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A New Development Bank, An Old Dream Coming True

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At the recent summit of major emerging economies called the BRICS (B for Brazil, R for Russia, I for India, C for China, and S for South Africa), they announced the establishment of a new development bank and fund, in order to have an alternative to the old-order World Bank and the IMF (International Monetary Fund). These institutions have served the world's financing needs, especially in the areas of development and crisis management, since post-war times.

The BRIC countries are known by this acronym thanks to Jim O'Neill of Goldman Sachs, who coined it in [November 2001](#). Originally, it was BRIC, not BRICS – and did not include South Africa.

For a longer while, however, the Western financial institutions were deemed inadequate from the perspective of the rising economies. The problem is that these institutions are by all means “Western”. The IMF and the World Bank, “sister” organizations, were established as parts of the Bretton Woods system after the Second World War, and are both located in Washington DC. The custom has been that a European heads the IMF (now it is [Christine Lagarde](#)), while an American heads the World Bank (now it is [Jim Yong Kim](#), originally from South Korea). This “tradition” has never been broken. It is indeed a paradox at a time when non-Western economies such as India or China play an ever increasing role not only in the world economy, but in diplomacy and military affairs as well. These countries have complained of their not increasing voting rights. There were changes, most notably in 2010, when China's [voting power](#) in the World Bank was increased so that it overtook the voting power of some of the European countries. But the move to establish new financial institutions suggests that appetites of the BRICS have grown even further.

From many perspectives, it was long overdue for these countries to demand a greater say in world affairs. While they might not find it easy to fight some entrenched ideas, such as who are the presidents of the Bretton Woods institutions, these emerging economies have cash in abundance. They are able, therefore, to go beyond critique of the old order and move to the point where they can call the shots.

This is the story of the New Development Bank (NDB). Its establishment was announced by Brazil's President Dilma Rosseff at the [BRICS summit in Fortaleza](#) in Brazil on 15 July 2014. The new development bank and the reserve fund will have capital of [\\$100 billion](#). The bank will be located in Shanghai, China, and its first president will be from India. In the official statement, the reasons for establishing the bank are said to be connected to financing deficient infrastructure, so in principle complementing the activities of the World Bank and the IMF. If we had no possibility to recall the criticism that emerging countries of the East and of Latin America had towards global financial institutions, then we may well accept this logic. But the truth is that for a very long time countries such as China have complained that these existing institutions did not reflect their rising share in the global economy.

From this point of view, it is natural that a group of emerging economies has decided to launch its own financial institutions. Yet, the meaning of this step is that things have changed in the emerging world: it stopped to focus on criticism of the Western predominance in world affairs, and moved towards creating a new order.

True, there is the Asian Development Bank (ADB), established in the 1960s. It is located in the Philippines (a developing country), but its president has always been a national of Japan. From the perspective of the BRICS group, Japan is a developed economy and in a sense it is thus part of the Western governance. The New Development Bank, then, highlights the importance of China, with the location of its headquarters in Shanghai. It also opens the possibility for nationals of the BRICS to head the bank, without restrictions posed by the World Bank, the IMF, and even the Asian Development Bank.

From this perspective, the initiative of the NDB and the emergency reserve fund is a big success of the emerging economies. For the first time, they did not limit themselves to critique, but came with tangible results. In the not-so-distant past, such bold steps would have been unthinkable. This is a signal of a growing independence of the emerging world, represented by its most vibrant members, the BRICS. This is a signal of a growing independence of the emerging world, represented by its most

vibrant members, the BRICS. An old dream of influencing the world of global finance has come true for the BRICS. It is hard to say at this point whether the practical significance of the BRICS bank will live up to the expectations. In any case, the NDB has become a symbol of the emerging economies' action towards re-negotiating the pillars of the financial world order.

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