



The economic balance of powers after the crisis

**a Brazilian and Latin America approach
1st version**

**Marcio Wohlers - IPEA – Director
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Back ground

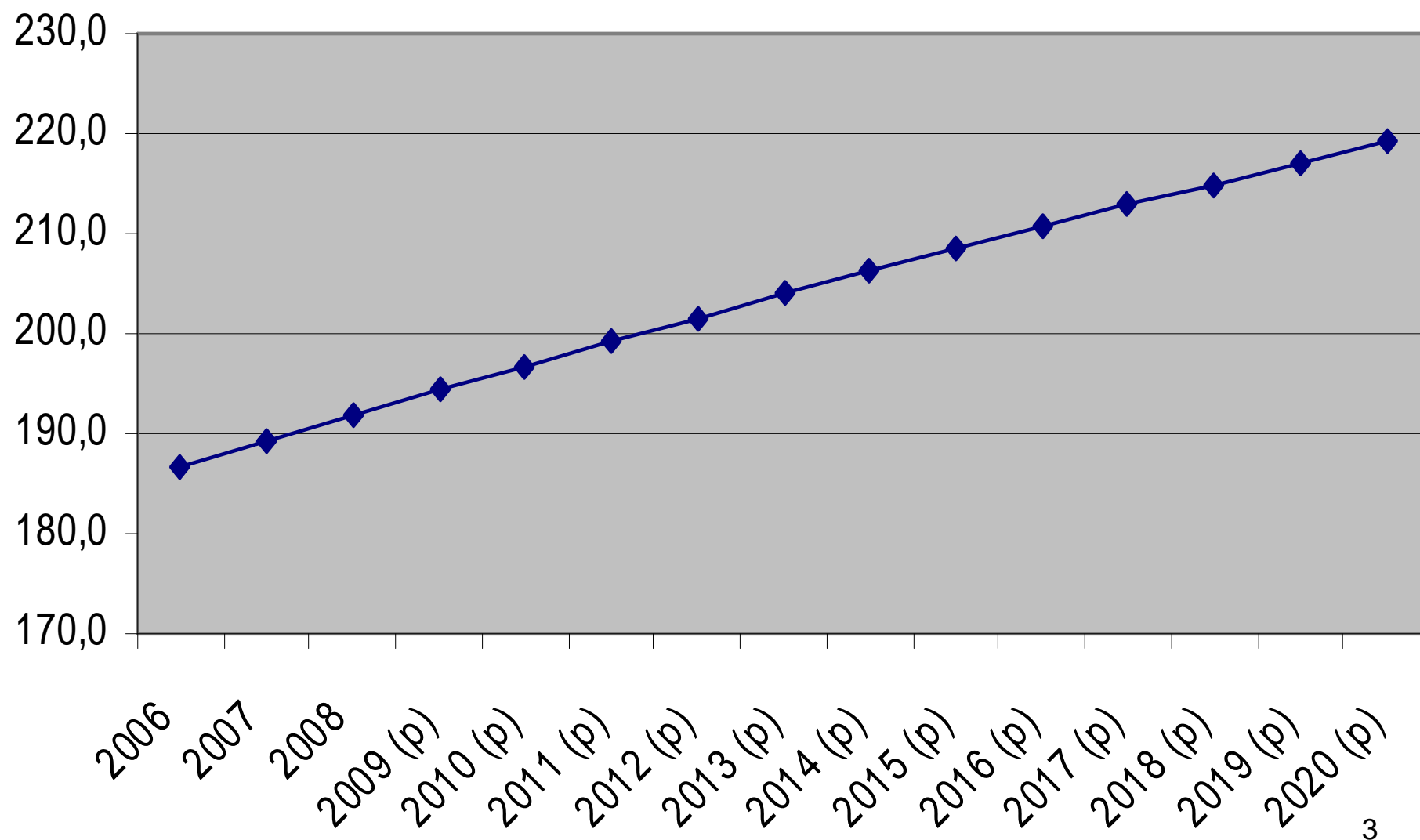


- G20 London Summit, reinforced the notion of a “fair and sustainable recovery for **all**”.
- Economic Balance of Powers After the Crises from a Latin America perspective → Brazilian one
- BRICS → south-south block belonging to G20
- Brazil is one reference to BRICS and one of the majors countries in Latin America (with Argentina and Mexico)
- Growing power coming from its economic and political role and a leading actor in the region
- Paper do not analyze Japan (2nd world economy) nor the UE economies



SOME FIGURES Brazil: projection's population post 2008 (billions)

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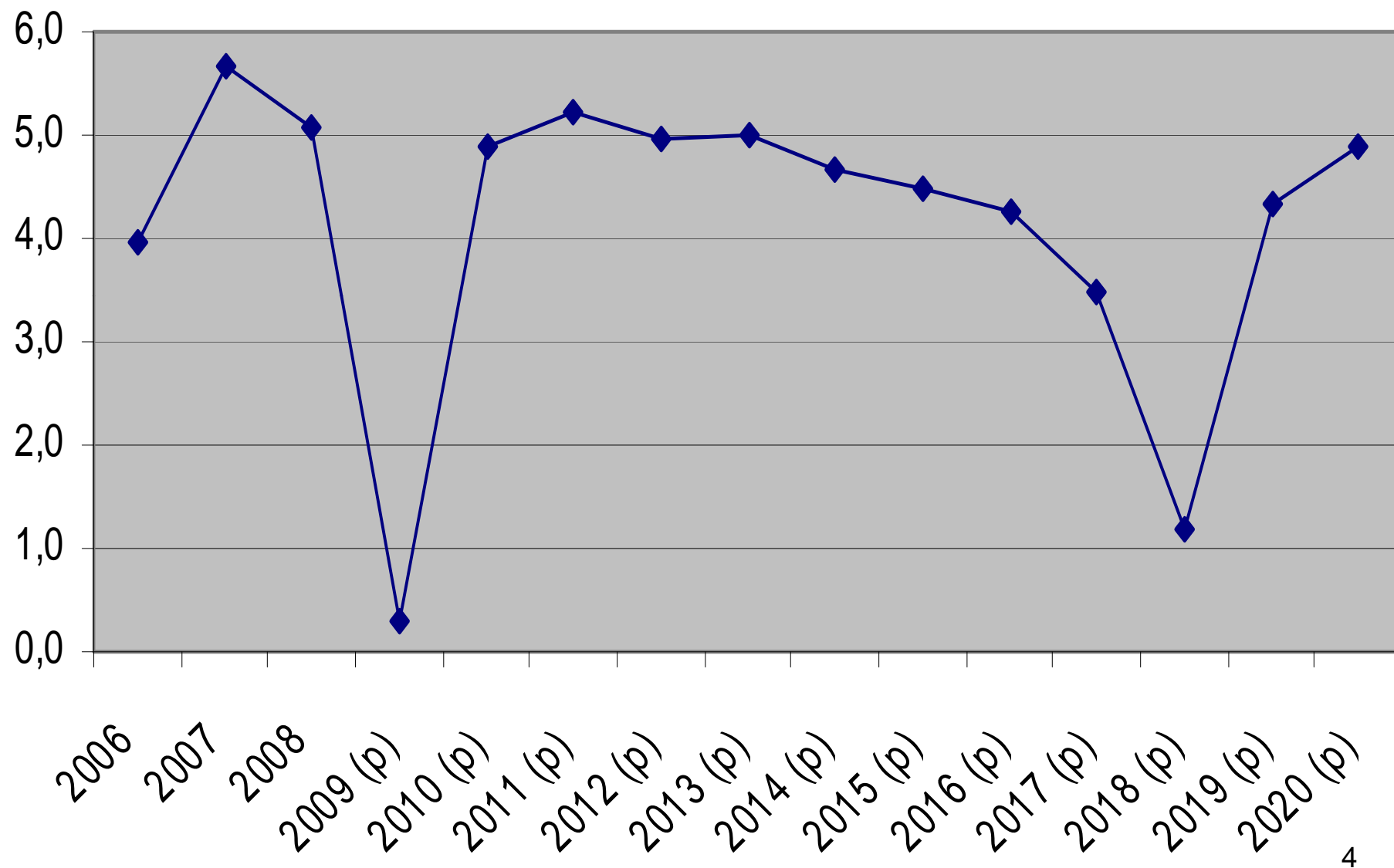


Brazilian GNP Growth rate: projections post 2008



% a year

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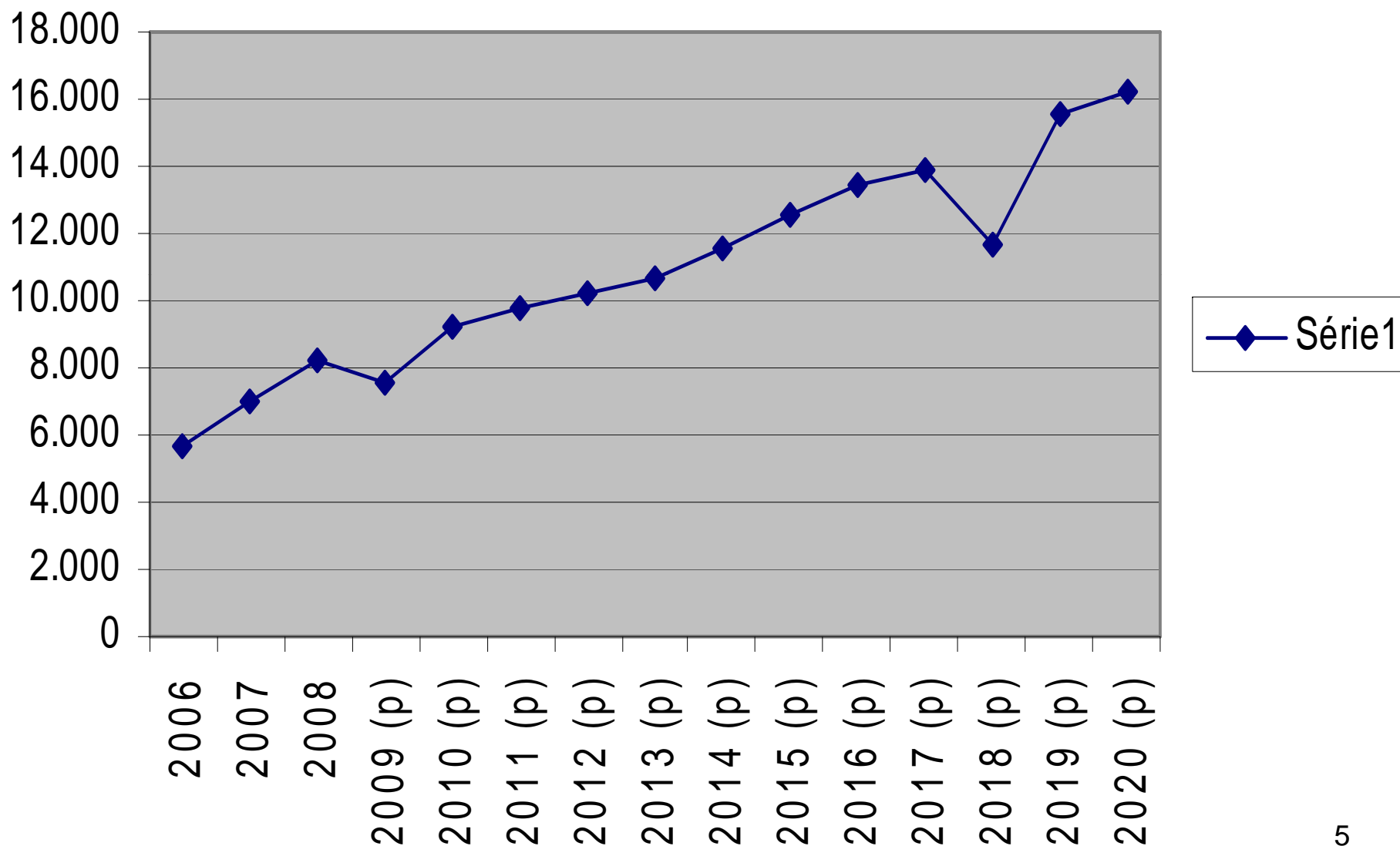


Brazil: projection's GNP

per inhabitant post 2998

(US\$)

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Oil Discovery in Brazil

- New Investments for next 20 years
- Reserves: 50 to 100 billions boe



Big Questions



- Strong disequilibria – of a structural nature – existed between the developed and the developing countries
- Since well before the crisis disequilibria can be observed in the social, economic and power spheres,
- the nature of the current crisis is aggravating the disequilibria of the developing countries
- the key question refers to the fact that, threatening to render the international system even more asymmetric in the post-crisis period

Economic Balance of Power: Various Theories in Brazil

- The first: is more radical and pessimistic The strong growth (around 5% per year) experienced by Latin America in 2003-2007 was merely ephemeral, Illusion for some developing countries (Brazil and South Africa) becoming political/economic protagonists
- The second thesis, to which more attention will be directed in this paper, basically assumes that when a government enhances its participation in world affairs and contributes to multilateral forums it strengthens its political voice, like administration of Lula.



Economic Balance of Power: Various Theories

- The greater political power of Brazil, founded on its current economy (substantial foreign reserves and a growing internal market, though in modest proportions), allow the country to effectively participate in the G20 and assure its vitality among the BRICs, thus gaining the strength required to continue and confer legitimacy on the economic and social reforms
- Greater “political” power of the country is capable of reinforcing the implementation of progressive macroeconomic proposals that need to be put into practice but are still facing strong resistance from the remaining liberal thinkers

Participation in Total World: Selected Countries



(%)

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Source: ECLAC (2009)

China

	1990	2000	2008	Var.1900-2000 (%)	Var.2000-2008 (%)
Population	22	21	20	15	9
GNP (in PPA)	4	7	11	13	18
Global Trade (Exp + Imp)	2	4	8	6	11
FDI	2	3	6	--	--
Global Reserves	3	8	29	12	40
Oil Consumption	4	6	10	28	40

Participation in Total World: Selected Countries



(%)

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Source: ECLAC (2009)

Brazil, Russia.India

	1990	2000	2008	Var.1900-2000 (%)	Var.2000-2008 (%)
Population	22	23	23	26	25
GNP (in PPA)	--	9	11	--	13
Global Trade (Exp + Imp)	1	3	5	4	6
FDI	1	3	5	--	--
Global Reserves	--	5	13	--	17
Oil Consumption	12	9	9	-13	13



Latin America Selected

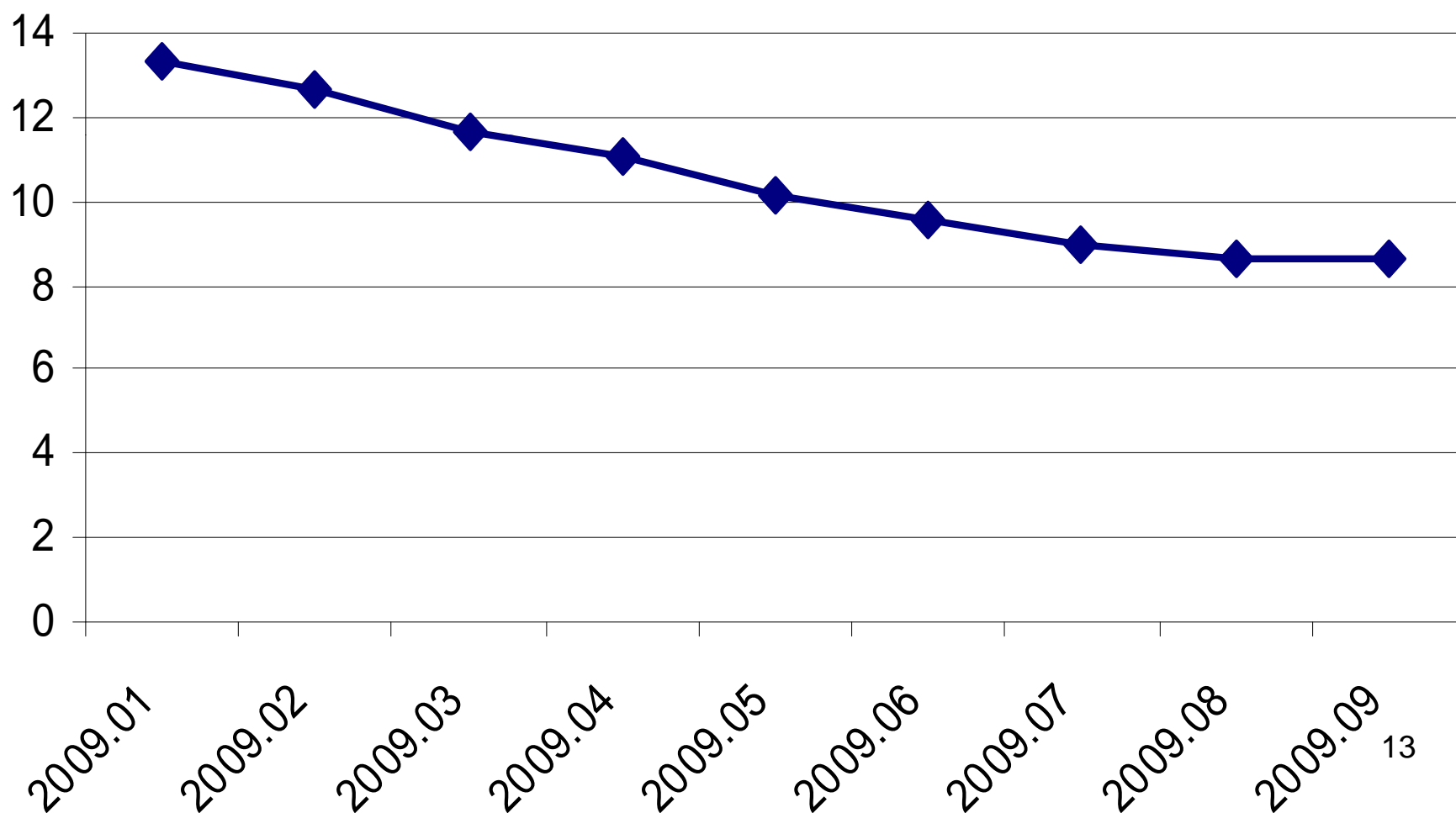


Countries: Trade ranking to China

	Exports (to)		Imports (source)	
	2000	2008	2000	2008
Argentina	6	2	4	3
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	35	4	15	2
Peru	4	2	13	2
Venezuela	37	3	18	3
Costa Rica	26	2	16	3
Mexico	25	5	6	3
Cuba	5	2	5	2 ¹²



Brazilian **nominal Interest Rates** (see below in % a year) are still high (Brazil was a Washington Consensus very good student) – with very low inflation



Latin America: preliminary impacts for 2009 (same period to 2008)

- 25% decrease in the international prices of the basic products exported by the region;
- 25% decline in the overall value of exports;
- a steep drop – between 35% and 45% – in Foreign Direct Investment (FDI); and
- a decline – of 5% to 10% – in the rates of tourism and emigration.

Transmissions channels

- In the case of Brazil, and especially that of the industrial sector, the most important channels for transmitting the crisis to the economy were the following:
- Restrictions on the external and internal credit available to Brazilian firms
- The strong decline in the expectations concerning the evolution of the Brazilian and the world market and the economic conditions of the country
- The decrease in international trade (and Brazilian exports)
- The sharp decline in the price of the commodities exported by Brazil
- Highly accumulation of stocks; in October 2008 of the Brazilian economy growing annualized rate was 7% a. year (the historical rate was around 3% a year)
- Impact of the high level interest rate since 2008 April (promoted by the Brazilian Central Bank)



The anti cycle unicycle measures started by the government to mitigate the crises was the followings:

- Increase the number of people beneficiated by the Income Transfer Program (Bolsa Família), exceeding 12 million families living under poverty line.
- Reduction of IPI (Federal Tax) for cars industries, refrigerators e stoves.
- Increasing of the period of unemployment salaries.
- Anticipation of the raising of the minimum salary from May to February of 2009.
- Raising the public banks credits to people and companies – Banco do Brazil, Caixa Economica Federal and BNDES (National Development Bank) – all Public Banks
- New habitation program: one million of new houses to low income families. The program is directed also stimulated the value chain of the civil construction and to create new jobs .