

ISAS Insights

No. 257 – 22 July 2014

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The BRICS New Development Bank: Beginning of ‘New Development’?

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The Wikipedia has a new entry: NDB. The term featured on the Wikipedia within a few hours of its taking birth. This would surely have been one of the fastest entries in the Internet Encyclopedia.

For the uninitiated, the NDB is the New Development Bank, formerly referred to as the BRICS Development Bank. After being discussed for quite a few years, and amidst growing scepticism that it would never see the light of the day, the NDB was the first ‘unfinished’ business the BRICS Heads of State and Government took up in their meeting last week at Fortaleza in Brazil. The NDB was formed with an initial authorised capital of US\$ 100 billion and an initial subscription capital of US\$ 50 billion.

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Enthusiasm and Concerns

The formation of the NDB has been greeted with both enthusiasm and concern. The enthusiasm stems from the enlargement of avenues for development assistance at a time when infrastructure deficits across the developing world are becoming conspicuously large. Financing infrastructure and sustainable development projects in the BRICS and other emerging-market and developing countries is the main objective of the NDB.² It would be a substantial addition to the existing efforts of the World Bank and the Asian Development Bank – the two main multilateral lenders – as well as bilateral development assistance extended mostly by OECD countries on a country-specific basis.

The concerns, on the other hand, have been expressed on various grounds. These range from whether the NDB would be able to function smoothly notwithstanding shades of strategic discomfort between the founding members (particularly China and India); locating the bank in a primarily non-English speaking centre like Shanghai that also relies heavily on imported expertise in the financial sector; and the dangers of creating social and environmental damage in developing countries by lending to infrastructure projects without insisting on strong eligibility criteria, as the NDB is expected to.

A Notable Event

Both the optimists and pessimists are probably justified in taking the perspectives they have. The functions of the NDB over the next few years would indicate which of the groups were more accurate in their assessment. But irrespective of the conclusion, the birth of the NDB would remain a historically notable event for some reasons.

1. The NDB signals the institutional arrival of the BRICS on the world stage. When the British economist Jim O'Neill, the erstwhile chief economist of Goldman Sachs Asset Management, coined the term around thirteen years ago, he probably did not visualise the NDB. What he did emphasise was the reorganisation of world policy forums, particularly the G7, by adding more

² VI BRICS Summit, 'Agreement on the New Development Bank - Fortaleza, July 15'; <http://brics6.itamaraty.gov.br/media2/press-releases/219-agreement-on-the-new-development-bank-fortaleza-july-15> Accessed on 17 July 2014.

representatives from the BRICs.³ The G7 has not made any effort to do so beyond including Russia. Russia has lately been suspended from the grouping. Russia, along with the other BRICS members, would have been keen on having a BRICS ‘institution’ that would firmly stamp the BRICS vision of development on the world. The NDB is expected to do so.

2. The NDB is expected to create significant changes in the balance of power between global financial institutions. Its effect is likely to be felt most by the World Bank (WB) and the Asian Development Bank (ADB). With the NDB’s focus on project-based lending, it will compete with both the WB and ADB in funding infrastructure projects in developing countries. As of now, the NDB’s authorised capital of US\$ 100 billion is smaller than the WB’s paid-up capital of US\$ 223 billion and the US\$ 166 billion of the ADB’s. But the NDB’s corpus will increase, with the BRICS expected to enlarge its membership in future. Other than competing in the global development assistance market, the NDB will also create additional complications for the WB and ADB. Right now, the BRICS members themselves are the largest consumers of development assistance disbursed by the WB and the ADB. Brazil, China and India, which are currently among the countries that have the largest exposures to WB and ADB loans, might shift to borrowing more from the NDB in future. This might be due to the commercial reason of the NDB loans being pegged at cheaper rates than the WB and ADB loans; as well as the far greater sense of ownership and level of comfort that they will have with the NDB compared with the WB and ADB. The NDB has also thrown a challenge at the International Monetary Fund (IMF) by announcing a contingency reserve facility for bailing out countries in financial distress: this would imply that the IMF no longer holds the much-vaunted position being the ‘sole lender of last resort’.
3. The NDB might encourage decisive shifts in the governance structures of existing multilateral financial institutions such as the IMF, WB and the ADB.

³ The BRIC group – Brazil, Russia, India and China – was first mentioned by Jim O’Neill in the paper ‘Building Better Global Economic BRICs’, Global Economics Paper no. 66 of the Goldman Sachs. <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf> Accessed on 18 July 2014. The BRIC was expanded by the addition of South Africa in 2010.

For retaining strategic influence and credibility among the developing world, the IMF and WB might be forced to become more 'inclusive' by making their decision-making more aligned with the current structure of the global economic order and give more weightage to emerging markets. Similarly, the NDB might result in Japan playing a less prominent role in decision-making at the ADB in future than it does now. Furthermore, competition from the NDB might also force the other institutions to review their lending rates and conditionalities.

The NDB has a long way to go before it can make its presence felt in a decisive manner. It has several challenges to overcome. These include both strategic and operational issues. But there is little doubt of it having conferred on BRICS the institutional legitimacy that the group was searching for. The NDB ensures that there is no looking back for the BRICS. Whether it will succeed in institutionalising a 'new development' vision for the world will only be known over time.

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