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BRICS Bank
[New Development Bank (NBS) or BRICS Development Bank (BDB)]

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ABSTRACT

There has been a fundamental change in the International Economy, especially in the last decade. Emerging and developing countries like Brazil, Russia, India, China and South Africa have significantly increased their weight in global GDP, since 2007-08 Crisis. There are very large unmet needs in the emerging and developing countries, in the field of infrastructure and more environmentally sustainable forms of development. Currently Development Finance is dominated by the World Bank and IMF. It is felt that World Bank and IMF are dominating in the west and by granting loans they interfere in the internal affairs of a country. Although the five countries have different political systems, they still share many geopolitical, economic and Trade interest. Also establishment of a fair, just, inclusive and regulated new international financial order has become an urgent demand of emerging economies. The establishment of BRICS Development Bank (BDB) is a better source for development finance resources for member states and developing countries. BRICS BANK establishment was agreed to by the BRICS leaders at the 2013. This paper tries to highlight the complementary role that such a bank would play with existing development banks in the International Development architecture.

KEYWORDS : BRICS, Development Banks, international financial, World Bank, Global GDP.

INTRODUCTION

The **New Development Bank (NDB),** formerly referred to as the BRICS **Development Bank,** is multilateral development bank operated by the BRICS states (Brazil, Russia, India, China and South Africa) as an alternative to the existing US-dominated World Bank and International Monetary Fund. The Bank is set up to foster greater financial and development cooperation among the five emerging markets BRAZIL, RUSSIA, INDIA, CHINA AND SOUTHAFRICA. Together, the four original BRIC countries comprise in 2014 more than 3 billion people or 41.4 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. It will be headquartered in Shanghai, China. Unlike the World Bank, which assigns votes based on capital share, in the New Development Bank each participant country will be assigned one vote, and no countries will have veto power. BRICS BANK is felt as a new innovation in the banking sector.

The idea of BRICS nation

BRICS is the acronym for Brazil, Russia, India, China and South Africa.

Investment banker Jim o'Neill of Goldman Sachs first wrote in 2001 about the growth potential of four countries that would overtake G7 IN (PPP) size by 2027.He pointed out the four countries with most economic potential for growth based on its size, demography, recent growth rates and embrance of globalization.

China is the most important global exporter of manufactured goods,lindia the most important global exporter of services while Russia and Brazil are the exporters of Raw Materials. All these five nations together contribute 25% of GDP , 40% of worlds population and 17% of worlds trade. BRICS now covers over 3 billion people . The other expected nations to soon join the BRICS are Mexico, South Korea, Turkey, Indonesia and Argentina.

ABOUT THE BRICS NATION



BRAZIL



KEY ADVANTAGES

- One of the fast growing economies in the last centuries.
- Brazilian economy becoming less dependent on imports
- Extremely rich in resources such as coffee, sugarcane, crude oil and iron
- Focus on equitable development has resulted in significant poverty reduction

SCHALLENGES FOR THE FUTURE

- Overburdened and ineffective judicial system
- Industrial output is weak
- Expanding technology industry



RUSSIA



KEY ADVANTAGES

- Russia has capability in high technology sectors
- Accounts for around 20% of the worlds gas reserves
- Fall in the number of people living below the poverty line

CHALLENGES FOR THE FUTURE

- Labour shortage
- Poorly designed infrastructure
- Corruption



INDIA



KEY ADVANATGES

- 1.15 billion people
- 2nd largest lobour force
- Approximately 2.5 college graduates per year

CHALLENGES FOR THE FUTURE

- Improving basic educational achievement
- Improving infrastructure and electrical capacity

- Expanding technology industry



KEY ADVANATGES
- Broad expansion of educational achievement
- Rapid economic growth
- Third largest country in land size

CHALLENGES FOR THE FUTURE
- Support to rural areas and less developed regions
- Bank of china sees inflation as a bigger risk
- Need to improve investment



KEY ADVANATGES
- The south African economy is now the 23rd largest in the world
- Inflation is now below 5% and even falling
- 25% of goods produced in south Africa are exported

CHALLENGES FOR THE FUTURE
- The economy is growing but not fast enough
- Lack of skills, particularly in IT industry
- 48% of the population lies below the poverty line

From BRICs to BRICS

Officially it was admitted as a BRIC nation on 24th December 2010. With the entrance of south Africa at the 3rd BRICs summit in April 2011 the BRIC became BRICS .

CHARACERTISTICS OF BRICS NATIONS
- Vast land Area
- Developing Economy Globally
- Friendly Trade Relations
- Challenges Related to Economic & Social Integration
- Desire to make the International order more representative
- Possibility of co-operation in many areas

OBJECTIVES
- To achieve Regional Development
- To remove Trade Barriers
- Economic Development
- Optimum use of Resources
- Building Relationship

BRICS SUMMIT MEETS TILL NOW

1st Summit - 2009 – Russia

2nd Summit - 2010- Brazil

3rd Summit -2011- China

4th Summit -2012-New Delhi

5th Summit - 2013 –South Africa

6th Summit - 2014 – Brazil

THE BRICS BANK

Currently Development Finance is dominated by the World Bank and IMF. BRICS Development Bank(BDB) is a better source for development finance resources for member states emerging economies and developing countries. BRICS BANK establishment was agreed to by the BRICS leaders at the 2013 BRICS summit held at Durban , South Africa on 27 March, 2013.

Capital Resources

The Initial total capital of New Development Bank will be US $ 50 billion shared equally among the member nations. That is 20% of the paid in capital or US $ 10 billion. Once the bank is established BRICS nations could consider making additional contributions.

Organization structure
- The Head office is to be set up at Shanghai, China.
- The First President would be an Indian.
- The First Chairman of the Board of Governors would be a Russian.
- The First Chairman of the Board of Directors would be a Brazilian.
- The First Regional Center of the Bank will be at South Africa.
- The first loan is to be sanctioned by 2016.

THE ROLE OR FUNCTIONS OF BDB
- Mobilize Resources for Infrastructure and Development projects for BRICS member states and other emerging and developing economies.
- Respond to the problem of insufficient long term financing and Foreign Direct Investment faced by developing countries in addressing challenges of Infrastructure Development.
- Buffer against the impact of Financial Crisis
- Create a Contingent Reserve arrangement worth $100 billion to help countries counteract future financial shocks

THE BENEFITS
- For the Borrowers
- Solve Market Failures
- Finance Infrastructure and Long run Development Projects
- For the Lenders
- Portfolio Diversification
- Higher Yields

BRICS BANK: what it will do?
- Raise resources in the International Capital Markets at lower costs due to Better Credit Ratings
- Have a lending directed primarily towards development-related projects
- Play a Counter-Cylical role in times when Multilaterals are reluctant or attach stringent conditionality to do so
- Intermediate Resources from Multilateral and Bilateral agencies and do so with greater effectiveness due to their better knowledge on developing economies.

TARGET SECTORS FOR BRICS BANK
- Manufacturing
- Services
- Agriculture
- Energy
- Infrastructure
- Mining
- Healthcare
- Construction
- Water Provision
- The green Economy and Tourism

PROGNOSIS FOR SUCCESS
- Respond to Developing countries needs as opposed to the priorities of the lending institution.
- Fill any current gaps in financing, including access to finance for Small and Medium Enterprises.
- Finance Infrastructure projects in places normally neglected by the private sector and Infrastructure projects to support an increased standard of living for all.

ADVANTAGES

- Overcome current obstacles to higher sustainable growth
- Drive productivity and competitiveness in an increasingly world economy
- A Central role in dealing with global challenges and threats
- Featured as Road map for contribution
- Rising incomes in the BRICS nation will create a new middle consumer class
- Rise of Multinational Companies
- Support during financial crisis
- Close the BRICSI Infrastructure development gap and boost trade and investment among the member countries
- The policy to trade among themselves using their own currency is an added advantage
- The use of real, rouble, rupee, rembni and rand amongst the member nations has allowed them to diversify their foreign currency exchange reserves
- Among BRICS members south African exports to china grew the most, at 46% while exports to India grew by 20%to Brazil by 14% and by 7% to Russia

ISSUES OR CONCERNS

- Replicates the characteristics of the major institutions with major rigid lending conditions and donor directed decision-making instead of being based on the needs of the recipient Governments.
- If it tries to compete with the existing institutions will become redulant and fail to provide progressive services.
- The viability and feasibility of such a bank is difficult to assess.
- The details remain to be worked out before the proposed bank can be fully operational.
- Although the idea of BRICS bank is ideal in terms of a comprehensive multi-lateral framework of cooperation the BRICS countries however have differing economic weights that would result in the dominance by one or more countries in the management of the bank.
- There is a feel that BRICS has lost its speed and altitude in the past two years.
- The chances of Intra trade dispute and Inter trade dispute is very high.
- There are difficulties in articulating their conflicting interests in some sort of common vision become more evident.
- There exists different view points and influence in the international arena.

BRICS bank is a direct challenge to the global order led by the west. Many view the new bank as a response to the failed reforms at the IMF and WORLD BANK as developing countries like India and china cannot increase their influence in those institutions. The competition between BRICKS and WORLD BANK and IMF should be only efficiency and nothing else. The new bank is expected to work closely with existing multilateral development banks tapping skills and expertise from the long experienced institutions. The most likely relationship between BDB and others should be a complementary one rather than a conflicting one. That said in the long run the competition between the two will intensify and the final outcome will depend on the balance of power between the two blocks THE DEVELOPING WORLD and THE DEVELOPED WORLD.

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