Guest post: does the world really need a Brics bank?

By Ousmène Jacques Mandeng, Pramerica Investment Management

Leaders of Brazil, Russia, India, China and South Africa are expected to ratify an agreement this week that would establish a Brics bank at the Brics summit in Fortaleza, Brazil.

Development finance is already crowded. Apart from the multilateral and regional institutions, there are several such sub-regional institutions as the Caribbean Development Bank, the Islamic Development Bank and myriad national development banks like China Development Bank and Brazilian Development Bank (BNDES). BNDES is now much bigger than the World Bank in terms of gross disbursements; it even has branches in South Africa, the UK and Uruguay.

Overlap and duplication, conflicts between national, regional and multilateral interests are frequent and unavoidable – making the case for another development bank underwhelming.

Nevertheless, the fast pace of change in the global economy – in particular the growing size and power of emerging markets – raises the question of whether existing development institutions can change quickly enough to remain relevant.

The uplands of development finance is still occupied by institutions dominated by advanced economies. This holds for multilateral institutions such as the International Monetary Fund (IMF), World Bank Group, Bank for International Settlements and the major regional bodies including the Asian Development Bank and European Bank for Reconstruction and Development (EBRD). Other regional institutions such as the Inter-American Development Bank, African Development Bank still rely on advanced economies for leadership and funding. The world has changed a lot since the creation of the EBRD — the last major development bank to be established in 1991.

The IMF still stands out. Its focus on bi- and multilateral surveillance and ability to mobilise quickly short-term emergency liquidity assistance is unmatched. It nominally remains the main body to offer a mechanism for international monetary cooperation, though recent history is marked more by failure than success. But the IMF has seen more regional competition with the establishment of the European Stability Mechanism (ESM), and faces potential challenges in the future from the...
The Brics have already agreed on a Contingent Reserve Arrangement to provide short-term balance of payment support as a financial safety net, but it is far from the needed size to be effective.

Nevertheless, the IMF has been the focus of discontent about pending reforms, especially of multilateral institutions. Many maintain that the persistent influence by advance economies has biased the IMF’s policy thinking, recommendations and interests to the point it will unlikely be overcome. The IMF quota reforms aim to address these criticisms in part by shifting voting power and control more towards emerging markets to reflect their growing weight in the global economy. Although initiated in 2006 and adopted in 2010, these reforms await ratification by the U.S. Congress. This may be the main motivation for a Brics bank.

Initial revelations about the Brics bank suggest that it will focus on development finance. However, this may add little value and risks further duplication. It also raised a question about whether more development finance resources are actually needed. While there are still many development challenges, those may have less to do with the lack of financial resources than with their distribution and, in particular, the importance of non-financial factors.

The financial world is still “round.” The asymmetry between economic and financial developments remains one of the most remarkable features of the global economy. Brics and other emerging markets have remained painfully dependent on the main financial centres and major international currencies to intermediate trading and investment flows.

To have a meaningful impact, a Brics bank should focus on building a financial infrastructure that connects Brics countries and other emerging markets. Earlier agreements among the Brics national development banks to offer finance in local currency to each other was a start. China’s push to make the renminbi an international currency would also be a key element.

If the Brics could establish a solid financial infrastructure, it would help overcome the main constraints of the global financial architecture. It may well be the piece missing to promote actual financial globalisation.

Ousmène Jacques Mandeng, Global Institutional Relations Group, Pramerica Investment Management

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@Jeannick

You're right about the protection racket. Paul Krugman, in an interview that he might come to regret, said that the US dollar was backed by 'men with guns'. As regards it working to everyone's advantage, there are about 6 billion people who might have a different view.

MarkGB

3 days ago

@Larchmont @MarkGB

We'll see!

E. Scrooge

3 days ago

@MarkGB Mark, Mark, Mark, you ring the alarm bell as if it were the klaxon of a ship sinking. Yes, it has some excess ballast, but if you put the numbers into better perspective, they are small percentages of the overall economy. Not to mention the underground economy which is growing and doing fine. You mention "a dollar payment system that facilitates sanctions against states the US dislikes or wants to control?" Sort of like China sending gunboats to small islands miles and miles from their shores, because they have natural resources around them? And sort of like Russia confiscating Crimea from the Ukraine? And how would these BRIC's react to the thing they do not like or states they would like to control? Pot calling the kettle black?

E. Scrooge

3 days ago

The question should not be does the world need a BRICs bank, but which BRICs bank would you be willing to do business with? Seeing how Russian reacts to anything it perceives as political, or not in their elite's interest, what sort of coercive tactics would a borrower face if they engaged or did anything that Moscow felt was contrary to their interests? Immediate call of the loan, non-renewal of lines of credit, more onerous compliance, seizure of assets? You have to really consider the added political risk of doing business with certain nations. The World Bank and IMF are accused all the time of interjecting policy to its loan recipients, but they are normally things involving leakage, corruption, unlawful, criminal activities, or economic suicidal policies that pretty much lead to a default or inability to repay the loans. Some of these issues some of the BRICs countries have been turning a blind eye to for years. So, do you borrow money from someone who has a reputation for engaging in sometimes unsavory actions, who then may turn around and ask the borrower for unsavory favors? I think it more a question of quality finds quality, and sleaze begets sleaze.

Anonym

2 days ago

@E. Scrooge What are you talking about ? That doesn't make any sense at all. Developing economies get higher FDI (Foreign Direct Investments) inflows than developed economies. BRICS are the major recipients of FDI: China is world's second leading investment destination and Brazil is fourth. Russia is 9th and India is 15th. (2012 data). And 65% of that money comes from developed economies. So... answering your question: with all of them.