The economic balance of powers after the crisis

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Extended Abstract

To facilitate the reasoning in this paper and enhance its capacity to contribute to the upcoming G20 Pittsburgh summit (USA), the text employs certain relatively simple concepts often used in the area of International Economic Policy (IEP), specifically: external vulnerability, potential power and effective power.

In fact, dozens of countries have high external vulnerability, that is, low capacities to resist pressures, destabilizing forces and external shocks such as those arising from the current international crisis: (i) the lowering of agricultural commodity and mineral prices, (ii) the shrinking of world markets and (iii) the severe restriction of international credit and liquidity. Among those with high external vulnerability are countries in Latin America and the Caribbean, in Sub-Saharan Africa and even in Central and Eastern Europe. All have been harshly affected by the international crisis, which, as known, began in the developed countries.

The official communiqué issued at the close of the G20 London Summit, entitled the *Global plan for recovery and reform* (02/04/2009), reinforced the notion of a “fair and sustainable recovery for all”.

However, strong disequilibria – of a structural nature – have existed between the developed and the developing countries since well before the crisis. Such disequilibria can be observed in the social, economic and power spheres, and though limited amounts of aid are being channeled to the developing countries to help mitigate their problems, the key question refers to the fact that the nature of the current crisis is aggravating these disequilibria, threatening to render the international system even more asymmetric in the post-crisis period.

In this paper, this asymmetry will be analyzed, the starting point being a brief review of the predominantly financial nature of contemporary capitalism (which detonated the current crisis). For one side we can see the inheritance of the financial and economic deregulation and the “reaganomics” policy since the 70´s brought a huge concentration of wealth and effective power. The movement also embraced the sweeping macroeconomic reforms of the 1990s denoted the Washington Consensus. These reforms, commonly**,** were imposed on the peripheral countries to accelerate their growth. In practice, the policy failed to stimulate growth and, according to experts on the subject, actually contributed to aggravating social inequality and also produced more asymmetry in Latin America and Sub-Saharan countries.

Following this initial analysis, which, though brief, serves to outline the structural features of capitalism at the moment, a new global actor will be examined – China, or in other words, the “China effect”. Particularly will be seen its impact on Latin America before and during the crises. It is also important to understand something of the USA – China alliance and its potential consequences. Understanding this phenomenon is of fundamental importance when analyzing the dynamics of the polarities of the international economic and political systems.

Certain key structural changes in capitalism – specifically the appearance of the “China effect” – having been outlined, some of the impacts of the financial crisis will be examined, with special attention being given to issues involving the economic integration with China of Latin America countries located at the Pacific Ocean side.

From an other side and looking at the long term, we will make a short examination of the potential role of new technologies as paths to more equalitarian forms of capitalism.

Lastly, as a preliminary conclusion, a paradox concerning the ties being forged between China and the Latin American countries situated on the Pacific Coast will be highlighted. In these countries (Peru, for example), Chinese investments in port facilities and mining equipment have been remarkably high (see The Economist, 15-21 August 2009, p. 19). This kind of investment and the future mining products imports certainly will push the Peruvian economy, but the country will loose its autonomy to participate in others South American agreements pointing to other forms or labor or production division.