Brazil Hosts Talks On New Development Bank

Brazil, Russia, India, China and South Africa to Discuss Formation of World Bank Rival

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BRASILIA—After Sunday's World Cup final, leaders of the world's largest emerging economies will meet in Brazil to press ahead on forming a new development bank meant to rival the World Bank and the International Monetary Fund.

The summit of the Brics bloc, which starts Monday in the beach resort of Fortaleza, could mark a turning point for the group made up of Brazil, Russia, India, China and South Africa. The bloc has expounded high-minded rhetoric for years but hasn't been able to deliver on concrete proposals to advance joint economic interests.

Now the five countries have agreed to equally contribute billions of dollars each to create a bank designed to finance infrastructure projects in the developing world, a role played today by the World Bank. Within a few years, according to plans, the new bank will achieve a maximum size, or so-called authorized capital of $100 billion.

"Putting money on the table really changes the ballgame," said Eswar Prasad, a senior fellow at the Brookings Institution think tank who previously headed the IMF's China and financial studies divisions. "The Brics bank will be an important symbol for these emerging economies, which now have the clout and resources to be players in international finance."

Creation of what is to be called the New Development Bank is one response from the Brics countries to what they see as stalled reforms of existing multilateral institutions. Developing nations are seeking a greater voice against the influence of dominant advanced economies like the U.S., which alone holds 16.8% of the votes in the 188-member IMF.

Financially troubled nations have traditionally turned to the IMF for aid, but the fund's loans come with strict conditions, such as
austerity measures, that can bear a heavy political cost.

Brics leaders will also consider creating a Contingent Reserve Arrangement, dubbed a "mini IMF," in which each country's central bank would put aside a designated amount to be used in case of "a balance-of-payment crisis," said a Brazilian diplomat familiar with the discussions. China will contribute with $41 billion, South Africa with $5 billion and the other Brics with $18 billion each, for a total of $100 billion.

The bank and the CRA should be up and running in the next few years, the Brazilian diplomat said. Both institutions, however, pale in comparison to the IMF's $368 billion and the World Bank's $331 billion in available resources. Columbia University economist Stephany Griffith-Jones estimates that the Brics bank could lend out some $34 billion a year, though much depends on how much non-Brics countries are willing to contribute to the pool.

But the idea of the new bank isn't to become the only game in town, said Roberto Goulart Menezes, an international affairs professor at Brasilia University. "The Brics have a reformist agenda. They don't want to bring down what is already there, mostly because they also benefit" from existing institutions, he said.

The Fortaleza summit, the sixth annual meeting of the bloc, will bring together Brazil's Dilma Rousseff, Russia's Vladimir Putin, China's Xi Jinping, South Africa's Jacob Zuma as well as India's newly elected Prime Minister Narendra Modi.

Russia has been looking to fortify ties with its Brics counterparts in light of icy relations with Western countries over this year's crisis in Ukraine. While Mr. Putin heads to the sunny Brazilian coastal city, Ukrainian military forces are laying siege on the eastern city of Donetsk where pro-Russian separatists maintain one of their last strongholds. are staging one of their last holdouts in a months-long conflict that has heightened geopolitical tensions.

As part of his Latin America tour, Mr. Putin signed a deal in Cuba on Friday to write off $32 billion in outstanding debt owed by the communist Caribbean island.

A spokesman for German Chancellor Angela Merkel said a short conversation between her and Mr. Putin was "quite possible" on the sidelines of Sunday's World Cup final in Rio de Janeiro.

The meeting will be Mr. Modi's first step onto a major multilateral forum after his resounding victory in May elections, based largely on his promises to turn around India's slowing economic growth.

His government this week unveiled a new budget aimed on ramping up infrastructure development. "For Modi, the Brics summit fits in with his domestic goals," said Mr. Prasad of the Brookings Institution.

But few doubt that China, with its deep pockets and outsized contributions to the contingency fund, will be the dominant force in the new venture.

"China wants to burnish its image as a willing multilateral player to show that at least in the field of development it is willing to be a good citizen," said Adriana Abdenur, a professor of international relations at the Pontifical Catholic University of Rio de Janeiro.

The Brics leaders are supposed to decide next week whether to place the new development bank's headquarters in Shanghai or New Delhi.

The Fortaleza Summit is scheduled to start Monday morning with meetings between business leaders
from the five countries, followed by a gathering of ministers and central bank governors. The heads of state will meet most of the day Tuesday.

The summit will extend into Wednesday, when the leaders will travel 1,000 miles south to the capital Brasilia, where they will meet with other Latin-American counterparts to improve links with the region.

Mr. Xi will stay on for a meeting with Ms. Rousseff Thursday morning, followed by talks with other Latin American leaders.

Mr. Xi, whose country has become a major trade partner throughout the region, is also planning to travel to Argentina, Venezuela and Cuba.

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