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## Geopolitical Value of the US dollar and Peripheral Countries

Pablo Alejandro Nacht



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## CLACSO

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# Geopolitical Value of the US dollar and Peripheral Countries

Pablo Alejandro Nacht

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*International hegemony and the south*

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## Objective

This research aims at exploring political as well as economic positioning strategies, which would allow Southern countries (Latin America, Africa and Asia) to learn and analyse the past and present situation of the world economic system and its potential risks in order to find a possible counter-hegemony alternative.

## US Dollar Hegemonic Role and South Countries

Deep changes took place after World War II; the US emerged as the strongest economic and military power. The Bretton Woods agreement (1944) was vital for the rise of the US, since the US dollar became the principal reserve currency and the global economic world became dependent on it. During the fifties its hegemony was unquestionable.

The collapse of the Soviet bloc led to a series of highly significant events: the strengthening of capitalistic trade blocs, a unipolar world in which the USA is the sole superpower, the revolution in Science and Technology and the deterioration of developing countries due to the implementation of neoliberal policies.

However, Bretton Woods set up a system of fixed exchange rates using the US dollar as a reserve currency. This was possible due to the overwhelming strength of post-war North American capitals. Thus, while the dollar was backed by the gold standard, other countries had to peg their local currencies to the dollar according to a fixed exchange rate.

Consequently, the dollar played a double role, since it was both a domestic and an international currency. USA credit inflation landed in the international market, producing instability; through its deficit, the US determined the level of international liquidity. The collapse of the system established in Bretton Woods was inevitable.

In August 15, 1971, Mr. Nixon, by then President of USA, unilaterally, *closed the gold window*, making the dollar convertible to gold directly and setting up a new exchange rate system which had a substantial impact upon the world economic politics<sup>1</sup>. This system allowed the US to issue dollars without gold backing; the velocity of circulation of the US currency increased and it became volatile. The unilateral cavalier way in which the Bretton Woods inspiring principles were cast aside, was well captured in the phrase used by Nixon's Secretary of the Treasury, John Connolly, about the international impact: "our currency, but your problem".

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1 By removing the gold backing in 1971 the US had a current account deficit in its balance of trade of 145 billion dollars; in 2004 it amounted to 617 billions.

As Theotonio Dos Santos states: “The military confrontation between the US and Vietnam was another important factor involving an intensification of public sector expenditure in the period 1967-73. Military expenditure took on a new dimension in this period. The progress of military technology hugely increased the cost of military equipment and R&D in this sector [...] Expenditure on pure research took on the guise of great projects of the eighties, known as the “Great Science”, (the Star Wars Program or the Strategic Military Initiative, the Genome Project, the giant particle accelerator, etc. [...]) The emergence of petrodollars in the seventies generated a great excess of funds in the global financial system, which was recycled primarily through the North American financial system and secondarily through the European system. This recycling was initially directed to the countries of the Third World and to socialist countries, which took on enormous foreign debts in the nineteen seventies” (2004:5).

### Surrealistic Economy

In spite of its importance since the seventies, in 1990 there were massive inflows and outflows of speculative capital, which played a fundamental role in the world economy. Overall, the volume of the financial Economy was fifty times larger than the real economy. Thus, we could say that the international Economy was private, speculative, unstable and pro – American<sup>2</sup>. The US dollar was not only the most common reserve currency, but it was also the favorite speculative currency, the refuge currency against the ups and downs of speculation. On the one hand, the US government issued its currency without external controls, and, on the other hand, it could be bought in any place of the world.

In 1975 the buying –selling process of foreign currencies as a means of payment for the acquisition of goods or services, that is, for international trade, accounted for an 80 % of the total global currency market activity. The other 20% accounted for exchange speculation, which traditionally used to play a minor role in currency transactions. Twenty years later the scenario changed radically. By then, 97.5% accounted for speculative manoeuvres and only 2.5% represented real goods and services transactions (next page).

By the mid-nineties, the financial economy overall involved 50 times more money than the real economy. International reserves became insignificant in comparison to the extraordinary power of private money; the movement of not

2 Hedge funds, which were launched in the fifties, must be taken into account. Theoretically, the goal of these funds was to provide the market a tool able to diversify and reduce risks, but, in fact, they have since been operating as a mechanism for high risk speculative manoeuvres; by *betting* on the future development of a variety of financial assets, thus obtaining small profit margins through transactions involving colossal amounts, and the capacity of circulating external resources throughout short periods of time. All this allows to obtain astronomical profits at low-cost investment.

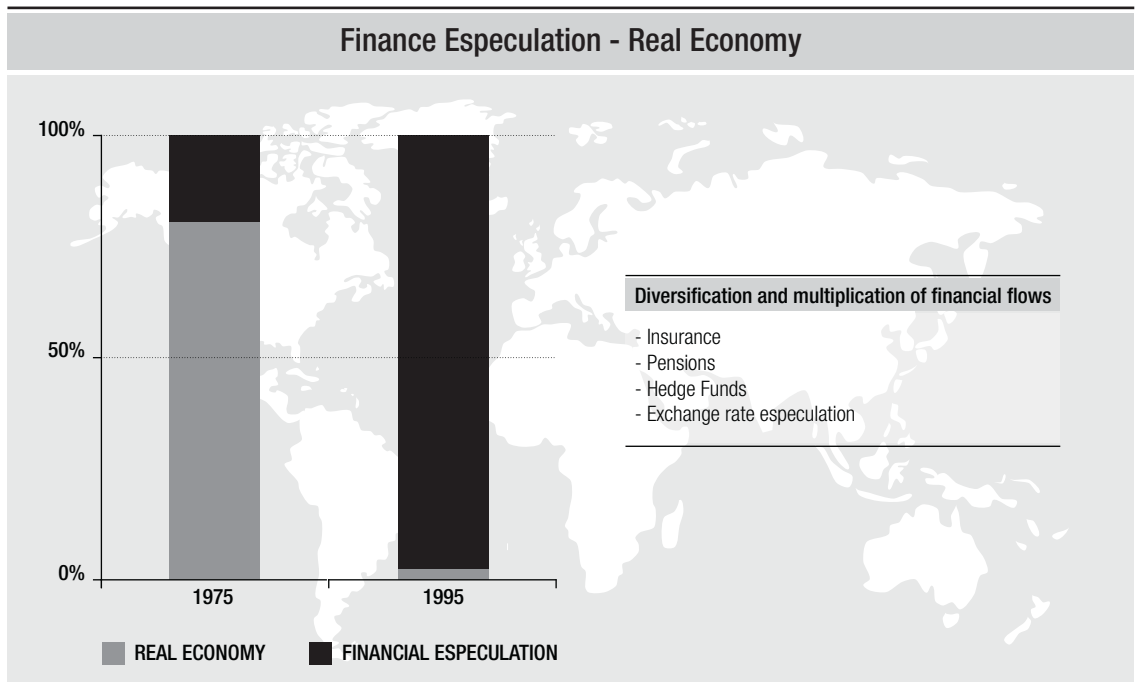
Nowadays, 3,000 institutions manage this type of funds worldwide. A present case illustrates very clearly the range that these institutions can reach: Long Term Capital Management (LTCM), one of the most important hedge fund enterprise in USA, ran by a group of financial *gurus* (including two Nobel Prize Laureates in Economics). This company developed creative mathematic techniques ( set up prices of the options) and operated sophisticated computer softwares; during 4 years it was able to achieve almost a 50% profit margin for its investors.

The Press has informed that at the beginning of 2006, this company moved a capital of nearly 5 billion dollars. This fund moved an amount higher than 200 billion dollars in this type of transactions (40 to 1 scale).

The devaluation of the ruble brought serious difficulties to LTCM, including a scenario of potential bankruptcy. In order to prevent this, the Federal Reserve had to urgently set up a plan, a rescue package of 370 billion dollars, involving foreign banks and 15 major US banks. This behaviour of the Federal Reserve is certainly difficult to understand and provoked major protests in and outside the country. USA demanded both in Russia and the Southeast to leave up to the market the task of determining which company was capable of carry on operating and which had to go bankrupt. It was the same USA, adopting a different philosophy, the one who got involved to save a troubled company at home.

more than 2% of the private financial flow was able to modify the exchange rate between two currencies.

Every 3 years the BIS (Bank for International Settlements, based in Basel) coordinates a global central bank survey of foreign exchange and derivatives market activity. For example: in 2001 the foreign exchange and derivatives “Forex” amounted to 4 million million dollars per day, which represented the performance of the global NIP during one week.



Considerable investments caused a private financial flux, which the in-force controls were not able to handle. In 1964, international private loans accounted only for the 20% of the international reserves; in 1970 this flux surpassed the reserves and by 1980 it was nearly double.

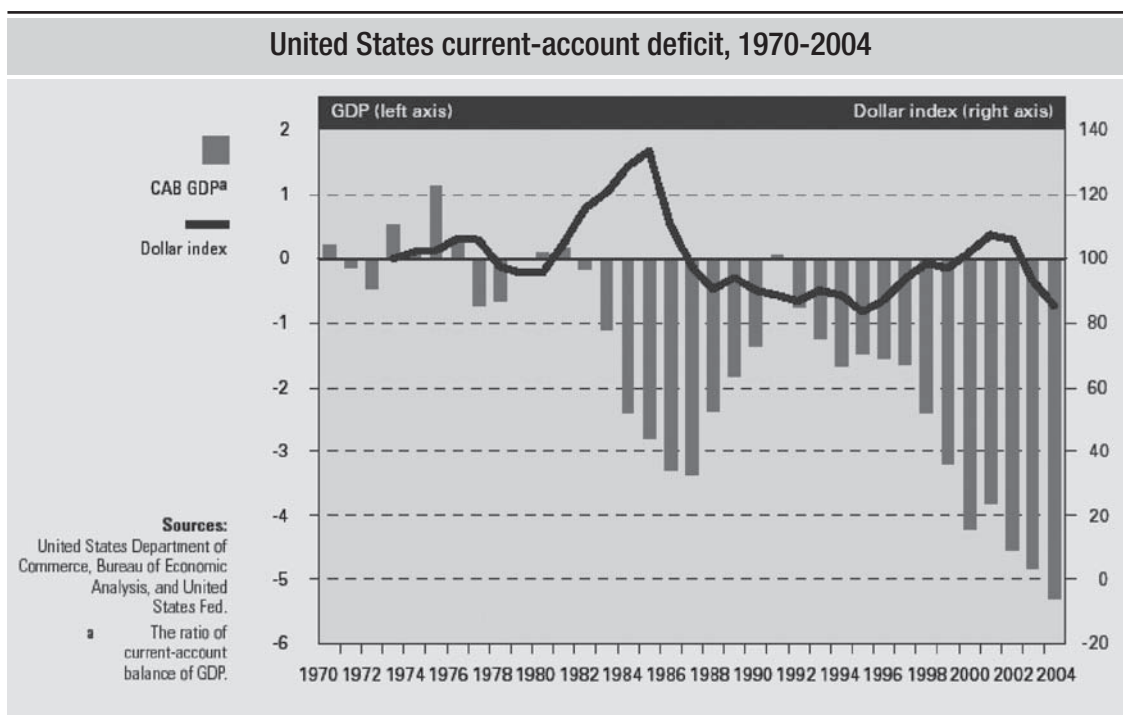
As Patnaik marked “Financial interests within any country, as Keynes and Kalecki argued, tend to be hostile to demand management; when finance is international, this hostility acquires a spontaneous effectiveness. Any effort by the state to expand economic activity makes speculators apprehensive about inflation, exchange rate depreciation and, more generally, political radicalism and finance flows out of the country; this precipitates actual depreciation and inflation, forcing the state to curtail activity so that speculators feel comfortable. The current imperialist offensive against the third world, in the form of the imposition of liberalization, has to be understood in this context [...] Liberalization, in short, is a mechanism for centralization of capital on a world scale: metropolitan capital-in-production ousts third world producers, while metropolitan capital-as-finance (which is the dominant component of globalized finance) gets control over third world resources and enterprises (built up earlier at public cost) at throwaway prices. Prying open third world markets to goods and services helps overcome metropolitan stagnation. Doing so, moreover, is particularly advantageous, for two reasons: first, it keeps state intervention in demand management at bay, and with it any threat of political radicalism; second, by deindustrializing the third world and forcing it into greater reliance on primary production, it keeps inflationary pressures in the metropolis in check” (2005: 10).

Under these circumstances, the incidence of the financial ups and downs had strong repercussions, such as the pushing of the real economy into the background. The global economy was now dependant on the US economic cycle.

US trade deficit continues to set new records: in 2004 it reached the unprecedented figure of 617 billion dollars, 24.4 % larger than in 2003, when the imbalance accounted for 496 billion dollars. It is the third successive record deficit.

But this is not really new. The current account deficits of the United States have been the rule for most of the past three decades, with only a brief period of balance, and have risen rapidly since 2000 to a record deficit that is higher than \$600 billion. As a result, the United States, the world's largest economy, has accumulated net international debts of about \$3 trillion, making it the world largest debtor. These changes in national holdings of international assets are both a counterpart to the current-account imbalances and their mirror image, as reflected in national differences between savings and investment.

The external deficit of the United States corresponds to a shortfall of its savings in relation to its investment and surpluses of savings over investment elsewhere, with the United States absorbing at least 80 % of the savings that other countries do not invest domestically.



The rest of the world needed the United States to run balance-of-payment deficits in order to provide the additional liquidity necessary to fuel continued world economic growth. However, when the deficit of the United States rose, the excess supply of dollars eroded confidence in the value of the dollar, weakening its foundation as the world reserve currency.

As the issuer of international reserve money, the United States is able to have persistent external deficits and to finance them in its own currency, with virtually no need for foreign exchange reserves. By facing external constraints that are more limited than those of other countries, if it deems necessary, the United States can adopt policies that are more stimulatory than those of other countries. In contraposition, most of the other countries, particularly developing countries, have to use the dollar and other international currencies, rather than their own national currencies, in their international transactions and as a means

of accumulating foreign exchange reserves; their capacity to run external deficits is constrained by their supply of foreign exchange and their access to global credit markets, both of which are limited.

Despite its position as a net international debtor, the United States continues to have a positive net inflow of investment income from abroad... for the time being.

Historically, adjustments to the large external deficits of the United States have involved considerable volatility in foreign exchange and world financial markets and a contractionary effect on both the United States and the global economy. In the early seventies, adjustments led to the collapse of the Bretton Woods system and the transition to a floating exchange-rate system. During the eighties, when the United States faced *twin* fiscal and external deficits, in 1985 the adjustment had involved a sharp fall in the value of the dollar. Until the current account was rebalanced in 1991, the dollar declined by about 40 % against a basket of other major currencies.

Today's global imbalances have become larger and lasted longer than in the 1980s. Increasing global economic integration, particularly deepening global financial integration, have made current imbalances different from those of the seventies and eighties in terms of their sustainability and their implications for the world economy. As the imbalances continue to increase, the risks of an abrupt and disordered reversal also rise, suggesting risks of larger adjustment costs for the world economy in the future. In turn, continued reserve accumulation by some Asian and world central banks allows the United States to rely on domestic demand to lead its growth and to run the resulting large current-account deficits. After a decline from 70% in the 1960s to almost 50% in the early nineties, the share of United States dollar assets in total world official holdings of foreign exchange has rebounded to about 64%; the share of the euro remains less than 20% and that of the Japanese yen less than 5%.

### Share of national currencies in identified official holdings of foreign exchange, end of year,<sup>a</sup> 1994-2003

Currency	Percentage									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
All countries										
United States dollar	53.1	53.4	56.8	59.1	62.6	64.9	66.6	66.9	63.5	63.8
Japanese yen	7.8	6.7	6	5.1	5.4	5.4	6.2	5.5	5.2	4.8
Pound sterling	2.8	2.8	3	3.3	3.5	3.6	3.8	4	4.4	4.4
Swiss franc	0.6	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.6	0.4
Euro <sup>b</sup>	..	..	..	..	13.5	16.3	16.7	19.3	19.7	..
Deutsche mark	15.3	14.7	14	13.7	13.1	..	..	..	..	..
French franc	2.5	2.4	1.9	1.5	1.7	..	..	..	..	..
Netherlands guilder	0.7	0.5	0.4	0.5	0.5	..	..	..	..	..
European currency units (ECU) <sup>c</sup>	6.8	5.9	5	0.8	..	..	..	..	..	..
Unspecified <sup>d</sup>	9.5	12.1	11.5	11.3	12	12.1	6.6	6.4	7.1	6.8

**Source:** International Monetary Fund, Annual Report of the Executive Board for the financial year ended 30 April 2004.

**a** Including only IMF member countries that report their official holdings of foreign exchange.

**b** Not comparable with the combined share of euro legacy currencies in previous years because amounts exclude the euros received by euro area members when their previous holdings of other euro area members' legacy currencies were converted into euros on 1 January 1999.

**c** In the calculation of currency shares, the ECU is treated as a separate currency. ECU reserves held by the monetary authorities existed in the form of claims on both the private sector and the European Monetary Institute (EMI), which issued official ECUs to European Union central banks through revolving swaps against the contribution of 20 per cent of their gross gold holdings and United States dollar reserves. On 31 December 1998, the official ECUs were unwound into gold and United States dollars; hence, the share of ECUs at the end of 1998 was sharply lower than a year earlier. The remaining ECU holdings reported for 1998 consisted of ECUs issued by the private sector, usually in the form of ECU deposits and bonds. On 1 January 1999, these bonds were automatically converted into euros.

**d** Difference between total foreign exchange reserves of IMF member countries and the sum of the reserves held in the currencies listed in the table.

Three features may cause the rising United States current account deficit to become unsustainable in the next few years. First, the deficit is financing consumption rather than investment; second, the United States investment is shifting towards nontradable sectors; and third, the deficit is increasingly being funded by short-term flows. In addition, the financing needed by the United States to sustain its deficits has been provided by the world central banks, not by private investors, during certain recent periods.

### **World Economic System Stress**

One of these sources of instability is the tension between the growing need of the United States for financing to cover its current account and fiscal deficits and the losses that those lending to the United States in dollars are almost certain to incur in. There are also concerns that rising trade deficits will lead to protectionist pressures; signals of a new burst of protectionism are already apparent. These growing signals that the system is under stress raise doubts that the present massive rate of reserve accumulation will continue for an extended period.

The fact that the effects of dollar depreciation are also adverse for those holding dollar assets is likely to reduce their expenditure, particularly where those assets are held by private agents (all World Central Banks).

“Dollar reserves earn a pittance and sooner or later the holders of such reserves would wish to trade them for more lucrative assets. Allowing such a shift would entail a denationalization of American assets which the U.S. State would be opposed to; on the other hand, not allowing such a shift would jeopardize the position of the dollar and plunge the U.S. economy, and indeed the system as a whole, into a profound crisis. Therefore, the U.S. cannot be unconcerned about its growing external debt. But each of the policy options available to it is fraught with serious consequences”. (Patnaik, 2005: 9)

The Euro has begun to emerge as a serious challenge to the US dollar privilege, thus the American interest towards the implementation of the FTAA agreement as an integration project.

The US relative weakening of economic leadership worldwide plus the strengthening of the EU and the growing and threatening China-Japan competitiveness in Asia has led the US to redesign its foreign policy, in order to counterbalance to the EU and the Asian Pacific rim.

### **Petrodollars vs. Petroeuro**

Oil determines the European strategy to compete with the US dollar. At the end of year 2000, Irak started pricing the international transactions in euro. Jordan and Irak created a bilateral trading system also with a euro standard. North Korea and Iran have adopted the European currency since December 2002, while Russia, Syria, Saudi Arabia, Kuwait and Venezuela are analyzing the same stance. Yavad Yayani, influential Chief of OPEC Oil Market Analysis Department has advised: “As long as bilateral trading between the Middle East and the EU keeps increasing, oil could be quoted in euro considering that Europe is the main economic partner in the region”.

The question is: what would happen if oil were quoted in euro instead of US dollars?

According to the Financial Times, Saudis who owned assets in the US for 700 billion dollars have already withdrawn 10 billions. A weak dollar causing internal distrust could generate 9 billion dollars to be switched to the European currency and non monetary assets such as gold.



As it has been described, the European currency has become a great financial weapon in the world economic scenario. Thus threatening the US dollar hegemony.

Therefore, it seems particularly suggestive that these facts are widely ignored, in particular, by the American news media who regards China and the OPEC as the bicausality for the increase in crude oil prices. Moreover, *specialized* publications not only omit the deterioration of the US dollar, but also the fact that the USA is transferring inflation to world markets due to the devaluation of its currency.

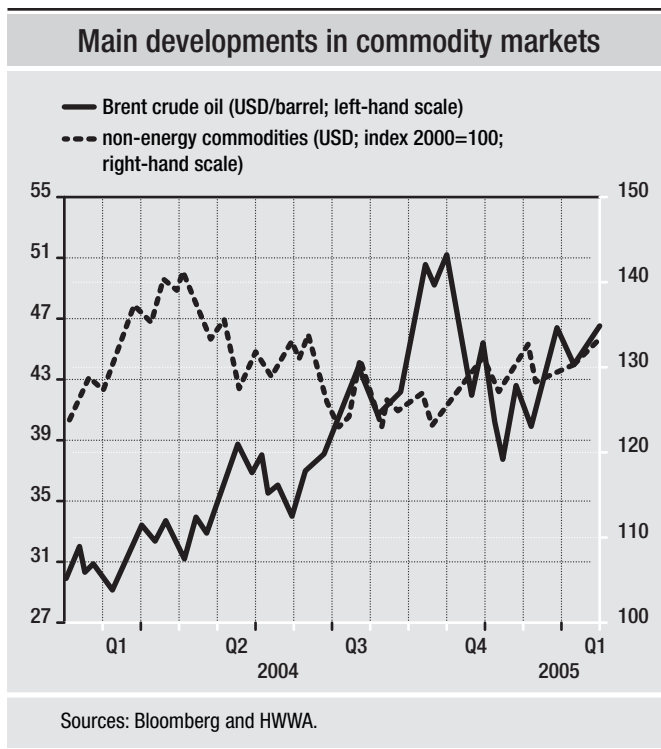
The increase in the price of crude oil (setting new records by now), cement, tin, iron, and innumerable commodities can not be simply explained by China's demand or the unceasing tensions in the oil-producing regions. Raw materials adjust their prices, partly, as a consequence of the depreciation of the currency which determines its value in the global market.

Oil prices increased throughout most of the year amid considerable volatility. The price of Brent crude oil reached a peak of USD 51 at the end of October 2005, compared with USD 30 at the beginning of 2005 (see Chart 3). For the whole of 2004, the average price of Brent crude oil was USD 38.33 % above the average of 2003. If measured in terms of euro, the price of Brent crude oil increased by 20 % over the same period.

As the Annual European Central Bank Report 2004 informed: "On average, the price of Brent crude oil in 2004 was 33 % higher than in 2003. Nonetheless, as a result of the overall appreciation of the euro against the US dollar, oil prices in euro terms went up by 20 % in 2004".

Second, indirect effects refer to the possibility that, in addition to direct effects, by increasing energy input costs, an oil price shock may have an impact on the prices of other goods and services. This may result in a generalised rise in prices, although it also depends on the extent to which profit margins can absorb rising costs. There are primarily two channels through which oil price shocks affect the real economy. First, there is the supply-side

channel, because oil is an important input factor in the production process. A rise in the price of oil entails, particularly in the short term, an increase in production costs, as the options for substituting other energy sources for oil are limited. The level of output may fall as a result of the oil price increase, which may also imply lower demand for other production factors such as labour. Second, on the demand side, an increase in oil prices entails a deterioration in the terms of trade of net oil-importing economies. That's why oil prices and their variation have substantive importance in world prices all over the world.



Increases in Brent crude oil prices over specific periods				
(percentage change of the annual average)				
	1973-1974	1978-1979	1999-2010	2003-2004
in USA	204	204	60	33
in EUR	210	110	34	20

Sources: IMF and ECB calculations.

## The importance of a different approach

For the above-stated reasons, it is essential for the national and regional development of Latin America, Africa and Asia to counterbalance the suppositions and “truths” showed by hegemonic trends. This can be achieved through the analysis of our realities, involving regional particularities, intraregional power distribution, subregional interests, endogenous economic levels of development, pending conflicts, democratization, historical legacy, ideological traditions and cultural and religious patterns.

Presently, the media<sup>3</sup> and the main academic trends show a *neutral* reality or a fictitious suppression of right or left stances, drawing a veil of objectivity over the reality that affects each country. These acritical approaches towards an economy that disregards the social and productive considerations are building a virtual scenario, where the movement of money alone generates more money.

J. M. Keynes’ remark was really relevant: “Speculators may not be harmful when they are only bubbles in a company with a firm spiritual stream; the situation is serious when the company becomes a bubble within the whirl of speculation. When the development of a country’s capital becomes a subproduct of activities typical of a gambling casino, the process will eventually go wrong.”

The worship of financial speculation together with the existence of the so-called “natural” rules, therefore unchangeable as society and history are ignored into oblivion, subordinate countries and policies with an obscene power. Developed countries are able to face these barriers from a stronger position than peripheral countries<sup>4</sup>.

Countries used to trade one with the other; presently they are obliged to trade with transnationals<sup>5</sup>, which have increased their power.

The multiplication of money and its profits, smelling of financial bubbles, shows the instability of the Global Economic System. Three days of financial transactions account for a full year of goods and services transactions.

The strength of these financial manouvres have produced shocks almost in every country, with a deeper impact on small and medium ones. The Asian Tigers Crisis is a clear example of this<sup>6</sup>.

The alleged rationality of the economic and financial system for the short term will prove suicidal in the medium and long term.

On the other hand, the manouevring margin of the Nation-State is undermined by the International Financial Institutions (IFIs) since they regulate financial assistance or make it conditional on the implementation of models or economic and political *recipies*. These openings for business undermine the development of local industries, creating a “new market” where transnationals companies find a niche to increase their profit margin<sup>7</sup>. In this way, as Carlos Taboada and Wim Dier-

3 Regarding the North-South gap between the cultural and News Media availability, we must be aware that only 3 agencies from developed countries are the source from where the 80% of the global public information comes from : Associated Press (USA), Reuters (Great Britain), Agence France Presse (France).

4 For example, the United States is able to have persistent external deficits and to finance them in its own currency. By facing external constraints that are more limited than those of other countries, if it deems necessary the United States can adopt policies that are more stimulatory than developing countries.

5 Notice that I use the generic term transnational, and not multinational, due to the fact that transnationals do have nationality and their local governments take responsibility through their politicians, armies and other governmental agencies.

6 Deregulation, speculation and the whole performance of the neoliberal package have caused 150 financial crises worldwide, involving 70 countries. In all cases, the actual winners have been the transnationals- mainly from USA -, and the transnationalised banks, assisted by the IMF and the World Bank.

7 Standard economic theory argues that international private capital flows will make a major contribution to development to the extent that they will flow from capital-abundant industrialized countries to capital-scarce

ckxsens have clearly stated: “[...] the Structural Adjustment Programs (SAP) were conceived to assure that the South countries honoured their debts to the Northern countries. The World Bank became a colossal collection office” (2005:12).

In 1988 the IMF created the Adjusted Structural Service (ASS) and in 1987 the Enhanced Structural Adjustment (ESA), both coordinated by the IMF. Transnational investment allocates 90% of its resources to the merger and acquisition of existing companies, and only a 10% to the creation of new facilities or the expansion of the production capacity. This is, for each 10 dollars in Foreign Direct Investment (FDI), only one is used for production and for the creation of jobs.

Naom Chomsky clearly defined the role of the IMF, the World Bank and other international institutions, when he said: “No one advocates for free trade unless they already know they will win the competition”. In that sense, multilateral trade negotiations, agricultural markets remain highly distorted. Liberalization has been modest. Developed countries often impose lower tariffs than developing countries - not only on agricultural but also on industrial products - and tariffs applied on traditional agricultural exports by developing countries are either zero or minimal. However, the fact that tariffs usually increase with the level of processing helps to discourage higher value - added activities in developing countries or on those products (for example, fruits and flowers) that have faster growth potential.

Products sheltered by high tariffs often receive domestic support and require export subsidies to be placed in international markets. Producer support reached about \$ 257 billion dollars on 32% of the total farm receipts in Organization for Economic Cooperation and Development (OECD) member countries in 2003.

**Average tariffs applied to agriculture and manufactures by selected countries, 1999-2001**

Country or country group	Percentage				
	Manufactures	Agriculture			
	Average tariff	Average tariff	Maximum tariff	Standard deviation	Binding proportion of lines covered
Quad	4.0	10.7	..	..	86.7
Canada	3.6	3.8	238.0	12.9	76.0
EU	4.2	19.0	506.3	27.3	85.9
Japan	3.7	10.3	50.0	10.0	85.5
United States	4.6	9.5	350.0	26.2	99.3
Middle-income countries	12.9	26.2	..	..	96.3

**Source:** World Bank (2004b). Tariff estimates comprise MFN, applied, ad valorem, out-of-quota duties.

The trade of less developed countries is particularly affected by OECD agricultural subsidies: over 18% of their exports, on average, are products receiving domestic support by at least one of their World Trade Organization partners.

developing countries and help to smooth expenditure throughout the business cycle in capital-recipient countries. In recent years, reality has contradicted both aspects of this standard theory. For the last seven years, developing countries have transferred large amount of resources to developed countries. In addition to this, private capital flows to developing countries are highly concentrated in a group of large middle-income countries and are particularly insufficient for low-income and small countries. Secondly, private capital flows to developing countries have been highly volatile and reversible; as a consequence, they have been a major factor in causing developmentally costly currency and financial crises. Rather than smooth domestic expenditure, private capital flows seem to have contributed to making it more volatile.

Most protected sectors, therefore, are precisely those that are of interest for developing countries (textiles and clothing, leather and footwear, fish and fish products). Tariff escalation is also present in non-agricultural goods, as evidenced by the fact that tariffs on semi-processed and processed raw materials are relatively high, thus discouraging diversification by commodity exporters.

“WORLD ECONOMY REGISTERED THE STRONGEST GROWTH IN OVER TWO DECADES” is the chapter title of a section in the 2004 European Central Bank Report. And continues: In 2004 the global economy had expanded at its fastest rate since 1976, with growth being relatively broad-based across the various regions. Growth in the Asian region was particularly robust, with the Chinese economy showing signs of overheating. Strong global economic growth was supported by favourable financing conditions and stimulative macroeconomic policies in many countries. It was accompanied by a robust expansion of world trade, which in 2004, reached its highest level since 2000.

This excellent news from center-countries contrast with news from *others*.

BBC News: “Life is worse for the world poorest”. Many of the world poorest countries are doing worse in 2005 than they were 15 years ago, a major UN report says.

The UNDP points out that the gap between the rich and the poor in the world is widening - and inequalities are increasing even within those poorer countries making progress.

The Guardian: “[...] the world richest 500 individuals have got a combined income that is greater than that of the poorest 416 million; and 2.5 billion people, or 40% of the world population, live on less than US\$ 2 a day. Redistributing 1.6% of the income of the richest 10% of the global population would provide the \$ 300 billion dollar needed to lift the 1 billion people living on less than a dollar a day out of extreme poverty, at least temporarily [...] poverty reduction requires dynamic processes allowing poor countries and their inhabitants to produce their way out of deprivation. This means scaling up aid, breaking down trade barriers and halting civil wars”.

“The three richest people in the world have accumulated altogether a fortune that exceeds the GNPs of the 48 poorest countries, which is to say a quarter of all the states in the world” (Ramonet, 2004: 127).

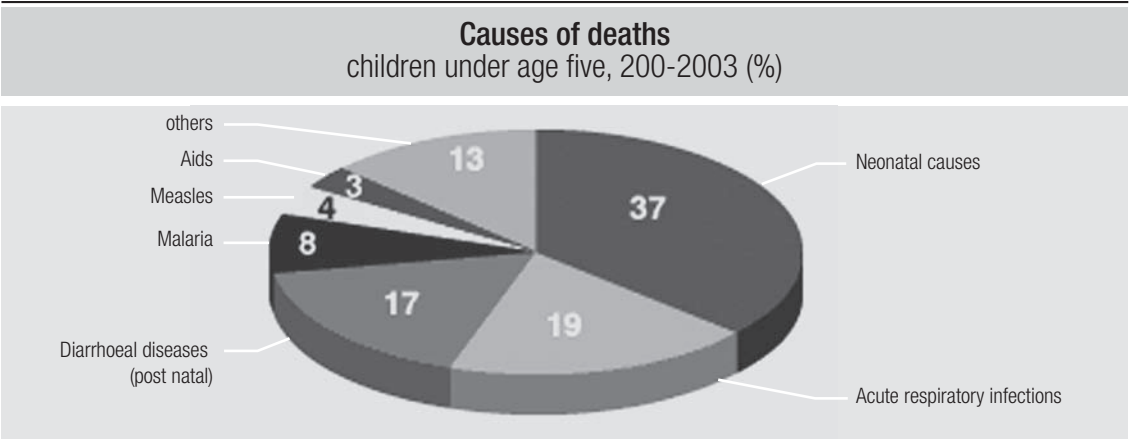
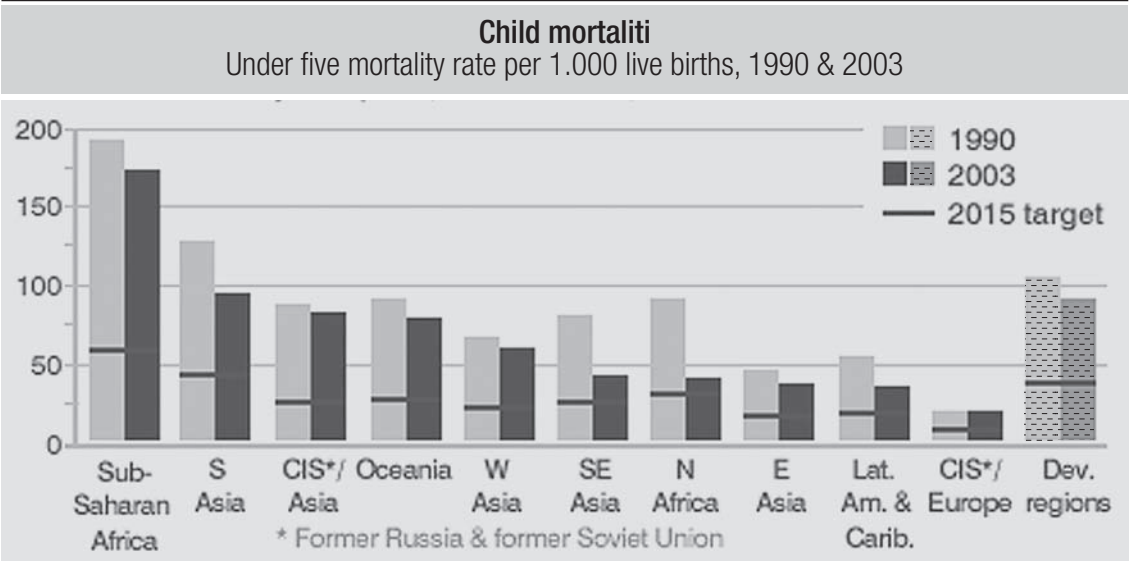
In recent years, aid for post-conflict countries has ranged from US\$ 245 per capita in Bosnia and Herzegovina to just \$ 40 dollar in Afghanistan.

The United Nations inform that for every \$ 1 dollar rich countries spend on aid, they allocate US\$ 10 to military expenditure. Only the increase in defense expenditure since 2000, if devoted to aid instead, would be sufficient to reach the ... UN target of spending 0.7% [of gross national income] on aid. Spending on HIV/Aids represents three days of military spending.

“The cost of meeting all the sanitary and nutritional needs of humankind would be 13 billion euro slightly more than what the citizens of the United States and Europe spend on perfume”. (Ramonet, 2004: 127)

UN Press decries what it calls *perverse taxation*, under which the world poorest countries face the highest tariffs in rich countries, and examines the impact on the poor of agricultural subsidies and protectionism in wealthy industrialized nations. Donor countries, spend US\$ 1 billion a year aiding agriculture in developing countries and US\$1 billion a day on domestic subsidies that undermine the world poorest farmers.

Progress in cutting the child mortality rate has slowed in the last decade. Three million children die of treatable diseases such as pneumonia and diarrhea every year. This is often due to lack of basic healthcare, and many deaths could be avoided by implementing simple, inexpensive measures.



Unfortunately, other international institutions are only a representation of the correlation of forces among their parent countries. If not, why do the UN General Assembly sole mandatory resolutions come from the Security Council, where 5 powerful countries sit as permanent members and enjoy the veto privilege?

**Own Think-Tanks**

The level of economic development achieved in Asia-Pacific during the past 2 decades and its growing importance in the global economy, plus the “Asian Tigers Crisis”, provides us with a paramount example for an analytic reasoning, taking into account the Malaysian and China positive experience. The possibility to achieve, through research, an academic study with a high level of practical applicability to provide cognitive tools for intellectual emancipation, is extremely valuable. But, we must be our own think-tanks.

In this sense, it is important what Prabhath Patnaik remarks: “Many factors have been highlighted, and rightly so, as underlying the high growth of the East Asian ‘tigers’ (some of which hold for Southeast Asia as well). These are: land reforms; the achievement of high levels of literacy; the economic concessions (in the form inter alia of allowing substantial market access) made by the United States for geopolitical reasons to these countries, which were seen to be confronting communism. But an important additional factor, seldom noted, is the restraint placed on financial interests: the exclusion of international financial flows and the subordination of the domestic financial system to the needs

of the productive economy. This was in keeping with what was happening elsewhere in the third world and with the reduced weight of financial interests in the advanced capitalist countries themselves, which underlay the postwar boom” (1999: 2).

## Being Aware

South countries must be prepared for the changes that the global economic system will suffer<sup>8</sup>. The present path of the US economy and its currency will precipitate a domestic as well as a global recession. It cannot only curtail this deficit by depreciating the dollar, since, apart from being difficult to achieve in a world with *market determined exchange rates*, this will induce inflationary pressures, and entail wealth losses, both of which will jeopardize the position of the dollar as the reserve currency and threaten the stability of the system as a whole. Not surprisingly, therefore, it is trying to achieve the same end, of reducing its current account deficit, by coercing Asian economies like China to revalue their currencies upwards with whom it has substantial current deficits.

The new phase of imperialism in short has brought the system to the brink of a major crisis.

The financial bubble can drown the real economy upon which it is based and which is its reason of being. In spite of its apparent self-sufficiency, what actually circulates through the financial markets are only securities created by the real economy (labour and intellectual work), since stocks, bonds or any other financial tools only represent the values of the companies or assets in general. These tools are only bonds without intrinsic value. Financial speculation, however, can deviate completely the real interests inherent to the growth of a certain economy.

And yet what is remarkable about the new phase of imperialism is that it justifies the adoption of neo-liberal policies on behalf of eliminating poverty<sup>9</sup>. State sector assets are privatized in the name of improving *efficiency* which is supposed to usher in faster growth and eliminate poverty.

The DFI did not decrease in the years 2000 and 2001; on the contrary, it increased and raised the full weight of the transactions all around the world. Transnational investment allocates 90% of its resources to the merger and acquisition of existing companies, and merely a 10% to the creation of new facilities or to expand production capacity. This is, for each 10 dollars in Foreign Direct Investment, only 1 is used for production and for the creation of jobs.

In this scenario the question is whether capitalism will have the ability to leave behind the magnitude of this Depression. On the one hand, the answer will be dependant on the existence of suitable conditions to encourage economic growth under the present economic rationality. If these conditions did not exist, it would imply not only a crisis in the neoliberalism itself, but in the capitalistic rationality as a whole.

8 According to a research carried out by the Federal Reserve, 18 out of 25 underdeveloped countries have suffered financial crises. In all the cases, the crises were preceded by the liberalization of the financial markets, some time within the previous 5 years.

9 Orthodox economic analysis has argued that trade liberalization has a positive effect on resource allocation and economic growth. The assumptions underlying orthodox theories are perfect competition, full employment of resources, and constant returns to scale in production. However, the real world is more complex — with market imperfections, high levels of unemployment and underemployment and economies of scale in many branches of industrial production worldwide. A economist as remarkable as Paul Samuelson has questioned the assumption that liberalization always has a benign outcome. As he pointed out recently “it is dead wrong about the *necessary* surplus of winnings over losings” (Samuelson, 2004). In reality, unfettered trade liberalization has, at times, imposed heavy adjustment costs including output contraction, higher unemployment and deeper trade deficits (Ocampo and Taylor,1998, quoted in UN 2005).

The answer, basically, will depend on the capability of capitalism to set aside speculative investment, which is unproductive and redistributive, and head towards production. Measures like Tobin Tax, for example, which control or tax flows of capital in the speculative area, are certainly necessary but not enough. Investment in the productive field will only come when a production profit is guaranteed. Without an increase in the profit margin, a reflux of capital towards the productive field is not likely to happen.

Academicians must develop a critical stance and evaluate the prevailing theories and paradigms. This will be achieved when, by Alternative trends, the peripheral countries analyse what is actually happening. This analysis is essential in order to reach an appropriate diagnosis, thus being able to carry out common strategies with other southern nations.

*“Until lions have their own historians,  
the tales of the hunt will always glorify the hunter”*  
(African proverb)

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