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The Brics New Development Bank: Its Birth & Major Implications to International Political Economy

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The Brics New Development Bank: Its Birth & Major Implications to International Political Economy[1]

Shigehisa Kasahara

Abstract

The BRICS New Development Bank (NDB) has just begun its operation on infrastructure financing. While long-term *speculation on its activities in the uncertain context is hazardously conjectural, it is possible to discuss its* short-term *implications. If the egalitarian principle – with an equal capital contribution among the BRICS members – should be firmly upheld, the growth of its financing will be determined by its weakest member (South Africa) and by new members (particularly non-borrowers). The former case will hinder the NDB from becoming a major institution and the latter case will dilute the founders' pivotal position in the institutoin. If China, the only founding member with financial clout, should be allowed to raise its own capital base, the NDB's financial capacity will be augmented, but its institutionalized egalitarianism will be compromised. Moreover, if intra-BRICS talks on the capital base and new membership should reveal serious acrimony, they will not only dampen global support but also discourage others to join the NDB. The paucity of creditworthy track record will also oblige the NDB to co-finance with other institutions, which, in turn, will prevent it from lending in a radically different fashion from the conventional practices. If the NDB should appear to fail bringing about major changes in the global financial architecture, many observers will question the merits of reinventing the wheel. Even worse, the NDB will be seen as a smokescreen to hide the exploitation of Southern countries at the best advantage of the BRICS members. At any rate, it is likely that the NDB will expand its operation, but its growth path will be slow and unsteady. At least, in the foreseeable future its effects will not be as significant as many observers have hoped.*

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1 Introduction

On 15 July 2014, a group of emerging market economies known as "BRICS" – Brazil, Russia, India, China and South Africa, which collectively account for more than 25 per cent of the world's GDP and land area, as well as roughly 40 per cent of the world's population – signed *The Agreement of the Establishment on the New Development Bank* (NDB) for financing development projects in emerging and developing countries. This was done at the Heads of State meeting (Summit) of the BRICS members, which can be epitomized as an anti-hegemonic, Southern coalition,[2] held in Fortaleza, Brazil.

Claiming to represent the interest of the global South, the BRICS members have been vocal about the need of reforming the existing international economic order in general. They have been expressing historical grievances regarding the persistent status of under-representation of the global South in general and of their own in particular in the international policy space and decision-making (Qobo and Soko, 2015: 278; see also Cooper, 2016; Cooper and Farooq, 2013; Luckhurt, 2013; Stuenkel, 2015; Wang, 2016).[3] In this regard, the establishment of the NDB can be seen as a sign of promoting "financial multi-polarity", via decentralizing and fragmenting the existing international order (Huotari and Hanemann, 2014: 298). To some observers, the new institution may appear to be a harbinger of a new order where these emerging powers advance their own agenda (Griffith-Jones, 2014).

Given that its past performance is virtually non-existent and its future function hinges on many unforeseeable factors, *long-term* speculation on the NDB is an adventurous exercise, if not a hazardous conjecture. However, this does not prevent us from considering relatively *short-term*, potential implications of the NDB to international political economy, or more specifically on the governance of development cooperation. This paper consists of five parts. Section II traces intra-BRICS diplomacy that led to the establishment of the NDB. Section III introduces major elements embedded in the Articles of Agreement (the NDB Agreement) adopted in 2014, and then discusses immediate implications of these elements. Section IV, as an extension of the previous part, considers scenarios of the NDB's institutional and operational evolution in the foreseeable future. Section V considers the broad outlook of the BRIC process as such from its members' perspectives and potential implications of the NDB's operation to international political economy, particularly development cooperation. Section VI sums up our discussion.

2 Background Of Intra-BRICS Diplomacy Toward The Establishment Of The NDB

It is known that the acronym, BRICs, the predecessor of BRICS, derived from Goldman Sachs' report in 2001, which signalled the new dynamism of four large emerging markets – Brazil, Russia, India and China. Recognizing their rapidly rising economic weights, the report – published shortly after the terrorist attacks of 11 September in the US – urged that the BRICs should be included in global policymaking forums. Since then, the BRICs/BRICS members have intensified and institutionalized their cooperative activities.

A. Precursors to the BRICS Process

[2] While it is not considered to be part of the global South, Russia, like many others, has felt frustrated by being side-lined in the North-dominant global order (Gosovic, 2016: 742). Furthermore, Russia's participation in the Group of 8 (G8) meetings and its recent application to join the Organization of Economic Cooperation and Development (OECD) was suspended after the 2014 Crimean crisis (Carey and Li, 2016c: 1).

[3] For instance, they used to reiterate their concerns about the stalled implementation of the International Monetary Fund (IMF) Quota and Governance Reform package, which was formulated and agreed to in 2010. It was on 18 December 2015 that US President Obama finally could sign the IMF reforms into effect as part of an omnibus spending bill (See Sarker, 2016: 91-94).

Three members of the BRICs group, namely Russia, India and China, began their diplomatic collaboration in the early 2000s. Beginning with an informal RIC club meeting in New York on the side-lines of the United Nations (UN) General Assembly in 2001,[4] and it developed into a formal ministerial setting in 2005. It was Russia that took the lead within the trilateral relationship (Cooper, 2016: 30).

A separate movement also took place through the initiative of South Africa. In January 2003, at the inauguration of new Brazilian President Lula da Silva (2003-2011), South African President Mbeki (1999-2008) called for creating an IBSA bloc (India, Brazil and South Africa) to engage in dialogue ahead of the G8 Evian Summit, to which these three had been invited as observers by French President Chirac. South Africa's initiative was well received by India and Brazil so that they met again in Brazil after the Evian Summit to sign the declaration to create the IBSA Dialogue Forum in September 2003. The IBSA Dialogue Forum, as a bloc of regional, rising middle powers in world politics (Stephen, 2012), has established annul summits, and IBSA finance ministers have also been engaged in discussions through the Trilateral Ministerial Commission. The IBSA Dialogue Forum has also created other institutions to promote trilateral cooperation, such as the IBSA Business Council and the IBSA Academic Forum (Flemes 2009; Cooper, 2016: 29-32; Laidi, 2012: 617; Stuenkel, 2015: 5-6).

In 2006 and 2007, Russia again invited the Brazilian Foreign Minister to an informal RIC ministerial meeting in New York. Russia again took the initiative and hosted the first BRICs ministerial meeting in 2008 (Carey and Li, 2016c). The inaugural BRICs Summit was convened in Yekaterinburg, Russia in 2009.[5] It was the global financial crisis that created a major imperative on the part of the BRICs members to muster their political attention at the highest level through holding their first formal Summit (Liu, 2016: 444). Since then, these meetings have been annualized on a rotational basis. Thus, during the first two Summits, diplomatic discussions among the BRICs members were concentrated on the ongoing financial crisis, which created an increased impetus for the greater coordination of policy efforts and resource mobilization (Cooper, 2016: 55; see also Stuenkel, 2015: 9-38).

B. Formation of the BRICS process and NDB

Towards the end of the 2000s, South Africa became eager to solicit the BRICs members to accept its membership. In 2010 newly elected South African President Zuma visited all of these four countries, winning their support for his country's membership (Shubin, 2015: 175). As a result, later in the same year, South Africa managed to join the group on the invitation of China, and in the following year it attended the Summit in Sanya (Hainan, China) for the first time, thereby transforming the group from BRICs to BRICS.

The idea of establishing a South-South development bank substantially progressed between 2012 and 2014. The 2012 Summit (India) where the host country initially proposed the idea of establishing a new financial institution. Subsequently, the Observer Research Foundation, a leading Indian think tank, elaborated various ideas pertinent to a new multilateral development bank in its strategy paper entitled: *Long-Term Vision for BRICS.* This strategy paper was reviewed at the BRICS Think Tank Council in Durban ahead of the 2013 Summit (South Africa).

At the 2013 Summit, the host country, South Africa, showcased a new multilateral bank as a centrepiece of discussion, and the BRICS leaders agreed, as a matter of principle, to the idea of

[4] The RIC group expressed solidarity with the United States vis-à-vis the terrorists attacks (11 September). This attitude was enhanced by the Russia's concern over Chechnya, echoed by China's worries over Muslim militants in Xinjiang province, and India's anxiety over Kashmir (Cooper, 2016: 30).

[5] At the occasion of the 2008 G8 Summit meeting in Toyako, Japan, the BRICs leaders separately held an informal summit meeting of their own. This was possible because the G8 leaders had invited Brazil, China, India, Mexico and South Africa – known as the Outreach 5 (O5) – to their Summit (Cooper, 2016:26).

creating such an institution.[6] Although it was still far from complete, the BRICS members successfully generated an overall consensus around the Indian initiative for creating a new financial institution.[7] At the very early stages of negotiations, China and Russia were somewhat ambivalent towards India's initiative, which slowed down the preparatory process (Cooper, 2016: 72). At any rate, the 2012 and 2013 BRICS Summits clearly indicated positive thrusts on the part of their respective host countries (India and South Africa) toward the creation of such an institution. Meanwhile, right after the 2012 Summit, the Bretton Woods institutions expressed their support towards creating a new development bank (Robles, 2012).

In the lead-up to the 2014 Summit (Fortaleza, Brazil), there were strenuous but successful intra-BRICS negotiations, most importantly between China and India, on the basic structure and operation of the new institution (see Cooper, 2016: Chap. 5; Stuenkel, 2015: Chap. 6). Consequently, the BRICS leaders could formally sign the NDB Agreement with the total authorized capital of US$100 billion. At this Summit, the BRICS leaders separately signed *The Treaty for the Establishing of the BRICS Contingent Reserve Arrangement* (CRA). The discussion of the CRA is beyond the scope of this paper. In brief, it is a large-scale currency swap arrangement (of US$100 billion) among the BRICS central banks to manage liquidity pressures, with China playing a very large role of providing short-term liquidity.[8] It is expected that the NDB together with the CRA will promote the development of an intra-BRICS currency market, fostering easy conversion of their 5R currencies – real, rubble, rupee, renminbi (yuan) and rand – and diversifying foreign exchange reserves. To certain extent, the NDB and the CRA mirror the role of the World Bank and the IMF, respectively (Sarker, 2016: 91).

The ratification of the NDB Agreement by each of the five founding members' legislative bodies – which had occurred by March 2015 – led to the eventual establishment of the new institution, in the wake of the 2015 Summit (Ufa, Russia). With the Headquarters Agreement with the Chinese government as well as the Memorandum of Understanding with the Shanghai municipal government in February 2016, the NDB became fully operational (NDB, 2016d).[9] The new institution was a clear manifestation of these emerging economies' commitment towards greater institutionalization of the BRICS process. Although the NDB started with the BRICS founders for financing their infrastructure and development projects, it is expected that its membership and financing activity will expand beyond the initial scope. Meanwhile, in public scenes, the BRICS members have been at pains to stress that the NDB is intended to "complement" rather than "supplant" existing multilateral financial institutions.

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[6] South Africa actively promoted the cooperation among BRICS' own national development banks which are engaged in financing projects in developing countries. Particularly notable in this regard is the co-financing agreement: A BRICS Multilateral Infrastructure Financing Agreement for Africa (Li and Carey, 2014: 9).

[7] One major division of opinion was the membership of the new institution. India and Brazil initially wanted a lean structure, whereas China wanted to open up the membership beyond the BRICS members (Cooper and Farooq, 2015: 38). Later, concerning that China's preponderance might overshadow the voting rights and interests of the other members, India explored the idea of offering the advanced countries a minority stake, as non-borrower members, in order to offset China's overarching role (Cooper, 2016: 74).

[8] The allotted amounts of reserves are as follows: China: US$41 billion; Brazil: US$18 billion; India: US$18 billion; Russia: US$18 billion; and South Africa: US$5 billion. One close precursor of the CRA is the Chiang Mai Initiative signed in 2000 among the Association of East Asian Nations (ASEAN) members, China, Japan and South Korea (Dix, 2015: 6; Watson et al, 2013: 2). The present arrangement of the CRA stipulates that only 30 per cent of a member's quota is accessible without an IMF programme, and that for the remaining 70 per cent the member must agree to an IMF programme, including its policy prescription (Stuenkel, 2015: 115-116).

[9] India and South Africa bargained hard for hosting the NDB's headquarters, but in the end China's insistence prevailed. Thus Shanghai, the financial centre of China, managed to host the headquarters. Meanwhile, South Africa got the BRICS members' consent towards the idea of establishing the African Regional Centre (Cooper and Facooq, 2015: 35). Interestingly, Shanghai also hosts the institution of another relatively new development initiative, namely the Shanghai Cooperative Organization (SCO), which, under the co-leadership of China and Russia, is to promote Central Asian development. The colocation of these two institutions in Shanghai has been anticipated to promote synergies between them. Russia hosted the 2016 SCO meeting in Ufa alongside the BRICS Summit.

3 The NDB Agreement: Major Elements and Their Immediate Implications

Since the adoption of the NDB Agreement, the BRICS members have worked out on many details – as presented in numerous "policy documents" – in order to cope with concrete operational issues. One impression we have after reading the NDB Agreement is that the new institution resembles, rather than differs much from, many existing multilateral and regional financial institutions – particularly the World Bank which has presented a prototype template for others to emulate (see Humphrey, 2014, 2015, 2016). A case in point is the structure of capital subscription, the combination of paid-in capital (20 per cent) and callable capital (80 per cent) (Art.7-c).[10] (See further discussion below.) But the intra-BRICS egalitarian principle, as institutionalized throughout its governance structure, gives the NDB a "democratic flavour", and this is not necessarily shared by many other multilateral financial institutions (Wang, 2016: 8).[11]

A. Purposes and functions

The NDB Agreement states that the main purposes and functions of the new institution are: to finance infrastructure and sustainable development projects in the BRICS members and other emerging and developing economies (Art. 2), through loans, guarantees, equity participation and other financial instruments (Art. 3-b) in collaboration with international organizations and other financial entities (Art. 2-b). Thus, the NDB will forge partnerships with national and regional development banks as well as the World Bank group, in co-financing activities in the private and public sectors. Some may hope that the emphasis of the NDB's financing on infrastructure projects, with direct linkages to economic development, is likely to compensate, if not to reverse, the recent general trend of multilateral development institutions that have emphasized austerity policies (structural adjustment programmes) along the Washington Consensus line at the cost of infrastructure development projects.[12]

B. Membership

As mentioned earlier, the NDB began with the membership – which entails capital contribution by purchasing its shares (Art. 8-a) – of the five BRICS founders (Art. 5-a); however, its membership is open to the United Nations (UN) member countries. They can join the NDB as either borrowers (emerging and developing countries) or non-borrowers (developed countries) (Art. 5-b, 5-c). It is expected that some emerging economy members – most of all, the BRICS members – will be borrowers and lenders. While in principle borrowers ought to be members as a prerequisite to get access to the NDB's funding, non-members in certain situations may receive the special authorization from the NDB to receive its funding (Art. 19-d, 19-e). While it is not totally clear, non-borrower countries without formal NDB membership can offer their capital markets for the NDB's bond-issuing activities. In this regard, the Articles of Agreement states: The NDB is empowered "to borrow funds from member countries or *elsewhere*…" (Art. 26-a).

[10] At the Bretton Woods conference in 1944, the negotiations on the Articles of Agreement on the World Bank engendered the idea of the combination of paid-in capital and callable capital (World Bank Art. 2, Sec.5-i, ii), where the founding countries were required to pay 20 per cent of capital commitment in cash with the remaining 80 per cent committed as a guarantee that would be called upon by the World Bank only when required to meet its obligations, i.e., to pay off its creditors. Every multilateral development bank, including the NDB, has utilized the same mechanism (Humphrey, 2014: 618).

[11] Interestingly, Shanghai also hosts the institution of another relatively new development initiative, namely the Shanghai Cooperative Organization (SCO), which, under the co-leadership of China and Russia, is to promote Central Asian development. The colocation of these two institutions in Shanghai has been anticipated to promote synergies between them. Russia hosted the 2016 SCO meeting in Ufa alongside the BRICS Summit.

[12] The World Bank, for instance, used to direct 70 per cent of its lending to infrastructure in the 1950s and 1960s, whereas towards the end of the 20th century the share of infrastructure in its lending declined to 19 per cent (Wang, 2016: 3).

C. Governance Structure

The governance structure of the NDB consist of a Board of Governors, a Board of Directors, a President, Vice-Presidents as decided by the Board of Governors, and other officers and staff (Art. 10). The Board of Governors, the supreme body of the NDB's governance structure (Art. 11-i), is represented by all member countries at Ministerial level (Art.11-a), and makes decisions on those matters that are most important to the institution, such as the admission of new members, the size of capital stock, and others (Art. 11-b), through an annual meeting and other meetings (Art. 11-c). The Board of Directors, responsible for the general conduct of the overall operation of the NDB (Art. 12-a), performs functions delegated by the Board of Governors. The Board of Directors is a non-resident body which meets quarterly, but the Board of Governors in the future may decide to make it a resident body (Art.12-g). The President, the chief manager of the NDB's daily operation (Art. 13-b) without a voting right at the Board of Governors except the casting vote (Art.13-a), is chosen from the BRICS members on a rotation basis (Art. 13-a).

At the outset, the NDB has the Board of Governors consisting of the political representatives of the five founding members, the BRICS Ministers. The Board of Directors starts with five seats, one each for the BRICS members, and the seats are allowed to be increased up to 10 as a result of new membership (Art. 12-b). The posts of four Vice-Presidents (and possibly more in the future) are occupied by each of the BRICS members that are not represented as President (Art. 13-c). In the future, the Board of Governors may increase the number of Vice-Presidents (Art. 11-b-ix). The concrete details of personnel matters of the NDB that have been agreed on for the initial years are as follows: the initial chair of the Board of Governors is Russian; the initial chair of the Board of Directors is Brazilian (for four years); the first President of the Bank is Indian (exceptionally for six years for the first President, or for five years for the second President and thereafter) (Art. 13-d).

D. Voting Power

The governing structure of the NDB has much to do with the distribution of voting power among its members. The voting power of the member countries at the Board of Governs and the Board of Directors is proportional to their subscribed capital shares (Art. 6-a). As mentioned earlier, at the time of the commencement of the NDB, the five founding members are entitled with the same voting power (20 per cent each) concomitant with their subscribed capital (see the discussion on the NDB's capital below). Whereas institutional decisions normally require a simple majority of the cast votes, those of special importance require an affirmative vote of two-thirds of the total voting power of the member countries including that of four of the BRICS members (Art. 6-b).

The membership expansion beyond the BRICS founders will bear some implications for institutional governance: namely, the dilution of their voting power as a group, if not the diversion from intra-BRICS egalitarianism. The NDB Agreement contains some safeguard provisions for the BRICS members' voting power: i) the voting power of the BRICS members as a group will remain above 55 per cent of the total voting power regardless of additions of new members (Art.8-c-i); ii) the voting power of the non-borrowing members, presumably developed countries, as a group cannot exceed 20 per cent of the total voting power (Art. 8-c-ii); and iii) the voting power of any single non-BRICS member cannot exceed 7 per cent of the total voting power (Art. 8-c-iii). One impression on the NDB's governance structure as well as the distribution of voting power among its members is that the BRICS founders have made the new institution's structure fairly flexible to accommodate new members while firmly guarding their pivotal position. Yet, the non-borrowers will individually and collectively remain minor importance with a limited voting power. While it does not seem imminent, the following situation is a possibility; If new membership is judged to threaten the 55 per cent majority threshold of the BRICS members, then the NDB will have to consider either new members' applications (including the size of their shares), or the increase of the founders' shares.

E. Capital

The NDB starts with an initial authorized capital of US$100 billion, of which the total subscribed capital for the BRICS members is US$50 billion (Art. 7-a, 7-c). The additional headspace of US$50 billion beyond the initially subscribed capital will allow the BRICS founders as well as future members (including borrower and non-borrower countries) to subscribe to additional shares (Art. 7-b). We understand from various writings (see, for instance, Cooper, 2016; Cooper and Farooq, 2015) that the size of the NDB's capital base was heavily debated. On the one hand, China supported the modality of capital contribution based on members' financial capacity and a large capital base for the NDB. On the other hand, India supported the modality of relatively small and equal contributions of the founding members with a capital base of a relatively modest size for the new organization (Cooper and Farooq, 2015: 36).[13] Brazil supported India's proposal throughout, where Russia shifted its support from Indian's proposal to China's. At the end of negotiations, India's proposal of egalitarian allotment of capital contribution prevailed.

Thus, the total subscribed capital for the BRICS founders – US$50 Billion – is divided equally into five, i.e., each with US$ 10 billion. Whether the individual contribution of US$10 billion is large or modest is a cumbersome question. Whereas US$10 billion is certainly a small amount for China that has accumulated a vast size of foreign reserves (more than US$3 trillion), it presents a serious test for South Africa, as it amounts to 2.5 per cent of its GDP (Cooper, 2016: 74). Some observers speculate that China will eventually (and perhaps discreetly) cover, in one way or another, part of the initial and additional capital subscriptions of other members with much smaller foreign reserves (Cooper and Farooq, 2015: 36).

Individual BRICS member's subscribed capital of US$10 billon is further divided into US$2 billion in paid-in capital and US$8 billion in callable capital (Art. 7-c). Each member is expected to make the paid-in capital (US$2 billion) in seven instalments over time. The specific sizes of the instalments are: US$ 150 million, US$250 million, US$300 million, US$300 million, US$300 million, US$350 million and US$350 million. The first payment is expected within six months after entry into force of the NDB Agreement. The second will become due 18 months from the entry into force of the NDB Agreement. Each of the remaining five will become due successively one year from the date on which the preceding one becomes due (Art. 9-a). In short, therefore, the completion of the payments of the pay-in capital will require a period of about 7 years.

Each BRICS member's callable capital is a sort of financial commitment, or the government guarantee that is subject to call only when the NDB must meet obligations incurred on borrowing funds (Art.9-c), and thus it does not entail actual payment (Art. 9-b). The NDB Agreement stipulates that "calls on unpaid subscription", i.e., the actual payment of some portion of callable capital, "will be uniform among the member countries in terms of percentage on callable capital" (Art.9-d). The Board of Governors can decide not only to increase the authorized and subscribed capital stock but also to alter the proportion between paid-in capital and callable capital; however, no member countries are obliged to subscribe to any part of such increased capital (Art. 7-c). The Board of Governors is also responsible for reviewing the NDB's authorized capital at a 5-year interval or less (Art. 7-e), which means that the capital stock may or may not grow relatively rapidly.

Judging from other multilateral institutions, we safely state that the paid-in capital will be used to cover the sink costs for organizational build-up and associated administrative costs of the new

[13] It seems that the BRICS members prioritized their equal capital subscription over the size of total capital basis of the new institution. This is because the decision of equal capital subscriptions members pre-empt difficult negotiations over the voting power allocation among them. If the BRICS members had been allowed to contribute in accordance with their financial capacity, its initial subscribed capital could have been much larger but the negotiations on the intra-BRICS allotment of the initial capital base would have been more time-consuming as well. Furthermore, the voting power in such an event could deviate from the egalitarian principle.

institution, rather than directly allocated to finance development projects. According to NDB Press Release (NDB, 2016a), each of the BRICS members made the first instalment or tranche of US$150 million for paid-in capital subscription, totalling US$750 million in January 2016. And some of them have already made the second payment, as of this writing (November 2016). Clearly, the NDB will hold a relatively meagre amount of cash on hand for initial organizational build-up and administrative costs. It will certainly have to wait some time before reaching the position to generate any operational profits and recycle them. Of course, it is easily anticipated that China (as well as its Shanghai municipality), as the wealthy host country (city) of the new institution, will provide sizable financial contributions separately to supplement the NDB's available funds for such purposes.

F. Borrowing

The vast majority of multilateral financial institutions have raised their long-term loanable funds by borrowing from international capital markets, by issuing bonds, against the collateral of their subscribed capital stock (paid-in capital and callable capital) as well as retained profit earnings/reserves from past operational profits (Humphrey, 2014; Kapur and Raychaudhuri, 2014; Mason and Asher, 1973; Nelson, 2013).[14] In this regard, the NDB is not much different from these institutions (see Art. 26-a, b, c). The NDB Agreement states: "The total amount outstanding in respect to the ordinary operations of the Bank shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources" (Art. 20-a). This means that the statutory limit on its "gearing ratio" being set at 100 per cent.

With no capital reserves or surplus at the outset of its operation, the NDB, in theory, is authorized to borrow up to US$50 billion. As the remaining "unsubscribed" US$50 billion of the total authorized capital becomes subscribed by the new members and/or the BRICS founders, the amount of borrowing, and thus total loans, by the NDB is legally allowed to rise up to US$100 billion (and possibly more, if profits should be made from past loans meanwhile). Again, it is possible to anticipate that some of the BRICS founders (particularly China) may make miscellaneous contributions, additionally and separately from their paid-in capital subscription. On the other hand, we must also remember that NDB's paid-in capital may decline as a result of its use for the organizational build-up and administrative costs.

Whether the NDB can borrow such large amounts at reasonably low interest rates as well as find development projects to finance, however, is another question. (See the next section for the potential loaning capacity of the NDB.) At any rate, regardless of the statutory limit, the NDB may not be driven to borrow so much of funds if financially viable projects are proposed.

4 Senarios on The NDB: Major Elements of its Institutional and Opeational Aspects

Given the recent slow-down on the global scale (including the BRICS members), it is still not clear whether the recent emergence of the NDB and other new multilateral institutions reflects a long-term trend or an ephemeral phenomenon in the state of the world economy.[15] Let us identify and discuss some pertinent issues – which are undoubtedly inter-related – that the NDB is likely to face in the foreseeable future, namely A) membership, B) credit rating, C) lending activities, D) loans to the private sector, and E) concessional loans and grants.

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[14] An alternative expression is the sum of callable capital and equity, with the latter consisting of pay-in capital, retained earnings/reserves.

[15] As Kahler (2016) points out, the establishment the NDB by the BRICS members recalls the similar initiatives to create new institutions outside the established ones by Middle Eastern oil producers in the 1970s, such as the Arab Fund for Economic and Social Development (1974), the Islamic Development Bank (1974), the Arab Bank for Economic Development in Africa (1975), and the Organization of Petroliam Exporting Countries (OPEC) Fund for International Development (1976).

A. *Membership*

The NDB began with the BRICS members, even though several countries reportedly had expressed their wish to join the NDB (Shubin, 2013: 42). Unlike the case of the Asian Infrastructure Investment Bank (AIIB), the five founding countries of the NDB have refrained from openly soliciting non-BRIC membership.[16] To certain extent, the membership expansion is closely related to the performance of the NDB. The founding members have so far limited the NDB's activities in the area of co-financing with their national development banks for their own domestic infrastructure projects (see Spratt and Baron, 2015). It is anticipated that the BRICS members will in due course call for new memberships. After all, the excessive preoccupation with intra-BRICS projects will dampen potential members' enthusiasm towards the new institution. Meanwhile, the NDB must make its activities demonstratively effective to draw new members, since no countries will be attracted to a nonstarter. The larger-scale operation resulting from the growth of membership will also make the NDB's activities more visible and possibly more effective, since larger membership makes its governance process more inclusive.

It is interesting to consider which groups of countries – non-BRICS emerging economies (as borrowers and non-borrowers), developing countries (as borrowers), and developed countries (as non-borrowers) - will be the priority candidates as new members. It could be argued that the NDB's campaign for new membership may initially target at other emerging and developing countries over developed countries as the former group will likely to consolidate its pro-South solidarity vis-à-vis traditional financial institutions. Between non-BRICS emerging economies and developing countries, the priority may lies in the former group (such as Argentina, Indonesia, Malaysia, Mexico, Turkey, etc.). This is because in comparison with others in the global South, they can provide the NDB with larger capital contribution, less risky investment opportunities and more reliable capital markets. Non-BRICS emerging economies themselves may find that membership in the NDB will raise investment opportunities domestically and internationally.

Many low-income developing countries can also provide investment opportunities. Cooper (2016: 76) points out that China and South Africa are particularly interested in opening up the client base to new members, whereas India and Brazil prefer a more concentrated focus within the group (Cooper, 2016: 76). Given the media coverage often highlighting the likelihood that the new institution will be less stringent in its loan conditionalities, potential borrower countries may find the new institution more attractive than traditional bilateral and multilateral institutions. Some observers, however, are more cautious, arguing that this may not be the case (see Bond, 2013, 2016; Taylor, 2014). As mentioned earlier, technically speaking, non-member countries, in exceptional cases, may still obtain funding from the NDB without prior membership. Nevertheless, given that formal membership eases the project evaluation and financing process, the BRICS members are likely – again with different degrees of eagerness – to solicit new membership. The formal membership of these countries will also help them participate in the NDB's governance process as well as increase its capital base (Griffith-Jones, 2014: 13).

Unlike the case of the AIIB, no traditional donor countries have openly indicated their intention to participate as non-borrower members in the NDB. The BRICS founders (and future borrower members) may feel that the participation of non-borrower countries should be welcome because it will immediately augment its capital base and raise the possibility for the NDB to improve its access to international capital markets.[17] Whereas the membership growth with non-borrower countries, even as

[16] In the case of the AIIB, China, the single initiator of its establishment, was actively solicited the membership not only among Asian countries but non-Asian countries, including no-borrower developed countries. As a result, the AIIB was established in October 2014 with Asian and non-Asian founding members, including the rest of the BRICS members as well as many traditional donors. Given its large membership (including many traditional donor countries) and China's active leadership role, the AIIB may eclipse the institutional heft of the NDB in the long run (Humphrey, 2015).

[17] However, membership expansion also implies greater bureaucratization of the institution, which tends to slow down the approval process. (For an excellent comparative analysis on three multinational development banks, see Humphrey and Michaeloa, 2013). At any rate, no multilateral development banks have ever called in callable capital to cover their losses (Nelson, 2013: 9). Rating agencies, in fact, regard callable capital – more specifically, that of industrialized non-borrower

minority stakeholders, is also likely to raise the new institution's credit rating, it will dilute the ideational foundation of the NDB as an institution of South-South cooperation. But non-borrower countries may consider that they should not harry to join the NDB, preferring to take a wait-and-see stance. Many of developed countries have already joined the newly established AIID, and they may prefer to monitor the performance of its performance to judge whether they should join another similar institution.

B. Credit rating

The most critical factor that will determine the capacity of a multilateral development bank in raising loanable funds is its credit rating, which is determined by the market's perception of its creditworthiness.[18] The issue of credit rating proves to be particularly pertinent when we look at the ratings of the individual BRICS members which, except China, have not enjoyed a high rating, to say the least.[19] The NDB can improve its rating over time, but this will happen only after some good track record, at least a decade of solid operation (Humphrey, 2015: 18). One clear implication of a low credit rating is the relatively high funding costs, which make it to confront some difficulties in loan demand. This, in turn, may oblige the new institution to reduce its lending spread (i.e., the margin between the cost of funding and the terms at which it make loans), if it wants to build a diversified loan portfolio among borrowers (Humphrey 2015: 18).

It is easy to imagine that the NDB will not be able to compete with the other long-standing multilateral financial institutions in fund-raising capacity (and thus competitive loaning) unless it take advantage of its privileged access to financial resources other than in international capital markets, such as Sovereign Wealth Funds, which may be less dependent on the rating of well-established credit rating agencies.[20] Otherwise, international investors will expect that the new institution will follow prudent operation in order to ensure sustained operation. Again, the likelihood that membership expansion – including traditional donors – will to raise the NDB's credit rating is particularly pertinent before the new institution establishes a strong track record.

C. Lending activities

The time-consuming process of its institutional building is likely to keep the NDB as a virtual bank for some time, a network of BRICS's national development banks. Thus, its lack of capacity to independently undertake project evaluations is likely to make the NDB depend on these national development banks. In effect, the NDB will likely prioritise high quality loans for its funding members in order to minimize the risk of default. Indeed, the BRICS members must be aware of the potential implications of their new institution's performance on its credit rating, which, in turn, will affect the costs of its borrowing and the generation of profit levels necessary to support future lending (Griffith-Jones, 2014: 8). Yet, such consideration may seriously constrain lending particularly to poorer countries, which will add to the possibility of tension and discontents among would-be borrowers.

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member countries – of multilateral development banks as "unequivocally the main criteria" (Humphrey, 2014: 618-9) to determine their credit rating.

[18] It is known that the World Bank with a large number of non-borrower countries among its members has always maintained the highest credit rating (AAA) among the multilateral and regional development banks, which makes it possible to raise funds and provide its loans at the most competitive (lowest) rate. The Inter-American Development Bank (IADB) and the African Development Bank (AfDB) were created as new institutions to be controlled by borrowers, but they ended up giving non-borrowers countries greater power in order to improve their standing in the capital markets (see, for example, Humphrey, 2013 for the IDB; and Strand, 2001 for the AfDB).

[19] China is rated AA-, Brazil, India and South Africa at the lowest investment grade rating, and Russia was recently downgraded to junk bond status (Humphrey, 2015: 17).

[20] According to Liu (2014: 45), the share of global savings by the BRICS members is larger than that of the US, the EU and Japan combined; therefore, it can be expected that the financing for the NDB will mainly come from the members, particularly China. Let us note that, the NDB has received AAA institutional rating from China Chengxin Credit Rating Corporation and China Lianhe Credit Rating Corporation (NDB, 2006f).

Some developing countries may expect that in the name of South-South cooperation, the NDB – as an alternative institution to the existing multilateral and regional banks – will make "faster, simpler and cheaper" disbursement of loans. In this regard, the new institution, being a small entity at the outset, is likely to impose far less bureaucratic red-tape and shorter loan approval processes than many existing institutions. The NDB may also conscientiously endeavour to come up with a novel, more flexible approach to avoid the negative associations with "old" conditionalities. If it should successfully achieve this, then the new institution's popularity will surely rise among would-be borrower countries. It is expected that as the NDB expands its operation, its membership is likely to expand by attracting non-BRIC developing countries. The NDB Agreement encourages the diversification of its activities, stating, among others: "The Bank shall seek to maintain reasonable diversification in all of its investments" (Art 21-c).

The NDB's loans are purportedly free of a strong dosage of political conditions, certainly those related to institutional reforms for augmenting good governance, promoting human rights, and preventing corruption in developing countries. However, as the NDB increasingly co-finance with other institutions and raise its loanable funds widely (and cheaply) from international capital markets beyond the BRICS members, it will follow conventional international banking standards, "sound banking standards principles" (Art. 21-a). Thus, even if the new institution is willing to take those "higher" risks, its loan contracts are likely to contain "prudential conditionality" provisions to ensure that loans are used purposely and rapidly. This means that the NDB will be obliged to impose similar efforts – conditionalities – on the part of borrower countries, just as existing multilateral and regional development banks have practiced. Let us note that the NDB has signed Memorandums of Understanding with many national and international financial institutions. These memorandums highlight potential common areas of interest, not only exploring and pursing opportunities for co-financing projects but also facilitating knowledge exchange, staff secondment and exchange (see, for example, NDB, 2016c; 2016d; 2016e, 2016g).

Griffith-Johns (2014) had ventured into estimating possible scenarios of loaning activities of the NDB. She made her estimates based on a few assumptions, such as the total *subscribed* capital of US$100 billion (consisting of 20 per cent in paid-in capital and 80 per cent callable capital, as done for the BRICS founders) already at the initial stage, as well as the loan-equity leverage ratio – the ratio of the outstanding loans against the total paid-in capital (US$20 billion) with retained profit earnings and other reserves – of 240 per cent. These assumptions, according to Griffith-Johns, would bring forth lending (with average maturity of ten years) of about US$5 billion per year during the first 10 years, and US$7 billion annually thereafter. These figures show an extremely large size of lending by a new institution. Let us note that the total "subscribed" capital likely remaining at US$50 billion instead of reaching US$100 billion in the near future. Therefore, these figures will prove to be overestimations, unless new members (with large financial capacities) should quickly join the institutes.

Reisen (2015) estimates that how large the NDB's loan portfolio will be when the payments of BRICS members' pay-in capital are completed, i.e., when the total of US$10 billion (US$2 billion x 5) is actually paid up. Given that the World Bank has the US$14 billion paid-in capital against the total loan stock of $152 billion (as of March 2015), and assuming that the NDB can reach the World Bank's loan-capital leverage ratio of 10.9, Reisen states that the NDB after seven years of its operation will potentially have the loan portfolio of US$109 billion (US$10 billion x 10.9) against the World Bank's US$152 billion. Amazing, this implies that the NDB's loan stock will potentially reach about two-thirds of the World Bank's. This also means that the average net accumulation of loan stock of US$14 billion per year over seven years! He optimistically – or unrealistically – concludes that the NDB could have "a discernible impact on multilateral lend, and thus on global governance" (Reisen, 2015: 302). This is an overly simplistic estimate because the highly leveraged loan-capital ratio of the World Bank with a well-established track record cannot be applied to the newly established institution with virtually no track record.

Humphrey (2015) presents various scenarios of the NDB's loaning activities based on more detailed and additional assumptions. All of his estimates, including the most optimistic ones, turn out to be somewhat smaller in scale than those presented by Griffith-Johns (2014) and Reisen (2015). His more realistic estimates for the NDB's cumulative loan portfolio are in the range of US$45-65 billion over the first seven years as opposed to Griffith-Jones' estimates of US$5 billion per year during the first ten years and US$7 billion per year during the second ten years, or Reisen's estimate of US$109 billion in seven years after launching operations. Humphrey thinks that the amounts of the NDB will be "relevant but fairly modest" in relations to existing multilateral development banks, and will not be a global "game-changer" (Humphrey, 2015: 30).

In our estimates, the new institution will probably make loans of a few US$ billion at most a year for several years. When countries (particularly non-borrower countries) line up for their membership, the NDB will determine their capital subscriptions, and review its total authorized capital (of initial US$100 billion). It is only at that occasion that the NDB will face the opportunity of raising its lending capacity substantially. According to official sources, the NDB approved its first set of loans – four projects, one each in Brazil, India, China and South Africa – totalling US$850 million for 2016, and reportedly the NDB President hopes to raise the Bank's lending to US$2 billion next year. Needless to say, these actual figures announced are much smaller in scale than these estimates mentioned above.

D. Loans to the private sector

Just as some multilateral financial institutions,[21] the NDB's *functions* include, among others, "to support infrastructure and sustainable development projects, *public and private*, … through the provision of loans, guarantees, equity participation and other financial instruments" (Art 3-a); and "to cooperate … with international organizations as well as national entities whether *public or private*, in particular with international financial institutions and national development banks" (Art 3-b). Regarding its methods of operation, the NDB "may guarantee, participate in, make loans or support through any other financial instruments, *public or private projects*, including *public-private partnerships*, in any borrowing member country, as well as investment in equity, underwrite the equity issues of securities, or facilitate access to international capital markets of *any business, industrial, agricultural or service enterprises* with projects in the territories of borrowing member countries" (Art 19-a).

It is anticipated, therefore, that the NDB will be engaged, from the time of commencing its work, in public and private projects. However the Articles of Agreement do not specify the different conditions of financial disbursement between public and private sector projects. It can be imagined that for private sector investment the NDB will be heavily engaged in co-financing with the IFC and other institutions that have some track record in this area. This operation would resemble the EBRD's private-sector oriented financing, although the relative weight of private sector projects in the NDB would not be as significant as that in the EBRD.

E. Concessional loans and grants

Multilateral institutions provide their financial assistance mostly with non-concessional loans which carry interest rate and repayment requirement similar or equivalent to commercial lending. Yet,

[21] Initially the World Bank was established as the first multilateral bank to support its member governments. In 1955, the World Bank faced the establishment of the International Finance Corporation (IFC), the semi-independent organization that extends loans and equity investments to private firms in developing countries without a government repayment guarantee (Nelson, 2015: 1). Neither the AfDB nor the AsDB has had a separate fund specifically for financing private sector projects, but their non-concessional windows have made loans to the private sector in their respective regions (Nelson, 2014: 3). The IDB group also includes the Inter-American Investment Corporation (IIC), which, like the World Bank's IFC, extends loans to, or engages in equity investments within, private firms in developing countries. From its very beginning of operation, the EBRD's financial assistance has heavily targeted the private sector in countries in transition, although it extends some loans to the latter's governments as well.

concessional loans (soft loans) at below market-based terms and grants with no repayment obligation have also occupied important components of financial assistance particularly to low-income countries. The World Bank started its operation in 1946 as an institution to provide non-concessional lending to middle-income countries and creditworthy low-income governments. Due to pressure from developing countries, however, the major western powers agreed to create its concessional lending window, the International Development Association (IDA) for providing concessional loans and grants to low-income counties. Concessional lending resources, which are rather small relative to non-concessional counterparts, come mostly from regular replenishments by donor countries, rather than bond issuances. Similarly, major regional development banks have established soft loan window.[22]

While details are not elaborated on, the NDB Agreement postulates that the new institution's overall loaning activities consist of "ordinary operation" – presumably non-concessional loan – which is financed from the ordinary capital resources, and "special operation" – presumably concessional loan – which is to be financed from the Special Funds resources (Art. 18-a). It is anticipated that once poorer counties, particularly those in Africa begin to join the NDB, they will ask for concessional loans. Given the fact that the BRICS members, particularly China, have increasingly been involved in concessional lending in their own bilateral South-South cooperation activities, they may not find much merit in bringing the issue of concessional lending to presumably more time-consuming negotiations in the NDB's operation. The BRICS members may prefer to use their new institution for non-concessional lending, and let concessional lending be handled on a bilateral basis.[23]

Judging from the experience of the World Bank and regional development banks, we expect that the NDB's concessional lending window will not issue bonds and that it will use funds contributed directly from their member countries (replenishments), as well as retained earnings for the operation of non-concessional lending. Needless to say, the latter option is not possible at the early stages of its operations when the NDB has not generated profits. Thus, poorer countries may choose to defer its participation in the NDB until the institution becomes able to finance such preferential financing. After all, if these countries can expect concessional loans bilaterally from some BRICS members, they may continue to rely on bilateral channels of concessional loans rather than switch to multilateral channels, such as the NDB.

5 Pospects of The BRICS Process and Implicatoins of The NDB

Many declaratory statements of the BRICS Summits have highlighted the legacy of collective efforts of the global South in general and the BRICS members in particular. The BRICS members are diverse in many aspects, in terms of the size of economy, population, territory, as well as geographical location and ethnic composition. They are also diverse in national interests, political systems and the scope of development cooperation (see Cooper, 2016; Liu, 2016; Piper, 2015; Stuenkel, 2015). The BRICS process, often seen as a sign of cooperation among "equal" partners, seems to legitimize its

[22] The African Development Bank (AfDB), which was established in 1964, created its concessional lending window – the African Development Fund (AfDF) – in 1972. In 1982, its membership was officially opened to non-regional contributing members, and as a result the AfDF's soft loans rapidly grew. The Asian Development Bank (AsDB), which was established in 1966, created its concessional lending window – the Asian Development Fund (AsDF) – in 1973. Since its establishment in 1973, the Inter-American Development Bank (IDB) has had both the non-concessional window as well as the concessional window, called the Fund for Special Operations (FSO). The European Bank for Reconstruction and Development (EBRD), which was established in 1991 to ease the transition of Central and Eastern European countries and the former Soviet Union from planned to market economies, does *not* have a concessional loan window. After all, there are hardly any countries in the region that may be classified as a low-income country by the World Bank.

[23] On the other hand, even if some of the BRICS members (particularly China) can secure resource supplies and market outlets for their economies through bilateral lending, they may encourage borrower countries to join the NDB. This is because, the funding through multilateral institutions, such as the NDB, enables risks to be pooled, limits reputation costs, and increases the perceived legitimacy (Dix, 2015: 4).

members' foreign policy in a new multilateral setting based on South-South solidarity for a more horizontal global governance architecture. The BRICS process, nonetheless, has already helped its members trim their historical, "trust deficit", or at least reduced security threat to some extent. This is particularly pertinent among Russia, India and China that share borders. The inclusion of South Africa to the BRICS process may also have brought forth a political advantage to the group, i.e., the creation of a more globally inclusive alliance to represent the interest of the emerging world.

Nonetheless, we still wonder whether the BRICS members are truly interested in pursuing a transformative process for the international economic order.[24] Are the BRICS acting in the interest of the rest of the global South in the fashion similar to what we observed in the Southern attempts to create a new international order in the 1960s and 1970s? Or alternatively, are they simply reconfiguring themselves in an exclusive and prestigious forum that is reminiscent of the Group of Seven (G7) with an emphasis on reinforcing core commonalities of perspective and downplaying points of tension and disagreement?[25] Undoubtedly, the BRICS members seek to extend the reach of their influence through development activities (with new partners). In the following pages, we discuss: A) prospects of the BRICS as seen from its members, and B) potential implications of the NDB to international political economy.

A. Prospects of the BRICS Process: Perspectives from its members

As mentioned earlier, the speculation on the BRICS process (including the NDB) can be a highly conjectural exercise, as it can be affected by many uncertain and unpredictable factors. While the BRICS members share some political thoughts and policy orientations (such as the principle of non-interference of domestic policy issues), some critics may dismiss the *long-term* viability of the BRICS process by pointing out relatively low-key trade and investment relations among the BRICS members. In the following pages, we focus on *short-term* considerations of the BRICS process from the perspectives of its individual members, and potential implications of the NDB to international political economy.

1) Brazil

Brazil has forged relations with the other BRICS members to have its national interests, many of which are shared by them, effectively pursed through diplomatic cooperation. In the sphere of economic interests, the BRICS process has important institutional implications for Brazil which has wanted to diversify its traditional economic partnership beyond Latin America – Mercosur (*Mercado Comun do Sur* or the Common Market of the South) – and a limited number of Portuguese speaking African countries.[26] As seen in the formation of the IBSA Dialogue Forum (with India and South Africa) together with the IBSA Fund, Brazil's participation in the South-South movements was intensified at the turn of the century, especially after the election of President Lula da Silva in 2003 (Reis da Silva et al, 2016: 176). In the recent past, in addition, the country's has rapidly developed remarkably close relations with China as trade and investment partners. Brazil has also made sizeable FDI in South Africa and Portuguese-spoken African countries, such as Angola and Mozambique. While it is not expected that in a foreseeable future Brazil will make a notable commercial advance (trade, investment, etc.) in the Eurasian BRICS markets, Russia, India and China, the NDB may function as a useful channel of investment from these markets. The present downturn in commodity

[24] For instance, Luckhurst (2013) argues that these emerging economies seem to be interested in gaining leverage within these mechanisms, rather than pushing a radically new political and economic agenda as such. For further discussion, see

[25] The BRICS process was strengthened by its members amid the economic turmoil of the 2008 global financial crisis whereas the G7 process was created by its members amid the turmoil emanated from the 1973/4 first oil shock. The former was launched from a position of rising strength of emerging powers whereas the latter from the position of already powerful economies that were concerned about the prospect of relative economic decline (Cooper, 2016: 52-53).

[26] In 2009, the Mercosur countries successfully negotiated and established limited preferential agreements with the South African Customs Union (SACU) countries, Botswana, Lesotho, Namibia, South Africa and Swaziland (Vickers, 2013: 683).

prices as well as political difficulties may serious affect Brazil's capacity and willingness to collaborate to the BRICS process.

2) Russia

Projecting itself as a "re-emerging" state after its prolonged turbulence since the 1991 collapse of the Soviet regime, Russia has wanted to re-establish its footing in international cooperation.[27] In fact, it was Russia that played the pioneering role – arguably the early lynchpin – in the RIC/BRICs/BRICS processes in the 2000s. And more recently, i.e., after the March 2014 Crimean crisis, the country has found fostering the BRICS process as a tactical way of building an anti-Western constellation of forces to compensate for its recent difficulties. This process together with other channels of alliances has help Russia counter international criticisms towards its geopolitical foreign policy, and cope with the deteriorating relations with (and economic sanctions imposed by) the G7 members.[28] At any rate, Russia has put aside its initial reluctance about the NDB proposal as a sign of its willingness to forge BRICS solidarity. Probably, Russia has seen the NDB as a useful institute – perhaps with the newly created Asian Infrastructure Investment Bank (AIIB) – to back up (or to reclaim) its leadership role in promoting Eurasian development (see Johnson and Kostem 2016, for a further discussion).

3) India

India has traditionally focused its cooperation activities in South Asia; however, it has recently taken new initiatives, such as the Development Partnership Administration (2012), to promote and diversify its cooperation activities beyond the region. Though not as conspicuous as China, India – most importantly, with the IBSA Dialogue Dialog Forum (2003) with Brazil and South Africa – has been impressive in stretching out its economic relations widely with many emerging and developing economies, including those in Latin America and Africa. The IBSA Dialog Forum with the IBSA Fund, however, has recently been overshadowed by the BRICS progress (particularly the NDB), which has raised concerns among Indians observers (for instance, Thakur, 2014) who have some apprehension about the two-tier power structure (Russia and China vs. India, Brazil and South Africa) of the need of revitalizing the IBSA.

4) China

China has been actively promoting its cooperation activities with the "Go Global Policy" since the late 1990s.[29] It carries the heaviest economic weight and the most extensive activities in the group. China has already been one of the most important economic (trade and investment) partners for the rest of the BRICS members, and its importance is likely to rise further. This does not mean, however, that the non-China BRICS will make a leap in China's economic relations. In the foreseeable future, China will remain more important to the other BRICS members than the other BRICS members to China. So far, the promotion of the intra-BRICS cooperation, including the creation of the NDB, has kept China from acting in an overbearing manner. China has acted conciliatorily toward its peer members, perhaps in order to invite their support toward the new institution.[30] Some have argued that for China the NDC's usefulness lies in its function as an institution (or a platform) to disguise (or hide) its own involvements in many parts of the global South that have become targets in local politics (as cited in Thakur 2014: 3; see also Abdenur, 2014). It is wondered, then, how soon the characteristics of Chinese

[27] It was with the adoption of the "Concept of Russia's Participation in International Development Assistance" in 2007 that Russia signalled its readiness intention to become a net provider of cooperation (Abdenur, 2014: 89).

[28] It is interesting to note that no BRICS member has openly criticized Russia's annexation of Crimea or coercive policies towards Ukraine.

[29] While the other members benefit from a kind of "diplomatic augmentation" through participating in the BRICS process, China has used it to reduce the impression that it is seeking a superpower role in world affairs by emphasizing multilateralism and its status as a developing country (Luckhurst, 2013: 259). On the other hand, the BRICS process may be seen as just one of the forums where China is involved and it is not the most important (Vieira and Ouriques, 2016: 423).

[30] China seems to be aware that any attitude which appears to dominate the institution could come across as off-putting to others and thus undermine the group's demand for equal partnership. After all, there are always fears that the NDB will become dominated by China (Pant, 2013: 98).

development cooperation – including its vast experience abroad, its agility, and its claims to successful implementation of infrastructure and industrialization projects – will begin to pressure the NDB towards China's line of thinking. (See Abdenur, 2014; Cheng, 2015 for further discussion on China's policy towards the BRICS process.)

5) South Africa

South Africa, since the end of the apartheid period in 1994, has gained the political credential as an active political representative for the global South. The country has also long enjoyed the business credential as the most advanced economic power – and the largest one until the recent rise of Nigeria's economy – in Africa, with resource endowments and highly developed infrastructure. Indeed, it has made corporate and financial footprints in many parts of the continent. South Africa's cooperation activities through the BRICS process – particularly with Brazil, China and India[31] – are largely geared toward activities in Africa. While it is now more precarious in light of the global slow-down, the rapid economic growth in the BRICS members in the recent past provided the optimistic view that Africa (particularly resource-rich African countries) would provide BRICS firms with many investment opportunities (UNCTAD, 2013). In this regard, South Africa can function as a "gateway" of development funds to the continent, particularly, the Southern African Development Community (SADC). It is expected that the participation in the BRICS process in general, and the NDB (with its regional office[32]) in particular, is likely to promote South Africa's own development profile in the rest of Africa (Abdenur, 2014: 89; Cooper, 2016: 73; Piper, 2015: 22-23; Vickers, 2013: 684-685). [33]

B. The NDB: Potential implications to international political economy

While pursuing own domestic approaches containing a wide range of different policies, the BRICS members have come to a common understanding about potential benefits accruing from the NDB. One such benefit is purely financial, i.e., high-yielding investments in the BRICS members' (and perhaps later, in others') infrastructure projects over the present practice of holding large foreign reserves with a large share invested in low-yielding financial investments in the securities of developed economies, particularly US Treasury bills. Such a shift, it may be hoped, will reduce the risk of reserve asset deflation and currency inflation, and enhance the ability of the BRICS members to deal with contagion and shocks (Tang, Yao and Huang: 2015: 53).

Thus, at least in their diplomatic rhetoric, these countries are strongly opposed to the heavy-handed and intrusive neoliberal conditionalities of the Bretton Woods institutions. But they also have their own thoughts and orientation that may be different from one another. It is not clear as to how nicely their differences can be resolved, and integrated into a coherent package acceptable to all of the BRICS members (and other would-be members). Can we expect that there will be a greater diversion of the NDB – in the name of a South-South cooperation institution – away from the neoliberal blueprint, rejecting the Washington Consensus? It can be imagined that the principle of non-interference will become less sustainable when the BRICS members, through the NDB, establish large-scale commercial activities around the world and become concerned with the agenda of building

[31] These three countries have also developed some form of their own strategy for Africa, including single "country-to-continent" summits. They have also supported African countries in their restructuring their post-colonial external relations, diversifying their economies and integrating more strategically on more flexible policy terms than those sanctioned by the West (Vickers, 2013: 676).

[32] Whereas the new financial institution has begun its operation with only one regional office, i.e., one in South Africa to cover the African regional, the NDB is likely to establish other regional offices when new members join and demand for them in their regions.

[33] South Africa for the first time invited a range of African leaders to engage with their BRICS counterparts through the BRICS Leaders-Africa Dialogue Forum in 2013 (Vickers, 2013: 685). Nevertheless, if its participation should fail to appease recent criticisms in many parts of Africa towards activities of some emerging economies, particularly China, then South Africa would be seen as their major local accomplice for South-South exploitation (see Bond, 2013 and 2016).

effective states (of loan-recipient counties) as well as issues of regional security (Cary and Li, 2016: 12-13).

China, India and Brazil have been among the top borrowers from the World Bank. China and India are also among the top borrowers of the AsDB. It is then wondered whether the NDB will reduce these countries' dependence on the financing from these traditional institutions. This will be plausible, but the new institution will not cause a major shift of these countries' external financial reliance. Let us recall that the NDB will supplement (particularly through co-financing) rather than replace existing institutions. Senior staff of the NDB will be engaged regularly in exchanges of views on best practices with their counterparts of major multilateral financial institutions, most importantly the Bretton Woods institutions. Such exchanges will be important to avoid various risks, such as inefficiencies, occupational overlap, and perhaps most importantly the turf war. The NDB may consequently end up with the same role they have often accused the Bretton Woods institutions of playing (Van Voorhout and Wetzling, 2013: 6). The question, nonetheless, still remains as to how the Bretton Woods institutions leaders will relate to the new institution.

While some observers may hope that the NDB, as a new alternative, will redirect the neoliberal blueprint of typical multilateral financial institutions development towards the pro-South direction, this will require vast human capacities and financial resources. Yet, neither of them will be readily available to the new institution at its early stages of operation. In fact, the NDB is presently busy recruiting qualified professional staff, presumably from the BRICS members, but the process must be time-consuming. Therefore, the membership expansion of the NDB, thus the recruitment of capable bankers from new members, will make up for its initial deficiency of human resources.

Yet, as stated earlier, the expansion of the NDB's membership (particularly the admission of non-borrower countries) is likely to bring forth negative effects to developing countries. First of all, Northern membership would compromise the purported purpose of the NDB to function as a South-South institution, even though the Agreement contains provisions of safeguards to reserve the influence of the BRICS members (and for that matter the developing countries in general) vis-à-vis no-borrower developed countries. There is still such a chance that the widened membership will reintroduce North-South conflict. At any rate, the realistic expectation is that the new institution will have to draw on the modus operandi and expertise of existing multilateral and regional banks.[34]

It is reasonable to expect that the establishment of the NDB, together with other alternative institutions, may act as a catalyst for reforms in the existing multilateral and regional development banks (Griffith-Jones, 2014: 15). It is still doubtful, however, whether these reforms are likely to take place rapidly and sufficiently for addressing the demand of the developing countries (Dix, 2015: 5). As stated earlier, loans without requirements, in the name of the principle of non-interference, on good governance and corruption control can be problematic.

6 Conclusion

The BRICS group's advocacy of horizontal, South-South solidarity as the foundation of the new institution's operation has offered a comforting rhetoric to many developing countries (Biswa, 2015). The NDB has been institutionalized as a partnership organization of equals among its founding members, where each BRICS member initially has an equal amount of capital subscription (US$10 billion). If this equality principal should persist, the NDB's capital in the future will be heavily determined by the weakest BRICS member, i.e., South Africa. Thus, unless this smallest BRICS member cannot manage to obtain funds – say, from other BRICS members – to cover the payment of

[34] A sober reminder is that the BRICS members' calls for modifications of voting rights of the Bretton woods institutions do not mean that they are willing to undermine them; instead, the countries have been instrumental in the process of keeping them alive (Stuenkel, 2015: 156).

its subscription, the new institution will remain too small – the disbursement of less than US$1 billion in 2016 – to make a serious difference.

In that event, one way to make the new institution large enough to matter is to encourage the participation of non-borrowers (major Northern powers), which will make it similar to existing multilateral development banks, arising the question as to why to reinvent the wheel. If the NDB should decide to eschew the option of large admission of non-borrower countries, then it would possibly have to compromise the principle of equality among the BRICS members, thereby letting China, the only one with the financial clout among them, to raise the capital base of the new institution. In that event, it is very likely that China – as the United States did for the World Bank in the 1940s and 1950s – will ask for more commensurate power in the institution's governance (Kapur and Raychaudhuri, 2014: 16).

The NDB will depend on international capital markets for sourcing loanable funds and on existing national and multilateral development organizations. Such operational technicalities will likely dampen its purported attractiveness as an alternative to the Western dominant Bretton Woods institutions. It is still yet to be seen to what extent the NDB can do away with conventional conditionalities, while it relies on existing institutions for co-financing operations. It is expected that the operational scale of the new institution will certainly grow, but it will be a slow and unsteady process. If the developing countries should perceive that the NDB fails in bringing in changes of wide-ranging effects in the international financial architecture, they would question the merit of reinventing the wheel. Even worse, they may even regard the NDB as a smokescreen to the advantage of the BRICS members – particularly China with overwhelming foreign reserves and active construction firms – to hide their acts of exploitation in fellow developing countries.

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