Emerging nation influence in the G20: Brazil's impact on discussions on Capital Account Controls and IMF Governance Reform

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Abstract

This thesis is rooted in the debate on the effects of adding emerging nations to the G20 framework, and the rise of multipolarity in the global order. It is also tangentially related to the debates on the legitimacy of the G20 as an international actor, where many criticize the exclusionary nature of the G20, calling it "executive multilateralism," undemocratic, and unrepresentative. But leaving these value judgments aside, this thesis will look at whether emerging and developing nations can be effective in wielding influence within the G20 framework, or if the G20 is merely dominated by a power struggle between its two largest nations, China and the US. This debate will be addressed directly, but through the narrow lens of Brazil's experience at the G20. It will examine Brazil's influence on two separate G20 agenda items: 1) capital account controls; and 2) IMF governance and quota reform. I argue that Brazil has been able to have marginal influence on debates, but the outcomes and ultimate success of a policy initiative is largely out of their control. The thesis concludes by considering the international monetary system debates in the G20 and the IMF, and speculates on whether agreement is likely.

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Contents

Introduction

In the wake of the worst financial crisis since the 1930s, the G20 organization was tasked in November 2008 with addressing the systemic and policy failures that led to the recent financial collapse. After initially attempting to coordinate reform on failed banking regulation policies the G20 has expanded discussions toward a coordinated global monetary system framework that is intended to provide stability and economic policy autonomy in emerging and developed economies alike.[1]* The G20 was originally created in 1999, in the wake of the Asian Financial Crisis (1997-98), by expanding on the informal soft power model of G7/G8 institutional governance. Key emerging and developing nations like Brazil, China, India, South Korea, and Mexico were invited in. Adding new delegates at the table was seen as a way to increase the legitimacy of the discussions and to bring new perspectives to reform a failed international financial system framework. Today the G20 represents 85 percent of the world's GDP and two-thirds of the world's population.[2]

The G20 had previously been a forum for national officials at the level of Finance Minister to meet on global financial governance topics. But after the onset of the recent crisis participation was raised to the president and prime minister levels. The Washington, D.C. Summit of November 14-15, 2008, dubbed as the G20 "Leadership Summit," was the first of this kind. Though the participation and importance of the

[1] * Though the terms are generally interchangeable in the literature, this thesis will consider "emerging" nations to be Brazil, Russia, India and China, the so-called "BRIC" countries. "Industrialized" or "developed" nations refer to G7 countries, as well as Australia, New Zealand, and all other western European countries and Greece. "Developing" nations will thus mean everyone else not in these two top tier groups, including the rest of the G20 countries not mentioned and all countries outside of the G20.
[2] G20, "The Group of Twenty: A History," Produced by the G20 (2008), 1-130.

summits were elevated significantly in 2008, there are divergent perspectives on the real meaning and purpose of the G20. Critics like Tony Porter, Mark Beeson, and Stephen Bell allude to a more cynical objective of powerful nations using the G20 as a forum for selling and legitimizing policies that are conceived at the G7.[3] Others, such as José Antonio Ocampo and Anders Aslund see the G20 as an illegitimate body for presiding over international economic cooperation due to the fact that it excludes most of the worlds developing nations. The original G20 structure was set up without permission from the UN Security Council and Aslund therefore views it as a "power grab" by larger nations, at the expense of excluded smaller nations who are the prime defenders of multilateralism and international law in the new multipolar global order.[4] However, Robert Wade has argued that multipolarity favors effective multilateral participation, but at the same time makes agreement in the G20 and IMF more difficult due to divergent interests and values of rising states--this is an important issue that will be explored in this thesis. Another group of scholars tend to view the G20 as a necessary but contested vehicle for reform of the international financial system. While it might not be as inclusive as some would like, these authors tend to focus on what the G20 has both discussed and accomplished, and often give recommendations for future initiatives.[5] While Aslund and Ocampo's claims are certainly valid, value judgments of the G20's legitimacy based on its lack of broad membership will be put aside in this thesis. Whether

[3] Mark Beeson and Stephen Bell, "The G20 and the Politics of International Financial Sector Reform: Robust Regimes or Hegemonic Instability?," CSGR Working Paper 174/05, (September 2005), 15.
[4] José Antonio Ocampo, "A Development-Friendly Reform of the International Financial Architecture," Politics and Society 39, (2011), 315-318.
And Aslund is referenced in Andrew Cooper's article:
Andrew Cooper, "The G20 as an improvised crisis committee and/or a contested steering committee for the world," International Affairs 86, no. 3 (2010), 752.
[5] Ibid.. and:
Robert H. Wade, "Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF," Politics & Society 39, (2011), 347-350.

the G20 is seen as successful in my analysis will depend in large part on two substantial factors. The first is quite simply the effectiveness of the G20 itself at reaching agreement on systemic reforms, which are then concretely enforced. The second factor, which will be looked at in detail in this thesis, is whether or not emerging and developing nations are able to wield substantial and meaningful influence within the G20.

The question this thesis will then examine is under what conditions, and how far can developing nations influence the outcome of G20 policy initiatives? To answer this question this paper will look in detail at two separate but related cases: 1) capital account controls; and 2) IMF quota and governance reform. These cases are specific agenda items that the G20 has discussed since 2008, and both have been brought up by Brazil. To understand how emerging and developing nations were either successful or not successful in influencing these agenda items, this paper will look at the two cases through the lens of Brazil's preferences and contributions since the 2008 G20 Washington D.C. Summit, where Brazil established itself as the leader amongst the emerging and developing nation group.[6] Brazil has a unique position among emerging nations since it prioritizes engagement in multilateral institutions as a means to spread its influence, and is generally seen as successful in building coalitions inside and outside of multilateral forums. If an emerging nation (China aside) is able to have a significant influence on the G20, Brazil would seem to be the most likely candidate for success in this regard.

This thesis will first proceed in Chapter One with a detailed analysis of existing scholarship on emerging and developing nation influence in the G20. Also, I will look at Brazil's rise to prominence on the world stage and the evolution of Brazil's foreign

[6] John Kirton, "Brazil's Contribution to Global Governance," G20 Information Center, last modified May 19, 2011, http://www.g20.utoronto.ca/biblio/kirton-eneri-110518.html

policy objectives as they relate to multilateral institutions, especially the G20. It will be argued here that Brazil represents the best country to consider for investigating the question of emerging nation impact. Chapter two will then examine the case of globally coordinated capital account controls, which has yet to be agreed upon in the G20 (or the IMF). This debate is interesting because it reflects a situation in which emerging nation interests are not yet being served by the G20, despite the fact that there exists a large amount of research suggesting coordinated capital controls would enhance the stability of the global financial system by limiting "hot-money" flows of short-term capital. Chapter three examines the case of IMF quota and governance reform, which can be considered a success story since G20 recommendations were implemented concretely in the IMF in December 2010. Since many of the debates on an international monetary system and capital controls have been occurring not just in the G20 but in the IMF as well, quota reform has been a very important issue for developing nations seeking to increase their voice on these topics.

To better understand Brazil's influence information will then be considered from official G20 communiqués, speeches and press releases by political leaders who participate in the G20, scholarly articles on the G20, and news sources, both papers and magazines. Wade's argument that multipolarity and adding emerging and developing nations into the G20 might make agreement more difficult appears unclear, while likely true to some extent, will be considered. It may not just be the new multipolar system, but rather also an emerging rivalry between the US and China. And both the US and China (the so-called "G2" nations), can play the role of spoiler on any initiative. Without agreement from both China and the US, Brazil and other emerging and developing nations struggle to achieve notable influence on their high priority agenda items.

Chapter 1:

International Power Dynamics and Brazil on the World Stage

This chapter will seek to position and explain the debate around emerging and developing nation influence in the G20 discussions thus far and will provide background on Brazil's rise to prominence while justifying Brazil as the best country to consider to measure emerging nation influence. It will also analyze existing international relations theory with respect to scholars writing on the G20. The theoretical debate is important in understanding prevailing views on the power dynamics occurring within the G20 today. The US and European powers created a complex liberal post World War II international framework that enhanced interstate cooperation through multilateral institutions, such as NATO, the UN, IMF, World Bank, and GATT/WTO. The leading world powers then used these institutions to spread their influence. But the dynamics of international cooperation have changed, and as a new class of rising powers has emerged, the old order is struggling with how to open inclusiveness and representativeness of these international institutions in a way that protects their own power but still gives emerging and developing nations the ability to expand their influence in a meaningful fashion. If industrialized nations fail in this task they risk an outright rejection of the established order by emerging and developing nations, and a counter movement against it.[7]

An analysis of the G20's position in the current interstate global economic power framework will then offer a clearer picture of how emerging and developing nations engage in the forum. I will then move on to examine the basis for case selection and

[7] G. John Ikenberry and Thomas Wright, "Rising Powers and Global Institutions," The Century Foundation, 2008, 7-10.

provide an overview of Brazil's rise to power on the international scene. This chapter will also help to define and explain the methodology that will be used to examine the cases studies in chapters three and four. The overall goal of this chapter is to understand Brazil's disposition and its potential to extend its influence within both the current G20 and multilateral frameworks. The offer by industrialized nations of greater inclusion does not necessarily mean that this gives emerging and developing nations substantially more power. In fact the exclusionary aspect of the G20 has in some senses split the developing world into an inner and outer circle. It appears that Brazil is keenly aware of this dynamic, and is seeking to represent the interests of even excluded developing nations as well. While benevolent and generous on the surface, it may simply be Brazil's way of extending its reach and influence, while balancing against industrialized nations attempts at creating a divide in the developing world. But regardless of how well Brazil engages, it appears their biggest challenge to success in the G20 is managing upward to the balancing dynamic between China and the US.

1.2 Literature Review

Initial hopes for substantial cooperation at the first leadership summit in Washington DC in November, 2008 were aptly characterized by Gordon Brown prior to the meeting, ". . .We've got this one chance to make a huge success of international economic cooperation."[8] Perhaps not surprisingly then, much recent scholarship on the G20 is focused on whether or not the G20 will be able to live up to expectations. Many argue that greater inclusiveness of developing nations and consequent divergent interests

[8] Andrew Cooper, "The G20," 744.

have made agreement more difficult. Media outlets and previous scholarship have referenced a divide between emerging nations and developed nations, but recent research by Stephan Shirm has shown this view could be incorrect. He found that there is ad hoc coalitions that form around each major G20 issue, with developing and emerging nations aligning with industrialized nations against equally diverse opposition.[9] The case studies in this thesis will support Shirm's view. Others, like Andrew Cooper and John Kirton, offer a competing view of the G20, one that indicates the relative speed of coordination and accomplishments has been faster and more concrete than most expected. According to Cooper, a striking degree of coordination has been established on national and international stimulus packages, and Kirton focuses on progress on International Financial Institution (IFI) reform, domestic regulation agenda coordination, and slender advances on current account imbalances.[10] In most of these cases, success according to these authors is measured by emerging nations being able to translate their preferences into an agenda item in the G20. With the exception of IFI reform, they do not tend to focus on concrete or binding changes to the international order.

Historically, binding and concrete coordination on international economic frameworks has happened quite slowly. It took 15 years from the crash of the New York Stock exchange in 1929 to reach agreement at Bretton Woods in 1944. As Eric Helleiner aptly noted, "It took time for old ideas and practices to lose their legitimacy and for new ones to emerge as models for the future." Similarly, the transition away from the embedded liberal order of Bretton Woods occurred incrementally over three decades,

[9] Stephan Shirm, "Global Politics are Domestic Politics," 5.
[10] Ibid., 755 and
John Kirton, "A Summit of Substantial Success: The performance of the Seoul G20," G20 Research Group, November 2010, 1-3.

starting after the US left the system in 1971.[11] But discussions on macro-prudential coordination that occurred in the 1930's did not proceed with the same enthusiasm or expectations that have characterized G20 summits since 2008. And the absence of multilateral frameworks in the 1930's did not lend kindly to international cooperation in general. Franklin Roosevelt unilaterally withdrew the isolationist US from international talks on financial and economic coordination in 1933, calling the talks 'efforts that reflected old fetishes of so-called international bankers.' Talks then did not restart in earnest until the two years leading up to the Bretton Woods summit that concluded in 1944.[12]

At Bretton Woods, there were 44 nations at the table who all agreed on the framework that would provide relative stability for the world financial system for three decades. Latin America was also heavily represented in the discussions at Bretton Woods. But what was different then is that all the nations participating in the talks were linked together through a strong military alliance against the Axis powers in World War II. There was a focus on creating an economic framework from the rubble of the war, and it was clear the US would emerge the hegemon that this system should be created around.[13]But with the pre-existing structures of a liberal economic and political order, combined with heavily integrated international economies, the foundations for cooperation appear on the surface to be more accessible today. However, international power dynamics are more complex and in flux. While the G20 does not have the benefit of nations linked through a military alliance or a clear hegemon to build a system around,

[11] Eric Helleiner, "A Bretton Woods Moment? The 2007-2008 Crisis and future of Global Finance," International Affairs 86, no. 3, (2010), 624.Helleiner is paraphrasing Roosevelt's statement.
[12] Ibid., 623.
[13] Ibid., 620-622.

a crisis ridden international financial order and failed policies originating from the US and other industrialized countries has been providing impetus for substantial discussion on cooperation nonetheless. However, as recovery is underway, especially in the emerging economies and the US, some fear that talks on global coordination are losing steam as a result.

While the US remains the largest and most powerful nation in the G20, its legitimacy has been weakened as a result of the crisis, even though it is still widely considered the hegemon of the global order. George Bush even acknowledged to Brazil's President Luiz Inácio Lula da Silva, in the emergency meeting on October 11, 2008, prior to the Washington Summit of the G20, that the crisis was the fault of the US and due to failed regulatory policies.[14] Free markets, deregulation, and free movement of capital are increasingly under fire, and discussions at the G20 level are to some extent questioning neo-liberal policies in developed economies. This is particularly true with respect to discussions on minimum capital requirements, capital account controls, and regulation of international "cross-border" financial conglomerates.

Paul Cammack goes further than John Kirton or Andrew Cooper, and describes what is occurring at the G20 and within IFI's as a substantial shift in favor of developing nation influence. He argues that the G20 is in the early stages of institutionalization, and that developing nations are shaping institutional norms as well as the debate on global governance.[15] Implicit in his argument is that power on the international level is characterized by economic growth and dependency of industrialized nations on the labor forces of developing nations like China and India. And he, like Kirton, concentrates on

[14] John Kirton, "Brazil's Contribution."
[15] Paul Cammack, "The G20, the Crisis, and the Rise of Global Developmental Liberalism," Third World Quarterly 33, no. 1, (December 2011), 1-5.

how developing nations are influencing the debates through collective action within IFI's and the UN. But since there does not appear to be a clear emerging/developing nation power struggle against industrialized nations forming at the G20, these theories do not seem to accurately reflect what is actually occurring in this particular forum. Also, while there might be some positivist correlation one could find, it is not clear that economic growth and labor dependency are good measures of how influential a country might be in the G20.

According to Stephan Schirm, coalitions in the G20 appear to form around domestic interests and ideas that are translated upward, a phenomenon that is better explained by intergovernmental or liberal IR theory. Coalitions on issues do not follow a "north-south" divide, or homogenous emerging/developing and industrialized groupings. Rather, coalitions in the G20 are ad-hoc mixtures of the two.[16]Andrew Moravscik has suggested that liberal theory considers power and global influence to rest on various forms of "civilian power," which are high per capita income, trade, investment, migration, and most importantly the attractiveness of social and political initiatives.[17] Yet one of the most powerful nations at the G20, second only to the US, is China, which is not considered a normative or "civilian power" on the world stage. China may lack the power of attractiveness, but it certainly wields its weight at the table in the G20.Thus while liberal IR theory may be useful in explaining national positions and policy inputs, it is not appropriate as an explanatory tool in this particular study, which is focusing on an outcomes based analysis of emerging and developing nation influence and power in the

[16] Stefan A. Schirm, "Global Politics are domestic politics," 4-8.
[17] Andrew Moravcsik, "Europe: Rising Superpower in a Bipolar World," in *Rising States, Rising Institutions: Challenges for Global Governance*, Alan Alexandroff and Andrew Cooper, eds. (Washington DC: Brookings Institution Press 2010), 155-157.

G20 system. And the G20 is not a group of like-minded nations, with shared values. Rather it is in large part characterized by a clash of ideas and interests that seems to dominate most of the debates.[18]

Neo-realist theories put forward by scholars like G. John Ikenberry have suggested the G20 is a forum where stronger powers seek to include emerging powers into the existing multilateral system so that the emerging powers do not reject the dominant order altogether and thus collectively attempt to counter it. This “opening” occurs in zero sum politicking to balance and control with the new members.[19] Some critics of the G20 have suggested that the only partial opening of the G7 to the G20, with a bias toward big countries, has only re-concentrated power into a larger club.[20] This does seem a valid criticism since the G20 has essentially divided the developing world, perhaps weakening the influence of the periphery of excluded nations. And it has brought the larger “threatening” developing and emerging nations closer to the fold, which might lessen the chance of these larger nations from creating a countermovement against the existing order. This is not to say that emerging nations cannot influence stronger nations in discussions at the G20, in fact this clearly happens on many issues, but when viewing the system as a whole the winner and losers of greater inclusion are difficult to assess at this point.

In part, Ikenberry’s model does seem to explain present phenomenon since a balancing between China and the US appears to be occurring in a zero-sum manner, especially on the issue of exchange rates. And few initiatives at the G20 progress without the express backing of one of these two large powers. Neo-realist theories do then seem

[18] Wade, “Emerging World Order,” 365.
[19] Ikenberry, “Rising Powers,” 8-10.
[20] Andrew Cooper, “The G20,” 743.

helpful to explain current events in the G20, but where there might be a gap in the literature is in terms of how the balancing is happening. The rest of the emerging and developing countries in the G20 are approaching the forum with relative caution. Brazil is a good example of this. They are assertive at putting ideas forward and criticizing existing policies, but during phases of brokering and negotiation they wait for big powers to disclose their positions. This makes them predisposed to avoidance of any kind of general alignment with other emerging nations in the G20.[21] Therefore alliances in the G20 seem scarce, and it can better be characterized by the adage "every man for himself," as opposed to balancing among groups of like minded countries with shared interests. This view is supported by Robert Wade, who investigates the concept of the "multipolarity governance dilemma," which supposes that a more diffused world power structure generates a higher premium on multilateral cooperation than a unipolar system, yet at the same time agreement is much more difficult to reach in a multipolar system due to highly divergent interests, beliefs and preferences. Wade, like Beeson and Bell, sees the G20 as being a forum dominated by G7 nations interests, and he therefore predicts a retrenchment to regionalism and unilateralism in the years ahead.[22]

Then an important question concerning emerging nations' ability to wield influence at G20 level is the changing nature of hegemony in the international system. Robert Cox has argued that a hegemonic world structure is one in which power tends to recede into the background. Weak states accept dominance of the stronger states and see

[21] Maria Antonieta Del Tedesco Lins and Leandro Pignatari Silva. "Brazil and the G20:Recent Development Strategy and Strength among 'New' emerging Economies." In *G20: perceptions and perspectives for global governance*, ed. Wilhelm Hofmeister and Susanna Vogt, (Singapore: Konrad-Adenauer-Stiftung, 2011), 26.
[22] Wade, "Emerging World Order," 353-359.

their power as legitimate.[23]The US is still widely considered the world hegemon, but the acceptance of this status by emerging and developing nations is dubious at best. Weak(er) states have joined the G20, and participate in the prevailing multilateral frameworks, but it is also clear through their criticisms of the policies of the established order that they do not necessarily accept the current power paradigm as legitimate. Yet emerging and developing nation's participation in multilateral institutions is to some extent an implicit acceptance of the hegemonic order, but perhaps also a cost-benefit analysis that suggests a lack of participation or outright resistance is not beneficial at this point in time. Cox is likewise critical of Neo-realist theories, which he considers more valid in times of "fixity" or stability, like the Cold War for example. He argues they do not tend to explain power in times of a shifting world order. But like Neo-realist theories, Cox still assumes that there is a necessary tension between developing and developed nations that will play out based on shifting power structures. But just by looking at the emerging nations group in the G20, one can see differences on many different issues, especially between China and Brazil.

In short, similarities of political and economic systems do not seem to be the prevailing glue that brings nations together in the G20. Geography, culture, export dependency, and past experiences with failed liberal economic policies domestically all play similarly important roles in interest formation of G20 nations, and perhaps in part explain why on many issues emerging nations and developing nations alike do not see eye to eye. Realists have argued that the G20 should have been more selective, forcing

[23] Robert Cox, "Social Forces, States and World Orders: Beyond International Relations Theory," Millenium Journal of International Studies 10, no. 126 (1981), 136-141.

nations to undertake certain economic and political reforms prior to entry.[24] Had this logic been followed it may in fact have made agreement easier, but would have raised the risk of leaving out important emerging and developing nations, especially China. So then how nations like Brazil deal with the changing nature of hegemony in the multipolar world system, and how they navigate it to extend their influence in the G20 will be explored to understand this gap.

1.3Emerging Nations and Brazil in the G20

Amongst emerging and developing nations there is a sense that models of statehood and economic governance that the G7 states have developed over the past 40 years are no longer valid models to follow. On this matter the BRICs agree, and the shift of ideas away from western traditional models have made the BRICs less 'absorbable' within some expanded version of the liberal greater west.[25] According to some this leads to more disagreement than the G7 countries experience in the smaller membership circle. But there is also ample disagreement amongst the BRIC states themselves. Brazil is situated in the middle of the BRIC camp in total economic weight. It has the sixth largest economy in the world with a GDP of $2.49 trillion (2011). China is the second largest economy in the world with a GDP of 7.3 trillion, and Russia lags slightly behind Brazil at $1.85 trillion.[26] All of the BRIC nations are export dependent surplus economies, yet their economies are in fact significantly different in composition and geopolitical priorities, which often poses problems for coalition building amongst the BRICs at the

[24] Stephan Shirm, "Global Politics are Domestic Politics," 5.
[25] Andrew Hurrell, "Brazil and the New Global Order," 64.
[26] "World Economic Outlook Database," International Monetary Fund, Accessed on May 18, 2012, http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weoselgr.aspx

G20. Their diplomatic approach on the world stage is likewise dissimilar; each country engages at the G20 level in a different manner and with different agendas. On the major G20 issue of exchange rates, the BRICs do not see eye to eye--Brazil and India are both critical of China's manipulation of the value of the Yuan since it affects their own export competitiveness.

But it is the US that is the largest critic of China's exchange rate policy, and in turn China, along with Brazil, heaps criticism on the US' quantitative easing programs. China and the US' influence on issues in the G20 is in a sense proportionate to their size and their importance in the world economy. Nonetheless Brazil favors engagement with the changing multipolar global order, and their focus is on spreading their influence and steering discussions through multilateral negotiation. Brazil in particular has been able to have a noticeable impact on the G20, and in some cases there is evidence that Brazil has influenced the standing of the United States. For example, Brazil and China's continued criticism of US' recent monetary and fiscal expansion is thought to at least in part have influenced the US to abandon the idea of a third quantitative easing program.[27] But part of the challenge for emerging nations in the G20 is that the informal framework does not give them protections of a rules-based system to confront larger nations via coalition building and voting structures. Yet emerging nations are still expected to undertake additional responsibilities and shared burdens on compliance measures to maintain their legitimacy in the G20.[28]

Perhaps because of this concern, Brazil's primary focuses at the G20 has indeed been pursuing the expansion of and democratization of IFI's (International Financial

[27] "Brazil Minister Warns against QE3," Financial Times, accessed December 18, 2012, http://www.ft.com/intl/cms/s/0/d4e47a4e-d57f-11e0-9133-00144feab49a.html#axzz1vIlnW7NI
[28] Andrew Hurrell, "Brazil and the New Global Order," Current History 109 (2010), 66.

Institutions) for its own purposes and on behalf of all developing nations that are currently underrepresented.[29] It was Brazil who insisted on expanding the FSF (Financial Stability Forum) and BCBS (Basel Committee on Banking Supervision) membership to include emerging and developing in the first two G20 Leader Summits. Brazil has also continued to lead on pushing for IMF quota reform. The crisis of 2008 is seen by Brazil as a referendum on an illegitimate system that was created by the US and Europe in the past several decades. The negative effects from increased capital inflows into the Brazilian economy have confirmed this belief. While Brazilian economic development benefited from the neo-liberal order between 2003-2008, Brazil was still hesitant to buy into the policy basket that Washington was advocating.[30] And since the recent crisis Brazil has drastically increased its rhetoric against the old ideas of the previous hegemonic order.

1.4 Question

The recent financial crisis seems to have accelerated the changing dynamics of power within the G20, and in the broader world system. This then affects developing and emerging nation's ability to effectively influence the course of events in the G20. By using neo-realist perspectives on hegemonic balancing, this thesis will seek to understand how Brazil's strategies and relative power in the G20 affect their overall influence in the forum. The question this thesis will then examine is under what conditions, and how significantly, can Brazil and other emerging and developing nations influence the outcome of G20 policy initiatives? To be clear, I will not look at how emerging and

[29] Andrew Hurrell, "Brazil and the New Global Order," 64.
[30] Ibid., 60-62.

developing nations collectively have an influence, but specifically how individual countries' efforts in the G20 have, or have not, been successful in extending their own national interests.

1.5 Case Selection

An overall analysis of the G20 agenda items is not possible in the scope of this thesis, the issues are too varied, and in many cases too general, such as the G20's commitment to finding a solution for "sustainable and balanced growth." Agenda items like this sound forward looking and intriguing in a summit communiqué, but what this statement actually means to different nations is substantially divergent. The idea of creating coherent policy around such vague statements is likewise problematic at best. Furthermore, many agenda items and commitments appear to be placeholders or merely talking points, with no clear action plan in place to address them. Every G20 summit sees more and more commitments being made by the Leaders. At the London Leader's Summit in April of 2009, 88 commitments were made.[31] By November 2011, at the Cannes Summit, 282 commitments were documented,[32] a drastic increase that has occurred over a two and a half year period when the G20 has been criticized for its decreasing ability to produce agreement on substantial matters. Not all of the 288 commitments are of equal importance, and the vast majority are not covered by media or academics at all. Therefore, agenda items that lend themselves to substantial study need to be among the most salient issues at the G20, and in the case of this argument, issues

[31] "The G20 London Summit Commitments." G20 Information Centre, last modified June 29, 2011, http://www.g20.utoronto.ca/analysis/commitments-09-london.html

[32] "The G20 Cannes Summit Commitments," G20 Information Centre, last modified February 4, 2012, http://www.g20.utoronto.ca/analysis/commitments-11-cannes.html

that are substantially salient to not just the G20 but to emerging nations as well. The cases to be examined in this thesis are 1) capital account controls and 2) IMF quota and governance reform. Both of these issues have become important agenda items, and appear to be growing in salience, not just in the G20, but in press and media coverage as well. What makes these cases interesting is that at first glance one would think that they would likely be split along an emerging/developing versus industrialized country divide. After all, it is the emerging and developing economies that are under represented in IFI's. And because capital account controls have not been acceptable practice in the neo-liberal order of industrialized countries, one might think this would again be split along a north-south divide. However, this type of partitioning has not happened on either issue.

Each of the two cases also offers a different outcome to examine, and will then allow for an analysis of how, and under what conditions, emerging and developing nations are able to influence policy at the G20 level. Brazil's prominent position amongst emerging and developing nations makes its perspective on the G20 highly interesting. If there is an emerging nation (China aside) that can wield influence at the G20, Brazil is the most likely candidate. Both cases to be examined were put forward by Brazil as agenda items. The mere fact that Brazil introduced these issues has allowed Brazil more influence over the trajectory of discussions, and possibly the final outcomes.

Why then is Brazil a better country to focus on than the other BRIC nations? China, because it has the second largest economy in the world, is on a different playing field than the rest of the emerging and developing nations, making it too unique of a country to consider in terms of its "representativeness" on issues that other emerging and developing nations are dealing with. It also raises ire amongst developing and industrialized countries alike due to its undervalued currency. Its authoritarian government reduces its perceived normative legitimacy in multilateral frameworks and China's influence in the G20 is in large part due to the size and global importance of its economy. Yet, unlike Brazil, China does not appear ready or willing to take a leadership role on behalf of developing nations in the G20.[33]Russia, like China, lacks the democratic legitimacy that Brazil and India have. Russia's pre-occupation with hard power and unilateral bargaining weaken its role in multilateral frameworks. And Russia appears to play a rather minor role in most G20 discussions in general. While both India and Brazil are seen as possessing ample "soft power" in the G20, Brazil has been more active in building coalitions inside and out of the G20 to help support its goals than India. And Brazil has more closely aligned interests and political relationships to other G20 nations in its region (Mexico and Argentina). Since coalition building is a key ingredient of success in the G20 and other multilaterals, this makes Brazil a more interesting country to consider than India in terms of how effective it can potentially be in the G20.

1.6 Methodology

To better understand Brazil's influence information will then be considered from official G20communiqués, speeches by political leaders who participate in the G20, scholarly articles on the G20, and news sources, both papers and magazines. The analysis will consider countries' historical preferences and how they have changed (or not changed) in response to discussions at the G20. While I will consider events and national preferences before 2008, the critical analysis of the G20 will be based on the post crisis period, starting with the Washington D.C. Summit of November 14-15, 2008.

[33] Andrew Cooper, "The G20," 753.

While individual countries influence on discussions at the G20 will be looked at in detail, the ultimate measure of whether a country has been successful or not is based on if their particular policy initiative gained agreement and was implemented in a concrete and enforceable fashion. Therefore the final analysis will give less weight to a nation's influence on discussions and more weight to concrete accomplishments.

Chapter 2

Case Study: The G20 and Capital Account Controls

In November 2008, following the collapse of Lehman Brothers and the subsequent crash of the US and world stock markets, the G20's meeting in Washington DC was primarily concerned with coordinating a response to the economic crisis. The main topics discussed were banking regulatory reforms, understanding root causes of the crisis, Credit Rating Agency reform, common principles for reforming financial markets, IMF quota reform, and a commitment to free market principles in recovery strategies. Absent from the discussions of the first four G20 summits was the issue of exchange rates and capital controls. But as the US expansionary fiscal and monetary policies of near zero interest rates created negative externalities (beginning in late 2009) of large capital inflows to emerging markets with liberalized financial systems, to Brazil in particular, the issue soon made its way into discussions by the G20 Seoul Summit in November, 2010. By the Cannes summit in November of 2011, this had become an important issue being discussed in the G20, and also within the IMF as well.

This chapter will examine in detail the discussion on capital controls at the G20 level. It will also considering the related conversation on the so called "currency wars," where countries across the globe are unilaterally devaluing their currencies to maintain trade competitiveness and growth. The chapter will start with a discussion of the wider debate on capital controls before zooming into the G20 and IMF discussions. Since capital controls have been considered illegitimate by the predominant neo-liberal order, much of the scholarship on capital controls is focused on arguing against their use through examination of case studies, or trying to understand if unilateral capital controls can be effective measures for developing countries based on broad empirical analysis.[34]But authors like Kevin Gallagher, Dani Rodrik, and Arvind Subramanian have recently put forward arguments in favor coordinated capital controls through an international body like the IMF so that emerging and developing countries have a coherent set of policies to implement to help dampen the negative effects of global imbalances.[35] By following unilateral national responses of Brazil and other G20 countries, and then tracing discussions in the G20 and IMF on capital account controls, this chapter will seek an answer as to why a concrete coordinated solution on this matter remains elusive, despite apparent growing sympathy from industrialized nations, and even the US. Though Timothy Geithner, US Secretary of the Treasury, and G20 Finance Minister, publically endorsed Brazil's unilateral actions in February 2011 during a speech in Rio, Brazil,[36] it appears that agreement on any coherent coordinated policy for capital account controls is being bogged down in the dispute between the US and China on exchange rate policies. And furthermore, though Sarkozy has publically called for a coordinated system that limits capital flows inward and outward, there does not even seem to be clear agreement amongst G20 nations already using capital controls on whether permissions on unilateral use is good enough, or if there should exist a coordinated system.

[34] Nicolas E. Magud, Carmen M. Reinhart, and Kenneth S. Rogoff, "Capital Controls: Myth and Reality—A Portfolio Balance Approach," National Bureau of Economic Research Working Paper, (February 2011), 1-5.
[35]Kevin Gallagher, "Taming the Liquidity Tide," Financial Times, (March 8, 2012).
[36] Gallagher, "Regaining Control."

2.2 Background on Capital Control Discussions

Much like Brazil, China and South Korea are also seen as "neo-development states," or states that have embedded markets that are subject to more controls and protections than fully liberalized developed nations.[37] Because macro-economic policy is an essential element of the development strategy of these states, losing control of policy autonomy in this sector has severe repercussions throughout other more developed parts of the economy as well. Though they were referring to an international monetary system with fixed exchange rates, a key concern of John Maynard Keynes and Dexter White in development of the Bretton Woods framework was that international capital movements should not be permitted to disrupt the policy autonomy of the new interventionist development states that would be created in the post-World War II environment. Their goal was primarily to protect macro-economic planning measures for developing European economies.[38]But even today in the current system of floating exchange rates high levels of inward capital flows can be significantly destabilizing by creating large asset bubbles, restricting autonomy of monetary and fiscal policies, distorting trade imbalances, and wreaking havoc on state coordinated industrial development initiatives. Unfortunately for many developing nations, due to the rise of neo-liberalism and deregulation as a dominant policy dogma in the 30 years prior to the 2008 crisis, capital controls were widely considered to be illegitimate protectionist measures.

And much of the scholarship previous to the crisis on capital controls deals with these types of value judgments, as well as the relative effectiveness of unilateral

[37] Kevin P. Gallagher, "Regaining Control? Capital Controls and the Global Financial Crisis," Political Economy Research Institute Working Paper Series 250, (February 2011).
[38]Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990's*, (New York: Cornell University Press, 1990), 33.

implementations. The critics of capital controls, while admitting they have been effective in some cases, tend to emphasize the adverse effects controls can have on growth, how easy they are to evade, and the rent seeking behavior they can produce. But in his recent works, Kevin Gallagher has argued that regulations on cross-border capital flows are effective vehicles to correct market failures while also enhancing growth, not worsening it as many suggest. Gallagher recommends that the IMF and individual countries should step up their efforts to provide monitoring and enforcement of capital controls, not just in developing countries, but with a coordinated plan between both industrialized and developing and emerging nations.[39] Nicolas Magud, Carmen Reinhart, and Kenneth Rogoff, poke in jest at the cyclicality and amnesia of scholarship on capital controls, which seems influenced by whether authors are writing in times of booms or busts. During good times the popularity and legitimacy of capital controls suffers in the literature. But in performing a broad based historical and empirical study, Magud, Reinhart, and Rogoff conclude that unilateral capital controls (on average) have made monetary policy more independent, altered the composition of capital flows and reduced real exchange rate pressures. However, they have not seemed to reduce net inflow volumes. What they note, is that problems with studies like theirs, and most others on this topic, is that the variety of capital controls that have been implemented are highly variable, and conditions and timing of implementation vary as well from country to country. Also problematic is the existence of offshore financial centers, which pose serious problems for the idea of any kind of coordinated policy that seeks to stem avoidance of controls on inflow and outflows of capital. Nonetheless, there is a wide variety of literature arguing for or against. And while most of the literature focuses on

[39] Gallagher, "Taming Liquidity."

developing nations use of capital controls, industrialized nations, particularly Japan and Germany, have even use these tools as well.[40]

There are two camps of countries that use capital controls, those that use them consistently and pervasively as a stabilizing mechanism on exchange rates, and those that favor free capital flows, but implement capital controls when bubbles or distortions begin to appear. The first group is made up of countries like China and India, who have been using capital controls for many years, as well as the poster-children for capital controls, Malaysia and Chile, and these countries have enjoyed relative economic stability, perhaps as a result.[41] The latter camp is comprised of countries like Brazil, South Korea, and Taiwan who tend toward liberalized capital flows, but freely use capital controls when their markets and policies come under stress. In a recent paper produced by the IMF, they have concluded that the use of capital controls since the crisis has produced measureable results for individual countries using them, but that it has broader spill over effects that exacerbate trade and capital account imbalances in other nations. While this finding is really not that novel in the wider literature, it at least describes the present position of the IMF, which suggests that capital controls should be a last resort for countries facing exchange rate or policy autonomy pressures.[42]

Dani Rodrik has been a harsh critic of the IMF policies on capital controls, and has chastised IMF President Dominique Strauss-Kahn's public disapproval of Brazil's capital control measures that were introduced in late 2009. Rodrik argues that prudential controls on capital flows make a lot of sense. Short-term flows constrain macroeconomic

[40]Magud, Reinhart, and Rogoff, "Capital Controls," 1-8
[41]Magud, Reinhart, and Rogoff, "Capital Controls," 3-5.
[42] Jonathan D. Ostry, Atish R. Ghosh, and others, "Capital Inflows: The Role of Controls," IMF Staff Position Notice, (February 19, 2010), 1-8.

policy, and "hot" inflows make it very hard for financially open economies like Brazil to maintain currency competitiveness, which is the most important element of industrial policy.[43]But overall, even the critics admit that capital controls have been effective on national levels. And because these critics do not focus on coordinated controls, perhaps because there is a lot less data available for this kind of study, they really are talking about a different animal than what Rodrick, Gallgher, and Subramanian are advocating, which is the implementation of a coordinated system, that checks inflows and outflows, between both industrialized, emerging and developing nations. This divide becomes a bit more clear in examining the events in the past three years.

2.3 Unilateral Implementation of Capital Controls and "Currency Wars"

The discussion on exchange rates in the G20 has occurred in a few different contexts. Initially, in 2008 and 2009, there was scant talk of capital controls. Communiqués from the first four leaders summits indicated passing reference to only a commitment to fighting protectionism at its roots on trade and investment.[44] When credit markets froze in 2008, any measures that would restrict global capital flows were seen as detrimental to a global recovery. Ironically, part of the reason for the crisis' global impact was in fact because of liberalized capital flows. As credit markets froze in the US in 2008, many developing economies that were dependent on US and European capital were even harder hit than the developed countries where the crisis was born. And countries that had been using capital controls prior to the crisis, like India and China,

[43]DaniRodrik, "The IMF Needs Fresh Thinking on Capital Controls," Project Syndicate, (November 12, 2009).
[44] "G20 Communiques," G20 Information Center.

went relatively unscathed in comparison to other emerging and developing nations.[45] But as credit markets eased and recovery began in the US and emerging countries in 2009, the elephant in the room at G20 talks became the issue of exchange rates.

Concern began to grow over the evolving "currency war" between many G20 nations, and several non-G20 nations as well. Brazil's finance minister coined this term at the G20 meetings and described it as nations resorting to capital regulation on inflows, such as taxes on foreign purchases of bonds, equities, and derivatives, and reserve requirements on short-term inflows.[46] As the effects of the US' Quantitative Easing programs began to surface in 2009, many fast growing emerging nations were the unwilling recipients of large inflows of capital that had hugely destabilizing effects on macro-economic policies due to upward pressure on exchange rates, that consequently worsened trade imbalances. One of the largest critics of the US expansionary fiscal and monetary policies at the G20 has been Brazil.[47] At the Seoul Summit, which was attended by both Brazilian President Lula and President-Elect Dilma Rousseff, both Brazilian leaders expressed their displeasure with US policies. According to John Kirton, President Lula's position based on various statements he made around the summit can be paraphrased as: first you caused the crisis and now you print money to devalue your currency and force adjustment costs on others.[48]

The quantitative easing programs of 2009-2011 (QE1 and QE2) pumped $2 trillion into global capital markets, and thus created a large volume of short-term capital

[45] Gallagher, "Regaining Control."
[46] Jose Antonio Ocampo, Stephany Griffith Jones, and Kevin P. Gallagher, "Spotlight G20: The G20's Helpful Silence on Capital Controls," Project-Syndicate, last updated Oct 30, 2011, http://www.project-syndicate.org/commentary/the-g-20-s-helpful-silence-on-capital-controls.
[47] Kirton, "Brazil's Contribution."
[48] Kirton, "Brazil's Contribution."

flows from the US into Brazilian equities, as well as other emerging markets. US investors and financial institutions were seeking higher interest rates and quick profits from Brazil's high growth rates. This is thought to have contributed to pushing up the value of Brazil's currency (the real) as much as 40% between January 2009 and August 2011, which in turn hurt Brazil's exports and GDP growth significantly.[49]In an effort to fight inflation, Brazil maintained interest rates of over 10 percent in 2009 and 2010. Because of the higher Brazilian interest rates, arbitrage investors in the US, able to borrow at zero or near zero percent from the US Fed, then re-invested in the Brazilian economy. This major flow of capital to Brazil and subsequent rise in their currency value stifled the autonomy of their monetary and fiscal policies.

In late 2009, in the face of a sharp rise in the value of their currencies, Brazil, South Korea, and Taiwan began implementing capital controls to defend against foreign short-term investment, or "hot money." The strategies each country used were different and initially were not sanctioned by the G20 or IMF. President Lula agreed to deploy a tax on inflows, using an "IOF" tax (Impostosovre Operações Financeiras), or simply translated to a "financial transaction tax." In this case the initial IOF tax levy was 2 percent, and it applied to conversion of foreign currency into Brazilian real that would be used to purchase equity or debt on the Brazilian stock exchange or on the Over The Counter (OTC) derivative exchanges. Though initially the exchange rate pressures cooled upon announcement of the controls, the tax turned out to not be significant enough to deter foreign investment. Brazil then raised the IOF tax in 2010 to 4 percent, and by November 2010, the IOF tax rate was increased to 6 percent. Investors from the US then began trying to bypass the controls through ADR's (American Depository Receipts),

[49]Ocampo, Jones, and Gallagher, "G20 Spotlight."

which allowed US investors and banks to buy shares of foreign companies outside of the United States. Firms could purchase Brazilian shares, but in New York, and thereby skirt Brazilian IOF controls. Brazil then had to raise a tax on ADR's of 1.5 percent. Despite these efforts, investors still were finding ways around the controls, using creative techniques to disguise short-term money as Foreign Direct Investment (FDI). Brazilian investors would create a public company on the Brazilian Stock Exchange (BOVESPA). The Brazilian investors would own all the shares and then manipulate share price by arranging sales at low liquidity. The foreign investor would then buy over half the company, making it appear to be FDI. Though the controls were eventually seen as partially successful, and did lead to a cooling off of the rise of the real, enforcing these taxes on just the receiving end has proven difficult for Brazil.[50]

Without a coordinated international capital control system, where flows are monitored in and out, unilaterally regulating inflows is extremely difficult for individual nations. Even Tim Geithner, US Secretary of the Treasury, condoned Brazil's capital control policies as a necessary measure at a speech in Rio in February 2011.[51] Condoning unilateral action by Brazil is maybe a small step for the US. However, they still do not publically support coordinated capital controls in the global economy. According to Eric Helleiner, as Keynes and White also noted, capital controls are far more effective if they are controlled by nations at both ends of the transaction. Therefore to create a stable international monetary system, global agreement becomes

[50] Kevin P. Gallagher, "Regaining Control."
[51] Ibid..

necessary.[52]Global agreement on this topic has so far remained elusive, in large part due to the stubborn-ness of the US.

2.4 G20 Debates on Capital Account Controls

On March 31, 2011, during the French Presidency of the G20, the summit of the "Seminar of Reform of the international monetary system" was held. Nicolas Sarkozy gave the opening remarks at the forum, and he held no punches in making Frances position on the matter very clear,

> Since 1990, the world has undergone 42 crises resulting in sudden stops of capital flows in a country or zone. I would like to ask this question: How can the emerging countries manage their economic policy when they have been confronted, in a period of less than six months, with sudden capital outflows followed by massive inflows? How can anyone manage economic policy under such conditions? It's impossible.[53]

Sarkozy goes on to say that France does not support free movement of capital. And he applauded the efforts over the past 15 years to move away from fixed exchange rates and to create reserve currencies to compete with the dollar, like the Euro.[54] Though this was France's first public statement at a G20 Summit about the problems of liberalized capital, it was not the first time this issue was voiced at the G20. Official statements from the first four G20 summits proclaimed that member nations agree to fight protectionism at its root on trade and investment.[55]The implication was that financial protectionism is not to be tolerated, but some news reports suggested this statement was primarily aimed at China's policies and its undervalued renimbi. However, likely this was also meant to be a shot across the bow to several other G20 countries that were considering or had already

[52] Ibid., 38.
[53] Nicolas Sarkozy, "Address By Nicolas Sarkozy, President of French Republic: Opening of the G20 Seminar on Reform of the International Monetary System," Nanking China (March 31, 2011).
[54]Ibid.
[55] "Declaration of the Summit."

implemented capital controls to devalue their currencies through accumulation of large amounts of reserves. To developing and emerging nations these macro-prudential tools were seen as legitimate protective measures, and entirely necessary to protect their economies.

In the lead up to the Seoul Summit of November 2010, press coverage indicated high expectations for progress on the G20 agenda. However, it ended up being largely overshadowed by debates between US and China on the so called "currency-wars," with the US criticizing China's strategy of amassing large reserves of dollars to keep the Yuan undervalued by at least 20%. China responded with their own criticisms, stating that the crisis and global exchange rate imbalances are due to both the lack of responsible policy and lack of oversight in developed nations, particularly in the US. Though the conversations were primarily between China and the US, Brazilian President Lula was also openly critical of the US during the dialogue. This was perhaps out of character according to scholars that have perceived Brazil's general G20 strategy as avoiding confrontation with superpowers. Then the fact that Brazil challenged the US perhaps indicates the importance of the issue for Brazil. Yet, both China's and US' policies were having a deleterious effect on Brazil's export competitiveness. The US' QE1 and QE2 programs were clearly a much larger and more immediate problem, but trade competitiveness with China is still an issue for Brazil.[56]

But interestingly, what seemed like a stalemate at the G20 may in fact may have been the start of incremental changes from both China and the US. Starting in June of 2010 through February 2012, the renminbi appreciated 12 percent against a basket of

[56] Del Tedesco Lins and Silva. "Brazil and the G20," 27.

world currencies, though it is still considered undervalued by between 5 and 20 percent.[57] And while the US economy might have benefited in the short to medium term from a third quantitative easing program, it is thought that part of the reason the US has not moved ahead with QE3 is due to staunch opposition from emerging nations, especially Brazil and China.[58] To some extent China is seen as bending to US pressure to increase their currency value, but China is doing it according to their own terms. They have pursued a gradual expansion of their currency value, while meanwhile focusing on boosting domestic demand.[59]Despite these efforts, Geithner and the US have continued their harsh language toward China over their slower than acceptable revaluing of the renminbi. While things appear to be moving in the right direction, there is still tension with the US. And though this may be only incremental success, the big story for Brazil is the discontinuing of the quantitative easing programs, which Brazil likely influenced through their diplomatic efforts at the G20.

Though the primary issue at Seoul was currency wars, it was Brazil that explicitly brought the issue of capital controls to the table for the first time at this same Summit. Brazil and other emerging and developing nations such as South Korea, Indonesia, Thailand, and Taiwan, were already taking unilateral action on capital controls to defend against inflows of foreign hot money, primarily from the US.[60]Even developed nations like Switzerland and Japan have recently deployed capital controls to stem the rise of the

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[57] "Renminbi (Yuan)," New York Times, last updated May 31, 2012, http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/yuan/index.html
[58] "Brazil Minister Warns against QE3," Financial Times, accessed December 18, 2012, http://www.ft.com/intl/cms/s/0/d4e47a4e-d57f-11e0-9133-00144feab49a.html#axzz1vIlnW7NI
[59]Hansoo Kim, "Currency Issues at the G20 Summit and Their Implications," International Finance 2, no. 4 (2010), 76.
[60] "G20 gives green light to capital controls," Bloomberg Wire, accessed May 20, 2012, http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=g20-gives-green-light-to-capital-controls-2010-11-12

value of their currencies,[61] and Japan has done this in face of criticisms against their expansionary monetary and fiscal policies that are also contributing to flows to developing economies. Thus Sarkozy is not alone in his concerns about the effects of liberalized capital flows. The national policy responses they create can lead to increased imbalances and negative externalities for other vulnerable countries. This is precisely why Sarkozy has been pushing for a coordinated global framework that will both create a new world reserve currency and limit short-term capital flows.

In the G20 thus far, there have only been small steps in advancing talks on the issue of capital controls. But in the Leader's Declaration from Seoul, due to Brazil and other emerging and developing nations urging, the G20 finally recognized that unilateral capital controls would be considered legitimate in certain situations. The statement reads:

> Advanced economies, including those with reserve currencies, will be vigilant against excess volatility and disorderly movements in exchange rates. Together these actions will help mitigate the risk of excessive volatility in capital flows facing some emerging market economies. Nonetheless, in circumstances where countries are facing undue burden of adjustment, policy responses in emerging market economies with adequate reserves and increasingly overvalued flexible exchange rates may also include carefully designed macro-prudential measures.[62]

The statement goes on to say that the G20 will work with the IMF to create an international monetary system that will bring stability and balance to the global economy. There is clearly no mention of coordinated capital controls, though this is something also being discussed within the IMF as part of the framework for an international monetary system, which will be examined in more detail in the following chapter. Official G20

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[61] Ocampo, Jones, and Gallagher, "G20 Spotlight."

[62] "The G20 Seoul Summit Leader's Declaration," Wall Street Journal, accessed on May 31, 2012, http://online.wsj.com/public/resources/documents/G20COMMUN1110.pdf

documents never specifically name countries, but this carefully worded agenda item clearly excludes permission on macro-prudential tools for China, and likewise it casts blame towards the US and Japan for their expansionary policies. One can also see a not so subtle thread of the US' influence in this statement. Though the US was initially opposed to capital controls of any kind, and prevented any mention on this topic in previous communiqués, they have come to endorse unilateral controls similarly to how it is outlined here. Specifically, the US, and the IMF for that matter, only believes capital account controls should be implemented as a last resort, after all other measures to defend against unwanted inflows and subsequent exchange rate increases have been attempted. The position of the IMF is then likewise problematic for industrialized and developing nations who support capital controls since the US possess veto power of any substantial initiative within the fund. But in at least a partial about-face, a recent study published by the IMF voiced serious concern over the ability to regulate capital flows in the world's economic integration clubs that mandate liberalized capital accounts.[63] Specifically here they are referring to the Eurozone. While the IMF position might be slowly shifting, the most important member in the IMF has yet to follow suit in a meaningful way. And despite the possible warming of the IMF position, Gallagher, Ocampo, and Jones still consider the IMF plan flawed, and claim it would be a mistake for the G20 to endorse the proposal in its present form.[64]

Furthermore, alliances on the capital controls debate are not following any clear industrialized versus emerging/developing nation grouping. In addition to his push for an international monetary system, the specific issue of capital controls has also been a

[63] Gallagher, "Taming the Liquidity Tide."
[64]Ocampo, Jones, Gallagher, "Spotlight G20."

priority for Nicolas Sarkozy since the Seoul summit. His first public statement on the issue was at the G20 meeting on the international monetary system in February 2011. And at the Cannes Summit of November 3-4, 2011, Sarkozy then called on the IMF to develop an enforceable code of conduct for the use of capital controls. Due to G20 discussions an independent task force has since been created in the IMF to examine capital account regulations and come up with alternate guidelines.[65] Though no agreement in the IMF has been reached, the hope is that this might change due to the increased focus on the issue from the G20. In theory, given Geithner's commentary on this issue in Brazil in early 2011, one would assume the US would back conditions for unilateral use. But nothing yet has been agreed to in the G20 or the IMF, and the US position to date can be characterized as ambivalent at best.[66]

2.5 Conclusion

The picture that emerges from Brazil's involvement at the G20 on the issue of currency wars and capital controls is that diplomatic strategy on the part of Brazil has likely been as successful as could reasonably be expected, though overall it has been relatively minor. Brazil appears to have at least in part influenced the position of the US, though China clearly wielded more weight in the discussions. Even though the pro-capital control coalition had the backing of France and other G20 countries, these elements of the coalition pale in importance to the US and China dynamic. Therefore a drastic change in the US outlook likely will not arise unless China's exchange rate manipulation practices change significantly, and there is a subsequent sharp rise in the

[65] Ocampo, Jones, Gallagher, "Spotlight G20."
[66] Gallagher, "Gaining Control."

value of renminbi. A change in the US outlook would be a pre-condition for an agreement on coordinated capital account controls, especially so for agreement on an international monetary system.

This makes Brazil's strategy of aligning with China on this issue interesting to consider since Brazil will not get what they want until China does an about face on their current exchange rate manipulation policies. Unfortunately back room discussions are rarely accessible in the G20, but clearly Brazil is aware of this factor, and perhaps is working to influence China's currency adjustment as well. Though progress has been incremental, suggesting agreement might not be impossible, it is most likely a long way off. Furthermore, the IMF has even released statements suggesting that agreement on an international monetary system is not something that should be expected soon—this will be explored in more detail in the following chapter. Though not part of the dominant, proposals for an international monetary system in the G20, coordination on restricting international capital flows is something that is being discussed as a possible addition. Ocampo, Gallagher and Jones thus conclude that perhaps it is good that there is little agreement on capital controls at the moment in the G20 since the IMF proposal for using controls as a last resort is faulty logic at best.

Chapter 3:

Case Study: IMF Quota and Governance Reform and an International Monetary System

Maybe the most notable success, but also unexpected results of G20 Summits since 2008, has been the reform of IMF governance and quotas. Due to its failed lending policies, the IMF had as much as faded into irrelevance following the Asian Financial Crisis (1997/98) and the Latin American Debt Crisis (2001). But a return and refocusing to multilateral economic governance after the 2008 crash has led to a veritable rebirth of the IMF, in large part because of the G20's commitment to revitalize it.[67] Authors like Robert Wade have focused on this peculiar rebirth. But he looks in detail at whether the IMF or multilateral forums like the G20 can be perceived as legitimate in the new multipolar world, and if this new world order is suitable for multilateral cooperation in general. He identifies what he calls, the "multipolar governance dilemma," which surmises that diverse and more flattened world power structure puts a high premium on the ability of states to cooperate in multilateral institutions. But at the same time the divergent interests, preferences and beliefs make cooperation more difficult. His study is meant to be predictive, and he sees a future of increasing unilateralism and regional policies in macro-prudential governance.[68]

This chapter will consider Wade's lens on multilateral institutions, but by asking the question of whether or not Brazil has been able to have a measureable influence on

[67] Anton Malkin and BessmaMomani, "Emerging Powers and IMF Reform: Where Multipolarity in the World Economy is Leading the Fund," University of Waterloo, (2011), 5-7.
[68] Wade, "Emerging World Order," 353.

the discussions of IMF reform within the G20, and how exactly it has or has not achieved this. Wade's view, similar to other scholars like Beeson and Bell, is pessimistic as to the ability of any nation aside from G7 countries (particularly the US) to meaningfully pursue their interests within the G20 framework. But these authors are focused on concerns of legitimacy and hegemony, more-so than measureable results emerging nations have achieved. The issue of IMF reform provides a case where the G20 was in part successful in its stated aims, and the conditions for this agreement will be examined. First a discussion on the background of IMF reform leading into the G20 discussions will be looked at, followed by an analysis of how the G20 discussions progressed on IMF governance reform. Related to the previous chapter, discussions on a coordinated international monetary system in the G20 and IMF will also be considered. Since the IMF will likely be the monitoring body if such a system is ever created, this will allow the analysis to zoom in on perhaps the most daunting task that lies ahead for the G20 and IMF. Like the previous debate on capital controls, Brazil's influence on discussions has to be looked at against the positions of China and the US, the latter of which was instrumental in pushing through the IMF reform package. Brazil got an increase in quota share and saw its position in the IMF elevated more than most other emerging nations, only second to China. But Brazil's overall influence on this process seems to have been overshadowed by the actions of the US.

3.2 Background on IMF Governance Reforms and Practices

IMF Governance reform has been debated within the IMF since the late 1990's, especially after the Asian Financial Crisis of 1997/98.[69] Following the crisis, developing nations in Asia began amassing large reserves and paying back their IMF loans as quickly as possible so that they could prevent a situation of ever again having to seek IMF help in times of crisis. Eastern European and developing Latin American countries followed suit. Asian nations that received loans from the IMF during the crisis more-or-less collectively agreed that the fund's policy advice was ill-conceived and that it reflected ideas and goals of American policymakers that were unfit for their particular national economic contexts and development strategies. After the events in Asia and Latin America the IMF then quickly descended into a full-fledged identity crisis. Reserves dwindled, it cut staff, and the IMF found very few willing customers for its loans. [70]Since 2000 until the onset of the recent crisis, IMF loans had dropped sharply, from $107 Billion at the end of 2003 to $35 billion in mid-2006. US contributions to the IMF were $74.85 billion in 2003 and by 2006 they had declined to $7.92 billion. Between 2001 and 2011, global currency reserve accumulation soared from $2 trillion to $4.7 trillion, and it was primarily concentrated in just six countries. A loan to Turkey now accounts for two-thirds of credit outstanding for the IMF. Due to odd incentive structures, the fund does well when the world does poorly, and the Fund now faces a budget shortfall that was addressed by an increase in the SDR fund (Special Drawing Rights) thanks to the G20.[71]The recent crisis is a good example of this, the IMF originated loans to developing countries in distress,

[69] Stefan A. Schirm, "Global politics are domestic politics," 17.
[70]Malkin and Momani, "Emerging Powers and IMF," 5.
[71]Ikenberry, "Rising Powers and Global Institutions," 19.

while also vastly increasing its SDR contributions from member countries. What Ngaire Woods has argued is that the fund faces new legitimacy crises due to its shift from being an IFI that serves borrowers to one that serves its creditors, since the fund has now in part become dependent on the approximately $1 trillion increase to the SDR fund that the G20 committed to provide in 2009.[72]

Furthermore, the Bush Administration took a dim view of the fund, contesting that the IMF had any kind of role to play in steering the global financial architecture. The hostility of the Bush administration to the IMF actually then spurred a countermovement of proposals geared towards finding a new mission and purpose for the fund, and emerging and developing nations began clamoring for more accurate representation of their economic weight in voting and quota structures. These proposals came from think tanks, central banks, academics, world leaders, and the IMF itself.[73] This movement eventually led to the Singapore reform discussions in September of 2006, which sought to make various democratic reforms to the fund in terms of accountability of the Executive Board and change how voting shares are determined, but most importantly the aim was to revise quota and voting share to more accurately reflect emerging and developing economies growing proportional weights in the world economy. The Singapore talks resulted in ad hoc quota increases for China, Korea, Mexico and Turkey. And in April 2008, the Board of Governors sanctioned an overhaul of the quota calculation formula, which lent slight favor to most emerging and developing nations.[74]Ultimately, these marginal reforms did little to repair the reputation of the IMF and it was not until the

[72]Ngaire Woods, "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?," Global Policy 1, no. 1, (January 2010), 51-53.
[73]Malkin and Momani, "Emerging Powers and IMF," 5-7.
[74] Dante Mendes Aldrighi, "Cooperation and coordination among BRIC countries: potential and constraints," InformaeoesFipe, (June 2009), 15.

onset of the 2008 financial crisis that the IMF was catapulted back to center stage as a lender of last resort and as a coordination body on international financial reform, thanks in large part to the G20. Countries such as Iceland, Ukraine, Romania, Latvia, Hungary, and Greece all borrowed from the fund over the course of the next year and a half, and as a multilateral response to the crisis emerged so did substantial talks of reforming the wayward IMF.[75]

3.3 IMF Reform Discussions, Brazil, and the Superpowers

Soon after joining the G20, Brazil and Argentina were pushed to the forefront of discussions on crisis prevention during the 2001 Latin American financial crisis, which had resulted in an outright default on sovereign debt by Argentina. In light of this Brazil pushed for greater transparency on issues of government bonds and argued that the IMF needed an improved crisis prevention facility for emerging markets if it were to remain relevant. Frustrated by a lack of progress on discussions within the IMF, it was Brazil that initially started calling for IMF quota reform in the G20 at the 2005 China Summit. This was the start of discussions on financial sector and IFI reform at the G20. Though the Singapore reforms of 2006 showed marginal progress, substantial talks on IMF reform did not gain significant momentum until after the onset of the 2008 crisis.[76]

A large focus of Brazil's agenda in the G20 is not just in re-configuring the power structure of the global order, but toward improving the democratic legitimacy of international financial institutions overall.[77] And this is still an issue Brazil is championing today on behalf of emerging nations. Starting at the Washington Summit in

[75]Malkin and Momani, "Emerging Powers and IMF," 8.
[76] John Kirton, "Brazil's Contribution."
[77] Andrew Hurrell, "Brazil and the New Global Order," 66.

November 2008 discussions were opened by Brazil and other emerging nations on reforming quotas and the functioning of IFI's, such as the IMF, World Bank, and Financial Stability Forum (FSF). The goal was to make IFI's more inclusive of developing nations and to make quotas in the IMF more reflective of the current economic weight of developing economies that were under represented.[78] A firm commitment was made to reform IMF quotas at the Pittsburg Summit (November 2009), and the reforms were to be completed before the Seoul Summit in November 2010.[79] Clearly the G20 cannot reform the IMF itself, but the G20 members committed to push this initiative through in the fund. Reforming the IMF and using it as a monitoring body on both global economic imbalances and the international monetary system was also proposed and discussed at the Seoul Summit.[80]

Arriving just ahead of schedule, the 14th IMF quota revision was passed on November 5, 2010, in accordance with the agreement brokered in the G20 at the Pittsburg Summit. Quota reform is important because quota share determines a member country's voting rights and the upper limit of its financial commitment, and it also determines the amount of financing the member country can get from the IMF.[81] According to the IMF

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[78] "Fact Sheet: President Bush and World Leaders Agree on the Washington Declaration: (November 14-15, 2008)," G20 Information Centre, last modified December 25, 2011, http://www.g20.utoronto.ca/2008/2008factsheet.html.
"Declaration of the Summit on Financial Markets and the World Economy," G20 Information Centre, last modified December 25, 2011, http://www.g20.utoronto.ca/2008/2008declaration1115.html.

[79] "Leadership Statement: The Pittsburg Summit," G20 Research Center, last modified November 29, 2011, http://www.g20.utoronto.ca/2009/2009communique0925.html
G20, "The G20 London Summit Commitments," April 2, 2009.
Note: In addition to quota reform, the G20 sought to quadruple the size of the IMF's firepower by increasing its SDR fund immediately by $250 billion, with another $500 billion to be added at a later date.

"The G20 Seoul Summit Leader's Declaration, November 11-12, 2010," Wall Street Journal, accessed on May 24, 2012, http://online.wsj.com/public/resources/documents/G20COMMUN1110.pdf

[80] "The G20 Seoul Summit"

[81] Mendes Aldrighi, "Cooperation and coordination," 15

website, six percent of quotas were redistributed to emerging and developing nations.[82] China, the second largest economy in the world, became the third largest holder of quota share and Brazil, India, and Russia moved into the top 10 list.[83] However, the quota shifting is not perhaps as drastic as the IMF website appears to indicate, and it lacks specific information of where the quota shifts came from. In fact, it seems that the majority of the quota shares that were distributed to emerging nations came from other developing nations. Closer examination reveals that the loss to industrialized countries is only 2.6 percent. The other 3.4 percent was redistributed from shrinking emerging nations, like South Africa and Nigeria. Africa's voting share on the whole decreased from 5.9 percent to 5.6 percent.[84]Quotas were also reduced for countries dependent on oil exports, like Saudi Arabia, who lost nearly one percent of its quota share.[85] However, when looking back in comparison to the pre-Singapore Quota reform in 2006, emerging nations in the top 20 had gained over 4.5 percent of quota by the November 2010 agreement (see chart 3.1).[86] The 15th quota reform is scheduled for January, 2014, and at no other point in IMF history have quota reform proposals been carried out with such rapid succession.[87]Despite the fact that Brazil views itself as the champion of smaller developing countries interests, it was unable to defend against smaller nations losing share in the recent realignment.

[82] "Factsheet: IMF Quotas," IMF, accessed on May 27, 2012, http://www.imf.org/external/np/exr/facts/quotas.htm
[83] Ibid..
[84] Wade, "Emerging World Order," 393.
[85] "IMF Governance Change Proposals Less Than Trumpeted," Third World Network, accessed on May 25, 2012, http://www.twnside.org.sg/title2/finance/2010/finance101111.htm
[86] "IMF Financing," Central Bank of Austria, last updated March 6, 2012, http://www.jvi.org/uploads/tx_abaeasydownloads/Andrea%20Hofer%20-%20IMF%20Financing.pdf
[87] "Factsheet: IMF Quotas."

The below chart shows the top-20 quota holders from the pre-Singapore levels (in the first column), to the current agreement that is being implemented today (the third column). The middle column shows the 2006 Singapore agreement quota levels. Of all G20 countries, China has made the largest gains in the past six years, increasing its quota percentage by 3.41 percent over this span.

Chart 3.1: (Top 20 IMF Member Quota Shares by Percent (Pre-Singapore, Singapore and G20 2010 Agreement)[88]

Rank	Pre-Singapore		Post Second Round 1/		Proposal 2/	
1	United States	17.38	United States	17.67	United States	17.43
2	Japan	6.23	Japan	6.56	Japan	6.47
3	Germany	6.09	Germany	6.11	China 3/	6.39
4	France	5.02	France	4.50	Germany	5.59
5	United Kingdom	5.02	United Kingdom	4.50	France	4.23
6	Italy	3.30	China 3/	4.00	United Kingdom	4.23
7	Saudi Arabia	3.27	Italy	3.31	Italy	3.16
8	Canada	2.98	Saudi Arabia	2.93	India	2.75
9	China 3/	2.98	Canada	2.67	Russian Federation	2.71
10	Russian Federation	2.78	Russian Federation	2.49	Brazil	2.32
11	Netherlands	2.42	India	2.44	Canada	2.31
12	Belgium	2.15	Netherlands	2.17	Saudi Arabia	2.08
13	India	1.95	Belgium	1.93	Spain	2.00
14	Switzerland	1.62	Brazil	1.78	Mexico	1.87
15	Australia	1.51	Spain	1.69	Netherlands	1.83
16	Spain	1.43	Mexico	1.52	Korea, Republic of	1.80
17	Brazil	1.42	Switzerland	1.45	Australia	1.38
18	Venezuela, R. B. de	1.24	Korea, Republic of	1.41	Belgium	1.34
19	Mexico	1.21	Australia	1.36	Switzerland	1.21
20	Sweden	1.12	Venezuela, R. B. de	1.12	Turkey	0.98

Source: Finance Department

1/ Includes ad hoc increases for 54 eligible members that are not yet effective; also includes Kosovo and Tuvalu which became members on June 29, 2009 and June 24, 2010, respectively. For the two countries that have not yet consented to, and paid for, their quota increases, 11th Review proposed quotas are used.
2/ See Annex I for a description of the allocation mechanism.
3/ Includes China, P.R., Hong Kong SAR, and Macao SAR.

Source: Central Bank of Austria.

Next to China, Brazil then received one of the largest quota increases amongst the emerging and developing nation group (a .6 percent increase) in the November 2010

[88] "IMF Financing," Central Bank of Austria.

agreement. Additionally it was able to keep its seat on the Executive Board due to brokering by the US, against European states.

In addition to the quota shifting, emerging nations have gained two seats on the IMF Executive Board. These two seats will be moved away from shrinking European economies, though Europe has yet to agree on which countries will accept the loss.[89] And arriving at this agreement was not a simple process, and involved the US asserting their de facto veto power in the IMF against Europe to coerce a settlement. According to the IMF Articles of Agreement, there are 20 mandated seats on the Executive Board, but in a prior agreement, to include more emerging and developing nations at the table the board was expanded to 24, with Brazil, India, Argentina and Rwanda gaining the four additional seats. This agreement on extra seats was set to expire and would not be continued without a vote, thus shrinking the board back to 20 members. If the Executive board were to shrink it would have been the emerging nations in the last four seats who would be removed from the table, which would have undermined the original purpose of the IMF reforms altogether. Europe holds eight seats at the table, which is more than their relative weight in the fund dictates; Europe's IMF quota share is roughly 31 percent (see chart 3.2 in Appendix), but they have 40 percent of the permanent seats on the Executive Board. Furthermore, two Eurozone countries (France and Germany) are represented on the Board, but in theory the Eurozone countries should have only one seat since they are part of a single currency.[90]

While the European countries agreed in principle that a shift of quota should occur, they could not agree on a transfer to developing nations of seats on the Executive

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[89] "IMF Financing," Central Bank of Austria, last updated March 6, 2012, http://www.jvi.org/uploads/tx_abaeasydownloads/Andrea%20Hofer%20-%20IMF%20Financing.pdf
[90] Malkin and Momani, "Emerging Powers and IMF Reform," 11-14.

Board of the IMF, which was threatening to stall the initiative altogether. The US then implemented a procedural tool during discussions in October 2010. Put simply, the US threatened to use their veto power to block the extension of the addition four seats.[91] Since the US has roughly 17 percent of the voting power and an 85 percent super-majority is needed to pass important initiatives, the US possesses a veto power on substantive matters. To maintain the legitimacy of the reforms, this then forced Europe to agree to give up two seats that will then be passed to South Korea and South Africa.[92] Which seats Europe will give up still needs to be decided upon by European nations before the ratification process of the new quotas is completed by January of 2013, but it appears they are targeting Belgium, Netherlands and Denmark, who make up a multi seat constituency at the Board. Interestingly, none of these European countries about to lose a seat are part of the G20, where the original agreement was brokered.[93] As part of the quota agreement, Europe tried unsuccessfully to push through and amendment to the IMF Articles of Agreement that would have changed the voting rules of the IMF such that a majority vote of only 75% would be needed, rather than the current 85%. This would have removed the US veto power in the IMF, and it was subsequently blocked by the US in their power-play on the extension of the size of the executive board.[94]

IMF Managing Director at the time, Dominique Strauss-Kahn, called the agreements "historic," but given the change in economic weights and increased multipolarity of today's power structure, the changes were merely incremental.[95]

[91] Wade, "Emerging World Order," 393.
[92] "G20 Ministers Agree 'Historic' Reforms in IMF Governance," IMF, accessed May 27, 2012, http://www.imf.org/external/pubs/ft/survey/so/2010/new102310a.htm
[93]Malkin and Momani, "Emerging Powers and IMF Reform," 12-13.
[94] Stefan Shirm, "Global Politics are domestic politics," 18.
[95] Wade, "Emerging World Order," 393.

Developing and emerging nations are still in large part under represented given their size in the world economy, and the US is actually underweighted, though its less of an issue for them due to their standing veto. Despite the fact that Brazil gained quota share, it has continued to criticize the reform process on not having gone far enough. Brazil's Finance Minister, Guido Mantega, called for further and immediate reductions in Europe's quota share in a speech at the last IMF meeting in April 2012.[96]But overall, aside from early efforts by Brazil to insert the issue onto the agenda, it played little to no role in the critical discussions between the US and Europe. Furthermore, Brazil was not able to successfully advocate for the protection of other developing nations that lost. Argentina, Brazil's neighbor and occasional G20 ally lost quota share, but likewise kept its Executive Board Seat.[97] Nonetheless, this was still a measureable success for the G20. Brazil saw its agenda item get pushed through, it gained quota share, though it still remains unsatisfied with the extent of the quota shift.

The end result came down to US preferences on the issue. It is not clear why the US shifted tack to come to support IMF reform in 2008/2009, but likely this decision followed a similar logic to the reasons for creating the G20, and for bringing the big emerging players closer into the fold. It allows the US to better manage against loss of control in a forum where the US arguably has even more power than it wields in the G20.Also, the Obama Administration in general has been far more multilaterally focused than its predecessor. The US has been shifting its focus away from the developed world to the developing world, for concerns of national security, but also to help foster growth

[96] "Brazil's Mantega Urges Reduction of Europe's IMF Voting Power," Business Week, access on June 1, 2012, http://www.businessweek.com/news/2012-04-20/brazil-s-mantega-urges-reduction-of-europe-s-imf-voting-power

[97]Malkin and Momani, "Emerging Powers and IMF Reform," 11.

in developing and emerging countries and create favorable conditions for investment. Launched in September, 2010, Obama's Global Development Policy is evidence of this shift.[98] Also the issue of an international monetary system is being discussed in G20, but will likely be enforced in the IMF. If this is something the US seeks to counter then clearly backing these quota reforms, lessening the power of France and other European powers, works to the US' advantage. Europe, and France in particular, has been the primary ally to emerging nations advocating for an International Monetary System, which would ultimately introduce a world currency that would compete with the dollar as reserve currency.

3.4 International Monetary System Debates

Not just a vocal critic of the IMF reforms, Mantega has also used his position in the G20 to push for a coordinated international monetary system. On the eve of the G20 Finance ministers meeting in Paris in February 2011, Mantega called for fundamental reform of the international currency system, to expand the use of SDRs from the IMF as an additional reserve currency, and inclusion of the renminbi and Brazil's real in the SDR basket alongside the dollar, euro yen, and the pound. One of the main reasons this issue has attracted so much attention at the G20 and in the IMF is that for all other countries in the world who carry large reserves in dollars risk giant losses of wealth if US policies end up contributing to higher inflation.[99]

[98] "The U.S. Global Development Council: What Should it Look Like?," The Brookings Institution, accessed on June 3, 2012, http://www.brookings.edu/research/papers/2011/04/08-development-council-unger
[99] Mendes Aldrighi, "Cooperation and coordination," 16.

Without referring to the US by name, Mantega indicated his opposition to US proposals of measuring imbalances, and setting limits on surpluses and deficits, as opposed to addressing the core of the issue with an international monetary system that could have a stabilizing effect on these persistent distortions.[100] The dominant proposal in the G20 is very similar to what Mantega has proposed, which is to use the SDR fund in the IMF as the worlds new reserve currency. The G20 topic that perhaps best exemplifies the US' hegemonic position in the world order is the issue of a coordinated international monetary system. The majority of the countries in the G20 support this initiative but to date the US has maintained their position of calling for market determined exchange rates and free capital flows, except in special circumstances where excess inflows are having an adverse effect on otherwise responsible macro-prudential policies in emerging and developing nations.

Timothy Geithner's proposals, that Mantega was responding to, suggest a four percent limit on current account surpluses and deficits. This was thought to be aimed at China, Germany and Japan, whom all carry large export surpluses, and all of whom the US blames for global imbalances. He also has suggested that these nations need to boost their domestic demand to reduce their surpluses, but China has countered saying it needs surpluses to pursue development, employment, and to reduce poverty. On this particular issue, a coalition of surplus countries in the G20, Brazil, Russia, and Saudi Arabia, have rose up against Geithner's proposal, and have successfully blocked it thus far.[101]Though it was one of his primary goals to make substantial progress on creating an international monetary system, Sarkozy's efforts at Cannes were muted by the growing Eurozone

[100] "Brazil calls for currency system overhaul," Financial Times, accessed on June 1, 2012, http://www.ft.com/intl/cms/s/0/61d3afea-3bc7-11e0-a96d-00144feabdc0.html#axzz1wbuTcui9
[101]Shirm, "Global Politics are Domestic Politics," 15.

crisis. Addressing the Finance Ministers meeting in his opening remarks, Sarkozy sounded off against the US position, "How can anyone manage economic policy in the face of large swings in inflows and outflows, especially developing countries." [102] Sarkozy continues, ". . .there are no fundamentals that justify such rapid shifts in parities between currencies."[103]

Though the G20 communiqués from Seoul, and later from Cannes, indicate that the G20 favors market determined exchange rates, Sarkozy makes it clear that France does not support the idea that liberalized movement of capital is sufficient to ensure economic equilibrium.[104] Even the United Nations has put forward a proposal, which was created by a UN panel headed by Joseph Stiglitz. In concept his plan is similar to the one being discussed in the G20 and IMF, but Stiglitz has called for a wholesale creation of a new entity other than the IMF to coordinate and manage a world reserve currency.[105] Given the deadlock the US veto has created in the IMF on the issue of an international monetary system, a brand new institution that even perhaps leaves out the US, seems like perhaps the only feasible way forward.

3.5 Conclusion

The best that the G20 coalition supporting an international monetary system has been able to achieve is to simply play defense against US proposals. Since this issue is being pushed to the IMF rules based framework for coordinating and enforcing what might one day become an international monetary system, the issue of IMF voting rights

[102] Nicolas Sarkozy, "Address By Nicolas Sarkozy."
[103] Ibid..
[104] Ibid..
[105] Mendes Aldrighi, "Cooperation and coordination," 16.

gains even more salience. Considering the US veto power, Frances', Brazils', and China's proposals on this matter seem unlikely to see the light of day. What is interesting about the discussions on the international monetary system is that it quite clearly shows the limitations of the G20 framework. This is an issue, maybe the only issue, that could realistically be coordinated by the largest nations, with due legitimacy, since a policy of this sort would in theory benefit a vast majority of the worlds nations, especially the smallest one not represented at the G20. And all the nations who would have a currency as part of the international SDR basket are sitting at the table in the G20. Thus, even when there is relative agreement amongst most nations in the forum, countering the position of the US is anything but child's play.

And even though the issue of IMF reform is considered a success according to this study, it has not yet gone anywhere near far enough to reach a point where the US veto power gets removed. Under the current IMF rules and voting procedures, it would have to be removed by the US themselves, benevolently resigning their dominance. Given current trajectories of discussions and inflexible positions of the US on the international monetary system debate, it would seem doubtful this could happen any time soon. This case clearly shows that while Brazil may have been instrumental in pushing IMF reform onto the agenda, and perhaps in setting the tone of the discussions, the ultimate resolution came down to the work and bargaining of the US.

Conclusion

This thesis sought to answer the initial question of under what conditions and how significantly Brazil and emerging nations can influence the outcome of G20 policy initiatives. While Brazil has played a leadership role amongst emerging and developing nations, and has fully committed to extending their influence via multilateralism, ultimately the fate of success for G20 initiatives does not appear to be in their hands. Nonetheless, Brazil has been able to influence the G20 agenda and push forward important topics that have been taken up in the forum. Its focus on IMF governance reform since 2005 has had measureable results, even if the key brokering for passing the initiative was out of their control. But Brazil is still unsatisfied with the extent of the reforms, and given the US' hegemonic position within the IMF, and the G20 for that matter, likely Brazil will only continue to see incremental gains for itself, and also perhaps for other developing nations its seeking to represent outside the G20. While the discussion is underway on the issue of capital controls, in part due to Brazil's urging, little progress on a coordinated approach has been agreed on due to China and US blockage. Unless there is a middle ground reached between the US and China on exchange rate issues, no progress will be likely.

The multipolarity of the changing world system has allowed Brazil to gain access to the most elite forums on economic governance, the G20 and the FSB, and it has increased (albeit marginally) its power in the IMF. But so far, no G20 initiative has been concretely implemented and enforced without the express backing of both China and the US. This is evident in another notable success story for the G20, which is the issue of agreeing to make Basel II and Basel III capital adequacy requirements at least softly enforceable by the FSB. According to the Base II and Basel III initiatives, individual nations should implement a set of banking regulatory policies, perhaps the single most important one being mandated higher minimum tier one capital levels by 2018 at the latest. This is meant to reduce the leverage banks can take, thereby also reducing systemic risk in the world financial system. The peer review enforcement process of naming and shaming may turn out to be effective in gaining member state compliance. And approximately half of the G20 nations have implemented the Basel reforms already, and several more are in the implementation phase, including the US. On this issue, China and the US have both agreed as well.

Another G20 agenda item that was not discussed is the bank levy tax that Germany, France and US sought to push through in order to get countries to agree to tax financial transactions in order to build up a buffer that could be used to bail out banks in times of crisis, rather than putting tax payers on the hook for bank bailouts. But a coalition between Canada, China, Brazil, India, Australia, and Japan was able to block the initiative. These countries already had enough controls and regulations in place to prevent the worst effects of the financial crisis from affecting their economies, and they thought a bank levy would decrease the competitiveness of their financial markets.[106] Again on this issue, as is the case on every other major G20 issue, coalitions do not follow a north-south divide, or G7 versus everyone else. But here is an example where Brazil has been able to have a measurable impact on the actions of the US.

The notion that there is a G7 coalition that works together to disseminate norms and command and control the emerging nations is also dubious. Several authors have alluded to this being the G20's primary purpose, and more widely these authors tend to

[106]Shirm, "Global Politics are domestic politics," 10.

accuse IFI's in general of these aims. While this may happen to some extent, it does not seem to be supported by the results of G20 debates. It can be seen from examining both the discussion on capital controls and IMF governance reform that the issues were ad-hoc mixtures of emerging/developing and industrialize nations. In the case of IMF governance reform, the primary rivalry was in fact amongst G7 nations. These examples support Wade's claim that the multipolarity of the world system and greater inclusion of differing national interests and values may be making decisions more difficult. Power balancing seem to be playing out between the US and China, while others like Brazil find ways within the existing order to spread their own influence. It is also interesting to examine the international monetary system debates against Wade's prediction that a move to unilateralism and regionalism will characterize the future order. On this particular issue, the UN proposal would effectively create a new body to manage an international monetary system that likely the US would not participate in, but most of the rest of the world. Likely an initiative like this is a long way off, but it would clearly not be considered a regional response if it did happen, but rather a global one. It would be the first concrete sign of a rejection of the US hegemonic order in the world economy.

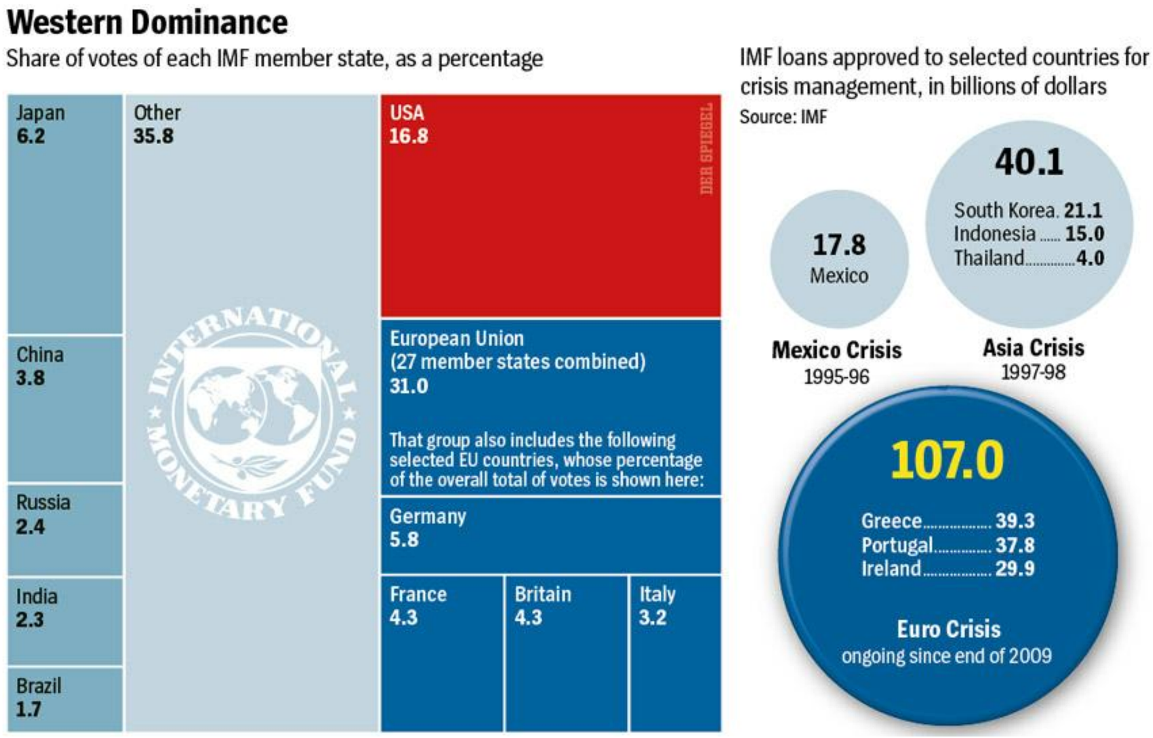
What is also interesting to consider is that an international monetary system would likely have a net-positive benefit for almost all nations participating, in the long term at least, yet it is the initiative that has thus far failed to gain major traction in either the G20 or IMF. Conversely, IMF quota reform was a zero sum bargain; one nations gain was another's loss, in very clear terms. Yet this is the issue that gained enough support in both the G20 and IMF to be implemented. Power dynamics and interests of the two G20 superpowers ultimately seem to be the deciding factor in the G20. Whether the G20 has a chance to live up to its original mandate of coordinating a coherent policy of balanced and sustainable growth and creating a world economic system that will prevent future crisis is dubious at best. Success on agreement has been thin thus far, and the new major task ahead of creating an international monetary system that satisfies all parties will be a long row to hoe.

Further scholarship based on this study that could prove interesting would be to look at Argentina alongside Brazil. The two nations have similar geographical interests, they work closely in regional multilaterals outside the G20 framework, and have met before WTO and G20 meetings to coordinate their approach to agenda items. Yet, Argentina is widely considered the least effective country in the G20, and it has the worst compliance rating on G20 commitments amongst the 20 member nations by a considerable degree. Conversely, Brazil is a leader in the G20 and is situated in the middle of the G20 pack on overall compliance, right next to China and India.[107] While the initial G20 country selection appears to have elements of politics and random selection blended together, it is also interesting to consider why Argentina is even in the G20. Argentina has a population of 40 million, as opposed to Columbia (46 million) and Nigeria (158 million).[108]

[107] "2010 Seoul G20 Final Compliance Report," G20 Information Centre, accessed on June 1, 2012, http://www.g20.utoronto.ca/compliance/2010seoul-final/index.html
[108] Wade, "Emerging World Order," 356.

Appendix

Chart 3.2:



Source: Spiegel, April 18, 2012

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