



## **World Cup to BRICS Cup**

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The World Cup 2014 matches in Brazil just ended.

However, our attention on Brazil continued for another match: the advanced countries versus the five emerging economies, known as BRICS.

The BRICS, representing three continents, accounts for more than a quarter of the world's land area and 40 per cent of its population. They have a combined GDP of US\$ 24 trillion, about 20 percent of global GDP.

The term, BRICS has evolved from the earlier term, BRIC (Brazil, Russia, India and China), which was coined by Jim O'Neil in 2001, a former staff of Goldman Sachs Group. He foresaw the growing weight of the four largest emerging markets.

With South Africa joining them in 2011, the term got enlarged: BRICS.

The BRICS held series of annual summits since 2009. The theme of the just ended sixth summit was: "Inclusive Growth; Sustainable Development." It was held on July 15-16 in the Brazilian resort of Fortaleza. The sixth summit decided to (i) create a US\$100 billion Development Bank and (ii) institute an emergency reserve fund, known as Contingent Reserve Arrangement (CRA).

### **Reforming financial architecture**

These two decisions are aimed at reducing dependence on the World Bank (WB) and International Monetary Fund (IMF). Voting power is proportionate to the financing provided by its members. Developed countries have over 60 per cent of voting power across WB and IMF. With around 17 percent of votes the US effectively wields veto power over any changes to the ownership structure.

Although developing countries account for 80 per cent of the world's population, they have only 40 percent of the votes. Middle income-countries and BRICs have only one third of the votes and low-income countries just 6 per cent. Among Pacific island countries, PNG has 0.08 percent, followed by Fiji 0.06 percent, Samoa, Solomon Islands and Tonga with 0.03 percent each and Vanuatu 0.04 percent.

The global economic downturn since 2008 did not become another Great Depression only because of impressive growth in BRICS, led by China. In fact, BRICS' growth rate continues above the global average rate.

Developing countries led by BRICS have been pleading for reforms in regard to organization and voting power and in the governance of WB and IMF. Frustrated by the developed countries' reluctance for reforms and the unwillingness to coordinate policies between BRICS and the US, which led to massive capital outflows from emerging markets last year, triggered by the scaling back of U.S. monetary stimulus, are all responsible for the latest decisions.

BRICS action reflects the growing desire for a fresh approach to global financing.

### **The New Development Bank**

The new development bank is not only for BRICS but also for all developing nations.

No country will dominate. The initial subscribed capital of \$50 billion is divided equally between the five founders, ensuring each member has equal voting rights. Lending would start in 2016. Membership is open to other countries as well, but the capital share of the BRICS cannot drop below 55 percent.

There will no stringent conditionalities of the kind associated with WB and IMF loans. Due regard will be given to domestic conditions. The bank will be based in Shanghai with the headship being rotated once in five years. The first president will be from India; and then from Brazil and Russia.

All these are notable departures from the traditions of World Bank (the President, always an American) and IMF (the chief, always from Europe), ever since their establishment in 1944.

### **Contingency Reserve Arrangement**

The Contingency Reserve Arrangement (CRA) will have \$100billion for assisting all developing nations to avoid "short-term liquidity pressures, promote further BRICS cooperation, strengthen the global financial safety net and complement existing international arrangements".

China, with the world's largest reserves holder, will make the bulk of contribution: US\$41 billion, followed by US\$18 billion each from Brazil, India and Russia and US\$5 billion from South Africa.

BRICKS' financial resources are open to all Pacific island countries including Fiji.

## **Not a rival**

With (US\$ 50 billion), the new bank is way behind Asian Development Bank (US\$136 billion) and African Development Bank (US\$98 billion). The World Bank is far ahead, with US\$223.2 billion in subscribed capital.

The BRICS bank will play a complementary role.

Skeptics see it as a plot to end Western dominance. But, Brazil's President Dilma Rousseff noted:

"It is a sign of the times, which demand reform of the IMF."

The World Cup is only for the winner at the finals.

The BRICS cup is for rich and poor nations, partners in development.