

## ISSUE BRIEF

*"Advancing the Strategic Potential of India-US  
Relations, Accelerating India's Economic Development"*

Vol. 3, Issue 6

August 7, 2014

### A BRICS Castle in the Sky

Why India needs to temper its expectations of the BRICS Development Bank

by Sanjay Pulipaka and Aman Raj Khanna



The agreement to establish the New Development Bank at the Brazil, Russia, India, China and South Africa (BRICS) Summit in Fortaleza, Brazil, has received widespread approbation in India. The perception is that the formation of the BRICS Bank is a significant step towards creating a multi-polar and a balanced world order that would overtime reduce the domination of the West led by the United States (US). However, this perspective tends to overlook the absence of a common value base and the existence of diverse notions of multipolarity resulting from intense power politics within the BRICS framework.

The BRICS platform did not emerge as a consequence of ideological congruence or a clearly defined normative agenda. It is indeed fascinating that a grouping of countries, which some scholars regard as a response to western hegemony, came into existence as a consequence of a report by a western corporate entity. The phenomenon of the rise of BRICs was first advanced by the Jim O'Neill, a former Goldman Sachs economist, in his work titled "Building Better Global Economic BRICs." Once the concept was articulated, the constituent countries over time reflected on the possibility of working together to create a more balanced world order.

Further, the BRICS countries have contradictory conceptions of what a multipolar world order means. Russia's concept of multipolarity, for example, is qualitatively different from that of India. Following

"Issue Brief" is produced by the Indian Council for Research on International Economic Relations (ICRIER), an autonomous, policy-oriented, not-for-profit economic policy think tank. ICRIER's main focus is to enhance the knowledge content of policy making through research targeted at improving India's interface with the global economy.

ICRIER does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s)

© 2014 by the Indian Council for Research on International Economic Relations (ICRIER)



**ICRIER - Wadhvani Chair in India – US Policy  
Studies**

**Amb. Hemant Krishan Singh**  
Chair Professor

**Sanjay Pulipaka**  
Fellow

**Aman Raj Khanna**  
Research Associate

**Sylvia Mishra**  
Research Assistant

recent developments related to Ukraine, Russia's multipolar construct increasingly revolves around China.

On the other hand, India's desire for a robust multipolar world order particularly in the recent past, is a direct consequence of the rise of China and its hegemonic assertions of "core interests" and territorial claims in Asia.

China per se is not genuinely interested in a multipolar world. If that were indeed the case, it would have likely advocated India's inclusion as a permanent member in the Security Council of the United Nations (UNSC), instead of its tepid approach to the issue. Its interest, rather, lies in establishing a new type of great power relationship with the US contingent upon the balancing of the US presence in the Asia-Pacific, and the accommodation of China's predominance in Asia.

As the BRICS process picks up momentum, India will also face challenges with the diverse set of values of its member states. What will be the nature of the rule-based framework that the BRICS Bank will follow? While some may have reservations with the US approach to human rights or with the way international organizations work on governance and universal values, it does not imply that these values have no salience for India. It will be particularly difficult for India to find consonance with the Chinese approach in conducting international affairs. For example, at the height of the Darfur crisis, China promised to build a presidential palace for the government of Sudan as a sweetener for other economic deals. One wonders if India would ever be comfortable with such an approach towards external policy, especially where its core national interests are not at stake. These differing ideals will ultimately impact the way the BRICS Bank functions.



There is an indication that in future the BRICS Bank may extend lending to non-members as well. Let us assume, for a moment, that tomorrow the Taliban sweeps into power in Afghanistan and seeks BRICS Development Bank assistance for reconstruction work. Given China's close relationship with Pakistan, it would be inclined to at least consider if not accede to the request of a Taliban government. What then is India to tell the BRICS Bank executive: that it must factor in human rights and gender rights in its donor programmes in Taliban controlled Afghanistan?

Furthermore, it is argued that the BRICS Bank's working principle of equal rights would insulate India from power politics involving China. However, in the discussions preceding the Bank's inauguration, Indian officials were quoted as saying that Russia and China appeared to have coordinated their positions well in advance. This should not come as a revelation. Sanctions from the US and its allies have brought Russia closer to China than ever before. The recent \$ 400 billion gas deal between Russia and China is yet another example of growing convergence between the two nations. Given this dynamic, India should not be surprised if they consistently vote together in the BRICS Bank. With superior financial power at its disposal and a UN veto in its pocket, China can create conditions for either Brazil and/or South Africa to abstain, reducing the Indian vote to a minority.

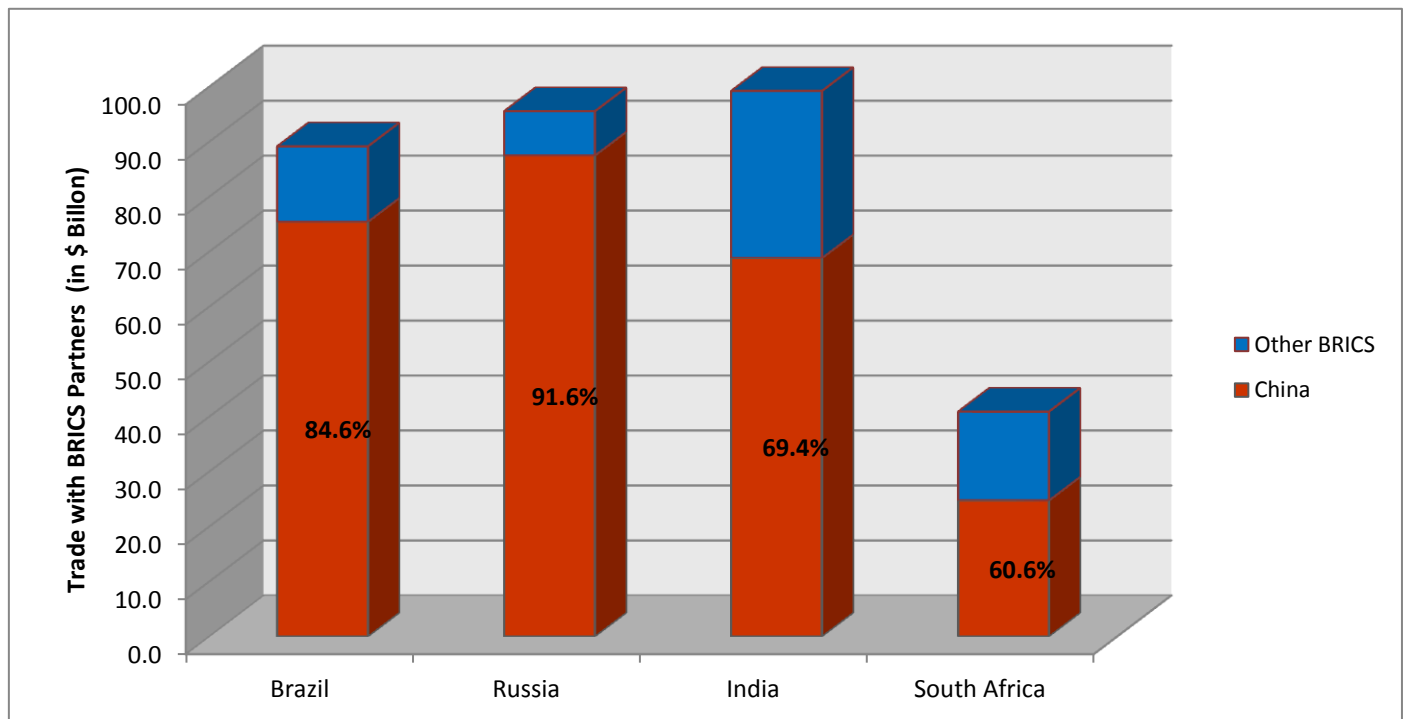
It is not surprising, therefore, that India, Brazil and South Africa (IBSA) retain a tri-partite forum of democracies within the larger ambit of BRICS. The IBSA countries, which incidentally have relatively lesser resources at their disposal, are conscious of the fact that they may get played one against the other and are seeking to band together. What is the glue that holds this forum together? It is the common bond of democratic governance. It looks like India cannot run away from value based diplomacy after all.

Through its active participation in the BRICS Bank initiative, India has signaled a willingness to work closely with China. What explains this shift? First, it is the disappointment that other international organizations such as the UN and its multilateral financial institutions (IMF and World Bank) have not treated India in a manner commensurate with its status as a rising power. Second, it is the propensity of the western countries led by

the US to impose sanctions and pursue punitive trade tactics to achieve their political and economic objectives.

India-US economic relations have in the recent past witnessed significant headwinds, as India finds itself continually taken to task by the US over domestic economic policies. Protracted disagreements over intellectual property rights and various other trade issues have elicited a strident response from the US. In fact, in April 2014, India narrowly evaded classification as a 'Priority Foreign Country', the category reserved for the worst offenders of intellectual property rights by the US Trade Representative (USTR), which would have resulted in punitive trade measures (and retaliatory actions by India as well).

**Figure 1: China's Share of Inter-BRICS Trade**



Source: The World Bank, World Integrated Trade Solution (WITS)

India's disappointment with the high handed and unilateral US approach on trade issues and its failure to advance reforms of multilateral institutions like the IMF is understandable. Even so, there is little possibility that the iniquitous world order can be addressed through frameworks such as BRICS, as it is essentially a China-centric construct. A simple analysis testifies to China's outright dominance of inter-BRICS trade. For Brazil, Russia, India and South Africa, even the aggregate value of trade with one another pales in comparison with their individual trade relationships with China (Figure 1). It is also relevant to consider the strategic relevance of resource rich nations Brazil, Russia and South Africa in addressing China's burgeoning appetite for natural resources to supply its industries and fuel its economy. A qualitative analysis of trade reveals the preponderance of raw materials in exports to China for each of the nations, with India as the only exception (Figure 2). It would not be far-fetched to consider that the BRICS Bank could further facilitate China's overall strategic ambitions by allowing for greater influence on development projects in each of these 'pipeline' nations. The presence of India in this arrangement may only serve to lend legitimacy to Chinese global economic engagement practices.



ICRIER - Wadhvani Chair in India – US Policy Studies

Indian Council for Research on International Economic Relations

Core 6A, 4<sup>th</sup> Floor

India Habitat Centre

Lodhi Road

New Delhi-110 003

Phone:

91 11 43112400 X 402 /435

Fax:

91 11 24620180

Website:

WWW.ICRIER.ORG/ICRIER\_WADHWANI

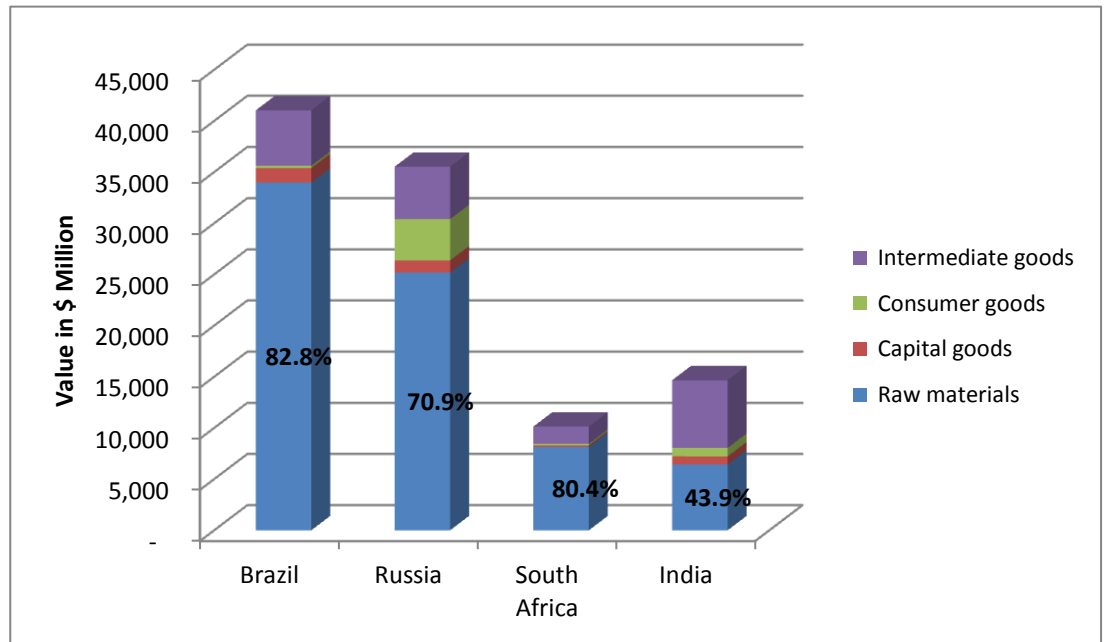
E-Mail:

uschair@icrier.res.in

ISSUE BRIEF  
Vol.3, Issue 6  
August 2014



Figure 2: Share of Raw Materials in Exports to China



Source: The World Bank, World Integrated Trade Solution (WITS)

Given these fundamental structural challenges, India's expectations from the BRICS framework need to be tempered. It is indeed ironic that India is pursuing the creation of a more balanced world order by working alongside with China, even as China busies itself containing India to a limited role in South Asia. For India, BRICS is a brittle framework fashioned at great cost to its strategic autonomy, as the inherent dichotomy – working with China to balance the West and simultaneously checking China's dominance – is unsustainable.

India must not give up on efforts to update, rebalance, and reform the existing multilateral institutions which have been normative anchors of the global economy for seven decades. It must also seek to play a more vigorous role in the G20 as the premier forum for global economic cooperation.

\*\*\*

\* Sanjay Pulipaka and Aman Raj Khanna work as Fellow and Research Associate at the ICRIER-Wadhvani Chair in India-US Policy Studies respectively. The views expressed are personal.