

BRICS Ready To Provide Funds for Development

by Ramtanu Maitra

March 2—On Feb. 25, at a Cabinet meeting chaired by Prime Minister Narendra Modi, India cleared the way for the creation of the proposed five-nation BRICS bank, the New Development Bank (NDB), which will mobilize resources for infrastructure projects, and provide short-term liquidity to emerging economies in case of payment crises. Modi's Cabinet responded promptly to a Ministry of Finance request of Feb. 10 to ratify the NDB and allocate funds. India thus became the second of the five BRICS nations—Brazil, Russia, India, China, and South Africa—to ratify the NDB.

On Feb. 20, the Russian State Duma had ratified the \$100 billion BRICS bank, which will serve as a pool of money for infrastructure projects in the five nations, and challenge the dominance of the Western-led World Bank and IMF. While China's city of Shanghai will headquarter the bank, India will hold the presidency for the first six years once the Bank becomes operational. The Modi government has not yet named the president.

Following the ratification, India's Cabinet issued a statement that said: "The New Development Bank will mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement existing efforts of multilateral and regional financial institutions for global growth and development." In clearing the BRICS' other instrument, the Contingent Reserve Arrangement (CRA), set up at the 6th Annual Summit at Fortaleza, Brazil last Summer, the statement said: "The establishment of the bank will help India and

other signatory countries to raise and avail resources for their infrastructure and sustainable development projects. It would also reflect the close relations among BRICS countries, while providing a powerful instrument for increasing their economic cooperation."

According to Russian state media, it is likely that Russian Finance Minister Anton Siluanov will head up the board of governors at the New Development Bank. The first board meeting is supposed to take place this April. The NDB, dubbed the BRICS Bank by the media, will be up and running by year's end.

Challenging the Global Financial Threat

Under the terms of the agreement signed by the BRICS leaders at Fortaleza, the NDB's mandate is to "mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries." To accomplish this goal, the Bank will "support public or private projects through loans, guarantees, equity participation and other financial instruments." The initial subscribed capital of \$50 billion will come from initial payments of \$10 billion from each of the five BRICS members. Total authorized capital of the Bank will be \$100 billion. Membership in the bank will be open to all members of the United Nations, and each member's voting power will be equal to its subscribed shares in the Bank's capital stock. The Bank's governance will consist of a Board of Governors, a Board of Directors, and a President.



PIB of India

Indian Prime Minister Modi (right, center) and South African President Zuma (across from Modi) meet on the sidelines of the 6th BRICS Summit in Brazil, July 2014. The New Development Bank, Zuma said, “is going to do things differently. . . . No country will go to the BRICS bank and say ‘I need to be rescued’ and find itself not being rescued.”

The CRA, meanwhile, “is a framework for the provision of support through liquidity and precautionary instruments in response to actual or potential short-term balance of payments pressures.” Its initial \$100 billion in committed resources will come in tranches: 41% from China, 18% each from Russia, India, and Brazil, and 5% from South Africa. BRICS nations will hold 55% of the voting power, and outside their domain, no country will be allowed more than 7% of votes. But importantly, developing nations may also become partners and receive loans. Governance of the CRA will consist of a Governing Council, including one Governor and one Alternate Governor appointed by each of the five parties, and a Standing Committee consisting of one Director and one Alternate Director appointed by each party. The CRA’s two main instruments will be a liquidity instrument for providing funds in response to balance of payment problems and a precautionary instrument for permitting access to funds ahead of anticipated balance of payment problems.

In essence, the CRA will help signatory countries to withstand short-term liquidity pressures, provide mutual support, ensuring their financial stability. It would act as an additional line of defense against the IMF-created financial destabilization of countries which has brought about decades of economic devas-

tation throughout the developing nations in Africa, Ibero-America, and Asia. It is fair to say that while the founding fathers of the National Development Bank had planned to set up the NDB to kick-start infrastructural development throughout the developing nations, ravaged by the colonial looting by Western nations, the CRA is intended to counter the IMF’s decades-long campaign on behalf of the London-Wall Street financial imperialists to cannibalize and drown, with dollar-denominated debt, developing nations, which were trying to improve their citizens’ living conditions,

To set up the Bank and CRA, all five BRICS nations must ratify the proposal. On Feb. 19, South Africa’s Cabinet approved sending the ratification instruments over to its parliament. Brazil’s Senate has yet to take up ratification, but the head of the powerful National Federation of Industry (CNI) issued a call on Feb. 10 for it to do so quickly. Brazil’s Ambassador to Russia, Antonio Guerreiro, in an interview with the Russian news agency RIA Novosti on Jan 28, said the BRICS member-nations will quickly ratify a July 2014 agreement to create the New Development Bank. “I hope [the Fortaleza agreement] would be ratified by all parliaments because it is important to make all financial implications operational,” Guerreiro told RIA.

Looking to the Future

At the 7th Annual BRICS Heads of State Summit meeting to be held at Ufa, in the Russian Federation, July 9-10, additional details of the role of the NDB and CRA are expected to be laid out. It is evident that the summit will focus on the economy. At the G20 Summit in Brisbane, Australia, last year, Russian President Vladimir Putin made clear that Russia was prioritizing strategic economic partnerships. Expanding investment cooperation and exploring a strategy for multilateral economic cooperation is the centerpiece of Russia's 2015 agenda in the framework of the BRICS.

The emergence of the BRICS nations, with an agenda to develop physical infrastructure and strengthen economic cooperation among the five nations, takes place at a time when the trans-Atlantic nations, under the control of global financial institutions, have become bankrupt, and increasingly belligerent, especially toward the nations of Eurasia. The emergence of the BRICS' institutions, such as the NDB and CRA, provide fresh hope for a better future for the developing nations and the world as a whole.

China is planning to spend hundreds of billions to integrate East Asia with Central Asia, South Asia, and Europe, through its New Silk Road and Maritime Silk Road projects, which aim to vastly expand industrial and commercial development along their corridors. India, under the Modi government, has begun to concretize its plans to develop infrastructure-aided economic linkages with its neighbors. Presenting the 2015-16 annual budget, Finance Minister Arun Jaitley, on Feb. 28, proposed that India set up manufacturing hubs in four Southeast Asian countries, as part of its "Act East" policy. "The 'Act East' policy of the government endeavors to cultivate extensive economic and strategic relations in South-East Asia. In order to catalyze investments from the Indian private sector in this region, a project development company will set up the manufacturing hubs in Cambodia, Myanmar, Laos, and Vietnam through separate special purpose vehicles," Jaitley said, in his budget speech to Parliament.

While China's building of transport and energy infrastructure to link it with the other Asian nations and beyond, and India's proposed linking up with neighboring nations and setting up some manufacturing hubs, will provide some relief to the smaller and economically weaker nations, those nations will still require plentiful credit, without strings attached, in order to develop their respective essential physical infrastructure.

This is what the role of the NDB will be.

The Bank will provide loans for infrastructure development. Visiting Washington last August, South African President Jacob Zuma made clear to *Business Reporter* why the developing nations should look forward to the NDB. He said the IMF had few success stories to show, despite the often austere regimens it imposes on troubled economies in return for emergency loans. "There has been concern from the African leaders that the existing banks that have been there before have not succeeded to produce an example country that was helped successfully and is now thriving," Zuma told a news conference. The new Bank, he said, "is going to do things differently.... No country will go to the BRICS bank and say 'I need to be rescued' and find itself not being rescued."

Ending the Use of U.S. Dollars To Bankrupt Nations

There is yet another role of the NDB that the BRICS member-nations are working on. One of the major problems that has caused untold misery to many developing nations over the years is manipulation of dollar-denominated currency market. Sharp currency value fluctuation, devaluation, mass withdrawal of foreign exchange, etc., had been the hallmarks of destabilizing developing nations. Most developing nations require more importation of goods in dollar-value than they can export. As a result, they suffer perpetually from negative trade imbalances, causing routine shortfalls in foreign exchange reserves, aka, U.S. dollars.

Because of their dollar shortfall, the London-Wall Street-dominated World Bank withholds all developmental loans, and at that point, the IMF comes in, and provides the victim-country with a fraction of the loan amount required, while attaching a string of conditions. This, in essence, is done to straitjacket that country's mobility, and force it into financial submission. To further weaken the nation, IMF economists "restructure" the beleaguered nation's economy and finance, calling for devaluation of its currency, curtailing all vital developmental and life-protecting plans, and imposing austerity.

Such policies have killed millions, removed many able leaders, destroyed political processes, and have created a political environment where only those who are beholden to the West, and willing to carry out the IMF-World Bank-dictated policies, could be permitted to survive. That policy, which goes well beyond providing "financial relief," has brought many devel-

oping nations to the brink of economic and physical disaster.

In due course, it is expected that the NDB will enable developing nations to get rid of the dollar as their singular reserve currency, and the NDB will become an open institution. It is likely that at the April board meeting of the NDB, another subject of discussion will be the usage of each other's currencies in lieu of the dollar. At the Fortaleza summit, the BRICS leaders had announced that the New Development Bank would help its member-countries to avoid the adverse effect of dominance of the dollar, and the dollar-backed IMF and World Bank, in world trade.

The process might have begun already. *Russia and India Report (RIR)*, in a Feb. 28 article, titled "Goodbye dollar? BRICS set to enhance trade in national currencies," said Russia is well ahead in planning a transition to making trade settlements in rubles and yuan. "In the long-term, of course, settlements in the ruble and yuan are very promising," Putin said at the Asia-Pacific Economic Cooperation (APEC) summit, in November in Beijing. After his statement, Russia's largest bank, Sberbank, began financing letters of credit in yuan and performed the first transactions in yuan with one of

Russia's largest companies. The two countries aim for a broader use of the yuan and the ruble in mutual settlements in various industries, including defense, telecoms, energy, and mining.

In March 2014, Brazil signed a deal with China to trade in its own currency, to protect itself from dollar fluctuations. Likewise South Africa, has been trying to enter into bilateral agreements with other member-countries of the group as a step towards replacing the dollar as the main unit of mutual trade and investments.

RIR also reported that India and Russia have set up a Joint Working Group (JWG) to work out an "appropriate mechanism" for rupee-ruble trade. The JWG, with representatives from the central banks, export-import banks, commercial banks, and governments of both countries, have conducted a number of sessions since last October on this mechanism. "Both India and Russia are of the view that transactions in national currencies would be mutually beneficial for our national economic cooperation. Our two Central Banks are working on modalities and are expected to make concrete recommendations to our governments shortly," India's Ambassador to Moscow P.S. Raghavan told RIA Novosti on Feb. 18.

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