

Update on globalization (BRICS)

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Representing four continents, approximately two-fifth of the global population, one-fifth of the global GDP (Gross Domestic product, i.e. the value of all officially recognized final goods and services produced within a country) and an enormous amount of daily economic transactions, the BRICS (acronym that refers to the countries of Brazil, Russia, India and China) has emerged during the last four years as one of the most powerful voices from the resurgent global South.

The BRICS offers an important opportunity to emancipate a large number of under-developed, under-fed and undernourished populations from the global South. It is believed that increased intra-BRICS trade has the potential to reduce poverty in these economies. For example, India can benefit considerably from the technological expertise of China, agricultural skills of Brazil, and South African expertise on non-renewable energy resources.

The decision of the BRICS to set up a BRICS Bank is an assertion of this role.

The recently concluded BRICS Summit (in Delhi) (decided) that banks of the five countries will now directly buy and sell currencies of the other members of the BLOC. At present, financial transactions between these countries in are made through New York or London. This entails currency conversion two times. (sic!) Also, both the paying and receiving countries have to maintain an account in a bank in New York to be able to undertake these transactions. This will no longer be necessary as the central bank of Brazil will directly receive rupees and exchange them for the Brazilian real. This small change can be of momentous significance. The dollar's role as the global reserve currency arises substantially from the fact that most international transactions are routed through this currency. This role of the dollar will recede and, in same proportion, the chance of the yuan or the rupee becoming the global reserve currency will increase. In a decade from now we may find that most transactions between the developing countries are made directly through such systems.

The establishment of a development bank along the lines of the World Bank will be explored. The World Bank has a fundamental anomaly: A majority of its shares are held by the developed countries while lending is almost wholly done to the developing countries. The tendency of the World Bank is to protect the interests of its shareholders rather than of the borrowing countries. A shopkeeper sells goods to make profits for his owner. He sells those goods which give a good margin even if the quality is inferior. He says he is providing cheap and good quality goods to the customer but actually he is looking for highest margins. Similar conflicts of interest are routinely faced in development banking.

The stated objective of the World Bank is to remove poverty but the actual functioning is to protect interests of its shareholders. The World Bank is very much interested in promoting globalisation that allows entry to the Western multinational companies.

The Western countries are irritated with this proposal because it undermines their influence and lays the groundwork for the developing countries leading their own path unfettered by the guidance of the World Bank.

The western multinationals have a formidable combination of capital, technology and management. It may be difficult for the BRICS countries to individually face them. They may be able to face them collectively, however. Brazilian technology, Chinese capital and Indian management could together take on the biggest of the multinational corporations.

BRICS offers, perhaps, the most powerful challenge to the western dominance of the global order.