BRICS Summit Could Transform the New Development Bank

by Paul Gallagher

July 4—Anticipation of the next BRICS heads-of-state summit, Aug. 22–24 in Johannesburg, South Africa, has included speculation about steps on behalf of the two dozen developing nations interested in joining the BRICS, and international "de-dollarization" reporting that refers to a new BRICS trade currency potentially to be announced at the Johannesburg meeting.

In a statement which has been echoed by many others, Dr. Sergei Glazyev, Russian Academician and Eurasian Union Integration and Economics Minister, said at the St. Petersburg International Economic Forum June 15:

> We expect that a new world currency will be introduced on the basis of an international agreement, and the BRICS group of nations is close to this.

NDB/Wikimedia

Under NDB President Dilma Rousseff's new policy, as much as 30% of NDB loans will not be in dollars, but in other national currencies.

PR/Ricardo Stuckert

But the BRICS agenda—more important than either new member candidates or a new trade currency—was effectively announced by the sharp interventions of South Africa's President Cyril Ramaphosa and Brazil's President Luiz Inácio Lula da Silva into French President Emmanuel Macron's so-called "New Global Financing Pact" show in Paris June 22–23 (see article, this issue).

Build new infrastructure, the South African and Brazilian presidents said, electrify Africa, before we discuss climate or a climate tax. Ramaphosa stated:

> The reform of the financial architecture as well as the practical project—infrastructure project—that is going to add a lot of value. Generating electricity and building power stations on the Inga Dam is the most important.

PresidencyZA

South Africa's President Cyril Ramaphosa: Build new infrastructure! Electrify Africa!

This Congo River project, to add as much as 44 gigawatts of hydropower electrical capacity to Africa's current total of just over 230 gigawatts, does not match the all-around Lake Chad and river valley development potential of the Transaqua Project far upstream, but the two would transform the entire continent. The Grand Inga Dam project was estimated ten years ago by the World Bank to require $80 billion in new infrastructure investment over a number of years; Transaqua, $40–50 billion.

The World Bank withdrew funding from even a feasibility study of Grand Inga in 2016. Leadership of these infrastructure "great projects" is in the hands of the "Global South," led by the BRICS nations.

Making the New Development Bank into an international development bank that is "the leading bank for emerging markets and developing countries"—as its President Dilma Rousseff has said—could be the top priority for the August 2023 Johannesburg summit. The life-and-death development objectives of the Global South can only be met by such a powerful international development bank, not by a new trade currency or by trade in national currencies, as important as those are for defensive purposes. And in fact, such a New Development Bank will be the strongest instrument of de-dollarization, that is, of new monetary agreements which will function productively either with or without any cooperation with the dollar.

The BRICS Information Portal reported May 19 that under President Rousseff's new policy, "as much as 30% or one-third of the total loan amount" of NDB loans will not be in dollars, but in other national currencies.

But how much productive credit will the Bank provide for developing nations—which have been beset by capital flight, inflated import prices, and unpayable foreign debts?—that is the question.

Capitalizing the Bank

The New Development Bank, which has loaned only about $30 billion in a decade, has been held back by the fact that in that decade, only 20% of the BRICS nations' $50 billion in capital subscribed to the bank—of $100 billion pledged in total by those nations—has been paid into it. Presumably this was affected by the fluctuations of the member-nations' currencies, and the Bank's preference for lending by borrowing dollars (issuing bonds on international currency markets), requiring it also to be a very conservative lender. This is far from what it needs to be if the great rivers of the Global South are to be controlled and developed, poorer nations electrified, and modern national health systems built in every nation.

Very recently the NDB has borrowed ¥8.5 billion in China's onshore-yuan capital market by issuing so-called "panda bonds"; this is an important step. But in the first half of 2023, private multinational corporations have issued more than eight times that much in panda bonds, the equivalent of $10.5 billion, which is considerable corporate bond issuance on any market. More could be done by the NDB.

To increase the lending capacity of the NDB greatly, the BRICS members' treasuries or central banks can purchase more of its stock or debentures, using their own bonds denominated in their national currencies. But as Lyndon LaRouche emphasized in his International Development Bank work in the 1970s and early 1980s, they can use gold-reserve-backed bonds to put this additional capital into the NDB. The gold reserve can make good any fluctuations in their national currencies (and bond values) which would affect the Bank's credit. Moreover, the BRICS nations' treasuries can issue gold-backed bonds to their own domestic investors, households, and private banks for the stated purpose of raising capital for the NDB.

All five of the current BRICS members have substantial gold reserves, although those of Brazil and South Africa are not of the same order of magnitude as those of China, Russia and India.

China, which has the greatest productive capacity and most sustained and solid productivity growth of the five, will obviously continue to lead in expanding the NDB's credit capacity, as it has in lending for the Belt and Road Initiative's projects. And in fact, "non-dollar trade in national currencies," up to now, has largely consisted in a growing number of countries settling trades directly or indirectly with China's yuan. These two realities are connected. The People's Bank of China has 41 currency swap lines open with other nations' central banks, and many of these are currency-stabilization loans aimed at increasing trade volumes.

The latest example of this reality is Reuters' report of July 2, that after difficulties with Russian companies' accumulation of a large surplus of Indian rupees from unbalanced oil exports, Indian importers have begun paying for Russian oil in yuan, as Russia had requested through Foreign Minister Sergey Lavrov. The New Development Bank could just as readily have issued rupee-denominated bonds in India, where the Russian companies have their rupee surpluses effectively blocked, and used the proceeds to invest in Indian infrastructure development, including in Africa.

But Russia also has gold reserves free of sanctions, and the NDB's moratorium on lending to projects in Russia—including work on the vital International North-South Trade Corridor—can and should be ended.

Amid the great interest in joining the BRICS among Southwest Asian and African nations, the moves by Saudi Arabia and the United Arab Emirates, among other nations, to join the New Development Bank have great potential for expanding the capital and lending of the NDB. Both nations have ambitious development projects and plans, very stable currencies, and gold reserves in the range of 200 tons or more.

And they have a strong capability to add capital to the NDB in the short term. Overall, the OPEC+ oil-producing nations have increasing oil revenues even as they cut their production, which is now 6 million barrels (15%) per day lower than in early 2020. Saudi Arabia has just voluntarily cut another million bpd, down to 9 million bpd, and Russia is enacting a voluntary export cut of about 400,000 bpd while allocating more oil to its own refineries due to its increased domestic industrial activity.

OPEC+ oil revenue, as reported for 2022 by the U.S. Energy Information Administration, was back to its 2019 level at $888 billion. In a defeat for the "Green New Deal" of King Charles and the World Economic Forum billionaires, the two fastest-growing major economies, China and India, steadily increase their oil and natural gas consumption, buying the production of Russia and Southwest Asian producers, while investing credit and capital in new industrialization and technology projects of those producers. Those Southwest Asian producers are moving to join the New Development Bank, adding capital to it for potential development credit, from Argentina to Afghanistan.


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Sergei Glazyev: "Russia's task is to build transparent and mutually beneficial rules with friendly countries, to create their own pricing systems, exchange trading, and investment."

Sergei Glazyev, who is familiar with Lyndon LaRouche's work, also published " 'Golden Ruble 3.0'—How Russia Can Change the Infrastructure of Foreign Trade" in December. He wrote:

> Russia's task is not to learn to play by the "crooked rules" of the West, but to build transparent and mutually beneficial rules of the game with friendly countries, to create their own pricing systems, exchange trading, and investment. And gold can be a unique tool in the fight against Western sanctions….
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> Gold played an important role both in industrialization and in the post-war [World War II—ed.] refusal of the USSR to join the dollar standard (at that time the country accumulated record gold reserves). Having signed the Bretton Woods agreements, the USSR did not ratify them, defining the peg of the ruble not to the dollar (which was a condition for participation in the Marshall Plan), but to gold and to "the entire wealth of the country."

Dr. Glazyev was not addressing in that article the capitalization of the New Development Bank, or the means of investment in infrastructure and industrialization today. But a recapitalized and robust New Development Bank for those purposes, can also promote non-dollar trade in national currencies. The Bank can issue currency stabilization loans directly, or in the form of assisting the member nations' central banks with balance-of-payments financing, including export financing.

As Dr. Mahathir Mohamad, former Prime Minister of Malaysia, emphasized in a May 30 *Nikkei News* interview, recalling his proposal 25 years ago of a "trading currency, just for Asia, not for domestic use": The currency need only be used periodically [between central banks] to settle trade imbalances. This is simplest if it is backed by gold reserve holdings.

Example: Roosevelt's 'Good Neighbor' Policy

During the later 1930s "Good Neighbor" policy of U.S. President Franklin Roosevelt's government toward Latin American nations, the dollar (the U.S. Treasury) was used not only for project loans oriented to industrialization. It was also used for balance-of-payments loans; trade and orderly market support in the form of financing the storage of Latin American export products; and currency stabilization loans to Mexico, Ecuador, Cuba, and Brazil. The U.S. Export-Import Bank was even used at that time to finance the "refunding" (i.e., refinancing) of sovereign debts. This was done without fixed exchange rates or capital controls among the nations of the Hemisphere, or convertibility for some of the currencies.[1]

These actions were all taken in the context of planning for a hemispheric development bank called the Inter-American Bank (IAB). Its realization was blocked

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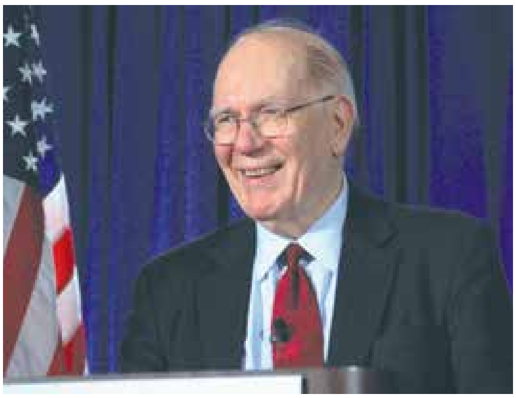
1. Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order.* Cornell University Press, 2014. Chapter 2.

by Wall Street powers in the late 1930s. But it was designed by the same U.S. officials who were planning for Bretton Woods, and clearly represented their plan for the 1944 International Bank for Reconstruction and Development (World Bank). The IAB was planned to have capital invested from every member nation; to borrow in any member nation by issuing debentures; and to loan to governments or agencies guaranteed by governments. Its mandate was to include counteracting capital flight, by attracting private foreign exchange holdings in Latin American nations into the debentures of the IAB.

What was realized in this period of President Roosevelt's "Good Neighbor" policy—besides successful U.S. infrastructure, industrialization, and agriculture modernization lending, particularly in Brazil—was the project of creating central banks in Latin American nations which lacked them. These banks were intended to cooperate with the planned IAB, and to issue their own bonds and notes for national credit purposes, 25% backed by gold reserves.[2]

Already during that period leading to Bretton Woods, the use of gold in settlement of trade imbalances took place only between the U.S. Treasury's and Federal Reserve Bank's gold reserve, and the central banks of other nations, to settle trade and current-account imbalances periodically. The United States was not on a "gold standard"; FDR had seen to that, and he had moved the United States to a Treasury-only gold-reserve policy, as he said, to increase the supply of credit for production and investment.


EIRNS/Stuart Lewis

In Lyndon LaRouche's 1975 IDB proposal, "the margin of total production obtained through the mediation of credit will significantly exceed the margin of credit issued to effect such production."

Example: LaRouche's IDB

In the wake of the destruction of the Bretton Woods fixed-exchange-rate, gold-reserve credit and monetary system, Lyndon LaRouche on April 24, 1975 announced his proposal for the International Development Bank (IDB), designed to be what the World Bank had never been despite President Franklin Roosevelt's intentions. LaRouche's IDB proposal was to be embraced the following year by the Non-Aligned Nations movement at its 1976 conference in Colombo, Sri Lanka. At his April 1975 announcement press conference in Bonn—then West Germany's capital—the London-Wall Street pressure applied by Henry Kissinger's circle against the IDB idea was so intense, that 20 of the West's leading media attended but not one word of coverage appeared anywhere but in LaRouche-associated media.

In his written IDB design, LaRouche explained the core policy in terms that evoke President Ramaphosa's intervention in Paris:

> The worldwide material preconditions from agricultural, mining and manufacturing production are essentially sound. It is only the debt-ridden financial superstructure which prevents those potentialities from being realized in the form of rapidly expanded levels of output at progressively reduced net social cost of production per unit of output. In short, we reject the "Zero Growth" and "Limits to Growth" chimeras as dangerously disorienting fantasies concocted by charlatans and widely puffed by ignorant public relations agencies.
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> To this end, we have already identified—in consultation with some of the world's leading professionals and relevant governmental agencies—several major specific development projects which can readily (over a five- to ten-year period of development) yield a massive increase in the output and social-productivity of world agriculture, and thereupon premise the infrastructural basis for massive industrial development….
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> Hence, credit issued for the realization of such programs is secure and liquid, since the margin of total production obtained through the mediation of credit will significantly exceed the margin of credit issued to effect such production.

To fulfill President Dilma Rousseff's aspiration for the New Development Bank under her leadership—that it "become the leading Bank for developing countries"—let it become a realization of LaRouche's International Development Bank, as quickly as possible from the Johannesburg BRICS summit.

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2. Helleiner, *op. cit.,* Chapter 3.