

Equality and Regional Finance in the Americas

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ABSTRACT

This article explores competing definitions of equality embedded in contending visions for regional finance in the Americas. The U.S. free market-oriented project envisions extension of a NAFTA-like regulatory framework hemispherewide, promising Latin Americans better financial services, credit, and investment in exchange for strong financial property protections and (implicitly) dramatically reduced financial policy autonomy for their governments. Venezuela's vision of "Bolivarian" finance, exported to the Caribbean and the upper Andes, promotes assertive state management of both foreign and domestic investors, populist redistribution, and increasing reliance on nonmarket financial transactions. Brazil's regional financial project would unite South America through continentwide physical infrastructure and capitalist financial markets while retaining a role for public sector banks responsive to central government priorities. Brazil's approach shares with Venezuela's an emphasis on governments' need for financial policy authority and with the U.S. approach a concern for regulatory predictability and financial deepening.

*E*quality 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 equity and justice. This article investigates the underlying views on how to achieve greater equality found in three competing regional financial projects in the Americas, associated respectively with the United States, Venezuela, and Brazil. It traces the practical policy relevance of alternative moral arguments (or rationalizations) that undergird international public policymaking even in a technically sophisticated issue arena.

The article begins with three distinct literatures that inform the study. Section 1 reviews contrasting ways that the ideas of "equality" and "finance" are linked in contemporary debates worldwide. Section 2 turns to international relations theory to develop the concept of a would-be leader state's "international political-economic project," identifying three such at present in the Western Hemisphere. The third section provides a snapshot of the financial architectures of the nine largest countries in the Americas and their international links. Sections 4 through 6 then demonstrate

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how each would-be leader state's overall international project translates into a vision of ideal financial relations within and among partner countries, focusing on their embedded conceptions of equality. A short conclusion summarizes the analysis.

EQUALITY AND FINANCE

Three conceptualizations of equality turn up with some regularity in discussions about financial regulation. These ideas (more properly, sets of related ideas, but I prefer simpler nomenclature) do not primarily result from straightforward empirical observations about cause and effect relationships, but instead represent causal assumptions or beliefs, often with strongly moral overtones, embedded in particular cultural, intellectual, or political traditions.

The first influential idea is equal treatment under the law for all investors or extenders of credit. The concept of equal treatment in commercial relations derives from a strongly held idea about fairness prominent in the United States, 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 nondiscriminatory. 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 understood as perpetuating old and illegitimate ideas. Moreover, national financial development requires the establishment of secure property rights in financial as well as physical assets (de 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 access the same offers as large shareholders) as individuals with a controlling interest in the firm. In sum, the first important idea about equality deals with the access of banks, creditors, and other investors to markets, and with legal and regulatory protection for owners of financial assets, both small (household savers, minority shareholders) and large (institutional investors).

A second conceptualization is that of equal access to finance for borrowers, in two versions. The first version, more congenial to those whose overall economic philosophy is conservative ("neoliberal"), identifies 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. Financial firms also should compete with one another. 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 typically to build infrastructure or create national industrial champions. Either way, state-led financing is distributed inappropriately on nonmarket grounds. Equal access will be furthered by privatizing state banks and opening new banking licenses to private banks, including foreign banks (La Porta et al. 2002; Caprio et al. 2005). Another theme in this conception of equality of access for private business borrowers is that of expanding stock exchanges and other decentralized, private capital markets.

In contrast, the second variant of “equal access” leans moderately left. It 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, such as large infrastructure projects 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: there is no objective cost of credit above which its price is universally evaluated as unreasonable. Nevertheless, the essential argument in favor of a prominent role for public sector banks and nonmarket allocation of credit (that is, in favor of increasing “financial repression” in order to improve equal access) in a generally capitalist economy is that some portion of the market is stuck at a socially undesirable equilibrium and needs the assistance of the state to escape this trap (Gershenkron 1962; Stiglitz and Weiss 1981; Amsden 1992; Allen and Gale 2000; Von Mettenheim 2012).

Here the implicit recipients of equal access are citizens, not necessarily as direct borrowers but as beneficiaries of publicly mandated and socially necessary investments. This version of equal access legitimates state banks. Public banks also may be asked to make the distribution of credit and financial services more equal among income classes and social groups by giving preferences to underserved borrowers or activities.

The third major theme is that of equal policy space for sovereign governments (Gallagher 2005; Chang 2002, 2003). Proponents repudiate the neoclassical economics assumption that international financial relations occur in an impersonal free market, in which buyers and sellers discriminate 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 allowing for national policy autonomy instead emphasize the enormous advantages that the advanced industrial democracies, as contrasted to developing economies, have in controlling their financial fate. 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—all of which differentially privilege advanced country investors and borrowers. Emerging powers can and should level the playing field by promoting national- or regional-level instruments of financial statecraft, such as public banks, capital and investment controls, and South-South multilateral financial cooperation.

THEORIZING ALTERNATIVE REGIONAL PROJECTS IN THE AMERICAS

We now turn from policy-relevant ideas to international relations. This article employs the concepts of leader state, international political-economic project, and international region (Armijo and Rhodes 2013). A would-be “leader state” is, first, a country that is relatively capable within a given interstate system—which may be global, regional, or subregional. Within the relevant interstate system, a plausible leader state is at least a major power in terms of its position in the systemic distribution of material capabilities (Waltz 1979). Second, the leader state must demonstrate a desire to initiate, maintain, or transform multilateral cooperation, despite the costs in scarce hard and soft power resources, such as time, money, expertise, and reputation.

Most would-be leader states, and arguably all successful ones, pursue an “international political-economic project,” a set of loosely related ideas (an ideational model) about how the network of international economic, social, and political ties ideally ought to look. An international project may be explicit and aggressive, as with Nazi Germany’s *Lebensraum*, or explicit and cooperative, as with West Germany’s promotion of the European Economic Community. Yet an international project also may be implicit and seldom stated, known only by the accumulation and tenor of a state’s policy choices toward its neighbors. Quite often, a country’s international project will seek to replicate its home country’s political, economic, and cultural values abroad.

These concepts are consistent with the approach of the “neoclassical realists,” scholars who understand systemic opportunities and constraints (as given by the distribution of material capabilities among sovereign states) as the dominant influence on foreign policy choice, yet also recognize a role for domestic preferences as shaped by interests, institutions, perceptions, and ideas (Rose 1998; Kitchen 2010). Net domestic preferences influence a country’s senior incumbent political leader (chief executive), who ultimately either approves or assumes responsibility for all consequential foreign policy decisions. National leaders engage in a “two-level game” (Putnam 1988), responsive on the one hand to constituent demands and on the other to incentives created abroad. While keeping in mind these complexities, it often is nonetheless convenient to discuss “Brazil’s preferences” as though there really were such an animal.

The interstate system itself is at once grounded in objective reality and partially defined by perceptions. This is particularly true at the subsystemic level of the region or subregion. A “region” is a group of states, usually but not always geographically contiguous, in which national leaders and some nontrivial proportion of the citizenry come to view themselves collectively, at least for some identity purposes and possibly for public policymaking. The scope of the region therefore ultimately rests on intersubjective understandings as well as objective demarcations (Fawcett and Hurrell 1995; Acharya 2007; Gómez-Mera 2008). Within both the global interstate system and a region (or subregion), the foreign policy preferences and actions of relatively large, powerful states are more consequential than those of small, weak states.

Table 1. Alternative Regional Projects in the Americas

| | Ideology | Scope | Institutions | Key Partners |
|---------------|--|---|-------------------------------|----------------------------|
| United States | Neoliberal, open regionalism | Western Hemisphere | NAFTA FTAA | Canada Mexico |
| Venezuela | Popular socialism, closed regionalism | Latin America and Caribbean | ALBA CELAC | Cuba Bolivia Ecuador |
| Brazil | Capitalist developmentalism | South America (sometimes Latin America) | MERCOSUR UNASUR (CELAC) | Argentina |

In the Americas today, one encounters incumbent governments in three countries—the United States, Venezuela, and Brazil—that have, during recent decades, made clear (through both words and actions, although with varying degrees of explicitness) their goals of leading or provoking a transformation of political or economic links in their region(s), resulting in new ties that are in some fashion closer or more interdependent. One obvious difference among these competing international (regional) projects lies in their geographic scope, and another in the economic ideology promoted. Table 1 summarizes key dimensions (for additional discussion, see Gustafson and Armijo 2011; Armijo and Rhodes 2013).

The policy initiatives of the United States promote hemispheric integration around promarket and business-friendly regulatory frameworks and cross-border investments (Williams 2012; Barshefsky and Hill 2008). Even under presidents or legislators from the Democratic Party, the U.S. vision is neoliberal. It is a project of open regionalism, meaning that market ties within the region are encouraged, but without overt discrimination against extraregional firms or countries, whether via trade barriers, capital controls, or other preferences for local or regional capital. The U.S. open regionalism is more universalistic in rhetoric than in practice, Marxist Cuba having been steadfastly excluded since 1962. The most loyal U.S. 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; Folsom 2008). Since the late 1990s, the United States has tried to extend the NAFTA agreement to the entire Western Hemisphere through the Free Trade Area of the Americas (FTAA). The more economically or politically conservative South American countries, Colombia, Chile, and Peru, also support open regionalism and have strong ties with the United States. The remaining larger Latin American states have ranged from friendly but neutral (Brazil) to distinctly cool (Venezuela, Argentina) toward U.S. efforts to organize the hemisphere.

Venezuelan policies since the 1998 election of President Hugo Chávez have favored construction of a Latin American or circum-Caribbean hemispheric group-

ing of mutually supportive and politically left-leaning states (Burgess 2007; Attar and Miller 2010). The vision, institutionalized with the 2004 creation of the Bolivarian Alliance for the Americas (ALBA), is robustly directed toward discrediting U.S. and Canadian capitalist economic dominance in the hemisphere and constructing a Latin American and Caribbean alternative. “Bolivarian” regionalism—after Simón Bolívar, hero of the 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 United States 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 (Burgess 2009; Lima 2010; Luce 2007; Malamud 2011) is the most implicit, and must be inferred partly from national policy choices. Although Brazil willingly joins hemispheric and Latin American and Caribbean cooperative bodies, its focus remains on South America. Brazil’s vision 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, and Bolivia, with former members Venezuela and Chile each holding associate status) on regional cooperation throughout South America. In 2004, the continent’s 12 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 its fellow Latin American nations much of the time, assisted by the implicit comparison with the more ideologically polarized alternative regional organization schemes promoted by the United States and Venezuela. Brazil’s national economic ideology is procapitalist, yet unapologetic about the need for state planning, public ownership, and promotion of priority economic sectors. Within South America, Brazil attempts to bridge left and right.

PATTERNS OF FINANCE IN THE AMERICAS

Countries' overarching international projects influence their choices in a range of specific international issue arenas, including but not limited to financial and monetary relations. Among all major emerging market regions, Latin America is arguably the most closely integrated into global, as contrasted to regional, financial markets: as of the early 2000s, local market prices of globally traded financial assets closely reflected world price movements, rather than tracking home market (or regional neighborhood) shocks (Galindo et al. 2009, 7; García-Herrero and Wooldridge 2007, 60–63).

Table 2 summarizes key financial facts about the nine largest countries. Three columns describe their domestic financial structures. Column 1 shows the total value of all financial assets—bank deposits, stock market capitalization, and outstanding private and public debt securities—as a share of GDP, or financial depth. *Ceteris paribus*, we expect higher income per capita to correlate with larger, deeper domestic financial sectors (column 1) and greater access to finance (column 2). Smaller or more politically conservative countries should have a higher foreign bank presence (column 3). As anticipated, the high-income countries, Canada and the United States, have the largest financial sectors and the largest share of adults with bank accounts. Among the Latin American countries, Brazil and Chile have the deepest financial markets and Argentina and Venezuela the shallowest. Access is better than the regional norm in Brazil, but worse in Mexico and especially in Peru. Foreign banks control the largest share of total banking assets in Mexico, followed by Peru; the smallest shares in Canada and Colombia; and a larger than expected share (18 percent) in the United States.

Table 2's latter columns assess countries' significance to global markets. Not surprisingly, the region's financial hegemon, the United States, also possesses overwhelming global financial resources. The U.S. domestic financial sector constitutes a third (34 percent) of the value of the sum of all the world's financial sectors at current exchange rates, shown in column 4. Moreover, U.S. firms and individuals are parties (whether creditors or debtors) in more than two-thirds (68 percent) of all outstanding international financial contracts—including foreign direct investment (FDI), portfolio equity, and debt securities—as shown in column 5. The U.S. share of global foreign exchange (FX) reserves (column 6) is minimal, as befits the issuer of the world's principal reserve currency. More surprising is the way the remaining countries cluster. Canada and Brazil look roughly similar in terms of their weight in international financial markets, except in official foreign exchange reserves, where Brazil's holdings are five times those of Canada. The remaining countries have small international profiles.

In other words, the United States more than possesses the underlying material conditions to be the dominant financial power in the Western Hemisphere. Brazil disposes of financial capabilities sufficient to make it a leader in Latin America and certainly in South America. Venezuela's objective financial capabilities do not render it a natural leader in this sector, even in Latin America. Yet they are consistent with its

Table 2. Major Financial Systems of the Americas:
Domestic Structure and Global Weight (percent)

| | Domestic Structure | | | Global Weight | | |
|---------------|------------------------------------|--|---|---|---|---------------------------------------|
| | Financial sector/ GDP (2009) | Adults with accounts/ All adults (2010) | Foreign bank assets/ Bank assets (2009) | Domestic financial sector/ World total (2010) | Share of transactions/ World total (2010) | FX holdings/ World total (2010) |
| Argentina | 52 | 33 | 28 | 0.11 | 0.02 | 0.54 |
| Brazil | 182 | 56 | 22 ^a | 2.09 | 0.39 | 3.14 |
| Canada | 311 | 96 | 5 ^a | 2.58 | 0.64 | 0.62 |
| Chile | 179 | 42 | 34 | 0.21 | 0.01 | 0.30 |
| Colombia | 90 | 30 | 9 | 0.15 | 0.01 | 0.30 |
| Mexico | 89 | 27 | 75 | 0.54 | 0.10 | 1.31 |
| Peru | 93 | 21 | 50 | 0.08 | 0.00 | 0.47 |
| United States | 357 | 88 | 18 | 33.89 | 68.19 | 1.33 |
| Venezuela | 62 | 44 | 26 ^a | 0.14 ^b | 0.02 | 0.14 |

^a2008

^b2006

Source: Domestic financial structure from Cihac et al. 2012; global financial weight from Armijo et al. Forthcoming.

adoption of a counterhegemonic role as leader of a coalition of smaller states opposing (perhaps mainly symbolically) postindustrial globalized financial capitalism.

Table 3 presents the core ideas about equality embedded in each regional financial project. Equal treatment for private investors and equal access for private business borrowers are important themes in the U.S. vision, but ensuring equal policy autonomy for all governments is not. For Venezuela, the goal of equal legal treatment for private investors is deemphasized and delegitimized. Its regional financial project instead values equal access to domestic financial markets (for the state, as the bulwark against market failures, and at least rhetorically also for poor households) and equal policy space (also for the state, to cope with the perceived structural inequalities of global financial markets). The rationales imbuing Brazil's more understated regional project address equal treatment for investors (yet with preferences for local capital allowed), equal access, and government policy autonomy, all from a comparatively centrist ideological position.

The next sections discuss the evolution of the three financial visions. My methods for identifying each financial project have been inductive, drawing on extensive interviews over several years with bankers and other finance professionals, academics, regulators, and politicians, as well as perusal of the financial and economic press and government websites.

Table 3. Conceptions of Equality Present in Regional Financial Visions

| | Equal legal treatment for creditors and investors? | Equal financial access for borrowers? | Equal policy space for developing country governments? |
|-------------------|---|--|--|
| U.S. vision | Yes (level playing field for foreign investors) | Yes (focus on private sector development) | No |
| Venezuelan vision | No | Yes (emphasize redistribution) | Yes |
| Brazilian vision | Yes (minority shareholder rights; modest preferences for locals) | Yes (attend to both private sector development and market failure) | Yes |

THE U.S. VISION: A HEMISPHERIC FREE MARKET FOR INVESTMENT

The conceptions of equality animating the U.S. 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 from U.S. government efforts. Adherents of the U.S. vision understand the goal of equal policy space for governments as representative of a fundamental misunderstanding of the nature of international financial markets, which they perceive instead as animated by impersonal and decentralized supply and demand.

The U.S. economic grand strategy promotes global free trade and investment. Senior policy intellectuals associated with both major political parties credit transatlantic, and subsequently East Asian, prosperity in the post–World War II era to the economic benefits of free markets (Cline 2010; Hufbauer and Suominen 2010). Most U.S. policymakers and economists 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 U.S. Departments of Treasury and Commerce, as well as of Congress (Wagner 1999; Wallach 2012). Another motivating factor stems from the balance of payments: financial services have long been one of the strongest U.S. exports. Private financial interests also exercise great influence in Washington, exceeding the political voice of this sector

even 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 inward foreign direct investment by financial firms (Chant n.d.).¹ In its financial services provisions (chapter 14), 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 “extraterritoriality” once demanded of China and other sovereign but vulnerable states by European colonial powers. The United States attempted to extend investor-friendly rules similar to those in NAFTA throughout the hemisphere through the proposed Free Trade Area of the Americas (FTAA) (Oxfam International 2003). 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. Since the early 2000s, U.S. government strategists have, at least temporarily, given up on organizing the entire hemisphere under the umbrella of the U.S. financial project. Instead, the office of the U.S. Trade Representative (USTR) promotes bilateral investment treaties (BITs) and free trade agreements (FTAs) with individual countries. Peru and Chile, two countries with such bilateral treaties, are praised on the U.S. Treasury website as “Latin American tigers” that “provide secure and fair environments to attract foreign investment” (Collyns 2012).

In addition to their efforts to seek equitable treatment for firms entering foreign markets, U.S. negotiators and experts have championed equality of financial access for private borrowers abroad, understood to be improved by greater competition in the banking sector, including from foreign banks. In the dominant U.S. mental model of financial regulation, almost any 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 (cf. 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 until recently made a condition for receiving emergency credits from international financial institutions such as the International Monetary Fund (IMF), and immortalized as the Washington Consensus (Williamson 1990, 2004). The U.S. government's continuing insistence that its trade agreement partners precommit to abjuring or removing capital account controls is noteworthy, given that in the late 2000s, 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 overwhelming dominance of the United States in terms of objective financial capabilities, it has been only partly 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 relatively conservative Andean nations, Colombia, Peru, and Chile. As a result of the global financial crisis that began in the U.S. subprime mortgage markets in 2007, the prestige and legitimacy of the U.S. financial model has suffered. Moreover, showcase country Mexico, hard hit because of its strong ties to the reeling U.S. economy, suffered a deeper downturn and slower recovery from the crisis than almost any other country in Latin America except Venezuela. The U.S. goal of incorporating Brazil into its regional financial project has been particularly elusive: Brazilian policymakers, while always careful to engage the United States courteously, have preferred to further their own regional project centered on South America.

VENEZUELA'S BOLIVARIAN HOPE: POPULAR CONTROL OF A MORALLY SUSPECT PROFESSION

Venezuela's regional financial project prioritizes equality of policy autonomy for national governments, even at the cost of partial withdrawal from global financial markets and institutions (Arruda 2008; Camara-Neto and Vernengo 2009–10; Gnos et al. 2009–10; Hart-Landsberg 2009; Philips 2009). Equality of financial access in the Bolivarian project means redistributing credit away from wealthy capitalists (banks and the business community, especially those based in wealthy countries) and toward previously excluded or underserved borrowers, both government, whose duty it is to invest on behalf of the citizenry, and low-income citizens.

The milieu that nurtured and ultimately rewarded a charismatic left populist such as President Hugo Chávez (1999–2013) was in 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 halts in international credit, such as during the Latin American debt crisis of the early 1980s. A decade later, the Mexican Tequila Crisis of 1994–95 sparked an enormous banking crash in Venezuela, ultimately costing 20 percent of GDP in government bailouts and rehabilitation (Hoggarth et al. 2002). Nor was liberal (today “neoliberal”) free trade ever very popular with the elites who dominated politics and policymaking, whether

commodity exporters, who longed for stabilization of volatile international commodity prices, or nascent industrialists, who sought tariff protection (Karl 1997).

Added to this environment has been 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 "cold," English-speaking North Americans.

The academic traditions and internalized mental 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 much economic analysis 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 local elite (Galeano 1997 [1973]; Cardoso and Faletto 1979). On this foundation, the Bolivarian movement, closely identified with President Chávez, proposes 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 extraregional but revolutionary and anti-imperialist states. The Bolivarian rhetoric demonizes traditional Venezuelan elite political classes, as well as their supporters in business and banking, many of whom either have disinvested or seen their companies nationalized. Despite ongoing conflict with its own business community, normally disastrous for the economy, the Bolivarian model has been economically viable due to the great natural resource wealth controlled by the state (Corrales and Penfold 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 of the first decade of the 2000s, Venezuela offered subsidized oil to several Caribbean island states and even to a few beleaguered northeastern cities in the United States (Labaqui 2012). 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 (Lapper 2007). 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 (*International Herald Tribune* 2010).

President Chávez also championed construction of a New Regional Financial Architecture (NRFA), first for like-minded neighbors of Venezuela, perhaps ultimately for all of Latin America and the Caribbean. Organizers hope the NRFA can include a regional development bank, an emergency stabilization fund, and eventually a new regional currency. The 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 November 2009 as a project of the Union of South American Nations (UNASUR) via an agreement signed by the leaders of South America's ALBA (Venezuela, Bolivia, and Ecuador) and MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) countries, although the more conservative Andean countries—Chile, Colombia, and Peru—declined to join. Member states, mainly Venezuela, Argentina, and Brazil, pledged a modest initial total of \$7 billion in capital (*BNB* 2009). Although the bank's headquarters will be in Caracas, its institutional design now looks more similar to that of existing multilateral development banks, such as the Inter-American Development Bank (IDB) or Andean Development Corporation (CAF). Seeing ideological control slipping away, Chávez began to rally supporters for a second regional development bank, the Banco de ALBA, to serve member countries. Although leftist intellectuals have hailed these innovative institutions (Hart-Landsberg 2009), it remains unclear whether either new regional development bank will be run on sufficiently businesslike terms to survive (Artana 2010). No loans had been made by mid-2013.

Another component of the proposed NRFA is a regional stabilization fund, intended as a friendlier alternative to the IMF. There are certain obvious economic challenges, such as 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 et al. 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, whose current members are Colombia, Venezuela, Ecuador, Peru, Bolivia, and Costa Rica. But FLAR in 2009 had a mere \$2 billion of paid-in capital (plus some ability to borrow), a sum insufficient to provide much help in a crisis, even if one affecting only a smaller country, such as Ecuador or Bolivia, with \$8 and \$9 billion, respectively, in foreign exchange reserves themselves (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, which lean left. In 2006 Venezuela withdrew from the Andean Community (CAN) but did not resign from FLAR, even though FLAR maintains its headquarters in Bogotá.² Another important question is whether (or when) Brazil will apply for FLAR membership (Biancareli 2011). Because Brazil itself is too large to borrow from FLAR, its membership instead would be a symbolic political—and financial—

pledge to pursue the goal of South American financial integration. The proposed ALBA stabilization fund does not solve these challenges of political cooperation.

A third stated aim of Venezuela's regional financial project is to free the region from its dependence on a reserve and transactions currency controlled by extraregional political authorities—that is, by the U.S. government (Fritz and Metzger 2006; Camara-Neto and Vernengo 2009–10). 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). The SUCRE would initially be used to invoice intraregional trade, with the hope of its evolving into something more, as happened in the European Union. Yet in December 2009, the leaders of ALBA's small Caribbean members, worried about their standing in 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. Nor is Ecuador in a position to exercise currency leadership, having used the U.S. dollar as official currency since 2000. Nevertheless, although Venezuela's ability to implement its preferred regional financial project remains quite limited, the ideas animating it have been widely disseminated in the region.

BRAZILIAN PRAGMATISM: A PUBLIC-PRIVATE FINANCIAL PARTNERSHIP

Brazilian leaders' implicit financial vision, whose contours may be inferred from the fairly consistent patterns of policy actions and diplomatic positions of presidents since the mid-1990s (Fernando Henrique Cardoso, Lula da Silva, and Dilma Rousseff), is the only one of the three repeatedly framed in terms of each of the three themes of financial equity: equal treatment for savers and investors, equal access for borrowers, and equal policy autonomy for governments. Unlike the relatively explicit visions pursued by the United States and Venezuela, Brazil's regional financial project is underarticulated—yet in this author's view, it is no less intentional and a subject for high-level policy attention. Brazil's foreign financial policies are part of its regional political strategy, originating with the executive branch, particularly the foreign and finance ministries, but regularly refined on the basis of comments from private business, as well as ministerial-level discussions with key allies, especially Argentina (Luce 2007, 72–109).

Despite emerging from much the same intellectual and policy background as Venezuela, Brazil's economic vision, which might be labeled capitalist developmentalism, has diverged in important ways (Almeida 2004; Boschi 2011; Arbix and Martin 2011; Brainard and Martínez-Díaz 2009; Fishlow 2011). In Brazilian senior economic policy circles the dependency paradigm is fading or dead, including its former presence under center-left administrations.³ Instead, many in Brazil's academic economics and government financial regulatory communities hold North American advanced degrees but have practical experience of Latin American mar-

kets, enabling them to speak the language of U.S. economic debates while arriving at more statist conclusions.

Thus there is today agreement across most of Brazil's political spectrum that annual inflation above about 6 or 7 percent unequivocally harms both growth and poverty reduction, and that fiscal discipline is a cardinal economic virtue (Armijo 1996, 2005; Amann and Baer 2006). The export pessimism that underlay years of protectionist policies has eroded, although the state remains responsive to the requests of large Brazilian industrial and commercial firms.

Nevertheless, 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 promarket 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 interests may press their policy agendas, has always tended toward gradual policy changes (Power 2010; Armijo et al. 2006).

The essential domestic political economy condition driving Brazil's international financial project is a long history of public-private collaboration in the financial sector (Armijo 1993; Welch 1993). This contrasts not only with the United States, where, prior to the global financial crisis that began there in 2007, transnational private banks arguably ran international monetary and financial policy, but also with contemporary Venezuela, where private financiers are almost wholly without amicable ties to central government regulators. In Brazil, six large banks (three majority state-owned, two private, and one foreign) together account for about 75 percent of banking assets, deposits, and loans (Von Mettenheim 2012). One of the six is the country's industrial development bank, the BNDES, which in 2008 extended new loans to Brazilian borrowers worth \$40 billion—more than the \$32 billion lent that same year to all of Latin America and the Caribbean by all the multilateral development banks (McElhiny 2009).

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 in which state firms and investors are major players. *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 public sector 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 domestic debt-for-equity swaps.

In terms of equal legal treatment for investors, a principal focus of Brazilian domestic financial regulatory policy in the capital markets in the 2000s has been fair

treatment of minority equity investors in family-owned firms (Santana 2008). Brazil has been a leader in offering technical assistance from both private market actors and government regulators to smaller stock exchanges throughout the hemisphere around the theme of shareholder rights and better corporate governance. The World Bank and the Organization for Economic Cooperation and Development (OECD) enlisted both Brazilian government regulators and nongovernmental activist organizations as founding leaders of the Latin American Corporate Governance Forum, which held its first conference in São Paulo in 2000.⁴

The efforts to expand Brazilian-style regulatory frameworks are not entirely disinterested, of course. The main trade associations for banks and capital market institutions, FEBRABAN and ANBIMA, are working with Brazil's giant securities exchange, BM&FBovespa (in 2009 the world's fourth-largest by market capitalization), on proposed technical rule changes to transform Brazil into a major financial center (Da Costa 2010). Brazilian banks are also large in regional terms, and aspire to expand abroad, especially in Latin America. The top 4 banks in Latin America by tier 1 capital are all Brazilian, and 3 of them are among the top 50 banks by this measure worldwide (Alexander 2010).

Brazil's enormous public sector development bank, the BNDES, promotes market access for Brazilian firms abroad. A particular BNDES focus since the late 1990s has been financing Brazilian firms engaged in megaconstruction projects on roads, dams, and waterways throughout South America. Many are associated with a multilateral (but largely Brazilian-conceptualized) set of infrastructure construction projects known collectively as IIRSA (Integrated Regional Infrastructure for South America), inaugurated in 2001 (Luce 2007; Zibechi 2006; Carvalho da Silva 2004). As Brazilian firms seek markets abroad, the government also has begun to concern itself with the financial property rights of outward investors (ECLAC 2010). In the early 2000s, Brasília supported Brazilian direct investors and service providers confronting the governments of Ecuador and Bolivia in disputes over the quality of dam construction and nationalization of Brazilian-owned natural gas assets, respectively.

This article's second broad theme is equal access to finance for borrowers. As in the United States, the dominant Brazilian conceptualization is access for business borrowers, seen as a crucial component of economic growth. In the mid-1990s, a majority of all Brazilian public sector banks then existing were bankrupt and had to be privatized (Stallings with Studart 2006). Nevertheless, and in contrast to the United States, Brazilian authorities today emphasize activist bank regulation—rather than bank privatization and competition—as the path to improved credit availability. Finance Minister Guido Mantega also attributes Brazil's relatively easy recovery from the 2008–9 international financial crisis in significant measure to the state's ability to enact economic stimulus relatively quickly and effectively. He explicitly credits public banks, which increased lending while private banks cut back, as responsive to government mandates (Wheatley 2009).

The majority state-owned Banco do Brasil (whose head President Lula da Silva publicly fired in March 2009 over what Lula felt were excessively high spreads between deposit and lending interest rates) is one of the big Brazilian banks expand-

ing into South America. As the Economist Intelligence Unit (2012) puts it, “As the Brazilian authorities consider themselves as growth inducers rather than growth facilitators, they regard the political use of regulatory agencies, public-sector companies, and public financial institutions as paramount in their strategy to bring about economic growth.”

In terms of our third category, equal policy space for sovereign governments, Brazil clearly envisions national financial policy independence for governments as essential. 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, by prior treaty commitments—as in the proposed FTAA—the rights to use those financial levers of national development policy that have on past occasions proven useful. These financial levers include capital controls, state banks, and the rights to impose temporary taxes or directed lending requirements on banks and institutional investors, including those headquartered abroad. The government also defends its right to impose additional requirements specifically on foreign investors.⁵

At the same time, 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 regarding arguably difficult neighbors, which earned these chief executives not inconsiderable scorn from the press back home. Thus official Brazil has had a muted response to Argentina’s decisions to impose special tariffs on Brazilian imports 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 BIT with the United States, not technically a violation of its MERCOSUR commitments but skirting the line.

The Brazilian government and foreign policy establishment are also keen to influence international financial policies in Latin America, especially South 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 seems eager to participate in any multilateral study committee on regional swaps or a new regional financial architecture. Brazilian economists are prominent in both the United Nations Economic Commission on Latin America (CEPAL), headquartered in Santiago—historically leftist and “structuralist,” although today centrist in economic ideology—and the Inter-American Development Bank (IDB) in Washington, “neoliberal” to many Latin Americans, although in reality promarket while championing regulation to achieve greater social equality. Brazilians also have played a large role in the Latin American Shadow Financial Regulatory Committee (CLAFF), which first met in Rio de Janeiro in 2000 to set out common positions. Relatively orthodox in the training and background of members, primarily former ministers and officials, CLAFF nonetheless insists that many developing countries, however well their domestic economies are managed, suffer under the handicap of “original sin,” or lack of access to long-term loans in their home currency (Eichengreen and Hausmann 1999).

Overall, networks promoted by Brazil have been important in nurturing a distinctly South American ethos of promarket developmentalism. Instead of following a Venezuelan-style strategy of trying to establish parallel regional financial 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, Brazilian negotiators participate even in initiatives that they neither control nor wholeheartedly support, from the FTAA negotiations to the Banco del Sur.

CONCLUSIONS: REGIONAL FINANCIAL PROJECTS AND EQUALITY

This article began with a discussion of three ways of conceptualizing societal "equality" as a quality of alternative financial architectures. It then suggested that would-be leader states in a given interstate system (global, regional, or subregional) might be motivated by an international political-economic project, whose dominant themes would bleed into multiple international policy issue arenas. The article outlined three competing regional financial visions in the Americas today, each of which legitimates itself by reference to increasing "equality" but attaches a different range of meanings to the term.

The U.S. vision prioritizes establishing the rule of law in financial transactions and contracts, yet its officials appear blind to the notion that 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 unbothered about ensuring equality under the law for private capitalists. Brazil's regional financial project is the most understated, yet is evidenced by cumulative national policy choices, whose policy content sits between the sharper-edged visions of the United States and Venezuela.

Brazil favors financial property rights, and thus is probanks and promarket, yet sees equal access to financial benefits for citizens as maximized by allowing room for state banks—but also for both private national and foreign banks. Brazilian policymakers also seek more equal financial policy space for national governments, and have pursued this goal by resisting treaty obligations (pushed by the United States) 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.

This article claimed that these three regional financial visions ultimately sprang from, and represented aspects of, the larger (and not necessarily fully explicit, clearly articulated, or static) international political-economic projects animating governing elites and opinion leaders in each of the three countries. If this is the case, then we also should see influences from this underlying ideational model in each country's foreign policy stances toward other policy arenas, from environmental politics to immigration policies. But that is a topic for another day (see Armijo and Rhodes 2013).

NOTES

Thanks, without responsibility for remaining errors, are due to André Biancareli, Barbara Fritz, Stephen Kay, Maria Antonieta del T. Lins, Laurissa Muehlich, Sybil Rhodes, Paul Talcott, Oscar Ugarteche, and four demanding but helpful anonymous reviewers. I gratefully acknowledge financial support and institutional hosting from desigualdades.net, Research Network on Interdependent Inequalities, Freie Universität Berlin.

1. The only aspect of regional financial cooperation in which the United States has promoted more intrusive or statist international financial regulations has been in pushing for obligatory transparency of offshore accounts and transactions to curb money laundering. See Glaser 2011.

2. Chile, meanwhile, withdrew from CAN in 1976 under its then–military dictatorship. In the mid-2000s the MERCOSUR countries and Chile all became associate members of CAN.

3. Consider, for example, the trajectory of Guido Mantega, initially a left-leaning academic steeped in the dependency tradition (Mantega 1984), subsequently president of the national development bank (BNDES), and then one of Brazil’s longest-serving (2006–present) and most globally engaged finance ministers.

4. As an illustration of Brazil’s centrist ideological position, 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 Porto Alegre, Brazil in 2001 (Nascimento 2000).

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

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