ISSN 2392-1641
e-ISSN 2450-0097

Economics and Business Review

Volume 6 (20) Number 4 2020

CONTENTS

Poznań University of Economics and Business Press

Paper based publication

ISSN 2392-1641
e-ISSN 2450-0097

POZNAŃ UNIVERSITY OF ECONOMICS AND BUSINESS PRESS
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postal address: al. Niepodległości 10, 61-875 Poznań, Poland

Printed and bound in Poland by:
Poznań University of Economics and Business Print Shop

Circulation: 215 copies

sciendo

Economics and Business Review, Vol. 6 (20), No. 4, 2020: 51-71
DOI: 10.18559/ebr.2020.4.4

Financial cooperation initiatives in Latin America: Conditions of origins, subsistence and eventual vanishing[1]

Elia Elisa Cia Alves[2], *André Martins Biancarelli*[3]

Abstract: Why do countries engage in Regional Financial Cooperation (RFC) initiatives and why they may give up on them? Under which conditions are those mechanisms born and how may changes affect their performance? Although comparative studies have been a prolific strategy to investigate RFC the focus on the experiences of a specific region may reveal new insights. Therefore the aim of this paper is to map the existing RFC mechanisms in Latin America, seeking to identify the demand, supply and conjectural conditions behind the processes of their creation and evolution. The theoretical framework provides concepts from International Relations' theories concerning regional institution building. Empirically fourteen Latin American RFC initiatives are surveyed. As a result important variables explaining RFC mechanisms in Latin America are presented in the paper: demand for greater participation (sense of belonging), material and political capacity from a paymaster and macroeconomic coordination.

Keywords: regional financial cooperation, financial institution building, regional institutions.

JEL codes: F53, O19, P48.

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[1] Article received 1 August 2019, accepted 15 November 2020.

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Introduction

Since post World War II international institution (II) creation has become recurrent around the globe (Mitrany, 1943). Within this process several initiatives regarding financial international cooperation[4] started to flourish in order to, among other goals, support international trade and promote development. Nevertheless worldwide, although several financial cooperation initiatives were established, few of them evolved and became relevant over time, as the conventional option of financial integration that spread around the globe since the 1980s was abolishing capital controls. Even so international financial cooperation still remained as a policy option to deal with recurrent liquidity shortages and it has been resuscitated as a development instrument a few times in history, especially in the regional sphere.

This scenario leads to a puzzle: why do countries engage in Regional Financial Cooperation (RFC) initiatives and what are the reasons that may lead them to give up on this strategy? The theoretical framework adopted here provides concepts explaining the conditions of origin for regional institutionalism and a survey of RFC initiatives is provided. Although comparative studies have been a prolific approach to investigate RFC the focus on the experiences of a specific region may reveal new insights on that topic. In that respect Latin American has the oldest history of regional integration efforts in the developing world dating back the 1950s, encompassing fourteen regional financial mechanisms.

Alongside this history different factors seem to be decisive for the creation and functioning of those institutions, from both demand and supply sides. Among them this article emphasizes external financing conditions (subject to the international liquidity cycle), regional political leadership and the scope of the existing institutions.

The paper is organized in three sections following this introduction. Section 1 brings highlights of International Relations' (IR) theories concerning regional institution building. Section 2 focuses on the main RFC initiatives in Latin America investigating the conditions under which they were created and how they evolved over time. The last section contains some final considerations.

1. Theories on birth: From institution-building to regional financial cooperation

Why do some governments decide to start or to join regional initiatives while they have a range of policy options, including unilateral, bilateral, and mul-

[4] Cooperation, coordination and integration are understood as different levels of interstate relations. Nevertheless, they all embody some degree of international institutionalization and in this sense they were all considered here.

tilateral approaches? Motivations behind regionalist moves are multifaceted (Hurrell, 2005). Basically three aspects highlighted by different streams of IR theories are discussed: power competition emphasized by neo-realists; mutual benefits argued by liberal neo-institutionalists and sense of belonging (or ownership) highlighted by constructivists. Furthermore those dimensions are considered under i) the configuration of State preferences for regionalism (demand-side); ii) the provision of leadership and regionalist ideas (supply-side) and iii) critical junctures that work as triggers propelling institutions' birth and changes.

Traditionally neorealists are not interested in II formation as they focus on the anarchy of the international system (Mearsheimer, 1994). Nevertheless some ideas highlight things that States would incur in regional initiatives in an attempt to increase their power vis-à-vis others. The Hegemonic Stability Theory (HST) suggests that a hegemonic power is a necessary condition for international institutionalization as it has incentives to promote and legitimate its own interests and preferred rules. Reasonably, weak actors would engage to enhance policy space, although with a limited projection (Gilpin, 1987).

Liberal institutionalists argue that institutions are a result of States' interests and as such, are worthy of being addressed. They put forward potential gains and functional demands that can be tackled by coordination (Keohane, 1982). In short they focus on the expected mutual benefits from institutions and the efficiency and scale gains through policy coordination and function specialization, benefiting also weaker States (Gilligan, 2009).

The main gap in liberal institutionalism is not explaining supply conditions for international institution creation such as establishing the minimum level required of interdependence. Supply conditions may refer to regional leadership and be understood as the capacity and will of one or more actors to pay a disproportionate share of the costs required (paymaster) or to provide monitoring, coordination and enforcement. For liberal institutionalists governments face uncertainty over the likely outcomes of institutionalization owing to incomplete and imperfect information about the future and about others (Ovodenko & Keohane, 2012).

The Constructivist approach fills this gap departing from a rationalist view. Rather than treating interests and identity as exogenously given they emphasize interactions among actors and the impact of collective ideas and norms constantly (re)shaping perceptions and preferences (Wendt, 1992). Finnemore (1996) focuses on II investigating the (re)definition of States' preferences. This is crucial to understanding RFC supply considering the role played by the United Nations Economic Commission for Latin America and the Caribbean (CEPAL[5] in Spanish) on the negotiation process towards RFC initiatives.

Instead of conceiving II as a rational pursuit of material incentives constructivists focus on the sense of belonging to a particular community highlighting

[5] Henceforth the institutions will be referred to by their original language acronyms.

the existence of collective identity as an important component of regionalist projects, explaining how regional initiatives may be preferred in relation to global organizations (Ocampo, 2006; Titelman, 2006). Ray & Kamal (2019) show that RFC mechanisms offer borrowers more representation on their boards than do their Northern-based counterparts, affecting their performance. In addition they consider that the perception of regional belonging may change with a shift of government, for example.

Critical juncture is "a major event or confluence of factors disrupting the existing economic or political balance in society" (Acemoglu & Robinson, 2012, p. 116). In short those factors influence RFC as they affect States' strategies and possibilities, reconfiguring the status quo. Examples include war, natural disasters, economic depression, oil shocks and so forth. Actually the recognition of the need to modify existing institutional arrangements to deal with current problems is a key, once there may be differences among actors in their perceptions as well as the alternative solutions regarding the occurrences. Regarding RFC a financial shock may work as a trigger effect on the birth of an initiative (Ocampo, 2006; UNCTAD, 2007).

Besides general arguments already raised on II creation specific issues arise due to regionally concentrated operations. A growing volume of intraregional trade and investment flows may be complemented by monetary and financial cooperation on the regional level. In addition financing of infrastructure, regional public goods and social projects seem to be best provided by development banks subject to local control and adapted to regional specific conditions (Sagasti & Prada, 2006). For example, one of the main aspects that characterize a Regional Development Bank (RDB) is that its capital structure can function as a mechanism for correcting market failures such as risk over-estimation. Consequently a RDB may issue bonds with good qualification of credit risk, despite its members' bad rating (Ocampo, 2006).

Moreover regional arrangements open the possibility of applying countercyclical operations to face fluctuations in private capital markets and of mobilizing concessional loans to low-income countries (Sagasti & Prada, 2006; Griffith-Jones, Griffith-Jones, & Hertova, 2008). The principle of subsidiarity between global and regional institutions to perform complementary functions is a further aspect for RFC. Alongside this countries gain from the competitive relationship between global and regional institutions once opportunities are amplified (Ocampo, 2006).

Nevertheless from a supply side RFC mechanism creation is complex, involving several elements such as the beneficiaries, instruments, resources, institutional design, decision-making process and payment terms. The political structure of a financial initiative has many implications for its future. The mechanisms of governance and decision-making can grant positive effects extending deadlines and reducing financing costs or hinder access to credit (Sagasti & Prada, 2006).

Consequently negotiations towards their creation are not easy. On the one hand, countries urge for greater voice in decisions as well as simplification on the requirement of conditionality. On the other hand, States that afford the main costs of institution creation claim greater control. Besides granting equal political power to all members may result in long decision processes weakening institution operations (Griffith-Jones et al., 2008).

Still beyond identifying conditions of creation, how do regional institutions evolve? Once again literature offers different answers. From the neorealist perspective, as institutions reflect power relations among member states, institutional change is a result of either shifts in the distribution of capabilities among member states or changes in the interests or preferences of the most powerful states. For liberal institutionalists this may be the result of learning, shifts in external conditions or the emergence of new types of problems. From a constructivist understanding institutional change occurs as shared norms change. In the next section the RFC mechanism in Latin America is addressed considering the conditions of the creation and evolution in order to find common patterns in a comparative approach.

2. From birth to evolution: RFC initiatives in Latin America

This section provides a comparative assessment of RFC mechanisms in Latin America, presented in three levels (UNCTAD, 2007). The first encompasses payment facilitation and short-term financing mechanisms; the second deals with development funding initiatives and the last group encompasses exchange rate arrangements and monetary union related instruments. Table 1 summarizes the institutions discussed here, following this typology.

According to Table 1, it is possible to identify two major waves of initiatives launched in Latin America since the 1950s. During the first, around the 1960s, Latin American countries were following a development strategy path by Import Substitution. Seven initiatives were created within this period signalling an important trend regarding a specific political context that fomented that process. During the 1980s, when economic liberalism started to spread around the world and the 1990s when liberal policies were adopted in Latin American countries, RFC lost strength vis-à-vis the possibility of capital account liberalization and international financial integration with the promise of access to international financial markets. Nevertheless, two major events may explain the birth of new RFC during the first decade of the 21st century. One is economic: the emergence of China in the international commercial and financial world, leading to the boom of commodity prices and financial stocks in the developing world and the second is political: the emergency of left-wing parties in many countries in the region. The recovery of the region between 2003–2007 was once again stopped by the global financial crisis in 2008. Nevertheless, by

Table 1. List of financial cooperation mechanisms of Latin America

Short-term financing	Creation	Dissolution
Agreement on Reciprocal Payments and Credits of ALADI (CCR)	1966	–
Clearance Arrangement of Central America	1969	1984
Central American Fund for Monetary Stabilization (FOCEM)	1969	1984
American Banking Acceptance (ABLA)	1969	1984
Latin American Reserve Fund (FLAR)	1978	–
Brazil-Argentina Local Currency Payment System (SML)	2006	–
Fund for Structural Convergence (Focem)	2006	–
Regional Clearance Unitary System (Sucre)	2008	–
Development financing	**Creation**	**Dissolution**
Inter-American Development Bank (IDB)	1959	–
Central American Bank for Economic Integration (CABEI)	1960	–
Development Bank of Latin America (CAF)	1969	–
Plata Basin Financial Development Fund (Fonplata)	1971	–
Bank of the South	2007*	–
ALBA Bank	2008	–

Source: Own work.

that time, international reserves and existing mechanisms played a role cushioning its effects (Medeiros, Cia Alves, Fernandes, & da Silva, 2016).

Assessing the period after the financial crises in 2008 until 2018 there was an adjustment period with the operationalization of the mechanisms created previously. From 2018 to 2020 some major shifts in political and economic context in the region are prompting significant changes in the evolution of those initiatives in a path towards more liberalism in most countries (Briceño-Ruiz, 2018). Regarding the processes analyzed here, the result is a lower priority to regional integration and a clear weakening of the regional financial institutions.

2.1. Inter-American Development Bank

The first multilateral financial institution with a regional scope—the Inter-American Development Bank (IDB)—was established in 1959, according to Table 1, aiming to support economic and social development in Latin America and the Caribbean. Its creation was due to a combination of demand and supply elements. On the demand side, the most obvious was Latin American countries

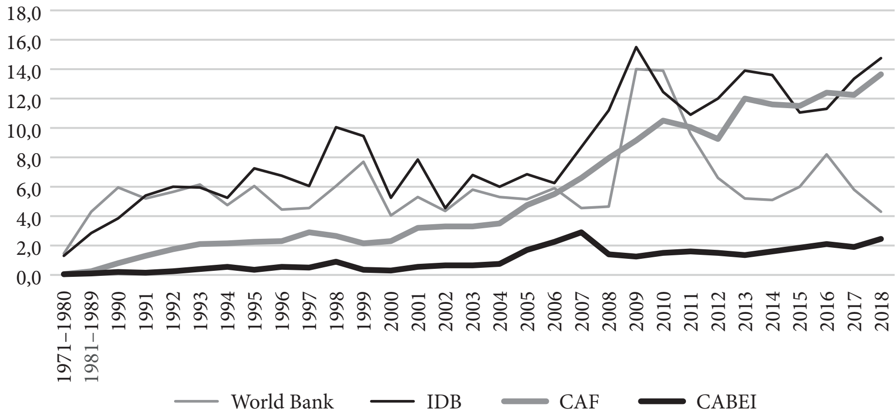

Figure 1. Loan approvals to Latin American countries (USD current billion)
Source: Own work based on CAF, CABEI, World Bank and IDB annual reports.

need to finance development. By the time there was no other relevant II in the region, besides the World Bank, to provide finance and funding to the industrialization process of the economies of the region. On the supply side United States' interests in containing the spread of communism, in the context of the Cold War, were enough to encourage the shaping of an institution focused on Latin American countries following the idea of the paymaster from HST.

By the time of its creation eighteen countries ratified the Agreement. Since then its operations have had a steady increase and, as Figure 1 shows, from 2002 until 2014, IDB was of a greater importance to the region than the World Bank in terms of approvals. One distinguished characteristic of the IDB was the capacity to adapt and support the different phases (and priorities) of Latin American integration (Bouzaz & Knaack, 2009).

The most significant criticisms of its functioning are related to the high degree of interference of the greatest contributors, especially the United States that still holds a veto (Ocampo, 2006). This fact became a sensitive topic especially in 2020, in the midst of the greatest economic crisis that Latin America faced in history due to Covid-19 (Ocampo, 2020). According to Saraiva (2020), when the Trump administration nominated a White House official, Claver-Carone, to run the IDB, it broke the bank's 1959 foundational agreement, when it was established that a Latin American should run the region's development bank. Besides, according to the author and other critics, like the former Brazilian foreign minister, Celso Amorim, it has also promoted a clash among Latin American countries and between several of them and Washington, regarding the bank's future as the most important development institution within the region it could provide resources to cushion post-pandemic economic collapse.

2.2. Multilateral Clearing System of Reciprocal Payments and Credits (CCR) and American Banking Acceptance (ABLA)

Meanwhile negotiations were in progress in order to fill the gap of financial institutions oriented towards Latin American countries' interests. By the mid 1950s, with the exception of Mexico and Venezuela, all countries that later would form the Latin American Free Trade Agreement (ALALC) were involved in a system between central banks to facilitate mutual trade within the region. Until then regional trade was restricted by inconvertible currencies. By 1962, almost all bilateral trade agreements and existing payments became ineffective. Countries gradually abandoned these mechanisms once their monetary policies were tending to multilateralism in international payments (SELA, 2009). The abandonment of bilateral mechanisms had meant a substantial reduction in intraregional trade. Studies and negotiations held under the aegis of the CEPAL concluded that, given the weakness of the terms of trade, it was necessary for Latin American countries to cooperate towards RFC (Aragão, 1984; Ocampo, 1984).

In 1965 nine countries[6] created the Multilateral Clearing System of Reciprocal Payments and Credits (CCR). It was conceived as a first step towards a formal multilateral cooperation between central banks, designed to gradually reach financial and monetary integration. In 1969 countries institutionalized a system of guarantees for American Banking Acceptance (ABLA), in order to mitigate transitory liquidity shortages. It was conceived as an annex of CCR and its approval process finished only in 1976. The mechanism was used several times and it went through changes in 1981. Even though in 1984 it was suspended due to the widespread illiquidity faced by Latin American central banks at that time (ALADI, 2014).

The logic of the mechanism's functioning was simple: during a four month period the commercial operations are closed without the use of foreign currency, triggering reciprocal credits and debits between the central banks of the seller and the buyer. At the end of such a period, just the balances of each central bank vis-à-vis the others are cleared in US dollars.[7] In addition to fostering intraregional trade the underlying principle of the agreement is to save foreign currency (Chang, 2000).

During the 1980s Latin American Integration Association (ALADI) was created and CCR was incorporated in it. In 1982 a first decrease, shown in Figure 2, was registered in the operation of the mechanism caused by the liquidity crisis (Rüttimann et al., 2008). A pro-cycle trend was demonstrated in Figure 2 until 1995, when operations achieved a total of USD 14,020 million. A new process

[6] The first members were: Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru and Uruguay. Lately, Bolivia, Dominican Republic, Ecuador and Venezuela also subscribed the Agreement.

[7] For further technical information, check <http://www.bcb.gov.br/?SMLE>.

of uninterrupted growth was registered from 2004 until 2008 (Fritz, Biancarelli, & Mühlich, 2014). Nevertheless, there was no recovery since then indicating a shift of the behaviour of some countries, as shown in Figure 2, in the drop in operations between 1996 and 2002. Intraregional trade within the free trade agreement of Mercosur, for example, was conducted outside the mechanism. Besides this downward trend in operations in 2019 Brazil announced that it would leave the initiative[8] reflecting Brazilian foreign policy shifts under Jair Bolsonaro's right-wing government.

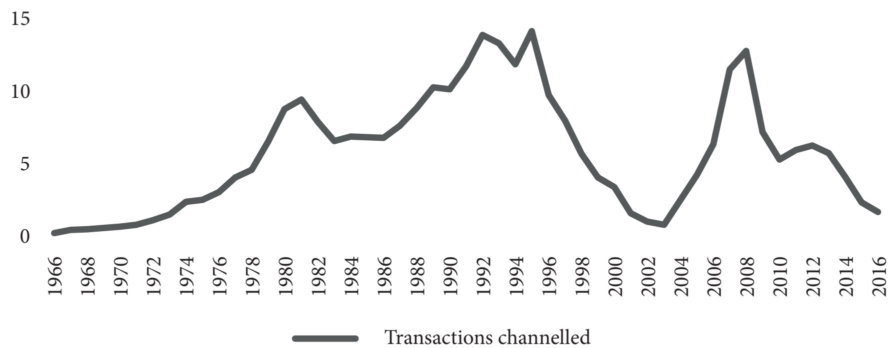

Figure 2. CCR operations from 1966–2016 (USD current billion)
Source: Own work, based on the most recent data available at (http://www.aladi.org/sitioaladi/?page_id=555).

In practice at least two kinds of obstacle (besides technical difficulties) have hindered the system operations. On the one hand, there is the objection and resistance from central banks that are supposed to assume as sovereign some external risks linked to private external trade operations. Particularly to more orthodox actions in some central banks bureaucracy this is not a function for contemporary monetary authorities. According to the predominant view, central banks should focus exclusively on price and financial system stability. On the other hand, the costs involved in CCR operation seem to be critical. The interest rate can be higher than other options of external trade credit, mainly in periods of large external finance availability to the region.

Analyzing the factors of its creation and evolution, by the demand side, the need to finance intraregional trade became apparent with ALALC creation. On the supply side, Ocampo (1984) and Aragão (1984) show CEPAL's role in supporting negotiations. Besides once CCR was introduced to ALADI, countries granted an inertial component to the mechanism (Malamud, 2008), in a way that even during crises, it could still be used. Turning to the case of ABLA the

[8] Available at: https://www.bcb.gov.br/detalhenoticia/16715/nota, accessed on August 2, 2019.

same countries that were supporting CCR were ABLA members and it was conceived in the same environment. Nevertheless, as it was designed to face liquidity shortages by the time of generalized external debt crises of the early 1980s any economy in the region was able to afford its operations. Therefore it becomes remarkable how a minimum of macroeconomic coordination with financial instruments work in a multilateral approach.

2.3. Clearance arrangement of Central America and Central American Fund for Monetary Stabilization (extinct Focem)

Besides CCR a clearing system associated with a stabilization fund of Central America was created in 1969 as a short-term measure: the Central American Fund for Monetary Stabilization (Focem). It was signed in 1969 by Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The fund used part of the foreign exchange reserves of member central banks and complementary credit lines providing balance of payments financing through liquidity and stabilization loans. The operations started in 1975 but due to its limited size, compared to the International Monetary Fund (IMF) it could not afford the current account deficits of member countries (SELA, 2009; Ocampo & Titelman, 2012).

Both the trade clearance arrangement and FOCEM collapsed in the early 1980s, being extinct by 1984. The major problems were the large debts that Nicaragua accumulated due to its incapacity to settle its obligatory settlements and the political instability triggered there, due to the start of a civil war (Maldonado, 2003). The founding members clearly were demanding greater regional coordination, attempting to join monetary union; however, as mechanisms in Central America rely upon the support and stability of all five economies, once one of them starts having problems it can erode the whole organ.

2.4. Central American Bank for Economic Integration

In the meantime the Central American Bank for Economic Integration (CABEI) was founded in 1960 by the members of the Central American Common Market (MCCA): Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. Apart from its founding members, it included two members of the Central American Integration System (Dominican Republic and Panama) and five extra-regional non-borrowing members (Argentina, Colombia, Mexico, Spain and Taipei, China) and its performance is shown in Figure 1.

CABEI is the first subregional bank in Latin America and it deals with the initiatives of regional cooperation for development funding. Besides, since all founding members needed to agree on the institution's rules and none of them had significant economic or political power, the preexistence of MCCA seems to be determinant to create an environment for negotiations since the sense of belonging, as designed by constructivists.

2.5. Andean Development Bank

Among development funding mechanisms another subregional development bank was created by the end of the 1960s: Andean Development Bank (CAF, in Spanish). Although ALALC was already operating by the time Andean countries felt it was better for them to create a subregional group, so they formed the Andean Community (formerly Andean Group) in 1969[9] (Prada, 2012). The Agreement was motivated by a considerable demand nourished by the dissatisfaction with ALALC, especially from medium and small countries, through the perception of unequal distribution of the benefits of the higher Treaty. The main argument of this dissatisfaction fell on the nature of the regulatory mechanisms used and the lack of compensatory policies of losses for countries with less developed infrastructure (Gonzales, 1979). It is noteworthy, at this point, that the constructivist element of perception made the difference on Andean Group creation. Although the supply capacity was not vast, it was enough to continue with the new enterprise. In this way one of the most successful development banks was created, which has become regionally significant.

As shown in Figure 1, those two institutions played a marginal role in the region during the 1970s and the 1980s when the World Bank still dominated development financing to Latin America, followed by IDB. Nonetheless, since the 1990s, the share of the World Bank in such financing started falling considerably concomitant to subregional banks' growing share of development financing in the region (Ocampo & Titelman, 2012).

Looking ahead to perspectives on their role, observing the evolution of Multilateral Development Banks (MDBs) in Latin America, Artecona, Bisogno and Fleiss (2019) argue a new area for their activities: supporting the Sustainable Development Goals (SDGs). The authors provide a deep study on regional MDBs showing that by the end of the second decade of the 2000s international multilateralism is increasingly being questioned. Donor countries are moving their resources away from middle-income countries. Nevertheless, they believe that there is room for MDBs to continue being relevant players. Specifically they argue that the economic transformation needed to attain the SDGs in LAC will require a vast mobilization of domestic and external resources to finance the investment required to support the expansion of productive capacities and help the region, provided they continue to adapt to the new challenges.

2.6. Financial Fund for the Development of the River Plata Basin (Fonplata)

During the 1970s there was also the emergence of two initiatives, the Financial Fund for the Development of the River Plata Basin (Fonplata) and the Fund of Latin American Reserves (FLAR). Fonplata was created in 1971 to act as

[9] Chile was a member between 1969–1976 and Venezuela during the period 1973–2006.

a third subregional development bank of the Treaty for the Development of the River Plata Basin. It started operations in 1974 when it was meant to finance infrastructure projects that promote economic integration and development. Since the 2000s it finances funds from the Initiative for Integration of Regional Infrastructure in South America (IIRSA). This explains the increased size of all asset indicators since 2004 available at Fonplata's website.[10] Fonplata increased the annual lending from an average of U$50 million prior to 2012, to $425 million in 2018, totalling over $1.9 billion for the period 2012–2018—more than twice the level of Fonplata's total historical lending approvals up to 2012. Nevertheless even with this growth it has not achieved CAF's performance by far. Argentina together with Brazil are the largest contributors to the Fund.

2.7. Latin American Reserve Fund (Flar)

The Latin American Reserve Fund (FLAR) is derived from FAR (the Andean Reserve Fund) created in 1978 as a common reserve fund in the context of the Andean Community[11] (FLAR, 2012). Costa Rica, Uruguay and Paraguay became members in 2000, 2009 and 2015, respectively. This institution has successfully provided balance of payments' financing for more than three decades, as shown in Figure 3. Rosero (2014) highlights FLAR as the only institution of its kind in the region providing valuable insight into the feasibility of RFC aimed at improving the efficiency of financial crisis prevention and management. Its importance became even more relevant in the recent years, as shown in Figure 3.

Concerning the determinant factors of its creation the same reasoning for building a RFC mechanism worked in this case. Although the IMF existed Andean countries demanded an institutional space where they could have

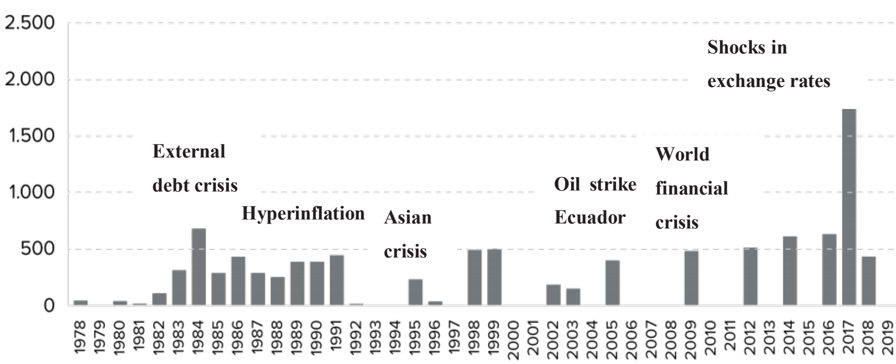

Figure 3. Historically approved credits from FLAR (USD million)
Source: (https://www.flar.net).

[10] Available at: www.fonplata.org.

[11] Costa Rica and Uruguay became members in 2000 and 2008, respectively.

a more significant leading role and that participation was the distinguishing element for its conception. On the supply side, similarly to the support given by CEPAL to CCR, existing institutions had a major role once FLAR operations started under the auspices of the Cartagena Agreement amidst the Andean Group creation.

Regarding a critical juncture on the evolution of FLAR the 1980s brought about a generalized debt crisis and this shock temporarily undermined the regional integration process. As mentioned before, by this time the Central American clearing system associated with a stabilization fund collapsed. Nevertheless the LAIA clearing mechanism (CCR) survived and FLAR proved its efficiency and its significant role in moments of liquidity shortage.

Another important element to be considered when discussing FLAR's evolution is with regard to the assignment of new roles within the region. Besides operating as a Monetary Fund it also gained importance as an international reserves management fund. The institution can handle not only Central Banks foreign exchange reserve portfolios, but also those of other public sector institutions. Indeed, given the strong balance of payments situation of member countries during the 2000s, the demand for loans from the institution has reduced, so that this has become an increasingly important activity (Ocampo & Titelman, 2012).

Beyond the generalized debt crises of the 1980s the region has faced another series of shocks since then: the 1994 Mexican crisis; the emerging countries' crisis at the turn of the century (with the 2001 Argentinean crisis, Table 2); and the global financial crisis unleashed by the collapse of Lehman Brothers in September 2008 (Table 2). They differed in intensity and duration but all of them had major impacts throughout regional economies (SELA, 2009).

Table 2. Financial crises in Latin America*

1970–1980	1981–1990		1991–2000		2001–2010	2011–2019
Argentina	Argentina	Guatemala	Argentina	Mexico	Argentina	Argentina
Bolivia	Bolivia	Honduras	Bolivia	Nicaragua	Dominican R.	Dominican R.
Brazil	Brazil	Mexico	Brazil	Paraguay	Paraguay	Ecuador
Chile	Chile	Nicaragua	Colombia	Uruguay	Uruguay	El Salvador
Mexico	Colombia	Paraguay	Costa Rica			Honduras
Nicaragua	Costa Rica	Peru	Ecuador			Nicaragua
Peru	Dominican R.	Uruguay	Honduras			Venezuela
Uruguay	El Salvador					

* It includes systemic banking crises, monetary crises and debt crises.

Source: Based on (SELA, 2009; CEPALSTAT, 2020. Databases and Statistical Publications).

During the 1990s, although some existing institutions strengthened, like the CCR, there was not any new mechanism created. Nevertheless, an important subregional institution was born: the Common Market of the South (Mercosur) pushing Brazil, Argentina, Paraguay and Uruguay to a new level of intraregional trade stablishing a structure to further initiatives that came to existence in the following decade. One of the explanations for the low priority given to the enhancement of existing financial institutions is the emergence of a new understanding of how the regional process should be conducted during the 1990s (Medeiros, 2010). Regarding the financial dimension the idea of 'financial openness' with capital account liberalization prescribed the benefits of a world with perfect capital mobility—global risk-sharing, inter-temporal trade, macroeconomic discipline (Fischer, 1998), with no room for regional efforts of institutional building.

Nevertheless, the new century in Latin America was characterized by the emergence of left-wing governments in several countries in the region (Castañeda, 2006). This resulted not only in bringing a new significance to existing institutions but also in the emergence of more initiatives born under the auspices of the Alternative for the Peoples of Our America (ALBA) and the Union of South American Nations (UNASUR). Besides both Brazil and Venezuela launched themselves as leading economies of subregional integration projects with their own financial mechanisms alternatives (Armijo, 2013).

2.9. Fund for Structural Convergence (Focem)

In this context Mercosur also gained some new elements beyond intraregional trade. Amidst challenging circumstances for institutional creation a Fund for Structural Convergence (FOCEM) was established. Analyzing the supply conditions for regional cooperation in Mercorsur, Malamud (2008) poses an intriguing issue: although Brazil is the largest economy in the bloc and accounts for 80% of its population, appearing as the only possible regional paymaster its GNP per capita is lower and its poverty and inequality rates are higher than other countries. Consequently it is difficult for the Brazilian authorities to legitimize domestically what could be seen as a subsidy to richer countries. This could be an additional explanation for the late and still diffident RFC system in Mercosur. Even so FOCEM started operations in 2006 and it was the first RFC instrument targeting the reduction of socioeconomic asymmetries.[12]

The amount yearly assigned to FOCEM is US $100 million, with 70% coming from Brazil, 27% coming from Argentina, 2% coming from Uruguay and 1% coming from Paraguay. In the yearly distribution of non-refundable resources, Paraguay has the right to 48%, Uruguay to 32% and Argentina and Brazil to 10% each. The fund may also receive spontaneous contributions from member States, non-member States and international organizations (Botelho, 2013).

[12] More on Focem functioning check: <http://www.mercosur.int/focem/>.

2.10. Local currency payment system (SML)

The 2008 global financial crisis worked as a triggering factor to the creation of new institutions, such as the local currency payment system (SML) which also originated within Mercosur. Lunched in 2006 it began functioning in 2008. It was established as a bilateral agreement to facilitate payments in local currencies between Argentina and Brazil, followed by Uruguay (2014) and Paraguay (2018). The demand for SML emerged to reduce transaction costs, improving the participation of small and medium enterprises in external trade (reducing the need for US dollars), to strengthen the real-peso exchange market and to integrate the national payment systems of both countries.[13] According to Deos, Mendonça and Wegner (2013), SML should not be understood as a version of the CCR, as it is in some ways more ambitious, since the settlement of transactions for importers and exporters is done in local currency, being a step towards de-dollarization in local flows. Table 3 addresses the evolution of the mechanism intermediation of exports and imports value flows between Brazil and Argentina.

Table 3. Value of Brazilian exports and imports to-from Argentina channeled through SML 2009–2013 (in R$ Million and Share, %)

Exports Value by SML (in R$ Million)	Total exports (in R$ Million)	Share (%)	Imports by SML (in R$ Million)	Total imports (in R$ Million)	Share (%)
451,06	25.569,93	1.76	4,29	22.563,31	0.02
1.252,70	37.045,04	3.38	8,99	28.869,19	0.03
1.623,20	45.418,69	3.57	8,73	33.812,70	0.03
2.277,89	35.995,41	6.33	17,25	32.887,82	0.05
2.581,45	39.230,83	6.58	10,52	32.925,33	0.03
2.313,26	29.325,00	7.89	5,03	30.150,00	0.02
2.504,49	27.324,00	9.17	37,57	20.525,00	0.18
2.469,90	28.842,00	8.56	21,77	16.975,00	0.13
2.341,90	37.605,00	6.23	4,09	18.025,00	0.02
2.499,32	31.050,00	8.05	3,26	21.350,00	0.02

Source: Own work based on (https://www.bcb.gov.br/estabilidadefinanceira/arsinfos).

[13] Functioning on a voluntary basis the system is based on a series of legal documents available on the websites of the central banks involved. The daily exchange rate used to operate the mechanism is also available in related sources.

The third column of Table 3 indicates a steady increase in the share of Brazilian exports to Argentina channelled through SML between 2009 and 2013. Nevertheless looking at the share of imports value channelled by the mechanism, SML importance does not achieve 1% of total Brazilian imports from Argentina. This points to a trend that was already identified by Deos and others (2013) indicating that the instrument has not been as relevant to Brazil, relatively to the value of imports from Argentina channelled through it.

2.11. ALBA Bank and Regional Clearance Unitary System (SUCRE)

ALBA also launched its own financial instruments: the ALBA Bank (2008), focusing on development financing and another targeting a monetary union made up by a Regional Monetary Council, a Common Account Unit (*Sistema Unificado de Compensación Regional de Pagos*, Sucre), a Central Clearance Chamber and a Reserve and Trade Convergence Fund (Fritz et al., 2014). The idea was to create a common denominator against external currencies preparing the grounds for deeper regional monetary cooperation (see also UNCTAD 2011, chapter 2).

The creation of those institutions is explained, on the demand side, from emerging claims headed by Venezuela advocating the necessity of constructing a *New Financial Architecture* in Latin America. On the supply side there are Venezuela's desires, financed by its oil exports, in grouping countries desirous of changing of the *status quo* in power configurations of the international system (Armijo, 2013). Freitas and Fernandes (2017) analyze the evolution of Sucre between its implementation and 2014 indicating that by then, despite being incipient and representing a small part of the total trade between countries, the commercial agenda channelled by SUCRE had different characteristics from the traditional agenda being an important element for productive economic integration between the signatory countries. Nevertheless their evolution also follows the abrupt performance of Venezuela's economy with the deterioration of external reserves.

2.12. Bank of the South

The Bank of the South (Banco del Sur) is the most recent RFC institution established in South America amid the strength of criticism of agencies like the World Bank and IDB. The idea was to be managed only by South American countries, representing the financial basis for UNASUR projects, aimed to finance the regional integration process with priorities and conditions far from those typical of existing multilateral agencies.

Although formally created in 2007 there were six years of negotiations until it finally began to operate in 2013. Among the main factors that explain this delay are the main issues are related to supply side, considering the divergences between Venezuela and Brazil—two most important contributors—on the

Bank's scope and structure. Regarding that topic Studart and Ramos (2020) argue that in contrast to the slow pace of the bank evolution in Latin America, Asia was fast to consolidate multi-lateral and multi-regional AIIB and the New Development Bank.

While the former intended to put this institution at the centre of a new regional financial architecture the latter was at first was against a new bank in the region. Furthermore the intended egalitarian distribution of voting power and the risks of political influence on the Bank's management were also points of disagreement (Cia Alves & Biancarelli, 2015). In 2020 a few years after the announcement of an authorized capital of US $20 billion, signalling a potential comparable to IDB or the World Bank, the fate of the Banco of the South faces new challenges. Under Bolsonaro's government, Brazil left the initiative. The crisis in the UNASUR body worsened and it was replaced by PROSUL a project for a new space for dialogue. Consequently Uruguay also announced its departure from the Bank of the South in 2020 due to differences with the only country that remained in the agreement, Venezuela (Agencia EFE, 2020).

In short Brazil's disregard for Bank of the South reflects on the bank's situation: it was unable to establish its physical headquarters (agreed to be in Caracas, Venezuela) and there is not an open account with the capital designated for the effectiveness of its operation. In other words the bank has no headquarters, has no account and has no capital contribution. There is only one signed paper by the countries that agreed with its creation, which is the Constitutive Agreement. Nevertheless some of them, as is the case of Brazil, have not yet ratified it as committed and are unlikely to do so. Besides this status, with the dissolution of UNASUR and the withdrawal of Uruguay it is most likely that the South American development bank will remain just an ideal.

Conclusions

Financial international cooperation represents an important policy alternative to capital control abolishment in order to access international financial sources. Nevertheless, RFC mechanisms have had different performances throughout history that cannot be explained only by economic factors. Here a more holistic approach regarding the conditions of creation and evolution of those instruments has been presented. Accessing international relations literature on international institution creation the presence of economic and political supply and demand elements as well as critical trigger factors and junctures that altogether may explain this process of birth and eventual formal or informal vanishing of those institutions.

When merging the Latin America mechanisms, it was noticed that the dynamics of external financing in the region has been dominated by boom-bust cycles. The specific dominance of financial variables in determining the cycle is not exclusive to the region as it derives from closer financial integration worldwide, especially after the late 1970s. This resulted in pro-cyclical financing movements and high contagion risks compromising regional development. The vulnerability has been exacerbated by the lack of robust mechanisms for providing timely and adequate emergency financing. This propelled governmental demand for regionalist projects facing the effects of extrarregional events, appearing as an important determinant on the creation of regional financial mechanisms.

In short, beyond the common and basic goal of transactions cost reduction previewed by liberal institutionalism there was a range of additional tools and objectives that these schemes were seeking to attain. Whether temporary liquidity provision, final settlement in national currency or credit lines beyond the clearance period, all of those mechanisms aim to save foreign reserves and that seems to be the main reason for the considerable demand for RFC creation. However, despite the existing demand, without the support of greater scope existing institutions or key countries, the financial system in Latin America does not develop.

Besides frequent and severe shocks still may muddle the efforts towards financial boosting in Latin America. Eventually liquidity shortages encourage greater cooperation as it highlights the need of reduce the regional vulnerability to international cycles. The different outcomes of each initiative seem to be based not only on economic aspects, but also on political ones. As discussed earlier all institutions that stop operating were embedded into major domestic political tensions, or suffered the lack of political leadership by key players that steered countries policies towards collective answers.

Moreover, an emerging issue is in regard to the scope of existing institutions. Most of the mechanisms mainly involved medium and small-sized countries with relatively weak participation of largest countries. Furthermore, the lack of macroeconomic coordination also has a crucial role in consolidating financial and monetary initiatives. Nonetheless, besides Central American institutions' lack of continuity, RFC in Latin America grew from the 1960s although it was severely affected by the debt crisis of the 1980s as countries were dealing with domestic economic recovery and stability.

Therefore from the Latin American experience it can be stated that the creation and evolution of RFC mechanisms could be mainly explained by material demands for regionalist projects, the supply of political leadership, as well as macroeconomic coordination and a set of extra regional conditions as trigger effects. When one of these dimensions is missing it is possible that the mechanism will not operate properly, or even cease to exist.

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