

The BRICS and the International Development System: Challenge and Convergence?

The sustained growth of rising powers, including the grouping known as the BRICS (Brazil, Russia, India, China and South Africa) is reshaping global governance arrangements. Annual BRICS summits and inter-ministerial meetings seek to reform existing international financial and economic institutions and promote a multipolar system of global order. The BRICS are also gaining prominence amongst ‘emerging donors’, building on a tradition of South-South development cooperation, which has grown outside the framework of the OECD Development Assistance Committee. As Southern donors become major players, and with the potentially significant role of a new BRICS Development Bank, what might a polycentric international development system look like and what are the policy implications?

Two traditions of development assistance began to take root after the end of the Second World War and the emergence of ‘the Third World’ from a frequently painful decolonisation process. One was centred around the OECD led by its Development Assistance Committee, the International Finance Institutions and a host of accompanying processes and stakeholders – sometimes described as ‘the aid industry’. The other was centred around the non-Alignment Movement and South-South Cooperation principles initially formulated at the Bandung Conference in 1955. These two approaches remained a broadly parallel set of processes and relationships until two important developments: the end of the Cold War and the rapid economic growth of East Asian economies. China’s growth in particular challenged many of the fundamental principles of DAC-informed development, but it was not the only country which did not

adopt the Western model. BRIC foreign ministers first began to meet on the sidelines of the UN General Assembly in 2006, building on an established series of RIC meetings (Russia, India, China). Leader meetings followed and the first full BRIC Summit was organised by Russia in 2009. Soon after, South Africa was invited to join the BRIC to make the BRICS in 2010.

What is the significance of the BRICS Summits for a transitioning global economic governance?

The BRICS Summit is most accurately viewed as a group of non-G7 countries providing themselves with a forum where they do not have to contend for air-time and agenda-setting with Western powers and intellectual frameworks, and which provides the possibility to have an impact – symbolically, rhetorically and programmatically – on the world scene. The eThekweni Leader’s Declaration, from the 5th BRICS Summit held in

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Durban in March 2013, sets out the objective of ‘progressively developing the BRICS into a full-fledged mechanism of current and long-term coordination on a wide range of key issues of the world economy and politics’.

Within the framework of the Summit process led by heads of state, the BRICS have also from 2011 created a series of regular inter-ministerial meetings in key areas of concern: health, finance, agriculture, education and urbanisation. The BRICS Summits are emerging as a knowledge-exchange process among countries still classed as developing, but looking to a future world order in which they have major roles and responsibilities.

Alongside their deepening collaboration, the BRICS are all also fully committed to the G20 Leaders process, itself a manifestation of the evolving global governance system. Along with a wide range of developing countries, all of the BRICS also engage in substantive engagement and joint work within the OECD and participate in OECD annual ministerial meetings. Hence, the BRICS Summit process could be said to be nested within a larger process of systemic change in global governance. Even if the pace and nature of any such change cannot at this point be foreseen, ultimately this process will produce convergence between the BRICS and DAC models, albeit with challenge and contestation.

The G20 and the BRICS are both self-selected groupings of countries with divergent interests and governance systems. Values and reputation are critical to credibility in both these arenas. It is on this level that failure to generate a strong recovery from financial crisis sparked by difficulties and dysfunctions in Western governance systems has opened the way for the BRICS to come forward as global leaders. Yet, as we see, the BRICS also face their own range of economic and

governance challenges. The way in which they respond to and manage these challenges affects their reputation and soft power, both individually and collectively.

The BRICS Summits are the only global process with an explicit objective to constitute a new global order in line with the massive change in economic weight that is coming in the next decade. The stated objective of the BRICS is to ensure that this coming world order is inclusive and just, in line with historic South-South principles for a post-colonial world order, and with the United Nations as the centre of systemic legitimacy.

Yet while the BRICS Summits look to project the voice of the global South, there are divergent interests and priorities among the BRICS, for example, on reform of the UN Security Council. There are even some ongoing disputes on territorial boundaries, for example, between China and India. Difficult frontlines with the international economic system also occur in the areas of currency management and trade. Here the BRICS Summit process will be tested as its members confront their differentiated interests in and responsibilities for the functioning of the global system.

The BRICS Bank: a new contender in development finance?

The official announcement at the 2013 BRICS Summit in Durban of the formation of a joint development bank was a significant milestone with regard to the future of development cooperation. There is little question that the project has a signalling as much as a practical role, challenging the pre-eminent position of the World Bank as the reference point for leadership, governance and practice of development and multilateral development finance.

In a global macroeconomic context of a major shortfall in investment spending, there is a huge

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unrealised demand for new and renewed infrastructure. Altering the state of long-term expectations of investment in developed and developing countries would do much to fix the lagging recovery from the financial crisis, as well as provide the scope to speed up green economic transformations around the world. The urgent need to scale up long-term finance is common ground across the G20, where tackling the policy and market failures that stand in the way of generating long-term funding for infrastructure is a declared priority for the Australian G20 Presidency in 2014.

The G20 work shows the need for both a supply of bankable projects and a stream of long-term finance as interdependent elements of a scaled up infrastructure investment system that will yield long-term income streams for savers such as pensions funds and sovereign wealth funds. In principle, the World Bank and the regional development banks could be quickly mobilised to effect such a major scale-up in developing countries, but the political consensus to do so would be extremely difficult to organise.

The BRICS have been able to generate a consensus on a New Development Bank around an Indian initiative launched at the New Delhi BRICS Summit in 2012. The announced aim is to have the whole institutional design ready for agreement at the Brazil BRICS Summit in July 2014. The choice of a co-op model of equal shares and capital of US\$50bn avoids long negotiations and future struggles over voting shares, although it evidently also limits the size of the capital base. The Long Term Vision for BRICS report from the Observer Research Foundation in New Delhi estimates that the announced capital structure could support US\$9bn per year annual disbursements, leveraging total financing of US\$45bn per year. For comparison, the total non-

concessional disbursements of the World Bank and the regional development banks (Asia, Latin America, Africa and Europe) were US\$20bn in 2012; their concessional disbursements were a further US\$39bn.

BRICS members also have national development banks which engage in financing projects in developing countries. The BRICS Interbank Cooperation Mechanism meets annually and organises operational cooperation among these member banks. The total development financing capacity of the BRICS therefore goes well beyond the New Development Bank. In addition, at the 2013 Durban Summit, the Interbank Cooperation Mechanism concluded two co-financing agreements: a BRICS Multilateral Infrastructure Financing Agreement for Africa and a BRICS Multilateral Co-operation and Co-Financing Agreement for Sustainable Development.

This range of activity and planned expansion implies building impressive capacity in operational areas. These include professional staffing and research, effective business models for project preparation and evaluation functions, and risk management, along with skilful political entrepreneurship for putting together complex interregional projects. The existence of the national development banks and the Interbank Cooperation Mechanism provides a pool of experience and capacity on which the New Development Bank can draw. The launch of the New Development Bank will undoubtedly attract international attention and require a level of transparency necessary to respond to that. The Bank's policy and research agendas will also be keenly observed, especially given the ambition to draw on the BRICS' own development experiences and to create an intellectual framework for thinking about development that is different from the World Bank and the regional development banks.

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Policy implications

- **Identity:** Policymakers from developed countries, particularly those within the G7, can most accurately understand the BRICS Summit identity as a group of non-G7 countries providing themselves with a forum where they do not have to contend for air-time and agenda-setting with Western powers and intellectual frameworks, contributing to a larger process of systemic change in global governance. At the same time, they are all fully committed to the G20 Leaders process.
- **Development finance:** A BRICS Development Bank is a potentially significant milestone with regard to the future of development cooperation. The range of activity and planned expansion implies impressive capacity expansion in these countries to staff and govern a new multilateral development institution. Here the BRICS can draw on two key sources:
 - First, they can benefit from work being conducted within the G20, which is showing the importance of generating a supply of bankable projects and a stream of long-term finance as interdependent elements of an infrastructure investment system, and the important interdependence also between hardware and software in generating sustainable infrastructure.
 - Second, national development banks within the BRICS, as well as the Interbank Cooperation Mechanism, provide a pool of experience and capacity on which the New Development Bank can draw. It will undoubtedly attract international attention and will also require a level of transparency necessary to respond to such attention.
- **Development cooperation:** The growth in weight and influence of emerging donors, particularly the BRICS, is clear – both politically and intellectually. They present viable alternatives to the world of DAC development cooperation. At the same time, a common interest in development effectiveness is beginning to emerge as Southern providers become more concerned with systemic outcomes, long-term sustainability and state fragility. The future development cooperation framework will be based on polycentric geopolitics and multiple development experiences, differing from previously dominant structures, both intellectually and operationally.
- **Research and knowledge-sharing:** New interactive research programmes are generating the basis for a network of networks linking think tanks and research institutes from the full range of rising powers and OECD countries that could provide an intellectual motor for such a future development cooperation framework in the changing global landscape.



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Further reading

Li, X. and Carey, R. (2014, forthcoming) *The BRICS and the International Development System; Challenge and Convergence?* IDS Evidence Report, Brighton: Institute of Development Studies

IDS Rising Powers in Development Programme (2014) *State of the Debate BRICS Country Studies*, Brighton: Institute of Development Studies

Observer Research Foundation (2013) *A Long Term Vision for the BRICS*, New Delhi

Credits

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