BRICS shake up global economic architecture

By creating their own multilateral financial institutions, the BRICS emerging-market powers are shaking up global economic governance but remain far from dismantling the post-war system dominated by the West.

For the past 70 years, the International Monetary Fund and the World Bank have been the pillars of the

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world's economic system, coming to the rescue of countries in trouble and supporting development projects, respectively.

But the Bretton Woods institutions are regularly criticised for their inability to reflect the growing and important contributions of the major emerging economies to the global economy.

China, the world's second-largest economy, continues to have just slightly more voting power in the IMF than Italy, about five times smaller.

And, since their creation in 1944, the IMF and the World Bank have only been led by Americans and Europeans.

"Broader global governance reforms have become stalled, despite the many commitments made by advanced economies to emerging markets to give them a more prominent role in international financial institutions and other international forums," said Eswar Prasad, a trade policy professor at Cornell University and a former IMF expert.

In this context, the launch Tuesday of a development bank and an emergency reserve fund by the BRICS -- Brazil, Russia, India, China and South Africa -- appears to be a concrete attempt to address those inequities.

"If the existing institutions were doing their jobs perfectly, there would be no need to go to the trouble of creating a new bank, a new fund," said Paulo Nogueira Batista, who represents Brazil and 10 other countries at the IMF, in an interview.
The mere creation of the two BRICS institutions sends a strong signal to Western powers, where some doubt the ability of the five powerhouses to surmount their individual needs and ambitions.

The launches "are significant actions that represent a game changer as they turn statements and rhetoric about cooperation among these countries into reality," Prasad said.

Still, many areas of uncertainty cloud the new BRICS structures, giving the IMF and the World Bank a long lead on their fledgling rivals.

- Battles for influence -

For now, only the BRICS countries will be able to draw from the $50 billion in the New Development Bank and $100 billion in the Contingent Reserve Arrangement.

However, proof of the new institutions' effectiveness will come when other countries knock at their door for money.

"Will the BRICS take the financial risk to lend to other countries? And what conditions will they impose?" said an IMF official, who spoke on condition of anonymity.

Accustomed to bailing out a country, and being reimbursed, in exchange for austerity conditions, the IMF has the kind of expertise that "doesn't happen overnight," the official said.

Some also have concerns that the BRICS institutions -- dominated by China -- will be less careful about safeguarding the
environment or fighting corruption when they make their financing deals.

Aware of their current limitations, the BRICS made a point to say they were working closely with the IMF. Some of their financing would be available only to countries already receiving Fund assistance.

Dilma Rousseff, the president of Brazil, said the creation of the BRICS institutions did not mean her country was moving away from the IMF.

"We have not the least interest in distancing ourselves from the IMF," she said. "On the contrary, we wish to democratize it and make it as representative as possible."

Unsurprisingly, the Bretton Woods institutions responded with offers of cooperation.

The IMF managing director, Christine Lagarde, said in a statement Wednesday that her staff would be "delighted" to work with the BRICS team on the reserve fund.

The World Bank, facing other new development rivals and undergoing a major internal restructuring, welcomed the arrival of an "invaluable partner" in the battle against poverty, a bank spokesman told AFP.

This display of friendliness, however, could in time give way to rivalries and battles for influence in the corridors of the 188-nation institutions, based in Washington.

"The new institutions aren't created against anyone," said Nogueira Batista, the IMF representative.

"But they are a first step toward a multilateral world."