BRICS And The Threat Of A New Global Systemic Crisis

This article lays out a comprehensive panorama of the global economic situation as it was on the eve of the COVID-19 pandemic and points out major weaknesses and crises brewing in the public and private sectors of the world's biggest economies. Although many of the problems predate the 2007–08 financial "great recession", they have become more acute in the last ten years. The current health emergency has compounded them and accelerated the looming breakdown of the economic and financial system. Thus, today there is a greater need for the creation of a new global monetary architecture.

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INTRODUCTION

The COVID-19 pandemic marks an epoch-making economic, political and social turnaround in the world and relations between peoples, populations and states will no longer be the same. Although there is as much rhetoric in this statement, there is much reality as well. As we have not lived through such an experience in human history, we cannot compare and draw on past examples and tested solutions. All of this could expose the world to risks worse than even the pandemic. Evaluation errors as well as leaps forward in the geopolitical and geoeconomic fields could trigger unwanted and unplanned conflicts, including those of a military nature. Before everyone's eyes, dangerous frictions are growing in numerous commercial, cultural, health and technological sectors. As detailed below, the pandemic crisis overlaps with a global financial and banking crisis ready to explode. The growth of debt bubbles and various speculations far outweigh what led to the Great Crisis of 2008. The economic and financial effects of the pandemic will only exacerbate the risks of a new global systemic crash.

There are many cultural, educational, occupational and social effects of a lockdown of peoples and families. The production lockdown in turn will also have impacts that are difficult to quantify in the medium and long-term. What is certain for the moment is that reductions in the commercial and industrial sectors, in the long run will be in double figures. This is also true of job losses. It is no exaggeration to say that the effects of the ongoing crisis will be worse than those of the crash and the economic depression of 1929. Today, we can affirm with certainty the fundamental and virtuous roles of states and central banks as creditors of last resort. At the same time, markets have been put out of play with no real impact on economic processes. In fact, the preliminary estimates presented by Kristalina Georgieva, Managing Director of the International Monetary Fund, speak of over 8,000 billion dollars made available by governments to support their economies and employment and of an unlimited availability of liquidity by central banks, such as the European Central Bank and the Federal Reserve Board, to ensure some financial stability. The real problem lies in the fact that all these resources have to pass through the current, old, banking and financial system before reaching productive businesses and sectors. The banking system, particularly the "too big to fail" banks, is in great difficulty for its own faults and its exaggerated risk appetite and overexposure to financial speculation. It is a strangely silent international banking and financial system, eager to manage the gigantic flow of central liquidity in its own way—a never reformed system that operates the same way as before and after the Great Crisis.

The COVID-19 pandemic marks an epoch-making economic, political and social turnaround in the world. The pandemic crisis overlaps with a global financial and banking crisis ready to explode. While people are working frantically to develop a vaccine against the Coronavirus, the destructive virus of speculative finance has been operating undisturbed for too long with its effects dangerously underestimated.

Another sign of concern is that while governments have stopped the productive economy, financial markets have continued to operate freely as usual. Speculation, short-term financial transactions, over the counter derivatives, virtual futures on goods neither produced nor physically traded, stock exchange games, etc have not been put in lockdown. This perhaps is the most obvious demonstration of where world power really stands—the untouchables. There was even a shock and silent witnessing of the madness of the negative oil price bargained for minus 40 dollars a barrel, with the producer paying the buyer to buy and keep oil in stock. While people are working frantically to develop a vaccine against the Coronavirus, the destructive virus of speculative finance has been operating undisturbed for too long with its effects dangerously underestimated. These are the problems and shortcomings that should concern us the most.

The eleventh summit of the heads of state and government of BRICS (Brazil–Russia–India–China–South Africa) countries, held in Brasilia on 13–14 November 2019, prioritised "Economic Growth for an Innovative Future". (*BRICS: Final Declaration XI Summit,* Brasilia 2019, online at https://infobrics.org) In this regard, the preparatory work centred on strengthening cooperation in fields such as digitalisation, innovation, science and technology, as applicable to all sectors of the economy as well as the continued fight against organised crime, drug trafficking and money laundering. The meeting stressed the strategic role of the New Development Bank (NDB) and its close cooperation with the BRICS Business Council, the agency of consultation and programming comprising economists and industrialists. In their analysis of the overall economic situation, BRICS leaders, in their final declaration in Brasilia, raised concerns for the system's resilience. This was in contrast to previous meetings, where they had expressed appreciation for the improvements underway in the global economy and for a certain degree of acquired stability.

> "Since our last meeting, global economic growth has weakened and downside risks have increased. Trade tensions and policy uncertainty have taken a toll on confidence, trade, investment and growth. In this context, we recall the importance of open markets, fair, just and non-discriminatory business and trade environments, structural reforms, effective and fair competition, promoting investment and innovation, as well as financing for infrastructure and development. We stress the need for greater participation of developing countries in global value chains".

There has been a constant focus on the evolving international economic situation. It is important to remember that the group of BRICS countries was established in the aftermath of the financial crisis and subsequent global recession of the first decade of the 2000s. The economic and political leadership of BRICS seems well aware of the risks of a new global crisis. Until Brasilia however, it had seemed unwilling to shed light on facts and details that evidenced the dangerous path that global finance has been again following. Contrary to ten years ago, the focus today should be on the trends of the financial markets and debt bubbles at an international level, particularly in the United States of America (US), since they still determine global financial processes. There is thus a need to understand current happenings as well as have the will to avoid past errors of omission and commission. This article is based on studies and reports published by the Bank of International Settlements (BIS), the Financial Stability Board (FSB), the International Monetary Fund (IMF) and other official agencies.

THE DEBT BUBBLE

The world's aggregate debt (public and private) by end 2019 amounted to 255 trillion dollars. In 2018, it had been 177 trillion dollars—an increase of almost 80 trillion dollars in one year. The US and China together represent 60 per cent of the total. The aggregate debt of emerging economies has reached 71.4 billion dollars or 220 per cent of their gross domestic product (GDP). The world debt, excluding the banking and financial sector, which in 2008 was 200 per cent of GDP has risen to 250 per cent. Of this debt, the part made up by bonds is particularly relevant. In ten years, there has been an increase from 87 to 115 trillion dollars. In this context, sovereign bonds (issued by states) have also risen from 40 per cent to 47 per cent of the total. Moreover, the share of emerging countries in the last decade has also risen from 17 to 28 trillion dollars. Since 2007, the world's public debt has more than doubled from 28.7 to 70 trillion dollars. In the same period, the American debt has tripled

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amounting today to one third of the total. According to the IMF, 85 per cent of the 24 economies involved in the bank crisis of 2008, 18 of which are in the advanced sector, have been manifesting negative deviations in respect of the pre-crisis trend. Their productivity level of 60 per cent is still below the level it had been before the crisis. (Wenjie Chen, Mico Mrkaic and Malhar S Nabar, *The Global Economic Recovery 10 Years After the 2008 Financial Meltdown*, IMF Working Paper 19/83, 26 April 2019, online at https://www.imf.org)

CORPORATE DEBT

The corporate bond bubble has become the biggest threat to the world's economic and financial systems. (Susan Lund, Jonathan Woetzel, Eckart Windhagen, Richard Dobbs and Diana Goldshtein, *Rising Corporate Debt: Peril or Promise*, McKinsey Global Institute, June 2018, online at https://www.mckinsey.com) It may be even worse than the subprime and real estate mortgage bubble of 2008. Corporate debt has reached a peak of 72.600 billion dollars, equal to 91.4 per cent of the world's GDP. These are bonds issued by companies for funding. The use of the capital market is undoubtedly a positive and important way to gain access to capital if used with great care. It is a way to gain liquidity necessary to innovate and modernise productive structures as well as extend the market perimeter. Unfortunately, as in many other financial and economic situations, abuse and lack of thoughtfulness will lead to disasters. In the last ten years, the world corporate bubble has risen by 27 trillion dollars. A particularly sharp rise has been registered in emerging economies with corporate debt increasing from twenty thousand to thirty thousand billion dollars. In relation to GDP, their corporate debt has risen from 56 to 105 per cent. In China, it has reached 15.4 trillion dollars. Beijing defends this trend by pointing out that the underlying assets are equal to 20 trillion yuan—a far better ratio than in many Western countries.

The facts and concerns about emerging economies outlined above have been confirmed by a study published by the United Nations Conference on Trade and Development. (*Trade and Development Report 2019*, online at https://unctad.org) According to the study, these economies have disproportionally indebted themselves, especially in the private sector, by the Federal Reserve's zero interest rate policy. Their percentage of corporate debt on a world level has increased from seven per cent in 2007 to 26 per cent in 2017. The IMF has underlined that 19 trillion dollars of corporate debt within the major economies—the US, China, Japan, Germany, France, Italy and Spain—is at risk of defaulting in the face of a new economic crisis. In the US, the corporate debt bubble has reached 15.5 trillion dollars, surpassing the real estate one that amounts to approximately 11 trillion. The US could become the centre of a new and worse global financial crisis. Since 2008, the number of corporate bonds within the US has risen by 75 per cent. This has made the IMF recognise the possibility that a rise in interest rates could increase the risk of collapse of one-fifth of large American corporations. (*Financial Stability Report*, Federal Reserve Board, May 2019, online at https://www.federalreserve.gov)

SHADOW BANKING

The world of finance has also changed profoundly—banks are no longer in the first place. According to the Financial Stability Board (once headed by Mario Draghi) (*Global Shadow Banking Monitoring Report 2018*, online at https://www.fsb.org) at the end of 2017, global financial assets amounted to 382.3 trillion dollars—five times more than the global GDP. Of these financial assets, 182 trillion dollars are managed by non-bank financial institutions, 151 trillion dollars by banks, 30 trillion dollars by central banks and the rest by public financial institutions. Non-bank financial institutions "entities and activities of credit intermediation that operate outside the normal banking system", are considered as and called shadow banking by the FSB.

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Non-banking activities comprise insurance companies with 33 trillion dollars in assets centred in Europe and the US, pension funds with 33.6 trillion dollars, 60 per cent of which are in American hands and other financial intermediaries (OFI) with 116.6 trillion dollars. The last include various types of financial holdings, hedge funds, investment funds as well as other financial organisations, usually very "creative" and speculative. The Euro area of OFIs amounts to 32 trillion dollars, surpassing the US and China, with the latter going through an extraordinary increase. Within OFIs, there is a sector in continuous development called the narrow measure of shadow banking, representing 51.6 trillion dollars in assets. According to the FSB, narrow measure operations are riskier than other instruments as they rely heavily on leverage—they operate with large numbers but little proper capital. A similar situation had been created on the eve of the 2008 crisis. Regarding narrow measures, the US is still in first place with 29 per cent, followed by Europe with 23 per cent and China with 16 per cent. Particularly relevant is the fact that the Cayman Islands, the quintessential tax haven, represents 10 per cent of the total.

Shadow banking within the US has increased vastly from 28 trillion dollars in 2010 to 45 trillion dollars today. Sheila Blair, former president of the Federal Deposit Insurance Corporation, the public agency that guarantees citizens' savings, fears an impending new economic crisis. "We are in a bubble … in such a situation it is absurd that the rules and requirements of bank capital have been watered down". She affirmed that it was not true that bubbles could be only recognised retrospectively, that is, after they burst. Rather, the only thing not possible to forecast was the moment of the burst. She also pointed out that the policy adopted by the Federal Reserve had done everything possible to sustain the bubble.

INDEX FUNDS

One of the most aggressive manifestations of shadow banking is represented by exchange trade funds—investment funds that operate according to a reference index. They collect capital and savings from different entities and invest in a portfolio of titles from corporations included in the Wall Street index. A study by Harvard University, (*The Spectre of the Giant Three*, online at https://corpgov.law.harvard.edu) shows the growing power of the three American exchange trade funds—BlackRock, State Street Global Advisors and Vanguard. In this context, an emblematic case is that of Standard and Poor's 500 (S&P 500). The three giants together handle 14 trillion dollars in financial assets (assets under management). Their growth has been huge. In the last ten years, 80 per cent of all capital that has gone to investment funds has been concentrated in their hands. In twenty years, their share of big American corporations, that are part of S&P 500, has quadrupled from 5.2 per cent to 20.7 per cent. Black Rock and Vanguard effectively hold more than five per cent each of shares from all American companies listed in the S&P 500. The Harvard study (*ibid*) estimates that the "three giants" represent 25 per cent of votes on the board of directors of the companies in question. After the too big to fail banks, whose hazardous nature was denounced by different investigations conducted by various commissions within the American Congress, there is now the rising problem of excessive financial and managerial concentration in these exchange trade funds.

THE OTC DERIVATIVES

The financial derivatives sector has also avoided the control and containment attempts of American financial reform through the Dodd-Frank Act. The Bank for International Settlements (BIS) in Basel has published a series of studies on the over the counter (OTC) derivatives market. (*BIS Quarterly Review*, December 2019, online at https://www.bis.org and previous reports) It highlights that over the years their notional value, at a global level, has been between a minimum of 500,000 billion dollars and a maximum of 650,000 billion dollars. A number not particularly distant form the 700,000 billion dollars of the great crisis. OTCs are financial derivatives that are not regulated, are exchanged outside the regular markets, are often kept out of budgets and maybe regarded as the most dangerous fruits of financial deregulation. The European Securities and Markets Authority in its annual report on the situation of derivatives has stated that at the end of 2017, the European market alone had registered a notional value of 660 trillion euros, of which more than 542 trillion were OTCs. From the report, it is clear that regulated derivatives, the less risky ones, represent only a fraction of the market. The analysis is based on data provided by the BIS. At the end of 2017, the bank had quantified the total number of derivatives at the global level at 622 trillion dollars of which 532 trillion dollars were OTCs. BIS has highlighted that the

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"European component" of the derivatives market amounts to one-fourth of the total. If such an estimate were confirmed, then the OTC bubble would be much bigger than anticipated. In this regard, it is important to stress that in the past, the big American banks always held the top places within the OTC market. Today surprisingly, the German Deutsche Bank holds the first place with OTCs for a notional value of 43,500 billion euros.

TURBULENCE IN THE MONETARY SYSTEM

Since the default of Lehman Brothers in 2008, the international monetary system has been in continuous and sometimes tumultuous turbulence. Even an economist of the American bank JP Morgan, the biggest too big to fail bank, has admitted that the era of the dollar as a currency for international transactions may be ending. "The dollar might lose its status as the main international currency". (Craig Cohen, *Is the Dollar's "Exorbitant Privilege" Coming to an End*, JP Morgan, 10 July 2019, online at https://privatebank.jpmorgan.com) This shows that important changes have been taking place within the international monetary system, as the dollar has been the dominant currency for almost a century. (Mark Carney, *The Growing Challenges for Monetary Policy in the Current International Monetary and Financial System*, Speech by the Governor of the Bank of England, Jackson Hole Symposium, August 2019, online at https://www.bankofengland.co.uk)

More than 70 years after the Bretton Woods agreement, the world's economy has changed drastically. New economic actors have emerged, among them BRICS countries and the European Union. The dollar is still the currency used in more than 60 per cent of commercial operations worldwide and is still the principle reserve currency, but the influence of the American economy compared with the rest of the world has declined. China, for example, has been using the yuan in many international trade agreements and has been moving to bypass the dollar even in the energy market. The international stock exchange in Shanghai has launched yuan denominated crude oil futures. In just a few months, the share of deals concluded in the yuan reached ten per cent of total exchanges. The composition of monetary reserves has been undergoing a transformation as well. In the last ten years, the share of gold in Russian reserves has increased tenfold. The Bank of Russia in Moscow holds 2190 tonnes of gold with an approximate value of 90 billion dollars—one-fifth of all Russian reserves. In 2018, the bank halved its dollar reserves from 45.8 per cent of total reserves to 22.7 per cent—dollars were substituted with euros that went up from 21.7 per cent to 31.7 per cent and yuans that rose from 2.8 per cent to 14.2 per cent of total reserves.

Every month China buys tonnes of gold, a part of which is used to increase the country's reserves. The total quantity of gold amounts to approximately two thousand tonnes and there is still a high margin of growth since gold amounts to only 3.5 per cent of total Chinese reserves. The concentration of gold is still higher within the US, which holds 8200 tonnes of gold, equal to 70 per cent of total American reserves. A similar percentage is true for Germany while in Italy with almost 2450 tonnes gold represents 66 per cent of the country's reserves. The trend, both at a global level and in Western industrialised countries to replace the dollar in the composition of reserves with gold and other currencies, has been ongoing swiftly. The progressive loss of confidence in the "dollar system" has been confirmed by the distancing of many institutional investors from American government bonds as well. In the past, Russia was one of the main investors in Treasury Bonds. In 2010, it held 176 billion dollars of American bonds. Today its share has dropped to 12 billion dollars. Month after month, China, the biggest investor in Treasury Bonds, has been selling bonds worth tens of billions of dollars. In the last two years, it has reached a minimum with less than 1100 billion dollars in Treasury Bonds. A similar trend is visible in other countries such as Great Britain and Japan as well.

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TARIFF WARS AND THE USE OF PARALLEL CURRENCIES

Every action has a reaction that sometimes surprises those that start the action. This has been the case of tariff and sanction policies. These engendered conditions for the birth of a parallel monetary system based on the yuan, usable both in commercial exchanges and as a reserve currency. China and Russia have signed an agreement for the use of financial instruments in roubles and yuan to cover up to 50 per cent of bilateral trade in the next few years. The realisation of the Belt and Road Initiative (*Belt and Road News*, online at https://www.beltandroad.news) and the financial role of the Asian Infrastructure Investment Bank (online at https://www.aiib.org) would be essential to internationalise the yuan. A group of economists from BRICS countries have prepared a detailed study (*Use of National Currencies in International Settlements: Experience of BRICS Countries*, Russian Institute for Strategic Studies, 2017, online at https://en.riss.ru) which states that up to 2016, the volume of China's trade in renminbi was 22 per cent and that of Russia's in roubles was 20 per cent. The currencies from other BRICS countries are still far from such values. Regarding total international inter-bank transactions, the Chinese currency represents only 1.6 per cent, the South African rand 0.8 per cent and the Russian rouble 0.25 per cent. Although these numbers seem insignificant, ten years ago nobody in the Western world would have imagined such developments. These trends strengthen the idea of replacing the dollar as a reference currency with a basket of currencies. This would be an equitable, pacific and rational evolution towards a new monetary system reflecting a new multipolar world. Meanwhile, the IMF in reviewing its participation fees has recognised China's increased economic role. From October 2016, the renminbi has been part of the IMF's special drawing rights currency basket—the monetary reserve currency created by it.

CONVENTIONAL ANSWERS ARE NOT ENOUGH

In a possible new crisis, the BIS believes a bailout from central banks might not be enough as the parameters for action have changed drastically. Today the causes for a possible recession are linked more to the financial system, as it is a protagonist of unsustainable growth. The BIS acknowledges that expansive monetary policies were necessary to bring the economies of the most advanced industrial countries out of the crisis. Quantitative easing policies, with the injection of new liquidity for the purchase of public bonds and other investments, such as the asset-backed securities owned by banks, have produced a series of effects that in the long-term might be destabilising. Among other things, they have had the effect of inflating the budgets of central banks. The Federal Reserve's budget has risen from 800 billion dollars in 2008 to 4050 billion dollars today. That of the Central European Bank has risen from 2000 billion euros in 2008 to 4700 billion euros today. Together, the four most important central banks, the Federal Reserve, the European Central Bank, the Bank of Japan and the People's Bank of China have collected assets of more than 20 trillion dollars. That is, more than 100 per cent of Japan's GDP, 40 per cent of China and the Eurozone and approximately 20 per cent of the US.

The policy of zero interest rates, coupled with the availability of huge amounts of liquidity have degenerated the capital market. (Carlo Altavilla, Lorenzo Burlon, Mariassunta Giannetti and Sarah Holton, *Is there a Zero Lower Bound: The Effects of Negative Policy Rates on Banks and Firms*, European Central Bank Working Paper series 2289, June 2019, online at https://www.ecb.europa.eu) In this regard, estimates by the IMF show that 17 trillion dollars of both public and private bonds register negative interest rates. This situation has put a strain on institutions that operate on long-term basis, such as life insurance companies and pension funds, while reducing the profitability of many banks, especially in Europe. Such a trend cannot keep expanding and be sustainable over time without causing upheavals in the markets. Expansive monetary policies have generated situations of moral hazard unleashing a strong search for profit and excessive risk-taking. Such permissive conditions for funding have also kept alive "zombie companies"—companies that that are not profitable enough to pay interest. (*Global Financial Stability Report: Lower for Longer*, IMF, October 2019, online at https://www.imf.org)

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In case of a worsening economic situation, central banks today have few instruments with which to intervene—all the instruments of different and non-conventional monetary policies have been used to exhaustion. A major concern for central banks is the risk of a rise in inflation—in a situation where it would be necessary to contain inflation, interest rates would have to rise. This could shut down an economic system already under stress, especially with regard to the corporate bond sector and other bubbles previously mentioned. At such a point, the effect on the global debt would be difficult to handle. (*Unconventional Monetary Policy Tools: A Cross-Country Analysis*, BIS, Committee on the Global Financial System Paper 63, October 2019, online at https://www.bis.org)

WARNINGS AND CONCERNS

Many economists have raised concerns about the new economic crisis. According to Jacques de Larosière, ("Sortir la Politique Monétaire de l'impasse", *Les Echos*, 12 September 2019, online at https://www.lesechos.fr) former governor of the central bank of France, former director of the IMF and author of a 2009 report of the European Union Commission for the construction of the European Systemic Risk Board, accommodative monetary policies of central banks have undermined the financial system, making possible future adjustments impracticable. The idea that central banks must keep the inflation level at two per cent, intended as a manifestation of the right course in managing monetary policies and the economy, is wrong. People that adhere to this idea, affirm that under this level there would always be the risk of deflation, that is, a fall in prices. Larosière believes that the annual inflation target should be lowered to one per cent. This is because certain structural factors profoundly change the data that determine consumer price, including the ageing of the population, technological advancements that reduce the cost of production and globalisation that has allowed the worldwide proliferation of cheap goods produced in areas with low salaries and static labour markets. Therefore, the one per cent target would in no way be a deflatory target. Larosière has also highlighted how the protracted and exaggerated zero interest rate policy has produced other serious consequences. These include a strong inclination towards debt, a weakening of the banking sector, a worsening of the budgets of pension funds with investments in government bonds with no returns, the proliferation of "zombie companies", as interest rates have stopped playing a role as a discriminating "quality index" and finally the push towards investments and financial products with high risks and a disincentive for governments to enact structural reforms. Moreover, with zero interest rates, companies, instead of making new investments, are pushed to produce more debt with which they buy their own stocks in the market. Larosière admonishes that this creates an illusion of stability.

THE ROLE OF THE NEW DEVELOPMENT BANK

BRICS countries are aware of the current situation. In this regard, in their final declaration of the Brasilia 2019 summit, they made an explicit reference for the necessity of coordinated reform action in all sectors of the economy.

> "We will continue to cooperate within the G20 and advance the interests of emerging market economies and developing countries. While noting that the BRICS countries have been the main drivers of global growth over the last decade and currently represent close to a third of global output, we are convinced that continued implementation of structural reforms will enhance our growth potential. Trade expansion among BRICS members will further contribute to strengthening international trade flows. We further advocate for continued use of fiscal, monetary and structural policies to achieve strong, sustainable, balanced and inclusive growth. We call on major advanced and emerging market economies to continue policy dialogue and coordination in the context of the G20 and other fora to advance these objectives and to address potential risks".

The New Development Bank has in Brazil funded the construction of logistic hubs for physical connections with remote areas. In Russia, in addition to infrastructure, financing has been given to projects designed to improve access to historical and cultural centres. In India, investments are centred on water management projects and connecting rural areas with markets. China has been using bank funds to improve the environment, while South Africa has been focusing on energy and water projects.

To show the concrete contribution of BRICS countries to the growth and development of key sectors of the real economy, the 2019 summit enhanced the role of the New Development Bank (NDB). Founded in 2014, its main objective is to finance the development of infrastructures. The NDB can now count on a fifty billion dollar capital to be made fully available by 2027 of which ten billion dollars have been already deposited. Around fifty projects have been already financed for a total of 15 billion dollars. The bank has been very active. In Brazil, it has funded the construction of logistic hubs for physical connections with remote areas. During the Brasilia summit, funding was signed for the North Region Transportation Infrastructure Improvement Project aimed at improving the capacity to move raw materials from mines to ports. In Russia, in addition to infrastructure, financing has been given to projects designed to improve access to historical and cultural centres. In India, investments are centred on water management projects and connecting rural areas with markets. China has been using bank funds to improve the environment, while South Africa has been focusing on energy and water projects.

The management of the NDB has confirmed to BRICS countries and the world, its commitment to issue credit in local currencies—40 per cent of its portfolio in South Africa is in rands. The demand for loans in yuan, for Chinese projects, has been rising quickly as well. The organisational structure of the bank has been expanding. It already has offices in Johannesburg, Shanghai and Sao Paulo while offices in Moscow and New Delhi are in the offing. The bank also intends to admit new associates from emerging countries to reach a base capital of ninety billion dollars by 2027. This important credit institute also intends to develop innovative credit instruments that are both non-speculative and guaranteed by capital and investments. Moreover, with help from China's Central Bank, the NDB has already collected six billion yuan through the issue of bonds in the Shanghai market. (KV Kamath (President NDB), *Report of the President on the Status of the New Development Bank*, XI BRICS Summit 2019, Brasilia, November 2019, online at https://www.ndb.int)

In Brasilia, discussions were also held on the progress of the BRICS Local Currency Bond Fund for the development of local bond markets. These operations focus on the necessity to elude progressively the control of a system dominated by the dollar. Along with the NDB, a Contingent Reserve Arrangement (CRA) was also created with the task of protecting BRICS' economies and finances in case of the instability of markets or currencies. During the Brasilia meeting, it was highlighted that the alert system of the CRA had successfully conducted a second test of preparedness to counter a possible external economic crisis.

The final declaration of Brasilia also reaffirmed the commitment to overcome growing threats to multilateralism, with a special focus on the role of the United Nations in international affairs. It also stated the need to reform international organisations such as the IMF, the United Nations and the World Trade Organisation to give a bigger role to both emerging and developing countries as part of a fair and inclusive multilateral international order. The latter organisation should play a more independent role in the conflicts over trade. At Brasilia, concerns were also expressed over continuous commercial tensions that "have taken a toll on confidence, trade, investment and growth" at the world level. The other commitments undertaken by BRICS encompass a broad field ranging from the protection of biodiversity, the environment and soil, to the fight against desertification and peaceful development in space.

Finally, BRICS countries again lamented that another year had gone by without a redefinition of IMF quotas since 2010. That the US and its dollar system fear losing their current economic and monetary power is comprehensible—that the European Union and other countries are willing to play Washington's game is less understandable. It is surely self-harming. Europe with other partners should play a central role in the process of systemic global reform in the areas of currency, economy, finance, trade and international relations.

CONCLUSION

Based on data and the situation as detailed in this article on debt bubbles and reckless finance, this paper concludes with preliminary considerations on necessary interventions. The ongoing planetary crisis has created many challenges but also given a historical opportunity to plan the creation of a new global architecture of commerce, the economy and finance. Similarly, the pandemic could be easier to overcome through a joint commitment by all governments and economic and social forces whose future is at stake. The current situation is often compared with the period of institutional reconstruction after the Second World War. Today however the need is not for a "new Bretton Woods" but rather a new global architecture. The Bretton Woods system built by a few great powers, mainly Britain and the US, was an important but unfortunately partial project, as it left out most of the countries in the world—emerging nations and the socialist sector—where the vast majority of people live. To maintain peace and defeat the coming winds of wars, it is necessary to face the challenge of redesigning global institutions of civilian life, respecting the principles of cooperation, development

Today the need is for a new global architecture. To maintain peace and defeat the coming winds of wars, it is necessary to face the challenge of redesigning global institutions of civilian life, respecting the principles of cooperation, development and freedom. Current institutions are worn and dated and require revision based on cultural, political, social and technological changes.

and freedom. Current institutions are worn and dated and require revision based on cultural, political, social and technological changes.

Among the new institutions, it is imperative to lay the foundations for a new fair and just international monetary system built around a basket of currencies. It is clear that today's world and economic and political actors are not of 75 years ago. The dollar alone is no longer able to support the entire monetary, commercial and reserve system. In the meantime, new important players have emerged, including China, India, the BRICS grouping, the European Union and the Eurasian Union. Sharing responsibilities in a multipolar way is the sine qua non condition to resolving the new challenges in a cooperative and peaceful way. A redefinition of the role of the state and of public–private relationship is also inevitable, increasingly in the direction of the principles of the social market. The rediscovery of a productive credit system would be fundamental to finance long-term investments as opposed to finance that has become too speculative, short-lived, high risk and without controls. The entire banking system must be standardised along this reality principle. A necessary step is the separation of banking operations, as previously established by American President Franklin Delano Roosevelt. Today more than ever, we need to appreciate the importance of a creditor and a guarantor of last resort who has the strength and competence to stabilise the market. Until yesterday, markets were considered the new Olympians, committed to keeping away any institutional correction or reform. Today however, we see them again queuing to knock on the doors of states and central institutions in search of aid and support. The most important question is—do governments, institutions and citizens possess the virtues required to build a new fairer and more just order after the pandemic shock?