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CHAPTER 6

THE RISE OF MONETARY AGREEMENTS IN SOUTH AMERICA

6.1. INTRODUCTION

If you have a fallen tree, turning it into firewood stands as the best option. The global economic crisis has severely hurt the international monetary tree whose branches converge—even today—in a single trunk: the US dollar. The robust roots that had offered stability in the post-war era have been tragically weakened for two reasons: in the first place, the large and sustained current account deficits in the US balance of payments have poisoned the confidence that irrigates the tree, turning the ground into sandy unstable soil. The second reason comes from the cup, which has grown faster than the trunk becoming such a burden that it threatens to end up knocking down the whole tree. Some voices disregard these facts ignoring this increasingly untenable situation. Notwithstanding the sandy ground, they propose to stake the tree. Others believe this could only be sustained for a while since international structural constraints will unavoidably lead to relapse in the near future, leaving reform as the only consistent solution in the long term.

The weakened position of the US dollar in the world economy found several Latin American countries—that had been under the dollar area for almost a century—with governments politically in tune. These left-wing governments decided it was time to abandon the eroding comfort of a precarious *status quo* in the international monetary system to look for enlarged basis for regional stability and enhanced autonomy for intra-regional trade by the means of regional monetary arrangements—injecting new life into forgotten agreements as well as creating new supplementary regional monetary initiatives.

Thus, the erosion of the dollar's hegemonic power at the hemispheric—and also at the international level—has been a necessary but not sufficient condition for the rise of monetary agreements in South America. The confluence of social, political, and economic conditions in several countries in the region was also necessary for the emergence of the repoliticization of South America that boosted monetary integration arrangements. The proliferation of left wing governments resulted from a genuine grassroots reaction against the negative effects of neoliberal policies of the 1990s, the war against drugs—mostly in Andean countries—the intensification of

The author gratefully acknowledges the valuable comments provided by the editors on this chapter. Any errors or omissions remaining, however, are the sole responsibility of the author.

P. Riggirozzi, D. Tussie (eds.), *The Rise of Post-hegemonic Regionalism*,
United Nations University Series on Regionalism 4, DOI 10.1007/978-94-007-2694-9_6,
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economic adjustment, and the impoverishment of millions of Latin Americans at the same time as a growing concentration of income, corruption, and cynicism in politics in the hemisphere (Loveman 2006). This domestic circumstance pervasive in most countries in the region was also key to the renewed regional emphasis on overlapping monetary arrangements. Monetary reform winds blow at both the domestic and international levels providing a rare opportunity to hoist the sails and venture into the seas of monetary cooperation at the regional level.

Taking into consideration this concurrence of winds at both national and international levels, this chapter focuses on the renewed impetus conferred on regional monetary agreements in South America in a post-hegemonic era for regionalism. Particularly, the chapter presents the three main regional monetary cooperation initiatives in South America to analyze their transformative capacity and political resilience, highlighting both their potential and limitations to be sustained in time.[1] The arrangements under consideration are three: (1) the Agreement on Reciprocal Payments and Credits (ARPC) that works within the framework of the Latin American Integration Association (LAIA); (2) the Local Currencies Payment System (SML, Spanish acronym for *Sistema de Pagos en Moneda Local*) in MERCOSUR; and (3) the Unified System for Regional Compensation (SUCRE, Spanish acronym for *Sistema Unico de Compensacion Regional*), among countries of the Bolivarian Alliance for the Peoples of our Americas (ALBA-TCP, Spanish acronym for *Alianza Bolivariana para los Pueblos de Nuestra America-Tratado de Comercio de los Pueblos*).[2] The first one has existed for decades and is receiving new attention in the current post-hegemonic context, while the other two were born out of changing circumstances in the political economy of Latin America since the early 2000s. The emerging currency arrangements are part and parcel of a redefinition of regional cooperation and policies in the search for greater autonomy from what were the established rules under the auspices of the US-led Inter-American system. But they gained new momentum as the international financial structure failed to contain the latest crisis in the developed world in 2008. The global financial crisis that erupted in the summer of 2007 has raised many questions about the wisdom of unregulated

[1] Some authors such as Chang (2000) also analyze the Latin American Reserve Fund (FLAR—Spanish acronym for Fondo Latinamericano de Reserva) when focusing on the South American monetary system. However, this is out of the scope of this chapter since such arrangement is not strictly a monetary agreement (related to the three functions of currency namely, unit of account, medium of exchange, and store of value) but an agreement for balance of payments financing. This second category refers to a common pool of international reserves among neighboring countries mainly aimed at creating a regional borrowing source when temporary problems with balance of payments arise. Thus, FLAR is not a monetary instrument but a financial tool. To learn more about FLAR, read Agosin (2001).

[2] The original name of the group was Alternativa Bolivariana para las Americas. The name was changed to Alianza Bolivariana para los Pueblos de Nuestra America- Tratado de Comercio de los Pueblos in the IV Extraordinary Summit in Maracay on June 24, 2009.

markets and international financial systems. Theoretical innovation and new empirical research are required to make sense of the current dilemmas in the international political economy: namely, the limitations revealed by the crisis in existing interstate power relations; post-crisis regulatory frameworks; and the regional responses to the crisis (Helleiner and Pagliari 2011). This chapter focuses on the latter and argues that the South American region is witnessing an expansion of monetary cooperation agreements that have intensified in the face of the international crisis, offering an alternative to the power of the dollar as an exchange currency for intra-trade transactions. These agreements carry the potential to provide the south of America with an unprecedented degree of autonomy for intra-regional trade, bringing to an end the perpetual limitations arising from the need for dollar reserves to fuel trade between neighbors. The increasing use of these regional cooperation mechanisms as well as their consolidation as usual regional trade channels would become an invaluable asset as a catalyst for regional integration and economic growth and as a factor for greater autonomy from the vagaries of global economy. In this sense, regional currency agreements are important drivers toward a post-hegemonic (financial) governance in the region.

Regional monetary arrangements result from a concerted effort among neighboring countries to coordinate at least some features of their monetary policy and legislation. Specifically, the rights and duties of each agreement as well as their institutional architecture will vary significantly based on both their declaimed and underlying goals. Do the agreements aim at *saving* US dollars for intra-regional trade or, instead, are they an attempt at *getting rid of* the US dollar for such operations? And in the latter case, will South American countries trade among them by using their own national currencies or will they appeal to the creation of a common means of exchange and unit of account? Are these monetary arrangements mere technical instruments for enhancing intra-regional trade? To what extent do they cover additional domestic and international political purposes? Are most ambitious projects such as the SUCRE really aiming at fulfilling the *Bolivarian* dream of a united (Latin) America or are they just feeding rhetoric for politics? In this chapter we attempt to provide answers to these questions taking into consideration the specificities of domestic and international historical circumstances.

The following section presents the situation of the international monetary system and the solutions discussed in the international agenda, shedding light on the post-hegemonic context where the rise of regional monetary agreements in South America takes place, and stressing the opportunity this scenario represents for developing regional monetary initiatives. The South American monetary initiatives are subsequently explained in the third section taking into consideration this international context as well as the domestic political scenario. In the case of ARPC—which has existed for several decades—the third section also follows the evolution of the arrangement until the current post-hegemonic era. In the final section the chapter draws conclusions from the previous sections.

6.2. UNSTABLE FINANCIAL GROUNDS: RESCALING THE DEBATE

The unusually severe economic and financial hardship of the late 2000s has been a powerful stimulus for both regional and domestic levels in South America. The financial crisis was quickly reflected in the international economic agenda in a debate on possible solutions to global imbalances. The inclusion and permanence of a problem in the economic (and political) international agenda are key elements of the international level that catalyze a change. Particularly, in the monetary aspect the debate that revolves around the role of the US dollar in the global economy goes beyond the international level spilling over the other two. The core of the debate lies in whether the fact of maintaining a national currency such as the US dollar simultaneously acting as the global reserve currency has generated economic instability worldwide and, in the latter case, what solutions are available to solve this problem.

In this regard, two complementary solutions are framing the discussions about financial regulations and instability at international and regional levels. The first solution has led to the debate around the establishment of a supranational global reserve currency, while the second solution advocates the proliferation of regional monetary arrangements. Although the debate on the first solution has existed for several decades in recent years the most visible proponent of a global reserve currency has been the Professor of Columbia University at New York and Nobel Prize laureate, Joseph Stiglitz (see for example, Stiglitz 2010) supported by other renowned scholars from Columbia University such as José Ocampo and Stephany Griffith-Jones (see for example Griffith-Jones et al. 2010), among others. Other scholars, such as Barry Eichengreen (2011), have argued that a multipolar international monetary system is more likely to emerge, with room for several contending national currencies acting as a store of value. Nevertheless, the academic debate on how to administer the post-hegemonic era for the dollar and the urgency to reform the international monetary system has jumped from university campuses to the arenas of international politics, where the underlying interests behind these transformations have been translated into a fierce debate under the form of declarations and statements among the US Government and the IMF on the one side and several governments of developing countries such as the BRIC backed by United Nations Conference on Trade and Development (UNCTAD 2009) and United Nations General Assembly on Reforms of the International Monetary and Financial System (UNPGA 2009) on the other side, as explained in the next subsection. Regarding the second solution—which is the focus of this chapter—sponsored by the aforementioned United Nations agencies and followed by several developing countries—including South American nations—it has aroused much less contention than the first solution and therefore carries a greater probability of advancing successfully through the turbulent waters of international politics.

These two proposals presented in greater detail in the following two subsections—a supranational global reserve currency and regional monetary arrangements—do not imply a conflict of global monetary solutions versus regional monetary arrangements

but on the contrary they reinforce each other in an international scenario of coexisting regionalism and globalization. Under these circumstances of eroding hegemonic power of the United States coexisting with global instability in the international monetary system born in Bretton Woods, constraints from the international level for regional monetary cooperation are weaker than in the past and an unprecedented environment is now platform for regional responses to monetary instabilities. The rest of the chapter looks at these alternative currency arrangements and speculates on what they mean in terms of post-hegemonic regional politics in the South.

6.2.1 A Supra-national Global Reserve Currency

The Commission of Experts of the President of the UNPGA—also known as the Stiglitz Commission—and the UNCTAD expressed the need to create a global reserve currency to take over this function from the US dollar (UNPGA 2009; UNCTAD 2009). In short, this proposal aims at solving the inconsistencies arising from using a national currency for the international arena, both in a role as a medium of exchange and as a store of value. This would reduce pressures on the current account of the US balance of payments. Since the Bretton Woods Conference of 1944 in the United States, New Hampshire, the management of the "international reserve currency," i.e., the currency of the United States, is based on the particular economic and political needs and interests of the United States. Crucial decisions such as the determination of the interest rate—which has a direct impact on international liquidity as well as capital flows and thus on the level of global economic activity—are determined by the Federal Reserve of the United States based on the US economic cycle, contingent particularly to the evolution of inflation and unemployment rates in the United States.

However, the most appropriate monetary policy for the United States may end up being inappropriate for other economies, pushing countries into recessions on the one hand and on the other hand leading other economies to overheat, which in a short time translates to increasing inflation and indebtedness and, eventually, a crisis. In fact, the Latin American debt crisis of the early 1980s, only to provide one example with a strong impact on the region, is closely linked to US monetary policy, the management of interest rates, and decisions based on national needs of the United States (Damill et al. 2005).

Another problem arising from the use of the dollar as a medium of exchange and store of value was explained by the Belgian economist Robert Triffin to the US Congress in 1959. On that occasion, Triffin warned that global economic growth would increase the demand for liquidity and this need would be met through a current account deficit of the United States. Since it is impossible to sustain any deficit indefinitely, at some point fear will arise on the possibility that the dollar-denominated assets would begin to depreciate, thereby decreasing confidence in the stability of the system (Triffin 1960). Thus, the creation of a global currency is presented as a mechanism that would solve or at least alleviate the dilemma posed by Triffin, making possible supplying the necessary liquidity to global growth increasingly independent of the current account balance of the United States.

The debate on this proposal roughly replicated the Bretton Woods debate between the British delegation project led by John Maynard Keynes and the proposal of the US delegation headed by Henry White.[3] Such debate found a new heyday during 2009, shaping the international scenario that opened the window of opportunity to the rise of monetary agreements in South America. Indeed, in early 2009, concerned about the weakness showed by the US dollar and more specifically about the risks of erosion of the large amount of reserves in US dollars held by China, the Chinese Premier, Wen Jia Bao, urged the United States to "maintain its good credit, to honor its promises and to guarantee the safety of China's assets."[4] A few days later, the Governor of the People's Bank of China, Zhou Xiaochuan, proposed to replace the US dollar with a new global reserve currency controlled by the International Monetary Fund (IMF). He specifically recommended the use of Special Drawing Rights (SDRs) as the best alternative to reach this goal.[5] The proposal by China was certainly the loudest although it was only reproducing similar proposals launched elsewhere, such as Russia, Brazil, India, South Korea, and South Africa. Thus, the lack of confidence in the dollar and the Federal Reserve monetary policy inspired a *soft* revolt challenging the position of the US currency in the international monetary system.

Nevertheless, the creation of a global reserve currency seems politically difficult. Although this idea has been gathered by several relevant powers, it has met stiff resistance from the United States. Only one day had passed since the publication of the Chinese document when the President of the United States, Barack Obama, reflected Wall Street uneasiness with the offensive to take over the international role of the US dollar. He categorically dismissed the proposal stating, "I don't believe that there's a need for a global currency," and added that the strength of the dollar is based on investors consideration of the United States as the strongest economy in the world with the stablest political system in the world. Finally, Obama stated, "You don't have to take my word for it. I think that there is a great deal of confidence that ultimately, although we are going through a rough patch, that prospects for the world economy

[3] The proposal of the United Kingdom called for the creation of a supranational bank "International Clearing Union (ICU)" responsible for clearing trade deficits and surpluses between countries. Transactions would be registered in Bancor, a supranational currency managed by the ICU that would maintain a fixed exchange rate with gold. The British proposal was dismissed by the United States in favor of the plan delineated by Henry White that placed the US dollar as a hub in the international monetary architecture. To learn more on this topic, see Trucco (2010).

[4] See The New York Times: "China's Leader Says He Is 'Worried' Over U.S. Treasuries," (March 14, 2009). Available at http://www.nytimes.com/2009/03/14/world/asia/14china.html. According to the U.S. Federal Reserve, at the time of these statements China was the largest holder of U.S. Treasuries, with $ 767.9 billion. In October 2010, China stood first in the ranking with $ 906.8 billion. See, "Major Foreign Holders of Treasury Securities," Available at http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt

[5] To read the essay by Zhou Xiaochuan that was posted at official website of the People's Bank of China: "Reform the International Monetary System," (March 23, 2009), Visit http://www.bis.org/review/r090402c.pdf

are very, very strong."[6] From that moment onward, US efforts and initiatives on topics related to the international monetary system were largely oriented to persuade China to adopt a more flexible exchange rate for the Renminibi or Chinese Yuan in a context of an intended devaluation of the US dollar against other major currencies.

Thus, domestic political economy constraints in the United States—still the dominant economy worldwide—hamper the real possibilities of implementing a supranational reserve currency at the global level in the short or even mid run, although proponents of this solution have maintained this matter in the agenda. Nevertheless, the volatility derived from the current international monetary system together with a weakened position of the United States in the global economy has eroded the ability of the United States to contain the move by several developing countries that push ahead monetary arrangements that will provide them with enhanced independence from the dollar.

6.2.2 Regional Monetary Arrangements

Difficulties to launch a supranational reserve currency have turned attention to the second family of proposals promoted by several emerging countries, the UNPGA, UNCTAD, and more recently from the United Nations Development Policy and Analysis Division,[7] aiming at dealing with the instability that results from using dollars as a medium of exchange and as an international store of value: the promotion of monetary agreements between countries to reduce both dependence on the dollar and demand of the US currency. There are two ways of making sense of these regional proposals: that is, in the light of experience, these agreements can be seen as providers of a solution whose implementation is significantly faster and easier than creating a global reserve currency. In fact, several countries from different corners of the globe, including most Latin American countries, have already run such arrangements for decades. The described circumstances in the international level call for avoiding any delay in taking advantage of the enlarged window of permissiveness to increase the regional monetary autonomy. A second reading, however, would speculate on how the proposal of regional currency arrangements and intraregional exchange rate coordination supports a new regional idiosyncrasy that redefines the relationship between finance and development. That is, contrary to conventional wisdom, there is reason to believe that monetary arrangements in South America are the manifestation of a new philosophy in support of endogenous national-regional development, breaking the ties of their economies dependent on foreign capital and fostering at the same time alternative understandings of what regional economic integration is for (Arruda 2008).

[6] See Reuters: "Obama dismisses idea of single global currency," (March 24, 2009). Available at http://www.reuters.com/article/idUSN2434732920090325

[7] See: "UN Economic and Social Survey," 2010.

In fact, the series of regional monetary agreements analyzed in the next section show how South American governments are seeking to capitalize on the uncertain global situation. With the US dollar monetary hub role challenged from various flanks and most South American countries enjoying a decade-long booming prices for their export commodities, the political counter-hegemonic mood prevalent in several countries in the region has found—for the first time in a century—a more solid economic support. In addition, the neoliberal paradigm that in the past had conferred a veil of legitimacy to the policies that minimized existent monetary agreements currently lack political and popular support in most South American nations.

As we will see, since the early 1960s, a number of regional economic and political integration processes in Latin America developed a variety of monetary initiatives to promote intraregional trade. However, the most recent ones, namely the Local Currency Payment System (*Sistema de Pagos en Moneda Local* – SML), which was agreed on in January 2007 in a Presidential Summit of MERCOSUR and SUCRE conceived as an element of a regional monetary zone within the ALBA in 2009, not only propose a process of "decoupling" from the US dollar as a means of transaction but also open a window of opportunity to assert a more comprehensive and alternative "Regional Financial Architecture" supported by regional financial institutions and regional monetary agreements.[8] The following section elaborates on these regional monetary arrangements and their implications for alternative regionalism in South America.

6.3. A FERTILE LAND: MONETARY ARRANGEMENTS IN SOUTH AMERICA

6.3.1 Watering the Withered Tree: The Agreement on Reciprocal Payments and Credits

As early as September 1966, the members of the Latin American Free Trade Association (LAFTA) met in Mexico City to plant the seed of the South American monetary tree. In contrast with the Bretton Woods attempt of founding the monetary arrangement on a single currency, Latin American countries decided there would not be a single trunk to hold the top. Instead, it would be supported multilaterally through the Agreement on Reciprocal Payments and Credits (ARPC). Sixteen years had passed when in 1982 the tree was transplanted to the framework of the Latin American Integration Association (LAIA/ALADI in the Spanish Acronym).[9] Most South American countries (with the exception of Guyana and Suriname) have signed

[8] See PAGINA/12, "Correa quiere moneda común", December 11, 2007. Available at http://www.pagina12.com.ar/diario/elpais/1-96013-2007-12-11.html. Accessed June 22, 2011

[9] The agreement was completely amended on August 25, 1982 in the City of Montego Bay, Jamaica, and has had several minor revisions thereafter. The agreement is available in Spanish at http://www.aladi.org/NSFALADI/CONVENIO.NSF/conveniopagos

this agreement, as well as two other countries from outside South America: Mexico and the Dominican Republic.[10] The ARPC aims to facilitate payment of intraregional trade through a mechanism for payments compensation.

The rationale behind the ARPC aims at decreasing the amount of dollars required for intraregional trade. Trade of goods and services among member countries is registered by their central banks (including related services and other expenses). Every four months (compensation period), dollar imbalances are settled—including interests, following each country provisions on foreign exchange and/or capital mobility. The multilateral clearing mechanism significantly reduces the amount of dollars required for trade. In fact, such amount is limited to the quarterly trade imbalance among partners. Thus, the goal of ARPC in terms of regional integration has been limited to facilitate intraregional trade while saving international reserves. In addition, since under this agreement central banks act as clearinghouses for payments among countries, they record every transaction and make payments to the importers regularly in pre-established periods, thereby extending credit to each other (Chang 2000). Despite the declaimed economic goal of this agreement, it can be also read in political key as enlarged autonomy for intraregional trade. This is due to the fact that for acquiring US dollars countries are limited to three sources: exports of goods and services (to obtain dollars in exchange), receive external loans in US dollars, or attract foreign investment. By the means of the ARPC member countries can see a significantly reduced need to appeal to any of these sources of dollars and still be able to carry on and even increase intraregional trade.

The ARPC was increasingly used until the end of the 1980s (see Fig. 6.1). However, during the 1990s the importance of this instrument relative to other forms of payment experienced 13 years of sharp decline. According to information provided by LAIA, in 1989, 90% of intraregional imports were carried out under the ARPC umbrella in a context where intraregional trade exceeded US$ 11.1 billion. During the next four years the use of ARPC remained at levels above those of 1989, although its relative weight took a sharply negative slope in the context of the liberalizing reforms, in South America and many other parts of the world, that marked the 1990s. Since early stages of the programs of economic liberalization, ARPC member countries gave priority to alternative means of payment for the vigorous trade increase triggered by the reforms. However, a lag emerged between the drop in absolute terms in the use of the ARPC—that only becomes visible after 1996—and fall in relative terms that was evident since the very dawn of the 1990s.

Two main factors brought the ARPC to a halt. The first of them is clearly systemic while the other is related to the institutional design of the agreement. They were both carried out under the influence of a strong ideological offensive coming from the international system. The first cause is related to the structural change in the international system derived from the world that emerged after the Cold War ended and the

[10] The Dominican Republic joined the agreement in 1973.

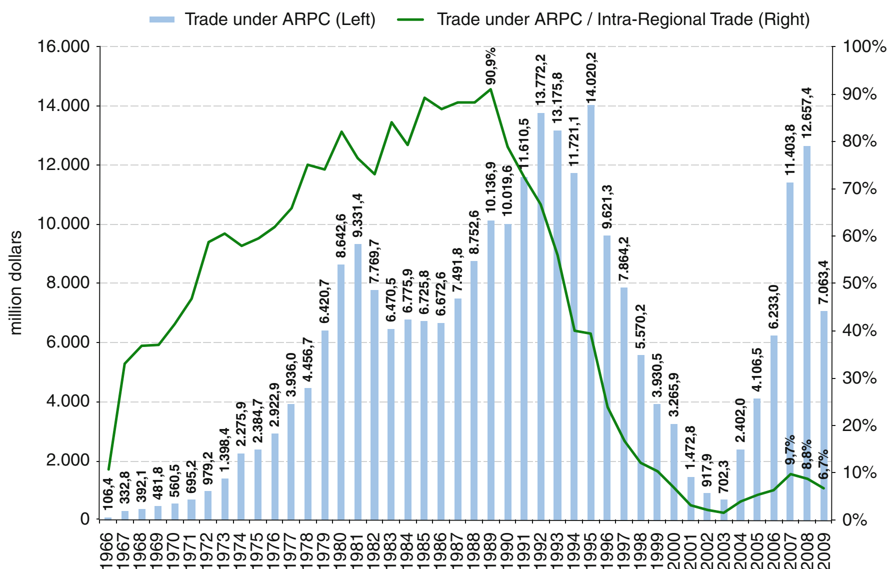

FIGURE 6.1. Evolution of the trade under the agreement on reciprocal payments and credits, 1966–2009 (*Source*: Latin American Integration Association (LAIA/ALADI))

subsequent flourishing of the "global era" that eased the capital external constraint of developing countries. Such external constraint had been particularly tight for Latin American countries after their early 1980s debt crisis. In the early 1990s, a neoliberal-driven wave of optimism flooded most corners of the world. Neoliberal recipes invited abandonment of old mechanisms that offered some degree of autonomy and protection to countries from the swings of the international economy. Instead, they championed embracing the paths of economic and financial liberalization lectured from Washington—in the case of several Latin American countries included a debt restructuring by the means of the Plan Brady—that according to its promoters would rapidly lead to prosperity. Thus, the enhanced access to international funding reduced the need of cooperative mechanisms for saving foreign currency.

The second element affecting the significance of the ARPC is directly related to the guarantee of convertibility, transferability, and reimbursement included in the agreement, which makes central banks accountable in the "unlikely" case that importers fail to comply with their committed payments. Although Article 6 of ARPC conferred full responsibility to institutions authorized to operate under the agreement underscoring that central banks do not take any responsibility for disputes among them, Article 11 provides that debits registered in central bank accounts due to transactions settled under the agreement imply an irrevocable commitment by the central

bank that is liable for these debts, even if the authorized payer institution fails to comply with its obligations. Thus, the central banks would be indirectly assuming a risk that naturally belongs to exporters, who ensure collection of the results of their sales by trading under ARPC.

In addition, the liberalizing economic reforms applied in the region since the early 1990s included in many cases the strengthening of the independence of central banks. This policy was regarded as an institutional incentive for fiscal balance since it became difficult to fund government budget deficits through expansionary—and inflationary— monetary policy. Thus, the newly appointed boards of South American Central Banks implemented a policy to discourage the use of ARPC by the means of unilateral increases in red tape and fees required to operate under the agreement, aiming primarily to hedge against the risk of liabilities aroused by the above-mentioned Article 11.

The period 2004–2008 witnessed a major turnaround in the use of ARPC, mainly due to the impetus provided by Venezuela. The jump in the use of the ARPC by Venezuela occurred after the Venezuelan Government decided the suspension of foreign exchange trading and created a currency control board to handle foreign exchange procedures. In 2008, the Bolivarian Republic of Venezuela had a strong balance deficit with its regional neighbors under ARPC that reached US$ 11,472.4 million, as a result of exports for US$ 7.3 billion and imports for US$ 11,749.7 million. The Venezuelan imports traded under the agreement in 2008 accounted for 93% of total imports under ARPC. Nevertheless, this same dynamism provided by Venezuela implied at the same time that the recovery in the use of ARPC was strongly dependent on Venezuelan operations. Indeed, such dependency would turn against the ARPC the following year.

In 2009, the total amount of operations conducted by the ARPC collapsed, declining by 44.2% from the level of 2008 to US$ 7,063.4 million. The downfall was due to shrinking Venezuelan operations in the context of a GDP contraction of almost 3% in Venezuela. This decline in the volume of trade through ARPC was partially offset by an increase in the average amount of transactions that reached 159,000 dollars in 2009, a significant increase in comparison with 2006 when they stood at an average of 85,000 dollars. Venezuela's share in the debits was reduced from 93% in 2008 to 87% in 2009.[11]

The global financial crisis and economic downturn resurrected the willingness of LAIA governments to promote the use of ARPC aiming to increase the protection of the region from global instability. In late April 2009, "deeply concerned about the negative effects of the crisis on employment, which aggravate the social situation of

[11] ALADI, Secretaría General (2010) "Evaluación del Funcionamiento del Sistema de Pagos de la ALADI en el año 2009", ALADI/SEC/di2325 (March 23, 2010).

our people, especially the most needy sectors among our populations,"[12] the representatives of the LAIA Governments met in Montevideo "to take measures supporting -in the short term- the strengthening of the integration process against the international crisis, such as [. . .] the strengthening of the multilateral system of payments established by the Agreement on Reciprocal Payments and Credits. In this context, a seminar for the Revitalization of ARPC and the Use of Local Currencies Payment Systems was held at LAIA headquarters on April 22 [. . .]."[13] The results of this seminar were presented at the XV Meeting of the LAIA Ministers Council on April 29, 2009, and after passing through various internal offices of the association, it entrusted both the General Secretariat and the central banks with the technical work that had been recommended in the report of the seminar.[14]

Subsequently, in early 2010, the Summit of Unity that gathered the XXI Summit of the Rio Group and the II Summit of Latin America and the Caribbean on Integration and Development (CALC, Spanish acronym), that took place at Riviera Maya, Mexico, on February 23, 2010, it was decided "To hold a meeting on the LAIA Agreement on Reciprocal Payments and Credits to be convened by such organization. [LAIA would] invite representatives of alternative payment systems in the region as well as countries of Latin America and the Caribbean who are not members of ARPC, in order to exchange information."[15] This meeting took place on July 22, 2010 and July 23, 2010, in Santo Domingo, Dominican Republic, where representatives of central banks of ARPC members shared their experience highlighting the use of the multilateral payments system in times of crisis as well as on occasions when conditions in the region highly favored its use.

Strengthened awareness on the usefulness of ARPC for regional trade growth and as an anchor of stability in the midst of the international economic storm demonstrates how a stimulus coming from the international level has fallen into a domestic political terrain that allowed a reflowering of the old Latin American monetary tree.[16] The political impetus to promote the use of ARPC as a tool to achieve enhanced levels of autonomy and stability for monetary flows—and trade—in the region occurs simultaneously with other initiatives and monetary arrangements aiming at the same

[12] ALADI, XV Consejo de Ministros. (2009) "Declaración sobre la Crisis Económica Internacional y las Acciones a Desarrollar en el Ámbito de la ALADI para Hacerle Frente", Montevideo, April 29, 2009. Available in Spanish at http://www.aladi.org/nsfaladi/juridica.nsf/pdeclaraciones

[13] Ibid.

[14] ALADI, Secretaría General. (2010) "Términos de Referencia de la Reunión para el Intercambio de Información sobre el Convenio de Pagos y Créditos Recíprocos de la ALADI", ALADI/SEC/di 2334/Rev.1 (March 26, 2010).

[15] "Declaración de Cancún," (February 23, 2010), Available at http://www.voselsoberano.com/v1/index.php?option=com_content&view=article&id=4227:declaracion-de-cancun&catid=1:noticias-generales

[16] The domestic political circumstances in Latin America are explained in greater detail in the sections on the Local Currencies Payment System and Unified System for Regional Compensation in this chapter.

direction of ARPC that also require favorable conditions at the three levels. These overlapping initiatives are not competing projects but instruments able to coexist and thrive together. In this regard, two new seeds have begun to sprout: the SML within the framework of MERCOSUR and more recently the SUCRE within the framework of ALBA.

6.3.2 A New Sprout in South American Land: The Local Currencies Payment System

The SML is a limited transformative instrument for regional integration. This monetary agreement clearly goes further than the ARPC in terms of the potential implications it has for regional autonomy but it does not challenge the traditional ways of understanding development or extend over other aspects of regionalism such as identity politics. Furthermore, such potential for enlarging autonomy still needs to be translated into facts. The short amount of time since the launching of this monetary initiative and the small number of participating countries (so far only Argentina and Brazil have signed the SML) are the main causes of the still poor use of this monetary instrument.

Negotiations on the SML began in 2006, although an agreement was reached only in late 2007[17] and its actual implementation had to wait until September, 2008. At the time of writing this chapter (late 2010), the SML involves only Argentina and Brazil, although in October 2009, Brazil signed a letter of intention with Uruguay in which their central banks pledged to conduct the necessary studies to start using this instrument in 2010.

The SML is an optional device that is complementary to other existing payment systems. It allows both the importer and the exporter to pay and charge respectively in their local currency. Specifically, the exporter quotes, makes invoices, and actually charges in its national currency, in the same way it would be done in a local sale within the domestic market. As a result, the exporter is exempted from any participation in the exchange market. This attribute implies a significant difference from ARPC, since under the latter system commercial operations are nominated in US dollars. Therefore, in addition to saving foreign currency—in the function of money as a medium of exchange—trade under SML also implies abandoning the US dollar in its function as unit of account for international trade since such function will be assumed by the local currency of the exporting country. In turn, the importer must participate in the exchange market since the trade operation is nominated in the currency of the exporting country. The exchange rate is determined on a daily basis following the wholesale money markets of both countries.

Thus, the SML goes further than the ARPC in terms of its goal since in addition to saving international reserves in trade among member countries it eliminates the need for the US dollar thereby enhancing independence from such currency and any

[17] Decision CMC Nº 25/07 "Transacciones Comerciales en Monedas Locales"

other extra-regional medium of exchange and unit of account. Implications of this agreement regarding identity formation are indirect, mostly as a consequence of the positive externalities derived from increased interaction for trade and a greater degree of confidence evidenced by the acceptance of the neighbor's national currency.

During the period October 2008—beginning of the use of SML—and March 2010, trade between Argentina and Brazil[18] under SML amounted to AR$ 1,456 million (equivalent to US$ 383 million).[19] While this amount is relatively low as a share in the total amount traded between both countries during this period—the SML was used for only 1% of bilateral trade—there is a clear increasing trend. Due to the institutional design of the SML, this mechanism raises weaker resistance from domestic groups that are reluctant to risk public funds to ensure private businesses. Unlike the ARPC which includes repayment guarantees, convertibility, and transferability from central banks, under the SML only trade that has already been paid for takes place. In this regard, due to its institutional architecture the SML was born immune to one of the main controversies that had caused the decline in the use of ARPC during the 1990s.

Political support for this initiative has been large in 2010 regional summits dealing with economic issues. In fact, neighbors who are not yet part of the system have been invited to join it. In the aforementioned Cancun Summit in February 2010, the heads of Government of Latin America and the Caribbean included a section in the final declaration instructing the ministers of finance to work on the progressive development of a regional and subregional financial architecture taking into consideration a range of proposals. Within this range was highlighted "a multilateral system of payments on a voluntary basis based on both a revitalization and expansion of existing payment systems in the region, including institutional mechanisms of payment in national currencies."[20] This proposition was further pushed at the MERCOSUR Summit held in San Juan, Argentina, in August 2010, where the presidents of MERCOSUR countries "stressed their commitment to make progress on the implementation of the Bank of the South, and emphasized the high significance of the LAIA Agreement on Reciprocal Payments and Credits (ARPC) as well as initiatives of commercial transactions payments in local currencies, such as the Local Currencies Payment System (SML) and the Unified System for Regional Compensation (SUCRE), as ways to deepen economic and financial cooperation in the region."[21]

[18] According to information published by the National Direction for Information of the Ministry of Economy and Finance of Argentina, between October 2008 and March 2010, bilateral trade between Argentina and Brazil reached US$ 36.628.577.389.

[19] Pasin (2010) "Sistema de Pagos en Moneda Local. Argentina – Brasil," paper presented at the Regional Meeting: *Reforma de la Arquitectura Financiera Internacional y Cooperación Monetaria y Financiera en América Latina y el Caribe*, Caracas, Venezuela (April 8–9, 2010). Sistema Económico Latinoamericano y del Caribe (SELA).

[20] "Declaración de Cancún," op. cit.

[21] Joint Communique of the Presidents of MERCOSUR member countries, San Juan, Argentina (August 2010). Available in Spanish at http://www.mercosur.org.uy/innovaportal/file/2328/1/CMC_2010_ACTA01_COMUNICADO_ES_EE.PP%20del%20%20MCS.pdf

In turn, the Minister of Finance of the host country, Amado Boudou, recognized additional goals for these monetary initiatives. In remarks that were widely reported in the Argentine media—and posted in official websites on the Internet—the minister was quoted saying that member countries of the bloc are "moving forward to strengthen the local currency payment system to banish the U.S. dollar from regional trade."[22] Afterwards, Boudou added, "We are not thinking in the local currency payment system as a tool to get out of a crisis, but as an excelling mechanism."[23] The crisis had merely served as a wake-up call to countries in the region to abandon the sleepy inertia of international and regional monetary *status quo* and to push them to embark on initiatives empowering monetary regional autonomy even after the storm was left behind.

Apparently, South Americans are not alone in their attempt to free themselves from dependence on the dollar standard for international trade. To the initiatives from international agencies of the United Nations calling to create a global reserve currency were added other initiatives coming from countries located outside the region but occasionally directly involving members of the South American system. The first summit of the BRIC countries (Brazil, Russia, India, and China) held in Ekaterinburg, Russia, in mid-June 2009, raised an important signal of the growing opposition of emerging countries about the role of the dollar in the international monetary system.

Indeed, in the final declaration of the summit the leaders of the BRIC countries indirectly cast doubt on the dollar as international reserve currency by stating "the urgent need for a more stable, predictable and *diversified* international monetary system."[24] According to the BBC, the Russian President, Dmitry Medvedev, suggested during the meeting that countries should strengthen their currencies by mutually buying national bonds rather than buying US bonds.[25] The significant amount of international reserves hoarded by these four countries implies Medvedev's proposal should not be lightly considered. A coordinated action by these countries (or individual action in the case of China) has great potential to substantially influence the function of the dollar as an international store of value. It was left to the Brazilian President, Lula da Silva, to refer to the intention of these countries to reduce the use of the dollar in its role as a medium of exchange. Specifically, referring to the trade with China Lula told the Brazilian Globo News channel, "If we reach the conclusion that it is possible [to partially eliminate the dollar in our trade] we are going

[22] Official website of the Secretary of Media, Cabinet of Ministers, President's Office. Available in Spanish at http://www.prensa.argentina.ar/2010/08/02/10467-boudou-hay-que-fortalecer-el-sistema-de-pagos-en-moneda-local-y-desterrar-al-dolar-del-comercio-regional.php

[23] Op. cit.

[24] Joint Statement of the BRIC Countries Leaders, Ekaterinburg, Russia, June 16, 2009. Italics added.

[25] See: BBC Mundo: "El dólar en la mira del BRIC", (June 16, 2009). Available at http://www.bbc.co.uk/mundo/economia/2009/06/090616_2057_bric_divisas_gm.shtml

to adopt such policy,"[26] although he made it clear that the replacement of the dollar by the Brazilian real and the Chinese yuan should be reviewed by the central banks and ministries of finance of both countries. This proposal took shape during the second summit of the BRIC countries held in Brasilia in mid-April 2010, where the presidents instructed their finance ministers and central bank presidents to study "the feasibility of monetary cooperation, including a local currency payment system between our countries."[27]

The fact that a MERCOSUR member with an ongoing SML agreement with a member of the same group is also advancing negotiations for a simultaneous SML with extra-regional countries reveals that the mechanisms of monetary cooperation at the regional level are compatible both technically and politically with similar agreements at the international level. These agreements are also valuable indicators of the declining influence of the United States on the shaping of the international monetary regime and the emergence of decentralized post-hegemonic monetary arrangements. Specifically, SML agreements are evidence of proactive initiatives by developing countries to promote monetary arrangements at both regional and international levels taking advantage of the aforementioned widened range for action due to eroding US supremacy. In addition, these agreements are both compatible and complementary since both have a positive impact on the global monetary stability by contributing indirectly to reduce the demand for US dollars, subtracting pressure from the US balance of payments and strengthening the external position of the signatory countries.

6.4. A COUNTER-HEGEMONIC SPROUT? UNIFIED SYSTEM FOR REGIONAL COMPENSATION (SUCRE)

Sprouting in the land of the ALBA, SUCRE has distinctive characteristics. Unlike the SML, which has been presented as an economic tool (with political effects), the SUCRE has been conceived as a political tool with highly symbolic content since its inception. In terms of the conceptual framework of this book (see Chapter 1), the SUCRE is both inherently and explicitly a project of transformative regionalism. In the words of the President of Venezuela, Hugo Chávez Frías, the SUCRE "is an example of political will. This is truly historical (. . .) The SUCRE is an important step in our monetary sovereignty, to make us free from the dictatorship of the dollar that the Yankee empire has imposed to the world."[28] Taking a more moderate tone, the President of Ecuador, Rafael Correa, added, "This new financial instrument, adopted on April 16 [2009], at the VII Extraordinary Summit of the ALBA Heads of

[26] Op. cit.

[27] BRIC Communique, Brasilia, Brazil (April 16, 2010).

[28] Internet blog of the Presidente de Venezuela, Hugo Chávez, "Sucre = Independencia," (July 6, 2010). Available in Spanish at http://www.chavez.org.ve/temas/noticias/sucre-independencia/

State, will—among many other benefits—leave the dollar—that is an extra-regional currency—fall into disuse for intra-regional trade, putting an end to the transference of wealth through *seigniorage* to the United States."[29]

The confluence of political trends among ALBA countries that share common values as well as counter-hegemonic positions has undoubtedly fostered an environment conducive to the germination of SUCRE. At the same time, such germination reinforces these common values and defiant positions. However, it should be noticed that this initiative is part of a set of policies launched worldwide to face the international economic storm of the late 2000s. In this sense, the SUCRE is also a reaction to a stimulus coming from the international economic system. ALBA leaders have sought to capitalize on the global economic debacle taking advantage of the greater tolerance for state-led policies to effectively gain degrees of freedom and strengthen regional monetary cooperation. At the same time, they did not lose any opportunity to criticize the United States along with some multilateral financial institutions, thereby scoring some points with their domestic nationalistic audience. Thus, at the end of the day the use of the SUCRE project for political purposes has prevailed over its economic usefulness.

Only two months had passed since the bankruptcy of Lehman Bros., when the first agreement to develop the SUCRE was enacted. In the final declaration of the III Extraordinary Summit of Heads of State and Government of the ALBA countries which took place on November 26, 2008 in Caracas, Venezuela, the leaders enunciated their "diagnosis of the various ways the financial crisis born in north-capitalist countries has impacted each of our countries and the region as a whole. [The leaders] are also concerned by the absence of credible and robust proposals to deal with its devastating effects."[30] Due to this lack of credible proposals, they "reiterated their firm conviction that the regional space should be privileged in order to provide immediate and effective responses, and they made specific proposals to *establish an economic and monetary area* ALBA-TCP [aiming] to protect our countries from transnational capital depredation, promote the development of our economies and establishing an area free from the dysfunctional multilateral financial institutions and the dollar's monopoly as currency [for international] exchange and reserve [. . .]. [Subsequently, they proposed the construction] of a common currency area that

[29] The power of seigniorage is the capacity held by governments derived from their monopoly for printing money, which is an asset used as a medium of exchange in transactions. By printing money—which has a low cost—the government can purchase goods and services. This acquisition of goods and services through the printing of money is called seigniorage. Since the United States is the only country that can print dollars and given that the dollar is both a medium of exchange in the US economy and also in the international economy, the United States government has a power of seigniorage of global reach. See also Internet blog of the Presidente de Venezuela, Hugo Chávez, op. cit.

[30] Statement of the III Cumbre Extraordinaria de Jefes de Estado y de Gobierno de la Alternativa Bolivariana para los Pueblos de Nuestra América – Tratado de Comercio de los Pueblos, (ALBA – TCP), Caracas, Venezuela (November 26, 2008).

will initially include the members of ALBA (the Commonwealth of Dominica would participate as an observer) and the Republic of Ecuador, by establishing the SUCRE (Unified System for Regional Compensation) Common Currency Unit and a Clearing House."[31]

A few months later, in the aftermath of the early April G20 summit in London,[32] United Kingdom, where consideration of restructuring the IMF had been agreed aiming at improving the institutional response during the crisis as well as attempting a coordination of counter-cyclical policies, President Chavez declared at the summit of ALBA, "The crisis the world is facing today looks like a mutating virus. Nobody knows how far is it going to take us [. . .] We ought not expect anything from others. The solutions to our problems are in our own hands. These will not come from the north, from the International Monetary Fund or from the World Bank."[33] Concluding his belligerent statement, Chavez stated, "Attaching tremendous importance to the IMF as it is currently occurring and supplying it with billions of dollars is like asking an arsonist to put out a fire [. . .] The IMF is one of the greatest arsonists and at the same time it is an instrument of the imperialism and economic dictatorship imposed to our peoples. They will come back to try to impose [their will] once more, they will try to deceive us but we are not going to be fooled."[34]

Beyond the striking volume and pointed language with an obvious political purpose, in economic terms the SUCRE is just a fledgling initiative with still imperceptible impact. Until mid-2010, it has been ratified by the governments of Venezuela, Ecuador, and Cuba, although the goal is to include the rest of ALBA countries: Antigua and Barbuda, Bolivia, Dominica, Nicaragua, and Saint Vincent and the Grenadines. The SUCRE is a virtual currency, since it does not act as a legal tender although it is used as a unit of account by central banks to register trade among member countries of the agreement. This makes it different from the SML where the unit of account is the legal tender of the exporting country. The Bank of ALBA, based in Caracas, is the agent that performs real-time registration of transactions between the participating central banks by means of the SUCRE Information System. The Bank of ALBA also carries out the management of the Clearing Chamber. In this regard, the SUCRE has developed the most sophisticated institutional architecture for regional monetary cooperation and it is by far the most ambitious project: a common currency for intraregional trade, which would imply—if extensively used—the highest degree of regional monetary autonomy.

[31] Op. cit. Italics added.

[32] The debate between China, Russia, and the United States—among others—on the establishment of a global reserve currency took place on the brink of this G20 summit. View the section on "Unstable Financial Grounds" in this chapter.

[33] See El Universal: "Chávez: El sucre terminará con la dictadura del dólar," (Abril 16, 2009). Available at http://www.eluniversal.com/2009/04/16/eco_ava_chavez:-el-sucre-ter_16A2294071.shtml

[34] Op.cit.

The first operation under SUCRE occurred in early 2010. On February 3, Venezuela exported 360 metric tons of rice worth 108,000 sucres (equal to US$ 86,400) to Cuba. This was the first shipment under an arrangement involving a total of 8,000 tons of Venezuelan rice to the Cuban market.[35] In turn, on July 6, 2010, Ecuador joined the SUCRE club by exporting 5,430 tons of rice worth 1,894,015 sucres to Venezuela. The exchange rate of the transaction is established based on a parity of US$ 1.25 per sucre. For the remainder of 2010, about 154 million sucres were left available for trade among member nations. This amount was divided as follows: Venezuela accounted for 67.2 million sucres, Ecuador had at its disposal 24.8 million sucres, and Cuba had 20 million sucres.[36] It is also expected that in the near future a transaction between Bolivia and Venezuela will take place under this monetary scheme. In fact, Bolivia has been one of the main promoters of channeling intraregional trade through the Andean institutional system to the extent that it pushed to include the acronym TCP (People's Trade Agreement) after ALBA as the name of the Andean project. The TCP aims at becoming the counterpart of the FTAs (Free Trade Agreements) pushed by the United States widely seen by ALBA leaders as favoring foreign interests at the expense of locals. Specifically, the adoption of mechanisms leading to financial and monetary independence are explicitly encouraged by the TCP.[37]

These figures demonstrate that the high political profile of the SUCRE stands in striking contrast with the microscopic economic importance of such a monetary cooperation initiative. This fact does not imply the lack of economic potential for the SUCRE but only that until the time of writing this chapter, its use has been mostly for political purposes, mainly at the rhetorical level. Indeed, such a high degree of politicization might be the major obstacle to the growth of the project since its development could remain subject to short-term political expediency of the member governments. The latter does not imply that political momentum of economic cooperation initiatives is harmful to their consolidation and growth. Instead, it is the excessive exploitation of economic projects by politics what makes the former hostages of the political

[35] See the official website of Ministerio del Poder Popular para la Comunicación y la Información de Venezuela: "Venezuela, Cuba y Ecuador consolidan integración comercial con el Sucre," (July 9, 2010). Available at http://www.minci.gob.ve/noticias/1/201080/venezuelacuba_y_ecuador.html

[36] See Noticiero Venevisión: "Ecuador y Venezuela realizan primera transacción comercial con el SUCRE," (July 6, 2010). Available at http://noticiero.venevision.net/index_not.asp?id_noticia=20100706002702&id_seccion=02

See also El Ciudadano: "Transacción comercial a través del SUCRE es un hecho histórico," (July 6, 2010). Available at http://www.elciudadano.gov.ec/index.php?option=com_content&view=article&id=14571:transaccion-comercial-a-traves-del-sucre-es-un-hecho-historico-&catid=1:actualidad&Itemid=42

[37] For further information about the principles of TCP, please visit the official website of ALBA-TCP at http://www.alba-tcp.org/content/principios-fundamentales-del-tratado-de-comercio-de-los-pueblos-tcp

circumstances, putting growth potential at risk. Consequently, the high political profile of the SUCRE covers the seed of the project with a dense shade that erodes the chances of further germination.

6.5. CONCLUSION

While South Americans were comfortable with the international monetary tree in its pre-Great Recession fashion, given that the economic global cataclysm has already occurred they have now realized that their best option is to take advantage of it. A reform of the international monetary system to limit the need for US dollars for world trade growth as well as to meet the demand for global savings is urgent. Due to domestic political economy constraints in the United States and the undeniable influence this country maintains in the international system, proposals aimed at implementing a global currency have met with strong resistance. At the same time, the momentum enjoyed by monetary issues at both the international and regional level has concurred with a domestic political scenario in several South American countries that has turned favorable for the development of regional monetary cooperation agreements. However, the three monetary arrangements analyzed in this chapter show that the greater the transformative goals of the monetary agreement, the lower the trade volume channeled under it (see Table 6.1 below).

Of the three, the ARPC has proved resilient despite political and economic instability for more than four decades of its existence. As such, it has remained a valuable instrument to reinforce regional integration all along but more particularly in the last

TABLE 6.1. A comparative perspective of monetary arrangements in South America

	South American regional monetary agreements		
	ARPC	SML	SUCRE
Institutional framework	LAIA	MERCOSUR	ALBA
Starting year	1966	2008	2010
Institutional device	Clearing house	Agreement to accept national currency of member countries	Virtual common currency (for intraregional trade)
Goal	Saving international reserves (US dollars)	Eliminate the US dollar from trade among member countries	Increase monetary sovereignty by the means of a common currency area
Transformative capacity (formally)	None	Limited	High
Political resilience	High	(Recent agreement)	(Recent agreement)
Currency functions affected	Medium of exchange	Medium of exchange and unit of account	Medium of exchange and unit of account

half decade. Nevertheless, the transformative capacity of this regional project is very low since it is just a mechanism limited to save foreign currency. Although debatable, it could be said that the SML has been a transformative initiative since it attempts to gain degrees of freedom for more autonomous economic development. In turn, the SUCRE stands out as both inherently and explicitly transformative as an alternative radically different from the status quo in the regional monetary architecture, introducing elements of both political and economic counter-hegemony.

Indeed, despite a sound interest in revitalizing ARPC to make it a central element of trade among LAIA countries, it is just a mechanism limited to save foreign currency. Under the ARPC the US dollar remains as the medium of exchange and unit of account. The latter does not minimize the usefulness the system undoubtedly has for LAIA countries to increase their regional trade. Rather than representing an alternative for a structural transformation, the ARPC is simply a mechanism that allows a more efficient use of a scarce resource: the US dollar. In this regard, ARPC is far from an element of transformative regionalism. The words "values," "social cohesion," and "identity formation" are out of the scope of the ARPC.

Beyond the speeches and good intentions in the summit of presidents of various country groupings in the region, the only country that has actually made extensive use of ARPC for regional trade during the second half of the 2000s has been Venezuela. This impetus by Venezuela is strongly linked to domestic policy decisions such as the establishment of a currency exchange board to regulate both foreign exchange flows as well as the exchange rate. While the use of the ARPC by Venezuela has brought new life to this faded regional monetary agreement, it has had the "unintended" consequence of making it highly dependent on both the Venezuelan Government decisions and the performance of the Venezuelan economy. True, the ARPC is in a precarious situation due to its strong dependence on Venezuela. Nevertheless, this agreement has survived for more than four decades despite changing regional and international conditions and it is now receiving strong political support to regain a central role in intraregional trade. In this regard, the ARPC has demonstrated it is definitely a resilient project of regional integration.

The SML goes one step further than the ARPC since the requirement of using US dollars for regional trade is lifted while operations are valued in the currency of the exporting country. This means that the US dollar is left aside from its traditional role as an international medium of exchange as well as in the role of unit of account. However, the number of countries that have implemented this regional agreement—Brazil and Argentina, so far, and Uruguay and Brazil in the near future—is well below those implementing the ARPC, as is the volume of trade. The SML does not aim to promote identity formation among its member countries, although it indirectly fosters confidence building and supplies member countries with grater monetary autonomy for reciprocal trade. The good performance observed over the short life of this institutional mechanism allows envisaging continuation of its increased use. As a matter of fact, large developing countries such as those gathered in the BRIC have taken this example and are studying a similar mechanism for their mutual trading.

The transformative capacity of the SML is limited. Although this arrangement provides member countries with enhanced autonomy to carry on trade and also releases them from depending on the US dollar for various purposes, this agreement does not propose an alternative development paradigm or present a challenge to existing orders. Instead, it only enlarges the range of autonomy within the same paradigm. Despite the passionate statements by the Minister of Finance of Argentina, rather than a counter-hegemonic model of integration, the SML should be classified as an initiative accommodating the declining hegemony of the United States. The political resilience of this agreement is still to be seen due to its recent implementation (2008). Nevertheless, the technical profile that governments have conferred on this monetary arrangement makes it unlikely to become a target of both domestic and international criticism and political attacks. Therefore it is reasonable to expect the SML will be able to prevail over incidental difficulties.

Finally, the SUCRE is the most ambitious and radical project with the highest transformative capacity (at least formally). Since the SUCRE is the most recent agreement among those dealt with in this chapter, a sound assessment of its performance as well as an evaluation of its political resilience remains even more difficult than in the case of SML. On the one hand, the SUCRE involves the creation of a common (virtual) currency for regional transactions. This means that not only the US dollar would be left aside as a medium of exchange and unit of account but also South American countries' own national currencies would be dismissed for these functions. Therefore, the SUCRE institutional architecture is the most far reaching among regional monetary arrangements in South America. Nevertheless, until late 2010 only two operations with negligible significance for the volume traded among member countries had occurred under SUCRE. On the other hand, this arrangement has carried from the beginning an underlying label of rebellion against US—eroding—hegemony. This fact has placed the SUCRE as the regional monetary agreement with the greatest political visibility as a post-hegemonic tool, leaving it exposed to political strikes from home and abroad, raising doubts about its real purpose and jeopardizing its potential to grow and remain through time.

In sum, a confluence of factors at the domestic, regional, and international levels emerged from the structural change since the last decade created conditions conducive to develop and consolidate regional monetary arrangements that bring positive effects for each of the three levels. The moment monetary issues gained a position in the international agenda, they began to spill over the regional agenda, as evidenced by the profusion of documents and statements at regional presidential summits in 2009 and 2010. Despite this political thrust, the regional monetary arrangements in force face the classic dilemma posed by the inverse relation between extension and comprehension. The challenge posed to South America is to break this logic and move toward a greater use of agreements—both in terms of the number of partners as well as in terms of trade volume channeled through them—implying greater depth and transformative capacity, such as the SML and SUCRE. This will require sustained

political support for these economic instruments, avoiding falling into the opposite: the extensive use of these economic instruments mainly for political purposes.

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