Financial Statecraft and Ascendant Powers: 
Latin America and Asia after the 2008-10 Global Financial Crisis

The worst financial crisis since the Great Depression hit the world in the second half of 2008. We are still processing what went wrong and how we can ensure that the world will not succumb to a similar self-inflicted disaster any time soon. One immediate consequence of the crisis has been the expansion of participation in global financial governance to include the major emerging economies. Since late 2008 the quarterly meetings of the finance ministers and central bank presidents of the Group of Seven (G7) advanced industrial countries—the US, Japan, UK, Germany, France, Italy, and Canada—have been overshadowed by the semi-annual meetings of the Group of Twenty (G20) large economies, which includes eleven developing or transitional countries: Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey. During the worst days of the financial crisis, the G20 became the forum through which the heads of major economies made commitments to jointly engage in economic stimulus spending, in order to prevent the onset of a prolonged global depression. Even so, world economic growth plummeted by over 2% in 2009.

Quite unexpectedly, developing countries in the Pacific Rim rebounded vigorously over the next year, whereas recession lingers in the G7 and EU blocs. In an immediate sense, this focuses attention on the rising financial capabilities of emerging powers in Asia and Latin America. This phenomenon also raises a larger question, which is the crux of our proposal: to what extent might this rebalancing of financial and other material capabilities in the international system prefigure an eventual shift in the *global hierarchy* that has prevailed in more or less the same form over the post-

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World War II era? For example, according to two different relative capabilities indices, the combined world share of the U.S., U.K., Germany, France, and Japan on such dimensions as economic size, population, foreign exchange reserves, and defense spending fell from approximately 50% in 1990 to only 25% in 2008. During this same time frame, the share wielded by the trio of China, India, and Brazil on these combined indicators rose from about 17% to 25%.

We therefore propose to investigate the links between *global hierarchy* and national and regional *financial statecraft* in Latin America and Asia. Who are the major new financial and political players in Latin America and Asia? Is South-South financial cooperation within or between the two regions rising? Will global hierarchy be rebalanced in their favor? In brief: who will manage regional and world financial governance in the 21st century?

**The rationale: National financial policies are inherently financial statecraft**

Our working hypothesis is that financial development, both at the national and regional levels, is a source of both economic growth and political power in the international system. Of great interest is the possible use by governments of financial levers to achieve non-financial foreign policy ends, a practice traditionally referred to as *financial statecraft*. Documentary evidence suggests that foreign financial policies, and even national financial development programs, are often understood by the participants themselves as financial statecraft. While the political aspect of financial policymaking is a well-travelled terrain in the international and comparative political economy literature on the advanced industrial democracies, much less has been published with reference to emerging economies.

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In the case of the Western Hemisphere, it has long been recognized that the magnitude and enormous weight of U.S. investments in the hemisphere has rendered Latin American governments wary of offending North American creditors and investors.\(^9\) In the 2000s a similar dynamic has emerged with regard to China’s rapidly growing role as an investor-creditor. For instance, China has recently announced its plan to finance construction of an Atlantic-to-Pacific freight and personnel railway link through Colombia as an alternative to the Panama Canal. This, along with numerous other Chinese infrastructure investments now underway in Argentina, Brazil, Chile, Peru, and Venezuela, has left these countries politically beholden to China in ways that are still difficult to decipher. Even countries with considerable domestic financial turmoil, such as Venezuela, have leveraged financing into the potential for influence in the region. Thus Venezuela’s 2006 joint sovereign bond issuance with Argentina lowered the interest rate spread at which Argentina was able to access international financing, despite its unresolved $90 billion default in 2001.\(^{10}\)

Rising financial capabilities among the emerging economies around the Pacific Rim (here defined to include both Brazil and India) may also enhance regional cohesion vis-à-vis outsiders within both South America and East Asia. A look at recent regional initiatives such as Asia’s Chiang Mai Initiative-Multilateral or South America’s Banco del Sur suggests that their designers may have more in mind than the reduction of economic volatility; the projection of political power also appears to be a joint goal in the launching of these financial endeavors. Brazil’s public sector National Economic and Social Development Bank (BNDES) now possesses a loan portfolio significantly larger than that of either the Inter-American Development Bank or the Latin America Division of the World Bank. Although BNDES cannot legally finance foreign governments, it heavily funds Brazilian exporters and multinational corporations engaged in outward foreign direct investment throughout South America. Similar observations apply to the China Development Corporation, which has an even larger pool of financial resources at its disposal. Governments in both regions, but especially East Asia, deeply resented the conditions imposed by the International Monetary Fund (IMF) in the wake of the multiple financial crises of the late 1990s, and have since sought to protect themselves through the buildup of foreign exchange reserves and creation of regional monetary swap arrangements. Protective measures such as these proved useful for mitigating the need for IMF intervention in the global shocks of 2008-10.

Moving from the regional to the international level, we note that the United States is today the world’s largest debtor nation, and a large and growing share of its public debt is held by foreign central banks. The value of the US dollar depends on the

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continuing goodwill of these major holders of dollar reserves, namely China and Japan, although of course the vulnerability is mutual. Moreover, most of global growth since 2000 has been provided by the larger emerging economies. This prognosis could be worsened by a delay in the restructuring of debt in OECD financial markets, not to mention the dampening effects of a possible asset bubble pop. Our point: control of global credit has shifted substantially toward emerging markets over the past decade. These countries are actively experimenting with ways to manage this new power resource.

The research project: Theoretical, national, and multilateral foci

Our core unit of analysis is the nation-state. We will investigate the goals and behavior of those governmental and societal actors who attempt to influence national and international financial policies in major countries. Participants in the project are either political scientists with sound training in the politics of economic policymaking or policy-oriented economists with an awareness that national reforms rarely respond only to economic criteria. Yet we depart from the traditional economic definition of “politics” as equivalent to corruption or rent-seeking. Rather, politics, and particularly democratic politics, is the art of aggregating interests and then bargaining and adjudicating among them.

The project will commission three types of papers. We begin with three papers on the theoretical framework for thinking about financial statecraft and multilateral financial governance. A second set of papers will cover the politics of national financial policymaking in key Latin America and Asian countries. Their goal is to report on the national financial regulatory framework in each major Latin American and Asia merging economy, taking the year 2000 as a baseline, and then analyze subsequent major financial policy reforms, focusing on one or a mix of the following financial arenas: a) banking regulation and promotion, including the question of the mix between public and private institutions; b) stock exchange and capital markets policies; c) exchange rate management; d) monetary policymaking, especially its political and/or cross-regional aspects; and e) regional currency arrangements. The third and final set of papers considers the participation of major Pacific Rim emerging powers in regional monetary collaboration and global financial governance. Again, we want to emphasize that our proposed participants and collaborators in this project are all researchers with existing publications in the broad arena of the politics or political economy of finance.

We will hold an initial Workshop presenting the first version of the papers at the Center for International Studies of the University of Southern California, in November, 2011. A panel comprising more polished versions of several of the papers

will be proposed for the San Francisco LASA Congress, March 2012. Joint publication either in an edited book or a special issue of a journal also is envisioned. All funds requested from the Mellon/LASA Seminar Grant will be used for travel, lodging, and duplication or publication-related expenses. We anticipate receiving institutional matching funds of approximately $10,000 for the local costs of the Workshop, including travel and lodging for discussants. The home institutions of three participating researchers also offered to co-sponsor in some fashion, perhaps by hosting a follow-up event or assisting in translation of the work into Spanish, Portuguese (FGV-SP), or German (FUI).

**Fit with grant priorities**

Our proposal responds to each of the expressed aims for the Seminar Grant.

**Goal #1) Bring together Latin Americanists with researchers specialized in other geographic regions.** Eight Latin Americanists (three coming from Latin America, two of whom are junior researchers) and six Asia specialists will present papers. The principal investigators are mid-career scholars, two with a Latin America specialization and the other an East Asia expert. All have previously have managed multi-disciplinary, multi-country projects resulting in edited books or journal special issues.

**Goal #2) Challenge conventional geographic boundaries of “Latin American Studies.”** The project focuses on a new analytical category: large emerging economies with the capabilities to be regional and global players. This logic suggests comparison of countries such as Argentina, Brazil, and Mexico with extra-regional “Southern” emerging powers such as India, Korea, China, and Indonesia, all of which are members of the G20.

**Goal #3) Integrate into Latin American Studies theoretical and/or methodological perspectives drawn from state-of-the-art research in core disciplines of the social sciences.** The structure of the Seminar is such that a mix of younger and more senior scholars with a specific geographic area focus on Latin America or Asia will write most of the papers. Our discussants are senior international political economy (IPE) scholars knowledgeable about the politics of finance in advanced industrial democracies. We are grateful that the urgency of the topic has enabled us to secure commitments to participate from this diverse group.

**Proposed Workshop: Main themes and paper topics**

**I. Theory**

Saori Katada (USC, Politics, Asia) and Carol Wise (USC, Politics, Latin America).

“Global Hierarchies and Financial Statecraft: Rebalancing Toward the Pacific Rim?”
II. Financial Statecraft in Latin America and Asia

Kurt von Mettenheim (Fundação Getúlio Vargas, SP, Politics, Latin America). “Public Banks in South America and Asia.”

Maria Antonieta del Tedesco Lins. (University of São Paulo, Economics, Latin America). “Argentina, Brazil, and Mexico: The Effects of Monetary, Foreign Exchange, and Capital Liberalization Policies on Their Regional Positions.”

Ignácio Labaqui (Universidad Católica Argentina, Politics, Latin America). “Democratic Transitions and Argentina’s Evolving International Financial Profile”

Leslie Elliott Armijo (Portland State University, Politics, Latin America). “The Idiosyncratic Politics of Financial Market Liberalization in India and Brazil.”

Natasha Hamilton-Hart (University of Auckland, Politics, Asia). “Financial Security in South-East Asia”

Victor Shih (Northwestern University, Politics, Asia). “Chinese Financial Statecraft.”

Andrew Walter (London School of Economics, Politics, Asia). “Governing Finance: International financial standard compliance and financial statecraft in East Asia”

IV. Regional financial politics: South America, Europe, and East Asia

Carol Wise (USC, Politics, Latin America), “Investor or Interloper? The Politics of Chinese Investment in South America”

Maria Lorca-Sussino (University of Miami, Economics, Latin America). “Regional Swap Arrangements and the 2008-10 Financial Crisis in Latin America.”


Ulrich Volz (German Development Institute, Bonn, Economics, Asia). “Global Hierarchies, Imbalances, and China’s International Financial Strategy.”

Saori Katada (USC, Politics, Asia). “Japanese Financial Statecraft—or the Lack Thereof—During the 2008-10 Global Financial Crisis.”

Discussants (senior IPE scholars from both Politics and Economics): Benjamin J. Cohen (UCSB); Barry Eichengreen (UCB, invited); Stephen Haggard (UCSD); Eric Helleiner (Waterloo University); Two additional specialists from West Coast North America

C.V. Co-Principal Investigator

Leslie Elliott Armijo
Visiting Scholar, Mark O. Hatfield School of Government, Portland State University
Portland, Oregon, USA 97035; Leslie.armijo@cal.berkeley.edu; www.lesliearmijo.org

Education:
Ph.D. University of California, Berkeley 1989 (International Relations, Political Economy)

Relevant Publications and Works-in-Progress:

Books & edited special issues
(in progress) *Voice and Money through Time: India, Brazil, and Why Democracy Matters for Finance.*


Articles
2007. “The BRICs Countries (Brazil, Russia, India, and China) as Analytical Category: Insight or Mirage?,” *Asian Perspective,* 31:4, pp. 1-42.
Book chapters

Co-Principal Investigator

Saori N. Katada
Associate Professor, School of International Relations, University of Southern California
Los Angeles, California; skatada@usc.edu

Education:
Ph.D. University of North Carolina at Chapel Hill, December 1994 (International Relations/Comparative Politics/Economics)

Publications:
Books

Articles
Co-Principal Investigator

Carol Wise
Associate Professor, School of International Relations, University of Southern California
Los Angeles, California; cwise@usc.edu

Education:
Ph.D. Political Science, Columbia University, 1991

 Relevant publications and works-in-progress:

Books

Articles


**Book chapters**


**Estimated Budget**

<From Mellon/LASA> Total of $22,000

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<td>Air Travel to Los Angeles, November 2011 <em>(a)</em></td>
<td>Sao Paulo (1,200<em>2), Buenos Aires (1,200), Berlin (1,000), Auckland (1,500), London (900), Chicago (500), Miami (500), Richmond (500), and Portland (500)</em>(b)*</td>
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<td>Local transportation</td>
<td>Taxicabs for the authors ($48 per person one-way from LAX by 12) <em>(c)</em></td>
<td>$1,152</td>
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<td>Hotel rooms</td>
<td>Three nights for 8 international authors and two nights for domestic ones by $168 per night (Radisson)</td>
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<td>Conference Cost (Davison Conference Center at USC)</td>
<td>$61 per person by 20 by two days (includes venue, breakfast, lunch and two coffees)</td>
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<td>LASA Panel in SF (May 2012)</td>
<td>Travel and accommodation (authorized by Mellon)</td>
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<td>Misc. costs towards publication</td>
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(a) The date of the conference to be determined, but likely in November 2011
(b) In accordance with the Mellon funding criteria, twelve (12) non-local authors are invited. Two German authors have their own funds for the airline travel.

<From CIS> Total of $7,000 requested to the CIS.

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<td>Air Travels</td>
<td>Six discussants from West Coast: Jerry Cohen (Santa Barbara), Eichengreen (TBC, Berkeley), Haggard (TBC, San Diego), plus three more</td>
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<td>Local transportation</td>
<td>Taxicabs and car use for speakers and local participants</td>
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<td>Hotel rooms</td>
<td>Two nights for six discussants by $168 per night (Omni)</td>
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<td>Dinners for the nights before the conference and the first evening (20 people * $50 per person * 2)</td>
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<td>Others</td>
<td>Parking fees, stationeries, phone calls and photocopies</td>
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