

THE BRICS COUNTRIES' MONETARY AND FINANCIAL POWER: WHAT HAS CHANGED SINCE THE 2008 GLOBAL FINANCIAL CRISIS AND WHY IT MATTERS

Poder monetário e financeiro dos países do BRICS: o que mudou desde a crise financeira global de 2008 e por que é importante

Luiza Peruffo¹

Introduction

The grouping of the BRICS countries is controversial in several ways. First, because its origins do not have a political foundation: Brazil, Russia, India and China were first put together as an acronym created in the financial market (O'NEILL, 2001) and this was eventually transposed onto the political world. The group's advocates have argued that the geopolitical initiative that followed made sense because it brought together countries of continental proportions, large economies, with huge domestic markets – an argument that falls apart with the inclusion of South Africa in 2010. In addition, there is the issue of the disproportionate economic power between China and the other members of the bloc. Moreover, many argue that there are few common interests between the economies, which have such diverse productive structures, and therefore it would be unlikely that they could form a cohesive group (see STUENKEL, 2013, pp. 620-621 for a review of criticisms of the group).

Nevertheless, there is one issue that has united the BRICS countries in a very intense way from the start: their interest in reforming the International Monetary and Financial System (IMFS). The issue of reforming the global monetary and financial architecture found room for discussion in the context of the 2008 Global Financial Crisis (GFC), which was a crisis that disrupted the dominant power structures. The BRICS had been rehearsing a political approximation since 2006, and in a moment when their advanced peers found themselves fragilized, they saw an opportunity to formally come together and act around this common

¹ Professor in the Departamento de Economia e relações Internacionais (DERI) and collaborating professor in the (Programa de Pós-Graduação de Estudos Estratégicos Internacionais (PPGEEI) at Universidade Federal do Rio Grande do Sul (UFRGS). PhD from Cambridge University. Master in Development Economics from the UFRGS and a BA in International Relations from the same university. Email: luizaperuffo@yahoo.com.br

interest. It is no coincidence that the first decade of the BRICS roughly coincides with the ten-year anniversary of the 2008 GFC: it was the context of the crisis that catalyzed this formal rapprochement and guided the group's first joint actions.

In the context of the 2008 GFC, the BRICS represented one of the main sources of pressure to reform the prevailing United States-centric (U.S.) system. Already in their first joint statement in June 2009 (BRIC, 2009), they advocated for a better balance between economic and political power in the global economy, which could be achieved by increasing the representativity of emerging economies within major international forums, especially the Bretton Woods Institutions (BWIs). Securing better representation in the BWIs would serve to guarantee that problems concerning emerging economies would receive adequate attention in the global agenda. That would include, for instance, the problem of financing development, which is traditionally a priority matter for emerging economies but that only receives marginal attention in the BWIs, as well as the problems arising from a system that is still heavily dependent on a single currency, the US dollar.

With the benefit of hindsight, however, it seems clear that the BRICS' capacity to truly challenge the prevailing IMFS was overestimated. While they have contributed to putting in motion some important changes – in particular, the 2010 International Monetary Fund (IMF) quota review that placed Brazil, Russia, India and China among the top ten shareholders, the IMF's new institutional view on capital controls, and the creation of both the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) – there has been no profound change in the underlying power relations of the IMFS (KIRSHNER, 2014; HELLEINER, 2014). This marginal and limited result of the BRICS' action has served to favor arguments that have long emphasized the bloc's incongruencies, which in fact exist (NYE, 2013; O'NEILL, 2013; PANT, 2013). However, it seems shallow to argue that, because the action of the BRICS has not been able to fundamentally alter the IMFS, that they are then a fallacy. Analyzing the ongoing transformations in the IMFS and the role played by the BRICS is a much more complex task.

This paper argues that while the changes the BRICS countries caused to the IMFS have been marginal, because indeed there was not a substantial change in its underlying power relations, these changes matter because they are power as an end in itself. More importantly, they matter because they encourage the existing theoretical framework to advance if it wants to understand how subordinated players in the IMFS – such as emerging economies and the groupings formed by them (like the BRICS) – can have their way in a system which is rigid, hierarchical and still dominated by advanced economies.

This paper contributes to the strand of the literature that strives to understand emerging economies' monetary and financial power (HELLEINER; PAGLIARI, 2011; GALLAGHER, 2015; ARMIJO; KATADA, 2015; GRABEL, 2019, among others) by applying recently created categories of analysis to understand the specific case of the BRICS. It also emphasizes the role played by currency hierarchy (DE CONTI; PRATES; PLIHON, 2014; DE PAULA; FRITZ; PRATES, 2017; FRITZ; DE PAULA; PRATES, 2018) in explaining the limits of the monetary and financial power of emerging economies in general and of the BRICS in particular.

Following this introduction, the second section reviews the literature on monetary and financial power, focusing on the advances in theory that allow us to better understand the power of the BRICS. The

third and fourth sections build on two categories of analysis developed by Armijo and Katada (2015) to analyze systemic forms of financial statecraft (FS) – a concept which includes both monetary and financial instruments – put forward by the BRICS countries. Increasing their representativeness in major existent forums (with a focus on the IMF and the G20) and creating their own institutions (the NDB and the CRA) are considered, respectively, defensive and offensive forms of FS. The fifth section considers the role the BRICS had in influencing the new institutional view of the IMF on capital flows through the lenses of the concepts of “power-as-autonomy” (HELLEINER; PAGLIARI, 2011), “countervailing monetary power” (GALLAGHER, 2015), and FS (ARMIJO; KATADA, 2015). The sixth section discusses the limits of the BRICS’ monetary and financial power given their subordinated position in the currency hierarchy, China being the exception.

Monetary and Financial Power Theory: what role for emerging economies and the BRICS?

The concept of power in monetary and financial affairs is complex. While the existence of a hierarchy in monetary and financial relations has long been recognized, the reasons for its change (or lack thereof) over time are still the subject of study and debate.² The debate over the dollar’s future, for instance, illustrates how the relations between money, finance and power are yet unclear. Ever since the US dollar became the key international currency at the Bretton Woods Conference in 1944, its demise has been endlessly – and wrongly – predicted (see HELLEINER; KIRSHNER, 2009 for a collection of different approaches).

The immediate aftermath of the 2008 GFC further widened the research agenda, since it catalyzed emerging economies’ formal and informal participation in global economic governance, giving rise to original research that aims at understanding how these new powers operate and influence the IMFS. Rather than disrupting the existing power structures, emerging economies’ influence over the system has been generally perceived as a result of their greater insulation from external pressures. International Political Economy (IPE) literature has referred to this conception of power as the “capacity to do what you want” (see STRANGE, 1994, for instance), which can also be associated with the concept of “policy space” in economics (or “autonomy of economic policy,” according to Keynes (1930)). Cohen (2015, 30-33) argues that in the monetary area, autonomy is more important than influence, since the potential for influence can only be created when a state acquires a degree of autonomy.

Because emerging economies were less vulnerable to external turbulences in comparison to previous periods, they managed to have their way in terms of regulatory legislation, for instance. Building on Cohen’s definition of power, Helleiner and Pagliari (2011, p. 177-178) have described the capacity of emerging economies to “adjust domestic regulatory policies without reference to the outside world” as “power-as-

² Still, the differences among financial, monetary and currency hierarchies, as well as how they are related (or independent), is not always made clear in the literature. Charles P. Kindleberger (1970) and Susan Strange (1970) were pioneers in introducing “the economics of international politics” and “the politics of international economics”, without going much into the specifics of distinguishing money and finance. Thereafter, a clearer research line emerged on “monetary power” than on “finance power”. The first explores how international monetary, currency relations can be used as a power instrument (STRANGE, 1971a, 1971b; COHEN, 1971, 2015, 2019; KIRSHNER, 1995; ANDREWS, 2006), whereas the latter has been looked mostly from a “state autonomy” perspective in a context of increasing capital mobility (FRIEDEN, 1991; ANDREWS 1994). Whilst recognizing that money and finance are related but distinguished realms, this paper follows the literature and uses both terms together under the idea of a single system (international *monetary* and *financial* system).

autonomy,” instead of “power-as-influence” (see further in section 5). In a similar line, Gallagher (2015, p. 25) argues that “countervailing monetary power does not change the fundamental structure or transfer power from one set of agents to another. Still it is important that this form of power leaves open the possibility that the weaker states can maintain, or at least attempt, stability and autonomy”. It is unlikely that emerging economies could have achieved this degree of regulatory autonomy if they were negotiating a rescue package with the IMF.

To explain emerging economies’ financial strategies to achieve foreign policy ends, Armijo and Katada (2015, p. 46) redeemed the concept of “economic statecraft” and propose a broad concept of “financial statecraft” (FS), which is defined as “the intentional use, by national governments, of domestic or international monetary or financial capabilities for the purpose of achieving ongoing foreign policy goals, whether political, economic or financial” (Armijo and Katada 2015, p. 43). According to this concept, FS can be either defensive or offensive, and can be deployed bilaterally or systemically. The BRICS have been pursuing a number of initiatives which fit within their idea of systemic defensive FS – including the promotion of multilateral banks, promoting multiple reserve currencies and seeking greater voice in global financial and monetary governance – and also offensive FS – such as the construction of their own institutions. These theoretical developments are relevant because they help us to understand how emerging economies can increase their power even when they are not able to change the fundamental power structures. As noted by Armijo and Katada (2015, p. 57) the classification of defensive and offensive systemic forms of FS might be imprecise, not least because offensive actions are likely to arise as a protection against the system instead of an open confrontation with the status quo. In theoretical terms, Armijo and Katada (2015, p. 47) define systemic offensive FS as the “construct[ion of] institutions of global governance, giving oneself ongoing hegemonic or disproportionate influence”.

Arguably, the global economy is not witnessing a change of the guard in the sense of who is subordinated to whom; instead, some players are enjoying more policy space to pursue their domestic objectives. To that extent, there is a dispersion of power. As emerging economies face lower external constraints, and are thus more autonomous, that means there is less space for coercion – either bilateral or systemic – as there was in the past. This idea of a “leaderless diffusion,” as put forward by Cohen (2008), applies to the decentralized cooperation that emerged in terms of capital flow management measures (CFMs)³, for instance. That means there is a cooperation among states, but each one maintains the autonomy to formulate its own rules. To that extent, it looks like emerging economies are becoming more powerful.

Nonetheless, it is misleading to understand emerging economies’ autonomy as equivalent to that of their developed peers. This is related to the position their currencies have in the IMFS hierarchy. From an IPE perspective, this hierarchy is illustrated by Cohen (2015, 15-19) through the image of a pyramid to show the differences among currencies. On the top, just a few currencies will work as currencies – i.e. as a unit of

³ CFMs was the term employed by the IMF (2012, p. 8) in its institutional review to refer to “measures that are specifically designed to limit capital flows”. Previously, those measures were usually named “capital controls” and carried a negative connotation. Specialized literature has employed a number of terms to refer to the regulation on capital flows, including capital account regulations (CARs) (GALLAGHER; GRIFFITH-JONES; OCAMPO, 2012) and capital management techniques (EPSTEIN; GRABEL; JOMO, 2003). For a review of the debate on financial regulation see Prates and Fritz (2016).

account, a medium of exchange and a store of value – not only within their monetary domains, but also across the border of their issuing states. At the base, the majority of the currencies will not be able to work as currencies even within their own jurisdictions. As a result, there is a movement of the currencies from the top of the pyramid invading the monetary space of the currencies from the base, which alters the “geography of money”. The context of financial globalization has served to reinforce the erosion of the “Westphalian model of monetary geography” of currencies and to increase international competition (COHEN, 2008, p. 465).

From a theoretical perspective, it seems reasonable for the global economy to work with a handful of currencies. Currency competition would be a natural response to the market’s need to operate efficiently with some currencies. Since there is not an international currency – like the Bancor suggested by Keynes in the Bretton Woods Conference –, it would be expected for some currencies to stand out, giving rise to a currency hierarchy.

Behind this “natural selection” of currencies, however, there are states which will enjoy the benefits and costs of the position their currencies have in the currency pyramid. The benefits of being at the top have been long discussed – Valéry Giscard d’Estaing, Charles de Gaulle’s Minister of Economy, coined the term *exorbitant privilege* to refer to the advantages the United States enjoyed due to the international role of the dollar in the Bretton Woods System (EICHENGREEN, 2011, p. 4). The position of the dollar as the top currency allows the US government to “avoid the burden of the balance of payments adjustment”, which is the monetary power definition proposed by Cohen (2015). Although at a lower degree, other states whose currencies are used in the international level will also enjoy the benefits of deflecting or delaying the balance of payments adjustment because of their higher position in the currency pyramid.

From a currency hierarchy perspective, there was no alteration in the balance of power, with the dollar, and behind it the United States, remaining supreme. Symptomatic of this unchallenged leadership was the appreciation of the US dollar that followed the bankruptcy of the Lehman Brothers in September 2008. Even though the United States economy was at the epicenter of the crisis, global capital “flew for safety” in dollar denominated assets. Meanwhile, emerging economies, which were relatively isolated from toxic assets, experienced massive capital outflows, triggering unwelcomed vulnerabilities in their interest and exchange rates. To be sure, regardless of how good emerging economies’ macroeconomic fundamentals are, in moments of uncertainty their peripheral position in the IMFS hierarchy is exposed through global capital flows (DE CONTI, PRATES; PLIHON, 2014; DE PAULA; FRITZ; PRATES, 2017; FRITZ; DE PAULA; PRATES, 2018).

While it is important to qualify the ways in which the BRICS and other emerging economies are exercising power in monetary and financial matters, it is equally relevant to understand why they continue to be fundamentally secondary players in the IMFS. By this token, reserve accumulation and reduction of their exposure in foreign currency were ways to circumvent their peripheral position in the currency hierarchy, which has not changed. Acknowledging this structural constraint emerging economies continue to face in the IMFS is important to understand the limits of their power position, regardless of the advances they are making in global economic governance, as it will be analyzed next.

Power in Global Economic Governance (defensive): BRICS' voice in elite forums

The BRICS made significant achievements in terms of increasing their voice in major global economic forums – a systemic defensive form of FS, according to Armijo and Katada (2015) – in the context of the 2008 GFC. It should be noted, however, that the pressure for incorporating big emerging economies in major forums antedated the breakout of the crisis. The decade leading up to it witnessed an ever-increasing share of emerging economies participation in global trade, investment and finance, creating a disequilibrium between economic and political power in global economic governance (WORLD BANK, 2011). In 2007, for instance, the Organization for Economic Cooperation and Development (OECD) proposed an enhanced engagement with Brazil, China, India, Indonesia and South Africa (OECD, 2007). While there was no formal invitation for membership, closing ties with those big emerging economies symbolized their increased significance in the global economy.

The process of including the BRICS, and other emerging economies, to the negotiating table had also a lot to do with the establishment's own strategy in avoiding a rupture with the prevailing order. In the pre-2008 GFC, the IMF was going through its own financial crisis, since most of its traditional clients had paid off their debts in the early 2000s (WOODS, 2010). There were also ongoing discussions about dealing with the problem of some important countries that were underrepresented, an agenda which gained traction when Dominique Strauss-Kahn took office as Managing Director in 2007 (WOODS, 2010). Following an ad hoc quota increase for China, Republic of Korea, Mexico and Turkey at the 2006 Annual Meetings of the IMF and the WB in Singapore, a quota reform was approved in April 2008 to the benefit of several emerging economies. Thus, the process of reforming the IMF was already ongoing when Lehman Brothers went bankrupt in September 2008 and turned the crisis global. Moreover, the role of the BRICS was very limited in the 2008 reform, which placed China, India and Brazil among the top four benefitted members in terms of voting shares, along with the Republic of Korea, but left Russia with the fifth higher decrease (WOODS, 2010, p. 61).

When the 2008 GFC broke out, those big emerging economies suddenly found themselves in a relatively better situation than their developed peers. Their improved position was the result of the crisis disproportionately affecting developed economies, partly due to it originating in the US, combined with the fact that emerging economies were in general more resilient in comparison to previous crises episodes. As a result of this unprecedented situation, emerging economies such as the BRICS countries had the opportunity to play an important part in the management of the crisis, since they represented a source of financial resources and economic dynamism. As creditors in the system, for the first time, they were part of the solution rather than the problem (HELLEINER, 2010, p.629; CHIN; HELLEINER, 2008, p.88).

Amidst the global financial meltdown, a clearer coalition among Brazil, Russia, India and China emerged and grew stronger. From July 2008, when the BRICS' leaders agreed to have a formal meeting the following year, until the First Summit actually happened in June 2009, their Foreign Ministers had met at least twice (September 2008 and May 2009) as well as their Finance Ministers⁴ (in November 2008 and March 2009). Also during this period, the G20 was upgraded from a minister gathering to a Leaders Summit (November

⁴ According to Stuenkel (2013, p. 612), the BRICS' finance ministers and central bankers met four times in four months.

2008), placing the BRICs at the centre of the crisis management. The elevation of the G20 spilled over into other forums, which also expanded to include the BRICs and other big emerging economies. Following the expansion of the Basel Committee on Banking Supervision (BCBS) in March 2009, in the following month the Financial Stability Forum (FSF) was also enlarged to include all members of the G20 that were not members of the FSF, which then became Financial Stability Board (FSB). The articulation of the BRICs' leaders turned out to be extremely timely and somewhat mingled with the broader transformations that took place in response to the breakout of the 2008 GFC.

The context of the crisis offered plenty of opportunities for the BRICs to work together as a coalition and increase their representativeness in elite forums. In April 2009, when the G20 leaders agreed to triple the size of the available resources at the IMF under the New Arrangements to Borrow (NAB), the BRICs secured over 15% of participation. With China making the largest contribution (31,217 million SDRs) and Brazil, Russia and India the second largest ones (8,740 million SDR) amongst the new participants (IMF, 2011), together they had veto power over the decisions in the NAB. Besides them, only the US, Japan and the countries part of the EU had veto power over NAB's decisions. The expansion of the NAB was positive for the BRICs, but it was equally or even more for the IMF, since it was able to solve the IMF's financial problem without linking it with a deeper reform (which was Brazil's preferred option, for instance) (WOODS, 2010, p. 56; BATISTA JÚNIOR, 2019, p. 94-5 and 406-7). In return, there was only a commitment for a major revision of the governance of the Fund in favour of emerging economies (VESTERGAARD; WADE, 2015, p.3).

Ultimately, there was a limit of how much power overrepresented developed countries were willing to give up to underrepresented emerging economies in existing forums. That was crystal clear in both the IMF and World Bank (WB) reforms. As Vestergaard and Wade (2015, p. 7) put it simply: "the net shift of voting power in the IMF and the WB since the G20 leaders in 2009 announced agreement on the principle of major shifts of voting power is negligible, at best, despite great declarations of 'historic' change". Still, the WB's reform gave developing countries a modest increase in their voting power, besides agreeing to the first general capital increase (USD 86 billion) in more than 20 years. The IMF's 2010 reform placed Brazil, Russia, India and China among the top 10 IMF shareholders and also ended the category of appointed Executive Directors hitherto enjoyed by US, Japan, UK, Germany and France. Nonetheless, the 5-year delay of the US Congress in ratifying the reform meant that, when it finally entered in force in December 2015, there was no longer momentum to continue the reforming process.

In September 2009, the G20 replaced the G8 as the main international forum for economic cooperation, meaning that the BRICS had officially been placed at the centre of global economic governance (G20, 2009). In this regard, it is useful to understand the increase of the BRICS' voice in existing forums as a defensive FS strategy, as proposed by Armijo and Katada (2015). The integration of the BRICS into existent structures was welcomed, but it was mostly controlled by the establishment, which guaranteed that they did not disrupt the status quo. To be sure, the elevation of the G20 in November 2008 was called by the US President, the inclusion of emerging economies in forums like the FSB and the BCBS guaranteed those forums

remained relevant, the expansion of the NAB served to the preservation of the IMF, and both the IMF's and WB's reform failed to match economic with political power.

The BRICS worked together in face of those changes and, whenever possible, increased their voice and representativeness. Since their first joint statement in June 2009 (BRIC, 2009), the BRIC countries (before the inclusion of South Africa) advocated for a greater voice and representation in international financial institutions and welcomed the central role assigned to the G20 in the context of the 2008 crisis. Already in their Second Summit in 2010 (BRICS, 2010), however, the BRICS group began to broaden its agenda beyond the reform of the BWIs to design their own alternatives. In early 2012, the BRICS (2013) began discussing the possibility of establishing a joint development bank to address the deficit financing in infrastructure and sustainable development faced by emerging economies. The discussions resulted in the launch of the NDB and the CRA in July 2014. The delay in implementing the IMF's 2010 reform only served to boost the BRICS' proposal of creating alternative institutions.

Power in Global Economic Governance (offensive): creation of the NDB and the CRA

Under the umbrella of the BRICS Interbank Cooperation Mechanism (BICM), created in March 2010, and the Framework Agreement on Financial Cooperation, signed during the Third Summit in 2011, the BRICS Development Banks have worked on a number of monetary and financial initiatives.⁵ Those are usually announced as ways to strengthen their economic ties, and not as a challenge against the prevailing IMFS. For instance, fostering the use of their local currencies was not framed around the BRICS dependence on the US dollar, but "to facilitate trade and investment" between them (BRICS 2010, paragraph 12). A similar discourse is behind the proposal, championed by Russia, to create an interbank communication mechanism, which in practice would be an alternative for the Society for Worldwide Interbank Financial Telecommunication (SWIFT) (REUTERS, 2019; SULTOON, 2018).

The most successful initiatives which fit exactly into the description of a systemic offensive form of FS (ARMIJO; KATADA, 2015) are the BRICS New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), created in mid-2014 during the 6th BRICS Summit in Fortaleza. As predicted by the theory, both institutions were created under a defensive discourse, i.e. to "supplement the efforts of multilateral and regional financial institutions for global development" (BRICS, 2014, paragraphs 11 and 13). While the NDB would address the group's concern about the growing gap in infrastructure financing in the developing world, the CRA would serve as an additional line of defence to provide liquidity in case of balance of payments difficulties. Insufficient access to long-term development finance and short-term balance of payments problems are difficulties that can be traced back to the position of their currencies in the currency hierarchy. To that extent, both the NDB and the CRA can be understood as legitimate defensive strategies in relation to an unstable IMFS that poses a number of challenges for emerging economies.

⁵ The BRICS Interbank Cooperation Mechanism webpage is available at <https://www.brics-ibcm.org/>.

It is not the first time that emerging economies create international financial institutions to deal with the instabilities of the IMFS, but hitherto there had been mostly regional initiatives. Historically, there have been waves of initiatives of regional financial and monetary cooperation which were materialized through the creation of institutions led by emerging economies. In the 1970s, for instance, South American countries led the creation of both a development bank, the *Corporación Andina de Fomento (CAF)*, and of a pool of reserves, the *Fondo Latinoamericano de Reservas (FLAR)*, to support the regional integration process and also to deal with the external constraint (OCAMPO, 2006). Following the emerging economies crises in the 1990s, new initiatives of monetary and financial cooperation emerged as a second-best solution for them, given the absence of substantial reforms in the IMFS (UNCTAD, 2007; CUNHA, 2008). Emulating Asia's example, where the members of the Association of Southeast Asian Nations (ASEAN) plus China, the Republic of Korea and Japan (ASEAN+3) launched the Chiang Mai Initiative in 2000, South American countries began to invest in their own mechanisms for monetary and financial cooperation, such as the Mercosul Structural Convergence Fund (FOCEM, *Fundo para Convergência Estrutural do Mercosul*) (2005), the Local Currency Payment System in Mercosul (SML, *Sistema de Pagamentos em Moeda Local*) (2008) and the Banco del Sur (2009).

In this regard, the context in which the NDB and the CRA were created matter. This was the first time when there was actually space to increase the voice and voting share of emerging economies in the existing multilateral institutions and, still, the BRICS chose to create their own mechanisms. It seems that regardless of the timing and range of the reforms in the BWIs, the BRICS would have created their own institutions. They said they would already in 2010: "we have asked our Finance Ministers and Central Bank Governors to look into regional monetary arrangements and discuss modalities of cooperation between our countries in this area" (BRIC, 2010, paragraph 12). While the limited scope of the reforms in the BWIs, the delay of the US Congress in ratifying the 2010 Reform and the results of Los Cabos (see below) should not be downplayed, it is possible to argue that they only served to reinforce the defensive narrative of what was an offensive strategy since the beginning.

The NDB carries further significance because it is born out to tackle an issue that is dear for emerging economies and that has had a minor importance in the agenda of the BWIs, which is the issue of financing development and infrastructure. Most critics of the prevailing IMFS welcomed the creation of a developing-country alternative to finance global development (STIGLITZ, 2014; GRIFFITH-JONES, 2014), not least because the post-2008 GFC context showed that it would most likely continue to have a secondary importance in the global agenda led by advanced economies. While the Indian prime minister had alerted back in November 2008 that the coordinated G20 response to the crisis should include a component to deal with infrastructure investment – which was already low and expected to decrease further in a context of global uncertainties, as in fact happened –, that concern was never placed in the G20's core agenda (CHIN, 2014, pp. 368-369). The disappointment was cemented in the 2012 G20 meeting in Los Cabos, when the Mexican presidency underscored the 2011 results under the French presidency, which emphasized the role of the private sector in meeting the infrastructure gap (CHIN, 2014, pp. 369-370).

Because the starting point of the NDB is founded on infrastructure, development and environment-friendly (green) finance, there is a potential for competition in structural terms regarding the establishment of the ‘rules of the game’. This structural dare arises from the fact the NDB may generate a more balanced view in defining global priorities – i.e. it can work as an agenda setter. In fact, Chin (2014, p. 368) noted that the WB and regional development banks “are now returning to infrastructure financing, in part as a response to the ‘threat’ posed by the rising infrastructure financing of the BRICS countries”. The NDB also creates the space for competing views on policy prescription in the future, since it will project the perspectives and beliefs of their members in key policy areas, such as macroeconomic policies, economic development and social policies. If US monetary power has been hitherto reinforced by the inertia of a system largely dominated by American ideas and institutions, the NDB laid the foundation for potential competition at the multilateral level.

Power in changing ideas: BRICS’ role in the IMF’s new institutional view on capital flows

The BRICS also had a relevant role in the final design of the IMF’s new institutional view on capital flows (IMF, 2012). While the final document does not reflect exactly their preferred position (GALLAGHER, 2015, pp. 153-154), this shift in the IMF’s official position was significant and it certainly converges with what the BRICS, and other emerging economies, had been advocating since the 1990s. In practice, this alteration means that capital controls are now a legitimate measure in the policy-makers’ toolkit to deal with disruptive cross-border capital flows.

The discussion on the regulation of capital flows gained momentum in the aftermath of the 2008 GFC, when the quantitative easing monetary policies put forward by advanced economies pushed capital flows to emerging economies. In an attempt to deal with the adverse effects of this sudden inflow of capital eager for short-term yield, policymakers in some big emerging economies like Brazil and the Republic of Korea resorted to capital controls and other prudential financial regulation measures (PRATES; FRITZ, 2016). The problem was, as noted by the IMF (2012, pp. 7), policymakers were concerned “whether policies in response to capital flow volatility would give rise to punitive reactions by investors and be seen as unsound economic strategy”. To be sure, capital flight would punish economies for pursuing a deviant policy from what was considered the “correct policy,” which is the one that emanates from the IMF (KIRSHNER, 2003, pp. 13-16; COHEN, 2008, pp. 463-464).

The BRICS worked as an efficient coalition to voice emerging economies’ vision in relation to the use of capital controls, which ultimately contributed to shape the revision⁶ of the IMF’s view on capital controls (a comprehensive analysis is provided by Gallagher (2015)). It is relevant to note that this influence, this power they had in changing the rules to their favor was achieved not through material capabilities, in this case measured by their voting power within the IMF, which was very limited. Instead, the BRICS enjoyed the fact of being included in elite clubs – such as the G20, the FSB and the BCBS – to create a narrative that went beyond the discussions in the Fund. As noted by Gallagher (2015, p. 147), the “BRICS craftily traded across

⁶ This review is actually a re-review, since in its origins the IMF defended the use of capital controls.

regimes by leveraging their position within the IMF with actions taken in other international regimes where the countries had more equal power at the table – particularly at the G20 and the G24”. That also included learning ways to use the debate within the IMF’s staff to push their proposal. This coordinated movement amassed to allow them to punch above their weight in the change of the IMF’s institutional view (GALLAGHER, 2015, p. 126).

The “twin legitimacy crises of policy and leadership,” well described by Helleiner (2010, p. 630), were crucial for that coalition to work, since it created the context for the BRICS finding interlocutors in a way that emerging economies could not after the 1997-8 crisis. The wave of disbelief in market-driven financial systems that followed the financial meltdown placed prudential regulation as a priority topic in the G20’s agenda and gave rise to proposals that encouraged a decentralized cooperation approach to capital regulation (RODRIK, 2009; WARWICK COMMISSION ON INTERNATIONAL FINANCIAL REFORM, 2009; BRUNNERMEIER; CROCKETT; GOODHART; PERSAUD; SHIN, 2009; EICHENGREEN, 2009). During the 2011 G20’s Summit in Cannes, a consensus on broad principles was achieved in the “Coherent Conclusions for the Management of Capital Flows” (G20, 2011), which served as a basis for the discussions in the IMF. In this debate, there was a recognition that economies might have different needs in terms of regulation and, thus, there should be no reason to pursue a “one size fits all” global standard. Instead, there could be space for some autonomy of states in deciding their legislation.

This development was especially important for emerging economies because it legitimated the adoption of policies to deal with problems which are inherent to their subordinated position in the currency hierarchy. Hitherto, the regulatory policies emanated from advanced economies – mostly the US and the EU – were seen as the benchmark for the rest of the world. Emerging economies were in a permanent tension between adopting the “correct (liberalizing) policies,” and dealing with the adverse effects of volatile capital flows, or resorting to capital controls and prudential financial regulation, and risking being punish by the market. Ultimately, the need for more regulation is directly related to their position in the currency hierarchy, especially considering the interest rate differential (PRATES; FRITZ, 2016, p. 184). Ironically, the policies disapproved by the IMF, and the liberalizing mainstream, were the policies that made emerging economies to be less affected by the crisis and that allowed them to emerge as an important part of the solution to the crisis.

Since emerging economies’ “got their way” with the IMF’s new institutional view on capital flows, this has been acknowledged by the literature as a manifestation of emerging economies power. Helleiner and Pagliari (2011) called attention to the fact this power is manifested in terms of power-as-autonomy rather than power-as-influence. They urge scholars to update the theoretical framework in order to comprehend the transformations in terms of capital regulation that followed the 2008 GFC. By the same token, Gallagher (2015) developed the concept of countervailing monetary power to argue that emerging economies did not altered the underlying power structure but created space for economic policy autonomy. A similar understanding can be withdraw from the idea of defensive FS in Armijo and Katada (2015, p. 47) in relation to the use of capital controls, which appears both under the monetary and financial perspectives (respectively, “strategies to defend against the currency of a powerful neighbor (capital controls)” and “financial ‘policy

space' (public banks, capital controls)"). Ultimately, it is also implicit in the idea of "seek[ing] greater voice in global and financial and monetary governance" (ARMIJO; KATADA, 2015, p. 47), after all it is about a change in the IMF's institutional view.

Besides this defensive aspect, in the sense of power-as-autonomy, it is also possible to think that this demonstration of power by the BRICS countries shows a potential for power-as-influence insofar as it represents a change, even if marginal, in the ideas that generate policy prescriptions. That implies in recognizing the power of ideas, which "in and of themselves can affect policy choice," as put forward by Kirshner (2003, p. 14). It also implies in perceiving the informal rules of global governance, which allow actors to set up the agenda and control certain outcomes (STONE, 2011). It is clear that the BRICS' demonstrations of power in this regard have been shy so far, but it looks like the context of the crisis created a potential for more concrete advances in the future. They are now better represented in the BWIs' staff and also in other elite forums. Moreover, the creation of their own institutions shaped the space for them to articulate even more their ideas in the time to come.

Limits of the Financial Statecraft of the BRICS' countries: currency power

From the start, the BRICS deem it necessary to move away from a dollar-centric IMFS. China had been particularly keen on the proposal for a multilateral alternative to the dollar (XIAOCHUAN, 2009), an idea that was endorsed by the 2009 report of the Stiglitz Commission, convened by the President of the UN General Assembly (UNITED NATIONS, 2009, pp.115–116). Russia had been even more categorical in its discomfort with the IMFS' dependence on the US dollar, and declared in mid-2009 that it planned to reduce the share of dollar-denominated assets in its international reserves (EICHENGREEN, 2011, p.135). In 2010, the BRIC (2010) collectively declared their intention to discuss future opportunities for monetary cooperation, including local currency arrangements, further signalling their dissatisfaction with the dollar's key role. In the following meeting, implicitly expressing their dissatisfaction with a US dollar-dominated IMFS, the BRICS (2011) explicitly advocated for an increase in the use of the IMF's Special Drawing Rights (SDRs).

Their claim found an echo in the debate that was happening in the BWIs, which considered the shift towards currency multipolarity as a necessary condition to achieve a better distribution of costs and benefits in the IMFS, and so reduce global imbalances (WORLD BANK, 2011; IMFa, 2011). The unequal share of responsibilities was ultimately associated with the contrast between the international role of the dollar and the role of emerging economies' currencies, despite their growing presence in the global economy (WORLD BANK, 2011, pp.7–8). According to the IMF staff, "the limited role of EM [emerging market] currencies in international transactions stands in sharp contrast to their growing weight in the global economy, which is in itself a source of stress to the functioning of the IMS" (IMFa, 2011, p.3). In this light, the BWIs were categorical about the future of the currency landscape and the role reserved for the BRICS' currencies: "key EM currencies with potential for internationalisation are the Brazilian Real, Chinese Renminbi, Indian Rupee, Russian Ruble, and South African Rand" (IMFa, 2011, p.10).

In academia, the 2008 GFC precipitated a new wave of predictions about the dollar's potential demise and scholars suggested that the *exorbitant privilege* of the greenback could soon be shared, not only with the euro and the renminbi, but also with other contenders. In one example, Eichengreen (2011, p.8) argued, "where the Renminbi leads, other emerging market currencies, such as the Indian Rupee and Brazilian Real, could eventually follow". In a similar line, Cohen (COHEN, 2009, p.21) said, "several states around the world today are thought to harbour ambitions to amplify their monetary power – including, most prominently, the four BRIC countries (Brazil, Russia, India, and above all China)".

Politically, this discussion about persistent imbalances in the IMFS was put at the centre of the G20 agenda during the French presidency in 2011. President Nicolas Sarkozy (2011) identified the "instability of the international monetary system and commodity price volatility" as one of the challenges to be addressed, recognizing that "we've been living with the instability of the international monetary non-system since 1971". He summarised the French position saying that "the emergence of new economic powers will *inevitably* lead to the emergence of new international currencies" (SARKOZY, 2011, emphasis added).

Despite the critical discourse, the centrality of the US dollar remained untouched and, hence, American monetary policy continued to determine the relevant business cycles for emerging economies, particularly in terms of exchange rate movements. If we take into account that an important aspect of monetary power is the capacity of a state to avoid the burden of adjustment to external imbalances, a burden which is strictly related to a state's position in the currency hierarchy, it seems that little has changed in the IMFS' balance of power.⁷ More than a decade after the 2008 GFC, the dollar remains supreme and there is little threat from other competitors – at least for the moment (COHEN, 2015, p. 159).

In the less prosperous period of the global economy following the outbreak of the crisis, old currency constraints emerged, exposing the persistent unprivileged position of emerging economies' currencies in the currency hierarchy and their position as business cycle and policy-takers (TALEV; COLITT, 2012; LORD, 2013). Emerging economies were first caught in a "currency war," when the Fed's quantitative easing policy triggered a huge capital inflow to a number of emerging economies, and then were negatively affected by the capital outflows that resulted from the tapering of the Fed's security purchases (EICHENGREEN; GUPTA, 2015; AIZENMANN; BINICI; HUTCHISON, 2014). Meanwhile, the big boom of commodity prices ended, with oil and metal prices plunging in 2014, worsening terms of trade for commodity-exporting countries.

These setbacks in the global economy progressively exposed the BRICS' economies weaknesses and recalled expectations around their growing influence, China being the exception. Indeed, China's uniqueness among emerging economies and the BRICS became even more blatant with the inclusion of the Renminbi in the benchmark SDR currency basket in November 2015, meaning that China actually climbed the ladder of the currency hierarchy. Moreover, China now hosts the headquarters of the NDB, and can potentially host the CRA's headquarters too, meaning that Shanghai could become a new Washington D.C., further widening up

⁷ The swap arrangements the Fed made with other central banks in the context of the crisis serve to show that, instead of exercising its influence indirectly through the BWIs, the US began directly to decide the beneficiaries of the dollar liquidity (STEIL, 2014a; PERUFFO; PRATES, 2016).

the already large gap between China and the other BRICS countries (BATISTA JR., 2019, p. 246). Still, at least in the NDB, it looks like China has chosen (so far) to work on a level playing field with the other member countries, with all members having equal voting power and decisions being taken by simple or qualified majority (BATISTA JR., 2019, p. 252). There is no reason, however, to expect that always to be the case. In other agendas, including the IMF, China has used its economic weight to work individually (BATISTA JR., 2019, p. 173-175). Furthermore, China led the creation of another multilateral development bank, the Asian Infrastructure and Investment Bank (AIIB), which by several measures has been regarded as an institution that started ahead of the NDB (HUMPHREY, 2015).

Besides, both the NDB and the CRA were accused of doing little to overturn the previous balance of power in the currency hierarchy (STEIL, 2014b; EICHENGREEN, 2014). The CRA, in particular, establishes that withdrawals over 30% of a member's quota will require a program with the IMF, where the US still holds veto power (CARVALHO; FREITAS; GODOY; GOMES, 2015). The NDB, however, may have created the foundation to potentially challenge the currency hierarchy. In particular, it has innovated when it proposed to raise capital through bonds denominated in local currencies (COOPER, 2017). While it is almost natural to start with the Renminbi, India is well positioned to follow, along with Russia, and perhaps South Africa and Brazil as well (COOPER, 2017).

While it is important to acknowledge the potential presented by the NDB to challenge the dollar-centric IMFS, it is equally important to notice that it has not happened yet. Hitherto, the BRICS' unprivileged position in the currency hierarchy represents one of the greatest limits to their might, for their economies continued to be strongly affected by the cycles emanated from advanced economies (PERUFFO; PRATES, 2016).

Final remarks

The fallout of the 2008 GFC generated a puzzle in understanding power in monetary and financial affairs, particularly the role reserved by emerging economies in general and the BRICS in particular. While there was a wave of transformations in global economic governance, with the inclusion of the BRICS in main elite forums, this process did not evolve to a new IMFS where power is more balanced. More than ten years after the crisis, the IMFS is still ruled by the BWIs, where the BRICS and other emerging economies increased marginally their participation at the expense of some overrepresented European countries. The US continues to be the only country with veto power and the long-standing tradition of the WB being headed by an American citizen and the IMF by a European remains intact. Meanwhile, once the global financial contagion was controlled, the G20 lost much of the prestige it had during the height of the crisis. The most concrete step to challenge the global economic governance landscape was the creation of institutions led by emerging economies – the BRICS' NDB and CRA.

For a brief moment, it looked like the BRICS could actually change the system. The fact they failed says more about the hierarchical structure of the IMFS than about their individual might or the groups' cohesion. This hierarchical structure is based on the role different currencies play in the IMFS, with emerging

economies' currencies occupying a peripheral position. The centrality of the US dollar remained untouched and, hence, American monetary policy continues to determine the relevant business cycles for emerging economies, particularly in terms of exchange rate movements.

At the same time, the BRICS' initiatives serve to show that there are ways to pressure and influence the IMFS which go beyond currency power. The role they had in the final design of the IMF's new institutional view on capital controls is illustrative of how power in monetary and financial affairs can happen beyond material capabilities. Since private capital flows can punish governments for "bad policies," influencing the beliefs and ideas of what are the "good policies" is definitely an important form of power in the IMFS. This is even more significant if we consider the role the NDB can have in the future, eventually offering an alternative perspective to the IMF. Clearly this is all very subjective, hard to measure and some of those changes have not materialized yet. Therefore, it is important that the existing theoretical framework continues to advance if it wants to comprehend the monetary and financial power of the BRICS and other emerging economies.

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ABSTRACT

This article analyses the ongoing transformations in the international monetary and financial system (IMFS) since the outbreak of the 2008 Global Financial Crisis and the role played by the BRICS countries. It argues that while changes the BRICS countries have been marginal, because there was not a substantial shift in the underlying power relations, these changes still matter because they are power as an end in itself. The article looks into three areas where the group was relatively successful in challenging the system: (i) increasing their voice in major global economic forums (focusing on the IMF and the G20), (ii) creating new international financial institutions and (iii) influencing the IMF's new institutional view of capital flows. It then discusses the limits of the BRICS' monetary and financial power given their subordinated position in the IMFS, China being the exception. Understanding the rise and limitations of the BRICS' monetary and financial power is important because they encourage the existing theoretical framework to advance if it wants to understand how subordinated players in the IMFS – such as emerging economies and the groupings formed by them (like the BRICS) – can have their way in a system which is rigid, hierarchical and still dominated by advanced economies.

Keywords: BRICS; global financial crisis; monetary and financial power.

ABSTRACT

Este artigo analisa as transformações em curso no sistema monetário e financeiro internacional (SMFI) desde a Crise Financeira Global de 2008 e o papel desempenhado pelos países do BRICS. O artigo argumenta que, embora as mudanças provocadas pelos países do BRICS tenham sido marginais, porque não ocorreu uma mudança substancial nas relações de poder subjacentes, estas mudanças importam porque são poder como um fim em si mesmo. São examinadas três áreas em que o grupo foi relativamente bem sucedido em desafiar o sistema: (i) aumentar sua voz nos principais fóruns econômicos globais (com foco no FMI e no G20), (ii) criar novas instituições financeiras internacionais; e (iii) influenciar a nova visão institucional do FMI sobre fluxos de capital. Em seguida, discute-se os limites do poder monetário e financeiro dos BRICS, dada sua posição subordinada no SMFI, com a exceção da China. Compreender a ascensão e os limites do poder monetário e financeiro dos BRICS é importante porque eles encorajam o arcabouço teórico existente a avançar, se quisermos entender como atores subordinados – como as economias emergentes e os grupos formados por eles (tal qual os BRICS) – podem conseguir aquilo que querem em um sistema rígido, hierárquico e ainda dominado pelas economias avançadas.

Palavras-chave: BRICS, Crise Financeira Global, poder monetário e financeiro.

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