

# HOW LEADING STATES IN PERIPHERY ARE CHALLENGING POWER OF CORE STATES: THE UNLIKELY BICs and BRICS COALITIONS

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# Global upheaval and tension – yet feeble interstate cooperation

- Climate chaos, artificial intelligence, pandemics, food shortage, energy shortage, threat of major war, mass migration, soaring economic insecurity and inequality, political polarization or fragmentation across western polities
- Yet interstate cooperation at low level
- Eg rich countries hogged Covid-19 vaccines;
- debt relief proposals made by the G20 group of large economies have mostly failed;
- the states most at risk of acute food shortage (across Africa, Middle East, to Afghanistan) have not cooperated to make a JOINT appeal to Putin to get grain out of Ukraine.

Step back to the BIG picture of Core-  
Periphery structure of world economy

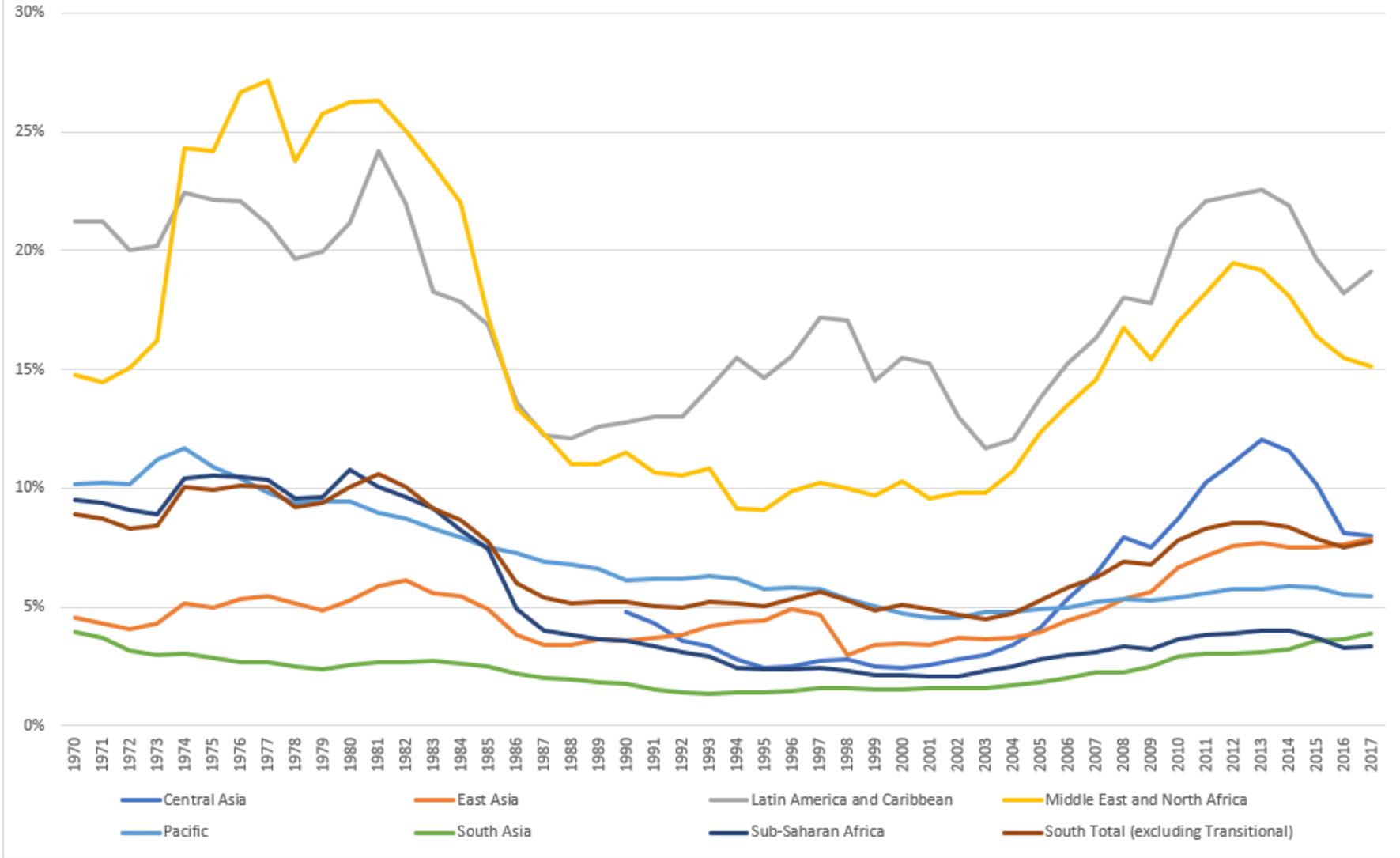
# Core-Periphery structure of world economy

Big Picture of “development failure”: regional average income as % of W. Europe & offshoots (China & India included in “Asia”)

	Latin America	SS Africa	Asia	China	India
1820	58	33	50	50	45
1950	40	14	10	7	10
2008	30	9	20	26	11

• Source: D. Nayyar, 'Catch Up, tab. 2.4, fig. 4.3. Based on Maddison data

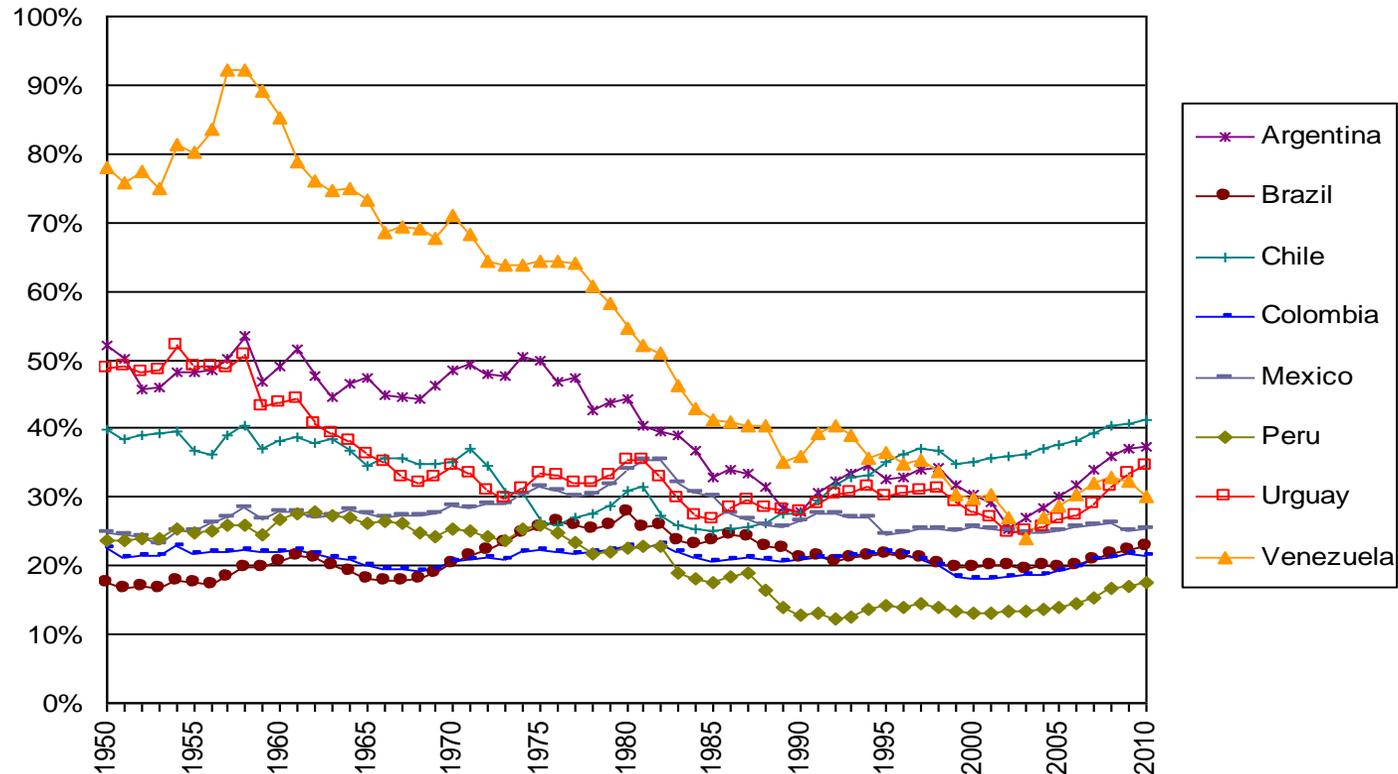
Chart 8: GDP per capita of the geo-economic regions of the South relative to the North



# Latin America

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

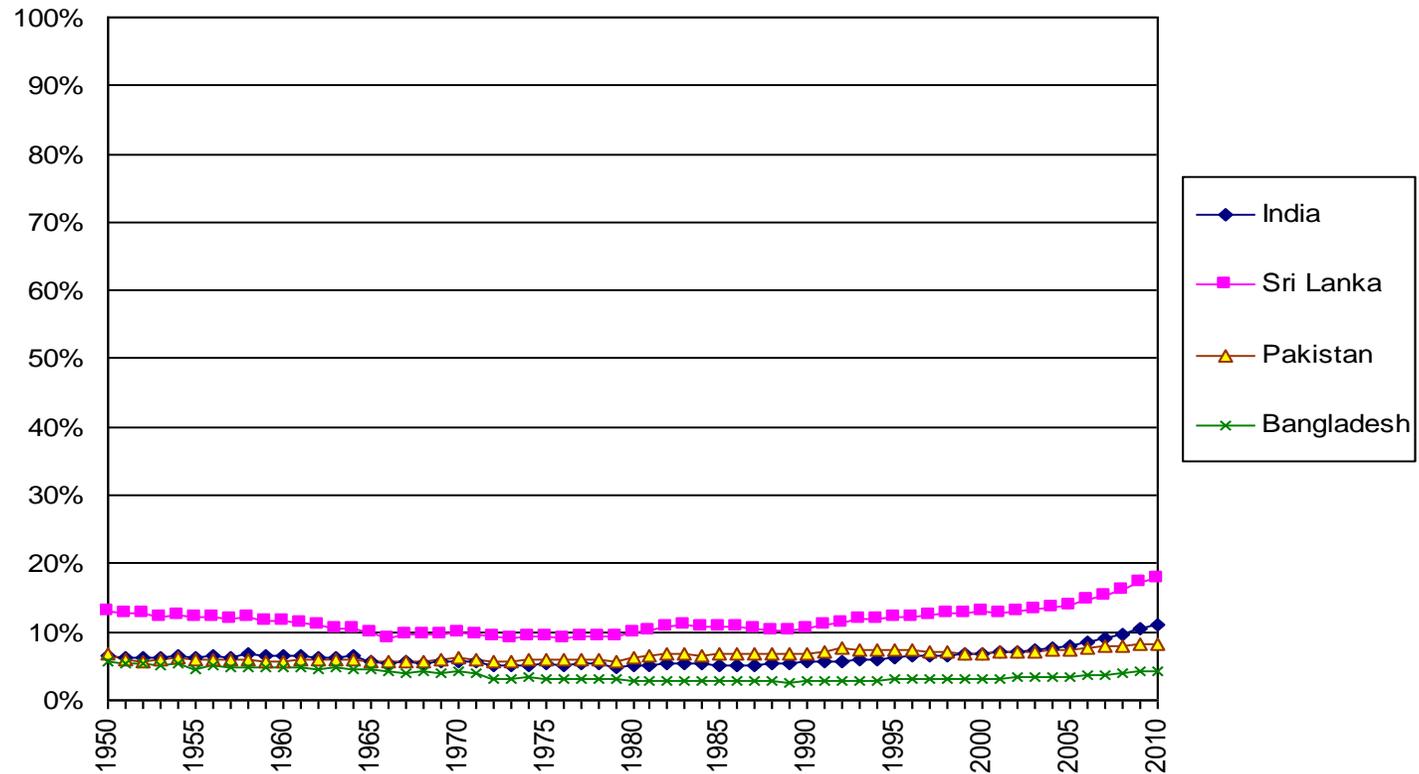


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# South Asia

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

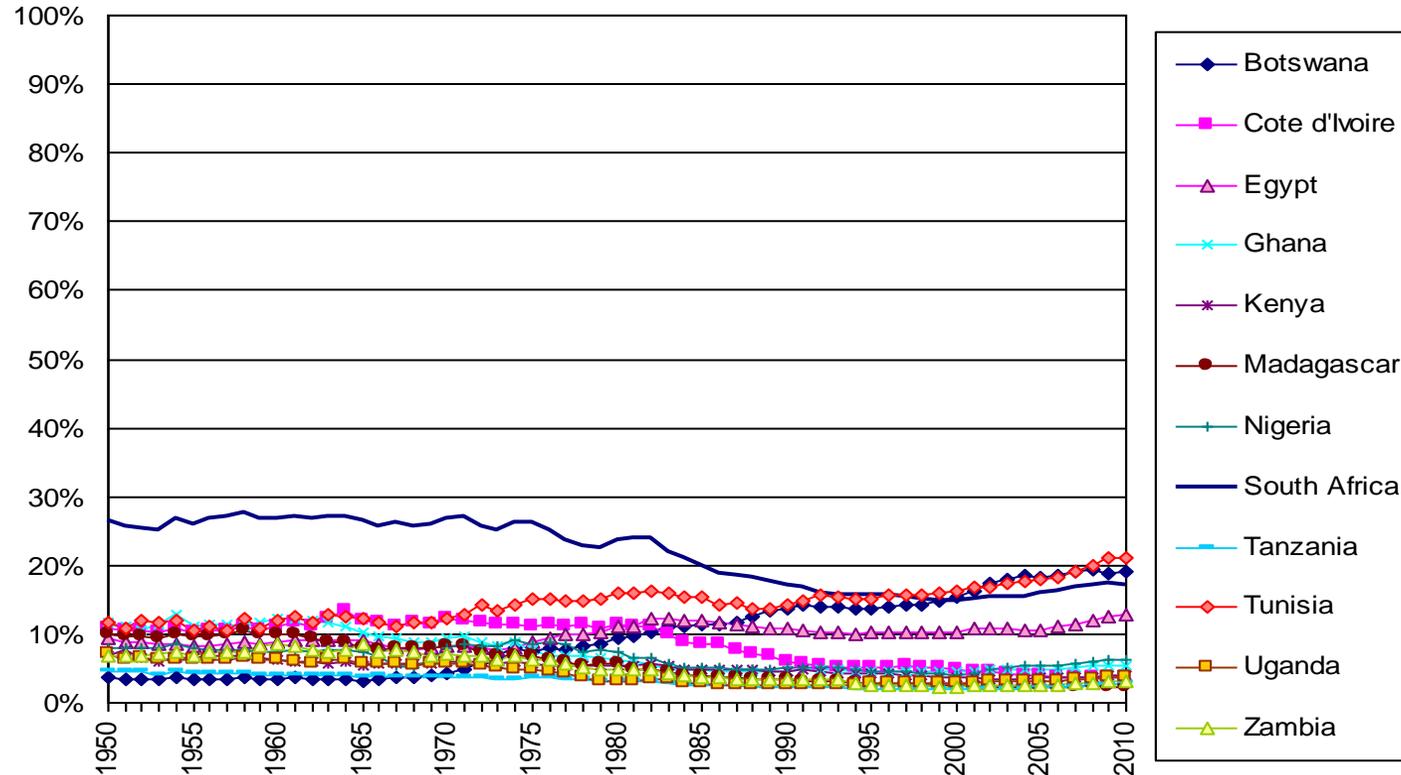


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# Africa

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

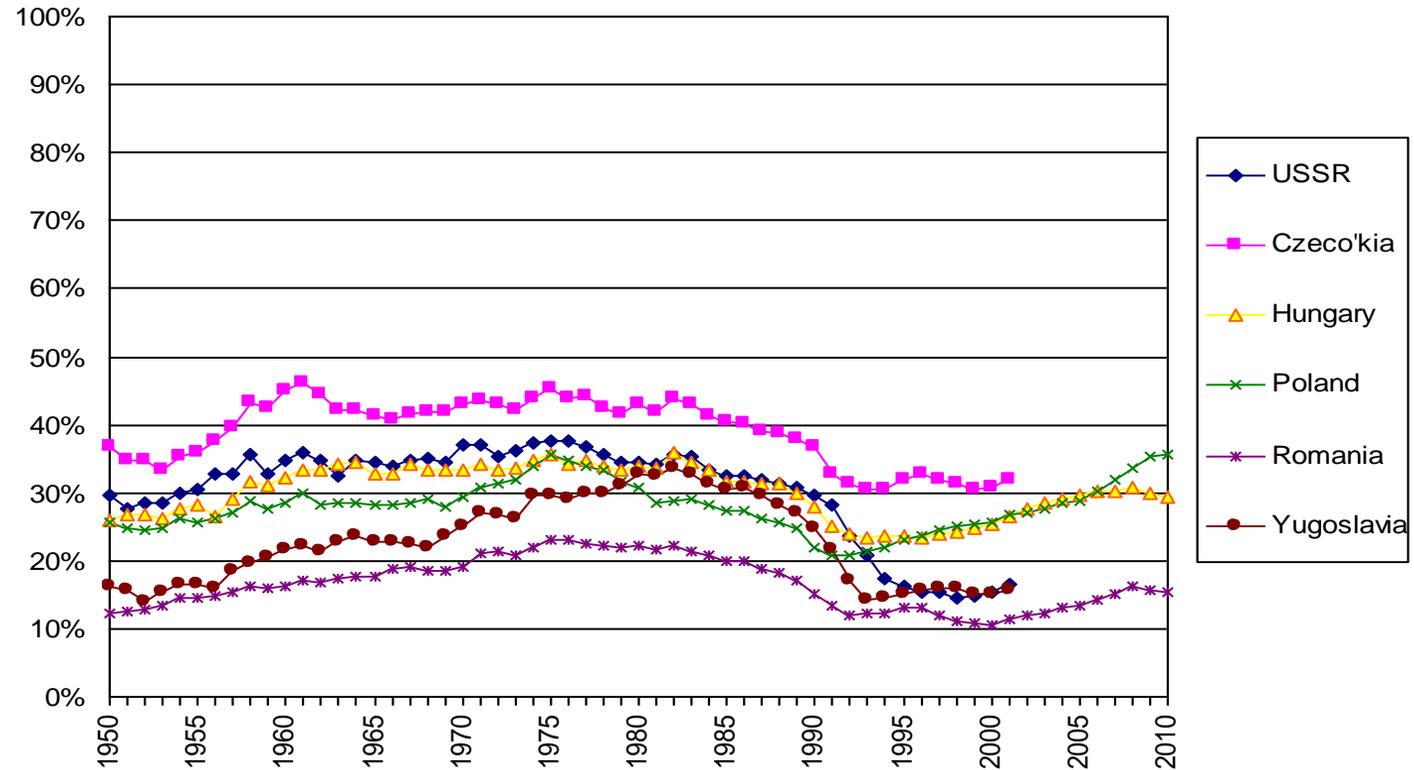


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# Russia & Eastern Europe

## Per capita real income relative to US

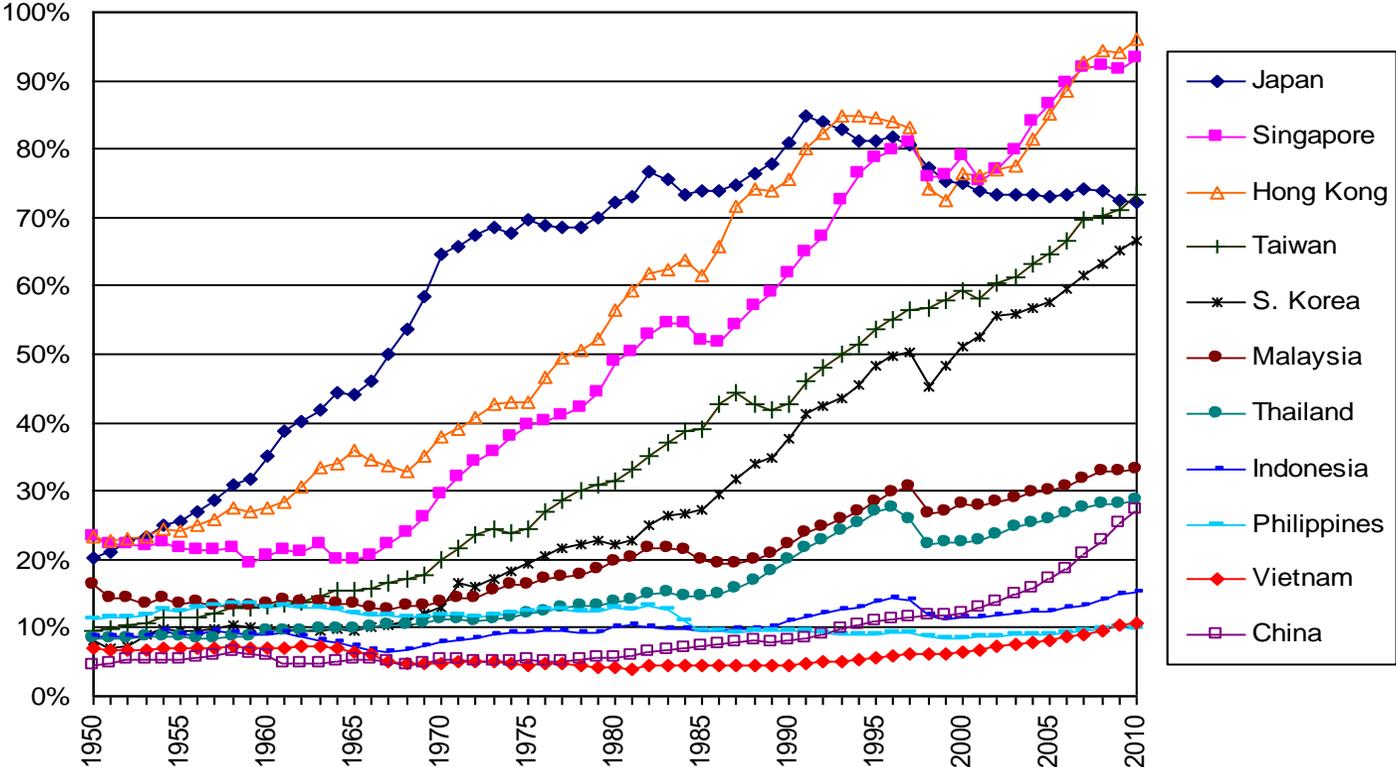
(Measured by the 1990 international Geary-Khamis dollars)



Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# East Asia: Speed of Catching Up

**Per capita real income relative to US**  
 (Measured by the 1990 international Geary-Khamis dollars)



Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# Rule-making in the world economy

- For centuries Western states have set rules for world economy (but not Soviet Union & Communist China)
- Their Core position sustained by lack of challenge from Periphery states. **Lack of challenge reflects reluctance of Periphery states to cooperate among themselves.**
- Eg southern European periphery during Eurozone crisis. Eg Brazil & Argentina

# Global influence of medium-sized states by population size

- Exclude behemoths of China & India
- That leaves 12 countries > 100 mn population.
- US, Russia, maybe Jpn have some influence on global policy
- The other 9 or 10 do not (includes Brazil)
  
- There are 120 countries with < 5 mn people. They have zero influence in global policy

# Emergence of **regional** inter-state coalitions

- (1) USA/Anglosphere
- (2) Europe
- (3) ASEAN
- (4) Mercosur
- (5) Eurasia, dominated by Russia
- (6) African Union
- (7) Arab League
- Question: what global governance impacts have DC ones had ? Answer: not much; world remains UNIPOLAR !
- **Note: no coalition for NE Asia !**

# Cross-regional coalitions of DCs

- BICs in WTO
- BRICS at summit level & IMF/WB level
- Question: what impacts have they had ?

# What impacts of BICs & BRICS coalitions in global economic governance?

- **OUTLINE**
- BICs in WTO
- EMERGENCE OF BRICS COALITION
- BRICS in IMF
- BRICS AS CREATORS OF NEW FINANCING MECHANISMS

# PART I: BICs in WTO

# WTO: background

- GATT, 1948, institutionalized “neoliberal economics” as guiding force of trade rules.
- → Uruguay Round 1986 – 1994. **DCs concluded they had collectively come out disadvantaged in global trade, compared to ACs.**
- WTO replaced GATT in 1995. WTO continued to take “neoliberal economics” as “center of conceptual gravity”.
- Eg WTO building named **Centre William Rappard**. Rappard was pivot of the neoliberal economics movement (eg co-founder of Mt Pelerin Society)
- The present D-G, Ngozi, is Nigerian woman. Before her, the 9 previous D-Gs of GATT and WTO all male, and 8 whites. Most were hard neoliberals (eg E. Wyndam White, Peter Sutherland).



# WTO Doha Round, 2001 - 2015

- As negotiations for Doha Round got underway in 2001, DCs insisted that Doha R must accommodate their development needs more than Uruguay R had done. Round quickly re-named Doha **DEVELOPMENT** Round.
- Despite name change, Core states continued to press their agenda: open markets in DCs for Core exports & capital; tighter intellectual property protection.
- **In 2003, Brazil, India and China (BIC) began, for first time (!), to actively cooperate in the negotiations, despite big differences.**
- 2011: Doha negotiations declared at “impasse”; officially declared dead in 2015. **For first time since start of GATT 1948 North Atlantic states not able to dictate outcomes in international trade negotiations, due to combined power of BICs leading other DCs.**
- BUT, BICs equally unable to get THEIR will. **Rule-blockers, not rule-makers**

# How did BICs make the shift from rule-takers to rule-blockers?

- BICs club able to translate members' large "structural" (market) power into "institutional" power to shape outcomes in a multilateral organization: to **block outcomes wanted by Core** (stop being "rule-takers"), but not to become "rule-makers". How?
- In GATT and WTO (till early 2000s) negotiations abt trade rules conducted by "**the Quad**" = **US, EU, Jpn, Canada**. Results imposed on everyone else.
- **In 2003 Brazil & India mobilized a coalition of DCs** to block US-EU proposals on agriculture and to propose alternatives. **India & China** formed another coalition to secure a "special products" (SP) exemption from tariff cuts; and more exemptions for DCs in the spirit of "**special & differential treatment**" (SDT).

# Incorporation of BICs into WTO inner group

- By **2004**, clear that Brazil & India had to be in the inner negotiating group for the Doha Round if overall trade deal to be reached.
- So “**new Quad**”: **US, EU, Brazil, India**
- In **2008**, **China added to inner group, to make 5.**
- It is striking that, in 2008, China wanted to deal with ACs as a member of a DC alliance.

# The central hot issue: **special & differential treatment (SDT)**

- **DCs agreed that the Doha R rules had to allow SDT for DCs – BECAUSE they were DCs.** DCs shd not be required to make equal exchange of concessions with ACs. They shd have reduced liberalisation commitments, greater flexibilities, longer implementation times.
- **US & ACs tried to restrict scope of SDT to “low income DCs”**
- **BIC & other DCs rejected this narrowing of SDT scope. This was the issue that provided the glue that held the BIC coalition together, despite big differences. BIC was a “coalition of the unwilling”.**

# China's reason for aligning with DCs: power politics !

- Chinese negotiator (in 2009): “[During China’s WTO accession we had a ] bitter experience of negotiating bilaterally with the US. The US always got what it wanted. Our prospects of winning are higher if we are with other developing countries and not alone. The US is still the superpower – the world’s biggest economy. **In a one-on-one setting, the US will most always win....[Through allying with Brazil and India] it is no longer one-to-one but the US versus a group of countries.** The US is the big elephant, but we now have **a group of wolves** – then we have a chance”.

# US response: divide & rule

- **US went on attack against BIC coalition and the 2 wider DC coalitions led by the BICs ( Brazil - India ; India – China).**
- **US threatened to withdraw from negotiations for bilateral & regional FTAs with countries which did not withdraw from the 2 DC coalitions.** 5 Central & South American countries did withdraw.
- **US promised special provisions for subcategories of small & medium DCs which withdrew from the BIC-led coalitions.** US negotiator explained, “[we are] bribing the little guys”, and “we don’t really care about those. **We care abt the advanced DCs**”

Note: many low-income DCs joined US in opposing SDT for BICs !

- Low income DCs argued that the value to them of SDT is diluted if it is also shared with mega-countries like China.
- So it was difficult to keep the BIC coalition leading the whole bloc of DCs.
- US was able to play on these **fundamental differences of interest within DCs**

# The end of Doha Round, 2011 (& officially 2015)

- In the end, the **US walked away from the negotiations**, because it could not get its way sufficiently.
- Main reason: the negotiations had yielded the result that **China secured SDT status as a “developing country”**.
- This was not acceptable to US, period. And low income DCs also unhappy that China got SDT status.
- BIC club demonstrated its collective power as **rule-blocker – not rule-maker (yet)**.
- Since Doha impasse 2011 WTO has been left negotiating smaller, less controversial issues.
- US has blocked the functioning of the Dispute Settlement Mechanism (Appellate Body)

## PART II Emergence of BRICS coalition

# Emergence of BRICS coalition: lots of meetings

- **1997**: East Asian financial crisis. **1999**: **G7** formed the G20 club of finance ministers & central bank governors (**G20F**), which included BRICS. G20F met every year thereafter. So BRICS finance ministers & central bank governors met every year, but did not see each other as a club or coalition.
- **2001**: **Jim O'Neill** (Goldman Sachs) coined acronym BRIC to describe hot investment destinations.
- **2008**: North Atlantic financial crisis (NAFC). Bush govt upgraded G20F to G20 leaders (**G20L**). G20L started to meet once or twice a year.
- **2008**: **BRICs finance ministers & central bk governors** also started to meet as a **separate group**, for first time; & have continued regular meetings since.
- **2009**: **BRICs leaders started hold regular summits**. They also started to meet separately at side of the annual G20L summits. South Africa joined in 2011, to make BRICS.
- **Since 2011 BRICS leaders have met 2 times/year. Also BRICS finance ministers et al.**
- My preliminary conclusion: **these meetings have not resulted in significant changes in global financial / economic governance (yet)**

# PART III: BRICS in IMF

- **Recap: 2008: BRICS finance ministers & central bank governors** began to meet as a group. In **2009, BRICS leaders** began to meet separately as a group.
- **In 2008-09 IMF Executive Directors** representing those countries also began to meet separately to coordinate their positions on issues coming to the Board of Executive Directors – as not before (!).
- They tried to reach out to EDs from other developing regions, to increase their bargaining power. Brazil's ED, Nogueira Batista, says: **“We were rarely successful, however.... In most cases, what we came up against was a policy of alignment and even reverence to the United States or the main countries of Europe”** (p.10). The Core-Periphery structure strikes again!

# Focus of BRICS Executive Directors' cooperation in IMF

- They focussed initially, in 2008-2011, on **raising DC share of votes & seats in Board of Executive Directors**, & so raise DC influence over IMF policy and lending.
- That is, their initial focus was to **improve governance of the EXISTING international financial architecture**, by raising their influence vis-à-vis that of North Atlantic states.
- In **2009 G20L** agreed that **IMF** must shift at least 5% of votes from advanced to DCs; & shift 2 seats on the 24 seat Executive Board from Western Europe to DCs.

Success at last: **6.2%** shift of votes from AC s to DCs

- **2010**, Managing Director Strauss Kahn announced a shift of 6.2% of votes to DCs; & shift of 2 seats on Executive Brd from Western Europe to dev'ing c'ies. Subject to ratification in capitals.
- He described it as **“the most fundamental governance overhaul in the IMF’s 65-year history and the biggest-ever shift in favor of emerging market and developing countries”**

# Not so fast: the ACs betray the DCs (again)

- As the years went by it became clear that:
- (a) actual shift of votes – as sent to capitals for ratification -- was much more modest than Strauss Kahn said: a **2.8%** shift from AC s to the rest, the remaining 3.4% was redistribution *within* DCs.
- (b) the US Congress was in no hurry to ratify any change (and did not until 2015);
- (c) the actual shift of seats on the Executive Board away from “Europe” to “developing countries” was in reality **a shift from western Europe to eastern Europe (!)**.

# Current vote distribution in IMF

- **2022:** AC s have 58% of quota shares (and votes), DCs 42%.
- The existing quota formula (which is considered deeply unfair by developing countries) would give a current distribution of about 50:50.

# ACs & DCs, shares of world popn, GDP (MER), votes in IMF (%), 2016

	Population	GDP	Votes in IMF
Advanced	15	40	58
Developing	85	60	42

# However, China & Brazil did benefit

- China & Brazil both got significant increase in quota & voting shares.
- Nevertheless, to significantly change governance of IMF away from dominance by West, an overall gain by DCs is needed

## PART IV : BRICS CREATE 2 FINANCING ORGANIZATIONS CONTROLLED BY DCs

- By **2011** much anger in BRICS capitals about their “betrayal” at hands of US and rest of Core.
- BRICS agreed they shd create **own financing organizations** separate from Core, to supply similar services to IMF and World Bank; and open the new organizations to other DCs.

# BRICS create 2 new financing organizations

- Over **2012 – 2014** they created:
- (1) **Contingent Reserve Arrangement (CRA)**, to provide short-term financing to BRICS countries in foreign exchange difficulties (hopefully later to be open to other DCs); this is complement/substitute for IMF
- (2) **New Devt Bank (NDB)**, the first GLOBAL devt bank since the World Bank in 1945 (the other multilateral devt banks have all been regional).
- **2015: both organizations opened for business at BRICS summit.**

# The engine room for creation of CRA:

- Engine room for creation of CRA was the office of the IMF's Executive Director of the Brazil constituency.
- From 2007 to 2015 the Executive Director was Paulo Nogueira Batista. His book: *The BRICS and the Financing Mechanisms They Created: Progress and Shortcomings*, Anthem, 2022.
- In 2015 he left to become a vice-president of New Devt Bank in Shanghai
- **Key point: for the project to create CRA (= IMF substitute) the BRICS coalition had a centrally-placed & dedicated “doer / entrepreneur” with backing from his govt & with significant resources !**

# Contingent Reserve Arrangement (CRA), created 2015

- **2007-2008** Brazil's Finance Minister & Nogueira Batista thought that creating a **foreign exchange reserve pooling arrangement outside IMF** would help to put pressure on the IMF to make **SIGNIFICANT** governance reforms to give much more influence to DCs.
- The idea of a **specifically BRICS mechanism** came out of discussions b/w **Brazil** Finance Minister & **China** Central Bank governor. Brazil President Dilma Rousseff signalled strong support.
- **But Russian** officials, & **Brazil central bank officials**, opposed the very idea. But at BRICS summit **2013** all **leaders** (including Putin, Rousseff ) supported.

# Fate of CRA

- In the 6 years from creation in 2015 to 2021 CRA has remained still-born, barely in existence.
- Nogueira Batista was out of picture, as vice-president of NDB in Shanghai.
- Its governance taken over by **central bank** officials, with little input from **finance ministries**. No decision on a permanent secretariate or headquarters has been made.

# The New Devt Bank (NDB), created 2015

- It is up and running, with substantial paid-in capital (not just pledged), a staff of 150, capacity to borrow in capital mkts, HQ in Shanghai.
- It is first multilateral devt bank (MDB) to be created by representatives of DCs alone without participation by ACs.
- It is first MDB created since World Bank to have a GLOBAL mandate (the others, regional).
- Its mandate focuses on “sustainable infrastructure” & “renewable energy”. **It is to be a “green bank”.**

# Results of NDB: “anonymous”

- Jim O’Neill (who as chief economist of Goldman Sachs in 2001 created acronym BRICs) said in 2018, “the BRICS bank has been a disappointment so far – almost anonymous.” The same holds by 2022.
- Eg by mid 2020, of the \$18 billion “**approved**” loans, only \$2.2 billion had been **disbursed** – of which a significant part was COVID-related emergency financing, unrelated to mandate of lending for “sustainable infrastructure”.
- The **Asian Infrastructure Investment Bank**, led by China, opened for business in 2016 *after* the NDB. It provides sharp contrast. It has brought in a large number of countries as members, including all major advanced countries with the exception of US & Japan, is operating at high speed. It is anything but “anonymous”.

# Why poor results of NDB ?

- **Internal problems:** (1) India had right to appoint the first president (to 5 yr term). It appointed man with no experience of BRICS process or little experience of international banking. (2) Some of the 4 vice presidents (one from each of remaining BRICS) were noticeably incompetent and prone to disagree.
- **Geo-political obstacles:** (1) Deterioration of relations b/w **China & India**, especially after China launched Belt Road Initiative (2013) to make “infrastructure alliances”, including on all around India (“Chinese containment”).
- (2) After Russia annexed Crimea 2014 **Russia** refused to allow NDB to expand m’ship beyond BRICS: (1) afraid its enemies may join; (2) afraid that entry of DCs wld reduce NDB funding for Russia, which Russia valued b/c US sanctions after Crimea.
- (3) Political crisis in **Brazil**, Rousseff ousted, 2016. Temer & Bolsonaro in bed with US.
- (4) Political crisis in **S Africa**, Zuma ousted, 2018.

# CONCLUSION: Future of BRICS club ?

- Likely to continue
- **Cooperating motivations:** (1) They see themselves as large & important nations whose interests & views have been largely ignored by ACs. (2) Access to China: even Brazil's Temer & Bolsonaro govts, anxious to embed with US, remain involved in BRICS process, b/c this gives them another way to stay in good books of Brazil's biggest trading partner. (3) Russia is keen to support BRICS cooperation, especially b/c US hostility & sanctions. (4) China wld like to sit with US at top table of world governance, to make G2; but US refuses, which gives China more interest in cooperating with BRICS and other DCs.

But, impacts of BICs & BRICS so far: limited

# Impact of BICs in WTO

- The BIC coalition in WTO, coming together in 2003 in early years of negotiating the Doha Round, acted to BLOCK the West from imposing trade rules in West's interest. Especially, **to block West's attempt to restrict the scope of "special & differential treatment" (SDT) to "low-income countries"**.
- But US could not accept that middle-income DCs, especially China, shd be entitled to SDT. So US walked away from Doha R in 2011, the Round ended without agreement in 2011.
- **Note that many low-income DCs also NOT happy that BICs got SDT !**
- US has subsequently tried to block the WTO, preferring to make its own bilateral or plurilateral trade deals in which it has upper hand.

# Impact of BRICS in IMF: limited

- BRICS Executive Directors have failed to shift votes in favor of DCs and seats in favor of DCs, despite years of trying.
- Today, AC s have 58% of votes, DCs 42%.
- By the official vote distribution formula, the division shd be roughly 50:50. BRICS and other DCs say even official formula is “unfair”, gives them too small a share.
- However, China & Brazil have gained significant increase of quota and voting share since reforms of 2008 and 2010.
- Their gains do not translate into significant increase in role of EMDCs in IMF governance
- **“BRICS coordination among IMF EDs has died away [since 2019]”** (Nogueira Batista, personal communication, March 2022)

# BRICS' new financing mechanisms: impacts

- So far, impacts of CRA and NDB very small (compare AIIB)

# But, BRICS still cooperate at top, a little

- BRICS leaders continue to meet 2 times a year since the start in 2011; once in summit, once on side of G20L meetings. No head of government has missed even one of these meetings.
- BRICS meetings of finance ministers & central bank governors also 2 times/ year since 2009.
- At June 2022 summit, leaders agreed to create: (1) a task force to explore new international payments methods that do not rely on the US\$; (2) a network of BRICS think-tanks.

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# Economic sovereignty – myth of

- Relative impoverishment of LAC, AF, Asia before WW1 occurred because (a) Industrial Revolution technology in European powers, (b) much of rest of world had become European colonies or protectorates (eg China, Egypt, Ottoman Empire), European countries plundered them freely, there were few rules, no idea of “sovereignty” outside Europe and European settler societies.
- Post-WW2 global order rests on assumption of sovereign states. But this is fiction. It rests, as before WW2, on deep inequality, with powerful states dictating terms to less powerful ones.
- Economically powerful states do not think they are subject to same rules – which they themselves made – as weaker states, including in IMF, World Bank.
- The country most reluctant to give up ANY economic sovereignty was & is the USA. Still today, default assumption in US state (executive and Congress) is that IMF and WB should operate almost as arms of US foreign policy.
- <https://www.foreignaffairs.com/reviews/review-essay/2022-06-21/how-the-system-was-rigged>