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special feature

A Surprising World◊

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The 20th century was defined in distinct and contradictory ways: the short century—due to having lasted from World War I (1914–1918) to the late '80s; the age of extremes; the globalization century; the long century; the age of turbulence and so on. It may have been all these things, but it never failed to surprise. Who would say that the country that appeared in the world scene as the champion of isolationism would join World War I practically against its will, win the war, and propose the creation of the League of Nations to manage the world? What to say about the victorious communist revolution in an underdeveloped empire, a possibility as remote to the socialist thinkers as the notion of communism restricted to a single country? And would not China—humiliated, invaded and divided—be reborn united under the Chinese Communist Party, motivated by Mao Zedong's old fashioned vision and his cultural revolution? And, a few years later, under Deng Xiaoping's modernizing drive, would not China be a competitor to the United States in the world trade and, at the same time, provide a financial complement to the United States' rival while accepting the rules dictated by the capitalist economy? And was it not late in the century that Europe, the cradle of nationalist states and territorial wars, pulled itself together under the European Union, something unthinkable up to mid-century? And how does one understand Russia's surprising turnabout under the baton of an old *apparatchik* who became "green" and started the movement toward the end of the red empire? And what to say about the resurgence of Islamism in the global political scene and the tragedy of Africa's decolonization bound by the limits imposed by the colonizers or, on the other hand, Japan's success in becoming a democratic, economically prosperous country, after having been defeated in World War II (1939–1945). Or the current boom in the price of commodities, driven by India and China's hunger for imports, making room for new developing economies, including their own and those of other, previously called "underdeveloped" countries, such as Brazil?

Two interrelated processes, not necessarily dependent on each other, are behind all these changes—quick changes when considered in the context of world history. One is the economic process; the other is political. We are used to naming the first process, generically and nonspecifically, "economic

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globalization." The latter, less discussed, could be called "the collapse of world hegemonies" or more simply, disarticulation of global ways of domination, hampering the prevalence of a stable world order. We are, therefore, going through a time when economy goes one way to establish universal rules and politics goes the other, an opposition that makes it an impossibility to either accept rules to define how nations can live together or impose hegemony unilaterally. This is the core of so many divergences and surprises.

However, one should not think that all this is "new." Almost 80 years ago, soon after the Wall Street Crash, the respected magazine *The Economist* wrote:

> *"The worst difficulty faced by our generation [...] lies in that our achievements in life's economic sphere have overcome our progress in the political area to such an extent that our economy and our politics are permanently out of step. In the economic sphere the world has organized an encompassing unit of activities. In the political area, it has kept itself divided into 60 or 70 sovereign states, the national units have become constantly smaller and more numerous, and the national consciousness has become more acute. The tension between these two contradictory trends has been producing turbulence in the human kind's social life.*"[1]

Since 1930, the fragmentation and multiplication of nation-states has only increased. Currently, their number is above 180. But it would be misleading to think that the divergence between economy and politics that existed for almost a century and the current one are of the same nature. It is true that the world has organized itself in an encompassing number of economic activities, but in a different way. We can also add that the national states are not able, as in the past, to control their local societies and to fully exercise the legitimate monopoly of power. And not to a lesser degree—although this is not mentioned by *The Economist*—the present efforts to build a global political order are comparable to the attempts of the Congress of Vienna to achieve balance among Europe's "great powers."

It is necessary to recognize that the decline in Great Britain's world power also marked the end of an imperial or imperialist design. The United States, successor to Great Britain in economic and political hegemony, attacks smaller countries with some frequency. They see themselves as the world sheriff, rule economically, but neither colonize nor are willing to keep administrative and political control over the attacked countries. This might ensure greater success in the "civilizing" role inspired by the belief that seems to motivate some of their leaders in America's declared destiny to save the Universe.

So neither do we come to "the end of history" of globalization, nor is it correct to think that "history repeats itself," given the contradictions between the economic and political paths. It does not end and does not repeat itself, although each period may have affinity with previous experiences. The variety of concrete arrangements made by the people, social groups, and institutions along History is so wide that we will find, now and then, points of continuity or similar ways of breakthrough. But in each circumstance—in each period, historians would say—it is necessary to reconstruct the contingencies, the

[1] *The Economist* (1930, p. 652) apud Kennedy (1993, p. 389).

particular circumstances in which these arrangements are made, as well as to identify the feelings, the values (the ideology), and the dreams (the projects) that mobilized those people.

Not even *The Economist*'s abovementioned statement on the variety of economic actions and the states' slowness in adjusting to them is new. From the very beginning of capitalism, there were very different ways of interrelating politics and economy. Whoever knows a little about the history of world capitalism is aware, at least since Henri Pirenne or Fernand Braudel, not to mention Marx, Weber, or Sombart, that there are consistent analyses of the variability of interlacements and distances between the political and economic order in the capitalist world. Fernand Braudel's works, for instance, show that this process is ancient, full of variances, and, in general, the changes in the standard relationship between these two orders were signaled by a change in course from trading goods to trading currency (Marx, upon analyzing the crises, was early in recognizing this).

Based on Braudel's analyses, Giovanni Arrighi reiterated that the market powers related in very distinct ways with what could, with some conceptual liberty, be called State or at least related in a variable way with the leading class of a given human conglomerate in a given territory. Thus, in the 15th century, if the Venetian or Florentine ruling elite and the proto-bourgeois interlaced in a common unit of people and interests (Arrighi goes as far as to state that the Marxist version of state as a committee to manage the whole bourgeoisie's common businesses applies to those cities), in Genoa, upon the rise of post–medieval capitalism, there was no such articulation: "*the Genovese capitalism, in contrast, moved towards market formation, and increasingly flexible accumulation strategies and structures.*" And it was in Genoa that Braudel found the seed of "modern capitalism."

It is not intended in this introduction to review the evolution of the relationship between power and market, between the state and capitalism. But it is obvious that they were much diversified even in the formation of large empires. Genoa, between the 14th and 16th centuries, although socially organized as a dichotomy—on one side the aristocrats that owned the land, on the other the merchants—was able to fuel the market powers and to organize networks that covered the whole world then available for trade. When the Genovese capitalists were barred by the absence of more solid amalgam among the lords of capital, land, and armies, they turned to obtaining political support for their businesses by ensuring financial flows for the expansion of a strong state—Charles V's Spain. Later, jointly with the Fuggers and other bankers benefiting from the financial technology provided by the Casa di San Giorgio—the bunker of the Genovese capitalism—they started to finance other European princes. In the absence of control over the local territory, the Genovese merchants-bankers expanded their relations to a global scale without having been political conquerors.

This was not the case with the Netherlands. Successors to the Spanish political domination, and after having enriched themselves by trading on the Baltic as well as investing in land and food trade, the Dutch became "global" suppliers, large trade intermediaries and, above all, in the wake of their Genovese antecessors, able to deal in currency and create financial tools to enable production, trade, and wealth accumulation. In both cases—the Genovese, who invented the "strong currency" as a condition for making profit in currency exchange and as a tool for defense against other currencies' devaluations, and the Dutch, founders of the Amsterdam Stock Exchange—the world hegemony was based not only on trade and political and military power, but also on the ability to deal with financial capital. Unlike the Genovese, who never controlled their own state, the Dutch capitalists allied themselves to the House of Orange, declined the British protection, and were able to be, over the 16th–18th century period, politically and economically influential all over the world. After Spain (and the Portuguese weakened by lack of financial support), the Dutch would become the first "globalizers." In addition, Spain never had financial hegemony, but the Netherlands did. While the Genovese did not count on territorial power, the Dutch availed themselves of military resources to control their territory and protect their commerce.

The causes, ways, and consequences of the English domination that followed the Dutch are well known. The British domination gradually replaced the influence of the Dutch capitalism without ever eliminating it. They lived together, for History changes itself without having to reduce the past to *tabula rasa*. From late in the 18th Century, London had been competing with Amsterdam as a global financial center. After the wars with France and with the Industrial Revolution in early 19th century, Great Britain concentrated everything—finance, manufacture, and trade—and became the "center of the Universe." Hobsbawn describes the process through which, having conquered practically no new territory (India had been under the British reign since 1757), over the 1840s to mid-1850s period, England created a "global world," to use the current expression, unheard of at that time.

What was specific to this new phase of world capitalism was not the tightening of the clutch of the financial capital's claws, although, as I will shortly point out, this also occurred. English capitalism's distinctive trace was that it did not base itself only on trade, interlacing isolated local production systems, but that its dynamism derived from the Industrial Revolution, which created new products and new working methods. Great Britain ensured its position of world control not only because it was able to finance and trade globally (in addition to availing itself of political and military means to protect its interests), but also because it produced locally and exported manufactured goods. From the Industrial Revolution on, the production system released itself from the climate of uncertainties, although not from the availability of natural resources such as metals. The industry was able to produce or transform its basic ingredients. As Max Weber stresses in *General Economic History*, the technological revolutions that enabled the industrial upsurge starting from the steam-powered machine released the economic system from the limitations imposed by nature. Up to then, one way or another, the products exchanged in world trade were either agricultural products or depended on raw materials related to the rural economy. The new technologies enabled the creation of the steel industry, as well as changes in the transport of goods that started to use trains that ran on rails, powered by a steam-engine. The exponential capacity to produce manufactured goods was such that it even created a new type of crisis: products in excess and scarce consumption.

From then on, the world became global through the integration of the various existing economies into the British trade and the British capacity to create new exportable goods. But the financing of all this by the "City" was not less important. Toward the end of the 19th Century, when Germany already advanced its industry and the United States was starting to show its industrial power, the losses in the British trade balance were compensated by income resulting from the so-called "invisible" items, such as freight, interest on investments, insurance, and the like. In Arrighi's words, it was the "cosmopolitan financial capitalism," as opposed to the other basic form of capitalism, the state monopoly. However, it should not be forgotten that India was conquered by the West Indies Company rather than by the British Crown, which only later increased its role in the colonial administration.[2]

Depending on circumstances, these two types of capitalism, the state monopoly and the cosmopolitan financial, have been coexisting throughout time and enabling, each in its own way, the continuity of the accumulation process that is inherent to capitalism, as it is well known. Leaving aside the other features of this system in the Western world that are related to science development, the rationality inside and outside the company, the organized labor, the existence of legal rules and of a "rational" state, as well as an ethic justifying the unlimited accumulation of wealth, true capitalist businessmen depend not only on the continuity of innovative production processes and the expansion of the local and global trade but also on the exponential advance in forms of financing in order to make it possible. In Braudel's view, when this financial expansion becomes "unmeasured," it is the autumn of a cycle, and the dominating center starts to leave room for another expansion "center."

The British domination lasted until the Great Depression in 1929 and declined toward World War II, when it became clear that a new gladiator commanded the scene—the United States capitalism. It should be noted that, from 1873 to 1896, the world economy had already gone through a severe succession of crises, and, although production was still expanding and trade continued to operate, the return rates showed decreasing results. The competition among companies and nations was hardened, leaving the impression that the merger of the economic and state interests was total. This process led Hobson and, later, Lenin to define imperialism as the current way of capitalism. It is true that an upsurge of prosperity took place between 1896 and World War I (the "Belle Époque"), but in the long run, it seemed undeniable that the fight for territory—the colonialism—and the financial prosperity were Siamese twins. Sweet illusion: the City kept its financial networks relatively free from the British colonial presence. As a counter proof, the 19th century Great Depression took place during the British territorial expansion, including, and mainly thanks to, India's surrender after defeat in the 1846 revolt.

After the 1929 Wall Street Crash and World War II, the new demiurge, the North American capitalism, whose industrial production had been exceeding the British production since 1820 and was responsible for 40% of the world's total, expanded its domination by putting emphasis on the ever-present feature of the capitalist system—the continuous change in production techniques. The novelty over this period that lasts to date was not the economy's <u>global</u> character, not even the central role played by the financial capitalism, for we have seen that these characteristics were present in previous historic periods. What marked this new period was the quality and speed of technological changes, as well as the social and political flexibility of the new center—the United States—in adjusting to them. The rise of this new

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[2] See Amartya Sen´s remarkable essay (2007). In this work, the author disputes the thesis defended by Marx, among others, about Great Britain's "civilizing" role that would have connected the Indian economy to the world. If so, at which price? And how the author shows that, in pre-colonial India, there had been developments in the production system that would lead the country to the world market, even without the British. Likewise, the supposed "English democratic heritage," in spite of its traces of historical truth, did not grow on arid soil, as India had a tradition based on "decision through discussion."

center was due to this. Recalcitrant in their isolationism, Roosevelt's United States were late in going to war (from the European political point of view), but did so based on the huge superiority that Ford's industrialism brought to the country's economy. The vast capacity to mobilize human and technological resources, raw materials, and, mainly, organizational resources ensured the victory over the Axis. On the other hand, the war mobilization motivated businessmen to promote their businesses and the public financing helped the North American financial capital to, little by little, transfer to New York and Chicago what had so far been concentrated in London: the stock and commodities exchanges. As always, concentrating does not mean exterminating—just like Amsterdam survived London, London (or Paris or Frankfurt) survives New York. But in some way, they become satellites to the new sun.

This chapter is divided into six additional sections. The second section (*The Global Economy under the United States Domination*) deals with the political and economic ways that country brought to capitalism and the international order over the 20th century. The third (*Limits to the North American Domination*) analyzes the tensions present in the international system during the second half of the 20th century. The fourth section (*Politics and Economy in a Multipolar and Interrelated World*) accounts for the emergence of new economic powers and political players over the last decades of the 20th century. The fifth section (*Brazil in Search of Autonomy through Insertion*) assesses the reforms initiated in the '90s in the light of the global picture provided in the previous section. The sixth section (*The Global Game in the 21st Century Perspective: Still an American Globalization*?) resumes the analysis shown in sections 4 and 5 in the context of changes in the global game (radicalization of multipolarity) brought about by China's confirmation as an economic power. Lastly, the final section (*Brazil's Options in the 21st Century Global Game*) discusses the opportunities opening to the country in this new global game.

The Global Economy under the United States Domination

We have arrived at the core of what I wish to discuss in this part of the chapter: the specificity of the political and economic ways of capitalism under the North American domination and its possible limits to analyze, further in the chapter, how Brazil has been facing the challenges placed by the present form of globalization.

But, before that, let's consider how the change processes occur in the "centers" of the world system. There is no empirical support to endorse the reductionist simplifications that see the merger of the state and economic powers and the colonialist territorial expansion as the essence of capitalism. But it is incorrect to minimize the reach of other interpretations stressed by those proposing this view: the competition for markets and sources of supply caused colonialist expansions; also, for these and for other reasons, there were wars between national states. I do not need to deal with this obviousness, for it is recorded in the memory of the whole colonization process in Africa and Asia, as well as of the 1914 and 1939 wars. Very often, the power factors interfere in the economic scene and invert the production system's expansive logic.

The North American domination is not explained only by that country's larger innovative, organizational and technological capability, although this factor was undeniably present during the 20th

century. Had it not been for Nazi Germany's challenge and the Soviet Revolution in 1917 that left the British domination in jeopardy, the North American capitalism would perhaps have not been able to emerge as a ruling power after the victory over the Axis. Partly as a consequence of this victory, it became the indisputable center of the world system. Likewise, without the Soviet debacle in 1989, History would perhaps be different. But what has not occurred cannot be used as counter proof. Reciprocally, both the decline of the Nazi German Empire and the debacle of Soviet communism have a lot to see with the way in which capitalism developed itself in the United States.

At this point, it is convenient to emphasize the specificity of the relation between the development of economic powers and the forms of culture, social organization and political institutions in America. It is always useful resorting to Tocqueville to better understand what happens in that region, in spite of the centuries elapsed since his writings. The French sage was delighted with the lack of hierarchy in people's relations in America. He was delighted to notice how individualism lived together with communal solidarity links created by the religious fundament. Even more, he was enchanted by the compatibility between the "religious spirit" and the "spirit of freedom." An easily understandable enchantment, coming from a European noble conversant with the history of religious wars and a witness to how the religious vision absorbed all other life's dimensions in the Old Continent. Contrarily, the American individualism did not imply disdain toward the other, as it accepted the commitment to live in common while respecting the individuality, as well as the religious spirit did not go against liberty, seen as a "natural" right and inherent to the human condition. Thus, religion did not suffocate those freely selected decisions and choices, which, although made by each one individually, did not disregard the others. No matter how much America may have changed, and how much the "market fundamentalism" and the obsession with "regime change" may have served as a tool to justify attempts to homogenize political forms all over the world, the dynamism of the American society, culture and economy continues to drink from those fundamental values.

These comments, far removed as they may seem to be from what happens in the global economy under the American domination, help us understand how it was possible, over a short time period, for the United States to not only become the most thriving economy in the world (up to China's entry, at least), but also for its cultural model to have so strongly influenced the economic and even political organization in countries like Japan, China and India. Clearly, influencing does not mean replacing. Defeated in World War II, occupied by American troops and submitted to a previously unthinkable land reform, Japan became the next-to-largest world economy, organizing its production by American standards and competing globally in the same way. Japan, however, has not lost its "national identity." One should also remember that a long time before this globalization in the "American way," the Meiji Revolution in the 19th century, in addition to important domestic reforms, already pointed at the Japanese expansionism: Since the end of that century, the Japanese were undertaking their colonial expansion in Formosa and Korea, and by 1930, this expansionism was enlarged by the occupation of Manchuria and the war with China. Japan was growing as a war power even before being capable of economic competition with Europeans and Americans. In the same way, India, now starting to compete globally, was also subjected to the "English globalization," and, since the beginning of the 20th century, counted on reasonable industries, although far from being independent and playing a significant political role in the global order, as can be noted in Amartya Sen's article mentioned previously.

It is undeniable that the basic mold for the economic operations in these and in other emerging economies is American capitalism. What does this mean? It means that the distinctive trace of capitalist accumulation—its continuous renewal due to technological drives, creation of new products, and expansion of international trade and exacerbation of financial capital—took specific shapes in the American mold. Which shapes? The "spirit of freedom" and tolerance of diversity—illustrated by the way universities operate in the United States—have created a style of rapid adaptation of the social relations (in factories, in the wider business organization, in society itself) to the technological innovations. This style, in turn, propels the economic activities enormously. Therefore, it was not only the innovation in production techniques and the creation of new products that strengthened the present expansion of capitalism. The cultural model and the social organization techniques that cemented the economy and society explain the boom which followed World War II and has lasted to date. When Japan, China or India joins the global system it is because they have partially absorbed this *ethos*, which is not necessarily comprehensive: it lives together with those countries' historical identities. New technologies and the Web have made easier the rapid and partial adaptation to globalization of countries coming from the old periphery of the world system. The shape of globalization under the American hegemony does without the incorporation of territories and allows the ways of life—the culture—to be more segmented, with the "old" living together with the "new" and not necessarily implying subordination of one to the other. It is as if, instead of a "global village," an archipelago was being created, the boundaries of which are globally determined by the web, but without implying globalization of each village's whole.

With that I do not mean to deny History's "hard" facts. Without the wars—that motivated technological creativity in weapons which was later transferred to the civil production—without the victory over the Axis, the bipolarity and competition between the Western Bloc and the Soviet Union over the Cold War, and so forth, the United States would not be the power they are today. Neither would it have been possible without the political and military power that ensured their economic interests. But it has always been like this in History. The "new" is the way creativity in economy's different areas (technological, organizational and new products) interlaces with the society, which adjusts continuously in fragmented ways and rapidly to the impact of new innovation waves. All this creates for the globally integrated population segments a climate of trust in the future and an unparalleled inclination to consumption.[3]

And the accumulation wheel spins faster: more production, more consumption, more financing. The more cautious would say that, in spite of the fact that the production means replace the old super-exploration of labor and allow for better wages (a process that takes place in the dynamic poles of the production system and not in its outskirts), this will not prevent the system from, now and then, getting suffocated by the "unmeasured" expansion of the financial capital, as Braudel would say, or by the insolvency on the demand's side. Crises continue to spring up. Likewise, growing non-symmetries start to appear between the segments of each country integrated into the global networks and those non-integrated.

[3] See instigating article by Dominique Moïsi (2007) point out the change in the American and European expectations, which would be driven by fear since the attack on the Twin Towers. A sign of the end of the empire?

But the point I want to make is another one: From the moment the inventions incorporated by the production process (TV, Internet, digital phone, jet plane, BlackBerry, and so on) gain speed and start more directly to affect people's lives in a way that differs from inventions of the past (from the steam-powered engine to nuclear power and even the radio and the telegraph) that affected people's daily life in a more limited way and at a slower pace—the relation between the production system and the ways of sociability and culture has also changed radically. This is the typical characteristic of the current globalization, as shown by Manuel Castells in different works.[4]

From this point of view, the start of the current globalization neither happened following the victory over the Axis nor waited for the collapse of the Berlin Wall to be celebrated. It took place when the revolution in the means of transport took place, with huge reduction in cost, and also, mainly, when instant communication by electronic means eliminated the radical difference between time and space. Notwithstanding how much automation and microelectronic techniques may have transformed the production systems and powered the accumulation process, new information techniques (as information technologies, IT, in Silicon Valley style) were responsible for incorporating these advances to daily life. Also, they made room for the multiplication of capital flows and the creation of new "financial products" (hedge funds, derivative bonds, futures markets, etc.), made possible thanks to the global communications networks connected by the Web.

Generally speaking, it was in the 1970s that American capitalism took this new shape and information technologies simultaneously transformed production techniques, organizational structures in companies and government agencies, and the command system within companies and, more decisively, in society. The transparency enabled by fast and open access to information, immediate interaction, multiplication of innovations, and so forth, is changing not only the production system but also the culture in the societies that absorb the innovations. As a consequence, the political mobilization capacity and the decision-making processes are being affected.

The impact of new technologies on society is so heavy—and vice-versa, although not as comprehensively—that the societies' capacity to adapt has become a condition for economic growth, while their rigidity has been negatively influencing countries' socioeconomic balance. This is shown by the Castells and Kiselyova's book (2003) mentioned previously when analyzing the decline of the Soviet empire. The isolation of the Soviet world may have favored Russia and its allies' style, based on rapid growth, pollution, and authoritarianism. But, as soon as it appeared, a global, interdependent economic system became their Achilles' heel.

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[4] See especially Castells (1996). In a further work, written in cooperation with Emma Kiselyova (Castells & Kiselyova, 2003), there is synthesized information on what Castells calls *Information Society*: "the social structure generated in interaction with the new technological paradigm created in mid-'70s around information technology. It is characterized by the decisive role played by knowledge and information in creating global-scale wealth and power with a base on new information technologies." There are many references to the changes brought to society by the new economy. Some authors qualify the so-constituted societies as "knowledge societies" or "knowledge economies."

In 1980, 90% of the Soviet exports to the capitalist world were commodities: metals, gold, and gas and oil, with the two latter representing two thirds of the total. The variations in commodities prices can be lethal. The price of oil went down in 1986. The powerful Soviet military-industrial complex, on the other hand, leveraged economic growth. However, in the absence of the same porosity between society and state existing in the United States and other western democracies, there was no transparency in the transfer of results of the military researches to civil use. The Soviet giant was cornered by an authoritarian political organization that not only concentrated resources on war objectives but also deprived society and economy of said resources and their technological results. The Russian housewife did not benefit from the successes in space or nuclear production. No good came to her from the technically competent efforts to launch Sputnik or to dispose of nuclear warheads and transportation means that could turn them into a real threat. There was no market activation by the families' consumption.

By 1980, the Soviet Union had surpassed the United States in the production of steel, cement, oil, fertilizers and tractors, but had nothing to compare with the revolution in information technologies already underway in the United States. The Soviet Union, in spite of counting on high quality scientific research, concentrated resources on the military area. The science's relation with production and society, led by the watching eyes of the "statist spirit" as opposed to the "spirit of freedom"—which, in the United States, allowed the flow among research, industry and government, supported by universities and the vigor of industry research—hampered and ended up preventing the Soviet Union from following the steps of the revolution in information technology and communications.

Curiously, when the military and political leaders realized that the bureaucratic scientists encrusted in the command of the Academies of Sciences created difficulties for the true scientists to take the risk of innovation, they discarded the advances already achieved—for example, in the area of computers with large storage and processing capacity—and decided to import or smuggle electronic innovations, hardware, software, modern computers, etc., from the United States, and, later, from Japan. Using reverse engineering techniques, they would copy and struggle to adjust to innovations, eager not to lose space in the struggle for world political domination. But they lost time: While they copied, new inventions took place and, mainly, they were unable to make the innovations available to society or the production system. The Big Brother's—the bureaucratic-authoritarian machine moved by the Party—fear of the democratic consequences of access to information paralyzed vital advances to economy and society. Largely due to that, the Soviet Union broke down without either the internal political and social pressures having played a significant role or the external pressures—except for the one put on by the Occident's weapon race—having been the direct cause for such a ruin.

It should be noted that it was not the decision to copy the Western inventions, instead of producing them autonomously, that made the Soviet system unfeasible. Japan, and later Korea, as many other countries copied, adapted, and innovated, starting from the copies, and were successful. It was the rigidity of the social and political system that blocked the possible positive results of the mimetic adaptations. For that reason, I insisted above that the distinctive trace of the present globalization is a specific amalgam between culture, politics, and society that, even not assuming the shape of Western democracy, supposes some flexibility both in political and social institutions (see today's China or even yesterday's Korea, not to mention Singapore, which is only a city-state)

The characteristics described above do not replace or fundamentally modify the modus operandi of the capitalist system, but give it new resources to adjust to circumstances. And even the reaction to crises can be different. Let's leave aside the 1929 crisis, the Depression, when the central banks' refusal to provide the financial system with liquidity brought the whole system close to the "abyss." After Keynes, it is unlikely that even the more orthodox monetarists would behave in that way. Let's avail ourselves of the acute analysis by a non-economist endowed with political vision and sociological competency, Raymond Aron, to add some applicable comments. In the book, *Une Histoire du XXème Siècle*,[5] the author shows how the political and economic domination systems interlaced. The accomplished expression of this was the Bretton Woods agreement, when the tools to regulate the world economic system following the Allies' victory were designed. If, on the political front, the American position was not yet hegemonic, given the presence of the communist bloc among the leaders, the U.S. Treasury Department official's [Harry Dexter White] defeat of the position held by the British negotiator, none other than Lord Keynes, the game was over on the economic and financial front.

In fact, upon establishing that there would not be floating exchange rates, that currencies would express their value in gold and that the United States government committed itself to maintaining the dollar conversion to gold, the consequences were obvious. In Aron's words, with the dollar becoming equivalent to gold, concomitantly a transnational and national currency, convertible everywhere, it would enable Americans (and still do) to buy whichever goods with their own currency. The United States would thus become the only political entity to preserve the freedom to not take restrictive measures in case of deficit in the balance of payments.[6] That's why Keynes proposed a different solution: the creation of a particular currency, available to the International Monetary Fund, which would serve to provide liquidity to the financial system in case of need. But the dread of a competitive devaluation, fed by the 1929 crisis, led most countries to align to the American proposal to make good the gold standard and to make the dollar convertible. Since then and up to this date, the United States have been making the Treasury bonds—a monetary reserve tool—available to the central banks experiencing trade surplus, as was the case, some time after Bretton Woods, with Germany and Japan. At the same time, the Fed bonds would cover deficits in the American trade balance caused by the dollar valuation, which restricted exports and made imports easy.

A causal relation between the American political and military power (imperialism) and economic decisions should not be inferred from the above. Certainly, the United States acted on "enlightened egotism," natural in all states. But if the dollar as a gold-backed "anchor currency" was imposed, it was because the imposition was convenient to most of the states, due to either their relative weakness or their interests. The advantages deriving from this system, under strict control by the IMF, had varied effects. In the beginning of the fixed exchange rate system, the United States enjoyed the best the scenario could

[5] See Aron (1996), especially the chapter on "Privileges and servitudes of the dominating economy," from which the following comments were extracted.

[6] Aron (1996, p. 475).

offer: In spite of the overvaluing American currency that hampered exports and generated deficits in their payment balance (around $1 billion per annum during the 1950s), the American government did not have to intervene, as the central banks of those countries experiencing a surplus would take care of the issue.

It was Paul Samuelson who, in 1960, at Kennedy's request, identified the problem this situation caused to the Americans: growing external deficits and a very active monetary policy to curb inflation. From then on, both Kennedy and Johnson took topical measures to restrict purchases abroad and limit access to the American capital market, generally ineffectual measures given the market's interests. With the Vietnam War and in the absence of raise in taxes, public spending went up, and so did the inflationary pressures. It was Nixon who had to deal with the problem, forcing the Europeans (beneficiaries from the overvaluing of the American currency) to accept a 10% devaluation. Up to then, the American policy makers had thought that it was incumbent upon the leaders of other countries' central banks to look after the international finance's health by overvaluing their currencies (at little like what is happening to China).

The "benign neglect" with which the Americans saw the consequences of the gold–dollar parity came then to an end. In spite of the fact that the devaluation had not caused loss to the American currency's quality as an account, commercial, and reserve currency, the Europeans—better said the French—forced the Nixon administration to step back in 1972. In view of the forthcoming elections, the government opened the Treasury's taps, adding to the inflationary pressures. The Fed's monetary policy alone would have to impose restrictions to the American consumer by increasing interest rates if a more favorable exchange policy did not present itself. Soon after, in 1973, and without consulting with any other country, the American government broke with the Bretton Woods Agreement and declared that gold and currencies would "float" as dictated by the market. The dollar continued to be the safer haven before uncertainties and crises, as it was issued by the strongest economy in the world. Reasons inherent to the international economic system, regardless of the American political and military power, caused this situation to be maintained. The American political hegemony was a premise for, not the cause of, the dollar's superiority. The world economy was largely expanded, and, at this point in time, the exchange relations were already under GATT's umbrella, which later became the World Trade Organization (WTO). The "floating" dollar continued to be the pillar of the international economic system.

While the exchange parity reigned, it helped the expansion of multinationals in Europe and all over the world and enabled the European prosperity and the strengthening of Germany and Japan, contrarily to Europe's continuous complaints in the name of an economic nationalism that was no longer effective in view of the changes in the world economy. A weaker dollar favored exports by the European countries and enabled American investments in Europe, Asia and Latin America. This fact disseminated what I referred to as a specific characteristic of the contemporary American capitalism: new organizational and management styles, and new information and communication technologies. The effects of this "globalizing élan" helped reduce the gap between the American and other countries' welfare, at least as regards Europe and Asia. Begun between 1943 and 1973, this process was expanded from then on particularly thanks to the new division of international labor, to which the decision to let the currency float was not alien.

With the dollar parity broken, the United States had everything to play the central role in the capitalist system, except the undisputed political hegemony due to the Soviet Union. The already mentioned maintenance of the dollar as a reserve currency made it possible, for example, for Reagan's economic adviser Martin Feldstein to declare that it would be more advantageous to let the dollar overvalue and cause losses to exporters by increasing imports than to impose monetary restrictions that would lead to reduction in economic activity. This was opposite to IMF's prescription for nations facing difficulties. But it did not stop Reagan from raising the interest rates and maintaining an overvalued dollar when it became necessary to increase the military spending and to maintain the budget at 6% of GDP without raising tax rates and still maintaining inflation under control. (i.e., the economically leading country had the means to impose on other economies the costs of its own adjustments.) Aron summarizes as follows: "*No estate can allow itself such a budget deficit and combat inflation by using monetary tools only.*"[7]

The liberty the United States took in the use of both instruments—currency and financial—and the competitiveness of the new technological economy left the country in a most favored position in the current global era. They managed the international currency as if it were national. This liberty, supported by the fact that the dollar is a reserve currency and that the vigor of the American economy is a safe appeal to capital in times of crisis, made possible a fast recycling of "petrodollars" and even "eurodollars," which protected the more developed economies and left the developing ones tied by debts that would take decades to be solved.

All this indicates that the combination of global financial capital and the American production drive, as well as the globalization provided by multinationals, created a world system very different from that prevailing under the British domination. Added to WTO's rules regulating imports and exports, this system would have enabled the United States to dream of a long-lasting *Pax Americana*, except for the production dispersion permitted by the current technological revolution and some political factors. Even agreeing with Aron that the British capitalism and the German development dispensed with colonialism and that the Korea and Vietnam wars did not result from "economic need," but rather were a burden to capitalism, it is undeniable that the American political and military hegemony ensured the conditions for the world economic system to work in that country's favor. Similarly, all that puts the American political hegemony at risk reduces the economic and financial benefits to this form of globalization. For this reason and before proceeding with the description of what happens to globalization nowadays, it is convenient to take a brief detour and mention a few questions related to political hegemony.

Limits to the North American Domination

Several authors have analyzed the post–World War II world order. For the purposes of this chapter, it is not necessary to go into details or to show vast bookish knowledge. I will restrict my comments to Henry Kissinger and Raymond Aron's statements and add some common sense observations.

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[7] Aron (1996, p. 480).

Kissinger's fundamental idea is that the "balance of power" diplomacy—created by England in the 18th century following the Peace of Westphalia (1658) and revived after Napoleon's defeat in the Congress of Vienna by the Austrians led by Prince Metternich—was broken by Bismarck by force. Until the Iron Chancellor's action, a diplomatic and military game prevailed in favor of England in the sense that, since no continental power surpassed the other, no one would face the English power. Behind this policy, there was a presumed valuation consensus: the accepted legitimacy of the monarchic powers ruling each country and a consequent "entente" of the most favored classes.

In the author's opinion, no country had a more decisive and unambiguous influence in the 20th century international scene than the United States. Contrarily to the balance of power policy, the American leaders supported "non-intervention" in other countries, declaring at the same time that democracy and freedom are universal values. This resulted in a zigzag policy, permeated by strong statements of principles and many military interventions to impose the American interests. Before the League of Nations, President Woodrow Wilson[8] broke the previous isolationism and defended an end to the balance of power, proposing that it be replaced by the respect for people's self-determination, subject to the prevalence of the American moral principles to ensure Universal Peace. It was Kant, once more, imposing idealism and trying to bury Hegel, to whom war strengthened and purified people's spirits.

By the end of World War II, it was Roosevelt who carried the flame of democracy and freedom, leaving to Churchill, years later, the burden to draw attention in the Fulton speech to the fact that not all winners pray by the same book. It was late: The United Nations had been created, giving vetoing power to the winning "five great," either democrats or communists. And the Universal Declaration of Human Rights had been approved, containing humanistic statements that became a banner to some countries in the fight against those not following the democratic credo. Regardless, the "moral" ideal of making democracy universal as an external policy fundament continued to pop up in American leaders' rhetoric ardor. From Truman to Reagan, from Bush Senior to Clinton, it was never absent. Clinton used to speak of a "community of market democracies." All the presidents, if I can judge from results but not intentions, disguised the American national interest in ensuring economic globalization and making room for their imperialist vocation.

Following the Nazi defeat and oscillating from an isolationist to a missionary attitude, the United States started the second half of the 20th century saying one thing and doing another, burning with moral fervor and causing the others' skins to burn under the fire from their weapons whenever required by the "national interest." The interdependence created by the global market and by the American companies' technological and organizational hegemony did not go well together with isolationism. State reasons and, who knows, the imperialist will stopped the American government from being led by their ardent belief in

[8] Wilson's magnanimity did not stop the American delegation from trying to divide the countries attending the Versailles conferences—in principle, the winners of World War I—into two groups: one having "general interests," i.e., a view of the world and its operation and whose external policy was aimed at the whole world; the other with "limited" interests. The Brazilian delegation rejected the non-symmetric style of world order proposed by the Americans.

liberty and democracy to support "good causes" only. The American intolerance toward attempts to establish alternative social and economic policies in Latin America (Dominican Republic, Guatemala, Chile and Nicaragua, not to mention Cuba) widely exemplifies this behavior, with all kinds of opponents to these governments, either democrat or criminal mercenaries, having received support.

The truth is that, even if the few idealists in Washington were not willing to ignore the consequences of the fact, the United States and the other Western powers did not win World War II by themselves. There were the Soviet Union and China. The conditions for exercising a policy of balance among the powers and a consensus on what was the legitimate order were lacking. On the other hand, the good moral intentions evaporated before the crude fact that the goals were not reconcilable. Aron's word of caution that Hobbes still lives in the relations between states—that there is a latent "war of all against all"—was timely. The Cold War had begun.

Familiar with the European realities, Kissinger would hardly hide his uneasiness before the ambiguities in the external policy of a country that had not gone through the difficulties faced by the European states, cast in the mold of frontier insecurity and wars. America's sense of superiority and predestination to act as the messenger of freedom was born in a region protected from outside threats by the sea and the economic and military weakness of their neighbors. The United States, the author thinks, could afford to disdain the objectives of the balance of power policy, which did not mean to deny or eliminate conflicts—when unfeasible—but meant to limit their extent so as to ensure stability by using, moderately, the coercive means available. During the Cold War, no matter how often values were declared to give moral support to the "American exceptionalism," the blocs' divergent interests were such that realism became the inevitable American external policy advisor. More recently, says Kissinger, with the end of bipolarity brought by the collapse of the Berlin Wall, "*the American idealism needs the yeast that comes from geopolitical analysis to find its way in a maze of new complexities.*"[9]

It is interesting that, after many decades, the relapse of the realist American politics—or its glorious revival as seen by the authors under consideration—took place rapidly and with an undeniable imperialist vocation. The "balance of terror" based on the stock of atomic weapons owned by both the Western Bloc and by its rival replaced the search for negotiations before a plural institution like the United Nations. The Soviets were successful in reacting to the American nuclear supremacy and later joined the weaponry race in search of strategic weapons, going as far as the "Star Wars" and space shield. The UN's effectiveness in keeping itself as a negotiating forum would presume, as at the time of the Congress of Vienna, a legitimacy of the world order that was absent. Soon after the missile crisis in Cuba in 1962, discussions started to emphasize the *Realpolitik*. Who owns more strategic ballistic resources? Which are the fundamental alliances (NATO, Warsaw Pact)? The Chinese schism benefits whom? From then on, the attempts to control the war were restricted to bilateral agreements such as the SALT plans for reduction of strategic weapons. In summary, the world had become bipolar. It was no longer possible to think of a global hegemony, let alone a real empire. The few wars in which the two sides took part directly (Korea and Vietnam for the Americans and Afghanistan for the Russians) or supported (the aforesaid plus the

[9] See Kissinger (2001, p. 890).

conflicts in the Middle East) did not lead to global involvement by the two main contenders. It was "mild fire," not risking worldwide spread.

Ironically, when it seemed one of the poles—the Soviet Union—would be able to gain industrial production supremacy as threatened by Khrushchev or, after the fright to the Western World created by Sputnik, would have advanced militarily to such an extent that it could eliminate any power that dared threaten them by land, the opposite happened. The Soviet world fell down as a consequence of the concentration of its efforts on war purposes, and thanks to its inability to dominate the most modern industrial and service techniques based on IT. A review of the presentation made by Aron in May 1979 for the Brazilian edition of Peace and War between Nations, less than 10 years before the fall of the Berlin Wall, shows how the Soviet collapse was surprising. Aron feared that the Soviet Union had surpassed the United States. It had not in the economic production field, but it was already able to support whoever opposed the United States in Africa, the Middle East, and other parts of the world. The "balance of terror" and the contention measures taken by the Americans and allies were not effective to control what he called the "Soviet hegemony" that would be replacing "American imperialism" in capacity to influence. The world watched a weird process:

> "*The United States' loss of strength in the international economy worsens the original contradiction of the contemporary world: the existence of a world market without a universal empire. The North American supremacy creates the appearance of an empire.*"[10]

According to Aron, there were objective factors that undermined such supremacy, making it more apparent than real. Among them, the failure of the contention measures and the SALT agreements led the two contenders to war equality. Likewise, the reduction in the American economic superiority and the dollar weakness contributed to a relative weakening of the United States. Examples of that would be the crisis in Iran and in the African countries, supported by Soviet war advisors and weapons and even their action in the Middle East.

Late in the 1970s, Aron considered that China came as a salvation. Perhaps a new alliance would prevent the fall before the Soviet hegemony:

> "*Hegemony against imperialism, weapons against goods, the Chinese would say. Today, imperialism (deprived of the colonialist and annexation connotation, I add) represents the indispensable concourse of Western capital and technology.*"[11]

A lot has changed since then. The ruin of communism as ideology and principle for the social and economic organization of a state power seemed to open a free way for the United States to change from center of the world market into a true Empire. This did not happen, and history surprised us once again. Europe's rebirth as an economic unit, with its own currency and a single Central Bank, the resurgence of

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10 See Aron (2002, p. 43).
11 *Ibidem*, p. 45.

the Russian Federation as an energetic power with aspiration to become a "limited hegemony" (is it really limited?) in its strategic position among China, Central Asia, the Middle East and Europe can change the global political conditions. If we add to that the unsuspected vitality of Islam (with the Arabs and, more recently, the ancient Persians playing a decisive role) and mainly China, recovered from the war and the disasters of the Cultural Revolution and adhering to the state capitalism allied with multinationals, one can see that it became difficult for the "spirit of empire" to replace the "spirit of economic freedom." Even the growth in countries whose economy qualifies as "emerging," among them Brazil, helps the United States' political supremacy to be more apparent than real. Kissinger wrote that the Soviet Union was a political and military giant and not an economic midget. Conversely, Japan was an economic giant and militarily irrelevant. Let's not fool ourselves: the United States is far from being able to exert global hegemony to which it seemed to be destined soon after 1989, but it is still an economic giant, perhaps a little shaken, and not a military midget.

This relative fragility was not perceived by the leaders of the American external policy. Victorious over the Soviet without having had to wage war, they felt strong enough to once again dream of a long-lasting *Pax Americana*. In place of Wilson's belief in the "American exceptionality"—the unshakable conviction that they are in this world to disseminate the moral values of democracy and freedom—they believed with faith and blindness that "unilateralism" would repair what the UN negotiation table and even the Security Council could not handle. They went into Iraq as crusaders of a cause neither revealed by any god nor justified by any philosopher. They did not worry about the consequences of unsolved questions such as Palestine and Israel and many others. Being the center of the world economic system, they were unable to open slits of legitimacy for their interventions in the world political order. They avoided sharing the responsibilities that come from power, keeping their eyes shut to reality. With that, they contributed to what Aron feared: a weakened dollar and a slow loss of economic and production supremacy. They even showed the uselessness of their war power to wage war against "non-state" enemies (such as Al Qaeda) that ally themselves to "rogue states." The new enemies' weapons, like "suicide bombers," are not meant to beat the Americans, but to make them weaker.

But the United States is weaker before whom? "Before China" is the obvious answer, but not the only one: also before Russia, possibly a politically and economically stronger Europe, perhaps India, Brazil, and other new global players such as South Africa, oil-producing countries, etc. The age of empires has probably ended, benefiting a time when there still is a global economic system, albeit subjected to multiple and fragmentary political influences. In this new system, it is unlikely that the United States will lose its central position as long as they keep pulling the cart of innovation and cultural and social plasticity. But they can hardly aspire to be the center of an imaginary Empire, for that is an unrealistic purpose. The existing fragmentation among nation-states, the economic strengthening of some of them, the absence of political and moral power to justify domination by only one, and the military difficulties brought about by the new kind of war create a dilemma: Either an international order of another kind will be created, or disorder will prevail for a long time.

In order to keep a central position in the global markets which do not work as a "market democracies" system, the Americans will need to understand that Europe should not submit to the

American interests as proposed by Robert Kagan.[12] To the contrary, Europe should want and be willing to have an active external policy, as indicated by Javier Solana.[13] Thanks to its experience in some of these issues, no one is better than the Old Continent, together with some young nations such as Brazil, India, or South Africa, to bring some flexibility to the agenda of the new global challenges. These issues are also very directly related to the American interests but have a universal meaning. I refer to issues such as global warming, energy crises, scarcity of water, immigration, racial equality, and so on. In one word, it is necessary to develop an adequate sociocultural plasticity that allows for peace in an interdependent world.

In some aspects, the American culture was able to do well with the challenges brought by economic globalization, as was the case with society's adjustment to new technologies and the improvement of institutions to ensure the exercise of civil and human rights. In other cases, such as environmental preservation and even migrations, some European countries and Brazil itself have been responding in a more satisfactory way. New cases in the new global agenda (terrorism, smuggling and drugs) can only be dealt with if their dissemination is not controlled by only one great power. Likewise, the valid remainder of the American dream to see themselves as the seed for a new state of general happiness, democracy and world prosperity will only find resonance if undressed of its misleading aspect, for the national or international capitalist order is asymmetric by nature. This remainder will only have legitimate force in the global order if there is a way for effective democratization in the relation between the peoples and the states. A new relation among states will always face the traditional difficulties that require some balance of power, in addition to new obstacles deriving from the nation-states' present fragility to impose legitimate order in their own territories, as pointed out by Eric Hobsbawn, among many other authors.[14]

The strategic mistake made by those defending the "regime change" and "preemptive wars," such as Robert Kagan or Paul Wolfowitz, was to have not perceived that the moment for negotiations and reduction in American political and military presence in exchange for the expansion of its economical, technological and cultural presence, as the era of empires—at least for some time—is declining. The persuasion elements, Joseph Nye calls "soft power" are more important to the world reordering than nuclear warheads that cannot be launched.[15] There are pre-conditions for a future world of peace and prosperity: G-8 expansion, signals of a willingness to conditionally accept Islam with its diversity and eccentricities, or the strengthening of a Europe relatively autonomous from the USA, as well as the recognition of the political role played by emerging partners and a more active participation by Japan, Russia, and mainly China—the real winner in the economic race. That is, an international order regulated

[12] See Kagan (2003), especially the item on "Adjusting to Hegemony," p. 85 and following.

[13] See Solana (2003).

[14] See Hobsbawn (2007).

[15] See Nye (2004). In another book (2002), Nye criticizes the American policy's unilateralism and arrogance and proposes something similar to what I said above as the more adequate response to the challenges placed to a country like the United States, which, if no longer the hyper-power feared by the French Hubert Vèdrine, has economic and power resources that would enable a democratic leadership by using the multilateral diplomacy tools and sharing responsibility with the other globally relevant political players.

by a shared decision-making process that supports more symmetric economic and financial policies. The repair to these asymmetries cannot be based on moral imperatives only, but also on policies that support a general economic growth and thereby make room for a joint action to fight poverty and infirmities in the planet's poorest regions. These are values that an interdependent and global economic system can and must adopt, not only out of generosity but on behalf of its own durability.[16]

Politics and Economy in a Multipolar and Interrelated World

The present characteristics of the globalization process were discussed in a previous topic, but their comprehensiveness and speed are to be reviewed to illustrate the reason for the policies put into practice in Brazil from the 1990s to date. The dispersion of the production process to a planetary scale became general with the new means of electronic communications and the revolution in means of transportation (air cargos, large sea and highway hubs, new techniques using containers on large freighters, etc.). The fragmentation of the production process increased by what economists call "outsourcing." Companies relocated, in order to be closer to the sources of raw materials or closer to the production of parts of the end-products and/or their final assembly, in several parts of the world where industries or services find competitive edges, mainly qualified or cheaper labor and better infrastructure conditions. The industrialized countries' production chains were broken and many industries relocated in general, but not only, from developed to less developed countries. Corporate head offices can be located anywhere.

Changes in the production process and the relocation of capitals to be invested in third-world countries have transformed the international economic scene. Suffice to say that, according to UNCTAD, some 77,000 multinational companies are in operation, with a growing share being represented by companies originating from developing countries: From 1998 to 2006, the number of multinationals originating from developed countries grew by 28%, while those originating from developing countries grew by 117%, representing today, respectively, 72% and 28% of the total. As a whole, this process of international redistribution of work caused a relative loss in the United States' position in the total world production. The share held by the main countries in the world is shown on *Table 1*.

[16] For an acute synthesis of the United States' difficulties in global relations, it is convenient to read Halliday (2007).

Table 1: Share in world GDP (PPP)

Country	**1975**	**2006**
United States	24.6%	20.4%
China	3.2%	15.5%
India	4.0%	6.6%
Japan	9.1%	6.4%
Germany	6.7%	4.0%
United Kingdom	5.0%	3.3%
France	5.0%	3.2%
Italy	4.6%	2.8%

Source: World Bank estimates, United Nations Statistics Division.

More significant than the present production distribution is the tendency toward a relative economic growth in several parts of the globe. From 1990 to 2005, China was responsible for 28% of the global growth in purchasing power parity (PPP), Latin America for 7% (equal to the total of Asian countries, except Korea and Japan), and India for 9%. This enabled it to be written that "the world has reached an important milestone in which about one-half of global GDP, measured at PPP, comes from developing countries."[17] It should be noted that the trend has been consolidated. "In 2007, 27.9 per cent of world growth could be attributed to China, and 7.9 per cent of it to India,"[18] with China's share in world trade having been 8%, bringing the country to the 3rd position in exports, next to Germany and the United States. Growth rates in emerging economies started to show strength soon after World War II. Japan was then the most visible runner for developed economy, even because, as noted before, the Meiji Revolution had paved the way for the country' current position, which was not only due to globalization. Next came the Asian Tigers, but even the whale-like countries (also called "monster countries") showed reasonable growth. Between 1980 and 1988, China's GDP grew 9.5% on average, and India's by 5%, while Russia and Brazil were still wrestling with political or inflation problems.

With the positive unfolding of the global economy, new development poles appeared over the last twenty years, mainly China. At least in the first moment, its hunger for raw materials and food changed the traditional price relation between commodities and manufactured goods. The incorporation of scientific techniques from biology—helped by IT and genetic modification—into agriculture propelled production. Despite this fact, the rise in emerging countries' income, mainly in Asia, brought commodities prices up in a sustainable way, while manufactured products lost relative value thanks to technological advances. Should this trend persist, it could bring to discussion the theory dealing with deterioration in exchange terms so dear to ECLAC and to many other economists.

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[17] Dollar (2007, p. 6).
[18] OECD (2007, p. 143).

The speed of internationalized production growth had consequences strongly felt not only in goods manufacturing but also in the services sectors, mainly banking and finance. The volume of financial flows took unbelievable proportions. Michel Pébereau, president of the European Banking Federation, admits that "IT reduced production costs by replacing workers by computers and, thanks to enabling mass data processing," there were productivity gains, with better quality and security in the services supplied. It is the microelectronics at the service of profit and people. The personal computer enables service supply around the clock and connects online all the planet's latitudes, in addition to making room for new financial products, such as derivative bonds. Just to have an idea of what it means: "For exchange derivatives, existent in 1985, this amount reached $20 trillion in 2001 and $38 trillion in 2006. Interest rate derivatives, which appeared around the same date, grew from $76 trillion in 2001 to $262 trillion in 2006."[19] Equally, stock derivatives sprang from $2 trillion in 2001 to $12 trillion in 2006. As a whole, these financial products (that work as a reference value, almost a simulation) grew from $220 trillion in 2001 to $380 trillion in 2006. How would it be possible to operate such large amounts without computers, which are the working tool of each operator?

These changes, enabled by new technologies, were also made possible by the once more "unmeasured" expansion of financial capital, as credit expansion and the freedom brought by the floating exchange rate to the dollar and for the American Treasury to spread its papers worldwide increased exponentially the financial flow to support the flow of goods. Suffice to say that the international trade grew at a higher speed than each country's GDP, calling for larger financing flows. On the other hand, the euro consolidation was as important to the international monetary system as its fast expansion. From now on there will be the European currency, an alternative to the dollar that in the past was the only safe haven for companies and national economies to defend themselves in case of economic recession or political crises. God only knows which role this option will play in the future and how much it can help undermine the American domination, but it is already undeniable that the currency shield will not give total protection to the maneuvers the Fed or the Treasury may want to make in case of financial storms. Representatives of the stronger economy will need to sit at the negotiation table with their European partners, in Basel or elsewhere. They will also need to convince yen or renminbi holders to follow the apparently more prudent advices so as to prevent the world economy from plunging into in the unknown, or worse, the announced abyss. They will have to replace arrogance with a willingness to work toward understanding.

The changes in the production process and the relocation of capitals for direct investment in third-world countries are well known, and it is not necessary to illustrate with examples. The consequences start to be felt. The BRICs metaphor—if I am allowed to call it this way—invented by an investment bank, Goldman Sachs, which is significant in itself, replaced in the imaginary and in practice the 1970 metaphor that considered the "Asian tigers" an export platform[20]. Now, the old "whales" (China,

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[19] See Pébereau (2007, pp. 23–24).

[20] In truth, the weight of the Asian economies (except for China, India, Japan and Korea) in the globalization process requires a better assessment. In a work presented at the Global Development Network Annual Conference, held in Beijing in January, World Bank's director David Dollar shows that China's GDP grew at very high rates over the last fifteen years, while countries like the Philippines,

India, Brazil, and Russia) have become possible development poles—they not only export but also consume and produce for large size domestic markets. This process, added to the consolidation of the European market under a currency alternative to the dollar and Japan's previous vertiginous growth that raised the country to the position as second largest economy in the world until its current relative stagnation, explain why the American economy's central position, even being maintained, is at risk.

Early in the 1990s, it was noticeable that the United States would face technological and industrial competition from some European countries, mainly Germany and Great Britain, as well as from Japan, Korea and Southeast Asia. They still led the way in space technology and microelectronics, but their computer, telecommunications equipment, and robotic exports declined along the decade as compared with their main competitors.[21] From the early 21st century, the international economy cannot be thought of without taking into account that production has diversified and spread itself over the globe, thus consolidating the European Union's position while maintaining Japan and the United States as strong players. China has undoubtedly joined this group, perhaps as a bridgehead for other BRICs. Also, one should not disparage the role to be played by other producing countries, either oil producers, such as the Persian Gulf countries, or manufactured products producers, such as Mexico and Turkey.

Yet, as *The Economist* pointed out, political players are largely dispersed. Either in defense of their "national interests"—economic, cultural, and power—or because of their strategic location between large and medium powers, many other apparently "irrelevant" countries in war or economic terms, such as Palestine and Afghanistan, became part of the world chess board. Once again, we have a global economy face to face with fragmented power, economic institutions with universal aspiration and legitimacy, like the WTO, and a low political legitimacy rate to exert power and maintain the global order. The UN, the great tool created for this purpose following World War II, was left shaken by the powers' game. The magnitude of economic and monetary transformation was such that the institutions created to regulate the global economy—the IMF and the World Bank—became small before the multinationals, the financial mechanisms and flows, and the diversified national interests.

It is curious that one of the key variables in the emblematic creation of the BRICs metaphor became the size of population. Economy has a significant weight. People's well-being goes without saying. But to take part in the world political chess game, there are other factors relatively disconnected from the economic weight, per capita income, better social well-being, or "good" political institutions. When considering China, India, Russia or Brazil as possible "poles," or the future weight of Vietnam, Indonesia, Nigeria, etc., what is being discussed is not democracy, human rights or people's relative well-being. Under discussion, in a simplified way, is the multiplication of production factors by the number of

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Indonesia, and Thailand grew at more modest rates. Under way is the creation of a multipolar area where the United States and China (and Europe, I would add) hold a leading position, rather than an Asia-centered world. Also, it would be incorrect to talk of a Sino-centric globalization, as the other partners' counterweight is substantial (Dollar, 2007).

[21] See in Kennedy (1993), pp. 178-179, the table that illustrates this trend. By the end of 1988, Japan had 176,000 industrial robots out of a world total of 280,000, while the United States had only 33 of these machines (see p. 102).

inhabitants distributed in a geographic space. Thus, it is a relapse into a disguised vision of "balance of power" or candidates to unbalance the present power. Demography again has a weight, even if, when dividing each country's production by the number of its inhabitants, the result cannot be compared with that obtained by some small countries, with high productivity and good economic performance and that ensure much better life conditions to their people.[22]

Thus, the challenges brought to different countries by the technological revolutions are placed on a different stage. Will the societies, institutions and culture of each of them be able to redefine, in a plastic way, the behaviors, the feasible objectives to keep above water in the fight for power not only by force, which nowadays hardly ensures lasting victories? In the United States, on the eve of a presidential election after the Iraq war, with the uncertainties of the global agenda and the financial crisis, will the discussion under way be part of this review process? Will the United States have, as they have shown they can since the 1970s, the necessary flexibility to redefine their role in the production system, while maintaining their leading position in innovation? Or is the current financial crisis part of the moment mentioned by Braudel, when the unmeasured growth of financial capital announces the appearance of one or some new centers? It is early to answer that question.

Brazil In Search of Autonomy through Insertion

Brazil grew reasonably following World War II and, mainly, changed from an agriculture-exporting economy into a country under industrialization.[23] This process started early in the 20th century, but the successes obtained during the period of import substitution policies outlined industrialized Brazil's face. The double characteristic—large food and raw materials exporter and industrialized country—brings undeniable advantages (suffice to say that this is one of the trump cards held by the United States and some European economies), but also places challenges for macroeconomic leaders. For example, the devaluation of the local currency makes exports easier, but hampers imports of capital goods and thereby the industrial sector's modernization.

One way or another, Brazil faced the first globalization wave in the 1970s, protecting its achievements, but fearing new advances. Based on the first successes in oil exploration, construction of a reasonably sized hydroelectric system and the ability to create a financial system that survived inflationary advances and adjusted itself to indexation, as well as an expanded telecommunications system with Embratel and Telebrás, economic and country leaders thought they would be able to carry on with what had been the basic condition for development: a solid tariff protection barrier, added to powerful credit tools available to the government (Bank of Brazil, Caixa Econômica, and mainly BNDE—National Economic Development Bank). They expected the economy to continue to grow without significant changes in course. There was what to defend and to be proud of.

[22] Kennedy (1993) was ahead of this Goldman Sachs view and showed what is traditional with geopolitical authors: the influence of large populations on the chances for a nation's growth and prestige provided the country surpasses the illiteracy and poverty threshold.

[23] From 1947 to 1980, the Brazilian average economic growth was around 7.5%, a rate only surpassed by Japan by that time.

The manufacturing industry bravely survived the new times. Supported by a steel industry base started with Companhia Siderúrgica Nacional by the Vargas administration, the industry grew with a help from the connections the Kubitschek administration had established with foreign companies (naval, automotive, and metal-mechanic industries, in general). The "Brazilian industrial stronghold,"[24] as Antônio Barros de Castro, in a clarifying article, calls our metal-mechanic industry (automotive included), did not resent trade isolationism in the 1970s. The domestic market ensured room at least for maintaining itself, if not for growth. The economy remained closed to external competition. We exported little and imported little.

We were able to dwell in a golden slumber up to the 1972 and 1982 oil crises. If the international financial turbulences did not wake us up, they gave us nightmares: Inflation and external debt suffocated the public accounts and restricted the room for induced growth. In the 1970s, the "Asian Tigers," academically called NICs (*new industrialized countries*), shone bright in the globalization skies as large exporters. Although keeping away from this new wave, we still showed positive results thanks to the old import-substitution model, with a touch of NICs when copying some products. The "Brazilian miracle" of the 1970s showed yearly growth rates of 7%. In the worst moments of the military dictatorship, the country still sailed on calm waters and, due to the haze created by success, failed to see that there was an iceberg in the horizon that would collide with us. In the 1980s, the iceberg, instead of melting, melted us: the economy started to be eroded by inflation and by the external moratorium. We were one step from stagnation.

Under these conditions, the Brazilian state had no room for interfering globally. Even when the United States, under President Carter, attempted to change the policy to sustain any regime that opposed the "communist danger" and could become more sensitive to the Brazilian plight, the leaders maintained their "third-world" vision, compatible with the national-statist development ideologies. However, they could not fail to recognize some changes in the international economic scene. It was then established that our economic development would be based on a tripod: private, state, and foreign capital (e.g., the petrochemical industry).

The Kubitschek formula of direct foreign investment was overcome by the concern for the strengthening of some local industrial sectors, with strong government support. As the fight for redemocratization advanced, both domestic businessmen and sectors of public opinion started to fear that the state's greed (natural, given the size of public companies and the volume of capital they had accumulated) would suffocate the necessary freedom to modernize the private economy. It was then in the 1980s that a discussion started on the inconveniences of keeping the information technology industry subjected to a law that, for nationalist reasons and with the goal to create a domestic technological sector (didn't the Soviets do the same?), barred imports and foreign investments. Also, due to exchange restrictions, equipment imports had become painful to companies willing and needing to modernize themselves to be able to compete. The average import tax in the 1980s was at 50% and, besides, a

[24] See Castro (2008). The references made in this text, with the corresponding page numbers, were taken from the original mimeo version, of 2004.

license from CACEX was required, which was given discretionarily, in a slow and bureaucratic way—exactly at the time when the world communications and information sectors showed such dynamism that affected the whole industrial and services sectors.

By the end of the 1980s, it was clear that we either change course or would hardly recover the drive we had had in the 1970s. This decade had benefited from the decisions made in the 1950s by the Vargas and Kubitschek administrations and, mainly in the 1960s, when the Castello Branco administration started to adapt the state to the challenges of modernization, by changing the imposing structure and other fiscal policy practices.

The calm weather that later came from abroad and the healthier conditions of government finance enabled some important public investments by the governments that followed, mainly in highways and energy. The less hostile treatment given to private capital also helped the "industrial stronghold" to become stronger in the 1970s, until the 1982 crisis uncovered, unexpectedly, that there was much more than "something rotten in the state of Brazil." In spite of that and of the remarkable democratic advances in the 1980s, the political leaders' average consciousness remained shut to changes in paradigm.

The 1988 Constitution proves that. Called the "Citizen Constitution" by Ulysses Guimarães due to its democratic vigor, capable of outlining a social democratic future for the social security, health, land reform and education, it did not provide the country with the proper institutional conditions to create the necessary wealth to fund such high purposes. On the contrary, it maintained the inclination justifiable in the previous decade toward a strong state control of production, inhibition of foreign capital, and a tax structure that would either make the state deprived or leave the companies and the people at death's door. There was no other answer: There was a need to obtain funds to finance the state's charges led successive federal governments to increase the tax burden. Not only to increase but also to distort the tax burden, favoring indirect taxes and contributions, as the latter are not shared with the states.

The way the Constitution defined income and responsibilities, incentive mechanisms, barriers to foreign and even domestic investments, and maintaining the same state monopolies did not part with its premise: that we would continue to maintain a closed economy, with an active government fomenting growth based on the domestic market and on the Treasury's discretionary decisions that could define who was the winner in each economic sector. Neither were the consequences of this model clarified or even mentioned by its defenders: The maintenance of income concentration. It would be difficult to reconcile lack of tax resources, democracy, and freedom for social groups and movements to present demands with fiscal disorder and low economic integration into the international market. More likely, this situation would lead, as it did, to low growth rates that did not permit meeting with the national claims for reduction of social exclusion. We were living the opposite to the miracle years, when the budget and the imposing burden allowed that a significant portion of spending be directed to production investments, without putting more emphasis on spending in the social area. The authoritarianism in force stopped in the air the screams of dissatisfaction.

The fragility of the non-growth model that suffocated us in 1980s only became more visible after the fall of the Berlin Wall, which represented the collapse of the pillar that hosted the ideological clamor from communism and socialist variances. In our case, it was not meant to imitate the Soviet model, but the existence of the Soviet world left room to imagine the possibility of "another form of development" rather anchored by the government than based on the market. The Cold War had concentrated a large portion of the American production forces and diplomatic energy on the war field. This restricted larger advances of the "American globalization," as it restricted the "soft" effects this model could use to improve its sociocultural acceptance by the rest of the world, including Brazil, often amazed with the already mentioned contradictions between what the United States said and did. With the fall of the Berlin Wall, resistance to globalization diminished. The politics that had been an obstacle to the change in paradigm in the past now became a factor in the economic game, this time to remove obstructions to it.

Considering the difficulties to catch up with the world we faced late in the 1980s, the real "miracle"—to imitate its economic equivalent of the 1970s—was that democracy was preserved, thanks to Presidents Sarney, Collor, and Itamar Franco, and mainly to the Brazilian people that had tasted and liked freedom, including press freedom. But a lot needed to change in the economic field so as to reopen the horizon for a more sustainable and bold growth. The first strike against the barriers to integration into a new kind of international market was the trade opening. In 1988, the highest Brazilian import tax was at 105% and was reduced to 35% in 1993. The 51% average tax came down to 14% and was maintained at that level after the Real Plan (1994). The highest rate was still at 35% in 1996, when only Mexico, Colombia, and Argentina had rates in excess of 25%. The economic opening in Brazil was more cautious.[25] We were adjusting progressively to the demands of international trade

"*Nowadays Brazil does not have any tariff barrier—few countries can say the same—and its average import tax—Mercosur's TEC (Common External Tariff)—is around 12%.*" The effective rate fell down to 10.7% in 2005, according to the National Industry Confederation (CNI).[26]

Fears that the commercial opening would disorganize the domestic industry did not materialize. Some sectors, such as the textile and spare parts manufacturers, experienced some initial disorganization but were able to pull themselves together within few years, although not always under the same owners as in all structural changes. There has been some loss of the know-how accumulated by domestic companies. Referring to the period that followed the wide structural reforms of the 1990s, Antônio Barros de Castro, an author who cannot be considered anti-industrialist, wrote:

> "*At this point it was already possible to notice that the vast industry diversity left by the accelerated growth period had survived the commercial opening of the '90s. That does not mean that there were no losses […] but that the Brazilian industry preserved a good measure of the diversity left by the 1950–1980 period. Above that, the metal-mechanic*

[25] For a comparison of the volume and speed with which tax imports were reduced by the various American countries, see Ffrench-Davies (2005, p. 91).

[26] Statements extracted from article by Sérgio Amaral (2008), on which I based some of the analysis shown herein.

> *industry, already referred to as 'Brazilian industry stronghold,' came clearly stronger out of the commercial opening.*"[27]

The dangers prophesized by the defenders of the nationalistic protectionism dissolved into thin air. And partly thanks to the fact that the Brazilian commercial opening and the reforms put into gear had not been based on the simplistic thought that globalization should imply inaction on the public sector's part. Quite the contrary, given the malleable characteristics of the new globalization; if it is able to live together with the Chinese state capitalism, there should be no difficulty to adjust to the rules of a country whose historical economic development had never been fundamentalist, in the sense of either pure statism (since Vargas, the Brazilian public companies had been organizing themselves as mixed capital and launching stocks in the market) or the blindness of an "*à outrance*" that leaves economic growth exclusively dependent on the market forces, as was the case of some countries in our region.[28] BNDES played a very active role in the modernization of paper and cellulose, steel, petrochemical, textile, furniture, and shoes industries, as well as in support of the airspace, automotive, and other industries. The fact is that starting in 2001, as soon as the exchange policy changed and the world economy had an unprecedented growth, basic and manufactured products exports grew and changes in production techniques and design ensured a global standard to the Brazilian exported goods.

With the commercial opening left behind, the Brazilian economy had to deal with its oldest, chronic problem: inflation. I do not need to mention the Real Plan, its successes and reversals. I will only mention two topics that are directly linked to globalization, privatization and exchange. The privatization process started by the end of the Sarney administration and was continued by the Collor and Itamar Franco administrations, regulated by the National Privatization Program passed by the Congress in 1990. In the beginning, privatizations were propelled by the Treasury's needs, in view of the difficulty to bear the public companies' costs, slow profit margin, and indebtedness, mainly in the steel sector. The fiscal crisis did not make it easy for the Treasury to bear this burden without heavily affecting inflation control.

The most representative moment of these first steps occurred in the Itamar Franco administration, with the privatization of Companhia Siderúrgica Nacional (CSN). During the Collor administration, the currency for purchase of public companies was government bonds, called "rotten," due to their low liquidity, including agricultural bonds. That started to change in the Itamar administration, which also propelled concession of some federal highways. The scene changed substantially in the next administration, when privatizations were aimed at not only alleviating the fiscal crisis and consolidating

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[27] Castro (2008, p. 4).

[28] Castro's comment about an inherited diversified economic base is fundamental. Not all the countries have the chances Brazil and some others have to attain success in the current stage of world capitalism. Some little-developed countries can take advantages from the conjuncture thanks to their good conditions for agricultural or raw materials production. Others can't even do that. But to really aspire to "climb up the stage" in labor's international division, it is undeniable that the availability of an industrially diversified economy, with a self-financing base, is an important condition. About the distinct historical paths of Latin American countries in the global economy, see Cardoso (2007). There are no "recipes" for economic development, for the historical paths are variable.

the economic stabilization—which was also important—but also at attracting important foreign investments in infrastructure, mainly in the energy, railroad and telephone sectors.

From the viewpoint of Brazil's integration into the global order, the constitutional and legal changes that redefined the legal frame of the state–companies relation had a considerable weight. The goal was not only to privatize to free the Treasury from bearing the onus represented by some money-losing companies, but to have a strategy to competitively integrate the country into the world economy, attracting capital and technology from abroad. It is unnecessary to repeat in this chapter the fundamental role the regulating agencies—National Oil Agency (ANP), National Electricity Agency (ANEEL), National Water Agency (ANA), among others—had in attracting domestic and foreign private capital as well as in ensuring competition and assisting consumers. It became necessary to strengthen the role played by the Administrative Council for Economic Defense (CADE), the agency in charge of preventing market monopolies, and so on. A new frame was being shaped to regulate the relation between national and foreign companies and the State.

Economic activation was not felt in the beginning. The country was creating conditions for a new stage of economic development, but the speed still depended on the consolidation of stability, advances in the fiscal area, definition of exchange rules compatible with growth, and other conjectural decisions, not to mention capitalism's global cycles. From 1994 to 2002, the country went through a series of financial and political turbulences: Mexico in 1994, Asia in 1997, Russia in 1998, Real in 1999, Argentina—intermittently from 1999 to 2002, energy in 2001, elections in 2002. Just like in the 1970s, when nothing seemed to be negative and the obstacles were in front of us, the deep changes being made were hidden by the persistent semi-stagnation process resulting from those crises and the fact that we had not completed fiscal adjustment.

Changes in some sectors were felt more rapidly, mainly in the telephone and communications sectors. Although the military governments had led the way in these areas, with some success for the time, it was clear that the lack of investments and modern technology in a sector controlled by the state was a bottleneck. It was an unsurpassable obstacle for the country to advance in the global order, but we could not continue to make the same "Soviet" mistakes. An example of this was the old IT law, modified by Congress in 1991 to adjust to circumstances but which still collided with the constitutional monopoly in the case of telephone companies. We had to break it in 1995. Large investments came in for the acquisition of telephone companies and are still growing. The technological leap was clear, and the accelerated expansion of access to telephone and Internet-enabled Brazil to improve its economic dynamism. Besides the telephone sector, the seaport sector was also significantly modernized through massive concessions of terminals: over 90% were transferred to the private initiative. In the oil and gas sectors, a more flexible state monopoly attracted private investments in the exploration and productions area. Turned into a modern business corporation, Petrobras responded to the competitive scenario with additional investments, larger production, and new oil and gas reserves.

The telephone sector was mentioned because it is the most obvious modernization case to allow response to the challenges placed by globalization. Other changes that took place in the Brazilian production sector will not be covered in this chapter. Among them are technological advances that enabled competition in civil aviation or civil building, as well as turned us into respectable producers of deepwater oil, a real revolution in agricultural business, and helped mining companies to thrive, mainly Vale.

The lack of understanding of the effects of globalization generated criticism that, analyzed today, seems groundless: the concern about the industry's going to scraps as a result of the market opening and the threat of "de-nationalization" that privatization would bring. In the case of Petrobras, the decision was not to privatize the company but to break the monopoly in oil exploration, maintaining it under the Federal Government who can make concessions. In 1995 Congress passed a Public Services Concession Act that worked as an umbrella for the concession of highways, electrical energy, etc. It was an addition to the privatization program, another way of making possible the partnership between the public and private sectors. More recently, this was strengthened by the law that created the Public-Private Partnership (PPP).

Some larger public companies were privatized, like Vale or Embraer, the latter during the Itamar Franco administration. In some telephone companies, in Vale, CSN and others, the employees' pension funds and sometimes BNDES became partners. The old public companies were free from their ties to the Treasury and generate additional funds thanks to the tax paid and the dividends received by BNDES. The rapid adaptation to the markets and the mobilization of capital and technology enabled them to become global players. Embraer, whose base technology was developed by the Air Force but was privatized in view of being continuously in the red despite being subjected to a golden share in the Treasury's hand, started to have its stocks listed as blue chips, and now the airplanes it manufactures are leaders in the international competition. The same process occurred with other privatized companies and Petrobras.

Banking was another sector that privatization worked to leverage. We privatized state banks that had become a black box for the state governments' debts. They worked as informal emitting banks in the sense that they transferred the burden represented by unpaid bonds to the Central Bank, which absorbed them to avoid banking bankruptcy. Privatization of the state banks was opened to foreign banks and turned Banco do Brasil into a corporation, separated from the Treasury, a process started in the 1980s, when the "*conta-movimento*" (operational account) that linked BB's assets to the Central Bank was closed. In spite of much mourning for the "de-nationalization" of the finance sector, to date the two main banks are public—not counting the BNDES—followed by two other domestic capital banks. Only then come the foreign banks, intercalating with others with domestic capital. Whatever the criterion used—deposits or loan volume—foreign banks own less than 1/3 of the total and the Federal Government's debts are contracted with the domestic financial system and denominated in real, which gives the Treasury a large margin for maneuver.

In summary, the Brazilian economy did reasonably well in adjusting to the rules of global competition, without the industry having gone to scraps and the production sectors having been de-nationalized. Foreign capital's participation in important sectors was large, but each of them normally has domestic private, public, or mixed partners. That happens in the telephone, electronic and computers, steel, paper and cellulose, petrochemical, agricultural, oil, energy, cement, building materials, commercial distribution, banking services and transport sectors. Even in the automotive industry that was exclusively foreign in the past, there is an important competitor—Marcopolo. And we will see shortly that companies with originally domestic capital are now acquiring companies abroad and becoming international.

Lastly, to explain the mechanisms that enabled the Brazilian economy's accommodation to the global production system, the exchange and fiscal issues played a crucial role. After the difficulties to maintain almost fixed exchange rates following the Real Plan in 1994 and with the currency crisis in January 1999, the Central Bank introduced the floating exchange rate system. The first steps to better adjust exchange and monetary policies to market demands were given in the Itamar Franco administration: BC started to have, in practice, operational autonomy, and the country suspended the moratorium, renegotiating the external debt in 1993. The international scenario, in addition to the difficulties in the fiscal adjustment that consumed the government's energy over the first five years of stabilization, barred a faster exchange adjustment, which would have provided a better push to exports, although the real devaluation would have affect industrial modernization by increasing the price of imported equipment. The January 1999 crisis devalued the currency but, surprisingly, did not cause a significant raise in the inflation rate.

From then on, the floating exchange rate and the monetary policy of adjusting interest rates to the achievement of the projected inflation rate left room for the country to expand its exports. The economic expansion was gradually consolidated as the fiscal crisis got under control with projected primary surplus, and the interest rates started to be reduced. From 1997 to 1999, the primary surplus leapt from -0.9% to +2.9% of GDP. In 2000, the Fiscal Responsibility Law was approved, a basic tool to ensure surplus goals and good public management.

Following the 2002 election, the Lula administration caused panic in the financial market and an inflationary surge, but the fact that the projected primary surplus was increased and met from 2003 to date eased the concern about the internal debt's solvency. The aforementioned changes in the production system and exchange rate, added to the world boom started in 2001 and the "Sinocentric revolution" that pushed the value of raw materials and food, left Brazil in such a position that it is no longer an artifice to speak of BRICs, i.e., the country's possibility to move from the "outskirts" to the "center" of the world economy. The country cannot hold a really central position, but is getting closer to the bloc of countries that are economically relevant in the world scenario.[29]

[29] It is neither the time nor place to show the comings and goings of the monetary and exchange policies that affected in different ways the economy's integration into the global order. For an analysis of this process and the reasons why accelerated growth did not take place in certain periods, see the already mentioned article by Antônio Barros de Castro (2008). According to this author, on several occasions, growth was interrupted: in 2001, by the energy crisis; in 2003, by the monetary policy that raised interest rates for fear of an inflationary surge. It seems that, since 2006/2007, we have taken the course of sustainable growth. Let's keep our fingers crossed that the sub-prime American crisis and distortions do not deviate us from this path.

The Global Game in the 21st Century Perspective: Still an American Globalization?

In this final part of the chapter, I wish to refer to only two questions. The first deals with the expansion of Brazilian companies abroad and the meaning to the Brazilian process of competitive integration of the current boom pushed by China. The second is related to the political questions of the negotiation agenda created by the presence of new players in the world power chess.

There were several stages in our economy's competitive integration. The first was represented by the break of customs barriers between 1989 and 1993. The second was the wave of constitutional changes which occurred in the mid-'90s to enable investments in telecommunications, oil, IT, etc. At last, more recently,[30] Brazilian companies intensified their investments abroad, and some of them became true multinationals, in view of the extent of their investments and the foreign market's importance to their results.

How can we evaluate this new trend? The answer is not simple, as noted by Sergio Amaral, from whom the following comments are borrowed. It depends: If there was an "expulsion" from the domestic market due to high interest rates, valued exchange rate, or excess taxes, the investment abroad will hardly have been positive for the national economy (not to forget that it creates jobs abroad, not here). If, on the other hand and as it seems to have been the case most times, internationalization derives from the search of new markets, without detriment to the domestic market, either to improve competitiveness or to add value to the products, the answer is different: Internationalization is activating local production conditions. In this case, what is under way is the process prevailing in developed countries that had to adjust to the facts: the production chains were fragmented and, on the other side, there was a company's relocation to search for competitive advantages. While the research and engineering that developed the product originated in one country, for instance, the raw materials come from another and the finishing can be done in a third country, not to mention financing and marketing. What counts in this disperse game is that global production chains are created. If a company does not insert itself in these chains, it adds lesser value to its products and progressively loses competitive capability.

Distinct motivations and causes led Brazilian companies to tap foreign markets. Some of them wanted to be closer to consumers, such as Marcopolo, Ambev, Camargo Corrêa, and even Embraer. Others, like Sadia, aimed at taking hold of distribution channels and Odebrecht was looking for technological upgrade to face large competitors. Gerdau wanted to consolidate its position in the sector; Petrobras and Vale looked for leading positions in the natural resources market. A good number of companies wanted to circumvent protectionist barriers, among them Coteminas, Friboi and Cutrale. Obviously, these reasons are not exclusory, as a given company may be aiming at multiple objectives. The

[30] Petrobras' leap started with the decisions made after 1998 to transform the company into a modern corporation (the same happened to Banco do Brasil). Petrobras' executive directors were removed from the Board of Directors, its management and control methods were refreshed, and the political-party interferences in the company's businesses were significantly reduced. Petrobras became a public company, with domestic and foreign shareholders and accountable to the society and the market.

important fact is that there are Brazilian companies operating abroad and not only the largest ones mentioned herein. In some cases, the production chains unfold in the global space.

To repeat a phrase that is expressive, there is no doubt that Brazil entered globalization by deciding to internationalize itself instead of being internationalized by the arrival of multinationals in the domestic market. This process gained speed over the last years and has, at its back, an extremely favorable world economic setup in which China has an enormous weight. The raise in commodities' prices, which alone does not explain the expansion for the external market, benefited Brazil and a good portion of Latin America. Several countries in the region were freed from external debt, show very positive trade balances, and produce funds that help finance external expansion.[31]

Until when and to what extent will China and the other countries that entered into mass consumption continue to be the lever for other emerging economies?

It is not the first time that the world economy shows high demand for metals and other natural resources as oil. During England's industrialization era, demand for food by the Island population stimulated exports from Australia, New Zealand, and America's South Cone countries. More recently, demand for oil and the control of supply by the producing countries created a huge relocation of resources from developed countries to the oil producing regions. The current surge, however, differs from the previous ones, for the pressure on raw materials and food comes from economies that are still developing and have enormous populations, such as China and India. Even the "small ones" like Vietnam are comparable to the most populous European countries. Summarizing:

> "*The phenomenon, which has no historic precedent, suggests something like 'development generalization,' and its main consequence is the conversion of demography into a factor to define nations' economic weight and gravitation.*"[32]

As we have seen, China is responsible for nearly one third of the world production growth, half the demand for aluminum and copper, and a good portion of the increase in the price of products like soy and other food products[33] And it is not alone in this position: India also puts pressure on the commodities market as its economy grows and its population has a bettered income level. This new situation has multiple effects. Added to the focus on biomass fuel production, it leads to an unprecedented use of land for agricultural purposes, which can benefit agricultural countries, irrespective of being developed, emerging, or poor. The rise in food prices can also bring inflation rates up and also have negative impact on the poorest layers of the world population. But it is to be recognized that, this time, the raise in prices is not due to short supply—although climate changes now and then contribute to that in specific areas,

[31] The international expansion of the Brazilian companies will not be dealt with herein. Suffice to say that they have completed the third stage of adjustment to the global competitive order. For additional information, see the aforementioned article by Sergio Amaral (2008).

[32] Castro (2008, p. 20).

[33] OECD (2007, p. 143).

causing floods or droughts--, but to an extraordinary expansion in demand as better income level in large population countries brings about new consumers. This process also affects the meat market.

Putting together the information published by *The Economist* [34] on the subject, Rubens Barbosa summarized the impact of this situation on Brazil by saying:

> "*Food short supply and the high price of agricultural commodities, in a more open world context, can change the balance of power in world economy in favor of emerging markets. Brazil is very well poised to be one of the main countries to benefit from this trend. Both in research and extension of harvestable land and in agricultural, ethanol, and biodiesel, Brazil has important competitive edges.*"

In this way, the interpretation suggested by Castro starts to be generally accepted. Developed by Luiz Carlos Mendonça de Barros[35] in a series of articles, it defends that there would have been a structural change in the world economy that would favorably affect Brazil in the long term. The present boom would not be temporary as the previous ones, although in their time, mainly between the end of the 19th century and World War I, agricultural countries' economies had also risen to a higher development level.

All this is exact, but requires caution. I do not refer to the possible consequences the recent burst of the American "real estate bubble" may bring to the world economy if it restricts the commercial flow with China. Or if, given the euro's existence, China decides to use its considerable position in gold to play against the dollar's stability, a highly unlikely possibility. I refer to the effect the dollar excess generated by commodities exports may have on the real's valuation and the resulting difficulties for the export of Brazilian manufactured goods. Suffice to say that the real valued by 30% in relation to the dollar over the last two years.

The negative impact of a possible—real to some countries—competition from Chinese manufactured products [36] depends on how much these countries are exposed to China and India's competition and their capacity to adjust to the new circumstances by increasing productivity or creating

[34] See *Economist.com* for the reproduction of a series of articles on the subject published by the magazine, under suggestive titles as "*The agonies of agflation*," "*Cheap no more*," "*The end of cheap food*," etc. Ambassador Rubens Barbosa summarized and extracted the consequences from the trends shown by the magazine in an article published in *O Estado de São Paulo* (Barbosa, 2008).

[35] See several articles by the author published in *Folha* and, particularly, Mendonça de Barros & Pereira Miguel (2007), which analyzes the positive impact of the world commodities market on Brazil, as well as points related to exchange rate and finance. The authors insist that new opportunities were opened to the country, but they require a vision of future to be better used.

[36] Labor costs have become an important factor in the current competition and not due to China only. The gap between wages in Eastern Europe and the European Unit also has a weight on competition. It is certain, however, that there is a tendency to wage convergence, which should benefit developing countries in the long run. See an article by Pastore (2007a), or a more simplified version by Pastore himself (2007b).

new industrial and export niches. In other worlds, it depends on the degree of specialization of each country's economy, its production costs, and the strategic decisions it comes to make. Although 70% of Latin American exports were destined to the United States, Japan, and the European Union, OCDE believes that "most of Latin America has little to fear from increased trade with China and India,"[37] because the Chinese exports to those countries concentrate on manufactured products, transport equipment, and high-technology machines, while Latin America concentrates on commodities and low-technology manufactured products.

However, it is necessary to qualify the threats that may derive from competition with Chinese exports. Some Latin American countries tend to increase the technological contents of their exports (e.g., Costa Rica). Others, like Brazil, count on an advanced industry, and some manufactured goods are also showing the effects of competition (e.g., shoes and textiles). Mexico and even Colombia have seen some assembly industries relocate to China. In other words, China's presence—and India's, to a lesser scale—fuels emerging and poorer countries' economies. These countries' adjustments to the global market conditions have, so far, been positive. This is valid not only for Latin America but also for the African countries, with a risk: that these economies concentrate even further their production on a few products like oil, copper, soy or coffee. The countries that built diversified industrial parks will face future challenges coming from the expansion of the Eastern economies.

This is the case with Brazil, whose production base is similar to India and China's, even because these countries also adopted import substitution policies and mastered the art of copying processes and products developed in other economies. These challenges will not bar growth if adequate policies are defined to overcome them. In what concerns Brazil, the most stressed point is that it needs to advance in educational reforms to ensure continuity of an "information economy," the prevailing model in the developed world. For the country to climb to a higher development stage, it is necessary to generalize access to high school, make a revision of all curricula—including the universities'—to put emphasis on the scientific and technological aspects of education, provide for teachers' retraining, and give incentive for universities to interconnect scientific and technological research and the industry. At the same time, the diagnosis shows that, for us to keep above water in the current world, we will have to continue to improve politically representative institutions and the country's public governance, as well as to strengthen the economic regulation agencies. It all adds up to adjusting institutions so as to increase validity and effectiveness to the rules that regulate companies–government–consumers relations. The shortfalls in infrastructure (energy, ports, highways, etc.) are also visible and must be faced.

The double condition as an industrialized country that counts on vast natural resources and a technically advanced agriculture enables us to develop a long-term strategy to convert the momentary advantages into a secure future, by replacing minerals and seeds with neurons. Norway shows how non-renewable resources can be capitalized on to finance the future. A long-term development policy that creates a kind of macro public-private partnership for the use of the resources to be generated, for example, by the exploration of giant gas and oil fields, would enable great impulse for the development of education and investments in infrastructure. It would not be fit to go into details, but it is possible to think

[37] OCDE (2007, p. 146). For a detailed analysis, see Santiso (2007), mainly chapters 4 and 5.

of modern policies for the industry and services sectors that, at the same time, stimulate value-adding and increase productivity. Likewise, it is fundamental that trade treaties be multiplied as to ensure access to other markets, for the domestic consumption, the larger it may be, will not be enough to absorb large-scale production.

Despite the challenges, difficulties, and fears, it is clear that Brazil has an increasing participation in the global economy, counts on a vast domestic market and is able to offer better living conditions to the population. As with everything in History, it depends on the course we may come to take and our capability to take part in the world market and power. In summary, it depends on our capability to formulate an economic and political strategy that takes into account the global context, the last point to be analyzed.

Brazil's Options in the 21st Century Global Game

In previous parts of this chapter, I showed that the current internationalization stage has technological, organizational, and valuation specificities. I even qualified it as a "globalization in the American way," as the United States was the country that developed or adapted inventions, with more dynamic consequences to the economy and society. Is it possible to go on characterizing the current period as a moment in the "globalization in the American way"? Is it still possible to talk about an American hegemony in the global order? If not, how is this order being redesigned, and which place does it hold for Brazil?

The old arguments about free trade or protectionism quite often resurface and, now and then, resurface in an inverted way. The three pillars of current economic order, the China–India pair, the United States and Europe, when convenient to their interests, consider trade-restricting measures or, in the two latter cases, restrictions to free movements of people.[38] Even so, "globalization" is not stopped. The United States and Europe, on their turn, tend to have different views on how to better handle the world economic order, either supporting the international institutions and agreements or playing on the market and free initiative free of too many rules. At least at first, some developing countries considered defending their global interests by reinforcing the regional solidarity like Europe (Mercosur is only one of the attempts in that direction).

It would be childish to think that the partners newly arrived in the global order should be tied down by the views that prevailed or prevail in the present poles of the world system. Markets count, but, mainly in the most populous countries, do not do without states to support them; it is also known that action by the states to advance positions in the global economic order will depend less and less on military power; "soft power" gains importance in a world where pillars interact and not wage war. The political and diplomatic ability to sign trade agreements or to occupy the space left by divergences between the great players open alternatives for the less powerful. The countries that are new in the globalization scene have learned to use the WTO to defend their interests against the wealthy countries' protectionism or to use the

[38] On the subject, see Abdelal and Segal (2007).

rules of the intellectual property treaties to defend their people's specific interests. It is also true that they are willing to make use of their national reserves of oil, forest, and water as power factors.

From this puzzle results that the current globalization process, albeit containing homogenization factors, has neither given any of the pillars of the economic order the necessary power to impose its will on the others nor created a consensus capable of legitimating a unipolar order. Just like in 1929, when there were contradictions between the economic factors and the states, or in the globalizing wave launched in the last quarter of the 19th century that was broken to pieces by World War I, there seems to be nowadays some inconsistency between a way of producing and trading that requires universal harmony (Montesquieu referred to the "*doux commerce*" as a force for peace and civilization), but bears witness to the inability to produce a balance of power among states for the creation of universally accepted rules.

There is not assurance that History should move toward any balance. However, in view of how much globalization has already led to articulation between opposed and different parties and the pressure put by global issues—transnational crimes, drugs, environment, atomic terror, terrorism, scarcity of water, and possibly of fossil minerals—that do not depend on economic convergence, balance of power, and even ideologies, it is unlikely that we return to Hobbes' world of war of every man against every man. With the Cold War left behind and bipolarity with it, a different world started to be shaped after a short period when there was the possibility of an effective American hegemony.

Three main factors create difficulties for the creation of a more balanced world order, even if subjected to a superpower. The first is the shocking asymmetry produced by the world capitalist system: Sub-Saharan Africa or any segment of many emerging countries resembling it lets out the alarm. The second is the revival of political and religious fundamentalism supported by wealthy states. The third is the fight among the beneficiaries of globalization to define the course it may take (the Persian Gulf and Russian energetic powers, the China–India pair and the like as newcomers to power and prosperity, the European Unit and the United States).

In this context, there are those who characterize the current global order as multicivilizational and multipolar following the "decline of the American empire"—a doubly inaccurate expression, for there has never been a true English-style American empire, and the United States' military power is not declining. It has admittedly become less effective as a factor for the maintenance of world power before adversaries that do not value life in the Western terms. The reach of the American military action and its force to impose political or economic decisions are not what they were fifteen years ago. But it seems to me that it is a strategic evaluation error to see these signs as indicators of a "farewell to hegemony." They imply a reshaping of hegemony, and it is in this sense that we should understand the references to the new "Big Three," the United States, China and the European Union.[39] These three poles fight for influence and power in the context of a global economic order, in which a culture favorable to innovation and change maintains the main role played by the United States, which does not imply the existence of a political order that is harmonic, subjected or exempt from competitions. Similarly to what happened to the

[39] I refer to Parag Khanna's essay (2008a), based on his own book (Khanna, 2008b).

production process, the global political order is no longer reconcilable with centralization. It is distributed in influence and power chains and interacts autonomously with the economic chains.

It is through the loopholes, so to speak, lying around the larger scene that the new partners intervene in the political game. The fluidity of the world political setup enables a more significant role to be played by what Parag Khanna calls "swing states." Brazil was able to make use of these gaps, fighting in Doha for the right to break patents in certain circumstances or questioning the sometimes European, sometimes American protectionism, as well as in Cancun, by creating obstacles to global agreements that could be in our detriment. And it is not the only country to wish a relevant role in the world scene. More or less noisily, playing with oil or the nuclear issue as the case may be, other countries—not so *swing*, but rather *rogue,* exert power in their own way. In all of the Middle East, in the Persian Gulf, and in North Africa, the possibility of multicivilizational globalization starts to be shaped, at least, as a question mark. The pressure put by some of those countries in terms of terrorism, nuclear threat, or oil games brings the challenge to reconcile the economic globalization interests to the practices of states and societies with peculiar cultural traditions. In this case, we are far from what would be supposed to be a culturally homogenous, Western-cultured globalization.

Increasingly at ease, countries like Russia, despite its disputed real power, start to have a say and may reach variable alliances with China, the energy producing countries, or even Europe. Turkey, for geopolitical reasons, gains a power not in proportion to its war or economic power and its acceptance by the European Union would redefine the boundaries of the "Western world." It is also the case with India and its atomic agreements with the United States, which could reshape the Islamic world in East Asia. Not to mention China, already considered one of the Big Three, and its capacity to act as an attraction pole in Asia and to exert economic influence in America and Africa, while assimilating the globalizing culture. Perhaps more than Japan, China was able and wished to assimilate certain Western values. Pragmatic Confucianism and cultural homogeneity may explain the ease with which China intends to create a "society with harmonic socialism," as President Hu Jintao defines his strategy.[40] To the Western eye, this policy looks like the development of a society whose dynamo is state capitalism and whose way of life, at least in the coast regions, resembles the globalization in the American way: consumption and success in life are the values to guide behaviors. The difference lies in that the Chinese state continues to be strong and regulates both the market limits and the assimilation of liberal values in political life, which comes in very small doses.

[40] It is worthwhile to re-read Max Weber on Chinese bureaucracy and Confucian ethic. Although in many aspects contradictory to the characteristics of the modern rational bureaucracy, Confucianism and bureaucracy explain how it was possible to simultaneously maintain an Empire and so much decentralization; how to create a meritocracy based on general culture, taste for literary style, adjusted to the stamental world, without there being either a profession monopoly or a mandatory determination of a place to live. In spite of the Confucian ethic on human development in all the spirit's dimensions preventing specialization in professions, an essential condition for capitalist modernization, Weber goes as far as to say that, in ancient China, the retraction of politics before the economic life was, from the very beginning, based on laissez-faire and qualifies Confucianism as a practical bureaucratic philosophy. See Weber (1944), mainly pp. 178–182.

In any way, it is necessary to distinguish the world power game from the effects of globalization and the economic relations it creates. No matter how much production processes are innovated and distributed over the planet and how much capital merge themselves, the nations' political will, represented by the states and their "enlightened egotism," continues to act in the world power scene, relatively free from mere economic interests. The power game continues to bar or facilitate the advances of economic globalization, dislocating domineering poles and creating new partners. From the beginning of the 21st century onward, it will be difficult to think of a homogeneous world led by the strongest economic power, even if the announced decline of American empire does not materialize. It may continue being the economy's main motor—and even that is being disputed in view of the moderate impact the current recession in the United States has had on the world economy—it does not have enough steam to dictate the rules of the game.

The American society's creativity and malleability may overcome the country's difficulties in adapting to the current political conditions. The Bush administration's mistake to one-sidedly intervene *urbi et orbi* may be repaired by the new American administration. Time only will tell. One way or the other, the United States and the other domineering poles will have to make room for new partners, which may even be willing to accommodate themselves to economic globalization, but will tend to preserve their cultural values and national interests.

From this perspective and before the fall of the Berlin Wall, Brazil redefined its external policy, even without having it clear which would be the consequences of the process under way. Following a long-lasting tradition codified by Rio Branco, Itamaraty looks at South America and, more specifically, the Plata Bay, as areas of strategic interest. At the same time, our Chancery has always given special attention to the powerful north neighbor, an issue that deserved special dedication by Joaquim Nabuco. The intent was not to be hostile to it or to be tied to its policies, but to maintain good relations in order to gain space and be freer to take care of the areas of specific interest.[41] In some periods, depending on the international context, strategic objectives are widened to include Africa's south cone and the Portuguese-speaking countries. In the past, we felt permanently linked to Europe, sometimes due to the English economical influence, sometimes due to the French cultural influence. In the two World Wars, Brazil aligned itself with England, France and the United States. As the world economic axis moved from Europe to the United States, it was just natural that Brazil's economic and political relations got closer to that country.

There were times of removal from these positions. For a short period during the Vargas government, Brazil seemed to play with Germany, but was in truth making use of the fissures between the big ones to attain economic advantages. With the "independent external policy" during the Jânio Quadros administration, Brazil got closer to the non-aligned countries (Nehru's India, Nasser's Egypt, etc.) to protect ourselves against the tensions caused by the Cold War. This policy was maintained during the João Goulart administration. At the final stage of the military dictatorships, especially under General Ernesto Geisel, we got closer to Africa and what was called Third World, motivated by economic objectives

[41] For a penetrating analysis of the Brazilian external policy, mainly the more recent one, see Lafer (2004).

compatible with a "responsible pragmatism" orientation. Prior to that, the general-presidents had had difficulty in dealing with a few democratic governments in the United States and Europe that were more active in the fight for human rights. Later, with the redemocratization of the 1980s, under President Sarney, we normalized relations with the socialist countries—Cuba included—got closer to Argentina, and reestablished the traditional relation with the "Western world."

Following the fall of the Berlin Wall, under Collor de Mello, and from then on, we concentrated on the creation of Mercosur, a process still under way. The nuclear inspection treaty between Argentina and Brazil was a significant token of new times—of war relations on the Plata, but also political and economic cooperation. From 1995 to 2002, we expanded relations within South America and organized the region's first presidential summit in Brasília, in 2000, repeated in Guayaquil in 2002. The Lula administration maintained this essential care about South America, carried on with the previous administration's guidelines toward expanding relations with Asia (mainly Japan, China and India) and Africa and gave a thrust toward the Middle East. Likewise, it confirmed the positive relation with the United States and Europe. What was called "presidential diplomacy" was strengthened since 1995, a practice made easier by fast communication means and the country's increasing weight in the political order.

In summary, despite the shade variations in speech and with the few exceptions pointed out above, Brazil has maintained some invariance. However, the ways of diplomatic action, the reach of economic relations, and the country's intrinsic weight in the world have varied. The zeal to maintain a relatively autonomous and independent attitude in the world scene, free from automatic alignments, are not marks of one given government, but a state vision. We have opted for a "variable geometry" policy to better defend our interests depending on circumstances. And we never failed to consider the geographic contingencies—Lafer's dictum well expresses this fact: "*Mercosur is destiny, ALCA is an option.*"

Given the economic globalization and the consequent connection of the Brazilian to the global economy, and the presence of multinationals in our market and of Brazilian companies in the external market, it was natural for the external policy to adjust itself. It started to put a different emphasis on the preservation of autonomy through relative distancing from the world, as Ambassador Gelson Fonseca, Jr. qualified what had happened in the past and turned to ensuring it through active participation in the preparation of norms and agendas for a good management of the world order. In Celso Lafer's words, "the country's specific interests are more than ever linked to its 'general interest' in the operation of the world order." Or, metaphorically, the challenge of the Brazilian external policy, early in the 21st century, is to look for conditions to sing the country's specificity in tune with the world."[42]

Globalization woke us up from the peaceful preservation of our interests through a relative alienation from the world. On the contrary and from now on, either we adopt a "critical realism" attitude, according to Lafer, and recognize the fact that the internal and external are more than ever interlaced and, therefore, we are to act increasingly in the world power scene, or we will not respond to what History offers us as an opportunity. To preserve the national will to see a developed and strong country, it is necessary not to mix up "nationalism of ends" with "nationalism of means." The first does not vary with

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[42] Lafer (2004, pp. 117 & 122 respectively).

administrations: It is part of the Brazilian state's tradition, zealous on ensuring that economic development improves the population's living conditions. The second may be a hindrance to the same purpose, depending on circumstances.[43]

To ensure "nationalism of end" and, thereby, the national interest, varied tools are possible: placing all the chips on obtaining a seat in the Security Council; relapsing into a "third world policy of results" that brings us votes; or thinking that the time has not come yet for UN to be reformed, so we will be better serving the national purpose if we fight for G-5 expansion; not making a decision on environmental issues to ensure autonomy, even if at the environment's cost; or fight for environmental causes compatible with sustainable growth; and so on. In any of these cases, the argument is not between who does and who does not want an independent external policy, for all wish it, but the options depend on the analysis of the global context.

From the more strictly economic viewpoint, options have to do with the relapse into policies and reinforce the "disguised statism" with certain "command economy" and restrictions to foreign capital versus the state's institutional strengthening to define rules that preserve free initiative while barring the monopolist temptation. The latter often has patrimonial implications, favoring obscure links between public and private, concentrating income and harming the collective interest. It also has to do with decisions directly linked to access to markets. For example, choices like the ones made at the Miami meeting on ALCA in 2003 reduced our margin for maneuver. Afraid of the American competition, we postponed the creation of a common market, probably a correct decision if it had been made to gain time, but which resulted in restricted options. The United States started to strongly act to reach bilateral agreements with all the Latin American countries, possibly canceling advantages Brazil would have under the ALADI's

[43] On "nationalism of ends," see the aforementioned Celso Lafer's book (2004), especially chapter IV. Starting with Rio Branco (and since the Empire, I would add), our diplomacy has had to deal with the outside world and the internal environment. The tools and policies to handle these two realities varied over time. But a notion persisted in the minds of our intellectuals and political leaders: that we need to reduce the non-symmetries among nations and that, while they continue to exist, nationalism is a factor in favor of the country's development. Hélio Jaguaribe, mentioned by Lafer on page 87, summarized the meaning of Brazilian nationalism by saying that it is "the means for attaining an end: development." Sticking to nationalism of means, I add, would be, for example, to value the high import tax policy in order to protect the domestic industry—a practice that is valid in some moments, while, in others, what the country needs is the access to external markets, and is already able to compete internal and externally. Industrialized countries do not confuse means and ends: they were liberal in what relates to market. Nowadays, for fear of the emerging economies, they some times relapse into protectionism to preserve their interests. In the emerging countries' case, the same applies to capital control or state monopoly, which one day was helpful but can become an obstacle when these countries' economies relate with the world market in a different way, and when the countries can count on resources to adjust to new times.

umbrella and leaving us isolated in Mercosur, which so far has not attained any agreement with the European Union.

These few examples are meant to show that the new globalization stage brings challenges and options that can be faced, provided leaders and policy makers correctly assess the world context and count on a realistic view of the country's possibilities. On making a decision, it is necessary to bear in mind the national interests, avoiding that nationalism of ends gets mixed up with nationalism of means, as the latter may be incompatible with a national economy integrated into the global market. When this happens, opportunities for growth are lost at the same time that our most direct competitors, the "monster countries," make use of them with an unprecedented speed in decision and implementation. There is no time to be lost, but there is still time. If we act capably, a new and good surprise can come up: that of leaving behind the pains of underdevelopment within the next two decades.

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