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Development Banks and Regional Powers:

An Analytical Framework

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Development Banks and Regional Powers:

An Analytical Framework

Stefano Palestini

Abstract

Why do regional powers such as Brazil, South Africa, or Russia undertake different collective strategies to supply public goods in their regions of influence? When do those states prefer to delegate competences to existent multilateral financial institutions, such as regional development banks (RDBs), and when do they prefer to make use of their own national financial instruments? Why do those states create new RDBs that challenge the existing ones? The article builds and tests a set of hypotheses based on the interplay between capabilities and legitimacy to help answer these questions using contemporary South America as a case study. Through a process tracing analysis carried out for the period 2000–15, the article explains the different strategies undertaken by two states, Brazil and Venezuela, to supply infrastructure in the region, ranging from the use of the Brazilian National Development Bank to the creation of a new Bank of the South. It is suggested that the low capabilities and legitimacy expectations of both states explain the rising importance of external actors in the supply of regional public goods that we are currently witnessing in South America.

The Author

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Contents

List of Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
ALBA	Bolivarian Alliance for the Peoples of Our America
ASEAN	Association of Southeast Asian Nations
AU	African Union
BNDES	Brazilian National Bank of Economic and Social Development
CAF	Latin American Development Bank (former Andean Promotion Corporation)
CABEI	Central American Bank of Economic Integration
CDB	China Development Bank
CELAC	Community of Latin American States
CEPAL/ECLAC	UN Economic Commission for Latin America and the Caribbean
CHEXIM	China Export-Import Bank
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EDB	Eurasian Development Bank
FONPLATA	Plata Basin Financial Development Fund
IAI	Initiative for ASEAN Integration
IDB	Inter-American Development Bank
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
INTAL	Institute of Latin American Integration
IPE	International Political Economy
MDB	Multilateral Development Banks
Mercosur	Common Market of the South
MP	Mesoamerican Project
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for African Development
RDB	Regional Development Banks
Sub-RDB	Sub-regional Development Banks
Unasur	Union of South American Nations
UNECA	UN Economic Commission for Africa
WB	World Bank

1. Introduction

In his seminal book "The Logic of Regional Integration. Europe and Beyond," Walter Mattli argues that the existence of a state that can afford the costs of coordination and easy distributional tensions is a strong condition for successful integration (Mattli 1999). Any such conceptualization of regional powers as "paymasters" continues to have a pervasive influence on students of comparative regionalism outside of Europe.[1] In the absence of supranational organizations, so the paymaster argument runs, the success of regionalist projects hinges on the willingness or reluctance of benevolent powerful states to supply public goods within political settings that remain strictly intergovernmental (inter alia Pedersen 2002; Burges 2008; Prys 2010; Krapohl et al. 2014; Flemes/Lobell 2015; Krapohl 2015). But does the portray of states as paymasters accurately capture all the different strategies that leading states pursue in order to supply public goods in the so-called Global South?

Anecdotic evidence across governance fields shows that regional powers can follow various strategies, among which becoming a "paymaster" is only one and not necessarily the most frequent. The enhanced economic and financial capacities of emergent economies such as Brazil, India, China, and South Africa have certainly allowed them to use their own state-controlled financial instruments to directly supply public goods to lesser developed countries in their regions and, in some cases, overseas. The history of regionalism shows, however, that a second strategy has been far more frequent. In fact, regional powers in the Americas, Asia, and Africa have very often enlisted regional development banks (RDBs) in order to provide goods such as sanitary systems, water-supply systems, agriculture modernization programs, education and skills development programs, transport connectivity, regulatory harmonization, energy systems, and telecommunication infrastructure (Tussie 1995; Culpeper 1997; Bull/Boas 2003; Helleiner 2009; Bruszt/Palestini 2016). By providing policy frames, coordinating development programs, and financing portfolios of projects, the African Development Bank (AfDB), the Asian Development Bank (ADB), and the Inter-American Development Bank (IDB) have played a role that is less different than it seems to the one played by supranational and transnational institutions in the context of European regionalism.

More recently, a third strategy has acquired salience. Regional powers have rescinded authority from the extant RDBs and have created, in cooperation with other states, new RDBs and sub-RDBs, making sure that their interests prevail. Russia and Kazakhstan established the Eurasian Development Bank in 2006. One year later, Venezuela persuaded other South American governments to sign the constitutional act of the Bank of the South. More recently, China has created the Asian Infrastructure Investment Bank (AIIB), sparking the resistance not only of the US, but especially of the World Bank and the ADB. All three banks respond to the mandate to provide finance for the supply of public goods to less developed countries in their respective regions, becoming competitors of the existing RDBs and other multilateral financial institutions.

Finally, a fourth possible strategy for regional powers is simply to have no strategy, leaving national economies to compete and leverage for traditional sources of financing such as foreign investment or external

1 The experience of European integration shows that states rarely act as paymasters on their own. Most of the time, they line up supranational institution – such as the Commission – or transnational agencies – such as regulatory networks – as agents or intermediaries to implement outcomes in different governance fields (Eberlein/Grande 2005; Blauberger/Rittberger 2015).

development aid. Keeping these four possible strategies in mind, this paper seeks to answer the following question: under what conditions do leading states become paymasters, enlist extant RDBs, create alternative regional financial instruments, or renounce to supply regional public goods altogether? The existent literature in both International Political Economy (IPE) and comparative regionalism is of little help in tackling this question since it has largely neglected multilateral institutions in general and RDBs in particular as relevant actors in regional governance. I seek to fill this gap by offering an analytical framework that explains the interaction between states and RDBs based on the assumption that RDBs are crucial instruments for states to cope with deficits in legitimacy and capabilities.

The paper tests the framework in the field of regional infrastructure-supply in South America during the timespan 2000–15. During this period, two regional powers (Brazil and Venezuela) experimented with different strategies to finance transport, energy, and telecom infrastructure in the region, ranging from enlisting the support of the well-established IDB and the Latin American Development Bank (CAF) to creating new RDBs and using national development banks. I argue that these different strategies are largely explained by tracing the variation in the self-perception of Brazil and Venezuela regarding their legitimacy and capabilities.

The article is structured as follows. The next section 2 provides brief historical and comparative background on the interaction between states and RDBs in the field of regional public goods supply. Section 3 introduces the theoretical framework of the article based on the interplay between capability and legitimacy, whereas section 4 sets out the methodology and the hypotheses. The central section 5 develops the case study of the field of regional infrastructure in South America (2000–15). The article concludes with some final remarks and future research avenues.

2. The Supply of Regional Public Goods

The supply of public goods is a key governance goal in most projects of regionalism around the globe. As a matter of fact, governments do not engage in cooperation with their neighbors – a costly process that diverts resources from their domestic agendas – without expecting certain outcomes with positive effects on their societies, economies and, certainly, political pay-offs. Most of these outcomes can be encompassed in the category of public goods (see Keohane/Ostrom 1995; Abott et al. 2015). Here I understand regional public goods as tangible and measurable outputs of processes of regional cooperation that encompass a wide array of deliverables from material (e.g. infrastructure connectivity) to immaterial goods (e.g. common regulatory standards, liquidity-provision mechanisms, migration-flows management mechanisms, etc.). What all these goods have in common is that they are produced at the regional level and comprise benefits distributed across national borders (Stalgren 2000; Estevadeordal et al. 2004).[2]

2 Public goods have two properties. First they are not-exclusive, meaning that all interested actors have access to the good, and second, there is non-rivalry in the provision, meaning that the consumption of the good by one actor does not affect the provision of the same good to other actors. The literature on public goods has widely accepted that goods empirically range from pure and impure public goods (that only partially meet the above-mentioned criteria) to club and private goods (Stalgren 2000).

Already the first attempts at regional integration in the 1950s and 1960s sought to bring about public goods by means of intergovernmental cooperation and policy coordination (Haas/Schmitter 1964; Tinbergen 1965; Sloan 1971). Only during the 1980s and 1990s did the neoliberal and open regionalism policy framework downgrade the supply of public goods to a secondary goal by prioritizing the reduction of trade barriers and the insertion of national and regional economies into global markets instead (Balassa 1962; Bhagwati 1993). Starting from the late 1990s, and with more intensity since the new millennium, regional organizations have departed from the open regionalism framework and set up developmental programs and initiatives oriented towards producing public goods as a necessary means to foster regional markets and global competitiveness (Nesadurai 2003; Keating 2008; Bruszt/McDermott 2012; Shaw 2015; Bruszt/Palestini 2016; Söderbaum/Brolin 2016).

An exhaustive survey of these developmental programs and initiatives can be consulted in Bruszt and Palestini (2016). As an illustration, in the 1990s, several initiatives emerged in Southeast Asia with the purpose of upgrading the economic integration project of the Association of Southeast Asian Nations (ASEAN).[3] All these initiatives were coordinated by the ADB, which leveraged the funds necessary to finance transport connectivity projects across geographically fragmented national economies (Dent/Richter 2011). One decade later, in the wake of the Asian financial crisis, ASEAN governments launched the Initiative for ASEAN Integration (IAI) with the aim of coordinating and implementing a portfolio of projects in the area of physical connectivity, human resources development, telecommunication, and economic integration (Carpenter et al. 2013).

Central and South American states have implemented similar initiatives to upgrade regional infrastructure such as the Mesoamerican Project (MP) and the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA). As in the case of the Southeast Asian initiatives, these programs were driven by RDBs and sub-RDBs such as the IDB, the CAF, the Plata Basin Financial Development Fund (FONPLATA), and the Central American Bank of Economic Integration (CABEI) (Carciofi 2012; Palestini/Agostinis 2015).

In 2001, the members of the African Union (AU) adopted the New Partnership for African Development (NEPAD), which coordinates development projects and pools financial resources coming from intra- and extra-regional donors, with the AfDB providing the institutional headquarter for NEPAD's Infrastructure Project Facility. Furthermore, the sub-regional African organizations (regional economic communities) have set up initiatives of regional infrastructure and energy power pools in coordination with the AfDB (UNCTAD 2013; Kararach 2014; Shaw 2015; Mingst 2016).

Although these programs are at the core of the regional organizations' agendas in Africa, Asia, and the Americas, we know very little about the political economy of these governance fields. There are two main reasons to explain this literature gap. First, mainstream comparative regionalism has mostly focused on trade and security cooperation/integration when studying regionalism outside of Europe, overlooking other governance fields in which public goods are being delivered and which are arguably more central than trade in contemporary regionalism, such as environment, financial integration, energy, social policies, and migration (inter alia Krampf/Fritz 2015; Hancock 2015; Bianculli/Ribeiro-Hoffman 2016). Second,

3 Cases in point are the Greater Mekong Sub-Region (GMS), the Indonesia–Malaysia–Thailand Growth Triangle (IMT–GT), and the East ASEAN Growth Area (BIMB–EAGA).

despite a number of studies that have focused on the political economy of regionalism (Solingen 1999; Nesadurai 2003; Phillips 2004; Söderbaum 2004; Bach 2016), mainstream comparative regionalism has remained attached to the assumptions of the hegemonic stability theory when studying different regional attempts to supply public goods across regions. Accordingly, public goods' supply has been conceptualized as the result of powerful states behaving as benevolent hegemons or paymasters in strictly intergovernmental settings, reducing the political economy of regional public goods' to a dyadic relation between regional powers and regional followers.

Without neglecting the role of states and especially regional powers, the above-mentioned examples of the IAI in Southeast Asia, IIRSA in South America, and NEPAD in Africa demonstrate that states are not alone when supplying regional public goods. Multilateral institutions such as the UN Economic Commissions (UN Economic Commission for Latin America and the Caribbean (CEPAL) and UN Economic Commission for Africa (UNECA)) and chiefly the RDBs have been key policy-framers, brokers of non-state actors, and sources of finance in all those initiatives.

In other regions we observe states engaging in a different type of strategy to supply public goods. In 2006, Russia and Kazakhstan established the Eurasian Development Bank (EDB), closely linked with the Eurasian Economic Community, with the purpose of financing public goods that should intensify regional cooperation. Alexander Libman (2014: 444) has argued that unlike the Intergovernmental Bank of the Commonwealth of Independent States (CIS) that may be conceived as a "regionalized" Russian financial tool, the EDB can be seen as a truly regional bank "able to create incentives for member states and their companies." China has also set up a new RDB (the AIIB) to finance infrastructure projects in less developed countries in Asia and abroad. The AIIB will undoubtedly play a major role in financing development in the years to come, as several multilateral financial institutions worldwide have admitted.[4] It remains to be seen whether this role will be in tandem or rather in competition with the extant RDBs such as the ADB (Wolff 2015).

The relatively scant IPE literature on RDBs has not said much on these different strategies to supply public goods. There are some very good comparative studies on the creation and institutional design of RDBs (Syz 1974; Krasner 1981; Culpeper 1997; Strand 1999, 2003; Humphrey/Michaelowa 2013), on the effects of RDBs' lending on member states, especially in the context of structural adjustment reforms (Tussie 1995; Sanahuja 2001; Babb 2009; Vivares 2013), and on the impact of changes in the global political economy on the governance of RDBs (Strand/Trevathan 2016). But we know very little about the behavior of states towards RDBs in the field of regional public goods supply, which is in fact a core mandate of RDBs as the only financial institution (together with the World Bank) able to provide long-term investment to finance public goods that conventional banks deem not bankable (Wenn/Dembowski 2016).

The next sections address the following question: Under which conditions do leading states become paymasters, delegate competences to the extant RDBs, create new RDBs, or renounce to supply regional public goods altogether?

4 When China announced the establishment of the AIIB, the ADB, the World Bank, and the US government reacted negatively. The agenda of the last meeting of the ADB in Frankfurt in May 2016 included the ways to cooperate and coordinate with the AIIB as a major issue to discuss. Other RDBs, such as the EBRD, have reacted more positively to the creation of the new Bank.

3. Regional Powers and RDBs: The Legitimacy and Capability Problems

The departure point to theorize the relation between regional powers and RDBs relies on a simple observation, namely that RDBs are crucial to resolving two main dilemmas that leading states face in their attempts to implement regional public goods: (1) RDBs may provide the **legitimacy** and (2) the **capabilities** that single states partially or completely lack (Abbott et al. 2015).[5]

Regional powers face two classes of problems when they attempt to supply regional public goods. The first one has been well described in the literature on comparative regionalism and comparative transnational governance (see Mattli 1999; Bruszt/McDermott 2014; Abbott et al. 2015; Blauberger/Rittberger 2015) and can be called the **capability problem**. Single states – especially from developing regions – do not have the sufficient financial, organizational, or regulatory capabilities needed to coordinate, finance, and implement public goods. Second, even if they have the capabilities, single states face a **legitimacy problem**. Following the classic definition by Max Weber, legitimacy is the *belief* in the exemplary and binding nature of a social relation (Weber 2013[1922]; Mayntz 2010). A collective project led by a single state might be perceived by other states as lacking such an "exemplary and binding nature," and rather be seen as an interference, intervention, or a hegemonic project, resulting in the archetypical "leader without followers" that Stephan Schirm (2009) and Andrés Malamud (2011) have described.

My theoretical assumption is that in the eyes of regional powers, RDBs are particularly suitable devices to overcome both classes of problems. Inasmuch as RDBs are financial institutions that intermediate between states and capital markets, they are made to alleviate the **capability problem** that states (and particularly less-developed countries) face. It is curious that in their conceptualization of leading states as "paymasters," scholars have completely overlooked the role that the AfDB, the ADB, the IDB, and the EBRD have played as intermediaries of states to overcome capability deficits in the supply of regional public goods. But RDBs can also help regional powers to overcome the **legitimacy problem**. In their origin, the IDB and the ADB were created as a way for powerful states – the US and Japan – to legitimize their involvement in regional politics during the junctures of the Cuban Revolution (in Latin America) and the Vietnam War (in Southeast Asia). By "multilateralizing" their financial transferences to those regions through these newly created RDBs, the US and Japan tamed claims of hegemonic aspirations (Krasner 1981; Kappagoda 1995; Wan 1996; Culpeper 1997). Delegating implementation competences to RDBs is a good way for regional powers to persuade other states to follow by reducing mistrust.

The interplay between the self-perceptions that regional powers hold regarding their own legitimacy and capabilities displays an analytical grid in which we can situate the different strategies to supply regional public goods, as shown in Table 1.

5 In their theoretical framework, Abbott and collaborators have called this the "complementary capabilities assumption" (Abbott et al. 2015: 17f).

Table 1: Leading States' Strategies to Supply Regional Public Goods

		Legitimacy	
		High	**Low**
Capability	**High**	**"Paymaster"** Use of national financial instruments	**"Challenger"** Creation of a new RDB
	Low	**"Orchestrator"** Enlistment of extant RDBs	**"No-strategy"** Absence of regional strategy

Source: Author.

Paymaster strategy. The upper-left cell is the paymaster scenario, in which there is a state that expects to have both sufficient material capabilities and legitimacy to meet the costs of a regionalist project. A "paymaster state" uses its own national financial resources and financial instruments to supply regional public goods. This is the scenario usually described in the mainstream regional powers/regional leadership literature based on hegemonic stability assumptions (Mattli 1999; Pedersen 2002; Burges 2008; Prys 2010; Krapohl et al. 2014). This article contends, on the contrary, that the paymaster is the less likely scenario inasmuch as it presupposes a state with high legitimacy and capabilities – conditions that are rarely met in international politics.

Orchestrator strategy. The lack of financial capabilities makes our regional power move down towards the lower-left cell, in which the state needs intermediaries in order to supply regional public goods. As it has been shown in the previous section, RDBs have been pivotal intermediaries or brokers for states in all regions and especially in Latin America, Asia, Africa, and their sub-regions (Bruszt/Palestini 2016). Regional powers need also to orchestrate other states in the region and, arguably, outside of the region, to overcome their capability deficit (for instance through development aid). Differently from a classic hierarchical Principal-Agent relationship, regional powers need to make use of soft inducement to get those intermediaries on board, engaging in intergovernmental diplomacy and persuasion (Checkel 1999; Malamud 2003; Abbott et al. 2015) and, therefore, legitimacy becomes a necessary asset in this type of strategy. A core assumption of orchestration is that the goals of the orchestrator (e.g. the regional power) and the intermediaries (e.g. the RDBs) must be aligned or at least convergent (Abbott et al. 2015; Blauberg/Rittenberg 2015).

Challenger strategy. In the upper-right cell, the regional power expects to have the financial capabilities to carry out a regionalist project. However, it expects that their neighboring states will likely perceive such an attempt as illegitimate. The availability of financial capabilities provides strong incentives to become a "challenger," pushing the regional power to rescind authority from extant financial instruments (such as RDBs or other multilateral financial institutions) and create new ones (such as new RDBs and sub-RDBs). The regional power assumes control of these instruments while at the same time "multilateralizing" its influence and thereby rendering it more legitimate in the eyes of other states. Challengers, by definition, defy the established rules of a governance field, usually sparking a reaction of the incumbent players (Fligstein 2001; Wade 2003; Grimes 2015).[6]

No-strategy. Finally, the lower-right cell shows a scenario in which the regional power expects to lack both capabilities and legitimacy. In this case, it is even meaningless to talk about a "regional leader" insofar as no state actor is either capable or legitimate to undertake a collective strategy. Under this scenario, states will leverage financial resources in a country-based rather than a regional or collective way. It is likely that the governance outcomes (in this case, the supply of economic and social public goods) will be sub-optimal.

In the remainder of the paper I will use this analytical framework to conduct an analysis of concrete strategies of regional powers towards RDBs in their attempt to supply regional public goods. The production of regional infrastructure (transport connectivity, energy, and telecom) in South America will be the empirical case.

4. Methodology

In order to substantiate the theoretical argument, the article relies on a case study and methodological tools taken from process tracing analysis. As it is well known, case studies consist of the intensive study of a single case in order to shed light on a larger class of cases. Process tracing, in turn, is one of the possible methods to carry out a case study that allows the identification of steps in a causal process leading to the outcome of a given dependent variable with the scientific purpose of developing or testing hypotheses (George/Bennett 2005; Venesson 2008).

In this article I use process tracing in the case of South American regionalism during 2000–15 to identify the processes whereby capabilities and legitimacy self-perceptions influence the strategies of regional powers in order to supply regional public goods. Those strategies therefore constitute the dependent variable of the study. At this stage, this article does not expect to develop all the steps of a process tracing analysis that would imply to evaluate alternative theoretical explanations and address problems of equifinality (Hall 2008; Bennet/Checkel 2015). The goal in this article is to test and refine the analytical framework proposed in section 2 as a first attempt of theory-building in a highly exploratory research field. In order to do that, I have translated each strategy into a hypothesis as follows:

H1 – Orchestrator hypothesis: Regional powers are more likely to enlist extant RDBs to supply regional public goods if they perceive to have low capabilities but high legitimacy vis-à-vis other states.

H2 – Paymaster hypothesis: Regional powers are more likely to use their own national financial instrument to supply regional public goods if they perceive to have high capabilities and high legitimacy vis-à-vis other states.

6 In the field of monetary cooperation, for instance, the creation of a multilateral swap arrangement by Japan and China – the Chiang Mai Initiative – may be interpreted as a "challenger strategy" of leading state facing high capabilities but low legitimacy expectations. The low legitimacy expectations are further confirmed by the delegation of competences by ASEAN countries to the IMF in the administration of the Chiang Mai Initiative (Grimes 2015).

H3 – Challenger hypothesis: Regional powers are more likely to create new RDBs to supply regional public goods if they perceive to have high capabilities but low legitimacy vis-à-vis other states.

H4 – Exit hypothesis: Regional powers are more likely to be reluctant to assume a collective strategy to supply regional public goods if they perceive to have low capabilities and low legitimacy vis-á-vis other states.

The previous hypotheses will be tested against the case of supply of regional infrastructure in South America in the timespan 2000–15. The selection of this region is strategic since during the last two decades South American states have engaged in different regionalist projects that have resulted in a patchwork of regional institutions and organizations (Sanahuja 2012; Dabène 2012; Malamud 2013; Nolte 2014; Bianculli 2016) and, in particular, developmental governance programs oriented towards supplying regional public goods (Palestini/Agostinis 2015; Bruszt/Palestini 2016). Although the analysis could have gone further back in time, 2000 is a reasonable starting point inasmuch as the first South American summit of Heads of States took place in September of that year. During that summit, RDBs received the mandate to set up a collective developmental program to deliver infrastructure goods throughout the following decade.

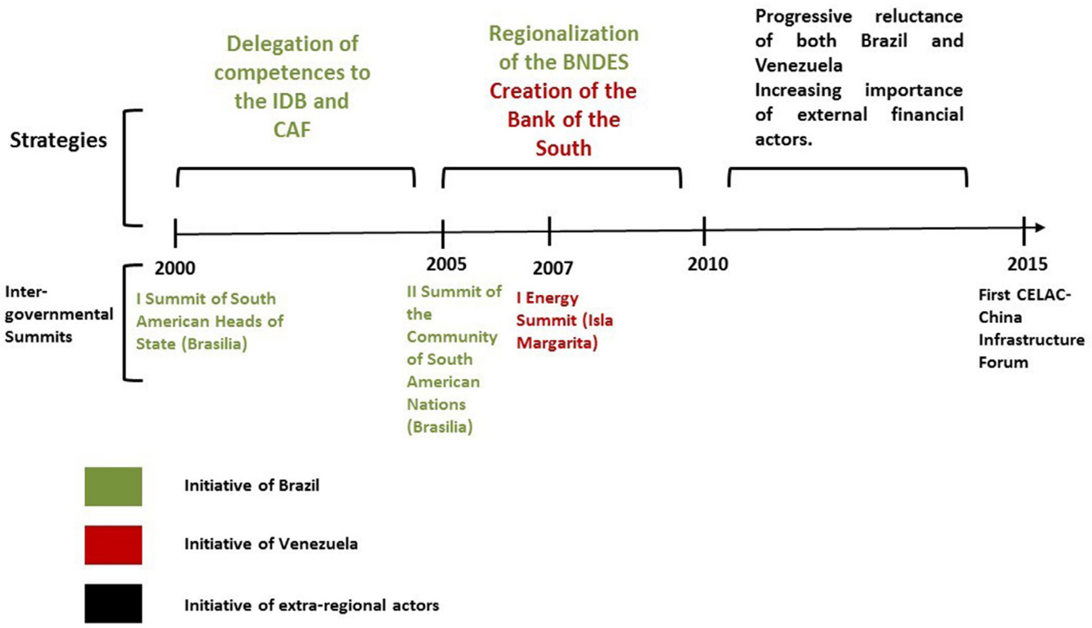
The data has been collected from official documents, data bases, and websites from regional and international institutions. In addition, I have conducted and analyzed 24 interviews with decision-makers from South American countries and officials working at the IDB, CAF, and Brazilian National Bank of Economic and Social Development (BNDES). The list of interviews is provided in Annex I.

5. The Supply of Regional Infrastructure in South America (2000–15)

South America faces an annual infrastructure gap – i.e. the need for new and upgraded roads, ports, energy systems, and communication networks – of 6.2 percent of GDP. This means that South American economies need to invest 260 billion USD per year to keep their infrastructure capable of sustaining economic development (ECLAC 2011). Not surprisingly, finding investment for infrastructure in general, and infrastructure connections in particular, is a chief developmental goal for South American states.

When looking at the period 2000–15, one can observe various strategies of supplying regional infrastructure that involve different types of financial instruments. Furthermore, one can notice that three of the most salient strategies have been initiated by two states, Brazil and Venezuela. Figure 1 depicts these strategies on a timeline according to the type of financial instrument used.

Figure 1: Timeline. Strategies for the Supply of Regional Infrastructure in South America



Source: Author.

Following the framework presented in section 3, I contend that these different strategies can be explained by looking at the changing expectations of Brazil and Venezuela regarding their own legitimacy and capabilities. If we apply the analytical framework to the case of South America, we can situate these four strategies in the respective cells as follows:

Table 2: Strategies of Leading States to Supply Regional Public Goods in South America

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="2">Legitimacy</td></tr>
<tr><td>High</td><td>Low</td></tr>
<tr><td rowspan="2">Capability</td><td>High</td><td>“Paymaster”

Regionalization of the BNDES by Brazil (2005–10)</td><td>“Challenger”

Creation of the Bank of the South by Venezuela (2007–10)</td></tr>
<tr><td>Low</td><td>“Orchestrator”

Enlistment of IDB and CAF (2000–04)</td><td>“No-strategy”

Initiative led to extra-regional actors (China) (2011 onwards)</td></tr>
</table>

Source: Author.

In the following subsections, I will analyze in detail each of these strategies. Before that, however, I will provide an initial test of the hypotheses using some rough indicators of capabilities and legitimacy.

The variation in economic growth is one possible indicator of the expectations that a leading state holds regarding its own material capabilities. Positive economic growth expectations will encourage a state to undertake a "paymaster" or a "challenger" strategy. On the contrary, negative or moderate expectations of growth will incentivize a regionalist strategy based on "orchestration" of the extant RDBs, or will discourage any regional strategy altogether. Table 3 shows the average GDP growth for the years in which each strategy was undertaken.

Table 3: Type of Strategy by Economic Growth (Annual GDP Percentage Average)

	2000–04	**2005–10**	**2011–15**
Brazil	2.1 **"Orchestration"**	4.8 **"Paymaster"**	2.6 **"No-strategy"**
Venezuela	-3.1 **"No-strategy"**	8.2 **"Challenger"**	1.1 **"No-strategy"**

Note: Annual growth rate of GDP in percent, average for the set of years. Source: World Bank Economic Indicators.
Source: World Bank Economic Indicators; Author's calculations.

The results are consistent with the hypotheses. In fact, the paymaster and challenger strategies undertaken by Brazil and Venezuela respectively correlate with higher economic growth expectations (4.8 percent for Brazil and 8.2 percent for Venezuela).

As far as legitimacy expectations are concerned, I propose here to measure the degree of "followership" as the attendance of heads of state to summits convened by the respective regional powers. High attendance of Presidents will foster the expectations of legitimacy of regional powers. On the contrary, the non-attendance of Presidents or the presence of envoys would send a signal for the regional power of a drop in followers, and hence of legitimacy erosion. To carry out this analysis, I have considered only South American summits in which the supply of infrastructure was directly discussed as part of the summit agenda. For this subset of summits, I have measured the attendance of Heads of State only to those summits that were directly convened by the Brazilian or the Venezuelan executives. Table 4 adds this measurement:

Table 4: Type of Strategy by Economic Growth and Legitimacy (Followership)

	2000–04	**2005–10**	**2011–15**
Brazil	2.1 Strong followership **"Orchestration"**	4.8 Strong followership **"Paymaster"**	2.6 No summit convened **"No-strategy"**
Venezuela	-3.1 No summit convened **"No-strategy"**	8.2 Medium followership **"Challenger"**	1.1 No summit convened **"No-strategy"**

Note: during the analyzed period, there was a total of 24 summits of South American heads of state. The average attendance was 7.8 heads of states (of ten countries). On these grounds, I considered 0-5 attendants as weak followership; 6-8 as medium followership; and 9-10 as strong followership. For the period 2000–04, I considered the Brasilia Summit in 2000 convened by Brazil (ten attendants); for the period 2005–10, I considered the Brasilia Summit in 2005 and 2008 convened by Brazil (eight and nine attendants respectively) and the Isla Margarita Summit in 2007 convened by Venezuela (seven attendants, President Bachelet leaving before the end); for the period 2011–15, neither Brazil nor Venezuela convened any summit.

Source: Author.

This correlation exercise seems consistent with the implications of the analytical framework. To be sure, the measurement of the number of followers does not show a big variation, as a high number of heads of states attended the summits convened and set up by both Brazil and Venezuela. To put it bluntly: there was no summit turning into a complete fiasco. Yet, the Summit of Isla Margarita convened by Venezuela in 2007 was affected by a number of intergovernmental tensions that arguably indicated to Venezuela that undertaking a "paymaster" strategy was inviable. Furthermore, the lack of initiative by Brazil and Venezuela during the last five years' period in which neither of the states convened or set up a summit is consistent with the hypothesis of an "exit strategy." In the next subsections, I will trace the hypotheses throughout the timeline.

5.1 Orchestration of the IDB and the CAF (2000–04)

In 1999, Brazilian President Fernando Henrique Cardoso personally requested Enrique Iglesias, president of the IDB, to prepare a study about the state of the regional infrastructure in South America, taking into account transport and energy physical interconnections as well as regulatory issues. The report requested by Cardoso became one year later the Action Plan of the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA), a major developmental program oriented towards improving the transport, energy, and telecommunication of the region, to be implemented in the following ten years.[7]

The IDB was not the only RDB lined up to design and implement IIRSA. In 1995, Brazil became a member of the Andean Development Corporation (CAF), which at the moment was undergoing a process of organizational change led by its President Enrique Garcia, and transformed the CAF from the development bank of the Andean countries to the Latin American Development Bank, as it has been officially named since 2000.

IIRSA must be seen not only as a far-reaching technocratic enterprise, but chiefly as a Brazilian foreign policy project. The Ministry of Planning and the Ministry of Foreign Affairs teamed up and raised information about the infrastructure needs of each South American country by using the network of Brazilian embassies in the neighboring countries.[8] With this crucial information, the engineers working at the Secretariat of Strategic Affairs and the Ministry of Planning put together the principles and concepts to guide IIRSA. The template

7 Interview with Paulo Silveira: "The President of the Bank, by that time, was Enrique Iglesias who was personal friend of F.H. Cardoso. There was an informal relationship between both of them. The inclusion of the IDB into the IIRSA was something natural" (original in Portuguese, translated by the author).

8 Interview with Paulo Silveira: "So, we requested at that time [1999] to the Ministry of Foreign Affairs to help us, asking to every Brazilian Embassy in our neighbor countries to identify the projects in the pipe line or in execution in each country, and having a dimension of regional integration" (original in Portuguese, translated by the author).

came from two successful domestic programs of infrastructure integration, implemented between 1996 and 2003 during Cardoso's two presidential administrations connecting the different states of the federal Brazil.[9]

The core idea of this Brazilian project is summarized by the founder and president of the biggest Brazilian construction company (Valle do Rio Dôce) and policy entrepreneur of the initiative:

> *The development of basic infrastructure connection between the South American countries could help as a point of departure of an engine of accelerated economic integration. Herein, it would drive towards a deeper level of political integration and towards the formation of a South American Free Trade Area and, eventually, a Hemispheric Free Trade Area (Batista da Silva 1996: 15).*

According to the typology presented in this article, IIRSA can be interpreted as an orchestration strategy carried out by Cardoso's government. The Brazilian executive envisioned the integration of the South American continent through infrastructure (the "organization of the South American space," as F.H. Cardoso used to say) as a pivotal element to reinforce the country's position in the region at the juncture when the Mexican accession to NAFTA was completed and the negotiations of a US-led hemispheric project had started (Palestini/Agostinis 2015). Although the ideas embodied in IIRSA had been born at the core of the Brazilian state (the Ministry of Planning, the Ministry of Foreign Affairs, and the Presidency), the implementation was carried out by the RDBs – the IDB and the CAF – conceived as intermediaries and enlisted through soft mechanisms (presidential diplomacy) directed by F.H. Cardoso himself and the high officials of his foreign policy executive.[10] The preferences of Cardoso's government – to supply infrastructure in South America through public-private instruments – were aligned with the mandate and goals of both the IDB and the CAF. Why did Cardoso's government adopt such an orchestration strategy?

According to my theoretical assumptions, the explanation relies on the Brazilian state's perceptions regarding its own capabilities and legitimacy. Legitimacy was not a huge obstacle for Brazil in the times of F. H. Cardoso. His liberal foreign policy – friendly towards multilateralism and international cooperation – helped to remove the longstanding perceptions of sub-imperialism, widespread among Brazil's neighbors (Vigevani et al. 2008), while at the same time helping to align his foreign policy goals with those of the RDBs. Cardoso had concrete facts to back up his intentions. During his first administration, Brazil had borrowed from the IDB to invest in interconnection projects with the Southern Common Market (Mercosur) countries and also with the northern neighbors that were positively perceived by Presidents such as Carlos Menem (from Argentina) and Rafael Caldera (from Venezuela).[11] But probably the most important factor boosting Cardoso's legitimacy were his credentials as a liberal social democrat, which made him exemplary for most

9 Interviews with Paulo Silveira, Mauro Marcondes, and Raphael Padula. "It was part of the Brazilian Federal Plan in 1996, during the first administration of Cardoso […] to translate a long-term plan of the federation into a territorial planning initiative. A very influent person, Eliecer Batista, applied the planning method from the Vale do Rio Doce Company […] he developed the idea of the development and integration hubs which reference was the Plan of Territorial Planning" (Paulo Silveira. Original in Portuguese, translated by the author).

10 Interview with Luiz Felipe Lampreia.

11 Two emblematic projects from the Cardoso's era were the Venezuela–Brazil Energy Integration Program completed in 2001 and the Gasbol pipeline connecting Bolivia's natural gas sources with the southeast states of Brazil, completed between 1995 and 2000.

presidents in Latin America who at the time shared similar ideological orientations and policy preferences. Following our theoretical expectations, Cardoso did succeed in convincing all the eleven South American Presidents to attend the Brasilia summit in 2000 when IIRSA was launched.[12]

Notwithstanding the high legitimacy, the Brazilian state faced strong capability problems to become the paymaster of IIRSA. By 1990s, fiscal consolidation limited the levels of debt that Latin American states were able to assume. Moreover, the low levels of taxation seriously limited public investment that was not balanced through private investment either (ECLAC/OECD 2012). In addition to fiscal constraints and low private investment, in January 1999 Brazil faced the contagion from the Asian financial crisis and the Russian devaluation that unleashed the devaluation of its own currency (the real) compromising, in the short term, its economy and with lasting effects on its Mercosur partners (Bulmer-Thomas 2001; Carranza 2003; Cardoso 2006). According to my theoretical expectations, the cocktail of sluggish economic growth, macroeconomic disequilibria, and an external shock had an impact on the capabilities expectations of the state with leadership aspirations.

With relatively high legitimacy but without financial resources, Cardoso convened in September 2000 the first Summit of South American Heads of State, during which all twelve presidents signed the Brasilia declaration, whereby South American states officially delegated the conduction of IIRSA to the RDBs.[13]

5.2 Change of Strategies (2005–10): Becoming a Paymaster and a Challenger

During the following years, the IDB and CAF implemented the mandate of the Heads of State. They built up, in collaboration, a technical network made up of the national officials in charge of infrastructure and energy of each South American country. The RDBs set up a Portfolio of Projects organized according to a methodology of territorial planning, and they established the executive secretariat of IIRSA in the headquarters of the IDB in Buenos Aires.[14] Despite the high popularity that IIRSA had among political and economic elites across countries, the Brazilian state changed the strategy to supply infrastructure at its own cost by the middle of the 2000s. In parallel, a new regional actor, the Venezuelan state, undertook its own challenging strategy to become a player in the field of development finance.

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12 Interview with Ricardo Lagos.

13 “The Presidents decided to instruct to their governors at the IDB and the representatives in the international financial institutions to propose […] the adoption of all the measures needed to executed the annexed Action Plan in order to carry out studies, provide consultancy, and finance the implementation of the initiative for the development of the integration hubs of the future integrated economic space of South America. The Presidents stressed the singular importance of the coordination with the IDB and CAF, among other relevant international and regional organizations” (Declaration of Brasilia, Paragraph 44). This important Paragraph was suggested to the drafters of the declaration by officials at the Ministry of Planning and it was crucial to persuade the heads of state to endorse the idea to create IIRSA. (Interviews with Paulo Silveira, Ernesto Carrara, and Roberto García).

14 The Institute of Latin American Integration (INTAL), which belongs to the IDB, became the secretariat of the Technical Committee performing all the logistics and monitoring functions established in the IIRSA’s action plan.

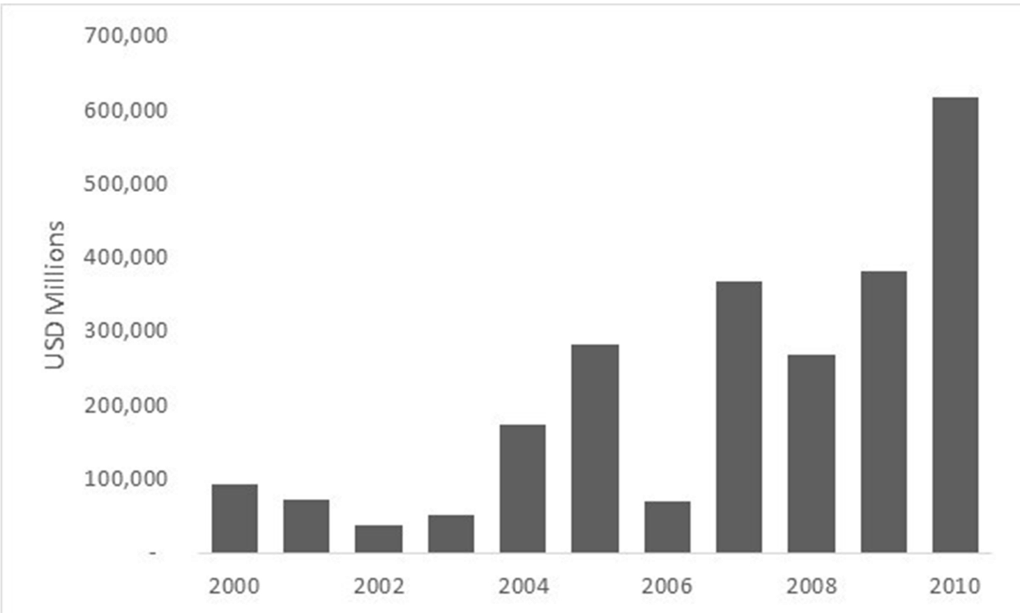
5.2.1 Paymaster: Regionalizing the Brazilian National Development Bank

According to my typology, we can recognize a "paymaster" state if we see attempts to put its own national financial instruments at the service of the supply of regional public goods. This is precisely what Brazil has done since 2005 by means of regionalization of its national development bank.

The Brazilian National Development Bank for Economic and Social Development (BNDES) was created in 1952 within the context of *developmentalism* (Sikkink 1991) with the mission to provide long-term financing for industrialization and modernization of Brazil. Ever since then, the BNDES has been the pivotal industrial-policy instrument of governments, whether democratic or authoritarian, left-leaning or right-leaning (see Alem/Cavalcanti 2005; Hochtetler/Montero 2013; Armijo 2016). Thus, it is not surprising that the liberal F.H. Cardoso envisioned that BNDES could play a role in the supply of huge infrastructure projects in the region. However, by the time when IIRSA was designed, the involvement of the BNDES was curtailed by the fiscal constraints and the devaluation of the national currency. These constraints were loosened during the first years of the government of Luiz Inácio Lula da Silva (2003–10).

As Figure 2 shows, the BNDES portfolio of investments more than doubled during Lula's two presidencies.

Figure 2: BNDES Exim Financial Assistance for Exports to South American Countries (in millions of USD)



Source: BNDES.

In 2003, the BNDES statutes were reformed in order to permit the support of investments made by Brazilian companies in foreign countries. Two years later, the Parliament approved norms allowing foreign direct finance and thereby the BNDES became an instrument for transformation of national champions (mainly in the construction, mining, and energy sectors) into truly transnational corporations (or *multilatinas*) (Schneider 2009; Hochtetler/Montero 2013; Armijo 2016). The obvious way to start such a process was to regionalize the operations of the firms investing in South American countries by means of expanding the BNDES Exim program oriented to provide credit lines to large companies with headquarters in Brazil.[15]

Through BNDES Exim, the bank provides credit with a low interest rate to South American governments to purchase (in the form of contracts) goods and services produced by Brazilian companies.[16] Strictly speaking, it does not finance, for instance, the project of constructing an international bridge – but it does finance all the services and supplies that the bridge construction requires and that are provided by Brazilian companies. Under this scheme, the bank finances the importer directly (in this case, a South American public or private entity) through a contract that includes the exporter (a Brazilian company). Hence, it is a pro-exports policy, which ensures that any private venture in a South American or a foreign country will yield benefits to the Brazilian economy. As a high official of the Brazilian Ministry of Foreign Affairs pointed out, the BNDES Exim benefits South American countries with tightly constrained access to capital markets as RDBs do, but it also benefits Brazil by increasing its exports and supporting national champions.[17]

To put it differently, through the Exim program, Lula's government was able to regionalize a strictly national developmental tool, and, at the same time, to render the Brazilian state closer to the paymaster of infrastructure in South America. Through the BNDES, the public goods supplied (energy plants, transport interconnections, etc.) are financed directly with Brazilian money and implemented by Brazilian firms. BNDES is not an intermediary like in an orchestration relationship; it is the Brazilian state itself that funds the public goods. To put it in theoretical terms, the relation between the Brazilian executive and the BNDES is hierarchical and not indirect as it is in an orchestration relation, such as the one set out between the Cardoso's governments, the IDB, and the CAF (Abbott et al. 2015). During the two administrations of Lula, the BNDES became not only an instrument of industrial policy but also an instrument of foreign policy and regionalism. Already during his first year in office, a new department of Regional Integration was created within the organizational structure of the national bank.[18]

Moreover, the BNDES did not establish a cooperation strategy with the IDB and the CAF, thus becoming another actor in an orchestration strategy. On the contrary, the BNDES portfolio of infrastructure projects was completely different from the IIRSA's, which may be taken as evidence that the Brazilian state – under Lula – was putting IIRSA aside, and seeking instead to become the paymaster on its own. Between 2005 and 2010, the BNDES financed seventeen projects through the Exim program: six were located in Argentina,

15 The BNDES Exim was created in 1997 as a way to expand a previous program FINAMEX that was limited to capital goods. BNDES Exim was open to all classes of goods and services. In 2011, BNDES created the BNDES Automatic Exim program, which gave exporters the proceeds for their high value-added industrial sales in Latin America up front, while participating banks with international operations with credit lines from BNDES provided financing to the importers (Hochstetler/Montero 2013).

16 Interviews with Luiz Alfredo Salomao and Leonardo Botelho.

17 Interview with Juan Carlos Parkinson: "Brazil sets the condition that all infrastructure projects must be implemented by Brazilian companies at a reasonable interest rate around four and five percent […] The Brazilian companies activate the BNDES, the BNDEs is provoked by the companies, it is an 'inductive' process, that is good and not good. It is good because the private sector is being stimulated and strengthen, and the stronger is your private sector, the stronger is your economy. But is not good, because the presence of the state is weakened, the Brazilian strategy does not exist" (original in Portuguese, translated by the author).

18 Interviews with Raphael Padula and Leonardo Botelho.

five in Venezuela, two in Peru and Uruguay, and one in each of the rest of South American countries. All these projects were designed and implemented by Brazilian national champions, with the giants Norbert Odebrecht SA and Camargo Côrrea ranking as top three companies in the reception of BNDES financial assistance for exports.[19] Over the years, these national champions were able to build up direct access both to the Presidency and to the board of the BNDES consolidating their already dominant position in the domestic and regional market (Armijo 2016). None of the projects implemented by these Brazilian companies through the BNDES coincides with the portfolio of projects approved by intergovernmental consensus contained in the IIRSA's portfolio. To state it in the terms of the theory of orchestration: the goals of Lula's government and the goals of the RDBs were no longer aligned, and hence the orchestration strategy set up by Cardoso became inviable.

5.2.2 The Challenger: Venezuela and the Creation of the Bank of the South

But Brazil was not the only state with leadership aspirations during the years of Lula's administration. Hugo Chávez came to office as President of Venezuela in 1998. During its first years, Chávez's administration was busy coping with its domestic agenda of political and economic transformations crudely threatened by an attempted coup in 2002. After that episode and after being confirmed into power by a referendum, Chávez decided to put an active foreign policy project at the center of his "Socialism of the 21st Century" domestic project. Regionalism and provision of regional public goods became the pivotal part of such a foreign policy, as illustrated by the active reaction against the US-led Free Trade Area of the Americas, the creation of the Bolivarian Alliance (ALBA), the withdrawal from the Andean Community, the accession to Mercosur, and, eventually, the creation of the Union of South American Nations (Unasur) and the Community of Latin American States (CELAC). All these actions radically transformed the historical tradition of Venezuela's foreign policy closely linked to the US and focused on the Caribbean and the Andean sub-regions. With Chávez's Bolivarian regionalism, South America became the platform from where to project power and diffuse the ideology (Serbin 2011).

From the viewpoint of my typology and as far as the strategy to supply public goods in South America is concerned, the Venezuelan regional strategy corresponds to that of a "challenger." We recognize a challenger when we see an attempt to reform existent financial institutions or create new financial institutions in order to carry out a regional strategy. In fact, between 2004 and 2010, Venezuela's strategy was openly challenging and was based on the creation of a new RDB, the Bank of the South, as a competitor of the IDB and the CAF and, arguably, of the BNDES. President Chávez took the idea of the Bank of the South from a broader financial governance project envisioned by President Rafael Correa from Ecuador (Páez 2012). In a nutshell, the basic idea behind the Bank of the South was that South American countries were investing at a loss in US Treasury bonds, hence financing US fiscal deficit and US foreign military actions. Instead, South American states could capitalize a new development bank governed by South American countries, backed

19 The construction and engineering sector is a highly concentrated market, with five large corporations controlling the entire market in Brazil. Medium and small enterprises indirectly benefit from the Exim credits by participating in the supply chain of the big players.

by the increasing accumulation of foreign reserves, and avoiding the conditionalities imposed by the World Bank and the IDB in exchange of the supply of public goods (Páez 2012; Sanahuja 2012).[20]

The Constitutive Act of the Bank of the South was signed in October 2007 by seven (out of twelve) governments: Brazil, Bolivia, Argentina, Ecuador, Uruguay, Paraguay, and Venezuela. The Constitutive Agreement was approved by the same countries in 2009, but its ratifications by the national parliaments of Brazil and Paraguay remain hitherto pending.

5.2.3 Explaining the Change of Strategies

According to my hypotheses, we should expect a shift from an "orchestrator" towards a "paymaster" strategy if there is a change in the expectations regarding material capabilities. Indeed, Lula's government started when the aftermath of the Asian financial crisis had been left behind and a favorable set of macroeconomic conditions was in motion. The Brazilian devaluation had the unexpected effect of boosting the competitiveness of Brazilian manufacture companies at the expense of its Argentinean competitors (Carranza 2003; Gómez-Mera 2013), while the explosive Chinese demand for raw materials and food bolstered the export sector and, particularly, the agribusiness, which was a sensitive industry highly skeptic towards Lula's foreign economic policy (Epsteyn 2010). The increasing accumulation of foreign exchange reserves and an economic growth around the five percent annual average paved the way for a paymaster strategy. Lula's government downplayed its participation in IIRSA, a creation of its antecessor and political opponent F.H. Cardoso, and instead undertook the regionalization of the BNDES and the *national champions,* a strategy that entailed twofold effects: at the domestic level, it allowed for forging a business-state coalition, while at the regional level, it allowed Brazil to become the paymaster of South American infrastructure (Burges 2008; Nölke et al. 2015). Furthermore, the most popular president in the world, as President Barak Obama once called President Lula, enjoyed sufficient legitimacy among left-leaning South American presidents to tone down the accusations of Brazilian sub-imperialism while expanding Brazilian foreign direct investment across the region.

According to my hypothesis, a challenger strategy comes about when a leading state expects to have the capabilities but not the legitimacy to pay the bill of public goods' supply. There is strong evidence to assume that the Venezuelan state under Hugo Chávez met those conditions. In fact, Venezuela faced similar positive macroeconomic conditions to Brazil during the 2004–09 period. The rise in the oil prices – Venezuela's main commodity – made it possible, on the one hand, to gain symbolic independence from the US (which nonetheless continued being the main market for its oil exports) and, on the other, to finance the highly expensive Bolivarian foreign policy. Nevertheless, legitimacy constraints prevented Venezuela from

20 "The financial independence is necessary to carry out our priorities, our own realities; with our resources we can create a bank of development [the Bank of the South] and our stabilization fund, the Fund of the South […] together with the Bank of the South we need the Fund of the South that will permit to gather together the international reserves put abroad; the sum of our reserves will make possible to multiply our capacity to respond to financial crises and balance of payment shocks, as well as to use these currencies for financing the development of our peoples" (Correa 2007).

undertaking a paymaster strategy. To be sure, Venezuela became the paymaster of small Caribbean states through programs such as Petrocaribe despite the suspicion of the Caribbean Community (CARICOM). However, strong opposition from states such as Colombia, Peru, and, to a lesser extent, Chile in a number of governance fields prevented the Chávez's government from becoming a paymaster of South American infrastructure in a similar vein as Brazil was attempting.[21]

In 2004, Venezuela withdrew its representative from IIRSA, and in 2005, it broke up relations with the IDB after its candidate for the presidency of the bank was ruled out, and the Colombian Luis Alberto Moreno became the successor of Enrique Iglesias. In 2006, President Chávez and President Evo Morales from Bolivia outspokenly criticized the IDB in front of all South American states, accusing it of applying financial and environmentally unfriendly criteria to select infrastructure projects. One year later, the new Bank of the South was set up. However, neither Peru nor Chile and Colombia signed its Constitutive Act.[22] Furthermore, Brazil deployed diplomatic efforts to take the Bank of the South out of the agenda of the summit of Isla Margarita in 2007. President Lula publicly stated that he did not understand what the function of such a new bank would be. Indeed, the Brazilian position in the Bank of the South's negotiations consisted of watering down the Venezuelan proposals and delaying its entering into force. Although Brazil signed the Bank of the South Constitutive Act, probably to keep an eye and a voice on the process, the Brazilian parliament blocked its ratification.[23]

5.3 Absence of a Strategy: When Legitimacy and Capability Are Missing (2010 onwards)

Since 2010, the paymaster and the challenger strategies undertaken by Brazil and Venezuela respectively, started to fade out. The lack of initiative of both regional powers and, as will be discussed below, the presence of extra-regional actors filling the "initiative gap," chiefly China, match the observable implications of what I have called a "no-strategy" scenario.

21 South American countries opposed the Venezuelan proposal of a South American Security Alliance (SATO); they were reluctant followers of energy integration initiatives; and at least for countries opposed the creation of the Bank of the South. Not to mention the harsh intergovernmental tensions with the government of President Alejandro Uribe from Colombia.

22 Interview with Marcela Espinoza: "Chile gives money only because we don't want to be bothered. We have doubts about the utility of the Bank. We are against the creation of yet another Bank beside the already existent ones such as the World Bank, the IDB, the CAF, and the private banks. The creation of the Bank of the South has an ideological rationale: to create a friendly Bank (*un banco buena onda*) that provides finance to the countries of the region without imposing conditionality. In fact, Argentina has criticized the CAF and the IDB for having high conditionality; Chile does not want to end up transferring money to countries without resources" (original in Spanish, translated by the author).

23 Interview with Renato Baumann: "Nobody in Brazil wanted the Bank of the South. We participated because we could not be left out. The Brazilian participation in the Bank is not specified yet, and I have more doubts that certainties. It is bank designed with political objectives and therefore it will be not triple A and if it is not triple A it will not be able to compete with the World Bank or the IDB. At which level is going to start? With A to end up in triple A? Which kind of project is it going to finance? The risk of being used for political goals by Venezuela is too high" (original in Portuguese, translated by the author).

The lack of initiative is evidenced in the field of development financing in general and in the supply of regional public goods in particular. From the Brazilian side, the federal government drastically cut off the credit lines of the BNDES Exim program for new infrastructure foreign investments, limiting the bank to finance exclusively those projects already in the pipeline, such as the Rio Magdalena Waterway (carried out by Odebrecht SA) and the Hidroituango electric plant (executed by Camargo Correa), both in Colombia. From the Venezuelan side, in turn, the Bank of the South has been indefinitely put on stand-by. Not only Colombia, Peru, and Chile have opted out, but also Paraguay and Brazil have not ratified the Constitutive Act and Argentina (ruled since January 2016 by a central-right government) has announced the intention to withdraw from the Bank (Amorim/Vega/Bacil 2016: 10).

The absence of a strategy is largely explained by the low capabilities and legitimacy expectations that both regional powers have held during the period. Brazil's economic growth started to slow down by the middle of Dilma Rousseff's first period (2010–14) and entered into recession at the beginning of her second administration. The inflation rate, in turn, raised from 6.5 percent in 2011 to 10.7 percent in 2015. Low growth expectations and the worsening of macroeconomic indicators forced Rousseff's economic team to take fiscal consolidation measures (the Fiscal Responsibility Law), contracting the replenishment of the BNDES's capital and freezing its credit lines.[24] Venezuelan capability expectations, in turn, plummeted alongside the steady drop of international oil prices starting in 2009. Venezuela entered into deep recession in 2014, with an inflation rate amounting to 181 percent in 2015. As a consequence, the Venezuelan state froze some of its South-South cooperation initiatives both in the Caribbean as well as in South America.

Legitimacy expectations of both regional powers have also significantly eroded, preventing them from becoming orchestrators, not to say paymasters, of any regional strategy. In fact, the paymaster strategy undertaken by Brazil during the two Lula administrations was possible thanks to a business-government coalition that came to be questioned domestically and regionally at the end of Lula's second administration. At the domestic level, the Parliament questioned the fact that the BNDES operations in foreign countries (by the EXIM Program) were kept out of the public scrutiny by a policy of bank secrecy. In June 2012, a Transparency Law[25] entered into force, obliging the BNDES (as any other state agency) to provide all information requested by natural and legal persons (Armijo 2016). Nonetheless, some contractual aspects of EXIM operations between the construction companies and the foreign governments were kept classified (Fonseca/Mota 2013). In 2014, a judicial investigation started uncovering a network of cronyism and traffic of influence between the state-owned energy company Petrobras, congressmen from various parties, including the Workers' Party, and executives of national champions (such as Norberto Odebrecht SA), resulting in the erosion of Dilma Rousseff's legitimacy and paving the way to a political maneuver to remove her from office. In the framework of those investigations, a Parliamentary Commission was set up to investigate presumed irregularities in the operations of the BNDES during the period 2003–13 that coincides with the years of the paymaster strategy. The Director of the Division of Foreign Trade of the BNDES was requested by the Commission to explain the operations of the Exim Program and the credits to

24 In October 2013, the Brazilian Minister of Finance declared that "[BNDES] funds will always decrease year by year, tending to zero" (Safatle 2013).

25 Lei de Acesso à Informação (Lei No. 12.527/2011).

large construction companies.[26] In March 2016, the president and high executives of Norberto Odebrecht SA were prosecuted and condemned to prison on charges of bribery and money laundering (Watts 2016).

The BNDES and the Brazilian national champions have been also called into question by neighboring countries at the regional level. In 2008, Ecuador had a significant dispute with Norberto Odebrecht SA regarding a hydroelectric plant that failed to be built to specification, which resulted in outages due to dam shutdowns, as well as in damages to aquifers and springs. President Rafael Correa froze the company's assets and requested the annulment of the debt associated to the 243 million USD loan from the BNDES before the International Court of Arbitration. The government of Ecuador withdrew the visas of top executives of Odebrecht, unleashing a diplomatic reaction by Brazil. Eventually, the measures were reconsidered, and Nestor Odebrecht SA was allowed to operate again in 2011 (Ecuador Review 2015).

In the case of Venezuela, legitimacy expectations were never high enough to allow for undertaking a paymaster strategy in South America. Hugo Chávez's Bolivarian regionalism failed from the outset to bring about a collective consensus between liberal-market economies (Chile, Peru, and Colombia), and state-led capitalist economies (Venezuela, Ecuador, and Bolivia). The death of President Chávez and the increasing political violence unleashed after the election of President Nicolás Maduro in April 2013 further eroded the legitimacy of Venezuelan foreign policy, fending off previous moderate followers such as Uruguay and Argentina (Palestini/Agostinis 2015; Closa/Palestini 2015). The legitimacy of Venezuela as a leading state has been further undermined by the decision of President Maduro in 2015 to reduce programs of regional cooperation in the framework of the Bolivarian Alliance (ALBA) and Petrocaribe in order not only to avoid a default, but also to serve the oil supply-debt with China.

When leading states within the region retreat, someone must fill the gap of political initiative. The analysis of the last five years shows a mix scenario in which, on the one hand, the extant RDBs and the World Bank have returned to financing national rather than regional infrastructure projects, and, on the other hand, the China Development Bank (CDB) has become a new player in field of development finance.

As far as the extant MDBs are concerned, the provision of lending of the World Bank and the IDB has remained constant in the period from 2010 to 2015. However, the presence of the World Bank loans in certain countries such as Colombia and Peru has definitely expanded with a simultaneous contraction in Venezuela and Argentina. This is a preliminary indicator that the World Bank and perhaps the IDB are coming back not with a "regional" strategy, but rather with a "selective" strategy that targets countries with pro-liberal market governments (Rivasplata/Torres 2016).[27]

26 The questions addressed to the Director of the Division of Foreign Trade by the congressmen can be summarized in three main points: 1) the influence of foreign policy preferences of the government in the destination, rates and maturities of the credit, favoring certain countries over others; 2) why use national resources in the funding of public goods in third countries; 3) the involvement of the President of the Republic to facilitate the operation of specific companies in foreign countries (Odebrecht) (Câmara dos Deputados 2015: 18f).

27 In fact, the World Bank launched the Global Infrastructure Facility (GIF) anticipating the launching of the Global Center of Infrastructure by the G20. The GIF allows for the leverage of long-term funding for infrastructure from public treasures, capital markets, and MDBs in different regions. The World Bank's systemic goal is to recover the level of private investment in infrastructure aiming mainly transnational corporations (World Bank 2015).

But the most noticeable presence in the region during this period does not come from the extant MDB, but rather from China. Chinese financial institutions are the new players in town when we talk about financing infrastructure in South America. In 2010, for the first time in history, the Chinese sovereign lending overtook the lending made by the IDB, CAF, and the World Bank combined. By 2015, the CDB and the China Export-Import Bank (CHEXIM) lent more than the IDB, CAF, and the World Bank together. The same way the South American governments did with the BNDES before, South American companies, including huge Brazilian companies such as Tele Norte, borrow from the CDB loans to buy the services of Chinese companies such as Huawei or ZTC.[28]

The CDB became one of the most salient Chinese institutions when Chen Yuan, son of one of the "eight elders" of modern China was appointed its Chairman in 1998 (Sanderson/Forsyth 2013). The CDB mainly supports China's macroeconomic policies by financing energy and infrastructure projects, including loans to firms for foreign investments. Its loans are non-concessional, thus, offered at commercial interest rates. Concessional loans are provided instead by CHEXIM, the export credit agency (Bräutigam 2011). Most of the loans by the CDB and the CHEXIM to South American countries go to finance large infrastructure, energy, and mining projects that include emblematic regional public goods such as the Twin Oceanic Railway (linking Peru and Brazil), and national projects such as the Ilha and Jupia hydroelectric plants in Brazil and the rail network modernization project in Argentina. In the case of the Brazilian hydroelectric plant, the financial arrangement includes several commercial banks but boldly excludes the BNDES and the RDBs what may be taken as an indicator of a "challenger strategy" by China (Valor Econômico 2015).

A subset of loans consists of loans-for-oil deals, a singular arrangement that includes the CDB as the creditor, the Ministry of Finance from the South American country as the debtor, the national oil company (e.g. the Brazilian Petrobras or the Venezuelan PDVSA), and the Chinese company that will import the oil. The bulk of these loans goes to oil exploration and extraction in countries such as Brazil, Ecuador, and Venezuela. As it was mentioned above, due to the economic crisis, Venezuela had to reduce its own programs of oil-diplomacy in the Caribbean to serve the commodity-debt with China.[29]

In 2012, CHEXIM and the IDB joined forces to set up a joint investment platform that includes a Latin American-China Infrastructure Fund and a Natural Resources Fund that will focus on infrastructure, mining, and energy projects. Any such "inter-development banks cooperation" might be interpreted as an attempt by the IDB to prevent being left behind. But it can also be interpreted as a successful attempt to lock Chinese investors into the IDB social and environmental standards.

28 Interview with Joao Carlos Parkinson: "The increasing presence of China entails a well-planned central strategy. It is not random that China approached Venezuela, Ecuador, and Argentina with credit offers to finance energy infrastructure projects for those countries, in areas that normally would be reserved to Brazil. In 2012, there was a clear signal of competition between China and Brazil regarding regional infrastructure" (original in Portuguese, translated by the author).

29 These Chinese loans-for-oil arrangements are called "shiyou, xindai, gongcheng yi lanzi hezuo xiangmu" (cooperation package of oil, credit, and construction projects). Similar programs have been developed with Angola, Kazakhstan, and Russia (Gallagher 2016: 76).

But probably the most important event in this recent period was in January of 2015, when China hosted the first China-CELAC cooperation summit in Macao. Several new initiatives came out of the summit that might be seen as the highest point of the “yuan diplomacy” strategy in Central and South America. Among these initiatives, China agreed to create a Latin America Infrastructure Cooperation Special Fund.

It is too soon to evaluate the consequences of the retreat of the South American regional powers and the arrival of external public goods suppliers such as China. It can be argued that when the regional initiatives such as IIRSA are led by leading states and financial institutions within the region, other states have more room for making their preferences count (Humphrey/Michaelowa 2013). In the absence of a regional collective strategy, South American governments must adapt to the policy and financial preferences of the extant multilateral financial institutions and, increasingly, China’s development banks (Bräutigam 2011). Furthermore, the replacement of a regional developmental strategy for traditional external development aid contributes to the fragmentation of the region and the proliferation of bilateral schemes, resulting in the inefficiency and overlapping of regional initiatives and schemes that characterize the Americas and other regions of the global south (Gray 2014; Söderbaum/Brolin 2016).

6. Conclusions

This article has sought to explain the different collective strategies that regional powers undertake when supplying public goods in their regions of influence. By doing so, the article has contributed to bridging the literature on comparative regionalism and the IPE studies on financial development institutions such as RDBs.

Anecdotic evidence from Southeast Asia, Africa, and the Americas shows a variety of possible strategies that include the orchestration of multilateral financial institutions (chiefly RDBs) as intermediaries to coordinate and finance regional developmental programs, the NEPAD Infrastructure Project Facility and the Initiative for ASEAN Integration being cases in point. The creation of the Eurasian Development Bank (EDB) and the Asian Infrastructure Investment Bank (AIIB) illustrates a different strategy that consists of creating new challenging multilateral financial institutions. Finally, the use of their own national development banks by Brazil and China illustrates yet a third strategy that gets closer to what students of comparative regionalism have called a “paymaster” state strategy (Mattli 1999).

I have argued that we can account for these different strategies by formulating hypotheses regarding the capabilities and legitimacy of states with leadership aspirations. Departing from the mainstream literature on regional powers that treats power as a constant, I have contended that the strategies of states with leadership aspirations vary over time alongside changes in their self-perceptions of capabilities and legitimacy that can be detected through process tracing analysis. Drawing on the case study of regional infrastructure in South America, I have explained how and when the Brazilian state became an “orchestrator” of RDBs (between 2000–05) and later on a “paymaster” by making use of the BNDES to foster Brazilian construction companies’ long-term investment in the region (2005–10). Conversely, low legitimacy prevented the Venezuelan state from becoming a paymaster of South American infrastructure despite its ambitious foreign policy goals. Instead, Venezuela attempted to “multilateralize” its financial aid by creating a new RDB.

Future research can apply the set of hypotheses tested here against the South American case to other governance fields (such as monetary cooperation) as well as other regions (such as the NEPAD initiatives in Africa, the regional cooperation initiatives within the Eurasian Economic Community, or the Growth Triangles initiatives in Southeast Asia).

Certainly, there are alternative explanations to the different strategies pursued by regional powers that must be discussed in future articles. Sebastian Krapohl (2015) has explained, for instance, the variation in regional powers' interest in supplying regional public goods (e.g. financial stability by regional liquidity arrangements) by the degrees of "economic and institutional embeddedness" of those states in their respective regions. In my view, economic embeddedness (a new name for the old economic interdependence argument) explains the intensity of regional powers' preferences for supplying a certain collective good. However, it does not explain the various strategies that such a regional power can follow, which has been the primary purpose of this article. Other alternative theoretical explanations that must be considered are the sense of ownership that states in a region hold regarding the existent RDBs (identity-based explanation), the structure of incentives that external financial actors shape or impose upon the states in the region (conditionality-based explanation), and the economic policy ideas embodied by ruling coalitions in powerful states that can influence the perception that states have of regional public goods (domestic politics-based explanation).

The explanatory framework used here has focused on the regional powers' preferences and strategies. The framework can be further improved and refined by introducing the agency of RDBs into the analysis. In fact, multilateral financial institutions should not be treated as passive agents of governments acting as their principals, because they can also act as policy-framers and orchestrators of states and other non-state actors. Moreover, states – within the region and outside the region – can also influence the RDBs behavior through their voting power within the RDBs boards, a dimension that has not been brought to analysis here (see Strand 1999; Kilby 2011). A further limitation of the framework offered here is that it has not dealt with the effect of the policy outcomes that leading states and financial institutions supply. In other words, the questions of "how good are the public goods" or "what is good regional development governance" must be addressed by future research (see Bruszt/Palestini 2016; Söderbaum/Brolin 2016).

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Annex I: List of Interviews

Number	Name	Institutional Affiliation	Place and date	Interviewer
1	Samuel Pinheiro Guimarães	Former General Secretary of the Ministry of Foreign Affairs (Brazil)	Brasilia, 19 November 2012	Stefano Palestini
2	Juan Carlos Pakinson	Director of Economic Relations of South America, Ministry of Foreign Affairs (Brazil)	Brasilia, 22 November 2012	Stefano Palestini
3	Renato Baumann	Former Official, Ministry of Planning (Brazil)	Brasilia, 22 November 2012	Stefano Palestini
4	Ernesto Carrara	National Coordinator from Brazil at IIRSA and COSIPLAN. Official Ministry of Planning (Brazil)	Brasilia, 23 November 2012	Stefano Palestini
5	Sergio Leo	Journalist of Valor Econômico, specialist in Brazilian foreign policy	Brasilia, 21 November 2012	Stefano Palestini
6	Leandro Couto	Director Department of Management, Ministry of Planning (Brazil)	Brasilia, 21 November 2012	Stefano Palestini
7	Helena de Almeida Cantizano	Assessor of Foreign Affairs Ministry of Mining and Energy (Brazil)	Brasilia, 19 November 2012	Stefano Palestini
8	Darc Costa	President of the Federation of the Chambers of Commerce and Industry of South America, Former Vice-President of the BNDES (Brazil)	Rio de Janeiro, 8 November 2012	Stefano Palestini
9	Luiz Alfredo Salomão	School of Public Policy, Federal University of Rio de Janeiro (Brazil)	Rio de Janeiro, 9 November 2012	Stefano Palestini
10	Raphael Padula	Professor of Political Economy at the Federal University of Rio de Janeiro (Brazil)	Rio de Janeiro, 8 November 2012	Stefano Palestini
11	José Tavarés	Director Center of Studies in Integration and Development (CINDES) (Brazil)	Rio de Janeiro, 17 0ctober 2012	Stefano Palestini
12	Claudia Amarante / Leonardo Botelho	Department of International Institutional Relations, BNDES (Brazil)	Rio de Janeiro, 1 November 2013	Stefano Palestini
13	José Luiz Pimienta	Coordinator International Negotiations, Industrial Federation of São Paulo (FIESP) (Brazil)	São Paulo, 14 October 2012	Stefano Palestini

14	Roberto Cavalcanti / Maria Celina de Azevedo	Director, Department of Infrastructure, Federation of Industries of the State of São Paulo (FIESP) (Brazil)	São Paulo, 14 October 2012	Stefano Palestini
15	Terra Budini	Secretary of International Relations, Worker's Party (PT) (Brazil)	São Paulo, 19 November 2013	Stefano Palestini
16	Ricardo Lagos	Former President of the Republic (Chile)	Santiago, 17 December 2013	Stefano Palestini
17	Rigoberto García	Ministry of Public Works (Chile), National Coordinator at IIRSA/COSIPLAN (Chile)	Santiago, 15 March 2013	Stefano Palestini
18	Marcela Espinoza	Department of Borders and Limits, Ministry of Foreign Affairs, Chile. Representative of Chile at IIRSA/COSIPLAN (Chile)	Santiago, 15 March 2013	Stefano Palestini
19	Fernando Simas Magalhães	Ambassador of Brazil in Ecuador (Brazil)	Quito, 10 December 2013	Stefano Palestini
20	Mauro Marcondes	Inter-American Development Bank (IIRSA coordinator, 2003–08) (Brazil)	Online interview, 20 April 2015	Stefano Palestini
21	Ricardo Terrazas	Director of Projects South American. Latin American Development Bank (CAF)	Online interview, 24 April 2015	Stefano Palestini
22	Paulo Silveira	Former Secretary of Planning (Brazil), Consultant at the Inter-American Development Bank (IIRSA) (Brazil)	Online interview, 4 May 2015	Stefano Palestini
23	Marden Barboza	Ministry of Finance, Secretary of International Affairs (Brazil)	Brasilia, 14 November 2013	Stefano Palestini
24	Felipe Lampreia	Former Minister of Foreign Affairs of Brazil (1995–2001) (Brazil)	Rio de Janeiro, 27 July 2015	Carlos Closa

The Kolleg-Forschergruppe - Encouraging Academic Exchange and Intensive Research

The Kolleg-Forschergruppe (KFG) is a funding program launched by the German Research Foundation (Deutsche Forschungsgemeinschaft - DFG) in 2008. As a Research College, it is intended to provide a scientifically stimulating environment for innovative research within a small group of senior and junior researchers.

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- The EU and Regional Institutions in Latin America, Africa, the Middle East and Asia
- Europe and the EU and Recipients of Diffusion

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