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ANDRE SANCHES SIQUEIRA CAMPOS

The role of the central banks in regional integration: Analysing financial convergence initiatives led by the Central Bank of Brazil and the Reserve Bank of India towards a regional payment system in MERCOSUR and SAARC

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POTENTIAL IMPACT OF THIS RESEARCH

The analysis of the behavior of central banks and the availability of research data contribute to greater transparency and monitoring of the decision-making process of public policies. It also understands to some degree the position of the Brazilian and Indian governments in regional organizations and international financial organizations, which is related to economic development and foreign policy strategies.

IMPACTO POTENCIAL DESTA PESQUISA

A análise do comportamento dos bancos centrais e a disponibilização dos dados desta pesquisa contribuem para maior transparência e monitoramento do processo decisório de políticas públicas. Esta pesquisa corrobora, em algum grau, para compreender a posição dos governos brasileiro e indiano nas organizações regionais e organizações financeiras internacionais, cujas escolhas políticas estão relacionadas com o desenvolvimento econômico e estratégias de política externa.

POTENTIËLE IMPACT VAN DIT ONDERZOEK

De analyse van het gedrag van centrale banken en de beschikbaarheid van onderzoeksgegevens draagt bij aan een grotere transparantie en monitoring van het besluitvormingsproces van overheidsbeleid. Het begrijpt ook tot op zekere hoogte de positie van de Braziliaanse en Indiase regeringen in regionale organisaties en internationale financiële organisaties, die verband houden met economische ontwikkeling en strategieën voor buitenlands beleid.

IMPACTO POTENCIAL DE ESTA INVESTIGACIÓN

El análisis del comportamiento de los bancos centrales y la disponibilidad de datos de esta investigación contribuyen a una mayor transparencia y seguimiento del proceso de toma de decisiones de política pública. Esta investigación corrobora, en cierta medida, la comprensión de la posición de los gobiernos brasileño e indio en organizaciones regionales y organizaciones financieras internacionales, cuyas decisiones políticas están relacionadas con el desarrollo económico y las estrategias de política exterior.

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"L'intégration économique n'est pas l'unité politique. Mais elle en est la base. Elle lie progressivement les pays membres par des intérêts communs organisés. Par elle, les gouvernements, les administrations, les formations politiques et syndicales acquièrent l'expérience de l'action commune, de ses exigences et de son efficacité".

Jean Monnet, 1972, p. 8.

Allocution prononcée au Congrès International de la Friedrich-Ebert-Stiftung

ABSTRACT

Central banks play a significant role in promoting regional economic, financial, and monetary cooperation by upgrading the payment and settlement systems. However, close coordination and cooperation require facilitating the implementation of reforms at domestic and cross-border levels in order to benchmark with international standards. This context tends to be influenced by the interests of developed countries and the dimensions of regulatory globalisation promoted by international bureaucracies such as the BIS, IMF, World Bank, UN Regional Commissions, and Regional Development Banks in global financial governance. This framework of political interactions shapes the behaviour of central banks, which may drive or constrain regional integration. This research aims to analyse the role of the Central Bank of Brazil and the Reserve Bank of India towards regional financial cooperation identifying instruments that foster, gridlock, or redefine cooperation, particularly within the framework of MERCOSUR and SAARC. Since the mid-2000s, these central banks have set financial convergence initiatives with the purpose of developing a regional payment system at MERCOSUR and SAARC, which facilitate intra-trade performance and enhance foreign direct investments and, consequently, improve expectations of deepening regional integration in South America and South Asia. This research contributes to Regional Integration studies by filling the gaps in the existing literature addressing how central banks provide an effective institutional arrangement for regional organizations to achieve political and economic objectives. This qualitative document analysis research is based on Rational Choice Institutionalism and supported by Historical Institutionalism to approach critical junctures. It approaches multiple sources of data based on central banks, national governments, and regional organizations supported by existing literature. Findings from empirical evidence of the selected case studies demonstrated that the central banks of Brazil and India tend to be reluctant to deepen regional integration because of the existing economic, political, and institutional asymmetries that shape their regions. Central banks strengthened regional financial cooperation initiatives as they reduced the economic risks implicit in the integration process, aiming to protect the stability of their national financial system, foster national development, and preserve the political autonomy of Brazil and India, which provides political ground for the contestation of the Global Financial Governance.

Keywords: Brazil, Central Banks, Global Financial Governance, India, MERCOSUR, Payment System, Regional Cooperation, SAARC.

RESUMO

Os bancos centrais desempenham um relevante papel na promoção da integração econômica, financeira e monetária regional, aprimorando os sistemas de pagamento e liquidação. No entanto, para uma coordenação e cooperação regional mais profunda é necessário facilitar a implementação de reformas a nível nacional e regional, a fim de atender às normas estabelecidas pelos padrões internacionais. Este contexto tende a ser influenciado pelos interesses dos países desenvolvidos e pelas dimensões da globalização regulatória promovidas por burocracias internacionais como BIS, FMI, Banco Mundial, comissões regionais das Nações Unidas e bancos regionais de desenvolvimento no processo de governança financeira global. Essa estrutura de interação política molda o comportamento dos bancos centrais, o que pode impulsionar ou constranger a integração regional. O objetivo desta pesquisa é analisar o papel do Banco Central do Brasil e do Banco da Reserva da Índia em relação à cooperação financeira regional, identificando os instrumentos que incentivam, constrangem ou redefinem a cooperação, particularmente, no âmbito do MERCOSUL e da SAARC. Desde meados dos anos 2000, esses bancos centrais estabeleceram iniciativas de convergência financeira com o objetivo de desenvolver um sistema de pagamentos regional no MERCOSUL e SAARC, visando facilitar o desempenho do comércio intrabloco e potencializar os investimentos estrangeiros diretos, consequentemente, melhorando as expectativas de aprofundamento da integração regional na América do Sul e no Sul da Ásia. Esta pesquisa contribui para os estudos de Integração Regional ao preencher as lacunas na literatura existente abordando como os bancos centrais fornecem um arranjo institucional eficaz para organizações regionais atingirem objetivos políticos e econômicos. Trata-se de uma pesquisa qualitativa de análise documental baseada no Institucionalismo da Escolha Racional e apoiada pelo Institucionalismo Histórico na abordagem de conjunturas críticas. Esta pesquisa aborda múltiplas fontes de dados proveniente dos bancos centrais, dos governos nacionais e das organizações regionais, fundamentada na literatura acadêmica existente. Os resultados das evidências empíricas dos estudos de caso selecionados demonstraram que os bancos centrais de Brasil e Índia apresentam relutância em relação ao aprofundamento da integração regional devido às assimetrias econômicas, políticas e institucionais existentes na região. Os bancos centrais promoveram o avanço da cooperação financeira regional na medida em que reduziram os riscos financeiros implícitos no processo de integração, visando proteger a estabilidade dos sistemas financeiros nacionais, o alcance dos objetivos nacionais de desenvolvimento e a preservação da autonomia política de Brasil e Índia, o que proporcionou base política para a contestação da Governança Financeira Global.

Palavras-chaves: Bancos Centrais, Brasil, Cooperação Regional, Governança Financeira Global, Índia, MERCOSUL, SAARC, Sistema de Pagamentos.

TITEL

De rol van de centrale banken bij regionale integratie: analyse van financiële convergentie-initiatieven van de Centrale Bank van Brazilië en de Reserve Bank van India naar een regionaal betalingssysteem in MERCOSUR en SAARC

SAMENVATTING

Centrale banken kunnen een belangrijke rol spelen bij het stimuleren van regionale economische, financiële en monetaire samenwerking door het versterken van de betalings- en afwikkelingssystemen. Hervormingen op binnenlands en grensoverschrijdend niveau moeten vlot uitvoerbaar zijn om nauwe coördinatie en samenwerking mogelijk te maken. De hervormingen laten tevens toe te benchmarken met internationale normen. Deze context wordt meestal beïnvloed door de belangen van ontwikkelde landen en de dimensies van globalisering van regelgeving die worden bevorderd door internationale bureaucratieën zoals de BIS, het IMF, de Wereldbank, regionale commissies van de VN en regionale ontwikkelingsbanken in het mondiale financiële bestuur. Dit kader van politieke interacties geeft vorm aan het gedrag van centrale banken, dat regionale integratie kan stimuleren of afremmen. Dit onderzoek is gericht op het analyseren van de rol van de Centrale Bank van Brazilië en de Reserve Bank van India ten aanzien van regionale financiële samenwerking, waarbij instrumenten worden geïdentificeerd die samenwerking bevorderen, blokkeren of herdefiniëren, met name binnen het kader van MERCOSUR en SAARC. Sinds het midden van de jaren 2000 hebben deze centrale banken financiële convergentie-initiatieven genomen met als doel de ontwikkeling van een regionaal betalingssysteem in MERCOSUR en SAARC, wat de prestaties op het gebied van intra handel vergemakkelijkt en directe buitenlandse investeringen bevordert en daarmee de verwachtingen van een verdieping van de regionale integratie in Zuid-Amerika en Zuid-Azië verbetert. Dit onderzoek draagt bij aan studies over regionale integratie door de hiaten in de bestaande literatuur aan te vullen over hoe centrale banken een effectieve institutionele regeling vormen voor regionale organisaties om politieke en economische doelstellingen te bereiken. Dit is een kwalitatief document analyseonderzoek gebasseerd op Rational Choice Institutionalism en ondersteund door Historical Institutionalism dat kritieke momenten benadert. Het benadert meerdere bronnen op basis van centrale banken, nationale regeringen en regionale organisaties, ondersteund door bestaande literatuur. Bevindingen uit empirisch bewijs van de geselecteerde casestudies toonden aan dat de centrale banken van Brazilië en India doorgaans terughoudend zijn om de regionale integratie te verdiepen vanwege de bestaande economische, politieke en institutionele asymmetrieën die hun regio's vormgeven. De centrale banken versterkten de initiatieven voor regionale financiële samenwerking omdat ze de economische risico's verminderden die impliciet verbonden waren aan het integratieproces, met als doel de stabiliteit van hun nationale financiële systeem te beschermen, de nationale ontwikkeling te bevorderen en de politieke autonomie van Brazilië en India te behouden, wat een politieke basis vormt voor de betwisting van het mondiale financiële bestuur.

Trefwoorden: Betalingssysteem, Brazilië, centrale banken, India, MERCOSUR, Mondiale Financiële Bestuur, regionale samenwerking, SAARC.

RESUMEN

Los bancos centrales desempeñan un papel relevante en la promoción de la integración económica, financiera y monetaria regional, mejorando los sistemas de pago y liquidación. Sin embargo, para una coordinación y cooperación regionales más profundas es necesario facilitar la implementación de reformas a nivel nacional y regional para cumplir con las normas establecidas por los estándares internacionales. Este contexto tiende a estar influenciado por los intereses de los países desarrollados y las dimensiones de la globalización regulatoria promovidas por burocracias internacionales como el BIS, el FMI, el Banco Mundial, las comisiones regionales de las Naciones Unidas y los bancos regionales de desarrollo en el proceso de gobernanza financiera global. Esta estructura de interacción política moldea el comportamiento de los bancos centrales, lo que puede impulsar o limitar la integración regional. El objetivo de esta investigación es analizar el papel del Banco Central de Brasil y del Banco de la Reserva de la India en relación a la cooperación financiera regional, identificando los instrumentos que alientan, limitan o redefinen la cooperación, particularmente en el ámbito del MERCOSUR y la SAARC. Desde mediados de la década de 2000, estos bancos centrales han establecido iniciativas de convergencia financiera con el objetivo de desarrollar un sistema de pagos regional en el MERCOSUR y la SAARC, com el propósito de facilitar el desempeño del comercio intrabloque y mejorar la inversión extranjera directa, mejorando en consecuencia las expectativas de profundización de la integración regional en América del Sur y el Sur de Asia. Esta investigación contribuye a los estudios de integración regional al llenar los vacíos en la literatura existente al abordar cómo los bancos centrales crean un arreglo institucional efectivo para que las organizaciones regionales logren objetivos políticos y económicos. Se trata de una investigación cualitativa de análisis documental basada en el Institucionalismo de Elección Racional y sustentada en el Institucionalismo Histórico en el abordaje de coyunturas críticas. Esta investigación aborda múltiples fuentes de datos de bancos centrales, gobiernos nacionales y organizaciones regionales, basadas en la literatura académica existente. Los resultados de la evidencia empírica de los estudios de caso seleccionados demostraron que los bancos centrales de Brasil e India son reacios a profundizar la integración regional debido a las asimetrías económicas, políticas e institucionales que existen en la región. Los bancos centrales promovieron el avance de la cooperación financiera regional en la medida en que redujeron los riesgos financieros implícitos en el proceso de integración, con el objetivo de proteger la estabilidad de los sistemas financieros nacionales, el logro de los objetivos de desarrollo nacional y la preservación de la autonomía política de Brasil y India, que proporcionó una base política para desafiar la Gobernanza Financiera Global.

Palabras clave: Bancos Centrales, Brasil, Cooperación Regional, Gobernanza Financiera Global, India, MERCOSUR, SAARC, Sistema de Pagos.

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LIST OF ABBREVIATIONS

ABNT	Brazilian Association for Technical Standards
ACU	Asian Clearing Union
ADB	Asian Development Bank
AfDB	African Development Bank
AIFTA	ASEAN-India Free Trade Area
AIIB	Asian Infrastructure Investment Bank
ALADI	Latin America Association of Integration
ALALC	Latin America Free Trade Association
ALCSA	South American Free Trade Area
APEX	Export Promotion Agency of Brazil
API	Arab Payments and Securities Settlement Initiative
ASEAN	Association of South-East Asian Nations
BB	Bank of Brazil
BCBS	Basel Committee on Banking Supervision
BCP	Central Bank of Paraguay
BCRA	Central Bank of Argentine Republic
BCU	Central Bank of Uruguay
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BNDES	Brazilian Bank for Economic and Social Development
BIS	Bank of International Settlements
BRI	Belt and Road Initiative
BRIC	Brazil, Russia, India, and China
BRICS	Brazil, Russia, India, China, and South Africa
BRL	Brazilian Real
BUNA	Arab Regional Payment System
CAF	Development Bank of Latin American and the Caribbean
CAMEX	Brazilian Chamber of Foreign Trade
CBSL	Central Bank of Sri Lanka
CCIL	Clearing Corporation of India
CDB	Caribbean Development Bank
CMN	National Monetary Council of the Central Bank of Brazil

CASA	South American Community of Nations
CBB	Central Bank of Brazil
CCR	Reciprocal Payments and Credits Agreement
CELAC	Community of Latin American and the Caribbean States
CEMLA	Center for Latin American Monetary Authorities
CIJ	Court of International Justice
CIS	Commonwealth of Independent States
CMC	Common Market Council
CMN	National Monetary Council
COPOM	Monetary Policy Committee
CPSS	Committee on Payment and Settlement System
CRA	Contingent Reserve Arrangement
CRS	Congressional Research Service
DERIN	Department of International Affairs of the Central Banks of Brazil
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECC	European Economic Community
ECU	European Currency Unit
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
EEC	European Economic Community
EMS	European Monetary System
EMU	European Monetary Union
EPI	European Payments Initiative
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESMA	European Securities and Market Authority
EXIM BANK	Export-Import Bank of India
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FED	American Federal Reserve
FIESP	Federation of Industries of the States of Sao Paulo

FLAR	Latin American Reserve Fund
FOCEM	Structural Convergence Fund for Mercosur
FONPLATA	Plata Basin Financial Development Fund
FSB	Financial Stability Board
FSF	Financial Stability Forum
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMC	Common Market Group of MERCOSUR
GMM	Macroeconomic Monitoring Group of MERCOSUR
IADB	Inter-American Development Bank
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
IMF	International Monetary Fund
INR	Indian Rupee
IORA	Indian Ocean Rim Association
ISO	International Organization of Standardization
IsDB	Islamic Development Bank
LAFTA	Latin American Free Trade Association
MERCOSUR	Southern Common Market
NDB	New Development Bank
NRB	Nepal Rastra Bank
OCA	Optimum Currency Area
OECD	Organization for Economic Cooperation and Development
PICE	Integration and Economic Cooperation Program
PRISM	Pakistan Real-Time Inter-Bank Settlement Mechanism
PROEX	Export Financing Program of the Bank of Brazil
RBI	Reserve Bank of India
RMA	Royal Monetary Authority of Bhutan
RMB	Renminbi
RMEPBC	Meetings of Ministers of Economy and Presidents of Central Banks
RTAs	Regional trade agreements
RTGS	Real Time Gross Settlement
QUAD	Quadrilateral Security Dialogue
SAARC	South Asian Association for Regional Cooperation

SADC	Southern African Development Community Payment System
SDF	SAARC Development Fund
SAFTA	South Asian Free Trade Area
SAPTA	South Asia Preferential Trade Agreement
SARB	South African Reserve Bank
SATIS	SAARC Agreement on Trade and Services
SBP	Brazilian Payment System
SEPA	Single Euro Payments Area
SDGs	Sustainable Development Goals
SGT4	Working Subgroup N° 4 of MERCOSUR Finance
SML	Local Currency Payment System
SBP	Brazilian Payment System
SPC	SAARC Payment Council
SPI	SAARC Payment Initiative
SUCRE	Unified System for Regional Compensation
SUMOC	Superintendence of Currency and Credit
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TTIP	Transatlantic Trade and Investment Policy
TPP	Transpacific Association Agreement
UN	United Nations
UNASUR	Union of South American Nations
UNESCAP	Economic and Social Commission for Asia and the Pacific
UNHCR	United Nations High Commissioner for Refugees
UNSC	United Nations Security Council
USD	US dollar
WBG	World Bank Group
WHO	World Health Organization
WTO	World Trade Organization

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1 INTRODUCTION

1.1 Purpose of the Research

This section aims to introduce a research on International Relations studies, focused on the field of Regional Financial Integration, particularly centred on the debates of Comparative Regionalism. The research design of this study is presented from a particular perspective by explaining the role of central banks in regional integration. The engagement of central banks in the development policies conducted within the framework of regional organizations facilitated initiatives of regional payment systems in different regions of the world. It means that central banks are not only structured financial institutions but also political actors in international relations. This draws attention to the need for a deeper understanding of the role of central banks in contexts around the world that are so diverse in terms of history, geography, culture and economic development.

Cooperation initiatives between central banks and coordination of regional payment systems are efforts that supported the purpose of regional integration processes for many years as seen in the Center for Latin American Monetary Authorities (CEMLA), 1952; the Reciprocal Payments and Credits Agreement (CCR), 1965; the Asian Clearing Union (ACU), 1975; the Latin American Reserve Fund (FLAR), 1978; and from models of regional arrangements established during the wave of policies with liberalizing tendency to more recent initiatives launched in 21st century, found in the database of the Bank for International Settlements (BIS): the Commonwealth of Independent States (CIS), 1991; the Arab Payments and Securities Settlement Initiative (API), 2005; the SAARC Payment Initiative (SPI), 2008; the Local Currency Payment System (SML), 2008; the Single Euro Payment Area (SEPA), 2008; the Unified System for Regional Compensation (SUCRE), 2009; the Southern African Development Community Payment System (SADC RTGS), 2014; The Arab Regional Payment System (BUNA), 2018; the European Payments Initiative (EPI), 2020; and others.

It is a “world of (financial) regions” by adapting the conception of Katzenstein's (2005) study to address the dynamics of contemporary world politics. Regions shaped by informal networks or more formal institutional designs, composed of an arrangement of countries, in which distribution of resources and political power may vary deeply or be more balanced and where different levels of regional asymmetry define the strategies by which regionalism is organized in the pursuit for autonomy and development. These are some of the explanatory challenges from Katzenstein's reality that are not so different from nowadays.

They just became more complex over time, as seen in the study of Acharya (2014), which described the emerging world order as a “Multiplex World”. It consists of analysing international relations based on different world views defined by a complex form of interdependence, which includes studying new actors and processes, not just focused on the role of traditional players or trade, but also analysing financial flows and transnational production, which shape and influence government’s behaviour. Based on this evolving world, would it be possible to find a pattern of behaviour or *modus operandi* that explain the way central banks act in regional integration? Would they have the same economic or political objectives?

These questions moved the purpose of this research, which seeks to mobilise explanatory elements to identify the role of the central banks in regional integration, which topic seems to be insufficiently debated in the literature of International Relations. It is well discussed in the Economy studies, although, it has a particular view on how financial resources are allocated and coordinated, while this research approaches from the perspective of the relations of power and political interests. Regional payment systems in a given region and between regions continue to be part of current public and media debates[1], demonstrating that this subject should be further analysed. Deciphering the realities that shape the interactions of structured institutions such as central banks and regional organizations contributes to a more qualitative understanding of the challenges that drive policymaking processes of regional integration as a public policy in society (Vigevani et al. 2016).

Regional financial cooperation could be understood as initiatives of institutional changes related to the financial dimension of regional integration processes, whose objective is to provide a framework of anti-cyclical economic measures against the effects of international financial crises and facilitate new policies that improve international trade and attract foreign direct investments (Ocampo, 2006). Financial institutions such as central banks operate within a regulatory framework shaped by the interactions of human agents at the national level influenced by the interests of governments, the working groups at regional organizations, represented by governors of central banks, regulators and supervisors of

[1] Some examples of recent news regarding regional payment systems around the world can be found in the press such as Folha (2023), The Diplomat (2023), The Hindu (2023), The Economic Times (2023); Reuters (2023); United Nations (2021a), among others. Link to access these news is found in the references section.

financial services and committees institutionalised by the relationship with international bureaucracies.

The purpose of this research is to conduct an empirical analyses of the role of the Central Bank of Brazil (CBB) in the Southern Common Market (MERCOSUR) and the Reserve Bank of India (RBI) in the South Asian Association for Regional Cooperation (SAARC), within the context of regional financial cooperation focused on the policymaking process of regional payment systems. The timeframe established by this research comprises the period between 2006 and 2023, considering the normative and institutional advances made by central banks and the progress of their payment systems.

During this period of time, it is possible to identify how financial convergence initiatives were established by the central banks of Brazil and India towards the Local Currency Payment System (SML) in South America and the SAARC Payment Initiative (SPI) in South Asia. By doing so, this research also analyses the way drivers and constraints affected the outcome of their regional integration processes. Understanding the role of the central banks in regional integration also requires addressing how legal, political, and institutional features shaped the social behaviour of central bank agents to explain the success or failures of MERCOSUR and SAARC providing an institutional arrangement for political interactions.

This study is part of a growing research agenda on comparative regionalism, whose investigation area is considered "a field whose time has come" (Acharya, 2012). It represents a tendency towards the process of reconfiguration of the world in regions in which processes could be interpreted by a combination of convergence and diffusion (Dabène, 2012). When it comes to analysing MERCOSUR and SAARC regional integration processes, Acharya (2016, p. 110) draws attention to considerations about how different geopolitical contexts and cultural elements shape the political choices and level of interdependence of the national state. According to Acharya (2016, p. 110), comparative regionalism should take into account “overlapping diversity”, which can vary “institutional designs, patterns and styles” of regional cooperation processes around the world.

Debates on financial cooperation and how its resources are distributed among national states to achieve the reduction of social and economic inequalities have also become relevant issues in global financial governance. The financialization of the global economy is one of the effects of the 1980s liberal order, which was strengthened after the 2008 international financial crisis and reinforced global inequality (Davis and Kim, 2015). The topic of this research also takes into account its contribution to the debates regarding the commitments of the countries to the Sustainable Development Goals (SDGs) agreed upon in 2015 at the United Nations General Assembly, in particular with the Objective n° 10: “Reduce inequality within and between countries” (United Nations, 2020a), particularly within the indicators n° 10.5; n°10.6 and n°10.b, regarding measures to improve regulation and monitoring of global markets, ensure representation of developing countries in international, economic, and financial institutions, and encourage development assistance and financial flows, in particular, to the least developed countries [...] (United Nations, 2020b).

1.2 Research Question and Hypothesis

The main goals of central banks at the national level are conducting monetary policy and preserving the financial stability of a country. However, central banks have played a key role in fostering regional financial cooperation by operating regional payment systems and strengthening settlement payments in local currencies in order to build up capacities of enhancing international trade, attracting foreign direct investments, and promoting regional development. Deepening regional coordination and cooperation in the financial sector requires facilitating the implementation of reforms at national and regional levels to meet international standard norms. Such financial measures could lead regional organizations towards a deepened integration process due to the requirement of the member states to adapt to new regulatory frameworks, which consequently encourages their levels of commitment to regional policies. However, regional convergence initiatives regarding financial payment systems established at MERCOSUR and SAARC are loose and defensive instruments of regional cooperation if considered the purpose for which it was designed.

If regional payment systems aimed to be instruments that would lead regional cooperation to deeper integration, their policymaking process also turned out to be vulnerable to government policy choices and regional distrust. In addition, changes in the global financial governance and uncertainties of the international financial system have brought greater risks for the economy of emerging countries such as Brazil and India, which influenced their strategies of foreign policy and to some degree shaped the behaviour of the CBB and RBI in order to safeguard macroeconomic and financial stability (Ocampo, 2006). Analysing the role of central banks in regional financial cooperation contributes to understanding what type of regional governance is raised in South America and South Asia to explain the success or failure of particular political structures and strategies, describing idiosyncrasies and shared logic of their decision-making process focused on the initiatives of regional payment systems.

It is against this background that the following proposal adds its contribution by researching the following overarching question: *What was the role of the central banks of Brazil and India in regional integration and how did they shape regional financial cooperation?*

In order to answer this question, this research set out the following specific objectives: 1) To understand how structured institutions such as central banks regulate the international monetary and financial system; 2) To analyse the role of regional payment systems around the world; 3) To assess the behaviour of central banks agents of Brazil and India in the policy-making process of regional payment system with MERCOSUR States Parties and SAARC Member States; 4) To identify drivers and constraints on the way international bureaucracies and developed countries, particularly, the U.S. promote their interests translated into a regulatory framework that impacts the behaviour of the actors conducting regional financial cooperation; 5) To contrast patterns of behaviour and social interactions between the Central Bank of Brazil (CBB) and the Reserve Bank of India to identify how central banks affect regional integration.

Given the context presented, the hypothesis of this research assumes that initiatives of regional financial cooperation taken by the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) tend to be reluctant to deepen regional integration because of the existing political, institutional, and economic asymmetries and the different degrees of development between countries in their regions. Deepening regional financial integration is constrained by the interests of central banks to protect the stability of the national financial system, foster national development, and preserve the political autonomy of Brazil and India, which provides political ground for the contestation of the Global Financial Governance and pursuit of greater status in the international financial system.

Therefore, driving regional financial cooperation would be subject to the role (structuring, regulatory, moderator, or disarticulating) that agents of the central banks assume in the process of regional financial cooperation and their capacity to promote a regulatory framework that reduces the implicit risks involved in the policymaking process of a regional payment system in MERCOSUR and SAARC. The role of the central banks of Brazil and India in leading financial convergence initiatives towards a payment system in MERCOSUR and SAARC are shaped by historical considerations based on the institutional context, which interactions between domestic, regional, and systemic levels drive countries to moments of greater regional financial cooperation or impose major constraints on their processes, requiring a redefinition of their cooperation or possibly its gridlock. Regional financial cooperation poses many challenges for Brazil and India when South America and South Asia regions do not provide sufficient incentives to shape the expectations of political and economic commitment of the main actors towards regional integration, which reinforces the historic feature of shallow institutionality observed in both regions.

1.3 Theoretical Framework

The present section aims to describe the theoretical framework of this research, which is based on Rational Choice Institutionalism to explain the role of the central banks in regional integration. Strands of the new institutionalist theory, rational choice, historical, sociological, and discursive are interpreted as comprehensive approaches to social theory focused on institutions as primary constraints (Schmidt, 2010). Peters (2019) affirms that “policy is embedded in institutions”. It means that different perspectives of the new institutionalist theories address complex issues of political contexts regarding how policy is made, maintained, or changed and how the decision-making process is subject to causes and consequences of human behaviour, based on the relationship between agent and structure. Rational choice was conceptualized as a tool for political analysis redefined within the scope of the “new institutionalism” debates (Hall and Taylor, 2003), focused on how rational actors pursue their preferences, based on a logic of calculation within political institutions, which is defined as a structure of incentives (Schmidt, 2010, p. 2).

According to Pollack (2007), rational choice explains both individual and collective outcomes, in which human intentional actions are shaped by social interactions. In terms of analysis, Pollack (2007, p.32) affirms that rational choice is based on “methodological individualism, goal-seeking or utility-maximization and the existence of various institutional or strategic constraints on individual choice”. According to Nascimento (2009, p. 114), Rational Choice Institutionalism, interpreted from the perspective of old institutionalism, is based on the neoclassical economic paradigm and the perception of selfish, rational and maximising actors. The antecedents of this institutionalism sought to explain how institutions shaped economic life and criticised the ideas of free markets. In that way, this theory demonstrated that social interactions are dominated by groups that have the power to shape the results of the market.

From the perspective of the new institutionalism, Rational Choice represents a resurgence of interest in political and economic institutions. In this new context of interpretation, the theory is concerned with emphasising individual decisions based on rational choice behaviour, which cannot be explained without reference to the institutional framework in which they are inserted. Nascimento (2009, p. 114) affirms that institutions are interpreted as instruments that reduce transaction costs because they increase predictability in the behaviour of the actors involved in the political process and the causality of their actions, whose interest is to maximise their individual well-being. However, according to Peters (2019), despite the analytical approach of rational choice being focused on the individualist basis, the explanatory power of this theoretical strand of the new institutionalism rests on the nature and role of the political institutions in which individuals' interactions take place and, consequently, shape the production of social outcomes.

While the individual is the unit of analysis whose theoretical interpretation of rational choice assigns coherence and meaning to human actions, institutions are seen as instruments for the equilibrium of interactions and expectations (Shepsle, 2008), which create or reinforce preferences (Peters, 2019). According to Peters (2019, p.54), "institutions are conceptualised as collections of rules and incentives that establish the parameters of the rational behaviour of individuals". March and Olsen (2004) define institutions as a framework of settlements that define roles, interactions, and expectations of actors within a setting of rules and procedures, which guide their behaviour and stabilize expectations. According to March and Olsen (2004, p. 5), "institutions allocate resources and empower and constrain actors differently and make them more or less capable of acting according to prescribed rules".

According to Shepsle (2008, p. 24), there are two ways of thinking about institutions. The first way is considering the institution as "exogenous constraints". This means interpreting the institution as an element that sets the rules of the game in society and shapes human interaction. By setting the rules of the game, Shepsle (2008, p. 25) affirms that institutions "exogenously provided the script that gives the various ways the strategic interaction can develop". Individuals are expected to behave to maximise gains, but their options are constrained because they are operating within a framework of rules set by one or more institutions (Peters, 2019, p. 54). A regulatory regime established by a government can make institutions provide predictability of outcomes and produce collective rationality, although does not exclude self-interested behaviour that may lead the institution to a dysfunctional process (Peters, 2019, p. 56). Institutions can be considered "fragile" when they do not have the capacity to keep a human agent following the rules that determined the main political purpose of the institution (Shepsle, 2008).

The second way of interpreting institutions does not consider them as “exogenously constraints”, but refers to institutions as instruments or way through which human agency seek to shape the structure (Shepsle, 2008, p.25). This means that the rules of the game established by institutions can be modified to meet certain circumstances or the interests of human agents, defining a new model of interaction. Human agents with the capacity to promote changes may find themselves in positions of power, whose actions tend to privilege their choices and induce other agents to accept their conditions and preferences. In this case, institutions reflect the interests of human agents, providing a framework for interactions “according to particular patterns and procedures” (Shepsle, 2008, p. 25).

Organizations focused on the policymaking process tend to follow a pattern of behaviour that allows them to be recognised as an institution. However, the process of formulating or conducting a policy by an organization or agency presents an environment formed by individual interests and preferences that will determine the outcome of the decision-making process. According to Calvert (1995, p. 73), every action taken by a human agent consists of a rational choice that is “conditioned by expectations about the behaviour and reactions of others”. The rules of the game reflect the equilibrium of human agents' interactions in relation to their interests and preferences, which may not necessarily correspond to the institution's objective (Calvert, 1995). The human agent assigned with greater decision-making power and capacity to design the rules of the game may provide greater or lesser incentives for the rational choice of other agents during a policymaking process (Calvert, 1995).

Institutions can be categorised as “structured” when they present institutional rigidity over time (Shepsle, 2008). This means that structured institutions are resistant to change their policymaking process and the way a given policy is conducted, e.g. central banks, which are particularly relevant to this research, but it is also applicable to courts of justice, regulatory agencies, electoral regimes, congresses, political parties, armed forces, among others. March and Olsen (2004, p. 22) affirm that a “change between logics of action may be the result of specific experiences accumulated over long periods of time”. According to March and Olsen (2004, p. 22), it means that rules and standards procedures are more likely to dominate when actors have “long tenure”, “frequent interaction to share information” and “institutionalised memories in a reasonably stable environment”, which make a rule to be replaced by “the logic of consequentiality". Differently from formalised settings, "unstructured" institutions are practices and patterns of behaviour recognised by implicit norms or informal interactions.

Based on that, for the purpose of analysis of this research, Rational Choice Institutionalism contributes to explaining the reasons why the central banks of Brazil and India are engaged in regional financial cooperation and how they shaped the formulation of policies regarding the establishment of a regional payment system in MERCOSUR and SAARC, which produced three scenarios of political interaction, referred to as (N). Each scenario described as (N) was formulated to explicitly explain the transmission of causal forces through a mechanism (Beach and Pedersen, 2016). The following matrix of causal mechanisms enables this research to analyse how the central banks (independent variable) influenced regional organizations (dependent variable) during the policymaking process of a regional payment system. Drivers and constraints (intervening variables) explain the causal links of how the behaviour of central banks (independent variable) affected and shaped the outcome of regional integration conducted by the national governments.

(N1) How structured institutions as the central bank of Brazil and India, responsible for conducting the monetary policy of their countries, whose regulations are run by politicians and bureaucrats shape the behavioural expectations of individuals and interacted with national governments in the policymaking process applied to the regional payments systems initiatives; (N2) The type of regional governance that arises from the bilateral and multilateral interactions of the technical agents of the central banks of Brazil and India during the policymaking process of a regional payment system with MERCOSUR States Parties and SAARC Member Countries; (N3) How exogenous constraints shaped expectations of behaviour in the central banks of Brazil and India, proceeding from collective interaction within the framework of international bureaucracies translated into the regulation of regional payment systems, which procedures are also constrained by the correlation of power and interests of developed countries.

Recent contributions from the approach of rational choice are based on the explanatory power of the behaviour of rational actors that occur from exogenous shocks, whose interests change according to the formation of political coalitions or self-reinforcing processes within the framework of incentive structures defined in stable institutions (Schmidt, 2010). However, Rational Choice Institutionalism also has limitations and criticisms of its explanatory process that need to be taken into consideration. According to Hodgson (2012), rational choice is an approach characterized by its generality. This means that the notion of utility-maximization can be adapted to explain any form of behaviour and, consequently, any behaviour can be applied to rational choice, whose nature is interpreted as “unfalsifiable”.

According to Hodgson (2012, p. 104), “perfect empirical fit does not necessarily imply any explanation of the causal processes underlying behaviour”, which imposes challenges to explain such causalities. According to Ogu (2013), approaching social problems requires different types of games, which can make the definition of rationality problematic. Rational choice also loses explanatory power by not taking into account historical, geographic, cultural, and institutional specificities when analysing a political event (Hodson, 2012). Finally, social behaviour can hardly be replicated over time and space. Human interaction is a very complex phenomenon and by that assuming all decision-making processes as a rational action, without distinguishing the patterns that defined its conceptual construction may simplify its potential of analysis as a social theory.

The analysis of this research suggests that behaviour of central bank agents in the process of regional financial cooperation can also be interpreted, based on the concept of “bounded-rationality”, defined by Herbert Simon in 1957, where the agents of the process seek a satisfactory result and replace the idea of utility-maximization (Selten, 1990). This means that the choice of central bank agents would not present an absolute or perfect rationality (Simon, 2000), since the process of their choices is more complex (Álvarez and Echeverría, 2008), considering several factors. The first factor refers to the limitations of the cognitive nature of the agents that conduct a given political process and the impossibility of making a perfect decision. The second factor deals with the level of information available and shared among the agents involved in the political process. This means that agents have a partial perspective of the context in which decisions are made and each action taken is conditioned by expectations of behaviour and reaction from others. The third factor is related to the available and limited time for decision-making.

As suggested by the studies in Lombaerde et al. (2010) and Acharya (2014), comparative regionalism research supports the possibility of theoretical pluralism to explain a broad variety of world regions. Lombaerde et al. (2010) affirm that comparative regionalism supports different ontologies and definitions, and theoretical flexibility is composed of empirical pragmatism. Recent studies from the 2000s are majorly focused on sectoral cooperation analysis and institutional designs, e.g., Pevehouse (2002), Feng and Genna (2003), Dorrucci et. al. (2004), Duina (2006), Acharya and Johnston (2007), Malamud and Schmitter (2011), Ramanzini Júnior and Luciano (2018), Nolte and Weiffen (2020), which are turning them into “contrasting studies”. Based on that, this research designed on Rational

Choice Institutionalism can be also supported by Historical Institutionalism, which is used in this research as an analysis tool exclusively to explain critical junctures, particularly, the 2008 international financial crisis.

According to Hall and Taylor (2003), Historical Institutionalism is another significant theoretical contribution to explain institutional transformations in times of "critical junctures". Hall and Taylor (2003) describe critical junctures as "contingent events which force the state to change the prevailing institutional arrangement", i.e., changes or shocks that challenge the *status quo*, from which a new or revised institutional arrangement can emerge, aiming at the beginning of a new moment of stability. The 2008 international financial crisis had a significant impact on the capacity to change the institutional behaviour of central banks around the world. In particular, it also affected the way how central banks of Brazil and India conducted their policies toward regional financial cooperation. For this reason, the international financial crisis became the element of critical juncture that complements the perspective analysis of this research based on rational choice institutionalism.

Historical institutionalism emphasizes asymmetrical power relations (Saurugger 2020, p. 141), which means that actors do not have the same possibility of influencing political decisions. This perspective of the new institutionalist theory "holds that institutions are formed and established historically" by setting the rules of the game, "transforming the goals and preferences of actors" and "influencing the outcomes of the decision-making process" (Saurugger, 2020, p. 142). Constraints influence the distribution of power and resources among actors, resulting in institutional changes and new coalition strategies (Hall and Taylor, 2003), which can lead to a redefinition of the process or gridlock regional integration. According to Katznelson and Weingast (2005), Historical Institutionalism and Rational Choice Institutionalism converge in their approach to institutions. This overlap is due to the way in which these approaches interpret the role of institutions in shaping the incentives and preferences of actors, revealing points of intersection and overlap between the two theories. Therefore, these two schools of thought contribute in a complementary way to the analysis of this research.

1.4 Case Selection and Scope of the Study

Brazil and India were selected for this case study because both countries share political, economic, and regional similarities that can be comparable for the purpose of this research. Since the beginning of the 21st century, both countries have stood out as emerging powers engaged with multilateralism and guided by autonomy and development as determining elements of external action. Brazil and India also raise their voice and level of participation in the global governance process, along with other groups of emerging countries such as the BRICS or G-20 Finance, in which they share the contestation narrative of the global governance ruled by the Western and shaped by the international liberal order, although it does not exclude particular interests, conflicts, and asymmetries.

Lima (2012) and Lins (2014) demonstrated that both countries thriving agricultural sectors, scientific and technological capabilities, and comparable financial systems. Brazil and India are also defined by a limited degree of liberalisation and structural adjustment. Cruz (2007) affirms that Brazil and India share a history of state-led development, despite differences in the way their economic reforms were carried out along the path of neoliberal capitalism. The objective of understanding the role of the central banks of Brazil and India in regional integration is not a random choice. South America and South Asia are characterized by asymmetrical regional dynamics, where the regions present a composition shaped by the presence of a large country surrounded by much smaller countries, whose political and economic power is limited and little expressive.

In 2008, the Central Bank of Brazil (BCB) and the Reserve Bank of India (RBI) introduced financial initiatives in MERCOSUR and SAARC to build regional payment areas: the Local Currency Payment System (SML) and the SAARC Payment Initiative (SPI). However, a regional payment system requires a broad range of “technological, legal and regulatory harmonization across borders” (Arner et al., 2022) in order to reduce barriers and existing asymmetries. It means that regional payment areas are subject to the dynamics of regulatory globalisation, and instruments of “harmonization via rulebooks” that have been implemented in the regional integration process (Arner et al., 2022).

Social interactions within the framework of the regulatory and political processes at multilevel (national, regional, and international) induce drivers and constraints that affect the outcome of regional integration. According to Fawcett (2005, p. 35), drivers of regional integration are considered “collective factors that, historically and at present, may contribute to processes of integration”, e.g., conflict mitigation, resolutions, norms or legislations accepted and incorporated by member states, which required some level of the decision-making process or political coordination within a framework of integration.

Given this scenario, the comparative perspective of this research becomes achievable. The possibility of finding patterns of behaviour in central banks and explaining how they affect regional integration processes provides a better possibility of generating theoretical transferability. It means that transferability in this qualitative research analysis does not aim to generalize to a population because it has a small N, but to understand a social phenomenon that was not well understood before, standing as a topic of research insufficiently explored in the literature of regional integration studies. The causes and effects of these dynamics will be further discussed in greater detail in the section on theoretical framework. This section introduces the context of regional organizations as a political platform in which actors interact in the process of conducting regional financial cooperation.

In South America, the Treaty of Asuncion established the Southern Common Market (MERCOSUR) in 1991. It is composed of Argentina, Brazil, Uruguay, Paraguay, and Venezuela[2]. Luciano and Campos (2021) affirm that the intergovernmental or inter-presidential profile of the MERCOSUR bloc was never seriously challenged, which converges with the argument found in the literature, e.g., Desiderá Neto (2017, p. 120), Mariano et al. (2021), Vigevani and Ramanzini Junior (2022), that the Brazilian historical position aims to keep a low institutionality to the regional process and not bear the costs of leadership, contributing to the maintenance of a shallow South American integration process.

Overcoming the existing competitive relations between Brazil and Argentina in the 1980s improved political coordination and cooperation in South America during the following decades (Campos, 2017). According to Vigevani and Ramanzini Junior (2010, p. 476-477), the Iguaçu Declaration, signed in 1985, the Integration and Economic Cooperation Program (PICE) signed in 1986 and the 24 Protocols resulted from this agreement, and the Integration, Cooperation and Development Treaty, signed in 1988, corresponded to a “developmental and protectionist logic that stimulated the competitive insertion of economies in the international economic system”. They were gradually taken over by neoliberal policies and commercial logic by the time MERCOSUR was established in the 1990s.

Located in South Asia, the Charter of the South Asian Association for Regional Cooperation (SAARC) was founded in 1985. This regional organization is composed of Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka, and the Maldives[3]. According to Baruah (2020), SAARC is driven by state-centric interests with limited business

[2] According to MERCOSUR (2021a), Venezuela is suspended from all rights and obligations inherent to its status as a State Party to MERCOSUR since 2017, in accordance with the provisions of the second paragraph of Article 5 of the Ushuaia Protocol. Mercosur is also composed by Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Surinam as Associated States.

[3] According to SAARC External Relations (2020), Australia, China, the European Union, Iran, Japan, the Republic of Korea, Mauritius, Myanmar, and the United States of America currently hold the Observer status at SAARC.

and civil society participation, which makes this regional organization a group of countries with a protectionist economic profile with a prioritization of security issues.

Political commitments in the South Asia regional cooperation are difficult to reach and accomplish due to the deficit of trust among member states, increased military expenditures (Arshad and Ali, 2017), infrastructural deficiencies (ESCAP, 2018) combined with New Delhi’s unwillingness to assume regional leadership (Sinha and Sareen, 2020). According to Arshad and Ali (2017), despite SAARC has been slowly progressing in its institutional activities, conflicting history between neighbours has hampered regional cooperation over the years to a greater or lesser degree, e.g., India and Pakistan (two nuclear powers); India-Bangladesh; India-Nepal, India-China (Observer Member of SAARC and country bordering of South Asian countries); India-Sri Lanka.

The decision-making system of MERCOSUR established by the Article 37 of the Protocol of Ouro Preto (1994) and SAARC established by the Article X of its Charter are defined by consensus. Characterizing the regional order of MERCOSUR and SAARC as cooperative or conflictive has significant implications for the role that central banks are able to play in the regional financial cooperation agenda. According to Connectivity (2000), difficulties in reaching a consensus in international relations are due to fundamentally differing conceptualizations of the essential values and principles that sustain international cooperation. Based on that, it is relevant for this research the distinction of contexts that Acharya and Johnston (2007) made to explain in which standards Asian and Latin American institutional designs were created. While Asian institutional designs are based on external threats, strategic uncertainty, domestic political imperatives, and history, in Latin America, they are shaped by ideational legacy, differentiated subsystems, and relative autonomy from the international system.

Based on the fact that the central banks of Brazil and India are not independent institutions, but the monetary authorities integrated into the structure of the national governments, regional financial cooperation initiatives could be understood in the scope of the “regional-global nexus” (Fawcett and Jagtiani, 2022, p. 18). Due to the greater capacity of national governments to formulate foreign policy strategies, regional powers such as Brazil and India are constantly interacting at national, regional, and global levels, and by that, introducing regional cooperation initiatives with partners within and outside the region to achieve its global aspirations in terms of economic gains and political prestigious. Central banks are strategic institutions within the formulation process of foreign policy, in which financial instruments support national development objectives and international insertion.

Given the general objective of understanding the role of central banks in regional integration, it is essential to introduce the implications of each analytical point (N) presented in the previous section to the puzzle of this research. By doing so, this research not only presents the complex network of political interactions of central banks at national, regional, and international levels but also clarifies that the scope of this research was designed to focus on analytical point N2, which provides opportunities for a future research agenda in the field of Social Sciences.

The first analytical point (N1) assumes that the central banks of Brazil and India, in particular, are financial institutions that enjoy operational autonomy to conduct the monetary policy of the national countries. In this case, the policymaking process of central banks tends to be defined by the results of social interactions at different levels, national, regional, and international, which build a framework of collective action dilemmas. It is a “world of possibility” (Ostrom, 1998). Institutional analysis is expected to explain the ways of organizing processes, regulations, and international agreements that address such collective problems and how these issues can be vulnerable to manipulation by participants.

The existence of institutional stability in the purpose of central banks affects the way in which the institution's rules and procedures constrain the political choices of human agents and the information shared between the individuals involved in a given policymaking process. A central bank can be interpreted from the perspective of instruments of equilibrium in the interactions of individuals by shaping their self-interested behaviour and individual preferences. Expectations are structured over time, based on the interactions formed at the central bank commissions and through the relationships between the decisive agents of these institutions with national governments, resulting in the way regional financial cooperation will be conducted within the policy formulation of the regional payment system. The strategic objective of the international insertion of Brazil and India is combined with the operational capacity of central banks, which results in a strategy of interaction that will seek to maximize the preferences of the decision-makers in the context of regional policy formulation. The policymaking initiative for a regional payment system reflects the preferences of national states, whose decision-makers have a greater capacity to design the rules of the game.

The second analytical point (N2) refers to the interaction of public agents of central banks at the regional level, which is structured within the scope of regional organizations or bilaterally, which makes individuals share information within an institutionalised political framework. It shapes the expectations of actors based on strategic calculations of actions that reduce uncertainties and incentive gains from exchange. The formulation of the regional payment system within the framework of regional financial cooperation is a process based on the voluntary agreement of the interested actors. It cannot be assumed that there is a single institutional environment to deal with all social dilemmas, nor that a particular institution would equally benefit all participants (Ostrom, 1998).

It is expected that groups may fail to produce collective results due to the lack of trust in each other, the transaction costs defined by institutional designs and their way of interacting with other institutions, due to the lack of arenas for communication or institutional innovation, and the difficulties in the level of enforcement of rules and sanctioning power (Ostrom, 1998, p. 16). Interactions in a given environment without a set of rules and sanctions capable of leading participants to increase their level of commitment and improve reciprocal relationships will be subject to the possibility of subversion of the processes. This means that players will not be shaped by incentives that lead them to achieve a collective result, but by an environment that seeks to maximize their own gains. This context shapes the interactions among member states of regional organizations and potentially affects the behaviour of financial bureaucracies such as the central banks of Brazil and India.

Analysing the interactions among individuals in a given institution, as well as between different institutions within the framework of regulatory policies can be seen from the perspective of the principal-agent model or conceptualised as a set of games played between actors. According to Peters (2019, p. 64 -65), one of the main concerns of Rational Choice Theory is regarding compliance as a set of games, in which some actors (legislators) design the rules of the game in order to guarantee the compliance of other actors (bureaucrats) to the extent that those actors (legislators) seek greater freedom of action. Therefore, the puzzle of the research lies in identifying how great actors such as Brazil and India build a pay-off matrix that could lead smaller actors of their regions interested to comply with the rules established by them, considering a political framework of implicit and explicit bargains in the regional cooperation process.

However, the prerogative of operational autonomy of the central banks in countries with greater capacity for policymaking, means, Brazil and India, enable human agents of these institutions to shape political interactions and institutional behaviour at the regional level during the process of regional policy formulation, without affecting the institutional purpose of the central banks. At times, this behaviour can produce sub-optimal results for the regional integration process, as the central banks of Brazil and India seem to be reluctant to deepen regional integration in order to protect their national economies from risks of instability or financial crises in a context shaped by the asymmetry in the degree of development of countries in South America and South Asia.

Voluntary participation of human agents in the regional financial cooperation process within the scope of the formulation of a regional payment system can take place based on a logic of calculation, in which interactions lead to the perception that gains from the process will be asymmetrical in the short term and tend to decrease as relationships deepen. Regions shaped by the interaction formed by a major actor, recognised for its international political capital, economic preponderance, and level of development, surrounded by less expressive actors, as in the cases of regional powers such as Brazil in South America and India in South Asia, also tend to generate expectations of assuming higher transaction costs of the process.

The documental analysis allows this research to identify how individuals recognised for greater capacity of policymaking, in this case, the technical and political agents of the central banks of Brazil and India, influence the rules that drive regional financial cooperation initiatives with other central bank representatives. The analysis of the data collected demonstrated their capacity to shape the policymaking process to meet their individual preferences. The condition of being a "paymaster" (Mattli, 1999) of regional integration turns out to be a dilemma of collective action in which Brazil and India are reluctant to assume a leadership position and by that the political commitments and economic risks arising from the process of regional financial cooperation.

Institutions can be also affected by existing ones that determine expectations of appropriate behaviour and may not change the way of conducting a policy because of a new design policymaking agency (Calvert, 1995). This conclusion from Calvert (1995) contributes to reflect on the third analytical point (N3). The dimensions of regulatory globalisation promoted by international bureaucracies such as the Basel Committee, the IMF, the World Bank, the United Nations Regional Commissions, and the regional development banks in the process of global financial governance differently shape the behaviour of central banks and the decision-making process of human agents, attributing resilience or flexibility to institutional structures. The process of policymaking of the regional payment system by the central banks of Brazil and India highlights the way these institutions reproduce a behaviour based on expectations formed by the interactions of human agents with international bureaucracies, which can drive or constrain regional integration.

1.5 Methodological Procedures, Data Collection and Analysis

This is a qualitative document analysis research based on Rational Choice Institutionalism supported by Historical Institutionalism. For the purpose of this research, the process of analysis is particularly focused on the behaviour and interactions of human agents from financial institutions and national governments inside regional organizations. This comparative study approaches the cases of MERCOSUR and SAARC regarding the formulation of a regional payment system within the framework of regional financial cooperation to explain the role of the central banks of Brazil and India in regional integration.

This study relies on primary sources collected from multiple databases hosted by the central banks of South America and South Asia countries, national governments of Brazil and India, MERCOSUR and SAARC regional organizations, and their institutional bodies, supported by existing literature. The normative analysis of official documents and reports/bulletins has gone through a top-down deductive assessment taking into account the identification of patterns and themes by tracking the behaviour of actors in each one of the processes. After that, this research will conduct an assessment of the different sequences of patterns by contrasting the case studies, linking causes and consequences of the outcome, and being sensitive to the temporal boundaries and geographic diversity in which events take place. An analytical narrative traces and compares the sequence of events and the causalities that explain the process of preferences and political choices taken by the agents of the central banks based on Rational Choice Institutionalism and supported by Historical Institutionalism when dealing with the analysis of critical junctures. It is a method that unfolds the process of events by making the implicit aspects of the social behaviour of actors within regional organizations more explicit, traceable, and analytical.

The following data compilation provides a chronological and systematic framework of what data were collected and how primary sources were organized to extract relevant information in order to understand the research process and how findings were produced.

Table 1 - Case Study 1: The Local Currency Payment System (SML) – MERCOSUL

Consultation of Specific Legislation and Documents Related to the SML (2006-2018)*

Decision of the Mercosur Common Market Council 23/00, from June 29, 2000.
Central Bank of Brazil, Brazil-Argentina Local Currency Clearing House, Aide Memoire, August 14, 2006. Attachments: List of Participants; Agenda for further discussions.
Decision of the Mercosur Common Market Council 38/06, from December 15, 2006.

Minutes of the Meeting on the Payment System in Local Currencies – SML, between the central banks of Brazil and Argentina, on April 18 and 19, 2007. Annexes: Tentative Agenda for the Meeting of Technicians on the System in Local Currencies.
CAMEX Resolution No. 12, from April 25, 2007.
Minutes of the LI Meeting of the Council of Ministers of the Foreign Trade Chamber – CAMEX, from April 25, 2007.
Official Letter of the Central Bank of Brazil, Derin/Direc/Sucov – 2007/0135, from June 28, 2007. Attachment: Tentative Agenda of the Meeting of Technicians on Payment Systems in Local Currencies, from April 18 and 19, 2007.
Decision of the Mercosur Common Market Council 25/07, from June 28, 2007
ALADI, 59th Additional Protocol to the Economic Complementation Agreement (ACE) No. 18, from December 17, 2007.
Decree No. 6.374 on the 59th Additional Protocol to the ACE from ALADI, from February 18, 2008.
Normative of the MERCOSUR Common Market No. 34/08: Origin Regime, from June 18, 2008.
National Monetary Council Resolution 3.608, from September 11, 2008.
Circular of the Central Bank of Brazil 3.406, from September 26, 2008.
Audio of the VII Extraordinary Meeting of the Common Market Council (CMC), from October 27, 2008.
Decision of the Mercosur Common Market Council 09/09, from July 24, 2009.
Report of the Interministerial Working Group on Stimulating Exports in Reais and Payment System in Local Currencies – SML: Letter from the Ministry of Foreign Affairs of Brazil to the Executive Secretary of the Chamber of Foreign Trade, from September 18, 2009.
XXXVII Meeting of the Mercosur Common Market Council, Semiannual Report of CIU, Year 6, No. 11, from October 2, 2009.
Foreign Trade Chamber, Minutes of Meeting, Local Currency Payment System, from October 8, 2009.
Technical Note from the Foreign Trade Chamber, CAMEX No. 12, May 2010. Attachments: Amendment to CMN Resolution No. 2,575 dated December 17, 1998; Amendment to CMN Resolution n. 3,719, from April 30, 2009.
Resolution No. 4.331 of the National Monetary Council, from May 26, 2014.
Central Bank of Brazil Normative Instruction n° 266, from March 31, 2022.
National Monetary Council Resolution n° 5.069, from April 20, 2023.
Central Bank of Brazil, Statement of Memorandum - Vote 63/2023, from April 5, 2023.

Normative Documents between Brazil and Argentina

Letter of Intent from the Ministers of Finance and Presidents of the Central Banks of Brazil and Argentina, from December 15, 2006.
Agreement on the Payment System in Local Currency between Argentina and Brazil, from September 8, 2008.
Operational regulation of the Payment System in local currency, from September 17, 2008.
Central Bank of the Argentine Republic, Communication “A” 4847, from September 26, 2008.
Amendment to the Local Currency Payment System Agreement between Argentina and Brazil, from January 15, 2010.
Operational regulation of the Payment System in local currency, from May 23, 2014.
Circular No. 3.707 of the Central Bank of Brazil, from June 16, 2014.

Normative Documents between Brazil and Uruguay

Letter of Intent between Brazil and Uruguay, from October 23, 2009.
Agreement on the Payment System in Local Currency between Brazil and Uruguay, from October 31, 2014.
Operational regulation of the Local Currency Payment System between Brazil and Uruguay, from October 31, 2014.
Circular No. 3.734 of the Central Bank of Brazil, from November 26, 2014.

Normative Documents between Brazil and Paraguay

Agreement on the Payment System in Local Currency between Brazil and Paraguay, from April 14, 2016.
Operational regulation of the Local Currency Payment System between Brazil and Paraguay, from July 30, 2018.
Central Bank of Brazil, Statement of Memorandum - Vote 165/2018, from August 2, 2018.
Circular No. 3.907 of the Central Bank of Brazil, from August 3, 2018.

MERCOSUR Working Group N° 4 “Financial Affairs” (SGT-4) and Meetings of the Ministers of Economy and Governors of Central Banks (RMEPBC)

Minutes of the Ordinary Meetings of Working Subgroup No. 4 “Financial Matters” of Mercosur, held twice a year, from 2006 to 2018.
Minutes of the Meetings of Ministers of Economy and Presidents of Central Banks (RMEPBC), held within the scope of the Common Market Council (CMC), from 2006 to 2018. In this consultation, some documents are managed in the 'Reserved' condition, such as the meetings of December 16, 2007, July 23, 2009, December 7, 2019, December 15, 2010, December 19, 2011, and July 16, 2015, or the ones available do not mention the payment system. The most relevant documents for this research were the minutes of September 1, 2006, June 30, 2008, and August 2, 2010.

Interviews with the Central Bank of Brazil (CBB) and Ministry of Finance (MF)

Interview with Analysts of the Central Bank of Brazil (CBB), Lucival Lages Lobato Neto and Josafa Rodrigues Carvalho Silva, professionals with over 25 years of experience in the monetary authority, regarding the development of the Local Currency Payment System (SML) on the date of 14 July 2023, in order to understand the complexity of this regional process by filling the explanatory gaps that documentary analysis itself is not sufficiently capable of explaining.
Interview with Tatiana Rosito, Diplomat and Secretary for International Affairs at the Ministry of Finance of Brazil, a professional with over 25 years of experience in international economic affairs and development, regarding the political perspective of the Local Currency Payments System (SML) on the date of 8 August 2023, in order to understand the Brazilian strategic interests in the payment system and its relationship with the MERCOSUR States Parties in the framework of regional financial cooperation.
Interview with Keiti da Rocha Gomes, General Coordinator of Macroeconomic Monitoring at the Ministry of Finance, responsible for supporting the thematic organization on Finances of the Pro Tempore Presidency of Brazil in MERCOSUR in 2023, regarding the Local Currency Payment System (SML) on 10 August 2023, in order to understand its implications in the international financial system.

*A list of documents with their original names can be found in the Appendix of this research. Some documents were accessed by requesting the national government through the Freedom of Information Act.

Table 2 - Case Study 2: The SAARC Payment System (SPI) - SAARC

Consultation of the SPI Meeting Reports (2008 – 2019)*

The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 1, First Half 2008.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 2, Second Half 2008.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 3, First Half 2009.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 4, First Half 2009 from 24 March 2010.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 5, First Half 2010, from 15 November 2010.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 6, Second Half 2010, from 30 May 2011.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 7, First Half 2011, from 28 November 2011.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 8, Second Half 2011, from 23 April 2012.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 9, First Half 2012, from 18 November 2012.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 10, Second Half 2013, from 29 July 2013.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 11, First Half 2014, from 9 December 2013.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 12, Second Half 2014, from 9 May 2014.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 14, Second Half 2015, from 3 December 2015.
The SAARC Payments Council Meetings reported by SAARC Payments Bulletins, Vol. 16, Second Half 2018, from 14 July 2019.

*The format of reporting dates followed the standard adopted by the bulletins themselves. It was observed some inconsistencies and lack of regularity in the rotating meetings of SAARC Member States.

Additional Documents regarding the Reserve Bank of India (RBI) within the SAARC Payments Council Meetings

The Foreign Exchange Management Act, 1999.
The Government Securities Act, 2006.
The Payment and Settlement System Act, 2007.
Reserve Bank of India, Payment Systems in India Vision 2012-2015. Presentation available at the SAARC Payment System, 2012.
Reserve Bank of India, Payment and Settlement Systems in India, Recent Major Developments, from 9 December 2013.
Reserve Bank of India, Payment and Settlement Systems in India: Recent Major Developments, from 9 March 2014.
SAARC Payments Council Meeting, Seminar, Real Time Gross Settlement: Emerging Issues and Challenges from Hong Kong Monetary Authority, from 10 May 2014.

Reserve Bank of India, Developments in India, from 3 March 2015.
SAARC Payments Council Meeting, Reserve Bank of India, from 13 August 2018.
Reserve Bank of India, Payment and Settlement Systems in India, Journey in the Second Decade of the Millennium, 2010-2020.
Economic Impact of Regional and Cross Regional Integration of Payment Infrastructures, Payments and Settlements, Central Bank of Sri Lanka, 2018.
International Trade Settlement in Indian Rupees (INR), from 11 July 2022.
Report of the Inter-Departmental Group (IDG) on Internationalisation of INR, from July 5, 2023.

The interactions of actors selected by this case study will be analysed in-depth and holistic way, distinctly considering their historical context, institutional designs, patterns, and styles of cooperation in order to understand how interdependence takes its place in terms of cooperation opportunities for Brazil and India. Interdependencies can be manipulated to drive or constrain one's bargaining power in negotiations within regional organizations. The analysis of the causalities of events and their effects on the political process will be assessed, particularly, based on the behaviour of central bank agents and their interactions in the policy-making process, taking into account the formation of their preferences and political choices made during the process of regional financial cooperation, influenced by the regional and international contexts, shaped by the interests of the national and regional institutions, considering opportunity costs in countries' trade relations and the possibility of changing the status position of the countries in the international financial system.

Rules of the Brazilian Association of Technical Standards (ABNT) are used at the time of publication of this research.

2 GLOBAL FINANCIAL GOVERNANCE: THE ROLE OF CENTRAL BANKS IN A REGULATED FRAMEWORK

The second chapter aims to explain the historical evolution of the international financial system over the years until the conformation of global financial governance, highlighting the insertion of emerging countries in international financial forums and the role of international bureaucracies in shaping the financial and monetary system. By doing so, this chapter discusses the interplay of international, regional, and national policies aiming to support further implications on how central banks interact in the framework of regulatory globalisation established within the Basel Committee and the Financial Board Stability. This chapter also approaches major definitions of regional integration and cooperation in order to provide a background for the analysis of the case studies selected with a particular focus on the financial dimension and the purposes of regional institution building, in which the experience of the European Union is a model whose institutional functioning is a source of diffusion to other regions of the world to some degree.

This chapter also approaches how the concept of autonomy, independence, transparency, and governance shape the behaviour of central banks supported by the framework of institutional objectives of such financial institutions, which contribute to providing an analytical background to the case studies of this research. Finally, this chapter discusses the role of the regional payments areas around the world and its implications for the international financial system, with particular emphasis on the Economic and Monetary Union of the European Union and the lessons that could be learned from this political process.

2.1 From Bretton Woods to Global Financial Governance in the 21st Century

The objective of this section is to contextualize the development of the international financial system and the process of global financial governance in order to understand the progressive insertion of Brazil and India into the set of rules shaped by international bureaucracies. This section is majorly focused on the International Monetary Fund (IMF) and the Financial Stability Board (FSB) and the rise of the G-20 in global financial governance. In 1944, the Bretton Woods Conference was a major event responsible for shaping the international financial system and the order of the Western world.

The Bretton Woods financial agreement, initiated by the United States and agreed upon by 44 countries, was a significant milestone that featured the monetary and financial order of countries in the post-World War II period (Eichengreen and Khaler, 2016). This agreement established a fixed exchange rate system in which only the dollar could be exchanged for a specific amount of gold in the American Federal Reserve (FED). Other currencies were priced to the U.S. dollar and could not be exchanged for gold. Two international financial institutions were established as a result of the Bretton Woods system: the International Monetary Fund (IMF) and the World Bank Group (WBG). This reflected the power of liberal democracies and the global primacy of the American economy.

The World War II winners also established the United Nations (UN) in 1945 at the Conference of San Francisco (United Nations, 2021b). The Security Council was originated under the Charter of the UN, which is responsible for the maintenance of international peace and security. It is composed of five permanent seats (China, France, the Russian Federation, the United Kingdom, and The United States) and ten non-permanent seats elected for two-year terms included by the General Assembly (United Nations, 2021b). The Charter of the UN also established the International Court of Justice (CIJ) to settle legal disputes under international law principles (United Nations, 2021b). These institutions, specialized agencies, and related organizations belong to the United Nations System. They are part of the post-war context that shaped the global governance system.

Acharya and Plesch (2020) affirm that the universalism presented in the context of the United Nations System and its relationship with the liberal international order led by the Western countries are two distinct movements. First, this liberal order was not universal, but limited to states centred on the Atlantic coast that had common interests and did not include third-world countries like China, India, and the Soviet Union. Second, the UN was founded on liberal and non-liberal ideas, translated into different declarations throughout history[4]. The political dispute of power between the U.S. and the Soviet Union shaped American foreign policy towards universalism. The UN System, which is based on multilateralism came to be related to the liberal international order within the context of the Cold War.

This event shed light on the importance of power and values in determining world order. From the perspective of the U.S., a hegemonic power may guarantee global stability. The term “hegemony” is understood, as Arrighi (2010) defines the power of a country to

[4] The European and emerging countries have made significant contributions to shape the international norms as seen in the Declaration of Human Rights, the creation of the Responsibility to Protect concept, the Sustainable Development Goals, Internet Governance, and others (Acharya and Plesch, 2020).

exercise leadership and governance over a system of sovereign states, transforming the management of this system into a new operating model associated with its capacity to promote intellectual and moral expansion. Huntington (1999) considers that unipolarity has been replaced by uni-multipolarity after the end of the Cold War. In the 1990s, the United States had a unipolar phase without historical precedent, functioning as a superpower in international affairs (Waltz 2000; Mearsheimer, 2001). The unipolar era lasted until the terrorist attacks of September 11, 2001, when George W. Bush enacted security policies that undermined multilateralism and institutionalism (Ikenberry, 2018; Tizzard, 2017). Since then, the U.S. has played a limited role in maintaining the global governance architecture.

The world order is a process of continuous transformation defined by circumstantial conditions described by Acharya and Plesch (2020) as follows: (1) the end of unipolarity, in which China and the USA will hardly be able to exercise global hegemony in the same way that Great Britain did after the First World War and the U.S. itself after the Second World War; (2) the insertion of new actors such as emerging countries, international and regional bodies, non-state groups, large companies, and social media; (3) changing the nature of interdependence to new areas beyond trade, such as investment, finance, and the supply chain, reshaping the globalisation process; (4) fragmentation and pluralization of global governance; (5) persistence of cultural, ideological and political diversity; (6) Transnational dangers that threaten global stability such as climate change, pandemic, migration, drug trafficking, terrorism, among others.

Bradford (2007) affirms that incentives for cooperation in order to overcome collective action dilemmas can be understood within the framework of Krasner's Regime Theory, which describes it as a set of “principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area” (Krasner, 1982, p. 185). Regimes can be identified in different areas of international politics such as in collective security, economic regimes such as the World Trade Organization (WTO), financial regimes such as the International Monetary Fund (IMF) and the World Bank, Human Rights regimes, environmental regimes, and others.

> The twenty-first-century world order can be defined as a world order in which no single power or ideology dominates globally, which is culturally and politically diverse yet deeply interconnected and interdependent, and whose main players—both the makers and breakers of order—are not just states and the great powers, but also a variety of other consequential actors national and international, state and nonstate (Acharya and Plesch, 2020, p. 229).

Acharya and Plesch (2020, p. 227) affirm that the world order is a “broad interplay of power distribution, ideas, institutions, and interactions that characterize a significant portion of the world at a given time”. Since at least the early 1990s, multipolarity and the increasing assertiveness (political and economic) of the emerging countries towards Western domination have drawn the attention of political analysts, which sparked scholarly interest in their political and economic contestation in global governance. According to Wijk (2020), assertiveness has two sides: a) Positive assertiveness is the ability to encourage efforts that result in a common agreement; b) Negative assertiveness is related to the imposition of one's will in the pursuit of his interests.

According to Hosli and Selleslaghs (2020), the development of multiple centres of power makes international relations more complex since it requires a better foreign policy strategy from countries and a deeper knowledge of how interests are shaped in global governance. According to Wijk (2020), China's and Russia's increasing assertiveness reinforces the idea that a multipolar system may be less stable than a bipolar or unipolar system. Smaller and medium-sized countries can potentially play a bigger role in the multipolar system if they have raw resources or are strategically placed on trade routes and geopolitical zones of influence.

In the case of Brazil and India, both countries are the largest territories and economies of their region, besides their strategic resources, geographic location, and historical engagement with multilateralism, which provide them with opportunities to play a major political role in the international system. Changing alliances and loyalties of a country produce friction in the international relations of a certain region to varying degrees (Wijk, 2020). It is usually influenced by their capacities of leadership and driven by national political interests, whose preferences are shaped by sharing common interests with other actors and willing to deepen interdependence. Such ongoing transformations provide drivers and constraints for regional integration policies, which shape the circle of regional alliances and produce more or less tension between countries in a given region.

After the collapse of the Bretton Woods system, the international financial system was defined by a rise in oil prices, the expansion of New York and London's financial markets, and the consolidation of the dollar as a world reserve and transaction currency. As a condition for participating in the financial market, institutional investors from developed countries sought the liberalization of capital controls. This movement for the liberalization of capital controls ended up being reflected in developing countries. According to Story (2004, p 22), the IMF had established a political position to support the benefits of capital liberalization, a stance also supported by the United States, whose political weight in international organizations' decision-making was dominating and disproportionate in comparison to other nations.

The decision-making process of the international financial system pre-Asian financial crisis was shaped by the Bank for International Settlements (BIS), through a select group of financial institutions and international actors, such as the G-7, the G-10 (formed by Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and the United States), the IMF, the World Bank and the OECD. The policies considered "inclusive" of the financial governance regime of that time were taken within the scope of the Executive Committee of the IMF, in a context in which the United States managed to set a standard in the model of international financial transactions.

The political initiatives put on the agenda of international organizations or the solutions available to face financial crises were often defined according to Washington's national interest and American trade policies (Germain, 2001). The United States and the United Kingdom were two dominant players in the international financial system, due to the extent, efficiency, and internationalisation of their financial markets (Henning et al., 2016). The expansion of their companies around the world boosted the role of the dollar and the pound sterling in international trade and foreign direct investment, accounting for approximately 85% of global exchange transactions until the 2000s (Simmons, 2001). According to Story (2004), globalisation is the outcome of increased financial market liberalization and capital flows in the two decades preceding the international financial crisis in the 1990s.

According to Goldstein (1998), the Asian stock and exchange market crisis of 1997 was considered the third largest foreign exchange crisis of the 1990s at the time[5], behind the European Monetary System crises of 1992-93 and the Mexican peso crisis of 1994-95. The consequences of the Asian financial crisis in developed countries in 1998 revealed the scale of events caused by the crisis extended from Asia to Latin America and had a significant impact on developed economies, particularly, the U.S. and Europe. The possibility of developed countries being affected by a recession coming from the Asian crisis suggested that industrialized economies of the G-7 would be vulnerable to financial instabilities occurring in emerging markets. The perception of the lack of inclusion of emerging countries in the

[5] The intensity of the 1997 Asian crisis impacted emerging Asian economies, which growth rates declined between 30% and 50% in addition to the consequences that spilled-over to other emerging markets around the world, including Brazil, South Africa, and Russia, among many others, to varying degrees (Underhill and Zhang, 2004). Exchange rates in Thailand and South Korea, as well as stock prices in the Philippines, showed indications of revival in 1998. However, with the exception of China, the region's economic growth rate was at low basis, which make such countries enter into recession.

decision-making process became a major part of the problem of global financial governance. The growing (asymmetric) interdependence between developed and emerging economies demonstrated the deficit of representation in the decision-making process and their lack of integration into global financial governance (Germain, 2001).

The effects of the Asian financial crisis of 1997 impacted the dominant ideological thought of the decade, the “Washington Consensus”, guided by the neo-liberalism policies, which defends a position in favour of the total liberalization of markets, appropriate inflation targeting policy and independent central banks to improve the macroeconomic policy of the countries (Henning et al., 2016). The contestation of emerging countries to such policies contributed to including them in the global financial governance decision-making process to provide legitimacy and achieve a more efficient, stable, and secure global financial system (Henning et al., 2016). The context of the insertion of emerging countries in the decision-making process of the global financial governance structure required strengthening of the prudential regulatory standards of their financial systems, the establishment of independent supervisory bodies, and a review of the practices concerning data dissemination in order to be aligned with the international practices and regulations imposed by developed countries (Germain, 2001).

The increase in the efficiency of the financial system in emerging markets would reflect greater security for the economies of the G-7 itself. If, on the one hand, emerging countries would need to have greater participation in the development of new codes of conduct, on the other, they should accept the surveillance and supervision procedures resulting from the financial governance process operated by the IMF, the only international financial institution with the capacity to exercise the power to monitor the implementation of agreed international standards (Germain, 2001). According to Underhill and Zhang (2004), meeting international standards allowed governments to request multilateral rescue packages during financial crises.

According to Underhill and Zhang (2004), rescue packages are associated with conditionalities that governments must implement in the national financial system. It includes reforming exchange rate management, establishing capital control mechanisms, financial regulations, and corporate governance, which measures are not only related to technical financial issues because they are developed in a highly politicized environment. The package of structural reforms suggested by the IMF in the context of the Asian financial crisis in the 1990s, included, e.g., banking procedures and practices, rules on financial regulation, political transparency, and corporate management, among others, demonstrated the attempt to standardize financial governance and corporate (Underhill and Zhang, 2004).

The implementation of structural reforms requested by international financial organizations such as the IMF is challenged by the political and economic contexts of countries, in which monetary policy must meet a country's national development interests (Underhill and Zhang, 2004). According to Germain (2001), the quest for inclusion represents a large part of the problem of global financial governance and contributes to understanding the efforts to reform financial institutions over time and its decision-making process. According to Henning et al. (2016), the increasing participation of emerging countries in the global governance representants a strategy to accommodate or constrains their interests. Henning et al. (2016), affirm that emerging countries' participation in global financial governance seeks to increase political influence through a larger share of quotas and greater participation in the voting arrangement while they maintain political autonomy and demand mutual efforts from developed countries to achieve the stability for the international financial system.

An additional difficulty is regarding the time between formal negotiations and subsequent ratification and legislative implementation of the financial regulations because it can be overcome by technological evolution and financial innovations that reduce the effectiveness of agreements while improving the performance of the financial system (Simmons, 2001). The decision-making process of international financial organizations cannot impose rules and procedures on national governments but influence them of the convenience to implement a certain measure, based on a combination of political and technical aspects, which makes it a consensual rather than a coercive decision (Germain, 2001). International organizations with the role of providing regulatory measures stimulated international cooperation and empowered central banks with capacities for monitoring the national financial markets and payment systems (Kapstein, 2006).

In 1999, two forums were created known as the Financial Stability Forum (FSF) and a political group of countries named G-20. According to Greco et al. (2021), the G-20 represents 80% of world GDP and 75% of international trade. The G20 group has gained significant international prestige, leaving the G-7 in the background of the international scene, and becoming a turning point in the global governance process. The diversity and representativeness of the G-20 allowed the group to build an agenda for dialogue and wide political coordination in the most relevant themes of international relations, such as macroeconomic issues, agriculture, food security, climate change, energy efficiency, and infrastructure financing.

In terms of the impact of the G20 on the global financial governance process, Knight (2014) affirms that the G-20 has guided international economic and financial policies. The group established political coordination in international financial organizations such as the FSB, which translated into financial cooperation initiatives in terms of macroeconomic policy and regulation of the financial system within the scope of the BIS. While the IMF, the G-7, and the World Bank promoted deregulation of the financial system seeking to reach market liberalization measures, the BIS maintained its regulatory policy agenda (Henning et al., 2016).

The 2008 international financial crisis triggered by the U.S. banking system, whose institutions were not covered by the Basel II accord, led the world to speculate about the need for a new Bretton Woods moment (Cohen, 2009). Duarte (2017, p. 14) affirms that the 2008 international financial crises raised doubts about the credibility of international norms created by the West, which allowed emerging countries to demand greater political spaces and “relaxation of systemic constraints”. Favourable domestic economic performance in emerging countries contributed to a movement of contestation and strengthened political coordination at the regional and multilateral level, generating political capital vis-à-vis developed countries[6]. The G-20 became the main forum for discussion on economic cooperation and exerted greater pressure for reforms in the global financial governance process.

The FSF was a group comprised of G-7 Finance Ministers and Central Bank Governors that was enlarged to include twelve industrialized nations with the goal of promoting international financial stability and facilitating collaboration and supervision of financial institutions to overcome the effect of the Asian financial crisis (Porter, 2000). It was hosted by the Bank for International Settlements (BIS), located in Basel, Switzerland. Financial cooperation was established at the multilateral framework of the Basel Committee on Banking Supervision in 1974, which represented an important regulatory milestone in the international financial system as will be discussed in the next section.

In order to promote international financial stability, during the G-20 London Summit of 2009, the FSF was replaced by the Financial Stability Board (FSB) to broaden its membership and promote the inclusion of emerging countries of the G-20 that had not been participating in the FSF at the time, such as Argentina, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey. In addition, the European

[6] Many emerging countries reversed their negotiating position from the 1990s, which focused on the need to close packages of financial commitments in order to recover the country's economic situation, for an active actor within the G-20 with partners of the Global South, becoming creditors of the international financial organizations (Duarte and Lima, 2017).

Commission and Spain also joined the FSF members group (Germain, 2001). To illustrate the relevance of the FSF group in global financial governance, in April of 2008, the FSF released a report with recommendations in light of the 2008 international financial crisis caused by the losses on the U.S. subprime mortgages that triggered disruption in the global financial system.

The great fall in the value of assets in financial institutions and the disappearance of market liquidity have increased uncertainty about its consequences on the global financial system and macroeconomic decisions. Countries have launched several monetary and fiscal stimulus measures to create increased liquidity in the asset and stock markets, as well as rebuild capital reserves, in order to restore trust and stability in markets and financial institutions (Germain, 2001). As a basis for supporting national measures, the latest report presented by the FSF[7] (2008, p. 2) suggested five measures increase the resilience of the global financial system: (1) Strengthened prudential oversight of capital, liquidity, and risk management; (2) Enhancing transparency and valuation; (3) Changes in the role and uses of credit ratings; (4) Strengthening the authorities' responsiveness to risks; (5) Robust arrangements for dealing with stress in the financial system.

Tsingou (2015) affirms that during international financial crises, countries tend to form different "clubs" in order to produce governance based on a political agreement that can contribute to improving the international system's performance. Conflicts of interest and potential rivalries over the relevance of the reports released by the various working groups reveal that countries were also engaged in a correlation of political forces and interests in order to gain more international recognition (Tsingou, 2015). The working groups or "clubs" are formed by political leaders and official government representatives, whose political initiatives aim to systematize a global response to a certain international event (IMF, 2021).

The IMF is the coordinating centre of countries regarding events that take place in the international financial market and global economies (IMF, 2021). According to the IMF (2021), the existing working groups are divided as follows: The Paris Club in 1956; Group of 10 established in 1962; Group of 77 established in 1964; International Monetary and Financial Committee; Development Committee established in 1974; powerful Group of 7 established in 1975; Group of 24 established in 1981; Group of 15 established in 1989; the G-22 (1998), the

[7] The Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience (FSF, 2008, p. 1) was produced by a coordinated effort of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the Joint Forum, the International Accounting Standards Board (IASB), the Committee on Payment and Settlement System (CPSS), the Committee on the Global Financial System (CGFS), the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and national authorities and key financial hubs.

G-33 (1999) and later successful G-20 established in 1999. According to Guimarães (2012a), the IMF's ideological cohesion caused institutional isolation, unlike the World Bank, which diversified its expertise and achieved greater bureaucratic autonomy. This allowed the World Bank to produce alliances that led to greater political cooperation initiatives.

The low institutionality of the G-20, however, is a factor that makes it difficult for the group to achieve its political objectives. The decline in political capital by emerging countries in financial forums was accelerated by economic factors and different levels of recovery from the 2007 international financial crisis faced by countries, which reduced their enthusiasm for the multilateral sphere. In addition, changes in domestic politics have also affected the engagement of the country in the international system (Duarte, 2017).

According to Cohen (2013), the difficulty of the G-20 concerns the leadership. It means that the G-20 group does not have the same level of ideological consensus found in the Bretton Woods arrangement. Similar leadership as the one exercised by the US in the post-Second War would be absent in today’s international forums. Chin (2010) highlights the divergences within the G-20 itself, notably between the traditional economic powers represented by the G-7 countries and the emerging powers. In parallel with the tensions in the international financial forums, the political coordination between Brazil, Russia, India, China, and South Africa created the group known by the acronym BRICS. The BRICS began to stand out in the geopolitical scenario in order to provide changes to the international financial system (Narlikar et al., 2013; Baumann, 2015). The BRICS boosted historical demands for reforms in the IMF and the WB to bring some changes to the dollar's dominant role as an international reserve currency and reduce the deficit of representation of emerging countries in the decision-making process (Eichengreen, 2008) while introducing new multilateral institutions into the international financial system (Vasconcelos, 2016).

According to Williamson (2004), financial globalisation is defined as the process of integrating capital markets between countries with global coverage. Financial globalisation is not synonymous with monetary globalisation. The Eurozone is the only exception in terms of achieving a single currency. Although several economies were trending toward dollarization between the late 1990s and the beginning of the 2000s, regions, and countries around the world have been demonstrating the opposite tendency of gradually de-dollarization from the end of 2000. Henning et al. (2016) mentioned the increasing role of the Chinese renminbi (RMB) in providing liquidity in times of crisis, which reinforced the efforts of internationalisation of local currencies by other countries.

According to Kapstein (2006), the decision-making process in international financial organizations is driven by the interest in providing collective goods of public interest, such as financial stability. However, the decision that would be considered a public choice presents private interests that would not necessarily be in the service of the collective interest. Oatley and Nabors (2003) remember that public versus private interests are not incompatible, as long as public officials manage to converge such political solutions. Financial regulators, i.e., bureaucrats of financial organizations, in addition to pursuing institutional goals, also strive to extend their dominance within domestic political structures (Kapstein, 2006).

By this section, it is concluded that the decision-making process in global financial governance is based on consensual agreements between countries, organized in a set of different groups and instances of governance. Nonetheless, the decision-making process at the national level is increasingly constrained by systemic variables as a result of the interdependence of financial markets around the world. On the one hand, developed countries have opened up more political ground to the participation of emerging countries as a way of protecting their national financial system and political interests, on the other hand, emerging countries such as Brazil and India have shown some degree of commitment on rules and norms influenced by the structures of the global financial governance.

The increasing political engagement of emerging countries in different structures of global financial governance in order to overcome years of under-representation in international organizations such as the Bretton Woods institutions seems to be a piece of evidence brought by the literature of how Brazil and India's political attempts to revitalize institutional decision-making processes of international financial institutions and minimize existing asymmetries of the international financial system. The voluntary incorporation of emerging countries into the rules of the international financial order resulted in greater balance in the international financial system and contributed to improving protection measures for national financial systems.

The 1997-98 Asian financial crisis had a major impact on the international financial architecture. This event opened up political space for increasing the participation of developing countries in the decision-making process of the international financial system. However, the global financial governance system is still a framework of very asymmetrical political relations, whose insertion of emerging countries is constrained by the rules determined in the international financial structures, such as the IMF, the World Bank, and the FSB hosted by the BIS. These international bureaucracies are shaped to meet the interests of developed countries, which are gradually incorporating the commitments of emerging countries into the framework of norms and rules established by global financial governance.

2.2 The Interplay of International, Regional, and National Policies in Political Economy

This section aims to understand the dynamics of policies at different levels, international, regional, and national, focused on their normative implications to the national governments. Considering that the regional payment systems involve a process of regulatory harmonization of the financial systems and efforts to coordinate the macroeconomic policies of the countries, aiming to increase the level of financial convergence in a given region, the debate of this section is relevant to address the core analysis of this research. In addition, domestic and regional coalitions influenced the international insertion of Brazil and India in the international financial system leading them to commitments and contestations of norms and regulations issued by international financial organizations.

The international relations of Brazil and India with the Western countries are often characterized in the literature by a dichotomy, e.g., colony and metropolis; periphery, semi-periphery and centre; third world and first world; underdeveloped and developed; South and North; developing and industrialized or advanced; emerging and great powers; Global South and Western countries (Guimarães, 1998; 1999; Arrighi, Silver and Brewer, 2003; Wallerstein, 2004; Bremmer, 2009; Dados and Connell, 2012). Historically, peripheral countries have not always benefited from the globalisation process due to their economic and political fragilities, but also because of the hegemonic structure of power (Guimarães, 1999). International relations are shaped by dominant countries and institutions that organize ideas, norms, and policies according to their interests.

The increasing flow of money between territories implied greater complexity for domestic and foreign policies by providing a normative meaning to the role of finances (Santos, 2001) and promoting regulatory globalisation. International norms are produced and disseminated through international organizations and regimes[8], influencing the domestic and foreign policies of the countries. International financial organizations such as the IMF, the World Bank, and regional development banks have set measures of "global accounting and

[8] According to Keohane and Nye (1977), an international regime is understood to be the set of government agreements that affect complex interdependence, which can also be understood as the "rules of the game", i.e., principles, norms, rules and collective decision-making process that allow the convergence of the actors' expectations, in a certain area of international relations, seeking to overcome problems of collective action.

intelligence” (Santos, 2001), which included rules and norms to assess the economic performance of countries and overcome challenges for development. Globalisation also required the countries' financial fluidity to become more competitive in international trade. Regional organizations in South America and South Asia, particularly, MERCOSUR and SAARC, were created in the context of liberalizing policies to improve trade and to be a platform of international insertion of economies.

However, the national currencies of the States Parties of MERCOSUR and Member Countries of SAARC are neither convertible nor communicable between them, which means that such countries have more financial restrictions in the international exchange market because their currencies are not freely accepted by other countries due to lack of liquidity (Carneiro, 2012). Even though Brazil and India have modern national financial systems, the non-convertibility of their currencies imposes difficulties on their foreign policy, which consists of another element of dependence on global financial governance. This situation prolongs the marginalization of Brazil and India in the international system, while developed countries strengthen the role of their currencies in the financial system.

According to Guimarães (1999), economic blocs and multilateralism are the two main ways in which emerging countries can achieve greater international autonomy in the global governance process. For that, each country defines interests and values expressed in objectives and commitments to establish a political order among nations (Cervo, 2008). The combination of foreign policy and macroeconomic policy is intended to make a strategy of economic development and political autonomy for emerging countries, reducing their level of dependence on the dominant centre and the asymmetric conditions of the international system.

Macroeconomic policy varies according to the situation of each country, which can be characterized by a context of instability and disequilibrium, a stage of transition from instability to stability, or a moment of economic growth and stabilization, in which a country enjoys greater flexibility policy (Ames et. al, 2001). A scenario of economic instability can be generated through exogenous shocks, inappropriate policies, or a combination of the two factors. According to Ames et al. (2001), shocks in terms of trade, natural disasters, reversals in capital flows, and international financial crises, among others, cause imbalances in the economy and require a compensatory action of the state (Ames et. al., 2001).

According to the IMF (2012), an economic stabilization process requires a set of macroeconomic policy adjustments (monetary, fiscal, and exchange regime) in response to changing circumstances caused by a shock in order to prevent strong fluctuations in economic activity, high inflation rates and excess volatility in exchange rates and financial markets.

According to Gourevitch (1986, p. 17), "economic theory can tell us a lot about policy alternatives, but unless our economies contain an understanding of power, it will not tell us enough to understand the choices actually made".

Brazil and India confronted moments of economic instability and political reforms in the 1990s. Two different geopolitical contexts are shaped by economic stagnation and political changes established in common neoliberal policies for their (re)integration into the international financial system (Antunes, 2001; Cerra and Saxena, 2002). According to Ames et. al. (2001), low-income countries with a narrow export base generally centred on essential commodities, are more vulnerable to external shocks. Countries with diversified economies are also affected by external shocks, however, they are more resilient with a greater capacity to minimize such impacts (Carneiro, 2012).

The commodities boom of the 2000s, however, impacted the world price of low-process natural resources and technological content (agricultural products, food, ores, oil, and fuels), which improved the performance of export markets in Latin America and Asia, in particular, Brazil, India and China (Carneiro, 2012). Solingen and Malnight (2016) affirm that external shocks are not just about economic impacts, but also the influence of international regimes, institutions, and historical values. Globalisation has progressively expanded international markets, institutions, and norms in the domestic policies and regional orders, which leave them more susceptible to external effects.

The study by Gourevitch (1986) explains five elements included in the decision-making process of a given economic policy, which shed light on understanding the formation of domestic coalitions. The first approach refers to the Production Profile, i.e., the formation of preferences of social actors in the international economy. The second refers to Intermediate Associations, which emphasizes the role of organizations as political parties and interest groups in linking social preferences to State institutions. The third is related to the State Structure, which emphasizes the role of formal institutions, bureaucracy, and rules in mediating and defining the interests of intermediary associations. The fourth is linked to Economic Ideology, which emphasizes the role of perceptions, models, and values in the formation of an understanding of the economic situation and political circumstances that influence preferences and behaviour.

The fifth refers to the International System, highlighting the impact of war, security issues, the acquisition of military material, and other elements of the system that are determined by the historical situation and conjunctural variables. The international system influences the interaction between the four previous elements, shapes state behaviour and contribute to the definition of economic policy (Gourevitch, 1986).

> The issue, then, is not whether the international system shapes domestic politics but how and through what mechanisms. Unless the international situation is completely coercive, as may be the case with foreign occupation, countries do have choices. The selection they make from among those choices depends on domestic politics, on the distribution of power within countries and the various factors that influence it-societal forces, intermediate institutions, state structure, ideology. The international economy affects national policies by acting upon domestic actors (Gourevitch, 1986, p. 65).

Politicians use the “mobilizing capacity of economic interests, norms, and identity associated with the dilemmas of internationalisation” (Solingen and Malnight, 2016, p.5) to shape their political preferences and organize the division of society into interest groups and domestic coalitions. Bradley (2008) points out that the multi-layered regulatory complexity influenced by interest groups, whether they come from international organizations or domestic coalitions, approve measures in accordance with their particular interests, which cannot be necessarily desirable for society. According to Solingen and Malnight (2016, p. 6-7), domestic coalitions also reflect a country's level of political engagement in the regional order.

There are two profiles of coalitions. First, the “internationalising” type emphasize regional cooperation and macroeconomic stability in order to improve international competitiveness and enjoy the benefits of the global economy and international institutions. This type of coalition attracts domestic bureaucracies such as central banks, finance ministries, and export agencies. Second, the “inward-looking” type, which drives regional competition, increases the level of insecurity among actors harming the country’s macroeconomic policy. The regional environments are composed of an “aggregate measure of the relative strength of internationalising and inward-looking coalitions” (Solingen and Malnight, 2016, p.7), which makes them hybrid.

The bilateral relations between Brazil and Argentina switched from a profile of competitiveness to cooperation during the late 1980s. It was a turning point for South American regional policy and paved the way for the economic integration of MERCOSUR (Vigevani and Ramanzini Junior, 2010). Changes in the perception of internal coalitions favoured a scenario of internationalisation. The Iguaçu Declaration in 1985 by presidents José Sarney and Raúl Alfonsín, represented the Brazilian and Argentine commitment to economic integration in the Southern Cone. It was strengthened by the Economic Integration and Cooperation Program (PICE) in 1986, which established an institutional structure of intergovernmental nature by stimulating cooperation in preferential economic sectors

(Vigevani and Ramanzini Junior, 2010), a source of the guidelines that drove the productive integration model within MERCOSUR in the 2000s (Baumann, 2010). In 1988, the Treaty on Integration, Cooperation, and Development between the two countries boosted the process of institutionalising regional integration (Vigevani and Ramanzini Júnior, 2012).

In 1990, Brazilian President Fernando Collor de Mello and Argentine President Carlos Saul Menem signed the Buenos Aires Act with the purpose of creating a bilateral common market by coordinating macroeconomic policies, especially those with the greatest impact on trade flow and industrial structuring, through generalized, linear and automatic tariff reductions. The governments believed that the complementarity of their economies through the bilateral integration process would boost a competitive international insertion in the global economy and promote the modernization of Brazil and Argentina. In 1991, the Treaty of Asunción institutionalised the process of regional integration in the Southern Cone. According to Araújo (2008, p. 41), interest groups influenced the process of institutionalisation of MERCOSUR, generating what the author defined as a “deficit between agreed and accomplished”, depending on the consequences (negative or positive) of some sectors of the economy during the trade liberalization process.

According to Almeida (2008), even the transition from the development model to a social-liberal definition of modernization associated with state reform programs in the 1990s and controlled military spending fostered the integrationist process initiated by Brazil and Argentina and, later the incorporation of Paraguay and Uruguay. In MERCOSUR, bilateral meetings, preferential trade agreements with market-oriented profiles, aimed at attracting foreign investment, accessing new markets, and expanding trade shaped by the logic of “open regionalism” (Mariano et al. 2021) facilitated regional stability and spreading a normative consensus based on the preferences of Argentine and Brazilian coalitions. According to Solingen and Malnight (2016), the internationalising logic and the emergence of cooperation do not depend only on the degree of regional economic interdependence or institutionalisation, but on shared preferences and the building of trust between the two countries at a time of insertion in the global economy.

According to Mariano et al. (2021), the change from a neoliberal profile (1989-2002) to a government with a developmental and distributive profile in Brazil (2003-2015), followed by a rise of left-wing political leaders in the region, called the “pink wave” (Silva, 2010), encouraged an “internationalising coalition” (Solingen and Malnight, 2016) that sought to strengthen articulation, cooperation, and regional integration. The efforts to expand the political and social features of the South American bloc by reducing asymmetries and improving physical and productive integration in the 2000s (Veiga and Ríos, 2007) enhanced political coordination, redefined their preferences, and advanced regional integration. According to Mariano et al. (2021), the bloc has shown institutional resilience during the last thirty years, amid political and commercial crises and a decrease in economic interdependence.

Brazilian businesses and political elites did not develop a strong perception of how the regional arena could be a platform to achieve their political and economic interests, nor did they absorb the systemic incentives. Consequently, this situation affected the leadership role that Brazil could play in South America. Domestic and regional coalitions are not static events, as they are part of a larger and constantly changing political game. If the rapprochement between Brazil and Argentina was the impetus for regional integration in the 1980s-90s and the deepening of the bloc in the 2000s, the profile of the Argentine government of Maurício Macri (2015-2019) and the impeachment of the Brazilian President, Dilma Rousseff and the subsequent governments of Michel Temer and Bolsonaro “strengthened the movements against integration, particularly in Brazil” (Mariano et al., 2021, p. 18).

Although internationalising coalitions drive different forms of cooperation, a historically conflictive region such as South Asia affects the time of institutionalisation of regional policies, the degree of cooperation, and the institutional design created to engage countries into a cooperative order. South Asia is characterized by the initial distance of India from the global economy (D'Costa, 1995), shaped by “inward-looking” coalitions (Solingen and Malnight, 2016) and “self-sufficiency strategy with autonomous industrialization at its core” (D'Costa, 1995, p. 255), whose competitive logic of the countries' internal agendas was transformed in the 1990s into a hybrid profile of internationalist dominance.

Given the wars of liberation, regional policy in South Asia countries favoured nationalist and international security agendas, especially, regarding the independence of India and Pakistan, in 1947, and later, Bangladesh, in 1971, which established institutions in the region with a profile of low economic interdependence and low intra-commercial performance. According to D'Costa (1995), the import substitution model associated with a phase of nationalist responses to global forces characterized the Indian resistance period, supported mainly by the national steel industry in the 1980s. The exhaustion of this model followed by the change in the role of the national state and the rise of a new middle class, provided incentives for the coalition of political and economic sectors with an integrationist profile, supported, above all, by the automobile industry (D'Costa, 1995). It means that changes in India's economic policy came mainly from domestic incentives. India's initial resistance to entering the global economy also ended up reducing its external vulnerability.

For many decades, South Asian countries demonstrated signs of resistance to the insertion of the region into global markets (D'Costa, 1995). According to Washbrook (1990), the political and economic dynamics in South Asia were historically linked to the European imperialist relationship. The needs of Europe for capitalist expansion depended on the use of intermediary agencies located in Asia, i.e., the process of European capital accumulation carried out outside the core, led South Asia to the status of semiperiphery. In India, in particular, the withdrawal of the British from the country and the transfer of institutions and power to the Indian National Congress during the post-World War II period led to the fragmentation of the country's social elites and competition for fractions of capital in South Asia, leading the region to conflict experiments and dictatorships (Washbrook, 1990).

According to Washbrook (1990), South Asia turned into a region with a complex economic, ideological, and political structure, influenced by the paradox of liberalism subsisting with the legacy of British imperialism in the same political system. And even with the institutionalisation of SAARC in 1989 and greater transparency between regional actors, South Asia continued to be a conflictive and competitive region, resulting in failures of cooperative regionalism (Solingen and Malnight, 2016). The economic reforms in India in 1991 driven by the “Look East” policy during the Narasimha Rao government (1991-1996) boosted the deepening of regional cooperation practices and produced political, economic, and social advances in the region (Jain, 2011).

According to Jain (2011), under the government of Prime Minister Atal Bihari Vajpayee, between 1998 and 2004, India adopted the concept of extended neighbourhood and the development of a Pan-Asian regionalism. The formation of Indian interests shaped by the results of the economic reforms of 1991 focused on the insertion of the country in the global economy, distancing itself from regional cooperation in South Asia and seeking to expand the reach of its regional insertion. Domestic coalitions in India have formed from the perception of gains in its extra-regional relations. The Indian policy of Neighbourhood First under Prime Minister Narendra Modi, in 2011 can be interpreted as a strategy to accommodate the political and economic interests of smaller countries in the region.

The SAARC performs poorly as a regional policy platform, as it has not been able to constrain the competitive behaviour of South Asian countries, has not reduced the costs of trade transactions, has not significantly improved regional infrastructure, and has failed to resolve militarized conflicts in the region. Therefore, even a group of countries formed by domestic coalitions more prone to cooperation cannot necessarily redefine state identities. As seen in and in the experiences of South America and South Asia, domestic and regional internationalising coalitions are not homogeneous groups.

According to Solingen and Malnight (2016), regionalism is a category that helps to explain the political and economic choices of countries in relation to the systemic incentives of globalisation that are filtered or not by the domestic coalitions of the countries and translated into regional practices. The international financial system structures a relationship that drives and constrains actors as they become more globally integrated, potentially decreasing their conflictive tendencies. Bradley (2008) affirms that the participation of the national state in international organizations contributes to the creation of a global regulatory sphere. According to Bradley (2008), the internationalisation of financial markets has been a growing movement since the 1980s, in which financial institutions seek to harmonize financial regulation through cooperation practices in different international organizations and, later, assign regulatory jurisdiction within national states and regional levels.

Regulatory harmonization aims to define that a given norm is not stricter in a country than in other countries and at the same time, works as a market protection mechanism since it contributes to equal competitiveness between companies considering that they fall under a common set of rules in different jurisdictions (Bradley, 2008). However, imbalances in the participation of interest groups in the domestic financial regulatory process differ from other policy areas where groups are represented by members of civil society and not only by representatives of the financial market, businesses, and industry sectors.

Analysing the interactions of policies between different levels from a legal perspective, Wessel and Wouters (2008, p. 27) affirm that domestic legal systems are increasingly recognizing the influence of rules, standards, regulations, decisions, procedures, and practices from international and regional organizations. According to Bradley (2008), in most cases, they require implementation in the domestic legal system or harmonization of new regulations, whose practices will be observed by the institutions of the country that legally host them (Bradley, 2008). Multilateral and regional organizations have contributed to extranational regulatory processes, which created a network of normative effects that impacted the Rule of Law and Democracy at domestic levels as they improve the quality of decisions and policy formulation, providing legitimacy for this new governance process (Wessel and Wouters, 2008).

The overlapping of political spheres that influence the decision-making processes, formulation of policies and regulations can be better understood through interpretations of multilevel governance. This perspective points to recurrent phenomena of political interactions between domestic, regional, and international levels, which increased the complexity of global governance and presented implications to political commitments beyond the nation-state (Wessel and Wouters, 2008). According to Wessel and Wouters (2008, p. 11), multilevel governance involves issues related to the “location of power, sharing of responsibility, the legitimacy of decisions and decision-makers and accountability to citizens and organizations in different scenarios at national, subnational and international level”. Wessel and Wouters (2008, p. 12) affirm that “international organizations and international regimes are increasingly engaged in normative processes […] that impact States and even individuals and companies”.

According to Wessel and Wouters (2008, p. 27-35), they can be seen in the World Organization for Trade (WTO), with regard to dispute settlement or in the field of intellectual property or preferential trade agreements, which are the result of the regulatory forces guided by economic liberalism. At the United Nations High Commissioner for Refugees (UNHCR) is seen in the standards that established refugee status, at the World Health Organization (WHO), concerning the establishment of phytosanitary standards, at the OECD concerning the area of money laundering, at the World Bank concerning the definition of criteria for obtaining financial support, at the Food and Agriculture Organization of the United Nations (FAO) concerning the development of standards on food safety, at the International Organization of Standardization (ISO) which has already produced more than 13 thousand rules and standardization of products and processes, in the Basel Committee, where central bank governors harmonize their policies aiming at capital market regulation (Wessel and Wouters, 2008).

Based on the presented debate, this section can draw the following conclusions. Multilevel governance is particularly relevant for this research since the decision-making processes of the central banks of Brazil and India are influenced by endogenous and exogenous variables that shape their political preferences. It can be identified in the political commitments of monetary authorities on behalf of the national government with international financial organizations such as the BIS and the IMF or regional organizations like the MERCOSUR and SAARC within the framework of the policymaking process of payment systems, whose norms and rules are subject to the process of internalization in the domestic legal system of the countries. The legal acceptance of political practices and regulatory measures that influenced the behaviour of central banks cannot disregard the existing relation of power behind this process of policy formulation. It reinforces the argument that the international system and regional organizations act through domestic actors and directly affect the willingness of the national state to drive or constrain regional integration.

The greater or lesser economic interdependence between the countries of a region is not enough to determine their political choices. Shared interests, actors' expectations, culture, and the historical context in which Brazil and India are inserted also contribute to the understanding that international norms and regulations do not spread automatically, but are the result of a normative acceptance, influenced by systemic forces, which are not homogenous. Security dilemmas also matter for regional cooperation by affecting the ideas and interests of the coalitions, which is particularly relevant for the cases of MERCOSUR and SAARC.

The formation of coalitions and interest groups determines the level of engagement of the countries in the process of regional integration, according to the possibilities of the dominant group meeting their interests, guided by the logic of maximization of gains brought by the political process. Therefore, the types of coalitions, internationalising or inward-looking, provided a framework to understand at some point, elements that shape cooperative or conflictive regions, which contributed to explain not only how regional institutions are created, but also their design, the commitments assumed by the actors, and the conditions for advancing or not the interdependence between member states.

2.3 Bank of International Settlements (BIS): Surveillance, Cooperation and Stability

This section aims to understand the role of the Bank of International Settlement (BIS) as a platform for policy coordination and a network for dialogue between the central banks around the world. In 1974, the BIS was established to deal with financial stability issues and improve banking supervision practices (BIS, 2021). The collapse of Bretton Woods in the early 1970s and the shocks of the Oil Crisis in 1973-74 made the international community concerned with global financial stability. The financial instability caused by the replacement of fixed exchange rates by flexible rates associated with inflation affected governments and businesses around the world in varying degrees. It was a setting that required intervention measures from governments in order to contain financial collapse and unemployment in the context of increasing integrated economies (Kapstein, 2006).

It was difficult for central banks and other national financial authorities to deal with the economic shocks of the period while also implementing macroeconomic and institutional changes. Financial cooperation was achieved in 1974, within the scope of the Basel

Committee, which was comprised of governors of central banks from the G-10 nations and parallel working groups hosted by the BIS. In order to establish best banking supervision practices and develop inspection tools, the Basel Committee's working group established a document known as the “Basel Concordat”. The document aimed to “set out certain guidelines for cooperation between national authorities in the supervision of banks’ foreign establishments” (BCBS, 1975).

From the document released by the Basel Committee on Banking Supervision (BCBS), successive agreements were signed that redefined the focus of the Committee's activities. According to BIS (2021), the first agreement refers to the Basel I Capital Accord (1988): The beginning of the debt crisis in Latin American countries in the 1980s urged the Committee's concerns regarding the levels of capital deterioration of international banks. The G-10 representatives, then, approved a capital measurement system used on and off-balance sheets carried out by commercial banks and defined a minimum risk ratio (8%) of capital to weighted assets that should be implemented by the end of 1992. In 1995, after a review of the general provisions of the Agreement carried out in 1991, the Committee recognized the effects of bilateral netting of bank credit exposures and, later, the effects of multilateral netting in 1996. In that same year, the Committee amended the Capital Agreement to include market risks, due to banks' exposure to foreign currencies, debt securities, commodities, and equities.

For Oatley and Nabors (2003), the Basel Accord best meets the demands of American commercial banks for greater international competitiveness with foreign banks, as well as pressure from the American electorate for banks to bear the costs of the debt crisis, than an economic response to the needs of overcoming financial system weaknesses. According to Oatley and Nabors (2003), the Basel Accord is an example of redistributive cooperation in which the financial markets of the United States and, to a lesser extent, the United Kingdom influenced the decision-making process of the G-10 policymakers. In 1996, the BIS invited central banks from emerging countries to subscribe to the organization, such as Saudi Arabia, Brazil, China, Hong Kong, South Korea, India, Mexico, Russia, and Singapore.

In 2004, according to BIS (2021) and CBB (2022a), the Basel II Accord was launched, with the purpose of establishing a new capital structure that would present greater international convergence and replace the Agreement signed in 1988. Based on the expansion of the rules established in the first agreement, Basel II presented the minimum capital requirement and revision of the capital supervision model of financial institutions. These changes were intended to generate greater market discipline and strengthen the regulatory practices of financial institutions, as well as incorporate better adaptation to the financial innovation process and improve risk control.

Since then, the Basel Committee has taken on additional roles in banking supervision, such as sharing knowledge and the best banking experiences around the world, developing a system for detecting problems in international banks, and coordinating policies to standardise banking practices and regulations. According to Kapstein (2006), the supervision agreement established in Basel does not present multilateral surveillance as a basis, but rather national control. According to Kapstein (2006), the influence of the Basel Committee on Banking Supervision guidelines in emerging economies is growing on the agenda of central banks as the presence of international banks in national territories increases and the existence of domestic banks decreases. National central banks and other national financial regulators are in charge of oversight the banking supervision practices. The regulatory practices of the BIS established at the Basel Committees, initially influenced by the Basel Concordat guidelines, were implemented in numerous countries other than the G-10.

In 2010, as a response to the 2007 international financial crisis and deficiencies in financial governance and risk management of financial institutions, caused by high leverage and inadequate liquidity reserves, the package of recommendations known as Basel III was launched (BIS, 2011; CBB, 2022a). The new agreement aimed to strengthen the resilience of financial institutions to shocks from the international financial system itself and even from other sectors of the economy to reduce the scaled effects and the net risk to global economies caused by a new financial crisis. The decision to raise global minimum capital standards for banks and reach a package of capital and liquidity reforms was reached during the G-20 Leaders' Summit held in Seoul. Basel III is evidence of how the decision-making process of global financial governance has shifted throughout the decades to become more inclusive and representative of developed and emerging economies.

> The Committee completed its Basel III post-crisis reforms in 2017, with the publication of new standards for the calculation of capital requirements for credit risk, credit valuation adjustment risk, and operational risk. The final reforms also include a revised leverage ratio, a leverage ratio buffer for global systemically important banks, and an output floor, based on the revised standardized approaches, which limits the extent to which banks can use internal models to reduce risk-based capital requirements. These final reforms address shortcomings of the pre-crisis regulatory framework and provide a regulatory foundation for a resilient banking system that supports the real economy (BIS, 2021).

The Reserve Bank of India (RBI) has an institutional history of applying macroprudential tools prior to the 2008 international financial crisis. This contributed to increasing the country's resilience to the effects of exogenous shocks and improving measures to counter credit cycles, strengthening the system of regulatory surveillance (BIS, 2017 p. 181). Therefore, this would reduce the risks that the international financial crisis could bring to the country's economic development, whose majority of the banking sector is state-owned. The macroprudential policy framework strengthened the regulations and oversight of the country's microprudential policies. The RBI implemented capital flow management measures to reduce risks of financial instability coming from the volatility of capital flow (BIS, 2017).

These risks were also increased due to the oscillations in foreign currency exchange and mismatch liquidity risk in the national financial system. According to the BIS (2017, p. 184), “the Indian strategy has generally been to use soft capital account measures” supported by systemic risk assessments. Within the scope of SAARC, it is noted that the low level of development of national financial systems required regional cooperation practices that focused on the modernization of financial systems adopting principles established within the framework of the Basel Committees, before any measures to implement a regional payment system (SAARC Bulletin 1 - SPI, 2008).

According to Pinto (2021), the Central Bank of Brazil was the first Latin American central bank to join the BIS, seen as a relevant space for multilateral political concertation, in which the country could influence decisions that directly affect the development of the national financial system and opens up strategic opportunities for international insertion. It is noted that the Central Bank of Brazil (CBB) systematically incorporates measures to improve the national financial system, such as the 25 recommendations of the Basel Committee on Banking Supervision as a means of preventing systemic financial risks, which led to the creation of Brazilian prudential regulation in the 2000s and the restructuring of the national payment system in 2008 (CBB, 2022a) in full compliance with the principles established at the BIS. The regulatory and security measures of the national financial system were reflected in the international recognition of the BIS and entities linked to the financial sector, which increased Brazilian prestige in the international financial and monetary system.

Pinto (2021) affirms that not only did Brazil incorporate the Basel Committee recommendations, but the MERCOSUR State Parties also adopted them, as seen in CMC Decision No. 10/93. The operation of the Local Currency Payment System (SML) took into account prudential regulatory measures that not only reduce the systemic risks of financial transactions but also facilitate regulatory harmonization between the State Parties of the South American bloc through the MERCOSUR SGT- 4 “Financial Matters”, strengthening regional financial convergence initiatives that lead to deeper regional integration.

Therefore, it was observed that the Bank of International Settlement (BIS) is a relevant centre for the production of financial policies, technological knowledge, and coordination of regulatory practices for the constant improvement of international financial systems, in which both the Central Bank of Brazil and the Reserve Bank of India are active participants. It must be considered that all international organizations have different levels of influence and interest among participants. There are political benefits in the participation of the central banks of Brazil and India at the BIS. The better the opportunities for international insertion of the countries, the more effective the strategies of these countries in the international financial and monetary system.

2.4 Central Banks between Autonomy and Independence

This section aims to discuss the concepts of autonomy, independence, transparency, and governance applied to the role of central banks in order to understand how these conceptual interactions shape the institutional competencies of these financial institutions and expose their vulnerabilities in conducting monetary policy. Understanding the influence of legal, political, and institutional features of central banks on their social behaviour and how they shape their interests, which can be political, technical, or private ones, is relevant to explain their engagement in regional integration policy. This discussion contributes as an explanatory background on how the central banks of Brazil and India act in foreign policy, particularly through the implementation of the payment system in MERCOSUR and SAARC by providing an institutional arrangement for regional financial cooperation.

The independence of central banks has been debated since the 1970s, due to the effects of the oil crises (1973 and 1979) on inflation and the need for central banks to have greater autonomy to seek appropriate solutions to crises, protected from the political influence of national governments (Bandaogo, 2020; Adrian and Khan, 2019). In theory, a central bank free of political influence would have greater freedom in the decision-making process, since the choices of the monetary authority would correspond to national development needs and institutional objectives, such as controlling inflation and public spending, thus mitigating external financial shocks (Lybek, 2008).

According to Adrian and Khan (2019), autonomy contributes to minimizing the risks of political agents manipulating monetary policy aiming at individual gains in election periods, which could affect the performance of macroeconomic policy and generate inflation, undermining the institutional objectives of central banks. In this way, central banks would be linked to the national economic cycle and not to the political cycle of elected positions, guaranteeing the credibility of the country's monetary policy. Lybek (2008, p. 135) defines the relationship between monetary policy, as a prerogative of the State, and the political and electoral interests of the national government as a “time inconsistency problem”. Therefore, delegating the responsibility of conducting the monetary policy to the central bank and providing this institution with a certain degree of operational autonomy to promote the sustainability of the financial system is theoretically seen as beneficial to the market economy and national financial system.

According to BIS (2009, p. 77), the decision-making process of central banks has been characterized by group decisions, especially on monetary policy. Group discussions, followed by consensus or voting, contribute to better representation of society and political legitimacy, but that does not exclude conflicts between different interest groups, reinterpretations of measures, political influences, and trade-offs (BIS, 2009). The degree of independence or autonomy of central banks and their institutional relationship vis-a-vis the central governments is a relevant aspect to be observed in the research. According to Tucker (2018), central bank hierarchy independent regimes can be defined into three different types:

> 1. *Trustee-type* independent agencies that are established in ordinary statutes to deliver a credible commitment to a public policy purpose for purely consequentialist reasons (for example, a regulator established to write rules to flesh out a standard for financial system resilience). 2. *Trustee-type* independent agencies that are not established by the constitution but are a corollary of the higher-level separation of powers (for example, independent monetary authorities). 3. *Guardian-type* agencies that are established by the constitution to preserve democracy and the rule of law generally (canonically, constitutional courts and, perhaps, some electoral commissions) (Tucker, 2018, p. 282).

According to Goodhart (2010, p. 1-5), the roles of central banks have been changing over the years, whose historical moments can be divided into three cycles. The Victorian era (1840s – 1914) was a period within the framework of the gold standard, whose great dilemma was to limit the expansion of means of payment beyond certain limits associated with the existence of metallic reserves and the need to stabilize the expansion of the financial system. The period of government control between the 1930s and 1960s, in which central banks were institutionally and politically subordinated to central governments' goals of ensuring full employment. And the period of triumph of the markets between the 1980s and 2000s, in which central banks became independent of government policy and began to guide macroeconomic policy through supposedly technical criteria for controlling inflation, through managing the expectations of the financial market. Central bank independence became a relevant issue in international financial forums until the time of the 2008 financial crisis.

The central banks of the European Union, the United States, England, and Japan adopted the concept of independence, which means that these central banks have the ability to define and control the inflation, unemployment, and economic fluctuation targets, as well as contribute to the sustainability of public debt, reducing the risks of fiscal crises and cushioning external impacts (Bandaogo, 2020; Garriga and Rodriguez, 2020). The role of central banks has manifested itself not only through public policies aimed at maintaining the stability of the currency and the financial system but also, when necessary, in dealing with the international financial crises that have plagued the world over time and whose responses, “cannot be totally independent of political decision-making” (Wachtel and Blejer, 2020, p. 129).

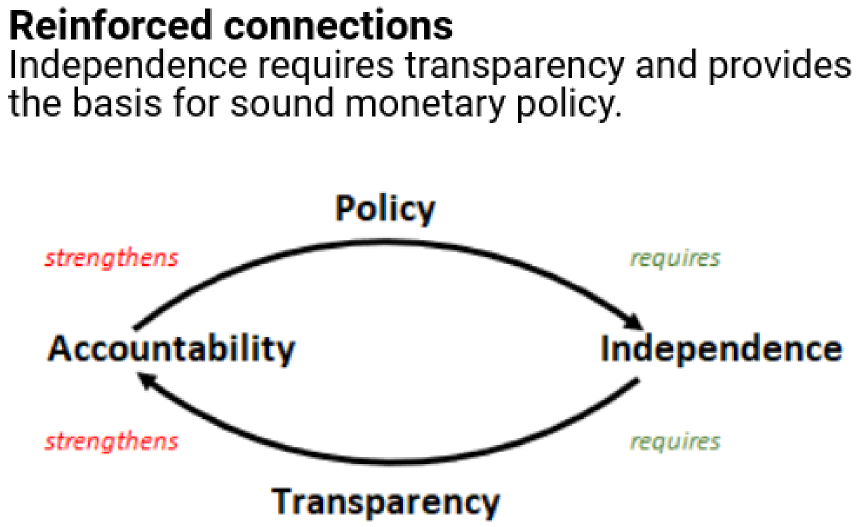
According to Lybek (2008), while the word autonomy refers to the idea of operational freedom, the word independence suggests the lack of institutional restrictions. Lybek (2008, p. 151) affirms that the credibility of a central bank is precisely linked to its operational, technical, autonomous, and efficient capacity to make decisions in the process of conducting monetary policy, aiming to meet the objectives of the institution, guaranteeing the “checks and balances” necessary for macroeconomic policy. Lybek (2008, p. 138) presents four types of autonomy that central banks can assume: (1) goal autonomy; (2) target autonomy; (3) instrument autonomy; and (4) limited autonomy, in which the central bank is considered a government agency. The autonomy to conduct the macroeconomic policy and determine the exchange rate regime is linked to the degree of “goal autonomy” of the central bank.

Lybek (2008) affirms that the idea of central bank independence initially received criticism due to the low level of transparency in operations that characterized the performance of these financial institutions, which potentially led society to the perception that central banks aimed at favouring the financial market. Another concern regarding the level of transparency of central banks refers to the shocks that their decision-making process in monetary policy could provoke in a country's macroeconomic policy. Monetary policy can also generate shocks with banking supervision measures by establishing political practices of relaxation and flexibility in monetary policy in order to solve problems in the financial sector (Lybek, 2008)[9]. The relationship between responsibility and transparency became a sign of good

[9] According to Blanchard et al. (2011), the international financial crisis of 2008 demonstrated that the quantitative easing policies introduced by central banks aimed to favour the large international banks, which consequently generated high inflation and reinforced the perception that monetary authorities serve the interests of the international market.

institutional governance, as seen in the figure below, whose autonomy in policy formulation is associated with better accountability practices.

Figure 1 – Policy, Autonomy, Independence, Transparency and Accountability



Reference: IMF Policy Paper n° 11 (2019, p. 9).

According to Wachtel and Blejer (2020, p. 115-116), the independence of central banks “real or perceived” has more positive effects in emerging markets than in advanced ones, due to three effects pointed out by those authors: (1) “Institution Building”, it means the central bank has the need to build, strengthen and protect national institutions, as central practices of the countries' development strategy; (2) “Human Capital Accumulation”, as an institutional capacity to attract and preserve highly qualified professionals in the public sector and state careers; (3) The effect of “International Club”, a tendency towards building networks, disseminating good practices, transmitting mechanisms and institutional protection channels, carried out from the interaction between central banks, through international platforms in the forms of meetings at the Bank for International Settlements (BIS), multilateral and regional institutions, resulting in more credibility and gain market competitiveness (Wachtel and Blejer, 2020, p. 115-116).

The successive financial and economic shocks, originating from the domestic or international scope, can lead central banks to reform their legislative structure, generating a positive record of political measures and reinforcing their role in the stability of the national financial system, which results in institutional credibility (Lybek, 2008). This means that central banks are structured financial institutions with high technical capacity shaped by the historical accumulation of positive and negative experiences in the financial and monetary system, which influenced their political preferences over time and, consequently, led them to implement more efficient monetary policies.

The central banks of Brazil and India are institutions that enjoy operational autonomy, which guarantees greater credibility of the monetary policy of the countries without being disconnected from the institutional structure of the national governments. According to Ray (2018, p. 44), the transformations of the Reserve Bank of India historically followed the guidelines of the economic policy of the national government in power, which resulted in the profile of a central bank with “increasing independence within government”. This demonstrates that the RBI's operational autonomy has a higher level of influence from the national state. According to Mendonça and Inhudes (2010), changes in the communication of the Central Bank of Brazil with society increased the institution's level of transparency and contributed to a period of greater economic stability. This suggests that the Central Bank of Brazil had a lower level of political interference in the formulation of monetary policy.

This has implications for the degree of participation of central banks in regional financial cooperation initiatives and for the alignment of their institutional objectives with the orientation of economic policy introduced by central governments, without losing sight of financial market expectations and the stability of the national financial system. The particular cases of the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) will be discussed in more detail in the core analysis of this research in the following chapter.

It is concluded that the policy strategies of central banks have been changing over the years. The growing complexity of their responsibilities, as well mentioned by Wachtel and Blejer (2020, p. 129), “overlap with government functions”, whose definition of institutional independence or operational autonomy is linked to their degree of freedom to implement monetary policy. As Bandaogo's study suggests (2020, p. 2), lower levels of autonomy in the central bank are associated with higher rates of inflation and deterioration of the financial system. But despite its transformations, the institutional objective of central banks remains the same, focusing on conducting the country's macroeconomic policy, determining the exchange rate policy, managing international reserves, and aiming at the stability of prices and the national financial system. What differs the institutional role of the central banks around the world is the degree of influence that these financial institutions have in the complex decision-making process of national policies, as well as in the way societies deal with them, which can vary between the level of operational autonomy or independence.

2.5 The Role of Central Banks: Institutional Objectives and Principles

Central banks have the institutional objective of ensuring the stability of the national financial system, price stability, and the economic well-being of a country. The political, economic, and monetary roles of the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) are not different from the mentioned general objectives. They are financial institutions responsible for conducting the monetary policy of Brazil and India in close coordination with the macroeconomic policy put into practice by the national government.

This section provides a framework for the main roles of central banks in society, taking into account that such financial institutions as the CBB and the RBI have progressively acquired greater responsibilities throughout the years. The institutional role played by central banks may vary depending on the country, national legislation, and the level of autonomy in which these institutions were regulated. This section aims to systematize their responsibilities to support the analysis of the behaviour of central banks in regional integration policy, which is focused on how the preferences of the central bank agents were shaped during the process of regional financial cooperation.

Table 3 – Main Functions and Features Related to the Central Bank

Monetary Policy Authority	Formulate and implement a country's monetary policy within its institutional reach, ranging from operational autonomy to independence. Control the balance of payments and provide liquidity conditions in the banking system. Control the basic interest rate and adopt measures to combat inflation.
Financial System Stability	Ensure price stability and the national financial system. The instability of a financial system can increase the risk of a systemic crisis and affect the country's monetary policy.
Banking Supervision and Prudential Regulation	*Ex-ante* rules are designed to prevent instability in individual institutions and in the system as a whole, which include balance sheet constraints to ensure a loss-absorbing cushion during crises and governance obligations related to procedures and processes to deal with risk.
Exchange Rate Regime	Guidelines and norms regarding foreign exchange transactions and currency management, which can be fixed, intermediate, or floating, and currency management, which can be characterized as convertible in the context of free capital mobility or non-convertible.
Political Autonomy/Governance Structure	The national law that governs a given central bank defines its governance structure, expanding its autonomy and minimizing

	the risks of interference by the national government, which provides the central bank with greater possibilities of acting as a political and technical agent.
Conflict Management	Refers to the regulatory procedures that allow a framework for the central bank to ensure close political coordination with the national government on different issues.
Management of International Reserves	International reserves are assets in foreign currency that act as a kind of insurance for the country to deal with its obligations abroad and shocks of an external nature, such as currency crises and interruptions in capital flows to the country.
Money Issuance	Issue of money in sufficient quantity to meet the needs of consumers and businesses, keeping the number of bills and coins in line with the pace of the economy.
Payment System Management	Centralized and unique infrastructure for the settlement of instant payments between different institutions within a country.
Financial Autonomy	Refers to the financial integrity of the institution in order to avoid government influence through capital appropriation procedures.
Accountability	The central bank's role is to provide studies and statistics, balance sheets, half-yearly or annual performance reports, economic data, and methodologies in order to publicize its actions and ensure greater institutional autonomy, clear political statements, and information on monetary policy.
International Relations	Participation in discussions on the international financial architecture promoted in international financial forums, adherence to regulatory standards and international codes, with the purpose of mitigating potential risks and taking advantage of growth opportunities, as well as in financial integration initiatives, international agreements for the liberalization of services, and payment facilitation.

Reference: The author's creation is based on the compilation of information made available in the Internal Regulations of the Central Bank of Brazil (2020a), in the Communication Policy of the Reserve Bank of India (RBI, 2021), supported by Smolenska and Beukers (2022, p. 112-113), Tucker (2018) and Cargill (2017).

The governance structure of a central bank reveals the circumstances in which the interactions of its political practices take place and can be constrained. It shapes the central banks’ institutional relations with national governments and other actors, such as foreign central banks, international financial organizations, domestic industries and commerce, and regulators of the financial market and society. The functions of central banks demonstrate the political relevance of this actor in studies of Social Sciences and the analytical challenges involved in overlapping their functions during interactions with the national government. The central bank's role in international relations adds elements of complexity to this equation. Therefore, this systematization framework contributes to the analytical support of this research and the identification of the political interests behind economic measures.

2.6 Regional Integration Studies: Concepts, Institution Building and Diffusion

Regional integration studies are composed of a variety of multidisciplinary concepts, theoretical debates, visions, analyses, and interpretations that contribute to scholars, pundits, politicians, and society to have a better interpretation of social reality. This section aims to bring the definition of regional integration and cooperation, particularly, in the financial dimension, providing a conceptual background that qualitatively contributes to shed light on topics discussed in this research, particularly, the historical processes of regional integration in MERCOSUR and SAARC and the role played by Brazil and India in their regions, paying attention to geopolitical, economic and social considerations, as a way of understanding their institutional advances and the challenges behind regional asymmetry.

The regional cooperation model undertaken in the regional organizations of MERCOSUR and SAARC represents the process of political choices negotiated between the countries, but led, to a large extent, by the foreign policy of Brazil and India, which have a greater capacity to shape the political preferences of the actors at the regional level, guided by their national interests of development and international autonomy. This section also approaches the level of analysis of regional institution building and the role of institutions in shaping political interactions. Concepts applied to regional integration studies are essential to frame the analysis of this research and understand the political spaces and limitations of international action taken by central banks and their influence on the advancement and constraint of the regional political process.

The willingness of Brazil and India to accommodate the interests of smaller countries is linked to the logic that the region can be a potential platform for trade, security, and international insertion, whose regional political process contributes to strengthening its global ambitions. The institutionalisation of regional policy can also be seen as a strategy to reduce potential political constraints and expand their limited capacity to bring about changes in the international system. MERCOSUR and SAARC have significantly different geopolitical contexts and different levels of regional asymmetries, whose political implications define the level of engagement of Brazil's regional policy in South America and India in South Asia.

Some conceptual considerations about regional policy are relevant to this debate. Regionalism is characterized by a flexible political concertation, followed by a voluntary acceptance of norms, in which the states decide to establish a certain level of interdependence, aiming to solve common problems, without necessarily leading the nation-states to develop a common project, as regionalism is characterized by restricted institutionality. Borzel and Risse (2016, p. 41) affirm that regionalism is "driven by independent decision-making of regional actors responding to causal factors located within or outside the region" towards a process of institutional building.

> The main drivers for regionalism are (material) gains states expect to reap from trading with each other. These include reduced transaction costs, policy externalities, economies of scale, technological innovation due to greater competition, more foreign direct investments, and greater economic and political weight in international markets and institutions (Borzel and Risse, 2016, p. 92).

Regional cooperation is characterized by a more proactive profile and propositional attitude of national states and the establishment of voluntary interdependence in a "wide variety of forms of collaboration, […] setting up joint projects, coordinating policies and regulatory frameworks, to shaping joint policies and institutions" (Amaya and Lombaerde, 2021, p. 2). Regional financial cooperation is determined by pro-cyclical or anti-cyclical economic measures that aim to facilitate regional policies that develop or improve financial connectivity instruments between the states of a given region and lead them to institutional changes (Ocampo, 2006; Kuroda and Kawai, 2003).

Regional financial cooperation may assume different functions, according to the international and domestic contexts, shared interests, and common development objectives of the states, e.g., financing for development, strengthening regional markets and international trade, liquidity financing during balance-of-payments crises, attracting foreign direct investments, systems of macroeconomic surveillance and policy coordination, reserve funds and swap arrangements among central banks, regional payments systems, regulations of the domestic financial system, exchange rate stability, crises/contagion prevention and management (Ocampo, 2006; Kuroda and Kawai, 2003). The regional financial cooperation framework contributes to the stability of the international financial system.

Regional integration is characterized by the political, economic, social, or security organization of national states with the purpose of improving capacities to deal with problems that states would not be able to overcome individually or that would demand a significant effort from the state to overcome it. In this case, regional integration presents a transfer of loyalty (Haas, 1958), i.e., there is a transfer of the decision-making process from the domestic level to regional institutions, recognition of the regional instance as a legitimate space to deal with certain political, economic, social and security issues, generating greater interdependence between the states that are part of this regional core of political articulation. Therefore, regional cooperation is understood as the nature of an agreement or a treaty, while regional integration refers to the identification of institutional transformations in the process or action within a regional institutional body, such as the decision to eliminate trade tariffs.

In Balassa's conception (1961), economic integration suggests gradual stages related to international trade, which involves phases ranging from the formation of a free trade zone to the stage of a Common Market. Regional integration also constitutes an advanced form of development policy, presenting more complex progress in the coordination of economic, social, political, and security decisions in a given region. According to Corazza (2006), for some countries, regional integration is considered the second best option given the challenges from the multilateral institutions because it contributes to protecting national economies and strengthening their international competitiveness in less asymmetric conditions.

Perrotta et al. (2018, p. 176) affirm regional integration is not an automatic or natural political practice, but an “instrumental one”, in which the countries pursue a certain level of strategic convergence, based on the creation of common institutions that generate norms that affect the national level of policy regulation and increase national decision-making capacity, despite structural differences and the diversity of political orientations. An actor's perception of international security also impacts their political choices in terms of macroeconomic and foreign policies to prioritize a new set of objectives for regional integration processes. According to Acharya (2012, p. 9), ideas, norms, and collective identity are fundamental roles to drive regionalism, as they “shape expectations and facilitate cooperation through shared understanding of goals and outcomes”. Acharya (2012) affirms that the success or failure of regional institutions can also be assessed normatively and not just based on indicators such as trade agreements and economic performance.

According to Hettne (2005, p. 544-545), the region is a concept of international relations related to the interpretation of a “socially constructed, politically contested and rapidly changing area”, in which national states share interests and shape political strategies. According to Saurugger (2020), regional identity is defined by the internationalisation of common standards by a group of states in a given region, in which political interests change according to the process of international socialization and learning. It shapes the institutional design and influences compliance with rules, norms, and legal principles. The interest of states is related to the sharing of ideational factors, such as ideas around a political project, norms, and values that are created within a structure to shape interactions between actors. Human, social, historical, and cultural factors are subjective characteristics that are rooted in states as social actors and influence their behaviour and political choices.

It is possible to identify different types of regionalism initiatives throughout the world, e.g. Andean Community, ASEAN, African Union, ECOWAS, European Union, SAARC, SADC, MERCOSUR, among others, whose organization of states presents economic, security, political, and social interdependence and a development-oriented understanding in the regional institutions (Acharya and Johnston, 2007). Regional order is not a stable structure of the international system, so regionalism could be seen as an indeterminate process in a continuous transformation. According to Hurrell (2010), the world has been constituting agreements and regional integration blocs as new ways of characterizing the security and economic arrangements in a region, attributing common social and political principles to a group of states that influence the distribution of power, leading to a transformation of the regional and international order.

According to Perrotta et al. (2018), building knowledge in Regional Integration studies is often based on temporal interpretations and adjectives that help to translate and distinguish regional processes in time and space, advancing theoretical thinking, as seen in the following concepts: closed and open regionalism (Almeida, 1998; Bernal-Meza, 2002), old and new regionalism (Hettne, 2005), waves of regionalism (Dabène, 2012), post-liberal (Veiga and Ríos, 2007) and post-hegemonic regionalism (Riggirozzi and Tussie, 2012), liquid regionalism (Mariano, Bressan and Luciano, 2021) in the case of Latin-America studies, informal regionalism (Acharya, 2011a) in the case of Southeast Asia and regime-booster regionalism, considering the “domestic-level political motivation” in South Asia (Chakma, 2020, p. 157) or weak regionalism, considering its history, singularities and challenges (Lamichhane, 2016; Arshad and Ali, 2017; Melegoda and Padmakumara, 2018).

International cooperation does not come naturally. It becomes feasible when great players show interest in fostering regional cooperation and bear its costs. It is a strategy of behaviour, which Mattli (1999) defines as the “paymaster role”. Brazil and India are the two largest economies in their respective regions, characterized as rule-makers with leadership purposes, although they are often seen as actors not willing to bear the costs arising from this potential leadership or assuming the paymaster role of regional integration processes in MERCOSUR and SAARC (Vigevani and Ramanzini Junior, 2022; Destradi, 2010). These countries are often conceptualised as regional powers (Destradi, 2010; Nolte, 2010), rising powers (Narlikar, 2010), developing countries (Narlikar and Tussie, 2004), emerging countries (Baumann, 2015) and global players (Hurrell, 2010; Banerjee, 2008; Vigevani and Cepaluni, 2007).

According to Nolte (2010), institutions are not only instruments for solving common problems or means for promoting collective values, they are instrumental mechanisms to enhance the influence of the strongest states, promote their interests, and create a hierarchy of power (Hurrell, 2007). It is hardly possible for a group of states to define an ideal design of a regional institution or a constant combination of actors that lead to an effective cooperation practice. Nolte (2010) affirms that regional organizations may regulate the behaviour patterns of states by a long-term political treaty or practices and structuring political interactions formally or informally in order to achieve predictability of interactions, and desirable political and economic outcomes.

One of the first initiatives of regional integration in Latin America was the Latin American Free Trade Association (ALALC), which dates back to the 1960s and was succeeded by the Latin American Integration Association (ALADI) in the 1980s. Overall, regional integration processes were compatible with the principles of the General Agreement on Tariffs and Trade (GATT). According to Mariano et al. (2022, p. 2), the first Latin American regionalist initiatives were characterized by the influence of functionalist theory on regional integration from the Post-Second World War[10] to the 1980s, aiming at a model of "institutionalisation and promotion of the liberalization of internal trade and industrial development, through comparative advantages and scale gains, with strong external protections".

Open regionalism took shape by the end of the 1980s, through political and economic changes in the international system resulting from the end of the Cold War and with the rise of a scenario of multipolarity, increasing globalisation, and intense economic interdependence. It was based on neoliberal policies, whose purpose was economic liberalization and strengthening of the international competitiveness of economies (Mariano et al., 2022). Mariano et al. (2022, p. 2) affirm that regional policies arising from open regionalism were considered "innovative initiatives, or attempts to rescue institutional structures from the previous period". According to Dubey (2007), regionalism in South Asia was dormant between the first wave of regionalism at the end of the 1950s and the beginning of the 1980s, when countries mobilized political arrangements for the creation of SAARC, in 1985, in the context of the ideals of open regionalism, such as seen in MERCOSUR, established in 1991.

[10] Pinto and Braga (2003) affirm that the idea of regional integration has always been in force, based mainly on the emancipatory political opportunity of Latin American countries, but with little effective force of union. However, it was only after the Second World War that the issue of regionalism became less of a political ideal to become, at least as a proposal, an important complementary instrument to the development process.

According to Lenz (2021), regional organizations have undergone significant transformations since the 1990s. These changes were identified by Lenz (2021) with regard to the greater degree of institutionalisation of regional organizations, mirroring the European Union model, recognized as the most advanced regional integration process. Despite the differences between history and geographic contexts and even the distinction between the institutional objectives of regional organizations around the world, such as the cases of MERCOSUR and SAARC, Lenz (2021) affirms that scholars have identified an increase in the similarity of institutional development with the European Union model, without necessarily move towards the same level of institutionalisation of the EU and neither the pursuit for supranationalism of regional institutions as seen in Luciano and Campos (2021). According to Lenz (2021, p. 2), “the impact of diffusion operates through its influence on the institutional preferences and strategies of governments, which in turn determine the outcome of international negotiations”.

From the normative perspective, the diffusion of the European bloc is often addressed by the literature, e.g., Adriaensen, J.; Postnikov, E. (2022), Bradford (2020), Manners (2013) as a political strategy established by Brussels, which can take different forms. According to Manners (2013), the European bloc sets a framework of different ways of norms diffusion with regional organizations, as follows: 1) Contagion (unintentional diffusion of ideas from the EU to other political actors), 2) Informational diffusion (a result of the range of strategic communications); 3) Procedural diffusion (institutionalisation of a relationship with a third party); 4) Transference (EU exchanges goods, trade, aid and technical assistance with third parties, in which may result in the exportation of the EU’s norms and standards); 5) Over diffusion (physical presence of the EU in third states and international organizations) and 6) Cultural filter (interplay between the construction of knowledge and the creation of social and political identity by the subjects of norm diffusion).

However, when it comes to the institutional diffusion of the European Union, Lenz (2021, p. 3) emphasizes his point of view from the “purposive choices of governments within the constraints imposed and the strategic opportunities offered by interdependent decision-making, and acknowledges the resulting diversity in institutional outcomes”. The European Union's influence on the process of institution building in other regional organizations, according to Lenz (2021, p. 186-188), can be represented through a “direct influence”, through its relations with other regional organizations or “ passive influence”, acting through the institutional effects of information exchanges between regional organizations and the legitimacy attributed to the success of its regional approach.

The influence of the European model does not imply a systematic capacity to shape other regional processes. According to Alejandro (2019), Western countries produced significant theoretical knowledge in the area of international relations. The European Union is a major example in Regional Integration studies. This structure of knowledge on international relations theories is conditioned by a worldview in which the production of Brazilian and Indian knowledge was socialized (Alejandro, 2019). Alejandro (2019) affirms the reproduction of critical and anti-Eurocentric discourses reinforces the very Eurocentric theorization that has been criticized.

In the case of MERCOSUR, the intergovernmental profile of the South American bloc is explicitly shaped by the asymmetry of power in favour of national governments in relation to independent institutions, which results in a passive and limited influence of the EU, yet detectable, in the institution building of the South American bloc (Lenz, 2021). Since its foundation in the 1990s, MERCOSUR has modified its institutional framework eight times and increased its level of delegation trajectories (Lenz et al., 2023, p. 632). In the case of SAARC, it was observed limitations of the European bloc to influence the region due to the unstable and highly conflictive region, leading the EU to carry out a strategy of bilateralism (Renard, 2013), which also strength the diffusion of the European integration as a model of regional organization and drives political dialogue with South Asia countries. According to Lenz et al. (2023, p. 639), MERCOSUR is a more dynamic regional organization compared to SAARC, which appears to be stagnant in its institutional development.

Deeper regionalism provides a negotiated political space, based on rules that go beyond the more functional character of regional organizations, as they establish confidence-building measures, common rules, policies, and procedures that are institutionalised in the form of political cooperation (Telò, 2007). The following table defines three level of analysis of regional institution building, which supports the analysis of this research by presenting the complexity behind institution diffusion. But it also highlights that sub-units at national levels such as central banks are still a blind spot in many research of Area studies, which could provide further support as a case study in order to explore the relational influence of monetary authorities in shaping regional institutions.

Figure 2 – Levels of Analysis in the Study of Regional Institution Building

	Regional	Interorganizational	Global
Denomination	Unit (and sub-unit)	Sub-systemic; inter-unit	Systemic
Type of explanation	Inside-out	Outside-in	Outside-in
Central causes	Attributes of ROs and their constituent member states	Attributes of relationships between ROs	Attributes of the international system
Causal direction	Vertical	Horizontal	Vertical
Ontology	ROs as atomistic units	ROs as relational units	ROs as atomistic units
Associated IR literatures	Liberal intergovernmentalism, neo-functionalism, post-functionalism, transactionalism, domestic politics, international political economy	Diffusion, interregionalism, institutional interplay, regime complexity	New Regionalism, realism, sociological institutionalism (world polity explanations)

Reference: Lenz (2021).

If the European Union is not an exportable model, the European experience certainly provides lessons and political reactions due to its success story, remaining associated with the evolution of the new regionalism and international cooperation models, as observed in Matthijs (2020) by pointing the research of Bergbauer et al. regarding the influence of domestic politics and public opinion in the EU policymaking process. This case study is, particularly, focused on the different levels of governance of the Economic and Monetary Union, in which the behavior of the European Central Bank is directly linked to political authorities and the governance of institutions in the pursuit of stability of the regional financial system, expanding banking supervision policies and public performance evaluation criteria. It resulted in the need for greater community sense to minimize the perception of fragmentation from the public opinion about the benefits of monetary integration.

Therefore, perceptions about a regional political project are shaped at different levels of government relations within a region, but also by the perception of experience and lessons learned from other regional projects that contribute to building a conceptual framework more appropriate to analyse different institutional realities, such as will be addressed in the experiences of MERCOSUR in South America and SAARC in South Asia.

2.7 A World of Financial Regions: Regional Payment Areas Around the World

This section aims to briefly discuss regional payment area initiatives around the world and their role in the economic and political development of regions, particularly, the cases of the European Union, SADC, and Arab League. Payment and settlement systems are financial instruments that are part of the history of international economic relations between countries. As shown in the introductory chapter, these financial systems are not new initiatives, as identified from the experiences of CEMLA in 1952, CCR in 1965, ACU in 1975, and FLAR in 1978, among many other subsequent initiatives. What is new and relevant for this discussion and analysis of the research is the reframing of this economic instrument as a political strategy in the context of the declining international role of the dollar and persistent exogenous shocks, brought about by international financial crises, international conflicts and more recently, due to the effects of COVID-19, in the search for mechanisms to increase international trade, financial inclusion, and greater political autonomy.

The improvement of regional payment areas can be identified from the incentives provided by the Financial G20, through the preparation of the Roadmap for Enhancing Cross-border Payments in 2020, based on the FSB (2020) report hosted by the BIS. According to Arner et al. (2022), building such financial areas requires efforts towards technological modernization, regulatory and legal harmonization, as well as reducing structural asymmetries that constrain the advancement of trade relations between countries. Regional payment systems, in their ideal form, should follow the same processing logic as domestic payment systems, reducing compensation time for a real-time payment system, through transparent regulatory procedures and efficient operations that minimize financial risks involved in cross-border transactions. Given the endogenous and exogenous constraints to which each country is exposed, harmonization via rulebooks has been fundamental for the advancement of regional integration processes (Arner et. al, 2022).

Regulatory harmonization strengthens regional integration as it manages to meet the needs of reducing risks in terms of combating the financing of terrorism, anti-money laundering, data exposure, foreign exchange fluctuations, and low levels of monetary liquidity (Arner et al., 2022). Therefore, it is possible to affirm that unlike the domestic system where the national government has control over the evolution of the financial system, building regional payment areas are more complex system because it involves increasing the interdependence of financial systems between countries. In this context, the central banks not only play an important regulatory role in the integration process, aiming at the three primary objectives of security, efficiency, and integrity (Arner et al., 2022) but also exercise their political and institutional power to influence the level of exposure to the risk that the national state will be exposed to, which shapes their behaviour of reluctance to the regional financial integration process.

The European Union is considered the most advanced regional integration model in economic, political, and social terms. The achievement of the economic and monetary union of the bloc, through the introduction of the single currency and the establishment of the Single Euro Payments Area (SEPA), is the result of progressive efforts that preceded the Maastricht Treaty, signed in 1992, in which created the Euro as a single currency and the eurozone. Its antecedents date back to the Hague Summit in 1969 when the Prime Minister of Luxembourg drew up a plan for the economic and monetary union that included the liberalization of capital movements and the full convertibility of countries' currencies, as well as the setting of exchange rates (European Parliament, 2023a).

Successive economic and monetary union initiatives can be identified from the Paris Summit of 1972, and the Brussels Summit in 1978, with the creation of the European Monetary System (EMS), whose currencies participated in an exchange rate mechanism, based on the European Currency Unit (ECU) (European Parliament, 2023a). In 1988, the Hanover European Council established a three-phase framework to improve the coordination of countries' economic policies, the establishment of budgetary rules, and the establishment of the European Central Bank (ECB) (European Parliament, 2023a).

The origin of the EMU is also attributed to the interests of France and Germany in regional integration, despite the significant difference in terms of ideas and economic policy-making in the postwar period. Germany was based “on the concept of the social market economy”, while France “played a great role in economic life and pursued more activist economic policies” (Maes, 2002, p.26). The Franco-German convergence took place through the understanding of economic policies oriented toward stability behind the convergence of inflation between the 1980s and 1990s (Maes, 2002, p. 27), which was aimed at reducing trade barriers and strengthening countries' competitiveness policy.

The European System of Financial Supervision (ESFS) was established in 2011 as a consequence of the Basel III Accord, due to the exogenous shocks caused by the international financial crisis. It consists of “a multi-layered system of micro and macro-prudential authorities” aimed at overseeing the financial sector in order to promote financial stability (European Parliament, 2023b). The European Central Bank (ECB) underwent transformations in institutional practices as a way of responding to the challenges brought by the Euro crisis through an “innovative and liberal interpretation of individual provisions of the Maastricht Treaty” (Beukers et al., 2022, p. 8). This means that the European Central Bank (ECB) played a transformative role during the financial crises, creating new strategies and financial instruments to provide the conditions to deliver a monetary policy that meets the primary objectives of the European System of Central Banks, such as stability of prices and the financial system, without altering the provisions of the Treaty, with a perspective of strengthening the regional integration process.

The SEPA was established in 2008 and fully implemented in 2014, as an integrated payments system aimed at increasing the efficiency and competitiveness of the European economy “by eliminating differences between national and cross-border payments and by harmonizing standards in all the participating countries” (European Central Bank, 2023). According to the European Commission (2023), the accession of a country to the Eurozone must be followed by legislative changes in the national system of the countries in order to meet the conditions for economic convergence, defined by macroeconomic indicators focused on “price stability, sound public finances, exchange-rate stability, to demonstrate that a country can manage its economy without recourse to excessive currency fluctuations and long-term interest rates, to assess the durability of the convergence”.

The deeper institutionalisation of the Economic and Monetary Union (EMU) of the EU provides insightful lessons, which regional organizations around the world can benefit from a critical analysis of the European model, considering measures that are adaptable to each regional reality in order to promote advances in the policymaking process of regional organizations by strengthening the relation of central banks and national governments in the international financial and monetary system. The decisions and policies promoted by the EMU also contribute to the reflection on the decision-making process of governments and foster institutional development in other regions of the world. Such policies could act as a strategic background for measures in the Global South to increase levels of macroeconomic convergence, stability of financial systems, advanced mechanisms of banking supervision, and greater coordination of states' fiscal policies. This would not only result in greater institutional efficiency for central banks and governments but would also make regional financial cooperation initiatives more robust.

The advancement of the European Union's economic and financial policies provides the European bloc with better levels of regional economic governance, through shared coordination of fiscal policies, the establishment of debt and deficit limits for national governments, independence of monetary policy conducted by the European Central Bank

(ECB), regulatory harmonization, supervision of financial institutions within the Eurozone and coordination of the single currency (European Commission, 2023). A better level of governance of the European institutions also improves efficiency for the coordination of economic policies and enhances the distribution of responsibilities among them. It also defines a more accurate role for the actors and agents engaged in the policymaking process, as seen in the table below, bringing greater predictability to the functioning of the financial system and meeting the institutional expectations and preferences of the Member States, which does not exclude negotiations, trade-offs and conflicts of interest in the bloc's political process.

Table 4 - Economic Governance under the EMU of the European Union

The European Council	Sets the main policy orientations
The Council of the EU	Coordinates EU economic policy-making and decides whether a Member State may adopt the euro
The Eurogroup	Coordinates policies of common interest for the Euro-area Member States
The Member States	Set their national budgets within agreed limits for deficit and debt, and determine their own structural policies involving labour, pensions, and capital markets
The European Commission	Monitors performance and compliance
The European Central Bank	Set monetary policy, with price stability as the primary objective, and act as central supervisor of financial institutions in the Euro-area
The European Parliament	Formulating legislation with the Council and subjects economic governance to democratic scrutiny in particular through the new Economic Dialogue

Reference: European Commission, 2023.

The contestation movement of the role of the US Dollar by emerging countries and their pursuit of better mechanisms for payment systems in local currencies at regional and international levels makes the European model a relevant source of knowledge. The European experience corroborates with new political processes of financial convergence in different phases of development. The proper functioning of the European common market eliminated exchange rate variations between the currencies of national states during the adoption of the Euro and strengthened the single currency in the international monetary system, improving countries' trade performance and investment prospects. According to Moussis (2016), the EMU is the result of a succession of political initiatives and efforts between Member States over the years that were not always successful, as in the 1970s, given the collapse of the international financial system and the incomplete stage of the common market.

The difficulties of establishing a common market were a lesson to European countries during the different stages of the customs union. The European Community had to overcome challenges regarding negotiations over the possibility of a common currency and its effects on imports and exports from the countries of the European bloc, and issues related to the protection of the autonomy of states' economic policy in the context of progress in monetary policy and economic stability measures. In addition, the European experience with the progressive increase of economic interdependence between countries, particularly, the way that the EU dealt with the risks of cyclical transmission and the measures for managing the political conditions for the enlargement of the bloc and its divergences are sources of knowledge that shed light on the current challenges of MERCOSUR and SAARC. These regional organization have been facing many challenges in terms of reducing regional asymmetries and providing political advances through economic and financial initiatives, without losing sight of commercial interests.

An incomplete integration process, from the perspective of Moussis (2016), can lead to long-term instability, lower actors' expectations about the regional process, and, given the context of changes in the international system, hinder the development of regional economic policies and the promotion of financial instruments capable of dealing with national economic challenges. A significant difference between the European model and other regional integration processes continues to be the resistance to sharing sovereignty, as a form of advancement in regional financial integration. However, it does not mean that the European experience is not applicable, but that the conditions for institutional diffusion would be more limited. Moussis (2016, p. 169) affirms that “the loss of national autonomy within a common market would have to be compensated by the development of collective disciplines in the economic and monetary fields”, generating collective responsibility, as the problems convergence of economic and financial policies are also strategies to face the challenges brought by globalization.

The relevance of regional financial cooperation between central banks is fundamental to establishing the solid foundations of a more efficient regional economic policy, as noted in the 1971 Resolution of the European Economic Community (EEC). On this occasion, the EEC central bank agents “narrow band of fluctuation of participating currencies, with its intervention and short-term support mechanisms” (Moussis, 2016, p. 170). Although South America and South Asia regions are far from the Optimum Currency Area (OCA) established criteria, Hafter and Kampe (2018, p. 5672) mentioned in their results that “most of the monetary efficiency gains are shown to be the result of a common restrictive monetary policy which would result in higher foreign direct investments (FDI) inflows and, to a more limited extent, increased GDP, both overall and per capita".

The European System of Central Banks (ESCB), which comprises the ECB and the central banks of all 27 national European Union countries independently of having or not adopted the Euro is part of the so-called Eurosystem. The ESCB has the primary goal of maintaining price stability and supporting the economic policies of the European Union by defining and implementing the single monetary policy, performing foreign currency transactions and exchange policy, managing the official foreign currency reserves, functioning the payment system in the Euro area, authorising the issue of banknotes, performing tasks related to the prudential supervision of credit institutions, collecting statistical information and contributing to macroprudential policies (BDE, 2023).

The ESCB is an institution that is relevant to be analysed due to its policymaking process to reach a decision among agents of the central banks of those countries included in the Eurozone and countries that are not part of the monetary union, whether due to the choice of national governments and central banks or because they are in an intermediate phase of transition of national policies to meet the requirements established at the regional level for the incorporation into the Eurozone. The supranational profile of the ECB also presents its challenges, given the expansion of the Eurozone in recent years from 12 to 20 members since 2007, the search for a balanced presence of bureaucratic agents from the central banks of Member States and the definition of the institution's mandate, which is independent of the EU institutions (Beukers et al., 2022).

Furthermore, the ECB has been increasing the level of its institutionality, as identified in the new Banking Union, which requires the European monetary authority to adapt its institutions to accommodate the interests of all countries, conduct the ECB's decision-making process and its relationships with old and new regional institutions (Beukers et al., 2022). International and regional financial crises, international conflicts, energy transition, and the costs of climate change to some extent impact and alter monetary policy operations, which increase the complexity of the political game. All of these issues interfere with the practices of central banks. But they also expand the possibilities of the ECB's cooperation and exchange of institutional experiences with central banks from other parts of the world, especially the ones at the forefront of relevant political practices, such as the case of the CBB in Brazil and the RBI in India, two central banks of the Global South, as noted in DW (2023) and BIS (2023).

The Southern African Development Community Payment System (SADC) is another example of a regional payment system, operated by the South African Reserve Bank (SARB). The SADC countries have developed a payment and settlement system that has been in operation since 2014. Currently, it is operated to settle payments in South African rand (ZAR) only, although there are requests from member countries for the inclusion of other national currencies. Its objective follows the same logic as other existing payment systems, seeking to contribute to the promotion of trade and investment, aiming at the economic development of Member States, financial inclusion, and poverty alleviation.

The SADC-RTGS, as its name suggests, is based on the real-time payments system across the region, through the SWIFT communication system. The use of this RTGS technology allows financial transactions to be settled instantly. More efficient exports and imports are performed by the system due to harmonized processes that are in line with international standards compared to traditional operations carried out through banking correspondents (SARB, 2023).

The Arab Regional Payment System (BUNA) established in 2018 is a multi-currency payment system supported by Arab central banks linked to the Arab Monetary Fund (AMF), which is a regional organization founded in 1976 within the Arab League and composed of twenty-two member states. The purpose of BUNA is to facilitate financial operations in a “safe, cost-effective, risk-controlled and transparent environment” (BUNA, 2023), which improves regional financial integration, attracts foreign direct investments, and provides close coordination with global trading partners. The BUNA operates in compliance with international standards and contributes to building blocks of the G20 Roadmap, which system is based on real-time processing (BUNA 2023). Recently, BUNA also adopted Euro cross-regional payments, which was achieved under the cooperation framework with the European Central Bank (ECB) (AMF, 2022).

Comparative experiences of regional payment systems are useful tools to identify operational patterns of financial mechanisms, behaviour of central banks, and the strategy of national governments within a framework of institutionalised political concertation in regional organizations. The multitude of comparative possibilities seen in the study by Shvandar and Khomyakova (2022), focusing on the experiences of SML (MERCOSUR) and SUCRE (ALBA) in Latin America, REPSS (COMESA) in Africa, and the ASIAN Clearing Union (ACU) in Asia, revealed that regional payment systems are effective financial instruments in facilitating trade between countries and encouraging the use of local currencies.

The combination of operations around the world has a collective effect of reducing dependence on the U.S. dollar. Data from the BIS report (2020) point out that the use of the dollar in international trade represents 50% of financial transactions. However, advancing financial systems need to overcome the risks brought by local currencies, the risks involved in the settlement time of financial operations, and the risk of capital outflows (Shvandar and Khomyakova, 2022, p. 52). The above regional payment systems are a few illustrative examples of how national governments around the world have interacted with regional organizations, whose incentives can come from bilateral efforts, to develop regional financial integration initiatives.

It is observed that payment systems involve long-term political planning and are developed in phases, according to the capacity of governments to harmonize their regulatory framework, which increases interdependence between those actors and presents a relevant participation of central banks, as institutions that ensure the national financial stability. As seen in previous experiences, regional payment systems are operated by central banks, which have economic motivations and political interests. According to Fritz et al (2012), the regional payment system can address only a small part of the challenges regarding macroeconomic policy coordination.

The deepening of regional financial integration can be interpreted as a shield against exogenous shocks caused, above all, by financial crises. However, a significant degree of development of the payment system is necessary for this financial instrument to contribute as network protection against external financial risks. It is also observed that central banks are the main actors in this regional process, whose behaviour in the coordination of political projects is not disconnected from the primary institutional objective of the stability of their national financial systems. The evolution of regional payment systems has shown a relevant tendency for national states to seek the internationalisation of their currencies and convertibility with a gradual decrease in the use of the U.S. dollar, as a strategy of greater political autonomy in the international financial and monetary system.

3 DRIVERS AND CONSTRAINTS FOR REGIONAL FINANCIAL COOPERATION IN SOUTH AMERICA AND SOUTH ASIA

This third chapter debates the drivers and constraints for regional financial cooperation in MERCOSUR and SAARC regional organizations. This chapter begins by addressing the effects of the financialization of the economy on the international financial system and, in particular, on emerging countries. The correlation of forces and financial interests from developed countries also has consequences for the way regional financial cooperation initiatives are conducted, with special attention to the role of the U.S. dollar in the world. The evolution of political thinking on regional integration and financial cooperation strategies supported by United Nations regional development commissions and reinforced by regional development banks have contributed to boosting regional financial convergence and deserve attention in this study due to their influence in the expertise of the CBB and RBI, which tends to shape the political choices conducted by the agents of these central banks.

Finally, this chapter also addresses the contestation of the international norms that rule the financial and monetary system led Brazil, Russia, India, China, and South Africa (BRICS) to increase the level of international financial convergence, which resulted in the establishment of the New Development Bank (NDB). The Bank of the BRICS countries is an initiative that needs to be discussed since it is considered the biggest change in international financial architecture in the 21st century so far. These factors, consequently, have impacted the behaviour of the central banks of Brazil and India and influenced the strategies of foreign policy and regional integration from national governments.

3.1 The Financialization of the Economy in a Globalized World

The dimension of financial power is one element used as a tool of foreign policy that has been influencing the international system, either through incentives or coercion. The objective of this section is to contextualize how the dimension of financial power might shape the international political order, and how it is interconnected to a new systemic condition known as “the financialization of the economy” (Oliveira et al., 2021), which influenced the international insertion of emerging economies in a globalized financial system. The concept of financialization provides a better understanding of the transformations of the international financial and monetary system in a multidimensional and non-linear world from the 2000s

(Aalbers, 2019). The growing debate on the financialization of the economy complements the studies carried out by Arrighi, Silver, and Brewer (2003), whose analysis demonstrated how the unfolding of capitalist and production flows impacted social relations. The development of the international financial system is divided into three major historical experiences, namely the Gold Standard, the Bretton Woods, and the Financialization of the economy (Vasconcelos, 2016).

Aalbers (2019) affirms that the financialization process started in the 1970s with the rise of neoliberalism, the industrial crisis in the developed countries, and the socio-economic development resulted from the collapse of the Bretton Woods system, as a new stage of capitalism in which financial processes became predominant in the economy. According to Harvey (1985), capitalism has been transitioning from a model defined as Fordism-Keynesianism to a regime of flexible accumulation. According to Arrighi (2010, p. 3), the 1970s pushed countries to adopt greater financial discipline, "either through the effects of financial capital or direct institutional pressures". Arrighi (2010) affirms that there has always been a certain balance between the financial powers and the state under the aegis of capitalism, however, the weakening of the Fordism-Keynesianism model empowered financial capital against the role of the Nation-State, leading to the emergence of a modern system and a new way of financial coordination on a global scale, which transformed financial markets due to the rise of the flexible accumulation model[11].

According to Helleiner (2010), a crisis of legitimacy affected the Bretton Woods system in the early 1970s due to the break in the convertibility of the dollar into gold, associated with other events of significant financial impact, such as the oil crisis, the economic stagnation, and inflation faced by more industrialized economies. Between the 1970s and 1980s, amidst a series of incompatible proposals for economic recovery, the neoliberal consensus of reforms in the rules of the international financial and monetary system determined the liberalization of capital flows as a mechanism to seek greater liquidity in the balance of payments, amid the stagnation of economies (Helleiner, 2010)[12]. According to Vasconcelos (2016), the international financial and monetary system has become characterized by the predominance of financial markets over the set of economic activities,

[11]According to Arrighi (2010, p. 310), the growth of liquid funds in the Eurodollar markets, in 1971, centred in London, made the U.S to abandon the gold-dollar exchange standard, due to the wave of speculation against the fixed exchange rate regime, the dominant system of the time. This situation led financial institutions to realize the advantages of maintaining a Eurodollar fund outside the country of origin.

[12]According to Helleiner (2010), the Bretton Woods system presented a more favourable macroeconomic performance framework for developed countries and restricted the possibilities of emerging economies to mobilize policy instruments capable of facing their development challenges and overcoming their asymmetrical condition in the international system.

causing increasing liberalization in the circulation of capital by conforming to a monetary order without a pre-established nominal anchor.

In the 1980s, trade and capital opening were considered the responses given by countries to the long period of economic stagnation (Ocampo, 2006). According to Ocampo (2006), the central proposal of financial liberalization defended free financial markets to attract excess capital from developed economies, behaving in a counter-cyclical way by increasing the supply of credit, aiming to boost investments and accelerate economic growth. However, the integration of emerging countries into a financial system as a strategy to promote development has not been showing favourable results in stabilizing net financial flows, since instead of providing a sustained increase in growth and development levels, it has been generating macroeconomic price volatility in countries that have opened their economies to capital flows (Vasconcelos, 2016). This problem became more evident after the international financial crises in recent decades.

Aalbers (2019) affirms that financial deregulation, technological innovation, and the dissolution of the Soviet Union shaped the international financial system and contributed to the acceleration of financialization. With the end of the Cold War, neoliberal and financial discourses became hegemonic. The financialization of the economy refers, therefore, to the growing importance of finance, financial markets, and financial institutions in the functioning of the economy and, consequently, in social relations, causing structural changes in the state of well-being (Aalbers, 2019). According to Aalbers (2019, p. 5), financialization is a "recurrent phase of capitalist development". Developed capitalist economies benefited (and still benefit) from financial expansion at some point in their development.

> […] the financial expansion of the 1970s and 1980s does indeed appear to be the predominant tendency of processes of capital accumulation on a world scale. But it does not appear to be a "revolutionary" tendency at all. Financial expansions of this kind have recurred since the fourteenth century as the characteristic reaction of capital to the intensification of competitive pressures which have invariably ensued from all major expansions of world trade and production. The scale, scope, and technical sophistication of the current financial expansion are, of course, much greater than those of previous financial expansions. But the greater scale, scope, and technical sophistication are nothing but the continuation of a well-established tendency of the *longue durée* of historical capitalism towards the formation of ever more powerful blocs of governmental and business organizations as leading agencies of capital accumulation on a world scale (Arrighi, 2010, p. 309).

According to Arrighi (2010), the moments of financial expansion at the end of the 20th century can also be characterized as a reorganization of the financial and military accumulation regime that altered the dynamics of world capitalism. Arrighi (2010) affirms that material expansion contributed to the overaccumulation of capital, leading capitalist organizations to enter spheres of operation in other economies, which consisted of political dynamics that are far from linear processes, like the capitalist expansion of the United States. According to Oliveira et al. (2021), the US is recognized for its capacity to coordinate its economic policy with full autonomy due to its departure from the commitments made in the Post-War period. Qiu and Zhao (2019) affirm that the U.S. political and military power supported a policy based on the (unequal) logic of capital accumulation in dollars around the world, transforming the American currency into a modern instrument of imperialism[13], which enabled Washington to have major control over the international financial system and manipulate the rules of the game.

According to Harvey (2003), “collective imperialism”, under the hegemony of Europe, North America, and Japan, seems to be more adequate to explain the emergence of geopolitical rivalries between power blocs that sought to break down barriers to the absorption of surplus capital after the 1970s and consolidation of the Washington Consensus in the 1990s. According to Aalbers (2019), financialization is a pattern of profit accumulation that occurs through financial channels and has been presented as a more intense means of capital accumulation than the trade and production of commodities. Financialization has shown the capacity to change social institutions and shape new patterns of wealth and inequality, culture, and political behaviour. This capacity is associated with changes in the way the increasing flows of capital are intermediated (Davis and Kim, 2015).

Between the 1990s and 2000s, China became the main economy in East Asia, taking the place of Japan. However, Aalbers (2019) pointed out that growing capital flows moved in the opposite direction to the logic of a declining hegemon transition to a rising hegemon as flows from China to the US continue to exceed the reverse flow. This situation could be treated as an anomaly or contradiction of capitalism. It does not mean that financialization should occur in the same way in other countries (Western or Global South), but that this phenomenon is becoming socially visible. Despite the financial convergence of the emerging countries at the international level, Oliveira et al. (2021) affirm that the insertion of Latin America and Asia in financial globalisation are different from each other.

> While Latin America has carried out extensive financial opening and, in the most recent period, has accumulated international reserves from the inflow of foreign exchange through the financial account of the balance of payments and exports of

[13] According to Qiu and Zhao (2019), being the second largest economy in the world and one of the main centres of international trade, China's difficulty in internationalising its currency and receiving regulatory rights corresponding to the US dollar forced Beijing to actively participate in international cooperation with the countries of the capitalist centre. The intense Chinese participation in the decision-making process of international financial organizations opens up political space for Beijing to seek the reform of the international financial and monetary system with emerging countries.

> commodities, Asia was, in general, much more cautious in its process of financial opening. Asia accumulated international reserves from persistent and high surpluses in current balance of payments transactions, through an increasingly sophisticated export agenda. It can be said, therefore, that the Asian countries, in general, constituted external shielding, in the sense that they accumulated international reserves through the generation of persistent and high surpluses in current transactions of the balance of payments over time, based on production and increasingly sophisticated export agenda, that is, with the growing importance of goods and services that are more intensive in knowledge and technology and, therefore, of greater added value. This allowed Asian countries, as opposed to Latin American countries, to use higher and more stable controls over international capital flows over time (Author's translation from Oliveira et al., 2021, p. 4).

The foreign policy of emerging countries such as Brazil and India was determined to some degree by the global framework of financialization that shaped current capitalism[14]. For Eichengreen (2008), the impetus of the financial sectors caused greater openness in capital control, leading emerging countries to greater flexibility in the exchange rate regime. According to Vasconcelos (2016), the design of macroeconomic policies in emerging countries, then, would be subject to greater systemic vulnerability due to the conditions and flows of the international financial market. The interdependence of global finance influenced the allocation of public resources of the countries, which became more dependent on international capital flows and distant from democratic controls (Vasconcelos, 2016).

The strength of the currencies of developed countries also caused a relation of dependence on emerging countries and reinforced their asymmetrical condition in the international system (Guizzo et al., 2018). Therefore, overcoming the domination of financial power is related to the possibilities provided by the context of the transformation of the international system and the domestic capacity to choose political alternatives. In the context of increasing financialization of the economy, the foreign policy of emerging countries like Brazil and India is based on the strategy of insertion in political and economic spaces, aiming at greater participation in the decision-making processes of international organizations, which allow these countries to retain more autonomy on their macroeconomic policies and lead domestic policies in an integrated context.

It is concluded from this section that the financialization of the economy is a condition of the progressive opening of the capital market resulting from the liberal policies put into practice from the 1970s and reinforced in the later decades, characterized by the transformation of the international financial system, responsible for the development of the flexible capital accumulation model. This flexible accumulation model allowed developed

[14] According to Hurrell (1995) the domestic and systemic conditions are decisive for the cognitive process of policy makers, since this process influenced the core objectives of foreign policy and alters their relationship and conceptual understanding with the economic well-being, autonomy and the notion of state power.

countries of the international system, particularly, the United States and Europe, to redefine their power relations based on the strength of their currencies and the expansion of financial capital flows that sustained the position of these countries in the global economy and shaped the international financial organizations.

The financialization of the economy is the result of a process of financial accumulation and flexibility of capital flows that forged the current capitalist system of the 2000s and determined new patterns of dependence and inequality. The process of financialization is interpreted by this section as a systemic variable in the current transformation, which intensifies the level of financial dependence and interdependence between the Western and the Global South established since the Bretton Woods system. Therefore, the political and economic insertion of emerging countries into the international financial system is determined to some degree by the financialization framework that has redefined the international flows of capital. The process of capital accumulation characterized by the commodity boom in the first decade of the 2000s stimulated New Delhi and Brasilia towards regional financial cooperation initiatives and economic arrangements to foster their development, which influenced the international financial system and impacted the logic of dependence established since the latest decades between developed and emerging countries.

3.2 The Influence of the UN Regional Commissions on Regional Integration

This section has the objective of understanding the role of the United Nations regional commissions in the development of thought on regional integration in the regions of South America and South Asia, whose political practices in MERCOSUR and SAARC are closely related to the economic recommendations of the commissions over the years. The analysis of the Economic Commission for Latin America and the Caribbean (ECLAC) and the Economic and Social Commission for Asia and the Pacific (ESCAP) and their influence in shaping regional integration processes in these regions, characterized by different historical and geopolitical contexts, drives countries towards common regional economic strategies, which becomes an essential background for tracing regional financial cooperation initiatives and contribute to a broader picture of the decision-making process on the foreign policy of Brazil and India towards regional financial cooperation.

3.2.1 ECLAC and MERCOSUR

Established on February 25, 1948, the Economic Commission for Latin America and the Caribbean (ECLAC) is a body linked to the UN Economic and Social Council, considered a school of thought on regional integration, whose ideas were composed of different strands, sometimes reconcilable or not, that were introduced in Latin America and influenced the decision-making process of national governments (Baumann, 2005). According to Baumann (2005), the ECLAC was created under opposition from the US government, which did not agree with the operationalisation of an institutional body of the United Nations dedicated exclusively to studying the economic situation of Latin American countries. On the other hand, Gonçalves (2011) affirms that Brazil supported the creation of the ECLAC, as it was believed that a regional multilateral forum would work as an instrument that would meet the country's economic needs.

The ECLAC contributed to creating a Latin American identity and developing strategies to overcome the structural problems experienced by underdeveloped countries in the region in order to reduce inequalities and break with the dominant economic logic, whose structure of trade relations reproduced underdevelopment conditions. According to Furtado (2013), some theories developed at ECLAC have become autonomous movements of thought and support for political, economic, and social reforms around the world, such as the Dependency theory[15] and Structuralist schools. Economic cooperation between countries emerged as an instrument to overcome the limitations of underdevelopment, in which industrialization became a national policy (Baumann, 2005). According to Braga (2002a), the ECLAC's thinking contributed to the development of the import substitution policy and measures to combat the deteriorating terms of trade and structural inflation, which were challenges faced by Latin American countries during the initial processes of regional integration.

These measures aimed to promote a macroeconomic adjustment and to restructure the economies from the primary export profile to those that supply the domestic market (Baumann, 2005). Regional integration would bring benefits to economies to the extent that they present greater productive complementarity (Baumann, 2005). According to Braga

[15] Dependency theory refers to how underdevelopment is linked to the relations of domination and dependence among peoples inherent to the structures that were defined with the evolution of capitalism and favoured the interests of the dominant social segments (Cervo, 2008). According to Cervo (2008), this conception influenced Brazilian thinking in international politics between 1961 and 1985, in which power structures were believed to indefinitely sustain the stability of the international system.

(2002), the interdependence of these political initiatives would introduce Latin American economies into an efficient and competitive productive structure (Braga, 2002b). Based on this context, the establishment of a policy of concessions between countries aimed to balance the asymmetries of Latin American countries and contribute to the insertion of those economies in international trade.

> [...] the creation of an economic bloc in the region would be considered as a necessary condition for more efficient industrialization insofar as the intensification of commercial exchange could force the emergence of more efficient industrial organizations, a process that is built from the use of economies of scale in production, made possible by the expansion of markets; and the advantages of specialization, whose objective would be to provide the use of comparative advantages and scale gains with the expansion of the market at a regional level, would be a fundamental part of the proposed policy (Translated by the Author from Braga, 2002a, p. 6).

According to Furtado (2013), the integration policy is an advanced form of development policy and constitutes a higher and more complex stage of coordinating economic decisions. According to Corazza (2006), regional integration is considered the second-best commercial option given the obstacles arising in the multilateral forums. Furtado (2013) recognised that the economic policies of Latin American countries did not exactly follow ECLAC's recommendations, however, there is no doubt about the influence of the Commission's thinking on political strategies for development and regional integration, such as the recommendation of measures of progressive trade liberalization, prospective studies for the creation of a Latin American free trade zone and a common market (Amado and Mollo, 2004), and the creation of a foreign exchange saving mechanism similar to the European Union Payments System (Furtado, 2013).

The ECLAC understood regional integration as a political instrument capable of increasing exports, industrial efficiency, and the negotiating position of Latin American countries in the international system (Amado and Mollo, 2004; Baumann, 2005; Furtado, 2013). The ECLAC's effort to drive cooperation among Latin American countries resulted in the establishment of the Latin American Free Trade Association (ALALC) in 1960 and the Andean Group in 1969. Later, the ALALC became the Association Latin American Integration (ALADI), in 1980[16]. In the 1970s and 1980s, debates on economic development and regional integration lost ground at ECLAC due to structural macroeconomic problems faced by Latin American countries, such as external debts, high inflation combined with the

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[16] It is observed in Prebisch (1959), in the document “El Mercado Comum Latinoamericano”, the guidelines that influenced the initiatives of a common market in Latin America, focused on the autonomous development process, centred on industrialization during the constitution of the first regional economic organizations.

context of the oil crises, the lack of international liquidity and political unwillingness in favour of regional integration, since many countries were under military dictatorships. In addition, countries faced difficulties in putting into practice the principle of reciprocity and distribution of costs and benefits of integration (Furtado, 2013).

The globalisation process in the 1990s led the ECLAC to deepen its analytical thinking about the effect of the increasing global interdependence on regional integration. The correlation of macroeconomic interdependence and cooperation incentives led the ECLAC to conclude that Latin America needed to establish a solid institutional framework (Braga, 2002b). By identifying the need to increase the participation of Latin American economies within the scope of open regionalism, ECLAC looked back to the thinking of Prebisch (1959). This phase of regionalism was characterized by an outward growth model, which consisted of the elimination of trade barriers and trade liberalization. It was during this period that Latin-American blocs established preferential agreements with external regional blocs and third nations, aiming to promote greater international competitiveness while incorporating international rules that reinforced dominant economic structures (Corrazza, 2006).

This new ECLAC model is contrary to the inward thinking conceived, initially in the 1950s, as a way of modifying market mechanisms, protecting individual interests, and promoting national industrialization, through the import substitution policy (Corazza, 2006). The context of economic instability experienced by Latin American countries increased the countries' external indebtedness in the 1980s and allowed the insertion of the thinking of hegemonic structures of capitalism in the design of economic policies in Latin America (Cervo, 2008). Open regionalism strengthened the context of neoliberal policies and introduced ruptures in the ECLAC's historical structuralist thinking. Neoliberalism became a dominant world view and the IMF a reference institution, which influenced regional integration processes and international insertion of most Latin American countries (Silva, 2009). According to Cervo (2008), ECLAC's traditional structuralist vision was replaced by the globalisation model, whose purposes were based on the opening of the markets and the national productive system to the insertion of exogenous factors of capitalism, overlapping developmental thinking.

> Regarding regional integration processes, there was a period of progress. In the globalized economy, stimulus and pressures for the economic opening of countries, less government intervention in the economy, as well as the deregulation of various sectors of economies and fiscal balance have become frequent for less developed countries. The notion of a market economy was followed by a growing internalization of productive circuits and the transnationalization of capital and investment movements (Schirm, 1996). In this context, the new integration model adapted to the neoliberal economic

> standard was initially considered as a way to increase economic competitiveness and to face internal and external challenges and pressures resulting from the globalized economy (Translated by the Author from Saraiva and Tedesco, 2001, p. 128).

According to Corazza (2006), open regionalism was inspired by some points of ECLAC's structuralist school of the 1950s, in which regional integration came to be seen as a stage in the liberalization process and a means to overcome the industrialization model, diversify the productive structure and reduce the external vulnerability of countries. According to Oliveira (2014), open regionalism is also characterized by the increased flow of investments and conditions for the development of productive trading commercial exchanges, which included the expansion of the participation of national companies in the international economic market, with the purpose of providing a better economic insertion for the Latin-American countries in the international system and promoting their social development. Regional integration became a political strategy of strengthening productive and technological interdependence to shape a free trade zone and set a less asymmetrical and more transparent negotiating position in relation to Western countries in multilateral forums, e.g. GATT and WTO (Oliveira, 2014).

According to Silva (2009), during the 1990s the credit expanded again in developing countries through investments made by private creditors, benefiting the consolidation of an economic growth model associated with attracting foreign savings. The conduct of neoliberal policies in Argentina in 1989 influenced the adoption of this political thinking in Brazil (Cervo, 2008). The establishment of MERCOSUR in 1991 was based on the concept of open regionalism. According to Baumann (2005), regional integration within the framework of open regionalism provided productive transformation and incentives for cooperation on macroeconomic issues. In addition, it promoted greater institutionality to the Latin American integration process, fostered intra-regional trade and foreign direct investments, increased technological modernization and skilled labour efficiency while reducing non-productive income and transaction costs.

On the other hand, the consequences of opening markets for Latin American countries deepened their structural dependencies, which worsened the countries’ deficit, devaluated the exchange rate, and increased external vulnerability (Saraiva and Tedesco, 2001) leading economies in which Brazil is included to stagnation of development. According to Vigevani et al. (2003), adherence to the liberal model caused the emptying of the strategic and development sense, which opened the way to the influence of international capital flows.

Vigevani et al. (2003) affirm that the resistance from government sectors and the lack of negotiating capacity on the part of the Brazilian private sector hampered the national effort to achieve integrationist objectives, due to the perception that the country would have to bear very high costs to accomplish them. In addition, Argentina did not recognize the Brazilian role as paymaster in the regional integration process, assuming that the preponderance of the Brazilian position in the region was proportionally given to the size of the country's economy and not to its political leadership (Vigevani et al. 2003; Malamud, 2009).

In the 2000s, the IMF came under severe criticism from Latin American governments and was blamed for the region's economic deterioration. Cervo and Bueno (2014) affirm that some results of the neoliberal model had a positive impact on the country, e.g., the modernization of industrial plants, the increase of the Brazilian economy’s global competitiveness, the improvement of society in relation to the distribution of responsibilities for promote economic development and the conduct of Brazilian foreign policy at the regional level. The international context of the 2000s, however, arose different political perspectives for Latin American countries. According to Baumann (2005), new elements became determining factors of pressure for the political choices and economic negotiations of Latin American governments, e.g., the hemispheric FTAA negotiations, negotiations with the European Union, and multilateral negotiations. According to Baumann (2005, p. 8) these factors “overdetermined the hemispheric negotiations of Latin American countries”, which led the countries of the region to preserve trade liberalization policies preferably with developed economies instead of strengthening regional relations.

Regarding MERCOSUR, particularly, the South American bloc was not able to form a common market as established in the Treaty of Asuncion. The South American bloc is considered an imperfect customs union (Almeida, 2008). There was a decline in trade flows, difficulties in the tariff liberalization process, and the coordination of macroeconomic policies among the Southern Cone countries. According to Vigevani et al. (2003), although the Brazilian presence increased MERCOSUR's extra-regional bargaining power, it seems that there were not enough compensatory measures on the part of Brazil to reverse the crises that appeared during its development. Although there was an improvement in Brazil's image on the international system, Brazil and many Latin American countries continued to demonstrate their fragility in dealing with more soft issues in their international political agenda, harming the expectations of international insertion of South America (Vigevani et al., 2003).

During the 2000s in South America, the fragile economic context of the countries shaped by neoliberal policies contributed to the rise of left-wing governments, whose political projects were oriented towards new dimensions of regional integration and geopolitical articulation. The ideological compatibility of these governments made possible a set of political and economic initiatives that stimulated new dynamics at the multilateral forums, increased regional cohesion, and protected national autonomies. According to Serbin, Martínez, and Ramanzini Junior (2012), the V Summit of the Americas in Cartagena, Colombia, established a new phase of regionalism in Latin America and the Caribbean in the 21st century, as a collective organization capable of responding to the challenges posed by structural changes in the international system and the consequences of neoliberal policies.

According to Veiga and Ríos (2007), the new governments in South America promoted adjustments in the trade liberalization policies of the early 1990s, which some countries had a protectionist tendency in the region. The rise of left-wing governments reinforced the role of the State in the economy and reviewed the international negotiation strategies with other regions of the world. The regional assertiveness of Lula da Silva's Administration (2003-2010) represented a turning point in the regional integration process due to the reorientation of the Brazilian foreign policy towards conforming South America into a political, economic, and security unit (Veiga and Ríos, 2007). Hence, MERCOSUR's institutional body was expanded, the South American Community of Nations (CASA) became the Union of South American Nations (UNASUR) and a new regional organization was created, the Community of Latin America and Caribbean States (CELAC).

Under Lula da Silva’s Administration from 2003, the regionalism pursued by Brazil was carried out in coherence with the resumption of the orthodox thinking of ECLAC put into practice during the 1960s, based on the theories of Keynes and Prebisch, in synthesis with the neoliberalism, the predominant model of the 1990s (Luciano and Campos, 2021; Dabène, 2012). South American regional institutions assumed a model characterized by “inward development”, which proposes a model of development through industrialization and endogenous (Furtado, 2013) with the rescue of the active role of the State (Veiga and Ríos, 2007; Cervo, 2008). The ECLAC thinking assumed by Brazil drove the process of regional integration towards productive transformation with equity and incentive to coalitions oriented to the Global South, in order to increase the competitiveness of the national economy and strengthen the country's international insertion.

Despite ECLAC having accumulated a new set of ideas since the 1990s, focused on the development of Latin American countries, according to Moncayo et al. (2012, p. 381), the ECLAC’s motivation to foster regional integration moved from a platform for industrialization and development to a building block. Almeida Filho and Correa (2011) complement such thought by affirming that changes in the ECLAC's political formulations began to be guided by the same logic of multilateral institutions, e.g., the IMF, the World Bank, and the WTO. It means that although ECLAC continues to carry out important diagnoses for Latin America, the Commission no longer represents a school of thought as in previous decades since the United Nations governance process is influenced by the logic of growth instituted by these multilateral organizations, whose policy recommendations favour a framework of policies aligned with the interests of developed countries. However, according to Lafer (2002), post-war regional integration processes cannot be understood without the reference to ECLAC's analysis and its multidisciplinary vision of development, which influenced the differentiated productive structures of the late-development Latin American countries by adapting economic policies to local realities.

It is concluded from this subsection, that ECLAC was for many years one of the main Latin American schools of thought for development and regional integration strategies, which shaped the first Latin American experiences (ALALC and ALADI) and provided the political expertise needed for the Southern Cone countries to move towards a regional integration process. In the years of MERCOSUR, however, the ECLAC lost space in national debates, due to the presence of neoliberal policies disseminated within the scope of open regionalism and accelerated by the globalisation process. Consequently, this conjuncture led the South American countries to the structural need to adapt themselves to the new international context.

The 2000s represented the strengthening of ECLAC thinking in the South American region, marked by the economic consequences of neoliberal policies and weak government responses to crises, which required a reorientation of regional integration strategies and foreign policy in international regimes. It was in this context that a symbiosis between the return of ECLAC's orthodox thinking in the 1960s in Brazil and the neoliberal policies intrinsic to the development process of MERCOSUR's regional integration took place. It can be affirmed that in the past, ECLAC played a relevant role in the experiences of Latin American regional integration processes. However, its influence in the 21st century has lost ground in the governmental decision-making process of the MERCOSUR States Parties. It does not diminish its strategic importance and its contributions to Latin American development and its political propositions. The ECLAC has a positive legacy in terms of strategies and political efforts that drove regional integration in South America.

3.2.2 ESCAP and SAARC

The Economic and Social Commission for Asia and the Pacific (ESCAP) is a regional hub belonging to the United Nations focused on strengthening regional cooperation and it also works as an intergovernmental platform among countries of the Asia-Pacific region, which headquarters are located in Thailand (ESCAP, 2022a). According to ESCAP (2022a), the work of the Commission began in the period of recovery of the countries after the Second World War, in 1947. First established in Shanghai as a regional forum for Asia and the Far East, named ECAFE, the Commission moved to Bangkok in 1949. In 1976, the Commission gave the current name to ESCAP, focusing on issues of economic development, reconstruction[17] , and poverty reduction (ESCAP, 2022a). Currently, the ESCAP works in the following areas: 1) Macroeconomic policy, poverty reduction and financing for development; 2) Trade, investment, and innovation; 3) Transport; 4) Environment and Development; 5) Information Communication, technology and disaster risk reduction; 6) Statistics; 7) Social development; 8) Energy (ESCAP, 2022a).

Over the years, the ESCAP has contributed to the economic analysis of the Asia-Pacific region, supported regional development and multisectoral cooperation projects, and engaged in the establishment of new institutions, e.g., the Asian Development Bank established in 1966, which followed recommendations of the Commission to promote cooperation and economic growth, becoming one of the main multilateral financial institutions for the region; the construction of the Asia Highway Network and the Trans-Asian Railway; the establishment of the Mekong Committee; the creation of the Asian and Pacific Training Center for Information and Communication Technology for Development; the establishment of the Asian Clearing Union (ACU)[18] (ESCAP, 2018; ESCAP, 2022b). The capacity of ESCAP to coordinate work agendas with the governments of South Asia led the region to overcome some of its development challenges and infrastructure deficiencies.

Similar to the ECLAC in Latin America, the ESCAP represents a significant platform for political coordination and a centre for political thinking on regional integration in the Asia-Pacific region, which demonstrated the capacity to achieve political consensus among member countries and provided recommendations through its resolutions, meetings, and specialised

[17] It is observed from the document E/CN.11.173 that “reconstruction” does not refer only to physical and structural issues in the region, but also to the development of financial means to explore regional economic and commercial potential.

[18] Union of Asian Clearing (ACU) é uma instituição financeira multilateral estabelecida em 1974, com o apoio da ESCAP, cujas ideias iniciais remetem-se ao documento E.CN.11/171 Study of Desirability of Establishing a Regional Multilateral Clearing Sytem, em 1948.

studies in order to advance the region's development. It is observed in the resolutions taken by the Economic and Social Commission for Asia and the Pacific (ESCAP) between 1947 and 2000 that the Commission historically dedicated itself to the development of financial and economic mechanisms to promote international and intra-regional trade in the region, as seen in the document "E/CN.11/105(IV) Financial arrangements to promote trade" (ESCAP, 2000) and "E/CN.11/109 Establishment of a Trade Promotion Section" (ESCAP, 2000), in which one of the main obstacles of the Commission referred to "acquiring foreign exchange and affecting payments in freely convertible currencies" (ESCAP, 2000, p. 46).

The Commission's recommendation also suggested the coordination of a study to analyse the possibility of establishing financial arrangements and liaison structure between the Commission and local governments, aligned with the articles of the International Monetary Fund (IMF) and provisions of the Havana Charter for International Trade Organization (ESCAP, 2000, p. 46). Several references to ECAFE meetings, such as "45 (XIX) Accelerated Measures for Regional Economic Co-operation for Development of Trade and Industry", "47 (XIX) The Co-operation Movement in the ECAFE Region", "66 (XIX) Regional Trade Co-operation)" (ESCAP, 2000, p. 202-203) suggest that the Commission established itself as one of the main technical platforms for coordinating and supporting regional economic cooperation in the region during the 1960s. In 1965, ECAFE and UNCTAD placed greater emphasis on measures to access international markets, income from primary commodities, expansion of the export of manufactured and semi-factored products, and international financial cooperation, in terms that favoured the economic growth of the countries of the Asian region, harmonized the operational and advisory guidelines with the functioning of the Asian Bank's credit lines (ESCAP, 2000, p. 57). The resolution "86 (XXIII) Regional Co-operation and Harmonization of National Development Plans" (ESCAP, 2000, p. 13) indicates that the Commission articulated a group of experts in trade liberalization during the 2nd Ministerial Conference on Asian Economic Cooperation in 1965.

It was identified that during the 1970s and 1980s, many ESCAP propositions on regional economic cooperation, industrialization, infrastructure and telecommunication were applied to the scope of the countries of the Southeast Asia region, which later came to create the ASEAN, and to South Asia region, currently, formed by the SAARC countries, e.g., efforts of the Commission to apply research and technology to promote the coconut oil industry in Ceylon, Pakistan, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam (ESCAP, 2000, p. 88); Resolution "E/CN.11/114 Industrial Development", document in which the Commission recognizes the need to attract capital, aiming at “rehabilitating the national economies and for developing new industries”, the construction of the Asian Highway, among others (ESCAP, 2000, p. 70).

It can also be noted in the 1990s, the ESCAP’s concern with addressing issues on financial cooperation through the Resolution “55/2 Economic and financial monitoring and surveillance in the ESCAP region” (ESCAP, 2000b), carried out mainly due to the crisis that affected Asian countries, which increased the demand for reforms in the international financial system and the development of a “regional surveillance or monitoring mechanism” proposed at the Manila Meeting in 1997, whose proposal advanced within ASEAN, while SAARC was dominated by trade issues (ESCAP, 2000, p. 252). By analysing some measures undertaken by ECAFE/ESCAP in the Asia-Pacific region since its establishment, it is observed that financial and economic issues were historically presented in the Asia-Pacific region, which implies that financial cooperation is an intrinsic part of the development of trade issues in the South Asian bloc, i.e., regional financial cooperation were presented in SAARC more explicitly or implicitly during its regional development and economic liberalization programs.

Regarding South Asia, in particular, according to ESCAP (2018), the (slow) advance in the commercial, investment, and infrastructure connectivity of the region after the 2008 international financial crisis is due to the initial moment of overcoming regional vulnerabilities and recognition of the need to improve regional integration, represented by ESCAP Resolution 68/10. However, the level of inequality in the economic development and regional asymmetries of South Asian countries still prevents the region from moving forward, exploiting less than one-third of the potential of intra-regional trade, i.e., the region presented intra-regional trade of around US$ 27 billion in 2014, compared to a potential of US$ 81 billion, as demonstrated by ESCAP's analysis of Unexploited Trade Potential in South Asia (ESCAP, 2018, p.6).

According to Khan (2021, p.79), the lack of a regional banking facility and regional cooperation initiatives in the banking area has become a significant non-tariff barrier to the performance of intra-regional SAARC trade. Khan (2021) identified only a few initiatives on the subject, such as a memorandum of understanding in the banking sector between India-Sri Lanka and India-Pakistan, focused on the security market and stock exchange and the establishment of an intergovernmental group of experts in the financial sector in 2006, with the ambitious aim of creating a South Asian Economic Union. As analysed in the SAARC Bulletins in the previous chapter, the low level of development of their national financial systems required that SAARCFINANCE, through the SPI platform, focus primarily on advancing the individual financial infrastructure of countries as a way of providing the conditions for regional financial cooperation. The low performance of SAFTA increased the difficulties for the regional bloc to advance. According to Khan (2021, p. 81), efforts to overcome the bloc's non-tariff barriers are restricted to the “normative stage” and are not “materialized into the binding commitment from the member states”.

In the 2000s, the specialized studies, technical solutions, political coordination, and conjunctural analysis provided by the ESCAP to SAARC contributed to the member countries approving a set of recommendations aimed at overcoming the condition of underdevelopment of the region. The ESCAP promoted a framework of greater institutional capacity for regional cooperation, which drive regional integration in SAARC. Some multisectoral measures developed within the scope of ESCAP illustrate its relevance for regional development of the South Asia region, such as: Institutional strengthening of the SAARC Food Bank; Facilitation of Paperless Cross-Border Trade in Asia and the Pacific, aiming to accelerate the process of digital trade procedures, systematized in a framework agreement coordinated by UNESCAP; Common regional agenda for liberalization of trade and services established in the SAARC Agreement on Trade and Services (SATIS), signed in 2010, which is still in its initial phase; Feasibility studies on the use of advanced technologies for the settlement of gross payments in real time, aiming at reducing the costs of cross-border payments; Proposals for an improved Regional Payment System; Promotion of regional connectivity through the new road corridor, via Turkey-Iran-Pakistan-India-Bangladesh-Myanmar (TIPI-BM) and rail corridor, via Istanbul-Islamabad-Delhi-Kolkata-Dhaka (ITI-DKD); The launch of a shared information centre on natural disasters that complement the institutional bodies of SAARC and BIMSTEC; Support for trade liberalization within the scope of the ECO; Organization of a working group of experts to reduce the list of sensitive products with preferential treatment in SAFTA, so as not to negatively affect national industries, among others (ESCAP, 2022).

Infrastructure development is one of the main investment needs in the South Asian region. The ESCAP has played a significant role in the development of infrastructure projects and identification of cross-border points that need to have their infrastructure renewed, such as several points on the India-Pakistan border, seven points on the India-Bangladesh border, four points on the India-Nepal and one more point on the India-Myanmar border (Patil et al., 2007). The area of infrastructure is identified by Ramesh (2007) as the area of greatest evolution in the relations between India and Pakistan. In general, according to Ramesh (2007, p. 6), South Asia has evolved in the modernization of its road infrastructure by launching routes such as “Kargil-Skardu and Jammu-Sialkot”, in Pakistan, “Agartala-Dakata and

Shillong-Sylhet”, in Bangladesh, in rail infrastructure with the launch of the “Kolkata-Dhaka” line, in aviation and water corridors intra-SAARC.

It is concluded in this subsection that the experience of ESCAP contributed to structuring national economies and increasing national capacities to improve cooperation expectations since the underdevelopment condition of many countries in Asia constrained the possibilities of advancing regional integration. The ESCAP has played a significant role in the technical organization of multisectoral regional cooperation and policy coordination efforts between governments, aiming to provide a common strategy for trade liberalisation, industrial development and financing, providing ground to countries that became destinations of foreign direct investments, which contributed to the regional economic development of the Asia-Pacific region and improved their technical expertise. The ESCAP also contributed to building institutional capacities by supporting and endorsing the establishment of regional financial institutions such as development banks, supporting the opening of credit lines to least-developed countries and advancing regional means of payment. In addition, the ESCAP had a significant presence in the area of infrastructure by promoting physical connectivity as a facilitating element of commercial, financial, and industrial strategies.

By observing the ESCAP resolutions, it is noted that financial issues have been implicitly present in debates among South Asian countries to some degree. The analysis provided by Ricupero (2008) on the conjuncture of the international system and Latin American economic development could be also applied to understand the introduction of financial issues in SAARC. Ricupero (2008) affirms that there was no distinction between the effects of trade liberalization and financial liberalization on economies. It means that the promotion of economic liberalization measures taken by ECAFE, in which the least developed countries of South and Southeast Asia were submitted, as a way of accelerating their adaptations to international trade, directly implies the mobilization of regional financial mechanisms and their political coordination, such as opening countries' balance of payments, removing capital control restrictions, financing infrastructure development and measures to promote a productive value chain.

The distinction between the commercial and financial areas emerged, gradually, as the degree of specialization of regional technical cooperation increased and the intensification of the effects of neoliberal policies that induced greater trade liberalisation to countries in the late 1990s, which led them to efforts of reviewing the international financial system due to the successive financial crises that impacted the world between the late 1990s and 2000s. To some extent, Southeast Asian countries showed a greater capacity to incorporate development measures promoted in ESCAP than South Asian countries, where greater domestic constraints to economic development were observed. The ECAFE measures had greater insertion by larger economies such as India, Bangladesh, Sri Lanka, and Pakistan.

Currently, the ESCAP plays a more significant role for South Asian countries than between the 1960s and 1980s as its role of political coordination and efforts to overcome structural problems has contributed to regional development, which also influenced New Delhi’s foreign policy to some degree. According to the ESCAP report (2018), the poor performance in intra-regional trade of SAARC is due more to the lack of political strategies and coordination of harmonized regulatory measures than the low level of complementarity between countries. The institutional support of the Commission within the framework of regional organizations in the Asia-Pacific region fostered the advancement of regional cooperation, political dialogues forums and the establishment of institutional bodies under the SAARC umbrella, signalling that, despite all institutional, operational, and regulatory challenges, the ESCAP cooperation with SAARC Member Countries drives regional integration in South Asia.

Finally, it is concluded from this section that both ECLAC and ESCAP are regional commissions under the United Nations System, whose role has significantly contributed to strengthening regional cooperation and driving regional financial integration, given that the commissions have carried out important studies of analysis of the regional context in the respective regions, influenced the thinking on development and coordinated measures to support the political practices of the countries, which shaped regional organizations of MERCOSUR and SAARC and their institutional bodies, providing a technical background for regional cooperation and political coordination for the governments.

The two regional commissions of the United Nations contributed to driving regional integration in South Asia and South America, whose institutional roles showed greater relevance in different periods of time. If between the 1960s and 1980s, ECLAC presented greater relevance to Latin American integrationist thought and development, on the other hand, ECAFE dealt with the attempt to overcome the structural problems of Asian countries. Between the late 1980s and the 2000s, there was a certain reversal in the relevance of those commissions, in which ESCAP has progressively assumed a greater role in disseminating its ideas and measures on regional development and cooperation, even considering that their ideas reflected the same logic of multilateral institutions, which is a common critic found in the literature of ECLAC and Latin America. On the other hand, ECLAC has lost some space in the ideas of Latin American governments, although its interpretations on development continue to contribute to debates on economic and regional cooperation issues.

3.3 The Supporting Role of the Regional Development Banks

In the previous sections, it was analysed the supporting role of the ECLAC and UNESCAP as regional commission bodies of the United Nations focused on fostering cooperation and providing a strategic connection from the global financial governance to regional integration processes, advocating regional strategies and providing a framework for cooperation and domestic development policies, in order to overcome their socioeconomic challenges in a globalizing world. Regional financial cooperation aims to provide economic development, but it also may be related to political purposes of autonomy and status in the international system, which provides incentives for Brazil and India to be engaged in financial convergence initiatives. Securities concerns can also drive these countries towards regional financial policies aiming to meet the sensitive demands of smaller member countries in the regional organization.

The supporting role of the regional development banks, established at the end of the 1950s, in the context of the lack of liquidity in peripheral regions and post-World War II reconstruction, can be a relevant instrument to advance the process of regional financial cooperation. There are several development banks around the world, e.g., the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development (EBRD), the African Development Bank (AfDB), The Development Bank of Latin American and the Caribbean (CAF), the Caribbean Development Bank (CDB), The Asian Development Bank (ADB), the Asian Infrastructure Development Bank (AIIB), the Islamic Development Bank (IsDB), among others, which mirrored the model of the World Bank. While development banks focus on their immediate region, there is scope to support projects outside the region. However, the regionalist/nationalist profile of the member countries makes this possibility difficult (Park, 2022).

According to Park and Strand (2016, p. 3), multilateral development banks dispense loans, and technical assistance to countries with “limited access to the private capital market and experiencing significant balance of payments problems” by providing favourable interest rates for development projects and programs established by the member countries (Park, 2022). According to Ocampo (2006), regional development banks have more independent characteristics, with less influence from Washington and its conditionalities on the regional cooperation process, which open political spaces for such banks to fill the gaps caused by incomplete markets, encourage economies of scale and raise external funds, contributing to countries with investments in infrastructure and macroeconomic rebalancing.

The operationalization of regional development banks differs from the World Bank, due to the sectoral focus of financial loans, covering development vacuums that the World Bank does not reach (Park and Strand, 2016) and complementing the international financial governance system. Like any international organization, banks are also subject to the influence of major external actors and political trends discussed within the main international financial organizations (Strand and Trevathan, 2016). An example of this is presented in the studies by Park (2022), in reference to the accountability mechanisms developed by regional banks, based on the experience of the World Bank's Inspection Panel.

These mechanisms help to minimize the negative impacts caused by projects financed by the bank itself in different sectors put into practice by national governments, e.g., energy, infrastructure, and agriculture. It is the accountability mechanisms that configure the nature of the "good hegemon" (Park, 2020, p. 2) of development banks, whose instrument constitutes an international regulatory norm that has been incorporated around the world, as a policy to improve their operations. According to Strand and Trevathan (2016), the frustration of emerging countries with reforms in international financial organizations, to some extent, is also reflected in regional development banks, as these institutions have not followed the transformations of international relations in the 21st Century.

The creation of the New Development Bank (NDB) by the BRICS countries in 2015, while complementing the international financial architecture with a focus on the development of infrastructure projects and sustainable development (Bueno, 2018) and managing a reserve fund of international institutions to mitigate financial crises, opens discussions on its competing role with the World Bank and the IMF. However, the NDB also acts strategically in sectors where regional development banks operate, aiming to gradually attract the interests of regional partners within the spectrum of the new international financial institution. Consequently, the transformations of global financial governance are reflected in the reduction for emerging countries of financing and international cooperation projects with the World Bank (Strand and Trevathan, 2016).

Regarding the contributions of development banks to regional integration in MERCOSUR, the participation of four institutions in the history of Latin American relations stands out: IADB, CAF, FONPLATA, BNDES, and FOCEM, as a political initiative of the

South American bloc itself. The document “Comunicado de Brasília” signed in 2000 represented a Brazilian leadership in the pursuit of deepening South American regional integration. The 2nd Meeting of Presidents of South America was held on July 26 and 27, 2002, in Ecuador, in which the Heads of State signed the Consensus of Guayaquil in order to reiterate the principles, values and objectives of the organization of a South American space (Faria and Cepik, 2003).

In this context, regional physical integration was operated through the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the use of resources from the Plata Basin Financial Development Fund (FONPLATA), the Development Bank of Latin American and the Caribbean (CAF) and Brazilian Development Bank (BNDES), with the purpose of creating solid instruments for the consolidation of regional integration and institutional strengthening of MERCOSUR (Vigevani, Oliveira and Cintra, 2003; Las Casas, 2015). The MERCOSUR Structural Convergence Fund (FOCEM) was created in 2004 with the aim of contributing to the bloc's development agenda, by reducing the asymmetries of less developed countries, with a view to improving local infrastructure, the competitiveness of economies and the level of social cohesion. Brazil is the main contributor to FOCEM, representing 55% of the fund's resources, followed by Argentina, Venezuela, Uruguay, and Paraguay (MERCOSUR, 2021d). Financial resources are allocated to projects on a donation basis and are defined, to a large extent, by the Brazilian government. The FOCEM is a regional political instrument with the objective of reducing regional distrust and encouraging an integrationist sense in the State Parties.

According to Castro (2011), the IADB's participation in South American regional integration took place through relevant instruments in the provision of long-term credit to Latin America. The IADB has historically presented a liberalizing economic conception, stimulating North-South cooperation agreements. The multiplicity of member countries and the power disputes generated in an institution in which the United States has a significant weight diluted the South American representation in the bank and made access to its financing policies difficult.

The FONPLATA has a more technical nature, whose financial capacity is more limited, focusing primarily on the development of the La Plata Basin region. FONPLATA has been an institution that has acted as a compensatory mechanism, directing resources to less developed countries (Castro, 2011). Its main participation in regional integration is linked to the financing of infrastructure projects in IIRSA, fundamental to overcoming the physical barriers of the South American region. The CAF, in turn, is the most participatory institution in regional integration actions, also due to its integrationist nature within the Andean Community (CAN). Its activities enjoy credibility in the international financial market, whose good classification by rating agencies allows CAF to provide better access to external financial markets. CAF supports more than 30 IIRSA projects, being the institution that has the greatest potential to assume the position of a South American “bank” (Castro, 2011).

The BNDES is a Brazilian development bank, responsible for promoting the expansion of infrastructure sectors and deepening the Brazilian industrialization process. The BNDES was reframed in 2002, through Decree 4.418, which defined the institution as the main instrument for implementing the national government's investment policy with the objective of supporting projects and works related to the Brazilian economic and social development. Due to institutional limitations, the BNDES restricts itself to operations that exclusively involve Brazilian companies, supporting national export initiatives. In the 2000s, the role of the Brazilian government in South America was reflected in the form of BNDES investments in Brazilian companies, especially in the area of infrastructure, such as the projects carried out under the IIRSA/COSIPLAN, as a strategy to boost South America integration and supporting the internationalisation of Brazilian companies in the region (Braga, 2013). It was characterized by a logic based on the “nexus between national development policies and regional foreign policy”, acting through a “unilaterally oriented regionalism” (Honório and Neves, 2020, p. 249).

Proposed by the president of Venezuela, Hugo Chavez, in 2008, in the context of the international financial crisis, the South American presidents discussed the creation of the Bank of the South as a source to raise funds, financing projects, provide cooperation and support economic, social, environmental and infrastructure projects. The favourable economic conditions of the countries, amid the contestation of the reforms in the international financial organizations, generated expectations of the benefits that the Bank of the South could bring to the region (Calixtre and Barros, 2010).

However, the process of structuring the Bank of the South was complex in terms of operationalization, decision-making mechanisms, resource mobilization, priority allocation of credits, level of autonomy in relation to the economic policy of member states, and, above all, political and strategic engagement of Argentina, Brazil, and Venezuela in the institution (Carvalho et al., 2009). These issues are relevant to understanding the lack of progress in the development of the Bank of the South. The reframing of the BNDES and Brazil's global ambitions, identified by Carvalho et. al (2009), through the loan of US$ 10 billion from the Brazilian government to the IMF, which represented a contribution much higher than the amount allocated to the bank, suggests the greater interest of Brazilian foreign policy in acting in the major decision-making centres of the international financial architecture.

With regard to the participation of regional development banks in SAARC, two financial institutions stand out, the ADB and the AIIB, in addition to the SAARC Development Fund in the initiatives of the South Asian bloc. The Asian Development Bank (ADB), established in the 1960s and operating in one of the poorest regions of the world, is responsible for providing loans and technical assistance in order to promote the social and economic development of the member countries, as well as a platform to facilitate policy dialogue, provide advisory services and mobilize financial resources (ADB, 2023).

The ADB operates in South Asia in terms of financing projects focused on social resilience, environmental and economic development, and increasing national capacities to face external shocks. In 2022, the ADB committed to South Asia countries U$ 5.1 billion in financing projects and U$ 1.6 billion in co-financing (ADB, 2022, p. 38). The ADB finance projects majorly focused on tackling climate change, gender equality, strengthening governance and institutional capacity, and poverty alleviation. Regarding regional integration, the ADB contributes to developing long-term trade facilitation, transport connectivity, and strategies for economic development by funding studies concerning the North East Economic Corridor (ADB, 2022, p. 43). The ADB also hosts regional programs such as the South Asia Subregional Economic Cooperation (SASEC).

The AIIB is a multilateral development bank focused on project financing of infrastructure, and sustainable and economic development. The bank is made up of regional and non-regional members, in which China has the largest share in the bank's governance structure, followed by India. Brazil entered its participation in the bank in 2020 (AIIB, 2023). Created in 2015, the AIIB is related to the slow process of reforms at the international financial organizations, whose purposes can be interpreted as a means of reducing countries' dependence on a Western-centric structure and as a source to boost development (Renard, 2015, p. 7).

The rise of China has also impacted the economic and political dynamics of the South Asian Countries. According to Pal (2021, p. 3-4), “Connectivity and infrastructure projects are at the top of the wish list for all South Asian states and have become a key area of cooperation with China”. The AIIB managed to attract the participation of South Asian countries in the bank's governance, has contributed significantly to sustainable infrastructure projects aligned with the 2030 Agenda, and has operated as a source of loans to countries in the region. The bank's institutional actions establish partnerships with national governments or provinces, increasing the level of trust between the parties and advancing its political and economic ambitions (ESCAP, 2019). The AIIB became a relevant centre to promote development and greater regional cooperation initiatives.

The SAARC Development Fund (SDF) has its origins in the South Asian Development Fund (SADF), created in 1996. Established in 2010, the SDF began to play the role of promoting the well-being of the people of the region by funding projects of economic growth and infrastructure, social inclusion and poverty alleviation, and providing technical assistance (SDF, 2023). The SDF operates more than 100 projects in South Asia and makes partnerships with the private sector and international financial organizations such as the World Bank. Much of its budget comes from member countries. India is the main contributor, but it also receives donations from China and Bhutan in smaller proportions.

In addition, the SDF receives transfers of resources from the SADF and manages an international reserve fund. In 2020, the SDF presented a distribution of investments with an emphasis on the economic window with U$194 million, infrastructure with U$187 million, and the social window with U$121 million (SDF, 2020). According to the Indian Express (2018), the SDF has the ambition to become a development bank with an approved capital of U$ 1.5 billion, covering areas of financing and cooperation that the World Bank and AIIB do not reach (Indian Express, 2018).

China's rise in the international system has also influenced the increase in funding sources for infrastructure and economic development projects, which are part of Beijing's political and commercial interests. The adoption of less stringent financial constraints from China encouraged access by Latin American and South Asian countries to the Chinese credit market, whose requirements were related to Beijing's global strategies and translated into the Belt and Road Initiative (BRI).

The increase in Chinese investments in Latin America and South Asia made China not only a relevant trading partner but also an additional source of financing development projects[19]. Despite the political and financial convergence of Brazil and India with China in the international system, their relations are followed by greater concerns at the domestic and regional levels. For India, China's insertion in South Asia invades its space of political influence. In addition, security issues on the border between the two countries have raised tensions between the two countries. Chinese investments in the formation of an economic

[19] Pinto and Cintra (2015) point out that between 2005 and 2013, Chinese investment grew in Latin America from US$ 3.8 billion to US$ 16 billion, representing 12.7% of the global value of China's investments. Sinha and Sareen (2020, p. 4) highlight the increase volume of investments and trading with South Asia countries from US$ 8 billion in 2005 to US$ 52 billion in 2018, representing an export growth of 546%.

corridor in Pakistan have led India to strengthen its cooperation in the Indo-Pacific. For Brazil, rationality is stronger in the economic field and concerns about national deindustrialization and possibilities of disarticulation at MERCOSUR.

It is concluded from this section that multilateral and regional development banks are institutions that have significant relevance as sources of financing for national and regional projects in multiple sectors, contributing to the strengthening of the institutional capacities of the countries. Development banks are part of the international financial system acting strategically as layers of governance, seeking to fill development gaps that are not covered by other institutions. Therefore, they are relevant instruments to drive regional integration processes at the same time that they have the capacity to encourage the decentralization of international financial structures.

Both countries in South America and South Asia enjoy the benefits of development banks to boost their economies, reduce the levels of structural, financial, and social asymmetries among them and expand the possibilities to build value chains between markets. As a result, it provides better conditions to improve international trade levels and promote national development. This debate contributes to reflecting on the possibilities that these mini-structures of governance can provide to emerging countries in terms of being sources of financing for development projects, catalysts for investments and holders of technical knowledge (AIIB, 2022, p. 97), which are primordial functions in a context of increasing international financial flows and its role in the complex relationship of countries in the global financial governance.

3.4 Shaping the International Liberal Order: The Power of the U.S. Dollar

The geopolitical competition of the 21st century, spurred by the rise of China as a new power, has made the United States reinforce its advocacy of a liberal, rules-based international order. The rhetoric of the international liberal order represents a political response and implicit criticism from Washington to Beijing regarding the way that China has been expanding its political and economic influence in the last decade, but it is also Washington's political strategy to approach regional orders throughout the years. The international liberal order historically established by the US and its allies set the context in which emerging countries like Brazil and India are politically engaged, economically related, and financially attached to the power of the US dollar in the international financial system. This section aims to explain the dominant role of the dollar in the liberal international order to understand the economic paths and political choices that determined the regional financial cooperation of Brazil and India.

Ikenberry (2018) affirms that the US assumed the role of hegemonic leadership of the international liberal order in the post-World War II context. The liberal international order is comprised of countries' commitment to liberal principles and values, which were founded on collective security, sovereignty, democratic solidarity, the Rule of Law, multilateralism, economic openness, and social progress. In a scenario of economic liberalization and a growing international flow of goods and capital, the US established the basis for its global leadership through the US dollar as the world reserve currency in 1944 at the Bretton Woods Conference, which increased the centrality of the United States in the global economy.

International cooperation expanded the liberalization of trade and capital. According to Arrighi, Silver, and Brewer (2003), the core countries of this liberal order, e.g., the United States, Western Europe, and Japan, benefitted from the development of the international division of labour by seeing significant economic growth and improvements in living standards. According to Lake et al. (2021), core nations' per capita GDP tripled between the end of WWII and 2016. Although the liberal international order is supported by rules, norms, and a decision-making process that coordinates the action of international actors, according to Lake et al. (2021), these qualities are insufficient to characterize the liberal order as a game based on rules.

The Concert of Europe and the Treaty of Westphalia were both rule-based but not liberal. The concept of neoliberalism, which means the withdrawal of the state from the regulatory role of the economy or "embedded liberalism" (Ruggie, 1982) comprises a broader historical view of the concept. It referred to the liberal economic policy that determined the rules of the capitalist market within countries, the mobility of international capital, and the treatment given to foreign direct investments, which can be a disruptive movement requiring countries to protective measures against the risks and impact caused by this order[20]. According to Lake et al. (2021, p. 231), the imposition of limits on capital mobility in the Bretton Woods system would represent a commitment to embedded liberalism, since "while

[20] According to Sinha (2018, p. 1), change in international relations "may be incremental or disruptive and could lead to continuity with existing institutions or their transformation". As a result, the welfare state became a mechanism for mitigating the negative effects of economic liberalization, becoming a key component of embedded liberalism. The domestic solution would then be a means of compensating for the distribution problems caused by the liberal order. The solution would not come from the international system.

capital moved freely to settle current accounts until the 1980s states maintained varying levels of controls on capital-account transactions”.

Although economic liberalism does not contradict the Westphalian system, it exerts influence on domestic economic policy, e.g., pressure on the welfare system, central bank independence, privatization and deregulation of the market, and the disparity in international income that generates an influx of economic migrants. This version of economic liberalism was widely spread in the 21st century compared to the previous decades of World War II, which can be seen as an “hyperglobalisation” of the international order (Lake et al., 2021). The liberal international order contemplates principles that are not present in Westphalia, such as Human Rights or collective intervention, in the form of military invasion or humanitarian aid, to protect liberal values.

According to Graham (2018), the US led the principles that established the liberal order, despite Washington facing restrictions in the bipolarity context of the Cold War. With the fall of the Soviet Union in 1991, the United States' relationship with the world gained greater freedom of action (Ikenberry, 2013). Due to the existing disparity in strength and capabilities, e.g., military, economic, technical, and geographic, between the US and its allies and competitors, American unipolarity dominated the international geopolitics of the post-Cold War period (Krauthammer, 2002). The advent of unipolarity has made American power controversial and generated global doubt about the liberal order's values and institutions (Ikenberry, 2013). In addition, the international financial and monetary system has become more unstable as a result of successive international financial crises.

Non-liberal states joined the liberal system and subsystems of this order through institutions as a way of sustaining their position as a member of the international community and, in this way, benefiting somehow from the market system. According to Lake et al. (2021), few states have rejected the principles of economic liberalism since the end of the Cold War, despite the moments of contestation. Lake et al. (2021) affirm that liberal international order was not fully introduced by Western democracies under the leadership of the United States but with the participation of countries from different regions, including Latin America and Asia, which reinforces the argument that the liberal international order is dynamic and in continuous transformation, which has been challenged from both the internal and external core of countries. While the Bretton Woods conference institutionalised multilateral principles, the same did not happen in the trade due to the protectionist measures of the United States. Informal negotiations and bargains on tariffs structured trade relations, known as the General Agreement on Tariffs and Trade (GATT).

According to Vigevani, Mendonça, and Lima (2018), the USA has an unquestionable centrality in international trade relations, consolidated throughout its history from the formulation of its trade policy. The first period of this history is characterized by an internationalist position that accepted economic disadvantages in exchange for benefits in the international political scenario, resulting in the consolidation of the so-called "solar position" of the USA in the international system, which remains until the present days (Vigevani, Mendonça, and Lima, 2018, pp. 396). The second period is a review of the internationalist position and change in the institutional design of the US trade policy, highlighting the creation of the 1974 Trade Act legislation. The third period was the unilateralism of American trade measures, as highlighted by the authors as follows:

> [...] the use of section 301 of the trade law, by which the United States Trade Representative (USTR) strongly demanded the opening of economic sectors of trading partners under penalty of imposing restrictions on access to the United States market or under threat of retaliation. The debate over the Trade and Tariff Act of 1984 summarizes that period and the serious internal differences in the United States. European Community, South Korea, India, Japan, Taiwan, and Brazil were targets of these strong pressures and threats. This ended up undermining the resistance of many countries, leading them to negotiate the Uruguay Round of the Gatt" (Author's translation from Vigevani, Mendonça e Lima, 2018, pp. 397).

Regional integration aimed to make trade viable is aligned with the principles set in the General Agreement on Tariffs and Trade (GATT), which encouraged the creation of free trade areas and customs unions. According to Pinto and Braga (2003), the motivations that lead States to create regional blocs are related to economic and political interests, such as obtaining greater bargaining power in international negotiations, achieving a certain degree of stability in the relations between the countries, in the maintenance of the democratic regime and the possibility of commercial gains and economic development.

The influence of the United States is not only distinguished by its centrality in international organizations and its influence in shaping the rules of the liberal order. The post-Cold War political context was marked by the wave of regionalism based on neoliberal principles and its adherence to numerous international regimes, which contributed to shaping a new pattern of relations with US foreign policy (Vigevani and Mariano, 2005). These political relations were diffused by the Washington Consensus and a trade liberalization agenda, based on a tariff reduction methodology in the context of protectionist measures associated with a state debt crisis in Latin America and Asia (Pecequilo and Carmo, 2015; Pant and Joshi, 2016). New Delhi's foreign policy, particularly, historically strengthened its bilateral relations with the US supported by their shared interests, but also as a strategy for India to protect its regional influence based on multilateralism and international norms[21] (Chen, 2018).

Bilateral trade between the US and Asia has been growing at about 10% per year since the Obama administration, while trade with India alone has increased from US$37 billion in 2007 to US$109 billion in 2015 (Ayres, 2017). Furthermore, US investment in India has increased by approximately 200% over a decade, while India's foreign direct investment in the US has increased by more than 500% since 2006 (Ayres, 2017). The US is a relevant source of foreign direct investment in India as well, attributing greater dynamics to internal markets and providing managerial, capital and technological knowledge to the country (Gupta, 2017).

The deepening of US-India bilateral relations has consisted of Washington's progressive influence and interests in South Asia, especially in terms of security concerns and containment of the rise of new powers that may threaten the position of the United States, e.g. the Soviet Union and, more recently, China. In this context, Pakistan takes advantage of the Chinese insertion in South Asia to deepen its bilateral relations and confront Indian assertiveness. India, in turn, seeks to act in coordination with the United States to rebalance the regional order provided by the strong Chinese insertion. It is understood that these strategic disputes between major powers and regional powers constrained the institutional development of SAARC, since the building of trust among neighbouring countries is constantly broken, generating a deficit in the expectations of regional actors. The increase in India's political and economic asymmetry in relation to its neighbours, through the deepening of its traditionally neutral and multi-aligned policy, increased the difficulty of SAARC to move towards a policy of regional integration (Hall, 2016).

Vigevani and Mariano (2005) affirm that integration in the Southern Cone represents the basis of support for the Brazilian strategy of commercial negotiation and international insertion. There was a need for Brazil to balance its interests between negotiations with the United States, the European Union, regional integration in the Southern Cone, and multilateral negotiations. According to Vigevani and Mariano (2005), the national challenge consisted of:

> […] building a position that reflects the complexity of the Brazilian economic and social structure, seeking to negotiate greater access to international markets, especially for agricultural products […] and

[21] According to Chen (2018), India chose to follow a 2014 ruling by the Hague Court in its long-running maritime dispute with Bangladesh. In 2015, it decided to adopt a multi-sectoral model of Internet governance, in contrast to Russia and China. In 2016, India supported the international tribunal in The Hague in the China-Philippines territorial dispute. In 2017, and again in 2019, India adopted a principled public stance against China's Belt and Road Initiative. India has played a significant role in the Indo-Pacific region, a region increasingly dominated by the rise of China. While New Delhi's policy needs to balance its economic and political ties with Beijing and its concerns about Chinese military expansionism, India has developed a joint hub for information sharing and new technical exchange agreements with the United States.

> preservation of the instruments available that allow the implementation of policies to promote development (Vigevani and Mariano, p. 7).

The Brazilian government chose to prioritize the work initiated in MERCOSUR, based on the concept of open regionalism, reinforcing the non-excludable character of Brazilian international relations. By seeking convergence with international regimes, the country would avoid “isolation from the international mainstream” and have greater room for regional manoeuvre, providing a beneficial environment for the pursuit of development and preservation of autonomy (Vigevani et al., 2003). Pecequilo and Carmo (2015) affirm that the US initiatives for Latin America represented a strategy of delimiting a space of political and economic influence, which were rhetorically represented by the end of the Monroe Doctrine, but in fact, what was observed was its reaffirmation in different terms.

According to Guimarães (2015b), the United States' strategy of maintaining power relations with Latin America continued during progressive governments, due to the Latin American political strategy of seeking autonomy and economic development. The Initiative for the Americas, and subsequent initiatives such as the Free Trade Area of the Americas (FTAA), according to Pecequilo and Carmo (2015), were hegemonic instruments to reaffirm the political and economic presence of the US in the region and preserve Latin America as a reserve zone of influence. According to Pecequilo and Carmo (2015), these strategies were aimed at subordinating Latin America’s agenda to North American demands, whose consequences could hamper autonomy projects. The FTAA negotiations came to a standstill at the end of 2003 when progressive South American governments partially distanced themselves from North American initiatives in a scenario in which neoliberalism was the hegemonic model (Guimarães, 2015b).

The Washington Consensus guided by open regionalism was confronted by the Buenos Aires Consensus, signed in 2003 aimed at the conformation of a regional agenda that went beyond trade issues by inserting political, social, and security aspects into regional integration processes, based on a methodology of flexibility and functional cooperation. Lake et al. (2021, p. 236) affirm that “the very political openness of liberalism creates avenues for the subversion of liberalism”. China has proven to be a great challenger to the liberal international order. In addition, technological innovation has also impacted the economic displacement of the system and posed new challenges in the international system.

According to Weiss and Wallace (2021), China has engaged in a game of balance between accepting the economic liberalism Beijing needs to maintain its productive force or partially accepting the guidelines that guide the rule of law and rejecting the principles that are part of the core of the liberal international order, such as democracy, free press and state persecution practices that violate Human Rights. This exemplifies how the liberal order itself has been opening up according to the transformations of the international system. According to Lippert and Perthes (2020), the trade rivalry between the United States and China may force Beijing to pursue greater independent development with global markets, putting itself outside the US control structure or other Western countries, which may contribute to change negotiation processes with regional economic blocs.

Lake et al. (2021) point out that the liberal international order has already been the target of rupture and changes in the past. This could open precedents for other countries to act in the same way, posing new challenges to international cooperation. According to Cottle et al. (2019), the United States' assessment of its role in international relations led to a shift in Washington’s foreign policy that ended up confronting the world order's liberal values themselves. The report published by the Congressional Research Service (2021) deepens the debate on the role of the US in the world, highlighting the advances and setbacks of its political choices. The rejection of multilateralism in favour of US unilateralism was driven by the rise of neoconservative thinking in American politics (Teixeira, 2010).

> In 1971, the Nixon administration severed the link between the US dollar and gold, bringing a sudden end to the Bretton Woods monetary regime. While this move shocked the world, it came in response to a series of crises and what was clearly an unsustainable link between the dollar and gold, raising the real prospect of a run on US gold reserves. Likewise, the administration of President George W. Bush first attempted to gain approval from but then broke with the United Nations when member countries failed to back the war in Iraq. Skepticism toward multilateral institutions has a long history among US conservatives, especially within the Republican Party. Yet, threats to multilateralism appear to be growing, not only from within the United States but also from other countries (Lake et al. 2021, p. 243-244).

Despite contestations to the liberal international order, the resilience of this order is due to the fact that it has reduced international conflicts and promoted opportunities for development. According to Lake et al. (2021, p. 245), the liberal international order contributed to expanding international cooperation initiatives in an institutionalised framework of international organizations and regimes, which created a wide range of interests embedded in the rules of this order that impacted international relations. This set of rules acquired international legitimacy and normative quality, although they are not universal practices as seen, for example, in the non-alignment movement during the Bandung Conference in 1955. The incentives to adhere to the rules of the liberal international order come from the perception of benefits and status of the condition of the participating country in the dominant core of the international order (Lake et al., 2021, p. 246).

The authors claim that the international order is embedded in a framework of “material, ideational, and normative interests” (Lake et al., 2021, p. 247) manifested in institutionalised political behaviours and organizations (Finnemore and Sikkink, 1998). Hoffmann (2017) affirms that norms diffusion shapes the structures of the international system as a way to influence the behaviour of countries and outline their moral aspect according to the rules of the international order. International cooperation consists of normative practices, which according to Milner (1992) would have unequal consequences among the countries that participate due to their asymmetric conditions in the international order, resulting in distributive consequences for the economy of countries inserted in the liberal order (Lake et al., 2021, p. 247).

The decline of US hegemony would not lead to a closure of the international economy or the end of liberal ideals, since international institutions' practices, consolidated over time, provide great support for the maintenance of this order. With the end of the Cold War, the US played a key role in the success of the liberal international order, in which the status of the US dollar as a global reserve currency became the key to shaping the international system and sustaining an American dominant position. However, Lake et al. (2021), affirm that the liberal guidelines strengthened through the global governance process, establishing itself in the world, independently from Washington.

According to Mearsheimer (2019), the international order began to be viewed as multipolar in 2016 as a result of the growth of developing powers such as China, Russia, India, and Brazil. As a means of bringing about reforms in the liberal international order, these countries challenged the United States' hegemonic authority. Mearsheimer (2019) affirms that the changes that have occurred in recent decades, however, can be related to the political adjustment of the United States to accommodate the interests of emerging countries rather than the influence of this group on the international liberal order.

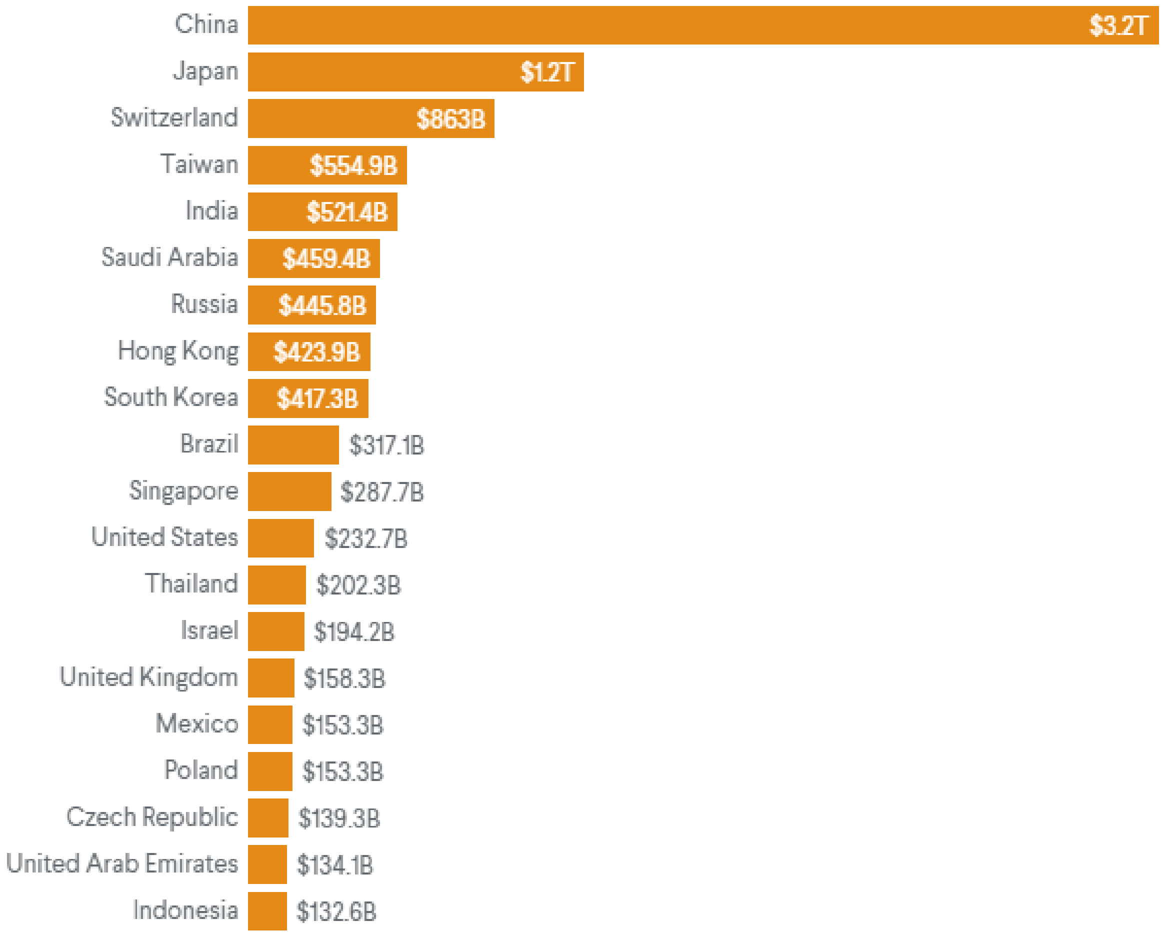
The international economic order is majorly based on the dollar as a reserve currency in addition to being one of the main vehicle currencies in international trading and mobility of capital (Carneiro, 2010). These features established the worldwide usage of the dollar and provided the US political power to influence the international system. According to Carneiro (2010, p. 2), a reserve currency is associated with the monetary hierarchy in a context of free mobility of capital, featured by its convertibility, i.e., “the ability to anchor wealth in liquid assets and convert them back into the currency of origin without capital loss”. The US dollar became an anchor on which currencies around the world fix their values.

According to Torres Filho (2019), the fact that the United States controls financial flows and the central currency of the international monetary system makes peripheral countries like Brazil and India, for example, fall under capital account opening policies, which makes them susceptible to the economic policies of the US central bank, the Federal Reserve (FED). Consequently, it means more constraints on the autonomy of peripheral countries while formulating their macroeconomic policy. Macroeconomic stability requires an effective presence of low and stable inflation as a condition for preserving the value of financial wealth (Carneiro, 2010). Reserve currency as a means of exchange can be used as a financial instrument of intervention by monetary authorities to stabilize the value of a given currency with the anchor. In countries with a floating exchange rate regime, international reserves cushion exchange rate volatility and exogenous shocks in addition to coverage interruptions in capital flows to a country and deal with a country’s international obligations (CBB, 2021), contributing to the maintenance of prices, the currency value and macroeconomic stability. It is an instrument for simplifying exchanges due to its widespread acceptance and liquidity.

According to Carneiro (2010), central banks hold different stores of value in order to support the financial wealth of a country. The following figure illustrates the amount of reserves of currency in US dollars held by the world's major economies, which also represents their confidence in the stability of the American economy and the maintenance of the liquidity of its reserves. International reserves are managed by the central banks, usually composed of bonds in different currencies like the US dollar, Euro, Pound Sterling, Yen, Canadian dollar, and Australian dollar, special drawing rights with the IMF, deposits at the Bank for International Settlements (BIS), gold, among other assets (CBB, 2021c). In 2016, the Renminbi was incorporated into the IMF basket of currencies as an international currency (Prasad, 2020).

According to Siripurapu and Berman (2022), the foreign exchange reserve currencies held in Dollars represent 60% of the total volume of international reserves worldwide, followed by the Euro (20%), other currencies (18%) and the Chinese Renminbi (2%), which demonstrate how the US dollar is the prominent choice of international reserves of countries around the world, showing a significant difference compared to other currencies, even in relation to the Euro, considered the second currency on the list of preferences for international reserves. The following figure provides a list of the emerging and developed countries that hold the highest accumulation of international reserves in dollars.

Figure 3 - Foreign Exchange Reserves by Territory in Billions of Dollars (2022)

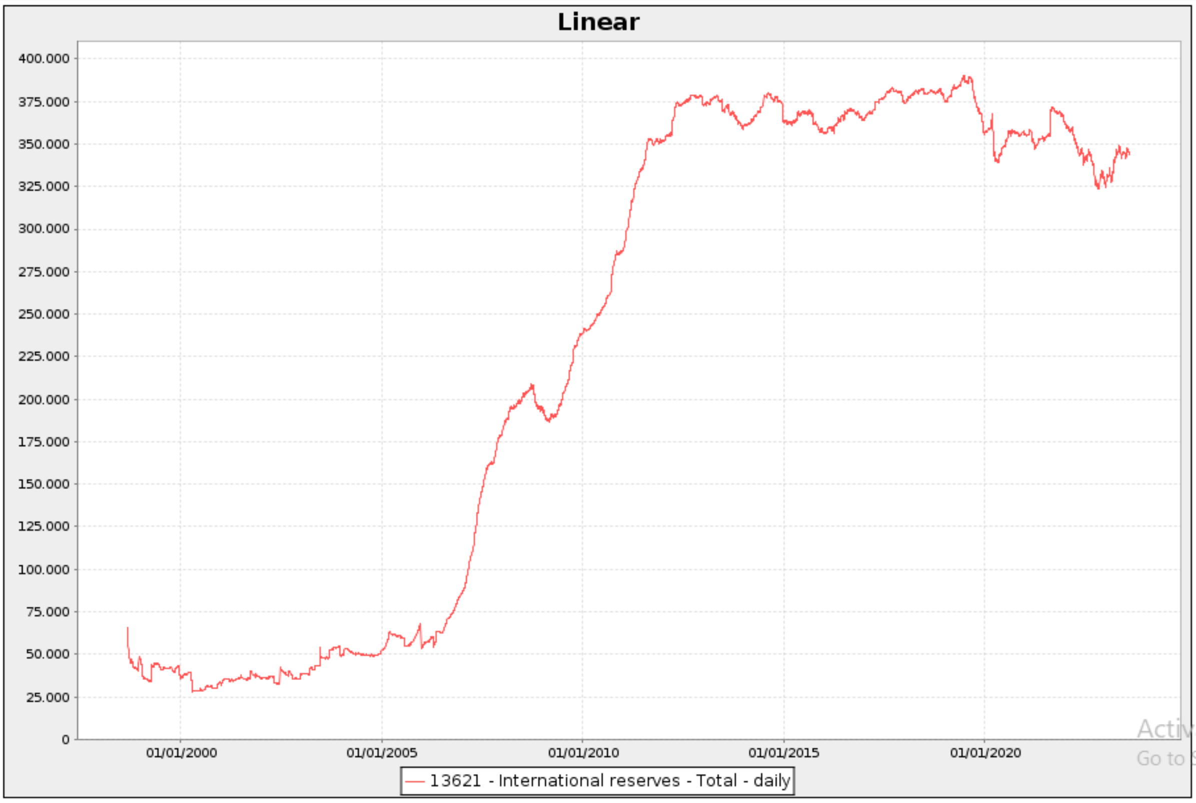


Source: Siripurapu and Berman, 2022.

It is observed that Brazil and India carry a significant amount of international reserves in the US dollar based on the safety, liquidity and profitability provided by the American currency, which investments are defined by the Collegiate Board of Directors of Brazil Central Bank and the Reserve Bank of India Act 1934. According to Cohen (2015), the dollar remains the main international currency in all its main functions as a unit of account, a means of exchange, and a store of value, in the public and private sectors. In 2009, the Central Bank of Brazil started publishing the International Reserves Management Report as a measure of public transparency, but also as a way of adhering to the data dissemination standard (PEDD), defined and audited by the IMF, anchored in a governance system formed by a hierarchical structure between decision-making bodies (BCB-RGRI, 2009).

According to the CBB-DSTAT (2023), the figure below reveals how Brazil progressively increased its accumulation of reserve currency in dollars, particularly from 2006 onwards, which supported the country to cushion the effects of the 2008 international financial crisis and convey confidence to economic agents.

Figure 4 – International Reserves Accumulation in Brazil between 2000 and 2023 (USD in Billion)

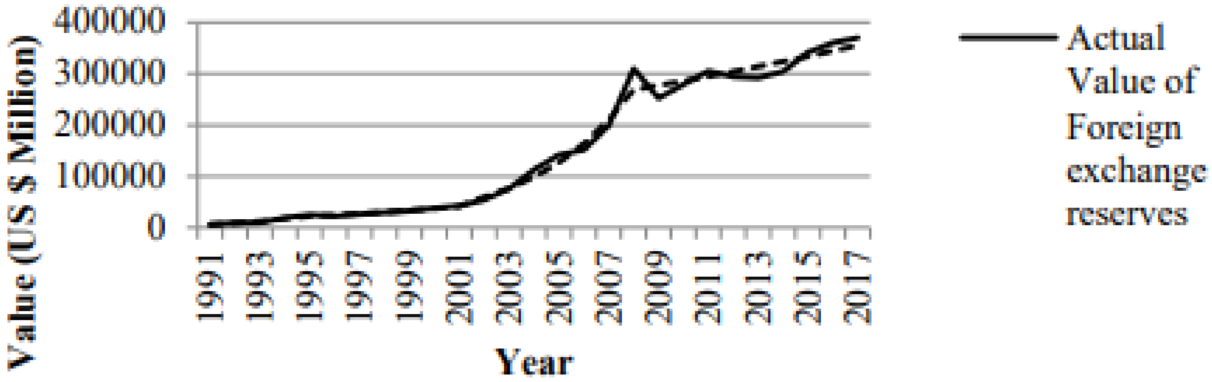


Legend: 01/01/2000 01/01/2005 01/01/2010 01/01/2015 01/01/2020
Source: CBB-DSTAT (2023).

In the case of India, according to Suman and Aman (2020, p. 206), the accumulation of India's international reserves is related to four phases: 1) Liberalization Policies between 1991 and 1995; 2) Globalisation between 1996 and 2002; 3) World Recovery between 2002 and 2008; 4) Global Financial Crisis between 2008 and 2017. According to the findings of Suman and Aman (2020, p. 208), the period of Liberalization Policies in India represented a growth of 43.99% of its international reserves, while the period of globalisation increased the growth of reserves at an average rate of 10.85% per year, representing what the authors called a "situation of euphoria".

Also according to Suman and Aman (2008), while the first two periods of accumulation of reserves had a positive impact and contributed to the payment of all short-term external debt and half of the payment of the total external debt of the country, the World Recovery phase remained stable in relation to the period of Liberalization Policies. This period, however, represented a slight depreciation in the growth rate by 28.62%, due to the outflow of funds from India (Suman and Aman, 2008). The 2008 international financial crisis had a smaller impact on India due to the accumulated reserves in previous periods of time, which result could be compared to the period of Liberalization Policies in the 1990s when the country was still undergoing profound political and economic reforms and, therefore, more susceptible to the impacts of an economic crisis (Suman and Aman, 2008).

Figure 5 – India's International Reserves Growth Curve



Source: Suman and Aman, 2008.

According to Eichengreen (2009), the centrality of the dollar goes beyond the logic of the unit of account and means of exchange. Eichengreen (2009) affirms that there are dimensions associated with financial power that transcend the denomination of bonds (prices and contracts). The US dollar is a reserve currency related to its liquidity and the depth of the markets in which it is traded, in a context of financial liberalization at the domestic and international levels (Eichengreen, 2009). According to Reiss (2015), the reserve currency role is reinforced by the capacity to accumulate wealth in bonds that have liquidity and convertibility features as a means of intervention or vehicle currency. It is a currency choice used by third countries, different from their national currency, with the purpose of establishing economic interactions in the international financial system (Reiss, 2015).

International trade negotiated mostly in dollars allows the US to use its political influence by instrumentalizing market institutions, in which transactions made in dollars are managed by banks correspondents with FED accounts (SWIFT, 2021). The US may interrupt the capacity of dollar transactions, impose fines, and hamper trade and financial relations with countries or institutions that violate US sanctions. The Society for Worldwide Interbank Financial Telecommunication (SWIFT), headquartered in Belgium, is responsible for the standardized messaging and communication system between financial institutions (SWIFT, 2021). It controls 80% of the global payments system and is intended to be a geopolitically neutral organization focused on the messaging service provider that "complies fully with all applicable sanctions law" (SWIFT, 2021) and "help its users in meeting their responsibilities to comply with national and international regulations" (SWIFT, 2021). According to SWIFT (2021), the institution is governed by the following supervision.

> The G-10 central banks (Belgium, Canada, France, Italy, Japan, The Netherlands, United Kingdom, United States, Switzerland, and Sweden), as well as the European Central Bank, with its lead observer being the National Bank of Belgium. In 2012, this framework was reviewed and the SWIFT Oversight Forum was established, in which the G-10 central banks are joined by other central banks from major economies: Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Reserve Bank of India, Bank of Korea, Bank of Russia, Saudi Arabian Monetary Agency, Monetary Authority of Singapore, South African Reserve Bank and the Central Bank of the Republic of Turkey. The SWIFT oversight activities with a wider group of central banks (SWIFT, 2021).

The majority of SWIFT's transactions are in dollars and routed by the FED in New York, which provides political capacity for the US to influence the system, considered the world's largest money transfer network. On the one hand, the US political power could put pressure on competing regions or countries through its influence on the circulation of money around the world. On the other hand, SWIFT, whose purpose is the settlement of international trade, could become a political instrument for the US and a disturbing situation for its allies, who expect a neutral direction from the institution. When the US imposes sanctions on individuals, institutions, or countries, almost all international banks and SWIFT itself must comply with the requirements established by the sanction by blocking or restricting financial flows and auditing whether they have business transactions with the sanctioned institutions in order to not be sanctioned themselves by the US government.

Although the dollar has a significant dominance in the international financial system, according to Carneiro (2010), from the 2000s there was a greater diversification of national currencies in the international financial system, which does not threaten the monetary dominance of the dollar. The Euro is one of the currencies that presents potential as an alternative to the dollar in the international system, however, its use is more centralized in the European Union. The dominance of the dollar is not only in terms of international reserves, but it is also related to different segments of the financial market such as international debt, international loans, foreign exchange turnover, global payment currency (European Central Bank, 2018) and, significantly, used in trade transactions worldwide (Carneiro, 2010), which demonstrate that the dollar maintains significant hegemony in the international financial and monetary system.

According to Carneiro (2010), the volume of dollar flows in international trade largely exceeds the commercialization of countries trading with the US, which suggests that the American currency is majorly used as a vehicle currency in third countries. Countries whose growth is based on the export-led growth model can also take advantage of US trade deficits to induce domestic investment based on exports (Ocampo, 2009). Ocampo (2009) affirms that financial globalisation is a process of portfolio diversification and a mechanism for transferring net capital, which is the speed of growth of international capital flows, but did not translate into a process of transferring capital from rich to poor countries.

The financialization of the economy increased the flow of dollars around the world and strengthened the economic and political role of the American currency. In a scenario characterized by a flexible-dollar model, in which there is no parity or restrictions, the American currency has the freedom to broaden its international liquidity conditions, financing and expanding debts (Carneiro, 2010). According to Vigevani, Mendonça and Lima (2018, p. 404), the end of the dollar-gold parity in August of 1977 is "maybe the biggest change in the monetary area since Bretton Woods". The concern with the volatility of the international financial system based mainly on the dollar led the central banks of developing countries to take precautionary measures.

> In this arrangement of the international monetary system, as the US is the main deficit country, and holder of the reserve currency, this eliminates the deflationary adjustment but converts it into an adjustment that takes place primarily through the US macroeconomic policy. Furthermore, the system also lacks instruments and institutions that provide collective security and protect countries, especially those emerging (countries) from adverse shocks – of terms of trade or sudden stops – forcing them to implement pro-cyclical adjustment policies. This is the factor responsible for the exacerbation of the precautionary demand for reserves which, together with the recurrent current account imbalances, explain the great expansion of these reserves during globalisation, particularly in the 2000s (Author's translation from Carneiro, 2010, p.7).

According to Ocampo (2009), the dominance of the dollar as a reserve currency gives privileges to the US government to operate the monetary policy autonomously through the FED by unilaterally fixing the interest rate of the country or the issuance of debts in dollars, which may provide capital gains for the United States. Ocampo (2009) affirms that the independence of the American monetary policy allows the US government to manage the currency according to domestic interests, which may also have international consequences due to the asymmetries of the role of the dollar as a reserve currency, such as the reduction in the percentage of the US participation in the movement of capital flows to the higher participation of the Eurozone, the United Kingdom and the BRICS countries or by the fact that the US loses its leading position in the market of banking assets to this same group of countries. It means that the dollar's role as a reserve currency does not necessarily lead to a deepening of the United States' participation in the international financial system.

The 2008 international financial crisis raised questions about the sustainability of the dollar as the main reserve currency of the international financial system combined with the current account deficit of the US government, increased countercyclical measures, and international competition, particularly, with China in the exchange rates, which tends to decrease the demand for dollar-denominated assets and gradually fragment the international financial and monetary system. Foreign exchange swap operations carried out by China in local currency with trading partners also affected the international role of the dollar. However, member countries of MERCOSUR and SAARC face greater challenges in this process, due to the fact that these regions have currencies at the base of the monetary hierarchy and are non-convertible (Pinto and Severo, 2011). It means that they are not easily accepted in the international exchange markets beyond the country of origin, which may reflect the financial market's lack of confidence in the country's economic stability.

> Countries whose currencies are inconvertible and which have adhered almost unreservedly to globalized finance, that is, through strong financial opening, floating exchange rates and the search for complementing domestic savings, have shown little autonomy in implementing domestic policies. In contrast, countries whose currencies are inconvertible and which, however, have a greater degree of domestic autonomy, have presented a macroeconomic regime characterized by a combination of capital controls, exchange management policies and net capital exports (Translated by the Author from Oliveira et al., 2021, p. 5).

Emerging countries such as Brazil and India, in particular, still have limited levels of autonomy to conduct their macroeconomic policies due to their commitments to the international liberal order. However, emerging countries sought greater spaces in the global financial governance process after having cushioned the effects of the international financial crisis due to their policy of accumulation reserve currency provided for the moment of the 2000s commodities boom and shown significant economic growth, which favoured a context for the central banks of these countries to seek strategies for the internationalisation of their currencies as a way of expanding its status in the international financial and monetary system.

The South American region, particularly, in MERCOSUR, and in South Asia, particularly in SAARC and its extended region, were the spaces sought by Brazil and India to improve the coordination of regional financial cooperation practices. In the case of Brazil, the process under negotiation with Argentina progressed for the implementation of a payment system in local currency. India established swap agreements with countries in the region to support their crisis in the balance of payments while creating structural conditions to advance trade in local currency with partners in the extended region. However, the regional asymmetries that define these regions are still obstacles to the advancement of payment systems in local currencies, which reinforces the dominance of the use of the dollar.

Ikenberry (2018) affirms that the crisis of the liberal international order is nothing more than a dilemma, which concept, according to Lake et al. (2021, p. 227) “remains contested”. An order based on hegemonic foundations is no longer adequate. The need for changes, reforms, and renewal brought about by this order ended up resulting in the extension of the liberal order itself (Ikenberry, 2018). The transformations of the international financial system enabled the group of emerging countries to establish new political initiatives, acting within the logic of the liberal order, which is majorly based on the dollar in order to seek greater strategic autonomy, leadership privileges, and protection of the domestic monetary and financial systems (Ikenberry, 2018).

It is concluded from the section that the current international order is embedded in a normative framework and it is not a neutral element. The national interests of the US economy and political power are institutionalised in political patterns of norms and rules that shape the structures of the international system and constrain the political and economic choices of emerging countries like Brazil and India in international and regional orders. This section also discussed that the historical engagement of the US relations with regional orders, particularly, shaped by asymmetrical relations with Latin America and South Asia, focused on MERCOSUR and SAARC, influenced the strategy of these regional organizations towards strengthening the regional integration process to protect their international autonomy while member countries are increasing their economic interdependence in the world.

The US relations with MERCOSUR and Brazil encouraged greater concertation among the countries in the region, as a way of ensuring their autonomy and increasing the bargaining power of international negotiations, while the US's closer relations with India have contributed to increasing India’s asymmetry related to the SAARC member countries, which increased the regional mistrust of these countries towards India and weakening the willingness of South Asian countries to move towards a policy of regional integration, as neighbouring countries quickly seek to counterbalance power relations by approaching China and reducing New Delhi's zone of influence.

The weakening of the dollar did not lead to its replacement as a reserve currency. However, the latest financial crisis demonstrated how the instability of the international monetary system has led to quantitative changes in the international financial system in terms of increasing the use of local currencies against the dollar. Nonetheless, MERCOSUR and SAARC trading and investments are still deeply attached to the dependence on the liquidity that the US dollar provides to their economies. This situation is reinforced by Brazil and India, which choose the protection and liquidity provided by the US dollar as the reference currency for their international settlements, despite the constraints this political choice may bring to their macroeconomic policies.

The development of a payment system in local currencies has a limited scope, being considered a voluntary instrument to the countries of the South American region, whose import and exporting products are majorly attached in dollars. The underdeveloped conditions of South Asian countries, make them depend on hard currencies to sustain their process of liberalization and international economic insertion. The growing volatility of capital flows, exchange rates, and interest rates of the US dollar increased the participation of secondary reserve currencies at the regional level and collaborated to a gradual fragmentation of the international financial and monetary system. However, despite the observed changes in the international financial system caused by the financial crisis, the US dollar continues to maintain the highest monetary hierarchy and support for international financial transactions, which consolidates its status as the main global reserve currency and contributed to the maintenance of the US political power at the international, regional and bilateral levels.

3.5 The Rise of the BRICS Towards a New Global Financial Architecture

This section aims to promote a brief debate on the international financial convergence of emerging countries within the BRICS, as a response of these countries to the low level of reforms promoted within the scope of international financial organizations. The coordination of the BRICS political dialogue was an opportunity to institutionalise changes in the international system by establishing new multilateral financial institutions, whose perspectives aim at expanding political convergence with the countries of the Global South, reinforcing the context of multipolarity and international autonomy, through the creation of complementary financial instruments to the IMF, the World Bank, and the regional development banks.

At the beginning of the 21st Century, the world's power balance is shifting. The acronym BRIC, created by economist Jim O'Neil, was used by the American investment bank Goldman Sachs in 2001 to describe the economic expansion of Brazil, Russia, India, and China. South Africa joined this group in 2010. According to Hosli and Selleslaghs (2020), the BRICS countries developed a permanent system of dialogue to promote an economic, geopolitical, and strategic framework for the group to address topics regarding global governance, which constituted a significant challenge to the Western world. According to Hosli and Selleslaghs (2020), geopolitical shifts have increased the amount of South-South trade as compared to trade among members of the Organization for Economic Cooperation and Development (OECD). China is the driving force behind this worldwide shift, because of its growing international assertiveness. A decline in hegemonic power or Western dominance provided political ground for emerging countries, allowing them to exert some influence over the rules of international relations. The liberal order influenced by the Washington Consensus has been challenged by the emergence of the Beijing Consensus, a model in which Confucian values replace Western values (Hosli and Selleslaghs, 2020).

One of the regional strategies of Brazil and India in South America and South Asia is to facilitate regional cooperation in MERCOSUR and SAARC through the establishment of institutional instruments of financial cooperation. At the international level, Brazil and India attempted to influence the selection process of senior IMF staff in order to decentralize the institution's decision-making process, as well as pressing for a review of the IMF and World Bank quota system, in order to safeguard developing countries' interests and increase its decision-making powers in the institution, reducing inequalities in the international financial architecture, and strengthening its capacity to obtain leadership privileges (Stuenkel, 2017). Nonetheless, the US strives to preserve international order by expanding the margin of interdependence and mutual benefits with emerging powers in order to convert them into interested parties in maintaining the current order (Guimarães, 2015a).

In the context of the post-international financial crisis, Teixeira and Pinto (2012) identified that there was a reduction of the banking-financial hegemony power in domestic and international markets. According to Teixeira and Pinto (2012), the consequences of the 2008 international financial crisis undermined orthodox economic thinking, whose idea of free financial markets being associated with independent central banks, would be the most efficient mechanism for promoting well-being. The contestation of the financial system by emerging countries finds convergence in the foreign policy strategy between Brazil, Russia, India, and China (Duval and Andreis, 2021), which agents of the national central banks of these countries established regular meetings within the scope of multilateral bodies and later, at the Summit of BRICS since 2008. In particular, the III Summit (Sanya Declaration), held in 2011, aimed to present demands for greater supervision and international financial regulatory reform, strengthening the coordination of policies between States and promoting the development of financial markets and global banking systems (BRICS-CHINA, 2011).

According to Bueno (2018, p. 221), on the sidelines of the Meeting of Finance Ministers and Central Bank Presidents of the G-20, in an informal meeting with the financial representatives of the BRICS, Nicholas Stern presented a text written with Joseph Stiglitz in which proposed the establishment of a South-South development bank. The interest of the BRICS countries in launching a new development bank was formally expressed in the Article 13 of the IV BRICS Summit (Delhi Declaration), held in 2012 (BRICS-CHINA, 2012). It aimed to mobilise resources for infrastructure and sustainable development projects in the BRICS countries and other emerging economies with the purpose of "complementing existing efforts in multilateral and regional financial institutions for global growth and development". The V BRICS Summit (eThekwini Declaration) emphasized the deepening of the political coordination of the countries based on the institutionalisation of cooperation to enable moving forward with the project of establishing a new development bank (BRICS-CHINA, 2013).

In 2014, the VI BRICS Summit (Fortaleza Declaration) was the meeting that established the New Development Bank (NDB) and the BRICS Contingent Reserve Arrangement (CRA) with an approved initial capital of US$ 100 billion (BRICS-CHINA, 2014). Once the attempt by the Global South countries to reform the agenda of multilateral financial institutions has not provided significant changes in the global order, Brazil and India have engaged in the foundation of new financial institutions to increase international influence in Global Financial Governance. In 2014, the NDB and the CRA emerged as a tool to promote South-South cooperation, which provides leadership privileges and more autonomy to member countries (Guimarães, 2015). These mechanisms can be understood as international institution bypass (Carvalho et al., 2015; Stuenkel, 2017), which contribute to BRICS countries by reducing their degree of dependency and the level of an institutional penalty enforced by the established institutions of Bretton Woods.

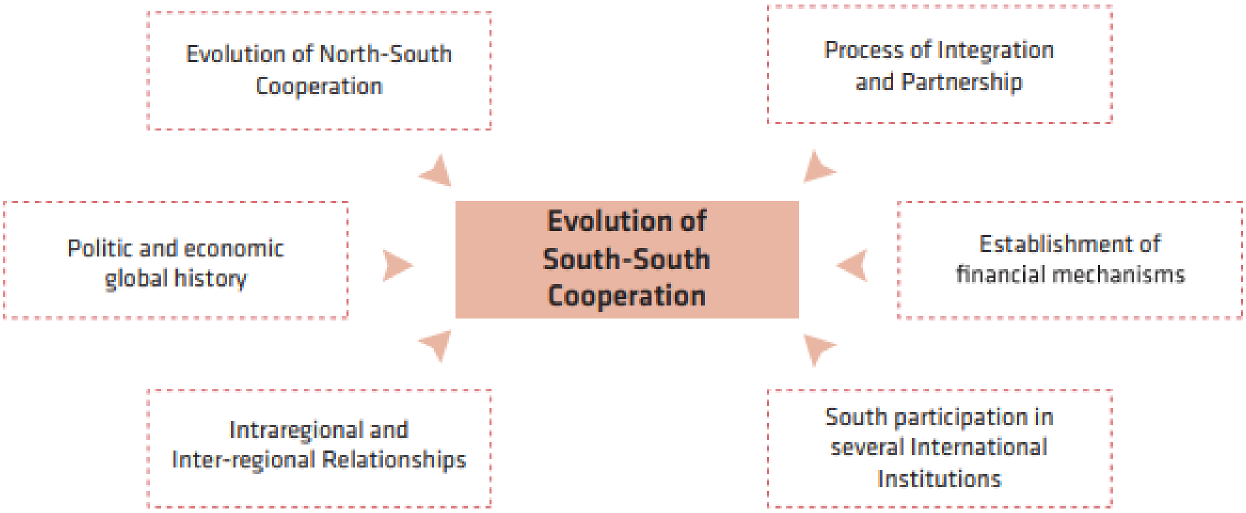
> […] the demand for multilateralism is driven by a combination of strategic, normative, and functional logic. If the idea of multilateralism as good and desirable for its own sake is discarded, then the strategic and functional reasons for it might persist or even increase to compensate for it. Rising powers such as China and India, along with traditional powers, see multilateralism as important to their status and influence (Acharya and Plesch, 2020, p. 229).

Those initiatives should not be considered as a confrontation or a rupture of the current global order but as a complementary or parallel order (Stuenkel, 2017). The adoption of the dollar as an official payment currency and the development of a binding agreement with the IMF for member countries' access to its funds demonstrate the complementary nature of NDB and CRA to traditional institutions (Guimarães, 2015; Carvalho et al., 2015). The foreign policy strategies developed by Brazil and India represented an attempt to build a more democratic institutionality between countries put into practice by the institutionalisation of regional and international initiatives of financial convergences (Carvalho et al., 2015). But it also could reproduce the same institutional incoherence questioned by Brazil and India in the international financial institutions (Guimarães, 2015). According to Batista Junior (2016, p. 179), the creation of the NDB has a geopolitical aspect and provides greater decision-making power to emerging countries, whose financing projects will be based on technical criteria to avoid politicizing the bank, as criticized by emerging countries in relation to traditional international financial organizations.

The new multilateral financial institutions and regional development banks drive financial cooperation practices as complementary mechanisms to the current international financial system. Agreements established between regional development banks and the NDB are alternative ways of raising funds, moving away from Washington's influence (Carvalho et al. 2015). The NDB and CRA initiatives focused on the capacity to meet the demands of emerging countries as a mechanism for attracting investments for sustainable development and infrastructure projects. By doing so, the BRICS countries strategically establish a channel of political relations with the countries of the Global South, without the same level of political commitment and conditionalities found in traditional institutions. It may have positive implications for countries that already have institutionalised relations with the BRICS countries at the regional level, due to the effects that South-South cooperation would bring to the regional integration process.

According to Pinto and Cintra (2015), the South-South cooperation was conditioned by commodity prosperity and the change in the domestic coalitions and political orientation of governments less aligned with neoliberal thoughts, which was reinforced by the need to generate international liquidity due to the effects arising from the 2008 international financial crisis. According to Cabana (2014), the evolution of South-South Cooperation is subject to different events as seen in the figure below, which tends to influence the commitment of the countries in the Global South towards deepening political and economic relations or constraints on international cooperation practices.

Figure 6 – Influencing Events in the Evolution of South-South Cooperation



Source: Cabana (2014, p. 10). Chronology and History of South-South Cooperation (2014)

Cabana (2014 p. 14) affirms that South-South cooperation, particularly in the economic field, establishes a "feedback system with regional integration processes". It means that regional integration drives South-South cooperation practices, which strengthens relations among countries of the Global South and tends to favour again the regional integration itself. According to Liu and Papa (2022), the multilateral institutions created by the BRICS also reinforce a gradual and continuous process of reducing the role of the dollar in the world and, consequently, the political and economic constraints behind the hegemony of the American currency that represent significant 88% of international transactions according to the BIS (2022). This financial coordination process among the BRICS countries shows how the emerging countries are still vulnerable to the effects of the dollar's exchange rate volatility and the consequences of its economic and political impacts, arising from international restrictions on access to the US currency, which has implications for the choice of macroeconomic policies. Geopolitical considerations and the use of the dollar as a US soft power encourage regional and international financial convergence initiatives, however, it is the protective measures against economic consequences that sustain financial coordination among the BRICS (Liu and Papa, 2022).

Liu and Papa (2022, p. 62) affirm that the BRICS countries put into practice a risk mitigation strategy of exposure to the dollar based on two fronts, known as "go-it-alone" and "reform-the-status-quo". This means that the BRICS countries are simultaneously acting in this process in different instances of governance and political arrangements, such as regional organizations in their respective areas of influence or bilaterally with the objective of establishing an “alternative or parallel financial system, independent of the US dollar and the rules made by the main Western powers” (Liu and Papa, 2022, p. 3) combined with efforts at the multilateral level, particularly in financial forums and international financial organizations, with the aim of establishing institutional structures that can together progressively reduce their dependence on the use of the dollar.

Therefore, the improvement of the payment system in local currencies in different regional arrangements around the world and, particularly observed in this research, in South America and South Asia, suggests an emerging process of financial convergence that aims to create layers of protection against exchange risk and external shocks caused by the instability of the international financial system based on the dollar, whose process can be potentially materialized in the connection between financial structures at different levels, national, bilateral, regional and multilateral, gradually creating an alternative financial system of multiple currencies to the use of the dollar, as seen in the BRICS Pay initiative[22].

Advances in international financial convergence among the BRICS at different levels also imply an alternative payment messaging technology to SWIFT and, potentially, the creation of digital currencies (Lui and Papa, 2022). In 2023, the XV BRICS Summit (Johannesburg II Declaration) addressed the recognition of the benefits of “fast, inexpensive, transparent, safe and inclusive” (BRICS, 2023, p. 14) payment systems, in which the BRICS countries encouraged the use of local currencies and improvement of the interlinking of cross-border payment systems and banking networks in accordance to the G20 Roadmap on Cross-Border Payments in order to facilitate trade and increase investment flows (BRICS, 2023).

The expected report under development, named “The BRICS Payment Tark Force (BPTF)” (BRICS, 2023, p. 14) demonstrates the engagement, even if cautious, of the group's ambitions to gradually impact the international financial and monetary system. The possibility of expanding the BRICS members, although it increases the latitude of their actions, may also hinder the effectiveness of the group's financial convergence. It can be affirmed that the combination of efforts being developed at different levels of governance results in the expansion of possibilities for increasing trade, a greater layer of protection against exogenous shocks such as international financial crises and dollar exchange risk, while at the same time strengthening the level of autonomy of emerging countries and reinforce the contestation of the current international financial and monetary system dominated by developed countries.

[22] According to Bloomberg (2023), dialogues on financial convergence among the BRICS advances carefully, given the regulatory implications involved in the political coordination and the fact that the dollar remains the hegemonic currency in the international system.

4 THE CHALLENGES OF REGIONAL FINANCIAL INTEGRATION IN SOUTH AMERICA: ANALYSING FINANCIAL CONVERGENCES INITIATIVES IN MERCOSUR

The fourth chapter approaches the core analysis of this research, which is focused on explaining how the Central Bank of Brazil (CBB) is leading the regional financial cooperation in South America. This case study in particular addresses the context of regional financial convergence initiatives towards bilateral payment systems developed among MERCOSUR State Parties, which are known as the Local Currency Payment System (SML), which negotiations date back to 2006, but it was officially established in 2008. It demonstrated how the political forces between member countries shaped by regional asymmetries influenced this regional organization and fostered bilateral trading. By doing so, this chapter provides a systematic analysis of the interactions among the main actors, the central banks, national governments, and MERCOSUR, addressing their political interests during the policymaking process of the SML, aiming to identify the role of the central bank in regional integration.

4.1 Differentiated Subsystem of Regional Integration in MERCOSUR

The origins of MERCOSUR are related to the debates over the conformation of a regional economic market for Latin America. In 1985, Argentina and Brazil signed the Iguaçu Declaration, which established a bilateral commission followed by a series of trade agreements known as the Economic Integration and Cooperation Program (PICE) in 1986. This agreement between the two countries stimulated cooperation in preferential economic sectors and it was a framework for a productive integration model (Vigevani and Ramanzini Junior, 2022). In 1988, both countries signed the Integration, Cooperation and Development Treaty in the course of establishing a common market in which other Latin American countries could join. Finally, Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción in 1991, an agreement that established the Southern Common Market (MERCOSUR), a trade alliance with the objective of fostering the regional economy and trading among State Parties.

The influence of Latin American regional institutions, in particular, regarding financial cooperation initiatives contributed to the region's accumulated experience and provided background to MERCOSUR States Parties to further develop some level of regional financial convergence. It included the experiences from the Reciprocal Payments and Credits Agreement (CCR) of the Latin American Integration Association (ALADI) to settle trade-related payments, dating back to the 1960s and renovated in the 1980s. According to Culpeper (2006), the ALADI arrangement payment system reached 90% of the intraregional important payments at the time, but it was downsized to 10% in 1999, due to “the development of financial technology, de facto dollarization, and more flexible exchange rates, which reduced the advantages of the ALADI settlement system” (Culpeper, 2006, p. 60).

But also from the Latin American Reserve Fund (FLAR), established in 1978 by the Andean Countries with the purpose of supporting the balance of payments of member countries “by granting or guaranteeing loans” (Culpeper, 2006, 60). Besides the fact that FLAR had limitations in terms of financial capacity, which constrained its capacity to play a relevant role during the debt crisis of the 1980s, this institution has financed the balance of payments of the Andean member countries for over thirty years, supported by clearing systems for intraregional payments (Ocampo, 2012). The Economic Commission for Latin America and the Caribbean (ECLAC) had also a significant influence on the thinking of Latin American regional integration as will be discussed in the next chapter. The ECLAC thought in Latin America contributed to establishing a model of inward-looking development model through the industrial and endogenous path (Furtado, 2013) and participation of the State in the economy (Veiga and Ríos, 2007; Cervo, 2008). South American regional institutions strengthened the competitiveness of national economies and supported the international insertion of the region to achieve further productive transformation, focused on South-South cooperation.

The Treaty of Asunción established in 1991 provided general guidelines for the conduct of the South American bloc towards the free movement of people, goods, services, productive factors among State Parties, elimination of customs duties and non-tariff restrictions, which opened up the possibilities for a common trade policy, coordination of macroeconomic and sectoral policies, legislative harmonization to strengthen the regional integration process and coordination of positions in regional and international economic-trade forums (MERCOSUR, 2022). In 1994, MERCOSUR State Parties signed an additional instrument to the Treaty of Asunción, known as the Protocol of Ouro Preto. This instrument provided an international legal personality to MERCOSUR and designed its institutional framework, setting out the *modus operandi* of the bloc.

This protocol solidified a decision-making process based on consensus, the adoption of the Common External Tariff (TEC), establishing the customs union of the South American bloc (Almeida, 1998; Mariano, 2007), which broadened the interfaces of domestic and regional agendas, shaped by their interests to improve intra-bloc trade (Vigevani and Ramanzini Junior, 2022). The Protocol of Ouro Preto is particularly relevant because it settled, according to Vigevani and Ramanzini Junior (2022, p. 30), "a legally binding agreement whereby member countries are obliged to adopt joint positions in international trade negotiations", which supported MERCOSUR's position against the Free Trade Area of the Americas (FTAA)[23], proposed by the American government of George W. Bush.

In 1998, the four State Parties in addition to Bolivia and Chile signed the Protocol of Ushuaia on MERCOSUR's Democratic Commitment, reaffirming the relevance of democratic institutions as an essential condition for the development of regional integration. The context of regional integration in the 2000s determined the conceptual transition from Latin America to South America (Faria and Cepik, 2003). The concept of South America took shape within the scope of the first Summit of South American Heads of State held in 2000, an opportunity in which they signed the document "Comunicado de Brasília[24]" during the celebrations of the 500th anniversary of the Discovery of Brazil and in the midst of a crisis in MERCOSUR, whose focus on regional integration was mainly economic and commercial.

The 2nd Meeting of Presidents of South America was held on July 26 and 27, 2002, in the city of Guayaquil, Ecuador, in which the Consensus of Guayaquil was signed, which reiterated the principles, values and objectives of the organization of a South American space, with emphasis on the continuity of the action plan of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). The Administration of the Brazilian President, Fernando Henrique Cardoso, established greater convergence and integration in international regimes, particularly in the context of trade and economic negotiations, which intended to avoid the isolation of Brazil in the international system and increase the capacity of the region, which reinforced national autonomy (Vigevani, Oliveira and Cintra, 2003).

> During Cardoso's Administration, a Brazilian policy focused on its immediate geographical surroundings was consolidated, which became a constant reference for external action. This might seem simple, but we know that, in the past, until the Sarney Administration, regional policy was not exactly central.

[23] The proposal for hemispheric cooperation was just a way of adapting the discourse to the context of post-bipolar peace and cooperation. The strategy of the US was to keep its political-economic presence in Latin America (Pecequilo and Carmo, 2015).

[24] The "Comunicado de Brasilia" was a turning point in the commitment of the Brazilian foreign policy to South America, which focused on the following objective: 1) generate a South American Peace Zone by stimulating dialogue on regional security; 2) the consolidation of subregional processes and the commitment to strengthen Latin America and the Caribbean through the establishment of a free trade area of the Americas; 3) the proposal by the Andean Community (CAN) to initiate a political dialogue with MERCOSUR and Chile; 4) establish a free trade area between the blocs; 5) the instrumentation of the South American identity on the political and economic level to strengthen bilateral and multilateral relations with other Latin American and Caribbean nations, the continent and the world (Comunicado de Brasília – Brazil, 2000).

> The interpretation given to MERCOSUR, in this coinciding with the interests of the Argentine government in Menem's mandates, of open regionalism, made it possible for Brazil, without exclusivism or alignment, to simultaneously adhere to the norms and regimes of its interest and, at the same time, guarantee the preservation of an “autonomy reserve” (Pinheiro, 1998, p. 61), which would be objectified by the space for a regional manoeuvre. Adherence to some rules and regimes meant, in certain cases, the strengthening of soft power due to the return obtained from a better image of the country (Translated by the Author from Vigevani, Oliveira and Cintra, 2003).

According to Vigevani et al. (2003), in Brazil, the paradigm of “autonomy through integration” began to take shape in the brief government of Collor (1990-1992), passed through the chancelleries of Fernando Henrique Cardoso and Celso Amorim during the government of Itamar Franco (1992-1995) and was consolidated in the presidency of Cardoso (1995-2002). According to Lafer (2001), Cardoso’s foreign policy was characterized by a “change in continuity”, pursuing to adapt Brazil to an international system in transformation, being aware of its power capacities, articulating politically whenever necessary with other countries, and engaging in international regimes favourable to the national interest.

Cervo and Bueno (2014) affirm that some results of the neoliberal model had a positive impact in Brazil, e.g., the modernization of industrial plants, the increase of the Brazilian economy’s global competitiveness, the improvement of society in relation to the distribution of responsibilities for promote economic development and the conduct of Brazilian foreign policy at the regional level. According to Vigevani and Cepaluni (2007), MERCOSUR was a great experiment in open regionalism, characterized by an intergovernmental structure whose low level of institutionalisation helped to preserve its members' domestic preferences for maintaining autonomy. However, the integrationist project faced many obstacles throughout its history, due to the most diverse constraints, e.g., lack of economic complementarity, low level of infrastructural integration, persistent unilateralism, and vulnerability to financial crises (Sanahuja, 2012). The regional integration process does not always develop itself as envisioned by the national governments. In this case, MERCOSUR was no exception, as it faced significant crises during its over 30 years of institutional development.

The low economic performance of Latin American economies, as a reflection of the effects of neoliberal policies disseminated within the scope of open regionalism (Mariano et al. 2021a), aggravated by the devaluation of the Brazilian currency in 1999 and the Argentine financial crisis of 2001 (Mariano et al., 2021b) deteriorated the MERCOSUR’s intra-bloc competitiveness and Argentina's balance of payments. It was triggered by the accumulated imbalances and the lack of coordination of the macroeconomic policies of the two countries inductors of regional integration, Brazil and Argentina (Almeida, 2014). The stagnation of the MERCOSUR regional integration process, according to Saraiva (2011), resulted in a lack of interdependence among the bloc's member countries and a low performance of trading flows. In addition, the context of the 2000s was shaped by the transformations in the international order due to the terrorist attacks of 9/11 in 2001 in the United States.

In the 2000s, the IMF came under severe criticism from Latin American governments and was blamed for the region's economic deterioration. According to Vigevani et al. (2003), adherence to the liberal model caused the emptying of the strategic and development sense, which opened the way to the influence of international capital flows. Vigevani et al. (2003) affirm that the resistance from government sectors and the lack of negotiating capacity on the part of the Brazilian private sector hampered the national effort to achieve integrationist objectives due to the perception that the country would have to bear very high costs to accomplish them. In addition, Argentina did not recognize the Brazilian role as paymaster in the regional integration process, assuming that the preponderance of the Brazilian position in the region was proportionally given to the size of the country's economy and not to its political leadership (Vigevani et al. 2003; Malamud, 2009).

There was a decline in trade flows, difficulties in the tariff liberalization process, and the coordination of macroeconomic policies among the Southern Cone countries. According to Vigevani et al. (2003), although the Brazilian presence increased MERCOSUR's extra-regional bargaining power, it seems that there were not enough compensatory measures on the part of Brazil to reverse the crises that appeared during its development. Although there was an improvement in Brazil's image on the international system, Brazil and many Latin American countries continued to demonstrate their fragility in dealing with more soft issues in their international policy agenda, harming the expectation of international projection of the region (Vigevani et al., 2003).

This context provided political ground for the rise of the “pink wave” (Silva, 2010) in the region[25]. The regional assertiveness of Lula da Silva's Administration (2003-2010)

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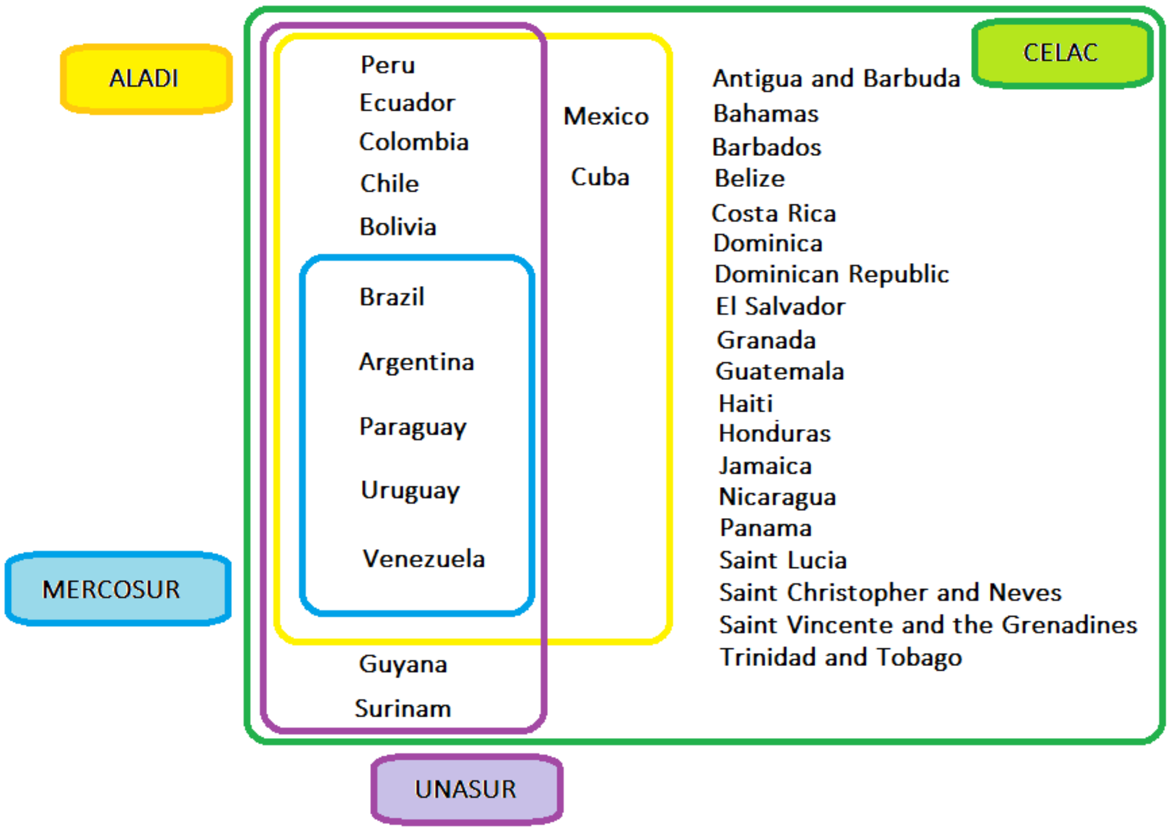
[25] The “pink wave” began in the 1990s, with the election of Hugo Chávez in 1998. […] Ricardo Lagos, originally from the Socialist Party of Chile (PSCh), was elected in 2000 […]. In 2002, Luiz Inácio Lula da Silva, from the Workers' Party (PT), was elected in Brazil. In Argentina, Néstor Kirchner was elected president in 2003 […] Tabaré Vázquez, of the Frente Amplio (FA) won the Uruguayan elections in 2004. In 2005, Evo Morales, of the Movement to the Socialist (MAS) of Bolivia […]. Rafael Correa came to power in Ecuador in 2006 […]. Daniel Ortega and his Sandinista National Liberation Front (FSLN) returned to power in Paraguay in 2008 […]. Maurice Funes of the Farabundo Martí National Liberation Front (FMLN) came to power in El Savador. [...] Chávez (2000 and 2006), Lula (2006), Correa (2009) and Morales (2009) were reelected. Lagos was succeeded by Michelle Bachelet, also from the PSCh, elected in 2006. Kirchner was able to support his wife, Cristina Kirchner, as his successor, elected in 2007. In 2009, the FA elected another president and from its ranks, José “Pepe” Mujica (Silva, 2010).

represented another turning point in integrationist thinking and political practices of the Brazilian foreign policy, as it led the region to a process of strategic reorientation with the purpose of conforming South America into a political, economic and security unit, distancing itself from the neoliberal model, whose initiatives were mostly focused on the economic and commercial dimension of integration (Veiga and Ríos, 2007). The signing of the Buenos Aires Consensus in 2003 symbolized the beginning of a developmental strategy, which criticized the Washington Consensus and fostered the coordination of productive integration measures in MERCOSUR (Quiliconi and Espinoza, 2017; Baumann, 2010).

The integrationist initiatives of the 2000s demonstrated the efforts of South American countries to create “a developmental agenda, resistant to trade liberalization” (Mariano et al., 2022, p. 2), deepening and strengthening political and social aspects of regional integration among States Parties as a way to reduce regional asymmetries (Veiga and Ríos, 2007). It means that the South American bloc kept its economic liberalization commitments while including new social agendas, blending developmentalism and neoliberalism to foster regional integration, but also to reduce regional asymmetries, aiming to establish a physical and productive integration combined with the growing role of the State in foster national development (Luciano and Campos, 2021). The expansion of MERCOSUR institutions in the 2000s aimed to strengthen regional integration by improving regulatory mechanisms that encouraged trade, political and social exchanges in the bloc. Nevertheless, neither in the 1990s nor in the 2000s did MERCOSUR seem to move towards a supranational path, which traditionally remained a taboo for national governments and diplomats (Luciano and Campos, 2021).

The MERCOSUR's institutional bodies were expanded and negotiations among Latin American countries resulted in the development of the South American Community of Nations (CASA) into the Union of South American Nations (UNASUR) in 2008 and the establishment of the Community of Latin America and Caribbean States (CELAC) in 2011, which represented a more comprehensive way of advancing Latin American regionalism. However, overlapping regionalism also increased the challenges of political coordination.

Figure 7 – Overlapping Regionalism in Latin America



Legend: MERCOSUR - The Common Southern Market; UNASUR - The Union of South American Nations; ALADI - Latin American Integration Association; CELAC - The Community of Latin American and Caribbean States.
Source: Author's illustration, 2022.

According to Baumann (2005), pressures from the hemispheric and multilateral negotiations led MERCOSUR to pursue South-South cooperation as complementarity initiatives of opening dialogues and negotiations of preferential trade agreements in the form of summits as MERCOSUR-India, MERCOSUR-CAN, MERCOSUR-Arab Countries and MERCOSUR-China. Their convergence in terms of political and strategic interests contributed to diversifying the international partnerships of the South American countries by reducing, to a certain degree, the level of dependence on the countries of the North.

The expansion of MERCOSUR institutional bodies provided more solid foundations for the integration process, through regulatory mechanisms that encouraged trade, political, and social exchanges in the bloc, increasing the level of trust among State Parties. According to Saraiva (2011), the recognition of the regional asymmetries of the bloc contributed to creating mechanisms to foster the development of productive sectors in the smaller economies and promote integration with a distributive agenda and expansion of markets. In this context, it is observed the launch of new regional programs and initiatives that encouraged greater coordination of regional policies in MERCOSUR.

Table 5 – MERCOSUR Initiatives under Lula da Silva's Government (2003-2010)

1) The IIRSA-COSIPLAN initiatives;
2) The political strategy to reduce structural asymmetries and social cohesion developed by FOCEM, based on the meeting of the "Common Market Council nº 27/03 – Structural Funds", in which they identify the "need to improve physical interconnections, industrial complementation of different sectors of the economy based on the principles of graduality, flexibility and balance" (MERCOSUL. CMC 27/03);
3) The launch of the Local Currency Payments System (SML), regulated by central banks;
4) The MERCOSUR Parliament;
5) The Consultative Forum of Municipalities, Federated States, Provinces and Departments;
6) The Institute for Public Policy on Human Rights;
7) The MERCOSUR Support Fund for Small and Medium Enterprises;
8) The Family Agriculture Fund;
9) The Education Sector Financing Fund;
10) The Tourism Promotion Fund;
11) The Social Institute of MERCOSUR;
12) The elimination of the double charge of the TEC and the distribution of customs income;
13) The expansion of the role of the Brazilian Development Bank (BNDES), as a key financial institution in the viability of structuring projects for physical integration and access to financing for the export of Brazilian goods and services, which contributed to the insertion of Brazilian companies in South America and generated investments to Brazil.

Source: Author's compilation from MERCOSUR (2022), Amorim (2012) and Veiga e Ríos (2007).

Regional integration in MERCOSUR was driven not only by the coalitions among South American governments but also through efforts represented by presidential diplomacy as observed by the bilateral visits of the presidents Fernando Henrique Cardoso (1995-2002) and Lula da Silva (2003-2010). The South American bloc also experienced an enlargement of the bloc with the incorporation of Venezuela in 2012 and expressions of interest from Bolivia and Ecuador in becoming State Parties. According to Saraiva (2011), the political stability of South America expanded the possibilities of Brazil's international insertion, providing South-South cooperation initiatives to protect the commercial interests of South American countries vis-à-vis the great powers. Saraiva (2011) affirms that regional integration became a long-term political strategy, which improved the concertation of countries in multilateral forums.

During the 2000s, the Brazilian government was shaped by liberal and developmental political practices, with emphasis on the role of the State in fostering development, based on a model of physical and productive integration, complementary to the project of economic growth with social inclusion in a country of late capitalism, which enabled Brazil to translate its surpluses of power into regional preponderance and put into practice initiatives of greater regional cooperation, supported by the continuity of the objectives of autonomy and development. According to Teixeira and Pinto (2012), the macroeconomic policy of Fernando Henrique Cardoso's government in the 1990s, based on the system of inflation targets, primary surpluses and floating exchange rates, was maintained during the first term of Lula da Silva's government (2003- 2006).

The domestic economic context subsequently allowed a certain level of flexibility in the second term. It means that the first term of the Lula Government was characterized by economic orthodoxy, while the second term the national government was led by a policy with a more developmental profile. Teixeira and Pinto (2012) identified that between 2003 and 2006, there was an increase in trade surpluses in Brazil that were higher than the structural deficits in the services and income accounts, being one of the main factors responsible for the improvement of the national public account. This context of the 2000s reinforced the Brazilian role in leading South American integration, by attributing what Mariano and Ramanzini Junior (2012, p. 23) define as a “MERCOSUR contained in Brazilian foreign policy”, which makes this regional organization compatible with the Brazilian major objectives of development and autonomy.

Between 2007 and 2010, Teixeira and Pinto (2012, p. 924) affirm that “the surpluses in the capital and financial account were the main drivers of the economy”, contributing to the rapid recovery of the external accounts in the post-international financial crisis 2007-2008, driven by “net capital flows”. It was generated by the “excess liquidity of the world economy”, whose mass of capital moved to Brazil, due to the high return on investments, recovery of economic activity, expansion of the domestic market, and international market stagnation. The accumulation policy of international reserves allowed the Brazilian government to carry out anti-cyclical measures to combat the international crisis and reduce the country's external restrictions. Regional financial cooperation was carried out in order to minimize the external vulnerability of the states and increase the opportunities for trading (Deos et al., 2013).

According to Gaens et al. (2020, p. 12) and Ayuso (2022, p. 5), the flexibility of MERCOSUR regional policies to accommodate the interests of smaller States Parties and reduce regional asymmetries, aiming at the consolidation of the regional bloc is characterized as *à la carte differentiation*. This means that the bloc's policies can also be interpreted as mechanisms for gradually adapting national realities to MERCOSUR's regional policy shaped by the intergovernmental profile, as institutional incentives for strengthening the regional process in stages.

According to Ayuso (2022), this political flexibilization of the South American bloc can be observed in the trade liberalization policies carried out in multispeed, as a way to reduce tariff barriers over time, including a list of exemption products to Uruguay and Paraguay, reduction of tariffs on rules of origin for Paraguay and the authorization of Uruguay and Paraguay to import agricultural inputs from third countries free of taxes, the creation of FOCEM and the flexibility of the regulatory rules that allow States Parties to act unilaterally. In addition, the South American bloc is characterized by an advance in policies carried out from a conception of concentric circles of economic measures, whose initiatives are developed from bilateralism, generally led by Brazil and Argentina, which drives other countries to join the regional policy. The Local Currency Payment System (SML) is an example of the application of this concept.

According to Vigevani and Ramanzini Junior (2022, p. 31), Dilma Rousseff's government continued the regional integration efforts promoted since the Buenos Aires Consensus, even though political will in itself was not enough to guarantee political advances. intended. The post-international financial crisis context, characterized by a sharp reduction in world economic growth, a reduction in tax revenues and the end of the commodity boom cycle, combined with the complicated regional scenario of *coup d'état* in Paraguay, protectionism in Argentina and the political crisis in Venezuela, combined with the domestic political tensions in Brazil caused by the implementation of the “new economic matrix” and political reforms, which ended up creating obstacles to the advance of regional integration (Desiderá Neto, 2017; Vigevani and Ramanzini Junior, 2022). Desiderá Neto (2017) identified a lack of regional initiatives and institutional inertia that resulted in the reduction of Brazilian enthusiasm for improving regional integration between the years 2011 and 2016.

Among the regional initiatives identified during this period, MERCOSUR relaunched negotiations with the European Union with the support of the private sector that suffered external restrictions. The South American bloc also structured the Institute of Public Policies on Human Rights, established by MERCOSUR/CMC/DEC n° 12/10 and created the Meeting of High Authorities of Human Rights and the MERCOSUR Business Forum in 2012 (Desiderá Neto, 2017). The South American bloc witnessed growing convergence in the foreign policy of the countries in the votes for resolutions in the General Assembly of the United Nations and advances in bilateral relations with Uruguay.

However, Desiderá Neto (2017) affirms that the Brazilian government did not have legislative support to approve direct elections of Deputies for MERCOSUR or to internalize the Common Customs Code. Besides that, projects of FOCEM were reduced, which raised criticism about the inefficiency of the new dimensions of regional integration and isolation of the South American bloc in the international economy, due to the context of mega-agreements under negotiation, such as the Transpacific Association Agreement (TPP) and the Transatlantic Trade and Investment Policy (TTIP) against expectations of progress in multilateral negotiations at the World Trade Organization, which were not achieved.

The premature departure of the High Representative General of MERCOSUR, a position appointed by Brazil, also contributed to discomfort in the government, as it received criticism about the slow progress of the regional integration agenda and the need for Brazil to act as a true paymaster. Such criticisms to some degree confronted the "Brazilian historical position of maintaining a low institutionality to the regional process and not bearing the costs of leadership" (Desiderá Neto, 2017, p. 120). The retreats of the economic policy measures of the government of Dilma Rousseff in the face of the interests of part of the national economic hegemony began when the financial market managed to put pressure on the Central Bank of Brazil against the economic guidelines of the federal government (Bastos, 2017).

Such pressures amid the beginning of a series of manifestations by society, in the context of a political-economic crisis and investigations against corruption in the country, led to the dissolution of the government's political coalition. According to Bastos (2017), the CBB started a new cycle of interest rate hikes, pressured by the national financial market, given the risk of devaluation of the Brazilian currency arising from the possibility of interruption of the FED's quantitative easing program in the US, which generated criticism against the national government regarding possible political interference in the operational autonomy of the Central Bank of Brazil (CBB).

According to Mariano et al. (2021, p. 15), MERCOSUR went through a "path of gradual loss of centrality of the bloc for the Brazilian foreign policy and a reduction in the levels of commercial exchange". This process was manifested with greater or lesser intensity on the part of the elites and interest groups in the decision-making process of the Brazilian State over the 30 years of the bloc, but it deepened after the impeachment of President Dilma Rousseff in 2016. The transitional government of Michel Temer and the election of Jair Bolsonaro intensified the imminent crises in the South American bloc, resulting in the weakening of regional integration, observed from the departure of Brazil from UNSASUL and the lack of capacity to mediate regional issues. The relegation of the purposes of national autonomy was intensified by an international context shaped by the rise of conservatism with the election of Donald Trump in the United States, leading international relations to a reinvigoration of unilateralism (Mariano et al, 2021).

Brazil's distancing from regional integration from 2016 onwards and the rapprochement with the United States reinforced the argument that the low institutionality and interdependence of the South American bloc provided weak capacities to keep the actors engaged in the bloc's regional policies in times of political instability. The bloc's intergovernmental profile and its low level of institutionality allow the States Parties greater flexibility in their commitments to regional policies that vary in intensity according to the international context and the national governments in power, whose regional process was defined as "Liquid Regionalism" (Mariano et al, 2021). The MERCOSUR has still shown itself to be a resilient institution in the process of regional integration, supported by the relevance of its commercial exchanges, a slow and unstable, but continuous framework of political coordination and its potential to support the international insertion of countries and national development.

4.2 When Bilateralism Triggers Regional Integration: The Local Currency Payment System

This section aims to analyse the behaviour of the Central Bank of Brazil (CBB) in the regional financial integration established among the States Parties of MERCOSUR and to identify how its role affected the paths of South American integration. The case study of this research focused on the policymaking process of the Local Currency Payment System (SML) created in 2008, a financial instrument that continues in operation until the present day, whose economic and political role is being reviewed by the Brazilian delegation in MERCOSUR. The first part of this section addresses the purpose of establishing the SML and its regional operation, paying attention to the interactions between the agents involved in this process.

The Central Bank of Brazil (CBB) (CBB, 2023a) is responsible for the financial integration of Brazil to international regulatory codes and standards as measures “to facilitate the exchange of goods and services and to encourage the use of safer and more modern financial instruments”. Within its institutional capabilities, the CBB coordinates political and economic initiatives that contribute to the inclusion of the Brazilian currency in international payment systems. The CBB (2023a) signs agreements of understanding, the settlement of a foreign exchange operation, and technical cooperation initiatives, as ways of promoting international trade, facilitating investment exchanges, and expanding means of payment for companies and citizens. The set of measures established by the Central Bank of Brazil created “legal safeguards” for the financial mechanisms in operation inside the country and minimized their risks, favouring a scenario of predictability, credibility, and stability for the international financial system (CBB, 2023a).

In the 2000s, the MERCOSUR’s Macroeconomic Monitoring Group (GMM) was established by the Common Market Council (CMC), within the scope of the Meeting of Economy Ministers and Presidents of Central Banks (RMEPBC). The CBB is the Brazilian institution that integrates the GMM, whose members are responsible for monitoring macroeconomic indicators and providing transparency of fiscal, monetary, and balance-of-payment statistics for the State Parties of MERCOSUR (CBB, 2023a). The Common Market Group (GMC) is the executive body of MERCOSUR, which is composed of representatives of the Ministries of Foreign Affairs, Finance, Economy, and also the Central Banks, meeting four times a year and expressing the outcome of their meetings through resolutions.

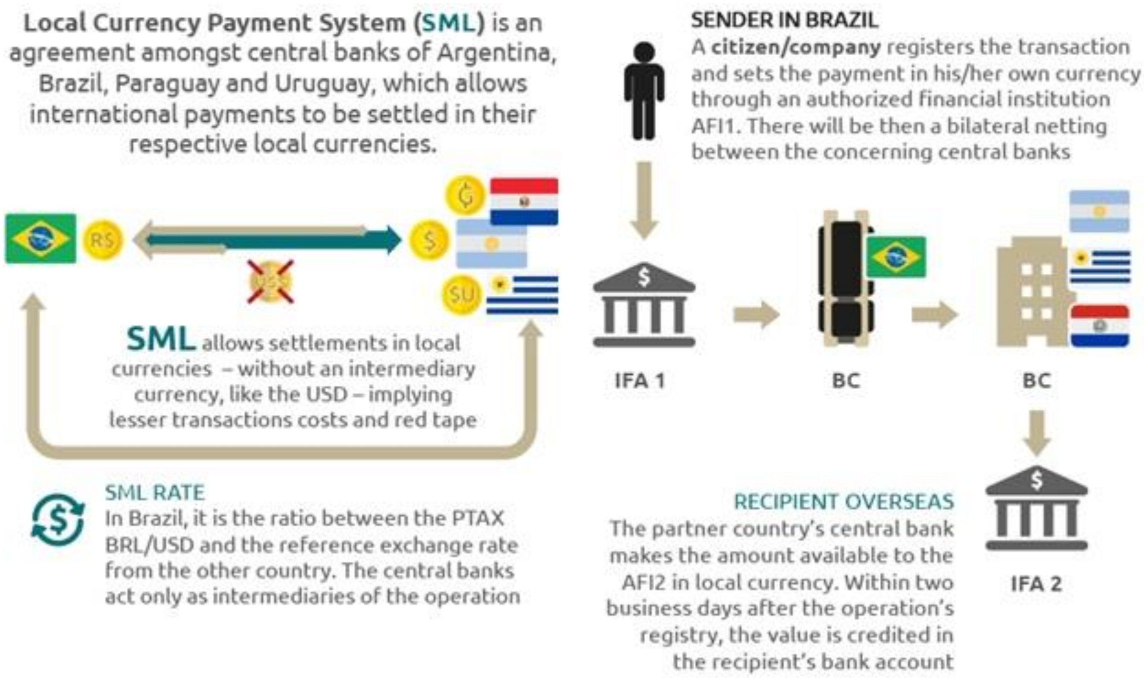
Within the scope of the MERCOSUR, Working Subgroup No. 4 “Financial Affairs” (SGT4) was established, a technical forum responsible for dealing with the bloc's financial affairs and harmonizing the regulatory framework that governs the functioning of the financial systems of the States Parties. This subgroup is composed of central bank officials, regulators, and supervisors of different types of financial services. They are responsible for deepening and strengthening the financial integration of the South American bloc. According to the CBB (2021a), this subgroup was created in 1990, even before MERCOSUR itself, with the aim of taking care of financial issues related to trade.

As a member of Working Subgroup No. 4 (SGT4), the CBB participates in MERCOSUR aligned with its institutional objectives in Brazil, ensuring the security and efficiency of the National Financial System (SFN) (CBB, 2023a). Taking into account that financial services are potential transmission channels for crises and imbalances of the international monetary and financial system, MERCOSUR's financial integration strengthens the regulatory processes of financial services in the South American bloc, in order to ensure greater monetary stability to the region (CBB, 2021a). The SGT4 of MERCOSUR also works to identify and remove restrictive measures on trade in financial services. Its decisions are compulsorily agreed upon by all countries in the bloc.

It is in this context of action that the Central Bank of Brazil establishes its role as an agent of Brazilian foreign policy and operates the Local Currency Payments System (SML), in partnership with the central banks of the State Parties of MERCOSUR. Although the SML is an instrument for trade facilitation, its operations are linked to the regulatory process of the supervisory financial institutions, the central banks themselves. Therefore, analysing the role of the central bank in regional integration means interpreting how the preferences of individuals involved in the policymaking process of the SML were translated into political choices and constrained by their interests, which are subject to the dynamics of harmonization and regulatory restrictions of the financial system.

According to the CBB (2020b), the operations of the SML are "prescribed in the bilateral agreement between the countries, which differ among themselves". Brazil signed the SML agreement with Argentina in 2008, Uruguay in 2014, and Paraguay in 2018 (CBB, 2020b). According to CCB (2020b), the SML is an international payment system that settles bilateral financial transactions, enabling international payments and receipts transactions in local currencies. The SML is a regional instrument developed to carry out financial transactions among central banks and "the licensed financial institutions based in their respective jurisdiction" (CCB, 2020b), using the national currencies of their countries, anchored by the SML Rate.

Figure 8 – The Local Currency Payment System (SML)



Source: Central Bank of Brazil, 2020b. Retrieved from https://www.bcb.gov.br/en/financialstability/sml_en

According to the CBB (2023a), operating the SML does not require making use of intermediary reserve currency and the settlement of a foreign exchange operation contract, which eliminates the exposure of commercial traders to exchange rate variations, reduces the cost of financial operations and uncertainty regarding profit estimations. It facilitates the buying and selling process of importers and exporters of the State Parties of MERCOSUR. The conception of the SML would supposedly avoid the use of the USD as an intermediary currency and the SWIFT system as a security code for financial transactions. In order to settle the transactions on the SML system it is necessary to use the SML Rate, which converts the value of the operation in terms of local currencies of the participating countries.

The Brazilian SML rate is composed of "the reference rate from the concerned bank and the PTAX Real/U.S. Dollar computed daily" (CBB, 2020b) by the Central Bank of Brazil. According to the CBB (2023a), the reference rates are described as follows:

> The SML rates are calculated in accordance with the Operational Regulation of Payments System in Local Currency, signed between the BCB and each of the central banks participating in the SML. It is the ratio between the daily average rate of Brazilian PTAX (Real-to-U.S. dollar) and the other countries' reference rate (exchange rate of the Argentine peso/ Uruguayan peso/ Paraguayan Guarani to the U.S. dollar – announced by the respective central banks) (Central Bank of Brazil, 2023a).

The SML is a financial mechanism resulting from a political strategy to eliminate trade and investment barriers, with the purpose of strengthening regional integration. To a certain extent, the SML represents the Brazilian government's capacity to design a regional policy in the financial dimension, providing background for the strategic combination of different roles of the national institutions, carried out by the Central Bank of Brazil (BCB), the National Development Bank (BNDES), the Export Promotion Agency (APEX), the Ministry of Development, Industry and Foreign Trade (MDIC), the Ministry of Finance (MF), the Ministry of Foreign Affairs (MRE), in favour of national development and international insertion.

The MERCOSUR's international trade increased between 1999 and 2005 when extra-bloc trade surpassed the volume of intra-bloc trade. Intraregional trade between Brazil and Argentina represented 80% of the total intraregional volume in 2007 (IADB, 2008). Given the importance of bilateral trade with Argentina and the need to increase intra-bloc trade, these two countries established a dialogue in pursuit of trade facilitation strategies in 2005 (IADB, 2008). The CBB identified that the absence of low-cost financial instruments for commercial transactions among the State Parties, which are carried out almost entirely in USD, discouraged access by small and medium-sized companies.

The meeting of the Brazil-Argentina Local Currency Clearing House, held in August 2006, in São Paulo, was the first technical meeting between the central banks to design a mechanism that would facilitate financial settlements among the main trading partners of MERCOSUR. This meeting initiated the operational design of a bilateral payments system, whose experimentation phase would take place from the relations between the two countries, given the strong flow of trade between Brazil and Argentina. A satisfactory initial result of the project could expand the payment system for voluntary adherence by the other countries of the bloc. The central banks of Brazil and Argentina carried out joint studies in order to assess the transaction costs of bilateral trade, mapping rules that would need modification and the tax and fiscal regimes that could restrict the operations in local currencies.

The main issue for the technical agents of the central banks was to find measures to increase the liquidity and efficiency of the real/peso exchange market, without using a cross-reference to the dollar. Among the assumptions made by central bank technicians, there was a concern about not exposing central banks to foreign exchange risk in local currency, as the clearing house was not a mechanism for covering foreign exchange risk. The design of the proposal featured a protection system against exchange rate volatility (intra-day). Another central issue at the meeting was the concern about the incompatibility of using an exchange rate for payments in local currency that is different from the rate used for daily updating of International Reserves.

Although the project design of the financial mechanism was the responsibility of the CBB, it was the technical agent of the Central Bank of Argentina (BCRA) who pointed out the potential accounting problems in an eventual difference in the use of these rates. The BCRA's main interest in using a rate equal to the calculation of International Reserves was to benefit small and medium-sized exporters with the use of a similar rate already enjoyed by large exporters, while encouraging market institutions to create hedge mechanisms, i.e., protection operations carried out with financial institutions abroad.

On September 1st, technical agents from the central banks of Brazil and Argentina conducted the first part of the RMEPBC (MERCOSUR, 2006d) to present a proposal for a bilateral financial mechanism operated by central banks that would provide cost reduction and efficiency to the Real-Peso exchange market. The minutes of the RMEPBC (MERCOSUR, 2006d) referred to two alternatives for establishing the Brazil-Argentina bilateral financial mechanism. The first, through a private inter-bank clearinghouse in dollars, and the second, a public clearinghouse between central banks in “Peso-Real” local currencies, which inputs of the operation are supposed to be inserted by the network of commercial banks, with clearing in dollars at the end of the day.

According to RMEPBC (MERCOSUR, 2006d), the implementation of bilateral trade in “Real-Peso” would involve the creation of a non-existent market, in which the public clearing house would have to overcome difficulties in “technical, normative, operational and developmental terms and interconnection of information system”. This mechanism would enable the creation of a new segment of trading companies in accordance with the interests of the technical agents of the central bank of Brazil and Argentina. According to RMEPBC (MERCOSUR, 2006d), many of the difficulties in MERCOSUR's intra-regional trade are due to economic crises in the region, divergent exchange rate regimes, some national rules for protecting sectors, and the permanence of a list of exemptions to the bloc's Common External Tariff.

The Ministers of Economy of Brazil and Argentina, Guido Mantega and Felisa Miceli supported an agenda for the development of the financial instrument, despite the reservations about the need to overcome normative and operational issues. With the support of the economy ministers, the technical agents of the central banks of Brazil and Argentina set up a parallel meeting to the second part of the RMEPBC to discuss the next steps of the project. The next steps of the financial mechanism would involve issues surrounding the definition of the communication system to be used, that is, SWIFT or a system developed by central banks.

Central bank technical agents also assessed the potential reduction in trade transaction costs and conducted research on foreign exchange, trade, and tax rules that would potentially change with the implementation of the payments mechanism (CBB, 2006a). The strategy for accelerating legislative procedures in national parliaments would be the formal establishment of a bilateral international agreement. The efforts between the technical agents of the central banks of Brazil and Argentina resulted in the Letter of Intent of the Ministers of Economy and Presidents of the Central Banks of Brazil and Argentina (CBB, 2006b). It is observed that the CBB performed as the main agent in outlining the financial mechanism, while the BCRA was the moderating agent responsible for pointing out corrections of the project.

The Letter of Intent (CBB, 2006b) formalized the political commitment of the institutions involved, ministries, and central banks, in the form of support for the implementation of the payment system in local currency and convergence with the normative harmonization of national states. The Letter of Intention (CBB, 2006b) points out that the SML is a complementary instrument to the existing national systems and developed on a voluntary basis for the economic agents and the State Parties of MERCOSUR. At the time, the presidents of the central banks of Brazil and Argentina were Henrique Meirelles and Martin Redrado. Meirelles is a well-known agent in the banking sector, whose ideas are closely related to the financial market. His position as president of the Central Bank during Lula da Silva's government signalled a message that Brazil's monetary policy would be committed to the stability of the national financial system, but also meet the expectations of the financial market.

The Decision 38/2006 of the Mercosur Common Market Council of December 15, 2006 (MERCOSUR, 2006a), was the recognition of national governments to the bilateral efforts of the central banks of Brazil and Argentina and endorsement of the proposal presented by the Ministers of Economy and Presidents of the Central Banks of the States Parts of MERCOSUR (RMEPBC). The Decision CMC 38/06 addresses the need to support the insertion of small and medium-sized companies and deepen the mechanisms of commercial exchange and economic complementation in order to establish the customs union. The advance in commercial transactions was aimed at "increasing the competitiveness of the bloc's productive sectors and supporting their insertion in international trade" (MERCOSUR, 2006a). Commercial transactions in local currencies were interpreted as measures to stimulate financial markets, with the objective of strengthening regional financial integration.

The bilateral meeting between technical agents of the central banks that took place in April 2007, in Argentina, represented the continuity of the operational design of the payment system. From the Brazilian perspective, this meeting reveals that the Central Bank of Brazil (CBB) had managed to negotiate with the Brazilian Chamber of Foreign Trade (CAMEX) a resolution (CAMEX n° 12, of April 25, 2007) authorizing the use of the Brazilian currency (Real – BRL) in exports and the possibility for non-residents opening bank accounts in Brazilian commercial banks as a way of stimulating commercial transactions in local currencies even before the implementation of the SML.

From the Argentine perspective, the BCRA was still under negotiations with the Argentine Customs to allow exports in Pesos (ARS) to Brazil. Regarding the information system, the BCRA presented its conformity in the use of the software presented by the CBB for the exchange of SML files. The BCRA Meeting Minutes (BCRA, 2007) demonstrated the agents' concern with the contingency mechanisms of the communication system between the central banks. A potential delay in the line of communication between them could cause problems for the Argentine market, due to the increase in the cost of human resources in financial institutions. Therefore, the so-called timeline of communication between central banks had to be revised. The alternative proposed by the CBB in cases of communication problems and, consequently, the lack of a reference rate in daily commercial transactions, would be the use of a reference rate from international sources, which seems to be advantageous to Brazil, as its international trade is majorly based on the USD.

The Minutes of the BCRA Meeting (BCRA, 2007) also set out considerations on the forms of credit compensation, which could be carried out through a bilateral credit line between central banks intermediated in dollars. The minutes revealed that the operational model of the regional payment system was also shaped by the interests of the commercial banking associations of their respective countries. Interactions between central banks indicate that Brazilian technical agents continue to play a structuring role in the process while Argentine technical agents a moderating and corrective role.

The BCRA Meeting Minutes (BCRA, 2007) also took into account aspects of the legal instrument and the procedures for formal agreement of the SML in MERCOSUR. According to the Minutes of the BCRA Meeting (2007), a technical-banking cooperation agreement between the CBB and the BCRA must be followed by an operating regulation of the SML. A first draft of the SML regulations was prepared by the BCRA and sent to Brazil for consideration by the CBB, taking into account the objectives expressed in the Letter of Intent (2006b). The guidelines of the international agreement between the central banks sought to insert the SML as a financial instrument aligned with the principles established in the MERCOSUR Treaty of Asuncion and the 1980 ALADI Treaty of Montevideo, within the scope of the Partial Scope Agreement for Economic Complementation (ACE), No. 18, subscribed between Argentina, Brazil, Paraguay and Uruguay. To make this process viable, it was required the participation of the Ministries of Foreign Affairs of Brazil and Argentina. Bilateral interactions between the two countries have shown that the CBB and BCRA have changed their role as structuring and moderator agents of the regional integration process.

With regard to the SML bilateral implementation agenda, it was identified in the annex to the Minutes of the BCRA Meeting (2007) that the responsibilities of the central banks were related to moving forward technical discussions, drafting the international agreement, interacting with the financial institutions of their respective countries and prepare the operating rules for the payment system in local currency. The payment system had a political background in the work of the technical agents when they created a normative framework that facilitated its incorporation into the institutional purposes of regional integration in MERCOSUR. To a certain extent, this demonstrates how the technical agents sought to influence the political process to get their measures approved. On the other hand, it is observed that the SML model under development also reflected the preferential aspects of the economic policy of the ministers of the economy in convergence with the foreign policy of Brazil and Argentina.

The CAMEX Technical Note No. 12 (2007) authorized exports in the Brazilian currency taking into account the changes in the country's exchange rate policy aimed at the appreciation of the national currency. These changes revoked the regulation that required foreign exchange coverage in strong currencies for financial transactions of Brazilian exports. In April 2007, the meeting of the Council of Ministers of the Chamber of Commerce (CAMEX, 2007) received a guest, the Director of International Affairs of the CBB, Paulo Vieira da Cunha. On the occasion, it is observed that the CBB technical agent supported CAMEX Resolution No. 12 and presented the evolution of Brazilian exchange rate rules, as a reflection of the country's new macroeconomic reality. However, the CBB agent pointed out that the rules regarding the use of the Brazilian currency were unbalanced, as they favoured its use for imports and restricted exports. The CBB agent requested support from the national government to stimulate the development of the BRL-ARS exchange market, whose demand was growing, and subsequently transfer this function to the private sector.

In June 2007, the CMC of MERCOSUR published Decision No. 25/07 (MERCOSUR, 2007a), regarding commercial transactions in local currencies. The CMC's decision recognized the use of this payment system as an instrument to improve the macroeconomic coordination of the bloc's countries, reduce financial costs in commercial transactions, and strengthen regional integration. As mentioned before, the operations of the SML are optional and defined through bilateral agreements signed between the central banks of the States Parties of MERCOSUR. The CMC n°25/07 highlighted the need to insert the SML in the ACE n°18, as established in the Resolution GMC n°43/03 (MERCOSUR, 2003).

The CBB Letter Derin/Direc/Sucov 2007/0135 (CBB, 2007a) revealed the definition of communications between central banks would be through the exchange of files via the Internet, without the need to use a security system such as SWIFT. The central bank agents of the two delegations, Brazil and Argentina, stressed the existence of sufficient security measures for the exchange of information between the central banks in case of eventual problems with the network[26]. The letter from the CBB also clarifies that there was a definition of the stages of each process of the SML (Appendix E), the confirmation of the amounts to be

[26] With regard to the operational development of the SML, the CBB suggested, in case of returns of operations with errors or problems in the communication of financial transactions, that these should be treated based on the regular exchange rate regime (CBB Letter Derin/Direc/Sucov 2007/0135), 2007a.

compensated, whose payment would be made to the FED, in New York, in dollars, and the extension of the deadline for providing the Reference Rate. This latter was a BCRA demand in order to avoid a potential increase in operating costs in the country.

It is observed among the points of negotiation of the SML, the possibility of establishing an operational margin for the central banks to carry out compensation operations of less expressive values and payments of the operations on days when the FED is not working. This suggests the possibility that central banks could have taken over the entire BRL-ARS clearing process. However, mutual distrust of their exchange rate regimes remains implicit in bilateral negotiations.

The incorporation of CMC Decision n° 25/07 – “Transactions in Local Currencies” (MERCOSUR, 2007a) in ACE, n° 18 of ALADI, subscribed by the member states of MERCOSUR, required the ratification of the States Parties, in order to internalize the provisions of the agreement. In June 2008, the MERCOSUR Trade Commission established for Brazil and Argentina the internalization of Directive No. 34/08 (MERCOSUR, 2008a). It referred to adjustments in the MERCOSUR Certificate of Origin, in order to enable countries to inform the value of commercial operations in local currencies. On September 8, 2008, the central banks of Brazil and Argentina signed the agreement that established the Local Currency Payment System (SML).

The agreement reinforces the normative observations found in MERCOSUR and ALADI, as well as the premises defined between the central bank's policymaking process of the SML. Therefore, the SML became a financial instrument aimed at: 1) Providing low cost for commercial transactions between Brazil and Argentina, based on the use of their currencies, the Brazilian Real and the Argentine Peso; 2) Attracting small and medium-sized companies from both countries in foreign trade; 3) Strengthen bilateral trade relations, increasing the liquidity and efficiency of the peso/real exchange market; 4) Insert financial integration within the framework of the regional integration purposes set out in the MERCOSUR Treaty of Asuncion (Agreement on the Local Currency Payment System between the Argentine Republic and the Federative Republic of Brazil, CBB, 2008a).

The SML aims to encourage the use of payments in local currencies between the two countries and reduce transfers in USD. Therefore, the SML is not an instrument that determines mandatory intermediation of financial operations. The Article 3 of the Agreement addressed that the central banks are responsible for carrying out “all operational and technical aspects of the SML” (Agreement on the Payment System in Local Currency between the Argentine Republic and the Federative Republic of Brazil, CBB, 2008a, p. 3).

The Articles 9 and 10 point out that the occurrence of errors in the records or operation of the SML, as well as any disputes between importers, exporters, and institutions authorized to operate in the SML, will not be the responsibility of the central banks. The authorities of the central bank of Brazil and Argentina are not willing to assume responsibilities that, potentially, could trigger some kind of imbalance in bilateral trade and the exchange rate regime. The Article 12 of the agreement also provides for the suspension of SML operations in some cases:

> If any material adverse change occurs in the conditions of the financial or exchange markets in Brazil or Argentina, motivated, for example, by natural, political, social, economic or financial, internal or external factors, as long as they are of an extraordinary nature and create obstacles to the normal fulfilment of the obligations assumed by the Central Banks under this Agreement, or are detrimental to the interests of the Central Banks, the latter may temporarily suspend the registration of operations in the SML on a given day, maintaining, however, the daily Clearing and Settlement of operations already registered (Author's translation from the Agreement on the Payment System in Local Currency between the Argentine Republic and the Federative Republic of Brazil, CBB, 2008a, p. 3).

The Article 13 of the Agreement confirmed that the result of the compensation of unilateral balances between central banks will be settled in USD, through the FED using SWIFT security messages. The same article also stresses that central banks will establish a reciprocal contingency margin. Another example of how central banks are unwilling to assume risks is found in the Article 14, related to the SML not serving as a mechanism for hedging foreign exchange risk. This directly reflects the initial concerns of the technical agents of the central banks, in a bilateral meeting on the Clearing House in Local Currencies Brazil-Argentina, held in 2006.

According to Clause 20, the principles and recommendations of the BIS will apply to situations not provided in the agreement or regulation of the SML. This reveals how central bank technical agents are aligned with the regulatory supervision guidelines of international financial institutions, established, above all, by the Bank of International Settlements (BIS). As it is a bilateral agreement carried out within the normative framework of MERCOSUR, doubts about the interpretation, application, or non-compliance with regulations are submitted to the Protocol of Olivos for the resolution of disputes between central banks.

The original text of National Monetary Council Resolution 3.608 of September 2008 (CBB, 2008b), signed by the then president of the Central Bank of Brazil, Henrique Meirelles, refers to operations for receiving revenue from exports and paying for Brazilian imports to Argentina. The resolution highlights the exclusive use of the Brazilian currency between importers, exporters, and financial institutions participating with the central bank, whose operations will take place through the Reserve Transfer System (STR), as well as the application of the rules of the Payment System Brazilian. Transfers of the BRL currency from the CBB to authorized national institutions will be processed according to the amounts and conditions informed by the BCRA, removing the responsibility of the CBB for discrepancies of any nature.

The Circular No. 3.406 (CBB, 2008c) prepared by the CBB provides for the regulation of the SML in Brazil and defines how registration operations will be carried out. Transfer of funds between the central banks of Brazil and Argentina and between them and licensed financial institutions will be carried out in USD when referring to daily compensation measures. The CBB Resolution No. 4.331 of 2014 (CBB, 2014b), chaired by Alexandre Tombini, revoked Resolution 3.608, given the need to standardize the regulatory bases that guide bilateral agreements between the central banks of the States Parties of MERCOSUR, provided possibilities for expanding the SML and deepening regional financial integration. On the Argentine side, The Communication CAMEX 4847 (BCRA, 2008b) issued by the BCRA presented the regulation and operation of the SML following the same operational guidelines set out in Resolution 3.608 (CBB, 2008b).

The Joint Communication of the VII Extraordinary Meeting of the CMC (MERCOSUR, 2008b) issued in October 2008 demonstrated the context of concern of South American countries with the effects of the international financial crisis. On the one hand, the MERCOSUR States Parties had a higher level of confidence in facing the crisis, given the improvement in the countries' macroeconomic fundamentals. On the other hand, the uncertainties surrounding the dimension of the financial crisis demanded a greater level of political coordination and efforts to monitor the international financial system. The countries emphasized the need to improve the prudential regulation of the capital markets, an issue that came to be debated within the scope of the BIS and translated into the principles of the Basel III accord. The meeting of Heads of State of the South American region concluded that the crisis should be fought with greater integration of the states and strengthening of commercial and financial ties, as a way of maintaining the region's growth.

The SML put into practice between Brazil and Argentina was presented as a model for deepening regional financial integration. The international crisis became the main exogenous shock to the regional integration process. It is observed in the RMEPBC (MERCOSUR, 2008c) that Ministers of Economy and Governors of the Central Banks in the South American region reflected the same level of concern with the financial crisis and the effects of world inflation on the region. The crisis became a window for the promotion of the SML among states parties, as seen in the discourses of the Brazilian Minister of Foreign Affairs, Celso Amorim, and in the Argentine Vice President of the Central Bank, Miguel Ángel Pesce, who highlighted the importance of the SML as a mechanism to be implemented by the other States Parties of MERCOSUR as a measure of strengthening regional trade and economic complementation.

Given the efforts to coordinate MERCOSUR's macroeconomic policies and the SML as an instrument for deepening regional integration, the CMC of MERCOSUR published the Decision 09/09 (MERCOSUR, 2009a). This decision expanded the operational reach of the SML among the States Parties of the South American bloc by reinforcing that the financial mechanism could be used in transactions of any nature. In September 2009, within the scope of the Brazilian Inter-Ministerial Working Group on Stimulating Exports in BRL and Payment System in Local Currency, an Official Letter from the Ministry of Foreign Affairs of Brazil, sent by the Secretary-General, Samuel Pinheiro Guimarães, to the Executive Secretary of the Foreign Trade Chamber, Lytha Spíndola, exposes a concern regarding the operations carried out by the payment system still represent a small portion of the total volume of Brazil-Argentina trade, despite of recognizing the growing use of the SML (Brazil, 2009).

The Secretary-General pointed out that one of the possible causes would be the "lack of specific instruments for financing and guaranteeing exports in SML operations" since the current instruments were designed for operations in USD (Brazil, 2009). Guimarães is a critic of market-oriented economic models and liberal policies, which is the profile of the president of the CBB in 2009, Henrique Meirelles. However, Guimarães recognized the role of the Central Bank of Brazil (CBB) during the international economic crisis:

> The crisis in the financial sector in developed countries did not affect the financial sector in Brazil due to the regulation of the sector and the supervision of the Central Bank. However, the crisis reduced credit lines for Brazilian exports and thus affected economic activity in the country (Author's translation from Guimarães, 2012b, p. 5).

In October 2009, the CAMEX (2009) held a meeting regarding the SML with the members of the Brazilian Inter-Ministerial working group related to the Presidency of the Republic (PR), Ministry of Foreign Affairs (MRE), Ministry of Finance (MF), Ministry of Industry and Foreign Trade (MDIC), Ministry of Planning, Budget and Management (MP), the Central Bank of Brazil (CBB) and the National Bank for Economic and Social Development (BNDES). It is observed in the Minutes of the CAMEX Meeting (2009) that the special advisor of the Foreign Trade Chamber agreed with the observations of the Secretary

General of the MRE concerning the lack of export financing in BRL under competitive conditions, which was a constraint to the use of the SML. Brazilian exports to Argentina in the period from January to May 2009, carried out through the SML, corresponded to only 1% of the total value, while the original target of the SML was to reach 3% (CAMEX, 2009).

The SML works as a payment and settlement instrument, without interfering with funding. The CBB technical agent supported the initiative of export financing measures. However, his position signalled some resistance on the part of the CBB in assuming the financing role of the process, due to the context of asymmetry between financing in the Brazilian currency and financing in foreign currency, as well as the risks involved in credit operations on export, requiring a change in tax regulation.

> Due to the old exchange rate model, which prioritized the inflow of currency into Brazil, financing in foreign currency has privileged tax conditions. He highlighted that the main objective of BACEN (CBB) is the internationalisation of the real [...] so that it fulfils three functions of a currency: store of value, means of payment and unit of account (Author's translation from CAMEX, 2009, p. 2).

A normative amendment was suggested to authorize the exemption of Income Tax on interest on credit lines in BRL for export. The CBB technical agent also emphasized that the central bank's Resolution 2770 allowed commercial banks to finance in dollars and make loans in BRL, also indexed in dollars. According to the CBB technical agent, the BNDES is an institution capable of financing exports in BRL by providing rates below market rates and the assignment of credit in the domestic market. The meeting also demonstrated the alignment of interests between the CBB and the public commercial banking institution Banco do Brasil (BB). The BB domestic agent recognized the existence of greater liquidity in foreign currency than the Brazilian currency. Based on that, tax equality would bring more attractiveness to financing exports using BRL. The need to change the rules of PROEX, the bank's financing program for small and medium-sized Brazilian exporters, was highlighted to allow operations to be generated in BRL and enable more lines of credit available to exporters.

At the CAMEX meeting (2009), it is observed the resistance of the agent of the commercial bank (BB) regarding the use of hedging tools to lock the exchange rate and finance exports. It happened because the costs of hedging tools would make the financial operations more expensive for companies, bringing its price closer to regular financing rates, which discourages the use of SML. The BNDES technical agent suggested the possibility of altering operational norms to develop financing mechanisms for exports in the Brazilian currency, but at the moment the institution had not received requests from exporters. The

BNDES technical agent also emphasized his concern by not exposing the perception that the SML would be a replacement mechanism for the CCR. The CBB technical agent, in turn, cited the interest of the Federation of Industries of the State of São Paulo (FIESP) in exports in BRL. These interactions illustrate that the CBB's interest is closer to the market preferences than the national government itself.

It was identified at the CAMEX meeting (2009) an alignment of interests between the CBB, Banco do Brasil (BB), and FIESP, as representatives of a segment of the domestic market. The CAMEX meeting (2009) also stands out for the asymmetry between the political and technical perceptions of the potential of the SML. It means the difference in the expectations regarding the concrete results that the SML could provide. The Presidency of the Republic and its ministers had high expectations in their public manifestations about the financial mechanism. This highlights the strategic interest of Brazilian foreign policy in the SML, in addition to its functions as a payment system[27].

The CAMEX meeting (2009) reveals how exchange rate variations between Brazil and Argentina are sources of constraint to the SML and demonstrate the countries' unwillingness to assume the risks implicit in the financial integration process, as resistance was identified on the part of Argentine importers to carry out operations denominated in the Brazilian currency. According to CAMEX (2009, p. 5): "[…] the exchange rate fluctuation of the Real in relation to the Peso has been greater than the fluctuation of the Dollar in relation to the Peso. As a result, in the absence of hedging tools for their imports, they preferred to run the Dollar risk rather than the Real risk". The offer of currency hedging tools in Reais to Argentine importers would be beyond the reach of the Brazilian government.

It was suggested by the government to establish foreign exchange swap agreements with Banco do Brasil (BB) in Argentina, which would depend on the legal authorization of Argentine exports in Reais. The financial institutions that operate in both Brazil and Argentina are facilitators of the regulatory mechanisms through which the SML operates. It is also observed that the CBB technical agent emphasized the institutional interest of the central bank in strengthening the SML and expanding it to the sphere of services. The XXXVII Meeting of the CMC of MERCOSUR held in 2009 (CIU, 2009) revealed the concern of the States Parties

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[27]This fact can be observed, currently, in the organization of the Pro Tempore Presidency of Brazil in MERCOSUR in 2023, whose efforts are focused on strengthening trade facilitation measures and operational improvement of the SML, as a source of discussions about the potentiality for a common currency in South American. In: BRAZIL. Brasil assume presidência temporária do MERCOSUL e Lula pede união para enfrentar desafios. Presidência da República, Relações Exteriores, 2023.

of MERCOSUR with the impacts of the international financial crisis and the difficulty in advancing the agenda of greater economic impact for the South American region.

The last section of this chapter will be dedicated to analysing the impact of the international financial crisis on regional financial integration, as a “critical juncture”, that is, as an exogenous shock that alters institutional preferences and affects or reinforces the political choice of actors along its trajectory. In this section, it is relevant to emphasize that the international financial crisis became noticeable in developing economies through commercial and financial transmission channels, resulting in a decrease in MERCOSUR's international trade and intraregional trade, which was reflected in more protectionist measures from Brazil and Argentina governments.

According to the CMC (CIU, 2009), Brazil implemented 16 non-tariff barriers while Argentina implemented 11 barriers. Non-tariff barriers distort international and regional trade and represent a contradiction in terms of the South American bloc's objective, which seeks to apply measures to reduce tariff and non-tariff barriers. The CMC (CIU, 2009) identified that India, Brazil, and Argentina were the countries that made the greatest use of trade defence measures in 2008. It is observed at the CMC (CIU, 2009) that the Argentine perception in relation to the SML was that the financial instrument still did not have the expected impact on bilateral trade with Brazil but had the potential to improve.

The SML is a financial instrument that reduces the costs of commercial operations related to the exchange contract and the exchange rate risk for Brazilian exporters, which brings more possibilities for expanding imports in the Brazilian currency and progressive reduction of foreign exchange in commercial transactions. The documents consulted at the bilateral meetings of the central banks of Brazil and Argentina made clear that the payment system is not a mechanism for covering exchange rate risk. The CAMEX Technical Note (2010) points out that the elimination of the difference between the cost of financing in reais and the cost of financing in foreign currencies depends on the reduction of interest rates in Brazil and this, consequently, depends on macroeconomic variables and financial solutions in the long term.

The following table systematizes the establishment of bilateral agreements on the SML among the central banks of the State Parties of MERCOSUR, their respective regulations and operations, aiming to shed light on the evolution of the payment system over the years.

Table 6 – Bilateral Agreements among Central Bank regarding the SML in South America

Regulatory Framework		Year
Bilateral Agreement: CBB (Brazil) and BCRA (Argentina)		**2008**
SML Regulation		**2008**
Domestic Normative	**2008** and reviewed in	**2014**
Bilateral Agreement: CBB (Brazil) and BCU (Uruguay)	(**CMC09/09**) and	**2014**
SML Regulation		**2014**
Domestic Normative		**2014**
Bilateral Agreement: CBB (Brazil) and BCP (Paraguay)	(CMC09/09) and	**2016**
SML Regulation	(Circular 3.907)	**2018**
Domestic Normative		**2018**
Bilateral Agreement: BCRA (Argentina) and BCP (Paraguay)		**2021**
SML Regulation		**2021**
Domestic Normative		**2021**
Bilateral Agreement: BCRA (Argentina) and BCU (Uruguay)		**2015**
SML Regulation		**2017**
Domestic Normative		**2017**
Bilateral Agreement: BCP (Paraguay) and BCU (Uruguay)		**2015**
SML Regulation		**2017**
Domestic Normative		**2017**

Source: Created by the Author from the consultation of the normative documents of the central banks, 2022.

Based on the table presented, below are the similarities and differences in the profile of the bilateral agreements established in the regulatory framework of the SML, in particular, by the Central Bank of Brazil with the BCRA, BCU, and BCP.

Table 7 – Profile of the Bilateral Agreements of the Central Bank of Brazil in the SML

BCRA (Argentina)	BCU (Uruguay)	BCP (Paraguay)
Goods trading operations (up to 360 days) and settlement D + 2	Goods trading operations (up to 360 days) and settlement D + 2	Goods trading operations (up to 360 days) and settlement D + 2
Services and expenses related to the trade of goods	Services and expenses related to the trade of goods	Services and expenses related to the trade of goods
-	Services not related to the trade of goods	Services not related to the trade of goods
Pension benefits (2014)	Pension benefits	-
-	Transfer of small amounts	Current unilateral transfers

Registration currency: exporter	Registration currency: importer and exporter	Registration currency: importer, exporter, and different currencies

References: Operational Regulation of the Local Currency Payment System (SML) among CBB and BCRA (2008d); CBB and BCRA (2014a); CBB and BCU (2014e); CBB and BCP (2016; 2018a; 2018b); Circular n° 3.907 of CBB (2018c).

Consulting the CBB document entitled Exposition of Reasons - Vote 165 (CBB, 2018b), it is observed that different approaches were established in the regulation of the SML agreement between the central banks of Brazil and Paraguay. The Legal Opinion 449/20 attached to the Explanatory Memorandum, issued by the Attorney General of the Central Bank of Brazil (CBB, 2018b, p. 16) affirms that the CBB and BCP cannot establish a contingency mechanism due to a lack of legal support. In this particular case, the Law 12.822/2013 refers only to the establishment of a contingency mechanism with the BCRA, whose coverage is USD 120 million, and with the BCU, whose coverage is USD 40 million. This decision represents a legal mechanism to protect CBB against counterparty credit risk.

The SML agreements established between CBB-BCU and CBB-BCP did not incorporate operations related to financial services. According to the Legal Opinion of the CBB Attorney General's Office (CBB, 2018b, p. 20), this decision is a discretionary option of the Central Bank of Brazil (CBB), under the justification of "mitigating the risk of arbitrage on the SML reference rate", as there is no regulatory impediment, given the decision of CMC 09/09, which provided to the SML the possibility to operate transactions of any nature. The commercial results brought by the SML over the years are still far below their potential, as shown in the following table:

Table 8– Consolidated Brazilian Operations in SML in Dollar (USD)

Country	Agreement Start Date	Final Date	Brazilian Exports (USD)	Trade SML (USD)	SML (%)
Argentina	01/01/2009	31/12/2022	210.112.099.674,00	10.537.891.698,52	5,02
Uruguay	01/01/2015	31/12/2022	20.036.137.132,00	274.856.357,91	1,37
Paraguay	01/01/2019	31/12/2022	11.192.857.419,00	391.251.752,88	3,50

Reference: Central Bank of Brazil, 2023b.

However, even with the different political compositions in the Brazilian government in the last fifteen years, the regional instrument has not been abandoned. The SML is a financial instrument that still needs operational and regulatory improvements, as it has a very low participation rate in the total value of intra-bloc regional trade. According to Cruz (2019), exchange operations in USD encourage speculative gains when exporters have an extended period to convert to local currency. Therefore, when the expected gain exceeds the costs involved in exchange contracts, the exporter will not have the incentive to use the SML. In addition, the table below makes it clear that the use of the SML is still disproportionate across countries. It demonstrates the difference in terms of incentives provided by the national governments to use the SML.

From the Brazilian perspective, a historically dollarized export agenda reduces the expectations of SML use by economic agents, due to the very resistance of companies to change their patterns of operation in dollars. On the side of Argentine exporters, there was greater interest on the part of the Argentine exporter to keep receiving in dollars, due to the exchange rate devaluation of the Peso-ARS. The disproportionate use of the payment system ends up being harmful because it reduces the degree of compensation, increasing the need to use foreign exchange (Pinto and Severo, 2011).

Table 9 – Regional Trade of Brazil using the SML in 2022

Brazil – Argentina	Brazil – Uruguay	Brazil - Paraguay
Exported (BRL) 4,10 billion	(BRL) 331,95 million	(BRL) 754, 69 million
Imported (BRL)11,03 million	(BRL) 2,57 million	(BRL) 369,05 million

Reference: Central Bank of Brazil, 2023b.

In 2022, the Central Bank of Brazil published Normative Instruction No. 266 (CBB, 2022b), referring to the deadline for returning payments related to cancelled operations (15 days), with the objective of harmonizing the procedures of the operational regulation designed with the Central Bank of Argentina (BCRA) and with the Central Bank of Uruguay (BCU). The Normative Instruction also refers to the definition of business days with the Central Bank of Uruguay (BCU), as these issues have implications for the operation of the SML and the time for settling payments and, consequently, may pose a burden to international trade agents, causing potential financial losses and discouraging the use of SML. Therefore, business days are considered to be those on which both central banks are simultaneously in operation. It should be noted that this issue needed to be aligned with all central banks in agreement with the Central Bank of Brazil (CBB) in the SML and with the FED, in New York, since nonworking days in the United States interfere with the daily settlement of the clearing system, leading central banks to make use of the contingency margin.

According to the Central Bank of Brazil (CBB, 2022b), the aforementioned changes must be preceded by a Regulatory Impact Analysis (AIR), defined by the Article 4 of the Decree 10.411 of 2020 (Brazil, 2020), issued by the Federal Government. This measure aims to anticipate potential regulatory problems and assess the impacts involved in the decision-making process taken by the country's government institutions. In 2023, the National Monetary Council published the Resolution 5.069 (CBB, 2023c), regarding the operation of the Local Currency Payment System (SML) with the objective of simplifying and standardizing the operational procedures of the SML and expanding the financial institutions eligible for the use of the SML, providing greater predictability to payment procedures, reducing settlement time and increasing the efficiency of the supervision of the central bank of Brazil, whose change procedures meet a risk control and compliance approach of financial institutions (CBB, 2023e).

According to the Statement of Memorandum Vote 63 (CBB, 2023d), the Resolution 5.069 improves the system to prevent money laundering, financing of terrorism, and the proliferation of weapons of mass destruction, in addition to promoting competition between economic agents, contributing to expanding the SML offer and promoting the reduction of costs of operation. A payment system with voluntary adhesion by the States Parties of MERCOSUR and non-mandatory use in bilateral trade will always be subject to competition for alternatives available in the financial market and threatened by technological advances. It doesn’t mean that the SML should be mandatory for the countries. It means that national governments of the States Parties of MERCOSUR and their respective central banks need to find ways to improve domestic incentives for their use. This involves measures to review the operations of the payment system, the expansion of services covered by the SML, and regulatory harmonization.

The compensation system in foreign exchange operations contributed to reducing the costs involved in the operations of Brazilian exporters. However, as Carvalho (2009) mentioned, the settlement of transactions in the local currencies of the countries involved does not represent a “ de-dollarization” of trade, but it is a step in that direction and constitutes an important advance in South American financial integration. Fifteen years after the bilateral agreement between the central banks of Brazil and Argentina, it can be concluded that there are still more constraints to the functioning of the SML than drivers for its advancement. As long as the international role of the dollar in the international financial system continues to provide greater incentives to the market and shape the preferences of state agents in Brazil and Argentina to establish defensive measures, regional financial integration will continue to struggle to advance.

It would be reasonable to affirm that the advancement of South American regional financial integration, particularly the role of the SML as a financial instrument, still depends on the States Parties of MERCOSUR advancing macroeconomic coordination of the bloc. But also supported by the effort of the SGT4 to harmonize the regulatory framework of national financial systems and the Brazilian government assumes the transaction costs implicit in the integration process. The Brazilian strategic interest in strengthening the SML is an opportunity to promote greater political convergence among States Parties of MERCOSUR in order to expand intra-regional trade and advance, in the long term, towards a regional context that provides better conditions for the convertibility of the Brazilian currency and its reserve value. These are part of the institutional interest of the Central Bank of Brazil, which could contribute to strengthening the Brazilian position in the international financial system.

4.3 The Central Bank of Brazil (CBB): Institutional Design in the Political Transition

This section aims to understand the institutional role of the Central Bank of Brazil (CBB) as an analytical background for the discussion of its role in South American regional integration. It is recognized in part of the literature (Cervo, 1994; Salvo, 2013; Pinto, 2021) that the CBB is an active agent of Brazilian foreign policy due to its ability to give technical treatment to financial and monetary issues, contributing to the Ministry of Foreign Affairs Foreign, Ministry of Economy and other institutions of the national government, in different dimensions, e.g., international negotiations on the external debt; measures to protect against external shocks caused by the international financial crisis; strategies to deepen regional financial integration.

The Central Bank of Brazil is not constitutionally independent, but a special autarchy of the federal government. The Central Bank of Brazil is responsible for implementing the country's monetary policy, aiming to establish measures that contribute to a solid, efficient, and competitive financial system, reflecting the economic well-being of society (CBB, 2023a). This means that Brazil's central bank has an institutional commitment to national development interests. The central bank's actions aim to maximize the benefits of national economic agents and protect the national financial system from instability and risks that may threaten the country's economic growth.

The country's monetary policy is defined by the National Monetary Council (CMN), a group also responsible for defining the so-called "inflation target". The Monetary Policy Committee (COPOM) is in charge of setting the prime interest rate. The COPOM is a collegiate body composed of representatives of the Ministry of Economy, the Central Bank, and its board of directors. The Superintendence of Currency and Credit (SUMOC) was established by the Decree No. 7.293 of 1945 and modified through the Law No. 4.595 of 1964, which created the Central Bank of Brazil (CBB, 2021a). In the Brazilian Constitution of 1988, new legal provisions have been established for the institution. Since then, the CBB (2021a) has been experiencing a progressive regime of transferring power and increasing its competencies, which guaranteed to the financial institution a certain level of operational autonomy, aiming to settle a so-called “anchoring of expectations” in the national financial system.

The Complementary Bill 112/2019 introduced a debate regarding a statutory basis for the legal autonomy of the Central Bank of Brazil (CBB) (NCB, 2019). However, this project did not proceed. It signalled that the majority of representatives of the Brazilian National Congress preferred the maintenance of the CBB's operational autonomy, as a government body linked to the federal government, particularly, to the Ministry of Economy. Nevertheless, the Complementary Bill 179/2021 granted the institution legal autonomy, making official the separation between the Central Bank and the Ministry of Economy and providing for the collegiate appointment of the Central Bank (Brazil, 2021).

The separation of the link between the Central Bank of Brazil and the Ministry of Economy attributed a character of legal autonomy to this financial institution, distancing elective political cycles from conducting monetary policy and aiming to reinforce the technical and operational aspects of the central bank. The President of the Republic continues to be responsible for nominating the President of the Central Bank of Brazil and its directors, who are appointed to their posts after approval by the Federal Senate. However, Complementary Bill 179/2021 (Brazil, 2012) is not an instrument that immunes this financial institution and the conduct of monetary policy from political interventions or personal ideological preferences. The autonomy of the CBB does not qualify this government body as an independent institution. The institutional competencies of the CBB must correspond to its legal attributions foreseen in the Article 192 of the Federal Constitution of 1988 (Brazil, 1988).

The CBB’s institutional autonomy “real or perceived” contributes to the institution’s credibility and trust with the financial market and investors. It also reinforces its monetary authority and commitment to the stability of the national and international financial system (Raposo, 2011). The CBB's greater capacity for technical decision-making is reflected in more predictability for economic agents in relation to the future of the country's economy. However, according to Raposo (2011), the CBB's operational autonomy is not a sufficient instrument to shield the financial institution from political pressures and potential government interference. The relationship between ‘operational autonomy’ versus ‘legal autonomy’ versus ‘independence’ of central banks has become a collective game of perspective, image, and power with implications for its decision-making process vis-à-vis the national government, the financial market, and civil society.

The progressive incorporation of institutional responsibilities by the Central Bank of Brazil during its history allowed this financial institution to adopt rules that modified the regulation of the national financial system and established the bases for the implementation of agreements and programs aimed at financial stability, e.g., the Basel I Accord, the economic reforms of 1994 and the beginning of the Real Plan, reformulation of the new Brazilian Payment System (SBP), among others. In May of 2003, the enactment of Constitutional Amendment n° 40 (Brazil, 2003), approved by the National Congress and the Brazilian Federal Senate, fragmented the regulation of the national financial system into various complementary laws, differently from the previous regulation established in Article 192 by the Constitution of 1988. This fragmentation meant the establishment of a new regulatory framework for the national financial system. It recognised the fact that the CBB has progressively adopted new responsibilities since the Law No. 4.595/64 (CBB, 2021a). As a consequence, the Constitutional Amendment No. 40/2003 enabled the National Monetary Council (CMN) to include new topics on the agenda, such as adherence to the Basel II and III Accords, technical cooperation agreements and several thematic analyses on the national financial system (Brazil, 2003).

Since the country's re-democratization in 1985, the Brazilian economy has experienced cycles of more developmental policies and moments of stabilizing policies. According to Raposo (2011), in developmental periods like the 2000s, characterized by policies of accelerated economic growth and low inflation, the CBB was shaped by political forces in which the strength and interests of the Executive Power predominated, reflecting a certain degree, in loss of the central bank autonomy (Raposo, 2011). According to Wachtel and Blejer

(2020), central banks with independence status can constrain the formulation of policies by governments that seek to lead their macroeconomic results and respond to external shocks.

The stabilizing periods are characterized by high inflation and fiscal fragility of the State like in the 1990s, whose economic policy focused on monetary stabilization. It represents a tendency for the central bank to be more autonomous and less vulnerable to political and clientelist demands. Raposo (2011) affirms that the periods of greater or lesser autonomy of the central bank, within the scope of developmental or stabilizing policies, coincide with the composition of the monetary boards. The hybrid institutional characteristic of the CBB is what allows the institution to manage the economic structure of Brazil. The Central Bank of Brazil is a structuring agent of the policies of the national financial system with a regulatory and prudential role. The CBB conducts the monetary policy in order to foster economic development and provide financial stability to the country.

The CBB had an active participation in the development of the SML as a financial instrument to facilitate trade between the State Parties of MERCOSUR, which demonstrates the relevance of technical agents from the central bank of Brazil as policymakers. According to Salvo (2013, p. 87), “It is difficult to refute the hypothesis that the Central Bank is an institution embedded in the Brazilian foreign policy”. Considering the periods of stabilizing and developmental policies since the re-democratization of Brazil, it is noted that the SML negotiation process between the central banks of Brazil and Argentina took place during a moment of transition in the Brazilian economic policy.

The first term of Lula da Silva's government (2003-2006) was characterized by a commitment to the continuity of the stabilizing policies put into practice in the last government of Fernando Henrique Cardoso. However, the favourable moment of economic growth in Brazil due to the period of international commodity boom contributed to a context of more developmental and expansionist policies in the country and an alignment of economic objectives between the federal government and the Central Bank of Brazil. This provided a better political scenario to advance projects of interest to the government, such as the SML, aimed at strengthening South American regional integration.

4.4 The Central Bank of Brazil: A Structuring and Regulatory Role

This section aims to analyse the role of the Central Bank of Brazil (CBB) in regional financial integration, focusing on the formulation of the Local Currency Payment System

(SML). The SML was developed as a pilot project launched in 2008, based on bilateral relations between Brazil and Argentina. New bilateral agreements were established over the years between the central banks of the other States Parties of MERCOSUR, Uruguay, and Paraguay. This research applies a descriptive analysis, paying attention to how the preferences of the actors are assumed and their implicit interests in the regional process, in order to make the influence, participation and role of the Central Bank of Brazil (CBB) more explicit. Given this context, this section dialogues with the existing literature on the subject and from that, insert the analytical contribution of this research into the framework of knowledge about this political process.

Azambuja (2012, p. 83) accurately described the regional integration process of South America by stating that “Mercosur is born from a dynamic bilateralism”, referring to the relationship between Presidents Sarney and Alfonsín in the mid-1980s. it represented a turning point in Brazil's competitive relations with Argentina and paved the way for regional integration in MERCOSUR (Vigevani and Ramanzini Junior, 2022). Likewise, Brazil and Argentina represented a similar bilateral stimulus for the formulation of the SML, whose political efforts were reflected in the advancement of regional financial integration among the Member States of MERCOSUR.

It took 15 (fifteen) years since the Decision CMC n° 25/07 to the formalization of the last bilateral agreement regarding the SML, between Argentina and Paraguay central banks held in 2021. The assessment of the documents referring to the technical meetings of the agents of the central banks of Brazil and Argentina during the formulation of the SML showed that their preferences were shaped in a complex environment of domestic and international constraints. Salvo (2013, p. 87) correctly exposes the role of the CBB as an agent of international politics by stating that “there is no state institution active in the international arena that is disconnected from the reality of their country of origin, so it will always act on both the internal and the external levels”. In the particular case of the Central Bank of Brazil (CBB), its participation in regional financial integration is assumed simultaneously with the purpose of internationalising the Brazilian currency and the efforts to regulate and supervise financial markets, as observed in the minutes of the ordinary meetings of the Mercosur SGT4 between 2006 and 2018.

According to Deos et al. (2013, p. 158), regional financial cooperation initiatives in the Latin American region were strategies to “manage external liquidity, notable in situations of rupture or deterioration of financing conditions”. Carvalho and Sennes (2009) affirm that Brazil's historical financial vulnerability and the need to manage the external debt constrained the country’s capacity to propose, review, or shape norms in global financial governance. This context shaped a “defensive” and “passive” feature of the Brazilian foreign policy in the international financial and monetary system (Carvalho and Sennes, 2009, p. 23). It is a different behaviour from what is observed in Brazil's engagement in international economic negotiations in multilateral organizations (Hurrell and Narlikar, 2006).

While the efforts of the Working Subgroup of MERCOSUR for Financial Affairs (SGT4) focused on topics such as assessing the degree of compliance with the basic principles for effective banking supervision, harmonizing the main norms that regulate the banking system, mapping regional asymmetries of financial services among the States Parties of MERCOSUR and adherence to the new Basel agreements, the technical agents of the central banks of Brazil and Argentina were developing the SML bilaterally. It was identified in the minutes of the SGT4 meeting, in particular, initially, in Minutes n°2/2008, item 8.3 “Presentation SML” that the National Coordination of MERCOSUR monitored the advances of the SML through the participation of technical agents of the central bank at the ordinary meeting of the working group. It is reasonable to affirm that the incentives for the formulation of the SML carried out by the technical agents of the central banks of Brazil and Argentina came from outside the scope of the SGT4.

The SML does not seem to have been the result of a regional policy developed within the institutional body of MERCOSUR, in particular, in the SGT4, but a consequence that came from the interests of the commercial policy of Argentina and Brazil in pursuing trade facilitation instruments. Regional financial cooperation in the Latin American region is an initiative that is related to the commercial performance of countries (Titelman, 2006). Trade policy seeks economic results, but it is also a strategic means for greater political autonomy (Belfrage, 2013). Regional financial cooperation is aimed at minimizing the external vulnerability and macroeconomic instability of South American countries, whose liberalized markets have more fragile financial structures and foreign direct investment and capital flight (Deos et al., 2013). Just like the Reciprocal Payment and Credit Agreement (CCR) and the Latin American Reserve Fund (FLAR), the SML is another financial instrument that aims to minimize the effects caused by economic liberalization on trade.

According to Ocampo (2006), the regional level has become fundamental for the strategic autonomy of developing countries in terms of economic policy. Payment systems are linked to factors of a geopolitical nature, especially in peripheral countries such as Brazil and Argentina, whose national financial systems are influenced by the asymmetrical aspects of the international monetary and financial architecture (Cruz, 2019). The diversification of Brazil's international trading partners has strengthened its narrative of contestation to the dominant international financial regimes. The development of the SML as a financial instrument for regional trade does not challenge the hegemony of the U.S. dollar (USD) but it creates the strategic conditions for progressively diminishing its dominant political role in South America. The use of the USD has implications for the macroeconomic policy of peripheral countries by constraining political choices and limiting their autonomy (Pinto and Severo, 2011). However, the USD also facilitates global trade (Cruz, 2019).

It is understandable to conclude as seen in Carvalho (2009), that the dollar clearing mechanism used at the SML represented a lack of confidence in the exchange rate regime of the neighbouring country. This distrust between the exchange rate regimes of Brazil and Argentina was indeed verified when analysing the minutes of their meetings during the entire SML policymaking process and identified in the bilateral agreements signed by the CBB. However, it may have been the strategic alternative found by technical agents to advance regional financial cooperation in a region characterized by regulatory asymmetries and low macroeconomic convergence. This means that the constraints of the regional process changed the pursuit of the agents' preferences, replacing the logic of maximizing gains for a satisfactory result.

The dollar clearing mechanism also works as a line of defence against the effects of international financial crises on peripheral countries (Deos et al., 2013). Debates on the difficulties of macroeconomic coordination among the States Parties of MERCOSUR are well known in the South American bloc, particularly, the divergences in the exchange rate policy of Brazil and Argentina, aggravated by the devaluation of the real in 1999 in Brazil and the break in the parity of the peso with the dollar in the 2000s in Argentina, which illustrate the low macroeconomic coordination among States Parties and the low institutionality of the South American bloc. This lack of coordination causes negative effects on bilateral trade due to the risk aversion generated by exchange rate fluctuations for exporters and importers, resulting in protectionist measures in the bloc (Baer et al., 2002; Carranza, 2018). It would be unreasonable to wait for the ideal macroeconomic harmonization context of MERCOSUR to implement a project like the SML.

Even because, as observed at the RMEPBC meeting (2006), none of the technical agents of the central banks or political agents of the Ministry of Economy had a clear perspective on the challenges that the implementation of the payment system would imply since the SML involved the creation non-existent market. In fact, it is observed that the logic was the opposite when using the SML. This means that the SML would be a financial instrument that induces macroeconomic coordination and regulatory convergence among States Parties of MERCOSUR and would need to overcome regulatory, operational and technological challenges.

From the point of view of the monetary hierarchy, there is no single national currency that is strong and internationally convertible in South America that could be capable of anchoring and defending the other ones. It also weakens the possibilities for advancing regional financial integration (Carvalho, 2009) and hampers the prospects for a payment system without dollar-clearing regimes. Based on this perspective, according to Cruz (2019), the non-convertibility of the local currencies of the States Parties of MERCOSUR reduces regional trade gains and imposes limits on the regional integration process itself. This would justify the development of an alternative payment system such as the SML initially established between the central banks of Brazil and Argentina, which aims to reduce the costs of operations and reduce the use of the USD as the primary means of payment.

The SML could also have the function of being a liquidity management instrument (Cruz, 2019), even if this was not the main motivation for its creation. According to Cruz (2019), existing institutions could be used as a defence mechanism against international financial crises. The SML reveals that the Central Bank of Brazil (CBB) had the political capacity to deal with regional problems in a way that was not achieved in multilateral instances such as the World Trade Organization (Reiss, 2013), given the failure of the Doha Round. The CBB's experience with the Reciprocal Payments and Credits Agreement (CCR) from ALADI, although they do not have the same objective, certainly contributed to the central bank's expertise, in terms of financing infrastructure projects aimed at supporting the exports of Brazilian goods and services in the Latin American region (Rüttiman et al., 2008).

Brazil's withdrawal from the CCR also sheds light on the rationality behaviour of the central bank in international relations. The political and credit risks involved in the CCR led the Brazilian government to leave the agreement in 2019, particularly, regarding Venezuela’s debt to Brazil. The CCR lost relevance in the settlement of commercial transactions, due to the technological advancement of international financial institutions, greater liquidity in markets and liberalization of capital flows. The national monetary authority, the CBB, decided not to assume the implicit costs of financing exports or guarantee exchange rate hedging, due to the potential risks of financial operations leading to imbalances and crises in the national financial system. It can be understood that the development of financial instruments such as the SML in regional integration only advances to the extent that the Central Bank of Brazil has the capacity to protect itself against the economic risks involved in the process followed by the logic of utility-maximization, which seek to achieve the best outcome for its actions.

It is observed from the documentary analysis of the bilateral agreements carried out by the Central Bank of Brazil (CBB) that the operations related to financial services were not incorporated into the SML agreements. Not only that, but the difference in the scope of bilateral agreements between Brazil and Argentina, Uruguay and Paraguay reflects the countries' difficulty in finding solutions to establish measures that encourage greater use of the SML. It seems that the CBB is setting the rules of the game in the bilateral agreements by shaping the interests of the actors in the negotiation process but constraining the options of financial operations available in the framework of the SML.

By analysing the legal opinion of the CBB Attorney General's Office (CBB, 2018b, p. 20), it is demonstrated the rationality of CBB technical agents in the process of regulating SML operations by imposing defensive measures such as the “discretionary” choice of not incorporating financial services in the SML agreement, even with the absence of any normative impediment. It is relevant to remember that Decision CMC 09/09 (MERCOSUR, 2009a) provides for the use of the SML for transactions of any nature. The financial sector needs good regulation for its macroeconomic stability. The SGT4 of MERCOSUR is dedicated to financial regulation and supervision measures, as well as regional regulatory harmonization efforts. The non-incorporation of financial services in the SML agreements may reflect the choice of establishing a cautious liberalization of services as a defensive strategy against potential financial crises.

Considering that the main interest of the agents of the central banks of Brazil and Argentina would be to facilitate the opening of a new market segment to expand the access of small and medium-sized companies to exports, the lack of operations focused on financial services, a highly regulated sector, would not initially be a constraint to the development of the SML. Despite the SML operations being more limited, the central bank agents would achieve a satisfactory result by launching a financial instrument that contributes to expanding bilateral trade and meeting exporters' expectations by reducing operating costs. According to Reiss (2013), the SML is a policy with the objective of eliminating restrictions on the choices of exporters. However, the payment system is advantageous for only a specific segment of the market, small and medium-sized companies with liabilities mostly denominated in local currency since invoicing in their own currency eliminates the exchange risk in dollars, a fact that does not occur when companies choose the traditional payment system. The interviews carried out by this research revealed another reason for the disproportionate use of the payment system, which refers to the fact that the Argentine government also encouraged large companies to use the SML. It ended up increasing the expenses of the operations for such companies because the payment system was designed to benefit a different segment of the market, which are small and medium-sized companies.

Because of the economic benefits that could be achieved with the SML, technical agents of the CBB sought the support of the Brazilian national government, meaning the Ministry of Economy, Ministry of Finance, Ministry of Foreign Affairs, as a calculation logic to reduce the risks involved in the process by transferring potential costs with export financing to BNDES and commercial banks as Banco do Brasil (BB), as observed at the CAMEX meeting (2019). Therefore, the alignment of the CBB's technical agents with the national economic agents reveals the self-interest of the actors in not assuming a position of risk in the international scope. This demonstrates that the rationality of CBB agents is a cumulative process of experiences throughout history, given the central bank's participation in the CCR.

In this way, it became more efficient to develop the payment system bilaterally than to assume the transaction costs of a political process at the multilateral level. This would partially explain the low level of institutional articulation between the technical agents of the central banks of Brazil and Argentina with the SGT4. Possibly, this limited the range of services covered by the SML and, consequently, reduced expectations of greater use of the payment system. The incentives for the admission of new operations in the framework of the SML would have to come from the market demand, and observing the national regulation of the countries, which vary bilaterally between the agreements of the central banks.

The policymaking process of the SML among the States Parties of MERCOSUR, a regional organization with an intergovernmental or inter-presidential profile, characterized by a low level of institutionalisation (Luciano and Campos, 2021) affected the regional integration process by structuring political and commercial interests into a normative framework with operational and regulatory implications for central banks and the respective States Parties of the South-American bloc, which need to internalize regulations and promote changes in the domestic legal system. Loose and asymmetric regulatory conditions discourage the formation of a new market and are sources of economic instability, which may frustrate the expectations of the technical, political, and economic agents involved in the process of the SML. The lack of greater macroeconomic coordination between countries and a framework of regulatory asymmetries in the region did not provide enough incentives to segment a new market for regional trade in order to use the SML, as intended by the technical agents of the central banks of Brazil and Argentina.

The challenges to deepening regional financial integration begin with the profile of the South American bloc itself. Achieving such political objectives requires national political institutions to bear with higher costs of the regional integration process and the economic risks involved. According to Carvalho (2009), regional integration implies accepting limitations to the national autonomy of countries, as well as the reduction of individual political freedoms in exchange for economic, social, and political benefits perceived as relevant to the South American bloc. However, the main regional actors, Brazil and Argentina, are not interested in giving up sovereignty to a supranational instance. It was not even originally intended by the MERCOSUR bloc in 1991.

Brazil, as the largest country in South America, does not assume its expected role of being a paymaster in the regional integration process to not dilute its decision-making capacity and constrain the Brazilian foreign policy by limiting national strategic autonomy. In the same line of reasoning, Vigevani and Ramanzini Junior (2022, p. 80) affirm that Brazil has historically acted to protect its autonomy and strategic interests in its relationship with the South American bloc. Argentina would not share its sovereignty so as not to lose its control in matters of economic and trade policies. Therefore, it is assumed in this analysis that the South American regional integration cannot have high expectations that Brazil and Argentina would give up their monetary sovereignty for a process of regional financial integration, considering the implicit costs involved in the process.

Learning from historical experience during the economic crises of the 1990s and the need for monetary stabilization policies, the convertibility plan in neighbouring Argentina in 2001, as well as the international financial crisis of 2007 are some examples that help to understand the rationality behind the reluctant behaviour of the CBB to deepen regional financial integration over the years. The impact of these historical events on the largest economies in South America revealed the vulnerability of the countries to the forces of the international financial market and the damage that the free financial flow of capital could cause in the region (Belfrage, 2013). This scenario demonstrated that regional financial integration would require the strengthening of national institutions to advance the various dimensions of the process (Deos and Wegner, 2011).

According to Carvalho and Sennes (2009, p. 19), Brazil's “partial, selective and differentiated” economic liberalization process in the 1990s, the end of high inflation, and the greater international competitiveness in the 2000s had little impact on changing Brazil's defensive profile in the international monetary and financial system. The failure in the negotiations of the Bank of the South in the same period, during which Brazil became a creditor of the IMF through the investment of US$ 10 billion and supported the IMF position during the Argentine economic crisis between 2000 and 2003, contributed to shaping an implicit relationship of regional distrust (Carvalho and Sennes, 2009). The very lack of a regional financial institution in South America is another sign of the low priority given by countries to regional financial integration.

The commodity boom between 2003 and 2007, combined with the favourable exchange rate for international trade, the growth of foreign investment and the accumulation of international reserves, improved the perception of economic risk in Brazil. It contributed to the national government having greater political ground to engage in the international financial system at regional and international levels[28]. The internationalisation of medium and large Brazilian companies in South America from different sectors of the economy, e.g., steel, mining, finance, information technology, engineering and civil construction, energy, among others, has increased the need for public policies to improve the competitiveness of Brazilian companies abroad in convergence with the strategy of the Brazilian foreign policy.

However, the resistance of the Brazilian government to assume the transaction costs of the process and the reluctance of the Central Bank of Brazil to deepen financial integration do not necessarily mean that Brazil is not interested in regional integration. This just means that South American regional integration could develop under favourable conditions, without necessarily having the same level of institutionalisation as other regions of the world. According to Belfrage (2013), a slower and more flexible but cumulative regional financial integration process is significantly more reasonable for MERCOSUR. The political and social strengthening of the South American bloc, as well as the increase in Brazil's trade relations, contributed to a scenario in which national institutions such as the Central Bank of Brazil (CBB) played a more active role in the country's international insertion.

The operational autonomy of the Central Bank of Brazil does not mean an institution free from the influence of political and economic interests of the dominant elites (Raposo, 2011), nor from the individual interests of the technical agents who conducted the SML negotiations, the president of the CBB and the groups of interest formed around the committees that define the paths of the country's macroeconomic policy. It is necessary to

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[28] Brazil’s engagement in the international financial system is seen in many initiatives such as the revitalization of the BNDES as an institution responsible to promote national development; the change of Brazil's shareholding at the Andean Development Corporation (CAF) from level C to A (Carvalho, 2009); revitalization of the CCR; establishment of FOCEM; restructuring of the Financial Fund for the Development of the La Plata Basin (FONPLATA); specific actions at the Inter-American Development Bank (IADB), WTO, IMF, World Bank and OECD; and the launch of the New Development Bank (NDB) with the Contingent Reserve Arrangement (CRA).

consider that the interactions of central bank agents are shaped by the existence of several institutional constraints. Structured institutions such as central banks, whose institutional objectives have been consolidated throughout history, have a greater constraint on agents' actions. The technical agents of the central banks of Brazil and Argentina demonstrated this rationality by conducting their negotiations without putting the monetary authority at risk, looking for the political strategies that would provide the best outcome to the process. The dollar compensation regime highlighted the central bank's choice of a defensive policy in the SML.

> In SML, the Central Bank of each country registers imports from the partner country on a daily basis, obtains the consolidated position and settles transactions with the other Central Bank based on the difference between credit and debit positions in both currencies – Brazilian real and Argentine peso. Exporters and importers do not need to buy and sell dollars. Days later, the system credits exporters and charges importers, in their national currency. The final payment between the two central banks, however, is made in dollars. That is, there is no assumption of exchange rate risk between the central banks of the two countries. In fact, for the Brazilian government, the exchange rate risk is lower than that existing in operations carried out through the CCR of ALADI (Author’s translation from Carvalho and Sennes, 2009, P. 25).

Despite all the political, economic, and institutional constraints involved in the SML, it is concluded that the CBB technical agents were able to shape a regional financial instrument that was operationally viable and satisfactory to the Brazilian government, given the conjunctural history of the South American countries of financial crises and economic imbalances, maximizing opportunities to expand Brazilian exports, based on the insertion of small and medium-sized companies in the market. However, as shown in Table 8, the SML still falls far short of its potential. The payment system needs to improve operational issues, harmonize regulations among the States Parties of MERCOSUR, and incorporate more options for financial operation in the SML, perhaps, expanding the system to other sectors.

The CBB's technical agents converged the country's economic interests with the reduction of risks assumed by the monetary authority, contributing to greater autonomy of the Central Bank of Brazil (CBB) in its role of structuring the SML policy and regulating its operations. However, the historical flexibility of the South American bloc was manifested by the protectionist tendency in Brazil's relationship with neighbouring countries, due to a context shaped by the great variation of the exchange rates as a result of Brazil's system of floating exchange rates and defensive measures against the effects of the financial crisis. These facts were decisive for the greater reluctance of the Central Bank of Brazil to deepen regional financial integration and assume the risks implicit in the process, while the government's rhetoric encouraged the opposite path. In the particular case of Brazil, the policy of accumulating international reserves managed by the central bank also benefited the country in facing the financial crisis by reducing its international vulnerability and providing greater impetus for the government to pursue the policy of regional integration.

It is observed in the policymaking process of the SML that the CBB technical agents acted in the bilateral relations among the States Parties of MERCOSUR by taking into account protective measures to the monetary authority, at the same time that they found the opportunity costs to insert the Brazilian currency in the international financial system, improving its liquidity and creating the conditions of greater convertibility of the national currency called Real (BRL). Within the scope of SGT4, given the regulatory protection measures for the financial system of the States Parties of MERCOSUR, taking into consideration that financial flows are the main transmission channels of crises, the non-inclusion of financial services in the operations of the SML was a rational choice to reduce implicit risks in the policymaking process of the payment system. It also protected the regional insertion of the Brazilian currency in a scenario of greater financial stability for Brazil.

The Department of International Affairs (DERIN) of the Central Bank of Brazil (CBB) is responsible for managing, following and monitoring the SML and the implementation of the Reciprocal Payments and Credits Agreement (CCR). DERIN is also responsible for the National coordination of the SGT4 of MERCOSUR and the organization of the meeting “MERCOSUR Financial” during the Brazilian Pro Tempore Presidency. Therefore, it can also be concluded that the SML is a financial instrument that, even with its limitations and constraints, provided incentives for macroeconomic coordination among the States Parties of MERCOSUR to advance its regional financial integration and created new expectations for cooperation in the matter of finances and fostered regional trade. The identification of the role of the Central Bank of Brazil (CBB) as a structurer of the policymaking process of the SML and regulator of its operations by setting the rules of the system minimized the exposure of the national financial system to the risks of economic imbalance, created conditions for greater strategic autonomy for Brazil to expand the use of the currency internationally and progressively strengthened the Brazilian position in the global financial governance.

5 THE CHALLENGES OF REGIONAL FINANCIAL INTEGRATION IN SOUTH ASIA: ANALYSING FINANCIAL CONVERGENCES INITIATIVES IN SAARC

The fifth chapter also approaches the core analysis of this research, which is focused on the second case study by explaining how the Reserve Bank of India (RBI) is leading the regional financial cooperation in South Asia. This case study addresses the context of regional financial convergence initiatives towards the modernization of the national financial systems of South Asian countries through a network of central bank agents in order to provide the conditions to establish bilateral payment systems to be developed among SAARC Member Countries, which are known as the SAARC Payment Initiative (SPI), established in 2008. It is demonstrated how the political forces between member countries shaped by deep regional asymmetries influenced this regional organization and South Asian countries to move towards progressive advancement of their financial system, but gridlocked by regional distrust and historical conflicts. Despite the challenges faced by the South Asia region, the efforts made by agents of the RBI and other central banks of the region achieved its first bilateral payment system and provided an institutional framework for advances in regional financial convergence. This chapter also provides a systematic analysis of the interactions among the main actors of the policymaking process carried out in the SPI, aiming to identify the role of the RBI in regional integration.

5.1 Differentiated Subsystem of Regional Integration in SAARC

With the emergence of the "Asian Century" (Acharya, 2011a), rising powers such as China and India have been reshaping the regional order and impacting the international system (Renard, 2013). Asia has become the new centre of geopolitical dynamics, which contributed to the rising of the sub-region of South Asia (Menon, 2021). The economic growth and political rise of China and India in the international system during the 21st century spilled over some of its benefits throughout the South Asian countries and fostered the economic development of the region by attracting foreign direct investments and increasing the volume of international trade and financial assistance (ESCAP, 2018).

The region stands out for being historically conflicted and poorly integrated, where security issues often overlap with the economic and development agenda (Teixeira Júnior, 2010). According to Behera (2012), regional integration initiatives in South Asia have gone through three distinct phases. Although analyses of economic potential were also part of the scope in the launch of SAARC, this regional organization did not initially present in its institutional framework any inclination towards cooperation in this matter.

> The idea of regional cooperation in South Asia has evolved in three broad phases. In 1978, the Committee for Studies on Cooperation in Development (CSCD), led by the erudite and visionary Tarlok Singh, first took this initiative. Long before the proposition of creating a regional organization for South Asian countries was floated at the official level, the CSCD was involved in conceptualizing the idea of a South Asian community, as well as spelling out its actual economic possibilities. The inter-governmental body of the South Asian Association for Regional Cooperation (SAARC) was subsequently born in 1985. By “political choice”, SAARC avoided cooperation in the core economic areas of money, finance, trade, and manufacturing (Behera, 2012 p. 3).

The phase of adopting import substitution industrialization policies in the 1970s and 1980s in South Asian countries was characterized by an inward-looking trade policy in the region, whose economies were strongly regulated with an interventionist presence of the state, which constrained intra-bloc trade. The trade liberalization process in the region began in the 1990s, under the pressure of the international economic crises and influenced by the guidelines proposed by the IMF and the World Bank (Dash, 2008). According to Dash (2008), the purpose of India for preferential trade agreements was to attract a greater flow of foreign investments and improve its institutional capacity in order to establish trade relations with other Asian countries and open new regional markets. Smaller markets with low diversification production benefited from the liberalization in the short term, but as competitiveness increases these markets face greater restrictions, which reduces the impetus for international trade.

It was only in 1994 that South Asian countries signed the SAARC Preferential Trading Arrangement (SAPTA). The Indian regional cooperation strategy was undertaken based on the policy of “positive unilateralism”, aiming to “grant concessions to its neighbours without expecting reciprocity” (Dash, 2008, p. 157) and expanding its sphere of negotiation trade and diplomacy bilaterally and extending to Asia-Pacific. Sinha and Sareen (2020) affirm that the liberalizing policies carried out in the 1990s by India, Bangladesh, Nepal, Pakistan, and Sri Lanka combined with the SAPTA Agreement, doubled the volume of intra-regional trade in the first decade. The economic reforms that took place in India in 1991 also resulted in the Look East policy during the Narasimha Rao government (1991-1996). The dissolution of the Soviet Union and the economic rapprochement between Western and Eastern Europe led to the closure of relevant economic markets for India, which used the Look East policy to renovate New Delhi’s political and economic interests in the international system.

The growing insertion of China in the international system and, in particular, in Asia, also influenced the strategic perception of the Indian foreign policy, which sought to shape its regional dynamics in order to establish an open and inclusive process (Sikri, 2009; Jain, 2011). According to Jain (2011), under the government of Prime Minister Atal Bihari Vajpayee, between 1998 and 2004, India adopted the concept of extended neighbourhood and the development of a Pan-Asian regionalism, which ranged from the Suez to the China Sea. In the next decades, India established political-economic relations with most regional organizations in Asia, strengthening its multi-alignment policy. According to Mukherjee (2007), the 1990s was a period of time distinguished by the slow pace in the process of regional cooperation and trade liberalization in South Asia vis-à-vis the rising China and the increasing economic development of ASEAN countries.

The SAPTA Agreement was replaced ten years later by the South Asian Free Trade Agreement (SAFTA), signed in 2004. India has established a free trade agreement with all regional arrangements of developing countries, taking advantage of the mutually beneficial relationship to push its diplomacy to a strategic level. The government's measures resulted in the signing of bilateral free trade agreements with Sri Lanka (1998), Thailand (2003), Singapore (2005), South Korea (2009), ASEAN (2010), Japan (2011) and Malaysia (2011). The signing of SAFTA, during the SAARC Summit in 2004, intensified the framework for regional economic cooperation in South Asia.

The poor performance of the SAFTA and the protectionist profile of the economies imposed further difficulties for South Asia regional integration moving forward (ESCAP, 2018). In addition, the region is also shaped by overlapping regionalism, which increased the challenges of political coordination and weakened the role of SAARC as a platform of regional integration and political dialogue. New Delhi is also engaged in alternative regional arrangements in South Asia such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which is “New Delhi’s preferred platform” for cooperation and strategy of dissuading Pakistan’s influence, according to Okano-Heijmans and Sundar (2018, p. 4).

The historical conflict of India with Pakistan is shaped by economic asymmetries, international competitiveness, religious beliefs, and mainly border insecurities, which are not limited only to these countries, but often involve third countries as well, such as China, Nepal, and Bangladesh in this security complex. According to Pattanaik (2006), this context constrained India’s willingness to regional leadership and its foreign policy strategy, which also locked the decision-making process of SAARC and its potential to drive regional integration. The SAARC is an intergovernmental organization based on the principle of sovereignty, in which decisions are taken by consensus. This means that India and Pakistan need to find common ground to make SAARC a functional platform for regional development and integration, which has been difficult over the years[29].

According to Dash (2008), the enlargement of SAARC observer members was driven by the tensions between India and Pakistan, when the Islamabad foreign policy suggested China join the South Asian bloc, contrary to India's interests. The efforts of India to keep China out of the SAARC were unsuccessful, as Pakistan, Bangladesh, and Nepal supported China's candidacy in 2005. In return, India supported the United States and Japan joining the bloc as observer members of SAARC as well.

Gupta (2007) summarizes the dynamics of regional order in Asia, based on the following interpretation: the United States wants a unipolar world and a multipolar Asia; China wants a multipolar world and a unipolar Asia; India wants a multipolar world and a multipolar Asia, based on its traditional non-alignment policy. India's foreign policy established its regional relations in South Asia based on a network of bilateral relations and assumed the role of the policy maker of SAARC by promoting regional economic cooperation and developing institutional instruments aimed at expanding sectoral and high-level political coordination among Member Countries in multilateral forums.

According to Das (2016), India's regional policy makes the SAARC regional cooperation compatible with New Delhi's interests. One example can be seen in 2003, when India, China, Japan, and South Korea held a dialogue on the possibilities of forming an Asian Economic Community for the first time. In the context of ASEAN and India relations, stability in the bilateral relations with Pakistan, deepening cooperation with China and the United States, and a renovated foreign policy of New Delhi, India's participation in the East Asia Summit in 2005, supposed to be the beginning of a new regional political and economic architecture in Asia. However, India was the only country from South Asia participating in the dialogue process with other Asian countries. And as Acharya (2010) remembers, Asia is not one. In addition to Asian countries defending different views on the scope of integration and the dimensions of cooperation, the idea behind the Asian Community triggered the perception

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[29] India and Pakistan went to war in 1947, 1965 and 1971, in addition to a conflict in the Kargil region in 1999 (Lima, 2012) and several continuously smaller conflicts, terrorism problems and political adversities until the present days. The main point of divergence between the two countries is regarding to the legitimacy of the territorial control of Jammu, Kashmir and Ladakh, which is divided between three countries, India, Pakistan and China. India has the highest percentage of control over the region (Das, 2016). Pakistan's close relationship with China is another reason for triggering regional political tensions in the region, leading India to counter-balancing its relations with the US, Japan and Australia.

among other South Asian countries of an “Asian version of the Monroe Doctrine” or the idea of a “Pan-Asian Regionalism” (Acharya, 2010, p. 1012), generating some distrust for not being involved in the political dialogue.

According to Prys (2013), extra-regional actors have been showing a growing presence in the international relations of South Asia, especially from the axis of strategic cooperation with India, such as the United States and the European Union, or from the perspective of cooperation and competition like China. The rising of the US-China competition, particularly regarding their foreign economic agendas, which can be manipulated through the negotiations and design of trade agreements, aiming to secure competitive gains in Asia is overlapped by interests that lead both countries to raise tensions (Adriaensen and Postnikov, 2022). According to Prys (2013), the deficit of Indian influence in South Asia falls mainly on the bilateral conflicts with Pakistan and the rise of China, which makes it difficult for India to consolidate itself as a regional power. Besides that, there are general challenges posed by historic regional conflicts between smaller countries.

Since 2014, regional cooperation of India with South Asian countries has been enhanced under the government of Prime Minister Narendra Modi and New Delhi’s regional approach through the Neighbourhood First and Act East policies, based on the “regional-global nexus” (Fawcett and Jagtiani, 2022). It is a regional policy that renovated concepts based on non-reciprocity, connectivity, and asymmetric responsibilities carried out by the Indian government in the 2000s, under Prime Minister Manmohan Singh (2004-2014), which was supposed to improve New Delhi’s political influence in South Asia. It means that regional powers like India are constantly interacting at regional and global to achieve their global aspirations.

The progress of SAARC also relies on India’s willingness to improve regional cooperation and establish measures of opening the domestic market to the least developed countries of South Asia, without requiring reciprocity. The first signs of effective India's efforts in South Asia were seen in 2007, when Prime Minister Manmohan Singh made a unilateral concession to SAARC member countries to allow access to the Indian market for exports of goods and services from Bangladesh, Nepal, Bhutan, and Sri Lanka, as well as reducing the list of sensitive products. India also assumed greater responsibility for reducing the regional asymmetries that shape South Asia. These changes in the Indian government's foreign policy have contributed to the strengthening of SAARC regional cooperation, moving from a rhetorical phase to a practical regional policy.

Based on a set of reports from ESCAP (2018) and Sinha and Sareen (2020) within the framework of the Sambandh: Regional Connectivity Initiative, and the World Bank (2020a; 2020c), it was possible to systematise some of the reasons why the South Asia region implies a wide range of constraints and challenges to advance its regional cooperation agenda.

Table 10 – Barriers to South Asia's Regional Integration

1-	Competitive export baskets between economies, rather than complementary;
2-	Low technical complexity and low production capacity of the smaller countries;
3-	Smaller countries are at different stages of democratic consolidation;
4-	The rigidity of Cumulative Rules of Origin and Industrial Cooperation in SAFTA;
5-	High rates of tariff and non-tariff barriers and duplication of documental and operational procedures at the border checkpoint;
6-	Deterioration of physical infrastructure, which results in high trading transaction costs;
7-	Numerous deficiencies in cross-border trade facilitation measures and unilateral protectionist measures;
8-	Lack of food security;
9-	Energy crises;
10-	Low-income countries have several restrictive policies to attract foreign investments;
11-	Increase of military expenditures;
12-	Deficit of trust among SAARC member states;
13-	Regional asymmetry shaped by the lack of political will or limited capacity of India leading regional integration and development;
14-	Historical conflicts between neighbours and unresolved border issues, particularly in the autonomous state of Jammu and Kashmir as seen between India and Pakistan (two nuclear powers), but also conflicts that involved India-Bangladesh; India-Nepal; India-Sri Lanka; India-China, which is an Observer Member of SAARC and a country bordering of South Asian countries with direct impact on this regional order.

Reference: ESCAP (2018), Sinha and Sareen (2020), the World Bank (2020a; 2020c).

The combination of all these factors resulted in a region with the lowest level of intra-regional trade, reaching around 5% of South Asia total's volume of trade (World Bank, 2020b). According to Sinha and Sareen (2020, p. 4), India's regional trade with South Asia varies between 1.7% and 3.8% of its global trade. It suggests that India's international trade is majorly established with partners outside of the region. South Asia region asymmetries and tariff and non-tariff barriers, as seen in the previous table, not only provide incentives for

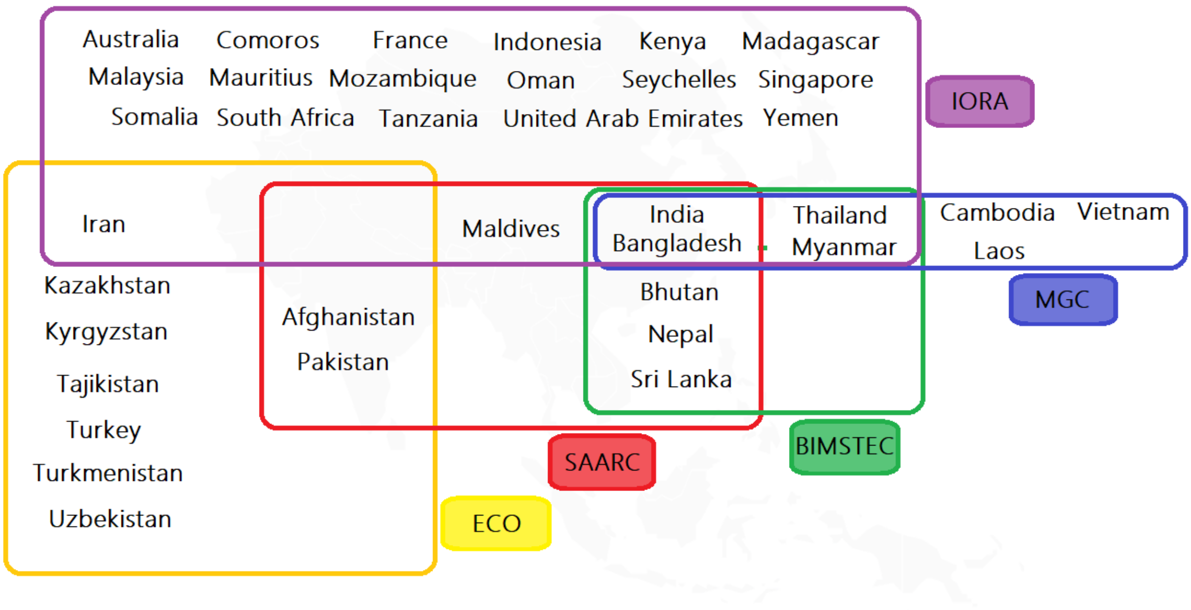
India to assume the role of paymaster of regional integration but also increase the challenges of international inserting of India as seen, for example, the resistance of Asia-Pacific Economic Cooperation (APEC) to approve the proposal of India to join the institution in 2022, despite the fact of New Delhi meets with the requirements of this regional organization.

Rueland and Michael (2019) affirm that smaller countries of South Asia are “hedging” or “bandwagoning” engagement through regional institutions or bilateral relations to obtain economic cooperation and reduce the risk of military actions, aiming to develop domestic capacities of political institutions and improve regional infrastructure. According to the ESCAP report (2018), the multiplicity of institutional structures for cooperation such as SAARC, BIMSTEC, and the Economic Cooperation Organization (ECO) could be complementary institutions to the advancement of the SAARC regional financial cooperation, enabling New Delhi to put into practice a two-speed regionalism strategy (Mohan, 2015). However, as mentioned by Rueland and Michael (2019), overlapping regionalism hampers the process of adaptation to the international norms and commitments established in regional institutions, interferes with the countries' decision-making process or instrumentalized to counterbalance hegemonic power, which reduces the effectiveness of their political performance. South Asia’s trade liberalization and tariffs agreements, the South Asian Free Trade Agreement Area (SAFTA) signed in 2004 that succeeded the SAPTA, also affected the progress of the bloc's trade agenda.

According to the ESCAP report (2018, p. 6), South Asia has numerous “intersecting arrangements complemented by bilateral preferential free trade and transit agreements between India and Nepal, Bhutan and India, India, and Sri Lanka, Afghanistan and Pakistan and Pakistan and Sri Lanka”. According to Sinha and Sareen (2020), bilateral trade liberalization agreements are below their potential due to the difficulties of overcoming regional trade barriers. However, according to ESCAP (2018), SAFTA is the only regional trade mechanism that includes all South Asian countries in trade liberalization agreements, representing a significant role in the region's trade advancement.

The figure below illustrates the scenario of overlapping regionalism that shapes South Asia's international economic relations:

Figure 9 – Overlapping Regionalism in South Asia



Legend: IORA – Indian Ocean Rim Association; MGC – Mekong-Ganga Cooperation; SAARC – South Asian Association for Regional Cooperation; BIMSTEC – The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; ECO – Economic Cooperation Organization.
Source: Author's illustration, 2022.

Analyses provided by ESCAP (2018) and Sinha and Sareen (2020) point out that the difficulties in the negotiations among the South Asian governments over the years reflected in the poor regional performance of SAFTA as a platform aimed to facilitate trade liberalization. The SAARC's weak performance is due to the extensive list of sensitive products indicated by national governments to be excluded from the preferential treatment list, high operational costs of intra-regional trade and the competitive nature of their markets, due to the low perception of the comparative advantages of their industries and difficulties in forming a productive regional value chain, which ended up blocking many negotiations in the region.

It is observed in Patil et al. (2007, p. 4) efforts taken by India to foster intra-regional trade by reducing import taxes on more than 4.000 products to Bangladesh, Maldives, Nepal, Bhutan, and Afghanistan and recognising the certification of textile and food products from other SAARC countries. However, if on the one hand, such measures demonstrated India's efforts to improve regional cooperation with SAARC countries, on the other hand, the list of sensitive products in competitive industrial areas, such as textiles and agriculture, remained in force, which increased the difficulties of SAFTA carry out its role in fostering intraregional trade and investments (Patil et al., 2007). The tariff liberalization process was constrained by a number of non-tariff barriers in South Asia. The decision of India to accredit products exported by the other SAARC countries also demonstrates how the region's largest economy was unwilling to assume regional leadership or be the paymaster of the South Asian regional integration.

In addition, India's protectionist measures end up causing the duplication of operational and documentary procedures in intra-regional trade. It highlighted the lack of transparency of New Delhi's policies towards SAARC member countries, which resulted in increasing trade restrictions to the regional markets and a deficit of confidence among SAARC countries (Patil et al., 2007). The SAARC Member Countries also have a trade deficit with India, unlike trade relations with the European Union, which implemented trade facilitation measures with countries of South Asia, enabling smaller economies to generate a trade surplus with the European bloc. Patil et al. (2007) affirm that for ten years India refused foreign direct investment from Sri Lanka, Bangladesh, and Pakistan. The removal of these barriers only came at the beginning of the 21st century and they were applied only to Sri Lanka and Bangladesh. Considering that many countries rely on investments as the only way to manage the trade deficits generated with India (Patil et al., 2007), such restrictions represented a significant constraint in the development of regional economic relations of SAARC countries.

Bilateral free trade agreements, such as the one signed among India and Sri Lanka in 2000, according to ESCAP (2018), demonstrated the potential of intra-regional trade and foreign direct investment among Member Countries of the South Asian bloc. However, it also represents the poor performance of SAFTA in mobilizing political coordination, which triggered agreements outside of its institutional framework. In addition, since India and Pakistan are trapped in a political dispute of influence, economic competitiveness, and military conflict, it deepens the challenges for SAFTA to function as a platform for intra-regional trade and international insertion to South Asian countries.

> The other critical pending reform concerns the implementation of full non-discriminatory treatment of India’s exports to Pakistan, which are currently governed by positive lists, which enumerate the allowed items rather than the prohibited ones, and are consequently more restrictive (ESCAP, 2018, p. 9).

As noted in the ESCAP report (2018), the dispute between the two countries is also reflected in the trade area, as the trade facilitation agreements devised by the WTO and carried out within the scope of SAFTA, ratified by India, Nepal, Pakistan and Sri Lanka are frozen or waiting for the consolidation of a new list of preferential products from Bhutan and Bangladesh, which blocked SAFTA's negotiations and put SAARC in a low ranking index of trade performance. According to the World Bank (2020a) and Sinha and Sareen (2020), the complexity regarding cross-border measures and duplication of documentary procedures in South Asia makes its trading with foreign markets such as the United States, Brazil, European Union, and ASEAN cheaper than intra-bloc trade or similar to the costs of regions geographically located where do not have an opening to the sea. It demonstrates the lack of standardization and harmonization of trading measures and problems to overcome regarding the classification of products.

Based on this regional context, deepening regional financial cooperation is seen as a means of facilitating South Asia's regulatory framework harmonization in order to improve trading mechanisms and services, followed by investments to cover infrastructure deficiencies to build regional productive capacity. Some initiatives within the scope of regional financial cooperation are important milestones in unlocking the economic relations of SAARC Member Countries, e.g., SAARC Finance coordinated by central banks, established in September 1998; Forum of Intergovernmental Experts Group (IGEG) on Financial Matters; SAARC Public Debt Managers Forum; Affiliation of Member States to the Asian Clearing Union (ACU); SAARC Agreement on Trade and Services (SATIS) and the SAARC Development Fund, both created at the 16th SAARC Summit in 2010 and whose budget is around US$300 million; SAARC Payment Initiative (SPI) within the framework of the SAARC Finance in 2008; Launch of the South Asian Regional Standards Organization (SARSO) in 2011, whose objective is to standardize trade facilitation measures, financial cooperation and customs reforms; Regional Currency Swap Agreement concluded in 2012, which contributed to solve liquidity problems in the SAARC regional markets with the allocation of US$2 billion (ESCAP, 2018).

The Bangkok Declaration on Regional Economic Cooperation and Integration, signed in 2013 and endorsed by UNESCAP Resolution 70/1, contributed to "securing the commitment of Asia-Pacific countries to work together towards economic integration" (ESCAP, 2018, p. 3). According to ESCAP (2018), the Bangkok Declaration identified the need to strengthen regional financial cooperation in South Asia and advance measures focused on the following areas:

> (i) market integration through enhanced cross-border trade and investments, (ii) development of transport, energy, ICT and people-to-people connectivity, (iii) greater financial cooperation for closing infrastructure gaps and liquidity support; and (iv)

> increasing economic and technical cooperation to address shared vulnerabilities and risks (ESCAP, 2018, p. iii).

In 2014, Narendra Modi, on the occasion of his inauguration as Prime Minister of India, invited all government representatives from the SAARC bloc with the purpose of advancing the coordination of regional economic development strategies and expanding cooperation in trade, energy, security, infrastructure, connectivity, and culture, aiming to increase national capacities to attract foreign direct investments. Such efforts were put into practice expecting that South Asia would achieve some level of stability and regional security (Das, 2016). Narendra Modi held bilateral meetings and visited the SAARC Member Countries, particularly, Sri Lanka, after three decades without receiving an official meeting from India, and Nepal, after almost two decades without receiving an Indian Prime Minister. This official meeting resulted in a credit line of US$1 billion provided by India for infrastructure, irrigation, and energy projects (Chaudhury, 2015).

The economic rise of the South Asia region in the 21st century is seen by the increasing capacity of India, Pakistan, Sri Lanka, Bangladesh, and Nepal to attract foreign direct investments. Bangladesh has become the main destination for intra-regional investments, due to the development of its textile and clothing industry and its preferential access to international markets (Sinha and Sareen, 2020). India has become one of the main countries for attracting foreign direct investments in the world, due to the combination of economic reforms in the 1990s, a cycle of prosperity in the commodities boom of the 2000s, greater technological specialization, assertiveness of the Indian foreign policy strategy in the multilateral organizations, the continued economic growth in the last decade and governmental efforts to promote the country as an investment destination as seen in the initiative launched by Prime Minister Narendra Modi in 2014, named Make in India (Sinha and Sareen, 2020).

This is a program part of the National Manufacturing Policy, established in late 2011, whose objective is to simplify the country's processes and regulations to provide an improvement in the business environment and transform India into a global manufacturing centre, increasing the participation of Indian industry in the GDP. The Look East policy aimed to extend India's sphere of political and economic influence in the Asia-Pacific region was intensified under the Administration of Narendra Modi (Blank et al., 2015) and refunded as the Act East policy due to India's active participation in other regional processes.

Chinese trade and development commitments are evolving Beijing toward political, economic, and security dimensions with South Asia countries (Pal, 2021). Indian foreign policy and SAARC also represent a political counterweight to constrain Beijing's regional insertion. Chandran and Singh (2015) affirm that India has historically supported governments in the region and has an active military presence in the management of regional conflicts, which makes it difficult for Beijing to strengthen its security relations with South Asian countries. However, India's significant presence in the region's politics and economy is also a subject of high criticism and allegations of interference in domestic affairs by neighbouring countries.

The low level of access to foreign capital markets by the smaller South Asian countries and their weak domestic markets, resulted in a higher risk of credits by international rating agencies, which impose difficulties for these countries to raise financial capital internationally. Those countries end up becoming dependent on raising capital in larger regional markets such as India, Pakistan, and Turkey, limiting the industrial expansion of their national companies (ESCAP, 2018). The weakness of cross-border banking links of the SAARC countries also does not contribute to trade and investment facilitation in the region (Feyen, et al., 2020), which made South Asian countries choose stronger and convertible currencies such as the U.S dollar and Euro in order handle with intra-regional trade.

It reduced the possibilities of developing a regional payment system in local currency and imposed new challenges of political coordination at the SAARC Payment Initiative (SPI). Therefore, the SPI has focused on the institutional strengthening of the national financial systems of SAARC Member Countries with the purpose of strengthening the banking communication network, harmonizing the regulatory framework and supervision measures to reduce costs and facilitate regional and international financial operations. The SPI became a platform in which the countries of South Asia established political coordination and technical cooperation focusing on structural adjustments of their domestic payment systems aiming to create institutional capacity to create a regional payment system (SPI, 2008a).

The Reserve Bank of India (RBI), whose financial mechanisms feature advanced technology, plays a major role in technical cooperation with the central banks of South Asian countries and national governments, which provides perspectives of improvement in the regional cooperation process of SAARC in the financial dimension. The SAARC is still a regional organization that presents a slow and complex political process, mainly due to its conflictive history that has been (re)shaping South Asia international relations. The SAARC's cooperation is divided between moments of evolution, such as the SAARC Regional Agreement on Promotion and Protection of Investments, and moments of lesser progress, such as the difficulties in the negotiations to apply a scheme of visa facilitation (Khan, 2021).

However, despite SAARC is not considered a successful regional organization, it does play a role in regional stability to some degree by promoting cooperation practices in the political, scientific, security, health, and socio-economic development, particularly, related to poverty alleviation. The complexity of South Asia as a region in terms of political convergence, security concerns, and cultural exchanges makes SAARC institutionally unstable, reducing its catalysing role for regional cooperation. In economic terms, it can be affirmed that South Asia could be considered an 'economic patchwork' or even according to Chakma's definition of SAARC (2018; 2020, p. 46), a “layered economic region”. Regional financial cooperation is significantly relevant to unlocking some of the constraints faced by SAARC over the years and taking the opportunity of the unexploited potential of intra-bloc trading and investments.

5.2 When Bilateralism Gridlocks Regional Integration: The SAARC Payment System

This section aims to analyse the behaviour of the Reserve Bank of India (RBI) in the regional financial cooperation established among the Member Countries of SAARC in order to identify how its role affected the development of South Asia integration. In 1998, a regional network of central bank officials and regulators was established during the 10th SAARC Summit of the Head of the States of the SAARC Region, named by the SAARCFINANCE in South Asia with the objective of sharing experiences on macroeconomic policy issues among member countries of the region (RBI, 2011). It became a permanent body of SAARC in 2002. Among the broader objectives of SAARCFINANCE, several actions were established looking to promote regional cooperation between central banks and ministries of finance.

The main initiatives of SAARCFINANCE involved the regional harmonization of financial services legislation, the development of an efficient payment system, improvement in macroeconomic coordination among Member Countries of SAARC, means of facilitating intra-regional trade, monitoring the global financial governance process and its impacts in South Asia. The SAARCFINANCE representatives also maintained dialogue with the main international financial institutions such as IMF, World Bank, and BIS, monitored reforms in the financial and monetary system of Member Countries, promoted regional strategies and training in different aspects of the monetary policy of the countries, such as the reform of the foreign exchange systems and banking supervision, in a context of financial liberalization (RBI, 2011).

The Import-Export Bank of India Act (1981) laid the groundwork for the creation of the Exim Bank of India, the state-owned bank responsible for providing financing assistance to exporters and importers, regulated by the Reserve Bank of India (RBI) and by that, promoting India's international trade. International trade in India is managed by collegiate authorities such as the Ministry of Commerce and Industry and the Directorate General for Export Promotion, the General Board of Taxes and Customs and the Reserve Bank of India. The Foreign Exchange Act (1999) provides for the regulations and management of foreign exchange in India. According to the RBI's regulations, there are no restrictions regarding the export and import of the Indian Rupee, as long as international trade is carried out with freely convertible currencies. This condition imposes a significant constraint on intra-regional trade because the currencies of other SAARC countries are not convertible. This demonstrates a clear sign of the RBI's resistance to trading with SAARC countries, whose currencies have a large exchange rate variation in relation to the Indian Rupee.

According to SAARC Bulletin 1 (SPI, 2008b), the SAARC Payments Initiative (SPI) is a regional financial network of people in charge of improving national payment systems in order to achieve a regional payment system within the framework of SAARC. It is composed of authorities of the central banks of South Asian countries. The SAARC Payment Initiative (SPI) was originated at the conference named "Towards a Regional Payment Group" held in Colombo, Sri Lanka, in July 2007, whose project was approved by the central bank governors and incorporated by the monetary authorities during a meeting of the SAARCFINANCE in the same year. The SPI initiative was proposed by the Central Bank of Sri Lanka (CBSL) and supported by Member Countries of SAARC, whose efforts led to the establishment of the SAARC Payment Council (SPC).

Within the scope of the SPI, the SAARC Payment Council (SPC) promotes training and seminars on the operation of the payment system, aiming to standardize the format among the countries of the South Asian bloc and build their institutional capacity to achieve a compatible regional payment system. According to Goyal (2014), for the South Asia region to enjoy the benefits of international trade and advance in the process of financial and monetary integration, it is necessary to have stable domestic financial systems as a prerequisite, even if the bloc does not have complete monetary union as its main objective. It is observed that the Deputy Governor of the Central Bank of Sri Lanka, Ranee Jayamaha, emphasized the need to mitigate the risks involved in cross-border transactions and optimize the high cost of quality infrastructure for the region by undertaking reforms collectively in coordination with each other. The first SPI meeting established the group's mission and vision, as well as the formulation of a Road Map.

Jayamaha (2008), a former Deputy Governor of the Central Bank of Sri Lanka, addressed during his speech on the inauguration of SPI, in Colombo, on 28 March 2008 the role of the central banks of the SAARC Member Countries in the development of a payment system that allows safe, reliable and protected transactions in order to increase trade and investment flows at national and regional level and improve the level of competitiveness of the South Asian countries in the international trade. Jayamaha (2008) stressed that central banks are expected to find a common ground to promote the standardization of institutional measures, aimed at corrective actions in the political, operational, communication, and regulatory frameworks in order to overcome constraints to the payment system due to political disputes among Member Countries, particularly, India and Pakistan. The political instability of these countries may affect the reforms of the national financial systems and as a consequence, it could imply protectionism by the governments and stricter regulatory measures by their central banks. It is observed that the SPI is followed by the Committee on Payment and Settlement System (CPSS) related to the Bank for International Settlement (BIS), contributing with technical cooperation and consulting services in order to meet international standards.

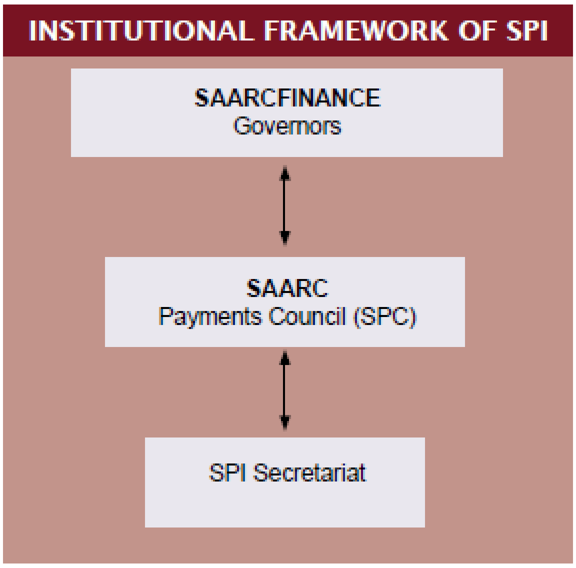
The SAARC Payment Initiative (SPI) aims to advance national reforms in the payment system of the Member Countries of SAARC, through technological updating that allows South Asian countries to respond adequately to the growing complexity of production and transformations of global financial governance. Its primary goal is to strengthen the SAARC region's existing payment and settlement systems in order to “facilitate an efficient, robust, stable, and convergent system” (SPI, 2008a), as well as the implementation, coordination, and cooperation of comprehensive domestic and cross-border systems reforms. It is understood from the SAARC Bulletin 1 (SPI, 2008b) that collective coordination at SPI has the potential to reduce the risks involved in regional transactions and the costs of infrastructure.

Collective coordination would also contribute to better productive targeting of regional connectivity in terms of financial flows, foreign direct investments, exchange rate policy management, international trade, and physical connectivity in South Asia. According to SAARC Bulletin 1 (SPI, 2008b), reforms in the payment system of national countries combined with political coordination among technical and political agents of the Member Countries of SAARC provide the conditions for a safer and more efficient regional payment system. The SPI regional financial cooperation contributes to a higher level of risk control, aiming at standardization with the best international practices. As a consequence of promoting technical cooperation, the South Asian bloc intended to raise the level of harmonization of the regulatory framework and promote technological efficiency to achieve stability of the financial systems, which facilitates national and regional financial flows and fosters regional financial integration through the development of a regional payment and settlement system.

The agent of the central bank of Sri Lanka exposed the strategic expectations regarding the SPI, whose purpose was to achieve the integration of payment systems among Member Countries of SAARC, based on technological development to facilitate integration and less dependence on banking correspondents in commercial operations. Regional financial cooperation from the perspective of Sri Lanka's central bank agent was focused on reducing costs of cross-border transactions, increasing intra-regional trade, improve the coordination of monetary policies among central banks aiming to create the possibility of having a common currency within the region.

The SAARC Payment Initiative was established in the institutional framework of SAARC, according to the figure below:

Figure 10 – SAARC Payment Initiative Framework



Reference: SAARC Bulletin 1 (2008b).

The Reserve Bank of India hosted the second meeting of the SAARC Payment Council in 2007, in which member countries assessed the current status of the payment system in the region and the national reforms under development. The RBI took responsibility for collecting data on domestic instruments of payments, inflows and outflows of remittances, categorizing them and redesigning a common format. The RBI also prepared studies on risk mitigation in foreign exchange settlement that may be applicable to SAARC Member States (SAARC Bulletin 1, SPI, 2008b). There is an existing asymmetry in the development of national payment systems presented by central bank agents, as a result of mapping the current stage of development of the national financial systems and the conditions for regulatory harmonization and promotion of regional financial integration.

According to SAARC Bulletin 1 (SPI, 2008b), all countries involved in the preparation of the SPI Road Map are responsible for providing guidance and leadership, having the power to formulate, adopt and monitor the implementation of payment system and settlement. However, it is observed that India, Pakistan, and Sri Lanka are the countries that presented the most developed stage at the operational level and technical infrastructure for a system for clearing and settlements, especially in technological terms such as the use of Real Time Gross Settlement (RTGS). Thus, they are the countries that have the greatest capacity to exercise the role of regulators of the SAARC payment system. Most countries, Bangladesh, Bhutan, Maldives, and Nepal showed variations in the degree of development of their national payment systems, while Afghanistan appears to be the country with the least developed payment system.

Analysing the SAARC Bulletin 1 (SPI, 2008b) reveals that the technical agent of RBI articulated the vision, mission, scope and objectives of the SPI supported by the agent of the central bank of Sri Lanka and mediation of the central bank officials of the other Member Countries of SAARC. The interest of the agents of the Sri Lanka central bank was regarding the technological advance of the SPI, particularly the implementation of the RTGS and security measures of the settlement system. It was also noted that the RBI was responsible for assessing the volume of cross-remittance payments in the SAARC countries, writing a report on risk mitigation in foreign exchange settlement, and collecting data related to domestic payment instruments by category and format to be developed. Mapping the national payment systems, the organization conferences, reporting, and the budget of the SPI was shared among the central banks' agents of the Member Countries of SAARC. The SPI Secretariat was under the responsibility of the Central Bank of Sri Lanka.

The SAARC Bulletin 2 (SPI, 2008c) explores the concern of central bank agents with the improvement of the large-value payment system in order to mitigate potential risks to financial systems, reducing delays in settlements and increasing the technological efficiency of member countries. Bulletin 2 (SPI, 2008c) presents the individual evolution of the countries' national payment system, with emphasis on technological modernization in

Bangladesh and Bhutan, the strengthening of the regulatory framework in Sri Lanka and the monetary security initiatives in Pakistan. The SPC sought to establish exchanges of experiences with other countries in the region, particularly from Asia, to learn about the collective challenges to reach a common platform for integrating the economies and facilitating regional trade and the security of remittances.

The Bulletin 2 (SPI, 2008c) emphasized the importance of the independence of central banks in the supervision of financial systems and adaptation of the regulatory framework developed in the SPI in convergence with the good governance practices established within the scope of the BIS. The central bank of Sri Lanka was the model of regulatory practices from the BIS to the other SAARC Member Countries. The interest of Sri Lanka's central bank agents in technological improvement and banking supervision practices in the development of the regional payment system revealed the country's objective of hosting the SWIFT Service Bureau, which helped the government of Sri Lanka to reduce the costs involved in an outsourced communication network. The SAARC Bulletin 3 (SPI, 2009) presented India's compliance with the guidelines set out in the Payment and Settlement Systems Act (RBI, 2007).

The retirement of Ranee Jayamaha, one of the main people responsible for organizing the SPI, opened space for greater leadership by the RBI's political agents. The document Payment Systems in India Vision 2009-2012 (RBI, 2009) published by the RBI sets out the intention of the Indian central bank to support the reforms of the national financial systems in the region and to advance the cooperation initiatives in the SAARC Payments Council. The SAARC Bulletin 3 (SPI, 2009) highlighted the operation of the Pakistan Real-Time Inter-bank Settlement Mechanism (PRISM), a mechanism aimed at managing operational risks, increasing the efficiency of the national payment system and monitoring financial market activities. The document also highlighted the start of clearing house operations in Bangladesh, the advances made towards financial inclusion in the Maldives, the certification of financial service providers in Sri Lanka and the establishment of the electronic fund transfer and clearing system in Bhutan.

The SAARC Bulletin 4 (SPI, 2010a) addressed problems regarding the inward and outward remittance of each member country of SAARC, which found that the volumes of transactions were very low and channelled through informal means. It was observed that the central banks of India and Sri Lanka presented to all member countries their experiences in terms of high-volume payment systems and RTGS. It demonstrated the leadership role that Sri Lanka and India's central banks have been playing among SAARC Member Countries.

Besides that, central bank officials of SAARC decided by unanimous decision that Sri Lanka central bank agents would continue to hold the chairmanship of the SPI for another year.

The RBI technical agents were in charge of presenting the latest developments established in the national payment systems of the SAARC Member Countries. By doing so, RBI agents were able to provide technical training to the central bank agents of the SPI and contribute to the operational development of remittance procedures. It was found that many countries of SAARC still depend on payment orders to carry out their financial operations. Technical agents from the Central Bank of Sri Lanka presented a pilot project on the collection of worker remittances in partnership with the country's largest commercial banks.

The SAARC Bulletin 5 (SPI, 2010b, p. 6) showed how the electronic payment system in India increased considerably in 2010. Furthermore, the RBI issued a directive under the PSS Act (RBI, 2007), regarding legal certainty for netting and settlement arrangements as a way of “bring transparency and uniformity in default handling procedures across all the multilateral and deferred net settlement systems approved by the Reserve Bank of India”. The Bulletin 5 (SPI, 2010b) also covered the evolution of the electronic payment system in Pakistan, automated check processing in Bangladesh, and the wire transfer fund and clearing system in Bhutan.

However, the central bank of Sri Lanka advanced its interbank payment system with multiple settlements carried out on the same day. Given the advancement of the national payment systems of the Member Countries, the RBI established security measures in the country by publishing a new directive regarding the authentication of means of payment in order to identify and account for financial operations. This not only improves security to international trade transactions but also sets standards of conduct for the central banks of the SPI to impose difficulties on financial transactions that potentially fund terrorist groups.

Advances in the Indian payment system led to a technical cooperation with the Royal Monetary Authority of Bhutan, as an initiative to accelerate changes in the financial system in Bhutan and technological improvement. The SAARC Bulletin 5 (SPI, 2010b) revealed the significant asymmetry in the degree of development of the financial systems of the Member Countries of SAARC, where each country has been presenting different rhythms of evolution. It is observed that the SPI has been a regional platform that favoured the advancement of national financial systems. This can be related to the individual interests of the central bank agents in maximizing their own benefits because this regional platform, so far, focused on building the institutional capacities of Member Countries and there was no clear progress in building a regional payment system. It means that the low level of institutionalisation of

SAARC, in a certain way, fostered the activities of the SPI, since the voluntary character of the regional financial cooperation did not imply, until now, a greater level of interdependence between the Member States.

It is relevant to remember that SAARC's intra-regional trade represents only 5% of the bloc's total volume, which countries have competitive markets. Therefore, the advancement of national payment systems corresponds to a calculation of optimization by the central banks of the Member States of SAARC in order to improve their cross-border payment systems and provide better conditions for expanding international trade prioritizing extra-bloc negotiations instead of improving intra-bloc trading. It is observed that in Sri Lanka central bank rationality seeks to shape the regional platform for its economic development and modernization of the national financial system. The RBI representing a leading economy has taken on key SPI responsibilities in terms of mapping regional asymmetries and regulatory harmonization along with Sri Lanka in order to set the rules of the game and influence the behaviour of the central banks of smaller countries.

According to the SAARC Bulletin 6 (SPI, 2011a), the Central Bank of Sri Lanka introduced a Secured Transaction Registry, a similar system developed by the RBI. The modernization of the payment system is expected to increase the credit flow to small and medium-scale companies and strategic sectors such as agriculture (SAARC Bulletin 6, SPI, 2011a, p. 2) in order to improve their competitiveness in attracting foreign direct investments and promote economic development. The SAARC Bulletin 7 (SPI, 2011b) showed that the RBI and Nepal Rastra Bank (NRB) established a technical cooperation agreement to create a bilateral financial mechanism called the Indo-Nepal Remittance System. This system aims to facilitate the remittance of funds by Nepalese workers in India in a regular, cost-effective and secure manner to their families.

The SAARC Bulletin 7 (SPI, 2011b) also addressed the significant advances in Pakistan's remittance system, reaching a record of USD 11.2 billion in 2011, and advances in the payment system in Bangladesh, Nepal, and Bhutan. The SAARC Bulletin 8 (SPI, 2012a) approached the initiatives for enhancing the payment system in Bhutan. The Reserve Bank of India technical agents established technical assistance with the Royal Monetary Authority (RMA) of Bhutan to implement a secured payment system based on digital signatures, which was a necessary step for the monetary authority of Bhutan to make the National Electronic Funds Transfer System (NEFT) available in the country. The SAARC Payment Bulletin 10 (SPI, 2013a) stands out for the consensus of the Member Countries on the need to establish compatibility between their national payment systems from the elaboration of a matrix, through the collection of data from the countries in order to establish a regional payment system.

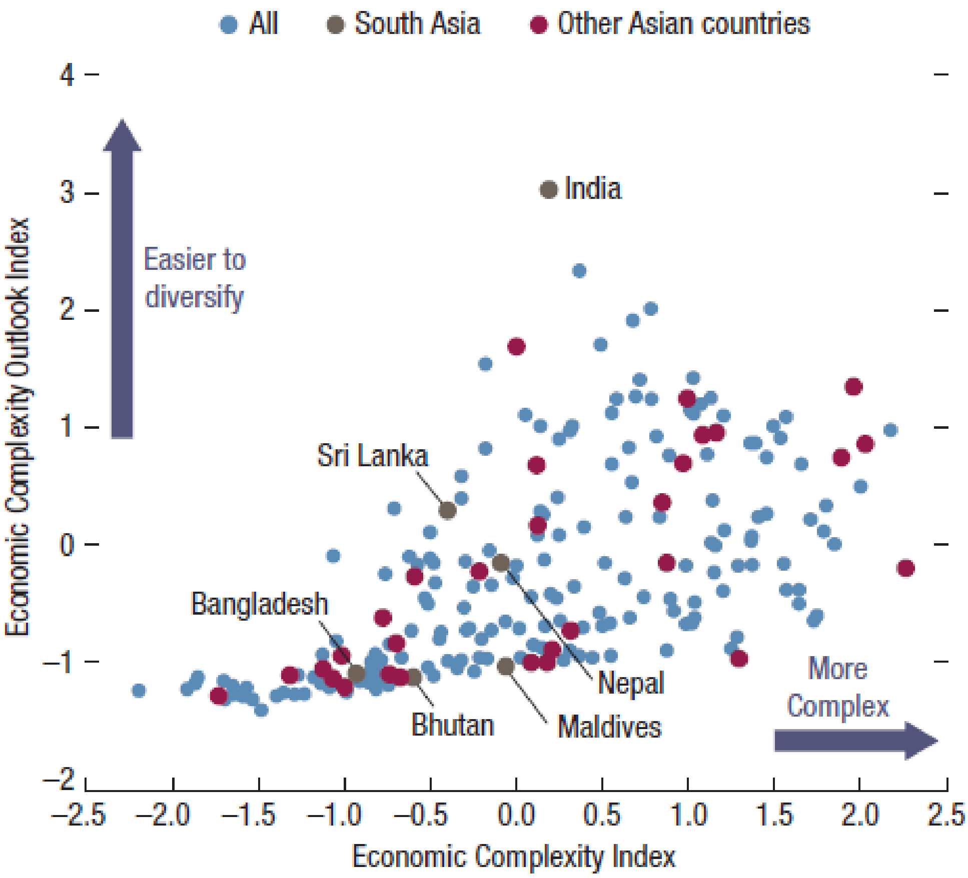
Between February 14th and 16th, India hosted an event entitled “Seminar on Principles for Financial Market Infrastructures and Innovations in Retail Payment System”. The event was attended by 23 countries and representatives of the main international financial organizations, such as the IMF, the World Bank, the European Central Bank, the Bank for International Settlements, and the Hong Kong Monetary Authority. It demonstrates how the RBI established a closer relationship with international bureaucracies. It is observed in the SAARC Bulletin 10 (SPI, 2013a) that Pakistan assumed the Asian Clearing Union (ACU) chair, which political agents of the central bank of Pakistan stressed the need to promote monetary cooperation in order to increase intra-regional trade and as a strategy to protect themselves from the negative shocks of the global markets.

In the SAARC Bulletin 11 (SPI, 2013b), it is observed that technical agents of the RBI guided the Royal Monetary Authority of Bhutan to develop other functions of the payment system regarding the supervision of the operations and risk mitigation measures. The RBI also set bilateral and multilateral limits in the RTGS system in order to discourage free riding on the liquidity of a counterparty. It is noted that the RBI is advancing many aspects of the national financial system, significantly widening the gap in the level of development of the national payments system compared to SAARC countries. The SAARC Bulletin 12 (SPI, 2014) referred to the formulation of a new Roadmap for SAARC countries, taking into account the need to promote financial inclusion, converge to international best standards and harmonize payment mechanisms. The Clearing Corporation of India (CCIL) contributed with measures to improve trade efficiency and reduce risks and operating costs by launching the initiative of Interest Rate Swaps guaranteed settlement, which allowed a trading system in Rupee.

According to the SAARC Bulletin 14 (SPI, 2015), Member Countries drafted a Risk Mitigation Matrix for national payment systems, aiming to protect themselves from the turbulence of international markets. The agent of the Central Bank of Pakistan highlighted the need to strengthen the role of regulatory supervision of central banks over the domestic financial system and in the cross-border payment arena, as well as strengthening the infrastructure of payment systems in the financial market. The SAARC Bulletin 14 (SPI, 2015) is notable for the Pakistani central bank officer's remarks regarding the harmonization of SAARC countries' domestic payment systems. In the case, the RBI technical agent presented the Trade Repository, a system for regulating and supervising the financial market infrastructure regulated under the PSS Act (RBI, 2007), potentially serving as a model for SAARC countries and demonstrating alignment with the observations made by the Pakistan central bank agent.

However, it is observed in SAARC Bulletin 14 (SPI, 2015) that the RBI established a memorandum of understanding with the European Commission, which recognizes the equivalence of the regulatory regime of the Indian financial system with the European Securities and Market Authority (ESMA). It can be concluded that given the low level of intra-regional trade at SAARC, their competitive profile in the export baskets combined with the difficulty in diversifying productive sectors and the importance of foreign markets to South Asian countries India's concern to advance regulatory supervision measures is more related to interests of the central bank agents of RBI in expanding the country's access to the European market than the development of the SAARC regional payment system. Except for India, as seen in Lian et al. (2023), Nepal and Sri Lanka demonstrate possibilities of building economic facilities, while Bangladesh, Bhutan, and Maldives need to establish more concerted measures to raise economic diversification.

Figure 11 – Economic Complexity Outlook Index 2016



Reference: Lian et al. (2023).

In SAARC Bulletin 16 (SPI, 2019) it is noted that RBI technical agents presented a seminar entitled, "Economic Impact of Cross-Regional Integration of Payment Systems" which focused on the need for better macroeconomic coordination among SAARC countries and harmonization of their national financial systems. It was also observed that the RBI established benchmarking initiatives for the development of the national financial system with advanced economies and among the BRICS countries. Since 2016, SAARC as a regional cooperation platform has not been very effective as seen by the cancellation of the 19^{th} SAARC Summit due to disagreements in relations between India and Pakistan.

Planning for the 19th SAARC Summit in Pakistan has come to a halt due to attacks carried out on the Indian army camp in Uri, Jammu and Kashmir region, on 18 September 2016. On that occasion, the national government of India announced its withdrawal from participation in the SAARC summit. As a consequence, Bangladesh, Bhutan, and Afghanistan also withdrew their participation. This demonstrates how the interests of smaller countries in the region are formed based on expectations of behaviour in relation to the dominant country, in this case, India. The government of Pakistan pointed out that the government of India was hampering the progress made by SAARC by not attending the summit. Bilateral relations between India and Pakistan have deteriorated over the years due to the exchange of accusations over the attacks on the Kashmir border, a territorial dispute that has lasted more than 60 years (CNN, 2016; BBC, 2016).

The cancellation of the 19th SAARC Summit in 2016 reveals how the conflictive history between India and Pakistan gridlocks the progression of regional integration in South Asia. It is possible to affirm that the advancement of sectoral regional cooperation in the financial field, in which central banks are the main actors, is subject to the interests of their national governments in strengthening or weakening regional integration. The bilateral distrust of the countries shapes the preference of the central banks and constraints possibilities of advancing regional financial cooperation at SAARC. It is interesting to observe that regional financial cooperation at the SPI contributed to a constant dialogue between India and Pakistan among their central bank agents, being interrupted by the mutual distrust of national governments.

The low institutionalisation of SAARC and its weak performance influenced India's government preferences and affected the behaviour of the RBI by prioritizing regional cooperation in other platforms such as BIMSTEC or IORA, in which Pakistan does not participate, in order to preserve its political autonomy, promote economic development and reduce exogenous risks to the national financial system. It is observed that the rationality of the Indian government is shaped by the expectations of its interactions with actors outside the SAARC bloc, reducing expectations of deepening regional integration.

5.3 The Reserve Bank of India (RBI): Institutional Design and Economic Reforms

This section aims to understand the institutional role of the Reserve Bank of India (RBI) as a background for the analysis of its role in South Asia regional integration. The Reserve Bank of India (RBI) was established in 1935, through the RBI Act 1934, which regulated its functioning by determining this financial institution the responsibility for formulating and conducting monetary policy, the credit system, banking operations, control of inflation, and exchange rates. The RBI aims to regulate the national financial system and guarantee its stability, control public debts and achieve national development goals in a context of growing economic complexity. According to the RBI (2022a), this financial institution was “originally privately owned” and “since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India”. The RBI is not constitutionally independent. It is governed by a central board of official directors composed of a Governor and up to four Deputy Directors nominated by the National Government, and non-official directors composed of ten directors from different fields and two government officials also nominated by the National Government.

According to the RBI (2022a), the legal framework of the RBI is followed by the Public Debt Act (1944) related to the government securities and management of the public debt, the Banking Regulation Act (1949), which was amended by the National Bank for Financing Infrastructure and Development Act (2021) and provides for the operation of the RBI to manage its constitutional functions. Other administrative acts relevant to the legal regulation of the Reserve Bank of India (RBI) are the Foreign Exchange Management Act (1999), the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (2002), the Government Securities Act (2006), the Payment and Settlement Systems Act (2007), which was amended up to 2019 and its regulations laid out in 2008 and amended up to 2022, and Factoring Regulations Act (2011).

The context of economic reforms carried out in India in the 1990s is relevant due to the impacts that these measures had on the process of liberalization and economic growth in the country, fundamental to understanding the modernization of the Indian financial system led by the RBI, as well as the interventionist history of the national government in the economy and institutions of the country since its independence (Cruz, 2007). The development of economic reforms in India took place in the midst of a deep crisis in the country's balance of payments, caused by a lack of fiscal control and accumulation of external debt, which ended up culminating in a moment of crisis in macroeconomic policy, leading the government to initiate a series of political and economic changes that made the national State to be more export-oriented and incentive to the private sector (Panagariya, 2001).

According to Sen and Vaidya (1999), the evolution of the post-1947 Indian financial system can be categorized into three distinct periods. The first period refers to the relatively unregulated funding that prevailed between 1947 and 1969, associated with the pre-nationalization era. Subsequently, the period of increasing government intervention between 1969 and 1991, was characterized as an era of financial repression, an era of nationalization or social control. According to Sen and Vaidya (1999), during this period the 14 largest commercial banks in India were nationalized and part of the deposits in the Indian economy came under public control, as an attempt to establish priorities in the national reform process. The state maintained greater control over the level and flexibility of interest rates and the distribution of credit to serve its development goals.

The economic reforms of 1991 corresponded to a market-oriented financial system. The broad political and economic reforms carried out in India have restructured the financial sector towards a liberalized and globalized system. In an environment dominated by public banks, the 1990s reforms introduced measures to liberalize the financial sector, such as dismantling the complex system of interest rate controls, eliminating Reserve Bank of India pre-approval for large volume loans, reducing statutory requirements to invest in government bonds and other measures aimed at increasing the solidity of the national financial system and increasing competition, such as the licensing of private and foreign banks.

The major liberalizing reforms of 1991 were implemented under the leadership of Prime Minister Narasimha Rao and his Minister of Finance, Manmohan Singh. Subsequently, Manmohan Singh became the Prime Minister of India and the first non-Hindu to head the government between the years 2004 and 2014, when he was replaced by Narendra Modi, a politician with a strong Hindu base. According to Ahluwalia (2002), the 1991 reforms led the government to initiate a process of greater trade opening and liberalization of the national market. The list of 18 industries reserved for the public sector, e.g., iron and steel, telecommunications, mining, oil, air transport, and electricity distribution, among others, was reduced to three sectors, namely: (1) defence aircraft and warships; (2) power generation; (3) rail transport.

The regulations applied to large-scale industrial investments aimed at discouraging the concentration of economic power under the Law on Monopolies and Restrictive Trade Practices and encouraged greater investments in the industrial sector (Nambiar, Mumgekar and Tadas, 1999). The regulation of medium and small-sized companies was another sector that needed political reforms. Companies with small-scale production but high export potential were exposed to the budgetary and political restrictions of the 1970s, which constrained their development by limiting the incentives to modernize the sector and expand the companies' production scale (Nambiar, Mumgekar and Tadas, 1999). It hampered the competitiveness of India’s exports.

India’s trade policy was characterized by high tariffs and widespread restrictions on imports. The criteria for issuing import licenses were not transparent, favouring a scenario of delays and corruption. Ahluwalia (2002) affirms that trade policy reform advanced gradually to eliminate import licensing, reducing import taxes, simultaneously with the shift to a flexible exchange rate regime. The exchange rate regime of India is characterized by “dirty floating[30]” and important restrictions on capital flows that limit the volatility imposed by international financial markets. As observed by Jayadev et al. (2018) interest rates are largely determined by the market, however, in India, they remain under direct control of the government. Public banks also continue to dominate the baking sector, despite the increased number of private banks, which allows more influence by the national government.

According to Chaudhuri (2002), progress in reducing trade tariff protection was considered slow. In 2002, the Indian government retook the policy of reducing tariff protection, however, even though tariff levels were lower than in the 1990s, India’s trade tariffs remain one of the highest among developing countries. The average import tariff in China and Southeast Asia is about half the Indian rate. Besides that, India needed to overcome infrastructure deficiencies and governance problems (Chaudhuri, 2002). Nevertheless, the foreign direct investment policy reform stimulated greater competitiveness of the market and increased the level of foreign capital participation in a large number of national industries, e.g. electricity, road and rail connectivity and ports, varying between full and majority share, with

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[30] According to Jayadev et al. (2018), “dirty floating” refers to the practice of a flexible exchange rate system, comprising both an exchange rate determined by the market and by the monetary authority, in order to avoid excessive exchange rate devaluations or appreciations that could impact in the short term, monetary policy and the price level. Considerations of equity and maintaining stability have caused India to continue to engage in policy attempts to balance competing demands.

the exception of banks, insurance companies, telecommunications and airlines (Ahluwalia, 2002). The objective of reducing government participation and control in public companies, except in strategic areas, imposed difficulties for the private sector because the government resisted maintaining administrative control over state-owned companies.

Acioly (2006) affirms that India guaranteed three basic conditions for the country's economy to become attractive to foreign investment: 1 - Constant economic growth; 2 - Exchange rate stability; 3 - Policy to attract productive external capital. According to Prasanna (2017), the liberalization of foreign direct investment (FDI) represented a step forward for India's national development goals. The greater inflow of foreign capital into the country allowed Indian companies to improve their technology, expand their production to more efficient scales and restructure themselves through mergers and acquisitions, which opened access to international markets.

Gulati and Bathala (2001) affirm that the reduction of industrial protection and the depreciation of the exchange rate influenced relative prices in favour of the country's agricultural exports. Much of the increase in India's participation in the global economy is still due to agricultural exports. According to Gulati and Bathala (2001), differently from the case of China and Southeast Asia, foreign direct investment in India did not stimulate substantive growth in exports, being more oriented toward the domestic market. Slow progress in lowering import tariffs is one of the reasons for the poor performance of Indian exports. The high level of protectionism compared to other countries also explains why foreign direct investment has been more oriented towards the domestic market, rather than India using it as a basis for increasing its exports. The only area that has shown a strong export orientation since the reforms of the 1990s has been software development and the various types of services developed through information technology.

The Reserve Bank of India (RBI) has been empowered with new responsibilities over the years, as a way of adapting to the new realities of the international financial and monetary system and corresponding to India's national development objectives. According to Goyal (2014), the modernization of the national payment system in India began with the implementation of Real Time Gross Settlement (RTGS) in 2003 and, a subsequent update of the system, in 2013, whose electronic instrument of clearing and settlement simplified the current financial transaction process in the country. The RTGS is a system that has been used since 1996 by the G-10 countries and emerging economies of the 1990s, such as Hong Kong, South Korea, and Thailand.

India's payment system works mostly on a net settlement basis, which reduces the time and costs of transactions for financial institutions and companies. The RBI also established the Real Time Gross Settlement (RTGS) in the national payment system. This system operated by the Reserve Bank of India allows for instant money transfers in a continuous payment settlement process without the need for clearing schemes. This significantly reduces credit, liquidity and exchange variation risks, contributing to better efficiency of the payment system and encouraging greater market participation in the process.

The Payment and Settlement Systems Act (2007) (PSS Act) provides for the regulation and supervision of the payment system of India and designates the RBI as the authority for financial matters related to the national payment system supported by the Board of Regulation and Supervision of Payments and Settlement Systems. The PSS Act (RBI, 2007) has the purpose of improving the national payment system of India in terms of security, modernisation, and operational efficiency. In December 2007, the Reserve Bank of India was designated by the government to be the national authority responsible for monitoring the financial measures agreed upon at regional levels and supporting the national government to internalise such changes at the domestic level in accordance with the provisions governed by the 1934 Act.

The PSS Act (2007) provided the legal framework for the RBI to operate the clearing and settlement system for financial transactions in the country. However, this Act (PSS Act, RBI, 2007, p. 18) also presents in clause n° 36, Chapter VIII, a device that provides for the institutional protection of “action taken in good faith” by any public agent of the RBI or the government national. This demonstrates, to a certain extent, the national government's concern not to jeopardize the actions of RBI agents and to protect the interests of public institutions in the conduct of monetary policy. The PSS Act (RBI, 2007) also reveals how the operational autonomy of the RBI is subject to interventions by the Indian government, whose contradictory views on certain political processes, such as the demonetization policy in 2016 (Chikermane, 2018), exposed the vulnerability of the central bank to interests of the national government.

In the 2000s, financial inclusion was declared a goal of the Reserve Bank of India (RBI) as a policy for coordinating income distribution and facilitating financing conditions, through the process of reviewing monetary policy. According to Jayadev et al. (2018), on the one hand, the review of financial inclusion policies and the simplification of rules undertaken by the RBI maintained, to some extent, state control. On the other hand, the process of economic liberalization reflected the opening of the capital market, which generated a growing number of investment instruments in the markets and stocks, resulting in a significant increase in the flow of foreign capital to the country.

Jayadev et al. (2018) affirm that the gradual and liberalizing profile of the Indian market increased pressure from international markets for the opening of restrictions established by the national government. According to Jayadev et al. (2018), the effects of the 2008 international financial crisis supported the gradualist and pragmatic stance of the central government in the economy, raising the level of criticism of the *ad hoc* stance of the RBI, which total capital account convertibility is seen as the end goal. It is understood that the Indian financial system is still indirectly characterized by central government directives.

Ahluwalia (2002) questions the efficiency of the reform of the Indian financial and banking system, due to the governmental influence to which the Governor and other directors of the RBI are exposed, leading them to the need to correspond to the political guidelines of the national government, influenced by their interest in pursuing a career in the financial institution. The assumption that public sector banks could not be closed in India was reflected in poor performance in the sector and consequently led to them being recapitalized (Ahluwalia, 2002). This reality combined with an outdated legal framework, weakened market discipline since the most efficient banks were unable to expand their market share (Ahluwalia, 2002).

It can be concluded that the process of liberalization in India promoted by economic reforms in the 1990s was considered “weak” (Ahluwalia, 2002), or “limited and late” (Cruz, 2007) due to the gradualist approach adopted by the government. It means that transformations in India were characterized by the strong presence of the national government in the economy, prolonging the time of political and economic opening and defining the revision of the country's development model and international insertion. India’s economic reforms changed the business environment in the domestic market by attracting more foreign direct investments and providing incentives for economic growth and political ground to deepen the regional dialogue and cooperation in South Asia and Asia-Pacific regions. This positive performance has been enhanced since 2014 by the pragmatism of development and foreign policy carried out by Prime Minister, Narendra Modi, who travelled to several countries to present the “Make in India” initiative, whose objective is to transform the country into a global manufacturing centre.

5.4 The Reserve Bank of India (RBI): A Regulatory Role

This section aims to analyse the role of the Reserve Bank of India (RBI) in the regional financial cooperation at SAARC, based on the progress of bilateral and multilateral institutional interactions taken by the central bank agents of the Member Countries applied to the case study of the SAARC Payment Initiative (SPI). As in the previous case study, this section analyses the progress of the policymaking process of the SPI supported by the existing literature in order to insert in this research its contribution to this political process. The regional financial cooperation agenda in South Asia has received little attention in SAARC. Financial convergence initiatives to achieve a regional payment system are a recognised strategy that increases trading performance, attracts investments and improves the effectiveness and security of financial settlements and transfers (Batra, 2020).

According to Goyal (2014), a regional payment system is a necessary financial instrument in the context of fast technological innovation, economic liberalization and integration of the global markets, requiring standardization of payment processes among a group of countries in a given region. In the context of economic liberalization of the 1990s, it was observed that the Member Countries of SAARC maintained close coordination with the main international financial institutions such as the IMF, the World Bank, and the BIS. The agents of the SAARC central banks established a political articulation with the purpose of monitoring the international financial and monetary system, but also as a strategy to support the economic development of the region and provide political ground for the internationalisation of their national markets. Therefore, Member Countries of SAARC incorporated liberalizing policy guidelines in the context of reforms of their national financial systems and the strengthening measures of prudential regulation for bank supervision.

Documentary analysis showed that existing asymmetry in the development of financial systems among South Asian countries constrained perspectives of regional financial integration. This asymmetry does not refer only to the comparison of smaller countries in relation to India, but it was identified a significant difference in the degree of development of national financial systems among the smaller countries of SAARC as well. In the case of India, particularly, it is noted that the Exim Bank played a relevant role in financing India's international trade. The nature of a bank fully subsidized by the national government reduced the central bank's exposure to credit, liquidity, and exchange rate risks. This means that the RBI could focus on its institutional role of conducting macroeconomic policy, exchange rate regime, and stability of the national financial system, without having to act as a structuring actor of policies to encourage the financing of exports and imports.

However, it was observed that the RBI, by regulating the activities of the Exim Bank, shaped the institutional preferences of the actors dealing with the promotion of India's international trade, translated in the form of regulations, whose objectives express the interests of the central bank. International trade is carried out in Indian Rupees only with freely convertible currencies, i.e., hard, convertible and currencies with high liquidity in the financial system. This means that the possibility of trading negotiations in Indian Rupees is linked to the capacity of vehicle currencies to present less exchange rate and liquidity risks.

Therefore, there was no possibility of commercial transactions with non-convertible currencies, such as the currency profile of all countries in South Asia. This can be understood as a defensive and provisional measure taken by the RBI related to the possibilities of trading at SAARC in local currencies. Given the context of asymmetry and low development of the national systems of South Asian countries, its regional trade is historically based on the U.S. dollar due to the profile of non-convertible currencies of the countries, which are subject to large exchange rate fluctuations. This context imposes many challenges to developing a regional payment system in local currency.

This demonstrates the vulnerability of payment systems of the Member Countries of SAARC to external regulatory regimes, in particular, the regulatory power of the U.S. dollar, reducing the autonomy of their macroeconomic policy. Another point refers to the limitations of the banking channels of SAARC countries. As a consequence, financial transactions are relied on a third party, in this case, SWIFT is the main mechanism used as a communication system for financial transactions among South Asian countries. It was observed that India, Iran, Nepal, Sri Lanka, and Pakistan have been members of the Asian Clearing Union (ACU) since 1974, while Myanmar joined in 1977, Bhutan in 1999, and Maldives in 2009. Established in Iran, the ACU is a regional arrangement linked to ESCAP that aims to promote regional financial cooperation. The ACU (2022) aims to “facilitate payments among member countries for eligible transactions on a multilateral basis, thereby cutting expenditure on the use of foreign exchange reserves and transfer costs, promoting trade among countries”.

The ACU is a relevant multilateral payment clearing system in Asia, playing a key role in promoting credit to South Asian countries at a time when these countries had to deal with a shortage of foreign exchanges to carry out trading transactions. The ACU provided SAARC countries with experience in the possibilities of using local currencies. Local currencies were used in commercial transactions due to countries' shortage of foreign exchange. As a consequence of the existing financial risks and distortions in South Asia, the ACU shifted to hard currency settlement in Dollar and Euro. According to Goyal (2014, p. 17), the ACU also functioned as a forum for interactions between the central banks of the associated countries, which became relevant to the countries of South Asia, a region where this type of forum did not exist due to the history of conflicts between the countries. The ACU has contributed, to some extent, to the advancement of regional trade, financial cooperation, and greater convergence of regulatory standards and macroeconomic policies.

> A history of conflict between countries of the region, and precautions against terrorism puts many impediments on trade. The availability of an official channel may have sustained trade despite these difficulties but it is difficult for the ACU alone to expand trade. The monetary cooperation it may have encouraged was implicit rather than explicit. South Asian countries tend to follow similar monetary and financial policies. Many have undertaken similar reforms. But convergence happened more by seeing what others were doing than by conscious coordination (Goyal, 2014, p. 25).

Intra-regional trade in South Asia partially benefited from the ACU until the period when the US government applied sanctions against Iran (Goyal, 2014, p. 18) combined with the effects of the international financial crisis. Although the ACU has weakened over the years since 2012, due to US sanctions, it has been observed that recently the ACU seeks to diversify the payment mechanism by implementing an alternative system to the use of SWIFT and promoting a trend toward the process of de-dollarization or currency diversification. This change is related to the difficulties of the US government in securing the international position of the USD and the growing trade deficit of the country (Global Times, 2023). The economic liberalization process increased the access of smaller South Asian countries to hard currencies, which reinforced the interest of central bank agents towards a better regional financial convergence in order to establish national reforms of their financial sector, promote a prudential regulatory framework and increase expectations of political coordination.

The SAARC Payment Initiative bulletins revealed the political coordination challenges faced by the South Asian countries in the region shaped by deep asymmetries in the degree of development, weak performance of intra-trade, physical and operational infrastructure problems and a historically conflicted geopolitical profile. According to Kashyap and Tomar (2016), the monetary policy of South Asian countries has changed over the years. South Asian central bank agents have focused on market-oriented instruments to manage liquidity conditions, enhance the transparency, predictability, and credibility of monetary policy. It was necessary for those countries to improve the efficiency of their national financial systems and modernize national payment mechanisms.

This has led most countries in the region to implement the Real Time Gross Settlement System (RTGS) to facilitate payments in large amounts and improve the time of transactions and greater harmonization of the regulatory framework for banking supervision. As analysed in the documents, amidst all the difficulties faced by SAARC regional cooperation, the SPI served as a platform for exchanging experiences and effective institutional arrangements for policy coordination. The SPI contributed to improving the trade conditions of the countries, even if the individual interests of the members were focused on individualistic objectives such as the expansion of trade outside the regional bloc.

As the bulletins demonstrate, it was observed that the RBI assumed the role of regulator of the regional financial governance system with the objective of standardizing the functioning of national financial systems and reducing the constraints faced by smaller countries in their processes of international economic insertion. According to Kashyap and Tomar (2016, p. 41), "the implementation of Basel II framework has contributed to improved risk management mechanisms of the financial sector and enhanced regulatory structures". It was observed that the RBI established the guidelines for the implementation of Basel III and the regulation of the capital market, whose measures contributed to the development of the institutional structures of the Member Countries of SAARC, within the scope of the SPI. Reforms in financial systems, according to Kashyap and Tomar (2016), have not yet achieved the expected objectives, as most national banks are public institutions belonging to the national government, which reduced their level of competitiveness and reflected the interest of central banks in decrease financial market risks.

It was observed in the analysis of the SAARC bulletins that the agents of the RBI and the Central Bank of Sri Lanka took the lead in the activities of the SPI. The notable difference in India's financial system compared to other SAARC countries has raised expectations of RBI leadership in the process of regional financial cooperation. However, this context of great asymmetry among the Member Countries of SAARC, until then, had not yet provided the necessary incentives for the RBI to lead the policymaking process regarding the development of a regional payment system. The low rate of intra-regional trade, operational difficulties and deficiencies in the regional infrastructure, as well as the history of conflicts and mistrust between countries in the region, did not allow the necessary conditions for RBI agents to assume a structuring role of the regional financial cooperation with the purpose of establishing a mechanism of trade facilitation and investment attraction.

Even though the implementation of a regional payment system is one of the objectives of the SPI, as expressed in the bulletin SAARC 1 (SPI, 2008b), the analysis of the documents demonstrated that the role of the RBI and the Central Bank of Sri Lanka initially involved the political and regulatory coordination of the member countries, focusing on the reforms and modernization of the national financial systems. It can be said that, given the context described, it is reasonable to affirm that the RBI has international markets as its main focus, leaving South Asia in the background. The RBI agents' incentives are formed from the expectations of interactions outside the South Asian bloc. It is the solid conditions for international insertion and the expansion of India's trade relations outside SAARC that increase the possibilities of the RBI to assume any political risks implicit in the regional financial cooperation.

The bloc's low level of institutionalisation does not impose significant political and economic commitments to India. As a consequence, SAARC policies are subject to India's willingness to advance regional policies and expand its sphere of international political and economic influence. It was verified in the bulletins of SAARC 1 (SPI, 2008b) that the agents of the RBI assumed the responsibility of preparing the studies on the situation of the financial systems of the countries of the SAARC, aiming to reduce the risks involved in the settlements in foreign currencies and the revision of the exchange rate regimes. Deeper knowledge of the situation in neighbouring countries enabled RBI central bank agents to establish measures to facilitate payments in large amounts, which would contribute to improving trade relations with the bloc and bringing greater security to financial transactions.

It was verified in Bulletin 2 (SPI, 2008c) that the trade liberalization of the SAARC countries in an asymmetric context led the bloc's countries to rely on the guidelines of the international financial regimes. As mentioned before, the choice made by the central bank technical agents to use the USD was influenced by their interests in increasing trade based on a hard and convertible currency that guaranteed greater liquidity to the South Asian financial markets, combined with the use of the external communication system, even considering the risks arising from less autonomy in the countries' macroeconomic policy. The SAARC bulletins, in particular, Bulletin 3 (SPI, 2009) and Bulletin 12 (SPI, 2014a), revealed the concern of central bank agents of the Member Countries of SAARC to promote greater financial inclusion. Regulatory harmonization has gradually contributed to greater access by populations to the financial system. It is observed that in India, particularly, this problem is persistent due to its demographic size.

The modernization of national financial systems such as RTGS and PRISM, as seen in SAARC Bulletin 4 (SPI, 2010a), is linked to the reduction of risks brought about by exchange rate variations. RBI's technical agents sought to provide greater efficiency to national markets, reducing costs and time for financial operations as a way of expanding the bloc's commercial possibilities. The improvement of national financial systems led the RBI to implement the Payment and Settlement Systems Act (PSS Act - RBI, 2007), establishing guidelines aligned with the best financial system supervision practices discussed within the scope of the BIS.

On the one hand, India gained greater confidence from neighbouring countries like Sri Lanka, Bangladesh, Nepal, and Bhutan. On the other hand, given the conflictive relations with Pakistan, the improvement of national payment systems suggests an interest of the agents of the central banks of the RBI in leading a regional bloc with transparent and secure systems, in order to hinder the possibilities of financing terrorist groups in the region. By doing so, India's foreign policy also builds political trust and boosts its trading relations with partners outside of the South Asian bloc, such as the US, European Union, and Japan, besides the fact of establishing a closer relationship with international bureaucracies, as identified in the SAARC Bulletin 5 (SPI, 2010b) and the SAARC Bulletin 10 (SPI, 2013a).

The SAARC Bulletin 14 (SPI, 2015) supported the argument that the RBI's interests are shaped by the expectations of interaction with actors outside the bloc, given the recognition of the Indian regulatory regime by the European Commission. It means that the RBI pursuit to meet the European regulatory standards in order to improve its bilateral trading relations. It was observed in Bulletins 6 (SPI, 2011a) and 7 (SPI, 2011b), the advancement in financial mechanisms developed by smaller countries such as Pakistan, Sri Lanka, Bangladesh, and Nepal opened possibilities for technical cooperation provided by RBI central bank agents with neighbouring countries, such as seen with Nepal Rastra Bank (NRB) and later with the Royal Monetary Authority of Bhutan (RMA). However, the low demand for regional financial cooperation demonstrated that relations between central bank agents within the scope of the SPI are still shaped by mutual mistrust among Member Countries, which constrains regional financial integration.

Bulletin 12 (SPI, 2014a) reinforced the interests of RBI agents in the internationalisation of the Indian Rupee. The evolution of the national financial systems of neighbouring countries and the pursuit of the standardization of the regulatory system stimulated initiatives of exchange swap agreements promoted by the RBI as an alternative to the lack of a regional payment system. On the one hand, the SAARC countries felt little effect from the 2008 international financial crisis, due to the profile of the low level of international insertion of their financial markets, on the other hand, multiple exogenous shocks such as Covid-19 in 2020 and the recent Russian invasion of Ukraine in 2022, were a turning point for the countries of the region, especially from the Indian leadership.

The combination of the aforementioned events has caused great volatility in the financial market over the latest years, followed by a tightening of the US macroeconomic policy, which has been putting pressure on the economies of South Asia. This happened because these countries have foreign debts denominated in U.S. dollars and dependence on international trade, which is also based on the American currency, which increased the risks arising from the price of imports, inflation and exchange rate variation. It is also reflected in the depreciation of South Asian currencies. This context poses challenges to regional financial cooperation and increases the need for coordination of countries' macroeconomic policies.

India, in particular, is still dependent on imports of fossil fuels and minerals, while seeking to expand the diversification of international markets. The US sanctions imposed on Iran in 2012 and on Russia in 2022, combined with the effects of multiple exogenous shocks, raised the need for RBI agents and the national government to establish strategies to improve the national payment system and trade facilitation. The US economic sanctions and its restrictions on the use of the dollar as a trade blockade mechanism with Iran brought risks to India's economic development and international autonomy (Dash et al., 2019). As a result of trade limitations with Iran and new trade sanctions on Russia, the alternative sought by RBI central bank agents is to establish bilateral payment arrangements in local currencies with foreign markets where international trade is more significant to India's economic interests. Particularly at SAARC, it is expected India to prioritize an agreement with Bangladesh, Sri Lanka, and Nepal as highlighted by the author.

Table 11 – India’s Foreign Trade with South Asia in USD Billion

Country	Exports	Imports	Exports	Imports	Exports	Imports
	2016-2017		2017-2018		2018-2019	
Afghanistan	506.34	292.9	709.75	433.78	715.44	435.44
Bangladesh	6,820.13	701.68	8,614.52	685.65	9,210.32	1,044.80
Bhutan	509.28	307.82	546.12	377.99	657.33	370.96
Maldives	197.79	9.17	217	5.68	223.02	20.41
Nepal	5,453.59	445.13	6,612.96	438.38	7,766.20	508.14
Pakistan	1,821.88	454.49	1,924.31	488.56	2,066.63	494.87
Sri Lanka	3,913.15	602.2	4,476.46	772.63	4,710.21	1,488.67
Total of South Asia	19,222.18	2,813.40	23,101.11	3,202.66	25,349.15	4,363.29

Country	Exports	Imports	Exports	Imports	Exports	Imports
	2019-2020		2020-2021		2021-2022	
Afghanistan	997.58	529.84	825.78	509.49	554.47	510.93

Bangladesh	8,200.85	1,264.74	9,691.71	1,091.66	16,156.43	1,977.93
Bhutan	738.6	405.73	701.02	433	885.81	545.04
Maldives	226.57	6	195.88	24.49	670.4	68.93
Nepal	7,160.35	711.61	6,838.46	673.16	9,645.75	1,371.04
Pakistan	816.64	13.97	326.87	2.39	513.85	2.54
Sri Lanka	3,800.91	903.69	3,498.30	642.94	5,802.18	1,009.99
Total of South Asia	21,941.51	3,835.58	22,078.02	3,377.12	34,228.89	5,486.39

Reference: Adapted by the Author from the Department of Commerce, Ministry of Commerce and Industry. Government of India, 2023.

According to Dash et al. (2019, p. 27), the RBI together with the Indian government has been seeking measures to internationalise the Indian Rupee since 2012, such as the issuance of Rupee-denominated bonds overseas by Indian corporates, Masala bonds, i.e., the first rupee bonds to be listed on the London stock exchange, permission to non-residents to hedge rupee risk of their exports and imports with India, loans denominated in India rupees, progressively liberalization of capital accounts and exemption of 45% of taxes on payments made to Iran in rupees. The RBI also allowed offshore entities to invest in Rupee debt outside India, and Swap currency agreements with several countries, which enable Indian trading partners to settle in Indian rupees.

The establishment of swap agreements for payments in local currencies would be an alternative to boost intra-regional trade in South Asia and create institutional capacities for developing market liquidity and providing trade credits, following the experience of the Chinese model. In 2012, the RBI offered SAARC Member Countries the value of US$ 2 billion in Swap agreements for a period of 3 years in foreign currencies, mostly in U.S. Dollars and Indian rupees (Batra, 2020), whose value was intended to support partner countries during the balance of payments crisis, not being aimed at financing regional trade. According to Batra (2020), the lack of financial instruments constrains regional intra-trade at SAARC still hampers the development of a regional payment system and shows the reluctance of the RBI regarding risks of credits and liquidity with South Asian countries.

Since 2003, the Clearing Corporation of India (CCIL) has covered two modes of foreign exchange payment, the first being through FX-Clear, whose inter-bank relations are carried out in 85% between Dollar and Rupee (USD/INR), and the second is carried out through Swap agreements since 2010. In order to promote the internationalisation of the local currency, the Indian rupee, the RBI has promoted credit lines and incentive policies for the use of the local currency in transactions related to international trade, which is open to any third country interested as seen in the publication of Circular No. 10 “International Trade

Settlement in Indian Rupees (INR)” on 11th July 2022 (RBI, 2022b), within the institutional scope of the Foreign Exchange Management Act (1999).

Economic measures to expand the possibilities of trading in India Rupees are complementary to the current settlement system in the country and aim to expand India's international trade by reducing the risks related to exchange rate variation to which exporters and importers are subject during financial operations. This opened up possibilities for carrying out commercial transactions in local currencies and reduced the country's dependence on freely convertible currencies. Therefore, it is necessary that the banking intermediaries licensed by the government for transactions relating to international trade open the so-called Special Rupee Vostro accounts in which Indian Rupees balances can be hedged. Before that, it was observed that India's international trade made major use of the U.S. Dollars (USD) and other hard currencies such as the Euro (EUR) in the international financial market as the main means of payment for international trade transactions.

There is an explicit interest of the national government and the RBI in boosting the Indian rupee as a global and widely accepted currency, allowing settlements to be carried out in international trade, which contributes to expectations of increasing India’s volume of trading in the coming years. The search for the internationalisation of the currency increases the possibility of the RBI becoming a structuring agent of regional financial cooperation, based on the purpose of reducing the costs of cross-border remittances with the countries of South Asia through the implementation of a unified commercial payments interface. This can represent a significant change in the RBI's behaviour towards SAARC intra-regional trade. Until then, as observed in the analysed documents, the RBI established a regulatory role for regional cooperation, whose responsibility was aimed at improving the harmonization of the financial system regulations of neighbouring countries.

However, it is observed that the policy change established by the RBI in relation to regional financial cooperation is linked to its interests in expanding trade with partners that already have significant commercial transactions, as a strategy to guarantee national economic growth and price stability in financial markets. Currency internationalisation measures, through incentives for trading in local currencies, is a mechanism to protect the country's international autonomy, due to the risks to which India was exposed during the US sanctions on Iran, which could also benefit SAARC intra-regional trade. It was identified that in 2023, India established payment agreements in local currencies with Bangladesh (Economic Times, 2023) and Sri Lanka, whose regulations are still in development, Singapore, Japan, United Arab Emirates, Russia, and Mauritius. Several countries around the world that maintain commercial relations with India have also shown interest in joining the payment system in local currencies.

The internationalisation of Indian Rupees facilitates international trade, benefiting both exporters and importers by reducing the transaction costs of financial operations, providing greater predictability of settlement prices and protection against currency fluctuations. The greater use of the Indian rupee is also linked to a reduction in the outflow of dollars from the country, less pressure on the RBI international reserve accumulation policy and greater protection against exogenous shocks (Khair, 2023). It contributes to a better international insertion of India in the international financial and monetary system. Technological advances based on India's experiences at the ACU would allow the country to use new platforms of communications and security outside the SWIFT system, reducing the dependency of South Asian countries on external communication regimes, which make them vulnerable to US influence.

The measures taken by the RBI to internationalise the national currency are not free from financial risks such as the influence of speculative capital on the Indian rupee or the difficulty in controlling the monetary volume in the domestic market and its effects on the interest rate. This has implied a review of the country's macroeconomic policy. However, the need to protect national autonomy and continue the country's economic development has shaped the preferences of central bank agents in the search for satisfactory strategies that provide India with better conditions for growth and autonomy. For this reason, the RBI created measures to encourage the expansion of the country's international trade.

The experience with exogenous shocks has modified the rationality of the central bank agents of the RBI based on the calculation of actions that bring less risk to the country's economic and political interests. Regional cooperation within the SAARC and the challenges of the regional context, such as restrictions on the movement of people, the lack of currency convertibility, operational difficulties and infrastructure deficiencies, regional distrust and its historical conflicts, especially between India and Pakistan, and the limited advances of domestic markets (Sehgal et al., 2021), reinforced India's low commitment to assume the role of paymaster and advance South Asian regional integration. The internationalisation of the Indian rupee does not challenge the hegemony of the dollar, but it creates the strategic conditions for India's international insertion and contributes to the de-dollarization tendency found in other regional arrangements around the world.

Given the scenario of improvement in the national financial systems of the SAARC countries, the coming years may be more promising in terms of increased intra-regional trade, considered the lowest in the world (World Bank, 2020b). However, with the exception of India, financial markets are still in an early stage of development (Ghate and Ahmed, 2023). Despite advances in monetary policy in South Asian countries, there are many external constraints that hinder the progress of regional financial cooperation. As a consequence, the strategy of the central bank agents of the RBI consists of making bilateral payment agreements in local currencies feasible, according to the economic, financial, and political conditions of each country, in order to meet national interests concerning its trade policy, provide political ground to boost the internationalisation of the Indian rupee and guarantee India's international autonomy.

6 THE ROLE OF THE CENTRAL BANKS OF BRAZIL AND INDIA IN REGIONAL INTEGRATION: CONTRASTING AND ASSESSMENT

The sixth chapter presents a comparative assessment of the behaviour patterns of the central banks of Brazil and India in regional financial cooperation. Contrasting the role of the central banks of Brazil and India contributed to understanding the type of regional governance raised in South America and South Asia. The financial convergence initiatives taken by the central banks of Brazil and India are contextualized by contrasting the effects of the 2008 international financial crisis as a critical juncture, which is supported by Historical Institutionalism. By doing so, this chapter highlights its analysis of the common elements of the central banks as structured institutions during the policymaking process toward a regional payment system, identifying their processes and strategies by characterizing the idiosyncrasies and shared logic in the interactions of regional financial cooperation.

6.1 Central Banks at Critical Juncture: The 2008 International Financial Crisis

This section has the objective to discuss the impact and effects of the 2008 international financial crises on emerging and developed countries in order to understand how the global financial governance, mostly dominated by the rules enforced by the Western countries in international financial organizations, provoked a disruptive policy choice by their central banks, which generated heterogeneous results in the groups of emerging countries, which led them to implement adjustments in the macroeconomic policies and reinforce regulatory measures. At the regional level, the financial crisis fostered concertation among the State Parties of MERCOSUR towards further regional financial cooperation. Despite the weak performance of SAARC in coordinating a collective response, Member Countries improved financial convergence focused on institutional capacities and regulatory harmonization for resilience in critical junctures.

Institutional transformations can be observed in times of critical junctures. According to Hall and Taylor (2003, p. 10), historical institutionalism understands critical junctures as “contingent events which force the state to change the prevailing institutional arrangement”, i.e., changes or shocks that challenge the status quo and from which whether a new or revised institutional arrangement can emerge, aiming at the beginning of a new moment of stability. However, Mariano et al. (2023) present a critique of the correlation between critical conjuncture and institutional change. According to Mariano et al. (2023, p. 31), the critical conjuncture, “understood as a moment of sudden rupture of a given historical context”, is only partially sufficient to explain past events, as the concept is not able to identify critical conjunctures that do not produce changes or which actors do not wish to change.

In addition, Mariano et al. (2023) affirm that time, as the main observation variable, is difficult to apply empirically, being treated superficially in the literature that addresses the concept. Therefore, Mariano et al. (2023, p. 31) contribute to the interpretation of critical junctures as a “period of reduction of institutional constraints, in which significant changes are possible, and at the same time, unpredictable [...], establishing itself as the context”. Mariano et al. (2023, p. 31) affirm that a critical juncture is a state of crisis of expectations and loss of historical reference on the future of an institutional arrangement. The 2008 international financial crisis had a significant impact on the behaviour of central banks around the world and on the political and economic choices of national governments, whose context showed the capacity to change the expectations of actors in regional organizations, to a greater or lesser extent, generating uncertainties in relation to the advancement of regional policy. These changes are also related to the countries' domestic political and economic conditions and the decision-making process of national institutions in establishing anti-cyclical measures against the financial crisis and reinforcing the role of the State as an inducer of development.

According to Nolte (2010), the international financial crises contributed to the insertion of emerging countries in the changing international order, raising the relevance of multilateral and interregional forums, e.g., UN, G-20, BRICS as a means to discuss ways of solving global issues and giving voice to emerging countries in global governance structures. Vigevani and Ramanzini Júnior (2022) affirm that the financial crisis exacerbated the criticism of Brazil and other emerging countries in relation to the effects of neoliberal political practices. India and Brazil share a narrative of contestation of the international liberal order, but their impact on the international system is diluted by their limited capacities to carry out a smart power strategy of foreign policy (Nye, 2013) and mobilise multilateral and regional institutional arrangements in which they are engaged, such as MERCOSUR and SAARC.

According to Lin (2008), developing economies such as Brazil, India, and China started the 21st century with a scenario of economic growth, low inflation and more sustainable fiscal situations when compared to the 1980s and 1990s. Lin (2008) affirms that the domestic variable in the context of macroeconomic policy choices and the advantage of the benefits brought by the international context had a significant effect on the resilience of these economies to exogenous shocks. Adjustments in the macroeconomic policies in developed countries, low interest rates and economic performance contributed to a trend of expansion and diversification of capital and investment flows towards developing countries. This context was represented by the international increase in the price of commodities, remittances from abroad and foreign direct investment flows (Lin, 2008)[31].

According to Lin (2008), there was an average growth of 5% of GDP in developing countries as a partial result between 2003 and 2007, considering a peak close to 8%, with all developing regions exceeding the 5% margin of growth, compared to the 3.4% growth level in the previous two decades. The increase in financial flows of capital and investments in developing countries, especially within the BRICS countries, stimulated the demand for capital goods from developed countries, further boosting economic growth in emerging countries in a cyclical manner and stimulating the low cost of production in some countries such as China, India, and Vietnam (Lin, 2008). The outbreak of the 2008 international financial crisis, which is associated with inadequate supervision of banks and financial markets, impacted the U.S. dollar appreciation and generated volatility in commodity prices, transmitting financial problems to the international system and developing economies, through a series of financial, economic and commercial institutions (Griffith and Ocampo, 2009)

In the summer of 2007, the world entered one of the biggest financial recessions since the Second World War, due to the bursting of the subprime mortgage market bubble in the United States. According to Blanchard et al. (2011, p. 384), “sub-prime loans are a small part of the US housing mortgage market intended for borrowers with a relatively high probability of eventually not being able to repay their loan”. The crisis of such a limited sector impacted the financial markets throughout the world. According to Lin (2008), the failure of Lehman Brothers required a coordinated response from the Eurozone countries, the United Kingdom, Japan, and the U.S., in order to close the global interbank market and minimize the financial collapse of the banking sector, while the effects from the real estate sector could not be reversed. Blanchard et al. (2011) affirm that the banks' balance of payments was a major channel for transmitting the crisis to the real economy. The bank's capital decline led financial institutions to cut credit and loans, impacting the investment sector.

> To summarise: any event that affects the value of the assets that sit on the balance sheets of banks (or of firms) will also affect the equilibrium level of output. Moreover, the higher is leverage the larger the effect on output of a given fall in the value of assets. The reason is that the higher is leverage the higher the hit capital takes for any given

[31] According to the IADB (2008), the low level of market indicators such as the Dow Jones index and the flows of private financing from the US current account deficit signalled at some point the market's distrust in the US assets, while the level of capital allocation in other markets increased, resulting in a positive balance of payments for several countries in South America and South Asia.

> loss in the value of assets. This is exactly why the financial crisis hit the real economy so hard: a relatively small shock to the value of banks' assets was amplified by high leverage and produced large losses in bank's capital (Blanchard et al., 2011, p. 394).

The financial crisis that started in the US triggered an international contagion, spreading to most developed and emerging economies. In this case, international trade was the main transmission channel of the financial crisis (Blanchard et al., 2011). Blanchard et al. (2011) affirm that opening up markets of goods had significant macroeconomic implications, where the relationship between the availability of income and the consumption of imported goods impacted international trade and caused scale effects in the global production chain. According to Blanchard et al. (2011, p.395), between July 2008 and February 2009, US imports, which represent around 13% of total world imports, fell by around 46%, due to the financial crisis that had occurred and impacted the country. The sharp drop in US imports caused a significant decrease in exports of goods and products from countries around the world, resulting in a 12% contraction in world trade in 2009.

Blanchard et al. (2011, p. 396) point out that this international contagion was felt, above all, by export-dependent economies, countries with close trade ties with the US, such as Canada and Mexico, but also the European Union and China. According to the IADB (2008), the MERCOSUR economies maintained a growth rhythm during the first phase of the financial crisis. The increasing price of raw materials such as oil, cereals, and oilseeds became fundamental for the MERCOSUR economies, while the effects of the crisis directly impacted developed countries, which had to take a series of measures to contain the recessive and deflationary tendency of their markets.

According to Blanchard et al. (2011), the policy adopted to respond to the financial crisis scenario was divided into two actions: 1) Central banks used monetary policy to reduce interest rates close to zero; 2) Governments used fiscal policy to replace private demand with public demand, which means replacing the fall in consumption and private investment with higher government spending. The increase in the budget deficit is due to stabilizing mechanisms, unemployment insurance, and government interventions such as public investment and tax cuts (Blanchard et al., 2011). With regard to the transmission channels of the financial crisis, this tendency was observed at different degrees in South American and South Asian economies after the containment measures of developed countries.

According to Ronkainen and Sorsa (2018, p. 713), during the 2008 financial crisis, while most central banks “adopted the rationale of maintaining financial stability at high asset price levels", central banks of most developed countries (FED, European Central Bank, Bank of Japan, and Bank of England) introduced "unconventional" policy measures in the pursuit of financial stability. According to Ronkainen and Sorsa (2018), Quantitative Easing policy was a mechanism widely used by central banks in developed markets, as an unconventional model of monetary policy, when it was identified that economies had entered a liquidity trap. It means that the policy of increasing the money supply that had started with the cut in interest rates, reached its limit and there was no longer any possibility of continuing to reduce rates. Ronkainen and Sorsa (2018) affirm such policies included monetizing financial assets to manage overall levels of risk in financial markets to improve confidence in the economy and stabilizing sovereign bond markets to maintain a credible interest rate policy. In addition, central banks were looking for new forms of cooperation to promote financial stability, based on measures such as coordinating swap operations to protect liquidity as seen, for example, at the FED, the People's Bank of China, and RBI.

McDowell (2019) affirms that the 2008 financial crisis illustrated how the FED, in particular, sustained the hierarchical and dominant position of the U.S. dollar by adopting an expansionary monetary policy, based on the Quantitative Easing program. It means buying a certain amount of financial assets and putting them on the FED's balance sheet to support the economy in general by improving the financial conditions of the markets (McDowell, 2019). Ronkainen and Sorsa (2018, p. 713) affirm that the FED's balance sheet has quadrupled, going from US$ 900 billion to around US$ 4.5 trillion.

According to Ronkainen and Sorsa (2018), this choice highlighted the change in the FED's stance on the logic of financial stability towards the active promotion of wealth, increasing liquidity in the world, acting in cooperation with other central banks, and facilitating the maintenance of the U.S. dollar for transactions in investment flows, both in the public and private sectors. According to Blanchard et al. (2011), the increase in the public deficit and the effects of the Quantitative Easing policy were associated with concerns regarding rising inflation. Emerging countries that benefited from the demand of developed countries demonstrated vulnerabilities that were related to their continuous integration into the international financial system (Griffith and Ocampo, 2009).

According to Lin (2008, p. 10), the 2007 financial crisis had an impact: 1) on the reduction in the volume of exports from developing countries to developed countries, especially in commodity-exporting countries; 2) a shock in the flow of foreign direct investment, historically recognized for its greater resistance to external shocks; 3) greater difficulty to developing countries in accessing financial capital, whose interest rates have increased due to risk aversion of the creditors and the global meltdown scenario. This situation generated domestic economic impacts in emerging countries, such as a GDP slowdown, stoppage of investments in national development projects, overloading the countries' balance of payments and fiscal deficits (Lin, 2008).

Regarding South America, the outflow of capital from the economies of MERCOSUR, especially from Brazil, due to the effects of market confidence in the rescue and fiscal aid policies of developed countries and the rise in the dollar exchange rate, whose export price of products from MERCOSUR countries are attached, caused a negative impact on commodity prices and reduction of domestic credit (IADB, 2008). This situation was reflected in a heterogeneous impact on the MERCOSUR economies, with Argentina, Brazil, Paraguay, and Venezuela registering a reduction in surplus, and Uruguay, registering a deficit (IADB, 2008). According to the IADB report (2008), the effects of the international financial crisis stimulated protectionist movements in developed markets[32] and raised the movements of contestation movements of the international financial order, focused on criticism of neoliberal policies by emerging countries.

This scenario had implications for MERCOSUR by stimulating divergences between Brazil and Argentina within the scope of the WTO meetings. According to the IADB (2008), on the one hand, Buenos Aires' foreign policy was interested in opening bilateral trade agreement negotiations with countries outside the bloc. On the other hand, economic sectors in Brazil sought greater centrality of Brazilian foreign policy in trade and the Doha Round of the WTO, while progressing the diversification of Brazil's international partnerships, such as the European Union, India, the Middle East and South Africa.

The 2008 international financial crisis required national solutions and strategies from the State Parties of the MERCOSUR by making adjustments in the countries' macroeconomic policy as a strategy to absorb external shocks, initiatives to strengthen regional financial cooperation (Cruz, 2019) and multilateral efforts (Vigevani and Ramanzini, 2022). As observed in the documents analysed in this research, the MERCOSUR SGT4 commissions addressed financial issues from a technical point of view, aiming at the elaboration of draft Resolutions (GMC) or Decisions (CMC) of the highest MERCOSUR bodies. The international financial crisis reinforced the need for regulator agents of the MERCOSUR to align themselves with international principles and recommendations, which included

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[32] In this context, there were requests for revision of NAFTA, the European Union increased environmental and phytosanitary standards, whose restrictions implied greater difficulty for exports of MERCOSUR products, debates on food security in less developed markets, concerns about the supply of products in exporting countries.

strategies of prudential regulation and review of the banking system norms. Brazil is a member of several international organizations and has participated in many international forums, including the Basel Committee on Banking Supervision since 1997 and the Financial Stability Board (FSB) since 2009.

Among the work plans of the SGT4, it was observed the efforts of regional financial convergence in relevant topics for the deepening of the South American bloc. The MERCOSUR SGT4 focused on the challenges for the advancement of the liberalization of the trade services in the bloc, the regulatory harmonization of the financial services, originating the map of normative asymmetries of national treatment and access to markets, the comparative table of exchange rate regimes and restrictions on capital movements in MERCOSUR and the study on the difficulties for advances in the liberalization of financial services. Therefore, the defensive and reluctant character of the Central Bank of Brazil (CBB), to some extent, may be related to the knowledge that central bank agents had about the bloc's difficulties and the risks that the low level of harmonization could bring to the domestic economy and stability of the national financial system.

Regarding MERCOSUR, it was in this context that the System of the Local Currency Payment System (SML), whose operational design started in 2006, according to MERCOSUR/CMC/DEC n. 38/06 stands out at the VII Extraordinary Meeting of the Common Market Council on October 27, 2008, as a strategic instrument for strengthening regional financial integration to contain the effects of the financial crisis. According to document 5777 – CMC (MERCOSUR, 2008b), it is observed through the participation of the Ministers of Foreign Affairs, Ministers of Finance and the Presidents of Central Banks of the MERCOSUR States Parties that the VII Extraordinary Meeting of the CMC reinforced the perception of the macroeconomic evolution of the MERCOSUR States Parties and the recognition that they were in a better position to face the challenges of the crisis, compared to past crises.

The Document 5777 – CMC (MERCOSUR, 2008b) signals the bloc’s common view of the need to seek “deep and comprehensive reform of the international financial architecture”, through instruments that lead countries to concrete responses to the crisis and “improve prudential regulation of markets of capital”. The Document also reveals the nature of Brazilian leadership in proposing the convening of the United Nations Economic and Social Council and reinforcing multilateral and regional measures to face the crisis. The Document 5777 – CMC (MERCOSUR, 2008b) makes clear the conviction of the MERCOSUR States Parties that “the deepening of regional integration and the strengthening of commercial and financial cooperation ties" can contribute to the preservation of economic and social achievements and the maintenance of growth, functioning as a protection against future external shocks.

The Meeting minutes of the VII Extraordinary Meeting of the CMC (MERCOSUR, 2008b) also address measures that MERCOSUR States Parties sought to implement: 1) Macroeconomic monitoring; 2) Monitoring trade flows; 3) Integration of financial services in the banking, capital and insurance market, highlighting the role of the local currency payment system (SML) created in MERCOSUR and in operation between Brazil and Argentina, as an element of deepening regional financial integration; 4) Conformation of the Bank of the South; 5) establish financial integration mechanisms within the scope of UNASUR; 6) Recognizing the links between finance and trade. In this context, it can be said that the Payment System in Local Currencies (SML) is also related to a reactive feature of the central banks. The actions suggested within the scope of the VII Extraordinary Meeting of the CMC were associated with efforts to conclude the multilateral negotiations of the Doha Round, taking into account the interests of developing countries in the elimination of distortive trade practices by developed countries, whose influence and political powers directly or indirectly impacted the global financial governance.

MERCOSUR Meeting Minutes and Annexe documents, such as 2424 – MERCOSUR/CMC/ATA n. 02/08 (Corr. 1) (MERCOSUR, 2008d) and MERCOSUR CMC/DEC n. 09/09, demonstrate the bloc's concern with the advancement of financial and social aspects, such as: 1) strengthening the social dimension, through approval of the structure and budget of the MERCOSUR Social Institute; 2) measures to expand and implement the Payment System in Local Currencies (SML), approved by CMC Decision n. 25/07, to the financial systems of other States Parties, through technical training and exchange of information between authorities; 3) Creation of the Tax Affairs Forum (CMC n.31/08); 4) Countercyclical economic measures followed by investments in productive and social areas; 5) Protection Measures in the Social Area. In the context of multilateral efforts, document 2424 – MERCOSUR/CMC/ATA n. 02/08 demonstrates the bloc's pursuit of MERCOSUR dialogue with India and Southern Africa, as well as the development of the Doha Round at WTO.

Vigevani and Ramanzini Júnior (2022, p. 130) point out that during the international financial crisis, Brazilian foreign policy was seeking to maximize its national capacities by participating in regional and global political and economic processes as a way of pursuing a multipolar world and the end of unilateralism. The effects of the financial crisis on international trade and investments of the US, consequently, contributed to the intensification of cooperation between Latin American countries in terms of political, security, social, environmental, and development areas and reflected in the design of regional institutions, with UNASUR and CELAC (Vigevani and Ramanzini Júnior, 2022, p. 141).

Since the end of the 1980s, the Central Bank of Brazil (CBB) has adopted several prudential regulations with the objective of protecting the national economy from financial crises, making the norms of the National Financial System compatible with the requirements of the Basel Capital Accords (Basel I - 1988, Basel II - 2004 and Basel III - 2010) at the BIS. Regulations to ensure international financial stability, as discussed in the previous chapter. However, according to Oreiro and Araújo (2009), the BCB underestimated the impacts of the financial crisis on the level of productive activity and overestimated the risks of inflation acceleration, due to the pass-through from the exchange rate to prices. This scenario was aggravated by the fall in manufactured exports.

> The maintenance of the basic interest rate at 13.75% per year in the October and December Copom meetings made it impossible for the monetary authority to reconcile the objective of guaranteeing the stability of the nominal exchange rate through dollar sales operations on the spot market with the objective of restoring liquidity to the banking system as a whole. The solution found to the dilemma was the partial release of compulsory deposits, which, however, was not effective in restoring the banking system's reserves to the levels prevailing before the crisis (Translated by the author from Oreiro and Araújo, 2009, p. 41).

Oreiro and Araújo (2009) affirm that the CBB's insistence on keeping interest rates unchanged in the first months of the crisis led to a drop in liquidity in the Brazilian banking system and the evaporation of credit, impacting national industrial production. According to Cintra and Prates (2011, p. 13), the outflow of capital flows from emerging countries was cushioned by external shielding, i.e., a high stock of international reserves in convertible currencies, “capable of improving external indebtedness indicators, stabilizing interest and exchange rates, allowing a greater margin for economic policy manoeuvre in contexts marked by abrupt reversals of expectations”, which required low domestic interest rates.

Regarding South Asia, Behera (2012) affirms that regional integration initiatives in the economic, financial, and commercial spheres in SAARC were not prioritized at the beginning of its operation. SAARC's political core centred its issues, above all, in the area of security. According to Tripathi (2010, p. 53), “the inertia on the core economic issues shifted gears in the early 1990s, with the initiation of discussion on two key issues […] poverty alleviation and trade liberalization within the region”. From the 1990s onwards, SAARC began to emphasize the need to strengthen its regional connectivity in the areas of infrastructure and economic integration while at the same time increasing its presence in multilateral forums (Tripathi, 2010). According to the World Bank (2010), South Asia countries were not deeply affected by the financial crisis compared to other regions, because countries presented a low level of trade openness and economic interdependence.

It does not mean, however, that countries have not felt the effects of the international financial crisis. According to Setyawati (2018), the South Asian economies were affected in the following areas: 1) decrease in the price of exported products; 2) low volume of international remittances to South Asian countries; 3) decrease in the volume of domestic and foreign direct investments; 4) decrease in private consumption; 5) decrease in the volume of international reserves currencies; 6) depreciation of national currencies; 7) increase in the fiscal deficit; 8) deterioration of income from taxes; 9) increase in the current account deficit; 10) impact on the tourist flow of the Maldives, whose sector represents a significant percentage of GDP; 11) increase in the poverty rate. According to Setyawati (2018, p. 767), “a fall in the standards of living triggered the protectionism among the regional countries which hampered the process of regional integration […] and the lack of combine efforts to bring the region out of the crisis”.

According to the World Bank (2010), the macroeconomic fundamentals of the South Asian countries contributed to cushioning the effects of the financial crisis during its first phase, providing some stability to the economies and the financial sector, whose domestic coalitions are dominant. Hattari et al. (2011) affirm that since the 2000s, South Asia has experienced one of the fastest growth rates in credit, investment and capital flows in the world, especially led by India, which also contributed to this virtuous cycle, despite the countries' domestic problems in terms of inflation and fiscal deficit. Counter-cyclical macroeconomic measures such as interest rate cuts by the governments of Bangladesh, India, Pakistan, and Sri Lanka, followed by India’s expansionary monetary policy improved the resilience of economic activities in Nepal and Bhutan during the financial crisis, as these countries kept their currencies attached to the Indian Rupee (World Bank, 2010). The lower weight of private capital flows in South Asia also helped the region to reduce the transmission channels of the crisis (World Bank, 2010).

Tripathi (2010) draws attention to the fact that instead of SAARC promoting collective ideas and coordinating strategies to reduce the effects of the financial crisis, South Asian countries had to establish individual economic recovery measures, starting with adjustments in the macroeconomic policies and institutional reforms. Another concern from the South Asia countries arising from the financial crisis was regarding protectionist measures by developed countries and their support for the conclusion of the WTO’s Doha Round (Tripathi, 2010, p. 56). Multilateral efforts of the emerging countries as financial and manufacturing centres of Western countries were expected to work as an umbrella to protect the collective interests of smaller countries and coordinate measures to recover from the effect of the financial crisis.

The resilience in international trade, investments and international remittances of India, Bangladesh, and Bhutan resulted in better economic performances during the financial crisis, compared to the economic imbalances observed in Pakistan, the Maldives and Sri Lanka (World Bank, 2010; Setyawati, 2018). The end of three decades of civil war in Sri Lanka helped the economic recovery of the country in a shorter time and contributed to an increase in foreign direct investments, while conflict in Afghanistan, Pakistan, and Nepal hampered their economic recoveries (World Bank, 2010). According to ODI (2010), continued strong growth in emerging markets like China and India supported low-income countries in Africa and South Asia to overcome the effects of the financial crises through initiatives of financial aid, foreign direct investment and trade, even if this scenario stimulated commercial competition among themselves.

The macroeconomic and fiscal adjustment measures taken by the RBI, in particular, contributed to ensuring the liquidity of the markets, resulting in the stabilization of interest rates and inflation (Viswanathan, 2010). The Indian Rupee recovered from the depreciation of the initial effects of the financial crisis in the country, ensuring the balance of the country's international trade and supporting its economic growth. The experience with the economic reform of the 1990s and the gradual liberalization of the markets contributed to the maturation of the RBI policy choices process by strengthening existing regulatory measures and providing financial stability for the country's development (Viswanathan, 2010, p. 61).

According to Tripathi (2010, p. 59), the 2008 international financial crisis raised the level of concern of SAARC countries to deepen regional cooperation, following the example of the ASEAN + 3 efforts, as a way of cushioning the effects of the crisis during the Annual Economic and Social Survey of Asia and Pacific in 2008. This meeting raised debates about the development of a bilateral system of Swap operation into a multilateral and the improvement of the existing system for sharing information on capital flows and regulatory activities of the financial sector. The SAARC countries sought measures to increase market liquidity, such as applying for emergency credit to the Asian Clearing Union (ACU) and developmental financing from the South Asia Development Fund (SADF) with the participation of private and public sectors (Tripathi, 2010).

The great asymmetry of the countries in South Asia in relation to India, as well as the competitive profile of the markets and the low level of integration and international openness, demonstrated the real unwillingness of the Indian leadership to deepen the regional integration process in SAARC during the international financial crisis, as New Delhi's monetary and expansionary measures aimed at protecting its economy and trade in relation to other countries in the region, as observed by Setyawati (2018).

> As a matter of fact, financial markets of SAARC countries remained less vulnerable to financial crisis or bad-loan crisis because of having less exposure to subprime assets and high capital to risk assets ratio. However, trade of goods and services of the SAARC countries with the developed economies resulted in negative effects on most of the SAARC countries. Timely response by the countries could save the prolonged negative influence of financial crisis. In this perspective, India is a good example. Better coordination between Monetary and fiscal policies, having less integration of stock market of India with the most vulnerable countries and having good spread of exports to different parts of the world resulted in less vulnerability of Indian exports from the financial crisis. Financial crisis had serious repercussion for other countries of the SAARC region due to lack of appropriate response (Setyawati, 2018, p. 775).

In the context of the financial crisis generated by banking deregulation, as pointed out by Tripathi (2010), SAARCFINANCE's expertise plays an important role in political coordination with the capacity to monitor national financial systems and strengthen regulatory harmonization. As analysed in this chapter, the SAARC Payment System (SPI) is the result of the mobilization of technical and political agents of the SAARC Member Countries with the purpose of establishing measures to modernize financial systems, promote regulatory harmonization, trade facilitation and remittances, and to be a platform for political dialogue and institutional training, which provide better conditions for advancing regional financial cooperation and increasing the resilience of countries in a present and future context of crises. Consulted documents do not present an explicit relationship between the progress of measures to reform the financial systems and the international financial crisis present at the time.

The deduction of this relation is made from the identification of the interests of the central bank agents of SAARC with the mitigation of financial risks potentially generated by deregulated systems, as expressed in the bulletins of the SPI analysed in this chapter. Given the low degree of regional integration existing in SAARC and the low level of internationalisation of economies, the institutional changes observed in SAARC in a context of critical conjuncture, refer to the mobilization of actors. It means the interactions of technical agents and politicians of the central banks to establish the SAARC Payment Initiative (SPI), the political commitment to the regulatory harmonization of national financial systems and supervisory measures aimed at protecting their own national markets due to the unstable context of the international financial crisis.

The result of the advances in these interactions between central bank agents was the process of modernization of national financial systems, which has been creating the conditions to improve the commercial performance of countries and supporting the insertion of the region in the international financial system, reducing the risks presented in internationalisation of markets, which is slowly resulting in the improvement of regional financial cooperation, as seen in the local currency payment system agreement reached between India and Bangladesh in 2023.

With regard to the effects of the financial crisis on the political-ideological framework, Ricupero (2008) affirms that the scenario of financialization of the economy is related to the pressures of domestic sectors of the American economy to approve measures carried out internationally by the U.S. government, through the FED and USTR, and, consequently, reverberated internationally, through the financial institutions (IMF and WB) within the scope of the globalisation process and the global financial governance structure. According to Ricupero (2008), the political system of the U.S. puts the national state at the service of the financial interests of their economic sectors aimed to maximize profits with minimal measures of restriction and supervision.

A similar argument was expressed by Bresser-Pereira (2008) when he affirmed that the 2008 financial crisis is associated with financial domination, through a particular political coalition that took advantage of trade liberalization to achieve the liberalization of capital flows through globalisation. However, the participation of the State welfare in the GDP of countries and its interventions in the national economy prevented the international financial system from being dominated by markets (Bresser-Pereira, 2008). According to Ricupero (2008), the increasing stabilization role of the State in the economy was followed by the proliferation of financial instruments, characterized by a lack of state regulation and supervision, causing an imbalance in the financial system that became more complex, increasing the volume in financial capital flows and national state spending.

> In 1980, the world's financial stock - comprising bank deposits, private debt securities, government debt and equity - was 10 trillion dollars, roughly equivalent to the value of the world's Gross Domestic Product (GDP) at that time. By 2006, it had grown to $167 trillion, nearly four times the world's product! In 2006 alone, the stock had increased by 25 trillion dollars (more than twice the GDP of the United States), expanding by 18%, triple the rate of growth of international production. The US economy held 56% of global financial assets; these assets, which in 1980 already represented 450% of the US GDP, jumped to 1,000% in 2007! The foreign currency reserves held by central banks had grown from US$910 billion in 1990 to more than

> US$5 trillion in 2006, an undisguised expression of the acceleration of financial globalisation (Translated by the Author from Ricupero, 2008, p. 187).

According to Ricupero (2008), it means that there was no distinction between the effects of trade liberalization and financial liberalization on economies. The liberalization of capital flows raises the risks of underdeveloped capital markets, whose low capacity for regulation and supervision allows an excessive inflow of resources, generating investment bubbles and depreciating the local currency and international trade (Cintra and Prates, 2011). According to Alves (2012, p. 180), international financial crises have three characteristics in common: 1) All countries will be impacted by the crisis to a greater or lesser degree and at some point; 2) Each financial crisis has its own origin and characteristics and is associated with the logic of the functioning in which the financial markets are related nationally and internationally; 3) Financial crises have similar consequences for economies and common macroeconomic backgrounds (in terms of asset prices, the level of economic activity and external indicators).

It is concluded from this section that international financial crises affect both emerging and developed countries to a greater or lesser extent. The 2008 international financial crisis provoked unconventional political-economic responses by central banks in developed markets and containment measures in developing markets. The macroeconomic fundamentals of developing countries combined with the accumulation policy of international reserves in dollars managed by the central banks at the beginning of the wave of overvaluation of goods in the export basket of commodities and the growing attraction of foreign direct investment contributed to cushion the impacts of the international financial crisis.

Multilateral efforts of developing countries also helped to strengthen the international regulatory levels of capital flows and challenge the norms that shaped the international financial system, through the multilateral arrangement of the Financial G-20, but also in the scope of the BIS as previously discussed. However, such negotiations continue to be marked by significant international asymmetries between countries of the North and the South. The growing predominance of liberal policies revealed the conformation of an international system dominated by the strength of domestic financial sectors and its influence on the economic choices of central banks in developed countries while developing countries were pressured to open up their markets.

The impact of the financial crisis on the regional integration process of MERCOSUR countries was heterogeneous. While the markets showed growth at the beginning of the crisis, the sharp drop in the volume of exports and the value of commodities, combined with the withdrawal of investments and measures from developed countries to rescue their own markets, caused a shock in the South American bloc and reduced the conditions to conduct a common trade policy, while reinforced the bloc's resistance to the flexibility of negotiations with foreign markets. This resistance was led, above all, by the accommodation of regional interests in Brazilian foreign policy.

According to Vigevani and Ramanzini Júnior (2022, p. 114), the China factor also contributed to the “maintenance of a reasonable level of stability of the economies” of MERCOSUR, although it was not enough to lead the countries to “productive and commercial complementarity”. In addition, there was an explicit interest from the States Parties, especially Brazil and Argentina, in advancing policies to strengthen regional trade, as a strategy to improve the macroeconomic fundamentals of the countries. The conception of the SML turned this financial mechanism into a political asset, due to the instrument's potential to reduce dependence on the use of the U.S. dollar and narrow the channels for the dissemination of financial crises, guaranteeing the regional financial stability necessary for economic development and international autonomy. The financial crisis stimulated a greater sense in the political agents of the need to deepen regional financial integration in MERCOSUR. Although the measures presented late results, the context of financial instability shaped new expectations in the actors and strengthened the particular interests of Brazil and Argentina.

Within the framework of SAARC, although the economies have also shown some resilience to the effects of the financial crisis when the effects reached the real economy of the countries of South Asia, it was observed the inability of SAARC to promote a collective response. It improved, however, political coordination within the SPI network towards strengthening regional financial convergence. The financial crisis required different macroeconomic responses from South Asian countries, which influenced political and economic choices from national governments and central banks that weakened the bloc's expectations for deepening regional integration. India's expansionary monetary policy highlighted the weak level of institutionalisation of SAARC, characterized by a group of countries whose environment is marked by individuality, economic competition and historical conflicts, revealing New Delhi's unwillingness to act as a regional leader.

6.2 Comparative Regionalism: Perspectives from the Global South

This section aims to analyse MERCOSUR and SAARC regional integration processes from the perspective of comparative regionalism as a background in which the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) play their political roles of leading initiatives to build regional financial convergence. Despite this research being a comparative study between South-South experiences, focused on MERCOSUR and SAARC, the European Union as the most advanced integration model, which experience has been contributing to theoretical formulations of Regional Integration studies, is a valuable source of lessons and policy development. When the EU experience of development policies is appropriately designed and further analysed, it could lead to insightful results and contribute to diffuse practices that could enhance regional integration processes elsewhere, included but not limited to the cases of MERCOSUR and SAARC. The challenges behind the diffusion of the EU model is to identify what could be transferable and adaptable considering the different regional contexts and institution building around the world.

There are many constraints standing in the way of Brazil and India's foreign policy at domestic, regional and international levels that must be taken into account to further analyse the role of the central banks of Brazil and India in regional integration. The domestic level demonstrated significant implications for the evolution of regional integration projects in the two regions, given the national impact of the liberalizing political reforms of these countries in the 1990s and the responses of MERCOSUR and SAARC to the international financial crises of the 2000s. Institutional stabilization and economic development paved the way for Brazil and India to be more assertive in their foreign policies. However, the level of development of national institutions in the South American countries related to the South Asian countries, the formation of their domestic coalitions and the definition of the national interests of Brasilia and New Delhi, demonstrated how geopolitical differences and domestic vulnerabilities reflected on states' willingness to move forward or not with the regional integration process.

Market-oriented economic reforms do not constitute an orderly and uniform movement, on the contrary, the structural adjustments that emerging countries such as the one that Brazil and India have gone through, although they are part of the same set of liberal policies, they distinguished from each other in time and space. According to Cruz (2007), the results of liberalizing reforms in emerging countries are determined by a series of factors, such as the process of institutional transformations and change in the economic orientations of the state, the type of national competition, the level of state intervention, the national composition of political governance, business interests, the insertion model in the world economy and the macropolitical and economic contexts.

The stabilization of the Brazilian economy after the currency crisis of 1999 combined with the commodities boom in the 2000s, stimulated the country's economic development based on a distributive domestic policy and an active foreign policy. However, the export basket of Brazilian products remains mostly primary products. Since the economic reforms of the 1990s, New Delhi's foreign policy changed its orientation to be more focused on India's economic self-interest. India's gradual economic liberalization measures increased its international competitiveness, attracted a significant volume of foreign direct investments, focused on the development of the service sector, high-tech products, textile, and pharmaceutical industries. The Indian government also faced similar challenges presented in other emerging countries, such as seen in Brazil, which is the tension between the objective of establishing a more liberal financial regime and the need to allocate resources to areas of political priority for economic and social development (Jayadev et al., 2018).

Structural adjustments of the financial reforms over the 2000s resulted in greater stability to the national financial system of Brazil after the 1999 currency crisis, while Indian economic reforms of 1991 contributed to strengthening India's autonomy in the international system, expanding the coordination capacity of its macroeconomic policy and the country's development process. However, South America and South Asia still need to build greater institutional capacities to implement regulatory reforms that progressively strengthen regional financial convergence to international standards in order to protect the countries against exogenous shocks and minimize protectionist measures in regional trade. Brazil and India's national currencies are non-convertible, the Brazilian Real (BRL) and the Indian Rupee (INR), which is another challenge in terms of improving liquidity to support the internationalisation of the countries in the international financial and monetary system.

Concerning the regional level, the particularities of South America as a cooperative region and South Asia as a conflictive region combined with the level of institutionalisation of their regional policies, volume of trade and foreign direct investment enhanced by the political, economic and ideational influence shared over the regional integration promoted by Brazil and India, has been determining different paths for MERCOSUR and SAARC over the time. Regional organizations have become strategic instruments of Brazilian and Indian foreign policies. However, it was identified that MERCOSUR is more regionally integrated and more aligned with the Brazilian national interest when it is contrasted to the case of

SAARC, whose regional concerns are divided between security, economic, and institutional development issues, in relation to Indian foreign policy.

Lombaerde et al. (2010, p. 743) remind there is a presumption that an adequate regional integration process should move towards a level of institutionalisation similar to the EU, however, such supposition "results in a false universalism" or according to Nolte and Ribeiro (2021, p. 87), in a "false mirror". Regional integration elsewhere in the world could be developed under favourable conditions, without necessarily having the same level of European institutionalisation (Lombaerde et al., 2010). However, as mentioned previously in this research, the EU experience historically provided useful lessons to institutional development. The forms of diffusion of such an advanced model, though, should consider aspects that are transferable, taking into account regional realities and the political objectives of the actors involved, because as seen in Shambaugh (2019), some difficulties faced by the EU as a supranational organization are in some ways unique. Shallow integration and informality define most of the world's regional integration processes (Borzel and Risse, 2016), which are the cases of MERCOSUR and SAARC. Regional integration in South America and South Asia has been characterized by a shallow integration model with a historical tendency to establish sovereign-protection measures (Vigevani and Ramanzini, 2022; Luciano and Campos, 2021).

These two intergovernmental regional organizations present institutional designs based on the low level of pooling and delegation to authority[33] (Borzel and Risse, 2016), limited economic openness and low diversification of export baskets, vulnerabilities to exogenous shocks, challenges regarding social progress and human rights and differentiated subsystems. Considering the singularities of the geopolitical reality of South America and South Asia, these regions, characterized by large countries surrounded by smaller ones, are defined by their asymmetries in terms of economic development and institutional capacities combined with regional infrastructure deficiencies and different levels of modernisation of their national financial systems.

Despite these features, the limited influence of Brazil and India to bring about changes in the international system leads both countries to rely on regional integration as a platform for international insertion and national development as a means to achieve their global ambitions and meet security concerns at different degrees. However, given the interests of Brazil and

[33] According to the definition of Hooghe and Marks (2015), pooling is the joint exercise of authority by member states in a collective body while delegation is a conditional grant of authority by member states to an independent body, e.g., judicial delegation; political delegation.

India playing a major role in international politics, both countries cannot be restricted to the regional level (Vigevani and Ramanzini Junior, 2022, p. 47, Chakma, 2020, p. 178), constrained by the asymmetries that shape the regional integration process and limit their international autonomy. This context makes Brazil and India have a deficit of leadership[34] or unwilling to bear the costs of being a paymaster of regional integration.

The regional integration process meets the interests of Brazil because it works as a platform to increase its international competitiveness, expand international trade and as a means of dialogue at a global level (Vigevani and Ramanzini Junior, 2022). According to Acharya (2012, p.10), India seems “leapfrogging”, i.e., “ignoring the neighbourhood in favour of a global perch like the G-20” or presenting a “reactive” approach, although it has been demonstrating greater commitment to “accommodate”, “tolerate ” (Malone, 2011) and decrease regional asymmetries (Mohan, 2013). Considering that the discursive role is part of a collective identity, India's commitment to SAARC is seen as a platform for legitimizing its global role and does not be isolated further in the region (Chakma, 2020, p. 75). This strategy has been generating two different results. On the one hand, greater distrust among Member Countries due to the fear that India could establish a regime of domination in South Asia. On the other hand, it opens the possibility of increasing trust and conditions for dialogue, political coordination and cooperation among Member Countries.

According to Vigevani (2014) and Stuenkel (2015), Brazil and India adopted a strategy of foreign policy based on concentric circles of integration, which means that these countries establish a relation of priorities in their economic, political and social coordination, put into practice by political projects such as MERCOSUR, but also UNASUR and CELAC in South America and SAARC, but also BIMSTEC and IORA, to mention a few, in South Asia as a response to the economic marginalization of the Global South. These regional processes are supposed to enable Brazil and India to achieve greater status in the international system, transforming the international polarity in favour of a multipolar order. Brazil and India’s limited leadership strategy implies trying to make regional integration in MERCOSUR and

[34] Leadership is not a condition attributed only to the material and economic capabilities of countries, it is necessary to consider the intersubjective dimension of leadership, translated from the notion of purpose, i.e., the capacity of a state to project a set of ideas and political principles in a concerted manner among a certain group of states towards a collective goal (Ikenberry, 1996).

SAARC feasible through the launch of diverse institutional mechanisms of cooperation[35]. However, overlapping regionalism also makes political coordination of national agendas more difficult and consequently, it can duplicate strategies of national governments and private sectors, which impose further challenges to achieve foreign policy objectives.

Regional political initiatives taken by Brazil and India could be interpreted as cooperative hegemony (Pedersen, 2012) or consensual hegemony (Burges, 2008). According to Nolte (2010), cooperative hegemony is a soft power strategy of domination (economic power, technological knowledge, participation in institutions, cultural and ideological influence) carried out by agreements and long-term institutional cooperation, which requires the emerging countries/regional powers to share benefits in order to aggregate secondary states to an idealized regional project. It reduces the chances of arising counter-alliances in the region and interference from external states. It also provides status gains in scale for emerging countries that seek to increase their influence in international politics. According to Nolte (2010), this is the only possible way of regional domination for most countries.

The minimum acquiescence of the secondary countries of a region to the international strategy idealized by the emerging countries fosters the influence of their foreign policy and builds an institutional arrangement more capable of providing changes in the international order (Nabers, 2007). The secondary countries also recognize regional institutions such as MERCOSUR and SAARC, as an opportunity to constrain the strength of the emerging countries through institutionalised rules and procedures, insert their national interests in the negotiation forums and reduce regional asymmetries. It is observed that MERCOSUR presents more institutionalised mechanisms of regional cooperation compared to SAARC, which contributed to rebalancing its distribution of power and (re)shaping the preferences of the actors towards a more convergence regional governance. As observed in the previous debates, Brazil and India also designed mechanisms to reduce regional asymmetries and differentiated treatments for less developed countries as a strategy aimed at minimizing regional distrust and legitimizing their foreign policy in the international system.

Governments establish regional institutions to improve the predictability of interactions with other governments and the outcomes from those interactions. However,

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[35] According to Lima (2012) who uses Raymond Aron's idea of preponderance, affirms that this concept is conceptually more adjusted to the situations of Brazil and India in their sub-regions compared the concept of hegemony. For Brazil, the condition of hegemon is constrained by the presence of the US in the American macro-region and by the growing insertion of China in the Latin American space. For India, the dynamics of the regional security complex in the Asia-Pacific region, led by China, Russia, Japan and the US, prevent the country from being hegemon. Therefore, only a preponderance condition could be guaranteed by Brazil and India.

institutions, once established, can assume their own autonomy not foreseen by their creators with the capacity to constrain norms and procedures, forging a new framework of political relations and shaping new forms of carrying out regional cooperation and integration. The renewed regional activism of Brazil in the 2000s would not necessarily represent effective leadership, but rather "instrumental" or "situational" leadership, which varies according to the context and situation at stake (Mourón and Onuki, 2015, p. 21). According to Vigevani and Ramanzini Junior (2022), South American countries also sought to counterbalance the forces in relation to Brazil, either by contesting the asymmetries that define the South American region or by the difficulties of reaching a consensus on a given topic, as a logic of the decision-making process of the MERCOSUR. According to Das (2016), India is a pro-active player at the regional level as a strategy to boost New Delhi's foreign policy towards the international level. However, India has neither relevant international trade with South Asian countries nor dependence on SAARC for engaging with other regional organizations in Asia or multilateral organizations. Besides that, South Asia is a conflictive region in which India is part of the conflictive core, especially with Pakistan (Arshad and Ali, 2017), which hampered the institutional development of SAARC and increased political mistrust between Member States.

Due to the economic and political interests of developed countries, international norms may lack credibility. The participation of central bank authorities in multilateral forums provided greater political space in the decision-making process of international financial institutions in emerging economies. It also reinforced the narrative of contestation and demand for reforms of the international financial organizations, followed by greater regulation of capital flows and measures to support a better symmetry of the international financial and monetary system in order to minimize the consequences of financial crises in the economic development of emerging countries.

Regional financial cooperation contributed to reducing existing asymmetries in global financial governance, but they were not enough to add a layer of protection to the effects of external crises until the moment. The policy choices of the central banks of developed countries also influenced at some degree the level of autonomy of the central banks of emerging and less developed countries, whose decision-making processes prioritised the stability of the national financial system and progressively strengthened the regulatory framework based on the Basel Committee's recommendations. The member countries of MERCOSUR and SAARC relied on the experiences within FLAR, ALADI, and ACU to improve the conditions of providing a regional financial convergence within the initiatives of the Local Currency Payment System (SML) and the SAARC Payment System (SPI) by reducing the institutional risks associated with the regional process to the central banks.

It was identified that the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) influenced the progress of regional integration when their technical and political role was needed to respond to the systemic impacts caused by the international financial crises. It corresponded to the greater interests of monetary authorities to ensure the stability of the national financial system and protect monetary policy. The operational autonomy of central banks can be understood as an intermediate institutional stage that approaches the level of independence, guaranteeing the credibility, predictability, and operational security, necessary for the economic growth of emerging countries, meeting the recommendations discussed at the BIS regarding good governance practices, without distance itself integrally from the structure of national governments and in a certain harmony with the economic policy of the countries. This scenario contributed to driving regional financial cooperation initiatives and progressively building a framework of greater regional integration, which is the first step to creating external protection against exogenous shocks. Regional financial cooperation, therefore, provided greater resilience and financial stability to South America and South Asia region, in which emerging economies rely on regional policy to boost their international relations.

However, the leadership role of the central banks of Brazil and India in regional integration is limited because both monetary authorities are subject to potential government interventions or facing a political-economic scenario that put their greater objective of protecting the interest of national development, monetary policy and the stability of the national financial system into risk, e.g., the exchange rate policy and financial instability in the countries of South America and South Asia imposes a constraint on the advancement of regional integration, making it necessary to primarily concentrate efforts aimed at reducing domestic structural and operational asymmetries, as a strategy to minimize the risks of spreading the effects potential financial crises in neighbouring countries which could affect in larger economies, particularly, Brazil and India.

At the international level, emerging countries such as Brazil and India adopted a cooperative approach, preferentially acting multilaterally through global institutions or informal arrangements of states as in the case of the BRICS, as mechanisms to balance the asymmetries of the international order. According to Mares and Trinkunas (2016), emerging countries[36] are complying with many principles of the international liberal order, which makes them more vulnerable to external shocks. Brazil and India do not simply accept the rules of this order. Emerging countries as such are not strong enough to be "rule makers", but also they are no longer seen as solely "followers" or "rule takers". It would be more appropriate to define them as "rule shapers" of the international order (Mares and Trinkunas, 2016, p. 3-4).

It means that the political engagement and acquiescence to international norms of Brazil and India in the global governance process is asymmetrical. According to Mares and Trinkunas (2016), great powers do not adhere sufficiently to the principles of the order they lead and are no longer strong enough to be a rule maker in isolation from other powers. It provides a political ground for critical contestation of the international norms by the emerging countries as the slight changes observed in the decision-making process of the international financial organizations, particularly, the IMF and the World Bank. The possibility of emerging countries providing changes to the global financial governance with the purpose of gaining more influence in the international system varies over time and depends on the combination of domestic capacities, level of regional convergence, and international determinants.

Brazil and India are also categorised as revisionist or (soft) reformist states of the international order (Gratius and Saraiva, 2013; Narlikar, 2013), i.e., promoting changes in the design of global governance institutions, which contributes to the process of reviewing or replacing the norms, principles, and procedures under which the order is implemented, e.g., gaining a permanent seat on the UN Security Council, reformulating participative quota on the IMF or influencing multilateral institutions. Those countries seek to occupy political spaces provided by the current rules, aiming to reach a greater status and sharing international decision-making, unwilling to bear the paymaster costs usually required from regional leadership. In 2014, Brazil and India established the New Development Bank, which represented a turning point in global financial governance. It drives more financial convergence of emerging countries at the international level, which can potentially foster regional financial cooperation as an alternative to traditional international financial organizations.

Regional integration also contributes to the coordination of the political position of countries in the decision-making process of multilateral international institutions. It reflects the degree of convergence of political and economic interests that large regional actors such as

[36] According to Mares and Trinkunas (2016), the classification of emerging countries is a process, which states are recognized by their peers and non-state actors for their participatory legitimacy or disruptive capacity to influence the process of shaping rules in the international order.

Brazil and India present in relation to smaller actors in the region. In this case, Montenegro and Mesquista (2017), through a study of the distribution of affinities, affirm that Brazil has greater political convergence with MERCOSUR and UNASUR countries in times of increasing trade between the member states of the bloc. The greater distribution of economic gains contributed to an increase in the level of affinity between Brazil and Argentina in the 2000s compared to the 1990s. Montenegro and Mesquista (2017) also affirm that India had a low level of regional affinity between 1992 and 2008. India's level of convergence with SAARC countries improved from 2008 onwards. His studies revealed that Pakistan has historically shown greater political convergence with SAARC countries than India. This means that periods of great affinity could possibly lead countries to be more committed to a redistribution of political power and economic gains, as well as to achieve their national interests.

Such challenges become even greater when regions do not have the necessary incentives for actors to seek regional cooperation, which can be aggravated by a context of low intra-regional trade and a low level of interdependence between countries, making Brazil and India not assume the transaction costs of the regional integration process. According to the World Bank (2020b), it was identified that 95% of trade from the South Asia bloc occurs with Europe, North America, and East Asia, while 5% of the trade is with neighbouring countries. According to MERCOSUR (2021b), in the South American bloc, China, the United States, and the European Union are the main trading partner of MERCOSUR countries, while intra-trade represents roughly 16% of its total.

The growing role of finances in the world combined with the forces of the international financial and monetary system constrain the macroeconomic choices and foreign policy strategies of emerging countries such as Brazil and India. Regional financial cooperation is a satisfactory strategy of foreign policy, in which Brazil and India provide conditions to develop greater financial convergence, aiming to implement financial instruments such as bilateral and regional payment systems, as a way to cause some level of impact in the process of global financial governance, promoting a more inclusive international insertion, which increases the visibility of countries in the Global South as a whole and protecting the international autonomy of countries.

As verified throughout the research, when comparing the experiences of MERCOSUR with SAARC, the South American bloc presents a higher level of institutionalisation of the regional policies, and a better level of regional financial convergence and trading performance than SAARC. On the other hand, the political advances of the South Asian bloc are continually gridlock due to the historical conflicts and difficulties in overcoming the existing distrust between India and Pakistan. The countries of South Asia have shown significantly better economic performance, foreign direct investments and international insertion indices over the years, mainly due to the bilateral efforts between the countries, driven by the rise of India and China. However, regional integration initiatives continue to dissipate among the different regional organizations.

It is affirmed that the South Asia regional financial integration faced major constraints compared to the MERCOSUR experience. It is in this distinct context that the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) have acted as agents of foreign policy, assuming a leadership, albeit reluctant, in the conduct of regional financial cooperation. Particularly, the CBB and the RBI have assumed the structuring role of this policymaking process to a greater or lesser extent combined with the regulator role of the political practices that reduce the risks of financial instability in order to provide a framework for regional financial convergence initiatives towards a regional payment system, maintaining the strategy of low regional institutionality adopted by the foreign policy of Brazil and India.

6.3 The Central Banks of Brazil and India: Causalities and Patterns of Behaviour

This section aims to analyse the role of the central banks of Brazil and India in regional integration from a comparative perspective, paying attention to the identification of patterns of behaviour and interaction of central bank agents in order to explain the success or failure of particular political structures and strategies, describing idiosyncrasies and shared logic of their decision-making process focused on the initiatives for regional financial convergence towards a bilateral/regional payment systems. This section also has the objective of contrasting the operationalization of the payment systems put into practice by the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) with regional partners in order to identify the political choices that drive regional financial cooperation and potential constraints to the advancement of this regional policy.

The SPI was a platform that encouraged dialogue among the central bank agents of the SAARC Member Countries and coordination of the regional policies in South Asia. However, even under India's (limited) regional leadership, the region has not yet developed a regional payments system, given the underdeveloped conditions of the financial systems of countries in the region. It was observed in the research that South Asia advanced regional financial convergence by implementing measures for the modernization of their national financial and payment systems and regulatory harmonization, as a strategy to provide the conditions to establish a bilateral payment system that could lead to a regional system. Consequently, this will contribute to advancing regional financial integration, which can be seen from the bilateral agreement between the central banks of India and Bangladesh for the establishment of a payment system in local currency, carried out in 2023. On the other hand, the greater level of institutionalisation of MERCOSUR and the more advanced stage of the South American economies in relation to South Asia enabled the advancement of bilateral payment agreements in local currency between central banks from 2008 onwards. Therefore, the most appropriate comparative perspective refers to the regional financial convergence initiatives led by the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) toward a regional payment system in MERCOSUR and SAARC.

By contrasting the case studies selected by this research, it is observed that the central banks of Brazil and India have demonstrated similarities behind the initiatives of leading regional financial convergence in South America and South Asia and the purposes of establishing a bilateral regional payment system, which provides opportunities for multilateralization of this financial instrument. Brazil and India have also shown similar challenges regarding exogenous constraints and external influences on regional financial cooperation. Considering the analysis of this regional process in MERCOSUR and SAARC, a common point was identified with regard to the rationality of central bank agents. The decision-making process of advancing or not the regional processes is based on the calculation of risks and opportunities, which vary according to the incentives found during the regional financial cooperation process and particular circumstances given by the contexts at the moment, resulting in a behaviour of reluctance to the regional integration process. This also reinforces the limited leadership of Brazil and India in regional integration due to the restrictions that regional asymmetries present on the international autonomy of these emerging countries.

The reluctance behaviour of central banks in Brazil and India does not suggest a lack of interest in regional integration, but the slow and gradual search for strategies that allow the advancement of regional financial cooperation within the capacity of national states to promote political changes and shape the preference of the regional actors during the process of interaction between technical agents of central banks and politicians of national governments, which is aligned with the institutional objectives of central banks (autonomy in monetary policy, stability of prices and the national financial system, guardian of the national currency, among others). The central banks of Brazil and India conduct regional financial cooperation initiatives within a margin of risk control, reducing the transmission channels of potential crises and, preferably, acting in the design of a regional policy that can transfer responsibility for risks to less vulnerable government institutions or the market itself. The risks to which the central banks of Brazil and India are subject to a greater or lesser degree in this regional process can be seen in the following table.

Table 12 - Risks Implicit in the Policymaking Process of Regional Payment Systems

Risks to the stability of the national financial and monetary system caused by financial crises or exogenous shocks
Credit risk
National Currency Exposure Risk
Risk in exchange rate fluctuations, whether in relation to local currencies or hard currencies
Risk to International Autonomy
Risk to Economic Development
Speculative Risk
Technological Risk

Reference: Created by the Author, 2023.

According to Armijo and Echeverri-Gent (2014), the 2008 international financial crisis boosted the financial policy of Brazil and India, under the administrations of Lula da Silva and Prime Minister Manmohan Sigh, and elevated the role of the G-20 in international forums. The rise of the G20 contributed to the insertion of emerging countries into the international system, which initiated a decentralization of the international decision-making process. According to Arner et al. (2022), the development of the Roadmap for Enhancing Cross-border Payments launched by the G20 in 2020, highlights the transformation process of the international financial system and the progress of payment systems in the national and regional political agenda of the countries, aiming at improving the mechanisms of cost, speed, access, and transparency of these financial instruments.

It was observed that the regional policies developed by the agents of the central banks of Brazil and India towards a payment system in local currency were driven by external restrictions on access to the dollar in the context of exogenous shocks or economic instability caused by crises financial at domestic and international levels, e.g., Asian financial crisis, South American exchange rate crisis, 2008 international financial crisis, wars, and international conflicts, to mention a few. These moments lead to different levels of external restrictions, capital flight, and volatility in the US currency, which implies economic consequences for the monetary policy of countries such as Brazil and India and political contestation from the national governments, which seek to reformulate their foreign policy strategies in order to reduce the vulnerability of emerging countries. The policy of accumulation of international reserves managed by the central banks of Brazil and India made it possible to loosen international restrictions, which provided economic and financial strength to these countries to cushion some of the impacts of the 2008 international financial crisis.

The bilateral push for a regional payment system, as seen between the central banks of Brazil and Argentina in MERCOSUR and between the central banks of India and Sri Lanka in SAARC, is related to the greater level of vulnerability to which smaller economies are exposed in the face of external constraints. In the South American case in particular, according to Pereira (2021, p. 180-181), the way in which the international context affected Argentina after the collapse of convertibility in the 2000s, led the Kirchner government to adopt a policy of containing external influence on the country's economic policy, which reinforced the national pursuit for autonomy, added to the defence of regional integration, especially within the scope of MERCOSUR, aiming to expand exports of industrialized goods and defend the country's position in negotiations with international financial organizations.

Sri Lanka, on the other hand, was characterized by an inward-looking trade policy. Its late liberalization and, then, the modernization of the national financial system was challenged by a context of shortage of foreign exchanges to carry out trading transactions. The ACU encouraged exchange in local currencies to ease the country's international restrictions. The advance of trade liberalization followed by the incipient international insertion of the smaller South Asian economies led these countries to use hard currencies as a way of guaranteeing greater liquidity to their markets.

It was identified that the regulatory asymmetries between the MERCOSUR and SAARC countries constrain the advancement of regional financial integration, as they increase the risk channels of transmission of financial crises and reduce the incentives of the central banks of Brazil and India to deepen the process.

Table 13 – Comparative Index of the Member Countries of MERCOSUR and SAARC (2022)

Country	Total Population	GDP (constant 2015 US$)	GDP per capita (constant 2015 US$)	GINI Index*	IDH Value (Rank)	Foreign Direct Investment, net inflows (% GDP)
Afghanistan	41.1 Mi.	US$ 17 Billion	US$ 426,23	-	0.478 (180)	0,14%
Argentina	46.2 Mi.	US$ 597 Billion	US$ 12.932,47	42 (2021)	0.842 (47)	2,38%
Bangladesh	171.1 Mi.	US$ 305 Billion	US$ 1.784,74	31.8 (2022)	0.661 (129)	0,34%
Bhutan	782.4 Tho.	US$ 2.3 Billion	US$ 2.976,90	28.5 (2022)	0.666 (127)	0,27%
Brazil	215.3 Mi.	US$ 1.901 Trillion	US$ 8.313,13	52.9 (2021)	0.754 (87)	4.77%
India	1.417 Bi.	US$ 2.9 Trillion	US$ 2.085,12	34.2 (2021)	0.633 (132)	1,47%
Maldives	523.7 Tho.	US$ 5.7 Billion	US$ 10.964,84	29.3 (2019)	0.747 (90)	11,66%
Nepal	30.5 Mi.	US$ 33 Billion	US$ 1.083,03	32.8 (2010)	0.602 (143)	0.16%
Pakistan	235.8 Mi.	US$ 362 Billion	US$ 1.535,72	29.6 (2018)	0.544 (161)	0.36%
Paraguay	6.7 Mi.	US$ 41.9 Billion	US$ 6.193,36	45.1 (2022)	0.717 (105)	1.13%
Uruguay	3.4 Mi.	US$ 62.3 Billion	US$ 18.214,81	40.8 (2021)	0.809 (58)	13.10%

*According to the World Bank Metadata (2023), the Gini Index "measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. […] Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality".
Legend: - MERCOSUR State Parties; - SAARC Member Countries
Reference: Created by the Author from the World Development Indicators and the United Nations Human Development Programme, 2022.

In this context, the institutional relations between the central banks of Brazil and India and the BIS are relevant as bank supervision practices and prudent regulatory measures are strengthened, building a protection network against external shocks. The purpose of the BIS as an international financial organization is different from that of the IMF and the World Bank, integrated into the framework of the Washington Consensus, which seek greater openness of national economies through a process of deregulation of markets, which increases the level of dependence of MERCOSUR and SAARC member countries to the dominant centres of financial capital.

The interaction between the agents of the central banks of Brazil and Argentina in the South American context, demonstrates that the rationality of the CBB decision-making process aims at maximizing economic and commercial gains, and shapes the expectations of the Brazilian government's political behaviour by encouraging the process regulatory harmonization and promote incentives for greater macroeconomic coordination among South American countries in the process of regional financial integration. The RBI presents similar rationality in a more tense and asymmetrical geopolitical context than the South American one, therefore, it showed a greater tendency to concentrate its relations with the extended region of Asia, driven by security concerns and commercial interests. However, it was observed that CBB central bank agents also took risks in the process of regional financial cooperation by choosing political paths that were not always clear, such as choosing to open a non-existent commercial segment and stimulating demand for trading in Real-Peso currencies, which led to the development of the SML reference rate in a context of the international financial crisis.

In the case of central bank agents of the RBI, the lack of commitment to interdependence contributed to the greater Indian policy coordination space, as it reduced national exposure to the risks brought about by regional asymmetries. However, what is observed in the most recent regional political movements of the government of India is the RBI assuming greater risks in the process of internationalisation of the Rupee and the possible consequences in terms of volatility in the exchange rate in the short-term and its implications for monetary policy. In the scenario of internationalisation of the Indian Rupee, the RBI would have to supply the Indian currency to meet the increasing demand from international markets and governments for a reserve currency, which tends to cause a persistent deficit of its balance of payments, as exposed in the theoretical interpretation of the Triffin's dilemma (Bordo and McCauley, 2017). This is currently the case in the United States. However, the RBI is still far from this scenario.

This same logic of internationalisation of the national currency was put into practice by the CBB in the context of the creation of the SML, as observed at the CAMEX meeting (2009, p.2). Therefore, it can be understood that the efforts for the internationalisation of the national currencies, the Indian Rupee and the Brazilian Real, are more in line with the benefits pointed out by Zhang and Tao (2014, p. 4) in terms of reduced commercial transaction costs, greater macroeconomic flexibility, leverage gain, soft power and raise their political status in the international financial and monetary system, without threatening the dollar’s hegemony. This means that the political choices of central bank agents of Brazil and India are best interpreted from the concept of bounded-rationality, in which central bank agents seek to achieve a satisfactory result for their actions and replace the idea of utility-maximization, as these actors do not have the capacity of a perfect rationality in the midst of a complex context of drivers and constraints in the process of regional financial cooperation.

The transformations in the international system, driven by the recent contexts of the Covid-19 pandemic and the Russian invasion of Ukraine, accelerated the processes of technological modernization, intensified the flows of information and processing of big data, advanced artificial intelligence systems and digitalization of bureaucratic procedures, political processes and financial flows, and introduced new topics on the international agenda such as data protection and internet governance (Arner et al., 2022; Kosse and Mattei, 2022). Bilateral/regional/multilateral payment systems are agreements put into practice through technologies for making payments that aim to facilitate the insertion of a segment of the market, small and medium-sized companies for example, increasing trade between regional and international partners, facilitating remittances and cross-border payments. These financial instruments are operated and regulated by central banks.

Technological modernization challenges the time of political negotiations and imposes new constraints on regional financial integration, which needs to adapt to the new realities of global financial governance. The international financial system was taken over by the increase in the efficiency of financial exchange procedures, carried out, for example, through instant payment systems such as the Real-Time Gross Settlement (RTGS), in the creation of cryptocurrencies and digitalization of national currencies, managed by central banks, such as the DREX in Brazil, launched in August 2023 (CBB, 2023) and the concept of Digital Rupee in India, presented in October 2022 (RBI, 2022). These transformations expand the possibilities of new political strategies and open perspectives for advancing the research agenda on regional financial integration.

Therefore, one of the contributions of this section refers to a comparative analysis of the payment system carried out by the Central Bank of Brazil (CBB) within the scope of the SML with the Member States of MERCOSUR and the model of the payment system in local currency established by India with its trading partners in its extended region. Within the framework of SAARC, the RBI has recently established an agreement for a local currency payment system with Bangladesh in 2023, in addition to policy consultations to draft a similar agreement with Sri Lanka and Nepal. What is observed in the cases of MERCOSUR and SAARC is the representation of a movement that is identified in different regions of the world in greater or lesser intensity, driven by a gradual process of de-dollarization and, consequently, an increase in the international autonomy of countries and a reduction in of external dependencies. However, as discussed in the research, this does not mean the end of the dollar's hegemony, but it creates the political and economic conditions to progressively reduce its role in the world.

By observing the payment system within the scope of SAARC, it was identified that the asymmetry in the level of development of the national financial systems of the countries, with the exception of India, was a constraint to the advancement of trading exchanges in the bloc and increased the external dependence of the countries, due to the need to use hard currencies such as the U.S. dollar and Euro. Based on this, the analysis provided by Goyal

(2014, p. 51) on South Asia is still relevant when affirming that "macroeconomic heterogeneity, divergence and volatility in rates of inflation and exchange rates, make both use of local currencies and provision of credit problematic" for the region.

It was observed throughout the analysis of the SAARC Bulletins that the process of modernization of the national financial systems of the South Asian countries has not yet reduced the level of external dependence since the vulnerability of the economies and the lack of liquidity of the currencies reduces the incentives and the possibilities of using local currencies. Many countries are still in the process of modernization of their banking systems for carrying out financial transactions. To a lesser extent, this situation is also observed in the SML, as the differentiation of operations covered by each one of the agreements (see Table 7 – Profile of the Bilateral Agreements of the Central Bank of Brazil in the SML) is also related to regulatory asymmetries and operational limitations. However, the fact that many countries in South Asia are experiencing a shortage in the accumulation of hard foreign currencies, provided a space for the RBI to establish swap arrangements in Rupees to support countries' balance of payments imbalances and strengthen the process of internationalisation of the Indian currency, as noted in the Report of the Inter-Departmental Group (IDG) on Internationalisation of INR, from July 5th of 2023 (RBI, 2023a).

> The SAARC Currency Swap Framework came into operation on November 15, 2012, to provide a backstop line of funding for short-term foreign exchange liquidity requirements or short-term balance of payments stress till longer-term arrangements are put in place. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka are part of the SAARC grouping. Under the framework for 2019-22, to strengthen regional financial and economic cooperation, the Reserve Bank has agreed to offer an amount of USD 2 billion (withdrawable in US dollar, Euro or Indian Rupee). The Framework provides certain concessions for swap drawls in Indian Rupee. The Currency Swap Facility is available to all SAARC member countries, subject to their signing the bilateral swap agreements (Report of the Inter-Departmental Group (IDG) on Internationalisation of INR, Reserve Bank of India, 2023a).

It was also observed in the Report of the Inter-Departmental Group (IDG) on Internationalisation of INR, of July 5, 2023 (RBI, 2023a), the perception of the RBI on the role of the ACU as a platform for experimenting with payments in local currencies with member countries in South Asia and the extended region.

> The idea of initiating the use of domestic currencies within the ACU mechanism is to facilitate the process of internationalisation of INR on a pilot basis in a closed environment where the framework can be tested, and various operational glitches and roadblocks could be addressed. Accordingly, RBI had proposed the use of local currencies of members for settlement of ACU transactions thus mooting the idea of INR also being included as one of the settlement currencies under the ACU. The proposed expansion of ACU, by including more countries, would further this process as this would increase the geographical reach of the ACU mechanism. […] The usage of domestic currencies in the ACU mechanism would also require examining the various areas where the trade surpluses can be utilised, such as for investing in FDI, FPI, interest-bearing fixed deposits, government securities, corporate

> bonds or netting through invisibles, including tourism. As India runs a trade surplus with most countries in ACU, India will be acquiring the currencies of other countries, which may be deployed in the financial markets of respective countries/acquisition of strategic assets or netting from invisibles (Report of the Inter-Departmental Group (IDG) on Internationalisation of INR, Reserve Bank of India, 2023a).

South Asian countries rely heavily on the use of SWIFT as a financial transaction messaging tool. As identified in the research, Sri Lanka sought to become a hub of the system in South Asia as a way to reduce operating costs (SAARC Bulletin 2, SPI, 2008c). The process of modernization of payment systems in South Asian countries, in general, focused on reducing the time for settlement of its operations, adapting to instantaneous processes and, consequently, reducing the costs of operations. In the case of the RBI, in particular, it was noted that efforts are also focused on instant payment settlement technology, but also on the establishment of interoperability corridors of payment systems with partner countries, as noted in the agreement between the RBI and the Monetary Authority of Singapore and the Central Bank of the United Arab Emirates (RBI, 2023a; RBI, 2023b), carried out through special bank accounts called Vostro, as a mechanism for the use of local currencies between countries.

According to RBI (2023a), this mechanism brings greater agility to the process by reducing the operation costs and settlement time, and providing more transparency, which encourages the use of the system. In addition, according to the RBI (2023a), the upgrade of the technology allows all types of financial transactions to be incorporated into the payment system. The SML in South America also incorporates all types of financial transactions. However, the CBB presents a discretionary choice of the types of operations incorporated in bilateral agreements with central banks of MERCOSUR countries, as observed in the CBB document entitled Exposition of Reasons - Vote 165 (CBB, 2018b). The RBI's bilateral initiatives with international partners aim to create multiple layers of foreign exchange markets providing greater liquidity to the national currency and boosting the internationalisation of the Indian Rupee to support international trade, remittances and increase the volume of investments.

> Looking ahead, the conditions seem opportune for the emergence of INR as an international currency. It is possible that greater cross-border flows could cause greater variability in domestic macro parameters. It is argued that the bilateral currency swap arrangements may provide a blueprint for reducing the dependence on the US dollar for settling trade transactions. Interestingly, China has followed a similar approach by using a large number of bilateral swaps and Lines of Credit (LoC) to encourage the use of the Renminbi for international trade transactions. Trade transactions between countries, where there is an underlying swap at the central bank level to take care of liquidity mismatches, would benefit from greater exchange rate stability. This would further propel international trade volumes through higher stakeholder confidence for invoicing and settlement in domestic currencies. However, the way forward for further internationalisation of the INR would involve a series of coordinated public policy steps. Thus, a template or standardised

> approach must be prepared to engage with the interested central banks for local currency settlement/swaps/LoC. This may emerge as the inflexion point for the process of further internationalisation of INR (Report of the Inter-Departmental Group (IDG) on Internationalisation of INR, Reserve Bank of India, 2023a).

Linked to this process, there is also the modernization of the message system in financial transactions. As observed in the RBI (2023b), the agreement between the RBI and the CBUAE established cooperative efforts for the interoperability of the interfaces of the national payment systems between the two countries, India's Unified Payments Interface (UPI) with the UAE's Instant Payment System (IPP), through the connection of its messaging systems, carried out through India's Structured Financial Messaging System (SFMS), with the aim of promoting advances in bilateral economic cooperation (RBI, 2023b).

It is observed at the CBB (2023c) through the National Monetary Council Resolution n° 5.069/23 that advances were made along the same path of facilitating the operational procedures of the SML in South America. The CBB's initiative in expanding the types of economic agents that can be qualified to operate the SML demonstrated a greater incentive to use the payment system in local currency in addition to licensed bank agents. However, the modifications presented in the CBB also imply an increase in regulatory measures, in order to reduce risks brought about by the insertion of new economic agents into the process.

As identified in the CBB Letter Derin/Direc/Sucov 2007/0135 (CBB, 2007a), central bank agents in Brazil and Argentina decided to adopt a messaging system carried out through the exchange of files between central banks. SWIFT is used in the clearing system made daily with the FED in the United States. Currently, given the technological advances and transformations of the financial system, there would be three initial revisions to the SML process. The first refers to the updating of the technological messaging system between the central banks of the State Parties of MERCOSUR, with the purpose of implementing a bilateral and regional payment system with instant settlement, benefiting from the reduction in settlement time, through a messaging system that allows greater interoperability between central banks and financial agents authorized to operate the SML.

Given the identification of a global movement to reduce the use of the U.S. dollar as a vehicle currency in payment systems, the second revision refers to increasing the margin of the financial volume of the clearing system held by the central banks of the States Parties of MERCOSUR and reducing the daily use of the clearing system compensation in dollars or even eliminating the need of the FED, which increased the autonomy of the South American countries. However, fluctuations in exchange rate regimes and the current financial crisis in

Argentina pose greater risks to this movement, leaving the Central Bank of Brazil (CBB), the Ministry of Finance and the Ministry of Foreign Affairs to assume the risks implicit in the South American regional integration process. The Brazilian Presidency Pro Tempore of MERCOSUR in 2023 provides an opportunity to advance the necessary revisions to the SML in South America.

The third point refers to the expansion of the system itself beyond the regional bloc. Like the efforts to internationalise the Indian Rupee stimulated by US sanctions on relevant trading partners for India's development, such as Iran and Russia, technological modernization and greater interoperability between payment systems would bring more opportunities to the Central Bank of Brazil (CBB) to expand the use of the SML beyond MERCOSUR. Initially, establishing agreements with the countries of the Global South, whose international trade is relevant, to boost the process of internationalisation of the national currency, the Brazilian Real, and contribute to increasing Brazil's international autonomy and its status in the international financial and monetary system. The advances in the operationalization of the SML are incentives to give one step forward in the macroeconomic coordination of the MERCOSUR State Parties, which requires continued efforts of regulatory and fiscal harmonization, leading to a gradual deepening of the regional financial integration.

However, as discussed in this research, the experience of internationalisation of the Chinese Renminbi brings significant political and financial costs to the process. Therefore, the strategy of expanding the payment system in local currency in order to internationalise the use of national currencies, prioritizing regional integration, the extended region and strategic partners seem to be more appropriate and efficient means in the cases of Brazil and India. The transformations of the international financial order are expanding the role of central banks as relevant agents of countries' foreign policy, as observed in this research, particularly, the role of the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI), in which the regional area has become a strategic means of expanding the international autonomy of these countries. The advances in regional financial cooperation practices identified recently show a gradual movement of changes in global financial governance, in which payment systems are not only instruments of financial operations in single or multiple currencies, but they are also becoming political assets for national governments and strategic mechanisms for development and international autonomy.

In order to answer the question raised by this research, it was demonstrated that the role of the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) in providing spaces for regional financial convergence towards a regional payment system is defined by the binomial 'leadership and reluctance', which is shaped according to the historical knowledge accumulated based on the past experiences, awareness of regional realities and social interactions at multilevel governance related to the opportunity costs of advancing the political process in the present context. The level of vulnerability of the national financial systems of countries in South America and South Asia shaped the preferences of central bank agents in the process of regional financial cooperation. Regional asymmetries influenced the behaviour of the central banks of Brazil and India as agents of foreign policy, whose regional financial cooperation process aims to reduce financial, operational, and political risks, determining their feature of reluctance. The reluctance of central banks, in turn, changes over time as political opportunities expand, the capacity of national institutions increases and technology becomes more modern, reducing the costs and risks of the regional political process. It is a gradual and progressive political process that is better adjusted to the regional realities, in which Brazil and India are inserted.

The rational choice of the agents of the central banks of Brazil and India in leading the process of regional financial cooperation, particularly, was also based on the logic of risk calculation. This means that regional financial integration advances as the central banks of Brazil and India are able to reduce the implicit risks and costs in the financial cooperation process, safeguarding national financial stability and guaranteeing the conditions for a more autonomous monetary policy, which leads to strategies of reducing the margin of influence and external dependences such as the gradual decrease in the use of the U.S. dollar in financial operations and the establishment of their own messaging systems to operationalize the payment systems, which minimize the use of SWIFT, whose technology of messaging is subject to constraints from international actors. These procedures represent the initial stages of creating a layer of protection against exogenous shocks and guaranteeing greater international autonomy for countries, meeting the interests defined by their national institutions, and achieving national development objectives.

The theoretical framework of this research is based on Rational Choice Institutionalism, confronted by the concept of bounded-rationality and supported by Historical Institutionalism. Based on the analysis of the political choices taken by agents of the central banks of Brazil and India, this research defined the roles of the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) in regional financial cooperation. Focused on the case studies of the SML in South America and the SPI in South Asia, it was identified four potential behaviours, in which monetary authorities can be typified:

Table 14 – Typology of Central Bank's Behaviour in Regional Financial Cooperation

1. Structuring Agent	Highly engaged in the policymaking process, leading bilateral/regional/multilateral negotiations and supporting national government strategies of development and political autonomy in order to reduce costs of financial operations and increase the safety of operations. This institutional behaviour also implies providing opportunities for internationalization for medium/small national companies, increasing trade exchanges, upgrading the system of messages between central banks, and establishing interoperability corridors of payments.
2. Regulatory Agent	Responsible for designing the framework of regulations and types of financial operations incorporated in the agreement, considering its institutional principles, and above all, safeguarding the stability of the national financial system. It also takes into account the role of providing regulatory harmonization in the political process and operationalization of the payment system. The central bank's roles as structuring and regulatory agents change frequently during the negotiation process.
3. Moderator Agent	It is identified by low engagement in the political process and less assertiveness, often acting responsively to the results of events carried out by structuring and regulatory agents. Moderating agents contribute to the stabilization of the political process, as long as it meets their national preferences for the development, protection and/or modernization of the national financial system.
4. Disarticulating Agent	It could identified based on the interactions of agents that prevent or delay the advancement of regional cooperation, expressing resistance to the political project or distrust and imposing constraints to financial cooperation initiatives, leading to a reformulation of strategies by structuring and regulatory agents.

Reference: Created by the Author, 2023.

The role of the Structuring Agent is identified when the agents take on the role of planning the political process, finding the spaces of organization within the framework of the national government to implement the institutional policy and operationalize the payment system, seeking to meet their preferences. In this case, progress in regional financial integration is a consequence of their actions. This can be observed in the behaviour of the Central Bank of Brazil (CBB) by finding spaces for regional financial convergence between the States Parties of MERCOSUR, above all, fostered by bilateral relations with Argentina given the significant volume of trading exchanges between the two countries and growing international political convergence. In the case of the Reserve Bank of India (RBI), it is observed that this monetary authority has only recently taken on the role of structuring policies in the development of a payment system in local currency, whose priority is not necessarily given to SAARC countries, with the exception of Bangladesh, whose agreement was signed in July 2023.

This situation occurred due to the persistent level of regional asymmetries in South Asia, the incipient level of development of their national payment systems, and the weak incentives of commercial exchanges for the convergence of macroeconomic policies among countries in the region. Furthermore, South Asia is still shaped by historical tensions and conflicts, low institutionalisation of SAARC policies and increasing economic competitiveness among smaller countries, which influenced the preferences of Reserve Bank of India (RBI) agents to establish a system of payments in local currency with countries located in the extended region of Asia and the Middle East, whose level of political convergence is increasing and commercial relations are more relevant to the national development and international autonomy of India.

The Regulatory Agent refers to the action of human agents in defining the rules of the game, taking into account the institutional constraints and the possibilities of political choices in the environment in which their social interactions take place, seeking satisfactory results. This behaviour can be identified in the SML regulation process and regulatory harmonization efforts, in which agents choose defensive policies and regulatory restrictions that reduced the risks behind the regional cooperation and the transaction costs of the political process. Both the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) assumed the regulatory role during the initiatives of regional financial convergence in South America and South Asia by providing the regulatory framework of this policymaking process and operationalization of the payment system. In the South American case, it is observed that this role was shared with the BCRA, whose bilateral relations established the operational and regulatory bases of the payment system. In the case of the RBI, this role was observed when the central bank agents of India assumed the process of evaluating the stage of development of the national payment systems of the SAARC countries and, based on that, designing the normative harmonization framework and pointing out the paths for their modernization, stimulated by bilateral relations with the Central Bank of Sri Lanka, which has taken a leading role in the process with the RBI.

The deepening of regional integration advances to the extent that central banks present conditions to reduce the implicit risks in the process of financial cooperation. The political choices made by central banks represent the historical accumulation of knowledge acquired from past experiences in relation to the possibilities of the current political and economic conjuncture. This means that the lack of confidence in the stability of the neighbouring country's currency and exchange rate regime can be interpreted as a positive reluctance, given the historical knowledge of exchange rate fluctuations, financial crises and vulnerabilities to which South American and South Asian countries are subject. Therefore, advancing regional financial integration based on reluctant behaviour is beneficial for regional policy development that depends on the stability of national financial systems.

It is identified in the analysis of the interactions between central banks in the formulation of the SML that the role of the Structuring Agent is linked to its regulatory role in this political process. The Moderating Agent is identified by passive participation, acting from the results of the events practiced by the structuring agents, contributing to the stabilization of the political process, as long as it meets their national preferences, such as the cases of the central banks of Uruguay and Paraguay. In South Asia, in particular, the moderating role of central banks in the policy process is low due to the need to modernize national payment systems. The individual interest of the South Asian countries in the development of their financial structures without the commitment to increase the interdependence among them stimulated spaces for dialogue and regional political coordination. This is a significant step in reducing regional distrust and in the perspectives of regional financial cooperation, but it is still not enough for the advancement of regional integration.

The role of the Disarticulating Agent is identified through the interactions of agents that prevent or delay the advancement of regional cooperation, showing resistance, and mistrust and imposing constraints that gridlock the political process, which causes the agent's strategies to be reformulated. To a certain extent, this study on the role of central banks in regional integration did not identify the disarticulating role. However, it was identified that the interference of national governments can be a disarticulating instrument that disrupts the policies of central banks, such as the freezing of bilateral relations between India and Pakistan, which hinders the perspectives of advances in the process of regional financial cooperation.

Thus, it was observed that the central banks of Brazil and India played a relevant role as agents of foreign policy, whose operational autonomy and unique institutional objectives in the governmental sphere of the countries qualify the monetary authorities with the technical and political capacity to make political choices that drive regional financial integration. Therefore, central banks of Brazil and India are the main actors in conducting regional financial cooperation projects, particularly, regarding to the development of the bilateral/regional payment systems, regulating the behaviour of actors, through the perception of short-term gains, which are related to the interests of increasing trade and regulatory harmonization, but also in the long term with the aim of encouraging greater convergence of macroeconomic policies among the States Parties of MERCOSUR and Member Countries of SAARC, promoting greater liquidity for the Brazilian Real (BRL) and the Indian Rupee (INR), based on a strategy of internationalisation of the national currencies through regional integration, aiming to achieve the objectives of national development and international autonomy, necessary for Brazil and India to increase the influence on the decision-making process in international financial institutions and raise their status in the international financial and monetary system.

7 CONCLUSION

The role of central banks in regional financial cooperation towards a payment system with the member countries of MERCOSUR and SAARC is linked to the perception of the risks implicit in the regional integration process, combined with national development interests, stability of the national financial system, and international autonomy. Empirical evidence of this research demonstrated that the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) are active agents of the foreign policy of their countries with the capacity to structure public policies and regulate financial operations at the regional level within their institutional and operational capacities and geographic limitations, which supports the stability of the international financial and monetary system. This means that the central banks of the largest economies in their respective regions, South America and South Asia, have taken on the role of leading advances in regional financial cooperation, based on the active participation of central bank agents in the regional policymaking and decision-making processes with the political agents of national governments, as well as in the development of the regulatory framework for this political project.

The problematisation of this research was based on the correlation between regional asymmetries and the reluctance of central banks to deepen regional financial cooperation, given the different levels of economic development of the countries and the risks of transmission of financial crises involved in the process. The research revealed that the level of regional asymmetries interfered with the institutionalisation time of regional processes, as well as the political choices made by central bank agents in the strategy for developing the payment system. In the case of the SML, it was observed that flexibility in the design of bilateral payment system agreements carried out by the CBB would be more appropriate to accommodate the financial operations of each partner central bank. In the case of the SPI, the RBI took the lead in mapping out the regional regulatory framework in order to promote its harmonisation and reduce differences in the level of development of national financial systems.

In the particular case of the SML, the document analysis demonstrated that the central bank agents of Brazil and Argentina sought to develop a bilateral financial instrument to facilitate and increase trade between the bloc's two main trading partners. This bilateral experience of building a payment system in local currencies triggered expectations among the agents of the central bank of Brazil and Argentina that this process would spill over to the MERCOSUR member states. This outcome was achieved in 2021, as can be seen in the

SML's regulatory framework. The perspectives for advancing the SML gained momentum with the political support of national governments and the decisions of MERCOSUR/CMC, particularly as seen in CMC/DEC n°38/06, n°25/07, and n° 09/09, which expanded the possibilities for financial operations and recognised the benefits of the payment system in advancing macroeconomic convergence between the States Parties of the South American bloc.

The assessment of the MERCOSUR SGT-4 "Financial Matters" documents suggests that the central bank agents chose to develop a payment system outside the institutional framework of the bloc as a technical experiment between the agents of the monetary authorities. The information presented in the SGT-4 minutes revealed that this group followed the actions of the central bank agents of Brazil and Argentina in developing the payment system, but did not take responsibility for formulating the political project. The progress of the bilateral meetings between the CBB and the BCRA showed that the central bank agents prioritised the establishment of measures to minimise risks, such as the creation of the dollar clearing system, due to the risk of exchange rate exposure of the two countries' currencies and, to a certain extent, the lack of confidence in the monetary policy of the neighbouring country, combined with the need to maintain the stability of the national financial systems. In the case of the CBB, in particular, the payment system would also broaden the scope for the internationalisation of Brazil's national currency and increase its liquidity.

The transfer of responsibility for export financing and hedge mechanisms to market institutions and the BNDES reinforced the argument that central banks prioritise risk reduction as measures that precede the advancement of the regional political project. The operational design of the agreements established by the CBB with its partner central banks varies and does not include financial services as a discretionary option for the Central Bank of Brazil as a risk reduction strategy. This perception was identified by analysing The Legal Opinion of the CBB Attorney General's Office (2018) and supported by the CMC/DEC 09/09, whose documents stressed the freedom of the payment system to carry out operations of any nature. The identification of measures to reduce the risks implicit in the process of regional financial integration is aligned with the perception of a defensive policy as defined by Carvalho (2009). Joint studies carried out between the CBB and the BCRA mapped the potential transaction costs of bilateral trade and the areas that needed regulatory harmonisation to promote operations in local currencies. It was essential in the process of rational choice by the players and the formation of their policy preferences, which were conducted by the central banks with a view to optimising economic gains. The resolutions issued by CAMEX were also necessary for making the payment system operational.

The assessment of the minutes of the MERCOSUR RMEPBC showed that the political choices made by central bank agents contrasted, at some point, with the theoretical framework of rational choice, based on the assumption actors always choose the options that will bring them the most benefits. As noted in the 2006 RMEPBC, the creation of a non-existent market and the creation of a Real/Peso reference rate implied greater risks and difficulties for the political project. The difficulties were compounded by the existence of national rules for the protection of sectors of the economy and the maintenance of the list of exemptions to the bloc's Common External Tariff. This led to the need for central bank agents to expand risk reduction measures in the operationalisation of payment systems, as seen in the analysis of the agreement and the SML regulation between the central banks.

In the case of the SPI, it was observed that the CBSL agents took the initiative with the RBI to structure the payment system in South Asia, influenced by the interest of the actors in reducing trade costs and the possibility of becoming a hub for regional payment messaging systems. The regional condition for establishing a payment system was still a long way from the reality of the South Asian countries at the time, as seen in the SAARC Payment Initiative Bulletins. Within the SPI, it was noted that the asymmetries and deficiencies of national financial systems hindered the progress of a bilateral or regional payment system. The findings of the SAARC case study converge interpretatively with the studies of Batra (2020).

Regional leadership in the RBI's coordination with the CBSL towards the process of modernisation of the national payment systems of SAARC countries has resulted in significant progress in the financial structures of the member countries and has expanded regulatory harmonisation measures and the possibilities for interoperability of payment systems in South Asia. The implementation of the Real Time Gross Settlement System (RTGS) facilitated payments in large amounts and improved the time of transactions and greater harmonisation of the regulatory framework for banking supervision in the region. The RBI has taken on a regulatory role in the political process by carrying out detailed mapping of the challenges behind the development of national payment systems in SAARC countries and monitoring their transformations and providing technical cooperation for the central banks that are interested in the RBI’s expertise. The study by Goyal (2014) had identified measures to improve national financial systems, coordinated at regional level. This research identified that the continuous progress of these modernisation measures, especially promoted in India under the leadership of the RBI and CBSL, was fundamental for the region to succeed in establishing a bilateral payment system in local currency, which does not disregard the experiments carried out within the framework of the ACU in previous decades.

The low level of intra-regional trade in SAARC highlights the difficulties in the bloc's commercial progress. As shown in Table 10, South Asia is characterised by a series of structural and physical problems, as well as a history of conflict shaped by mistrust between neighbouring countries. The political and economic rise of India and China on the international system has been reflected, to a certain degree, in the development of the region's countries and the progressive overcoming of structural problems. From the point of view of regional politics, in particular, this research identified that SAARC remains stagnant in its institutionalisation process, a problem that is being deepened by the persistent tensions between India and Pakistan. This perception converges with the studies of Arshad and Ali (2017) and Chakma (2020) on the difficulties of advancing regional policy in South Asia. However, regional financial cooperation showed how sectoral cooperation contributed to advancing dialogue in SAARC and minimising political tensions, although it was not enough to overcome regional instability. The tensions and mistrust that shape international relations in South Asia influenced the decision-making process of regional actors due to the temporary paralysis of SAARC's institutional dialogues. This demonstrated how disarticulating political agents interfered with the policy choices and preferences of central bank agents and constrained the progress of regional financial integration.

The policy choices made by the RBI's central bank agents amid the challenges of SAARC are shaped by the perception of opportunities to maximise gains and, in this way, broaden the regional scope of their cooperation with a view to deepening economic and political relations with the main regional markets. For this reason, the first experiments with a bilateral payment system in local currency were set up outside South Asia, with the CBUAE. This fact demonstrates that the low relevance of regional trade in South Asia, as identified by Das (2016), continues to be a decisive factor in shaping the preferences of India's political actors, as well as those of the Reserve Bank of India.

The bilateral payment system in local currency in the region only became a reality in 2023, between India and Bangladesh, revealing that this political process followed the same logic of interest and coherence as the South American project in prioritising an agreement between the two main trading partners in South Asia and then extending it to the other member countries of the bloc. The commitment of the technocrats suggests that the formation of their preferences is linked to the interests of the countries' trade policy, without losing sight of their institutional role. The documentary analysis also suggests that the involvement of

Indian central bank agents in the progress of the SPI was due to the low level of interdependence necessary for the process, preserving India's financial and political autonomy, reducing the risks implicit in the process and at the same time strengthening the “regional-global nexus” identified by Fawcett and Jagtiani (2022).

More than structured financial institutions with highly technical profiles, these central banks are also relevant political actors. The pursuit of maximising gains by central bank agents in this process of regional financial cooperation suggests that technocrats would have a greater capacity to identify the economic opportunities arising from the regional process than a political agent holding elected office. However, the conduct of this political process depends on the legitimacy attributed to central bank agents by the national government and market agents. This situation creates a dilemma in the responsibility for governing, where technocratic and political actors simultaneously take on the task of policy formulation. The complexity of the debate on the definition of political actors, especially those who occupy the bureaucratic staff of central banks, can involve numerous variables, as observed in Verdum (2017), Shambaugh (2019), and Improta and Emanuele (2022).

In this research, it was observed that the leadership of central bank agents in the policymaking process of payment systems, the definition of the regulatory framework and its operationalization, combined with the search for spaces of legitimacy in the conduct of this regional project during their interactions with national state institutions and regional organizations, increased the central bank's prominence as a political actor. The alignment of the visions of technocratic agents with the political objectives of the national government, combined with the measures to reduce risks to the national financial system, broadened the possibilities for political and technocratic agents to share responsibility for a political process. For this reason, one of the limitations of this research was to establish with greater precision the moment when the central bank takes on a role as a political actor in the process, leading to an equal need to understand more the structural reason behind the behaviour of CB bureaucracies. These limitations open up space for new research agendas and opportunities to deepen knowledge in regional integration studies.

The two case studies selected, the role of the Central Bank of Brazil (CBB) and the Reserve Bank of India (RBI) in regional financial cooperation within MERCOSUR and SAARC, whose institutions are part of the Global South, does not exclude the possibility of drawing comparative parallels with the European Central Bank (ECB) and its role in the European Union's Economic and Monetary Union. The institutional objectives of central banks in terms of the stability of national and regional financial systems and the conduct of monetary policy are common elements between the ECB, the CBB, and the RBI. As presented in the second chapter, the experience of the European model of regional integration is a historical accumulation of political processes, whose different forms of diffusion may contribute to the analytical process of political alternatives of the South American and South Asian blocs.

It also reflects on the advances of scientific research, considering the determination of variables that make a comparative study feasible, given the supranationality of the European model and “overlapping diversity” as observed by Acharya (2016). The level of institutionalisation of the ECBs combined with the expansion of banking The level of institutionalisation of ECBs combined with the expansion of banking supervision measures and advances in regional payment systems and trade facilitation, as observed in Beukers et al. (2022) and Moussis (2016), are sources for identifying the process of political choices and the paths that make possible to the EU move from moments of regional instability to progress in the institutionalisation of regional financial cooperation between central banks.

Studies on regional financial cooperation open up the possibilities of new research agendas comparing the EU institutions with the ones in the Global South, whose object of study could focus, for example: 1) on the role of the European, Brazilian, and Indian central banks in leading regional financial cooperation from the perspective of the institutional leadership exercised by the central bank presidents; 2) on the role of these central banks in climate policies and their consequences for the decision-making process and operations of their monetary policies; 3) on how the Eurosystem establishes its financial and monetary convergence with members outside the Eurozone; 4) lessons from the practices on how the ECB combats financial, economic and sovereignty debt crises. In addition, given the low utilization of the bilateral payment system in MERCOSUR and SAARC, further research on how the European Central Bank expands its network of operations, banking supervision measures and the digital inclusion of payment systems could also be an object of future investigation, given the launch of the European Payments Initiative in 2020.

Central banks with operational autonomy are subject to interference from the national government and may present greater alignment of their institutional objectives with the national economic policies due to the composition of their boards. However, it does not exclude the possibility of conflicts of interest and trade-offs in the process of formulating macroeconomic policies or in the institutional participation of central banks as an agent of foreign policy. India's more interventionist profile is more capable of constraining the behaviour of central bank agents. The SPI proved to be a platform for sectoral cooperation and dialogue in the financial sector with significant resilience to regional distrust that presented its limitations due to the poor performance of SAARC and conflicting relations between India and Pakistan. In the particular case of the SML, the Central Bank of Brazil (CBB) showed a proactive capacity to influence the interests of the national government and build trust to support the development of the bilateral payment systems, which was limited due to the distrust of the exchange rate regimes of neighbouring countries.

Therefore, it is necessary to expand the research agenda on the performance of central banks in the international system and the foreign policy of countries. This research by itself is not exhaustive enough in terms of explaining all the political, economic and social variables involved in the policy formulation process of a regional payment system. The contribution of this research to the International Relations literature focused its analytical efforts at the regional level, particularly in the studies of Regional Integration. The analysis of the central banks of Brazil and India in the process of regional financial cooperation cannot be disconnected from their domestic institutional role and their participation in international financial forums and in the foreign policy of their countries, which generates limitations to the study itself.

Understanding the complex role of central banks in regional integration also involved bringing to the debate of this research, considerations about the domestic and international determinants that influenced the formation of central bank preferences in Brazil and India over the years. At the national level, the institutional interests of central banks are shaped by their interactions with the national government and its ministerial body, commercial banking institutions, and interest groups within the framework of economic and parliamentary commissions. At the international level, the interests of the central banks are determined by the participation of national economic agents in international bureaucracies, such as the International Monetary Fund (IMF), the World Bank (WB), the Bank of International Settlement (BIS), the regional development commissions of the United Nations, such as ECLAC in Latin America and ESCAP in Asia-Pacific and regional development banks, in addition to the emergence of new actors in the international financial and monetary system such as the New Development Bank (NDB).

The international level is not free from relations of power with individual actors, such as the U.S. interests and the powerful influence of the dollar managed by the Federal Reserve (FED), on the political and economic dynamics of the international system. The results of this research supported the hypothesis that regional arrangements characterized by great asymmetries in the level of development of the actors, composed of a large country surrounded by a group of countries with less significant economies, such as those seen in MERCOSUR and SAARC, shaped the behaviour of the central banks of Brazil in India in regional financial cooperation and demonstrated their reluctance to assume the costs involved in the process. As a consequence, the deepening of regional financial integration becomes a slow process that, many times, does not provide the political and economic results in the time that national governments expect.

In the cases of regional financial cooperation in MERCOSUR and SAARC, particularly the experiences of the Local Currency Payment System (SML) and the SAARC Payment Initiative (SPI), processes led by the central banks of Brazil and India, the research has shown that these political processes have not yet reached the expectations of expanding regional trade and do not represent protection against exogenous shocks resulting from international financial crises, due to the initial stage of development of payment systems and the persistent level of regional asymmetry. However, this does not diminish the relevance of the payment system as a regional policy and its potential benefits to member countries, as noted by Arner et al. (2022). It was observed that the member countries of these regional blocs advanced in the regulatory harmonization agenda of their national financial systems. This context represents the first steps in terms of coordinating the countries' macroeconomic policies. However, this also meant, to a certain extent, a stimulus for the incorporation of economic liberalization commitments.

Critical junctures such as the 2008 international financial crisis led Brazil and India to increase protectionist measures. However, the favourable economic scenario provided by the commodities boom and the policies of the central banks for the accumulation of international reserves provided, in MERCOSUR, greater scope for Brazil to lead regional financial cooperation. While SAARC did not feel a significant impact from the financial crisis, due to the low level of international insertion of smaller economies, individual countries were affected in different ways. The financial crises increased their external and public debts due to the need for economic stimulus packages. The financial crisis drove India to move forward with the national modernization of its payment system. India also identified the regional measures needed to modernize the payment systems of SAARC countries within the framework of the SPI.

The reluctance of central banks in Brazil and India does not mean they are not interested in regional integration. It represented the rational choice of central bank agents for measures to advance financial cooperation that did not threaten the stability of national financial systems. Therefore, the main argument of this research argues that regional financial integration in MERCOSUR and SAARC advances to the extent that the central banks of Brazil and India are able to reduce the risks implicit in the process of regional financial cooperation, whose payment systems are surrounded by protective measures and regulatory constraints. This is not a perfect logic of the decision-making process. This documental analysis clarified that there are risks involved in regional financial cooperation that technical agents are not always able to foresee, but to a certain extent, they are willing to assume when the calculation of their actions suggests that the gains from the development of payment systems reduce the potential risks posed by the international financial system.

The interactions of central bank agents within the scope of the SML and the SPI revealed that payment systems represented a satisfactory result for the regional policy of MERCOSUR and SAARC. Although their bilateral payment systems are imperfect trade facilitation instruments, their operation and modernization may gradually benefit regional trade in long-term, improve the opportunities of international economic insertion and expand political strategies for international autonomy of the countries in the international financial system. The studies of Shvandar and Khomyakova (2022) and Arner et al. (2022) reinforce this perception by pointing out the effectiveness of payment systems in a region. The research demonstrated that the political and economic interests of the defensive profile of the central banks of Brazil and India translated into the current models of this financial instrument, i.e., bilateral instruments, whose regulations and operation reflected their preferences in order to meet the interests of the trade policies of these countries, supported by legal safeguards that protect the national financial system.

Considering the different geopolitical contexts, this research identified similar patterns of behaviour in the central banks of Brazil and India towards regional financial convergence, comparable purposes of implementing a bilateral payment system and their operationalization. However, it is important to emphasize that there were also significant differences in the way these central banks conducted the processes over the years. It is necessary to take into account that Brazil and India are very different from each other not only in terms of geographic location but also in history, culture, national institutions and styles of cooperation. As observed in this research, the profile that shapes interactions of States Parties in MERCOSUR is cooperative, which tends to drive regional integration, differently from the profile of the Member Countries in SAARC, which is conflictive with a tendency to gridlock its regional cooperation process.

It was observed that bilateral relations between Brazil and Argentina boosted regional financial cooperation, whose economic interests encouraged central banks to develop the bilateral payment system. The SAARC presented little economic and political incentive to India's interests. Sri Lanka’s engagement with India in the SPI contributed to improving the asymmetric conditions of the national payment systems of the SAARC countries, but it was not enough to encourage India to structure a policy that would lead the region to a regional payment system, even if this objective existed. The impetus came from exogenous shocks and risks to the country's international autonomy, due to the economic sanctions imposed by the United States on key trading partners for the country's development and the opportunities of improving trade outside South Asia.

As identified in the research, bilateral payment systems represented the interests of trade policies in Brazil and India, whose political processes were led by the Central Bank of Brazil and the Reserve Bank of India, based on their structuring and regulatory role in regional financial cooperation. Certainly, the improvement of the political formulation process of a regional and multilateral payment system will contribute to these countries advancing towards a higher level of financial convergence, necessary for the deepening of regional financial integration. However, this does not mean the end of the dollar's hegemony. Regional payment areas, as observed in the case studies of this research, represent an international trend in regions, especially in the Global South, in reducing dependence on external financial regimes, historically based on convertible currencies and communication systems relied upon a third party.

This wave of de-dollarization which the central banks and national governments of Brazil and India are part of, in the context of regional financial cooperation, particularly through the bilateral payment system, represents a strategic political background that aims to reduce the external vulnerability of countries, progressively disassociating themselves from payment systems based on hard currencies, in order to minimize the pressures caused on the policy of international reserves accumulation, which reduces the outflows of dollars from countries. Payment systems are technologies applied to the financial sector that facilitate countries in pursuing their national development goals. It can be affirmed that payment systems are means of complementary financial operations, whose countries need to continue advancing in technological development to increase their level of international autonomy. The results of this research, focussing on regional financial cooperation, converge with the conclusions identified in studies in the literature, as observed in Vigevani and Ramanzini Junior (2022), Mariano et al. (2021) and Das (2016), in which the process of shaping the regional political choices of Brazil and India are primarily aimed at the pursuit of development and the preservation of international autonomy.

The use of the dollar constrains the macroeconomic policy autonomy of MERCOSUR and SAARC countries, exposing their national economic systems to the policies established by the FED, which can result in exchange rate fluctuations and increase the risks of financial operations by affecting their trading performances. The international financial crisis of 2008 exposed the difficulties faced by the United States in maintaining the role of the dollar as the vehicle currency for international transactions and diminished the confidence of emerging economies in international financial regimes. The historical importance of the American currency as a facilitator of international trade is recognized, but it is not disconnected from its role of political domination.

Building financial networks in the form of payment systems still needs to be improved by the States Parties of MERCOSUR and the Member Countries of SAARC. The lack of regulatory harmonization among the national financial systems in these regional organizations combined with economic asymmetries and infrastructure problems make it difficult for Brazil and India to deepen regional trade in local currency. The interest of the central banks of Brazil and India in strengthening the internationalisation of their national currencies, the Brazilian Real and the Indian Rupee, is related to the opportunities of improving the conditions of convertibility in the long-term by providing greater liquidity to their currencies and increasing international trade. The engagement of the central banks of Brazil and India in regional financial cooperation provides political ground for those countries to improve economic development, guaranteeing stability to the national economic systems, which supports a strategy of international insertion and changing their status in the international financial and monetary system.

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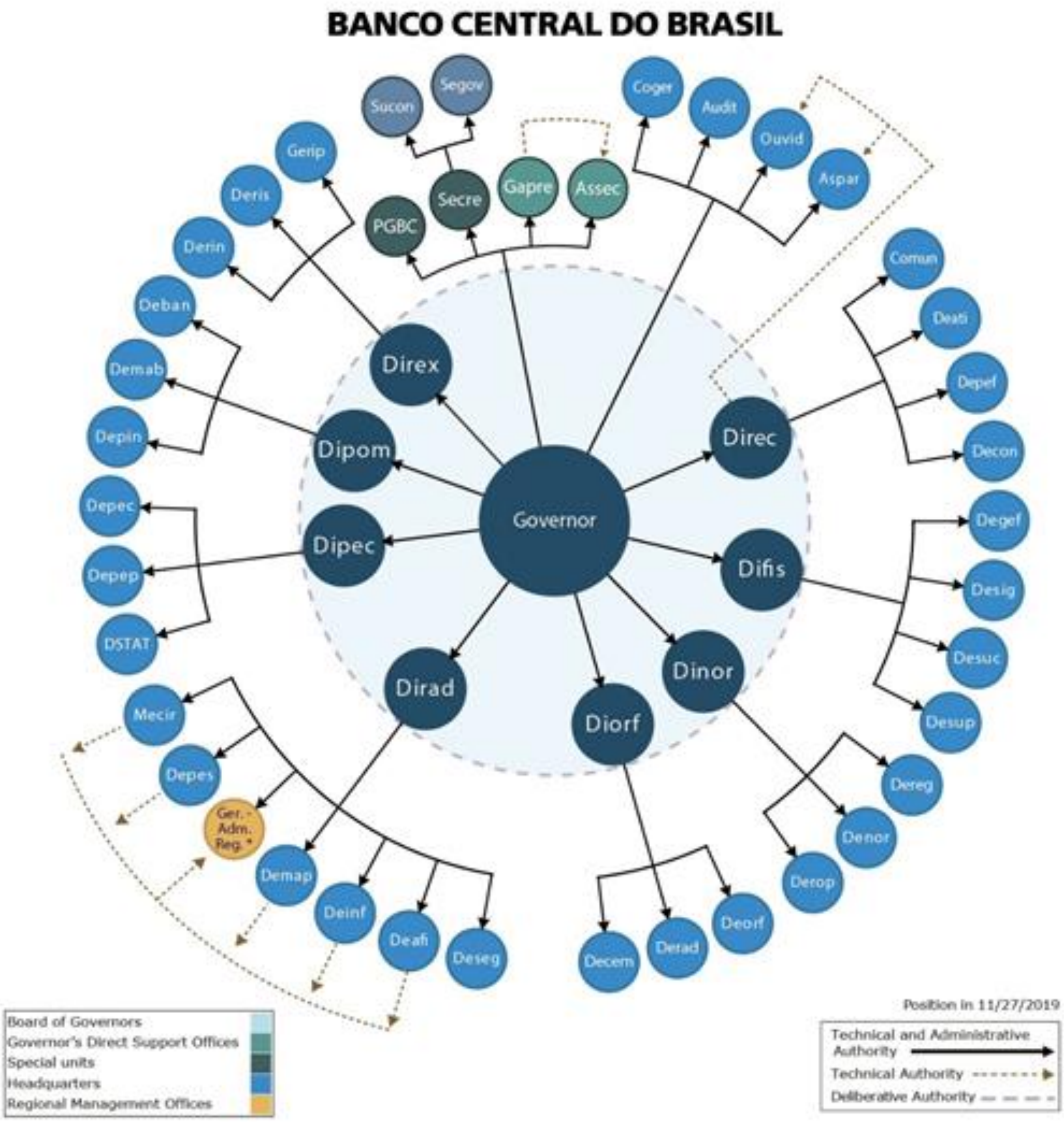
APPENDICES

Appendix A: Organogram of the Central Bank of Brazil (CBB)



Central Bank of Brazil, 2020. Retrieved from https://www.bcb.gov.br/en/about/orgchart

Appendix B: Central Bank of Brazil (CBB) Boards

Diretoria
Colegiada
Presidente
Diretores

Presidente
Aspar – Assessoria para Assuntos Parlamentares e Federativos Audit – Auditoria Interna do Banco Central do Brasil
Coger – Corregedoria-Geral do Banco Central do Brasil Ouvid – Ouvidoria do Banco Central do Brasil
PGBC – Procuradoria-Geral do Banco Central do Brasil Secre – Secretaria-Executiva
Sucon – Secretaria da Diretoria e do Conselho Monetário Nacional
Segov – Secretaria da Governança, Articulação e Monitoramento Estratégico Gapre – Gabinete do Presidente
Assec – Assessoria Econômica ao Presidente

Dirad – Diretor de Administração
Deafi – Departamento de Contabilidade, Orçamento e Execução Financeira Deinf – Departamento de Tecnologia da Informação
Demap – Departamento de Infraestrutura e Gestão Patrimonial
Depes – Departamento de Gestão de Pessoas, Educação, Saúde e Organização Deseg – Departamento de Segurança
Mecir – Departamento do Meio Circulante
* Gerências-Administrativas Regionais
ADBEL – Gerência Administrativa em Belém – PA
ADBHO – Gerência Administrativa em Belo Horizonte – MG ADCUR – Gerência Administrativa em Curitiba – PR
ADFOR – Gerência Administrativa em Fortaleza – CE ADPAL – Gerência Administrativa em Porto Alegre – RS ADREC – Gerência Administrativa em Recife – PE ADRJA – Gerência Administrativa no Rio de Janeiro – RJ ADSAL – Gerência Administrativa em Salvador – BA ADSPA – Gerência Administrativa em São Paulo – SP

Direc – Diretor de Relacionamento, Cidadania e Supervisão de Conduta
Comun – Departamento de Comunicação
Deati – Departamento de Atendimento Institucional
Decon – Departamento de Supervisão de Conduta
Depef – Departamento de Promoção da Cidadania Financeira

Direx – Diretor de Assuntos Internacionais e de Gestão de Riscos Corporativos
Derin – Departamento de Assuntos Internacionais
Deris – Departamento de Riscos Corporativos e Referências Operacionais
Gerip – Gerência de Relacionamento com Investidores Internacionais de Portfólio

Difis – Diretor de Fiscalização
Degef – Departamento de Gestão Estratégica e Supervisão Especializada Desig – Departamento de Monitoramento do Sistema Financeiro
Desuc – Departamento de Supervisão de Cooperativas e de Instituições Não Bancárias
Desup – Departamento de Supervisão Bancária

Diorf – Diretor de Organização do Sistema Financeiro e de Resolução
Decem – Departamento de Competição e de Estrutura do Mercado Financeiro Deorf – Departamento de Organização do Sistema Financeiro
Derad – Departamento de Resolução e de Ação Sancionadora

Dipec – Diretor de Política Econômica
Depec – Departamento Econômico
Depep – Departamento de Estudos e Pesquisas
Dstat – Departamento de Estatísticas

Dipom – Diretor de Política Monetária
Deban – Departamento de Operações Bancárias e de Sistema de Pagamentos
Demab – Departamento de Operações do Mercado Aberto
Depin – Departamento das Reservas Internacionais

Dinor – Diretor de Regulação
Denor – Departamento de Regulação do Sistema Financeiro Dereg – Departamento de Regulação Prudencial e Cambial
Derop – Departamento de Regulação, Supervisão e Controle das Operações do Crédito Rural e do Proagro

Central Bank of Brazil, 2020. Retrieved from https://www.bcb.gov.br/en/about/orgchart

Appendix C: Organization Structure of the Reserve Bank of India (RBI)

Reserve Bank of India, 2020. Retrieved from:
https://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=OrganizationStructure.htm

Appendix D: Original names of the documents consulted for the case study 1 – The Local Currency Payment System (SML)

Consultation of Specific Legislation and Documents Related to the SML (2006-2018)

- Decisão do Conselho do Mercado Comum do Mercosul 23/00, de 29 de Junho de 2000
- Banco Central do Brasil, Câmara de Compensação em Moeda Locais Brasil-Argentina, Aide Memoire, de 14 de agosto de 2006. Anexos: Lista de Participantes; Agenda para aprofundamento das discussões
- Decisão do Conselho do Mercado Comum do Mercosul 38/06, de 15 de dezembro de 2006
- Acta de Reunión sobre o Sistema de Pagos en Monedas Locales – SML, entre os bancos centrais de Brasil e Argentina, de 18 e 19 de abril de 2007. Anexos: Agenda Tentativa de Reunião de Técnicos sobre o Sistema em Moedas Locais
- Resolução CAMEX n° 12, de 25 de Abril de 2007
- Ata da LI Reunião do Conselho de Ministros da Câmara de Comércio Exterior – CAMEX, de 25 de abril de 2007
- Oficio do Banco Central do Brasil, Derin/Direc/Sucov – 2007/0135, de 28 de junho de 2007. Anexo: Agenda Tentativa da Reunião de Técnicos sobre os Sistema de Pagamentos em Moedas Locais, de 18 e 19 de abril de 2007
- Decisão do Conselho do Mercado Comum do Mercosul 25/07, de 28 de junho de 2007
- ALADI, 59° Protocolo Adicional ao Acordo de Complementação Econômica (ACE) n° 18, de 17 de dezembro de 2007
- Decreto n° 6.374 sobre o 59° Protocolo Adicional ao ACE da ALADI, de 18 de fevereiro de 2008
- Comissão de Comércio do Mercosul n° 34/08, Regime de Origem MERCOSUL, de 18 de junho 2008
- Resolução do Conselho Monetário Nacional 3.608, de 11 de setembro de 2008
- Circular do Banco Central do Brasil 3.406, de 26 de setembro de 2008
- Áudio da VII Reunião Extraordinária do Conselho Mercado Comum (CMC), de 27 de outubro de 2008
- Decisão do Conselho do Mercado Comum do Mercosul 09/09, de 24 de julho de 2009

- Relatório do Grupo de Trabalho Interministerial sobre Estímulo às Exportações em Reais e Sistema de Pagamentos em Moedas Locais – SML: Ofício do Ministério das Relações Exteriores do Brasil à Secretária -Executiva da Câmara de Comércio Exterior, de 18 de setembro de 2009

- XXXVII Reunión del Consejo del Mercado Común del Mercosur, Informe Semestral, Año 6, n° 11, de 2 de outubro de 2009

- Câmara de Comércio Exterior, Ata de Reunião, Sistema de Pagamentos em Moeda Local, de 8 de outubro de 2009

- Nota Técnica da Câmera de Comércio Exterior, CAMEX n° 12, de maio de 2010. Anexos: Alteração na Resolução CMN n. 2.575 de 17 de dezembro de 1998; Altearação na Resolução CMN n. 3.719, de 30 de abril de 2009

- Resolução n° 4.331 do Conselho Monetário Nacional, de 26 de maio de 2014

- Instrução Normativa BCB n° 266, de 31 de Março de 2022

- Resolução CMN n° 5.069, de 20 de Abril de 2023

- Banco Central do Brasil, Exposição de Motivos – Voto 63/2023, de 5 de abril de 2023.

Normative Documents between Brazil and Argentina

- Carta de Intenções dos Ministros da Fazenda e Presidentes dos Bancos Centrais de Brasil e Argentina, de 15 de dezembro de 2006

- Convênio do Sistema de Pagamentos em Moeda Local entre a Argentina e o Brasil, de 08 de setembro de 2008

- Regulamento operacional do Sistema de Pagamento em moeda local, de 17 de setembro de 2008

- Banco Central de la República Argentina, Comunicación “A” 4847, de 26 de setembro de 2008

- Aditivo ao Convênio do Sistema de Pagamentos em Moeda Local entre a Argentina e o Brasil, de 15 de janeiro de 2010

- Regulamento operacional do Sistema de Pagamento em moeda local, de 23 de maio de 2014

- Circular n° 3.707 do Banco Central do Brasil, de 16 de junho de 2014

Normative Documents between Brazil and Uruguay

- Carta de Intenções entre Brasil e Uruguai, de 23 de outubro de 2009

- Convênio do Sistema de Pagamento em Moeda Local entre o Brasil e o Uruguai, de 31 de outrubro de 2014

- Regulamento operacional do Sistema de Pagamentos em Moeda Local entre o Brasil e o Uruguai, de 31 de outubro de 2014

- Circular n° 3.734 do Banco Central do Brasil, de 26 de novembro de 2014

Normative Documents between Brazil and Paraguay

- Convênio do Sistema de Pagamentos em Moeda Local entre o Brasil e o Paraguai, de 14 de abril de 2016

- Regulamento operacional do Sistema de Pagamentos em Moeda Local entre o Brasil e o Paraguai, de 30 de julho de 2018

- Banco Central do Brasil, Exposição de Motivos – Voto 165/2018, de 2 de agosto de 2018

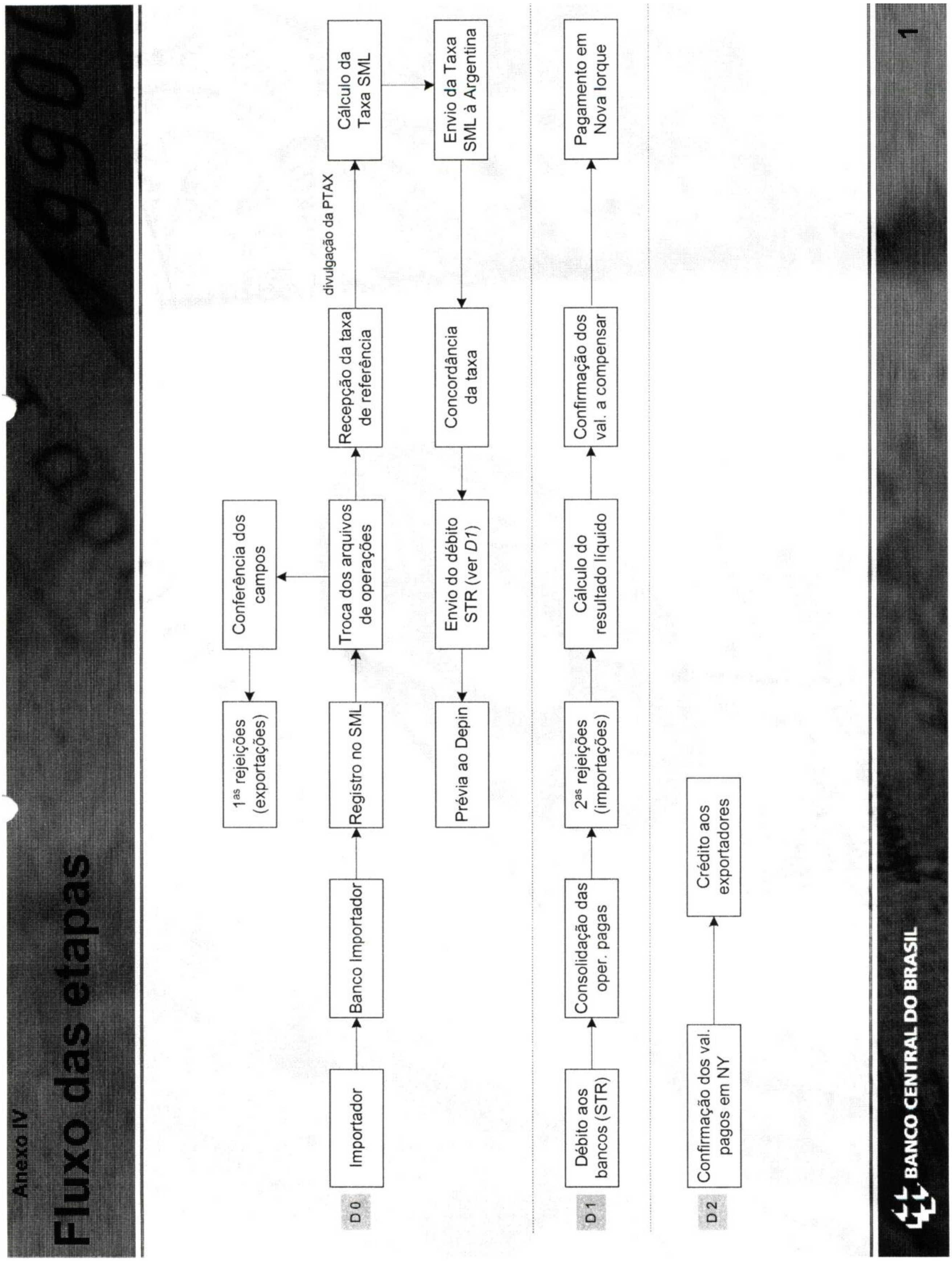
- Circular n° 3.907 do Banco Central do Brasil, de 3 de agosto de 2018

MERCOSUR Working Group N° 4 "Financial Affairs" (SGT-4) and Meetings of the Ministers of Economy and Governors of Central Banks (RMEPBC)

- Atas das Reuniões Ordinárias do Subgrupo de Trabalho n° 4 "Assuntos Financeiro" do Mercosul, realizados duas vezes ao ano, no intervalo de 2006 a 2018

- Atas das Reuniões de Ministros de Economia e Presidentes de Bancos Centrais (RMEPBC), realizados no âmbito do Conselho do Mercado Comum (CMC), no intervalo de 2006 a 2018. Nessa consulta, alguns documentos são administrados na condição de 'Reservado', tais como as reuniões de 16 de dezembro de 2007, 23 de Julho de 2009, 7 Dezembro 2019, 15 Dezembro 2010, 19 Dezembro 2011 e 16 Julho 2015

Appendix E: The stages of the SML process established by the Central Bank of Brazil (CBB) during the bilateral meeting with the Central Bank of Argentine Republic (BCRA)



Appendix F: Doctorates in Social Sciences and in Social and Cultural Anthropology

KU Leuven Ph.D. n° 496

The link: http://soc.kuleuven.be/fsw/doctoralprogramme/ourdoctors