

## CHAPTER 2

# POLITICAL AND ECONOMIC GOVERNANCE

## PILLAR

BRICS member states should share experiences and improve existing initiatives on good governance and transparency both within the ambit of global multilateral cooperation and domestically in member countries.

## INTRODUCTION

BRICS, as a grouping of emerging economies with individual as well as collective political heft, has flourished despite recent attempts to write it off. However, what has indeed been missing from the discourse around BRICS among believers and agnostics alike is a discussion of the nature of the grouping. Is it merely a grouping of like-minded economies that emerged on the world-stage around the same time? Or is it – as some trenchant critics of the grouping have dubbed it – an *arriviste* anti-Western political bloc?

It has been recently argued that BRICS is neither, and that the right framework to view BRICS through is that of regimes and regime complexes from a liberal-institutionalist perspective. The explication of this point of view on BRICS is not merely academic – viewing BRICS as a collection of loosely-coupled regimes can help elucidate the central global governance challenges of the 21<sup>st</sup> century, that of reconciling multilateralism with multipolarity.

Regimes are a collection of norms. Regime complexes are a set of interacting and yet loosely-coupled norms. BRICS, as a multiplicity of regimes, does the following: (1) it promotes context-specific developmental goals, (2) it seeks to redress the unfairness of global political and economic architectures, and (3) it acts as a self-help group in an anarchic and uncertain international system.<sup>2</sup> The central challenge of political and economic governance from the perspective of

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1 Abhijnan Rej and Samir Saran, *Thinking BRICS: A Conceptual Inquiry Into Emerging Powers Plurilateralism* (New Delhi: Observer Research Foundation, forthcoming).

2 Ibid.

BRICS is to see how – as a regime-complex – it interacts with other regimes (political and economic) in a way that multilateralism is strengthened under the precondition of multipolarity.

The goal of this chapter is to take a regime view of BRICS and outline the key developments in the global political and economic space over the past year, as well as the challenges going forward. This chapter also seeks to make policy recommendations from this point of view.

## **ECONOMIC GOVERNANCE**

### **BRICS and mega-FTAs**

In the Asia-Pacific alone, the number of free-trade agreements (FTAs) has grown from three in 2000 to 40 in 2014 (or 71, if one counts the unreported ones). BRICS has to now engage seriously with the problems emerging from spill-overs from this spaghetti bowl.

Two regional mega-FTAs (RTAs) that have been actively discussed over the past year stand out for special scrutiny: the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP). Both are extremely ambitious, covering merchandise goods, as well as services, and have large behind-the-border regulatory contents spanning intellectual property rights (IPRs), labour, and environmental standards. TTIP and TPP both aim at zero general- and customs-tariffs for trade. Both are also highly politico-strategic in nature: TPP seeks to place the US as a hegemonic Asian power while TTIP seeks to convince its Atlantic allies that their ‘special relationship’ is very much alive. In many ways, both TPP and TTIP are examples of what could be called a piecemeal approach by the Americans to guarantee open trade regimes in Asia and across the Atlantic, with terms dictated by the hegemonic power, in accordance with hegemonic stability theory.

None of the BRICS states are members of either agreement. A goal for BRICS countries should be to see if membership or otherwise, leveraging these RTAs, works to their individual benefit. After all, a study has compared RTAs to street-gangs: “You may not like them, but if they are in your neighbourhood, it is safer to be in one.”<sup>3</sup> “The new regionalism,” the same paper added, “lays down

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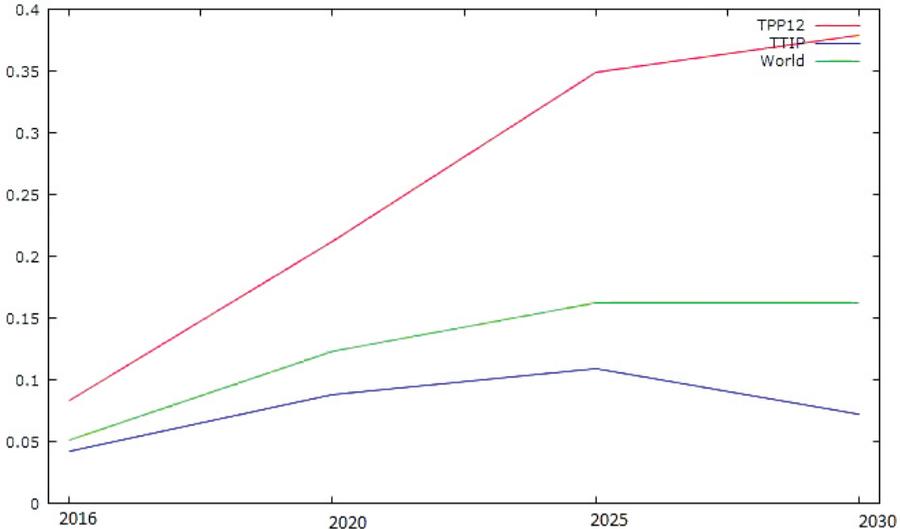
3 Jo-Ann Crawford and Sam Laird, *Regional Trade Agreements and the WTO*, CREDIT Research Paper 00/3 (University of Nottingham, 2000), .

a challenge to be bettered at the multilateral level.”<sup>4</sup> Indeed this propositional challenge is what BRICS – as a regime-complex – should engage with going forward. This would require strengthening both the World Trade Organisation (WTO) as well as its linkages with Bretton-Woods institutions.

Based on specific assumptions fed into general equilibrium macroeconomic models (specifically, the General Trade Analysis Project (GTAP)), the estimated GDP change over baseline (in percentage) for founding TPP and TTIP members, and the world as a whole, is given below as a time series from 2016 to 2030.

Tables 1 and 2 summarise the effects of TPP and TTIP on BRICS states’ macroeconomic variables, where the simulation hypotheses are 100 percent tariff liberalisation for TPP partners, and the same between the US and the EU (for TTIP) – and that the BRICS states stay out of the RTAs in question.

FIGURE 1  
GDP change over baseline (in %) – 2016-2030<sup>5</sup>



4 Crawford and Laird, *Regional Trade Agreements and the WTO*, 17.

5 Data for graph from: Dan Ciuriak and Jingliang Xiao, “Quantifying Mega-regional Spillovers into Excluded Countries: Impacts on East Africa,” in *TPP and India: Implications of Mega-regionals for Developing Economies*, ed. Harsha Vardhana Singh (New Delhi: Wisdom Tree, 2016), 182.

TABLE 1  
Impact of TTIP on BRICS<sup>6</sup>

Macroeconomic Variables	Brazil	Russia	India	China	South Africa
Nominal GDP	-0.12%	-0.08%	-0.13%	-0.16%	-0.11%
Real GDP	0.00%	0.00%	-0.01%	-0.02%	0.00%
Variation in Trade Balance	-0.20%	0.00%	-0.20%	-0.10%	0.10%
Variation in Exports %	-0.17%	-0.08%	-0.14%	-0.14%	-0.13%
Variation in Imports %	-0.16%	-0.11%	-0.14%	-0.12%	-0.13%
Terms of trade	-0.07%	0.01%	-0.05%	-0.05%	-0.03%
Real Wage	-0.01%	0.00%	-0.01%	-0.01%	-0.01%
Capital Gains	-0.01%	0.00%	-0.01%	0.01%	-0.02%
Land Gains	-0.37%	-0.01%	-0.12%	-0.30%	-0.24%
Real Exchange Rates	-0.12%	-0.09%	-0.135%	-0.15%	-0.12%

TABLE 2  
Impact of TPP on BRICS<sup>7</sup>

Macroeconomic Variables	Brazil	Russia	India	China	South Africa
Nominal GDP	-0.26%	-0.01%	-0.21%	-0.38%	-0.20%
Real GDP	-0.01%	0.01%	-0.01%	-0.07%	-0.01%
Variation in Trade Balance	-0.40%	-0.20%	0.40%	-1.10%	-1.40%
Variation in Exports %	-0.37%	0.01%	-0.26%	-0.60%	-0.26%
Variation in Imports %	-0.35%	-0.02%	-0.16%	-0.40%	-0.24%
Terms of Trade	-0.17%	0.11%	-0.15%	-0.28%	-0.11%
Real Wage	0.04%	0.00%	-0.04%	-0.05%	-0.06%
Capital Gains	-0.03%	0.01%	-0.04%	0.03%	-0.04%
Land Gains	-0.25%	0.04%	-0.29%	-1.41%	-0.15%
Real Exchange Rates	-0.26%	-0.02%	-0.22%	-0.34%	-0.21%

6 Vera Thorstensen and Lucas Ferraz, "The Impact of the Mega-Agreements on the BRICS: In Search for a New Global Governance for Trade at the WTO," working paper, [http://bibliotecadigital.fgv.br/dspace/bitstream/handle/10438/16358/BRICS-TERN-Impacts%20of%20TTIP-TPP%20on%20the%20BRICS%20Economies%20\(1\).pdf?sequence=1](http://bibliotecadigital.fgv.br/dspace/bitstream/handle/10438/16358/BRICS-TERN-Impacts%20of%20TTIP-TPP%20on%20the%20BRICS%20Economies%20(1).pdf?sequence=1).

7 Thorstensen and Ferraz, "The Impact of the Mega-Agreements on the BRICS."

Experts on BRICS states have proposed various strategies to deal with the emergence of RTAs. A section of their views – which by no means should be seen as the prevailing consensus – is presented below.

### **Brazil**

Using GTAP simulations, analysts conclude that while Brazil will not suffer significant losses in its balance of trade by staying out of the TTIP, it will most certainly suffer from second-order effects as the competitiveness of its trading partners in the TTIP increase. This will cause trade imbalance. On the other hand, Brazil in TTIP will see significant gains from its agricultural exports. The flipside to this is an over-valued currency which will make industrial imports more expensive. As for TPP, Brazil's biggest concern is whether and when China accedes to the TPP. China is Brazil's largest trading partner – agricultural commodities purchase from Brazil drives the bilateral trade relationship. If China accedes to the TPP, Brazil's agricultural exports will suffer. On balance, analysts conclude that Brazil should aim to join the TTIP.<sup>8</sup>

### **Russia**

Political problems currently make Russia's membership of the TTIP and possible accession to the TPP next to impossible. Analysts estimate that Russia stands to lose \$1 billion annually by 2025 by not being in the TPP. Russia sees its Eurasian Economic Union (EEU) as an answer to the US-led RTAs, but the EEU currently lacks sufficient muscle. Russia's best bet at the moment is to push for a Free Trade Area of the Asia-Pacific (FTA-AP) through which it stands to gain \$152.3 billion. As two Russian analysts described it, "The best option for Russia to avoid economic losses and isolation is to promote the idea of the FTA-AP instead of complaining that it is not at the negotiating table."<sup>9</sup>

### **India**

The main issue for India with regard to membership in the TPP are intrusive "transactional" micro-issues – often behind-the-border regulations – and the contentious issue of IPR and India's pharmaceutical industry. India also sees the

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8 Vera Thornstensen and Lucas Ferraz, The Impacts of TTIP and TPP on Brazil, FGV-CCGI AND EESP Paper, January 2014, <http://www.eubrasil.eu/http://www.eubrasil.eu/wp-content/uploads/2014/05/Publications-TTIP-e-TPP-ENG-16-0114.pdf>.

9 an Teresinski and Christopher Hartwell, "The Impact of TPP on Russia," *Russia Direct*, October 8, 2015, <http://www.russia-direct.org/opinion/impact-trans-pacific-partnership-russia>.

macro-issues around tariffs as a *fait accompli* in the TPP.<sup>10</sup> When it comes to the TPP's IPR regulations, which go beyond the WTO's Trade Related Aspects of Intellectual Property Rights (TRIPS), incorporating the more stringent patent restrictions grouped under TRIPS+ (TRIPS plus), Indian analysts complain that (1) they clash with the Indian Patents Act, (2) they reduce the scope of the Doha Declaration on TRIPS and public health which commits to 'medicine for all' (and thereby compromises the position of India's generic medicine industry), and (3) that TRIPS+ provisions suggest longer patent lives, and more stringent penalties for IPR violations.<sup>11</sup> However, many Indian analysts also acutely sense the incongruity of a leading Asian power like India – and a close strategic partner of the US – not being in the TPP. Many leading Indian analysts have suggested that India prepare to accede to the TPP in the future.

### China

China's issues with the TPP are similar to India's. There is an additional sense that China considers its developmental trajectory unique, and that the TPP has the potential to destabilise regional trade and economic order. China prefers the Regional Comprehensive Economic Partnership (RCEP) – an alternative to the TPP covering almost all of the same countries. Given TPP's uncertain prospect, RCEP is now attracting more and more attention and to some extent has the potential to offset the negative effects of TPP on China's economic and trade development. From the economic point of view, observers also see the TPP and the RCEP in competition with the consequence that "if the TPP succeeds, the RCEP, with relatively low openness, would be unattractive."<sup>12</sup> At the same time, China believes that free trade is beneficial to the economic development of a country and follows the trend of the times. With this view, China is giving more and more support to the construction of FTAs at the multilateral level. Xi Jinping, China's President, clearly conveyed such a message at the 2016 Asia Pacific Economic Cooperation (APEC) meeting, saying that "We need to stay committed to increasing openness in the Asia-Pacific economy, support the multilateral trading regime, and realise the Free Trade Area of the Asia-Pacific (FTAAP) at an early date".<sup>13</sup>

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10 Jayanta Roy and Pritam Banerjee, "Twenty-First Century Trade Challenges and Reforms: The Indian Response," in *TPP and India*, 61.

11 Roy and Banerjee, "Twenty-First Century Trade Challenges and Reforms," 63.

12 Ronglin Li and Yang Hu, "RCEP, TPP, and China's Free Trade Agreements," in *TPP and India*, 216.

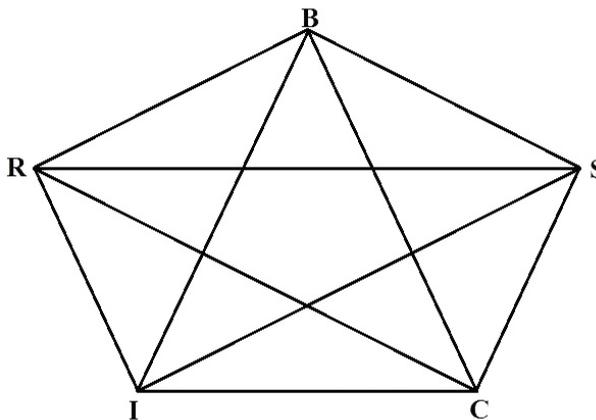
13 [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1417829.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1417829.shtml)

### South Africa

South African analysts feel that their country's trade strategy has to balance (1) the existing project to integrate with the rest of the African continent through the tripartite FTA involving the Common Market for Eastern and Southern Africa (COMESA), the South African Development Community (SADC) and the East African Community (EAC), (2) manage its historic trade relationships with the global South, and (3) manage the trade relationships with the West through the European Union's (EU) Economic Partnership Agreements (EPAs), and the US African Growth Opportunity Act. One South African analyst writes: "It is imperative that South Africa recalibrate its trade strategy by taking advantage of the TTIP as leverage with the EU in managing the contradictions posed by the EPAs. Its focus should be on both developing its trade relations with the US and safeguarding the African integration agenda in Eastern and Southern Africa."<sup>14</sup>

The path forward for BRICS in dealing with the emergence of RTAs – as an intra-BRICS issue – should be to formalise bilateral FTAs between all BRICS states (see figure below). These FTAs should be coherent (i.e. consistent with one another) and should adopt the best features of ambitious FTAs such as the TPP, keeping the local developmental context in mind.

FIGURE 2  
BRICS bilateral FTAs network



14 Francis A. Kornegay, Jr., BRICS, *Mega-Regional FTAs and South Africa's Trade Strategy*, Economic Diplomacy Programme Occasional Paper No. 191 (Johannesburg: South African Institute of International Affairs, 2014), 9.

*Linkages with the WTO*

The causal links between the weakening of the WTO and the rise of RTAs are still not clear – did RTAs arise because the GATT/WTO system was insufficiently speedy in keeping up with the pace of liberalisation some economies advocated? Or was – and is – it being weakened because of the rise of RTAs and other FTAs and preferential trade agreements which have given economies a set of different venues to establish norms of trade? Whatever be the case, strengthening the WTO system, especially its linkages with the Bretton-Woods institutions, should be high on BRICS's priority.

Brazil and India have played a significant role in shaping the WTO through “green room” and corridor diplomacy.<sup>15</sup> This has been out of self-interest: Brazil, as a major agricultural exporter, was a leader of the Cairns Group (formed to lobby for agricultural trade liberalisation), while India's IT- and business-services-driven economy meant that it had a strong interest in the ‘Mode 4’ discussions, which relate to temporary migration of workers, in the General Agreement on Trade in Services (GATS).<sup>16</sup> China has played by WTO rules scrupulously despite its ‘non-market economy’ status and “onerous conditions, which in the view of some analysts ‘violate fundamental WTO principles’.”<sup>17</sup> These mean that the BRICS states are well-placed to strengthen the WTO in constructive ways, by power of their example and persuasion. But at the same time, BRICS states should insist on more representation at the WTO Secretariat, and push for a refashioning of that institution as an avenue for dispute settlement for members of the proposed RTAs.

More fundamentally, as noted earlier, BRICS should push for greater linkages between the WTO and the Bretton-Woods institutions. The open-economy ‘trilemma’ arising out of the Mundell-Flemming model – which shows the impact of global interest rates and exchange rates on domestic economies – has implications for trade policy as well.<sup>18</sup> A mandate for greater coordination between the WTO, the International Monetary Fund (IMF), and the World Bank

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15 Brendan Vickers, “The Role of the BRICS in WTO: System-Supporters or Change Agents in Multilateral Trade,” in *The Oxford Handbook on the World Trade Organization*, ed. Amrita Narlikars, Martin Daunton, and Robert M. Stern (Oxford: Oxford University Press, 2012), 260.

16 Vickers, “The Role of the BRICS in WTO,” 257.

17 Vickers, “The Role of the BRICS in WTO,” 259.

18 Steven Bernstein and Erin Hannah, “The WTO and Institutional (In)Coherence in Global Economic Governance,” in *The Oxford Handbook on the World Trade Organization*, 779.

– called the Coherence Mandate – was finally signed in 1996.<sup>19</sup>

It is clear that despite these official declarations, trade policy and global monetary policy are quite out of sync. Witness the decision by the US Federal Reserve to raise its interest rate in December 2015, which made the dollar stronger relative to other currencies – in the absence of monetary policy coordination with other sovereigns. This, in turn, had the usual implications for importers who were now faced with paying *more* for their imports. Already BRICS states' imports were falling due to a fall in export of commodities up and until December 2015<sup>20</sup>, and the rising dollar added to the pressure.

### *The rules of the monetary game*

The end of fixed-exchange rates in the 1970s did not end dollar dominance. If anything the continued hegemony of the US economy – roughly twice the size of its peer competitor, China – has meant that US monetary policy has significant transmission and spill-over effects. The US decision to follow a path of unconventional monetary policy (UMP) – quantitative easing (QE), in particular – as well as its experiments with policy rates have had significant consequences for emerging economies. While none of the spill-overs from US policy has triggered a serious balance-of-payment (BoP) crisis so far, they do have the potential to do so. Suppose, for instance, there is a dramatic increase in US interest rates. This would make the dollar much more expensive, raising the import bills of other economies. If exports remain constant – assuming that other countries do not depreciate their currencies in retaliation (a “currency-war”-type of situation) – a *drastic increase in US interest rates can in fact trigger a BoP crisis.*

The BRICS Contingent Reserve Arrangement (CRA) acts a safety net to manage BoP crises through spill-overs. However, as last year's chapter of this report notes, “safety nets fail to completely insure the inherent systemic risk that emanates from adverse spill-overs [...] and an over-reliance on the US dollar.”<sup>21</sup> What is required is fixing the rules of the global monetary game that assesses and rates the monetary policies of the hegemonic power based on their spill-over

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19 Bernstein and Hannah, “The WTO and Institutional (In)Coherence in Global Economic Governance,” 781.

20 Brad Setser, “Hard to Pay for Imports Without Exports (BRICS Trade Contraction),” *Follow the Money*, Council on Foreign Relations, June 21, 2016, <http://blogs.cfr.org/setser/2016/06/21/hard-to-pay-for-imports-without-exports-brics-trade-contraction/>.

21 Ibid.

effects. This is what BRICS should take up as a key policy push over the next year.

The idea of rating and assessing spill-over effects of UMPs and interest rates of hegemonic and other advanced economies was advocated last year by the then Reserve Bank of India Governor Raghuram Rajan, in a paper he wrote along with a colleague, Prachi Mishra. They gave the following list of policies that could be rated, based on their spill-over potential: (1) direct exchange-rate manipulation, (2) “discreet” beggar-thy-neighbour policies such as UMPs, and (3) policies influencing capital flows, credit growth, and asset-price bubbles, such as interest rate regimes.<sup>22</sup> A concrete example of (2) is that of the US’s QE which lowers the yields of US Treasury bonds by 25 bps causing the dollar to depreciate by one percent.<sup>23</sup> They suggested rating these policies in a graded/colour-coded manner which would signal to advanced economies the effects of their policies on smaller economies. They also proposed that the task of rating monetary policies be entrusted to a group of eminent international private experts. It is proposed here that the research institute the BRICS Bank (or New Development Bank) is setting up, the New Development Bank Institute (NDBI) should implement the Mishra-Rajan proposal in tandem with its research on CRA.

Indeed BRICS – as a normative regime-complex -- should go further, and push for the incorporation of new rules of the monetary game – which are sensitive to negative spill-overs for emerging markets (EMs) and least developed countries (LDCs) – at the IMF itself. The IMF Article of Agreement IV calls for member states to “avoid manipulating exchange rates,” though the meaning of “manipulation” is left unclear in that document.<sup>24</sup> It has been suggested that “indirect policies such as monetary, fiscal and trade policies” that affect exchange-rate movement in a way that benefits a single country be also brought under the ambit of ‘manipulation’ under IMF rules.<sup>25</sup> As BRICS pushes its agenda for IMF reforms, this should be a priority area.

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22 Prachi Mishra and Raghuram Rajan, *Rules of the Monetary Game*, RBI Working Paper Series (DEPR) 04/2016 (New Delhi: Reserve Bank of India, 2016), 8-9.

23 Mishra and Rajan, *Rules of the Monetary Game*, 15.

24 Mishra and Rajan, *Rules of the Monetary Game*, 19.

25 Ibid.

## POLITICAL GOVERNANCE

The view of BRICS as a regime-complex, or a multiplicity of loose interacting norms, has consequences for political governance as well. They extend from United Nations (UN) reforms to management of new global commons, and a new non-hegemonic conception of responsibility-to-protect (R2P) which would entail a greater BRICS role in UN peacekeeping operations. Thus BRICS – as a set of implicit norms – is also consequential for the future stability of the Middle East.

### UN reforms

Consider the issue of reforms of the UN Security Council (UNSC). This plurilateral institution's reform is an area on which all five states' expectations converge, as evident from the statements of the foreign ministers of all five at the UN General Assembly last year.<sup>26</sup> This is not an issue of empty solidarity. BRICS states have been extremely uneasy with the manner in which dominant powers like the US, the UK and France, have tried to use the UNSC to push for de-facto unilateral use of force in Syria and Libya, in the guise of R2P.<sup>27</sup>

If the UNSC is to maintain its position as an avenue for the sanction of legitimate use of force, it has to be representative – this is the BRICS's position as a regime complex where the two norms, reform of multilateral institutions and the undesirability of unilateral use of force, interact.

### New frontiers

The Paris summit last year was one avenue pertaining to the global commons where BRICS states coordinated their expectations. This was also an example of how two regime complexes – BRICS and climate change<sup>28</sup> – interacted. BRICS should also work on coordinating expectations through new norms around the 'emerging frontiers' – cyberspace and outer space.

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26 IANS, "BRICS Foreign Ministers Endorse UN Security Council, IMF Reforms," *New Indian Express*, September 30, 2015, <http://www.newindianexpress.com/world/BRICS-Foreign-Ministers-Endorse-UN-Security-Council-IMF-Reforms/2015/09/30/article3055361.ece>.

27 Michael J. Boyle, "The Coming Illiberal Order," *Survival*, 58:2 (2016), 35-66.

28 Robert O. Keohane and David G. Victor, *The Regime Complex for Climate Change*, The Harvard Project on International Climate Agreements Discussion Paper 10-33 (2010).

On cyberspace, the overwhelming majority of new users of the Internet now reside in Africa and Asia and, consequently, institutions such as BRICS – an admixture of Southern and Eastern countries – should shape the norms in such a way as to inspire other Asian and African countries “to maintain the openness, resilience, security, and stability of the digital realm.”<sup>29</sup> This would involve diplomatic pushes to identify convergences against the backdrop of global standards being promoted through the TPP’s (and, *inter alia*, the US’s) ‘Digital Two Dozen’ (D2D) standards of practices. (The D2D is a set of 24 aims and rules the US would like incorporated in all trade agreements involving the digital economy.) But BRICS should also aim for lower – and easily-achievable – goals such as creation of an “ecosystem of regulations and norms that can be used across BRICS economies.” This, in turn, would facilitate the creation of a BRICS-wide e-tailing network (discussed in a later section of this chapter).

Outer space is a venue of rapid militarisation with few restraining norms, most of them residues of the Cold War.<sup>30</sup> Further, civilian use of outer space would require a new set of norms which should be shaped by the BRICS regime, seeking space for context-specific developmental goals – such as new regimes for laws on liability from damages from man-made objects and instruments in space for civilian use (even when there is no negligence involved).<sup>31</sup> Because of the nascent stage of the global space regime, this is a significant opportunity for BRICS to step in, and shape it equitably.

### **R2P and peace-keeping**

As noted earlier, BRICS has strongly opposed quasi-unilateral military action in the past in the guise of R2P. Yet, BRICS’s stance on the use of force in civilian protection should be propositional and not oppositional. One area in which BRICS states could contribute significantly is in UN Peace-Keeping (UNPK) operations.

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29 Sunjoy Joshi, “India Can Help Nurture a New BRICS-Driven Digital Order for the World,” *Wire*, April 30, 2016, <http://thewire.in/32699/indian-presidency-can-help-nurture-a-new-digital-brics-order/>.

30 “Treaty on Principles Governing the Activities of States in the Exploration and Use of Outer Space, including the Moon and Other Celestial Bodies,” United Nations Office for Outer Space Affairs, <http://www.unoosa.org/oosa/en/ourwork/spacelaw/treaties/introouterspacetreaty.html>.

31 For a discussion of laws of outerspace, see Robert P. Merges and Glenn H. Reynolds, “Rules of the Road for Space?: Satellite Collisions and the Inadequacy of Current Space Law,” *Environmental Law Reporter* 40:1 (2010), 10010-10011, <https://www.law.berkeley.edu/files/article-2011-10-40.10009-1.pdf>.

BRICS states have significant presence in UN peacekeeping operations. There is a convergence of expectations between the BRICS actors here as well. One BRICS report puts it in the following way: “The interest in maintaining peace and security in their own regions is directly related to their status as leaders and their vision that regional stability will probably result in development, cooperation and mutual trust.”<sup>32</sup> But ‘out-of-area’ peacekeeping – and ‘full-multilateralisation’ of UNPK operations is also something that BRICS states would have to invest in looking forward. India’s recent commitment to train African troops in peacekeeping (with the US) is a welcome step in this direction.<sup>33</sup>

### The future of the Middle East

No other region of the world poses as much threat to peaceful existence and development in the extant world order as much as the Middle East, with the rise of transnational terrorist groups such as the Islamic State (ISIS). At the same time, the BRICS position has been that humanitarian intervention in that area – or even for the purposes of self-defence – cannot be a purely-unilateral decision, especially given the potential negative spill-overs from the same. The Middle East cannot also be allowed to become a theatre for great-powers play. It is in this context that BRICS has to constructively develop solutions to (1) reverse the advances made by ISIS in that area, and (2) resolve the existing political differences there. This can only happen under a multi-stakeholder normative framework.

Geopolitical analysts from the Middle East have already called for bringing the BRICS countries to the table in resolving the situation there. Syrian Foreign Minister Walid Al Moualem visited China and India in January 2016 in a bid to unite the Russian position on Syria with that of these two countries. One analyst noted: “The Indian Ministry of External Affairs (MEA) website states that during the current unrest, “Syria has deeply appreciated the support...from India and other members of BRICS at the UNSC.”<sup>34</sup> The BRICS position on the Middle

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32 Mônica Herz and Antonio Ruy de Almeida Silva, *BRICS and Peacekeeping Operations*, Policy Brief (Rio de Janeiro: BRICS Policy Center, 2010), 9, <http://bricspolicycenter.org/homolog/uploads/trabalhos/2732/doc/980910839.pdf>.

33 Dinakar Peri, “India, U.S. to train African troops for U.N. peacekeeping,” *The Hindu*, July 24, 2016, <http://www.thehindu.com/news/national/india-us-to-train-african-troops-for-un-peacekeeping/article8891542.ece>.

34 Kadira Pethiyagoda, “India on Syria: The rising power’s position on a global conflict,” Brookings Institution, January 13, 2016, <http://www.brookings.edu/research/opinions/2016/01/13-india-on-syria-pethiyagoda>.

East should be that the status-quo, however unpalatable, may be preferable to upending the regional order completely – as seen from the disasters arising from western interventions in the Middle East, in Iraq and Libya, in particular.

## **ADDITIONAL RECOMMENDATIONS**

The following – in addition to the policy recommendations made in the body of this chapter – should be key action items in the political-economic governance agenda for BRICS in general, and its bank's research arm, the NDBI, in particular. The notion of the NDBI was proposed by Indian Prime Minister Narendra Modi last year who called for it to “function as a bank of ideas, a storehouse of experience and a knowledge powerhouse.”<sup>35</sup> It has been argued in the past that the effectiveness of regimes is often contingent on “providing high-quality information to policymakers.”<sup>36</sup> The NDBI will, thus, consolidate the BRICS regime-complex.

### **Supporting the Contingency Reserve Arrangement**

For the full functioning of the CRA, an early-warning system must be developed which keeps an eye on currency markets. This early-warning system should also develop advanced research capabilities in exchange rate hedging. The NDBI could develop and sustain a strong research base in this direction. In effect, it could act as an observatory of global financial markets, an expert base for foreign exchange issues, and a hub for BRICS macro-prudential measures.

### **Development of Capital Markets**

Currently, most of corporate capital expenditure on new projects in BRICS countries such as China and India is through bank loans, underscoring the imperative of strengthening of local currency bond markets (LCBMs) and enhancing financial inclusion, so that retail investors bring requisite depth to the capital markets within BRICS. At the same time, the NDBI can look at policies to facilitate trade of local bonds in other BRICS countries.

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35 “Main statement by the PM in the BRICS leaders’ meeting,” November 15, 2015, [www.narendramodi.in/main-statement-by-pm-in-the-brics-leaders-meeting-375932](http://www.narendramodi.in/main-statement-by-pm-in-the-brics-leaders-meeting-375932).

36 Robert O. Keohane, “The Demand for International Regimes,” *International Organization* 36:2 (1982), 354.

The NDBI should facilitate knowledge creation around LCBMs. Currently such cooperation around Asian LCBMs is through European institutions. The NDBI should also leverage such institutions for further cooperation. This is in line with the BRICS ‘Master Agreement in Extending Credit Facility in Local Currencies’.

### **Innovation, Entrepreneurship and a BRICS-wide Digital Economy**

Disruptive innovations drive economic growth and productivity gains. Given the dwindling costs of applied research, BRICS economies are well placed to leverage technology to drive sustained economic competitiveness. At the same time, the uneven growth of local innovation in the BRICS region remains a matter of concern. It is also recognised that for innovative activity to be sustainable – in the sense of self-generation – the private sector must play a much larger role than it currently does. One mechanism through which this can happen is by the creation of a BRICS venture capital fund for spurring innovation in high-technology sectors. The NDBI should provide the knowledge base around global best practices in venture capital ecosystems. This is in conformity with the long-term BRICS agenda to promote entrepreneurship and small businesses.

A five-country e-tailing network should be set up, supported by BRICS-wide payment and clearing mechanisms. This network should sit atop the network of bilateral FTAs as depicted in Figure 2. The payment architecture can be based on the alternative to the SWIFT payment structure already mooted by BRICS, and through new non-intrusive financial technologies such as blockchain (popularised by ‘bitcoins’). This network’s principal challenge would be to develop “market architecture by which, say, an Indian can source Brazilian pineapples, with payment routed through a BRICS payment network and cleared in Indian rupees.”<sup>36</sup>

### **Meeting Sustainable Development Goals**

The success of the Sustainable Development Goals (SDG) will – in large part – be determined through the achievement of domestic targets in BRICS countries. There is therefore a natural synergy within the BRICS countries in terms of ensuing SDG implementation. A case-in-point is SDG 2, pertaining to agriculture and

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37 Samir Saran and Abhijnan Rej, “BRICS to Build the House,” in *Primer 2016*, ed. Ritika Passi (New Delhi: Observer Research Foundation, 2016), 25.

nutrition. The additional targets in SDG 2 – 2(a), 2(b), and 2(c) – call for greater integration of agricultural markets, improvement of trade and re-examination of subsidies and other tariff barriers, and finally, an examination of the role of derivatives agricultural commodities markets. BRICS countries are now among the drivers of the WTO agenda towards food security and integration of global agricultural markets. The NDBI could therefore prioritise research in the global agricultural commodities markets which take national interests into account.

### **Enhancing South-South cooperation**

One of the critical shortcomings of the ‘South-South Cooperation’ framework instituted by emerging and developing countries is the lack of cutting edge research on the subject. South-South Cooperation spans diverse areas including trade, investment and technical cooperation. Since these overlap with areas that concern economic integration and development cooperation of BRICS countries – and indeed many of the official outputs of the BRICS process such as the BRICS statistical handbook provide ready reference material for the study of South-South Cooperation – it is only fitting that the NDBI delves into how to leverage closer South-South Cooperation.