INTERNATIONAL PUBLIC FINANCE AND THE RISE OF BRAZIL

Comparing Brazil's Use of Regionalism with Its Unilateralism and Bilateralism

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Abstract: Within the extensive literature on international regionalism, the more limited academic work done on regional financial organizations (RFOs) tends to assume that, by pooling resources to address such common international economic issues as development funding and financial crises, RFOs contribute to economic stability in their parts of the global landscape. Although South America has led the pack in creating such RFOs, their effectiveness is limited by the asymmetry in economic heft of the continent's governments. Rather than weighing the significance of financial regionalism in South America from the point of view of the majority, we assess whether and how this phenomenon has contributed to Brazil's politico-economic rise to near-major-power standing on the world stage in the twenty-first century. Drawing on extensive interviews with Brazilian officials conducted in March 2013, we analyze three instances of South America's international public finance: development lending, crisis lending, and payment systems. Our findings suggest that self-generated unilateral and bilateral financial initiatives have brought Brasília far more significant economic and political results than have RFOs, whose various incarnations have yielded the continental giant few economic and only minor political gains.

Building on the economic policy successes of his predecessor, Fernando Cardoso, who was credited with ending hyperinflation in the mid-1990s and restarting growth with a floating exchange rate, Luiz Inácio Lula da Silva (president 2002–2010) is widely considered to have helped transform Brazil into one of the world's most notable emerging market economies. Brazil's gross domestic product rose from USD 500 billion to USD 2.5 trillion in just a decade, its industrial modernization and resource development have been impressive, and it has be-

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come a significant source of direct investment abroad while remaining a major site for incoming foreign direct investment.[1]

For a much longer period, Latin America has generated a number of experiments in regionalism as various groupings of governments have endeavored to deepen their economies' integration, expand their trade links, and consolidate their political stability. Regional financial organizations (RFOs) include regional development banks, regional financial/liquidity arrangements, and regional payment systems that facilitate these politico-economic goals. Such RFOs as the Eurozone's European Stability Mechanism and ASEAN Plus Three's multilateralized Chiang Mai Initiative are generally ascribed great importance in the academic literature even if, as in the latter case, they have not yet been tested in action.

For its part, Latin America has an extensive regional financial architecture that includes one of the oldest regional development banks, the Latin American Development Bank (Corporación Andina de Fomento or CAF, established 1968); one of the oldest regional monetary funds, the Latin American Reserve Fund (Fondo Latinoamericano de Reservas or FLAR, established 1978); a virtual currency (the Bolivarian SUCRE, Sistema Único de Compensación Regional); and a variety of other arrangements such as payment systems. However, these manifestations of interstate cooperation do not mean, ipso facto, that regional financial initiatives have been important for either the region as a whole or any of its members in particular.[2]

This article aims to contribute both to the literature on international financial organizations and to that on Brazil's political-economic dynamic by setting the role financial regionalism has played in the country's international rise in the context of more conventional initiatives, whether unilateral or bilateral. By distinguishing these RFOs' political roles from their economic functions, we evaluate the ways financial regionalism has contributed to the global emergence of a state that is powerful enough to look after itself. In other words, we wish to set the impact on Brazil of group-driven, regional, and systemic financial organizations against state-driven, unilateral, and bilateral strategies. Our approach to answering our basic research question—the importance of financial regionalism for Brazil compared to its own, more autonomous methods of public financial management—is comparative in the sense that we want to set the contribution made by regionalism to Brazil's international position in the context of its self-directed efforts. In effect, we continually keep in mind the counterfactual question, "How much less support would Brazil have actually received in the absence of RFOs?"

Rather than testing theory-generated hypotheses about particular state strategies, we assess the economic and political benefits that Brazil has derived from the various institutional options available to it. Estimating economic benefits is a fairly straightforward analytical exercise which concentrates on factors that, inter alia, are deemed to increase economic growth, develop competitiveness, or ex-

1. For a more general treatment of Brazil's twenty-first-century politico-economic emergence, see Brainard and Martinez-Diaz (2009) and Polaski et al. (2009).

2. For a more general treatment of regional financial initiatives and architectures, including those in Latin America, see Armijo (2013); Ocampo (2006); McKay, Volz, and Wölfinger (2011); Ocampo and Titelman (2012); Trucco (2012); and Eichengreen (2010).

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pand foreign exchange reserves. Political benefits are, by their nature, less easily identified but can generally be observed when they further specific foreign policy objectives, which, under the Lula government, included fostering a benign international political environment and creating what our interviewees in Brasília repeatedly referred to as a prosperous country in a prosperous region.

The international political economy literature lacks a thorough evaluation of financial regionalism's contributions to Brazil's rise in the twenty-first century. There is scholarship that discusses Latin America's financial institutional architecture and its states' motivations for fostering it,[3] but apart from Leslie Armijo and John Echeverri-Gent's 2014 chapter comparing the use of "financial statecraft" by Brazil and India, no overall evaluation of RFOs' specific value for Brazil has yet been published. This article aims to fill that void. It does not examine regionalism per se, as our goal is to assess not whether it exists but whether its existence has significantly facilitated Brazil's rise. Instead, this article studies the principal elements of Brasília's engagement with international public finance to evaluate the contribution that financial regionalism has made to its emergence compared to that of other, more autonomous policy instruments.

Drawing on the extensive data available from the Latin American Integration Association (ALADI), the Central Bank of Brazil, the Brazilian Development Bank (BNDES), CAF, and the International Monetary Fund (IMF), we examine three distinct aspects of international public finance: development lending, liquidity/crisis lending, and payment systems. The economic and political benefits to Brazil of both regional and non-multilateral (unilateral and bilateral) initiatives are considered within each of these three areas. In doing so, this article reaches a conclusion contrary to the existing literature's findings, including those of Armijo and Echeverri-Gent (2014, 48), who suggest that non-multilateral financial statecraft is declining in importance to Brazil, and Ocampo and Titelman (2009), who affirm the broad benefits of regional financial cooperation. We find on the contrary that, while financial regionalism has afforded Brazil some minor political gains with its neighbors, Brazil's unilateral financial initiatives have contributed far more to its politico-economic rise.

DEVELOPMENT LENDING

Institutionalized at the global level by the World Bank, development lending aims to facilitate socioeconomic development through the financing of public sector projects, state-owned enterprises, and private sector businesses. In South America, the CAF is the primary regional institution but it is to be joined by the newly established Bank of the South (Banco del Sur or BoS), which has yet to begin operations. The two institutions seek to develop the region's economies and encourage integration among them. In clear contrast, the BNDES is richly

3. For discussion of Latin American RFOs, including international political and economic motivations, see Ocampo and Titelman (2009); Sanahuja (2012); Ocampo (2006, chapters 1, 2, and 7); Volz and Caliari (2010); and Desai and Vreeland (2011).

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capitalized and wholly owned by the Brazilian government, which controls its development-lending practices.

Historically, development lending has fallen under the aegis of global multilateral institutions. For decades, the World Bank and Inter-American Development Bank (IADB) were the largest lenders in the region but, as of 2012, the CAF now provides more funding for infrastructure projects than these two Washington-based lenders combined (Beattie 2012). The simultaneous emergence of the BNDES as the world's second largest national development bank, with quadruple the assets of the World Bank, raises the question of which sources of development lending have contributed most to Brazil's global economic emergence (Leahy 2013a).

Brazil's involvement with regional development lending is quite recent. The CAF evolved into its current form out of the earlier Andean Development Corporation in 2007 when Brazil, Argentina, and other non-Andean states were promoted from associate status to full membership. But this broadening did not significantly deepen the institution's capacity. Its authorized capital is a mere USD 10 billion and Brazil's own contribution of USD 547 million (6.3 percent of the CAF's USD 8.68 billion total subscribed and paid-in capital) is smaller than that of Argentina, Colombia, Peru, or Venezuela (CAF 2010a, 2010b). This modest contribution suggests that Brazil is focused on cultivating better relations with other Latin American governments through the CAF while only nominally supporting its goals of regional integration and development.[4]

At first glance, the CAF appears to have benefited Brazil because, although it only holds slightly over 6 percent of CAF's shares, it received 17 percent of its disbursed funds from 2007 to 2011 (CAF 2012). In 2009, disbursements to Brazil were 22 percent of the total (CAF 2012). However, the sums involved were actually quite small, with Brazil receiving about USD 1 billion each year (CAF 2012). This amounts to less than 0.05 percent of the economy's GDP, less than 2 percent of the BNDES's domestic development lending, and a small fraction of the BNDES's international activities (CAF 2012; IMF 2013d; BNDES 2013d). Moreover, the infrastructure projects funded by the CAF could be funded by other sources and so are not unique to the institution. The CAF's contribution to Brazil's rise has therefore been negligible in economic terms, as its loans have been both small and fungible.

Benefiting minimally from its involvement with the CAF, Brazil stands to gain equally little from the BoS. Brasília pledged USD 2 billion to the BoS when its authorized capital was to be USD 7 billion. Its authorized capital has since been increased to USD 20 billion, but member states have not yet made new pledges (*MercoPress* 2011). Given that it has yet to begin its lending operations, the BoS's economic impact so far has been nil. As the institution is focused on further integrating its member states by financing transnational infrastructure projects and other integration initiatives, it will presumably generate business for Brazilian firms in the future. However, its net benefit to Brazil will be small. Whether its subscribed capital is ultimately USD 7 billion or USD 20 billion, the BoS will be

4. This is similar to the findings in the area of regional trade of Malamud and Gardini (2012, 125), who suggest that Brazil uses Mercosur "to manage its relations with [its] neighbors, but [Mercosur] has limited economic impact."

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able to lend only a fraction of its authorized capital each year, and these disbursements will have to be shared among the member countries.

However, Brazil's involvement with these two institutions is not without value. Despite the economic insignificance of its participation, Brazil has realized political gains by cultivating better relations with the governments of neighboring states in these regional forums. In both instances, Brazil has been able to further its foreign-policy goals of creating a more prosperous region in South America, where political upheaval and turmoil (often rooted in poverty) have been common, while excluding its historic rival in Latin America at large, Mexico, from gaining influence on the continent. Economic development can prevent conflicts that could foment insecurity in the region or even spill across borders. By promoting growth through the CAF, Brazil is also making funds available to areas where it would not be able to finance development operations unilaterally through the BNDES because its own firms do not operate there. In 2007, Brazil's leadership helped the institution grow beyond its Andean roots by pushing it to include more South American states (*MercoPress* 2007). Although the benefits to Brazil are not quantifiable, and although lending is only one motor of economic development, strengthening an institution that fosters political stability stands to benefit Brazil, which borders all but two of the other eleven South American states.

Brazil's involvement in the BoS brought more specific political gains. The original Venezuelan proposal for the bank included a costly regional monetary fund, which would have required a large amount of capital and, worse, would have entrenched anti-American, Bolivarian ideals in this regional institution (Sanahuja 2012). Under Lula, Brazil steadily distanced itself from Hugo Chavez's Bolivarianism, whose spread via organizations like the Bolivarian Alliance for the Americas and the BoS in its original form threatened the benign international environment that Brazil sought. Acting as a mediator between the Bolivarians and the more conservative South American states (such as Peru) in negotiations over the BoS allowed Brasília to take part in designing the institution and to shape it according to Brazil's own interests. By backing an Ecuadorian proposal to limit the bank to development lending and by requiring fairly equal financial contributions from member states, Brazil tempered the Bolivarian initiative. Though Brazil may not stand to benefit much economically from the BoS, the construction of regional financial institutions has provided it with a way to temper radicalism in Latin America while still promoting development and security.

Regional development lending has thus not been inconsequential for Brazil. It has yielded some political gains by helping Brazil to promote a benign environment for the continent's development. Although these involvements have not been central to furthering Brazil's international aspirations, they demonstrate its awareness that, as the region's giant, it cannot neglect its neighbors and intraregional affairs even as it aspires to act more vigorously on the global stage.

Unilateral Development Lending

Financing Brazil-based companies with its own funds has allowed Brasília to achieve significantly more than it could have managed through multilateral

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development lending alone. From 2009 to 2012, the BNDES disbursed over BRL 600 billion (about USD 300 billion) for Brazil's development, which not only refers to the building of infrastructure but also includes the strengthening of industry (BNDES 2013d). Largely funded by the Brazilian treasury, the loans bear interest at long-term rates set below those of the Central Bank of Brazil (Banco Central do Brasil or BCB; Wheatley 2013). Essentially subsidized by their government, these loans provide Brazilian firms with cheap financing.

The sheer scale of the BNDES's domestic lending operations could not have been matched by RFOs' lending to Brazil for its internal development. In recent years, over two-thirds of BNDES's disbursements have been invested in infrastructure and industry, with the remainder going toward agriculture, services, and trade. Such levels of investment would not be possible through any existing multilateral institution. In 2009, over USD 30 billion was invested in industry and, in 2011, slightly less than USD 30 billion was invested in infrastructure across the country, both records for the BNDES (BNDES 2012, 34). In addition to the initial economic stimulus created by building new infrastructure, the long-term benefits for the domestic economy generated by improved transportation systems are incalculable. But these achievements have not been without costs. The BNDES's overwhelming operations have crowded out the domestic financial industry, hampering its development because private lenders cannot compete with the government-subsidized interest rates (Pearson 2012).

The BNDES has also contributed to Brazil's international emergence through export financing, which helps Brazilian firms compete in international markets. Its lending was as much as USD 11 billion in 2010 and as little as USD 4 billion in the early 2000s (BNDES 2011, 23; BNDES 2013b). In 2003, when the bank's total disbursements amounted to approximately USD 11 billion (in 2003 dollars), financing for exports was over USD 4 billion (BNDES 2013a; BNDES 2013b), allowing exporters to expand considerably into new markets (DeNegri et al. 2011).

Since Brazilian farmers and resource extractors are already competitive in international markets, the bulk of export assistance has gone to the manufacturing industry (BNDES 2013b). Less developed than their agricultural or resource-extraction counterparts, manufacturing firms seek support to compete with exporters of cheap manufactured goods (such as Chinese firms) and those offering advanced technology (such as German firms). The BNDES has invested at least USD 30 billion since 2003 to finance the export of vehicles, trailers, and other transportation equipment (BNDES 2013b). For instance, it helped the Swedish firm Scania export 295 buses and 159 bus chassis to Colombia in 2011 (BNDES 2012, 157). This example also illustrates that all manufacturing firms operating in the country are considered Brazilian by the BNDES and so are eligible for its support.

Within Latin America, the BNDES financed over half of all Brazil's exports to the Dominican Republic in 2008 and 2009 as well as 33 and 50 percent of Brazilian exports to El Salvador in 2009 and 2010, respectively (authors' calculations from BNDES 2013c; IMF 2013c). Within Europe, the BNDES financed 31 percent of Brazilian exports to Ireland in 2011 (including fourteen Embraer aircraft), which were 75 percent greater than in the previous year (authors' calculations from BNDES

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2013c; IMF 2013c; BNDES 2012, 156). The BNDES has also played an important role in facilitating trade with sub-Saharan Africa, financing 56 and 41 percent of exports to Angola in 2009 and 2011, respectively, as well as 24 and 23 percent of exports to Mozambique in 2011 in 2012 (authors' calculations from BNDES 2013c; IMF 2013c). Indeed, the World Bank and Brazil's Institute for Applied Economic Research note that the "stimulus given to Brazilian exports has . . . been central to the expansion of trade [with sub-Saharan Africa]" (World Bank and Instituto de Pesquisa Econômica Aplicada 2011, 79). These exports did more than simply increase Brazilian GDP and employment figures. They brought in foreign currency that, along with incoming capital flows, bolstered the country's foreign exchange reserves and so fostered the country's emergence on the global stage, especially in the period after 2002. In the aftermath of the 2008 global financial crisis, Brazil was not alone in the global South in seeing its foreign exchange reserves grow and its currency appreciate as the US Federal Reserve's lax monetary policy and quantitative easing initiatives reduced yields on US treasury bonds to historic lows, pushing liquidity abroad and into emerging markets. Our fieldwork in Brasília confirmed that, notwithstanding the systemic effects of Washington's domestic monetary policies, Brazil's policy concerning international public finance was driven more by its national government than exogenously by systemic forces during this period.[5]

Corporate transnationalization constitutes another component of Brazil's export-led development strategy (Bernal-Meza and Christensen 2013). The BNDES was responsible for facilitating "the large step from regional heavyweights to true multinationals" that many Brazilian firms have made, compounding the payoffs for the domestic economy (Hochstetler and Montero 2013, 1493). Consider, for example, Brazilian transnational corporations working on "megaconstruction projects" abroad (Armijo 2013, 110). As these transnational corporations begin operations in South America or overseas, they generate multiplier effects when they use Brazilian suppliers, thereby increasing the economy's exports. The virtuous circle continues when the firms hire Brazilian skilled labor or experts to work for them overseas. These nationals are likely to repatriate some of their earnings and return to Brazil afterwards with their skills enhanced. The Brazilian construction sector has received USD 5.8 billion via the BNDES's export-lending facility since 2003, though this has been less to finance the export of construction materials than for that of services (BNDES 2013b).[6]

The meat-packing multinational JBS stands as a showcase for how the BNDES has facilitated Brazilian firms' internationalization. JBS received loans in 2005, 2008, and 2009 totaling over USD 2 billion for, inter alia, its transnationalization (BNDES 2009, 2010; Hochstetler and Montero 2013, 1493). The BNDES's data do not disclose how these funds were used, but it is known that JBS purchased an Argentinian meat-packing plant in 2005 and subsequently expanded into the US

5. Confidential interviews in Brasília, March 21–22, 2013.

6. This also illustrates how data on the internationalization of Brazilian firms is often buried in other sets of data, such as the export of services, large general loans to Brazilian firms, or credit lines to other states.

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market by acquiring a number of American firms, becoming the world's largest meat-packing company in the process.

The BNDES has also facilitated internationalization through offering credit lines to such states as Argentina, Angola, and Mozambique. Between 2005 and 2009, Argentina received credit lines of USD 1.2 billion for infrastructure and industry projects as well as USD 1.5 billion for gas pipelines, sanitation, and waterworks (da Silva 2009). These lines of credit were used to engage Brazilian engineering, energy, and other firms in Argentina. In Angola, the construction firm Odebrecht received loans to build a 565-megawatt biofuel power plant, roads, and drainage systems over the 2000s (World Bank and Instituto de Pesquisa Econômica Aplicada 2011, 72). This program was expanded in 2010 with a USD 3.5 billion credit line for Brazilian firms doing biofuel-related work in Mozambique and Ghana (World Bank and Instituto de Pesquisa Econômica Aplicada 2011, 81). Angola was given a USD 1.5 billion credit line in 2006 to hire Brazilian firms for work relating to the processing of sugarcane-based ethanol. After providing a number of smaller credit lines for infrastructure over the remainder of the decade, the BNDES approved a USD 1 billion credit line in 2011 to finance manufactured imports from Brazil (including fire-fighting and defense equipment), the construction of infrastructure by Brazilian firms (highways, sanitation, water, and energy), and professional development offered by Brazilian firms (World Bank and Instituto de Pesquisa Econômica Aplicada 2011, 81; BNDES 2012, 156). Mozambique also received a USD 300 million credit line (equal to 2.5 percent of its GDP) in 2011 for importing Brazilian goods and services, for developing hydroelectricity, and for Odebrecht to upgrade the Beira port and Nacala airport (Dias 2012; authors' calculation from IMF 2013d).

Countries aspiring to leadership roles on the international stage need followers. The BNDES's foreign lending not only increased the country's exports but helped Brazil make political gains by improving bilateral relations, particularly in sub-Saharan Africa. Lula was and Dilma remained keen to bring Brazil closer to its African roots and so to Africa's states. In multilateral institutions that give each member state one vote, grateful followers provide necessary support for would-be leaders. Brasília could not generate enough support to win acceptance for entry as a permanent member to the United Nations Security Council but support from developing countries, especially the sub-Saharan African states, helped nudge the World Trade Organization (WTO) in 2013 to elect a Brazilian, Roberto Azevêdo, as director-general (Armijo and Katada 2014, 17–18). Malamud (2011, 18–19) suggested that Brazil's previous failure to secure this position in the WTO was symptomatic of its inability to convert its "regional preeminence" into international leadership. However, Azevêdo's successful election supports the argument that global efforts, not merely regional ones, are central to furthering Brazil's political and economic goals.

The circle of political cause and economic effect can be virtuous. The economic benefits for Brasília of generating politically friendly counterparts abroad tend to be positive, especially in the context of major economies' renewed scramble for Africa's markets and resources, where a democratic, cooperative, and culturally connected Brazil already appears more attractive than does authoritarian China.

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The good political relations with developing countries generated by the BNDES's support enhance the prospect of African states doing more business with Brazil rather than with its competitors. In this way, better political relations translate into more economic opportunities, whether these be extracting African resources or receiving contracts for infrastructure work. Through this dialectic, the BNDES's central role in Brazil's international emergence puts the modest dimensions of South American financial regionalism in the shade.

LIQUIDITY/CRISIS LENDING

During a currency or debt crisis, governments' access to external financial resources is essential if they are to stave off insolvency. A perennial current account deficit due to a negative trade imbalance can result in a currency crisis, while unsustainable public debt can eventually provoke a sovereign debt crisis. To combat illiquidity before it results in insolvency, states take on new loans to remain liquid while adjusting their macroeconomic policies. The IMF (the Fund) has long been the premier multilateral crisis lender, while regional monetary funds were established more recently. The IMF has been important for Brazil, which received loans amounting to some USD 15 billion in 2001 and 2002 (IMF 2012). However, with Latin American states vowing not to borrow from the IMF again, we need to examine the role of regional alternatives as well as both unilateral and bilateral options.

Currently, the continent's only monetary fund is the Latin American Reserve Fund (FLAR) of the Andean Community (Comunidad Andina). Though not yet concluded, ongoing discussions over the expansion of the FLAR also offer insights into Brazil's engagement with these regional arrangements.

Regional Crisis Lending

Brazil has been unwilling to create a regional monetary fund to facilitate crisis lending. It played a central role in confining the BoS to development lending and negotiations over expanding the FLAR have been slow, demonstrating the regional power's reluctance.

Brazil's resistance is understandable for economic reasons. Despite being one of the region's most prosperous economies, Brazil favors member states making fairly equal contributions to RFOs so that it does not have to shoulder too large a share of the burden. This was observed in the creation of the BoS—in which Argentina, Brazil, and Venezuela pledged the same amount despite their dissimilar sizes—as well as when Brazil joined the CAF. But for any regional monetary fund to replace the IMF effectively, it would require a significant capital base. Though the region's USD 500 billion foreign exchange reserves are frequently mentioned by politicians, they neglect to mention that three-quarters of those reserves belong to Brazil (Nejamkis and Henao 2011). In a crisis, the other South American states whose foreign exchange reserves are modest would rely on member states with larger reserves. In such a situation, Brazil would be a major net lender but would neither have direct control of its capital nor get much support in return.

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In the event of a financial crisis in Brazil, its smaller neighbors would be unable to produce enough resources to save the giant's economy (Ocampo and Titelman 2012, 27). The loans Brazil received in 2001 and 2002 from the IMF (when its economy was one-fifth of its current size) still appear large, equalling about 23, 37, and 60 percent of Peru's, Argentina's, and Venezuela's current foreign exchange reserves, respectively (authors' calculations from IMF 2013b). Whether they acted bilaterally or through regional institutions, these states would be unable to provide Brazil with a loan comparable to an IMF package.

This scenario is moot because the South American economies are so structurally similar that Brazil's neighbors would simultaneously be stricken by any systemic crisis that was crippling it (Adler and Sosa 2012; McKay, Volz, and Wölfinger 2011). While they themselves faced illiquidity, these neighbors would be unable to offer Brazil the extraordinary amounts of foreign exchange it would need. This is the fundamental flaw of monetary funds in regions that exhibit such cyclical correlation: they are insurance pools in which a large portion of the policyholders would require payouts simultaneously. However, Brazil has not explicitly shelved the idea. Even if there is little prospect of deriving economic benefits, it has still reaped political gains by merely participating in the institution-building negotiations. Fostering a benign regional environment by tempering Venezuela's influence and limiting the spread of Bolivarianism within Latin America was an objective expressed explicitly during our interviews in Brasília.[7] The government's approach to the negotiations to expand the FLAR was a natural extension of its pursuit of this foreign-policy objective in the negotiations over the BoS, in which Venezuela proposed a new regional monetary fund and regional bond market (Devereux 2011).

Given its own and its neighbors' rhetoric about distancing themselves from the IMF, Brazil is aware it cannot oppose this issue. The expansion of the FLAR as a modest liquidity fund offers a smaller commitment than a new arrangement in which Venezuela would likely argue for large contributions from Brazil. Additionally, Brasília's unwillingness to integrate its own bond market into a regional one with its smaller, less prosperous, and less stable neighbors is unsurprising. Backing FLAR's expansion to include all South American countries allowed Brazil to demonstrate solidarity with those states calling for a distancing from the IMF while not allowing a Bolivarian plan to fill the void.

Although Brazil wishes to temper Bolivarianism in Latin America, it cannot afford to allow relations with Venezuela to deteriorate since its firms have invested heavily there and would not want to lose future contracts. Brazilian conglomerate Odebrecht has built a subway line in Caracas and is currently working on a USD 2.5 billion hydroelectric dam. Odebrecht's petrochemical division Braskem has a USD 3 billion arrangement with Venezuela's Pequiven that includes the construction of two petrochemical plants, and the Brazilian mining firm Vale is becoming involved in Venezuelan mineral extraction (*Economist* 2007). Not wanting

7. Confidential interviews in Brasília, March 20, 2013.

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to jeopardize such lucrative contracts, Brazil aims to constrain but not antagonize Venezuela in its Bolivarian ambitions.

In arguing against the unnecessary bureaucratization these proposals would bring, Brazil was also resisting further integration with its neighbors. For example, while the Union of South American Nations (Unión de Naciones Suramericanas or UNASUR) officially aims to bring Mercosur and the Andean Community under the same institutional umbrella, the new continental organization offers less, not more, integration since its aim is to create a single market rather than a new customs union.

Non-multilateral Liquidity

While Brazil's deft use of regional financial institution building to further its own political agenda is noteworthy, the more significant contributions to its international emergence in this field of public finance have been unilateral and bilateral. Amassing foreign exchange reserves has allowed Brasília to pursue a self-insurance policy, while a recent currency swap agreement with China signaled Brazil's extraregional emergence. Ultimately, these unilateral and bilateral efforts have advanced Brazil's international politico-economic position far more than their regional analogues.

The amassing of foreign exchange reserves is a self-insurance policy against future crises that would otherwise require borrowing from the IMF or other lenders. As of April 2013, Brazil's reserves totaled USD 377 billion (IMF 2013b). Because cash and such safe, liquid investments as US treasury bills are low-yield assets, self-insurance has traditionally been considered too costly an endeavor for governments in the South, as there are opportunity costs associated with holding cash and investing in liquid assets. However, in a working paper echoing the BCB president Henrique Meirelles's comment that "it is better to self-insure even if there is a cost associated with that" (*MercoPress* 2010), a cost-benefit analysis of holding reserves in the recent global crisis found that the benefit of having access to this liquidity outweighed its carrying costs: foreign exchange reserves "may reduce the fall in the GDP growth rate, the borrowing costs, and the fiscal costs in a crisis" (Silva Jr. 2011, 8).

Beyond mitigating the need to borrow internationally during financial crises, the benefits of sizable foreign exchange reserves lie in the perception of financial stability they create, which may attract long-term investment. When Brazil's foreign exchange reserves grew to USD 180 billion in 2007 (a 109 percent increase from 2006), net foreign direct investment (FDI) grew 130 percent from USD 20 billion to USD 45 billion (IMF 2013b, 2013a). Its apparent insulation from financial shocks made Brazil a more attractive site for foreign investment. Its reserves continued to grow through the 2008 financial crisis and, despite the global recession in 2009, FDI had already surpassed 2008 levels by 2010 (IMF 2013a). Even if one cannot prove a causal link between foreign exchange reserves and the rate of incoming FDI, it is clear that foreign exchange reserves have contributed to the stability of the Brazilian economy, thus encouraging FDI.

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Foreign exchange reserves have also brought political gains, helping the country raise its international profile. They have enabled Brazil to make financial commitments in international forums both within its region, such as to the BoS and FLAR, and outside its region with the BRICS's (Brazil, Russia, India, China, and South Africa) recently launched New Development Bank (NDB) and Contingent Reserve Arrangement (CRA). To participate in such institutions, Brazil must not only be politically willing but financially able to contribute. Unilaterally generated foreign exchange reserves have made it increasingly able to do so.

Brazil is not limited to participating in new institutions. As an agitator for reform in the IMF, its foreign exchange holdings have been doubly important. They allowed Brazil to shift from being a net borrower to a net creditor, a move it made in 2009 by contributing USD 10 billion to the Fund. This gave Brazil's voice greater strength as it had more resources at stake within the institution (Goodman 2009). In addition, its greater contribution to the IMF gave its calls for quota reform more heft, separating them from more hortatory pleas for the Fund's democratization. Along with other emerging economies, Brazil was demanding a larger share of voting power within the institution, but it was both willing and able to pay for it. Though no level of foreign exchange reserves can coerce other member states to agree to change the quota formula, Brazil's reserves certainly strengthen its legitimacy when calling for such reform.

In addition to amassing foreign exchange reserves unilaterally, Brazil signed a bilateral currency swap with China for USD 30 billion in March 2013, allowing the government to convert its *reais* into Chinese *renminbi* should it ever require liquidity to finance Chinese imports (Leahy 2013b). The swap's value is more politically symbolic than economically significant, as even USD 30 billion is a minor sum compared to Brazil's own reserves; in any case, Brazil has enjoyed a trade surplus with China since 2009 (authors' calculations from IMF 2013b, 2013c). But by demonstrating closer financial cooperation with China, the swap represented Brazil's international rise as a global economic power. Agreed upon more expeditiously than FLAR's expansion and a whole order of magnitude larger, the swap signaled Brazil's shift from focusing on its region to operating in the global arena, where bilateral cooperation with other BRICS states appears more beneficial than dealing with its regional neighbors.

Ultimately, Brazil's unilateral, liquidity-related financial initiatives have contributed more to its international rise than have their nascent regional equivalents. Outside its development initiatives, Brazil's decision to amass foreign exchange reserves has clearly been the most important public financial initiative it has undertaken, allowing it to operate more effectively beyond its region while insulating its domestic economy from financial shocks.

PAYMENT SYSTEMS

Payment systems are another important aspect of Brazil's engagement with international public finance. They facilitate trade between states by making transactions more efficient and limiting the amount of the liquidity that markets require to operate. Brazil is involved in two payment systems, the multilateral Agreement

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on Reciprocal Payments and Credits (Convenio de Pagos y Créditos Recíprocos, CCR) through ALADI, and the bilateral Local Currency Payment System (Sistema de Pagamentos em Moeda Local, SML) with Argentina. While functioning in slightly different ways, both share the common goal of facilitating greater trade.

Regional: CCR (Convenio de Pagos y Créditos Recíprocos)

The CCR has existed in its current form since 1982 and tracks both states' exports and imports in order to determine the extent to which each is a net creditor (exporter) or debtor (importer) within the arrangement.[8] The differences are then settled in US dollars every four months, with the net debtors reimbursing the net creditors. The main economic benefit is that the system limits the need for US dollars, allowing trade to proceed despite low dollar reserves. Since CCR states only settle their accounts every four months, they need a fraction of the US dollars that would otherwise be required to maintain a given level of trade.

This facility is now of less value to Brazil as its foreign exchange reserves are more than sufficient for handling the daily demand for US dollars. Furthermore, the other states in the region are no longer as severely deficient in foreign exchange reserves as they were in previous decades (IMF 2013b). The trade that takes place through the CCR could therefore exist without it, so the system is now merely an accounting convenience. The use of the CCR by Brazilian exporters is stagnating, with exports processed through the facility being roughly USD 2 billion to USD 3 billion per annum since the mid-2000s (authors' calculation based on "Table 4" reports for 2003 to 2012 from ALADI 2013). Indeed, after reaching a peak of USD 3.1 billion in 2008, the share of Brazilian exports to CCR states through the CCR fell from 8.0 percent in 2009 to 6.6 percent in 2010 and 5.0 percent in 2011 (authors' calculation from ALADI 2013; IMF 2013c). Even in gross terms, the amount of Brazilian exports to states using the CCR decreased twice in the last four years—by 24 percent in 2009 and 10 percent in 2011 (authors' calculation from ALADI 2013; IMF 2013c). Excluding 2009, when the global recession most affected Brazil, its exports to these states collectively have been increasing every year since 2003 but not because of the CCR (authors' calculation from ALADI 2013; IMF 2013c).

Moreover, the CCR reinforces the primacy of the US dollar in the region's trade, which undermines the political goal of many South American states, including Brazil, to move away from US dollars in a process of de-dollarization. In neither economic nor political terms is the CCR contributing to Brazil's international rise in the twenty-first century.

Bilateral: SML (Sistema de Pagamentos em Moeda Local)

The bilateral SML with Argentina is much newer than the CCR but has grown rapidly since its inception in 2008. Unlike the regional payment system, the SML has actually added value to Brazilian trade because it allows exporters to invoice

8. CCR member states are Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

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their exports in their own local currency (*reais* for Brazilians) and importers to pay for these goods in their own local currency (*pesos* for Argentinians). Importers and exporters pay and are paid by their own central banks, which have agreed to compensate each other in US dollars. Instead of farmers and other small entrepreneurs who may not have previously participated in international commerce having to open US dollar accounts and manage their own foreign exchange conversions, these operations are executed by the respective central banks. This system enables small and medium-sized enterprises to expand their operations across the Argentinian border, thereby increasing Brazilian exports. The SML is indicative of the "bilateralization" of relations between Brazil and Argentina (Malamud and Gardini 2012, 123), with Brazil finding greater gains as it moderates its support for regionalism.

The number of Brazilian export transactions processed through the SML each year has increased steadily from 33 in 2008 to 7,444 in 2012, driving the value of these exports to over USD 1 billion in 2012 (authors' calculations from BCB 2013). In only four years, the share of Brazilian exports to Argentina processed through the SML grew to 6 percent (authors' calculations from BCB 2013; IMF 2013c). While still a modest figure, it is remarkable because bilateral trade with Argentina fell by over 20 percent in 2012 (authors' calculations from IMF 2013c). This fall is not entirely responsible for the rise in the proportion of Brazilian exports processed through the SML in 2012, as the value of those exports was 40 percent higher than in the previous year (authors' calculations from BCB 2013). The SML thus appears to be creating more permanent exports than the general market, in addition to facilitating new exports by opening up international trade to smaller firms.

The SML has contributed significantly more to Brazil's recent rise than the CCR by allowing Brazilian markets to stretch across the Argentinian border, making trade less volatile and creating more regular commercial links between small and medium-sized enterprises. By comparison, the CCR does not appear to have expanded or otherwise improved the market for Brazilian exports within Latin America. Neither institution has been successful in achieving de-dollarization, since both rely on US dollars for settling accounts between central banks, but this is a minor issue having negligible impact on Brazil's emergence, as most global markets remain denominated in US dollars. Recognizing the SML's merits, Brazil signed an agreement with Uruguay in late 2014 to implement a similar arrangement (*MercoPress* 2014).

CONCLUSION

Regional financial organizations in Latin America and beyond are generally lauded as forces that strengthen their members,[9] but this argument tends not to distinguish large states' interests from those of smaller ones. It is clear that such strengthening has not been Brazil's experience with South American financial regionalism. In the areas of development lending, liquidity/crisis lending, and pay-

9. Regarding South America, see Ocampo and Titelman (2009); regarding regional financial integration generally, see Ocampo (2006, chapters 1 and 2).

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ment systems, RFOs have brought Brazil only minor gains, while conventional financial initiatives have produced both more substantial economic results and greater political benefits.

Notwithstanding its cost, the BNDES has been fashioned into a mighty Brazilian institution that has driven development lending. The government's financial self-insurance through amassing foreign exchange reserves made more meaningful contributions to Brazil's international emergence in the first decade of the twenty-first century than did analogous RFOs.

It is equally significant for our argument that, with the economic downturn during Dilma Rousseff's presidency, Brazil did not turn to financial regionalism for help. Unlike Europe, whose structural differentiation allowed countercyclical measures at the continental level,[10] Latin America was too structurally homogeneous for its RFOs to help the continental giant if and when it was in need.

In the broader context of such a plurilateral grouping as the BRICS forming its own development bank (the NDB) while the BoS flounders and the CAF remains modest in capacity, we can surmise that Brazil continues to move away from regionalism even though it stands to gain little economic (as opposed to political) benefit from the new multistate institution. The establishment of the BRICS's CRA (agreed to in July 2014 with USD 100 billion pledged) confirms Brazil's tendency to engage more substantially at the plurilateral level rather than the regional level, even if the CRA's significance is limited given its integration with the surveillance and lending operations of the IMF.

Brazil's proclivity for supporting extraregional initiatives suggests that South America's smaller states will increasingly have to deal with Brasília bilaterally or in the context of large, multilateral global institutions. Meanwhile, the benefits that smaller states derive from their membership in RFOs remain vulnerable to significant change at the systemic level and require continuing academic analysis.

Concerning Brazil's evolving position within the field of international public finance, future research should continue to follow such institutional developments as the expansions of the FLAR and the SML. New studies should also address the costs associated with the BNDES's stunting of the Brazilian domestic capital market. Finally, as Brazil begins to play a larger role in such international financial institutions as the IMF in Washington and the Financial Stability Board in Basel, scholars should follow how these global engagements affect Brazil's position in regional politics, and vice versa.

APPENDIX: CONSULTATIONS IN BRASÍLIA, MARCH 18–22, 2013

Central Bank of Brazil (Banco Central do Brasil): Daniela Pires Ramos de Alcântara, Senior Advisor, International Affairs Department; Paulo Mauricio Fonseca de Cacella, Senior Advisor, Executive Office for Corporate Risk and Benchmarks; Isabela Ribeiro Damaso Maia, Head of the Executive Office for Corporative Risks

10. For example, Germany, an export economy with a strong balance of payments, could offer assistance to structurally dissimilar economies like Portugal, Ireland, Italy, Greece, and Spain during Europe's sovereign debt crisis.

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and Benchmarks; Paulo César de Freitas Mamede, Deputy Advisor, International Affairs Department; Rodolfo de Fontes Oliveira, Head of Division, External Debt and International Relations Department; Bruno Walter Coelho Saraiva, Head of the International Affairs Department.

Ministry of External Affairs (Ministério das Relações Exteriores or Itamaraty): Igor Barbosa, Advisor, Department for Trade and Investment Promotion; Luís Antonio Balduino Carneiro, Director of the Department of Financial Affairs and Services; Rubens Gama Dias Filho, Director of the Department for Trade and Investment Promotion; Luís Fernando Abbott Galvão, Head of the Division for Europe; Gustavo Rocha de Menezes, Head of Division for China and Mongolia; Norberto Moretti, Head of the International Peace and Security Division; Santiago Mourão, Director of the Department for Europe.

Ministry of Finance (Ministério da Fazenda): Carlos Márcio Bicalho Cozendey, Secretary for International Affairs.

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