

# Reform of the Global Financial Architecture: The Role of BRICS and the G20

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### Introduction

Due to multiple financial crises in the 20<sup>th</sup> and 21<sup>st</sup> centuries, there seems to be a consensus that there is a dire need for a reform of the Global Financial Architecture (GFA). This essay seeks to understand the role of the G20 and BRICS in this reform. First, this essay briefly discusses the need for reform. Consequently, the current and the ideal suggested role of the G20 is discussed. Third, the current and ideal role for BRICS is discussed. Finally, the essay concludes with a brief review of the future of reform in the GFA.

### Global Financial Architecture Reform

The Global Financial Architecture is the “collective governance arrangements at the international level for safeguarding the effective functioning of the global monetary and financial systems” (Elson 2010: 17). The post-Asian crisis GFA is characterised by a more structured system than ever before. Arner and Buckley (2010: 201-202) argue that the contemporary GFA has four structural characteristics: first, a global consensus on what sound financial and regulatory systems should look like. Second, the creation of sound principles and practices by technocratic institutions such as Basel Committee on Banking Supervision. Third, the use of markets to incentivise the use of sound principles. Finally, the promotion of sound principles by multilateral institutions such as the IMF, an example being conditional loans which encourage structural adjustment.

The GFA is characterised by the integration of financial markets and government deregulation (Crotty 2009: 564). This encourages risk taking, which in turn increases profits during ‘market booms’ and ultimately leads to market crises such as the 2007/2008 housing market crisis (*ibid.*: 565). It seems then as if market failure is structural and is caused by the new GFA (Stiglitz *et al.* 2009: 8). This is why there needs to be a reform of the system. However, the changes made so far have been incremental at best, which has left the global community at risk for further failures (Ocampo 2011: 316).

### The role of the G20 in GFA reform

The Group of 20 (G20) is an informal political and economic forum comprised of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union (G20 2018). The G20 was founded after the Asian financial crisis at the end of the 1990s as a way for major economies of the world to take responsibility for the Global Financial Architecture (Panitch 2015: 64). From this one can discern that the G20’s purpose is inherently intertwined with that of GFA reform.

The G20 has played the role of the main coordinator of global financial issues and has responded to crises in the GFA since 2008 (Arner & Buckley 2010: 206). Through regular meetings, the G20 has created a set of proposals that focus on responses to crises, and prevention through regulation (*ibid.*: 208). Due to the informal nature of the G20, it mostly serves as a forum for communication (*ibid.*: 218). Goyal (2010: 238) argues that the G20 is absolutely

# Reform of the Global Financial Architecture: The Role of BRICS and the G20

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necessary for GFA reform. However, the role of the G20 is mainly to place pressure on the international community, to facilitate dialogue, and to institutionalise a new power balance. This is because any proposals, policies, or principles that the G20 adopt are non-binding. Ultimately, the G20 appears to be a norm entrepreneur more than anything else.

There are several issues with the G20 leading the reform process. Firstly, the G20 is not a united coherent body, and is plagued with internal division (Wright 2017). Where some want to protect the liberal status quo, others (notably BRICS members Russia and China) appear to want a complete overhaul of the system. This means that not all G20 members are complying equally to the reforms. The difference in compliance is stark, with some as high as 90% compliant (e.g. Germany), and others as low as 30% (e.g. Saudi Arabia) (Warren 2017: 2).

The second issue is that of the overall reform process. According to Warren (2017: 7) the total average compliance of G20 members stands at 71% in 2017. Overall, the G20 is praised for astounding success (Financial Stability Board 2017). This would lead one to believe that reform is nearing success, and that the systems and issues that we are facing should be very different to those of 2008. However, the G20 is still trying to cultivate resilient and consistent systems (Allen, Krahnen & Rey 2017). The G20 itself admits that implementation of reforms has been significantly slower than they originally planned (G20 2017: 2). From this we can conclude that either compliance is greatly overexaggerated, or the reforms that are being made are too incremental to make any significant change.

One must consider that the G20 is a self-appointed elite body, making up 80% of global economic output (Garcia Diez & O'Donnell 2017: 14). It seems that for most members, the system has been working, and there is a strong push to return to the status quo from certain leading states within the G20 (Wright 2017). This has led to the G20 often ignoring their own policies. An example of the G20 ignoring their own regulation is the G20 engaging in protectionist policies a mere four months after pledging not to (Stiglitz *et al.* 2009: 17). Rather than a complete overhaul of a flawed system, it appears that the G20 is going about business as usual with minor changes, ultimately limiting the effect that the body can have on GFA reform.

It is also clear that the focus of the G20 has shifted. During the G20's early days (2008-2010) there seemed to be success in their goal of macroeconomic cooperation. This was due to the urgency created by the crisis. However, as the crisis dissipated the urgency disappeared. In 2018, it is clear that many of the initial goals, such as strengthening the global safety net and reducing debt, has not been successful (Triggs 2018: 1335-1337). The G20 articulated their focus to be on sustainable development, reducing poverty, and ensuring decent living standards (G20 Development Working Group 2017: 14). This shift could explain the apparent lack of will in pushing for systemic reform.

Clearly, reform under the G20 is not optimal. The question then is, should we perhaps consider alternative bodies, such as the BRICS grouping?

## The Role of BRICS in GFA Reform

BRICS (Brazil, Russia, India, China, and South Africa) is a block of emerging economies, all of which are major regional powers (Tian 2016: 112). All the members of BRICS are developing countries that are showing economic potential, they all have systemic importance (i.e. a significant effect on the GFA), and they all have influence over global financial governance (*ibid.*). Thus, the members are all strategic and influential players in the global arena. According to BRICS, the main reason for the formation of the block is a shared interest in reforming the GFA (Abdenur 2014: 87). It is clear then that the purpose of the BRICS block, like that of the G20, is inherently tied in with GFA reform.

BRICS is commonly positioned as an alternative to the G20. This is because of significant capital reserves and the members' positions as emerging economies (Chernyshova 2013). The 2008 crash created a crisis in legitimacy in the international order, and the relative economic stability of the BRICS grouping banded them together into an influential block (Steunkel 2013: 612). Furthermore, the institutions set up by BRICS, such as the New Development Bank, appear to be a counterweight to the Neoliberal financial system. BRICS appears to be a formidable challenge to the status quo. However, one must consider whether it is so different from the G20.

# **Reform of the Global Financial Architecture: The Role of BRICS and the G20**

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The first factor one needs to consider is this: are the institutions that BRICS is setting up real alternatives to the mainstream GFA? The two most prominent institutions are the New Development Bank (NDB), and the Contingent Reserve Arrangement (CRA). BRICS does not seem to understand the New Development Bank as an alternative to the existing architecture, but rather as a support. This is illustrated most clearly in the founding documents of the New Development Bank:

## **Article 1**

### **Purpose and Functions**

The Bank shall mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development.” (BRICS 2014: 1).

The Purpose and Function clearly illustrate the NDB as a complement to the current architecture, rather than a challenge. Both the NDB and the CRA rely heavily on the dollar and require an existing relationship between the recipient state and the IMF (Bond 2015: 290; Cattaneo, Biziwick & Fryer 2015). Additionally, it is often required that recipient states enter into ‘swap arrangements’ that are based on the US Dollar, which drives up the value of the Dollar (Reddy 2015: 274). Furthermore, BRICS has articulated their support for the G20 playing a bigger role in economic governance (BRICS 2011). It becomes clear then that the institutions set up by the BRICS block are not so far removed from the current system, and the only real change that they are pursuing is the ability to bend the system in their favour.

The BRICS block shares some other crucial similarities with the G20. There is a lack of coherence, as illustrated by the varying success of BRICS to coordinate within the G20 (Steunkel 2012: 9-10). There is also an inability to make any binding decisions. This in conjuncture to the neoliberal bias of the BRICS block places the G20 and BRICS on the same level: no actual systemic reform with a vested interest in the current system. Ultimately, it appears as if neither body is an appropriate leader of GFA reform.

## **The Future of GFA Reform**

The lack of an appropriate leader in two main contenders in reform is worrying. It appears as if GFA reform is in the same hostage situation as the United Nations Security Council, in which those with the abilities to reform the system are actively benefitting from it. Neither the G20 nor BRICS has shown serious commitment to an overhaul of the system, and it is doubtful that they will. Ultimately the global community needs to start at the bottom and reform the way in which we handle reform. Perhaps the best option is a new grouping which can be held more accountable and has less interest in maintaining the current GFA.

It does not seem as if a body like this currently exists. It would require dedication and resolve from the top minds and leaders of the world to conceptualise this type of institution and to avoid falling into the same traps as the G20 and BRICS. Until this commitment is taken seriously, the researcher is not optimistic about achieving the necessarily radical systemic reforms that are needed to not only stabilise the system, but also to make it more inclusive, equitable, and human centred.

## **Conclusion**

This essay has examined the role of the G20 and BRICS in GFA reform. It has found that both groups have an interest in the system, as they are currently benefitting from it. Consequently, the reforms that are being made are incremental at best, and not achieving the necessary systemic change. Although BRICS has framed itself as an alternative, it is clear that they are interested in the current system. As such, the global South that they claim to represent will not benefit from the growing prominence of BRICS. The essay then suggested that work should go into conceptualising a new body that is more accountable, and possibly less embedded in the system.

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# Reform of the Global Financial Architecture: The Role of BRICS and the G20

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