

ion

Building global support for a new economic balance

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Even after the festive days of the FIFA World Cup were over, Fortaleza, a city in Brazil, hosted the sixth summit of the BRICS — Brazil, Russia, India, China and South Africa — in mid-July and decided to build a \$100 billion BRICS-led development bank.

The idea had already surfaced in the declaration of the previous summit. At the Fortaleza summit, more concrete details were officially determined. Regardless of the different intentions and expectations of these countries, the creation of this development bank will, without doubt, force a considerable shift in the power balance and governance of the global economy.

As is well known, the present institutions of international finance — the International Monetary Fund and the World Bank — go back to 1944, when international meetings were held in Bretton Woods, New Hampshire, for constructing the postwar world order.

The liberal ideal of equal partnership between participating nation-states was wonderful, but in reality, the headquarters of both organizations have been located in Washington, and most of the privileges in the two organizations including voting power have been monopolized by the United States for 70 years: a surprisingly long duration.

It seems all the more startling if one takes into consideration the fact that the international system of currency exchange was remodeled from a fixed-rate system into a floating exchange rate system in the '70s — after the Nixon Shock.

This meant the downfall of the special position of the dollar as well as the release from expectations thereof. But the U.S. kept playing a hegemonic role even after this fundamental change by redirecting its basic economic policies toward privatization and financialization.

The late Giovanni Arrighi, a scholar of

political economy and sociology, saw this phase as the latter half of the period of U.S. hegemony. He sketched two different but possible scenarios following the end of U.S. hegemony: Either some Asian country — he somehow implied Japan in the 1990s but later explicitly thought of China — would emerge as the next hegemonic power, or humanity “may well burn up in the horrors of the escalating violence.”

Arrighi was partly right as we see that the Chinese economy has outstandingly grown and that its GDP is ranked with that of the U.S. and could soon exceed it. In addition, IMF and the World Bank organizational problems, together with the strict conditions imposed by the IMF for structural adjustments in problem countries, have been criticized by both developing countries and disputants in developed countries. Meanwhile, improvement has seemed only faint.

It was around this time that the plan for a BRICS-led development bank was elaborated, thus Arrighi's first scenario has turned out correct to some extent. Institutionally, it wasn't China as the sole hegemonic power but rather the emerging five countries, including China, that put forward an alternative to the U.S.-led IMF and World Bank.

The declaration for establishing the new development bank said that they would contribute their financial resources in a productive manner toward the improvement of infrastructure and investment not only in themselves but also in other developing countries.

It sounds very promising for developing countries in Asia, Africa and other areas. Certainly the sum of BRICS' funds is much less than the IMF or the World Bank's at the moment, but BRICS plans to increase the funds in several years.

Some might take a skeptical attitude that this BRICS-led development bank is driven not so much by generosity for the sake of economic cooperation as by their geopolitical ambitions to inflict damage to the existing order. As BRICS is diverse territorially and politically, it will not, and cannot, behave aggressive-

ly as one monolith. We can take their project as a complement to existing financing agencies.

Still, it may exercise some indirect influences on the activities of those development banks in individual countries that are supposed to reflect the intentions of their governments.

Japan, for example, has its own development bank — the Japan Bank for International Cooperation — which has served to improve infrastructure and investment in developing countries on the initiative of the Japanese government. The size and conditions of the financial aid are directly influenced by the relationship between creditor and debtor countries, which has both positive and negative aspects.

Brazil also has its own development bank, but it will be absorbed into the BRICS-led one. Some more streamlining could possibly happen.

The financing of the BRICS-led development bank will be done with some of their currencies — not the dollar but one based on a nation-state nonetheless. Here we may remember that eurodollars (deposits denominated in dollars at banks outside the U.S. — thus not under the jurisdiction of the Federal Reserve), which are not based on any particular nation-state, and European currencies have made a considerable impact on the Bretton Woods system and that the U.S. hegemony has received serious damage from them.

Nowadays we are witnessing the appearance of bitcoin and similar currency substitutes, although they still seem to be at the nascent level.

China and Russia notably took severe measures against bitcoin. To prevent the expansion of such things as bitcoin and to defend the international system of existing formal currencies, BRICS would fight a joint struggle with the IMF and the World Bank.

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Never trust a realist when it comes to politicians