

# 6th BRICS Summit: The Seeds of New Financial Architecture

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June 30th 2014 - The day following the World Cup final in Brazil, the 6th BRICS Summit (initials for Brazil, Russia, India, China and South Africa) will commence. Fortaleza and Brasilia will be the host cities of the meetings on July 14th, 15th, and 16th, which are to finally settle on a financial model with a new image under the slogan: "Inclusive Growth and Sustainable Solutions." Unlike the difference of Asian and South American initiatives of financial regionalization, the BRICS countries, due to the lack of a common geographic area, and at the same time less vulnerable to suffer simultaneous financial struggles, increase the effectiveness of their defensive instruments.

A monetary stabilization fund known as Acuerdo de Reservas de Contingencia (CRA, Contingent Reserve Arrangement) and a development bank, called BRICS Bank, will put forth multilateral, mechanic functions of support to payment balances and the investment fund. In fact, BRICS will distance itself from the International Money Fund (IMF) and from World Bank, institutions erected seventy years ago under the watch of the US Department of Treasury. In the midst of crisis, both initiatives open space for financial cooperation facing the volatility of the dollar, and financial alternatives to countries in critical situations without submitting themselves to conditions under programs of structural adjustment and economic reorganization.

As a consequences of the increasing global economic slowdown, it has become more complicated for the BRICS countries to attain growth rates above five per cent. The sustained price fall of prime resources for industrial use derived from a smaller demand in Asia and short-term capital return to Wall Street has negatively impacted foreign trade and exchange. With exception to the light rise of the yuan, the currencies of BRICS countries has lost between 8.80 (Indian rupee) to even 16 (South African rand) percentage points in opposition to the dollar between May 2013 and June of the current year. In this sense, CRA BRICS—supplied with 100 billion dollars as of March 2013, with forty one billion contributed from China; Brazil, India and Russia with eighteen billion each; and South Africa, with five billion dollars—will substantially reduce the trading volatility on market flows and investment among the members. Skeptics argue that the CRA will have secondary importance and will only exercise complementary functions of the FMI. Leaving aside that contrary to the Chiang Mai Initiative, for example (proposed by China, Japan, South Korea and ten economies from the Southeast Asian Nations Association), CRA BRICS will be able to do without the endorsement from FMI to perform its borrowing, with which guarantees a greater political autonomy facing Washington. The war of divisions in central economies against the economies of the capitalist periphery demands its execution as soon as possible.

On one hand, BRICS Bank has awakened new expectations. The same bank that will initiate operations with a fifty billion dollar capital (with contributions of ten billion and forty million in guarantees from each of its members), will have possibilities of increasing to 100 billion dollars in two years, and to 200 billion dollars in five years; it will count on the financial capacity of up to 350 billion dollars to projects of infrastructure, education, health, science and technology, environment, etc. Nonetheless, in the case of South America, the mid-term effects have two faces. In the credit market, not everything is a piece of cake. On the other hand, BRICS Bank could easily help reduce financial costs and strengthen the counter-cyclical function of the CAF (Andes Development Cooperation), through the increase of credit in moments of crisis and thus discarding the loans from World Bank and the Inter-American Development Bank (IDB). On the one hand, however, like a creditor, BRICS Bank could enter in competition with other financial entities of considerable influence in the region such as BNDES (National Bank of Economic and Social

Development of Brazil), the CAF and Chinese banks with the highest amount of debt owed (China Development Bank and Exim Bank of China). It's unlikely that the mentioned financial institutions will converge their credit offers in a complementary way without affecting its borrowing portfolios.

Inside of BRICS there is also friction. The Chinese elite hope to perform majority of contributions (unlike the Russian proposal of establishing proportional contributions) and convert Shanghai into a headquarters of the body (in place of New Delhi, Moscow or Johannesburg). In case the BRICS Bank's loans are mainly in yuans, the Chinese coin will race forward in its internationalization and will gradually secure its position as a method of payment and money reserve in detriment of other currencies. Beyond the consolidation of a multi-polar world, the CRA and BRICS Bank represent the seeds of a financial architecture that emerges to a crisis level full of contradictions, characterized by the cooperation of financial rivalry.

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Translated by **Riley Pentico**.