Asian Leadership for New Development Bank

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The emergence of New Development Bank (NDB) on the global horizon, though beginning of a new international economic order, has indeed brought into focus several issues on to the debating table. First, the issue of global economic governance hitherto dominated by the US or the EU. There is significant amount of disquiet among many of the developing economies about their share in global economic governance. Second, the founding BRICS countries assume significance as these five (Brazil, Russia, India, China and South Africa) emerging economies host more than 2.8 billion people or 40 percent of the world's population, cover more than a quarter of the world’s land area over three continents, and account for more than 25 percent of global GDP. BRICS possess just 11% of the votes in IMF, despite accounting for more than 20% of global economic activity. This underscores the “weight of the south” in global economic governance. Third, can these divergent and distinctive economies continue to hang on to their current bonhomie out of their dislike for the hegemony of the west as a cohesive global economic force? Fourth, can the competing Asian giants; China and India continue this newfound economic cooperation keeping aside their bilateral border disputes? Fifth, would this serve as a clear warning bell to the aging multilateral economic bodies: World Bank and the IMF that are completely monopolized by the US and the West?

As most of the commentators agree, the formation of NDB in a way reflects the frustration of the emerging economies with the existing global economic governance of the available institutions. Many of the developing nations are more or less fed up with this and they search for an alternative in NDB. Though, NDB with a capital base of $50 billion, expandable eventually to $100 billion, is a midget compared with the existing institutions such as the World Bank ($232 billion in capital), Asian Development Bank ($165 billion in capital), and others, it heralds a new beginning of economic cooperation of the mighty emerging economies apart from showcasing their desire for influential space in the geopolitical and geo-economic paradigms. Further, given the huge infrastructure funding needs in the developing countries at around $ 1 trillion, new
global development finance are indeed a necessity. NDB aims at making provisions for meeting the demands for infrastructure particularly electricity, transport, telecommunications, and water/sewage on a priority basis as it is expected to grow sharply as more countries transition out of low-income status. Though, DB cannot compete with the existing multilateral development banks which meet about 40% of the USD 1 trillion infrastructure investment gap, if expanded in the future could make a greater impact on the global scene. Emergence of NDB is a first major development in the post World War II global arena of multilateral economic cooperation.

The Operability of BRICS

The intriguing question is the NDB destined for a long haul or is it meant serve china’s global economic super power ambitions? Undoubtedly, the biggest gainer from this move is China. China’s geo-strategic ambitious maneuvering is well known. If this move of the BRICS could nudge the Washington headquartered global institutions - the IMF and the World Bank for redistribution of voting rights, China would be the sole winner from such reform measures though India and Brazil could gain a little comparatively. Even if it could happen, it can happen only at the expense of some ailing euro zone countries. Critics of the NDB, view that it can pave the way for a new form of “Neo-liberalism” by the BRICS countries (particularly by China) to expand their market in the underdeveloped world. Further, NDB comes with its twin – Contingency Reserve Arrangement (CRA) with a reserve currency pool worth over another $100 billion aimed to provide financial support to countries under distress due to economic volatility. Though, the BRICS nations argue that formation of NDB would reduce the developed west’s sway over the global financial institutions and result in devolvement of global economic power, much needs to be pursued by these nations for the success of NDB as well managed economic organization. BRICS claim that their new multilateral development bank would foster greater financial development cooperation among the five emerging markets besides helping the other developing countries. The yet to be institutionalized CRA proposes a framework for the provision of support through liquidity and precautionary instruments in response to actual or potential short-term balance of payments crisis like scenarios which include currency issues where members’ national currencies are being adversely affected by global financial pressures. This is indeed a much daunting challenge given the resource crunch these countries are facing, of course the with the exception of China.
Selective Criticism

Some critics argue that NDB and CRA are born out of a power struggle between the emerging BRICS nations and the economic super powers of the West. A quick recall of the brief history tells us that in 2010, reforms to give more voting rights to BRICS were agreed upon by the G20 countries. However, due to the non-approval by the US congress (which holds 17% of IMF voting rights) the proposals are in cold storage, though the reforms could dilute its stake by a meager 0.5% (i.e. to 16.5% of the voting rights) but still with enough voting power to veto any future proposals at IMF that require a super majority. China, though makes up roughly to 10% of global GDP, currently has voting power at 5% at the IMF. Reports suggest that the ambitious China wanted to dominate NDB with its economic might by insisting for higher share of capital that was thwarted by India. Further, China also insisted for higher share in CRA and finally it was settled for 41 percent by China, 18 percent from Brazil, India, and Russia, and 5 percent from South Africa. China looks at NDB as step towards heralding new global economic order in which it dreams of positioning Renminbi as a global currency parallel to USD in the global financial system apart from global economic power. This is one of the reasons why the ambitious China reluctantly agreed for an equal contribution to the NDB capital.

Challenges for the BRICS

How well the NDB and CRA would be managed, is another question being posed? Probably the most important challenge for NDB and CRA would be tackling the problem of default and surveillance, as track record of most of the regional initiatives on surveillance do not portend well. For instance, The Chiang Mai Initiative, could not devise and implement a system of monitoring and surveillance, and in the end resigned itself to demanding countries using its credit lines to undergo surveillance by the IMF. As a result, not a single Asian nation has used credit through the initiative. The available evidence on multilateral economic initiatives suggests that the possibility of serious intra-block differences could prevent these new institutions from operating at capacity. For example, Hugo Chavez’s dream of Banco Sur replacing both the World Bank and IMF in Latin America collapsed on a series of differences over issues like; transparency rules, tax-free status for the bank, role of concessional finance, relationship with private sector etc. It needs to be noted that the NDB is being structured based on the parity between the BRICS countries. However, the geopolitical dissimilarities as well as the sheer 24 to
I gap between the weight of the biggest economy - China, and that of the smallest, South Africa, are bound to complicate implementation of this principle.

Leadership matters!

As is universally well known, for any multilateral organisation to flourish and prosper, leadership matters much. To be justifiable, effectual, and thriving the NDB would have to embrace global practices of unquestionable transparency, accountability, and strict and unbiased monitoring of its lent funds. With Shanghai as the headquarters, after resolution of a last-minute location wrangle between China and India, and India being the President of the bank for the first six years, the leadership of a multilateral economic arrangement is vested with Asia for the first time in the global economic landscape. The onus is now on India to successfully launch NDB into the global economic league and set sound policies and practices for efficient risk management of the funds involved. Learning from the success of credible efforts of the Andean nations that established the Corporación Andina de Fomento (CAF), popularly called the Development Bank of Latin America, in 1970, NDB could emerge as a successful global institution under the able political leadership of Prime Minister Narender Modi and the deft technical leadership of RBI governor Raghuram Rajan in its crucial take-off phase. A word of caution exists for India - not to be carried away by the shrewd moves of China and Russia, but to use its swift technical abilities and negotiation skills to maneuver the happenings in its favour to emerge in its international stature as a global economic power.

Concluding Remarks

It needs to be remembered that NDB and CRA have sprout out of a heterogeneous group of five aspiring emerging countries of the world, which have several disagreements among themselves on several of their bilateral and multi-lateral issues. Chinese economy (second largest in the world) being larger than the economies of all other BRICS combined, always poses a threat of domination and mammoth challenges for coordination and operations of NDB and CRA. In 2009 and 2010, Brazil and India spoke out against China on the issue of undervalued Yuan. In the recent WTO meet at Geneva, Russia, China and Brazil, as well as India’s neighbour Pakistan, were among the chief opponents of India’s veto. The success of NDB and CRA lies in the cohesiveness of the BRICS countries in their global economic cooperation leaving aside their
differences on other issues. They need to prove that they can provide a new credible global economic arrangement that world could look upto.

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