

BRICS' Implications on International Business and World Governance, "Indictment of the Relations Established Between the Center and the Periphery"

Thierry Nshimiyimana
PhD candidate in international relations

Abstract

BRICS countries are set to alter the current structures and norms of global governance in two ways. First, the world semi-periphery that includes the BRICS becomes new and competitive partners of the core and the periphery. As such, the old trade relations that existed between the core and the periphery change, to the detriment of the core countries. Second, and most importantly, the semi-periphery for historical reasons and other convictions, they are committed to infrastructure development in the periphery. Infrastructure developments projects in the periphery countries will, as argued in this paper, in the medium to long term lead to industrialization of the periphery countries. The impact of that industrialization will be that those countries will not continue to export raw material to the core and import finished goods. They will use the raw material to feed their infant industries. Ultimately that new relationship will result in empowered countries in the periphery and weakened countries of the core, a power relationship that will become the foundation for the establishment of new structures and norms of global governance. This paper maintains that the BRICS will meaningfully impact the current contested Eurocentric system of world governance and will play a significant role in establishing new structures and norms that will guide future world governance, if the block grows stronger.

Introduction

In the current distribution of power in the international system, the BRICS countries belong neither to the core nor to the periphery. They sit in between. They belong to the semi-core or the semi-periphery. The core includes major world powers and the countries that contain much of the industrial activity and the wealth of the planet. The periphery are those countries that are less industrialized, countries that supply raw material to the core and constitutes markets of manufactured goods from industrial hubs of the core countries. The semi-core or the semi-periphery countries represent the newly industrialized nations, including the BRICS countries.

The semi-periphery and the periphery countries prove to be linked by historical factors as they all suffered the exploitation from the core countries. They therefore developed special bond which is translating into the willingness of the BRICS countries to promote infrastructure development in the periphery. In the medium to long run, the rapid infrastructure development that is occurring in both the semi periphery and the periphery, this paper argues, will lead to industrialization as infrastructure such as roads, railways, power plants to generate electricity and telecommunications installations constitute the basis for industrialization.

Industrialization within the semi-core and the periphery is set to reduce the power of the countries in the Core of the international system, their influence, and their dominance on the agenda setting, policy formulation and implementation on the global scale. The traditional relationship between the core and the periphery where the periphery supplies raw material to the core and become markets for manufactured goods from the industries of the core countries is about to be seriously compromised. The rising semi core countries especially those that compose the BRICS will change that relationship in two ways. First they are themselves becoming major industrial centers therefore buying a significant portion of the raw material coming from the periphery and selling to the periphery manufactured goods. In this way, they will out competing the core countries. China, India, Brazil, Russia and South Africa are rapidly and seriously breaking the established monopoly of the core countries. As result, as in a zero sum game, what the semi periphery gains, is the loss to the core.

Second the core countries have so far purposely avoided to fund major infrastructure projects in the periphery and very reluctant to support or promote industrialization in those counties. Their argument was based on the comparative advantage theory. They argued that it was in the best interest of every one for the core to specialize in manufacturing while the periphery continues to provide raw material and absorb manufactured goods from the core. This argument was meant to maintain the status quo, therefore discouraging and even destabilizing any efforts aiming at industrialization in the periphery. The core countries benefited from this relationship more than did the periphery. As the BRICS countries set their major focus on infrastructure development in their countries and in the periphery, this will boost the industrial activity in those countries and, at the same time, weaken further the core countries economic power and their political influence in the global affairs.

The BRICS are expected to make significant impact on various sectors and in various ways. This article intends to elaborate on two ways the BRICS countries will impact the future of global governance. The article

first highlights the current structure of the international system and global governance. This section elaborates on the core-periphery divide and the dominant role of the core in the global governance. Then the article elaborates on two ways in which the BRICS will change the balance of power and global governance:

- The core's monopoly on the international trade and finance, the monopoly which allowed them to determine what products to buy therefore fixing prices of commodities from the periphery since they were the only buyers of major commodities such as minerals, oil, coffee, tea, cacao, etc.
- The core is no longer the only industrial hub or the only manufacturing zone therefore the only exporters of manufactured goods to the periphery. Furthermore the BRICS countries are focusing on infrastructure development that will in the medium to long run lead to industrialization in both the semi-periphery and the periphery therefore increasing their economic power.

To conclude this paper establishes how the increased economic power of the semi-periphery and the periphery usher in structures and norms of global governance that are not Eurocentric.

1. The gap between the core and the periphery

There used to be a clear divide between the core nations, industrialized that provided manufactured goods to the periphery nations which are still less developed and only provided raw materials to the core. This divide, though somehow fading, it still exists. It could be argued that the nineteenth-century pattern, in which the core exported manufactured goods to the periphery in exchange for commodities no longer captures the complexity of the current economic order since an increasing share of world manufacturing capacity is now found in emerging markets (Subacchi, 2008).¹ As a result, some of the core is getting weaker while some of periphery countries have gained more power. They have become the semi-core able to produce manufactured goods and can actually lend some financial capital to the core countries.

However the distinction between centre and periphery remains a powerful concept, even though it does not entirely capture the complexity of the current economic order. Today a growing share of world manufacturing capacity is found in emerging market economies, which increasingly supply both developed and less developed economies with manufactured goods. Unlike the past when the centre-Britain for example exported capital and had a current account surplus, now the world's largest economy, that of the United States, runs a current account deficit. This is financed to a substantial extent by capital exports from emerging market nations (Subacchi, 2008). Those are the semi-core, semi-periphery countries that stand in between the traditional core/periphery divide. The BRICS countries are very influential in this group and are set to significantly alter the traditional core-periphery relationship. They stand to bring about new dynamics of power relations. The new dynamics will have serious implications on the global governance. The weaken core countries, due to their diminished power will not be able to exert the kind of influence they used to have.

Some observers have noted that globalization and the technological transfer that comes with it led to the migration of industrial production to semi-peripheral countries has eliminated the core/periphery hierarchy. The declining industrialization of the core and the process of gradual industrialization of the semi-periphery have had important impacts on the structure of core/periphery relations, but it is surely an exaggeration to contend that the core/periphery hierarchy has disappeared. Certainly the core countries economic hegemony is in decline and there are newly rising challengers from the semi-periphery, especially the BRICS countries. However the recent upward and downward mobility has not reduced the overall magnitude of inequalities in the world-system. The core/periphery hierarchy has not disappeared though a little diminished by the growing industrialization of the semi-periphery.

1.1. The dominance of the core countries in the world administration

Current global governance structures were formed after the Second World War. The Alliance that won the war, which is the United Kingdom, Russia, France plus the United States of America, designed a model of the world governance that would ensure the losers of the war (Germany, Italy, and Japan) will not cause any trouble again. So the winners designed the United Nations that has the Security Council to deal with matters related to peace and security issues. Only winners of the war would have veto power in that council. The United Nations will have other specialized agencies to deal with other specific issues, such as UNHCR for refugees, UNICEF for Children, the ICJ to settle dispute between countries, etc.

Another important feature of the system is the Breton Wood Institutions, known as well as the International Financial Institutions (IFIs), i.e. the World Bank (initially the International Bank for Reconstruction and Development; the International Monetary Fund and the General Agreement on Trade and Tariffs (GATT) today known as the World Trade Organization (WTO). The World Bank was set up to deal with the reconstruction of the war torn western nations and the IMF to finance the budget deficits.

That system designed in 1946 continues to largely favor the winners of World War II. The system caters mainly for the interest of the core countries while excluding the periphery. The System is now severely criticized by developing and less developed countries who are calling for its reform. It has lost its appeal. It is no longer

attractive in the present world where power distribution is not the same as the one that existed in the world right after the World War II.

1.2. Why is the system not attractive anymore?

The western designed model lost its appeal for a number of reasons. First of all, the system allows the core powers to act in a way that protects their interest even if the action taken harms the rest of the world. They can use the veto power they enjoy in the United Nations Security Council to block any decision that they perceive as a threat to their interests. Furthermore they can act unilaterally or form coalitions to invade any country they wish, to pursue their economic or political objectives. The example to cite is the invasion of several Countries (Iraq, Afghanistan, Libya, etc) by the west². The abuse of the system angers the rest of the world, especially countries in the semi-core and the periphery and they call for the reform.

Secondly, the IFIs in executing their mandate they put harmful conditionalities on developing countries before giving loans and donations. Such conditionalities have proved to be disastrous. They would impose the system of governance to the recipient country for example. The recipient country must apply the neoliberal policies adopted by the Washington Consensus. Basically impose the free market economy and democracy, if the recipient country doesn't execute those policies, not only it won't get the loan or aid but also risk sanctions. As Ronald I. McKinnon, Professor of International Economics at Stanford University put it:

“The World Bank would only disburse money in the context of so-called structural adjustment programs (SAPs). As the reforming host country successfully passed certain markers on the road to reform, the World Bank or the IMF would then release more money in parallel stages...But this program lending had, and has, an important downside. The international agency providing the money necessarily gets deeply involved in the monetary and fiscal affairs of the recipient country with an inevitable political backlash, perhaps made worse by attempts to change the political structure, e.g. introduce more democracy.”³

These conditionalities proved to be disastrous since they require a free market economy in which the state has very little control if any at all, an unregulated market. These countries still needed a strong presence of the state in the economic sphere to provide infrastructure, security and other necessary funding and guidance. These conditionalities caused severe damage across the globe.

“Between 1980 and 1995, SAPs were applied to roughly 80 percent of the world's population. Some of the more notable examples of adjustment stress include Mexico, Argentina, Bolivia, Peru, Ecuador, Venezuela, Trinidad, Jamaica, Sudan, Zaire (now Congo), Nigeria, Zambia, Uganda, Benin, Niger, Algeria, Jordan, Russia, and Indonesia. Each of these countries saw violent protests, in many cases deadly, against specific SAP stipulations, from sharp increases in fuel prices to steep currency devaluation and subsequent price hikes, and from food price riots to university sit ins over the IMF mandating doubling the cost of bread or transport”(Halper p. 60)⁴

Furthermore, the IFIs impose western selected and developed values onto the recipient countries in the name of Human Rights and democracy. While Human Rights as stipulated in the Universal declaration of Human Rights adopted in 1948 display great concepts of freedom, equality, justice etc; developing countries still notice double standards in the application of these rights. For example the west imposes homosexuality onto other cultures but they cannot accept polygamy in their countries for instance. In addition and the most worrisome part, they justify military invasion based on these human rights claims.

The world is now seriously questioning the western model of world governance. As Christophe Peschoux⁵ expressed it quite eloquently

Questioning the ideological and political misuse of human rights by certain States, which cynically pursue their political, economic and other strategic interests in their name, while ignoring them when they limit or contradict these interests, and thus use different yard sticks to measure them, *is a legitimate concern*. Nothing discredits more this (mis)use of human rights than this opportunist and cynical approach. States using human rights in this manner undermine them in their universal value: instead of showing their genuine attachment to these values, they show their effective contempt for them, and like any other tyranny, they tolerate human rights only to the extent that they coincide with their political, economic and strategic interests.⁶

Given the shortcomings of the current system of global governance, the rising powers in the semi-core, especially the BRICS will have a significant impact correct them and shape the future of global governance.

2. The impact of the BRICS countries in global governance

The Semi-periphery countries, the BRICS in particular will play a significant role in the industrialization of the periphery, therefore diminishing the core's economic and political power. The new power distribution and power relations will then usher in new and different structure and norms of global governance. For that to happen, certain conditions related to BRICs structure and legislation, minimizing internal mistrusts must be fulfilled.

2.1 Examination of BRICS structure and its legislation.

For the BRICS to make significant impact on the international system as a whole and on international trade in particular, concerns related to BRICS structure and its registration need to be addressed. So far the BRICS functions as a consultative body without clear legislation or structure as an intergovernmental organization should have. Furthermore, the block still has to reduce the mistrust and friction that exist between key members of the organization.

The deep mistrust between BRIC countries would likely limit how close the grouping could become. Although some suggest that the threat from the U.S. has helped drive the BRICs together, the reality may be that the BRICs already see each other as the greater potential threat. This is much less true for Brazil, but the other three countries view each other with deep mistrust. Although Sino-Indian relations have improved in recent years, the 1962 war, unresolved border disputes, China's support for Pakistan, and China's perception of India's continued support for Tibet continue to complicate relations. Moreover, as both countries have developed economically, modernized their militaries, and expanded their regional and global interests, new sources of mistrust and potential competition have emerged. The Indians are threatened by China's moves to improve relations with and provide limited assistance to Myanmar, Pakistan, Bangladesh, and Sri Lanka, and worry that these ties are forming a ring of encirclement around India to restrain its influence. The early manifestations of India's "Look East" policy have also threatened China's interests, as it perceives India as intruding upon its sphere of influence in Myanmar and Indochina. Mutual suspicions have also been stirred by each nation's military build-up and by evidence of the early stages of competition over control of the Indian Ocean and a potential arms race.⁷ Although generally more cooperative than Sino-Indian relations, Sino-Russian relations have their areas of friction as well. The historical legacies of the relationship include Russian encroachments on Chinese territory in the nineteenth century, China's perceived unfair treatment and ultimate abandonment in the Sino-Soviet alliance, the 1969 border war, and military confrontation throughout the 1970s and early 1980s.

The BRICS as a block to grow stronger and make significant impact on the international trade system, the above mentioned issues must be successfully dealt with. Each individual country within the BRICS though still has good reasons to promote industrialization and trade in the periphery.

2.2 What could be the reasons behind the BRICS disposition to promote industrialization and trading in the periphery?

The industrialized western countries were so reluctant to fund infrastructure development projects in the periphery countries. They resisted such development arguing the competitive advantage as a pretext since the core actually considered the industrialization in the periphery as a threat to their dominant position. The willingness of the BRICS countries to promote industrialization in the periphery could be out of the same experience they suffered under the total core domination and exploitation. Therefore, promoting a just, peaceful, developed and harmonious world drives the BRICS determination to fund such projects.

While building a more egalitarian world, establishing global democracy and fighting global inequality could be the primary motive of the BRICS countries, the BRICS countries could also be driven by the desire to win a strong position in the periphery, at least in short to medium term but without a desire to establish domination and exploitation in the long run, as did the current world powers. In so doing these emerging powers could be in a position to put an end to, or at least mitigate the exploitation mechanisms of the periphery by the core. This is because the central theme of the world systems approach is the proposition that core regions exploit peripheral regions through various mechanisms of unequal exchange.

Historical factors explain why and how Western Europe managed to dominate the world, how the core exploits the periphery and exerts so much power in world affairs. Through the deployment of military power and superior forms of state organization, the Europeans either plundered and colonized territories in Asia, Africa, and the Americas or reduced weaker economies to conditions of dependency. They actively promoted or encouraged forms of labor control at the periphery which maintained the cost of producing exports for Western Europe close to the level of subsistence wages. Patterns of trade evolved in which the mineral wealth and primary products of the periphery were exchanged for the manufactured goods and high quality farm produce of the core on highly unequal terms. Over time, such patterns of specialization pushed the economies of Western Europe towards industrialization and higher standards of living and the economies of the periphery towards primary production, monoculture, and far lower levels of per capita income.”

2.2. The BRICS commitment to infrastructure development in the periphery

Statistics of traditional International financial institutions such as the World Bank, the IMF show how those western dominated multilateral institutions paid little attention onto financing infrastructure development in less developed countries while the emerging BRICS countries and the financial institutions from those countries such as the NDB, the AIIB, the EXIM Bank of China have spent considerable amounts to infrastructure development in less developed countries of the periphery.

The BRICS countries are committed to the infrastructure development in theory and in practice. For example the 2013 BRICS summit laid out a framework for the New Development Bank's mission: it would mobilize "resources for infrastructure and sustainable development in BRICS and other emerging economies and developing countries" (BRICS 2013). Furthermore alongside the BRICS leaders' agreement to create the NDB, national development institutions from the five countries also signed a "BRICS Multilateral Agreement on Co-Financing for Infrastructure in Africa" and a "BRICS Multilateral Cooperation and Co-Financing Agreement for Sustainable Development" (Brazil's National Bank for Economic and Social Development [BNDES] 2013)."

For individual countries like South Africa, the NDB could play a pivotal role in financing infrastructure projects on the continent, with a view to inducing structural transformation in resource-dependent economies in Africa and stimulating regional integration. South Africa's active championing of BRICS's involvement in infrastructure development on the continent was also in indirect support of the Programme for Infrastructure Development in Africa (PIDA), which is driven by the AU, the African Development Bank and the New Economic Partnership for Africa's Development"⁸.

Moreover, South Africa's Industrial Development Corporation added US\$2 billion for 41 projects in 17 African countries between 2001 and 2010. The Development Bank of Southern Africa spent hundreds of millions of dollars more for cross-border infrastructure projects that will rebuild regional trade, sometimes recreating infrastructure destroyed by the apartheid government (Qobo and Motsamai, 2014).

In Brazil, the BNDES financed 27 infrastructure projects in South America from 1997 to 2013, including eight water and sanitation projects and six gas pipelines. BNDES' total support for exports of Brazilian goods and services to the region totaled US\$3.67 billion from 2001 to 2010, with smaller sums going to Lusophone Africa (Portuguese-speaking African countries) (Hochstetler 2014).

It is China's policy banks that dwarf all the others, for committing US\$132 billion to African and Latin American governments from 2003 to 2011(Qobo and Motsamai, 2014).

2.3 Comparison of funds from the BRICS to those from the core countries and FIs

By comparison, this paper highlights the reluctance of the core countries to fund infrastructure development projects despite their constant slogans of combating poverty. For example, the Chinese loan commitments of US\$37 billion to Latin America in 2010 alone totaled more than those of such traditional lenders as the World Bank, IADB and the US Export-Import Bank. In the same year, the BNDES' lending was three times that of the World Bank, although only a small fraction of that finance was distributed internationally (Hochstetler, 2014). In addition, Chinese financial commitments to infrastructure development projects in Africa rose from around US\$5 billion in 2001-03 to around US\$1.5 billion in 2004-05, reached at least US\$7 billion in 2006" (Foster et al, 2010, xi-xii)."⁹

Furthermore China surpasses the World Bank as top lender to Africa in infrastructure related projects. In 2006 alone "China has lent 8.1 billion USD to Angola, Mozambique, and Nigeria that year alone, while the World Bank had committed 2.3 billion USD for the whole Africa."¹⁰

The numbers continued to grow rapidly. "During the December 2015 FOCAC meeting in Johannesburg, South Africa, Chinese President Xi Jinping pledged \$60 billion over a three-year deal in loans and assistance to the African continent"¹¹.

Conclusion

It was established in this paper that BRICS countries are set to alter the current structures and norms of global governance in two ways. First, the world semi-periphery that includes the BRICS becomes new and competitive partners of the core and the periphery. As such, the old trade relations that existed between the core and the periphery change, to the detriment of the core countries. Second, and most importantly, the semi-periphery for historical reasons and other convictions, they are committed to infrastructure development in the periphery.

The massive injection of funds from the BRICS countries into infrastructure developments projects in the periphery countries will, as argued in this paper, in the medium to long term lead to industrialization of the periphery countries. The impact of that industrialization will be that those countries will not continue to export raw material to the core and import finished goods. They will use the raw material to feed their infant industries. Ultimately that new relationship will result in empowered countries in the periphery and weakened countries of the core, a power relationship that will become the foundation for the establishment of new structures and norms of global governance. This paper maintains that the BRICS will meaningfully impact the current contested Eurocentric system of world governance and will play a significant role in establishing new structures and norms that will guide future world governance.

¹ Paola Subacchi : New power centres and new power brokers: are they shaping a new economic order? *International Affairs* 84: 3, 2008, p486

² NATO, the North Atlantic Treaty organization, invaded those countries supposedly to maintain peace and security, to protect Human Rights. But those were not the real motives of the invasion.

³ Review: China in Africa: the Washington Consensus versus the Beijing Consensus by Ronald I. McKinnon, Professor of International Economics, Stanford University, 9 August, 2010

⁴ idem

⁵ Christophe Peschoux is a staff member of the Office of the United Nations High Commissioner for Human Rights based in Geneva

⁶ Peschoux, Christophe , *Our Common humanity : Reflections of a Human Practitioner*, 2016, p286

⁷ Michael A. Glosny,(2010) *China and the BRICs: A Real (but Limited) Partnership in a Unipolar World* , Polity, Vol. 42, No. 1 Published by: The University of Chicago Press, pp. 100-129

⁸ Qobo M., and Soko M., *The rise of Development finance institutions: South Africa, BRICS and regional strategy*, BRICS insights paper 3, <http://www.saiia.org.za/special-publications-series/759-brics-insights-3-the-rise-of-development-finance-institutions-south-africa-brics-and-regional-strategy/file>

⁹ ibid

¹⁰ Idem, p179

¹¹ Sino-African Relations, From Wikipedia, the free encyclopedia, https://en.wikipedia.org/wiki/Africa%E2%80%93China_relations, retrieved on the 12th December, 2016

Reference list

Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa*, Oxford: Oxford University Press, 2009

Michael A. Glosny,(2010) *China and the BRICs: A Real (but Limited) Partnership in a Unipolar World* , Polity, Vol. 42, No. 1 Published by: The University of Chicago Press, pp. 100-129

Paola Subacchi : *New power centres and new power brokers: are they shaping a new economic order?* *International Affairs* 84: 3, 2008, p486

Peschoux, Christophe , *Our Common humanity : Reflections of a Human Practitioner*, 2016, p286

Qobo M., and Soko M., *The rise of Development finance institutions: South Africa, BRICS and regional strategy*, BRICS insights paper 3, <http://www.saiia.org.za/special-publications-series/759-brics-insights-3-the-rise-of-development-finance-institutions-south-africa-brics-and-regional-strategy/file>

Review: China in Africa: the Washington Consensus versus the Beijing Consensus by Ronald I. McKinnon, Professor of International Economics, Stanford University, 9 August, 2010

Sino-African Relations, From Wikipedia, the free encyclopedia, https://en.wikipedia.org/wiki/Africa%E2%80%93China_relations, retrieved on the 12th December, 2016