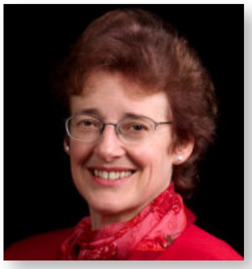

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The Geopolitics of Latin America's Regional Development Banks

LESLIE ELLIOTT ARMIJO AND VERÓNICA RUBIO VEGA SEPEHR

ABSTRACT

Does the distribution of power among countries included within a "regional" international organization matter? This paper examines how variations in the geographic scope of a region might influence the success or failure of regional economic cooperation. It examines the trajectories and international relations of the three major regional development bank projects in Latin America in the past half century: the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF) and the Bank of the South (Banco del Sur). The authors suggest that successful policy cooperation among neighboring states becomes easier when the region is defined with a scope that avoids certain structural-systemic problems created by power imbalances among member states. Specifically, the paper argues that regional cooperation is easier to initiate and sustain when the regional scope creates an interstate distribution of capabilities that is either clearly *hegemonic* (wherein one country's material capabilities unambiguously overwhelm the sum of the others, as with the United States within the IDB) or genuinely *multipolar* (when a rough balance exists among three or more states, as within the CAF). However, a *unipolar-yet-not-hegemonic* structure (in which one country dominates material power capabilities but can be checked by a coalition of multiple countries, as with Brazil's relative power capabilities vis-à-vis its South American neighbors, as in the Banco del Sur) tends to

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discourage policy regionalism, as does a *bipolar* structure. Regional systemic-structure also influences the content of cooperation. Finally, a pro-cooperation distribution of capabilities helps sustain regional multilateralism even when participating states have sharp ideological and policy differences.

INTRODUCTION

What factors help or impede international cooperation within regions of the Global South? And can core insights from classical international relations theory assist in conceptualizing the challenges of cross-border policy cooperation? This paper offers an extended case study aimed at theory development, not theory-testing. Drawing on the experience of one world region, Latin America, within one policy issue arena, the creation and operation of regional development banks (RDBs), the paper observes that variations in the geographic scope of regional international organizations (RIOs) can result in different types of power (im)balances among members, in turn generating important consequences for both the depth and longevity of cooperation and the content of policy outcomes.

This paper employs social science theory (an abstract model of how a social reality might operate, along with a plausible yet intrinsically unfalsifiable set of explanatory causal statements) to think creatively about a set of observed outcomes. In order to understand one aspect of the trajectory of regional development banking in the Americas, it looks to a "structural" theory, meaning an approach that highlights consistent, underlying patterns that otherwise would remain unperceived in the bustle of daily interactions. The authors draw on a heuristic image and related propositions developed in the classical neorealist tradition of understanding international military-security relations, in which the orienting question is, "Which unperceived structural factors make interstate war more or less likely?" They then repurpose the core image of a distribution of power capabilities among sovereign states creating a "balance of power," to respond to a different question: "Which unperceived structural factors might support or undercut regional efforts to cooperate economically across national borders?"

Latin America's trajectory in recent decades suggests that a RIO founded on a *hegemonic* distribution of power capabilities among members can achieve successful cooperation but will not challenge the underlying hub-and-spoke regional political economy. This pattern fits the Inter-American Development Bank (IDB), a sophisticated and well-funded institution, over whose operations the United States holds a de facto veto. A RIO with a *bipolar* membership structure (as in an independently organized Latin American and Caribbean region with Brazil and Mexico as its poles) should find sustained cooperation difficult unless this goal is strongly promoted by an extra-regional actor. The closest regional approximation is the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), which provides development analysis but not funding, and whose independence from the hemispheric hegemon has been protected by the UN. A regional multilateral institution whose membership structure is *unipolar-but-not-hegemonic*, such as South America's proposed yet ultimately failed Banco del Sur (Bank of the South), will be difficult to launch, yet holds great potential for innovation should ways around its challenging incentive structure be found. Finally, a RIO engaged in economic collaboration based on a *multipolar* membership structure may excel in both cooperation and innovation, while also experiencing higher costs and accessing fewer resources. This pattern fits the Development Bank of Latin America (originally the Andean

Development Corporation, CAF, rebranded with the same acronym in 2012), whose corporate governance remains dominated by its five North Andean founders.

The paper begins with brief theory, justifying the focus on regional geographic scope. Section two offers comparative statistics on the relative size, and thus potential political and economic footprint, of large development finance institutions operating in Latin America. The third section summarizes the political history of the three largest Latin American regional banks, demonstrating the plausibility of the interpretive lens. A short conclusion summarizes the argument and its potential importance.

VARIATIONS IN REGIONAL GEOGRAPHIC SCOPE AND WHY THIS MATTERS

This paper is an exercise in using theory to "see" unexpected influences on regional policy sector cooperation, accessing a core international relations perspective to identify patterns in one issue arena that also might apply in other policy sectors. Part of a larger project on regional cooperation, the research methodology was intentionally broad, consisting of an assignment to narrate, and subsequently explain, the most important initiatives in regional cooperation during the postwar period, and especially since about 1990 (marking both the conclusion of the wave of Latin America's democratic transitions in the 1980s and the end of the Cold War) in multiple critical policy issue arenas (Armijo, Fraundorfer and Rhodes forthcoming). Despite two significant initiatives for regional capital market collaborations, development banks easily dominated the narrative of expanding long-term investment financing.[1]

This paper's authors initially anticipated that tracing the international politics of regional finance would lead them to emphasize conflicts precipitated by new extra-regional actors (highlighting the rise of China as lender and investor) or partisan shifts in national leadership (as in the "pink tide" elections of leftist presidents in the early 21st century, followed by its partial rollback after 2014). While these factors were present, the intentionally open and inductive research design led the authors to conclude that underlying, and subtle, "structural" factors were sufficiently important to warrant employing them to frame the narrative of how the issue arena of regional efforts to boost long-term investment funding had evolved over decades. Of course, there are multiple versions of a structural approach to international relations.[2] The "structural realist" approach to balance-of-power analysis elaborated by Kenneth N. Waltz (1954, 1979) proved most useful for this paper's thought experiment, being parsimonious and providing a plausible conceptual framing for the dimension that stood out as important in this paper's qualitative empirical analysis: variations in the membership underpinning different development bank projects in Latin America. The perspective employed here comes from international relations theorizing about the structural conditions

[1] The authors conducted 20-plus interviews with current or former Latin American financial officials and other experts, mostly anonymous, although several referred us to their published work. Interviewees included two international financial lawyers, eight senior development bank executives or country executive board representatives, two capital markets specialists, and two economic journalists. All remaining interviewees were senior academic experts.

[2] One prominent strand of "structuralist" analysis of the international political economy (IPE) is the large family of loosely neo-Marxist approaches that have sought to understand development outcomes in Latin America and the Global South by equating the international policies of powerful capitalist countries with actions driven by a globally dominant capitalist class. In this basket one might place analyses ranging from Lenin 2021 [1916] to contemporary left-leaning geopolitical economics (Desai 2013). A different but equally "structural" approach is Susan Strange's (2010) four dimensions of structural power: security, production, finance and knowledge (see also May 1996). A third approach to unmasking invisible relationships that nonetheless influence actors' choices in an international system relies on computer-assisted mapping to uncover the networks (and their nodes in particular cities and countries revealed to be economically central) created by the cumulative result of cross-border flows of trade, finance and information (Oatley et al. 2013). Shukla (2022) returns to the view that it is large capitalist firms, not sovereign states, who deploy the bulk of global "structural" power.

incentivizing interstate war and peace. With a few logical modifications, the model offers intriguing insights into less-recognized dynamics influencing economic cooperation in neighborhoods where the geographic scope of the "region" is contested.

Modeling Power (Im)balances in Classical International Relations Theorizing

The classical neorealist, or "balance-of-power," approach to international relations revolves around a core insight: in an international system composed of independent countries, incumbent national leaders—irrespective of their personal preferences or their partisan and other domestic political commitments—experience compelling incentives to protect their countries by forming balancing coalitions against any other state or coalition that appears too powerful. The model rests on the observation that international politics is qualitatively different from any stable national political system.[3] Countries in the international system are sovereign states, formally equal in legal rights. No supranational institution holds legitimate, juridical or de facto authority to compel obedience from member states: there is no world government, but only voluntaristic global governance. States ultimately cannot entrust their national security to anyone but themselves in this "self-help" system. Peaceful interstate relations are voluntary yet strongly influenced by the preferences of the most powerful states.

The goal of traditional neorealist scholars has been to understand the conditions promoting or preventing war. For Waltz (1979) and many of those that he influenced, the structure of the international system is created by the distribution of "hard" or material power capabilities among the major powers in the relevant interstate system. There are three basic systemic-structures: hegemonic (or unipolar, as Waltz and others use these terms interchangeably), bipolar and multipolar. The point is that systemic-structure influences countries' choices, even as leaders themselves are largely unaware of this dynamic.

A *hegemonic* (aka *unipolar*) interstate system with one clear hegemon, such as a global superpower, is stable and thus peaceful, so long as the power differential between the hegemon and all other states remains large. Dramatic power inequality exists, but peace is maintained, as a military challenge to the hegemon is futile even if all of the weaker powers unite. The incentives to rational leaders of weaker states thus encourage loyal followership ("bandwagoning"), as the hegemon cannot be successfully opposed, yet may provide useful benefits to its allies. Hegemony breeds peace (and often resentment). A *bipolar* interstate system is theorized to reduce the likelihood of war. Two great powers in an international system with many smaller powers will tend to become rivals, heading coalitions that balance, and thus constrain, one another. Thus, a bipolar systemic-structure also is predicted to be relatively peaceful, in the sense of stable, but is not favorable for system-wide cooperation.[4] Finally, a *multipolar* interstate system, defined as a system with three or more states possessed of roughly equivalent war-making power capabilities, is inherently unstable, as its three or more major powers cannot easily discern the true intentions of their neighbors. Thus, the risks of miscalculation leading to unanticipated escalation into conflict are high. The network of secret alliances and consequent misapprehensions leading to the horrific First World War provide the compelling, classic example (Joll and Martel 2022).

[3] This chapter's approach draws on Kenneth N. Waltz' (1954, 1979) "third image" of international relations, but freely innovates in directions Waltz would be unlikely to endorse.

[4] However, a system featuring an emerging challenger to an existing hegemon may be ripe for conflict, for example, if it prompts the existing hegemon to mount a preemptive attack on the presumptive rival, falling into "Thucydides's trap" (Allison 2017; Organski and Kugler 1981).

Applications to Regional Economic Cooperation?

One might employ somewhat parallel reasoning to conceptualize how different underlying interstate distributions of capabilities among the member countries of regional international organizations (RIOs) might impact cooperation. There are important initial differences, of course, between the military-security arena assumed in traditional neorealist thinking and the regional economic or social cooperation arenas of interest here. First, national security relations tend to be modeled as zero-sum: an increase in state A's security comes at the expense of a rise in state B's perception of vulnerability. In contrast, voluntary international cooperation to solve common economic, climate or other challenges assumes a positive-sum situation, in which joint (although not necessarily equal) gains for all participating countries will result. A second difference is more unexpected, although implicit in the discussion thus far. The geographic scope parameters of military-security international systems typically are outside the control of individual participant states. Thus, in 1914 Germany, when contemplating entering the conflict that would become World War I in support of Austria-Hungary, could not wish away any of its continental neighbors. Eventually, Germany could not prevent Britain, and subsequently the United States, from also joining as combatants. In contrast, a regional economic cooperation system, particularly one formalized in a RIO, is closer to a voluntary club. Any group of sovereign states can create a regional multilateral club with partners and membership expansion rules of their choice. New member states can join with approval of the group, and more importantly, members also can exit.

How would the structural-systemic logic developed to explain regularities in the military-security realm need to shift if applied to challenges of regional economic cooperation among sovereign states? Recall that the difficulties of mutual trust persist, even though they are less acute in issue arenas promising the possibility of joint gains. However, the geographic scope of the "regional" cooperation group is at least somewhat more open to leaders' choices. To think this through, one may theorize four, rather than three, basic structures for regional cooperation systems: hegemony, unipolarity-without-hegemony, bipolarity and multipolarity. Although traditional realism uses "hegemony" and "unipolarity" as synonyms, one can instead distinguish between *hegemony,* meaning a system in which the overall material capabilities of one country sum to significantly more than the combined capabilities of all of the other countries, and (mere) *unipolarity-without-hegemony*, defined as a system in which one state has power capabilities clearly superior to any of the others, yet in which the unipole country could be balanced by a coalition of all or most of the others arrayed against it. Bipolarity and multipolarity take their usual meanings.

With *hegemony,* the neorealist prediction about military security is that, since the non-hegemonic states cannot successfully oppose (balance) the hegemon, their rational best move is to join it, competing with one another to access resources the hegemon controls. This is empire, formal or unacknowledged. In this case, the economic cooperation prediction is similar: if a regional cooperation club is hegemonic, we anticipate band-wagoning. The hegemonic state isn't necessarily heavy-handed, highly engaged or even ungenerous in its actions within the international policy issue arena. If the hegemon offers its partners access to scarce resources that they cannot otherwise obtain, they may cooperate enthusiastically. Nonetheless, when (the central government of) the hegemon has strong preferences about an issue, even if these preferences differ from those of all of its partners, we expect the hegemon's wishes to prevail. Since the mid-20th century, the United States, the Soviet Union/Russia and more recently, China each have organized hegemonic regionalism in contiguous areas of smaller or weaker states, ostensibly on behalf of these partners.

Military-security-oriented neorealism doesn't distinguish between systems with a true hegemon and those with a mere dominant state. In the economic cooperation realm, however, *unipolarity-without-hegemony*—a situation in which one country has clearly superior power capabilities, yet could be balanced by a coalition of all or most of the others—is not uncommon. Thus, while a true hegemon cannot be checked, a unipole can be blocked. The surprising prediction is that unipolarity, perversely, may make economic cooperation more difficult than it is under hegemony. Why? If there are many small states and one large state in a prospective regional international system, the smaller states rationally may prefer to resist economic cooperation with their overwhelming neighbor from the beginning. A unipole is unable to offer the wealth of material benefits that a hegemon might, yet the political energy (that is, the transaction costs) that would be required to oppose the unipole's preferences by building a temporary multi-country balancing coalition isn't negligible. Overall, the probable gains for less- powerful countries may not be worth their anticipated costs, including the cost of making themselves vulnerable to the unipole. Thus, weaker states may prefer economic cooperation with a true hegemon, even though the hegemon cannot ever be balanced effectively. Similarly, since the unipole is less differentially powerful than a hegemon, the unipolar state may judge the costs of systemic leadership to be excessive. The default result is lower-than-anticipated multilateral economic cooperation within a unipolar interstate system, even when such collaboration apparently could yield desirable collective goods.

The predictions for international systems with two powers are similar. In the military-security realm, a *bipolar* international structure is anticipated to be relatively peaceful, as two blocs tend to be created, which then mutually deter one another. In the economic or social policy realm, and within a region embedded within the larger international system, bipolarity also tends to encourage regional bifurcation. The bipolar systemic-structure pushes toward formation of two subregions and against region-wide cooperation.

Finally, a *multipolar* international system is defined as one containing three or more major powers. The traditional neorealist prediction is that balancing coalitions form, but they may shift without warning. When considered from a military-security perspective, multipolar systems are typically described as unpredictable, unstable and dangerous due to the risk of miscalculation about what one's current ally will choose to do next. In the "high politics" arena of military-security relations, the presumed danger of multipolarity is that it increases ambiguity and can lead to accidental wars. However, in the "low politics" arenas of international economic or social policy cooperation, the bigger worry for most countries is putting themselves in a situation of asymmetric vulnerability.[5] The expectation is that, for small and intermediate powers, working with regional neighbors of roughly equivalent overall power capabilities establishes mutual interdependence, and thus is conducive to creating international trust. Ceteris paribus, everyone risks less under multipolarity, so may be willing to experiment with cooperation to pursue joint gains.[6] To summarize, military-focused neorealism argues that hegemonic (aka unipolar) and bipolar interstate systems are stable, and thus peaceful, while multipolarity is dangerous. In contrast, revamping this same balance-of-power structuralist logic for thinking through regional economic cooperation suggests that either overwhelming hegemony or clear multipolarity offer the most propitious intragroup structures, for successful regional economic cooperation, while the two intermediate structures (unipolarity-without-hegemony and bipolarity) make cooperation more difficult.

The Western Hemisphere's Regions Through a Systemic-Structural Lens

The Western Hemisphere as a whole, which contains the global superpower, is a *hegemonic* region. The material capabilities index (MCI), which averages national shares of global totals of five hard power capabilities (nominal gross domestic product, or GDP; population; trade; industrial innovativeness;

[5] On "high" and "low" politics see Keohane and Nye 1977.

[6] Krapohl and Fink (2013) propose that regional multipolarity is also the systemic-structure best suited to reinforcement by either positive feedback from external actors, or common fears within the region of a potentially-threatening external actor. While beyond this paper's scope, their analysis is consistent with our argument.

and military spending) offers a rough estimate for almost all countries (Armijo, Tirone and Chey 2020). In 2019, the most recent year with available data, the US global share of these global hard power capabilities was 19.33 percent, as compared to just over 5 percent for all Latin America and the Caribbean (LAC). When "Latin American" RIOs, such as the Organization of American States (OAS), are constituted on a hemispheric basis, they embody a hegemonic structure.

Ibero-America, with or without the smaller polities of the Caribbean, is a *bipolar* grouping, with Mexico (1.27 percent on the MCI index) by far the largest country in Northern Latin America and Brazil (1.65 percent) in a similar position in South America. Moreover, since at least the mid-1990s, international trade, investment, remittance and migration ties increasingly differentiate Northern and Southern Latin America (Ray and Myers 2023; Stallings 2020; Wise 2020).[7] Although many exclusively Ibero-American multilateral organizations have been established, including the Community of Latin American States (CELAC), founded in 2011, most have experienced difficulty in moving beyond the stage of hosting occasional summits, one reason being the region's structural bifurcation. Especially interesting is the *unipolar* case of South America, a grouping that seems more natural in terms of economic ties and opportunities, yet which has proved difficult to make work, as illustrated by the apparent demise since 2019 of the Union of South American Nations (UNASUR), established in 2004. Using the same MCI measure, the total share of global hard power capabilities in South America without Brazil was 1.82, just slightly more than Brazil's portion. Finally, several smaller subregions are internally *multipolar*, including the Andean region, Central America, and the Anglophone and Francophone Caribbean, arguably a structural advantage for their efforts to establish enduring cooperation.[8]

This section has proposed adding a structural lens drawn from classic thinking about power balances in the military-security sphere to our ways of thinking about the geographic scope of regional economic cooperation. This is not to deny the importance of partisan ideological distance in preventing or encouraging regional multilateralism, as with the wave of "left turns" of the early 2000s (Cameron and Hershberg 2010; Gardini 2011; Levitsky and Roberts 2011; Luciano and Mesquita 2022), but instead to highlight an additional factor. The paper now turns to interpreting the trajectory of regional development banking in the hemisphere.

THE INTERNATIONAL POLICY ISSUE ARENA: EXPANDING LONG-TERM FINANCE IN LATIN AMERICA

Although economists agree on relatively few policy-relevant propositions, most endorse the idea that economic growth requires long-term investment, often facilitated by the state, in heavy infrastructure (transportation, energy, communications, and urban water/sewerage and related facilities). Latin American economists from the left, including structuralist and dependency theorists, long bemoaned low infrastructure investment as a bottleneck to growth (Fajardo 2022). Their contemporary equivalents in moderately heterodox, center-left economic research institutions associated with the United Nations, including the regionally focused ECLAC, as well as the Global South-oriented UN Conference on Trade and Development (UNCTAD) or UN Department of Economic and Social Affairs (UNDESA), agree on the importance of infrastructure investment (Sánchez, Lardé, Chauvet and Jaimurzina 2017). Neoclassical economists, in the Latin American context identified as neoliberal or center-right, such as those associated with the Washington, D.C. based international

[7] For bilateral and networked trade flows see https://www.mckinsey.com/mgi/our-research/global-trade-explorer?eco=wld&sector=0ag&toggle=c&year=2021

[8] The Common Market of the South (MERCOSUR), established in 1991 by Brazil, Argentina (historically considered LAC's third power, but with an MCI share of only 0.36 percent in 2019), and the much smaller Uruguay and Paraguay, has been successful despite its power imbalances, as successive Brazilian and Argentine governments have allocated it high priority as a subregional political consultation and problem-solving body.

financial institutions, including the World Bank and International Monetary Fund (IMF), also call for more long-term capital investment. In comparison to other world regions, Latin American infrastructure investment is low, averaging only 2.8 percent of GDP annually, in comparison to 7.7 percent in developing East Asia, 6.9 percent in the Middle East and North Africa, and 5.0 percent in South Asia. Among regions composed of developing and emerging economies, only sub-Saharan Africa spends a lower percentage of its economy on infrastructure (Fay, Andres, Fox, Narloch, Straub and Slawson 2017).

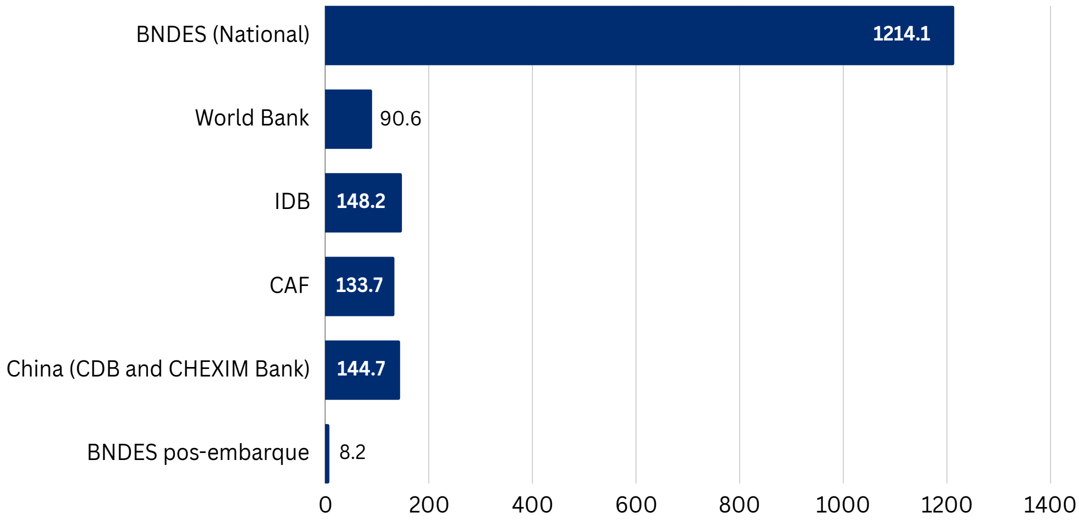
For the overwhelmingly middle-income countries that populate Latin America and the Caribbean, there are two obvious options. One option is to find and intermediate the savings that will become long-term investment at home, while the second is to seek foreign savings to invest domestically. Both are problematic. At the national level, many or possibly all countries are too small to be able to offer sufficient long-term credit or investible funds at a low-enough cost to be attractive, particularly if much of the nation's wealth is tied up in illiquid assets such as rural land or urban real estate, as quintessentially has been the case in Latin America. Thus, development consultants may recommend (or insist) that countries instead liberalize their external capital controls and integrate with global financial markets. This option works in neoclassical economic theory, but in practice often has brought enormous and unmanageable volatility of cross-border flows. Waves of Latin American countries enacted dramatic capital account liberalization in the 1970s and again in the 1990s, leading to cascading financial, banking and macroeconomic crises (Armijo 2002; Boughton 2012; Diaz-Alejandro 1984). Pragmatic experts and policymakers commonly advocate for a balanced approach between the extremes of financial autarky and full capital account liberalization. They argue that creating an intermediate path for accessing long-term finance is essential. Thus, if the purely *national* provision of long-term finance is both expensive and inadequate, while borrowing as much as possible *globally* exposes the sovereign borrower to risk and volatility, then the creation of regionally based long-term financing options, such as regional development banks (RDBs), might be an essential and pragmatic intermediate option.

Regional Development Banks as a Source of Long-Term Financing

A number of multilateral development banks (MDBs) have been founded to serve Latin America since the 1950s, which together illustrate RIOs with differing geographic scopes. This section considers all of the larger development banks (DBs) serving the region. Given the paper's focus on the conditions enabling or impeding international political cooperation, the emphasis is on DBs' relative size and governance arrangements, as large quantities of financial resources tend to translate, albeit indirectly, into political influence for those who control them.

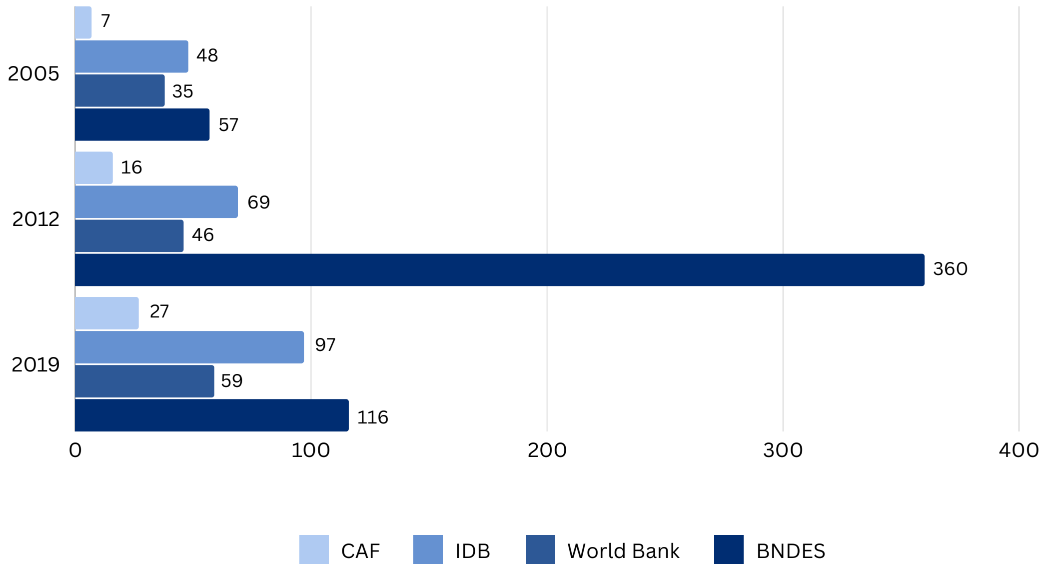
To understand the big picture of DB financing in the region, we also include comparative information on two Chinese state banks, the China Development Bank (CDB) and Export-Import Bank of China, that have provided significant credit to Latin America, mainly South America, and on Brazil's National Economic and Social Development Bank (BNDES), the proverbial, if often studiously ignored, elephant in the room. Not included in the table are the continental Banco del Sur, which was founded, but never operated, and the cross-regional New Development Bank (NDB), created by the multilateral club of the BRICS (Brazil, Russia, India, China and South Africa) (Roberts, Armijo and Katada 2018; Nogueira Batista Jr. 2021). The NDB began operations in 2015 and had disbursed about $16 million cumulatively to all of its members through 2021, including a bit less than $2 million to Brazil, its only Western Hemisphere member, making it tiny in comparison to the DBs profiled (NDB 2022). The figures also omit other national DBs in Latin America, all much smaller. Figure 1 compares cumulative long-term development loan approvals from 2008, the first year of the global financial crisis, through 2019, while Figure 2 compares the four DBs at three points in time.

Figure 1: Selected Major Sources of Long-term Development Credit to Latin America, Cumulative 2008-2019 (USD billions)



Source: Compiled by authors using IADB Annual Reports (Loans and Guarantees Approved), World Bank Annual Reports (New Commitments), CAF Annual Reports (Approvals), China-Latin America Finance Database, and BNDES Central de Downloads. BNDES Pos-embarque denotes disbursements (approval info not available).

Figure 2: Major Development Bank Creditors to Latin America, Loans Outstanding (USD billions)



Source: Compiled by authors using IADB Information Statements (Loans Outstanding), World Bank Financial Statements (Loans Outstanding), CAF Financial Statements (Cartera de Credito) and BNDES Central de Downloads. BNDES Series Historicas (Carteira Bruta)

Three observations jump out. First, the loan approvals of the World Bank, IDB, CAF and China's two major policy banks combined are roughly equivalent over these 11 years, summing to between $90 and $150 billion each. This suggests that, among MDBs, the global World Bank, hemispheric IDB, and still largely subregional CAF have roughly similar lending weight within Latin America. One caution is that the figures may overstate the comparative importance of the CAF. The IDB can make loans of up to 20 to 25 years, while the CAF focuses on the 5 to 7-year range. Also, the IDB, World Bank and even the BNDES also operate in the capital markets, for example, by taking minority equity positions in client firms through their private sector affiliates; the CAF does not.[9] Second, in the 21st century, China became the dominant bilateral official creditor and investor within all of Ibero-America, but especially in South America. This said, bilateral finance from China fluctuates. After 2016, new Chinese long-term lending flows fell dramatically, as de facto bailout loans with maturities up to a year from the People's Bank of China dominated new official credits to Latin America (Horn, Parks, Reinhart and Trebesch 2023; Ray and Meyers 2023).

Third, Brazil's BNDES is enormous. Because the BNDES is a Brazilian DB mostly financing Brazil, it seldom is discussed jointly with either the MDBs or compared to Chinese loans and investments in Latin America. From a political economy viewpoint, however, conceptualizing long-term bank credit to Latin America while ignoring the BNDES leaves a crucial piece of the overall picture in shadow.[10] One consequence of the existence of the BNDES is that Brazil's objective need for financing from either MDBs or China is small compared to that of its neighbors. In 2015, the BNDES was the third largest DB in the world by the absolute size of its loan portfolio ($209 billion, then representing 17.5 percent of all Brazilian credit to the corporate sector), exceeded only by the overall loan portfolios of the China Development Bank and Germany's KfW (BNDES 2017). The BNDES is equally outsized within Latin America: its total assets, including loans as well as other investments, in 2015 were about 15 percent of Brazil's GDP, as compared to 9 percent for all state banks combined in Peru, and 2 to 4 percent in Colombia, Chile and Mexico, the only others with significant DBs (Griffith-Jones, Ocampo and Arias 2018, 341). The overwhelming majority of BNDES financing is domestic: BNDES export credits to its neighbors and a few African countries to purchase Brazilian goods and services (BNDES *pos-embarque*, also shown in Figure 1) are relatively small in size yet have been polemical within Brazil and sometimes abroad (Hochstetler 2014). Brazil's government shrunk the size of the BNDES' loan portfolio dramatically after 2016, reflecting a political shift from center-left presidents to the right, as well as a perception among even long-time BNDES supporters that it was time to rebalance Brazil's domestic financial structure toward a larger role for capital markets (Torres, Martins and Macahyba 2021).

Table 1 summarizes two key inputs to governance in the World Bank, IDB and CAF: votes and money. MDBs necessarily have two authority structures, each of which must aggregate interests and preferences: a board of directors, composed of political representatives from the member countries, and an executive director and technical staff, usually economists and related professionals drawn from member governments via an explicit or implicit quota process. Senior MDB technocrats run regular planning exercises for countries, regions and sectors, and exercise substantial operational authority. Nonetheless, MDB staff, including directors, are subject to the ultimate authority of their sovereign shareholders, with voting weight roughly proportional to each country's financial contribution. Norms and procedures develop, and where possible, controversial decisions including changes in direction are negotiated ahead of formal votes. However, when political consensus erodes, formal votes matter. As shown in the table's upper portion, creditor countries retain control in the World Bank and the IDB, in both of which the United States has the largest share of votes and can in practice block loans of which it disapproves.[11] The CAF, in contrast, is controlled by its member-borrowers, the same sovereign governments who provide its equity capital.

[9] On the BNDES' capital market activities, see Além and Madeira 2015 and https://www.bndes.gov.br/wps/portal/site/home/transparencia/consulta-operacoes-bndes/carteira-acionaria.

[10] On the BNDES, see Armijo 2017; BNDES 2002, 2017; Kim 2020; Musacchio and Lazzarini 2014; Palludeto and Borghi 2020; and Studart and Ramos 2018.

[11] Formally, the borrowing countries hold a bare majority of voting shares in the IDB, but in practice the United States, with about a third of voting shares, almost always can build a coalition to achieve its preferences. See Birdsall 2014.

Table 1: Multilateral Development Banks in Latin America—Voting Power and Funding Structure

	World Bank	IDB	CAF
Voting Power			
of Borrowers	38.08%	50.02%	100.00%
of Non-Borrowers	61.92%	49.98%	
Loans Extended /Institutional Equity	4.0	2.9	2.1
Callable Capital/Institutional Equity	6.7	4.9	0.1

Sources: Voting shares from Artecona, Bisogno, and Fleiss 2020; financial information from Fleiss 2021:22.

As would be expected given their differing underlying political foundations, the purely Latin American CAF also has more difficulty funding itself than the global World Bank or the hemispheric IDB. Table 1's lower portion reveals the costs to CAF of its greater independence from the Global North. Institutional equity represents paid-in capital contributions from country members, reinvested profits and reserves. Equity permits MDBs to borrow in global capital markets to smooth their access to resources. The World Bank can extend credit to borrowers worth four times its equity; CAF can lend only twice its equity. The advanced industrial country funders of the Washington, D.C. based institutions also receive more bang for their buck: the bulk of their contributions come in the form of guarantees ("callable capital"), which are off-budget and fairly painless for donors except in times of "emergencies," which in practice has meant international financial crises, not emergencies of borrower living standards.[12] In contrast, CAF funds itself from paid-in capital and relatively expensive borrowing from global capital markets to extend loans, paying for its model of borrower governance with a considerably higher cost of funds.

POLITICAL VIGNETTES: UNDERLYING POWER BALANCES AND REGIONAL DEVELOPMENT BANKS

This section tracks some of the international political conflicts experienced by three regional development banks or bank projects, constituted with different definitions of regional geographic scope. The RDBs are discussed in chronological order of their initiation.

Cooperation within Hegemony: The Inter-American Development Bank

Our expectation is that hegemonic regionalism is likely to create enduring multilateral institutions and provide material benefits to non-hegemonic members but will not pursue projects that go against the policy preferences of the hegemon or undermine the regional distribution of power capabilities. The trajectory of the IDB fits these parameters (on the IDB, see Birdsall 2014; Diaz-Bonilla and del Campo 2011; Ray and Kamal 2019). The idea of a multilateral bank making long-term loans for infrastructure and other public works, primarily funded by the United States and available to sovereign borrowers in Latin America, had been around for well over a century, sometimes promoted by Latin Americans seeking national development or escape from sovereign debt, and in other epochs by the United States, envisioning trade and investment opportunities and/or docile allies (Diaz-Bonilla, Centurión and Bisogno 2022; Thornton 2021). Founded in 1959 under US President Eisenhower, almost 65 percent of the IDB's initial voting shares went to Latin America, with

[12] Some observers suggested that the main donor governments (international financial institutions) ought to consider the global coronavirus pandemic of 2020-22 such an emergency, and increase their paid-in funding of MDBs, which did not happen (Fleiss 2021; Humphrey and Prizzon 2020).

the remainder for the United States. However, the bank received some 60 percent of its capital from the US government and had its headquarters in Washington, D.C., providing the hemispheric hegemon with ample avenues of influence. Subsequently, the IDB has had a long history, often distinguished, but also controversial. Attracting many of the region's top policy-oriented economists, it shares experts with other multilateral finance institutions in Washington, D.C., operates a revolving door with finance and planning ministries throughout the hemisphere, and is a fount of innovative development research, albeit within implicit yet strict ideological boundaries.

But the IDB never escapes the heavy hand of the North American colossus, including both the US federal executive, with strong opinions about what projects and goals ought to be supported, and the US Congress, the site of pitched battles over each periodic capital replenishment. Thus, the Cuban Revolution of 1959 followed months after IDB's multilateral founding charter, and the bank soon became the administering agent for the Alliance for Progress, providing social spending aimed at fighting Communism. Its first loan was for institutional reform in Bolivia's mining sector, a vector for militant unions and violent state repression. Northern Latin America and the Andean countries received many loans for social uplift—or social peace—at the same time as US military assistance and training supported Latin American militaries. Brazil and its Southern neighbors received IDB funding and technical assistance for much-desired hydroelectric dams and big energy infrastructure. Although the overwhelming majority of LAC governments and publics long have preferred organizations without political tests for membership, Cuba has never been a member, as only members of the Organization of American States, also a regional organization constructed on the hemispheric vision, may apply to join the IDB.

In 1979, the rebel Sandinistas pushed out the conservative Nicaraguan government long supported by the United States. Nicaragua remained a member of the IDB, and the new leftist government applied for a loan in 1986, at the same time the US Reagan administration was secretly funding the rightest opposition, the Contras. The US Executive Director voted against the loan and, more significantly, the US Congress also blocked all US funding for the bank, including already contracted annual appropriations as well as an upcoming major capital replenishment. Consensus-building IDB President Ortiz Mena, who had been reelected to successive five-year terms since 1971, toughed it out for two years vis-à-vis the US, but in 1988 resigned early, commenting that he didn't wish to destroy the bank as an institution. This left space for Enrique V. Iglesias, aligned with Ortiz Mena's preferences, but younger and possessed of enormous zest for the endless diplomatic maneuvering necessary to conciliate both borrowers and the major shareholder, to be appointed to serve out Ortiz Mena's term. As a quid pro quo for US support of the bank's next major capital replenishment, which passed in 1990, Iglesias had to accept a major internal reorganization of lending practices, moving away from predominantly project loans, which kept bank personnel (or their political bosses) from imposing larger policy or regulatory reforms, and toward sectoral loans to the appropriate central government ministry.[13] Sectoral credits arrived with policy preconditions obliging the country's officials, for example, to break up monopolies or introduce new auditing procedures. The bank's major donor also insisted on expanding lending from the IDB directly to private businesses, reducing the influence of recipient governments in loan allocation. The US official, Donald Terry, who had authored a report critical of the bank's practices, became the first director of the new private sector lending unit, the precursor of today's IDB Invest.

The move away from funding heavy infrastructure also reflected US policy choices, not those of Latin American governments. Through the 1990s, and catalyzed by the first "Earth Day" United Nations

[13] The Seventh Increase in Resources was for $26.5 billion in ordinary capital (although only $663 million was payable to the bank in cash) and another $200 million in the Fund for Special Operations, which was available more quickly, but over which the United States would have veto power. See chronology at <https://www.iadb.org/en/about-us/historical-milestones-1989-1998%2C3625.html>

conference held in Rio in 1992, notable segments of the young, educated and vocal publics in the US and other advanced industrial democracies turned against heavy infrastructure projects, especially hydroelectric dams. US executive directors in MDBs, including in both the World Bank and IDB, ceased to support dams, in practice pushing these institutions away from their earlier focus on heavy economic infrastructure more generally.

However, in the early 2000s, when a critical mass of South American countries had activist governments of the left or center-left, there was pushback from Latin America countries, whose governments and business communities strongly supported building infrastructure. The IDB staff tried to balance both constituencies. On the one hand, since the mid-1960s the IDB had been the home of the Institute for the Integration of Latin America and the Caribbean (INTAL), housed in the IDB offices in Buenos Aires, which published studies and helped organize conferences to promote the goal of regional integration, one aspect of which would be integrated infrastructure, but also promoted the liberal investment and trade agenda favored by the United States.[14]

From 2000-2009, INTAL served as the institutional home, and de facto locus of technical leadership, for the Integrated Infrastructure for South America (IIRSA), a visionary regional planning project championed by Brazilian President F.H. Cardoso (1995-2002). However, when problems with multilateral cooperation among the 12 member countries arose, Cardoso's successor, President Lula da Silva (2003-2010), made the consequential choice to join his left-leaning Venezuelan and Argentina counterparts in pushing to relocate IIRSA within the new, untried planning department of UNASUR, the new South American regional body. The choice to move IIRSA to UNASUR was expected to liberate continental infrastructure coordination and planning from the heavy hand of the United States, a dominant voice in the IDB. Unfortunately, UNASUR defined the region with a unipolar structure, which proved difficult to manage. UNASUR's subsequent collapse also destroyed IIRSA.

One strategy followed by Iglesias and his successor Luiz Alberto Moreno, who together led the bank for 32 years (1988-2020), to dilute the US's influence was to expand the membership to other advanced industrial, non-borrower countries, beginning with Japan and four smaller Western European countries in 1971. Although the LAC/US vote ratio thereby would move against the borrower countries, the IDB's leaders' hope was to benefit borrowers by introducing a greater diversity of creditor opinions and independent sources of finance. By the early 2020s, readjustments to accommodate new members reduced the shares of borrower countries in LAC to 50.04 percent, and the US to 30.02 percent, but did not in practice reduce US dominance. For example, as all forms of bilateral and multilateral economic assistance shrunk as a share of the government budgets in the advanced industrial democracies in the 21st century, the US government pressed all the Washington, D.C. international financial institutions, including both the World Bank and IDB, to prioritize low-income countries for programs such as sovereign debt relief. The overwhelmingly middle-income countries of LAC protested to no avail (Canuto, Cavallari and dos Santos 2020).

Unsurprisingly, US President Donald Trump (2016-2020), a vocal critic of multilateralism, introduced new controversies. Juan Guaidó, Venezuelan opposition leader then acknowledged by many as president-in-exile, selected prestigious Harvard economist Ricardo Hausmann, Venezuelan citizen and prior IDB chief economist, as his country's executive director posted to the bank. IDB President Moreno, under pressure from the US and himself no fan of increasingly authoritarian Venezuelan President Nícolas Maduro, was willing to recognize Hausmann rather than Maduro's representative. By chance, the IDB was only two weeks out from its first ever meeting to be held in China, a decision intended to honor its newest non-borrowing member. China, whose largest Latin American borrower was Venezuela, refused Guaidó's representative a visa, apparently hoping for a diplomatic compromise. Instead, in a decision supported by 80 percent of shareholder votes after intense US

14 At: https://www.iadb.org/en/intal/about , as accessed February 2023.

lobbying, the meeting was moved to Florida. When Moreno's term was up the following year, the US exerted pressure to secure a majority for Trump's candidate, a conservative Cuban-American, thereby breaking the unwritten yet powerful norm that the bank president ought to be a Latin American citizen. Notwithstanding a collective public protest letter from five former presidents of Brazil, Chile, Colombia, Mexico and Uruguay, the American candidate, Maurício Claver-Carrone, was confirmed in 2020 by a majority of the bitterly split executive board. The bank's professional staff soldiered on, but in late 2022 were greatly relieved to welcome a fellow Latin American technocrat, Brazilian economist Ilan Goldfajn, formerly of the IMF and Brazil's central bank, after personal improprieties propelled Claver-Carrone's early exit.

Overall, multilateral financial projects conceived and run within a hegemonic version of the region, such as the Western Hemisphere taken as a whole, at least have the advantage of making the trade-offs for Latin American and Caribbean borrowers clear. The IDB has the most funds, the best access to expertise and has pushed the knowledge debates forward. For example, the IDB participated in emergency counter-cyclical financing early in the global financial crisis of 2008-09, and in 2020-21 took leadership in cooperating with other global and regional multilateral funders and think tanks, including the IMF, CAF, ECLAC and Latin American Shadow Financial Regulatory Committee (CLAAF), to coordinate regional financial/monetary responses to the COVID-19 pandemic.[15] Yet, despite periodic efforts by IDB presidents and technocrats to break free of the political control of the non-borrowing shareholders, it can never permanently do so (see, for example, Glassman, Rojas-Suarez and Morris 2020). While IDB research may promote regional integration, its operations inevitably focus on individual countries, tying them to Washington, D.C. in a hub-and-spoke network, arguably because this pattern is most congenial to the bank's major funder. Borrower countries also spend considerable energy navigating, and attempting to manipulate, the political winds in the US capital. If an activity, whether hydroelectric dams or family planning clinics, becomes unpopular with the American legislature, the IDB cannot pursue it. There are many important topics, such as societal inequality and many climate-related issues, that the IDB only can address obliquely.

Cooperation within Multipolarity: The Development Bank of Latin America

The predictions for multipolar regionalism are that, ceteris paribus, sustaining economic cooperation will be easier than with other systemic structures, and bolder visions of regional integration more possible to implement. This subsection considers a subregion, the Northern and Central Andes, which is structurally multipolar, possessing three larger countries of roughly equivalent material power capabilities—Colombia, Venezuela and Peru—and two smaller countries.

In 1966-67, six Andean countries—Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela—founded the Andean Development Corporation (CAF), intended as the long-term financing arm for a proposed multipurpose economic integration and political cooperation association, the Andean Community (CAF 2020; Ray and Kamal 2019; [Sepehr] Rubio Vega 2015). The CAF made its first small loan in 1970. Chile, the most industrialized of the founder countries and geographically furthest from the headquarters in Caracas, withdrew from the bank in 1977. Through the 1970s the bank supported the expansion of intraregional trade, including regionalized production chains, theorized by many of the region's pioneering "structuralist" economists as essential for economic growth (Fajardo 2022). In the 1980s CAF responded to the decade-long Latin American sovereign debt crisis by offering trade credits to maintain essential imports, taking on more of an emergency response and balance of payments role, something the CAF could do much more quickly and easily than the larger banks

[15] On IDB leadership during the GFC of 2008-09, see Nora Lustig 2008. On all MDBs in the Covid-19 pandemic, see Ocampo 2020, who concludes, however, that MDB lending to the region in 2020-21 was less than during the global financial crisis of 2008-9. Nonetheless, the IDB has played a significant coordination role during the pandemic. See: https://www.iadb.org/en/coronavirus

such as the World Bank or IDB, which had adopted the more formalized and transparent procedures demanded by creditor countries (CAF 2020). Then, from the 1990s through the first two decades of the 20th century, credits to governments to finance heavy infrastructure such as bridges and dams dominated the CAF portfolio—just as the World Bank and IDB backed away from these types of projects. Most recently, since the mid-2010s, the bank has tried to carve itself a niche in focusing on green, climate-friendly technology to contribute to Latin America's needed energy transition away from fossil fuels. Given the deeply conflicting preferences of its members, a majority now dependent on commodity and especially fossil fuel exports, the pivot to green energy finance has stuttered.

The CAF has been perceived as relatively successful. It has sustained multilateral financial cooperation from the 1970s into the early 21st century, despite substantial domestic political turmoil in several member countries, as well as frequently strained international diplomatic relations among the five founding members, particularly between Colombia and Peru, governed from the center-right through 2020, and Venezuela, Bolivia and sometimes Ecuador, whose incumbent presidents leaned left to hard left. CAF leaders and regional observers credit its success in staying institutionally alive to the belief among member governments that it is "their" institution, run by the owner-members and for their mutual benefit, as illustrated by the high priority member governments have given to repaying their CAF debts. National leaders need not worry about being pressured to adopt unwanted conditions or controls as the price of accessing financing. Interestingly, the administration of CAF is arguably less democratic, and certainly less participatory and transparent, than that of the IDB. The CAF has no standing executive board, and board meetings occur only two to four times annually, reducing transaction costs. This "presidential" system, as interviewees referred to it, transfers considerable daily decision-making authority to the bank's Executive President and other senior managers. Its internal procedures have allowed most loans to be approved by the technical staff rather than shareholders, and it prides itself on being nimble, "giv[ing] borrowers what they want," and imposing few conditions on loan approvals.[16]

The CAF grew substantially in the early 21st century, both in terms of membership and loan volumes. This outcome was assisted by CAF's technocratic leaders committing to expand while simultaneously retaining a rough multipolar balance among members and funders. Bolivian economist L. Enrique Garcia, Executive President 1991-2017, early on began a quiet campaign to convince the CAF's five founders that they wanted the institution to expand, and also to persuade other Latin American, and eventually also Caribbean, states that joining a small subregional development bank would be attractive for them. In terms of this chapter's analytical frame, Garcia had decided to expand CAF into the unipolar continental region (with Brazil) or the bipolar region of LAC as a whole (with Brazil and Mexico). While he may not have used these terms, Garcia clearly identified the political problem. Thus, one prong of Garcia's strategy was to keep as much control as possible in the hands of the Andean founding members; expansion thus went forward with two classes of members, designated "full" and "associate," each with finely detailed sets of privileges and restrictions. Moreover, the larger countries were encouraged to join at the same time, balancing one another as much as practicable. Brazil and Argentina did so, with Argentina offered the larger voting share; Mexico joined later. As of March 2015, the CAF had 19 member countries, including 10 full members and nine associates. Nonetheless, the founding five retained just over 65 percent of total shares (and nearly three-quarters of full member shares, with commensurate voting rights), the three larger founders with about 18 percent each, and the two smaller ones around 5 percent each. As of September 2022, the founders retained 57 percent of total shares, mainly due to the voluntary shrinking of Venezuela's shares because of the country's overall dire financial straits (CAF 2022).

16 Authors' interviews with L. Enrique Garcia, 2012; Eugénio Diaz-Bonilla 2023.

Garcia also wished to increase the hitherto limited funds that the CAF had had to work with, and to reduce the bank's cost of borrowing, notably higher than those of the larger MDBs with advanced industrial countries as members. One tactic was to invite commercial banks from Latin America to share a "chair" at executive board meetings, as a means of including their perspective but without giving them formal voting rights. Local private banks thus could access good information and, informally, a voice within the organization with which they might subsequently co-finance projects. In turn, the CAF obtained advice and the benefit of being associated with these banks' credit ratings, often higher than the sovereign credit ratings of CAF's founding, and still controlling, members. Another strategy for lowering funding costs was to include advanced industrial countries as members in order to benefit from their higher credit rating, but without losing Andean ownership and control. Spain and Portugal, but no other advanced industrial economies, were invited and joined as associate members. This sharply contrasts to the IDB, where approximately half of its 48 members are "non-borrowing." In 2012, the CAF renamed itself the Development Bank of Latin America, and began to hold its annual meetings in Washington, D.C., hosted by the Inter-American Dialogue, a private think tank on Latin America, long integrated into the Washington, D.C. foreign policy establishment as a centrist voice on hemispheric affairs. Comparable to the decision to designate a few Latin American commercial banks as non-voting associates, these were practical decisions aimed at enhancing visibility among Northern bond investors while preserving as much operational autonomy as possible.

Of course, the characteristic of being run by borrower-owners, rather than dominated by creditor countries, has not exempted CAF from political controversy. A case in point is President Luis Carranza (2017-2021), who, like Garcia, transitioned to CAF after a successful tenure at the IDB, but resigned a year and a half before his term concluded. Carranza faced criticism from the political right across the hemisphere due to substantial non-project loans CAF provided to founding member Venezuela while the country was under US sanctions. Additionally, he experienced "constant pressure" from the left-leaning Argentine government, urging him to commit in advance to supporting an Argentine candidate for the next executive presidency.[17]

There also have been questions raised by North Atlantic investors, the target purchasers of CAF bonds. Although borrowers appreciate CAF's relatively rapid and less-onerous loan approval process, the bank's flexibility leaves it open to charges of being non-transparent, which to many implies inefficiency at best and outright corruption at worst. CAF pledges to follow borrowers' own environmental regulations, displeasing campaigners for more rigorous standards. Among the major DBs operating in Latin America, CAF's environmental record falls between the more closely audited World Bank and IDB, on the one hand, and China's opaquer bilateral "policy banks," on the other (Gallagher and Yuan 2020). In fact, CAF's very success has brought additional scrutiny. Thus, a new transparency ranking of development finance institutions (DFIs) puts CAF near the bottom (Saldinger 2023). This said, CAF has the honor of being the *only* subregional bank included in that index, which moreover features dimensions (such as how much additional private finance an MDB catalyzes) given more weight by Northern investors than Southern sovereign borrowers. As CAF's loan portfolio expands, expectations for it to conform to the more formalized efficiency and transparency criteria used by the larger MDBs lending likely also will increase.

With roots in the Northern Andean countries that are as a group less prosperous than the Southern Cone states of the continent, CAF successfully branded itself as technocratic and non-controversial, playing an important role as an independent development thought leader, avoiding much of the partisan rancor that increased in the 2010s. Although it has higher costs for borrowers, the CAF found a

[17] Argentina was frustrated because its strong candidate for the IDB presidency in 2020 was pushed aside when US President Trump imposed an American president, but Carranza resisted the logic that the CAF had a responsibility to compensate Argentina (Deutsche Welle – Español 2021).

niche in providing financing for the heavy infrastructure projects that many emerging and developing country governments wanted, yet which advanced industrial country publics sharply criticized.[18] In the early 21st century, the CAF renamed itself the Development Bank of Latin America and began a cautious program of expansion. It is trying to lower its funding costs by more borrowing in global markets, intentionally prioritizing European and Northeast Asian markets over US ones. Moreover, CAF has gradually increased its lending to the Common Market of the South (MERCOSUR, composed of Brazil, Argentina, Paraguay and Uruguay, and dating from 1991), including the poorer, more rural regions of Argentina and Brazil. These innovations may be understood as tactics intended by the bank's professional staff to conform more closely to global market norms while retaining as much operational freedom as possible.

Unipolarity and the Problem of Brazil: The Bank of the South

This subsection considers the challenges of RDB cooperation when the designated regional scope is unipolar, theorized here as a difficult systemic-structure for building regional economic cooperation. Brazil's overall material power capabilities, as well as its comparative financial sophistication, place it in the structural position of being a unipole (but not a hegemon) within any grouping of South American states—irrespective of Brazilian actions or preferences. We expect national policymakers in a unipole state to anticipate few direct economic benefits from joining with partners unable to match its economic and demographic capabilities. Under these conditions, the likely benefit for the regional big power must be primarily political, which poses delicate problems of intragroup negotiation. The requirement for tact from the unipole country is intensified if one of its weaker neighbors overtly challenges the more powerful country's leadership.

The Banco del Sur, like the CAF, initially was conceived by members of the Andean Community, although not under its auspices. In the mid-2000s, Venezuelan President Hugo Chávez (1999-2013), then flush with petroleum revenues, began recruiting co-founders from among his fellow South American presidents elected from the left (the "pink tide") for an explicitly anti-imperialist and anti-capitalist development bank. The intended Banco del Sur would anchor a new regional financial architecture (NRFA), directly challenging the status quo institutions dominated by the Global North (Cusack 2019; Hart-Landsberg 2009; Marshall and Rochon 2009; Páez Pérez 2009; Regueiro and Barzaga 2012; Rosales 2013; and Ugarteche 2021). The NRFA plan also included a new regional currency, the *sucre*, initially for intragroup trade clearing but with aspirations eventually to mimic the Euro, and a monetary fund to share foreign exchange reserves. Leftist think tanks and progressive civil society organizations in North America endorsed the ideas of Ecuadorian economist Pedro Páez Pérez, the NFRA's lead architect. With a center-left government in power, Brazil's BNDES also attempted collegiality, assigning senior staff to engage in NRFA planning sessions.[19]

As always, countries had different preferences and degrees of commitment to the endeavor. Venezuela had ridden the global commodity boom, which ultimately lasted roughly from 2003 to 2014, via petroleum exports and was in 2009 brimming with confidence. Venezuela and its partners in the leftist Bolivarian Alliance (ALBA, cofounded five years earlier by Presidents Chávez and Fidel Castro of Cuba) had an ambitious vision for the proposed bank, specifying $7 billion of paid-in capital to begin, an explicit focus on financing political as well as commercial integration, and principled repudiation of integrating market-oriented metrics into the new bank's operations. Brazil, however, had the BNDES and didn't need another RDB. Brazil pushed for a modest start for the Banco del Sur, proposing $3 billion total in initial capital subscriptions, a focus on concrete development projects,

[18] China's Belt and Road Initiative (BRI) is also in part a massive response, diplomatically very useful for China, to the withdrawal of many Western or Western-led bilateral and multilateral development banks from big infrastructure lending since the late 1980s.

[19] Interview, Lavínia Barros de Castro, January 2021.

measures to ensure repayments and future international bond issues to raise capital. Argentina, although the second country in South America in terms of overall power capabilities, was financially weak, having been frozen out of global capital markets since its 2001-02 sovereign debt crisis and forced devaluation. Venezuela had even subsidized Argentina in the mid-2000s through jointly issued local currency sovereign bonds (Labaqui 2014).

Eventually, total capital subscriptions were fixed at $10 billion, including anticipated contributions from the three non-signatory South American countries. Financial market actors who otherwise might have worried about the financial stability of a vocally anti-capitalist bank were reassured by Venezuela's success as a sovereign borrower, backed by government-owned petroleum revenues.[20] In 2009, the presidents of Venezuela, Ecuador and Bolivia, the three Andean ALBA members, along with the four founders of MERCOSUR, signed the Banco del Sur's founding treaty, marking the project's apogee. In 2010, even Colombia, long governed from the center-right, briefly flirted with joining, which would have included all the Iberian-heritage South American countries except Peru and Chile.

However, and crucially, Brazil's President Lula da Silva either would not or could not deliver the necessary Congressional ratification of the Banco del Sur treaty, some of which was due to President Chávez's penchant for drama. At the same time that Brazil's Congress was considering allocating funds for the new bank, Chávez, leader of a country where central government revenues overwhelmingly derived from fossil fuel exports, chose to inflame Brazilian opinion by excoriating Brazil's much-praised program to fuel vehicles with gasohol, a renewable resource. Chávez thundered that Brazil had inflated regional food prices by diverting agricultural land from food to sugarcane production. The Banco del Sur did not survive this very public controversy. By 2011 Brazil was engaged in talks with its BRICS partners to create their own development bank, the New Development Bank, signing the constitutive treaty in 2012 (Roberts, Armijo and Katada 2018; Nogueira Batista, Jr. 2021). Still formally alive in 2012, the Banco del Sur project faded following Chávez's death from cancer in early 2013, although academic and civil society enthusiasts continued to promote the bank into 2015. The ALBA countries also experimented with their own subregional bank, which reinforced the more radical proposals of the Banco del Sur, but also faltered (Doleac 2015).

In sum, the Banco del Sur's failure was overdetermined. Early technical plans were thin; petroleum prices trended down after 2008; Chávez offended even his natural allies among his neighbors; Chávez died prematurely. Moreover, expanding economic ties to China in the early 2000s, including large sovereign loans to Venezuela and Bolivia, and trade plus direct investment in energy and commodities for the rest of South America, diluted the immediate perception of acute capital scarcity, especially in sectors related to commodity exports, such as energy and transportation (Gallagher 2016; Kaplan 2021; Myers and Wise 2017; Stallings 2020; Wise 2020). None of these factors, or even their combination, necessarily were fatal to the RDB project. South America had, and has, an on-going dearth of long-term financing for big development projects, such as infrastructure, both physical and social. Because of the independence of US preferences that the Banco del Sur, like the CAF, could have had, it would have been much better placed to finance projects explicitly fostering regional economic integration—for over a century a recurrent dream of Latin and South American leaders—than the IDB or World Bank. In this context, it should be noted that Chinese loans and investment, although concentrated in infrastructure sectors through the BRI, have been no more oriented toward opening up the continent's interior, promoting regional supply chains, or fostering industrialization than those of the British in the 19th and early 20th centuries, or the US ever since. Foreign investment of all these cases has prioritized projects of greatest interest to the foreign creditors, such as improving the conditions for moving commodity exports to ports, not integrating geographic neighbors.

[20] The benchmark international oil price reached a 70 year high of US$113/barrel in August 2008, remaining high though volatile through 2014. https://www.macrotrends.net/1369/crude-oil-price-history-chart

Despite the intrinsic attractiveness of a continental RDB, the unipolar distribution of capabilities made many of these other conditions much more difficult than they might otherwise have been. Brazil itself has been fundamentally ambivalent about South American financial cooperation, as its own policymakers recognize that the only sustainable role for them is that of humble, generous, ostensibly reluctant continental leader. This stance is difficult to sell to Brazilian voters, who are aware of Brazil's lower income per capita than neighbors such as Chile, Uruguay and Argentina, and wonder why Brazil should sacrifice anything, pride included, on their behalf. Furthermore, Brazil arguably might reap greater immediate political gains through bilateral financial statecraft, not only with its neighbors, but elsewhere in the Global South (Henderson and Clarkson 2016). Overall, the potential immediate gains to Brazil, economic or political, from unipolar financial leadership in South America are subtle, resulting from the benefits of location in a stable, prosperous neighborhood. Under these circumstances, Brazil was willing to become an associate member of CAF and to negotiate about the proposed Banco del Sur but lacked strong political impulses toward committing leadership or significant resources to a regional DB project. Meanwhile, Brazil's neighbors justifiably remained wary. Structural unipolarity meant that Brazil would not access funds from a bank the size of the Banco del Sur yet was itself insufficiently large vis-à-vis its neighbors to be willing to pledge generous resources to neighborhood support.

CONCLUSION

This paper has appropriated a hoary yet compelling framework familiar to international security scholars and, with some modifications, employed it to "see" underlying systemic-structural themes playing out within the daily back-and-forth of the politics of regional cooperation, as embodied in three development bank projects displaying diverse distributions of power capabilities among the participating countries.

The discussion tracked the political evolution of the IDB, illustrating both the advantages and the constraints of hegemonic regionalism; the Development Bank of Latin America, which enjoyed some surprising advantages from the multipolar characteristics of its founding geographic scope; and the Banco del Sur, which proved unable to overcome the disadvantages of unipolar-yet-not-hegemonic regionalism. No regional development bank without US leadership has yet attempted to bridge the structurally bipolar region encompassing both Northern and Southern Latin America, with or without the Caribbean, although the CAF claims this as its eventual goal. The lesson is that intragroup power balances themselves have important impacts on the viability of regional economic cooperation, independent of partisan or policy distance among participants.

Of course, many other factors also matter, in the cases of these RDBs and in every cross-border cooperative effort, and difficult never means impossible. The authors of this paper comprehend regional cooperation, very much including cooperation at the South American level, as highly desirable. Nevertheless, it is useful to be forewarned about some challenges that may arise.

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