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Short Communication

The New Development Bank and Multilateral Trade Facilitation Agreements on BRICS

Giwa

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HATASO

The New Development Bank and Multilateral Trade Facilitation Agreements on BRICS

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Abstract

Brazil, Russia, India, China, and South Africa (BRICS) have made a tremendous economic impact on the world. Through the New Development Bank (NDB) and the Trade Facilitation Agreement (TFA) by the World Trade Organization, they have become stronger. This article made use of different views to discuss the implication of the NDB and TFA on BRICS. No empirical analysis was carried out. From the viewpoints of other scholars, the Trade Ministers of the BRICS and the World Trade Organization, the NDB and TFA can enhance intellectual and economic growth in the BRICS countries.

Keywords: BRICS; New development bank; NDB; Multilateral trade facilitation agreements; TFA.

1. INTRODUCTION

BRICS association has over the years become contributors to the world economy and international development (BRICS, 2017). As Iqbal and Netswera (2019) put it, they are a global hegemony of the global south. Since 2015, the combined economic growth of the BRICS countries equaled 34% of the world gross domestic product . They hold 40% of the world population. The countries have also played significant roles in the provision of investment and knowledge and in providing steady growth in the supply of goods and services (BRICS, 2017). One of the notable projects embarked on by the BRICS countries is the formation of the New Development Bank (NDB).

In July 2014, during the fifth BRICS summit in Fortaleza, the NDB was formed, and it was launched in 2015. The establishment of the NDB shows the close relationship that exists between the BRICS nations and the involvement of other emerging markets and developing countries (EMDCS), which empowers them in their economic cooperation (NDB, 2017). The NDB is a multilateral development bank. The bank uses experiences from existing institutions to fashion policies and overcome challenges imposed by the global trends. Furthermore, one of the key focus areas of the NDB is sustainable infrastructure development. About two-thirds of finances will be dedicated to this area within the first 5 years of operation. Other areas of development include financial assistance toward projects, issuance of bonds, a public–private partnership at sovereign and subsovereign levels, and incorporation of sustainability in various projects. These are just a few interests among others. Additionally, NDB has a relationship founded on equity, mutual respect, and trust. It also aims to be fast, flexible, and efficient through a design of streamlined projects review and the implementation of oversight without unnecessary bureaucracy (NDB, 2017).

The BRICS countries are making a profound impact and steadily capturing the world's economy. As this is taking place, a trading system that can enhance the economic growth of the BRICS countries must be duly considered. The Trade Ministers of the BRICS nations acknowledged the importance of an open and rule-based multilateral trading system for which the World Trading Organization (WTO) is to set rules. The BRICS countries are members of the WTO; therefore, the multilateral trade agreement is binding to all the BRICS countries. The Trade Facilitation Agreement (TFA) was concluded in 2013, and it was officially enforced in February 2017. The purpose of the agreement is to address barriers to trade constituted by strenuous border requirements. This agreement will promote quicker release and clearance of goods between borders. It will also contribute to transparency and efficiency and reduce bureaucracy and corruption, hence making trade easier, quicker; it helps to reduce the cost of trade (Global Alliance for Trade Facilitation, 2018). An Organisation for Economic Co-operation and Development study reveals that the agreement could reduce the cost of trade by 12.5 and 17.5% in developing nations (O'Keeffe and Viilup, 2015). The BRICS countries indicated their commitment to the multilateral trading system by implementing the TFA immediately after it was formed. This was made possible through "Category A" of the agreement—which states that members will implement the trading agreement by the time it enters into force (O'Keeffe and Viilup, 2015).

2. IMPLICATION OF THE TFA ON BRICS

The TFA is a tool implemented by the WTO to enhance trade among its members. The implementation of the TFA is to help developed and developing countries reduce border costs and inefficiencies leading to considerable gains (Ayres, 2015). According to the World Customs Organization (2014), developing countries are expected to save about US$325 billion a year. Furthermore, over the last two decades, the share of BRICS in global trade has increased. BRICS accounted for only 3% of global trade in 1990. This share has increased over the years with BRICS accounting for 19% of global exports and 16% of global imports of goods and services. Among the BRICS countries, China maintains itself as the highest exporter and importer of merchandise in goods. Likewise, China is the largest trade partner for each of the other BRICS nations, having a trade share ranging from 72 to 85% in intra-BRICS trade. South Africa holds the least share in each of the other BRICS markets (Mathur and Dasgupta, 2013).

The World Customs Organization (2014) is of the opinion that the TFA is undoubtedly a benefit for the countries since unnecessary costs will be avoided and everyone will be better off. Therefore, TFA is a great help in providing legal certainty and predictability when transacting businesses. The TFA implementation can contribute to economic growth and recovery, alleviate poverty, and improve revenue collection. Greater transparency will occur through the publication of specified trade information in an easily accessible manner. Improved governance is also a benefit of the TFA. The Agreement requires governments to review their export and import formalities of transit and documents that are required to ensure quick release and clearance of goods.

The BRICS countries differ greatly in their volume of trade, structure, dependence, and environment, which can lead to different behavioral responses to tariffs and trade facilitation. For instance, China, being the largest export-orientated country, is more sensitive to tariffs and trade facilitation due to its large volume of trade and manufactured goods and primary goods. Brazil and Russia, on the other hand, are also sensitive to trade facilitation and tariffs (Ayres, 2015). An empirical analysis by Wu *et al.* (2013) reveals that the BRICS countries' openness to the TFA will increase their aggregate economy levels as well as social welfare and export, especially for China and Russia. However, unbalanced economic growth may occur for some of the BRICS countries. According to Vadra (2017), countries such as South Africa may fall short behind China in terms of economic performance.

In as much as the TFA poses promising and long-lasting result benefits, there come with it some challenges and setbacks. According to Widdowson *et al.* (2019), the lack of cooperation and coordination between government border authorities may occur. This can affect the smooth and proper running of national trade facilitation committees and the implementation of a single window. Secondly, lack of information and communication technology capability, obsolete software and hardware, and the limited capacity of both public and private sector agents to handle transactions electronically may be a problem later in the future. These areas of concern may obstruct the implementation of electronic payment and a single-window, which requires the use of information technology. Thirdly, many nations do not have a legal basis for the application of TFA measures. Fourthly, there is understaffing and lack of training programs for government officials as well as private sectors. The challenges mentioned remain a threat for the BRICS nations (Ayres, 2015).

Furthermore, the 7th meeting of the Trade Ministers held in 2017, in Shanghai, China, showed how the BRICS nations are embracing the TFA. According to the minister of trade, the BRICS believe that the trade facilitation will promote global trade development through reduced trade costs and improved trade efficiency and business environment. For the BRICS trade facilitation to be improved and to strengthen cooperation on the basis of the framework of BRICS single-window cooperation, the BRICS have set up a Model E-Port Network, which will operate on a voluntary basis under the contact group on economic and trade issues. Also, the 8th meeting of the trade ministers held in 2018, in Magaliesburg, South Africa, acknowledged that the multilateral trading system enabled through the TFA has significantly contributed to economic growth, development, and employment.

3. IMPACT OF THE NEW DEVELOPMENT BANK

The NDB represents a "significant move by emerging countries to break away from the traditional demo-recipient model advocated by the Western nations for more than six decades" (Stuenkel, 2015). The Bank was launched with US$50 billion as a capital set up of which each BRICS member contribute US$10 billion. The key focus of the Bank is to mobilize resources for infrastructure and sustainable projects for BRICS and other emerging and developing economies (BRICS, 2017). Most of the projects financed and approved by the NDA are focused on renewable energy, and over more than US$1.5 billion for the finance of infrastructure projects in member countries (Geall, 2017). Likewise, since the operation of the Bank, an initial loan of US$811 million was directed to renewable energy projects in member countries (NDB, 2016). As of 2017, the aim of the NDB was to approve more than 15 projects totaling US$3 billion (BRICS, 2017).

Each member country of BRICS has a special interest in the NDB. China's interest, for instance, is in a political form. The Chinese want to gain more influence abroad through the enhancement of Chinese presence in world affairs, especially in the developing world. Also, the Chinese Government sees the NDB as a way to enhance its multilateral strategy of investment diversification. While the Chinese interest is political, this is not the case for South Africa and India. Their interest is from an economic view. They believe that the NDB can assist their economy through the financing of projects, such as green energy. They see it as a significant additional factor in a global financial transaction (Rinaldi, 2017). Aside from the financial assistance rendered by the NDB, the Bank may assist South Africa with skills and expertise for infrastructure, such as the building of railways and locomotive construction by the Chinese to help Africans (Mabanga, 2015). In addition, the Bank would enhance foreign direct investment, which can spur the economic growth of South Africa and India. In the case of Brazil, their interest in the NDB is a tactical one. The country is positioning itself to maintain soft power credentials; also, the NDB can provide the country with direct and institutionalized access to political leadership (Stuenkel, 2020). The interest Russia has is that of international relations. The Russians want to prove their dominance without the influence of Europe or the United States (Rinaldi, 2017).

Considering the interest of the countries discussed earlier, one may wonder if truly their desires are being met by the NDB. In the case of China, the headquarters of the Bank is located in Shanghai; therefore, China in a way is showing its affluence and a nation to be reckoned with as it is home ground for the Bank; this is so because different factors would have been considered before the decision was made, such as experience and knowledge. In the case of Russia, the first Chair of the Board of Governors is from that country. The Board of Governors approves operations of nonmember EMDCS. This means that Russia has an affluent role to play in the NDB. This also applies to Brazil; the first Chair of the Board of Directors is from Brazil. Therefore, Brazil has a pertinent role to play in the NDB. South Africa and India have enjoyed the financial input of the NDB (Schalk, 2015). Over US$1.5 billion has been approved for renewable energy projects; however, this also applies to other member countries (Geall, 2017). Furthermore, the BRICS countries have equal rights and equal voting rights, which show equity among the countries (Schalk, 2015).

In as much as the NDB offers tremendous benefits and advantages, few concerns are raised. According to NDB (2017), one of the major concerns for the Bank is that it may not be able to fully meet the demand for infrastructure financial assistance with just the contributions from the BRICS member countries. Furthermore, one key issue is the willingness of leaders and high-ranked authorities to establish institutional sets to undertake long-term financial and political commitments toward the longevity of the Bank. Other concerns surround the relationship of NDB with other financial institutions, especially, the World Bank and the International Monetary Bank (Rinaldi, 2017).

4. CONCLUSION

This article looked and considered general views and implications of the NDB and the multilateral TFA on the BRICS countries. In conclusion, the NDB exists to assist its member countries mainly with infrastructure shortcomings. Since the establishment of the Bank in 2015, it has embarked on some projects worth US$1.5 billion for its member countries with the view of doing more. Overall, the Bank has been of great benefit and relief for the BRICS member countries, both financially and in terms of human skills. However, the areas of concern and challenges are factors that need to be considered in the near future. Also, the TFA is undoubtedly a benefit for the BRICS countries. It has brought many transformations for the BRICS countries through quick clearance of goods and better and improved organization for the countries.

Conflict of Interest
None.

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