

BRICS: AN ALTERNATIVE TO WORLD BANK AND IMF

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ABSTRACT: *The purpose of this paper is to evaluate and study the objective, functions and the role of Brazil, Russia, India, China, South Africa (BRICS) New Development Bank as a financial institution. This paper will also analyze whether BRICS has the potential to be alternative to World Bank and International Monetary Fund (IMF), destabilizing the current development finance framework. More importantly, if the BRICS Bank project succeeds, what are the possible scenarios for the field of development cooperation? All countries in the world have their own national interests. BRICS members too have their national interests and they have realized that BRICS Bank is a useful idea for advancing those interests. As BRICS is a combination of diverse geographical and cultural backgrounds, it will be imperative to know how these diverse countries cooperate in a world which is largely dominated by the USA and its influence on two financial institutions namely World Bank and IMF.*

Key Words: *Financial Institutions, financial order, GDP, IMF, Role of NDB, Sustainable Development, World Bank.*

INTRODUCTION

Since the end of World War 2nd World Bank and the International Monetary Fund (IMF) emerged as the pre-eminent international financial institutions (IFIs). These international financial institutions were established to aid in the reconstruction of the war-ravaged economies and to help order the international monetary, exchange rates and payments systems. Their roles have evolved overtime and today they are viewed *inter alia* as dictating access to development aid, monitoring the world's economies and promoting free-market policies. The BRICS bloc of countries (Brazil, Russia, India, China and South Africa) at their 6th Summit held in Brazil in July 2014 formally created what is popularly known as the "BRICS Bank" seemingly as an alternative to the unchallenged dominance of the World Bank and the IMF. With its headquarters in Shanghai, the "BRICS Bank" takes the form of two new institutions. The New Development Bank (NDB), with US\$50 billion in initial capital, will finance infrastructure and sustainable development projects, somewhat like the World Bank. The Contingent Reserve Arrangement (CRA), with US\$100 billion in initial capital, will provide assistance to members in financial difficulty, much like the IMF.

BRICS member states saw the establishment of their Bank as providing them leverage to urge reform of the International Monetary Fund as well as impacting broader global economic issues and the leadership of international organizations such as the World Trade Organization. Brazilian President, Dilma Rousseff, declared that the BRICS were not seeking to distance themselves from the Washington-based International Monetary Fund; "on the contrary, we wish to democratize it and make it as representative as possible. China's official Xinhua news agency, however, said in an editorial: "The plans of the emerging-market bloc of BRICS to establish a development bank usher in a long-awaited and helpful alternative to the Western-dominated institutes in global finance".

The Roles and Functioning of the World Bank and the IMF

Popularly known as the Bretton Woods institutions, the IMF and World Bank were founded in 1944 by a collective agreement of 44 countries. The World Bank officially started in July 1944 and the IMF in December 1945. Driscoll (1996), writing for the IMF, described the two institutions as twin pillars supporting the structure of the world's economic and financial order. The original aims of the IMF were to: promote international monetary cooperation; facilitate the expansion and balanced growth of international trade; Promote exchange rate stability; Assist in the establishment of a multilateral system of payments and make resources available to members experiencing balance of payments difficulties.

The IMF: Today the IMF is an organization of 188 countries with a central responsibility for promoting global economic stability. In addition to the above aims the IMF "seeks to ... promote high employment and sustainable economic growth, and reduce poverty around the world" (IMF, 2015). To undertake its global

role the IMF has three broad functioning mechanisms –surveillance of financial and monetary conditions in member countries and the global economy, financial assistance to help countries overcome major balance of payments problems and technical assistance and advisory services to member countries (Nelson & Weiss, 2015). Despite some changes to its structure and operations the IMF continues to be plagued by broad complaints and accusations by many of its member countries leading to calls for deep reforms. Kapur and Webb (2006) in a G-24 Policy Brief explained that the calls for IMF reform cover every aspect of the Fund from its surveillance role to its role in debt management and emergency lending, to the nature of its advice and governance. Accusations include non-inclusiveness in IMF decision making despite the growth and prominence of many economies. Emerging market economies and developing countries (EMEDC), including BRICS countries, are demanding a more equitable representation consonant with their current economic strength. Further, the size of IMF resources has not kept pace with increased economic activity in the global economy (Nelson & Weiss, 2015).

The World Bank: Upon its inception in 1944, the main focus of the World Bank was the reconstruction of war ravaged European and other nations. However, according to the World Bank (2015a), while reconstruction remains an important part of its work, at today's World Bank, “poverty reduction through an inclusive and sustainable globalization is the overarching goal...” The World Bank has expanded from a single institution, the International Bank for Reconstruction and Development (IBRD) to a closely associated group (The World Bank Group) of five development institutions. Reference to the “World Bank” usually includes the two main development lending arms, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) and that reference will be maintained in this work. In broad terms the International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and some creditworthy low-income countries while the IDA provides interest-free credit and grants to government of the poorest nations of the world. Some critics of the World Bank claim that the institution is ignoring the environmental and social impact of projects it supports. Further critics assert that the World Bank’s lending is causing high and perpetual debt among developing countries resulting in more being spent on debt obligations than on basic social services. (The Levin Institute, State University of New York, 2015). Underemphasized from the World Bank’s focus is infrastructural development. Although some WBG projects have some infrastructural components and a few countries have road and water projects, public infrastructure (roads, bridges etc.) is seemingly not a focus for the World Bank lending at this time. The World Bank however recognizes that there is a serious infrastructure gap in developing countries as a whole and estimates the infrastructure gap in low and middle-income countries as a whole at US \$1 trillion. The World Bank concludes that access to basic infrastructure services in these countries remain an issue (World Bank, 2015b).

BRICS countries and the Nature of the BRICS Bank

According to data provided by the World Bank (2015d)¹³ the BRICS represent approximately 42% of the world’s population and account for approximately 22% of global Gross Domestic Product (GDP), in current US dollars, and over 30% of Gross National Income (GNI) based on Purchasing Power Parity (PPP) in 2014. A significant feature of the BRICS bloc is that it is comprised of mainly large emerging market economies, some with leading growth rates in their respective regions and globally. China is the most populous country in the world and the second largest global economy with an output of US\$10.36trillion and 7.4 % economic growth in 2014. India is the second most populous country, ranked 9th in terms world GDP and its economy grew by 7.4% in 2014. Russia is the 10th largest economy in the world. Brazil is the largest economy in Latin America, the most populous country of the LAC region and the 7th largest economy in the world. Brazil is also among the world’s largest food producers (Wolfe, 2008). South Africa is ranked an upper middle income country; it is the second largest economy in Africa and was ranked 33rd in the world, by size of GDP, in 2014 (World Bank, 2015d). The other four BRICS economies ranked between 2nd and 10th by size of GDP. Total trade between the BRICS countries was \$6.14 trillion, or nearly 17 percent of the world’s total in 2013.

The BRICS Bank

The BRICS at their 6th Summit held in Brazil in July 14-16, 2014 created what is popularly known as the BRICS Bank (a pair of two institutions) headquartered in Shanghai, China. The official names for the pair are the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA). The BRICS Bank was created out of a concern that the architecture and governing structure of existing IFIs should be restructured and should reflect the changes in the world economy, increasing the voice and representation of emerging economies and developing countries. (Pant, 2011).

While there are other components and agreements coming out of the summit, for example a Cooperation Agreement on Innovation and a Memorandum of Understanding (MOU) for cooperation among BRICS export credit insurance agencies, this study will highlight the following two components :-

- A) New Development Bank (NDB) funded by a \$50 billion pool of resources. Each of the five countries is expected to contribute \$10 billion to create a multilateral financial institution in a way modeled after the World Bank.
- B) Contingent Reserve Arrangement (CRA) which is a \$100 billion fund geared toward providing short term liquidity support to members of the group in similar fashion to the operation of the IMF.

BRICS will be: competitor or substitute;

The extent to which the NDB BRICS can be considered an alternative to the World Bank is analysed through first defining which criteria must be met for a Multilateral Development Bank to be effective in the current system, and then comparing how the two banks fulfill these criteria to measure their operational effectiveness. A qualitative approach allows an understanding of the ways in which the NDB BRICS differs from the well-established World Bank in terms of size, financial capabilities, organisational structure, and interaction with other development organisations. However, the differences, it is argued, are not as groundbreaking as they may first seem. It is postulated that the NDB BRICS offers a continuation of the trends, shifts, and movements seen in the Multilateral Development Banks which came before. The NDB BRICS thus provides a substitute in choice to the World Bank, and plays a complimentary role in the system it so strongly objected to at its establishment.

"The roots of the World Bank and IMF still lie in the post-world war two environment... We should see the BRICS bank as part of a new paradigm to share resources and...achieve a win-win outcome." Pravin Gordhan, Minister of Finance, South Africa, Speaking at the 5th BRICS Summit in Durban, South Africa.

For two weeks in July 1944 the ideas of three men were debated and deliberated to create much of the International Economic System as we know it today. The economic policies of the then US Treasury Secretary Henry Morgenthau, his chief economic advisor, Harry Dexter White, and British economist John Maynard Keynes, guided negotiations between the delegates of 44 countries representing the global economic powers of the UK, the United States of America, and the Allied Forces of WWII at the Bretton Woods Conference in New Hampshire. The conference established two institutions to regulate the International Monetary System: the International Monetary Fund (the IMF) and the International Bank for Reconstruction and Development (IBRD). 71 years later in July 2015, three different men stood on a stage in Shanghai before delegates of 57 countries to officially inaugurate the New Development Bank BRICS (NDB BRICS). Launched by its President Kunda Vaman Kamat, the Chinese Foreign Minister Lou Jiwei, and the Mayor of Shanghai Yang Xiong, the NDB BRICS was proudly introduced as “an alternative to the...World Bank and International Monetary Fund”.

The BRICS: Building a new international financial order?

From the 3rd until the 5th of September 2017 the 9th BRICS summit took place in Xiamen, China, bringing together the leaders of Brazil, Russia, India, China, and South Africa. On the concluding evening of the summit country leaders from Egypt, Kenya, Tajikistan, Mexico, and Thailand joined the BRICS country leaders, discussing important topics on the global agenda.

The BRICS countries account for 40 percent of the world's population and have accounted for a large share of world economic growth mainly due to China's and India's high growth rates. It is also largely thanks to the economic rise of these two countries that absolute poverty has decreased globally. Today, BRICS accounts for around 23 percent of the world's domestic product.

2017 summit title is “Stronger Partnership for a Brighter Future” — and aims to promote economic collaboration (e.g., the development of the one belt, one road (OBOR) initiative), political and security cooperation, people-to-people exchanges, and the enhancement of BRICS cooperation in global institutions like the International Monetary Fund (IMF), World Bank, and World Trade Organisation (WTO). This is meant to give more voice to developing countries and emerging economies, and to create BRICS institutions like the New Development Bank (NDB) and Contingent Reserve Arrangement (CRA) (as complements to both the World Bank and IMF).

An organization with the same purpose as the International financial institutions but with a new approach to development funding and non-Western countries at the helm is now a reality. The NDB intends to be an inclusive development bank. Its leadership composition and location, for example demonstrate this: “The first chair of the Board of Governors shall be from Russia. The first chair of the Board of Directors shall be

from Brazil. The first President of the Bank shall be from India. The headquarters of the Bank shall be located in Shanghai.” The BRICS also intend the NDB to change how development funding is managed and perceived. Petropoulos explains that “If aid from China and other emerging powers can be understood to be an attractive alternative to the aid provided by the US, it would decrease the long-term ability of the Western world to enforce unwanted economic conditions and reforms and would strengthen the relative influence of emerging powers such as China and Brazil.” Shen observes that the NDB’s launch allows developing countries to focus on infrastructure projects: “...the World Bank is unable to give assistance thoroughly. Besides, the economic and political conditions imposed are hard to accept as most applicant countries have learned hard lessons.”

Those “hard lessons” are explained by Wolff who describes the economic paradigm guiding the western approach to providing funds to developing countries, the Washington Consensus. This is the consensus between the IMF, the World Bank, and the U.S. Treasury about the *right* policies for developing countries: “The discord between loan conditionality and development objectives is rooted in the IMF and World Bank’s governance structure permitting dominant shareholders to utilize conditionality as a means of furthering their own global economic and political agendas.” The NDB allows the BRICS to provide infrastructure and other development funding in a manner they believe to be more effective for emerging market and developing countries than the International financial institutions. In their recent evaluation of the BRICS’ objectives behind launching the NDB, Qobo and Sokocontend, “The BRICS countries have realised that it makes little sense to depend on the largesse of advanced industrial economies that have a vested political interest in maintaining the status quo. They have thus formed their own development bank as a way to indirectly push for reforms in global financial institutions; the bank serves as a mechanism for drawing resources outside of the framework of existing International financial institutions – notably the IMF and the World Bank – in order meet infrastructure needs and address sustainable development challenges.”

They believe the BRICS are working toward three key “outcomes:” addressing significant gaps in infrastructure that impact the BRICS and other developing countries; building “bargaining capacity” when dealing with the west through increased collaboration with developing countries and emerging economies; and increasing the BRICS’ ability to set the agenda and create “new rules and norms” in international processes. With the NDB commencing operations in early 2016, it will be some time before success can be evaluated. At this point, however, the success achieved simply by launching the bank cannot be overlooked. For 60 years, the Bretton Woods Institutions have been “the only game in town.” For two decades or more, the BRICS and others have been unsuccessfully pushing for reasonable reforms. A paradigm shift in global governance has occurred: the BRICS have concluded that it is no longer necessary to always work with the West. If what the West offers isn’t working, then the BRICS will simply create a structure of their own.

Objectives, Functions and Role of New development bank

The term BRIC (Brazil, Russia, India and China) firstly coined by chief economist of Goldman Sachs (Investment Banker) in year 2001. In a paper titled “Building better economic BRIC’s” the term specially focus on four emerging economy which are culturally, geographically and demographically disparate. These communities first time met in New York as a group in year 2006. In year 2009 South Africa join BRIC communities. The new name therefore BRICS (Brazil, Russia, India, China and South Africa) it’s a symbol of super power communities. The tag line of BRICS is “Zero poverty, Zero unemployment and Zero net carbon”. The BRICS New Development Bank was created in mid- 2014 by the government of BRAZIL, RUSSIA, INDIA, CHINA and SOUTH AFRICA. It will have a fairly large capital contribution initially of US\$ 50 billion from BRICS countries from other countries. It will fund in infrastructure and sustainable development on a significant scale. The Role of the BRICS New Development Bank Productive development: If NDB have the better financial and technical support of banks, the BRICS bank would provide a valuable addition to the existing network of multilateral, regional and national development banks, which seems to perform far better support for productive development.

Existing and experience bank: BRICS bank can and will initially benefit from the experience and expertise of existing successful development bank. Like World Bank and IMF at the multilateral level.

Valuable platform for finance: BRICS bank will be a valuable platform for Developing and emerging countries.

Achieving sustainable development: BRICS bank help to achieve policy aims, such as helping to achieve the sustainable development goals. BRICS bank provides a important instrument and fund national, regional and global strategies.

The achievements of BRICS.

The BRICS grouping have achieved much since the first political dialogue in September 2006 and the first BRIC Summit which took place in June 2009. In the seven years since the first Summit, the BRICS countries have established the New Development Bank (NDB), and the Contingent Reserve Arrangement (CRA), amongst other initiatives. In my new, these are quite significant achievements in a relatively short period of time. For the purposes of this talk, I would like to focus on these two initiatives:

The establishment of the BRICS NDB marked a milestone in BRICS co-operation and as mentioned by some analysts is a testament of the "coming of age" of these countries in the world of development finance. Others have mentioned that the NDB was established to challenge the post-Second World War international economic order, that is, the Bretton Woods System. However, as has been indicated previously by many other BRICS colleagues, one of the objectives of the NDB is to promote South-South co-operation and to better serve the needs of developing countries through the promotion of infrastructure and sustainable development. Against this background, the NDB should rather be seen as a complement to, rather than a challenge or as competition to existing Bretton Woods institutions. In the future, the World Bank and the NDB may look to co-operate and by so doing, enhance the international development financing system.

The new development bank is well under way in mobilising resources for infrastructure development projects. The NDB has appointed its first President and has a fully functioning Board of Governors and Board of Directors. The NDB has already disbursed its first funds for renewable energy projects in all five BRICS nations, while the NDB Board has also approved the first five year Yuan bonds. The new development bank is in the process of seeking an international rating where after issuance on international markets will be pursued.

What makes the NDB a "new" development bank. Firstly, it has new financing sources in that the financing will come from the world's major developing economies, within the framework of new South-South co-operation. Secondly, the financing is largely devoted to meeting the needs of developing countries for infrastructure development. This is different because MDBs are largely devoted to reducing global and regional poverty along with many other priorities, which limits the finance available for infrastructure development. Thirdly, it has new financing mechanisms which focuses on a more equal and balanced development partnership in the relations between major developing countries and with their smaller developing counterparts. The NDB plans to use market-oriented operations to reduce loan costs and provide innovative loan facilities so that developing countries will have a more robust, flexible and customer-oriented development finance service. The CRA Treaty of the BRICS countries was signed in July 2014 and came into effect a year later with the finalisation of all the operational requirements pertaining to the Treaty. The CRA is basically a self-managed contingent reserve arrangement to forestall short-term balance of payments pressures, provide mutual support and further strengthen financial stability. Once again, as with the establishment of the NDB, the CRA is not meant to replace any financing arrangements under the IMF, but is rather a complement to existing international monetary and financial arrangements and in the main helps to strengthen the global financial safety net. The arrangement is important because it provides the possibility to quickly obtain additional liquidity in the event of a crisis. As yet, none of the BRICS countries have had a need to call upon the CRA.

To what extent can the NDB BRICS be expected to become an alternative to the World Bank?

In brief, to the extent that other MDBs are an alternative: as a substitute source of development financing to its members. The five BRICS countries were, and are still, members of the World Bank and borrowing members at that. It is therefore still a source of financing, and an alternative one at any extent. The World Bank may lose them as members, and possible clients, the NDB BRICS would then become more of a competitor. This could be counteracted by the types of projects which the NDB BRICS funds, but it is too early to tell if these will differ in any marked way from those of the World Bank.

The analysis provided that has not drawn attention to any points in which the NDB BRICS could offer a competitive advantage to the World Bank at this time. Both banks exist within the same system the members of the NDB BRICS are also members of the World Bank, both focus on striving for the same goal, both use the same system of paid-in and callable capital, both MDBs are active in global cooperation within the same fora, to name but a few parallels. The ways in which the banks differ give no reason to suggest that the NDB BRICS offers any more of an alternative than other MDBs which have already been established for many years. The NDB has the fundamentals of an MDB: members, capital, financing capabilities, an organisational structure, and projects. Thus the extent to which it can expected to be an alternative is that it already is one, but at this time only in the sense that it is another source of possible funding for its limited

membership, as nothing indicates that it is going to create a paradigmatic shift in the development financing. What is also clear is that there is evidently still a large unmet demand for the funding of infrastructural projects. Since the IBRD was first established in the 1940s the NDB BRICS represents MDB number 21 of 22. The continuation of MDB creation indicates that there is no lack of thirst for development financing and cooperation, but with the NDB BRICS and the AIIB in 2015, there continues to be plurality of the types of MDBs with different memberships but all have the same central goal: economic development.

CONCLUSIONS AND RECOMMENDATION

The creation of the New Development Bank BRICS in 2015 signalled the creation of the 21st Multilateral Development Bank. The NDB BRICS was created to be an *alternative* to the World Bank. This work has attempted to establish the extent to which the NDB can be considered to be an alternative to the World Bank, as well as determining what being an “alternative” means. In order to do this the criteria for determining what an effective MDB is were presented. In doing so the World Bank and the NDB BRICS could be placed in the same framework and it could be assessed if the two banks were substitutes for or competitors of each other on this basis. In the analysis of the results the rationale for difference between the two banks were described.

The results of the analysis were that the MDBs are both effective in many ways which suggests that the NDB BRICS would be a suitable complement to the World Bank and join it in the current International Aid Architecture. This was further highlighted in the discussion of the way the two banks differ. The NDB BRICS’s membership offered an advantage for effectiveness, however, a membership of only borrowing countries is not a new phenomenon, as demonstrated through its comparison with the CAF, and a historic consideration of the World Bank’s origins highlighted that although more recently MDBs have focussed on regional issues, the existence of an MDB which shares a common goal between geographic distant nations isn’t new. The NDB represents a culmination of these two aspects. It was also argued that the advantages that the NDB BRICS holds in terms of voting shares originate from its limited and specific membership, which in turn does not offer a competitive alternative to the World Bank. This is especially true as the NDB BRICS has the possibility to become more universal in its membership due to the requirement that new members must only be members of the United Nations, a relatively low bar to set, and means that all sovereign and universally recognised nations can become members. The NDB BRICS does not offer itself as a competitor in terms of specialisation, or size of portfolio, considering that its authorised capital stands at approximately 20% of the World Bank’s, and current paid in capital at only 4.9%, which considering the need to keep their ratio above 23%, due to poor credit ratings from CRAs, their operations are further limited.

The one area in which the NDB BRICS holds a competitive advantage in terms of voting is the existence of formal rules to remove not only domination of one country within the bank but the domination of non-borrowing countries. It was described that effectiveness in MDBs comes in part from borrowing countries having and retaining a strong voice in order to shape policies for their specific developmental needs. This also counts for the need to have legitimate conditionality, which could shape the competitive nature of the NDB BRICS in terms of the World Bank. The NDB’s limit of non-borrowing countries vote shares being no more than 20% ensures that borrowing countries retain a strong voice. However, the requirement that the BRICS nations retain at least 55% of the vote ensures that they remain dominant. The strong voice borrowing countries could take the NDB BRICS, especially as they are well celebrated as current and future economic giants who have mostly enjoyed great economic success in recent years, in a different development direction to that of other localised MDBs. The increase in the number of specific MDBs has been described as a logical evolution based on shifting the balances of power, but this has not expanded beyond notions of legitimacy within the bank. Whether or not the exceptional position of the BRICS nations in the global economy and the lessons they have learnt as transitioning economies will enable them to bring about a new paradigm in development is yet to be seen at this time as it is still young, but the focus on South-South cooperation is a promising sign that the NDB BRICS may be attempting to carve a niche for itself as a globally reaching MDB not dominated by advanced economies.

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