

BRICS in International Economic Governance

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The world power is undergoing a significant change with the rise of BRICS. The so called “rising power” raises questions about the stability of the global governance and the future of the Western-sponsored International order. As anticipated by the UN post-MDGs: “The South has risen at an unprecedented speed and scale... By2050, Brazil, China & India combined are projected to account for 40% of world output in purchasing power parity terms.”²The rapid rise of the BRICS has become more evident since the first decade of the twenty-first century. However, the post-2015 era is likely to be different from that anticipated by the UN post-MDGs: as the global South comes to overshadow the hitherto hegemonic North,³ so its own regionalisms may come to balance, even challenge, the EU as “model”.⁴ So 2015 may be more of a turning point for the global political economy than the UN and others imagined when they anticipated post-Millennium Development Goals (MDG) ⁵. The “New Global Partnership” may be different than it has anticipated and advocated.⁶

For many researchers, the rising BRICS are not confronting the inter-state relations dominated by the U.S. and its allies. BRICS has emerged in the context of globalization that the global governance has shown different features from before, especially in the post 2015 era. Such novel regional directions are reinforced by burgeoning MNCs, including state-owned enterprises (SOEs),

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² UNDP 2013 Human Development Report—The Rise of the South: human progress in a diverse world, pp. 1–2 website: http://211.136.10.57/videoplayer/hdr2013_en_complete.pdf?ich_u_r_i=0359c939f092c70163c2e9771d3ad819&ich_s_t_a_r_t=0&ich_e_n_d=0&ich_k_e_y=1545058913750563512413&ich_t_y_p_e=1&ich_d_i_s_k_i_d=6&ich_u_n_i_t=1

³ Abdenur A E and de Fonseca J M E M (2013) The North's growing role in South-South cooperation: Keeping the foothold. *Third World Quarterly*; 34 (8): 1475–1491

⁴ Fanta E, Shaw T M and Tang V (eds) (2013) *Comparative Regionalism for Development in the Twenty-First Century: Insights from the Global South*. Ashgate for NETRIS: Farnham.

⁵ Wilkinson, Rorden, and David Hulme (eds.). 2012. *The millennium development goals and beyond: Global development after 2015*. Abingdon: Routledge.

⁶ Kilby, Patrick. 2012. The changing development landscape in the first decade of the 21st century and its implications for development studies. *Third World Quarterly* 33(6): 1001–1017.

especially national oil companies (NOCs), based in the South. ⁷BRICS become increasingly familiar with the global governance, and comparative regionalisms are impacted by the Emerging Markets, concentrated in Asia, Africa, South America and Central Europe.

Arguably, then, the first decade of the twenty-first century was that of the BRICs/BRICS, especially China and India, leading to the observation that the established N–S axis coexists with an E–S and S–S ones: North-South relations have been dominant for 200 years and now an East-South and South-South turn is emerging. ⁸The 2008 economic crisis is part of a global rebalancing process.⁹

1. BRICS in the Current Global Economic Governance Structure

For the rising and established powers to renegotiate the mechanisms and terms in which global governance takes place, international organizations have been the important vehicles. The current international organizations, including World Trade Organization (WTO), International Monetary Fund (IMF) and World Bank (WB) are still the primary venues of global economic governance, through which international rules, decisions and treaties are established, reached and enforced. All BRICS countries are members of major international and multilateral institutions, such as the WTO, IMF, WB as well as the UN, the G-20 and the UN Framework Convention on Climate Change (UNFCCC), and are active participants therein.

The interaction between BRICS and the global economic governance order is complex. Realist researchers underline the destabilizing role of the rising powers and the high possibility of rising powers contesting the current governance arrangements in their broader geopolitical rivalry with the United States. The close connections between international institutions and the power

⁷ Nolke A (ed) (2014) *Multinational Corporations from Emerging Markets: State Capitalism 3.0*. Palgrave Macmillan: London.

⁸ Pieterse J N (2011) Global rebalancing: Crisis and the East-South turn. *Development and Change*; 42 (1): 22–48.

⁹ Shaw T M (2015) From post-BRICS' decade to post-2015: insights from global governance and comparative regionalisms. *Palgrave Communications* 1:14004 doi: 10.1057/palcomms.2014.4.

of established states have been emphasized by offensive realists¹⁰, power transition theorists,¹¹ and hegemonic stability approaches¹². In contrast, liberal theorists criticize realists for dismissing the open and rules-based nature of the international order that alleviates security competition and fosters integration into existing governance institutions¹³. Consequently, rising powers are finding incentives and opportunities to engage and integrate into this order, doing so to advance their own interests. For these states, the road to modernity runs through — not away from — the existing international order.¹⁴ Constructivist-inspired accounts, similarly, emphasize that China, as the largest rising power, has adopted ideas that are mostly ‘satisfied’ with the existing order¹⁵ and oriented towards international integration.¹⁶

Political economy literature has situated states within the “broader field of social relations” that gives them sociological depth.¹⁷ The role of China’s state-heavy form of development, and the possible challenge this poses by example to Washington Consensus norms, has been widely studied and debated.¹⁸ Relatedly, others suggest that the BRICS have pioneered novel varieties of capitalism that challenge the market coordination of existing global governance institutions.¹⁹ In contrast, other political economy approaches have

¹⁰ Mearsheimer JJ (1994) The false promise of international institutions. *International Security* 19(3): 5–49.

¹¹ See Lemke D and Tammen RL (2003) Power transition theory and the rise of China. *International Interactions* 29(4): 269–271. Rapkin D and Thompson W (2003) Power transition, challenge and the (re)emergence of China. *International Interactions* 29(4): 315–342. Tammen RL, Kugler J, Lemke D et al. (2000) *Power Transitions: Strategies for the 21st Century*. Washington, DC: C.Q. Press.

¹² Gilpin R (1981) *War and Change in World Politics*. Cambridge: Cambridge University Press., Schweller RL (1999) Managing the rise of great powers. In: Johnston AI and Ross RS (eds) *Engaging China: The Management of an Emerging Power*. London: Routledge, 1–31.

¹³ Ikenberry GJ (2011) The future of the liberal world order. *Foreign Affairs* 90: 56–62.. Ikenberry GJ (2011) *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order*. Princeton, NJ: Princeton University Press. Ikenberry GJ and Wright T (2008) *Rising Powers and Global Institutions*. New York: The Century Foundation.

¹⁴ Ikenberry GJ (2011) *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order*. Princeton, NJ: Princeton University Press. P61..

¹⁵ Johnston AI (2003a) Is China a status quo power? *International Security* 27(4): 5–56.

¹⁶ Legro JW (2007) What China will want: The future intentions of a rising power. *Perspectives on Politics* 5(3): 515–534.

¹⁷ Overbeek H (2004) Transnational class formation and concepts of control: Towards a genealogy of the Amsterdam Project in international political economy. *Journal of International Relations and Development* 7(2): 113–141. Breslin S (2013) The ‘China Model’ and the global crisis. *International Affairs* 87(6): 1323–1343. McNally CA (2013) The challenge of refurbished state capitalism: Implications for the global political economic order. *DMS – Der moderne Staat* 6(1): 33–48. Strange G (2011) China’s post-Listian rise: Beyond radical globalization theory and the political economy of neoliberal hegemony. *New Political Economy* 16(5): 539–559. Wade RH (2010) After the crisis: Industrial policy and the developmental state in low-income countries. *Global Policy* 1(2): 150–161.

¹⁸ Arrighi G (2007) *Adam Smith in Beijing: Lineages of the 21st Century*. London: Verso.

¹⁹ May C and Nölke A (2013) Capitalism in large emerging economies and the new global trade order. Paper presented at the 54th Annual Convention of the International Studies Association, 3–6 April, San Francisco.

observed a more general trend towards neo-liberalization among BRICS members and a compliant approach to global governance: seeking to boost their positions within the structures, but leaving them in place²⁰.

The BRICS discourse is shaped mainly by two distinct processes, namely the Goldman Sachs research report and the diplomatically driven initiative launched by the leaders in BRICS summit declarations. These processes have come to shape the conceptualization of emerging powers as well as positions of these countries in geopolitics. Economic power does not necessarily translate into international influence but it seems the BRICS have so far been able to transform their economic power into international political influence.²¹ In general, China has been quite conservative in the governance of trade and FDI, mostly following the existing rules rather than challenging them. China has been more anti-status quo with regard to financial and aid governance, openly critical of the financial system.²² India and Brazil are contesting with U.S. and EU in WTO Doha round negotiations concerning about agriculture issues.

By pushing forward the IMF quota and governance reform, strengthening multilateral trading system and advancing Doha Round negotiations, BRICS keeps on improving global economic governance. One noticeable milestone is the establishment of the New Development Bank and the Contingent Reserve Arrangement. As a result, the voice and representation of BRICS and other emerging market and developing countries have increased.

Current global economic governance is going through subtle changes. It can be best described as slightly moving away from IMF and World Bank while maintaining their major participation in trade issues at WTO. This tendency can be seen through the BRICS Summit Declaration in 2011, 2012, 2013 and 2014.

²⁰ Harvey D (2005) *A Brief History of Neoliberalism*. Oxford: Oxford University Press, 120–151. Schmalz S and Ebenau M (2012) After neoliberalism? Brazil, India, and China in the global economic crisis. *Globalizations* 9(4): 487–501.

²¹ Haibin N, 'BRICS in Global Governance: A Progressive Force?', *Dialogue on Globalisation*. New York: Friedrich Ebert Stiftung, April 2012.

²² Hongying WANG, Erik French, China in Global Economic Governance, *Asian Economic Policy Review* (2014)9, 254-271, website access at :<http://onlinelibrary.wiley.com/doi/10.1111/aepr.12068/epdf>

The establishment of New Development Bank and the Contingent Reserve Arrangement complements parts of the current financial system's function, while addressing infrastructure gaps and sustainable development needs. As Richey and Ponte (2014) suggest that "development" is increasingly "alliances" or networks, including "new" actors. Such extra-or semi state hybrid global governance" increasingly challenges and supersedes exclusively interstate international organizations.²³

In global trade governance, while BRICS focus on the WTO to exert their influence and guarding the interests of developing countries, U.S., Europe and other major advanced economies have gradually drifted away. The ongoing negotiation of the mega-agreements, such as the Trans-Pacific Partnership–TPP and the Transatlantic Trade and Investment Partnership–TTIP, all address new issues based on the supply chain trade. The agreements propose numerous WTO plus and extra rules such as enhanced intellectual property protection, regulation of e-commerce, competition rules, liberalization and protection of investments, regulation of trade related aspects of state owned enterprises, provisions on small and medium sized enterprises, rules of international supply chains, amongst other themes. While BRICS are getting more and more integrated into the world production network, these under-negotiation trade rules may pose extra difficulty for BRICS to expand their trade growth, for according to the current negotiation text, non of BRICS are involved, let alone having a say in the rule making process.

Confronted with this situation, one possible solution for BRICS to get away from the mega-agreements regulation is the vast domestic market they have. For supply chain trade, the advanced economies are focusing on the investor protection issues, where BRICS can offer the "domestic market in exchange for investment" strategy to win FDI and supply chain integration instead. The infrastructure construction industry (especially the high-speed rail way

²³ Harman S and Williams D (eds) (2013) *Governing the World: Cases in Global Governance*. Routledge: Abingdon.

construction) of China, which follows the national “Going Out Strategy”, is a new mechanism for the intra-BRICS economic cooperation, in which there is a good opportunity for member countries to explore a new model for developing countries to conduct economic cooperation.

A state-owned enterprises issue is a good example of the conflict between BRICS and advanced economies. In Fortaleza Declaration, BRICS made the statement as:” we acknowledge the important role that State Owned Companies (SOCs) play in the economy and encourage our SOCs to continue to explore ways of cooperation, exchange of information and best practices”.²⁴ Meanwhile, many western researchers recognize state owned enterprises held a significant role to the BRICS national economies, some of them even categorized the BRICS economy types as “new/state capitalism”. However, in practice, it is exactly the problem that mega-agreements try to tackle in extra-WTO rules negotiation, because of the favorable treatment SOEs get from their countries.

Such kind of differences will continue to exist for a long time in the future’s trade rule negotiation. As long as it not been addressed under the multilateral agreements, the global trade governance will be fragmented even further.

2. Post-2015 Global Economic Governance Structure

There are three factors that would probably impact global governance and comparative regionalisms in policy and practice post-2015: (a) global restructuring in numerous areas, from economics and ecology to diplomacy and security;²⁵ (b) shift in the direction and concentration of resource flows and supply chains away from S–N towards S–S and S–E; and (c) continued evolution in multi-stakeholder communities to incorporate state-owned enterprise, sovereign wealth funds, pension funds, Exchange Traded Fund and

²⁴ BRICS Sixth Summit: Fortaleza Declaration and Action Plan

²⁵ Besada H and Kindornay S (eds) (2013) *The Future of Multilateral Development Cooperation in a Changing Global Order*. Palgrave Macmillan for NSI: London. Overbeek H and van Apeldoorn B (eds) (2011) *Neoliberalism in Crisis*. Palgrave Macmillan: London.

so on as well as multinational companies, especially from the BRICS and other emerging markets.

Global economic governance is continuously moving towards contemporary transnational issues such as brands and franchises; expanding consumption by emerging middle classes; logistics and supply chains; mobile digital technologies including mobile money; new film centers; new media. But such heterogeneous relations/perspectives deserve further attention in terms of their contribution to sustainable development.

3. BRICS Economic Cooperation

Although BRICS differ substantially in terms of demographic, economic, military and political weight as well as in terms of their political and economic systems,²⁶ they also share some characteristics that distinguish them from other emerging powers and bring them closer to each other. First, all BRICS members own a series of economic, political and military power resources and the capacity to participate in the making of international order, both in regional and global level.²⁷ Second, they believe that BRICS could play a more influential role in global affairs. Third, BRICS are all outsiders to the U.S.-led set of international and multilateral structures, and they are not U.S. close allies. It is this combination of factors that leads to the willingness of the BRICS to strengthen their mutual relations and to promote alternative or complementary international forums and linkages beyond the predominant western-dominated organizations.

The logic of the rise of the BRICS and their intensified cooperation can be understood in the following two perspectives. For one thing, in the current global economic governance dominated by the U.S., none of the BRICS individually is capable to counterbalance. On the other hand, the rapid

²⁶ Keukeleire, S. and Bruyninckx, H. (2011) The European Union, the BRICs and the Emerging New World Order.

²⁷ Hurrell, A. (2006) 'Hegemony, Liberalism and Global Order: What Space for Would-Be Great Powers?' *International Affairs*, Vol. 82, No. 1, pp. 1–19.

changing networks of transnational exchange and communication entails adjustment and change of current international institutions and new forms of governance structure.²⁸.

BRICS countries have continuously expressed their joint support for reforming the United Nations and the international financial institutions and for upgrading the role of the G20 (instead of the G7/8) as all individual BRICS countries hold membership in the G20. This aim to reform the international institutions also appeared in the Fortaleza Declaration and Action Plan in 2014, adopted by the leaders of the five BRICS countries during their Six Summits in 2013. In this declaration, they reiterate their support for a ‘comprehensive reform of the UN, including its Security Council, with a view to making it more representative, effective and efficient so that it can be more responsive to global challenges’ (BRICS, 2014). In the Fortaleza Declaration on international financial institutions, BRICS raises the issue of representation, as the BRICS leaders call for ‘the reform of International financial institutions to ensure increased voice and representation of emerging markets and developing countries. Besides, leaders “remain disappointed and seriously concerned with the current non-implementation of the 2010 IMF reforms, which negatively impacts on the IMF’s legitimacy, credibility and effectiveness.” (BRICS, 2014) These calls for reform reflect the willingness of the BRICS countries to counter an “unjust” western-dominated multilateral world in which they are generally underrepresented. The dominance and the overrepresentation of the west also appear in other multilateral settings such as the IMF, World Bank and the WTO.

For future economic cooperation, BRICS needs to find new mechanisms to address each member’s concerns, both regionally and globally. China recently issued the “One Belt One Road Strategy” (also known as Silk Road Economic Belt and Maritime Silk Road Strategy), which could be a potential foundation for “One Belt One Road Plus” cooperation mechanism among BRICS members.

²⁸ Ibid

Similarly, India issued Cotton Route strategy and Ancient Maritime Routes in 2015 as regional development strategy. India could connect the East with the West by reviving ancient pathways through the proposed Cotton Route. Both routes tent to connect coastal countries in South Asia, whereas the Indian initiatives could increase New Delhi's economic cooperation and strategic partnerships with almost all the countries in the Indian Ocean Region.²⁹

Instead of viewing this as competing initiatives, actually this should shed light on the potential cooperation mechanism for BRICS. For both China and India need to focus on the infrastructure constructions at the first place. Better connection of the transportation network will facilitate commodity and service trade, mobility of capital, people and goods. Infrastructure construction is one among many promising cooperation fields. All BRICS members are developing countries which all have great needs for infrastructure constructions. China and Russia have also recently initiate cooperation on high-speed rail project, the Russian Railways signed an agreement with a consortium of two Russian companies and China Railway ErYuan Engineering Group Company Limited (CREEC) worth 20 billion rubles (over 380 million U.S. dollars). The three companies would jointly implement the high-speed track project, which connects Moscow with Kazan, capital of Tatarstan Republic³⁰. China-India, China-Russia cooperation in infrastructure construction is good example for intra-BRICS cooperation.

4 Future Outlooks

Firms in advanced economies depend on an open and market-based export and investment regime, extra-WTO rules that could facilitate supply chain trade are getting momentum in recent on-going mega-agreements negotiation. Many of its core premises, such as the “abolition of barriers impeding the entry of

²⁹ India Mulls ‘Cotton Route’ , website at: <http://inserbria.info/today/2015/04/india-mulls-cotton-route/>. Access date: 1st May 2015.

³⁰ Chinese company becomes co-contractor of Russia's high-speed rail project,, website at: http://news.xinhuanet.com/english/2015-05/01/c_134200761.htm, access date: 1st May, 2015.

FDI”, “privatization of state enterprises” and “abolition of regulations that impede the entry of new firms or restrict competition” are crucial for the success of Western multinationals. However, these new institutional set-ups (TPP, TTIP for example) do not cater to the institutional context of firms in large emerging economies. Therefore, the BRICS will be less motivated to strengthen these institutions.

Global institutions are not designed initially for the growth needs of emerging economies but are often still used by the latter in the absence of better alternatives — China and Russia gaining the membership in WTO is a good example. It seems likely that the much closer business–state relationship in large emerging markets will lead to adjustments in the current global economic governance. International economic cooperation will still be important, but this cooperation will take on a more regional, reciprocal nature and remain fragmented.