Brazil’s assertiveness at the G20 – an analysis of Brazilian negotiation behavior
Brazil’s assertiveness at the G20 – an analysis of Brazilian negotiation behavior

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Abstract: The analysis of the negotiation behavior of rising powers expresses one of the few indicators on their nature at a time of transition in the international order. How countries defend their interests at a table of negotiation as well as the coalitions and strategies they build to achieve their objectives are essential features of their foreign policy. The analysis of how emerging powers negotiate can reveal the type of power these countries may become in a forthcoming world order. This paper thus investigates how Brazil negotiates to become a major stakeholder in the International Monetary Fund (IMF), analyzing whether its approach toward the established order is either revisionist or integrationist. The object of this investigation is Brazilian negotiation behavior on the negotiations of the IMF’s quota reform agreed in 2010 in Gyeongju (G20 Ministerial meeting), South Korea. It argues that the 2008’s financial crisis as well as the emergence of Brazil as an economic powerhouse provided Brazilian negotiators with an increased bargain power to reform the IMF. The outcome of the analysis demonstrates that rather than revisionist Brazilian strategies of negotiation aim to integrate the country in existing institutions.

Key-words: Negotiation analysis; rising powers; G20; Brazilian foreign policy.

Resumo: A análise do comportamento negociador de potências emergentes pode ser considerada como um dos indicadores do posicionamento desses países em um momento de transição de poder na ordem internacional. O modo como esse grupo de países defende seus interesses em uma mesa de negociação assim como as coalizões e estratégias que eles criam para atingir seus objetivos são aspectos definidores de suas políticas externas. A análise de como potências emergentes negociam pode revelar o tipo de potência que esses países podem se tornar em uma nova ordem global. Esta pesquisa investiga como o Brasil negocia para se tornar um tomador de decisão influente no Fundo Monetário Internacional (FMI), analisando se a abordagem brasileira em relação à atual ordem internacional é revisionista ou integracionista. O objeto dessa pesquisa é o comportamento negociador brasileiro no processo negociador que culminou em um novo acordo sobre a distribuição de quotas no FMI em 2010 durante a reunião ministerial do G20, na cidade sul-coreana Gyeongju. O argumento que se desenvolve ao longo do artigo é o de que a crise financeira de 2008 e o crescimento e a estabilidade da economia brasileira na década de 2000 aumentou o poder de barganha dos negociadores brasileiros nas negociações para a reforma do FMI. A conclusão da análise mostra que longe de ser revisionista o comportamento negociador revela estratégias de negociação que visam a integrar o país à ordem existente, buscando seu fortalecimento.

Palavras-chave: análise de negociação; potências emergentes; G20; política externa brasileira.
# Table of contents

**First paper**  Brazil’s assertiveness at the G20 – an analysis of Brazilian negotiation behavior

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>Theoretical framework: how emerging powers are expected to rise and in what order</td>
<td>9</td>
</tr>
<tr>
<td>A brief history of the G20</td>
<td>12</td>
</tr>
<tr>
<td>International negotiation analysis: analytical tools</td>
<td>15</td>
</tr>
<tr>
<td>Analysis of Brazilian negotiation behavior: the road to Gyeongju</td>
<td>20</td>
</tr>
<tr>
<td>Conclusion</td>
<td>36</td>
</tr>
<tr>
<td>Annex</td>
<td>38</td>
</tr>
<tr>
<td>References</td>
<td>40</td>
</tr>
</tbody>
</table>

**Second paper**  Is global economic governance changing? – An analytically informed literature review

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>48</td>
</tr>
<tr>
<td>What is economic power?</td>
<td>52</td>
</tr>
<tr>
<td>Was the IMF’s reform a case of success or failure in the wake of the 2008 crisis?</td>
<td>56</td>
</tr>
<tr>
<td>What is the BRICS countries importance to the debate about global economic governance and its reform?</td>
<td>60</td>
</tr>
<tr>
<td>Conclusion</td>
<td>70</td>
</tr>
<tr>
<td>References</td>
<td>71</td>
</tr>
</tbody>
</table>
Introduction

The analysis of the negotiation behavior of rising powers expresses one of the few indicators on the nature of these countries at a time of transition in the world order (Narlikar, 2010). How countries defend their interests at a table of negotiation as well as the alliances and strategies they build to achieve their objectives are essential features of their foreign policy. 2008’s financial crisis as well as their economic resilience to its effects provided emerging powers with the right timing to reform international financial institutions (IFIs). This paper aims at investigating how Brazil negotiates to be in the core of the international financial system and what strategies it uses to achieve its objectives. The core idea is to understand whether its attitude towards the status quo order is closer to either the revisionist or integrationist end of the spectrum. Throughout the paper, I argue that the 2008’s financial crisis and the emergence of Brazil as an economic powerhouse provided Brazilian negotiators with an increased bargaining power to reform the IMF in Gyeongju in 2010 (G20 ministerial meeting). Furthermore, despite Brazilian aggressive rhetoric against the distribution of power in IFIs, it displays in practice a rather integrationist and pragmatic behavior towards them.

The collapse of the Soviet Union and the subsequent end of the Cold War gave rise to a unipolar era under the hegemony of the USA. Since the end of the bipolar order, international relations (IR) scholars and analysts have discussed the durability and peacefulness of unipolar systems (Monteiro, 2011). The debate on the extent of the durability of the unipolar order is focused

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1 The concept of rising powers used throughout this paper is the one developed by Amrita Narlikar (2010) in New Powers: how to become one and how to manage them. According to Narlikar (2010): “It is worth specifying at the outset that I use the term ‘New Powers’ to include those states that are major but still not established players at the various high tables of international negotiation such as the G8 or UN Security Council’s permanent members. Similarly, their voting power is limited in the IMF and the World Bank, and is disproportionately low in terms of their economic weight. Even in more inclusive organisations, such as the World Trade Organisation, they are important enough to be invited members to the high table of decision-making, but are still unable to achieve their preferred outcomes... ‘New powers’ are states that have acquired, through a mix of very large and expanding resource base (indicators of which include market size, economic growth rates, population, and defense spending) and diplomatic skill, have acquired the de facto status of ‘veto players’ i.e. actors ‘whose agreement... is required for change of the status quo’” (p.6-7).

2 According to Hurrel (2008): “As the world enters a period of increasing challenges to US hegemony, attention shifts naturally to rising powers, emerging nations, threshold states, and regional powers. Such states obviously will be central to the dynamics of the balance of power in the twenty-first century, as well as to the possible emergence of new concert-style groupings of major powers” (p.51).
on whether or not the American hegemony is in decline. The strand of analysts that defends American decline argue that although the country will remain the world’s hegemonic military power for the foreseeable future, it will not be able to maintain its control over other domains (Monteiro, 2011), such as in the world’s economy. In the economic realm, the US would face / is facing emerging powers´ increasing competition, such as the case of China and India (Ikenberry and Wright, 2008).

A shift in the present distribution of global economic power means a mounting pressure for changing the structure in which the current economic order lies. Created in the 1940s, the Bretton Woods institutions (namely the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade) have undergone almost no important change since their creation. Therefore, their structures reflect an outdated economic distribution and have proven to be ineffective to deal with current economic challenges. Excluded from the core of the international financial institutions, emerging economies have much to lose in a system in which they are not institutionally strong enough to influence the process of decision-making.

The phenomenon of negotiation “… is recurrent, widespread, and important. It is far more pervasive than war, fortunately, yet far less studied” (Odell, 2000, p.4). Despite that, international negotiations are largely unexplored by the literature of International Relations (IR), which focus more on the analysis of agreements achieved by negotiators and on their consequences than on how an outcome was obtained. Understanding how a particular output was achieved informs us how countries either strong or weak deal with power asymmetries when negotiating with each other in order to advance their objectives. Therefore, negotiation analysis is the study of a process of how a certain output was achieved. According to Odell, “negotiation and bargaining refer to a sequence of actions in which two or more parties address demands and proposals to each other for the ostensible purposes of reaching an agreement and changing the behavior of at least one actor”(2000, p.4).

How countries negotiate with one another points out their behavior towards the established order. In an era in which a new world order might be in the making, the analysis of emerging powers´ negotiation behavior is essential to understand what kind of powers they might become (Narlikar, 2010) and what kind of changes they envisage for the international system, aiming to

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3GATT was the one to undergo major changes. Having a start as an international regime, it would become an international organization (World Trade Organization, created in 1995).
accommodate their interests. Thus, the analysis of countries’ negotiation behavior indicates how they try to accomplish their objectives and the extent of change they envisage for the existing order.

Throughout the last decade, many analysts of Brazilian foreign policy and international politics started considering Brazil as a rising power (Cervo and Bueno 2008; Hirst 2009; Hurrel 2008; Narlikar, 2011; Soares de Lima and Hirst 2006). They argued that Brazil had become more assertive in the international arena not only because the country started opposing vehemently established powers’ moves in international organizations but also because it started contributing more to the maintenance of the international order. It built a coalition (the so-called trade G-20) of developing countries to block developed nation’s proposal at the Cancun Ministerial trade conference in 2003 (Narlikar and Tussie 2004). The Brazilian government decided to be in charge of the United Nations Stabilization Mission in Haiti (MINUSTAH) in 2004 (Marcondes, 2012). It increased significantly the number of embassies around world as well as of diplomatic personnel. According to these analysts, all these moves marked a change in Brazilian foreign policy, indicating that the country would no longer align itself with established powers to guarantee its interests (Cervo and Bueno 2008).

In economic terms, Brazil managed to keep inflation at bay and its economy grew consistently throughout the decade (an average of 3.7%; while the US grew at a rate of 1.7%). It became a reliable harbor for foreign investments and its continuous economic growth projected it to become an economic powerhouse. In 2005, it managed to pay all its debts with the IMF and it started lending money to the organization in 2009. It also changed its status from a net receiver of international aid to donor (Reid 2014).

Economic development is regarded as one of the leading vectors of Brazilian foreign policy since the last century. Giving up any territorial ambition after having solved its main territorial disputes at beginning of the 20th century (Pinheiro 2000), Brazil’s foreign policy has become a tool for developing the country. Thus, economic diplomacy is one of the most representative branches of Brazilian foreign policy, given that the country expresses its interests through it. Hence, the research question is: how Brazil negotiates to increase its influence in the International Monetary Fund (IMF)?

The reform of the IMF becomes a priority in Lula's foreign policy agenda only after 2008’s

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4 Throughout Lula administration Brazil opened 53 new embassies, most of them in Africa. The number of Brazilian diplomats increased significantly from 900 in 2002 to 1600 in 2014.


6 The last time Brazil signed a loan agreement (a stand-by arrangement) with the IMF was in 2002, which expired in 2005. Information available at: http://www.imf.org/external/np/fin/tad/exfin2.aspx?memberkey1=90&date1Key=2013-08-31
economic downturn. Analyzing Brazilian foreign policy towards the IMF during Lula's administration, João Tude and Carlos Milani (2013) demonstrate that until the outbreak of the crisis Itamaraty gave more importance to the UN and the WTO, placing the IMF and WB in a secondary position. Before that, the theme of the reform was restricted to the Ministry of Finance and defended by it. Tude and Milani's analysis of content shows that after 2008's crisis the theme of the IMF's quota reform was inserted into the president's and foreign minister's agenda and since then it has become a recurring topic in their speeches. The authors argue that in order to put forward the demand for an increased say in the IMF, the Brazilian government decided to act through the G20 and BRICs. The lack of priority attributed to the IMF's reform previous to the economic crisis and then its sudden increase in importance for the Brazilian foreign policy agenda make the case in analysis ideal for the study of Brazilian assertiveness.

The G20 – first at the ministers and then at the summit level – is the child of instability in the financial market. It was created in 1998 in the aftermath of successive crises which revealed that the most powerful economies gathered in the G7 were no longer able to avoid systemic financial crises without the help of other countries. They needed to expand their club and include emerging markets. They decided instead to create another steering committee, G20, to foster dialogue in international financial governance, while keeping the most important decisions to themselves.

The G20 comes to the spotlight in 2008 in the aftermath of the global downturn. The economic crisis hit developed economies severely, whereas being less harmful to emerging economies such as the BRICs (Brazil, Russia, India and China) countries. The steady growth attained by these countries throughout the 2000s associated with their resilience to the effects of the economic crisis put them in a position of influencing the world financial architecture (see table 2 below). Aware of this major change in the global stage, the developed economies, led by the US, upgraded the G20 to the leaders level.

This paper aims at demonstrating that the analysis of negotiation behavior is a valid measure to indicate a country's objective toward the international order. As argued above, throughout the

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7 "Brazil has realized during the financial crisis the rise of the opportunity to change the structure of the international economic and financial system" (Brazilian Ministry of Foreign Relations, 2010). Our translation.
9 According to Cooper and Thakur (2013) on the creation of the G20 at the ministerial level and then at the summit level, “If the two institutions had different actors and approaches, however, both were precipitated by major shocks to the system via financial crises. Whereas the G20 at the leaders’ level was brought into being as a result of the global financial crisis of 2008... the catalyst for the G20 Finance was the Asian financial crisis of 1997-98” (Kindle e-book, locations 889-5035).
last decade many scholars claimed that Brazilian foreign policy became more assertive under Lula administration. Thus, understanding what strategies Brazil uses when it negotiates; what kind of coalitions it builds; how it frames its decisions and rhetoric; and whether it has or not a role of leadership, it is possible to know whether Brazil became more assertive or not in the international arena - at least in international economic governance.

In the wake of 2008’s international financial crisis, the G20 was upgraded to the summit level to curb the effects of the global downturn. The main reason for it was that G7 no longer controlled the world economy (Cooper and Thakur 2013). The so-called emerging markets such as Brazil, India and China could not be left aside of negotiations that defined the structure of the international financial system (IFS). This paper argues that the 2008’s downturn opened an unprecedented window of opportunity for rising powers to reform and accommodate their interests in the IFIs. Their economic growth and resilience to the consequences of the crisis improved their bargain power. By the same token, 2008’s crisis as well as the emergence of Brazil’s economy provided Brazilian negotiators with an increased bargain power to reform the IFIs, contributing positively to the negotiations which led to the agreement on the IMF’s quota reform in 2010.

The remainder of this article proceeds as follows. In the first section, I lay the theoretical foundation on power transition and the rise of emerging powers on which I base my analysis. In the second part, I provide a brief history of the G20, focusing on Brazil’s role. In the third segment, I review the literature on international negotiation analysis and I give an overview of the analytical tools that will be used to analyze Brazil’s negotiation behavior. In the following section, Brazilian negotiation behavior in Gyeongju (South Korea, 2010) will be analyzed as well as the process of negotiation that led to it. In the conclusion, I discuss the implications of my argument.

1. Theoretical framework: how emerging powers are expected to rise and in what order

The waning dominance of American power and the transition from a unilateral to a multilateral order has become a major issue among IR scholars since the first decade of the 21st century. Power transition is a permanent component of international relations and its recurring shifts leads to major conflicts and, in their aftermath, to discrete patterns of global orders. Thus, countries rise and fall, restructuring rules and institutions through which they interact. According to John Ikenberry (2010),
the current global order is different from previous ones due to the complex net of international norms, regimes and international organizations that mediate relations among states. In addition to that, this complex set of rules constrains countries to act as they please, even hegemons such as the US, curbing arbitrary actions in the international arena.

This highly institutionalized environment makes the actual order more stable than previous ones, functioning as a system through which power can be redistributed without causing great conflicts\(^{10}\). Due to its benefits, rising powers\(^{11}\) would have no incentives to overthrow the existing order and to establish a new one. Giving this argument more depth, Ikenberry and Wright (2008) assert that current institutional arrangements integrate rising powers into the structure of global governance, cushioning potential sources of conflicts; international institutions offer their members the possibility of expressing their aspirations and grievances within their structures; and organizations widen the array of opportunities for states at the same time that constrain their actions. Notwithstanding that, these authors offer the following caveat:

The development of a durable and flexible system of global institutions has changed the historical assumptions about the competitiveness and potential for conflict inherent in a dynamic international system, but this welcome change could reverse itself if the leading powers that underpin the institutional order choose to withdraw their support and walk away from it. (p.12, 2008)

According to Ikenberry’s framework of analysis, it is expected that rising powers try to accommodate their interests in the international arena through the existing channels available in international organizations. Even if the structure of established institutions such as the IMF and the WB take a long time to adapt to new realities of economic power, this problem is softened by the creation of “steering committees”, like the G20, which give more weight to the participation of emerging powers. Therefore, the myriad of diplomatic venues make the generalized use of force less likely.

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\(^{10}\) Ikenberry (2000) strengthens this argument pointing out that after the end of the Cold War the system of institutions and regimes constructed in the aftermath of the II World War has continued to exist and that it has been even strengthened.  

\(^{11}\) Ikenberry and Wright (2008) differentiate new powers from the old ones. According to them: “The rising states themselves are different than past challengers. With the exception of China and perhaps Russia, none of the current rising states are potential military challengers to Western powers.” (p.5)
From a different angle, Randal Schweller (2011) and Schweller and Xiaoyu Pu (2011) have some common ground with Ikenberry. Asking “what sort of order will emerge on the other side of the transition from unipolarity to multipolarity” (p.285), Schweller (2011) points out three major strands of thinking: (i) great-power conflict; (ii) great-power concert; and (iii) time’s entropy. These three different lines of argument have in common the fact that they try to capture and explain the phenomenon of power diffusion in international relations. (i) The great-power conflict model states that emerging powers will certainly defy the established order, revising it and accommodating their interests. The objective is to reduce the gap of power between them and the hegemon. Theoretically, in order to appease emerging powers, the “waning hegemon must cede influence to the rising challenger to the point where the latter’s prestige matches its actual power” (Schweller, 2011, p.288). Nonetheless, this strategy rarely works, mainly because of three reasons: when an established power gives in to the demands of an emerging power, the international system may be destabilized; the emerging power tries to put forward illegitimate demands; concessions increase the power of the rising nation, which encourages it to make more demands. All these three reasons would invariably lead to a conflict. Schweller, nonetheless, refutes this model by arguing that an emerging power would have no reason to overthrow an international order that has served it so well. (ii) According to liberals, who are the proponents of the great-power concert, the world is inclined to peace and its benefits would interest to every nation. Therefore, the transition from unipolarity to multipolarity would occur without great disturbances in the international order. In this way, emerging powers would be more supporters than challengers of the status quo order, becoming responsible stakeholders. (iii) Differently from the other models, time’s entropy considers that rising powers may display more than one kind of behavior, which may change according to their interests and audience. They can play the role of supporters, spoilers of shirkers of the international order. To sum up, this approach assumes that emerging powers do not have yet a fixed identity and therefore may display different kinds of behavior.

Both theories presented by Ikenberry and Schweller and Pu cast light on similar aspects of the current world order and on how the diffusion of power might occur. For these authors, emerging powers are entangled in international norms and in international institutions, which at the same time that constrain their actions also offer some benefits. Furthermore, each of them also offer different views of what they expect rising powers’ behavior to be. Despite that, rather than

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12 Schweller and Pu (2011) argue, for instance, that China benefits of the actual order, since its high rate of economic growth are dependent on its rules and institutions.
divergent, they are complementary. Ikenberry and Wright (2008) expect rising power to play along the rules and institutions (formal and informal), while they continue to be representative of the international community and their decisions continue to be legitimate. If current established powers are capable of reforming the global governance to adequate it to frequent shifts of power, the international order will be more resilient and transitions of power will probably occur peacefully. Schweller and Pu (2011) reach a similar conclusion, but they argue differently. According to the authors, international order formation follows a cyclical pattern, that operates as follow: (1) stable order; (2) deconcentration and deligitimation of the hegemon’s power; (3) arms build-ups and the formation of alliances; (4) a resolution of an international crisis, often through hegemonic war; (5) system renewal. This cyclical pattern, nonetheless, is broken by the possibility of a nuclear war, engendering a new dynamics in the relations among states. Despite that, it is still unknown whether the transition from unipolarity to multipolarity will happen by military or peaceful means. Asserting that rising powers may display different kinds of behavior according to the environment in which they act and their foreign policy interests (Schweller, 2011), the analysis of these countries become less simplistic than is assumed by the great power conflict and the great-power concert approaches.

If the US will continue to be the sole military power in the world, the discussion is not about whether the new “emerging powers“ are going to threaten American military rule (Monteiro 2014). But how they will fill the gap or compete for more influence in areas where American control is declining, such as is the case of the world economy.

2. A brief history of the G20

The history of the creation of the Group of the 20 most powerful economies starts in 1999 after three major economic crises that put to proof the stability of the global financial market.

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13 According to Schweller and Pu (2011): “we argue that the transition from unipolarity to some form of global balance will conform to the early phases of this cyclical pattern. Where it goes from there is anyone’s guess. The key issue is whether international order will be preserved by peaceful adjustment or undone by military balancing or mismanagement and incompetence. In our view, the latter outcome is most probable.” (p.44)

14 In the 1990's, the world economy was shaken by three economic crises - rooted in developing countries - that were related with the lack of regulatory measures in these markets. The first was the Mexican crisis (1994), Asian crisis (1997) and Russian crisis (1998).

15 For a comprehensive history of the G20, see The Group of Twenty (G20) by Andrew Cooper and Ramesh Thakur, 2013.
The collapse of the socialist world and the subsequent domination of the liberal ideology led countries to open their markets and liberalize the flow of capitals. The increased flow of investments as well as speculative capitals to the developing world would soon make clear that crises - engendered due to the lack of regulation in these recently opened markets - would not only be restricted to them, but they would also spread throughout the system. The creation of the G20 thus served the purpose of extending the control of the G7 over these expanding markets in order to avoid any possible disruption in the world economy. Furthermore, the latter continued to have monopoly over the most important decisions on the global economy (Cooper and Thakur 2013). Hence, it was a direct response to the economic downturns and its main objective was to create a forum (comprising finance ministers and central bank governors) in which macroeconomic policies would be discussed and coordinated among its members.

2008’s financial crisis brought to the surface problems that no longer could be avoided by the G7, triggering a series of reactions that promised to transform the current global financial architecture. Having the American market as epicenter, this economic downturn brought up to the surface the lack of capability of the most industrialized nations to regulate their own economies and to manage the global economy in an increasingly interdependent world. The G20 was upgraded to the leaders level by the president George Bush, recognizing that its government could not deal with the consequences of this crisis alone and that the help of emerging markets would be indispensable to reform the international financial architecture (Cooper and Thakur 2013).

The discussion on the reform of the Bretton Woods institutions has taken place inside this informal group since its creation in 1999. Nonetheless, deadlock on how the new quota system would work and the absence of leaders at the meetings prevented any agreement from happening. 2008’s downturn created the right momentum for these reforms to take place not only because now leaders were also involved directly in the process but also because rising powers were the stronger ones and a window of opportunity was open for them to push forward their demands.

Initially the primary function of the G20 was to provide emergence measures to contain the effects of an economic slowdown, but soon it would become the “premier” forum for managing the global economic order. Its leaders assemble one time a year to discuss and coordinate policies on pressing economic issues.

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16 The G20 received this status at the Pittsburgh summit in 2009.
On October 23 (2010), finance ministers and central bank governors of the G20 assembled in Gyeongju released a communiqué which stated that they “reached agreement on an ambitious set of proposals to reform the IMF’s quota and governance that will help deliver a more effective, credible and legitimate IMF and enable the IMF to play its role in supporting the operation of the international monetary and financial system.” This reform involved a shift in quota of 6% mostly from European countries to emerging dynamic markets. It was also agreed that emerging countries would have a greater representation at the Executive Board of the IMF. For that, European countries would have to cede 2 of their chairs. Negotiations to reach this proposal were not smooth and the American delegation had to press the Europeans to make room for rising economies. The implementation of this reform was set to be completed in the IMF’s Annual Meetings in 2012. Despite this deadline, to the present date the reform was not implemented, in large part, due to its low priority to the US Congress, which has postponed repeatedly to vote it.

18 Quota reviews take place in the IMF usually every five years. The Board of Governors is responsible for assessing the size of an overall increase and the distribution of the increase among the members. These reviews have two main objectives: to analyze the adequacy of quotas in terms of country’s macroeconomic situation; and to adapt the institution to a new economic reality, increasing or decreasing members’ quotas “to reflect changes in their relative positions in the world economy.” Ad hoc increases hardly occur. The last one to approved was in 2008 (Factsheet – IMF – Quotas: http://www.imf.org/external/np/exr/facts/quotas.htm).
20 Procedures to approve reforms in the IMF are the followings: proposals that are endorsed by the Executive Board should be voted by the Board of Governors. Once they are approved, the amendments to the articles require approval by three-fifths of the membership, with eighty-five percent of the total voting power. Most importantly, a member’s quota cannot change without its consent (IMF Staff - Reform of IMF Quotas and Voice: Responding to Changes in the Global Economy, 2008. Available at: http://www.imf.org/external/np/exr/ib/2008/040108.htm).
Table 1. Current distribution of quota in the IMF and distribution of quota after the reform

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<thead>
<tr>
<th>Current top ten shareholders</th>
<th>Top ten shareholders according to the agreed proposal</th>
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<tbody>
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<td>Countries</td>
<td>Quota (% of total)</td>
</tr>
<tr>
<td>1. United States</td>
<td>17.69</td>
</tr>
<tr>
<td>2. Japan</td>
<td>6.56</td>
</tr>
<tr>
<td>4. France</td>
<td>4.51</td>
</tr>
<tr>
<td>5. United Kingdom</td>
<td>4.51</td>
</tr>
<tr>
<td>6. China</td>
<td>4</td>
</tr>
<tr>
<td>7. Italy</td>
<td>3.31</td>
</tr>
<tr>
<td>8. Saudi Arabia</td>
<td>2.93</td>
</tr>
<tr>
<td>10. Russian Federation</td>
<td>2.5</td>
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Source: The International Monetary Fund (www.imf.org)

Obs. Currently, Brazil has 1.78% of the total of quota and occupies the 14th position in the rank. After the reform, Canada and Saudi Arabia will no longer be among the top ten shareholders.

3. International Negotiation Analysis: analytical tools

Two analytical approaches are used to analyze Brazilian negotiation behavior at the G20. The first and more broad approach is the one used by Amrita Narlikar (2011) on her study on emerging powers. The second approach is the one developed by John Odell (2001), in which he develops a theoretical framework to be applied to the analysis of economic negotiations. Beforehand, I give a brief overview on the concept of international negotiations through which I intend to provide a better understanding on the concept of international economic negotiation.

As is the case of many concepts in IR and political science, there is no consensus about the definition of negotiation - or more specifically international negotiation. According to Bell (1962), negotiation is a formalized accommodation of wills. As such, negotiation would be a process in which the parts involved would invariably accommodate their interests, somehow achieving their objectives. In practice, however, this is not what happens. Not always, a part in a negotiation is
interested in accommodating the interests of its counterparts. For instance, the process which led to the Treaty of Versailles informs us that wills can be imposed and that in some negotiations some parts do not have a say. According to Ikle (1964), “negotiation is a process in which explicit proposals are put forward ostensibly for the purpose of reaching agreement or an exchange or on the realization of a common interest where conflicting interests are present” (p. 3-4). Ikle steps away from the notion of accommodation and get closer to the notion of negotiation as a search for agreement. In fact, agreements are not the only possible outcome for negotiation. Defining this concept, Ikle does not mention failure as a possible result or as even the objective of a negotiation. By its turn, Edwin Fedder (1964) defines negotiation as “the process of bargaining entered into by two or more actors . . . for the purpose of mutually resolving a point or points at issue between/among them” (p. 106). Negotiation as a bargaining process adds the idea of give and take to the act of negotiation, that is, both parts must calibrate their demands if they want to reach an agreement. Zartman and Berman (1983) expand the notion of negotiation by defining it “as a process in which divergent values are combined into an agreed decision, and it is based on the idea that there are appropriate stages, sequences, behaviors, and tactics that can be defined and used to improve the conduct of negotiations and better the chance of success.” Differently from the definitions above, Zartman and Berman’s concept tries to capture the complexity of a negotiation process. In a more concise fashion, Odell (2003) understands it as a “a sequence of actions in which two or more governments address demands and proposals to each other for the ostensible purpose of reaching an agreement and changing the behavior of at least one part” (p.2). This paper draws on Odell’s ²² definition of negotiation.

The analysis of economic negotiations is a complex challenge for IR researchers which usually have neither practical experience nor have participated of the process that is their object of study. Aiming to remove or at least mitigate this hurdle, John Odell (2000) formulates a series of hypotheses and an analytical framework to guide researchers throughout the analysis of economic negotiating processes.

²² In a lengthier description, Odell(2000) describes the process of negotiation in the following manner: “The process includes which strategies negotiators choose, how markets and negotiators influence each other, whether they add tactics to unearth possibilities for joint gains, how much they use tactics to guard against their own biases, and how they go about forming and splitting coalitions. This process includes how the negotiator’s moves shift domestic politics in her own and other countries and the odds of subsequent ratification. The outcome refers to the terms of a government agreement or implicit settlement (or an impasse), and not the effects official settlements may have later in markets or politics. The context involves the surrounding conditions that monetary and trade diplomats normally inherit and cannot influence much in the short run – cultures, international security conditions, international institutions, or domestic political institutions”. (p.4)
negotiations. Odell’s main argument is that economic negotiations are sensitive to market conditions; that is, whenever a negotiation is taking place shifts in market conditions may change the distribution of bargain power, changing the output of the negotiation.

Odell recognizes the existence of other variables besides market conditions that interfere in the process of negotiations. Variables such as beliefs and domestic politics may play an important role. In this analysis, however, beliefs are not considered.

Taking into account the case in analysis, the financial crisis influenced on both the Brazilian policy makers’ strategy to set the reform of the IMF as a priority (Tude and Milani, 2013) and throughout the process of the negotiation. Oliver Stuenkel (2013), for instance, argues that “an unprecedented combination in 2008—a profound financial crisis among developed countries, paired with relative economic stability among emerging powers—caused a legitimacy crisis of the international financial order, which led to equally unprecedented cooperation between emerging powers in the context of the BRIC grouping” (p.612). The crisis and this “unprecedented cooperation” increased substantially the bargain power of Brazil and the BRICs.

Figure 1. Negotiation Process Variables

23 According to Odell (2010), “The most fundamental and obvious difference between negotiations over economic issues and other negotiations is that only the former are sensitive to change in market conditions” (p.47).
The current IMF’s quota division reflects an outdated economic power distribution that dates the aftermath of the Second World War. Although the world economic outlook has changed, no substantial reforms were made to adequate the quota distribution to a new reality (see Table A2, annex). These changes would be important to make the institution more legitimate and efficient to face new challenges. 2008’s financial crisis brought to the surface the problem of IMF’s quota reform and how to make the institution more legitimate. This paper draws on 2 hypotheses, which will be used here as assumptions, from Odell’s theoretical effort that are of central importance to this article:

1. Market conditions help determine the parts themselves in economic negotiations as opposed to security and other negotiations. (Odell, 2010, p.48)

Odell proposes that an economic negotiation should be understood in terms of the market in which a negotiation is taking place and the conditions that rule it. In this analysis, I consider the sum of all quotas in the IMF as a market in which some countries have more and others have less. Their importance to this analysis is based on the fact that they determine the voting power that a country has in the institution. As quotas cannot be bought as in a stock market and its distribution can only change by the agreement of its members, countries which envisage to increase their share in the IMF have to pressure for reform. Since the quota distribution should theoretically reflect the current distribution of economic wealth in the world and the discussions to reform the IMF are based on political rather than pragmatic terms, countries divide themselves into two groups: those who resist a new distribution, because it means a decrease in influence on the institution; and those who push for it, trying to acquire more influence on the process of decision-making.

2. When two countries are on the same side of a market, their governments are more likely to use integrative tactics in their strategies toward each other than when they are on opposite sides, where we should observe more distributive tactics toward each other. (Odell, 2010, p.49)
By the “same side of a market”, I understand the countries that want to increase the size of the quota shares at the IMF as opposed to those who resist it, that is, the states that share the same interest in reforming the institution. This assumption is helpful because at first glance it opposes emerging powers to established ones. Therefore, the “same” or “different” sides of the market are used to distinguish parts with opposing interests in a table of negotiation. Although forming these categories is not that simple, it helps us understand the use of integrative strategies between rising powers, such as the BRICs, and the use of distributive strategies between them and established powers, such as the G7. Forming these categories is not straightforward, though. The US, as it will be explored below, played an important role in persuading European countries to give part of their quota shares away in the IMF. Without the US support, hardly an agreement could have been reached at the G20 ministerial meeting.

Narlikar (2010) develops an analytical framework to investigate a country’s attitude toward the status quo order through its negotiation behavior. She divides this concept into four categories: (a) strategy of negotiation; (b) coalition formation; (c) framing; and (d) leadership. Brazilian negotiation behavior is analyzed according to these four categories.

(a) Strategies of negotiation. Strategies of negotiation can be of two types: either distributive or integrative. Distributive strategies are defined by tactics that do not encompass making any concession. An involved part may threaten to block certain issues on the agenda if its demands are not accommodated. On the other hand, integrative strategies are more friendly and aim at agreements that will be beneficial to all parts involved. Whenever a country uses this approach, it indicates no will to disturb the status quo order.

(b) Coalition. How countries form coalitions may indicate their posture towards the established order. There are two kinds of coalitions: bloc-type coalitions and issue-based alliances. Bloc-type coalitions are created by countries that have a similar identity or shared beliefs. Conversely, issue-based alliances are formed in an ad-hoc basis to accomplish a specific purpose. They tend to be more flexible than bloc-type coalitions.

(c) Framing. Framing can be defined as the paradigms and principles that guide a country’s foreign policy and which shapes the way countries negotiate and put their decisions forward.

(d) Leadership. Leadership is the capacity of a state to lead other nations in the international system.
4. Analysis of Brazilian negotiation behavior: the road to Gyeongju

In this section I analyze Brazilian negotiation behavior throughout the negotiation process that led to the agreement on the IMF’s quota reform at the G20 summit in South Korea in 2010. First, I will have a look at some macroeconomic indicators and then I recreate – based on documents– the narrative of how the Brazilian government reacted to the 2008’s crisis in multilateral fora. Finally, I will analyze separately each component of Brazilian negotiation behavior.

The economic divide between the developing and developed world is still a reality in the governance of international financial institutions. The most industrialized economies, assembled in the G7, are still largely in control of the discussions of macroeconomic themes as well as of the IFIs (Wade 2013). Despite that, these economies have undergone a steady decline in their share of the world economic output, while the BRICs (mostly China and India) have increased their participation in the world economy. This diffusion of economic power in favor of emerging economies has increased the pressure under the developed world to reform the IFIs and has divided countries into two groups: emerging dynamic markets and developed economies.

Graph 1 (below) demonstrates a gradual and continuous shift of the world economic output from G7 countries to China and India, mostly. A closer look indicates that China is the responsible for the major part of the increase in output (see Table A1 annex for a comprehensive look at the shift in world economic output). While India is responsible for a small part of the growth, Brazil’s and Russia’s output remain almost the same throughout the period. If compared to 1992, the Brazilian share of the world economic output in 2011 reduced. In 1992 Brazil was responsible for 2.98% of the output of the world economy, while in 2011 it was responsible for 2.86. As expected, China was to experience the biggest increase. Its share of the world output has increased 30% in almost 20 years.
In regard to the G7 economies, every country in the group (the United States included) reduced their share in the world economy (except for Canada that kept its participation at the same level). Japan was the country to experience a drastic decline in its share: from 9.29% in 1992 to 5.56%.

2008’s financial crisis came only to accelerate this process. Since it, G7 economies have undergone a period of recession that it has just started to be overcome. Having their economies more regulated than their developed counterparts, the BRICs economies suffered less from the economic downturn.

In terms of GDP, Brazil economy grew less than its other BRICs counterparts from 2000 to 2012. Throughout this period it grew an average of 3.7%, while China grew 10%, India 7.2% and Russia 5.3%.
Table 1. GDP Growth (2000-2012).

<table>
<thead>
<tr>
<th>Year</th>
<th>Brazil</th>
<th>Russia</th>
<th>China</th>
<th>India</th>
<th>South Africa</th>
<th>US</th>
<th>UK</th>
<th>Canada</th>
<th>France</th>
<th>Italy</th>
<th>Japan</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1.313</td>
<td>5.091</td>
<td>8.3</td>
<td>3.885</td>
<td>2.735</td>
<td>1.079</td>
<td>2.885</td>
<td>1.745</td>
<td>1.834</td>
<td>1.863</td>
<td>0.355</td>
<td>1.64</td>
</tr>
<tr>
<td>2002</td>
<td>2.658</td>
<td>4.744</td>
<td>9.082</td>
<td>4.558</td>
<td>3.668</td>
<td>1.814</td>
<td>2.433</td>
<td>2.82</td>
<td>0.928</td>
<td>0.451</td>
<td>0.29</td>
<td>0.025</td>
</tr>
<tr>
<td>2003</td>
<td>1.147</td>
<td>7.253</td>
<td>10.025</td>
<td>6.852</td>
<td>2.949</td>
<td>2.541</td>
<td>3.815</td>
<td>1.994</td>
<td>0.901</td>
<td>-0.047</td>
<td>1.685</td>
<td>-0.387</td>
</tr>
<tr>
<td>2004</td>
<td>5.712</td>
<td>7.151</td>
<td>10.085</td>
<td>7.662</td>
<td>4.555</td>
<td>3.468</td>
<td>2.908</td>
<td>3.172</td>
<td>2.54</td>
<td>1.731</td>
<td>2.361</td>
<td>0.697</td>
</tr>
<tr>
<td>2005</td>
<td>3.16</td>
<td>6.388</td>
<td>11.31</td>
<td>9.05</td>
<td>5.277</td>
<td>3.074</td>
<td>2.774</td>
<td>3.11</td>
<td>1.826</td>
<td>0.931</td>
<td>1.303</td>
<td>0.843</td>
</tr>
<tr>
<td>2008</td>
<td>5.172</td>
<td>5.248</td>
<td>9.635</td>
<td>6.187</td>
<td>3.622</td>
<td>-0.337</td>
<td>-0.968</td>
<td>1.095</td>
<td>-0.083</td>
<td>-1.156</td>
<td>-1.042</td>
<td>0.802</td>
</tr>
<tr>
<td>2009</td>
<td>-0.33</td>
<td>-7.8</td>
<td>9.214</td>
<td>5.037</td>
<td>-1.526</td>
<td>-3.069</td>
<td>-3.974</td>
<td>-2.8</td>
<td>-3.146</td>
<td>-5.494</td>
<td>-5.527</td>
<td>-5.073</td>
</tr>
<tr>
<td>2011</td>
<td>2.733</td>
<td>4.3</td>
<td>9.295</td>
<td>7.745</td>
<td>3.457</td>
<td>1.808</td>
<td>0.915</td>
<td>2.566</td>
<td>1.693</td>
<td>0.374</td>
<td>-0.569</td>
<td>3.096</td>
</tr>
<tr>
<td>2012</td>
<td>0.872</td>
<td>3.4</td>
<td>7.8</td>
<td>3.986</td>
<td>2.548</td>
<td>2.211</td>
<td>0.166</td>
<td>1.837</td>
<td>0.03</td>
<td>-2.369</td>
<td>1.996</td>
<td>0.865</td>
</tr>
</tbody>
</table>

Mean 3.7 5.3 10 7.2 3.6 1.7 2 2.1 1.3 0.6 | 0.929 1.1

As a means to defend themselves against possible crises, Brazil and the other BRICs countries have started building up international reserves[^24]. These reserves would be used to pay these countries’ debt and honor financial agreements in the case of an emergency. When the downturn hit the world economy, emerging markets such as the BRICs had their financial markets not only more regulated but had also enough money to honor their debts in case they needed. As the crisis struck the industrialized world more severely, Brazil, Russia, India and China were in the position to readily provide aid to IFIs by boosting the IMF with their reserves.

^24^ A country’s international reserves are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets and assets that actually exist. International reserves should be assets of high quality.” The Central Bank of Russian Federation (http://www.cbr.ru/eng/hd_base/default.aspx?Prtid=mrrf_m).
Sources: the World Bank, the Central Bank of the Russian Federation, and the Reserve Bank of India. This graph depicts the growth of international reserves in Brazil, Russia, and India. Most astonishing is the increase in Chinese international reserves (graph 3, see below) that surpasses the other BRICs countries. Nevertheless, it cannot be ignored that Brazilian and Russian reserves increased 7 fold and Indian almost 2 fold.

Graph 3. The increase in China’s international reserves (2003-2012)

Macroeconomic indicators such as GDP, world economic output and international reserves point out to an enormous distance between China and the rest of the BRICs. This gap makes us question the role of each country in the coalition and if China is not the only real economic power in the group. Moreover, it makes us question the sources of Brazilian power.

Brazilian economy did certainly well in the past decade, but perhaps not enough for the country to be considered an economic powerhouse. If its economic power is not big enough to explain its rise in the world arena and its increasing influence in economic negotiations, what are the factors responsible for it then?

A country’s position and interests in the global economy regarded the size of its market and its dynamics influence the way it will develop strategies to achieve its objectives and how it will interact with other states. Odell’s second assumption (see above) seems to explain the case of the G7 economies and the BRICs. Both outfits gather countries with similar motivations and goals. While
the G7 struggles (still with success) to keep control over the global economic governance and its institutions, the BRICs pressure to increase their participation.

Setting the scene: the road to Gyeongju

Since the outset of the crisis, Lula’s administration tried to expand the number of countries involved in the discussions about the economic downturn both in South America and in the World. Previously to the G20 meetings both at the ministerial and summit level in November 2008, president Lula wrote to United Nations Secretary-General Ban Ki-moon, asking him to organize a meeting at the Economic and Social Council (ECOSOC) of finance ministers to discuss the crisis in September 2008. Later on October 27, his administration organized a meeting with South American countries (“MERCOSUR plus”) with the same purpose and to concert actions against the economic downturn with its neighbors.

Although Lula regarded the expansion of the debate about the crisis as important, he did not think his both initiatives with ECOSOC and “MERCOSUR plus” as venues of decision-making. Rather, he regarded them as forums where "everybody can have their say and express their views". At the “MERCOSUR plus” meeting, for instance, some participants reacted against the creation of the G20 at the summit level, pointing out its “non-democratic” characteristics. Conversely, Brazilian officials argued that the G20 was a necessary forum to coordinate effectively actions against the crises, since it gathered the main economies in the world (Sobel 2008). Both initiatives demonstrate Brazilian interest in ensuring global transparency to the process and a leading role not only in its region but also among emerging economies.

Since the outbreak of 2008’s global downturn, the Brazilian government conditioned the strengthening of economic governance institutions such as the IMF to the reform of global governance, through which Brazil envisioned to increase its “voice and vote” (Sobel 2008). The Brazilian government's reasoning was that it would not support a blueprint in a scenario in which the IMF would be given the authority to tell Brazil how to react to the crisis without it not having even a say on it. According to ambassador Clifford Sobel (2008), American ambassador to Brazil

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25 The countries present in the meeting were: Argentina, Paraguay, Uruguay, Venezuela, Bolivia, Chile, Colombia, Ecuador, and Peru
from 2006-2009: “Similarly, Brazil would be very concerned if, for example, a proposal emerged to give the Financial Stability Forum (FSF) more authority to develop standards or judge regulatory decisions in countries, since FSF does not include Brazil or any other emerging economy.”

The Brazilian government perceived the upgrade of the G20 to the leaders level positively. The first G20 meeting in Washington on 15-16 November 2008 was first step towards an improved global economic governance. Notwithstanding that, Brazil’s experience as a member of the “Outreach Five”26 (O5) made Brazilian officials doubt about the real motivations behind the move, wondering if the participation of emerging economies would be once more reduced to a “coffee chat at the end” experience. During a conversation between ambassador Sobel and Henrique Meirelles, then Brazilian central bank governor, on 6 November, Meirelles told Sobel that the forthcoming G20 meetings in São Paulo (on November 8-9) and Washington should make clear the objective of transferring the same kind of cooperation/coordination that existed in the G7 to the G20.

At a first moment, Guido Mantega, Brazil’s Finance Minister, and Meirelles diverged in their preferences as regard to the best venue to put forward Brazilian demands. While Meirelles believed that a “G-13”27 would be advantageous to advance Brazilian interests, Mantega explicitly preferred to engage in the G20.

According to the cable wrote by ambassador Clifford Sobel (2008),

GOB (Government of Brazil) is prepared to engage substantively at upcoming G20 meetings in Sao Paulo and Washington and welcomes development of this forum as a way to coordinate solutions to the global financial crisis. Brazil is unlikely to welcome proposals to empower other fora where it is either a non-member or has relatively less weight to develop recommendations or impose solutions.

Despite Brazilian grievances, the Brazilian delegation arrived in Washington without a proposal on how to tackle the economic crisis.

On 24-26 June 2008, the Conference on the World Financial and Economic Crisis and Its

26 The O5 was an attempt by the German government to integrate Brazil, China, India, Mexico and South Africa into the meetings of the G7. This initiative is considered a failure by many because the invited countries were not allowed to have a say on it. They were only informed about the decisions taken by the G7.
27 The G13 would consist of the G8 (G7 with Russia included) and the O5 countries.
Impact on Development would take place in the United Nations. In the months that preceded the conference, countries were working on a document drafted by the president of the United Nations General Assembly (UNGA) (Kubiske 2009). To the Brazilian government, this draft version appeared to be unproductive to the efforts against the economic downturn. The main reason was that the draft of the resolution proposed to place UNGA as the main forum to discuss and concert measures against the crises, whereas Brazilian diplomacy believed that G20 was the best forum for it. According to the cable written by Lisa Kubiske (2008),

Luis Balduino, Assistant Secretary for Finance and Services at MRE confirmed that his Ministry is also concerned and agrees the G20 process needs to remain on-track and any mandate for the UN to assume that role must be avoided. Vereda noted GOB does not want a "friendly fire forum." Both Balduino and Vereda indicated, however, that GOB would not say openly/publicly that GOB does not support the outcome document, due to the need to manage intra-G77 sensitivities. GOB is instead engaging within the G77 and directly with the PGA. According to Balduino, in G77 consultations, GOB has underlined it wants a consensus document, that Monterrey had been a turning point and the UN needs to continue to maintain credibility through a consensus approach. Balduino called the process "delicate," noting that Brazil understands some developing countries are distressed and angry at the impact of the crisis on their economies and do not have another forum to express their views.

Initially, president Lula, who supported the idea of the conference, intended to attend it. Nonetheless, due to the way the way the process was unfolding at the conference, he did not go and neither his foreign nor his finance minister. He decided to send instead Pedro Mendonca, Brazil's G20 Sherpa, to head the delegation. Mendonça was sent to signal that Brazil considered the G20 the leading forum to formulate responses against the financial crisis.

Framing

When Lula came to power, it was expected that his foreign policy would be highly reactive against the IMF. Throughout its history, the Workers’ Party criticized the IMF’s intrusive policies and considered it to be at the service of American imperialism (Ameida 2003). Rather than demonizing the IMF, when Lula came to power in 2003 his economic policy and rhetoric towards the IMF was pragmatic. The analysis of content made by Tude and Milani (2013) demonstrate that the two major themes that were present in Lula’s speech when he mentioned the IMF were: “no
rupture” with the institution and “the conquest of independence” from it. Through the former, Lula sought to explain that Brazil was becoming independent from the IMF smoothly; and through the latter, he explained that the Brazilian government was not renewing its agreements with the institution to become autonomous. Thus, rather than ideological, Lula’s foreign policy towards the IMF was pragmatic.

The Lula’s administration framed its demands to have a better say in IFIs by delegitimizing the current global financial architecture, emphasizing the imbalance of power in international organizations between developing and developed countries; and by demonstrating that the IMF’s lack of efficiency and legitimacy is due to its unrepresentative character. According to Mantega, on the crisis:

While various emerging economies—not all of them, evidently—are suffering from an “embarras de richesse” in terms of supply of foreign capital, the United States and a considerable part of Europe are having serious difficulties in financial systems. Allow me to point out the irony of this situation: countries that were references of good governance, of standards and codes for the financial systems, these are the very countries that are facing serious problems of financial fragility putting at risk the prosperity of the world economy. The Fund appears to be inadequately equipped to face such a situation. It became clear that the technical staff of this institution needs to fine-tune its knowledge of financial markets, as the Independent Evaluation Office has already emphasized in recent documents. (Mantega, 2007)

Mantega’s rhetoric has elements of the North-South divide that separated developed and developing countries in two ideologically and economically distinct groups during the Cold War. In this excerpt, the developing is separated once more from the developed world, but this time the crisis was started at the center of the industrialized economies. In this sense developed countries are no longer a model to be followed and the IMF is not ready to deal with contemporary economic downturns.

In a similar way, while using an aggressive rhetoric against the unfair way in which the structures of international governance were based on, the BRICs countries were more pragmatic than expected by analysts (Stuenkel 2014). They did tried to delegitimize international institutions such as the IMF to the extent that the voting-power within them no longer reflected the current
distribution of power. As an example of a rather integrationist than revisionist behavior, Oliver Stuenkel (2014) points out the demand made in the BRICs summit declaration of 2009 that the directors of the Bretton Woods institution should be selected through a selection process based on transparency, trying therefore to put an end to the agreement between the US and European countries that the director of the World Bank should be whoever the American government appointed, while Europeans appointed the head of the IMF. In addition to that, at the First BRICs meeting of Finance Ministers, which took place on the sidelines of the G20 ministerial meeting in São Paulo on November 15, the BRICs finance ministers stressed the importance of reforming IFIs using an integrative rhetoric:

We called for the reform of multilateral institutions in order that they reflect the structural changes in the world economy and the increasingly central role that emerging markets now play. We agreed that international bodies should review their structures, rules and instruments in respect of aspects like representation, legitimacy and effectiveness and also to strengthen their capacity in addressing global issues. Reform of the International Monetary Fund and of the World Bank Group should move forward and be guided towards more equitable voice and participation balance between advanced and developing countries. The Financial Stability Forum must immediately broaden its membership to include a significant representation of emerging economies.\(^{28}\)

At G20 ministerial meeting in Gyeongju, the BRICs countries negotiated together with the G7 and framed their demands in the same way that they had done before. The BRICs negotiated as though they were a proxy of the interests of less developed countries, aiming to create a more just financial order.

**Coalition formation**

The transformation of the BRICS into a political grouping in 2009 is related with these countries’ objectives of increasing each member international status as well as increasing their bargain power in negotiations in international fora (Stuenkel 2014).\(^{29}\) In a scenario of crisis in the developed world and the erosion of the main powers’ legitimacy, the BRICs painted their own portrait in the world stage. In 2009 at the height of the economic downturn, they pictured themselves as a group fighting for a more just international governance, trying to “create a new world order less dependent on the Unites States”\(^{30}\) (Stuenkel, p. 94, 2012). Whether or not this new found self-perception of “rising powers” was really based on concrete sources of power, it did not seem to bother the BRICS leadership. They acted with this conviction and obtained tangible achievements.

Their common interest in the reform of the structures of global economic governance has thus paved the way for an alliance among them. Perceiving the coalition as way to add more weight to its demands, the Brazilian government has chosen the BRICs as proxy to advance its interests in the G20.

The BRICs coalition in the G20 is concerned with the reform of global economic governance and with finding alternatives to the current lack of legitimacy in IFIs. From a label used to attract investments to emerging markets to the fascinating narrative of revisionist countries on the verge of defiance of the existing order, this acronym has been explored from a myriad of perspectives (Stuenkel 2013; 2014). Analyzing it through its pragmatic aspect, we can unravel a set of actions that had the reform of the IMF as objective.

Created to fight against power asymmetries in the world economy, the BRICS coalition seems to suffer from the same problem mostly because of China’s role in the group. According to Paulo Nogueira Batista Jr (2012),

\(^{29}\) Oliver Stuenkel (2014) argues that: “Being a BRICs member implies a considerable degree of social recognition – partly provided by the other members but also by prestigious economic forecasters and opinion makers – that might enhance each country’s bargain power. Membership may also help reduce the still considerable trust deficit members of the grouping” (p.91).

\(^{30}\) Among the proposed measures to reduce the world’s dependence on the US, Russia proposed the reduction of American dollar in trade among the BRICs (Stuenkel 2014).
The main difficulty of coordination within the BRICS is the disproportionate weight of China compared to the other members. In some cases, the Chinese understand that it is more advantageous to negotiate separately with the U.S. and the Europeans, since they have size and resources enough for that. For this reason, sometimes, common understanding between Brazil, Russia and India work as a counterweight to China's inclination to act in its own track. 31

All told, are the BRICs a bloc-type coalition or an issue based-alliance? This analysis demonstrates that the BRICs grouping is much more an issue based alliance than a bloc-type coalition, despite also having elements of the latter. It is true that since 2009 the BRICs has broadened the areas in which its countries have been acting together, such as security32, but it has focused its efforts on reforming the world economy.

*The Brazilian strategy of negotiation*

The reform of the IMF emerges as an opportunity to Brazilian policy makers soon after the economic crisis (Tude e Milani, 2013). What strategy then an underrepresented country and emerging economy such as Brazil would use to increase its participation in the IMF? According to Odell (2001) no negotiation strategy can be purely integrative or distributive. In the end, a negotiation strategy will be mixed and will incorporate elements of both kinds.

In 2007, the Brazilian Minister of Finance starts to set the tune for future talks on the IMF’s quota reform by saying,

> It has not escaped the attention of the United States—nor of anybody else, for that matter—that this reform process is crucial to ensuring the IMF’s viability. Any modest result, which simply tinkers at the margins, would call into question the relevancy and the legitimacy of the Fund. Developing countries, or many among them, would go their own way, were the perception to arise that reform will not happen or that we will be left with a purely cosmetic reform. We will seek self insurance by building up high levels of international reserves, and we will participate in regional reserve-sharing pools and regional monetary institutions. The fragmentation of the multilateral financial system, which is already emerging, will accelerate (Mantega, 2007).

31 Our translation.
32 For instance, the case of Syria (Stuenkel), when all the BRICS were members of the UN Security Council.
Mantega’s speech in the International Monetary and Financial Committee meeting starts in an integrative fashion, pointing out that the reform of the IMF is vital for its survival as a global institution. He warns, nonetheless, that the IMF needs a real reform, not a cosmetic one. If the IMF remains the same, developing countries won’t have any incentive to continue to be members of the institution and would probably defect. They would thus seek their own solutions by creating regional arrangements and other schemes that would better represent their interests. These other possibilities - that have the potential to fragment the multilateral financial system - are both a possibility and a threat. Matenga’s message is clear: either the IMF is reformed to reflect the current reality of economic power or developing countries will defect and create their own solutions.

In 2009, Brazil participated actively in the negotiations on the New Arrangement to Borrow (NAB) and concerted its moves with the BRICs to increase its bargain power. Notwithstanding, it conditioned its participation to three demands: NAB had to be temporary; resources could be allocated through bonds; and the BRICs countries had to have a say in it. All the three conditions were met and Brazil, Russia, India and China acquired a total of 15% of the vote, which gave them veto power.

The three goals were achieved. Regarding the first, it was decided that the new NAB was valid until November 2012. A new negotiation on NAB’s rules NAB is due to occur until November 2011. On that date, the Brazilian government expects to already know the results of the reform of the IMF’s quota system (in terms of redistribution of quotas and votes among member countries and also of increase in the value of total IMF quotas).

In light of this, the Brazilian government will be able to decide whether or not to keep its participation in the Fund. If the result of the reform of quotas is satisfactory, Brazil will maintain a stake in NAB or even it may convert its contribution to NAB into an increase in its quota share in the

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33 The New Arrangement to Borrow was created in 1998 as a mean to boost the resources available to the IMF whenever the fund available to the institution would be not enough to contain the effects of an economic crisis. NAB functions as an attachment to the IMF. Decisions such as how to allocate its resources must can only be taken by participants representing 85 percent of total credit. “As part of efforts to overcome the global financial crisis, in April 2009, the Group of Twenty industrialized and emerging market economies (G 20) agreed to increase the resources available to the IMF by up to $500 billion (which would triple the total pre-crisis lending resources of about $250 billion) to support growth in emerging market and developing countries” (IMF Stand Borrowing Agreements, 2009). See http://www.imf.org/external/np/exr/facts/gabnab.htm.
IMF. Otherwise, Brazil may decide to terminate its membership in NAB.  

This segment demonstrates that at the first moment the Brazilian government uses an integrative negotiation strategy to help the IMF to increase its resources at moments of crisis. Even if Brazil conditioned its participation in NAB to a BRICs’ veto power, it is still integrative because voting power is proportional to the amount of money allocated to the arrangement. Nevertheless, the second part of the quotation leaves no doubt that the financial contribution to the NAB can be understood as a way to increase Brazilian bargain power in the negotiation on the IMF’s quota reform. As it says, if either the reform does not happen or it is not favorable to the country’s aspiration, Brazil would cease to contribute to the plan.

G20 summits are normally prepared by finance ministers and central bank governors who have the task of negotiating agreements and decide what topics should be discussed by their heads of governments. They basically have to reach agreements that can be confirmed by their leaders. These preparatory meetings are an important step for any government who wants to influence a process of negotiation. Most surprisingly was the fact that neither the Brazilian finance minister nor Brazilian central bank governor attended the ministerial meeting in Gyeongju (October, 22-23).  

Except for Brazil, each member of the G20 sent its finance minister and central bank governor. The US, for instance, sent the Treasury Secretary, Timothy Geithner, and U.S. Federal Reserve Chair Ben Bernanke; China sent its Finance Minister Xie Xuren. Dominique Strauss-Kahn, at that time IMF Director, was also there and played an important role in the negotiation, calling for a meeting at the sidelines of the G20 between the G7 and the BRICs (Batista Jr. 2012). Neither Brazilian finance minister, Guido Mantega, nor Henrique Meirelles travelled to the meeting. Brazilian envoy was Marcos Galvão, diplomat and Deputy Finance Minister. Both Mantega and Meirelles argued that they could not travel to South Korea because they had to oversee the measures that were being

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35 Except for Guido Mantega, Brazilian finance minister, and Henrique Meirelles, Brazilian central bank governor, every other G20 member sent their ministers and governors. According Koreatimes, the formal excuse was that they “had to monitor Brazil’s financial market after an announcement of a capital tax increase.” The Korean paper argues, nonetheless, that both representatives stayed at home due to the presidential election. See http://www.koreatimes.co.kr/www/news/biz/2013/07/299_75080.html
36 The issues discussed during this meeting were the IMF reform, the creation a global financial safety net and the reform financial regulations.
applied to the economy. An unofficial excuse was that they had to stay at home due to the upcoming presidential election\textsuperscript{38}. The absence of Brazilian finance minister and central bank governor was seen as an attempt to downgrade the meeting by the international media.

The negotiations of the G20 ministerial meeting in Gyeongju (October 22-23) were intense and at a certain point they reached a stalemate\textsuperscript{39}. On October 21\textsuperscript{st}, during the G20 deputies meeting, exchange rates and the IMF reform were contentious issues\textsuperscript{40}. The most pressing topic of the negotiation in the following day was a plan to adjust the global imbalance and nothing had been achieved. Issues at the table were mainly two: how to avoid competitive devaluation of currencies among countries and how to avoid protectionist measures; and what would be the first step towards the IMF quota reform. Trying to unlock it, Dominique Strauss-Khan, then IMF managing director, organized a meeting on the sidelines of the G20 with the member of the G7 and the BRICs (Batista Jr. 2012). At this meeting, they would finally reach an agreement on the IMF quota reform. Paulo Nogueira Batista Jr (2012) warns that,

\begin{quote}
I should stress that Brazil, Russia, India, and China only agreed to the 2010 reform, with its limited progress in terms of overall shift in quota shares and voting power to emerging market and developing countries (EMDCs) in exchange for certain forward-looking commitments, one of which was the comprehensive review of what we see as a severely flawed quota formula (p.2).
\end{quote}

During the negotiation, the BRICs delivered a document to the G7\textsuperscript{41}, in which they stressed their

\begin{quote}
1) The New Arrangements to Borrow are correspondingly rolled back, when the quota increases are effective, preserving the relative shares of the members of NAB.

2) The present flawed quota formula which does not reflect the real economic weights of different economies is comprehensively reviewed by January 2013, so that it better reflects the relative economic weight of the IMF
\end{quote}


\textsuperscript{40} See: “Finances ministers to convene in Gyeongju,” http://www.hani.co.kr/arti/english_edition/e_business/445127.html

\textsuperscript{41} “We are disappointed with the scenarios that have been presented to us. The shift from advanced countries to EMDCs is very small and much less than what we had called for. However, in a spirit of compromise and to move the process forward, we could go along with [the proposed agreement] (..) provided that:

1) The New Arrangements to Borrow are correspondingly rolled back, when the quota increases are effective, preserving the relative shares of the members of NAB.

2) The present flawed quota formula which does not reflect the real economic weights of different economies is comprehensively reviewed by January 2013, so that it better reflects the relative economic weight of the IMF
discontent with the small amount of quota being transferred from developing countries to emerging economies. They decided, however, to support this initial reform as a first step towards further and more in-depth reforms. They also made three conditions: NAB should be rolled back when quotas increase are effective; the formula of the quota should be reviewed; emerging markets and developing countries should have an adequate representation in the IMF. The communiqués that would be signed by the leaders of the G20 in the following month in the summit of Seoul incorporated these elements, which represented a victory for the BRICs and other emerging economies.

This negotiation was seen as “horse-trading” between the BRICs and G7 regarding the need to increase the resources available to the IMF (Payne and Philips 2014). As seen previously, Brazil and the other BRICs conditioned their support to the IMF to its reform. Therefore, they would not strengthen it, unless their influence over it would increase. This move can be easily understood as a distributive strategy. Nonetheless, they did that not because they wanted the IMF to fail at restoring the global finance stability, but because they wanted to reform it and strengthen it according to its own rules. In this case, conditioning their support to the reform of the institution was necessary move to make the IMF more representative and effective. Rather than revisionist, the BRICs adopted an integrative strategy towards the IMF.

Leadership

Policy coordination among the BRICs in the IMF’s Executive Board and in the G20 started only in 2008, by Russian initiative (South Africa joined forces with the group only in 2011).  

3) The emerging market and developing countries, including the poorest, still do not have adequate voice and representation in the IMF and hence the next review of IMF quotas should be completed by January 2014.”

(Batista Jr, p.2-3, 2012)

42 See Paulo Nogueira Batista Jr., Os BRICs no FMI e no G20.

members.
Notwithstanding the Russian first move, the outfit seems to have no leader and acts through intense coordination. According to Paulo Nogueira Batista Jr.:

> The five executive directors of the BRICS in the IMF meet frequently to coordinate positions on issues both on the agenda of the board and our initiatives. Each step of the group demands a lot of preparation and coordination. For some countries, notably China, the process of decision making is slow and complex and includes visits to several instances in Beijing. The joint effort is laborious, sometimes painful, but it produces its fruits. In regard to issues such as quota reform and the IMF’s governance, for instance, the BRICS often act in a coordinated manner, which includes preparing joint statements to the Executive Board meetings. (2012)

In addition to that, the afore mentioned absence of the Brazilian finance minister and central bank governor in the negotiations that agreed on the IMF’s quota reform indicates a relative lack of priority of the theme for the Brazilian government at that moment as well as a lack of leadership.

**Conclusion**

Brazilian negotiation behavior towards the international financial order is integrative. The first reason behind this argument is that Brazilian policy makers never expressed any desire to overthrow the existing financial order and to replace it with one that would represent its ideas more faithfully. Even the foreign policy put into practice by Lula and his Worker’s Party (Partido dos Trabalhadores), which regarded the IMF as a hurdle of the country's development, never posed a threat to the institution (Tude and Milani, 2013). To the contrary, under Lula’s administration Brazil paid its debt and in 2009 became a creditor of the institution and made important moves to increase its quota share in it.

The reform of the IMF agreed in 2010 brought hope to the debate on increasing the legitimacy of the institution. Until the publication of this paper, however, the American congress has given it a low priority and thus has not passed it yet, what increases doubt about American commitment with the reform.

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43 Our translation.
Throughout the paper, I argued that the 2008’s financial crisis was a window of opportunity for Brazil and the BRICs to increase their participation in the IMF. Brazilian policy makers took advantage of the financial downturn, set the IMF’s quota reform as a foreign policy priority; and through the G20, they concerted actions with the BRICs and the reform was agreed. Nonetheless, the fact that both Brazilian finance minister and central bank governor were absent in the height of the negotiations on the IMF’s quota reform questions Brazilian assertiveness toward the global financial governance.

Despite all Brazil's and the BRICs' efforts and negotiation strategies, Western states are still in the lead of global organizations (Wade, 2013). That doesn't mean that things will remain the same. As Robert Wade (2013) argues, to keep the lead in IFIs developed countries had to form a new club of leading economies - the G20 - and had to coordinate their effort to prevent themes related to macroeconomic regulation from being be discussed in institutions such as the UN General Assembly and ECOSOC.

To remain relevant, IFIs must be reformed and adapted periodically to reflect recurring shifts in economic power. The amount of potential conflicts involved in these shifts are hard to predict, since those who occupy positions of power are reluctant to give their sits away to new powers. Notwithstanding that, international institutions and regimes may play an important role in mediating relations between rising and falling states. In short, what Brazil and the BRICs want is to be integrated in an international economic governance that they help to sustain rather than overthrow it.
Annex

*Table A1. Gross domestic product based on purchasing-power-parity (PPP) share of world total (%)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
<th>BRICS</th>
<th>G7</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
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</table>

*Source: The International Monetary Fund – World Economic Outlook series / Ovi. The table depicts a gradual and continuous shift of the world economic output from G7 countries mainly to China and India. China is responsible for the major part of the increase in output of the BRICS countries (taking South Africa into consideration); while India’s is responsible for a small part of the growth. Brazil and Russia’s output remains almost the same throughout the period throughout the depicted period.*
### Table A2. General Quota Reviews

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<th>Quota Review</th>
<th>Resolution Adopted</th>
<th>Overall Quota Increase (percent)</th>
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<td>---</td>
</tr>
<tr>
<td>Second Quinquennial</td>
<td>No increase proposed</td>
<td>---</td>
</tr>
<tr>
<td>1958/59 1</td>
<td>February and April 1959</td>
<td>60.7</td>
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<tr>
<td>Third Quinquennial</td>
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<tr>
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<tr>
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<td>February 1970</td>
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<td>March 1976</td>
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</tr>
<tr>
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<tr>
<td>Ninth General</td>
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<tr>
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<td>Twelfth General</td>
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</tr>
<tr>
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</tr>
<tr>
<td>Fourteenth General</td>
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Obs. Discussion on general quota reviews in the IMF take place in a 5 years base. Although the overall amount of quota has increased, the shift in quota share agreed in 2010 will be the first significative reform the institution has undergone since its creation.
References


**Newspapers references**


“Finances Ministers to Convene in Gyeongju.” Accessed October 18, 2013.


Is global economic governance changing? – An analytically informed literature review
Is global economic governance changing? – An analytically informed literature review

Bruno De Marco Lopes


São Paulo
2014
Abstract: This analytically informed literature review is the outcome of the investigation conducted during my master’s research. Rather than being a mere exposition of the arguments of scholars and analysts that wrote about the current transformations in international economic governance, this paper intends to establish a dialogue between the literature and my main findings, aiming to pave the way for future research. This analysis is guided by the following main question: how can we understand current transformations in the international economic governance after 2008’s financial crisis and what is the role played by emerging markets in that? As a part of the initial effort to answer this question, I will use Susan Strange’s categories of power, that is, relational and structural power. In doing so and drawing on existing research, I hope to cast light on this discussion.

Resumo: Esta revisão de literatura de viés analítico resulta da pesquisa conduzida ao longo do meu mestrado. Mais do que uma mera exposição de argumentos de acadêmicos e analistas que escreveram sobre as transformações na governança econômica internacional, este artigo pretende estabelecer um diálogo entre a literatura especializada e os meus principais achados, abrindo caminho para uma nova agenda de pesquisa. Esta análise é guiada, dessa maneira, pela seguinte pergunta: como podemos compreender as transformações na governança econômica internacional no pós-crise financeira de 2008 e qual tem sido o papel das potências emergentes nesse cenário? Como parte de um esforço inicial na tentativa de responder a essa pergunta, as categorias de poder relacional e estrutural - criadas por Susan Strange - serão usadas.
**Introduction**

This analytically informed literature review is the outcome of the investigation conducted during my master’s research. Rather than being a mere exposition of the arguments of scholars and analysts that wrote about the current transformations in international economic governance, this paper intends to establish a dialogue between the literature and my main findings, aiming to pave the way for future research.

The main question that guides this paper is how can we understand current transformations in the international economic governance after 2008 financial crisis and what is the role played by emerging powers in that? The 2008 economic downturn has been treated in the academic literature as a watershed for global economic governance (Drezner 2014; Germain 2014). In the spotlight, there has been the discussion about how the diffusion of economic power could affect the structure and values of international governance and how it could be reformed to accommodate the interests of rising powers. By the same token, scholars and analysts have discussed whether a group of non-Western countries such as the BRIC economies (Brazil, Russia, India and China) are going to act as supporter or spoilers of the international order (Kupchan 2012; Sharma 2012; Schweller 2011). Thus, the underlying question is whether non-Western emerging powers may jeopardize or not the current world order.

The problem came to the fore with the inaptitude of international financial institutions (IFIs) to prevent the 2008 economic crisis from taking place (Drezner 2012). Due to their lack of structural reforms to reflect new distribution of power in the world economy, these institutions would have become ineffective to deal with new contemporary economic challenges. Ill-equipped, these institutions thus failed at their primary function of identifying problems and providing solutions. According to Robert Keohane and Lisa Martin (1995), “In complex situations involving many states, international institutions can step in to provide ‘constructed focal points’ that make particular cooperative outcomes prominent” (p.45).

44 There is no definitive definition of international governance in the literature. Susan Strange’s definition of governance: (1996)”… it is usually taken to mean is cooperation and harmonisation or standardisation of practice between the governments of territorial states, most often effected through an international bureaucracy” (p.xiii). In its turn, Daniel Drezner (2014) defines it as: “the set of formal and informal rules that regulate the global economy ad the collection of authorities relationships that promulgate, coordinate, monitor, or enforce said rules” (L.122).
This debate is important because it casts light on the contemporary transformations of the world economic system. The diffusion of economic power means that some countries are decreasing their participation in the world economy while others are increasing it. The tension takes place when rising economic powers aspire to convert their economic weight into political influence in the international arena, improving their status in international organizations. Nonetheless, the reform of these institutions is not an easy process. Countries that may experience a reduction in their institutional power will resist attempts of reform.\(^{45}\)

The contemporary literature on the emergence of a new economic world order fails to contextualize its reader with the meaning of important concepts such as “economic power,” “rising powers/emerging powers” and even “emerging markets”. While rising and emerging powers are commonly used as synonyms to label a group of countries that aim to challenge and threaten the status-quo order, the concept of “emerging markets” is normally used to define countries experiencing dynamic growth and offering profitable opportunities of investment. Despite that, these concepts are rarely used and defined with the required precision. Each of these concepts may bear different meanings according to different authors. This is a problem for any researcher trying to understand transformations in the contemporary world order, since the lack of precise definition on the concept of rising power as well as the lack of indicators to measure it may render the phenomenon harder to grasp.

The case of the concept of “economic power” is more serious because it is normally used with a similar meaning to power as the capacity to influence people to do what you want them to do through coercive means. Daniel Drezner (2014)\(^{46}\) highlights, for instance, the lack of clarity involving the definition of power and its use in International Relations (IR). The lack of an appropriate definition of power and of indicators to measure it render the discussion on rising powers and diffusion of power in the world economy confusing, since commonly analysts and scholars do not specify what indicators they are using to point out why some countries are rising and others not. Furthermore, what are the differences between economic power and military power and

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\(^{45}\) According to Daniel Drezner (2014),“Within these structures, the post-2008 goal at the operations level was to reallocate influence among the states. But governance reforms are intrinsically difficult to execute because such steps go against the interests of the actors whose power will be diluted. If process reforms nevertheless went through, we can infer that here, too, there was genuine policy coordination rather than a simple harmony of preferences” (Position 626 - Kindle).

\(^{46}\) “The lack of clarity in the conversation reflects, in part, the evolution of the discussion in political science of power as a concept. The attempts to define power stretch back to the very origins of the field, and the debate continues to animate international relations scholars” (Drezner 2014, Position 2002 - Kindle).
between economic power and political power? How these different kinds of “power” can be operationalized? Are they all used in the same coercive fashion?

The diffusion of economic power pressures the structures of international economic governance – mainly those that are already institutionalized such as is the case of the International Monetary Fund (IMF) and World Bank (WB) – to adapt to a new status-quo order. As expected, the countries that occupy positions of power hardly want to give their places away to newcomers. For example, during the negotiations on the IMF’s quota reform, the US had to persuade its Europeans allies to renounce two chairs in the directive board of the institution and part of their quota shares.

In a world in which major wars can rapidly assume catastrophic dimensions, disputes over economic themes seem to have achieved a new level of importance. The increase in the enmeshment of economic flows both in trade and investments has made national economies more dependent on a world economic system. This dependence intertwines the well being of a domestic market to both internal and external economic variables. As Mathew Burrows and Jennifer Harris (2009) explain

Artificial divisions between “economic” and “foreign” policy present a false dichotomy. To whom one extends swap lines and how the IMF is recapitalized are as much foreign policy as economic decisions. Several states openly hinge support for NATO and U.S. coalition efforts upon domestic economic conditions which in turn, they insist, is contingent on U.S. monetary and fiscal aid. Others blend the two with even greater calculation: China using its SWF to compel Costa Rica to disavow Taiwan, Russia resorting to military tactics to scare would be investors away from competing pipeline projects (p.35).

This review is guided by four main questions:

(1) What is economic power?

How eco scholars of International Relations define economic power? How states use it to advance their interests in the international arena and how it can be useful for understanding changes in the international economic governance? This section discusses how scholars of international relations approach this issue.
(2) *Was the IMF a case of success or failure at the 2008 financial crisis?*

Since the onset of the crisis in 2008, there has been a consensus in the literature that the IMF failed at preventing the economic crash from taking place and that it was ineffective in organizing measures against the crisis (Drezner 2014). This argument has been usually based on the assumption that the lack of reforms in the institution has rendered it inoperative. This section investigates what are the most compelling arguments in favor of the IMF’s success and against it.

This question is thus important because it highlights the effectiveness of the IMF in facing new economic challenges. If the IMF failed in its function of coordinating and proposing measures in the wake of the 2008 economic crisis, we could assume that international economic governance would be inadequate to deal with new contemporary economic challenges. Therefore, it requires changes in its structure. In this way, emerging powers would be right to push for reforms within it. To the contrary, if the IMF has succeeded in tackling the negative effects of the crisis, international economic governance would still be effective or adequate to face whatever challenges may come up. In this possibility, emerging powers would still be right to push for the reform of the IMF in order to make it reflect the current distribution of economic wealth in the world economy. However, the fact that the structure of the international economic governance is still effective to deal with these challenges would diminish the bargain power of countries that want to reform it.

(3) *What is the BRICS countries importance to the debate about global economic governance and its reform?*

The BRICS countries have been actively involved in the discussions of the reform of the Bretton Woods institutions in the aftermath of the 2008s economic downturn. Discussions about the reform of the IMF are focused on the outdated distribution of quota-share within the institution and the divide between emerging powers, which seek to increase their voting-power, and developed countries, which want to keep their influence on the institution.
Rather than trying to answer each one of these questions, this paper aims at conducting an analytically informed literature review on the current debate about international economic governance.

1. What is economic power?

What is the nature and the significance of economic power in international affairs? The discussion on power itself in International Relations has proved to be controversial. Robert Dahl (1957) demonstrated the difficulty in creating a formal definition of power that could be broad enough to encompass every research problem on the theme. In this way, a definition used for a particular research might not hold for another. Rather than a definitive and single theory of power, we have a variety.

Dahl (1957) defines power as the ability that one party has over another to induce it to do something it would otherwise not do. The source of power would be based on coercion or on the incentives provided by one party to another. Dahl’s central question however was how was possible to measure it and compare it not only among equal unities but also different ones. He created a framework of analysis, which encompassed five categories, to make this kind of comparison feasible: (i) differences in the basis of power; (ii) differences in means of employing the basis; (ii) difference in the scope of the power; (iv) differences in the number of comparable respondents; (v) differences in the changes in probabilities.

In a similar fashion, Fred Northedge defined power as “the capability of a person or group to make his or its will felt in the decision-making process of another person or group… A state may be said to have power in the international system when another state recognizes that it cannot be ignored when issues have to be determined” (p.12, 1974). Interestingly, Northedge also adds to the discussion the importance of recognition. Being considered a powerful actor would not only be a matter of having enough resources, but also of being recognized among its peers. This state-centric view of power emphasizes the acts and impacts of inter-states’ relations.

47 “A has power over B to the extent that he can get B to do something that B would not do otherwise” (Dahl, 1957, p.202-203).
Richard Cooper (2003) approaches the problem involving the definition of economic power in the following manner:

How we define the term "economic power" is a semantic question so long as the underlying concepts are clear. I prefer to confine the term to those cases where coercion is either threatened (perhaps implicitly) or actually used, and the instruments are economic in character. Thus economic power entails the possibility of making the target government worse off than it was before it took the offensive decision. (The use of inducements, in contrast, leaves the target government better off than it was before it took the offensive decision) (p.6).

Similarly to Dahl (1957), Cooper (2003) highlights the importance of understanding the underlying concepts and assumptions that are used to give substance to the concept. His definition of economic power is analogous to some extent to the commonly used definition of military power. That is, both are used as instruments for coercion with the difference that the concept of economic power is comprised of economic elements. Nonetheless, Cooper emphasizes that in using a broad defined concept such as power, one should pay attention in its underlying concepts. It is therefore necessary to observe from which elements or indicators the "power" is originating.

When it comes to the definition of economic power, the discussion on the concept does not get any better. According to Susan Strange (1975), neither conventional theories of international relations nor theories of international economics provide a satisfactory definition of economic power. While international political theories fail to acknowledge that international relations do not take place only in the state level, theories of international economics regard economic power as something apart from economic datum, relating it to political factors. Strange (1975) also notes that not rarely economic power is treated by scholars of IR in a similar form to military power, thus being used to coerce other states and to defend the state against coercion by others.

For her, economic power must be distinguished from other forms of power. According to Strange (1975) economic power is exercised at four different levels in the international system:

(i) it is exercised by the rich economies on the structure of the world market economy, controlling patterns of investment, production, trade and consumption.
At this level of analysis, economic powers are able to command the construction of the structure of institutions and norms on which the international economic order is based. For Strange, this level was of the utmost importance because some countries’ ability and strength to create the framework in which decisions would be made and interactions would take place meant that the outcome of decisions will always be shaped by the values and structure of this framework. Thus even if an outcome is reached with the disagreement of an economic power that helped to create the order, the decision will still reflect its values.

(ii) “by governments acting together and after political bargaining to erect a framework of minimal rules for the maintenance of stability, order, and justice in the world market economy. In the necessary process to arrive at agreement on these rules the government of the largest national market remains by far the most influential” (p.222-223);

This level of analysis is about the process of creation of institutions and norms that will be that the base of an economic order. Taking the creation of the Bretton Woods Institutions as an example, the US and its allies created key international institutions to set minimum standards of control over the world economy, to prevent financial crashes and surges in protectionist measures. The US played a major role in the creation of both the IMF and WB by setting, for instance, the dollar as an international reserve unit.

According to Randall Germain (2014), “what was significant for Strange’s counter-intuitive analysis was the capacity of some states and the private interests under their sovereignty to set the rules by which others would have to play the ‘great power’ game. In other words, for Strange the key to understanding who actually ‘had’ power lay not in determining who could prevail in specific decisions, but who could set the rules by which such decisions were made in the first place (Strange 1987; 1988b). In her estimation at the time, it was still American political leaders who had it within their grasp to provide such leadership. Even though not all decisions went America’s way, they were made under American rules that reflected and benefited American-based private interests. This social fact also called attention to the global reach of American domestic political conflicts, which had a disproportionate impact on international regulatory developments. For Strange, the most important facets of ‘global’ power were of necessity first made in America before being radiated or refracted globally” (p.4).
“economic power is exercised by national governments through the formulation of national rules governing access to factors of production, credit and markets, and other fundamental questions affecting economic enterprise and economic transactions” (p.223);

Developed national governments with powerful multinational companies are able to set the rules and frameworks in which actions and operations take place. That is to say that these governments and powerful enterprises will be able to set standards and to some extent to impose them to other actors.

“economic power is exercised at the operational level on both sides of every actual economic transaction, by buyers and sellers, creditors and debtors” (p.223).

The outcome of each transaction will express the balance of economic power among the negotiating parties.

Moreover, Strange’s typology on the levels in which power is exercised allows her to make an important distinction between relational and structural power. According to Randall Germain (2014), relational power can be understood, for instance, as the US ability to “to coerce or compel its allies and competitors to undertake particular courses of action” (p.4). This ability would be closely related with the existence or scarcity of tangible resources from which economic power can be derived. In this way, relational power in the world economy would decline or increase according to economic growth. The BRICs countries would be experiencing, for instance, an increase in their relational power proportional to the growth in their economies. By its turn, structural power is understood as a state’s ability to frame the rules by which decisions would be made in the international arena. Strange regarded structural power more important than relational power, since even if the state that created the rules was not capable of influencing a certain output, it created the normative and political structure in which the bargain take place.
Who has power then? According to Susan Strange, economic power lies on the hand of those who are able to create the framework within actions take place. Power to create norms and structures guarantees that the outcome derived from them will reflect the preferences of the state or group of states that created them. Therefore, even in the case of the reform of the institutions in which the system is based on to accommodate new powers, the system will remain the same if the underlying assumptions remain the same. That is the case, for instance, of the IMF’s reform agreed in 2010 during the G20 summit in South Korea. While it was decided that the BRICs would become part of the group of the top ten share holders; the rules of the game remained the same.

2. **Was the IMF’s reform a case of success or failure in the wake of the 2008 financial crisis?**

In the aftermath of the 2008’s economic downturn the general feeling among analysts and scholars was that the international economic governance failed to prevent the worst economic crises after the Great Depression (Drezner 2014). The crisis was perceived as a great stress test in which international financial institutions and norms that regulate the global economic system failed to pass.

International economic governance has been considered inadequate to deal with new contemporary economic challenges for a myriad of reasons. The Bretton Woods institutions, for instance, have seen their reputation wane in the international community. While the IMF failed to provide the developing world with effective policies to overcome their economic issues during the 1990s and 2000s; the WB attached to its lending policy human rights and environmental standards, which made harder for any developing country to borrow money from the institution. Moreover, the IMF failed to identify growing financial risks in developed countries, ignoring the signs of subprime mortgage securities crash. In the financial sector, the Basel Committee on Banking Supervision⁴⁹ allowed greater leverage in large financial institutions, which accelerated the banking crisis (Drezner 2014).

In this way, many scholars and analysts reacted in a very pessimistic fashion in regard to the measures that states were coordinating to face the effects of the crisis. Alan Beattie (2012)

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⁴⁹ The primary function of the Basel Committee on Banking Supervision is to codify standards for banking and supervise it.
understands that “the collective response of the world’s big economies since 2007 has been slow, disorganised, usually politically weak and frequently ideologically wrong headed” (p.18). Martim Indyk and Robert Kagan (2013) considered “The world’s institutions - whether the United Nations, the Group of 20 or the European Union - are weakened and dysfunctional. The liberal world order established after World War II is fraying at the edges”. The historian Mark Mazaower (2012) commented that “With WTO’s Doha Round paralysed and the World Bank chastened, the IMF incapable of helping to rectify the global imbalances that threaten the world economy … institutions of international governance stand in urgent need of renovation” (p.424). In a similar fashion Naazneen Barma et al affirmed that “It's not particularly controversial to observe that global governance is missing” (2013). Therefore institutions such as the IMF were considered ill-equipped to deal with a global shock. According to Drezner (2014),

to sum up: global governance had a bad reputation at the start of the twenty-first century, and it has only gotten worse since. The prevailing sentiment is that international institutions failed to prevent the Great Recession and might have abetted the crisis. Global economic governance has failed to repair the damage since 2008, and its structures are too sclerotic to repair themselves (l 337).

Pessimism against the international economic governance was demonstrated in a global poll conducted by the BBC World Service in 2009, released before the G20 summit in London. It revealed that the vast majority of the respondents (70% of them distributed across 24 countries) believed that a major reform of the international economic system was needed to solve the crisis.50

Challenging the argument presented above, Daniel Drezner (2014) argues that the global economic governance endured the shock of the economic crisis and was able to provide the system with the effective measures. In a nutshell, according to him, the system worked51.

Among the quantitative indicators presented by Drezner (2014), there are the world industrial production in the aftermath of 2008 crisis and after the Great Recession 1929 (figure 1) and the

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51 “In response to the 2008 financial crisis - contrary to expectations- global economic governance responded in an effective and nimble fashion. In short the system worked”. (Location 101)
volume of world trade after each one of these global economic downturns (figure 2). Figure 1 demonstrate that world industrial production recovered faster after the 2008 economic crisis than it did after the Great Recession of 1929. The volume of world trade, depicted in figure 2, follows a similar pattern. Drezner’s main argument was that this fast recovery was possible because the international economic governance worked and also because great and emerging powers coordinated their actions.

**Figure 1.** World industrial production, in the aftermath of 2008 crisis and after the Great Recession 1929

*Source: Eichengreen and O’Rourke 2012*
Figure 2. Volume of world trade, in the aftermath of 2008 crisis and after the Great Recession 1929

Source: Eichengreen and O'Rourke 2012

The group of the 20 most powerful economies emerged in 2008 as the most important forum to coordinate actions against the crisis. Miles Kahler (2013) rightly argues that the G20 represents a dramatic innovation in global economic governance after the 2008 economic crisis. It represents the expansion of influence of emerging markets such as the BRICs in global institutions. According to Kahler (2013),

The award of a central role to the G-20 in global economic discussions is one of several shifts that signal recognition of the engagement and economic weight of new players such as China, India, and Brazil. Although the contribution of greater inclusiveness to the legitimacy of global governance has carried the argument so far, the definition of inclusiveness and its costs have not been carefully evaluated. Although the G-20 represents a large share of world population and an even larger share of world economic product, its membership both reconfigures global institutions and at the same time retains greater influence for the largest economies. Its formula is a broader version of existing great power clubs. Many of the strongest supporters of the international economic order among the developing countries—open economies such as Chile or Singapore—are excluded. Inclusiveness may also be defined by the award of greater influence to
the more numerous smaller sovereign units, through innovations such as a double majority system of voting” (p.29).

What it means for rising powers such as the BRIC economies to say that the international economic governance works? First, it means that – with the exception of the outdated quota division – that there is nothing wrong with them. If there is nothing wrong, there is no reason to change their structures and fundamentals. In this scenario, the BRIC economies may only envisage to increase their say and become major stakeholders in institutions such as the IMF.

In addition, in his analysis, Drezner (2014) points out the importance of decoupling China from the rest of the BRIC economies and to the overestimation of these countries capabilities in the world economy. For Drezner, the 2008 did not challenges the existing institutions and norms of the international economic governance nor their underlying ideas. According to him,

It is true that, in recent decades, the BRIC economies have grown more rapidly than the economies of the developed world. Observers have been to quick, however, to project the future of the BRICs based on those past growth trajectories - and then to convert those extrapolations into inlayed estimates of their current capabilities. The BRIC economies lack agenda-setting or convening power in the global economy. A dispassionate look at the distribution of capabilities reveals that the United states, the European Union, and China are the great powers in the post-crisis global economy. If they agree on what is to be done, then it is done. The 2008 financial crisis and Great Recession have led to a minor shift in the global distribution of power - but the key word is ‘minor’.

Neither did the crisis seriously challenge the privileged set of economic ideas. Despite a lot of loose talk about its demise the Washington Consensus has endured (Drezner 2014, position 413, Kindle).

3. What is the BRICS countries importance to the debate about global economic governance and its reform?
In 2010, the Group of the most powerful economic nations, the G20, assembled in Seoul, South Korea, to discuss and approve the reform of the IMF. Despite the agreement on the reform of the IMF, the new architecture of the institution has not yet become enacted because the US Congress has failed to do so. This section aims to provide an analysis of the reasons why the American Executive was one of the main forces to push the IMF’s reform forward but domestically it has failed to persuade the Congress to approve it.

The reform of the IMF was approved at a critical moment for the world economy. Its main motivations were to increase the resources available to the institution in order to enable it to face economic crises and to increase the representation of emerging and developing economies (Weiss, 2013). However, if it was so vital for the recovery of the world economy and the engagement of emerging and developing economies in the institution, why the reform has not yet been enacted? Thus what are the causes for the delay of the ratification of the IMF’s quota reform by the American government and what are the consequences of it for international economic governance?

Differently from his predecessors, president Barack Obama has resorted to executive agreements in an unprecedented manner to achieve his administration’s foreign policy objectives (Peak, 2013). One possible explanation for that is the political paralysis that has taken place in the American Congress due to high partisan polarization (Peak, Krutz and Hughes, 2012). In this way, both the ratification of treaties, which require two-thirds support from voting Senators, and the approval of executive agreements have been subjected to an ideological divide. Being related to the Bretton Woods Act, the IMF Legislation falls into the category of executive agreements 52.

The American government led the negotiations on the IMF’s quota reform in the G20 and its delegation also worked hard to convince European countries to give away part of their quota share and also two chairs 53 in the Directive Board of the institution 54. The American delegation also hammered an agreement that apparently would pass easily in the Congress. Despite this effort, almost 4-years after this agreement was signed, the reform has not been implemented because of the American government’s failure at approving it. Throughout this section I try to demonstrate that

52 According to the Bretton Woods Agreements Acts, “Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2(a), of the Articles of Agreement of the Fund” (SEC. 5.9 [22 U.S.C. 286c]).

53 Belgium and Austria agreed on giving their seats away (Edwards, 2013).

54 Cooper and Thakur (2013).
rather than a strategy to forestall the reform, the delay in the ratification of the reform seems to be the fruit of a political mismanagement, damaging US leadership in the IMF and having negative effects over the efforts for the recovery of the world economy as well as international governance.

The delay in the ratification of the IMF’s reform has three main implications: (i) the lack of reform in international financial institutions (IFIs) may render them incapable of dealing with economic crises and other challenges; (ii) the failure in bringing emerging economies inside the architecture of financial institutions may encourage these countries to create or look for new solutions for world problems; and (iii) the legitimacy of US power in the IMF may erode.

Obama’s politics on international agreements and the American domestic institutional context

Agreements that can be approved as treaties can also be approved as executive agreements. The opposite comparison, however, cannot be made. The rise of executive agreements in the 1940s started the debate about the two modalities of approval of international agreements, opposing those who argued that they were interchangeable with those who counter-argued that they were made for specific uses that should be respected. The first view has prevailed, leaning in favor of executive agreements (Oona, 2008).

Analyzing president Barack Obama’s policy on international agreements, Peak, Krutz and Hughes (2012) cast light on Obama’s preference for executive agreements rather than treaties, demonstrating the hypothesis that “increased polarization in the Senate will decrease the number of treaties transmitted by the president” (p. 1301). During the president’s first term, his rate of executive agreements is similar to his predecessors but in regard to international treaties the rate dropped severely and his second term is going through a similar path. He has averaged so far 8 treaties transmittals to the Senate for each two-years Congress (Peak, 2013).

55 According to Treasury Secretary Jacob Lew, "We have a veto in the IMF, we have a controlling voice when we need to, we have leverage so that the United States can influence the economic decisions around the world, and it is something that our international leadership depends on" (Wroughton, 2013).
56 According to Peak Krutz and Hughes (2012), “Since the end of World War II, the number of treaties concluded has remained relatively stable, averaging about 32 treaties per two-year Congress from 1947 to 2008, whereas the number of executive agreements has exploded to an astonishing average of 524 per Congress” (p.1298).
Analysts of domestic politics of international agreements (Krutz and Peak, 2009; Peak, 2013) and analysts of American domestic politics (Ornstein, 2011; Binder, 2011; Klein, 2012) have agreed that the political paralysis that has been caused by high partisan polarization and ideological divide is constraining the government’s ability to face domestic and international challenges. This tense climate in the Congress in tandem with the economic and social challenges that the country is facing are directing Obama’s attention to these domestic challenges rather than to the enactment of international agreements, despite the administration’s support for the latter.

The case of the IMF’s Reform

When the American delegation started discussing the IMF’s reform package with other nations, they had in mind that the agreement would not face any difficulties to be approved by the Senate. They made sure that the reform package would neither represent a new financial burden to their country nor damage its leadership. The agreement consists of making permanent a temporally $63 billion U.S contribution originally allocated to the New Arrangements to Borrow (NAB) that would be converted into quotas.57 There are basically two arguments for and against the IMF quota reform in the US: the one in favor is that the US participation reduces the effects of economic crises in other countries and promotes development in other markets; while another claims that tax payers’ may be used to help irresponsible governments and they also point out the unpopularity of the IMF in countries that receive its assistance.58

The IMF’s reform is particularly sensitive at this moment because the American government has been obliged to make a series of cuts in its budget. Some lawmakers, for instance, argue that the US money for the IMF should go instead for domestic programs that are being cut (Wroughton, 2013). After the reform package was approved by the IMF Board of Governors in December of 201059, the IMF Legislation was caught in-between the interplay of American domestic politics. In 2012, president Barack Obama decided to postpone the request for the approval of the act because

57 This new legislation will maintain the share of American quotas in the IMF, maintaining thus its leadership through its voting power (16,75%). It involves basically shifting the contribution from a temporary status to a permanent one.
58 See the Memorandum addressed to Members of the Committee on Financial Services on December 11, 2013. Available at: http://financialservices.house.gov/uploadedfiles/121113_fc_memo.pdf
it was an electoral year. On March 2013, Obama sent the IMF funding request to a Republican House of Representatives, but it was rejected. The administration hoped that a Democratic Senate would put it in its version of the funding bill. However, it was also denied by the Senate Appropriations Committee that argued that it would be “too politically sensitive” (Wroughton and Lawder, 2013).

The delay in the ratification of this bill has raised reactions both within the United States and in the countries that would benefit most from the reform such as Brazil, Russia, India and China (the BRICs economies). In the US scholars and policy makers sent a letter to the president of the Senate, informing him of the importance of the bill for both the ongoing predominance of American influence in the IMF and to avoid defection of emerging economies from the institution. In the international arena, one of the main flags of the BRICs countries since the creation of the outfit has been the reform of the IMF. Since 2008’s economic downturn, this grouping has acted actively to fight against the effects of the downturn and has also emphasized the importance of strengthening IFIs in order to make them more effective and representative. In addition, Christine Lagarde, Managing Director of the IMF, has actively supported the reform.

The consequences of this act may range from the erosion of American leadership in the IMF to the gradual decrease of legitimacy of the IMF to deal with global challenges. Being a deliberate strategy or not, not approving this package could complicate the US participation in the management of future economic crises. The non-adaptability of IFIs to new world economic circumstances is one of the factors behind the BRICs countries’ move toward the creation of their own development bank, which can be viewed in part as a reaction against the failure at increasing these countries’ participation in IFIs.

Simple put, the causes for the delay in the approval of the IMF legislation are basically two: Obama’s decision to put off the request in 2012 due to his presidential election and the political stalemate in the American Congress that is motivated by ideological divide. The increase in partisan polarization has constrained the government to respond to challenges both domestically and internationally. The delay of the American government in approving the reform cannot be,

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60 See http://www.reuters.com/article/2013/03/12/us-usa-imf-reforms-idUSBRE92B04K20130312
63 Periods of election can be very sensitive political moments, upsetting majorities and changing congressional preferences on topics (Bang, 2011).
therefore, understood as a strategy to deliberately postpone the reform as much as the government can, but, in fact, it is due to political mismanagement.

Being the American Congress’s delay deliberate or not, the BRICs countries seem to have lost a valuable window of opportunity to increase their political clout in the IMF. Even if the reform is approved, it is not clear yet if they will manage to keep concerted their effort to increase their influence on the institution. The rhythm of growth of their economies is slowing, and these countries seem to be focusing their attention on their domestics needs, such as sustained growth and avoidance of political and social turmoil. Nonetheless, the BRICS (now with South Africa included) seem to be innovating in international economic governance, by proposing the creation of their own development bank and of a currency reserve agreement. It is still too early to analyze the impact of both initiatives on global governance. However, it may represent the BRICS’ countries attempt to increase their structural power in the world arena. This recent step is investigated in the next section.

The BRICS’ reaction to the sluggish pace of the IMF reform

On July 14-16, 2014, the BRICS (Brazil, Russia, India, China and South Africa) gathered for its 6th summit to announce the creation of a development bank and of a currency reserve agreement (CRA). This move has been considered a huge step towards the consolidation of the BRICS grouping as a global player and a sign of fragmentation of the global economic governance. At a time in which the legitimacy and efficiency of the Bretton Woods institutions have been questioned, the creation of the BRICS bank and of the CRA has been perceived as a threat to the economic order maintained by the West and as an attempt to undermine international economic governance. I try to demonstrate that rather than a threat to the global economic order the creation of a new development bank and of a scheme such as the CRA will strengthen international economic

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64 A new round of meetings to discuss a new review of quotas is scheduled to January of 2014. Since the US has not approved the reform package of 2010, it is improbable that any new agreement will be reached. Nonetheless, this new round of meetings will possibly start in a tense mood. See http://www.imf.org/external/about/quotas.htm.
governance and that they can be perceived as an answer of the BRICS to the sluggish pace of the reforms of the International Monetary Fund (IMF) and the World Bank (WB). The BRICS have insisted\(^{65}\) that these institutions are to complement current international economic arrangements, pointing to the kind of international governance they envisage.

The idea of creating a development bank and CRA first came up at the fourth BRICS summit in New Delhi in 2012.\(^ {66}\) However, this idea seems to be rooted in the 2008 financial crisis and in the slow pace of quota and governance reforms in the IMF. Therefore, rather than trying to erode the current global financial architecture, these initiatives are filling both gaps of lack of representativeness in international financial institutions and of creating mechanisms capable of dealing with new contemporary financial problems. They are thus more complementary in nature than competitive with the current financial structure.

The structure of the development bank and the operational guidelines of the CRA have not yet been released in detail, but the information that has been published allows us to make some inference. The BRICS bank will be created with a starting capital of US$ 50 billions (each member contributing equally) and its main objective will be to finance infrastructure and sustainable development projects to the developing world. As opposed to the WB, the loans of the institution probably will not have conditionalities. Furthermore, loans will be provided at lower costs if compared to market rates. The BRICS expect to double the bank’s capital in five years. They will hold approximately 55% of the shares of the bank and new members can join the bank with a US$ 100,000 share\(^ {67}\). It is expected that the bank starts its operations 2 years after its creation.

The CRA will be created as an emergency fund and should be used to forestall short-term liquidity pressures. The arrangement might have US$100 billion at its members’ disposal. As


opposed to the development bank in which the members will have equal shares, China will be the largest contributor with US$ 41 billion, while Brazil, Russia and India will contribute with US$18 billion, being South Africa the smallest contributor with US$5 billion. The resources of the CRA will targeted only to the BRICS and a technical committee will analyze each request for funds before making the resources available.\textsuperscript{68}

\textit{Moving from design to the operational stage}

Perhaps the first hurdle for the creation of the BRICS development bank is its very implementation. Questions such as “what will be the bank’s norms?”, and “who will run the institutions and decide what projects will be funded and how it will be done?” are still unanswered and some of them will probably continue to be even after the 6\textsuperscript{th} summit in Fortaleza (Brazil). In addition to that, one should wonder how fast the Congress of each of the BRICS are going to approve the initiative. To complicate the scenario, later in this year, Brazil will hold presidential election and it is hard to say if an opposing party would defend the creation of the bank in case it wins.

The role of China in this initiative seems to be constructive so far, but the it can be easily disturbed if the Chinese government decides to have a major role. Chinese diplomats already persuaded the other BRICS members to chose the city of Shanghai (China) to be the headquarters of the bank.\textsuperscript{69} The Chinese government also attempted to push forward a proposal in which it would invest more money than the other members in the bank. The other members refused because they wanted to be equals. Giving China the headquarters appears to be a way to appease its government for now.


Is defiance to the status quo order the main reason for the BRICS to create a new development bank? It doesn’t seem so. They seem to be boosting their international status by signaling that they can be “responsible stakeholders” in the current world order. At the same time that they are still pushing for the reform of the IMF and the WB within the rules of these institutions, they are creating an alternative to it in a complementary form. Currently, there is a gap between the available resources allocated by multilateral development banks to fund infrastructure projects and the quantity demanded. The BRICS bank would be therefore an important step in filling this gap.

Any analysis on the creation of the BRICS bank leads almost invariably to the questioning of how much the experience that China has acquired with the Chinese Development Bank (CDB) and Brazil with its Brazilian National Development Bank (BNDES) will play a role in it. Both banks have funded infrastructure projects in Africa and South America without any kind of strings attached. Actually, in these projects, they tend to favor their own domestic companies. BNDES, for instance, can only fund infrastructure projects in which Brazilian firms are responsible for the contract. They will probably favor the same logic with their bank.

Other important issue that has been pointed out due to the policy of no conditionalities is what kind of environmental and human rights standards the BRICS bank will adopt. These standards are defended by the international civil society, which has played a major role in making the WB adopt them (which made their policy of loans more complex). Since neither the CDB nor the BNDES impose these standards in their current policy of loans, there has been a certain fear that the BRICS may jeopardize them.

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In its turn, the creation of the CRA – an idea advanced by the Brazilian government - is an answer to the lack of political resolve involved in the IMF’s reform. In the discussions at the G20 on the reform of the IMF, the BRICS have conditioned their support to the institution to its reform. They increased their participation in the New Arrangement to Borrow (NAB) on these terms. Notwithstanding that, after 4 years that the G20 leaders agreed upon the IMF’s quota reform at the summit in Seoul nothing has been done. Therefore, the BRICS are creating an arrangement in which they can rely on.

*Strengthening, not eroding*

Rather than a threat to international economic governance, the BRICS bank will help to advance reforms in the financial system. Its creation has emphasized the ineffectiveness of the current architecture of the financial order and has paved the way for a debate about it. Furthermore, the BRICS are willing to put more money in projects of development. Skeptics may argue that they are doing this in detriment to environmental and human rights standards, representing a major setback. The fact however, is that being a multilateral initiative the BRICS bank will be probably pressed to be a transparent institution and to be attached to some standards. Furthermore, it will have to be accountable to its members’ societies.

Being a threat or not to the current order, the BRICS bank will have to overcome a first challenge: to become an existing and functioning institution. Its creation in Fortaleza (Brazil) was the first step, but more will have to come after it. The BRICS will have to show that their political will is strong enough to set a new institution into the global economic order and that what they envisage for the international economic governance can be more advantageous for every nation. Of course that they will not do this in the same way that Western nations have done, but perhaps this will be their contribution.

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Conclusion

When the IMF’s quota reform was agreed in 2010, the world was undergoing the worst moment of the economic crisis. The BRICs countries as opposed to the G7 economies were in a moral and economic position that enabled them to speak with a louder voice and to demand more room in the architecture of the international financial system. The perception was that power was rapidly shifting in the direction of the BRIC economies. After almost 4-years of the signature of the agreement, the developed world starts slowly to recover from the crisis and emerging economies, including China, are reducing their growth rate. Notwithstanding that, the new redistribution of quota share has not yet taken place in the IMF. Is it still a priority in the agenda of great power such as the US and the other G7 nations?

The BRICS countries reacted. Their move towards the creation of a development bank and contingency reserve agreement demonstrate that Brazil, Russia, India, China and South Africa are willing to pay the price for being an active part of international economic governance. It is still too early to know what will be the impact of these initiatives on the world economic governance. Daniel Drezner (2014) is right to decouple China from the rest of the BRICs and to place it among the US and the European Union. He is also right to point out that economic power did not shift as it was expected to the other BRIC economies. Nonetheless, Drezner did seem to perceive that together these countries might be able to start creating institutions and rules that may positively contribute to the development of international governance, diversifying its underlying values. Of course that this will depend on how long China will be willing to invest in the outfit.

Susan Strange’s division of power into two categories (relational and structural) seems to be still valid measures for understanding the contemporary transformations in the economic governance. It teaches us that resources from which power can be derived are constantly shifting among countries. Nonetheless this kind of relational power is just one side of the coin. On the other side, there is the kind of power (structural) that is capable of creating the framework in which actions and interactions take place and outcome are shaped. Have the BRICS countries, as group, acquired this kind of power? The BRICS development bank and CRA seem to be an attempt that has yet to be put to proof.
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