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The 'BRICS Bank': Many challenges and many opportunities by Pallavi Roy, Centre for International Studies and Diplomacy, SOAS, University of London

The New Development Bank (NDB) that was set up in July 2014 promises to be at least for now an important part of the discourse on how the primacy of the developed economies in global affairs needs to be challenged by developing economies. Popularly known as the BRICS Bank the NDB is operated by five of the larger developing economies to build a multilateral development bank (MDB) that will first attempt to address a portion of the members' development funding gaps and at some later point lend to other developing economies. The coming together of China, Russia, India, Brazil and South Africa to form this bank is not without a sound rationale. These countries have only 11 percent of the votes at the International Monetary Fund (IMF) despite recent reforms of its voting pattern. However together the countries account for 40 percent of the world's population and their combined GDP is over 25 percent of the total global GDP.

Having said that each country has a different incentive and the implications for each are different too. China stands to gain the most emerging from this as a strongly dominant world player that is also effectively able to engage multilaterally with other large developing economies, or at least signal so. Given the souring of its relationship with the West post the country's involvement in Ukraine, Russia stands to gain credibility by being a part of the New Development Bank's (NDB) founding membership. Brazil and South Africa both have ailing economies, the latter even more so, and this might help the two countries shore up some confidence, though the effect might not be long lasting. India is in an interesting position given that it sees China both as a threat and an opportunity. Being a founder member, however, also adds to the perception that the country is now a leading player among emerging economies.

A significant challenge for the Bank is to not let the strategic interplay of China and India affect its working. The first few months since the announcement have seen no major hiccups but as the Bank grows in scale this will be something to watch out for. The Bank recently even announced the appointment of its first president KV Kamat a veteran and respected banker from India. On the other hand the opportunities for a financial institution that brings together five key developing countries are immense. For instance the Bank can serve as a platform for outlining financing strategies to deal with issues of productivity growth and employment generation, an area other MDBs do not concentrate on directly. However given that the scope of the Asian Infrastructure Investment Bank (AIIB) is much larger in terms of capital and membership and that China seems to be more ambitious about the AIIB because its capital contribution to that bank is larger than the NDB's initial capital of \$ 50 billion could mean the NDB risks being somewhat overshadowed. In terms of financing of the NDB the subscribed capital of \$50 billion is certainly not sufficient for funding significant portions of the infrastructure requirements for most of these countries, barring China which mobilized resources internally for infrastructure financing. Of course this is the first time that a widely diverging set of developing countries have come together in the interests of financial cooperation, (though calling Russia a developing country might not be very accurate) and this is quite

significant despite the challenges. Also the Comprehensive Reserve Arrangement of \$100 billion which is to be used in times of balance of payment (BoP) crises might be useful to the member countries subject to the conditionalities that are put on the borrowing, in the sense they would need to be less restrictive than those usually imposed by the IMF for loans it makes to countries with BoP crises.

The IMF and the World Bank are still an accurate reflection of US-led global power structures, despite the rise of China and hence it is highly unlikely that these two will be competed away by the NDB. The threat to the Asian Development Bank which reflects Japanese interests in Asia will come from the AIIB and not the NDB. Amidst talk that there is a possibility of Greece joining the NDB if there is to be a Greek exit from the Euro what also remains to be seen is how the NDB will invite participation from other developing countries in the future. Yet it is clear the BRICS countries realise that together they wield considerable political and economic clout and will be taken more seriously as one unit and hence are certainly in a position to challenge the primacy of the existing MDBs.

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