BRICS nations try to boost economic clout

By Howard Schneider, Published: March 26

The world's major developing nations are laying plans to combine their economic clout in a challenge to the role that U.S.- and European-led institutions such as the World Bank and International Monetary Fund play in global economic affairs.

Meeting this week in Durban, South Africa, the loose consortium known as the BRICS nations — Brazil, Russia, India, China and South Africa — are expected to approve establishment of a "BRICS bank" to fund infrastructure projects in poorer countries. They are also debating creation of a pool of funds to use in times of crisis, similar to what the IMF does with money from its member nations.

Ahead of the meeting, Brazil and China agreed to a separate $30 billion currency swap that would allow much of the trade between the two nations to be financed without using dollars or euros as a common means of exchange.

The efforts are modest in relation to the size of the five economies involved and small compared with the world's annual flow of trade and financing. The bank, for example, would start with an estimated $50 billion; the BRICS countries combined hold about $4.2 trillion in foreign reserves, most of it in China, and have a combined annual economic output of about $15 trillion, about 20 percent of the world total.

But it is the most concrete collective step yet from a group of nations that are expected to drive world economic growth in the coming century and that have developed a sharp sense of competition with the United States and Europe over global economic leadership.

Since 2008, the BRICS nations have been dragged down by a financial crisis that started in the United States and been buffeted by a prolonged recession in Europe. They complain that central banks in major developed nations are setting policy with little regard to the rest of the world, and they have been frustrated over a stalled effort to change the power structure at the IMF to better reflect their role in the global economy.

Documents distributed by Brazil ahead of the meeting spoke of an effort to foster "greater autonomy from the IMF." In a conference call before the summit, Brazilian Foreign Trade Minister Fernando Pimentel said the aim is not to displace organizations such as the World Bank but to show that there are alternatives to the institutions and financing regimes set up by the United States and Europe.

The proposed development bank, for example, "is not to be a rival to any existing multilateral organization. The objective will be to … offer the world economy a new financing tool, or an alternative financing tool, especially for developing nations," Pimentel said. "The BRICS are an economic and a diplomatic bloc which has consolidated more and more at each summit it has had and each year that it has lasted, and we believe that it is now a permanent economic bloc in the international arena."

Top officials in Washington have taken note. At a seminar last week, World Bank chief economist Kaushik Basu said that the issues raised by the BRICS nations were in part "a comment on the World Bank" and that the response should be for the bank to "be so effective and good" that no one would see the need for alternatives.

The acronym "BRIC" was coined by Goldman Sachs executive Jim O'Neill a decade ago as a way to refer to nations he felt would form the foundation of world economic growth in the years to come. Since then the concept has spawned a minor civil war between analysts who continue to see the BRICS nations — South Africa and a capital "S" were added later — as an important economic grouping and those who see the summits as a minor sideshow held among nations with little in common.

It is, in some ways, a partnership of exclusion — a club of now-large economies left out of the industrialized Group of Seven nations that steered the world from World War II through the 1990s. That group — the United States, Japan, Britain, France, Germany, Italy and Canada — still confers on central-bank policy and other matters, sometimes with Russia sitting in.

In the few years that the BRICS countries have held formal summits, it has been uncertain whether their shared interests are deep enough to overcome their potential for competition. All have experienced fast growth, moved hundreds of millions of people into the middle class and reshaped world trade in commodities and manufactured goods. But factory owners in Brazil are as upset about China's currency management as factory owners in the United States are. Recent slow growth in Brazil, high inflation in India, a raft of problems in Russia and concerns about China's economic management have cast doubt on the durability of what Morgan Stanley analyst Ruchir Sharma recently recast as the "Broken BRICs."

The Durban meeting, however, may add weight to the argument that the BRICS nations have strong common aims — in creating alternatives to the dollar in international finance, for example, or in pushing for changes at the IMF and World Bank. Brazil, in particular, has been outspoken about an overhaul of the IMF board, which is waiting on U.S. approval. China, meanwhile, has by default invested much of its annual trade surplus into low-yielding U.S. Treasury bonds and could use the development bank or currency pool as a potential alternative.

"The sheer frustration at lack of reforms on other fronts seems to be binding these countries together," China expert and Cornell University economist Eswar Prasad said in an e-mail exchange. "These economies are keen to find ways to work around an international monetary system that they feel is stacked in favor of richer advanced economies."