

# BRICS SUMMIT READER

SPECIAL E-NEWSLETTER



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## The Club in the G20 Club

Knowledge Box on Contingency Reserve Arrangement by **Kavaljit Singh**;

Insights on the BRICS by

**Vijay Prashad**, Trinity College, US,

**Patrick Bond**, University of KwaZulu, South Africa and

**Kavaljit Singh**, Public Interest Research Centre, India);

A long-term vision for BRICS, by the **Observer Research Foundation**, India;

**Oliver Stuenkel**, Getulio Vargas Foundation (Brazil).

Must Read

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### News from the BRICS countries

In "BRICS Bank: New bottle, how's the wine?" **Sameer Dossani of Action Aid International** explores questions about the Bank and the increasing role of Southern countries as agents of development.

In "The BRICS: The Struggle for Global Hegemony in a Multi-Polar World", **Graciela Rodriguez of Instituto EQUIT and member of REBRIP** describes BRICS's potential to supplant the orthodox neoliberal model with a state-led economic system.

In "The Global Economic Chessboard and the Role of the BRICS: Brazil, Russia, India, China, and South Africa", **Professor Jayati Ghosh of Jawaharlal Nehru University** describes the challenges of the BRICS, including ways it can deal with Southern countries without repeating the mistakes of the North.

In "China's role in G20/BRICS and implications," **Gudrun Wacker, Senior fellow German Institute for International and Security Affairs**, describes why BRICS may have less existential importance for China than G20 and regional "clubs", how China is launching the Asian Infrastructure Investment Bank.

In "Club Governance: Prospects for civil society engagement", **Vitaliy Kartamyshev of GCAP-Russia**, discusses the evolution and roles of the BRICS, particularly in international development.

In his article, "High Ambitions: the Programme for Infrastructure Development in Africa (PIDA)", **Mzukisi Qobo, Centre for the Study of Governance Innovation, University of Pretoria** describes how PIDA has a blueprint for the financing of megaprojects by the BRICS Bank, among others

# Introduction

## Which Development Paradigm Will the BRICS Follow?

Nancy Alexander, Heinrich Böll Foundation - North America

Civil society organizations (CSOs) are asking important questions about the future of collaboration by the BRICS, such as:

–“Are the current Leaders of the BRICS – Rousseff (Brazil), Putin (Russia), Modi (India), Xi Jinping (China) and Zuma (South Africa) – capable of bringing a progressive vision to their collaborative endeavors? Modi, elected as Prime Minister in May 2014, will make his debut at the BRICS Summit.

Writing in [The Guardian](#), Jayati Ghosh says that Modi’s election is a commanding win for Hindu nationalism, corporate India, and crony capitalism. As Chief Minister of his state of Gujarat, Modi delivered economic growth without commensurate human development or tolerance of dissent.

–“What messages might CSOs deliver to BRICS Leaders, especially about their two initiatives, which establish a BRICS New Development Bank (NDB) and a Contingency Reserve Arrangement (CRA)?” (See Box, below.) CSOs have cogent analyses of how the NDB should adopt policies related to, transparency and social, and environmental norms. But, CSO analyses of the “development paradigm” (increasingly neoliberal with a state-led “twist”) are rarer. The international financial institutions no longer need to enforce some neoliberal policies (e.g., budget austerity, public-private partnerships (PPPs) and foreign direct investment (FDI)), because sadly, most national capitals now consider such policies as “conventional wisdom.” Whereas a growing number of trade and investment agreements enforce neoliberal policies and handcuff the state, few mechanisms exist to monitor or enforce normative (human rights or environmental/climate) standards.

–“Will there be mechanisms to deliver messages to the Leaders and their new institutions? Since, reportedly, the BRICS Bank will be based in Shanghai, China (probably with offices in other countries), how will this affect the capacity of CSOs to relate to the NDB?”

This “**BRICS Summit Reader**” includes reflection on these and other important questions. In “BRICS Bank: New bottle, how’s the wine?” **Sameer Dossani of Action Aid International** explores questions about the bank and the increasing role of Southern countries as agents of development. Dossani doesn’t see the bank moving away from the development model focused on urbanization, infrastructure development, and market expansion. And, he is not optimistic its sensitivity to environmental and social questions. But, he expects that the BRICS will promote industrial transformation, which is something that “the World Bank and IMF...have opposed and blocked.”

In “The BRICS: The Struggle for Global Hegemony in a Multi-Polar World”, **Graciela Rodriguez, Coordinator of Instituto EQUIT and Member of REBRIP (Brazilian Network for the Integration of the People)**, describes BRICS’s potential to supplant the orthodox neoliberal model with a state-led economic system. Rodriguez suggests that the creation of the BRICS Bank, the Contingency Reserve Arrangement, and the conduct of trade among BRICS in national currencies have potential to protect against the cyclical crises of transnational and financial capital and promote a new development model.

In “[The Global Economic Chessboard and the Role of the BRICS: Brazil, Russia, India, China, and South Africa](#)”, **Professor Jayati**

**Ghosh of Jawaharlal Nehru University** describes the need for BRICS to enhance diversification in exports and bilateral currency trade; address income and asset inequality; integrate the views of developing countries; and avoid replicating the patterns of North-South interaction (for instance, where the North keeps the monopoly of high-value-added production).

In “China’s role in G20/BRICS and implications,” **Gudrun Wacker, Senior Fellow, German Institute for International and Security Affairs**, describes why BRICS may have less existential importance for China than its regional “clubs” and the G20 and the limited role for civil society in Chinese-led “clubs” and institutions. Importantly, China is joining in the launch of the BRICS Bank, while also launching the Asian Infrastructure Investment Bank (AIIB) with the same initial capitalization as the BRICS Bank and the same basic goal of tackling the deficit in infrastructure investment.

Each geographical region is developing blueprints for mega-projects – usually without input from civil society. In his article, “High Ambitions: the Programme for Infrastructure Development in Africa (PIDA),” **Mzukisi Qobo, Senior Lecturer and Deputy Director, Centre for the Study of Governance Innovation, University of Pretoria** describes how PIDA is developing blueprints for African infrastructure, especially in energy, transport, and water sectors estimated at US\$360 billion up to 2040. These mega-projects provide a destination for rising infrastructure finance from external actors, including the new BRICS Bank and the Asian Infrastructure Investment Bank. Qobo concludes that PIDA could become a “bane for the continent,” if it fails to create

and nurture the governance mechanisms to ensure that infrastructure projects are undertaken with greater sensitivity to the environment and social inclusivity."

In "Club Governance: Prospects for civil society engagement", **Vitaliy Kartamyshev, Co-Chair of GCAP Russia and President, Foundation**

**"Coalition Against Poverty"**, discusses how years of global economic expansion only deepened levels of inequality. He analyzes the geopolitical importance of BRICS, their role in fostering results-oriented policies, and the opportunities for and challenges to civil-society engagement in BRICS' decisions.

"Must Reads" cover reflections by India's **Observer Research Foundation**; Oliver Stuenkel, Getulio Vargas Foundation (Brazil); **Vijay Prashad**, Trinity College (US); **Patrick Bond**, University of KwaZulu-Natal (SA); and **Kavaljit Singh**, Public Interest Research Centre (India).

## Launch of New Infrastructure Facilities

**The BRICS Bank** will start up in 2016 with \$10 billion in cash and \$40 billion in guarantees, which will be used to raise capital on international markets. Each country will contribute equally. --Any country can join the bank with a \$100,000 share.

--In five years the bank's capital should double to \$100 billion through capitalization from funding members, debt emissions or contributions from new members. The BRICS will hold a minimum of 55 percent of the bank's shares.

--Location: Shanghai, with one or more regional offices.

(Sources: Articles in [Reuter's](#) and [Folha articles](#))

**Asian Infrastructure Investment Bank.** Whereas Japan leads the Asian Development Bank and the U.S. leads the World Bank, China will lead the Asian Infrastructure Investment Bank (AIIB), which was announced by Chinese President Xi Jinping in October 2013. The initial capitalization will be US\$50 billion for the purpose of infrastructure construction in Asia. China's Finance Minister Lou Jiwei stated "Existing MDBs, such as the World Bank and the Asian Development Bank, put their priorities more on poverty reduction." The working group for the establishment of the bank is based in Beijing and is

headed by Jin Lique, chairman of China International Capital Corp., one of the country's leading investment banks.

(Source: [Reuters articles](#))

**Global Infrastructure Facility (GIF), World Bank.** The World Bank is expected to launch the GIF in 2014. It has a grand name, but an initial capitalization of only about \$200 million. The GIF will demonstrate a new model of investment finance that combines a project preparation facility with an investment platform. The pilot facility's big idea is to create a new infrastructure asset class, which would enable the financing of infrastructure by global capital markets. There are more companies providing infrastructure funds, such as Allianz Global Investors (Germany), BlackRock (US), and IFM-Europe (Australia), but these invest in "advanced economies." The Group of 20 (G20) is helping to mobilize long-term institutional investors, such as pension funds, to invest in emerging and developing economies. (Sources include: The Dakar Financing Summit (DFS) for Africa's Infrastructure, Dakar, Senegal, 14-15 June 2014.)

## LAUNCH OF THE BRICS CONTINGENCY RESERVE FUND (CRA)

On July 15, the BRICS Summit is expected to launch a USD 100 billion CRA, with USD 41 billion from China. Brazil, Russia and India will each contribute USD 18 billion and South Africa will provide USD 5 billion. The CRA will come into operation only when a member country faces a financial crisis. Kavaljit

Singh asks whether the CRA is likely to be used by BRICS. (see p. 6) He states that although there is a dire need for an alternative to the IMF and the Western financial institutions, not a single member of an even larger reserve fund, the Chiang Mai Initiative (CMI) has ever opted for its assistance.

# BRICS Bank: New bottle, how's the wine?

By Sameer Dossani, Advocacy Coordinator, Reshaping Global Power, ActionAid International  
Reprint from Bretton Woods Project, 27 February 2014



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## Summary

*Last year BRICS leaders agreed to launch a BRICS development bank. Whether this is considered positive depends in part on what questions are being asked. Sameer Dossani of ActionAid International highlights the flaws in the World Bank and IMF, analyses whether a BRICS Bank could be different from these institutions and proposes what it should do and what it should look like.*

At the 2012 Delhi summit of Brazil, Russia, India, China, South Africa (BRICS), the leaders of the five nations agreed to launch a BRICS development bank. The following year in Durban, the initiative was given a name – the New Development Bank (NDB). While perhaps not the most original of monikers, the name does beg questions – how new is the New Development Bank? Whose development are we talking about here? And does the world need another multilateral bank?

We are still awaiting answers on these questions, and judging by the latest reports, so are the five BRICS countries. According to reports from the latest BRICS meetings, aside from the question of how much capital the NDB should have in its 'vaults' (\$10 billion per country, \$50 billion in total), there is little that the countries seem to agree on. While official information is hard to come by, rumours abound. Whether or not those rumours are considered

positive developments depends in part what questions are being asked. If the questions are "Will there be adequate social and environmental protections?" or "Will the NDB actually finance alternative forms of development such as decentralised renewable energy production?" the conclusion is likely to be negative. But if the questions are "Does the world need a Southern-led and controlled financial institution?" or "Would NDB loans come with the kind of harmful macroeconomic conditions that the IMF pushes?", the conclusion would be more positive.

## Do we need a new development bank?

The World Bank and its sister institution the International Monetary Fund, established 70 years ago, have lent billions to developing countries. Yet in their heyday – in the 1980s and 1990s – these institutions did not produce results in terms of poverty reduction or even in terms of increasing economic growth. In almost all regions,

inequality skyrocketed during this period. Even now, with the exception of Latin America, the gap between rich and poor continues to grow.

While the World Bank would be quick to point out that it cannot be blamed for these failures, it is telling that institutions supposedly meant to foster development have to this day very few examples of countries that they have actually helped to develop.

Part of the failure can be attributed to the triumph of ideology over evidence. "Washington consensus" policies – fiscal and trade liberalisation, privatisation and budget austerity – were required of every developing country that sought international assistance. The results have not been pretty. As has been extensively documented, the period from 1980-2010 was in part defined by extremely slow growth globally. Where growth did occur in the North, it often turned out to be the result of speculative bubbles. In the South, the only countries to grow were those that ignored Washington consensus policies – China, Malaysia, Singapore and a few others – and used state-backed borrowing and investment to drive an industrial policy.

In the last decade or so, middle-income countries, including the BRICS, have been investing – and sometimes giving what we would usually call 'aid' – to less developed countries in Asia, Africa and Latin

**In the South, the only countries to grow were those that ignored Washington consensus policies – China, Malaysia, Singapore and a few others – and used state-backed borrowing and investment to drive an industrial policy.**



America. China is by far the biggest player here, but Brazil, India and others are also extending their reach.

What does the increasing role of Southern countries as agents of 'development' in other Southern countries mean for the world's poorest and most marginalised? Is this yet another layer of exploitation, or do these events possibly offer a way out of poverty to communities who have been denied their rights for centuries? Will the NDB help countries improve policies and practices or will it be a mechanism whereby rich countries like China gain access to more resources and markets using the fig leaf of multilateralism?

**The process of industrial transformation is something that the World Bank and IMF have not supported – in fact the institutions have opposed and blocked these policies.**

There are no straightforward answers. But before we explore deeper, we should be clear about what is not on the table.

### **Whose development model?**

Progressives have long critiqued the development model of the North being exported to the South as environmentally and socially exploitative. The focus on GDP growth to the exclusion of other aims (externalities, in economic jargon) is highly problematic, especially in countries that do not yet have strong social and environmental regulations. In countries like India, social movements have strongly opposed a development model focussed on urbanisation, infrastructure development, and on expanding market reach, which almost necessarily entails the destruction of traditional and indigenous communities and lifestyles.

Even in a best-case scenario, initiatives like the NDB are unlikely to challenge any of this – quite the opposite, they are likely to take a GDP-centred, Northern-development-model approach. That

is the model that these countries are following, with megaprojects like the Three Gorges dam in China, Jirau dam in Brazil and Kudankulam nuclear power plant in India being showcased by their respective governments as development successes. But the NDB's failure to challenge the lack of environmental and social protection in the development model does not mean that all hope is lost.

While the neoliberalism of the 1980s and 90s promoted a worldview in which growth and a certain model of development are ends in themselves, it did not even deliver the growth and development that it promised. Amidst recent triumphalism about the achievement of the UN's Millennium Development Goals sits a sad truth: progress against poverty has been made in only a handful of countries. Take out China, Brazil and a few others, and poverty reduction has a poor track record in the last 30 years. Even GDP growth has been disappointing at the global level (with a handful of exceptions), and a lot of the growth that has happened has been deeply inequitable – consider Mexico and India for some of the less equitable growth stories.

The failure is not surprising. Neoliberals argue that countries should find their comparative advantage to create a trade-based strategy to growth – countries should export what they have. However, neoliberalism has never explained why the economies of the US and Japan are not dependent on the export of fur and fish, commodities that they were exporting when they began their development process.

True proponents of development understand that industrial transformation, not comparative advantage, is the key to the story. Countries like the US and Japan were not developed as long as their economies were primarily exporting raw materials – only when the economies began to produce and export manufactured goods could they be called developed (or even developing). The process of industrial transformation is something that the World Bank and

IMF have not supported – in fact the institutions have opposed and blocked these policies.

### **What the BRICS Bank could do**

Might a BRICS bank be different? It is certainly possible. Many of the BRICS countries (China being the most obvious example) are going through the process of industrial transformation themselves, with state support for domestic companies a key component of economic policy. And the BRICS countries (unlike the G7 countries who still dominate the World Bank and IMF) have no history of trying to force economic policy down others' throats.

To be clear, that does not mean that we can expect better results in terms of human rights or environmental protection. Early development in Great Britain, for example, was characterised by high levels of pollution and worker exploitation at every level. But it was a development process (albeit an awful one) that centred around the transformation from an agrarian economy to an economy that manufactured goods. The NDB, if consistent with BRICS rhetoric so far, should not hinder (and might even support) this process of industrial transformation.

Many NGOs critical of proposals for a BRICS Bank have pointed to the decades of struggles to force the World Bank and other international financial institutions to adopt and enforce policies to protect vulnerable communities and the environment. They point to controversial projects like the Brazilian-Japanese-Mozambique ProSavana project, which involves state-owned Brazilian Agricultural Research Corporation adapting Brazilian export crops for Brazilian agribusinesses to start large-scale agriculture projects in northern Mozambique, with export infrastructure paid for by the Japanese aid agency. The critics say it puts Mozambiquan small farmers at risk while benefiting Brazilian and Japanese multinational companies in their production and processing of soy, maize, sugar cane and other cash crops.

These criticisms are certainly valid; problems related to bilateral financing of projects are likely to reappear in these multilateral efforts. But it is unlikely that a development bank can be founded in 2015 and not have some kind of social and environmental protections in place. What those protections will look like and how they will be enforced are questions with which NGOs and other stakeholders should be engaged.

Unfortunately, it is not clear how NGOs or other civil society actors are meant to engage with this process. Unlike other developing country formations (notably IBSA – the grouping that includes BRICS countries India, Brazil and South Africa), there is no formal mechanism for civil society consultation or engagement. Even if this does not change for the BRICS, CSOs should be pushing hard to include CSO consultations on the policies and programmes of the NDB.

Despite its many potential flaws, the proposal to establish the NDB should be viewed with cautious optimism. The key countries driving the process – Brazil, India and China – are not motivated only by a desire to expand their political and economic influence. They are already doing that without an international development bank. They are also motivated by a desire for legitimacy coupled with a desire to compete with (perhaps even show up) the G8 countries that did not live up to promises made in 2008 and 2009 to give developing countries more say over the IMF, World Bank and other IFIs. At that time, the BRICS countries and others were promised more say over the IFIs in exchange for putting in billions which the IMF ultimately directed to Europe. The rich countries have yet to live up to their end of the bargain.

The BRICS' desire to be seen as the promoters of 'genuine' development gives campaigners an inroad to help the BRICS countries define what genuine development is. If the development discourse were to focus less on mosquito nets and vitamins

(important as those may be) and more on sustainable economic transformation, industrialisation and job creation, we might all be better off. Both the BRICS and CSOs can be part of the process.

A bank that is willing to fund policies aimed at economic transformation would be a step in the right direction. But would it really contribute to development and poverty reduction? There are a few things to look out for on the off chance that it can meet this lofty goal.

**If the NDB can establish governance structures more equitable, more transparent, and more tilted towards ensuring that the needs of poor countries are at the fore, it may add to the already building pressure for meaningful reform of the Bretton Woods institutions.**

First, the NDB should lend not just to BRICS countries (who have many other potential sources of income), but also the world's poorest countries.

Secondly, the NDB should not focus on a specific sector, but rather it should fund those projects that countries identify as key to their industrialisation and development policies. If that is not feasible – we are already hearing that there will be sectoral focus on infrastructure – it should only operate in countries where investment in the niche sector is already part of the national development strategy.

Thirdly, in addition to financing projects, the NDB should be building up technical expertise, research and documenting various development experiences. Despite the noble efforts of some, such as Cambridge economist Ha Joon Chang, there still is not enough documentation on why and how countries develop. There is even less documentation putting that theory into practice in the context of a particular developing country, and

where that documentation exists it is usually coloured by the political agendas of the World Bank and the IMF. The NDB should build up a counterweight to those narratives and work with underdeveloped countries who may request help to develop their own strategies of economic transformation.

### A new global architecture

If the NDB is really trying to push in a different direction, it should be cautious about working with the existing IFIs, especially the World Bank and the IMF. While those institutions are already preparing to greet the NDB as a potential partner, partnership would come with a lot of baggage for an institution promoting itself as an alternative. In order to create such a genuine alternative, it should look elsewhere, perhaps to more participatory institutions like the Global Fund for AIDS, TB and Malaria.

In addition to a more democratic governance structure – we are hearing rumours that each of the BRICS countries will contribute an equal share of money to the NDB pot, meaning that they would all have the same number of votes on its board – the NDB should ensure that representatives from recipient countries are also part of the process. There are many ways in which it could do so – the best might be to create a governance mechanism that includes representatives from other structures such as the African Union or the LDCs block as well as members of Southern civil society. If the NDB can establish governance structures more equitable, more transparent, and more tilted towards ensuring that the needs of poor countries are at the fore, it may add to the already building pressure for meaningful reform of the Bretton Woods institutions.



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## KNOWLEDGE BOX

### Contingency Reserve Pool of the BRICS countries

In June 2012, Brazil had proposed the establishment of a BRICS contingent reserve pool and bilateral swap arrangement which could ease short-term liquidity pressures and strengthen financial stability in the event of a balance of payments or liquidity crisis. It was at the Durban Summit (2013), the BRICS Leaders decided to create a US\$ 100 billion Contingency Reserve Arrangement (CRA) to tackle any potential financial crisis.

Currently, the central banks of BRICS are working on the modalities and operational aspects of the CRA. Unlike the BRICS Bank, the self-managed CRA could come into operation soon once BRICS Leaders reach on a final agreement in Fortaleza (Brazil) in July 2014.

It is important to note that the CRA will only come into operation when a member-country faces an imminent financial crisis. In normal times, each member-country of BRICS will preserve the funds' reserve as part of its foreign exchange reserves.

The establishment of a Contingent Reserve Arrangement (CRA) of \$100 billion looks very promising as we are living in a post-crisis world full of financial risks and shocks. It offers a rare opportunity to reshape the global financial architecture by providing concrete financial mechanism of \$100 billion to BRICS (possibly to other poor and developing countries as well) which may suddenly face a balance of payments or liquidity crisis. The proposed CRA could potentially sow the seeds of an alternative financial architecture if it could expand its mandate and reserve pool.

Few can dispute the fact that such an alternative arrangement was badly needed as poor and developing countries had no option but to accept the misdiagnoses and harsh conditionalities of the IMF which provoked huge public outcry and bitter resentment in the 1980s and 90s. The relevance of CRA becomes even more important in the present financial landscape

dominated by Western institutions and banks. Thus, the potential of CRA (and BRICS Bank) in altering the present unequal power relations in the financial world cannot be denied. However, it is important to emphasize that whether these instruments can really fulfill potential roles would be primarily judged by their official mandate, policy framework, governance and the operational aspects.

At the same time, one cannot ignore the fact that reserve arrangements similar to the BRICS CRA currently exist, are inoperative and have not challenged the hegemony of the IMF. In the aftermath of the Asian financial crisis of 1997-98, Asian countries (ASEAN plus China, Japan and South Korea) launched the Chiang Mai Initiative (CMI) to develop a self-managed reserve pooling arrangement and a regional financial safety net which

could provide immediate liquidity support to member-countries in the event of a balance of payments or liquidity crisis. The CMI was the first regional currency swap arrangement launched with much fanfare in 2000.

However, it is surprising to note that not a single member-country facing an impending financial crisis of one sort or another has, so far, opted for this regional financial safety net. This is despite the fact that the size of reserve pool of the CMI has been substantially expanded over the years (currently at \$240 billion) and new facilities on crisis prevention and resolution have been added. Many of its member-countries (for example, Indonesia and Philippines) are more vulnerable to liquidity shocks at present than in the past. Therefore, the recent unappealing experience of CMI raises several pertinent questions which BRICS leaders cannot choose to ignore.

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# The BRICS: The Struggle for Global Hegemony in a Multi-Polar World

By Graciela Rodriguez, Coordinator of the Brazilian Instituto EQUIT and the "Empowering CSO Networks in BRICS countries in an Unequal Multipolar World" Project; Member of the Coordinating Team of REBRIP – Brazilian Network for the Integration of the People



Many authors have sought to understand and express the strategic significance of the BRICS – namely, Brazil, Russia, India, China, and, more recently, South Africa. At the first BRICS Summit in 2009, there were urgent calls for regulation of the global financial system. The summit process generated certain expectations that the BRICS would tame the global "casino" of speculative activity that contributed to the crisis. Since then, however, there has been very little progress in terms of regulating the financial system due, in part, to various contradictions within the bloc. In fact, since their incorporation into the G20, the BRICS member states have focused more on increasing their own participation in the global system than changing the system and delivering on commitments that they announced with great fanfare in 2009.

In spite of having made only a few advances, the BRICS continue to negotiate and build the collaborative links and programs within their bloc. In 2014, they will gather at the 6th BRICS Summit, which is likely to be held in July in Fortaleza, Brazil. There, they will have the challenge of moving ahead with the creation of the BRICS Development Bank and the Contingency Reserve Arrangement (CRA) – two important

processes currently under negotiation; the agenda for addressing the roots of the global crisis does not yet appear to have gained traction, despite the obvious urgency.

**Since their incorporation into the G20, the BRICS member states have focused more on increasing their own participation in the global system than changing the system and delivering on commitments that they announced with great fanfare in 2009.**

This crisis, which initially brought the BRICS countries closer together, demonstrated the severe and profoundly systemic nature of the financial collapse. Even though crises are cyclical elements of capitalism (part of its very essence), this particular crisis showed the magnitude of the problem of over-accumulation in the capitalist/neoliberal model of production, which now overlaps with the environmental crisis. The expansion of globalization and its neoliberal project has weakened the power of nation-states and reduced their capacity to overcome cyclical crises

by dismantling safety nets and other mechanisms.

While many commentators emphasize the differences among the BRICS, there are also similarities. For instance, when the crisis exploded in 2008, the BRICS were among the countries that were best positioned to tackle the crisis in their domestic spheres, largely due to the fact that they had preserved the capacity and controls to manage their economic, financial and monetary policies. In contrast, a large number of globalized countries have been weakened by relinquishing such controls. The policies of the BRICS enabled most of them to confront the financial crisis with policies that supported higher levels of consumption, redistribution, and social spending, which helped to keep their economies afloat and minimize the pain inflicted on the citizenry.

**This particular crisis showed the magnitude of the problem of over-accumulation in the capitalist/neoliberal model of production, which now overlaps with the environmental crisis.**

The control that BRICS countries continue to hold over the apparatus of the state can be attributed to



political models and historical circumstances that vary greatly from one country to another. The models vary from the hegemonic visions of communist or left-wing parties that wagered on maintaining a strong role for the state in their economies to situations where the national elite agreed on a regulatory role for post-colonial states, including broad power-sharing by a range of political parties in order to mitigate profound class conflicts, as in the case of India or South Africa. Such control over state power and especially over public or renationalized state enterprises does not necessarily mean that these enterprises escape the logic of neoliberalism. To the contrary: in some cases, state-owned enterprises can strengthen neoliberalism; however, the role they can play in guiding and regulating the market merits a separate analysis<sup>1</sup>.

**The reconfiguration of the G7 to form the G20 recognizes that decisions about the new financial architecture and the exercise of global power can no longer be made without the emerging countries, especially China.**

The crisis gave rise to a new international geopolitical context which can no longer be explained using the "center-periphery" model. Instead, we see a new model in which emerging countries (formerly at the periphery) began to occupy an uncommonly pivotal role in the efforts to find solutions. In reality, the reconfiguration of the G7 to form the G20 recognizes that decisions about the new financial architecture and the exercise of global power can no longer be made without the emerging countries, especially China. In fact, it was the BRICS members that salvaged the IMF's financial structure and restored its power, and even its legitimacy, by injecting a significant amount of their resources into its reserves.

Current geopolitical changes and the competition for global hegemony do

not imply that we are witnessing a "paradigm change" or a profound transformation of the global capitalist system. It does not even mean that the current reforms are necessarily "progressive". Even so, these changes can be interpreted as steps towards overcoming unipolarity and the beginnings of a multi-polar global governance system.

**The BRICS have emphasized the importance of the role of the state in regulating the system. This is a key dimension in the current dispute for world hegemony.**

The BRICS have emphasized the importance of the role of the state in regulating the system. This is a key dimension in the current dispute for world hegemony. We have before us a scenario where, on one side, we find the driving forces behind the neoliberal model, which remain committed fully to liberalizing trade and the flow of transnational capital. As promoters of the so-called "Washington Consensus" they enforce a diminished state role through the array of economic and institutional prescriptions and loan conditions of the international financial institutions, the World Trade Organization (WTO) and the web of free trade agreements that are proliferating around the world<sup>2</sup>. On the other side, we find sectors of global capitalism insisting on some kind of state control and regulation over financial flows, a new global economic/financial architecture, and even moderation in the processes of social polarization and the concentration of global wealth.

For a few years, this debate has been culminating in a dispute for hegemony, which has been intensified by the arrival of the BRICS. The project of the elites of major transnational corporations to form a seamless global market is now being confronted by more moderate actors from the establishment (e.g., Stiglitz, Sachs, Krugman) that defend a neo-Keynesian vision of solutions for the

global crisis. These moderates are joined by the BRICS, who have taken ownership of this debate and insist on a substantive state presence and role.

Several other actors challenge the logic of imposing globalization at all cost and bowing to the interests of corporations and the speculative markets. They represent the "third way" (beyond state and market), which seeks to resolve so-called "market failures" and guarantee the stability of the global system. Yet, despite the system's obvious loss of legitimacy and hegemony, these actors fail to introduce significant reforms.

According to Robinson, these "third way" reformists

*do not transgress the essential premises for the liberalization of the world market or the freedom of transnational capital, nor do they propose reforms that imply redistribution or State control of capital's prerogatives. Yet a choir of voices from the transnational elite is calling for a broader global regulatory framework that could stabilize the financial system and attenuate some of most acute contradictions of global capitalism in the interest of ensuring the system's political stability.*<sup>3</sup>

**For these reformists, the state should create an environment that is favorable towards capital without challenging its rights and prerogatives.**

Thus, for these reformists, the state should create an environment that is favorable towards capital without challenging its rights and prerogatives. The interventions of the state would be based on appropriate regulations and involve oversight and supervision of the global financial system. Some even see the state as having responsibilities in the area of social welfare and the promotion of global public goods.

Faced with neoliberal orthodoxy, these dissident voices calling for reforms of the Washington Consensus are aware that the neoliberal project began to suffer a legitimacy crisis at the end of the 20th century, especially with the protests at the 1999 WTO Ministerial in Seattle and the emergence of the "anti-globalization movement", as it was then called. For these reasons, reformists are seeking to preserve the current configuration of global hegemony by "giving globalization a human face".

**BRICS members appear to be aligned in their quest for some form of regulation of the global system, especially of the global financial system. Their efforts appear to be directed towards replacing the orthodox neoliberal model with a state-led economic system.**

Despite their weaknesses and vacillations, the BRICS have been strengthening the voices of critical actors. In fact, since the bloc's appearance and in spite of enormous differences and difficulties in reaching consensus, BRICS members appear to be aligned in their quest for some form of regulation of the global system, especially of the global financial system. Their efforts appear to be directed towards replacing the orthodox neoliberal model with a state-led economic system; some of them would contribute to the democratization of global civil society, although this is not an explicit objective of the group. In reality, all BRICS countries need some form of social democratization that allows them to advance on the path towards overcoming poverty and inequalities, which have become powerful obstacles for their own development. In recent decades, we have seen that many of the policies required to overcome these obstacles are not compatible with neoliberal prescriptions.

It is important to understand the roles that the BRICS could assume in a transition to a multi-polar world. For instance, they could mobilize sectors that still submit to the dominant logic, thereby broadening counter-hegemonic resistance to the neoliberal model and formulating new approaches to "development" in the Global South. This is why it is important for social movements in the BRICS countries to pressure their governments to confront the current hegemonic model, even if their governments have not been very proactive since 2009–2011, when they first took small steps forward.

Among the tasks the BRICS have taken on, their priorities are the creation of the BRICS Bank and the Contingency Reserve Arrangement (CRA). Both mechanisms have been approved and are in the process of being implemented; both are relevant on the international scene, even though they are being designed to conform to the traditional international financial institutions which came under criticism from the BRICS themselves not so long ago.

The BRICS Bank, the CRA, and the interesting possibility of conducting trade among the BRICS in national currencies<sup>4</sup> all aim to protect countries in the bloc from external vulnerability and, on a broader level, provide protection for developing countries against the cyclical crises of transnational and financial capital. Moreover, they have the possibility of promoting "proactive development strategies."<sup>5</sup>

**Among the tasks the BRICS have taken on, their priorities are the creation of the BRICS Bank and the Contingency Reserve Arrangement (CRA). Both mechanisms have been approved and are in the process of being implemented.**

Yet, disappointment with the BRICS' role has grown significantly and it is becoming harder to envisage the possibility of the bloc playing an

active, positive role. Even so, despite all of the weaknesses and profound political and economic contradictions within the BRICS, we must consider their strategic importance on the international level. Civil society must pressure them to assume an active, transformational role and force actors, including the G20, to strengthen financial regulation and the implementation of rules on capital controls and taxation, and especially those on profit remittances of major transnational corporations.

We still witness the hegemony of Western nations and transnational corporations, but their hold on power is slipping. That is, we can detect schisms and fractures in the formerly unyielding neoliberal order. The BRICS countries should work to deepen these fractures and abandon conciliatory stances towards the G7. At the next BRICS Summit in Fortaleza, Brazil, they will have another opportunity to strengthen their common position in order to create a different global economic order.

<sup>1</sup> Author's note: While the role of the state in itself and its democratic functioning merit a very broad and profound critical analysis, which will not be addressed in this article, criticisms of the state have recently been reinforced in light of the generalized corruption in various countries, the lack of responses from the political elite to broad popular mobilizations around the world, and the criminalization and state repression of social struggles.

<sup>2</sup> Many of these agreements (Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP), etc.) are being configured with a logic that is almost "anti-China".

<sup>3</sup> Our translation. Robinson, W. "Una teoría sobre el capitalismo global: Producción, clases y Estado en un mundo transnacional". Ediciones Desde abajo. Bogotá, D.C., Columbia. June 2007.

<sup>4</sup> In the way of a substantive expansion of commercial exchange.

<sup>5</sup> Mineiro, A. "Os BRICS e a participação social sob a perspectiva de organizações da Sociedade Civil" Pág 29. INESC/REBRIP. Brasil. 2013

# MUST READ

## INSIGHTS ON THE BRICS

In "[Neoliberalism with Southern Characteristics: The Rise of the BRICS](#)" (Rosa Luxemburg Foundation), Vijay Prashad of Trinity College (Connecticut) puts the emergence of the BRICS in an historical perspective that includes the eras of colonialism and the failure of the Third World Project (1928-1983). Wearing technocratic (rather than political) masks, neoliberalism triumphed and sharply diminished the role for the state. The BRICS are not transforming global power relations or neoliberalism, but only seeking to join and modify global governance. Still, this challenges the "hub and spokes" model of global governance (wherein the U.S. is the "hub") and creates a multi-polar world. Moreover, "an aggressive move to transfer the surpluses of the South to their own populations alongside shifts in the growth model...would have an immediate impact on the possibilities of an institution, such as the BRICS Bank."



In [Are BRICS Any Use For Rebuilding the Collapsing Global Financial Architecture?](#) (ZNet), Patrick Bond, Director of the Centre for Civil Society of the University of KwaZulu-Natal in Durban, South Africa, describes the currency crashes in emerging market countries and quotes assertions that the BRICS are already breaking apart in material ways, leaving China to push ahead. Bond also emphasizes how the 'talk-left' of BRICS foreign policy officials is negated by the 'walk-right' behavior of BRICS finance officials and central bankers. Due to this dynamic, the BRICS are not challenging, much less stopping or reversing, the ways in which the global financial architecture is self-destructing. He also anticipates the outcomes of the March 2014 BRICS Summit in Fortaleza, Brazil where the Leaders are expected to announce progress

toward launching a BRICS-led 'New Development Bank' and Contingent Reserve Arrangement (CRA). But, Bond points out that the anticipated \$50 billion capitalization of the Bank is pitiable compared to the size of existing development banks, particularly the Brazilian National Economic and Social Development Bank (BNDES). Likewise, a \$100 billion for the CRA could be trivial compared to the potential costs of a serious financial meltdown.

In "[Why is the Indian Rupee Deteriorating?](#)" Kavaljit Singh (Madhyam Briefing Paper), describes the plans of the U.S. Federal Reserve

to taper (or gradually curtail) its monetary stimulus program of bond-buying. Due to this program (known as "quantitative easing" (QE)), investors have borrowed cheap money in the U.S. and

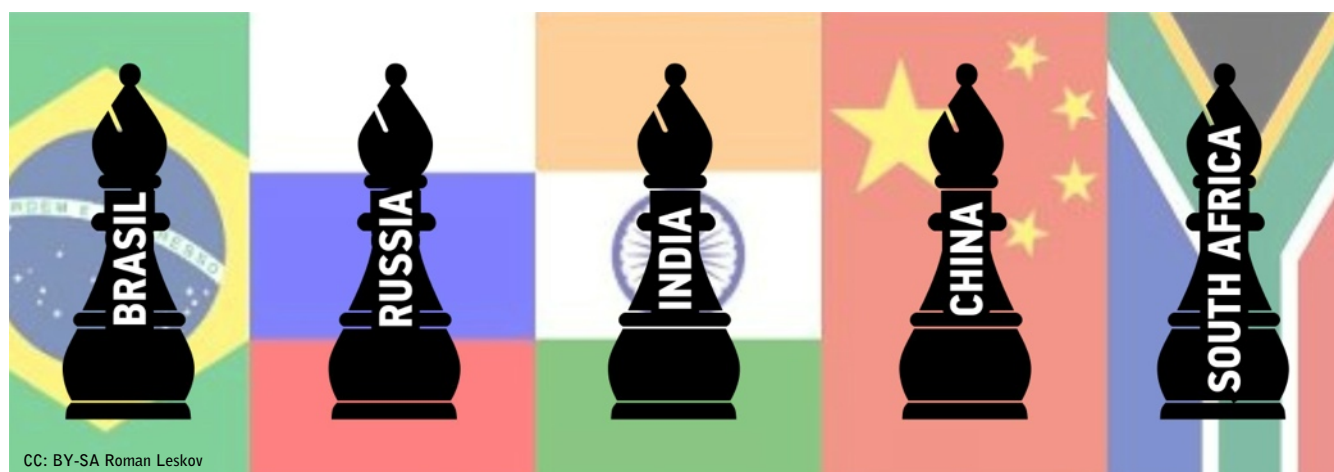
invested in higher yielding assets in emerging market economies. Among others, India used these inflows to finance its trade and current account deficits rather than addressing their underlying structural causes. Just the Fed's suggestion of the need to taper (rather than the actual tapering) has led to capital flight out of emerging markets and sharp depreciations of currencies, particularly the Indian rupee. Singh describes a range of factors that have affected the Indian economy and currency, such as a contraction in manufacturing and mining; a sharp rise in domestic food prices; rising global oil prices, and the role of speculation in derivative markets. Singh suggests that the Indian government consider policies, such as curbing inessential imports, trading goods in local currencies, entering currency swap agreements with trading partners, reining in speculation, and imposing capital controls to protect the economy from capital flight.



# The Global Economic Chessboard and the Role of the BRICS: Brazil, Russia, India, China, South Africa

By Jayati Ghosh, Professor of Economics, Centre for Economic Studies and Planning, School of Social Sciences, at the [Jawaharlal Nehru University](#), India

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Despite its strange origins and some serious challenges confronting it, the bloc of countries that has emerged into the international arena under the acronym BRICS (Brazil, Russia, India, China, South Africa) has the potential for being a positive force in world affairs. Strange things happen in the world. Imagine a grouping of countries spread across the globe, which gets formed only for the simple reason that an analyst for an investment bank decides that these countries have some things in common, including future potential for growth, and then creates an acronym of their names! Bizarre but true.

The original categorisation of the BRIC countries (by Jim O'Neill of Goldman Sachs in an article in 2001) contained only Brazil, Russia, India and China. He described the countries with the most economic potential for growth in the first half of the 21st century, based on features like size of population and therefore potential market; demography (predominantly young populations with likely falling dependency ratios); recent growth rates; and embrace of globalisation. So China was to become the most important global exporter of manufactured goods (which indeed has already occurred); India the most significant exporter of services (which has not occurred as expected,

although it remains important); and Russia and Brazil would dominate as exporters of raw materials.

In a process that has since surprised many, this initial statement caught the imagination not only of the global financial community and the mainstream media, but even of policy makers in the countries themselves! Although geographically separated, economically and politically distinct, with different levels of development and with not such strong economic ties at that time, these countries began to see themselves as a group largely because of foreign investor and media perceptions.

**The BRICS now cover 3 billion people, with a total estimated GDP of nearly \$14 trillion and around \$4 trillion of foreign exchange reserves. Each country is effectively a sub-regional leader.**

The group had its first summit meeting in June 2009 in Yekaterinburg, Russia. In 2010 South Africa was included (at the instigation of China). The enlarged BRICS have since had summit meetings in Brasilia, Brazil, in 2010; Sanya, China, in 2011; New Delhi, India, in 2012; and Durban, South

Africa, in 2013. The BRICS now cover 3 billion people, with a total estimated GDP of nearly \$14 trillion and around \$4 trillion of foreign exchange reserves. Each country is effectively a sub-regional leader. Of course, that does not mean there are no other potential candidates for inclusion. Indeed, several countries are often mentioned as possible members of an enlarged group on the basis of their actual and potential global economic significance: for example, South Korea and Mexico (both OECD members), Indonesia, Turkey, Argentina.

BRICS is one of several new initiatives of different countries in the world to break out of the Northern axis: G12 (G20-G8), IBSA, BASIC (BRICS minus 1) and so on. While the origin of the grouping may be odd, and the countries are indeed remarkably diverse, there are some commonalities that are important. Subsequently, in fact, these countries have since shown significant interest in meeting periodically, working together, and finding some synergies and new ways of cooperation.

So trade between BRICS countries soared after they became recognised as a combination (although of course this is a period when trade between developing and emerging markets in general has grown much faster than

aggregate world trade). Investment links have been growing too, mainly through Chinese involvement in different countries and some interest shown by large Indian capital. And more recently there have been other moves that suggest an appetite for newer and further forms of close economic and political interaction and co-ordination. They have recently acted in concert in several international platforms, most recently pledging \$75 billion to the International Monetary Fund (conditional on IMF voting reform). Other economic initiatives include agreement to denominate bilateral trade in each other's currencies, and plans for a development bank. There have also been declarations in favour of a shared approach in foreign policy, particularly responses to US and European policies in the Middle East and elsewhere.

In fact there is great potential in these five countries not just combining to address global issues, but perhaps even more significantly, learning from one another. For example, India has much to learn from Brazil and China in the matter of development banking. From the early 1990s, India has set about destroying the potential of its own development banks, in both agriculture and industry – but there is still scope for their renewal and rejuvenation. And the example of Brazil, and in particular the Brazilian Development Bank (BNDES), in entering areas and promoting activities that would not occur purely through the incentives determined by the market, could provide some guidance about how this can occur even in a very open and largely market-driven economy.

Similarly, there are areas in which other BRICS countries could learn from India, while the description of the work of the South African Development Bank illuminated the strategy of creating financial structures and mechanisms to promote the 'green economy' through environmentally desirable activities and technologies. There are also immense possibilities for technology sharing and even co-ordinating technology development,

in a world where intellectual property rights still largely controlled by Northern multinational companies have emerged as a major constraint on development. There is also great potential for 'Marshall Plan'-type capital flows from surplus to deficit countries (even those outside the BRICS) to enable them to withstand the impact of global recession – and a BRICS Bank could be a first step in that direction.

### Common challenges

But it is not only comparing experiences of the recent past and learning from each other's approaches that may be important. Despite their many differences, the BRICS countries do face some common challenges, and the very urgency of these challenges points to the benefits of cooperation to develop new strategies. At least four such challenges deserve mention, as do some possibilities of combined action to confront them.

The first is the fact of the continuing global crisis and the near-certainty that the Northern economies (the US and Europe in particular) are unlikely to provide much positive stimulus to the global economy. For all the BRICS, these countries still dominate as export destinations and the domino effect of declining Northern markets must be accepted. So clearly, there is a need to diversify exports, a process that has already started but still needs to go a long way. Of course bilateral currency trade would encourage more trading activity between the BRICS, and this is desirable.

**The domino effect of declining Northern markets must be accepted. So clearly, there is a need to diversify exports, a process that has already started but still needs to go a long way.**

But the current state of the global economy suggests the need for greater ambition. In particular, the time is clearly ripe for some sort of 'Marshall Plan' for the developing world, and the BRICS countries (particularly China and Russia) are

uniquely positioned to take this process forward. This would involve developing mechanisms to finance imports by countries with low incomes and low levels of development, simultaneously delivering markets to other developing countries and more development potential to the recipient countries.

The other challenges are more internal, but surprisingly common across the BRICS. The recent growth process has been substantially associated with increasing income and asset inequality (other than in Brazil, which once again provides some lessons for the others, but where Gini coefficients still remain among the highest in the world). It is now more evident that such inequality is socially and economically dysfunctional, and also that it gives rise to political tensions that can be even more damaging. So there must be measures to address this.

Inadequate productive employment generation has been a central feature of the past growth process, and is clearly linked with the growing inequality. Economic policies within BRICS countries must be concerned with this, and in particular with how to promote more opportunities for decent work.

Another major aspect of inequality has been the inequality in access to basic social services and utilities. The strategies of privatisation and reduced public spending in such areas in all the BRICS countries have not only reduced access for the poor but also created tremendous inequalities. It is increasingly necessary for innovative strategies to promote more universal provision of necessary services and utilities.

Finally, recent growth in all the BRICS countries has been associated with a construction and real estate boom, and it is interesting to note that this boom is also in the process of winding down in all five countries. This creates all sorts of difficulties, in terms of both the employment losses as well as the health of the financial sector, and it is particularly

galling given the continued shortage of adequate mass housing. All of these countries will need effective strategies to deal with this challenge, even while they continue to promote affordable and better-quality mass housing, and so surely there are opportunities here for creative policy thinking that can be shared.

### South-South relations

What of the relations of the BRICS with other countries of the Global South? Two issues are important here. The first is whether the BRICS or the G20 will ignore or substitute for the views of the G77 or larger bodies of developing countries whose voices are only too rarely heard in international policy discourse. This is a concern, and one that it is important for the BRICS themselves to address directly. The recent attempt by South Africa to include many other African nations as observers or participants in the latest BRICS Summit was in that sense welcome, but the nagging question is whether this was simply a cosmetic attempt at suggesting wider representation than actually existed.

**Cheaper exports from these semi-industrial countries can undermine the competitiveness of local production in the poorer countries.**

The second issue is whether the BRICS countries' dealings with other countries of the South are following desirable patterns or simply replicating North-South interaction. It used to be believed that economic interaction between developing countries (South-South integration) would necessarily be more beneficial than North-South links. After all, North-South economic interaction mostly reproduced the global division of labour that emerged by the mid-20th century: the developing world specialises in primary commodities and labour-intensive (and therefore lower productivity) manufactured goods, while the North

keeps the monopoly of high-value-added production. By contrast, trade and investment links between countries in the Global South were supposed to allow for more diversification because of their more similar stages of development, thus creating more synergies.

However, recent global economic patterns have led many to question these easy generalisations. The emergence of East Asian countries (especially China) as giant manufacturing hubs has been driven to a significant extent by North-South trade and investment. Even the interaction between developing countries has not always been along the predicted lines. Accusations of 'new colonialism' are now more common – especially in the hypocritical North, but also in the South. There are questions about whether groupings like the BRICS will feed into this, especially by controlling their own backyards and other weaker developing countries.

So there are fears that growing trade and investment links of the BRICS with poorer developing countries seek to exploit the natural resource base of these countries, siphoning them off in ways that are ecologically damaging, inherently unequal and of little benefit to the local people. There are concerns that cheaper exports from these semi-industrial countries undermine the competitiveness of local production in the poorer countries, thereby causing further shifts into primary commodity exporting and thereby stunting their development process. China is said to be dumping its products in economies across the world, and using the resulting foreign exchange surpluses to invest in and provide aid to authoritarian regimes that allow access to natural resources. Similarly Indian corporate investors are said to be engaged in large-scale land grabs in countries of North Africa and predatory behaviour elsewhere. Many recent South-South trade and investment agreements (and the resulting processes) have been similar in unfortunate ways to North-South

ones, not just in terms of the protection they afford to corporate investors but even in guarding intellectual property rights!

As always, the reality is complex. Primary exporting countries are better off if there is increased competition among imperialists or traders, since that allows for better terms of such exports. Even China's relationship with poorer countries is not based on colonial-style control of political power, but more arm's-length. New manufacturing hubs with increasing import demand have allowed less developed countries indirect access to the developed-world market, while the fast growth of the BRICS has resulted in rapidly growing internal markets from which these countries stand to gain. This provides an important source of demand stimulus even as developed countries are increasingly mired in financial crisis and economic stagnation.

**The first is whether the BRICS or the G20 will ignore or substitute for the views of the G77 or larger bodies of developing countries whose voices are only too rarely heard in international policy discourse.**

The basic point is that it is not economic interaction per se, but its nature, that has to be considered. Much of recent South-South interaction (including amongst the BRICS) has been corporate-led, which has determined the focus on trade and investment and the encouragement of particular patterns of trade and investment. To the extent that companies everywhere have similar interests (the pursuit of their own profits), it is not surprising that older North-South patterns are replicated.

But surely the focus should be to democratise the interaction itself, to work out the ways in which the patterns of trade and investment flows can be altered to emphasise



the creation of decent employment. For this, a change of direction is required both within and outside the BRICS. The potential for positive change exists, but process needs to be more people-oriented, not profit-determined. Ultimately, sustainable

economic diversification to higher-value-added and ecologically viable activities remains the key to growth and development not just in the BRICS countries but in other developing countries as well. This period of global flux actually

provides a valuable opportunity to encourage and develop new ways of taking such strategies forward through cooperation.

## MUST READ

### **A long-term vision for BRICS**, Submission to the 2013 Academic Forum By the Observer Research Foundation, India

In 2009, a BRICS Academic Forum was created to gather experts from the five member countries to guide the BRICS leaders. In 2013, the Forum created the BRICS Think Tanks Council (BTTC), comprising the following five official think tanks to lead the academic research in each member country:

**BRAZIL:** Institute for Applied Economic Research (IPEA)

**RUSSIA:** National Committee for BRICS Research (NRC/BRICS)

**INDIA:** Observer Research Foundation (ORF)

**CHINA:** China Centre for Contemporary World Studies (CCCWS)

**SOUTH AFRICA:** Human Sciences Research Council (HSRC)

Each year, the think tank of the Summit's host country convenes the BRICS Academic Forum, an intra-BRICS cooperation event that takes place prior to the Leaders Summit. The Academic Forum brings together academics and policy experts from a wide array of institutions from the BRICS countries.

In 2012, since India was the Summit host, ORF, the official Indian Think Tank wrote "A Long Term Vision for BRICS," which envisions a long-term cooperation strategy for the BRICS and summarizes the discussions and conclusions generated at the Summit that year. The document was submitted to BTTC to be discussed and finalized during and after the South African Summit and Forum in 2013.

The report is divided into five chapters. The fourth chapter dealing with the creation of the BRICS Development Bank is significant, because India has appointed ORF to draft a design for the BRICS Bank during 2014. In this document, the authors envision a 'one country, one vote' system with consensus-based decision-making. They also propose raising capital from other developing

countries as minority equity holders as well as having convertible assets, such as gold and silver, as guarantees in the event of currency appreciation. Lastly, they see the possibility of issuing debt for sustainable infrastructure – using the model of the World Bank's Green Bonds. The first chapter analyzes common challenges of the group and concludes that a more formal, institutionalized alliance will not be a reality anytime soon. The topics analyzed include: social mobility, poverty and inequality, skills, healthcare and urbanization.

In the second chapter entitled "Growing Economies, Sharing Prosperity" the report calls for diversifying currency reserves; promoting a BRICS Business Council; deepening capital markets (through, for instance, participation of insurance companies) to expand investment in sectors, such as infrastructure, social services, mining and power generation (including nuclear energy).

The third chapter calls for a major overhaul of global political and economic governance institutions. The first priority is to update the IMF quota formula of voting rights. Another priority is to foster closer cooperation among BRICS financial regulatory and supervisory authorities, i.e., setting up a Financial Markets Board to act as a formal supervisory authority. A third priority promotes the strengthening of domestic bond markets, financial inclusion, and financial literacy.

The fifth chapter provides "Other Possible Options for Cooperation". Special attention is drawn to technology sharing and innovation, primarily in aeronautics and outer space research, high-speed vehicles and exploration of mineral resources. Within cultural exchange mechanisms, the report suggests that BRICS leaders should work intensely on streamlining mutual accreditation of workers, expanding tourism, expediting visa processes and boosting inter-parliamentary cooperation.

# China's role in G20 / BRICS and Implications

By Gudrun Wacker, German Institute for International and Security Affairs, Berlin



## 1) Introduction

The main objective of this article is to assess China's roles in the G20 and the BRICS (consisting of Brazil, Russia, India, China and South Africa) and identify some implications for the future. China is now an important member of these groupings that might play a significant role as building blocks in global governance, but for the purpose of this article, it was necessary to evaluate how important these two groupings are from the Chinese perspective and how their future prospects are seen in China (officially and academically).

China has steadily stepped up its international/global engagement over the last two decades. It is now a member of basically all international organizations and institutions and a significant investor in virtually all regions of the world. While Deng Xiaoping's dictum for China's foreign policy – to "keep a low profile" – has not officially been given up, it is clear that China's interests have become global and this is accompanied by a domestic debate about what kind of role China should play in the world. One central question raised is whether China is a status quo power that accepts the international order and its rules and norms or if it will try to change the international system by creating its

own institutions which might also push for a different set of rules.

The growing importance of China at the global stage is reflected by its role in the G20 and the BRICS. As a reaction to the global financial crisis, the G20 was "upgraded" to heads of state level, and China – together with other emerging countries – became a regular member of this "club". Then, on the initiative of Russia, the BRIC group began to hold its own summits in 2009 and in 2012 accepted South Africa as the fifth member (so the acronym is now BRICS).

**There is a belief that China would lose credibility and legitimacy in the developing countries if it joined the "club of rich countries".**

These developments are manifestations of a global power shift that has implications for global governance and the industrialized nations of the global North, but also for South-South cooperation.

## 2) Approach

This article probes China's relationship with these two groups through research and interviews. The research involved identification of Chinese publications on the G20 and BRICS over the last years. Overall,

these publications on the G20 and BRICS focus on the comparative economic performance and competitiveness of member countries, while there is relatively little on their respective political dimensions. It is only in recent years that the Chinese decision-makers have assigned some think tanks to do more systematic research on the G20 and BRICS.

The second step consisted of a series of interviews conducted in Beijing. For these interviews, an extensive list of questions was prepared and distributed beforehand to the experts interviewed in Beijing for this article. The questions focus on the political relevance of G20 and BRICS and, to a lesser extent, on the economic/financial dimensions of the groupings.

## 3) Findings

### G20

From the interviews conducted in China, it seems clear that the G20 is seen as "indispensable" for addressing global issues, especially after the global financial crisis. On the G7/8, there was a lot of debate in China in 1999/2000 – after German chancellor Schröder invited China to participate. In the end, China declined, mainly because at the time it saw itself very clearly as a developing country. Moreover, the topics discussed in the G8 –

macroeconomic management, international trade or energy were at the time not seen as relevant to China's domestic debate: China had no stake in these topics. After a new generation of leaders came into power in 2003-4, there was a turn towards a more active foreign policy and therefore a more positive attitude on the issue of the G8, resulting in the decision to participate in the North-South dialogue together with other big developing countries. Even today, China does not consider itself as a developed country and therefore does not want to become a member of the G7. It does not want to shoulder more international responsibility and there is a belief that China would lose credibility and legitimacy in the developing countries if it joined the "club of rich countries". There is also the conviction that China could not play a real role in the G7, where it lacks friends or like-minded countries. However, the global financial crisis in 2008 fundamentally changed the notion that the international financial architecture and its future development are not relevant for China's domestic situation.

**On all political topics, the UN is still the main organization and platform for China.**

CC: BY-SA Wang Xiaoping



In China, the role and mandate of the G20 (after its upgrade to a summit level meeting) is mainly seen in the economic field. It provides the best vehicle for solving global economic problems. In contrast, on all political topics, the UN is still the main organization and platform for China.

Academics and officials debate whether China should host a G20 summit. There could be a bid to chair the 2016 meeting. However, since Japan will host the G7/8 summit in 2016, it would make sense to hold the G20 back-to-back with this meeting in Japan. Another candidate for hosting the G20 summit is Indonesia, but it might not be interested due to its elections in 2015.

The G20 is seen in China as an important consultation mechanism for the governments, where it is good to have a seat at the table. For the emerging countries, the G20 is a platform for finding new roles in international affairs. Whether the G20 should take political issues like Syria on the agenda (as it did at its St. Petersburg Summit in 2013) is a matter of debate in China.

Most interview partners agreed that the effectiveness of the G20 has declined since its handling of the 2008-09 global financial crisis (what would have happened then without the G20?). There seems to be some frustration with the big differences between the positions of G20 members. Some believe that the broadening of the G20 agenda (after the worst of the global financial crisis was over) has made the G20 less effective.

According to official documents and announcements of China's leaders, China's engagement in the G20 is likely to grow. This may be due to the fact that China is assigning greater importance to issues such as the international financial order than it has previously.

Two interview partners in two different institutions suggested that China and Germany coordinate their

position in the G20, because both countries are in similar positions. For example, both countries were criticized by the other G20 countries for their over-reliance on exports and both countries have criticized the US for its easy money policies.

**Especially if compared to regional institutions and groupings such as APEC, ASEAN-plus formats or the Shanghai Cooperation Organization (SCO), BRICS appears to have less existential importance for China.**

## BRICS

In comparison to the G20, the importance of BRICS is more controversial among Chinese experts. Especially if compared to regional institutions and groupings such as APEC, ASEAN-plus formats or the Shanghai Cooperation Organization (SCO), BRICS appears to have less existential importance for China: It is not absolutely essential for China to be a member of BRICS. Organizations that include some or many of China's direct neighbors have a higher ranking from the Chinese perspective, since China's development and modernization process requires that neighboring countries at least refrain from forming an alliance against China. China's new leaders have formulated a new good neighborhood policy (mulin youhao) which underlines this point. BRICS, therefore, is more a "nice to have" than an absolute must.

From the Chinese perspective, BRICS is mainly held together by the similar development stages of the countries involved and their focus on development issues (with the notable exception of Russia). Officially, the

**All BRICS countries share the interest of fostering cooperation, especially now that economic growth has slowed down in all BRICS countries.**



**The reserve pool is considered more urgent than the development bank. According to one interview partner, it is also important within the context of the internationalization of China's currency.**

main mission of BRICS was presented as a full-fledged coordination platform, a mechanism to coordinate its members' economic, political and practical cooperation to build closer ties among the BRICS countries. "Global common goods" was presented as the main driver of BRICS. While bilateral differences and even conflicts between BRICS countries certainly exist, these usually do not surface at the summits, since all BRICS countries share the interest of fostering cooperation, especially now that economic growth has slowed down in all BRICS countries. (This slow-down was mainly attributed to external factors without which structural reforms in all BRICS economies would be well under way.)

BRICS has been working on two big projects: a BRICS Development Bank and a Contingency Reserve Arrangement (CRA), which is a US \$100 billion reserve pool acting as a "firewall" to shield BRICS against financial risks.

While the reserve pool was officially described as almost ready to go ("90 % of the details agreed") – maybe at the next BRICS summit in Brazil – there still seem to be many details of the development bank that need to be hammered out ("50 % of the details agreed"). The reserve pool is considered more urgent than the development bank. According to one interview partner, it is also important within the context of the internationalization of China's currency.

Interestingly, the BRICS Bank is being founded in the same timeframe as the Chinese-led Asian Infrastructure Investment Bank

(AIIB), which was announced by Chinese President Xi Jinping in October 2013. Although initial capitalization may not be an accurate indication of their ultimate size, both banks are being capitalized at US\$50 billion. The working group for the establishment of the bank is based in Beijing and is headed by Jin Lique, chairman of China International Capital Corp., one of the country's leading investment banks.

The goals of the AIIB and the BRICS development bank are basically the same – that is, to close a gap in infrastructure financing in emerging and developing countries. China would have a leadership role in the AIIB and BRICS Bank, whereas Japan leads the Asian Development Bank and the U.S. leads the World Bank.

**The BRICS Bank is being founded in the same timeframe as the Chinese-led Asian Infrastructure Investment Bank (AIIB), which was announced by Chinese President Xi Jinping in October 2013.**

The two new banks are touted as complements not competitors to the traditional institutions such as World Bank and ADB. But both, the World Bank and ADB, are expanding their infrastructure lending and the World Bank is launching its own Global Infrastructure Facility (GIF) in 2014, so competition will inevitably ensue.

**China would have a leadership role in the AIIB and BRICS Bank, whereas Japan leads the Asian Development Bank and the U.S. leads the World Bank.**

The significance of including South Africa in BRICS may be mainly due to the fact that it is seen as the door or gateway to the rest of the African continent. The argument was made that China's activities in the developing world would be more

acceptable if conducted within the framework of BRICS, in other words BRICS would provide more legitimacy to China's actions.



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China is playing a less assertive role in BRICS than in the Shanghai Cooperation Organization (SCO). According to one interview partner, the future of BRICS depends on the future performance of the G7/8 and G20: If the G20 develops into a real coordination mechanism, there might be less Chinese interest in BRICS. The future prospects of BRICS were presented as less promising than those of the G20, since BRICS will not be able to solve global problems.

**While all interview partners agreed that BRICS does not aim at creating a new, anti-Western world order, it can be seen as a response to the US-led world order.**

It is not yet clear whether the main deliverable of BRICS will be directed at cooperation among its members or at third countries. While the idea of BRIC as a group was originally picked up by Russia (the invitation to the first summit, as a move toward "extension" of the strategic triangle Russia, China, India?), its members are now all active in certain fields. For China, it is also an important effort to emerge from its isolation (Copenhagen

climate summit). Another factor shaping the future of BRICS might be the development of US-China relations: While all interview partners agreed that BRICS does not aim at creating a new, anti-Western world order, it can be seen as a response to the US-led world order.

### Coordination among BRICS

While there is no formal BRICS coordination mechanism within the G20, the eight emerging countries within the G20 usually meet within the context of G20 summits to exchange views, so the format of these meetings includes non-BRICS countries. However, coordination among BRIC countries did take place in 2011 through regular meetings in New York when all (then four) states were in the UN Security Council. (Since South Africa was not a member at the time, it was not part of these meetings and therefore the only country that voted in favor of the Libya intervention, providing one of the nine necessary votes to pass the resolution.)

**Civil society groups are seen as a potential threat to domestic stability, especially if they are active in political areas.**

There was no mention of a special focus on Asian partners within either G20 or BRICS. It seems that within Asia, there are other organizations that China considers more important ("existential necessity") for China's policies, such as APEC (China's major trading partners), ASEAN plus formats and the SCO (where China can control the agenda). Within Asia – but also beyond – bilateral relations are still most important from the Chinese perspective. Also, within the G20 China sees itself primarily as an emerging country, not an Asian one. As mentioned above, two interview partners saw potential in a closer coordination between China and Germany in the G20. This shows that perceived shared interests also play a role for China.

### 4) Attitudes and strategies of China toward NGO participation in BRICS/ G20

NGOs and civil society in general have come under suspicion in China in the last years. At least, one can say that the official attitude vis-à-vis civil society and NGOs is ambivalent, even contradictory at times. This general trend started under the previous leadership in China. In part, the official suspicion can be explained by events and developments outside of China, which China seeks to avoid, like the color revolutions in former states of the Soviet Union, including China's direct neighbor Kyrgyzstan ("Tulip revolution") and more recently, the "Arab spring". In this context, concerns about spill-over effects into China of these events have emerged.

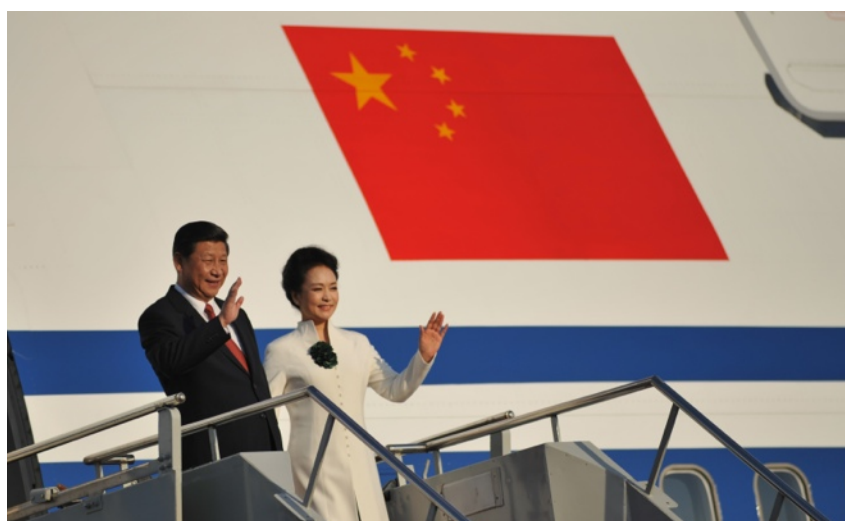
While it has become clearer that the Chinese state lacks the capacity to handle some social issues and, therefore, needs the engagement of civic groups, it remains ambivalent with respect to civil society and its activism. Civil society groups are seen as a potential threat to domestic stability, especially if they are active in political areas.

Under the new leadership, there have been inconsistent signals as well: On the one hand, Xi Jinping encouraged society to engage in fighting corruption, but when activists publicly demanded that officials disclose their private assets, they were arrested.

Therefore, depending on the topic they are working on, civil society groups are still walking a fine line in China. On international issues, such as human rights or non-proliferation, China has in the past created its own organizations (GONGOs), i.e., groups consisting of non-officials, but receiving official support for becoming active in the international arena.

China's participation in the newly founded network of think tanks within BRICS, officially BRICS Think Tanks Council (BTTC) (see <http://www.bricsforum.com>) can be seen as such an effort: According to the Ministry of Foreign Affairs, the BRICS think tank consortium is a stand-alone mechanism with no involvement of the government. However, it can give advice to the government and sometimes government officials are invited to meetings as observers. This is the usual way in which track two meetings are conducted in China. China's think tanks are not independent – even though their academics might do independent research. Therefore, they cannot really be considered as representing civil society.

In general, the question is: what role civil society can play in both clubs, the G20 as well as BRICS? So far, this role has been quite limited.



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# “Club Governance”

## Prospects for civil society engagement

### A Perspective from Russia

By Vitaliy Kartamyshev, Co-Chair of GCAP Russia  
President, Foundation 'Coalition Against Poverty'



In these challenging economic times, we should measure the effectiveness of any supranational “club governance” structure by its capacity to come up with concrete, practical policy recommendations and ensure their successful implementation. Decades of global economic expansion known as the “[Great Moderation](#)” contributed to significant improvement in living standards for millions of people. However, it also demonstrated that economic growth alone without a targeted poverty alleviation policy failed to produce the “trickle-down” effect for many more millions trapped in poverty.

**Even during economic expansions, the gap between rich and poor has continued to grow until, currently, only 0.5% of the population controls nearly 35% of global wealth.**

Even during economic expansions, the gap between rich and poor has continued to grow until, currently, only 0.5% of the population controls nearly 35% of global wealth. The growth narrative of supranational “club gatherings,” such as G20 or

BRICS, must integrate the issue of financing for development-- including improving education, health care, employment creation, support to small and medium-sized enterprises (SMEs) and agricultural production. This should be obvious to political leaders and policy-makers. Especially from the perspective of Russia, this article analyses the role of the BRICS in fostering results-oriented policies that will lead to positive development outcomes as well as the opportunities and challenges for civil society engagement in fora, such as the BRICS.

#### **BRICS Analysis: Global Forum for alternative power politics or partnership of necessity?**

The BRIC (Brazil-Russia-India-China) Forum was a political and economic formation that had its first official meeting in 2009 after the global financial crisis erupted. Shortly thereafter, South Africa joined. It was the desire of the 5 emerging countries to have joint positions on policy decisions affecting them, specifically in the management of financial systems. The political and economic clout of

such an ‘elite club’ was evident, as their combined economic output over the past 15 years contributed so significantly to global growth. Arguably, such unprecedented growth alongside the relative decline of the G7 marked the biggest economic shift in history. Although China has been the engine for much of this growth, the BRICS, as a whole, have prospered until recently.

**Arguably, such unprecedented growth alongside the relative decline of the G7 marked the biggest economic shift in history. Although China has been the engine for much of this growth, the BRICS, as a whole, have prospered until recently.**

Along with their upward economic trajectory, the world witnessed the new political assertiveness of the 5 nations which insisted on the reform of governance quotas at IMF and World Bank and presented their combined positions and demands in international forums, such as the G20, the UN, and the UN Framework Convention on Climate



Change (UNFCCC). The influence of the BRICS is underpinned by the fact that all 5 nations are important regional powers with access to numerous different regional groupings (CIS, APEC, African Union, CSTO, UNASUR, SADC, Asian Association for Regional Cooperation, Mercosur and others)<sup>1</sup>. Clearly, the BRICS jointly can exercise strong influence through these regional bodies, as long as their positions and priorities are in sync, which gives them a strong advantage over other 'clubs'.

**In 2012, the BRICS produced about 20% of the \$71.6 trillion world output. But, the slowdown of the economic giants is striking.**

In 2012, the BRICS produced about 20% of the \$71.6 trillion world output. But, the slowdown of the economic giants is striking. (See chart, below.) While the 2013 growth rates are still impressive when compared with sluggish (or negative) growth performance in Europe and other OECD countries, the contribution of the BRICS to world output, the internal drivers of growth, and external factors, such as high commodity prices, is diminishing.

### BRICS Economies are Braking

	2007	2013*
Brazil	6.1%	2.5%
Russia	8.5%	1.5%
India	10.1%	3.8%
China	14.2%	7.6%
South Africa	5.2%	2.0%

\*Sources: IMF, "[World Economic Outlook](#), 2013," October 2013 and The Economist, "When giants slow down" July 27, 2013.

### Prospects for positive global influence or pure business?

One key factor that distinguishes the BRICS from other supranational groups is that, despite some economic similarities and catch-up strategies, the member countries are fundamentally very different. In contrast, the countries of the OECD, EU, and G8 share a set of values, principles and approaches that, at least in theory, guide their development programs. They have adopted accountability mechanisms at different international forums (e.g., the Paris Declaration on Aid Effectiveness and the subsequent Accra Agenda for Action as well as the Busan Global Partnership for Effective Development Cooperation). These agreements took a long time to evolve and adopt and are now the foundation for policy implementation in many areas. It is no secret that BRICS and other regional formations have emerged as global economic alternatives to western-dominated institutions and principles that, in the wake of multiple crises, have suffered sharp criticism. Such alternatives are a source of optimism for supporters of the BRICS.

**The development policy of the BRICS defies the traditional principles (e.g., those of the Development Assistance Committee of the OECD) and has fewer scruples about the norms (e.g., human rights, democracy, gender and ethnic minorities) in countries that receive their aid or investment resources.**

Nevertheless, to be successful, the BRICS will need some degree of commonality of approaches, principles and values. In particular, the development policy of the BRICS defies the traditional principles (e.g., those of the Development Assistance Committee of the OECD) and has fewer scruples about the norms (e.g., human rights, democracy, gender and ethnic minorities) in countries that receive their aid or investment resources. Perhaps to a greater extent than Western countries, the

source of the BRICS' development policy and priorities resides more in their domestic experiences, corporate structures, and prospects for access to markets and natural resources. Their approach is evidently acceptable to developing and low-income countries. However, if BRICS are to evolve into responsible donors, it is imperative that they agree to guiding principles and a common mechanism for accountability for clear and quantifiable results. The BRICS guiding principles should ensure that they do not uphold political regimes that impoverish communities, exploit natural resources, and undermine the development prospects of recipient countries.

**Will the BRICS be able to affect a fundamental shift in power relations? The answer to this question depends on whether they can resist the temptation to play to their short-term advantages and be co-opted by the G7 countries. It also depends on whether the 5 emerging nations succeed in building a larger and more influential bloc.**

It is clear that the BRICS, as a group, are emerging to challenge the influence and institutions of the G7. Until recently, developing countries have had a limited capacity for influencing global affairs and the management of the international financial system. In the post-World War II era, the Bretton Woods Institutions (i.e., the IMF and World Bank) were built to ensure the supremacy of the U.S., Europe and Japan. Global decision-making can no longer rest with traditional powers in today's multi-polar world. Will the BRICS be able to affect a fundamental shift in power relations? The answer to this question depends on whether they can resist the temptation to play to their short-term advantages and be co-opted by the G7 countries. It also depends on whether the 5 emerging nations succeed in building a larger and more influential bloc, including

other G20 members such as Argentina, Turkey, Mexico, and Saudi Arabia.

The BRICS could be important for other reasons as well. The emergence of an alternative leadership can foster enhanced regional and global opportunities for South-South collaboration, trade, development and security.

The sceptics point out that, in the absence of a clear set of principles that guide the aid and investment policy, the BRICS could pose a challenge to development and human rights in developing countries. The current enthusiasm of political leaders in developing countries for dealing with new donors may result from their aversion to the stringent rules and regulations of Western donors concerning democracy and human rights. However, these rules should not be thrown out the window. Civil society should help shape the new terms of engagement, resources and opportunities that could otherwise be seized by business and political elites in developing countries. Arguably, the BRICS risk losing their credibility and enthusiasm for power-sharing if they don't behave as responsible donors. There is growing evidence reported by the "BRICS-from-below" movement that business practices and resource grabbing by corporations and donors from BRICS countries damage the environment and economic prospects for communities in poor and developing countries.

Global civil society's role can be crucial in monitoring and calling for transparent and inclusive development, aid and trade policies.

### **Opportunities for civil society engagement**

Speaking at the June 2013 Civil 20 Summit in Moscow, Alexei Kudrin, former Russian Finance Minister, highlighted the Russian public's lack of an interface with its government and the fact that civil society can play a crucial role in this regard. The major problem with the "club

governance" model is that decisions reached by the leaders of the BRICS, G20, G8 and other forums are poorly understood by the populations of these countries and, more fundamentally, citizens lack a democratic role in shaping these decisions.

**As a global player, member of the G20 and BRICS, and President of the G8, it pursues an increasingly active international role, including in the area of development aid. However, Russian citizens have a low level of understanding and support for this policy.**

Arguably, the level of awareness of journalists and civil society activists is quite low as well. The number of civil society activists in Russia who can meaningfully participate in policy dialogue (let alone explain the issues to the public) is counted in less than hundreds in a country with a population of more than 140 million.

### **Establishing links from National to Global Processes**

Any government aspiring to a global role needs to have a strong domestic constituency that can support its international aspirations, in general, and its development aid and investment policies, specifically. For historical reasons, Russia inherited inward-looking policy-making that extended to countries in the Commonwealth of Independent States (CIS) or countries in the so-called 'socialist' camp. Presently, the Russian government faces a dilemma. As a global player, member of the G20 and BRICS, and President of the G8, it pursues an increasingly active international role, including in the area of development aid. However, Russian citizens have a low level of understanding and support for this policy. They need to address the disconnect between global and national decision-making.

Nevertheless, many groups are establishing an international BRICS advocacy network and looking for Russian partners. The emergence of this network is a measure of how civil society is strengthening its voice at the global level as well as helping to make "club governance" more transparent and effective.

A network can also share knowledge and best international advocacy practices to help ensure that civil society representatives from the BRICS and G20 countries are adding value to the new political discourse and the shaping of the Post-2015 Development agenda. Finally, a network is an essential resource for government to facilitate that public interface with governments, as suggested by Alexei Kudrin. Clearly, the power shift at the 'club governance' level is not happening in a vacuum, and similar shifts are evident within global civil society groups. Traditional "Northern NGOs" are aligning their approaches, policies and modes of operation to reflect the changing reality.

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<sup>1</sup> CIS is the Commonwealth of Independent States (countries of the former Soviet Union, excluding the Baltics); APEC is the Asia-Pacific Economic Cooperation Forum; CSTO is the Collective Security Treaty Organization; UNASUR is the Union of South American Nations. Union of South American Nations; SADC is the The Southern African Development Community; and Mercosur is an economic and political agreement among Argentina, Brazil, Paraguay, Uruguay, and Venezuela and Bolivia.

# High Ambitions, High Risks: Programme for Infrastructure Development in Africa (PIDA)

By Mzukisi Qobo, Senior Lecturer in International Political Economy and Deputy Director, Centre for the Study of Governance Innovation, University of Pretoria



## What is PIDA?

The Programme for Infrastructure Development in Africa (PIDA) was adopted by African Heads of State in 2012 as a strategic framework that will run through 2040, for the development of continental infrastructure (Energy, Transport, Information and Communication Technologies (ICT) and Trans-boundary Water Resources). The initiative is spearheaded by the African Union Commission (AUC), the New Partnership for Africa's Development Planning and Coordination Agency (NEPAD Agency), and the African Development Bank (AfDB). PIDA's main purpose is to strengthen the consensus and ownership of infrastructure development continentally, regionally and

**The imperative for increased infrastructure investment in the African continent is self-evident, especially if one takes at face value the proposition that infrastructure can be a catalyst for growth and an input into human capital.**

nationally to help ensure subsequent successful implementation.

PIDA's projects are estimated at US \$360 billion up to 2040. For its 51 priority projects, the cost estimate stands at US\$68 billion from 2012 to 2020, or US\$ 7.5 billion in expenditure per year. This article describes PIDA and its relationship with external actors, including new and existing financial institutions.

## Background

The African continent comes off a very low base in its growth trajectory. It is still early times to make projections about its future, but there are already signs of resurgence. This article focuses on the challenges of infrastructure as an aspect of development, and more specifically assesses the efforts undertaken by PIDA, African policymakers and external actors to overcome these challenges.

The imperative for increased infrastructure investment in the African continent is self-evident, especially if one takes at face value the proposition that infrastructure can be a catalyst for growth and an

input into human capital. Moreover, poor infrastructure creates a competitive disadvantage and adversely affects growth, as it raises the transaction cost of trading across borders, among other things. It is a daunting constraint for landlocked countries, of which there are 15 in the continent. According to the African Development Bank: "Poor infrastructure accounts for 40 percent of transport costs for coastal countries, and 60 percent for landlocked countries."

**There are large-scale projects that are in the PIDA pipeline, which could have negative consequences for environment if they are not underpinned by clear policy frameworks to achieve sustainability objectives.**

A major challenge is that, to get the private sector excited about investing in infrastructure, at least, two conditions have to be in place. The first is the existence of "bankable" projects; and the second is security of investment, something that is a function of a country's legal



framework, especially its ability to enforce commercial law.

In addition, infrastructure projects on the African continent require sufficient project preparation to make them bankable, at which point it becomes easier to mobilize financing. The cost of project preparation is estimated at between 3 – 3.5 percent of total project costs. Donors apply their own criteria and preferences before committing to project preparation support; these can diverge from those of the recipient country.

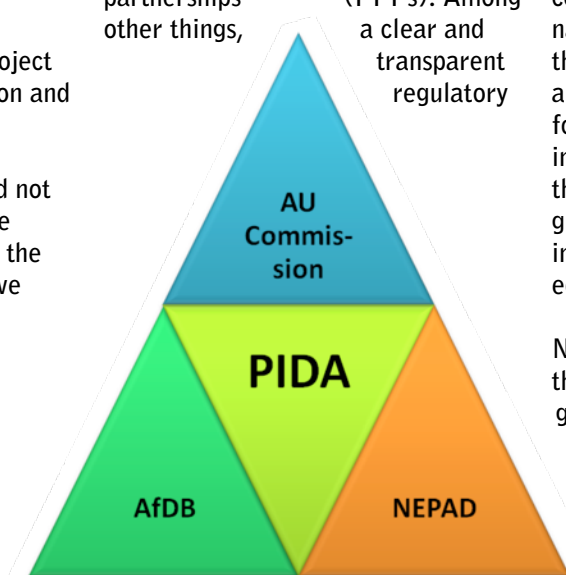
Importantly, throughout the project cycle (including project selection and preparation), the association between infrastructure and sustainable development should not be taken for granted. There are large-scale projects that are in the PIDA pipeline, which could have negative consequences for environment if they are not underpinned by clear policy frameworks to achieve sustainability objectives.

## Features of PIDA

PIDA is a worthwhile framework to develop the critical infrastructure sectors, but making it functional will require significant capital commitment, greater coordination amongst various actors (including affected community stakeholders), and a private sector that is convinced of the commercial viability of Africa's infra-structure.

Commercial viability hinges on the effectiveness of public-private partnerships (PPPs). Among other things,

a clear and transparent regulatory



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framework; good governance policies; and prevailing stability set the stage for a conducive business environment.

The core principles that guide PIDA include: an integrated vision of infrastructure sectors; regulatory and institutional frameworks; a strategic prioritisation of programmes; regional capacity for programme development and implementation; innovative financing architecture oriented to the private sector; and stronger partnerships and coordination. Harmonisation of national policies is also important if there is to be a consistent standard applied across the African continent for implementing and evaluating infrastructure projects. However, this will not be without difficulties given the weak record of institutionalization in the regional economic communities of Africa.

Nonetheless, it remains important that African governments champion greater sensitivity to environmental and social norms in their projects, rather than having such norms imposed by donors. There is an expressed commitment by African policymakers to

## PIDA's Energy Ambitions and the Case of Ruzizi III

Two-thirds of Africa's 800 million people lack access to power. For power generation, PIDA comprises 15 projects worth US\$ 40 billion focused on building 12 hydropower facilities, 4 transmission projects connecting power pools, and 2 regional oil pipelines. These projects would increase the continent's power capacity by five-fold.

An example of a promising project is the Ruzizi III hydropower project located on the Ruzizi River that flows between Lake Kivu, which borders the Democratic Republic of Congo and Rwanda, and Lake Tanganyika in Tanzania. The cost of the 145 MW plant is estimated at US\$400million – US \$600 million. As is well-known, for over two decades this part of Sub-Saharan Africa has existed under a cloud of internal and cross-border tensions that took on ethnic dimensions.

This is also an area that has high poverty levels, with countries that are characterised as "least-

developed." Using low-cost renewable resources such as hydro-power and geothermal energy could go a long way in expanding energy access to citizens, but also hold promise for economic growth. It is also hoped that this form of economic cooperation over a resource that is vital for the three countries will act as a pivot for stability.

This hydropower plant generates electricity in equal portions for Rwanda, Burundi and the Democratic Republic of Congo (DRC). Like many large-scale projects, this is not without risks. One such risk is political instability, especially because the project falls within a politically sensitive area that has a history of conflict with rebel movements still roaming about. Second, there are concerns that the project could have cost inflation that may raise tariffs. If such risks materialize and the government picks up the tab, the risks of this commercial project would, effectively, be socialised.

address the environmental and social impacts of PIDA projects, including claims that are often not substantiated, e.g., that PIDA projects will lead to reduction in green-house-gas emissions. The reality is that, since projects are undertaken at the domestic level, it is difficult to impose environmental and social measures, especially in contexts where there are no governance mechanisms (institutions or regulations) to ensure such co-benefits.

### External Actors and PIDA

To help fund PIDA, the new [Africa50 initiative](#), a commercially-oriented financial institution, aims to mobilize equity investments of USD 10 billion, thereby attracting USD 100 billion of local and global capital to finance and develop PIDA and related projects in the next three years. The EU, the G8, the multilateral development banks, and the G20 make constant reference to PIDA, and some offer direct financial support. Some aspects of this support include:

**European Union (EU).** There is a shift of emphasis in the character of EU's developmental support to Africa more towards infrastructure, with the social sector still remaining an important dimension.

**Group of 8.** Commitments through the Infrastructure Consortium for Africa (ICA) have been made by the G8 countries as well as institutional members, such as the World Bank Group, the European Commission, and the European Investment Bank. ICA members have decided to focus on implementation of PIDA's medium-term Priority Action Plan (PAP).

**Group of 20.** The G20 too has positioned itself for relevance on the theme of infrastructure, which has gained currency in low-income countries in Asia and Africa. A High Level Panel on Infrastructure was mandated by the G20 countries at the 2010 Seoul Summit, where Leaders adopted a development

agenda under the theme of 'shared and inclusive growth,' including an infrastructure pillar. At the 2011 G20 French Summit, the [Report of the High Level Panel](#) and the [MDB Action Plan](#) were presented to Leaders. Today, under the G20 Australian Presidency, the challenge is being addressed by two G20 groups: the Infrastructure Investment Working Group and the Development Working Group (DWG).

Since the G20 High Level Panel made its recommendations, the G20 has worked to promote a strong supply of bankable projects as well as mobilize long-term institutional finance to develop infrastructure in its member countries as well as low income countries. The multilateral development banks took up an important recommendation – namely to review existing project preparation facilities (PPFs). The Australians' [Global Development Agenda](#) states that, in 2014, the G20 will expand its assessment of PPFs. The assessment of Africa's PPFs, entitled "[Tunnel of Funds](#)," was concluded in 2012.

The multilateral development banks and the Panel also recommended improving the quality of data relating to infrastructure development projects and bringing project sponsors and financiers together in the way that the [Sokoni platform](#) does.

Such capacities facilitate an improved flow of information, but they may be difficult to realize if the actions of individual governments are not reliable.

### The BRICS Bank and Infrastructure Development

At the BRICS Summit hosted by South Africa on 26 – 27 March, 2013, Leaders promoted the creation of a BRICS development bank in order to facilitate infrastructure and sustainable development and the creation of a [contingency reserve arrangement \(CRA\)](#). This BRICS development

bank may play a pivotal role in financing infrastructure projects in other developing countries, especially on the African continent. South Africa could possibly pressure its Summit partners to support PIDA.

The architecture of the bank is not yet clear. It is expected that the work of the BRICS development bank and the CRA will begin in earnest after the Sixth BRICS Summit in Brazil in July 2014. According to Russian officials, the Bank's draft charter is being prepared by Brazil while Russia is drafting an intergovernmental agreement on the bank's creation.

The bank is not intended as a substitute for the work already undertaken by the World Bank and other regional development banks. Indeed, in 2014, the World Bank will launch a [Global Infrastructure Facility](#) and regional banks will further re-orient their portfolios to finance infrastructure. Rather the proposed BRICS development bank aims to complement multilateral development banks, especially to fill in key deficiencies in infrastructure development.

It will not bode well for Africa's development to have multiple uncoordinated or even competitive infrastructure efforts. What may compound the challenge is the fact that individual BRICS countries, such as China and India, already pursue relationships with African countries at a bilateral level, using a model that cannot be easily replicated at the regional level.

### Conclusion

There is no doubt that the African continent requires a significant drive for infrastructure development. There is a recognition that infrastructure can in fact create conditions that could allow governments to tackle social and economic challenges.

Yet, if there are no policies or governance mechanisms in place (at

the regional and domestic level) to ensure that infrastructure projects are undertaken with greater sensitivity to environmental and social inclusivity and that benefits are harnessed towards improving quality of life, this endeavour could very well turn out to be a bane for the continent.

- See Table 1: PIDA stakeholders from the PIDA official site at: [http://www.pidafrica.org/about\\_us.html](http://www.pidafrica.org/about_us.html)

- [World Economic Forum, Strategic Infrastructure in Africa: A Business Approach to Project Acceleration](#) (2013).

- African Development Bank, *Africa in 50 Years' Time*, p.87.

- Ruiters, Michele, "Africa Infrastructure

Rising", GLOBAL Insights, Volume 2 No. 7, October 2013.

- [World Economic Forum, Strategic Infrastructure in Africa: A Business Approach to Project Acceleration](#), see pages 12-13.

- A detailed account of the project including technical specifications can be found here: [Ruzizi III Hydropower Project., Number E. 12.1.](#)

- PIDA Executive Note, "Interconnecting, Integrating, and Transforming a Continent", 1 April 2012. Unpublished Note.

- Africa50 <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa50-infrastructure-fund/background/>

- ICA was launched at the G8 Gleneagles summit in 2005 with a mission to accelerate progress to meet the urgent infrastructure needs of Africa in support of economic growth and development. It addresses both national

and regional constraints to infrastructure development with an emphasis on regional infrastructure. The membership of ICA also includes the AfDB and the Development Bank of South Africa.

- "BRICS development bank, currency reserve pool to begin work in 2015" by Russian Foreign Ministry Sous-Sherpa to the G8, Vladimir Lukov, <http://en.itar-tass.com/economy/727212>

## Missing Political Will? Brazil's Leadership of the 2014 BRICS Summit

By Oliver Stuenkel, Assistant Professor of International Relations, Getulio Vargas Foundation, São Paulo, Brazil

In July, Brazil will organize the 6th BRICS Summit in Fortaleza. Since the host has the right to set the agenda, Brazil has a unique chance to give the Summit its own imprint – and thus engage the leaders of China, India, Russia and South Africa on one or several topics of its choosing. This is a tremendous opportunity for Brazil. Yet the public is likely to remain skeptical of the usefulness of the BRICS concept, particularly as growth in the Global South has slowed markedly. Moreover, President Dilma Rousseff never really warmed to the idea of the BRICS and her foreign policy team faces a tough challenge: to maintain momentum and show that Brazil benefits from being part of the group. In the midst of all the gloom, the BRICS will launch the BRICS Development Bank, marking the most important step towards institutionalization in its young history.

This development is highly significant; it is the first step towards institutionalizing the collaboration of the BRICS, fundamentally altering its characteristics of a non-binding, informal, consultative group. While most details about the Bank still need to be resolved, it is clear that operating such an institution will require the BRICS to agree on a set of guiding rules and norms. It will

provide a unique opportunity to develop new development paradigms and, perhaps, start a real conversation between established lenders and rising powers about the future of development. The BRICS Bank could also be an important motor for change within established institutions such as the World Bank. Interestingly, the World Bank intends to create a Global Infrastructure Facility (GIF) this year, perhaps out of a sense of competition with the BRICS.

Yet progress in setting up the BRICS Bank since the 5th BRICS Summit (in Durban, South Africa in March 2013) has been painfully slow. When asked about the new bank, diplomats in Brasília, Pretoria and Delhi keep pointing out the difficulty of setting up a multilateral development bank. Coordinating such a process between five countries is indeed a challenge - but that cannot mask the fact that true political will from the top may be missing at this point. Currently, Brazil's foreign ministry is coming to grips with budget cuts after years of expansion. And, importantly, Dilma Rousseff seems more intent on consolidating Brazilian foreign policy rather than engaging in new, costly initiatives, such as the BRICS Bank.



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