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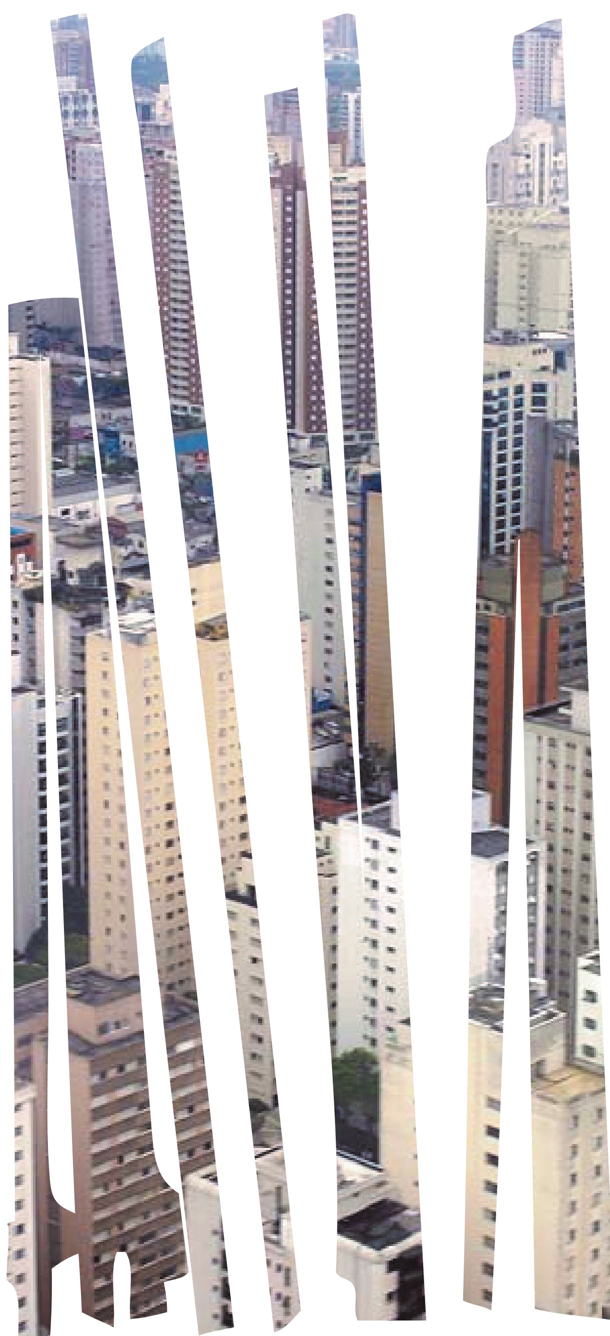
# Equality and Multilateral Financial Cooperation in the Americas

Leslie Elliott Armijo



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# Equality and Multilateral Financial Cooperation in the Americas

Leslie Elliott Armijo[1]

**Abstract**

The paper explores the concepts of interpersonal, inter-firm, and interstate equality embedded in three contending visions for the evolution of international financial links within the Western Hemisphere. The free market-oriented regional financial project of the United States envisions extension of a NAFTA-like regulatory framework throughout the hemisphere. It promises Latin American citizens better financial services and their firms greater access to U.S. and Canadian loans and investment, in exchange for U.S.-style legal protections for foreign banks and (implicitly) for dramatically reduced financial policy space for Latin American governments. Venezuela's vision of "Bolivarian" finance, exported to some of the circum-Caribbean and upper Andean region, promotes assertive state management vis-à-vis both foreign and domestic investors, populist redistribution, and increasing reliance on non-market financial transactions. It emphasizes equal credit access for poorer citizens and government retention of national financial policy space, but downplays the need for predictable financial regulation and property rights. Brazil's regional financial project would unite South America through creation of continent-wide physical infrastructure and capitalist financial markets, while retaining an on-going role for public sector banks responsive to central government priorities. Brazil's approach shares with the Venezuelan vision an emphasis on Latin American governments' need for financial policy space, and with the U.S. vision a concern for regulatory predictability and financial deepening.

**Keywords:** regional financial cooperation | Latin America | inequality

**Biographical Notes**

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("The BRICs Countries as Analytical Category: Insight or Mirage?", 2007; "Brazil, the Democratic and Entrepreneurial BRIC", 2010), the interaction of democratization and economic reform ("'We Have a Consensus': Explaining Political Support for Market Reforms in Latin America", 2002; "Two Dimensions of Democracy and the Economy", 2010), and the role of ideas in national policymaking. In 2011, she was a Fellow of the Research Dimension I: Socio-economic Inequalities of desiguALdades.net.

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## 1. Introduction

"Equality" is not typically a term associated with competing designs for financial architecture. Yet contrasting understandings of what is needed to improve the set of rules governing the safeguarding of savings and provision of credit almost always involve implicit or explicit conceptualizations of equality and justice. This paper investigates the underlying views on how to achieve greater equality that may be found in three competing regional financial projects for contemporary Western Hemisphere development, those associated with the United States, Venezuela, and Brazil.

The paper begins by identifying alternative and important ways in which the ideas of "equality" and "finance" are linked in contemporary debates. Section two introduces the Western Hemisphere's three competing regional projects. The third section provides a quantitative snapshot of the financial systems of the nine largest countries in the hemisphere, including the three study states. Sections four through six describe how each of the three regional alternatives hopes to structure financial relations within and among partner countries, focusing on the conceptions of equity promoted by each vision. A short conclusion summarizes the analysis.

## 2. Equality and Finance

Three conceptualizations of "equality" turn up with some regularity in discussions about financial regulation. These ideas are not primarily objective observations about cause and effect relationships, but rather beliefs with strongly moral overtones. The first influential idea is "equal treatment under the law" for all investors or extenders of credit. The concept of equal treatment derives from a strongly-held idea about fairness prominent in the U.S., Britain, and much of Western Europe, which suggests that only in a backward and underdeveloped economy will entrepreneurs prefer to do business with customers and suppliers sharing a similar ethnicity or background. In a modern economy, by contrast, the color of money is the same for all holders of it, and business transactions should be non-discriminatory. This theme is prominent, for example, in the writings of Adam Smith (Smith and Sutherland 2008 [1776]). Extending this logic, a legal framework that in any fashion discriminates in favor of national, as contrasted to foreign, firms is perpetuating old and illegitimate ideas. Moreover, national financial development requires the establishment of secure property rights in financial as well as physical assets (Soto 1989; World Bank 1989; BIS 2008). The value of equal treatment for both home country and foreign investors is closely related in the minds of adherents to the concept that minority shareholders in a company ought to receive the same rights (for example, to vote in shareholders' meetings or to receive the same special deals as

large shareholders) as individuals with a controlling interest in the firm. Those for whom this first conceptualization of equality is dominant seek fair (that is, equal) access to markets and customers for both domestic and foreign banks, insurance companies, portfolio investors, and direct investors. Adherents believe that preferences for national banks and financial firms are fundamentally unjust, discriminatory, and inefficient. In sum, the first important idea about equality deals with the access of banks and creditors to markets, and to legal and regulatory protection for financial assets.

A second conceptualization is that of “equal access to finance” for private business and individual borrowers, which comes in three distinct sub-versions. The first variant of “equal access” begins by explaining the underlying dynamic of market capitalism as springing from competition among entrepreneurs with potentially profitable ideas, for which they may need to borrow. The moral imperative for a just society is thus to provide abundant finance to solid private business borrowers. The converse of equal access for the private sector is financial repression by the state. “Financial repression” means that the government collects a large share of the savings of private citizens, either through obligatory contributions, as with social security funds, or via voluntary saving options, as in deposits in postal savings banks. The mass of public savings then are allocated to projects chosen by government planners as desirable, in the worst case to be loaned to corrupt public officials, but more likely to build infrastructure or create national industrial champions. The key point is that financing is distributed on non-market grounds. Under such conditions of inherited financial repression, equal access will be furthered by reducing the role of the government in financial markets, for example, by selling state banks and opening new banking licenses to private banks, including foreign banks (La Porta, López-de-Silanes, and Shleifer 2002; Caprio et al. 2005). The associated discourse argues that the state’s role in providing financing is inherently inefficient and should be minimized, making room for more efficient, lower-cost private banks. Another theme in this conception of equality of access is that of expanding stock exchanges and other decentralized, private capital markets. Creation of well-regulated, dynamic, private capital markets also should make an important contribution to economic growth.

In contrast, the second variant of “equal access” focuses on market failures, defined as the inability or unwillingness of private financial actors to supply reasonably-priced financial resources to fund socially-desirable investments, often large, bulky investments with multiyear time horizons before loans can be repaid or equity investments become profitable. Of course, the definitions of reasonably-priced credit and socially-desirable investments necessarily involve judgments: for example, although one might make comparisons with other countries at similar levels of economic development, there

is not an objective cost of credit above which its price is universally evaluated as unreasonable. Nonetheless, the essential argument in favor of a prominent role for public sector banks and non-market allocation of credit (that is, in favor of increasing "financial repression" in order to improve equal access) within a generally capitalist economy is that the market, or some portion of it, is stuck at a socially-undesirable equilibrium and needs the assistance of the state to escape this trap (Gerschenkron 1962; Amsden 1992; Allen and Gale 2000; Mettenheim 2012; Stiglitz and Weiss 1981). Here the implicit recipients of equal access are citizens, not as direct borrowers, but rather as beneficiaries of publicly-mandated and socially-necessary investments.

Yet a third influential variant of "equal access" takes individual citizens or households as the unit deserving of direct financial access, focusing on the potentially significant role that expanding the availability of both saving and borrowing options to a broader and more diverse swath of the population might have in allowing people to escape from poverty. It also may stress equalizing access across wealthy and poor, or urban and rural regions of the country. This approach highlights the importance of specific financial services for individuals, such as access to a safe savings account or other banking services. The goal of equality of financial access for citizens, especially poorer ones, emphasizes redistribution as an essential component of equality. Specialized institutions or credit lines for small business, present in most contemporary financial systems, embody this idea, as does the microcredit movement.[2] Making the distribution of credit and financial services more equal among income classes and social groups is another reason some policymakers champion an on-going role for public sector banks, subject to government direction in credit allocation.

Finally, a third major theme is that of "equal policy space for sovereign governments" (Gallagher 2005; Chang 2002, 2003). This theme begins with skepticism or outright repudiation of the assumption of neoclassical economics that international financial relations occur in an impersonal free market, where buyers and sellers discriminate among one another only on the basis of price or quality differences, rather than economically-irrelevant characteristics such as ethnicity, political affiliation, or cultural ties. Those who conceptualize financial equality principally in terms of national policy space emphasize the enormous advantages that the advanced industrial democracies have, as contrasted to developing economies, in controlling their financial fates. The former enjoy hard currencies, superior representation in international financial institutions and global governance, and home country regulatory authority over the world's largest private banks and investors. Emerging powers cannot equal these capabilities of the rich democracies, but can level the playing field somewhat by

2 For example: www.microcreditsummit.org (Last access 23/06/2012).

retaining some national or regional-level instruments of financial statecraft, such as the ability to impose capital controls, to mount multilateral stabilization funds controlled by developing countries, or to employ balance of payments surpluses to extend sovereign credits to achieve political goals (Armijo and Katada 2012).

We now introduce the empirical context for the inquiry: three competing regional visions for the Americas.

## 3. Alternative Regional Projects in the Americas

Three countries in the Western Hemisphere – the United States, Venezuela, and Brazil – have during the past ten to twenty years made clear their governments' goals of leading or provoking a transformation of political or economic links in the region, resulting in new ties that are in some fashion closer or more interdependent. Here we introduce them at a general level, before delving into their financial dimensions below. One obvious difference among three alternative visions, or regional projects, lies in their geographic scope, and another in the broad lines of economic ideology pursued (see also Armijo and Rhodes 2013; Gustafson and Armijo 2011). Table 1 summarizes key differences among the three.

**Table 1: The Ideologies and Scope of Alternative Regional Projects in the Americas**

| | Economic ideology | Scope | Institutional venues | Key partners |
|---|---|---|---|---|
| United States | Neoliberal, open regionalism | Western Hemisphere | NAFTA, FTAA | Canada, Mexico |
| Venezuela | Popular, socialism, closed regionalism | Latin America & Caribbean | ALBA, CELAC | Cuba, Bolivia, Ecuador |
| Brazil | Capitalist developmentalism | South America (sometimes Latin America) | MERCOSUR, UNASUR, (CELAC) | Argentina |

Source: Own elaboration.

The policy initiatives of the United States have been intended, wherever possible, to promote hemispheric integration around pro-market and business-friendly regulatory frameworks and cross-border investments. Even under presidents or legislators from the Democratic Party, the U.S.' vision is neoliberal. It is a vision of open regionalism, meaning that market ties within the region are encouraged, yet there is no overt

discrimination against extra-regional firms or countries, whether via trade barriers, capital controls, or other preferences for local or regional capital. In the Western Hemisphere the U.S.' open regionalism is universalistic in rhetoric, though less so in practice, Marxist Cuba having been steadfastly excluded since 1962, although almost no country but the U.S. today favors this exclusion. The U.S.' major allies have been in North and Central America, and include the members of the North American Free Trade Agreement (NAFTA), which came into force in early 1994, and most of the Spanish-speaking Central American and Caribbean states, prominently excepting Cuba and Nicaragua (Wise 1998; Fox 2004). Since the late 1990s, the U.S. has tried to extend the NAFTA agreement to the entire Western Hemisphere through the Free Trade Area of the Americas (FTAA). The more economically and/or politically conservative among the South American countries, Colombia, Chile, and Peru, also support open regionalism and have strong ties with the U.S. The remaining larger Latin American states have ranged from friendly but neutral (Brazil) to distinctly cool (Venezuela, Argentina) to US efforts to organize the hemisphere.

Venezuelan policies since the election of President Hugo Chávez in 1998 have favored construction of a Latin American and circum-Caribbean hemispheric grouping of mutually-supportive and politically left-leaning states (Burges 2007). The vision, institutionalized with the creation of the Bolivarian Alliance for the Americas (ALBA) in 2004, is explicitly and robustly directed toward discrediting U.S. and Canada capitalist economic dominance in the hemisphere, and constructing a Latin and Caribbean alternative. "Bolivarian" regionalism – after Simón Bolívar, hero of South American wars of independence – emphasizes popular sovereignty, collective (state) ownership of natural resource wealth and public utilities, and regional mutual aid. Core members of ALBA include Venezuela, Cuba, Bolivia, Ecuador, Nicaragua, and several small Anglophone Caribbean states. An important obstacle to expanding Bolivarian cooperation has been the unwavering disinterest of several of South America's larger countries: Colombia, Chile, and Peru. Argentina and Brazil, on the other hand, as well as smaller South American and Caribbean countries, have been willing to discuss most of the Bolivarian schemes and to join several. Venezuela also has been a leader in promoting cooperation among the larger group of Latin American and Caribbean states of all political persuasions, but emphatically including Cuba and excluding the U.S. and Canada. Thus in 2010 the relatively modest Rio Group founded in 1986 rechristened itself the Community of Latin American and Caribbean States (CELAC), symbolically choosing Chávez as its first president and conservative President Sebastián Piñera of Chile as vice-president.

The Brazilian vision of regional integration builds on the Common Market of the South (MERCOSUR), established in 1991 with Argentina, Uruguay, and Paraguay.

Since 2000, Brazilian leaders have been working with the nations of the Andean Community (CAN, whose members are Colombia, Ecuador, Peru, Bolivia, with former members Venezuela and Chile each holding associate status) on regional cooperation throughout South America. In 2004, the continent's twelve presidents and prime ministers created the Union of South American Nations (UNASUR). Brazil's regional foreign policy preferences have managed to appear pragmatic and moderate to many of their fellow Latin Americans much of the time, assisted by the implicit comparison with the apparently more ideological or ambitious alternative regional organization schemes promoted by the United States and Venezuela. Although Brazil willingly joins hemispheric and Latin/Caribbean cooperative bodies, its focus has been on South America (Burges 2009; Malamud 2011). Brazil's national economic ideology is clearly pro-capitalist, yet unapologetic about the need for state planning and public ownership and promotion of priority economic sectors. Within South America, Brazil attempts to bridge left and right.

Regional foreign policy projects influence a range of specific international issue arenas, including but not limited to financial and monetary relations. But before investigating the ideologies of competing regional financial visions, we provide a quick tour of existing patterns of finance in the hemisphere.

## 4. Patterns of Finance in the Americas

Regional financial projects necessarily build on the existing national financial architectures and material resources of individual countries. This section reviews the structure, size, and international connectedness of the financial sectors of major countries of the Americas.

**Table 2: Patterns of Domestic Financial Structure in the Americas (percent)**[3]

| | Foreign banks/ bank assets | State banks/ bank assets | Credit/ GDP | Capital markets/ GDP | Capital markets/ Credit to private sector | Financing/ GDP | Success in providing finance |
|---|---|---|---|---|---|---|---|
| **North America** | | | | | | | |
| Canada | 7 | 0 | 130 | 206 | 159 | 340 | Excellent |
| Mexico | 80 | .. | 23 | 69 | 300 | 93 | Fair |
| US | 9 | 0 | 211 | 278 | 132 | 488 | Excellent |
| **South America** | | | | | | | |
| Argentina | 26 | 42 | 14 | 34 | 243 | 48 | Poor |
| Brazil | 20 | 45 | 54 | 133 | 246 | 187 | Good |
| Chile | 64 | 17 | 86 | 148 | 172 | 235 | Good |
| Colombia | 18 | 15 | 43 | 57 | 133 | 99 | Fair |
| Peru | 43 | 12 | 20 | 114 | 570 | 134 | Fair |
| Venezuela | 33 | 10 | 27 | 4 | 14 | 30 | Poor |

Sources: Barth, Caprio, and Levine 2008; Beck and Demirguc-Kunt 2009. Final column reflects the author's judgment.

Table 2 summarizes key facts for nine large countries. The total of bank assets divides into shares owned by foreign-controlled banks (column 1), public sector banks (column 2), or private national banks (the residual, not shown). All other things being equal, we expect smaller countries and more politically conservative countries to have a higher foreign bank presence, and ideologically-left-leaning countries to have a larger public bank presence. The tiny foreign bank share in the U.S. and Canada reflects

3 Notes: Foreign banks' share of assets is total share of banking assets held by banks with 50 percent or more foreign ownership of voting shares, 2005. State banks have 50 percent or more government ownership, 2005. Credit refers to outstanding loans to the household and corporate sectors from all financial institutions, 2008. Capital markets include equity market and private bond market capitalization, 2008. Total financing is the sum of credit and capital markets financing.

size, ideology, and the strong global competitive position of their home country banks. At the opposite extreme is Mexico, the fourth largest economy in the hemisphere, whose astonishingly high 80 percent of banking assets in foreign hands demonstrates one possible consequence of the extremely open rules on trade in financial services Mexico adopted when it joined the NAFTA. Chile, which has had mostly conservative economic policies and also is the smallest of the larger Latin American economies, also has a relatively high share of foreign banks (68 percent). As expected, the U.S. and Canada have (or had in 2005) no state-owned commercial banks. In fact, only Brazil and Argentina have a large state presence in commercial banking. Surprisingly, despite seven years of “Bolivarian” rule, in 2005 Venezuela had the smallest state banking sector of all nine countries. However, Venezuela’s government increased its ownership of commercial banks through nationalizations in 2009-10, and may now own as much as 30 percent of the banking system. Bank ownership structures are therefore quite heterogeneous. Among the three would-be regional leader countries, the U.S. had a banking sector dominated by private national firms, while Brazil and Venezuela (by 2011) had a mix of public, private, and foreign banks.

The next columns show stocks of credit and capital markets financing as a share of gross national product (GDP). Barbara Stallings and Rogerio Studart (2006: 5 and passim), using data that mostly ended in 2001-2, concluded that most of Latin America, including the larger, more industrialized countries, had bank-based financial systems, which seems less true today. Table 2 shows that the bulk of corporate financing in every country except Venezuela came from the capital markets. Even if we leave aside those countries where bank credit is very low for some reason (Mexico, Argentina, Peru, and Venezuela), the rise of Latin American capital markets is an intriguing finding. In Brazil, Chile, and Colombia, in fact, the corporate equity and bond markets look relatively more important than in the United States.[4] What of comparative financial performance? While we could have compared interest rates, bank profitability, financial repression, non-performing loans, or a host of other possible indicators, we prefer to assess the performance of national financial systems by a rough quantity judgment, viz., the overall availability of financing to firms and households. By this logic, the most robust providers of financing are, as expected, the U.S. and Canada. Among the larger Latin American countries, Chile, Brazil, and Peru are the strongest performers; Colombia and Mexico occupy an intermediate position; and Argentina and Venezuela provide the least finance. Our assessment of relative financial competence correlates well with these countries’ international credit ratings.

4 The U.S. equity figures for 2008 reflect temporary losses due to the financial crisis, which spread to Latin America somewhat later. Yet the larger comparative point still holds.

We also need a baseline for understanding the insertion of these different large countries of the hemisphere into international financial markets. For this, we want two types of information: first, an estimate of the importance of foreign financial links to each of these economies, and second, a sense of each country's importance (or lack of significance) in global markets. These data are in Table 3. Column 3 measures the absolute value of all international financial ties, both assets and liabilities, as a share of GDP, and suggests three groups of countries. The most financialized economy in the hemisphere is the United States, whose international financial links in 2008 were close to 300 percent of GDP. Canada and Chile form a second group, with foreign links close to 200 percent of their domestic economies. The remaining countries – Argentina, Brazil, Colombia, Mexico, Peru, and Venezuela – form a third and less financially globalized group, whose foreign banking and investment ties range from a low of 70 percent of the domestic economy in Brazil to a high of 118 percent in Argentina.

Table 3's column 4, which shows total foreign financial assets as a share of liabilities, is a little harder to interpret. Venezuela stands out for having the largest ratio of assets to liabilities. But its lower foreign liabilities reflect having been shut out of global capital markets (with the important exception of foreign direct investment, FDI, in the petroleum sector) under President Chávez. Foreign assets come from large revenues from commodity (petroleum) sales, resulting in large deposits held abroad, and the Bolivarian government's role in sovereign lending to political allies. Mexico, Colombia, Peru, and Brazil have the lowest ratios of assets to liabilities, a circumstance that could be viewed as representing vulnerability to a possible future debt crisis, were it not for the fact that overall foreign liabilities (shown in column 2) are not extraordinarily high, except perhaps in Peru, where they are 71 percent of GDP. A more valid conclusion would be that all of these four relatively pro-market countries are popular with foreign lenders and investors. The table does not include recent, large loans from Chinese state banks (and thus China's government) to Argentina, Venezuela, and Brazil (see Gallagher, Irwin, and Koleski 2012).

**Table 3: Patterns of International Financial Links in the Americas, 2008 (percent, except as noted)**

| | Foreign financial assets/ GDP | Foreign financial liabilities/ GDP | (\|Foreign assets\|+ \|Foreign liabilities\|)/ GDP | Foreign assets/ Foreign liabilities | Memo: (\|Foreign assets\| + \|liabilities\|)/ World sum | Memo: “Systemic” financial weight/ World sum |
|---|---|---|---|---|---|---|
| **North America** | | | | | | |
| Canada | 92 | 89 | 182 | 103 | 1.6 | 2.0 |
| Mexico | 24 | 59 | 82 | 40 | 0.5 | 0.7 |
| US | 132 | 158 | 291 | 84 | 24.3 | 32.0 |
| **South America** | | | | | | |
| Argentina | 61 | 57 | 118 | 118 | 0.1 | 0.2 |
| Brazil | 27 | 43 | 70 | 70 | 0.7 | 1.1 |
| Chile | 84 | 101 | 185 | 185 | 0.2 | 0.2 |
| Colombia | 27 | 51 | 78 | 78 | 0.1 | 0.1 |
| Peru | 37 | 71 | 107 | 107 | 0.1 | 0.1 |
| Venezuela | 66 | 37 | 103 | 103 | 0.1 | 0.2 |

Sources: Lane and Milesi-Ferretti 2007 (as updated 2009); Columns 5 & 6 from Armijo and Mühlich 2012, using the aggregates FWG5 and SFCI-3, respectively.

Table 3’s final columns report important memoranda items: the importance of these nine countries to global financial markets. The penultimate column shows the significance of these nine countries in globalized financial markets. While the U.S. is involved as a creditor or borrower in almost a quarter of the stock of all international financial transactions, the other eight countries together account for only about 3.4 percent of globalized financial assets and liabilities. The final column is a broader measure of “systemic” financial weight, including, in addition to the absolute value of a countries foreign financial assets and liabilities, consideration of the size of its economy, the size of its home financial markets, and its share of global foreign exchange reserves. On this measure, the United States looks even more dominant, accounting for about a third of notional “systemic” financial influence. The other larger economies of the Americas – Canada, Mexico, and Brazil – gain slightly in relative shares, but still sum to only about 4.6 percent of total systemic financial weight. In other words, Table 3 confirms what we already know: the United States is enormously, arguably overwhelmingly, dominant in both hemispheric and global financial markets. Among other countries of the Americas, Canada, Brazil, and Mexico form a second, regionally-significant tier,

followed at some remove by the other larger economies (Argentina, Chile, Colombia, Peru, and Venezuela), and trailed by all other hemispheric countries – leaving aside the roles played by tax haven and financial pass-through economies such as Bermuda, the Caymans, and Panama.

A final descriptive preliminary is to sketch the financial links among countries of the hemisphere. One type of links are forged in markets. For example, one may examine transnational financial market links is to see if price movements correlate. Among emerging market regions, Latin America is arguably the most closely integrated into global financial markets (Galindo et al. 2010: 7; García-Herrero and Wooldridge 2007: 60-3). Thus local market prices of globally-traded financial assets closely reflect world price movements, not home market (or regional neighborhood) shocks. Regional cross-border asset holdings, another measurable dimension, display a hub-and-spoke pattern: U.S. investors own the largest shares of FDI and portfolio financial assets in Latin America. U.S. capital markets also were the major external listing option, through depository receipts (ADRs) for large Latin American firms seeking funds abroad. Patterns of foreign bank ownership recorded in 2001, however, showed a larger share for Western European banks (28%) than U.S. banks (18%). Trans-Latin bank ownership then was tiny (1%), but the foreign assets of Brazilian banks have expanded rapidly since (IDB 2002: 110). We discuss transnational and multilateral institutional links below.

In sum, in terms of concrete, measurable international financial market capability – though not necessarily ideological or political influence – the U.S. is both the regional and global hegemon. Brazil and the key players in its regional project are regionally, but not globally, significant. Finally, the objective financial “weight” of Venezuela is small.

As a bridge to subsequent sections, Table 4 summarizes the core ideas about equality that each regional financial project emphasizes. Briefly, equal treatment for investors and equal access for borrowers are important themes in the U.S. vision, but equal policy space for governments is not. For Venezuela, the goal of equal legal treatment for investors is deemphasized and delegitimized, but its project values equal financial access and equal policy space. Brazil’s regional project emphasizes all three dimensions of financial equality, though with subtly different emphases within each category than the other two would-be leader states.

**Table 4: "Equality" in Alternative Regional Financial Visions**

| | Equal legal treatment for creditors & investors | Equal financial access for borrowers | Equal policy space for governments |
|---|---|---|---|
| United States vision | Yes (includes domestic & foreign banks) | Yes (focus on private sector development) | No |
| Venezuelan vision | No | Yes (emphasize redistribution) | Yes |
| Brazilian vision | Yes (modest handicaps for foreigners okay) | Yes (consider both private sector development & market failure) | Yes |

Source: Own elaboration.

## 5. The US Vision: A Hemispheric Free Market for Investment

The conceptions of equality animating the US vision of regional financial market integration highlight, first, equal legal treatment for investors and banks, and second, equal access to credit and funding for private businesses. The goal of broadening financial access for poor citizens in the region is largely absent, while adherents of the U.S. vision, were they able to speak frankly, would describe the goal of equal policy space for governments as wrong-headed and representative of a fundamental misunderstanding of the nature of financial markets.

US economic grand strategy looks to promote global free trade and investment. Senior policy intellectuals associated with both major political parties credit trans-Atlantic, and later East Asian, prosperity in the post-World War Two era to the economic benefits of free markets. Most U.S. policymakers and policy-involved academics assume a straightforward relationship between a presumed cause, overtly statist and autarchic national economic regulatory frameworks in Latin America, and an outcome: low income per capita in Latin America and the Caribbean. The route to greater prosperity is market-oriented economic opening and a U.S. style regulatory framework for business investment (Porzecanski 2011). Since the early 1980s, market opening for trade in financial services has been an important goal of the US Departments of Treasury and Commerce, as well as Congress (Wagner 1999). One reason has to do with the balance of payments: financial services has long been one of the U.S.' most competitive export sectors. A second reason is the significant influence exercised by private financial interests in Washington, D.C., which observers in recent decades

have concluded exceeds the political voice of this sector in comparable advanced industrial democracies (Henning 1994; Johnson 2009).

The U.S. financial vision has been pursued through the General Agreement on Trade in Services (GATS) in the World Trade Organization (WTO) and also in the North American Free Trade Agreement (NAFTA). Both agreements liberalize “trade in financial services” – a somewhat misleading locution that means both freer cross-border capital flows and reducing or ending restrictions on FDI by financial firms (Chant n.d.). Initially Mexico requested a three year moratorium on its market-opening commitments if the share of foreign banks rose above 25 percent of commercial bank assets, but later that ceiling was breeched and more. In its financial services provisions (“Chapter 14”), the NAFTA demands more than the GATS. Under the GATS a foreign bank that believes its interests have been harmed by a host country must convince its home country government to bring a case against the host country through the WTO arbitration process, while in NAFTA the foreign bank itself can sue the host government directly, making this recourse easier (Morgenson 2012). In pursuing the aim of equal treatment for foreign firms, NAFTA also goes beyond the formal and legal (de jure) equality of having the same rules for both local and foreign banks. Instead, NAFTA provides for “competitive national treatment,” meaning that if particular rules – such as a requirement that a fixed percentage of management be citizens – would in practice be easier for local firms to comply with, then the foreign bank may claim an exemption on grounds that it is competitively disadvantaged (Chant n.d.).

While the desires of firms venturing abroad for predictable and familiar rules of engagement are understandable, from another viewpoint there are echoes of the “extra-territoriality” once demanded of China and other sovereign but vulnerable states by European colonial powers. The U.S. attempted to extend investor-friendly rules similar to those in the NAFTA throughout the hemisphere through the proposed Free Trade Area of the Americas (FTAA) (Oxfam International 2003). The FTAA discussions began with the first Summit of the Americas (which included all hemispheric countries except Cuba) in 1994, and became more serious and more public with the Quebec Summit of the Americas in 2001. However, the FTAA has been effectively blocked since the November 2003 Miami Summit, where a key swing country, Brazil, joined expected opponents Venezuela and the ALBA countries, as well as Brazil’s MERCOSUR partner, Argentina, in opposition. Instead, Brazil argued for what became known as “free trade light”, or the limitation of the proposed FTAA to merchandise trade, while more contentious issues, such as financial services, would be referred to the WTO for negotiation. Since the early 2000’s U.S. government strategists have at least temporarily given up on their desire to organize the entire hemisphere under the umbrella of the

U.S.' financial project. Instead, the office of the U.S. Trade Representative (USTR) has been busy negotiating bilateral investment treaties (BITs) and free trade agreements (FTAs) with individual countries.

In addition to their efforts to seek equitable treatment for foreign firms, U.S. negotiators as well as policy and academic experts have championed equality of financial access for private borrowers. In this cognitive model of financial markets and financial regulation, which is dominant in the U.S., improving equality of financial access implies that almost financial policy challenge, including a systemic banking crisis, may be interpreted as proof that the heavy hand of the state has generated financial repression and inefficiency (Dymski 2010). The appropriate policy responses therefore should be bank privatization, further domestic market liberalization (as via interest rate deregulation), and reduction or removal of external capital controls. This is the gist of the financial reforms recommended (or made a condition for receiving emergency credits) by international financial institutions such as the World Bank, International Monetary Fund (IMF), and Inter-American Development Bank (IDB), summarized as the "Washington Consensus" (Williamson 1989, 2004). The U.S. government's continuing insistence that its trade agreement partners pre-commit to adjuring or removing capital account controls is noteworthy, given that in the late 2000's even the IMF conceded that limited controls may be efficacious for countries hoping to resist financial contagion (Ostry et al. 2007; Gallagher 2010).

Despite the US overwhelming dominance in terms of its control of objective financial capabilities, it has been only partially able to realize the goals of its hemispheric financial vision. Countries willing to join or lean toward its financial project include Canada and Mexico, most of Central America (except Nicaragua) and the Caribbean (except Cuba and several small, Anglophone states), and the three more conservative Andean nations: Colombia, Peru, and Chile. As a result of the global financial crisis that began in the subprime mortgage markets of the U.S. in 2007, the prestige and legitimacy of the U.S.' financial model has suffered tremendously. Moreover, the showcase country Mexico suffered a deeper downturn and slower recovery from the crisis than almost any other country in Latin America except Venezuela. Mexico was hard hit because of its strong ties to the reeling U.S. economy. Critics of the US laissez faire regional model also emphasize the pro-cyclical policy response by Mexico's government in 2008-9, which arguably was blinded by the antipathy its policymakers had for government interference with free financial markets. The U.S. goal of incorporating Brazil in its regional financial project also has been elusive: Brazil, while always careful to engage the U.S. courteously, has preferred to further its own regional project centered on South America.

## 6. Venezuela's Bolivarian Hope: Popular Control of a Morally-Suspect Profession

Venezuela's regional financial project prioritizes equality of policy space for national governments, even at the cost of partial withdrawal from global financial markets and institutions. Equality of financial access is understood to refer to redistributing credit and investments away from wealthy capitalists (banks and the business community, especially those based in wealthy countries) and toward previously excluded borrowers, meaning both poor countries and low-income citizens.

The milieu that nurtured and ultimately rewarded a charismatic left populist such as President Hugo Chávez (1999-present) has been one of much financial turmoil for decades. Successive foreign debt crises had made most Venezuelans wary of international finance. Crises usually were triggered (if not fundamentally caused) by sudden stops in international credit, as during the Latin American debt crisis of the early 1980s. A decade later the Mexican tequila crisis of 1994-5 sparked an enormous banking crash in Venezuela, ultimately costing 20 percent of GDP in government bailouts and rehabilitation (Hoggarth, Reis, and Sapporta 2002). Nor was liberal (now "neoliberal") free trade very popular with the elites who dominated politics and policymaking, whether among commodity exporters, who longed for stabilization of volatile international commodity prices, or nascent industrialists, who sought tariff protection. Added to this mixture was a tradition of both scholarship and policy advice that has highlighted the international political economy as a source of national vulnerability and dependency (Coronil 1997). Meanwhile Venezuela was governed for decades by two similar elite-based political parties, which honored a gentlemen's agreement to alternate power between them, while rigging the rules against mass-based political forces. With the election of fiery ex-soldier Hugo Chávez, the national foreign policy project explicitly became one of defining Latin America as distinct from and culturally superior to foreigners, particularly to cold, English-speaking, North Americans.

The academic traditions and internalized cognitive models of Anglophone North Americans have tended to understand business and banking activities as intrinsically apolitical and governed by technical and immutable "laws" such as supply and demand. In contrast, in Venezuela and throughout Latin America the initial assumption of economic life holds that the root cause of lower national income per capita ("underdevelopment") is historical exploitation by first Europe and then the United States, typically in collusion with a rapacious "comprador" elite that lives well from facilitating the transfer of Latin America's material wealth and economic surplus abroad (Galeano 1997 [1973]; Cardoso and Faletto 1979). On this foundation the Bolivarian movement, closely identified with

President Chávez, has proposed a profoundly hopeful narrative: if we, first Venezuelans and then Latin Americans, of all races and classes, band together, then we can create our own successful development model, achieving political independence, as well as economic and diplomatic strength. One emotive pillar of the regional project is to rely as a first best preference on trading and banking with Venezuela's Latin American and Caribbean neighbors, as well as with extra-regional but revolutionary and anti-imperialist states. The Bolivarian rhetoric has demonized the traditional Venezuelan elite political classes, as well as their supporters in business and banking, many of whom have disinvested or seen their companies nationalized. Despite an on-going low-level war with its own business community, which normally would be disastrous for the economy, the Bolivarian model has been economically viable due to the great natural resource wealth controlled by the state (Corrales 2011).

Venezuela's big idea for financial reform is to strengthen multilateral financial ties among progressive governments of the region. Financial largesse deriving from the state's petroleum revenues has served as an instrument of Venezuelan foreign policy to build and maintain support for ALBA and related projects. During periods of high international prices such as the middle years of the 2000's, Venezuela offered subsidized oil to several Caribbean island states, and even to a few beleaguered Northeastern cities in the U.S. In 2007, when Argentina was in the midst of a difficult and protracted foreign debt rescheduling with unhappy private creditors, Venezuela purchased a large quantity of Argentine government bonds. Venezuela also has accessed bilateral funding for itself: in 2010 the Chávez government accepted the first tranche of a planned $20 billion loan from China in return for a contract guaranteeing prepaid future oil deliveries. The problem with all such arrangements, whether to loan or borrow abroad, is that they are fundamentally ad hoc, reflecting creative opportunism but not a real or sustained international financial strategy, much less a means of freeing the Bolivarian government from having to depend on what it views as an untrustworthy private financial sector.

As a solution to Venezuela's and Latin America's financing challenges, President Chávez has supported construction of a new set of multilateral financial arrangements, first for like-minded neighbors of Venezuela, but ultimately for all of Latin America and the Caribbean (Phillips 2009a, 2009b; Arruda 2008). Organizers hope that the "New Regional Financial Architecture" (NRFA) for South America can include a regional development bank, an emergency stabilization fund, and eventually a viable new regional currency. Chávez' government hopes that a regional development bank, first mooted in 2006, could be a means of borrowing substantial sums while escaping the loan conditionalities of the traditional international financial institutions, retaining foreign

exchange within the region, and creating a viable alternative to a difficult to manage private banking sector. The Banco del Sur formally came into being in December 2009 as a project of the Union of South American Nations (UNASUR). It has a modest total of $7 billion in capital contributed by Venezuela, Brazil, and Argentina, and membership of South America's ALBA (Venezuela, Bolivia, and Ecuador) and MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) countries. The more conservative Andean countries—Chile, Colombia, and Peru—have declined to join. Although the Bank's headquarters will be in Caracas, its institutional design now looks more similar to that of existing regional development banks such as the Inter-American Development Bank (IDB), Andean Development Corporation (CAF), and River Plate Basin Financial Development Fund (Fonplata) than was Venezuela's original intention. Seeing ideological control slipping away, Chávez began to rally supporters for a second regional development bank, the Banco de ALBA, to serve member countries through Latin America and the Caribbean. Leftist intellectuals have hailed these innovative institutions (Hart-Landsberg 2009). Yet it remains unclear whether either regional development bank will be run on sufficiently businesslike terms to survive (Artana 2010). Loans are to be extended without traditional economic pre-conditions, seen by the Venezuelan and other ALBA governments as biased and unfair. Consequently, skeptics observe, politicized loans and spotty repayment may erode the capital base quickly.

Another component of the proposed NRFA is a regional stabilization fund, intended as a friendlier alternative to the IMF, which typically imposes stringent and politically-unpopular economic reforms as preconditions. There are certain obvious economic challenges, such as the facts that financial crises frequently hit all or most of the countries in a region simultaneously and that no South American currency is used internationally, making local currency swaps in debt crises of little use (Gnos, Monvoisin, and Ponsot 2009-10; Fritz and Metzger 2006). Moreover, the Andean region already has an international organization tasked with arranging hard currency swaps among central banks. This is the Latin American Reserve Fund (FLAR), first established in 1972, with current members Colombia, Venezuela, Ecuador, Peru, Bolivia, and Costa Rica. But FLAR has a mere $2 billion of paid-in capital (plus some ability to borrow), a sum probably insufficient to provide much help in a crisis, even if it only affected one of the smaller member countries, such as Ecuador (with $8 billion of its own foreign exchange reserves) or Bolivia (with $9 billion in reserves) (Eichengreen 2010: 5).

FLAR's larger conundrum is political. Its members include relatively conservative Colombia and Peru, as well as the three South American ALBA states, who lean left. In 2006 Venezuela announced its intention to withdraw from the Andean Community (CAN), but did not resign from FLAR—even though FLAR has its headquarters in

Bogotá. (Chile, meanwhile, had withdrawn from CAN in 1976 under its then military dictatorship, but in 2006 announced its intention to rejoin eventually, and currently holds associate member status.) North American economist Barry Eichengreen (2010: 6), conceptualizing FLAR as an essentially technical challenge, observed that "in terms of facilitating the negotiation of conditionality and topping up finances [for the FLAR], it would be useful to establish an IMF link". Closer ties to the IMF, of course, would be anathema to the ALBA members of FLAR, and probably would not be welcomed by the remaining members either. Another important question is whether (or when) Brazil will apply for FLAR membership. Because Brazil's economy is half of that of all of South America, there is presumably no circumstance under which Brazil itself could borrow from FLAR; its membership therefore instead would be a significant and symbolic political—and financial—pledge to pursue the goal of South American economic integration. Meanwhile, Venezuela has remained vague on whether its goal is the (unrealistic) one of replacing FLAR with a stabilization fund in which it could play a larger role or simply that of seeing the existing fund be successful and expand.

A third aim of Venezuela's regional financial project is to free the region from its dependence on a reserve and transactions currency controlled by extra-regional political authorities, that is, by the U.S. government (Fritz and Metzger 2006; Camara-Neto and Vernengo 2009). Ecuadorian President Rafael Correa has been the main promoter of the ALBA project (officially adopted in mid-2009) to establish a regional currency, to be called the SUCRE (Unified System for Regional Compensation), initially to be used to invoice intraregional trade, with the hope of its evolving into something more, as happened in the European Union. In December 2009, the leaders of the small Caribbean ALBA members, worried about their standing within the Caribbean Common Market (Caricom) held a press conference to disassociate themselves from plans for the SUCRE. President Correa's own domestic political difficulties, including a police rebellion in late 2010 that was possibly an attempted coup, have slowed further forward movement on the regional currency.

What the Venezuelan and ALBA initiatives ultimately will mean in practical policy terms is in doubt. The right-leaning trio of Chile, Peru, and Colombia – who share a geographic space with the ALBA trio of Venezuela, Ecuador, and Bolivia – have repeatedly indicated their disdain for the ALBA's financial projects, instead signing free trade agreements with the U.S. and joining the new US "Pathways for Prosperity" grouping. In September 2010 the conservative Andean three announced plans to facilitate cross-border trading on their stock exchanges, explicitly signaling their intent to pursue market solutions to their individual and joint financial challenges. Chile, Peru, and Brazil already have the most developed securities exchanges in the hemisphere, as shown in Table 2 above.

Meanwhile, President Chávez' continues to implement sometimes quixotic financial policies aimed at reducing Venezuelan vulnerabilities to global finance. For example, when the value of firms traded on the Venezuelan stock exchange fell dramatically following new corporate taxes and nationalizations in 2011, his government created a new, "socialist" securities' exchange dedicated to trading public-sector bonds. In January 2012, Venezuela completed the physical repatriation of its gold reserves from central bank vaults in the advanced industrial countries and simultaneously withdrew from the World Bank's International Center for the Settlement of Investment Disputes (ICSID). The larger themes that his grandiose financial ideas have raised, nonetheless, resonate with publics throughout Latin America and the Caribbean, and will continue to have influence at the symbolic and possibly the practical level on whatever institutions of multilateral financial cooperation ultimately are established and endure.

## 7. Brazilian Pragmatism: A Public-Private Financial Partnership

Brazil's financial vision is the only one of the three consistently framed in terms of each of the three themes of financial equity: equal legal treatment, equal access, and equal policy space. In comparison to the relatively explicit visions pursued by the U.S. and Venezuela, Brazil's financial preferences for the region are more subtle, although no less intentional and a subject for high-level policy attention. Brazil's foreign financial policies originate with the executive branch, particularly the foreign and finance ministries, but are elaborated and updated on the basis of comments from private business and academics, as well as ministerial level discussions with key allies, especially Argentina. Brazil's overall regional vision is capitalist developmentalism with a continental, as contrasted with purely a national, focus.

Despite emerging from much the same intellectual and policy background as in Venezuela, the Brazilian vision has diverged in important ways. Within Brazilian senior economic policy circles the dependency paradigm is fading or dead, including under center-left administrations. Instead, many in Brazil's academic economics and government financial regulatory communities have North American advanced degrees but practical experience of Latin American markets, enabling them to speak the language of U.S. economic debates, while arriving at more statist conclusions. Overall the contemporary self-perception in Brazilian policy circles is of the country's strength and capability as a regional and even a global player. Brazil's sense of itself as a leader has been reinforced by its active participation in multilateral clubs dedicated to influencing global economic governance. Moreover, certain aspects of the Washington Consensus in favor of market-friendly economic regulations are accepted by both the center-right, exemplified by former President Fernando Henrique Cardoso and the

loose opposition coalition centered on the Brazilian Social Democratic Party (PSDB), and also the center-left, represented by the broad coalition around the governing Workers' Party (PT) of incumbent President Dilma Rousseff, and former President Luiz Inácio da Silva. There is today agreement across Brazil's political spectrum that annual inflation above about 6 percent unequivocally harms both growth and poverty reduction, and that fiscal discipline is a cardinal economic virtue. The export pessimism that underlay years of protectionist policies has eroded, although the federal government remains responsive to the requests of large Brazilian industrial and commercial firms for government help. Nonetheless, Brazilian economic policies, particularly under left-leaning governments since the early 2000s, suggest that external trade and financial opening, despite having been substantial, remain contingent. They do not represent a fully pro-market grand strategy, comparable to that in Mexico or the more resolutely neoliberal South American countries of Chile, Colombia, and Peru. Brazil, which is large, federal, and has multiple channels through which social groups and competing interests may press their policy agendas, has always tended toward more gradual policy changes than many of its neighbors (Armijo, Faucher, and Dembinska 2006; Power 2010).

Equal legal treatment for investors and creditors is less central to Brazil's regional financial vision than in the regional project of the U.S., is becoming more important. Thus far, Brazil's principal focus has been on fair treatment of individual investors, and the regional financial project has been promoted about equally by transnational actors (the securities exchanges and non-governmental groups advocating better corporate governance) and the national government. Better corporate governance in Brazil has been defined by activists since the early 1990s as a mix of improved rights for minority shareholders and of corporate social responsibility, for example through private philanthropy, which lacks a long tradition in Brazil. As an illustration of Brazil's centrist position, we note that several of the socially-progressive entrepreneurs who were founders of Brazil's corporate governance movement also helped begin the "anti-Davos" World Social Forum, which held its first meeting in Pôrto Alegre, Brazil in 2001 (Nascimiento 2000). As the World Bank and Organization for Economic Cooperation and Development (OECD) were casting around for ways to promote "emerging stock markets" (a phrase invented at the World Bank) in the late 1990s they were happy to enlist Brazilian groups and their government as founding leaders of the Latin American Corporate Governance Forum, which held its first conference in São Paulo in 2000 under mixed private and Brazilian government sponsorship (OECD 2000). Faced with falling new stock exchange listings in the late 1990s as major firms listed shares in New York and London instead, the São Paulo Stock Exchange (Bovespa) reinvented itself through a successful campaign to improve corporate governance dramatically

in listed firms. Bovespa itself went public in 2008, merging with Brazil's commodities and futures exchange the following year to form the world's fourth largest exchange by market capitalization: BM&FBovespa. The merged exchange aspires to become a regional listing hub for Latin America, a project government regulators strongly support.

Soon Brazil's government almost certainly will find itself defending equal legal treatment for its financial firms abroad, thus moving closer to the types of concerns that motivate the U.S.' regional financial vision. Brazilian transnational firms already have become important direct investors throughout Latin America, in the process pushing their host governments for financial deregulation and secure financial property rights (ECLAC 2010). Brasília recently has had to support Brazilian direct investors and service providers vis-à-vis the governments of Ecuador and Bolivia in disputes over the quality of dam construction and nationalization of Brazilian-owned natural gas assets, respectively. Meanwhile, the main trade associations for banks and capital markets institutions – FEBRABAN (Federação Brasileira de Bancos) and ANBIMA (Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais) – are working with BM&FBovespa on proposed technical rule changes to transform Brazil into a major financial center (Costa 2010). Brazilian banks are also large in regional terms and aspire to expand abroad, especially in Latin America. The top four banks in Latin America by Tier 1 capital are all Brazilian, and three are among the top fifty banks by this measure worldwide (Alexander 2010).

Our second broad component of equality-equal access to finance – is frequently mentioned in Brazil. As in the U.S. the dominant conceptualization is equal access for business borrowers, seen as a crucial component of economic growth. "Financial deepening", or increasing the availability and types of investible funds, is central to the government's overall regional vision, and to that of Brazilian commercial banks and other financial institutions. Yet terms such as "financial reform" or "improved access to credit" do not in the Brazilian policy context necessarily imply a reduction of the state's role in finance. A key difference from the U.S. is the mix of private and public institutions in Brazil. Brazil has six large banks, which together account for about 75 percent of banking assets, deposits, and loans. Three are majority state-owned, two are private banks, and one is foreign-owned, a division of labor likely to endure (Mettenheim 2012).

One of the six big Brazilian banks is the country's industrial development bank, the BNDES, which in 2008 extended new loans to Brazilian borrowers worth $40 billion. That same year, all of the multilateral development banks together lent $32 billion to all of Latin America and the Caribbean (McElhiny 2009). Since the late-1990s, the BNDES has greatly expanded credit for exporters and Brazilian transnationals

engaged in outward FDI. A particular focus has been financing Brazilian firms engaged in mega-construction projects on roads, dams, and waterways throughout South America, associated with a multilateral (but largely Brazilian-conceptualized) set of infrastructure construction projects known collectively as the IIRSA (Integrated Regional Infrastructure for South America) undertaking, formally inaugurated in Brazil under then President Cardoso in 2001 (Gustafson and Armijo 2011). IIRSA, which receives funding from the major regional development banks, aims to link together and open up the South American continent, much as the railroads and later the transcontinental highway network did for North America. IIRSA has strong backing in most capitals and their business communities but also attracts much criticism as, virtually by definition, many of the proposed roads and dams, to be funded by a mix of public and private investment, run through ecologically-sensitive areas and lands claimed and used by indigenous peoples (Zibechi 2006).

The public and private financial sectors also meet in the securities markets. Brazil's blue-chip, "safe" stocks to buy and hold for steady returns long have been dominated by shares of the large public sector firms, while the large and liquid public bond market coexists with a significant corporate debt market. Prévi, the public sector Banco do Brasil's employee pension fund, is Latin America's largest institutional investor. In September 2010, Petrobrás, the majority state-owned petroleum and energy giant, raised $67 billion in new capital in what was the largest ever corporate equity issue worldwide to that date. The BNDES periodically has led government efforts to promote private capital markets. During the debt-crisis years of the 1980s, for example, its equity-investment subsidiary, BNDES-Participações, kept many large national firms afloat by transforming their loans to it into government-owned shares, in a domestic debt-for-equity swap. Brazil has been a leader in offering technical assistance from both private market actors and government regulators to smaller exchanges throughout Latin America and the Caribbean.

In terms of our third category of equality and finance, Brazil's de facto financial vision, both at home and for the "region" (usually South America, but sometimes Latin America) clearly envisions national financial policy space for governments as essential. Finance Minister Guido Mantega attributed Brazil's relatively easy recovery from the 2008-9 international financial crisis to the state's ability to enact economic stimulus relatively quickly and effectively. The government transferred Treasury funds to the BNDES, which lent some out directly and channeled the remainder to smaller private banks for them to on-lend to smaller borrowers. Brazil's regional financial project aims to integrate South America (and sometimes also Latin America) into the global economy, yet to do so without yielding up by prior treaty commitments the rights to use those

financial levers of national development policy that have on past occasions proven useful. These financial levers include such institutions and techniques as capital controls; state banks; and the rights to impose temporary capital controls, taxes, or directed lending requirements on banks and institutional investors, including those headquartered abroad. The government also defends, in principle, the right to impose additional requirements specifically on foreign investors.[5] Nonetheless, Brazilian policymakers consistently have treated the long-term diplomatic relationships as more important than the immediate investment disputes. On several occasions both Presidents Cardoso and Lula took relatively conciliatory positions vis-à-vis arguably difficult neighbors that earned the chief executives not inconsiderable scorn from the press back at home. Brazil had a muted response to Argentina's decisions to impose special tariffs on Brazilian imports to Argentina to compensate for exchange rate movements unfavorable to Argentine exporters (as in January 1999, when Brazil's currency experienced a forced devaluation while Argentina's remained pegged to the U.S. dollar) and to Uruguay's repeated but as yet unrealized threats to sign a bilateral trade and investment treaty (BIT) with the U.S., technically a violation of its MERCOSUR commitments.

The Brazilian government and foreign policy establishment are also keen to influence international financial policies in South America and Latin America by exerting a strong presence in continental and hemispheric debates over financial, monetary, macroeconomic, and regulatory issues. Brazil joined the Chávez-promoted Banco del Sur, pledging $2 billion in initial capital, and will participate in any multilateral study committee on regional swaps or a new regional financial architecture. Brazilian academic and government economists are prominent at both the United Nations' Economic Commission on Latin America (CEPAL), headquartered in Santiago, which was historically leftist and "structuralist", although is today centrist in economic ideology, and the Inter-American Development Bank (IDB) in Washington, D.C., "neoliberal" by Latin American judgments, although in reality both pro-market and favoring greater social equality. Brazilians also have played a large role in the Latin American Shadow Financial Regulatory Committee (CLAAF[6]), which held its first meeting in Rio de Janeiro in 2000. Relatively orthodox in the training and background of members, the CLAAF is poised to consider what options might be best for Latin America, even when these views are not those favored by the US. CLAAF members have been early champions of the idea that many developing countries, however well their domestic economies

5 The basic framework for foreign investment and lending remains Law 4131 of 1962. Certain foreign currency legislation dates back to the 1930s.

6 At www.claaf.org (Last access: 18/07/2012).

are managed, suffer under the handicap of “original sin”, that is, lack access to long-term loans in their home currency (Eichengreen and Hausmann 2005).

Brazil also seeks greater influence for itself and the region in global financial governance. Brazil, Mexico, and Argentina all have been eager participants in the large economies’ G20, which since late 2008 largely has replaced the G7 of the major advanced industrial countries as the principal multilateral forum for global economic governance. Brazil is also active in the BRICS grouping of Brazil, Russia, India, China, and South Africa, which has called on the major advanced industrial countries to reallocate votes and quotas toward emerging market countries in the World Bank and IMF. In 2009 China, India, and Brazil each voluntarily committed additional funds to the IMF, in the amount of $30 billion, $10 billion, and $10 billion, respectively, leading then President Lula to exult that it was very “chic” to be lending to the IMF (Beck 2009). Overall, networks promoted by Brazil have been important in nurturing a distinctly South American ethos of pro-market developmentalism. Yet rather than following a Venezuelan-style strategy of trying to establish parallel regional institutions that may be more responsive to Southern concerns, Brazil’s choice has been to seek greater representation and influence in the existing institutions. Thus, Brazil participates even in initiatives that it does not control, such as the FTAA negotiations and the Banco del Sur.

## 8. Conclusions: Regional Financial Projects and Inequality

This paper has analyzed the contemporary regional financial projects of three countries of the Americas: the United States, Venezuela, and Brazil. Although the three clearly have unequal material capabilities for expanding their influence, each has initiated non-trivial changes in its financial and monetary links with its neighbors. Particularly after the financial crisis, Venezuela and Brazil have more opportunities than their structurally unequal positions would suggest. Moreover, the three regional projects interpret “financial equality” in dissimilar ways, with important reflections in their policy preferences. The U.S. vision emphasizes establishing the rule of law in financial transactions and contracts, but is blind to the notion that the U.S. control of a global reserve currency or a preponderance of votes at the IMF or World Bank might give it unequal financial power. Venezuelan policymakers are concerned about financial access for excluded social groups and countries, and about control of international financial markets, but much less interested in equality under the law for private capitalists. Brazil’s regional financial project favors financial property rights, and thus is pro-banks and pro-market, yet sees equal access for borrowers as maximized by allowing room for state, private national, and foreign capital. Although Brazil’s prosperity and size gives it a strong position in the region, its ideas have an appeal

that goes beyond throwing its weight around for its own advantage. Brazil also seeks more equal financial policy space for national governments, and has pursued this goal by resisting treaty obligations (pushed by the U.S.) to abjure capital controls, additional limits on foreign capital, and other instruments of financial statecraft. In years to come, the attractiveness of each would-be-leader state's financial ideas will be a resource for achieving regional influence, in addition to the three countries' material financial capabilities.

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