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Brazil in The Global Financial Order: How Domestic Politics Trigger Ambiguous Contestation

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Abstract

The paper examines Brazil's experience contesting the liberal global financial order through financial statecraft. In the context of the crisis of the liberal global financial order, especially in the wake of the 2008 global financial crisis, emerging economies have been adopting policies that confront the ideology underlying the order established in the last quarter of the 20th century. These policies can be framed as state capitalist, as opposed to hegemonic liberal policies, and have gained prominence from the experience of the BRICS. Compared to its peers, however, Brazil emerges as a puzzling case that often reconciles liberal and state capitalist policies. We contend that such ambiguity reflects Brazil's internal political dynamics, where there has been an alternation of power between governments more or less aligned with the underlying ideology of the liberal financial order. This argument develops from the analysis of the economic policy implemented by different Brazilian governments throughout the 21st century (2003–22), as well as by specific foreign policy initiatives, in light of the theoretical framework developed by Petry and Nölke (2024) to assess the contestation of the liberal financial order. Our analysis is consistent with this argument and contributes to a better understanding of the challenges to the global financial order, especially the one coming from the Brazilian experience.

1 Introduction

Scholarship on stages of capitalism posits that the liberal order is in crisis, which may lead to the configuration of a new order in the medium term (e.g., Lake, Martin & Risse, 2021; Nölke, 2017, 2022; Saad-Filho & Feil, 2023). This is partially being triggered by the adoption of financial statecraft policies[1] by developing and emerging market economies (DEEs), which suffer the negative effects of the subordinated condition of their integration into the global financial order (GFO) (Paula et al, 2024).. An illustrative example in this sense is the adoption of state capitalist policies by the countries that make up the BRICS (Brazil, Russia, India, China and South Africa), as opposed to the hegemonic liberal capitalist policies in the global financial order configured in the last quarter of the 20th century (Petry and Nölke, 2024). By doing so, the BRICS, as other DEEs, seek to curb the restrictions imposed on their policy space to pursue alternative development strategies to the liberal script.

This contestation of liberal capitalism, however, varies in intensity depending on the country in question. While China emerges as the main challenger of the hegemonic order, in a pole opposite to that of the United States and the United Kingdom, other emerging economies move between a position more or less complicit with the *status quo*. Among the BRICS, the case of Brazil draws attention due to its ambiguity in contesting the liberal financial order. On the one hand, Brazil has been notable for adopting economic policy instruments that confront the liberal agenda, while integrating a series of initiatives that challenge the hegemonic order at the international level. On the other hand, this process has always occurred in conciliation with liberal orthodox instruments, which have never been abandoned or explicitly confronted by Brazilian governments. What may explain this puzzling behaviour?

This paper contributes to this debate by highlighting how financial statecraft can be dependent on domestic politics. It aims to understand Brazil's ambiguous contestation of

[1] According to Armijo and Katada (2015, pp 43) financial statecraft can be defined as 'the intentional use, by national governments, of domestic or international monetary or financial capabilities for the purpose of achieving ongoing foreign policy goals, whether political, economic, or financial'.

the current global financial order by claiming that such ambiguity reflects Brazil's internal political dynamics, where there has been an alternation of power between governments more or less aligned with the underlying ideology of the liberal financial order. This argument develops from the analysis of the economic policy implemented by different Brazilian governments throughout the 21st century (2003–22), as well as by specific foreign policy initiatives, in light of the theoretical framework developed by Nölke and Petry (2024) to examine the contestation of the liberal financial order. In this way, this study also contributes to a better understanding of the contestation of the global financial order by emerging economies in general, and the case of Brazil in particular.

The paper is divided into four sections, besides this introduction. Section 2 presents the theoretical framework that underlies our analysis, allowing us to identify government policies as "liberal" or "state capitalist". The third section offers Brazil's economic overview, from the national-developmentalist model to the Washington Consensus (WC) model, and the conduct of economic policies during the PT governments, since the first election of Lula da Silva as President in 2002 until Rousseff impeachment in 2016, followed by the implementation of a neoliberal agenda with Temer and Bolsonaro governments. In the fourth section, we analyse the case of Brazil in light of the theoretical framework presented, which allows us to draw conclusions aligned with the hypothesis. Section 5 concludes this paper.

2 Challenging the global financial order: the theoretical framework

A first step in developing our argument is to clarify what is meant by *global financial order* (GFO) and to present the theoretical framework that underpins our analysis. The literature on stages of capitalism has been debating the crisis of the current international order, which may be experiencing a disruptive moment inaugurated by the 2008 global financial crisis and its consequences (Sato, 2012; Nölke, 2017; Nölke and May, 2019), to which the COVID-19 pandemic (Nölke, 2022) and the climate and environmental crisis (Saad-Filho and Feil, 2023) were added. However, as Nölke and Petry (2024) note, the financial dimension of the international order is constantly neglected in this debate, even though it constitutes one of its bedrocks. More than that, this is where financial statecraft policies have been employed by DEEs to mitigate the negative effects of their subordinated integration into the current GFO. As posited by the literature on international financial subordination (IFS), this is a pattern of integration originated from the financial asymmetries and monetary hierarchy of the current stage of global capitalism[2]. As a result, DEEs face serious restrictions on their policy space, resulting, among other factors, from the peripheral condition of their currencies and the shallowness of their financial markets (Paula, Fritz and Prates, 2017).

For the sake of clarification, a GFO will be henceforth understood as the interweaving of the eleven issue areas shown in the first column of Table 1, which represent important elements of the global financial and monetary structures. This framework was developed by Petry and Nölke (2024), who posit that, given that an international order is built on the intertwining of international institutions, domestic features and the stream of interactions across borders, each of these issue areas should be approached from a national, transnational and international perspective. This concept gives nuances and develops other concepts present in the literature on stages of capitalism, such as the one of international economic order proposed by Sato (2012)[3]. Moreover, this makes it possible to operationalize a taxonomic analysis of the different GFOs that run through the history of capitalism.

There is a certain consensus in the diagnosis that a first international order emerged at the end of the 19th century, under the aegis of the gold standard. After the Great Depression and the Second World War, the international order architected in Bretton Woods was in

[2] According to Paula et al (2024, pp 95), financial subordination can be understood as the "dependent manner in which PEEs [peripheral emerging economies] integrate internationally with the International Financial system. The unstable, pro-cyclical nature of capital flows, which are subject to boom-and-bust cycles strongly determined by exogenous factors, causes macroeconomic instability in the periphery and narrows its policy space."

[3] According to Sato (2012), an international economic order is composed of a financial regime, a monetary regime, and a trade regime. In addition to these international regimes, the author considers the pattern of international distribution of wealth and power and the development strategy implicit in the order.

force until the crisis of the 1970s, which put its parameters and institutions in check. From the 1980s onwards, a neoliberal international order marked by financial globalization and the financialization of capitalism became hegemonic. However, as already pointed out, it might be experiencing a potentially disruptive moment (e.g., Nölke and May, 2019; Sato, 2012).

One of the symptoms of this crisis would be initiatives to challenge the international order through financial statecraft, triggered by DEEs' attempts to mitigate the negative effects of their subordinated financial integration into the GFO, including a set of initiatives, such as the implementation of capital controls, greater participation of state-owned banks, creation of new international institutions. In the current stage of capitalism, the use of financial statecraft to challenge to the liberal order is being framed by the literature as state-capitalism. To understand it, it is necessary to consider how the liberal character of the international order (supposedly) in crisis translates into GFO. According to Nölke and Petry (2024), the ideal type of *liberal capitalism* prevailing in the GFO is based on pro-market regulations in the economy, free international capital flows, promotion of shareholder value, and a global power structure centred on the hegemonic role of the dollar and backed by a private financial infrastructure that promotes it. On the other hand, the challenging ideal type, known as *state-capitalism,* seeks to preserve national sovereignty and policy space for industrial catch-up, which requires restrictions on shareholder value and a prominent role for the state in its relationship with the market and with global capital flows. The main features of liberal and state capitalism are depicted in Table 1.

An important contribution in the literature on contestation to the neoliberal international order is made by Grabel (2018), who, when analysing several multilateral initiatives made by developing countries, such as the Chiang Mai Initative Multilateralization (CMIM) and the New Development Bank of the BRICs group, from a Hirshmanian view, highlights the relevance of "small-scale, disconnected, experimental, and incremental adjustments in institutions that take root in the concrete demands facing policymakers" (Grabel, 2018, pp 2). Such initiatives may result in "institutional experimentation, expansion, and hybridization as a moment of pragmatic innovation that might yield institutions that do better than their predecessor in promoting financial stability and resilience, and as a consequence, provide the possibility for development that is more stable, inclusive, sustainable, and protective of autonomy" (Grabel, 2018, pp 5). In other words, this perspective supports the diagnosis of the use of financial statecraft by DEEs seeking to avoid the harmful effects of their IFS.

These are, therefore, the theoretical parameters that guide the analysis of Brazil's insertion in contemporary GFO. As shown in Table 1, Brazil has demonstrated an ambiguous position in contesting the liberal GFO, simultaneously adhering to initiatives that support and confront it, although in general the country is structurally closer to liberal capitalism: floating exchange regime; independence of central bank; inflation target regime; liberalized FDI regime; supportive to International Financial Reporting Standards; integration to the international institutions responsible for international debt management. But at the same time, there have been some initiatives in the direction of contestation, which include, among others: Brics initiatives for a multipolar currency system; domestic restrictions on capital mobility in some periods; moderate-low level of foreign banks accounting for banking assets; moderate (but somehow high) state-ownership share in the banking sector; participating in Brics initiatives for South-South cooperation. as for development finance, prominence of the National Bank for Economic and Social Development - BNDES domestically and regionally and establishment of the New Development Bank of the BRICS countries in 2015. What can explain this ambiguous pattern of contestation? We now turn Brazil's political and economic trajectory to address this question.

Table 1: Brazil in the global financial order

Issue Areas	Liberal Capitalism	State Capitalism	Brazil in the GFO
Foreign exchange rate system	(i) Free floating exchange rate; (ii) large and liquid offshore currency markets; (iii) market decides on the lead currencies.	(i) Managed exchange rate; (ii) restrictions on offshore currency markets; (iii) promotion of a multipolar currency system.	(i) Floating regime with some interventions; (ii) no offshore currency markets; (iii) Brics initiatives for a multipolar currency system.
Balance of payments	(i) One reserve currency (USD) based around a highly integrated and liquid market structure; (ii) Swap lines based on the dollar; (iii) Liquidity problems solved by the IMF.	(i) High reserve accumulation; (ii) Swap lines based on other currencies; (iii) Alternative arrangements for liquidity provision.	(i) Significant reserve accumulation; (ii) Brazil has both types of agreement; (iii) Brazil takes part in both initiatives.

Issue Areas	Liberal Capitalism	State Capitalism	Brazil in the GFO
Central banks and monetary policy	(i) Independent Central Banks with a focus on price stability and inflation targeting; (ii) Not supportive of Central Banks' digital currencies; (iii) Narrow mandate to fight inflation domestically.	(i) Central Banks accountable to governments with multiple objectives; (ii) Promotion of digital currencies; (iii) International management of monetary policies.	(i) Central Bank is independent; (ii) Involvement with digital currency projects; (iii) Prevalence of inflation target regime.
International capital mobility	(i) Capital market openness; (ii) promotion of international capital mobility; (iii) International enforcement by OECD and IMF.	(i) Capital controls for maintaining state capacity; (ii) Restrictions to international financial flows; (iii) Contention of the enforcement for international capital mobility.	(i) Domestic restrictions on capital mobility; (ii, iii) resistance to conform with liberal norms.
Foreign direct investment	(i) Abolishment of national restrictions on foreign direct investment (FDI) flows; (ii, iii) Prominence of the 'investors-state-dispute-settlement' (ISDS).	(i) Restrictions on inward FDI flows based on strategic considerations; (ii, iii) avoidance or withdrawal from institutions such as the ISDS.	(i) Liberalized FDI regime; (ii) Outward FDI promoted by the BNDES and tax cuts.
Corporate ownership and governance	(i) Corporate ownership through institutional investors prompting shareholder value maximization; (ii) Foreign ownership promoted through liberalized capital markets; (iii) Regulation of sovereign wealth funds.	(i) Significant degree of state-ownership in listed companies; (ii) Foreign ownership should be curtailed; (iii) Free use of sovereign wealth funds.	(i) High degree of free float and institutional ownership and moderate levels of state ownership; (ii) Low foreign ownership.
Commercial banks and banking regulations	(i) Private ownership and self-regulation; (ii) High level of foreign banks accounting for banking assets.	(i) Banks partially state-owned/controlled with state-centered regulations; (ii) Low level of foreign banks accounting for banking assets and transnacionalisation of state-owned banks.	(i) Moderate state-ownership degree in the bank sector, and high volumes of state-directed lending; (ii) Moderate-low level of foreign banks accounting for banking assets.
Financial markets	(i) Exchanges are profit-oriented corporations mostly owned by international investors and driven by market forces; (ii) transnational standards and light regulation for derivatives market, which is organized on over-the-counter and high-frequency trading.	(i) Exchanges are (partially) state-oriented entities, less profit-oriented, and foreign ownership of exchanges is restricted; (ii) incompatibility between opaque markets for leveraged, speculative products and a state-capitalist logic of market organization.	(i) Exchange's state-ownership is non-existent, and foreign ownership is extensive; (ii) Derivative trading conducted in the national exchange, with improvements in the infrastructure to promote high-frequency trading.

Issue Areas	Liberal Capitalism	State Capitalism	Brazil in the GFO
Financial infrastructures	(i) “Fair value accounting/FVA”; (ii) Application of the International Financial Reporting Standards/IFRS as set by the International Accounting Standards Board/IASB; (iii) private governance and one central global standard.	(i) “Historic cost accounting/HCA”; (ii) Resistance to the transnational spread of accounting standards that are wedded to liberal capitalism; (iii) prominent role for national governments and demands for reform of the IASB.	(i) Supportive of the IFRS.
International debt management	(ii, iii) Prominent role of international institutions designed to strengthen claim enforcement against national governments on behalf of private investors.	(ii, iii) Weaker role of global institutions, and more significant bilateral negotiations between national governments.	(i, iii) Integrated into the international institutions responsible for international debt management, while participating in Brics initiatives for South-South cooperation.
Development finance	(i) Minor role domestically; (ii) coordinated through official development assistant (ODA) between countries; (iii) authority is concentrated in World Bank with which regional development banks coordinate.	(i) Domestically relevant; (ii) bilateral development finance utilizes different mechanisms and focuses more on political targets than commercial viability; (iii) creation of new international institutions to operate independently and differently from the World Bank.	(i, ii) Prominence of the BNDES domestically and regionally; (iii) New Development Bank of the Brics.

Notes: (i) Domestic dimension; (ii) transnational dimension; (iii) international dimension.
Source: Authors elaboration based on Petry and Nölke (2024).

3 Brazilian economy in the liberal order

This section offers a descriptive examination of the trajectory of economic policy implemented by Brazilian governments to operationalize our argument that the use of financial statecraft in Brazil is dependent on its domestic politics. Some political developments and foreign policy initiatives are also addressed for this purpose. As our analysis will show, the implementation of policies that challenge the liberal script is always constrained by the subordinated condition of Brazil’s integration into the GFO. The section is divided into two subsections. The first addresses the background of the time frame considered in our analysis, focusing on the transition from the period of military dictatorship in Brazil to the country's integration into the order of financial globalization. In the second subsection, the experience of Brazilian governments between 2003 and 2022 is explored.

From national-developmentalist model to the Washington Consensus <3>

From the post-Second World War period until the beginning of the 1980s, Brazil had a steady economic growth with an average real GDP growth of 7.1% in 1947–80, with the expansive economic dynamism driven mainly by the industrial sector (8.5% p.a.), in particular by the manufacturing sector[4]. In this period, some significant structural changes happened in the Brazilian economy: there was a shift in its dynamic centre from the agro-exporter sector to the industrial sector, more oriented towards the domestic market; meanwhile, the economy also experienced a decrease in the import coefficient (13.7% of GDP in 1947 to 7.6% in 1980); and the country went through a quick process of urbanization, which was marked by increasing social inequalities and high margins of absolute poverty[5].

Behind the Post-Second War changes in the Brazilian economy was the adoption of a national strategy of development known as 'national-developmentist', strongly influenced by the ECLAC's[6] structuralism of the 1950s, that had as the main features: the inducement for the country's industrialization, from the lighter segments to the heavier ones, based on the process of import substitution industrialization[7]; and the active role of the state, performing as planner, financer and producer (basic inputs, such as steel and

[4] Data extracted from Serra (1982).

[5] According to Serra (1982), there was in 1975 1/3 of the households living with less the two minimum-wage in Brazil.

[6] Economic Commission for Latin America and the Caribbean (ECLAC), the Spanish acronym, CEPAL, is headquartered in Santiago, Chile, is one of the five regional commissions of the United Nations.

[7] Import substitution industrialization (also called ISI) is an industrial and economic policy based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products, that should be done by using domestic market protectionism and also by state-inducement industrialization.

oil, and infrastructure, such as roads and electric energy). In a model known as the ‘tripod’, the state was the protagonist together with the multinational enterprises, that were present in the more dynamic segments of the manufacturing sector (such as vehicles), while the domestic enterprises were the small partner of the tripod. The autonomy of economic policy was assured by the restricted capital account convertibility (initially under the Bretton Woods order) that allowed the frequent use of expansionary policies, as was the case at the beginning of the so-called ‘economic miracle’ (1967–73)[8] and since 1967 the use of crawling-peg exchange rate regime.

The Brazilian economy entered a deep economic crisis at the beginning of the 1980s under the foreign debt crisis, resulting from the sudden increase of US interest rates after the 1970s external indebtedness cycle to finance current account deficits. The debt crisis contributed to the deterioration of public finance and the acceleration of inflation due to the shocks caused by maxi-devaluations of exchange rates (in 1979 and 1983) in an increasingly indexed economy. The economic crisis then weakened the Brazilian government's ability to intervene in the economy.

At the end of the 1980s and the beginning of the 1990s, a set of proposals aimed at promoting a new strategy for growth to Latin America after one decade of stagnation (‘1980s lost decade’) arose. They were first introduced by John Williamson (1990), and they were largely known as ‘Washington Consensus’, as they served as inspiration for the liberalizing economic reforms imposed by Washington-based institutions, particularly in Latin America.

The recommendations aimed at stimulating economic growth towards a set of policies and liberalizing reforms, notably macroeconomic discipline, trade openness, privatization of state-owned firms and market-friendly microeconomic policies. The proposal for capital account liberalization was not included in the original WC but was added to the proposal by multilateral institutions, such as the IMF and World Bank. Liberal reforms, in greater or lesser extension, were applied in many Latin American countries in the 1990s, including Argentina, Brazil and Mexico. In other words, the WC’s prescriptions

[8] During the economic miracle, average GDP growth was 11.2%.

aimed to integrate emerging economies into the global financial order of financial globalization. However, the results of the implementation of WC strategy were somehow disappointing, particularly regarding economic growth. Argentina, which was considered by IMF during the 1990s as an example of the success of WC strategy, was in fact an enormous failure.

Brazil, like other Latin American countries, adopted liberal reforms and economic openness during the 1990s inspired somehow by the WC. The economic openness, specifically in terms of reduced import tax, and the privatization of state-owned firms (in particular the steel sector) began during Collor de Melo’s government (1991–92). In Itamar Franco’s government (1992–94), price stabilization was achieved in 1994 with the implementation of the Real Plan, with a stabilization program that used an exchange rate anchor and economic desindexation. In the two terms of Cardoso’s government (1995-98 and 1999–03), besides the consolidation of price stabilization, the entry of FDI was stimulated, and new programs of privatization were implemented in the telecommunication and electric energy sectors.

The nineties in Brazil were also marked by the process of capital account liberalization. In the first part of the decade, the Brazilian government permitted the acquisition of equities of domestic firms by foreign institutional investors, through special funds for this purpose, and made an important change in a special non-resident bank account (CC5), that operated by foreign financial institutions in practice permitted that both residents and non-residents could send freely abroad their domestic monetary resources. In the 2000s, financial liberalization continued through legislation that aimed at simplifying the norms related to foreign exchange operations (Paula, 2011).

Summing up, the 1990s in Brazil were marked by economic openness (trade and financial), privatization of state-owned firms, and price stabilization. However, they were also characterized by the contagious of external crises – Mexican, Asian, and Russian ones – under a context of high external vulnerability. There were important structural changes in the Brazilian economy – economic openness, price stabilization, renegotiation of external debt, reinsertion of the economy in the international financial market. – but the economic performance disappointed, due to the contagious crises and the own Brazilian crisis in 1999 and 2002, so that the average GDP growth of the 1990s (2.5%)

was closer to the 1980s performance (2.3%) than to the 1950–70 performance (7.1% p.a.). Such crises expressed the problems related to the mode of international financial subordination of the Brazilian economy in the context of financial openness and the adoption of a stabilization plan based on an exchange rate anchor.

In 1999, after the crisis of the semi-fixed exchange rate regime, which was the main pillar of the Real Plan, Brazilian government made some important changes in the structure of the economic policy, by adopting a floating exchange rate regime and an inflation targeting system, that became the new anchor of the prices. Under the conditions of the enhancement of financial liberalization, the new regime of macroeconomic policy can be characterized as inspired by what is currently called 'The New Consensus on Macroeconomics' (NCM). NCM supports that the main focus of the economic policy is price stabilization and that the inflation targeting regime is the best arrangement for economic policy, as it provides some freedom degrees to accommodate output fluctuations due to non-anticipated shocks. In such an arrangement, fiscal policy is no longer viewed as a powerful macroeconomic instrument and should be aligned and subordinated to monetary policy (Mishkin, 2000). Monetary policy is a flexible instrument for achieving medium-term stabilization objectives, in that it can be adjusted quickly in response to macroeconomic developments[9]. In the Brazilian case, this macroeconomic arrangement was characterized by a sort of *tripod of economic policy*: floating exchange regime, inflation target regime, and generation of primary fiscal surplus. A certain and moderate economic policy autonomy (for domestic purposes) is achieved under the context of capital account convertibility due to the working of a floating exchange rate regime.

At the beginning of the 2000s, the Brazilian economy suffered initially the impact of some international shocks (the slow-down in the U.S. economy, and the Turkish and Argentine crises) and later a confidence crisis in 2002 due to the probable election of a more leftist government, that eventually caused a sudden stop in the foreign capitals, and

[9] For a criticism on the New Consensus on Macroeconomics, see Arestis and Sawyer (2004), for whom the use of a inflation target regime can be a 'straitjacket' for output and employment growth, due to the negative effects of interest rate policy on productive accumulation rate.

consequently a steady and abrupt exchange rate devaluation. Lula da Silva, the candidate of the centre-leftist Workers' Party (*Partido dos Trabalhadores* – PT), was then pressured to make explicit the moderation of his agenda, which culminated in the release of his "Letter to the Brazilian people", where he pledged to fulfill the contracts signed and to maintain the economic policy guidelines previously established. This confidence crisis highlights the limitations of the policy space for left-wing governments with a redistributive agenda in the context of international financial integration, especially in critical events. At the end of 2002 he was elected President of Brazil.

From PT social-developmentalism to Temer-Bolsonaro neoliberalism

The 2002 elections significantly changed the correlation of political forces between representatives of capital—particularly financial capital, until then hegemonic—and labour, with the rise of previously marginalized sectors (Boito Jr. and Berringer, 2013). The difficulties of the Washington Consensus–inspired policies in leveraging industrial growth favoured a partial degree of convergence between some domestic businesses and wage earners. This "productivist" coalition was responsible for the gradual and partial flexibilization of the macroeconomic tripod via the mediation platform created by segments of Brazil's political, business, and civil society actors (Ianoni, 2018). The result of easing measures was a mix of policies now including actions focused on the productive sector and fight against poverty. Prates et al (2019) have shown that the PT governments' developmentalist project combined elements of both *social developmentalism*[10] with orthodox economic policies: these governments sought to stimulate growth based on mass

[10] Social-developmentalism refers to a strategy in which growth of the 'mass domestic market' should be stimulated by both expanding employment and improving income distribution due to redistributive government policies and stimulating consumer credit. See more on this, Bielschowsky (2012) and Carneiro (2012). It differs from the new-developmentalism strategy, which assumes that countries that manage to implement a catch-up strategy of development should attack the foreign exchange overappreciation tendency, which stems from two structural factors: the "Dutch Disease" and an additional currency appreciation caused by net foreign capital flows that the policy of growth with foreign savings fosters (Bresser-Pereira et al, 2016).

consumption, which drew on increases in minimum wages, social transfers and credit expansion—a predominantly wage-led growth strategy[11].

Lula's government was pressured to adopt orthodox policies at the beginning of its first administration in 2003, and maintained the tripod of economic policy during his two terms: since international conditions (the commodities boom) were favourable, it implemented a more interventionist and distributive agenda while maintaining an orthodox macroeconomic policy. Indeed, the economy was favoured by the benign international environment (commodities boom and high liquidity in the international financial market) that allowed the Brazilian economy to grow at 4.8% on average in 2004–08, an unprecedented performance compared to the 1980s and 1990s (Table 3). During this period, the main engine of growth was household consumption (which responds to the biggest share of the Brazilian GDP, around 60%), fostered by a real increase in the minimum wage[12] - that was the key policy of the government - and the continuous credit growth to households and enterprises.

[11] According to Prates et al (2020), the proportion of wages in the Gross Domestic Product (GDP) increased from 35.8 percent in 2004 to 46.8 percent in 2014.

[12] The rule for adjusting such wage adopted over this period was to add the inflation of the previous year and the GDP growth rate of the second year before the relevant one.

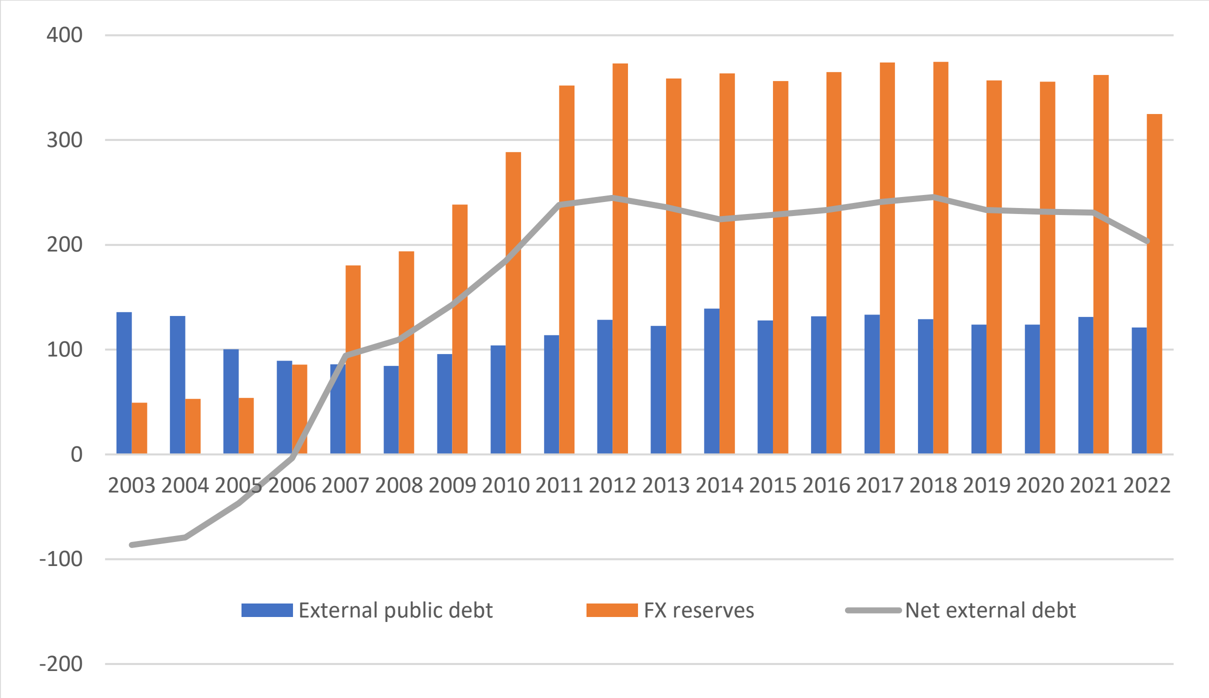
Table 3: GDP growth (% p.a.)

	Real GDP	Agriculture	Industry	Services
2003	1.1	8.3	0.1	1.0
2004	5.8	2.0	8.2	5.0
2005	3.2	1.1	2.0	3.7
2006	4.0	4.6	2.0	4.3
2007	6.1	3.2	6.2	5.8
2008	5.1	5.8	4.1	4.8
2009	-0.1	-3.7	-4.7	2.1
2010	7.5	6.7	10.2	5.8
2011	4.0	5.6	4.1	3.5
2012	1.9	-3.1	-0.7	2.9
2013	3.0	8.4	2.2	2.8
2014	0.5	2.8	-1.5	1.0
2015	-3.5	3.3	-5.8	-2.7
2016	-3.3	-5.2	-4.6	-2.2
2017	1.3	14.2	-0.5	0.8
2018	1.8	1.3	0.7	2.1
2019	1.2	0.4	-0.7	1.5
2020	-3.3	4.2	-3.0	-3.7
2021	5.0	0.3	4.8	5.2
2022	2.9	-1.7	1.6	4.2

Source: IPEADATA (2023).

While the Lula administration was undoubtedly favoured by the international economic context, discretionary domestic policies played an important role in increasing the autonomy of its economic policy. Two examples may be highlighted in this regard. On the one hand, the government launched a policy of international reserves accumulation, starting in 2004 from US$53 billion in 2004 to US$194 billion in 2008 (reaching more than US$350 billion since 2011). On the other hand, it implemented a deliberate policy to reduce of the external public debt (from US$132 billion in 2004 to US$84 billion in 2006), taking advantage of the abundance of international liquidity, which made the Brazilian government a creditor in dollars starting in 2007 (Figure 1). Indeed, at the end of 2008 Brazilian economy was hit by the contagious of global financial crisis (GFC), which caused an immediate and deep impact on the economy. However, the effect was relatively short, with the economy showing signals of recovery by the middle of 2009, due to the combination of counter-cycle policies and a benign external environment (mainly Chinese economy recovery).

Figure 1: Net external debt (US$ billion)

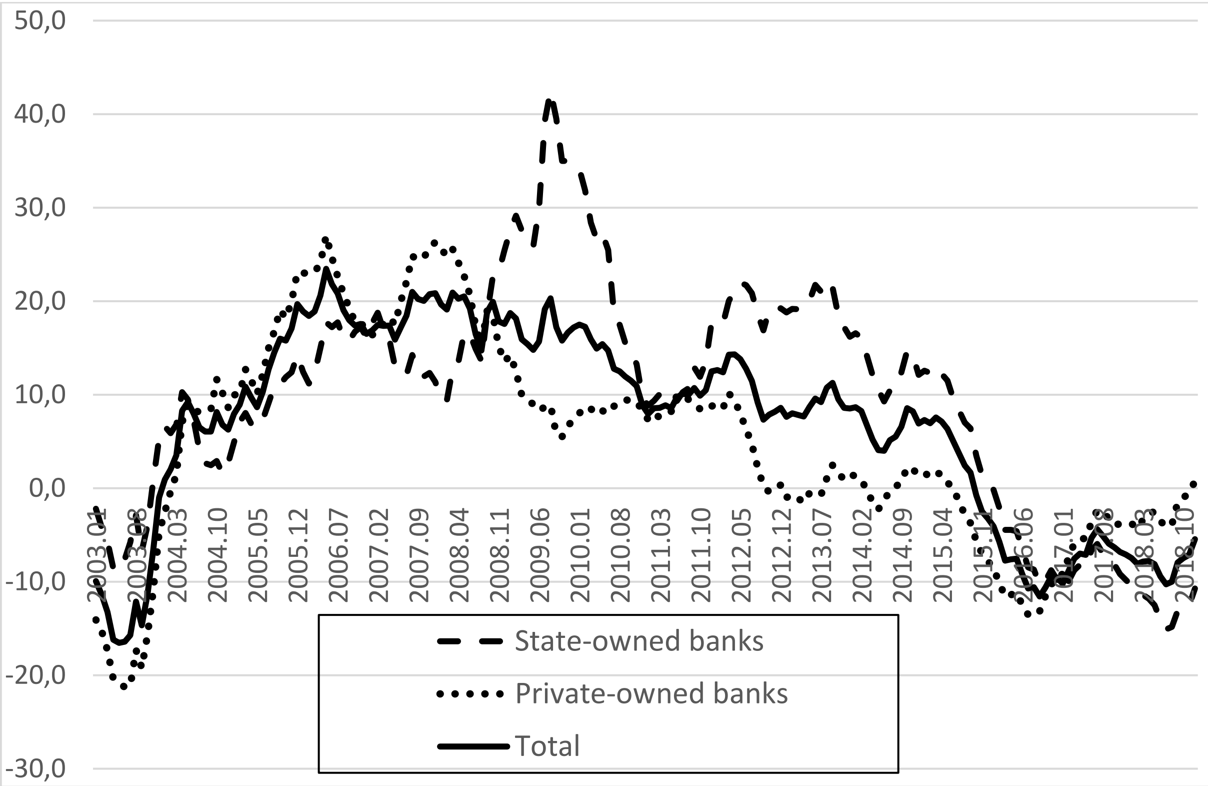


Source: Authors' elaboration based on Database of Central Bank of Brasil. Note: Net external debt = International reserves minus external public debt.

In the context of the contagion effect of the GFC, Lula's second term responded to the financial crisis by adopting some countercyclical measures, including measures to strengthen the liquidity of the banking sector; a temporary credit line for exports; interventions by the Central Bank of Brazil (BCB) in the foreign exchange market; stimulation of credit expansion by state-owned banks as they were encouraged to expand their credit operations to compensate for the sharp deceleration in the credit supply by private banks - see Figure 2; reduction of the tax on industrialized products (IPI) for cars, household appliances and construction products; extension of the period for granting unemployment insurance; and creation of a program to build low-income housing ("*Minha Casa, Minha Vida*") (Barbosa, 2010). Clearly, there was a shift in the orientation of the economic policy in Lula da Silva government after the GFC, with the implementation of more developmental and interventionist policies, making the economic tripod more flexible, but without breaking it (Prates et al, 2020).

It is also worth mentioning two other measures taken by the Lula government in the crisis context. First, it created the Sovereign Wealth Fund of Brazil, still in 2008, receiving an initial contribution of US$ 7.9 billion, with the issuance of public domestic bonds by the National Treasury of Brazil. Second, it helped to create the Local Currency Payments System of Mercosur, which established a system for settling trade in local currencies without the intermediation of the dollar in Mercosur. Created in 2008 between Brazil and Argentina, the initiative would still incorporate Uruguay in 2014 and Paraguay in 2016, aiming at consolidating itself as an official payment and settlement system of the Mercosur bloc. Both measures reflected emerging economies' needs, further evidenced by the 2008 crisis, to protect themselves from the instabilities arising from their integration into the global financial order.

Figure 2: Credit supply for ownership* (percentage)



Source: Authors' calculation based on Banco Central do Brasil (2023). (*) Growth rate compared to 12 months before with data in real values (deflated by IPCA).

After governing for two terms (2003–06 and 2007–10) and benefiting from Lula's high popularity rates, the Workers' Party easily elected as president his successor and former minister, Dilma Rousseff. In contrast with Lula's, however, the domestic policy during Dilma Rousseff's first administration (2011–14) was faltering. Initially orthodox, it later combined orthodoxy with heterodox policies and finally returned to strongly contractionary policies in 2015 in her second term. Between 2010 and 2014, the Government bet that the change in the economic policy mix (reduction of the Selic policy rate and exchange rate devaluation) - the so-called "New Economic Matrix" - added to the tax exemptions would be enough to jointly boost aggregate supply and demand for goods. In order to devalue the currency, the Ministry of Finance started imposing regulations on capital flows, which had already started with a tiny financial transaction tax on foreign portfolio investments in October 2009. One year later, these regulations were strengthened with the first measure targeting FX derivatives operations and administrative controls (Prates and Paula, 2017). The new matrix proved controversial and sparked debate about future tensions that would lead to the collapse of the government's supporting coalition.

By bringing about changes in interest and exchange rate policies, with a drastic reduction in the SELIC rate[13] and bank spreads, Rousseff eventually strained the relationship with representatives of this financial-rentier segment (Singer, 2018). In addition to the strife with the Brazilian Federation of Banks (FEBRABAN), in June 2013 erupted widespread demonstrations in the country's capitals that produced a fundamental cleavage in the Dilma government (Singer, 2018, pp 99). The episode rattled the political climate of the country. The drop in the president's popularity put the federal government in a defensive stance, with setbacks such as the restoration of higher interest rates by the Central Bank in mid-2013 and "the beginning of the mobilization of the middle class, which would eventually play a decisive role in the fall of Dilma" (Singer, 2018, pp 103).

Due to the economic slowdown from 2011 onwards, the Rousseff government sought to implement ad hoc measures to stimulate growth, such as the extension of the payroll tax exemption to more sectors. This action, however, was not well coordinated and lacked consistency: the adoption of a countercyclical fiscal policy was justified in view of the poor performance of the economy, but it came late, favoured tax exemptions over public investments and was poorly communicated to agents. The countercyclical policies adopted by the first Dilma administration were poorly conceived on the fiscal issue—

[13] The Selic interest rate is the monetary policy interest rate, the key tool used by Central Bank of Brazil in the implementation of the monetary policy.

with ambitious targets being maintained through nonrecurring budget operations and exemption-oriented fiscal expansionism and excessive intervention in regulated markets (energy and oil), among other things (Paula et al, 2015). Meanwhile, it is worth mentioning that it was during Rousseff's first term that the New Development Bank and the Contingent Reserve Arrangement were established by the BRICS in the 6th Summit at Fortaleza.

After Rousseff's re-election in a tight presidential race, in 2015-16 the economy suffered a series of shocks - deterioration of the terms of trade, fiscal adjustment, the acceleration of inflation, water crisis, currency devaluation, the increase in the Selic interest rate, and finally the impact of Operation Car Wash[14] on the economy, particularly the civil construction and oil and gas sectors - which contributed to further reducing economic growth, which decelerated sharply to -3.6% on average over the period. The second Rousseff government (2015–16) faced a "perfect storm". In 2015, the government shifted its economic policy somehow radically towards a more orthodox policy stance. This change led to the accusation of "policy switch", with mass demonstrations intensifying in the streets concomitant with the deepening recession and dissatisfaction with the president, whose rejection rate jumped from 30 percent to 70 percent from September 2014 to September 2015 (Datafolha, 2020). The erosion of middle-class support for the PT was sharp, as was the own middle-class which backed the protests together with right-wing political actors, movements, and business entities (Singer, 2018). The liberal rhetoric critical of interventionism ascribed to the PT—holding it responsible for the mistakes that had led the country to the crisis—gained momentum.

The main aim of the economic policy was to implement fiscal adjustment mainly by the side of public expenditures, understood as fundamental for retaking the agents' confidence as a pre-condition for economic recovery. Rousseff tried rather desperately to

[14] Operation Car Wash was launched in 2014 by the Brazilian federal police to uncover corruption schemes. As the investigations progressed, a large part of the Brazilian political class was the target of accusations, which led to instabilities in the national political and economic process. Operation Car Wash would be harshly accused of political bias and of persecuting the Workers' Party, which was partially proven by the revelation of collusion between prosecutors and the judge in charge of the case, which resulted from of a hacker attack on the cell phone of one of the task force's members.

regain market confidence through an orthodox adjustment, but it turned out to be counterproductive in a recession that was already underway and in a quite adverse international and domestic context.

At the political level, the concatenation of a more conservative Congress and a new president of the Chamber of Deputies (Deputy Eduardo Cunha) colliding directly with the executive branch hindered any consensus on a common agenda between the two powers. It is in this context that Vice President Michel Temer gained strength as an alternative to Rousseff, whose impeachment was architected already during the first year of her second term. Given the president's lack of popularity and communication problems, he became a relevant political coordinator, mediating with the Congress and specifically with his party Brazilian Democratic Movement—increasingly detached from Dilma—for the approval of liberalizing and austerity measures. In October 2015, Temer's party – the Brazilian Democratic Movement Party (PMDB) – released a government agenda explicitly informed by liberal orthodox principles and liberal reforms.

Months later, Rousseff's impeachment in 2016 was a victory for the coalition that opposed the PT governments and can be seen as the result of its progressive strengthening, especially since June 2013. In fact, the offensive of this neoliberal coalition - spearheading, in particular, societal groups aligned with financial interests, would have created the conditions for the removal of the president - which for many constituted a legal-parliamentary coup. Representing these interests, the Temer government advanced an agenda aligned with liberal orthodox precepts, guided by the implementation of liberalizing reforms in the economy and the imperative of fiscal austerity, which was associated with a conservative monetary policy.

As Oreiro and Paula (2021, Ch. 4) pointed out, Temer government (2016–18) was a turning point in the developmentalist policies implemented in the PT governments, starting a series of orthodox and neoliberal policies that the authors termed as "Brazilian Thatcherism", with a deliberate goal of reducing the role of the state in the economy, that was continued by the Bolsonaro government[15] (2019–22). Such policies comprised conventional deployment of macroeconomic policies – monetary policy directed to inflation targets and austerity in fiscal policy and a floating exchange rate policy, combined (in Bolsonaro government) with privatization of state-owned enterprises.

The liberal reforms implemented in Temer and Bolsonaro governments included among others: a labour reform approved in late 2016, introducing a series of measures to bring greater flexibility to the labour market; a spending cap, constitutional amendment also approved in 2016, which implemented a 20-year freeze on real government expenditures by stipulating that public spending would be adjusted by the prior year's inflation[16]; a social security reform approved on 12 November 2019; the extinction of the Sovereign Wealth Fund of Brazil in 2019; approval by law (24 February 2021) of the Central Bank of Brazil independency, that established that the directors and the President of the BCB will have four-year terms of office, with most of them, including the President, extending beyond the electoral term of the BCB would take office in the third year of the President's term; privatization of the Eletrobras in 2022, a state-owned group oriented towards electricity generation and transmission systems through owns subsidiaries. In 2022, Bolsonaro announced the intention to privatize Petrobras, the giant state-owned oil firm, in case of his re-election as President, which did not happen.

The effect of the liberal reforms on the performance of the Brazilian economy was very disappointing. After the semi-stagnant period of Temer government (GDP average growth of only 1.6% p.a. in 2017–18), economic performance also disappointed in Bolsonaro administration, even considering the effect of COVID-19 crisis: the average GDP growth in 2019-22 was 1.5% p.a. (industry growth was only 0.9%) compared to

[15] It should be pointed out that in the first month of Bolsonaro's administration (January 2019), he allowed that Boeing purchased Embraer, a Brazilian aerospace manufacturer, as due to the 'golden share' clause Brazilian government has veto power in strategic decisions, such as the transfer of shareholding control of the company. In April 2020, however, Boeing gave up the purchase because of the pandemic crisis on the aviation sector.

[16] These first two reforms were approved in Temer government. Constitutional Amendment 95 imposing the spending cap prevented any fiscal policy management, which is a fundamental tool for smoothing out the economic cycle.

3.2% p.a. on average of the group of emerging and developing economies, according to data from IMF's World Economic Outlook Database. Indeed, the economic growth during the Bolsonaro administration fluctuated widely, as a result of a rather erratic and inconsistent economic policy, sometimes contractionary, sometimes expansionist for purely electoral purposes (see Table 3).

In 2022, Bolsonaro was defeated by Lula in the presidential elections. After the failure of the orthodox agenda to promote socioeconomic development, the Worker's Party president promised the return of a more active role for the State in this regard during his third term. As one of his first symbolic measures in this direction, Lula indicated former president Rousseff as the new governor of the Brics' New Development Bank with the aim to provide more activism to this multilateral bank. Furthermore, another important initiative of the Brazilian government, together with China's government, was the announcement of the Central Bank of Brazil (BCB) and the People's Bank of China (Central Bank of China) to establish a bilateral local currency swap agreement (reais for yuan) in the amount of R$60 billion - CNY190 billion, valid for three years and with the possibility of renewal. The aim is to facilitate bilateral trade between the two countries.

4 Brazil's contestation in international and domestic arena

The description presented in the previous section shows that, in Brazil's experience, the adoption of policies that challenge the liberal global financial order was conditioned by its domestic political dynamics. In the face of alternating power between ideologically divergent governments, it was up to the Workers' Party governments to adopt state capitalist policies, albeit always associating them to some degree with orthodox policies. The intensity with which such policies were adopted was also influenced by exogenous elements associated with the international context in which the different Workers' Party governments were situated. On the other hand, after the impeachment of President Rousseff, financial statecraft was abandoned in favour of the liberal agenda, in both Temer and Bolsonaro government, that has been partially reverted in Lula III government since 2023. Table 4 depicts this scenario.

Table 4: Brazilian governments between state and liberal capitalism

Lula I (2003–06)	Lula II (2007–10)	Dilma I (2011–14)	Dilma II (2015–16)	Temer (2016–18)	Bolsonaro (2019–22)	Lula (2023...)
Social-developmentalist policies	Social-developmentalist policies	Social- and new-developmentalist policies	Social-developmentalist policies	Neoliberal policies (liberal reforms)	Neoliberal policies (liberal reforms and privatization)	Social- and new-developmentalist policies
Orthodoxy macroeconomic framework	Orthodoxy macroeconomic framework	Orthodoxy and heterodoxy macroeconomic framework	Strictly orthodoxy macroeconomic framework	Strictly orthodox economic policy framework	Strictly Orthodox economic policy framework	Orthodox economic policy framework with some flexibility
Capital account liberalization (foreign reserves accumulation)	Capital account liberalization (foreign reserves accumulation)	Capital account liberalization (some capital controls)	Capital account liberalization	Capital account liberalization	Capital account liberalization	Capital account liberalization
Independent foreign policy	Independent foreign policy	Independent foreign policy	Independent foreign policy	Foreign policy aligned with US interests	Foreign policy aligned with US interests	Independent foreign policy
	BRICS as a priority in foreign policy	BRICS as a priority in foreign policy	BRICS as a priority in foreign policy	BRICS neglected in foreign policy	BRICS neglected in foreign policy - tensions with CHN	BRICS as a priority in foreign policy

Source: Authors' elaboration.

We have already pointed out that Lula's first electoral victory in 2002 was due to the ineffectiveness of the liberal economic agenda prevalent during the 1990s, inspired by the Washington Consensus, to promote socioeconomic development. The first Lula administration, however, faced internal and external constraints that restricted its policy space to adopt policies ideologically divergent from the liberal financial order. Nevertheless, measures aimed at boosting the domestic market and the policy of accumulating international reserves gave a new dynamic to the national economy, albeit under the auspices of an orthodox macroeconomic policy. In its second term, the Lula government advanced in the contestation of the liberal order on a variety of fronts, but which were strongly associated with the prevailing international conjuncture. With the global financial crisis triggered in 2008, a series of countercyclical policies were adopted, deepening the social-developmentalist strategy of the government. Of particular importance, as already pointed out, was the countercyclical role of state-owned banks after the GFC, highlighting the role of BNDES in the long-term financing: the bank's total disbursements reached 4.3% of GDP in 2010.

In addition, the Lula government promoted the creation of the Sovereign Wealth Fund of Brazil in 2008, as well as the beginning of the articulation with the BRICS[17]. Furthermore, Brazil and Argentina created the Local Currency Payments System (SML), which establishes a system for settling trade in local currencies without the intermediation of the dollar in Mercosur (the system incorporated Uruguay in 2014 and Paraguay in 2016)[18]. This did not mean, however, a break with orthodox-liberal precepts: domestically, the macroeconomic policy framework, although made more flexible, remained under the auspices of the tripod established in 1999; externally, despite the independence of Brazilian foreign policy and the founding of the BRICS, there were no explicit challenges to the liberal order by Brazil.

The first Rousseff government continued to reconcile liberal and state capitalist policies, although it promoted economic policy changes, as seen in the previous section. These changes were not successful, which, added to the adverse domestic and international environment, led to the restriction of policy space for policies challenging the liberal order to continue to be adopted. In terms of the BRICS, an important initiative was the creation of the New Development Bank (NDB) in 2014, headquartered in Shanghai, China, in which the five partners - Brazil, China, India, Russia and South Africa - have equal voting power. As multilateral bank that began to operate in 2016, NDB proposes to finance investments in infrastructure and sustainable development in the BRICS and has resources for other emerging economies as well[19]. In Rousseff's second term, to achieve confidence building in the context of a political crisis already underway, the government

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[17] Following the diplomatic ties established in 2006, the bloc had its first official summit in 2009, with Brazil, Russia, India, China as members and later, in 2011, South Africa was incorporated to the bloc.

[18] In 2022, commercial transactions through the system totaled more than BRL 5.5 billion (BCB, 2023). Although it has modest adherence, the system has attracted small and medium-sized importing and exporting companies, as it eliminates the need to access dollar exchange markets and thus enables a significant reduction in trade transaction costs (UNCTAD, 2015).

[19] For an analysis of the creation process of the New Development Bank (NDB) and an assessment of the first five years of its operation, see Batista Jr (2021). According to this author, the bank's evolution was slow and hesitant, for political reasons, falling short of the original ambitious design, which envisioned the establishment of a global, modern, innovative and technically professional development bank.

adhered to the liberal agenda, which, as showed, failed and was not enough to contain the economic and political crises that culminated in her impeachment.

Temer's ascension to the presidency represented the end of a cycle in which elements of state capitalist policies were introduced by Workers' Party governments for around thirteen years. Even before Rousseff's impeachment, the then vice-president was showing signs of his alignment with the liberal agenda. At the economic level, the strategy of liberal reforms and institutionalization of fiscal austerity became hegemonic. As the Ministry of Foreign Affairs, Temer appointed a foreign minister who was not even sure about who and what the BRICS were[20]. In 2018, his government decided to totally zero out the Brazilian Sovereign Fund to pay off public debts. Furthermore, Temer administration decided to decapitalize BNDES and to introduce a new unsubsidized long-term interest rate (TLP) and its total disbursements came to represent only 0.7% of GDP in 2021. Therefore, any Brazilian initiative to challenge the liberal order was then decisively abandoned.

This process was accentuated by the Bolsonaro government, which deepened and radicalized the liberal economic policy that had begun to be implemented by Temer. The Brazilian Sovereign Fund was extinguished by Law No. 13,874, in September 20, 2019. On the external front, the articulation with the BRICs has reached a critical level, as the Bolsonaro government (as well as the president's sons who hold parliamentary positions) has uttered a series of hostilities against China, even though it has been Brazil's largest trading partner since 2009. It should be noted, however, that the strong anti-China rhetoric has yielded to pragmatism over the course of his term, with bilateral trade relations not being affected and the president's participation in the BRICS Summits. The failure of his government on a wide range of fronts, however, prevented his re-election and led to Lula being elected for a third term from 2023. With this, the expectation that state capitalist policies will be implemented again, resuming Brazil's contestation of the liberal financial order, appeared on the near horizon.

[20] See Forum (2016).

Once again, Lula third term has been marked by ambiguity: Finance Minister Fernando Haddad has maintained a reasonably orthodox fiscal policy – including a new fiscal framework approved in August 2023 that combines primary fiscal result targets with a rule for public spending, whose growth depends on the performance of revenues, and the guarantee of a minimum level for public investment - while adopting some measures aimed at greater progressivity in income distribution (taxing exclusive and offshore investment funds). In terms of international relations, Lula returned to the discourse of strengthening the South-South dialogue, while in the presidency of G-20 in 2024 Brazilian government launched the motto "Building a just world and a sustainable planet".

Overall, therefore, Brazil's experience in contesting the international order reflects the comings and goings of its domestic political process. With the rise of the Workers' Party to power, state capitalist policies were adopted, especially in the wake of the 2008 global financial crisis, albeit always in conciliation with liberal capitalist policies. But the room for manoeuvre has narrowed as the international environment has become hostile to the adoption of measures that compromise the country's credibility in the financial market. Two observations follow from this.

On the one hand, the conditions of the international conjuncture appear as a non-negligible element for the policy space available for measures diverging from the liberal economic agenda to be implemented. On the other hand, this reflects the path-dependent character of the experience of an emerging economy already integrated into financial globalization: once such a process has already taken place, reversing it presents political, economic and social costs that would probably not be tolerable within the frameworks of liberal democracy. As a result, the tendency is for Brazil's participation in the contestation of the liberal global financial order to remain marked by the ambiguities presented in this paper.

5 Conclusion

This paper examined Brazil's experience in contesting the contemporary global financial order. With its potential disruptive crisis triggered by the 2008 financial crisis and accentuated by the COVID-19 pandemic and the climate and environmental crisis, the adoption of state capitalist policies by emerging economies appears as a symptom that alternatives to liberal policies, hegemonic in this stage of capitalism, are being tried and implemented. In this process, the internal and external initiatives of the BRICS become particularly illustrative of the challenge to the liberal order, shedding light on how DEEs are resorting to financial statecraft to overcome the negative effects of their subordinated condition in the liberal GFO.

When compared to its peers, however, Brazil presents an ambiguous stance in contesting the liberal financial order, in which state and liberal capitalist policies are often conflated. We argued that this is due to the country's domestic political dynamics, which have experienced an alternation of power between governments more or less ideologically aligned with the current global financial order. Moreover, we showed that the adoption of state capitalist policies accentuated in the wake of the 2008 global financial crisis, which represented a critical event for the order in question. This argument was based on the analysis of policies implemented by Brazilian governments between 2003 and 2022 in light of the theoretical framework proposed by Petry and Nölke (2024) to frame policies as state or liberal capitalist in the context of challenges to the liberal order.

This study therefore contributes to a better understanding of the process of contestation of the liberal order, in general, and the role played by Brazil in this process, in particular. More specifically, it shows how domestic politics play a crucial role in this regard. This suggests that understanding how the internal reality of each country can limit or favour the experience of contestation is a condition for understanding the prospects for transforming the global financial order. Moreover, it underlines the importance of examining the experience of other emerging economies, for which the parameters of the liberal financial order are often dysfunctional to their development reflected on the subordinated condition of their integration into the GFO, which constitutes a promising space for further research.

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