



**6<sup>th</sup> BRICS Summit**

**Emergence of a Counterweight in the International Fiscal Arena**

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After the grand finale of the Football World Cup ended with a German victory over Argentina on July 13, 2014 in the Brazilian City of São Paulo, the focus of the world did not leave Brazil, but then shifted to another city, Fortaleza, where the heads of the states of BRICS nations met in the group’s 6<sup>th</sup> annual summit and discussed on various developmental projects and other contemporary international issues.

Credited to have been coined by Jim O’Neill of Goldman Sanchs,<sup>1</sup> the BRICS grouping has come a long way in a short period of time from a mere concept to a great reality. Officially announced in 2008 as BRIC, with a group of four core member countries namely Brazil, Russia, India and China, the group later got expanded to five members by including South Africa in December 2010 thereby becoming BRICS. These five fast developing economies of the world meet every year in a summit and discuss their responses and reactions to various

international issues apart from the economical dimension.

The 6<sup>th</sup> annual BRICS summit in Fortaleza with the theme “Inclusive Growth: Sustainable Solutions”<sup>2</sup>, was one such meeting between the heads of the states of member countries, including the newly elected Indian Prime Minister Narendra Modi. Although, this year’s summit was delayed due to the postponement of dates as requested by China, BRICS countries came with a bang by establishing “New Development Bank” or in other terms, the BRICS Bank, thereby, challenging the hegemony of West leaning World Bank and IMF in the International Fiscal Environment. Other agreements were also

discussed and agreed upon unanimously by the members during the s u m m i t . The programme of the Summit, mainly a three day event was held in the order given in the table 1. Apart from the above mentioned three day high level diplomatic talks, another three day ‘Track II’ level meetings were held

**Table-1**

Date	Events
14 July, 2014	<ul style="list-style-type: none"> <li>• Meeting of the BRICS Business Forum and Business Council</li> <li>• Meeting of the BRICS Ministers Responsible for Trade</li> <li>• Meeting of Finance Ministers and Presidents of Central Banks of the BRICS</li> </ul>
15 July, 2014	<ul style="list-style-type: none"> <li>• First working session of the VI BRICS Summit: private and plenary sessions of the Leaders’ meeting</li> <li>• Signing ceremony</li> </ul>
16 July, 2014	<ul style="list-style-type: none"> <li>• Second working session of the VI BRICS Summit: meeting with South American Heads of Government and/or State.<sup>3</sup></li> </ul>

in the state of Rio de Janeiro involving the Think Tank Councils and Academic Forum on July 17, 2014 and July 18 & 19, 2014 respectively.

In addition various agreements signed by the five members during the 6<sup>th</sup> BRICS summit are as follows:

- Agreement on the "New Development Bank"<sup>4</sup>
- Treaty for the Establishment of a BRICS "Contingent Reserve Arrangement"<sup>5</sup>
- Memorandum of Understanding on cooperation among BRICS export credit insurance agencies<sup>6</sup>
- Cooperation Agreement on Innovation<sup>7</sup>

Another highlighting factor of the 6<sup>th</sup> BRICS Summit was the invitation for the heads of 11 South American countries to take part in a meeting and discussion with the heads of the five members of BRICS countries on July 16, 2014. This became a platform for interaction between two big multinational groups namely BRICS and UNASUR<sup>8</sup>, in which Brazil is a member of both these groupings.

Among the various agreements signed in this summit, the Agreement on the New Development Bank and Treaty for the Establishment of a BRICS Contingent Reserve Arrangement needs special attention as these projects by the BRICS nations are expected to play an important role in the world economy. Therefore, it becomes imperative to know at least the highlighting aspects of these projects.

### Contingent Reserve Arrangement

The BRICS nations jointly signed the Treaty for the establishment of a BRICS Contingent Reserve Arrangement on July 15, 2014 in the 6<sup>th</sup> BRICS summit under the following agenda:

- to forestall short-term balance of payments,
- to provide mutual support and further strengthen financial stability,
- to strengthen the global financial safety and

- to complement the existing international monetary and financial arrangements.<sup>9</sup>

Under this treaty the initial resources for the Contingent Reserve Arrangement (CRA) is decided to be US\$ 100 billion, out of which individual commitments for every BRICS members is:

- China – US\$ 41 billion
- Brazil – US\$ 18 billion
- India – US\$ 18 billion
- Russia – US\$ 18 billion and
- South Africa – US\$ 5 billion.<sup>10</sup>

While a governing council and a standing committee will monitor the governance and decision making of CRA, an important point to be noted here is that the CRA is also open to new countries as parties to this treaty who wish to invest their initial payment and get access to huge financial benefits from this group. This

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treaty facilitates Inter-Central Bank Agreement between the central banks of the five member countries and also allows the facility of Currency Swaps.

This arrangement by BRICS countries to use CRA as an instrument for providing liquidity and precautionary

support in response to short-term of payments pressures reflects the countries collective vision to support each other in sharing the responsibility of mutual development.

### New Development Bank

The idea of creating a 'BRICS Bank' was floated in the fourth BRICS Summit in New Delhi in 2012 and after conducting some feasibility study for such a dream project by all the five member countries the announcement was made about the establishment of the Bank in the fifth BRICS Summit in Durban in 2013. After rigorous ground work and drafting of the Articles of the Agreement and various charters, the BRICS Bank became a reality in the 6<sup>th</sup> BRICS Summit with the signing of the agreement by the representatives of all the five members thereby making them the five founding members of the Bank.

This BRICS Bank named as “New Development Bank” will function with its Headquarters in Shanghai and shall be governed by Board of Governors, Board of Directors, a President, and Vice Presidents. Apart from its five founding members, the bank will also accept other countries as borrowing and non-borrowing members with the primary criteria that the country has to be a member of the United Nations. The New Development Bank will have an initial authorised capital of US\$ 100 billion and an initial subscribed capital of US\$50 billion. As the initial subscribed capital is decided to be equally distributed amongst the Bank’s founding members, their voting powers will also be equal.<sup>11</sup>

The successful establishment of the BRICS bank silences the criticisms against BRICS countries regarding their slow economic growth in recent years. Also, the drafting body of this agreement has taken conscious measures to ensure that no one country among the five founding members has more influence than the other. While the West claimed that China would try to influence the bank for its advantage, but the framework of the agreement ensured that all the five founding members of the bank get equal role depending on their capabilities. Accordingly, Shanghai was chosen as the headquarters of the new bank, an Indian will become the first President of the bank, a Russian will be the first Chairman of Board of Governors, a Brazilian will be the first chairman of the board of directors, and South Africa was chosen as the first regional centre of the bank.<sup>12</sup>

The New Development Bank can be seen as a game changer in the International Fiscal Arena as it would act as a counterweight, rather than as a challenge to the hegemony of IMF and World Bank in the global economic forum as being dubbed by few analysts. It is certain that the NDB would be a force to reckon with in the world economy especially for the Third World countries who find it difficult to operate with the west dominated IMF and World Bank. Moreover, the intention of NDB to provide financial assistance

to other countries especially the third world countries apart from facilitating availability of easy liquidity in the face of a volatile global economy and enhancing greater financial cooperation among BRICS can be seen as building of an economic alliance of the Third World. This can be substantiated by the fact that the entire UNASUR member countries, who all belong to the Third World, were invited to participate in the 6<sup>th</sup> BRICS summit as a symbolic gesture to show the friendly attitude of BRICS towards the Third World.

In spite of various differences between the BRICS countries like the geographical distance between Brazil, South Africa and the other 3 members, the historic border disputes between India and China,

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the misunderstandings between China and Russia have not deterred the five nations to come as a grouping and also to invest huge amounts for a common goal: Development. This attitude of BRICS nations to keep aside their differences and to work together can be seen as a shared vision to fulfil every country’s national interest towards growth and sustainable development.

### Conclusion

The 6<sup>th</sup> BRICS Summit is considered to be important not only because of the new treaty and agreements signed by its members but also because of the role it plays in shaping the image of the heads of states of its member countries. As the Brazilian President Dilma Rousseff will face elections for her second term by the end of this year, a successful BRICS summit might help in giving a facelift to her ratings, which, she is badly in need off. The case of Russian President Vladimir Putin is the most highlighting factor as he has to prove to the West and the US, the existing support for Russia from developing powers like India, China and Brazil during the country’s troubled times with the ongoing Ukrainian Crisis. As for Prime Minister of India Narendra Modi, this summit acted as the first platform to exhibit his diplomatic skills, to develop his international image and gave an opportunity to interact with the heads of the



states of almost 15 countries of the developing world. Even for the South African President Jacob Zuma, who was recently elected as the country's President for a second term, the summit acted as a platform to prove his significance in world politics to all his people back home.

Additionally, with the establishment of NDR, signing of various other agreements and interaction with leaders of UNASUR countries, BRICS nations are trying to send a strong message to the western world. Decoding this message is important to understand the future journey and prospectus of the BRICS nations or in general the developing world. By establishing a parallel financial organisation, the BRICS nations are collectively showing their dissatisfaction with the operations and policies of the west and US dominated IMF and World Bank. It is also signalling towards trade prospects between the BRICS nations and the UNASUR countries. Such a trade between these two forums would drastically boost the economic prospects of all the countries involved in it.

The successful conduct of the 6<sup>th</sup> BRICS summit has led to very high hopes and expectations from its member countries. Hopefully, the world will witness true potentials and capabilities of these aspiring global powers.

## Notes

<sup>1</sup> Singh, Suresh P & Dubey, Memory, "BRICS and the World Order: A Beginner's Guide", *Centre for Trade, Economics & Environment (CUTS)*, 2013.

<sup>2</sup> "6<sup>th</sup> BRICS Summit – Fortaleza Declaration", in <http://www.mea.gov.in/bilateral-documents.htm?dtl/23635/>

Sixth+BRICS+Summit++Fortaleza+Declaration accessed on July 23, 2014.

<sup>3</sup> <http://brics6.itamaraty.gov.br/programme>, accessed on July 23, 07, 2014.

<sup>4</sup> "Agreement on the New Development Bank", *BRICS*, July, 2014.

<sup>5</sup> "Treaty for the establishment of a BRICS Contingent Reserve Arrangement", June 21, 2014, Melbourne.

<sup>6</sup> "Memorandum of Understanding on Cooperation", *BRICS*, July 15, 2014.

<sup>7</sup> "Cooperation Agreement on Innovation", *BRICS*, July 2014.

<sup>8</sup> UNASUR – Union of South American Nations is an intergovernmental union integrating two existing customs unions – Mercosur and the Andean Community of Nations (CAN) – as part of a continuing process of South American integration. The group is working towards projects like Electoral Monitor, Single Market, Economic development, Defence Policy, Infrastructure Cooperation and free movement of people.

<sup>9</sup> "VI BRICS Summit – Press Release", Article 2, Agreement on the New Development Bank, Fortaleza, July 15, 2014, in <http://brics6.itamaraty.gov.br/media2/press-releases>, accessed on July 24, 2014.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.



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