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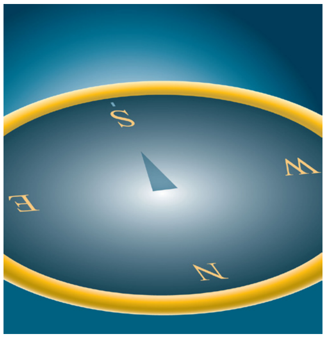

Financial Architectures and Development:

Resilience, Policy Space and Human Development in the Global South

by Ilene Grabel

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ABSTRACT

The current crisis has generated institutional experimentation in financial architecture in the developing world, with clear signs of fissures, realignments and institutional changes in financial governance structures in many regions. 'Productive incoherence'—the proliferation of institutional innovations given impetus by the crisis—is apparent in the emergence of a denser, multi-layered and more heterogeneous southern financial architecture. The crisis has induced a broadening of the mission and reach of some existing regional, subregional, bilateral and national financial institutions and arrangements and has stimulated discussions of entirely new arrangements. These changes in the financial landscape increase its potential to promote financial stability and resilience, to support the development of long-run productive capacities, to advance aims consistent with human development, and to expand the national policy space.

INTRODUCTION

Over the past three decades, developing countries have experienced economic and financial crises with disturbing frequency. The financially turbulent landscape has been the product of a policy and ideational environment that reified the liberalization of internal and external financial flows. Certainly, liberalized financial flows, coupled with lax oversight of the financial sector, induced the current crisis, beginning in 2008.

The 2008 crisis originated in the markets, institutions and failed regulatory architecture of the world's financial centre, the United States. It continues to have many secondary and tertiary epicentres, including but not limited to countries on the southern and eastern peripheries of Europe, and increasingly in some of the core European economies. The fallout of the crisis has affected many developing countries, such as via the decline and/or increased cost of trade credit, a general slowdown in lending by international banks as they attempt to protect reserves, a decline in inflows of remittances and official development assistance (ODA), and the loss of export share. The stand-by arrangements that the International Monetary Fund (IMF) has signed with some developing countries and a large number of countries on the European periphery are very similar to those of prior decades insofar as they require pro-cyclical macroeconomic policy adjustments, constrain policy space, and frustrate possibilities for economic, social and human development.[1]

But the crisis of 2008 is in many ways distinct from its predecessors. What is most notable is the way in which it is producing institutional experimentation in financial architectures in the developing world. The drive towards experimentation rose out of the East Asian financial crisis of 1997 to 1998, which provoked some developing countries to take steps to insulate themselves from future turbulence, IMF sanctions and intrusions into policy space. There are diverse, unambiguous indications that the global financial architecture is now evolving in ways that contribute to a new institutional heterogeneity. Some policy and institutional innovations entail

1 Stand-by arrangements are the IMF's basic short-term loan agreement. In European cases, the European Commission, the European Central Bank (ECB) and a few northern European governments have partnered with the IMF on the arrangements.

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the emergence of financial architecture that is far less US- and IMF-centric than has been the norm over the past several decades. Moreover, the growing economic might, self-confidence and assertiveness by policy-makers in some developing countries, and, at the same time, the attendant uncertainties surrounding the economies of the United States and Europe, are disrupting traditional modes of financial governance and dispersing power across the global financial system.

It is far too early to be certain that lasting, radical changes in the global financial architecture are afoot, or that the developments now underway are secure. Nor is this paper arguing that all regions of the developing world enjoy the opportunity and/or have the means to participate in reshaping the global financial architecture. The goal here is to show that today there are numerous opportunities for policy and institutional experimentation, and there are clear signs that these are being exploited in a variety of distinct ways. As compared to any other moment over the last several decades, there are indications of fissures, realignments and institutional changes in the structures of financial governance across the global South. This current state of affairs can be characterized as one of 'productive incoherence' (Grabel 2011b). This term captures the proliferation of institutional innovations and policy responses given impetus by the crisis, and the ways in which the current crisis has started to erode the stifling consensus that has secured and deepened neoliberalism across the developing world over the past several decades.

The productive incoherence of the current crisis is apparent in the emergence of a denser, multilayered and more heterogeneous southern financial architecture. The crisis has induced a broadening of the mission and reach of some existing regional, subregional, bilateral and national financial institutions and arrangements, and stimulated discussions of entirely new ones as discussed in Section 3. In some limited cases, these substitute for the Bretton Woods institutions. This is most pronounced where the Bretton Woods institutions have failed or been slow to respond to calls for support, or where they have responded with conditionality that has overly constrained national policy space. But in most cases, the institutions and arrangements discussed here complement the global financial architecture.

Recent changes in the southern financial landscape increase its potential to promote financial stability and resilience, support the development of long-run productive capacities, advance aims consistent with human development and expand national policy space. Moreover, the emergence of a vibrant southern financial architecture is not simply additive. It may prove transformative insofar as the Bretton Woods institutions are pushed to respond to long-standing concerns regarding their legitimacy, governance and conditionalities.

1. THE PRODUCTIVE EFFECTS OF THE EAST ASIAN FINANCIAL CRISIS

The drive towards institutional innovation has its roots in the East Asian financial crisis. On the one hand, the crisis deepened the move to neoliberal reform in the developing world through a variety of policy and ideational mechanisms (Singh 1999; Grabel 2003, 2007; Wade 2007), even in East Asian countries whose own development experiences were very much at odds with this model. Stand-by arrangements with the IMF conditioned assistance on stringent macroeconomic policy contraction, market flexibility, privatization, economic openness that provided foreign investors with access to formerly protected areas such as banking, and a strengthened commitment to export-led growth.

Given the common diagnoses of the East Asian crisis offered by influential analysts, it is not surprising that the IMF and the Group of 7 (G7) leaders promoted reforms in economic and financial governance through a variety of forums that focused on greater dissemination of information, increased monitoring and surveillance, the adoption of universal standards and codes, arms-length corporate governance, regulatory and institutional harmonization around Anglo-American norms, and an associated enhanced role for market discipline, market-adjustment mechanisms and private actors (such as credit-rating agencies) in financial governance. The East Asian crisis therefore amplified pressures towards neoliberal conformance in a great many countries, wealthy and developing, even if a few countries, most notably China, bucked these trends.[2]

On the other hand, precisely because of the constraints on policy space that followed the East Asian crisis, momentum grew around the idea that developing countries had to put in place strategies and institutions to prevent a repeat of the events of the late 1990s.

The IMF emerged a greatly weakened institution in regard to its credibility around the world, the adequacy of its financial resources, the size of its staff and the geographic reach of its programmes. Indeed, an important consequence of the crisis and subsequent changes in the global economy was the loss of purpose, standing and relevance of the IMF. Prior to the current global financial crisis, demand for the institution's resources was at a historic low. In fiscal year 2005, just six countries had stand-by arrangements, the lowest number

2 The Enron, Long-Term Capital Management and other financial scandals in the United States in the 1990s were resolved on the side of those favouring more information, transparency and market discipline.

since 1975 (Kapur and Webb 2006). From 2003 to 2007, the fund's loan portfolio shrunk dramatically, from US $105 billion to less than $10 billion, while just two countries, Pakistan and Turkey, owed most of the $10 billion (Weisbrot, Cordero and Sandoval 2009). After the loans associated with the Asian crisis were repaid, those countries that could afford to do so deliberately turned away from the institution.[3] This trend radically curtailed the geography of the IMF's influence. With some exceptions, its portfolio after the Asian crisis comprised loans to countries that were not able to self-insure.

Critics on the left and right railed against the institution's mission creep, heavy handedness, domination by the United States, and myriad failures in East Asia prior to and following the crisis. Policy-makers in a number of Asian and other successful developing countries, particularly in Latin America, sought to insulate themselves from the hardships and humiliations suffered by Asian policy-makers at the hands of the IMF (see Section 4). The explicit goal was to escape the IMF's orbit. They did this by relying on a diverse array of strategies: self-insuring against future crises through the over-accumulation of reserves; a new reliance on trade finance, foreign direct investment, lending and ODA from fast-growing developing countries such as Brazil and China; and the establishment of bilateral swap arrangements among central banks.

The dramatic decline in the IMF's loan portfolio after the Asian crisis indicates the degree to which these escapist strategies proved successful. Even in the current crisis, countries did their best to stay clear of IMF oversight. The Republic of Korea would have been a good candidate for a new type of precautionary flexible credit line. But it did not apply for one, presumably because of its prior experience and to avoid the stigma of being one of the IMF's clients (Wade 2010, fn. 10). Instead, it negotiated a reserve swap with the US Federal Reserve.

The crisis both stimulated interest in strategies that protected developing countries from the fund, and turned attention in Asia to the creation of a new institution that could serve as a counterweight or alternative to the IMF. In the summer of 1997, as the crisis was beginning to unfold,[4] Japan's Ministry of Finance proposed the creation of an Asian Monetary Fund, a new institution that would provide emergency financial support—sans the IMF's conditions. Though the proposal was never fully articulated, it was to be capitalized with an initial $50 billion contribution by Japan and another $50 billion from other Asian nations. The proposal grew out of frustration with economically harsh and politically intrusive IMF conditionality, and more broadly with the limited voice of Asian countries at the fund. It was eventually tabled in the wake of tensions between China and Japan that were adroitly exploited by the IMF and the US Government.

Section 3 returns to the failed Asian Monetary Fund initiative. The spirit of this initiative re-emerged in the Chiang Mai project, an initiative given new force by the current crisis. Other southern financial institutions and arrangements share a partial common ancestry in the Asian crisis experience. Some of these involve giving new life to largely dormant arrangements, others to scaling up existing arrangements, and some entail new institutional structures that are very much works in progress.

2. THE CURRENT CRISIS AND GLOBAL FINANCIAL GOVERNANCE

The current crisis has been good to the IMF (Chorev and Babb 2009). It has rescued the institution from the irrelevance that followed the Asian crisis by re-establishing its central place as first responder to financial crisis. This re-empowerment has come about for a number of reasons. Even with reduced staffing, the fund still holds a monopoly position when it comes to experience in responding to financial distress in poorer countries. Moreover, events in and on the periphery of Europe have contributed substantially to the IMF's resurrection as a consequence of the need of the European Union (EU), European Community and ECB for the fund's expertise, financial assistance and authority.[5]

The IMF's rescue was also facilitated by Group of 20 (G20) decisions during the crisis. Representatives at the group's April 2009 meeting gave the IMF pride of place in global efforts to respond. The message was not lost on the fund's former Managing Director, Dominique Strauss-Kahn, who said: "Today is the proof that the IMF is back" (Landler 2009). The meeting restored the IMF's mandate and yielded massive new funding commitments, even if upon close examination these commitments are less than advertised, as Chowla (2009) demonstrates. Representatives committed $1.1 trillion to combat the crisis, with $750 billion to be delivered through the IMF. Other multilateral financial institutions have also been reinvigorated, such as the World Bank, the

3 See Weisbrot, Cordero and Sandoval 2009; Kapur and Webb 2006; and Lerrick 2007 for further discussion of the turn away from the fund.

4 Details in much of this paragraph are drawn from Kirshner 2006 and Grimes 2009a.

5 Lütz and Kranke (2010) argue that the EU has 'rescued' the IMF by partnering with it on bailouts and by channelling its harsh conditionality circa the 1980s and 1990s.

Inter-American Development Bank (IADB), and the European Bank for Reconstruction and Development.

At the same G20 meeting, several developing countries committed to purchasing the IMF's first issuance of its own bonds: China agreed to buy $50 billion, while Brazil, India, the Republic of Korea and the Russian Federation each committed $10 billion. Thus, $90 billion in new resources for IMF lending comes from countries that have traditionally not played an important role in fund governance. This is surely a landmark event reflecting the global economic power and autonomy of these rapidly growing economies.

At present, the fund is continuing to seek additional resources. As of January 2012, it has called for an additional $500 billion in funding. Managing Director Christine Lagarde has made a particular point of calling on developing countries to step forward with additional commitments in light of the unfolding crisis in Europe, though this request has so far been greeted coolly by developing country (and wealthy country) policy-makers (see Grabel 2011c, Reuters.com 2012a).[6]

If the crisis has resurrected the IMF and ushered in a substantial change in sources of funding, it has also marked a sharp diminution in the geography of the institution's influence. Those developing countries that have been able to maintain their autonomy have used the resulting policy space to pursue a variety of countercyclical macroeconomic policies and capital controls, and to expand existing or create new financial institutions and arrangements.[7] Equally important, the behaviour of these autonomous states (such as Brazil, China and India) has served as an example for less powerful countries that, in turn, have reacted in ways unimaginable in previous crises.

As of this writing, the countries that have emerged as new contributors to the fund have had only the most (exceedingly) modest effects on formal governance reforms there and at the World Bank.[8] In October 2010, the G20 finance ministers agreed to transfer 6 percent of fund voting rights to developing countries by October 2012 and to double IMF quotas. Under the agreement, the top 10 shareholders will represent the largest economies in the world, which now include China, Brazil, India and the Russia Federation. European representatives also agreed to cede two seats on the Executive Board. Under the proposal, all executive directors will be elected by late 2012. The IMF ratified the G20's governance proposal in November 2010, though powerful countries may stall its implementation.[9]

The developing countries now being asked to contribute more to the fund may use this opportunity to press more aggressively on governance reform (Grabel 2011c). Regular meetings of the executive directors of the BRICS countries at the IMF and World Bank help to create new channels of influence over time (Wade 2011). These and other types of networks emerging among dynamic developing countries may well lay the groundwork for more significant changes.[10]

In sum, then, the IMF has discovered new vitality as a first-responder to economic distress as it has faced diminished scope to dictate economic policy. In a changed landscape, it no longer enjoys wall-to-wall influence across the developing world, given the rise of relatively autonomous states there. The institution now finds itself dependent on raising new resources from vibrant developing countries. Even if this

6 As of this writing (June 2013), developing countries have in fact made a second round of funding commitments to the IMF. These commitments were announced in June 2012 when BRICS leaders met informally at the G-20 Leaders' Summit. China committed US$43 billion; Brazil, Russia and India each committed US$10 billion, while South Africa pledged US$2 billion. The 2012 contributions by the BRICS countries were pointedly conditioned on IMF governance reform. Brazil's Finance Minister Guido Mantega stated the BRICS position clearly--the promise of additional funding was tied to "an understanding that the reforms of the Fund's quotas, which will result in a greater voting power for emerging countries, will be implemented according to the timetable agreed by the G20 in 2010" Giles 2012.

7 There is some evidence that the fund is beginning to face competition from other institutions. For instance, Wade (2010, fn.10) points out that the IMF is losing new business to the World Bank outside of the European rescues. And he notes that even in Europe, Turkey broke off negotiations with the fund in early March 2010 because of the severity of its conditions. A few weeks later, the country negotiated a $1.3 billion loan with the World Bank. See Grabel 2011b on the normalization of capital controls during the current crisis. See Ocampo et al. 2010 on the use of countercyclical policy tools in a range of developing countries during the current crisis.

8 An examination of IMF governance and reform is outside the scope of this paper. See Woods 2010, Wade 2011, and Vestergaard and Wade 2011 for detailed analyses of these matters, including the issue of voting rights and quotas at the IMF and World Bank. Various non-governmental organizations and even an IMF executive director have voiced concerns about the serious limits of recent governance reforms, and about the efforts of leading members to stall even the modest reforms agreed to in 2010 (e.g., see Nogueira Batista, Jr. 2012). Civil society groups have argued rightly that Africa is still inadequately represented in IMF decision-making, and that the new agreement on voting shares "leaves in place the US unilateral veto over some IMF decisions" (Bretton Woods Project 2010). This continued frustration with fund and World Bank governance plays an important role in motivating the innovations discussed in Section 3.

9 Indeed, as of this writing (June 2013) the US has not yet ratified the very modest 2010 agreement on governance reform, and the matter remains stalled at the IMF. The failure to move forward on governance reform makes it more likely that the BRICS will continue to explore new institutional initiatives that may in turn create more competition with the IMF in the coming years. On this point, during 2012 and 2013 the BRICS countries began discussions about the creation of a new development bank, a credit rating agency and a reserve pooling arrangement.

10 See the essays in Martinez-Diaz and Woods 2009 on the transformative potential of myriad new networks among developing country policy-makers.

does not translate into formal changes in the institution's governance in the near term, as seems likely, it cannot be dismissed since it reflects broader changes in economic power. Institutional innovations in the global South may gradually reduce the centripetal status of the IMF, World Bank and the US dollar in global financial governance.

The G20 leaders' meetings, along with the expanded Financial Stability Board (FSB), are best seen as reflecting modest yet contested efforts to increase the voice of a small group of large developing countries in discussions of global financial governance.[11] In the early months of the current crisis, the G20 leaders' meetings seemed to signal the emergence of a new global financial architecture that was more pluralistic and inclusive than the old one, dominated as it was by the United States, other wealthy countries and the IMF. The G20 gave the leaders of countries such as Argentina, Brazil, China, India, Saudi Arabia and South Africa a seat at the table, along with the usual Group of 8 (G8) countries. Some observers were disappointed from the start with the organization's lack of inclusiveness, however (Payne 2010), and its timidity (Woods 2010). Others remain cautious (Helleiner and Pagliari 2009, Helleiner and Porter 2009, Helleiner 2011). In fact, the early promise of the G20 has largely given way to disappointment and frustration. For example, Ocampo (2010b) argues that the G20 still reflects an "elite multilateralism;" for Vestergaard and Wade (2012) and Wade (2011) it is an illegitimate and non-representative body that has failed to accomplish what it set out to do, and even what its spokespeople claim that it has achieved. For Rachman (2010) the body is "divided, ineffective and illegitimate."[12]

The G20 has come to resemble a larger, somewhat more unruly G8. The body is prone to issuing general communiqués in the face of unfolding crises while failing to take action on key issues (Grabel 2011c). Moreover, the G20 began in June 2010 to resemble the G8 in calling for the restoration of fiscal balance (see e.g., Fitoussi et al. 2011, Part I).[13] In 2012, the leadership of the body shifted to Mexico. Given the neoliberal inclinations of the leadership there at present, there is reason to be pessimistic about momentum from the G20 on reforming the global financial architecture to promote greater inclusiveness and voice for developing countries, expanded policy space for development and the advancement of human development.

It is too early to tell whether the modest expansion of seats on these formal bodies will translate into real influence, greater inclusiveness and a commitment to enhance the policy autonomy of developing countries. But certainly there is hope that the new networks and relationships forming within these and other bodies (such as the Commission for Africa, the BRICS leaders' summits, etc.) increase opportunities for dialogue, capacity-building and influence on the part of a broader group of developing countries (Martinez-Diaz and Woods 2009). More importantly, the financial resources and architectures taking root in the developing world indicate how the financial landscape can better speak to economic and human development needs in the global South.

3. NEW FINANCIAL ARCHITECTURES IN THE GLOBAL SOUTH

As with the Asian crisis, the current crisis has promoted interest in alternative modes of financial governance. It has stimulated the expansion of existing institutions and arrangements, and the emergence of new ones in the global South. It has been far more productive than the Asia crisis in propelling institutional innovations that may ultimately lead to more decentralized, pluralist, inclusive and developmental financial architectures

11 The FSB is the successor to the Financial Stability Forum (FSF). "The FSB is mostly a coordinator. According to its Charter, the FSB has been established 'to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.'In addition, the institution is to work with the international financial institutions to 'address vulnerabilities affecting financial systems in the interest of global financial stability'….It (i.e., the FSB) is designed to act more as a loose network of various national policy makers (from ministries of finance, central banks, supervisory and regulatory authorities) and international officials concerned with financial stability issues rather than a substantial inter-governmental institution. The membership of the FSB expands significantly on that of the FSF. In 2009, the small club of G7 countries—Australia, Hong Kong, the Netherlands, Singapore and Switzerland (the ECB has also been a member)—was joined by the rest of the G20 countries, Spain and the European Commission. Like the FSF, the FSB also includes representatives of international financial institutions (the IMF, World Bank, Bank of International Settlements, Organisation for Economic Co-operation and Development (OECD)) as well as key standard-setting and central bank bodies" (FSB Charter and quotation from Griffith-Jones, Helleiner and Woods 2010, pp. 6-7; see also Helleiner 2010b). Developing country representation on other bodies that constitute the global financial regulatory architecture (such as the International Accounting Standards Board, the Technical Committee of the International Organisation of Securities Commissions and the Basel Committee on Banking Supervision) has also been expanded modestly, as Helleiner and Porter (2009) note.

12 For a discussion of an alternative to the G20, see the Global Economic Council proposal in Vestergaard and Wade 2012, and Wade 2011. See also numerous papers in the collection edited by Dervis and Lombardi (2011).

13 One policy area where the G20 has distinguished itself productively is in its support for the right of countries to utilize capital controls (Gallagher 2011, Grabel 2011a).

that can respond to the myriad, diverse challenges facing developing countries. Moreover, changes in patterns of global economic growth and reserve accumulation since the Asian crisis have provided the resources necessary to scale up some older southern and South-South institutional arrangements and provide funding for newer ones. These changes both substitute for and complement the Bretton Woods institutions, while also having the potential to pressure them to increase their legitimacy, efficacy and inclusiveness.

Many observers have viewed the Asian and current crises as catalysts for rethinking the global financial architecture. The crises revealed the inadequacies of existing arrangements, and support the view that regional, subregional and multilateral arrangements should play greater, complementary roles in promoting financial stability, financial inclusion and long-term development. For example, Mistry (1999) argues that, after the Asian crisis, regional crisis management capacity could usefully complement national and global measures. This view was articulated forcefully in the 2002 Monterrey Consensus (International Conference on Financing for Development 2002).[14] Writing before the current crisis, and based on experiences in Europe and the Andean region, Griffith-Jones, Griffith-Jones and Hertova (2008) conclude that there is a need for new or expanded regional and subregional development banks to fill gaps in the international financial architecture.[15] Similarly, in the early days of the crisis, the Stiglitz Commission (United Nations 2009, Chapter V) called for a new global monetary system built from the bottom up through a series of agreements among regional arrangements. In a related vein, Ocampo (2010b) argues that improving economic and social governance necessitates the creation of a dense, multilayered network of world, regional and national institutions. In this view, regional and subregional institutions play an important role between global and national financial arrangements (see also Ocampo 2006, 2010a, 2011a, 2011b; and essays in Volz and Caliari 2010). [16] Strauss-Kahn, who during the crisis embraced regionalism and argued that the IMF should promote it, echoes this view. In his words: "…we might look at ways to collaborate with regional reserve pools. We…do not see such funds as 'competitors.' Indeed, they can be a positive and stabilizing force…At its most ambitious, such collaboration could even include Fund resources serving as a backstop to regional pools" (Strauss-Kahn 2010).[17] Finally, the United Nations Conference on Trade and Development (UNCTAD 2011a) usefully articulates a concept of "developmental regionalism" to frame contemporary discussions about the need to promote forms of South-South cooperation organized around lines quite distinct from those associated with European financial regionalism.

Many observers highlight the gradual transformations now underway across the financial landscape of the global South. Tussie (2010) argues that the world is the middle of a period of transition to a more multi-tiered financial and monetary system. Chin (2012) believes that the crisis has had a catalytic though gradual effect in promoting a deeper form of regionalism in Asia (particularly because both China and India are increasingly engaged in this process). He further argues that the crisis is stimulating the development of a more diverse global system (see also Chin 2010, Helleiner 2010a, Woods 2010).

Some observers are less sanguine about signs of an emergent regionalism in financial architectures. For example, Chin (2010), Eichengreen (2010) and Cohen (2010) conclude that regional responses so far are modest, especially in connection with lender-of-last-resort assurances, financing for balance-of-payments crises or currency stabilization. They also note that when the current crisis emerged, East Asia and South America turned quickly to unilateral and bilateral rather than to existing regional mechanisms. Conceding that point, it does not undermine the case for discontinuity and change at the current juncture.[18]

14 The Monterrey Consensus emphasized the central role that regional and subregional banks can play "in serving the development needs of developing countries and countries with economies in transition." It also stressed that these institutions should "contribute to providing an adequate supply of finance to countries that are challenged by poverty and should also mitigate the impact of excessive volatility of financial markets." Equally importantly, the Monterrey Consensus argued that "(s)trengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency. They can also serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries" (International Conference on Financing for Development 2002, paragraph 45, with additional discussion in UNCTAD 2011a, p. 115).

15 Their preliminary calculations show that regional development banks could provide additional annual lending of approximately $77 billion if developing countries allocated just 1 percent of their reserves (which at the time equaled $32 billion) to paid-in capital for expanding existing or creating new regional development banks.

16 This conception of regional and subregional institutions might be likened to Wade's (2008) discussion of the need for "middleware" in the global financial architecture. Middleware refers to software that allows different families of software to communicate with one another, thereby avoiding the need to utilize a single, centralized platform.

17 I thank Luis Rosero for this point.

18 Note also that Chin (2012)—which was sceptical of signs of emergent regionalism in 2010—today highlights the catalytic effects of the crisis in the ongoing and gradual process of regionalization in Asia.

Regional and subregional financial initiatives across the developing world

The regional, subregional and national initiatives discussed here suggest that the financial crisis is serving as the midwife to more inclusive and developmental financial architectures in the global South. Some institutions and arrangements have a single objective, e.g., the provision of longer term project/development finance, the promotion of financial stability through liquidity support, trade and/or financial integration, or a reduction in the US dollar's role via a new currency or payment arrangements. Others combine some or all of these objectives. Moreover, the crisis has stimulated many institutions to expand their operational objectives. Some that traditionally focused on trade promotion or project finance, for instance, have moved into liquidity support. Finally, there is good reason to question the traditional distinction between project finance and liquidity support. Project finance provided during crises serves a countercyclical role, since at such moments long-term finance becomes scarce and expensive. The provision of trade credit or the ability to settle trade in the national currency supports intra- and/or interregional trade, which can promote financial stability during a crisis. The maintenance of stable trade patterns may also increase a country's access to project finance.

Many of the institutions and arrangements discussed here are characterized by governance structures that differentiate them from the Bretton Woods institutions. They are organized to promote greater inclusiveness, though there is considerable divergence in the degree to which this is achieved, and they take different approaches to conditionality.[19] In some cases, there is an explicit commitment to avoid all forms of it, while in others the matter is being actively debated, or is minimalist and highly country specific. For the most part, the institutions and arrangements considered here are more agile than the Bretton Woods institutions insofar as they respond quickly to economic challenges in their field of operations.

In Asia

The East Asian crisis awakened interest in regional financial architectures in the developing world. It gave voice to an aborted proposal for an Asian Monetary Fund that in 2000 formed the basis for the bilateral swap agreements that are at the heart of the Chiang Mai Initiative (CMI). The CMI involves the central banks of the Association of Southeast Asian Nations (ASEAN), plus China, Japan and the Republic of Korea (the so-called ASEAN+3).[20]

The current crisis has motivated incremental though certainly consequential architectural innovation among the ASEAN+3 members. Decisions taken in May 2012 by policy-makers in these countries underscore how the global crisis is stimulating a broadening and deepening of regional financial arrangements despite obstacles that some analysts had previously seen as insurmountable.

The crisis has been a powerful impetus for developing the CMI in important respects on two occasions. The first time was in early 2009, when the CMI was 'multilateralized', such that it is now known as the Chiang Mai Initiative Multilateralisation (CMIM). This involved the creation of a $120 billion regional currency reserve pool from which member countries could borrow during crises.[21] China, Japan and the Republic of Korea provided (and today still provide) 80 percent of the CMIM's resources, with China and Japan each contributing 32 percent. The 'plus three countries' together hold 71.6 percent of the voting power. Decisions regarding renewals of and disbursals from the fund are decided on the basis of a weighted majority two-thirds voting system, in which each country receives 1.6 basic voting shares plus additional voting shares based on the size of its contribution. In practice, this means that despite the significant block of votes held by both China and Japan, neither country alone can veto disbursal decisions.[22] The largest economies within the CMIM (namely, China and Japan) can borrow an amount that is equal to no more than 50 percent of their contribution to the fund; the Republic of Korea can borrow an amount

19 The common defense of conditionality put forward by the Bretton Woods institutions is that it prevents moral hazard by errant borrowers and creates the foundation for economic renewal. Decades of studies have found that this is not the case, and that conditionality compromises policy autonomy. In particular, IMF conditionality has negative effects on economic performance, redistributes income upwards, has disproportionately negative effects on women and children, and empowers the financial community and external actors over national policy-makers and vulnerable groups. See Vreeland 2003 on conditionality in the period prior to the current crisis. See Weisbrot, Ray, Johnston, Cordero and Montecino 2009 for similar evidence on the effects of IMF programmes during the current crisis. Ortiz et al. 2011 find that austerity programmes during the current crisis have disproportionately negative effects on children and other vulnerable groups.

20 ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

21 Note that from the perspective of neo-classical economics, regional reserve pooling arrangements may be seen as puzzling from the vantage point of risk diversification since economic shocks are likely to be shared across regions (Basu and Kannan 2010). Evidence from Latin America suggests that this is not necessarily the case as the demand for resources within a region may, in fact, be sequential (see Ocampo and Titleman 2012).

22 Reflecting the power and wealth dynamics of the region, China and Japan have the same voting weight, the Republic of Korea half the voting weight of each of the two countries, and ASEAN countries a weight disproportionate to their financial contributions (ADB 2010).

equal to the size of its contribution; better-off ASEAN members can borrow up to 250 percent of their individual contributions; and the five smallest economies can borrow up to 500 percent of their contributions.[23]

The transformation of the CMI to the CMIM was significant because it increased the potential scope of central bank currency swaps and reserve pooling arrangements in the region. This introduced the possibility that member countries may not need to turn to the IMF when they face liquidity crises. However, at the behest of creditor countries within the arrangement (up until May 2012), disbursals from the CMIM in excess of 20 percent of the credits available to a country require an IMF surveillance programme (smaller disbursals from the CMIM did not have this requirement). Grimes (2009b, p. 12) calls the CMIM-IMF link an "elegant solution" to the difficult political problem of regional surveillance since "it allows the lending governments to elide responsibility for imposing conditions by delegating conditionality to the IMF." In this sense, the CMIM's operation could be seen to reinforce rather than challenge the IMF (Grimes 2011).[24]

Since the 2009 decision to multilateralize the CMIM, ASEAN+3 members have continued to wrestle with and deepen the arrangement with an eye towards the original vision that inspired it. On 30 January 2012—after much politically fraught discussion involving the selection of a site and a director—the ASEAN+3 Macroeconomic Research Office (AMRO) was opened in Singapore (Ciorciari 2011, pp. 945-46). AMRO is charged with conducting IMF Article IV-type monitoring of members, though presumably with a greater degree of regional and national sensitivity.[25] AMRO's own website describes it as the "regional surveillance unit of the CMIM…. Its purposes are to monitor and analyse regional economies and to contribute to the early detection of risks, swift implementation of remedial actions and effective decision-making of the CMIM" (AMRO).

Some analysts have noted that the naming of AMRO reflects the tension over regional surveillance. On this matter, Eichengreen (2011, p. 4) observes: "Even the name, which refers to the new entity as a 'research' office shies away from giving it concrete oversight of national policies. These limitations are indicative of the continuing reluctance in Asia to criticize the policies of regional neighbours and thus of the obstacles to conducting firm surveillance. This is probably the main obstacle to a more significant role for CMIM."[26] Observers of the region remain somewhat sceptical as to whether AMRO will evolve into a true regional surveillance body, though this is obviously the key to the CMIM's evolution as a competitor to the IMF (Kawai 2010, *Financial Times* 2011b, Grimes 2011, Azis 2011). Chin (2012, p. 7) is somewhat more optimistic, seeing AMRO's progress as a possible 'second step' on the way to a gradual loosening of the CMIM's link with the IMF, and a step in the evolution towards something approximating an Asian Monetary Fund.

At the May 2012 ASEAN+3 meeting, CMIM members took a number of important steps to expand its size and scope. Together these changes move the CMIM further towards the Asian Monetary Fund proposal that is its intellectual antecedent. The following critical decisions were announced (AMRO 2012).

1. The size of the currency swap pool was doubled, to $240 billion.
2. For 2012-2013, the need to be under an IMF programme does not become operative until the swap drawn equals 30 percent of the maximum for the country (and 40 percent in 2014, pending discussion and conditions at the time).
3. The maturities of IMF-linked and de-linked swaps were lengthened.
4. A precautionary credit line facility was introduced. It allows members to draw on swaps of the size governed by the country-size formula that already exists in the CMIM, based on what appear at this time to be vague macroeconomic criteria. Credit lines have IMF-linked and de-linked components.[27]

The May 2012 decisions underscore the dynamic character of financial regionalization among CMIM members. They also highlight the continued and complex efforts to build an institutional framework that reduces the role of the IMF in the region.

Writing before the May 2012 decisions, some long-time analysts of power politics in Asia such as Grimes (2011) and Cohen (2010) suggested that great power rivalries and

23 Description of the CMI and CMIM drawn from ADB 2010; Eichengreen 2010; Grimes 2009a, 2009b, 2011; Sussangkarn 2011; Ciorciari 2011; Capannelli 2011 and Henning 2009.

24 The CMIM does not literally realize the Asian Monetary Fund proposal at this point, since the latter was developed with the goal of displacing the IMF in the region. See Grimes 2011 for a discussion of the important differences between these initiatives.

25 The first director, Mr. Wei Benhua of China, was unanimously appointed on 11 April 2011.

26 Some have also suggested that early tensions over naming AMRO centred on whether the word 'and' should appear between 'macroeconomic' and 'research', and that this tension reflected the deep divisions over the granting of regional surveillance power (private communication, February 2012).

27 The Asian Bond Market Initiative was also expanded in May 2012.

regional security tensions are so deep-seated that the IMF will continue to be seen as a necessary "neutral third party in CMIM matters" (Grimes 2011). In addition, many CMIM sceptics note that the swaps available under both the CMI and now the CMIM have yet to be activated.[28] Instead, CMIM members are negotiating bilateral swaps between their own central banks and those of non-CMIM member countries, such as the United States, while continuing to hoard official reserves on a national basis.[29] Another oft-cited obstacle to the full realization of the CMIM is the link to the IMF. This means that governments in the region will not utilize CMIM resources owing to experiences during the Asian crisis (Sussangkarn 2011). Certainly the decision taken in May 2012 on loosening the IMF link is a step in the right direction.

A final criticism concerns the size of the CMIM swap pool. Many analysts have previously noted that the pool is small relative to the likely need during a crisis (ADB 2010, Cohen 2010). For example, Chin (2012, p. 6) noted before the May 2012 decisions that CMIM resources represented just 2.4 percent of the almost $5 trillion in international reserves held by central banks in Asia at the end of 2011, and were relatively small as well when compared to the $586 billion crisis-response package deployed in China in November 2008. Recognition of the limited firepower of the CMIM, a fact made plain by the Eurozone crisis, led many analysts and officials over the last two years to call for a significant expansion in the size of its resources (ADB 2010, Talley 2012, Dow Jones Newswires 2012). This call was heeded in May 2012.

There is reason to take seriously the real obstacles involved in breaking the CMIM-IMF link, particularly since this is rooted in historical experiences. But if the current crisis reveals anything, it is that unexpected developments happen when the need arises. Moreover, the CMIM and AMRO are new, and as recent developments make clear, there is no good reason to believe that their scope is fixed. It is therefore premature to conclude that the CMIM will fail to adapt as the demands placed on it evolve. That its swaps have yet to be activated and the central banks of the region's larger economies continue to accumulate official reserves ought not be taken as indicators of failure. The 2012 expansion of the CMIM's scope and size underscores the dynamism of the arrangement and policy-makers' continued commitment to push its boundaries. The CMIM may therefore best be understood as a vital part of an evolving process of regionalization and experimentation,[30] one that may ultimately lay the groundwork for more significant cooperation among central banks in this and other regions.

The evident costs of the EU's failure to resolve the surveillance matter may well give CMIM members the motivation to accelerate their efforts. In fact, the scale and intractability of the eurozone's problems in 2012 likely played a role in recent decisions taken by the CMIM. The IMF's (and the 'Troika's') actions in Mediterranean Europe surely resonate with Asian policy-makers. Recognition that the IMF's resources are insufficient to handle the fallout in Europe may have driven the decision to double the size of the CMIM pool.

In Latin America

Among regions in the developing world, Latin America has long had the greatest number of regional and subregional institutions in its financial architecture. It is therefore unsurprising that the crisis has moved the region further in this direction. The re-emergence of more populist governments and the success of large commodity exporters have also stimulated regional, subregional, bilateral and unilateral initiatives.

One example is the Latin American Reserve Fund (FLAR). FLAR was founded in 1978 as the Andean Reserve Fund. It is based in Colombia, and its members include Bolivia, Colombia, Costa Rica, Ecuador, Peru, Uruguay and Venezuela. As of December 2011, FLAR has a capitalization of just over $2.3 billion. Like the CMIM, it is a regional reserve pooling arrangement that acts largely as a credit cooperative, lending

28 Japan and the Republic of Korea agreed to a $70 billion currency swap in October 2011 as the European financial crisis deepened; $10 billion is to come from the CMIM. But the swap has not been activated. The Government of the Republic of Korea appears to see it as an emergency line of credit intended to stabilize foreign exchange markets and as something to be utilized only as a last resort (Bloomberg.com 2011b). CMIM sceptics note that member countries continue to rely upon swaps with the United States. For example, in October 2008, the Republic of Korea negotiated a one-year swap arrangement with the US Federal Reserve for $30 billion rather than avail itself of the $3.7 billion available to it under the (then) CMI. Accessing the full amount available to it, namely $18.5 billion, would have necessitated an IMF agreement (Sussangkarn 2010). Experience with the IMF during the Asian crisis made that politically infeasible. Around the same time, Singapore also requested a bilateral swap with the US Federal Reserve instead of utilizing funds available under the CMI.

29 Regarding this tendency, Cohen (2010, p. 21) argues that "since CMIM was announced, both Japan and China have been energetically negotiating or expanding their own bilateral local currency swaps in the region even while planning to incorporate their existing bilateral dollar swaps into CMIM. Each government, in effect, appears to be competing to line up as many regional clients as possible, offering access to the yen or yuan as bait."

30 Writing before the 2012 decisions, Grimes (2009a, 2011) argued that the CMI and CMIM (as well as the ASEAN+3 Asian Bond Markets Initiative) reflect the maturing of ASEAN+3 cooperation. Arner and Schou-Zibell (2011) see the CMIM as providing the outlines of a crisis management structure and a potentially important liquidity mechanism in the region (see also Ciorciari 2011).

to members' central banks in proportion to their capital contributions (Chin 2010, fn. 40). It maintains five different credit facilities (for details, see Ocampo and Titleman 2012, pp. 18-19). The majority of its loans to central banks, including third-party ones, are for liquidity support and guarantees in the event of balance-of-payments or foreign exchange pressures (ibid.). FLAR also supports central banks in improving the liquidity of and return on international reserve investments, and facilitating the restructuring of public debt (McKay, Voltz and Wölfinger 2010). FLAR's website states more broadly that the institution contributes to the harmonization of exchange rate, monetary and financial policies of its members (FLAR 2011). This occurs principally through small regional conferences and an annual conference since 2006 (Ocampo and Titleman 2012). FLAR created a subregional currency, the Andean peso, intended for short-term reciprocal credit among member central banks, plus those of Argentina and Chile, but it has not been used (ibid).

Each member of FLAR has one vote. Disbursal of support funds requires the assent of at least five of the seven members, though the three largest contributors, Colombia, Peru, and Venezuela each have 21 percent of the vote, giving them an effective veto. This straightforward disbursement criterion is seen by many analysts as an important factor in the institution's ability to respond rapidly to requests for support.[31] Lending by FLAR is not in any formal way linked to the IMF, which contributes to the institution's high degree of legitimacy among members.[32]

There are some important differences between the CMIM and FLAR. A far older and less well-capitalized institution, FLAR has a broader mandate. Members must deposit funds with the institution, whereas CMIM members can provide letters of commitment enabling them to manage their contributions independently. The leadership issues that stymie the CMIM do not affect FLAR, which lacks a clear leader (Ciorciari 2011). Most importantly, the critical issue of surveillance that has plagued the CMIM has largely been resolved within FLAR. It has a surveillance and monitoring unit, the Economic Studies Division. Central banks seeking FLAR support for balance-of-payments problems are required to present information on monetary, credit, exchange, and fiscal and trade measures for mitigation.[33] To this point, FLAR has not denied support to a member on the basis of its plans for policy reform.[34] But in one case it did mandate a loan condition familiar to students of the IMF. A loan to Ecuador in 2006 required the Government to run a primary budget surplus of at least 2 percent of GDP from 2006 to 2008 (Rosero 2011).

There has never been a default on a loan made by FLAR, something thought to reflect members' level of ownership. Members appear to treat FLAR as a preferred creditor, though it does not formally have this status. This has resulted in the institution's sterling credit rating. In fact, FLAR's credit rating is higher than the rating of any individual member nation and slightly above that of the Andean Development Corporation (see following discussion) and even regional star (and non-member) Chile (FLAR 2011).

Prior to the current crisis, FLAR lending to member countries was significant compared to IMF lending. From 1978 to 2003, FLAR loans of $4.9 billion were almost 60 percent of the $8.1 billion in IMF loans to members (Chin 2010, fn. 41). During the financial crises of the 1980s and the 1998-1999 period, FLAR provided more financing than the IMF did (Ocampo and Titelman 2009-2010, p. 261). In some cases, FLAR contributed stabilizing resources when the IMF did not, or when member governments declined to engage the fund, such as Peru in 1988, Colombia in the 1980s and 1990s, and Costa Rica recently (Ocampo and Titelman 2012). Although FLAR resources are relatively small, for some members they are quite significant. It has lent resources equal to 35 percent of Bolivia's foreign exchange reserves in 1985-1986, 28 percent of Ecuador's in 1998 and 30 percent of Colombia's in 1984 (Ocampo and Titelman 2009-2010, p. 262). As Ocampo and Titelman (ibid.) also point out, FLAR's lending has been redistributive on the subregional level. Bolivia and Ecuador have received 55 percent of FLAR's disbursements, and they are granted privileged terms with respect to borrowing capacity. The timeliness and speed with which FLAR has been able to disburse funds is also notable (ibid.).[35] Twice FLAR has issued bonds—a three-year bond for $150 million in 2003 and a five-year bond for $250 million in 2006 (ibid.).

31 Eichengreen (2011) argues that moving to a simple majority vote on disbursals would speed FLAR's response time.

32 Details in this and the next paragraph are drawn from Eichengreen 2011, McKay; Voltz and Wölfinger 2010; and FLAR 2011, except where noted.

33 Eichengreen (2011) notes that it is unclear if the Economic Studies Division is privy to a good deal of confidential national economic information.

34 There is no such surveillance required for short-term credit support (McKay, Volz and Wölfinger 2010).

35 See FLAR 2011 for details on its lending over time, and Rosero 2011 for detailed case studies of FLAR lending to Colombia in 1999, Costa Rica in 2003 and Ecuador in 2006.

FLAR lending has been significant during the current financial crisis—$480 million from 2008 to 2011 (Ocampo and Titelman 2012).[36] During the same period, the IMF made no loans to member countries, although it did provide Colombia with a large flexible credit line of $10.4 billion in 2009 (ibid.).

FLAR's potential is nonetheless limited by the fact that it involves a small number of countries. The region's largest economy, Brazil, is not a member and has kept itself at a distance from the institution, as well as from the Bank of the South, described below (Chin 2010). The same can be said about the other large economies, namely, Argentina, Chile and Mexico. Their absence necessarily curtails available resources. Research by Rosero (2011) finds that given the rather stagnant levels of capital subscribed to FLAR, it is of most use now to its smaller member countries, namely, Bolivia, Costa Rica and Ecuador. This perhaps contributes to the institution's distributive success as noted by Ocampo and Titelman (2009-2010). Larger member countries—Colombia, Peru and Venezuela—rely on bigger pools of resources from other sources, such as the contingency line of credit that Venezuela has with China (Rosero 2011, p. 109). Eichengreen (2011) notes that even Colombia, where the institution is based, declined to engage or enlarge FLARs resources during the crisis.

FLAR is insufficiently capitalized to respond to the needs of larger economies especially given current market uncertainties. Many analysts have called for increasing its capitalization by as much as three times (Eichengreen 2011).[37] Ocampo and Titelman (2009-2010) argue that the institution has the potential to expand its membership in the Americas and the Caribbean, though they acknowledge the possible incentive problems that may frustrate efforts in that direction. They and others also argue that FLAR can increase its reach by connecting directly with other existing and nascent subregional and regional arrangements, and multilateral institutions. Other analysts argue that FLAR could expand its resources through larger paid-in quotas by its members, and by establishing contingent lines of credit with member central banks and private banks or even by intermediating funding from the IMF (Rosero 2011).

Despite its limited reach, the many achievements of FLAR during its relatively long tenure should not be dismissed. The institution has a high level of legitimacy among its members, notably around the issue of surveillance; its loans have all been repaid; and it has been able to respond rapidly to funding requests, which has improved economic conditions in recipient countries (Rosero 2011, Ocampo and Titelman 2009-2010).[38] Its activities have partly addressed subregional distributional issues, generated savings for recipients by offering better terms than other international institutions, and catalysed support from other lenders (ibid). By providing support during balance-of-payments crises, FLAR contributes to financial stability for member countries and, as a consequence, may promote intraregional trade during downturns (Agonsin 2001).

Though the matter has not been researched, FLAR could have behavioural effects on the central banks of smaller member countries. For them, access to FLAR resources may reduce the pressures and concomitant opportunity costs of accumulating excessive foreign exchange reserves. In the context of a rapidly evolving southern financial landscape, FLAR is best seen as one among many institutions in a complex network of unilateral, bilateral, regional, subregional and multilateral institutions and arrangements (Ocampo 2006). As such, it should be understood to complement and fill gaps in the existing financial architecture. It does not make sense to evaluate FLAR (or the CMIM) against the benchmark of whether or not it substitutes for the IMF or bilateral swaps or contingent lines of credit, especially for larger economies.

Another institution in Latin America that bears mention is the Andean Development Corporation (CAF).[39] Founded in 1968, it is a multilateral, regional development bank that focuses mainly on medium- and long-term lending (Ocampo and Titelman 2009-2010). A large number of Latin American countries and some Caribbean states are CAF members.[40] The corporation is owned almost exclusively by developing countries, with the exception of Portugal and Spain, which are also members. As of 2011, member countries owned 97 percent of its assets, quite different from the ownership structure of other regional multilateral lenders (ft.com 2012). By the end of 2010, CAF had assets of $5.6 billion, with the majority of loans going to Andean countries (Ocampo and Titelman 2009-2010, p. 256). CAF lends broadly throughout its membership, however, in contrast to FLAR, and a significant percentage of

36 Excluding Venezuela, FLAR lent 35 percent more than the IMF did to member countries from 1978 to 2011. The exception was the period from 1989 to 1993 (ibid).

37 See Ocampo and Titelman 2012 for discussion of proposals to increase FLAR's capitalization and membership.

38 The average approval time for FLAR loans is 32 days (Ocampo and Titelman 2012).

39 CAF has recently been renamed the Latin American Development Bank. But the acronym is still used for legal reasons, and so we use it in what follows.

40 Members include Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad and Tobago, Uruguay and Venezuela.

its recent loans have provided project finance to larger countries. In 2010, 15.3 percent of its loans went to Argentina, 18.8 percent to Brazil, 9.4 percent to Colombia, 16.1 percent to Peru and 15.6 percent to Venezuela (CAF 2010).[41]

In terms of lending volume, CAF is among the most dynamic of all of the multilateral development banks. Ocampo and Titelman (2009-2010, p. 252) report that CAF lending grew fourfold between 1991 and 2007. During the same period, lending by the IADB doubled, but World Bank lending to South America grew by only 40 percent. CAF loans have increased substantially since 2000, and notably have continued to grow through the global downturn. During 2010, CAF approved loans of $10.5 billion, a record figure that represents an increase of 15 percent over 2009 (CAF 2010).[42]

Fifty-seven percent of CAF loans approved in 2010 were medium- and long-term in nature, and nearly 46 percent were for infrastructure projects (ibid.). Since 2001, CAF has been the main source of multilateral project financing for Andean countries, providing over 55 percent of multilateral financing. From 2006 on, over 50 percent of its lending has gone to infrastructure (Griffith-Jones, Griffith-Jones and Hertova 2008). Given the scarcity of medium- and longer term finance in developing countries, CAF's role as a source of stable long-term finance should not be overlooked. This has been particularly important during the global crisis, insofar as funds for longer term project finance in the developing world have contracted severely. In this sense, we can see finance from CAF (as well as from FLAR) playing an important countercyclical and developmental role, since it provides a stable source of lower cost finance to member nations, something that is particularly important during crises.

Like FLAR, country ownership of CAF may account for its very high loan recovery rate,[43] and a credit rating higher than those of individual member countries. Aside from the importance of its lending activities to a broad range of countries, CAF issues a large percentage of bonds in Latin American currencies. In June 2004, CAF issued bonds in Colombian pesos, a first for Latin America, and it did so again in December 2008 and April 2009. More recently, it issued similar bonds in the Peruvian, Mexican and Venezuelan currencies.[44] In 2007, nearly 33 percent of CAF bonds were issued in Latin American currencies, compared to only around 15 percent for the IADB (Ocampo and Titelman 2009-2010, Table 2). This practice reduces exchange rate risk for CAF and borrowing countries. More importantly, it promotes the development of local currency bond markets, which may have numerous positive spillovers in terms of financial stability and access to long-term credit, absent the common problem of locational mismatches.

Another Latin American initiative that warrants attention is the Agreement on Reciprocal Payments and Credits (CPCR). Since 1966, the CPCR has facilitated bilateral lines of trade credit among 12 of the central banks that are members of the Latin American Integration Association.[45] The CPCR essentially involves a payment guarantee to exporters that is made by the banks, to be settled every four months in dollars in terms of net intraregional trade.[46] During the CPCR's life, the number of intraregional transactions and the CPCR's coverage of total intraregional trade have varied widely (for data, see Ocampo and Titelman 2012, and UNCTAD 2011b).

The agreement was given new life during the current crisis when intraregional trade declined significantly. In April 2009, guaranteed payment coverage under the CPCR was increased from $120 million to $1.5 billion. As of 2010, the CPCR still played a small role in intraregional trade, with around 5 percent or $5 billion in transactions channelled through the mechanism (Ocampo and Titelman 2012, Figure 1). The main benefit of the CPCR is that it reduces transactions costs—something that may help stabilize trade during periods of turbulence (UNCTAD 2011b, p. 37).

Recently Brazil—which to date has not expressed interest in FLAR or the Bank of the South (see following discussion)—has directed attention to the CPCR (Chin 2010, p. 705). Both

41 The Financial Fund for the Development of the River Plata Basin (FONPLATA) is a smaller institution with a narrower remit that operates in a manner that is similar to CAF (see Chin 2010, p. 705, 709; Ocampo and Titelman 2009-2010, pp. 251, 258-59). Ocampo and Titelman (2012) discuss another subregional development bank, the Central American Bank for Economic Integration.

42 However, thanks to implicit guarantees by the United States and other rich countries, the World Bank and the IADB are better able to respond with a larger volume of loans in times of crisis, a pattern evident in the 1980s, late 1990s and the current crisis. CAF loan approvals in 2008 were $7.9 billion, in 2009 were $9.1 billion and in 2010 were $10.5 billion. By contrast, the World Bank approved loans to Latin America of $4.6 billion, $14 billion and $13.9 billion, and the IADB approved loans of $11.2 billion, $15.5 billion and $12.4 billion, in 2008, 2009 and 2010, respectively (Ocampo and Titelman 2012, p. 15).

43 There were very few defaults on CAF loans from 1999 to 2003 despite the fact that these were difficult years for the region (Desai and Vreeland 2011, p. 115).

44 I thank Luis Rosero for information on bond issuance by CAF.

45 Members of the Latin American Integration Association are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Cuba is the only member that is not a subscriber to the CPCR. The CPCR functions in a manner that is similar to the European Payments Union in the 1950s (Gnos, Monvoisin and Ponsot 2009). Details were drawn from Chin 2010; Gnos, Monvoisin and Ponsot 2009; Ocampo and Titelman 2012; and UNCTAD 2011b.

46 For details, see www.aladi.org/NSFALADI/arquitec.nsf/vsitioweb/sml.

Argentina and Brazil have bilaterally taken a step that goes beyond the dollar-centric CPCR. They agreed to settle their bilateral trade with one another in local currencies. Extending this practice across CPCR countries, and to others in the region were CPCR membership to expand, would be of significant benefit to intraregional trade and broader efforts to decouple Latin American economies from the US dollar.

Ocampo and Titelman (2009-2010) suggest that an expanded FLAR could manage and extend the CPCR. In addition, they argue that the CPCR could be embedded in other initiatives (such as the sucre currency plan described below). This would be consistent with the broader objectives of the Latin American Integration Association.

Two new Latin American initiatives are the Bank of the South (BDS) and the Bolivarian Alliance for the Peoples of Our Americas (ALBA). Their ultimate significance is not yet known, since each is in its infancy. Many difficult matters need to be resolved before the BDS can even begin operating.

The BDS was developed by Venezuelan President Hugo Chavez and is headquartered in that country. It has received a great deal of attention because it has been situated rhetorically as a rival to the IMF. At this point, however, the rivalry remains aspirational rather than practical. The BDS was founded in 2007 and officially launched in 2009 when the four member countries of the Southern Common Market or MERCOSUR (namely, Argentina, Brazil, Paraguay and Uruguay) and the Union of South American Nations (Bolivia, Ecuador and Venezuela) agreed on details to get the bank off the ground.[47]According to the agreement, Argentina, Brazil and Venezuela will capitalize the Bank with contributions of $2 billion each, Uruguay and Ecuador with $400 million each, and Bolivia and Paraguay with $200 million each. As of 2008, the seven countries involved in the BDS had committed $20 billion to it (Desai and Vreeland 2011, p. 117).

Some observers view the BDS as the main element of a new regional financial architecture with several components. This vision involves reserve pooling; greater cooperation in the region via the increased use of its currencies; the operation of a new unit of account, the sucre, to be used as a regional payments settlement mechanism; a regional central bank; and a regional development bank that provides low-cost, stable credit to projects of developmental importance (Pérez 2009-2010, Marshall and Rochon 2009-2010, Marshall 2010).[48] Marshall (2010) rightly argues that the success of the more ambitious aspirations for the BDS necessitates complementary national financial reforms that enhance the operation of domestically owned banks, especially public banks. Notwithstanding these ambitious aims, by the time of its launch in 2009, the BDS had a mandate narrowed to the provision of project finance in the region, i.e., longer term lending for development projects in agriculture, energy, health care, infrastructure and trade promotion (Chin 2010). Lender-of-last-resort emergency finance is not included in its mandate. The precise functions and goals of the BDS are still being debated among member nations.

The BDS plans to grant all member countries equal voting power, though loans of more than $70 million will require approval of countries that represent at least two-thirds of the bank's total capital, something that Brazil apparently insisted upon (Phillips 2009). The designers of the BDS stipulated a 'no conditionality' clause for lending, meaning the institution's staff will determine the capacity of members to borrow and will not impose restrictions beyond the established terms of the loan (Desai and Vreeland 2011, p. 117). The BDS enters into force when parliaments of member countries ratify its founding agreement.[49]

As of this writing, the BDS is not yet operational; its scope and prospects remain quite uncertain. One hurdle that must be overcome is competing aims for the institution. While some members such as Brazil envision it as a regional development bank that complements existing domestic, regional and sub-regional institutions, others, such as Venezuela, see it in far more ambitious and multifaceted terms.[50] The debate is not surprising, given the institution's recent vintage and important ideological differences among its members (Hart-Landsberg 2009). As noted earlier, Brazil has kept itself at a distance from the BDS and FLAR, something that may ultimately constrain progress (Chin 2010, p. 706). Some analysts suggest that Brazil joined the BDS, despite its misgivings, only to be able to shape it into something that more closely approximates the European integration model that centres on liberalizing flows of capital, labour and goods (Hart-Landsberg 2009, p. 14).

47 The BDS is an outgrowth of proposals advanced by the Ecuadorian Presidential Commission for the New Financial Architecture. Details on membership, funding and voting rights at the BDS are drawn from Phillips 2009 and the International Center for Trade and Sustainable Development 2009. Discussion of the mission of the BDS draws on Desai and Vreeland 2011 (p. 117), Gnos, Monvoisin and Ponsot 2009, Vernengo 2010, and Marshall and Rochon 2009-2010.

48 'Sucre' stands for the Unified System for Regional Compensation.

49 Some countries have already ratified the BDS agreement, e.g., Argentina on 7 September 2011 (Mander and Webber 2011).

50 See Marshall and Rochon 2009-2010 and Pérez 2009-2010 for discussion of an ambitious vision for the BDS based on the plans that came out of the Ecuadorian Presidential Commission for the New Financial Architecture. They also relate it to Keynes' proposal for an International Clearing Union. See Rosero and Erten 2010 for discussion of the competing visions for the BDS.

The vitality of the BDS may very much be linked to the future performance of the Venezuelan economy, inasmuch as the institution's funding at present depends on the country's oil revenues (Desai and Vreeland 2011, p. 117). Another consideration is whether or not the BDS will be able to raise funds on international capital markets, and if so, at what cost. This is a concern because of the credit ratings of some of its members, and also because the rating agencies are likely not to look favourably on the institution due to the no-conditionality clause within the its charter (Desai and Vreeland 2011, Quintana 2008).

The ALBA initiative stems from the work of the Ecuadorian Presidential Commission for the New Financial Architecture, and involves nine countries in Latin America and the Caribbean. It is led by Bolivia, Cuba and Venezuela; Antigua, Barbados, Dominica, Ecuador, Honduras, Nicaragua, and St. Vincent and the Grenadines are members as well. It is designed to promote new, non-market structures organized around Latin American solidarity, collaboration and social equity, and the creation of an integrated trade and monetary zone in which obligations will be settled both in local currencies and in the newly created sucre currency to be managed by the ALBA Bank (see Hart-Lansberg 2009, 2010; Artaraz 2011). Decisions made by ALBA will be by consensus, and no conditionality will be imposed on loan agreements (Janike 2008).[51]

Sucre exist now as a virtual currency (i.e., a unit of account), and are being used to a very limited extent to clear trade payments for specific commodities, mainly between Ecuador and Venezuela. The first sucre-denominated transaction involved Venezuelan rice exported to Cuba in January 2010. The following July, Ecuador and Venezuela conducted their first trade in sucre, with Venezuela paying 1.89 million sucre to Ecuador for rice. Between July and December 2010, $40 million worth of trade between the two countries was settled in the currency (Dow Jones Newswires 2010, Venezuelaanalysis.com). As of 2011, sucre have been used to clear $198.7 million in trade transactions (Ocampo and Titelman 2012). At the 11th ALBA Summit in February 2012, members committed to allocating 1 percent of their reserves to the ALBA Bank, established in January 2008, in order to create a reserve fund.[52]

While it is far too early to judge the performance or potential of the BDS and the ALBA/sucre initiatives, they are important examples of financial experimentation in the global South. These two efforts are joined by a broad counter-hegemonic goal of reducing the role of the dollar in the economies of Latin America, developing arrangements that more closely knit the region's economies together, and creating institutions of trade and finance that reflect the political voice(s) of Latin America's diverse leadership.

In Africa

Within East Africa, one nascent initiative bears mention.[53] Members of the East African Community (Burundi, Kenya, Rwanda, Tanzania and Uganda) plan to launch the East African Community Monetary Union (EACMU) and a common market. Current challenges to this initiative include sudden inflationary spikes in the region, issues relating to the timeline of the unionization process, and new concerns about currency unions that have arisen in the context of European difficulties.[54]

Delay is perhaps for the best since the architecture of the EACMU cannot be described as developmental regionalism. Indeed, it is of a piece with the Eurozone in its impulse towards fiscal contraction and low inflation. East African member nations have agreed to macroeconomic convergence criteria that limit budget deficits and inflation to 5 percent of GDP.

The architecture of the EACMU is thin insofar as there are no set criteria for reserve adequacy, and no provisions for reserve pooling, crisis management or fiscal policy harmonization (Kamau 2011). It aims to liberalize capital flows and harmonize capital market infrastructure among members, including regulations, taxation and accounting (Yabara 2012). At this point, it bears little resemblance to the goals and structure of the CMIM and the Latin American initiatives discussed earlier.

In the Arab World

The Arab Monetary Fund (ArMF) was founded by central bankers in 1978. Today it has 22 members and a relatively small amount of paid-in capital, approximately $2.8 billion.[55] It takes deposits from member countries' central banks and

51 A systematic discussion of the ALBA, the BDS and the CPCR can be found in UNCTAD 2011b (see also UNCTAD 2009). On ALBA, see www.alba-tcp.org, www.sucrealba.org, www.bancodealba.org and Venezuelaanalysis.com.

52 After the summit, the Nicaraguan President committed 1 percent of the country's reserves to the ALBA Bank. The head of the Nicaraguan Central Bank reportedly resigned in objection to this decision.

53 Metzger 2008 surveys the scope of regional economic integration, and the mechanisms of trade and financial cooperation in Africa.

54 I thank Leonce Ndikumana for insights and resources on this currency union. For recent discussions that suggest the plan is on a slow track, see IMF 2012 and Ihucha 2012.

55 Members comprise Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, State of Palestine, Sudan, Syria, Tunisia, United Arab Emirates and Yemen. Description of the ArMF draws particularly on McKay, Volz and Wölfinger 2010 (pp. 20-22) but also on UNCTAD 2007 (Chapter 5), Corm 2006, Ciociari 2011 and Eichengreen 2011 (p. 114).

monetary agencies. The ArMF has a broad developmental and financial stability remit, like FLAR and the main regional development banks (see below). The parallel with FLAR results from the breath, formalized operations, size of secretariat and institutional tenure of the ArMF. Its broad policy mandates include the provision of financial support to members experiencing balance-of-payments problems; the promotion of exchange rate stability, monetary policy coordination, financial market deepening, intraregional trade and current account liberalization; the eventual establishment of a common currency; and, since 2009, support for countries facing short-term liquidity problems caused by difficulties in accessing international financial markets during the global crisis.

The ArMF has several different lending facilities. 'Automatic' and 'ordinary loans' finance balance-of-payments deficits. The former grant up to 75 percent of paid-in capital, while the latter grant up to 100 percent and are combinable with automatic loans to reach 175 percent. 'Extended loans' are for cases when the balance-of-payments problem is of a structural nature, and therefore requires a longer repayment period running up to seven years. 'Compensatory loans' are expected to bridge unexpected shortfalls in export receipts. A 'structural adjustment facility' was launched in 1997 to support reforms in government finance, and financial and banking systems, and a short-term liquidity facility was created in 2009. These different loan types are disbursed with varying degrees of speed. Automatic loans have a rapid processing time since they neither require a country mission nor any sort of conditionality. Ordinary and extended loans generally are disbursed within one to six weeks. They do require a mission, conditionality and monitoring, but conditions are less stringent than those associated with the IMF (Corm 2006, p. 309). ArMF's 50-person technical staff is considered highly competent; however, there is some question about whether monitoring is sufficiently stringent in view of overdue interest of $188 million, as noted in the fund's 2009 annual report (see McKay, Volz and Wölfinger 2010).

From its establishment through the end of 2009, the fund made 146 loans totalling $5.6 billion to 14 countries. Around three-quarters of loans were for balance-of-payments support (ibid.).[56] In 2009, the fund gave two loans for stabilization purposes of around $140 million, the largest amount for such purposes since 2001 (ibid.). In the same year, it granted five loans for $470 million under the new short-term liquidity facility (ArMF 2009).

The ArMF's structure is similar to that of the IMF and other multilateral development banks. Country votes on the Executive Board are in proportion to the size of contribution. There are eight voting seats; three countries hold over a third of the votes—Saudi Arabia has 13.58 percent, and Algeria and Iraq each possess 11.96 percent.

The ArMF has no formal relation to the IMF, and does not borrow from it or other multilateral institutions. Its Articles of Agreement charge it with providing complementary lender-of-last-resort finance to members experiencing balance-of-payments difficulties. For this reason, members are expected to seek complementary support for ordinary and extended loans from regional and multilateral institutions. This explicitly complementary role no doubt reflects the small pool of resources presently available to the ArMF. These can surely be increased, given the foreign exchange and sovereign wealth fund assets possessed by the oil-exporting nations (see section 4). Nevertheless, the complementary role envisioned by ArMF's architects is also consistent with the idea of a layered, multidimensional financial architecture.

Regional (multilateral) development banks

Prior to the current crisis, the Asian Development Bank (ADB) was already lending more than the World Bank inside the region, and the IADB and FLAR were already providing more crisis-related financing in South America than the IMF (Woods 2010). The crisis accelerated this trend. The ADB, IADB and the African Development Bank (AfDB) have responded in their regions in some cases more quickly and with larger loans than those from the IMF and the World Bank. They have also introduced new types of temporary rapid financing programmes and countercyclical lending facilities to support developing and low-income countries (Chin 2010, Woods 2010).

The activism of the main regional development banks was facilitated by the G20's decision in April 2009 to devolve a portion of the new IMF financial commitments to the main regional institutions.[57] Indonesia proposed in April 2009 that some of the financing go to the ADB. With G20 backing, the ADB introduced the Counter-cyclical Support Facility to provide up to $3 billion to Asian economies affected by the crisis. In total, the ADB approved $8.8 billion in crisis support through a range of programmes (ADB 2009). Between 2008 and 2009, ADB's lending commitments grew by 42 percent and disbursements by 33 percent (Ocampo et al. 2010). Regional development banks in other parts of the developing world

56 Data reported by UNCTAD 2007 (Table 5.2) show that in 2005 to 2006 only 6 percent of its loans were for trade facilitation, while 74.2 percent were for balance-of-payments purposes.

57 Details in this paragraph are from Chin 2010, except where noted.

quickly followed this example, and were granted a portion of the new funds committed to the IMF to create regional lending facilities for rapid countercyclical support (Chin 2012).

The IADB established a $6 billion rapid disbursal emergency fund to support the countercyclical efforts of member governments. It also expanded callable capital by $4 billion; increased its commitments by 38 percent in 2009 (having already raised disbursements significantly in 2008), and disbursed 60 percent more in 2009 than in 2008 (Ocampo et al. 2010, p. 51). The IADB also signed an agreement with the Export-Import Bank of China to provide up to $200 million in trade finance for commerce between China and Latin America, with financing allowed in a range of currencies (IADB 2011b).

The AfDB established a $1.5 billion emergency liquidity facility. Between 2008 and 2009, it increased its lending commitments by 137 percent and its disbursements by 125 percent, the largest spike in disbursements of any of the main regional development banks (Ocampo et al. 2010, p. 52). The AfDB also deployed lines of credit to two banks in the region, approximately $62 million to Banco Africano de Investmento in Angola and $12 million to the Bank of Kigali (AfDB 2011b). In June 2011, the AfDB and the ADB began to cooperate with one another on the provision of finance to support African trade (ADB 2011).[58]

During the crisis, the main regional development banks provided a good deal of countercyclical support through a variety of mechanisms. Though they are often only thought of as project lenders, they provided a significant and growing amount of ODA, a trend in line with the transformed or expanded operations of other institutions during the crisis. In 2009, the regional development banks together provided 18.4 percent or $3.4 billion of the ODA provided by all multilateral institutions, a 42 percent increase over the same figure in 2005 (see Table 1). ODA from regional development banks may become more important to low-income countries in the coming years, as may South-South ODA (see below) as policymakers in wealthy countries curtail aid commitments because of domestic economic and political challenges.

Drawing on a proposal first advanced by World Bank President Robert Zoellick (2008), Griffith-Jones (2011, Section III) and UNCTAD (2011a, Chapter 4) propose that the activities of existing and new regional and subregional development banks could be bolstered significantly by a modest reallocation, on the order of 1 percent, of the growing pool of sovereign wealth fund assets held by developing countries (see Section 4 for discussion of this proposal and southern sovereign wealth funds). These new resources could be utilized to enhance the traditional lending operations of the main regional development banks, but they might also be used to scale up ODA to low-income countries.

Table 1. Multilateral ODA to the least developed countries, gross disbursements (millions of 2009 dollars, constant price)

	2005	2009
Total multilateral donors	13,787.0	18,812.0
Main regional development banks	1,783.4	3,468.2
African Development Bank	173.6	148.9
African Development Fund	1,017.8	18,52.2
Asian Development Fund	510.3	896.7
Caribbean Development Bank	…	14.2
Inter-American Development Bank, Special Fund	81.6	556.3
Main regional development banks as a share of total multilateral ODA (%)	12.9	18.4

Source: UNCTAD 2011a, p. 115.

BILATERAL FINANCIAL INITIATIVES ACROSS THE DEVELOPING WORLD

The current crisis has stimulated numerous bilateral financial mechanisms across the global South. These provide diverse types of financial support to developing countries outside the framework of the IMF, the United States, and the regional and subregional institutions discussed above. They comprise currency swaps, trade finance, ODA, loans and lines of credit. For the most part, they do not involve emergency liquidity support.[59]

BILATERAL CURRENCY SWAPS

Of all of the nations in the global South, China has been most active in negotiating currency swaps.[60] While the swaps are

58 See Ocampo et al. 2010 and Griffith-Jones, Tyson and Calice 2011 for discussion and data on the European Investment Bank's response to the crisis.

59 Chin 2010 notes the enduring reliance on bilateral and national finance over regional finance in the first two years of the crisis. Recent developments have caused him to take greater note of regionalist impulses (Chin 2012). Eichengreen (2011) highlights the continued centrality of bilateral responses to which the United States is a party, over and above South-South bilateralism.

60 The Bank of Japan and especially the US Federal Reserve were active in negotiating currency swaps during the crisis. Since October 2008, the Federal Reserve has opened temporary swap agreements with 14 central banks, including those of Brazil, Canada, Mexico, New Zealand, the Republic of Korea and Singapore. The swaps with Brazil, Mexico, the Republic of Korea and Singapore in October 2008 were each for $30 billion. Brazil and Singapore did not end up drawing on the facility, Mexico drew on it once, and the Republic of Korea drew on it over several quarters (Moreno 2011). The US swaps with the Bank of Canada and the Bank of Mexico built on longstanding arrangements.

no doubt driven by many aims, most important among them is the protection of bilateral trade flows and the maintenance or expansion of market access, including to strategic natural resources. The swaps allow the country's trading partners to maintain reliable access to the currency during the economic downturn, so they can continue to pay for Chinese imports in RMB rather than US dollars. They also ensure that Chinese firms can pay for goods from trading partners in their currencies. They may well have been motivated by precautionary efforts to stave off actual or anticipated foreign exchange and liquidity pressures, especially in important current and future trading partners. Foreign policy considerations are another likely driver in that the swaps provide a means to expand influence in the developing world, cement foreign relations and internationalize the domestic currency.

China's swaps extend over three years and include deals of over 1.3 trillion RMB with over 15 countries. These have allowed importers and exporters to settle 2.7 trillion RMB in cross-border trade deals in RMB (xinhuanet.com 2012). As of June 2011, China has signed three–year currency swaps with Argentina (70 billion RMB), Belarus (20 billion RMB), Hong Kong (400 billion RMB), Indonesia (100 billion RMB),[61] Malaysia (80 billion RMB), Mongolia (5 billion RMB), Pakistan[62] (10 billion RMB), the Republic of Korea (360 billion RMB),[63] Singapore (150 billion RMB), Thailand (70 billion RMB) and Uzbekistan (700 million RMB) (Chinaoffshore.com 2012, ft.com 2011c, *Financial Times* 2011c, Bloomberg.com 2011a).[64] China's bilateral swap arrangements do not challenge the role of the IMF or the dollar directly since the central banks of these countries cannot use the RMB to intervene in foreign exchange markets, import merchandise from third countries,[65] or pay foreign banks or bondholders because the currency remains unconvertible (Eichengreen 2009).

61 The Chinese-Indonesian swap was negotiated after the US Federal Reserve rebuffed Indonesia (Sussangkarn 2011, p. 214).

62 Pakistan and Turkey negotiated a bilateral three-year currency swap equivalent to $1 billion in local currency in November 2011 (Dawn.com 2011).

63 The Republic of Korea also negotiated a two-year $20 billion swap with Japan (Chin 2010).

64 In July 2009, China started to allow selected firms in five Chinese cities to use RMB to settle transactions with businesses in Hong Kong, Macau and ASEAN countries. Foreign banks are allowed to buy or borrow Chinese currency from mainland lenders to finance such trade. During the crisis, Brazil and China also signed an agreement to settle trade using the RMB and the real.

65 The only exception is that the RMB can be used in cross-border trade with China's immediate neighbours or the special administrative regions of Hong Kong or Macao.

OTHER TYPES OF SOUTH-SOUTH BILATERAL FINANCIAL FLOWS

There has been a significant increase in South-South ODA during the current crisis, although it is difficult to get comprehensive, precise statistics for two reasons. First, aid by developing countries is often channelled via a range of instruments (such as grants, concessional loans, mixed loans, export-import banks and technical assistance). Second, Brazil, China, India and South Africa do not report to the OECD-Development Assistance Committee, and hence OECD statistics on South-South ODA do not include flows from them.[66] (OECD data do include ODA from the Republic of Korea, Thailand, Turkey, the United Arab Emirates, other Arab countries and related multilateral institutions.[67]) Despite data limitations, it is indisputable that Brazil, China, India and South Africa have become critically important in the provision of ODA in the developing world, particularly following the establishment of new initiatives that promote these efforts, such as the Forum on China-Africa Cooperation in 2000, the Africa-India Forum Summit in 2008, and the India, Brazil and South Africa Partnership in 2003 (UNCTAD 2011a, Chapter 4).

At the end of 2011, the China Development Bank (CDB) had assets that exceeded $952 billion or over 6 trillion RMB (CDB 2011). It lent actively in the domestic market during the crisis. In 2010, domestic lending focused on infrastructure, transportation, energy, agriculture and forestry; 2011 lending was heavily weighted towards housing, water, rural development, and various 'green' initiatives, such as green credit, low carbon finance and solar energy (ibid.).

During the crisis, China launched a variety of bilateral financial initiatives in Asia, Africa, Latin America and the former Soviet bloc countries through its 'policy banks', especially the CDB, but also the China Export-Import Bank. Between 2009 and 2010, the two banks lent at least $110 billion to developing country governments and companies, a figure that exceeded total World Bank loans to the developing world by $10 billion from mid-2008 to mid-2010 (*Financial Times* 2011a). By the end of 2010, the CDB had made loans to more than 90 countries, whose total indebtedness reached $141.3 billion (Rosario and Runfei 2011). Examples of China's loans to the developing world include a $2.2 billion loan for a gas pipeline in Uzbekistan in 2011, $85 million for modernization of coal mines in Ukraine in 2012, $50 million

66 See Bräutigam 2009 for a meticulous empirical examination of China's ODA to Africa.

67 OECD data show that South-South ODA was over $900 million in 2009, which represents a four-fold increase in real terms over the last decade (UNCTAD 2011a, Chart 34).

for electronic infrastructure in Peru in 2011, $200 million for infrastructure in Vietnam in 2011, at least $1 billion to build a hydroelectric plant in Ecuador in 2009, and a $10 billion loan to Brazil's national oil company in 2009. In 2009, China doubled a development fund in Venezuela to $12 billion.[68] Unsurprisingly, these loans and lines of credit appear to be driven by the same range of objectives as the country's currency swaps, particularly access to key resources and markets.

Bräutigam (2009) provides extensive details on China's loans (and other financial flows) to Africa. By the end of 2011, the CDB had made $7 billion in loans to more than 30 countries in Africa (allAfrica.com 2012). Gallagher et al. (2012) provide equally exhaustive analysis of China's new role as a dominant lender to Latin America.[69] They find that since 2005 China has provided loans of over $75 billion to Latin America. Two-thirds of these were directly related to oil, and 91 percent went to just four countries—Argentina, Brazil, Ecuador and Venezuela.[70] China's $37 billion in loans to Latin American in 2010 were more than the combined loans made to the region that year by the World Bank, the IADB and the US Export-Import Bank.

CDB loans do not carry the same conditionalities as those from the Bretton Woods institutions. But Chinese loans are not without strings, such as requirements that funds be used to purchase Chinese goods (ibid.). Gallagher et al. also find that the interest rates on loans offered to Latin American borrowers by the CDB are generally higher than those of the World Bank. This finding challenges the conclusion that South-South loans are in all respects more advantageous to recipients than loans from regional or multilateral sources.

Brazil's National Bank of Economic and Social Development (BNDES) was founded in 1952; it eclipses all other national lending institutions in Latin America in terms of its assets. As of 30 September 2011, assets totaled $341.9 billion (BNDES 2011), placing it far ahead of the region's major multilateral bank, the IADB, which had assets of $87.2 billion in December 2010, and the World Bank, which had assets of $282.8 billion in June 2010 (Foldes Guimaraes 2011, p. 19). The only development bank with larger assets is the CDB, which had $774.1 billion in December 2010, compared to $329 billion at BNDES (ibid.). As a federal institution, BNDES is charged with providing long-term finance to Brazilian firms, primarily private ones, and also coordinates actions with private banks to support distressed firms (Torres Filho 2011). One of its most important goals is to support the globalization of Brazilian firms via exports or operations abroad (Ocampo and Titelman 2009-2010).

BNDES has been an extremely active lender during the crisis. It played a critical role in providing finance when private domestic lenders in Brazil contracted their operations in 2008 (Chandrasekhar 2011) and all but froze lending from September 2008 to January 2010 (Torres Filho 2011).[71] Taken together, public banks in Brazil provided 73 percent of all credit growth during this period. BNDES alone provided 37 percent; other state-owned banks provided 36 percent; private banks provided only 27 percent (ibid.). This speaks to the countercyclical role played by BNDES, though the institution is often seen more narrowly as a development finance institution. Between mid-2009 and mid-2011, BNDES lending to the country's producers grew by 70 percent and the total volume of its lending was equal to 3.3 percent of Brazil's GDP (Ghosh 2011). As a result of these activities, the ratio of credit to GDP rose after the crisis (Chandrasekhar 2011, p. 8). In 2010, BNDES lent a record $96.3 billion, which was 33.3 percent higher than the previous record in 2009 (Foldes Guimaraes 2011, p. 3). Notably, 67 percent of bank loans with a maturity of over five years were made by BNDES in December 2009 (Torres Filho 2011), an important contribution given that long-term credit becomes especially scarce during crises.

BNDES has moved outside the country and the region. In August 2009, it opened its first branch office in South America, in Montevideo, Uruguay (Chin 2010, p. 710). BNDES loans to developing countries from 2008 through the first quarter of 2010 reached $1.5 billion, though foreign aid from Brazil is channelled via other mechanisms as well, and its rate of new lending now far exceeds that of the World Bank disbursements.[72] Since the start of the current crisis, BNDES has lent some $15 billion to countries in the region (Woods 2010).

As with the CDB, it has provided a growing amount of finance to countries in the Caribbean and Africa (Chin 2010, p. 697). As of 2010, BNDES had approximately $2 billion of projects in

68 Details on these Chinese loans are drawn from allAfrica.com 2012; Interfax news agency 2011, 2012; Asia Pulse 2011; Thai Press Reports 2011; Romero and Barrionuevo 2009; and Chin 2010. See Bräutigan 2009 and Gallagher et al. 2012 for further examples.

69 The findings of Gallagher et al. (2012) regarding Chinese loans to Latin America are consistent with the earlier study by Bräutigam (2009) on the country's loans to Africa.

70 Argentina, Ecuador and Venezuela have difficulty accessing international capital markets. See Gallagher et al. (2012) for details on the terms and composition of some of these loans.

71 The Brazilian Government made a loan of approximately $55 billion to BNDES during the crisis, a capital injection that certainly facilitated the institution's ability to continue lending (Torres Filho 2011).

72 See Ghosh 2011 and *The Economist* 2010 on BNDES and Brazilian aid more generally.

Africa (Foldes Guimaraes 2010),[73] some of which were made possible by a 2008 stimulus programme for Brazilian companies active in Africa, an initiative known as Program Integration with Africa (World Bank and IPEA 2011, p. 5). Examples of BNDES' loans to facilitate joint ventures in Africa include $500 million to a Brazilian and Angolan venture to use sugarcane to produce sugar, ethanol and power, and $260 million to a Brazilian and Ghanaian initiative to produce ethanol (ibid., p. 81).

BNDES has also begun to cooperate with other multilateral and regional development banks. It signed a financial cooperation agreement with the development banks of China, India, the Russian Federation and South Africa as part of its continuing engagement with the BRICS countries (BNDES 2011). The World Bank has also partnered with BNDES on new financing packages—it arranged for $4 billion in new loans, including a three-way loan for Brazil in partnership with the IADB and BNDES (Chin 2010, p. 710).

The crisis seems to be stimulating South-South bilateral financial initiatives in one other way, which concerns efforts to settle trade without using the US dollar as a vehicle currency. As noted previously, China has been pursuing this measure, and Argentina and Brazil have established a mechanism for settling their trade transactions with one another in their own currencies.

In October 2008, Argentina and Brazil began operating a bilateral System of Payment in Local Currency (SML), which allows exporters and importers from both countries to settle their transactions in Argentine pesos and Brazilian real for transactions of up to 360 days (Gnos and Ponsot 2009). Under this settlement mechanism, exporters can set prices in their home currency, and thus be insulated from foreign exchange risk, particularly because the transactions clear relatively quickly. In practice, the SML tends to involve Brazilian exporters (Argentinean importers). In the 16 months before January 2010, 94 percent of transactions cleared through the SML were Brazilian (UNCTAD 2011b, p. 40). To this point, use of the SML has been extremely modest: Only 1.1 percent and 2.2 percent of bilateral trade was cleared through it in 2009 and 2010, respectively (Ocampo and Titelman 2012, p. 11). However, the mechanism has proven useful to small- and medium-sized enterprises, since their size makes it difficult and costly to access the foreign exchange market (UNCTAD 2011b). The expectation is that other members of MERCOSUR will utilize the SML. When and if this occurs, it would reduce the role of the dollar in the region more broadly.

73 This figure includes trade financing through an export-import subsidiary and foreign direct investment by Brazilian companies supported by BNDES.

SUMMING UP: TRANSFORMATIONS ACROSS THE FINANCIAL ARCHITECTURE OF THE GLOBAL SOUTH

In a variety of ways, the financial architecture of the global South has evolved during the current crisis. Institutions and arrangements are best seen as part of a gradual process of financial transformation. These innovations are not likely to displace or even challenge the Bretton Woods institutions. It is best to think of them as complementing and deepening the global financial architecture. To the extent that they do so, they may also result in changes in the Bretton Woods institutions.

Reflecting on the diverse, explicit objectives of the institutions and arrangements considered here reveals that these range from multilateral reserve pooling, to the multilateral provision of liquidity to enhance financial stability, to longer term project or development finance, to support for regional trade and/or financial integration, and to support for new currencies and payment arrangements that may ultimately reduce the centripetal role of the US dollar. Table 2 summarizes somewhat imperfectly the key findings of Section 3.

Some institutions have a rather narrow set of stated objectives (e.g., multilateral reserve pooling and the provision of liquidity as with the CMIM, support for intraregional trade as with the CPCR); others have multiple objectives (e.g., the provision of liquidity and development finance as with the main regional development banks, development finance and support for trade integration as with BNDES and the CDB). Still others have quite a broad range of objectives (as with the ArMF). The activities of these institutions and arrangements have evolved rapidly during the current crisis, although some, such as the BDS, ALBA, the EACMU and the currency vision of the ArMF, are in the earliest stages of development. It has been clear that the fulfilment of one explicit objective, such as the provision of development finance or support for trade integration, can promote financial stability.

Dissatisfaction with the governance and conditionality of the Bretton Woods institutions has played an important catalysing role in southern initiatives. As a result, some have diverse or even complicated decision-making structures. This reflects the necessary and real tension between two pressures: the demands of larger countries that provide the bulk of financial support, versus the commitment to a greater degree of inclusiveness when it comes to smaller, poorer countries. The matter of 'getting conditionality right' continues to be a key challenge. Some institutions have renounced it altogether, as in the nascent BDS, while some have conditionality in certain circumstances (e.g., the ArMF and the CMIM). Some

Table 2: The explicit goals of diverse aspects of southern financial architecture

	Explicit Goals					
Institution/Arrangement	Multilateral reserve pooling	Provision of liquidity/ countercyclical financial support	Project/ development finance	Trade and or financial integration	New currency	De-dollarization efforts via local currency bonds or payment mechanisms
CMIM		*				
FLAR				√	√*	
CAF			√	√		√*
CPCR						
Brazil/Argentina SML				*		√*
BDS	P*	P*	P*	P*	P*	P*
ALBA	√	P		P	√*	√*
EACMU					P*	
ArMF					P*	
Main regional development banks (AfDB, ADB, IADB)						
Bilateral finance through CDB and BNDES						√*
Bilateral currency swaps among LDC central banks						√*
South-South ODA			√			

Note: See list of abbreviations on p. 3 of this paper; √=action undertaken; √*=see limitations as described in preceding text; P=planned for the future; P*=planned, though implementation is uncertain. (In the case of BDS, liquidity provision and reserve pooling are often mentioned in connection with future operations of the nascent institution, though these functions appear to have been dropped from its institutional mandate.)

have a surveillance apparatus that works with borrowing governments in ways that are distinct from the IMF's top-down approach (as in FLAR). Others are actively wrestling with the issue, as with the CMIM.

Among those regional and subregional institutions that do deploy some form of conditionality, there is a greater emphasis on pragmatism over ideology, and on ensuring that conditionality is narrow and appropriate to the country. This is one important benefit of a more devolved financial architecture. Institutions that lend closer to home are more likely to design programmes that are politically sensitive and economically appropriate. And evidence from FLAR and CAF suggests that what may be seen as 'light touch surveillance' does not necessarily lead to moral hazard. Recall that loan defaults have never occurred in FLAR and only very rarely in CAF. The extent to which these agreements produce alternative conditionalities might mean that the IMF can learn and adjust its notions of conditionality, or some degree of institutional competition might force it to do so.

4. UNDERWRITING RELATIVE AUTONOMY: RESERVE ACCUMULATION AND SOVEREIGN WEALTH FUND ASSETS IN THE GLOBAL SOUTH

In a most remarkable twist of fate, and reflecting how much the world has changed, some of the same developing countries that used to be unwilling clients of the IMF now find themselves being courted for a second time by the institution to assist with crisis alleviation in Europe (see Section 2). Never one to miss a chance to note ironies, Brazil's Finance Minister Guido Mantega quipped during IMF Managing Director Lagarde's visit to the country: "It's a a great satisfaction to us that this time the IMF did not come to Brazil to bring money like in the past but to ask us to lend money to developed nations" (ft.com 2011a).

As discussed in Section 1, the experience of the East Asian crisis and IMF intervention has had powerful effects well beyond the region. Not just Brazil and China, about which we hear so much, but also Argentina, the Republic of Korea, the Russian Federation, South Africa, Turkey and several other rapidly growing developing countries have amassed massive pools of foreign exchange reserves to enhance financial stability and self-insure against future IMF conditionality. This is often referred to as the precautionary or self-insurance motivation for excess reserve accumulation. Large holdings are held by governments to reduce the likelihood that speculators will identify the national currency as vulnerable to depreciation. They give policy-makers the means to protect the national currency if a speculative attack is nevertheless initiated, and obviate the need to turn to the IMF in the face of economic turmoil. Foreign exchange reserve over-accumulation is also intended to facilitate and protect export-led growth strategies, permitting sterilized interventions to maintain an undervalued exchange rate. This is often referred to as 'modern mercantilism' (Ghosh, Ostry and Tsangarides 2012).

From 2000 to the third quarter of 2011, global foreign exchange reserves went from $1.9 trillion to $10.1 trillion, a 431 percent increase (see Table 3). Emerging and developing countries with reserves of $6.8 trillion in the third quarter of 2011 accounted for 74.1 percent of the increase in global reserves during that time. Foreign exchange reserve holdings relative to GDP have also increased dramatically over the last three decades. In the 1980s, holdings by developing countries were equal to about 5 percent of their GDP. This figure has doubled every decade since then, reaching around 25 percent by 2010 (ibid., p. 3). In stark contrast, in 2000 OECD countries held reserves of $1.3 trillion or 5.1 percent of GDP. By the start of 2011, OECD reserves had grown to $3.4 trillion or 8.1 percent (Dadush and Stancil 2011). From 2000 to the start of 2011, the nominal stock of foreign exchange reserves in developing countries increased from around $750 billion or 11 percent of GDP to nearly $6.3 trillion or 29 percent (Dadush and Stancil 2011). Reserve holdings are highly concentrated within particular developing countries (see Table 4). Over 90 percent of developing country reserves are in the 20 largest holders, which now have enough reserves to cover over a year of imports or their short-term debt nearly five times over (ibid.).

The over-accumulation of reserves by some developing and emerging countries has been made possible by a variety of circumstances: the boom in commodity prices; the ability of some countries to maintain current account surpluses; the persistent appetite for imported energy, low-cost consumer goods and capital goods in wealthy countries (itself a consequence of many factors, such as deindustrialization, energy policy, income inequality and wage compression); and the need to find an outlet for the vast pools of liquidity created during the recent long boom.[74] The hoarding of

Table 3: Official foreign exchange reserves: advanced versus emerging and developing economies (US $ billion)

	2000	2005	2008	2009	2010	2011 (3rd quarter, prelim.)
World Total	1,936.2	4,320.1	7,337.3	8,162.5	9,258.1	10,176.6
Advanced economies	1,217.2	2,078.7	2,491.4	2,778.8	3,092.7	3,335.0
Emerging and developing economies	719.0	2,304.4	4,950.4	5,596.9	6,481.2	6,841.6

Source: IMF, COFER database.

foreign exchange reserves has important opportunity costs for nations holding them and also for other developing countries, as Rodrik (2006) and others have argued (see also IMF 2011). Resources held in foreign reserves might be more productively deployed, such as by lowering the cost of longer term finance in developing countries, or financing national and/or regional initiatives that ameliorate economic and social ills and promote long-term productive capacity. This might involve a significant scaling up of the contributions made to existing and new national, subregional and regional development banks (per the proposal by Griffith-Jones 2011). Reserves could also be used far more efficiently to promote regional and subregional financial stability by significantly increasing resources for reserve pooling through the CMIM, FLAR and the ArMF, nascent initiatives such as ALBA and the BDS, and other arrangements yet to be developed (see Section 3). Finally, reducing the tendency for excess reserve accumulation would benefit global financial stability, insofar as global imbalances contribute to fragility.

Data on official reserves held by developing countries do not provide a complete picture of resources available for the purposes discussed above. Indeed, as Griffith-Jones (ibid., p. 9) correctly notes, some developing countries also hold massive pools of assets in sovereign wealth funds, which tend to be managed autonomously from official reserves. Developing countries with large reserve holdings generally transfer a portion of them to sovereign wealth funds so as to maximize returns on these assets. Sovereign wealth fund managers tend to invest in longer term, less liquid assets, though Norway's sovereign wealth fund is exceptional since it reportedly holds 40 percent of its assets in equities (Griffith-Jones and Ocampo 2008). While the explicit function of sovereign wealth funds is not to promote financial stability, a speculative attack against a country's currency is less likely to occur if speculators know that a government's assets are so large as to justify cleaving off some of them to capitalize a sovereign wealth fund.

74 The first two of these factors is treated extensively in Aizenman and Lee 2008.

Table 4: Official foreign exchange reserves held by developing countries in 2010, regional breakdown (US $ billions)

Central and Eastern Europe	**335.5**
Commonwealth of Independent States	**566.8**
Russian Federation	456.2
Excluding the Russian Federation	110.5
Developing Asia	**3,658.4**
China	2,889.6
India	292.3
Excluding China and India	476.5
Latin American and the Caribbean	**651.4**
Brazil	287.5
Mexico	120.3
Middle East and North Africa	**1,107.5**
Sub-Saharan Africa	161.6
Excluding Nigeria and South Africa	85.7

Source: IMF, World Economic Outlook, April 2011.

According to data by the Sovereign Wealth Fund Institute, globally sovereign wealth funds had an estimated $4.3 trillion in assets at the end of 2010. Oil-producing countries hold three-quarters of all these assets. At the end of 2010, developing and emerging economy funds held the majority of assets at $3.5 trillion; $800 billion is held by funds in East Asia.[75] As of March 2011, there were 41 sovereign wealth funds maintained by developing and emerging economies. Ten held assets between $100 and $627 billion. The largest was the Abu Dhabi Investment Authority with $627 billion in assets; the smallest were the Indonesian Government Investment Unit and the Mauritanian National Fund for Hydrocarbon Reserves, each with $300 million in assets.[76] In 2011, the governments of Bolivia, Colombia, India, Panama and Peru began to discuss launching their own sovereign wealth funds (Singh 2011, ft.com 2011b).

Zoellick (2008) suggests the developmental potential of these funds. They could invest 1 percent of their holdings in sub-Saharan Africa, which would increase the availability of long-term finance in the region, and thereby boost investment and growth (see also Ochoa and Keenan 2009). Griffith-Jones (2011, Section III) builds on this idea in estimating that channelling just 1 percent of sovereign wealth fund assets held by developing countries to regional and subregional development banks would increase paid-in capital by $35 billion. This would correspond roughly to an additional lending capacity of over $84 billion. "This figure would be higher than the total lending disbursements to developing countries by all multilateral and regional development banks—including the World Bank, the ADB, the IADB, the AfDB and the external lending of the European Investment Bank to developing countries—in 2009, the year when their lending activities peaked (at $64 billion) due to the extraordinary credit requirements caused by the global financial crisis" (ibid., p. 18).

In sum, the considerable resources in official reserves and sovereign wealth funds in developing countries are often seen to serve different roles—namely, financial stability and exchange rate management in the case of official reserves, investment and return maximization in the case of sovereign wealth funds. But there is no practical reason for thinking of them in such a differentiated fashion. A portion of the resources from both pools of capital could be redeployed to support national and regional public goods; provide stable, low-cost and long-term capital to projects that enhance economic and human development, and productive capacities; promote financial stability and resilience through the expansion of reserve pooling arrangements; and increase the reach of the institutions and initiatives surveyed in section 3. Moreover, the long-term nature of sovereign wealth fund management makes these funds particularly suitable as a source of long-term development finance, the provision of which is especially important during economic downturns when such funds are in short supply.

CONCLUSIONS

Crises generally present opportunities as well as challenges. Sometimes they necessitate fundamental institutional adjustment in a period of productive incoherence, as is the case today. The Asian and current crises have created conditions for new patterns of resource accumulation, a growing diversity of financial architectures across the global South, and shifting power in the governance of development finance. This is an opportune moment for developing countries to press forward with the institutional innovations and experiments surveyed here.

This moment should not be wasted, since the current environment poses many risks for developing economies. Both

75 Data in this paragraph and Table 4 are from the Sovereign Wealth Fund Institute, cited in Griffith-Jones 2011 (pp. 8-9) and UNCTAD 2011a (Chapter 4).

76 Data on sovereign wealth funds are closely held, and their operations are therefore somewhat opaque. The data presented here may well underestimate resources in these funds.

the IMF and the World Bank have recently projected growth slowdowns in the developing world and wealthy nations. Many analysts suggest—quite reasonably—that emerging markets are due for a correction, triggered by the safe haven effect that is bringing capital back to the United States, the overheating of least developed country commodity exporters, the decline in commodity prices, inflationary pressures and bubbles caused by speculation in some developing country financial and real estate markets, the decline of remittance inflows and the weakening of markets for exports. Some have even begun to speculate openly about a possible hard landing for China triggered by the deflation of real estate bubbles and the bad debt problems of its banking system. Capital flows to the developing world have already started to reverse. World Bank Chief Economist Justin Lin recently said: "The largest economy in the world (the EU) is weakening….The message for developing countries is to start preparing" (Lowrey 2012). All of this portends difficult times ahead.

Unlike in the past, any new economic difficulties across the developing world are likely to be met with a wide range of new initiatives and institutional innovations that mark a further break with the crisis responses of the neoliberal era. Just as the Asian crisis laid the groundwork for institutional developments that have deepened in the current crisis, so might this crisis catalyse further innovation along the lines already in place, and in directions not yet imagined, when the next period of instability emerges. To the degree that this happens, the present conjuncture might be seen as one marking a fundamental turn in the developing world towards resiliency to crisis and increased policy space that permits genuine and sustainable human development.

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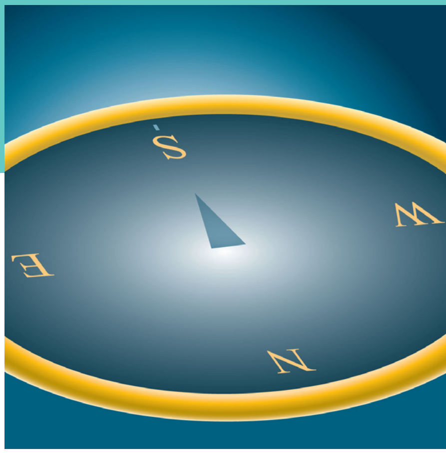

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