

BRICS: REFORMING GLOBAL ECONOMIC GOVERNANCE SYSTEM

Abstract

The article analyzes BRICS' efforts aimed at promoting the reform of global economic governance, such as: stimulation of the reforms of the leading international financial institutions (IMF, World Bank), creation of new financial bodies (BRICS currency reserve pool, New Development Bank), reforms in the world monetary system, including internationalization of the participating countries' national currencies. The author assumes that one of the major objectives assigned to the BRICS is the promotion of a shift from the Western-dominated system of global economic governance to one of multipolar nature where emerging countries can play important roles along with the developed ones.

Keywords: *BRICS, emerging countries, global economic governance, international financial institutions, IMF, World Bank.*

Аңдатпа

Мақалада ғаламдық экономикалық басқару жүйесін реформалауды ынталандыру мақсатында БРИКС қолданатын жетекші халықаралық қаржылық институттардың (ХВҚ, Бүкіләлемдік банк) реформаларын атап көрсету, жаңа валюта-қаржылық тетіктерді құру (валюта резервінің пулы мен БРИКС Даму банкі), америка долларына тәуелділікті азайту және елдердің ұлттық валюталарының рөлін күшейту, халықаралық есепшоттарда біріктіру сияқты шаралар талданады. Автор БРИКС-қа мүше елдерге бекітілген маңызды міндеттердің бірі – әлемдік экономиканы басқару жүйесінде онда дамыған елдердің біржақты басымдығынан инклюзивті, жетекші дамушы елдерді қамтитын алға жылжуды ынталандыру болып табылады.

Тірек сөздер: *БРИКС, көтеріліп келе жатқан державалар, ғаламдық экономикалық басқару, халықаралық қаржылық институттар, ХВҚ, Бүкіләлемдік банк.*

Аннотация

В статье анализируются меры, предпринимаемые БРИКС в целях стимулирования реформирования системы глобального экономического управления, такие как: педалирование реформы ведущих международных финансовых институтов (МВФ, Всемирного банка), создание новых валютно-финансовых механизмов (пул валютных резервов и Банк развития БРИКС), снижение зависимости от американского доллара и усиление роли национальных валют стран объединения в международных расчетах. Автор исходит из того, что одной из важнейших задач, закрепленных за БРИКС странами-участницами, выступает стимулирование сдвига в системе управления мировой экономикой от одностороннего доминирования в ней развитых стран к более инклюзивной, включающей и ведущие развивающиеся страны.

Ключевые слова: *БРИКС, восходящие державы, глобальное экономическое управление, международные финансовые институты, МВФ, Всемирный банк.*

Introduction

The beginning of the 21st century has seen a historic shift in global economic power from developed countries towards emerging ones. Yet, this historical shift in the economic power distribution hasn't been reflected in the corresponding changes in the system of global economic governance. Despite rapid economic development, increased economic power and growing input into the world economy of the emerging countries, the role they play in global economic governance is still far lower than that assumed and monopolized by the developed countries.

The 2008 world economic crisis has become a turning point for emerging countries to apprehend their high potential and capability to influence the international system. Since that time, they started to consolidate their efforts in pushing the developed countries to accept the necessity of reforming the system of global economic governance. For a number of leading emerging countries (Brazil, Russia, India, China, and South Africa) BRICS has become an effective tool to introduce and promote such changes in the international financial and economic architecture that will create more favorable international environment for the development of the emerging and developing countries. For these five countries, their participation in BRICS has broadened the window of opportunity to enhance global roles, strengthen posture in the international arena, and as a whole to achieve expanding

foreign policy ambitions. For Brazil and South Africa, the participation in BRICS has brought about an opportunity to elevate global visibility that was previously quite limited. Since 2001, the year BRIC acronym was created, BRICS has undergone a rapid transformation from a financial category into a household name in international politics [1, p. 89].

Yet, from Western countries' perspective the only link that connects BRICS countries is their rapid economic development and eye-catching economic achievements against the background of multiple differences, contradictions and spheres of competitiveness amongst them. BRICS countries view their new grouping differently: as a consolidating power that helps to bring the role assigned to them in global economic governance more in line with their rising economic power, as a tool to promote a paradigm shift in global economic governance from one-sided developed countries domination to more inclusive paradigm of multipolar nature.

Currently, there are four distinctive pillars of cooperation between BRICS countries in this innovative format: its common interest in deep reform of the international monetary and financial system; its common adherence to principles and norms of international law and desire to preserve the centrality of the UN Security Council in maintaining international peace and security; its interest in economic cooperation aimed at sustainable economic development; and its common challenge of modernization.

According to the efforts focus or geographic footprint, the cooperation between the participating countries can be schematically divided into two major vectors: outer BRICS cooperation which is targeted at foreign policy coordination on the global and regional issues; and intra-BRICS cooperation aimed at promoting mutual trade and investments, cultural, scientific and other relations between the participating states. The main objectives within the first vector concentrate on harmonization of BRICS countries stances and coordination of actions in regard to key international political and security issues, and on promotion of the reform of the international system and in particular of the international monetary and financial system. The latter, which is reforming the international monetary and financial system, was labeled in the Concept of Participation of the Russian Federation in BRICS issued in 2013 as a long-term priority for cooperation within BRICS [2]. The same emphasis is put on by China, the largest economy and an obvious leader in the BRICS [3, p. 83-86].

Thus, one of the major objectives assigned to the BRICS is the promotion of a shift from the paradigm of Western-dominated system of global economic governance to a more inclusive paradigm of multipolar nature where emerging countries can play important roles along with the developed countries.

Reforming the leading international financial institutions

As such, in the first place BRICS efforts focus on the stimulation and meaningful reform of the Bretton Woods institutions, namely the IMF and World Bank which are still dominated and controlled largely by developed countries. Such efforts aim to limit the US and Europe's control in key international institutions by increasing the representation and voting power of emerging and developing countries at the World Bank and the IMF. The enhancement of emerging countries' scope of participation in these international bodies will be instrumental in expanding their capabilities to influence and take part in the decision-making process in the sphere of global monetary and financial management. This in turn will help to create more favorable international environment for the BRICS countries' development.

In the wake of the 2008 global financial crisis the BRICS countries joined efforts and during the G20 summits put forward a demand to redistribute quotas and voting power in favor of emerging and developing economies and to open access to senior level positions in the IMF, World Bank and WTO. The emerging countries appealed that a shift in global economic power from developed countries towards emerging ones should be reflected in the corresponding changes in the international financial and economic architecture and specifically include a redistribution of quotas and voting power in key international institutions. The enhancement in their representation and voting power was seen by the BRICS countries as an important factor that stimulates an increase in their international status and global influence.

The collaborative position of the BRICS countries has brought about some important deliverables. To a large extent, as a result of BRICS pressure, both the World Bank and the IMF agreed to unprecedented shifts in voting power and quotas from developed to developing countries across these financial bodies. In complying with the agreements reached at the G20 Pittsburgh summit, in

April 2010 the World Bank made a landmark decision to increase the voting power of emerging and developing countries at the expense of the developed ones by 3.13%, bringing them from 44.06 to 47.19% (the so-called “Voice reform – Phase 2”) [4]. The largest increase in voting power was promulgated for China – by 1.65% (from 2.77 to 4.42%). The voting power of South Korea was also raised by 0.58%, Turkey by 0.55, Mexico by 0.51, Singapore by 0.23, Greece by 0.2, Brazil by 0.18, Spain by 0.15 and India by 0.14%. Concurrently, the voting shares of the World Bank’s largest shareholders like Japan, France, Great Britain and Germany were reduced. As a result of this reform the ten largest shareholders of the World Bank are the US (15.85%), Japan (6.84), China (4.42), Germany (4.0), Great Britain (3.75), France (3.75), India (2.91), Russia (2.77), Saudi Arabia (2.77) and Italy (2.64). The greatest change was for China which moved from the sixth largest shareholder position to third.

In December 2010 the Board of Governors of the IMF also approved a package of far-reaching reforms of the IMF’s quotas and governance. This new package, that supplemented the ad hoc adjustments in quotas in 2006 in Singapore and in 2008, provides for a shift of more than 6 percent of quota shares to emerging markets and developing countries. When enacted, BRIC countries along with the US and the four largest European countries (Germany, France, United Kingdom and Italy) will be the top ten countries with the largest voting share. China will move up from the sixth to the third position of the largest quota-holders at the IMF, India – up from the eleventh to the eighth position, Russia – from the tenth to the ninth, and Brazil – from the fourteenth to the tenth position. The aggregated voting share of BRICS in the IMF is expected to reach 14.81%. China’s quota is expected to rise from 4.0 to 6.4%, and voting share from 3.8 to 6.1%; India’s from 2.4 to 2.8% and 2.3 to 2.6%; Russia’s from 2.5 to 2.7% and 2.4 to 2.6%; Brazil’s from 1.8 to 2.3% and 1.7 to 2.2% respectively [5].

Moreover, another milestone of the 2010 IMF reform in the interests of BRICS is that the developing countries will get two additional seats in the 24-person Executive Board (at the expense of European countries).

However, there are at least two circumstances that cast a shadow on the accomplishments achieved by BRICS in this sphere. First, despite the increase in BRICS role in the IMF that will be effective after the reform package enactment, the developed countries will still preserve its upper hand in the decision-making process in this financial institution. For example, with the IMF reform implemented, the US only drops from 16.75 to 16.5% in voting power. That means that the US will still be the IMF’s largest stakeholder that enjoys veto power. Second, a landmark reform package approved by the Board of Governors of the IMF in December 2010 thus far hasn’t go into effect due to the lack of parliamentary approval of the reform from several states and specifically from the US. While IMF rules do not require parliamentary approval by all IMF countries, the support of its largest shareholder – the US – is indispensable. For quite a long time the BRICS countries were silent on this issue and revealed its awareness and understanding of domestic difficulties that the US administration faces in getting the approval from the Congress. But since mid-January 2014 when the Congress again failed to approve IMF reform, the BRICS has become more vocal in demanding the completion of the 14th General Review of Quotas agreed upon by the G20 and the IMF.

Another task on the BRICS agenda is to ensure the emerging countries’ representatives get access to top level positions in the IMF, World Bank and WTO. The BRICS countries are extremely critical on the international practice formed since 1940s when the American representatives are appointed as the heads of the World Bank, and European candidates are appointed as the heads of the IMF. The criticism over this practice was reflected many times in the joint statements and declarations issued by BRICS. For example, in the Delhi Declaration 2012, BRICS countries demanded that the Heads of the IMF and World Bank should be selected through an open and merit-based process. They welcomed the candidates from the developing world to the position of the President of the World Bank [6]. Issued in March 2013 the eThekweni Declaration states that the next Director-General of the WTO should be a representative of a developing country [7]. According to the Declaration such an appointment will bring the spirit of multilateralism and enhance the effectiveness of the WTO.

Yet, this common desire to see a representative of a developing country as a head of any key financial institution was more of declarative nature which didn’t bring about any concrete consolidated efforts. In 2012 BRICS countries failed in choosing and rallying behind a common candidate for the vacant position of the World Bank president. There was a split amongst them on as to whom should become head of this financial body after the resignation of Robert Zoellick. As a result, none of two representatives from developing countries – a former Colombian Finance Minister Jose Antonio

Ocampo and Nigerian Finance Minister Ngozi Okonjo-Iweala – got the position of the World Bank president. This position was eventually filled by an American candidate.

Against this background, a consolidated position and coordinated efforts of the BRICS countries during an election process of the Head of the WTO in 2013 became a landmark. An appointment of Brazilian Roberto Carvalho de Azevêdo as the Director-General of the WTO in May 2013 came as a real triumph for the BRICS and a proof that they are capable of setting aside their differences for the sake of achieving common goals.

Creation of new financial bodies

The BRICS efforts that are focused on the promotion of a paradigm shift in global economic governance are not limited to the reforming of the existing key financial institutions (like the IMF, WB, WTO, etc.), but also include the creation of new financial bodies that will act in the interests of the developing world. In fulfilling the course of reforming the international monetary and financial system in a way it become more taking into account needs and interests of developing countries and reducing their dependency on the existing Western-dominated key financial institutions and the political will of Western countries' leaders, in March 2012 during the Delhi summit BRICS countries put forward an initiative to create new development bank that will be similar to the World Bank in functions, but will be controlled by the emerging economies, act in the interests of developing countries and respond to the challenges they are facing. When a new development bank becomes a reality, it will help to reduce the dependency of developing countries from the World Bank, the IMF, the OECD, that are well-known for giving financial assistance linked to the implementation of specific economic and political policies or the so-called conditionality. The new bank will also elevate the BRICS role in global economic governance and will further promote the multipolarization of the international economic architecture. The potential recipients of the new bank's credits will be not only BRICS countries, but other developing economies as well. The specific focus will be put on financing infrastructure and sustainable development projects.

After several years of discussions and negotiations amongst BRICS countries, during a recent summit in Brazilian Fortaleza (July 2014) the final documents on the creation of the New Development Bank were finally signed. An initial capital of the Bank accounts for \$100 billion with initial subscribed capital of \$50 billion. The Bank's headquarters will be in Shanghai. An important thing to be noted is the equal distribution between the participating states of the shares in initial subscribed capital and an authorized capital in BRICS Bank. In contrast to the existing financial bodies, shares of the holders in BRICS Bank's capital are not contingent on the size, wealth and similar parameters of any nation. The Bank plan to allow new participants but the BRICS share is not to be less than 55%.

BRICS also came with a decision to create its own currency reserve pool – the Contingent Reserve Arrangement. The reserve pool worth \$100 billion is meant for providing a financial support for participating countries facing extraordinary budget deficit situations or short-term liquidity pressures. During Fortaleza summit held in July 2014, the treaty for the establishment of the BRICS Contingent Reserve Arrangement was signed. It should be noted that this arrangement in no way can be seen as a counterweight to the IMF, since it is linked to the IMF arrangements just like its Asian analogue – the Chiang Mai Initiative Multilateralization. Under the umbrella of the Chiang Mai Initiative Multilateralization a member country can only access 30% of a member's quota, while the remaining 70% can be acquired only after entering into negotiations with the IMF and complying with an IMF program and prescriptions [8]. Such a connection with the IMF and the unwillingness of the participating countries to ask for loans from the IMF were one of the reasons that the Chiang Mai Initiative Multilateralization (CMIM) has never been enforced. For instance, in 2008 South Korea opted to ask for a loan directly from the US rather than from the CMIM. Moreover, in 2009 Indonesia also requested help from Japan, not from the CMIM.

The BRICS Contingent Reserve Arrangement rests on the similar principle as the CMIM: the maximum access for the member-country to financial resources divides into de-linked and the IMF-linked portions equal to 30 and 70% correspondingly. The only substantial difference between the two arrangements is that the BRICS initiative creates a global network and it is more powerful based on the economies that are members of it.

Reforms in the world monetary system

BRICS countries also undertake efforts targeted at reducing its reliance on the US dollars in trade and at elevating the role of their national currencies in international payments. To this end a number

of initiatives has been undertaking, like a start to the direct trading between their local currencies, an expansion of local currency settlement and lending on the bilateral basis and in the multilateral format of BRICS.

For instance, in October 2010 at the Shanghai Stock Exchange the first yuan-ruble trading took place, and in December 2010 the Moscow Interbank Currency Exchange launched direct ruble-yuan trading. In November 2010 the two sides signed a protocol allowing the use of national currencies in the bilateral trade (the pilot mechanism of direct payments in local currencies in the Russia-China border trade was launched as early as in 2002). At present the two countries are working hard to finalize ruble-yuan swap agreement.

In March 2013 China and Brazil signed a bilateral agreement that promulgated the trade in their own currencies with the amount of up to \$30 billion yearly, which was equivalent to around one third of their bilateral trade turnover per year (according to China's statistics, China-Brazil trade turnover in 2012 totaled around \$85.7 billion).

At the Sanya summit 2011 BRICS countries signed a framework agreement on financial inter-bank cooperation to expand local currency settlement and lending. One year later, during the 4th BRICS summit in New Delhi The Master Agreement on extending credit facility in local currency and the Multilateral letter of credit confirmation facility agreement were signed.

All these measures will allow to lessen the overreliance on the US dollar and to avoid risks of the volatility of the currency market. In the long run it will promote the reinforcement of BRICS currencies' international influence and status and specifically the internationalization of Renminbi that is the currency of the largest BRICS economy – China. As trade and investment among BRICS countries grow rapidly, it will cut the dollar out of the growing portion of the intra-BRICS trade.

Aside from the initiatives analyzed above, there are a number of other measures that are either on the discussion table or will be there at some point such as the creation of the alternative rating agencies and alternative intra-BRICS payment system, etc.

Conclusion

Summarizing the above said, we can conclude that at the present stage consolidated BRICS' efforts aimed at promoting the reform of global economic governance comprise stimulation of the reforms of the leading international financial institutions (IMF, World Bank), creation of new financial bodies (BRICS currency reserve pool, New Development Bank), reforms in the world monetary system, including internationalization of the participating countries' national currencies (specifically, China's Renminbi).

All in all, BRICS has already managed to introduce some minor but important changes in global economic governance that can be viewed as first steps towards a paradigm shift. The question is whether a paradigm shift is badly needed or inevitable. Comparing the GDP distribution after the World War II, when a Western-centered economic order was established to the present, there a distinctive change that is undeniable. In the late 1940s US GDP alone made up half of the global economy. Fast forward to 2013, the aggregated share of the G7 in the world GDP combined is 39.5%. Meanwhile, the share of BRICS countries is at 21.1% [9]. The combined GDP of the five BRICS countries in 2013 reached over \$15.8 trillion. This tendency is especially evident when comparing the change in BRICS and G7' shares in world GDP starting from the beginning of the 21st century: in 2000 the share of BRIC was mere 7.85% against G7' share accounting for 65.57%, in 2008 BRICS' share rose to 14.62%, while the G7 dropped to 52.48%. An economic multipolarization and a historic shift of global wealth towards developing countries demand a paradigm shift in global economic governance.

At the same time, all the efforts undertaken by BRICS countries with the aim of bringing a paradigm shift in global economic governance are more of complementing nature rather than a substituting one as often claimed by the Western mass media. They are aimed at providing more "say" for developing countries in the rapidly changing economic architecture, at complementing established international financial institutions and arrangements, at bringing the existing system of global economic governance in line with the new realities of the shift in economic power distribution from the developed to the emerging economies. BRICS efforts are directed at getting a greater role for emerging economies in the existing framework. The creation of new financial bodies like the BRICS Development Bank is a pure reaction to the Western countries inaction and its rigid reluctance to deep reforming of the existing financial institutions.

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