:
http://articles.economictimes.indiatimes.com/2014-07-17/news/51657028_1_infrastructure-funding-world-bank-brics-countries

[10] US$1.8-2.3 trillion:
http://www.cccep.ac.uk/publications/policy/docs/pp-infrastructure-for-development-meeting-the-challenge.pdf

[11] boosts output: **http://www.economist.com/node/11488749**

[12] subscribed capital of $50 billion:
http://pib.nic.in/newsite/PrintRelease.aspx?relid=106712

[13] The creation of the NDB:
http://www.eastasiaforum.org/2014/08/02/the-brics-are-back-with-a-bank/

[14] can be more effective: **http://wwww.caei.com.ar/sites/default/files/19_3.pdf**