The G20, Latin America, and the Future of Regional Integration

By Nancy Alexander, Heinrich Böll Foundation North America
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With appreciation for input from staff of the Heinrich Boell Foundation and Aldo Caliari of the Center of Concern
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- In “The G20 and Latin America’s Regional Financial Architecture,” Rodriguez shares her perspective that the momentum for regional integration is slowing now that Brazil and Argentina have joined the G20. Page 12.

- “Brazil Challenges U.S. Hegemony and Flexes its Muscles in the G20” by Alexander describes not only the new power relations between the U.S. and Brazil as well as the extent to which Brazil has influenced the outcomes of G20 meetings. Page 14.

- In “Mexico, Brazil and Argentina: Requirements for Joining the G20 Club,” Alexander describes the policy commitments that these countries have made and how the IMF monitors them. The three countries also took on new responsibilities for advancing international development. Page 17.
Priorities of the G20 for 2011

By Nancy Alexander

The G20 is a body of 19 countries plus the European Union that was created in 1999 to respond to the Asian financial crisis.¹ For nearly a decade, it was an annual gathering of finance ministers and central bankers. In 2008, the G20 became a forum for Presidents and Prime Ministers in order to deal with the US-triggered global financial crisis.

There are 173 UN member countries which are excluded from the G20, but many people believe that the creation of the G20 improved global economic governance by expanding the G8. In addition, they claim that the G20 has legitimacy because its member countries account for 85% of global output and two-thirds of the global population.

While a G20 may be preferable to a G8, the G20 lacks balanced regional representation. For instance, the region of Latin America and the Caribbean is represented by only three countries: Argentina, Brazil and Mexico. The continent of Africa is represented only by South Africa. And, for the most part, each G20 country represents its own interests, not those of its neighbors. Although it lacks a representative character, the G20 declared itself “the premier forum for international economic cooperation.” Now, at the pinnacle of global governance structures, the G20 is giving mandates to dozens of other global institutions (e.g., the World Bank, the World Trade Organization, UN Agencies) which, in turn, become accountable to the G20. This is problematic because it further marginalizes the countries that are not members of the G20.

The next two Summits will take place in France (November 2011) and Mexico (in the first half of 2012). The priorities of the French G20 Summit relate to:

1. Reforming the international monetary system (IMS)

The French Presidency would like to reform the international monetary system in order to establish collective responses to prevent “currency wars” (competitive devaluation of currencies) and re-balance the global economy. This agenda is important to Latin America. The values of the US dollar and the Chinese renminbi relative to Latin American currencies (e.g., the Brazilian real) have undermined competitiveness of the Latin American region. For instance, imports from China are contributing to de-industrialization in Brazil and a reorientation of the economy toward raw materials.

Meanwhile, a weaker U.S. dollar, high commodity prices, and investment opportunities are causing a massive flood of capital flows into emerging market economies, particularly Brazil. As these economies over-heat, governments must then wrestle with how to prevent a massive and destructive exit of capital flows.

¹ Members of the G20 include the countries of the G8 -- Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and the United States; 9 emerging market countries: Argentina, Brazil, China, India, Indonesia, Mexico, South Africa, South Korea, and Turkey; Australia and Saudi Arabia; and the European Union.
2. Strengthening financial regulation
Although governments should be undertaking reforms to help ensure that another global recession or depression does not occur, the power of the financial industry is blocking many such reforms. Nevertheless, the French Presidency is attempting to strengthen financial regulation in areas where it has proved insufficient, for example in the commodity markets.

In addition, it is promoting new sources of innovative financing, particularly the financial transaction tax (FTT), which could provide critical resources for purposes, such as climate change (adaptation and mitigation) programs and social protection.

3. Enhancing food security and combating commodity price volatility
Many factors are contributing to high and volatile prices for agricultural commodities which are increasing the incidence of hunger and malnutrition. The French Presidency will focus on: 1) how to deal with food price increases; 2) measures to increase global food output; and 3) rules on investment in the farm sector (e.g., dealing with land grabs). In particular, it will announce a new Agricultural Market Information System (AMIS), which would gather information on food stocks and markets around the world, encouraging much greater transparency and information-sharing than currently takes place.

Many civil society groups are urging the G20 to establish a food reserve system; stop allocating land for biofuels rather than food production; support women's access to land, credit; and invest in mitigation and adaptation to climate change, including through reliance on organic agriculture.

In addition, the French presidency will help identify collective solutions in order to reduce excessive commodity price volatility – particularly of agricultural and energy commodity prices – which undermines world growth and threatens food security. There is conclusive evidence that links excessive speculation, particularly by Index Funds, to volatile commodity prices. As discussed below, many governments deny this connection. Therefore, the French government deserves credit for seeking to regulate excessive speculation.

4. Supporting employment and strengthening the social dimension of globalization
The French Summit promotes four priority goals: employment, particularly for young people and the most vulnerable; the consolidation of the social protection floor; respect for social and labor rights; and more coherent strategies by international organizations. The labor and employment ministers will meet to discuss this agenda at the end of September 2011.

**Jobs.** Ministers should insist that G20 Leaders and international organizations focus not just on fiscal deficits, but also the deficit in decent jobs. In Latin America, job growth is largely in the service sectors where women are disproportionately represented. Moreover, precarious employment is widespread. Without such efforts, the need for social protection programs will continue to grow.

**Social Protection.** On May 10, 2011, representatives from Argentina, Brazil and Mexico signed the “Declaration of Brasilia on the Social Protection Floor” at a G20 consultative
meeting organized by the governments of Brazil and France with support from the ILO. The
governments pledged:

- the development of better social protection coverage;
- cooperation between international organizations and countries to facilitate the con-
  struction of sustainable national social protection systems;
- ILO support for countries to monitor the implementation of social protection floors;
- greater cooperation and exchange of knowledge on social protection and increased
  support for low-income countries to implement social protection policies.

At another meeting on May 2-3, 2011, the OECD met with Russia, Brazil, Indonesia and
South Africa to generate recommendations to the G20.²

6. Acting for development
In November 2010, at the G20 Summit in Seoul, South Korea, the G20 adopted a Multi-
Year Development Action Plan (DAP). In implementing this Plan, the top two priorities of
the French Presidency are infrastructure and food security in the most vulnerable countries.
There are four major problems with the DAP:

a) Democracy. The DAP was designed by the G20 with inadequate input from low-
income countries (including parliaments and civil society), which are the intended ben-
eficiaries of the Plan.

b) Discredited Economic Policies. The DAP promotes an agenda of liberalization and
privatization which, in some respects, looks like the old, discredited “Washington
Consensus.”

c) A Weak Social Dimension. As noted above, the G20 needs to recognize that the
deficits in “decent work” and social protection are as serious as some budget defi-
cits. Among other things, this means ensuring that budget austerity programs do not
unfairly target programs in these areas.

d) Climate. Despite the DAP’s emphasis on infrastructure (e.g., energy and transport)
and agriculture, the G20 has no apparent program to encourage a low-carbon develop-
ment path.³

Trade Integration
Another G20 priority relates to building institutions to promote regional integration, includ-
ing mechanisms for designing and financing regional infrastructure projects, in Asia, Africa,
and Latin America. It is critical that civil society and parliamentarians play a key role in
these plans.⁴

.oecd.org/document/0,3746,en_21571361_47089446_47746169_1_1_1_1,00.html
³ However, the G20 has asked the World Bank to work with a range of institutions (especially IMF, the Inter-American Development Bank,
and other regional development banks) to analyze the sources of climate change financing.
⁴ En el marco del primer encuentro del Consejo Suramericano de Economía y Finanzas de la UNASUR, un conjunto de organizaciones y
movimientos sociales de Latinoamérica en June 9 con el objetivo de avanzar en una propuesta común para abordar las temáticas
vinculadas a la integración económica regional. At this time, they presented a pedido de audiencia a los funcionarios asistentes, a los
efectos de elevarles nuestras propuestas y demandas en torno a la discusión de una nueva arquitectura financiera regional, que sirva a los
Progress toward integration is slow in Latin America compared to other regions. In Western Europe, trade within the region ("intra-regional" trade) exceeds 60% of all trade. In Asia and Latin America, intra-regional trade represents about 35% and 20% of all exports, respectively.

To foster sustainable regional integration, some important questions include:

- Brazil accounts for about half of the total production of South America (60% of total manufacturing value and about half of agricultural production). How can Brazil’s dominant position be harnessed in ways that have shared benefits for the region?
- How can the export of industrialized products be increased while still maintaining a low-carbon development path? Most of Brazil’s exports to other countries in the region and the U.S. were manufactured products. In contrast, its primary exports to Europe and Asia are commodities.
- What types of infrastructure priorities support: a) trade in (value-added) manufacturing products versus trade in commodities products (e.g., iron ore, copper, copper ores and concentrates, and soya derivates)? b) trade within the region versus trade with other regions of the world?
- Since the Latin America and the Caribbean region represents only 6% of the world’s total production (gross domestic product), how great is the potential for integration? How important are economies of scale to sustainable patterns of productivity?
- How important is it for Latin America to reduce poverty and increase the size of its middle class, not only because it is the right thing to do, but also to increase demand for the region’s products and services?
- To promote low-carbon development, how might it be possible to shift from reliance on industrial agriculture to organic farming approaches? How can the right to food sovereignty be honored?
- Preferential trade agreements, such as MERCOSUR, establish trading priorities and patterns. What types of preferential trade agreements exist now? Which agreements should countries in the region execute in the future? Should future agreements be concentrated among countries within the region?
- Is it possible or desirable to change the trade patterns of transnational corporations (TNCs)? The subsidiaries of TNCs account for half of total industrial exports and most of the exports of products with medium- to high-technological content.

The G20 must not follow in the footsteps of the G8, which promoted “market fundamentalism” with negative consequences for society and the natural environment, including the climate. Yet, to date, the G20’s financial and economic agenda has only a weak social dimension and no environmental dimension at all!

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In addition, the G20 must not undercut democratic processes by setting too many rules at the global level. For democracy to function, governments must be able to respond to the will of the people – the electorate – at a local, national and regional level. Parliaments and civil society groups must ensure that the G20 democratizes governance and preserves “political space” for democracy to work at these levels.

Box 1 China and Latin America

China has become a member of the Inter-American Development Bank (IDB). Moreover, the Inter-American Development Bank (IDB) and the Export-Import Bank of China (China Eximbank) signed a letter of intent to establish an infrastructure investment mechanism to finance public and private sector projects in the IDB borrowing member countries.

The two institutions also signed a Memorandum of Understanding that marks an important first step to set up an investment fund to explore opportunities in key sectors of interest to both regions.6

Already, Sino-Latin American trade has risen from $12 billion in 2000 to more than $140 billion in 2010. China is the largest export market for Brazil and Chile and the second largest for Argentina, Colombia, Peru and Venezuela. Ninety percent (90%) of Latin American exports to China originate from only four countries – Argentina, Brazil, Chile and Peru. China has given significant loans to countries throughout the region (In 2010, $10 billion to Argentina to renovate its aging railway system).7 China’s land acquisitions have been more prominent in Africa, but in recent years South America has received attention as well. In 2010, a Chinese firm’s lease of 320,000 hectares of Argentine land created opposition after the signed deal became public.8

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6 http://www.iadb.org/en/annual-meeting/2011/annual-meeting-article,2836.html?amarticleid=9323
7 Sebastian Castaneda, “Chinese Take-Over of South America,” Foreign Policy In Focus, April 18, 2011.
8 Ibid.
Latin American Participation in the G20

By Graciela Rodriguez, International Gender and Trade Network

When the G8 was expanded to form the G20, three Latin American countries – Brazil, Mexico and Argentina – were invited to participate. The three countries, in this order, are the largest economies on the continent and, for this reason, they were invited to join the select club.

Latin America has bargaining power on the world stage because the region holds more than US$600 billion in foreign reserves, half of which is held by Brazil. With reserves of US$328 billion, Brazil was the seventh largest holder of reserves in the world. This buys influence over the regulation of the financial system, the management of capital flows and global liquidity, and the financing of the U.S. fiscal deficit. For this reason, and despite the high political and economic costs involved, the three countries have defended the legitimacy of their reserve accumulation strategy. Northern countries in the G20 would like Latin America to rely upon the IMF in times of emergency, but Latin American nations, like Asian nations, prefer to rely upon their own reserves.

The three Latin countries do not share a coordinated vision or action plan for their participation in the G20, especially since the two Southern countries have fundamentally different economic principles than Mexico. Mexico signed 44 Free Trade Agreements, starting with NAFTA, whereas Brazil and Argentina have signed fewer trade liberalization agreements, remembering for example the failed negotiations of the Free Trade Area of the Americas. This was an important watershed, distinguishing Mexico from its Southern neighbors.

Despite the fact that Mexico has signed many free trade agreements, it continues to send more than 80% of its exports to a single destination – the U.S. Meanwhile, the two South American economies, Argentina and Brazil, chose to follow a path that favored trade within MERCOSUR, while still diversifying their export markets by adopting a South-South strategy. This diminished the relative importance of their trade with the U.S. and the EU, while significantly expanding trade with China and other countries.

As an essential part of the solution to their economic slowdown, the US and many other developed countries would like to see China, Germany and other countries, such as Brazil and Argentina, reduce their trade surpluses. However, to an extent, the South American strategy has been successful in avoiding the crisis, thanks to the distance taken from free trade recipes.

One issue that has facilitated some rapprochement between Latin American positions within the G20, especially between Brazil and Argentina, has been the regulation of commodity prices. In May 2011, Argentina hosted a meeting of G20 officials to address the volatility of commodity prices. In announcing the meeting, Argentina’s Finance Minister Amado Bou- dou said revealed there is a “G4” comprised of Brazil, Australia, South Africa and Argentina, all important producers and exporters of agricultural commodities.

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9 The top holders of reserves in the first quarter of 2011 are: China (US$2.6 trillion); Japan (US$1.3 trillion), Eurozone (US$850 billion), Russia (US$500 billion); Saudi Arabia (US$456 billion); Taiwan (US$387 billion); and Brazil.
Brazil and Argentina are eloquent defenders of the need to tackle commodity market volatility and food insecurity by combating excessive speculation and derivatives markets. There are signs that Mexico is coming around to this position as well (see box 2).

Brazil and Argentina have also suggested policies aimed at strengthening family farming, food stocks and acquisition policies, among other proposals, which have produced successful results for them. Clearly, the positions of the two governments are somewhat ambiguous, as they are an attempt to accommodate the conflicting and often contradictory interests of the agribusiness sectors and social movements.

Meanwhile, Brazil opposes the kind of commodity price regulation practiced by China. While China is the largest importer of agricultural products in the world, other members of the BRICs are among the leading exporters of natural resources. The BRICS will continue to work towards a common position on how to address commodity price volatility.

Box 2  Mexico Would Curb Excessive Speculation in Commodities

Excerpt from the statement of Ernesto Cordero, Secretary of Finance and Public Credit, “Comments on Development Committee Agenda of the IMF and World Bank,” April 16, 2011

“In Central America, El Salvador is increasing anti-poverty programs by 30% to deal with food price rises. Guatemala is considering slashing import tariffs on wheat and is handing out food and cash vouchers to landless peasants. In Mexico, the government bought future corn contracts in December to hedge against price increases until the third quarter of 2011.”

“...If high prices can be good for farmers, while low prices are good for consumers, volatile prices are good to nobody except – maybe – some actors in the markets. Predicting the future of the markets is always difficult, but the uncertainty associated with food price volatility is promoting risk aversion at all levels of the supply chain, and its costs increase poverty, under-nutrition, and instability....”

“We agree...that, in the current case, while speculation may play a big role, there are many other fundamental factors amplifying the spikes this time such as weather shocks and climate change, the evolution of oil prices and the role of biofuels, the depreciation of the USD, the decrease in stocks and especially a demand that tends to grow faster than population due to urbanization and changes in consumers’ income and habits, particularly in emerging countries.”

“Derivatives are not a bad thing per se; they were created to hedge against adversities or unforeseen circumstances and as such as needed. But in the wrong hands or for the misunderstood purposes, they can also open the door to speculation. Such speculation has been enabled by the deregulation of commodities derivative markets since 2000. The international community should therefore work toward ensuring that such derivatives are restricted as far as possible to qualified and knowledgeable investors who trade on the basis of expectations regarding market fundamentals, rather than only – or mainly – for short-term speculative gain....”
The G20 and Latin America’s Regional Financial Architecture

By Graciela Rodriguez, International Gender and Trade Network

The global crisis and the rise of the G20 have created a dilemma with regard to regional integration processes. In particular, the participation of Brazil and Argentina in the G20 has introduced subtle but important changes in the evolution of these processes.

Since Brazil joined the G20, its regional role has been somewhat diminished. Participating more actively and directly in global governance, mainly in the G20 but also in the BRICS process, has apparently become a priority of Brazilian political and diplomatic interventions, shifting its emphasis away from the regional space.

And, although the Brazilian government continues to participate in the negotiations and coordinating efforts related to the regional integration process, it apparently tries to maintain a lower degree of institutionalization in these arrangements, in order to ensure greater freedom of action at the multilateral level. As a signal of its priorities, Brazil contributed US$14 billion to enlarge the IMF’s capital base – when these resources could have been invested in the South Bank, which is still waiting for Brazil’s capital contribution.

Argentina’s participation in the G20 may have cooled off its intentions toward integration, possibly due to the latest news from Wikileaks that raised the possibility that it could be expelled from the select G20 because of its small economy (relative to other G20 actors) and its “radical” policy positions.

On the other hand, the death of the UNASUR Secretary – former Argentine President Nestor Kirchner – as well as the new presidency of Guyana in the rotating Secretariat of this project, have been factors that have slackened the pace and diminished the political initiative to move this process forward.

Box 3 Slow But Steady Progress in Launching the South Bank

Although the South Bank is operational, its development is a slow process. According to agreements reached so far, the Bank’s objective will be to re-circulate regional savings, not for infrastructure projects, but rather for ones related to the development of regional economic policies (e.g., food, health, environment). The starting point for these efforts will be an analysis of the damages caused by the traditional policies of multilateral banks and their impacts on national autonomy.

There is also an initial proposal for a South Fund that would seek to play a counter-cyclical role in economies and protect the region against speculative attacks. This has not yet been discussed in the decision-making bodies, such as UNASUR. Brazil and Argentina are debating a system of payments in national currencies; already, the Sucre is a common currency in circulation among the ALBA countries.
Clearly contradictions and tensions abound and, in a way, they are hindering the process of reaching agreements, especially between Argentina and Brazil, which further delays the progress of various ongoing integration processes, particularly in Mercosur, UNASUR, and in launching the South Bank.

However, there is some encouraging news that could indicate a return to the path of integration. When the Colombian President signed UNASUR’s Constitutive Treaty in March 2011, the treaty came into full effect, which builds momentum for consolidation. In addition, the designation of the new UNASUR secretary – Maria Emma Mejia – and the election of the progressive candidate Ollanta Humala in Peru – signal a positive outlook for integration.

Since the emerging powers have been incorporated into the G20 – a group of the world’s elite, many of these powers have been co-opted. What that means is that, instead of a focus on a new multipolar world order, the G20 is engaged in a re-configuration of the overall global system of finance and trade. This is having the effect of undermining fragile South-South alliances and weakening the initiatives on regional integration.

In this scenario, the regional integration process in Latin America, especially of South America, and the construction of a new regional financial architecture is currently “on hold.” Social movements in the region continue to intervene in favor of the construction of a regional architecture that would transform the current regional model based on extraction of resources and profits to another model based on sustainable development.
Brazil Challenges US Hegemony and Flexes its Muscles in the G20

By Nancy Alexander

The G20 process is a prism through which we can witness the remarkable transition from a unipolar to a multipolar world order. As a new paper by Bruce Jones of The Brookings Institution states, “No longer the CEO of Free World, Inc., the United States now holds a position akin to that of the largest minority shareholder in Global Order LLC.” As with a minority shareholder in a corporation, the US now depends on building alliances to effect change or block initiatives by others.

Brazil’s Rise in the New G7 Hierarchy

For instance, a Wikileaks cable recounting discussions between the U.S.’s G20 Sherpa and his European counterparts show how the U.S. sees a stronger alliance with Europe as necessary to block initiatives of the BASIC countries (Brazil, South African, India and China). According to the January 2010 cable, the U.S. Sherpa told the EU officials,

“it is remarkable how closely coordinated the BASIC group of countries … have become in international fora, taking turns to impede U.S./EU initiatives and playing the U.S. and EU off against each other. BASIC countries have widely differing interests, he said, but have subordinated these to their common short-term goals to block some Western initiatives.

The U.S. and EU need to learn from this coordination, [he] said, and work much more closely and effectively together ourselves, to better handle third country obstructionism and avoid future train wrecks on climate, Doha or financial regulatory reform.”

At the same time, the U.S. views the individual BASIC countries not only as competitors, but also as potential allies. Indeed, on every continent, the U.S. faces a major power with which it must ally itself in order to achieve its ambitions.

In that spirit, President Obama traveled to Brazil in March 2011 and declared, “let
us stand together – not as senior and junior partners, but as equal partners.” He may have a better chance of partnership with Brazil’s new President Rousseff than its previous President, Lula, who accused the US of behaving like an “empire” and stated that “nothing had changed” under Obama.

At a public forum in Washington, D.C. where Obama’s trip to the region was being discussed, senior U.S. officials described hopes for U.S.-Brazilian cooperation in the G20, shaping the global development agenda, working as climate and energy partners, and building “trilateral” relations between the U.S. and Brazil and other South American countries.

Brazil is exercising its political and economic muscles. In the political arena, in 2010, Brazil and Turkey agreed to resist the U.S. call for sanctions against Iran. Also, Brazil refused to recognize the post-Zelaya government of Honduras, even after the U.S. had recognized it. Both of these actions were viewed by the U.S. as acts of defiance on the part of Brazil.

In the economic arena, Brazilian Finance Minister Guido Mantega is making his mark. In early March 2011, Mantega declared that Brazil had overtaken the UK and France to become the fifth largest economy in the world. Before an October 2010 meeting with his G20 counterparts, Mantega rattled the political elite by warning of a “currency war.” In January 2011, he called the IMF’s assessment of Brazil’s fiscal situation “totally wrong” and “stupid.”

In the run-up to the April 2011 meeting of G20 Finance Ministers in Washington, D.C., Mantega was adamant that each country should be free to use capital controls as a means to deal with the excessive global liquidity in the world today. At the April meeting, he influenced the final decision of the G20 ministers to withdraw a proposal which put limits on capital controls. Recently, Mantega indicated that he might side with U.S. Treasury Secretary Geithner in opposing G20 commitments proposed by the government of France to regulate commodity futures markets. On February 14, an international group of non-governmental organizations wrote to Brazilian Finance Guido Mantega to urge him to discuss with French officials their proposal to the European Commission for an EU commodity regulatory authority. The NGOs argued that it was in the interest of all G-20 members to regulate excessive speculation in commodities in order to prevent the speculative bubbles that have been destructive for food and energy security. The French proposal, if implemented, would help prevent such bubbles in EU commodity markets.10

In recent years, Brazil has been giving priority to its strategy for establishing itself as an independent global player and carrying a powerful defense of its commercial interests in multilateral or global arenas. In this sense, it has recently been giving priority to its participation in the BRICS Summit process, which is a critical articulation space considering the international geopolitical changes of recent years.

Brazil does not yet coordinate its actions in the BRICS Summit with its regional partners in Latin America. This could potentially affect its traditional efforts to coordinate actions with Argentina and even its role in the regional integration.

In short, the Latin American presence in the G20 and the BRICS Summit processes is creating important debates, even if we continue to emphasize the lack of legitimacy of exclusive fora, such as these.

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10 See here for more information http://triplecrisis.com/commodity-market-reform-wall-street-versus-the-regulators/
Box 4 Institutions for Regional Integration: IIRSA, UNASUR and BNDES

IIRSA. The development banks – the Inter-American Development Bank, the World Bank, and the Andean Development Fund – promote an trade and integration model based on IIRSA\(^1\) (Initiative for the Integration of Regional Infrastructure in South America). IIRSA is financing the integration of transportation, energy, and communication networks among 12 South American countries.

UNASUR. South American integration is continuing, particularly since the Union of South American Nations (UNASUR) – a regional organization of the 12 South American countries – has come into force, integrating two existing customs unions: Mercosur and the Andean Community of Nations. The Union’s headquarters will be located in Quito, Ecuador. The South American Parliament will be located in Cochabamba, Bolivia, while the headquarters of its bank, the Bank of the South are located in Caracas, Venezuela. To date, UNASUR has helped to diffuse tensions in Bolivia; facilitated between Venezuela and Colombia; and addressed the question of Las Malvinas (The Falkland Islands). UNASUR has an advantage over the Organization of American States (OAS) because it can implement policies based on consensus rather than unanimity. At present, UNASUR is exploring the creation of a center for the resolution of disputes and a legal advisory center for investment arbitration. As it is, investment disputes are primarily addressed in Washington, London, or Paris.

BNDES. Another major driver of integration is the Brazil’s National Bank for Economic and Social Development (BNDES) – a public company with disbursements reaching $100 billion (R$168.4 billion) in 2010, a 23% increase when compared to the previous year.\(^1\) Industry accounted for 47% of the bank’s total disbursements, followed by infrastructure, with 31% presence, and by trade and services, at 16%.\(^1\)

While most BNDES projects are within Brazil, it also finances the infrastructure projects under IIRSA currently underway in Brazil and supports Brazilian companies in other countries of the region.\(^1\) The August 2010 Economist asks whether BNDES is a “Nest Egg or Serpent’s Egg?” suggesting that the Bank is too big; too subsidized; and lends to some of the biggest Brazilian enterprises in the region without sufficient transparency.\(^5\) Civil society has protested the lack of transparency and social and environmental standards at BNDES and the poor application of such standards by the multilateral development banks.

The Banks work closely together. Recently, 31 civil society groups from Brazil, Argentina, Bolivia, Colombia, Paraguay, Peru and the United States wrote to the World Bank calling for the suspension of a disbursement of $1.3 billion to BNDES for the Sustainable Environmental Management Development Policy Loan. Among other things, the letter raises deep concerns regarding a serious lack of transparency and civil society participation in the preparation and implementation of the loan.\(^1\)

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2. The result takes into consideration Petrobras’ R$24.7 billion capitalisation operation. When this operation – a one-off and non-recurring – is not considered, the bank’s disbursements ended last year at R$143.7 billion, a 5% increase when compared to 2009, growth which is compatible with previously made projections.
Mexico, Argentina and Brazil: Requirements for Joining the G20 Club

By Nancy Alexander

In joining the G20 “club,” Mexico, Argentina, and Brazil, as with other G20 countries, are required to make policy commitments which are monitored by the IMF. They also take on responsibilities for advancing international development.

1. Trade and Investment Policies. For each summit, the trade and investment policies are each G20 country are assessed by the Organization on Economic Cooperation and Development (OECD) and the UN Conference on Trade and Development (UNCTAD) in order to discourage protectionism.

The October 2010 Fourth Report on G20 Investment Measures noted, for instance, that Brazil took two investment measures: 1) reinstating restrictions on rural land-ownership for foreigners and 2) to reduce volatile capital flows, doubling the tax levied on non-residents’ investment in fixed-income securities to 4%. These measures are viewed as “protectionist.”

To the surprise of many people, national policies relating to land ownership and capital controls come within the scope of “trade and investment” measures and are sometimes covered by trade and investment agreements.

The report also tracks the cumulative number of investment agreements of each country, but not all of these have been signed into law.

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<th>Box 5</th>
<th>Bilateral Investment Treaties (BITs)</th>
<th>Other international investment treaties</th>
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<td>Mexico</td>
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2. Finance, Fiscal, Structural, and Monetary Measures. Each G20 member country makes policy commitments (e.g., fiscal, financial, structural, and monetary and exchange rate), which are included in the G20’s Framework for Strong, Sustainable and Balanced Growth. Collectively, these commitments are intended to foster economic recovery and rebalancing.

The G20 put the IMF in charge of monitoring each country’s performance against its commitments.

The IMF document that monitors country performance is called the “Mutual Assessment Process” (MAP). Some countries ignore the advice of the IMF, but in other cases, the advice can be influential.

In the November 2010 MAP, the IMF was especially negative about the lack of progress on structural policies that some believe would strengthen the competitive edge of G20 economies. Structural policies include: reform of entitlements, investments in infra-

structure, deregulation and privatization of product and services markets, and labor flexibility.

3. Infrastructure. The World Bank monitors the infrastructure plans of the nine emerging market countries that are part of the G20. For instance, for the Seoul Summit, the World Bank prepared this study which includes the infrastructure plans in an annex: *Growth and Development in Emerging Markets and Other Developing Countries*. This document describes the infrastructure plans for Argentina, Brazil and Mexico as follows:

**Box 6 Excerpts from the Framework on Strong, Sustainable and Balanced Growth**

**Argentina**
- Increasing the share of Investment in education in the budget.
- Increasing the share of formal employment and facilitating job creation, particularly of young workers as well as for jobs at SMEs, especially through financial incentives.
- Energy plan to increase national energy production, particularly from renewable energy sources, and improve distribution channels.
- Development of transport infrastructure to lower transport costs and facilitate trade with neighboring countries.
- Measures to promote innovation and improve technological infrastructure.
- Strengthening social safety nets through measures aimed at low-income households and pensioners.

**Brazil**
- Brazilian development strategy underway is based on the idea of integrating economic growth with reduction in social inequality.
- Emphasis is being given to measures regarding social inclusion, research and technology innovation, education, the housing sector and infrastructure.
- Maintenance and expansion of welfare programs, such as Bolsa Família and Lei Orgânica da Assistência Social e Renda Mensal Vitalícia.
- Enhancement of research and technological innovation initiatives.
- Strengthening programs for education.
- Enhancing the investment climate.
- Brazil has gathered the necessary infrastructure investments for pursuing a strong, sustainable and balanced economic growth. The Growth Acceleration Program (PAC 2) has been divided into six major areas for investment: (i) PAC My House, My Life – US$ 19.4 billion; (ii) PAC Better City; (iii) PAC Citizen Community; (iv) PAC Water and Electricity for All; (v) PAC Transportation; and (vi) PAC Energy. Government raised the amount of the program by 45.5% reaching US$ 545.71 billion for the period 2011-2014 and US$ 360.8 billion after 2014, totaling US$ 906.51 billion.
- Investments of US$ 36.5 billion to prepare Brazil for the Football Confederations’ Cup in 2013, for the FIFA World Cup in 2014 and for the Olympic games in 2016.

**Mexico**
- The Mexican government has recently presented a series of initiatives aimed at increasing the growth potential of the economy, emphasizing measures in labor and product markets, together with higher trade openness and a program to reduce the regulatory burden on the economy. Public investment in infrastructure has also been increased considerably.

Finally, members of the G20 take on specific responsibilities with regard to fostering development, particularly among low-income countries.

### Box 7 Infrastructure Plans for Argentina, Brazil and Mexico

#### Argentina
- Increase in public infrastructure investment from 1% of GDP (1990s) to 3.1% currently.
- Focus on Energy sector, including electricity, gas, hydro and nuclear power investments.
- Transport: Regional roads in several poorest provinces; urban transport in Buenos Aires.

#### Brazil
- Growth Acceleration Program (PAC 1 and 2).
- PAC 1 of $375 billion and 46% has been concluded by May 2010.
- Six major investment areas, ranging from urban upgrading, housing, transport, energy and water.
- Energy, housing and transportation investments account for 95% of total amount in PAC 2.
- Sports: World Cup/Confederations’ Cup ($21.7 billion); Olympics ($14.9 billion).

#### Mexico
- Investment in infrastructure now 5% of GDP, higher than average level of 3.5% for OECD countries.
- Increase of 40% in investment/GDP ratio during first 3 years of the current administration compared with 2000-2006 average.
- Federal investment in roads: increase of almost 100% relative to its 2006 value; water by more than 60%.
- Higher investment to be complemented by a series of legal reforms (before Congress), including a PPP law.

### Box 8 Responsibilities for the G20 Multi-Year Development Action Plan

At the November 2010 Summit, the G20 adopted the DAP to assist low-income countries. Argentina, Brazil and Mexico took on the following responsibilities for implementing the Plan.

<table>
<thead>
<tr>
<th>Country</th>
<th>Collaborator</th>
<th>Issue</th>
<th>Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>EU, UK</td>
<td>Trade</td>
<td>a) Duty-free/quota-free (DF/QF) market access b) Trade facilitation c) Trade finance d) Regional trade integration</td>
</tr>
<tr>
<td>Brazil</td>
<td>France, Canada, Japan</td>
<td>Food Security</td>
<td>a) Enhance policy coherence, coordination through strengthening agricultural research systems; strengthening accountability b) Mitigate risk in price volatility, enhance protection for the most vulnerable through reducing/managing volatility; nutrition/access to humanitarian supplies; promote responsible agricultural investment</td>
</tr>
<tr>
<td>Mexico</td>
<td>Korea</td>
<td>Knowledge Sharing</td>
<td>Scale up, including South-South knowledge transfer</td>
</tr>
</tbody>
</table>