

Using the Potential of BRICS Financial Co-operation

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Strange things happen in the world. Imagine a grouping of countries spread across the globe, which gets formed only for the simple reason that an analyst for an investment bank decides that these countries have some things in common, including future potential for growth, and then creates an acronym of their names! Bizarre but true.

The original categorization by Jim O'Neill of Goldman Sachs contained only Brazil, Russia, India and China – subsequently South Africa was added to the group. And while the origin of the grouping may be odd, and the countries are indeed remarkably diverse, there are some commonalities that are important. And in any case, these countries have since shown significant appetite for meeting periodically, working together, finding some synergies and new ways of co-operation. It is interesting to note that trade between BRICS countries soared after they became recognized as a combination, although of course this is a period when trade between developing and emerging markets in general has grown much faster than aggregate world trade.

At the most recent BRICS Summit held in New Delhi, the meeting of the Financial Forum definitely signaled some steps forward, such as an agreement to encourage trade between members denominated in bilateral currencies. The heads of development banks of the five countries also spoke of working together to push for a different global financial architecture, as well as cooperation in areas such as developing "green" economies.

In fact there is great potential in these five countries not just combining to address global issues, but perhaps even more significantly, in learning from one another. In the discussions at the Financial Forum it became evident how much India has to learn from Brazil and China in the matter of development banking. From the early 1990s, India has set about destroying the potential of its own development banks, in both agriculture and industry – but there is still scope for their renewal and rejuvenation. And the example of Brazil, and in particular BNDES, in entering areas and promoting activities that would not occur purely through the incentives determined by the market, could provide some guidance about how this can occur even in a very open and largely market-driven economy.

Similarly, there are areas in which other BRICS countries could learn from India, while the description of the work of the South African Development Bank illuminated the strategy of creating financial structures and mechanisms to promote the "green economy" through environmentally desirable activities and technologies. There are also immense possibilities for technology sharing and even co-ordinating technology development, in a world where intellectual property rights still largely controlled by Northern multinational companies have emerged as a major constraint on development.

But it is not only comparing experiences of the recent past and learning from each other's approaches that may be important. Despite their many differences, the BRICS countries do face some common challenges, and the very urgency of these challenges points to the benefits of co-operation to develop creating new strategies. At least four such challenges deserve mention, as do some possibilities of combined action to confront them.

The first is the fact of the continuing global crisis and the near certainty that the Northern economies (the US and Europe in particular) are unlikely to provide much positive stimulus to the global economy. For all the BRICS, these countries still dominate as export destinations and the domino effect of declining Northern markets must be accepted. So clearly, there is need to diversify exports, a process that has already started but still needs to go a long way. Of course bilateral currency trade would encourage more trading activity between the BRICS, and this is desirable.

But the current state of the global economy suggests the need for greater ambition. In particular, the time is clearly ripe for some sort of "Marshall Plan" for the developing world, and the BRICS countries (particularly China and Russia) are uniquely positioned to take this process forward. This would involve developing mechanisms to finance imports by countries with low incomes and low levels of development, simultaneously delivering markets to other developing countries and more development potential to the recipient countries.

The other challenges are more internal, but surprisingly common across the BRICS. The recent growth process has been substantially associated with increasing income and asset inequality (other than in Brazil, which once again provides some lessons for the others, but where Gini coefficients still remain among the highest in the world). It is now more evident that such inequality is socially and economically dysfunctional, and also that it gives rise to political tensions that can be even more damaging. So there must be measure to address this.

Inadequate productive employment generation has been a central feature of the past growth process, and is clearly linked with the growing inequality. So financial policies within BRICS countries must be concerned with this, and in particular with how to use finance to promote more opportunities for decent work. In this context, the development banks themselves need to be not just strengthened but also reformed, so as expand their ambit to be more explicitly concerned with micro and small enterprises, which have been hitherto relatively neglected in credit allocation. Indeed, the focus could be not just on credit per se, but strategies to ensure technology development in micro enterprises as well as better access to markets. For example, it is possible to think of dedicated export credit lines of Eximbanks devoted to the products of micro and small enterprises.

Another major aspect of inequality has been the inequality in access to basic social services and utilities. The strategies of privatisation and reduced public spending in such areas in all the BRICS countries have not only reduced access for the poor but also created tremendous inequalities. It is increasingly necessary for innovative financial strategies to promote more universal provision of necessary services and utilities. Such credit cannot focus only on "public private partnerships" but must increasingly be oriented towards municipalities and locally elected bodies who are often directly responsible for such provision but tend to be cash starved and denied finance.

Finally, recent growth in all the BRICS countries has been associated with a construction and real estate boom, and it is interesting to note that this boom is also in the process of winding down in all five countries. This creates all sorts of difficulties, both in terms of the employment losses as well as the health of the financial sector, and it is particularly galling given the continued shortage of adequate mass housing. All of these countries will need effective strategies to deal with this challenge, even while they continue to promote affordable and better quality

mass housing, and so surely there are opportunities here for creative policy thinking that can be shared.

Much of recent South-South interaction (including amongst BRICS) has been corporate-led, which has determined the focus on trade and investment and the encouragement of particular patterns of trade and investment. To the extent that companies everywhere have similar interests (the pursuit of their own profits) it is not surprising that older North-South patterns are replicated. But surely the focus should be to democratise the interaction itself, to work out the ways in which the patterns of trade and investment flows can be altered to emphasise the creation of decent employment.

Ultimately, sustainable economic diversification to higher value added and ecologically viable activities remains the key to growth and development not just in the BRICS countries but in other developing countries as well. This period of global flux actually provides a valuable opportunity to encourage and develop new ways of taking such strategies forward through co-operation.