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**Seminário**  
**Uso Regional de Moedas do Mercosul, Impactos nos Mercados Financeiros, Consequências e Riscos**

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# Report on the convenience and risks of currency internationalization and the wider trade of Mercosul Countries assets (including currency) abroad

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# The Convenience and Risks of currency internationalization

Aim:

What is the **potential and problems of currency internationalization?**

General points to be made:

- Currency internationalization **has potential**
- **However it has to serve key functions** for a stable growth path
- There a **great risks if currency internationalization takes problematic forms**. These could even destabilize Mercosur growth

# Contents

- Analysing the Dimensions of Financial Market Integration
- History of International Monetary Regimes in the Changing World Economic Order
- Case Studies of Currency Internationalization
  - a) Aim of the Report
  - b) Historical Experience of Brazil and the Mercosul
  - c) Current Situation, Issues and Trends
  - d) Overview of Opportunities and Risks of Currency Internationalization
  - e) Options and Scenarios: the productivist vs. the financialized accumulation strategies and strategies of currency internationalization
  - f) Preliminary Conclusions

# Analysing the Dimensions of Financial Market Integration

- Research Report on the Dimensions of Financial Market Integration and the Role of Regional Financial Hubs (**Report 1**)
- Standard economic approaches
- Post Keynesianism
- International Political Economy and the Regulation Approach



# Standard economic approaches

- Generally optimistic with regards to financial markets
- Potentially decreasing transaction costs
- Potentially liquidity enhancing
- Potentially increasing asymmetric information problems and related risks

# Post-Keynesian Insights

- Non-Neutral Money
- Social Relations of Trust and Expectation Management
- Finance and Uncertainty
- Global Currency Hierarchies
- Financialization
- Dimensions of currency internationalization

# The roles of international money

Functions of money			
<b>Levels of analysis</b>	Medium of exchange	Unit of account	Store of value
<b>Private</b>	Vehicle currency (foreign exchange trading), trade settlement	Trade invoicing	Investment currency
<b>Official</b>	Intervention currency	Exchange rate anchor	Reserve currency

Source: Adapted from Cohen and Benney (2014: 1020)

# International Political Economy and the Regulation Approach: Insights

- Power in the World Economic Order
- International Monetary Regime – Dominant Currencies and Hierarchies
- Key concepts: Regime of accumulation, mode of regulation, growth model, accumulation strategies, growth regime
- Relative dominance of axes in Growth Regimes:
  - a) Financialised vs. Productive/Productivist
  - b) Extensive vs. Intensive
  - c) Extroversion vs. introversion
  - d) Public vs. private sector



# Experiences of countries with convertible currencies

- Literature Review on the experience of countries with convertible currencies (**Report 2**)
- History of monetary regimes and currency hierarchies
- Case studies
  - The USA
  - The Eurozone
  - The United Kingdom
  - **The Peoples Republic of China (cautious)**
  - **South Africa (ambiguous)**

# Convenience and risks of the internationalization of the a Mercosul currency: Aims

- While a more in-depth analysis will be made in Reports 5 and 9, this report aims at:
  - (a) providing a framework for doing so; and,
  - (b) reaching tentative conclusions
- Basic framework established in Reports 1 & 2. **Currency internationalization has to be assessed against the historically specific background** of:
  - the currency within the **global hierarchy** and the international (financial) environment
  - the **national growth model** and regional growth regime

# Historical experience of the case of Brazil within the context of Mercosul

- **Peripheral Fordism:** high growth and inflation under Bretton Woods and ISI accumulation strategy
- **Market liberalization** and early steps towards currency internationalization under de Collor Plan
- **Mercosul integration** as an integral part
- Plano Real, **financial market integration and first steps of currency internationalization**

# Current situation, issues and trends: Brazil in the Mercosul

- The **Mixed Accumulation Strategy** Productivist-Financialized (respective monetary constraint), Introversion-Extroversion, Intensive (formalization)
- **Supported by specific institutions and policies**
- Continuation of **partial currency internationalization** but cautious approach (e.g. SML)
- **Further currency internationalization** as a response to crisis and promising long-term strategy?

# Overview of opportunities and risks of currency internationalization

- The **international environment**
- **2 stylized scenarios:**
  - a) productivist accumulation
  - b) financialized accumulation

and supportive forms of currency internationalization



## a) Productive regime of accumulation and supportive forms of currency internationalization

- Dominant productivist-industrial regime of accumulation with extractive elements based on adequate regulation as a **long-term strategy**
- **Supportive currency internationalization:**
  - Settling and financing regional trade (**vehicle currency function**)
- **Problematic forms of currency internationalization** (in the short-term and medium-term):
  - Promotion of its **investment currency function**
  - Promotion of its function as an **international funding currency (ambiguous)**

## b) Financialized accumulation strategies and supportive forms of currency internationalization

- Financialized accumulation strategies as a **short- to medium-term strategy** to overcome the crisis
- **Supportive currency internationalization:**
  - Promotion of its **investment currency function**
  - Promotion of **international funding currency** (less effective and in part contradictory to its investment function)
  - **Settling and financing trade** (least effective)

# Preliminary conclusions I

- Currency internationalization has to be assessed against the specific background
  - of the **currency within the global hierarchy** and the international (financial) environment
  - the **national (regional) accumulation strategies** and development models

# Preliminary conclusions II

1. A **complete internationalization**, if the country belongs to **the top global** economic, political and military powers.
2. Mercosul can nevertheless **benefit from adopting a cautious approach to currency internationalization** as a means to **promote national economic development and a productivist-industrial growth model** with the aim of ascending power hierarchies in the global political economy
3. A highly promising strategy to this end involves the **promotion of regional co-operation and the careful implementation**, as a first step, of very specific types of currency internationalization related to productivist-industrial development and trade

# Preliminary Conclusions III

4. Mechanisms such as FOCEM should be capable of **addressing disruptive asymmetries by redistributing the gains** of the regional currency internationalization of the Real or other Mercosul currencies should be introduced to strengthen Mercosul commitment to this process.
5. This monetary (and political) strategy could also **serve to strengthen the international position of the countries in the region** against the emerging economic and political power of China.



# Final Conclusion

- An economic **strategy focussing on financial stability and productivist economic growth is thus the most promising way to promote the strength and international use of the currency and a Mercosul City as a stable regional financial hub in the long term.**