



The headquarters building of the New Development Bank at the Expo Park, Pudong New Area, Shanghai, China.

# A NEW APPROACH FOR GLOBAL ECONOMIC GOVERNANCE: THE NEW DEVELOPMENT BANK'S ROLE

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## THE GLOBAL ECONOMIC DYNAMICS AND ITS CHALLENGES

In our contemporary era, the world grapples with a profound sense of uncertainty, marked by a confluence of crises: a severe climate crisis, a stark surge in inequality, sluggish economic growth, and the rise of trade protectionism. These challenges intertwine with the disruption of global value chains, geopolitical turbulence and multifaceted conflicts, collectively fostering an environment where instability and insecurity have become the norm. The recent escalation of inflation and the resultant monetary policies, which have triggered interest rate hikes, bank failures, and excessive leveraging,

have amplified the specter of recession across developed economies, exacerbating volatility across credit, currency, and capital markets.

It is apparent that the financial neo-liberalism practiced in developed countries has caused credit and finance to become “headwinds” rather than drivers for the productive economy. They have become real hindrances and the center of unbridled speculation that sucks all resources dry. Thus, a growing concentration of income and wealth in the hands of very few in the Global North has brutally increased inequalities, while simultaneously also creating more inequality, speculation, instability, and successive crises in the Global South. The weak regulation of

international finance has failed to prevent recurring crises linked to the financialization of Western economies. The regulatory measures recommended by the G20 have not been able, in fact, to prevent the occurrence of either new speculative bubbles or excess liquidity problems and high leverage that have led to new bank failures.

The globalization trend that promoted more internationalized markets, trade, industrial production, services, currency flows, bonds and shares, as well as information has been receding ever since the 2008/2009 global financial crisis. Before the crisis, global value chains, one of the pillars of globalization, were growing at a faster rate than other components of GDP but have since slowed down. This downturn was followed by a rapid recovery in 2010 to 2011 and since then, with the exception of 2017, global value chains have been growing at a slower rate than global GDP. This slowdown of globalization has resulted in lower economic growth and fragility in global value chains and it is further deepened by the pandemic. Protectionism, decoupling and de-risking policies, and sanctions have acted to intensify these already serious fractures inherited from the great financial crisis.

More recently, the weaponization of the US dollar through sanctions in geopolitical conflicts has raised the price of food and energy, further fragmenting supply chains. Blocking the access of sovereign nations to their own international reserves, as well as other practices based on the unacceptable notion of extraterritorial jurisdiction, has created an environment of distrust regarding the safety of assets kept in Western financial institutions.

At the same time, the United Nations has not been able to cope with the growing geopolitical tensions, nor have the so-called Bretton Woods institutions – the IME, the World Bank and the WTO – shown they are capable of reversing the trends of geo-economic fragmentation and growing social fragility.

Another clear symptom of the lack of coordination in international governance is the alarming fact that the climate crisis and the UN's 17 Sustainable Development Goals (SDGs) are not being addressed in accordance with the decisions taken at all the UN Conferences of the Parties (COPs) and other international environmental forums that have taken place in the last decade. The capital contributions to developing countries that the rich countries had pledged to make since COP 15, the Agenda 2030, which defined the Sustainable Development Goals, and even the Paris Agreement, have never materialized.

Nevertheless, macroeconomic uncertainty prevails at a global level on account of the effects of high inflation and of monetary policies that drive interest rates upwards, giving rise to bank failures and excessive leverage. The end of quantitative easing and the adoption of quantitative tightening also contribute to increase the risk of recession in developed countries and to intensify the volatility of credit, currency and capital markets. For their part, developing countries have generally suffered the effects of interest rate increases and exchange-rate devaluation. The high indebtedness of these countries, caused largely by neo-liberal austerity policies, is now maximized by the stratospheric impact of the strong dollar exchange-rate policy, as well as of the inflationary spiral, on their external debts, with many reaching the threshold of default.

In this setting, rather than mere objective phenomena that weaken the patterns of globalized economic and financial relations, notions such as “decoupling” and “de-risking” are indeed political weapons used to curtail the rise of new players in the international arena. The very dynamics of globalization, although currently weaker, has given rise to a deep interdependence among economies and regions of the world, an interconnection that has grown in tandem with the increase in international trade, the greater density of global value chains and the multiplication of capital flows. Disconnecting the world has thus become unworkable, and any attempts to erect insurmountable barriers between countries is nothing but an extemporaneous return to the Iron Curtain.

Here's when dichotomies arise, and all countries are confronted with a choice: polarization or common pros-



*Dilma Rousseff, president of the New Development Bank.*

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perity? Cold War mentality or multilateralism? Copying other countries' development models or building one's own paths in light of each nation's conditions? Fighting climate change with meaningful injections of new money or simply leaving things as they are?

One of today's most serious threats is a new form of protectionism: the containment of development in emerging countries. This is the case of containment policies directed at China, whether through unilateral tariff increase policies, which demoralized the WTO, or the recent Chips and Science Act of August 2022, which blocked the global production chain of semiconductors. These rifts in the previous pattern of globalization require reforms in global governance in order to break with protectionist unilateralism.

Therefore, it is imperative that we seek a consensus based on the principle of shared prosperity, by which all countries stand to gain from the wealth generated globally, one that is associated with the rejection of the unipolar model under all its forms. There is no possibility of shared prosperity where sanctions, attempts to contain emerging countries, financial and technological trade blocks prevail.

What is at issue today is the "exorbitant privilege" itself, an expression coined by De Gaulle's Minister of Finance to define the position acquired by the US dollar. In other words, as the world accepted the existence of a single international reserve currency, we witnessed the rise of an asymmetric financial system that has always provided great advantage to the country issuing that currency. As a result, not only are US companies, by definition and unlike their competitors in other countries, protected from exchange-rate risks, but they also enjoy US dollar's huge seigniorage gains, as their competition in other countries are forced to sell goods and services to obtain dollars while Americans obtain them simply by printing money. Not to mention the even greater privilege of having the US public deficit financed by all international economic agents who need to have dollar-denominated assets which are then recycled and kept in US and international financial institutions, under the strict regulatory control of the Fed. The abuse of the latter privilege, by freezing sovereign international reserves under the name of financial sanctions, has given rise to questions worldwide concerning the inherent arbitrariness of the global monetary order.

It appears evident that, in the long run, the overall ge-

ostrategic position of the US relative to emerging powers will be of key importance to the global monetary system, as it was also the case with previous hegemonic currencies. While US domestic policies and the evolution of its international alliances are crucial to its position in the geopolitical sphere, this position will ultimately depend on the success of the American economy, as a whole. Put simply, the question is whether the US economy can maintain its leading position as a driver of innovation. That is the underlying reason for the policies of containment of emerging powers, as it was once done to Japan and is now being attempted at China.

As always, past performance is not an indicator of future success. Everything indicates, however, that two scenarios are clearly unlikely: on the one hand, the emergence of an alternative hegemonic currency, that is, the replacement of the dollar-based monetary system by another centric currency in its stead. On the other hand, the creation of a global currency, as Keynes wanted.



Because then, as now, the necessary condition to sustain such a currency, that is, a global geopolitical unity, does not exist.

In the absence of a complete replacement of the dollar as the leading currency, and without the emergence of a single global currency, the most likely outcome is the constitution of a new monetary system, better adapted and more multipolar, resulting from three factors. First, from the steady tendency towards growing bilateral trade, which gives rise to increasing returns of scale in the use of their respective currencies, to the detriment of those obtained with the dollar. Second, from the deepening of local capital markets in emerging economies. And finally, from the many efforts on the part of these countries to establish insurance schemes against exchange-rate crises in their balance of payments, similar to the Contingent Reserve Agreement (CRA) that was designed by the BRICS countries – sometimes resorting to simpler mechanisms, such as local-currency swaps.



Photo: Xinhua

*This is the wind turbine of Zhongmin Fujian Putian Pinghai Bay Phase I Offshore Wind Power Project, China. The second phase of the project was granted a sovereign loan of RMB 2 billion by the BRICS New Development Bank.*

In short, the intensification of bilateral trade between countries and the returns to scale generated from it can reduce the transaction costs between the buyer's and seller's currency, as well as protect against shocks arising from interest-rate and exchange-rate fluctuations. Data published by the Bank for International Settlements (BIS) show a continuing growth in foreign trade in currencies of emerging economies, which, they say, is also largely the result of significant transactions with emerging economy assets in capital markets. In any case, the growing participation in global trade and capital market transactions involving emerging economies suggests that the dominance of the dollar will diminish further, making the global monetary system more diverse and multipolar, with the currencies of major developing countries gaining in importance.

Another very relevant matter is the environment. As a result of the severe social and natural challenges of the current century, economic development must be always viewed as sustainable development. This means development that depends critically on a healthy environment and on a society built on a foundation of equality. This is the vision set out in all the landmark international agreements on the subject, starting with the Rio 20 Declaration, and then going on to the Paris Agreement, the UN 2030 Agenda for Sustainable Development, and the UN Convention on Biological Diversity. But words are simply not enough. We must come up with a concrete blueprint for facing up to our realities. We must propose and implement financial mechanisms and business models that generate employment and income, while conserving a natural capital base – namely soil, water, climate, forests, biodiversity and oceans. The preservation of this base is essential for us to sustain the economic process itself.

This is why it is urgent that we rescue the UN 2030 Agenda for Sustainable Development and its 17 Goals. They express a vision of the future and a plan of action in favor of people and of the planet. The eradication of poverty in all its forms and dimensions is pointed out as the greatest global challenge and as an indispensable requirement for sustainable development.

However, we currently face an estimated total deficit of USD 4.3 trillion in the availability of the resources needed to achieve the SDGs by 2030, according to the OECD. The enormity of this gap has led UN Secretary General Antonio Guterres to call it “a financing black hole” and rightly so.

Multilateral development banks (MDBs) have an important role to play in financing development and can help low- and middle-income countries to achieve their climate change targets and the SDGs. However, these banks play only a supplementary role, and it is not possible to transfer over to them the responsibility to provide the resources for climate adaptation and mitigation that had been assumed by the rich countries and that, so far, has not been fulfilled.

It is inconsistent for the US and the EU to claim that it is necessary to reduce the debts of developing countries while systematically increasing interest rates and supporting IMF austerity policies. It is inconsistent to advocate for increased capital leverage in MDBs and for more concessional lending, while still accepting that MDBs which implement such measures will be punished by credit-rating agencies with downgrades and consequently higher interest rates. Therefore, we must promote a more comprehensive discussion on the Capital Adequacy Framework (CAF) proposed by the G20 and its true impacts on financing the SDGs, fighting climate change, and preserving the financial health of MDBs.

The fact is that, in 2023, we are already three years behind the date to start mobilizing USD 100 billion a year in climate adaptation and alleviation funds for developing countries, as agreed in Copenhagen in 2009. Some reports even claim that the actual aid provided so far is less than the published figures, and mainly translates into debt that must be repaid.

However, it is not credible to imagine that the enormous costs associated with climate change adaptation and alleviation, as well as with the eradication poverty, can be met mainly through costly bank loans, since these are, by their very nature, only a supplementary source of funds. In view of the principle of common but differentiated responsibilities, as defined by the Kyoto protocol, and considering the much larger responsibility of developed countries in causing climate change, it becomes clear that only high-income countries that do not have to bear the burden of unpayable external debt can use loans as a major source of funds. Many developing countries cannot.

The UN 2030 Agenda for Sustainable Development, with its commitment to “leave no one behind”, reminds us that bold, transformative steps need to be taken urgently to put the world back on the path to sustainability, resilience, and inequality reduction. Neither the SDGs nor



*This is a part of the metro project, under loans from the New Development Bank, in north Mumbai, India, on June 22, 2023.*

the fight against climate change can be achieved without new money being brought to the table. Putting new names on existing programs and budgets simply will not do from now on.

The poorest countries need to be given new resources to achieve the SDGs in a way that does not plunge them further into debt. Similarly, resources for climate change adaptation and alleviation must be made available while respecting the free exercise by developing countries of full and permanent national sovereignty over all their wealth, their natural resources, and their level of economic activity. Therefore, it is imperative to build an effective consensus and to adopt a new posture of close cooperation between rich and poor countries to face these serious problems.

Circumscribing by the necessity of a deeper cooperation, two vital trends have emerged recently, wielding the potential to reshape the existing landscape. The first dynamic underscores a transition from a unipolar global economic structure to a multipolar framework, as propelled by the ascendancy of the Global South. In 1950, the United States commanded 39.4% of global GDP on the Purchasing Power Parity metric, while the G7 collectively controlled 68.6%. These nations were the chief architects of the global economic architecture, as underscored by the establishment of institutions like the United Nations, International Monetary Fund and World Bank. However, the ascendancy of developed economies has undergone a seismic shift in the new millennium, with Emerging Mar-

ket and Developing Countries (EMDCs) gradually claiming a larger share of the global economic pie since 2008. China, most notably, dethroned the US as the world's largest economy (in PPP terms) in 2013, commanding 18.5% of global output in 2022, nearly three percentage points higher than the US. Likewise, India's ascent saw it surpass Japan in 2008, becoming the world's third-largest economy (in PPP terms). In 2020, the BRICS nations – Brazil, Russia, India, China and South Africa – collectively eclipsed the G7 economies in output for the first time in history (31.04% vs. 30.95%). Over the past decade up to 2021, the BRICS bloc contributed almost twice as much to global growth as the G7 (43.2% vs. 22.6%). This emergence of the Global South has endowed it with the role of a pivotal engine for worldwide development.

The second trend revolves around the geographic pivot of the world economy towards the East. In 1990, the Western regions – encompassing North America, Latin and Caribbean America, Europe, and Central Asia – accounted for 65.4% of global output, dwarfing the Eastern regions, which encompassed South Asia, East Asia, and the Pacific, with a 24.9% share. Over three decades, the latter's share surged to 41.7%, while the former waned to 49.2%. With burgeoning Asian economies like China, India, and ASEAN members continuing their expansion, the East is poised to emerge as the preeminent economic region in the forthcoming decades.

Above all, a multipolar system is indispensable. For emerging economies, it is about overcoming the condition of mere commodity providers. The Global South, Latin America, and Africa in particular, must seek industrialization or reindustrialization with new characteristics. Many countries have not even reached the third industrial and technological revolution. And now, facing the fourth revolution, they are threatened to become mere consumers of platform capitalism products, only using digital applications in their economies. Digital integration and multilateral platforms such as the BRICS Bank, the Asian Development Bank, the African Development Bank, the Asian Investment and Infrastructure Bank, and the Andean Development Corporation (CAF) are strategic in promoting this new and more balanced multipolar order.

Improving international governance is at the foundation of building shared prosperity for all. We must improve existing institutions and, when necessary, create new ones that are more effective and resilient, and that function in a truly multilateral and multipolar manner.

For all these reasons, it is essential to ensure an effective arbitration power to the United Nations system. Simply put, the decisions of the UN General Assembly need to be considered by the entire international community. The purposes and principles of the UN Charter must be respected. The decisions of its institutions such as the General Assembly, the World Trade Organization (WTO) and the World Health Organization (WHO) must be readily implemented. This is the only way for the voices and the rights of the majority of humankind to be heeded – and, besides prosperity and inclusion, this is the other indispensable foundation of peace.

### **THE NDB'S ROLE IN GLOBAL ECONOMIC AND FINANCIAL GOVERNANCE**

Clearly, in order to cope with this disquieting situation of global economic governance, a whole new level of political and institutional engineering becomes urgent and indispensable if we truly are to promote inclusive and sustainable development in an environment of common prosperity and peace for all peoples and countries. Without inclusive and sustainable development there is no peace. Without peace there is no stability and security.

The issue of financing economic and social development urgently demands structural changes in the international financial architecture that will make it possible to channel the available liquidity in such a way as to enable financing both on the scale and under the conditions required by developing countries and emerging economies. Consensus-building and intense cooperation must be used to improve environmental governance instruments greatly, steer green financing mechanisms towards a truly multilateral mode of operation. Increased investment in research and dissemination of sustainable energy generation technologies for the Global South is also needed to drive the transition to a low-carbon economy.

Moreover, reforming the global financial architecture is an urgent mandate. The framework must embrace multipolar currencies, circumventing undue reliance on a singular currency that fuels unipolarity in both economic and political spheres. It should expedite the transmission of development finance to the Global South, fostering swifter, larger-scale and more agreeable disbursements. Concurrently, it should encourage the utilization of Global South local currencies while deepening domestic capital markets for more efficient resource

mobilization. The new financial architecture must champion inclusivity, eschewing inequality and wealth concentration.

Furthermore, this new global financial architecture could be shaped by a more inclusive, multilateral currency platform based on Central Banks Digital Currency (CBDC) that could provide a cross border payment secure structure, offering a faster and cheaper digital payments systems, providing people and countries, currently outside the traditional banking system, with access to financial infrastructure. It could also reduce settlement risk and delays on international trade. Notably, China is the most developed case of digital payment system through the implementation of e-CNY.

The path forward necessitates the enhancement of existing institutions or the creation of novel multilateral and multipolar entities that are more resilient and impactful. A multilateral and multipolar alternative is imperative to bridge the gap between the Global North and South and to preclude the pursuit of unipolar policies and geopolitical conflicts. Enhancing international governance forms the bedrock for fostering shared prosperity across the globe.

In this context, the New Development Bank, with its roots in the Global South and its commitment to multipolar cooperation, holds immense potential to shape this new paradigm. The NDB is making significant contributions to the new global economic governance in its own unique ways.

The NDB structure of shareholding provides an equal voice to all countries that integrate the institution, despite large differences in their political systems, economic history and geography, as well as population size, while no single country has the veto power. The NDB internal governance also is an innovative model that ensures greater agreements. This governance model guarantees that all shareholders have equal voices and responsibilities. This contrasts with the structure of the traditional development institutions, including global and regional MDBs and specialized development agencies, in which the advanced economies usually hold the majority shares and therefore, the decision powers.

Another major component of NDB's innovative governance is that the NDB does not impose conditionalities linked to public policies. Our financial support is provided free of onerous conditions.

Furthermore, the NDB is expanding its membership

in a gradual and balanced manner to better position itself as a global multilateral financial institution with a membership base that reflects its focus on EMDCs. Membership expansion enables the NDB to promote infrastructure and sustainable development in more EMDCs, enhance its role as one of the key platforms for international development cooperation, and therefore, contribute directly to the global development agenda. It will also strengthen NDB's capital base, diversify its portfolio, and increase its capacity to mobilize financial resources for development purposes. Since 2021, the NDB has added Bangladesh, UAE, and Egypt to its original member list of five BRICS countries.

Using our example in NDB, we can state that a better global economic governance cannot be achieved without deepened collaborations among MDBs. In this regard, the NDB has been working closely with partner MDBs in co-financing projects. Over 2022-2026, the NDB aims to co-finance 20% of the approved projects with peer MDBs. The NDB is also actively cooperating with peer MDBs to crowd in more investment on infrastructure and sustainable development from private investors and other sources such as pension funds and sovereign wealth funds.

Last but not the least, the NDB aims to become a knowledge hub for EMDCs and bring the views of EMDCs to the center stage of the new economic governance. The NDB facilitates the exchange of development ideas and expertise, particularly on infrastructure and sustainable development, among BRICS and other EMDCs. The NDB seeks to become an important platform for EMDCs to engage in constructive dialogues and cooperation, disseminate leading practices and solutions to development challenges, and make EMDCs' voices widely heard.

Today, the NDB is a well-capitalized bank, with very little leverage, and it has all the conditions to expand its operations as an important tool for supporting the sustainable development projects that the countries of the Global South so desperately need. The NDB has been demonstrating its commitment to fostering equitable development, echoing the values enshrined in the UN General Assembly's principles. As the NDB plays its part in amplifying the voices of the Global South, it stands as a complementary force rather than a replacement of the prevailing system. By enhancing its capacities and forging alliances with peer institutions, the NDB can catalyze infrastructure investment and propel sustainable development, translating intentions into impactful actions. 