

UNIVERSITY OF OKLAHOMA

GRADUATE COLLEGE

THE BRICS COUNTRIES: STRIDES TOWARD GREATER  
REPRESENTATION IN INTERNATIONAL INSTITUTIONS

A THESIS

SUBMITTED TO THE GRADUATE FACULTY

in partial fulfillment of the requirements for the

Degree of

MASTER OF ARTS IN INTERNATIONAL STUDIES

By

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Norman, Oklahoma

2016

THE BRICS COUNTRIES: STRIDES TOWARD GREATER  
REPRESENTATION IN INTERNATIONAL INSTITUTIONS

A THESIS APPROVED FOR THE  
COLLEGE OF INTERNATIONAL STUDIES

BY

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I dedicate this thesis to my friends and family who have done so much to help and support me. I am fortunate to have so many good people in my life.

## **Acknowledgements**

I would like to acknowledge the invaluable guidance and encouragement of my thesis committee chair, Noah Theriault. Thanks also to Rob Griswold for his role as teacher and mentor. I am grateful to Betty Harris and Judith Lewis for supporting my interest in this topic. Kirk and Charlotte Duclaux, Kaydee Dyer, Rebecca Cruise, Katie Watkins, and Jaci Gardenberger all also deserve recognition for their roles in my academic career.

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## **Abstract**

This thesis discusses the BRICS organization and its recent creation of the New Development Bank to serve as an alternative to the World Bank and the International Monetary Fund. It also addresses the various attempts by the BRICS countries to work together to increase their soft power in the fields of technology infrastructure, academics, sport, and regional trade agreements. The efficacy of these projects varies significantly, but BRICS seems to be more successful in its projects that are more internationally visible. The thesis continues on to discuss the recently-formed New Development Bank and the BRICS Contingent Reserve Arrangement, the role they might play in global finance, and the reactions of the World Bank and the IMF. This thesis concludes with the prediction that the BRICS grouping will survive as an organization and might even expand depending on the policy decisions of the BRICS governments, especially China. The increased presence and influence of the BRICS countries in international institutions will require countries in the West to reconsider their attitudes and actions towards the BRICS. This thesis draws from and engages with the work of economists who have written about the BRICS including Jim O'Neill, Pádraig Carmody, Iulia Monica Oehler-Şincai, William Gumede, Leslie Elliot Armijo, and Cynthia Roberts.

## **Introduction**

This thesis addresses the geopolitical significance of the BRICS (Brazil, Russia, India, China, South Africa) organization as it has developed over the past 15 years. Specifically, I ask: “What is the significance of BRICS cooperation in relation to the balance of power in international governmental and financial institutions?” To address this question, I consider both the empirical and normative dimensions of BRICS cooperation. Empirically speaking, I argue that the actions of BRICS represent an evolutionary, rather than revolutionary, shift in the power balance of international governmental and financial organizations. My analysis of BRICS collaborations in the areas of technology infrastructure, academics, and premier international sporting events shows that these efforts have been a mixed bag in terms of their success. More importantly, I show that the main outcome of BRICS cooperation, including the creation of the New Development Bank, has thus far been to gain leverage within the Bretton Woods institutions and other international bodies. At this point in time, the NDB and other BRICS projects do not appear to function as viable alternatives, especially for developing countries outside the membership of the BRICS club.

Normatively speaking, I will show that although this evolution has already resulted in greater representation of the BRICS countries in global financial institutions, this shift has yet to address the inequity inherent in the Bretton Woods system. Despite the potential for the BRICS countries to use their newfound influence to push for structural changes that could benefit the poorest



countries, instead they have chosen to limit the scope of their projects so that they mostly benefit themselves. As the power of the BRICS countries continues to grow, it will behoove western nations to engage with the BRICS countries in such a way as to promote the values of human rights and liberal democracy so that international institutions might slowly progress toward greater equity.

### **Engagement with Current Literature**

My examination of a wide variety of BRICS cooperative projects was inspired by the thinking of scholars like Iulia Monica Oehler-Şincai, who has argued that, “The BRICS group can be considered the strongest intercontinental alliance of emerging countries taking into consideration the depth and scope of cooperation among its members.”<sup>1</sup> I will show that the depth and scope of BRICS cooperation is even more extensive than Oehler-Şincai outlines in her work. While she does a thorough job of addressing inter-BRICS foreign direct investment and assessing the complementarity of their respective economies, she fails to mention BRICS projects in fields such as technology infrastructure, academics, and winning bidding rights to international sporting events. Nor does she mention the subjective importance of these projects as necessary precursors to their current projects in international finance.

My analysis of the BRICS’ attempts to increase their clout within the Bretton Woods institutions dovetails with the work of scholars such as Leslie Elliott Armijo and Cynthia Roberts. Their work regarding the power dynamics

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<sup>1</sup> Iulia Monica Oehler-Şincai, “Standpoints Regarding the BRICS Construction,” *Procedia Economics and Finance* 22 (2015): 503.

within the BRICS organization itself and between BRICS and the UN Security Council are accurate and insightful. But in regard to their specific arguments concerning BRICS and international financial institutions, I call for a more tempered view of BRICS' efforts to bring about voting quota redistribution within the World Bank and the IMF. Both of these authors tend to over-emphasize the role of the BRICS countries' agreement to link capital contributions to the IMF with conditions of quota reform while under-representing the role of the New Development Bank and Contingent Reserve Arrangement in pushing for reform. Specifically, they fail to realize the value of the versatility of the NDB as a negotiating tool. Ceasing contributions to the Bretton Woods organizations is a binary option: They withhold or they do not. But the amount of money invested in the New Development Bank and the projects that it invests in are flexible and can be tailored to economic and political requirements. Nonetheless, I do still agree with their ultimate conclusion that of the BRICS countries, "None seeks to pay the costs of constructing a wholesale replacement"<sup>2</sup> of any of the established pillars of the international system, financial institutions included. This view is in opposition to Oehler-Şincai's view of BRICS actions as a "determination to lay the foundations of a *new financial world order* centered on emerging-market currencies and needs."<sup>3</sup> (emphasis hers).<sup>3</sup> Though I believe that the expansion of BRICS into the field of development economics has the

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<sup>2</sup> Leslie Elliott Armijo and Cynthia Roberts, "The Emerging Powers and Global Governance: Why the BRICS Matter," In *Handbook of Emerging Economies*, ed. Robert Looney (New York: Routledge Press, 2014). 523.

<sup>3</sup> Iulia Monica Oehler-Şincai, "Standpoints Regarding the BRICS Construction," *Procedia Economics and Finance* 22 (2015): 509.

potential to one day offer a valuable alternative to poor countries, I hope to present a balanced and realistic view of the more immediate developmental and progressive potential of the New Development Bank. An impartial analysis of the New Development Bank must recognize that there is the potential for negative outcomes for other nations, and perhaps even some of the BRICS countries themselves. In this respect, I agree with scholars such as William Gumede and Padraig Carmody who warn that the BRICS may work to impose their own neo-imperialist policies upon under-developed countries, especially on the African continent.

## **Chapter Overview**

Chapter 1 will examine the ways in which western nations created financial institutions that would later be used to exert political power upon undeveloped and developing nations in the post-colonial era. This chapter will provide historical context for the current BRICS actions to increase their own involvement in multilateral economic development organizations. The IMF, World Bank, and WTO shifted their focuses from their original purposes of rebuilding Europe after World War II and safeguarding the global economy against another Great Depression, and turned their attention toward creating economic development in poorer countries. While this process did result in economic growth in some areas, it was often motivated by the political interests of the west and in some cases the west used this economic aid as political leverage in order to create policy change in developing countries. Through structural adjustment programs, predatory lending, and tight control over the

WTO agenda, richer countries been able to bully the global south into adopting Washington-consensus policies that seemed to prioritize securing loan repayment over sustainable development. This perceived mistreatment of the global South by the Bretton Woods institutions and the economic growth of the BRICS have converged in such a way that challenging the Bretton Woods system with institutions of their own offers the BRICS a valuable opportunity to increase their influence in undeveloped nations and within the Bretton Woods institutions themselves.

In the Chapter 2, I show the steps that the BRICS countries have taken over the past fifteen years leading up to their current project to gain greater influence in international financial institutions. I turn to earlier BRICS projects in technology infrastructure, academics, sports, and regional trade agreements that served as stepping stones to the BRICS's current challenge to the established hegemony of international finance. These preliminary projects had a mixture of outcomes, and the efforts to try to stake BRICS leadership in transcontinental internet infrastructure and in university education produced poor to middling results. But BRICS attempts to win bids for prestigious international sporting events have met with stunning success in organizations that were themselves once dominated by western nations. The weight of BRICS power in the International Olympic Commission and FIFA has granted BRICS greater prestige in other international organizations outside to its objective importance. I will end Chapter 2 with some observations about the meaning of the BRICS countries' involvement in regional trade agreements. Though the

BRICS involvement in regional trade agreements was not necessarily coordinated, it is still important as an example of the BRICS nations stepping up to take leadership positions in a void left by a Bretton Woods institution.

Chapter 3 will address the BRICS' most ambitious project yet: the creation of the New Development Bank and the Contingent Reserve Arrangement to challenge the World Bank and the IMF. These institutions represent the most significant efforts yet of the BRICS to put pressure on the Bretton Woods institutions. This chapter will examine the structure of these new institutions and the de jure and de facto conditions that they have placed on the few loans that they have issued so far. As the dominance of the US dollar as the global reserve currency is closely related with the power of the World Bank and the IMF, I argue that until the New Development Bank ceases its use of the US dollar, it cannot become a truly parallel institution parallel to the World Bank. I also mention the threats to the continued collaboration of the BRICS countries, namely increasing economic inequality and political disagreements over UN Security Council reform. However, these differences among the BRICS are not critical rifts, and I echo sentiments from Armijo and Roberts that BRICS "members have demonstrated some willingness to make tactical concessions for the sake of group cohesion."<sup>4</sup> I conclude the chapter by briefly analyzing the reactions that have already come from the World Bank and the IMF, most

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<sup>4</sup>Leslie Elliott Armijo and Cynthia Roberts, "The Emerging Powers and Global Governance: Why the BRICS Matter," In *Handbook of Emerging Economies*, edited by Robert Looney, 503-524. (New York: Routledge Press, 2014), 518.

notably the IMF's decision to include the yuan in its official basket of reserve currency stocks.

In Chapter 4 I briefly lay out some predictions for the future of the BRICS organization including the possibilities of greater internal trade integration and addition of a new member. At this point I also address the possible negative consequences that may occur as BRICS power continues to grow in the future and gains greater influence in international finance, specifically corruption, destruction of fragile ecosystems, and exploitation of labor. This chapter will contextualize the diplomatic decisions that Western countries will have to make in the face of BRICS pressure for greater influence in international institutions by showing that there is the potential for serious negative consequences if the past poor behavior of the BRICS countries is allowed to grow in its scale through their leadership in international institutions.

Finally, I conclude by suggesting that it is in the best interest of the United States to accept the reality of the growing global influence of the BRICS countries and work with them in leadership roles in international organizations. Though the corruption, human rights violations, and military aggressions of the BRICS countries cannot be ignored, United States foreign policy will be more effective if it can administer both sanctions and rewards in proper proportion. It will be difficult to reach such a balance until the BRICS countries are allowed more equitable representation and recognition of their legitimate interests.

## **Chapter 1- The Post War Status-Quo**

Before World War II was even over, representatives from forty-four Allied nations gathered in Bretton Woods, New Hampshire, to create the structure for a new economic system that would revitalize war-torn Europe and prevent some of the issues that had caused the Great Depression to spiral into catastrophe in the 1930s. Tariff wars and unstable currencies destabilized global trade. Some of these nations, such as France and the United Kingdom, were imperial powers keen on keeping a hold on their overseas territories. Others included poor Latin American countries and representatives from colonial territories and commonwealths such as Australia, New Zealand, India, and South Africa. Despite this globally diverse representation, a coterie of the wealthiest, most powerful nations controlled the meetings and dictated the terms of the nascent economic order. They created the International Monetary Fund (IMF), the World Bank, and, a few years later, the General Agreement on Tariffs and Trade (GATT, now known as the World Trade Organization, or WTO) as institutions with the often conflicting goals of reestablishing a global capitalist order while also promoting human welfare and national economic sovereignty. They would stabilize international finance and exchange rates through the establishment of the gold standard backing up the US dollar as the global reserve currency, while salvaging European industry, promoting international trade and banking, and preventing tariff wars.

But these goals slowly changed over time, and as the age of decolonization took place across former European empires, the power of these

institutions was co-opted by the metropolises to exert economic influence where their political influence had crumbled.<sup>5</sup> Today, some of their former colonies, specifically India and South Africa, are rising international powers with rapidly growing economies, strong militaries, and significant soft power. These relatively younger nations are acutely aware that the international institutions formed during the mid-twentieth century were not structured in their best interest. Despite some attempts at reform, these institutions continue to favor what were then known as “first-world countries”. Together, the BRICS countries are laying the foundations for new international institutions that could potentially provide them, and smaller, poorer nations across the globe, with an alternative to the post-World War II world order.

### **Indirect Rule**

The World Bank’s initial purpose – to rebuild Europe’s devastated industrial capacity – was largely supplanted by the United States’ federal government’s Marshall Plan in 1948. So the World Bank shifted its attention to underdeveloped, and politically un-aligned, “Third-World” countries. While the efforts to promote industrialization of poor countries were often justified with humanitarian claims, the realities of development assistance provided by the World Bank and the IMF were shaped by the political necessities of the Cold War, often re-creating colonial economic structures to exploit low labor costs

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<sup>5</sup> James Petras, "NGOs: In the service of imperialism," *Journal Of Contemporary Asia* 29, no. 4 (December 1999): 429. *Academic Search Elite*, EBSCOhost (accessed May 11, 2016).



and maximize resource extraction of minerals and cash crops.<sup>6</sup> From the Uranium mines of South Africa to the tea plantations of Assam, national independence was not enough to create true economic independence from the global capitalist system. Rather, a system reminiscent of mercantilism continues to exist in which economically developing countries serve as sources of natural resources and markets for developed countries.<sup>7</sup>

For instance, World Bank loans are disbursed in installments over a period of time, on the condition that its scheduled repayments of earlier World Bank loans are no more than 60 days delinquent. This is not necessarily a fatal flaw; if the first project is a success that provides revenue for the state in one way or another, it can easily repay the first loan while receiving a new loan for a new project. But if the first project fails, or even if it is successful in a way that produces long-term gains, such as improving elementary education, then it is easy for a country to fall into the cycle of using new money from the World Bank to service their old debt to the World Bank so that they can keep receiving new money. Consequently, there is an incentive to pursue projects that will yield short-term profits, such as resource extraction or the infrastructure to support it, cash crop agriculture, and export-focused industrialization.<sup>8</sup>

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<sup>6</sup> Robert E. Wood, *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy*, Studies in International Political Economy (University of California Press: 1986).

<sup>7</sup> John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment: How Much Has Happened?* Ed. John Williamson. Washington D.C.: Institute for International economics.

<sup>8</sup> Ibid.

The World Bank provides longer-term loans to developing countries to build infrastructure that will create domestic economic growth, facilitate international trade, and promote foreign direct investment (FDI). But after decades of loans, some countries have become trapped in debt. India currently owes the World Bank almost \$37 billion. As India has a population of about 1.3 billion people and a GDP of about \$8 trillion dollars, this equates to about \$28.50 per person or just under half of one per cent of their GDP. South Africa owes the World Bank almost \$2 billion, has a population of about 55 million, and a GDP of about \$324 billion. For them, this equals about \$36.40 per person, and is just over one half of one percent of their GDP.<sup>910</sup>

These numbers might seem quite manageable at both the state and personal level, but one must keep in mind that 59.2 percent of the Indian population earns less than \$2 a day, and 26.2 percent of South Africans fall into that category of extreme poverty as well. Furthermore, 91.2 percent of Indians and 50.3 percent of South Africans make less than \$4 a day.<sup>11</sup> These high rates of poverty and large degree of income inequality (which are even worse in some other countries) often make repayment of these loans difficult. On November 15 of this year, India will pay the World Bank over \$190 million

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<sup>9</sup> "Country Lending Summaries – India," World Bank, October 31, 2015.  
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,pagePK:64392398~piPK:64392037~theSitePK:40941~countrycode:IN~menuPK:64820000,00.html>

<sup>10</sup> "Country Lending Summaries – South Africa," World Bank, October 31, 2015.  
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,pagePK:64392398~piPK:64392037~theSitePK:40941~countrycode:ZA~menuPK:64820000,00.html>

<sup>11</sup> "World Development Indicators," The World Bank, July 9, 2012.

dollars to service its debt. It will then pay another \$90 million on December 1, \$132 million on December 15, and so on.<sup>12</sup> In contrast, South Africa makes payments to the World Bank only twice a year, in May and November. Their May 2016 payment will be over \$92 million, and starting in May of 2017, their bi-annual payment will jump to over \$163 million.<sup>13</sup>

The IMF, on the other hand, focuses on shorter-term loans that are meant to provide economic stability when a nation faces an economic crisis. For example, the IMF has provided loans to the Greek government during the ongoing eurozone crisis so that it could continue to operate without defaulting on loans that it had previously taken out or issuing new bonds at unreasonably high interest rates.<sup>14</sup> While this action may have been necessary in order to allay the eurozone debt crisis, generous loans to Greece, Ireland, and Portugal have made them three of the four largest beneficiaries of IMF loans, despite the

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<sup>12</sup> "Estimated Debt Service Payments – India Summary" World Bank.  
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/0,,menuPK:177680~pagePK:169643~piPK:169646~theSitePK:136917~PAGESIZE:10~COUNTRYCODE:IN,00.html?countrylist=IN>

<sup>13</sup> "Estimated Debt Service Payments – South Africa Summary" World Bank.  
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/0,,menuPK:177680~pagePK:169643~piPK:169646~theSitePK:136917~PAGESIZE:10~COUNTRYCODE:SA,00.html?countrylist=SA>

<sup>14</sup> Nils Pratley, "Greece Bailout: Six Key Elements of the Deal," *The Guardian*, February 21, 2012, Accessed April 6, 2016, <http://www.theguardian.com/business/2012/feb/21/greece-bailout-key-elements-deal>

fact that they have GDP per capita rates higher than any of the BRICS countries.<sup>15</sup>

Both financial institutions are largely controlled by wealthy nations. As a matter of an informal, unwritten agreement, the president of the World Bank is always an American, while the director of the IMF is always a European. Also, despite some recent efforts toward reform, voting power is still largely proportional to the amount of money a nation contributes to the institution. So in the IMF, the United States holds 16.75 percent of all votes and the United Kingdom holds 4.29 percent of votes, while India holds only 2.34 percent of votes and South Africa 0.77 percent of votes. The World Bank has slightly different voting ratios for its subsidiary agencies, and is slightly more egalitarian overall, but generally speaking the United States still has about five times as many votes as India, which in every case has a smaller voice than the United Kingdom, France, Germany, and Japan.

Additionally, when a country wants to receive a loan from either the World Bank or the IMF, it must first agree to abide by a set of conditions, known as structural adjustment programs (SAPs). These conditions do vary from country to country and even from loan to loan, but in his widely-read article John Williamson outlines the most common themes of these conditions, including austerity, broadening tax bases, currency devaluation, privatization of

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<sup>15</sup> Leslie Elliott Armijo and Cynthia Roberts, "The Emerging Powers and Global Governance: Why the BRICS Matter," In *Handbook of Emerging Economies*, ed. Robert Looney (New York: Routledge Press, 2014). 518.

nationally-owned firms, trade liberalization, industrial deregulation, and promotion of foreign direct investment, among a few others.<sup>16</sup>

However, these SAPs often have unanticipated negative consequences. Rapid industrialization with the goal of producing goods for export results in a population shift to urban centers and sometimes poses environmental risk. Substituting exportable cash crops for subsistence farming can produce economic growth, but it can change the traditional way of life for the farmers themselves and leaves them exposed to market fluctuations in the price of their crop. Even a successful harvest can still lead to economic ruin if the market for that one particular crop is glutted. Furthermore, monoculture agriculture increases the risk of a single blight or pest destroying the entire harvest in a single year. In their 2004 working paper, Tony Barnett and Michael Blackwell list over a dozen ways in which SAPs contributed to variables that exacerbated the HIV/AIDS epidemic in Sub-Saharan Africa including increasing the prevalence of sex work, urbanization, and cuts in education and health services.<sup>17</sup>

Unlike the World Bank and the IMF, the WTO was not created for the purpose of rebuilding. Instead, its primary goal was to prevent the mistakes of

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<sup>16</sup> John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment: How Much Has Happened?* Ed. John Williamson. Washington D.C.: Institute for International economics.

<sup>17</sup> Tony Barnett and Michael Blackwell, *Structural Adjustment and the Spread of HIV/AIDS*, Working Paper (London: Christian Aid, 2004).

the past from reoccurring. During the Great Depression, politicians faced pressure from their constituents to institute protectionist policies, such as tariffs on imported goods, to keep domestic industries competitive. While this was a popular move for some politicians, it began a cycle of ever-increasing “beggar thy neighbor” policies in which governments across the globe tried to protect their own domestic firms at the expense of firms in other countries. The end result was a tangled web of unreasonably high tariffs that slowed international trade to a crawl and sank the world further into depression. The GATT was drafted to reduce these tariffs, and when it became the WTO it made the elimination of as many tariffs as possible one of its primary goals.<sup>18</sup>

Though the sky-high tariffs of the Great Depression were harmful, complete “free trade” is not the panacea that the WTO makes it out to be. In fact, under the current regime, rich countries in the WTO gain more from their access to Indian and South African markets than they give up by opening up their markets to Indian and South African firms. Granted, the WTO does allow for certain exceptions to tariff reductions for “sensitive industries,” but these exceptions are invoked by rich countries just as often as by poor countries. Just as Indian government is allowed to protect its vulnerable farmers by imposing hefty tariffs on potatoes, so too does France get to protect its meat and dairy industries with tariffs. If wealthy nations were truly dedicated to the economic development of poor countries, they would accept tariffs on manufactured and

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<sup>18</sup> Paul Blustein, *Misadventures of the Most Favored Nations: Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System* (New York: Public Affairs Press, 2009).

certain agricultural goods, such as cotton, to give the less sophisticated industries of the developing countries a chance on the global market.<sup>19</sup> This could promote capital growth without indebting developing countries, unlike loans from the World Bank. Unfortunately, such policies face opposition from politically powerful industries in wealthy countries.

The WTO is a different animal from the World Bank and the IMF; in fact, the framework of its predecessor, GATT, was drawn up in Geneva in 1947. So in this strict sense it is not a “Bretton Woods Institution,” but nonetheless it has a noteworthy impact on the global economy as it provides the highest level of arbitration of trade disputes in the international realm. Three major factors set the WTO apart from the World Bank and the IMF. The first is that there is no buy-in cost; there is no fund that the member countries contribute to. Second, the WTO operates under a one country, one vote system, so voting shares are not determined by the population or overall size of a country’s economy. Finally, when the WTO puts together a package of trade agreements at a “round,” or meeting, they accept or reject it on the principle of consensus. While this does allow a single country to hold up an agreement and cause negotiations to drag on and on, it also ensures that poorer or smaller countries are not forced into abiding by trade regulations that exploit them. Furthermore, the WTO

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<sup>19</sup> Max Borders and H. Sterling Burnett, "Farm Subsidies: Devastating the World's Poor and the Environment," National Center for Policy Analysis (2006), <http://www.ncpa.org/pub/ba547>.

leadership has been more geographically diverse. The current Director-General is Brazilian diplomat Roberto Azevêdo.<sup>20</sup>

In fact, it is even possible for small, poor nations to win cases against global superpowers in the dispute arbitration wing of the WTO. The WTO panel ruled in favor of Antigua and Barbuda over the United States in case DS285, concerning the U.S. prohibition of online gambling sites housed on servers in Antigua and Barbuda. Despite protestations and years of legal wrangling, the WTO awarded Antigua and Barbuda the right to retaliate by producing up to \$21 million dollars worth of American goods without the usual licensing or copyright concerns.<sup>21</sup>

So if the WTO is so democratic, why does it suffer from a maligned reputation? As Indian economist Sumitra Chisti puts it:

The US undoubtedly enjoys unrestricted sovereignty under the WTO as against the plight of many developing countries. This was very clear when the panels on dispute resolution under the WTO gave certain verdicts... the panel accepted the explanation of the US that it will place administrative measures to ensure 'trade security' or 'legal security'. While in the case of India when it pleaded for a similar approach... the panel argued that only amending the laws can satisfy the WTO's requirements.<sup>22</sup>

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<sup>20</sup>"Roberto Azevêdo, WTO Director-General" *World Trade Organization*, Accessed May 11, 2016, [https://www.wto.org/english/thewto\\_e/dg\\_e/ra\\_e.htm](https://www.wto.org/english/thewto_e/dg_e/ra_e.htm).

<sup>21</sup> Paul Blustein, *Misadventures of the Most Favored Nations: Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System* (New York: Public Affairs Press, 2009), 169.

<sup>22</sup> Sumitra Chishti, "India and the WTO," *Economic and Political Weekly*, Vol. 36, No. 14/15 (Apr.14-20, 2001), p.1246.



In other words, when the WTO investigates claims that a country is not abiding by proper trade regulations, it will accept promises from rich countries that they will correct the infraction by changing policies within the Department of Commerce or an equivalent bureau. But when dealing with poorer countries, like India, the WTO will only consider the issue resolved if the country passes legislation to change the laws of their own country. This double-standard reflects two important realities: First, that the WTO simply trusts rich countries more. The reasons for this trust are matters of speculation. Perhaps the WTO is more cautious when dealing with governments that it deems to be more susceptible to corruption, or perhaps rich countries really do run it for their own gain. Second, the WTO respects the sovereignty of rich countries more than that of poorer countries. For instance, it is common for the general membership of an international organization to have no trust in an individual nation with which it deals. It is likely that many members of the United Nations do not have any trust in the North Korean government. They take that mistrust into account when they negotiate and enter into agreements with it, but they do not ask North Korea to change its own laws. The idea that it is acceptable to interfere in the sovereignty of these developing countries in the Global South may well stem from the colonial relationship that the wealthier countries of the WTO once had with them. It is an example of indirect rule in that the native people of these countries can elect their own leaders and draft their own laws, but wealthy countries still maintain some influence on laws that might affect their business interests.

Despite the fact that its most critical decisions are reached by a consensus vote, the WTO as an institution is still able to perpetuate neo-colonial economics by defining its scope to include only those issues that are most important to wealthy countries. Things that rich countries care about, like copyright laws, intellectual property rights, and international movement of capital are all on the table for discussion at the WTO. But when it comes to the one issue that economists such as Lant Pritchett argue could do the most to end extreme poverty – labor mobility<sup>23</sup> – national sovereignty is invoked as inviolable and topics such as immigration and guest-worker programs are deemed to be outside the jurisdiction of the WTO.

The IMF, World Bank, and the WTO are pillars of the international economic system that has produced remarkable growth in countries around the world. However, they are structured to provide the richest countries indirect control over the poorest and do not reflect the recent economic development of the BRICS countries.

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<sup>23</sup> Lant Pritchett, *Let Their People Come: Breaking the Gridlock on International Labor Mobility* (Washington D.C.: Center for Global Development, 2006).

## **Chapter 2- The Growth of BRICS and Initial Pushes for Recognition**

In November 2001 Goldman Sachs asset management chairman Jim O'Neill grouped the original four BRIC countries together. Though he had no way of anticipating that the acronym he would coin would become a geopolitical unit, he did offer predictions for the future and suggestions for changes in the international political system that are worthy of examination. He made a couple of predictions in his paper, but the most important was that the BRIC countries would grow to consist of almost a quarter of global GDP by 2012.<sup>24</sup>

O'Neill was specifically advocating for reform of the membership of the G7 to include the four BRIC countries while consolidating the French, German, and Italian seats into the seat representing the European Union as a whole. But his argument in favor of greater BRIC representation on the G7 can easily be applied to other international institutions. He claims that inclusion of the BRIC countries "would allow global policy making to be more effective," and cites the Russian economic downturn of the 1998 as an example of Western financial institutions operating without adequately consulting better informed countries in the region: "The involvement of those with stronger locally informed knowledge and their more informed consideration of the issues may have helped make the resulting fallout less painful or even avoided altogether."<sup>25</sup>

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<sup>24</sup> Jim O'Neill, "Building Better Global Economic BRICs," Goldman Sachs. Global Economics Paper No. 66, November 30, 2001.

<sup>25</sup> O'Neill, "Building Better Global Economic BRICS," 11.

Even setting aside the possible gains to global policy making efficacy, O'Neill's prediction about the growth of the BRIC countries, which have come to pass in the past fifteen years, is alone enough evidence to argue for a consummate growth in BRIC influence in global economic matters. If GDP is measured in purchasing power parity terms, all four of the BRIC countries have surpassed the United Kingdom in economic production. Even in nominal terms, Brazil, Russia, and China have surpassed wealthy countries such as Italy and Canada. Together, the BRICS countries have a population of almost 3 billion people (about 40 percent of global total) and a combined GDP of over \$16 trillion.

In 2009, the BRIC countries met in their first formal summit, validating not only O'Neill's predictions but also their own desires for greater influence in global technology, education, sport, trade, and economics. In 2010, South Africa joined the group and BRIC became BRICS. The decision to include South Africa has since been the source of many debates, but suffice it to say that it represented an advancement of the globalization of the BRIC grouping. Since then, BRICS has begun a number of projects that have had mixed bag success.

## **Technology**

One of the BRICS's more lackluster attempts at collaboration was the attempted construction of trans-oceanic submarine fiber optic cables. BRICS announced the construction of such a cable to run from Fortaleza to

Vladivostok, going through Cape Town, Mauritius, Chennai, Singapore, and Shantou on the way. There are a couple of reasons why the BRICS countries would be interested in building an undersea cable. While all five countries obviously have internet access, a cable connecting them would produce greater speed and reliability. Perhaps more importantly, it would allow them to reduce the amount of internet traffic that they route through cables that run through servers located in the United States and Western Europe. Russian propaganda outlets, such as the Sputnik news agency and Russia Today, are especially vocal about concerns of NSA spying on international internet traffic.<sup>26</sup>

However, a BRICS submarine cable would only make cyber espionage marginally more difficult for the US government. Traffic to sites based in the United States, such as Facebook, Google, etc. would still be very vulnerable to interception, and data that does not travel through servers in the US is still accessible through more sophisticated spying techniques. On the other hand, a BRICS cable would make domestic internet spying much easier for the BRICS countries, especially if their intelligence agencies cooperated with each other.

BRICS announced plans for the cable in 2012, but construction stalled in 2015. There is no official explanation for the hold-up, nor is there a projected date for continued construction or project completion. According to Stacia Lee, cybersecurity policy fellow at the University of Washington, "Finding information

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<sup>26</sup> Valentin Mândrășescu , "BRICS Countries are Building a 'New Internet' Hidden from NSA," *Sputnik International*, October 28, 2013, Accessed April 7, 2016, [http://sputniknews.com/voiceofrussia/2013\\_10\\_28/BRICS-countries-are-building-a-new-Internet-hidden-from-NSA-7157/](http://sputniknews.com/voiceofrussia/2013_10_28/BRICS-countries-are-building-a-new-Internet-hidden-from-NSA-7157/).

about the project's status is exceedingly difficult. The cable does not have a definitive ready-for-service date nor are there any indicators on the progress of its physical completion. <sup>27</sup> It is possible that the project has run into funding issues or was merely a propaganda move in the wake of Edward Snowden's revelations of US government cyber-espionage. Lee speculates that differing opinions about internet governance among the BRICS countries torpedoed the BRICS cable.

## **Education**

BRICS has found moderate success in the area of academic cooperation through the foundation of the BRICS University League in mid-2013. It is a group partnership among universities that "Seeks to provide a forum for cooperation in international research and scholarship on topics ranging from science and technology to global development and educational system administration." However, only eleven universities have joined the league so far: six from Russia and five from China.<sup>28</sup> Somewhat redundantly, a similar educational initiative was announced two years later at the BRICS Working Group on Education. Called the BRICS Network University, it proposes to act as a consortium for universities in BRICS countries to provide opportunities for Master's and PhDs, specifically in fields including energy, cybersecurity, economics, and water management.

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<sup>27</sup> Stacia Lee, "International Reactions to U.S. Cybersecurity Policy: The BRICS undersea cable," University of Washington, January 8, 2016, Accessed April 4, 2016.

<sup>28</sup> Oleg Seregin, "HSE is Entering BRICS League of Universities," Higher School of Economics, Accessed April 18, 2015, <http://www.hse.ru/en/news/community/90343147.html>.

The motivation for these programs is simple; a strong tertiary education system is one of the hallmarks of a “developed” nation. High quality universities generate soft power on multiple fronts. They generate investment in research and development, create prestige, attract foreign students, and fulfill their stated purpose of educating people. Though the BRICS countries each have their own first-class universities, there simply are not enough of them, and tens of thousands of students from BRICS countries choose to study at Western universities instead.

## **Sport**

The BRICS countries have been very successful at pursuing their goal of gaining recognition in international sports by hosting high-profile international sporting events. This includes summer Olympic Games in Beijing, winter Olympic Games in Sochi, and FIFA World Cups in South Africa and Brazil. And the BRICS countries have staked their claims on more such events in the near future: Rio de Janeiro will host the 2016 Summer Olympics, Russia will have the 2018 FIFA World Cup, and Beijing will become the first city to host both a Summer and a Winter edition of the Olympics when they host the Winter Games in 2022. Including second-tier international sporting competitions such as the Commonwealth Games, the Asian Games, the Universiade (also known as the World University Games), the East Asian Games, and the European Games, the BRICS countries are on track to host at least 17 large-scale international sporting events between 2008 and 2022. For the preceding 14-year period from 1993 to 2007, all five BRICS countries combined to host only

two such events, both second-tier. The only top-tier events to occur in the BRICS countries prior to 2008 were the 1950 World Cup in Brazil and the 1980 Olympics in Moscow.

It is not mere coincidence that the dramatic increase in seeking and winning bids to host these events occurred shortly after the official formation of the BRICS association. By 2014, the Chinese state media openly admitted that there was collusion amongst the BRICS countries to support each other's bids to host major sporting events and that it would continue into the future.<sup>29</sup> BRICS countries have been helped in this regard by the growing reluctance of national and even city governments in countries of the Global North to accept the costs of hosting large-scale sporting events

While the BRICS countries have done a spectacular job of winning all of those bids, the actual events that have followed have had a broad range of success. While it is very common for host countries to underestimate their costs of these large events, some of the recent events in the BRICS have been particularly expensive. India's 2010 Commonwealth Games in Delhi, for example, ran over five times its initial budget and still suffered from shoddy construction of its facilities. Additionally, many criticized it as an unnecessary extravagant expense in a poor nation. Economist Miloon Kothari rhetorically asked: "When one in three Indians lives below the poverty line and 40 of the hungry live in India, when 46 percent of India's children and 55 percent of women are malnourished, does spending billions of dollars on a 12-day sports

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<sup>29</sup> "BRICS countries to cooperate in bidding for major sports events," *Xinhua News*, Oct.9, 2014, Accessed April 4, 2016, [http://news.xinhuanet.com/english/africa/2014-10/09/c\\_127074347.htm](http://news.xinhuanet.com/english/africa/2014-10/09/c_127074347.htm)



event build national pride or is it a matter of national shame?"<sup>30</sup> Though both Commonwealth Games and International Olympic Committee officials have praised the games, India has not pursued a bid for any events since then. Lingering memories of low attendance, graft, doping scandals, and withdrawals of big-name athletes including Usain Bolt may sour the idea of hosting an event in the minds of Indians for some time. It is possible that they will follow the lead of some other countries and vote against any proposals or politicians in favor of such events.

On the other hand, massive overspending and delayed construction schedules for the 2014 Winter Olympics in Sochi has neither dimmed Russia's hopes for future events nor evidently its chances of winning them. They spent a record-breaking \$51 billion on the Sochi games and were met with a wave of criticism for unfinished and poorly constructed hotel rooms. Furthermore, whatever global goodwill and prestige the Olympics garnered for Russia was diminished by invasion of Crimea later that month. Nonetheless, Russia will host the 2018 FIFA World Cup and in 2015 won the right to host the 2019 European Games.

Though the bidding process is not yet finalized for the 2024 Summer Olympics, it will not be hosted in a BRICS country. However, representatives from Saint Petersburg, Kazan, Sochi, Shanghai, and Johannesburg have all expressed interest in submitting bids for the 2028 Summer Olympics when the process begins in 2019. Ultimately, the true value of hosting these events does

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<sup>30</sup> Geeta Pandey, "Delhi loses patience with Commonwealth Games", *BBC News*, Sept. 3, 2010, <http://www.bbc.com/news/world-south-asia-11101288>

not lie in their objective value, for they are not consistently sound financial investments. Rather, the BRICS countries seek them out for their subjective value. Though rich, Western countries have started to shy away from hosting these events due to their cost, it does not necessarily mean that the Olympics or the World Cup have lost any of their prestige. Though costly, they are important signifiers that the nations hosting them are influential. After all, if Brazil had not even been able to convince FIFA to let it host the World Cup, which it had not done for over half a century, how could it possibly ask for something like a permanent seat on the UN Security Council?

## **Trade**

The BRICS countries have no current plan to replace the WTO or create a rival global trade organization. Rather, largely because the current “Doha” round of negotiations has been going on for over 14 years with no end in sight, many countries are independently taking the initiative to enter regional trade agreements with their own neighbors through treaties similar to the North American Free Trade Agreement (NAFTA) that was ratified in 1994. Some of the most important of these agreements are those that have been established by the BRICS countries. India is the cornerstone of the South Asian Free Trade Area (SAFTA), Likewise, Russia is the centerpiece of the Commonwealth of Independent States Free Trade Area (CISFTA). Brazil was a founding member of Mercosur free-trade area, and South Africa was a major proponent of the African Free Trade Zone (AFTZ), which includes 26 countries and stretches from Cairo to Cape Town. Finally, the China-ASEAN Free Trade Area is the

largest free-trade agreement in the world in terms of the population it covers. Though these regional trade agreements are not the result of a planned BRICS collaborative effort, they are nonetheless pertinent as they represent an area in which the BRICS countries have successfully subverted an established international institution.<sup>31</sup>

The outcome of these cooperative ventures among the BRICS countries have varied so far. The collapse of the BRICS Cable project does not inspire confidence, and the creation of a redundant university consortium program is also discouraging. Both may belie a pattern of using BRICS summits to announce projects to much fanfare and coverage by state-owned media and then under-delivering. Announcing the creation of the Network University suggests that the BRICS have already forgotten that they have an avenue for education cooperation and undermines the legitimacy of the University League. But BRICS could hardly have done a better job of asserting itself onto the stage of global sport, and each of the BRICS countries are now keystones of their own respective regional trade agreements. While these projects have all had the common theme of challenging Western dominance in technology, education, sports, and trade they are only the lead-up to more ambitious projects in regards to challenging the institutions that have served the interests of the West since 1945.

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<sup>31</sup> "Regional Trade Agreement Information System," World Trade Organization, Accessed May 16, 2016, <http://rtais.wto.org/UI/PublicAllRTAList.aspx>.

### **Chapter 3- The New Development Bank, a Challenge to the Established Order**

The BRICS countries have begun the creation of an international development bank as a potential alternative to the World Bank and the IMF. Their goal is that the New Development Bank, (NDB, sometimes called the BRICS Development Bank in Western media) which was chartered in the summer of 2015, will issue its first loans to fund infrastructure projects in underdeveloped and developing countries by sometime in 2016. BRICS has not been specific about what types of projects it will seek to fund, but it has said that the “key focus areas” of the bank will be infrastructure and sustainable development. It is likely that they will include infrastructure maintenance and development projects that will facilitate trade with the BRICS countries or create a market for BRICS goods. Such projects may include roads, bridges, power plants, dams, ports, etc. According to the BRICS vision, the New Development Bank will eventually have a development capital fund of \$100 billion, of which \$34 billion could be loaned out in any given year. Additionally, it will also have a \$100 billion “Contingent Reserve Arrangement,” (CRA) which will be lent among the BRICS countries should they face short-term liquidity crises.<sup>32</sup>In this respect, the CRA will have a similar function as the IMF. However, these goals are lofty, and may not be achievable for some time.

In the meantime, the BRICS plan is to have the development capital fund consist of \$10 billion dollars from each nation for a total of \$50 billion. After that

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<sup>32</sup> “Russia Says BRICS Development Bank Ready to Launch,” *The Moscow Times*, July 9, 2014.

the five nations will add to the fund at a to-be-agreed-upon rate in equal share. A nation can only increase its percentage share of the fund if the other four nations agree to it. The CRA will consist of an initial investment of \$2 billion from each nation, for a total of \$10 billion. But unlike the development capital fund, the CRA will eventually be predominantly funded by China, which will contribute \$41 billion, followed by Russia, Brazil, and India at \$18 billion each, and South Africa at only \$5 billion.<sup>33</sup>

Even though the bank has yet to lend out a single dollar, its members have already weaved a complex series of compromises to keep the idea of the New Development Bank afloat. In order to assuage worries that one nation will attempt to dominate the bank, an Indian, K.V. Kamath, will hold the presidency of the bank for the first 6-year term, the Board of Governors Chair is Russian, and the Board of Directors Chair is Brazilian, and the main headquarters will be in Shanghai. The bank will also establish an additional headquarters, the New Development Bank Africa Regional Centre, in Johannesburg.<sup>34</sup> No country will have a veto vote. Interestingly, as of now the charter of the New Development Bank will allow countries not in the BRICS association to invest a share in the bank, so long as the BRICS countries maintain a combined 55 percent of the shares.<sup>35</sup> Should this happen, presumably the investing countries would gain voting share commensurate with their investment. So in theory developed

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<sup>33</sup> Ibid.

<sup>34</sup> Raj M. Desai and James Raymond Vreeland, "What the New Bank of BRICS is all About." *The Washington Post*. July 17, 2014.

<sup>35</sup> "Agreement on the New Development Bank," Sixth BRICS Summit, Fortaleza, Brazil, 2014.

Western nations could buy their way into the bank and gain votes in its decisions, but they would never be able to overrule a united BRICS bloc.

There are some political issues among the BRICS members that could potentially threaten the future of the New Development Bank. Because of its combination of high levels of extreme poverty and low exports, India often finds itself in disagreement with export-heavy countries, such as China and Brazil, concerning trade issues. Additionally, there is still tension between China and India over disputed border territories that has erupted into skirmishes in past decades. However, it may also be the case that the economic partnership fostered by BRICS will encourage unity in political matters. For example, in the aftermath of the 2014 invasion of Crimea by Russia, none of the other BRICS countries explicitly condemned Russia's actions. The South African government's official statement only mentioned its "deep concern about the unfolding political situation in Ukraine," noting that "We will continue to monitor the situation and encourage international diplomatic efforts meant to produce a lasting peaceful solution."<sup>36</sup> Compare this to the statement made by the British Foreign Secretary William Hague, who warned Russia that, "This action is a potentially grave threat to the sovereignty, independence and territorial integrity of Ukraine. We condemn any act of aggression against Ukraine."<sup>37</sup> These statements both seem to have a bit of an equivocal, legalese flavor to them, but

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<sup>36</sup> News 24, "SA Calls for Peace in Ukraine." March 2, 2014. Accessed April 10, 2015. <http://www.news24.com/SouthAfrica/News/SA-calls-for-peace-in-Ukraine-20140302>

<sup>37</sup> Sky News, Accessed March 1, 2015. <http://news.sky.com/story/1219302/ukraine-russia-approves-military-action>

make no mistake: South Africa is not following the lead of the United Kingdom in challenging Russia. Another example: In a non-binding United Nations General Assembly vote about the territorial integrity of Ukraine, which showed the General Assembly's support of Ukraine's sovereignty over its internationally recognized borders, all of the BRICS countries chose to abstain, except for Russia, which of course voted against.<sup>38</sup>

But the structure of the United Nations, specifically the United Nations Security Council, does represent a point of contention among the BRICS nations. Russia and China are pleased with their positions as permanent members with veto power, but India (and Brazil to a lesser extent) is an ardent supporter of Security Council reform. In short, India feels that it has all of the requisite qualifications necessary to take a permanent seat on the Security Council and the veto power that goes along with it. India has a population of over 1.25 billion people and is poised to overtake China as the most populous nation in the world. It has the third largest military in the world, in terms of manpower, behind only China and the United States. India's addition to the Security Council would provide geographic, cultural, and religious diversity to the slate of permanent member nations, and it also has one of the largest nuclear stockpiles of any non-permanent member country. One of the justifications for the current Security Council structure is that the current makeup of the permanent members represents the nations that led the Allied forces to victory over the Axis Powers in World War II. But India fits this

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<sup>38</sup> United Nations General Assembly Resolution 68/262

description as well, as it contributed to the British war effort as a part of the commonwealth by supplying both men and material to fight in the European and Pacific theatres of war.

In the arena of United Nations Security Council reform, the BRICS find themselves in an ideological pickle. Russia and China are dead-set against diluting their veto powers, but how can they ask for greater representation of BRICS countries in other international bodies when they themselves refuse to do so in one of the few international bodies over which they have significant control? In the early days of the BRICS, a temporary concession may have been a coordinated effort to elect the other members of BRICS to the rotating non-permanent member positions on the council. Brazil was elected as a non-permanent member in 2010, and South Africa and India were elected the following year. The terms for non-permanent members are only two years long, but during 2011 all five members of BRICS were members, constituting a full third of the council. However, neither India, Brazil, nor South Africa had veto power, and their terms have since expired. Finding a solution to their disagreements on Security Council reform is one of the most pressing issues for the BRICS, not only because it has the potential to rend the group apart but also because it is a glaring example of hypocrisy in the face of their goal of collaboration for greater representation in international institutions.

But if these disagreements among the BRICS countries can be overcome and the New Development Bank begins operations it will be an



incredibly important resource for underdeveloped countries that are looking for infrastructure development funding. As it is today, there are very few places for poorer countries to turn. For the most part, they must rely on the Bretton Woods institutions of the World Bank and the International Monetary Fund (IMF). In both of these institutions, voting power is (through a very complex formula) weighted according to the size of the financial investment of each country. This means that in both institutions, the United States has more votes than any other country.

Therefore, the selection of which projects receive funding is often a political affair. Countries that are politically opposed to Western, industrialized nations often have a difficult time getting loans. During the Cold War, many communist countries viewed the World Bank and the IMF as puppets of NATO and refused to participate. Cuba has yet to re-join either institution since the Communist revolution of 1960.<sup>39</sup> Furthermore, it is commonplace for the World Bank and the IMF to attach “strings” to their loans. Often these conditions require the country that receives the loan to change certain domestic fiscal or monetary policies to achieve goals such as lowering the debt-to-GDP ratio or decreasing inflation. Such conditions are regularly quite onerous in the eyes of the everyday people of the country that receives the loan, as they often include austerity measures that raise taxes and cut government spending.

So, the New Development Bank would represent a major shift in the world of international financial institutions. For the first time, countries of the

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<sup>39</sup> Dawn Gable, “Why is Cuba not Part of the IMF, WB, & IDB?” *The Havana Times*, November 11, 2011.

“Global South” would have the chance to have a majority stake in a global development investment bank. Also for the first time, an African nation will have a significant leadership role in such a high-profile venture. The upshot of these changes could have massive effects for the way the nations of the world approach seeking development funding. States like Zimbabwe or Mongolia may choose to position themselves as satellites in the BRICS orbit, only looking to the World Bank as a second resort. It may encourage other states to pursue a sort of “non-aligned” status in which rather than attempting to appeal to the political structure of the Bretton Woods institutions, they are free to play the IMF and the World Bank against the New Development Bank to try to get the best deal they can from either side. The large potential impact of the New Development bank is well summed-up by Nobel Prize-winning economist Joseph Stiglitz:

It is very important in many ways.... This is adding to the flow of money that will go to finance infrastructure, adaptation to climate change — all the needs that are so evident in the poorest countries. It [also] reflects a fundamental change in global economic and political power. The BRICS countries today are richer than the advanced countries were when the World Bank and the IMF were founded. We’re in a different world — but the old institutions haven’t kept up.<sup>40</sup>

Furthermore, it is possible that the BRICS countries will invest more carefully and provide better loan terms because they have a bigger stake in the

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<sup>40</sup> Joseph Stiglitz, Interview with *Democracy Now!*, July 17, 2014. Transcript available online, “Nobel Economist Joseph Stiglitz Hails New BRICS Bank Challenging U.S.-Dominated World Bank & IMF.” Accessed April 25, 2016, [http://www.democracynow.org/2014/7/17/nobel\\_economist\\_joseph\\_stiglitz\\_hails\\_new](http://www.democracynow.org/2014/7/17/nobel_economist_joseph_stiglitz_hails_new).

development game than some industrialized Western nations. For example, if the World Bank were to fund the construction of five new hospitals in Zimbabwe, it should go without saying that the World Bank would want that project to be successful. But if it is not successful, if corruption siphons off all the building materials or their locations are difficult to access, then it is no loss to the World Bank. But if South Africa was heading up the same project in the New Development Bank, it would have huge incentives to make sure that it was effective as possible. Diseases like malaria and HIV/AIDS do not respect political borders, and fighting their spread in Zimbabwe could produce tangible benefits in South Africa.

Thanks to the geographical diversity of BRICS, similar arguments exist for development projects in Central Asia, South Asia, Southeast Asia, and South America. The BRICS countries are all leaders in their respective regions, and they all have something to gain if their region develops. Because of the “vicarious benefit” effect, it is likely that each member of BRICS will advocate for development projects in countries within its own sphere of influence. This is natural and should not be a threat to the New Development Bank as long as the BRICS countries agree to distribute lending fairly equally across their regions. Because they are all equal in voting power, this should be a manageable task.

But a question of power still remains in that the New Development Bank has yet to decide what currency, or currencies BRICS will choose to use as its reserve currency. If the New Development Bank wants to truly break away from

the Bretton Woods institutions, it cannot use the US dollar as its primary currency. One of the chief complaints of developing countries about the post-World War II economic system is that the United States enjoys special privileges because its currency is used as the standard international reserve currency. However, there is no clear choice as to which currency the New Development Bank could choose as a replacement for the dollar. China has the largest economy of the five, but the Chinese government has kept the value of the renminbi artificially low in order to encourage exports. The other four currencies are not particularly stable, so it may be unwise to put all of the bank's assets into any single one. Some economists suggest that the most sensible solution would be to use a combination of all five currencies, so long as an efficient system of currency swaps among the BRICS countries can be put in place. Economist Akshay Mathur suggests that a currency clearinghouse model similar to the Asian Clearing Union could be successful, as could a scheme in which, for example, excess rupees held by China would be used to buy bonds backed by the Indian government. This would have the effect of creating a web of investment amongst the BRICS countries, which could in turn produce incentives for greater economic co-operation.<sup>41</sup> However, so far the bank has only issued loans denominated in yuan and US dollars. In July of 2015, Kamath announced that the first loan of the NDB will be issued in April of

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<sup>41</sup>Akshay Mathur, "Using the Brics Bank to dilute the US dollar zone," *Financial Times* blog guest post, July 18, 2014.

2016 and will be in the form of 500 million yuan.<sup>42</sup> The funds will be used to build a solar electric power plant in China. Three subsequent loans, made in US dollars, for \$300 million, \$250 million, and \$180 million, were approved for renewable energy projects in Brazil, India, and South Africa, respectively. Loans for Russia are reportedly in planning stages.<sup>43</sup> Though the yuan is the logical currency to use to issue loans from the New Development Bank if it is to maximum independence from the Western financial system, a move toward establishing the yuan as the hegemonic currency among the BRICS could be seen as threatening by the other countries, especially India, which has a trade deficit with China of over 300 billion yuan. Even Brazil, which has a trade surplus with China, might be anxious about it as it exports raw materials to China and imports finished goods.

Leslie Maasdorp, Chief Financial Officer of the bank, has stated that the early projects of the bank will be within the BRICS countries themselves and will be guaranteed by their governments in order to limit risk to the bank.<sup>44</sup> Such guarantees are a prudent safeguard to discourage the BRICS countries from treating the NBD as a common resource to be exploited.

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<sup>42</sup> "BRICS Bank's 1<sup>st</sup> Loan to be issued in Yuan," *The BRICS Post*, July 24, 2015, Accessed February 10, 2016, [http://thebricspost.com/brics-banks-1st-loan-to-be-issued-in-yuan/#.Vruc0VK6\\_7w](http://thebricspost.com/brics-banks-1st-loan-to-be-issued-in-yuan/#.Vruc0VK6_7w).

<sup>43</sup> "BRICS Bank Gives \$811 Million in First Round Green Energy Loans," *Bloomberg News*, April 18, 2016, Accessed April 25, 2016, <http://www.bloomberg.com/news/articles/2016-04-18/brics-bank-gives-first-china-loan-to-solar-project-daily-says>.

<sup>44</sup> "Shangahi Solar Project wins Nation's First NBD Loan," New Development Bank. April 18, 2016, Accessed April 25, 2016, <http://ndb.int/shanghai-solar-project-wins-nations-first-ndb-loan.php>.

The New development Bank has other conditions in place in order to glean maximum economic benefit for the BRICS countries. Take, for instance, Article 21, Section vi of the Chartering Agreement of the bank:

The proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank shall be used only for procurement in member countries of goods and services produced in member countries, except in any case in which the Board of Directors determines to permit procurement in a non-member country of goods and services produced in a non-member country in special circumstances making such procurement appropriate.

In layman's terms, this means that any money lent by the bank can only be spent on goods or services provided by the BRICS countries, unless special permission is granted by the bank. This regulation recalls the economic growth of the United States after World War II when countries that received aid through the Marshall Plan spent much of it on US goods and services. However, there are some contextual differences. When the war ended in 1945, the United States was the only significant power whose industrial centers had not suffered major damage. When it came to rebuilding Europe, it were the only (capitalist) game in town. In contrast, a developing nation today that wants to apply for a NDB loan for an infrastructure project might find these conditions onerous and oligopolistic. Countries geographically distant will not want to pay the transport costs of goods from the BRICS countries, and countries that speak other languages might find it inconvenient to utilize services from the BRICS countries. Most importantly, the Chartering Agreement does not make any exception for the use of local labor in projects funded by the bank. So under the

provisions of Article 21, even a project as pedestrian as building a road, which could have provided low-skill jobs for local workers, will require labor from the BRICS countries to be imported unless the NDB gives special permission to use local labor. The exclusion of local labor has plenty of precedent. Chinese firms working on infrastructure projects around the world have imported Chinese low-skill labor.<sup>45</sup>

The conditions of Article 21 will be reasonable for as long as the NDB decides to limit the projects it will fund to the member countries of BRICS. However, such a limitation would ignore half of its stated goal to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries,” (article 1) and would all but eliminate the potential soft-power gains to be had by making the NDB a truly global institution. However, the temptation to exploit the articles of the Chartering Agreement to pursue rent-seeking practices is only one of the speed bumps that the NDB will face.

### **Difficulties for the NDB**

The biggest obstacle to the NDB’s rise to be the number one rival of the World Bank is the Asian Infrastructure Investment Bank (AIIB), another financial institution initiated by China in December of 2015 that counts China, India, and

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<sup>45</sup> Clifford Krauss and Keith Bradsher, “China’s Global Ambitions, Cash and Strings Attached,” *The New York Times*, July 24, 2015, Accessed February 2, 2016. [http://www.nytimes.com/2015/07/26/business/international/chinas-global-ambitions-with-loans-and-strings-attached.html?\\_r=0](http://www.nytimes.com/2015/07/26/business/international/chinas-global-ambitions-with-loans-and-strings-attached.html?_r=0).

Russia as its top three shareholders. It also plans to have \$100 billion in capital, but unlike the NDB, members will not contribute to that amount equally and the voting shares allocated to each country will be unequal as well. Already 30 countries have signed and ratified the AIIB's Articles of Agreement, and another 27 countries have signed the articles and are pending ratification. Consequently, the AIIB has had a much easier time raising its capital and could very well reach its \$100 billion dollar goal by the time it issues its first loan in mid-2016, while the NDB only hopes to reach the \$100 billion mark over time.

So has the NDB been made irrelevant before it has had a chance to prove itself? Not just yet. Kamath is optimistic that the two institutions can co-exist and even co-operate: "Infrastructure and project needs are very large, so we will collaborate with everyone....We have partnerships that we will forge with the AIIB, the national loan banks and indeed, the existing market loan banks."<sup>46</sup> He is correct that there is enough need for development in the world, but they will have to fill different roles. The exact relationship between the NDB and the AIIB depends, to a certain extent, if Brazil and South Africa decide to ratify the Articles of the AIIB as non-regional parties. This is more likely than not as they are both signatories to the agreement already. In such an instance, the NDB may end up working in parallel with the AIIB, and may be the bank through which the BRICS countries could fund projects that they prefer but could not win a majority of AIIB votes. In the long run, co-existence with the AIIB may not be

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<sup>46</sup> "NDB president says to work with AIIB, hails bloc's significance," *Xinhua News Agency*, July 24, 2015, Accessed February 4, 2016, [http://news.xinhuanet.com/english/2015-07/24/c\\_134441421.htm](http://news.xinhuanet.com/english/2015-07/24/c_134441421.htm).



the worst thing for the NDB or the global market for infrastructure funding. There is enough need to go around, and a greater diversity of lenders can only be good for developing countries. Perhaps the AIIB will focus on Asia, and the NDB will focus on Africa after its regional office in Johannesburg. Also, the BRICS countries have an incentive to invest in the NDB so that they can use it to balance the power of the AIIB. Though the size and rapid growth of the AIIB may prevent the NDB from becoming the primary alternative to the World Bank, it will not necessarily threaten the survival of the NDB. Together, China, Russia, and India will have 60 percent of votes in the NDB and about 40 percent of votes in the AIIB, so if they cooperate they should be able to make the two organizations complementary with each other.<sup>47</sup>

However, there are some real threats to the existence of the NDB. Because it only has five members as of now, it is more exposed to economic volatility than the World Bank or the AIIB, both of which have dozens of members. The shaky economic conditions in Russia, Brazil, and South Africa will combine to put serious strain on the BRICS collaborations. The ruble has lost over half of its value relative to the US dollar since the beginning of 2014, and the combination of low oil prices and containing sanctions imposed by the United States and the European Union over the Russian invasion of Crimea suggest that recovery for Russia is a long ways off. Meanwhile, since 2009,

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<sup>47</sup>Mark Magnier, "How China Plans to Run AIIB: Leaner, With Veto," *The Wall Street Journal*, Accessed May 12, 2016, <http://www.wsj.com/articles/how-china-plans-to-run-aiib-leaner-with-veto-1433764079>.

South Africa's debt-to-GDP ratio has risen from 26 percent to 45 percent, and unemployment has risen to over 25 percent. *The Economist* predicts that unless conditions improve, credit rating agencies may downgrade South Africa's from its current BBB- status to BB+ within the next eighteen months.<sup>48</sup> Such a demotion would have an especially deleterious effect on the South African economy, as BB+ is considered a "junk" rating and many investment funds have policies against holding such potentially risky debt. The upshot will be a divestment of South African bonds, and the price the South African government will have to pay to service its growing debt will rise. This very process is underway in Brazil, as Standard & Poor's and Fitch Ratings downgraded Brazil from BBB- to BB+ in September 2015 and December 2015, respectively. Both downgrades triggered overnight depreciations in the real, which has lost half of its value against the dollar over the past five years. Much more could be said about the economic challenges facing these countries, but in the context of the NDB it means that the bank is unlikely to reach its goal of \$100 billion in capital anytime in the near future. It also means that Russia, Brazil, and South Africa will probably end up turning to the NDB to fund infrastructure projects that might be prohibitively expensive should they attempt to fund them by selling bonds.

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<sup>48</sup> "Sprinting Towards a Bail-Out," *The Economist*, December 12-18, 2015. Accessed December 19, 2015, <http://www.economist.com/news/middle-east-and-africa/21679821-sprinting-towards-bail-out-south-africa-fires-its-respect-finance-minister-just>.

## Reactions from the World Bank and IMF

Despite all of the logistical and economic challenges of building an international infrastructure investment bank from the ground up, the World Bank and the IMF have not discounted the credible challenge that the New Development Bank represents. On April 7, 2015, World Bank president Jim Yong Kim issued a statement that had an optimistic tone for prospective cooperation between the World Bank and the New Development Bank. He said, “If the world’s multilateral banks, including the Asian Infrastructure Investment Bank and the New Development Bank, can form alliances, work together, and support development that addresses these challenges [of extreme poverty], we all benefit – especially the poor and most vulnerable.” He even went so far as to pledge that he “Will do everything in [his] power to find new and innovative ways to work with these new institutions.” Granted, he did make it known that if the New Development Bank wants to become a serious player in the global development finance system, it will have to make its own good-faith efforts at co-operation, stating, “It is our hope – indeed, our expectation – that these new entries will join the world’s multilateral development banks and our private sector partners on a shared mission to promote economic growth that helps the poorest.”<sup>49</sup>

There are likely two main reasons that Kim is publicly stating that he believes that the World Bank and the New Development Bank can have a friendly and co-operative future together. The first is that it may be true. There

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<sup>49</sup> Statement from Jim Yong Kim, World Bank Press Release. April 7, 2015.

are certainly enough opportunities to fight poverty or create renewable energy in the world for the World Bank and the New Development Bank to finance all the projects they wish. The “tent” of global development is indeed big enough for the two of them. Second, if the World Bank does see the New Development Bank as a threat, it does not benefit it to acknowledge this publicly. That would only serve to weaken its reputation internationally. Furthermore, the New Development Bank is still so early in its growth that there is no sense in prematurely creating an enemy out of an organization that the World Bank might be able to co-exist with in the future.

The IMF has done more than merely issue a press release in the light of the growth of the BRICS economies. In November of 2015, the IMF announced that the Chinese yuan will be added to the basket of reserve currencies that make up the “special drawing right” (SDR), or foreign exchange reserves, of the IMF. When the yuan is integrated in October of 2016, it will make up a greater percentage of the special drawing right than either the yen or the pound sterling. According to Christine Lagarde, head of the IMF, “The Executive Board's decision to include the RMB (yuan) in the SDR basket is an important milestone in the integration of the Chinese economy into the global financial system.” She goes on to say that, “It is also a recognition of the progress that the Chinese authorities have made in the past years in reforming China’s monetary and financial systems.”<sup>50</sup> Including the yuan in the SDR is an

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<sup>50</sup> “IMF’s Executive Board Completes Review of SDR Basket, Includes Chinese Renminbi”, International Monetary Fund, Press Release No. 15/540, November 30, 2015, Accessed April 25, 2016, <http://www.imf.org/external/np/sec/pr/2015/pr15540.htm>.

important symbolic victory for China, as it solidifies the yuan as a bona-fide reserve currency. It is also a bit of a political victory, as it gives legitimacy to a currency that many critics claim is overly managed, or even manipulated, by the Chinese government.<sup>51</sup>

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<sup>51</sup> Donald J. Trump “Ending China’s Currency Manipulation”. Wall Street Journal. November 9, 2015. Accessed April 25, 2016. <http://www.wsj.com/articles/ending-chinas-currency-manipulation-1447115601>.

## **Chapter 4- The Road Ahead for BRICS**

The growing importance of the BRICS club of countries is evident – together they have made waves in the worlds of trade, finance, and sport. And when one member pursues a project on the international stage, such as Russian expansionism in Crimea, the other members have backed them up with a surprising level of cohesion.

At some point BRICS may wish to expand their membership for political, economic, or other reasons. The choice to accept South Africa into BRICS in 2010 will provide the group with additional leverage should they ever choose to do so. By setting a precedent of being willing to work with a country with a relatively smaller population and economy, the other BRIC countries will gain legitimacy and credibility both in sub-Saharan Africa and in smaller emerging economies around the world. For a while it seemed that Argentina would be the next country to join the group; its attendance at the 2014 BRICS summit in Fortaleza seemed to mirror South Africa's attendance at the 2010 summit in Brasília that preceded its acceptance into the group. However, the ouster of the Kirchner administration in December 2015 and the current Petrobras scandal in Brazil may delay that decision for quite some time. What is almost certain is that the level of economic integration amongst the BRICS countries will rise. Trade amongst the BRICS countries is already fairly high. More specifically, China engages in a large deal of trade with the other BRICS members.

Iulia Monica Oehler-Şincai describes China as the “mortar” that holds the BRICS together.<sup>52</sup> This is most clear when considering the economic connections of the BRICS countries, though it might be better to conceptualize BRICS as a web with China in the center. China is a top trading partner for each of the other BRICS countries, but beyond that none of the other BRICS countries is in each other’s top five importers or exporters. Oehler-Şincai holds up this lack of trade integration is both an indictment of the inefficacy of BRICS efforts to promote trade over the past six or seven years, but also show that it is an area of cooperation that could potentially grow rapidly.<sup>53</sup> In many ways the BRICS economies are complementary. For instance, gold and diamonds represent the two biggest export products for South Africa and the second and fifth largest import products for India. Yet India imports most of its gold from Switzerland and South Africa sells most of its diamonds to Europe.<sup>54</sup> Based on the success of the various regional trade agreements independently created by the BRICS countries, a BRICS multilateral trade organization may arise out of a quest for greater trade integration.

Beyond trade, foreign direct investment (FDI) represents another area for increased economic integration. China has been significantly ramping up its FDI stock in other countries, growing from \$792 billion to \$1.11 trillion in 2015

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<sup>52</sup> Iulia Monica Oehler-Şincai, “Standpoints Regarding the BRICS Construction,” *Procedia Economics and Finance* 22 (2015): 502-511.

<sup>53</sup> Iulia Monica Oehler-Şincai, “Standpoints Regarding the BRICS Construction,” *Procedia Economics and Finance* 22 (2015): 508.

<sup>54</sup>The Observatory of Economic Complexity, MIT Media Lab, Accessed March 25, 2016. <http://atlas.media.mit.edu/en/>.

alone.<sup>55</sup> However, most of the spike in China's FDI outflows has been to neighbors in Asia and rich countries in Europe and North America. Granted, figures of Chinese investment in the other BRICS countries are likely underreported as a certain amount of money invested in tax havens such as Hong Kong, Singapore, and Switzerland likely ends up in the BRICS. Nevertheless, as China expands and diversifies its investment portfolio, expect the other BRICS countries, especially South Africa and Brazil, to benefit.

So as a club, what does the future look like for the BRICS countries? First, will the BRICS club survive into the intermediate or even long-term future? The answer is almost certainly yes – though they will have to work through some pressing economic challenges in the years ahead. These challenges are not limited to the economic problems faced by Russia, Brazil, and South Africa in absolute terms mentioned earlier in this paper; after all, struggling countries can align themselves together just as well as thriving ones can. Rather, the greatest challenge stems from economic imbalances among the BRICS countries relative to one another. If some of the BRICS are growing and others are stagnant, eventually that tension will manifest in political disagreements.

But BRICS will weather these challenges, if only because it is expedient for China for it to do so. Though I disagree with scholars such as Armijo and Roberts on some issues concerning the BRICS, they are correct in their

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<sup>55</sup> CIA World Factbook, Accessed March 25, 2016, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2199rank.html>.



observation that “It appears likely that the BRICS organization itself functions most readily as an ‘outside option’ for China to employ to exercise leverage within the major existing global governance institutions.”<sup>56</sup> This is especially relevant to economic institutions; if China faces potential penalties from accusations of manipulating its currency to encourage exports, it can either look to the BRICS to back them up within the IMF, or it can threaten to back away from the table and take its business to the New Development Bank.

In many ways, the shape that BRICS will take in the future depends on whether China will choose to try to work within the existing order of international governmental organizations as it grows in power, or if it will try to replace them with organizations of its own design. I think that the former is more likely. However, BRICS may initiative collaborative projects in other areas if they feel that doing so could lend them additional credibility in other international institutions. For instance, BRICS might add a security component to their club. It would never fill the sort of role that NATO does, but they might add some peacekeeping or counter-terrorism aspects to their group that they could invoke should the Security Council block their resolutions. It is also possible but quite unlikely that at some point China might pull out of the World Bank and the IMF. China has the resources to participate in both and stands to lose decision-making influence if it withdraws. Rather, China will use the New Development Bank as a tool to try to encourage reform within the World Bank.

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<sup>56</sup> Leslie Elliott Armijo and Cynthia Roberts, “The Emerging Powers and Global Governance: Why the BRICS Matter,” In *Handbook of Emerging Economies*, ed. Robert Looney (New York: Routledge Press, 2014).

However, there are some potential drawbacks to the rise of a powerful financial institution headed up by the BRICS countries. First, China and Russia have especially poor human rights records. Developing countries that accept loans from the New Development Bank run the risk of tacitly condoning these abuses. Additionally, if the New Development Bank does not hold itself to a high ethical standard concerning to whom it will lend and for what purposes, it may end up funding authoritarian regimes with abysmal human rights records.<sup>57</sup> When confronted with this potential moral hazard, then-President Lula of Brazil explained his policy of “non-indifference” to human rights abuses, but that is disappointingly weak language that does not inspire confidence. Furthermore, Brazil, Russia, and South Africa all have economies that feature nonrenewable natural resource extraction as their chief exports, either in the form of petroleum products, or minerals such as gold, diamonds, etc. If these countries choose to use the New Development Bank as a source for further funding for these enterprises, serious negative consequences could occur. Mining and drilling can both cause significant damage to the environment, including but not limited to contributing directly to climate change. Additionally, the labor practices in these industries can produce negative social impacts. Gold mining, for example,

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<sup>57</sup>Jessica Evans, “How the BRICS Can Run a Rights-Respecting Development Bank,” Human Rights Watch, Accessed May 12, 2016, <https://www.hrw.org/news/2014/07/16/dispatches-how-brics-can-run-rights-respecting-development-bank>.

often entails perilous working conditions and can physically separate miners from their families for as long as months at a time.

One would hope that the New Development Bank will devote its resources to environmentally and socially responsible projects, but the fact remains that none of the BRICS countries score above a 50 on the 0-100 Corruption Perceptions Index published by Transparency International.<sup>58</sup> It is probable that any deal made between a developing country and the New Development Bank will be contingent upon benefits the developing country can offer, such as market access or access to natural resources for BRICS firms. This could be especially problematic if the subsequent development project is not designed to benefit the people of the developing country but is rather implemented to facilitate access to the concessions that the country gave to BRICS to get the loan in the first place. For example, if the New Development Bank agrees to fund an infrastructure project in Angola on the condition that BRICS firms receive favorable access to Angola's oil fields, it would be closer to neo-colonialism than development if the BRICS countries then pressured Angola to spend the money only on oil-related infrastructure.

There is not anything necessarily wrong with the New Development Bank issuing loans for projects such as roads, bridges, and other infrastructure, so long as those projects are planned in a good- faith effort to provide a solution to a problem that touches the people of that country as a whole. The fact that the first batch of loans approved by the NDB are all slated for renewable energy

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<sup>58</sup> For context, Denmark has the highest score at 92, North Korea has the lowest score at 8, the United States has a 74 rating and the United Kingdom has a 78 rating.

projects is an encouraging testament to the possibilities of the bank. Ideally, the New Development Bank will continue to look for ways to invest in renewable energy, sustainable agriculture, and other responsible projects that can ensure long-term growth and well-being for the common people.

## Conclusion

Whether good or bad, the growing power of the BRICS countries is a fact in economics, sport, and culture, not to mention military strength. Pretending that the West is in the same position of power that it was in after the Second World War is bad policy in that it shows an inherent disrespect for the significant progress of developing nations in the meantime. It must have been easy to deny India a seat on the Security Council in 1945; it was still a British colony. But today it has the hallmarks of a global power, from nuclear arms to even a space program.

Besides, stakeholders in the post-World War II international institutions need not fear for their existence. The fact of the matter is that the BRICS countries, especially China, have done well by operating within the Bretton Woods institutions; after all, they have experienced rapid growth under a US-dominated system. Vice-minister of the Chinese Foreign Ministry Fu Ying recently wrote that “Chinese leaders attribute much of their country’s rapid ascent to China’s successful integration into the world economy. They see China as a beneficiary of the international order.”<sup>59</sup>In fact, the BRICS organization itself was only able to come together in the first place because of stability of the global governance. According to Fu, “Beijing and Moscow see the evolution of their relations – from mistrust and competition to partnership and cooperation – as a model for how countries can manage their differences

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<sup>59</sup> Ying, Fu, "How China Sees Russia: Beijing and Moscow Are Close, but Not Allies," *Foreign Affairs*, January/February 2016, p.102.

and work together...”<sup>60</sup> Though the international institutions of the past seventy years may have been dominated by the West, they provided Russia and China the opportunities to engage with each other economically and politically to shrink the gap caused by the Sino-Soviet Split. Put more broadly: the increase of globalization brought about by institutions such as the UN, IMF, World Bank, and others was a necessary condition for BRICS to exist.

Granted, the governments of the BRICS countries are not moral exemplars. They are without exception corrupt, and Russian and Chinese authoritarianism is reprehensible. The United States should make a commitment to protect human rights globally. But that does not mean that it should try to limit their voices in international forums. By accepting the BRICS countries into the ranks of global leadership as partners, the United States has the opportunity to act as a check on their growing power when it threatens global security while promoting its values of freedom and democracy. Should any of the BRICS countries pursue domestic reforms in the future, the US will only be in a position to offer guidance and support if it can generate trust and respect, rather than fear and hatred, in the meantime. Therefore, in the medium-term, a change in the structures of international institutions to reflect the growth of the BRICS countries should occur, will likely occur, and should be seen as an opportunity by the United States to spread its own norms and values.

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<sup>60</sup> Ying, Fu, p.105.

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