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DISCUSSION KICK-OFF

Will the BRICS Bank change the development world as we know it?

MARIANA MOTA PRADO — 2 July, 2014



This post inaugurates a new cooperation of Völkerrechtsblog with the journal “Verfassung und Recht in Übersee”/ “Law and Politics in Asia, Africa and Latin America”, the only law journal based in Germany dedicated exclusively to legal developments in the Global South. Authors from the current special issue on “New instruments in the law of development cooperation” discuss their arguments with respondents here on the blog. We start with the first article from this issue, “The BRICS Bank’s potential to challenge the field of development cooperation” by Mariana Mota Prado, followed by a response from Oliver Stuenkel.

The five fast-growing economies, known collectively as BRICS, have recently announced their intention to create their own development bank (see also here, here and here). The so-called BRICS Bank will be the first *world* multilateral development bank controlled solely by emerging economies. In our paper in the journal VRU, entitled “The BRICS Bank’s potential to challenge the field of development cooperation”, Fernanda Cimini and I ask whether the new bank has the potential to bypass the World Bank, destabilizing the current development finance framework. Our answer is: it depends on how it will operate. If we look at the existing practices in development finance, the BRICS Bank has at least three options:

1) Adopting the *current paradigm*, which is guided by institutional concerns. An example is the World Bank (IBRD), which tries to improve a country’s institutional framework by engaging in a process of creation of rules, norms, organizations and procedures that can directly or indirectly promote development.

2) Adopting a *compliant passiveness* type of operation, which, in contrast to the first one, has not actively engaged with an institutional agenda for development. An example is BNDES, the Brazilian Development Bank, which operates within the existing framework, forcing borrowers to follow existing rules and norms.

3) Adopting a *consistent pragmatism* type of operation. This is illustrated by the Chinese Development Banks (CDB and Exim Bank), which have actively engaged with institutions, but they have done so in rather creative ways, always driven by the goal of achieving the concrete objectives of the operation.

There are still uncertainties regarding how the BRICS Bank will operate. So, we do not know which of these three, if any, will be adopted. But these uncertainties should not stop us from speculating about the new bank and how it could change the development scene. In this speculative spirit, we could consider that the most significant change may come from the interaction of the BRICS Bank with the World Bank. In this interaction, there are the possible scenarios:

1) If the BRICS Bank adopts the agenda and modus operandi under the *current paradigm*, it will become a direct competitor of the World Bank, but it will not offer the risk of rupture with the field. This is not to say that the competition process between the two banks may not generate innovations in the field. On the contrary, the BRICS Bank, by becoming a competitor under the *current paradigm*, could be create incentives for the creation of innovative mechanisms of development finance that promote institutional reforms while addressing the problems that have reduced the effectiveness of World Bank mechanisms.

2) If the BRICS Bank adopts the *compliant passiveness* model, it would offer an alternative to the World Bank without directly challenging the *current paradigm*. However, by choosing this model, the BRICS Bank would not try to compete directly with the World Bank or to imitate its *modus operandis*. As a consequence, the incentives for innovation in finance mechanisms would be lower, as there would be less chances of the BRICS Bank's operation clashing with those proposed by the BRICS Bank. A possible outcome is a peaceful co-existence of the two institutions, or even a partnership.

3) If the BRICS Bank adopts the *consistently pragmatic* model, its operations will clash directly with the normative and operative structures of the World Bank. In this case, not only the World Bank will be “threatened”, but also will the organizations that have been pushing for the institutional turn in the field and a particular model of development. This *consistent pragmatism* may bring a refreshing blow of flexibility and effectiveness, generating a much-needed renovation of the entire field.

The table below summarizes the scenarios identified in the paper

World Bank	BRICS Bank	Dynamic	Possible Outcomes
Current Paradigm	Current Paradigm (Unlikely)	Direct Competition (with or without collaboration)	No rupture with the field Operational Innovation
Current Paradigm	Compliant Passiveness	Peaceful Coexistence without direct competition	No rupture with the field Possible partnership
Current Paradigm	Consistently Pragmatism	Tense Coexistence with no collaboration	Rupture with the field Potential structural innovation

In sum, independently of what kind of approach the BRICS Bank adopt, if it is indeed created, we are likely to see changes in the field of development cooperation in the near future. The impact of a new *world* multilateral development bank controlled by emerging countries goes beyond financial and political considerations. The BRICS Bank has the potential to call into question the basic normative and operational structures of the field of development and even

to provoke a rupture with the existing architecture. The intensity of such changes remains to be seen.

Oliver Stuenkel has written a [response](#) to this post.

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Tags: BRICS, Development Cooperation, Global South



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