

BRICS AND NEW DEVELOPMENT BANK ANALYZING THE OPERATIONS OF BRICS' NEW DEVELOPMENT BANK IN THE GLOBAL SOUTH - 30.07.2024

Sinem Kocabay

Uep Rapor No: 1
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Sinem Kocabay

Traineeship Program Participant

Abstract: The New Development Bank, established by the BRICS member countries with an agreement signed in 2014, aims to ensure the economic development of its member countries and other underdeveloped countries through infrastructure investments. As an international platform, BRICS enables member countries to raise their voices against Western financial institutions such as the World Bank and the IMF. Due to its unique structure, the New Development Bank is considered a good alternative that can affect the development levels of member countries. This report will examine how the New Development Bank affects the countries we call the Global South through infrastructure investments. The report will first provide information about the Bretton Woods institutions that formed the backbone of the international system where the West is hegemonic and will discuss why developing countries seek to create a new alternative. It will then discuss the structure and purposes targeted in establishing the BRICS and the New Development Bank. Finally, the report will discuss the operations of the New Development Bank in the Global South countries and the difficulties it may face in its operation.

Introduction

The end of the Cold War era's bipolar world allowed the US to assume the role of global hegemon. Some even contend that a multipolar world order is now emerging instead of the existing one. By strengthening the existing economic system, the United States was able to create and preserve its hegemonic standing, thanks mainly to financial

organizations like the World Bank and the IMF that were founded following the signing of the Bretton Woods agreement. However, even after the Bretton Woods agreement was signed, there was great discontent among the Global South over their underrepresentation in international financial organizations. They contend that by setting quotas that might eventually impact their voting share, the IBRD and IMF have been causing inequality within the organizations. Another criticism stems from the conditionality principle of the IMF, which, while providing the debtor countries with credits, ends up with austerity measures.

These criticisms led developing countries to construct international platforms and organizations that may serve their interests and represent them in world politics. For instance, the famous G8 did not include any developing countries, and there was a need for a more comprehensive and inclusive international platform. Therefore, the G20 emerged and covered many developing countries. Another initiative to form an international platform comprised of developing countries was the establishment of BRICS. Apart from these initiatives, developing countries established national development banks that aim to provide funds for infrastructure investments. In addition to these national development banks, there are also multilateral development banks to which many different countries contribute and which were established to provide funds for infrastructure investments of their member countries. Despite the BRICS New Development Bank being one of the examples of multilateral development banks, it is not the only one, and there were early prototypes that were not supported by some developing countries. Some academicians think that these new institutions and platforms are equipping developing countries with the opportunities to represent themselves and raise their voices in world politics. Yet, it is not possible to assert that there is a uniform opinion regarding this.

The New Development Bank primarily aims to provide financial assistance to support infrastructure investments and sustainable development in the Global South. By doing this, it aims to avoid the things it criticizes in Western financial institutions. To that end, it prioritizes de-dollarization of credits.

Ironically, the founding agreement forming the Bank was signed precisely on the same day forming the Bretton Woods institutions 70 years ago. Additionally, it differs from WB and IMF in terms of structure since equal share is prioritized. However, there are discussions in the literature about whether BRICS or New Development Bank supplements the existing financial institutions and international platforms. Another discussion is questioning whether or not the BRICS Development Bank will be able to ensure the de-dollarization of the credits. Despite the differing views about BRICS and the bank, literature compromises on the view that developing countries feel affected by the actions of Western financial institutions such as the IMF and World Bank and want to be represented and heard.

This study analyzes the BRICS New Development Bank's potential to improve economic development and address the shortcomings of Western financial institutions in the Global South. This paper will question how the BRICS New Development Bank shaped the Development of the Global South through infrastructure investments. Firstly, the report

will mention the Bretton Woods institutions' structure and aims, which form the backbone of the international political economy. Then, the paper will go on to critically analyze what these institutions fall short of and talk about what Global South demands. Then, it will mention the organizational structure and establishment purposes of BRICS and the New Development Bank. Finally, it will discuss the operations of the BRICS New Development Bank in the Global South.

To conclude, NDB represents a significant change in global financial dynamics and is seen as an alternative to Western-dominated financial institutions. This report will examine NDB's potential to address the shortcomings of IMF and WB in the Global South.

1.Backbone of the International Political Economy: Bretton Woods Agreement and its Institutions

The current international political economy dates back to 1944 when the Bretton Woods Agreement was signed. The International Monetary Fund (IMF) and World Bank are the products of the initiative to establish a post-war economic order as planned in Bretton Woods. Forty-four nations were represented during the conference, and the ideas shaping these institutions' structures were the ideas of the WWII winners. [1] Therefore, it is possible to mention that only winners' interests are represented in these institutions, and this problem of "under-representation" will lead to criticism of the Global South later.

When the IMF was established, the ''fixed exchange rate'' system was prevalent in the international economy. In this system, payment imbalances were addressed by acquiring liquidity from another country in the short run. Therefore, the IMF was established to provide liquidity to countries in need. In a way, the fund protects international monetary and financial stability. [2]

The International Bank for Reconstruction and Development (IBRD) was established to deliver resources to ensure the postwar rebuilding and development of impoverished countries. At that time, the prevalent idea was that economic development entailed growth, which would be the outcome of capital investment. Therefore, the Bank was established to provide credit to countries in need. However, both institutions went beyond their initial intentions. The Bank could not keep its word fully due to being financially insufficient as a young bank. Therefore, the US Marshall Plan supported the task of delivering resources for postwar rebuilding. Thanks to the Marshall Plan, Europe overcame its economic problems, and the Bank turned to developing countries to provide credit. Additionally, the fixed exchange rate system was replaced by the floating exchange rates system in 1973, which is in use today. However, payment imbalances were still prominent, and they became more fluctuant. Therefore, the Fund was still able to maintain its task. [3]

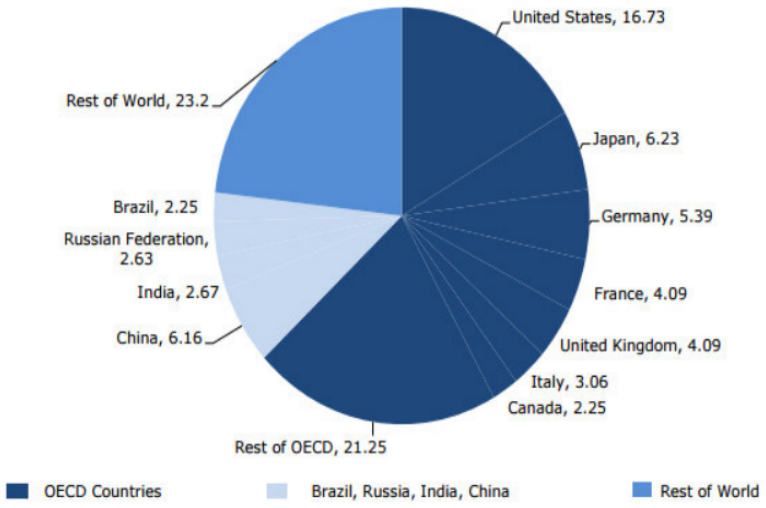
The Global South accuses these institutions of producing inequalities within their structure. Western countries are thought to be promoting and following their own interests at the expense of developing nations.[4] When the IMF was established, "inequality" was not on the agenda. However, the Fund has been researching inequalities

in recent years.

In order to understand why developing countries have been accusing the Bretton Woods institutions of enhancing the inequalities, we first need to look at the structure of these institutions. The executive board, managing director, and board of governors comprise the three components of the IMF governance system. The highest policy-making authority is the Board of Governors, and all countries can be represented in this authority. The IMF Executive Board chooses the IMF Managing Director, who acts as the organization's chairman. [5] However, since the foundation of the IMF, all the managing directors have been from Europe.

Every IMF member has a quota that sets their relative importance within the organization. Quotas determine how much each member will contribute to the Fund. The 2016 IMF report explains this as follows: ''Quota subscriptions are a central component of the IMF's financial resources. A member country's quota determines its maximum financial commitment to the IMF, voting power, and access to IMF financing.'' [6]

Figure 2: Voting shares of IMF members



The chart presented above reflects the voting share of IMF countries after the reform was realized in 2016.

TABLE 1

Most Underrepresented Countries by Share of World Economy		
Country	Current Voting Share	PPP Share of World Economy
China	6.16	18.59
India	2.67	7.09
Indonesia	0.96	2.51
Brazil	2.25	2.84
Iran, Islamic Republic of	0.75	1.22
Nigeria	0.52	0.98
Russian Federation	2.63	3.07
Turkey	0.97	1.39
Argentina	0.46	0.85
United Arab Emirates	0.18	0.57

Source and notes: Ibid.

Developing countries in Asia and Africa have criticized the IMF's structure because it has

not been updated to reflect today's world economy.

As the pie chart above demonstrates, the United States, with its GDP of $17.9 trillion, has 16.73 percent of the overall voting share, whereas China, with its GDP of $10.8 trillion, only has 6.16%. Even if we take into consideration the "population" factor, with 70 million people, Ethiopia has half the vote share of Luxembourg, a country with only 500,000 people. [7]

With the reform realized in 2016, China's voting share increased by 2.35 percentage points, from 3.81 to 6.16. This is the only truly notable change, but it still leaves China with a relatively small vote in relation to its size in the global economy.[8]

Another criticism stems from disregarding the developing countries when the IMF designed the programs for needy countries. Indeed, while poor people always bear the costs, they are not allowed to raise their voices. However, another criticism is about the Structural Adjustment Programs (SAPs). Borrower countries should make macroeconomic adjustments to receive loans from the IMF. These structural changes include removing all price controls, lowering trade barriers, and privatizing state-owned businesses. However, removing trade and capital constraints led to unemployment because companies in developing countries were not able to challenge their Western counterparts. [9]

According to Stiglitz, who conducted further research and analysis on the causes of the Asian financial crisis, Asian countries' exercise of quick capital and financial liberalization as a result of IMF conditionality was the factor that contributed to the crisis the most. The Asian crisis taught us that speculators had a great opportunity to benefit from the liberalization of capital and rising interest rates in nations lacking strong financial institutions and regulations. [10]

Several studies emphasized the unfavorable impacts of IMF programs on inequality. For example, Przeworski and Vreeland analyzed the effect of IMF programs on economic growth, and their study concluded that if countries continue to be part of the IMF program, their growth rate will decrease. However, when they decide to leave the program, they grow faster. Additionally, according to Gilbert and Unger (2009), IMF programs have remarkable negative impacts on inequalities and widen the class gap. [11]

Moreover, developing nations think IMF programs jeopardize their political and economic sovereignty. Therefore, most studies on economic growth and development concur that economic autonomy based on a strong legal system is the path to prosperity. [12]

Some see the programs of IMF and World Bank loans as imperialism. According to them, although the World Bank has been providing loans to developing nations, it has stipulated that their investments should be managed by US businesses. [13]

2. New Development Bank and its structure

Multilateral development banks (MDBs) have an essential role in mobilizing the needed capital for infrastructure investments. [14] Since infrastructure is an integral part of

economic development, BRICS countries have decided to enhance their cooperation by setting up their MDB to mobilize financial resources in BRICS countries.[15] The aspiration to establish a New Development Bank was first mentioned in the New Delhi Declaration in 2012 to mobilize resources for infrastructure and sustainable development. The BRICS summit organized in Fortaleza announced the signature of the agreement founding the New Development Bank. Ironically, the agreement was signed on July 15th, the same day on which the Bretton Woods agreement was established 70 years ago. [16] Although NDB is a young and small financial institution compared to its counterparts, it accepted 77 projects worth US$29.7 billion.[17]

However, the establishment of the NDB was not the first reaction from non-Western countries against the IMF's conditionality principle. For instance, during the Asian financial crisis of 1998, Asian countries started the Chiang Mai Initiative, but they never used it.[18] Additionally, the Bank of South (BancoSur) was founded by Argentina, Brazil, Paraguay, Uruguay, Ecuador, Bolivia, and Venezuela in 2009 as a reaction to the conditionality principle. BancoSur was established to fund regional development projects, and every member had only one vote. [19]

The founders of the NDB wanted to stand out with its different structure. Unlike traditional MDBs, BRICS countries have equal stakes in the Bank, reflecting the principle of equality among them. In fact, the NDB is even different from the recently established Asian Infrastructure Investment Bank, which replicated the conventional governance structure of MDBs, with China having 29.8% of voting rights. [20] Additionally, any member of the United Nations is entitled to apply for membership in the NDB. However, the agreement founding the NDB stated that BRICS countries will have 55% of the total voting power. [21] Additionally, the NDB has denied the veto rule, choosing instead to use the two-thirds majority rule for critical strategic decisions like Agreement amendments and the simple majority rule for the majority of decisions.[22] According to the NDB, projects should meet people's demands, and the Bank "engages in a dialogue of equals with receivers respecting their development concerns. According to the NDB, successful projects require borrowing countries to take charge of their own development path.[23]

However, the vision of establishing a BRICS bank became complicated by the ideas of two chief economists of the World Bank Nick Stern and Joe Stiglitz. Behind the idea of NDB, there were still the efforts of Western economists from World Bank. [24]

It is essential to mention that sustainable development is prioritized in the Bank's agenda. Most of the investments made by BRICS were in renewable energy projects. In its proposed development action plan for 2017-2021, the Bank promised to assist BRICS countries with reaching the UN 2030 Sustainable Development Goals.[25]

While establishing the NDB, BRICS also founded the Contingent Reserve Arrangement (CRA), which has 100 billion dollars available to provide emergent liquidity equally in case BRICS countries struggle with the balance of payment.[26]

Ironically, the CRA is linked to the IMF. According to the founding agreement establishing the CRA, if a member state needs liquidity, it must be "compliant with oversight and

information provision obligations to the IMF." Thus, the connection to the IMF and dollars is mentioned in the founding agreement.[27]

3. Infrastructure investments of NDB in Global South

Before explaining and analyzing the NDB's infrastructure investments in the Global South, a definition of ''Global South'' should be given. There is no consensus on the definition of Global South, but countries in the Global South share certain common qualities. These countries are not economically developed, or they gained their independence after their struggle against Western colonial power in the second half of the 20th century. Global South has yet to try to act as a bloc; each country has been following its own economic and political interests. Each one of them tries to establish pragmatic relations with other countries. The share of Global South countries in the world economy is increasing, so they want to have a greater say in the world economy and politics. Thus, for them, the world order should be reshaped in line with the Global South's increasing economic and political power. All the BRICS countries can be regarded as Global South. Apart from them, Argentina, Egypt, Saudi Arabia, Iran, Ethiopia, and the United Arab Emirates, as well as the powerful African countries of Egypt, Algeria, Nigeria, can be regarded as Global South. [28]

Due to the financial crisis of 2008, investments declined globally, and a financial vacuum emerged in developing countries. Some developing countries could not control the shocks. [29] For this reason, meeting the developmental needs of developing countries is a problem still relevant in our century.

NDB made public its commitment to allocating 2/3 of its resources to sustainable infrastructure in the first five years. NDB defines sustainable infrastructure as infrastructure projects that consider the social, environmental, and economic impacts in the planning and implementation phases. [30]

The first NDB loan, worth USD 81 million, was given on December 21, 2016, and it was used to build a 100 MW solar photovoltaic power plant in Shanghai. The NDB provided a USD 180 million loan to the state-owned utility Eskom in South Africa so that it could build transmission lines to link several renewable energy facilities to the country's electrical system. Together with the Eurasian Development Bank and the International Investment Bank, the NDB supported the development of hydropower facilities in northwest Russia. As can be seen from the examples, the primary receivers of the NDB development funding are China, Russia, and India. [31]

BRICS countries aim for ''de-dollarization''. To that end, they wanted to give loans in local currencies. However, as mentioned above, many of them were given in dollars. Therefore, in the literature, there are discussions regarding whether or not BRICS will successfully achieve de-dollarization. According to Dave Malcolmson, there is a decisive desire to start non-dollar loaning among BRICS countries. The biggest problem that may arise in developing countries in repaying their debt is that they will have to pay more debt in foreign currency due to currency fluctuations. So, for him, to ease the burden of

developing countries, loans should be provided in local currencies. However, within the Bank's first five years, 8 billion loans were provided and were predominantly dollar-denominated despite initially envisaged as local currency expenditures.[32]

Looking at Africa's relations with the IMF and the World Bank, we may understand the consequences of an uneven global governance structure. At the onset of the 1980s, many developing nations were experiencing negative growth. To address this problem, the IMF and the World Bank proposed prescriptive policies under the name Washington Consensus. [33] The principal tenets of the Washington Consensus are restructuring tax laws, letting the market set interest rates, preserving a competitive exchange rate, trade liberalization, accepting foreign direct investment, privatizing state-owned businesses, removing restrictions on entry and exit, and protecting property rights. [34]

According to Khan (2004), it was inopportune for Africa to implement these policies because of the global economic environment shaped by globalization. At that time, the African economy was dependent on high commodity prices for its gross domestic product, and the share of world trade involving these commodities was decreasing. These factors contributed to Africa's inability to benefit from Washington Consensus policies.[35]

It is important to bring together BRICS projects with the needs of Africa. Major shortfalls in infrastructure investment are hindering Africa's development. To address the sluggish rate of development and growth in many African countries, infrastructure investment is needed in several key areas, including housing, energy, transportation, water, and sanitation. [36]

Since 65% of African people have difficulty accessing electricity, investments in energy infrastructure are of great importance. According to Beri (2014), among many other nations, India has conducted extensive infrastructure development and training programs in African nations, including Nigeria, Zambia, Egypt, Ghana, and Lesotho. Additionally, the only country in Africa that took advantage of the COVID-19 Emergency Program Loan of NDB was South Africa. [37]

Literature has been conducting research to analyze the operations of NDB in the Global South. For instance, according to the research conducted by Waisbich and Borges in 2020, to finance sustainable infrastructure in the Global South, the Bank must overcome the intellectual and political challenges of developing strong institutional mechanisms.[38]

Mazenda and Ncwadi's study in 2016 presented the case that the Contingent Arrangement and the New Development Bank confront many difficulties, including decision-making processes and governance structures that require integrity, transparency, and political immunity. The study also examined China's intention to strengthen its political ties with other developing countries and its role as the primary funder of the BRICS's planned development projects. The study concluded that absence of a guiding principle that will ensure the equal distribution of resources among the member countries may restrict Bank's expansion. [39]

According to Nayyar, NDB's success or failure will be a test of BRICS countries' desire and capability to support development anywhere in the world. In this respect, NDB has the

potential to be a leader in formulating the BRICS path of sustainable development, which could strengthen more South-South cooperation and complement the existing development banks. [40]

4. Challenges NDB may face

i.Environment and sustainability-related challenges

Some scholars assert that there is a contradiction between supporting infrastructure investments and supporting sustainable development projects since large infrastructure investments may have negative environmental impacts. Without a robust set of guidelines for risk management and environmental protection, even "green infrastructure," like solar and wind energy, can have unintended consequences. [41]

Brundtland Commission defined sustainable development as development that fulfills the necessities of the present without jeopardizing the fulfillment of future necessities. However, BRICS countries stand out in terms of their increasing greenhouse gas emissions. The greatest national emitter of these gasses is China, in particular. Russia, one of the Annex 1 nations obligated under the Kyoto Protocol to cut emissions, has declined to ratify the agreement for the second period. All five countries have voluntarily committed to reducing emissions through their pledges to the Copenhagen Accord. Besides, except for Russia, all countries have been trying to progress in achieving low-carbon development. [42] Additionally, BRICS countries also became parties to the Paris Climate Agreement in 2016 and 2019.

Notably, China and India made differences in the energy sector. Although coal is actively used, they invested drastically in renewable energy. China invested in the localization of the production of renewable energy constituents and even attempted to be the leader in innovation for wind and solar technology.[43]

ii. Corruption-related challenges

Some scholars point out the issue of state and corporate corruption in BRICS countries. Corruption exists in Europe and America and extends to even BRICS countries. According to PricewaterhouseCoopers, the first four countries in which economic crimes are widespread are South Africa, Kenya, France, and Russia, while China ranks eighth. Some consultancy firms such as McKinsey, Deloitte, and PwC went bankrupt due to South African corruption. [44]

NDB has zero tolerance against corruption and considers the risks by looking at the internal policies of the borrower country before providing loans. In addition to conducting internal assessments, the Bank collaborates externally with law enforcement and other relevant organizations that handle national and international anti-corruption-related

issues. However, the Bank could not prevent the eruption of corruption in South Africa despite taking into consideration the efforts of the South African government to handle corruption issues at the national and international levels. Due to his involvement in corruption, Transnet Chief Executive Officer Siyabonga Gama's contract was ceased in 2018. [45]

iii. Political disputes-related challenges

In addition to all these difficulties mentioned above, any possible disagreement between founding members or any changes in world politics has the potential to distort the Bank's function of funding. For instance, since the establishment of NDB, US-China tensions intensified. So far, such a tension has not directly affected the Bank's function. However, potential dangers may be the absence of US investors' interest in NDB bonds in the case of US sanctions against China. This situation will affect the Bank's ability to fund.[46]

The current situation in the Ukraine-Russian War also affected the Bank's operations in Russia. Before the establishment of the Bank, Russia had already annexed Crimea, and as a reaction to this, many Western countries were imposing sanctions against Russia. Many MDBs minimized their operations in Russia, while NDB operated successfully through public and private sector funding. However, the current situation led to greater reactions from Western countries, resulting in extensive sanctions imposed on Russia. Thereby, NDB suspended its new operations in Russia. This has drawn a reaction from Russia because there is ambiguity about whether NDB will provide funding for already accepted projects in Russia or how it will manage to do so. [47]

China and India have enduring border disputes. Yet, during NDB's establishment, their relations were pretty good. However, despite China's ongoing efforts to detach border disputes from other kinds of disputes, India stated that this border dispute stays at the center of their relations. This kind of tension in the relations between China and India may affect the decision-making within NDB.[48]

Conclusion

After IMF policies failed in the 1990s, including the Asian financial crisis, many developing countries realized they should amass adequate reserves to stand on their own feet and not borrow from the IMF again. Indeed, China appeared as an alternative funding source through investments and foreign assistance. We witnessed that these trends were further institutionalized with the establishment of the BRICS Contingent Reserve Arrangement (CRA) and the New Development Bank. [49]

NDB differs from other MDBs with its unique structure and establishment purposes. Although it was not one of the earliest initiatives taken by developing countries to establish their development bank, it is seen as an alternative to Western financial institutions.

NDB's top priority is funding sustainable infrastructure projects in developing countries. Despite its tendency to provide loans in local currencies, most of these loans were in dollars. Still, the Bank wants to avoid dollars in investments and funding. However, the Bank needs to overcome environmental, political and corruption-related challenges to be successful in its purpose of supporting developing countries' development through non-dollar lending.

BRICS countries need to make an effort to separate their political disputes from the operations conducted in the NDB. Additionally, the Bank should have a clear guideline ensuring equal funding opportunities for each member. Besides, after meeting the sustainable infrastructure needs of member states, the Bank should turn to other developing countries to provide funds. By doing this, BRICS may have an increasing influence on World Politics. Additionally, through providing concessional loans to developing countries, infrastructure needs can be met, and uneven development can be reduced.

The IMF will likely continue to lose its influence in developing countries since alternative options are increasing. However, NDB should overcome many challenges to emerge as a strong alternative to Western financial institutions.

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About the author:

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Süleyman Nazif Sok. No: 12/B Daire 3-4 06550 Çankaya-ANKARA / TÜRKİYE
Tel: +90 (312) 438 50 23-24 • **Fax**: +90 (312) 438 50 26
@avimorgtr
https://www.facebook.com/avrasyaincelemelerimerkezi
E-Posta: info@avim.org.tr
http://avim.org.tr

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