THE BRICS DEVELOPMENT BANK: CHINA AND THE EVOLVING WORLD ORDER

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Executive Summary

1. Since 2009, the leaders of the five emerging economies of Brazil, Russia, India, China and later South Africa (or BRICS) have met at annual summits in an effort to achieve greater coordination in advancing their economic and political interests.

2. They have so far coordinated on issues related to trade and investment, infrastructure and financing, international matters and, most recently, the development of a multilateral bank which will most likely be located in China.

3. The BRICS Bank will resemble traditional Multilateral Development Banks in most capacities. It will function primarily as an auxiliary source of funding for industrial projects in areas such as transportation, energy and communications infrastructure.

4. The BRICS Bank can also be expected to extend loans without requiring recipients to have to meet the same sort of conditionalities set by World Bank institutions.

5. Yet, it is more likely that the terms and conditions for acquiring a loan and opportunities for future finance from the BRICS Bank will be more dependent on the necessity and success of the proposed project than any external conditionality.

6. The international media has already portrayed the BRICS Bank as a challenge to western hegemony. It would thus appear that the bank and existing established international financial institutions would be locked in a zero sum game for influence.

7. However, such a view is premature. For one, every multilateral development bank has been modeled after World Bank institutions, and the BRICS Bank

will be no exception. Also, the language and behavior of modern global business will remain western for the foreseeable future.

8. In the meantime, the most significant global governance issue presented by the BRICS Bank will be decidedly currency related. The use of renminbi (RMB) by the bank will not only lessen the need to borrow in dollars but also open up the possibility of a hedge against the dollar on a small scale that is not likely to threaten countries that hold deep reserves of dollar-denominated Treasury bills.

9. Last but not least, the bank will also augment China’s efforts to internationalize the use of the RMB through swap arrangements with individual countries. The bank will allow investors to stockpile RMB so that China can more readily export its currency.

10. In the long run, when the RMB and other East Asian currencies appreciate, this development will lead to more expenditure switching towards US and European goods and, in a way, help to alleviate global trade imbalances, specifically the US trade deficit vis-à-vis China.