

# GLOBAL IMBALANCES AND INSERTION OF THE DEVELOPING COUNTRIES (1990-2010)\*

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## ABSTRACT

The discussion about the global imbalances began to gain more space in academic debate since the mid-1990s. In the 2000s this discussion was intensified because of the worsening U.S. current account deficit. The counterpart of the United States as a net debtor nation was the excessive current account surplus in some economies such as Germany, Japan and especially China. Nevertheless, in many developing economies the increase of the international reserves resulted principally of capital inflows. That is, many peripheral economies constituted vulnerable reserves. In this sense, the paper has the purpose of discuss the peripheral economies' insertion in the global imbalances environment. I argue that this insertion is differentiated and that the peripheral countries should use the favorable international environment to constitute international reserves by current account surplus.

## RESUMO

A discussão a respeito dos desajustes globais passou a ganhar espaço no debate acadêmico a partir de meados da década de 1990, acentuando-se a partir dos anos 2000, ante o agravamento do déficit em transações correntes americano. A contrapartida do aumento da posição devedora líquida dos Estados Unidos foi a geração de excepcionais superávits em transações correntes em algumas economias, como Alemanha, Japão e, sobretudo, China. Não obstante, em muitas economias periféricas, o aumento das reservas internacionais decorreu preponderantemente do ingresso de fluxos de capitais estrangeiros. Ou seja, muitas delas constituíram reservas vulneráveis. Neste sentido, este artigo tem o propósito de discutir a inserção das economias da periferia no ambiente de crescentes desajustes globais. Argumenta-se que esta inserção é diferenciada e que os países da periferia deveriam aproveitar os contextos favoráveis no ambiente internacional para constituir reservas internacionais a partir da geração de superávits em conta-corrente.

## 1 INTRODUCTION

The condition “global imbalance” consists of the prevalence of significant and lasting current account surpluses in the balance of payments in some and deficits in other economies.

The discussion about these global imbalances became to gain ground in academic debate in the 1990s, and even more so in the years 2000, upon the

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escalation of the US current account deficits. Despite the series of US balance of payments current account deficits registered during the 1980s, more exactly from 1982 on, this discussion took center stage among academics and analysts as soon as the deficits began a steady upward trend in the middle of the late 1990s. It was in the years 2000, however, that the current account deficit of the balance of payments in the US economy was a source of great concern for many observers and researchers in the field, and in 2006 was USD 803 billion, or 6% of the Gross Domestic Product (GDP).

The counterpart of the accumulation of such high deficits in the US economy was the exceptional surpluses in balance of payments current accounts in economies such as Germany, Japan and, particularly, China, in addition to oil-exporting countries and some other developing economies in Asia and the periphery of the system. Therefore, an increase in the credit position of other economies or, at least, a reduction or shift in the net debt position corresponded to the rise in the US net debt position.

During the years of international bonanza between 2002 and 2007, both in trade and finance, many peripheral economies accumulated vast international reserves. However, not all succeeded in forming an “external shield” – in other words, to achieve a high level of international reserves based on considerable continuous positive balances, and which could improve foreign debt indicators and allow a wider range for maneuvering the economic policy, especially in times of crisis.

The purpose of this paper is therefore to discuss the differentiated insertion of developing economies in the sphere of increasing global imbalances, partially offset at the time immediately after the recent global crisis. It is argued that such insertion is differentiated, and that the developing countries should take advantage of the favorable international contexts in order to form international reserves by generating current account surpluses instead of increasing such reserves through positive balances in the capital and financial accounts of the balance of payments. Therefore, the increase in international reserves from net private capital inflows, namely those intended for procuring financial assets, is called a “vulnerable external shield”.

This paper is divided into two sections in addition to this introduction and the conclusion. The first section includes a brief review of the literature about the global imbalances, highlighting their main conditioning factors and systemic effects. Critical analyses also addressing the Bretton Woods II, published by Dooley, Folkers-Landau and Garber (2003), and the Bretton Woods III, by Bibow (2010a; 2010b) are also critically analyzed. This is followed by a discussion on the process of inserting peripheral economies in the system within this process, calling attention to the way in which many economies have increased their international reserves.

## 2 GLOBAL IMBALANCES

The thorough discussion on “global imbalances” must not ignore the status of the USA as a hegemonic country and, subsequently, the dollar’s position as international currency, with US dollar-denominated contracts in global transactions, or China’s position in the new international economic order. Foreign accounts of economies that can issue world currency cannot be addressed in the same way as foreign accounts of economies that have inconvertible currencies or lower degrees of convertibility. The capacity to issue currency for foreign currency-denominated contracts in the global context places the USA in a privileged position in the hierarchy of the international financial and monetary system, including, it should be said, the high indebtedness capacity. Albeit obvious, unfortunately this weighting has not often been considered in discussions on “global imbalances”.

The power to issue international currency gives the USA a wide range of privileges, such as assuming significant deficits in balance of payments current transactions. Under the flexible-dollar standard, the USA can afford to settle its net debt position in its own currency, to be issued by the Federal Reserve (Fed). The US interest rate represents the price by the abstinence of global liquidity, that is, represents the benchmark rate of the entire capitalist system, acting as a kind of regulatory instrument of international liquidity. Moreover, US dollar-denominated contracts give asset holders access to the world’s most liquid and deepest capital market. Consequently, the fact that the net-debt position in the international context is assumed by the USA, in other words, by the hegemonic country in the global capitalist system, under the aforementioned standard, should not be understood as an anomaly but as a privilege resulting from a monetary and financial international system highly asymmetric, organized and based on the US dollar. This is why Metri says:

The current financial power of the USA is absolutely original. It is expressed through its enormous indebtedness capacity, that is, its vast capacity to absorb the global financial wealth, and yet with no counterpart of any kind to its economic policy. The USA may, therefore, put in place and follow through its imperial projects, since the world funds them, and its framework policies towards its main rivals in the capitalist system, since its economic imbalances are absorbed by them (METRI, 2004, p.18).

Assuming expressive deficits in the balance of payments current accounts does not put at risk the convertibility of the system’s key-currency, because the dollar standard is no longer based on the convertibility prerogative. The US dollar is accepted as global currency because it allows access to the world’s deepest and most liquid markets thanks to its financial currency status (currency-denominated contracts), backed by the US financial system and public debt (METRI, 2004).

This, however, does not mean disregarding the considerable and continuous negative results in the US current account balance, especially since the years 2000.

This status indicates, in fact, a dynamic imbalance between the US economy's consumer and saving levels, resulting in exceptionally high levels of private indebtedness.

Indeed, there are no limits to the US foreign account, as Metri (2004) maintains, while the conditions supporting the flexible-dollar standard stay in place. In fact, the theories that advocate the collapse of the dollar as international currency should base their argument on the weakening of the US financial system, and on domestic counterparts of the global imbalances, instead of the US balance of payments current account imbalances per se. Even in this case, however, several questions can be raised about the hypothesis of the dollar's collapse in the short run, considering the exceptional ability shown by the US financial system throughout its history to reinvent and refresh itself. It is worth mentioning that the actual position of the US dollar as global contract denominator implies an induced system of international cooperation in order to keep the US currency as international money, since its sudden devaluation would cause unbelievable devaluation of the global financial wealth<sup>1</sup>.

Returning to the specific discussion on global imbalances, Macedo e Silva (2006) remember that the implosion of the “*dot-com*” bubble in 2000-2001 gave way to a possible outbreak of a systemic crisis, considering the substantial devaluation of the prices of stocks related to “new economy” businesses and the subsequent reduction in family and corporate equity – a decrease that, in turn, triggered events leading to the restitution of savings by the economic players directly and indirectly involved in the stock market. After jumping from 500 to 1000 points between early 1991 and mid-1995, the National Association of Securities Dealers Automated Quotations (Nasdaq) index soared to 5,132 points in March 2000. By October 2002, however, this index was fluctuating around 1000 points.

In order to prevent the outbreak of a systemic crisis, Fed substantially reduced the short-term interest rate – the federal funds rate – in a short space of time from 6% to 1% a year between January 2001 and June 2003. The interest rate dropped from 2.5% to 0.89% p.a. in this aforementioned period. Only in June 2004 did the Federal Reserve again increase the basic interest rate.

But if, on one hand, the US flexible monetary policy prevented the “new economy” crisis from becoming a systemic crisis, it did, on the other, help increase family and corporate indebtedness. By increasing private sector indebtedness and boosting consumption the US current account deficit increased even more, generating the dynamic imbalance between the internal levels of consumption and savings. In addition to the soaring internal and external private deficits, the US

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1. According to Belluzzo (2005, p. 230): “(...) the mercantilist strategies of Asian countries – conceived for the generation of commercial surpluses and accumulation of reserves – necessarily imply the demand for dollar-denominated assets”.

flexible monetary policy implied a sharp rise in global liquidity and laid the foundations for the formation of the real estate bubble (MACEDO e SILVA, 2006). By mid-2004, the ratio between family debt (mortgages plus credit to the consumer) and available personal income exceeded 100%, compared to slightly over 80% in 2000. Between 2000 and 2005, the balance of payments current account deficit leaped from USD 416 billion to USD 748 billion, from 4.2% to 5.9% of the GDP.

The amassing of great financial wealth has substantially altered the spending decisions of the economic players, given the increasingly strong influence of asset price fluctuations. The growing importance of financial assets in the composition of private wealth, according to Coutinho and Belluzzo (1998), Braga (1998) and Aglietta (2004), implied an increasing “financialization” of the economies. Under the aegis of finance-led capitalism, the monetary policy now had to deal with new conditions and new constraints, operating on the edge, in view of the impositions arising from the conduct of those players who dictate the pace of globalized markets, as well as the paradoxical effects from handling the different instruments of monetary policy (CINTRA, 2000; BELLUZZO, 1997).

In this finance-controlled system, the lassitude of the monetary policy required to prevent the outbreak of systemic crises leads to the recovery of asset prices, but at the same time lays the foundations for the formation of new bubbles. The recovery of the US economy after 1993 was headed by the sharp rise in financial asset prices, particularly by actions associated with the “new economy”, a movement that helped raise the federal funds rate by the Fed and later the implosion of the “*dot.com*” bubble. To handle this, the US Federal Reserve was forced to substantially reduce the short-term interest rate. Once again, the economic recovery was headed by the appreciation of real estate and securities asset prices, plus the gradual rise in family and corporate indebtedness. Thus, the same monetary policy that is used to prevent the implosion of the assets bubble becomes a systemic crisis – and also to facilitate the recovery – lays the foundation for further assets bubbles later.

The US economy made a quick recovery from the adverse effects when the “new economy” bubble burst by adopting anti-cyclical fiscal and monetary policies<sup>2</sup>. Moreover, such measures raised the level of family and corporate indebtedness – a result of both the “cheap cash” and optimistic expectations that became prevalent. Ultimately, the US economy was free of the crisis. But, throughout the 2000 decade, the now “triplet deficits” were prevalent: public, private (families and businesses) and external (current account balance). The last deficit, it should be mentioned, resulted from the policies focusing on economic recovery and consequently from

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2. Besides proceeding to the indicated reduction of the short-term interest rate between 2000 and 2001, the US economy went from a surplus of 1.1% of the GDP to a deficit of 4.5%. As a result of these initiatives, the economic recession was short and moderate.

the rise in levels of the private sector's indebtedness, and closer economic relations between the USA and China. The public deficit and, first and foremost, the private deficit, competed to boost the deficit in the US current account balance as a result of the dynamic imbalance between internal supply and demand.

Furthermore, the consolidation of China as a dual center of global economy<sup>3</sup> and the expressive trans-nationalization movement of US companies to that country also contribute to the significant increase in the current account deficit in the USA, mainly between 2003 to 2008, ascribing to it a not insignificant structural component. The US foreign accounts imbalance, therefore, makes it necessary to consider the overflow process of US production worldwide by forming global production chains and subsequently redefining the international division of labor. In other words, the increase in the US current account deficit is also a result of the international inter and intra-company trade flows, and of the importance of the growing international exchanges of semi-manufactured goods and the autonomous private capital flows and their subsequent impacts on the service remuneration of factors.

Within the contemporary global imbalances, therefore, there is a structural dimension, since such imbalances also result from a globally integrated production system, considering the growing segmentation of production of multinational corporations, delegating to the peripheral countries the stages that especially require intensive labor and natural resources (KREGEL, 2008; TAVARES, 1997).

### **2.1 Bretton Woods I, II, III, IV...**

As discussed, the intensification of the US external deficit and the subsequent growing accumulation of reserves by the peripheral economies, particularly in Asia – and China in particular – raised major discussion on the nature and sustainability of global imbalances. One hypothesis with widespread repercussion in the academic field was that developed by Dooley, Folkers-Landau and Garber (2003; 2004). According to the authors, the structure of the contemporary international financial system has strong similarities to the Bretton Woods structure, only considering new players. In the words of Dooley, Folkers-Landau and Garber (2003, p. 2): “the global system that has evolved and grown since the advent of Bretton Woods has maintained a single dynamic structure.”

In this approach, the current international financial system involves a re-invigorated relationship between the center and the peripheral economies. The system's center issues the international reserve currency and does not impose controls over the goods, services and capital markets, contrary to the countries on the

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3. In other words, as a net exporter of goods requiring intensive labor and net importer of machinery and equipment, technology and raw material – with highly dynamic regional impacts (Medeiros, 2006).

periphery. In the Bretton Woods context, the center was represented by the USA and the periphery by Europe and Japan; today, the periphery is represented by Asia, with the USA remaining as center of the global capitalist system (DOOLEY, FOLKERS-LANDAU & GARBER, 2003).

According to the aforementioned authors, while the periphery still finances the US current account deficits and accumulates financial assets in dollars, global imbalances will be a solution rather than a problem, since the US external deficit encourages global demand and therefore contributes to creating jobs and income in the rest of the world. That is, while the USA is able to generate a net balance in its capital and financial account of the balance of payments equal to or higher than the current account deficit, no problem of any kind should be expected with regard to the continuity of this center-periphery relationship.

The peripheral and particularly the trade-account economies adopt depreciated exchange rate policies in order to expand their exports and thereby grow faster, besides accepting the dollar as international currency. Such countries accumulate international reserves with a preponderant share in US currency, investing such resources in assets denominated in the system's global currency. Therefore the periphery in ascension guarantees the financing of the current account deficit of the central economy that issues the key currency. As a result, there is a growth strategy on the periphery based on its increase in exports, while the center is seen to have a growth strategy based on indebtedness.

The central country in this system plays the role of a global commercial bank, providing long-term loans and collecting in the short term. Dooley, Folkers-Landau and Garber (2003; 2004) maintain that, as a result of the re-emergence of the Bretton Woods system and incorporation of the current Asian periphery, there are currently three main economic and monetary zones, as follows: a trade-account region, Asia; a central country, the USA; and a capital-account region, represented by Canada, Europe and Latin America. For the trade-account region, the growth strategy consists of exporting goods and services to the USA. The current account surpluses are invested in US Treasury bonds to help maintain the exchange rate – against the central currency – at a depreciated level. The capital-account region, on the other hand, lets its currencies fluctuate against the dollar, with governments preferring not to interfere in defining the exchange rate. The central country, therefore, acts as an issuer of international currency and intermediary of the system based on its financial system. When allocating accumulated international reserves to the central country, the trade-account countries on the periphery guarantee the continuity of the desired exchange parity and contribute to maintaining the center's low interest rate. The center, as a result, is able to facilitate a growth strategy based on indebtedness at a very low cost (DOOLEY, FOLKERS-LANDAU & GARBER, 2003; OLIVEIRA, MAIA & MARIANO, 2008).

The papers by Dooley, Folkers-Landau and Garber (2003; 2004) caused widespread criticism and academic discussions. The Bretton Woods II theory, as mentioned, consists of the idea of a core in the system with exorbitant privilege and an export-led growth periphery based on an undervalued exchange rate. According to Eichengreen (2004), this view suggests that: *i*) the international monetary standard can be maintained indefinitely. *ii*) there is no reason for the collapse of the dollar as the system's main currency, because there is no need to adjust the US foreign accounts; *iii*) the same incentive systems prevailing in the Bretton Woods context – and for maintaining the system – would be currently in place; and *iv*) the countries on the periphery form a cohesive bloc of economies ready and willing to act in benefit of the collective interest.

Thus, Eichengreen (2004) understands that the Bretton Woods II theory is based on highly questionable assumptions, among them: *i*) it presumes that Asia subordinates its individual interests to the collective; *ii*) it disregards changes in the global economy since 1960; *iii*) it works on the hypothesis that there is a cohesive bloc of countries acting in benefit of keeping this arrangement; <sup>4</sup> and *iv*) suggests, as mentioned, that the current monetary standard can be maintained *ad eternum*.

According to Eichengreen (2004), however, peripheral countries are more numerous and heterogeneous today in comparison to the period when the Bretton Woods system was in force. Unlike Europe in the 1960s<sup>4</sup>, Asia's political priorities are less homogeneous, hindering the subordination of its individual interest to the collective. In addition, in Asia regional cooperation is currently less strongly institutionalized compared to the arrangement prevailing in Europe in that period. But there are other differences. The author believes that there is an alternative currency to the dollar today, unlike the Bretton Woods period when the pound sterling was hardly an attractive alternative to the US currency. The US external deficits, moreover, result from the low savings rate, unlike the Bretton Woods context, when a high savings rate prevailed, which tended to make the financing of deficits more favorable. He says that in the current arrangement it is harder to maintain the status quo due to the freer environment of capital flows after removing controls. He also states that, after liberalization of domestic financial markets, even the prevalence of an undervalued exchange rate and high internal savings does not guarantee generation of additional investments in the tradable goods sector due to the favorable credit conditions for the non-tradable sectors. This means that the current growth strategy of the Asian countries may change sooner than expected, which would create a problem for financing US deficits.

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4. Like the gold pool, instituted by the end of 1961 by Great Britain, Switzerland and members of the European Economic Community, designed to protect the convertibility of the dollar in gold at a then fixed price – that is, to defend the prevailing dollar-gold standard (Eichengreen, 2000).



Thus Eichengreen (2004) believes that nothing can guarantee the perpetuation of the export-led growth strategy by Asian countries, because it involves not only benefits but also costs. The author (2004, p. 27) believes that governments from peripheral countries are alert to the need to constitute diversified economies capable of growing not only through exports but also upon internal demand. China itself, he says, corresponds to one case in which consumption, instead of exports, has constituted the most dynamic component of the aggregate demand. For these reasons, Eichengreen was adamant when he stated right in the introduction of his paper, that:

The final point is that Asian policy makers are not ignorant of this history. They understand that the world has changed in ways that diminish the attractions of systematic undervaluation designed to promote export led growth. This makes it less likely that they will blindly repeat the policies of the past. (EICHENGREEN, 2004. p. 6).

On this matter particularly, attention should be called to the opinion of Feldstein (2011). According to the author, China will soon end the period of collecting expressive current account surpluses provided by the huge trade surpluses, and by vast income from its foreign assets. Feldstein (2011) comments that the new five-year plan set up by the Chinese government foresees the drop in the country's high domestic savings index, currently around 45% of the GDP to improve its population's quality of life.<sup>5</sup> The plan provides higher real wages, increased profits distributed by state-owned companies and rising public expenses in different services, with special attention to medical care, education and housing. Based on the accounting identity that the current-account balance corresponds to the difference between domestic savings and the internal investment in factories, housing and stocks, Feldstein (2011) maintains that a drop in the Chinese internal savings to 39% of the GDP will transform the current account surplus – currently around 6% of the GDP – in deficit. In this case, China would no longer be a net buyer of bonds from the US and other developed countries, thereby pushing up the interest rates in these countries. No less important, the drop in Chinese internal savings tends to pressure the government to allow greater appreciation of the exchange rate in order to prevent inflationary pressures from increasing domestic consumption, besides refocusing production on the domestic market. In view of this new growth strategy, Feldstein sustains that:

Americans are eager for China to reduce its surplus and allow its currency to appreciate more rapidly. But they should be careful what they wish for, because a lower surplus and a stronger renminbi imply a day when China is no longer a net

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5. Medeiros (2010, p. 9-10), however, based on Lai's paper (2008), emphasizes that China's investment has been overestimated due to the substantial rise in real estate and land prices in that country. It is estimated that together the investments in infrastructure and real estate are 25% of the Chinese GDP.

buyer of US government bonds. The US should start planning for that day now (FELDSTEIN, 2011).

Following this line of thought, Fan Gang, professor at Beijing University and the Chinese Academy of Social Sciences, states that criticism by the US Congress against the Chinese government for manipulating the exchange rate and, consequently, against the “global imbalance“ is unfounded. Although there has been no significant appreciation of the Chinese currency in recent years, according to the author, the Chinese current account surplus has decreased from 11.3% in 2007 to 4.6% of the GDP in 2010. This reduction has resulted basically from the rise in internal demand.

According to Gang (2011), the adoption of the new five-year plan (2011-2015) by the Chinese government tends to imply an even greater reduction in the Chinese trade balance in the next few years, after the 30% drop between 2007 and 2008 and the 6.4% drop between 2009 and 2010. In fact, the drop in Chinese national savings, resulting from the intended universalization of the social protection system, increasing investments in health and education, extending public services to rural migrants in recently industrialized regions, expenditure in infrastructure, etc., tend to balance China’s relationship with the rest of the world. The author also defends that resolving the “global imbalance” requires adjusting not only the Chinese but also the US economy, especially in terms of increasing domestic savings.

Nevertheless, as advised, under the flexible-dollar standard, the USA can equalize its foreign accounts autonomously, regardless of Chinese financing. Pressures from a high interest rate resulting from a possible decrease in Chinese demand for US bonds tend to displace part of the global liquidity to the USA, because the short-term interest rate of the hegemonic center, as mentioned, is the instrument par excellence for regulating global liquidity. The downside of this and subsequent increase in the federal funds rate, however, would not apply to financing restrictions to the US economy, but to the potentially negative impact on the domestic demand in the USA and the rest of the world. However, the rise in the Chinese domestic consumption level and a possible valuation of the Yuan would tend to reduce the deficit in the US current account, but not eliminate it, due to its structural component. It is worth mentioning, once again, that the center’s indebtedness means, instead of weakness, the objectification of its power and strength in global monetary and financial contexts. Hence, the USA should because it can. And the rest of the world finances it because it is convenient.

So the discussion on global imbalances involves a complex and peculiarly interrelated set of phenomena. It is not only about a consequence of the low level of US savings or the high level of investment in Asian countries, especially China. Nor does it result solely from intensification and proliferation of an increasingly

fragmented global production system, after instituting global production chains. Nor is it about the exchange rate undervaluation policies and accumulation of foreign currency practiced namely by the Asian countries, particularly China, or the global dollar surplus resulting from the prevalence of low interest rates in the developed countries, namely the USA – consequence mostly of its own defense strategy and/or growth based on the constitution of high levels of international reserves by some countries on the periphery and also by some developed countries. This is in fact an outcome of all these interrelated factors, whose effects are self-cumulative.

Iley and Lewis (2007, p. 4,) say that “because observers disagree on what factors have produced the deficit, there is little agreement on what actions are needed to bring about an adjustment and when they will occur”. Some suggest an adjustment of the public and private savings in the USA. Others, the increase in US foreign sales, and the need to pressure the other countries to adopt a growth strategy based on internal demand. There are also some who suggest the need to facilitate a coordinated international arrangement, such as a new Plaza agreement. Lastly, others, like the former Fed president Alan Greenspan, understand that the adjustment tends to happen through the market (ILEY & LEWIS, 2007).

According to the thinkers behind the Bretton Woods II hypothesis, the dollar crisis can be prevented while other countries are still willing to finance deficits in US current transactions. As mentioned, Dooley, Folkers-Landau and Garber (2003; 2004) believe that the external US deficits are positive, since they contribute to the periphery’s faster growth. Within this hypothesis, of course, is the idea that the almost permanent US current account deficits can be sustainable over time, in disagreement with the catastrophic theories that appeared in the wake of the intensification of negative external deficits recorded by the US economy, especially after the “dot-com” crisis, which predicted the end of the dollar as the system’s central currency and the USA as the global economic center.

In addition to Eichengreen’s (2004) reservations regarding the hypothesis in question, other structural issues must be considered, as Cunha, Prates and Biancareli (2007) and Oliveira, Maia and Mariano (2008) recall. A first aspect already mentioned deals with the fiduciary nature of the current international currency, unlike the gold-dollar standard of the Bretton Woods system. This condition aggravates the asymmetries resulting from a hierarchical international financial and monetary system, where refusing to accept the currency issued by the system’s center means the loss of the deepest and most dynamic capital market in the world. The replacement of the Bretton Woods II system by an international laissez-faire system, therefore, increased the asymmetry and the international monetary system’s hierarchy, establishing a wealth systemic standard subjugated to the

financial realm. Besides, since a large part of the US current account deficit results from exporting US company subsidiaries, how is it possible to sustain, in today's set-up, non-acceptance of the dollar? The contemporary monetary standard itself also imposes an induced system of international cooperation, as mentioned. From this viewpoint, even if admitting the hypothesis of flight against the US currency influenced by US external deficits, this strategy would imply losses for the other economies, either in terms of competitiveness – in view of exchange valuation – or in equity terms, due to the devaluation of wealth induced by the dollar's fall.

For advocates of the Bretton Woods II hypothesis, however, the transition from the dollar-gold standard to the flexible-dollar standard did not involve any drastic change in the Bretton Woods operating mechanism. Also, all changes in the global economy since the end of the Breton Woods system are not considered. As Cunha, Prates and Biancareli (2007) state, under the deregulated and liberalized finances, the central banks' capacity to influence the exchange rate becomes very limited in contexts of deep-rooted uncertainty. They also maintain that the trade-account and capital account typology cannot be applied to all peripheral countries, even when considering only Asian countries. Lastly, they say that, despite the significant simplification, the hypothesis in question admits that the periphery functionality to operate the system has required application of restrictions on the international free capital flow.

The Bretton Woods II hypothesis can accommodate some of the main possible consequences of a critical understanding of today's international economy; an understanding that considers at least the prevalence of a dollar-centric financial and monetary order. Yet within the Bretton Woods II analytical structure, the dollar continues as the system's central currency, even given the existence of obdurate US current account deficits, because of the existence of a functional periphery, as mentioned earlier, instead of the privileges that the ability to issue international currency grants to the hegemonic country. This is why it can be claimed that the Bretton Woods II hypothesis is unable to dynamically grasp contemporary international relations, because it is an analytical structure that ignores the widespread and deep changes in the global economy since the 1960s. Thus, it is not enough to systemically understand the nature and dynamics of an international monetary system organized from a dollar-centric fiduciary and increasingly deregulated currency (OLIVEIRA, MAIA & MARIANO, 2008, p. 217).

More recently, within the context of the global crisis, Bibow (2010a; 2010b) now supported the hypothesis of a Bretton Woods III system. According to the author (2010a; 2010b), instead of a Bretton Woods II system, sustainable despite the persisting deficits of the US current account balance, as described by Dooley, Folkers-Landau and Garber (2003), the emergence of a Bretton Woods III is

necessary, in which the US fiscal policy and public debt would take the lead in the growth of the US and world economy. Public rather than private indebtedness would provide a more sustainable growth of the global economy. He believed that the Bretton Woods II hypothesis, based on the sustainability of US current account deficits from a relationship of mutual interest between the surplus and deficit countries, ignores that the counterpart of the US external deficit was not conditioned by the generation of a safe debt but by high risk assets (toxic debts).

Bibow (2010a, p.5) however does not break entirely with the Bretton Woods II hypothesis and even understanding an international financial and monetary order centered on the dollar, agrees with the general points of the Bretton Woods II perspective. His major point of disagreement with the Bretton Woods II hypothesis concerns the fact that it ignores that the counterpart of the US current account deficit was not based on public debt (good quality debt) but above all on toxic debts (BIBOW, 2010a, p.6). Therefore, continuity of the US and global economy growth requires an increase in US public spending bearing in mind that the private sector is unable to continue in debt.

Bibow (2010a) then adapted the Bretton Woods II hypothesis to the new international conjuncture and reconsidered the need for an active fiscal policy in the USA to help the global economy to recover, and to call attention to a matter almost ignored in the discussions on global imbalances, namely the internal imbalances resulting from global imbalances. Although, in a subsequent article he was more critical towards the Bretton Woods II hypothesis, stating that it disregarded the changes to the international monetary system since the 1970s, Bibow (2010a; 2010b) could have come to the same conclusions, rejecting the static and restrictive premises incorporated explicitly and implicitly in the Bretton Woods II hypothesis.

His criticism regarding the Bretton Woods II hypothesis, therefore, is restricted essentially to the omission of the counterpart of the US external deficit, that is, public debt instead of private debt. When ignoring the internal counterparts of global imbalances, this hypothesis wrongly presumes that the imbalances in the US balance of payments current transactions could be sustainable over time. The global crisis revealed how impossible it was to maintain this trend (of current account imbalances) and buried the Bretton Woods II hypothesis (Bibow, 2010b). The increase in public spending, in this sense, is conceived not only as a means to help recover the US economy's internal demand, but also to reinstate a global architecture along the lines of Bretton Woods II, now under the public spending counterpart.

Nevertheless, in the analytical structure of Bretton Woods III, as in that of Bretton Woods II, for the dollar to continue as the central currency, in a context of US current account deficits, there must be a functional periphery of the export-led growth type in order to facilitate US financing. It would not be necessary to mention

the “staging” concept of the development process implicit in this analytical framework, incompatible with the understanding of underdevelopment as a special kind of capitalist development.

It is also worth mentioning that Bibow (2010a; 2010b) also addressed the Bretton Woods IV hypothesis, which could also be called, according to him, Bretton Woods 0, since it refers to the system originally proposed by Keynes in the early 1940s to reorganize the international monetary system after World War II. Bibow (2010a) believes that Bretton Woods III can provide a more stable and sustainable system where it is possible to transit to the desired Bretton Woods 0 system.

### 3 INSERTION OF THE PERIPHERY

In the 1990s, given the deepening of this international monetary arrangement based on the logic of free international capital flows, the global adjustments were processed by sudden shifts of capital flows and financial crises, considering the growing inability of the International Monetary Fund (IMF) to lead the adjustment process between the surplus and deficit countries. This imposed on the periphery countries the need to constitute high levels of international reserves by forming considerable surpluses in a balance of payments current account, a protection mechanism against shifts in the international capital flows and therefore the financial crises. This strategy, however, competed to intensify the global imbalances (KREGEL, 2008).

A logic shift was indeed observed in the conventional handbooks of international economics since the “developing countries” became net capital exporters.

The rise of Asia as a dynamic international pole, whose increasing demand is substantially driven by exports, has threatened the correlation of forces involved in the adjustment process of global imbalances. In the most recent period, the “developing countries”, especially the Asian economies – particularly China -, have taken the lead in the financing circuit of such adjustments: the high current account surpluses are used to finance part of the demand of the world’s largest economies. Receipt of interest by the new international net creditors, in turn, contributes to the consolidation of the balance of payments current account.

In the case of Asian economies, particularly the Asian Tigers<sup>6</sup> and the Association of Southeast Asian Nations (Asean-4)<sup>7</sup> more China, this strategy has helped form an external shield, which protects them from sudden reversals in global capital flows and widens the capacity for adopting independent economic and social policies. And it is worth mentioning, at a negligible fiscal cost, due to

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6. Group formed by Hong Kong, South Korea, Singapore and Taiwan.

7. Group formed by Indonesia, Malaysia, the Philippines, and Thailand.

the low differential between domestic interest rates (that apply to the *quasi fiscal* deficit resulting from the monetary sterilization policies) and foreign interest rates (that pay the international reserves invested in bonds of developed countries) (CINTRA, 2005, p. 19).

In Latin America the increase in international reserves in many of these economies is a distinctive factor in relation to the earlier periods of international bonanza. But the current conditions do not mean that there is a new standard for inserting these economies in the globalization process. While, in the case of the Asian economies, the international reserves increased under the predominant influence of current account surpluses, the Latin American countries experienced a much higher increase in international reserves than in the current account surpluses, a sign of the relevance of private capital flows for constituting an “external shield”. In Central and Eastern Europe, the increase in reserves was the result of incoming net flows of private capital, which more than compensated by recurring and expressive deficits in current account balance. In other words, despite the recent increase in international reserves in all groups of emerging and developing economies, the Asian standard of insertion in the global economy is still essentially restricted.

This distinction of the conditioning factors for the increase in international reserves found in the emerging and developing economies in the upward trend of international liquidity between 2002 and 2007, and the subsequent and differentiated reactions of these economies to the recent global crisis, was the result, in fact, of quite different strategies in these countries for insertion in the globalization process, involving exchange arrangements, degrees of financial openness and the institution building of the domestic financial systems and differentiated foreign trade structures (PRATES, BICHARA & CUNHA, 2009).

During the period of international bonanza in the aforementioned interregnum, foreign sales in some of the peripheral regions strongly benefitted from the increase in volume and, especially, from the prices of goods with relevant weight in exports. In Latin America, in this sense, the commodities price was a crucial factor, even in the economies that experienced greater exchange rate appreciation. In contrast, the sharp rise of the commodities prices caused successive deficits in current account balance in Central and Eastern Europe, net importers of commodities. Such deficits, it should be mentioned, were completely financed by the input of private capital flows, in a context of growing financial openness and a considerable difference between internal and foreign interest rates. In Asia, the strong demand caused an increase in the sales volume of manufactured goods, which contributed significantly to the generation of substantial surpluses in current account balance, as Prates, Bichara and Cunha (2009) explained.

The insertion of developing economies in the environment of global imbalances continued therefore to be unequal despite the prevalence of some

similar outcomes, largely due to a highly favorable international environment between 2002 and 2007, some of which are: i) an increase in international reserves; ii) control of domestic inflation; and iii) faster economic growth. As demonstrated, once again, at times of crisis the difference mentioned here is felt strongly in terms of minimizing the adverse impacts arising from sudden shifts in the general status of expectations by the conductors of the orchestra of financialized global capitalism, namely: institutional investors, big banks and treasuries of large corporations.

In the case of economies in which an increase in international reserves basically originated from the net inflows of private capital, such as the Central and Eastern Europe economies, the sudden shift in global financial market expectations and consequent reversal of capital flows were very damaging, much more so than those found in the other economies, particularly in Asia. In fact, such economies formed a “vulnerable external shield” during the period when the bonanza of global market prevailed. They were then exposed to the mood changes of volatile globalized financial markets.

Between 2008 and 2009, for example, while the GDP of the Eastern and Central Europe economies plummeted from 3% to -3%, the GDP of the Asian developing economies dropped from 7.7% to 6.9%. In the case of the Latin American group of economies, the GDP shrank from 4.3% to -1.7%. It should be mentioned that in this period the investment/ GDP ratio dropped from 24.8% to 18.8% in the first group; rose from 38.2% to 40.8% in the second; and fell from 23.6% to 19.8% in the third.

When discussing the contagious effect of the crisis on emerging currencies, Prates, Bichara and Cunha (2009) show that, although the exchange depreciation occurring in almost every developing and emerging economy following the crisis (last four months of 2008) did not follow only its current account results in the countries where the scale of the current account deficit and subsequent need for external financing were greatest, the exchange devaluations were more pronounced compared to this region's economies in which their foreign accounts were less vulnerable. With regard to the impacts of the global crisis on emerging and developing economies in different regions, particularly concerning the effects on economic growth, the authors state that: “In the sphere of Central and Eastern Europe countries, the economies with more external vulnerability (high current account deficits and debts in foreign currency) were those with the worst performance” (PRATES, BICHARA & CUNHA, 2009).

Although the “external shield”, as defined in this paper's introduction, cannot prevent the “contagion effect” since it does not attack the root cause of the stubborn instability of international private capital flows, of a structural



nature and intrinsic to today's financial and monetary international system, it is a very important tool for the peripheral economies to react actively against the negative impacts of the sudden shift in these flows, and to put in place national development strategies. Thus, an insertion minimally sovereign in the globalization, considering the current hierarchical and unequal international financial and monetary arrangement, requires economic policies designed to strengthen foreign accounts and diminish dependence, which involves capital controls, of the international risk capital flows.

Nevertheless, the international reserves accumulation strategy by peripheral countries tends to perpetuate the global imbalances prevailing in contemporary capitalism. This then raises the question of how to make this strategy compatible with a situation of substantially reduced global imbalances. This question, together with the lessons that can be learned from the different historical experiences of late capitalist development, brings up the recommendation that the countries on the periphery should seize the few opportunities they have when the center, either intentionally or otherwise, adopts a growth strategy that encourages, even if non-sustainably, the condition of buyer and debtor of last resort. Under the protection of liberalized and deregulated markets, the global imbalances have helped some economies that can put in place a development strategy, one of its main characteristics being an "external shield".

Although during the time of widespread international liquidity between 2002 and 2007, some approximation was seen between the "Latin-American standard" and "Asian standard" (Asian Tigers, Asean-4 and China) with regard both to the accumulation of international reserves and to the composition of net capital flows— with a larger share of direct foreign investments -, the most recent evidence indicates that this approximation was merely circumstantial, particularly with regard to the results of the balance of payments current account.<sup>8</sup>

Considering the Latin America and Caribbean group, according to IMF data in the World Economic Outlook Database, only Argentina, Bolivia, Chile, Peru, Trinidad & Tobago, Uruguay and Venezuela presented current account surplus in 2009. Just for the sake of comparison, in the case of the Asian Tigers – economies considered developed by the IMF -, significant current account surpluses were found in percentage of the GDP in 2009. In Hong Kong, this ratio was 8.7%; South Korea 5.1%; Singapore 17.8%; and Taiwan 11.3%. In the case of Asean-4 member-States and China, the indicator was 2% in Indonesia, 16.5% in Malaysia, 5.3% in the Philippines; 7.7% in Thailand, and 6% in China.

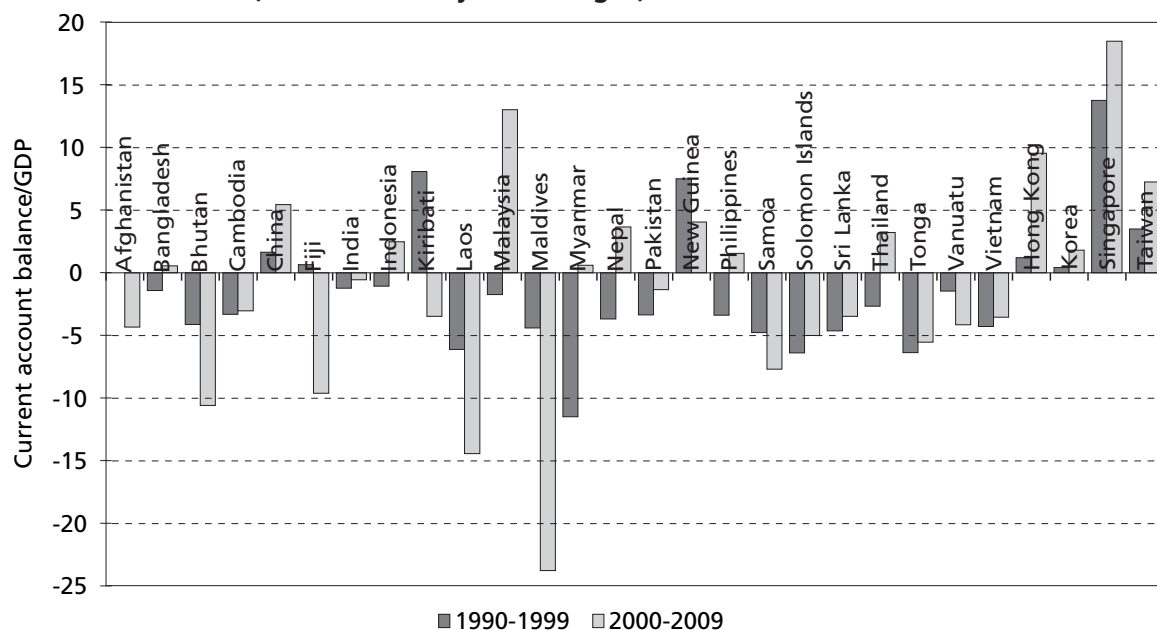
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8. Regarding the background to the differentiated insertion of Asia and Latin America in the globalization process, see Medeiros (1997).

The “Asian standard” of insertion, specifically in relation to the persisting current account surpluses, refers basically to the Asian Tigers, Asean-4 and China. Ignoring the sub-group formed by Asean-4 and China, few Asian economies considered as “developing countries” had significant persistent current account surpluses. Graph 1 below shows the average current account balance in a percentage of the GDP between 1990-1999 and 2000-2009, for the developing economies in Asia – excluding East Timor and Brunei – and the Asian Tigers, ratifying this statement.

GRAPH 1

**Asian developing economies and newly industrialized countries (NICs): current account balance/GDP (1990-2009, 10-year averages)**



Source: IMF (2010).

Prepared by the author.

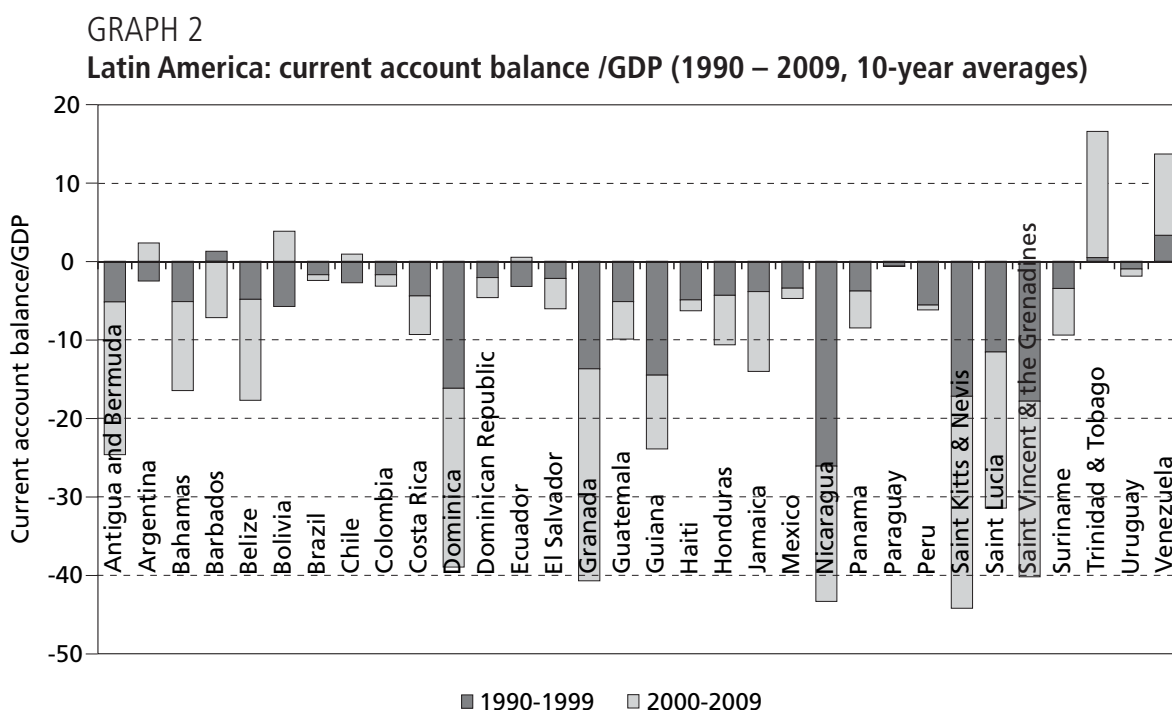
Concerning the Asean-4 economies, including the case of Indonesia, Malaysia and Thailand, they first obtained substantial and persistent current account surpluses after the Asian crisis since 1998. In the case of the Philippines, after the 2.3% current account surplus in 1998, current account deficits were verified between 1999 and 2002, with surpluses again only from 2003 onward.

From graph 2 showing this indicator for the Latin-American and Caribbean economies, contrary to the Asian Tigers and China in the 1990s and 2000s, and the Asean-4 member countries in the decade 2000, practically every country recorded current account deficits in the period 1990- 2000, considering their arithmetic averages.

Graphs 3 and 4 show that, while for the group of Asian developing economies – including China and the Asean-4 – the current account result has a significant

share in the variation of international reserves, an increase in reserves was found in the Central and Eastern European group, despite successive balance of payments current account deficits, especially in recent years.

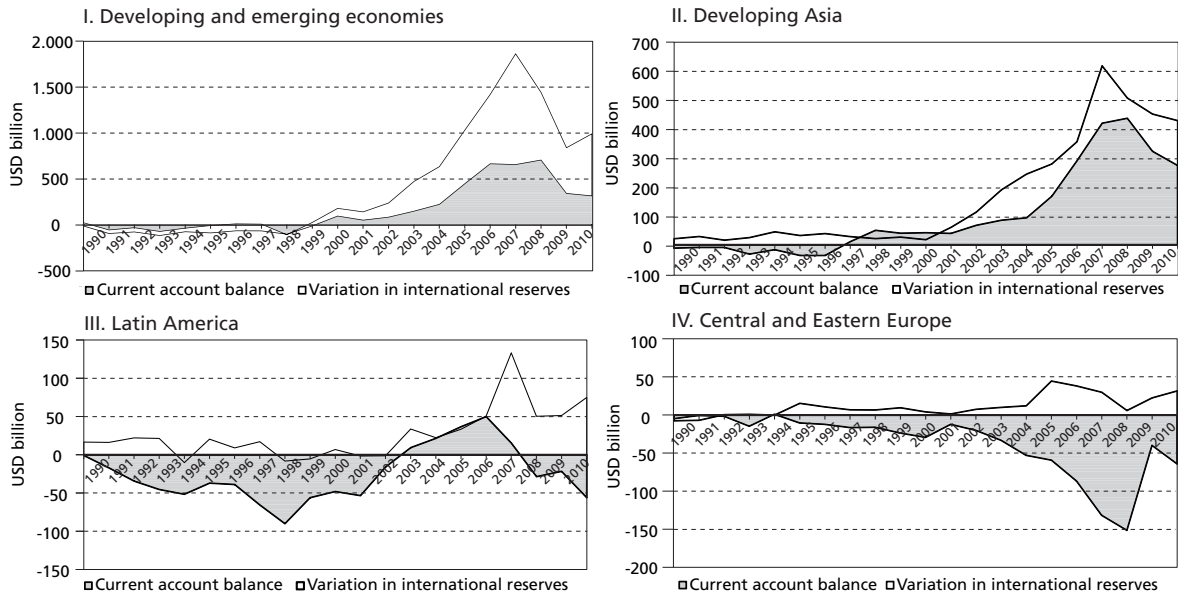
In relation to the group of Latin-American economies, between 2003 and 2006, although the variation in reserves was in step with the current account surpluses since 2007, a progressive divergence began between the result of foreign accounts (current account) and the increase in international reserves. The situation was similar to the group of economies in Sub-Saharan Africa, while the group of economies in the Commonwealth of Independent States (CIS) and the Middle East plus North Africa, also had a high ratio between the international reserves and the current account balance, albeit at different levels, during the expansion of international liquidity in the years 2000.



Source: IMF (2010).  
Prepared by the author.

GRAPH 3

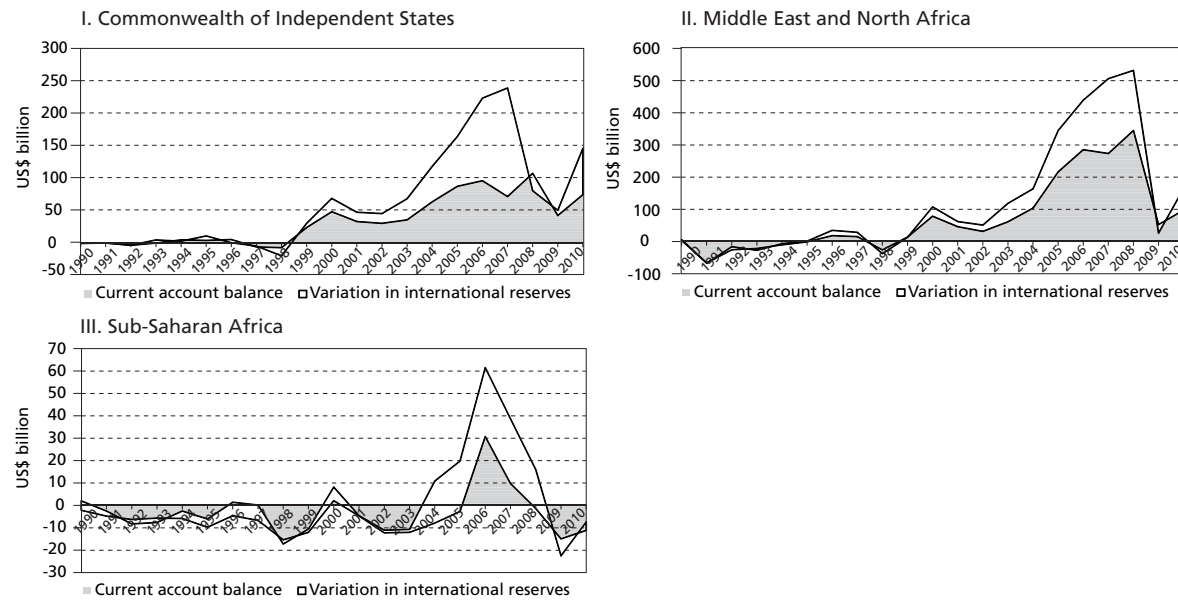
**Current account balance and change in international reserves: selected groups – part 1 (1990-2010)**



Source: IMF (2010).  
Prepared by the author.

GRAPH 4

**Current account balance and change in international reserves: selected groups – part 2 (1990-2010)**



Source: IMF (2010).  
Prepared by the author.

Of course, the analysis of the aggregate group of regional economies, although it allows some similarities and differences between different regions of the world, implies ignoring not insignificant intraregional characteristics. Accordingly, tables 1 and 2 show the accumulated current account balance between 2000 and 2009 for the Asian developing economies and the newly industrialized countries (NICs) and for Latin American economies, respectively, as well as the variation in international reserves in each country selected for this period – obtained by subtraction between the position of reserves in 2009 and 2000. The tables also show the ratio between the accumulated current account balance between 2000 and 2009 and the variation in international reserves – in absolute terms – in the these economies.

In the Asian case, considering the largest economies in the region, only India recorded a deficit in the accumulated current account balance for this period while at the same time had significant expansion of international reserves of USD 227.8 billion. In China, in contrast, the reserves increased USD 2.3 trillion between 2000 and 2009, against an accumulated current account surplus of USD 1.7 trillion. In Indonesia, Malaysia, the Philippines and Thailand, the generation of current account surpluses plays a leading role, albeit at different levels, for increasing reserves. This dynamics was not necessarily found in several smaller economies in the region, as can be seen in table 1. In the case of the Asian Tigers, in South Korea the accumulated current account balance was the predominant share of the increase in reserves, while in the other economies the balance in question exceeded in different degrees the expansion of the reserves in the period 2000-2009.

With regard to Latin America and the Caribbean, in only six of the 30 economies considered in Table 2, the increase of international reserves between 2000 and 2009 was accompanied by the generation of a positive accumulated current account balance, to a greater or lesser degree than the increase in reserves. This was the case of Argentina, Bolivia, Chile, Ecuador, Trinidad & Tobago and Venezuela. In the other economies, the international reserves increased without obtaining a positive result in the current account balance accumulated between 2000 and 2009. In Brazil, international reserves grew USD 205 billion in the period in question against a negative accumulated current account balance of USD 62.5 billion. In Mexico and Peru, reserves rose USD 64 billion and USD 23.6 billion, respectively, considering the accumulated current account deficit of USD 101.5 billion and USD 3.7 billion.

**TABLE 1**  
**Accumulated current account balance and change in international reserves in the Asian developing economies and NICs (2000-2009)**  
(In USD billion)

Country	Accumulated current account balance – USD Bi (A)	Change in reserves – USD Bi (B)	(A)/(B)
Afghanistan	-1.98	8.73	-0.23
Bhutan	0.58	0.45	1.29
Brunei	46.18	0.95	48.66
Cambodia	-2.30	2.35	-0.98
China	1,707.01	2,264.08	0.75
Fiji	-2.88	0.15	-18.59
India	-75.39	227.74	-0.33
Indonesia	64.73	35.05	1.85
Laos	-4.77	0.56	-8.45
Malaysia	199.06	67.11	2.97
Maldives	-2.37	0.14	-17.18
Myanmar <sup>2</sup>	1.41	1.01	1.39
Nepal <sup>3</sup>	1.72	0.55	3.11
Pakistan	-27.72	9.82	-2.82
Papua New Guinea	1.92	2.27	0.84
Philippines	24.30	25.64	0.95
Samoa	-0.31	0.10	-3.04
Solomon Islands	-0.32	0.11	-2.79
Sri Lanka	-9.81	3.60	-2.73
Thailand	58.96	103.51	0.57
East Timor	5.29	0.21	25.63
Tonga	-0.16	0.07	-2.31
Vanuatu	-0.19	0.11	-1.72
Hong Kong	177.61	148.23	1.20
Korea	128.94	173.81	0.74
Singapore	251.44	107.63	2.34
Taiwan	253.88	241.59	1.05

Source: IMF (2010; [sd]).

Prepared by the author.

Notes:<sup>1</sup> Bhutan: variation in reserves between 2000 and 2008

<sup>2</sup> Myanmar: variation in reserves between 2000 and 2005.

<sup>3</sup> Nepal: variation in reserves between 2000 and 2005.

Comment: The value of international reserves was converted from special drawing rights (SDRs) to dollars based on the end-of-period exchange rate.

Accordingly, while the Asian Tigers, China and, after the Asian crisis, the Asean-4 economies financed the other countries' deficits, principally of the USA, mostly from the reserves obtained from a surplus in the balance of payments current account, other economies, such as those in Central and Eastern Europe and many in Latin America, acted simply as a financial depository for global capital, whose function was subjugated to the valuation of volatile and fictitious share equity: such economies obtain borrowed resources by paying high interest rates in order to finance, at low interest rates, the US deficits, playing a passive role in

the dynamics of global imbalances and benefitting only circumstantially from the bonanza of the international financial markets. They cannot, therefore, constitute a stock in international reserves from the substantial ongoing current account surpluses, less sensitive to the sudden mood changes of the speculating global financial markets, result of the international reserves accumulation strategy based on private capital inflows.

**TABLE 2**  
**Accumulated current account balance and change in international reserves in the Latin American and Caribbean economies (2000-2009)**  
(In USD billion)

Country	Balance accumulated in current account – USD Bi (A)	Change in reserves – USD Bi (B)	(A)/(B)
Antigua and Barbuda	-1.92	0.06	-29.87
Argentina	35.22	21.04	1.67
Bahamas	-7.57	0.66	-11.47
Barbados	-2.37	0.40	-5.95
Belize	-1.31	0.09	-14.46
Bolivia	5.71	6.66	0.86
Brazil	-62.54	204.89	-0.31
Chile	16.48	10.25	1.61
Colombia	-26.44	15.83	-1.67
Costa Rica	-10.79	2.75	-3.92
Dominican Republic	-11.09	2.26	-4.91
Ecuador	2.71	1.93	1.40
El Salvador	-6.97	1.09	-6.40
Guatemala	-12.25	3.22	-3.80
Guyana	-1.39	0.33	-4.26
Haiti	-0.72	0.61	-1.19
Honduras <sup>1</sup>	-6.56	1.16	-5.65
Jamaica	-11.67	1.02	-11.42
Mexico	-101.48	64.08	-1.58
Nicaragua	-8.42	1.08	-7.77
Panama	-8.02	2.31	-3.48
Paraguay	-0.26	3.08	-0.08
Peru	-3.75	23.65	-0.16
St Kitts and Nevis	-1.17	0.09	-12.79
St Lucia	-1.74	0.10	-18.12
St Vincent and the Grenadines	-1.09	0.03	-33.49
Suriname	-0.55	0.59	-0.94
Trinidad & Tobago	30.20	7.79	3.88
Uruguay	-2.61	5.50	-0.47
Venezuela	167.41	8.78	19.06

Source: IMF ((2010; [sd])).

Prepared by the author.

Notes:<sup>1</sup> Honduras: reserves variation between 2000 and 2008.

Comment: The value of international reserves was converted from SDR to dollars based on the end-of-period exchange rate.

In many economies on the periphery, especially those with wider financial openness, the net capital inflow implied major valuations of the exchange rate in the period prior to the global crisis and pronounced devaluations during the international crisis, in the wake of the contagious effect. More recently, with the ultra-expansionist monetary policy adopted by the Fed (quantitative easing) to overcome the crisis and subsequent expansion of the dollar's liquidity in the world, many emerging economies have again undergone strong appreciation pressures on their exchange rates. In order to resolve the exchange over-appreciation, many governments have adopted highly active conversion policies.

In the case of economies with current account deficits and high interest rates, the recurring major interventions in the exchange market by central banks have implied an increase in international reserves and internal public debt in view of the subsequent monetary sterilization policy. For those countries exporters of commodities, like Brazil, the exchange intervention prevents an even greater exchange appreciation. But in contrast, this initiative operates to prevent the foreign exchange effect (appreciation) resulting from the input of external resources – either through a capital and financial account or current account – counterweighs the inflationary effects from the rise in commodity prices and/or the internal monetary expansion.

In the countries that accumulate reserves from current account surpluses and strive to keep the exchange rate at a competitive level, the exchange interventions also evidently result in undesirable effects. In China, as Brender and Pisani (2010, p. 73-75) demonstrate, the Central Bank adopts a series of initiatives to hold back the inflationary impacts from the massive purchase of foreign currency, such as the imposition of direct and indirect restrictions on bank loans, issuance of securities for monetary sterilization and the adjustments in the bank's mandatory collection fee, as well as the short-term interest rate (inter-bank). But in the Asian economies, not only is the differential between the internal and external interest rates lower, the increase in reserves by obtaining current account surpluses allows the formation of a more solid "external shield", since it is not directly and extremely dependent on the sudden fluctuations in expectations of the international financial markets.

The increasing international reserves in the context of persisting and substantial current account deficits, in this sense, causes potential relevant internal constraints on economic policy (increased public debt, internal monetary expansion, asset inflation, and so on) and, at the same time, only a circumstantial when not fictitious "external shield". Contrary to the generation of foreign currency from the export of goods and services, which is more autonomously managed by the central bank, the international reserves obtained from the incoming foreign capital, namely allocated to the purchase of stock and securities, can soon become



extinct, considering the frequent changes in expectations common to the context of free financial markets – even though incoming foreign capital by this means is able to also circumstantially boost the domestic capital markets and give more breathing space to the foreign accounts.

#### 4 IN CONCLUSION

Under the impacts of the great recession, the US current account deficit shrank from 6% of the GDP in 2006 to less than 3% in 2009. According to the IMF projections (2010) in the World Economic Outlook Database, for the period 2011-2015 the US economy should have an average current account deficit of less than 3% of the GDP. Is this only a temporary situation or does the recovery of the US economy, spurred on by significant fiscal and monetary stimuli, tend to put external deficits back at higher levels in a near future?

Bibow (2010, p. 10) believes that the external adjustment of the USA would only be possible if the country adopted an export-led growth strategy, on one hand, and the large surplus economies, on the other, were to adopt a growth strategy based on internal demand. Yet despite the tax incentives adopted by the surplus countries immediately after the global crisis, Bibow states that there is little evidence of such economies being willing to abandon the export-led growth strategy. In the latter case, US and global economy growth depends on the continuity of the expansionist fiscal policy in the USA. This is why, under the desired system that the author calls Bretton Woods III, “*fiscal policy is back!*” (BIBOW, 2010b, p.10).

Even in this case, however, recent evidence shows the huge difficulties undergone by several countries, including the USA, in order to move on with their expansionist fiscal policies. Many European countries and even the USA have felt strong pressure to reduce public spending. Under the “watchful eye” of globalized financial markets, a number of countries have been forced to more “wisely” calibrate their fiscal policy in order to guarantee good risk ratings granted by the rating agencies that had turned a blind eye to toxic assets. The US Congress, in turn, has repeatedly shown signs of discontent toward the significant tax packages often requested by President Barack Obama. It is worth mentioning that this so happens even with the prevalence of an exceptionally low real interest rate in the USA, which sharply reduces the charges on the public debt.

The adoption of a new five-year plan for 2011-2015 in China, however, may actually alter the dynamics of a key conditioning factor of the contemporary global imbalances, since it tends to increase the level of domestic consumption and reduce the Chinese trade surplus. But only the near future could show whether the new plan will represent a change in the foreign accounts of the world’s sec-

ond largest economy or whether it will be just one more long-term signal by the Chinese economy.

After the theoretical discussion on global imbalances, this paper has shown that this context opened to the possibility of accumulating international reserves for the peripheral economies, namely in Asia, by generating surpluses in the balance of payment current account. Nevertheless, in several “emerging and developing” economies, based on the IMF rating, the increase in reserves was accompanied by successive significant current account deficits, having resulted, basically or predominantly, from the private capital net inflows. It follows, therefore, that the insertion of the periphery in the global economy continued to be highly differentiated, so that it would not be possible to sustain the idea of a “new insertion standard” for the group of peripheral economies in the globalization process, bearing in mind the important qualitative differences related to the increase in their international reserves.

Consequently, would the vulnerably shielded economies on the periphery be bound to decrease the rate of economic growth in order to increase the internal savings level and, thus, help obtain balance of payment current account surpluses? It may be said that part of the current account deficit for many of these economies began from the high level of goods and services consumption that may be considered conspicuous. However, the external procurement of capital goods, technology and highly skilled specialized services may contribute to the economic and social development in the mid and long terms. No less important is the existence of internal channels of dynamic and effective financing, which may also contribute to improvement; of the current account balance by helping boost its productive capacity at a faster rate, without implying the need to substantially complement imports on the bundled offer, nor inflationary tensions. This represents only one of a number of issues gravitating around the subject discussed by this paper, and encouraging further studies on the topic.

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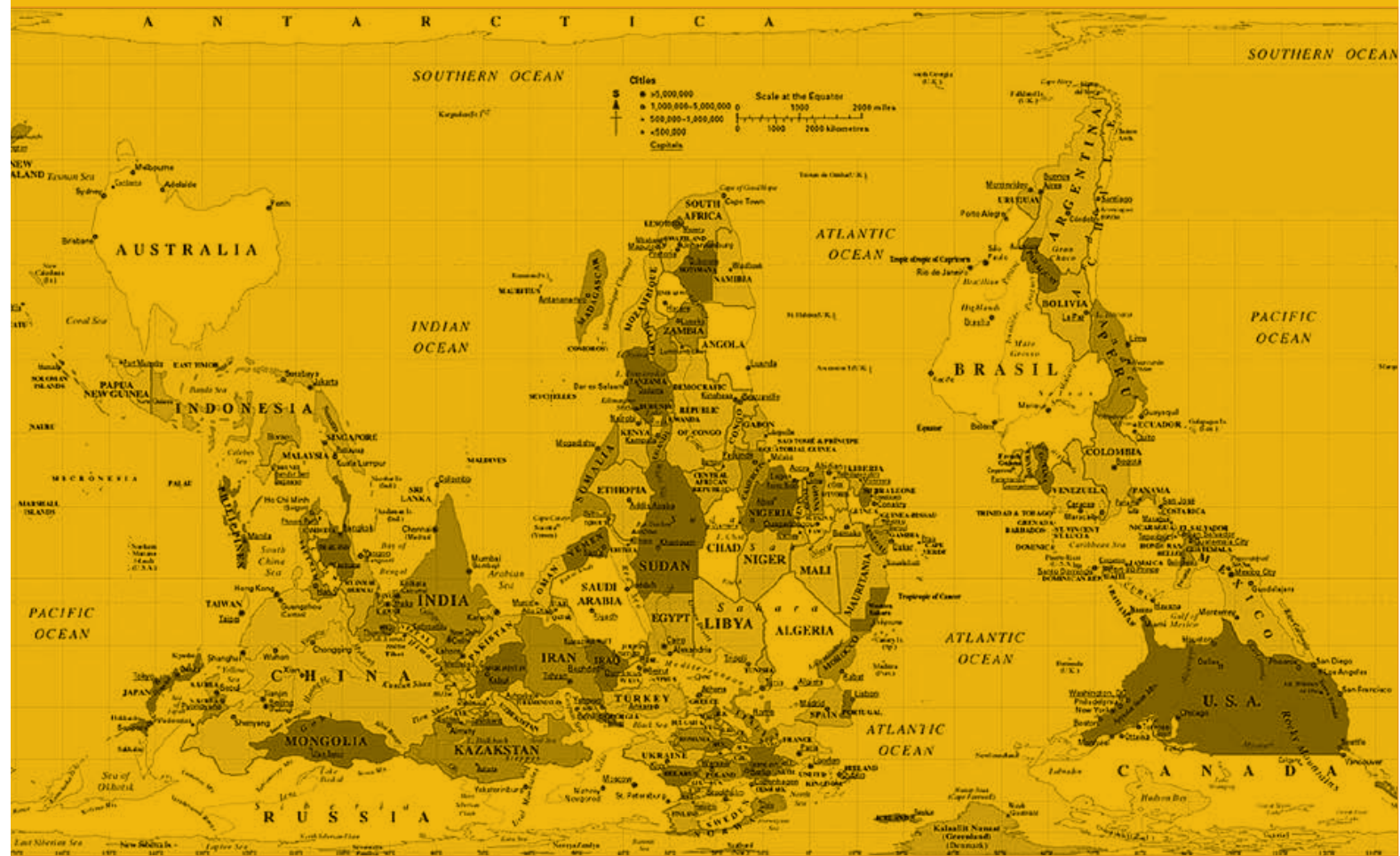
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