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South Africa:

Are BRICS any use for rebuilding the collapsing global financial architecture?

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In its most recent world public opinion survey, the Pew Research Centre found that â€˜international financial instability' is considered a major threat by 52 percent of those polled was a close second, after climate change at 54 percent).

Here in South Africa, after the lifting of local exchange controls [2] and thanks to US financial deregulation during the late 1990s –so New York bankers could earn higher profits [3] – our currency became very volatile, and we recently joined Turkey, Brazil, Indonesia and India named by Morgan Stanley [4] the â€˜fragile five' currencies.

South African finance minister Pravin Gordhan seemed to panic during a Financial Times interview [5] last month, complaining of the world elites' â€˜inability to find coherent and cohesive responses across the globe to ensure that we reduce the volatility in currencies in particular, but also in sentiment.'

The following week, however, on the sidelines of the St Petersburg G20 Summit, Gordhan joined others in the Brazil-Russia-India-China-South Africa (BRICS) network to congratulate themselves [6]about a forthcoming BRICS â€˜New Development Bank' and Contingent Reserve Arrangement (CRA).

Could these two infants challenge the Bretton Woods Institutions in the coming years' chaotic world financial environment? Nearly seven decades after the World Bank and International Monetary Fund (IMF) were established to restore Western interstate banking following the Depression and World War II, the BRICS stand at the verge of replacing Washington and its neoliberal ideology with South-centred, state-aided capital accumulation.

That is the rhetoric, at any rate. But especially in the last few weeks, the question of whether BRICS strategies are profoundly different from – or instead reinforcing of –the global financial architecture's self-destruction remains to be answered. After all, one of the CRA's objectives, according to South African Treasury officials [7], is to â€˜complement existing international arrangements.'

Even so, a $50 billion BRICS bank capitalization wouldn't initially challenge the World Bank (which lends almost that much every year). And a $100 billion CRA would quickly be exhausted in the event of a more serious financial meltdown.

Perhaps those sums can be increased in coming years, since they are pitiable amounts to face off against emerging-market financial melting of the sort witnessed since the mid-1990s. Since then, numerous countries have required a $50 billion package overnight to halt financial looting.

Financial backlash against BRICS

To illustrate, in recent weeks trillions of dollars worth of paper assets have shifted around, driving quite intense currency crashes in most BRICS. As a result of an announced change in US Federal Reserve policy in which a bit less artificial stimulation (â€˜Quantitative Easing') will be provided to banks thanks to Fed â€˜tapering', interest rates more than doubled over a few weeks, leading to dramatic outflows from emerging markets and the crash of the South African rand, Brazilian real, Russian rouble and especially the Indian rupee.

Swedish economist Anders Aslund of the Peterson Institute for International Economics was scathing in a Financial Times article in late August: â€˜The BRICS party is over. Their ability to get going again rests on their ability to carry through reforms in grim times for which they lacked the courage in a boom.' Goldman Sachs banker Jim O'Neill was asked by the Wall Street Journal last month about the acronym he had created a dozen years earlier: â€˜If I were to change it, I would just leave the "C".' The Economist opined, â€˜The Great Deceleration means that booming emerging economies will no longer make up for weakness in rich countries.'

Tempting as it is to write off the more neoliberal of BRICS-pessimist commentators, their confidence grows from several countries' deep-seated problems, not just momentary financial fluctuations. Yet one BRICS member will potentially thrive, and in my visit to three Shanghai universities last week to discuss the (re)brewing economic crisis, I was struck by how insistent Chinese scholars defended the â€˜reform-minded status quo' (sic) strategy.

As reported last week in the China Daily (reflecting official sentiments), local experts predict that the BRICS bloc is already breaking up in material ways, leaving only China to push ahead through the storm. Remarked Tsinghua University economist Li Dokui, the end of the US Fed's Quantitative Easing is â€˜good news for the renminbi' because it need no longer rise in value – but meantime, â€˜the concept of the BRICS may vanish, leaving just China versus other emerging economies.'
According to Merrill Lynch economist Lu Ting, â€˜China will be largely immune to the impact due to its sustained current-account surplus, low foreign debt, huge exchange reserves, high savings and capital controls.' Offering official multilateral acknowledgment of severe danger, deputy IMF managing director Zhu Min warned that if China opens its capital account by liberalizing the currency, it would â€˜exacerbate' the global crisis – which is typically an observation an IMF man would repress.

BRICS behave

There are still some who believe the BRICS can help fix global-scale problems caused by persistent capitalist crisis, the end of the commodity cycle, fiscal austerity, durable financial deregulation and recent credit constraint combined with new bubbles. Yet strategies advocated by BRICS leaders have so far had no discernible effect on financial volatility.

Within the IMF, for example, Chinese voting power has risen substantially but left no genuine change in the institution's agenda. As University of Delhi professor emeritus Achin Vanaik argued at a Fudan University â€˜Rising Powers' workshop last week, â€˜The Asian Monetary Fund and Chiang Mai Initiative, originally seen as countervailing financial power, ended up not opposing but complementing the IMF.'

As for the World Bank, its presidency was grabbed by Barack Obama's nominee Jim Yong Kim in 2012, without a united response from the BRICS. The Brazilians nominated a progressive economist, Jose Antonio Campo; the South Africans nominated neoliberal Nigerian finance minister Ngozi Okonjo-Iweala; and the Russians supported Kim. As for China, the reward for not putting up a fight was getting leadership of the Bank's International Finance Corporation for Jin-Yong Cai, while an Indian, Kaushik Basu, was made World Bank chief economist. And also reflecting assimilation not antagonism, in 2012 the BRICS contributed $75 billion to the recapitalization of the IMF, which meant that while China's voting share increased, Africa's decreased.

Thus it was reasonable to ask, with skepticism, whether the BRICS leaders were really serious about challenging Bretton Woods. After all, there was an alternative already in place that they could have supported: the Bank of the South. Founded by the late Venezuelan president Hugo Chavez in 2007 and supported by Argentina, Bolivia, Brazil, Ecuador, Paraguay and Uruguay, Banco del Sur already has $7 billion in capital. It offers a more profound development finance challenge to the Washington Consensus, especially after Ecuadoran radical economists improved the design.

Instead, a much more durable reflection of the commitment to stabilizing world finance – rather than radically changing the most unfair and intrinsically destabilizing components – is China's ongoing financing of Washington's massive trade deficit, by continuing to hold more than $1.3 trillion of Treasury Bills. The Chinese refuse to sell sufficient T-Bills in order to genuinely weaken Washington's power, and to set up a new currency that the world could more democratically manage, instead of the Fed with its bias to the interests of the world's largest banks.

Notwithstanding rhetoric about increasing use of BRICS currencies, not much more is being done to end the destructive system in which the US dollar has world â€˜seignorage': i.e., it is the world's reserve currency, no matter how badly Washington officials abuse that power. If China really wants the renmimbi to one day take its place, the pace at which this is happening is agonizingly slow.

Worse still, in close alignment with Washington, South Africa explicitly supports financial liberalization. SA Reserve Bank deputy governor Daniel Mminele acknowledged last November that Pretoria opposed global regulation such as the â€˜Robin Hood tax' on financial transactions that was supported by more enlightened countries, including those from Europe being roiled by global financiers.

BRICS development banking?

Meanwhile South Africa's own precursor to the BRICS bank – the Development Bank of Southern Africa (DBSA) – has been run in a â€˜shoddy' way, according to the new chief executive Patrick Dlamini last December [8]; he implied that corruption had been tolerated. He then announced both a 40 percent cut of his 750-strong staff, starting with environmentalists and social specialists, and a massive increase in privatisation financing [9]. But Dlamini [10] admitted this week that the Bank suffered a net loss of $83 million in 2012-13 due to â€˜impairment losses on development loans of $160 million and revaluation losses on financial instruments of $40 million.' Its lending volume last year was only $1.8 billion, after reaching $3.4 billion two years earlier.

The BRICS' largest development finance institution, the Brazilian National Economic and Social Development Bank (BNDES) has also been exceptionally destructive in its massive lending portfolio, now in the range of $80 billion annually, more than twice the World Bank's. Warns Carlos Tautz [11]from Instituto Mais Democracia, â€˜If the Brics Bank is mirrored on BNDES, this reveals a probable lack of transparency and omissions in governance.'

The China Development Bank and the Export-Import Bank of China have had some positive impacts especially in expanding solar technology and avoiding the imposition of Washington Consensus policies. But as Boston University scholar Kevin Gallagher shows, they can be severely destructive in sites as diverse as Burma, Honduras and Gabon.

In other words, when more announcements about a BRICS New Development Bank and CRA are made next year at the summit in Fortaleza, Brazil, don't expect much that would either stabilise or destabilise world finance; the BRICS appear now merely as a legitimating device.

Legitimation and localisation of global financial chaos

In contrast, the G20 has in past years been a much more substantive site for elite worry over world finance, having been resurrected in November 2008 to deal with the global meltdown just after Lehman Brothers collapsed and world payment systems nearly froze. A few months later, in April 2009, the G20 was central to the push for re-empowering the IMF, first through increased Special Drawing Rights allocations and other grants of $750 billion to stimulate the world economy, and later, in a full recapitalisation in 2012, to generate more bailout financing options for European bankers, at the expense of structural adjustment for poor and working people.

The St Petersburg G20 did make minor progress on rationalizing corporate taxation and reducing one of the greenhouse gases (HCFs) [12] that should have been covered by the 1987 Montreal Protocol. Still, more durable critiques of both G20 power and BRICS supplication are needed. Some of these were developed at the St Petersburg Counter-Summit by the Post-Globalisation Initiative [13] and its international guests. A rousing declaration [14] emerged and alternative strategies were debated at our meetings, but the overarching fear was of inadequate civil society response to the bubbling economic and military crises, not to mention worsening climate-related destruction [15].

There are critical geopolitical factors to consider too, for while the world economy is now working against BRICS, turbulent relations between the BRICS and the G7 actually left Russia far stronger after the G20 summit. In St Petersburg, the BRICS unanimously backed Vladimir Putin's attempt to peacefully revolve the Syrian crisis once chemical weapons were apparently used by the Assad regime against rebels, leading to Barack Obama's threat to bomb Damascus. Brazil also took a tough stance against the US National Security Agency; president Dilma Roussef was so furious [16] about Obama's snooping on her (and parastatal oil giant Petrobras) that she canceled a Washington trip scheduled for next month.

But the â€˜talk-left' that is so common in the BRICS foreign policy milieu is invariably negated in the â€˜walk-right' by Treasury and central bank officials. So the dangers grow greater, not because of a South-North political confrontation, but because of the lack of an economic one.

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[1] http://www.pewglobal.org/2013/06/24...

[2] http://www.counterpunch.org/2012/04...

[3] http://www.gregpalast.com/larry-sum...

[4] http://www.bdlive.co.za/economy/201...

[5] http://www.bdlive.co.za/economy/201...

[6] http://www.thepresidency.gov.za/peb...

[7] http://www.treasury.gov.za/brics/

[8] http://www.bdlive.co.za/business/fi...

[9] http://www.moneyweb.co.za/moneyweb-...

[10] http://www.engineeringnews.co.za/ar...

[11] http://www.zcommunications.org/watc...

[12] http://grist.org/news/obama-signs-o...

[13] http://www.pglobal.org/

[14] http://www.ourworldisnotforsale.org...

[15] http://climate-connections.org/2013...

[16] http://www.theguardian.com/world/sh...