

## POWER RELATIONS, INSTITUTIONAL CONSTRAINTS, REGIONAL INTEGRATION AND DEVELOPMENT: INTRODUCTORY REMARKS.

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My initial comments on the topics in session 5 will aim at raising some issues and at posing some questions that I consider important in such a debate. These comments try to be provocative and open: they raise questions and do not answer them; they are direct and affirmative even though all these issues can be approached in many different ways.

These comments also bear in mind the nature of the exercise which is to contribute to identifying building blocs for the establishment of a School for Advanced Studies concerned, not only with the academic aspects of the issues, but also with policy orientation and decision making, as stated in the initial document prepared for this workshop.

Each of the four topics are in themselves complex and can be approached from many different angles. The interrelations of the four are also significant in terms of developing an integrating approach and a strategic vision. In our discussion we should explore the internal and external aspects of the issues and the growing interpenetration of these two faces in a globalized world.

### A TRANSITION PERIOD

We are going through a period of great transformation in the world order. These changes predate the crisis but were accentuated by it. They involve a possible redesign of the world order from a unipolar to a multipolar world, and the repositioning of countries and regions. They also involve a reexamination of the nature of growth and development models and of economic and political systems. The current period could be characterized as a transition period in the sense that the power relations that prevailed internally and externally are undergoing important changes the nature and direction of which is under discussion. The outcome of this process is still undetermined.

Internally, there is an open debate on the nature of the capitalist system and the changes it needs to go through to avoid crisis, to remain an engine for growth, modernization and innovation and to correct some of its flaws, like income concentration.. The paths to economic development are also under discussion with the demise of the Washington consensus and the prospect of a Beijing Consensus underpinned by almost forty years of extraordinary growth and by the Chinese response to the crisis. On the political front, the democratic consensus is also under discussion and nationalism and authoritarian forms of political and social organization are on the ascendant..

At the regional level, there is a displacement of the centre of globalization from the Atlantic to the Pacific. The ascension of China which is a central factor in this displacement will change the nature of globalization. Production and trade chains,

especially in East Asia, are changing the patterns of trade and investment flows. These developments are already having consequences at the normative level with the new ideas about how to promote liberalization plurilaterally and multilaterally. Models of regional integration are under questioning. The European model of deep integration through a process of horizontal expansion and vertical deepening is under question. The model of FTAs is also under discussion affected by the shifts in competitiveness and the integration of new production and trade chains.

Internationally, the economic order of magnitude is undergoing important changes. The ascension of China to the second place in terms of GDP and the possibility that the Chinese economy could surpass the US in the next 15 years dramatizes this change. Other emerging and developing countries are also part of this change. The participation of different countries and groups in world GDP, trade and investment and their contribution to global growth is also changing with the growing participation of emerging and developing countries. This is also happening in the monetary area where we witness an increased role of the renminbi. In a globalized economy there is no complete decoupling but some decoupling is taking place and the relations between developing countries and regions is also changing. There is a new geography of world trade and investment in the making. The relations between Brazil and China are a good example.

If economic power is becoming more diffuse the same is not happening at the political and military levels. But the changes in the economic level should propagate to the other two levels. On the political front the diffusion of power is occurring although a bit obscured by the consequences of the crisis and the growing difficulties in mastering the necessary consensus to tackle global and regional issues. We are not in a zero-gravity world but international consensus under conditions of decreasing centralization of power is more difficult. The ascending countries are asymmetric powers and their central problems are internal and of a development nature.

These difficulties at consensus building come at a moment when global issues such as climate change are pressing for solutions. The BRICS and the G-20 are two instances of this problem. The changes at the political level are also pervasive in several regions where the political structures of the past are under strain. This is clearly the case in the Middle East and in Africa. Finally, the military dimension of power is becoming less relevant, the baroque dimension of military hardware is more apparent and the contradiction between military supremacy and economic stability is also increasing.

Institutional structures are also under strain as a consequence of the redefinition of growth and development models and as a result of structural changes. It is not only that the success story of China has promoted the Beijing consensus as an alternative route to development. The malaise of developed countries and their difficulty in arriving at an internal political consensus to face the crisis and its consequences indicates that some of the main tenets of the economic, social and political systems of these countries are again under discussion. The consequences of the crisis are yet to unfold completely.

At the structural level demographic changes are going to have a growing impact at the institutional level for instance in terms of welfare systems and the social consensus underpinning them. The impact of a new generation of technological developments could make many institutional structures obsolete. Defining a new consensus internally and externally to face these problems and to design a new set of institutions, both within each country and internationally, to promote development, democracy and change is a daunting task.

The institutional constraints are an important part of the debate on the ascension of the developing countries and their development models. In China the issue of the middle-income trap has become a popular topic of discussion and the experience of Latin America is often quoted in this context. This is a relevant issue for discussion if we look at it from the perspective of the correlation between levels of economic development and institutional strengthening and modernization and from the point of view of different development modes. For instance, it is impossible to separate the political, economic and institutional aspects of the Beijing Consensus.

The question of the middle-income trap is perhaps less an issue of a correlation between income levels and institutional development and more a question of the adequacy of the current institutions to the solution of the problems that are rising in the political agenda, both internally and externally. Two examples: the ability of the democratic decision making process to make compatible the requirements of freedom and efficiency; the adequacy of the UN and Bretton Woods structures to muster the necessary support to face the current world problems. Institutions are under strain within countries and globally.

As mentioned before regional integration models are also being questioned. The European model is facing a fundamental test posed by the ability to give responses to the crisis, by the concentration of power in Europe, with Germany becoming ever more important, by the decline of the importance of Europe and with the resurgence of nationalism and its debilitating effect on the integration model. The European institutions are under stress and this has repercussions for all integration models.

Other simpler models of integration, such as FTA agreements, are also under questioning due to the growth in protectionism fuelled by the crisis, to the currency wars that could intensify and to the new architecture of world trade being shaped through global and regional production and trade chains. Asia and the Pacific are the two dynamic areas where integration initiatives are still being pursued. Some of these have also an important political content and reflect shifts in global power. But what is also becoming clear is that autarchic and closed growth routes are increasingly costly.

Anyone living in China cannot fail to be impressed by the pace of economic change and by the consequences of economic change at such a pace. China reduced the number of people at poverty level by 500 million in 30 years, promoted industrialization and infrastructure modernization at a scale never seen, in such a short period of time, advanced educational and technological development, rejected inward-looking

development and open-up and embraced globalization, and did all this while maintaining stability with a one-party system. The accomplishments of socialism with Chinese characteristics are indeed impressive.

The consequences are also impressive in terms of social disparity, income concentration, lack of respect for human rights, repression, environment degradation, and so on. It is a long list. There is no free lunch but as the Chinese like to remind us, to take charge of the problems of one fifth of humanity, and Chinese to boot, is a major contribution to world stability. And they are right. Although in certain instances they try to transfer part of the burden to others. But that is nothing new.

Socialism with Chinese characteristics is not easily dismissed as a development model. It is also not tenable anymore to assume that its economic evolution will lead to a political transformation along the lines of the Western democratic system. With China occupying the post of the second world economy and with its uninterrupted growth trajectory pointing to a first place in the near future the Chinese model will have to be reckoned with. This model combines a variety of Socialist primitive accumulation, with massive transfers of resources from the rural to the urban areas, with an accommodation of market reforms in the context of a shrinking planned economy, massive investments in infrastructure as the main engine of growth and a policy of reform and opening-up which integrated the Chinese economy in the world in a short period of time while preserving certain traits of the closed socialist planned model, a still important State sector, especially in the basic industries and the financial sector, and a bureaucratic command structure under the control of the Party. To reform such a closely-knit structure of economic and political relations is a challenge of the first order of magnitude. And now it is a pressing challenge.

Is this model a valid and feasible solution towards development? That is an open question. But what is clear is that this model is an alternative model to development strategies based on income distribution, promotion of consumption, limited integration in the world economy and maintenance of democratic rights. The Chinese and Brazilian models are at opposite ends. Perhaps instead of thinking in terms of alternatives a more interesting approach would be to think in terms of complementarities and learning from each other's experience.

#### STRATEGIC AND POLICY-ORIENTED DIMENSIONS

Antonio Barros de Castro used to say that Brazil does not have to take part in the race for first place as a world economy, but as a large economy and a developing country of global importance it cannot refuse to play. As the Chinese economy assumes a central role it has changed the rules of the game. Players that are also developing countries are not any more trying to catch-up but have now to adapt to a race the rules of which are not dictated by a developed country but by another developing country. It is not that we have before us the mirror of a developed capitalist country or that we have to join the race to the top position but if we want to stay in the match we have to consider the competition and the way the game is being played. After China, India may join the

ranks of the front runners. The two Asian giants are not NICs and have the potential, together with other emerging countries, for reordering the world scene. We may be witnessing the end of the North-South divide.

What are the implications of these monumental changes for Brazil in terms of strategic planning and policy orientation and decision making? The first point to stress is that there is nothing preordained in the current scenario. Things can take a very different turn. Under these circumstances the first point to bear in mind is the need to combine long term strategic planning essential to try to dissipate some of the uncertainty with keeping your options open. Flexibility and the ability to adjust are essential. This involves the international scenario and the domestic scene.

All major countries are trying to reposition themselves both internally and externally. China is a case in point with the change in its development mode that served her so well for the past thirty years but which is approaching its limits. Her political system is also becoming dysfunctional and the ability to dissociate the economic from the political dimension is also reaching its limits. The rise of China has also led to major changes in her position in the world, forcing a reassessment of some of the main concepts of Chinese foreign policy. But the same applies to developed countries. Brazil should reexamine her development path and her form of participation in the world economy to maximize the opportunities of the current moment.

A sinocentric world poses challenges and opportunities for Brazil. The present discussion focus our attention on some central issues in the four areas we have been examining. In terms of power relations China, Asia and the Pacific are rising in importance. The United States as the surviving superpower is going to remain a central player. In a more multipolar and complex world triangular and multipolar relations are going to be the rule. Repositioning through a thorough reexamination of Brazil's presence and standing in the world in the light of the changes underway and their possible outcomes, is an urgent task.

In a certain sense, we can see a parallelism between China's efforts at rebalancing its economy, changing her development mode and trying to integrate economic and political reform and Brazil's current situation. Maybe we can learn from the Chinese experience and perhaps we also need to take a fresher look at some aspects of our development model, do some rebalancing increasing savings and investment, better integrate in the world economy and try to correct some of the inadequacies of our political system and institutional framework. Maybe some reform and opening-up is needed and the current changes at world level provide the opportunity to do it.

We must also review our thinking and positioning as regards the world order and multilateral rules and institutions. If we, together with other countries with similar interests, are not in a position to put forward proposals for change and a blueprint of a new multipolar world firmly anchored in a revised set of multilateral rules and institutions, we will have to face two major challenges: an unstable multipolar world,

centered on balance of power considerations, or a new order designed by others. This is already happening.

We have to better integrate the internal and the external dimensions in our strategic thinking. The frontier between the two has been eroding for some time and this process is going to continue but the crisis has opened up the possibility for a resurgence of nationalist policies in trade and investment and for higher degrees of protection in both areas. So after having lost the opportunities created by the first phase of globalization Brazil has to consider how to integrate more in the world economy while at the same time avoiding the pitfalls posed by new protectionist trends.

The growing importance of Asia presents a major challenge in terms of understanding and relating to an area that is the birth place of different cultures. We are lagging behind at the academic, government and business levels in terms of a better understanding of the Asian environment and some of the central countries in the region, like China and India. In this context, catching up with the developed countries is in order.

Not only our capacity for formulating policies for the current period at the bilateral, regional and multilateral levels is inadequate but our ability to implement these policies is also limited. We have to strengthen and integrate these two aspects, formulation and implementation. Formulation must incorporate a strategic long term view and a global overall approach that goes beyond specific and sector interests. Implementation requires an effective internal coordination involving all actors.

The short discussion above attempts at signaling some broad issues that are relevant in terms of policy formulation. The aim is to integrate in the discussion the two dimensions of theory and practice and to try to see the policy implications for Brazil of the four dimensions of this discussion: power relations, institutional constraints, regional integration and development.

As pointed out at the beginning, the purpose of this brief introduction is simply to promote discussion by exploring some of the dimensions of the topics under consideration and by selecting some aspects that could be more relevant than others. Others will have different views and select different topics as more important for discussion. If that happens, these introductory remarks will have achieved their purpose.