IMF'S REFORMS AND BRICS' NEW INTERNATIONAL FINANCIAL INSTITUTIONS: PROGRESS AND POLICIES

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Abstract

The progress on the IMF's reform has stalled. Comparing with substitutive alternatives, an interim solution, that is either delinking or ad hoc increases in quotas, could be the best choice among the bad options at present. Because of the maintenance of de facto veto and voting dominance pursued by the US, the prospect of further reforms in the IMF is dim. BRICS members are developing new international financial institutions not only in order to meet their own economic demands, but also to push the IMF reform forward. An idea on all-win pattern of competition is provided in this article to refer to the policies BRICS can adopt.

Key words: International Monetary Fund, reform, BRICS, Contingency Reserve Arrangement, New Development Bank

JEL Classification: F33.

1. Introduction

Since global financial governance influences the economic sustainability and development of each country, BRICS members are actively trying to push the IMF for reforms. At the meeting of April 16-17, the BRICS Finance Ministers and Central Bank Governors expressed again their dissatisfaction and pointed to the present blocked progress on the reform. The Finance Ministers and Central Bank Governors of Group 20 (G20) issued, in Washington D.C. on April 17, 2015, a Communiqué referring to their *deep disappointment* regarding

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the postponement of the IMF's reform due to the United States' position. Simultaneously, at the annual meeting of the IMF and World Bank, Christine Lagarde, the Managing Director of the IMF, and her deputy, Zhu Min, underlined that the IMF would look for alternatives to push the reform to come into force.

During the past years, the BRICS urged the IMF member countries to accelerate the reform, and meanwhile considered and discussed the other possible options. The BRICS' New Development Bank (NDB) and the Contingency Reserve Arrangement (CRA), as well as the Chinese initiative to create an Asian Infrastructure Investment Bank are their most substantial reactions to the reform delay.

2. IMF's Reforms: Progress and Obstacle

The IMF's long-standing weaknesses criticized by emerging and developing countries can be mainly summarized as follows: (1) The actual allocation of quotas does not reflect the present pattern of the world economy due to the overestimated quotas of advanced economies. (2) The shares of voting power in the Board of Governors, mainly dependent upon quotas, are unfair, as the emerging economies are under-represented whereas the United States takes a proportionate share of above 15%, so that it can practically exert veto in some critical issues. (3) Advanced economies take more seats in the Executive Board than other members do, and therein five advanced economies that take the largest quotas are allowed to appoint Executive Directors instead of electing them in certain constituencies.

With the appeal for reform by emerging and developing economies, the IMF passed respectively in 2006 and 2008 the resolutions to increase the quotas of some members, leading to increases in their quota shares and thus in their shares of voting power. The under-representation is also somewhat reduced by relatively increasing the proportion of basic votes in voting power.[2]

[2] The voting power in the IMF is categorized as basic votes and weighted votes. The weighted votes are converted from the subscription paid by a member at a ratio of 1 ballot to 100 thousand SDRs whereas the basic votes used to be 250 ballots equally for each member. The Resolutions No.63-2 and No.63-3 passed in 2008 rectified this fixed number to a rate of 5.502% of the

The Board of Governors in December 2010 passed again a resolution that: (1) Increases further the total quota to 476.8 billion Special Drawing Rights (SDRs). Therein the proportionate share of China moves its rank from the sixth up to the third, and Russia, India and Brazil also rank higher. (2) Amends the Agreement of the IMF by removing the appointing privilege of the top five members ranked by quotas, allowing at the same time all the Directors to be elected in the Executive Board. (3) Reduces the European representation by 2 seats with the maintenance of 24 seats in the Executive Board.

The proposals in this resolution,[3] after passed in the IMF, were delivered to the legislatures of the members for approval. While the IMF was ambitious to let the resolution become effective before October 2012, by now it has not yet come into force because the United States, holding the *de facto* veto of 16.718% of total voting power, does not approve these proposals.

The only one substantial advance is the concession in the Executive Board made by the European members. In the November 2012 election for the Directors which was the first election after resolution, Belgium and Luxemburg moved to another constituency from the one including Turkey, and thus increased the opportunity for the Turkish candidate, consequently Ibrahim Canakci[4] was elected as a Director in November 2014. Poland and Switzerland promised a rotation to ensure the chance for the candidates from the five mid-Asian members in their constituency.

3. Will Alternatives Function?

The United States is the only one developed country that has not yet approved the proposals for the 2010 reform. Christine Lagarde strongly stressed, in December 2014, her own disappointment of America's slowness, and requested the Executive Board to seek alternatives.

The so-called alternatives in view of the IMF itself and concerned academia can be included into two categories: one consists of the replacement or drastic

aggregate sum of the total voting power of all the members. The number of basic votes for each member after 2011 is 750 ballots from calculation.

[3] The Resolution No.66-2, passed in 2010, includes two proposals: Quota Increase, indicates the allocation of subscription, and Governance Reform, refers to the amendment of the Executive Board.

[4] Ibrahim Canakci is the Deputy Minister of Turkish Treasury.

rectification to the 2010 resolution. For instance, it could allow the members, engaging in some particular projects of borrowing, to exercise more voice in those projects. Edwin Truman, the former Deputy Minister of American Treasury, even recommended establishing independent decision-making institutions inside the borrowing arrangements, in which the United States rarely participates, and letting these arrangements be a *SupraFund* above the IMF that is requesting them for financing (Truman, 2015: pp. 8-10). Moreover, some scholars referred to the abandon of the present reform plan, and instead negotiating with America on a substitute with a less ambitious goal, but easier to achieve.

The other one refers to the **interim options** that maintain the goals of the proposals in the 2010 reform with a limited rectification which could at least move the reform process forward. One of the interims is *ad hoc* increases in the quotas of the most under-represented members that can find its precedent in 2006, when four members, including China, obtained an increase in their quotas. This option is able to ensure the representation of those members to be replenished before the resolution of reform becomes effective.

Another interim option refers to delinking Quota Increase from Governance Reform. The 2008 resolution had not become effective when the 2010 resolution was passed in the IMF, consequently, in order to accelerate the accomplishment of the 2010 reform, the precondition of Quota Increase[5] was lowered as: (1) the aggregate sum of quotas of members that approve Quota Increase must exceed 70% of total quotas; (2) the proposal of Governance Reform becomes effective; and (3) the 2008 reform comes into force. By now the first and third precondition have been met, but the second has not, because it refers to the article amendments of the IMF Agreement that requires 85% of total voting power of approved members. The delinking option seeks for removing the second precondition so that the Quota Increase can be implemented.

At the thirty-first meeting of International Monetary and Financial Committee (IMFC) on April 18, 2015, Finance Ministers and Central Bank

[5] According to the IMF Agreement, any changes in quota requires approvals of members with an aggregate sum of 85% of total voting power.

Governors took their positions on the possible alternatives. According to the Communiqué, the members unanimously declared to pursue 'an interim solution' instead of any substitutes. Definitely, dropping the goal of the reform without trying to redeem it will doubtlessly weaken the legitimacy and creditability of the IMF's decision-making. Furthermore, it will take a long time to adopt either the *SupraFund* or a new plan on reform.

However, members did not reach the consensus on whether to adopt *ad hoc* increases or delinking. The European members considered an *ad hoc* increase in quotas is the most realistic that it will firstly provide the subscriptions urgently demanded by the IMF that is providing financial relief to some European countries affected by the sovereign debts crisis, and also underlined that delinking would lack representation and support. The Latin-American and South-Asian members emphasized that *ad hoc* increases would erode the motivations to continuously push forward the reform, and thus they supported delinking.

Both delinking and ad hoc increases are the *de facto* temporary measures for rebalancing representation in the IMF and with the only difference in the paces of quota rectification. Once the delinking is adopted, the quota rectification will come into effect for 164 members who have currently approved Quota Increase implement subscribing, so that the aggregate sum of quotas could rise to 431.2 billion SDRs. This would let the United States, refusing to subscribe, reduce its share of quota from 17.661% to 10% at maximum, and its share of voting power would be substantially lowered, immediately depriving it of the *de facto* privilege of veto. Although interim solution does not seem to require approvals by each member's legislature, one cannot conclude that the American government is able to withstand the domestic pressures to vote for the delinking in the Board, instead it would probably exercise its veto to forestall this solution.

Regarding the option of *ad hoc* increases in quotas, the IMF has not yet offered any detailed procedures, such as how many rounds of *ad hoc* increases it is supposed to conduct and how much it increases for each round. According to the experience of 2006, an *ad hoc* increase refers that some particular members increase their quotas, *ceteris paribus*. However there is a possibility to lead to an over-representation of these members who used to be under-represented.

Suppose that it is allowed for China, Brazil, Russia and India to jointly conduct a round of *ad hoc* increase in their quotas, and they are also allowed to subscribe, for one time, the amount of capital regulated by the 2010 resolution, the consequence would be that the sum of these four members' quotas would share 22% of the total until the possible next round of increases – their aggregated share would be 8 percentages higher than the proposed quotas by the resolution whereas the share of the US would reduce to 14%. Under these circumstances, it indicates not only that the members who have *ad hoc* increases would temporarily have higher proportions in total quota comparing with those proposed by the reform, but also the temporary extra gains of quota shares of those members in any earlier round would be higher than those in any later round. The United States would be painfully facing the continuous decline in its share of quota until the Congress approves to subscribe to make the ultimate shares of quotas of all the members consistent with the proposed ones, but it can exercise the veto likewise in the relevant voting to stop any increases in other members' quotas. Nevertheless, comparing with the delinking option that might encounter a direct and categorical denial in the Board, the more moderate *ad hoc* increases might bring a little hope that it could be the best choice among the bad options at present.

4. Prospect of IMF's Reforms

Even if the 2010 reform can be accomplished, its effect is still dissatisfactory. The first reason is that the proposal leads to an obvious increase in the quota shares of the major emerging economies in which China, India, Russia and Brazil would increase 3.45 percentages in their shares that take 93% of the total increase in the Asia, Latin America and East Europe. However, there would be 3.8 percentage points of the increase in those regions transferred from advanced economies whereas another 1 percentage would be shifted from the Africa and Middle East. It means there would be a gap of quotas extending between developing countries, especially between the major emerging economies and other developing ones. At the meeting of IMFC, the African and Middle Eastern members argued that any interim solutions are supposed to ensure the fairness of representation of each country. They claimed that 'shifts in quota shares in favor of dynamic emerging and developing countries should not come at the expense of other emerging markets and developing countries (Tayer, 2015: Para.9).' The developing members in the IMF might generate an internal struggle on future reform plans.

Second, even if cancelling the appointments by five advanced economies, allowing Executive Directors to be elected, these five members, with the highest shares of quotas, might probably form five independent constituencies of which each has inside only one member country nominating candidate and without electoral competition. The *de facto* appointments might not be changed unless reducing the total number of seats in the Executive Board.

Third, while China is now the world's second largest economy, its rank of quota after the 2010 reform might rise to merely the third, still behind Japan's. The shift of quota share is still far behind the changes of the world economic pattern.

In our opinion, the strongest impediment that makes the present reform dissatisfactory and further reforms hopeless is the United States. After the Governors in the IMF passed the resolution of reform at the end of 2010, the Democrats, the governing party in the US, had not submitted any relevant bills to the Congress, invoking the so-called excuse of the coming presidential election. Starting from 2013, the Democrats submitted on and off 3 bills involving the requests for the approvals of Quota Increase and Governance Reform, but all these bills were not passed in the Senate in which the Democrats took a majority, causing the doubts on the actual intention of the Democrats to push the IMF's reform (Zhang, 2014: p. 103). In November 2014, the Republicans that persistently hold a conservative attitude to the reform simultaneously started to take majorities in both the Senate and the House in the mid-term election. Also regarding the acceleration of American economic recovery and the slowdown of emerging economies' growth rates, the prospect that the US approves this round and future term becomes more pessimistic.

We consider that the United States has the everlasting dream of preserving its privilege of *de facto* veto in the IMF. Within the second amendment of the Articles of the IMF Agreement in 1978, the US shifted its bottom line of voting power from 20% of the total shares to 15% only in the context that the special majority in voting shifted from 80% to 85% (Truman, 2006: p.75). If the 2010 reform becomes effective, the sum of shares of voting power of BRICS members would exceed 14%,[6] remaining the difference of 1 percentage point to the *de facto* veto. The US is unwilling to meet another group of countries besides the European Union that is able to likewise influence the IMF's decision-making, especially groups like BRICS that is with very different opinions on global governance.

5. BRICS' New International Financial Institutions: CRA

Besides the expression of disappointment to the stalled reform within the IMF mainly due to the advanced economies, BRICS members started to think about developing their own tools for financial governance. In June 2012, the Finance Ministers and Central Bank Governors of BRICS first conducted the discussion on setting up an emergency common reserve of foreign exchange. At the Durban Summit in March 2013, the leaders formally proposed this institution, namely the Contingency Reserve Arrangement (CRA), with an initial amount of $100 billion. As the American Federal Reserve (Fed) was gradually releasing the signals of withdrawal of quantitative easing (QE), international capital accelerated its speed in flowing out from the emerging economies, and BRICS members thus started to be under inflationary pressure, due to the currency depreciation: merely in June 2013, Brazilian Real and Indian Rupee declined by 26% and 28%, respectively. It became more urgent to establish the CRA, thus in September 2013, the BRICS leaders during the G20 Summit reached a consensus on the allocation of subscriptions: China subscribes $41 billion; Brazil, India and Russia, each $18 billion; and South Africa, $5 billion. On July 15, 2014, *the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement,* signed by the Central Bank Governors of BRICS and in the presence of the leaders, marked the formal establishment of the CRA.

The most direct purpose of the CRA is to confront the liquidity issues that might appear in BRICS members at present, taking into consideration that the IMF is "busy" with the European sovereign debts and other debtors such as

[6] According to the latest data, the shares of BRICS voting power after the 2010 reform would be: China, 6.068%; Russia, 2.586%; India, 2.627%; Brazil, 2.217%; and South Africa, 0.634%.

Ukraine and Greece. The liquidity issues refer to both the launch and withdrawal of QE conducted by Fed. In the case of China, the exchange rate of Yuan (or *Renminbi*) is pegged to American Dollar, which means American currency policies can have direct spillover effects on China (Sun, 2014: pp.45-46). The three-round QE have injected over 4 trillion dollars into the American market. Due to the demand limitation caused by the depression, American policy of QE undoubtedly led to a relative surplus in the supply of dollars by which reason this overflowed liquidity were converted into hot-money, in terms of short-term capital used in the speculations on bulk commodities and emerging capital markets. The sharp rise in the prices of imported supplies caused "imported" inflation in China. Two-thirds of the domestic price increase was generated by the fluctuation in international prices. Idle funds looking for interest arbitrage and value maintenance chose to go away from the American Dollar and led to the appreciation of the Chinese Yuan instead, and thus rapidly pushed the latter's exchange rate upward.

In October 2014, the Fed declared the withdrawal of QE, and the tendency of rise in interest rate could be seemed as the return of strong dollar. While the Fed has not yet risen interest rate to tighten the currency, an outflow of short-term capital appeared in China, so that a deficit of over $80 billion in the balance of payment was met by Chinese market in the first quarter of 2015 whereas that of the last quarter of 2014 was $30 billion. Moreover this deficit is the difference between the deficit of $159 billion in capital account and the surplus of $79 billion in current account, which means the capital outflow accelerates and worsens the domestic capital market. 'Although the outflows signal investor concern about China's economy, which grew at its slowest pace in six years in the first quarter, a rising US dollar and declining Chinese interest rates also helped draw funds out of the country (Wildau, 2015).' While this outflow took away less than 3% of the total volume of China's foreign exchange reserve, it is merely a hint to what might happen after the rise in interest rate by the Fed. Likewise, other BRICS members would also suffer bubble bursts when hot-money withdraw from their markets, and face depression.

In case of a significant capital outflow from BRICS members, the CRA can provide resources to remit the pressure of devaluation. As *the Treaty* refers, a member who is suffering this liquidity issue can apply for salvation. After having the approval of other members, the applicant can receive financial assistance, in terms of American Dollar, according to a multiplier by its subscription: China has 0.5 which means it can receive a salvation of $20.5 billion at maximum; Brazil, Indian and Russia, respectively 1.0; and South Africa, 2.0. The assistance takes forms of currency borrowing that the recipient as a borrower gets dollars from the donors as lenders, and repays the principal and interest in terms of dollars at the promised deadline. The CRA is substantially a multilateral regime of currency swap like Chiang-Mai Initiative Multilateralization (CMIM).

However, focusing on their own liquidity issues is not the only one purpose of the CRA. It exerts not merely a supplementary function on the present institutions for global financial governance including the IMF, but also an exogenous influence as competition with the IMF. The competition by the CRA relies on a potential that BRICS cooperative regime can extend its members so that more emerging economies who are the IMF members can participate at the CRA. The overlapping engagement of the IMF members is not a manifestation of competition but a precondition, because a transfer of members can be seemed as a remittance of the IMF's scarce resources and thus a supplement. The critical criterion that makes competition is in what extent the CRA can substitute the IMF.

The delinked portion of borrowing in the CRA yields its competitiveness. Like CMIM, the assistance the CRA provides is divided into two scales: one is called 'the IMF-linked portion', which means a borrowing party can have above 30% of its maximum access to borrowing only under the conditions that it follows the CRA regulation and is approved by other members, and also meets the IMF's conditions for loan. The other is the delinked portion that means a permission to borrow below 30% of a borrower's maximum access can be granted via the CRA members' approvals regardless of the IMF. For instance, if Russia requests for a loan of $5.4 billion that is 30% of its maximum access to borrowing, whether the loan can be lent depends on merely other CRA members' intention despite checking the conformation to loan condition in the IMF. Delinked portion establishes a standard line under which the CRA can lend independently that loans would not follow the IMF's policies or requirements. This flexibility raises the CRA's competitiveness that would attract potential entrants who are not able to reach the IMF's conditions.

6. BRICS' New International Financial Institutions: NDB

The competitive pressure exerted by the CRA might have affected the international recognition of the IMF's functions, offering the latter the exogenous motivation to improve itself. Besides the CRA, there is another international financial institution launched by BRICS, namely the New Development Bank (NDB), which by now has already established its headquarters in Shanghai and appointed its President and Vice President. According to *the Agreement on the New Development Bank*, signed by BRICS leaders on July 15, 2014 in Fortaleza, the purpose of the Bank is to '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.' In comparison with the CRA, the NDB would exert more pressure on the IMF's reform, although it does not solve any issues related to the short-term currency liquidity.

The NDB would in some extent fundamentally eliminate the demands for the IMF's assistance. While British Pound, European Euro and Japanese Yen are together with the American Dollar the major currencies in the IMF's basket, the most major and prevailing one in cross-border trades is the latter one. For historical experience, the IMF was established for confronting the imbalance of payment, early the shortage of American Dollar and lately that of gold. After *the Jamaica Agreement* was signed in 1976, gold formally quitted the circulation and Dollar based on merely American sovereign credit re-found its dominated position and then promoted further due to the end of the Cold War. By 2013, American Dollar took a share of 87%[7] of the world's foreign exchange turnover, and thus most of the applications received by the IMF are submitted by those members who are facing liquidity shortage of Dollar instead of other

[7] Because two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200% instead of 100%. See: BIS, 2014: p.72.

major currencies. Maintaining the hegemonic role of Dollar has already become the primary job the IMF possesses.

With utilizing American Dollar as an internationalized but sovereign currency, China and other BRICS members are trapped in a dilemma of policy-making: when the Fed promoted QE, they were unable to launch monetary policy much tight to sop up liquidity brought by hot-money, because the Fed lowered the American interest rate to 0.25% or even an extreme low scale by which reason any rise in domestic interest rates would attract more hot-money for arbitrage (Song, 2013: pp.106-107). Brazil and India rose their interest rates to confront imported inflation pressure during the international financial crisis, and Brazil even increased its interest rate to 12%, but this led to a more serious pressure of imported inflation. Whatever policy they chose, to tighten economies or not, the domestic markets still met a surplus of liquidity. Moreover, when the Fed quitted QE and proposed to rise interest, the withdrawal of hot-money would burst bubbles and devaluate local currencies. In this extent BRICS members' monetary policies are bound tightly to that of the United States.

The general utilization of American Dollar is the source of those main issues on international finance. The issue of Dollar is based on merely American sovereign, furthermore, the American governmental credit. This fiat money is given its value in circulation all by laws instead of linking to precious metals, and makes American monetary policy more flexible than others. British Pound used to be relatively stable not merely on account of the Bank of England as the last lender, but also due to its links to gold that limited its amount. As a so-called international public goods, Pound had made the international finance sustainable for a century so that the global free trade was maintained. However, America benefits from the maintenance of an unstable and volatile international financial environment: the high risks of international finance increase other countries' demands for Dollar reserves, thus the stronger the demands are, the lower the expenses in issuing national debts for American government for financing (Pan, 2014: p.97). More importantly, for maintaining a considerable reserve of Dollar, China, for instance, has to produce and export what America needs in quantity, such as low value-added products, to sustain trade surplus in order to accumulate reserve. This solidifies the distribution of labors and industries between China and America in which China has to utilize more resources in low value-added productions and lacks the capital to develop high-technological industries.

The evident shortcoming of the present international monetary system is the domination of American Dollar that is administered and controlled by merely American domestic politics and economy instead of being linked to any precious metals. In the period of financial crisis and the Fed's QE, Zhou Xiaochuan, the President of the People's Bank of China, argued to reform this system and set up a super-sovereign currency through intensifying the role of SDR (Zhou, 2009: pp.8-9). While the spokesman of the Chinese Ministry of Finance then gave a clarification that this argument was merely in Zhou's personal academic opinion, China and other emerging economies started to enhance the functions of their local currencies to reduce Dollar's negative impacts on them. At the 2011 Summit, BRICS leaders declared the international monetary system should have 'a broad-based international reserve currency system providing stability and certainty', and the composition of SDR's basket of currencies is supposed to be rethought and discussed.[8] In October 2011, the IMF reviewed the composition of SDR currency basket, and reiterated its criterion: an SDR currency must be a feely usable currency that should be both 'widely used' and 'widely traded' (IMF, 2011a). The conclusion made by the IMF's Directors was that the size of SDR basket should remain relatively small 'to avoid adding undue costs and complexity for SDR users (IMF: 2011b)'. It is a pertinent decision because even in 2013 the local currencies of BRICS members merely took an aggregated share of 6%[9] out of 200% in the world's foreign exchange turnover.

Besides providing clients with opportunity to obtain long-term investments for infrastructures, the NDB has its chance to expend the use of BRICS currencies. While *the Agreement* indicates that the Bank may provide financing in terms of the local currency of the country in which the operation takes place, any loan, investment or other financing undertaken by the Bank shall be used only for procurement in its member countries of goods and services produced in member countries, and any exception requires a permission by the

[8] See: *Sanya Declaration*. April 14, 2011. Para.16.
[9] See: BIS, 2014: p.72.

Board of Directors of the Bank.[10] Where the operations are taken, there rise large demands for the NDB members' goods and services, and thus the demands for members' local currencies for payment instead of a third currency.

This helps BRICS currencies, especially Chinese Yuan, with the review of composition of SDR basket, because the NDB operations would undoubtedly widen the use and trade of local currencies. However, being included in SDR basket does not exert substantial influence on international monetary system except a symbolic meaning. The SDRs in the IMF are allocated to the members according to merely their subscriptions, therefore generally it only functions as a dispensable supplement to their reserves due to its small quantity in total. Any use of SDR would lead to an interest paid to the IMF, and this maintains the allocation structure but discourages a general utilization. The IMF has not yet conducted *de facto* improvement on it. For BRICS currencies, the first step to internationalization is to widen the use and trade in practice instead of spending time and energy on SDR issues.

Once the NDB operates it is possible to reduce Dollar's impacts, and thus in a certain extent shake the IMF's fundamental function that is sustaining Dollar's role. Like the pressure that the CRA would impose, the NDB would also give pressure, even a more significant one, to the IMF with a manifestation that the IMF might shrink its functioning range if the concerned reforms do not take place.

7. Conclusion: Future of BRICS' New Institutions

As indicated above, the purpose of the CRA and NDB is to meet not merely the economic demands of the BRICS members, but also their political needs, such as voice and stability, in global governance. These institutions do not merely function as a supplement but also a competitor to the present international financial institutions including the IMF.

How can we understand this sort of competition initiated by BRICS? We take it as an *all-win* pattern of competition among institutions which indicates a process that: BRICS group establishes new financial institutions led by itself, improves its governance through healthy competition with the IMF, then

[10] See: *Agreement on the New Development Bank*. July 15, 2014. Article 21 (vi), 24.

forces the IMF to reform, and ultimately generates the situation in which all the institutions for global financial governance are jointly developing and perfecting and in which more countries can benefit from it.

For developing this *all-win* pattern of competition, BRICS' international financial institutions are supposed to meet three requirements. The first one is transparent standards for entrance. It indicates that the criteria to evaluate new members must be without political conditions and welcome any qualified entrants including both developing and advanced countries. An open institution will benefit more generally the members, and thus compete with the IMF in the aspects of representation and legitimacy.

The second prerequisite is that fairness must come prior to equality in the distributions of rights and benefits. Equality of opportunity means the voices and benefits obtained by the members completely depend on their subscriptions, whereas fairness refers to more preferential treatments with underdeveloped members as well as more tolerance to certain free-ridings.

The third requirement is a competitive and cooperative relationship with the IMF. Besides the general representation the IMF bears at present, it also has sufficient experience with governance. For dealing with complicated global financial issues, BRICS members cannot merely count on their own efforts, and their institutions should not only compete but also cooperate with the IMF. Competing refers to the substitutability to the IMF through presenting the advance in the benefit allocation and decision-making of the new institutions. Cooperating means the complementarity that is in what extent the new institutions are able to coordinate the rules and objectives of governance with the IMF. For instance, while the CRA has its delinked portion of 30% of maximum access to borrowing that presents its competitiveness, it also bears a 70% 'the IMF-linked portion' that requires a borrower to negotiate with the IMF when applying for more salvation from the CRA, and that shows cooperativeness.

In sum, under this *all-win* patterned competition, BRICS' new international institutions can not merely supplement the insufficient governance, undertaken by the IMF, to satisfy their own needs but also exert competitive pressure to the IMF in order to increase the latter's motivation to reform, and thus jointly perfect the international financial system.

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