

Comparative Study of BRICS Decisions Regarding the Main Guidelines of International Financial and Economic Infrastructure Reform



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Abstract

Undoubtedly, BRICS have considerable influence in the world. The leaders of BRICS countries decided to create new financial and economic infrastructure and, hence, documents and resolutions adopted by BRICS countries and relevant G20 documents can be considered to be of great importance. A detailed analysis of these documents enables us to trace the turning points in the development of BRICS countries and recognize key factors, which further influence effective cooperation and collaboration.

In this regard, it seems important to study the role of BRICS in the international arena, analyzing the importance of joint BRICS' declarations on the collaboration and cooperation within BRICS, the problems of reforming international monetary and financial institutions, and establishing new financial and economic infrastructure establishment.

Certainly, the establishment of new financial and economic infrastructure is extremely complicated. In this article the author shows that BRICS countries decided that it was necessary not only to reform existing institutions, but also to establish new ones, such as the BRICS Development Bank.



Keywords

BRICS, reform, international norms, treaties, cooperation, Development Bank

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The Foreign Policy Philosophy¹ of the Russian Federation suggests that Russia should develop international cooperation within the BRICS framework: “Russia attaches great importance to ensuring sustainable manageability of global development, which requires collective leadership by the major states of the world, which, in turn, should be representative in geographical and civilizational terms and fully respect the central and coordinating role of the UN. To these ends, Russia will increase its participation in such formats as the Group of Twenty, BRICS (Brazil, Russia, India, China and the Republic of South Africa), the Group of Eight,

¹ The Foreign Policy Philosophy of the Russian Federation (approved by the President of RF on 12 February 2013).

the Shanghai Cooperation Organization, the RIC (Russia, India and China) alongside other organizations and platforms for dialogue”.² From this perspective, it seems important to study the international role of BRICS, analyzing the importance of joint BRICS’ declarations on one of the numerous lines of collaboration and cooperation within BRICS vis-à-vis problems of reforming of international monetary and financial institutions and creating new financial and economic infrastructure.

Undoubtedly, BRICS countries have considerable influence in the world. As stated in paragraph 5 of the Concept of Participation of the Russian Federation in BRICS, the basis of BRICS authority in the international arena derives from the growing economic power of member countries, the “importance of their activities as a major driving force of the global economy, their significant share of the world population and their rich natural resources”.³ Indeed, BRICS countries account for 40% of the world’s population, a quarter of the world’s resources and 30% of global land mass. BRICS countries are responsible for two thirds of global economic growth in recent years. Such collaboration and cooperation between emerging economies can offer a fresh approach to global finance management.

BRICS leaders decided to create a new financial and economic architecture, consequently, publishing and adopting various documents and resolutions within BRICS and the G20. A detailed analysis of these documents enables us to trace the turning points in the development of BRICS countries and to identify key factors, which can influence further effective cooperation and collaboration.

The first ever four-party summit of BRIC countries (Brazil, Russia, India, China) took place on the island of Hokkaido in Toyako on July 9, 2008 during the G8 summit. The BRIC summit was a Russian initiative. Dmitry Medvedev, then-President of the Russian Federation, Hu Jintao, then-President of the PRC, Manmohan Singh, then-Prime Minister of India, and Luiz Inácio Lula da Silva, then-President of Brazil met at the summit to discuss the most urgent modern economic issues. Ban Ki-Moon, the Secretary-General of the UN, Robert Bruce Zoellick, then-President of the World Bank, Dominique Strauss-Kahn, then-Managing Director of the International Monetary Fund (IMF), José Ángel Gurría, the Secretary-General of the Organisation for Economic Co-operation and Development, Nobuo Tanaka, then-Executive Director of the International Energy Agency, and Jean Ping, then-Chairman of the Commission of the African Union, also took part in the G8 Summit. The summit’s agenda was devoted to issues of international and regional security, environmental protection, aid to developing countries and, of course, world economic and financial issues. After the Toyako summit, the number of summits between the heads of BRICS countries, as well as between their finance ministers and governors of national central banks, devoted to aspects of cooperation and search for solutions to shared issues, has greatly increased.

BRICS summits for the countries’ finance ministers were held on November 7, 2008 in San Paulo and on March 13, 2009 in London. The Joint Communiqué, expressing BRICS joint position on current global financial problems, including the causes of and solutions for recovery from the global economic crisis, was adopted during the summits. In the first Joint Communiqué, issued on November 7, 2008, BRICS finance ministers called for a reform of multilateral institutions: “We called for the reform of multilateral institutions in order that they reflect the structural changes in the world economy and the increasingly central role that emerging

² The Foreign Policy Philosophy of the Russian Federation (approved by the President of RF on 12 February 2013).

³ Concept of Participation of the Russian Federation in BRICS (approved by the President of RF).

markets now play. We agreed that international bodies should review their structures, rules and instruments in respect of aspects like representation, legitimacy and effectiveness and also to strengthen their capacity in addressing global issues. Reform of the International Monetary Fund and of the World Bank Group should move forward and be guided towards more equitable voice and participation balance between advanced and developing countries. The Financial Stability Forum must immediately broaden its membership to include a significant representation of emerging economies”⁴

The summit for BRIC finance ministers took place on March 13 2009 in Horsham, United Kingdom, on the eve of the summit for G20 finance ministers and national bank governors. The BRIC summit set out the guidelines for top priority joint efforts and vectors of cooperation in the reform of international financial and economic infrastructure. The BRIC ministers concluded that the stabilization of the international financial system by means of recapitalization, liquidity support and bank balance resolution through necessary public actions, was a top priority. They also decided that all the measures should be undertaken in such a way as to not thwart the efforts required to ensure medium-term and long-term microeconomic stability, while taking into account the specific characteristics of each country: “We should avoid protectionism of all kinds and not allow to act as a disruptive force to the global economy”⁵. Significantly, the problem of economic growth stimulation and financial consolidation was one of the priorities on the G20 agenda.

The finance ministers proposed measures to replenish IMF assets, including Special Drawing Rights (SDR) distribution and a new flexible credit mechanism, which took into account preventive measures. Additionally, the finance ministers proposed the early implementation of new patterns for the replenishment of IMF assets, including the speeding-up of the IMF gold sale procedures. These proposals were not as prominent, but no less important. Following the summit, these provisions were reflected in the summit resolutions in London, Pittsburg and Seoul. The provisions highlighted the growth of IMF’s supervision potential, the importance of concentrated and unprejudiced supervision of all IMF member countries, in particular developed countries with major international financial centers and large cross-border capital flows. This proposal was reflected in the «process of peer assessment», and a relevant resolution was adopted at the Pittsburg G20 summit on September 24–25, 2009.

The Pittsburg summit also confirmed «the status of the G20 as a coordination centre for the resolutions of word economic and financial issues», formulated in the first paragraph of the Communiqué set out by the G20 prime ministers, which was adopted in March 2009.⁶

On September 4 2009 finance ministers and governors of BRICS national central banks held a special meeting in London during the G20 finance ministers’ summit. The final Communiqué stated the BRICS countries’ unified approach towards recovery from the financial and economic crisis and the reform of international financial institutions. Paragraph 9 of the Communiqué gives the definition of the objectives of the redistribution of 7% of quotas in the IMF and of 6% of quotas in the World Bank group, providing more reasonable distribution for developed and developing countries. The finance ministers did not support the idea of replac-

⁴ Brazil, Russia, India and China Finance Ministers Joint Communiqué. São Paulo, November 7, 2008. Pr. 7.

⁵ BRICS Finance Communiqué. Horsham, United Kingdom, March 13–14, 2009. Pr. 2, 3.

⁶ Larionova M.V., Rakhmangulov M.R., Shelepov A.V., Sakharov A.G., Medushevsky N.A. Opportunities for cooperation in BRICS to work out solutions of BRICS and G20 on key lines of the international financial and economic architecture reform in the interests of Russia. *International Organizations Research Journal*, 2012, no 4, p. 227.

ing the IMF's International Monetary and Financial Committee with the Ministerial Council, in which decisions are made by means of weighted voting. The ministers opposed the idea because under the existing system of quotas, the Council would be a less representative body than the Committee, where decisions are taken on a consensus basis.

Consequently, the final documents and resolutions of the 2009 summits of BRIC's finance ministers and national central bank governors clearly demonstrated the country members' ability to share common positions and opinions and to influence the agenda in key ways in relation to the reform of international financial institutions.

The quadripartite BRIC summits became popular not only with the BRIC finance ministers and central bank governors, but also with the representatives of public organizations, regional, municipal and local authorities and the academic community. For instance, two research and training conferences, sponsored by the government of St. Petersburg, were held on May 22–23, 2008 and May 14–15, 2009 in St. Petersburg. Conference participants included representatives from municipal authorities and universities from Rio de Janeiro, Mumbai, Shanghai and Qingdao. The Russian Federation Public Chamber organized an international conference, held in Moscow on December 8–9, 2008, for experts from research centers and representatives of BRIC foreign services. In May 2009, the Indian research center "Observer" held an expert and political science BRIC conference in New Delhi, which dealt with issues relating to the global financial and economic crisis. The conference resulted in the recommendations setting out further development of collaboration between BRIC countries.

On 1–2 September 2009, the BRIC International Competition Conference took place in Kazan, Russia, initiated by the Federal Monopoly Service of Russia (FAS) and sponsored by the Russian government. This conference concluded with the signature of the Joint Communiqué, in which the leaders of competition authorities of BRIC countries confirmed their willingness to further exchange ideas relating to competition policies' development and law enforcement in the course of four-party meetings and agreed to organize an International Competition Conference under the aegis of BRIC on a regular basis.⁷

The first BRIC summit took place on 16 June 2009 in Yekaterinburg, Russia. During this summit, the heads of the BRIC member countries adopted the Joint Declaration⁸ and a separate document on world food security. The Joint Declaration stated the problem of reforming global financial institutions, specifically focusing on the issue that such reforms should reflect current changes to the world economy. Paragraph 3 of the Declaration states: "The emerging and developing economies must have greater voice and representation in international financial institutions, whose heads and executives should be appointed through an open, transparent, and merit-based selection process". The leaders of BRIC countries agreed that it was essential to have stable, foreseeable and more diverse currency systems. BRIC leaders discussed the characteristics of the new financial economic infrastructure. Specifically, the underlying principles of the reforms would include "democratic and transparent decision-making and implementation process at the international financial organisations; solid legal basis; compatibility of activities of effective national regulatory institutions and international standard-setting bodies; and the strengthening of risk management and supervisory practices"⁹.

The second BRIC summit took place on April 15, 2012 in Brasilia (Brazil), and resulted in the issue of a Joint Communiqué, which outlined the countries' common vision of the current

⁷ For more information, see www.economy.gov.ru.

⁸ Joint Statement of BRIC Countries' Leaders. Yekaterinburg, Russia, June 16, 2009.

⁹ Joint Statement of BRIC Countries' Leaders. Yekaterinburg, Russia, June 16, 2009. P. 4.

stage of world development. Paragraph 11 of the Joint Communiqué highlighted the necessity of the effective completion of the reforms of Bretton-Woods institutions and the problem of the IMF's and World Bank's lack of legitimacy. The BRIC countries concluded: "Reforming these institutions' governance structures requires first and foremost a substantial shift in voting power in favor of emerging market economies and developing countries to bring their participation in decision making in line with their relative weight in the world economy"¹⁰ The Joint Communiqué emphasized the necessity of increasing the representation of developing countries.

The third BRICS¹¹ summit took place on April 14, 2011 in Sanya on the island of Hainan, China, and dealt with the problems of reforming and improving the international monetary system to a greater degree than at previous BRIC summits. In the adopted declaration, BRICS leaders concluded that "the governing structure of the international financial institutions should reflect the changes in the world economy, increasing the voice and representation of emerging economies and developing countries".¹² The heads of BRICS countries clearly expressed their opinion on SDR, as well as the composition of the SDR currency basket, considering it necessary to support and continue the discussion on the role of SDR in the existing international monetary system: "We call for further international financial regulatory oversight and reform, strengthening policy coordination and financial regulation and supervision cooperation, and promoting the sound development of global financial markets and banking systems".¹³

Despite BRICS' calls to action, no new proposals regarding the reform of global financial institutions were discussed at the G20 summit on November 3–4, 2011 in Cannes (France). G20 leaders agreed that "the SDR basket composition should continue to reflect the role of currencies in the global trading and financial system and be adjusted over time to reflect currencies' changing role and characteristics. The SDR composition assessment should be based on existing criteria, and we ask the IMF to further clarify them. A broader SDR basket will be an important determinant of its attractiveness, and in turn influence its role as a global reserve asset. This will serve as a reference for appropriate reforms. We look forward to reviewing the composition of the SDR basket in 2015, and earlier if warranted, as currencies meet the criteria, and call for further analytical work of the IMF in this regard, including on potential evolution. We will continue our work on the role of the SDR".¹⁴ Paragraph 13 of the joint declaration suggests that G20 leaders postponed the revision of the SDR basket composition until 2015 instead of making a decision in 2011.

At the fourth BRICS summit, held in Delhi on March 29, 2012, the leaders of the member countries expressed their concern regarding the slow reform of the IMF's system of quotas and management. The Delhi Declaration set out specific time limits: "We see an urgent need to implement, as agreed, the 2010 Governance and Quota Reform before the 2012 IMF/World Bank Annual Meeting, as well as the comprehensive review of the quota formula to better reflect economic weights and enhance the voice and representation of emerging market and developing countries by January, 2013, followed by the completion of the next general quota review by January 2014".¹⁵ BRICS leaders also discussed the need for a more integral and objective system

¹⁰ Second BRIC Summit of Heads of State and Government: Joint Statement. Brasília, April 15, 2010.

¹¹ South Africa became a member country in December 2010.

¹² Sanya Declaration. Sanya, Hainan, China, April 14, 2011. Pr. 15.

¹³ *Ibid.*, Pr. 10.

¹⁴ G20 Cannes summit final declaration «Building our common future: renewed collective action for the benefit of all» draft. Cannes, 4 November, 2011. Pr. 13.

¹⁵ Delhi Declaration (Fourth BRICS Summit). New Delhi, March 29, 2012. Pr. 9.

of supervision. The Delhi Declaration specifically discussed the problem of the appointment of the heads of IMF and World Bank. The Declaration further stressed the importance of giving preference to candidates from developing countries: “We welcome the candidatures from the developing world for the position of the President of the World Bank. We reiterate that the Heads of IMF and World Bank be selected through an open and merit-based process. Furthermore, the new World Bank leadership must commit to transform the Bank into a multilateral institution that truly reflects the vision of all its members, including the governance structure that reflects current economic and political reality. Moreover, the nature of the Bank must shift from an institution that essentially mediates North-South cooperation to an institution that promotes equal partnership with all countries as a way to deal with development issues and to overcome an outdated donor- recipient dichotomy”.¹⁶

In addition to discussing IMF and World Bank reform, BRICS leaders decided to establish a New Development Bank in order to mobilize resources for infrastructure and sustainable development projects in BRICS countries. As set out by the heads of BRICS countries, this bank would build on the existing efforts of international and regional financial institutions and would be oriented toward global growth and development. The BRICS finance ministers were charged with the task of examining the possibility of creating such a bank. The finance ministers created a joint working group, whose job was to submit a detailed report on the feasibility and viability of setting up the New Development Bank by the fifth BRICS summit.

The most significant resolutions adopted by BRICS was the eThekweni Declaration. The eThekweni Declaration and the eThekweni Action Plan, adopted on March 27 2013 in Durban (the RSA) at the fifth BRICS summit, constitute a draft roadmap for the BRICS monetary system, set up as an alternative to the «Dollar Empire». ¹⁷

Paragraph 13 of the eThekweni Declaration shows BRICS leaders’ concern regarding the slow pace of IMF reform: “We remain concerned with the slow pace of the reform of the IMF. We see an urgent need to implement, as agreed, the 2010 International Monetary Fund (IMF) Governance and Quota Reform. We urge all members to take all necessary steps to achieve an agreement on the quota formula and complete the next general quota review by January 2014”.¹⁸

One of the most important provisions of the eThekweni Declaration is the establishment of a new financial institution, a New Development Bank «for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries»¹⁹. Paragraph 9 of the Declaration states: “Developing countries face challenges of infrastructure development due to insufficient long-term financing and foreign direct investment, especially investment in capital stock. This constrains global aggregate demand. BRICS cooperation towards more productive use of global financial resources can make a positive contribution to addressing this problem... We have agreed to establish the New Development Bank. The initial contribution to the Bank should be substantial and sufficient for the Bank to be effective in financing infrastructure”.²⁰ The inclusion of the statement regarding the establishment of the New Development Bank into the text of the Declaration, signed by the leaders

¹⁶ Ibid., Pr. 12.

¹⁷ Konkov N. BRICS fortunes the brave. *Zavtra*. no 14 (1011). 2013.

¹⁸ EThekweni Declaration (BRICS and Africa: Partnership for Development, Integration and Industrialisation). Durban, South Africa, March 27, 2013.

¹⁹ Ibid., Pr. 9.

²⁰ Ibid., Pr. 9.

of all BRICS member countries, is an important and, to some extent, crucial moment toward the establishment of this new financial institution establishment.

The decision to set up the New Development Bank germinated long before the fifth BRICS summit. In February 2012 national central BRICS banks' governors met during the G20 summit events, with India leading the initiative to establish a common Development Bank in order to develop infrastructure projects. In the Joint Declaration of the sixth session of the high-level Russian-Brazilian cooperation committee, signed on 20 February 2013 in Brasilia, Dmitry Medvedev, the Prime Minister of the Russian Federation, and Michel Temer, the Vice-President of the Federative Republic of Brazil, confirmed the intention to establish a New Development Bank, as set out at the previous BRICS summit. A month later, the Joint Declaration of the Russian Federation and the People's Republic of China on mutually beneficial cooperation and development of the overall partnership strategic cooperation, signed in Moscow on 22 March 2013, considered the problem of the New Development Bank and a currency reserve pool establishment. The final point was made in the eThekweni Declaration.

In one of his speeches devoted to the establishment of the BRICS Development Bank, Vladimir Putin, the President of the Russian Federation, said: "Russia supports the effective use of BRICS' economic potential in order to expand mutual trade and investments and ramp up industrial and technological collaboration. The establishment of a BRICS development bank will help this initiative. In this regard, I would like to note that Russia is in favor of this financial institution being created, but we will proceed from this: if it is created, it will work exclusively on market principles and will render support to the business community of all of our countries".²¹

BRICS countries have taken an important step. The decision to establish the BRICS Development Bank demonstrates great progress in economic development across BRICS over the last few decades. For example, the current total GDP of BRICS member countries and GDP of the developed countries at the time of the formation of the Bretton-Woods financial institutions are comparable. The total volume of trade in 2012 amounted to 340trn USD. All analysts purport that by 2050 the total size of BRICS economies will exceed that of the G7 countries. The establishment of the BRICS Development Bank will also lead to a change to the balance of global political and economic power: BRICS member countries can show the world their readiness and ability to work together. While developed countries struggle to solve their problems, developing countries are taking their future into their own hands. The establishment of a currency reserve pool forms part of the plan to support the national currencies of the BRICS countries.

Undoubtedly, the establishment of a new financial and economic infrastructure is extremely complicated. BRICS countries have come to the conclusion that it is necessary not only to reform the existing institutions, but also to establish new ones, such as the BRICS Development Bank. Unified strategy and integral consistency of actions are necessary for the effective cooperation between BRICS countries, which in turn should lead to the implementation of common goals in the future. The world is the BRICS' oyster. BRICS countries can look to the successes and failures of already established global financial and political institutions, such as the European Monetary Unit, when making decisions regarding their own institutions. All BRICS countries — Brazil, Russia, India, China and the RSA — should be equally interested in the establishment of a new international financial and economic infrastructure.

²¹ "BRICS countries can establish the Development Bank." March 27, 2013, <http://top.rbc.ru/economics/27/03/2013/851299.shtml>



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