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Changing the rules of the game: Brazil and the formation of the New Development Bank

Exploring Brazil's motivation for supporting the creation of the New
Development Bank

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Abstract

This research is aimed at explaining why Brazil decided to expand its economic cooperation with other BRICS countries by forming the New Development Bank (NDB). From a liberal perspective, Brazil's support is questionable since it is already an active member of the current international financial institutions, such as the IMF and World Bank. Why did Brazil make such an effort to form another economic organisation? This is puzzling in two ways: First, there is no precedent in the history of international relations where a group of emergent countries collaborated to create an international financial institution without the support of established hegemonies. Second, it is unclear why Brazil has put so much effort in creating a new bank, considering the country is already an active member of the Bretton Woods institutions. In order to fully understand the Brazilian reasons and to provide a wider understanding, two theoretical frameworks are used to guide this research: the mercantilist theory and the dependency theory. The choice of these two different approaches is partially motivated by the different roots. The mercantilist theory has its origins in Europe and the dependency theory was predominantly developed in Latin America.

To understand Brazil's motivation towards the NDB, the empirical research of this thesis was based on primary resources such as official statements or speeches from the main actors. Secondary sources such as newspaper and scientific articles were used to broaden the research. The results show the mercantilist approach better explains the Brazilian support on the foundation of the NDB. Guided by this theory, it can be inferred that Brazil's ambitions towards the NDB are to change the current power structure of the global political economy. Brazil wants to acquire more power and influence in the international sphere while developing internally.

Keywords:

Brazil – BRICS – New Development Bank (NDB) – Mercantilism – Dependency Theory – Global Political Economy

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Acronyms and Abbreviations

BNDES – The Brazilian Development Bank
BRICS – Brazil, Russia, India, China and South-Africa (association of major emerging economies)
CRA - Contingency Reserve Arrangement
ECLA – Economic Commission for Latin America
EMDC – Economically More Developed Country
GDP – Gross Domestic Product
G-7 “The Group of Seven”– A forum of major advanced economies
G-20 “The Group of Twenty – A forum of the twenty major economies
IDB – Inter-American Development Bank
IFI – International Financial Institution
IMF – International Monetary Fund
NAB - New Arrangements to Borrow
NDB – New Development Bank
SIT – Social Identity Theory
UN- United Nations
WTO – World Trade Organisation

"This world is not democratic at all. The most powerful institutions, the IMF [International Monetary Fund] and the World Bank, belong to three or four countries. The others are watching. The world is organized by the war economy and the war culture."

Eduardo Galeano, 2013

1. Introduction

The traditional balance of power the world knew after the end of the Cold War has changed dramatically. International relations of the 21st century are marked by a distribution of power between the classic global powers U.S. and Europe (meaning the West), and the so-called emerging countries coming from the Global South. In this new international relations era, global governance is dealing with new clashes while entering a more dynamic and complex phase.

In this scenario, Brazil rises as a powerful emerging country that is determined to become a global player in the International System. Combining assertive diplomatic efforts and rapid economic growth, Brazil has conquered the status of a middle power (Kenkel, 2010; Dauvergene and Farias, 2012). Since the beginning of Lula's term in 2003, the Brazilian foreign policy has been prioritising on South-South cooperation, while making efforts to include Brazil in the decision-making process of global governance (Christensen, 2013).

An important aspect of the Brazilian foreign policy agenda is its relation with the BRICS countries. The term "BRIC" – an acronym for Brazil, Russia, India, and China – was coined by Jim O' Neill, an economist from Goldman Sachs, in 2001. In his article, he argued that Brazil, Russia, India and China deserved global attention due to its rapid economic growth. Moreover, O'Neill argued that the BRIC countries could sustain the global economy in the next decades. However only in 2009, as a result of Russian and Brazilian government efforts (Christensen, 2013) the BRICs held their first Summit in Yekaterinburg Russia, making its economic cooperation official. From that moment, annual summits were held to discuss further cooperation. South Africa was added to the group in 2010, changing the group to its current form of BRICS.

According to Christensen (2013), the main strategy of the BRICS is the reformation of the International Monetary Fund (IMF). The BRICS predominantly emphasise the importance of reforming global economic governance, as they are seeking for more operating space in various international financial institutions (IFI's). Their central argument is that decision-making in the IFI's is

constantly in the Western hegemonies' hands. To the BRICS, these institutions are not democratic enough. Conversely, the BRICS have received much critique from skeptics, who have claimed a lack of real action was present among the group discussions. According to them, no concrete actions were taken by the BRICS to institutionalise the group to a next level (Stuenkel, 2013). However, during the July 2014 summit in Fortaleza, Brazil, the group formally signed agreements to create the BRICS development bank (or New Development Bank – NDB), aiming to provide support for mutual investment projects. On top of that, they also signed an agreement for a Contingency Reserve Arrangement (CRA), a fund of US\$ 100 billion to tackle any possible financial crisis in the emerging economies now and in the future (Figueira & Moreira, 2014).

In order to highlight previous goals of the BRICS, such as the democratisation of global governance, particularly concerning international financial institutions, and the proposal for the strengthening and development of emerging countries, the final document of the Summit, called the Fortaleza Declaration, articulated in its eleventh paragraph the idea of the BRICS development bank:

BRICS, as well as other EMDCs, continue to face significant financing constraints to address infrastructure gaps and sustainable development needs. With this in mind, we are pleased to announce the signing of the Agreement establishing the New Development Bank (NDB), with the purpose of mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies. We appreciate the work undertaken by our Finance Ministers. Based on sound banking principles, the NDB will strengthen the cooperation among our countries and will supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to our collective commitments for achieving the goal of strong, sustainable and balanced growth. (BRICS Fortaleza Declaration, 2014 § 11).

The New Development Bank can be understood as an attempt by the BRICS to consolidate the group and a promotion of the development of emerging countries. The proposal is the bank will operate by financing infrastructure projects. At first, its members claimed the investments are directed exclusively to projects in their countries, but the Fortaleza Declaration also indicated the possibility of extending the benefits to non-members. With the aforementioned background, we can move forward to the questions that are addressed in this paper.

1.2 Research Question and Theoretical Framework

This research aims to investigate the motives of the Brazilian government on supporting the foundation of the NDB. Hence, the research question that will be central in this paper is the following:

“Why did Brazil decide to expand economic cooperation with other BRICS countries by forming the New Development Bank (NDB)?”

Moreover, liberalism can hardly explain Brazil’s decision to support the foundation of the NDB since Brazil already is a member of the Bretton Woods organisations such as the World Bank and the IMF, two international financial institutions that resemble the NDB. Therefore, it remains surprising why Brazil is making an effort to build another international financial institution. There are many issues that make this decision puzzling and, therefore, relevant to conduct research. Considering the liberal approach, the endeavour to construct the NDB would be too costly and could be considered to some extent unnecessary, since existing international financial institutions such as the World Bank and the IMF serve the purpose of governing financial relations in the global political economy. Furthermore, Brazil is an active member of these institutions; consequently it would not be expected from Brazil to invest extra money and time with another institution that resembles existing ones. In addition, the idea of causing unnecessary tension among state members of the World Bank and the IMF does not seem a positive outcome for Brazil, since Brazil has economic interests in those countries.

In order to properly answer this question, two different theories from global political economy will be explored: the mercantilism theory and the dependency theory. In a nutshell, mercantilism has the state as the main actor and the goal of the nation-state is to acquire power and wealth in order to reinforce independency and domestic security. The political process and the processes of economic growth are intertwined. Mercantilists agree that the states should promote exports and limit imports as a way to acquire wealth and power. The theoretical principle of mercantilism sees the economy as a means to induce political influence (Gilpin, 2001). Regarding this approach, we can thus infer that Brazil decided to support the new BRICS bank as an attempt to change the current global economy system. Since the U.S. and Western-Europe are dominant powers in the World Bank and the IMF, Brazil’s decision can be understood as an attempt to bring balance to the current international system where the emerging countries are currently left behind in decision-making. Furthermore, as the Brazilian government has been trying to portray Brazil as a global power that can have some influence in the international game, it is thus logical to use economic gain to achieve a political goal.

On the other hand, the dependency theory is based on the centre and periphery paradigm. Here it is argued that the more frequent the trade between rich and poor countries, the harder it is to break with the underdevelopment barrier (Gilpin, 1987). Moreover, even when development initiates in the periphery countries, this development will always be dependent of and conditioned by the developed countries (Cardoso and Faletto, 1981). For the authors of the dependency theory, the liberal assumptions of a free economy do not solve the development problems of the periphery countries. According to them, on the contrary, the neoliberal policies can contribute to making national economies more vulnerable to fluctuations on the international market (Gilpin, 1987). This is due to the fact that national economies will increasingly require more capital and incentives granted by global powers. Given that the Bretton Woods institutions have imposed constraints on the economic development of emerging countries, like the Washington Consensus policies, it could be expected Brazil would support the formation of the NDB if it had different content from the Bretton Woods institutions and a different approach towards developing countries. It can be considered an alternative way of development, or even an attempt to get rid of the neoliberal regime imposed via the Washington Consensus during the 1990's through the IMF and World Bank. Given the aforementioned, one can argue that both theories offer competing answers of why Brazil decided to support the foundation of the NDB. Therefore, it appears worth investigating which theory yields more explanatory power.

1.3 Research Relevance

The New Development Bank arises in a context where international relations have been passing through a historic moment of clear changes in their dynamics since the beginning of this century. It increasingly became noticeable a rearrangement of political power in the contemporary global system occurred. The rise of BRICS countries has been an important characteristic of this propensity as part of the economic downturn of the Western countries and the economic growth of the poor South (Christensen, 2013). In this scenario, Brazil rises as an emerging economic power having developed dramatically in the past decade, becoming the eighth-largest economy in the world. The scientific relevance of this thesis lies in its contribution to analysing what Brazil's aspirations are with the NDB. Moreover, mercantilism theory was developed in the context of the European modern ages; hence one can argue it is a European theory. It is interesting to analyse to what extent a "European theory" (mercantilism) can be used to explain the behaviour of a former colony (Brazil)? It is also interesting to analyse to what extent dependency theory - which has its focused on Latin American development - are useful to explain a Latin American economy's (Brazil) behaviour? This thesis aims to go beyond the superficial, and identifying the structural determinants in this process while providing a

comprehensive view. Furthermore, this thesis can be relevant for further research on this topic, due to being a recent issue with a lack of research available at this moment.

As the NDB will be responsible for financing infrastructure projects focused on sustainable development, it can be expected local Brazilian governments would no longer depend on provisions from the World Bank to start large infrastructure projects. Hence, here lies the societal relevance of this research. It can be predicted that Brazil could achieve faster local development and therefore, improving the lives of ordinary Brazilian people.

In order to do this analysis primary and secondary sources such as official speeches and academic literature on the development of the BRICS concerning Brazil's foreign policy are used. The methodology of this thesis engages a descriptive historical narrative to bring forward an understanding of Brazil's decision-making concerning the NDB.

The research is structured as follows. Chapter two discusses the depth the theoretical framework of this research. Firstly, an overview of the mercantilism theory followed by how this theory would assess Brazil's decision of supporting the foundation of the NDB. Secondly, the dependency theory discussion with the relevant authors in the global political economy followed by an analysis of how dependency theory would assess Brazil's decision of supporting the NDB. Chapter three focuses on the discussed questions of methodology, epistemology and operationalisation of this thesis. Chapter four contains a discussion based on empirical evidence of the Brazilian decision of being part of the NDB. Finally, the conclusion is presented in chapter five.

2. Theoretical Framework

Two different theoretical perspectives are explored in this thesis in order to fully analyse the motivation of Brazil when it decided to become a member of the NDB. In this chapter, the mercantilist and dependency theory will be critically discussed. As these two theories present different answers to the aforementioned research question, first an outline of the main features of both theories is addressed, followed by an assessment of how these theories can foresee the decision of a state supporting a new international financial institution. In order to demonstrate why liberalism is not suited for this research, a brief summary of the liberal perspective will be provided.

Liberalism arose in the nineteenth century with Adam Smith's landmark "The Wealth of Nations". Smith heavily criticised the mercantilism doctrine and consequently founded the practical and theoretical basis for classical liberalism with his analysis of mercantilism. The liberal perspective advocates the free market and minimal state intervention. According to liberal theorists, the most successful way of managing domestic and international economic relations is to have commitment with the market. Liberalism can be defined as a doctrine and a set of guidelines for systematising and managing a market economy in order to accomplish high productivity, financial growth and individual wellbeing (Gilpin, 1987). The main goal of economic activity for liberals is the gain of individual consumers. The idea is the enlargement of supplies and services accessible to the consumer is increased by the opening of markets and consequently free trade. The quest of human-wellbeing and self-interest together is an expression of freedom and the mechanism of social and economic development. Therefore, the main source of economic progress is the growth of the market and the division of labour (Falkner, 2011). If society follows the liberal principles, the outcome would be a highly developed economy followed by prosperity and peace overtime (Falkner, 2011).

Contrary to the mercantilists that perceive the international economy as a zero-sum game, liberals understand the global political economy as a win-win situation where every state can benefit from a free market and the international division of labour. Therefore, leading countries agree to be limited sometimes in the international economic system since global trade is not a zero-sum game and international organisations can offer different options for countries in the financial sphere. Moreover, states can increase their options via transfer of capital with other states. This is the way that cooperation can result in delegation to international financial institutions, which is a good prescription of the behaviour of states (Falkner, 2011). Liberals expect that the state delegates its authorities among them in the international financial intuitions. Thus, from a liberal perspective, the structure and range of the international economic architecture would expect cooperation from the side of all states, which would make it unnecessary to establish a new global financial institution. Moreover, liberals would

expect a cooperative behaviour among all states, which would make it unnecessary the establishment of a new global financial institution such as the NDB.

For instance, the Bretton Woods institutions such as the IMF and the World Bank can be seen as a compromise of the liberalist thoughts. The IMF and the World Bank were established after the Second World War with the goal of achieving economic growth and creating a stable environment in the international relations in order to prevent a new destruction of the global economy. Moreover, it was cooperation away from conflict among national autonomy and external norms (Ruggie, 1982). In this way, it was possible to achieve both external liberalization and national stabilization (Gilpin, 1987). According to Woods & Lombardi (2006), this phenomenon is expressed in these institutions shaping their agenda, their monetary planning and voting measures.

The establishment of Bretton Woods' institutions initiated a time of exceptional growth in foreign trade and increased global economic interdependence. The IMF and World Bank reinforced free trade and economic prosperity. From a liberal perspective, there is no reason for the creation of a new international financial institution since the current institutions are serving the liberal principles well: achieving maximum efficiency, economic growth and individual welfare. Therefore, in this research alternative approaches such as mercantilism and dependency theory will be explored in order to find a proper answer for the aforementioned research question as liberalism cannot account for the Brazilian support on the foundation of the NDB.

2.1. Mercantilism

Mercantilism is the oldest global political economy theoretical perspective, originating in the sixteenth and seventeenth centuries with the birth of the modern capitalism (Falkner, 2011). The school was the dominant approach in Western Europe between the sixteenth and eighteenth century when the monarchs were trying to strengthen their power against enemies coming from national and international spheres (Ravenhill, 2014). Since mercantilist theory argues country, political affairs and power can influence the global economy, many of its beliefs essentially aggregate the realist school of international relations. Frequently, the mercantilists' and realists' beliefs are intertwined (Balaam & Veseth, 1996). Thus, research in the mercantilism approach is embedded with the realist school of thought in global political economy. The state is the most important actor for realists as well as for mercantilists when it comes to world politics. In both the mercantilism and the realism approach, the international system is anarchical and consists of only unitary rational states chasing national interests. Furthermore, realist theoretical assumptions lie in the primacy of the power over economics. Although the distinction between the schools of realism and mercantilism is hard to make, the most evident

difference between the two approaches is that for realists the main focus lies on state security and military capabilities, while for mercantilists the economy is the main focus for state action and not security as in the realist school. Given that mercantilism is a political economy variant of realism (Balaam & Veseth, 1996), in this thesis mercantilism is related to the realist school of thought.

The word mercantilism was only first mentioned by Adam Smith in his work about the liberal school in *The Wealth of Nations* (1776), where he devoted a considerable amount of pages in contesting the centre propositions of mercantilism (Watson, 2014). Smith has described the mercantilist approach as a political system which sought to accumulate precious metals while enriching the country by controlling import and encouraging exports. This strategy is supposed to make a country achieve a positive balance of trade, making the country richer and ensuring domestic employment. The mercantilist theory is the first one to make assumptions about the capitalist mode of production. In the classical mercantilist perspective, the world economy can be described as a zero-sum game; profit for one country means a loss for the other (Kirshner, 2009). In this way, the mercantile system advocates a protectionist trade policy. Moreover, the export-driven approach is the best route to achieve national growth and prosperity from a mercantilist point of view. In the Mercantilist theory, there are three premises guiding the mercantilist approach. Primarily, its emphasis is on the state. As aforementioned, the state is the most important actor in order to understand the global political economy development and outcomes. Second, the states' national interests shape the international dynamics. Third, the international system in which states cooperate and compete to take full advantage of their interests is an anarchic system (Kirshner, 2009)

According to Viner (1948), mercantilist objectives were there to achieve power and wealth as interconnected and co-dependent state's policies ambitions. Moreover, profit and power maximization were what mercantilists were looking for. Classical mercantilism's contribution to global political economy was marked by the legitimation and recognition of the state's role in regulating national economic actions and encouraging international economic expansion, by peaceful or military means (Falkner, 2011). Mercantilists believe that human nature is evil when exposed to power. They agreed on a pessimistic view of human nature. Therefore, a balance of power can be helpful but perpetual peace can never be reached in the mercantile system.

Nineteenth-century mercantilism was marked by the rise of liberalism policies. Progressively, Europe started to adopt free trade policies. However, the original mercantile system was not fully gone. According to Falkner (2011) the two schools of thoughts were competing to influence each

other. At this time, the mercantilist goal was to illumine the important role of nation building and state protectionism to encourage economic growth. The politics of Nationalism had risen, which is why the era of mercantilism in the nineteenth century was also known as the era of economic Nationalism (Falkner, 2011). Works of economic nationalists Alexander Hamilton, Friedrich List and Gustav Schmoller were influential in this time. According to Kirshner (2009) these authors were combining realist believes concerning politics with the emancipation of economic thought formed by the liberals. They have agreed that liberal economic policy worked in more developed countries such as Britain, not for countries that were still developing. To List (1856), open competition and free trade were indeed the goals at the end, as also argued by the liberal school. However, to achieve the level where trade barriers could be abolished, countries with late industrialisation had to have its barriers protected by the nation state in order to economic develop.

The mercantilists of the twentieth-century were marked by major events such as the First and Second World Wars and the end of the Cold War. Moreover, these facts have generated a debate among mercantilists' authors about the costs of interdependence and the advantages of international cooperation. Hence, the twentieth-century theorists of mercantilism were questioning the composition of trade and the distribution of gains, rather than the question whether countries would get wealthier with international trade (Kirshner, 2009; Waltz, 1970). In a nutshell, there are three elements that have shaped the debate among mercantilist in the following century: A disbelief that interdependence could considerably diminish the chances of war; the international economic structure mechanisms are defined by international politics; and that states will observe their cooperation with the international economy being aware of the risk that can come out an anarchy system (Kirshner, 2009).

Nevertheless, the mercantilist view is still commonly used to discuss and analyse foreign economic policy around the world (Falkner, 2011). The mercantilist political economy from the twenty-first century is marked by the transition from the Cold War to a post-Cold War with globalisation playing an important role in the global economic world. Furthermore, the influence of neorealism from Kenneth Waltz, its main theorist, is strongly related with the mercantilists from twenty-first century (Kirshner, 2009). Waltz was responsible for launching the multi-level analysis in the international relations field. In this kind of analysis, a systemic approach is applied in order to assess the interaction of the states.

Furthermore, states are like units and can only be distinguished by their relative capabilities (Waltz, 1979). This approach diverges from the classical mercantilist paradigm. To Waltz, what

matters is the international structure of the international system and not the state's characteristics such as level of socioeconomic development or geographical disposition. According to Waltz, the international structure does not show a sum of states, rather it presents an outcome of the interaction of these states. Thus, this interaction is an autonomous fact that can bring opportunities or impose restrictions on the international system. Hence, in order to fully comprehend international relations, it is necessary to correctly define the three elements: The international system is anarchical, the capabilities are spread across units and the purposes of differentiated units should be specified (Waltz, 2010). According to this perspective, the international system is shaped by states interaction, however only by global powers. Moreover, in the international-political system the small states have no control or influence. Although Waltz agreed with an anarchical system, he states this system will be constituted by the global powers' free will (Waltz, 2010).

Contrary to Waltz's neo-realism perspective, Robert Gilpin has argued that the key element for understanding world politics is the "dynamics of power relations over time" and not Waltz's fixed distribution of power. In his book *War and Change in World Politics* (1981), Gilpin argued that the balance is extremely important in international relations. The changes in this balance of power due to economic growth over time are the origin of conflict between great powers (Gilpin, 1981; Kirshner, 2009). From this point of view, Gilpin has assisted to create the basis of contemporary mercantilism thoughts. In his work, Gilpin has constantly incorporated a significant role for non-structural explanatory variables, contrasting Waltz. According to Gilpin, what determines the future of the global economy is the nation state and the interaction of national interests (Gilpin, 1987). From a mercantilist perspective, the state should control the economic activity and the national interest should be prevailing (Falkner, 2011). Moreover, the political process to accomplish economic means is really important and always decided by the state (Gilpin, 2001). Fundamentally, the political process and the process of economic growth are intertwined. In order to understand the development of international political economy, it is important to explore the political and economic fields in relation with each other (Gilpin, 2001). The aim is not the maximisation of economic growth but the optimisation of political power (Hettne, 1993).

In sum, contemporary mercantilism still supports state-centred approaches and protectionist measurements to attain economic development while achieving political power (Falkner, 2011). The balance of trade is still extremely important to bring wealth and growth. The protectionist policies are used by mercantilists to protect the national economy. Protectionist policies refer to policies designed to restrict the import of goods and services from foreign countries. Therefore, the state intervention in the foreign trade is mainly to guarantee the accumulation of foreign reserves.

Taking the aforementioned mercantilism approach into consideration, further analysis about current economics and politics can be done. In the next section, an analysis of Brazil's decision is addressed through the "lenses" of mercantilist theory.

2.2. Mercantilism and the Global Economic Governance

The international order of the twenty-first century is marked by global economic governance and consequently the creation of various multilateral institutions. Although the world nowadays differs dramatically from the mercantile system from the sixteenth century, wealth and power are still the ultimate goals of the nation state in this century (Krasner, 1994; Boyle, 2008). For a long time, wealth was seen as an end in itself and not as a means to increase power (Boyle, 2008). As Viner (1948) argued, the modern foreign policy of European countries is still guided by a mercantilist approach since the interest lies in both political and economic ambitions. Scholars from contemporary global political economy and international relations make sense of the current global economic system from the same perspective as the one described by the mercantilists theorists (Boyle, 2008). However, statesmen have perceived these aspirations in a different manner over time, since they have admitted the possibilities of acquiring wealth through free-trade. Thus, the mercantilists from the modern world are pursuing wealth through multilateral trade and domestic specialisation in a growing international division of labour, instead of pursuing through colonial expansion and commercial monopolies as in the classic mercantile system (Boyle, 2008). Furthermore, another difference with the modern mercantilism approach is concerning the zero-sum game in global economics. Classical mercantilists have seen wealth and power as a relative matter among countries (Boyle, 2008). Defeating an enemy country was as important as its total gain for a country (Vine, 1969). Contemporary mercantilists such as Gilpin, have argued that in the competitive global market system, wealth and power are not based on a states military capabilities or colonial possession, on the contrary, the wealth and power are gradually more founded on a domestic economic efficiency. The global economic system is appreciated because it is capable of growing global wealth through the world market and thus, giving a chance for the political society to obtain wealth.

Hence, from a mercantilist perspective, the international financial institutions such as the IMF and World Bank, transnational corporations and banks are considered to be a state instrument to acquire power and wealth in the international system. A good example of this dynamic can be seen in the most two important international financial institutions of the world: the World Bank and the IMF. When these institutions were created, the United States determined their structure, location and

mandate (Woods, 2003). Furthermore, one-third of the voting power from both institutions belonged to the U.S., making the U.S. the only country with such an authority. This system allows the U.S. to obstruct on its own, without the assistance of any other member (Wade, 2011). In this way, every decision that was made concerning the IMF needed U.S. approval first. The leading role the U.S. plays in these institutions is noticeable (Woods, 2003). Another financial institution dominated by the powerful hegemonies is the World Bank. For instance, the decision-making is given to those with more capital invested – the richest countries. The bank's president is always a North -American citizen chosen by the U.S. government. Additionally, the location of the Bank, in Washington DC, provides convenient access from the U.S. Treasury Department and will guarantee that most of the Bank employees are North-American citizens (Bello, 2004). Moreover, these multilateral institutions are serving as mechanisms of the strategy and foreign policy of the powerful states (Strange, 1996). The powerful hegemonies are dictating their activities, as the mercantilist approach had foreseen.

The power of these hegemonies such as the United States would dictate the order of the international system in a mercantilist perspective. It would be expected the U.S. – the most powerful state in the world during the period of the 1940s to the 2000s – would control all the financial policies based on its objectives, in order to achieve power accumulation and preserve the position of a leader in the global economic system. This power would be executed through the international financial institutions, transnational financial corporations and international private banks. Consequently, this type of policies would powerfully affect the whole global economy (Wade, 2011). Moreover, the IMF and the World Bank were created to reinforce U.S. goals and policies all over the globe (Woods, 2003). As the mercantilists would predict, the rules of the international financial institutions are given by the powerful states. However, these institutions need significant members from all over the world in order to function properly (Woods, 2003). The non-hegemonies states have a false impression of profiting from this type of cooperation. In most of these institutions, Southern participation is required and many of the programs are even aimed at the South, although leadership and initiatives have always belonged to the North (Wade, 2011).

For mercantilists, the United States would be a dominant state in the post-Cold War era since the central aspect of any system is the distribution of material power (Hurrell, 2006). Nevertheless, a shift in the balance of power has occurred in the twenty-first century as the mercantilists have foreseen. Since a power dissemination has grown in the international system, mainly in the global economy making the North losing economic strength and consequently given an economic rise to the South. Brazil, Russia, India, China and South Africa – BRICS countries have been a major feature of this tendency. Particularly China's rising power has been considered a relevant threat for U.S. hegemony. Mercantilists would understand the rise of the emerging countries capabilities as a consequence of its economic emergence. This scenario is an outcome of the global financial crisis that began in 2008 (Christensen, 2013). In this context, Brazil's international status has been rising quickly

with acquiring influence in the global arena while its economy is growing rapidly (Dauvergne & Farias, 2012). As the mercantilists have foreseen, hegemonies protect their interest to rule the international financial institutions to acquire wealth and power. One can argue the emerging powers such as the BRICS will struggle against the U.S. superiority in the global economic field. In a mercantilist view, the rise of the emerging countries will be likely to create power-political tensions (Hurrell, 2006) due to the fact any type of adjustment in state behaviour will always entail changes between states and consequently, affecting the structural of balance of power (Waltz, 2010).

Nonetheless, it would be expected from a mercantilist point of view, the countries excluded from policy decision-making in the IMF and World Bank would try to find a solution in order to change the power structure of the international economic system. The international financial institutions are the most important instrument of states to achieve their goals. Through these institutions, states can acquire influence and enrich their country through economic policies benefiting itself. Hence, we can assume that countries would be creative in finding a solution to overcome the balance of power and obtain more influence in the international arena.

With the aforementioned preconditions of the mercantilist theory, such as the need for more power and influence in international and domestic spheres, we can infer a state would have interest in supporting a new international financial institution if this institution would be capable of changing the status quo. Since, in the contemporary world the IMF and the World Bank serve the purpose of the hegemonies, the creation of the BRICS New Development Bank by non-hegemonies can be seen as an act of restructuring the current global political economy.

2.3 Dependency Theory

“Most economic histories of the "world" not only omit most extra-European production and exchange (even most of that outside West Europe or even northwest Europe); they neglect the participation of the productive and exchange activities of extra-European countries in the European, not to say world, process of accumulation and development. Moreover, they disregard the part that these productive and exchange relations played in the developing world system.”

André Gunder Frank, World Accumulation 1492-1789

Among the many theories that make an attempt to explain the economic organisation of the international system, the dependency theory is perhaps the one which focuses the most on trying to

explain the underdevelopment of Latin America. Although its emphasis tells much about the social and economic development of Latin America itself, it also provides theoretical and methodological tools for the study of capitalism in the periphery countries all over the world. The dependency theory also anticipated on the world system theory, stressing the existence of an expanding world economy as a central element of capital accumulation and situating the world as an object of analysis for any domestic or regional research.

The third world's underdevelopment became an issue on the agenda of global political economy during the 1950's, in an era where the former European colonies were politically independent; however, they were still economically subordinate to the developed nations (Gilpin, 1987). In this scenario, the Latin American structuralist theory was born in the United Nations Economic Commission for Latin America (ECLA). Under the leadership of the Argentinean economist Raúl Prebisch and the Brazilian economist Celso Furtado, the structuralist theory of ECLA was a dominant school in Latin America between the 1950's until late 1960's (Gilpin, 1987).

In the ECLA structuralist approach, the composition of the global economy is the centre or core of well industrialised and developed states on one side, and a significant underdeveloped periphery on the other (Prebisch, 1959). Structuralists from ECLA have argued a liberal global economy increases inequalities between more advanced capitalist economies and less developed economies. Prebisch has argued the global economy was impartial and unfair with the developmental efforts of the poorer states (Prebisch, 1959). Moreover, due to structural components of the underdeveloped economies and outdated international division of labour, the economic strategies that show the way to increase production – thereby achieving economic development – have different consequences for the periphery economies (Gilpin, 1987). From the ECLA structuralism point of view, the global economy dynamic generates and, to some extent, reinforces the underdevelopment of the third world countries. Based upon these ideas, many strategies concerning the development and the industrialisation in those countries during the 1960's have been tried. However, the situation did not change significantly and, in some cases, even worsened. In this context, the ECLA structuralists' views lose their strength and as a consequence, the dependency school of Latin America took its place (Gilpin, 1987).

The dependency thoughts were propagated in the late 1960's as an alternative approach to the ECLA structuralism. In general, there are three main theoretical schools that have contributed to the appearance of the Dependency School: Marxism, the imperialism theories and ECLA structuralism. These three schools provided the analytical, methodological and conceptual instruments that dependency theorists used to develop their theory in greater depth (Palma, 1978). However, the ECLA structuralism was the school which influenced the Dependency School of Latin America the most,

since it was aimed more on Latin American development. Theotônio dos Santos, a Brazilian dependency theorist has defined the theory as:

By dependence, we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development (Dos Santos, 1970, pg. 231)

The dependency school has different perspectives. Consequently, different schools and approaches naturally arose. However, there is no consensus concerning the classifications and divisions of theorists among scholars. Gabriel Palma (1978) was one of the first theorists to discuss the distinction between the dependency approaches. The first one, which he calls the dependency theory of Latin American underdevelopment, would include authors such as Theotônio dos Santos, Caputo, Ruy Mauro Marini, Pizarro and Andre Gunder Frank. These theorists were concerned with determining the rules of the dependent development. The second approach, which he called “dependency as a reformulation of the ECLA analysis of Latin American development” would include theorists such as Prebisch, Furtado and other graduates of the ECLA structuralist school. They restructured the thinking initiated in the ECLA, adding up social and political aspects of the development process. Finally, the third group consists of Fernando Henrique Cardoso and Enzo Faletto, who were concerned with the investigation of the actual circumstances of dependency. (Palma, 1978).

From Luiz Carlos Bresser-Pereira (2010) perspective, there are three main interpretations of the dependency theory. Firstly, imperialist exploitation of Frank, dos Santos and Marini. Secondly, the associated dependent development of Cardoso, who hypothesises the existence of a national bourgeoisie would be impossible, hence why Latin American development would only be possible in an associated or subordinated way. Finally, the third interpretation, which he calls national-dependent, includes Furtado, Prebisch and Bresser-Pereira. The main point of national-dependent is that development of the periphery is only possible when businessmen and policy-makers associate themselves with the working class and therefore, build a strategy together (Bresser-Pereira, 2010).

To Jorge Dominguez (1978), the dependency theory can be divided into two different approaches: the orthodox and unorthodox dependency. The orthodox dependency would explain the dependency phenomenon through the internal dynamics of underdevelopment. Also, the dependent

capitalism is generated like a social-economic system of enduring generations of poverty. Socialism is seen as the only solution for the peripheral countries' problems. In the unorthodox dependency, the dependency phenomenon is generated and analysed in its particular situation. Capitalism is seen as capable of providing a certain level of development in the periphery. However, this development is the one as described by Cardoso, which is associated-dependent development (Dominguez, 1978). To Cardoso, the domestic prosperity of the underdeveloped countries is – to some degree – in the interests of the transnational corporations, thus they support development (Cardoso, 1973).

Apart from the differences that might come concerning the classification of the dependency theories, the theorists agreed that underdevelopment does not exist because of the choices in policies of the peripheral countries. It exists due to the exterior forces of the capitalism model that guides the global economy. They have all agreed on the components of the theory including: (1) the agreement that underdevelopment is a singular historical-structural fact and not simply a stage of development or an “anomaly” of the economic system and at the same time indivisible from the organisation and the dynamics of the capitalist world system; (2) the dependency from the underdeveloped countries was created by the relationship between the internal factors (the domestic political system, structure of local classes etc.) and the external factors (international division of labour, the imperialism etc.). The dependency was seen as internally expressed through a number of interests or objectives of local groups, and; (3) the relationship between underdeveloped economies and the developed countries (Gilpin, 1987). One can say that all the dependency theorists agreed these characteristics of the theory explain the underdevelopment of the developing countries (Gilpin, 1987).

Nevertheless, dependency schools understand underdevelopment as a process in which third world countries are trapped due to the constitutional relationship between industrialised versus less developed countries. This is contrary to the Liberalism point of view that sees underdevelopment as a condition occurring in most countries due to the fact they did not play the global political economic game properly (Gilpin, 1987). For the dependency theorists, the analysis of the external dynamics e.g. periphery and core was not enough to understand the development of periphery countries. It was necessary to consider the dynamics of this process was also given, in particular, through contradictions and prospects within the local social class structure. To see how this external dominance was consolidated and perpetuated it is equally important to consider the exploitation of developed centres in peripheral regions, as well as the relationships of power within the periphery itself. Moreover, the economic dependence was seen as a mediated internal process and not only as an externally conditioned phenomenon as ECLA structuralists affirmed (Cardoso & Faletto, 1979). The dependency theorists considered economic, political, social and cultural factors were also responsible for creating the relationship of proletarian-bourgeois type as Fernando Henrique Cardoso states:

We conceive the relationship between external and internal forces as forming a complex whole whose structural links are not based on mere external forms of exploitation and coercion, but are rooted in coincidences of interests between local dominant classes and international ones, and on the other side, are challenged by local dominated groups and classes. In some circumstances, the networks of coincident or reconciled interests might expand to include segments of the middle class, if not even of alienated parts of working classes, and even peasants, aiming to protect themselves from foreign penetration that contradicts their interests. External domination in situations of national dependency (opposed to purely colonial situations where the oppression by external agents is more direct) implies the possibility of the “internalization of external interests” (Cardoso & Faletto, 1979: viii).

Moreover, these national bourgeois elites are not truly defending the national interests of its society in opposition to the international capitalism society; rather they are being blamed for following the wellbeing of its own group (Gilpin, 1987).

The aspirations of the dependency theorists are not simply the economic growth of the country, but also the emancipation and development of the society, especially in political and social spheres. Their notion of development and underdevelopment are as much political and social, as they are economical. Their goal is to construct an independent, fair and developed country. A change in the social and political structure is necessary in order to achieve this goal (Gilpin, 1987).

The solution for less developed countries also divides theorists from the dependency school. For instance, taking the classification of Dominguez, the orthodox dependency theorists would argue the only way for periphery countries to emancipate from the dynamic capitalist relation of North-South is the political ascension of a revolutionary leader that would bring down the elite, replacing it with a system devoted to independent development. The aim of this leadership would be ending the relationship between international capitalism and the national economy. Furthermore, the new leaders would be responsible for the industrialisation of the economy and for the completion of social and economic fairness (Gilpin, 1987). On the other hand, the unorthodox dependency writers would argue that an associated-dependent development is the only way to emancipate the underdeveloped countries. Cardoso (1973) for instance, states that the underdeveloped countries should not break the international capitalist structure, but should rather apply the associated-dependent capitalism for developing the economy, which means opening the internal market for foreign capital. Moreover, this process would be led by foreign investment and transnational corporations linked to the bourgeoisie and the state (Cardoso, 1973).

2.4 Dependency Theory and the Global Economic Governance

Theorists from dependency school argued the expansion of transnational corporations and consequently, globalisation has consolidated a new kind of dependence in the developing countries due to direct foreign investments in national market-oriented industries. Cardoso (2009) argued globalisation has brought even more technological and financial advantages to the core states. During the 1990's, the relationship between peripheral economies and the industrialised states widened, especially in Latin America. This gulf was particularly noticeable in Brazil as the era brought denationalisation of the economy, political alliance with the United States and macroeconomic policies to the international financial market. Since international trade has been growing at a faster speed than the Gross Domestic Product (GDP), this dependency determined its social and political domestic structure as well as its international relations (Cardoso, 2009).

Dependency theorists argued the contemporary global economy is characterized by the high mobility of speculative capital, while the interconnection of world production guides the international economies. Therefore, the high mobility of speculative capital weakens the developing economies. The developing countries lose their strength and capacity to adjust their exchange and interest rules (Cardoso, 2009). The result is a deepening inequality of power among the developing and developed states as well as a loss of autonomy on the national level. In this way, the dependent countries are more subordinate than ever to foreign investment and always vulnerable to the decisions of the centre. This highlights the importance of the dependency school in the twenty-first century. Although forty years have passed since the first assumptions about the dependency theory arose, the dependency approach can still be applied with the financial dynamics that globalisation has provided (Cardoso, 2009).

From a dependency perspective the current international financial institutions, such as the IMF and the World Bank, reinforce the dependency status of third world countries. The IMF was created by the winners of World War II as a strategy to reconstruct the international financial system. The intention of the IMF was to support monetary cooperation on a global level. The Fund has a function to provide financial and technical assistance as well as surveillance over its 188 member states. Over the years, the IMF's legitimacy was constantly questioned for not being transparent with its decision-making and heavily criticized for defending the interests of developed economies. Since its creation 60 years ago, the structure of the IMF has not changed significantly. Consequently, the challenges the current global economy is facing, and the rise of emergent economies, show the IMF's structure is outdated (Bello, 2004).

Dependency theorists from Latin America believed their countries have been trapped under the structural adjustment lending programs from the IMF and the World Bank since the 1980's, when these institutions decided to take a leading role in Latin American debt crises (Babb, 2005). At first, the structural adjustments – known as Washington Consensus – were policies to which states should comply with, in order to borrow money from the IMF or World Bank. These “recommendations” included on the domestic level: deregulation of business; privatization of public activities and assets; cutbacks in public expenditures and spending reductions on social welfare programs. At the international level, these recommendations included the free movement of goods, services, capital, and money across national boundaries. The IMF and World Bank started using these structural adjustment lending policies as a way to promote neoliberal policies such as free trade and foreign investment. These institutions have marginalized and excluded the third world from the formal decision-making process and made the state even more systematically disadvantaged (Bello, 2004).

According to the dependency theory, the IMF's promise of sustainable growth in the Latin American economies due to the adjustments never occurred. Governments allowed budgets to become uncontrolled and loose monetary policies led to wild inflation. Two decades of market-oriented adjustments in Latin America were marked with common feelings of failure and frustration (Babb, 2005). Given that many Latin American economies have suffered major crises between 1993 and 2003, one can argue the Washington Consensus ended in the wrong way. Crises that spread over the continent have exposed the inherent faults in the international financial intuitions and created dissatisfaction from Latin American economies concerning the neoliberal model and its guarantees. In the end, the only ones who profited from the liberalization of the market were the developed countries (Babb, 2005).

Cardoso and Faletto have developed a theory for the Latin American development. They argued considering the capitalist structure of the global economy – it is necessary to apply the associated and dependent capitalism – meaning the opening of the domestic market to foreign capital. To Cardoso and Faletto, there is no other alternative developmental model apart from associated-dependent capitalism. They argued that in Latin America, it is not possible to build real cooperation between the private and public sector, thus no true development is achievable apart from opening the market to foreign investment. The process of industrialisation in Latin America should be driven by foreign capital investment coordinated by the national bourgeoisie and the state. According to them, from an economic point of view, the dependency of a system occurs when the domestic structure cannot provide the central element for the expansion and accumulation of capital. In a developed economy, the central element to expand the economy is the capacity of increasing the capital scale. On top of that, the creation of new technologies and permanent production of capital goods is the only

way of expanding the economy. However, the situation is different in the peripheral countries since there is not enough strength in their capital goods sector to guarantee the constant growth of their financial system (Cardoso and Faletto, 1981).

A solid banking system is required for the expansion of capitalist economies. Hence, to achieve economic growth, a dependent economy has to enter in the interdependence game, a similar situation to how a customer looks for a banker. The customer can develop strategies in order to get independent and may try to use the borrowed money in a productive way. It is important to remember there are structural limits in this “game” and the winning situation is not a certain outcome. The rules are made by countries which have more power and even when the dependent economy becomes less poor after the first loan, it is always the case that a second loan will follow that brings the same risks (Cardoso and Faletto, 2008).

In addition, to Cardoso and Faletto (1981), the associated-dependent capitalism could bring new elements to the relationship between the developed and developing countries apart from the importation and exportation cooperation. This relationship can be characterized for private investment from the core in the manufacturing industries of the periphery. Through the strength of the internal market which becomes capable of retaining the profits of foreign capital investment, it is possible for the dependent countries achieve more autonomy.

Cardoso and Faletto argued since the economic strategy is situated in the political sphere, the dependency process must occur there as well. It would be mistaken to understand the factors that lead to development are situated in the economic sphere (Cardoso and Faletto, 1981). Hence, in order to insert the developing economies in the global economic world, the political sphere is extremely important, since politics is the way to dominate a particular group and impose a social mode of accumulation and production onto the whole society. The “dependent capitalism” is dependent because incorporation of the periphery into the capitalist core would occur through the relations between the national and international bourgeois groups, in order to impose the interests of one class, while prevailing on the interest of the external groups. On the other hand, it is “associated capitalism” due to the fact that this process is not only about industrialisation. Rather, it is an industrialisation that is unifying the national and international private capital through the state, in which the national bourgeois should leave the strategic sectors in the hands of the international capital, taking care only of small transnational companies (Cardoso and Faletto, 1981).

To Cardoso, the solution would be the formation of a world government which would be responsible for creating and regulating the rules while limiting the mobility of foreign capital. Cardoso

admits that this is a utopian view, however, he stresses the importance of controlling the international market since globalisation can be really harmful to developing countries.

Although the IMF and the World Bank exists in the international economy world as institutions responsible for governing the economic relations among states, it is important to note these institutions were created and ruled by developed countries. The content of these institutions, from a dependency perspective, is made to benefit the powerful hegemonies. These institutions have always imposed their ambitions upon less developed economies through policies such as the Washington Consensus. The Washington Consensus has failed to develop the Latin American economies, causing a considerable dissatisfaction among those states. One can argue that a new international financial institution would be welcomed by the developing countries if this new institution would provide different content and policies benefitting both the hegemonies and the developing countries. We can conclude globalisation can be considered as a new type of dependency and from a dependency point of view, it is predictable that Brazil, together with the other BRICS, would support the foundation of a new financial institution if the content of this new institution would be an advantage to their economic development. Furthermore, it is also an attempt to achieve more autonomy in the financial sphere and to be able to regulate the mobility of capital.

2.5 Conclusion

In this chapter, an overview of two theoretical approaches was given; the mercantilist theory and the dependency theory. Analysis of these theories differs in some considerable points concerning the global political economy and the economic development and goals of a country. However, there are some similarities. One can say the mercantilism approach has focused on European development considering its roots in Europe, hence its view is more focused on the capitalism of the developed countries. Opposing that view, the dependency approach is rooted in Latin America and has a capitalist approach from the perspective of developing countries.

In the mercantilist theory, the state is the most important actor and pursues national interest as the most important goal in the global political economy. In the long run, states pursue wealth and national power at the same time. At this point, there is a similarity with the dependency theory, since their priority lies in the state structure and there is strong concern over the distribution of wealth among nations. According to dependency theorists, the dependency processes do not occur in the economic sphere but rather, in the political sphere. The importance of the state is thus highlighted. It

remains important to note the social sphere in the dependency theory, as the mercantilist approach does not take this into account.

From a mercantilist perspective, the rules or regimes that govern the global political system are constantly changing in order to benefit the most powerful states, since the gains for mercantilists are not mutual but rather relative. Considering this view, it is expected states build new coalitions to maintain the current balance of power. Although to mercantilists economic priorities are central, they are always lesser than power concerns. The mercantile system is shaped by the nation-states desire for power. For the dependency theorists, the “globalisation game” is not only dependent of the economy, but also on the global political sphere. The developing countries’ capacity of insertion in this world is primarily reliant on the ability of local societies and their leaders to structure their policies, as consistently as possible. It is important for them to resist limiting policy to just the financial sphere. They must diversify in order to reduce the effects of globalisation, ensuring those consequences are less harmful to the developing countries and their society.

In a nutshell, the two approaches have showed sufficient elements from each theory capable of explaining Brazil’s motivation on supporting the foundation of the BRICS New Development Bank. For a mercantilist, it is expected Brazil would support the foundation of the bank in order to shift the balance of power and consequently attempt to change the current global economic structure. Additionally, mercantilists would also expect that Brazil wants more influence in the international system and the NDB is the key strategy for acquiring that power. On the other hand, considering the dependency theory, Brazil would support the creation of the NDB if they would offer a new content. Moreover, this content would benefit their economic system, more than the current system led by the IMF and the World Bank. It is an effort to pursue a more autonomous economy and regulate the mobility of foreign capital inside the country. Moreover, can be considered an attempt to develop and gain more independency.

3. Research Design

The aim of this thesis is to investigate the reason(s) why Brazil has decided to support the foundation of the New Development Bank. In the previous chapter, the theoretical framework exhibited a preliminary point in which potential outcomes can be inferred. In this chapter, the particular assumptions concerning the answer of the research question are proposed. Moreover, the expected hypothesis founded on the theoretical framework is presented, followed by the methodology and operationalisation used for this thesis. Research propositions and the data used are also presented in this section. A case study design will conduct this research in order to go beyond the superficial and explore the factors in-depth, since a case study design entails a clear justification of cases and methods (Gerring, 2007).

3.1 Case Selection

This research focuses on the Brazilian decision to expand economic cooperation with the BRICS on helping to establish the BRICS New Development Bank. In order to present the relevant data, the time frame used in this analysis runs from 2012 until 2014, with statements about the discussion from several Brazilian actors. An analysis of the global political economy regarding the time when the BRICS started cooperating together until the decision of creating the NDB is required to deepen the case; to gain a better understanding of Brazil's interests. Brazilian foreign policy is analysed as well as Brazil's behaviour in the international system.

Brazil is a particularly relevant case to conduct research on, due to its growing influence in international relations. Along with the other BRICS, Brazil has acquired emergent country status. The case of Brazil is even more unique – differing from India, China and Russia – as Brazilian foreign policy is constructed on soft power instead of military power (Dauvergne & Farias, 2012). In fact, although Brazil does not hold any noteworthy military power (Dauvergne & Farias, 2012), Brazil does maintain an exceedingly experienced diplomatic corps (Kenkel, 2010). Brazilian foreign policy relies solely on its diplomatic skills. Brazil is considered very different from the other BRICS countries due to its location, culture and ideologies (Kraliková, 2014). Hence, it is pertinent to analyse Brazilian actions in the international system.

Gerring (2007) defines a case study as “as an intensive study of a single unit or a small number of units (the cases), for the purpose of understanding a larger class of similar units (a population of cases)” (Gerring, 2007: 37). The purpose of this kind of research is to investigate and

create a hypothesis based on a theory. Thus, the theoretical framework is responsible for drawing a conclusion as an outcome of the proposed case study.

A single case study is well-suited for a small number of cases and is supposed to offer a deeper understanding of the case, eventually resulting in new knowledge about the subject. This type of design gives the researcher the prospect of gaining a view which goes beyond the superficial. This method may also help in explaining, illustrating and understanding the research problems or circumstances (Gerring, 2007). Case studies can be exploratory, descriptive or explanatory (Gerring, 2007). This design is useful when using ‘how’ and ‘why’ questions due to the fact the research has modest control over events. The focus is on a phenomenon that is relatively new within a real-life situation (Yin, 2009). On the other hand, when the research is focused on an established and well-known phenomenon, the case study design may not be the right decision (Yin, 2009).

Case studies do not focus on generalising towards a population. While in-depth and exploratory analysis is the best feature of the single case study (Gerring, 2007), this type of design can be also very costly (Yin, 2009). The focus in this thesis is on the underlying reasons which influenced Brazil to support the founding of the New Development Bank. The single case study design suits this research best, considering the new and unexplored elements are presented alongside a single actor. The New Development Bank is a relevant phenomenon since it is the first time emergent countries decided to create such an institution. The selection of Brazil can be motivated by the rapid economic growth the country has enjoyed in the last two decades. They acquired more influence in the international system and became a global player. The topic of this research is essential for the global political economy since the outcome can be useful to predict the results of, and infer the actors’ motivations, in future cases with similar parameters.

3.2 Hypothesis

In order to move further, the research design must link its questions with the conclusions. This process occurs through collection of data, followed by empirical analysis. Moreover, the idea of the research is established by the deduction it is meant to demonstrate or test (Gerring, 2007). Hence, all causal relationships between independent and dependent variables should generate a hypothesis or proposition (Gerring, 2007). The hypothesis serves as a point of connection between theory and reality. This helps the researcher discover potential answers to the research problem. The theory is the basis of the hypothesis but the hypotheses are vulnerable to an empirical test (LoBiondo-Wood & Haber, 2010).

As aforementioned, this thesis aims to understand the reasons why Brazil decided to support the foundation of the NDB. As was shown in the previous chapter, the mercantilist theory and the dependency theory have different views concerning the global political economy. Consequently, there are different answers for the research question. Two hypotheses are proposed for the two different outcomes predicted by the theories. The mercantilist theory would argue a state will have interest in supporting the foundation of a new international financial institution so long as this institution is capable of changing the power structure of the current system. Thus, the hypothesis generated here is:

H1 (Mercantilist): "A country will support the foundation of a new IFI if it expects this institution to be able to change the power structure of the current international system".

Considering the statement above, it is expected a country would support the foundation of a new international institution if said institution changes the status quo, thus providing this State with more influence on the global political economy. The current international financial institutions such as the IMF and the World Bank are dominated by hegemonies and are therefore seen to serve the purpose of the richest countries. The outcome of this practice is the exclusion of developing countries in formal decision-making, leading to a clear disadvantage in global economic governance. In addition, to mercantilists, these institutions can also be considered powerful instruments for the hegemonies to empower their ambitions in foreign policy. In a mercantile system, it would be expected from the developing countries this creation is a solution in order to shift the balance of power. Since the NDB is founded by emerging countries, it represents movement in favour of those States.

In this research, from a mercantilist perspective, Brazil would not join the NDB if it only provided different content from the IMF and World Bank. This new institution must provide Brazil with a possibility of achieving more influence over the international power structure. An emphasis on how the global political economy is not reflecting real 21st century economic dynamics can be expected from the speeches of the Brazilian actors. Furthermore, for the mercantile hypothesis to be approved, a critical attitude from Brazil towards the structure of the IMF and the World Bank is expected in those statements. Brazil will argue these institutions are leaving important economic actors behind (BRICS) and Brazil will use its economic weight and performance in order to prove its position in the global political economic system. A very positive and excited Brazilian attitude towards the NDB is also expected from a mercantilist theory, since IFI's are known to be a powerful mechanism to empower a country.

Acquiring more influence in multilateral international institutions and consequently becoming a global player has been a priority in Brazil's foreign policy agenda for some decades. As Brazil is an emerging power that has highly developed economically in the past decade (Christensen, 2013), it can be inferred it wants to use the NDB in order to acquire more influence and wealth.

In regard of the dependency theory, another hypothesis has been generated. While the IMF and World Bank are organisations responsible for governing the economic relations among states, it is crucial to highlight their content are not designed for emerging countries. Hence, the dependency theory would argue for the following hypothesis:

H2 (Dependency Theory): “A country will support the foundation of a new IFI if it expects this institution to be able to offer an alternative content from the existing IFI”.

Since developing countries do not have veto power in the IMF and World Bank, they have little influence on policies that are usually made to benefit the current hegemonies, since they are the ones which possess the veto power on these institutions. The dependency theory would expect a discontentment regarding the policy contents of the current international financial institutions from the Brazilian actor’s speeches. From the dependency theory’s point of view, such an effort to build a new bank in the international community would only be worthwhile if it offered new policy content to the developing countries. In this context, a very critical Brazil is also expected towards the neoliberal ideology proposed via the Washington Consensus through the IMF and World Bank.

Given the aforementioned, it is expected Brazil would not support the foundation of a new international financial organisation serving only the ambition of the developed countries. Imposing policies not benefiting emergent countries would not be accepted. The content of this new institution is of extreme importance for Brazil since IMF and World Bank policies did not benefit the Brazilian economy. In order for Brazil to support of the foundation, it should have a different content; therefore a distinction is made from the current financial institutions.

3.3 Operationalisation

In order to deepen the research and get a certain outcome for this thesis, it is important to clarify some key components. This section aims to provide a comprehensive definition of frequently used terms in this thesis. An explanation will be given on what is meant by power structure in the hypothesis regarding the mercantilist theory. Regarding the dependency theory hypothesis, an explanation is also given on the meaning of content.

3.3.1 Key concepts

International Financial Institution: The purpose of international financial institutions is to give monetary support through loans and grants at the State level. The borrower receives the loan or grant in order to develop economically and socially. These institutions can also provide technical assistance to governments as well as loans to private companies looking to make investments in the developing countries. The IMF and the World Bank are examples of current international financial institutions.

Power Structure: This term is used often in this thesis and is part of the mercantilist hypothesis. Structure is not something that we can grab or see and to Waltz (1979), the international system is made of a power structure and of interacting units. This power structure is the most extensive component of the international systems and makes it possible to understand the system as a whole (Waltz, 1979). Waltz defines power structure as “the principle by which it is ordered or organised by the differentiation and specification of its units, and finally by the distribution of capabilities across units” (Waltz, 1979). According to Waltz (1979), the international structure does not show a sum of states – rather, it presents an outcome of the interaction of these states. This interaction is an autonomous fact that can bring opportunities or impose restrictions on the international system. In order to fully comprehend international relations, it is necessary to correctly define the three elements: The international system is anarchical, the capabilities are spread across units and the purposes of differentiated units should be specified (Waltz, 2010). As the international system is anarchical, the states tend to form groupings to compete and not allow the super powers to achieve total control over the structure of the system (Walzer, 1979). In this research, power structure is the interaction of global powers and their capacity of influencing will over the structure of the international system.

Content: Here, content means policies a state has to comply with in order to get a loan from an international financial institution. The IMF and the World Bank have imposed a lending program called “structural adjustment”, also known as Washington Consensus. This is the *content* of the IMF and World Bank. This content was based on the neoliberal ideology and proposed the only way to achieve economic growth and development was through liberating the market. After twenty years of Washington Consensus with no true development in the developing countries, the poorest countries shared common disappointment and agreed free trade and market liberation is not the solution for their development. One can argue Brazil is searching for alternative “content”; one that allows the State to have a larger role in development and increased independency from international capital volatility.

3.4 Process Tracing

In order to trace causality in a single case, the case study research relies profoundly on contextual circumstantial data and deductive logic. The existence of many puzzling reasons which could result in the causality is not enough to only observe the covariation of X on Y. Additionally, no analytical tool of research design can be exploited in order to get rid of these causal factors (Gerring, 2007). In order to investigate the accountability of the two aforementioned hypotheses, a strategy of process tracing will be applied. Process tracing is the best analytical tool for this type of research since it is a good approach for analysing the process when dealing with several kinds of evidence (Gerring, 2007).

According to Gerring (2007), process tracing can be compared to a detective job, due to the fact it resembles a collection of pieces of a story. Making sense of these pieces together, will bring the detective (or researchers) closer to the right outcome. Every piece of evidence is not comparable and it is significant in order to shed a light on the main argument (Gerring, 2007). Observations generated from process tracing are not contrasting models of the same object. It is thus unclear where one observation ends and another starts (Gerring, 2007). Another characteristic of this process is that general assumptions about our reality are part of the analytical tool. Therefore, it is crucial the investigator is knowledgeable about how the world operates in order to classify and organize the data properly. A match between the world's causal relations and process tracing observation is necessary in order to result in reasonable – and logical – outcomes. Nevertheless, it is important to recognize that process tracing is not a perfect method and like other methods available, has a probability of failing. For instance, investigators could miss a valuable source of a case study. Furthermore, accessible data may not be distinguishable among rival and conflicting explanations. Researchers can go to a great extent on doubtful actions and motivations when believing or taking place in a cause (Bennett, 2010).

Nonetheless, a description of historical facts concerning Brazilian support to the NDB will be presented in the next chapter in order to explain its decision of being part of the new investment fund. As process tracing suggests, Brazilian authorities' actions will be organised and classified in the right sequence with the aim of showing reasonable coherence with the evidence. Firstly, with the preliminary debate, what was expected to happen with the creation of the new Bank. Secondly, what really happened during the negotiations and finally, what it was done in order to close the deal in creating the NDB.

3.5 Pool of resources

In pursuing a reliable causal inference, it is important to properly select the available sources concerning the matter of the research. In process tracing, the researcher can use a variety of documents such as newspaper articles, autobiographies, organisation charts of companies, etc. “A document is any material that provides information on a given social phenomenon and which exists independently of the researcher's actions” (Corbetta, 2003: 287). These documents are usually not created for social sciences research. However, they can be a reliable source since they do not have a relationship with the researcher. Perhaps, this is the best advantage of conducting this type of qualitative research as this information is free of potential alterations, contrary to using interviews. In an interview there is always the risk of the interviewee not being fully honest or giving biased answers. On the other hand, the same person could be less biased when writing their own diary (Corbetta, 2003). It is important to be clear these types of sources also have disadvantages. For example, this type of methodology can limit the researcher since no complementary questions can be made. They would have to deal with the information available, even if incomplete, to achieve a relevant outcome (Corbetta, 2003).

There are two types of documents available: the personal and the institutional documents. Personal documents are developed by individuals for personal use, such as autobiographies and diaries. Institutional documents are created by institutions – or individuals sponsored by institutions – such as newspaper articles, speeches and company documents (Corbetta, 2003).

In order to outline the motives for Brazil supporting the foundation of the NDB, this thesis will make use of institutional documents such as official speeches from Brazilian president, ministers and politicians. Lexis Nexis is used as a research tool, providing full access to full-text news about Brazil and NDB negotiation. Academic articles, books, newspaper articles and magazines will also be referenced. It is important to note the case is a recent phenomenon and available resources and news is limited.

Although this thesis uses empirical evidence with the purpose of understand Brazilian reasons of funding the NDB, it is important to address the limitations of this case study. For instance, direct interviews with Brazilian policy makers would have provided a deeper understanding of Brazil’s motivations; however, due to the short period available for the completion of this thesis, such interviews were not possible. In general, politicians and other relevant actors tend to be guarded with their words when making statements – they may not address the real motives – especially in an international sphere. This is done in order to reduce potential harm to any political or economic

partners. While reading the next chapter, please note this could be the case with speeches used. Empirical evidence together with the analysis will be presented to answer the hypotheses.

4. Case Analysis

In this chapter, an empirical analysis is formulated based on the process tracing methodology of collecting data and a thorough assessment is proposed. Regarding the creation of the NDB, a structure consisting of three phases is presented. The first phase contains facts from the preliminary negotiations and Brazil's response to the idea creating the new bank. Second and third phases entail, respectively, a study of the negotiation process from Brazil's perspective and the outcomes after the BRICS signed the documents for creating the NDB.

4.1 Prelude to the negotiations

"It is time to start reorganizing the world in the direction that the overwhelming majority of mankind expects and needs."

Celso Amorim, "BRICs and the Reorganization of the World" (2008).

In 2008, the world faced the worst financial crisis since the Great Depression of the 1930s. The bankruptcy of some of the most important North American banks caused the crisis to rapidly expand; affecting economies around the world. In a short period, global economies diminished or stagnated, bringing global trade to half of its normal capacity (Woods, 2010). Hegemonies were desperate to recover their economies and, in 2008, – for the first time in history – a summit was proposed encompassing both hegemonies and developing countries. Leaders of emergent States were invited to take part in discussions and developing measures and agreements on an action plan to diminish damage from the global crisis within the G-20 group (Woods, 2010). The action plan developed procedures to strengthen the hegemonies markets, regulate world economy, reform international institutions and to support poorest countries damaged by the effects of the crisis (Woods, 2010).

The Group of Twenty or G-20 was created in 1998, with the participation of the twenty largest economies, encompassing both hegemonies and emergent nations. Following the economic crisis beginning in 2008, the G-20 surpassed the importance of the older G-7 as emergent economies, particularly the BRICS, were not as significantly impacted by the crisis. G-20 summits are organised by central bank governors and national Ministers of Finance, who have the power to choose what topics should be approached by their heads of government. Brazil was an energetic supporter of the G-

20 and served as a major player in its consolidation as the primary forum for dealing with international economic issues (Tude & Milani 2013).

Meanwhile, international relations were facing a shift in the balance of world power. At an outstanding pace, unipolarity seemed to twist into a simple transition phase on the way toward a multipolar age (Stuenkel, 2013). 2008's global crisis significantly weakened the United States and Europe, while East and South strengthened its power and acquired relevant attention in the global political economy (Christensen, 2013). The BRICS have been a pertinent focus in the new diffusion of power, building a less "Western" and more diverse world (Schweller, 2011). The BRICS were able to keep their economy growing while hegemonies were suffering from the recession (Christensen, 2013). For the first time, Brazil, China and India were able to offer financial help and participate in the decision-making process concerning the crisis during the G-20 summits (Woods, 2010).

The IMF was created by the winners of World War II as a strategy to rebuild the financial international system. The intention of the Fund was to support monetary cooperation at a global level (Bello, 2004). Its function is to provide financial and technical assistance as well as surveillance over its 188 member states. Over the years, the IMF's legitimacy was constantly questioned for not being transparent with its decision-making process and was heavily criticized for only defending the interests of developed economies. The U.S. determined the IMF's and World Bank's structure, location and mandate (Woods, 2003). Since its creation, the IMF did not suffer any major changes and the challenges currently facing the global economy, together with the rise of emergent economies, show the structure of the institution is outdated (Bello, 2004).

The World Bank is in a similar situation. The decision-making process is given to the richest countries; the ones with more capital invested. Bank presidents have historically been North-American citizens chosen by the U.S. government. Additionally, its location in Washington, DC, provides convenient access from the U.S. Treasury Department and essentially guarantees most of its employees are also North-American citizens (Bello, 2004). In a nutshell, since developing countries must comply with policies imposed by both institutions in order to borrow money, the IMF and World Bank are important instruments for the U.S. to empower its foreign-policy ambitions, and for the U.S. and Europe to expand its leverage on developing countries (Wade, 2011).

Despite imposed restraints, emerging countries have begun to join a prominent position with their growing economies. They gained strength and legitimacy, which are key elements for the democratisation of international relations (Stuenkel, 2013).

The financial crisis in developed countries, together with the relative economic stability of emerging nations, led to a systemic legitimacy crisis. Equally unexpected was the resulting cooperation among the emerging powers, particularly the context of the BRICS grouping together

(Stuenkel, 2013). Through Russian and Brazilian government efforts, the BRICs held an initial, informal meeting in 2007 (Christensen, 2013). Following the global financial crisis in 2008, Brazil, India, Russia and China held its first summit as an official group in 2009. The group has held summits annually since. Suddenly, the acronym BRIC – Brazil, Russia, India and China – was not only a prediction of the global economy (that was firstly referred to by Goldman Sachs economist Jim O’Neil in 2001), instead, the organisation was a reality. South Africa joined in 2010, making BRICS account for 43% of world’s population, 18% of global trade and 20% of the world’s GDP (Mielniczuk, 2013).

Given the aforementioned structure of the IMF and World Bank, the BRICS have, predominantly, given emphasis to the reform of global economic governance, as they are seeking for more space within international financial institutions. This scenario seems fair since these organisations were not aligned with the reality of a multipolar world while the BRICS were working multilaterally. In the first BRICS summit in 2009, they displayed an insistent oratory, showing how unfair the structure of the international financial system is (Stuekel 2014):

We are committed to advance the reform of international financial institutions, so as to reflect changes in the world economy. The emerging and developing economies must have greater voice and representation in international financial institutions, and their heads and senior leadership should be appointed through an open, transparent, and merit-based selection process. We also believe that there is a strong need for a stable, predictable and more diversified international monetary system. (BRICS Summit, 2009)

The key point in BRICS’ agenda is to reform the current structure of international financial institutions (Christensen, 2013). Since its first meeting in 2009, the BRICS Ministers of Finance made efforts to meet on the sidelines of the G-20 ministerial gatherings, in order to articulate a cohesive opinion concerning the current structure of the IMF and World Bank. The BRICS persisted in negotiating together, aiming to achieve equalitarian financial order. In following year’s summit, the BRICS re-emphasised the flaws in multilateral institutions:

We will strive to achieve an ambitious conclusion to the ongoing and long overdue reforms of the Bretton Woods institutions. The IMF and the World Bank urgently need to address their legitimacy deficits. Reforming these institutions’ governance structures requires first and foremost a substantial

shift in voting power in favor of emerging market economies and developing countries to bring their participation in decision making in line with their relative weight in the world economy. We call for the voting power reform of the World Bank to be fulfilled in the upcoming Spring Meetings and expect the quota reform of the IMF to be concluded by the G-20 Summit in November this year. We do also agree on the need for an open and merit-based selection method, irrespective of nationality, for the heading positions of the IMF and the World Bank. Moreover, the staffs of these institutions needs to better reflect the diversity of their membership. There is a special need to increase participation of developing countries. The international community must deliver a result worthy of the expectations we all share for these institutions within the agreed timeframe or run the risk of seeing them fade into obsolescence (BRICS Summit, 2010)

Brazil's inclusion in both the BRICS and G-20 alliances has considerably changed its role in international relations. Previously, Brazil did not have ambitions to become a global power, since it was an actor removed from the centre of the world power (Stuenkel, 2012). This perception changed when President Lula was elected in 2003. Brazilian foreign policy became focused on capturing a greater role in the global political economy and therefore, in international relations (Christensen, 2013). Its economic growth made this ambition possible.

Another important change occurred within Brazil's foreign policy during Lula's term. Brazil began to prioritise South-South cooperation and was determined to obtain more influence in IMF's decision-making process (Almeida, 2014). During 2008's crisis, President Lula decided to highlight in his speeches that the IMF could not support the global financial system anymore and was inefficient with its economic policies. At the time, Brazil saw an opportunity to finally change the structure of the global governance and become an active player in the decision-making process (Almeida, 2014). Since 2003, Brazilian has enjoyed rapid growth in its economy. Since the late 1990s, Brazil rose from the fourteenth to the seventh position in international economy rankings (Schweller, 2011) and attracted major foreign investments. In 2009, Brazil lent US\$ 10 billion to the IMF, becoming an official creditor for the first time (Almeida, 2014).

Brazil mainly wanted the IMF share quotas and voting power more fairly, and to give more power to emergent countries which Brazil felt were underrepresented. If the reform project was operated, Brazil would (along with Russia, India and China) be among the ten Fund members with the largest voting share (Tude & Milani 2013).

The BRICS attempted to show how the distribution of power could not be legitimised anymore without considering IMF reforms. During the first BRIC summit in 2009, the group used an

insistent oratory aiming to show how unfair the international financial system's structure is (Stuenkel 2014). Despite representing more than 20% of world financial activity, the BRICS account for a mere 11% of the votes inside the IMF (Eichengreen, 2014). They decided to pressure IMF – from within the context of the G-20 –to reorder the Fund's structure more in accordance to the current needs of the global political economy. An agreement was reached during the 2010 G-20 meeting in South Korea, involving a quota reform. Three months later, the IMF's Board of Governors agreed to ratify the reforms (Christensen, 2013). If quota reform was accepted by US Congress; Brazil, India and Russia would become top-ten quota holders and China would become the third largest holder in the IMF. That reform would result in a rise of the IMF quota to US\$ 720 billion, giving 6% of the total to developing countries, reducing U.S. voting power and giving increased influence to the emergent nations in the decision-making processes (Stuenkel, 2014).

In order to strengthen their bargain power, Brazil and the other BRICS members synchronized their negotiations regarding the New Arrangement to Borrow (NAB) while waiting for the quota reform. The NAB is a set of arrangements allowing credit supplement in order to complement IMF quota resources for lending (IMF, 2015). The NAB is composed of thirty-eight member countries of the IMF, including the BRICS. It was established during the Asian crisis and “complements the resources of the IMF outside the Fund's quota capital” (Lesage, 2015; Debaere, 2015; Dierckx, 2015; Vermeiren, 2015). Brazil conditioned its participation to some demands: the NAB had to be of a temporary nature with its resources distributable through bonds and the BRICS countries demanded to have a voice. These conditions were met and Brazil, Russia, India and China obtained their veto power.

The BRICs continued negotiating together, aiming to create a more equalitarian financial order. They also incorporated some conditions concerning the agreement. As soon as increased quotas were a reality, NAB should then be diminished; therefore, the formula of the quota should be revised. Emergent and developing countries should have appropriate representation in the IMF. This statement was signed by the members of G-20 and can be considered a victory for Brazil and the BRICs. However, the reform meant to initiate in 2012, never left the U.S. congress. Brazil and the BRICs shared their frustration regarding this episode. In June 2012, during G-20's official ministerial meeting in Los Cabos, Mexico, the BRICs decided to announce their US\$ 75 billion contribution to the Fund. However, the contribution was conditional on voting reforms. After the refusal by U.S. legislators to ratify the reforms, the BRICs started to consider alternative action (BRICS Policy Center, 2013).

Brazil moved to bolster cooperation within BRICS and brought together their agendas in an attempt to modify global economic governance structure (Tude & Milani 2013). Since the aim of the group is the strengthening of international organisations, as well as their reformation, the BRICS have a strategic importance for Brazil's foreign policy and the government opted to prioritise it in its agenda

(Flemes, 2010). BRICS's agenda allows an alignment among the countries, optimising Brazilian international insertion. Brazil's participation in the group also provides space for a situation of less dependency on current international financial organisations and greater proximity of the international system, as well as greater projection of Brazil's national interests in the global sphere (PENNA FILHO, 2012). Furthermore, Brazilian presence in multilateral forums provides a better visibility in its emergent status. This visibility is a manifestation of Brazil's power within the international community, allowing the nation to act as an intermediate, while providing legitimacy to exercise its political profile (PENNA FILHO, 2012).

4.1.2 Theoretical Reflection

The current structure of the IMF and World Bank are outdated, still reflecting the balance of power from the post-Second World War Era. The IMF's decision-making is made via consensus of the Executive Directors that represent the U.S., Germany, France, United Kingdom, Japan, Saudi Arabia, China and Russia. Since 2003, Brazil has attempted to change the structure in order to give emergent countries a chance to participate in the process. In 2009, during the IMF's annual meeting, Brazilian Minister of Finance, Guido Mantega, announced Brazil would lend US\$ 10 billion to the IMF, becoming a creditor (Blog do Planalto, 2009). Together with its participation in the BRICS, this is another effort made to get more influence in the economic global governance. The BRICS started its cooperation in 2009, when global hegemonies such as the U.S. and Europe were dealing with an economic crisis; giving emphasis to the reform of global economic governance as they seek more space in international financial institutions.

As the IMF has not taken any real action updating its quotas, Brazil opted to take a different approach and coordinate with the other members of the BRICS to strategically apply pressure to attain those reforms. The BRICS presence in Brazil's foreign policy agenda has increased (in matters such as trade, development models, technical and scientific cooperation, and international security, etc.). Brazil's attitude to "stick together" with the BRICS can be predicted by the mercantilist theory, as a way of changing global governance architecture. According to mercantilists, it is expected that a shift of power occurs since emergent economies are growing noticeably. Additionally, for mercantilists, it is also likely the BRICS would create a coalition in order to acquire more power, relative to their combined economic size. These reasons would therefore justify Brazil's support to the NDB from a mercantilist perspective.

On the other hand, from a dependency theory perspective, content and policies of the IMF and World Bank were created to benefit the current hegemonies. Washington Consensus is the best

example of the institutions' ambitions upon developing countries. Neoliberal ideology is the basis of Washington Consensus policies, which consisted of imposed trade liberalisation, non-tariff protection, privatization of state-owned companies and other policies meant to help developing countries achieving rapid economic growth. However, the results of these policies generated major crises in Latin American economies, causing a surge of dissatisfaction. Many scholars and specialists agreed on the failure of the Washington Consensus (Babb, 2005; Bello, 2004; Woods, 2003; Harvey 2007; Amann & Baer 2002).

Brazil faced the same crisis in its economy. During the 1990's Brazil also adopted the Washington Consensus and opened its economy to foreign investment, in addition to minimizing government involvement. The hope of economic growth and equity quickly faded when net consequences of Washington Consensus proved to be opposite of these expectations. There was neither measurable economic growth nor considerable improvement on the distribution of income among the population (Amann & Baer 2002). After Washington Consensus failure, Latin American countries, as a whole, tried to move away from the neo-liberalist regime imposed by the IMF and World Bank.

Still, from a dependency viewpoint, the BRICS is important to Brazil's development due to emergent countries' capacity of insertion into the global system and is primarily reliant on the ability of its leaders to structure its policies. When not limiting policy to the financial circle, developing societies are not as harmed by the consequences of globalisation. The theory believes dependency process occurs in the political arena rather than in the economic system. Here lies the importance of the BRICS to Brazil from a dependency perspective.

In a nutshell, at this point, both hypotheses seemed capable of explaining Brazilian attitude towards the foundation of NDB. One cannot prove or refute anything with the prelude to the negotiations. In order to deepen the analyses and check which hypothesis better explain this research, the NDB negotiations are divided into three parts in the next section.

4.2 Phase I - IV BRICS Summit

Based on the argument that emerging nations' interested were not effectively welcomed by current international financial institutions, the most ambitious project of the BRICS was proposed: a BRICS development bank – a bank that would be solely funded by developing countries. The idea was first presented by India during an informal meeting on the outskirts of the G-20 summit in Los Cabos, Mexico, in February 2012. The proposal of a BRICS development bank was already proposed during the III BRICS summit in Sanya, China, by economists Nicholas Stern and Joseph Stiglitz. During the

summit, Stern and Stiglitz suggested, a bank governed by emergent countries could serve as an alternative to the IMF and World Bank.

Initially dubbed the BRICS Development Bank, the bank would be focused primarily on financing infrastructure projects and sustainable development among the five BRICS nations. Before the IV summit of the BRICS in New Delhi (2012), media and analysts were already speculating the most important topic to be discussed would be the creation of a BRICS Bank. Fernando Pimentel, the Brazilian Minister of Development, Industry and Foreign Trade, announced on March 23rd, that Brazil considered the IV Summit as being decisive and would support the creation of the Bank; meaning a “multilateral development bank of these five countries” (Pimentel, 2012). Under the theme: “BRICS Partnership for Global Stability, Security and Prosperity”, the summit in New Delhi brought the first official commitment towards the BRICS Bank. In the final statement, the BRICS announced that all the Ministers of Finance would be involved in a project to study the possibility of the New Development Bank (NDB):

We have considered the possibility of setting up a new Development Bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development. We direct our Ministers of Finance to examine the feasibility and viability of such an initiative, set up a joint working group for further study, and report back to us by the next Summit. (BRICS, 2012 §13 - Delhi Declaration).

The NDB project was especially valuable due to skepticism among Western scholars and analysts towards BRICS as a group. The skeptics advocated the group was a cluster without common characteristics between them and would not be capable of closing deals of any sort (Stuenkel, 2014). Additionally, the geographic location of the BRICS was also a point of criticism. Opponents argued the national ideologies were too different, diminishing their political structure (Kralikova, 2014). For example, Russia’s annexation of the Crimean peninsula (March 2014) caused Western authors to levy criticism at Brazil, India and South Africa. Moreover, the BRICS did not seem to be on the same level concerning reform of United Nations Security Council, with China and Russia not standing for Brazil’s and India’s aspirations. Furthermore, India and China continue to have unresolved territorial disputes. In the financial field, the BRICS have shown different strategies (Kralikova, 2014), such as Brazil’s financial focus agriculture while South Africa and Russia are commodity-oriented. India is recognized to be protectionist while China has low tariffs on manufactured products (Kralikova,

2014). Considering these differences, many Western scholars quickly dismiss the possibilities of BRICS cooperation (Stuenkel, 2014, Kralikova, 2014).

During the announcement of the possibility of creating a BRICS development bank, Brazil together with India, were the most enthusiastic (Stuenkel, 2015). Dilma Rousseff, current Brazilian president, explained in her closing speech the following about the idea of a new bank during the IV BRICS summit in New Delhi:

The establishment of a working group to study the possibility of a BRICS Bank is a very positive sign from the BRICS willingness of investing in infrastructure projects. In this way, we spread to the world a message that I believe is very bright. This message is: to grow, to create jobs, to distribute income is a possible achievement and, above all, a necessity. Those issues are priorities for all BRICS countries. (Rousseff, 29.03.12 New Delhi – IV BRICS Summit)

The excitement of Brazil towards the possibility of the new bank is palpable. Rousseff continually emphasises the BRICS extreme importance for the global political economy. “The BRICS remain a dynamic element of the global economy, and will account for a significant piece of foreign trade” (New Delhi 29/03/2012 Blog Planalto)

Nonetheless, even before the five emergent nations started to discuss the possibility of the bank in the IV BRICS summit, Fernando Pimentel was keen on stressing that the creation of a BRICS Bank is not “an abandonment of multilateral organisations such as the World Bank and the Inter-American Development Bank (IDB), but a response to the current economic needs” (Pimentel, March 2012). According to Rousseff, the BRICS Development Bank could be a fundamental mechanism for Brazilian development and a critical tool to generating employment, since the aim of the bank would be investment in infrastructure projects and sustainable development (Rousseff, March 2012).

Luciano Coutinho, the president of the Brazilian Development Bank (BNDES), stated this bank could “supply the absence of the biggest multilateral institutions”. To Coutinho, the world is on the verge of having more development banks since current international financial institutions have lost their strength. Coutinho also affirmed the World Bank was an important mechanism for the world economy during the 1950’s and 1960’s but nowadays, it is considered a relatively small bank when compared to the investment required to fund infrastructure projects all over the world (Coutinho, April. 2012, Valor).

Five months after the New Delhi Summit, a group of specialists responsible for studying the feasibility of the BRICS Bank met in Rio de Janeiro, Brazil. In this meeting, the group discussed what

would be presented to the BRICS leaders during the next summit in Durban, South Africa (March 2013). The specialists prioritise fund infrastructure and sustainable projects. During the meeting, Carlos Márcio Bicalho Cozendey (2012), the Secretary of International Affairs of the Ministry of Finance of Brazil, stated there was a consensus regarding the possibility of other developing nations joining the BRICS Bank in the future. Furthermore, the Brazilian government announced the BRICS Development Bank would be responsible for financing projects believed to be fundamental for the development of the group's nations (Governo do Brasil, August 2012).

In the same year during BRICS informal meeting in Los Cabos, leaders also announced they would increase their contributions to the IMF. The Brazilian Minister of Finance, Guido Mantega declared these additional resources could primarily be used by the IMF to rescue countries from the economic crisis but only when existing IMF resources were exhausted. Mantega stated, "...we will be making an additional contribution on the condition that the quota reforms are met as soon as possible" (Agência Brasil -Mantega, June 2012). Thus, it is noticeable Brazil, together with the BRICS, were still unsatisfied with the delay on the quota reforms but still maintained expectations they would still go through.

At the same meeting, Mantega announced the emergent group also agreed on starting exchange arrangements among national currencies, as well as creating a reserve pool of funds called the Contingent Reserve Arrangement (CRA). The CRA was an initiative developed by Brazil. The BRICS Ministers of Finance and Central Bank Governors were asked to work on this project and report the results during the next BRICS summit in 2013. To Mantega, this initiative was very important to strengthen the BRICS financial cooperation:

"The BRICS are strengthening its financial structure. This fund is something important for our confidence. We will create financial solidarity between us, so we will be even safer and stronger than we already are" (Guido Mantega 2012)

In October 2012, the BRICS Ministers of Finance met once again, this time during the annual meetings of the IMF and World Bank. In the meeting, Mantega declared the BRICS and IMF shared the same vision concerning the global crisis. Both institutions believed the European Union was taking appropriate measures in order to achieve financial stabilisation. However, they still needed to do more to generate faster results (RFI, 2012). Mantega had been very positive when talking about the BRICS Development Bank and always tried to spread its mandate; giving more influence and power to the BRICS nations. During another G-20 meeting in February 2013, Mantega also proclaimed current

financial international institutions do not have enough funds to support infrastructure projects in emerging countries (Mantega, 2013).

4.2.1 Theoretical Reflection – Phase I

In brief, Brazil demonstrated a very positive attitude towards the idea of a BRICS Development Bank and was active in highlighting the advantages of such a bank – not only to Brazil but also to all developing countries. It is perceptible from speeches that Brazilian actors were already careful not to confront the IMF and World Bank. The BRICS Bank would exist in response to the demands of the international system of the twenty-first century: the demands of a multipolar system.

Brazil seems to be making use of the BRICS Bank in order to acquire wealth and power, since the bank would fund infrastructure projects beneficial to Brazil's economy. It is clear through Brazilian foreign policy approaches the country wants to be a global player and therefore, change the balance of power in its favor. It became obvious the BRICS cannot be ignored and they are, in large part, sustaining the current world economy. Although it is still too soon to suggest any conclusions, it is notable that the first hypothesis of the mercantilist theory would fit better with this preliminary phase. From a mercantilist point of view, a state would make use of the financial cooperation in order to achieve more influence and power in the international system. In regards to this phase, Brazil and the BRICS were clear the NDB would not compete with Bretton Woods' institutions, but rather complement them. It is apparent Brazil sees the BRICS Bank as a way to shift the current international system structure of power. This does not fit the dependency perspective since those theorists would understand Brazil needs to be "free" from these institutions. Besides, developed countries impose their ambitions upon developing states which do not benefit from the current balance of power. Dependency theorists would not try to change the power structure of the system because they are more interested in the national development of the state.

4.3 Phase II - V BRICS Summit

The V BRICS summit was held in Durban, South Africa on the 26th and 27th of March 2013. Under the theme: "BRICS and Africa: Partnership for Development, Integration and Industrialisation" the summit was primarily focused on global economic development, especially in Africa. The search of mechanisms to promote reforms of global governance was on the agenda, as well as seeking ways to

deepen cooperation among the group. Despite the broad agenda, the expectation of the establishment of the New Development Bank was the keynote topic of discussions.

Brazil's expectations were also high. The Brazilian Minister of Finance, Guido Mantega announced – during the break of a meeting with all other Ministers of Finance – proposed the new bank be established in 2014, when Brazil would host the next BRICS summit. Although the details were still under discussion, Mantega declared there was already a consensus among the BRICS nations concerning the necessity of such institution. The Brazilian government endorsed the adoption of an equal quota system, with fund members having the same amount of shares. Brazil also declared the new institutions would not impose public policies or content to nations which desire to get a loan (Tautz, 2013).

The minister spoke about the need for the BRICS to strengthen their economic cooperation and the new bank would be a vital strategy for achieving that goal (Mantega, March 2013). This became evident in 2013, when intra-BRICS trade accounted for approximately 8.5% of total trade among BRICS (WTO, 2014). In the last few years, Brazil's trade with the BRICS showed a major increase, rising up to 21% of Brazil total foreign trade (AMCHAM, 2014). Fernando Pimentel declared at the end of the first day, that negotiations had advanced significantly. Pimentel also assured Brazil together with the other BRICS countries, would be responsible for the world's economic growth. To Pimentel, "Brazil and the BRICS are the pullers of the global economy. And that is the reason we need to keep investing in each other and work together to attract more foreign direct investment" (Pimentel, March 2013).

At this stage of the NDB negotiation, Brazil and the BRICS had been cautious in their statements. Most of the speeches from the Brazilian main actors included the idea that the NDB would not unsettle the existing international financial institutions. Paulo Nogueira Batista, the Executive Director and representative of Brazil and ten more countries in the IMF, stated the NDB would be a "complement to the current international financial institutions and not a rupture (Batista, 2014)". Batista also declared after the V BRICS summit that "The political meaning of the BRICS initiative to create the NDB is clear". Batista said that "the BRICS decided to establish institutions and new financial mechanisms managed by them in order to be independent." The BRICS will remain engaged with the IMF, the World Bank and the regional development banks, but now they decided to create their own structures" (Batista, 2013). The Brazilian Minister of Finance, Guido Mantega has also declared that the NDB would be a complement:

The BRICS Bank will fill a gap by funding infrastructure projects. Nowadays, sufficient funding does not exist for infrastructure projects in the world. The BRICS Bank will add to the World Bank. The difference is that our bank would probably be more focused on the poorest countries. All BRICS nations agreed that investment on infrastructure is what should be done in a period of crisis. In order to make this happen, a lot of money is needed, and the BRICS Bank can complement to the World Bank and the IDB, for example. (Mantega, Folha de São Paulo, 27/03/2013.)

Brazilian president Dilma Rousseff expressed developing countries should think about solutions in order to maintain development, since developed countries are constrained at the moment due to the financial crisis. This restriction has limited the amount of direct investment towards developing countries. To Rousseff (2013), the BRICS Bank is a solution for the development of the emergent nations to gain greater independence from the current international institutions; as declared on the beginning of the second day at the V BRICS summit:

“Without any doubt, we cannot allow the problems of the developed countries create obstacles to the economic growth of countries like ours. Our way is to find new solutions to ensure a more vigorous growth of emerging countries in order to ensure the creation of quality jobs, using science, technology and innovation and at the same time, increasing the well-being of our citizens, who are still very far from the well-being of developed economies” (Rousseff, 27.03.2013)

Rousseff seemed determined to show Brazil wants to, and will, achieve economic growth in order to improve the quality of life for its citizens. However, this economic growth cannot be fully reliant on the current hegemonies, so the NDB would then be a solution to develop Brazil:

“Brazil’s ambition is to become a middle-class nation. However, achieving a middle-class nation will only be possible if we have constant economic growth and income per capita compatible with this issue. Brazil, of course, has less ... has a lower diversity, is not a country of a billion people, we have 200 million people, but we always swing between being the 5th and 7th economy. So we are a country that has to make sufficient effort. What the BRICS Bank is? The BRICS Development is another element in this ambition; it is another element to expand our ability to have resources” (Rousseff, 27.03.2013)

Rousseff explained why the BRICS Bank is connected to Brazil's future ambitions and the reasons behind the interest of expanding Brazil's leverage in the international sphere. NDB would be an important element since it would provide growth to the Brazilian economy. From a mercantilism perspective, that is how a country should make use of its resources: achieving global power through economic growth.

For the first financial contributions to be sufficient, the BRICS have decided to enable the creation of the bank and starting financing infrastructure projects. The initial proposal would create a fund of US\$ 50 billion. However, at the end of V summit, the BRICS were not capable of achieving consensus on some key issues. Anton Siluanov, the Russian Minister of Finance, predicted Moscow would not be ready to contribute such substantial resources and the concept of the bank could be a victim of internal resistance in the Russian Parliament. South Africa was not enthusiastic about the amount of its expected initial contribution of US\$ 10 billion, as it corresponded to 2.5% of South Africa's GDP (BRICS POLICY CENTER, 2013). At the time, it was suggested China would loan the amount to South Africa in order to make the NDB a concrete idea. However, Brazil opposed this proposal, since it would give China an immediate dominance in the new bank. Apart from these issues, none of the BRICS were opposed to the creation of the NDB (BRICS POLICY CENTER, 2013).

The eThekweni Declaration – the final document presented at the end of the V BRICS summit – confirmed last year's expectations. Once more, the BRICS reaffirmed their common goal of reforming the IMF and World Bank as necessary to adapt to global political reality:

We call for the reform of International Financial Institutions to make them more representative and to reflect the growing weight of BRICS and other developing countries. We remain concerned with the slow pace of the reform of the IMF. We see an urgent need to implement, as agreed, the 2010 International Monetary Fund (IMF) Governance and Quota Reform. We urge all members to take all necessary steps to achieve an agreement on the quota formula and complete the next general quota review by January 2014. The reform of the IMF should strengthen the voice and representation of the poorest members of the IMF, including Sub-Saharan Africa. All options should be explored, with an open mind, to achieve this. We support the reform and improvement of the international monetary system, with a broad-based international reserve currency system providing stability and certainty. We welcome the discussion about the role of the SDR in the existing international monetary system including the composition of SDR's basket of currencies. We support the IMF to make its surveillance framework more integrated and even-handed. The leadership selection

of IFIs should be through an open, transparent and merit-based process and truly open to candidates from the emerging market economies and developing countries. (BRICS, 2013 §13 - eThekweni Declaration).

At the end of the V summit, the BRICS concluded that the creation of the NDB would be viable and they announced they would start the negotiations towards formalising the establishment of the new bank. Brazil was particularly interested in signing the final agreement during the VI BRICS summit that was being held in Brazil. Furthermore, the BRICS also confirmed the Contingent Reserve Arrangement – discussed during the BRICS meeting in Los Cabos, Mexico – would be finalised. They declared the fund would be a mechanism to rescue their nations when facing financial crisis. The CRA would be a “positive precautionary effect”. The CRA would start with an initial amount of US\$ 100 billion divided among the members. In the declaration, the group stated the Ministers of Finance and Central Bank governors would continue working towards its establishment (BRICS Declaration Durban).

Brazil tried to portray itself as a strong and significant country that could not be left behind in the balance of power. Given the aforementioned statements, it was possible to understand that the NDB would be essential for Brazil to develop and strengthen its economy. According to Brazil, the NDB is not the only answer to BRICS nations, but rather, a response to the further development of poorer nations. Rousseff (2013) made this clear during her official declaration after the end of the V summit in Durban “The BRICS Bank will be aimed not only towards an intra-BRICS cooperation, but rather it is a joint action with all developing nations” (Rousseff – Durban 27.03.2013).

4.3.1 Theoretical Reflection – Phase II

Considering the U.S. congress’ delay on approving the quota reform negotiated in 2010, one can argue the BRICS are no longer willing to be excluded from the decision-making process of the current international financial institutions.

It could be suggested Brazil is moving away from Washington Consensus policies and does not want the NDB to resemble the content of the IMF and World Bank. With this attitude, dependency theory would potentially offer a better explanation of why Brazil supported the creation of the NDB. Brazil wants to ensure the new bank has an equal quota system and this is a reflection of the disapproval concerning the existing international financial institutions. From the same perspective, a

state would support the foundation of a new international financial institution if this new institution would provide a new content different from the structural adjustment imposed by the IMF.

The co-dependent nature of the BRICS framework explains Brazil's interest in strengthening the intra-BRICS collaboration. This is especially true with China, which overtook the U.S. as Brazil's largest trading partner in 2009. Additionally, China became Brazil's most significant source of imports as well as a major foreign investor (Telegraph, 2009). The mercantilist perspective better explains this integration, as States are always pursuing wealth and development through multilateral trade. The trade among the BRICS is appreciated by mercantilists, as it gives the opportunity to increase international wealth through the global political economy. Brazil also sees the foundation of the NDB as a way to strengthen inter-BRICS cooperation, since it benefits other Latin nations. Given that mercantilists see economic development as a way to acquire influence and power globally, and since Brazil is pursuing a the status of a global power (Christensen, 2013; Kenkel, 2010; Dauvergene and Farias, 2012) – the NDB could be advantageous to Brazil, because it would finally bound the BRICS together with a solid project, increasing intra-BRICS trade and investment on infrastructure.

Although Brazil and the BRICS are critical regarding global financial governance and the structure of their institutions, they are not willing to break or cause tension in their longstanding relationships with the IMF or World Bank. Brazil exhaustedly reaffirmed the NDB as a complementary institution. A mercantilist theory fits better, as Brazil is trying to change the structure of the global political economy.

Another outcome to be inferred from this phase is the NDB is not merely an institution to fund Brazil's infrastructure projects, but it is also a strong political tool to place Brazil in positions of influence internationally. Once again, the mercantilist theory accounts better since the political and economic growth processes are intertwined in the mercantilist perspective. The effort and excitement Brazil added towards the NDB at this stage can be explained better through a mercantile point of view since the power structure is really crucial to acquire and maintain power.

From a dependency perspective, Brazil would be expected to be more interested in its national development, rather than trying to build a political institution together with emerging countries to balance the power structure and therefore, become more influential in the international sphere. Given the aforementioned statements from the phase II, Brazil is expanding its economic cooperation with other BRICS countries by forming the NDB in order to change said power structure. Therefore, during this phase, mercantilism can account for Brazilian decisions on supporting the foundation of a new IFI: the NDB.

4.4 From negotiation to formation Phase III –VI BRICS Summit

The year 2014 arrived and bad news followed: The U.S. congress rejected President Obama's funding appeal that would have transformed the structure of the IMF. This meant no progress in adding voting power, and no extra reserves, for Brazil and other developing nations. This essentially erased any chance for quota reform to be implemented before 2015 (Stuenkel, 2014). Following this announcement, specialists from Brazil, India and South Africa promptly argued that such attitude from the U.S. congress only served as motivation for the BRICS to expedite negotiations on the creation of the BRICS Development Bank (Stuenkel, 2014).

The expectations concerning access of information from negotiations of the New Development Bank were not fulfilled. After the V BRICS summit, in Durban (2013), the progress of negotiations was considered particularly slow. Diplomats from Brazil, Russia and India declared creating a joint development bank was a demanding and complicated task since each country had different interests. (Stuenkel, 2015).

A first draft was presented on the outskirts of the IMF's annual meeting in Washington, DC in October 2013 (BRICS Policy Centre, 2013). Two weeks prior, Paulo Nogueira Batista, Brazilian Executive Director of the IMF – and recently elected NDB vice-president – called attention to the delay on Fund reform. According to Nogueira Batista, the structure of the International Monetary Fund had been stagnating since 2011. Brazil's representatives warned against the "temptation" of going back to the old IMF format, where only the United States and Europe had the power to make decisions. To avoid this scenario, Nogueira Batista asserted it was necessary for the BRICS nations to strengthen their cooperation; the NDB and CRA being key elements for it (Nogueira Batista, O Globo 26/09/2013). Unfortunately, no further details were revealed after the annual IMF meeting.

Brazilians were optimistic about the announcement of the new bank together with the CRA. Luiz Alberto Figueiredo, Brazilian Minister of Foreign Affairs, stated the BRICS Development Bank would officially be announced during the VI summit in Fortaleza, Brazil. To Figueiredo, there was the expectation its structure would launch with the US\$ 50 billion in capital; with each member contributing equally (Figueiredo, 24.05.2014 Valor Economico). José Alfredo Graça Lima, Secretary of Politics of the Minister of Foreign Relations, also announced the summit would reveal the location of the bank's head office and mode of operation. The Brazilian ambassador reaffirmed "the BRICS bank will strengthen the BRICS cooperation and the focus of the bank will be on infrastructure projects from the BRICS members" (Lima, 09.06.2014). To Lima, the NDB will sharpen BRICS's identity in the global political economy and declared four cities were already candidates to house its head office: Shanghai, Johannesburg, Moscow and New Delhi. According to Lima, Brazil did not apply because the other cities were more prepared. That does not mean, Brazil has no other ambitions

concerning the bank's structure. The emissary added the priority of the bank would be funding infrastructure and development projects within the group and the Development Bank would work as a "mirror image" of the World Bank (Lima, 09.06.2014).

As the VI BRICS summit approached, there was growing excitement a new international financial institution would materialize, managed only by emergent countries. Some analysts were still skeptical concerning the group's future as their economies had cooled; in relation to their growth during the years before. International relations specialists argued the BRICS solidarity was getting weaker, with their slowing economies, combined with the Crimean crisis (a decisive issue that caused Russian to be excluded from the G-8). According to Stuenkel (2014) – although the BRICS were not performing economically well in 2014 – predictions made by O'Neill in 2003 were still plausible. The combined BRICS GDP still exceeded O'Neill projections, even considering the lower growth of the preceding year (Stuenkel, 2014). Furthermore, Brazil faced other challenges in the political field. After hosting the 2014 FIFA World Cup, citizens were protesting nationwide to show dissatisfaction with the government. The main issue was allegation the government had misspent or misappropriated vast amounts of resources on stadiums and infrastructure at the detriment of public health and education. Rousseff's popularity plummeted and severe accusations of corruption were levied against her government. The Western media became even more skeptical about how far the BRICS cooperation would go (Stuenkel, 2014).

Despite the challenges faced by Brazil and the BRICS, the VI summit in Fortaleza, Brazil took place on July 14th, 2014, two days after the end of the World Cup. Four days earlier, Brazilian ambassador Lima declared "the BRICS Development Bank and the CRA are the BRICS' answers to the lack of commitment from the IMF to apply the quota reform". The ambassador followed with, "...it is not only a reaction for the IMF's attitude towards the reform but it is also showing the BRICS capacity of independence towards these institutions" (IMF and World Bank) (Graça Lima, 08/07/2014 FOLHA). This was the first time Brazil explicitly stated the new bank was related to the frustration felt by the BRICS towards the IMF and World Bank. Lima also announced a BRICS Bank would positively contribute to a more just and balanced economic order. Thus, Brazil is committed on changing global order and showing the world the NDB will not only benefit Brazil, but the whole international system (Graça Lima, 08/07/2014 FOLHA).

Under the theme: "Inclusive Growth: Sustainable Solutions" VI BRICS summit began the second cycle of the summits, as each BRICS member had previously acted as host. There was tangible excitement towards creating the BRICS Development Bank. According to Paulo Nogueira Batista (2014), the NDB will be "born" already bigger than BNDES and the World Bank, since the NDB expected its initial assets to be US\$ 50 billion (Batista, 2014). To Mantega, the BRICS Bank "will certainly be an important bank" (Mantega, 2014). Mantega also explained the bank would be

composed of three councils: the Ministers, the administration and the executive board. He stressed the Board of Directors would head the bank. It was emphasised the NDB was not meant to compete with the BNDES and the bank would complement the work of the IMF and World Bank (Mantega, 2014).

Rousseff (2014) was very positive the BRICS would conclude negotiations during the Fortaleza summit. At the end of the second day, Rousseff stated that the NDB will not only benefit developing countries but also the developed ones:

"I believe that the BRICs have made great strides towards creating institutions that will benefit the emerging and developing countries. For example, the bank will contribute resources to ensure infrastructure investments. And on the other hand, the contingent's agreement, which has an amount of US\$ 100 billion, will contribute to this process of volatility faced by many economies, while the U.S. output of monetary expansion policy, is more contained, more administered. And it gives security, a kind of safety net, the BRIC countries and others, enhance security" (Rousseff, 2014).

Through this speech, Brazil reiterated its optimism towards the BRICS and the creation of new international financial institutions but continued to be diplomatic, trying to include the West and showing how the Bank would be mutually beneficial. Rousseff stressed the importance of each BRICS member nation to equally invest the same amount of capital. The Brazilian president added the new bank will allow conditions for investment in programs related to the expansion of production and social policies. To the president of the BNDES, Luciano Coutinho (2014), the creation of the BRICS bank and the CRA will bring substance to the BRICS as a group. According to Coutinho, there is an annual deficit of US\$ 800 billion for investments on infrastructure projects in developing countries and the BRICS Bank could help close this gap (Coutinho, 2014).

The presidency of the NDB is arranged to change every five years, in order ensure every member has a chance to lead. During negotiations, Brazil displayed its desire to obtain the first presidency of the NDB. Although presidential policies must go through council for approval, Brazil wanted this position to establish the main policies, processes and lending agreements. Additionally, the pioneering presidency would be responsible determining the first investment projects. Brazil could exercise influence on decisions regarding Asia and Africa – regions of interest in Brazil's foreign policy. Mauro Borges (Estadão 15.07.2014), on behalf of the Brazilian Ministry of Development, Industry and Foreign Trade, stated – before the negotiations were over – “the BRICS Bank head office will be in Shanghai. Well, at least this is what I expect”. Borges revealed the Brazilian strategy was to

support China in gaining the NDB head office; receiving China's support for its presidency in return (Stuenkel, 2014).

Throughout the second day of negotiation, Rousseff announced the head office would be in Shanghai and India would lead with the new bank's presidency. At first, India wanted the head office in New Delhi but after China winning the "round", it decided to "fight" for the founding presidency. Considering Brazil wanted to officially sign the creation of the NDB during the Fortaleza summit, it had to concede the Bank's inaugural presidency to India. The Brazilian president declared afterwards "the institution will have a rotation system management, following an equal standard where all countries have the right to preside" (Rousseff RFI 15/07/2014). Brazil received the presidency of the Board of Directors, responsible for defining the operational structure of the new institution (Estadão, 14.07.2014).

After two days of intense negotiations and speculation, the VI BRICS summit ended with the Fortaleza Declaration and a new global and political economic order: for the first time in history a group of emergent countries had established a new international financial institution. Officially named the "New Development Bank", the BRICS had initiated a new arrangement where developing countries could influence the system. The project still needed to pass through each of the BRICS' congresses and afterwards, the members would need to begin the budgetary process and transfer the initial contribution within six months of ratification (Estadão, 14.07.2014). On July 15th 2014, the leaders of the BRICS signed the NDB agreement and a treaty for the establishment of the Contingency Reserve Arrangement (CRA). The CRA is expected to alleviate liquidity pressures in times of crisis, whereas the NDB is meant to assist ongoing infrastructure projects and encourage sustainable development in countries facing financial constraints. The CRA is a US\$ 100 billion enterprise with initial capital contributions reflecting each country's stake in global GDP. The bank will start with an initial paid-in-capital of US\$ 50 billion – with each country contributing US\$ 10 billion. It was also decided the first regional office would be located in Johannesburg, South Africa. As aforementioned, the first Chairman of the Board of Directors will be Brazilian, the first president will be Indian – supported by a vice-president from each founding member – and the initial chair of the Board of Governors will be Russian. Voting power was established to be relative to each member's subscribed capital share, reinforcing Brazil's insistence on each member nation starting with equal contributions – in order to ensure parity (Conzedey, 2014).

After the end of the VI BRICS summit, Brazilian president Dilma Rousseff stated the NDB will not "shake" the relationship of Brazil with the IMF or the World Bank. However, Rousseff highlighted afterwards that "Brazil has repaid its debt and since then Brazil is no longer depended on the IMF" and continued "the IMF will not influence Brazilian policies anymore" (Rousseff, Brasilia 16/07/2014). The Brazilian president stated the following:

“We do not have any interest in giving up on the Fund (IMF), on the contrary we want to democratize it and make it more representative” (...) “the NDB is not against the IMF or the World Bank, the NDB is in its favor. It is a completely different attitude, and will always have a different attitude towards the developing countries, that is what it most important” (Rousseff, Brasilia 16/07/2014).

Additionally, Rousseff reinforced Brazil wants the IMF to be an international financial institution that reflects the real power correlation of the global financial system (Rousseff, Brasilia 16/07/2014). To Mantega, the creation of the new institution makes the BRICS go beyond the Bretton Woods Institutions (Mantega, ISTOÉ 15.07.2014). The head of the IMF, Christine Lagarde, sent a letter to Rousseff expressing support of the IMF on the establishment of the NDB and CRA. Lagarde added the IMF maintains a good relationship with the BRICS countries and they are key members in the institution and that the IMF is willing to work together with the NDB (Lagarde, 16.07.2014-Folha De S. Paulo).

During the last phase of the negotiations, Brazil showed its commitment and willingness in engaging further cooperation with the BRICS. According to Brazil, the NDB would be an essential instrument for strengthening cooperation (Rousseff 2014, Lima, 2014; Condezey, 2013). Brazil’s expectations have been nearly fulfilled, the exception being the NDB’s founding presidency.

4.4.1 Theoretical Reflection – Phase III

Regarding the final negotiations phase, one can argue Brazil was eager towards the establishment of the NDB. A good example is Brazil renouncing the presidency to India in order to finalise negotiations during the VI summit in its home country.

Throughout this last phase, it can be said mercantilist theory accounts better for the outcome. Brazil showed the NDB and CRA are mechanisms to strengthen BRICS cooperation, as the mercantilists theory would predict. From a contemporary mercantilist perspective, states should acquire power and wealth via the global political economy, therefore establishing the importance of multilateral cooperation. Following this logic, the State would have the chance to provide wealth to their society (Gilpin, 1987). This is the magnitude of international financial institutions – where the states can use the global market in order to cooperate and exercise their will upon other nations.

Brazil was enthusiastic in stating the BRICS are the greatest economies in the world and cannot be excluded from global political economy decision-making. Brazil emphasised in its

statements that the NDB would not threaten the relationship between Brazil and the current international financial institutions. The dependency theory would not account for that, hoping that with the creation of the NDB, a rupture with the Bretton Woods institution would be expected, since they do not benefit Brazil at the national level. An interesting side-effect of this partnership is that China became Brazil's largest economic partner and thus, it is logical why Brazil wants to have China closer (Stuenkel, 2013). Moreover, Brazil showed the NDB is a vitally important political mechanism in reinforcing Brazil's emergent status, as well as to strengthen its relationship with China. That is a characteristic found in a mercantilist behavior, given that it is expected countries would partner together in order to become stronger.

To mercantilists, economic development is the most basic way to achieve power in international relations. The richer a state is, the more power and influence it will have. That is visible when analysing the creation of Bretton Woods' institutions; where the wealthiest countries created the rules of the international system (Woods, 2003). Brazil has adhered to this view, emphasising how the NDB will improve wellbeing for Brazilian citizens. Promises were given the NDB would provide more jobs and better infrastructure, shifting towards a middle-class society (Rousseff, 2013). In 2013, 8.9% of Brazil's population was living below the poverty line (World Bank 2013). Poverty and inequality are huge problems in Brazil, so achieving more influence in the global arena is seen as a solution to acquiring wealth and internal development.

Nonetheless, from a mercantilist point of view, it would be expected countries excluded from making policy decisions in the IMF and World Bank would try to find a way to change the power structure of the international economic system. The international financial institutions are the most important instrument of a state to achieve its goals. The NDB seems to be the method for Brazil to become prosperous through investments on infrastructure projects and acquire more influence internationally.

Explicitly taking the speeches from Brazilian main actors into consideration, one can infer Brazil is supporting the foundation of the NDB for multiple reasons. These reasons can be supported using the mercantilist theory. Firstly, in order to shift the balance of power within the global economic system. Moreover, Brazil has highlighted the NDB is focused on emergent countries but will complement the IMF and World Bank. Brazil clarified a change in the current global political economy power structure is necessary in order to reflect the reality of the contemporary international relations dynamics. From a mercantilist perspective, Brazil would support a new bank only if it could help change the power structure in the country's favour. Therefore, the mercantilist theory accounts better for the Brazilian decision of expanding the BRICS cooperation on forming the NDB.

5. Conclusion

In this section a conclusion, presented in two parts, is provided to order fully answer the aforementioned research question. First, a contextualization of the empirical analysis and theoretical framework will be presented in order to assess which hypothesis fits better with evidence provided in the previous chapters. Secondly, examining the weaknesses of this research is given followed by an alternative explanation for the reasons Brazil expanded its economic cooperation with the BRICS and supported the foundation of the NDB.

5.1 Conclusion and Findings

In chapter 1 of this thesis, the research question that guided this thesis was proposed as following:

“Why did Brazil decide to expand economic cooperation with other BRICS countries by forming the New Development Bank?”

In order to answer this question, two hypotheses were suggested based on two different theoretical frameworks: The mercantilist theory and the dependency theory. For mercantilists the following hypothesis was proposed:

H1 (Mercantilist): “A country will support the foundation of a new IFI if it expects this institution to be able to change the power structure of the current international system.”

And for the dependency school, the below was presented:

H2 (Dependency Theory): ‘A country will support the foundation of a new IFI if it expects this institution to be able to offer an alternative content from the existing IFI’.

Based on the empirical analysis provided in Chapter 4 it became clear that Brazil desires to influence the global political economy and is not willing to be left behind in the international decision-making processes. Cooperation with the BRICS can be seen as a way for Brazil to reinforce its status as an important emergent country that has grown significantly in the economic field within the past two decades. From this perspective, multilateralism has been a priority that guides current Brazilian foreign policy (Flemes, 2010). BRICS currently top the priority list of Brazilian foreign policy agenda and making use of the NDB is seen as a method for strengthening South-South cooperation.

Elements of dependency theory can be found when analysing Brazilian actor’s speeches, such as the emphasis of Brazil’s president on stating the country wants to be independent of the system

imposed by the U.S. and Europe. Brazil is no longer willing to comply with IMF policies, such as the structural adjustments, in order to get a loan from the Fund. Another dependency characteristic is Brazil's insistence the NDB would provide equal funding to its members and public policies would not be implemented towards the borrowers. Moreover, Brazil is moving away from the Washington Consensus implemented by the IMF and the World Bank. However, after deeper analysis, it is clear it contains more characteristics present in the mercantilist theory.

From a mercantilist perspective, it is clear the NDB is a powerful tool for Brazil to drive economic prosperity by further developing the national infrastructure. This is clearly a mercantile system, where acquiring wealth and power through cooperation with other countries demonstrates a creative idea which can potentially lead to significant results. Since the IMF quota reform was held up due to the US congress, Brazil realized it had to find another way into the decision-making process of the international financial organisations. Brazil has shown interest in leveraging developing nations, through the NDB, to get support and acquire more bargaining power with the current hegemonies.

Although Brazil has been very critical towards IMF and World Bank policies, a permanent break up did not seem to be present in the Brazilian international strategy. Thus, Brazil has also been careful with its statements, to minimise straining existing relationships with the Western hegemonies – which still dominate the current international financial institutions. The dependency theory does not account for this behaviour. From a mercantilist perspective, Brazil is making use of the BRICS cooperation and the NDB to gain influence and improved positioning for its ambitions. As China has become Brazilian largest export partner, it could be potentially very lucrative for Brazil to narrow its relations in the future. Mercantilism better explains this outcome since it is expected that nations partner together with its largest economic partners.

Brazil declared the NDB would be working in favour of developing countries. It is important that Brazil connects with developing countries via the NDB and the new bank should be seen as a victory, not just for the BRICS but for the Southern hemisphere. It is tempting to speculate on the NDB's future. In a more pessimistic outlook, there is the possibility the BRICS will go along the same path travelled by the IMF and the World Bank; imposing its will on developing countries. Ideally, it is positive to believe that finally the multilateralism of international relations has become real.

5.2 Research Limitations

The empirical analysis of this thesis was based mainly on the speeches of the Brazilian main actors. Although this method allows for a clearer understanding of what Brazil wishes to show publicly, one must consider that sometimes it is not viable to make certain types of statements, seeing as they could

damage the country's image in relation to its partners. Brazil was always enthusiastic about the NDB concept. In every case study conducted by qualitative research, a certain bias of perceptions is possible when interpreting the intent of speeches. It is important to consider this point while reading the conclusion.

This project could have been based on interviews with Brazilian diplomats and other main actors in foreign policy. Unfortunately, such action was not viable at this time. Another important point is the NDB is such a recent phenomenon, that the amount of data available – scientific articles and analysis – is considerably low when compared to other subjects.

Process tracing allows rich empirical analysis, however, every research has a certain amount of limitations. Additional investigation on the topic is necessary in order to reinforce the results. In the next section, a suggestion for alternative explanations is provided.

5.3 Suggestion for further research

This research sought to analyse Brazil's strategies concerning the global political economy, the growth of multilateralism within international relations in the 21st century and the change of power structure dynamics among developing and developed nations. The evaluation of Brazilian foreign policy concerning the NDB, and consequently the BRICS, allows deepened understanding on this topic and brings order to the complexity of the interaction and ambitions of these countries.

In order to answer the research question, two theoretical perspectives were used: The mercantilist theory and the dependency theory. The conclusion obtained with this thesis was the mercantile approach. Although a European theory, mercantilism accounted for better explaining the Brazilian choice of expanding economic cooperation with the BRICS by supporting the foundation of the NDB. Brazil wanted to acquire more power and influence in the international system and the BRICS and NDB are mechanisms for achieving this goal. Therefore, although the NDB is a recent phenomenon, there is much more to be explored in the research field. A suggestion for an alternative explanation for this same research would be to make use of a different theoretical framework and to include the social aspect of international relations.

Social Identity Theory (SIT) would be a suitable theory to explore the Brazilian aspirations in the global political economy. SIT has a significant potential to connect international cooperation with social behaviour. Lately, it became more regular that IR scholars make use of identity as an explanatory variable of international relations. The main feature of the SIT entails that the identity of people is acquired from social group participation – or various groups – as political, religion, nation,

etc. (Larson & Schevchenk 2010). A person needs a group to have a confident identity due to the fact that the membership expresses the self of this person (Larson & Schevchenk 2010). In this group interaction, the person contrasts their group's accomplishments and capacities to another group, usually a group that is equal or superior. (Larson & Schevchenk 2010).

According to SIT, groups have several peculiarities to be assessed in order to make the contrasts among groups competitive. Nations are constantly looking for status and status is supported on a group's position in some characteristic admired by society (Larson & Schevchenk 2010). The actions taken by states in order to acquire status can be mainly representative and intended to influence other's perceptions. For instance, when Rio de Janeiro was chosen to host the 2016 Summer Olympics the Brazilian President Luiz Inácio Lula da Silva declared that finally Brazil was receiving the respect it deserved and that through this action Brazil was recognized as a first-class country (Larson & Schevchenk 2010).

The structure of most international institutions is hierarchical. The IMF and World Bank are examples of institutions which are hierarchical in their rights and functioning, such as in the vote quota system. States seek status in these international institutions; for example, developing countries give great importance and spend considerable resources in order to be elected as nonpermanent member of the United Nations Security Council (Larson & Schevchenk 2010).

According to Larson & Schevchenk (2010) there are different strategies a state can use in order to achieve a better position within a group. One strategy sees a state using social creativity in order to improve its position in an elite group. Social creativity entails highlighting its differences from the current hegemonies. In Brazil's case, status seeking could match the social creativity strategy very well. As the state knows its limitations regarding the power of other hegemonies, it can try to find a lesser group where it would naturally be superior (Larson & Schevchenk, 2010) in order to acquire prominence in the international sphere, the BRICS can be considered this group. By joining the BRICS, one could argue Brazil is using social creativity strategy. The NDB advantage to Brazil could be considered a more symbolic act improving the international status and visibility. For this purpose, Brazil portrays its image as a unique country; one that deserves a featured place in world relations. In order to conduct a research based on the SIT, interviews with Brazilian diplomats and foreign affairs ministers' involved on decision-making processes regarding the NDB strategy would be a very interested option.

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