

BRICS bank decision highlights growing divisions among major powers

Nick Beams
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Decisions by the BRICS countries this week to establish a \$100 billion development bank and an emergency reserve fund to counter adverse developments in the global financial system point to the deepening divisions between the grouping and the United States.

The establishment of the two new organisations was agreed at the sixth annual summit of BRICS, comprised of Brazil, Russia, India, China and South Africa, in the Brazilian city of Fortaleza.

The New Development Bank will start with an initial capital of \$50 billion, financed equally by the five members. It will seek to replicate, though on a much smaller scale, the role of the World Bank in providing development loans.

The Contingency Reserve Arrangement will have \$100 billion and is intended to provide an alternative to the International Monetary Fund (IMF) for so-called developing nations in overcoming liquidity problems associated with shifts in the flows of international finance. Its funding will be determined by the relative economic size of the five participants. China, whose economy is greater in size than the other four members combined, will put up \$41 billion. India, Brazil and Russia will contribute \$18 billion each, and South Africa \$5 billion.

Establishing the new bodies has been under discussion for some years, as a result of growing dissatisfaction among the BRICS countries with the governance structure of the IMF and World Bank. The BRICS have only 10.3 percent of the votes at the IMF, compared to their 24.5 percent share of the world economy.

Proposals were advanced in 2010 to increase the BRICS members' voting power but implementation has been held up by the US Congress, despite the

nominal support of the Obama administration. A US Congress decision last April to again reject changes to the IMF structure, as well as increasing opposition to recent US foreign policy decisions, appear to have been the spur to action at this summit.

There were tensions within the BRICS grouping itself over the establishment of the new bodies, with India concerned that it would increase China's power. Those initial obstacles were overcome with the decision that the new bank would be based in Shanghai, but the first president would come from India.

Brazilian President Dilma Rouseff was anxious to play down speculation that the establishment of the new organisations was an attempt to replicate the IMF and the World Bank, only this time with China playing the leading role. "I don't believe the format of the new BRICS bank will promote a new hegemony," she said.

Brazilian Finance Minister Guida Mantega, who has been a critic of US monetary policy, warned of the possibility of "currency wars" due to the fall in the value of the US dollar.

Mantega said one of the big differences between the BRICS' vision of the global financial system and the existing US-based structure was the principle of equality between the participants. "In the BRICS bank, we will have equal power. This is a fundamental point," he said. The presidency of the banks would be rotated among the five members, unlike the situation in the IMF where the leadership is European, and in the World Bank where the US chooses the president.

The growing tensions between the US and the BRICS grouping were underscored by several passages in the summit statement, entitled the Fortaleza Declaration.

It said the summit had taken place at a "critical juncture," pointing to the challenges of a recovery from the global financial crises and "persistent political

instability and conflict in various global hotspots.”

“On the other hand,” the statement continued, “international governance structures designed within a different power configuration show increasingly evident signs of losing legitimacy and effectiveness, as transitional and ad hoc arrangements become increasingly prevalent, often at the expense of multilateralism.”

While naming no names, this was a clear reference to the United States and its increasing efforts to establish trade and international financial arrangements in its interests. Under the proposed Trans Pacific Partnership, for example, the US intends to break up state-owned enterprises in member countries.

Significantly, the declaration stated: “We acknowledge the role that State Owned Companies (SOCs) play in the economy and encourage our SOCs to continue to explore ways of cooperation, exchange of information and best practices.”

There were some thinly-veiled criticisms of US foreign policy, as seen in the growing US and European push against both Russia and China.

The declaration specifically commended Russia “for the successful work during the presidency of the G20 in 2013.”

Russian President Vladimir Putin took the opportunity to hit back at US attempts to isolate Russia, issuing a call for unity. “Together we should think about a system of measures that would help prevent the harassment of countries that do not agree with some foreign policy decisions made by the US and their allies,” he said.

Significantly, none of the BRICS members has joined US criticism of Russia over the issue of the Ukraine.

In another, more explicit, statement on political issues directed at the US, the statement condemned “unilateral military interventions and economic sanctions in violation of international law and universally recognised norms of international relations.” It emphasised “the unique importance of the indivisible nature of security, and that no state should strengthen its security at the expense of others.”

On the issue of imbalances in global economic governance, the statement said the BRICS were “disappointed and seriously concerned with the current non-implementation of the 2010 IMF reforms, which negatively impacts on the IMF’s legitimacy, credibility

and effectiveness.”

The World Bank also had to move toward “more democratic governance structures” and all countries “should enjoy due rights, equal opportunities and fair participation in global economic, financial and trade affairs,” recognising that they have different capacities and are at different stages of development.

While the summit decisions do not effectively challenge US dominance of the global financial system, and may well come to grief because of the different agendas of the group’s members, they signify the emergence of widening divisions within the world economies and politics.



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