The New Development Bank in the International Financial System

A Comparative Analysis of Defensive Realist and Liberal Institutionalist Explanations

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ABSTRACT

The New Development Bank (NDB) was created by the BRICS countries in 2014 and became operational in 2015. It was established in response to longstanding dissatisfaction with Western-led financial institutions like the IMF and the World Bank, which have often been criticized for slow governance reforms and strict lending conditionalities. The NDB has been described both as an alternative that seeks to balance global financial power and as a complementary institution that works within the existing international financial order. This thesis examines which perspective better explains the bank's institutional design and operational behavior, applying a structured congruence analysis to compare defensive realism and liberal institutionalism.

Defensive realism argues that the NDB was created to protect member states' autonomy and limit the influence of external actors. This is reflected in its governance structure, with equal capital contributions and voting rights for BRICS members, and its cautious approach to external partnerships. The bank's emphasis on lending in local currencies and limited reliance on co-financing arrangements with Western-led institutions also support this interpretation. Liberal institutionalism, on the other hand, suggests that the NDB's stated commitments to sustainability, transparency, and inclusivity indicate a cooperative, reformist agenda. Evidence of these liberal elements can be seen in the NDB's engagement in global forums, adoption of internationally recognized standards, and openness to new members.

The analysis of these competing frameworks shows that both have some explanatory power but that defensive realism provides a more comprehensive account overall. The NDB's behavior is guided primarily by concerns about maintaining internal balance and reducing external dependency. While liberal norms are present in the bank's formal commitments and procedures, they appear to be instrumental rather than genuinely transformative. This suggests that the NDB adopts a selective reform agenda that cautiously engages with the global financial system but ultimately prioritizes strategic autonomy for its members.

The findings contribute to broader debates about the evolving global financial order. They show that emerging powers like the BRICS are pursuing a pragmatic approach, seeking greater voice and flexibility within a system still dominated by established institutions. The NDB's example suggests that rather than fully challenging the liberal international order, new institutions may blend cooperative elements with defensive realist priorities, reflecting a complex and adaptive response to the changing global landscape.

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LIST OF ABBREVIATIONS

AIIB – Asian Infrastructure Investment Bank

BNDES – Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Development Bank)

BRICS – Brazil, Russia, India, China, South Africa

DRP – Defensive Realist Proposition

IMF – International Monetary Fund

INR – Indian Rupee

LIP – Liberal Institutionalist Proposition

LIO – Liberal International Order

NDB – New Development Bank

RMB – Renminbi (Chinese currency)

UN – United Nations

USD – United States Dollar

ZAR – Zuid Afrikaanse Rand (South African Rand)

CHAPTER I: INTRODUCTION

1.1 New Development Bank

The New Development Bank (NDB) was officially created in 2014 during the sixth BRICS Summit in Fortaleza, Brazil, and became operational in 2015 (Qobo and Soko, 2015). The idea for the NDB first emerged at the 2012 BRICS Summit in New Delhi, where leaders called for an institution to directly address the infrastructure and development financing needs of emerging economies (Kasahara, 2020). The NDB was framed as a response to shortcomings of Western-dominated financial institutions, especially the IMF and the World Bank, which have faced criticism for slow governance reforms and strict lending conditionalities (Bond, 2020). At the same time, the BRICS countries emphasized that the new institution would complement rather than replace existing financial institutions, aiming to contribute to their reform rather than fully displace them (Qobo and Soko, 2015).

The NDB's structure and operations reflect this dual positioning. It was established as a South-led institution, with equal capital contributions and equal voting power among BRICS members (Cooper, 2017). This equality contrasts sharply with the weighted voting systems of the IMF and the World Bank, where power is concentrated among a few Western states (Kasahara, 2020). The NDB also introduced innovations such as green financing and issuing bonds in national currencies of BRICS countries (Cooper, 2017). The NDB has signed cooperation agreements with traditional development banks, and many of its operational procedures resemble those of established multilateral institutions (Bond, 2020). This blend of innovation and continuity makes it difficult to classify the NDB strictly as a challenger to the liberal international financial order or as a complementary institution operating within it.

The creation of the NDB has sparked contrasting interpretations in academic debates on global financial governance and the future of the liberal international order. Some scholars argue that the NDB is part of a broader BRICS strategy to challenge Western dominance by creating parallel institutions that shift financial power to emerging economies (Bond, 2020). Others see the NDB's cooperation with established institutions as a sign of a desire to reform the system from within rather than fundamentally challenge it (Qobo and Soko, 2015). This debate ties into a larger discussion in global governance about whether the rise of emerging powers signals the beginning of a post-Western financial order or demonstrates the adaptability and resilience of the liberal international order. More broadly, contestations of the liberal international order have emerged due to its post-Cold War shift from liberal multilateralism to post national liberalism, characterized by growing authority in international institutions and perceived double standards favoring Western actors (Börzel and Zürn, 2021). While some actors seek to reform the order through institutional engagement, others reject its legitimacy outright, challenging core liberal norms and advocating alternative governance structures (Lesch et al., 2024). This reflects a deeper debate on whether global governance is transitioning to a multipolar system or remains constrained by the resilience of the existing order (Ikenberry, 2018).

1.2 Objective and Research Question

This thesis focuses on the NDB as a case study to contribute to this broader debate. The central research question is "*What explains the NDB's positioning within the international financial system: defensive realist power balancing or liberal institutional reform?*" The NDB's ambiguous role, operating both as a potential counterweight to Western-led institutions and as a partner in reforming the global financial architecture, makes it a particularly relevant case to explore the evolving nature of global financial governance. By analyzing the competing perspectives of realism and liberalism, this research aims to provide deeper insight into how emerging powers engage with the liberal international order and whether their actions reflect contestation, adaptation, or a combination of both.

1.3 Societal Relevance

The New Development Bank (NDB) has significant implications for economies and societies, particularly in the Global South. As a multilateral development bank created by BRICS, its lending practices and institutional framework shape economic growth, infrastructure development, and financial sovereignty in borrowing nations. Whether the NDB functions as a reformist institution within the existing global financial order or as a power-balancing mechanism to strengthen BRICS' geopolitical influence affects the transparency, accessibility, and conditions of development finance. If the NDB acts as a reformist alternative, it could enhance financial autonomy for developing countries by offering loans with fewer conditionalities than traditional Western-led institutions. This would allow governments to pursue long-term development projects with greater policy flexibility, reducing reliance on established global financial institutions such as the World Bank and the International Monetary Fund. However, if the NDB functions mainly as an instrument of geopolitical influence, its lending conditions may align with BRICS' strategic interests rather than the broader developmental needs of recipient nations. This raises concerns about whether the NDB genuinely enhances economic sovereignty or introduces new forms of financial dependency.

Understanding the NDB's role is essential for policymakers, civil society organizations, and financial institutions, as its operations influence decision-making at multiple levels. For policymakers, assessing whether the NDB presents a viable alternative to existing institutions or risks reproducing asymmetric dependencies is crucial for developing strategies that safeguard national sovereignty. For civil society organizations, analyzing the NDB's governance structure and lending transparency helps determine whether it supports inclusive, sustainable development or reinforces elite-driven decision-making. For financial institutions, both public and private, evaluating the NDB's lending model is necessary to understand its impact on global capital flows, investment strategies, and the broader landscape of development finance.

By examining whether the NDB operates within or challenges the existing global financial framework, this research contributes to debates on the evolving landscape of development finance, economic sovereignty, and global governance. It offers a critical perspective on how emerging financial institutions shape the future of international economic relations, debt sustainability, and long-term development strategies in the Global South.

1.4 Academic Relevance

Much has been written about BRICS and its role in global financial governance, particularly regarding the creation of the New Development Bank (NDB). However, much of the literature focuses on whether the NDB challenges Western-led financial institutions or complements them (Bond, 2020; Qobo & Soko, 2015). Many contrasting interpretations have been provided, with some scholars arguing that the NDB functions as a geopolitical tool for BRICS to counterbalance Western dominance (Bond, 2020), while others see it as a practical addition to the development finance landscape, especially for the Global South (Kasahara, 2020; Nanwani, 2023). Despite this debate, most studies focus either on the NDB's institutional design and lending practices or on its broader geopolitical significance, with limited systematic comparison between competing theoretical perspectives. Some analyses examine the bank's governance structure and financial operations but do not explicitly assess how these align with theoretical expectations (Morozkina, 2015). Others consider the NDB's role in relation to the liberal international order but offer diverging assessments of whether it represents a challenge to or an adaptation within the existing global financial framework (Cooper, 2017).

This research contributes to the debate by applying a structured congruence analysis to evaluate the explanatory power of competing theoretical perspectives. While much of the discussion contrasts realist power balancing arguments with liberalist views of institutional reform, this study systematically examines how well these interpretations align with the NDB's actual policies and operations. In doing so, it clarifies whether the NDB's development reflects geopolitical strategic considerations, institutional adaptation, or a combination of both.

The objective of this research is not theoretical innovation, but rather to contribute to the ongoing scholarly debate between competing paradigms (Blatter and Haverland, 2014). By systematically assessing how the NDB's policies align with different theoretical expectations, this study offers a structured approach to understanding its role in global financial governance. It also connects the case of the NDB to the broader discussion on the role of emerging powers in shaping international financial institutions and their relationship with the existing global order.

CHAPTER II: LITERATURE REVIEW

2.1 The International Financial System and the Dominance of Western Institutions

The international financial system has historically been dominated by the International Monetary Fund (IMF) and the World Bank. Established after the Second World War, these institutions aim to ensure financial stability and promote development financing. While both play central roles in global financial governance, their mandates differ: the IMF focuses on macroeconomic stability by providing short term financial assistance and enforcing monetary discipline, whereas the World Bank supports long term development through funding infrastructure and social programs (Sobhani, 2019).

Over time, both institutions have become powerful actors that not only provide financial assistance but also impose policy conditions on borrowing countries. After the debt crises of the 1980s, these conditions expanded from macroeconomic adjustments to deeper structural reforms, shaping domestic policy agendas in ways that often triggered social and political opposition (Dreher, 2004). The IMF's focus on fiscal consolidation has often led to austerity measures that critics argue worsen inequality, while the World Bank's promotion of privatization and liberalization has produced mixed outcomes, especially in health care and social services (Sobhani, 2019).

Criticism of these institutions extends beyond their lending practices. Their governance structures are heavily influenced by Western countries, especially the United States, which holds significant voting power (Heinzel et al., 2021). This imbalance limits the voice of developing countries and reinforces a hierarchical financial order. States aligned with Western powers often receive more favorable terms, while others face stricter conditions (Bani Salamah, 2017). Further concerns relate to the legitimacy of these institutions due to perceived bias in staffing and decision making processes, deepening tensions between developed and developing countries (Weaver et al., 2022).

Dissatisfaction with this system has driven persistent calls for reform. Despite governance adjustments, emerging powers argue that structural inequalities remain intact (Qobo and Soko, 2015). Frustration intensified after the 2008 global financial crisis, which exposed the vulnerabilities of a system dominated by Western financial norms and highlighted the limited responsiveness of existing institutions to the needs of the Global South (Bani Salamah, 2017). In response, countries such as those in BRICS have created alternative institutions like the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), signaling a shift toward a more multipolar financial order (Qobo and Soko, 2015).

2.2 BRICS and the Creation of the New Development Bank

The creation of the New Development Bank must be understood within this context of dissatisfaction with the existing financial system. In 2012, BRICS countries formally proposed establishing a new development bank at their summit in New Delhi. The bank was officially launched in 2014 at the Fortaleza Summit, where the founding agreement was signed (Kasahara, 2020).

The NDB was intended as a response to the slow pace of reform in the IMF and World Bank and to the lack of fair representation for emerging powers in their governance (Qobo and Soko, 2015). Its structure reflects this critique. Each BRICS member holds equal voting power, regardless of economic size, contrasting with the weighted voting systems of traditional financial institutions (Kasahara, 2020). Another distinctive feature of the NDB is its approach to lending. It aims to offer more flexible loans that avoid the intrusive conditionalities often associated with Western institutions (Nanwani, 2023). By minimizing political conditions and allowing borrower countries more policy space, the NDB presents a financing model more aligned with the development goals of the Global South (Nanwani, 2024).

2.3 The New Development Bank's Positioning Within the International Financial System

Although the NDB was framed as an alternative to Western institutions, its behavior indicates a pragmatic reformist approach rather than outright opposition. It focuses on financing infrastructure and sustainable development projects in BRICS and other emerging economies, resembling the World Bank's development financing role more than the IMF's macroeconomic stabilization function (Morozkina, 2015). Unlike these institutions, the NDB does not attach political or macroeconomic conditions to its loans, allowing recipient countries more autonomy (Kasahara, 2020).

This emphasis on South-South cooperation aims to realign development finance with the priorities of emerging economies (Qobo and Soko, 2015). Still, the NDB does not reject engagement with existing institutions. It has signed memoranda of understanding with the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development, and has adopted parts of their environmental and social safeguards (Andronova & Shelepov, 2018). While this enhances the NDB's credibility, it also signals that the bank remains embedded in the existing global financial framework. The bank's funding model further underscores this embeddedness. Unlike the IMF, which relies on member quotas, or the World Bank, which is capitalized by state contributions, the NDB raises capital through international bond markets. To attract investors, it must maintain strong credit ratings and adhere to global financial standards (Bond, 2020). This requirement limits its ability to diverge significantly from prevailing financial norms.

Nevertheless, the NDB introduces institutional innovations. Its equal voting structure contrasts sharply with the power asymmetries of the IMF and World Bank, and its use of local currencies reduces dependence on the United States dollar (Morozkina, 2015). These features signal a push for greater autonomy and an effort to reshape, rather than reject, global financial norms. Some scholars see the NDB as a corrective mechanism that offers greater agency to emerging economies (Kasahara, 2020). Others argue that its embeddedness in global financial practices limits its transformative potential (Bond, 2020). Overall, the bank's strategy appears dual: engaging with existing institutions for legitimacy while challenging aspects of their governance models.

2.4 A Contested Institution Within a Contested Order

The ambiguity surrounding the NDB reflects broader tensions in the international financial system. Börzel and Zürn (2021) distinguish between contestation from within, where rising powers seek to reform institutions, and contestation from outside, where alternatives are created to bypass or challenge dominant frameworks.

The NDB's creation reflects dissatisfaction with Western-led governance, yet its cooperation with traditional development banks and use of global financial markets shows a pragmatic engagement with established norms (Cooper, 2017). Chin (2024) similarly highlights how the NDB has drawn on mainstream development standards to gain credibility, while maintaining its identity as a Southern institution. This hybrid positioning aligns with the broader BRICS strategy of seeking influence within global governance while building parallel platforms to protect autonomy (Qobo & Soko, 2015).

Scholars argue that the NDB defies easy classification. It combines features that signal strategic independence, such as equal voting rights and local currency lending, with practices that align with international norms, including environmental safeguards and institutional cooperation (Cooper, 2017; Kasahara, 2020; Morozkina, 2015).

This ambiguity supports the view that the NDB cannot be fully explained by a single theoretical lens, reinforcing the case for a comparative analysis of competing perspectives on its design and behavior. This unresolved debate makes the central research question of this thesis particularly relevant: What explains the New Development Bank's positioning within the international financial system: defensive realist power balancing or liberal institutional reform?

CHAPTER III: THEORETICAL FRAMEWORK

3.1 Realism

Realism has long been a dominant framework in the study of international relations, offering a sober and often pessimistic view of global politics. It assumes that the international system is anarchic, meaning there is no overarching authority to enforce rules or ensure the security of states. In such an environment, each state must rely on its own capabilities to survive, making power the most reliable tool for maintaining independence and avoiding vulnerability. Because no state can ever be entirely sure of another's intentions, mistrust is unavoidable. This deep uncertainty leads states to act with caution and suspicion, prioritizing relative gains, where their success is measured against others rather than by absolute improvements (Waltz, 1979).

Structural realism, developed by Kenneth Waltz, shifted the focus from human nature to the constraints imposed by the international system. Here, the key to understanding state behavior lies not in leaders' ambitions or domestic politics but in the distribution of power among states. Structural realism views all states as functionally similar units facing the same systemic pressures, seeing systemic forces, rather than internal factors, as the primary drivers of competition, balancing, and conflict (Waltz, 1979).

While praised for its analytical clarity, structural realism has also been criticized for its rigidity and inability to account for major changes in international politics. The peaceful end of the Cold War, for instance, exposed the limitations of a purely structural explanation and led many scholars to refine the theory (Więcławski, 2019). These developments gave rise to alternative strands within realism, such as defensive and offensive realism, which offer different interpretations of how states respond to security pressures.

Despite internal debates, most realist theories share key assumptions: states are the main actors in international politics, the system is anarchic, and survival is the primary goal shaping foreign policy choices. Earlier versions of realism, particularly classical realism as developed by Hans Morgenthau, placed greater emphasis on human nature. Morgenthau argued that the drive for power stems from the inherent characteristics of political leaders, believing that ambition, fear, and the desire for dominance are deeply rooted in human behavior, making international conflict a persistent feature of world affairs (Morgenthau, 1948).

Although classical realism laid the foundation for realist theory, the structural approach introduced by Waltz has shaped the core of modern realist debates.

3.1.1 Defensive Realism

Defensive realism shares the fundamental realist assumptions of anarchy and self-help, but it rejects the notion that states are relentless power maximizers. Instead, it argues that most states are security seekers, meaning they strive not for dominance but for enough power to ensure their survival (Taliaferro, 2001). The pursuit of excessive power, according to defensive realism, is counterproductive because it triggers balancing behavior by other states, ultimately reducing the security of the power seeker. This concept, known as self-defeating expansionism, explains why many states adopt cautious, moderate strategies rather than seeking constant expansion (Waltz, 1979).

The concept of the security dilemma is central to defensive realism. In an anarchic system, when a state strengthens its military or economic position to increase its security, others may perceive these moves as preparations for aggression. As a result, they respond by strengthening their own capabilities, triggering a spiral of suspicion and arms buildups (Taliaferro, 2001). This cycle often leads to conflict driven by fear and misperception rather than actual aggressive intent. Defensive realism emphasizes that many conflicts are not caused by predatory states, but by mutual insecurity and misunderstanding. Recent scholarship extends this argument by analyzing how uncertainty shapes state responses. Zhang (2022) notes that strategic competition between great powers, such as the United States and China, is often framed as offensive, but defensive realism explains how the fear of declining power, rather than expansionist ambitions, drives competition. This highlights how states often engage in rivalry due to concerns over relative decline rather than aggressive revisionism.

While defensive realism remains rooted in realism's assumption of anarchy, it also recognizes windows of opportunity for cooperation under certain conditions. If states can credibly signal their defensive intentions and demonstrate that they seek security rather than dominance, other states may feel less threatened. This, in turn, reduces the severity of the security dilemma and creates space for limited cooperation (Glaser, 1994). However, this cooperation is always conditional and fragile, as changes in the distribution of power or new threats can quickly unravel any trust that has been built. Hamilton and Rathbun (2013) further elaborate that defensive realism is based on the assumption that security is more abundant than offensive realism suggests. In their framework, the extent of material scarcity influences whether states compete aggressively or seek stability. When resources and security are perceived as more available, states have greater incentives to adopt restraint rather than preemption.

Another important contribution of defensive realism is its focus on structural conditions that shape state behavior. Factors such as geography, the offensive or defensive nature of military technology, and the transparency of capabilities influence whether states adopt more cooperative or more confrontational strategies (Taliaferro, 2000). In environments where defensive strategies are cheaper and more effective than offensive ones, states have stronger incentives to adopt restraint, whereas environments favoring offensive capabilities encourage competition and preemption.

Although realism as a paradigm is generally skeptical of international institutions, defensive realism adopts a more pragmatic stance. Institutions are not seen as autonomous forces that fundamentally alter the nature of anarchy, but they can serve practical functions that reduce uncertainty and help states manage the security dilemma. Institutions can provide information, transparency, and signaling platforms, allowing states to demonstrate their defensive intentions and monitor each other's behavior (Glaser, 1994). While institutions cannot eliminate the competitive logic of anarchy, they can make interactions more predictable, thereby reducing the risk of unnecessary conflict. Zhang (2022) extends this argument by explaining how institutions, such as arms control agreements or strategic dialogues, have played a role in stabilizing great power relations by limiting security spirals.

This view on institutions reflects the core prudence of defensive realism: states are risk averse and seek to avoid unnecessary provocations, but they are also aware that institutional engagement can be useful when it reduces uncertainty and creates mechanisms to avoid escalation (Taliaferro, 2000). Institutions, from a defensive realist perspective, are therefore strategic tools that states use to balance between security enhancement and reassurance.

3.2 Liberalism

Liberalism offers a distinct perspective on international relations, contrasting with realism's assumption that anarchy inevitably leads to conflict. Rather than treating states as unitary actors solely pursuing power, liberalism emphasizes the role of domestic political processes, economic interdependence, and international institutions in shaping state behavior (Moravcsik, 1997). At its foundation, liberalism is rooted in a political philosophy that prioritizes individual autonomy, rational cooperation, and the potential for progress through institutional governance (Ryan, 2017).

A core assumption of liberalism is that state preferences are domestically determined, meaning governments respond to pressures from societal groups, economic actors, and political constituencies. As a result, foreign policy is not simply a reaction to external threats but a reflection of domestic interests and coalitions (Moravcsik, 1997). This dynamic leads states to develop preferences that often favor economic openness and cooperative international arrangements, particularly when powerful domestic sectors benefit from trade, finance, and investment. Liberalism also challenges realism's emphasis on relative gains by arguing that states care about absolute gains, meaning cooperation can be beneficial as long as all parties improve, regardless of others' benefits. This logic supports the liberal argument that economic interdependence fosters cooperation, as states see mutual economic benefits as outweighing the risks of interdependence (Moravcsik, 1997). Institutions facilitate this cooperation by reducing transaction costs, providing information, and enforcing agreements, mitigating the uncertainty and mistrust that realism sees as inherent in an anarchic system (Keohane, 1984).

Beyond material considerations, liberalism carries a normative commitment to a rules-based international order, contrasting with realism's focus on power politics. Ryan (2017) argues that liberalism's philosophical foundation rests on the belief that cooperation, institutional norms, and rule-based governance create pathways for peace and mutual benefit. This extends beyond economic interdependence to include democratic governance, legal norms, and the protection of individual rights, reinforcing that international cooperation is not only pragmatic but also ethically desirable.

3.2.1 Liberal Institutionalism

Liberal institutionalism refines broader liberal insights into a specific explanation of how international institutions enable cooperation between self-interested states. Responding directly to realist claims that cooperation is fleeting without centralized enforcement, liberal institutionalism highlights how institutions reduce uncertainty and transaction costs, thereby facilitating cooperation even in an anarchic system (Keohane, 1984).

Institutions enhance transparency by providing regular information about states' behavior, allowing them to monitor compliance and detect opportunism more easily. This transparency makes cooperation more predictable and lowers the risks associated with cheating (Keohane, 1984). Institutions also standardize procedures for negotiation, dispute resolution, and implementation, reducing the costs of reaching and enforcing agreements compared to ad hoc bilateral negotiations (Keohane & Martin, 1995). Furthermore, repeated interactions within institutional frameworks create reputational incentives for compliance, as states that violate institutional norms risk damaging their credibility, making future cooperation more difficult (Keohane, 1984).

Liberal institutionalists also argue that institutions play a crucial role in economic governance, particularly in areas such as global trade and finance, where predictability and dispute resolution are essential. Institutions such as the International Monetary Fund and the World Bank illustrate how technical coordination and reputational incentives can sustain cooperation even in the absence of a hegemonic enforcer (Keohane, 1984).

However, recent developments challenge some traditional assumptions of liberal institutionalism. Johnson and Heiss (2018) highlight that some of the world's most powerful liberal democracies have begun retreating from or questioning their commitments to international institutions, while non-liberal states such as China are increasingly engaging with and even shaping institutional rules to their advantage. This complicates the assumption that democracies will inherently uphold institutional commitments while autocracies will resist them.

Liberal institutionalism further expects that rising powers dissatisfied with their representation in existing institutions will seek reform rather than outright rejection. However, when reform is perceived as too slow or insufficient, these states may create parallel institutions that reflect similar rules and procedures. As Johnson and Heiss (2018) argue, such new institutions often serve a dual function: they fill representational or procedural gaps in the existing system while also applying indirect pressure on dominant institutions to adapt. The creation of alternatives is not meant to disrupt global governance, but to strengthen it by signaling dissatisfaction in a way that remains compatible with the broader institutional order. In this view, new institutions are not exit strategies but reform-oriented tools designed to patch up deficiencies from within.

Finally, while institutions create frameworks for cooperation, their effectiveness depends on voluntary compliance and reputational incentives rather than strict enforcement mechanisms (Ramli & Idris, 2022). Institutional resilience varies based on regional dynamics, economic interdependence, and shifting power relations, suggesting that while institutions facilitate cooperation, they must also adapt to geopolitical and economic shifts to remain effective.

3.3 Propositions

The fundamental disagreement between defensive realist and liberal institutionalist interpretations of the BRICS countries' intentions in creating the New Development Bank centers on whether the NDB was established primarily to counterbalance Western financial dominance and protect BRICS' financial security, or whether it was created to enhance development financing through mutually beneficial cooperation within a more inclusive international financial system.

Two defensive realist and two liberal institutionalist propositions will be presented in the next two sub-sections, based on the theoretical framework presented above. These propositions distinguish between the institutional design phase and operational behavior of the NDB. *Table 1* sums up the central concepts of defensive realism and liberal institutionalism and illustrates how they apply to the case of the NDB.

Table 1: IR Theories and Their Application to the NDB

Key Concepts of Defensive Realism	NDB Interpretation (Defensive Realism)	Key Concepts of Liberal Institutionalism	NDB Interpretation (Liberal Institutionalism)
Anarchy and Uncertainty	BRICS fears that reliance on the IMF and World Bank exposes them to political conditionality and financial coercion, increasing uncertainty in an anarchic financial system.	Cooperation and Mutual Gains	The NDB is designed to provide more inclusive and demand-driven financing, fostering cooperation by aligning development finance with the needs of emerging economies.
Security-Seeking Behavior	The NDB enhances financial autonomy and reduces the security risks of over-reliance on Western institutions, ensuring BRICS' financial security without provoking excessive balancing.	Economic Interdependence	The NDB contributes to global economic stability by financing infrastructure and sustainability projects, reinforcing economic interdependence among developing countries.
Balancing Behavior	The NDB provides an alternative financial mechanism that strengthens BRICS' collective bargaining power while avoiding direct confrontation, mitigating the risk of aggressive counterbalancing.	Institutional Transparency	The NDB enhances transparency by offering clear lending terms and predictable financing mechanisms, reducing uncertainty for borrowers compared to traditional financial institutions.

The Security Dilemma	Western financial dominance is perceived as a threat, prompting BRICS to establish the NDB as a defensive response rather than an expansionist move, reducing vulnerability to financial coercion.	Institutional Adaptability	The NDB complements existing institutions by co-financing projects and engaging in multilateral coordination, while also signaling dissatisfaction and pushing for more inclusive governance in global financial institutions.
Structural Conditions	The NDB's institutional structure reflects defensive realism by providing financial stability in a system where Western institutions dominate and set rules that favor established powers.	Reputational Incentives	The NDB strengthens BRICS' credibility in global financial governance by demonstrating responsible lending practices and avoiding the controversial conditions associated with Western-led institutions.
Role of Institutions	The NDB is not transformative but serves as strategic tool that helps BRICS manage systemic uncertainty and avoid unnecessary escalation	Normative Commitment to Rule-Based Cooperation	The NDB reinforces a rules-based global order by promoting transparency, procedural predictability, and institutional cooperation, consistent with liberal values.

3.3.1 Defensive Realist Propositions

DRP1:

“Defensive realism expects that the institutional design of the New Development Bank reflects a strategic response to systemic threats from Western-dominated financial institutions. This is reflected in threat perception expressed in founding documents and summit declarations, and in institutional balancing through governance structures that promote sovereign equality and limit external influence.”

DRP2:

“Defensive realism expects that the NDB operates to reduce dependency on dominant financial institutions and promote internal strategic autonomy. This is reflected in limited engagement with Western actors, use of BRICS-based financial mechanisms, and lending practices that prioritize borrower control and minimize external conditionality.”

3.3.2 Liberal Institutionalist Propositions

LIP1:

“Liberal institutionalism expects that the New Development Bank was created to complement the existing global financial system by filling institutional gaps and promoting reform-oriented engagement. This reform is reflected in commitments to transparency, sustainability, and openness to broader membership, thereby strengthening cooperation within the existing order."

LIP2:

“Liberal institutionalism expects that the New Development Bank operates in ways that reinforce international norms and strengthen the rules-based global order. This includes institutional transparency in its operations and lending, as well as reputational incentives such as adopting global standards and engaging with multilateral forums to signal alignment with established practices.”

CHAPTER IV: METHODOLOGY

4.1 Congruence Analysis

This research applies the method of congruence analysis to determine which of two theoretical perspectives provides a stronger explanation for the case. The method is designed to systematically compare theoretical expectations with empirical observations in order to assess explanatory strength.

The process involves three key steps. First, empirical observations are examined in light of one theory. Second, the same observations are assessed using a different theoretical lens. Third, the findings from both steps are compared to evaluate which theory offers a more convincing account. This is referred to as the competing theories approach, where theories are treated as alternatives rather than as sources of complementary insights. Since the theories considered here are based on opposing assumptions and produce contrasting interpretations, this approach is more suitable than one that aims to combine theories (Blatter & Haverland, 2014).

4.2 Case Selection

In congruence analysis, it is important to select a case that demonstrates a clear connection to the chosen theories. This ensures that theoretical expectations can be meaningfully compared to empirical observations (Blatter and Haverland, 2014). For this reason, this research focuses on the New Development Bank (NDB).

The decision to study the NDB reflects its significance in debates over the evolving nature of global financial governance. Created by the BRICS countries in response to longstanding dissatisfaction with governance structures at institutions like the IMF and World Bank (Qobo & Soko, 2015), the bank reflects concerns among emerging powers about underrepresentation and unequal influence in the liberal international order. The NDB also provides an empirical basis for testing competing theoretical claims. Interpreted through a defensive realist lens, it can be seen as a strategic tool for pursuing autonomy and strengthening the position of rising powers. Conversely, liberal institutionalist interpretations emphasize its cooperative design, shared governance, and efforts to complement existing institutions as markers of reformist engagement through multilateralism (Kasahara, 2020). The NDB's dual orientation, which includes both challenging elements of the current system and operating within established frameworks, makes it a particularly fitting case for theoretical comparison.

This case is also promising for drawing broader conclusions about institutional contestation and reform in global governance. Although still relatively new, the NDB operates across regions and sectors and engages both member and nonmember countries. Its design, with equal voting rights, flexible lending practices, and a focus on South-South cooperation, represents a deliberate departure from the dominant models of the IMF and the World Bank. These features are not unique to the NDB but reflect a wider trend of emerging actors reshaping international institutions on more equitable terms (Bond, 2020). Thus, the case provides insights relevant to other development finance institutions led by countries from the Global South and contributes to a broader understanding of how institutional innovations are emerging in the international financial system.

4.3 Selection of Theories

This thesis focuses on two leading approaches within mainstream international relations theory: realism and liberalism. These theories have been selected because of their prominence in debates on global financial governance and their contrasting interpretations of institutional behavior. Introducing the foundational assumptions of each theory is essential for outlining the key concepts used in formulating theoretical expectations and for assessing their plausibility in the context of a congruence analysis (Blatter and Haverland, 2014).

To allow for a more precise comparison, one subtheory has been selected from each tradition based on its relevance to the case of the New Development Bank. The selection is informed by both the official framing of the bank by BRICS governments and by academic literature. From the realist tradition, defensive realism is chosen. This perspective holds that states seek to preserve their autonomy and security in response to systemic constraints, rather than pursuing aggressive revisionism. This makes it more appropriate than offensive realism, as the New Development Bank has been positioned as a complement to, rather than a replacement for, Western-led institutions.

From the liberal perspective, liberal institutionalism has been selected. This subtheory emphasizes the role of economic interdependence, shared interests, and institutionalized cooperation in promoting peaceful and mutually beneficial outcomes. It aligns with views that interpret the New Development Bank as a reform-oriented initiative aimed at expanding development finance and increasing representation for emerging economies within the global financial system. These subtheories have been selected not only for their relevance to the case, but also because they provide distinct and plausible expectations that can be systematically compared to empirical observations.

4.4 Operationalization

To apply congruence analysis, the theoretical expectations derived from defensive realism and liberal institutionalism must be translated into observable indicators. This process makes it possible to systematically compare each theory to empirical evidence related to the New Development Bank. The goal is to identify whether the bank’s institutional features, partnerships, and lending behavior are more consistent with a defensive realist or a liberal institutionalist logic.

The four propositions outlined in section 3.4 form the basis for operationalization. Each proposition is linked to two key concepts, which are then translated into measurable or observable indicators. These indicators are used to guide the empirical analysis in chapter five.

4.4.1 Operationalization of DRP1

"Defensive realism expects that the institutional design of the New Development Bank reflects a strategic response to systemic threats from Western-dominated financial institutions. This is reflected in threat perception expressed in founding documents and summit declarations, and in institutional balancing through governance structures that promote sovereign equality and limit external influence."

This proposition highlights two key concepts: threat perception and institutional balancing.

Table 2: Operationalization of the First Defensive Realist Proposition

Concept	Indicator
1 Threat Perception	Official documents, or summit declarations where BRICS leaders express concern over political conditionality, Western control, or structural disadvantage in IMF/World Bank governance.
2 Institutional Balancing	Institutional design features that limit external influence through governance structures. These include equal voting rights for founding members, membership control provisions, non-conditional lending principles, and the use of local currencies to support sovereign equality and financial autonomy.

4.4.2 Operationalization of DRP2

"Defensive realism expects that the NDB operates to reduce dependency on dominant financial institutions and promote internal strategic autonomy. This is reflected in limited engagement with Western actors, use of BRICS-based financial mechanisms, and lending practices that prioritize borrower control and minimize external conditionality."

This proposition focuses on reduction of dependency and internal strategic autonomy.

Table 3: Operationalization of the Second Defensive Realist Proposition

Concept	Indicator
3 Reduction of Dependency	Evidence of limited or selective partnerships with Western based institutions. Use of internal BRICS frameworks or financial tools such as local currency lending and bond issuance in member country markets.
4 Internal Strategic Autonomy	Operational practices that strengthen borrower policy and project autonomy, including minimizing external conditions on lending, borrower-led project design and management, and limited reliance on external governance standards.

4.4.3 Operationalization of LIP1

"Liberal institutionalism expects that the New Development Bank was created to complement the existing global financial system by filling institutional gaps and promoting reform-oriented engagement. This reform is reflected in commitments to transparency, sustainability, and openness to broader membership, thereby strengthening cooperation within the existing order."

This proposition highlights complementarity and reform-oriented engagement.

Table 4: Operationalization of the First Liberal Institutionalist Proposition

Concept	Indicator
5 Complementarity	References in founding documents and summit declarations that frame the NDB as supporting or supplementing the existing global financial system, including formal language about cooperation, coordination, or working alongside established multilateral institutions.

6 Reform-Oriented engagement	Institutional design features that reflect liberal reform goals, including openness to new members, formal transparency provisions, and stated commitments to sustainability and cooperative engagement with the global financial system.

4.4.4 Operationalization of LIP2

"Liberal institutionalism expects that the New Development Bank operates in ways that reinforce international norms and strengthen the rules-based global order. This includes institutional transparency in its operations and lending, as well as reputational incentives such as adopting global standards and engaging with multilateral forums to signal alignment with established practices."

This proposition focuses on institutional transparency and reputational incentives.

Table 5: Operationalization of the Second Liberal Institutionalist Proposition

Concept	Indicator
7 Institutional Transparency	Public access to lending policies, safeguards, corporate results frameworks, and project documents. Presence of review and monitoring tools.
8 Reputational Incentives	Adoption of international standards (e.g., anti-corruption, ESG norms), participation in global forums (e.g., COP, UNFCCC), and public signaling of alignment with multilateral goals or principles.

4.5 Data Collection

To conduct this research, empirical data was collected from a diverse range of primary and secondary sources to enable a balanced and systematic comparison between theoretical expectations and the observed behavior of the New Development Bank (NDB). The selection of sources follows the principles of triangulation and critical reflection in line with the congruence analysis approach (Blatter & Haverland, 2014).

Primary data consists of official documents and statements issued by the NDB, including annual reports, project summaries, and strategy documents. These sources provide direct insight into the bank's institutional practices and formal positioning within the international financial system. Secondary sources primarily consist of academic literature, supplemented by selected commentary and background information from international organizations and policy researchers. These were purposefully selected to include analyses by scholars and experts from both BRICS countries and Western institutions, ensuring a balanced perspective and addressing potential regional or ideological bias. While media articles and financial expert commentary were reviewed for additional context, they were not systematically included in the analysis as they did not offer unique insights beyond those found in the primary and academic materials.

Given the contested nature of the NDB's role, all sources were critically assessed for potential bias. Western studies often emphasize geopolitical motivations, while BRICS-based sources highlight themes of cooperation and reform. To ensure analytical balance, claims were systematically cross-referenced across different types of sources. This pluralistic and rigorous approach provides a solid empirical foundation for testing the propositions derived from defensive realism and liberal institutionalism.

4.6 Validity and Reliability

This section discusses how the quality of the research findings can be assessed in terms of internal validity, reliability, and external validity.

Internal validity concerns the extent to which the findings accurately reflect the relationship between theoretical propositions and empirical observations. In this study, internal validity is supported by systematically comparing clearly formulated theoretical expectations with detailed empirical evidence. The congruence analysis approach relies on directly confronting competing theories with the same case, which clarifies which theory provides a stronger explanation (Blatter and Haverland, 2014). Although qualitative analysis always involves some interpretive judgment, measures are taken to reduce bias. These include using diverse, critically selected sources, maintaining transparency in linking observations to theoretical concepts, and consistently applying the analytical framework.

Reliability refers to the consistency and transparency of the research process. Here, reliability is strengthened by systematically translating theoretical propositions into defined indicators and applying them consistently across the data. Following Blatter and Haverland (2014), the structured comparison of competing theories and transparent documentation of how empirical observations relate to theoretical expectations support replicability and traceability. By maintaining consistent coding logic and critically selecting diverse sources, the study aims to ensure that others applying the same framework could reach similar findings.

External validity addresses how far the findings can be applied beyond this specific case. While small case studies have limited external validity, generalization is still possible in some respects. Blatter and Haverland (2014) argue that cautious conclusions about broader patterns can be drawn when a case is chosen for its relevance to a larger category of cases. As outlined in section 4.2, the New Development Bank represents a relevant example of how emerging powers engage with the international financial system. Its hybrid structure and global engagement provide insights that may apply to other development finance institutions created by non-Western coalitions. Therefore, while these findings are not meant to be universally generalized, they offer valuable insights for similar cases.

CHAPTER V: ANALYSIS

5.1 Defensive Realist Proposition 1

5.1.1 DRP1 - Threat Perception

Defensive realism suggests that structurally disadvantaged states respond to systemic constraints by creating institutions that preserve autonomy. In this view, the New Development Bank (NDB) represents an attempt by BRICS countries to counter perceived imbalances in the Western-led financial order. To evaluate this, the section examines whether official BRICS discourse framed existing institutions as threatening. The analysis draws on summit declarations and institutional agreements from 2013 to 2015, which represent formal joint statements and legal commitments made during the NDB's creation.

BRICS declarations, issued at the annual summits, are central political documents that outline the group's positions on international governance. While these texts avoid directly criticizing conditional lending by the IMF or World Bank, they consistently stress sovereignty and autonomy in development cooperation. The Fortaleza Declaration refers to "non conditionality, respect for national sovereignty and independence, and non interference in internal affairs" (BRICS, 2014, p. 11). Though not explicitly oppositional, this wording contrasts with the practice of attaching policy conditions to loans. Similarly, the 2015 Memorandum of Understanding among BRICS development banks refers to cooperation based on "mutual benefit," with no mention of policy reform or compliance requirements (NDB, 2015, Art. 1). The framing across these documents reflects an underlying discomfort with external influence on domestic policymaking.

Concerns about power asymmetry are expressed more directly. The eThekwini Declaration describes the stalled IMF quota reform process as "unacceptable" and calls for changes that reflect the economic importance of emerging markets (BRICS, 2013, p. 4). The Fortaleza Declaration continues this theme, warning that the failure to implement reforms "undermines the IMF's legitimacy, credibility and effectiveness" (BRICS, 2014, para. 18). These statements express dissatisfaction with institutional structures dominated by advanced economies. They stop short of advocating withdrawal, but they reveal frustration with the lack of responsiveness to BRICS demands. From a defensive realist perspective, this reflects a perception of entrenched institutional disadvantage.

The most consistent theme is structural exclusion. Both declarations argue for a more inclusive and representative financial system. The eThekwini Declaration calls for a "restructured international financial architecture" that better represents developing countries (BRICS, 2013, p. 4). The Fortaleza Declaration frames the NDB as a response to the misalignment between global governance structures and the shifting balance of economic power (BRICS, 2014, para. 19). This emphasis on representation suggests a shared view that existing institutions do not accommodate BRICS interests.

In conclusion, BRICS leaders do not frame existing institutions as directly hostile, nor do they reject cooperation. However, they express dissatisfaction with the current distribution of influence and the lack of meaningful reform. From a defensive realist standpoint, the concern lies in structural vulnerability rather than active confrontation. The evidence offers moderate support for the first defensive realist proposition. It shows that the creation of the NDB was shaped in part by a perception of systemic disadvantage, even if expressed in cautious and diplomatic terms.

5.1.2 DRP1 - Institutional Balancing

If BRICS countries perceived the Western-dominated financial system as structurally biased, defensive realism would expect them to respond through institutional balancing. This involves designing an institution that promotes sovereign equality and limits external control. This section examines whether the New Development Bank (NDB) was intentionally structured to fulfil this function, based on the provisions outlined in its founding documents.

The NDB Agreement establishes equal ownership and decision-making among founding members. Each BRICS country committed ten billion United States dollars in subscribed capital at inception, ensuring initial parity (NDB, 2014, Art. 6). Voting rights follow a one vote per unit of capital model, without any special veto privileges or weighted voting thresholds (NDB, 2014, Art. 8). This structure contrasts with institutions such as the IMF, where capital-based voting systems centralize influence among major Western economies (Qobo & Soko, 2015).

Membership expansion is regulated to maintain control. While the bank allows for the admission of new members, Article 2 states that the founding BRICS countries must collectively retain at least fifty-five percent of total voting power (NDB, 2014). This ensures that the original members hold long-term control over governance and insulates decision-making from external influence.

The bank's lending principles reflect a similar balancing logic. Article 21 outlines project selection based on development impact, without requiring macroeconomic policy reform or structural compliance (NDB, 2014, Art. 21). The 2015 Memorandum of Understanding reinforces this approach by affirming cooperation based on "mutual benefit" and adherence to domestic regulatory frameworks (NDB, 2015, Art. 1). This avoids the policy-based conditionality often associated with Western-led financial institutions.

The bank also incorporates provisions that support monetary sovereignty. Article 21 authorises the use of local currencies for financing and encourages the development of instruments to support this practice (NDB, 2014). While local currency lending is still limited in practice, its inclusion at the design level reflects a foundational concern with reducing reliance on dominant reserve currencies.

Taken together, these institutional features reflect a coherent effort to balance against structural vulnerabilities. The NDB's formal rules prioritize equal representation, limited external influence, and financial autonomy. From a defensive realist perspective, these design choices offer strong support for the second part of the first proposition.

5.2 Defensive Realist Proposition 2

5.2.1 DRP2 - Reduction of Dependency

Defensive realism expects that structurally disadvantaged states will reduce reliance on dominant financial powers by developing internal alternatives. For the New Development Bank (NDB), this means limiting dependency on Western-based institutions and strengthening internal BRICS financial mechanisms. Whereas the previous section (5.1.2) focused on how these aims are embedded in the bank's institutional design, this section examines whether they are also reflected in its behavior.

Local currency financing is one of the clearest tools the NDB uses to reduce external exposure. Since 2019, the bank has issued bonds in Chinese yuan, South African rand, Brazilian real, and Russian ruble (NDB, 2023). In 2021, it launched its largest renminbi bond in the Chinese interbank market, raising five billion yuan for projects in China (NDB, 2023). The 2022 to 2026 strategy commits the bank to having 30 percent of all financing in local currencies by the end of the period (NDB, 2022). This reflects an effort to reduce dollar dependence and strengthen ties to domestic financial systems. Local currency lending can mitigate currency mismatch risk and reduce external vulnerability, aligning repayment obligations with local economic conditions and enhancing borrower resilience. By the end of 2023, cumulative approvals included USD 21.5 billion in dollars, RMB 5.5 billion, ZAR 1.2 billion, and INR 594 million (NDB, 2023). Despite de-dollarization rhetoric, the dollar still accounts for about 75 percent of total lending, revealing a gap between strategic goals and actual lending.

In its institutional partnerships, the bank has adopted a selective and cautious approach. Memoranda of understanding have been signed with the World Bank, Asian Development Bank, and European Bank for Reconstruction and Development (Nanwani, 2024), but no extensive joint project frameworks have been developed. The absence of formalized co-financing suggests a preference for operational autonomy. While this pattern could be seen as a slow start under a liberal institutionalist logic, from a defensive realist perspective, it reflects a deliberate effort to reduce reliance on Western-led institutions and limit external influence.

Cooperation mainly occurs within the BRICS context. The NDB maintains institutional links with national development banks such as Brazil's BNDES and the Development Bank of Southern Africa (NDB, 2022). These internal partnerships enable coordination without introducing external policy influence or compliance requirements, consistent with defensive realist logic.

Nonetheless, the bank remains partially embedded in the global financial architecture. Its bond issuances in international markets align with external regulatory and disclosure standards, including environmental, social, and governance reporting and ratings criteria to maintain investment grade status (NDB, 2022). While this does not suggest dependency in a strict sense, it shows the continued relevance of international financial norms for institutional credibility and access to capital.

In sum, the NDB's operational choices, particularly its focus on local currency lending and internal partnerships, demonstrate a clear intention to reduce dependency. Limited engagement with dominant financial institutions and the push for internal alternatives underscore this effort. Although the continued dominance of dollar-based lending signals persistent reliance on global markets, the overall pattern of cautious, deliberate operational decisions suggests that the NDB is actively working to reduce this dependency.

5.2.2 DRP2 - Internal Strategic Autonomy

Defensive realism expects states to seek internal strategic autonomy by limiting the ability of dominant financial institutions to influence domestic policy and project management. This section evaluates whether the New Development Bank (NDB) enables such autonomy through its operational behavior. Whereas section 5.1.2 analyzed how the NDB's institutional design reduces external dependency, this section examines how its lending practices support internal strategic autonomy in borrower countries. According to the indicator, this involves minimizing external conditions on lending, enabling borrower-led project planning and implementation, and limiting reliance on governance standards developed outside the BRICS context.

The NDB does not impose macroeconomic or policy-based conditions on its loans. Lending decisions are based on development priorities defined by the borrowing country, financial soundness, and expected outcomes. This noninterference approach contrasts with the IMF and World Bank, where lending has often been linked to structural adjustment or governance reform. As Waisbich and Borges (2020) note, the NDB's model was intentionally designed to respect national autonomy and avoid conditionality.

Borrowers also retain control over the implementation of projects. The bank encourages the use of national procurement and regulatory systems, reducing reliance on externally imposed procedures. Its Environmental and Social Framework states: "The NDB will not duplicate or displace country systems; it will work with and through them, relying on their capacities wherever appropriate" (NDB, 2017, p. 16). This principle has been applied in projects in India and China, where local agencies oversee implementation using domestic rules (NDB, 2023). These practices suggest that strategic autonomy is reinforced not against the NDB, but through the NDB, as it defers to domestic institutional frameworks.

In terms of governance standards, the NDB has adopted its own operational rules rather than replicating those of traditional Western-led institutions. While it draws on broadly accepted principles such as environmental and social safeguards, these are internally designed and framed as support for country systems, not replacements. The General Strategy frames safeguard use as a means to "enhance country systems" and capacity, not to impose external templates (NDB, 2022, p. 35). Some convergence with international benchmarks remains necessary, particularly in the context of bond issuance and credit rating transparency, but these requirements do not appear to extend to conditional influence over borrower policy.

In sum, the NDB's operational practices support a high degree of borrower autonomy. Lending is not contingent on policy reform, projects are implemented using national systems, and governance is guided by internally defined frameworks. Strategic autonomy is thus promoted not by reducing NDB involvement, but by ensuring that the institution enables rather than overrides domestic control. This evidence offers strong support for the second part of the proposition regarding autonomy through operational behavior.

5.3 Liberal Institutional Proposition 1

5.3.1 LIP1 - Complementarity

Liberal institutionalism holds that international institutions are most effective when they complement one another within a shared order. Rather than seeking replacement or disruption, new institutions are expected to fill functional gaps and support cooperation. The New Development Bank (NDB) was introduced within this logic as a supplement to existing global financial institutions. Evidence of this intent can be found in both its formal design and early public framing.

The NDB's founding texts explicitly position the bank as complementary. Article 2 of the NDB Agreement defines its purpose as "mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, to complement the existing efforts of multilateral and regional financial institutions" (NDB, 2014, Art. 2). This clause signals that the bank was not conceived as an alternative to the IMF or World Bank, but as an additional instrument within the existing global framework. Article 21 further authorizes the bank to "cooperate within its areas of interest with international organizations" and to establish working relationships with "other international and national entities" (NDB, 2014, Art. 21).

The same framing appears in political discourse. The Fortaleza Declaration, released at the sixth BRICS Summit, refers to the NDB as a means of addressing "the infrastructure and sustainable development needs of BRICS and other emerging and developing economies" (BRICS, 2014, para. 11). The declaration does not frame the NDB as a challenge to the existing system, but as a tool to address unmet needs. This rhetorical positioning reflects the liberal expectation that new institutions emerge in response to global governance shortcomings, not to overturn established frameworks.

The 2015 Memorandum of Understanding on Cooperation with the NDB further illustrates this cooperative orientation. It outlines channels for coordination between the NDB and national development banks of the BRICS countries, while leaving open the possibility of broader collaboration (NDB, 2015, Art. 2). Though not a binding commitment to joint operations, the document reflects a willingness to align institutional goals and share expertise. Similarly, the NDB has signed memoranda of understanding with several multilateral development banks, including the World Bank and Asian Development Bank (Nanwani, 2024). However, these have not resulted in co-financed projects or formalized integration, which suggests that operational collaboration has lagged behind the bank's cooperative framing. While this does not diminish the bank's clear cooperative intent, it shows that the implementation of complementarity has so far been more limited in practice.

In sum, the NDB's founding documents and political rhetoric consistently present the bank as a complement to existing financial institutions rather than a challenger. The NDB Agreement, the Fortaleza Declaration, and the Memorandum of Understanding reflect this cooperative orientation and align strongly with the liberal institutionalist expectation of filling gaps within the global system. However, the absence of substantial joint projects or operational integration raises questions about how far this complementarity extends in practice. From a liberal institutionalist perspective, this may suggest that complementarity remains more aspirational than realized. Yet, as the defensive realist analysis shows, the same pattern can also be read as a strategic choice to limit dependency and protect autonomy. This tension underscores the value of comparing both perspectives when evaluating the bank's behavior.

5.3.2 LIP1 - Reform-Oriented Engagement

Liberal institutionalism expects that new institutions created by rising powers will engage with the global financial system in a reform-oriented manner. This orientation is evident in design choices that promote transparency, sustainability, and openness to new members. These principles aim to improve existing governance structures rather than reject them. This section examines whether the NDB's founding framework reflects these commitments.

The NDB's Articles of Agreement clearly establish sustainability as a central design objective. Article 2 defines the Bank's purpose as supporting "infrastructure and sustainable development projects" that are "environmentally and socially sustainable" (NDB, 2014, Article 2). This language aligns with norms shared by institutions such as the World Bank and signals an intent to meet recognized development finance standards. Article 15 reinforces this commitment by requiring the Bank to operate in accordance with sound banking principles (NDB, 2014).

Transparency is also embedded in the Bank's design. The Agreement outlines a commitment to rule-based operation and financial discipline, authorizing the Bank to provide support through instruments such as loans, guarantees, and equity participation (NDB, 2014, Articles 1 and 3). It establishes a governance framework with a Board of Governors and Board of Directors responsible for oversight, policy approval, and strategic direction (NDB, 2014, Articles 10 to 12). Although transparency is not explicitly named as a core value, it is functionally embedded through mechanisms such as strategic reviews, internal rule making, and public accountability via multilateral oversight. These features apply to all members, indicating that transparency was intended as a permanent aspect of the Bank's operations.

A third design feature is openness to membership beyond the BRICS core. Article 3 allows for the admission of new members, provided that the founding five retain at least 55 percent of total voting power (NDB, 2014). This reflects a willingness to expand the institution's reach while maintaining internal cohesion. The inclusion of borrowing and non borrowing members mirrors frameworks used by other global financial institutions. Although the high voting threshold preserves founding control, this legal provision positions the NDB as reformist rather than exclusionary.

At the same time, the Bank's design shows limits to its engagement with established institutional norms. Article 6 grants equal voting rights to all founding members, regardless of capital contributions (NDB, 2014). This contrasts with capital weighted voting in the IMF and World Bank, which reinforces the dominance of major economies (Chin, 2024). The NDB's one country one vote model emphasizes sovereign equality within BRICS, but this principle does not extend to future members. By restricting broader influence, the Bank signals a protective stance that favors internal control over inclusive governance. Its design reflects a selective reform approach: liberal norms like sustainability and transparency are present, but applied within boundaries that safeguard strategic autonomy.

In summary, the NDB's founding framework includes features that align with liberal institutionalist expectations. Sustainability and transparency are embedded in its legal structure, and openness to broader membership reflects a reform-oriented logic. However, the voting framework and internal safeguards reveal a cautious posture focused on preserving founding member autonomy. These elements suggest a selective reform agenda that seeks legitimacy through alignment but stops short of fully adopting the liberal order's institutional logic. As such, the proposition is partially confirmed.

5.4 Liberal Institutionalist Proposition 2

5.4.1 LIP2 - Institutional Transparency

Liberal institutionalism expects that institutions reinforce the global order by embedding accepted governance norms into their operational behavior. One key norm is institutional transparency, reflected in practices such as publishing lending rules, environmental safeguards, and monitoring tools. This section assesses whether the New Development Bank (NDB) institutionalizes transparency in ways that align with these expectations.

From its early phase, the NDB introduced formal transparency mechanisms. The Environmental and Social Framework outlines how the Bank identifies, assesses, and monitors project risks. It requires country level gap assessments when national systems are insufficient and mandates project screening and disclosure. It states that "environmental and social information on projects will be disclosed in a timely and accessible manner" (NDB, 2019, p. 39). These practices mirror standards common among established multilateral development banks and signal a commitment to openness at the procedural level.

Transparency is further embedded through the Corporate Results Framework introduced in the 2022 to 2026 strategy. The framework goes beyond financial performance and includes indicators on project outcomes, alignment with member priorities, and internal governance effectiveness. It supports evidence based evaluation of both project and institutional performance (NDB, 2022). This suggests transparency is not treated solely as an external obligation, but as part of the Bank's internal credibility strategy. Earlier strategies confirm this direction. The 2017 to 2021 strategy framed transparency as a core part of the Bank's identity, committing to publish lending guidelines, procurement rules, and safeguard procedures. It also emphasized reliance on national systems while introducing institutional procedures for oversight, reporting, and disclosure (NDB, 2017).

The Bank's annual reporting reflects these commitments in practice. The 2023 Annual Report provides public summaries of approved projects, including sectoral focus, financial terms, and expected outcomes (NDB, 2023). While the Bank controls the scope and depth of disclosure, this practice indicates a baseline of transparency consistent with international expectations.

At the same time, the NDB does not promote transparency as a normative objective or seek to redefine global standards. The 2022 to 2026 strategy emphasizes support for member country ownership and avoidance of conditionality, stating that the Bank "respects [members'] national systems, policies, and institutional preferences" (NDB, 2022, p. 24). This approach limits the role of transparency to a practical governance tool aimed at ensuring predictability and credibility rather than driving systemic change.

In sum, the NDB's operational behavior confirms this indicator. Transparency is institutionalized through safeguard frameworks, performance tools, and public documentation. These mechanisms reflect liberal norms and support the interpretation that the Bank seeks legitimacy within a rule-based financial order by embedding credible and predictable procedures.

5.4.2 LIP2 - Reputational Incentives

Liberal institutionalism holds that international institutions seek legitimacy by aligning with global norms and demonstrating compatibility with the existing international order. For the New Development Bank (NDB), this would be visible in efforts to meet international standards, participate in global forums, and frame itself as a credible actor. This section examines whether such reputational incentives are reflected in the Bank's institutional behavior, based on evidence from official strategies, declarations, and partnerships.

From its inception, the NDB has made reputational signaling part of its institutional strategy. It adopted anti-corruption and anti-money laundering frameworks early in its operations, embedding them into both the 2017 to 2021 and 2022 to 2026 strategies. The 2017 strategy stated that the Bank would develop policies "that are consistent with international best practices" in areas such as compliance and ethics (NDB, 2017, p. 32). The 2022 strategy reaffirmed this, highlighting the Bank's commitment to risk management, transparency, and integrity in line with global financial standards (NDB, 2022). These policies function as external signals, demonstrating the Bank's intent to operate within accepted global frameworks.

The NDB's participation in global forums reinforces its signaling. In 2023, it joined COP28 and became an observer to the UN Framework Convention on Climate Change. It endorsed declarations on climate adaptation, gender responsive development, and nature positive investment, aligning with other major development banks (NDB, 2023). These statements are not binding but help position the bank within global policy circles. In practice, the commitment is limited. Climate finance approvals in 2023 reached USD 268 million, with USD 114 million for mitigation and USD 154 million for adaptation (NDB, 2023). This accounted for just 13 percent of total approvals (NDB, 2023), below the 40 percent target in the 2022 to 2026 strategy (NDB, 2022). The shortfall suggests a misalignment between the bank's stated climate ambitions and its actual financing decisions.

The Bank also cultivates partnerships as part of its reputational strategy. According to the 2023 Annual Report, the NDB has signed cooperation agreements with peer institutions including the World Bank, Asian Development Bank, and African Development Bank (NDB, 2023). These agreements focus on potential collaboration, knowledge exchange, and dialogue. However, there is limited publicly available evidence of long-term joint projects or co-financed operations resulting from these agreements. The emphasis is therefore on visibility and formal association, rather than deep operational collaboration, which supports the interpretation that these partnerships serve a largely symbolic function.

At the same time, the Bank's engagement remains selective. While it has expanded cooperation with a range of institutions, its most sustained alignment continues to take place within the BRICS context. The 2015 Memorandum of Understanding signed with national development banks of BRICS members established a long-term framework for project collaboration and knowledge sharing (MoU, 2015). Outside the BRICS core, the NDB has maintained a careful balance between engagement and institutional autonomy, reinforcing its commitment to member-led development models (NDB, 2022).

Even so, the Bank's actions broadly support the liberal institutionalist view. Its adoption of recognized policy standards, participation in global forums, and pursuit of high-profile partnerships indicate a clear interest in reputational legitimacy. While the scope of alignment is constrained by strategic priorities and political caution, the underlying pattern reflects a deliberate effort to situate the NDB within the existing international order.

Taken together, these efforts show that the NDB does not position itself in opposition to global norms but actively manages its reputation in relation to them. This supports the liberal institutionalist claim that institutions value perceived legitimacy as a resource for influence, credibility, and long-term institutional resilience.

CHAPTER VI: DISCUSSION OF RESULTS

Table 6: Interpretation of Results

Proposition	Indicators	Results
DRP1	1. Threat Perception 2. Institutional Balancing	1. Moderate 2. Strong
DRP2	3. Reduction of Dependency 4. Internal Strategic Autonomy	3. Strong 4. Strong
LIP1	5. Complementarity: 6. Reform-Oriented Engagement	5. Strong 6. Moderate
LIP2	7. Institutional Transparency 8. Reputational Incentives	7. Strong 8. Strong

At first glance, the results appear balanced, with both defensive realism and liberal institutionalism receiving three strong and one moderate evaluation. However, as the discussion below shows, the strength of support for defensive realism lies in the Bank's core structure and operational logic, whereas liberal elements are more symbolic and procedural.

For DRP1, support is mixed. While BRICS statements express dissatisfaction with the governance structures of the IMF and World Bank, they stop short of framing these institutions as direct threats. This absence of explicit threat language suggests that the NDB's formation was driven more by long-term concerns about underrepresentation than by immediate systemic pressures. In contrast, institutional balancing receives strong backing: equal capital contributions, voting parity among BRICS members, and restrictions on external membership all demonstrate an intent to limit outside influence and protect sovereign equality. These features align with the defensive realist view that states respond to structural vulnerabilities by creating institutions that preserve autonomy.

For DRP2, the evidence is strong across both indicators. The NDB's operational choices consistently reflect a strategy to reduce dependence on Western financial institutions. The use of local currencies, avoidance of conditionality, and borrower-led project implementation highlight a deliberate focus on autonomy and risk management. Although the bank must still engage with global markets and maintain external credit ratings, its internal practices underscore defensive realist priorities, offering robust support for this proposition.

LIP1 receives partial support. Founding documents and political discourse frame the NDB as a cooperative and complementary actor within the global financial system. Sustainability, transparency, and openness to new members are embedded in its design, reflecting liberal institutionalist principles. However, these commitments have not translated into significant operational collaboration or broader systemic reform. The bank's cautious partnerships suggest that complementarity remains more rhetorical than realized, resulting in only moderate confirmation of this proposition.

LIP2 is more strongly supported. The bank has adopted transparency norms, including safeguard frameworks, performance reviews, and publicly available project documentation. It also engages in reputational signaling by participating in global forums and aligning with international standards. These practices match the liberal institutionalist expectation that institutions seek legitimacy through rule-based procedures and reputational incentives. Nonetheless, these actions appear primarily instrumental, aimed at credibility and investment rather than deep normative convergence. This still offers strong support for the indicator of reputational incentives.

Overall, these findings reveal an important nuance. Both defensive realism and liberal institutionalism receive the same number of strong indicator confirmations. However, defensive realism's support is rooted in the bank's structural core and operational behavior aimed at strategic autonomy, while liberal institutionalism's support is mainly procedural and instrumental. This suggests that while both theories capture key elements of the NDB's behavior, defensive realism provides a more consistent and comprehensive explanation. The NDB's focus on internal control and cautious engagement with the broader system points to a pragmatic strategy: carving out a space for independent development within an international order still dominated by existing institutions. Defensive realism therefore offers the more convincing account of the bank's position within the global financial system.

CHAPTER VII: CONCLUSION

This thesis examined whether defensive realism or liberal institutionalism better explains the institutional design and operational behavior of the New Development Bank. Using a structured, theory driven analysis, it tested four propositions reflecting the core expectations of each framework. The evidence shows that while liberal institutionalist elements are present in the NDB's design and rhetoric, they serve a functional purpose rather than signaling deep alignment with the liberal order. The bank adopts liberal norms to build legitimacy but does so selectively and on its own terms. In contrast, defensive realism better explains both the structure and behavior of the NDB as part of a broader strategy to safeguard autonomy and limit exposure to external influence. Taken together, this suggests that realist power balancing offers a more convincing account of the bank's role in the international financial system.

These findings contribute to a broader scholarly debate on whether the rise of emerging institutions signals a shift toward a post Western financial order or reflects adaptation within it. Some see them as parallel structures challenging Western dominance, others as pragmatic additions that reflect resilience of existing institutions. The NDB points to a middle position. It addresses structural imbalances and seeks greater policy autonomy but does not aim to replace the system. It reflects what Börzel and Zürn (2021) describe as contestation from within, combining engagement with efforts to shift influence. As several scholars observe, the bank blends features that resist Western control, such as equal voting rights and local currency lending, with practices aligned with international standards, including environmental safeguards and cooperation with traditional development banks (Cooper, 2017; Kasahara, 2020; Morozkina, 2015). This blend shows how rising powers recalibrate the system on their own terms, treating the liberal order not as something to reject or reproduce, but as a framework they can reshape from within. These dynamics suggest the LIO is not being overturned, but gradually redirected through negotiated adaptation.

This nuance has important implications for global financial governance. It shows that contestation and cooperation can coexist within the same institutional forms, challenging simple narratives of either integration or disruption. The NDB's behavior reflects a world where emerging powers navigate a complex order by drawing on established norms to gain credibility, particularly in global markets, while preserving control over their institutional choices (Chin, 2024). This dual logic highlights both the adaptive capacity of the system and the limited but real agency of rising powers within it.

This study has limitations. Reliance on official documents and formal statements may understate informal contestation or dissatisfaction. By focusing solely on formal documents, the analysis does not account for how strategic intent may be expressed in political rhetoric or informal arenas. The single case study design also limits generalizability. While the NDB offers a valuable lens, studies of other emerging institutions are needed to assess whether these patterns hold more broadly. Some indicators, such as complementarity, are well supported in design but show gaps in practice, which highlights the challenge of evaluating behavior through formal frameworks alone.

Future research should examine whether defensive realism or liberal institutionalism better explains the design and conduct of other emerging financial institutions, such as the Asian Infrastructure Investment Bank or regional development banks led by non-Western states. Comparative analysis would clarify whether this dual logic is widespread or specific to the NDB. The gap between the bank's reformist goals and its cautious operations also deserves closer study. Exploring how design shapes behavior through governance, decision making, and internal and external pressures would offer deeper insight into how rhetorical commitments interact with strategic constraints.

From a policy perspective, actors seeking to engage with the NDB should avoid imposing liberal governance models or conditionalities. Respecting the bank's emphasis on equal sovereignty and strategic autonomy is more likely to foster productive cooperation and avoid reinforcing the dependency concerns that led to its creation.

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