

The below article was published online by Europe's World. Available at:

<http://europesworld.org/2015/03/06/brics-bank-now-hard-part/#commentary-frame>

**In fact, the BRICS banks's challenges are even greater by Pallavi Roy, Centre for International Studies and Diplomacy, SOAS, University of London**

The article by Rajat Nag effectively sets out some of the key issues in the architecture of the New Development Bank (NDB) and Comprehensive Reserve Arrangement (CRA), especially in terms of financing parameters. As he correctly points out critical details in terms of costs of borrowing and who the NDB will lend to, are still not clear. A lot hinges on the credibility of the institution in terms of lending and governance standards which will in turn affect its credit ratings. More importantly the CRA is likely to be too small for economies of the size of the BRICS countries to utilize at the time of a crisis.

Nag correctly identifies the guiding principle behind the NDB as the need for large developing countries to negotiate space for themselves beyond the limiting confines of the IMF and the World Bank where developed countries, especially the US, still have controlling mandate. Previous initiatives have been regional (Corporación Andina de Fomento in Latin America and the Chiang Mai initiative among eastern and south east Asian countries) or have been like the G-77 which doesn't have much decision making powers apart from also suffering huge collective action problems. The BRICS countries are however more united in terms of recognizing that together the political and economic clout they wield will ensure the NDB gets taken seriously.

Nag highlights the diversity of the five countries that have come together to create the NDB but the challenges of managing this diversity may be even more than the challenges he highlights. Each of the five members has different strategic imperatives for coming together to create the bank with China, Russia and India having higher stakes than Brazil and South Africa. For China the NDB along with the Asian Infrastructure Development Bank that it is promoting is in line with challenging the dominance of the Japanese in Asia. Russia would be keen to participate in the NDB to shore up its falling credibility thanks to its war games in Ukraine. Given the Russian currency and financial crisis it will be interesting to see if the NDB plays any role in bailing the country out. This would of course be to India's severe discomfiture as it negotiates a thaw in its relationship with the US given that the latter is banking heavily on economic sanctions against Russia to solve the Ukraine crisis. India is also trying to calibrate its relationship with China through what is increasingly looking like a strategy of 'co-opetition' given its own ambitions in South Asia and the extended Indian Ocean and the recognition that China is too powerful to be taken on directly. These bilateral tensions between the two are likely to carry into the NDB. Even if the technical architecture

of the NDB is worked out these strategic interplays might constrain the NDB from working to its full potential.

However the most critical issue that keeps getting overlooked in discussion of the NDB is that this institution does little to address questions of productivity growth and employment generation in these countries. Both the IMF and World Bank have failed in their original mandate to help solve the problem of persistent deficits in the developing world. The NDB, the bank for and of the developing world, also seems to provide little direction in this regard. Four out of the five BRICS countries have chronic trade deficits and lagging productivity growth and need financing strategies for investing in competitiveness and even China with its mighty trade surplus faces challenges of moving into innovation and creating global brands. The NDB provides no new financing strategies to address these challenges.