PONTIFÍCIA UNIVERSIDADE CATÓLICA
DO RIO DE JANEIRO

Clarice Frazão Alexandre

Emerging Countries in the post-2008 crisis:

Filling the gap in financing for development

Dissertação de Mestrado

Thesis presented to the Programa de Pós-Graduação em Relações Internacionais do Instituto de Relações Internacionais, PUC-Rio, as a partial fulfilment of requirements for the degree of Mestre em Relações Internacionais.

Advisor: Prof. Andrea Hoffmann

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Abstract

Alexandre, Clarice Frazão; Hoffmann, Andrea (Advisor). **Emerging Countries in the post-2008 crisis: filling the gap in financing for development**. Rio de Janeiro, 2017. 108p. Dissertação de Mestrado– Instituto de Reações Internacionais, Pontifícia Universidade Católica do Rio de Janeiro.

After the 2008 financial and economic crises, emerging countries channeled their newly found economic resilience into political leverage. Traditional institutions created after World War II, particularly those in the economic and financial spheres, which were no longer representative of the new economic setting, would be questioned by emerging economies. China, India, Brazil, Russia and South Africa (the BRICS) have championed reforms to the institutional structure of the liberal world order, which have not been entirely met. This dissertation aims to shed light on the engagement of emerging countries in world order after the 2008 crisis, particularly in the economic and financial global governance. The main argument is that emerging countries have, since the 2008 crisis, been articulating ways to impact the current liberal world order as captured by the concept of 'multiplex world', developed by Amitav Acharya (2014, 2017). Along the analyses of the current greater role of developing countries in world order, through a discussion of the new found role of forums such as the G20 and the creation of groups such as the BRICS', the dissertation will focus on two case studies: (i) the creation of the New Development Bank, in 2014 by the Brazil, Russia, India, China and South Africa, and; (ii) the creation of the Asian Infrastructure Investment Bank, in 2015 fostered by China.

Keywords

Global order; multilateralism; BRICS; New Development Bank; Asian Infrastructure Investment Bank

Resumo

Alexandre, Clarice Frazão; Hoffmann, Andrea (Orientadora). **Países Emergentes no Pós-Crise de 2008: investimentos em financiamento para o desenvolvimento**. Rio de Janeiro, 2017. 108p. Dissertação de Mestrado - Instituto de Relações Internacionais, Pontifícia Universidade Católica do Rio de Janeiro.

Após a crise financeira e econômica de 2008, países emergentes buscaram traduzir seu novo peso econômico em influência política. Instituições tradicionais criadas após a II Guerra Mundial, em particular nas esferas econômicas e financeiras, não mais representativas do cenário econômico mundial, seriam questionadas por economias emergentes. China, Índia, Brasil, Rússia e África do Sul (os BRICS) defenderam a adoção de reformas à estrutura institucional da ordem mundial liberal, as quais não foram totalmente alcançadas. Essa dissertação analisa o engajamento dos países emergentes a ordem mundial após a crise de 2008, particularmente em relação à governança econômica e financeira. O argumento central baseia-se na percepção de que países emergentes vêm, desde a crise de 2008, articulando maneiras de impactar a atual ordem liberal mundial, como compreendido pelo conceito de "mundo multiplex", desenvolvido por Amitav Acharya (2014; 2017). Ao longo da análise da nova posição dos países emergentes na ordem mundial, por meio de uma discussão do fortalecimento do seu papel em fóruns como o G20 e a criação de grupos como o do BRICS, essa dissertação tratará de dois estudos de caso: (i) a criação do Novo Banco de Desenvolvimento, em 2014, por Brasil, Rússia, Índia, China e África do Sul, e; (ii) a criação do Banco Asiático de Infraestrutura e Investimento, em 2015, por iniciativa da China.

Palavras-chave

Ordem global; multilateralismo; BRICs; Novo Banco de Desenvolvimento; Banco Asiático de Infraestrutura e Investimento.

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1. Introduction

After the 2008 financial and economic crisis, emerging countries channeled their newly found economic resilience into political leverage. Institutions that were created after World War II, particularly those in the economic and financial spheres, would be questioned by new heavyweights. Countries like China, India, Brazil, Russia and South Africa (the BRICS), as well as other emerging economies, have challenged key aspects of the institutional structure of the liberal world order which conveys shifts in the current distribution of power. For multilateral institutions, such realignment must be embedded in new workings of the system that should display this new reality (CHIN; THAKUR, 2010:119).

This dissertation thesis aims to shed light in the engagement of emerging countries in world order after the 2008 crisis, particularly in the economic and financial global governance. The crisis triggered by developed countries translated into spatial and political momentum gained by developing countries that have, at the same time, significantly increased their weight in global GDP growth (GRIFFITH-JONES, 2014). No longer would the G7 be able to take upon themselves to foster a solution to such stark setting without bringing in developing countries that were at the same time seeking greater voice and participation to meet their current economic status. The meeting of the G20 at the level of Heads of States and Government was the first clear indicator that developing countries had a wider role to play in world governance. The crisis brought about a 'development emergency' (WORLD BANK, 2009; WOODS, 2010:52) that the IMF and the World Bank, the traditional Bretton Woods institutions, were unable to meet.

We argue that emerging countries have, since the 2008 crisis, been articulating ways in which to impact the current liberal world order. In the commercial system, developing countries have had great impact in the deadlock of the Doha Round in 2009, however were still unable to push forth a common agenda. The financial system was where such countries would find greater articulated voice. Having found deep resistance by developed states to reform traditional institutions, they managed to find common ground on their deep need to focus the development agenda around financing for infrastructure. Such perception unraveled into concrete reality with the creation of two new financial institutions. For such analytical work, we turn to the academic literature on world order from Liberal Institutionalism and Neorealism, much inserted in the neo-neo debate, based on writings of John Ikenberry (2009; 2010; 2013; 2015), Amitav Acharya (2014, 2017), Bhattacharya and Romani (2013), Romani and Stern (2014), Stephany Griffith-Jones (2014; 2015) and Oliver Stuenkel (2016; 2017), amongst others.

Along the analyses of this current greater participation of developing countries in world order, through a discussion of the new found role of institutions such as the G20 and the creation of groups such as the BRICS', the dissertation will focus on the analyses of two case studies: (i) the creation of the New Development Bank, in 2014 by the Brazil, Russia, India, China and South Africa, the BRICS'; (ii) the creation of the Asian Infrastructure Investment Bank – AIIB. The literature for the case studies relies on primary and secondary sources including official documents and two interviews (LILLEKER, 2003; VENNESSON, 2012). We argue that both initiatives are empirical evidence of emerging countries seeking to widen their participation in global governance and impact world financial architecture so as to adapt it to specific demands in financing for infrastructure in developing countries which have thus far not been properly addressed.

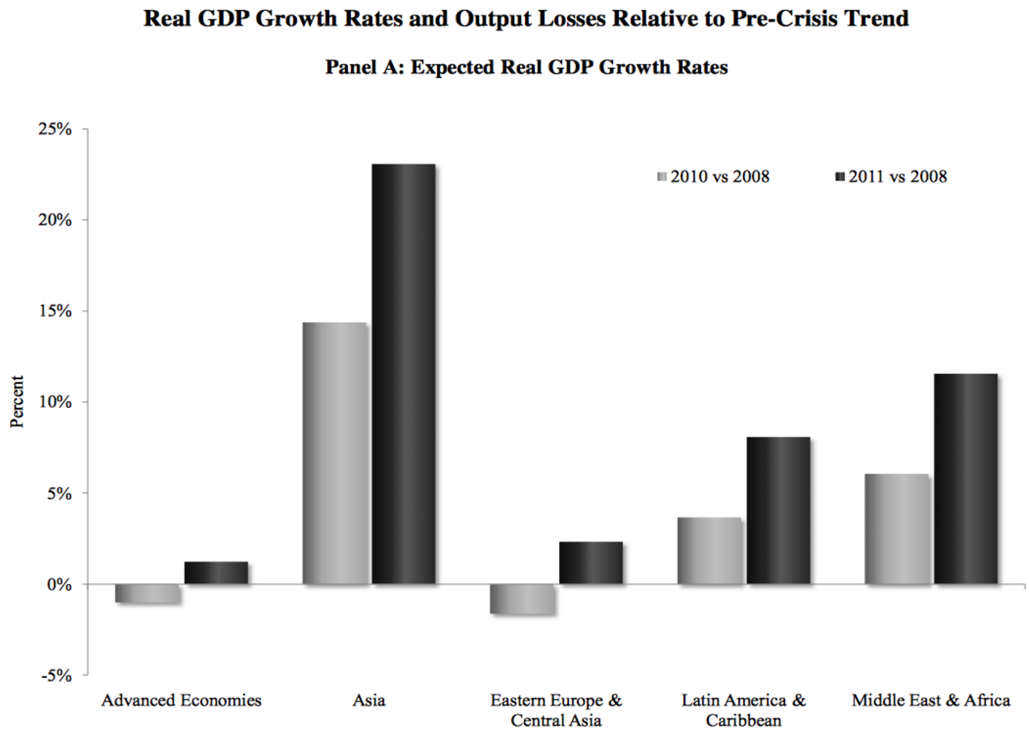
2. The Liberal Order in the XXI century: emerging countries in the post-2008 crisis

What came to be known as the ‘2008 financial crises’ was felt worldwide with different impact amongst developed and developing countries. Economists might agree that the bulk of the crisis has been largely overcome by now, almost seven years later. Nevertheless, no one would cast any doubt on the amplified effects that still linger on from its impact on the international economy. Until 2008, whenever someone would evoke an example of a major financial crisis, the fatidic events of the crash of 1929 would immediately arise in the debate. It would surely be described by many as something of a rookie mistake by capitalists amateurs, never to be relived. Although a number of other significant crises have occurred since then – such as the Asian crisis of 1997 – never had they had the magnitude of the 1929 crash. But then, it came 2008.

The financial crisis brought about major power shifts worldwide. Someone born around the late 80’s, or part of the millennium generation, live in a world that would be unthinkable a generation earlier. It is a world in which major powers face financial ailments. A world in which almost every topic on the global agenda will necessarily and increasingly reflect the interests and priorities of “emerging countries”. A world where not all Americans think they are still ‘number one’ or that they are likely to remain so. A world where the locus of financial resilience to the crisis was found in the South and a world in which there is a new major dragon power reshaping the world order.

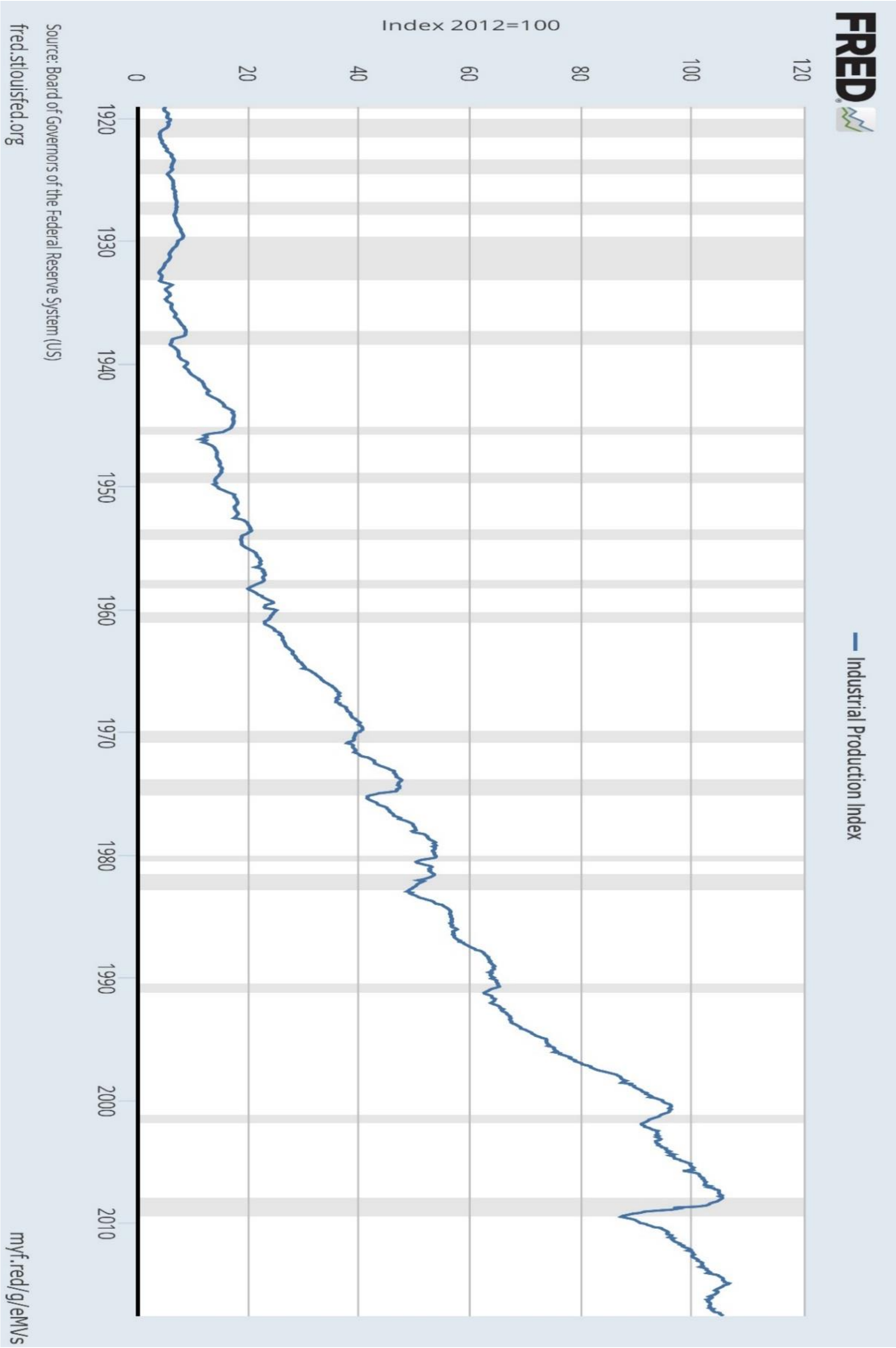
While it is true that during the crisis real GDP declined in all regions of the world (DIDIER et al., 2011:9), emerging economies performed considerably better in the aftermath of the recession. They strikingly “resumed their high growth rates, instead of being driven solely by the rich countries, as was the case in previous global crises" (DIDIER et al., 2011:11). This relatively better performance was particularly visible in those emerging countries with considerable fiscal space for counter-cyclical policies (IMF, 2010:17). The result has been that emerging economies were the real engines of the recovery from the crisis, performing better in terms of GDP growth (see figure 1, below), industrial production (see figure 2, below) and output and job creation. This has been especially true in Latin America and Asia, which "compensated for the fall in their export revenues through the implementation of effective countercyclical policies (…). The result is that the crisis was short-lived in those regions" (ILO, 2011:2).

Figure 1: Real GDP Growth Rates and Output Losses Relative to Pre-Crisis Trend



Source: Didier et al (2014)

Figure 2: Industrial Production Index (2008)



Source: Board of Governors of the Federal Reserve System (US), Industrial Production Index [INDPRO], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/INDPRO, September 10, 2017.

These developments have broader implications to economic and financial governance and to global governance altogether. Old players now sit at the table with newly found weight with which to play their cards. How to bring them in and make international institutions more representative will be one of the key conundrums international society faces in the years ahead. As the world watches the relative decline of American hegemony, the international liberal order thus far led by the perception of the United States as the only major power is challenged by open, still unanswered questions. Alongside the US, China rises as the main stakeholder.

Other major economies from the developing world were also admitted to the club. Few international initiatives epitomize more clearly this breath of fresh air into the world order as the November 2008 G20 Summit in Washington. In the wake of the crisis, then President George W. Bush did not resort to the old alliances of the past. Rather, the US turned to a group of finance ministers and central bank governors, created in 1999 and, until then, largely unknown and somewhat obscure. The G20 met, for the first time, at the level of Heads of State and Government. Key economic and financial decisions at the international level as a response to the crisis would be decided in a group that included Argentina, Brazil, Mexico, India, Indonesia, Russia, Saudi Arabia, South Africa and Turkey.

It would soon become clear that these new players did not simply bring to the table new chips to bet and play. They were willing to change the rules of the game. In the World Trade Organization, another G20 had changed the course of trade negotiations in agriculture. The heads of state of the BRICS countries would meet for the first time. A reform of the Bretton Woods institutions, sought by emerging countries, would be agreed upon – only to be frustrated by the US, which failed to ratify it. The BRICS would then create the NDB and China would be the force behind the AIIB. It was a sign that the liberal world order was lacking legitimacy and representativeness to the “new kids on the block. Financing infrastructure is but one example where shortcomings were identified and one area in which emerging countries felt the need to change the rules.

Since the end of World War II, the West as a whole, and the US in particular, have had a privileged position in fostering institutions that best aligned with the idea of a liberal world order. In this chapter, we aim to elucidate how the Western Liberal World Order came about, the principles upon which that order is based, the changes that the rise of emerging countries entail for that order. The dissertation aims to explore institutional changes promoted by developing countries and rests largely upon the perspective of liberal and liberal institutionalism writings.

2.1. Liberalism

The critique of the order by emerging countries is a critique of a liberal order and its institutions. In this part of the dissertation, the principles of liberalism will be described – principles that are important to understanding the foundations of the liberal order. Then, the tension between liberty and equality that liberalism encompasses will be explored – a tension which is helpful to understand the critique to the liberal order that led emerging countries now bring forth.

2.1.2. Principles of liberalism

Since the end of the First World War, liberal theory gained prominence in the field of international relations. The liberal tradition challenged realist assumptions based on determinate and immutable characters of world inter-states relations. President Woodrow Wilson played a major role in fostering ideas at the core of the liberal order, championing cooperation in inter-state relations, democracy and the rule of law for upholding lasting peace among nations. While searching for answers on how to guarantee peace in the global order, liberal theory is based on the belief that “promoting freedom will produce peace” (DOYLE, 1997:205). The association between liberty and peace and its mechanisms of co-production are often brought to light in liberal writings on world peace, not only in its defense but also in its critique. The linkage was first elaborated by Immanuel Kant in 1795. In Kant’s classic book “Perpetual Peace”, he proposes a correlation between maintaining peace and the coexistence of republican states, and the uncertainties involved in an alternative combination.

Bringing back Kant’s writings to the center stage, Doyle presents a reevaluation of the Kantian perspective, largely upholding his view. Doyle stresses that democratic states work to disarm the security dilemma aiming to promote the maximization of economic welfare (DOYLE *apud* STUENKEL, 2013:340). According to Doyle (1986): “liberal states, founded on such individual rights as equality before the law, free speech and other civil liberties, private property, and elected representation are fundamentally against war" (DOYLE, 1986:1551). This understanding implies a basic explanation, that whenever leaders are elected by the people and depend upon this mutual feeding of interests to remain in office, the decision to go to war is made deeply graver, once it is taken by those directly affected by it. (DOYLE, 1986).

In contrast with this liberal view, realists seek to emphasize the role played by states' interests when calculating the gains *versus* the costs of promoting democracy. The core element in this equation is weighed in economic terms. Realists argue that states will uphold a democratic international system based on interdependence and work for democracy promotion only as long as it is in convergence with their economic interests. From this perspective, realists argue that "the US promotes democracy because democracies are more likely to trade with it and integrate into the US-led global system (…) Democracy promotion has thus been a US tool to legitimize its hegemony" (STUENKEL, 2013:340).

The liberal perspective on upholding peace in the world order in the economic field is deeply intertwined with the writings and political views of John Locke and Adam Smith, amongst others. They advocate for greater commercial liberty among nations and the guarantee of individual rights and private property. Ever since the nineteenth century, both British and American thought were dominated by classical liberalism and its belief that free trade worked as an antidote to war. Such was the view of free traders like Richard Cobden, who believed Europe would benefit most from upholding peace and trading freely than enduring the burdens of war (NYE, 2003:43). In an often-quoted formulation by Norman Angell in The Great Illusion of 1910, war had become "too expensive" for states, which would rather benefit from free trade. Similarly, liberalism advanced that modern modes of economic exchange could enhance the possibilities of social order (HURRELL, 2007:104).

Thus, by seeking greater economic advantage, individuals would come to uphold peace, if not for its own virtue, for economic reasons and self-interest. As Hurrell eloquently states: "the market, after all, embodies that aspect of social life in which the idea of a spontaneous order driven by notions of self-interest has long appeared most viable and most natural" (HURRELL, 2007:104).

Liberal individualism and liberal commercialism are key components of this perspective, based on Locke's view, which held individualism as "a government of free individuals defending law and property" and "producing material incentives that promote peace" (DOYLE; IKENBERRY, 1997:11). In this sense, Hurrell points out that liberals argue that economic liberalization and increasing levels of interdependence can promote peace in two ways: "first, at the state level, by affecting material incentives and by pressing governments towards new forms of institutionalized cooperation" – as well as "by promoting increased societal integration which will lead social groups and political actors to develop new conceptions of interest, community and identity" (HURRELL, 2007:538).

While it might be true that these "new forms of institutionalized cooperation" and "increased societal integration" make war less likely, they should not be seen as free from tension. The liberal order promotes greater economic interdependence, but it is guided by the principles defined in a US-led process of institutionalization of the world order that reflect its priorities and political choices – free market to uphold peace. *Laissez-faire* liberalism disregards other principles that are key to emerging economies – principles of distributive justice and equality, which form the basis of the critique to the current order.

2.2. The criticism of *laissez-faire* liberalism: state and equality enter the stage

Questions of justice and equality are at the forefront of the post-2008 critique of the world order. The international discourse of emerging economies has time and again relied on addressing shortcomings which are in the realm of the "unfair", "unequal" – or, more concretely, of constraints to the role of the state. Financing the infrastructure gap is no exception. In this part, a schematic overview of the tensions within liberal legal theory will be presented.

After World War II, limitations of *laissez-faire* liberalism would soon be apparent in the dichotomy free market *versus* state intervention in the economy. Opposition to liberalism in its purely permissive form grew in the post-war context as social domestic need for welfare policies were urgently necessary to soften the effects of economic depression and the social consequences of the war. As Ruggie states: "the task of post-war institutional reconstruction (…) was to maneuver between these two extremes (Left and Right) and to devise a framework which would safeguard and even aid the quest for domestic stability" (RUGGIE, 1982:393). The principle of liberalization was put to the test with the emergence of the welfare state. This phenomenon was encapsulated in the concept of "*embedded liberalism*":

> This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic intervention (RUGGIE, 1982:393).

Liberalism rests upon a threefold set of rights: freedom from arbitrary authority, called negative freedom; positive freedom; and, finally, freedom of democratic participation and equality before the law (DOYLE, 1997). Doyle explains the contradictions held within this triad and the constant need for balance-seeking: "in order to protect the opportunity of the citizen to exercise freedom, *laissez-faire* liberalism has leaned toward a highly constrained role for the state and a much wider role for private property and the market", and at the same time, "in order to promote the opportunity of the citizen to exercise freedom, welfare Liberalism has expanded the role of the state and constricted the role of the market" (DOYLE, 1997:207).

Liberalism's belief in the freedom of the individual to pursue his own interests generates at the same time questions of *fairness* and *justice* that are of key importance in a context of rising global inequalities. Classical political economy, as well as classical and neoclassical liberalism, mainly advocated individual rights in negative terms. John Rapley elucidates that the focus on negative freedom over positive freedom in the neoclassical liberal order produces inequalities (RAPLEY, 1996:15-16). Rapley states that:

> The other important feature of classical political economy was its conception of citizens' rights, defense of which was the state's task. Classical political economy, along with classical and neoclassical liberalism, conceived of individual rights in negative terms. Citizens enjoyed certain liberties from coercion, such as freedom to practice religion, trade, and economic enterprise, and these could not be violated by either the state or other individuals. Citizens did not, however, possess positive rights, that is, rights to something, such as employment, housing, education, and the like. This conception of rights emerged only with the development of modern liberalism, and has always been rejected by neoclassical thinkers. To the latter, freedom has always meant simply freedom from physical restrictions imposed by another person or by the state. **The price of this negative freedom is inequality:** because people have different aptitudes, endowments, and inheritances, some will prosper and others will not (RAPLEY, 1996:15-16).

There is a myriad of different perspectives and arguments concerning liberalism's view on equality. Amartya Sen, in Inequality Reexamined (1992), makes reference to the plurality of perspectives that can be distinguished within the subject: “a whole class of theories varying from utilitarianism, and libertarianism to the Rawlsian theory of justice as fairness” (SEN, 1992). Sen’s endeavor to tackle the issue of equality brings forth a line of reasoning that follows the nuances perceived on the possibilities of answers to the question: “equality of what?” As he argues, equality seems to be a “common feature in disputes in political philosophy”, as it figures prominently in the contributions of Rawls (equal liberty and equality in the distribution of 'primary goods') and Dworkin ('treatment as equals', 'equality of resources') (SEN, 1992:12); whereas “Robert Nozick may demand equality of utility or equality of holdings of primary goods, but he does demand equality of libertarian rights—no one has any more right to liberty than anyone else” (SEN, 1992:13).

One of the most influential views on equality comes from John Rawls’ “Theory of Justice” (1971). Rawls’ contractualist vision holds that, in an original situation, individuals find themselves in a position of equity, in which none disposes of more goods or rights than another. According to his theory of “justice as fairness”, right is the starting point: in justice as fairness the concept of right is prior to good” (RAWLS, 1971:42). The initial situation for Rawls is one in which the good does not exist, since the rights have not been established by society, creating a situation of equality. Having not been made aware of which goods they will have at their disposal, individuals are covered by a veil of ignorance, which places them in a position of initial equality.

At this point, Ronald Dworkin’s (1978) take on liberalism, comes close to the Rawlsian view. Dworkin shares Rawls starting point of equality, creating an image of an auction, which came to be known as “Dworkin’s auction”, in which all individuals participate in a similar position prior to exercising their preferences for specific goods in the face of others. From this perspective, inequalities would be the result of the individual liberty being exercised through choices in a private sphere.

A different approach would be to search for equality not in terms of rights and goods, but in terms of equal conditions for exercising freedom. Sen defends the need to shed light over an individual’s capacity to pursue his own conceptions of primary goods. Sen argues that two people that dispose of the same pool of primary goods may have different liberties to pursue their own conception of goods. Thus, the author goes on, "to judge equality in the space of primary goods amounts to giving priority to the means of freedom over any assessment of the extents of freedom" (SEN, 1992:8).

Individual differences take a recurring place in Sen's (1992) argument. This position contradicts the utilitarian view on equality, held by economists like Bentham, who defend the maximization of the sum of all individuals' utilities in a given society, not taking under account the way in which this distribution takes places between them: the loss of one's utility might be overcome by a gain in another's. Thus, this account does not consider inequalities between individuals but only the total utility, understood as the search or satisfaction of elected goods. In this sense, utilitarian authors position themselves against distributive justice policies.

Against this utilitarian view, Sen argues that: "being egalitarian is not really a uniting feature", since "there are such substantive differences between the endorsement of different spaces in which equality is recommended by different authors that the basic similarity between them is far from transparent" (SEN, 1992:14).

In the pendulum between equality and liberty, libertarian theorists tend to the defense of liberty as the maximum good, as they argue that individual choices are to be considered the reason for inequality. Furthermore, individual liberty would be hindered were society to seek to guarantee equality amongst individuals at different spheres. This perspective, which tends to an economically biased analysis in defense of free market and minimum state, is the one hold by Friedrich Hayek, in "The Constitution of Liberty" (1960), and Robert Nozick, in "Anarchy, State and Utopia" (1974). In the libertarian view, the search for liberty's aim is equality before the law. As Hayek argues: "[e]quality of the general rules of law and conduct, however, is the only kind of equality conducive to liberty and the only equality which we can secure without destroying liberty" (HAYEK, 1960:80).

Therefore, the libertarian perspective does not open the possibility for the coexistence between liberty and equality. Distributive justice policies are viewed as a challenge to the right to liberty. Inequality would be a natural consequence of liberty and viewed as "the necessary result, part of the justification of individual liberty: if the result of individual liberty did not demonstrate that some manners of living are more successful than others, much of the case for it would vanish" (HAYEK, 1960:80).

In a scenario in which redistributive policies are to be applied, who should be the one to undertake the responsibility of establishing goods for distribution and the patterns of distribution to be applied? Any redistribution policy should be, in Nozick's libertarian view, a set of patterns socially established: "almost every suggested principle of distributive justice is patterned: to each according to his moral merit, or needs, or marginal product, or how hard he tries, or the weighted sum of the foregoing, and so on" (NOZICK, 1974:112). Nozick criticizes the establishment of patterns of distribution of goods to individuals according to their moral assessment, instead of the distribution according to merit: "Hayek argues that we cannot know enough about each person's situation to distribute to each according to his moral merit (but would justice demand we do so if we did have this knowledge?)" (NOZICK, 1974:113).

There is at this point convergence between Nozick's, Hayek's and Rawls' positions in relation to the gauging of individuals' moral valuations based on redistributive policies. According to Rawls, the evaluating principle which he deems a "moral desert" would not be chosen as a valid principle in the "original moment" when celebrating the social contract: "the principles of justice that regulate the basic structure and specify the duties and obligations of individuals do not mention moral desert, and there is no tendency for distributive shares to correspond to it" (RAWLS, 1971:44).

Rawls can be subject to criticism in the sense that he considers liberty to be central to political order, nationally and internationally and should not be sacrificed in the name of equality. As he states: "The crucial point is that the role of the duty of assistance is to assist burdened societies to become full members of Society of Peoples and to be able to determine the path of their own future for themselves" (RAWLS, 1971:118). But if he stands accused of being indifferent to the sufferings of the people in the global south, Drucilla Cornell (2004) argues that, instead, he establishes guidelines to "help us in providing assistance so that all societies would be able to meet the basic needs of their peoples and secure their human rights" (CORNELL, 2004:57; see also: PAROLA, 2007:321).

We highlight the first guideline, which concerns the just saving principle within 'A Theory of Justice', which aims to impose limits in consumption, and the use of capital and natural resources. But in considering this, Rawls is challenging the idea that, as Cornell explains, “efficiency in the form of achievement of the greatest possible development of the gross national product can or should be imposed on societies by the US which largely controls (…) the IMF and the World Bank” (CORNELL, 200:457; see also: PAROLA, 2007:322). Both are institutions known for imposing structural adjustments which can curtail fundamental funding for social services as a way as saving for direct investment in development in terms of gross national product growth. Nevertheless, “Rawls’ position challenges that of mainstream development economics, which argues that all societies must adopt the Western capitalist model of economic growth if they are to flourish” (CORNELL, 2004:57; PAROLA, 2007:322), showing great concern with economic and cultural coerciveness that can be embedded in assistance in term of Western liberal values.

These theoretical controversies have concrete translations in international relations. The uneasiness with the current order by emerging countries is largely based on arguments for distributive justice and equality. For these countries, the world order is unsatisfactory because of its asymmetries, because it lacks true equality, because it crystallizes hegemonies and because it fails to address the gap between the rich and the poor.

Parola underlines the tendency of Brazilian foreign policy to denounce an unfair international order, concentrating arguments in the realm of the “justice” and “equality”, rather than in realist assumptions. For example, former President Luis Inácio Lula da Silva, in his inauguration address in 2003, stressed that “democratization of international relations without hegemonies of any kind is as important to the future of humanity as the consolidation and development of democracy within each country” (Parola, 2007:420). Also in his inauguration, former Foreign Minister Celso Amorim elaborated on the President’s remarks by saying that “Brazil will have a foreign policy devoted to development and peace, which will seek to reduce the gap between rich and poor nations, promote the respect for the equality among nations and the effective democratization of the international system.” (PAROLA, 2007:422).

The same logic applies to the world economic order. President Lula, when explaining why he decided to attend the WEF in Davos, said:

> I want to go to Davos because it is not possible to continue with an economic order in which few people can eat five times a day and many spend five days without eating on this Planet. Tell them that we need a new world economic order, in which the result of wealth will be distributed in a fairer way, so that poor countries have an opportunity to be less poor (LULA *apud* PAROLA, 2007:424).

Brazil was not isolated in its critique. Former Indian Prime-Minister, Manmohan Singh, complained in 2013 before the UN General Assembly that the benefits of globalization "have not been equitably distributed. Ensuring inclusive growth within nations and inclusive globalization across nations is a central challenge that faces us". Singh also pointed to the shortcomings of the economic order to deal with a scenario of crisis: "the explosion of financial innovation unaccompanied by credible systemic regulation has made the financial system vulnerable. (…) Unfortunately, solemn commitments made for the transfer of financial resources from the developed to the developing world have remained largely unfulfilled." Another example of such lineage of critiques comes from President Recep Tayyip Erdogan of Turkey. In the aftermath of the crisis, in 2009, at the opening of the UN General Assembly, Erdogan called for a "fair and inclusive global order" which sees "diversity as a source of richness" and is able to face the serious challenges of the time.

In sum, the principles of the *laissez-faire* liberal order – free market, individual rights, democracy – would need to be reconciled with concerns of justice and equality. In the next section, the evolution of the liberal order and its institutions will be discussed.

2.3. The Formation of the Western Liberal World Order: institutionalizing order

The current framework of institutions upholding international relations today has been unfolding for the last two centuries, bound by the evolution of liberal principles in world politics and global governance as a setting for international society (DUNNE, FLOCKHART, KOIVISTO, 2013:1). In the XIX century, Britain held a wider role in leadership in what we consider to be the beginning of what is currently deemed as 'governance' in world order. The European Concert held in 1815 is, according to John Ikenberry, arguably the first organized multilateral system of global governance. The Concert established an 'institutional structure' to regulate an amplified commitment to maintaining peace and stability in

European geopolitics which was a new trait in international relations. From this commitment to upholding peace, a multilateral security order was established, thus “creating a ‘network of ideas’ different from that of the XVIII century balance of power” (IKENBERRY, 2015:403).

British power in the XIX century can be very loosely compared to the position America holds in the XXI century, facing similar obstacles as Britain did for being the only true key global player at the time. The British Empire once accounted for a quarter of the earth’s land surface and included a quarter of its population, disposing of a large number of colonies under its control, and a vast line of ocean cables which facilitated global communications. British soft power helped spread the English language globally as well as its culture, values and even its literature, with names such as Shakespeare, Sherlock Holmes and Lewis Caroll acquiring fame worldwide (ZAKARIA, 2012:186).

Britain’s descent, for many scholars, can be traced back to the United Kingdom’s involvement in the Boers War. The war broke out in 1899 and the United Kingdom intervened to defend the rights of South African English-speaking people, who were being treated as second-class citizens by the Boers, the Dutch ruling migrants. The Boers were largely outnumbered and eventually Britain’s troops held about 450,000 fighters in southern Africa against around 45,000 Boer fighters, who in that manner were still able to hold back the British in a prolonged battle that lasted until 1902, with British victory. Nevertheless, the losses in the British army and economy were so staggering and unexpected that its victory can hardly be accounted for as such. Around 45,000 British men died, the economy suffered as a result of a spending of half a billion pounds, and British image and reputation were tarnished before the rest of the world[1] (ZAKARIA, 2012:189).

Although Britain’s apogee relates to a period between 1845 and 1870, at the time of World War I, its power remained unchallenged in banking, shipping, insurance and investments. London was still the center of global finance and the pound was still the reserve currency of the world (ZAKARIA, 2012). The War would significantly alter that because it took the belligerents out of the world economy and set them into heavy protracted battle. A new empowered player which had thus far kept its distance from world economy – the US – would be left

[1] Zakaria stresses that the reference to the Boers War can be applied as a direct analogy to the US

to comfortably fit into the remaining void (FRIEDEN, 2006). In 1913, it had become the world's largest economy, accounting for more than one third of global industrial production, almost the same as Germany, Great Britain and France combined (HOBSBAWM, 1994).

Having suffered great economic and financial setbacks during the War, European powers turned to the US not only for economic and financial leaderships, which it held at the time, but also for diplomatic guidance (FRIEDEN, 2006). President Woodrow Wilson thus held a key position in negotiating the terms of the peace treaty at the Paris Peace Conference. Wilson's 14 Points Plan intended to be the foundation for what he envisioned as the outline for a liberal international world order. Among its core principles were open trade, Westphalian state sovereignty, national self-determination, and a belief in progressive global change built around liberal democratic states that respected the rule of law (IKENBERRY, 2015).

What can be understood as a first effort to build a Western liberal world order is referenced by Ikenberry as the 'Liberal international order 1.0'. One of its main aspects was its collective security system, the League of Nations, which was also designed to offer mechanisms for dispute resolution, protection of borders and aggression deterrence (IKENBERRY, 2015:28). Hierarchy amongst states was not to be a main feature of the Wilsonian-era liberal internationalism. The League predicted equality and no special voting rights for great powers. Hierarchies appeared from a progressive developmental vision. They stemmed from notions of racial and civilizational superiority. They were also apparent in the mandates for supervision of post-colonial territories. Theses hierarchies did exist, but were supposed to increasingly disappear, as "there was an underlying assumption that the international system was modernizing in a liberal direction" (IKENBERRY, 2015:31).

From an economic perspective, Wilson's vision for a liberal order was similar to the British classic liberal vision – free trade, cooperation amongst creditors and gold standard -, in accordance with its increasing role in the global economy, which was previously held by Britain. Wilson had a clear perception of the importance of being in charge of financing the world, and in the key position in which it placed the US in designing that order (FRIEDEN, 2006). Nevertheless, the order based on Wilson's vision did not enjoy the support of the US Senate.

Amongst the major points of disagreement were the implementation of the League of Nations, as it had been envisioned by Wilson, and the extent of the commitment with open markets. The liberal international order 1.0 was never fully implemented[2] (IKENBERRY, 2015).

2.4. The Liberal International Order 2.0 and its institutions

The liberal international order was not designed behind a Rawlsian veil of ignorance, benefiting Western powers at the pillar of its structure. The Liberal Order that emerged from the end of World War II to our present day was brought about by institutions spearheaded in no small part by the United States, namely the United Nations, the GATT – the General Agreement on Trade and Tariffs, which gave way to the WTO – the World Trade Organization, and the IMF – the International Monetary Fund. After World War II, the US was once again faced with the opportunity to be the frontrunner at designing global order.

With a more realist character, what Ikenberry calls 'liberal internationalism order 2.0' had to undertake challenges such as rebuilding Europe, integrating Germany and Japan, opening markets, providing security, containing communism. An institutional framework was offered by commitments made at wartime conferences. Decisions made at the Bretton Woods Conference had ample and lasting effects on economic and financial order worldwide. Roosevelt's version of liberal order was more hierarchical than Wilson's and put the US in a key position for directing political and economic management of the system. 'Liberal internationalism order 2.0' was built as an American-led, hegemonic order, as "the United States became a provider of public goods – upholding a set of rules and institutions that circumscribed how American power was exercised and providing mechanisms for reciprocal political influence" (IKENBERRY, 2015:33-34).

American hegemony was constructed based on agreed upon rules and institutions which evolved during the 1940s with deeper appreciation for the need for cooperation to manage trade, finance, and security relations between states constructing an institutionalized global environment. A newly found relevance was required for institutions as they were increasingly able to provide functional tools

[2] Ikenberry goes on to argue that, at the moment, the world is experiencing a crisis of the model he deems 'Liberalism 2.0', and moving towards a new version of the liberal order, which is still unfolding alongside a crisis in US leadership (IKENBERRY, 2015).

for the system that was taking place. Rules were not merely agreed upon but negotiated with varying amplitude depending on states hierarchy (IKENBERRY, 2015:37-38).

After World War II, liberal theories gave way to realist thinking and would only later resurface with the increase of transnational economic interdependence and the momentum gathered by the booming flow of communications, trade and finance worldwide. However, increasing interdependence stimulated a revival of liberal theories, especially the study of the role of institutions (NYE, 2003:44). According to Nye,

> The two world wars and the failure of collective security in the interwar period discredited liberal theories. Most writing about international politics in the United State after World War II was strongly realist in flavor. However, as transnational economic interdependence increased, the late 1960s and 1970s saw a revival of interest in liberal theories. There are three strands of this liberal thinking: economic, social, and political. The political strand has two parts, one relating to institutions and the other to democracy (NYE, 2003:43).

International relations should be viewed, more than in any prior given time, as the combination of elements at different levels, be it individual, commercial, institutional or political[3]. Such combination is formed by increasing economic interdependent relations and political institutions which promote accountability, democratic governments designed to promote development, cooperation and societal integration, maximizing individuals' social welfare and institutional stability.

Deeper interdependence strengthened the need for governance and the creation of institutions, as well as the notion that economic and social problems needed to be dealt with collectively. No one country could avoid alone cyclical booms and depression: "Institutionalists could interpret the liberal international arrangements for trade and international finance as responses to the need for policy coordination created by the fact of interdependence" (KEOHANE, 1984:8). The crisis of 1929 had helped to bring to light the need for wider regulation and strong institutions. State sovereignty was partly yielded for intergovernmental management

[3] Accordingly, neither realist (statist) nor Marxist theory accounts well for these two legacies. While they can account for aspects of certain periods of international stability (ARON, 1968; RUSSETT, 1985), neither the logic of the balance of power nor the logic of international hegemony explains the separate peace maintained for more than 150 years among states sharing one particular form of governance-liberal principles and institutions. Kant tries to teach us methodologically that we can study neither the systemic relations of states nor the varieties of state behavior in isolation from each other. Substantively, he anticipates for us the ever-widening pacification of a liberal pacific union, explains this pacification, and at the same time suggests why liberal states are not pacific in their relations with non-liberal states. (DOYLE, 1986)

in order to boast governance, although governments remained the primary authority, keeping their political and economic commitment to societies to avoid depressions, unemployment, and other social disturbances (IKENBERRY, 2015).

Within this context of increased interdependence between states and deepening of governance at different levels, the relevance of international regimes came to center stage in order to orchestrate world politics. John Ruggie elaborated, in 1975, his concept of international regimes as “a set of mutual expectations, rules and regulations, plans, organizations, energies and financial commitments, which have been accepted by a group of states” (RUGGIE, 1975:570). Robert Keohane points out that, in addition to this concept, Krasner elaborated, in 1983, a definition of regimes as “a set of implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations” (KRASNER, 1983:2) and further elucidates these concepts:

> An example from the field of international monetary relations may be helpful. The most important principle of the international balance-of-payments regime since the end of the World War II has been that of liberalization of trade and payments. A key norm of the regime has been the injunction to states not to manipulate their exchange rates unilaterally for national advantage. Between 1958 and 1971 this norm was realized through pegged exchange rates and procedures for consultation in the event of change, supplemented with a variety of devices to help governments avoid exchange-rate changes through a combination of borrowing and internal adjustment. After 1973 governments have subscribed to the same norm, although it has been implemented more informally and probably less effectively under a system of floating exchange rates (KEOHANE, 1984:58).

After the mid-1960s, the US predominance had to face some challenges that arose from the economic recovery of Europe and more specifically by the economic growth of Japan. Trade flows in the 1970s gradually moved towards the Pacific, exceeding those in the Atlantic (GILPIN, 1987:22) – a move largely explained by the expansion of Japanese and other Asian economies. Gilpin saw a crisis in the Bretton Woods regime and unsuccessful military interventions as signs of American decline. The US was to be substituted by another hegemonic power.

Keohane came to the same conclusion and predicted that the US would decline at the time. Nevertheless, he argued, that did not necessarily entail that after the decline of hegemonic regimes cooperation would be made unviable, as new patterns of cooperation could evolve. At this point, two distinct predictions could be made through different perspectives. Unlike institutionalists, who view the growing relations between new economic players as an even further justification for the need for institutions and cooperation, realists question the ability of states to create order in the face of the diffusion of power (KEOHANE, 1984). The predictions of US decline, however did not stand as valid and the US has shown its resilience as a world power and prominent role in world governance.

Governance has three main elements that should be made clear on its analyses: "the management of power, the promotion of common interest, and the mediation of difference" (HURRELL, 2005:35). Hurrell borrows the definition from the Commision on Global Governance and presents one definition of governance as "the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is the continuing process through which conflict or diverse interests may be accommodated and cooperative action may be taken" (COMMISSION ON GLOBAL GOVERNANCE *apud* HURRELL, 2007:95)

Around the turn of the century, an all-encompassing term took hold of the IR, and almost every other area's literature. 'Globalization', although long in the making, not only came to the rescue of IR analysts for every other explanation about any subject, it also made way for new frameworks of analysis, as the setting changed to include a vast array of new actors, mostly non-state actors, networks of academics, and transgovernmental networks, international organizations and civil society. A little more than ten years ago, the debate was about how these new actors would impact the global order and how the system would accommodate them.

Different views and interests of developed and developing countries within different areas of governance, as in trade and finance, create obstacles for the optimal function of multilateral institutions of governance and put into question the extension of their role. (DUNNE, FLOCKHART, KOIVISTO, 2013) Clear examples of such are those of deadlocks on rounds at the World Trade Organization. The power for rule-making enjoyed by great powers works to guarantee advantages and privileges which further deepens inequalities. This division between rule-makers and rule-takers was made clear in the 1970s in the stark division separation between North and South which saw the emergence of discontent voices represented by groups of states as the Non-aligned Movement in the United Nations, the Group of 77, and the creation of a new UN division, the UNCTAD (HURRELL; WOODS, 1999:13).

2.5. The post-crisis Liberal World Order and the 'rise of the rest'

After the 2008 financial crisis, great powers endured financial and economic hardship as the crisis emerged in the West, which was so far unexpected. The countries in the Global South were more commonly associated with some ailments of vulnerability and instability. This was a new element in the liberal international order. Political analysts and economic advisers were also struck by the fragility displayed by powerhouses in Europe and even the US. The crisis had ongoing effects that rendered a strengthening of the debate around US decline and the need to accommodate new rising states in global governance so as to diminish the negative aspects of the crisis. More representative mechanisms in finance such as the G20 gained new weight and core institutions at the heart of world order, such as the IMF, are under constant pressure for reforms.

2.5.1. Institutions and the new distribution of power

The 2008 crisis can hardly be described as the kind of landmark event that represents the dusk of an old order and the dawn of a new one. Its effects were mainly felt in the economic domain and, therefore, its challenges were concentrated in international economic institutions. Despite the gravity of the recession, the US remained the largest world economy and the most powerful country.

However, power asymmetries changed dramatically, especially in the economic sphere – and power matters in the creation and development of international institutions that form constitutional orders. Ikenberry describes a constitutional order as a type of order in which postwar settlements gradually move towards institutionalized solutions, in which "power is exercised – at least to some extent – through agreed-upon institutional rules and practices, thereby limiting the capacities of states to exercise power in arbitrary and indiscriminate ways or use their power advantages to gain a permanent advantage over weaker states" (IKENBERRY, 2000:19).

The author recognizes that such a constitutional order is an ideal type. In fact, elements of hegemony and balance of power are palpable in any constitutional order. Constitutional orders embed, to a large extent, the balance of power of the moment when the institutions conforming to it are created. Ikenberry (2000) focuses on the creation of constitutional orders, rather than on its maintenance. His interest is concentrated in postwar junctures and peace settlements, as these are moments when "new power disparities are manifest precisely as the old order has been destroyed, and there are opportunities and incentives for states to confront each other over the establishment of new principles and rules of order." (IKENBERRY, 2000:4)

Still, his work provides useful insights on how a constitutional order might remain stable. Constitutional orders emerge in moments of inherent tensions of power. Ikenberry stresses that "the most important characteristic of interstate relations after a major war is that a new distribution of power suddenly emerges, creating new asymmetries between powerful and weak states" (IKENBERRY, 2000:3-4). In general terms, Ikenberry argues that powerful states create institutions so as to restrain their own power in exchange for a durable, more stable order to which weaker states will adhere. According to the author:

> These postwar institutions did not simply solve functional problems or facilitate cooperation; they have also served as mechanisms of political control that allowed the leading state (at least to some extent) to lock other states into a favorable set of postwar relations and establish some measure of restraint on its own exercise of power, therefore mitigating the fears of domination and abandonment. (IKENBERRY, 2000:4)

Distribution of power at the time of their creation is necessarily reflected in the institutions that conform to a constitutional order. Likewise, significant changes in that distribution of power should also, in principle, be accommodated – after all, the "multilateral order cannot hold if the power and influence embedded in international institutions is significantly misaligned with the real distribution of power" (CHIN; THAKUR, 2010:119). Institutions that are not indifferent to these changes tend to adapt and survive. Institutions that are rigid and fail to welcome the new reality in asymmetries between the powerful and the weak tend to turn into a source of tension – which is the ultimate defeat of the very purpose of international institutions.

2.5.2. US hegemony after the crisis: emergence of the rest?

Since the 2008 crisis, political analysts are asked to draw scenarios for the future as the current framework based on this liberal order is now in question (DUNNE, FLOCKHART, KOIVISTO, 2013) In the background of the current ongoing debate on emerging powers is the discussion over the decline of US hegemonic power and the hindrances facing liberalism as a basis for world order. The US, as the main actor guiding the creation of principles and institutions of world order over the last decades, no longer seems able to maintain that overall structure crystallizing the same influence as it once had. It no longer offers the guarantee for holding an open and rule-based liberal order (IKENBERRY, 2013). The organization of the new order will depend largely on the US' ability to accommodate for new actors in the designing of new institutions of global governance that can encompass the interests of a larger pool of actors willing to have greater say in that order. According to Ikenberry:

> Precisely because the crisis of liberal order is a crisis of success, leading and rising states in the system are not seeking to overturn the basic logic of liberal internationalism as a system of open and rule-based order. Rather, the pressures and incentives are for change in the way roles and responsibilities are allocated in the system (IKENBERRY, 2013:50).

It can thus be argued that the US is facing a crisis of authority which does not necessarily points to the end of its leading role, but there are a number of scenarios that can be drawn out of current changes, many of which point to some form of reformed liberal order. New actors emerged in the 1970s and 1990s with new agendas and voices requiring reform of the system. Developing countries gained more prominent roles in the face of the 2008 financial crisis. Rising powers can be defined as "those that have established themselves as veto-players in the international system, but have still not acquired agenda-setting" power (KAHLER, 2013).

Since then, a special spotlight has been placed over Brazil, Russia, India and China, which together worked to turn a 2001 acronym by Jim O'Neill into a diplomatic initiative. The establishment of the BRICS as a political forum for coordination in 2009, later joined by South Africa, called the attention of world and spurred the debate over whether a new world order was in the making, with new protagonists.

In the aftermath of the 2008 financial crisis the East flourished. Some countries stood out for their resilience in the face of adversity and for thriving economically while economic powers lagged behind. For many, the emergence of the BRICS epitomized a phenomenon that has been appealingly dubbed ‘the rise of the rest’, indicating a ‘power shift’ in world order. Zakaria argues that while the United States remains the only superpower in a political-military dimension, in all other dimensions – “industrial, financial, educational, social, cultural – the distribution of power is shifting, moving away from American dominance” (ZAKARIA, 2012:6). The emergence of new economies and of China, in particular, as emerging economic powers brings about perceptions that “western dominance which has been a constant in world politics for the last three centuries is in the course of being shattered” (GAMBLE, 2014:79).

The argument in favor of a ‘power shift’ and an emerging new world order has by now become somewhat of a common place in economic and international relations debates. As a general rule, emerging countries have attempted to articulate alternative visions of the global order based on arguments of distributive justice and equality. Developing countries are fairly united in the critique of the order”. Still, the developing world as such – and even emerging economies – form a vast and very heterogeneous group of countries.

The most successful attempt of a political articulation between relevant emerging economies is arguably the BRICS. Nevertheless, there are important challenges to that articulation within the group. First, the fragility of the unity of the group and the domestic and regional problems they might face. Second, the asymmetry among the five players, i.e., the prominent position of China. And third, the reluctance of the BRICS to discard the current world order and variable tendencies to prefer punctual reform.

2.5.3. BRICS: united… in being apart.

Questions regarding the unity of the group have arisen since its inception. The ‘bloc’ resists seeing itself as such. The ‘coalition’ is formed by countries with strong views on sovereignty. This particular aspect has rendered the forum to be deemed as a “group of ambitious sovereigns” in the terms of Zaki Laïdi (2011). An attempt to explain why the grouping hesitates to take further commitment and compromise into an official coalition would be to argue that it is a consequence of their resistance to yield sovereignty. Apart from resisting solidarism, or what can be regarded as a coercive solidarism (HURRELL, 2013), their pluralist intake on the world drives them further apart.

Their hesitance can also be understood on the grounds of a lack of shared values or shared world views that might boost confidence-building amongst them. The five countries have different plights and struggle to find common ground on many issues such as environment, internet security, labor legislation or human rights, reflecting their diverse domestic realities and political systems.

The disputes between India and China are yet another factor of great tension, given that “India has problems with nearly all of its Asian neighbors, China especially” (COX, 2012:379). Even what might be considered their only uniting feature - the case against US primacy - may still be pondered, for India, South Africa and Brazil are democracies that enjoy a much closer relation with the West superpower. Furthermore, on a myriad of issues under international negotiations, BRICS countries are in opposing sides.

One more feature can be put into question, which is their legitimacy to uphold the image of representative of the ‘Global South’, an identity that Brazil, in particular, thrives upon. That identity needs to be put into perspective. In an abstract and wide definition of the concept, the argument against such identity can be made on the basis of what the IMF views as the ‘developing world’, a position that it might be argued any of the BRICS no longer enjoy (GAMBLE, 2014).

Recycle. As we are still experiencing developments and consequences of the 2008 financial crisis, questions arise as to whether we can safely predict the possibility of overcoming its deeper effects in a foreseeable future. This uncertainty triggers not only inquiries on economic and political predictions, but also on views on world order since it can lead to questions about “the viability of the international market order, and whether the neo-liberal order has the capacity to renew itself” (GAMBLE, 2014:27). The predicament one might come across is that of the weighting of the advantages and disadvantages of the current order. Problems such as the increase in inequality within and amongst countries are issues to be tackled. Nevertheless, capitalism, and particular neo-liberalism have proven to be frameworks for the development and prosperity of nations, resting upon multilateral institutions and principles such as democracy, the rule of law and social justice (MAHBUBANI, 2008). The BRICs have enjoyed the benefits of the current structure. However, as it is, it has become somewhat of an anachronism. The order needs to recognize the changes in the world that no longer features the post-1945 order and accommodate for new players. The countries seek reform of international institutions, such as revising IMF's quota share, a permanent seat at the United Nations Security Council, or the possibility to impose agendas more akin to their interests - as they now are able to do with the creation of the new development bank in greater synchronism with the countries' profile in cooperation, drifting away from the policies of traditional donors, such as OECD.

Mind the power of 'C'. Another point that needs to be argued is the asymmetry enjoyed by China and the overlooking of its discourse within the BRICs. It could be argued that the BRICs gather interest inasmuch as China accounts for the formidable numbers involved in impressive graphics. Without China, the numbers of growth and GDP would not stand out as much and the position of the BRICs as designers of a vision of an alternative order could be pondered. Notwithstanding, if China were to seek to offer an alternative view of the world order, its ongoing changes in policies would point to an alignment with the West and not an alternative order altogether. The BRICs seek more voice within the system and China's strategic thinking has adopted a wider notion of security. According to Buzan (2006), securitization is biding the current world take on challenges considered as global threats and the acceptance that such challenges need to be dealt with in a multilateral system compels countries to work closer together and share different views, hence, enhances dialogue and brings about cooperation. Also, China is becoming more "issue oriented", and in a sense more open to multilateralism. Third, a greater focus has been given to the social dimension in the mode of economic development. The 'Beijing Consensus' could, however bring about the idea of an alternative mode of development but "Chinese leadership does not dream of turning China into a hegemon or a standard-bearer" (JISI, 2011:76). Analyzing material resources and capabilities of China by itself does not take into account the main characteristics enjoyed by its strength of associating with others. At this point it should be easy to take notice of the differences between a purely economic input and a more holistic approach. The basis of its rise becomes not confrontation with other heavy emerging countries but consensus building that can trigger wider and more lasting and beneficial results than by confrontation.

Among many perspectives, power can be defined as the capacity to influence the decisions of others. No matter how large a country or how high a GDP, a country will find it very difficult to maintain power only through means of coercion and imposition of their will upon others. A powerful and meaningful actor in the world system must gather capacity to rely not only on hard power mechanisms. It must bring to the table an idea, a possibility to potential followers, and the idea of China as a model for world other gathers more strength when entrusted upon a group of countries that might broaden that range of possibilities, as it is the BRICs group. It creates a much more powerful and indeed friendly image of a somewhat alternative path, exercising on many other developing countries an idea that triggers one of the US's most powerful elements for lasting hegemonic power: not to push, but to pull. In a bid to enhance its image worldwide, it seeks "greater accountability, commitment to the rule of law, democracy and human rights" (JISI, 2011:76).

China's interest in the BRICs goes along with these changes as it is interested in sharing Brazil's and India's soft power. As we will see in chapter 3, China has fostered together with the other BRICS countries the creation of a new multilateral development institution, the New Development Bank, and has led the creation of the Asian Infrastructure Investment Bank, in part to finance the Chinese initiative deemed the One Belt One Road. China's moves reflect a shift in tactics. According to Tom Miller (2014):

> Over the past three decades, China has joined most of the big international organizations, and occasionally finds them useful, but generally has preferred to exercise its economic muscle in bilateral negotiations where it has lots of leverage. Yet bilateralism has its limits because smaller states now actively fear being reduced to Chinese vassals. Multilateral organizations could provide convenient cover, but China has been unable to gain enough influence in them to serve its full purposed. So it is setting up its own" (2014:2).

Thus the alternative that presents itself in an appealing way for the rising rest and for the world as a whole, in regard to facing new common challenges, is not only to improve global governance by restructuring international institutions but also to foster new possibilities in the horizon. The BRICs want to join the West in sharing global governance in a game where all players need to abide by the same standards, to widen the system and revise it in order to improve principles that aim to foster development, reduction of inequalities and extreme poverty. Principles that allowed the system to prosper – democracy, rule of law, social justice – are a legitimate base upon which to base the system only to the extent that they are obeyed by all actors, with none of them enjoying the kind of 'exceptionalism'[4] of which the world's only so far superpower disposes at times[5]. Emerging economies tend to work within the system and, on occasion, around it, in specific areas in which political or economic hindrances prevail. The BRICs are gathering more responsibilities as their share of the world economy grows and that created the need to of having more voice in global governance inasmuch as emerging economies gain leverage in political forums as well.

2.6. A 'Posthegemonic Liberal International Order'

President Donald Trump won the election running his candidacy on a platform based on the defense of the US's retreat from the task of providing public goods to countries accused of being free-riders in the system, as well on the defense of economic protectionism – widely referencing China as a threat to U.S. interests in world economy. The anti-globalization message resonates loud and clear with Trump's victory, as the discourse gathers pace. Along this setting, the whole process of globalization might have suffered an insurmountable setback since Brexit. These events and the perceived waning of American hegemony shed light over one specific booming actor, which has grown 9 percent a year for almost 30 years (ZAKARIA, 2012:102), as the only one able to fill a position of leadership as an economic superpower in this current order, and one of its newest sponsors, the Sino powerhouse. As Fareed Zakaria cites in his work "*The Post-American World*" (2008), Napoleon once famously said "Let China sleep, for when China wakes, she will shake the world" (ZAKARIA, 2012:100).

In the backdrop of the debate and permeating all analysis are questions over whether or not the United States will recover from the crisis faced, not only to its financial system, but also to its authority within global order (IKENBERRY, 2008). As the only state to enjoy economic and military supremacy, the U.S. has been able to maintain a liberal order largely based on the premises of provision of public goods. The system created has thus far been able to prevail based on agreed upon rules of behavior yielded by a number of global regimes which align and predict states' actions on issue areas (KRASNER, 1983). Since the creation of the

[4] R.B.J. Walker (2006) argues that the United States holds a position of 'exceptionalism' in international relations.
[5] As Mahbubani (2008) argues, the order's biggest liability might just be the West itself.

Bretton Woods institutions, the U.S. has shown great willingness to lead this liberal order, being at the same time its number one beneficiary – or at times the number one liability to the abidance of the rules of the order, in a position that Robert Walker specified as neither hegemonic or imperial, but one of '*exceptionalism'* (WALKER, 2006). This privileged position has now also been put into question as U.S. hegemony shows signs of weakening.

The prevalence of one superpower fostering cooperation among states gave rise to theories on world order. The Hegemonic Stability Theory defines hegemony as the prevalence of one superpower which enjoys supremacy over material resources and is able to translate it into power (KEOHANE, 1984). According to Hegemonic Stability Theory, the order depends on the prevalence of one hegemon ruling over others. Such ruling does not figure as a direct exercise of power. A system based on the rule of law, regimes and institutions lies at the core of the system and "since regimes constitute elements of an international order, this implies that the formation of international regimes normally depends on hegemony (KEOHANE, 1984). The order is maintained by a system where the gains from the public goods provided by the hegemon within that order outweigh the costs for most states from adhering to constraints from such order. Economic stability being key amongst such goods, as Charles Kindleberger elucidates that from such analyses standpoint: "for the world economy to be stabilized there has to be a stabilizer" (KINDLEBERGER, 1986).

Concerning economic stability, for Giovanni Arrighi, based within Marxist and World System Theory, "historical shifts in capital accumulation have tended to be accompanied by the rise of new hegemonic powers" (ARRIGHI, 2007:146-161; SAULL, 2012:325). Hence, there would be nevertheless an organic tendency within the capitalist system for uneven development as crises occur when one competitor catches up to the hegemon's material power. The theory of uneven development serves as a basis for Richard Saull to draw his argument on a neo-Gramscian perspective, in which he states that "this unevenness has intensified as a consequence of the regime of accumulation that developed during the neoliberal historic bloc from the 1970's" (SAULL, 2012:327), while he asserts, contradicting THS, that crises do not necessarily entail the waning of an hegemonic power, but only "organic tendencies of crisis within capitalist development which poses social, political, institutional and ideological challenges to an existing hegemon"

(SAULL, 2012:327).

Since the end of World War II, integration and multilateralism were hailed as a logic common path, and served as bases for the rules of the liberal international order enforced by American supremacy (KEOHANE, 1984:31; GILPIN, 1981:144). Making a defense for the maintenance of cooperation despite conflict in the case of a post-hegemonic setting, Keohane contradicts the theory of hegemonic stability in spite of allowing it some credit as a "useful, if somewhat simplistic, starting-point for an analysis of change in international cooperation and discord" (KEOHANE, 1984:39). Keohane makes an analysis which appears most fit when underlying the role played by institutions and complex cooperation in world order, stating that:

> (...) hegemony is related in complex ways to cooperation and to institutions such as international regimes (…) successful hegemonic leadership itself depends on a certain form of asymmetrical cooperation. The hegemon plays a distinctive role, providing its partners with leadership in return for deference; but, unlike an imperial power, it cannot make and enforce rules without a certain degree of consent from other sovereign states. As the interwar experience illustrates, material predominance alone does not guarantee either stability or effective leadership. Indeed, the hegemon may have to invest resources in institutions in order to ensure that its preferred rules will guide the behavior of other countries (KEOHANE, 1984:46).

Cooperation and discord in world political economy are variables depended upon the workings of institutions to foster rules that can influence states' behavior. After World War II, western powers worked through such guidance. The US, most prominently, led the path to building a global system that could overcome failures of the international cooperation of the interwar period, aiming to foster a system with not only just economic development and individual fulfillment but also world peace, focusing on pillars such as free markets, individual rights, the rule of law and elected governments. The core of this order has laid for the last decades on the Bretton Woods institutions – the International Monetary Fund and the World Bank – and on the General Agreement on Tariffs and Trade, which became the World Trade Organization in 1995 (NIBLET, 2017:18).

This institutional-liberal approach also underscores the key role played by regimes and the possibility of cooperation after a hegemonic power fades. Although the theory was elaborated in a period in which many IR analysts had erroneously predicted the diminishing of American hegemony, the institutional approach, elaborated in the 1980's, provides the most suitable lens from which to read the current world affairs setting, in a time where the relative waning of U.S. hegemony increasingly becomes a reality in the face of growing economic and political relevance of emerging powers.

Since the 2008 financial crises, adjacent to the perception of relative decline of American power, is the economic strengthening of many developing countries, mostly non-western economies. The beginning of the 21st century has been marked first by the impact of the financial crises in developed economies, but, most strikingly yet, by the phenomenon which permeates many shifts in world economy: 'the rise of China' (BEESON, 2013:233). The financial crises affected first and foremost economies in the West; nevertheless, many non-western countries ended up barring some of its effects, as the demand for exports in some of their main markets contracted, leading China to apply a large fiscal stimulus to offset the dwindled western demand (GAMBLE, 2014:76).

Non-western economies found an opportunity to show economic resilience in the face of adversity and room to grow, what entails that they have become less dependent on western economies and triggers greater questioning of western assumptions and preferences which lead world regimes and patterns of behavior (Gamble, 2014:76). The increasing weight of emerging economies, mostly non-western, have world GDP translate into greater demand these countries have in influencing the rules of governance and the sharing and upholding of greater responsibilities and advantages within world order. As Andrew Gamble states:

> By 2013, the non-western economies accounted for over 50 per cent of global output at purchasing power parity for the first time. The gap has narrowed rapidly over the last 30 years and particularly over the last ten. The West is still dominant, but its advantage is lessening, and if current trends continue, the balance within the international economy will continue to shift against the West. Economic weight is not the same as political weight, but if the international market order which was created over six decades by the US and its western allies is to be maintained, some way of extending it by incorporating the rising powers fully within it will have to be found (GAMBLE, 2014:77).

Non-western countries such as China and India now find themselves amongst the top positions in the world economic system (IKENBERRY, 2010:35). As Zakaria states: "for the first time ever, we are witnessing genuinely global growth. This is creating an international system in which countries in all parts of the world are no longer objects or observers but players in their own right" (ZAKARIA, 2012:3). Nevertheless, the 'economic shift in the world's center of gravity' (QUAH, 2011) poses challenges to the liberal order. Scholars have leaned on different perspective for predicting what this shift will entail.

According to Ikenberry (2010), "the foundation on which liberal internationalism 2.0 was built has shifted" (2010, p.36). This shift is giving way to what Ikenberry has dubbed "*liberal international order 3.0*", a post hegemonic liberal international order. Still according to the author: "the great challenge this liberal international order faces today is how to establish legitimate authority for concerted international action on behalf of the global community – and to do so when old norms of order are eroding" (IKENBERRY, 2010:36). Since one of the main features, if not the most prominent, of this current order is the fact that it derived from a bipolar to not only a unipolar world but a US-led unipolar world. Thus, when faced with the task of predicting what specific changes will be ushered in by perceived shifts in its balance, analyzing the role the US will play and the extent to which will it be willing to yield authority and leadership to rising actors are two of the main features on which scholars tend to focus.

Three sets of issues should enjoy the spotlight. The first concerns scope and hierarchy. The asymmetrical feature of cooperation in a hegemonic order will tend to give way to a 'flatter', less hierarchical system. Functional services – generating public goods, stabilizing markets and promoting cooperation – should display a lesser role taken on by the US and be provided in a more universal manner, collectively. A second issue sheds light over the necessity of finding "ways to reconcile more intrusive rules and institutions with legitimate international authority" in a world where security issues become increasingly interdependent and where Westphalian norms of sovereignty once hailed as the principle providing the core functioning of the security system are questioned as the states struggle to overcome new logics of threats brought about by a growing array of lethal technologies. Finally, a third issue is how to balance increasing demands for governance norms and institutions with domestic constitutional accountability in liberal democratic states. If collective governance becomes increasingly imperative in a growing number of issues thus international bodies must strengthen their authority and capacity to act (IKENBERRY, 2010:36-37).

Nevertheless, if the U.S. yields much of its privileged role in designing and maintaining the current order, with the emergence of a more universal and less hierarchical world, the world might not become as flat as predicted. China enjoys the number one spot for leading the emergence of a new order and taking upon itself the leading role on this power shift taking place. According to Zakaria:

> Historically, when the world's leading power is challenged by a rising one, the two have a difficult relationship. And while neither side will admit it publicly, both China and the United States are worried and planning for trouble. (…) In Washington, there have always been those who see China as the next comprehensive threat to American national interests and ideals. To say this is not to assume war or even conflict, but merely to note that there is likely to be tension. How the two countries handle it will determine their future relations – and the peace of the world. (ZAKARIA, 2012:137).

Nevertheless, Robert Wade (2011) suggests that, although these changes may have translated into increased participation of emerging and developing powers in global governance, the creation of new forums, as the G20, or coalitions, as the BASIC group, the power shift that is currently taking place worldwide is not as wide as many scholars predict, since China has remained up to this point mostly on the fence over the role it is willing to play in the system, still "split between asserting itself as 'the wave of the future' and defending itself as too poor to take on global responsibilities (it is roughly a 100th in the *per capta* income hierarchy)" (WADE, 2011:348). As of 2017, Wade's statement might need some pondering over, since China has increasingly been occupying itself with the construction of new parallel institutions in many areas of global governance, as with the creation of the New Development Bank and the Asian Infrastructure Investment Bank, as we will see further in chapter 3.

3. In search of development: modernity and the idea of progress

The core foundation upholding the framework of the liberal international order is the belief in the idea of progress (NIBLET, 2017:17), fostered in large part since the nineteenth century by the West. In this chapter, we seek to answer questions on why states should seek development and how they stand to gain. The institutions responsible for upholding the workings of this order established around the end of World War II have been put in the spotlight since the 2008 financial and economic crisis. Emerging countries are looking to uphold wilder roles in designing world governance, having each their own specific background from which to view the idea of progress and how to seek development.

Brazil, Russia, India and China enjoy a very specific place in the quest for governance reform particularly for their unique characteristics in relation to the expressive size of their territory, GDP and population, which allow them to enjoy greater attention in a moment in which the world is debating the need for governance reordering and global institutional reforms. In this section, we seek to elucidate how theories of development oriented commercial and financial guidelines throughout history, how economic and financial governance evolved to reflect a changing world order and, finally, how these shifts might reorient global affairs.

3.1. Modernity and the Idea of Progress

World history, since the end of the 1900s, may be studied following a lens that focuses on what came to be deemed as ‘modernity’. Global modernity, as Buzan and Lawson state: “pulled the world into a single system, within which the consequences of the changes in the mode and distribution of power were widely and deeply felt” (BUZAN; LAWSON, 2015:2). According to Buzan and Lawson (2015), during the nineteenth century, the basic features of the world order were redesigned, involving a complex combination of industrialization, state building and 'ideologies of progress'. This three-fold configuration became the criteria by which great powers were defined (BUZAN; LAWSON, 2015:5).

Along with industrialization and the extension of the market, new ideologies that rose to prominence were closely linked with notions of progress which "provided new legitimating strategies for how international relations were practiced" (BUZAN; LAWSON, 2015:3). The idea of progress permeated the search for development from different political perspectives:

> (...) progress provided an explanation of world historical development that was not just to be analysed, but also imposed on societies around the world (...) Major nineteenth century ideologies, from liberalism to socialism, contained an inbuilt drive towards the improvement of the human condition. (BUZAN; LAWSON, 2015:41).

According to Buzan and Lawson (2015): "as a result of this new configuration combining industrialization and the expansion of the economic relations, a relatively even distribution of global power was replaced by a radically uneven distribution of power, in favor of the West" (BUZAN; LAWSON, 2015:5). These changes would be responsible, by and large, for the configuration of the international system in the twentieth century and the beginning of the twenty-first century. According to the authors, there are a number of assumptions to underlie such claims. We choose to underscore two main points that are important for our current understanding of how the international system unfolded up to the beginning of the twenty-first century (BUZAN; LAWSON, 2015) and how global modernity was a 'social invention' (MANN, 1986:525) that managed to deliver "progress", bringing together industrialization with state capacity, infrastructural change, interventions in trade, production and financial regimes (BUZAN; LAWSON, 2015:37).

First, we shall develop the linkage between industrialization, the formation of the rational state and ideologies of progress. Both industrial revolutions meant not only the expansion of the market but they also entailed new means for accumulating power. The industrialization of some countries, meant, by contrast, de-industrialization of others.

> The global transformation, therefore, profoundly influenced the construction of the modern international order. This period set the material conditions under which a global international system came into being. It forged the ideologies for which tens of millions of people fought and died. And it generated the many inequalities within the international order (…) (BUZAN; LAWSON, 2015:44)

‘Rational state-building’ was translated into nationalism and the demarcation of the territory within national boundaries. As for ‘ideologies of progress’, they translate into systemic schemes of thought with the promise of progress, like liberalism, socialism or nationalism, associated with ideas triggered by the Enlightenment, which rooted a ‘standard of civilization’, separating that which is modern from the ‘barbarians’ (Buzan and Lawson, 2015, p.6). Second, although a global process, modernization unfolded as an uneven protracted process. The modernization process brought about by economic development, as we shall see in the next section of this chapter, was not linear. Modernization entailed different stages of development for different societies, resulting in global transformation and differential integration between societies. Consequently, “during the nineteenth century, the development gap between societies opened more widely than ever before” (BUZAN; LAWSON, 2015:9).

3.2. Liberal Theories

The classic theories of liberalism focus on the benefits of free trade to the welfare among nations. Adam Smith, in his 1776 classic (the same year as the independence of the United States) 'The Wealth of Nations', described the mechanism of the deemed 'invisible hand' of the market - as the organizer of economic activity between countries - through supply and demand, free competition and the mobility of the factors of production. Through Liberal Theory, economists gathered that nations can derive commercial advantages through the absolute advantage of labor productivity. From this perspective, the focus on one factor - precisely the difference in labor productivity - would be the source of trade between nations (SMITH, 1776).

With origins in the eighteenth-century Enlightenment, Smith’s work also highlights the role and sovereignty of the individual in the provision of the public good, as opposed to the mercantilist notion. According to the author,

> In pursuing his own interests, the individual often promotes the interest of society much more effectively than when he really intends to promote it. I have never heard that those who pretend to trade for the public good have done great things for the country. Indeed, it is an artifice not very common among merchants, and it does not take many words to dissuade them” (SMITH, 1776:438).

Following the Liberal economic perspective, writing in 1817, David Ricardo perfected the argument of Adam Smith (1776) in ‘The Principles of Political

Economy and Taxation'. The dominant debate in England at the time was centered on the adoption of protectionist measures, with a focus on the agricultural sector. Ricardo (1817) argued against the adoption of the laws adopted in 1815, known as 'Corn Laws', which forced industrialists to pay higher wages to workers who, by virtue of reduced imports, had a higher cost of living. Ricardo's work represents a platform against measures aimed at restricting international trade.

In developing his central argument, David Ricardo (1817) uses as his starting point the 'Theory of Absolute Advantage', developed by Adam Smith, and extended his argument in defense of free trade between nations. Ricardo stated that although a country may not have absolute advantage in any sector, it will still have a comparative advantage in the sector in which it has less opportunity cost of production in relation to another country. In this manner, the understanding on comparative advantages brought about by such Theories are the source of trade and mutual gains among nations.

Ricardo (1817) argued, in turn, that production costs are determined by the relative productivity of labor. Ricardo uses a trade model based on two countries, two sectors and one factor or production. The model analyzes trade in wine and textiles between Portugal and England, highlighting the increase in profits due to the sectoral movement of labor, as Ricardo (1817) argues:

> In Portugal, the production of wine can only require the work of 80 men per year, while the manufacture of cloth requires the employment of 90 men during the same time. It will, therefore, be advantageous for Portugal to export wine in exchange for cloth. This exchange could occur even if the merchandise imported by the Portuguese was produced in their country with less labor than in England. Although Portugal could manufacture fabrics with the work of 90 men, it should still import them from a country where it was necessary to employ 100 men, because it would be more advantageous to apply its capital in the production of wine, and exchange it for more cloth from England, than to divert part of its capital from the cultivation of the grape to produce wine (RICARDO, 1817:98)

Based on the analyses the hours required to produce a unit of each product, the following can be observed:

Table 1: Hours required to produce units of Cloth and Wine

Country	**Cloth**	**Wine**
England	100	120
Portugal	90	80

Source: David Ricardo (1817)

By this analysis, according to Ricardo: "Under such conditions, it would undoubtedly be advantageous for the capitalists of England and for the consumers of both countries, that wine and cloth be made in Portugal, transferring to England the capital and work employed in the manufacture of textiles" (RICARDO, 1817:98). The Ricardian argument therefore advocates specialization. There is no way for a country to have an absolute advantage in all sectors of production and at the same time comparative advantage in all sectors. According to Ricardo, trade causes the shifting of production. A country will produce in sectors where it is more efficient and reduce its production in sectors where it is less efficient.

According to HerckshER Ohlin's Neoclassical Model, trade liberalization benefits sectors where the factors of production are plentiful within a country, and is detrimental to sectors where such factors are scarce. It is apparent to classical liberalism the notion that the market would satisfy the material needs of countries through specialization. It is also added to the classical liberal analysis the intervention of public banks in the economy in the economic activities of the country and regulation of the private sector can limit an essential foundation for a liberal economy: free competition. This, according to Hayek, is "the only method by which our activities can adjust to one another without the coercive or arbitrary intervention of authority." (HAYEK, 1994:41)

In a system of free competition under market discipline, there is increased demand for greater efficiency of the economy of the public and private sectors of a country. Companies that are more competitive, skilled, innovative and efficient will have an advantage, while those that are not will have to adapt to this system. This results in a potential increase in overall productivity. This effect on productivity resulting from free competition is affected by state intervention, which often "twists" the laws of the market. The price of products and services is a fundamental instrument that records the real conditions of the market, and in this sense, price controls, as well as the quantitative restriction of production, prevents competition from promoting an effective coordination of individual efforts. Thus, individuals and firms will not have reliable information by which to guide their actions (HAYEK, 1994).

3.3. Development and its critics: national development, Marxism and Dependency theory

Classical liberal thought has since been the subject of criticism by analysts who advocate the protection of national industry for fostering economic development, such as List (1841) and Hamilton (1791). In analyzing the advantages of international trade, one can observe that "when a country opens itself to international trade, and becomes an exporter of a good, the situation of producers of this good improves, while consumers of such good are worse off. When a country becomes an importer, consumers are better off, whereas the situation of producers worsens". One can also highlight arguments in favor of restricting international trade, such as: "protection of jobs, defense of national security, aid to nascent industries, prevention of unfair competition and reaction to external trade restrictions." Another criticism commonly associated with the notion of comparative advantage is that it neglects the deterioration of the terms of trade. Raul Prebisch and the studies of ECLAC in the post-Second World War influenced the criticism of the specialization in producing agricultural products, which have low aggregate value and would damage over time the Latin American agro-exporting countries.

Contrary to the liberal view, List (1841) advocates the valorization of historical dynamism: things must be seen through their historical process. The model of comparative advantage can be criticized in the sense that there is a lack of due attention to the historical process, a common criticism with the models of Modernization Theory. Róstow's Theory of Modernization is based on a linear view of progress (1971). In *The Steps of Economic Growth* (1971), Róstow argues that, from economic evolution, the world would follow an almost linear path of economic progress and development, and advocates that, from this perspective, all Societies go through the same stages of economic growth. Thus, the fact that countries have different levels of development and industrialization is explained by their different position in the evolution scale. Róstow (1971)[6] explains that

[6] However, Róstow highlights the fact that, in the period under analysis, countries with higher per capita income, such as Brazil and Argentina, were not democracies, in contrast to India with lower income, which speaks in favor of some degree institutional particularities and specificities of development: Broadly, their conclusion conforms to the lesson of history as seen in chapter 4: the possibilities for democracy increase when take-off emerges from the inherently contentious period of the preconditions, but democracy is by no means a certain political result of rapid industrialization. And, clearly, such broad statistical associations cannot take us far forward in understanding a world where, at under $100 per capita GNP, India has maintained for more than a generation a

different stages of modernization among countries is the reason of the disparities that exist today in the world.

Modernization policies should do everything to make modernization prevail in dual societies, in which the traditional and modern sectors coexist. According to Róstow (1971), in his historical model of economic growth, five stages of growth can be distinguished: i) traditional society: with a low level of exchange and economic development; ii) pre-industrial phase: where the conditions for industrialization are put into place; this period corresponds to the unification of national states in Europe, marked by strong optimism and expectation of future improvement; iii) industrialization: the modern sector becomes preponderant in society and development becomes the normal situation; iv) maturity; v) mass consumption society. While England industrialized in eighteenth century and was already in the fifth state (mass consumption) in the 1930s, India and China only industrialized at the end of WWII.

This analysis applies a unique Western formula for countries composed of diverse societies and a myriad of cultural conditions and specificities of economic development. The consequence of this evolutionary view is the dispersion of the economic equilibrium in the world: once countries have achieved each of these stages they tend to become more uniform. Thus, there is a tendency towards economic convergence, which leads to the dispersion of economic power. An attempt is made to naturalize capitalism. In this sense, the observation that “The industrialization of England had proceeded without any substantial utilization of banking for long-term purposes” (GERSCHENKRON, 1962:14) does not contradict the fact that, when England was developing, there was no center: "The Industrial Revolution in England, and for that matter in all other countries, affected the course of all subsequent industrializations" (GERSCHENKRON, 1962:41).

In contrast to Rostów's view that there would be an evolution of nations within the capitalist system, as Alexander Gerschenkron argues:

> Up to a point, a uniform pattern of industrial development is quite reasonable. Industrialization everywhere means increase in the volume fixed capital; It means changes in technology, economies of scale, that formation of agricultural laborers of men, willing and able to exercise the entrepreneurial function (GERSCHENKRON, 1962:40).

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recognizable working democracy and Brazil and Argentina (at, say, $300 and $750 per capita GNP) are under military dictatorship (RÓSTOW, 1971).

Gerschenkron (1962) defends the direct financing by the State for development and, even if agriculture does not play an active role as a production market, it generates investment, and becomes a source of surplus for investment. This is an area where surplus is created so that the state can invest in industrialization. Gerschenkron highlights the peculiarities of each country's development, according to the degree of backwardness[7], in opposition to what Róstow advocates. Still up to date today, he says that, in a developing country, the market does not have the capacity to leverage itself investment, and thus depends on public banks.

Friedrich List (1841), an exponent of the classic developmentalist strand, under great influence from American politics and Hamilton's ideas - who advocated a development policy to consolidate US independence - was a fierce advocate of strong state intervention, the basis for actions of the development of the state leveraged by initiatives such as the creation of the New Development Bank. The developmentalist strand of List (1841) was developed in opposition to the orthodoxy of the liberal thought developed by classical liberal theorists, such as Adam Smith (1776) and David Ricardo (1817).

The continued relevance of the debate becomes evident with the creation of the BRICS New Development Bank and the Asian Infrastructure Investment Bank, whose main objective is to finance infrastructure projects in developing countries. One of the central features of the development gap between rich nations and emergent / poor nations lies precisely in the lack of infrastructure that can foster growth sustainability, integrating highways, improving the structure of ports, encouraging the export sector, reducing transport and transit costs. It can be argued that development banks will be able to make the most efficient use of the absolute and comparative advantages of the countries concerned and may reduce the "country cost", so that these countries can also reduce the volume of resources needed for subsidizing production to them in the medium / long term. Investment in infrastructure is fundamental to boost industrial production - a source of power and wealth for both List (1841) and Hamilton (1791) - especially in relation to nascent industries that, without State action, have a high probability of being unfeasible.

[7] “Backwardness, of course, is a relative term. It presupposes the existence of more advanced countries” (GERSCHENKRON, 1962:42).

The vision of Gerschenkron (1962) converges with the theory of List (1841). In countries of nascent industry, either there is protection by the state or industry becomes unfeasible (LIST, 1841). Since a win-win situation due to trade liberalization is not automatically characterized, state participation is needed to promote industrialization with a view to speeding up productivity in these countries. The developmental propositions of List (1841), which will strongly influence developmental theory and dependency theory, present, as a first question, the development of a backward economy to reach the more advanced economic stage. In this way, the State must mobilize all its resources to overcome its situation of backwardness to avoid being subordinated to more advanced states.

Development then goes through stages, and the determining factor for overcoming each stage is the role of the State, a crucial element in promoting the development of backward countries. Development also requires the customs' protection of domestic industry, and attention must be paid to the need to actively protect nascent industry. This protectionism enables the preservation of a country's internal market, which is essential to give dynamism to the nascent industry. The State must develop itself towards the system of transport and development of infrastructure in order to support the industrialization project of the State as a provider of basic infrastructure. (List, 1841). List's argument is based on the ability to aggregate productive chains. The industry adds much more sectors and structures much more the economy than agriculture. List criticizes the economic policy based exclusively or predominantly on primary products, as it is in Brazil today, and proposed that a country in these conditions should try to reorient its external economic insertion. List anticipates Marx's critique of the liberal economic thought and makes an explicit critique of the idea of division of labor.

Marxist Theory

According to Marx, although capitalists are rational, the system is irrational: "The competitive market forces capitalists to save, invest and accumulate. If profit-seeking is the fuel of capitalism, investments are its engine, and the result is accumulation "(GILPIN, 1987:54).

Within the scope of the BRICS, it is worth mentioning another point: "As the pressure of competition forces the capitalists to increase their efficiency and productivity, by investing in more productive and less labor-dependent technology, the level of unemployment would tend to grow, and rate of profit, or surplus value, to decrease. In this way, the capitalists would lose the incentive to invest in productive enterprises, a source of employment "(GILPIN, 1987:56)

For Marx, there is no harmony between capitalists and workers that can reach a satisfactory balance for both, since the global process of capitalist production will lead to accumulation and concentration of capital, and, in times of economic contraction, greater exploitation of the mass of workers given the formation of an "unemployed army of reserve". Concerning the current scenario, emerging countries tend to be labor-abundant and therefore their societies may be interpreted as more vulnerable to exploitation by the capitalist center. Initiatives such as the BRICS Bank and the Reserve Contingent Arrangement could serve as instruments of protection against depressions and economic fluctuations inherent in the capitalist system, as well as fostering the development, making it possible to reduce their dependence on the economic center of the world.

In order to overcome a situation of underdevelopment, gains are needed in terms of cooperation dynamics and the collective pursuit of objectives or purposes, instead of a well-being that is generated spontaneously. The basis of its methodological collectivism, which reinforces the nation and the possibility of achieving common goals, is against the notion of methodological individualism. The market does not generate this collective project; therefore, specialization must be carried out within the framework of a national cooperation project. According to Lenin's argument:

> The international capitalist economy promotes world development, but in an unequal way. Capitalist economies grow at differentiated rates, (...) Lenin asserts that this was impossible by what became known as the "uneven development law:" It is enough that this question - the possibility of capitalist alliances being more than temporary, and free from conflict - is clearly spelled out so that it is impossible to give it any other answer but the rejection; because under capitalism one cannot imagine another basis for division into sphere of influence but a calculation of the strength of the participants of the division (...). The law of unequal development, with its disastrous consequences, had manifested itself in his days because the world suddenly became finite (LENIN *apud* GILPIN, 1987:58-59).

The formulations of Marx and List influenced the thinking of late industrialization countries, as well as of ECLAC. According to Marxists, capitalist logic and unequal development would contradict the liberal defense of the world market's tendency towards homogenization. The logic of the international economy would generate increasing polarization in the world economy. In the same sense, List (1841) argues:

> The popular school, in so far as it does not take due account of the nature of the productive forces, and underestimates the importance of developing, in equal proportions, agriculture, manufactures and commerce, political power and internal wealth, specially undermining the value of manufacturing product belonging to the nation itself and fully developed in all its sectors, mistakenly places the power of the industrialist in the same category of the agricultural power, without considering differences between one and the other. This school does not realize that, between a state dedicated exclusively to agriculture and a state which has both agriculture and manufactures, there is a much greater difference than between a state dominated by the pastoral economy and an agricultural state (LIST, 1841:101)

The productivity growth in manufacturing is higher than in the production of agricultural goods, which means industry aggregates more value than agriculture. Therefore, if each country simply specialized in one sector, in the case of Brazil and its "agrarian vocation", this would generate increasing asymmetry between countries.

In addition, given the differential in productivity, the classic liberal argument is that productivity growth in industrialized countries should shift. What liberal theory originally advocated was the deterioration of the terms of trade to the detriment of manufactures and in favor of agriculture. And this, in turn, would boost a tendency towards homogenization.

Dependence Theories

In analyzing the benefits of trade amongst countries through a perspective that came to be deemed “dependence theory”, according to which, in industrialized countries, industrial production is organized in such a way that oligopolies defend the interest rate associated with the pressure of the unions in the context of the advantage of the welfare state - that is, monopolization and welfare state. The situation reverses and an opposite deterioration is introduced, becoming unfavorable for agriculture to the benefit of manufactured products. It would be necessary to implement a Keynesian agenda for countercyclical action. It was necessary to implement an agenda of protection of infant industry in the country in the opening of trade. It was necessary to open the economy of these countries to attract foreign capital.

Together with this proposition, clearly in line with the BRICS countries' need to strengthen their industry and to overcome a situation of underdevelopment, active policies of income redistribution were proposed to strengthen the domestic market. The ECLAC approach is criticized by Marxist theory, since it values the role of international capital in the development effort, but according to Cardoso:

> The originality of ECLAC thinking is not simply to accentuate the existence of a tendency to reproduce inequalities between nations through international trade and to explain it by the existence of differential wage rates and distinct degrees of technical progress between the Centre and Periphery. (...) But the originality of ECLAC also lies in the effort to transform this interpretation into the matrix of a set of policies favorable to industrialization. (CARDOSO, 1970:54)

In this sense, the theory highlights the position of the unit in the given system. The view contrary to Róstow's thesis of growth stages indicates that countries need to orient their policies in ways that foster development and industrialization with the boost and support of public investment banks in infrastructure and industry, in order to change their position in the system.

World-System Theory

Wallerstein introduces the "semi-periphery" as a novelty: "The three structural positions in a world-economy - core, periphery and semi-periphery - had become stabilized by 1640" (WALLERSTEIN, 1974:401)[8]. The developing state is not in a certain stage of growth but rather occupies a functional position in the structure. The absence of the semi-periphery would lead the system to polarization and rupture, functioning, in this sense, as a damping system of the units that form the structure of the system:

> The second point we wish to make about the structural differences of core and periphery is that they are not comprehensible unless we realize that there is a third structural position: that of the semi-periphery. This is not the result simply of establishing arbitrary cutting-points on a continuum of characteristic. Our logic is not just inductive, sensing the presence of a third category from a comparison of indicator curves. It is also deductive. The semi-periphery is needed to make the capitalist world-economy run smoothly. (...) It is the normal condition of either kind of world-system to have a three-layered structure. When and if this ceases to be the case, the world-system disintegrates (WALLERSTEIN, 1974:401-404).

The natural polarization resulting from the capitalist system would lead to its demise without the presence of the intermediate structure represented by the countries that make up the semi-periphery – included in this definition, the

[8] The implementation of the New Development Bank would be somewhat coherent with the view that advocates the necessity of change within the system according to the theoretical analysis of Wallerstein (1974).

BRICS. According to Wallerstein, emerging countries play a crucial role in maintaining the functioning of the structure. The movements are accommodations of national units within the structure, so what exists is the shift from semi to center, from periphery to semi, etc. All systems would tend to be reabsorbed, however, since it is the logic of the system that predominates. Part of the system's reproduction mechanism is guaranteed by the constant mobility flux of states between periphery, semi-periphery and center so the system does not become dysfunctional.

We follow Buzan and Lawson's critique to Wallerstein's view on the division line separating core and periphery. World Systems analysts, as Wallerstein, follow a division between a low profit periphery and a capital-intensive-core. This view, as criticized by Buzan and Lawson, expresses a homogenizing perspective of international order (BUZAN; LAWSON, 2015:9)

This diverges, to some extent, from Gunder Frank's view, more unwilling to accept the possibility of movement of units within the system. According to Gunder Frank, the maximum the BRICS could achieve would be a sub-imperialist position. However, Chinese development raises this theory to doubt, as China's integration into the world economy was a factor that allowed the promotion of its development.

The theory that structure is maintained by the functioning of each unit in the system differs to some extent from the need to rely on an hegemonic power to maintain order. Charles Kindleberger (1986), as a result of his study in *World Depression 1929-1939*, hypothesized that one of the reasons why the crisis of 29 was so intense and prolonged was the absence of a superpower as a stabilizer of the international economic system. Such power would have the functions of (1) maintaining an open market for relief goods; 2) providing countercyclical or at least stable long-term loans; 3) policing a relatively stable system of exchange rates; 4) ensuring the coordination of macroeconomic policies; and, 5) acting as the lender of last resort by 'cashing' or otherwise providing liquidity in financial crises. This conclusion would later be called by Keohane and theorized by Gilpin's as the hegemonic stability theory.

According to Gilpin, "the liberal international economy requires the hegemon committed to liberal economic principles, the Great Britain was in the nineteenth century and the United States was in the twentieth century". This does not mean that the hegemon is against cooperation: "Hegemony makes cooperation more feasible and is not, as some have suggested, opposed to cooperation" GILPIN, 2001:94). For Kindleberger, the absence of a stabilizing global power in times of crisis - acting as a lender of last resort and acting in cooperation with financial institutions - could lead to unnecessary contraction of credit, economic activity, and employment.

However, criticism was voiced against the notion of a hegemon in the international economic system, which could persuade less-central countries to follow policies supposedly to stabilize the system and its economies. An hegemonic country could also benefit from an open system where it could compete in more advantageous conditions with less competitive countries. This view is close to the nationalist approach according to which interdependence is never symmetrical, and countries reap unequal gains.

As for the dilemma between, on the one hand, stability promoted by the hegemon and, on the other hand, greater freedom for nations to develop in a world-wide context, List (1841) highlights the privileged position of more developed nations in the global structure and their power to impose trade regimes on less developed nations:

> The attempts that have been made by individual nations to introduce freedom of trade before a nation which is characterized by exclusive customs systems - as did Portugal in 1703, France in 1786, North America in 1786 and 1816, Russia from 1815 to 1821, and as Germany did for centuries - show us that in this way prosperity is sacrificed in individual nations without there being any benefit to humanity in general, serving exclusively for the enrichment of the dominant nation from an industrial and commercial point of view (LIST, 1841:85).

List's (1841) report is interesting in that it points to the specificities of states' development that occurred at a later stage than states that had already industrialized by entering the international market without the need to devise policies of protection against any nation in a position of advantage. In *Kicking Away the Ladder: Development Strategy in Historical Perspective*, the Korean Ha-Joon Chang (2002) argues that central countries are pushing developing countries to follow 'good practice' policies such as trade and financial liberalization that would help promote their development. However, the author argues that these policies were not actually adopted by the rich countries in their initial developmental trajectory, marked by the protection of infant industry and export subsidies.

Contrasting with the liberal belief of a natural tendency of balance between the market and the productive forces, the national-developmental analysis advocates the need to establish public banks to finance State action and its policy of fostering development and promoting industry. Through Marxist and functionalist structuralist tools, it may be gathered that the BRICS hold a semi-peripheral position in the system and aim at acceding within it. Although this is not an element to be formally found in the BRICS countries' discourse, the New Development Bank embeds an alternative recipe to the traditional recitals of conditionalities. It seeks to offer tools for a development-specific agenda and to reduce the dependency by emerging countries on the World Bank and to some extent, on the IMF.

3.4. Global Governance and the Future of Multilateralism

The global transformation that took place through the last couple of centuries was marked by new currency values, intensification of economic exchanges and widening of global markets. These transactions yielded deeper and more complex settings of rules and norms. They called for institutions that enabled economic and financial governance. According to Buzan and Lawson: "the shift to economies mediated by prices, wage-contracts and commodities generated a condition in which states provided the legal frameworks that sustained market transactions, and assumed many of the regulative and coercive functions that underpinned capitalist expansion" (BUZAN; LAWSON, 2015:39).

After World War II, economic and financial institutions were created to encompass the unfolding legal framework, the World Bank and the International Monetary Fund chief amongst them. The Bretton Woods system institutions helped states articulate their interests and build coalitions and managed to create patterns of behavior and expectations that facilitate global governance. At the same time, they work to facilitate the exercise of power, particularly when akin with the interests of powerful states. In a setting of an US-led hegemonic system "institutions can conceal or soften the exercise of power, and they can lock in a hegemonic order and enable it to persist 'after hegemony'" (IKENBERRY, MASTANDUNO; WOHLFORTH, 2008:20).

Economic liberalization that followed state's search for development widened the gap between rich and poor, and the power gap. The privileged position enjoyed by the West in this process is such so as to fall to the critique that modernization might be understood in the context of westernization. Fareed Zakaria (2012) poses the question: "Can you be modern without being Western?". To which the author points to Samuel Huntington's argument that the West was Western before it was modern (ZAKARIA, 2012:87). A modern society entails "industrialization, urbanization, rising levels of literacy, education and wealth"; the qualities that make a society Western, in contrast, are special: the classical legacy, Christianity, the separation of Church and State, the rule of law, civil society (ZAKARIA, 2012:87).

From a political perspective, Ikenberry underscores that:

> The most important transformation in world politics unfolding over the last two centuries has been what might be called the 'liberal ascendency'. This has involved the extraordinary rise of the liberal democratic states from weakness and obscurity in the late eighteenth century into the world's most powerful and wealthy states, propelling the West and the liberal capitalist system of economics and politics to world pre-eminence (IKENBERRY, 2013:71).

Particularly around the 1970's, the intensification of global economic interdependence brought the concept of global governance to the central stage. The concept of governance "involves the rules, structures, and institutions that guide, regulate, and control social life" and, in this sense, "to the extent that global governance entails only the mechanisms of coordination it could appear to be merely a technical machine, but in fact there are strong values running this machine" (BARNETT; DUVALL, 2005:2).

Global governance relates to how institutions may function to check abuses of power. According to Barnett and Duvall (2005): "the vocabulary of 'global governance' appeared at the very same moment that the Cold War receded from view. The Cold War was not only a description of a bipolar threat system; it also represented a mode of organizing the analysis and practice of international politics" (BARNETT; DUVALL, 2005:5).

Later in the twentieth century, globalization "increased inequalities of political power and influence" (HURRELL; WOODS, 1999:1) According to Andrew Hurrell and Ngaire Woods (1999), the process of globalization exacerbated this power gap between states. As liberal institutionalism structured world order though a system of designed rules and norms to help cooperation between states in different areas of interests, some states were better placed in order to shape outcomes. Countries with power to shape institutions of governance (rule-makers) disposed of a wider range of tools of control over such institutions, while less powerful states, (rule-takers), did not dispose of the same input to shape outcomes, to make and break rule in this uneven setting (HURRELL; WOODS, 1999).

Although institutions can work to foster cooperation and orient global governance, institutional liberalism falls to the critique that its analysts tend to oversee the aspect played by power in designing rules and norms within the liberal institutional framework. According to Andrew Hurrell (2005):

> The continuation of a stark divorce within academic international relations between liberalism and realism work against understanding the power/governance nexus. On the one hand liberals shy away from recognizing the full range of roles that power plays within and around institutions. On the other hand, neorealists are so disinterested in, or skeptical of, institutions that they do not recognize their importance for understanding power (HURRELL, 2005:48)

Power, a complex concept, may entail, for realists, "the ability of one state to use material resources to get another state to do what it otherwise would not do" (BARNETT; DUVALL, 2005:2). Within a number of concepts through which power can be understood, we underscore, for our current analysis, an institutional perspective whereby "institutional power is in effect when actors exercise indirect control over others, such as when states design international institutions in ways that work to their long-term advantage and to the disadvantage of others" (BARNETT; DUVALL, 2005:3). In our current analysis, in order to understand current power shifts in global governance, we highlight the understanding that power involves social aspects and "to understand power in international relations we must place it side by side with other quintessentially social concepts such as prestige, authority, and legitimacy" (HURRELL, 2005:49).

In the beginning of the twenty-first century, the power relations that structured the liberal international order thus far have shifted (IKENBERRY, 2010, 2013; COOPER, 2013; WOODS, 2010; ACHARYA, 2014; NYE, 2017; NIBLET, 2017). Ikenberry (2010, 2013) recognizes that the foundations of what the author deems as 'Liberal internationalism 2.0' is in crisis. The institutions that are found at the core of that order – "the Bretton Woods institutions, GATT (and later the WTO), the United Nations, and various functional institutions [that] provided the bulwark for an open and managed postwar world economy and global order" (Ikenberry, 2015:399) are faced with increasing pressure for reform. The co-relations of power that maintained that order under a prominent security threat have altered the bargaining balance since the end of the Cold War. According to Ikenberry, during that period leadership was "acceptable to other liberal states because it provided protection from Soviet Communism. That authority is now less securely established, and the U.S.-centered, hierarchical character of the postwar order is more problematic" (IKENBERRY, 2010:36). The hegemonic U.S. led system of multilateral governance is in crisis (IKENBERRY, 2015:399)

Economic global governance faces increasing dreadlocks in which states fail to find common ground. Especially after the crisis of 2008, protectionism increased. According to the WTO, "countries are increasing protectionist measures to try to protect local industry from the crisis. Rich nations are being hit hardest, especially the major producers of the automotive and machinery sector". Movements against the perceived effects of globalization gained strength in the face of the crisis scenario. As a reflection of increased protectionism, there is growing difficulty in concluding multilateral trade agreements, as can it be seen in the failure of the Doha Round to reach consensus among developing and developed countries. The former wants the liberalization of the agricultural sector, in which they tend to be more competitive, and the latter want the broad liberalization of the service sector. Each group wants to take advantage of the sectors where they have a comparative advantage.

According to Ikenberry, the main point from which to analyze the current order is the erosion of old norms, and the challenge that the liberal international order faces is "how to establish legitimate authority for concerted international action on behalf of the global community" (IKENBERRY, 2010:36) In advancing the argument in favor of a crisis in multilateral governance, Ikenberry (2015) recalls Charler Maier's argument that "the United States was 'surfing' on the wave of twentieth-century modernization. It was not just that other countries shared American vision, it was that this vision has had a good fit with the modernizing forces of development growth over the last century" (IKENBERRY, 2015:408).

While "we may not be witnessing the dawn of a new era of multilateralism" (WOODS, 2010:51), there are a number of aspects that point to a meaningful deep change in multilateral governance. Since the 2008 financial crises, the economic strength displayed by developing countries signaled shifts in the global economy landscape. With a financial crisis that originated surprisingly amongst Northern countries, many developing countries grew faster than advanced countries, thus altering world income distribution. China became the second economy in the world and global governance watched the powerful G7 group wane in importance as “the world economy shifted from ‘unipolar’ to toward ‘multipolar’” (WADE, 2011:347). Nevertheless, Robert Wade (2011) suggests that “the shift in power is much smaller than the headlines or private alarm bells suggest (WADE, 2011:347).

Despite the financial and economic upheaval that prevailed since 2008, Ikenberry (2013) argues that the current order is in crisis, but “the crisis of liberal internationalism 2.0 is a crisis of authority” (IKENBERRY, 2013:50). As Ikenberry’s argument unfolds, the author states that “the American hegemonic organization of liberal order no longer appears to offer a solid foundation for the maintenance of an open rule-based liberal order” (IKENBERRY, 2013:50). The crisis, according to the author, is one of success, inasmuch as leading and rising states in the system are not seeking to overturn the basic logic of liberal internationalism. Whether Ikenberry’s input on the interests shared by rising states, and, in particular, China, is correct remains open to validation, as emerging countries press for reforms of old institutions and orchestrate parallel ones.

Nevertheless, Ikenberry (2010; 2013) stresses three possible pathways for the future of the multilateral order. First, one possible outcome of shifts in the world order would entail a yielding of authority toward more universal institutions, which would include the reform of the United Nations and the inclusion of rising states in the Security Council. The G20 would grow in importance, as it has already happened, and the Bretton Woods institutions would expand significantly. Hierarchy would remain but order would be “flatter” (IKENBERRY, 2010). In this scenario, it is not clear how the author downplays the growing role of China in the current order. In the second path presented, liberal internationalism would undergo fewer transformations, while the U.S. would be able to renegotiate bargains that would ensure its maintenance as a hegemonic power. The U.S. would still be the provider of the functional services that enable it to remain hegemonic, although in return it would demand new rights and privileges (IKENBERRY, 2010). Interestingly enough, this scenario enjoys a few intersections with current U.S. President’s, Donald Trump, vision. In more than one occasion, President Trump has expressed discontentment with traditional bargains and institutions, such as NATO or the United Nations. Finally, a third path relates to leading and emerging countries diverging vision on global governance and the question as “to whether non-Western countries such as China and India will seek to use their rising power to usher in a substantially different sort of international order[9] (IKENBERRY, 2013:50).

As for the future of multilateralism, Ikenberry (2015) stresses that there are five aspects of the multilateral system of governance that should be underscored with the relative decline of American power. First, multilateral governance will include wider role played by governance groups of non-western countries. The shift from the G8 to the G20 displays this current unfolding adaptation. Second, the WTO must accommodate for greater cooperation, since many trade relations still have a non-zero sum character. Third, global governance might flow into more regional political settings given the increasing difficulty in fostering global consensus around a number of problematic areas. Forth, while rising states might not share all the values of traditional powers, they are not interested in tearing down the system, but in gaining authority within it. Finally, Ikenberry argues that "the benefits that states gain from operating in as open system outweigh the costs of multilateral governance" (IKENBERRY, 2015:411-412).

With a more nuanced view, weighing in this analysis of the future of multilateralism, Amitav Acharya (2014) stresses a greater role for emerging powers. Acharya argues that "the decline of the US hegemony could mean a redefinition of multilateral institutions" (ACHARYA, 2014:155). And he goes against Ikenberry's account of emerging powers, stating that the author's analysis is "missing any sense of the North-South divide, and its impact on the past or the emerging world order" (ACHARYA, 2014:155). Acharya developed the concept of a "multiplex world order" (2014) to better describe his analysis of the future of global governance. According to Acharya (2017):

> Such a world is best described as a multiplex world, whose distinctive feature is a proliferation of transnational challenges, a diffusion of ideas, actors and processes of global governance. The fragmentation of global governance reflects a growing demand for new principles and approaches that cannot be accommodated by a simple extension of the old international order dominated by the US or the multilateral institutions it created, even though the latter will have their place and role. The concept of global governance must come to terms with an emerging multiplex world (ACHARYA, 2017:10).

Acharya also names challenges to America-led multilateralism, civil society resistance, emerging powers and regionalism, and argues that:

[9] Ikenberry's analysis of the possible paths for international order has evolved in the last years, with increased attention being granted to non-Western states, specially China.

> Ikenberry dismisses the second of these [emerging powers], saying that they would be co-opted. Some of them perhaps, individually. But collectively? Most likely no, especial when combined with the other challenges (ACHARYA, 2014:155).

Adding to these challenges, Anne-Marie Slaughter stresses the shifts in the global financial architecture in the aftermath of the global crisis resulted in the creation of the Financial Stability Board, and the International Organization of Insurance Supervisers. As Slaughter stresses: “the result is nothing less than a new global financial architecture, but one created by informal networks rather than by formal institutions” Slaughter (2010) argues that developed countries must accommodate for not only the rise of developing countries but also for the rise of new actors (SLAUGHTER, 2010:52).

Since the financial crisis, a trillion-dollar gap in financing for infrastructure came to the forefront of the challenges faced by global governance. According to Woods, “the IMF and the World Bank used the title ‘development emergency’ in their report monitoring the impact of the crisis in the poorest countries of the world” (WOODS, 2010:52; WORLD BANK, 2009). Since the 2008 financial crisis, the stark reality the IMF needed to adapt to a major power shift was brought to light with the arrival of the G20 to the core of global economic governance, the transformation of “the United States from being the world’s largest creditor at the time of the IMF’s creation, to being the world’s largest debtor in 2009, and by the rise of China and other emerging economies” (WOODS, 2010:53).

By 2014, emerging powers went beyond coordination through G20 Summits. If the multipolar word is to prevail upon the decline of the American-led system, traditional institutions and new institutions fostered by emerging powers will find new grounds on which to co-exist. As Robin Niblet (2017) argues:

> Rather than challenge such initiatives, the United States should support Western-led regional and **multilateral financial institutions**, such as the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank, as they join forces with the Asian Infrastructure Investment Bank and the New Development Bank (set up by the BRICS countries—Brazil, Russia, India, China, and South Africa) to pursue projects that are in every country’s economic interest while adhering to environmentally and financially sustainable principles. (NIBLET, 2010:2007)

The creation of the New Development Bank and The Asian Infrastructure Investment Bank are financial pillars to this new ‘multiplex world’ (ACHARYA, 2014:2017). In the next chapter, we shed light on the newly created institutions that alter the global financial architecture in the beginning of the twenty-first century.

4. The New Development Bank and the Asian Infrastructure Investment Bank

Emerging countries have had an impact on global governance that falls beyond the realm of reform of the system. For all expectations that they could be lured into the narrative created of anti-hegemonic rivalry, there were contrary expectations for them to stay hesitant as to overthrow a system within which they had managed to climb up a step. In this chapter, we argue that although emerging countries seek to reform economic and financial institutions of global governance originated from the Bretton Woods system, they have had a tangible impact on global governance in the field of financing for development.

As Acharya (2014) predicted in his view of a "multiplex world order", emerging countries have had an impact in world order adapting the system to their cultural views and specific demands. We argue that emerging countries have adapted financing for development, hence financial global governance, to their own specific demands. Emerging countries have managed to identify a gap - a wide gap - in financing for infrastructure, and have thus created their own financial institutions outside of the Bretton Woods system to best answer these needs. In this final chapter, we analyze the economic shift ignited in 2008 by the financial crisis and bring forth two case studies to illustrate the impact emerging countries are having in global governance with the creation of (i) the New Development Bank; and (ii) the Asian Infrastructure Investment Bank.

4.1. The 2008 crisis

In 2008, the fourth largest investment bank in the United States, the Lehman Brothers, filed for bankruptcy protection, and as Andrew Gamble argues, although "a small event in itself, it triggered a cataclysm" (GAMBLE, 2014:1) since the US government, that had already intervened to ease the ailment of Bear Stearns, Freddie Mac and Fanny Mae, decided to treat Lehman Brothers differently, to send a message that large banks would no longer be bailed out. Nevertheless, US authorities worked a rescue package to stabilize the financial system, "a large fiscal stimulus was announced and central banks from the US and the UK increased the money supply through the new form of alchemy know as quantitative easing to prevent economies falling into deflation" (GAMBLE, 2014:2). An economic recession followed the financial crash of 2008 and, as Gamble (2014) presents it, the world faced "the most severe recession since the Second World War" (GAMBLE, 2014:2).

In addition to being a very prolonged crisis from which states could not bounce back as quickly as it had happened after the Asian crisis in the late 1990's, the 2008 crisis had one very specifically outlandish characteristic. The bulk of the crisis was felt in the developed states, the economic core of the Western liberal order. Having been most severely felt in the OECD economies, notably the US and in the Eurozone, it let clear the dependence of European banks on the UK and the US financial markets. In addition, the 2008 crisis triggered "a global shift in the balance of the international market order towards multipolarity – creating many centers of power and a fragmented state system has been sharpened by the emergence of new rising powers" (GAMBLE, 2014:7).

For the magnitude of the 2009 crisis that followed the 2008 crash, one might have expected wider reform measures in the market system, however, "the dominant framework of institutions, policies, and ideas which existed before the crash and, though briefly shaken, was still largely intact five years afterwards" (GAMBLE, 2014:15; see also: ENGELEN et al., 2011; SCHMIDT; THATCHER, 2013; GRANT; WILSON, 2014) As Gamble (2014) underscores:

> There have been some reports about banking reform, and some legislation, notably the Dodd-Frank Bill in the US passed in 2010, which introduced new rules for the operation of banks, as well as the international agreement in the G20 to establish a Financial Stability Board and to introduce a new set of rules for financial regulation which became the Basel III rules (GAMBLE, 2014:15).

Although some measures were taken in international financial regulation to curb excesses of the financial system, "the Anglo-American financial model of growth which flourished so strongly in the two decades before the crash has not been abandoned, partly because no clear alternative to it has yet emerged" (GAMBLE, 2014:16). However, the economic global balance had been altered, in the first five years after the financial crash, rising states displayed not only economic but also political stability, while instability lingered in the heartlands of the western economies. The crisis altered the perception of the global economic landscape, in which western powers had hitherto displayed economic stability and strength. Countries of the Global South found themselves in the spotlight.

4.1. The G20 and the BRICS

In 2001, some of these rising states enjoyed a very famous moment in which they collectively held highly optimistic predictions for the future by an economic analysis from Goldman Sachs. They had not, nevertheless, fully grasped, at the time, the depth and meaning such predictions would entail for their collective future in global governance when Jim O'Neill coined the acronym 'BRIC' to "highlight the remarkable impact these rapidly growing countries – Brazil, Russia, India and China - were starting to have on the rest of the world" (O'NEILL, 2013:1). Ten years later, by the end of 2011, the aggregate size of the BRIC economies stood at $15 trillion (O'NEILL, 2013).

By 2013, non-western economies accounted for over 50 per cent of global output at purchasing power parity for the first time. The gap had narrowed quickly over the last 30 years but particularly over the last ten (GAMBLE, 2014:77). The center of economic gravity has shifted but many in the West still see it as a future prediction, having no idea how rapidly it has been happening. Danny Quah (2011) went as far as to geographically calculate this economic shift considering the entirely of GDP produced on the planet, aiming to elucidate the dynamics of the global economy's center of gravity. According to Quah (2011), the world's center of gravity located in 1980 at a point in the middle of the Atlantic Ocean had, by 2008, drifted to a location at about the same longitude as Izmir and Minsk, and thus east of Helsinki and Bucharest and, by 2050, - extrapolating growth in the 700 locations across Earth, the world's economic center of gravity is projected to locate between India and China (QUAH, 2011).

The calculation[10] of the exact location of the world's economic center of gravity from 1980 to 2007 is represented by Quah in a construction which shows

[10] Quah demonstrates the calculations of the analysis: "I took, to begin, national GDP figures adjusted for purchasing power parity (World Bank, 2010) augmented with data for Taipei China (...). This provided 210 data points per year. Then I used Google Earth to determine the geographical locations of every urban agglomeration on the planet having 2009 populations exceeding 1 million (...). This gave 483 urban agglomerations on Earth. Some nation economies have no such agglomeration, others many: for example, China had 79; India, 48; the US, 54. To add to this collection, using Google Earth again but now together with uniform spatial averaging, I located the point average across geographical extent in each of the 210 nation economies. This gave for each nation economy a single point proxying for the rural (non-urban) geography. Altogether, these 483 urban

the sequence of the world's center of gravity not from a single fixed perspective but from a sequence of perspectives that track the world's center of gravity as the latter traverse their trajectory. The black spots represent the shifts that have happened while the projections for 2049 are represented in red, as shown in the figure below (QUAH, 2011:7):

Figure 3: Shifts in the World's economic center of gravity

Source: QUAH, Danny (2011). *Global Economy's Centre of Gravity.* Global Policy, v.2, issue.1, Jan. 2011.

Although non-western countries have been adding to the changes in global economic balance, the shift is due in large part to China's economic growth. According to O'Neill, while the BRIC economies "have been adding the equivalent of a new Italy to their combined GDP each year, China itself has been adding another Spain" (O'NEILL, 2013:VIII). Average BRIC real GDP growth for the period of 1981-2010 was 6,6%, and Goldman Sachs forecast for this decade was also 6,6% on average. O'Neill (2013) predicts that the BRIC's growth performance will continue to outstrip the economies of the West.

The BRICs countries annual GDP growth according to 2016 data from the World Bank, shows that while Brazil and Russia might have some setbacks in

agglomerations and 210 rural proxies provided 693 identifiable locations on Earth. Following Grether and Mathys (2009) I allocated national income across locations so that all urban agglomerations within a nation economy had equal per capita income. I assigned per capita income in the remainder of the nation economy to be 10 per cent lower than in the urban agglomerations. To summarise, I took 693 locations to represent the spatial distribution of all the economic activity on Earth. Tracking incomes in these locations over time gives a representation of the spatial distribution dynamics of global economic activity. At any given point in time, calculating the three-dimensional weighted average across the 693 locations yields the WECG" (QUAH, 2011:5).

annual GDP growth due to internal political and economic struggles, China maintained in 2016 a GDP growth of 6.7% and India maintained GDP growth of 7.1%. Whereas the US annual growth was of 1,6% and the European Union stayed around 1.8%.

Figure 4: GDP growth (annual %)

Source: World Bank 2017.

According to the 2013 Human Development Report, '*the Rise of the South*', by 2050, Brazil, China and India combined are projected to account for 40% of world output in purchasing power parity terms (UNDP, 2013, p.1). The Report argues that the striking transformation of a large number of developing countries into dynamic major economies with growing political influence is having a significant impact on human development progress and, in relation to the growth of trade. In a sample of 107 developing countries over 1990–2010, about 87% can be considered globally integrated: they increased their trade to output ratio and are more connected to the world and with each other. More than four-fifths of these developing countries increased their trade to output ratio between 1990 and 2012.

As a share of world merchandise trade, South–South trade more than tripled over 1980–2011, while North–North trade declined:

Figure 5: Share of the world merchandise trade (%)

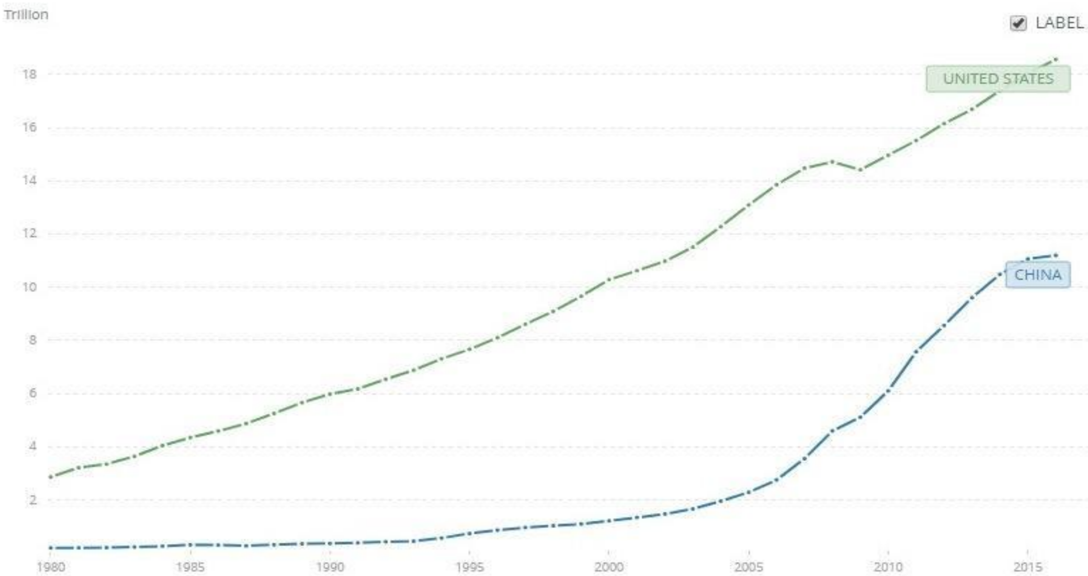
Share of world merchandise trade (%) 0 10 20 30 40 50 60 1980 1985 1990 1995 2000 2005 2011 South–South North–North South–North Note: North in 1980 refers to Australia, Canada, Japan, New Zealand, the United States and Western Europe. **Source**: HDRO calculations based on UNSD (2012)

In his work, *The Growth Map*, O'Neill argued in 2011, that "globalization didn't need to be Americanization; there was scope for the rest of the world to create their own definition of the term using their own characteristics (O'NEIL, 2011:23). The BRICs countries have been pragmatic in adapting capitalism to their own needs (O'NEIL, 2013:3) and as these emerging markets grow, they become less dependent on the western economies, trading more with one another. They become more assertive in defending their own agenda in development governance, which leads them to question many of the assumptions on which western policy is based (GAMBLE, 2014:76) They are managing to design different paths of national economic development, and by contrast, become more inclined to question western proposals on finance and trade, leading, thus, to deadlocks in many international multilateral negotiations that no longer reflect the new distribution of power. Especially in the post-2008 crisis, the western powers no longer hold a position to impose their wishes on the rest of the world, but at the same time, the slow pace of reforms shows that they are also not prepared to make the kind of concessions that are necessary to get other countries to sign up to asymmetric deal that are no longer acceptable to countries such as Brazil, Russia, India and China, who are becoming more assertive about their own interests (GAMBLE, 2014:113).

Economic predictions for the future suggest that this trend will be ongoing as growth is set to continue, even if at a slower pace. In 2003, when O'Neill predicted that China would be the biggest economy in the world by 2039, Professor Niall Ferguson was in sheer disbelief. Ferguson assumed that the projections expected China to extrapolate past growth; they did not. In 2008, O'Neill stated that China could become the world's largest economy by 2027. A few months later, The Economist predicted China might overtake the United States by 2020, although to achieve that it would have to grow by 10% a year all the way to 2020, which was highly unlikely (O'NEILL, 2011:84).

As of 2017, World Bank data shows US GDP around US$ 18.569 trillion, and China's GDP at US$ 11.199 trillion, a gap of US$ 7.370 trillion, which is set to become narrower in the years ahead.

Figure 6: Comparison between US and China GDP (1980-2015)



Source: World Bank.

The fast pace of economic shifts in global markets do not reflect in the protracted negotiations for reform in the economic and financial institutions of global governance, which were set in 1944 within what came to be deemed the Bretton Woods system. This misalignment triggers major discontent amongst the developing world, which increasingly strengthens their position as stakeholders in global governance. This new economic balance augmented the need for the G7 to be questioned as the legitimate forum for economic governance. Decisions in the sphere of economic governance, after the 2008 crisis, could no longer afford to exclude emerging countries, which boasted at the time high or steady growth rating in a time when the G7 economies lagged behind.

Faced with this new setting, the major initiative in reforming the international market order after the 2008 crisis and recognizing the global shift under way came about in 2009, when the G20 became a head of states forum and overtook the unique spot held for so long for the G7. The membership of the G20 consists of eight individual western powers together with the EU and eleven non-western powers, including the BRICs and the MINTs (except for Nigeria) (GAMBLE, 2014:92) The agenda of the G20 is focused on how to preserve and strengthen the international market. Nevertheless, rising powers seek to press for reforms to the institutions of the international market order, and "if such reforms cannot be over the next decade there is likely to be an increase in bilateral rather than multilateral deals between nations and the formations of new regional alliances and spheres of influence, even the emergence of alternative international orders" (GAMBLE, 2014:79)

While the more assertive instance on which lie the rising countries can trigger greater deadlocks in global governance, at the same time it boosted cooperation amongst them. Oliver Stuenkel argues that the 2008 financial crisis in combination with relative economic stability amongst emerging economies resulted in unprecedented cooperation amongst the BRICs countries and, more broadly, to a legitimacy crisis in the financial international order (STUENKEL, 2013; 2017). Stuenkel (2017) reinforces the relevance of the timing of the BRICs' first summit, a period in which there was a wide perception of a crisis in order in general and in the United States in particular, enhancing the effectiveness of the emerging countries political articulation and their capacity to respond with a coherent voice to the unfolding of the crisis (STUENKEL, 2017:53-54).

The BRICs countries were brought to the forefront of financial global governance, negotiating their stance on the sidelines of the G20 meeting in 2009.

The countries were able to boost their leveling power and negotiate the IMF quota reforms of 2010. Stuenkel argues that this shows that "even short periods of reduced legitimacy in global governance can quickly lead to the rise of alternative institutions – such as the BRIC platform – which now forms part of the landscape of global governance" (STUENKEL, 2013:611; 2017:25). Further than that, the fact that the BRICs were able to find common ground or paths of least resistance

(ABDENUR, 2014) in the field of finance allowed them to institutionalize the cooperation, aiming to foster financing for development. In 2012, during the fourth BRICs summit in New Delhi, they first announced there were initial studies on the possibility of institutionalization. This was the first step, which would ultimately culminate in the creation of the New Development Bank.

4.2. Financing for Development: The Infrastructure Gap

In this section, we aim at elucidating how policies towards financing for development were oriented so as to generate dire needs in financing for infrastructure in developing countries. Different views on development have oriented shift towards developmental policies in the West. As Deborah Brautigam (2009) explains, until the early 1960s, the West's ideas of fostering development focused on aid and were modeled in the experience of industrialized countries. During that time, the West's ideas about aid used the experience of industrialized countries as a useful model, focusing on the idea that the rest of the world could modernize relatively quickly by building roads and installing electricity, importing Western technology, factory equipment, tractors, and seeds (BRAUTIGAM, 2009:27).

In his Inaugural Address, in 1949, President Truman first mentioned that the assistance already granted to Latin America would be extended to poorer countries and fostered the idea that it was "no longer a question of things developing, now it was possible to develop a region (RIST, 2009:73). This speech, that would come to be known as the "Point Four Speech" inaugurated the 'development age (RIST, 2008). According to Brautigam (2009):

> Aid could accelerate progress in basic infrastructure, large-scale agriculture, and industry (…). Delivering aid as loans was not seen as problematic: debt would be repaid with the future earnings from investments, much as Australia and the Americas had repaid the nineteenth-century European loans that built their railroads (2009:27).

The focus was on promoting the necessary infrastructure to support industry and increase production, which was supposed to bring economic development on its wake. By the mid-1960s, these conceptions started to be questioned. While Western aid continued to be an important element in the Cold War battle for the Third World, "these large-scale industrialization projects did not reap the expected benefits, particularly in terms of employment" (BRAUTIGAM, 2009, p.28). Theories were developed to explain why infrastructure-geared aid was failing. In a sense, the debate on development strategies was closely related to the advancement of economic theories questioning the role of states and the market in economic development (BRAUTIGAM, 2009).

On one side of the ideological spectrum, developing countries blamed an unequal and unjust world order for their demise. They advocated a New International Economic Order where developing countries enjoyed more favorable rules as a tool for leveling the playing field. As part of this strategy, developing countries demanded, and to some extent achieved, a revision of the rules of multilateral institutions. such as the United Nations and the General Agreement on Tariffs and Trade (GATT). However, while this special and differential treatment in favor of developing countries was successful in ensuring that not all countries had the same level of commitments, it was not successful in ensuring that developed countries contributed in a larger share for the development the South. In other words, the special and differential treatment provisions in favor of developing countries resulted in negative rights, i.e. the right not to reduce tariffs, or not to join to sign the Tokyo Codes, but it did not (BRAUTIGAM, 2009).

On the other side of the spectrum, developed countries were convinced that the South's ailments were self-inflicted. In 1981 the Berg Report concluded that "mismanagement was at the root of Africa's underdevelopment: corruption, patronage, inefficient state-owned enterprises, excessive government controls, and borrowing to support subsidies and deficit spending." (BRAUTIGAM, 2009:44). This diagnosis was ultimately applied to the whole of developing countries, and the conclusion was: "infrastructure investment would not succeed unless recipient countries could first develop their society" (BRAUTIGAM, 2009:44). According to Brautigam (2009):

> In 1980, on the steamy coast of Nigeria, African heads of state met to deal with the growing economic crisis by endorsing the Lagos Plan of Action, a report that laid out a regional development strategy based on the principles of the 1974 UN New International Economic Order. The plan assumed that Africa's problems were primarily caused by an exploitative and unjust global economy. The World Bank countered this by commissioning a team headed by prominent development economist Elliot Berg to write Accelerated Development in Sub-Saharan Africa: An Agenda for Action. The Berg Report charged that mismanagement was at the root of Africa's underdevelopment: corruption, patronage, inefficient state-owned enterprises, excessive government controls, and borrowing to support subsidies and deficit spending. As we have seen, the World Bank's plan of action became known as **structural adjustment**. The influential magazine Foreign Affairs singled out

> the Berg Report as one of the five most important books published on Africa over the first seventy-five years of the magazine’s history. Its critique of the stateled development model and call for a more market-oriented strategy echoed the conservative revolution launched separately by British Prime Minister Margaret Thatcher and American President Ronald Reagan. **Structural adjustment** combined stabilization (bringing spending back in line with revenues, and imports back in line with export earnings) with market liberalization. While some form of stabilization has always been necessary for countries (or households) that overspend or run up excessive debt, the turn to the market was driven more by a paradigm shift in ideas (2009:44).

In line with this new diagnosis, the focus of Western aid to the developing world shifted from infrastructure and growth to rural development basic human needs and poverty alleviation (BRAUTIGAM, 2009).

During this time, what came to be called integrated rural development (IRD) programs attacked vast resources from the World Bank (BRAUTIGAM, 2009). The percentage of World Bank loans for IRD programs grew 50 percent annually between 1968 and 1979. Between 1976 and 1988, the World Bank committed $19 billion to IRD projects worldwide from 1976 to 1988 (BRAUTIGAM, 2009:29). Investment in IRD was partly motivated by the realization that unattended to rural populations were a fertile ground for communist ideas to proliferate. While the vast amount of resources allocated to rural development was certainly a positive consequence of the reorientation of the focus of Western aid for developing countries, this same diagnosis of the causes of underdevelopment in at the roots of the policies of structural adjustment, which became both well-known and harshly criticised in the whole of the developing world during the 90s.

Under the structural adjustment programs, countries wishing to borrow from the World Bank and the IMF were subjected to numerous conditions. Most of which were related to market liberalization and the reduction of the presence of the state in the economy. The idea was that these reforms were a bitter (but necessary) medicine specially designed to correct the basic fundamentals of the economy which were hindering growth. Yet the austerity policies and market liberalization promoted by structural adjustment policies have not contributed to promoting infrastructure investment. (BRAUTIGAM, 2009:29). In a sense, the Millennium Development Goals adopted by the United Nations in 2000 by focusing on social development (ending poverty and hunger, combating malaria, achieving gender equality and universal primary education) contributed to accentuate this trend.

In 2015, a total of 193 member states of the United Nations adopted the Sustainable Development Goals (SDGs) for the period of 2016 – 2030, to follow the Millennium Development (MDGs) that were in effect during 2000-2015. In order to achieve the MDGs, it was announced in Monterrey, Mexico, in March 2002, that there would be significant flows from rich countries to poor ones, and a target of 0.7% per cent of GDP in Official Development Assistance. Yet, countries fell short of this promise and aid in 2015 was in average around 0.3% of donor GDP. A key step kept on being on analyzing how the international financing gap should be closed (SACHS, 2015).

While the MDGs focused primarily on reducing extreme poverty, the SDGs focus on sustainable development, meaning the holistic achievement of economic development, social inclusion and environmental sustainability. The SDGSs were finalized in the international negotiations in August 2015 and adopted in September 2015. The UN Conference on Financing for Development in Addis Ababa in July 20015 paved the way for the implementation of the post-2015 development agenda. The creation of new institutions for financing infrastructure contributes in a valuable way to the aims of financing sustainable development.

The Financing for Development Summit in Addis Ababa enunciated some general principal for financing but did not press hard to identify financing gaps and how they could be closed (SACHS, 2015). Nevertheless, the Addis Ababa Outcome document clearly specifies as a part of its agenda on financing for development:

> Establishing a new forum to bridge the infrastructure gap. Investing in sustainable and resilient infrastructure, including transport, energy, water and sanitation for all, is a pre-requisite for achieving many of our goals. To bridge the global infrastructure gap, including the $1 trillion to $1.5 trillion annual gap in developing countries, we will facilitate development of sustainable, accessible and resilient quality infrastructure in developing countries through enhanced financial and technical support. We welcome the launch of new infrastructure initiatives aimed at bridging these gaps, including the Asian Infrastructure Investment Bank, the Global Infrastructure Hub, the New Development Bank, the Asia Pacific Project Preparation Facility, the World Bank Group's Global Infrastructure Facility and the Africa50 Infrastructure Fund, as well as the increase in the capital of the Inter American Investment Corporation. As a key pillar to meet the sustainable development goals, we call for the establishment of a global infrastructure forum building on existing multilateral collaboration mechanisms, led by the multilateral development banks. This forum will meet periodically to improve alignment and coordination among established and new infrastructure initiatives, multilateral and national development banks, United Nations agencies, and national institutions, development partners and the private sector. It will encourage a greater range of voices to be heard, particularly from developing countries, to identify and address infrastructure and capacity gaps in particular in least developed countries, landlocked developing

> countries, small island developing States and African countries. It will highlight opportunities for investment and cooperation, and work to ensure that investments are environmentally, socially and economically sustainable (2015:8).

There are 17 SDGs enunciated. Sustainable infrastructure is sustainable development goal number 9. According to Jeffrey Sachs (2015), "part of planning will need new and more complex forms of financing for development. Financing for development means, after all, mobilizing the resources necessary for sustainable development and specifically for success in the SDGs. The SDGs will require literally trillions of dollars investments per year, most of which will be channeled within the private economy.

The downside from the MDGs was that they resulted in a severe shortage of funds for agriculture development projects, not to mention infrastructure, which were already scarce since the mid-1960s. "This framework guiding the financing for development agenda has generated a deficit in infrastructure finance and renewable energy altogether. According to Katja Dombrowski:

> According to Cremer, developing countries have also realised that renewable energy is indispensable. Investments in those countries are reportedly up 30 % from the previous year, though they remain low. "The business climate is the decisive factor in developing countries", Cremer explains. "Is there security for investors? Is there a regulatory agency?" Ulf Moslener, another co-editor of the report, points out that despite record investments, renewable energy still accounts for only 16.2 % of power generation capacity worldwide. "It's even more sobering to consider that renewables actually only make up 10.3 % of the electricity mix." This discrepancy is due to the fact that wind and solar power are not always available and plants often cannot make full use of their capacities.
> Electricity storage is a particularly important consideration. Storing energy offers a way to react to variable power generation from wind and solar and to deal with spikes in consumer demand. According to the report, 250 megawatts of energy storage capacity were added worldwide in 2015, excluding pumped hydro and lead-acid batteries, compared to an increase of only 160 megawatts in 2014. Silvia Kreibiehl, Head of the Frankfurt School-UNEP Collaborating Centre for Climate & Sustainable Energy Finance, thinks it is essential that energy markets be restructured in order to accommodate even greater shares of renewable energy. To that end, "investments in storage media and the expansion of the grid must play a larger role in the future (Dombrowski, 2016).

Another challenge in meeting these needs in investments is that although many emerging and developing countries have significantly increased their weight in terms of global GDP and have thus accumulated large foreign exchange assets, many of these resources are invested in developed countries with relatively low yields. China, specially, needed to find better ways of investing its massive foreign exchange reserves, which around 2014 already stood at over US$4 trillion.

According to Tom Miller, “[r]ather than plowing these into US treasury at a 2-3% return, (China) would do better to finance foreign infrastructure projects at 5-6% - especially if it process to the advantage of Chinese exporters and construction firms” .[11]

Meanwhile, there are major unmet demands in the emerging and developing countries in the field of infrastructure as well as in more environmentally sustainable forms of development (GRIFFITH-JONES, 2015). In a wide publicized analysis, Bhattacharya, Romani and Stern (2012) have identified a shortfall of investments of approximately US$ 1 trillion annually beyond what if likely to be financed by current institutions. According to Griffith-Jones (2015):

> the persistence of such a major deficit would constrain future growth of developing and emerging economies, as well as imply that a large proportion of the world’s population will continue to lack access to electricity and clean water. Furthermore, much crucial investment in sustainable development such as renewable energy, would not take place. Thus there is a strong case for a major increase in investment in infrastructure and more sustainable development, based on the need for growth, structural change, inclusion as well as sustainability and resilience (2015:2).

Thus, there is a clear case for the creation of new institutions with a strong focus on filling the gap in infrastructure investments in the realm of sustainable development. The creation of the New Developing Bank by the BRICS countries and the creation of the Asian Infrastructure Investment Bank led by China aim at filling this gap. The New Development Bank and the Asian Infrastructure Investment Bank borrow extensively from the Chinese experience with development aid towards developing countries and infrastructure financing. Both were **designed to bridge the gap in infrastructure financing** by shifting the focus of development away from structural adjustment and towards a renewed trust in the role of the state (and state-led investment and financing) in economic development. Developing and emerging countries have the necessary savings and foreign exchange reserves “to finance a new development bank that can contribute towards financing such crucial investment” (GRIFFITH-JONES, 2015:2). The creation of the New Development Bank and the Asian Infrastructure Investment Bank correspond to these specific demands and point to a clear consensus that well-run public development banks can play a role that is highly and timely called for in finding such long-term investments specially when regarding the limitations these countries face in private financing for long-term infrastructure projects.

[11] Miller, T. Available at: gavekal.com.

4.3. The New Development Bank

The cooperation amongst the National Development Banks started in 2010, in the second BRICs summit in Brasilia, Brazil. Since that time, the presidents of the National Economic and Social Development Bank (BNDES), the Export-Import bank in India, the National Development Bank in China and the National Development Bank in South Africa held meetings to study the potentials for co-operation in finance, technical, economic and commercial development so as to give support to the infrastructure development industry (STUENKEL, 2017:105). In order to build a more equal world order, emerging countries must show they are able to articulate positions in different instances. There is no purpose in demanding reform and not knowing what results they want out of them. The frailty of the articulation in 2009, when failing to resist the nomination of Christine Lagarde as the IMF director and appoint a common name signaled that cooperation needed to be better articulate (STUENKEL, 2017:106).

After the 2008 financial crisis, developing countries were holding strong growth ratings while developed countries, the core of western economy lagged behind. It was clear the negotiations to overcome needed to go beyond the G7 group to include developing countries. This shift triggered developing countries to take action in demanding a new role for the G20 group. In this sense, we interviewed Mr. Paulo Nogueira Batista, a former director of IMF and current Vice President of the New Development Bank, who explained how the process came about:

> Since the 2008 crisis, emerging countries have orchestrated attempts to transform their newfound economic power into political articulation. The G20 group took the spotlight as a chosen platform from which countries could articulate ways of overcoming the crisis. We have witnessed the G20 being put in a new position, overtaking that enjoyed since then by the G7 countries, and being held at the level of Heads of States and Governments, but later being criticized for falling short of its potential for political articulation. In your perspective, what was the importance of the role played by G20 in the aftermath of the crisis and what is its potential now?
>
> I was in the IMF, I was the director for Brazil and ten other countries in the board of the IMF, so I was watching very closely the way the crisis erupted, and I would say, I also took part as a Brazilian delegate in G20 negotiations, when the G20 became the main forum after 2008. It's a complex process. (…) When the crisis, the way it erupted, it shattered the confidence in the West, European and Americans, even their self-confidence, a little bit and as the emerging markets and emerging countries continued to grow they gained authority so what happened was that the West, by West I mean basically Western Europe and the United States, with a few allies like Australia, Japan, Canada, the West in this broad sense was in a deep cri-

> sis a very dangerous crisis and they needed to stabilize the situation early. I am talking about 2008, 2009; those initial years of the crisis, that was when they decided to broaden the G7, to transform the G20 into the leaders form, and actually, Lula played quite a role there. (…) So in that period, they formally declared the G20 was the main form for economic and financial cooperation putting the G7 in the second plan. They needed support; they needed to enhance the financial resources. Brazil (committed) to the IMF and to the World Bank. So the overall agreement was to join forces to face the crisis together, reinforce the fund of the Bank but the counter promises were the reforms in the Fund and the Bank to give more space to the emerging markets". But there was a frustration in the process of the reform of those institutions. (INTERVIEW).

In the wake of the frustration with the reform process, in 2011, during the Third BRICS Summit in Sanya, each members Development bank representative gathered to discuss how to strengthen cooperation. In 2012, in the Fourth Summit, in New Dheli, the BRICs set a financial cooperation standard within a mechanism of interbank cooperation set to facilitate trade and investments among them. These movements were largely a result of frustrating attempts by emerging countries to have more voice in the Bretton Woods system, what would entail a reform in the IMF quota shares represented by each country. According to Helmut Reisen (2015:299), the IMF quota system, which determines what each country pays and how many votes they are given, "fails to reflect the reality of a changing world. The BRICS states have just 10.3 per cent of quota. China has only 3.81 per cent of IMF voting right even though it account for 12.4 per cent of world GDP". Reforms were agreed in 2010, which would have doubled the IMF's capital to $720bn and transferred 6 percentage points of quota to poorer countries, nevertheless these reforms were never ratified. In an interview we held with the New Development Bank's current Vice President, Paulo Nogueira Batista stated on the subject:

> They needed support, they needed to enhance the financial resources Brazil (committed) to the IMF and to the World Bank. So the overall agreement was to join forces to face the crisis together, reinforce the fund of the Bank but the counter promise was "we will reform the Fund and the Bank to give more space to the emerging markets". And we did bring in money, very difficult negotiation, money to the Fund and to the Work Bank, but there was a frustration in the process of the reform of those institutions. And as the crisis receded, 2010 the crisis became less serious. Then in 2011 it was mainly a crisis of the Euro area, the United States was doing better, then they lost interest in keeping hold to these promises. They started to () of the promises, clearly. I was in the Fund, battling to have these promises kept, we managed to do some things but…
>
> C: It fell into a deadlock in the US Congress when they voted to halt the reform.

> Then in 2011, 2012, it became clear to the BRICS that the reform process of the Fund and of the Bank would move forward very slowly. It was then (that) the BRICS, in their regular meetings, started to consider if it wouldn't be the moment to create their own mechanism. That is where the Bank came in, the NDB, what was to become the NDB and the Contingent Reserve Arrangement, what was to become the Monetary Fund of the Brics.

The creation of the New Development Bank was first proposed at the IV BRICS Summit in New Delhi in 2012. The 2012 Action Plan declared in New Delhi for the Fifth BRICS Summit already included a meeting of experts on the establishment of the Development Bank[12], as well as the meeting of financial authorities to monitor the results of the BRICS Report. The first advances in the negotiations were still perceived in 2013, in the decisions about the capital structure, composition, shareholding and governance, establishing the initial capital of US $ 50 billion, to be subscribed by the members (CRIFFITH-JONES, 2015).

In the Fifth Summit, the BRICS took a step forward towards institutionalization which culminated in the creation of the New Development Bank, a year later, in 2014, in the Fortaleza Summit (STUENKEL:2017). The Agreement Establishing the New Bank was only concluded in 2014, at the occasion of its Sixth Summit, in Fortaleza, in 2014. At the same time, the Treaty for the Establishment of the Contingent Reserve Arrangements of the BRICS was also celebrated. Both initiatives clearly depart from the scope of greater convergence among the members, the economic and financial sphere, and from which one can perceive greater ease of negotiation and the possibility of taking advantage of opportunities based on needs common to the members, especially with regard to the need of greater availability of resources for investments in infrastructure (GRIFFITH-JONES 2015)

The creation of the New Development Bank (NBD) marks this new stage of BRICS initiatives aimed at a greater performance of these countries in global governance, working together with traditional institutions and global powers. Together with the creation of the New Bank, we have also created the Reserve Contin-

[12] In Brazil, this role is played by the National Bank for Economic Development was created with a view to acting as a formulator and executor of the national policy of Brazilian economic development. His work began with a focus on investments in infrastructure to cover broader functions and sectors. It is interesting to observe the wide range of possibilities of open action from the creation of the Brazilian development bank and bridge the possibilities open to the future of NDB. According to the BNDES Report 2007-2014, the BNDES has "presented unique growth in fostering development and has increased the scale of both its operations and instruments. Total disbursements have increased at a real average rate of 12% per annum since 2007, reaching R$ 187.8 billion in 2015"

gent Arrangement (ACR) by the BRICS, two political-economic and financial initiatives that garner great expectations not only for the founding countries, but also for the other developing countries and developed. In the evolution of the group and the consideration of issues of common interest, it is perceived that the BRICS is aware of the need for systemic approaches to issues, and that the current configuration favors and needs complementary mechanisms of long-term coordination, from the implementation of new models, aiming at inclusive global growth and more equitable development (eThekwini Declaration, 2013). The two initiatives are commonly associated with the attempt to reduce dependence on emerging countries to the traditional multilateral financing agencies established by the Bretton Woods framework.

The New Development Bank will be a complement not a substitute for existing financial institutions, and at the same time, it is a positive development to have healthy competition between established development institutions and new ones being creates (GRIFFITH-JONES, 2015). The bastions of the international financial system, the International Monetary Fund, and the World Bank no longer correspond in a faithful way to the new correlations of world political and economic power and their actions demonstrate the need to be revised and complemented by new actors in the global scenario. Meanwhile, it is interesting to notice that, according to Stuenkel (2017):

> This development was very meaningful, since it was the first step taken towards intitutionalizing the group, fundamentally altering its mains characteristic of being an informal group. It is interesting to notice that the intellectual drive towards the BRICS Development Bank came from the Global North. During the last years, Nicholas Stern, Joseph Stiglitz, Amar Bhattacharya and Mattia Romani (all scholars from North-American or European institutions) held global campaigns in favor of a new development bank – and this campaign was the core for the proposal of the Indian government in promoting the agenda within the BRICS in 2012 during the Fourth Summit in New Dheli (STUENKEL, 2017:161)

According to the President of the Chatam House, Robert Niblet:

> …European governments and businesses should take part in the Chinese-led effort to connect Northeast Asia with Europe across the Eurasian continent, a component of a series of regional **infrastructure projects** known as the **Belt and Road Initiative**. In 2016, the volume of global trade stagnated for the first quarter and then fell by 0.8 percent in the second. This reflects an ongoing structural decline in the growth rate of trade, as emerging markets, such as China, make more of their own products and developed countries bring some production back onshore. Against this backdrop**, ramping up investment in infrastructure that can connect the thriving coastal areas of Asia to its underdeveloped hinterlands and then to**

> **Europe could create new opportunities for economic growth in both the liberal and the illiberal worlds**. (NIBLET, 2017)[13]

Developing countries are actively seeking to increase their participation in the amount invested in renewable energy. Developed countries are taking a back seat to the participation of emerging markets, which will work to implement the Paris Agreement, which works as a benchmark in the work to boost the focus on the forefront of investment.

4.3.1. Projects Approved by The New Development Bank

The focus of the New Development Bank in selecting and approving projects will be on infrastructure and clean energy, as the list of projects already approved for financing confirms.

Table 2: Projects Approved by the New Development Bank

[13] Available at: https://www.foreignaffairs.com/articles/2016-12-12/liberalism-retreat Robin Niblet - Director of the Chatam House since 2007. Access in 10sep 2017.

	LOAN AMOUNT	SOV. /NON-SOV	BORROWER	GUARANTOR	END-USER/ ON-LENDEE	LENDING MODALITY	TARGET SECTOR	DEVELOPMENT IMPACT
Canara (India)	USD 250 m	Sovereign guaranteed	Canara Bank	Government of India	Sub-projects	Sovereign guaranteed: 3 tranches	Renewable energy (wind, solar etc)	– 500 MW renewable energy – Avoided 815,000 t CO2/year
Lingang (China)	RMB 525 m (USD 81 m)	Sovereign	PRC Goverment	-	Shanghai Lingang Hongbo New Energy Development Co. Ltd.	Sovereign project loan	Renewable energy (solar rooftop PV)	– 100 MW Solar – Avoided 73,000 t CO2/year
BNDES (Brazil)	USD 300 m	Non-sovereign	BNDES	-	Sub-projects	National financial intermediary (NFI): two step loan	Renewable energy (wind, solar etc)	– 600 MW renewable energy – Avoided 1,000,000 t CO2/year
ESKOM (South Africa)	USD 180 m	Sovereign guaranteed	ESKOM	Government of RSA	ESKOM	Sovereign guaranteed project loan	Renewable energy (transmission)	– 670 MW renewable energy evacuated (transmitted) – Avoided 1,300,000 t CO2/year
EDB/IIB (Russia)	USD 100 m	Non-sovereign	EDB/IIB	-	Nord Hydro-Bely Porog + other subproject(s)	National financial intermediary (NFI): two step loan	Renewable energy (hydro-power) + green energy	– 49.8 MW renewable energy – Avoided 48,000 t CO2/year
Madhya Pradesh (India)	USD 350 m	Sovereign	Government of India	-	Government of Madhya Pradesh	Sovereign project finance facility	Upgrading major district roads	– About 1,500 km of MDRs will be upgraded
Pinghai (China)	RMB 2 bn (USD 298 m)	Sovereign	PRC Goverment	-	Fujian Investment and Development Group	Project loan	Renewable energy (wind power)	– 250 MW Wind – Avoided 869,900 t CO2/year

Source: http://www.ndb.int/wp-content/uploads/2017/02/list-of-all-projects.pdf

	LOAN AMOUNT	SOV. /NON-SOV	BORROWER	GUARANTOR	END-USER/ ON-LENDEE	LENDING MODALITY	TARGET SECTOR	DEVELOPMENT IMPACT
Hunan (China)	RMB 2 bn (USD 300 m)	Sovereign	PRC Government	-	Sub-project PIUs in Changsha, Zhuzhou and Xiangtan	Sovereign Project finance facility	Water, sanitation and flood control, environment	- Improved water quality and flood control in the main streams and tributaries of Xiang River
Jiangxi (China)	USD 200 m	Sovereign	PRC Government	-	Government of Jiangxi Province	Sovereign Project finance facility	Energy conservation	- Savings of 95,118 tons of coal equivalent - Annual CO2 emissions reduction is 263,476 tonnes
MP Water (India)	USD 470 m	Sovereign	Government of India	-	Government of Madhya Pradesh	Sovereign project loan	Water supply and sanitation, rural development	- Project covers more than 3,400 villages and will benefit over 3 million rural population
Judicial Support (Russia)	USD 460 m	Sovereign	Government of Russian Federation	-	Beneficiaries – Supreme Court, Moscow City Court and District Courts, Federal Bailiffs Service	Sovereign project loan	Social infrastructure	- Increased judicial transparency and efficiency, and enhanced protection of judicial rights of citizens of the country

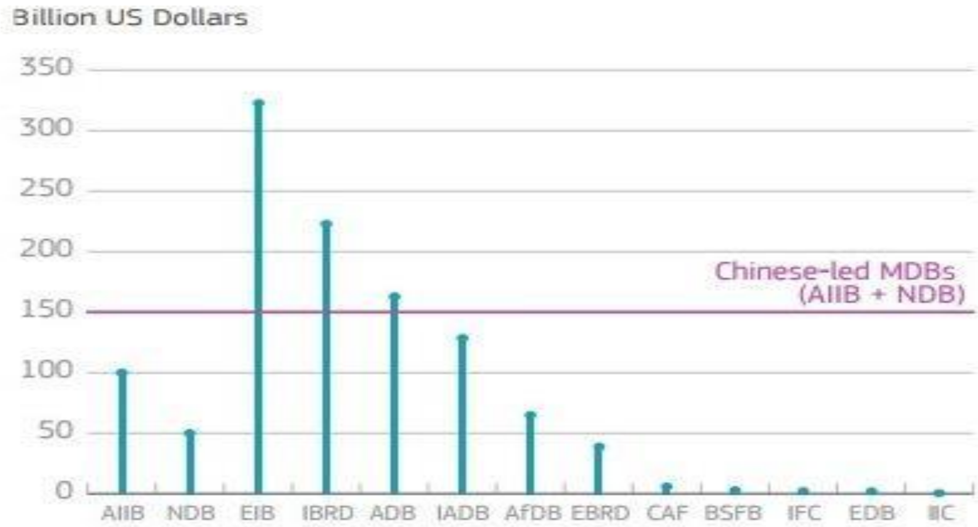
4.4. The Asian Infrastructure Investment Bank

The creation of the Asian Infrastructure Investment Bank was first mentioned by President Xi Jinping, in October 2013. The creation of a China-led investment bank signaled a significant shift in the perceived inequalities of an international financial order dominated by US and its allies and pointed to a restructuring of the world's economic architecture (MILLER, 2016). The success of the initiative was clear on the onset of its creation when it proved much more popular than Beijing's most optimistic expectations, within 18 months since the proposal was announced by President Xi in a speech in Jakarta in October 2013, 57 countries had agreed to become founding members, including most of Asian (including countries that have had historically difficult relations with China, as Philippines, Vietnam and India) and many Europeans countries (even the UK, a traditional US ally, decided to join). In December 31, 2015, the AIIB's articles entered into force, and, remarkably, the only two countries noticeable for their absence were the US and Japan (MILLER, 2016).

The AIIB's mandate is slightly different from that of other development banks in that it emphasizes investing in infrastructure and other productive areas rather than directly targeting poverty reduction and social protection. The expansion of regional development banking is a major step in development policies, but also a management and governance challenge. According to Griffith-Jones (2016), the bank has clear targets in the context of clear development frameworks; good governance to increase efficiency and promote alignment with national development strategies (Human Development Report 2016, p.154).

Following along a greater demand for an increase in investments aimed at modernizing infrastructure across Asia, the AIIB's subscribed capital is $100 billion, which corresponds to roughly 30% that of the European Investment Bank (EIB) and more than twice that of the European Bank for Reconstruction and Development (EBRD) (EPSC, 2015:2) and it is expected to lend an average of no more than US$2 billion per year for its first five years of operations, which is significantly less than other multilateral development banks, but by 2020, it will have roughly US$20billion of usable equity, similar to that of the ADB (MILLER, 2016:3). The Asian Development Bank calculated at the time the need for $8 trillion of investments in infrastructure in the current decade to foster Asia’s sustainable growth, according to a report of the Asian Development Bank. The ADB’s capacity to lend stays around $10 billion a year for infrastructure development (STUENKEL, 2016:124). The AIIB reflects the greater economic importance of emerging markets and of China, in particular. The AIIB, together with the New Development Bank and the Contingent Reserve Arrangement has a combined capital base of $250 billion, what represents significant financial power on par with the World Bank (EPSC, 2015). Based on leverage of other Multilateral Development Banks, the AIIB’s subscribed capital of $100 billion could support lending operations of between $200-500 billion (and) adding the New Development Bank would increase these amounts by 50% (EPSC, 2015).

Figure 7: Large Subscribed Capital for Chinese-Led MDBs in Relation to Other MDBs



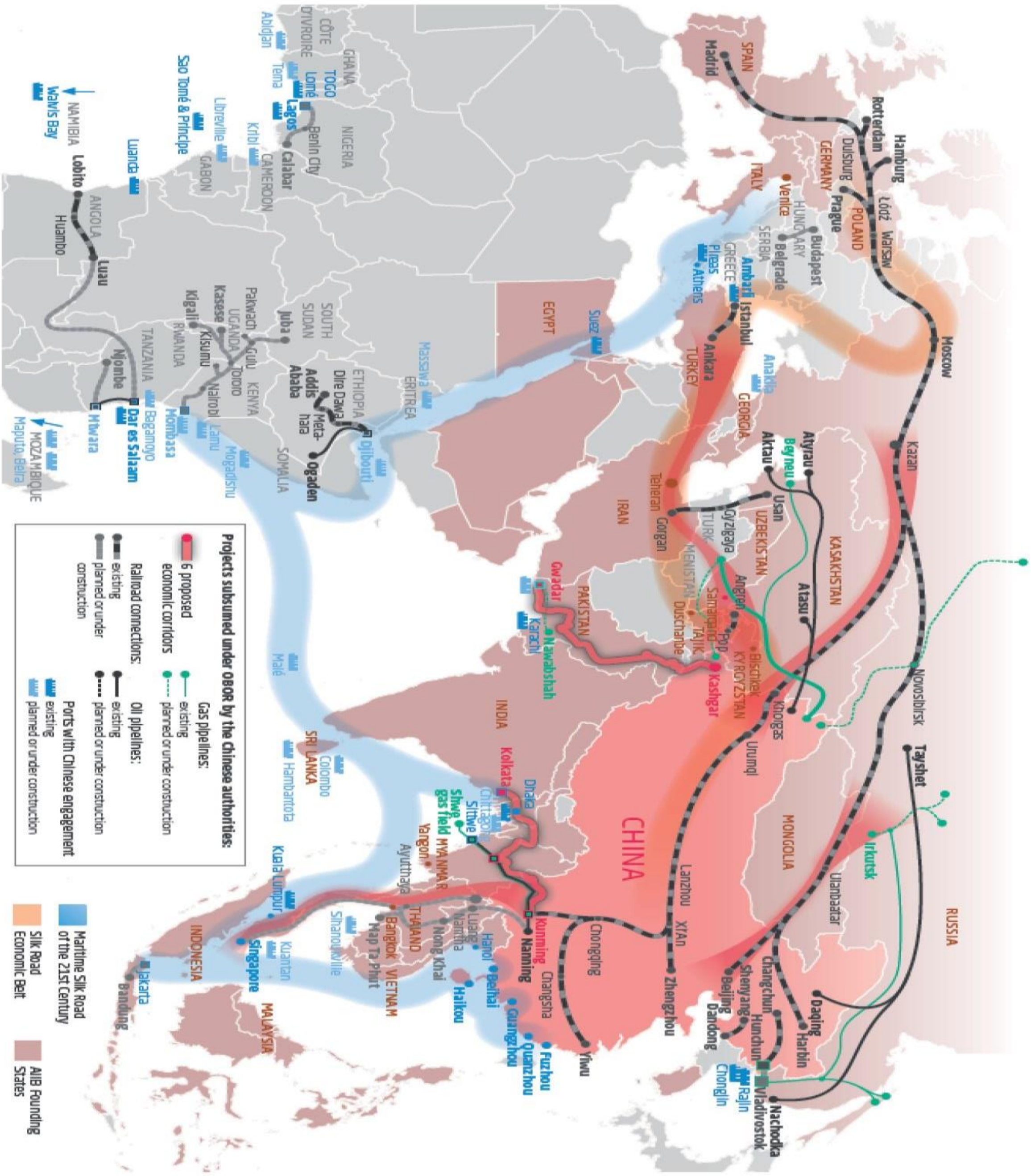
Source: EPSC Strategic Notes. Issue 1/2015.

Traditionally the regional development banks have included the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank. According to the UN 2016 Human Development Report, the new regional development bank for infrastructure will provide technical and financial assistance to developing countries through technical cooperation, grants and low-interest loans. Taking into considerations the major challenge of reaching the Sustainable Development Goals by 2030, the regional development banks complement global cooperation and appear as more legitimate regional actors than global institutions. The AIIB is the first major regional development bank funded mainly by the region’s emerging economies. Of $85.9 billion in subscriptions, China contributes 34.7 percent, India 9.7 percent and the Russian Federation 7.6 percent. This reflects a shift towards a greater role for emerging countries in development finance, with potentially important implications for global governance, including more diverse sources of finance for developing and emerging country borrowers as well as more favorable lending conditions.

According to Stuenkel (2016), the AIIB represented a positive initiative for three reasons. First, it will force China to operate according to a clear set of rule and norms. When dealing with China, developing countries will find it easir to negotiate in a multilateral manner than bilaterally. It is also clear sign of a more mature China that will have its "leadership capacity put to the test (ACHARYA, 2015; STUENKEL, 2016). Second, Asia needs to fill a gap in investment in infrastructure which none of the existing banks have been able to meet. Third, the AIIB will benefit from existing knowledge generated at the Word Bank but it can at the same time be able to produce new ideas and deepen the debate on development (STUENKEL, 2016:128).

Nevertheless, led by the perception of a growing Chinese threat with the rise of a China-led development bank, the US campaigned for countries such as Indonesia, South Korea and Australia not to join the AIIB, fearing it would significantly "increase both China's influence and its soft power in the region, a trend that could dramatically limit Washington's capacity to build alliances in Asia based on the common aversion to Beijing" (STUENKEL, 2016:124). According to Tom Miler (2017:37): "Washington saw an even bigger threat [as] China, it feared, was trying to provide an alternative to the US-dominated system of global development finance, enshrined at Bretton Woods, which could reshape the economic architecture of Asia". US alleged reasons for campaigning against the bank were based on claims of China not meeting environmental standards that, while they may hold partially true or not, were not sufficient to keep other countries at a distance and the truth is that now the AIIB "is so enmeshed in the international system that it must play by the rules of the game" (MILLER, 2016:3).

Figure 8: The One Belt One Road Initiative

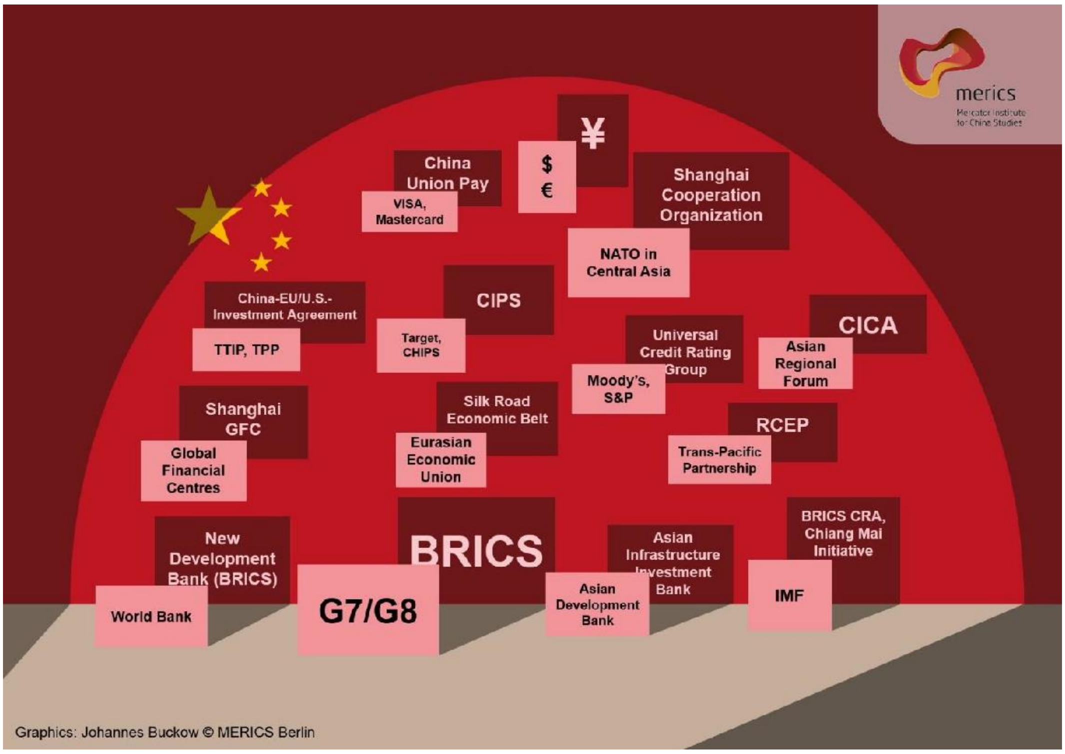


Source: Merics.org

China has also announced the building of a "Silk Road Economic Belt" and "21st Century Maritime Silk Road", announced by Xi Jinping in 2013. The initiative was deemed "One Belt, One Road", a quite catchy slogan which is called by Chinese media as "OBOR". The projected gathered pace since the creation of the AIIB, followed by the establishment of a US$40 billion Silk Road Fund in November 2013. According to Muller (2016:2), "Goldman Sachs estimates that the AIIB and the Silk Road Fund will provide US$45billion of extra funding annually to Chinese international contractors”. The bulk of the fund will come from China Exim Bank and China Development Bank.

China plans to create novel Eurasian transport and trade infrastructures, removing barriers to free trade, serving the diversification of Chinese trade routes and an expansion of China's geostrategic power, in that sense ports built by Chinese state-controlled corporations in the Indian Ocean (in Sri Lanka, Burma, Pakistan) could serve as important transport hubs. Also, Chinese investors have for several years shown an interest in an alternative to the Panama Canal that would be the "Nicaragua Canal". The project, that is scheduled to begin in December 2014, is publicly promoted by a Hong Kong-based investor and is supposed to be undertaken in cooperation with Chinese state-controlled construction companies given the fact that China does not have diplomatic relations with Nicaragua, leaving China to play a less visible role in the initiative (MILLER, 2017).

Figure 9: Parallel and Alternative Structures Promoted by China



Source:

What can be clearly noticed from Figure 11 is that China is strategically targeting gaps within established structures, mainly western-led and current and increasing challenges to the post-cold war order - such as the Ukraine crisis and the protracted reform blockades in the WTO, the IMF, and the World Bank - are continuingly working in favor of can be seen as China's shadow foreign policy. China will, nevertheless, continue to be involved in existing institutions such as the IMF and the World Bank as it demands more voice and reforms of these institutions. Chinese foreign policy is *not* seeking to overthrow the current global governance system, but instead, it is constructing complementary, in part competitive, channels for shaping the international order beyond Western claims to leadership. These new parallel structures led by China stretch across a variety of areas, such as financial and currency policy, trade and investment, transregional infrastructure projects, security policy, technology and informal diplomatic forums (HEILMANN ET AL., 2014, p.1-8). When it comes to the dire need for investments in infrastructure developing countries need large cooperation between development and investment banks if the infrastructure gap is to be met.

4.5. Bridging the infrastructure gap: the NDB and the AIIB

The rise of China as an economic power, along with other BRICs "has served to address imbalances in the globalization process, which up until now had mainly reflect the greater influence of long-standing powerful states in the core regions of the trilateral world – North America, Europe and Japan" (COOPER, 2013:964) According to Andrew Cooper (2013:963), "the reshaping of the global system requires a fundamental rethinking of what middle powers need to do to navigate the fast-shifting global geometry of power". The world is moving towards a more multipolar system in which emerging countries have managed to enjoy a revitalized role past US unipolarity. Traditional powers that led global financial governance through articulations such as the G7, must now articulate their stance partly with emerging countries that gained access to the G20, "the hub site of transition in global governance" (COOPER, 2013:963). The creation of the G20 and its new role in financial governance, being now held at the level of heads of states taking over the traditional role of the G7 means that a wider group of countries has engaged in shaping the global governance agenda.

After the 2008 financial crisis, IMF lending was heavily oriented towards European members of IMF (WOOD, 2010). According to Ngaire Woods (2010), "79% of lending has been committed to European countries; while some 3% has been committed to African countries" (2010:58). This testifies to the allegation that most available resources provided by the IMF and other international financial institutions are likely to be devoted to high-income emerging markets and middle-income countries that are likely to be able to repay the loans they receive (WB, 2009: 6; WOODS, 2010:58).

The creation of the AIIB and the NDB will seek to partly address such imbalances. According to Griffith-Jones (2015), there are three features of the new development finance institutions being created that are worth highlighting. Firstly, the significant shift in the international development finance architecture towards "Southern" or "Southern-dominated" institutions, having developing and emerging countries hold wider roles in global governance. Secondly, some of these institutions, particularly the AIIB, imply a role for China, which is a country concentrating on building and investing in infrastructure capacity. Thirdly, Griffith-Jones (2015) highlights:

> it is interesting that the BRICs countries have actually chosen to create public development banks, in much the way that developed economies created such institutions in the post-Second World War period. Though clearly funded in the private capital markets – with co-financing from private and public lenders as well as private investors – the new development banks are owned and capitalized by national government. They therefore provide a valuable instrument for helping implement and fund national, regional and global strategies. They can also help achieve policy aims, such as helping to achieve the Sustainable Development Goals (2015:4).

The demands for investment in infrastructure are increasingly dire. Asian Development Bank estimates that Asia alone needs to invest nearly US$800 billion in infrastructure every year to 2020, so there should be no shortage of demand for Chinese financing.

In this sense, we argue that the creation of the NDB and the AIIB will help close the gap in financing for infrastructure in Asia and developing countries mainly by combining the saving potential of China, Brazil, Russia, India and South Africa. In this lighting it would make sense that the new institutions are supported by western governments and donors inasmuch as they will introduce choice for potential borrowers on the one hand. One down side that remains to be tackled is the possibility of a negative impact on loan enforcement mechanisms. Concerning these considerations, it should be highlighted that all multilateral institutions, from the Bretton Woods System as well as the new ones, would benefit from working together to impose cross default-clauses to safeguard their preferred creditor status. (REISEN, 2015). The NDB and the AIIB reflect a shift towards a greater emphasis on public development banks, regionally as well as nationally on the understanding that well-run public development banks can play a positive role in funding the real economy, especially in light of the limitations of the private financial system in overcoming to these limitations (GRIFFITH-JONES, 2015).

5. Conclusion

Over the course of this dissertation, we have discussed the role of emerging countries in world order after the 2008 crisis, particularly regarding economic and financial global governance. Emerging countries like China, India, Brazil, Russia and South Africa (the BRICS), as well as other emerging economies, saw in the crisis an opportunity to rise in prominence and articulate ways to challenge and impact the current liberal world order.

In order to fully grasp the unfolding of the economic system, we have sought to analyze the evolution of liberal thinking, its rise in the twentieth century – which created a new world order led by the U.S., based on interdependence whereas ailed by an unequal system in terms of economics and power distribution – and the changes in the liberal international system brought about by an economic weakening of the world's greatest superpower and by the rise of new economic powers among developing countries. We analyzed several theoretical perspectives on development and progress, focusing on why states should seek development and how they stand to gain. We have investigated how such theories oriented commercial and financial guidelines throughout history, how economic and financial governance evolved to reflect a changing world order and how these shifts might be able to modify the current state of global affairs. Finally, we have observed the events which led to the rise of economic powers of the twenty-first century, with a special focus on the 2008 crisis suffered mainly by developed countries at the center of the liberal order and the opportunity such event gave for the emergence of new groups, such as the G20 and the BRICS, which brought about a challenging of the economic and financial institutions of global governance originated from the Bretton Woods system. Then, we have discussed the impact of such new economies on global governance in the field of financing for development, exploring the examples of the New Development Bank and the Asian Infrastructure Investment Bank.

In order to understand the financial and economic shifts which have occurred since the 2008 crisis, the dissertation sought to demonstrate that such changes in the international scenario lead to a fragmentation of global governance with the creation of new and alternative institutions (ACHARYA, 2017:11). The search for reform of the system is ignited by sheer discontent with the slow pace of reform of a system that no longer corresponds to the economic and financial architecture in world order. The analysis supports the argument that the creation of the New Development Bank the Asian Infrastructure Investment Bank will have great impact in world economic and financial architecture, and in particular, entail emerging countries stepping forward greater leadership in global governance.

The bastions of the international financial system, the International Monetary Fund, and the World Bank no longer correspond in a faithful way to the new correlations of world political and economic power and their actions demonstrate the need to be revised and complemented by new actors in the global scenario. The fragmentation in global governance institutions leads to a more multipolar world. 'The idea of "good enough" global governance is certainly better than the lack of one, but for who?' From the perspective of the emerging powers and the Global South, "good enough" should be more than a justification for inaction on the part of the dominant Western powers in order to preserve the status quo (ACHARYA, 2017:13).

Emerging countries are continuously becoming more assertive and resist being co-opted. Especially China and the other BRICs countries have found new leveling field from which to negotiate with the developed world. The resulting system of governance will retain some of the main elements of the largely western-led world order, but the new order will also exhibit enough political, economic and strategic diversity that can scarcely fit into the traditional institutional paradigm or agency claims of the pre-twenty-first century's liberal order. The growing role of emerging countries in global governance entails the order must be less US-centric and more akin to the global power and idea shifts associated with a more multipolar world.

Assessing how the creation of new parallel institutions might affect global governance, comparing outcomes in the older and newer modes of governance in specific issue areas will become an increasingly important and challenging area of global governance. The analysis conducted in this dissertation supports the argument that developing countries reveal the weak ends of the current order and will continue to demand wider representations in existing institutions and, according to their own specific needs, create new or “parallel” ones. The global governance architecture will in all instances tend to be increasingly fragmented and decentered, confirming the onset of a ‘Multiplex World’.

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