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ASSESSING THE TRANSFORMATION OF GLOBAL FINANCE

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Inhaltsverzeichnis

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EU-Brazil transformismo in the reconfiguration of the global financial order

1. Introduction

The dollar has been, for more than five decades, the international currency *par excellence*, epitomising US hegemony in international finance. This exorbitant privilege, based on the attraction of credit to Wall Street from all over the world, and especially from the Global South, has allowed the US to live well beyond its means, with huge chronic current account deficits to the present day (Helleiner 1994; Seabrooke 2001). The immense structural power of this 'Dollar Wall Street Regime' (DWSR) was last seen in the South East Asian financial crisis of 1998 (Gowan 1999). However, two major changes have occurred in the world financial system since then: the introduction of the euro and the vast accumulation of foreign reserves in the emerging markets. Both moves have to be understood as defensive actions undertaken in order to acquire more autonomy from the DWSR (Cohen 2008). Both Europe and the emerging markets are trying to protect themselves against the inherent volatility of the financial system which was set up progressively by the DWSR since the closure of the 'Gold Window' and the Bretton Woods system of fixed exchange rates by Richard Nixon in 1971–1973. As Helleiner (1994) argues, the 'neoliberal' economic school considerably increased its influence in US policy making in the Nixon administration. Inspired by Friedrich Hayek and Milton Friedman, these new advisers rejected the post-war concern that speculative financial flows would disrupt stable exchange rate arrangements by arguing strongly in favour of a floating exchange rate system. They did not agree with the commitment of Keynes and White to national Keynesianism and the autonomy of the welfare state. Instead, they applauded the way international financial markets would discipline government policy and force states to adopt more conservative, 'sound' fiscal and monetary programmes. Ironically the DWSR has imposed this fiscal austerity on other states but not on US policymakers who have run huge public deficits over the last 30 years, especially with Republican Governments.

The DWSR has always profited from the financial crises in the periphery due to the fact that Wall Street has always been the market-haven of last resort. This time, however, the financial deregulatory boomerang has hit back and today's credit crunch crisis has seriously damaged the core foundations of the DWSR. The whole framework is now in jeopardy. The big high-risk investment banks of Wall Street have disappeared altogether; the whole banking system of the US has been partly nationalised with an extraordinary $700 billion rescue package put forward by the US Treasury. Equity prices are collapsing all over the world, turmoil in currency markets is widespread and house prices are plunging everywhere. Simply put, this is the greatest financial crisis since the Great Depression. This gives considerable credibility to those who predicted this type of crisis long ago, setting it in the context of a more general US hegemonic decline (Arrighi/Silver 1999). Arrighi and Silver document, historically a hegemonic crisis is always characterised by a diversion of capital from production and trade to finance and speculative activities. This shift is often assumed to cause a massive polarisation of wealth, such as is the case today. This "expansion can be expected to be a temporary phenomenon that will end more or less catastrophically, depending on how the crisis is handled by the declining hegemon" (1999: 272), in this case, the United States. For many analysts, including free-market gurus like Martin Wolf, this is the end of neoliberal capitalism as we have known it in the last three decades. Considering that US hegemony in financial activity has predominantly been based on this neoliberal framework (Alvater 2007; Cafruny/Ryner 2007) of laissez-faire capitalism that is now "melting away before our eyes" (Wolf 2008), the question that arises is whether the DWSR will last for long.

The academic debate on the future of the dollar as the main international currency has intensified over the past 5 years, even before the outbreak of the current financial turmoil. The main cause was the consolidation of the euro as a potential rival to the greenback for the role of international money and anchor of the financial system (Kindleberger 1981). So far the analyses have been contradictory. They range from economists who believe that the European currency will inevitably match the influence of the dollar, establishing a bipolar monetary system (Bergsten 1997, 2005; Mundell 1998, 2000), to those who are less optimistic about the trajectory of the euro and predict the continuation of dollar hegemony for several decades to come (Cooper 2000, Kenen 2002). In the more interdisciplinary field of International Political Economy (IPE), the positions are also opposed. While some see too many weaknesses in the European project to allow it to rival the US (Cohen 2003, 2007; Posen 2008), others argue that the European Union will acquire a predominant role as a civil and normative power in the 21st century (Leonard 2005; McCormick 2007; Telò 2006).

In any case, this debate has been so far too centred on the West, leaving the emerging markets of the BRIC (Brasil, Russia, India and China) states at the margins. This article strives to overcome this lacuna by focusing on how the financial elites of the emerging markets see the introduction of the euro and the evolution of the international financial system in the midst of the current financial crisis. Drawing on a methodological triangulation of secondary literature, archival documents and surveys as well as elite interviews[1] in the key study region of Brazil, it will be argued that the financial elites of the emerging markets consider US hegemony to be in decline and see the EU in many ways as an important partner in the creation of a multi-polar financial system characterised by progressive sharing of power in global governance institutions. In this sense, the BRIC elites have much in common with the European elites and hence they have the potential to create a counter-hegemonic bloc opposed to the DWSR.

2. Theoretical considerations

The question of whether the dollar will continue to be the main international currency cannot be answered solely by economic determinants. If only economic variables were to be considered (Lim 2006), the euro should by now be much closer to the dollar than it is. The euro-zone GDP is very close to that of the US, the euro-zone has a larger population, it has a greater world trade share than the US and the integration pace of the European financial markets has been outstanding (McKay 2007). But economic clout is not all that matters and thus the debate has to be politicised, as recently done by Eric Helleiner (2008), demonstrating who demonstrates that the field of IPE is best suited to deal with questions of world dominance. For his theoretical framework, Helleiner draws largely on the work of Susan Strange, one of the founders of modern IPE. Strange established as early as in 1971 (in the midst of another crisis) an IPE taxonomy of international currencies (Strange, 1971). For her there are four types of international money: (1) top currency; (2) master currency; (3) neutral currency; and (4) negotiated currency.

The master currency concept is easy to understand because Strange refers to a *de facto* territorial domination or protection of one state by the issuer state of the master currency. A top currency, on the contrary, acquires this privileged status mainly because of economic factors. It may be defined as "the currency that has world economic leadership, the currency of the predominant state in the international economy" (Strange 1971: 221). The dollar has certainly deserved this status during many decades. It is to be seen whether it can maintain this privileged position in the future. Today's economic shape of the US indicates that it is instead becoming a Negotiated currency. In this case, the issuer of the master currency loses political and economic might (as has been the case with the US in the last decade) and it has to bribe the other states with financial aid, military protection or trade advantages in order to convince them to continue to use its currency. Following Strange's reckoning, "the master currency depends heavily on the stick. But if the stick is weakened or if the issuing state for any reason becomes too embarrassed to use it, then it may be replaced by carrots" (Strange 1971: 220). In today's world the US carrots are: an open market for Chinese goods; military protection for the Gulf States; and recently, the willingness to hold an international conference in Washington to *negotiate* the reconfiguration of the financial system after the diplomatic pressure exercised by the French presidency of the European Union in alliance with the BRIC states, led by Brazil, which have been pushing for the widening of the discussion forum to the current G20 format for years (Cody 2008).

In this framework the BRIC states and naturally other key countries like South Africa and Saudi Arabia play a crucial role because, in the last instance, by using it, they are the ones that will decide to a great extent which currency will be the international money of the future. By advocating a more ethnographic approach for the financial elites of the emerging markets, this research differentiates itself from both the rational choice theory embraced by neoclassical economic modelling (Chinn/Frankel 2008; Portes/Rey 1998) and the structural-hegemony-theses put forward by world-system scholars (Arrighi 2005a, 2005b; Wallerstein 2003). Both of these approaches are highly deductive, while this work follows a more inductive line of research, leaving more room for agential autonomy and intersubjectivity, without at any time discarding the structural constraints. The concept of hegemony is understood here in a neo-gramscian sense whereby "world hegemony can be described as a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three. World hegemony, furthermore, is expressed in universal norms, institutions, and mechanisms which lay down general rules of behaviour for states and for those forces of civil society that act across national boundaries" (Cox 1996: 137). Given that the hegemonic norms, institutions and mechanisms beneficial to the DWSR are now seriously in doubt, the neoliberal system as we have known it seems to have exhausted its full potential and the EU is seen as a soft power that promotes multilateralism and a 'fairer' globalisation, it seems justified to explore whether the financial elites of the BRIC states envision a tipping point in the configuration of the financial system and, thus, whether there is in fact the potential for a EU-BRIC counter-hegemonic coalition that can rival US hegemony actively as a *historic bloc* or just passively through a *transformismo* attitude (Cox 1996).

3. Brazil, the voice of the BRIC

In general, the academic literature on this topic has widely overlooked the BRIC states. The debate is Western-centred and focuses primarily on the balance of power between the US and the EU. The BRICs, however, are becoming increasingly influential in IPE. When their foreign ministers met for the first time in May 2008 in the Ural Mountains city of Yekaterinburg, one observer summarised very graphically their extraordinary weight. This summit brought together "the ministers from the second-largest food producer (Brazil), the biggest energy exporter (Russia), the largest democracy (India), and the most populous country (China)" in the world. “Together the BRIC nations represent 40 percent of world population and more than 10 percent of global GDP” (Wolfe 2008). On monetary affairs some works have recently focused their attention on Russia due to its aggressive de-dollarisation process (Johnson 2008), which backs the thesis that the BRIC states are distancing themselves from the DWSR; and also on China because of its huge foreign reserves and its central role in covering the US current account deficit (Bowles/Wang 2008), which supports the notion that the dollar is right now a negotiated currency. Surprisingly, there is a lack of insightful coverage of Brazil, with the recent exception of Stefan Schmalz (2008), who delivers an extensive analysis on how Brazil has acquired in recent years a crucial role in balancing power relations in the Americas and the world at large.

Indeed, Brazil is a very important player for several reasons. It is the tenth largest economy in the world and the second largest emerging market in GDP after China. Brazil today has over $150 billion dollars in foreign reserves (Meirelles 2008), which makes it the sixth largest holder of US Treasury bills (UST 2008). Brazil is also a good case study because it is the largest economy in Latin America, a region that has always been under the umbrella of the dollar. Thus, if there is a move out of the greenback, then it might be argued that the DWSR is losing its appeal. Today, however, the importance of Brazil goes beyond the regional scale. Under the central-left administration of Lula, Brazilian diplomacy was instrumental in setting up the G20 group within the WTO negotiations (Schmalz 2008) and since then Brazil has been the most active country in building a range of “counter-hegemonic coalitions” (Patricio 2008) with emerging (BRIC and G3-IBSA) and also with developed countries (UN-G4 and G20).

4. Brazil-EU partnership

Since the beginning of the new century Brazil has gradually moved away from the US and closer to the EU. As Klom (2003: 356) argues, “although Brazilian foreign policy was geared towards the US for most of the twentieth century, and only occasionally towards Europe, the Mercosur project has in effect pushed Brazil in the opposite direction”. This has been proven by Brazil’s reluctance to sign the Free Trade Agreement of the Americas (FTAA) advocated by the US, while it has been very keen in developing a free trade framework between Mercosur and the EU (Schmalz 2008). The reason for this was explained by President Lula when he stated that the EU is "the only Mercosur trade interlocutor that, putting on the table offers in all relevant areas, signals a positive disposition towards negotiations" (Poletti 2007: 278). Under this more amicable free-trade framework, it is not surprising to see how in the last decade the trade and investment volumes between the US and Brazil have decreased, while the ones between Brazil and the EU have increased. The EU represents 22.2 percent of Brazilian imports against 15.7 percent of those of the US. This difference is even larger when it comes to Brazilian exports,with the EU receiving 25.2 percent of the total volume and the US importing only 15.8 percent (MDIC 2007) of Brazilian goods and services. The EU is also the largest foreign direct investment (FDI) partner of Brazil in both directions (BCB 2008a, 2008b). Just to give one example: between 1990 and 2001 the percentage of Spanish FDI in Brazil ballooned from 0.3 percent to 13.5 percent, while the US percentage shrank from 29.9 percent to 22 percent in the same period of time (Schmalz 2008: 157-158).

This outstanding economic integration in the last decade between the EU and Brazil has certainly not always been smooth, which is somehow understandable when two trade powers of this magnitude interact in an uneven neoliberal framework. The Brazilian elites consider the EU as a protectionist power with double standards when it comes to free trade agreements. They criticise strongly, for instance, the subsidies to European farmers established by the Common Agricultural Policy (CAP) of the EU, which undermines the huge potential of the very strong Brazilian agro-business industry (Poletti 2007). These frictions, however, do not stop the Brazilian elites from seeing the EU as a positive force in world affairs. According to the *Latinobarometro* survey undertaken between 2000 and 2004, among educated Brazilians the EU receives better marks than the US in the fields of democracy, development, peace and free trade (Fioramonti/Poletti 2008). This has been widely ratified by the in-depth interviews with the financial elites. The EU is generally seen as an important partner in promoting a more multilateral and multi-polar trade and financial world system, which is ultimately the main goal of the foreign policy of Brazil (Schmalz 2008). Here again the words of President Lula are very illustrative: "We want integration with political, economic and cultural autonomy; in this sense the FTAA cannot be considered a project for integration. The process developed with the European Union, on the contrary, should be considered as an example" (Poletti 2007: 278). These comments back the thesis that the EU is seen as a normative power with great appeal among BRIC elites, leaving open the possibility for the formation of a counter-hegemonic bloc with aspirations to reshape the world governance structures. They also confirm, however, that these elites want only to have a more regulated and balanced neoliberal order. They do not call for the creation of a new world order opposed to the existent one, at least for now.

5. Implications for the financial system

The closer economic and political ties between Brazil and the EU should reinforce the use of the euro in Brazil, a country that has always used the dollar as foreign currency. So far, however, the change has not occurred and it seems that it will not happen soon. Inertia and path dependency play an important role here. Once an international currency is established and the whole economic system operates with it, it is very difficult to replace it in a matter of a few years (Cooper 2000; Kenen 2002). The Brazilian financial elites interviewed throughout this research reject the idea of the dollar being substituted by the euro, yet they recognise that the European currency has been a success and that some Brazilian exporters to the EU are already issuing their contracts in euros. The introduction of the euro is seen by some banking elites as a "counter-hegemonic move" (Interview with Luis Manuel Rebelo[2]) that should be emulated by Mercosur. The first step in this direction was accomplished on 3rd October 2008 with the introduction of a regional payment system (SML) out of the dollar for the Mercosur countries so that their exporters and importers can trade with each other in their own local currencies (Berardinelli 2008). This move shows that the dollar is slowly losing its Top Currency status in a region that has always relied on this currency for trade transactions.

The consolidation of the euro as an alternative to the dollar has certainly brought a greater diversification tendency out of the dollar in Brazilian investments; this has been confirmed by private banking managers in Brazil's biggest banks. A high official of the Central Bank of Brazil (CBB), who has asked to stay anonymous, has also declared that the arrival of the euro has been seen positively by the CBB and by private investors in general because it leaves more room for diversification out of the dollar. Without disclosing the percentage of total share, this same official recognises that the CBB has partly diversified its foreign reserves into euros. In a recent public speech Maria Celina Berardinelli, deputy governor of the CBB, indicated that "the commercial and financial relations between Brazil and the EU are very strong and that there is still room for improvement for the use of the euro to match the economic importance of the euro-zone" (Berardinelli 2008). In general it can be said that the Brazilian financial elites see the European single currency as an integration model to emulate in South America in order to acquire more independence from the DWSR.

The implication of all this is that we are gradually entering a multi-polar monetary world where the dollar will lose steadily its supremacy and where other regional currencies like the euro will gain in importance. Against the backdrop of today's recession and the dim growth forecasts for the US, the father of the BRIC term, Jim O'Neill from Goldman Sachs, reckons that "we are emerging into this very hazy and slightly worrying state of affairs where there is not going to be any single country leading the world in the way the US has done and with it no single currency either" (Woods 2008). This multi-polar system is to be recognised in the G20 negotiations that will take place in the next months with the aim of restructuring (and not *remaking*) the world financial system. The first meeting in Washington has not produced any substantial changes due to the absence of Barack Obama, the incoming president of the US, and the measured ambitions of the EU-BRIC bloc in creating a completely new financial order. However, the summit demonstrated that there is a clear shift in economic power in the world and that the EU and the BRIC states together favour a multilateral system with more regulation in financial activity, away from the laissez-faire approach that has been so beneficial for the DWSR in the last decades.

6. Conclusion

The financial and political elites of Brazil analysed throughout this research believe that the current credit crunch crisis will diminish the dominance of the US in the realms of international finance and economics, and by extension, in world affairs in general. In this sense they concur with the remarks made by the finance minister of Germany, Peer Steinbrück, when he stated that "the US will lose its status as the superpower of the world financial system. This world will become multi-polar" (Benoit 2008). In this regard there is the potential for the formation of a counter-hegemonic bloc with the sufficient clout and influence to undermine the power structures that have so far benefited the DWSR. The Brazilian elites, lobbied by their strong agro-business industry, see in the EU a competitor in world trade share but also a close ally with whom to create a more global, balanced and multilateral trade and financial system that recognises the importance of the BRIC states. In the last decade the economic and political ties between Brazil and the EU have increased quantitatively and qualitatively, while those with the US have suffered several setbacks. The last matter of contention is the reactivation, after more than 60 years, of the 4th Fleet by the US Navy with the mission to patrol South American waters (US Navy 2008), an event seen with worry and mistrust by the Brazilian elites. This stands in clear contrast with the Brazilian willingness to include Spain, another European country, in the G20 negotiating framework. Spain has close economic and cultural links with Brazil and thus both countries see each other as potential allies sitting at the negotiating table.

As has been argued throughout this article, the reputation of the European Economic and Monetary Union (EMU) has increased considerably among the financial elites of Brazil and in many cases it is seen as an integration model to be emulated by Mercosur. The introduction of a regional payment system in local currencies out of the dollar is just the first step in this direction. Because of structural path-dependency the dollar is still the main international currency in Brazil and it will remain so for a while, but "this is not a matter of inertia but more a symptom of hysteresis" (Interview with Luiz Gonzaga Belluzzo[3]). Market agents need some time to adapt themselves to the new environment, but once they see the advantages of the new framework, they will gradually embrace the alternative. The euro offers an opportunity for diversification, which can be of great benefit for Brazilian investors, importers and exporters, and more so considering that the EU is the largest trading partner of Brazil. The officials of the CBB agree on this point and see the euro as a new top currency. Up to now, Brazil has not used more euros, because most of its trade is done with Latin American countries, which traditionally have always used the greenback. With the introduction of the euro, however, these countries have seen that an alternative is feasible and this has encouraged them to move slowly away from their DWSR dependency.

The Brazilian elites are convinced that the era of US hegemony is gradually being eroded and they advocate a new multi-polar financial and economic system where Brazil should have the influence in world governance that it deserves. For this they see the EU more as a partner rather than as a rival in the current G20 negotiations. In the view of these elites, countries like Brazil have benefited considerably from the liberal framework established by the US. They want it to continue, but on more multilateral terms, as was seen in recent WTO negotiations. Following a critical theoretical framework, this article indicates that so far neither the EU nor Brazil are ready to change the neoliberal order because of their vested interests in keeping their export industries intact. They rather prefer to make it more equalitarian in order to have more influence in the decision-making process. Instead of forming a new *historic bloc* to create a radical new world order, both powers seem to be content with what could be called global *transformismo*. As one of the banking managers interviewed said: "Right now, if you ask the workers in the US and Europe, they want more protectionism, they want to close the doors. We on the other hand, want more openness, more liberalism. We have learned how to use the liberal framework, how to negotiate" (Interview with Anonymous[4]). Right now the future of the financial system, and with it the Dollar as the main international currency, are under negotiation. The outcome of such negotiations is uncertain until the new administration of Barack Obama shows how it will manage the current crisis. Will it use sticks or carrots to preserve the DWSR? It is too soon to tell.

1) Considering that there is not much literature available on the impact of the euro and the European Union at large on Brazil, the use of in-depth interviews followed by qualitative discourse analysis with key financial elites (Dexter 2006) is widely considered to be of great value in providing a better understanding of how the Brazilian elites assess the arrival of the euro, the current crisis and the reconfiguration of the financial architecture. The sample of interviewees includes professors in Economics and International Political Economy, senior managers of the biggest private banks,

prestigious economic journalists, senior managers and economic consultants of the public development banks and high officials from the Central Bank of Brazil (CBB).

2) Semi-structured elite interview with Luis Manuel Rebelo, President of the Brazilian funding institute for studies and research, Financiadora Nacional de Estudos e Projetos (FINEP). Rio de Janeiro, 25.7.2008.

3) Semi-structured elite interview with Luiz Gonzaga Belluzzo, Editor of the economic magazine Carta Capital. São Paulo, 17.07.2008.

4) Interview with the Senior manager of one of Brazil's biggest banks who asked to stay anonymous. Brasilia, 24.07.2008.

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Abstracts

The dollar as the international currency *par excellence* and Wall Street as the main financial centre of the neoliberal system have been the two pillars of US hegemony in the last decades in what is known as the Dollar Wall Street Regime (DWSR). However, the current financial crisis has put this hegemonic set-up in jeopardy. Drawing on primary research in Brazil (a key BRIC country), I argue that the financial elites of the emerging markets consider US hegemony to be in decline and see the EU in many ways as an important partner in the creation of a multi-polar financial system. In this sense, the BRIC elites have much in common with the European elites and hence together they have the potential to create a counter-hegemonic bloc opposed to the DWSR.

Der Dollar als internationale Währung par excellence und die Wall Street als das Finanzzentrum des neoliberalen Systems bildeten in den letzten zwei Jahrzehnten die beiden Säulen der US-Hegemonie, die unter dem Schlagwort Dollar Wall Street Regime (DWSR) bekannt geworden sind. Diese Hegemonie wird durch die aktuelle Finanzkrise gefährdet. Basierend auf Erhebungen in Brasilien wird in diesem Artikel argumentiert, dass die Finanzeliten der aufstrebenden Schwellenländer die Hegemonie der USA als geschwächt beurteilen und in vielen Aspekten die Europäische Union als wichtigen Partner bei der Schaffung eines multipolaren Finanzsystems sehen. Dieses gemeinsame Anliegen der Eliten der „BRIC“-Staaten und jener der europäischen Staaten birgt nach Ansicht des Autors das Potential, einen gegenhegemonialen Block in Opposition zum DWSR zu begründen.

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