The Limits of Cooperation Among BRICS Countries

Zhao Kejin

Q&A
DECEMBER 1, 2014

SUMMARY The BRICS countries are establishing the New Development Bank to expand economic assistance to developing countries beyond that offered by the Bretton Woods institutions.

The emerging economies of Brazil, Russia, India, China, and South Africa—the BRICS—have been touted as the leaders of the developing world. In their most significant joint accomplishment to date, the BRICS countries are building a New Development Bank (NDB) and a Contingent Reserve Arrangement (CRA) as alternatives to the global financial system dominated by the West. But what do these initiatives signal about members’ intentions?

In this Q&A, Zhao Kejin discusses the group’s role in the world and its recent undertakings, as well as prospects for deeper cooperation and potential challenges. He says that the future of the multilateral framework will in large part be shaped by China’s choices and capabilities.

• What role does the BRICS group play in international affairs?
• How important is China to the BRICS group and its new initiatives?
• What are the goals of the NDB?
• Will the BRICS countries deepen cooperation?
• What challenges are in store for the BRICS group?

What role does the BRICS group play in international affairs?

Fundamentally, the BRICS is a loose grouping of countries that share interests in particular areas but that play by different rules. It is not a formal international alliance.

The BRICS countries act as one to promote a more legitimate international system, including advocating reform of the UN Security Council. By acting together, they can share their resources to realize national interests.

The long-awaited NDB, with initial capital of $50 billion, and a CRA worth $100 billion represent alternatives to the World Bank and the IMF, which are led by the Global North. In this sense, the BRICS group is a
South-South framework for cooperation.

The BRICS group also acts as a bridge between developed and developing countries. For example, in the WTO, the BRICS countries are trying to promote a fairer order regarding agricultural policies. They are attempting to promote the liberalization of the international economic order to diminish agricultural subsidies in the United States and the European Union, which would make developing countries’ agricultural products more competitive.

The BRICS group will also play an increasingly important role in assisting developing countries in gaining an advantage in trade and climate change negotiations, as well as on issues related to the export of manufacturing products. Developing countries on the periphery of the group will be able to leverage the NDB and the CRA to increase their bargaining power.

The group will maintain a low profile on security issues. But as regional powers, the BRICS nations will likely support member states' prominent positions within each country’s area of influence.

How important is China to the BRICS group and its new initiatives?

Economically, China is the largest country in the BRICS and enjoys the highest credit rating and share of global GDP, which puts it in a strong position. Indeed, as China’s economy has grown, the country has started to play a constructive leadership role in the BRICS.

But China is unsure about what it can gain from the BRICS framework. It is only certain about what it cannot gain from it—such as traditional security or trade benefits. China accounts for more than 60 percent of the BRICS group’s GDP, and the country does not need the BRICS as a traditional security alliance.

The future of the BRICS will in large part be shaped by China’s choices and capabilities. According to the vision of President Xi Jinping, China will highlight the BRICS as a framework for cooperation and a means to increase stability in the international environment. Chinese economic preponderance in the group is reflected in the countries’ individual contributions to the CRA: China will invest $41 billion, while Brazil, Russia, and India will give $18 billion each, and South Africa $5 billion.

China has taken a similar leading role in setting up the NDB. Most recently, when BRICS leaders met at the G20 summit in Australia in mid-November 2014, China called on the countries to complete the process of establishing the NDB as quickly as possible.

China sees the group as a way to enhance the discursive power of developing nations within the international development infrastructure—a goal that is difficult to realize when working through the IMF and the World Bank. In addition, China hopes to find a new outlet for its foreign currency reserves, providing an alternative to its investments in U.S. government bonds. The new bank could also hasten reform of China’s own financial system, allowing the country’s commercial banks to expand their activities overseas.

If China continues to deliver strong support to the group, the BRICS could be an important economic actor with significant lending power. But if China is reluctant, the group’s prospects are less bright.

What are the goals of the NDB?

The NDB will play a role in providing resources to emerging economies, with equal voting power and shared stakes for each BRICS member. This contrasts with the disparity between share of global GDP and voting power at the IMF, where the BRICS countries have been agitating for increased representation.

The bank’s capital will be allocated for building infrastructure and investing in sustainable development projects, and—in an experimental approach to financing for the emerging economic order—political conditions and economic policy requirements will not be attached to loans. In this way, China will try to create a new model international regime that is different from the established Bretton Woods order and by extension demonstrate China’s style of global governance. In addition to the NBD’s development loans, the CRA will offer...
reserve funds to help ease short-term balance-of-payments pressure.

The NDB is still in an early phase, and negotiations will next turn to the question of which states will be invited to become members. The new initiatives are not intended to exclude the United States or other Western countries.

Tensions regarding leadership and operations are likely. China succeeded in securing the bank headquarters in Shanghai, but the rotating presidency will first go to India. Some members may oppose internationalizing China’s currency, the renminbi, which is a priority for China. Private relationships may prove to have more influence in the international bank. And it remains to be seen how the establishment of the NDB and the CRA will affect negotiations on bilateral free trade agreements and the construction of free trade zones, for instance between China and Russia, China and India, and China and Brazil.

**Will the BRICS countries deepen cooperation?**

Each BRICS country has its own agenda. For instance, Russia has significant security-related interests. Meanwhile, India is looking to attract Chinese investment and reduce climate-change-related pressures. It is very difficult to achieve consensus, particularly regarding nontraditional security issues. The BRICS countries are trying to balance between these commonalities and differences.

Although there is competition, strategic coordination is possible. The BRICS countries have similar interests and trajectories when it comes to economics and have proven that they can collaborate in this area.

There are many promising areas for cooperation. In March 2013, the group established the BRICS Business Council, made up of 25 prominent entrepreneurs from the five countries and representing many industries and economic sectors. The BRICS also formed an information-sharing and exchange platform that expands beyond economic cooperation to also involve educational, cultural, and environmental engagement.

In my view, BRICS cooperation will follow an incremental path. The countries have begun to unite in areas of consensus, setting more sensitive issues to the side until a solid economic foundation is in place. In the next few decades, they are likely to maintain this status quo and perhaps cooperate loosely on particular issues. The group may turn into a club of leaders, such as the G7 framework of nations with advanced economies.

Cooperation may also deepen through university and think tank networks. Universities in BRICS nations, for instance, want to set up programs to promote internationalization, specifically a university league among institutions in BRICS countries that will be formulated in the coming years. In addition, a new BRICS think tank that covers issues related to finance and economics is likely to be established.

These networks can build consensus on certain issues and then encourage their leaders to put those issues on the BRICS agenda. This bottom-up approach, a form of “multi-multilateralism,” contrasts with the top-down process that has traditionally characterized multilateralism. The former encourages a broad range of players to get involved in the game, including state, nongovernmental, local, and multilateral actors.

**What challenges are in store for the BRICS group?**

With the exception of the NDB and the CRA, the BRICS framework has not proven very efficient or substantive. It takes multiple rounds of discussion to develop joint policy, for instance.

At high-level meetings, each BRICS leader expresses his or her own ideas, with little dialogue or substantial exchange. Only after initial discussions can leaders organize high-level meetings to talk about how to implement the suggestions and how to respond to the arguments presented by other leaders. Then they can return to the table to draft policy.

At the ministerial level, dialogue is more substantial. Representatives can prepare agendas and policy options ahead of time so they can be discussed at the meetings. But those options may just be suggestions or advice, not formal policy adjustments.
The biggest test will be whether the BRICS countries can resist the temptation to establish a formal alliance and to challenge the leadership of the West. It would be risky to use the platform and this latest show of unity for anti-Western sentiment. The BRICS is designed to offset pressure from Western countries and advocate for the interests of middle powers.

The BRICS countries should also never attempt to make the group into a traditional security framework. The BRICS could reinforce the economic security of each member country but military cooperation and other traditional security frameworks would not be beneficial. Russia may promote forming a security framework in the BRICS, but China, India, and Brazil are not particularly interested in transforming the group into a security coalition.

In addition, the BRICS countries will have to resist competition. The larger international community includes the G20, which is formed by three groups: the G7; the BRICS; and a number of middle powers, such as Australia, South Korea, and Argentina. The BRICS group can better protect their interests if they work through the G20.

These countries all share the same world. The BRICS nations should not challenge but should instead reform the system to make it fairer.

Related Topics

- China and the Developing World
- China’s New Diplomacy
- Global Business and Economics
- Implications of China’s Rise
- China’s Foreign Relations
- International Economics and Trade

Source http://carnegietsinghua.org/2014/12/01/limits-of-cooperation-among-brics-countries/hwp2