The New Development Bank: The first multilateral BRICS Bank has been established to create a tangible instrument for increasing economic cooperation between the BRICS nations while at the same time reflecting the close relations among them.

What are the geopolitical implications the New Development Bank may have on the global economic order?

Martin H. Mauritsen

MSc in Development and International Relations, Aalborg University
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Executive Summary

The BRICS nations have created an international financial institution to rival existing ones such as the IMF and the World Bank. This was only agreed less than one year ago at their 6th annual BRICS summit. This relatively new development in global affairs is one that will resonate with the whole world.

This research paper aims to investigate this topic and asks the question of what geopolitical implications the New Development Bank may have on the global economic order? As the NDB is a relatively new creation, there is not much literature or empirical evidence on the subject. However this paper will nevertheless consider the theoretical aspects of the question posed.

To do so, this paper will discuss the works of economists and academics who have contributed critical analyses on global economic orders and institutional theory. In particular, it will look at the works of John G. Ruggie, Dani Rodrik, and W. Richard Scott. From this, a theoretical and contextual framework will be constructed in which to discuss the research question. Discussion and analysis on the literature researched will ensure before a conclusion is drawn to answer the question.

The creation of the New Development Bank is a result of the frustration that the BRICS nations feel with the existing international institutions in places. Considering their relative positions in geopolitics these days, having the largest economy and population in the world, their representation in the IMF and the World Bank is laughable. The outdated institutions do not recognize their status accordingly and this is manifested in the (lack of) influence that they can exert in a global governance capacity.

Establishing their own institution provides them with the power to exert their influence on global affairs. Geopolitical implications of this include shift in power relations, reduction in US and western global economic dominance, and reforms in policies pertaining to global governance. This paper explores all the aspects and considers how it will affect the current global economic order.
While it is always speculative to try and predict the future, theoretical works of previous global economic orders, particularly the Bretton Woods system, may give some indication to how the current global economic order will react to the introduction of the New Development Bank.

The paper concludes that the New Development Bank will have significant implications on the global economy, however due to the relative newness of the institution, these geopolitical implications may take some time before they manifest themselves.
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1. INTRODUCTION

At the latest BRICS summit in 2014, the five nations Brazil, Russia, India, China and South Africa agreed to create the New Development Bank (NDB). This new financial institution has already been pegged to challenge the western dominance on global financial control. The NDB will challenge established global institutions like the IMF and the World Bank. Not only will it do that, it will also give the BRICS nations more say in managing global finance, while at the same time potentially bringing about more benefits for the people living in BRICS countries and in other developing countries. Together, BRICS nations account for 25% of global GDP and 40% of the global population. Considering their representation and voting rights in the IMF, this is very disproportionate to their share in the global economy. Already during the last few decades, there have been many changes in the global economy. The creation of a new institution reflects a broader set of mandates, new concerns, and new sets of financial instruments that can be used. It can evaluate the faults and challenges of the old institutions and in turn improve on them.

In an interview with the independent news program “Democracy Now!”, Joseph Stiglitz discusses the implications of the creation of the NDB. Stiglitz hopes that this new institution will perhaps provide “competition” to the existing institutions and if anything, perhaps spur them on to improve their governance and incite reforms. (Stiglitz, 2014)1. In a more general sense, it is an additional global institution that will hopefully provide more resources to the global economy and provide assistance and investment where and it is needed, particularly in developing countries. Stiglitz lists some reasons which stress the importance of the creation of the NDB.

Firstly, it will help to accommodate the need of more global investment in the developing countries particularly (estimated at a couple of trillion dollars a year). This is currently not met by the existing global financial institutions who do not have enough resources to provide this. At the moment, they are currently able to help with perhaps 2-4% of global investment needed.

Secondly, the creation of a new developmental bank reflects a fundamental change in global economic and political power. In comparison, the BRICS countries today are wealthier than the advanced countries were when the World Bank and the IMF were founded after the end of WWII.

The old existing institutions are not keeping up with today’s modern world and have received much criticism for their rigid policies and disproportionate representation of voting rights in relation to their contribution towards global GDP. Those who created the economic blueprints for the post war world designed in Bretton Woods are no longer representing the majority of the global market as they did at the time. They are not reflecting the current representation of the world’s geopolitics. There have already been talks, by the G20 amongst others, that there should be a reform in the governance of the IMF and the World Bank. However this is yet to happen. The US congress has not agreed to the reforms discussed in 2010 and are delaying on making a decision.

Stiglitz interprets that the formation of the NDB as “a reaction to the disparity and the democratic deficiency of the global governance of these (existing international financial) institutions.” (Stiglitz, 2014). The BRICS countries are starting afresh by creating their own global institution to have more say in international financial matters.

1.1. Research questions

The truth is that it is unsure how the New Development Bank will fare and compare to the existing institutions as it is relatively new. How will it fit in with existing financial institutions? What implications will it have on the global economic order? What role will it play in developing Lesser Developed Countries (LDCs)? How will it function institutionally? And how effective will it be in achieving its goals? There are many questions that arise for such a new topic with limited empirical data and information. I find it all very interesting and particularly the idea of the New Development Bank itself. The BRICS nations could not be more different socially, politically, economically and culturally. They just happened to be grouped together in a convenient acronym created by Jim O’Neill from Goldman Sachs in 2001 to describe the next group of rapidly growing major countries to watch. At the time, it was only known as BRIC because South Africa was not part of the group until 2010. Yet they have put all their differences aside to officially agree to create a global financial institution to rival similar existing ones like the IMF and the World Bank. Why? What can they offer that is different to the existing institutions?

These are two simple yet profound questions. On the surface, a common answer to why the NDB is being created is because the BRICS are fed up. They are fed up of being an ever increasing part of the world’s leading nations while at the same time not having much say in how things are being run.

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2 Source: Ibid.
As mentioned earlier, the BRICS nations account for 25% of the world’s GDP, however when it comes partaking in decision making at the IMF, they have minimal share of the voting rights meaning that they can not exert as much influence as they may want to.

The institutions of the IMF and the World Bank created with the Bretton Woods system are outdated. Fast forward about 70 years and the geopolitics of the world looks quite different now. The Bretton Woods system failed after a few decades only to be replaced by what economists refer to as neoliberalism. Throw in some financial crises and a global unprecedented one in 2008 and after a few more decades, neoliberalism failed. The world economy following the 2008 global financial crisis is yet to be defined. Bretton Woods institutions like the IMF and the World Bank still exist. Neoliberalism has also left it mark on the world, the idea of free markets has shown that it can be a quick way to wealth and prosperity. Yet both have changed or evolved into something that is yet undefined. All the while this has been happening, so has globalization. In short, globalization can be described as the “spread and intensification of economic, social, and cultural relations across international borders.” (Jackson and Sørensen 2013, p.307) Globalization has been praised and criticized, and has improved and exacerbated conditions in almost all aspects of life for the global population. Depending from what perspective you look at globalization, the pros and cons can be debated incessantly but it cannot be ignored. As such, globalization plays a part in the socio-political and economic spheres of global society thus affecting social, economic and political decisions made.

Of the several questions raised above, I find the most intriguing one to be what implications will it have on the global economic order? The reason is that for the first time ever, the BRICS acronym has become tangible in the sense that is has announced to the world that the five nations of Brazil, Russia, India, China and South Africa will create a multilateral institution on their own initiative. As mentioned earlier, all countries are quite different in several aspects, yet they all agree to unite and create this global financial institution. How will the democratic nations of India and Brazil work together with single party led China, Russia and South Africa? Surely differences in political ideologies will affect decision making in the NDB where all founding members have equal share in voting rights. (Article 2 of NDB agreement, 2014)³. And of course policies made by the NDB will influence the actions it carries out and consequently will have implications on the global economy.

1.2. Theoretical framework

To discuss the question posed, I will construct a theoretical framework from the works of John G. Ruggie and Dani Rodrik. I have chosen Ruggie and Rodrik because of their critique on international regimes and economic orders. Ruggie’s work on embedded liberalism will be explored in the following chapter that will provide critique and context to the global economic orders post WWII. Rodrik’s work on heterodox economics is relevant to answering this question as by nature, the NDB is a non-Western institution. I will also briefly discuss the work of W. Richard Scott who has been influential in the study of institutional theory. Scott’s work will help to understand the context of how institutions work and give a better understanding of the structure of international financial institutions.

Within this theoretical framework I will be able to consider the question posed as it provides the context for the “global economic order”. Thus through analysis and discussion I will have the ability to answer the question: “What are the geopolitical implications that the New Development Bank may have on the global economic order?”
2. METHODOLOGY

It is not the unusual that critique and analyses of the global economic order has been undertaken. Economists, academics and business analysts alike strive to understand why the global economy is the way it is and how it came to be that way.

Trade is a socially constructed phenomenon. It is not something that nature and science can explain but something that humans began a long, long time ago. Trade is a concept that offers mutual gains, and since its inception at the beginning of human society, it has developed into markets, economies and global integration. As with other socially constructed ideas, humans have come up with ways to manipulate them to increase gains for individual or collective benefit. One such way to manipulate is to create a set of rules or guidelines that everyone can follow to allow control on cause and effect. So for a market or economy to further evolve, people have constructed institutions, both tangible and intangible, to support this.

The New Development Bank is an institution that has been created by the BRICS nations to manifest their influence on the institution of the global economy. The global economy itself is complex in that it also follows a modus operandi, which as well can be defined as an institution. This current institution, or economic order, has its roots from the economic architects of the 20th century. To answer the question, “What are the geopolitical implications the New Development Bank may have on the global economic order?”, we must first define certain elements such as geopolitical implications and global economic order. This will be covered in the theory and overview section which will give brief descriptions of the actors and elements involved, i.e. The NDB, the BRICS nations, multilateral development banks, and so.

International Relations and economic theory is broad and eclectic to say the least. The choice of theory can effect the outcome of the research question. However this would also be determined by one’s ontological and epistemological views, for both the choice of the theory and the answer to the question. To narrow my choice of theories down, I have chosen to look at Ruggie’s concept of “embedded liberalism”. Ruggie came to coin this term in 1982 to provide a critical narrative of the Bretton Woods system created after World War II. I find this relevant to the question above because, although the Bretton Woods system is no longer being used in the current economic order, there are elements from that system which are present today, e.g. the financial institutions that were created.
at the time, the International Monetary and the World Bank. Analyzing why some aspects of the
Bretton Woods system survived and why some did not, could give more insight on the current
global economic order. This would then better equip us to answer the question of what geopolitical
implications the NDB may have.

I will also consider the works of Rodrik who is known for his critical work on globalization and
alternative economic policy proposals. Rodrik’s work will be relevant for framing the discussion
due to his critical assessment of globalization. He discusses how the process of globalization has
influenced the current economic order in positive and adverse contexts, and how ontologically the
very nature of globalization is a paradox. He also offers his views on alternative economic policies
that would help to create a new global economic order that would be less impervious to financial
crises. Rodrik’s heterodox economics will help give us a more holistic insight on the geopolitical
implications the NDB may have.

Finally I will also discuss W. Richard Scott’s work within institutional theory. To understand the
New Development Bank and the global economic order, it is important to understand their
structures and how they work. This is determined by an agreed set of regulations on how to act and
exist, that provides legitimacy. These structures can be weak or strong and as result affect the
efficiency of the institution in performing its objective. Insight on institutional theory will give us
insight on why some economic policies may work or not, including why identical economic policies
would work in one country but not the other. This will help answer what implications the NDB may
have on the global economic order.

I won’t be collecting any empirical data for this paper. The question will be answered through
discussion and consideration of the above mentioned theoretical concepts and research for this
paper will be done accordingly through extensive study of the literature. In their handbook guide for
successful thesis writing, Mauch and Park discuss research methodology and say that the correct
approach “should fit smoothly into its place in the research plan sequence to move from what one
seeks by doing research to how one goes about seeking it.” (2003, p.126). They did concede in
saying that in their research for classifying different types of research methodologies, they
encountered no specific standardization in terminology and that several types have been named, and
possibly named in different academic fields. As I am basing my research on theoretical literature to
help me answer my question, the type of research methodology that I will be using, according to
Mauch and Park, is aptly called “theoretical”. They define this type of research methodology. “Inclusive and parsimonious explanatory principles for phenomena or data are developed, proposed, and described.” (2003, p.131). As mentioned above, the works of Ruggie, Rodrik and Scott will be discussed and applied to answering the research question posed.
3. THEORY

3.1. Ruggie and Embedded Liberalism

As we are talking about global financial institutions that affect the global economy, it makes sense to look at the question in hand with the structural framework of international economic orders. John Gerard Ruggie coined the term “embedded liberalism” in his 1982 article, “International regimes, transactions, and change: embedded liberalism in the postwar economic order”. In the article, Ruggie discusses the evolution of the global economic order post World War II through the change of international regimes. He developed further on Polanyi’s work on economic orders. In Polanyi’s “The Great Transformation” from 1944, he made a distinction between “embedded” and “disembedded” economic orders. Polanyi describes economic order as a function of society. Subsequently, social purpose directly affected economic affairs. Trading, bartering, allocation and movement of resources was determined by society as it was “embedded” in the society. So to explain “disembedded”, it can be considered as the opposite, i.e. the social would not determine the economic order but instead let markets become more free in terms of less restrictions and let it develop with minimal intervention, also known as “laissez-faire”.

Eric Helleiner explains that the US policymakers saw embedded liberalism had to be adapted to Northern and Southern countries in terms of policy execution. Drawing from examples of interventionism from the experience of the Great Depression, these differed in the North and the South. In the North, embedded liberalism was followed to reconcile liberal multilateralism with new commitments to social policy and welfare, very much following the ideology of Keynesian full employment policies. (2014, p.11) The domestic policies were given more onus on helping to rebuild and stabilize the economic order. In the South, new state led development policies executed in Latin America and other poorer countries during the 1930s, inspired US officials to also combine these policies to liberal multilateralism. “These policies were more focused on promoting rising living standards, rapid economic growth, and latecomer industrialization than on creating a welfare state and full employment.” (2014, p.11). The US officials recognized already then that Southern countries had different needs and preferences to the Northern countries so worked towards trying to accommodate this in the planning of the new global economic order.
3.1.1. Bretton Woods

The creation of the Bretton Woods system after the end of World War II had its roots in “embedded liberalism”. This economic system thrived in the 1950s and 1960s only to slowly begin deteriorating in the 1970s. Capital controls set by the state in financial institutions were seen as the reason of the system failing to work. Why did it work in the first two decades but then started to change in the 1970s? The world was in different circumstances back then. It was recovering from a global war and countries and states were in disarray. National governments made policies to rebuild and grow rapidly and so intervened very much with the market and economic affairs to monitor growth. Geopolitics at the time (Cold War) affected US financial strategy and saw it advantageous to support capital controls to manage the global economy. However when the Cold War was no longer driving US financial strategy, the US saw that capital account liberalization led to open capital markets that benefited US financial services industries. (Gallagher 2011).

The period after the collapse of the Bretton Woods system is usually characterised as neo-liberalism. Championed by Reagan and Thatcher, they supported policies that limited the role of the state in economic affairs to encourage a more free market approach. In a sense, neo-liberalism looked to dis-embed the market from society once again to reflect more similarly to what it was like before the creation of the Bretton Woods system. So what explains this change in the international economic order? Ruggie attempts to explain this regime change through the framework of embedded liberalism.

3.1.2. Hegemonic stability

Ruggie develops his arguments of embedded liberalism through his critique of Kindleberger’s theory of hegemonic stability. In brief, hegemonic stability implies that an international order is more likely to be stable when there is a single dominant state to exert its power and influence by creating a hegemon. The dominance of the single state is not challenged and so the subordinate states follow in a stable equilibrium. In the international economic order, the theory suggests that if there is a dominant economy in the world that can exert its influence on other economies and lead by example (such as the US in the 20th century) it will create an open international economic order with liberal characteristics. “I do not claim that this model is fundamentally wrong. But it does not take us very far in understanding international economic regimes,” (Ruggie 1982, p.381). While Ruggie states that Kindleberger’s theory is not entirely wrong, he instead criticizes that the theory does not consider the social perspective, but only focuses on power. When only looking at how
powerful a state is, it is possible to determine the shape of the international order but not its contents. As mentioned earlier, social purpose helps to determine economic order so if this is not taken into consideration, how will one know the reasons and values behind the policies that drive the political decisions made. Therefore Ruggie argues that it is not enough to only look at the international order but to also understand its contents to give a clearer analysis and more complete perspective on the international regime. This is accomplished by looking at both a combination of power and the social purpose linked to it. Not only do the political ideas that shape policies drive the international regime, it also gives it legitimacy.

3.1.3. The compromise of embedded liberalism

Ruggie goes on to discuss the compromise of embedded liberalism. Now that he has argued that power and social purpose are fused, with legitimacy being gained by like minded ideas, embedded liberalism will be multilateral in character unlike the economic nationalism pre WWII. In addition, there will be more state intervention to prevent any impending crises, unlike the liberalism of the gold standard and free trade. This mix of extremes, the multilateralism insisted upon by the US and the achievement of inward domestic stability, ultimately contradict each other. When social purposes and political ideas constantly challenge each other and complicate matters, it is difficult to create a stable equilibrium which leads to the changes in international regimes. Institutionally, this is described as the procedures, methods, rules (regulative pillar of institutions) that change in the economic order, however the principles and structure (normative pillar of institutions) of the order would remain the same. This explains the various profiles and characteristics of the global international economic order. Principal foundations of the structure of economies are the same all over the world, however there are slight variations as to how all of them are run. Nevertheless, through globalization all economies in the world are intrinsically linked. The world is not the same as it was 10, 50, or 100 years ago and conditions change. So to create an analytical framework to consider any issue, one must be concerned with the current conditions of the world’s geopolitics.

3.1.4. Rational behaviour

One of the foundation thoughts behind economic liberalism is that it is assumed actors and people behave “rationally”. Then under pure market conditions and very limited state intervention, the economy should thrive. This is of course, based on the pre mentioned assumption of people behaving rationally, i.e. they seek to make profit and be efficient when trading and selling goods. It is in everyone’s best interest that this is the preferred way of thinking as it would lead to prosperity.
When an economy is inefficient, resources are wasted and does not benefit anyone. But rationally minded actors would seek to maximize use of resources for personal or shared benefits. Through globalization, it has been possible for markets to cross national borders and find others to trade with and thus maximize the use of resources and minimize waste. A more efficient market, driven by rational people benefits society as a whole. This is one of the positive arguments for globalization, however there are negative impacts of globalization that has exacerbated problems and challenges in the world, particularly for developing countries where globalization has been determined to be the cause of the ever increasing gap between the rich and poor countries.

So embedded liberalism maintains the idea of economic liberalism with the notion that it is affected by society, in other words, embedded to it. It suggests also that state intervention helps the markets with problems that it cannot solve by itself. So in this train thought, Ruggie does not agree with Adam Smith’s “laissez-faire” approach of letting the economy regulate itself and work without any state intervention. Indeed, the global financial crisis in 2008 showed how devastating the lack of control on capital flows around the world can be.

With the world being more intrinsically linked than ever before, multilateralism seems an obvious solution to take on the present and forthcoming challenges in the international economic order. The introduction of the New Development Bank by the BRICS nations appear to be creating another global financial institution with an already existing framework of the international economic order. As the normative structures are in place, where the NDB should differentiate itself from the IMF and World Bank is in its policies and procedures. The social purpose behind BRICS will be what drives the strategies and policies of the NDB.
3.2. Rodrik and Heterodox Economics

The economist Dani Rodrik is known for his research and critique on globalization, economic growth and political economy. Rodrik’s work explores past and present narratives on global economic order and offers alternatives and “out of the box” thinking when it comes to mainstream economics. When I say mainstream, I refer to the dominant narrative of economic order that exists in the world at the time. For example, the Bretton Woods system from the 1940s to the 1970s, or neo-liberalism in the 1980s and 1990s. They are considered mainstream because the majority of the national economies of the world at the time were modeled or tried to follow this narrative of economic order that was accepted as the “best” economic policies to undertake by politicians, economists and academics alike. However, as history shows, this was not always the case. It is always easy to criticize something in hindsight, but when doing so, it is important to see which policies worked and which didn’t. Also it is always very important to consider the current state of the world’s geopolitics at the time. Policies that were executed during this time were relevant for that time, and dependent on conditions and variables, they may or may not have worked. Although if the same policies were to be executed at a different time in history, it will most likely not have the same result as the conditions and variables of the world would be different.

3.2.1. Globalization

Rodrik’s work on proposing alternative economic policies to orthodox economics is explored in his books, “One Economics, Many Recipes” (2007) and “The Globalization Paradox” (2011). Considering the global financial crisis of 2008, Rodrik claims, “our basic narrative has lost its credibility and appeal.” (2011, p.xiii). Globalization stimulates economic growth and has shown to bring unprecedented levels of prosperity in advanced countries and yet poorer countries are still poor. It has helped to lift millions of people out of poverty in China and other parts of Asia, but has not been as effective in Latin America and Africa. As mentioned before, conditions in Latin America, Africa and Asia are not necessarily the same which means that different results are produced. But the main point is that globalization is institutionally weak. There is no official global authority that regulates the global markets or enforces them. With no global democracy or governing body, “global markets suffer from weak governance, and are therefore prone to instability, inefficiency, and weak popular legitimacy.” (2011, p.xvi).
Using Rodrik’s work, I will create a theoretical framework regarding global markets and political economy to answer the question and ascertain the geopolitical implications that the New Development Bank may have on the global economic order. By understanding global markets, we can better understand the implications a global financial institution like the NDB may have.

3.2.2. Non-market institutions

A fundamental thought for Rodrik’s alternative narrative for the the global economy is that markets and governments are complements, not substitutes. (Rodrik 2011, p.xviii) They work best together and not either/or. Markets need to be governed to be successful. This of course goes against the classic liberal economic thinking of Adam Smith and David Ricardo, among others, on free market trade and minimal state intervention. Rodrik claims markets need to work with the government and be inline with other policies implemented. To borrow Ruggie’s terminology, it has to be “embedded”. In this way, a more holistic approach is attained while considering social aspects and not just focusing on economic factors. This makes for a healthier economy. Georg Sørensen supports this notion, “an international economic order based on liberal principles cannot create itself. It must be supported by a political framework of appropriate regulation that allows the free market economy to function.” (Sørensen 2011, p.86). Bottom line, markets need non-market institutions to function properly by providing regulative structure. (Rodrik 2011, p.10). Without these institutions, there will be no regulation, legitimacy or enforcement, and the market will fail. It becomes even more challenging to create a regulative framework when dealing with international economic transactions as it crosses more that one border to give a multiple of different regulative institutions. (Claes and Knutsen 2011, p.3). Legal and regulatory differences between the multiple frameworks create tensions between the economic systems and increase transaction costs.

These socially created institutions that support markets also serve another purpose, they reduce transaction costs. (2011, p.14). There are three types of these socially created institutions that allow for a more efficient market, trusting long-term relationships, ethics, and third-party enforcement. Regular trade and cooperation may lead to long-term business relationships. Frequent interaction creates trust between the two parties and deters any cheating or deception. This is also a process that does not necessarily require third-party enforcement as there is mutual agreement that benefits both parties. As such, this is quite a dominant feature in developing countries where formal institutions are structurally weak, so people and businesses rely on mutual respect and professionalism to enforce their own business relationships.
The second socially created institution revolves around ethics. Again this is common socially constructed ideology or system of business behaviour. It would be bad for one’s reputation if one is discovered to be dishonest. In the same vein, there is a common understanding of what is morally correct and not. To not follow this set of morals, would perhaps lead to the people or business being excluded from the rest of the community, or lead to a situation where cooperation and a trusting working relationship becomes difficult to attain.

These first two types of institutions I have described work well in smaller communities where geographical distance is negligible and interaction is frequent. When the community in which the market trades expands across borders and geography does become a factor, a formal set of standardised rules are required to enforce the regulations of the markets in order for it to function properly and efficiently. But as it happens, different countries have different rules, and some may be more advanced than others. Likewise some of these formal institutions are more developed than others. Those that are more developed tend to be more structurally sound and better at enforcing regulations and allocating resources in the economy. It is perhaps no surprise therefore that “rich countries have better functioning markets and larger governments when compared to poor ones.” (Rodrik 2011, p.16). The most developed markets which are the most effective in generating wealth are those that are supported by structurally sound governmental institutions. When markets get so large, formal institutions are a necessity in addition to the social institutions. This reinforces Rodrik’s notion that markets and states are complements and not substitutes.

3.2.3. Economic growth

As recent history has shown, there is no unique model to capitalism. Accumulation of wealth and economic prosperity can be achieved through a plethora of different combinations of institutional regulation in governance, social welfare, finance policy and other areas. (Rodrik 2011, p.xviii). Which combination to pursue is completely up to the national governments to suit their priorities based on their country’s needs. This mélange of different policies and strategy is what leads to different types of capitalist economies. Take the example of China, it opened its economy in the late 1970s to adopt more classical liberal policies yet still maintained a degree of control through state intervention. One example is their creation of Special Economic Zones (SEZs) where tax benefits were provided to (foreign) companies who established and operated within these zones. By
providing specific designated areas to stimulate industry and the economy, as opposed to all over the country, it was easier to manage and regulate.

The point that Rodrik is trying to make is that there is no right or wrong way to create economic growth, nor is there a singular ideology that one must follow. Instead it is a combination of different policies and ideologies that responds to the needs of the current conditions and state of the economic order in question. It is important to identify the priorities of the situation and target them specifically instead of trying to apply a blanket approach that has worked somewhere else but does not mean that it will necessarily work in this situation.

3.2.4. International trading
As mentioned earlier, there is a lack of a global authority to provide a strong overall institutional framework for global markets. As international markets operate outside of their nation’s borders, they therefore operate outside the formal institutional frameworks of the countries. Also, as international markets operate in more than one country, they are subject to different institutional frameworks. This can cause friction between the different sets of regulations of countries involved with trade, not to mention increase in transaction costs. This understanding of challenges on the global economic order will help to understand better how to improve it. (Rodrik 2011, p.20).

If states are there to complement national markets through institutional support, then it is also this support from states that hinders international markets. (Rodrik 2011, p.22). Regulation helps to maintain national economies but can cause challenges for international trade across different national economies. International economies are even trickier because they lack the institutional support that national economies have, and exist in that ungoverned area outside of national economies. So states’ governance is essential for stable economies but creates challenges for them at the same time. This is the central idea behind Rodrik’s “globalization paradox”. Rodrik rebuts against the free trade arguments that promise everyone will be better off in the long term, in spite of possible short term damage, by saying that there is nothing in economics that can guarantee this outcome. (2011, p.56)

3.2.5. Multilateralism
As the term suggests, multilateralism is where several actors take part in the decision making. Ruggie gives the following general definition for multilateralism. “At its core, multilateralism refers
to coordinating relations among three or more states in accordance with certain principles.” (1993, p.8). Interestingly enough, the policy of multilateralism was championed by the Americans after WWII. The international institutions established together with the Bretton Woods system, the IMF and the World Bank, were to adopt a policy of multilateralism. “Even though the influence of the United States was undeniable, multilateralism endowed these institutions with a certain degree of legitimacy independent of the American power that backed them up.” (Rodrik 2011, p.70). In this way, they never became completely independent of the US or other member nation states. The institutions’ roles were important because they provided regulation, enforcement and legitimacy on the international stage. But one power was still not the overall hegemon over the other powers. Certain founding members were to have more influence and say than others, but it was never a completely dominant or singular decision that could be made by one nation state (albeit the US did hold a veto power), and this was due to the multilateral nature of the institutions. “Multilateralism gave smaller and poorer nations a voice and protected their interests in an unprecedented way.” (Rodrik 2011, p.70). Finally smaller nations have a say, albeit a minuscule one, on international affairs. This is very clever in the sense that the institution thus becomes self-legitimizing. Through the smaller nations investing their time in the institution and having a voice, they become an integral part and so legitimize the institution.

### 3.2.6. Economic policy and reform

In trying to suggest what reforms would be best to create a new global economic order, Rodrik considers past regimes and provides evidence that it was during the Bretton Woods era where the world economy performed best, growing at around 3 percent per year on a per capita basis between 1950 and 1973. (2011, p.110) He also cites China as an example of a country which during the last few decades experienced unprecedented growth by following Bretton Woods policies such as maintaining capital controls on the market and focusing on their domestic economy, while the majority of the rest of the world (advanced nations) were allowing freer capital movements and thus exposing their economies to more risk and volatility. China maintained protecting its domestic interests which strengthened it to any economic instability and potential crises.

Rodrik offers this utopian thought, “In a perfect world, we would minimize the adverse side effects of free capital mobility through appropriate regulations without having to resort to direct controls on capital flows.” (2011, p.120). Unfortunately, this is not the case in the current world we live in. Financial markets should not be allowed to run free and more caution is required to monitor them.
Again, what may work for one nation will not necessarily work for all. Some will be better prepared for economic volatility than others but due to the integrated nature of the global system, all are sensitive to each others’ domestic economies to varying degrees. The most appropriate, and less risky, way to reform the global economy would be one with regulations that stand to benefit all and not just a few. This may sound good in theory, but in practice, it would require a lot of coordination between several national governments. To accommodate everyone, the structure of the new global economic order should be able to provide stricter financial controls for those countries that want it and at the same time provide more relaxed financial controls for those countries that want that. In other words, national policy makers should be allowed to control capital flows and financial transaction taxes but with an international set of rules to standardize global trade. (Rodrik 2011, p. 129).
3.3 Scott and Institutional Theory

Institutions can be found in all aspects of life and society. It can be both something tangible and intangible, whether it is an organization established for social purposes, e.g. a school or church, or an established custom or practice transcending in one or several communities. Institutional theory to explain the ontological nature of the concept has had contributions from several people in various fields ranging from economy and history to political science and social science. Consequently, it can be difficult to define the term ‘institution’ if it were spoken out of context.

A textbook definition for institution is given by Clegg et al. (2005, p.498):

“A recurrent patterned form of activity that fulfills basic functions for a society. Examples include political institutions, economic institutions, educational institutions, and so on. Institutions define basic arenas in which organizations operate: government, banks, schools and so on.”

However there are some fundamental definitions and characteristics for institutions that can be agreed by all. The nuances in the various definitions for institution can invoke different perceptions of how it is constructed and how it affects reality, be it in a social, political or other context. Douglass North (1990) said the “institutional framework” covers both the formal and informal aspects of a broad concept.

The vastness of institutional theory can be overwhelming and complex, so it can be advantageous to perhaps focus on a specific part or parts of it. With this strategy in mind, I have chosen to consider the works of W. Richard Scott who eloquently breaks down institutional and organisational theory to look at its components of what makes an institution. Scott defines institutions as “multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources.” (Scott 2001, p.49). He then goes on to discuss that these properties are created by regulative, normative and cultural-cognitive elements. Scott calls these the “Three Pillars of Institutions” (Scott 2001, p.51) and establishes an analytical framework with these concepts. Using Scott’s analytical framework, I will consider the research question posed, “What are the geopolitical implications the New Development Bank may have on the global economic order?” By considering the global economic order from an institutional perspective, it will be able to give us insight on how it can be affected by the introduction of the NDB, another institution in itself. The NDB will be analyzed as well in the same way to better understand how and why the policy choices is makes will have implications on the larger institution of the global economic order.
3.3.1. Regulative Pillar

The regulative pillar can be the considered as the one which is mostly emphasized in most institutional theories as it refers to the regulative characteristics of institutions. North spoke in the 1990s of the importance of “the rules of the game”, solid regulations and legal structures, and how it positively affects the growth of economic institutions. The structure and stability of a solid institutional framework, as concurred by Ruggie and Rodrik, fosters better conditions for an economic to thrive. When scholars discuss regulatory aspects regarding the activities within an institution, the following questions may arise; How is it done? What is the correct/incorrect, legal/illegal, moral/immoral procedure of activities performed? Who monitors? Who sanctions? It is commonly accepted that institutions have a set or sets of regulations, that the majority of actors within the institutions innately know and conform to. However there is also a special group of actors, e.g. police and courts of law, who must enforce the regulations of behalf of others (Scott 2001, p.52). This is an important aspect of the institution as enforcement of the regulations determine how strong or weak the framework of the institution will be. If it is weak, it can be corrupt and transaction costs would be high. Nothing would get done and allocation of resources is inefficient and ineffective. A strong regulative pillar, reduce transactions costs and everything works more efficiently as should be expected. This would yield better results within the institution.

People are aware of these regulations and as most formal rules can usually be found written and publicised, people outside of these institutions would be able to recognise it, or at least understand behaviour and consequences, should they enter the environment of the respective institution. In context of the research question, one economy would have different rules to another economy. The effort in trying to align the economies so that the regulations of both will apply to the actor wishing to participate in both frameworks would incur higher transactions costs because instead of conforming to just one institutional framework, you would have to conform to two. This uses up resources such as time and investment, hence incurring higher transaction costs.

3.3.2. Normative Pillar

The normative pillar is considered by other scholars as the main foundation of institutions. If the regulative pillar embodies the regulations on how to act and exist in the in the institution, then the normative pillar is the framework in which the regulations exist. This element considers the social life and interaction between actors that is focused on the establishment of the institution. Scott
describes the normative system to have values and norms. Values are the ideals that standards and behaviour are measured on. Norms indicate the expected ways to proceed and achieve values. In other words, the normative pillar of an institution defines objectives but also the correct, or most appropriate, way to achieve them (Scott 2001, p.54-55). Take a game of rugby as an example, the objective is to win the game. The way to achieve this is to score more points than the other team, through tries and conversion kicks. However there is an appropriate way of doing so by following specific established rules. For example, a fundamental rule of rugby is that the ball can only be carried or kicked forward. If one were to pass the ball, it has to go backwards to the direction of play. This can be seen as the regulative element, however it is the normative element which defines whether the rules are being followed in a socially accepted and moral way and not immorally through cheating and foul play. If a player passes the ball forward, this is against rules and the ball is forfeited to the opposite team. In this way, normative systems can be seen as cause and consequence of social interaction. It enables social interaction to occur in an expected way, which arguably can by definition constrain it, but nevertheless the consequence is then viewed as a positive or negative value. As expected, different cultures have different moral norms. These can be seen in traditional value systems being more widespread, having different family-oriented values, and views towards religion. (Meyer and Estrin 2004, p.5). These non-economic factors and aspects can transcend throughout all of society (and therefore the economy) and affect the people’s perspective of the rest of the world and how to act accordingly.

People who are from one culture abides to the moral norms and standards of their culture. To them, what is moral and correct depends on the normative elements of their culture (Spinello 2014, p.65). Thus, looking into the institution from a normative perspective, outsiders familiar with the normative elements of social interaction could understand its behaviour. Moreover, this is why some scholars argue that the normative element is the most influential in the identity of an institution. A variable for comparing the differences of normative elements of institutions can be referred to as “cultural distance”. (Saee 2011, p.63; Beugelsdijk and Maseland 2011, p.232; Thomas 2008, p.180).

3.3.3. Cultural-Cognitive Pillar

The cultural-cognitive pillar focused on “the shared conceptions that constitute the nature of social reality and the frames through which meaning is made.” (Scott 2001, p.57). Cultural behaviour is caused by external influences that shape the way individuals, and ultimately collectives, respond to
certain stimuli. It lets the collective define the stimuli in their common, selected understanding. Through this way, symbols are given meaning and become language. This inherent knowledge of words and signs becomes familiar and taken-for-granted by a collective and begins to define their actions and behaviour. (Scott 2001, p.61). Soon after, a certain behaviour or procedure of actions become the norm. So cultural-cognitive institutional scholars can argue that the normative element stems from the cultural-cognitive dimension. It highlights the role of a socially constructed common understanding, derived from external stimuli, which is the structural foundation of an institution.

Thanks to globalization and technology, cultures of the world are even more integrated than ever. Cosmopolitanism is more common place nowadays and more people (the author of this paper included) feel that they belong to more than one culture. This gives a wider perspective and understanding of the world. This in turn then transcends into the consciousness of the people in an institution which may give an indication to their decision making and how they would react in social interaction.

3.3.4. A global institution in practice

A good example of an institution based very much on regulative aspects is traffic. The institution of traffic regulations is global. When one becomes old enough to recognise colours, everyone knows that red means stop and green means go. When one becomes old enough to drive and desires to participate actively in driving, one has to pass a test that incorporates learning traffic regulations and knowing the law of the road before physically being allowed to drive in traffic. People understand that these regulations need to be followed for things to work. This type of reasoning would come under the normative pillar of institutions as it can be seen as more appropriate and socially obliging to everyone’s benefit that traffic rules are followed. If these regulations were not in place, or were not followed, consequences will occur that may be grave in nature and affect everyone involved in traffic. Should these regulations not be followed, police have the authority to apply sanctions, such as confiscation of a driving license, to coerce people to follow the rules. This type of reasoning would be more in line with the regulative pillar.

Of course within the global institution of traffic there are smaller institutions of traffic that maintain the same regulations but also have specific rules that are followed by a certain few, such as a country or group of countries. For example, you drive on the left hand side of the road in South Africa, Japan and Australia to name a few, but elsewhere in the world you drive on the right hand
side. In the USA, you are allowed to cross a red light if you are turning right and there is no oncoming traffic.\textsuperscript{4} In France, the law “Priorité à droite” allows you to turn into a main road of traffic from a minor adjoining road as you have the right of way.\textsuperscript{5} Needless to say, in other national traffic institutions, this is considered very dangerous. So within a global institution, there can be minor institutions that follow the same regulations with a few more specific just to them. The examples just mentioned can be a demonstration of a cultural-cognitive element. There is a shared understanding by the Americans and the French of their laws which are not immediately known to outsiders.


4. OVERVIEW

Having discussed the theories to create a contextual framework for the discussion of this research paper, I will now write briefly about the other less abstract elements of this topic. I will offer a bit more factual information, contextual background and clarification about the actors in this paper.

4.1. The New Development Bank

At the 6th BRICS Summit held in July 2014 in Fortaleza, Brazil, the leaders of the BRICS countries signed the agreement on the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA). The NDB will finance infrastructure and sustainable development projects. The CRA will be an additional back up for the BRICS countries should they experience any Balance of Payments problems.6

To start with, the NDB has been given 50 billion dollars in initial capital. There will be equal share of voting rights between the five founding countries who each contribute 10 billion dollars. It will be used 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.”7 (Article 1 of NDB agreement signed by BRIS in Fortaleza on July 15, 2014). Other countries will be able to apply for membership in the NDB.

The BRICS have given a starting contribution of 100 billion dollar to the CRA. The contribution to the CRA will be split as follows, China will provide 41%, Brazil, Russia and India will each provide 18%, and South Africa will provide the remaining 5%. The CRA is being created to provide additional liquidity protection for member countries with balance of payment problems and financial crises. Of course it remains to be seen who will decide how the CRA is utilized, considering that the contribution share is uneven among the founding member countries.

According to Article 3 of the agreement, the Bank will have its headquarters in Shanghai. To manage the Bank, there will be a Board of Governors, a Board of Directors, a President and Vice-Presidents. The President of the Bank shall be elected from one of the founding member countries and there will be at least one Vice-President from the other founding members at the same time. The first President of the bank will be Indian and the first Chairman of the Board of Governors will be Brazilian. The first regional office for the Bank will be established in Johannesburg.

4.2. BRICS

The acronym created by Jim O’Neill of Goldman Sachs in 2001 is used to group the five countries with major emerging markets, Brazil, Russia, India, China and South Africa. Originally, South Africa was not part of this group until 2010 when it was invited by the other nations to join. He speculated in a report for Goldman Sachs that these four countries will have larger economies than the current leading wealthy nations by 2050. Currently, the five BRICS nations represent approximately 40% of the global population, nearly 3 billion people. They also boast a combined GDP that accounts for 25% of the global GDP.

The countries held their first formal summit in Yekaterinburg, Russia on 16 June 2009. Then they were only BRIC as South Africa was not part of the group yet. The summit’s focus was to discuss ways of improving the global economic climate and reform existing financial institutions. The rapid economic growth of the countries, particularly China and Brazil, have led them to have strong influences in the globalized economy of recent times. However this influence is not represented in the quota of voting rights they are assigned in the existing global financial institutions of which they are a part of.

Rapid growth in the countries have also led to rapid growth of a large middle class. More and more people in the BRICS country are spending more and increasing their consumption which will help drive further economic development.

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Despite the BRICS countries being grouped together because of their similar economic prowess, they vary greatly in demographics and politics. These differences may have some importance when it comes to joint decision making on matters. In creating the New Development Bank, the BRICS countries have to coordinate their efforts in order to be unanimous in their policy making. The following are brief country profiles with some statistics and data.

4.2.1. Brazil

<table>
<thead>
<tr>
<th>Brazil Statistics</th>
<th>(source: CIA World Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Name</td>
<td>Federative Republic of Brazil</td>
</tr>
<tr>
<td>Population (July 2014 est.)</td>
<td>202,656,788 (5th largest in the world)</td>
</tr>
<tr>
<td>Total Area</td>
<td>8,515,770 sq km (5th largest in the world)</td>
</tr>
<tr>
<td>Official Language</td>
<td>Portuguese</td>
</tr>
<tr>
<td>GDP (PPP) (2014 est.)</td>
<td>$3.07 trillion (7th largest in the world)</td>
</tr>
<tr>
<td>Currency</td>
<td>Real (BRL)</td>
</tr>
<tr>
<td>Government</td>
<td>Federal Republic</td>
</tr>
<tr>
<td>Chief of State</td>
<td>President Dilma Rousseff</td>
</tr>
</tbody>
</table>

In terms of population and geographical size, Brazil is the 5th largest in the world on both accounts. This makes it the largest country in South America, again both in population and size, and is the world’s fourth largest democracy after India, the US and Indonesia. Between 2003 and 2013, Brazil experienced positive economic and social progress where over 26 million people were lifted out of poverty.\textsuperscript{10} Inequality was reduced significantly but still poses to be an issue.

To continue the impressive growth that Brazil has experienced over the past decade, further growth-enhancing reforms need to be undertaken.\textsuperscript{11} Brazil’s rapid growth is slowing down due to drop in commodity prices among other things and it needs to focus on investment and increasing productivity.


\textsuperscript{11} Source: Ibid.
President Dilma Rousseff was narrowly re-elected to her second term as president in October 2014 after the country had experienced social unrest the year before in the run up to the 2014 FIFA World Cup. In addition to slowing growth of the economy and corruption charges of the government, relations with the US have become tense following the revelation that the US has been spying on Rousseff and other Brazilians through personal phone calls and emails.\textsuperscript{12}

Brazil’s rapid rise reflects its intentions on becoming a more influential player on the global stage. It has been frustrated on occasion and criticized more established powers for not providing it with the status it deserves.\textsuperscript{13} With Brazil’s stature rising, it has also become a leading regional power in South America. Brazil will be in the world’s limelight again when it will host the 2016 Summer Olympics in Rio de Janeiro.

4.2.2. Russia

<table>
<thead>
<tr>
<th>Russia Statistics</th>
<th>(source: CIA World Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Name</td>
<td>Russian Federation</td>
</tr>
<tr>
<td>Population (July 2014 est.)</td>
<td>142,470,272 (9th largest in the world)</td>
</tr>
<tr>
<td>Total Area</td>
<td>17,098,242 sq km (largest in the world)</td>
</tr>
<tr>
<td>Official Language</td>
<td>Russian</td>
</tr>
<tr>
<td>GDP (PPP) (2014 est.)</td>
<td>$3.57 trillion (6th largest in the world)</td>
</tr>
<tr>
<td>Currency</td>
<td>Ruble (RUB)</td>
</tr>
<tr>
<td>Government</td>
<td>Federation</td>
</tr>
<tr>
<td>Chief of State</td>
<td>President Vladimir Putin</td>
</tr>
</tbody>
</table>

Russia is the largest country in the world and is endowed with vast natural resources, including oil and gas. Gazprom, the state run gas company, is the world’s largest producer and exporter of gas. Russia’s income from its export and trade of natural resources provides the backbone to its


The country has an oligarchy that controls a majority of the energy companies, media and other businesses. This has created a very top elite and pronounced difference between the rich and the poor in Russia.

Many of the top elite in Russia are close personal friends of Vladimir Putin. Putin has been the dominant political figure in Russia since 2000. He has enhanced state control over political institutions and the media, and during the recent years has adopted a more assertive foreign policy stance. This has been even in spite of creating tensions with the rest of the international community. Russia’s stances in international matters have traditionally been opposed to the West, but maintains important roles in international institutions, for example, it is one of five permanent members of the UN Security Council, for maintaining international peace and security.

Russia’s recent annexation of the Crimean peninsula resulted in economic sanctions and ostracism from the G7. Despite the adverse factors that affected the Russian economy in 2014, the country has so far avoided recession. However, the economic impact of sanctions can have a longer term effect that could affect the structure of the Russian economy and consequently the way in which Russia integrates with the rest of the world.

### 4.2.3. India

<table>
<thead>
<tr>
<th>India Statistics</th>
<th>(source: CIA World Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Name</td>
<td>Republic of India</td>
</tr>
<tr>
<td>Population (July 2014 est.)</td>
<td>1,236,344,631 (2nd largest in the world)</td>
</tr>
<tr>
<td>Total Area</td>
<td>3,287,263 sq km (7th largest in the world)</td>
</tr>
<tr>
<td>Official Language</td>
<td>There 15 official languages where the largest is Hindi spoken by 41% of the people. English is a subsidiary official language, important for political and commercial communication.</td>
</tr>
<tr>
<td>GDP (PPP) (2014 est.)</td>
<td>$7.28 trillion (3rd largest in the world)</td>
</tr>
</tbody>
</table>

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15 Source: Ibid.

India is the second most populous country in the world. As a relatively new democracy, it was achieved independence in 1947, it is also the largest democracy in the world. India is extremely eclectic with numerous languages, religions and cultures. Indian politics reflects this diversity with a plethora of political parties and its federal system where the political power is shared between the central government and 28 states. The pluralist nature of India’s democracy accommodates its heterogenous society of people and is necessary to be able to foster a sense of mutual respect and tolerance with so many people as possible.

At the time of writing, Narendra Modi is celebrating the anniversary of his first year in office with his government. Modi led the Hindu nationalist party, the Bharatiya Janata Party (BJP), to win the most seats in the 2014 general election. He is known for his economic prowess after having been the Chief Minister of the Gujarat since 2001, one of India’s most economically successful states. However he has also been criticized that this has come at the expense of the human and social development of the state. Modi also courts controversy over the way he handled the 2002 Gujarat riots, being accused of grave mishandling of the violent event.

India is currently experiencing a massive wave of urbanization as around 10 million people move to cities to search for opportunity. Due to current demographics, India will have the largest (and youngest) workforce in the world. This in itself will pose many challenges and opportunities to the economy and society of India. Will there be enough jobs? Will the workers have the right skill set? Will the country’s (soft and hard) infrastructure cope? Modi’s challenge will be to be able to accommodate for this shift in demographics and labour force.

<table>
<thead>
<tr>
<th>India Statistics</th>
<th>(source: CIA World Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Rupee (INR)</td>
</tr>
<tr>
<td>Government</td>
<td>Federal Republic</td>
</tr>
<tr>
<td>Chief of State</td>
<td>President Narendra Modi</td>
</tr>
</tbody>
</table>

Like Brazil and China, India has a rapidly expanding middle class, in spite of a large part of the rural population still living in poverty. Despite India’s positive potential as a nation and major player in the world’s geopolitics, there are still many challenges that it faces such as inequality, poverty, corruption and inadequate infrastructure.

4.2.4. China

<table>
<thead>
<tr>
<th>China Statistics</th>
<th>(source: CIA World Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Name</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>Population (July 2014 est.)</td>
<td>1,355,692,576 (largest in the world)</td>
</tr>
<tr>
<td>Total Area</td>
<td>9,596,960 sq km (4th largest in the world)</td>
</tr>
<tr>
<td>Official Language</td>
<td>Mandarin (or Standard Chinese) and 7 other official languages.</td>
</tr>
<tr>
<td>GDP (PPP) (2014 est.)</td>
<td>$17.63 trillion (largest in the world)</td>
</tr>
<tr>
<td>Currency</td>
<td>Renminbi Yuan (RMB)</td>
</tr>
<tr>
<td>Government</td>
<td>Communist State</td>
</tr>
<tr>
<td>Chief of State</td>
<td>President Xi Jinping</td>
</tr>
</tbody>
</table>

China is has the largest population and largest economy in the world. It has a history and culture that stretches back for nearly four millennia and as such has influenced the course of international development in the world. Elements that have made the modern world possible, e.g. gunpowder and paper, were invented in China. After some periods of stagnation, China is once again a hugely influential actor in the world through it’s recent rapid economic growth, initiated in 1978 through innovative market reforms. Impressive GDP growth averaging about 10 percent a year has taken more than 500 million people out of poverty. This is over a third of the population of the world’s most populous country. Despite this impressive statistic, there is still about 100 million people living in poverty.

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It has become one of the world’s top exporters, earning the nickname the “factory of the world” while at the same time attracting lots of foreign investment. To support the largest population in the world and rapid industrialization, China has also become one of the top importers of energy. It has become the world’s biggest producer and consumer of coal, while at the same time investing billions to secure energy supply for consumption.\textsuperscript{22} However this has come at the cost of pollution and environmental degradation, which also has fueled tensions in the international community.

China’s strong and solid economy was affected by the global financial crisis in 2008 like everyone else but was one of the quickest to recover and return to growth. Indeed, it helped the global economy by driving it forward and encouraging growth with the other emerging markets while the Western advanced markets stagnated. China has been accused of keeping its currency weak to boost its exports worldwide.\textsuperscript{23} This has been denied by the Chinese government. Nevertheless, it has still caused tension with the West and other countries who import China’s goods.

The Communist Party of China (CPC) run a centrally controlled government with a large degree of control over the country’s politics, media, people and development. With China’s huge land area and population, rapid growing economy and media censorship, there are constant challenges for power and influence.\textsuperscript{24} The difference of quality of life between rural and urban China has also been a cause of social discontent. Protests by farmers and workers are regular with tens of thousands of people traveling to Beijing to complain to the authorities.\textsuperscript{25} In addition, China’s human rights legislation have been a topic of controversy within the international community.

4.2.5. South Africa

<table>
<thead>
<tr>
<th>South Africa Statistics</th>
<th>(source: CIA World Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Name</td>
<td>Republic of South Africa</td>
</tr>
<tr>
<td>Population (July 2014 est.)</td>
<td>48,375,645 (27th largest in the world)</td>
</tr>
<tr>
<td>Total Area</td>
<td>1,219,090 sq km (25th largest in the world)</td>
</tr>
</tbody>
</table>

\textsuperscript{22} Source: Op. cit., BBC News website, China.

\textsuperscript{23} Source: Ibid.


### South Africa Statistics (source: CIA World Factbook)

<table>
<thead>
<tr>
<th>Official Language</th>
<th>There are 11 official languages including IsiZulu (23%), IsiXhosa (16%), Afrikaans (13.5%) and English (10%).</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (PPP) (2014 est.)</td>
<td>$683.1 billion (30th largest in the world)</td>
</tr>
<tr>
<td>Currency</td>
<td>Rand (ZAR)</td>
</tr>
<tr>
<td>Government</td>
<td>Republic</td>
</tr>
<tr>
<td>Chief of State</td>
<td>President Jacob Zuma</td>
</tr>
</tbody>
</table>

South Africa is the latest member of the BRICS nations and is statistically inferior to its fellow members. South Africa was internationally isolated until 1994 when its white minority apartheid government relinquished political power and control of the country. The African National Congress (ANC) was democratically elected and has been the major political party in power ever since.

Despite having one of the largest economies on the continent, South Africa still face many key development challenges. There is still very high inequality in South Africa and there has been limited progress in lifting the quality of life for the majority of the population since the end of apartheid in 1994. The widespread poverty is also coupled with other challenges in the country such as high crime rate, unemployment and corruption.

Relative to the rest of the continent, South Africa is one of the more prosperous nations in Africa. Due to its leading role in diplomatic and anti-poverty initiatives in Africa, it assumes a role as a regional hegemon. Indeed, it is the only African BRICS representative, just like Brazil is the only American BRICS representative.

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4.3. The International Monetary Fund and the World Bank

The IMF and the World Bank are the most powerful public intergovernmental institutions in the world economic order. (Head 2008, p.91). The IMF was created in 1945, as a complementary institution that came out of the Bretton Woods negotiations. Today, it has 188 members, nearly all the countries in the world. It works to “foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable growth, and reduce poverty around the world.”

The World Bank, created at the same time, is made up of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD lends to governments of middle-income and creditworthy low-income countries. The IDA provides interest free loans and grants to governments of the poorest countries.

“Although these institutions are designed to govern economic relations, they are intensely political: They are shaped by configurations of power and their politics reflects the domestic politics of their members.” (Keohane and Underdal 2011, p.52)

In recent times, the IMF and the World Bank have been criticized for biased views towards advanced and development nations. Such criticisms have included, *distributional and social injustice* - the policies of the IMF and the World Bank insists on creating distributional inequities and ignore the social aspects of a country’s well-being (the same can be said for environmental degradation); *asymmetry in obligations* - the IMF and the World Bank portrays double standards when it allow richer member countries to insist that the poor borrowing countries follow certain conditional policies without pressuring richer countries to follow suit; *trampling of national sovereignty* - in imposing conditionality on its loans, the IMF and the World bank trample on national sovereignty and other areas of state autonomy. (Head 2008, p.55-56).

Contrary to popular belief, the Bretton Woods system was not completely biased to Northern and developed countries entirely. Several nations took part in the proceedings in the New Hampshire town in July 1944 and international development was very much on the agenda in rebuilding a new

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economic order. To say the US and British negotiators dominated proceedings for their interests is untrue. Eric Helleiner provides a different perspective on the Bretton Woods system from new archival research he has conducted and published his findings in 2014 in his book, “Forgotten Foundations of Bretton Woods”. Helleiner claims there was northern support for international development throughout the negotiations and “US negotiators saw international development as a priority issue on the agenda of postwar international financial planning.” (2014, p.9).

Helleiner brings attention to the major role that the Chinese played in the Bretton Woods negotiations. This fact is usually omitted in scholarly literature probably due to the fact that China stopped following the Bretton Woods system after the communist revolution in 1949 and did not rejoin the Bretton Woods institutions again until 1980. (2014, p.186) Scholars forget how important China were in the negotiations at the time, and were viewed as such by President Roosevelt as one of the four main powers, together with Great Britain and the USSR, to help in governing the world after WWII. This was also manifested by China receiving the fourth largest quota of voting rights in the Bretton Woods institutions, after the other three main powers, thus guaranteeing it a place on the executive boards of the institutions. (2014, p.187). China was very active in the negotiations and also strongly advocated to have international development on the agenda of the new international economic order. The Chinese even prepared proposals on certain policies to promote international development based on previous ideas of Chinese political leader Sun Yat-sen who published his work, “International Development of China” in 1918. In brief, Sun realized that the way to modernization is through industrialization, while at the same time ensuring the country’s people have the basics of food, clothing shelter and means of travel. Sun realized that for China to modernize, it would need help through international cooperation, mainly because of the huge challenge it faces. China needed help from foreign capital and investment to develop infrastructure in transport, industry, agriculture and energy. (2014, p.188). Sun’s thinking was very much ahead of his time and we can see from his proposals the foundations of what we call today “economic development”. Improvements in infrastructure and investments in industrial technology are proven policies that help stimulate the economy and encourage growth. Indeed, many multilateral development banks these days focus on developing and investing in infrastructures of developing countries.

It is ironic to think that China was one of the main architects in helping to establish the institutions like the IMF and the World Bank only to be in the position it is today with minimal voting power.
The irony is two-fold in that China is actually a large creditor in its own right. It has also recently created the Asian Infrastructure Investment Bank to aid in the regional development of Asia. This has already caused tensions with the Japan-led Asian Development Bank which has been the dominant regional multi development bank for the past 50 years. And now with China and the rest of BRICS creating the NDB, yet another institution is joining the international development arena.
5. DISCUSSION AND ANALYSIS

Now we are ready to consider the topic and look at the research question of this thesis, “What are the geopolitical implications the New Development Bank may have on the global economic order?” To answer this, I will state what the geopolitical implications are in the first sub section. Then I will discuss their corresponding effects on the global economic order in the second sub section. By adopting this strategy, I hope to answer succinctly and in a structured manner.

5.1 Geopolitical implications of the NDB

5.1.1. Asymmetrical power relationships

It is worth pausing and taking note that this is the first time ever non-Western nations create an international financial institution on potentially the same scale as the IMF and the World Bank. The BRICS have laid down the gauntlet and are now stamping their influence even more at the global governance executive table. Frustrated with the lesser influence allocated to them in existing institutions, they answered back by creating their own. This clearly shows that they are no longer dependent on the advanced Western nations. They have the means and take accountability to embark on such a task. By becoming even more independent of the Western nations, they are showing that they can manage on their own and do not need guidance or seek recommendations on global affairs. The asymmetrical power relationships between the North and the South, (the US and the West vs. BRICS and developing countries) are slowly dissipating. The relationships are becoming more symmetrical and the creation of the NDB is a tangible manifestation of this trend.

“The “rise of the rest” reinforces statism and traditional conceptions of sovereignty. The policies of these states can principally be understood as self-interested, adopted in the shadow of their conception of how much influence they can wield, and in the service of increasing that influence over time.” (Keohane and Underdal 2011, p.64).

The rapid rise of BRICS has indeed caused the US and other advanced nations to look over their shoulder. Their rise to power and increasing influence is not that much different from the US in the 19th and 20th century and Great Britain in the 18th century. Fundamentally these powers came to power through economic growth. This is what is happening with the “rise of the rest” as BRICS are gaining economic might. The notable difference is that they are doing in much quicker in a shorter
time span than the US and Great Britain did in the previous centuries. The implications of this rapid rise are the change in power relationships that have been discussed above.

5.1.2. More relevant and focused policies
The New Development Bank’s founding members are countries that are committed to state-led development goals. This can only be a positive aspect to when it comes to the decision making within the institution. Like the foundation principles of Bretton Woods before it, this implies that the policies undertaken at the NDB will bear policies similar to its executive board nations, namely policies that will insist on state intervention where necessary. With the BRICS backing the NDB, and eventually with the support of other like minded countries, Southern governments will push to prioritize international development issues back on to the global economic agenda. (Helleiner 2014, p.277). Developing countries will have more say in how they are to be developed through the support of the international community. They know what would be best for their countries, in respect to specific needs and conditions of their domestic situation. The NDB should look to provide reforms in areas such as more long-term development finance, improved access to short-term balance of payments assistance, regulation of international capital flows and improved policy accountability for development. (Helleiner 2014, p.277). The implications it would have on the global economic order would be reform in regulative institutions that would affect the way international finance operates. This in turn would change the geopolitics of the world from a unipolar global community to a multipolar one.

5.1.3. World currency reserves
Another implication that the NDB will have on the global economic order is the creation of reduced reliance on the US dollar as a world currency. Consequently, this will further challenge US economic hegemony. The BRICS nations plan that the NDB may provide loans in domestic currencies as per Article 24 of NDB agreement. It says “may” as it is dependent “that adequate policies are put in place to avoid significant currency mismatch”. This is in contrast to the World Bank which only lends in US dollars. Should the NDB operate in this way as stated, the internationalisation of the BRICS currencies would diminish the power of the dollar as the world’s leading reserve currency. For Russia, this would be a positive result for them. The economic


sanctions imposed on them by the US has frozen billions of dollars of Russian-owned assets. Russia has also entered into a $24.4 billion yuan-ruble currency swap with China that will be facilitated by the CRA of the NDB.\textsuperscript{32} China continues to fund investment loans with its currency throughout the developing world and will now have another outlet to do so through the NDB.

## 5.2 Effects on the global economic order

### 5.2.1. Alternative development strategies

To recap on the thread of Rodrik’s thoughts about markets and governments being complements, he insists that market must have the support of non-market institutions in order to function properly and be successful. With this idea established, one may then begin to think whose interest do these non-market institutions serve? Who gets to decide on the regulations? Who will enforce the rules? Who will it benefit in the end? In the case of the New Development Bank, it is the BRICS nations who have this decision making power. It is they who decide how the NDB will function and how it will be enforced through the regulative framework of the institution it is creating. I don’t think there will be a question of legitimacy. After all, the BRICS nations account for 25% of the global GDP and 40% of the global population. So the BRICS will set the agenda as they see fit. As non-Western countries and emerging economies, they will bring a different kind of structural institution with the differing views and opinions on the global economy. This would imply alternative policies when it comes to aiding developing countries. Still labeled as developing countries, the BRICS will have better insight on how to support other developing countries in their strategies for economic growth. So those who stand to gain from the benefits of the BRICS non-market institutions complementing the markets and indirectly affecting the policy making of the governments will be other developing countries. The global economic order will experience alternative strategies that will help developing countries causing them to become more interlinked to the global economy through the help of the supporting NDB and BRICS countries.

### 5.2.2. International institutional frameworks

Regarding the institutional framework capacities of international trading, the more versed the New Development Bank is in this, i.e. lack of overall institutional framework for the global market, challenges for the global economic order, etc., the better and more efficient it will be to operate

\textsuperscript{32} Source: Ibid.
within the global economic order. Given that the NDB’s founding members are nations with emerging economies, and have not been involved in shaping the current global economic order with the Western nations, they have a different insight to the world economy and through the NDB have an stronger influence on how it should be run.

“The global economy is now so tightly linked that state policies, to be effective, have to be coordinated with one another.” (Keohane and Underdal 2011, p.52). There is an opportunity for the NDB to influence the global economic order in an institutional capacity. They can lead and assist in forming normative institutional frameworks that would fundamentally change the global economic order. From one perspective, this could lead to reduction of transaction costs and easier flow of goods that would accelerate market processes and keep in tradition with liberal economics. From another perspective, they would be able to leave their “legacy” on the global economic order by implementing supranational state intervention. They can use the successful domestic state intervention policies that they have implemented in their own countries and adopt it to a global level with thorough coordination with other relevant developing countries to ensure customized strategies for those involved are successful. With the formation of anything supranational, it is essential that the normative and regulative institutional frameworks for this is solid and strong, as we have discussed earlier in this paper. It the structural pillars are weak, including questions of legitimacy, then the supranational framework will face severe challenges to functioning properly.

5.2.3. Global political integration

Taking the step towards global economic integration is a good stepping stone to what eventually should lead to global political integration. Rodrik describes this possibility at the expense of an international “trilemma”. (2014, p. 200). The challenge of the “trilemma” is that we cannot have hyperglobalization (economic integration), democratic politics, and national sovereignty simultaneously. One of these choices has to disappear for the others to exist. To have economic integration and global democracy, the nation state system has to be sacrificed. To have global democracy with national sovereignty, then global economic integration is highly unlikely. And likewise, if we want to maintain national sovereignty and achieve global economic integration, then democracy can no longer exist. Rodrik presents us with some finite choices on how to achieve a global world economy with no transaction costs and unrestricted flow of capital, goods and services between nations. But then without national borders, will the nation state exist at all? It will only be possible if the the governments of these nation focus maximizing international trade and bring their
own domestic policies in line with international regulations to support and streamline the global economy. (2014, p.201). Of course the downside to this will come at the expense of society and domestic development. If the global economy comes to dictate the policies of the economy of the nation station, then this will invariably restrict domestic economic policy making. Domestic groups’ influence on policies are reduced and democracy becomes severely crippled.

So if we analyse the other possibility where we choose democracy as an option, while achieving a global integrated economy, how would that work? National sovereignty will have to be sacrificed in favour of one or several supranational global governance institutions that would set out regulative and normative guidelines to eliminate transaction costs caused by national borders. Of course the institution(s) would have to have the backing of those involved to become legitimate and accountable, in this way maintaining democracy on a global level, above the nation states. A step towards this type of global governance would require a reduction in national sovereignty. (2014, p. 203). The national governments would not disappear, but their powers would be reduced to following the policies of the supranational government and enforcing them to maintain the democratic legitimacy. Rodrik offers the European Union as a regional example of this. (2014, p. 203).

Keohane and Underdal offer some solace by stating that “sovereignty is malleable and dynamic; so its current form should not be taken for granted.” (Keohane and Underdal 2011, p.66). They explain that some characteristics of state sovereignty in this modern day have been altered by globalization. Using the example of multinational companies, they have provided alternative and competing authority structures that operate transnationally across borders which states have been able to cope with, despite being outside of sovereign borders and jurisdiction. This shows that sovereign states can adapt and be flexible to changes, when autonomous entities like multinational companies operate.

5.2.4. Economic multipolarism

With the China-led Asian Infrastructure Investment Bank already granting membership to many US allies and Western advanced nations, it sets precedence for the NDB to follow suit. By allowing other nations to become members and adopt a multilateral policy, not only does it legitimize the

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33 Currently has 57 members, including the UK, Germany and Sweden. The US and Japan are not seeking membership at time of writing. Source: Financial Times website, <http://www.ft.com/intl/cms/s/0/14c9f302-0397-11e5-a70f-00144feabdc0.html#axzz3bUkrxs60> (accessed 28 May 2015).
institutions, it becomes embedded and integrated deeply with the global economic order. With more of such international financial institutions arriving on the global development scene, the hegemonic influence of the US over development finance will surely diminish as influence becomes more multipolar.

The new institutions of the emerging economic powers will offer new operating methods of conditional loan offers and investment, and consequently will scrutinize the existing operating methods of the IMF, the World Bank and other Western development institutions. As mentioned earlier in the Introduction section, Stiglitz and others welcome reform and hope that the competition provided by the new players would induce that.

In spite of these outlooks and implications that the NDB will emerge as a competitor to the IMF and the World Bank, it must be remembered that this will not happen overnight. It will take several years before it can accumulate the size of the lending volumes of these organizations that have been around for 70 years. The NDB is in a good position to take stock, analyze and scrutinize what has worked for these institutions and what has not. Borrowing strategies from other multilateral development banks would be also beneficial when creating strategies for specific regional investment projects.

6. CONCLUSION

Georg Sørensen (2011) argues that an obstacle to achieving a global economic governance is lack of leadership. No country or group of countries are willing to take accountability and lead in global economic policy making. “Liberal states appear comprehensively unready, unable, and unwilling to construct a stable economic order based on liberal principles”. (Sørensen 2011, p.89). They are too concerned by their own issues and consequently are looking more inwards to protect themselves. Unfortunately, due to the nature of today’s deeply integrated world economy brought about by globalization, it is in everyone’s interest to solve any potential crises that may occur as it will affect not just one country, but all that are integrated.

Banerjee and Duflo (2012) discuss their MIT colleagues’, Acemoglu and Robinson, thoughts on the importance of institutions in helping a country develop and lift itself out of poverty. (2012, p.238). Economic and political institutions are what determine whether a society will prosper or not. But for an economic institution to function, the political one needs to be in place as it decides the policies for the economy. To be more explicit, the political decisions made affect the economic policies. Good economic institutions will encourage investments, entrepreneurism to help a society to prosper. Bad economic institutions will do the opposite. Depending on the policies made, if the government chooses to impose restrictions on the economy for personal benefit, such as remaining in power or weakening political competition, this will not serve the country any good. That is why a good political institution is needed to keep rulers and governments in check so that they are representing the needs of their citizens and not their own. (2012, p.238).

It must be noted that very much of what I have written in this research paper is based on what I have elicited from the research that I have conducted from the literature. Hence the conclusions that have been made are speculative, as is the case with most things when discussing events that have not yet happened. However from an analytical point of view, I would like to maintain that the feasibility of the conclusions are likely.

In sum, the New Development Bank will have strong implications on the current economic global order. The new international institution has the opportunity now to influence the world in the way its founding members, BRICS, views the world. This gives a stark contrast and alternative to the recent domination of the West and other advanced nations. We are currently living in a new global
economic environment and for change to happen however, something new in international political economy which has not been seen before needs to appear. This will come out of reform of orthodox methods and improved cooperation between all actors involved.

“They are now in uncharted territory in which densely integrated economies are combined with political frameworks that are overwhelmingly national and accustomed to put national economic priorities over international ones. Neither liberal economic theory nor liberal economic politics provides good guidelines and answers to the problems raised by this situation.” (Sørensen 2011, p.86).
7. BIBLIOGRAPHY


