BRICS: Toward a Rio Consensus

The BRICS countries set out to overcome Western domination and the legacy of the “Washington Consensus.”

By Kevin P. Gallagher, July 14, 2014

Conveniently scheduled at the end of the World Cup, leaders of the BRICS countries travel to Brazil in mid-July for a meeting that presents them with a truly historic opportunity. While in Brazil, the BRICS hope to establish a new development bank and reserve currency pool arrangement.

This action could strike a true trifecta — recharge global economic governance and the prospects for development as well as pressure the World Bank and the International Monetary Fund (IMF) — to get back on the right track.

The two Bretton Woods institutions, both headquartered in Washington, with good reason originally put financial stability, employment and development as their core missions.

That focus, however, became derailed in the last quarter of the 20th century. During the 1980s and 1990s, the World Bank and the IMF pushed the “Washington Consensus,” which offered countries financing but conditioned it on a doctrine of deregulation.

The legacy of the “Washington Consensus”

With the benefit of hindsight, the era of the Washington Consensus is seen as a painful one. It inflicted significant economic and political cost across the developing world.

What is more, the operations of the World Bank and the IMF are perceived as rigged against emerging market and developing countries. The unwritten rule that the head of the IMF is always a European and the World Bank chief is to be an American is only a superficial but no less grating public expression of that.

Worse still is the fact that the voting structure of both institutions is skewed toward industrialized countries — and grants the United States veto power to boot.

It wasn’t always that way. As Eric Helleiner shows in one of his two new books Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order, China, Brazil, India and other countries wanted development goals to remain a core part of the Bretton Woods institutions.
A “Rio Consensus” from BRICS countries could pressure the IMF and World Bank to make real change.

The World Cup is not the only thing happening in Brazil. BRICS meet in Brazil to form a “Rio Consensus.”

Some of their proposals eventually made it into the policy mix of the World Bank and the IMF, including short-term financing, capital controls and policy space for industrial policy.

**Enough is enough**

When these institutions failed to predict the global financial crisis of 2008, however, the BRICS and other emerging market and developing countries said enough is enough. First, they tried to work inside the system by proposing reforms that would grant them more say in voting procedures.

However, the U.S. Congress has failed to approve the small stepwise reforms of that process — even though the United States would have maintained its veto power.

BRICS and other emerging market nations also joined the G-20 in hopes that it would be a more pluralistic venue for global cooperation.

The G-20 did hold a landmark 2009 meeting where a new vision was articulated for global economic governance, but none of the promises — especially the coordination of macroeconomic stimuli to recover from the crisis and comprehensive reform to prevent the next one — were realized.

**A “Rio Consensus”**

Now the BRICS are taking matters into their own hands. Their governments have been diligently putting together two new institutions that hold great promise — a new development bank and a new reserve pooling arrangement.

The development bank would provide financing to BRICS and other emerging market and developing countries for infrastructure, industrialization and productive development. The reserve pool would allow BRICS and other nations to draw on pooled reserves in the event of balance of payments crises or threats to their currencies.

When these institutions are launched in Rio this July, BRICS could and should forge a “Rio Consensus” — provided they do not make the same mistakes of other, mostly Western-inspired “models” in the past. The key is to make it a model for global economic governance in the 21st century.

**The new bank on the bloc**

The key elements of a Rio Consensus are a definite step in that direction. At its core is a commitment to financial stability and productive development in a manner that is inclusive, honors human rights and is environmentally sustainable.

Organizations carrying out such a mission should also have a more equitable organizational structure with open and transparent rules. This crucially includes the mechanism for picking leaders and a more equal voting system for existing and new members.

Not only will such a framework and structure enable more appropriate finance for development and stability, it can also serve as a moral model of reform that can someday be achieved in the two Washington-based institutions themselves. This will give BRICS more leverage — and an opt-out if the industrialized countries stay set in their ways.

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