# The BRICS Bank*

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On July 15, the five BRICS countries, Brazil, Russia, India, China, and South Africa formally created a New Development Bank at Forteleza, Brazil, which would be headquartered in Shanghai and would have an Indian as its first President. It would have a capital base of $50 billion to start with, contributed by the five governments, and would provide development funding to all governments for infrastructure projects. The BRICS proposal also envisages a Contingency Reserve Arrangement, of $100 billion, which will give loans to governments for tiding over balance of payments problems; but this arrangement is yet to get started.

Many economists and commentators have welcomed the BRICS Bank, each of them citing some mix of the following three arguments: first, it will increase the role of the BRICS countries in “global economic governance”. These countries are currently marginalized in the affairs of the main development lending agency, the World Bank, which operates on the principle of votes according to capital share, and not “one country one vote” (the principle that governs the UN); their economic weight will increase if they jointly have a development bank of their own that has the same objectives that the World Bank was originally supposed to fulfill when it was launched at Bretton Woods. (In another parallel to Bretton Woods, the CRA that is the twin organization of the BRICS Bank but is yet to take off, is envisioned as fulfilling an IMF-type role). Put differently, the argument is that the BRICS Bank will reduce the clout of the developed countries in “global economic governance” and increase that of the BRICS, which is to be welcomed as it represents a devolution of global economic power.

The second argument is that it will increase the “weight of the South” in “global economic governance”. It is being claimed that the BRICS Bank will operate on the basis not of “votes according to capital share”, but of “one country one vote”, with no veto power given to any country; and in addition to the five countries who own the Bank, there will also be some other countries of the South, on a rotation basis, on the Board of the Bank who will be entitled to vote. Consequently, it will not just be a BRICS Bank but one representing in some ways the entire South.

The third argument is that the BRICS Bank will not be a source of ideological pressure for adopting neo-liberal policies, as the World Bank became. This argument states that the World Bank in the beginning used to give project assistance on the basis of the viability of the project itself, without interfering with the macroeconomic policies of the government in question. But at a certain point it started giving loans for government budget support, primarily under “Structural Adjustment” lending, but also under other facilities (the Extended Facility loan obtained by India in the early eighties being an example of this new kind of lending). It then began to concern itself with the macroeconomic policy orientation of the borrowing government. It put “conditionalities” on its loans, as the IMF too started doing, which essentially pushed the borrowing countries into adopting neo-liberal policies. Since the BRICS Bank will be giving project loans, based entirely on the viability of the project itself, it will be unconcerned with the macroeconomic orientation of the government; hence its loans will lack the ideological coercion that the World Bank’s loans bring with them.

What all these arguments essentially boil down to in terms of political economy is that the BRICS Bank will reduce the dependence of the South on institutions dominated by imperialism, and hence constitutes a progressive development. Is this a valid claim?

It is churlish of course to make pronouncements on the matter at such an early stage; but the euphoria of the commentators, one can safely say, is unjustified. The point is that even though China stands on a somewhat different footing, all the other BRICS countries have substantial domestic big bourgeoisies which are integrated with international finance capital. This is true even of Russia though it currently has a stand-off with the West over Ukraine. The question of the BRICS Bank cannot be analyzed without reference to the big bourgeoisie of the BRICS countries, as the commentators have almost universally done. In other words the class nature of these regimes has a crucial bearing on the direction that the BRICS Bank will take: whether the BRICS Bank and the CRA will become mere replicas of the World Bank and the IMF with some delegation of authority from the "top" to the BRICS powers, or whether they will expand the elbow room of the countries of the South.

The fact that the CRA is reportedly considering imposing IMF-style "conditionalities" on all countries that borrow in excess of 30 percent of their quotas is indicative of the shape of things to come. And the World Bank certainly does not see the BRICS Bank as any sort of a rival; indeed it has welcomed the formation of the BRICS Bank in no uncertain terms.

It is no secret that the IMF and the World Bank have been declining organizations, with the bulk of international lending now being routed not through these multilateral agencies but through private banks. In fact in the aftermath of the 2008 financial crisis, the IMF was briefly resuscitated through a plan worked out by the G-20, of which several BRICS countries are members, that sought to use Chinese funds, routed through the IMF, for reviving crisis-hit economies. This plan, incidentally, of which India was a major architect, was meant to counter a proposal mooted by the then President of the UN General Assembly, Father Miguel Brockman of Nicaragua (who had set up the Stiglitz Commission), to have a new Bretton Woods-type international conference with participation by all UN member-States. Several BRICS countries in short had connived with the US-led imperialist bloc to sabotage a proposal to bring countries of the South to the forefront of "global economic governance", and had even resuscitated a near-defunct IMF for this purpose. To imagine that the same countries are now going to stand with the South, through the BRICS Bank, to loosen the hold of imperialism, is utterly fanciful.

The relationship of the third world big bourgeoisie with imperialism does not remain invariant over time. There was a time, when Nehruvian dirigisme held sway, when the third world big bourgeoisie wanted a degree of relative autonomy from imperialism, to develop the "national economy"; and dirigisme reflected this ambition. But that came to an end a long time ago. Even in India, which held out the longest, it is two-and-a-half, if not three, decades since neo-liberalism has replaced dirigisme, which basically signifies the big bourgeoisie's integration into the ranks of globalized finance capital, with its own ambitions of encroaching on other third world economies and reducing them to appendages, exactly the way imperialism does, but with the blessings of imperialism rather than in opposition to it.

India's land grab in Africa is a case in point here, as is the spate of Free Trade Agreements being signed by the Indian government in which the interests of the peasants is being sacrificed in order to find markets for capitalist manufactures. The big bourgeoisies in other BRICS countries too are not free of such ambitions of making encroachments on other economies of the South. Hence, the idea that everything that emanates from within the ranks of third world countries is ipso facto a weakening force for imperialism has to be abandoned in today's context.

To believe that the same Indian government which is attempting to privatize State-owned banks within India against the interests of its own people, on the spurious argument that it needs to meet Basle-III “capital adequacy norms”, is suddenly keen to develop a public sector BRICS Bank in the interests of the people of the South is to show extraordinary naivete.

This brings us to an important point. Why does any county need to borrow from an international bank for financing its infrastructure? The real resources needed for such investment are of two kinds: those available domestically and those which have to be imported. As far as the former are concerned, financing their purchase does not require an international loan; it can be done simply by borrowing from domestic banks, including the Central Bank. Since there is plenty of unutilized domestic capacity lying round in most large third world countries, such domestic borrowing will be non-inflationary and hence can be resorted to with impunity. It is only for obtaining the foreign exchange required for buying the imported component of the infrastructure investment, that a loan from an international bank may be required.

But this is not the way that finance capital looks at the issue and hence most third world governments who learn their economics from the spokesmen of finance. They think of resources not in real but exclusively in money terms; they believe that domestic credit expansion must be kept on a tight leash because of inflation as at present (even though this inflation is not caused by excess demand); and hence they see a virtue in substituting foreign loans for domestic ones. The expansion of foreign exchange availability that this entails encourages a substitution of imported for domestic inputs in infrastructure projects (this is sometimes insisted by foreign banks in the name of “floating global tender”). A BRICS Bank in short can play the role of expanding the market for the BRICS countries in the economies of the South at the expense of local manufacturers. “Neo-liberalism” no doubt already works in this direction; but a BRICS Bank will aggravate the tendency.

The easy availability of foreign exchange, even when it does not cause a substitution of imported for domestically-produced goods, and hence does not cause domestic “deindustrialization”, has another similar effect: by financing a current account deficit, it prevents any corrective steps being taken to eliminate this deficit. It thereby exposes the country to a future foreign exchange crisis of an even bigger magnitude, and does so paradoxically by preventing any immediate tightness of foreign exchange. And when such a crisis of a bigger magnitude strikes, it is the people who pay the price for it, not the big bourgeoisie.

The moral of the story is this: the meaning of any financial arrangement, such as the setting up of an international development bank like the BRICS Bank, depends on the context. It has one meaning in a context where all nation-States freely impose trade and capital controls, and quite another meaning when they pursue neo-liberal policies. It can be a source of support for a regime attempting to break loose from the shackles of imperialism in the former context but not in the latter. As far as the people of the South, including India, are concerned, there is therefore little to cheer in the formation of the BRICS Bank.

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