[In Armijo, Leslie Elliott and Saori N. Katada, eds. *The Financial Statecraft of Emerging Powers: Shield and Sword in Asia and Latin America.* New York: Palgrave, 2014, pp. 47-76.]

3

Brave New World? The Politics of International Finance in Brazil and India

Leslie Elliott Armijo and John Echeverri-Gent

The financial reputations of Brazil and India have undergone remarkable transitions since the early 1990s. At that time, Brazilian inflation soared beyond a thousand percent annually, following a decade of increasingly desperate, and ultimately failed, emergency stabilization plans. In 1991, India suffered its worst monetary crisis in decades. Panicked investors tried to take money out of the country, very tight capital controls notwithstanding, while the government was forced to devalue the rupee by almost 19 percent. Only 20 years later, much had changed. By the time of the global financial crisis (GFC) of 2008–2009, both countries were acknowledged as significant global economic and political players, and in November 2008 Brazilian President Lula da Silva and Indian Prime Minister Manmohan Singh joined a select group of other senior world leaders at the first G20 Summit.

This chapter inquires into the ways in which Brazil and India have sought to employ financial statecraft (FS) amidst the momentous global – and national – changes since the second millennium. As the world gradually evolves toward a more decentralized distribution of power and resources, the two provide a particularly apt comparison. Among the rising economies, only China clearly is likely to join the United States as a superpower. At the same time, an emerging tier of countries, including Brazil and India, will become increasingly consequential. This chapter asks how their relative, if incremental, ascendance has been reflected in the FS choices of these two intermediate powers. This volume's introductory chapter hypothesizes that global rebalancing will be reflected in the emergence of different types of FS. Do we see the expected patterns reflected in the financial policy choices of the governments of Brazil and India?

We argue that systemic, rather than bilateral, FS is now the dominant modus operandi of leaders in both countries, and that Brazil and India each engage with global markets and financial governance institutions and

practices both defensively and offensively. However the style – and to some extent also the substance – of recent Brazilian forays into FS has been notably more assertive and challenging to the status quo global financial powers than has been the case with India's rather circumspect and polite waving of its international financial sword.

The chapter's first section details our reasons for comparing the two large emerging economies. Section two considers bilateral FS, today much less important to either country than it was during earlier eras. Sections three and four consider, respectively, defensive/systemic and then offensive/systemic FS. Our penultimate section accounts for the differences between Brazilian and Indian international financial and monetary policymaking by reference to three factors: their relative international economic vulnerability, regional geopolitics, and domestic politics. The conclusion addresses this volume's larger themes.

Brazil and India: structural parallels suggest similar strategies

Through the 1980s, state-promoted industrialization was the dominant development strategy in both countries, accompanied in each by pervasive government intervention in banks and financial markets. Both Brazil and India significantly liberalized trade and finance in the 1990s. Subsequently, growth accelerated in each, becoming steady in Brazil and positively exuberant in India. By 2007, on the eve of the GFC, each had become a large emerging market of roughly similar size, Brazil with a GDP of $1.4 trillion and India with a GDP of $1.2 trillion, both calculated at market rates. When measured at purchasing power parity, India's GDP exceeded Brazil's.[1]

The two countries' financial structures also were similar by 2007, on at least four different dimensions. First, both nations had widely respected, although not formally independent, central banks and recent histories of stable, single-digit inflation, although Brazil had finally tamed its chronic hyperinflation only in the mid-1990s (Armijo 2005). After its currency, the *real*, floated in 1999, the Brazilian Central Bank (BCB) instituted inflation-targeting. By the late 2000s, BCB officials, typically drawn from the private financial sector or academia, regularly received kudos from their peers worldwide. The BCB's most important policy instrument has been the policy interest rate, which the open market committee of the central bank announces directly and manages via SELIC (Special System for Settlement and Custody), its open market trading system.

India's central bank, the Reserve Bank of India (RBI), was founded in 1935 under the British. Historically committed to holding inflation to single digits and maintaining exchange rate stability, the RBI usually has been led by career civil servants with financial expertise, appointed by the Ministry of Finance. Until 2000, the RBI targeted

the banking sector's reserve money – composed of the Cash Reserve Ratio (CRR), which requires banks to maintain at least 5 percent of their demand liabilities in noninterest bearing accounts, and also the statutory liquidity ratio (SLR), which long required banks to hold not less than 20 percent of their demand and time liabilities in cash, gold, or government securities – as its primary monetary policy instrument. In times of stress, such as the balance of payments crisis of 1990–1991, the RBI would raise total reserve requirements to over 50 percent of ~~total~~ deposits. India's central bank reduced its reliance on these cruder instruments during the 1990s, and in 2000 it introduced the Liquidity Adjustment Facility which enabled it to use the treasury securities' repurchase rate as a policy interest rate.

Second, both countries have a mixture of public- and private-sector domestic banks, and each maintains both de jure and de facto barriers against foreign banks, although to a lesser degree in Brazil than in India. In the 1990s, Brazil was forced to modernize and privatize its banking sector in a hurry, as inflation's demise revealed waves of illiquid and insolvent banks (Stallings and Studart 2006). Two giant public sector development banks, the BNDES (National Economic and Social Development Bank) and CEF (Federal Savings Bank), remain Brazil's primary sources of long-term finance but are not direct competitors with commercial banks, which focus on working capital loans and financial services. Brazil's commercial banks, now fewer and larger than in the early 1990s, top the list of Latin America's largest. Today's big four display the gamut of ownership structures, ranging from majority public-sector *Banco do Brasil*, to private sector *Itaú* and *Bradesco*, to majority Spanish-owned *Santander Brasil*.

In India, nationalizations of British and other foreign banks immediately following independence, and then again of large Indian-owned banks in 1969 and 1980, brought all of the country's large banks into the public sector. Incremental banking reforms that began in the 1990s have enabled private sector banks to have a limited but growing presence. Nonetheless, as of 2007, over 70 percent of Indian banking assets remained with public sector banks, and financial products, rates, and lending practices remained tightly regulated.

Third, both countries have significant securities markets. Brazil's equity market capitalization, only 5 percent of GDP in 1980, had soared to 113 percent by 2009, while India's jumped from 3 to an astonishing 173 percent of GDP during the same period. However, Brazil's corporate debt market, 19 percent of GDP in 2009, outpaces India's, which is only 4 percent of GDP. Overall, in the decade of the 2000's total financial assets (bank deposits, insurance assets, stocks, and bonds) rose from 164 to 302 percent in Brazil and from 142 to 334 percent in India (Beck and Levine 2000). [2] Among the set of larger emerging economies, both Brazil and India fall somewhere

between the thoroughly privatized and liberalized banking and financial sectors of Mexico or South Korea – and China's state monopoly of banking.

A final structural financial similarity inheres in the size, although not necessarily the composition, of the two countries' links to global financial markets. In 2009, Brazil's total stock of external financial liabilities was 68 percent of GDP – while India's was closely equivalent at 66 percent (Lane and Milesi-Ferretti 2007).[3] Brazil's more liberal inward foreign direct investment (FDI) regime meant that a larger share of its international liabilities were FDI in plants and equipment, while the Indian authorities have preferred to attract portfolio investments, often in assets marketed to the diaspora community. Both countries also built up their foreign exchange reserves following the emerging markets' crises of the 1990s. By 2007, Brazil's were $180 billion, while India's totaled $276 billion.[4]

In sum, in recent years both countries have liberalized notably, while yet retaining a vigorous state financial presence. On one index of financial policy liberalization (ranging from 0 to 100, representing least to most neoliberal), Brazil's score in 2007 was 54.2 and India's 49.1. For comparison, the U.S.' score was 81.3.[5] Both countries floated their exchange rates around the turn of the millennium, Brazil under market duress in January 1999 and India more gradually in mid-2007. All in all, their significant structural financial parallels suggest the possibility of similar choices when it comes to FS.

Bilateral FS: fading or merely transforming?

Until quite recently, neither Brazil nor India expected to be able to compete in international financial markets, nor did their governments expect to shape global financial rules. Their efforts at FS were almost entirely defensive. Financial defense also was typically bilateral, as the threats came from specific creditors and not from systemic contagion.

Prior to ~~the~~ World War II, Brazil's major creditors were Britain, from the early 19th century to the mid-1930s, and thereafter the United States. Successive Brazilian governments negotiated cleverly with these dominant powers over debts, and occasionally direct investments, sometimes quite intentionally playing one foreign creditor off against the other. For example, President Getúlio Vargas in the late 1930s flirted with cooperating with the Axis powers in order to secure more generous aid from the United States as a quid pro quo for providing submarine refueling bases on the northeast Brazilian coast and sending a Brazilian division to fight with the Allies in Italy. In contrast, because India's major creditor, Britain, was also the imperial ruling power, overt bilateral and defensive FS

by India only first came into play during the negotiations over Indian independence in 1946–1947. Britain had purchased extensive supplies from India and other Commonwealth nations during the war, but made payment only into the government of India's sterling account in London, which was frozen until the war's end. At that time, Britain and the soon-to-be independent government of India disagreed over the appropriate sterling–rupee conversion rate for these debts, with each insisting on the rate more favorable to it. India prevailed only when the United States took its side.

Bilateral and defensive FS became less important in both countries in the postwar era, as the protective efforts of the Brazilian and Indian governments were increasingly directed toward monitoring systemic interactions, not bilateral exchanges. For Brazil, the major recent period of bilateral, defensive FS was during the 1980s debt crisis. Brazil took several unilateral steps that its policymakers considered necessary, including a moratorium on debt principal (but not interest) repayments declared in 1987. India's Prime Minister Indira Gandhi engaged in bilateral and defensive FS when she signed the Indo-Soviet Treaty of Friendship and cooperation in 1971 and began accepting foreign aid and political advice from Moscow. In both of these high-profile incidents, the developing country successfully resisted foreign pressure in the short to medium term, although incurring some monetary and reputational costs.[6]

With respect to bilateral and offensive FS, we note that both Brazil's and India's neighbors occasionally have believed that these regionally dominant powers were exercising financial and monetary power aggressively. Brazil in particular has become active as a direct investor in its smaller neighbors, leading to charges of Brazilian imperialism whenever there are conflicts. Nonetheless, Brazilian leaders have tried hard to soft-pedal their dominant position in South America. For instance, when the government of Bolivia in 2008 decided to seize a natural gas field for which Brazil's state petroleum firm, *Petrobras*, had a long-term development lease, Brazil could have exerted compelling financial pressure had it chosen to do so. After all Brazil offered a unique mix of capital, technology, and political acceptability as a foreign investor to the left-leaning Bolivian government – besides being a major market for Bolivian gas. Instead, President Lula da Silva's government decided to take a conciliatory attitude, so much so that Lula received scathing criticism within Brazil. More recently, Brazil's growing bilateral investment and aid ties with sub-Saharan Africa are often noticed, and may well have contributed to Brazil's strong showing in recent international popularity contests, such as the case in 2013 that resulted in the election of Brazilian Roberto Azevêdo as the new head of the World Trade Organization (WTO). However, any specific demands for bilateral

reciprocity are very difficult to demonstrate. India has had fewer opportunities for employing its financial sword in a bilateral conflict, as India's strategy for entering global financial markets has focused less on South–South ties and more on becoming a provider of niche financial services in advanced industrial country markets.

We conclude that, at this point in their histories, both Brazil and India are too large to need to defend themselves against aggressive FS from others, but too small to be able to project significant power on a bilateral basis in the international financial sphere. Their involvement in bilateral FS, whether defensive or offensive, is thus limited.

Systemic defense: between economic liberalism and interventionism

In the 1950s through the 1980s, FS in these two sleepy giants was dominated by defensive and systemic measures to limit and control interactions with global capital markets, including multiple exchange rates (in Brazil through the mid-1960s), an extensive and restrictive licensing system for access to foreign exchange (which in India lasted into the early 1990s), and pervasive capital controls, particularly in India. By the 1990s, many of these long-term systemic financial defenses were looking increasingly outmoded and were slowly dismantled in both countries. Through the 1990s and 2000s, policymakers in both countries promoted incremental domestic financial deregulation and external capital account liberalization, sometimes out of a conviction that freer financial markets would stimulate growth, and other times from a simple need to attract foreign capital. Thus, on the eve of the crisis that began in U.S. financial markets in 2007, financial policies in both Brazil and India had been moving in a liberalizing direction.

More recently, the turmoil generated by the global crisis impressed many policymakers and intellectuals in both Brazil and India with the need for state intervention in the short run while also increasing concerns about the long-term goal of dramatic international financial opening. During the main periods of international contagion in 2008–2009, both governments employed FS to defend against systemic dangers, while nonetheless maintaining their domestic policy autonomy.

Monetary policy during the GFC

The first line of defense against the GFC was monetary policy, which the central banks in each country de facto reoriented from a focus on domestic to an emphasis on international conditions. Although our main interest in this volume lies with interventionist policies that fall outside the standard neoclassical macroeconomic repertoire,

domestic monetary policy provides the essential backdrop. As theorists of the "impossibility trinity" point out, maintaining autonomous monetary policy is problematic in a world of globalized capital markets with high capital mobility and floating exchange rates. The disruption caused by the GFC placed a premium on the capacity for flexible monetary responses.

The two big emerging economies were at opposite stages in their respective domestic monetary policy cycles when the crisis hit, with Brazilian central bankers trying to loosen and their Indian counterparts trying to tighten. The crisis forced both countries to reverse course. In the case of Brazil, the government had been attempting to lower the policy interest rate (SELIC rate) ever since its spike when the exchange rate floated in early 1999. Since then Brazil's nominal and real interest rates had been among the world's highest, as shown in Figure 3.1. High rates not only had historical causes, but also resulted from Brazil's inflation-targeting regime in the context of often expansionary fiscal policy. The ongoing GFC repeatedly forced BCB to tighten, as in mid-2008 through early 2009, and again from about March 2010 through mid-2011, in order to stem panicked investors' "flight to quality." Nonetheless, the peaks were significantly lower than those earlier in the decade, especially the spike in late 2002 just prior to the presidential elections that brought to power an historic leftist, Luiz Inácio ("Lula") da Silva of the Workers' Party (PT).[7] Following the January 2011 inauguration of President Dilma Rouseff, her government began a concerted push to take advantage of low interest rates in major markets in order to return to the long-term goal of bringing Brazil's policy rate down (without risking massive capital flight), while also pressuring banks to reduce their deposit-loan spreads. Yet with worries about the U.S. Fed's intended monetary taper, Brazilian rates again began rising in 2013.

When Lehman Brothers crashed in 2008, India's RBI had been in a period of tightening. As a result of the crash, there was a brief but frightening run on ICICI Bank, India's largest private bank and second largest commercial bank overall, because some observers worried that its U.K. subsidiary might have exposure to subprime assets in the United States. The fears dissolved only when the Reserve Bank announced its unqualified support for all of ICICI's depositors. The ICICI incident was an example of how, despite Indian capital controls, the Indian domestic financial sector was affected by the GFC. Prior to the GFC, many Indian firms had increasingly accessed less expensive foreign markets to fund their short-term capital needs. When the crisis hit and foreign markets froze, these firms were unable to roll over their trade credits and external commercial borrowings. In desperate need of liquidity, the firms began borrowing from the Indian money market. Investors' declining risk appetite deflated

equity and real estate prices and put additional pressure on India's financial institutions. The resultant liquidity crisis contributed to a collapse in the index of industrial production from an average growth rate of 8.5 percent in 2007 to 0.5 percent in the final quarter of 2008 (Reserve Bank of India 2010: 283). This triggered the RBI's switch to an expansionary monetary regime. Overall, the effective policy interest rate dropped from 9.00 percent in September 2008 to 3.25 percent in April 2009, with similar cuts in the CRR and SLR (see Figure 3.2). Together, these measures injected liquidity estimated at about 3.6 percent of GDP in the initial year of the crisis. From the second quarter of 2010 onwards, the RBI was able to return to its previous policy of gradual tightening of the policy interest rate, while the CRR remained low.

Although the GFC complicated monetary policymaking in Brazil and India, on the whole policymakers in both countries acquitted themselves well, engaging in reasonably successful fire-fighting related to international pressures, eventually enabling them to return to focusing on their domestic priorities.

Capital controls during the GFC

Senior policymakers in both countries also believed that they needed capital controls in order for their monetary policy interventions to work. Brazil's most important capital control in the 2000s was a tax on all cross-border operations, the IOF (financial operations tax).[8] In general, Brazilian policymakers treated the capital controls regime as an instrument for monetary policy fine-tuning – similar to their frequent adjustments to the policy interest rate, the SELIC rate. Occasionally, policymakers became so frustrated with short-term capital inflows pushing up the exchange rate that they raised taxes on capital inflows to prohibitive levels – as when in late 2010 the IOF on Brazilian government bonds briefly reached 98 percent for foreign portfolio investors holding the bonds only 24 hours! Brazilian policymakers under the left-leaning Lula da Silva and Rousseff governments also remained committed to certain financial regulations that were not directly relevant to the management of short-term capital movements, but which arguably contributed to national economic independence. For example, foreign banks were required to constitute themselves as subsidiaries of the parent (a legal form that obliged them to raise much of their initial capital locally), rather than as bank branches. *Financial Times* columnist Gillian Tett (2009) concluded that this requirement in fact had encouraged foreign banks to identify more with the host rather than the home economy during the recent crisis.

India also implemented inward capital and investment controls, although many market participants found them clumsy. In general and historically, India's capital controls had often been categorical or quota-driven, rather than incentive and market-based (if rather changeable) as in Brazil. The essence of India's system has been the distinction among three types of private investors, each with decreasing privileges: local citizens, the Indian diaspora (known as nonresident Indians, or NRIs), and other foreigners.[9] In 2004 the RBI, which is both central bank and the main financial regulator, had created a five-year plan for gradual liberalization as part of India's commitments in the services trade (GATS) negotiations through the WTO. The RBI's principal response to the GFC was easy – it simply postponed the previously agreed financial services liberalization plan. This was particularly infuriating for NRI investors (*inter alia,* owners of about three-quarters of the common stock in India's two largest private banks, ICICI and HFDC), who were still smarting from a 2007 incident in which the RBI's deputy governor, alarmed at the speed of financial opening, had suggested that NRIs in the financial sector perhaps ought to be considered as ordinary "foreigners," which would have retroactively reduced some of the privileges associated with their intermediate status. [10]

In both countries, then, many incumbent senior financial policymakers clearly believed that the country's legacy of inherited capital controls had aided in its ability to absorb the international shocks of 2008–2009. At the same time, other economists concerned with slowing growth and crumbling or simply absent industrial infrastructure found these same barriers to free capital movements intensely frustrating.

Discretionary funds, state banks, and international reserves

How much financial discretion do national governments in a globalized economy need? Another variety of defensive and systemic FS includes state-controlled banks and discretionary financial resources that executive branch policymakers can grab and redeploy in a crisis. In the view of many senior economic policymakers in emerging economies, this is a capability that major powers routinely have enjoyed, but which the IMF and other "Washington Consensus" reformers would deny peripheral countries on the grounds that it is incompatible with free market precepts. For example, in late 1994, the Clinton administration's Treasury Department extended emergency financing to Mexico as the peso/tequila crisis was breaking. The emergency bailout money actually came from the Exchange Stabilization Fund, intended to protect the U.S. economy in the event of an attack on the dollar – which was not exactly the situation. Instead, the U.S. Treasury and Federal Reserve Bank deployed these as discretionary

funds, not requiring lengthy approval from Congress, for short-term financial firefighting in a neighboring economy. Similarly, the U.S. Federal Reserve Bank in late 2008 made available emergency swap lines of up to $30 billion each to Brazil, Mexico, Singapore, and South Korea. Emerging economy finance ministers have asked why their governments should not also control discretionary funds to be deployed in emergencies.

When the international financial crisis hit in mid-2008, both Brazil's and India's governments had two types of state-controlled financial resources potentially at their disposal: large foreign exchange reserves, and the assets and institutional capabilities of public sector banks. The Brazilian Central Bank (BCB) employed its ample foreign exchange reserves to assume the foreign currency component of debts of Brazilian firms and banks abroad whose falling exports had suddenly rendered these loans hard to service, while the Finance Ministry turned to Brazil's major public banks to implement emergency support and expansionary policies. The National Economic and Social Development Bank (BNDES), an industrial development bank hitherto specialized in long-term support for Brazilian firms, began offering trade credit and working capital to Brazilian transnational firms operating abroad whose normal (foreign) sources of financing had dried up due to the global crisis (Armijo, in press). The bulk of Brazil's domestic fiscal stimulus also was channeled through the BNDES, which received $58 billion in direct transfers from the Treasury in 2008–2009, which the BNDES then channeled to larger business borrowers. About a third of these funds were on-loaned to Brazilian banks to serve smaller firms (Bevins 2010).

India's government acted similarly. In addition to switching from restrictive to expansionary monetary policy described above, the RBI spent nearly $63 billion of its foreign reserves to stabilize the value of the rupee and help Indian corporations keep current on their foreign debt payments (*Economist* 2008b). In addition, the government used fiscal policy to stimulate the economy. India's fiscal deficit increased from 2.7 percent of GDP in 2007–2008 to 6.0 percent in 2008–2009 and 6.5 percent in 2009–2010.[11]

This quick review of defensive and systemic FS suggests that, as compared to the 1980s and before, both Brazil and India were less financially interventionist in the 1990s and 2000s. However, the GFC shocked policymakers and opinion leaders in both countries, and their leaders' financial policy responses became more activist during 2008–2010, at least in the interim. Policymakers not only employed conventional monetary policy, but also manipulated capital controls and used state banks to support private sector banks and firms with foreign currency debts. Also interesting is the dog that did not bark – that is, the lack of any involvement by either Brazil or

India in any regional monetary cooperation, swap, or stabilization schemes, either during the crisis or in response to it – a sharp contrast to the situation in East Asia, as discussed by Katada and Sohn in Chapter 6 of this volume.[12] At the end of this chapter, we speculate briefly about the likely effects of the GFC on future financial policymaking in the two countries.

Systemic financial swashbuckling: Brazilian bravado, Indian circumspection

This volume's fourth major analytical category is that of "offensive and systemic" FS. This label refers to the national government's use of the country's financial capabilities in an assertive fashion with the intent of influencing a range of international outcomes. Following a brief look at international aid to their private sectors, we look at both the substance and style of new efforts by the two countries' governments to become players in global financial governance.

Brazil and India's possession of nontrivial national financial capabilities led to their invitation into coveted international political power circles, first and most notably into the financial G20 and then to the regular leaders' summits initiated in November 2008, as well as into the Financial Stability Board and the Basle banking committees, where they became full members in 2009. Moreover, expanding South–South diplomatic links have some potential to enhance the systemic financial capabilities of both Brazil and India, as for example via the large emerging markets' club: the BRICS, which held its first official leaders' summit in April 2009 in Russia. Here, the choices made by recent Brazilian and Indian leaders diverged somewhat more than we saw in the previous section's comparison of their uses of defensive and systemic FS such as capital controls, channeling emergency funds through state banks, and employing foreign exchange reserves for crisis-related fire-fighting.

In all of the major advanced industrial democracies, one accepted task of national ministries of finance and trade (such as the U.S. Departments of Treasury and Commerce) long has been that of assisting home country firms and banks to compete abroad, including through financial support for their activities, as with favorable access to credit through export–import banks. While this type of assistance is not normally conceptualized as state financial interventionism, it clearly is. Many emerging market countries, including Brazil and India, have begun to see active support for their multinational firms and banks abroad as a crucial component of foreign policy. As of mid-2009, Brazil's public sector development bank, the BNDES, had a portfolio of $15.6 billion in credits to support exports of

both goods and services such as heavy construction and engineering throughout South America.[13] Brazil has also targeted sub-Saharan Africa as an important destination for both exports and FDI.

India's external financial strategy centers on increasing global financial service exports. Extensive diasporic networks, expertise in business process outsourcing, and the experience gained from its relatively sophisticated equity market infrastructure have enabled India to become the sixth largest exporter of financial services in the world, albeit with only a little more than 2 percent of all global exports in financial services.[14] India's government has articulated plans to expand its share of financial service exports and become a major international player in this sector (Ministry of Finance of India 2007). Ragunathan Rajan, who in September 2013 was appointed Governor of the RBI, had in 2009 chaired a committee that drafted a key government report outlining the critical steps in a strategy to liberalize the financial sector and enhance its integration with the global economy (India Planning Commission 2009).

While their strategies to support their transnational firms were similar, the two countries differed in their willingness to express themselves publicly on issues of global financial governance. Under the center-right administrations of President Fernando Henrique Cardoso (1995–1998, 1999–2002), Brazil actively engaged with most of the world, traveling frequently to Europe and the United States, as well as around Latin America and Lusophone Africa. Cardoso strengthened MERCOSUR (the Common Market of the South, including Argentina, Uruguay, and Paraguay) and subsequently promoted a regional political cooperation process for all of South America formalized in 2006 as UNASUR (Union of South American Nations). Under the center-left administrations of his successor, President Lula da Silva, Brazilian leaders sharpened their focus on forming "South–South" alliances with other developing countries, including its South American neighbors, East Asia, Africa, and the Middle East. Under Lula, Brazil provided both rhetorical support and the promise of a substantial monetary contribution for Venezuela's proposal to create a multilateral *Banco del Sur* as an alternative to the IMF for South American countries. The *Banco del Sur* project, however, remained stalled as of late 2013.

During the international financial turmoil, President Lula and senior policymakers became quite bold in some of their public pronouncements, in some cases embarrassing more traditional Brazilian diplomats and politicians. Thus, in July 2008, President Lula da Silva bragged that the "financial tsunami" that had hit the United States and other developed nations was only a "*marelinha*" (small wave too small to surf on) in Brazil. In mid-

March 2009, Finance Minister Mantega boldly promoted Brazilian public debt securities as a “safer alternative” to U.S. Treasury bonds. Later that month, during a state visit to Brazil by the ardent multilateralist, British Prime Minister Gordon Brown, President Lula publicly blamed the financial crisis that had punished “black and brown people” on the mistakes committed by “white people with blue eyes who before the crisis appeared to know everything and now demonstrate that they know nothing” (Wheatley 2009). After the IMF announced in April 2009 that it would issue its first international bond offering, the Chinese, Brazilians, and Indians all pointedly subscribed for large amounts: $30 billion, $10 billion, and $10 billion, respectively, allowing President Lula numerous opportunities at home to point out proudly that Brazil had, under his watch, been transformed from an international debtor to a creditor. In June 2009, Foreign Minister Celso Amorím imprudently declared that the G8 was “dead,” leading to a subsequent rebuke by Brazil’s partner in the BRICs’ club, Russia – which was also a G8 member.

In September 2010, Mantega was the first senior policymaker publicly to name the rising tension over global imbalances – either caused by or reflected in “weak” and “strong” currencies – a “currency war.” Enouraged by Brazil’s vocal criticism of countries that manipulated their exchange rates to generate a trade advantage, U.S. Treasury Secretary Timothy Geithner ~~then~~ journeyed to Brazil in hopes of securing a joint U.S.–Brazil statement censuring countries (implicitly China) that intervened to keep their currencies undervalued. But joint statements with the United States aimed at China did not fit with official Brazil’s new self-image. Mantega instead let it be known that, in Brazil’s view, the United States was equally guilty of contributing to global imbalances by implementing loose monetary policy, which generated low interest rates and put pressure on countries, like Brazil, fighting excessive capital inflows. Later Brazil’s finance minister went further, declining to criticize BRICS[15] partner China at all, while complaining persistently about the United States as a source of global imbalances. This stance was somewhat disingenuous, since a coordinated stimulus sufficient to rescue the global economy surely required a major effort by the United States.

In contrast to the bold statements and independent positions that its leaders had taken during the 1970s heyday of the nonaligned movement, contemporary Indian leaders have been much more circumspect in the recent era of India’s economic ascendance. Indian political leaders and senior economic policymakers have participated enthusiastically in global economic fora, from the G20 and BRICs groupings, to high-profile transnational gatherings such as the World Economic Forum at Davos. But their public pronouncements have been more modest than Brazil’s. In fact, Indian business leaders, rather than politicians or senior economic policymakers, have been the

main source of self-confident statements about India's role in the 21st-century world. Thus in 2008 Lakshmi Mittal, CEO of Arcelor Mittal, wrote in the *Economist* that the global economy was at the point of a major power shift toward emerging economies, noting that, "The developed world should be thankful for this trend. As consumers in the advanced economies retrench from unsustainable levels – American consumer spending alone accounts for 21 percent of global GDP – shoppers in the BRICs will take up the slack" (Economist 2008a).

Indian politicians have not entirely refrained from international pontificating~~, however~~. In the context of U.S.–China trade disputes that clouded the September 2009 meeting of the G20 in Pittsburgh, Prime Minister Manmohan Singh lectured India's G20 partners on the evils of protectionism. In April 2010, Finance Minister Pranab Mukherjee flatly rejected British Prime Minister Gordon Brown's proposal for a tax on all financial transactions worldwide (a version of the "Tobin tax") at the G20 meeting. Brown's idea had been to use the monies raised to "reform the global financial system," which many of those present understood as code for providing additional resources for compensating Western European governments for the money they had spent and would spend on rescuing their troubled banks. Mukherjee made clear that any extra taxes on Indian banks would not be used to rescue wealthy Europeans, but would need to go toward extending basic financial services to the millions of unbanked poor in India. In November 2011, India joined China in a formal statement critical of the advanced economies for their sins of macroeconomic mismanagement.

Nonetheless, as compared to Brazilian leaders during these same years, Indian politicians were less publicly assertive in demanding changes to the institutions of international finance and more willing to settle for marginal changes within the *status quo*. Thus at the Cannes G20 meeting in November 2011, Prime Minister Manmohan Singh applauded the signing of the Convention of Mutual Assistance in Tax Matters and declared that "[t]he era of bank secrecy is over" (*Financial Express* 2011). At subsequent G20 meetings, India again has given high priority to its initiative to encourage countries to share tax information in an effort to curb tax evasion and the funding of terrorism. Hence, India is pushing for the improvement of financial transparency, a reform theme popular among the G7 countries, but decidedly less so among many emerging economies, including both China and Russia.

India also has been an enthusiastic participant in various incremental financial collaboration projects advanced at meetings of the BRICS. One such emerged in late 2011 as the leaders announced that the five countries would begin listing stock index futures and other basic derivatives on one another's stock exchanges. As a country

in great need of investment in infrastructural projects, India formally proposed that the BRICS establish a development bank in February 2012. Unfortunately, a conflict quickly broke out over India's preference for a rotating chairmanship versus China's insistence that, as the likely major source of funds, its nationals should permanently head such an institution. In the New Delhi BRICS meeting at the end of March 2012, India's concerns about the "BRICS bank" delayed the advance of the project, and Manmohan Singh, prime minister of the largest recipient of World Bank assistance, expressed a preference to reform the World Bank rather than create a new institution (Bagchi 2012).

One sees, thus, a not so subtle contrast between Brazil and India in the degree to which each has sought to employ its newfound international financial prominence to promote itself assertively as a global player with an agenda to transform global finance. Brazil is more obviously enthusiastic about playing such a role. Nonetheless, the members of the BRICS share a common goal of "international financial reform," the core definition of which is greater influence for themselves in multilateral financial governance. Thus the BRICS have sometimes been an effective lobby within the G20 (Armijo and Roberts ~~forthcoming~~ 2014). In 2009, for example, they made it clear that they would not agree to raise additional resources for the IMF to use in responding to the GFC until the other members of the G20 acceded to their request for greater developing country representation in the Fund. In early 2012, once again, Fund Managing Director Christine Lagarde requested an increase of $600 billion in IMF capital subscription, much of it to be used in support of Western European rescue. The BRICS again made their assent conditional on a further increment to their voting power within the Fund – which has been promised, although not yet implemented. [16]

At each of their biannual meetings, the BRICs have signaled their disapproval of the global dominance of the U.S. dollar. In March 2012, the five formally pledged to move, albeit incrementally, from dollar to local currency invoicing for bilateral trade and investment. Of course, China, with its $3.2 trillion in foreign reserves, has larger financial capabilities than its BRICS partners. Both Brazil and India worry over their structural trade deficits with China, the country which in 2009 displaced the United States as the principal trading partner of both countries. Sometimes, as in the case of the BRICS development bank, China's superior economic power impedes the group's deeper cooperation.

Accounting for similarity and divergence in FS

Our investigation has found both similar and divergent FS in our two cases. In recent years, both countries have used many of the same tools of *defensive and systemic* FS. The major difference between the two on the eve of the GFC was that the underlying national financial policy framework in Brazil was somewhat more liberalized. The medium-term trend in both countries is toward greater financial liberalization – but only up to a certain limit. Neither in Brazil nor in India are policymakers inclined to yield the tools that give them potential defensive and systemic FS capabilities for the future, particularly since many senior policymakers in both countries believe that certain kinds of state intervention were critical in allowing them to defend their respective countries with relatively ease during the recent period of global turmoil. With respect to *offensive and systemic* FS, however, the differences between Brazil and India are larger. While both have been happy to employ their greater global prominence to lobby for enhanced participation in multilateral economic governance, Brazil has been more willing to publicly criticize U.S. global financial leadership. Plausible reasons for Brazil's more assertive FS and India's relatively more cautious approach since 2007 are rooted in their different political economies. We begin below with economic differences, and then move to political factors.

Despite the parallels deriving from Brazil and India's status as large emerging markets that liberalized their financial sectors after years of state-led development and financial repression, Brazil is less vulnerable than India to disruption caused by international economic markets. The variation plausibly spawns differences in their strategies of economic statecraft. To begin with, India is poorer. Although India has grown faster than Brazil since 1990, with India's per capita income increasing 4.2 times to 2011 compared to Brazil's 2.3 times in the same period, Brazil is a more developed emerging market. In 2011, Brazil's per capita income of $11,500 (in terms of purchasing power parity) was more than three times greater than India's per capita income of $3,620. The share of each country's population with daily incomes less than $1.25 is an instructive indicator of the sheer number of citizens that lack the financial resources to participate in growth, and that also have been excluded from most of the benefits of growth. In 2009, only 6 percent of Brazil's population lay below this poverty line as compared to a third of all Indians.[17]

India's growth is more tightly linked to that of the world economy. Despite the enduring image of India as a relatively closed economy, India's trade in goods and services amounted to 54 percent of GDP in India in 2012 in comparison to only 25 percent in Brazil. This divergence in the share of trade in the economy is quite recent, reflecting India's slow but steady trade liberalization since 1991. According to the Heritage Foundation's index of

“trade freedom,” which measures policy indicators on a scale of 0 to 100 (low to high), India increased its trade openness from less than 20 in 2000 to 51 in 2009, a period during which Brazil moved from 51 to 72.[18] That is, Brazil’s trade regime was and remains more liberal, but India has opened more rapidly and trade is now more important for its national income. For India, trade has not only generated rapid growth—it also has introduced greater vulnerability to trade disruption and price volatility.

As Figure 3.3 demonstrates, Brazil’s merchandise trade usually is either balanced or in surplus, and the country has benefitted from the commodity boom since the early 2000s. India suffers from a structural deficit in merchandise trade that has grown substantially since 2001. A key factor in India’s structural deficit is that it imports three-fourths of its crude oil needs. While fuel accounts for about 36 percent of Indian merchandise imports, the 17 percent of Brazil’s imports that are fuel are roughly balanced by Brazil’s energy exports. Although India’s merchandise trade deficit is almost always reduced by its surplus in invisibles, including financial services exports and remittances,[19] its current account usually remains in deficit. India’s overall balance of payments deficits since 2003 have been substantially larger than Brazil’s, as shown in Figure 3.4.

As discussed above, the two countries have accumulated similarly sized stocks of financial inflows. Nonetheless, Indian policymakers have felt more anxious about capital account volatility than have Brazilian policymakers. Policymakers in Brazil may be counting on their home financial markets being more developed, in the belief that greater domestic financial depth and breadth enables countries to better cope with the economic volatility that accompanies integration with global financial markets (Kose et al. 2007). India’s equity market is at least as sophisticated as Brazil’s, but Brazil has various advantages over India.[20] Brazil’s debt, commodities, and derivatives markets are more advanced; Brazilian banks operate in a more competitive and generally better regulated market; and, as noted above, Brazil’s capital controls regime has been more flexible. One recent study suggests that greater integration with global financial markets reduces economic volatility – but only when countries have flexible exchange rates, which Brazil has had since 1999, while India has tentatively floated the rupee only since 2007 (Adler and Tovar 2012). Overall, Brazilian policymakers can be more confident of their economic position vis-à-vis global markets – which likely gives them confidence to speak out.

Important variations in the political circumstances of Brazil and India also contribute to the somewhat different approaches to FS that the two countries have followed. The differences occur at both the international and

domestic levels. The countries' *different geopolitical positions* are an important factor. Both countries are regionally dominant states. Brazil, as illustrated by its leadership in the MERCOSUR and UNASUR processes, is capable of helping to coordinate collective action among the countries of the region.[21] Enhanced regional political cooperation since the early 1990s has enabled both Brazilian state financial officials and private sector financial actors to pursue a regional and South-South strategy of international financial expansion (Armijo 2013). Brazil's largest commercial banks, as well as its securities exchange, BM&FBovespa, which is in the top five worldwide by market capitalization, plausibly intend to become the dominant foreign financial players throughout South America.

In contrast, India is bordered by Pakistan, its arch enemy; by China, the global power and Asian rival with which it has festering disputes along its 2000 mile border; and by smaller countries such as Sri Lanka and Nepal that bear long-standing historical resentments against their behemoth neighbor. Although in recent years India has taken measures to improve its relations with its neighbors, it still glaringly lacks the capacity to lead coordinated action in the region, as is highlighted by the difficulties in initiating cooperative endeavors through the South Asian Association for Regional Cooperation. The enmity that has historically characterized India's relations with its neighbors has until now closed the door on a possible strategy to expand into regional financial markets.

Differences in Brazil and India's *relations with the United States* also affect their respective strategies for international FS. Brazilian leaders today believe that the United States needs Brazil's help in Latin America more than the reverse. Brazil, since even before the discovery of vast oil deposits along its southeastern coast, is energy independent, and its long relationship with the United States gives it room to challenge the hemispheric (and global) hegemon while still remaining a close and inevitable ally. In contrast, India feels less able to take its newly developed closer relations with the United States for granted. It was partly due to India's energy needs and partly because of its desire to balance China with the United States that Indian Prime Minister Manmohan Singh signed the 2008 Civilian Nuclear Agreement with the United States. These new and relatively fragile links diminish any impulse for assertive FS against U.S. wishes.

Domestic financial regulatory politics also facilitate more assertive statecraft in Brazil than in India. Brazil has arrived at a rough domestic consensus on pursuing measured financial liberalization and regional financial expansion, a strategic mix that suits both the government's foreign policy goals and the interests of large Brazilian banks, both private and public, as well as the major actors in Brazil's active capital markets. This does not mean

controversy over national financial policies is lacking – for example, the recent enormous expansion of public resources funneled through the BNDES, originally crisis-related but continued since then, has been much criticized as inefficient (Armijo, in press). Yet the rough contours of the current mix of private national, state, and foreign financial players are accepted by most participants. The privatization (and internationalization) of Brazil's banking sector is unlikely to go farther, and there is little domestic opposition to the state's financial role in supporting the regional expansion of Brazilian firms.

In India, though few involved in financial sector policymaking oppose continued liberalization per se, considerable controversy exists over the pace of reforms (Echeverri-Gent 2004, 2007, and under review). The dispute complicates India's FS. Relentless liberalizers with an institutional base in the Finance Ministry push for privatizing India's public sector banks, limiting the RBI's role to inflation targeting, enabling a larger role for foreign financial institutions in Indian markets and the formation of closer links between foreign and Indian firms. Meanwhile calibrating conservatives, often associated with the RBI, defend the role of public sector banks, praise the RBI's regulatory role as essential to preserving financial stability, and are cautious about opening Indian markets to foreign firms. The liberalizers' approach is to accept global financial norms and link India with foreign firms and global markets in a way that limits the use of the "sword" of external FS to advancing India's interests within the global financial system. The financial conservatives, especially the dwindling few who defend Indian institutions as they were prior to the 1990s reforms, are more inclined to use the shield of FS to insulate India's financial institutions from the volatility of global financial markets. Even though the conservatives' strength is in decline, the controversy that they have created has increased India's use of the shield and made its use of the sword less decisive.

Finally, the circumstances of *domestic partisan competition* also help to explain recent divergence in Brazil and India's FS. While each country has a highly fragmented party system, the domestic ideological placement of incumbent ruling coalitions from the turn of the century through this writing, about five years after the GFC, differed. In Brazil, the WP ascended to power from the left of the political spectrum when Lula da Silva won the office of the President in 2002. In India, partisan competition since the 1990s has seen the rise of two centrist coalitions – the United Progressive Alliance (UPA) led by the Congress Party and the National Democratic Alliance (NDA) led by the Bharatiya Janata Party.

The Workers' Party (PT) has ruled Brazil since January 2003. From 1989, when Lula lost presidential elections to Fernando Collor, to late 2002 when he defeated Jose Serra, the PT leadership underwent a significant transformation from an ideologically-committed, programmatic party to a more centrist, catch-all party. The change was in part a pragmatic response to pressures stemming from the international political economy that made certain pro-market policy positions essential for electoral and governing success for Lula, but also reflected incentives created by political competition in the context of Brazil's democratic political institutions (Hunter 2007). Under the leadership of President Fernando Henrique Cardoso (1995–2002), the modest rightward shift of the Brazilian Social Democratic Party (PSDB) from its center-left origins facilitated the WP transition to that center-left ideological space. The lack of a serious electoral rival on its left also reduced the costs of the centrist drift of the WP. Nonetheless, there remains considerable internal opposition to the change from key constituencies within the party, especially from members of white collar unions in the public sector. Some groups have broken their alliances with the PT, including the Landless Movement (*Moviemento dos sem Terra*) and Brazil's Green Party (Kingstone and Ponce 2010). During the summer and fall of 2013, moreover, there were a series of protests demonstrating mounting discontent with the PT government. Neither Lula nor his PT successor, Dilma Rousseff, who assumed the presidency in January 2011, has made many concessions to the left in domestic economic policy, but a modestly confrontational international rhetoric is popular with many PT voters – as well as with many nationalist Brazilians spanning the political spectrum. Were the PSDB-led center-right coalition to return to power, our expectation would be for modest softening in the rhetoric of Brazil's externally oriented FS, but little alteration in its substance, which reflects broadly held views that Brazil should participate more actively in global governance.

In contrast, India's domestic party politics has inclined its external FS in a more cautious direction. Despite the Congress Party's historic identification with nonalignment, ever since the end of the Cold War it had been reorienting its foreign policy to be closer to the United States (Ganguly and Mukherji 2011, 41–52; Mukherji 2010). After the Congress-led UPA came to power in 2004, further movement toward the United States was restricted by the reliance of the UPA coalition on outside support from India's Communist Party of India-Marxist, CPI(M). However, in 2008, in response to Prime Minister Manmohan Singh's resolute commitment to the Civilian Nuclear Agreement with the United States, the CPI(M) withdrew its support from the government. When the UPA cobbled together enough support to win a vote of no-confidence and later gained victory in the 2009 general elections, it freed itself to promote more friendly relations with the United States. Though there has been disappointment on both

sides that the momentum achieved during the George W. Bush years has not been sustained, during the 2010 summit with U.S. President Barak Obama, Prime Minister Manmohan Singh declared that "I attach great importance to strengthening in every possible way India's cooperation with the United States. This is truly a relationship which can become a defining relationship for this 21st blessed century of ours."[22] Singh's statement underscores the willingness of the Congress Party leadership to stake out a pro-American position despite continuing powerful currents of anti-Americanism in India's domestic politics. Its commitment to building a positive relationship with the United States contributes to its reluctance to engage in FS openly challenging the United States.

While the BJP's Hindu nationalism could lead India toward a more muscular foreign policy, as it did when India conducted nuclear tests in 1998, there are good reasons to suppose that the BJP-led NDA, were it to lead India again, would hesitate to challenge the United States, even rhetorically, through its externally oriented FS. First, the BJP's more explicitly critical stance toward China would hinder efforts to cooperate with this leading Asian power. For instance, when BJP Prime Minister Atal Behari Vajpayee sent a letter to President Clinton explaining India's nuclear test, he invoked a nuclear China as India's main security threat. Second, the BJP does not carry the baggage of nonalignment. On the contrary, the BJP-led coalition historically has differentiated itself from the Congress Party's foreign policy by being explicitly pro-American. Ties with Americans improved during the 1977–1979 tenure of the Janata Party government in which the BJP was an important constituent and also during the rule of the BJP-led NDA from 1998 to 2004. The BJP's close ties to wealthy NRIs in the United States also help to ensure a nonassertive FS, because the Hindu nationalists would be loath to alienate these American citizens who are both major contributors to Hindu nationalist organizations and sizable investors in India. Finally, when in power 1998–2004 the NDA implemented a number of reforms, such as the Insurance Regulatory and Development Act and more liberal ceilings on FDI, which integrated the Indian economy with investors from the industrial core economies.

In sum, roughly similar levels of financial development and broadly equivalent positions in the international political economy likely account for the many similarities in Brazil's and India's international FS. The observable differences are more about style than substance, and reflect the greater willingness of contemporary Brazilian leaders to criticize the United States openly. Brazilian bravado and Indian circumspection are probably overdetermined, reflecting India's somewhat greater international economic and international political vulnerability, while recent Brazilian governments have been keen to retain their leftist credentials by staking out positions independent of the United States.

Conclusions: strengths, vulnerabilities, and cautions going forward

As countries become progressively more integrated into global financial markets, they are increasingly likely to use the tools of systemic FS. But when are countries likely to use the shield in a defensive mode and when are they likely to wield the sword assertively to advance their interests? The scope of this study, covering two emerging economies with a number of structural and economic similarities, affords only speculative,-preliminary observations. Nonetheless, we offer some suggestive hypotheses. We began with the relatively common sense observation that countries whose economies are more vulnerable to disruption by volatile global financial flows are more likely to be cautious in wielding the sword of FS. In our study, India with its chronic trade deficit and recent large current account deficits was more circumspect in its public pronouncements while Brazil, enjoying a trade surplus and manageable current account deficits during the period, took public positions more critical of the "old guard" global financial powers.

Regional geopolitics also influences the selection of strategies for financial development. Brazil has over the years developed cooperative relations with its neighbors, particularly since widespread democratization in Latin America in the 1980s. This facilitates its regional strategy for financial development, and inclines it more toward a South–South strategy of financial expansion. India's relations with its neighbors, on the other hand, are characterized by resentment, and in the case of Pakistan, intense enmity. India's problematic regional relations, in addition to the general low level of economic development in South Asia, make a regional strategy less viable. At the same time, its connections through diasporic networks and business process outsourcing direct it toward a strategy of financial service exports in advanced industrial countries. Pursuit of this financial growth strategy, we contend, makes India more circumspect in its criticisms of global financial powers.

Finally, we have noted that the circumstances characterizing domestic partisan competition have contributed to the differences in Brazil and India's FS. Brazil's WP ascended to power from the left. As it pragmatically moderated its economic policy, its modestly confrontational international rhetoric helped to placate leftist critics within the PT and social movements outside. Partisan competition in India is characterized by two centrist coalitions – the Congress-led UPA on the center-left and the Bharatiya Janata Party on the center-right. Since 2008, each of these leading parties has taken pro-American positions in defiance of India's left. This position, in combination with India's strategy for financial sector development, has made India less inclined to utilize confrontational rhetoric as part of its FS.

Brazil and India's choices of FS strategies have broader consequences for global financial governance. As these large countries have become more affluent, their actions, along with those of other emerging economies, become more consequential for the future of global financial markets and financial governance.

Three challenges confront Brazil and India if they are to succeed in reforming global financial institutions and policies that support their long-term developmental goals. First, can they overcome their differences and work with each other and other developing countries to achieve their joint objectives? Their inability to resolve their disagreements during the Doha round of negotiations at the WTO – or even to unite around a common 'Southern' candidate for the heads of the IMF or World Bank in 2011 and 2012 – highlights the formidable challenges that they face. Second, will they overreach in their demands for reform? Brazil has shown periodic bravado that exceeds its ability to deliver outcomes on the international level. India has been more circumspect as its vulnerabilities, including rivalry with China, limit its ability to achieve its objectives. Finally, while Brazil and India have achieved remarkable economic success in the last 20 years, exercising influence at the global level requires reaching agreements with the still powerful countries of Europe and with the United States. If their ascendance leads to refusal to compromise with Europe and the United States, Brazil and India's overreach may lead to a stalemate that would prevent international negotiations from achieving needed reforms.

We end our analysis on a somewhat ambivalent note. It would be comforting to conclude that, if countries like Brazil and India play their cards right, it is plausible that they could negotiate to reshape global financial market in ways that are somewhat more efficient and equitable for all than what we find now. But also plausible is the more pessimistic assessment that the governments of Brazil and India, along with those of their fellow BRICS countries, are playing with fire in their attempts to dethrone the central, nay the hegemonic, role played by the U.S. currency, U.S. financial markets, and more or less collaborative financial governance by the advanced economies since the mid-20th century. It is safe to say that neither Brazil nor India – nor of course the larger international political economy – would be well-served by heightened international financial turmoil. Our own hope, therefore, is for continued incremental change.

References

Adler, Gustavo, and Camilo E. Tovar. 2012. "Riding Global Financial Waves: The Economic Impact of Global Financial Shocks on Emerging Market Economies," Washington, DC: IMF Working Paper wp/12/188.

Armijo, Leslie Elliott. 2005. "Mass Democracy: The Real Reason that Brazil Ended Inflation?," *World Development*, 33(12), 2013–2028.

Armijo, Leslie Elliott. 2013. "Equality and Regional Finance in the Americas," *Latin American Politics and Society*, 55(3), Winter.

Armijo, Leslie Elliott, in press. "The Public Bank Trilemma: The BNDES and Brazil's New Developmentalism," in Peter Kingstone and Timothy Power (eds) *Democratic Brazil Ascendant.* Pittsburgh: University of Pittsburgh Press.

Armijo, Leslie Elliott, and Cynthia Roberts, ~~forthcoming~~ 2014. "The Emerging Powers and Global Governance: Why the BRICS Matter," in Robert Looney (ed.) *Handbook of Emerging Economies.* New York: Routledge.

Bagchi, Indrain. 2012. "BRICS Summit: Member Nations Criticizes the West for Financial Mismanagement," *The Times of India*, March 31, 2012.

Beck, Asli Demirgüç-Kunt, and Ross Levine. 2000. "A New Database on Financial Development and Structure," *World Bank Economic Review*, 14, 597–605.

Bevins, Vincent. 2010. "BNDES: Climate for Casting a Wider Net," *Financial Times*, May 6, 2010.

Echeverri-Gent, John. 2004. "Financial Globalization and India's Equity Market Reform," *India Review,* 3(4) (October), 306–332.

Echeverri-Gent, John. 2007. "Politics of Market Micro Structure: Towards a New Political Economy of India's Equity Market Reform," in Rahul Mukherji (ed.) *India's Economic Reforms*. Delhi: Oxford University Press, pp. 328–358.

Echeverri-Gent, John. Under review. "India's Response to the Global Financial Crisis: From Quick Rebound to Endless Slowdown?," in Carol Wise, Leslie Armijo, and Saori Katada (eds) *Unexpected Outcomes: How Emerging Markets Survived the Global Financial Crisis.* Book manuscript.

Economist, 2008a. "Business: A New Economic Order," *Economist*, November 19, 2008.

Economist, 2008b. "Storm Clouds Gathering: What the World Recession will do to India's Economy," *Economist*, December 11, 2008.

Financial Express. 2011. "Era of Bank Secrecy is Over Manmohan Tells G20," *The Financial Express*, November 5, 2011.

Ganguly, Sumit, and Rahul Mukherji. 2011. *India Since 1980*. Cambridge: Cambridge University Press.

Government of India, Ministry of Finance. 2007. *Report of the High Powered Expert Committee on Making Mumbai an International Financial Centre*. Government of India, Ministry of Finance: New Delhi. Available at: http://finmin.nic.in/the_ministry/dept_eco_affairs/capital_market_div/mifc/fullreport/execsummary.pdf (accessed on September 21, 2007).

Government of India, Planning Commission. 2009. *A Hundred Small Steps: Report of the Committee on Financial Sector Reforms*. Delhi: Sage.

Hunter, Wendy. 2007. "The Normalization of An Anomaly: The Workers' Party in Brazil," *World Politics,* 59, 440–475.

Kingstone, Peter, and Adolfo F. Ponce. 2010. "From Cardoso to Lula: The Triumph of Pragmatism in Brazil," in Kurt Weyland, Raul Madrid, and Wendy Hunter (eds) *Leftist Governments in Latin America.* Cambridge: Cambridge University Press, pp. 98–123.

Kose, M. Ayha, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei. 2007. "Financial Globalization: Beyond the Blame Game," *Finance and Development* 44(1), March 2007. Available from <http://www.imf.org/external/pubs/ft/fandd/2007/03/kose.htm>.

Lane, Philip R., and Gian Maria Milesi-Ferretti. 2007. "The External Wealth of Nations Mark II," *Journal of International Economics*, 73, November, 223–250.

Malamud, Andrés. 2011. "A Leader without Followers? The Growing Divergence Between the Regional and Global Performance of Brazilian Foreign Policy," *Latin American Politics and Society*, 53(3), 1–24.

Mukherji, Rahul, 2010. "India's Foreign Economic Policy," in Sumit Ganguly (ed.) *India's Foreign Policy: Retrospect and Prospect*. New Delhi: Oxford University Press, pp. 301–322.

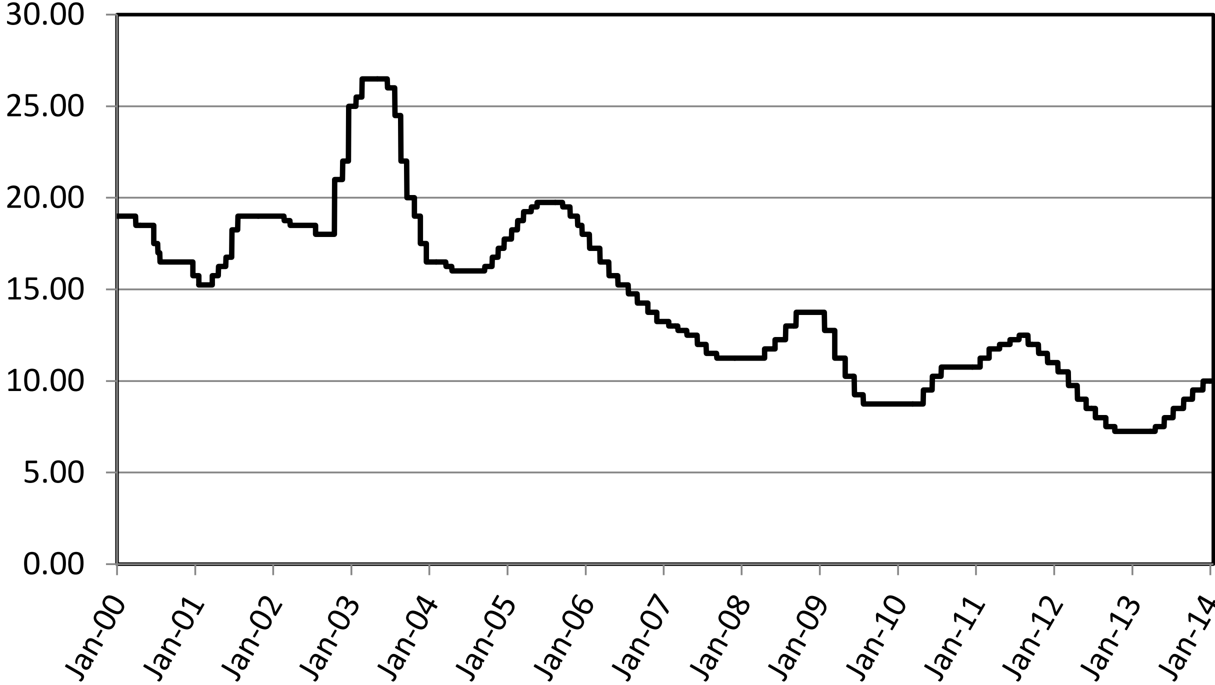
Reserve Bank of India. 2010. *Report on Currency and Finance 2008–09*. Mumbai: Reserve Bank of India.

Stallings, Barbara, and Rogerio Studart. 2006. *Finance for Development: Latin America in Comparative Perspective.* Washington, DC: Brookings Institution Press and United Nations Economic Commission for Latin America and the Caribbean.

Tett, Gillian. 2009. "Brazil Catches Banks Adept at Capital Flight," *Financial Times*, November 252009.

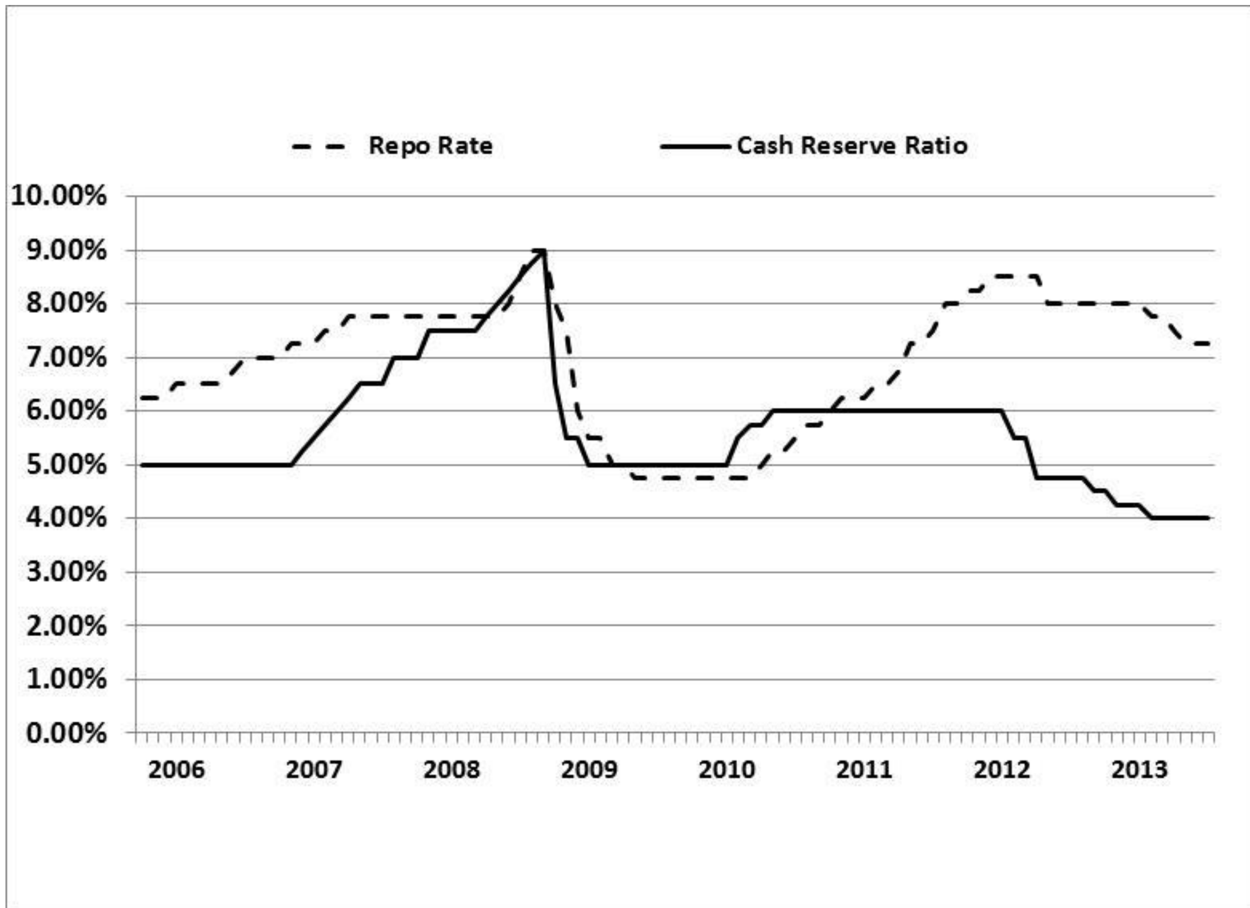
Wheatley, Jonathan. 2009. "Brazil's Leader Blames White People for Crisis," *Financial Times*, March 27, 2009.

Figure 3.1 Brazil's policy interest rate (SELIC), 2000-2014



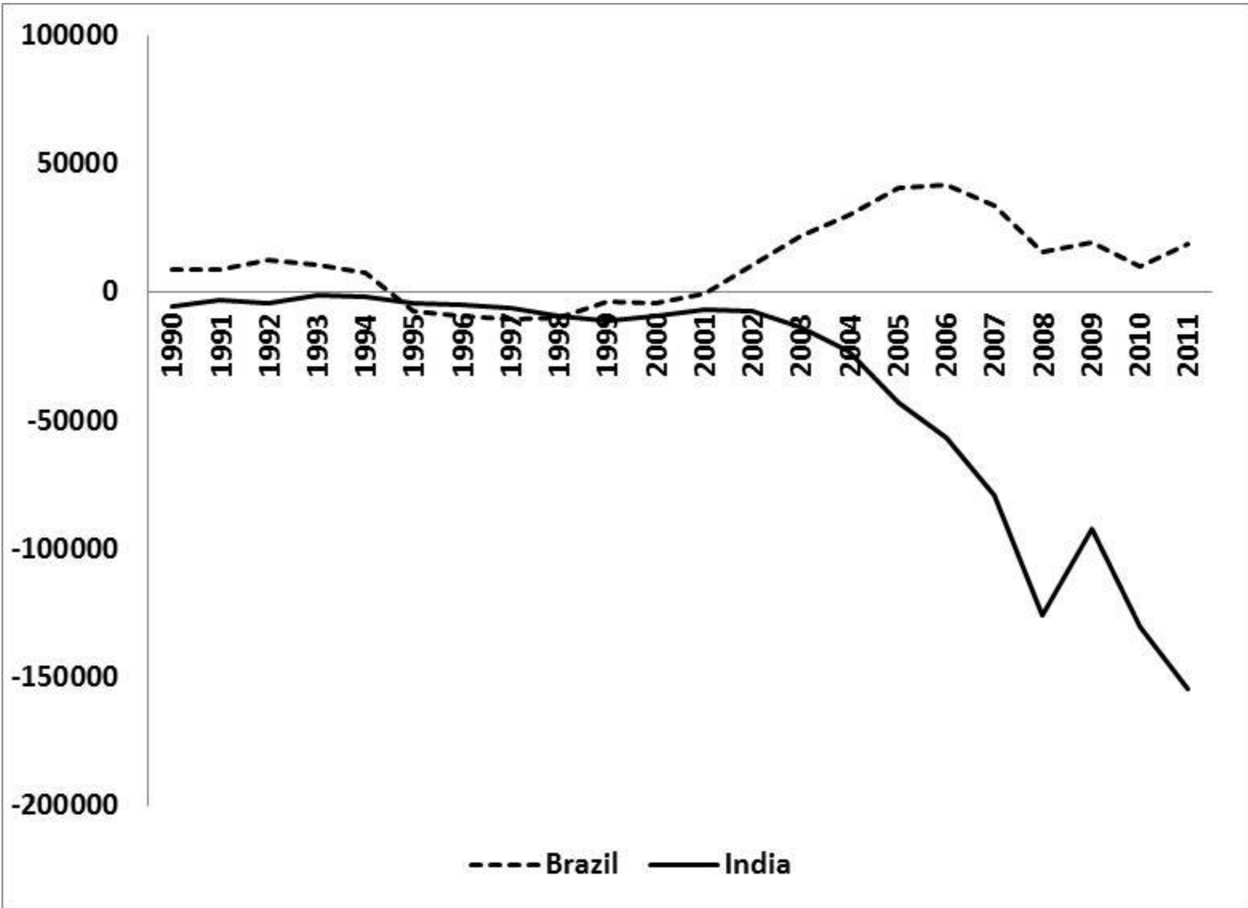
Source: www.ipeadata.gov.br

Figure 3.2: India's policy interest rate (Repo) and Cash Reserve Ratio, October 2005 to June 2013



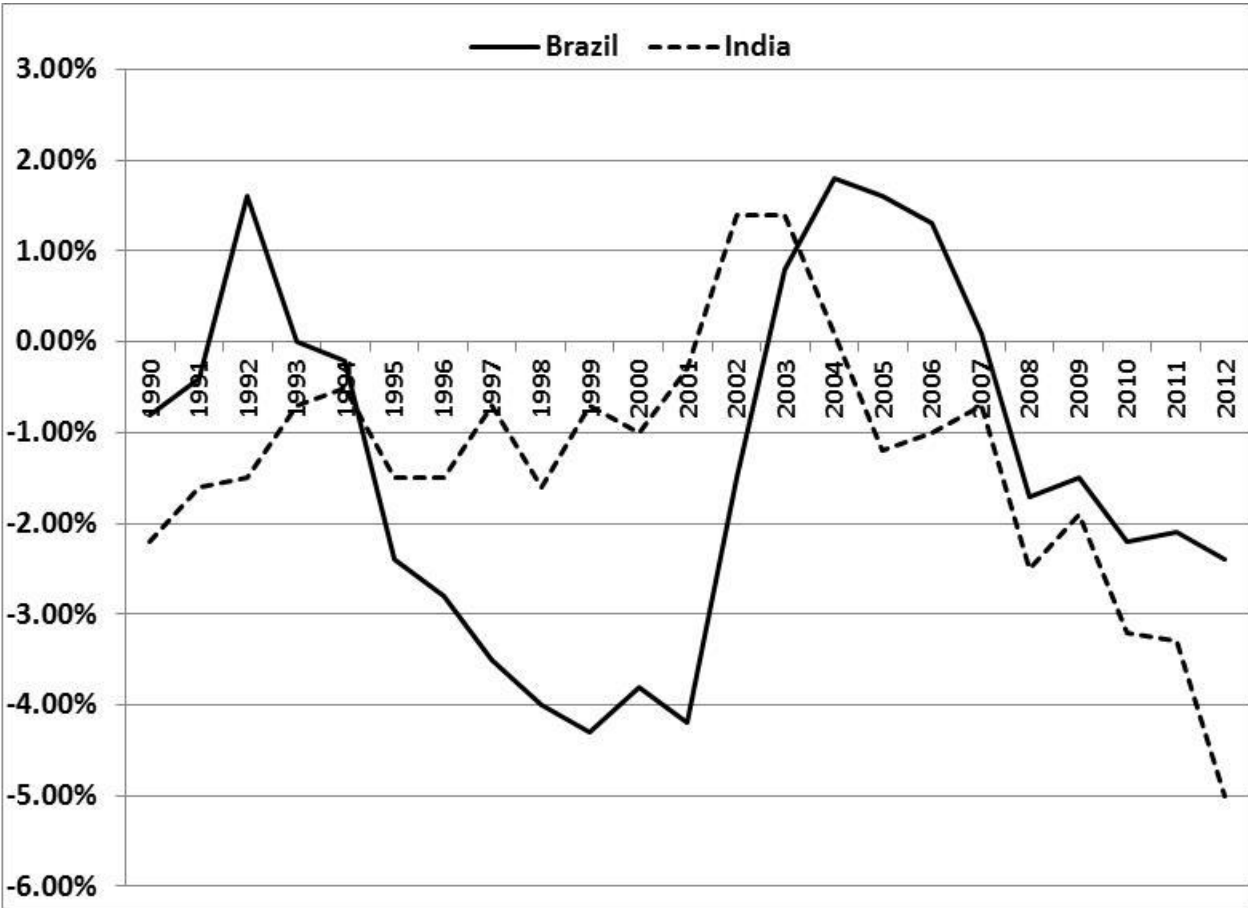
Source: *Reserve Bank of India, Handbook of Statistics on Indian Economy 2012-13*, Table 46. Available from: http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20Indian%20Economy. Accessed on January 17, 2013.

Figure 3.3 Brazil and India: Merchandise trade balance, 1990-2011 (US$ Millions)



Source: World Trade Organization, Statistical Database

Figure 3.4 Brazil and India: Current account balance as percentage of GDP, 1990-2011



Source: World Bank, World Development Indicators

[1] Per capita income tells a rather different story. In 2007, Brazil's per capita income was $7194 in current US dollars and $9560 in PPP. Comparable figures for India were $1069 and $2760. (World Development Indicators, <data/wpr;dbamld/prgtp[ocecpmp,oc=[p;ocu-and-external-debt> accessed November 10, 2013.)

[2] The figures rely on an updated version of dataset, dated May 2009, which is available from the World Bank. Note that "total financial assets" is the second of two "total" figures included in the dataset, reported in column AM.

[3] Updated figures through 2010 were made available by the dataset's authors.

[4] These figures are for total reserves, including gold. They are provided in current US dollars as reported in the *World Development Indicators 2012*.

[5] We calculated "financial policy liberalization" as the mean of each country's scores for monetary, investor, and financial freedom as assessed in the Heritage Foundation's *Index of Economic Freedom 2012.* www.heritage.org/index/ That same year, relatively illiberal China received a score of 45.2, and South Korea and Mexico, among the most open of emerging economies, received scores of 66.3 and 62.3, respectively.

[6] Of course, in international politics, a reputation for being assertive or intransigent is not necessarily always a cost, as this may benefit one in a future negotiation.

[7] At that time, candidate Lula da Silva, remembered by the business community for having waved a hammer and sickle flag and calling for foreign debt repudiation at union rallies in the early 1980s, was forced to issue his "Letter to the Brazilian people." This was statement reprinted in newspapers nationwide in which Lula promised, if elected, to continue the prudent macroeconomic and international financial policies of his predecessor, President Fernando Henrique Cardoso. At the urging of the United States, the IMF responded by extending to Brazil an emergency loan of $30 billion, which ended the exchange rate crisis.

[8] Brazil's IOF was similar to a domestically oriented tax, the CPMF (temporary tax on financial transactions, ended in 2007), that had been used to encourage both particular investment behaviors and as a revenue measure.

[9] Indians residing abroad have been an important source of foreign capital inflows in recent years: their remittances in 2009 summed to 1.9 percent of GDP, as compared to only 0.3 percent in Brazil (Beck and Levine 2000, as augmented by recent dataset updates).

[10] "As foreign banks detour, public banks forge ahead," Knowledge at Wharton, at http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4376

[11] For a more comprehensive account of India's response to the GFC see Echeverri-Gent, forthcoming.

[12] Brazil's government reliably gives lip service to regional financial cooperation in South America, but in practice has done relatively little to promote this goal (Armijo 2013).

[13] "Carteira do BNDES na América do Sul soma US$ 15,6 bilhões," *Valor Econômico,* August 27, 2009.

[14] Government of India, Ministry of Finance, *Economic Survey 2011–12,* p. 343. Available at http://indiabudget.nic.in/survey.asp (accessed on April 4, 2012).

[15] In late 2009 the BRICs (Brazil, Russia, India, and China) added South Africa, becoming the BRICS.

[16] IMF members agreed on a capital increase, along with a quota readjustment in favor of emerging economies in 2010, but through the end of 2013 the Republican majority in the U.S. Congress had refused to ratify the agreement.

[17] All figures from World Bank, *World Development Indicators 2012,* consulted online.

[18] At www.heritage.org/index

[19] India's remittances, at $56 billion in 2010, more than double those for the next highest country, Mexico at $19 billion. India also enjoys a consistent and usually substantial positive balance in service trade.

[20] On the politics of Indian equity market reforms, see Echeverri-Gent (2004, 2007).

[21] Some observers such as Malamud (2011) emphasize the relatively low level of regional cooperation in South America as compared to Western Europe. We choose to see the glass as half full.

[22] "Remarks by President Obama and Prime Minister Singh in Joint Press Conference in New Delhi, India" (November 8, 2010) available from http://www.whitehouse.gov/the-press-office/2010/11/08/remarks-president-obama-and-prime-minister-singh-joint-press-conference- (accessed on September 18, 2012).