

Strategic Diplomacy in South America (Special Section for *Contemporary Politics*)

Development Banks as Instruments of Brazilian Strategic Diplomacy

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Abstract: The article considers whether Brazil's foreign policies aimed at reforming the global governance architecture for development finance can be considered the application of 'strategic diplomacy', and assesses the conditions for and limitations of implementing strategic diplomacy in new democracies. To do so, the analysis focuses on the Workers' Party (PT) governments' policies and actions related to national and multilateral development banks. It examines whether the Brazilian National Bank of Economic and Social Development (BNDES) and the New Development Bank (NDB; or BRICS Bank) exhibited four key features of strategic diplomacy (systemic focus; long-term objectives; dynamic view of national interest; and engaged political leadership) and what its implications were for achieving Brazil's long-term foreign policy objectives of national development and autonomy.

The contemporary international system is complex, highly interconnected, prone to strategic surprises and newly emerging phenomena, and ridden with uncertainties. In this context, diplomacy to navigate the system relies on adaptive capabilities and strategic foresight of foreign policy-makers aiming to protect and deliver the national interest. Strategic diplomacy, as defined by Prantl and Goh (2016:8), is 'the process by which state and non-state actors socially construct and frame their view of the world, set their agendas, communicate, contest and negotiate diverging core interests and goals'. As they explain, strategic diplomacy has two main elements: a strategic rationale with the long-term objective of system maintenance or system change; and, practices of contesting and negotiating conflicting strategic ideas and priorities at the systemic level. Furthermore, adaptability and agility are crucial features of successful strategic diplomacy, i.e. although a state may choose a diplomatic strategy to navigate (even reform) the system, it also must be prepared to adjust its strategy based on how the system responds. These features of the international system are well recognised in Brazil. As former Foreign Minister Celso Amorim (2010:214-215) noted: 'An ever changing world requires a foreign policy with capacity of adaptation... (and also) remaining faithful to the basic principles that have guided our foreign relations'.

This innovative approach to diplomacy and statecraft seems particularly well-suited to examining the Brazilian case. The academic literature generally agrees that the driving logic of Brazilian foreign policy has been to secure autonomy so as to preserve policy space to deliver development (Burges 2020; Dauvergne & Farias 2012; Vigevani & Cepaluni 2009). According to Prantl (2021), the main purpose of strategic diplomacy, as a policy framework, is to maximize policy space, indirectly via shaping the policy environment in the long-term and directly by engaging in immediate policy actions. The strategic diplomacy approach emphasises the significance of examining how actors and issues are embedded in a systemic context. It posits that richer explanations for foreign policy behaviour emerge by giving equal attention to unit-level and systemic variables.

The article engages with the concept of strategic diplomacy as an approach to analysing the foreign policy behaviour of Brazil in the context of the country's international 'rise' during the Workers' Party (*Partido dos Trabalhadores*; PT) governments (2003-2016) of the early twenty first century. The analysis focuses on the economic sphere, specifically finance for development, for two reasons: firstly, finance lies at the heart of material and capability definitions of power. Finance allows a state to access and acquire weapons, various goods and services (including via trade and investment), technology, and expertise to boost its international standing and development outcomes. Secondly, Brazil has emphasised the economic aspects of its emerging power profile, including global governance of trade and finance. It has also actively argued in favour of reforming the system for global governance of finance for development, specifically the international financial institutions (IFIs) created at Bretton Woods. Thus, it is reasonable to expect evidence of Brazil practising strategic diplomacy to crop up in its international economic relations.

During the Doha Development Round of the World Trade Organisation (WTO), Brazil's growing status as one of the 'new quod' and a key voice for developing countries received much attention in the academic literature (Narlikar & Tussie 2004; Motta Veiga 2005; Efstathopoulos 2012; Hopewell 2015; Doctor 2015b). Analyses of Brazil's global economic governance reform activism typically centred on WTO negotiations. Instead, this article analyses its strategic diplomatic efforts to reform the global governance architecture for development finance, specifically multilateral development banking. My research shows that Brazil played an important role in the creation and enhancement of development banks (both national and multilateral) not

only as instruments of development finance, but also of its foreign policy. Interestingly, other emerging powers, especially its BRICS partners, joined Brazil on this path.

The article addresses two main research questions: Firstly, can Brazil's foreign policy behaviour in international economic relations be considered the application of strategic diplomacy? In other words, were Brazil's foreign policy decisions and actions during the PT years guided by considerations of strategic diplomacy and what were the conditions that allowed for long-term strategic thinking in diplomacy in a shifting international context? Secondly, to what extent were Brazil's policy decisions and actions in national and multilateral development banking a successful foreign policy strategy to gain and maximise political space to shape international practices in development finance, especially for much-needed infrastructure investment in developing countries? More specifically, to what extent were the Brazilian National Bank of Economic and Social Development (BNDES) and the New Development Bank (NDB; also known as the BRICS Bank) deployed as instruments of Brazilian strategic diplomacy? Did these development banks contribute to achieving Brazil's foreign policy goals and enhancing its strategic options in the international system? To clarify, the article focuses on conceptual aspects of 'strategic diplomacy', i.e. whether the concept can usefully be applied to new democracies and emerging powers like Brazil. However, the analysis also contributes in theoretical terms by identifying, examining and reflecting on the conditions that influence the deployment of strategic diplomacy. The analysis is presented in three sections: (i) international relations and foreign policy concepts applied in the Brazilian context; (ii) development banks as instruments of Brazil's strategic diplomacy; and (iii) an assessment of Brazilian conditions and efforts towards strategic diplomacy.

Foreign Policy Concepts in the Brazilian Context

The international order is undergoing a transition, even if the final outcome is still unclear (Buzan & Lawson 2014; Hurrell 2018). Notwithstanding this moment of systemic flux, the literature on strategic diplomacy emphasises three consistent features of the changing international order: interconnectedness, non-linearity, and emergence (Prantl 2021). In this complex setting, states emphasise gaining and maximising policy space to shape their response to the evolving system. However, states often struggle to

maintain policy space in the highly uncertain international environment, where there are many ‘unknown unknowns’ and sudden tipping points that could alter the logic of the system, not to mention undermine the state’s ability to maximise its national interest. Moreover, in these uncertain times, states are often forced to accept that satisficing rather than maximising the national interest is the best that they can do.

My research posits that whereas traditional diplomacy and foreign policy analysis allow for static concepts of the national interest to be applied, this is a less fruitful path of analysis during moments of significant structural shifts. Thus, analyses of the power transitions underway in the contemporary international system might be better served with a more dynamic understanding of what constitutes the national interest. This dynamic understanding is best developed in the constructivist approach to international relations, which argues that the content of the national interest is socially constructed rather than given and fixed (Hurd 2010). There is also a premium attached to becoming innovative, adaptive and non-zero-sum oriented in one’s diplomatic strategy to achieve the national interest (Goh and Prantl 2017). In such circumstances, the concept of strategic diplomacy could provide a better understanding of how the national interest might evolve over time and what might be the best way to deliver it.

The concept of strategic diplomacy presupposes that state actors (at the minimum) as well as non-state actors (ideally) are willing and able to formulate long term foreign policy objectives that deal with navigating and shaping the international system, and to take the necessary measures to deliver them. According to Prantl and Goh (2016), strategic diplomacy is typically deployed for system maintenance or change, although my research found that a mid-way point of system enhancement was more often the case when discussing emerging powers, at least in Brazil.¹ That is, strategic diplomacy is less likely merely to aim at maintaining the status quo or to completely overhaul the system, but is more likely to push for improvements to enhance outcomes from engaging in the system. Hurrell (2010:138) refers to this as ‘reformism from within the system’.

¹ My original observation and argument was subsequently incorporated into Prantl’s depiction of the purpose of strategic diplomacy, as acknowledged in the Introduction to the Special Section. As such, he notes that system maintenance and system change can be seen as two ends of a spectrum, whereas system enhancement/reform falls somewhere along that spectrum.

Theories of international relations and empirical models developed for foreign policy analysis have long debated the relative importance of domestic and systemic factors (Gourevitch 1986; Keohane & Milner 1996; Waltz 2010; Chaudoin, Milner & Pang 2015). When applying the concept of strategic diplomacy as a diagnostic framework, analytical attention is given to both systemic and unit-level analysis to explain complex behaviours and interrelationships. Although globalisation and high levels of cross-border inter-dependence might have increased the importance of systemic factors in foreign policy-making processes, domestic or unit-level factors still exert considerable influence on foreign policy behaviour as excellently described by Putnam (1988). It is also crucial to note that the ‘pulling and hauling’ of politics (Allison & Halperin 1972:43) suggests that foreign policy need not only embody so-called rational (i.e. utility maximising) decisions, but is more likely to be the result of compromise, and even conflict and confusion (Brummer 2017).

My research suggests that a theoretical framework for studying strategic diplomacy should consider a range of variables or factors that contribute to the likelihood and success of deploying strategic diplomacy in the context of global power shifts. It found that when considering foreign policy choices and diplomatic strategies, it is domestic factors and conditions that are especially relevant, including: regime type (democracy), economic conditions (stability/crisis), institutional consistency, bureaucratic expertise, political leadership and/or a grand national narrative to support diplomacy and statecraft.

Essentially, deploying strategic diplomacy implies a long-term outlook. It requires some level of consensus on the domestic goals of a society or some kind of grand national narrative guiding foreign policy behaviour; it also requires some level of institutional consistency and bureaucratic expertise in the polity to guide its foreign policy actions. Under such conditions, the simultaneous occurrence of fundamental structural change and strategic political leadership could combine to deliver the strategic diplomatic goals towards which the state (and society) had been working. Moreover, in case of a crisis, foreign policy-makers would be ready to take advantage of the disruptive moment as an opportunity to overcome institutional inertia and successfully push for the desired systemic change (see Gustavsson 1999). The empirical analysis in the next section will address some of these variables to illustrate the argument.

The above discussion should have clarified four features of strategic diplomacy: (i) systemic focus, i.e. it refers to diplomacy focused on navigating the international system, possibly enhancing or reforming it from within; (ii) long-term objectives, i.e. it is oriented towards achieving longer term foreign policy goals that protect policy space and enhance the power, influence and/or status of the state in the system; (iii) dynamic understanding of the national interest, i.e. a socially constructed and evolving national interest that responds to systemic level changes and strategic surprises; and (iv) engaged political leadership, i.e. it depends on actors in key positions demonstrating strategic vision regarding the evolution of the international system and a willingness to deploy resources and capabilities to deliver it.

So, how relatable is the concept of strategic diplomacy to Brazilian foreign policy-makers and diplomats? To what extent do its features manifest themselves in Brazil's foreign policy behaviour? Before tackling these questions, it would be useful to present the main actors involved in Brazilian foreign policy-making, and the priority objectives of Brazilian foreign policy.

Traditionally, the main actors involved in foreign policy-making are the President and the Ministry of Foreign Relations (MRE; also known as the Itamaraty) with a prominent role for the Minister of Foreign Relations. During the PT years, the presidency was held by two individuals (Presidents Luiz Inácio Lula da Silva (2003-2010) and Dilma Rousseff (2011-2016) and the MRE/Itamaraty was led by four foreign ministers, all career diplomats (Celso Amorim (2003-2010), Antonio Aguiar Patriota (2011-2013), Luiz Alberto Figueiredo Machado (2013-2014) and Mauro Vieira (2015-2016)). The PT also created the office of Special Advisor on Foreign Affairs, an office held by a single individual, Marco Aurelio Garcia, during its thirteen years in government. Moreover, the Brazilian diplomatic corps are a highly professionalised bureaucracy, with a self-image of competence and effectiveness in supporting (and delivering) the national interest. However, the highly specialist technocratic demands of contemporary diplomacy has seen the Itamaraty muster expertise from other public bodies and even independent think tanks and private sector associations (Burges & Daudelin 2017).

Thus, more recent analyses of actors involved in foreign policy-making point to the gradual decentralisation (or fragmentation) of policy-making, including an expansion of interest representation and policy inputs from other state as well as non-state actors. Alongside the expanding role of other ministries (especially those dealing with

economic matters, such as trade, industry, agriculture, labour, infrastructure, etc.), the academic literature paid increasing attention to the more prominent foreign policy interests and role of societal actors in Brazil. It underlined the growing relevance of civil society organisations and activist networks, including those representing business, labour and social movements (Lima and Milani 2014; Boito & Berringer 2014; Milani and Pinheiro 2017; Doctor 2017; Cardoso 2019).

In the context of relative security of its borders, the two top priority objectives of Brazilian foreign policy are to (i) protect its sovereignty, which it sees in terms of maintaining policy autonomy/flexibility in the domestic economic sphere and also non-intervention in domestic affairs of other states; and (ii) support its quest for national development, which it conceives of in terms of economic, social and sustainable development. As Amorim (2010:214) noted:

‘We uphold Brazilian interests with pragmatism, without renouncing our principles and values. These characteristics of our foreign policy have been more or less consistent over time. Departures have been rare and short-lived.’

The priority given to autonomy meant Brazil’s foreign policy strategy was often discussed in terms of how it approached achieving this autonomy. The literature (see Vigevani and Cepaluni 2007 and 2009; Vigevani and Oliveira 2007) notes how the military regime (1964-1985) focused on ‘autonomy through distance’, which was later replaced by democratically elected President Fernando Henrique Cardoso (1995-2002) with a strategy of ‘autonomy through integration/participation’, finally moving to one of ‘autonomy through diversification’ in the PT years (2003-2016). The latter two approaches often relied on engagement in multilateral institutions as a means of protecting national autonomy. In other words, Brazilian diplomacy often focused on systemic aspects or multilateralism rather than relying on bilateral relations to achieve its foreign policy objectives. The insistence on autonomy also implied that Brazil typically resisted neo-liberal market reforms imposed by the IFIs, precisely because they constrained state actions and reduced policy space.

Brazil’s multilateral engagement covered the full range of economic issues and institutions, including finance, trade, and development. In recent years, its representatives played key roles in and contributed to debates on reforming global economic governance institutions, including the International Monetary Fund (IMF), the

World Bank, and the WTO. Its presidents and diplomats have emphatically spoken in favour of maintaining these institutions and a rules-based international system, but have also railed against the unequal status of developing countries within them and strongly advocated for their reform to reflect a changing global economy and international order. For example, Spektor (2016:35) argues that Brazil has had no ‘clear-cut grand strategy’, but instead fed on a persistent narrative of relative weakness and dependence as well as a sense of grievance towards the highly unequal and discriminatory treatment meted out to developing countries within the international system. In his view, the top foreign policy priority of PT governments was systemic level change that created a more benign multipolar system that promoted international peace, national development and social justice.

Under the PT, autonomy and development were pursued via initiatives to foster regional integration in South America (Herz 2011; Vigevani and Ramanzini Junior 2011; Saraiva and Gomes 2016) and South-South Cooperation (SSC), i.e. international development cooperation based on partnership and solidarity with other developing countries (Burgess 2005; Lima and Hirst 2006; Bry 2017; Westhuizen and Milani 2019). SSC also involved Brazil’s active participation and leadership in new international coalitions such as the India-Brazil-South Africa (IBSA) Forum, the G20-Trade, and interregional initiatives (Amorim 2017). More generally, Brazil expanded its international development cooperation efforts, specifically enhancing the role of the Brazilian Cooperation Agency (ABC; Agência Brasileira de Cooperação), an agency within the Itamaraty (IPEA & ABC 2010). When it came to development finance, PT governments emphasised their distance from the prescriptive and conditional ‘aid’ of the Organisation of Economic Cooperation and Development’s Development Assistance Committee (OECD-DAC).

The analysis examines the instruments deployed towards achieving Brazil’s longer-term foreign policy objectives related to global economic governance of development finance. Before doing so, it is worth noting that in contrast to China, Brazil’s strategic diplomacy does not face the problem of a domestic political system that is incompatible with the political mainstream of the existing global order (see Jing 2017). Instead, Brazilian policy-makers are more concerned about the economic rather than political or ideological constraints on their diplomatic actions. No wonder then that an important

facet of its strategic diplomacy is to guarantee development finance that does not breach policy autonomy (neither its own nor that of its partners under the banner of SSC).

Development Banks as Instruments of Brazil's Strategic Diplomacy

Brazil has a long history of state interventionism and developmentalism. Whereas the 'old' developmentalism espoused import substitution industrialisation, 'new' developmentalism focused on macro-economic stability and integration into global markets. Intriguingly, BNDES, the national development bank, was 'central to each phase of Brazilian developmentalism' (Armijo 2017:231). Essentially, BNDES served as a key instrument of Brazilian development policy, long before becoming an instrument of Brazilian diplomacy. Unsurprisingly, the PT relied on BNDES' development financing expertise and links to the private sector to implement its state-led development policies. As such, Brazil has extensive experience of and is comfortable with using development banks as policy instruments.

Already before the 2008 global financial crisis, Brazil had expanded the role and activities of BNDES both domestically and abroad (Doctor 2015). It also worked with the Development Bank of Latin America (CAF; Corporacion Andina de Fomento) a regional development bank that supported infrastructure investments to better integrate South America. Ironically, although the PT was at the forefront of advocating increased attention to social policy areas in development finance, it became increasingly frustrated with the lack of attention to finance for physical infrastructure to support development.

After the 2008 crisis, Brazil saw new opportunities for voice in the G-20 Leaders' Summits. It believed a tipping point had been reached by the time of the Seoul Summit in 2010. Here, the G20 agreed to undertake a voting and quota reform of the IMF and World Bank with the aim of increasing the voting weight of China and other emerging powers. However, the initial optimism ended in disappointment, when the United States held off ratifying (and therefore implementing) the reforms for a number of years. In response to the foot-dragging and reluctance to reform on the part of advanced economies, Brazil turned to securing and deploying its own resources for development, especially infrastructure financing (Hochstetler & Montero 2013). This option became more feasible with its growing trade surpluses at the height of the commodity boom and expanding foreign currency reserves.

Unsurprisingly, Brazil actively supported setting up the New Development Bank (NDB), a multilateral development bank alongside its BRICS partners, to provide financing for development projects. So, did these development banks contribute to Brazil's main foreign policy objectives? Did they serve as instruments of strategic diplomacy, i.e. are the four features of strategic diplomacy evident in their policies and actions? Below, I examine the cases of the BNDES and NDB in turn on both questions.

BNDES: The Brazilian National Bank of Economic and Social Development (BNDES) was founded in 1952, and has played a key role in Brazil's economic and social development. Armijo (2017) excellently discusses both the central contributions of BNDES to Brazilian development as well as the 'public bank trilemma' that it faces, i.e. the difficulty of reconciling the demands emanating from its 'expertise' vis-à-vis 'democracy' and 'markets'. Over the years, BNDES shifted the focus of its activities from support for import substitution to market opening and privatisation to 'new developmentalism' and the creation of internationally competitive 'national champions'. Doctor (2015) explains the evolving roles of BNDES, including those of creditor (direct and indirect lending to support development), equity investor (shareholder and venture capitalist), privatisation manager, and supporter of the internationalisation of Brazilian firms. From the point of view of this article, it is the last role that is particularly important, especially once BNDES' international activities expanded beyond export financing.

In 2001, Decree 4418 altered BNDES' statutes to allow it to finance Brazilian firms' activities abroad, if they helped to increase exports. In 2007, Decree 6322 extended financing to Brazilian firms operating abroad, so long as it could be justified in terms of also generating production and jobs at home. Under the PT, the logic of BNDES activity abroad fell into two categories: the first was to support regional integration and Brazilian regional leadership within South America as part of its bid for recognition as an emerging power and the second to enhance firm competitiveness and support the internationalisation of Brazilian transnational corporations (TNCs) to create so-called 'national champions'. In both cases, BNDES only contributed resources if a Brazilian firm's products and/or services were involved. Crucially, BNDES' international agenda and resources were often explicitly used as an instrument to prop up Brazil's foreign policy objectives (i.e. national development and policy autonomy).

The first category of activity was already signalled in President Lula's inaugural speech, where he noted that he aimed to 'construct a stable, prosperous and united South America' (Silva 2003), with BNDES playing a key role in the process. Brazil's regional integration efforts were initially run under the label of the South American Regional Infrastructure Initiative (IIRSA). IIRSA sought to coordinate the action of South America's twelve states with regards to energy, transport and communications infrastructure, with BNDES put in charge of managing and financing the Brazilian side of projects. Although IIRSA listed over 500 projects, it designated only 31 of them as priority projects, and 13 of these 31 involved Brazilian territory. In monetary terms, US\$ 6.598 billion out of US\$ 14.023 billion were allocated to Brazilian projects (Paz 2015). The projects not only provided funding for the relevant infrastructure, but also benefitted Brazilian civil engineering and construction firms, supporting jobs, exports of goods and services, and competitiveness of the sector (see Bugiato (2017:60) for a list of infrastructure projects supported by BNDES in Latin America and Africa). IIRSA was later absorbed into the South American Council of Infrastructure and Planning (COSIPLAN), associated with the Union of South American Nations (UNASUR).

For all the attention given to BNDES within the context of regional infrastructure investment, it is worth noting that CAF provided much higher levels of funding, e.g. between 2005 and 2009, CAF disbursed some US\$ 16.7 billion compared to BNDES' US\$ 1.9 billion on regional infrastructure (Hochstetler 2014). During the Lula years, 29 of the top 30 Brazilian TNCs operated in South America (i.e. all except Embraer), most also receiving BNDES support in some form or other (Bugiato 2017). In 2013, the bank set up a special new division to coordinate its actions in Latin America and Africa. However, under Rousseff, BNDES financing for South American regional integration tailed off. By 2016, after two years of recession in Brazil, BNDES abandoned its role as prime financier of regional infrastructure integration.

The second category of activity, financing for Brazilian TNCs' investments and operations abroad, first occurred in 2005, when BNDES provided financing to meat-packer JBS-Friboi to acquire the Argentine firm Swift Armour. BNDES resources continued to support the company, and by 2009, it was the largest meat-packer in the world. The PT governments explicitly used BNDES to support internationalisation of Brazilian TNCs via credits and equity financing for firms taking part in mergers and acquisitions in resource intensive sectors abroad or bidding for contracts and

concessions for infrastructure construction and energy sectors abroad (Bauman 2010). Oliveira (2016) identified 166 foreign contracts that received part or full financing from BNDES during the Lula years. In 2009, BNDES opened international offices in Montevideo and London (later also in Johannesburg) with the objective of increasing its visibility in global capital markets as well as supporting internationalisation of Brazilian firms and attracting foreign investment to Brazil.

The PT's use of BNDES as an instrument of Brazilian foreign policy received heavy criticism from both the Right and Left of the political spectrum. The former criticised its interventionist tendencies, unnecessarily subsidised financial support to Brazil's largest firms, and skewing of firms' investment decisions. Meanwhile, the latter indicated disappointment in its neo-imperialist tendencies and unconditional support to the 'national grand bourgeoisie', loss of domestic jobs and growth as well as social harm and environmental damage due to these TNC's activities abroad (e.g. Boito & Berringer 2014; Bugiato 2017; Goes 2017). Both sets of critics partly blamed BNDES itself for becoming embroiled in corruption schemes involving a number of Brazilian TNCs.

Notwithstanding these criticisms, can BNDES be considered an instrument of strategic diplomacy in the PT years? This section considers whether the intentions and strategy behind BNDES' loan disbursements and other actions complemented and supported Brazil's foreign policy objectives aimed at systemic changes related to both the global governance of development finance and Brazil's place as an emerging power in the context of structural change and power transition in the international order.

If one examines the PT's use of BNDES as an instrument of foreign policy in terms of the four features of strategic diplomacy, my research observed the following:

- (i) *Systemic focus*: whereas the bank's loans and other actions to support Brazilian TNCs' activities abroad were probably not taken with a direct systemic focus in mind, this view of its impacts is rather narrow. Instead, if one accepts that the bank's actions regarding businesses that were part of a package of commercial or technological exchanges supporting the government's diplomatic dialogue or partnerships with countries in Africa and South America, then this picture alters; if one extends it further to include BNDES support for projects and initiatives that were wrapped in the rhetoric of SSC, then some systemic outcomes might be discerned. For example, these relationships and financing could be expected

to result in support for Brazilian preferences and positions regarding reform of global governance institutions or even votes for Brazilian candidates to leadership roles in key international organisations.

- (ii) *Long-term objectives*: whereas development banking is almost by definition long term in its outlook, here it would be relevant to check whether it came with a direct link to achieving key foreign policy goals that protect Brazil's autonomy (or policy space) and enhance its development outcomes, while also reducing economic vulnerabilities and dependency. BNDES reports repeatedly justified export financing and support for internationalisation of Brazilian firms in terms of enhancing the economy's competitiveness and increasing Brazil's share in global trade and investment flows (for example, see BNDES staff, Alem & Cavalcanti's (2005), consideration of the options before BNDES at a crucial moment of decision regarding support for internationalisation of the bank's activities). Similarly, financing for infrastructure under IIRSA aimed to boost competitiveness as well as change the economic geography of the region (for example, Brazil expected to benefit from integration of energy and transport networks, potentially even getting over-land access to the Pacific at a moment when China had become its largest trade partner).
- (iii) *Dynamic understanding of the national interest*: the resources backing the PT's diplomatic discourse and strategy of 'autonomy through diversification' fed a dynamic vision of Brazil's international relations, especially in the context of SSC and deepening relations with the Global South. However, assessments that are more critical show scepticism (at a minimum) and even outright hostility towards what is seen as sub-imperialist and neo-colonial attitudes to the deployment of BNDES resources within its Southern partners (Bugiato 2017; Plataforma BNDES 2007). Others with a more static view of the national interest argued that it was premature for Brazil's development bank to squander resources abroad, when the country still faced massive problems related to human and sustainable development at home.
- (iv) *Engaged political leadership*: BNDES was acknowledged as one of the key agencies of state capitalism and neo-developmentalism at the centre of delivering the PT's domestic and foreign policy objectives, especially during Lula's presidency (Hochstetler & Montero 2013; Musacchio & Lazzarini 2014; Cervo & Lessa 2014). The government dramatically raised the resources

available to the development bank (Doctor 2015), and various policy reports and speeches showed that it took pride in its high profile both nationally and internationally. However, one could argue that BNDES was not used as coherently and strategically as possible, because its international activities fell between the cracks in terms of the state's fragmented structure. Thus, BNDES fell under the remit of Ministry of Development, Industry and Trade (MDIC) and not MRE/Itamaraty. The ministries often operated in silos and relied on presidential coordination to align their activities. Lula played a vital and active role in the process, but his successors were less politically adroit. Also, it is worth noting that the expertise of BNDES staff in the area of development finance and their long experience in working together with Brazilian firms meant that they were not simply instruments of Brazilian strategic diplomacy, but often also agents in the decision-making process.

To summarise, BNDES resources (finance and expertise) were deployed with the intention of using the bank as an instrument of Brazil's strategic diplomacy during the PT years, and this was clearly communicated both to domestic and international audiences. At a speech in Beijing, President Lula noted the importance of BNDES leading the way, if Brazil wanted to 'behave like a country that has strategic interests' (cited in Hochstetler 2014). Thus, evidence suggests that BNDES' actions exhibited at least some aspects of all four features of strategic diplomacy, although there were some questions about whether its internationalisation activities actually served to promote the national interest.

New Development Bank: The global financial crisis and its aftermath probably provided the tipping point that pushed the BRICS to move away from relying on the established IFIs for infrastructure financing. The idea of creating a multilateral development bank amongst the BRICS was first put forward at the group's summit in New Delhi in 2012, later confirmed at the Durban summit the following year. In 2014, at the Fortaleza summit, the five leaders of the BRICS signed the agreement establishing the New Development Bank (NDB). Crucially, all the lenders would also be borrowers. The Fortaleza Declaration agreed an initial authorised capital of US\$ 100 billion, with an initial subscribed capital of US\$ 50 billion (with equal shares for each of the five BRICS members). Alongside the creation of the bank, the BRICS also

agreed to set up a Contingent Reserve Arrangement (CRA) to make provisions to support short-term liquidity.

After some discussion about location of its headquarters, the BRICS decided to locate the NDB in Shanghai, where it held its inaugural meeting in July 2015. The bank launched its first financial transactions in 2016 (a green bond in March and first loan agreement in December). The NDB's general strategy document for 2017-2021 was approved in June 2017 confirming it planned to support 'public and private projects via loans, guarantees, equity participation and other financial instruments' (NDB 2019). Furthermore, the NDB signed partnership and cooperation agreements with the national development banks of its members (including BNDES) as well as other multilateral development banks (among them, the World Bank, Inter-American Development Bank, CAF, and even the China-led newly created Asian Infrastructure Investment Bank).

The focus of NDB lending is quite narrow, specifically physical infrastructure and sustainable development. Partly, this decision reflected the growing concern with urgent unmet infrastructure investment financing needs among emerging powers, but also more widely felt in the Global South. Economists had calculated an annual one trillion dollar 'investment gap' or deficiency in infrastructure finance (Bhattacharya, Romani & Stern 2012; Griffith-Jones 2014). The NDB's founders blamed the lack of such resources on the alternative priorities, risk averse preferences and cumbersome processes of the traditional multilateral financial institutions (Griffith-Jones 2014; Serrano Oswald 2018). Traditional development lending was 'too rigid, inflexible and slow' as noted by Kundapur Vaman Kamath, the NDB's first president (cited by Wildau (2015) in the *Financial Times*). They were also clearly cognisant of how providing such financing could serve not only as a 'tool of geo-politics', but also 'literally drive state-building' (Khanna 2014:47). In the interests of speeding up the disbursement activities of the newly created bank, the BRICS relied on using projects already in the pipeline of their national development banks or government infrastructure and sustainable development programmes. This approach to building its loan book was entirely feasible, given that the NDB did not impose its own environmental standards and safeguards or social rights framework, but relied on national ones. The quick translation from idea to formal organisation underlines the high stakes involved for the BRICS (Cooper & Farooq 2015).

The logic of NDB activity is two-fold, and in each case strongly supports the foreign policy objectives of Brazil. These are: to provide an immediate alternative source of and arrangements for development financing of infrastructure, and to help institutionalise BRICS cooperation in a more concrete format with the aim of enhancing their impact on global economic governance (Abdenur & Folly 2015). In the first category of activity, the bank pointed to its vision of ‘trigger(ing) a new kind of development’ that supported ‘holistic and sustainable growth’ (NDB 2019). As Yepes (2008), Griffith-Jones (2014) and others argued, developing countries needed to be investing some 6.6% of their gross domestic product in infrastructure, but because actual resources allocated fell far short, it held up growth and development in these economies.

Just before the launch of the NDB, the BRICS collectively held over five trillion dollars in foreign currency reserves (Reisen 2015). The aim was to put the foreign currency reserves accumulated in BRICS’ national coffers to immediate productive use in an area where the Bretton Woods institutions had become reluctant to lend. Moreover, by pooling their resources in the NDB, which had a higher credit rating than each of the BRICS individually, they were able to borrow at a lower cost. Thus, the NDB not only increased resources available for much needed infrastructure investment, but also provided the BRICS with an opportunity to design new institutions and innovative financing arrangements that could have systemic impacts on the architecture and governance of development finance (Serrano Oswald 2018).

The second logic of activity relates to the way that the BRICS turned the above-mentioned functionalist logic into a more symbolic message with systemic consequences. As soon as the idea was launched, analysts tried to pinpoint the motives behind it – from those more focused on how it would enhance intra-BRICS cooperation and hence their collective ‘voice’ to those concerned about how it was a challenge to the hegemony of the G7-controlled IFIs and hence an indication of their partial ‘exit’ or as a substantial alternative to them (Chin 2014; Reisen 2015; Cooper and Farooq 2015).

According to Griffith-Jones (2014), the NDB provided a platform for collecting experience and expertise to address structural change and inclusion issues as well as to deepen cooperation among emerging powers to advance reform of the global governance of development finance. It gave substance to efforts at playing down differences and emphasising similarity of interests among BRICS, what Cooper and Farooq (2015: 40) describe as putting ‘mortar onto the BRICS’. Therefore, although

each country had a different immediate interest in setting up the NDB, they all were fed up with the ‘underwhelming support to the infrastructure investment agenda’ and ‘mock compliance’ in the G20 towards reforming the IFIs (Chin 2014: 369). Thus, the NDB became the means of helping the BRICS move from style to substance and from rhetoric to action (Khanna 2014), and also move from ‘best practices to next practices’ (Kamath, cited by Wildau, 2015).

Significantly, the NDB was conceived and launched during the presidency of Dilma Rousseff, even though her policy focus was more domestically oriented (Cervo & Lessa 2014). Of course, the NDB’s aims and approach to development neatly coincided with the PT’s developmentalist objectives and state-led capitalism (Hochstetler & Monteiro 2013). Moreover, Rousseff had inherited clearly defined foreign policy strategies from the previous government (Saraiva and Gomes 2016). Evidently, the Lula years had generated sufficient strategic diplomatic momentum on reforming the global architecture for development finance that it later spilled over into his successor’s endorsement and active role in the creation of the new BRICS bank.²

At Fortaleza, Brazilian diplomats and officials were instrumental in bringing the others to agreement. Chin (2014) notes that it was a Brazilian official who suggested a more egalitarian format (of equal weight) as a model for how to redress the imbalance of representation at the IMF and World Bank. Serrano Oswald (2018) notes that Brazil used its development banking expertise and regulatory capacity, not to mention well regarded diplomatic service, to take on secretarial functions during the NDB negotiations. He argues that this gave Brazil significant influence in shaping many outcomes to its preferences. So, for example, Brazil along with South Africa insisted on equal initial capital contribution and voting shares for all original shareholders of the bank, and Brazil along with Russia pushed for more equal distribution of recruitment (especially for higher earning posts). Thus, Brazil played an outsized role in the process of institution building and deepening cooperation within the BRICS, especially the NDB. Also noteworthy was that here the BNDES was not just an instrument of Brazilian diplomacy, but actually became an agent in the process of creating the NDB.

² At the time, Lula was still influential in foreign policy circles within his party and in the Itamaraty. The *Lava Jato*/Operation Car Wash corruption investigations had not yet hit the headlines. See Melo (2016), Watts (2017) and Hunter & Power (2019) for analyses of the impact of corruption investigations and their revelations.

Interestingly, there was little outright domestic criticism of Brazil's decision to participate in the NDB nor its role in the founding of the NDB. Notwithstanding some concerns that it might actually compete with BNDES external financing role, it broadly received support from political and economic elites. However, there was some criticism from non-governmental organisations and civil society organisations regarding the 'country systems' approach to regulations regarding safeguards for environment standards and social rights. They feared, perhaps reasonably, that relying on national regulations of the borrowing country would see a drop in traditional multilateral development bank standards and practices.

If one examines Brazil's use of the NDB as an instrument of foreign policy in terms of the four features of strategic diplomacy, my research observed the following:

- (i) *Systemic focus*: the NDB aimed to not only enhance development outcomes within each member country (via access to more finance), but to also reform the global governance of development financing (via implementing alternative practices, and thus giving borrowers a choice). There is little doubt that Brazil worked together with its BRICS partners to reform prevailing practices of the development finance architecture, and with a clear hope of using their collective voice and threat of exit (or at least partial exit) to navigate, shape and enhance the prevailing system. The NDB aimed to offer wider access to development financing in the Global South, especially Latin America and Africa (both regions identified as key to Brazilian foreign policy interests). The decision to lend beyond the BRICS clearly indicated the desire to impact at a systemic level. By providing alternative modes and conditions for disbursing development finance, it hoped to create knock on effects on traditional G7-controlled development financing practices. By actively participating in the design and execution of the NDB, Brazil used its diplomatic skills to its advantage, both nationally and internationally.
- (ii) *Long-term objectives*: the effort and resources expended to set up and bring to fruition the NDB strongly suggests that all its original shareholders have long-term commitments and objectives in mind. Some of the features of the NDB's design and procedures for accessing finance also suggest a strong desire to protect the policy space of borrowers, e.g. avoidance of loan conditionality and/or programme lending, acceptance of local regulations for environment and

social rights, emphasising SSC (rather than traditional aid donor-recipient relations), and so on. Finally, by proposing alternative practices and building new institutions, the BRICS have put their resources where their discourse suggested they would, with great expectations that it would enhance their power, influence and status in the system. Brazil hoped to benefit from its connection to these initiatives and practices.

- (iii) *Dynamic understanding of the national interest*: there is much research that suggests that multilateral banks are a more effective way of financing infrastructure in developing countries, benefiting the strategic interests and policy goals of borrowers and lenders alike. When the financing involves developing countries (on both sides of the equation), then it often implies that newly developed narratives are being used to explain the reasoning behind such efforts, as in Brazil: its discourse and concrete policy initiatives for SSC were ably constructed around notions of solidarity and partnership for the mutual benefit (or in the national interest) of all involved; moreover, side-stepping or even stepping around the involvement of advanced economies in orchestrating these interactions (here, specifically with regards to development finance) was expected to alter the dynamics of the system as conceived in the mid twentieth century. Here, Brazil has used a mix of voice and exit strategies to enhance outcomes for its own development.
- (iv) *Engaged political leadership*: the NDB was set up towards the latter part of the PT years, when Rousseff was president. Her leadership style and preference for low-key international engagement meant that the Itamaraty was at the forefront of the process of setting up the NDB (an example of the relevance of bureaucratic politics models of foreign policy-making in Brazil). The Itamaraty took the lead, but it often relied on BNDES staff expertise to inform its policy positions. Thus, in Brazil, the NDB saw only indirect engagement of political leaders, and the Itamaraty had enough scope to push for institution building based on strategic considerations that worked towards Brazil's longer-term national interest in reshaping the global governance architecture for development finance.

In many ways, the NDB was a collective instrument of emerging power strategic diplomacy, with Brazil poised to take full advantage of it to enhance its own longer-

term national interest. The new bank was expected to not only augment the resources available, but also to alter the conditions under which developing countries accessed development financing for much needed infrastructure investment. By playing a prominent role in the technical discussions for setting up the bank, both Itamaraty diplomats and experienced BNDES staff were able to shape the new institution's operating procedures and lending guidelines. They introduced significant innovations that eventually could have systemic implications.

To summarise, this section answered both the main research questions: it demonstrated how Brazil used national and multilateral development banks, the BNDES and NDB respectively, to foster its national interest in systemic change of the global governance architecture for development finance. It noted how Brazil deployed the resources of development banks to attain development goals and policy autonomy at home, and to enhance voice in the IFIs and boost its status abroad, especially amongst states of the Global South. In other words, Brazil's foreign policy behaviour in international economic relations showed evidence of the application of strategic diplomacy. The actions of both the development banks examined above clearly worked towards maximising political space to shape global governance practices. In the PT years, Brazil's foreign policy behaviour, via BNDES and NDB, clearly exhibited some signs of all four features of strategic diplomacy, as discussed above. The next section briefly assesses the implications of Brazil's efforts to deploy strategic diplomacy in this policy area.

Assessing Brazil's Strategic Diplomacy Efforts

Brazil's top foreign policy objectives consistently focused on boosting national development and sovereignty (interpreted as preserving autonomy or policy space). Clearly, theories of foreign policy analysis have to be adapted to accommodate the unusually high significance of autonomy and development in Brazilian diplomacy (Jaguaribe 1979; Giacalone 2012; Vigevani & Cepaluni 2007). Hence, theories to explain Brazilian foreign policy behaviour must consider its leaders' ideological inclination towards taking an autonomous development path (Hey 1997). By focusing on efforts to achieve autonomy (in terms of policy space as well as its financial aspects), the analysis fruitfully applied the concept of strategic diplomacy to understand Brazil's

recent decisions related to development banking. The upscaling of Brazil's international development financing strategy from national (BNDES) to also include multilateral (NDB) level is an excellent example of the long-term logic and system-impacting features attributed to strategic diplomacy. It could also be interpreted as an attempt towards moving from satisficing to maximising its national interest. So, how successful was Brazilian diplomacy in achieving policy space to support its development objectives?

Initially, Brazil focused its efforts to reform IFIs and development financing practices within the institutions themselves and also in the G20 Finance Ministers' meetings regularly held in the aftermath of the Asian Financial Crisis (Kirton 2010). Once the G20 was boosted to a Leaders' Summit in 2008, Brazil was among those states that prominently argued for the urgent need to reform the IFIs to reflect the global power and economic transitions underway. However, the pace and scope of IFI reform remained limited and disappointing (Vestergaard & Wade 2015). As discussed above, when US foot-dragging stalled progress after the G-20 Seoul Summit, Brazilian diplomacy reached a tipping point. It shifted to a more assertive diplomatic stance. It even supported creating a new international organisation that not only circumvented the limitations imposed by Northern-led IFIs, but also directly served Brazil's strategic interests in SSC and reshaping global economic governance.

For Brazil and its BRICS partners, (re)shaping institutions was a logical means to power, 'both as domains for voice and as constraints on the powerful' (Hurrell 2018:92). When attempts at voice did not bear results, partial exit (or setting up a concrete alternative) became the considered choice for Brazil to meet its twin foreign policy priorities of development and autonomy. As Reisen (2015:298) noted 'voice and exit are complements once exit has been organised'. Although some may argue that the 'backlash from the core' means that the moment for a genuine overhaul of global governance institutions has passed, caution would be advised before reaching such a conclusion (Hurrell 2018).

The empirical findings of the research also presented some theoretical insights regarding the conditions for and limitations of conducting strategic diplomacy in the Global South. My research demonstrated Brazil's successes in deploying strategic diplomacy towards reforming the global architecture for development finance, but it also showed the significance of two factors: (i) a consistent, coherent and consensual

approach to foreign policy; and (ii) stable political and economic conditions. A fundamental challenge for implementing strategic diplomacy is embedding a foreign policy consensus that involves an increasing number of societal actors and that does not fall foul of the vagaries of electoral cycles and democratic politics. The research showed how in the absence of any real ideological shift, the replacement of the hyper-activist Lula with the less internationally engaged Rousseff saw inertial continuity in many areas of foreign policy. However, this was harder to sustain, when Brazil was hit by multiple crises in the mid 2010s: the economy went into an unprecedented two-year recession, even as the country became embroiled in the Operation Carwash corruption scandals and the impeachment of Rousseff (Melo 2016; Watts 2017). The situation made it very difficult for Brazilian diplomacy to hold on to its strategic component. However, strategic diplomacy was delivered a deathblow in 2018 with the election of Jair Bolosonaro. He shifted not only Brazil's political direction, but also its foreign policy priorities. In other words, the long-term focus required for implementing strategic diplomacy is extremely vulnerable to economic uncertainties as well as political shifts often experienced in emerging economies and new democracies like Brazil. In fact, the pandemic reinforced the relevance of state capacity, alongside exercising structural power and strategic policy, for maximizing policy space to achieve foreign policy objectives.

Finally, a brief note on developing concepts and theories related to foreign policy analysis. My research engaged with the relatively new concept of strategic diplomacy and successfully applied it to the Brazilian case. Viewing the PT governments' foreign policy behaviour through the conceptual lens of strategic diplomacy added nuance to our understanding and exposed some of the strengths, but also weaknesses, of foreign policy-making in developing countries and new democracies. It also contributed to refining the concept to show that system enhancement may be a mid-point between status quo and full systemic overhaul. In terms of theory, my research highlighted the factors that shape the deployment of strategic diplomacy. Brazil exhibited some of the conditions that sustain strategic diplomacy (bureaucratic expertise; institutional consistency), but failed to meet others (economic and political stability; political leadership). Clearly, both sets of conditions are necessary to fully meet the long-term objectives implied in the concept.

To conclude, to the extent BNDES fostered the internationalisation of Brazilian TNCs and increased competitiveness of firms, its actions complemented the government's drive towards inserting Brazil more deeply into global markets and extending its geopolitical influence in South America and Africa. However, once the firms that benefitted from its financing became embroiled in corruption scandals, the bank was forced to lower the profile of its externally oriented activities. Meanwhile, the global financial crisis provided a strategic surprise and opportunity for the BRICS to push for institutional reform and systemic change. However, although the established powers recognised the NDB as a challenger to established multilateral lenders, it is not possible to claim outright success for Brazilian diplomacy on this count. To date, there have been few indications that the more egalitarian NDB structure provided a model for redressing the imbalance of representation at the IMF and World Bank. However, Brazil can take some credit for having actively contributed towards the shaping of an alternative to the traditional IFIs, and so extending the choices available to borrowers from the Global South.

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