

Report

BRICS & Egypt: An Opportunity to Begin Creating an Alternative Economic System



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"We, the leaders of the Federative Republic of Brazil, the Russian Federation, the Republic of India, (the Republic of South Africa) and the People's Republic of China.... believe that the world needs today a reformed and more stable financial architecture that will make the global economy less prone and more resilient to future crises.... We are convinced that emerging market economies and developing countries have the potential to play an even larger and active role as engines of economic growth and prosperity, while at the same time commits to work together with other countries towards reducing imbalances in global economic development and fostering social inclusion(1)."

The fifth BRICS (Brazil, Russia, India, China, and South Africa) summit held in Durban on the 26th and 27th March and the declarations emerging from it have resulted in the need for an objective assessment of the bloc's efficacy to be undertaken and methods for its improvement conceptualized(2). Progressive pronouncements such as the foregoing quote adapted from the blocs 2010 Brasilia joint statement calling for the restructuring of the world financial infrastructure and expressing its preference for a peaceful world order based on multi-lateralism and United Nations reform only hold weight were steps taken to actualize these. Failure to do so would mean that the bloc, contrary to the recent assertion by South African President Jacob Zuma, is indeed a 'talk shop' with no real bite(3). This is all the more important in light of the informal nature of its composition (BRICS does not yet maintain a secretariat), and its desire to be

guided by the recommendations of country think-tanks which though good at providing positive and well thought out suggestions, often don't yet have the capacity to properly operationalize them.

Success or Failure

The past four years, since Yekaterinburg 2009 (when the bloc first issued a joint statement), have witnessed an increase in the economic clout of the bloc, with the addition of South Africa in 2011 assisting increase the bloc's diplomatic power. Now representing over 3 billion people (43% of the world's population, accounting for over 25% of world GDP, and being responsible for over 17% of world trade, the bloc as of yet has failed to begin converting these figures into real economic influence(4). Ideologically the current neoliberal economic paradigm espoused by the Bretton Woods institutions still reigns supreme. Austerity, which is mainly characterized by government spending decreases, is still being utilised to solve Europe's large debt problems, and the dreaded conditionalities are still required for accessing credit from the dominant international financial institutions. Even the much touted 2010 IMF reforms which were to double state contribution quotas, shift six percentage points in quotas to emerging states, and require that the managing director be democratically appointed rather than confirmed by the five largest members have not been passed, owing to lack of ratification by developed states(5). It is of little significance that the United States' congress has argued that its main opposition to the reforms lies in the fact that emerging economies are less responsible and may have economic positions that do not necessarily align with those of developed states(6). Until these reforms are passed, the BRICS block has no real say in the running of the institution. Many have argued that at the least the formation of BRICS has increased intra BRICS trade to \$310 billion last year, up from \$230 billion in 2011. However correspondingly BRICS trade with Africa grew from \$150 billion in 2010 to \$340 billion last year, illustrating that it is the nature of the current system and rapid growth of the resource dependent India and China, and not the formation of the BLOC (specifically South Africa's accession) that have resulted in the growth in trade amongst BRICS states(7).

Politically, the results have been more mixed. The bloc's preference for multi lateralism and its call for dialogue and a political solution to the 2011 Libyan uprising had been flatly undermined with NATO, under the guise of protecting civilians, orchestrating the overthrow of the Gadhafi regime(8). Moreover, United Nations Security Council (UNSC) reform, which is vehemently advocated by the grouping, has been placed off the card with the conflict in Syria taking centre stage. Nevertheless, it is ironically the Syrian conflict and NATO's inability to intervene that has been the largest BRICS political success. The 2012 Delhi declaration's call for the conflict to be resolved through

“peaceful means.... [Respecting] the independence, territorial integrity and sovereignty” of the country has partially been successful, mainly as a result of the Russian and Chinese wielded UN SC veto(9).

However Russia’s reported supply of weapons to the Assad regime has inhibited the effectiveness of this declaration, raising questions as to whether the bloc will ever be able to adopt and maintain a single political stance(10). Nevertheless, by virtue of the bloc being comprised of two veto wielding states, were interests to converge on an area, it would no doubt possess a huge amount of influence and crafting/shaping ability. Thus, the result of the bloc’s pronouncements on Iran that call for solving the crisis diplomatically and assuaging the use of military action and unilateral sanctions is noteworthy. Success in these calls would signify the bloc’s entrance as an alternative political actor, willing and able to confront the current Western dominated international order. Currently, it is much too early to assess the impact of the foregoing, but it is important to acknowledge that despite the inflamed Israeli rhetoric surrounding Iran which has been prevalent since 2010, no overt attack against Iranian interests has been undertaken and that BRICS and the Non-Aligned Movement’s stances on this issue have played a role in ensuring this. It is significant that all the individual BRICS states adopt similar and converging positions on the Iranian nuclear issue.

Growth and Convergence Opportunities

The above has led some to assert that the various differences within the bloc, and not its vision of an alternative international economic and political system, will characterise the bloc’s future. However opportunities to promote convergence, whilst at the same time increase its influence do present themselves. The Arab uprisings and disillusionment over austerity in Europe provide a great opportunity for the bloc’s economic clout to be used for political gains. Post uprising Tunisia, Yemen and Syria are all states through which this can be realised. Yemen is currently in the midst of a humanitarian crisis (over half its 25 million citizens have become indebted in the constant effort to secure food , requiring aid and infrastructure support to move forward; whilst the situation in Tunisia, though much more positive, is still dyer with unemployment and inflation on the rise(11). Donor funding and financial loans have been slow in coming, a consequence being that the conditions that initially gave rise to the uprisings are causing huge instability and threatening to disrupt the political order once again. Egypt is an important case in this regard. Post the uprising, the country’s currency (the Egyptian pound) has depreciated, investment and tourism have waned, forcing the country to dip into its cash reserves or risk having to cut state subsidies which comprise almost a third of its budget(12). This has occurred under the backdrop of instability and in a context wherein a security vacuum, created as a result of Mubarak’s ouster, exists. The country has, for

the past two years, attempted to negotiate for a \$4.8 billion IMF loan to stabilise the situation, however stipulations around the lowering of subsidies and raising of taxes have meant that the loan has not been forthcoming, despite the sum being within its quota request rights(13). This has subsequently led to the country's reserves dropping from \$36 billion (pre the uprising) to \$13 billion (as of march this year); its wheat stock supply being calculated at only 90 days; and increasing protests over subsidy cuts on bread and gasoline occurring with the murmurings of rationing being instituted(14).

The BRICS Bank

It is in this light that the creation of the 'New Development Bank' (BRICS's newly announced developmental institution) is of such significance. Reliably rumoured to initially be capitalised by a \$10billion contribution from each member state, the bank can be mandated to assist countries in similar positions to that of Egypt. Supporting Egypt, as an initial example of the bank's mandate, would not only result in the block gaining political/diplomatic clout –Egypt is currently the most populous Arab country and regarded by many as having tremendous influence in the MENA region– but also assist to actualise the vision of an alternative international economic system based on equality and the need to promote development. Moreover the aversion by BRICS's states to 'conditionalities' and south-south nature of the institute would mean that countries would be more likely to request assistance from the institute as opposed to the Breton Woods institutions. This is all the more important in light of the 2013 Ithekwni declaration's assertion that the bloc emphasises "the importance of ensuring steady, adequate and predictable access to long term finance for developing countries from a variety of sources," preferring that 'multilateral' and 'regional' development banks be created and utilised to this end(15).

However, as is natural with all large institutions, the bank's operationalisation and functionality will take an extended period of time to be realised. Charters need to be drawn up; lending criteria conceptualised and member ratification may need to be forthcoming. Thus, leading one to suggest that part of the proposed pooled \$100 billion in cash reserves to aid BRICS members encountering balance of payments as part of the recently announced contingent reserve agreement (CRA), be diverted to supporting non-member countries experiencing economic problems such as Egypt. The multi-lateral agreement on cooperation and co-financing signed on the sidelines of the recently concluded Ithekwni summit may have already in acted methods of financing for non-BRIC states, which could be an alternative to the use of the CRA, however, details on the content of the agreement are still sketchy, making an analysis of these almost impossible.

Finally, of course, the measure does have its risks; many countries seeking finance do have bad credit ratings. Conversely were these not taken, the chance of realising an alternative future based on equality, development, and multi-lateralism maybe missed and the already wide cleavages between the developed and developing worlds will increase irreparably. Moreover, failure to do so would result in other states seeking BRICS membership such as is currently being sought by Egypt, inhibiting the coherency of the bloc's vision, and drastically decreasing its influence were these membership requests rejected(16).

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