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Gwynn, María Antonia

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China and Brazil's infrastructure initiatives and the role of regional counterparts

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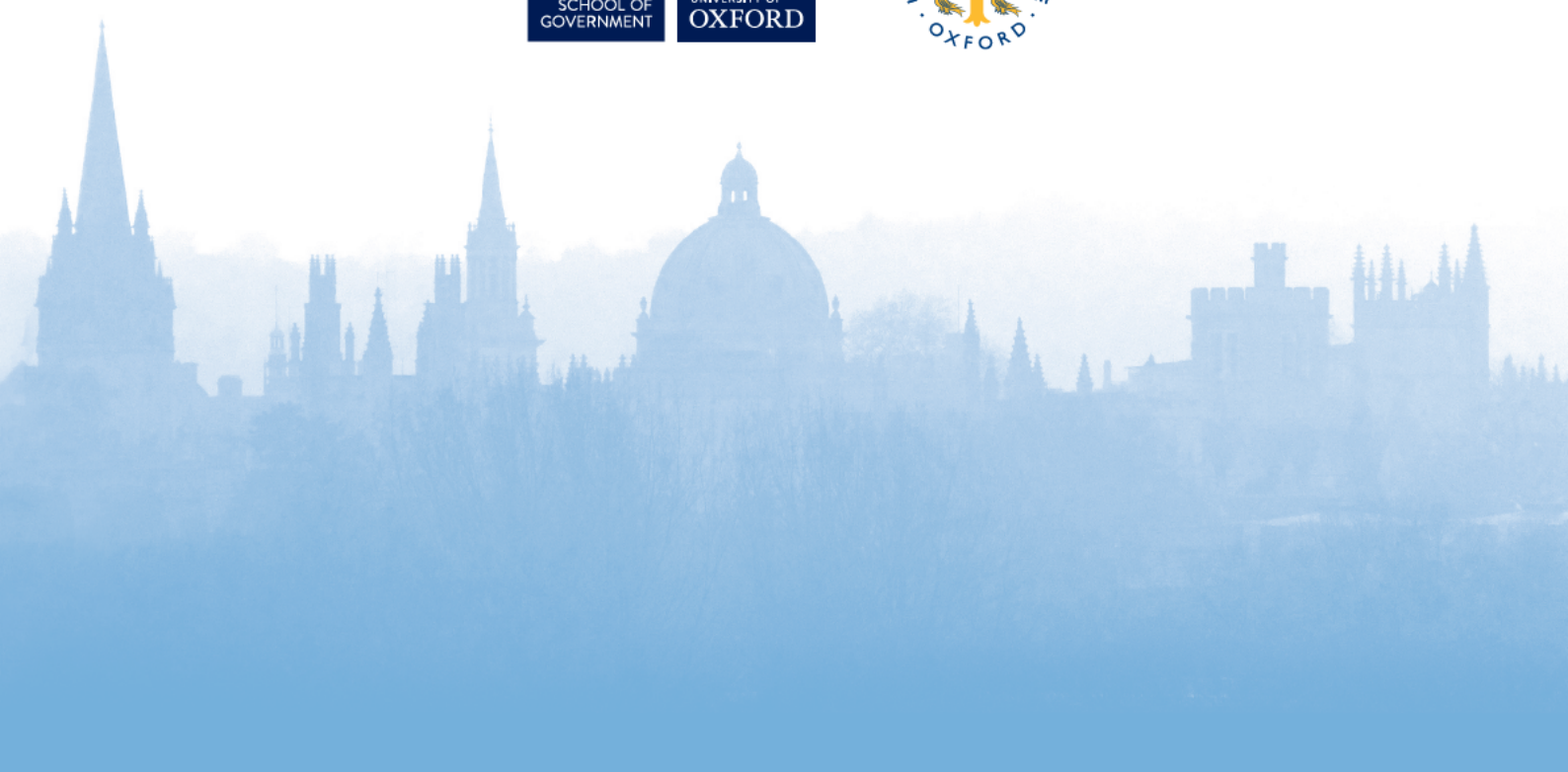
China and Brazil's Infrastructure Initiatives and the Role of Regional Counterparts

Maria A. Gwynn



China and Brazil's Infrastructure Initiatives and the Role of Regional Counterparts

Maria A. Gwynn

Abstract

Emerging countries, like China or Brazil, are no different from powerful western countries in that they too use a variety of strategies to pursue their interests. To assess the utility and consequences of these strategies, I propose to focus on how these strategies will impact their less powerful regional counterparts. This is a shift away from the traditional perspective of considering powerful countries *vis a vis* the increasing power of emerging countries. Furthermore, by concentrating on how smaller and less powerful countries are affected by these strategies, the likelihood of success of these strategies can be predicted to some extent, as no state-strategy can be carried out without at least some support of other countries.

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Introduction

Emerging countries, and their growing resources and capacities, are giving them a more preponderant role in international affairs. The strategies that these countries are pursuing to establish themselves as actors with more authority in the international system are indeed remarkable. For instance, China's creation of the Asian Infrastructure Investment Bank (AIIB) is notable, might aim to pose alternatives to the established neo-liberal international financial institutions established through the Bretton Woods agreements. Similarly, Brazil has turned itself into a great market, and has promoted integration with other South American countries in the region by leading the creation of new regional organizations. These institutional developments have been received positively as innovative ways of creating alternatives to long established institutions in the international system, in which these emerging countries had little participation.

However, analysing these institutional creations in their wider context, we are prompted to see that they are part of a larger strategy. We do not only see that emerging countries have strikingly similar strategies, we can also see that emerging countries pursue a grand strategy aimed at satisfying their own interests in foreign countries. This results in rivalling the traditional rules and practices used by well-established hegemonies, mainly the United States and, to a lesser degree, the European Union. While this might not impress international relations scholars, as many countries compete, struggle and act in order to pursue their self-interest, the question I want to address concerns the teleological aspect of these actions, namely: Is this improving the international system?

The international system is the framework that allows for different actors' interactions. No state strategy will be carried out without the support of other countries. Therefore, the value of these emerging countries' strategies can be found by assessing how these strategies will impact emerging countries' regional counterparts that have less power. If there is an improved difference between the impact of the emerging countries' strategies vs the impact of the well-established powers towards weaker and less powerful countries, then the strategies of emerging countries are worth supporting. If there is no difference, however, such regional counterparts can still benefit from raised awareness and use it in bargaining situations involving their interactions with more powerful countries.

Analysing the broader context of emerging countries' new institutional creations in the area of international economy can provide useful insights to assess the impact of different regimes. To further the existing scholarship around institutional creations, this perspective will show how these institutional creations are tools to carry out larger initiatives. The initiatives that will be discussed are those of emerging countries (China and Brazil) with regard to infrastructure projects.

These infrastructure initiatives display similar patterns, but it is through the effect that these initiatives have on other countries that an action to rival the established western institutional and neoliberal powers can become plausible. This is because these initiatives allow emerging countries to shape their immediate frameworks, in which other actors relate to each other, according to their preference. These actions provide control over regional counterparts in different aspects and this provides the effect of gaining structural power.

However, the success of these strategies in a way that fulfils emerging countries' purposes, will depend on the regional state counterparts' support. Thus, beyond showing the striking

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similarity of patterns in these infrastructure initiatives in emerging countries, this paper also assesses how these strategies affect the weaker regional counterparts. From this reflection, we can derive issues of legitimacy aimed at supporting emerging countries' strategies, and also consider whether they differ from the effect that established western powers' institutions have had on weaker countries.

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1. China's Infrastructure Initiative

1.1 New institutional creation: the Asian Infrastructure Investment Bank (AIIB)

China's dissatisfaction with its role in the international financial system has been evidenced through its different complaints. China complained about the dominance of the US dollar in the global system.[1] It has complained about their underrepresentation at the existing international institutions like the International Monetary Fund (IMF) and the World Bank[2], and has also criticized the organic structure of these institutions, which restricts the presidency of the IMF to a European leader, and that of the World Bank to a US leader.

After the 2008 financial crisis, in 2009 China used the G20 meeting as a forum to push for more voting rights in the financial institutions. China argued for the need to balance their position as a global economy. China's economy gave weight to push for these reforms. The IMF and the WB agreed a year later to reform the voting rights. However, this reform was initially stopped by the US congress.

Among other reasons,[3] it has been argued that this halt incentivised China to establish an alternative institution in 2013, the Asian Infrastructure Investment Bank (AIIB), to contest the existing international financial institutions.[4] China has further insisted that their intention in creating the AIIB is benign, as it cooperates with existing financial institutions, and that it is a means to precipitate the reforms.[5]

To further understand the creation of a new multilateral financial institution, theoretical explanations of this phenomenon tend to rely on Hirschman's 'exit and voice', which in this context implies that the possibility or threat of exit raises the ability to have more voice in the international financial institutions. Then it can be said that to reinforce the credibility of this threat, China created an alternative international financial institution, the AIIB.[6] Other scholars, however, have claimed that it is part of the choice of strategic stance by the emerging country towards old or new institutions (to enhance their position, or using influence to obstruct the current regime) but that as an alternative to this, the emerging country can also seek to create a new international institution.[7] The institutional statecraft perspective provides prominent insights into seeing these institutions as tools for state interests.[8]

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[1] Zhou 2009.

[2] Kramer 2009.

[3] Chan 2017, p.3 summarizes many hypothesis of the creation of the AIIB, among which the following are mentioned: i. demand for infrastructure investment that went beyond the financial capabilities of the established banks ii. China's need to export production overcapacity iii. American relative decline iv. slow pace of institutional reform v. Xi Jinping's decision to reject a low profile in international affairs.

[4] Chan 2017; Koh 2015; Chen and Liu 2017.

[5] Chen;Liu 2017.

[6] Chen;Liu 2017.

[7] Ikenberry and Lim 2017.

[8] Ikenberry and Lim (2017) speak about the AIIB as institutional statecraft because it reinforces China's integration into the international system (increasing its stakeholder role and position) while challenging the existing institution. They look at the implications for the US and how the AIIB is an example of counter-hegemonic purposes.

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However, there are other events that might make us consider that the creation of the AIIB had little to do with achieving reform, or at least that doing so was not the sole reason. The events of the 2008 financial crisis, on which China based it claims for more reforms, were a time that China could have already revert things. Though China had complained about the dollar dominance as reserve currency, China, despite having the chance and ability to change this dominance, decided to support it. During the financial crisis of 2008 China reinforced the US dollar system and chose to back the US and their swap agreements, because China's export-oriented industries benefited from a dollar dominated currency.[9]

Secondly, in 2015, the US Congress passed the reform that allowed China to have greater voting rights at the IMF. China's alleged purpose was achieved, though the developments and implementation of the AIIB did not stop after this success. Thirdly, the AIIB, competes with other regional financial institutions like the Asian Development Bank (ADB). The latter is a western power creation to financially support the Asian region, and its main shareholder is Japan. As with aforementioned financial institutions, Japan's influence can also be evidence because the presidency of the ADB has always been held by a Japanese national.

A legal approach to the AIIB could provide more insights that strengthen the point that the AIIB was not created solely as a consequence to seek reforms in the existing institutions, nor to have better integration in the current international system. The real purpose and actions of an institution like the AIIB are disclosed through the document establishing its very existence, i.e. its Articles of Agreement. The Article of Agreement can disclose the legal capabilities of the institution.

In this document the purpose of the AIIB is stated to be the following: "The purpose of the Bank shall be to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions."(Article 1) and "to promote investment in the region of public and private capital for development purposes, in particular for development of infrastructure and other productive sectors" (Article 2, i).

If we compare it to that of the World Bank, for example, their articles of agreement state that the purpose is: "To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources." (Article 1, ii).

The established purpose of the AIIB does not differ much from that of the World Bank. This is important because the policies that are promoted by institutions when aiding different developing countries will be aligned to the institutions' purpose. Indeed, history gives us empirical examples, e.g. the role of the financial institutions like the WB in late 1980s. Facing the Latin American debt crisis, the WB aided developing countries while promoting policies in line with their agenda. This constituted part of the liberation policies that were established in the 1990s, and introduced a framework for future interactions. Similarly, the AIIB's role and interaction with its recipients is naturally inclined to promote self-interested policies.

[9] Helleiner 2016.

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Another part of the AIIB's articles of agreement which does not differ much from that of the existing financial institutions is the de facto veto power held by China. The AIIB will be controlled by a Board, but China, as the greatest contributor of capital for the establishment of the AIIB, keeps de facto veto power.[10] While some have argued that these powers will change when more members join the AIIB, the voting shares have differential categories. These categories matter because it has been established that the total voting power of each member shall consist of the sum of its basic votes, share votes, and founding member votes. Each founding member shall be allocated six hundred founding member votes (Article 28). This not only distinguishes the founding contributors' share with a greater allocation of votes over the latecomers, it also has the effect of giving those founding members more weight. Though China is not the only founding member, it has contributed with the larger amount of capital. Its influence has also been evidenced in that it rejected North Korea and Taiwan's applications to be founding members of the institution.

While Weiss (2017) has claimed that the powers delegated to the AIIB Board of Directors are modest,[11] the de facto veto power remains important because it affects most issues relating to the AIIB, including the control of the Board, and even the dispute settlement mechanism. If there is a dispute between the parties, the articles of agreement establish arbitration as a dispute settlement mechanism. The arbitration tribunal will be formed by three arbitrators, however the third one is to be decided by ICJ president OR the Board. The term ''or" does not provide restrictions of using either choice. There is empirical evidence with foreign investment dispute cases that show how much leeway the word 'or' can give to the parties. In disputes derived from bilateral investment treaties which have stated that a dispute could be submitted to domestic courts 'or' international arbitration, all disputes ended up in arbitration. And though the defendants contested submitting the dispute to international arbitration rather than domestic court, the arbitration tribunals, legitimized by the word 'or' ruled in favour of their own jurisdiction.[12] This shows the peril of the use of the word 'or' in such clauses, and it shows the thin line of a Chinese controlled board to choose the arbitrator who will judge the dispute.[13]

China complained about the presidential nominations of both the IMF and the WB, but by introducing a Board of Governors which has de facto control by China, they have created an institution with the same structure as those that they criticized. The AIIB has similar participation restrictions and unequal influence to those currently existing in the financial system. There is a Chinese proverb that Fulbright in his book *The Arrogance of Power* quoted. It says 'in shallow waters, dragons are the sport of shrimps'. Though the context in which he used this phrase was different, I use it here to reinforce the importance of the playing field of the actors' interaction. The importance of the AIIB as a newly created institution will remain, but it cannot be treated as an isolated phenomenon. As we shall see, it can be said that it is indeed a tool to carry out a larger strategy.

[10] Chan and Lee 2017

[11] Weiss 2017; also in Chan 2017

[12] Argentinean cases at ICSID.

[13] There is also the issue of lack of transparency in arbitration which is of concern for the current arbitral system. Reforms are sought in that regard one has to see how likely transparency will be applied in these cases.

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1.2 One-Belt One-Road Initiative (OBOR) Initiative vs Trans-Pacific Partnership Agreement (TPP)

China is leading an important infrastructure initiative that affects Asia and Euroasia, known as China's One Belt One Road Initiative (OBOR). The OBOR comprises of a land and maritime corridor through Euro-Asia, with the purpose to connect the whole region "through a web of airports, deep-water ports, fiber-optic networks, highways, railways, and oil and gas pipelines."[14]

In such context, the AIIB cannot be taken in isolation to claim a counter-hegemony of China to the established western powers. While it is true that rivalry might be China's ultimate objective, such institution is just one dot in a bigger spectrum (See Figure 1).

Some might show scepticism in considering the AIIB as a tool in the pursuit of China's national interest because the AIIB involves more partners, and because the AIIB's cooperation with other multilateral institutions has not been abandoned. This is why some scholars also see it as an integration mechanism to the international system.[15] However, these two actions might actually be necessary in the overall context of the OBOR. The AIIB mentions as its purpose to support the infrastructure projects in Asia, which situates it as a tool for allowing infrastructure investment that serves connectivity in Asia. It is also interesting to note that thus far all loans given by the AIIB, and all projects of the AIIB with other multilateral institutions, have been given to projects connected to China's OBOR initiative.[16]

Furthermore, an alternative explanation for cooperation with other multilateral institutions might be found in two factors (with both consequently increasing China's structural power). The first is that cooperating with other institutions like the WB and IMF might be necessary because there a need for more competence and managerial skills. The second is that it can also help to reduce or ease the financial risks,[17] and at the same time it gives the new institution a better reputation for international recognition.

Another example placing the institutional creations as serving the purpose of OBOR comes with the reaction from the established powers, like the US. A comment with regard to the OBOR initiative in a recent Foreign Affairs article stated that "the United States has either fruitlessly attempted to undermine the initiative or avoided engaging with it altogether. That is the wrong course. Washington should instead cautiously back the many aspects of the B&R that advance U.S. interests and oppose those that don't. The United States does not have to choose between securing its global position and supporting economic growth in Asia: selectively backing the B&R would help achieve both goals."[18]

However, the US has neither undermined the initiative nor avoided engagement. On the contrary, it had set a preferred framework and the OBOR came about to compete with it. To this effect, the Trans-Pacific Partnership (TPP) matters considerably. With the TPP draft treaty, the US aimed to shape the investment and trade framework of the Asian-Pacific

[14] Luft 2017,68
[15] Ikenberry and Lim 2017
[16] Chan and Lee 2017.
[17] Luft 2017.
[18] Luft, 2017, 69.

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region. China did not join the TPP because it alleged that the standards were too high.[19] What were these standards? The standards were respecting human rights; providing transparency; and fighting cyber espionage. China's international cooperation does not include these standards. As the basis for the initial rejection of the reform process of financial institutions, US Congress mentioned that this was a protective measure to exclude a country, which might have the ability to shape international frameworks but does not conform to standards.[20] The lack of these standards is also reflected in China's multiple Bilateral Investment Treaties (BITs) with different countries, and Free Trade Agreements (FTAs) entered into with other regional countries with more relaxed conditions which do not impose those standards signed in similar treaties with the US or EU.[21]

With OBOR, China's interest lies in establishing a direct trade route to Europe, Middle East and Africa to secure natural resources and oil. The institutions it creates to support it are aligned with the OBOR initiative, which in turn benefit China. Yet, what value can be derived then from China's OBOR strategy?

This grand strategy must be played out in the international system. The interactions of actors in this system are enabled and constrained by different structures; customs and practices are uniformly repeated through time; and the actors of the international system accept as binding, giving legitimacy to the system. For this reason, any grand strategy pursued by China will entail the acceptance and support of other countries. It is therefore crucial to shift the analysis to address how China's strategies will impact other countries. Such assessment might be the basis of these countries' support of it.

1.3 Impact of China's Strategies on Less Powerful Countries

China's Loans and Aid Practice

In contrast to China, western countries have provided loans or aid to developing countries with conditionalities. This means that there is something required from the recipient. In the case of neo-liberal institutions, there could be conditions that need to be fulfilled such as good governance, transparency, principles of democracy, human rights, along with neo-liberal economic principles such as friendly foreign investment environment, etc. More recently, there have been particular tax reforms imposed as part of conditionalities for giving loans to developing countries.[22]

China, on the other hand, claims that their loans or aid are different because they don't have these conditionalities. This might be appealing for weaker countries, especially for politicians who hold governmental offices for short four or five year periods, and might find it costly to have policy changes in such short periods. For regional counterparts, having these

[19] Invitation of US Secretary of State Kerry to China at https://www.thenewamerican.com/usnews/foreign-policy/item/21891-secretary-john-kerry-invites-russia-and-china-into-tpp (last accessed June 19,2017); Chinese official reply regarding standards being too high at http://foreignpolicy.com/2015/10/07/china-tpp-trans-pacific-partnership-obama-us-trade-xi/ (Last accessed June 19, 2017).

[20] Chen; Liu 2017.

[21] China has 45 BITs and 11 FTAs. The FTAs are mostly with Asian-Pacific countries; the exceptions are FTAs entered into with Switzerland, Iceland, and Costa Rica. UNCTAD Investment Policy Database.

[22] Chan and Lee 2017; IMFs tax reforms policy proposals.

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competing alternatives can indeed be beneficial. However, China's lending is also full of conditionality.[23] Firstly, China considers aid, trade, and investment together and requires the recipient states to purchase Chinese products and use China's contracting service or labour. In Africa, for example, 70% of China's infrastructure development aid to Africa was used to buy goods or services from Chinese state-owned companies, the other 30% went to local firms that had joint ventures with Chinese firms.[24]

Furthermore, China requires recipients to adhere to the 'One China' policy, which includes accepting China's sovereign claim over Taiwan. These and other types of political conditionality have been present in China's loans and aid practices with countries in the Euro-Asia region. It seems unlikely that these practices will change with the AIIB. Article 2 of the AIIB's Articles of Agreement establishes that the institution will provide capital on reasonable 'terms and conditions'. As we have discussed with the OBOR initiative, the AIIB or China's bilateral loans will continue to support its regional counterparts but their financial assistance is given in alignment with their wider interest in establishing a direct trade route to Europe to secure natural resources and oil.

Development by infrastructure, labour, and service

If a real integration process in the region were to be China's purpose, then the practices of the OBOR initiative would also benefit the different structures of the other regional countries. However, in connection to the OBOR initiative, Luft (2017) stated "So far, state-owned Chinese construction and engineering firms have taken on most of the projects generated by the B&R. Backed by the deep pockets and political clout of the Chinese government, these corporate giants are hard to outbid; that will remain the case for the foreseeable future."[25]

Security

Under the OBOR initiative, China also entered into commercial acquisitions of ports, and in this regard Chellaney (2017) stated: "China stunned the world by buying the Greek port of Piraeus for $420 million. From there to the Seychelles, Djibouti, and Pakistan, port projects that China insisted were purely commercial have acquired military dimensions."[26]

These are some of the forms in which China's OBOR initiative impacts other countries. The different structures of this initiative are giving China more structural power, which allows China to affect outcomes and shape a framework according to their interests.

This is why it is important to unveil China's Grand Strategy. China's Grand Strategy involves OBOR. The AIIB is a tool to support the OBOR initiative, and the OBOR initiative is a way to advance China's potential to shape the region and international regimes with interests and practices are very different from the ideology, norms, rules and decision-making processes

[23] Mattlin and Nojonen, 2015.

[24] Chan and Lee 2017.

[25] Luft 2017, 70.

[26] Chellaney 2017; Also domestic level, China enacted the first cyber security law which will impact foreign companies because their data must be held on Chinese servers, and only after having the approval of Chinese regulators these data will be allowed to be transferred abroad. 'China's cyber security law rattles multinationals' Financial Times May 31,2017

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that were sought to be advanced by western countries (the US and to a lesser degree the EU) to the countries in the Pacific region. (See Figure 1)

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2. Brazil's Infrastructure Initiative

2.1 The Role of Regional Integration Institutions

Though disconnected from China's grand strategy, Brazil's strategies in the South American region are very similar to that pursued by China in the Asian-Pacific region.[27] In South America, regional integration endeavours came about after the agreement to treaties and creation of new institutions such as Cuenca de la Plata Treaty (1969), Andean Pact (1969), MERCOSUR (1991), UNASUR (2008). All these institutional creations have had an impact on the economic area.

For states, one aspect of gaining primordial role in this economic area is to secure their satisfaction of national interests from common resources. Such state practices are seen in the creation of institutions such as the Cuenca de la Plata. The Cuenca de la Plata treaty was established in 1969 with the purpose of institutionalising the system related to the South American Plata basin, and promoting development and integration. It was signed by Argentina, Bolivia, Brazil, Paraguay and Uruguay – countries with jurisdiction over the Plata water basin. It came, however, at a time when two hegemonic powers in the South American region, Brazil and Argentina, were debating the rules regarding the use of international rivers for economic advantage. This treaty established an Intergovernmental Commission, which, in 1971, enacted a resolution that favoured Brazil's position on the matter and allowed Brazil to execute one of the biggest hydro-electrical power projects in the region,[28]and thereby securing key resources for the production of energy according to its preference.[29]

Over the years, more institutions that serve the purpose of advancing infrastructure initiatives, increasing economic assets, and securing energy resources have been created. On the western side of South America, the Andean Community was established in 1969. Original members included Bolivia, Peru, Venezuela, Colombia, and Ecuador. The Andean Community was nominally for the expansion of markets and economic development in the region, but in fact it was created at a time when these countries were contesting many of the propositions of developed countries at the UN General Assemblies during the 1970s. For example, they opposed giving foreign companies preferential rights when investing in the South American region.

In 1991, another institution was created, MERCOSUR. Its objective was coordinating the efficient use of resources, economic policies, and the creation of a common market in the region. The founding members of this treaty are Argentina, Brazil, Paraguay, and Uruguay. It later incorporated other countries. MERCOSUR was the forum used to establish numerous agreements among South American countries. It is interesting to note, however, the

[27] There are many years differences between the strategies of China and Brazil, which leads to reject any assumption of learning mechanisms among these emerging countries' strategies.

[28] The Cuenca de la Plata treaty changed the then international customary law which required consent from downstream nations. Thus, the resolution favoured Brazilian interests to keep Argentina from objecting to the development of a dam in the Parana river that belonged to the Plata basin. Soon thereafter, the Itaipu Treaty was signed between Brazil and Paraguay in 1973, negotiating the construction of a dam and production of hydroelectric energy. Brazil and Paraguay had full sovereignty over the negotiation and implementation of the investment project to produce hydro-electric energy because Argentina, as a downstream country, only needed to be notified.

[29] Though the treaty was signed with Paraguay (Itaipu treaty) the terms of this treaty benefit Brazil, and the provisions contained therein secured Brazil's portion of energy to be consumed at expense of Paraguay's share.

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interactions of South American countries with these agreements. Though most members ratified agreements and internalized them in their domestic legislation, in those that concern the obligation to submit disputes to a third party tribunal, such as an international tribunal, Brazil has not ratified such agreements.[30] These regional integration processes are connected with further developments, as we shall see below.

In 2004, at the third summit of South American Presidents in Peru, the Brazilian president (da Silva) proposed the creation of the South American Community Organization (SACO). Three years later, in 2007, at the next summit of South American countries' presidents that was going to deal with energy issues, the Bolivian President Evo Morales proposed renaming SACO as UNASUR.[31] This change of name and the formal establishment of UNASUR was agreed in 2008, at the next meeting of South American presidents in Brasilia.

UNASUR entered into force in 2011,[32] and was created with the aim of integrating regional processes developed by MERCOSUR and the Andean Community with headquarters in Ecuador and its Parliament in Bolivia. Just like with MERCOSUR, it also has agreements which it develops through this institution. For example, its member states are working on a proposal to create an UNASUR Centre for Settlement of Investment Disputes. The main aim of this proposition is for the UNASUR Centre for Settlement of Investment Disputes to replace the main existing International Centre for the Settlement of Investment Disputes (ICSID), which is dependent of the World Bank.

What is the purpose of so many institutions in South America? As mentioned the example of China, in South America, Brazil needs to build a framework in order to advance its interests. The latter is supported with the example of an initiative that Brazil proposed and pushed for other to support, an initiative that too benefits Brazil.

2.2 Initiative for the Integration of South American Regional Infrastructure (IIRI) vs Free Trade Area of the Americas (FTAA)

These institutional creations cannot be seen in isolation. They have a purpose, and they provide a country like Brazil the opportunity to advance its policies and interests. As with the case of China, the international economic area provides some examples on Brazil's initiatives.

In 1995, a new regional integration for the Americas was established: the Free Trade Area of the Americas (FTAA) with a tripartite technical committee which included the Organization of American States (OAS), the International Development Bank (IDB), and the Economic Commission for Latin American and the Caribbean (ECLAC). This was an initiative led by the United States, and though it is an organization that concerns all countries in the Americas, its main impact has been in South America.

However, by the 1997 Belo Horizonte Summit of the Americas, the Brazilian President Henrique Cardozo, who hosted the meeting, pointed out that the FTAA should "not be

[30] Kalicki and Medeiros 2008, 434

[31] The proposition was made in Cochabamba. Although the Argentinean President during (2003-2007) did not participate of the original summits for claiming that the initiative to create UNASUR was promoted solely by Lula Da Silva, President of Brazil.

[32] UNASUR has 'the aim of integrating regional processes developed by the Mercosur and the Andean Community.' UNASUR, History.

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allowed to step over sub-regional agreements."[33] A few years later, in 2000, the same Brazilian President was invited to, and subsequently hosted, a summit for the South American countries' Presidents. This first summit took place in Brasilia, with the purpose to stop the US-led Free Trade of the Americas Agreement (FTAA). The invitation was extended to both the MERCOSUR and the Andean Community.[34] The Declaration of this meeting proposed the Initiative for the Integration of South American Regional Infrastructure (IIRI).

Even after changing president in Brazil to one who was a member of the Workers' party, Lula da Silva, Brazil continued the promotion of this initiative. The President of Argentina at the time did not participate in this summit, as a sign of objection, claiming that such proposition was mainly promoted by the Brazilian government.[35] Referring to this IIRI initiative, Tussie (2016) claimed that it "was the idea to create and preserve the platform of burgeoning Brazilian business in regional infrastructure and avoid the opining of the public procurement market to American bidders."[36]

2.3 The Brazilian National Bank for Economic and Social Development (BNDES)

As with the case of China, and the need to create a financial institution to support the OBOR initiative, the Brazilian case presents not an identical, but similar, pattern. It is similar in the sense that a financial institution was also needed to carry out the IIRI initiative in South America. It differs, however, that the financial institution is not a multilateral one, and there are no members other than Brazil controlling it.

The case concerns the role of the Brazilian National Bank for Economic and Social Development (BNDES). The BNDES is a Brazilian National bank that was created in 1952, but its role as a supporter of the IIRI comes about after its structural modification. Similar to the creation of the AIIB to support China's infrastructure strategy, it is interesting to note that at the same time that UNASUR was agreed on, the role of the main Brazilian bank changed.

The articles of agreement of the BNDES were changed in 2008 so that the bank would operate internationally. Since then, it has allowed the Brazilian bank to lend for infrastructure projects in the region. However, in a similar vein to China, the involvement of BNDES has so far only benefited IIRI projects, and its loans have only favoured Brazilian companies. The Brazilian construction firm Odebrecht "is a leading participant in most of the Bank's projects in South America, being the main beneficiary in the IIRSA contracts so far."[37] The bank's organic structure was changed to mainly support projects relating to the IIRI Brazilian-led initiative.

[33] Tussie 2016, 64

[34] Tussie 2016, 63

[35] Reported by the Argentinean newspaper la Nacion. In "Union de Naciones Suramericanas-UNASUR" Correo Sindical Latino-Americano Boletin Tematico Ano III No.2 June 2008. UNESCO Uruguay. p.6; The Venezuelan President, Hugo Chavez, also strongly expressed the opposition of the Venezuelan government to the FTAA, but it was expressed much later than Brazil. In 2003 at the FTAA Trade Ministerial Meetings in Miami and later in 2005.

[36] Tussie 2016, 63

[37] Tussie 2016, 66

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2.4 Impact of Brazil's Strategies on Less Powerful Countries

Regional support

Though Brazil has been one of the main promoters in the creation of other regional institutions, the instruments derived from these institutions are agreements that are ratified by the member countries. And yet, Brazil refuses to ratify some of these agreements. For instance, with MERCOSUR, while most member states have ratified the treaties that support international investment and the submission of disputes related to this to international arbitration, Brazil has not. For this reason, it is very unlikely that Brazil would ratify UNASUR's proposition of an arbitration centre.

For Brazil, this might be a rational approach since Brazil has the biggest market in the region, and might not need investment incentives like international arbitration in case of investment disputes in order to attract foreign investors. But this is not the case for weaker economy countries, which need to provide these kinds of incentives, reflecting an investor-friendly environment. Blocking, or not supporting, regional institutional efforts to provide these assurances to its regional counterparts, even within countries in the region, shows that there is no reciprocity on behalf of Brazil for supporting other agreements reached, even when necessary for weaker countries.

Security

The regional institutions do play a role in the involvement of its member's domestic politics. This has been the case with MERCOSUR. After one of its veto power members (Paraguay) rejected the inclusion of Venezuela for lacking evidence of human rights, the other members (Argentina, Brazil and Uruguay) proceeded to suspend Paraguay from its membership, alleging political instability, and allowing Venezuela's inclusion. Similarly, in its short life as a regional organization, the UNASUR was also used as a mechanism of involvement in domestic politics of other countries in the region.[38] Clearly, the asymmetrical differences among member countries, and the leadership role of those with more capacity to assert a hegemonic position, do play a role in such a setting.[39]

Development of regional state counterparts

In the South American region, Brazil is certainly a hegemon. Historically it was rivalled by other countries, like Argentina, but regional cooperation was sought, and through institutional and legal structures formed through regional agreements to integrate and cooperate with other countries, a framework was established that advanced Brazilian interests. However, some current treaties, including those concerning renewable energy, have been criticised for containing restrictions that favour Brazilian interests, and impact on state counterparts in the region.[40] For example, other countries in the region are prevented

[38] E.g. the suspension of Paraguay from its membership in 2012 because the Paraguayan Parliament impeached the then President Lugo, after the latter support for rebels' violence and confiscation of private property.

[39] See for example some early examples of Brazil's hegemonic role in the region since the Itaipu case. Soares 2013

[40] The Itaipu treaty, though entered into force by Brazil and Paraguay, restricts Paraguay's ability to increase its use of its share of energy and it imposes a third-party restriction clause, with which

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from acquiring renewable energy that Paraguay has in excess for their own industrialization processes due to the treaty with Brazil. As a consequence, the region instead uses more biomass energy, which leads to greater deforestation, which in turn will affect the basin, the source of this energy production.

All the institutional, legal, and financial structures have the effect of giving Brazil structural power in the region which is necessary for shaping the framework of the different actors' interactions. The frameworks to be built in the economic area are certainly contested between the US-proposed FTAA and Brazil's support for the IIRI initiative. (See Figure 1)

Paraguay is forced to sell solely to Brazil all the energy that it has in excess, and at a price that is extremely below of that of the market.

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3. Emerging Countries' Strategy and the Role of Less Powerful Countries

There are striking similarities between the strategies that both these emerging countries, China and Brazil, are pursuing. First, both countries have an initiative for infrastructure and investment – the OBOR in China and the IIRI in Brazil. This strategy primarily benefits their own countries.

Second, both these initiatives are to counter the terms proposed by international trade and investment treaties in their particular regions – the TPP with China and the FTAA with Brazil. Third, both countries need a financial institution that would not be the common Bretton Woods institutions. China has led the creation of the AIIB, and Brazil has internationalized the operation of its national bank, the BNDES. The latter is similar to the AIIB, in that it poses an alternative to the IMF, WB, or ADB sources of credit, though it does not yet have a multilateral character. Fourth, the creation of regional institutions to build a framework. The sum of these events is the grand strategy, the pursuit of self-interest to counter the hegemony and regimes of established powers, which in these cases are the US and, to a lesser degree, the EU.

Advancing Interests by:	Creation of Regional Integration Institutions	Financial Institutions	Counteracting a proposed Economic Framework	Infrastructure Initiative	Rivalling the established Regime
China	✓	✓	✓	✓	✓
Brazil	✓	✓	✓	✓	✓

Figure 1. Strategy Similarity of China and Brazil

These examples are also not limited only to China and Brazil. India presents similar characteristics as well. However, what we can derive from it is that it sheds light on interesting questions concerning the international system. Why would these countries pursue these strategies (OBOR or IIRI), which involve more costs, rather than pursuing bilateral routes in which conditionalities are more easily imposed? China, for example, has provided loans and aid in a bilateral form, rather than through multilateral assistance (UN development assistance programs, for example) because conditionalities are easier to establish. The preference of bilateralism to attain their interests in international relations has also been evidenced in practices by the US. The answer lies in that, in contrast to the established powers, emerging countries still need to establish a framework that would accord them structural power over counterparts.

A framework is needed by emerging countries in order to contest established powers. Such frameworks and regimes, and their acceptance, are also necessary to acquire legitimacy in the international system. These grand strategies show that this is exactly what can be gained from the creation of institutional structures, which in the long run, can give actors structural power to shape frameworks and have a better chance at contesting the existing western regimes.

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From the western powers perspective, the awareness of these strategies' similarity can prompt yet other strategies by the western powers to face these developments. For example, the US or EU can tackle these strategies by resorting one more time to bilateralism; offering new reassurances, and sufficient incentives, which prevent the pursuit of the strategies of emerging countries. Better yet, the involvement and cooperation of more countries, as multilateral agreements might also overcome these strategies.

This awareness might reinforce classical thoughts about states being no different from each other – each state wants power and wealth, and states will change their environment (framework) to satisfy their interests. However, the twist to this realist thought is that these strategies necessarily need the support of other actors and states (normally less powerful states) to be carried out.

For less powerful countries, while these actors might find themselves having to align their behaviour to one of these strategies, they can assess which powerful actor's strategy will be most useful or beneficial for them. The difficulty lies in assessing each particular case, as every strategy differs and entails different benefits and costs for weaker countries. However, it is particularly relevant to note that there is a differentiation in values that such regimes can bring about, and apply such differentiation to make this determination.

In the case of China for example, the conditionalities for aid and loans do not differ much from those made by the Bretton Woods institutions. AIIB loans were only given to projects that were part of the OBOR initiative, which turn out to benefit mostly Chinese state-owned firms. In Brazil the situation is very similar. The establishment of the IIRI, and creation of other institution supporting it, means that financial institutions providing loans for IIRI initiatives mostly benefited Brazilian firms. The consequences of supporting these strategies also need to be considered more widely. For example, as a result of national interest, the cost of development in Brazil's neighbouring country, or imposing restrictions of clean energy for industrialization process, can have detrimental environmental consequences on the whole region. The same can be said of China's lack of human rights, labour conditions, and environmental protection.

While the established powers' strategies have also benefited their home-based firms, in regard to those emerging countries' counter-hegemony against the US or the EU, there is a difference in that the established regime was created based on a different ideology, and still reflects these fundamental values. This is because built into the international system are values. An institution created with due observation of environmental, health, and human rights prevents a 'race to the bottom,' which would be detrimental to equitable and reasonable use of resources. The observation of such values actually prolongs future development by creating sustainable conditions while satisfying actors' interests. The value in the structures created will end up benefiting weaker countries. This will not be the case with strategies that do not bear these values in mind.

These are crucial points for less powerful counterparts to consider, either with the strategies of the emerging countries or those new arising that can influence the international regime. In any event, if less powerful countries find that there is no difference between these strategies, either from emerging countries or from established powers, they can still use this awareness to their advantage. It reveals a potential capability that they can put to work for their

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advantage in the bargaining process to help them achieve what other states are pursuing. In this sense, less powerful countries can acquire leverage in asymmetric relations.

This awareness is also crucial for emerging countries and their ability to succeed. Strategies should consider more real-terms benefits for their regional counterparts, as support by regional counterparts is the source of the emerging countries' ability to multilaterally contest the established powers.

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Conclusion

In the two strategy cases, China and Brazil, evidence suggests that the pursuit of self-interest of countries in the international system is latent. While both emerging countries have complained about the lack of fairness, inclusion, and more equitable influence in the institutions of the international system, both countries deploy the same practices of these established powers in relations with their regional and less powerful counterparts.

As we have seen, the creation of the AIIB involved much more than the mere contestation to the IMF, the WB, or the ADB. Similarly, the creation of an UNASUR arbitration centre is not just about contesting ICSID. When we consider the wider context in which these practices take place, we can understand the grand strategy of emerging countries, which differs little from that of established powers like the US or the EU, in that it pursues the shaping of frameworks.

This also gives an insight as to how we should consider the international system. This is the ultimate framework in which all interactions among all actors take place. While coordination, cooperation, and harmonization will remain crucial to achieve fairer terms in interactions of actors of the international system, limited planetary resources should incentivize the need to support them, in due observation of environmental, health, and human rights. The different structures created, and interactions of actors in it, should support an international framework or regime that guarantees the provision of public goods.

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