Global Policy, June 2022

Leading States in the Periphery of the World Economy Challenge Core States: Impacts of the Unlikely BRICS Coalition

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Abstract

The longer-run trajectory of the global economy (and its politics) will be much affected by the extent to which developing countries manage to cooperate to challenge the rule-setting dominance of the North Atlantic states. This essay assesses the impact on global economic governance of the cross-regional BRICS coalition (Brazil, Russia, India, China, South Africa). The standard assessment in the west is: very little so far. The essay finds that this is too pessimistic, though not by much. The format exists, the political leaders do meet twice a year, finance ministers and central bank governors do the same, and two financing organizations have been created to complement or eventually even substitute for the IMF and the World Bank. Potential expansion of cooperation depends heavily on the willingness of the national presidents to act independently of the US, and on geopolitics between the members of the coalition.

Policy Recommendations

- The institutional structure of the world economy operates to sustain the economic and political pre-eminence of the North Atlantic states and delay the catching up of poorer countries with their living standards. Concerted action by coalitions of developing countries to change rules of integration in world economy can change some of the obstacles to their catch up.
- The BRICS coalition is well placed to formulate new rules – and a new 'mindset' – because it includes major states from all regions outside of the west.
- It is especially important to keep China strongly engaged with the other four, cooperating with them to advance common interests (especially in multilateral forums like the BRICS, IMF and WTO), and blunting the onset of full-blown China-US rivalry in the economic and security realms.

For centuries states of the North Atlantic have set rules for the world economy or major parts of it. Their core position has been sustained by the lack of challenge from peripheral states; which partly reflects the reluctance of peripheral states to cooperate among themselves. Even within the periphery of the core – such as the southern European periphery – the governments of Portugal, Spain, Italy and Greece dialogue with each other very little compared to each one's engagement with governments of northwest Europe, the European Commission and European Central Bank; as seen, for example, in the 2008 financial crisis and the subsequent eurozone crisis, when each tried to strike deals with the core independently of the others (Blustein 2016). This fragmentation of the periphery has long worked to the advantage of the core (Wade 2003, 2020a, 2020b).

The lack of challenge has perpetuated a structure of the world economy which enables huge transfer of resources from periphery to core. Yilmaz Akyuz calculates that the developing countries in the G20 have transferred an average of 2.3% of combined GDP to core countries per year in 2000 – 2016, mainly to US, UK, Japan and Germany (Akyuz 2021); and UNCTAD reaches a similar figure with a larger set of developing countries (2019 chapter 5). The transfer has been facilitated by opening of the capital account in developing countries (strongly promoted by the IMF and World Bank), resulting in unprecedented presence of foreigners in their financial markets and unprecedented presence of their investors and borrowers in international markets. The resource transfer happens because, first, developing countries receive lower returns on their foreign assets (reserves, deposits, portfolio holdings and FDI abroad) than they pay on their foreign liabilities; second, they tend to incur capital losses on the value of their foreign assets and liabilities due to changes in prices and exchange rates. This large resource transfer is reason for core countries to be well satisfied with the status quo.

However, in the past one-to-two decades we can see an important structural shift beginning in the world economy, towards economic integration and political cooperation between countries of the periphery. This trend is often taken to be part of something larger, the move into 'a post-American world, where the US no longer calls all the shots', in the words of the Financial Times' Rana Foroohar (2022). Or in the hopeful words of President Xi of China and President Putin of Russia, after Putin's visit to China in early 2022, there is a 'trend towards redistribution of power in the world', towards 'international relations of a new type', 'a new kind of relationship between world powers…. Today, the world is going through momentous changes, and humanity is entering a new era of rapid development and profound transformation…. Some actors representing but the minority on the international scale continue to advocate unilateral approaches to addressing international issues and resort to force' (Xi-Putin 2022).

Most examples of coalitions of developing countries are regional. High profile *multi-region* examples include the BRICS (Brazil, Russia, India, China, South Africa) operating at heads of government level, at finance ministers plus central bank governors level, and also to a limited extent inside the IMF and World Bank; also the BICs coalition (Brazil, India, China) in the World Trade Organization. These two coalitions of major peripheral states lead other developing countries in negotiations with the US and other North Atlantic countries on issues spanning the global political economy, from global trade rules to representation inside the IMF and World Bank, and issues in between.

This essay asks: do the BRICS matter, acting not individually but in concert? What has this cross-regional club achieved, with reference to the governance of the global economy?

Origins

The BRICs grouping (minus South Africa) first came to global prominence when Goldman Sachs' then chief economist Jim O'Neill married them acronymically in a paper published in 2001 (Goldman Sachs 2001). O'Neill identified them as a promising asset class, and Goldman opened a BRICs investment fund (Goldman Sachs Brics Equity fund), which gave the moniker wide publicity. The fund expressed the hope that the constituent countries, and other large 'emerging markets', would continue to grow fast and sustainably for long into the future. They had superior 'fundamentals' compared to North Atlantic and developing countries, it was said: growing populations, massively expanding middle class, lower debt.

O'Neill also argued that since they were both large in GDP and likely to continue to grow fast over the next decades they should urgently exert a bigger role in global governance. With France, Germany and Italy in permanent monetary and economic union, these European states should consolidate their separate representation on the executive boards of the IMF and World Bank into a single European seat in each (as the US has a single seat), the freed seats allocated to raise BRICs representation; and the BRICs should be invited to join an expanded G7 at the top table of global monetary and economic governance.

O'Neill's proposed multilateral governance reform for the IMF and World Bank sank without trace, to the relief of the Europeans, at least until around 2010.

The unprecedented, decade-long boom in 'emerging markets' in the 2000s, fuelled by easy money in the west, encouraged Wall Street analysts to coin a rush of other country acronyms as good investment bets, like Civets and Mist. When post-2008 the easy money started to dry up and commodity prices fell, acronym-based investing fell out of fashion.

Goldman's Brics equity fund initially saw fast growth and high returns, reflecting the fast economic growth and rising economic heft of its four constituents, which by 2011 had amassed 40 percent of the world's foreign reserves. Then the fund lost 88 percent of its asset value between the 2010 peak and 2015, and in that year Goldman pulled the plug, merging it with the broader Emerging Markets Equity Fund (Ye Xie 2015).

But by 2015 and the end of Goldman's fund the BRICS name was well established as a force to be reckoned with. The four states, by then joined by South Africa, were routinely meeting and coordinating on common interests, including (1) the leaders, meeting in summits; (2) the finance ministers and central bank governors, meeting in ministerials; and (3) Executive Directors at the IMF and the World Bank. They were operating as a coalition or club.

For all their differences, the big developing countries shared the conviction that the state had to be more active in 'governing the market' than the Washington-Brussels Consensus allowed. They needed rules which permitted and regulated the various forms of their 'state-permeated capitalism'. But they felt consistently blocked in influencing policy and shaping global rules within the apex global bodies dealing with developing countries – the WTO, IMF and the World Bank, all dominated by the North Atlantic states busy promoting their common interests while taking for granted that the interests common to themselves are universal interests (with qualifications for the poorest countries).

Mainstream Assessment of Impacts

Most commentators have been negative on the impact of BRICs as a group (Hopewell 2017). 'The BRICs are dead', said one in 2016 (Johnson 2016). 'The narrative surrounding the rise of the BRICS is as exaggerated as that of the decline of the United States', said another (Pant 2013). A report from the Center for Strategic and International Studies in 2015 said that as the economic boom that raised these economies wanes 'the foundation of the BRICS concept is beginning to crumble' because the loss of common economic momentum exacerbates 'the conflicting interests and indisputable political, social and cultural differences' that have kept the BRICS from translating their economic force into collective power on the global stage' (Degaut and Meacham 2015). Others have dismissed the BRICS with words like 'mirage', 'fallacy', 'fable'.

To explain the coalition's (alleged) lack of influence commentators emphasise that the members are 'simply too diverse to achieve meaningful cooperation' (Roberts 2010). Again, 'prospects for cooperation among BRICS countries remain gloomy, as the already very diverse set of motives and preferences among emerging economies can be expected to further diverge due to different demographic and macroeconomic fundamentals' (Huotari and Hanemann 2014). When the news of Goldman closing the Brics fund came, the manager of a $2.3 billion emerging market asset fund said, 'The BRIC acronym didn't make sense in the first place because you just randomly group four countries which are completely different' (quoted in Ye Xie 2015).

Looking back from 2021 Jim O'Neill said '*Twenty years on, the Brics have disappointed'* (emphasis added). He continued, ‘ other than forming another development bank, they have done very little policy co-ordination to foster their own collective economic effort. Neither have they contributed constructively within the G20 for the global common good. This is similarly disappointing.’ In terms of the larger project of bringing developing countries into ‘a more representative form of global governance for the future’, he concluded that by November 2021 ‘absolutely nothing has progressed…. Due to US-China rivalry, the G20 itself now seems divided. Very little seems to get done’ (O’Neill 2021).

A Brief History

The finance ministers and central bank governors of the BRICS countries first came together in the context of G20 finance (G20F) meetings. The G20F had been formed in the wake of the East Asian financial crisis of 1997-98, when the G7 countries recognized it did not make sense for them to discuss the East Asian crisis without involving some developing countries. The G7 selected the 12 additional countries to join them, plus the European Union, making 20. All the countries which O’Neill was later to designate BRICS were included. But their finance ministers and central bank governors did not meet on their own, either on the side of or separately from the G20F meetings that were held annually.

In the wake of the North Atlantic financial crisis in September-October 2008, the US government (George W. Bush) convened the first meeting of the heads of government of G20 states in November, upgrading the G20F to G20 Leaders (G20L). This brought the *leaders of the BRICs* onto what was billed as the new top table of global financial and economic governance, cousin of the UN Security Council.

Also, in November 2008 the four *BRICs finance ministers and central bank governors* met for the first time as a *separate* group; and have continued regular meetings ever since.

These processes led on to the first meeting of the BRICs *leaders* on their own, in November in 2009, on the side of the third G20 summit – hosted by the US (in Pittsburg), the first for newly elected President Obama. Obama wanted ‘deliverables’, and one of them was IMF reform, which meant European countries giving up share of votes and seats on the Board of Executive Directors to developing countries.

The four BRICs heads of government decided they better get together to agree on what they could agree to by way of IMF reform; and put their respective officials to work on it. At this point the US Treasury offered to mediate and forge a compromise between the Europeans and the BRICs – but top Treasury official Lael

Brainard pressed for Russia to be excluded from the negotiations (without giving reasons). But Russia was by then well integrated into the BRICs club, and the others refused to exclude Russia. The process of discussing IMF reform gave early glue to BRICs solidarity.

Subsequently the leaders have continued to meet in annual BRICs summits, and also on the side of annual G20 summits. South Africa joined in 2011 to make five, signalled by capital S at the end.

In short, since 2011 the five BRICS heads of government have met twice a year, even including the lukewarm Brazil presidents, Michel Temer (2016-2018) and Jair Bolsonaro (since 2019), both solicitous of the United States.

Inside the IMF

These developments at head of government level gave further impetus to the Executive Directors of the BRICs constituencies at the IMF and to lesser extent the World Bank to meet fairly regularly, from 2008 onward, to concert positions on issues coming for Board discussion, as they had not before. Despite their greater potential for individual autonomy than many other ‘emerging economies’, they had each been more oriented towards the North Atlantic states and inclined to comply with them, especially with the US. But now they had the glue of IMF reform.

They began to reach out to Executive Directors from other developing regions. But they found that most of those Executive Directors remained predisposed to continue to follow the long-established ‘appendage strategy' vis-à-vis the North Atlantic states rather than align with other developing countries. Paulo Nogueira Batista Jr., Executive Director for the IMF's Brazil constituency from 2007 to 2015, says, 'The BRICS were actually eager to reach out to other EMDCs [emerging market and developing countries] to increase our bargaining power. We were rarely successful, however…. In most cases, what we came up against was a *policy of alignment and even reverence to the United States or the main countries of Europe'* (2021, p.10, emphasis added).

For the first several years, from 2008 to 2011, the focus of BRIC cooperation in the G20, IMF and World Bank was to improve governance of the *existing* international financial architecture, and especially to raise their influence in these American- and European-dominated organizations.

But something happened which led the BRICs to conclude that they had been 'betrayed' by the North Atlantic states after the 2008 crisis, to use Nogueira Batista's word (p.14). It was this sense of betrayal – the refusal of the North Atlantic states to grant them a significant increase in influence – that created the sharp motivation to create their own organizations to carry out similar functions as the IMF and World Bank, not under control of the North Atlantic states.

The G20 summit in November 2008, following the great financial crash in September-October, called on the Bretton Woods organizations to lend more, in a hurry. This required the IMF (which unlike the World Bank cannot borrow on capital markets) to *borrow more from member states, including from developing countries.* In return for their generous loans to the IMF (without any increase in quota or votes), the BRIC leaders demanded a bigger role in governance going forward.

So, at the 2009 summit the G20 leaders collectively agreed to instruct the Bretton Woods organizations to shift at least 5 percent of voting power from advanced countries to developing countries in the IMF and at least 3 percent in the World Bank.

The G20 leaders also agreed that countries' share of world GDP should be the primary criterion for countries' share of votes, as the BRICs wanted. The significance of this point is that the complex formulae for calculating countries' quota (capital contribution) and share of votes gave heavy weight to a country's *trade to GDP ratio*. This obviously favored small economies and disfavored large economies, including both the US and the BRICs. So much so that the calculated quota for Luxemburg was greater than that for India, meaning Luxemburg had a bigger calculated share of votes than India. Finland, Lithuania, other similar European economies were also very over-represented. The most under-represented of all was China. But the US too suffered: the US's calculated quota was less than 15%, below the threshold for the US to wield its veto. Of course, the calculated quota were then 'adjusted' by politics (a phone call from the president of big country X to the managing-director, for example). So the US share was raised above the veto threshold, India's share was raised above Luxemburg's, and so on. But it is clear from this context why the BRICs wanted a radical change in the formula to give most weight to a country's share of world GDP.

After the G20 leaders' agreement in 2009 the negotiations began. In November 2010 Managing Director Dominique Strauss-Kahn announced to the world a shift of 6.2 percent of quota shares (and voting power) to '*dynamic EMDCs'*, with the proviso that the agreement was subject to ratification in capitals. He described it as 'the most fundamental governance overhaul in the IMF's 65-year history and the biggest-ever shift in favor of emerging market and developing countries'.

As the years went by it became clear that:

(a) the actual shift of votes – as sent to capitals for ratification -- was much smaller than Strauss Kahn claimed: 2.8 percent shift from advanced countries to the rest, the remaining 3.4 percent redistributed *between* developing countries; and the discussion was further clouded by unclarity about the criteria of '*dynamic* economies';

(b) the US Congress was in no hurry to ratify any change (and did not until 2015);

(c) the shift of seats on the Executive Board away from 'Europe' to 'developing countries' was in reality a shift from western Europe to eastern Europe (Vestergaard and Wade 2014).

Fast forward. In 2011, fed up with hitting their heads against a brick wall, the BRICS leaders, finance ministers, and officials (especially the Executive Directors at the IMF) decided that the BRICS should take the lead in creating two new financing mechanisms controlled by developing countries rather than North Atlantic states. And they did, in the period from 2012 to 2015. One was the Contingent Reserve Arrangement (CRA), to provide short-term financing to BRICS countries in foreign exchange difficulties (and hopefully later to other developing countries); this was the IMF substitute or complement. The second was the New Development Bank (NDB), the World Bank substitute or complement, the first explicitly global multilateral development bank since the World Bank was created in 1945 (the other multilateral development banks are regional). Both organisations opened for business at the BRICS summit in Russia, July 2015.

Recall that Jim O'Neill described the whole BRICS cooperation as 'a strong disappointment'. But the two organizations do exist , and we now explore how five very different states in different regions managed to cooperate enough to create them.

The Trajectory of BRICS Cooperation on Financing Mechanisms

A central problem all the way through creating and sustaining the two organizations is that one of the five states is so much bigger than the others in every way. China operates in international arenas with two hats, as no other state in history has done: one, leader of developing countries, advancing its own and their collective interests in the face of western resistance; two, emerging superpower playing a cooperative-conflictful game with America to advance its own national interest.

In Nogueira Batista's words, 'The Chinese were always under the temptation to strike an individual path, even at the cost of weakening the BRICS. They saw themselves as *primus inter pares* and had of course factual basis for this view. But there was also another element: … China often seemed to harbor the hope that it could, given its unique size and importance, construct some sort of special relation with the United States and other Western powers, sacrificing to some extent, if needed, BRICS cooperation in the process. Something, however, protected the other BRICS from this risk: American reluctance (even during the Obama presidency), as well as European reluctance, to accept China as an equal and trustworthy partner' (p.6-7).

Nogueira Batista continues: 'In the IMF, for instance, the Brazilian, Russian, and Indian chairs worked closely together from 2008 onward. But we had to struggle to keep the Chinese chair more or less in line … we sometimes came up against the country's excessive alignment to the positions of IMF management – positions that, more often than not, reflected those of the US Treasury. [The number 2 position in the IMF is reserved for an American, appointed directly by Treasury, its incumbent often more powerful than the Managing Director.] Moreover, the Chinese executive director and other officials were tightly controlled by the capital and responded slowly to coordination efforts. Beijing seemed to be often attracted by the possibility of side deals (e.g. positions for Chinese nationals in the IMF's senior administration or largely symbolic matters, such as the inclusion of the renmimbi in the SDR basket). Americans and Europeans sensed this and exploited these divisions to weaken the BRICS' (p.7)

For all that, BRICS coordination in the Board of the IMF became a recognized feature of its operations from 2008 onwards. The Russian Executive Director, Alexei Mozhin, who joined the Board in 1992 and has been Russia's Executive Director ever since 1996, is on record as saying that the emergence of the BRICS was the most important change in IMF governance since he arrived. Why? Because before 2008, the North Atlantic states could safely ignore what the individual BRICS states said. After 2008 everyone knew that on issues where the BRICS had an agreed position they had to be listened to seriously if a decision was to be reached. The Fund's staff had to keep this in mind when preparing proposals for Board consideration.

In the period from 2008 to 2015 the five Executive Directors working together helped to steer IMF quota formula and quota distribution reform in favour of developing countries and themselves (but which, as noted, turned out to be much less than they thought they had achieved). They helped to shape changes in the IMF's borrowing arrangements from member states (the New Arrangements to Borrow), which gave the BRICS veto power. They helped shift the IMF's policy position towards legitimating capital controls by member states ('capital flow management measures'), which the Fund had been adamantly against.

But the coordination substantially fell away after 2015. Brazil went into political crisis which weakened the position of the president, Dilma Rousseff, a champion of the BRICS process, and gave more scope for the Brazilian central bank, always sceptical if not hostile, to the point where Nogueira Batista describes Brazil's central bank as 'almost a sixth BRICS.

Also, Nogueira Batista, whose office had been the engine room of BRICS coordination in the Fund and in the creation of the Contingent Reserve Arrangement (and to less extent, the New Development Bank), left for the New Development Bank in Shanghai. The Indian Executive Director was replaced by a noticeably less keen one. From the beginning the Russian government and its Executive Director, though keen on BRICS coordination, were unenthusiastic about both the CRA and the NDB, for reasons never clearly explained'. Nogueira Batista summarizes: after 2015 'BRICS coordination in the IMF seems to have died away' – which is overstatement but not by much.

The bottom line: in terms of the IMF, the BRICS managed to coordinate fairly closely for some seven or eight years (2008 to 2016/17), when IMF reform provided the main glue. From then until today their cooperation has ebbed, for two main reasons. First, the Board agenda has had fewer issues where their coordination brings big potential benefits. The North Atlantic states make clear that IMF reform is not even up for discussion. Second, the larger geopolitical tensions have pulled them apart even inside the IMF – between China and India, between the others and Brazil under Temer and Bolsonaro (solicitous of the US), between the others and China more dependent on, more antagonistic to, and more anxious to receive respect from the US. Meanwhile BRICS coordination on the Board of the World Bank has been even less robust all along.

The Contingent Reserve Arrangement (CRA)

The idea for what became the CRA was hatched before the BRICs started to coordinate in 2008. It came after a conversation in 2007 between the departing IMF Executive Director for the Brazil constituency and his replacement, Nogueira Batista. The departing ED briefed his replacement on two matters in particular. First, western states, notably the Europeans, were resisting emphatically any significant reform of IMF governance to give developing countries more influence. Second, countries in Southeast and Northeast Asia had come together to form what was called unofficially, the Asian Monetary Fund, and officially, the Chiang Mai Initiative. Why not, the two Executive Directors said to each other, promote other regional foreign exchange pooling arrangements *outside* the IMF – not least so that progress in doing so would 'exert pressure to move forward with IMF reform' (p.14).

The idea was in the air, but the North Atlantic financial crisis in 2008 kept it on the margins, far from the discussion agenda. When the G20 was beefed up to leader level in late 2008, the G20 at both leader level and finance minister level endorsed sizable IMF and World Bank governance reforms along the lines pushed for by developing countries – reforms (apparently) endorsed by American and European members of the G20.

Then came the great 'betrayal' described earlier. The BRICS realized they had to increase the pressure on the Fund to achieve any significant improvement in their representation. Once he heard it, Brazil's finance minister enthusiastically embraced the idea of establishing a reserve pooling arrangement outside the Fund. In October 2008 (just after the crash) he told the meeting of the political-level committee which governs the IMF (the IMFC) that the resistance to governance reform in the IMF, World Bank and other international financial mechanisms meant that emerging market and developing countries 'would have to reply on the protection provided by their own international reserves or *on regional reserve pooling arrangements'* (quoted by Nogueira Batista, p.15, emphasis added).

The idea of specifically *the BRICS* creating a foreign exchange reserve pooling arrangement ready to provide assistance to one of the club in balance of payments difficulties (perhaps later beyond the club) came out of discussions between the Brazilian finance minister and the Chinese central bank governor in early 2012. Brazil's President Rousseff signalled strong support. They knew there was unlikely to be need for emergency loans even in the medium term, because all five countries (with the occasional exception of South Africa) had fairly sound balance of payments and reserve positions. They also knew it had powerful symbolic value. It would deepen BRICS cooperation around a specific project; it would put pressure on the IMF to increase their (and other developing countries') governance influence; and eventually it might provide a partial by-pass from the North Atlantic-dominated IMF.

Brazil's finance minister asked Nogueira Batista to flesh out a model. He and staff members in the IMF's Brazil constituency set to work, drawing on the Chiang Mai Initiative model and on the IMF model. They decided from the beginning that, unlike the IMF but like the CMI, the fund would be virtual; the reserves would remain with the central banks to be made available only when needed. At first, they assumed it would not have a secretariate, at least not of any size.

The initiators Brazil and China planned to have the draft approved by their counterparts at official level in the other BRICS in the run-up to the G20 summit in Mexico, June 2012, and then by the BRICS leaders in their side meeting at the G20 summit itself. But it turned out that the Russian officials and the Brazil central bank officials were very reluctant to support the very idea of a reserve fund. Eventually direct pressure from President Rousseff plus senior levels of the Chinese government allowed the draft to go forward to the BRICS leaders' side-meeting at the G20 summit. The BRICS leaders would issue a statement announcing the go-ahead of the monetary fund.

To cut a long story short, strong support from Presidents Rousseff and Xi, against opposition, ensured that the meeting issued a statement saying that the BRICS leaders had discussed forming a new reserve pooling arrangement and had asked their officials to bring the plan to fruition by the 2013 BRICS summit. (In reality, they had not discussed it.)

They established a working group, chaired by Brazil, to work out the details of what had by then been named the Contingent Reserve Arrangement (CRA). The chair was a young Brazil finance ministry official. Most of the other members were from central banks, and all of the central banks, especially the Brazilian and Russian ones, and sometimes the Indian one, were very hesitant about the whole idea. In practice, the engine room was the Brazil Executive Director's office at the IMF under Nogueira Batista, who knew he had strong support from his finance minister, who knew he had strong support from President Rousseff. China was supportive, but preferred to keep a low profile.

Meanwhile, a parallel process was going on to devise a model for the new development bank, and meetings of the two groups often took place at the same time on the side-lines of G20 or IMF meetings, with a certain amount of overlap of personnel.

The BRICS summit in 2013 was held in South Africa. The Russians on both working groups kept dragging their feet, hostility to both proposals coming from both finance ministry and central bank. So as the summit drew near the members of the working groups were unsure whether either or both proposals would go to the leaders. But at the meeting of finance ministers and central bank governors one day before the summit, the Russian finance minister surprised everyone by supporting the creation of the CRA, while continuing to object to what had by then been named the New Development Bank (NDB).

By the BRICS summit in Brazil in 2014, the working groups had sufficiently resolved or fudged the many difficult design issues, that the treaty of the CRA – also the NDB – was signed by the leaders. Then three of their parliaments had to ratify. This happened in time for the BRICS summit in Russia, July 2015. There the CRA and the NDB were launched.

In the following years to 2022 the CRA has remained mostly still-born. Its energetic entrepreneur, Nogueira Batista, could not remain involved in its gestation from his post as NDB vice-president in Shanghai. Its participants came to be central bank officials almost entirely (unlike in both the IMF and the Chiang Mai Initiative), with little input from finance ministries. Central bank officials were too suspicious of such a risk-pooling arrangement to encourage it to grow. No decision on a permanent secretariate and its location has been made. On the other hand, the Governing Council and the Standing Committee continue to meet, and have sponsored three scenario test runs to ensure that the mechanism would be ready in case there was a call. A modest achievement.

The New Development Bank (NDB)

The NDB is more important than the CRA, because it is a fully-fledged organization with substantial paid-in capital (not just pledged, as in the CRA), a significant staff (nearly 150 by the end of 2019) , and the capacity to borrow in capital markets like other multilateral development banks (MDBs). Moreover, it is the first MDB to be created by representatives of developing countries alone without participation of developed countries. It is the first MDB to be created since the World Bank with a global mandate, able to bring in members from around the world – though in the inception phases it was known as the BRICS bank and the name later changed to de-center it on BRICS. What is more, its mandate focuses on 'sustainable infrastructure' and 'renewable energy'; it is to be a green bank. That means solar, wind, small dams, energy efficiency, clean transport, urban mobility, and sanitation.

The Indian government brought the idea of a new development bank to the other BRICS, and the relevant authorities of Brazil, China and South Africa approved. Russia did not. However, when the idea was presented at the BRICS summit of 2012 President Putin liked it, overcoming lower-down Russian resistance. A working group was established, and worked in parallel with the working group on the CRA.

At the BRICS summit of 2013 in South Africa the decision was made to convert the working group into a negotiating group. But no clear center of coordination was created, and the joint chairs of India and South Africa dragged their feet, making little progress. From his position in the IMF, Nogueira Batista urged the negotiating group to get moving by drawing on the Articles of Agreement of existing multilateral banks, a point that had apparently not occurred to the group. He noted with dismay that the Brazil Executive Director's office at the World Bank was missing in action. And that people from BNDES, the celebrated Brazilian national development bank, had been kept out, because Brazil's finance minister, in charge of Brazil's participation, did not want officials from another ministry, the Ministry of Development, Industry and Commerce, involved, who would not report to him.

The BRICS leaders were to sign off on the treaties of both the NDB and the CRA at the BRICS summit in Brazil in 2014. But first the officials had to agree on the NDB's location of headquarters and on nationality of the first president. India, China and South Africa wanted the headquarters. Shanghai made by far the best offer, and all except India accepted it. India insisted that since it had initiated the whole idea it should get the headquarters. Instead, the others agreed to award India the consolation prize, the first presidency (Cheng 2015). The new president had to navigate through the wider tensions between, in particular, the governments of India and China, breaking new ground, and did so too cautiously for some of his vice-presidents.

The governing structure is similar to that of the other MDBs. The Board of Governors is the highest authority, concerned with issues of strategic importance, all governors being of ministerial rank in their governments, and in the first appointments, all from finance ministries (not central banks or development agencies). It is nonresidential (like the other MDBs). The Board of Directors, responsible for the business of the bank, is made up of mid-level officials mostly from finance ministries, and is also nonresidential (in contrast to the Boards of the World Bank, IMF, and several of the regional multilateral development banks). The administration, including president and four vice-presidents (between them representing all five countries), resides in Shanghai.

If having a nonresident Board of Directors is unusual, so also is the *equal* distribution of capital and voting power among the five founding members. China had wanted the lion's share, to play the same role as the US plays in the World Bank and IMF and as China plays in the Asian Infrastructure Investment Bank (AIIB). The others rebuffed this aspiration. They said each state should have 20 percent of the votes. All decisions should be taken by majority or supermajority, not by a rule of consensus.

Having been opened for business at the BRICS Summit of 2015 in Russia, the bank seemed to get off to a good start. In the first year, to mid 2016, it approved the main policies on lending, administration, risk, environment, social safeguards, recruitment. It issued a very successful "green bond", successful especially because both Beijing and Shanghai signalled their strong support. And it approved a sizable portfolio of projects, most in the area of renewable energy.

The bank's administration in that first year also pushed forward with another potentially important advance, namely, a policy to lend as much as possible in the *national* currency of the borrower so as to reduce exchange rate risk. This was motivated by the many years of experience where developing countries were hit when US monetary policy tightened, hiking up their repayment obligations in US dollars, sometimes tipping them into a debt trap.

The bank's documents spoke eloquently of not attempting to teach or preach to borrowing countries or impose conditionalities unrelated to repaying the loans (in contrast to all the multilateral organizations dominated by the US). The bank declared it would start as far as possible from the laws and national procedures of countries implementing projects it was helping to finance, and not try to impose its blueprint.

Behind the scenes the issue of expanding membership – in line with the vision of a global bank – proved fraught. Nogueira Batista was keen to start the process. He and a few others argued forcefully that the NDB's mandate required it to be able to influence the *international financial architecture and global practices*; which implied it had to operate at scale far beyond the BRICS. They wanted it to include advanced countries as non-borrowing members (as in the Asian Infrastructure Investment Bank), with the incentive of giving their firms access to NDB procurement opportunities – while, as he says, 'delaying the entry of pushy large advanced countries' (p.47). But the cautious president was not keen, and the vice-presidents from the three other BRICS did not push for expansion. Not until December 2021 were new countries admitted: Bangladesh, Egypt, UAE, Uruguay.

Although it was written into the bank's operating procedures that decisions would not be by consensus, in practice the cautious president followed a consensus rule in almost all cases. If there was not consensus, the decision was not made. This gave veto power to each country, making, in effect, 'five USAs'.

Internal difficulties were compounded by geopolitical ones which filtered in. One was the deterioration between China and India. India became worried after China in 2013 launched its super-ambitious project of building 'infrastructure alliances' through infrastructure investments across Asia, Africa, Europe, and Latin America, known as the Belt Road Initiative (BRI).

The confrontation between Russia and the West after Russia annexed Crimea in 2014 also spilled in. Russia found itself subject to stringent sanctions by western countries and excluded from most sources of long-term development finance, including the World Bank and the European Bank for Reconstruction and Development [EBRD] from which it had borrowed heavily. This translated into Russia's strong resistance to expansion of the membership. The Russians feared that some of Russia's enemies among the advanced countries could join the bank; and that the entry of other developing countries would reduce the NDB funding available to them, all the more valued because of US sanctions.

Then came the political crisis in South Africa, with the 2018 resignation of President Zuma under clouds of corruption. Zuma had been a champion of the BRICS (even if some of the officials appointed to the process were less than enthusiastic and competent).

Then came the even more consequential Brazilian political-economic crisis of 2015-16 and the impeachment of President Rousseff in 2016. As we have seen, Brazil had been the main engine of the BRICS process. With Lula and then Rousseff gone and in her place President Temer from 2016 to 2018, and even worse, President Bolsonaro from 2019, 'Brazil has simply been going through the motions and the country's role has declined precipitously' (p.58). Nogueira Batista was forced out of his vice president's position at the NDB in 2017, violating his contract, and returned to Brazil. The top Brazilian officials appointed to the NDB and its governing structure by the Temer and Bolsonaro governments 'had little or no identification with the BRICS process. Their loyalty was, generally speaking, to the United States and, in particular, to the Bretton Woods institutions – the IMF and the World Bank' , and the ideology of the Washington Consensus (p.60).

This combination of difficult constitutional and policy issues plus difficult internal personnel issues helps to explain why the NDB, despite its ample resources, struggled to get going. As Jim O'Neill said in 2018 'the BRICS bank has been a disappointment so far – almost anonymous.' The same holds by 2022.

The Asian Infrastructure Investment Bank, which opened for business in 2016 shortly *after* the NDB, provides a sharp contrast. It has brought in a large number of countries as members, including all major advanced countries with the exception of the US and Japan, and is operating at high speed. It is anything but 'anonymous'.

Nogueira Batista ends his account of the CRA and the NDB with the hope that 'cooperation between the BRICS is likely to continue for a long time' (p.70). One cooperating motivation common to all five is the conviction that 'we are large and important nations whose interests and views were (and still are) largely ignored, or at least not taken into due account' (p.70). Another is access to China. Even the Temer and Bolsonaro governments of Brazil, ideologically anxious to embed with the US and predisposed to shrug off involvements with other developing countries, have remained involved in the BRICS process, even if lukewarm, because it gives another route to stay in China's good books, its most important trading partner.

Meanwhile, Russia is keen to sustain the BRICS especially because of US hostility and sanctions. The regular contacts at top-of-government level with the other BRICS broaden Russia's options and support. As for China, the US's hostility means that China's aspiration to sit alone at the top table with the US (a G2 for the world) is impossible, which gives China more interest in alliances with other major developing countries in which it is *primus inter pares* – though China has played the role of supporter from behind rather than leader in front.

Conclusion

We can agree that a long-term fragmentation of the North Atlantic-dominated economic order is underway and that weak global cooperation will continue to weaken – even if the loss of North Atlantic power is often exaggerated by wishful thinking (Wade 2013a, 2013b). This essay has asked about the extent to which the cross-regional grouping of the four biggest developing countries, joined by the leading Sub-Saharan economy, has been able to concert actions so as to expand the policy space for themselves and other developing countries – in the face of wide scepticism that they could cooperate effectively, given their fundamental differences of interests.

The effort at cooperation began in 2008, stimulated by the North Atlantic financial crisis. Since then the political leaders of the BRICS, and their finance ministers and central bank governors, have met regularly and fairly frequently (at least twice a year). It is striking that no state has not attended these ministerials and summits. On the other hand, signs of tangible achievements from these meetings are hard to find, and we can broadly agree with Jim O'Neill's assessment in late 2021, 'Twenty years on, the Brics have disappointed'.

In the IMF the BRICS Executive Directors started to coordinate in 2008, and continued to coordinate across a wide range of IMF issues up to around 2016-2017. Before they came together, what any one of them said in the Board could be safely ignored; after 2008 nothing could be decided without taking account of the BRICS position (on issues where they had a common position). Importantly, the Fund's staff became alert to the BRICS positions when preparing documents for Board consideration and presenting the staff's proposals.

In 2008 to 2015 the five Executive Directors cooperated to steer reform of the IMF quota formula and quota distribution in favour of developing countries and themselves. They also helped to shape changes in the IMF's borrowing arrangements from member states (the New Arrangements to Borrow), which gave the BRICS veto power. They helped the Fund shift its position on capital controls away from outright rejection towards cautious wider legitimate use.

But the BRICS consider that they – and other developing countries – have been 'betrayed' by the North Atlantic states, in that the promised shift of votes and seats turned out to be much less than promised and less than the headlines said. As of 2022, the advanced countries have 58 percent of quota shares (and votes), developing countries 42 percent. Yet the existing quota formula gives a calculated quota distribution – before being adjusted by politics -- of roughly 50:50. The US retains its veto with 16.5 percent, the EU countries, 25.5 percent. Meanwhile China has 6.4 percent, India and Russia, 2.7 percent each, Brazil, 2.3 percent.

The sense of betrayal provided sharp motivation for the creation of two new financing organizations which could potentially by-pass the Bretton Woods organizations. As Nogueira Batista says, 'Could the BRICS take up the issue of monetary cooperation … and send a message to the IMF that we were willing to go our own way in response to the resistance to reform in Washington?' (p.14). The CRA and the NDB were both launched at the BRICS Summit in 2015.

Progress to date has been, in a word, slow. However, the organizations do exist, and the NDB does have substance which could provide the platform for sizable expansion, including many new member states. As of recently, the BRICS have established new entities: a task force for formulating a new international payments system, prompted by the need to defend against US weaponization of the dollar payments system against Russia, Iran, Venezuela and others and, more broadly, to design a system to replace the current international reserves system that allows the US constantly to extract resources from the rest of the world; and a BRICS think-tank linking academic organizations in the five countries to work on common problems. Modest steps.

Whether the BRICS club can move beyond 'disappointing' over the next decade depends heavily on national politics and geopolitics. Lula in place of Bolsonaro would reanimate the BRICS. Insofar as the US remains hostile towards China and Russia, and China-India relations do not become war-like, and China-Russia interdependence deepens, cooperation across their differences will be facilitated. Much depends on the personality and immediate interests of the particular individuals involved in the various forums – including the IMF and World Bank.

A final word about China, on its own. There is heated debate about the impacts of China's rise on the US-centric liberal international economic order. In the past several years China under President Xi has stepped forward to assert its national interest against the US much more than before. As Kristen Hopewell demonstrates in a book published in 2020, 'Despite intense efforts, the US has been unable to force China to undertake greater commitments to liberalize its market in the Doha Round or to accept disciplines on its use of agricultural subsidies, fisheries subsidies, export credit …' (p.192). This, despite China being the world's largest provider of agricultural and fisheries subsidies and export credit. The agricultural and fisheries subsidies are aimed at achieving high self-sufficiency in food, because Beijing is aware that the international food market is controlled by the US and its allies, which could weaponize China's access to that market in the event of a conflict with the US. But China's refusal to join existing or new disciplines on agricultural subsidies and fisheries subsidies has very harmful effects on developing countries and on the oceans.

Hopewell concludes that while 'China is refusing to be a rule-taker in the global trade regime, … that does not mean it has become a rule-maker…. China has demonstrated the ability to *block* multilateral trade rules but not to *create* them' (p.192) -- even as China builds its own institutional power through initiatives like the Belt Road Initiative's infrastructure alliances and the Asian Infrastructure Investment Bank. As of now, the direct confrontation between China and the US over the rules of global trade has substantially paralysed the core negotiating function of the WTO. China still insists that as a developing country it must be entitled to 'special and differential treatment' (SDT). The US and other western states still insist that as the world's biggest international trader and second biggest economy China cannot receive preferential treatment and must be bound by universal rules and reciprocal concessions.

But now the US itself, deeply dissatisfied that the global rules are not working to contain China's rise, is undermining those universal rules, including by imposing or threatening to impose tariffs on imports from a wide range of countries (Including China), threatening to withdraw from trade agreements, demanding one-sided concessions to itself, and refusing to allow the dispute-resolution system of the WTO to operate. Through the post-war decades US exercised global economic leadership by consent (minus the communist states), including through leadership in multilateral organizations. In the past two decades, as US leadership has come under challenge from China, the US has shifted its modus operandi from consent towards coercion. The shift may provide coalitions of developing countries, with or without China, more opportunities to create economic and financial institutions partly independent of the western core. Moreover, at the 12th WTO Ministerial Conference, Geneva, June 2022, China made substantial concessions on fisheries subsidies, enough to get a new WTO agreement on fisheries, which helped to breathe new life into this key multilateral organization (Farge and Blenkinsop 2022). Meanwhile the Biden government remains as uncooperative in the WTO as the Trump government, with softer rhetoric.

Thanks to Gregory Chin for valuable comments.

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