BRICS and the New Development Bank: Impact on the U.S. Economy and the Dollar

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The BRICS nations and the New Development Bank have been a topic of interest among economists for the past years. The BRIC acronym, which is what it was named originally, was created by Jim O’Neill from investment bank Goldman Sachs back in 2001 in his paper titled, “Building Better Global Economic BRICs.” Since then, a letter has been added to the acronym, which is now known as BRICS and stands for the countries of Brazil, Russia, India, China, and South Africa. The reason for these countries being noticed in the world economy is due to their superior growth in GDP over the past decade. In his work, O’Neill predicted that, “Over the next 10 years, the weight of the BRICs and especially China in world GDP will grow, raising important issues about the global economic impact of fiscal and monetary policy in the BRICs.” O’Neill’s prediction was correct and now that these countries have come together to form a rising economic power in the world, one of the main projects in their agenda is to create the New Development Bank, whose primary goal is to finance infrastructure and sustainable development projects. To make progress on this deal, the leaders of the BRICS nations met in the city of Fortaleza in Brazil in July of last year to announce the creation of the new bank, which seems to be set up to rival the International Monetary Fund, or IMF. What’s more, it has
also been considered that one of the goals of the New Development Bank will be to move away from the dollar as the main world currency.

For more than a few decades, the dollar has been the world currency, and America has been the biggest economy. The game leapfrog is a children’s game in which the players jump over their friends to make progress as they take turns. Although definitely not child’s play, the similar concept can be seen in the international economy according to the article “Playing Leapfrog.” In the article it says, “Being the biggest economy has its attractions. It helps to provide military security and gives a country more clout in global economic affairs. Being the main reserve currency is also useful. America’s ability to borrow and to settle its imports in dollars has saved it from paying more interest to finance its profligate ways.” It is clear that a change in world currency could impact the economy in America. But could it really be that the reign of America and the dollar has come to an end? This will mainly depend on whether the IMF will continue to hold its power as the world’s main financial institution. According to “Getting around Uncle Sam; Reforming the IMF,” “The IMF’s capital has been steadily shrinking relative to the world economy: its clout is half what it was in 2000.” It also seems as though the IMF is not doing enough to reform its current status to be able to more closely match the world economy and the changes that have developed over the years. In the same article it explains, “In 2010 the world agreed to expand the IMF’s lending power and rejig its voting rights. But because Congress has not approved America’s contribution to the proposed increase in capital, the reforms have yet to take effect.” Other countries, not necessarily limited to the BRICS countries, are not pleased. It appears the BRICS countries are not happy with how much power America has on the IMF. Up to now, the U.S. has been able to have a lot of say, if not all, in the
decisions of the IMF. The article continues by stating, “[T]he giants of the emerging markets—Brazil, China and India—have only 8% of the voting rights, even though they account for 19% of global output.” America on the other hand, has 16.75% of the votes, including veto power over big decisions since approval to determine major decisions has to be granted by 85% of the shareholders.

Out of the BRICS countries, China seems to be the most interested in bypassing the IMF and setting up a new institution that will recognize it as the world leader that it is. And why wouldn’t it? In “The 70-year Itch; The Bretton Woods Agreements,” it says that “America and Europe have failed to strengthen and reform the offspring of Bretton Woods, the IMF and the World Bank; they have been sluggish in providing a bigger role for China in these institutions.” It seems China is taking matters into its own hands, and now with the help of four of the biggest modern economies in the world, it could see this chance as the change it has been working toward to for years. Furthermore, China has already started building its relations as an international banker with other countries. In “Rich but rash; China’s Financial Diplomacy,” it describes this by saying, “China has dramatically scaled up its global loan book over the past five years by dealing with countries largely ignored by Westerns lenders, whether for political reasons (Russia) or economic (Argentina). Moreover, these loans have come without the kinds of policy conditions normally imposed by the International Monetary Fund.” If China can already provide help on its own, with the partnership of the remaining BRICS nations, it might just be the support needed to rival the IMF. Bypassing the IMF and changing the world currency by setting up a new institution would be the real threat to the dollar, and ultimately the economic well-being of the U.S.
Also, China is not alone on this goal. The reason for the BRICS countries being referred to as giants has everything to do with their growth compared to the growth of the U.S. and other leading European countries from the G7, which up until now were the major economies of the world. According to the article titled, “When Giants Slow Down; Emerging Economies,” “From 1993 to 2007 China averaged growth of 10.5% a year. India, with less reliance on trade, managed an average of 6.5%, more than twice America’s average growth rate. The two countries’ combined share of global output more than doubled to nearly 16%.” But although these numbers are certainly significant, can these giants truly rival the U.S.? After all, the BRICS countries are still considered developing countries. In addition, some think that BRICS, despite its tremendous and noteworthy growth over the past years, still doesn’t have what it takes to sustain the world. In “An Acronym with Capital; The BRICS Bank,” it says that “Even when the NDB’s capital eventually rises to $100 billion, including from non-BRICS states and institutions, it would leave most of the developing world’s infrastructure needs unmet. The World Bank estimates that South Asia alone requires $2.5 trillion over the next 10 years.” It could very possibly be that the global status of the U.S. economy is not reachable at this point, at least not within the foreseeable future. Also, during this time, who is to say that the economy of the U.S. will not be back on top, which is what seems to be happening after the setback from 2007 to 2009. Josh Zumbrun, national economics correspondent for The Wall Street Journal, confirms that “In its latest round of economic forecasts, released Monday with the president’s budget, the White House sees the unemployment rate falling below 5% by the end of 2016, the lowest since before the recession. The White House sees growth of 3% this year and in 2016—the best
back-to-back years since 2004 and 2005.” The U.S. has been successful in not only rising to the top, but also making sure that it stays in that position.

According to a report of data and statistics from the International Monetary Fund’s website, the U.S. will continue to be a leader when it comes to GDP per capita. If we go by the estimates of the staff at the IMF, the United States will continue to be a leader in 2020. Figure 1 illustrates these findings.

**Figure 1: Gross domestic product based on purchasing-power-parity (PPP) per capita GDP in 2020 according to IMF staff estimates.** The United States is still ahead in per capita GDP.

![GDP Per Capita Chart]

Source: www.imf.org. Data and Statistics. World Economic Outlook Database. Figure created by Valeria Rohde.

If these predictions are correct, it seems the U.S. has nothing to worry about. But what do others think? The response to the BRICS and the New Development Bank have been somewhat diverse among economists and scholars. On the one hand, it is believed that the goal of the New Development Bank is to create a new world currency, which will in turn bring the dollar’s reign to an end. In Forbes.com, Jordan Totten writes that, “While BRICS and their financial
order won’t crash the dollar overnight, but it is still fair to suggest the trend is taking shape. Whether formed with malicious intent or economic interest, the global political and financial implications are serious. Removing the dollar as global reserve status will be detrimental to the U.S. economy if austerity measures are not implemented.” From this, one would think that the U.S. dollar is facing its inevitable fall, but yet, others think that the BRICS have reached the end of their growth and don’t necessarily pose a real threat to the United States, the IMF, or the dollar. Professor of Economics Michel Chossudovsky writes that, “While the creation of BRICS has significant geopolitical implications, both the AIIB as well as the proposed BRICS Development Bank (NDB) and its Contingency Reserve Arrangement (CRA) are dollar denominated entities. Unless they are coupled with a multi-currency system of trade and credit, they do not threaten dollar hegemony. Quite the opposite, they tend to sustain and extend dollar denominated lending.” This is definitely a more positive view. Furthermore, Chossudovsky explains that the BRICS: “are heavily indebted countries with central bank reserves substantially below the level of their external debt. Their contribution to the two BRICs financial entities can only be financed:

- by running down their dollar denominated central bank reserves and/or
- by financing their contributions to the Development Bank and CRA, by borrowing the money, namely by “running up” their dollar denominated external debt.

In both cases, dollar hegemony prevails.” What is very interesting, though, and worth noting is his final comments which would be more in agreement with Totten. Chossudovsky closes by saying, “While the BRICS initiative from the very outset has accepted the dollar system, this does not exclude the introduction, at a later stage of a multiple currency arrangement, which
challenges dollar hegemony.” Still the argument continues and depends on whether the New Development Bank will be a successful institution, and whether the BRICS nations will continue to cooperate with each other to maintain the goal of changing the world economy. After all, each one wants what is best for itself.

In conclusion, maybe now that the IMF has a potential rival, the U.S. will work harder towards approving the reformation of the IMF to assist more in the creation of projects for less fortunate countries and to give the growing economies the recognition they deserve. Surely, the U.S. will try to maintain its dominance in the world economy, while China will continue its efforts to advance the New Development Bank and the BRICS. It could very well be that America is the only nation that can sustain the kind of economic power it has for a while. Yet, this should be an eye opener for things to come and maybe the IMF does have some work to do.

Works Cited


